

# Annual Report 2021

The Bank of Iwate, Ltd. Annual Report



THE BANK OF IWATE, LTD.

### 1. Management Policy

Since its establishment in May 1932, The Bank of Iwate, Ltd. (the “Bank”) has been maintaining its two basic positions of contributing to the development of the regional community and ensuring financial soundness of the Bank under all circumstances as its fundamental mission objectives.

When the business environment surrounding the Bank changed drastically due to the impact of the Great East Japan Earthquake which occurred in March 2011, we came up with the new long-term vision for the next 10 years of “demonstrating a dominant presence as a driving force in the region, while establishing our position as a top quality bank,” along with the medium-term management plan formulated in April 2013. As such, it allows us to transform ourselves from a backstage player to a proactive driving force demonstrating our dominant presence, while at the same time, strive to establish the No.1 position in terms of quality by improving and reinforcing our intangibles, including our customer service capabilities.



### 2. Medium-term Management Plan

#### (1) Overview of the Medium-term Management Plan

We are implementing our medium-term management plan “Iwagin Frontier Plan – To the Next” (the “Plan”) (April 2019 to March 2023) to translate our goal of realizing co-prosperity with the region into concrete action. “To the Next” embodies our desire of paving a path for the next generation of the regional community and the Bank to move on “to the next” phase through various initiatives to solve issues facing the region.

The theme of the Plan is “pursuing CSV to build a future with the region.” CSV stands for “Creating Shared Value,” and represents the creation of common values. In other words, as the Bank’s CSV, it means “by making efforts to strengthen our relationships with customers, confronting issues facing our region head-on, and endeavoring to resolve them, we can enhance social and economic values for both the region and the Bank.” Under the Plan, we will fulfill our ideal of co-prosperity with the region—our main base of operations—by giving shape to this theme.

The Plan contains four basic policies. The first is “Provision of high-quality added value to realize regional and customer growth.” The aim of this policy is to provide high-quality added value to the region and customers through highly specialized and convenient services such as the creation of business domains and digital transformation, in addition to our conventional finance functions. The second is “Improved operational efficiency through promotion of BPR and optimization of resource allocation.” This aims to leverage digital technology and other means to increase productivity, shift corporate resources such as people and time to our customer-facing business, and cut costs. The third is “Establishment of market operation/risk management/revenue management frameworks that can respond flexibly to changes in the environment.” The aim of this is to consolidate and streamline bank operations, define the scope of risk-taking, target revenue, and other elements, and upgrade risk management and revenue management, with the ultimate goal of increasing revenue compared to risks. The fourth is “Fostering of an organizational culture in which each person can proactively tackle issues using his or her knowledge and actions.” This aims to develop human resources that will proactively tackle issues, and create an environment that enables employees to demonstrate their full potential.

By taking measures in accordance with these four basic policies under the Plan, we will strive to realize the plan’s theme of “pursuing CSV to build a future with the region.”

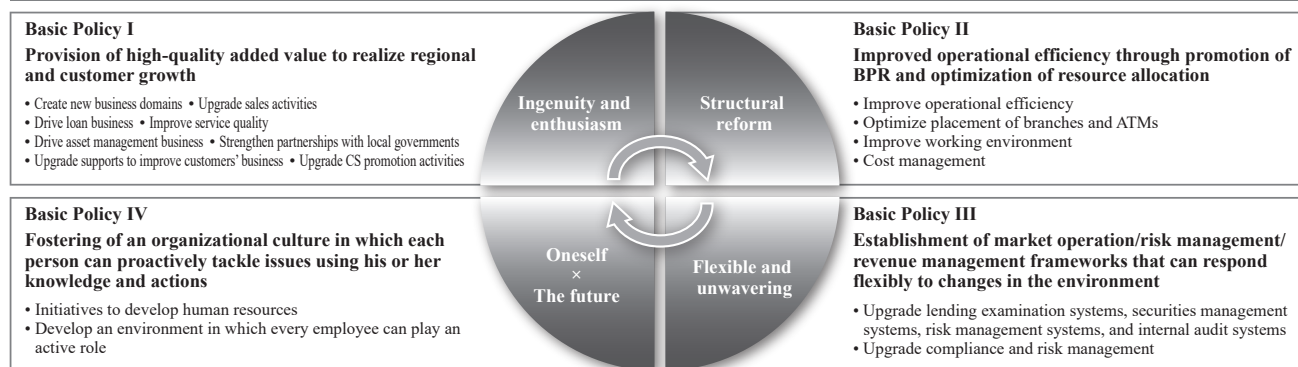
Medium-term Management Plan  
**Iwagin Frontier Plan – To the Next –**  
 April 2019 to March 2023

**Theme**

**Pursuing CSV to build a future with the region**

Creating Shared Value: By making efforts to strengthen our relationships with customers, confronting issues facing our region head-on, and endeavoring to resolve them, we can enhance social and economic values for both the region and the Bank.

**Four Basic Policies**



**(2) Progress of the Medium-term Management Plan**

The current Plan started in April 2019. In the first two years of the Plan, we moved ahead with BPR of our business branches and Head Office and reviewed our sales structure, and reorganization of branches to enable us to offer helpful proposals to customers ahead of schedule under the Management Structure Reinforcement Project. In April 2020, we established two wholly-owned subsidiaries to create new business domains to support the regional economy—Iwagin consulting Co., Ltd., a consulting company, and manorda Iwate Co., Ltd., a regional trading company. Furthermore, recognizing that digital transformation is an important issue not only for the Bank but also for the region, we prioritized investing corporate resources in the digital field and strengthened digital initiatives. In February 2021, we established a dedicated department called the Digital Transformation Laboratory (DX Lab) to further accelerate those initiatives. The latter two years of the Plan have been designated as the period to respond to multiple possible changes in the environment as well as reaping full-fledged profits and results generated from the measures which were carried out in the first two years of the Plan, such as BPR and the creation of business domains.

As for the progress of our four principal target indicators in the year ended 31 March 2021, the second year of the Plan, we achieved our targets for “OHR,” “capital ratio,” and “business succession/M&A support recipients,” but did not achieve our target for “consolidated net income” as we failed to cover the increase in credit costs with revenue.

Indicator	Calculation method	FY2020 targets	FY2020 results	FY2022 (final year of the Plan) targets
Consolidated net income	Figures stated in financial statements	¥3.0 billion	¥2.8 billion	¥5.0 billion
OHR	Expenses (excluding non-recurring items) / core gross business profit	84.1%	77.3%	70% levels
Consolidated capital ratio	Equity capital / risk assets, etc.	Upper 11% levels	11.8%	Over 10%
Business succession/M&A support recipients	No. of customers we support for business succession or M&As	1,200	1,218	2,400 *Accumulated total plan period

### 3. Business Environment

In the business environment surrounding regional financial institutions, the traditional business model that depends on deposits and loans has declined because of prolonged low interest rates. Competition has become more intense due to factors such as companies from other industries entering banking.

Iwate Prefecture, the Bank's main base of operations, faces a rapid decrease in population as many young people move to other prefectures. The lack of successors has led to an increase in businesses closing and decrease in the number of business establishments. These factors are causing the region to gradually lose vitality. Thanks to its thriving manufacturing industry, however, Iwate Prefecture is growing as an industrial hub with a focus on the auto and semiconductor industries. The prefecture also has a wide variety of foods and crafts that are appreciated worldwide, features two World Heritage sites, and boasts tourism resources including sea and mountains. Moreover, it is one of the prefectures with the highest potential for renewable energy in Japan due to its abundant natural resources.

As stated above, the region where the Bank is located faces a variety of challenges, but also has many strengths and great potential. We hope to achieve co-prosperity with the region by helping it overcome such challenges and spurring further growth and development through initiatives to bring out its strengths and potential.

### 4. Issues to be Addressed

We have designated the first two years of the current medium-term management plan as the period to develop a foundation to expand business domains and strengthen digital fields, and build a revenue base to support the future of the Group. We have designated the latter two years as the period to ensure that we reap the benefits of our efforts to create new business domains and of the business foundation we established in the first two years. Based on this timeline, we will strengthen efforts particularly in the following fields.

#### (1) Concrete actions to realize CSV

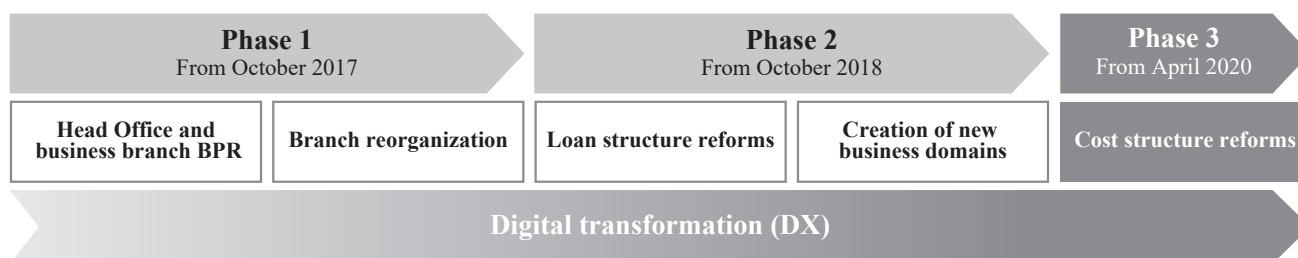
The latter half of the current medium-term management plan started in April 2021. In order to fulfill the theme of "pursuing CSV to build a future with the region," it is crucial that all executives and employees deepen their understanding, recognize that regional issues are matters that affect them, and proactively take action to solve a wide range of issues. Specifically, the Bank's problem-solving efforts center on understanding customers' business feasibility in order to help increase corporate value by identifying and analyzing their current situation and issues and accurately grasping the details of their business and its growth potential. Based on this policy, we will help solve issues such as creating local jobs and maintaining technological capabilities and brands by helping customers raise funds with loans and other means, and by leveraging Iwagin consulting Co., Ltd. to strengthen business succession, M&A, and business improvement support. Furthermore, we believe efforts to cultivate the shoots of new business, such as starting new companies and developing new businesses, are essential for maintaining the sustainable growth and development of the region; therefore, we will help entrepreneurs and companies working to bring about innovation for the region, and further enhance business matching support to contribute to creating new businesses through our venture capital firm Iwagin Jigyo Souzou Capital Co., Ltd. In addition, we will actively roll out regional revitalization initiatives to attract spending and people from outside the region by further unlocking the region's potential such as its rich tourism resources and high-quality foods in partnership with manorda Iwate Co., Ltd., a regional trading company.

For individual customers, considering that people now live up to 100 years, we plan to offer products and services in line with life plans and life events for a wide range of age groups in a way that is optimized to each individual. In terms of digital transformation initiatives, we will work to transform banking business with digital technology, and drive digitalization that is optimal for the region through efforts such as digitalizing not only the Bank but the regional community and utilizing digital tools to improve customers' productivity and upgrade their business.

#### (2) Establishing a solid business foundation

In October 2017, the Bank launched the Management Structure Reinforcement Project. Phase 1 focused on BPR of our Head Office and business branches and reorganization of branches, and Phase 2 focused on loan structure reforms and creation of new business domains. Phase 3 focuses on cost structure reforms. Through the initiatives under the project, we reviewed our business processes and organizational and sales structures, and cost reductions have progressed ahead of schedule. However, in order to reach the revenue targets of the current medium-term management plan, it is necessary for us to further review the cost structure. We will, therefore, roll out more rigorous measures to strengthen the revenue base.

Furthermore, branch reorganization is moving forward ahead of schedule, but customers' needs are changing. Customers today seek services remotely offered and consultation related to matters other than financing. We will accurately identify the changing and diversifying needs of customers, and being fully aware of our role and responsibility to support the financial infrastructure of the region as a financial institution, we will consider a branch strategy optimal for customers.



### (3) Developing an environment in which every employee can play an active role

The Bank is driving diversity and inclusion initiatives with the aim of creating a diverse and comfortable workplace in which every employee respects one another and can play an active role and grow.

To utilize human resources, we consider training and retention of young employees who will lead the future of the Bank and the active participation of female employees as essential tasks, and have adopted training measures to promptly make young employees work-ready and boost the skills of our female employees. Furthermore, we support young employees by offering them opportunities to acquire specialized knowledge and demonstrate their abilities by seconding them to other companies in the Group such as our venture capital and consulting subsidiaries and regional trading company.

In addition, through the flextime system and other initiatives to accommodate diverse working styles, we have greatly accelerated improving productivity, reducing working hours, and supporting “work-life balance,” including the time for child-rearing, nursing and receiving medical treatment, and are continuing positive actions such as appointing women to managerial positions and supporting their career advancement.

### (4) Responses to the impact of the spreading novel coronavirus disease (COVID-19)

As it remains unclear how the COVID-19 pandemic will impact our business, we plan to continue working diligently to fulfill our responsibility as a regional financial institution—maintaining the financial infrastructure and ensuring the stable and smooth provision of funds.

Preparation for the post-COVID-19 era, we are currently strengthening our efforts to support the core business of customers. COVID-19 rapidly and dramatically changed our customers' business environment and the sales methods that customers expect us to adopt. It forced us to switch our sales and marketing activities from in-person to remote, and besides having to deal with infection prevention measures we face a mountain of other challenges to adapt to the new normal, which include digitalization efforts such as going cashless and paperless. We do not expect to return to pre-pandemic ways even after the virus is under control, so the entire Group will work together to provide core business support quickly to help customers solve multiple challenges they face.

Sachio Taguchi, *President*

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

(on a consolidated basis)

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## Financial Position

### Principal Accounts

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

Deposits (including negotiable certificate of deposit) at the fiscal year-end increased by ¥213.5 billion from the previous fiscal year-end to ¥3,414.8 billion (US\$30,845.5 million). This was due in large part to the impact of the novel coronavirus disease (COVID-19), such as the voluntary restraints on consumption and the inflow of fixed benefit payments, as well as the accumulation of COVID-19 loans to secure liquidity on hand, resulting in an increase in deposits by individuals and corporate clients.

The fiscal year-end balance of assets under management posted an increase of ¥33.4 billion from the previous fiscal year-end to ¥352.6 billion (US\$3,184.9 million). This was due to an increase in sales and the outstanding balance of investment trusts, on the back of market conditions recovering from the impact of COVID-19, as well as an increase in insurance sales thanks to the partial resumption of yen-denominated insurance.

#### Loans

The fiscal year-end balance of loans increased by ¥83.4 billion from the previous fiscal year-end to ¥1,898.5 billion (US\$17,148.9 million). This was attributable to a significant increase in loans to SMEs as a result of an increase in COVID-19-related loans, as well as an increase in loans to individuals as a result of the Bank's reinforced efforts to promote housing loans.

#### Securities

The value of total securities decreased by ¥12.3 billion from the previous fiscal year-end to ¥1,187.8 billion (US\$10,729.3 million). This was attributable to a decrease in bonds under management, mainly as a result of the redemption of national government bonds and other yen-denominated bonds, despite an increase in foreign bonds and other securities under management. In an effort to minimize the impact of the prolonged low interest rate environment, the Bank has been re-balancing its portfolio through diversified investments by utilizing the funds from the redemption of national government bonds and other yen-denominated bonds and making diversified investments in overseas assets with high investment efficiency such as sovereign bonds of industrialized countries with a focus on liquidity.

#### Cash Flow Analysis

Net cash provided by operating activities was a net inflow of ¥240.0 billion (US\$2,168.0 million) in the current fiscal year, while net cash of ¥19.8 billion was used in the previous fiscal year. This was because an increase in deposits, etc. exceeded an increase in loans in the current fiscal year as the significant impact of COVID-19 led to voluntary restraints on consumption, an inflow of fixed benefit payments, and as the accumulation of COVID-19 loans to secure liquidity on hand, compared to an increase in loans in the previous fiscal year.

Net cash provided by investing activities was a net inflow of ¥27.6 billion (US\$249.9 million) in the current fiscal year, while net cash of ¥1.1 billion was used in the previous fiscal year. This was due to proceeds from sale and redemption of securities falling below the acquisition of securities in the previous fiscal year, while the proceeds from sale and redemption of securities exceeded the acquisition of securities in the current fiscal year.

Net cash used in financing activities was a net outflow of ¥1.1 billion (US\$10.6 million) in the current fiscal year, while net cash of ¥2.5 billion was used in the previous fiscal year. This was due to the payment of cash dividends, and the acquisition of treasury stock in the previous fiscal year.

As a result of the above, the fiscal year-end balance of cash and cash equivalents increased by ¥266.5 billion from the previous fiscal year-end to ¥636.3 billion (US\$5,747.6 million).

## **Business Performance**

### **Earnings**

Total income increased by ¥0.0 billion from the previous fiscal year to ¥45.3 billion (US\$409.6 million). This was mainly attributable to an increase in gain on sale of securities thanks to a favorable stock market, despite a decrease in interest income including interest and dividends on securities.

Total expenses decreased by ¥0.3 billion from the previous fiscal year to ¥39.8 billion (US\$359.5 million). Provision of allowance for doubtful accounts increased as a result of recording provisions that took into account future estimates including the impact of COVID-19, while general and administrative expenses decreased thanks to efforts in reorganizing branches and cost structure reforms based on the Management Structure Reinforcement Project.

As a result, income before income taxes increased by ¥0.3 billion from the previous fiscal year to ¥5.5 billion (US\$50.0 million). Net income attributable to owners of parent decreased by ¥0.8 billion from the previous fiscal year to ¥2.8 billion (US\$26.2 million). This was mainly due to an increase in income taxes, in addition to the recording of an impairment loss related to the reorganization of branches.

### **Capital Ratio**

The capital ratio declined 0.27 percentage points from the previous fiscal year-end to 11.83% on a consolidated capital adequacy basis and by 0.31 percentage points from the previous fiscal year-end to 11.44% on a non-consolidated capital adequacy basis, as a result of an increase in risk assets reflecting an increase in loans receivable from SMEs, most of which were related to COVID-19. Under its fundamental mission objective of ensuring financial soundness of the Bank under all circumstances, the Bank sees the consolidated capital ratio as one of the key indicators of the Medium-term Management Plan. The Bank maintains an ample capital ratio compared with the capital ratio of over 10%, a target for the final year (FY2022) of the Medium-term Management Plan.



### ■ Basic approach

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.

### ■ Corporate governance structure

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 transitioning to a company with Audit & Supervisory Committee, the Bank shall strive to further improve its corporate value through the enhancement of its corporate governance system by installing an Audit & Supervisory Committee, over half of whose members are Outside Directors, and 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.

### ■ Board of Directors

The Board of Directors comprises a total of fifteen Directors, including ten Directors who are not serving as Audit & Supervisory Committee Members, three of whom are Outside Directors, and five Directors serving as Audit & Supervisory Committee Members, three of whom are Outside Directors. Outside Directors currently account for 40.0% of the Board of Directors. Additionally, two female Outside Directors have been appointed.

### ■ 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.

### ■ 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.

### ■ 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 regarding decisions on 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 (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.

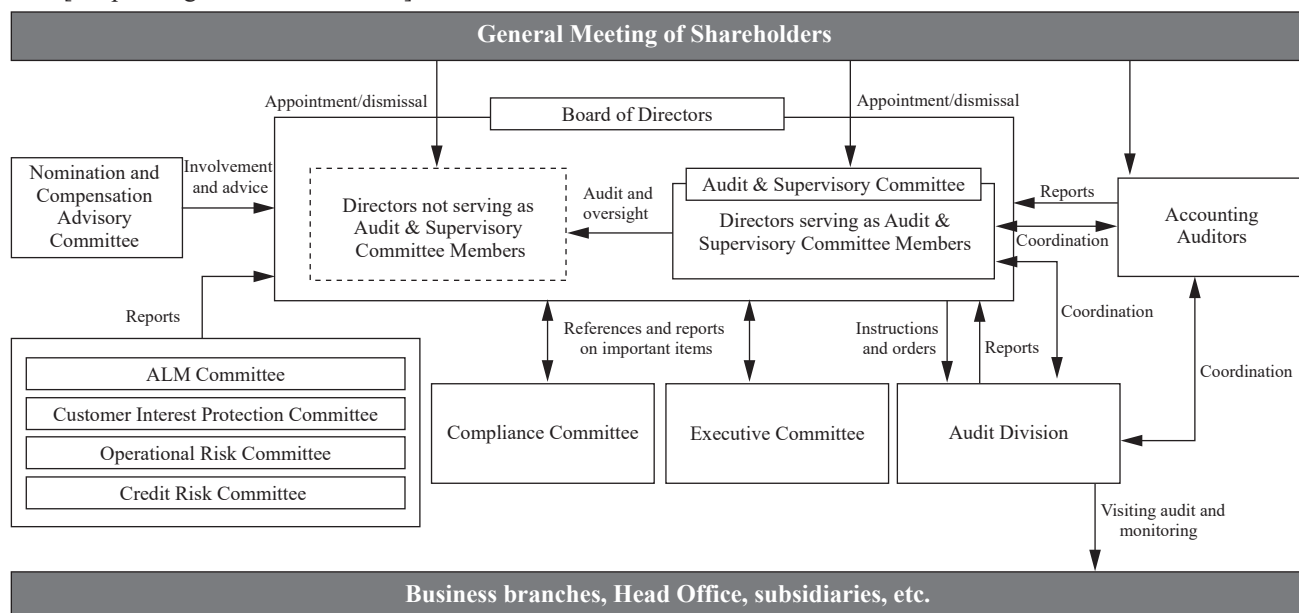


## ■ Enrichment of information disclosure activities

In compliance with relevant laws and regulations, the Bank strives to disclose accurate management information in a timely manner and to enrich the content of the information that it discloses so that valuable information can be viewed in a timely manner via the Bank's website.

The Bank also actively makes efforts on investor relations to earn the confidence of business partners and the market and corporate responsibility aimed at customers of the community.

[Corporate governance structure]



• Board of Directors (As of July 1, 2021)

Inside Directors

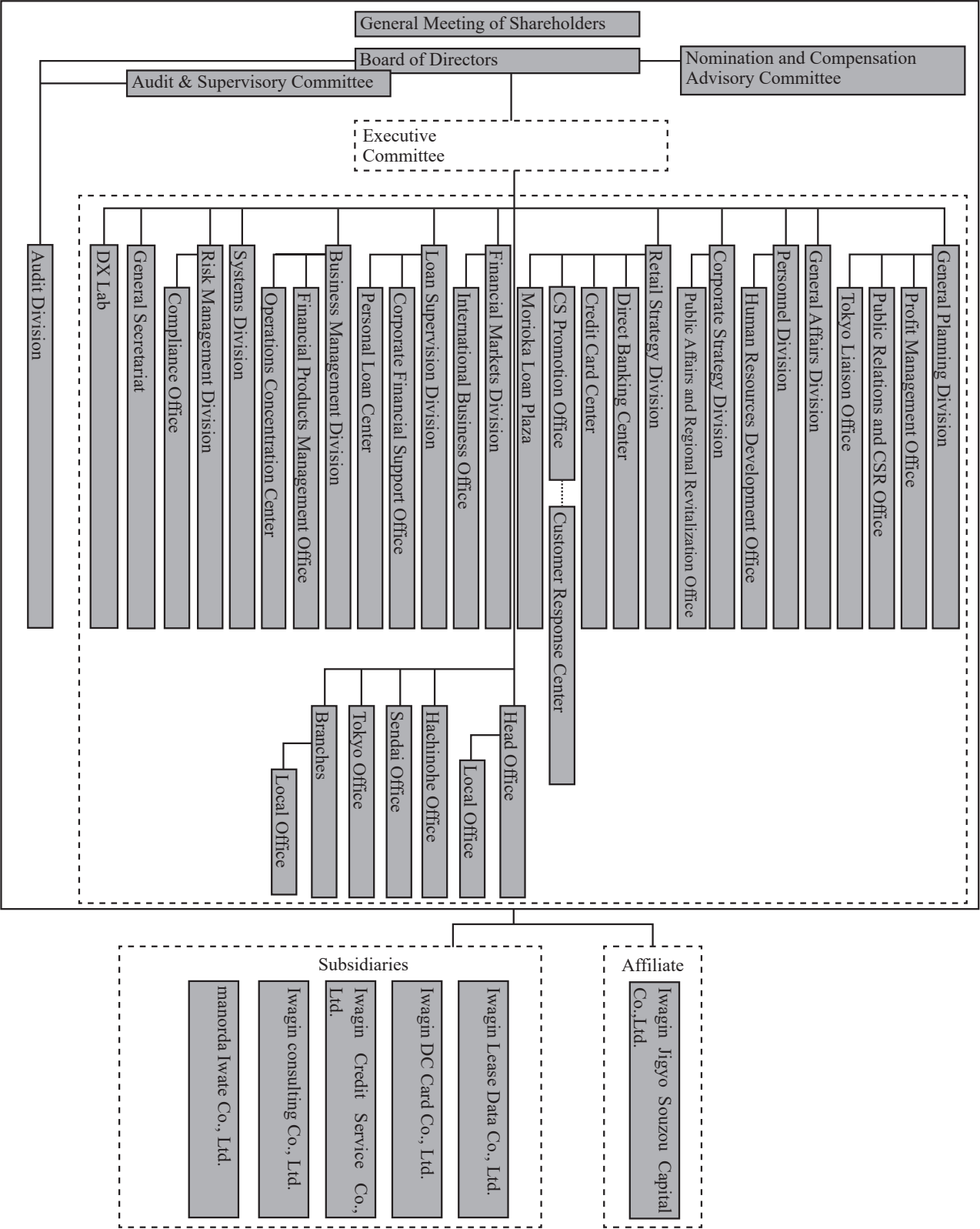
<b>Chairman</b>	Masahiro Takahashi	<b>President</b>	Sachio Taguchi
<b>Director / Senior Managing Executive Officer</b>	Motomu Sato	<b>Director / Managing Executive Officer</b>	Yasushi Sasaki
<b>Director / Managing Executive Officer</b>	Kensei Ishikawa	<b>Director / Managing Executive Officer</b>	Shinji Niisato
<b>Director / Managing Executive Officer</b>	Toru Iwayama	<b>Director serving as an Audit &amp; Supervisory Committee Member</b>	Yuji Chiba
<b>Director serving as an Audit &amp; Supervisory Committee Member</b>	Shuichi Fujisawa		

Outside Directors

<b>Director (Outside Director)</b>	Atsushi Takahashi	<b>Director (Outside Director)</b>	Fumio Ube
<b>Director (Outside Director)</b>	Atsushi Miyanoya	<b>Director serving as an Audit &amp; Supervisory Committee Member (Outside Director)</b>	Shinobu Obara
<b>Director serving as an Audit &amp; Supervisory Committee Member (Outside Director)</b>	Etsuko Sugawara	<b>Director serving as an Audit &amp; Supervisory Committee Member (Outside Director)</b>	Masakazu Watanabe

<b>Managing Executive Officer / General Manager of Sendai Office</b>	Katsuhiko Kawamura	<b>Executive Officer / General Manager of Kitakami Branch and Kitakami Ekimae Branch</b>	Satoshi Ito
<b>Executive Officer / General Manager of Head Office</b>	Shinei Kishi	<b>Executive Officer / General Manager of Tokyo Office</b>	Shinichi Matsumoto
<b>Executive Officer / General Manager of Personnel Division</b>	Kazuhiro Sugawara	<b>Executive Officer / General Manager of Corporate Strategy Division</b>	Toshiaki Nagase
<b>Executive Officer / General Manager of Systems Division</b>	Junya Sekimura		

• Organization (As of July 1, 2021)



• 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 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 consulting Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	100	Business succession support, Management support, Personnel consulting	April 1, 2020	100%	0%
manorda Iwate Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	70	Sales channel expansion support, Regional revitalization support	April 1, 2020	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%

1. Iwagin consulting Co., Ltd. and manorda Iwate Co., Ltd. were newly established and were included in the scope of consolidation of the Bank from the year ended 31 March 2021.
2. Iwagin Business Service Co., Ltd. was dissolved on 31 March 2021, and it is currently in the process of liquidation.

## Consolidated Balance Sheets

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>ASSETS</b>			
Cash and due from banks (Notes 3 and 6)	¥637,337	¥370,821	\$5,756,815
Call loans and bills bought (Note 6)	23,000	—	207,750
Monetary claims bought (Note 6)	5,607	4,840	50,646
Money held in trust (Notes 5 and 6)	10,707	10,750	96,712
Securities (Notes 4, 6, 8 and 15)	1,187,839	1,200,178	10,729,284
Loans and bills discounted (Notes 6, 7, 9 and 27)	1,898,553	1,815,084	17,148,884
Foreign exchange assets	2,074	3,934	18,733
Premises and equipment (Notes 11 and 23)	16,179	16,826	146,139
Intangible assets (Notes 12 and 23)	1,506	1,465	13,603
Net defined benefit asset (Note 16)	5,812	3,698	52,498
Deferred tax assets (Note 17)	353	493	3,188
Customers' liabilities for acceptances and guarantees (Note 15)	4,963	5,359	44,829
Other assets (Notes 6, 8 and 10)	62,103	64,050	560,952
Allowance for doubtful accounts (Note 6)	(15,071)	(11,960)	(136,130)
Total assets	¥3,840,962	¥3,485,538	\$34,693,903
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Deposits (Notes 6, 8 and 13)	¥3,414,900	¥3,201,384	\$30,845,452
Call money and bills sold (Note 6)	7,750	—	70,003
Borrowed money (Notes 6 and 8)	171,938	56,553	1,553,049
Foreign exchange liabilities	15	4	135
Accrued bonuses for directors and corporate auditors	23	25	208
Net defined benefit liability (Note 16)	1,812	2,484	16,368
Retirement benefits for directors and corporate auditors	20	25	180
Provision for losses on reimbursement of dormant deposits	373	420	3,369
Provision for contingent losses	202	228	1,824
Deferred tax liabilities (Note 17)	7,296	2,355	65,902
Acceptances and guarantees (Note 15)	4,963	5,359	44,829
Other liabilities (Notes 6, 14 and 23)	30,039	29,245	271,330
Total liabilities	3,639,331	3,298,082	32,872,649
<b>Net assets (Note 18):</b>			
Common stock:			
Authorized — 49,450 thousand shares as at 31 March 2021 and 2020			
Issued and outstanding — 18,498 thousand shares as at 31 March 2021 and 2020	12,090	12,090	109,204
Capital surplus	5,667	5,667	51,188
Retained earnings	158,440	156,688	1,431,126
Treasury stock, at cost	(3,885)	(3,906)	(35,091)
Total shareholders' equity	172,312	170,539	1,556,427
Net unrealized holding gains on available-for-sale securities (Note 4)	32,859	23,084	296,803
Net unrealized losses on hedging derivatives (Note 6)	(3,304)	(4,103)	(29,844)
Remeasurements of defined benefit plans (Note 16)	(488)	(2,289)	(4,408)
Total accumulated other comprehensive income	29,067	16,692	262,551
Stock acquisition rights (Note 19)	252	225	2,276
Total net assets	201,631	187,456	1,821,254
Total liabilities and net assets	¥3,840,962	¥3,485,538	\$34,693,903
	Yen		U.S. dollars
	2021	2020	2021
Per share data:			
Net assets (Note 25)	¥11,445.57	¥10,644.27	\$103.38

See accompanying notes.

## Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Income:			
Interest income:			
Interest on loans and discounts	¥17,358	¥17,277	\$156,788
Interest and dividends on securities	10,627	12,528	95,990
Other interest income	69	43	623
Fees and commissions	8,237	8,544	74,402
Other operating income (Note 20)	4,601	4,623	41,559
Other income (Note 22)	4,451	2,311	40,204
Total income	45,343	45,326	409,566
Expenses:			
Interest expenses:			
Interest on deposits	334	424	3,017
Interest on borrowings	8	91	72
Other interest expenses	534	550	4,823
Fees and commissions	3,395	3,304	30,666
Other operating expenses (Note 20)	4,831	5,385	43,637
General and administrative expenses (Note 21)	25,473	26,215	230,088
Other expenses (Note 22)	5,229	4,127	47,231
Total expenses	39,804	40,096	359,534
Income before income taxes	5,539	5,230	50,032
Provision for income taxes (Note 17)			
Current	2,790	965	25,201
Deferred	(147)	481	(1,327)
	2,643	1,446	23,874
Net income	2,896	3,784	26,158
Net income attributable to owners of parent	¥2,896	¥3,784	\$26,158
	Yen		U.S. dollars
	2021	2020	2021
Per share data:			
Net income (Note 25)	¥164.64	¥212.50	\$1.49
Diluted net income (Note 25)	164.03	211.86	1.48
Cash dividends applicable to the year (Note 28)	60.00	70.00	0.54

See accompanying notes.

## Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net income	¥2,896	¥3,784	\$26,158
Other comprehensive income (losses) (Note 24):			
Net unrealized holding gains (losses) on available-for-sale securities	9,775	(13,946)	88,294
Net unrealized gains (losses) on hedging derivatives (Note 6)	799	(163)	7,217
Remeasurements of defined benefit plans (Note 16)	1,801	(961)	16,268
Total other comprehensive income (losses)	12,375	(15,070)	111,779
Comprehensive income (losses)	¥15,271	¥(11,286)	\$137,937
 Total comprehensive income (losses)	 ¥15,271	 ¥(11,286)	 \$137,937
Attributable to:			
Owners of parent	15,271	(11,286)	137,937

See accompanying notes.



## Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiaries  
Years ended 31 March 2021 and 2020

	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 losses on available-for-sale securities	Net unrealized losses on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive losses	Stock acquisition rights	Total net assets
<b>BALANCE, 1 April 2019</b>	¥12,090	¥5,667	¥154,162	¥(2,946)	¥168,973	¥37,030	¥(3,940)	¥(1,328)	¥31,762	¥209	¥200,944
Change during the year											
Cash dividends	—	—	(1,254)	—	(1,254)	—	—	—	—	—	(1,254)
Net income attributable to owners of parent	—	—	3,784	—	3,784	—	—	—	—	—	3,784
Acquisition of treasury stock	—	—	—	(987)	(987)	—	—	—	—	—	(987)
Disposal of treasury stock	—	—	(4)	27	23	—	—	—	—	—	23
Net changes in items other than shareholders' equity during the year	—	—	—	—	—	(13,946)	(163)	(961)	(15,070)	16	(15,054)
<b>Total change during the year</b>	—	—	2,526	(960)	1,566	(13,946)	(163)	(961)	(15,070)	16	(13,488)
<b>BALANCE, 1 April 2020</b>	12,090	5,667	156,688	(3,906)	170,539	23,084	(4,103)	(2,289)	16,692	225	187,456
Change during the year											
Cash dividends	—	—	(1,143)	—	(1,143)	—	—	—	—	—	(1,143)
Net income attributable to owners of parent	—	—	2,896	—	2,896	—	—	—	—	—	2,896
Acquisition of treasury stock	—	—	—	(1)	(1)	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	(1)	22	21	—	—	—	—	—	21
Net changes in items other than shareholders' equity during the year	—	—	—	—	—	9,775	799	1,801	12,375	27	12,402
<b>Total change during the year</b>	—	—	1,752	21	1,773	9,775	799	1,801	12,375	27	14,175
<b>BALANCE, 31 March 2021</b>	¥12,090	¥5,667	¥158,440	¥(3,885)	¥172,312	¥32,859	¥(3,304)	¥(488)	¥29,067	¥252	¥201,631

	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 losses on available-for-sale securities	Net unrealized losses on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive losses	Stock acquisition rights	Total net assets
<b>BALANCE, 1 April 2020</b>	\$109,204	\$51,188	\$1,415,301	\$(35,281)	\$1,540,412	\$208,509	\$(37,061)	\$(20,676)	\$150,772	\$2,032	\$1,693,216
Change during the year											
Cash dividends	—	—	(10,324)	—	(10,324)	—	—	—	—	—	(10,324)
Net income attributable to owners of parent	—	—	26,158	—	26,158	—	—	—	—	—	26,158
Acquisition of treasury stock	—	—	—	(9)	(9)	—	—	—	—	—	(9)
Disposal of treasury stock	—	—	(9)	199	190	—	—	—	—	—	190
Net changes in items other than shareholders' equity during the year	—	—	—	—	—	88,294	7,217	16,268	111,779	244	112,023
<b>Total change during the year</b>	—	—	15,825	190	16,015	88,294	7,217	16,268	111,779	244	128,038
<b>BALANCE, 31 March 2021</b>	\$109,204	\$51,188	\$1,431,126	\$(35,091)	\$1,556,427	\$296,803	\$(29,844)	\$(4,408)	\$262,551	\$2,276	\$1,821,254

See accompanying notes.

## Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiaries  
Years ended 31 March 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows from operating activities:			
Income before income taxes	¥5,539	¥5,230	\$50,032
Adjustments to reconcile income before income taxes to net cash used in operating activities:			
Depreciation	1,722	1,690	15,554
Impairment losses	537	78	4,851
Increase (decrease) in allowance for doubtful accounts	3,111	(950)	28,100
Increase (decrease) in provision for contingent losses	(26)	(21)	(235)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(2)	(0)	(18)
(Increase) decrease in net defined benefit asset	30	(199)	271
Increase (decrease) in net defined benefit liability	(228)	(7)	(2,059)
Increase (decrease) in retirement benefits for directors and corporate auditors	(5)	5	(45)
Increase (decrease) in provision for losses on reimbursement of dormant deposits	(47)	29	(425)
Interest income	(28,054)	(29,848)	(253,401)
Interest expenses	876	1,065	7,912
Investment securities (gains) losses, net	(2,658)	296	(24,009)
(Increase) decrease in money held in trust	(145)	189	(1,310)
Foreign exchange (gains) losses, net	(657)	286	(5,934)
(Gains) losses on disposal of premises and equipment	80	13	723
Net (increase) decrease in loans and bills discounted	(83,469)	(19,984)	(753,943)
Net increase (decrease) in deposits	236,846	11,732	2,139,337
Net increase (decrease) in negotiable certificates of deposit	(23,330)	(27,870)	(210,731)
Net increase (decrease) in borrowed money	115,386	14,148	1,042,236
Net (increase) decrease in due from banks, excluding the Bank of Japan	14	(110)	126
Net (increase) decrease in call loans and others	(23,767)	791	(214,678)
Net increase (decrease) in call money and others	7,750	(2,220)	70,003
Net increase (decrease) in payables under securities lending transactions	—	(6,514)	—
Net (increase) decrease in foreign exchange assets	1,860	(1,775)	16,801
Net increase (decrease) in foreign exchange liabilities	11	4	99
Interest received	27,940	30,738	252,371
Interest paid	(936)	(1,132)	(8,454)
Other, net	1,878	6,518	16,964
Subtotal	240,256	(17,818)	2,170,138
Income taxes paid	(1,044)	(2,082)	(9,430)
Income taxes refunded	806	14	7,280
Net cash provided by (used in) operating activities	240,018	(19,886)	2,167,988
Cash flows from investing activities:			
Acquisition of securities	(508,350)	(657,477)	(4,591,726)
Proceeds from sale of securities	30,025	44,801	271,204
Proceeds from redemption of securities	507,831	611,708	4,587,038
Increase in money held in trust	(4,900)	—	(44,260)
Decrease in money held in trust	4,900	1,816	44,260
Acquisition of premises and equipment	(1,197)	(1,237)	(10,812)
Proceeds from sale of premises and equipment	69	143	623
Payment for retirement of premises and equipment	(79)	(88)	(713)
Acquisition of intangible assets	(571)	(784)	(5,158)
Payment for asset retirement obligations	(63)	(38)	(569)
Net cash provided by (used in) investing activities	27,665	(1,156)	249,887

## Consolidated Statements of Cash Flows (Continued)

The Bank of Iwate, Ltd. and its consolidated subsidiaries  
Years ended 31 March 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows from financing activities:			
Repayments of lease obligations	(30)	(275)	(271)
Cash dividends paid	(1,143)	(1,254)	(10,324)
Payment for acquisition of treasury stock	(1)	(987)	(9)
Proceeds from sale of treasury stock	0	0	0
Net cash used in financing activities	(1,174)	(2,516)	(10,604)
Effect of exchange rate changes on cash and cash equivalents	20	19	181
Net increase (decrease) in cash and cash equivalents	266,529	(23,539)	2,407,452
Cash and cash equivalents at the beginning of the year	369,792	393,331	3,340,186
Cash and cash equivalents at the end of the year (Note 3)	¥636,321	¥369,792	\$5,747,638

See accompanying notes.

## Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiaries  
Years ended 31 March 2021 and 2020

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Bank of Iwate, Ltd. (the “Bank”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan, its related accounting regulations and the Banking Act of Japan, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects, such as application and disclosure requirements, from 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 Act. 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 as at 31 March 2021, which was ¥110.71 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 the 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.

Iwagin Business Service Co., Ltd. was dissolved on 31 March 2021, and it is currently in the process of liquidation.

Iwagin consulting Co., Ltd. and Manorda Iwate Co., Ltd. were newly established and were included in the scope of consolidation of the Bank from the year ended 31 March 2021.

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 the 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 the equity method.

#### Trading account securities and other 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 above (“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 the 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 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 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 gains or losses 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 Standards for Financial Instruments in the Banking Industry” (Japanese Institute of Certified Public Accountants (“JICPA”) Industry Committee Practical Guideline No. 24, 8 October 2020).

Regarding the effectiveness of a hedge, a hedge that is intended to offset the effects of market fluctuations is assessed based 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 the 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 Committee Practical Guideline No. 25, 8 October 2020). 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 that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differential to be paid or received under the swap contracts is recognized as interest expense 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 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 five 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 there is no residual value except where residual value guarantees are stipulated in lease contracts.

Depreciation of leased assets pertaining to finance lease transactions that transfer the ownership of the leased assets to the Group is computed by the same method used for fixed assets owned by the Group.

#### Allowance for doubtful accounts

The reserve for loans to borrowers that are classified as normal and requiring attention is primarily calculated based on the amount of expected loss during the one-year period or the three-year period subsequent to the balance sheet date. The amount of expected loss is calculated based on the average loan loss ratio derived from the actual loan loss during the past one year or the past three years with necessary amendments such as future prospects.

The reserve for loans to borrowers that 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.

Allowance for doubtful accounts mentioned above is made on the basis of the results of a strict assessment of the quality of all the Bank's loan assets, using its internally established rules for self-assessment.

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 that 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 rules.

#### Provision for losses on reimbursement of dormant deposits

Provision for losses on reimbursement of dormant deposits that 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-sharing agreement with public credit guarantee associations for the Bank's loans guaranteed by the associations. The provision is calculated using the expected loss ratios computed based on the historical foreclosure ratio of each borrower category.

#### 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 using the benefit formula. 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 years 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 benefit 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 inhabitant taxes. The provision for income taxes is computed based on the pretax income of the Bank and each of 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 statements 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 Act 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 28.

#### Amounts per share

Net income per share of common stock is computed based on the weighted-average number of shares outstanding, excluding treasury stock, during each year. Diluted net income per share reflects the potential dilution that could occur if stock options to issue common stock were exercised. Cash dividends per share represent the amounts applicable to the corresponding 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 by the tax exclusion method.

## Significant accounting estimates

### Allowance for doubtful accounts

#### (1) Carrying amounts in the consolidated financial statements for the current fiscal year

Allowance for doubtful accounts      ¥15,071 million (\$136,130 thousand)

#### (2) Information on the nature of significant accounting estimates for identified items

##### a. Calculation method

The calculation method of allowance for doubtful accounts is described in “Allowance for doubtful accounts” under “2. SIGNIFICANT ACCOUNTING POLICIES.”

##### b. Key assumptions used in making accounting estimates

###### i. Categorization of receivables (self-assessment)

The Bank categorizes its outstanding receivables based on the level of risk of their recovery or impairment to their value (“self-assessment”). The self-assessment is conducted by comprehensively considering the use of funds and the situation of the collateral or guarantees in place, after determining the category of borrowers based on the credit ratings in accordance with the level of credit risk of the borrowers.

The determination of the category of borrowers is based on borrower’s financial information and other quantitative information, in addition to qualitative factors. Specifically, the Bank assesses the borrowers’ solvency based on their substantive financial condition, cash flows and profitability. The Bank also comprehensively takes into account the borrowers’ business sustainability, future profitability, ability to pay obligations based on their cash flows, the reasonableness and feasibility of their business improvement plans and support from other financial institutions to determine the category of borrowers in light of their industry/sector specific characteristics. Accordingly, the determination requires management’s judgment.

###### ii. Expected loss rate

Allowance for doubtful accounts is recorded based on the expected loss rate of the receivables classified in accordance with the self-assessment. The expected loss rate is calculated based on the historical loan loss for each classification, with necessary adjustments made to account for future prospects and other factors.

The Bank has prepared estimates for allowance for doubtful accounts assuming that the effects of the novel coronavirus disease (COVID-19) on the economy will last for another year or so and that the assumption above may be affected by COVID-19 to a certain degree; however, there was no significant effect on the consolidated financial statements for the year ended 31 March 2021.

###### c. Impact on the consolidated financial statements for the year ending 31 March 2022

If the assumption applied to the initial estimate changes due to changes in the business condition of individual borrowers or the actual loan loss rate, there is a possibility that there will be a significant impact on the allowance for doubtful accounts recorded in the consolidated financial statements for the year ending 31 March 2022.

It is very difficult to estimate to what extent COVID-19 will spread or when it will be contained in the future. Accordingly, there is a high degree of uncertainty in the assumption above and if there is a change in the circumstances of COVID-19 or its effects on the economic environment, there is a possibility that additional losses may be incurred in the consolidated financial statements for the following fiscal year.

Accounting standards that have not been applicable yet

“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, 31 March 2020)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, 26 March 2021)

(1) Overview

The standards above are comprehensive standards on revenue recognition. Revenue will be recognized based on the following five steps.

Step1: Identify contracts with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligations in the contract.

Step5: 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.

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, 4 July 2019)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, 4 July 2019)

“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, 4 July 2019)

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, 31 March 2020)

(1) Overview

In order to improve the comparability with provisions of international accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter, “Accounting Standards for Fair Value Measurement, etc.”) have been developed, and guidance, etc. regarding fair value measurement have been established. The Accounting Standards for Fair Value Measurement, etc. are applied to the fair value of the following item.

- Financial instruments defined in “Revised Accounting Standard for Financial Instruments”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised, and note items were established including the breakdown by level of fair value of financial instruments.

(2) Application date

The Group will apply these accounting standards and guidance 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.

Changes in presentation

Application of “Accounting Standard for Disclosure of Accounting Estimates”

The Bank adopted “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, 31 March 2020) starting with the consolidated financial statements pertaining to the end of the current fiscal year, and therefore significant accounting estimates are disclosed in the notes to the consolidated financial statements.

The notes, however, do not include information for the previous fiscal year in accordance with the transitional provision set out in the proviso of paragraph 11 of the Accounting Standard for Disclosure of Accounting Estimates.

### 3. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

#### Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents. As at 31 March 2021 and 2020, the reconciliation of cash and cash equivalents in the consolidated statements of cash flows with cash and due from banks in the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and due from banks	¥637,337	¥370,821	\$5,756,815
Less: Deposits in banks other than the Bank of Japan	(1,016)	(1,029)	(9,177)
Cash and cash equivalents	¥636,321	¥369,792	\$5,747,638

### 4. SECURITIES

Securities held by the Group as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
National government bonds	¥182,536	¥210,187	\$1,648,776
Local government bonds	356,571	375,118	3,220,766
Corporate bonds	335,680	318,719	3,032,066
Corporate stocks	40,310	36,351	364,104
Other securities	272,742	259,803	2,463,572
	¥1,187,839	¥1,200,178	\$10,729,284

The securities placed under unsecured lending agreements, which borrowers have the right to sell or pledge in the amount of ¥67,100 million (\$606,088 thousand) and ¥59,100 million as at 31 March 2021 and 2020, respectively, were included in national government bonds.

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as at 31 March 2021 and 2020:

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

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
As at 31 March 2021:	¥25,996	¥29,508	¥3,512	¥3,512	¥—
As at 31 March 2020:	¥25,412	¥29,231	¥3,819	¥3,819	¥—

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
As at 31 March 2021:	\$234,812	\$266,534	\$31,722	\$31,722	\$—

(b) Available-for-sale securities

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

	Millions of yen				
	Acquisition cost	Book value	Difference	Gain	Loss
As at 31 March 2021:					
Corporate stocks	¥17,428	¥38,975	¥21,547	¥22,085	¥(538)
Bonds	835,201	852,821	17,620	19,015	(1,395)
Other	252,863	260,479	7,616	10,320	(2,704)
	¥1,105,492	¥1,152,275	¥46,783	¥51,420	¥(4,637)
As at 31 March 2020:					
Corporate stocks	¥20,122	¥35,132	¥15,010	¥16,091	¥(1,081)
Bonds	860,713	881,761	21,048	22,203	(1,155)
Other	250,811	247,859	(2,952)	4,494	(7,446)
	¥1,131,646	¥1,164,752	¥33,106	¥42,788	¥(9,682)

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
As at 31 March 2021:					
Corporate stocks	\$157,421	\$352,046	\$194,625	\$199,485	\$(4,860)
Bonds	7,544,043	7,703,198	159,155	171,755	(12,600)
Other	2,284,012	2,352,804	68,792	93,216	(24,424)
	\$9,985,476	\$10,408,048	\$422,572	\$464,456	\$(41,884)

B. There were no sales of held-to-maturity debt securities for the years ended 31 March 2021 and 2020.

Total sales of available-for-sale securities in the years ended 31 March 2021 and 2020 amounted to ¥30,025 million (\$271,204 thousand) and ¥44,801 million, respectively. The related gains and losses amounted to ¥3,804 million (\$34,360 thousand) and ¥318 million (\$2,872 thousand), respectively, in the year ended 31 March 2021, and ¥2,142 million and ¥485 million, respectively, in the year ended 31 March 2020.

C. Available-for-sale securities written down for the years ended 31 March 2021 and 2020 amounted to ¥189 million (\$1,707 thousand) and ¥883 million, respectively.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities (Note)	¥46,949	¥33,082	\$424,072
Deferred tax liabilities	(14,090)	(9,998)	(127,269)
Net unrealized holding gains before interest adjustment	32,859	23,084	296,803
Amount equivalent to non-controlling interests	—	—	—
Net unrealized holding gains on available-for-sale securities	¥32,859	¥23,084	\$296,803

Note: The amounts of ¥166 million (\$1,499 thousand) and ¥(24) million, which are net unrealized holding gains and losses, respectively, 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, were included in the balance as at 31 March 2021 and 2020, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Shares	¥20	¥20	\$181
Investments	1,324	1,123	11,959

## 5. MONEY HELD IN TRUST

Money held in trust as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Money held in trust for trading purposes:			
Carrying amount	¥10,707	¥10,750	\$96,712
Realized gains (losses) included in earnings	68	(2)	614

## 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 lease operation and credit card operation.

For its main operations, the Group raises funds through deposits, call money, etc. and applies them to loans receivable and investment 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 asset liability management (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 category of loans as of the current fiscal year end was individuals, followed by local governments, real estate industries, leasing industries, financial industries and insurance industries, and loans are mostly distributed in each industry.

Securities fundamentally constitute bonds, stocks and investment trusts, which are held for investing purposes, held-to-maturity purposes and 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 mismatch 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 suffers losses from imposed unusual high interest rates, 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 the ALM control and applies hedge accounting to them as hedging instruments for interest rate risks on loans and bonds as hedged items. The Bank evaluates the effectiveness of the hedge based on accumulated fluctuation of cash flows of hedging instruments and hedged items for the periods beginning from the implementation of the hedging to the date of the evaluation and analysis on them.

Furthermore, there are other 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 its customers periodically and due dates and outstanding balances by individual customer. In addition, the Bank makes efforts to identify and mitigate risks of bad debts from customers who face financial difficulties.

The results of the monitoring above 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. The Audit Division strictly reviews the results to ensure that the monitoring procedures function properly.

Credit risks of issuers of securities and counterparty risks of derivative transactions are controlled through periodic reviews on credit information and fair value of securities by the Financial Markets Division.

#### d. Monitoring of market risks

##### (Interest rate risks)

The risks arising from fluctuations in interest rates are controlled using the ALM by the ALM committee, with reference to the discussion at the fund management meeting and interest rate analysis group meeting, through monitoring and analysis of the execution of the ALM and the discussion of future actions. Concretely, the results of the monitoring above 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 the 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 intervals by confirming whether the quantities of the Bank's risk fall under a certain portion of equity capital or not. Upper limits on losses on an aggregate or a realization basis are defined to control losses on a daily basis. These results are reported by the Risk Management Division to the management on a daily basis.

Investments in securities by the Financial Markets Division are executed in accordance with the investable items and investing

guidelines prescribed in the market business operation standards, the market risk management standards and the 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 the execution of transactions, and evaluation of effectiveness of the hedging and related administration is clearly identified, following the hedge transaction guidelines, the market business operation standards and the 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 one 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 six months for deposits, loans receivable and shares held for policy reasons, and three months for investments in bond, investments in stock and investments in trust.

The volume of market risk, which is supposed to be estimated losses, as at 31 March 2021 was ¥23,961 million (\$216,430 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. As a result of conducting the back-testing protocol, the Group believes that the method undertaken provides a reliable indicator of the market risks. The method of variance and covariance that 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 its liquidity position 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 used 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 fair value of financial instruments as at 31 March 2021 and 2020 are as follows.

	Millions of yen				Thousands of U.S. dollars	
	2021		2020		2021	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Assets:</b>						
Cash and due from banks	¥637,337	¥637,337	¥370,821	¥370,821	\$5,756,815	\$5,756,815
Call loans and bills bought	23,000	23,000	—	—	207,750	207,750
Monetary claims bought	5,477	5,496	4,682	4,689	49,472	49,643
Money held in trust	10,707	10,707	10,750	10,750	96,712	96,712
Securities						
Held-to-maturity debt securities	21,967	25,460	22,264	26,075	198,419	229,970
Available-for-sale securities	1,152,275	1,152,275	1,164,752	1,164,752	10,408,048	10,408,048
Loans and bills discounted	1,898,553		1,815,084		17,148,884	
Allowance for doubtful accounts	(13,878)		(11,444)		(125,354)	
	1,884,675	1,887,558	1,803,640	1,804,838	17,023,530	17,049,571
<b>Liabilities:</b>						
Deposits	3,414,900	3,414,975	3,201,384	3,201,455	30,845,452	30,846,130
Call money and bills sold	7,750	7,750	—	—	70,003	70,003
Borrowed money	171,938	171,937	56,553	56,553	1,553,049	1,553,039
<b>Derivative transactions:</b>						
Derivative instruments not qualifying for hedge accounting	(829)	(829)	(100)	(100)	(7,488)	(7,488)
Derivative instruments qualifying for hedge accounting	(4,747)	(7,992)	(5,895)	(9,751)	(42,878)	(72,189)

(Note 1) Methods to determine the 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. Call loans and bills bought

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

c. Monetary claims bought

As for monetary claims bought whose terms are less than one year, their carrying amounts approximate the fair value, while the fair value of long-term claims is based on the over-the-counter price (including an indicative price) determined by securities firms or banks, etc.

d. Money held in trust

For the securities invested as part of trust assets in independently managed money trusts that invest primarily in securities, the fair value of 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 counterparty financial institutions.

e. 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 counterparty financial institutions. 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 the estimated future cash flows arising from the financial assets.

f. 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 an interest rate to be applied if similar new loans were entered into, by the types, self-assessment and the terms of loans and bills discounted. 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 that 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 not exceeding the value of collateral, are supposed to approximate the fair value, given the estimated repayment period, interest rates and other conditions.

g. Deposits

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

h. Call money and bills sold

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

i. 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 were entered into. As to borrowed money with short-term maturity, its carrying amount approximates the fair value.

j. Derivative transactions

Please refer to the following section of the notes on derivatives.

(Note 2) The following table summarizes book values of securities for which it is extremely difficult to determine the fair values as at 31 March 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Available-for-sale securities	¥13,597	¥13,162	\$122,817
Monetary claims bought	130	158	1,174

(Note 3) Expected collections of assets and payments of liabilities with maturities as at 31 March 2021 and 2020 are as follows:

	Millions of yen					
	2021					
	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)	¥598,475	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	23,000	—	—	—	—	—
Monetary claims bought	1,448	—	—	—	—	4,159
Securities						
Held-to-maturity debt securities	—	—	—	1,989	—	19,978
Mainly consist of the following:						
National bonds	—	—	—	1,989	—	19,978
Corporate bonds	—	—	—	—	—	—
Available-for-sale securities	85,905	141,766	188,919	203,584	320,999	122,648
Mainly consist of the following:						
National bonds	8,025	9,236	10,305	24,227	48,762	60,014
Local government bonds	7,389	—	35,052	122,029	158,141	33,960
Corporate bonds	46,415	68,782	92,882	24,397	70,554	18,848
Loans and bills discounted	238,326	427,556	400,549	155,194	148,083	359,007
Deposits	3,304,090	103,979	6,681	10	140	—
Call money and bills sold	7,750	—	—	—	—	—
Borrowed money (*2)	—	9	12	12	18	49

	Millions of yen					
	2020					
	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)	¥344,497	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	—	—	—	—	—	—
Monetary claims bought	1,533	—	—	—	—	3,307
Securities						
Held-to-maturity debt securities	301	—	—	1,987	—	19,976
Mainly consist of the following:						
National bonds	—	—	—	1,987	—	19,976
Corporate bonds	301	—	—	—	—	—
Available-for-sale securities	179,797	159,274	169,371	146,037	326,468	108,490
Mainly consist of the following:						
National bonds	60,488	14,350	10,340	9,170	38,485	55,391
Local government bonds	22,027	5,612	30,046	85,562	195,200	36,671
Corporate bonds	47,832	91,010	77,378	16,729	58,645	14,106
Loans and bills discounted	274,046	379,200	368,590	144,320	122,275	330,648
Deposits	3,094,585	99,740	5,948	1,071	40	—
Call money and bills sold	—	—	—	—	—	—
Borrowed money (*2)	1,306	3	12	12	18	55

Thousands of U.S. dollars						
2021						
	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)	\$5,405,790	\$—	\$—	\$—	\$—	\$—
Call loans and bills bought	207,750	—	—	—	—	—
Monetary claims bought	13,079	—	—	—	—	37,567
Securities						
Held-to-maturity debt securities	—	—	—	17,966	—	180,453
Mainly consist of the following:						
National bonds	—	—	—	17,966	—	180,453
Corporate bonds	—	—	—	—	—	—
Available-for-sale securities	775,946	1,280,517	1,706,431	1,838,894	2,899,458	1,107,831
Mainly consist of the following:						
National bonds	72,487	83,425	93,081	218,833	440,448	542,083
Local government bonds	66,742	—	316,611	1,102,240	1,428,426	306,747
Corporate bonds	419,248	621,281	838,967	220,369	637,287	170,247
Loans and bills discounted	2,152,705	3,861,946	3,618,002	1,401,807	1,337,576	3,242,769
Deposits	29,844,549	939,202	60,347	90	1,264	—
Call money and bills sold	70,003	—	—	—	—	—
Borrowed money (*2)	—	81	108	108	163	443

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.

#### Derivatives

As stated under “2. 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 value and unrealized gains (losses) as at 31 March 2021 and 2020 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2021			2020			2021		
	Unrealized			Unrealized			Unrealized		
	Notional amounts	Fair value	(losses)	Notional amounts	Fair value	(losses)	Notional amounts	Fair value	(losses)
Forward foreign exchange:									
Sell	¥14,132	¥(808)	¥(808)	¥17,458	¥82	¥82	\$127,649	\$(7,298)	\$(7,298)
Buy	16	0	0	16	0	0	145	0	0

Notes: 1. Transactions in the table above are revalued at fair value. Unrealized gains (losses) are included in the consolidated statements of income.

2. The fair value of forward foreign exchange is based on the discounted present value.

(Credit derivative transactions)

	Millions of yen								Thousands of U.S. dollars			
	2021				2020				2021			
	Notional amounts	Over one year	Fair value	Unrealized gains (losses)	Notional amounts	Over one year	Fair value	Unrealized gains (losses)	Notional amounts	Over one year	Fair value	Unrealized gains (losses)
Credit default swap:												
Sell	¥1,000	¥1,000	¥(21)	¥(21)	¥1,000	¥1,000	¥(182)	¥(182)	\$9,033	\$9,033	\$(190)	\$(190)
Buy	—	—	—	—	—	—	—	—	—	—	—	—

- Notes:
1. Transactions in the table above are revalued at fair value. Unrealized gains (losses) are included in the consolidated statements of income.
  2. The fair value of credit default swap is based on the prices provided by the financial institutions.
  3. “Sell” transaction represents undertaking of credit risk.

(Earthquake derivatives)

	Millions of yen						Thousands of U.S. dollars		
	2021			2020			2021		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Earthquake derivatives:									
Sell		¥2,610	¥(34)		¥2,335	¥(30)		\$23,575	\$(307)
Buy		2,610	34		2,335	30		23,575	307

Note: For transactions in the table above, 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 value as at 31 March 2021 and 2020 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2021		2020		2021	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating rate/Pay fixed rate (Deferral method)	¥38,002	¥(4,747)	¥38,973	¥(5,894)	\$343,257	\$(42,878)
Receive floating rate/Pay fixed rate (Exceptional method)	22,143	(3,245)	22,239	(3,857)	200,009	(29,311)



## 7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bills discounted	¥2,119	¥2,597	\$19,140
Loans on notes	47,239	51,906	426,691
Loans on deeds	1,680,010	1,564,845	15,174,871
Overdrafts	169,185	195,736	1,528,182
	<u>¥1,898,553</u>	<u>¥1,815,084</u>	<u>\$17,148,884</u>

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Committee Practical Guideline No. 24.

The Group has the right to sell or pledge commercial bills discounted without restrictions. The total face values as at 31 March 2021 and 2020 were ¥2,119 million (\$19,140 thousand) and ¥2,597 million, respectively.

The Group is required to disclose loans to customers who meet specific criteria in accordance with the Banking Act. Doubtful loans as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans to borrowers under bankruptcy proceedings	¥724	¥947	\$6,540
Past due loans	39,275	33,606	354,756
Loans past due three months or more	5	1	45
Restructured loans, including loans to borrowers financially assisted by the Bank	5,317	4,683	48,026
	<u>¥45,321</u>	<u>¥39,237</u>	<u>\$409,367</u>

## 8. PLEDGED ASSETS

As at 31 March 2021, deposits of ¥39,650 million (\$358,143 thousand) and borrowed money of ¥171,500 million (\$1,549,092 thousand) were secured by a pledge of securities in the amount of ¥252,012 million (\$2,276,326 thousand) and guarantee money deposits in the amount of ¥73 million (\$659 thousand), respectively. As at 31 March 2020, deposits of ¥50,168 million and borrowed money of ¥56,106 million were secured by a pledge of securities in the amount of ¥125,923 million and guarantee money deposits in the amount of ¥71 million, respectively. In addition to the abovementioned assets pledged as collateral, the Group provided other assets in the amount of ¥35,003 million (\$316,168 thousand) and ¥35,003 million as collateral for transactions such as exchange settlement transactions as at 31 March 2021 and 2020, respectively.

Other assets include cash collateral paid for financial instruments, guarantee deposits and lease deposits in the amount of ¥8,581 million (\$77,509 thousand) and ¥9,790 million, ¥89 million (\$804 thousand) and ¥89 million, and ¥155 million (\$1,400 thousand) and ¥166 million as at 31 March 2021 and 2020, respectively.

## 9. COMMITMENT LINE AGREEMENTS

Commitment line agreements are agreements to lend customers a prescribed amount when they apply for borrowing, unless there is violation of the conditions of the agreements. The amounts of unused commitment line related to such agreements as at 31 March 2021 and 2020 were ¥700,263 million (\$6,325,201 thousand) and ¥686,008 million, respectively. The amounts of commitment line agreements, having a condition that the original agreement period would be less than one year or unconditionally cancelable at any time, were ¥658,043 million (\$5,943,844 thousand) and ¥650,439 million as at 31 March 2021 and 2020, 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 that stipulate that the Group may refuse to make loans or may decrease the commitment line for reasons including certain changes in financial conditions or security for the loans. 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 as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Accrued income	¥3,079	¥3,005	\$27,811
Other	59,024	61,045	533,141
	<u>¥62,103</u>	<u>¥64,050</u>	<u>\$560,952</u>

## 11. PREMISES AND EQUIPMENT

Premises and equipment as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Land	¥8,670	¥8,786	\$78,313
Buildings	35,425	35,142	319,980
Equipment	8,301	8,285	74,980
Leased assets	80	80	723
Other	959	1,354	8,662
	<u>53,435</u>	<u>53,647</u>	<u>482,658</u>
Accumulated depreciation	<u>37,256</u>	<u>36,821</u>	<u>336,519</u>
	<u>¥16,179</u>	<u>¥16,826</u>	<u>\$146,139</u>

To conform with the Companies Act of Japan, deferred gains on sale of real estate in the amount of ¥805 million (\$7,271 thousand) and ¥805 million as at 31 March 2021 and 2020, respectively, were deducted from the acquisition cost of premises and equipment.

## 12. INTANGIBLE ASSETS

Intangible assets as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Software	¥1,256	¥1,287	\$11,345
Leased assets	60	76	542
Other	190	102	1,716
	<u>¥1,506</u>	<u>¥1,465</u>	<u>\$13,603</u>

### 13. DEPOSITS

Deposits as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Current deposits	¥56,518	¥45,702	\$510,505
Ordinary deposits	2,079,462	1,834,753	18,782,964
Deposits at notice	2,473	1,880	22,338
Time deposits	996,537	1,005,353	9,001,328
Other deposits	67,264	77,720	607,569
Negotiable certificates of deposit	212,646	235,976	1,920,748
	<u>¥3,414,900</u>	<u>¥3,201,384</u>	<u>\$30,845,452</u>

### 14. OTHER LIABILITIES

Other liabilities as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Accrued income taxes	¥2,032	¥91	\$18,354
Accrued expenses	1,905	2,047	17,207
Unearned income	597	647	5,392
Lease obligations	1,359	1,494	12,275
Other	24,146	24,966	218,102
	<u>¥30,039</u>	<u>¥29,245</u>	<u>\$271,330</u>

### 15. 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 Act, Article 2, Paragraph 3), out of bonds included in securities, stood at ¥11,316 million (\$102,213 thousand) as at 31 March 2021 compared with ¥8,338 million as at 31 March 2020.

### 16. 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; additionally, under this plan, a cash balance plan has been introduced. Each beneficiary has a hypothetical individual account under the defined benefit pension plan, where contributions by the Bank and source of pension payments for each beneficiary are accumulated. In hypothetical individual accounts, interest credits based on trends in market interest rates and benefit credits based on the salary level are accumulated. In addition, the Bank has set up retirement benefit trusts related to the defined benefit pension plan.

Under the lump-sum retirement benefit plan (an unfunded plan that 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 beneficiary annually, and employees receive lump-sum payments, which are calculated by multiplying the unit price of points with the accumulated points at the time of retirement, as retirement benefits.

A 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
	2021	2020	2021
Balance at the beginning of the year	¥25,132	¥25,364	\$227,007
Service costs (including the amount of employee contributions)	685	692	6,188
Interest costs	108	108	976
Actuarial differences	70	117	632
Retirement benefits paid	(1,401)	(1,149)	(12,655)
Balance at the end of the year	¥24,594	¥25,132	\$222,148

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 accounts above. All retirement benefit expenses are included in service costs.

### (ii) Change in plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥26,346	¥27,753	\$237,973
Expected return on plan assets	659	694	5,952
Actuarial differences	2,212	(1,475)	19,980
Employer contributions	112	113	1,012
Employee contributions	52	52	470
Retirement benefits paid	(787)	(791)	(7,109)
Balance at the end of the year	¥28,594	¥26,346	\$258,278

### (iii) Reconciliation of projected benefit obligation and plan assets with net defined benefit liability (asset)

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded projected benefit obligation	¥24,306	¥24,800	\$219,547
Plan assets	(28,594)	(26,346)	(258,278)
	(4,288)	(1,546)	(38,731)
Unfunded projected benefit obligation	288	332	2,601
Net liability (asset) recognized in consolidated balance sheets	¥(4,000)	¥(1,214)	\$(36,130)
Net defined benefit liability	1,812	2,484	16,368
Net defined benefit asset	(5,812)	(3,698)	(52,498)
Net liability (asset) recognized in consolidated balance sheets	¥(4,000)	¥(1,214)	\$(36,130)

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

(iv) Retirement benefit expenses and their breakdown

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service costs (excluding the amount of employee contributions)	¥634	¥640	\$5,726
Interest costs	108	108	976
Expected return on plan assets	(659)	(694)	(5,952)
Amortization of actuarial differences	445	210	4,019
Retirement benefit expenses	¥528	¥264	\$4,769

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

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

The component of items recognized in remeasurements of defined benefit plans (pretax) in other comprehensive income was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial differences	¥2,587	¥(1,382)	\$23,367
Total	¥2,587	¥(1,382)	\$23,367

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

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial differences	¥ (702)	¥ (3,289)	\$(6,341)
Total	¥ (702)	¥ (3,289)	\$(6,341)

(vii) Plan assets

(a) Percentage by major category of plan assets are as follows:

	2021	2020
Bonds	55%	26%
Equities	29%	15%
General account	13%	14%
Cash and deposits	3%	45%
Total	100%	100%

Retirement benefit trusts set up for defined benefit pension plans accounted for 20% and 20% of total plan assets for the years ended 31 March 2021 and 2020, respectively. In addition, retirement benefit trusts set up for the lump-sum retirement benefit plans accounted for 24% and 24% of total plan assets for the years ended 31 March 2021 and 2020, respectively.

(b) Procedure for determining 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 assets) for the years ended 31 March 2021 and 2020 is as follows:

	2021	2020
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	2.5%	2.5%
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 contributions made by the Bank to defined contribution plans were ¥124 million (\$1,120 thousand) and ¥125 million for the years ended 31 March 2021 and 2020, respectively.

## 17. 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 30.4% and 30.4% for the years ended 31 March 2021 and 2020, respectively.

Significant components of the Group's deferred tax assets and liabilities as at 31 March 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Allowance for doubtful accounts	¥4,219	¥3,327	\$38,109
Net defined benefit liability	2,292	3,136	20,703
Accumulated depreciation	1,246	1,142	11,255
Securities	369	375	3,333
Deferred hedge	1,443	1,792	13,034
Other	1,282	1,159	11,579
Subtotal	10,851	10,931	98,013
Valuation allowance (*)	(3,204)	(2,287)	(28,941)
Total deferred tax assets	7,647	8,644	69,072
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(14,182)	(10,100)	(128,101)
Deferred gains on sale of real estate	(407)	(405)	(3,676)
Other	(1)	(1)	(9)
Total deferred tax liabilities	(14,590)	(10,506)	(131,786)
Net deferred tax liabilities	¥(6,943)	¥(1,862)	\$(62,714)

Note (\*): Valuation allowance increased by ¥917 million (\$8,283 thousand) in the year ended 31 March 2021. The main reason of this increase was the recognition of valuation allowance for the portion of deductible temporary differences related to allowance for doubtful accounts incurred in the current fiscal year at the Bank and its consolidated subsidiaries that was not expected to be realized in the reasonably estimated period in the future.

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2021 and 2020.

	2021	2020
Statutory tax rate	30.4%	30.4%
Non-deductible expenses	0.4	0.5
Non-taxable income	(1.3)	(1.8)
Per capita inhabitant taxes	0.7	0.7
Valuation allowance	16.6	(2.5)
Other, net	0.9	0.3
Effective tax rate	47.7%	27.6%

## 18. NET ASSETS

Under the Companies Act and the Banking Act of Japan, 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 Act and the Banking Act 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 the condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 100% of common stock, it is available for distribution by a 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 Act.

The number of treasury stock held by the Group was 903 thousand shares as at 31 March 2021 and 908 thousand shares as at 31 March 2020.

## 19. STOCK OPTIONS

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

The balances of stock acquisition rights granted for the stock option plan were ¥252 million (\$2,276 thousand) and ¥225 million as at 31 March 2021 and 2020, respectively.

Share-based compensation expenses accounted for as general and administrative expenses for the years ended 31 March 2021 and 2020 amounted to ¥48 million (\$434 thousand) and ¥39 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	2018 stock option plan	2019 stock option plan	2020 stock option plan
Title and number of grantees	Directors of the Bank: 9	Directors of the Bank: 7	Directors of the Bank: 7	Directors of the Bank: 7
Number of stock options by type of shares	Common stock: 11,100 shares	Common stock: 10,200 shares	Common stock: 14,500 shares	Common stock: 18,600 shares
Grant date	26 July 2017	25 July 2018	25 July 2019	27 July 2020
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 27 July 2017 to 26 July 2047	From 26 July 2018 to 25 July 2048	From 26 July 2019 to 25 July 2049	From 28 July 2020 to 27 July 2050

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 2021. 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):				
As at 31 March 2020	7,000	6,000	5,400	8,000
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	600	400	600	800
Outstanding	6,400	5,600	4,800	7,200
After vesting (shares):				
As at 31 March 2020	—	—	—	—
Vested	600	400	600	800
Exercised	600	400	600	800
Forfeited	—	—	—	—
Outstanding	—	—	—	—



	2017 stock option plan	2018 stock option plan	2019 stock option plan	2020 stock option plan
Before vesting (shares):				
As at 31 March 2020	7,500	8,600	14,500	—
Granted	—	—	—	18,600
Forfeited	—	—	—	—
Vested	700	800	1,100	—
Outstanding	6,800	7,800	13,400	18,600
After vesting (shares):	—	—	—	—
As at 31 March 2020	—	—	—	—
Vested	700	800	1,100	—
Exercised	700	800	1,100	—
Forfeited	—	—	—	—
Outstanding	—	—	—	—

(ii) Price information

	2013 stock option plan	2014 stock option plan	2015 stock option plan	2016 stock option plan
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average exercise price	¥2,580 (\$23.30)	¥2,580 (\$23.30)	¥2,580 (\$23.30)	¥2,580 (\$23.30)
Fair value at the grant	¥4,119 (\$37.21)	¥4,437 (\$40.08)	¥5,287 (\$47.76)	¥4,032 (\$36.42)

	2017 stock option plan	2018 stock option plan	2019 stock option plan	2020 stock option plan
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average exercise price	¥2,580 (\$23.30)	¥2,580 (\$23.30)	¥2,580 (\$23.30)	¥— (\$—)
Fair value at the grant	¥4,178 (\$37.74)	¥4,439 (\$40.10)	¥2,693 (\$24.32)	¥2,578 (\$23.29)

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 2021 were as follows:

(a) Valuation method: Black-Scholes formula

(b) Major basic numerical values and valuation method

	2020 stock option plan
Stock price volatility (*1)	51.5%
Expected years to expiration (*2)	0.7 years
Expected dividends (*3)	¥70 (\$0.63) per share
Risk-free interest rate (*4)	(0.17)%

Notes:\*1. Stock price volatility is calculated based on the actual stock prices from 4 November 2019 to 20 July 2020.

\*2. As a rational estimation is difficult due to the insufficient amount of historical data, expected years to expiration are determined by the estimated average remaining service period.

\*3. Expected dividends are determined based on actual dividends for the year ended 31 March 2020.

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

4. Estimation method for the number of vested stock options

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

## 20. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Other operating income:			
Gain on trading account securities transactions	¥0	¥0	\$0
Gain on sale of bonds	145	423	1,310
Gain on financial instruments	161	—	1,454
Other	4,295	4,200	38,795
	<u>¥4,601</u>	<u>¥4,623</u>	<u>\$41,559</u>
	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Other operating expenses:			
Loss on sale of foreign bills of exchange	¥27	¥384	\$244
Loss on sale of bonds	136	9	1,229
Loss on redemption of bonds	639	1,062	5,772
Loss on financial instruments	—	168	—
Other	4,029	3,762	36,392
	<u>¥4,831</u>	<u>¥5,385</u>	<u>\$43,637</u>

## 21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Salaries and allowances	¥10,578	¥11,222	\$95,547
Fringe benefits and welfare	2,880	2,909	26,014
Retirement benefit expenses	650	389	5,871
Depreciation for premises and equipment	1,695	1,655	15,310
Rental expenses	780	790	7,045
Taxes other than income taxes	1,526	1,455	13,784
Deposit insurance premium	929	959	8,391
Business outsourcing expenses	2,407	2,683	21,742
Other expenses	4,028	4,153	36,384
	<u>¥25,473</u>	<u>¥26,215</u>	<u>\$230,088</u>

## 22. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Other income:			
Gain on sale of stocks and other securities	¥3,659	¥1,720	\$33,050
Gain on disposal of premises and equipment	25	81	226
Other	767	510	6,928
	<u>¥4,451</u>	<u>¥2,311</u>	<u>\$40,204</u>

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Other expenses:			
Provision for allowance for doubtful accounts	¥3,975	¥2,028	\$35,905
Loss on disposal of premises and equipment	105	94	949
Loss on devaluation of stocks and other securities	189	892	1,707
Loss on sale of stocks and other securities	182	476	1,644
Impairment losses	537	78	4,851
Loss on money held in trust	41	203	370
Loss on transfer of receivables	20	14	180
Other	180	342	1,625
	<u>¥5,229</u>	<u>¥4,127</u>	<u>\$47,231</u>

## 23. 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 consist 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 consist 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) as at 31 March 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2021	2020	2021	2021
Current portion of lease obligations	¥476	¥507	\$4,299	2.59%
Lease obligations (excluding current portion)	883	987	7,976	2.40%
	<u>¥1,359</u>	<u>¥1,494</u>	<u>\$12,275</u>	

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

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

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
	2021	2021
2022	¥476	\$4,299
2023	350	3,162
2024	265	2,394
2025	168	1,517
2026 and thereafter	100	903

Year ending 31 March	Millions of yen
	2020
2021	¥507
2022	371
2023	267
2024	194
2025 and thereafter	155

#### B. Operating leases

##### (a) As lessee

There were no future lease payments under non-cancelable operating leases as at 31 March 2021 and 2020.

##### (b) As lessor

Future lease receivables under non-cancelable operating leases as at 31 March 2021 were ¥257 million (\$2,321 thousand) including ¥27 million (\$244 thousand) due within one year.

Future lease receivables under non-cancelable operating leases as at 31 March 2020 were ¥285 million including ¥28 million due within one year.

## 24. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income (losses) for the years ended 31 March 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net unrealized holding gains (losses) on available-for-sale securities:			
Amount for the year	¥17,523	¥(18,547)	\$158,278
Reclassification adjustment	(3,656)	(1,266)	(33,023)
Amount before tax effect	13,867	(19,813)	125,255
Tax effect amount	(4,092)	5,867	(36,961)
Net unrealized holding gains (losses) on available-for-sale securities	9,775	(13,946)	88,294
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	619	(775)	5,591
Reclassification adjustment	529	541	4,778
Amount before tax effect	1,148	(234)	10,369
Tax effect amount	(349)	71	(3,152)
Net unrealized gains (losses) on hedging derivatives	799	(163)	7,217
Remeasurements of defined benefit plans:			
Amount for the year	2,142	(1,592)	19,348
Reclassification adjustment	445	210	4,019
Amount before tax effect	2,587	(1,382)	23,367
Tax effect amount	(786)	421	(7,099)
Remeasurements of defined benefit plans	1,801	(961)	16,268
Total other comprehensive income (losses)	¥ 12,375	¥ (15,070)	\$111,779

## 25. PER SHARE DATA

Amounts per share as at 31 March 2021 and 2020 and for the years then ended are as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net assets per share	¥11,445.57	¥10,644.27	\$103.38
Net income per share	164.64	212.50	1.49
Diluted net income per share	164.03	211.86	1.48

Amounts per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2021	2020	2021
Net assets per share:			
Total net assets	¥201,631	¥187,456	\$1,821,254
Amount to be deducted from total net assets	252	225	2,276
Stock acquisition rights	252	225	2,276
Net assets at the end of the fiscal year attributed to common stock	201,379	187,231	1,818,978
Number of shares of common stock at the end of the fiscal year used in computing net assets per share attributed to common stock	17,594	17,590	
Net income per share:			
Net income attributable to owners of parent	2,896	3,784	26,158
Net income attributable to owners of parent attributed to common stock	2,896	3,784	26,158
Average number of shares of common stock during the year	17,594	17,809	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share	66	54	
Compensation-type stock options	66	54	

## 26. SEGMENT INFORMATION

### (1) Reportable segment information

#### a. Description of reportable segments

The Group's reportable segments are those components of the Group for which separate financial information is available and whose operating results are regularly reviewed by the board of directors to decide on the allocation of resources and assess business performance.

The principal business of the Group is financial services primarily focused on domestic commercial banking business. The Group has three reportable segments — “Commercial banking business,” “Leasing business” and “Credit card and credit guarantee business” — classified by type of financial services.

“Commercial banking business” consists of deposits, loans, securities investment and foreign exchange operations.

“Leasing business” consists of leasing and computer processing contracted business.

“Credit card and credit guarantee business” consists of credit card and guarantee business.

Since the quantitative importance of “Credit card and credit guarantee business” became significant, the reportable segments have been changed to “Commercial banking business,” “Leasing business” and “Credit card and credit guarantee business” from the current fiscal year. Segment information in the previous fiscal year has been reclassified to reflect the change in reportable segments.

b. Methods of measurement of the amounts of income, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies for each reportable segment are consistent with those disclosed under “2. SIGNIFICANT ACCOUNTING POLICIES.”

Segment profit is adjusted with ordinary profit. Ordinary profit is profit derived from regular business activities, including wages, dividends and interest.

Intersegment income is based on the prevailing market price.

c. Information about income, profit (loss), assets, liabilities and other items for each reportable segment

2021								
Millions of yen								
Reportable segment								
	Commercial banking	Leasing	Credit card and credit guarantee	Total	Others	Total	Adjustments	Consolidated
Ordinary income:								
Income from external customers	¥39,870	¥4,301	¥1,318	¥45,489	¥152	¥45,641	¥(323)	¥45,318
Intersegment income	337	263	454	1,054	46	1,100	(1,100)	—
Total	¥40,207	¥4,564	¥1,772	¥46,543	¥198	¥46,741	¥(1,423)	¥45,318
Segment profit (loss)	5,542	(32)	879	6,389	0	6,389	(233)	6,156
Segment assets	3,838,826	12,794	9,963	3,861,583	199	3,861,782	(20,820)	3,840,962
Segment liabilities	3,643,048	8,810	3,797	3,655,655	30	3,655,685	(16,354)	3,639,331
Other items:								
Depreciation	1,682	39	1	1,722	-	1,722	-	1,722
Interest income	28,298	0	44	28,342	0	28,342	(288)	28,054
Interest expense	875	37	1	913	-	913	(37)	876
Provision for income taxes	2,404	4	232	2,640	3	2,643	-	2,643
Increase in premises and equipment and intangible assets	1,700	4	0	1,704	-	1,704	1	1,705

Notes 1. Ordinary income is stated instead of net sales of non-banking industries.

2. “Others” are business segments not included in the reportable segments, and include the consulting business and regional trading company business.

3. “Adjustments” are as follows.

- (1) The adjustments for income from external customers are primarily adjustments for provision for allowance for doubtful accounts.
- (2) The adjustments for segment profit (loss) are primarily elimination of intersegment transactions.
- (3) The adjustments for segment assets are primarily elimination of intersegment transactions and adjustments for net defined benefit assets.
- (4) The adjustments for segment liabilities are primarily elimination of intersegment transactions and adjustments for net defined benefit liability.
- (5) The adjustments for interest income are primarily elimination of intersegment transactions.

4. Segment profit (loss) is adjusted with ordinary profit in the consolidated statements of income.

2020								
Millions of yen								
	Reportable segment				Others	Total	Adjustments	Consolidated
	Commercial banking	Leasing	Credit card and credit guarantee	Total				
Ordinary income:								
Income from external customers	¥39,942	¥4,206	¥1,096	¥45,244	¥—	¥45,244	¥—	¥45,244
Intersegment income	222	462	445	1,129	—	1,129	(1,129)	—
Total	¥40,164	¥4,668	¥1,541	¥46,373	¥—	¥46,373	¥(1,129)	¥45,244
Segment profit	5,152	3	328	5,483	—	5,483	(163)	5,320
Segment assets	3,485,151	12,708	9,705	3,507,564	—	3,507,564	(22,026)	3,485,538
Segment liabilities	3,301,246	8,683	4,065	3,313,994	—	3,313,994	(15,912)	3,298,082
Other items:								
Depreciation	1,642	47	1	1,690	—	1,690	—	1,690
Interest income	29,994	0	50	30,044	—	30,044	(196)	29,848
Interest expense	1,064	35	2	1,101	—	1,101	(36)	1,065
Provision for income taxes	1,350	13	83	1,446	—	1,446	—	1,446
Increase in premises and equipment and intangible assets	2,178	15	—	2,193	—	2,193	(108)	2,085

Notes 1. Ordinary income is stated instead of net sales of non-banking industries.

2. There is no business applicable to “Others.”

3. “Adjustments” are as follows.

- (1) The adjustments for segment profit are primarily elimination of intersegment transactions.
- (2) The adjustments for segment assets are primarily elimination of intersegment transactions and adjustments for net defined benefit assets.
- (3) The adjustments for segment liabilities are primarily elimination of intersegment transactions and adjustments for net defined benefit liability.
- (4) The adjustments for interest income are primarily elimination of intersegment transactions.
- (5) The adjustments for increase in premises and equipment and intangible assets are primarily elimination of intersegment transactions.

4. Segment profit is adjusted with ordinary profit in the consolidated statements of income.



2021								
Thousands of U.S. dollars								
Reportable segment								
	Commercial banking	Leasing	Credit card and credit guarantee	Total	Others	Total	Adjustments	Consolidated
Ordinary income:								
Income from external customers	\$360,130	\$38,849	\$11,905	\$410,884	\$1,373	\$412,257	\$(2,917)	\$409,340
Intersegment income	3,044	2,376	4,101	9,521	415	9,936	(9,936)	—
Total	\$363,174	\$41,225	\$16,006	\$420,405	\$1,788	\$422,193	\$(12,853)	\$409,340
Segment profit (loss)	50,059	(289)	7,940	57,710	0	57,710	(2,105)	55,605
Segment assets	34,674,609	115,563	89,992	34,880,164	1,798	34,881,962	(188,059)	34,693,903
Segment liabilities	32,906,224	79,577	34,297	33,020,098	271	33,020,369	(147,720)	32,872,649
Other items:								
Depreciation	15,193	352	9	15,554	-	15,554	-	15,554
Interest income	255,605	0	397	256,002	0	256,002	(2,601)	253,401
Interest expense	7,903	334	9	8,246	-	8,246	(334)	7,912
Provision for income taxes	21,714	36	2,096	23,846	28	23,874	-	23,874
Increase in premises and equipment and intangible assets	15,356	36	0	15,392	-	15,392	9	15,401

(2) Other segment-related information

a. Information by service

Information by service for the years ended 31 March 2021 and 2020 is as follows:

2021				
Millions of yen				
	Banking	Securities investment	Other	Total
Ordinary income from external customers	¥17,338	¥14,431	¥13,549	¥45,318

2020				
Millions of yen				
	Banking	Securities investment	Other	Total
Ordinary income from external customers	¥17,280	¥14,670	¥13,294	¥45,244

2021				
Thousands of U.S. dollars				
	Banking	Securities investment	Other	Total
Ordinary income from external customers	\$156,607	\$130,350	\$122,383	\$409,340

Note: Ordinary income is stated instead of net sales of non-banking industries.

i. Ordinary income

ii. Premises and equipment

c. Major customers' segment information

d. Information on impairment of fixed assets for each reportable segment

	2021					
	Thousands of U.S. dollars					
	Reportable segment					
	Commercial banking	Leasing	Credit card and credit guarantee	Total	Others	Total
Impairment losses	\$4,851	\$—	¥—	\$4,851	\$—	\$4,851

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

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## 27. 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 individuals) and others

There is no significant transaction with executive officers of the Bank and major shareholders to be disclosed for the year ended 31 March 2021.

For the year ended 31 March 2020

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance as at 31 March 2019
Executive officer and close family members	Mizuhiko Yoshida	Corporate Director and Audit & Supervisory Committee Member of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥19 million

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

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

There is no significant transaction to be disclosed between the Bank's consolidated subsidiaries and related parties for the years ended 31 March 2021 and 2020.

### (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 2021 and 2020.

## 28. SUBSEQUENT EVENTS

### Cash dividends

On 23 June 2021, the shareholders of the Bank authorized the following appropriation of retained earnings as at 31 March 2021:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30 (\$0.27) per share for year end)	¥528	\$4,769



# Independent auditor's report

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

## Opinion

We have audited the accompanying consolidated financial statements of The Bank of Iwate, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Reasonableness of the Company's estimates of allowance for doubtful accounts for loans and bills discounted to corporate customers

The key audit matter	How the matter was addressed in our audit
The Group recognized loans and bills discounted of ¥1,898,553 million (approximately 49.4% of total assets) and allowance for doubtful accounts of ¥15,071 million in the current consolidated balance sheet. Of these amounts, loans and bills discounted of ¥1,904,305 million and	The primary procedures we performed to assess whether the Company's estimates of allowance for doubtful accounts for loans and bills discounted to corporate customers was reasonable included the following:

allowance for doubtful accounts of ¥11,522 million (both include intra-group loans to consolidated subsidiaries and allowance for doubtful accounts for consolidated subsidiaries) were recognized by the Company, the parent company, of which the majority was for corporate customers.

As described in Note 2, “SIGNIFICANT ACCOUNTING POLICIES, Allowance for doubtful accounts” to the consolidated financial statements, the Company reviews the loan assets based on its internally established rules for self-assessment of assets, and recognizes an allowance for doubtful accounts based on the category of borrowers determined in accordance with its criteria for write-offs and reserves.

As described in Note 2, “SIGNIFICANT ACCOUNTING POLICIES, Significant accounting estimates” the corporate customers of the Company are categorized based on quantitative information such as the borrowers’ financial information, as well as taking into account qualitative factors. Specifically, the Company assesses the borrowers’ solvency based on their substantive financial condition, cash flows and profitability. The Company also comprehensively takes into account the borrowers’ business sustainability, future profitability, ability to pay obligations based on their cash flows, the reasonableness and feasibility of their business improvement plans and support from other financial institutions to determine the category of borrowers in light of their industry/sector specific characteristics. Accordingly, the determination requires management’s judgment.

A change in the category of a large borrower, in particular, may have a material effect on the amount of allowance for doubtful accounts to be recognized in the consolidated financial statements. Therefore, a heightened level of judgment is required for large borrowers whose credit risk could possibly change significantly, should their internal or external economic environment, including the impact of COVID-19, change.

We, therefore, determined that our assessment of the reasonableness of the Company’s estimates of allowance for doubtful accounts for loans and bills discounted to corporate

### (1) Internal control testing

We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the process of recognizing allowance for doubtful accounts, with a particular focus on the following:

- Method of recognizing allowance for doubtful accounts including internally established rules for self-assessment and criteria for write-offs and reserves
- Determination of the category of borrowers considering qualitative factors

### (2) Determination of the category of borrowers

In order to assess whether borrowers were appropriately categorized, we selected certain borrowers to test individually, based on both quantitative and qualitative factors. While quantitative factors included the possible effect on the amount of allowance for doubtful accounts from inappropriate categorization, qualitative factors included the determination of whether a significant change to their credit risk rating is expected, should their internal or external economic environment, including the impact of COVID-19, change.

In order to assess whether the corporate customers selected through the process above were categorized appropriately, we:

- inspected the results of the analysis performed by the Company on the borrowers’ financial information and others, as well as records and documents used in the categorization of the borrowers, including qualitative information;
- inquired of personnel in the relevant departments (Business branches, the Loan Supervision Department, and the Risk Management Division) of the Company, taking into account the information on the borrowers that we independently obtained; and
- assessed the reasonableness of significant assumptions used in their business improvement plans and the feasibility of key measures by assessing the progress of the plans, taking into account comparisons with past results, external environment factors, and their businesses.

In assessing whether the borrowers were appropriately categorized, particularly for large borrowers whose credit risk could significantly change, should their internal or external economic

customers was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

environment change, we performed an overall assessment of their business environment, financial performance and condition, cash flows and support from other financial institutions, as well as future prospect of their industry and the borrower's competitive advantages.

## Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.

### Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Jingu Atsuhiko  
Designated Engagement Partner  
Certified Public Accountant

Takahashi Hidekazu  
Designated Engagement Partner  
Certified Public Accountant

Narushima Toru  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Sendai Office, Japan  
September 24, 2021

**Notes to the Reader of Independent Auditor's Report:**

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.



Annual Report  
**2021**

The Bank of Iwate, Ltd. Annual Report

 **THE BANK OF IWATE, LTD.**

Now we have corporate mascots for our digital channel.



Iwapu



Rokkoo and Tecchi

**UD**  
**FONT**

