Annual Report 2017

THE BANK OF IWATE, LTD.

Sachio Taguchi
President

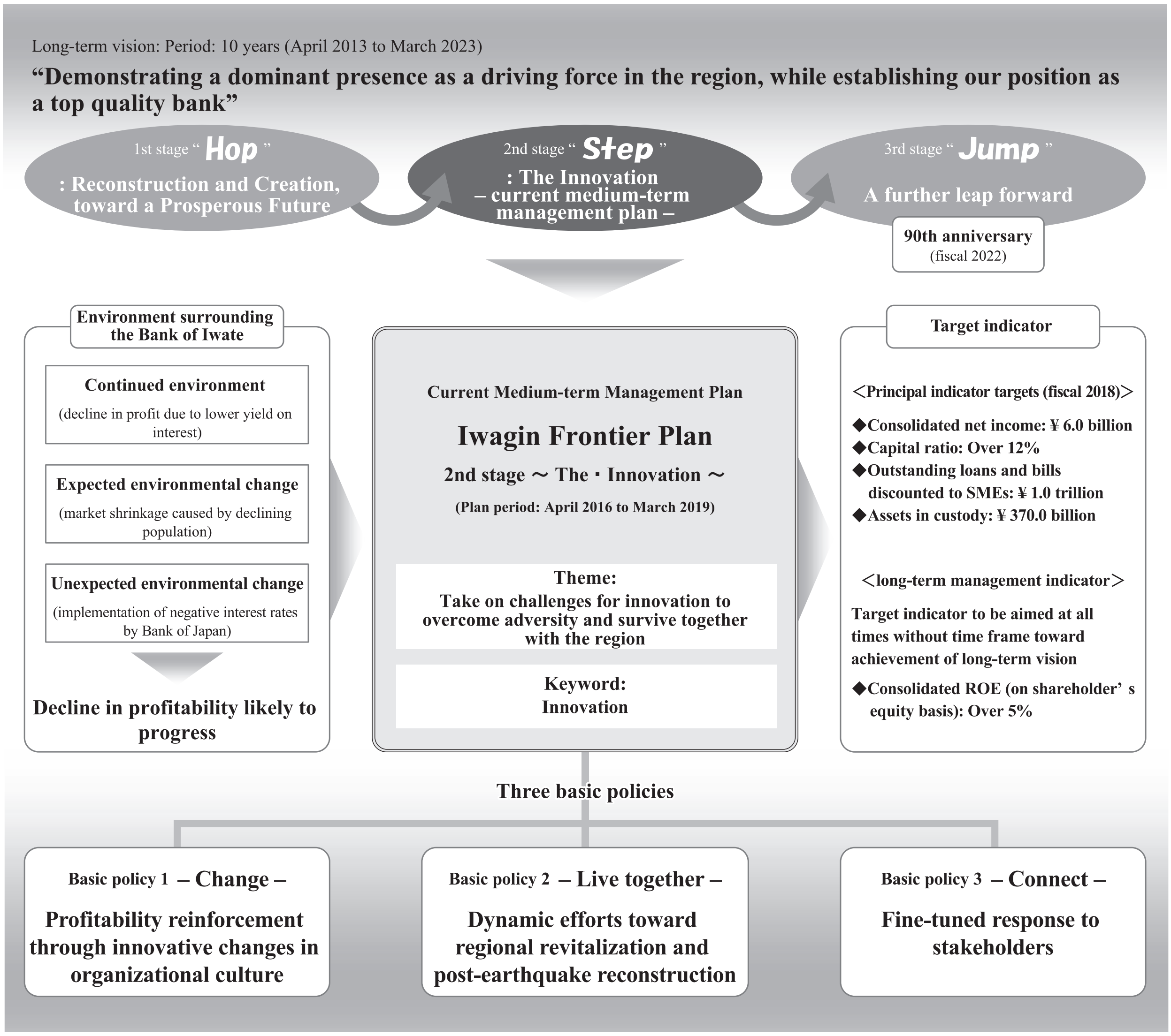
Message from the President

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

In this medium-term management plan, we set four principal indicator targets: "consolidated net income," "capital ratio," "outstanding loans and bills discounted to SMEs" and "assets in custody." In addition, we set "consolidated ROE" (return on shareholders' equity) as a long-term management indicator (target indicator to be aimed at all times without time frame toward achievement of long-term vision). In fiscal 2016, the first year of this plan, we steadily achieved our goals for "consolidated net income," "capital ratio" and "consolidated ROE," but fell short of our goals for "outstanding loans and bills discounted to SMEs" and "assets in custody." In the second year of the plan, we intend to accelerate efforts toward achieving goals by further enhancing the promotion of loans for SMEs to accumulate balances, and with regard to assets in custody, by broadening our business scope and enhancing our ability to make proposals through identifying needs.

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

Overview of the Medium-term Management Plan



S. Taguchi

Sachio Taguchi, *President*

Analysis of the Financial Position and Business Performance of the Bank
(on a consolidated basis)

Financial Position

Principal Accounts

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

Deposits (including negotiable certificate of deposit) at the term-end increased by ¥23.0 billion from the previous term-end to ¥3,271.3 billion (US$29,159.4 million). This was attributable to an increase in deposits by corporate clients and individuals, despite a decrease in public deposits.

Furthermore, the term-end balance of asset under management posted an increase of ¥7.2 billion from the previous term-end to ¥264.6 billion (US$23,585.0 million), due to an increase in insurances, despite decreases in public bonds and investment trusts.

Loans

The term-end balance of loans decreased by ¥68.0 billion from the previous term-end to ¥1,704.7 billion (US$15,195.2 million). This was attributable to decreases in loans to corporate clients and local governments, despite an increase in loans to individuals.

Securities

The value of total securities increased by ¥23.4 billion from the previous term-end to ¥1,344.7 billion (US$11,986.1 million). This was mainly attributable to an increase in investment trusts and others under management.

Cash Flow Analysis

With regards to the cash flow situation for the current fiscal year, net cash provided by operating activities was a net inflow of ¥120.6 billion (US$1,075.2 million), partly due to a decrease in loans and an increase in deposits. Net cash used in investing activities was a net outflow of ¥34.8 billion (US$310.4 million), partly due to acquisition of securities. Net cash used in financing activities was a net outflow of ¥11.7 billion (US$104.7 million), mainly attributable to repayment of subordinated borrowings. As a result of the above, the term-end balance of cash and cash equivalents increased by ¥74.1 billion from the previous term-end to ¥426.6 billion (US$3,802.3 million).

Business Performance

Earnings

Total income increased by ¥4.5 billion from the previous term to ¥51.1 billion (US$455.8 million). This was mainly attributable to decreases in interest income and gain on sale of bonds and stocks, despite an increase in other operating income attributable to the consolidation of the three equity-method affiliates of the Bank (Iwagin Lease Data Co., Ltd., Iwagin DC Card Co., Ltd. and Iwagin Credit Service Co., Ltd.; hereinafter, “Three Group Companies”).

Total expenses increased by ¥3.0 billion from the previous term to ¥38.5 billion (US$342.9 million). This was mainly due to increases in other operating expenses as well as general and administrative expenses, attributable to the consolidation of the Three Group Companies.

As a result, income before income taxes increased by ¥1.5 billion from the previous term to ¥12.7 billion (US$112.8 million). Net income attributable to owners of parent increased by ¥3.0 billion from the previous term to ¥10.2 billion (US$90.5 million), mainly due to recording a gain on negative goodwill in conjunction with the acquisition of additional shares of the Three Group Companies.

Capital Ratio

The capital ratio declined by 0.30% to 12.77% on a consolidated capital adequacy basis and by 0.65% on a non-consolidated capital adequacy basis to 12.38%, mainly as a result of a decrease in equity capital through repayment of subordinated loans and the growth of risk assets.

1 Corporate Governance

(1) Outline of the Bank's Governance Structure

① Governance structure and basic approach to corporate governance

The Governance structure of the Bank is developed on the basis of the coordination between appointed outside directors and the Board of Corporate Auditors as well as internal audit divisions. The reason behind the adoption of this structure is the philosophy that supervision of management should be reinforced by the enhanced functions of the Board of Directors and the appointment of highly independent outside directors and outside auditors.

Ever since its establishment, the management of the Bank of Iwate has been based on the two fundamental mission objectives of contributing to the development of the regional community and ensuring the financial soundness of the Bank under all circumstances. Amid today's rapidly changing business environment, the management of the Bank continues to uphold these principles in its day-to-day performance of business operations. To fulfill the duties expected of us as the leading bank in our region, by our business partners, shareholders, and the community as a whole, we take complete responsibility for our management decisions and believe it is necessary to establish and maintain the highest standard of corporate governance that includes improved management transparency and strengthened management oversight functions.

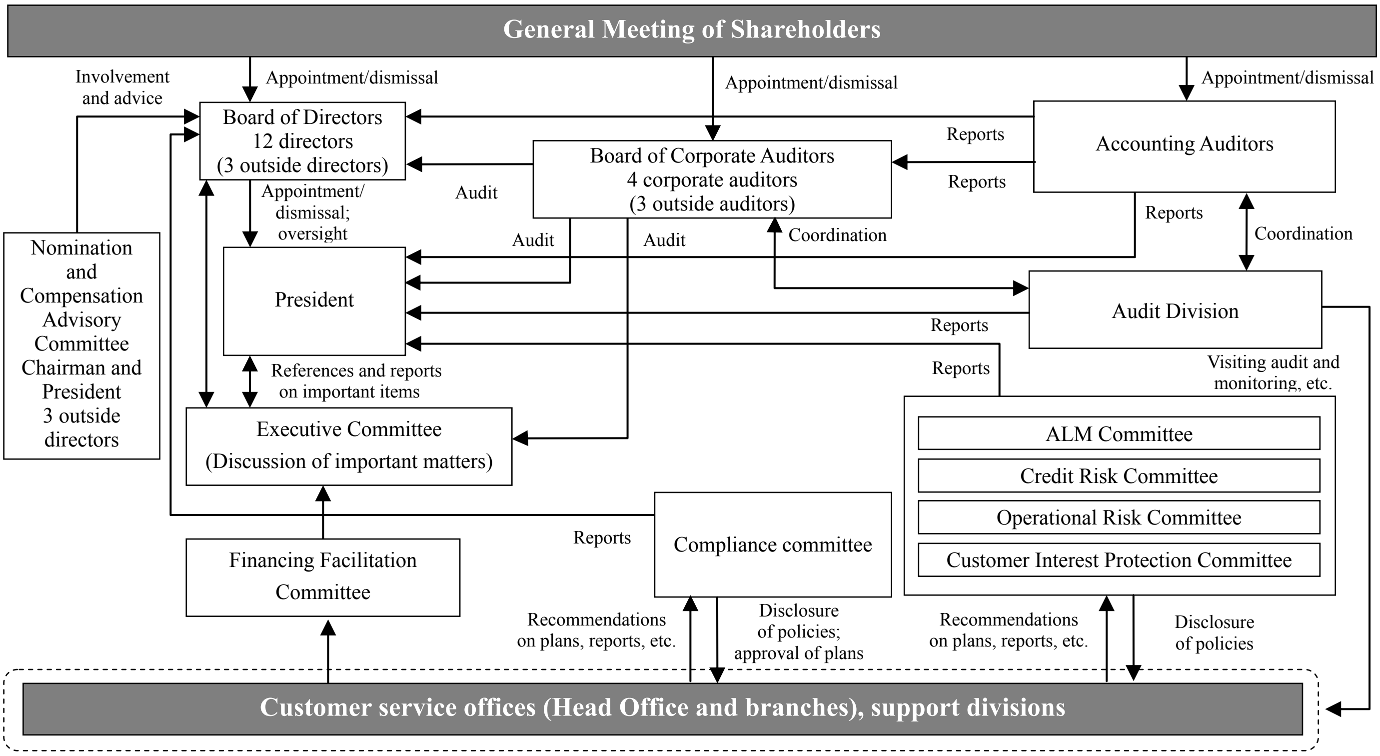
② Outline of the corporate governance functions within the Bank

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

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

Furthermore, in an effort to further enhance corporate governance, the Bank has established the Nomination and Compensation Advisory Committee to obtain appropriate involvement and advice from outside directors.

③ Organization chart



④ Internal control system development

With regard to internal control, the Board of Directors has laid down the Basic Policies Regarding the Structure of the Bank's Internal Control System, and established a system for eleven items, including a system that ensures that the conduct of all directors and employees conforms both to law and regulations as well as to the Articles of Incorporation of the Bank and a system that ensures the adequacy of business operations by the Group consisting of the Bank and subsidiaries etc.

⑤ Development of risk management structure

With regard to risk management, the Bank, upon developing structures for the execution of operations and monitoring, has established a structure to manage individual risks as well as a structure to manage such risks on an integral basis. To firm up these management structures, the Risk Management Regulations have been set out to clearly indicate the basic principles of risk management and to clearly define the structure of responsibility. Furthermore, the Risk Management Division is in place as the department responsible for both the integrated management of the various categories of risks, and risk management throughout the Bank.

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

⑥ Accounting audit

Accounting audits of the Bank are conducted by the independent auditing company KPMG AZSA LLC at the request of the Bank. The certified public accountants in charge of auditing the Bank's financial statements for the reporting term are Atsushi Fukuda, Motofumi Okumura, and Toru Narushima, assisted by nine other certified public accountants and seventeen additional staff.

(2) Internal Audits and Auditing by Corporate Auditors

① Internal audits

The Bank's Audit Division, with a staff of eighteen, is responsible for conducting internal audits as an organization independent of all business divisions. Audits are conducted on all divisions of the head office, branches, subsidiaries and affiliates for the purpose of verifying adequacy and effectiveness of the internal control system, as well as to prevent fraud and errors. Internal audits are furthermore conducted on Bank's securities reports and financial statements in order to confirm the effective operation of the Bank's internal control system. Staff of the division strives to enhance coordination with corporate auditors by exchanging information to ensure objective and efficient auditing.

② Auditing by corporate auditors

The Board of Corporate Auditors comprises four corporate auditors. Auditing conducted by the Bank's corporate auditors consists of audits of divisions at the Bank's Head office as well as on-site audits of branch offices conducted on a periodical basis. In addition, the corporate auditors carry out their auditing tasks by collaborating and exchanging information with the Audit Division and the accounting auditors.

Furthermore, corporate auditors regularly meet with accounting auditors to receive reports and exchange opinions, and also undertake activities such as fieldwork to confirm the adequacy of the execution of duties by accounting auditors.

(3) Outside Directors and Outside Auditors

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

The outside directors and outside auditors of the Bank have no special conflicts of interest with the Bank other than standard transactions such as deposits, and the Bank has determined that there are no risks of conflict of interests between the outside directors and outside auditors, and the general shareholders. The Bank has also determined that no conflicts of interest including human relationships, capital relationships and significant trading relationships exist between the Bank and the entities that the outside directors and outside auditors serve.

The Bank's relationship with each of the outside directors and outside auditors is as follows.

Outside Directors

- The Bank has three outside directors; Hiroshi Miura, Atsushi Takahashi and Fumio Ube. Mr. Miura, as the President and CEO of IWATE NIPPO CO., LTD., is in an executive position of said company as of the date of submission of the Annual Securities Report (hereinafter "currently"). Mr. Takahashi served as the Chairman of The Sumitomo Trust and Banking Company, Limited (currently Sumitomo Mitsui Trust Bank, Limited) until March 2011, and is currently the Senior Corporate Advisor of said company, as well as an outside director of Keio Corporation. Mr. Ube served as the Representative Director and Executive Vice President of Tohoku Electric Power Company, Incorporated until June 2012, as the Vice Chairman of TOHOKU ECONOMIC FEDERATION until June 2015, and currently serves as Chairman of Tohoku Productivity Center.
- In terms of the transactions between the Bank and the outside directors, transactions including loans exist between the entities in which the outside directors currently serve as executive directors, and entities in which the outside directors served as executive directors in the past; however, they are all standard transactions and do not pose any special conflicts of interest.
- In terms of capital relationships between the Bank and outside directors, Mr. Takahashi holds 1,000 shares of the Bank's shares; however, such shares only account for a small portion of outstanding shares.
- The Bank's three outside directors have been reported to the Tokyo Stock Exchange, Inc. as independent directors who pose no risk of conflict of interest with general shareholders.

Outside Auditors

- The Bank has three outside auditors: Masahiko Mochizuki, Shinobu Obara and Mizuhiko Yoshida. Mr. Obara currently serves as Director and Executive Vice President of Iwate Menkoi Television Co., Ltd., and is in an executive position of said company.

- In terms of transactions between the Bank and the outside auditors, transactions including loans exist between the entities in which Mr. Obara currently serves as executive director and Mr. Yoshida; however, they are standard transactions and do not pose special conflicts of interest. Additionally, there are no special conflicts of interest between the Bank and Mr. Ikeda.
- The Bank’s three outside auditors have been reported to the Tokyo Stock Exchange, Inc. as independent directors who pose no risk of conflict of interest with general shareholders.

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

The Bank elects outside directors and outside auditors in order to reinforce the functions of monitoring and supervision of the Bank’s management. The Bank’s Board of Directors and corporate auditors monitor the directors’ execution of duties, while the outside directors undertake the role of reinforcing management decision-making and supervisory functions, with full regard for the interests of general shareholders and from an objective, outside position based on extensive knowledge. Additionally, the outside auditors, based on their extensive insight and specialized knowledge, undertake the role of reinforcing the audit functions in regard to directors’ execution of duties.

In addition to the establishment of independence standards for outside directors and outside auditors, the Bank expects the officers to objectively and appropriately fulfill the functions and roles of supervision and audit based on specialty understanding and extensive knowledge, and elects them based on the fundamental understanding that no conflicts of interest will arise with the general shareholders.

③ Cooperation between outside auditors and internal audit divisions

Outside auditors monitor and supervise the management of the Bank through attendance at the Board of Directors meetings and the Board of Corporate Auditors meetings, reports from the Compliance Committee and other committees, and cooperation with the Audit Division and accounting auditors to ensure effective audits based on a high level of independence.

(4) Outline of the Liability Limitation Agreement

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

(5) Compensation for Directors and Corporate Auditors

① Aggregate amount of compensation paid to directors and corporate auditors, aggregate amount of compensation by category of compensation, and the number of eligible directors and corporate auditors

Classification of directors and corporate auditors	Number of persons	Aggregate amount of compensation (¥ million)				
			Basic compensation	Bonus	Stock option	Retirement benefits
Directors (excluding outside directors)	11	261	187	25	48	-
Corporate auditors (excluding outside auditors)	1	19	19	-	-	-
Outside directors and outside auditors	7	33	33	-	-	-

(Notes) 1. The above numbers of persons include two directors and one auditor who retired at the closing of the 134th General Meeting of Shareholders held on June 23, 2016.

2. The above amounts include ¥25 million accrued bonuses for directors and corporate auditors during the current fiscal year (¥25 million for directors), and ¥48 million for stock compensation-type stock acquisition rights (¥48 million for directors).

3. Apart from the above, ¥24 million employees' compensation was paid as compensation to directors concurrently serving as employees (¥20 million employees' salaries and ¥4 million employees' bonuses).

② Combined compensation for individual directors and corporate auditors

Not applicable, as there are no directors or corporate auditors whose combined compensations exceeded ¥100 million.

③ Policies on determining the amount of compensation for directors and corporate auditors

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

The Bank's compensation system for directors (excluding outside directors) comprises basic fixed compensation, bonuses and stock compensation-type stock options, while that for outside directors and corporate auditors comprises basic fixed compensation alone.

The monthly amount of basic fixed compensation is decided at the Board of Directors meeting and at the Board of Corporate Auditors meeting following the General Meeting of Shareholders, based on the duties and experience of each director and corporate auditor that is paid. The amount of bonus for directors and corporate auditors is decided according to the Bank's internal rules separately set out, in consideration of the Bank's financial business results each fiscal year as well as each director and corporate auditor's personal contribution thereto.

(6) Holding of Shares

① Number of stocks held by the Bank for other purposes than pure investment and their balance sheet value

Number of stocks held: 135

Balance sheet value: ¥26,663 million

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

(Previous fiscal year)

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

(Specific investment stocks)

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Tohoku Electric Power Company, Inc.	2,277,797	3,307	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Mitsubishi UFJ Financial Group, Inc.	4,040,310	2,107	Maintenance and reinforcement of collaborative relationship for finance-related businesses
TAIYO NIPPON SANSO CORPORATION	1,822,849	1,946	Maintenance and reinforcement of business relationship
East Japan Railway Company	200,000	1,942	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
SECOM CO., LTD.	104,644	875	Maintenance and reinforcement of business relationship
Daiwa Securities Group Inc.	1,099,806	761	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Yamagata Bank, Ltd.	1,323,800	565	Maintenance and reinforcement cooperative relationship
Tokio Marine Holdings, Inc.	127,086	482	Maintenance and reinforcement of collaborative relationship for finance-related businesses
THE AKITA BANK, LTD.	1,517,159	465	Maintenance and reinforcement cooperative relationship
The Bank of Kyoto, Ltd.	540,000	396	Maintenance and reinforcement cooperative relationship
The Toho Bank, Ltd.	1,052,090	379	Maintenance and reinforcement cooperative relationship
The Aomori Bank, Ltd.	937,000	307	Maintenance and reinforcement cooperative relationship
Yamaguchi Financial Group, Inc.	300,000	306	Maintenance and reinforcement cooperative relationship
JFE Holdings, Inc.	200,047	303	Maintenance and reinforcement of business relationship
THE OITA BANK, LTD.	860,000	301	Maintenance and reinforcement cooperative relationship
The Ogaki Kyoritsu Bank, Ltd.	863,000	293	Maintenance and reinforcement cooperative relationship
The Daishi Bank, Ltd.	731,000	282	Maintenance and reinforcement cooperative relationship
ARCS COMPANY, LIMITED	109,590	276	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Kyushu Financial Group, Inc.	418,470	271	Maintenance and reinforcement cooperative relationship
The Yamanashi Chuo Bank, Ltd.	656,000	270	Maintenance and reinforcement cooperative relationship
The Hyakugo Bank, Ltd.	619,000	261	Maintenance and reinforcement cooperative relationship
DCM Holdings Co., Ltd.	317,949	258	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Electric Power Development Co., Ltd.	72,000	253	Maintenance and reinforcement of business relationship
NTN CORPORATION	657,555	236	Maintenance and reinforcement of business relationship
TOSHIBA CORPORATION	1,024,483	224	Maintenance and reinforcement of business relationship
ORIX Corporation	132,300	212	Maintenance and reinforcement of business relationship
MS&AD Insurance Group Holdings, Inc.	66,756	209	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Musashino Bank, Ltd.	71,600	202	Maintenance and reinforcement cooperative relationship
Sumitomo Seika Chemicals Company, Limited	356,000	197	Maintenance and reinforcement of business relationship
The Kita-Nippon Bank, Ltd	68,250	195	Maintenance and reinforcement cooperative relationship
YAKUODO Co., Ltd.	60,000	191	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
THE BANK OF SAGA LTD.	801,000	169	Maintenance and reinforcement cooperative relationship
Nagase & Co., Ltd.	137,000	169	Maintenance and reinforcement of business relationship
Mitsubishi UFJ Lease & Finance Company Limited	296,600	146	Maintenance and reinforcement of business relationship

(Current fiscal year)

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

(Specific investment stocks)

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Tohoku Electric Power Company, Inc.	2,277,797	3,434	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
TAIYO NIPPON SANSO CORPORATION	1,822,849	2,373	Maintenance and reinforcement of business relationship
East Japan Railway Company	200,000	1,938	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Mitsubishi UFJ Financial Group, Inc.	2,424,110	1,696	Maintenance and reinforcement of collaborative relationship for finance-related businesses
SECOM CO., LTD.	104,644	833	Maintenance and reinforcement of business relationship
Daiwa Securities Group Inc.	1,099,806	745	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Yamagata Bank, Ltd.	1,323,800	642	Maintenance and reinforcement cooperative relationship
Tokio Marine Holdings, Inc.	127,086	596	Maintenance and reinforcement of collaborative relationship for finance-related businesses
THE AKITA BANK, LTD.	1,517,159	526	Maintenance and reinforcement cooperative relationship
YAKUODO Co., Ltd.	180,000	500	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Toho Bank, Ltd.	1,052,090	440	Maintenance and reinforcement cooperative relationship
The Bank of Kyoto, Ltd.	540,000	437	Maintenance and reinforcement cooperative relationship
JFE Holdings, Inc.	200,047	381	Maintenance and reinforcement of business relationship
THE OITA BANK, LTD.	860,000	374	Maintenance and reinforcement cooperative relationship
NTN CORPORATION	657,555	364	Maintenance and reinforcement of business relationship
Yamaguchi Financial Group, Inc.	300,000	362	Maintenance and reinforcement cooperative relationship
The Aomori Bank, Ltd.	937,000	357	Maintenance and reinforcement cooperative relationship
Sumitomo Seika Chemicals Company, Limited	71,200	337	Maintenance and reinforcement of business relationship
The Yamanashi Chuo Bank, Ltd.	656,000	326	Maintenance and reinforcement cooperative relationship
DCM Holdings Co., Ltd.	317,949	326	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Daishi Bank, Ltd.	731,000	322	Maintenance and reinforcement cooperative relationship
ARCS COMPANY, LIMITED	109,590	291	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Ogaki Kyoritsu Bank, Ltd.	863,000	285	Maintenance and reinforcement cooperative relationship
Kyushu Financial Group, Inc.	418,470	284	Maintenance and reinforcement cooperative relationship
The Hyakugo Bank, Ltd.	619,000	274	Maintenance and reinforcement cooperative relationship
TOSHIBA CORPORATION	1,024,483	247	Maintenance and reinforcement of business relationship

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
THE BANK OF SAGA LTD.	801,000	244	Maintenance and reinforcement cooperative relationship
MS&AD Insurance Group Holdings, Inc.	66,756	236	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Musashino Bank, Ltd.	71,600	236	Maintenance and reinforcement cooperative relationship
The Kita-Nippon Bank, Ltd	68,250	219	Maintenance and reinforcement cooperative relationship
ORIX Corporation	132,300	217	Maintenance and reinforcement of business relationship
Nagase & Co., Ltd.	137,000	212	Maintenance and reinforcement of business relationship
Electric Power Development Co., Ltd.	72,000	187	Maintenance and reinforcement of business relationship
Mitsubishi UFJ Lease & Finance Company Limited	296,600	164	Maintenance and reinforcement of business relationship
THE SHIMIZU BANK, LTD.	45,400	153	Maintenance and reinforcement cooperative relationship
Katakura Industries Co., Ltd.	99,000	137	Maintenance and reinforcement of business relationship

③ Balance sheet value, dividend income, gain or loss on sales and gain or loss on valuation, in respect of the investment stocks held purely for investment purpose

(Millions of yen)

	At the end of the previous fiscal year			
	Balance sheet value	Dividend income	Gain or loss on sales	Gain or loss on valuation
Listed stocks	22,983	512	771	11,025
Unlisted stocks	-	-	-	-

(Millions of yen)

	At the end of the current fiscal year			
	Balance sheet value	Dividend income	Gain or loss on sales	Gain or loss on valuation
Listed stocks	26,624	529	636	13,066
Unlisted stocks	-	-	-	-

④ Of all investment stocks held during the current fiscal year, those whose purpose of holding changed from other than pure investment to pure investment

Stock name	Number of shares	Balance sheet value (Millions of yen)
Mitsubishi UFJ Financial Group, Inc.	1,616,200	1,130

(7) Statutory Number of Directors

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

(8) Resolutions for Appointment of Directors

The Articles of Incorporation provide that resolutions for appointment of directors are passed by simple majority at a General Meeting of Shareholders at which at least one-third of eligible shareholders with voting rights are present, without use of cumulative voting.

(9) Important Items that may be Approved by Resolution of the Board of Directors

① Based on Article 165, Paragraph 2 of the Corporation Law, the Articles of Incorporation of the Bank provide that Bank shares may be purchased on the markets by resolution of the Board of Directors only, without the need for approval at the General Meeting of Shareholders. This measure is intended to ensure flexible adjustment of the number of the Bank's shares on the market.

② Based on Article 454, Paragraph 5 of the Corporation Law, the Articles of Incorporation of the Bank provide that an interim dividend may be paid by resolution of the Board of Directors only, with September 30 each year as date of record. This measure is to ensure a more stable distribution of profits to shareholders.

(10) Special Resolutions of the General Meeting of Shareholders

Based on Article 309, Paragraph 2 of the Corporation Law, special resolutions may be passed with a majority of two-thirds of eligible shareholders at a meeting at which at least one-third of shareholders with voting rights are present. By relaxing quorum requirements for approval of special resolutions by the General Meeting of Shareholders, our objective is to achieve smoother progress through the agenda at meetings of shareholders.

2 Compensation for Audit Certification Services

(1) Compensation Paid to Certified Public Accountants for Audit Certification Services

(Millions of yen)

	FY2015		FY2016	
	Compensation for audit certification services	Compensation for services other than audit certification	Compensation for audit certification services	Compensation for services other than audit certification
For the Bank	¥55	¥0	¥57	¥4
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥55	¥0	¥57	¥4

Notes: 1. Compensation paid during the previous term with respect to audit certification services includes ¥1 million paid to KPMG AZSA LLC for the auditing of the English-language version (translation) of the Bank's financial statements on a consolidated basis for fiscal 2015.

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

(2) Other Important Compensatory Payments

None

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

Previous fiscal year

This comprises advisory services regarding the interpretation of regulatory requirements relating to the calculation of credit risk assets.

Current fiscal year

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

(4) Changes in Policy Regarding Payment of Compensation for Auditing Services

There were no changes during the reporting period.

Consolidated Balance Sheets

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2017	2016	2017
Cash and due from banks (Notes 3 and 6)	¥427,050	¥364,926	$3,806,489
Call loans and bills bought (Note 6)	—	20,000	—
Monetary claims bought (Note 6)	2,851	3,907	25,412
Money held in trust (Notes 5 and 6)	4,982	4,985	44,407
Securities (Notes 4, 6, 8 and 17)	1,344,719	1,321,286	11,986,086
Loans and bills discounted (Notes 6, 7, 9 and 30)	1,704,750	1,772,818	15,195,204
Foreign exchange assets	1,874	1,710	16,704
Premises and equipment (Notes 11 and 25)	16,907	16,287	150,700
Intangible assets (Notes 12 and 25)	1,556	1,875	13,869
Net defined benefit asset (Note 18)	4,080	1,180	36,367
Deferred tax assets (Note 19)	557	7	4,965
Customers' liabilities for acceptances and guarantees (Note 17)	7,281	6,527	64,899
Other assets (Notes 6, 8 and 10)	44,779	6,319	399,135
Allowance for doubtful accounts (Note 6)	(8,908)	(7,480)	(79,401)
Total assets	¥3,552,478	¥3,514,347	$31,664,836
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 6, 8 and 13)	¥3,271,398	¥3,248,304	$29,159,444
Call money and bills sold (Notes 6 and 8)	5,610	1,127	50,004
Payables under securities lending transactions (Note 8)	1,130	—	10,072
Borrowed money (Notes 6, 8 and 14)	14,102	13,584	125,698
Foreign exchange liabilities	20	1	178
Corporate bonds with stock acquisition rights (Notes 6 and 15)	11,219	11,268	100,000
Accrued bonuses for directors and corporate auditors	26	25	232
Net defined benefit liability (Note 18)	1,709	1,440	15,233
Retirement benefits for directors and corporate auditors	20	2	178
Provision for losses on reimbursement of dormant deposits	569	501	5,072
Provision for contingent losses	288	297	2,567
Deferred tax liabilities (Note 19)	10,985	12,306	97,914
Acceptances and guarantees (Note 17)	7,281	6,527	64,899
Other liabilities (Notes 6, 16 and 25)	29,833	25,867	265,915
Total liabilities	3,354,190	3,321,249	29,897,406
Net assets (Note 20):			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2017 and 2016			
Issued and outstanding —18,498 thousand shares at 31 March 2017 and 2016	12,090	12,090	107,764
Capital surplus	5,502	4,811	49,042
Retained earnings	146,965	138,254	1,309,965
Treasury stock, at cost	(3,117)	(3,748)	(27,783)
Total shareholders' equity	161,440	151,407	1,438,988
Net unrealized holding gains on available-for-sale securities (Note 4)	41,417	47,198	369,168
Net unrealized losses on hedging derivatives (Note 6)	(3,355)	(4,074)	(29,905)
Remeasurements of defined benefit plans (Note 18)	(1,530)	(1,580)	(13,637)
Total accumulated other comprehensive income	36,532	41,544	325,626
Stock acquisition rights (Note 21)	157	147	1,399
Non-controlling interests	159	—	1,417
Total net assets	198,288	193,098	1,767,430
Total liabilities and net assets	¥3,552,478	¥3,514,347	$31,664,836

	Yen		U.S. dollars
	2017	2016	2017
Per share data:			
Net assets (Note 27)	¥11,075.22	¥10,867.07	$98.72

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Income:			
Interest income:			
Interest on loans and discounts	¥18,296	¥19,442	$163,081
Interest and dividends on securities	13,501	14,408	120,341
Other interest income	66	120	588
Fees and commissions	8,406	7,610	74,926
Other operating income (Note 22)	3,742	2,090	33,354
Other income (Note 24)	7,120	2,934	63,464
Total income	51,131	46,604	455,754
Expenses:			
Interest expenses:			
Interest on deposits	704	1,203	6,275
Interest on borrowings	173	156	1,542
Other interest expenses	609	598	5,428
Fees and commissions	2,958	3,077	26,366
Other operating expenses (Note 22)	4,293	1,940	38,266
General and administrative expenses (Note 23)	28,040	26,361	249,933
Other expenses (Note 24)	1,695	2,149	15,108
Total expenses	38,472	35,484	342,918
Income before income taxes	12,659	11,120	112,836
Provision for income taxes (Note 19)			
Current	1,827	3,657	16,285
Deferred	672	356	5,990
	2,499	4,013	22,275
Net income	10,160	7,107	90,561
Net income attributable to non-controlling interests	8	―	72
Net income attributable to owners of parent	¥10,152	¥7,107	$90,489

	Yen		U.S. dollars
	2017	2016	2017
Per share data:			
Net income (Note 27)	¥567.99	¥400.26	$5.06
Diluted net income (Note 27)	509.82	359.19	4.54
Cash dividends applicable to the year (Note 31)	70.00	70.00	0.62

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	¥10,160	¥7,107	$90,561
Other comprehensive income (Note 26):			
Net unrealized holding losses on available-for-sale securities	(5,769)	(1,203)	(51,422)
Net unrealized gains (losses) on hedging derivatives (Note 6)	719	(2,784)	6,409
Remeasurements of defined benefit plans (Note 18)	50	(1,514)	446
Share of the other comprehensive income (losses) of affiliates accounted for using the equity method	(12)	(1)	(107)
Total other comprehensive losses	(5,012)	(5,502)	(44,674)
Comprehensive income	¥5,148	¥1,605	$45,887
Total comprehensive income (losses)	¥5,148	¥1,605	$45,887
Attributable to:			
Owners of parent	5,140	1,605	45,815
Non-controlling interests	8	—	72

See accompanying notes.

Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2017 and 2016

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income (losses)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (losses) on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (losses)	Stock acquisition rights	Non-cont rolling interests	Total net assets
BALANCE, 1 April 2015	¥12,090	¥4,811	¥132,390	¥ (3,742)	¥145,549	¥48,402	¥ (1,290)	¥ (66)	¥47,046	¥99	¥－	¥192,694
Change during year												
Cash dividends	－	－	(1,243)	－	(1,243)	－	－	－	－	－	－	(1,243)
Net income attributable to owners of parent	－	－	7,107	－	7,107	－	－	－	－	－	－	7,107
Acquisition of treasury stock	－	－	－	(6)	(6)	－	－	－	－	－	－	(6)
Disposal of treasury stock	－	－	(0)	0	0	－	－	－	－	－	－	0
Net changes of items other than shareholders' equity during year	－	－	－	－	－	(1,204)	(2,784)	(1,514)	(5,502)	48	－	(5,454)
Total change during year	－	－	5,864	(6)	5,858	(1,204)	(2,784)	(1,514)	(5,502)	48	－	404
BALANCE, 1 April 2016	12,090	4,811	138,254	(3,748)	151,407	47,198	(4,074)	(1,580)	41,544	147	－	193,098
Change during												
Cash dividends	－	－	(1,246)	－	(1,246)	－	－	－	－	－	－	(1,246)
Net income attributable to owners of parent	－	－	10,152	－	10,152	－	－	－	－	－	－	10,152
Acquisition of treasury stock	－	－	－	(4)	(4)	－	－	－	－	－	－	(4)
Disposal of treasury stock	－	－	(175)	761	586	－	－	－	－	－	－	586
Change in scope of consolidation	－	－	(20)	(123)	(143)	－	－	－	－	－	－	(143)
Change in equity of parent arising from transactions with non-controlling shareholders	－	691	－	(3)	688	－	－	－	－	－	－	688
Net changes of items other than shareholders' equity during year	－	－	－	－	－	(5,781)	719	50	(5,012)	10	159	(4,843)
Total change during year	－	691	8,711	631	10,033	(5,781)	719	50	(5,012)	10	159	5,190
BALANCE, 31 March 2017	¥12,090	¥5,502	¥146,965	¥ (3,117)	¥161,440	¥41,417	¥ (3,355)	¥ (1,530)	¥36,532	157	159	198,288

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income (losses)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (losses) on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (losses)	Stock acquisition rights	Non-cont rolling interests	Total net assets
BALANCE, 1 April 2016	$107,764	$42,883	$1,232,320	$ (33,408)	$1,349,559	$420,697	$ (36,314)	$ (14,083)	$370,300	$1,310	$－	$1,721,169
Change during year												
Cash dividends	－	－	(11,106)	－	(11,106)	－	－	－	－	－	－	(11,106)
Net income attributable to owners of parent	－	－	90,489	－	90,489	－	－	－	－	－	－	90,489
Acquisition of treasury stock	－	－		(35)	(35)	－	－	－	－	－	－	(35)
Disposal of treasury stock	－	－	(1,560)	6,783	5,223	－	－	－	－	－	－	5,223
Change in scope of consolidation	－	－	(178)	(1,096)	(1,274)	－	－	－	－	－	－	(1,274)
Change in equity of parent arising from transactions with non-controlling shareholders	－	6,159	－	(27)	6,132	－	－	－	－	－	－	6,132
Net changes of items other than shareholders' equity during	－	－	－	－	－	(51,529)	6,409	446	(44,674)	89	1,417	(43,168)
Total change during year	－	6,159	77,645	5,625	89,429	(51,529)	6,409	446	(44,674)	89	1,417	46,261
BALANCE, 31 March 2017	$107,764	$49,042	$1,309,965	$ (27,783)	$1,438,988	$369,168	$ (29,905)	$ (13,637)	$325,626	$1,399	$1,417	$1,767,430

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥12,659	¥11,120	$112,836
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	2,215	2,086	19,743
Impairment losses	65	64	579
Gain on bargain purchase	(4,340)	—	(38,684)
Loss on step acquisitions	251	—	2,237
Gain on revision of defined benefit plans	(864)	—	(7,701)
Equity in losses of affiliates	—	(30)	—
Increase (decrease) in allowance for doubtful accounts	(1,623)	1,061	(14,466)
Increase (decrease) in provision for contingent losses	(9)	60	(80)
Increase in accrued bonuses for directors	1	3	9
(Increase) decrease in net defined benefit asset	130	(1,104)	1,159
Decrease in net defined benefit liability	(327)	(411)	(2,915)
Decrease in retirement benefits for directors and corporate auditors	(3)	(3)	(27)
Increase in provision for losses on reimbursement of dormant deposits	68	32	606
Interest income	(31,863)	(33,970)	(284,010)
Interest expenses	1,486	1,957	13,245
Investment securities gains, net	(138)	(2,125)	(1,230)
(Increase) decrease in money held in trust	2	(30)	18
Foreign exchange (gains) losses, net	(30)	74	(267)
Losses on disposal of premises and equipment	145	4	1,292
Net (increase) decrease in loans and bills discounted	67,426	(31,802)	600,998
Net increase (decrease) in deposits	54,736	(52,541)	487,887
Net increase (decrease) in negotiable certificates of deposit	(24,716)	31,077	(220,305)
Net increase (decrease) in borrowed money	8,758	(253)	78,064
Net decrease in due from banks, excluding the Bank of Japan	11,954	10,015	106,551
Net decrease in call loans and others	21,056	87,188	187,682
Net increase (decrease) in call money	4,483	(8,873)	39,959
Net increase in payables under securities lending transactions	1,130	—	10,072
Net (increase) decrease in foreign exchange assets	(164)	87	(1,462)
Net increase (decrease) in foreign exchange liabilities	19	(5)	169
Interest received	33,082	34,847	294,875
Interest paid	(1,742)	(1,979)	(15,527)
Other, net	(28,685)	(19)	(255,682)
Sub-total	125,162	46,530	1,115,625
Income taxes paid	(4,541)	(1,966)	(40,476)
Income taxes refunded	1	1	9
Net cash provided by operating activities	120,622	44,565	1,075,158
Cash flows from investing activities:			
Acquisition of securities	(587,093)	(213,921)	(5,233,024)
Proceeds from sale of securities	40,619	79,547	362,055
Proceeds from redemption of securities	515,930	193,229	4,598,716
Acquisition of premises and equipment	(1,689)	(1,221)	(15,055)
Proceeds from sale of premises and equipment	149	52	1,328
Payment for retirement of premises and equipment	(155)	—	(1,381)
Acquisition of intangible assets	(523)	(452)	(4,662)
Payment for asset retirement obligations	(82)	—	(731)
Payment for acquisition of shares of subsidiaries resulting in change in scope of consolidation (Note3)	(1,982)	—	(17,666)
Net cash provided by (used in) investing activities	(34,826)	57,234	(310,420)

Consolidated Statements of Cash Flows (Continued)

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from financing activities:			
Decrease in subordinated borrowings	(10,000)	─	(89,135)
Repayments of lease obligations	(489)	(523)	(4,359)
Cash dividends paid	(1,246)	(1,243)	(11,106)
Dividends paid to non-controlling interests	(6)	─	(53)
Payment for acquisition of treasury stock	(4)	(6)	(35)
Proceeds from sale of treasury stock	0	0	0
Net cash used in financing activities	(11,745)	(1,772)	(104,688)
Effect of exchange rate changes on cash and cash equivalents	16	19	143
Net increase (decrease) in cash and cash equivalents	74,067	100,046	660,193
Cash and cash equivalents at beginning of year	352,514	252,468	3,142,116
Cash and cash equivalents at end of year (Note 3)	¥426,581	¥352,514	$3,802,309

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2017 and 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Bank of Iwate, Ltd. (the "Bank") and its consolidated subsidiary have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan, its related accounting regulations and the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements to International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not necessarily required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the prevailing exchange rate at 31 March 2017, which was ¥112.19 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries. Japanese GAAP on consolidated financial statements requires consolidation of all significant investees that are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany transactions and account balances are eliminated. The Bank acquired additional shares of Iwagin Lease Data Co., Ltd., Iwagin DC Card Co., Ltd. and Iwagin Credit Service Co., Ltd., which were equity-method affiliates of the Bank in the previous consolidated fiscal year, and therefore, these companies were included in the scope of consolidation from the year ended 31 March 2017,.

An 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.

As mentioned in the first paragraph of this section, from the year ended 31 March 2017, the three companies that were equity-method affiliates of the Bank in the previous consolidated fiscal year are excluded from the scope of equity method; therefore, there are no investments in affiliates that are accounted for by the equity method.

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

Trading account securities and securities

Securities are classified as follows based on the purpose: (a) securities held for trading purposes ("trading account securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities").

(a) Trading account securities — National government bonds held for trading purposes are presented as trading account securities. Trading account securities are stated at fair value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change.

(b) Held-to-maturity debt securities are carried at amortized cost (straight-line method) using the moving-average method.

(c) Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for by the equity method, are carried at cost using the moving-average method.

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

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

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

Available-for-sale securities with available fair values are written down when a significant decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss.

Money held in trust

Securities that are invested as part of trust assets in independently managed money trusts that invest primarily in securities are stated at fair value.

Derivatives and hedge accounting

The Bank employs forward exchange contracts, currency swaps and interest rate swaps to meet customers' needs and to mitigate interest rate risks and foreign exchange risks. Derivative financial instruments are stated at fair value.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Bank defers recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized (deferral method).

Transactions to hedge against interest rate risks affecting the financial assets and liabilities of the Bank are accounted for using deferred hedge accounting in accordance with the provisions of "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (Japanese Institute of Certified Public Accountants

("JICPA") Industry Audit Committee Report No. 24, 13 February 2002).

Regarding the effectiveness of a hedge, a hedge that is intended to offset the effects of market fluctuations is assessed on a group-by-group comparison of hedged items and hedging instruments. Both hedged items, including deposits and loans, and hedging instruments, including interest rate swaps, are classified into groups by remaining maturity period. The effectiveness of a cash flow hedge is assessed on the basis of the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

As for the hedging transactions against currency exchange risks arising from assets and liabilities in foreign currencies, the Bank applies deferred hedge accounting in accordance with the provisions of "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25, 29 July 2002). The Bank assesses the effectiveness of currency swap and foreign exchange swap transactions executed for offsetting the risks of changes in currency exchange rates by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary claims and debts to be hedged.

Certain interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair values, but the differential to be paid or received under the swap contracts is recognized as interest expenses or income (exceptional method).

Depreciation and amortization methods

(1) Premises and equipment (except leased assets)

Premises and equipment are stated at cost less accumulated depreciation. The Bank 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 (except leased assets)

The Bank and its consolidated subsidiaries (the "Group") amortize the intangible assets under the straight-line method over their estimated useful lives. Costs of computer software developed or obtained for internal use are amortized using the straight-line method over estimated useful lives of 5 years.

(3) Leased assets

Depreciation and amortization of leased assets pertaining to finance lease transactions other than those that transfer the ownership of the leased assets to the Group, which are included in "Premises and equipment" and "Intangible assets," are computed under the straight-line method. The lease term is equal to the useful life and that there is no residual value except where residual value guarantees are stipulated in lease contracts.

Depreciation of leased assets that transfer the ownership to the Group is computed by the same method used for owned assets.

Allowance for doubtful accounts

The Bank provides allowance for doubtful accounts as follows:

The reserve for loans to borrowers which are classified as legally bankrupt or substantially bankrupt is calculated by deducting the estimated disposal value of collateral and the amount deemed collectible from guarantees from the book value.

The Bank also provides specific reserves for potentially bankrupt borrowers for an amount deemed necessary based on the loan balance, less expected collection from disposal of collateral, guarantees and repayment on uncovered portion of the loan from historical experiences.

For all the other loans, general reserves are provided collectively. The ratio of the general reserves is determined based on the Bank's loan loss experience. The above-mentioned allowance for doubtful accounts is made on the basis of the results of a strict assessment of the quality of all the Bank's loan assets, using the Bank's internally established rules for self-assessment.

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

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

Accrued bonuses for directors and corporate auditors

Accrued bonuses for directors and corporate auditors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

Retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors are provided for the future payments of directors and corporate auditors' retirement benefits incurred up to the end of the fiscal year based on the approved internal rule.

Provision for losses on reimbursement of dormant deposits

Provision for losses on reimbursement of dormant deposits which were recorded as profit is provided for the future reimbursement based on the historical reimbursement experience.

Provision for contingent losses

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

Accounting for retirement benefits

Upon the calculation of projected benefit obligation, the estimated amount of all retirement benefits to be paid at future retirement dates is allocated by using the benefit formula basis. The Bank has set up retirement benefit trusts.

Actuarial differences are amortized as income or expenses commencing from the following year under the straight-line method over 10 years, which is determined as the amortization period within a range of estimated remaining service year of the eligible employees at the time the actuarial differences occur.

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

Income taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Bank and its consolidated subsidiaries with certain adjustments required for tax purposes.

Deferred tax assets and liabilities are recorded based on the temporary differences between the financial statement and tax bases of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the end of each year.

Appropriations of retained earnings

Under the Companies Law of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period, therefore, do not reflect such appropriations. See Note 31.

Amounts per share

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

Consumption taxes

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

Changes in accounting policies

Application of “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016”

Following the revision to the Corporate Tax Act, “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 32, 17 June 2016) is applied from the year ended 31 March 2017 and the depreciation method of installed facilities and structures acquired on and after 1 April 2016 has been changed from the declining-balance method to the straight-line method.

As a result, income before income taxes for the year ended 31 March 2017 has increased by ¥24 million ($214 thousand).

Additional information

(1) “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, 28 March 2016) was applied from the year ended 31 March 2017.

(2) 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. Regarding the accounting treatment associated with this transfer, “Guidance on Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1, 31 January 2002) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (ASBJ PITF No. 2, 7 February 2007) were applied to the portion transferred to the defined contribution plans as partial termination of retirement benefit plans.

A gain of ¥864 million ($7,701 thousand), which resulted from the decrease in projected benefit obligation associated with the transfer, was recognized in other income for the year ended 31 March 2017.

3. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents. At 31 March 2017 and 2016, the reconciliation of cash and cash equivalents in the consolidated statements of cash flows with cash and due from banks in the consolidated balance sheets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and due from banks	¥427,050	¥364,926	$3,806,489
Less: Time deposits	−	(12,000)	−
Deposits in other banks other than the Bank of Japan	(469)	(412)	(4,180)
Cash and cash equivalents	¥426,581	¥352,514	$3,802,309

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

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

	Millions of yen	Thousands of U.S. dollars
Assets	¥22,321	$198,957
Liabilities	(13,108)	(116,838)
Non-controlling interests	(1,394)	(12,425)
Gain on bargain purchase	(4,340)	(38,684)
Acquisition cost of shares	3,479	31,010
Amount evaluated by the equity method until acquisition	(455)	(4,056)
Loss on step acquisition	251	2,237
Cash and cash equivalents	(1,293)	(11,525)
Less: Expenditure on acquisition, net	¥1,982	$17,666

(3) Details of major non-monetary transactions

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Increase in capital surplus due to share exchange	¥691	¥―	$6,159
Decrease in treasury stock due to share exchange	718	―	6,400

4. SECURITIES

Securities held by the Group at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
National government bonds	¥399,266	¥435,353	$3,558,838
Local government bonds	317,940	284,845	2,833,942
Corporate bonds	325,054	324,731	2,897,353
Corporate stocks	49,825	44,571	444,113
Other securities	252,634	231,786	2,251,840
	¥1,344,719	¥1,321,286	$11,986,086

The securities placed under unsecured lending agreements, which borrowers have the right to sell or pledge in the amount of ¥97,000 million ($864,605 thousand) and ¥89,000 million at 31 March 2017 and 2016 were included in national government bonds, respectively.

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at 31 March 2017 and 2016:

(a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2017:	¥36,576	¥40,806	¥4,230	¥4,231	¥ (1)
At 31 March 2016:	¥37,724	¥42,751	¥5,027	¥5,030	¥ (3)

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2017:	$326,018	$363,722	$37,704	$37,713	$ (9)

(b) Available-for-sale securities

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

	Millions of yen				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2017:					
Corporate stocks	¥25,288	¥48,612	¥23,324	¥23,506	¥ (182)
Bonds	977,212	1,009,200	31,988	32,873	(885)
Other	241,449	245,051	3,602	6,755	(3,153)
	¥1,243,949	¥1,302,863	¥58,914	¥63,134	¥ (4,220)
At 31 March 2016:					
Corporate stocks	¥24,144	¥42,963	¥18,819	¥19,458	¥ (639)
Bonds	967,596	1,012,332	44,736	44,887	(151)
Other	222,846	226,663	3,817	7,182	(3,365)
	¥1,214,586	¥1,281,958	¥67,372	¥71,527	¥ (4,155)

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2017:					
Corporate stocks	$225,403	$433,301	$207,898	$209,520	$ (1,622)
Bonds	8,710,331	8,995,454	285,123	293,012	(7,889)
Other	2,152,144	2,184,250	32,106	60,210	(28,104)
	$11,087,878	$11,613,005	$525,127	$562,742	$ (37,615)

B. For the year ended 31 March 2017, cost of sales, total sales and related loss of held-to-maturity debt securities amounted to ¥100 million ($891 thousand), ¥97 million ($864 thousand) and ¥3 million ($27 thousand), respectively. Based on the investment standard in consolidated subsidiaries, they were sold since a significant deterioration was seen in the issuer’s credit standing.

Total sales of available-for-sale securities sold in the years ended 31 March 2017 and 2016 amounted to ¥40,521 million ($361,182 thousand) and ¥79,536 million, respectively. The related gains and losses amounted to ¥1,738 million ($15,492 thousand) and ¥59 million ($526 thousand) in 2017, and ¥3,980 million and ¥5 million in 2016, respectively.

C. There were no available-for-sale securities other than trading securities written down for the years ended 31 March 2017 and 2016.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities (Note)	¥58,983	¥67,373	$525,742
Deferred tax assets	(45)	—	(401)
Deferred tax liabilities	(17,521)	(20,187)	(156,173)
Net unrealized holding gains before interests adjustment	41,417	47,186	369,168
Amount equivalent to non-controlling interests	(0)	—	(0)
Equity of net unrealized holding gains on available-for-sale securities owned by affiliates that are accounted for by the equity method	—	12	—
Net unrealized holding gains on available-for-sale securities	¥41,417	¥47,198	$369,168

Note: The amount of ¥71 million ($633 thousand), which is net unrealized holding gains before deferred tax on available-for-sale securities that are component assets of investment limited partnerships classified as securities for which it is extremely difficult to determine the fair values, was included in the balance at 31 March 2017.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Shares	¥20	¥482	$178
Investments	613	269	5,464

5. MONEY HELD IN TRUST

Money held in trust at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Money held in trust for trading purposes:			
Carrying amount	¥4,982	¥4,985	$44,407
Realized gains included in earnings	—	—	—

6. FINANCIAL INSTRUMENTS

(1) Overview

a. Policy for financial instruments

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

For its main operations, the Group raises funds through deposits and call money, etc. and applies them to loans receivable and investing in securities. Therefore, the financial assets and liabilities of the Group tend to be affected by interest rate fluctuations, and are exposed to risks stemming from changes in financial market environments (interest rate risks and price fluctuation risks), as well as to risks arising from fund shortage.

The Group manages those risks using the ALM method in order to appropriately control the balance between revenues and risks in consideration of the status of the financial assets and liabilities, trend of financial markets, policies for fund management and investment policies. The Group uses derivatives for the purpose of reducing risks, but not for speculative purposes.

b. Types of financial instruments and related risks

The financial assets of the Bank consist mainly of loans for domestic enterprises and individuals and investment securities.

Loans are exposed to credit risks stemming from defaults of borrowers. The largest industrial categories of loans as of the current fiscal year-end was local governments, followed by individuals, manufacturing industries, real estate industries and leasing - more or less all kinds of industries.

Securities are fundamentally constituted of bonds, stocks and investment trusts, which are held for investing purposes, held-to-maturity purposes and for maintaining business relationships, while trading securities are held for trading purposes. These are exposed to credit risks of issuers, interest rate risks and risks stemming from fluctuation of market prices.

Liabilities, such as deposits, corporate bonds and call money, are exposed to risks arising from fluctuation of interest rates stemming from mismatching between interests or periods of assets and liabilities. In addition, these are exposed to risks of fund shortage where the Bank fails to control cash receipts and disbursement due to unexpected fund outflow and suffering losses from unusual high interest rates imposed on, as well as market liquidity risks where the Bank fails to raise funds owing to market shrinkage and is obliged to enter into unusual unfavorable transactions.

Regarding derivative transactions, the Bank enters into interest rate swap contracts in terms of ALM control and adopt hedge accounting to them as hedging instruments for interest rate risks on loans and bonds as hedged items. The Bank evaluates effectiveness of the hedge based on accumulated fluctuation of cash flows of hedging instruments and hedged items for the periods beginning from implementation of the hedging to the date of the evaluation and analysis on them.

Furthermore, there are interest rate swap contracts (hedging instruments) and loans and bonds (hedged items), which are treated under the exceptional method.

c. Monitoring of credit risks

In accordance with the internal policies of the Bank for managing credit risks arising from loans, each related division monitors credit worthiness of their customers periodically and due dates and outstanding balances by individual customer. In addition, the

Bank is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The results of the above monitoring are regularly reported to the board of directors and the results of monitoring internal rating, loan portfolios and quantification of credit risks are reported to the credit risk committee on a quarterly basis. Audit Division strictly reviews to ensure the monitoring procedures function properly.

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

d. Monitoring of market risks

(Interest rate risks)

The risks arising from fluctuations in interest rates are controlled using ALM at the ALM committee, with reference to the discussion at the fund management meeting and interest rate analysis group, through monitoring and analysis of execution of the ALM and the discussion of future actions. Concretely, the results of the above monitoring are reported on a monthly basis to the ALM committee using gap analysis or interest rate sensitivity analysis such as BPV and VaR. Derivative instruments such as interest rate swap contracts to hedge interest rate risks are used in terms of ALM.

(Foreign currency exchange risks)

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

(Price fluctuation risks)

In accordance with the internal policies of the Bank on managing market related risks, the risks arising from fluctuation of market price of investment securities are controlled through a daily VaR based on certain holding periods and confidence interval by confirming that the quantities of its risk fall under the certain portion of equity capital or not. Upper limits on losses on an aggregation basis or on a realization basis are defined to control them on a daily basis. These results are reported by Risk Management Division to the management on a daily basis.

Investments in securities at Financial Markets Division are executed in accordance with invested items and investing guidelines prescribed in the market business operation standards, the marketing risk management standards and primary polices on investing, and controlled through continuous monitoring. The information related to the market environment and the investment status is reported to the management on a regular basis.

(Derivative transactions)

In conducting derivative transactions, each division responsible for execution of transactions, evaluation of efficiency of the hedging and related administration is clearly identified, following the hedge transaction guidelines, the market business operation standards and market risk management standards, with setting up segregation of duties and checking systems.

(Information on volume of market risk)

1. Financial instruments in Market Investment Division

The Bank employs the variance-covariance method in calculating VaR of bonds and stocks held using the following parameters for calculation.

	Holding period	Confidence interval	Observation period
Investments in bond	3 months	99%	1 year
Investments in stock	3 months	99%	1 year
Shares held for policy reasons	6 months	99%	1 year
Investments in trust	3 months	99%	1 year

The volume of market risk in market investment departments, which is supposed to be estimated losses, at the end of the years ended 31 March 2017 and 2016 was as follows:

Millions of yen		Thousands of U.S. dollars
2017	2016	2017
¥30,234	¥34,372	$269,489

The Bank periodically verifies the effectiveness of risk measurement by a back-testing protocol that compares the volume under VaR with the amount of actual gains or losses or hypothetical gains or losses on a fixed portfolio. As a result of conducting the back-testing protocol, the Group supposes the method undertaken will provide a reliable indicator of the market risks.

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

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

The Bank employs the variance-covariance method in calculating VaR of deposits and loans receivable, etc., using such parameters of six months as holding period, 99% as confidence interval and one year as observation period.

The volume of interest rate risk of the Bank’s deposits and loans receivable, etc., which is supposed to be estimated losses, at the end of the years ended 31 March 2017 and 2016 was as follows:

Millions of yen		Thousands of U.S. dollars
2017	2016	2017
¥7,692	¥4,995	$68,562

The calculation was conducted using cash flows allocated according to the interest terms of the related financial assets and liabilities and the periodic fluctuations of interest. The method of variance and covariance the Bank undertakes to measure the volume under VaR employs statistically calculated interest rate risks based on the past normal interest rate fluctuations, so if changes in the interest market go beyond those assumptions, the impact may exceed the calculated amount.

e. Monitoring of liquidity risks

The Bank adequately manages its liquidity risks based on various internal quantitative standards prescribed in fund management regulations, monitoring their liquidity positions on a daily basis with minimum fund reserve established twice a year.

f. Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, the fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values.

(2) Fair value of financial instruments

The carrying amounts and the estimated fair value of financial instruments at 31 March 2017 and 2016 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		2017	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥427,050	¥427,050	¥364,926	¥364,926	$3,806,489	$3,806,489
Call loans and bills bought	—	—	20,000	20,000	—	—
Monetary claims bought	2,457	2,486	3,907	3,976	21,900	22,159
Money held in trust	4,982	4,982	4,985	4,985	44,407	44,407
Securities						
Held-to-maturity debt securities	35,304	39,505	34,851	39,808	314,680	352,126
Available-for-sale securities	1,302,863	1,302,863	1,281,958	1,281,958	11,613,005	11,613,005
Loans and bills discounted	1,704,750		1,772,818		15,195,204	
Allowance for doubtful accounts	(8,725)		(7,404)		(77,770)	
	1,696,025	1,700,818	1,765,414	1,775,739	15,117,434	15,160,157
Liabilities:						
Deposits	3,271,398	3,271,593	3,248,304	3,248,655	29,159,444	29,161,182
Call money	5,610	5,610	1,127	1,127	50,004	50,004
Borrowed money	14,102	14,105	13,584	13,639	125,698	125,724
Corporate bonds with stock acquisition rights	11,219	11,309	11,268	10,635	100,000	100,802
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	56	56	308	308	499	499
Derivative instruments qualifying for hedge accounting	5,053	1,679	(4,714)	(8,620)	45,040	14,966

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

a. Cash and due from banks, call loans and bills bought

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

b. Monetary claims bought

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

c. Money held in trust

For the securities that are invested as part of trust assets in independently managed money trusts that invest primarily in securities, the fair value of the equity securities is determined using quoted market prices and the fair value of debt securities is determined using the prices provided by the financial institutions that the Group has been dealing with.

d. Held-to-maturity debt securities and available-for-sale securities

The fair values of held-to-maturity debt securities and available-for-sale securities are based on either quoted market prices or prices provided by the financial institutions making markets in these bonds. Private placement bonds are based on the discounted present value, which is calculated by discounting estimated future cash flows arising from the financial assets.

e. Loans and bills discounted

Carrying amounts of loans and bills discounted with floating rates, which indicate the short-term market interest rates, are supposed to approximate the fair value as long as the credit status of the borrower has not largely changed. The fair value of loans and bills discounted with fixed rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into, by the types, self-assessment and the terms. As for loans and bills with short-term settlement (within a year), their carrying amounts are supposed to approximate the fair value.

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

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

f. Deposits

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

The fair value of time deposits is based on the present value of the total of principal and interest discounted by an interest rate to be applied if similar new deposits were entered into. As to time deposits with short-term maturities, their carrying amounts approximate the fair value.

g. Call money

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

h. Borrowed money

The fair value of borrowed money is based on the present value discounted by an interest rate to be applied if a similar new borrowing is entered into. As to borrowed money with short-term maturity, its carrying amount approximates the fair value.

i. Corporate bonds with stock acquisition rights

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

j. Derivative transactions

Please refer to the following section of the notes to Derivatives.

(Note 2) The following table summarizes book values of securities for which it is extremely difficult to determine the fair values at 31 March 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Available-for-sale securities	¥6,552	¥4,477	$58,401
Monetary claims bought	394	ー	3,512

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2017 and 2016 were as follows:

	Millions of yen					
	2017					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks (*1)	¥404,081	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	—	—	—	—	—	—
Monetary claims bought	1,185	—	—	—	—	1,666
Securities						
Held-to-maturity debt securities	500	12,545	307	—	1,982	19,970
Mainly consists of the following:						
National bonds	500	10,001	—	—	1,982	19,970
Corporate bonds	—	300	307	—	—	—
Available-for-sale securities	180,531	321,616	237,928	67,854	332,501	83,356
Mainly consists of the following:						
National bonds	74,753	135,989	71,294	9,612	21,526	53,639
Local government bonds	3,971	13,956	29,219	24,370	226,246	20,178
Corporate bonds	83,483	115,678	90,120	14,515	13,046	3,209
Loans and bills discounted	297,018	416,641	286,572	141,729	133,677	253,624
Deposits	3,138,796	124,078	7,110	169	1,245	—
Call money	5,610	—	—	—	—	—
Borrowed money (*2)	4,945	385	—	—	—	—

	Millions of yen					
	2016					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks (*1)	¥341,615	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	20,000	—	—	—	—	—
Monetary claims bought	1,034	—	—	—	—	2,873
Securities						
Held-to-maturity debt securities	648	12,255	—	—	—	21,948
Mainly consists of the following:						
National bonds	—	10,002	—	—	—	21,948
Corporate bonds	648	—	—	—	—	—
Available-for-sale securities	102,056	344,166	339,518	80,141	275,181	70,814
Mainly consists of the following:						
National bonds	25,298	168,288	129,999	15,127	13,782	50,909
Local government bonds	2,922	11,123	32,098	25,292	203,367	10,043
Corporate bonds	36,571	138,327	106,281	33,878	6,181	1,323
Loans and bills discounted	314,827	397,005	347,574	144,866	139,077	240,543
Deposits	3,083,583	156,009	7,200	163	1,349	—
Call money	1,127	—	—	—	—	—
Borrowed money (*2)	3,493	—	—	10,000	—	—

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

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

	Thousands of U.S. dollars					
	2017					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks	$3,601,756	$—	$—	$—	$—	$—
Call loans and bills bought	—	—	—	—	—	—
Monetary claims bought	10,562	—	—	—	—	14,850
Securities						
Held-to-maturity debt securities	4,457	111,819	2,736	—	17,666	178,002
Mainly consists of the following:						
National bonds	4,457	89,143	—	—	17,666	178,002
Corporate bonds	—	2,674	2,736	—	—	—
Available-for-sale securities	1,609,154	2,866,708	2,120,759	604,813	2,963,731	742,990
Mainly consists of the following:						
National bonds	666,307	1,212,131	635,476	85,676	191,871	478,109
Local government bonds	35,395	124,396	260,442	217,221	2,016,632	179,856
Corporate bonds	744,122	1,031,090	803,280	129,379	116,285	28,603
Loans and bills discounted	2,647,455	3,713,709	2,554,345	1,263,294	1,191,523	2,260,665
Deposits	27,977,503	1,105,963	63,375	1,506	11,097	—
Call money	50,004	—	—	—	—	—
Borrowed money	44,077	3,432	—	—	—	—

Derivatives

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

a. Derivative instruments not qualifying for hedge accounting

Notional amounts, fair values, and unrealized gains (losses) for the years ended 31 March 2017 and 2016 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2017			2016			2017		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange:									
Sell	¥6,027	¥54	¥54	¥7,632	¥303	¥303	$53,721	$481	$481
Buy	573	2	2	1,328	5	5	5,107	18	18

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

b. Derivative instruments qualifying for hedge accounting

Notional amounts and fair values for the years ended 31 March 2017 and 2016 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		2017	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate						
(Deferral method)	¥41,885	¥ (4,811)	¥47,856	¥ (5,823)	$373,340	$ (42,882)
Receive floating / Pay fixed rate						
(Exceptional method)	22,526	(3,374)	22,622	(3,906)	200,784	(30,074)

(Currency-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		2017	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap:						
(Deferral method)	¥81,000	¥9,864	¥80,000	¥1,109	$721,989	$87,922

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bills discounted	¥3,330	¥3,656	$29,682
Loans on notes	75,354	76,347	671,664
Loans on deeds	1,453,321	1,507,049	12,954,104
Overdrafts	172,745	185,766	1,539,754
	¥1,704,750	¥1,772,818	$15,195,204

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Group has rights to sell or pledge commercial bills discounted and foreign bills of exchanges bought without restrictions. The total face value at 31 March 2017 and 2016 was ¥3,329 million ($29,673 thousand) and ¥3,657 million, respectively.

The Bank is required to disclose loans to customers who meet specific criteria in accordance with the Banking Law. Doubtful loans at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans to borrowers under bankruptcy proceedings	¥398	¥893	$3,547
Past due loans	30,365	31,706	270,657
Loans past due three months or more	3	16	27
Restructured loans, including loans to borrowers financially assisted by the Bank	8,077	9,640	71,994
	¥38,843	¥42,255	$346,225

8. PLEDGED ASSETS

At 31 March 2017, deposits of ¥55,534 million ($495,000 thousand), call money and bills sold of ¥5,610 million ($50,004 thousand), payables under securities lending transactions of ¥1,130 million ($10,072 thousand) and borrowed money of ¥13,300 million ($118,549 thousand) were secured by a pledge of securities in the amount of ¥103,243 million ($920,251 thousand) and guarantee money deposits in the amount of ¥72 million ($642 thousand). At 31 March 2016, deposits of ¥35,260 million and borrowed money of ¥3,493 million were secured by a pledge of securities in the amount of ¥87,295 million and guarantee money deposits in the amount of ¥71 million. In addition to the above-mentioned assets pledged as collateral, the Group provided securities of ¥29,683 million ($264,578 thousand) and ¥47,136 million, and other assets in the amount of ¥9,798 million ($87,334 thousand) and ¥3 million, respectively, as collateral for transactions such as exchange settlement transactions at 31 March 2017 and 2016.

Other assets include cash collateral paid for financial instruments, guarantee deposits and lease deposits in the amount of ¥8,430 million ($75,140 thousand) and nil, ¥57 million ($508 thousand) and ¥105 million, and ¥193 million ($1,720 thousand) and ¥158 million at 31 March 2017 and 2016, respectively.

9. COMMITMENT LINE AGREEMENT

Commitment line agreements are agreements to lend to customers a prescribed amount when they apply for borrowing, unless violation of the condition of the agreement exists. The amount of unused commitment line related to such agreements at 31 March 2017 and 2016 amounted to ¥704,265 million ($6,277,431 thousand) and ¥691,264 million, respectively. The amount of commitment line agreements, having a condition that the original agreement period was less than one year or unconditionally cancelable at any time, was ¥667,893 million ($5,953,231 thousand) and ¥658,476 million at 31 March 2017 and 2016, respectively. The amount of unused commitment line does not necessarily affect the future cash flows of the Group because most of such agreements were terminated without being used. The majority of these agreements contain provisions which stipulate that the Group may refuse to make loans or may decrease the commitment line when there are certain changes in financial conditions, security for the loans or other reasons. When entering into loan agreements with the customers, the Group requests pledges of collateral in the form of premises or securities if necessary. After entering into loan agreements, the Bank periodically checks the financial condition of the customers based on its internal rules and performs certain actions relating to the security of the loans if necessary.

10. OTHER ASSETS

Other assets at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Accrued income	¥3,521	¥3,715	$31,384
Other	41,258	2,604	367,751
	¥44,779	¥6,319	$399,135

11. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Land	¥8,939	¥8,844	$79,677
Buildings	34,160	34,191	304,483
Equipment	8,350	8,010	74,427
Leased assets	1,214	1,531	10,821
Other	850	108	7,577
	53,513	52,684	476,985
Accumulated depreciation	36,606	36,397	326,285
	¥16,907	¥16,287	$150,700

To conform with the Companies Law of Japan, deferred gains on sale of real estate in the amount of ¥932 million ($8,307 thousand) and ¥1,024 million at 31 March 2017 and 2016, respectively, were deducted from the acquisition cost of premises and equipment.

12. INTANGIBLE ASSETS

Intangible assets at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Software	¥1,213	¥952	$10,812
Leased assets	303	680	2,701
Other	40	243	356
	¥1,556	¥1,875	$13,869

13. DEPOSITS

Deposits at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current deposits	¥56,063	¥49,514	$499,715
Ordinary deposits	1,670,039	1,637,095	14,885,810
Deposits at notice	2,896	2,600	25,813
Time deposits	1,150,184	1,167,734	10,252,108
Other deposits	173,731	144,260	1,548,543
Negotiable certificates of deposit	218,485	247,101	1,947,455
	¥3,271,398	¥3,248,304	$29,159,444

14. BORROWED MONEY

Subordinated borrowings with a special provision stipulating that fulfillment of obligation is subordinated to other obligations included in borrowed money at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Subordinated borrowings	¥—	¥10,000	$—

15. CORPORATE BONDS WITH STOCK ACQUISITION RIGHTS

Corporate bonds with stock acquisition rights at 31 March 2017 and 2016 were summarized as follows:

Name	Issued	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017	Coupon Rate (%)	Secured or Unsecured	Due
Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars	25 July 2013	¥11,219	¥11,268	$100,000	Non-interest	Unsecured	25 July 2018

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

	Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars
Type of stock involved	Common stock
Issue price of stock acquisition rights	Gratis
Issue price of stock (Yen / U.S. Dollars)	¥5,483 ($49.85)
Total amount of issue (Millions of Yen / Thousands of U.S. Dollars)	¥11,219 ($100,000)
Total amount of stock acquisition rights exercised	—
Percentage of stock acquisition right granted	100%
Exercise period of stock acquisition rights	From 8 August 2013 to 11 July 2018

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

2. These corporate bonds are bonds issued in European markets and denominated in U.S. dollars. The amount of corporate bonds with stock acquisition rights was translated into Japanese yen at the telegraphic transfer middle rate at 31 March 2017 announced by the Bank.

3. Annual maturities of corporate bonds with stock acquisition rights at 31 March 2017 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2018	¥—	$—
2019	11,219	100,000
2020	—	—
2021	—	—
2022 and thereafter	—	—

16. OTHER LIABILITIES

Other liabilities at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Accrued income taxes	¥250	¥2,179	$2,228
Accrued expenses	2,415	2,586	21,526
Unearned income	600	630	5,348
Lease obligations	2,470	1,868	22,016
Other	24,098	18,604	214,797
	¥29,833	¥25,867	$265,915

17. CONTINGENT LIABILITIES, ACCEPTANCES AND GUARANTEES

All contingent liabilities including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Group's right of indemnity from customers.

The amount of guarantee obligation for privately-placed bonds (Financial Instruments and Exchange Law, Article 2, Paragraph 3), out of bonds included in securities, stands at ¥2,160 million ($19,253 thousand) in 2017 and ¥1,485 million in 2016.

18. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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

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

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

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

Defined benefit plans

(i) Change in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥28,469	¥26,164	$253,757
Service costs (including the amount of employee contributions)	680	735	6,061
Interest costs	108	272	963
Actuarial differences	570	2,842	5,081
Retirement benefits paid	(1,392)	(1,544)	(12,408)
Decrease due to transfer to defined contribution plans	(3,096)	−	(27,596)
Increase due to change in scope of consolidation	305	−	2,719
Balance at end of year	¥25,644	¥28,469	$228,577

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

(ii) Change in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥28,209	¥26,565	$251,440
Expected return on plan assets	585	555	5,215
Actuarial differences	(317)	432	(2,826)
Employer contributions	219	1,326	1,952
Employee contributions	55	55	490
Retirement benefits paid	(736)	(724)	(6,560)
Balance at end of year	¥28,015	¥28,209	$249,711

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded projected benefit obligation	¥25,317	¥28,455	$225,662
Plan assets	(28,015)	(28,209)	(249,711)
	(2,698)	246	(24,049)
Unfunded projected benefit obligation	327	14	2,915
Net liability (asset) recognized in consolidated balance sheets	¥ (2,371)	260	$ (21,134)
Net defined benefit liability	1,709	1,440	15,233
Net defined benefit asset	(4,080)	(1,180)	(36,367)
Net liability (asset) recognized in consolidated balance sheets	¥ (2,371)	¥260	$ (21,134)

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

(iv) Retirement benefit expenses and its breakdown

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service costs (excluding the amount of employee contributions)	¥625	¥680	$5,571
Interest costs	108	272	963
Expected return on plan assets	(585)	(555)	(5,215)
Amortization of actuarial differences	531	235	4,733
Retirement benefit expenses	¥679	¥632	$6,052

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

2. Other than the above, a gain on revision of defined benefit plans in the amount of ¥864 million ($7,701 thousand) is recorded, resulting from the partial transfer of the Bank's retirement benefit plans to defined contribution plans for the year ended 31 March 2017.

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial differences	¥74	¥ (2,175)	$659
Total	¥74	¥ (2,175)	$659

Note: Actuarial differences include reclassification adjustment in the amount of ¥430 million ($3,833 thousand) due to the partial transfer of the Bank's retirement benefit plans to retirement contribution plans.

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial differences	¥ (2,200)	¥ (2,274)	$ (19,610)
Total	¥ (2,200)	¥ (2,274)	$ (19,610)

(vii) Plan assets

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

	2017	2016
Bonds	65%	68%
Equities	16%	18%
General account	16%	11%
Cash and deposits	2%	2%
Other	1%	1%
Total	100%	100%

Retirement benefit trusts set up for defined benefit pension plans account for 19% and 19% of total plan assets for the years ended 31 March 2017 and 2016, respectively. In addition, retirement benefit trusts set up for the lump-sum retirement benefit plans account for 23% and 23% of total plan assets for the years ended 31 March 2017 and 2016, respectively.

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

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

(viii) Basis for calculation of actuarial assumptions

The basis for calculation of actuarial assumptions (presented as a weighted-average rate for discount rate and long-term expected rate of return on plan asset) at 31 March 2017 and 2016 was as follows:

	2017	2016
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	2.0%	2.0%
Expected salary increase rate in defined benefit plans	3.9%	3.9%
Expected salary increase rate in lump-sum retirement benefit plans	7.4%	7.4%

The contribution made by the Bank to defined contribution plans was ¥126 million ($1,123 thousand) for the year ended 31 March 2017.

The amount of plan assets transferred to the defined contribution plans resulting from the transfer of its portion from retirement benefit plans to such plans was ¥1,802 million ($16,062 thousand) and the transfer is expected to be completed in four years.

The remaining transfer of plan assets as of 31 March 2017 in the amount of ¥1,342 million ($11,962 thousand) is included in accounts payable – other under other liabilities.

19. INCOME TAXES

The Group is subject to a number of taxes based on income such as corporation, inhabitant and enterprise taxes, which, in the aggregate, indicated a statutory tax rate in Japan of approximately 30.6% and 32.8% for the years ended 31 March 2017 and 2016, respectively.

Significant components of the Bank's deferred tax assets and liabilities at 31 March 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for doubtful accounts	¥2,463	¥1,755	$21,954
Net defined benefit liability	2,576	3,279	22,961
Accumulated depreciation	1,115	1,126	9,938
Securities	579	620	5,161
Deferred hedge	1,466	1,779	13,067
Other	1,628	1,362	14,511
Subtotal	9,827	9,921	87,592
Valuation allowance	(2,179)	(1,587)	(19,422)
Total deferred tax assets	7,648	8,334	68,170
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(17,643)	(20,187)	(157,260)
Deferred gains on sale of real estate	(433)	(446)	(3,859)
Other	(0)	(0)	(0)
Total deferred tax liabilities	(18,076)	(20,633)	(161,119)
Net deferred tax liabilities	¥ (10,428)	¥ (12,299)	$ (92,949)

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2017 and 2016.

	2017	2016
Statutory tax rate	30.6%	32.8%
Non-deductible expenses	0.2	0.3
Non-taxable income	(2.5)	(0.7)
Per capita inhabitant taxes	0.3	0.4
Valuation allowance	0.8	0.5
Decrease in deferred tax assets due to tax rate changes	—	2.4
Gain on bargain purchase	(10.5)	—
Loss on step acquisition	0.6	—
Other, net	0.2	0.4
Effective tax rate	19.7%	36.1%

20. NET ASSETS

Under the Companies Law and the Banking Law of Japan, the following is provided: the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by a resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Companies Law and the Banking Law provide that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the board of directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 100% of common stock, they are available for distribution by the resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Bank can distribute as dividends is calculated based on the non-consolidated financial statements of the Bank in accordance with the Companies Law.

The number of treasury stock held by the Group was 623 thousand shares and 742 thousand shares at 31 March 2017 and 2016, respectively.

21. STOCK OPTION

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

The balance of stock acquisition rights granted for the stock option program was ¥157 million ($1,399 thousand) and ¥147 million at 31 March 2017 and 2016, respectively.

Share-based compensation expenses which were accounted for as general and administrative expenses for the years ended 31 March 2017 and 2016 amounted to ¥49 million ($437 thousand) and ¥48 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

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 2017. The number of stock options is reported in terms of shares of stock.

(i) Number of stock options

	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan	2016 Stock Option Plan
Before vesting (shares):				
At 31 March 2016	12,200	10,000	8,800	—
Granted	—	—	—	12,100
Forfeited	—	—	—	—
Vested	3,200	2,200	1,900	—
Outstanding	9,000	7,800	6,900	12,100
After vesting (shares):				
At 31 March 2016	600	400	300	—
Vested	3,200	2,200	1,900	—
Exercised	3,800	2,600	2,200	—
Forfeited	—	—	—	—
Outstanding	—	—	—	—

(ii) Price information

	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average exercise price	¥3,843($34.25)	¥3,843($34.25)	¥3,843($34.25)	¥－ ($－)
Fair value at the grant	¥4,119 ($36.71)	¥4,437 ($39.55)	¥5,287 ($47.13)	¥4,032 ($35.94)

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 2017 were as follows:

(a) The valuation method: Black-Scholes formula

(b) Major basic numerical values and valuation method

	2016 Stock Option Plan
Stock price volatility (*1)	30.4%
Expected years to expiration (*2)	1.7 years
Expected dividends (*3)	¥70 ($0.62) per share
Risk-free interest rate (*4)	(0.33)%

Notes:*1. Stock price volatility was calculated based on the actual stock prices from 3 November 2014 to 18 July 2016.

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

*3. Expected dividends are determined based on actual dividends for the year ended 31 March 2016.

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

4. Estimation method for the vested number of stock options

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

22. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Other operating income:			
Gain on sale of foreign bills of exchange	¥1	¥23	$9
Gain on trading account securities transactions	1	9	9
Gain on sale of bonds	546	2,058	4,867
Other	3,194	—	28,469
	¥3,742	¥2,090	$33,354

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Other operating expenses:			
Loss on sales of bonds	¥18	¥5	$161
Loss on redemption of bonds	1,538	1,798	13,709
Loss on financial instruments	—	136	—
Other	2,737	1	24,396
	¥4,293	¥1,940	$38,266

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Salaries and allowances	¥11,739	¥11,257	$104,635
Fringe benefits and welfare	3,050	2,712	27,186
Retirement benefit expenses	805	632	7,175
Depreciation for premises and equipment	2,193	2,086	19,547
Rental expenses	814	758	7,256
Taxes other than income taxes	1,487	1,382	13,254
Deposit insurance premium	1,212	1,197	10,803
Business outsourcing expenses	2,645	2,673	23,576
Other expenses	4,095	3,664	36,501
	¥28,040	¥26,361	$249,933

24. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Other income:			
Gain on sale of stocks and other securities	¥1,192	¥1,923	$10,625
Gain on disposal of premises and equipment	60	81	535
Gain on revision of defined benefit plans	864	—	7,701
Gain on bargain purchase	4,340	—	38,684
Other	664	930	5,919
	¥7,120	¥2,934	$63,464

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Other expenses:			
Provision of allowance for doubtful accounts	¥453	¥1,459	$4,038
Loss on disposal of premises and equipment	205	85	1,827
Loss on devaluation of stocks and other securities	—	2	—
Impairment losses	65	64	579
Loss on transfer of receivables	213	92	1,899
Loss on step acquisition	251	—	2,237
Other	508	447	4,528
	¥1,695	¥2,149	$15,108

25. 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 consisted of software for the branch operating system

(ii) Depreciation and amortization methods of leased assets

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

(2) Finance leases other than those that transfer the ownership

(i) Details of leased assets

Premises and equipment:

Mainly consisted of equipment for the branch operating system

Intangible assets:

Mainly consisted of software for the branch operating system

(ii) Depreciation and amortization methods of leased assets

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

(3) Current portion of lease obligations and lease obligations (excluding current portion) at 31 March 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2017	2016	2017	2017
Current portion of lease obligations	¥849	¥535	$7,567	2.39%
Lease obligations (excluding current portion)	1,621	1,333	14,449	2.61%
	¥2,470	¥1,868	$22,016	

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

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

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
	2017	2017
2018	¥849	$7,567
2019	810	7,220
2020	522	4,653
2021	170	1,515
2022 and thereafter	119	1,061

Year ending 31 March	Millions of yen
	2016
2017	¥535
2018	538
2019	524
2020	271
2021 and thereafter	—

B. Operating leases

(a) As lessee

There were no future lease payments under non-cancelable operating leases at 31 March 2017 and 2016.

(b) As lessor

Future lease receivables under non-cancelable operating leases at 31 March 2017 were ¥301 million ($2,683 thousand) including ¥41 million ($365 thousand) due within one year.

Future lease receivables under non-cancelable operating leases at 31 March 2016 were ¥241 million including ¥11 million due within one year.

26. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income (losses) for the years ended 31 March 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding losses on available-for-sale securities:			
Amount for the year	¥ (6,631)	¥469	$ (59,105)
Reclassification adjustment	(1,758)	(3,565)	(15,670)
Amount before tax effect	(8,389)	(3,096)	(74,775)
Tax effect amount	2,620	1,893	23,353
Net unrealized holding losses on available-for-sale securities	(5,769)	(1,203)	(51,422)
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	431	(4,496)	3,842
Reclassification adjustment	601	540	5,357
Amount before tax effect	1,032	(3,956)	9,199
Tax effect amount	(313)	1,172	(2,790)
Net unrealized gains (losses) on hedging derivatives	719	(2,784)	6,409
Remeasurements of defined benefit plans:			
Amount for the year	(887)	(2,410)	(7,907)
Reclassification adjustment	961	235	8,566
Amount before tax effect	74	(2,175)	659
Tax effect amount	(24)	661	(213)
Remeasurements of defined benefit plans	50	(1,514)	446
Share of other comprehensive losses of affiliates accounted for by the equity method:			
Amount for the year	—	1	—
Reclassification adjustment	(12)	(2)	(107)
Amount before tax effect	(12)	(1)	(107)
Tax effect amount	—	—	—
Share of other comprehensive losses of affiliates accounted for by the equity method	(12)	(1)	(107)
Total other comprehensive losses	¥ (5,012)	¥ (5,502)	$ (44,674)

27. PER SHARE DATA

Amounts per share at March 31 2017 and 2016 and for the years then ended were as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥11,075.22	¥10,867.07	$98.72
Net income per share	567.99	400.26	5.06
Diluted net income per share	509.82	359.19	4.54

Amounts per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2017	2016	2017
Net assets per share:			
Total net assets	¥198,288	¥193,098	$1,767,430
Amount to be deducted from total net assets	316	147	2,816
Stock acquisition rights	157	147	1,399
Non-controlling interests	159	—	1,417
Net assets at the end of fiscal year attributed to common stock	197,972	192,951	1,764,614
Number of shares of common stock at the end of fiscal year used in computing net assets per share attributed to common stock	17,875	17,756	
Net income per share:			
Net income attributable to owners of parent	10,152	7,107	90,489
Net income attributable to owners of parent attributed to common stock	10,152	7,107	90,489
Average number of shares of common stock during the year	17,874	17,756	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share	2,040	2,030	
Convertible bond-type bonds with stock acquisition rights	2,006	2,001	
Compensation-type stock option	34	29	

28. BUSINESS COMBINATION

1. Business combination by additional acquisition of shares of affiliates

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

(a) Overview of the business combination by acquisition

(i) Name and business description of acquired companies

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

(ii) Major reason for the business combination

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

(iii) Date of the business combination

17 May 2016

(iv) Legal form of the business combination

Acquisition of shares by cash

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

There will be no change to the names of the companies.

(vi) Ratio of voting rights acquired

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

(vii) Major reason for determining the acquiring company

The Bank acquired a majority of the voting rights of the Three Group Companies through the share acquisition in exchange for cash, and hence the Bank became the acquirer.

(b) The period for which the operations of the acquired companies are included in the consolidated statement of income

The deemed acquisition date is 1 April 2016; therefore, the operations from 1 April 2016 to 31 March 2017 are included in the consolidated statement of income for the year.

(c) Calculation of acquisition cost

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

		Millions of yen	Thousands of U.S. dollars
Carrying value on the date of business combination of common stock held by the Bank immediately before the business combination		¥204	$1,818
Consideration of common stock additionally acquired	Cash	3,275	29,192
Acquisition cost		¥3,479	$31,010

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

Loss on step acquisitions: ¥251 million ($2,237 thousand)

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

Consulting fee: ¥8 million ($71 thousand)

(d) Allocation of acquisition cost

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥18,943	$168,847
Non-current assets	3,378	30,110
Total assets	¥22,321	$198,957

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥7,374	$65,728
Non-current liabilities	5,734	51,110
Total liabilities	¥13,108	$116,838

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

a. The amount of gain on bargain purchase: ¥4,340 million ($38,684 thousand)

b. The cause of the occurrence

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

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

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

(a) Overview of the business combination

(i) Name and business description of the combined companies

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

Iwagin Credit Service	Credit cards and credit guarantee services

(ii) Date of the business combination

30 June 2016

(iii) Legal form of the business combination

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

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

There will be no change to the names of the companies.

(v) Any other significant matters

The purpose of the share exchange is as described in Section 1. (a) (ii) Major reason for the business combination.

(b) Overview of accounting treatment

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

(c) Additional acquisition of shares of subsidiaries

(i) Acquisition cost and the breakdown of respective considerations

		Millions of yen	Thousands of U.S. dollars
Considerations	Fair value of common stock of the Bank issued on the date of the business combination	¥548	$4,885
Acquisition cost		¥548	$4,885

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

a. Share exchange ratios by class of shares

a) Iwagin DC Card

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

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

b) Iwagin Credit Service

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

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

b. Calculation method of exchange ratio

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

The Third Party Institutions determined that the value of the Bank’s common stock should be analyzed using the average market price analysis (Using 17 May 2016 as the record date, the analysis is based on the closing price of the record date and the simple average of closing prices over one-month, three-month, and six-month periods prior to the record date of the Bank’s stock on the First Section of the Tokyo Stock Exchange), based on the fact that the Bank’s common stock is listed on the Tokyo Stock Exchange and the market price of the stock is available. On the other hand, to reflect the valuation of future business activities, the Third Party Institutions determined that the value of the unlisted Two Subsidiaries’ common stock should be analyzed using the discount dividend analysis method (DDM analysis), which is widely adopted by financial institutions for evaluation. In the DDM analysis, the stock is evaluated by discounting the profit attributable to shareholders by using the cost of capital to the present value after considering the internal reserves required to maintain certain capital structures.

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

c. Number of shares delivered

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

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

(i) Factor behind the change

The acquisition cost of shares of subsidiaries acquired from non-controlling interests was less than the amount of decrease in non-controlling interests.

(ii) The amount of capital surplus increased from the transaction with non-controlling interests

¥691 million ($6,159 thousand)

29. SEGMENT INFORMATION

(1) Reportable segment information

Reportable segment information was omitted since the commercial banking business was the only reportable segment of the Group, and the Group's performance in "Other" was immaterial for the years ended 31 March 2017 and 2016.

(2) Other segment-related information

a. Information by services

Information by services for the years ended 31 March 2017 and 2016 was as follows:

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

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

	2017			
	Thousands of U.S. dollars			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	$163,205	$135,832	$109,796	$408,833

Note: "Ordinary income" corresponds to net sales of non-banking industries.

b. Information by geographic region

i. Ordinary income

Information as to ordinary income from domestic customers for the years ended 31 March 2017 and 2016 was omitted, because the amount of ordinary income from domestic customers was more than 90% of consolidated ordinary income.

ii. Premises and equipment

Information as to premises and equipment for the years ended 31 March 2017 and 2016 was omitted, because there were no premises and equipment located abroad.

c. Major customers' segment information

Major customers' segment information was not shown for the years ended 31 March 2017 and 2016, since there was no customer accounting for more than 10% of ordinary income to customers in the consolidated statements of income.

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

Information on impairment of fixed assets for each reportable segment was omitted for the years ended 31 March 2017 and 2016, since the commercial banking business was the only reportable segment of the Group, and the Group's performance in "Other" was immaterial.

e. Segment information on amortization of goodwill and its remaining balance

There is no information to be reported on amortization of goodwill and its remaining balance for the years ended 31 March 2017 and 2016.

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

Information on gain in negative goodwill for each reportable segment was omitted for the years ended 31 March 2017 and 2016, since the commercial banking business was the only reportable segment of the Group, and the Group's performance in "Other" was immaterial.

30. RELATED PARTY TRANSACTIONS

(1) Related party transactions

a. Transactions between the Bank and related parties

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

For the year ended 31 March 2017

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance at 31 March 2017
Executive officer and close family members	Mizuhiko Yoshida	Corporate Auditor of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥25 million ($223 thousands)
	Satoshi Kikuchi	Close family member of a Director of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥11 million ($98 thousand)

For the year ended 31 March 2016

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

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

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

There is no significant transaction to be disclosed between the Bank's consolidated subsidiary and related parties for the years ended 31 March 2017 and 2016.

(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 2017 and 2016.

31. SUBSEQUENT EVENTS

Cash dividends

On 22 June 2017, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2017:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35 ($0.31) per share for year-end)	¥627	$5,589

KPMG

<u>Independent Auditor's Report</u>

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

We have audited the accompanying consolidated financial statements of The Bank of Iwate, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at 31 March, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Iwate, Ltd. and its consolidated subsidiaries as at 31 March, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

12 September,2017
Tokyo, Japan

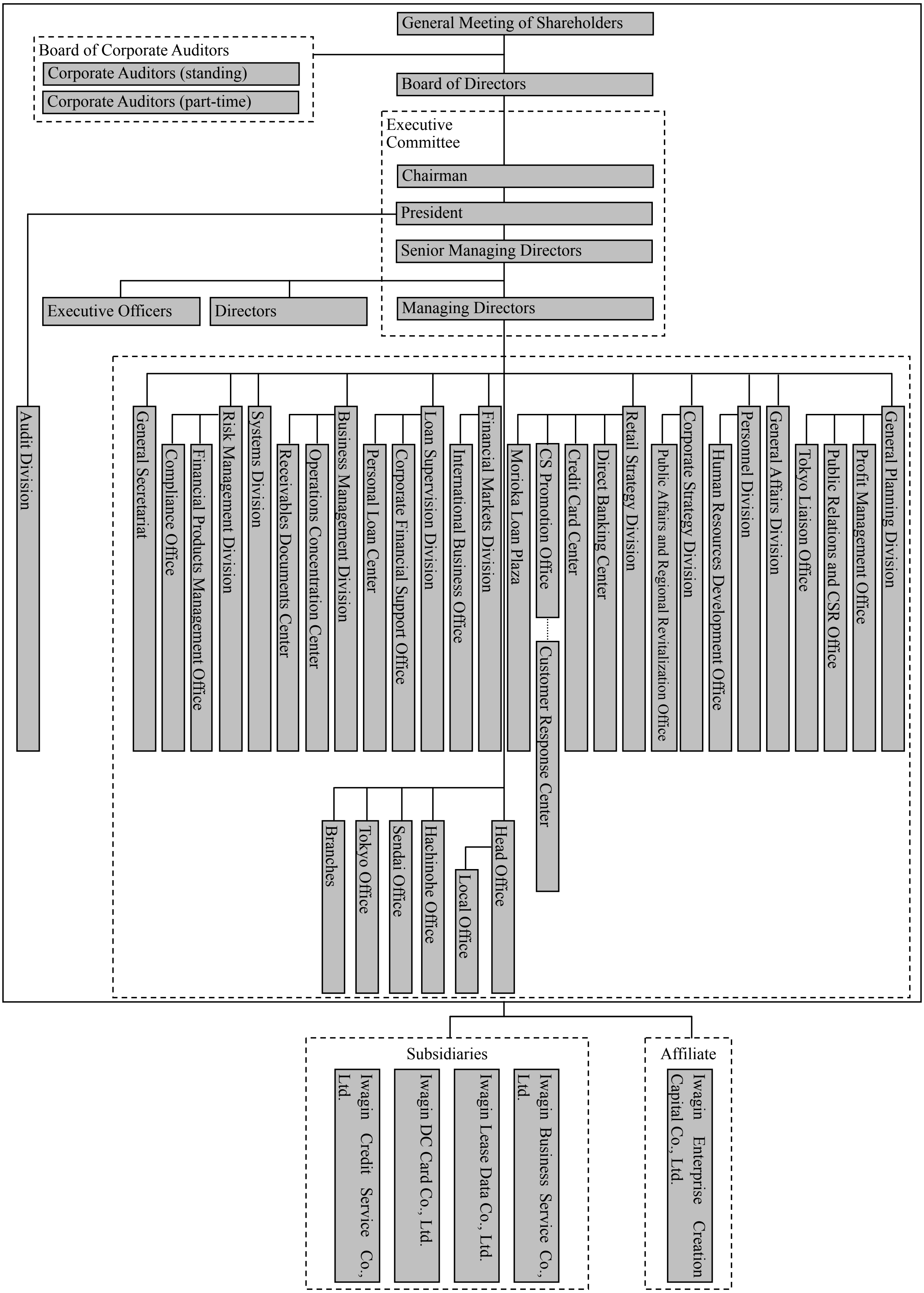
Corporate Profile

・Board of Directors and Corporate Auditors (As of July 1, 2017)

<table>
<tr><td>Chairman
Masahiro Takahashi</td><td rowspan="2">Directors
Motomu Sato
Yasushi Sasaki
Hiroshi Miura
Atsushi Takahashi
Fumio Ube</td><td rowspan="2">Corporate Auditors
Yuji Chiba (standing)
Masahiko Mochizuki (standing)
Shinobu Obara
Mizuhiko Yoshida</td><td rowspan="2">Executive Officers
Katsuhiro Kawamura
Kensei Ishikawa
Yasutaka Kakiki
Yasuhiro Sasaki</td></tr>
<tr><td>President
Sachio Taguchi</td></tr>
<tr><td>Senior Managing Director
Yuichi Kato</td><td colspan="3" rowspan="2">Notes:
1. Hiroshi Miura, Atsushi Takahashi and Fumio Ube satisfy the requirements for outside directors as stipulated in Article 2, Item 15 of the Corporation Law.

2. Masahiko Mochizuki, Shinobu Obara and Mizuhiko Yoshida are outside auditors as stipulated in Article 2, Item 16 of the Corporation Law.</td></tr>
<tr><td>Managing Directors
Keiji Iwata
Shigeki Miura
Mikio Kikuchi
Hiroaki Takahashi</td></tr>
</table>

・Organization (As of July 1, 2017)



・The Bank of Iwate Group

Name/Address	Capital (Millions of yen)	Main Business	Date of Establishment	The Bank's Voting Rights	Voting Rights of Subsidiaries, etc. Other than Said Subsidiaries, etc.
Iwagin Business Service Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	10	Administrative work of the Bank	September 4, 1979	100%	0%
Iwagin Lease Data Co., Ltd. 1-5-31 Nakanohashi Dori, Morioka City, Iwate Prefecture	30	Computerized accounting services, leasing	April 1, 1972	96.3%	0%
Iwagin DC Card Co., Ltd. 1-2-14 Nakanohashi Dori, Morioka City, Iwate Prefecture	20	Credit cards and consumer loans	August 1, 1989	100%	0%
Iwagin Credit Service Co., Ltd. 14-10-301 Morioka Ekimae Dori, Morioka City, Iwate Prefecture	20	Credit cards and consumer loans	August 1, 1989	100%	0%
Iwagin Enterprise Creation Capital Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	50	Investment fund management	April 1, 2015	40%	0%

Head Office

A message from Iwate Bank concerning reconstruction

Trust, and beyond

By virtue of your support, the Bank of Iwate was able to celebrate the 85th anniversary of its foundation in May of this year.
This is entirely thanks to your loyal patronage, and all executives and employees of the Bank extend our heartfelt gratitude.
The Bank will continue to dedicate its utmost efforts to the reconstruction and development of the regional community, as we strive to be your trusted bank of choice.
We thank you for your continued support and loyal patronage.

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