

The background of the cover features large, stylized green leaves and plant motifs. On the left, a large leaf curves upwards. On the right, another large leaf curves downwards. At the bottom center, there is a small, dark green flower-like shape. The overall design is clean and modern, with a focus on natural elements.

Annual Report 2019

 **THE BANK OF IWATE, LTD.**

The Bank of Iwate, Ltd.
Annual Report 2019



Sachio Taguchi
President

Message from the President

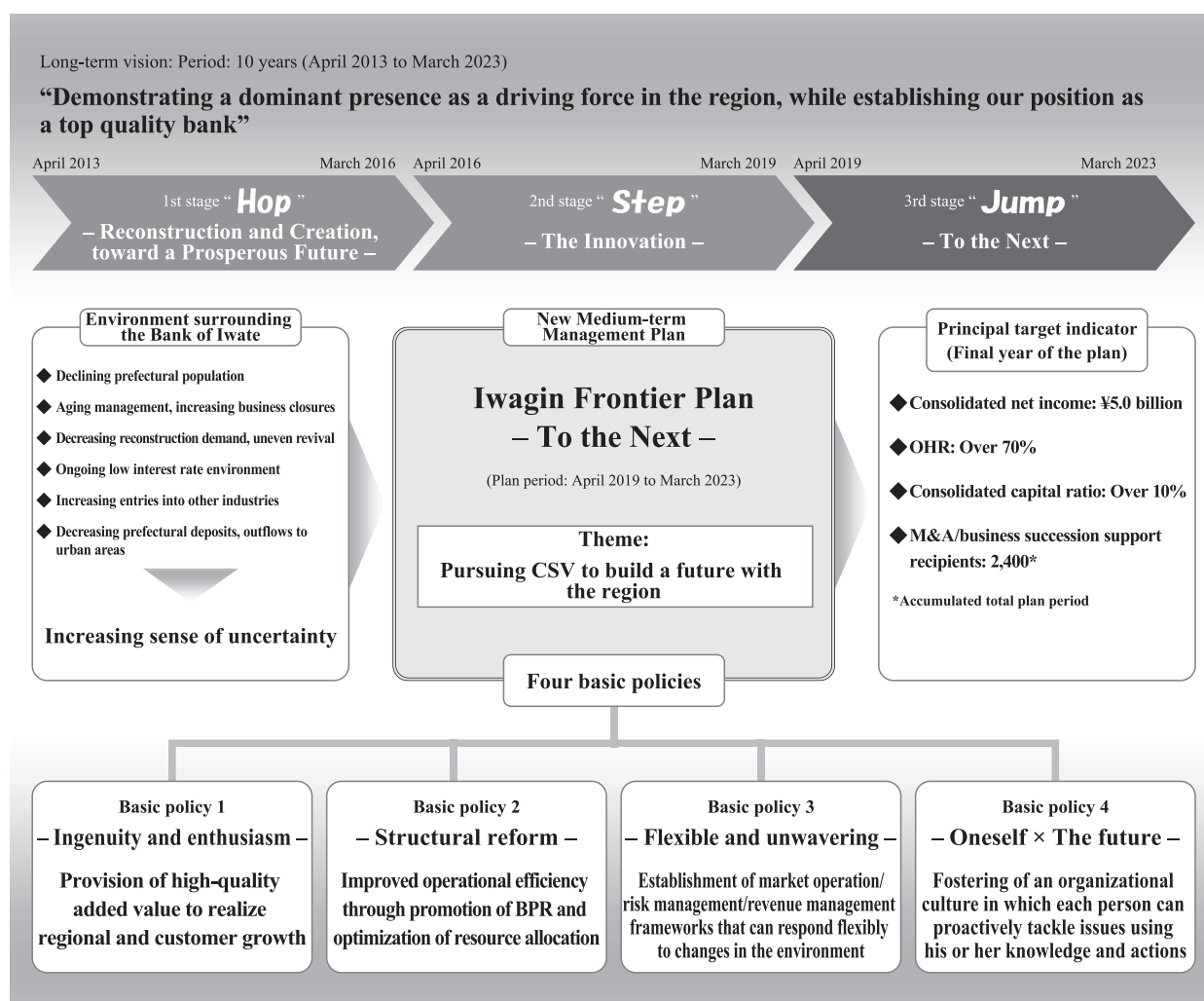
Thank you very much for your continued patronage of the Bank of Iwate.

In April 2019 we began implementing our new medium-term management plan “Iwagin Frontier Plan – To the Next” (the “Plan”), which will last for a period of four years. The theme of the Plan is “pursuing CSV to build a future with the region.” CSV stands for “Creating Shared Value,” and by confronting the various issues facing our region head on as we execute the Plan, and endeavoring to resolve them, we aim to create shared value and achieve growth for both the community and the Bank.

The environment surrounding the Bank is becoming increasingly uncertain, as not only is the local economy shrinking due to a declining population and a shortage of successors, but we are also faced with challenges such as the continuation of negative interest-rate policy by the Bank of Japan and entry into the financial business by firms from other sectors. To tackle this situation and establish co-prosperity with our region, based on which we do the bulk of our business, our executives and employees are all working together to execute various measures in accordance with the Plan.

Our corporate message, “Trust, and beyond,” embodies our commitment to gaining the confidence of our customers and then taking that one step further to build a strong relationship of trust with them. Our executives and employees will be working together to make sure that we remain a bank that local customers trust and choose, so we truly hope that we can count on your continued support and patronage.

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 fiscal year-end decreased by ¥62.6 billion from the previous fiscal year-end to ¥3,217.5 billion (US\$28,989.3 million). This was attributable to a decrease in public deposits due mainly to a write off of reconstruction related funds, despite an increase in deposits by corporate clients and individuals.

The fiscal year-end balance of assets under management posted an increase of ¥15.8 billion from the previous fiscal year-end to ¥333.7 billion (US\$3,006.6 million), due to increases in insurances and public bonds.

Loans

The fiscal year-end balance of loans increased by ¥42.4 billion from the previous fiscal year-end to ¥1,795.0 billion (US\$16,173.5 million). This was attributable to increases in loans to SMEs and individuals, despite a decrease in loans to local governments.

Securities

The value of total securities decreased by ¥79.8 billion from the previous fiscal year-end to ¥1,219.0 billion (US\$10,983.0 million). This was attributable to a decrease in national government bonds and others under management.

Cash Flow Analysis

Net cash used in operating activities was a net outflow of ¥73.0 billion (US\$657.3 million) in the current fiscal year, while net cash of ¥56.0 billion was used in the previous fiscal year. This was due to an increase in loans in both the previous and current fiscal years, as well as a decrease in net cash resulting from a decrease in deposits, etc. in the current fiscal year.

Net cash provided by investing activities was a net inflow of ¥70.5 billion (US\$635.5 million) in the current fiscal year, while net cash of ¥39.5 billion was provided in the previous fiscal year. This was due to the proceeds from sale and redemption of securities exceeding the acquisition of securities in both the previous and current fiscal years.

Net cash used in financing activities was a net outflow of ¥12.8 billion (US\$115.3 million) in the current fiscal year, while net cash of ¥1.6 billion was used in the previous fiscal year. This was due to the payment of cash dividends in addition to the redemption of “convertible bond-type bonds with stock acquisition rights due 2018 payable in euro and U.S. dollars” in the current fiscal year.

As a result of the above, the fiscal year-end balance of cash and cash equivalents decreased by ¥15.2 billion from the previous fiscal year-end to ¥393.3 billion (US\$3,543.8 million).

Business Performance

Earnings

Total income increased by ¥1.3 billion from the previous fiscal year to ¥48.5 billion (US\$437.4 million). This was mainly attributable to an increase in other income including gain on sale of stocks and other securities, despite a decrease in interest income including interest on loans and discounts due to a decline in the yield.

Total expenses increased by ¥3.1 billion from the previous fiscal year to ¥42.3 billion (US\$381.1 million). This was mainly due to an increase in other expenses such as provision of allowance for doubtful accounts, despite a decrease in general and administrative expenses.

As a result, income before income taxes decreased by ¥1.8 billion from the previous fiscal year to ¥6.3 billion (US\$56.3 million). Net income attributable to owners of parent decreased by ¥1.3 billion from the previous fiscal year to ¥4.2 billion (US\$37.7 million).

Capital Ratio

The capital ratio declined by 0.28 percentage points from the previous fiscal year-end to 12.24% on a consolidated capital adequacy basis and by 0.24 percentage points from the previous fiscal year-end to 11.87% on a non-consolidated capital adequacy basis, as a result of an increase in risk assets mainly due to an increase in outstanding loans to SMEs, etc.

■ Basic approach

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

■ Corporate governance structure

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

■ Board of Directors

The Board of Directors comprises a total of fifteen Directors, including ten Directors who are not serving as Audit & Supervisory Committee Members, three of whom are Outside Directors, and five Directors serving as Audit & Supervisory Committee Members, three of whom are Outside Directors. Outside Directors currently account for 40% of the Board of Directors. Additionally, two female Outside Directors have been appointed.

■ Audit & Supervisory Committee

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

■ Executive Committee and Compliance Committee

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

■ Nomination and Compensation Advisory Committee

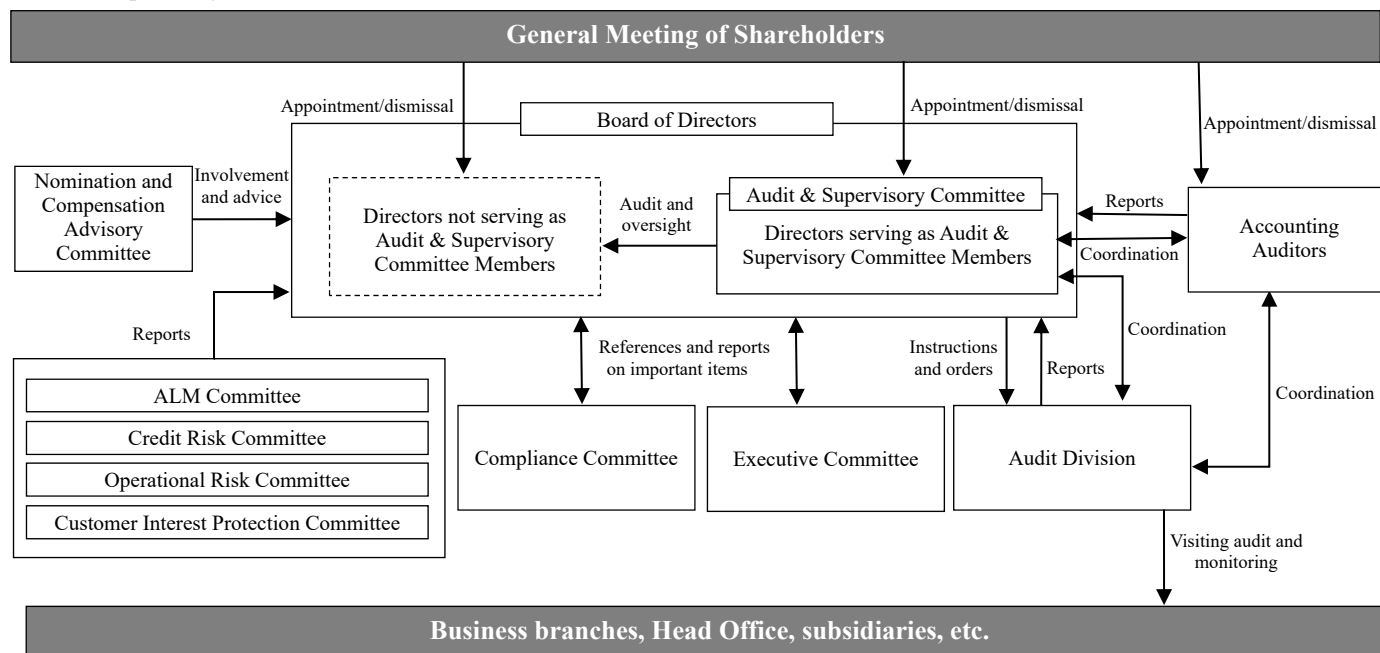
The Nomination and Compensation Advisory Committee has been established as an advisory body to the Board of Directors to improve the transparency and objectivity regarding decisions on the nomination and compensation of Directors. The Bank stipulates that the Nomination and Compensation Advisory Committee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

■ Enrichment of information disclosure activities

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

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

[Corporate governance structure]

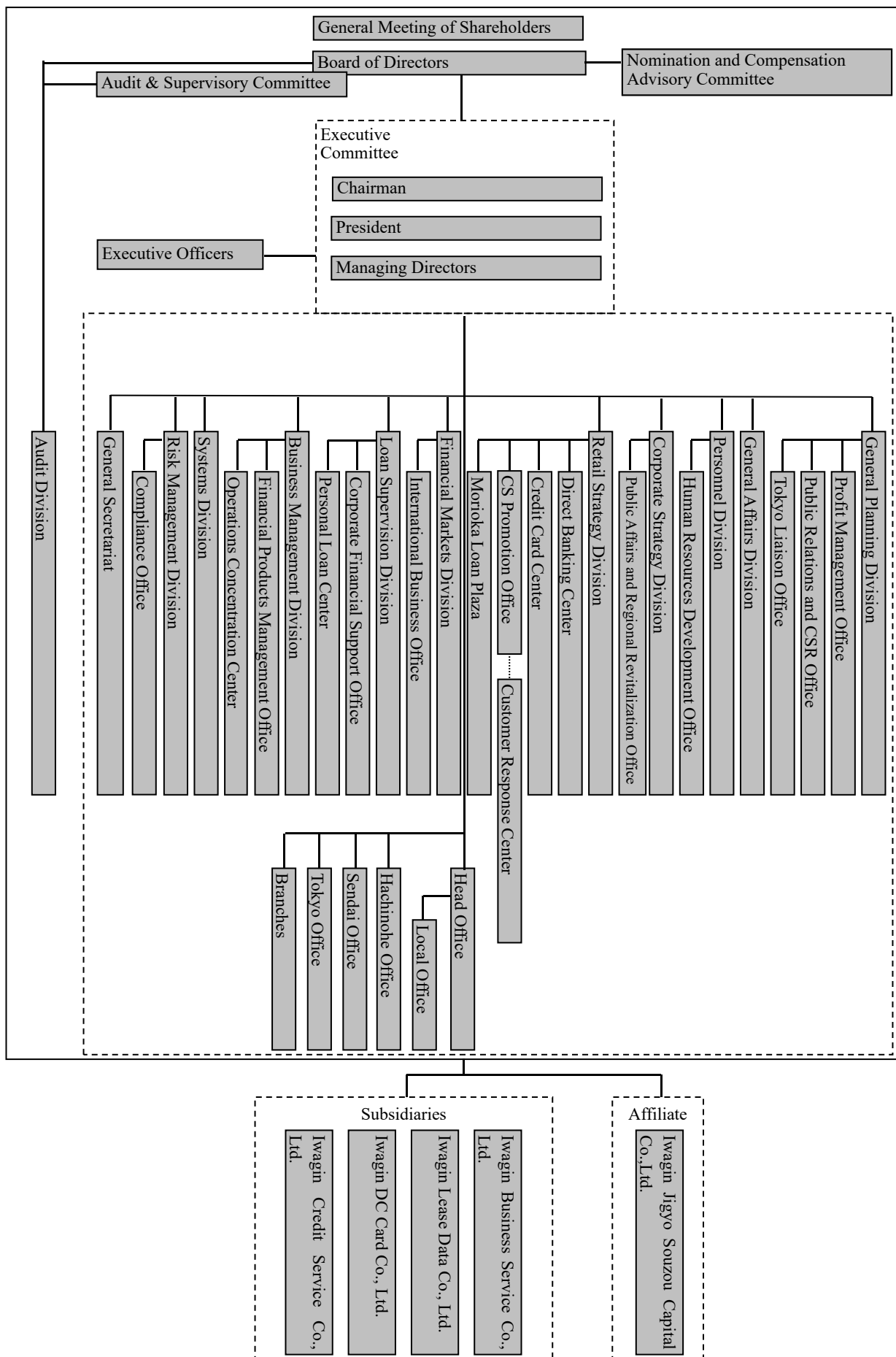


• Board of Directors (As of July 23, 2019)

Chairman	Masahiro Takahashi
Managing Director	Shigeki Miura
Managing Director (General Manager of General Planning Division)	Yasushi Sasaki
Managing Director (General Manager of Personnel Division)	Yasutaka Kakiki
Director (Outside Director)	Atsushi Takahashi
Director serving as an Audit & Supervisory Committee Member (Standing)	Yuji Chiba
Director serving as an Audit & Supervisory Committee Member (Outside Director)	Mizuhiko Yoshida
Managing Executive Officer / General Manager of Sendai Office	Katsuhiro Kawamura
Executive Officer / General Manager of Retail Strategy Division	Shinji Niisato
Executive Officer / General Manager of Mizusawa Branch	Satoshi Ito

President	Sachio Taguchi
Managing Director	Motomu Sato
Managing Director	Kensei Ishikawa
Director (Outside Director)	Hiroshi Miura
Director (Outside Director)	Fumio Ube
Director serving as an Audit & Supervisory Committee Member (Outside Director)	Shinobu Obara
Director serving as an Audit & Supervisory Committee Member (Outside Director)	Etsuko Sugawara
Executive Officer / General Manager of Corporate Strategy Division	Yasuhiro Sasaki
Executive Officer / General Manager of Tokyo Office	Toru Iwayama
Executive Officer / General Manager of Head Office	Shinei Kishi

• Organization (As of July 1, 2019)



• The Bank of Iwate Group

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

Efforts towards Regional ESG Issues

In order to establish co-prosperity with our region, within which we do the bulk of our business, we will further strengthen our functions to solve various issues in the region, while increasing our adaptability to changes in the surrounding business environment, as part of “pursuing CSV to build a future with the region,” the theme of our new medium-term management plan that we began implementing in April 2019. In addition, we will aim to create mutually shared value for both the region and the Bank by making efforts to resolve various issues in the region.

ESG and SDGs are concepts and goals aimed at creating a sustainable regional society. Accordingly, when implementing CSV (Creating Shared Value) with the region, the Bank will proactively adopt ESG and SDGs concepts and goals, aiming to enhance our functions that contribute to solving local issues.

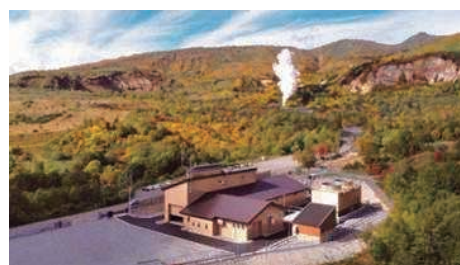
CSV stands for “Creating Shared Value.”

Environment

■ Proactive responses to financing for renewable energies

- We will proactively respond to financing for renewable energies that utilize abundant regional resources. Renewable energy financing executed in FY2018 was a total of ¥5.14 billion*.

* Results of project financing for renewable energies



■ Efforts to protect the local natural environment and enhance brands

- We support efforts aimed at “securing the stability of raw timber” and “enhancing the lacquer brand” of Ninohe City, which boasts around 70% of the production of lacquer in Japan.
- In September 2017, we signed the “Lacquer Forest Building Partnership Agreement,” and as a partner company, acquired our own lacquer forest (nicknamed the “IWAGIN URUSHI NO SATO”). We are planting lacquer seedlings with local junior high school students and utilizing it in learning about nature conservation.



■ **Efforts that contribute to the sustainability of local companies and the development of educational environments in local schools, etc., through our main business activities**



● **“Backup Plan” financing with special waiver of principal during times of earthquake disasters**

- The Bank does the bulk of its business in areas that were affected by the Great East Japan Earthquake. We actively support our local business partners in enhancing countermeasures for earthquakes that cannot be avoided. The cumulative amount executed as of March 31, 2019: ¥2.4 billion/33 companies (from January 2018)

● **The Bank of Iwate donation loan “Cheering for Iwate”**

- We are contributing to regional revitalization and the activation of local economies by donating some of the loan interest income to businesses promoted by Iwate Prefecture. The cumulative amount executed as of March 31, 2019: ¥1.0 billion/45 companies (from October 2018)

● **Donation-type CSR Private Placement Bonds: The Bank of Iwate “Future-Supporting Private Placement Bonds”**

- When our business partners issue private placement bonds, the Bank contributes part of the private placement bond issuance fee as a donation and donates necessary books and sporting goods to elementary, junior, and senior high schools specified by the issuing company. The cumulative amount executed as of March 31, 2019: ¥1.9 billion/13 companies (from February 2017)

■ **Efforts to support the growth of children responsible for the future of the region through financial education**



- FY2018 financial education activity results

Elementary school students	“Visiting lectures on money basics”	12 times
Junior high school students	Accepting of workplace visits	8 times
High school students	Visiting lectures on finance “MoneyConnection®”	8 times
University students	Endowed lectures	2 times

■ **Efforts to create local activities**

- We have created local activities by operating “The Bank of Iwate Red Brick Building” (formerly the main building of the head office) as a public facility. In addition to using it as an exhibition facility for the viewing of various materials on the building, the designer and the financial history of Iwate, we lend the multipurpose hall out as a venue for classical music concerts and various exhibitions.



Governance

■ **Audit & Supervisory Committee and the Nomination and Compensation Advisory Committee**

- In June 2018, the Bank transitioned to a company with Audit & Supervisory Committee. In addition to further strengthening governance, the Bank has established the Nomination and Compensation Advisory Committee and is striving to ensure transparency and objectivity regarding decisions on the nomination and compensation of Directors.

■ **Efforts to develop an environment in which every employee can play an active role**

- Through efforts for various measures related to “diverse working styles,” “diversity” and “positive actions,” we are pushing forward with efforts to develop an environment in which every employee can play an active role.

Iwate University/The Bank of Iwate Nursery School
 “Ganchan Sukusuku Nursery”
 (In-house nursery school)



Consolidated Balance Sheets

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
ASSETS			
Cash and due from banks (Notes 3 and 6)	¥394,250	¥408,997	\$3,552,122
Monetary claims bought (Note 6)	5,631	4,277	50,734
Money held in trust (Notes 5 and 6)	12,775	7,982	115,100
Securities (Notes 4, 6, 8 and 16)	1,219,001	1,298,808	10,982,980
Loans and bills discounted (Notes 6, 7, 9 and 28)	1,795,100	1,752,659	16,173,529
Foreign exchange assets	2,159	2,498	19,453
Premises and equipment (Notes 11 and 24)	16,972	17,309	152,915
Intangible assets (Notes 12 and 24)	1,039	1,241	9,361
Net defined benefit asset (Note 17)	4,523	4,543	40,752
Deferred tax assets (Note 18)	422	489	3,802
Customers' liabilities for acceptances and guarantees (Note 16)	7,829	7,264	70,538
Other assets (Notes 6, 8 and 10)	62,629	60,027	564,276
Allowance for doubtful accounts (Note 6)	(12,910)	(9,262)	(116,317)
Total assets	¥3,509,420	¥3,556,832	\$31,619,245
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 6, 8 and 13)	¥3,217,522	¥3,280,121	\$28,989,296
Call money and bills sold (Note 6)	2,220	2,337	20,002
Payables under securities lending transactions (Notes 6 and 8)	6,514	4,134	58,690
Borrowed money (Notes 6 and 8)	42,404	13,602	382,052
Foreign exchange liabilities	0	7	0
Corporate bonds with stock acquisition rights (Notes 6 and 14)	—	10,624	—
Accrued bonuses for directors and corporate auditors	25	26	225
Net defined benefit liability (Note 17)	2,134	1,944	19,227
Retirement benefits for directors and corporate auditors	19	19	171
Provision for losses on reimbursement of dormant deposits	392	451	3,532
Provision for contingent losses	249	226	2,243
Deferred tax liabilities (Note 18)	8,160	10,749	73,520
Acceptances and guarantees (Note 16)	7,829	7,264	70,538
Other liabilities (Notes 6, 15 and 24)	21,008	21,950	189,279
Total liabilities	3,308,476	3,353,454	29,808,775
Net assets (Note 19):			
Common stock:			
Authorized — 49,450 thousand shares as at 31 March 2019 and 2018	12,090	12,090	108,929
Issued and outstanding — 18,498 thousand shares as at 31 March 2019 and 2018	5,667	5,667	51,059
Capital surplus	154,162	151,236	1,388,972
Retained earnings	(2,946)	(2,989)	(26,543)
Treasury stock, at cost	168,973	166,004	1,522,417
Total shareholders' equity	37,030	41,696	333,634
Net unrealized holding gains on available-for-sale securities (Note 4)	(3,940)	(3,358)	(35,499)
Net unrealized losses on hedging derivatives (Note 6)	(1,328)	(1,167)	(11,965)
Remeasurements of defined benefit plans (Note 17)	31,762	37,171	286,170
Total accumulated other comprehensive income	209	203	1,883
Stock acquisition rights (Note 20)	200,944	203,378	1,810,470
Total net assets	¥3,509,420	¥3,556,832	\$31,619,245
Total liabilities and net assets			
	Yen		U.S. dollars
	2019	2018	2019
Per share data:			
Net assets (Note 26)	¥11,204.81	¥11,346.27	\$100.95

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Income:			
Interest income:			
Interest on loans and discounts	¥17,634	¥17,811	\$158,879
Interest and dividends on securities	13,097	13,404	118,002
Other interest income	49	52	441
Fees and commissions	8,504	8,250	76,620
Other operating income (Note 21)	4,243	4,402	38,229
Other income (Note 23)	5,019	3,297	45,220
Total income	48,546	47,216	437,391
Expenses:			
Interest expenses:			
Interest on deposits	440	525	3,964
Interest on borrowings	237	155	2,135
Other interest expenses	562	575	5,064
Fees and commissions	3,245	3,112	29,237
Other operating expenses (Note 21)	5,219	5,522	47,022
General and administrative expenses (Note 22)	27,089	28,108	244,067
Other expenses (Note 23)	5,501	1,154	49,563
Total expenses	42,293	39,151	381,052
Income before income taxes	6,253	8,065	56,339
Provision for income taxes (Note 18)			
Current	2,391	3,044	21,543
Deferred	(325)	(499)	(2,928)
	2,066	2,545	18,615
Net income	4,187	5,520	37,724
Net loss attributable to non-controlling interests	—	(3)	—
Net income attributable to owners of parent	¥4,187	¥5,523	\$37,724
	Yen		U.S. dollars
	2019	2018	2019
Per share data:			
Net income (Note 26)	¥233.72	¥308.70	\$2.11
Diluted net income (Note 26)	225.15	276.91	2.03
Cash dividends applicable to the year (Note 29)	70.00	70.00	0.63

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net income	¥4,187	¥5,520	\$37,724
Other comprehensive income (losses): (Note 25):			
Net unrealized holding gains (losses) on available-for-sale securities	(4,666)	279	(42,039)
Net unrealized gains (losses) on hedging derivatives (Note 6)	(582)	(3)	(5,244)
Remeasurements of defined benefit plans (Note 17)	(161)	363	(1,451)
Total other comprehensive income (losses)	(5,409)	639	(48,734)
Comprehensive income (losses)	¥(1,222)	¥6,159	\$(11,010)
Total comprehensive income (losses)	¥(1,222)	¥6,159	\$(11,010)
Attributable to:			
Owners of parent	(1,222)	6,162	(11,010)
Non-controlling interests	—	(3)	—
See accompanying notes.			

Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2019 and 2018

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (losses) on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (losses)	Stock acquisition rights	Non-controlling interests	Total net assets
BALANCE, 1 April 2017	¥12,090	¥5,502	¥146,965	¥(3,117)	¥161,440	¥41,417	¥(3,355)	¥(1,530)	¥36,532	¥157	¥159	¥198,288
Change during year												
Cash dividends	—	—	(1,252)	—	(1,252)	—	—	—	—	—	—	(1,252)
Net income attributable to owners of parent	—	—	5,523	—	5,523	—	—	—	—	—	—	5,523
Acquisition of treasury stock	—	—	—	(3)	(3)	—	—	—	—	—	—	(3)
Disposal of treasury stock	—	—	(0)	0	0	—	—	—	—	—	—	0
Sales of shares of parent held by consolidated subsidiaries	—	7	—	131	138	—	—	—	—	—	—	138
Change in equity of parent arising from transactions with non-controlling shareholders	—	158	—	—	158	—	—	—	—	—	—	158
Net changes in items other than stockholders' equity during year	—	—	—	—	—	279	(3)	363	639	46	(159)	526
Total change during year	—	165	4,271	128	4,564	279	(3)	363	639	46	(159)	5,090
BALANCE, 1 April 2018	12,090	5,667	151,236	(2,989)	166,004	41,696	(3,358)	(1,167)	37,171	203	—	203,378
Change during year												
Cash dividends	—	—	(1,254)	—	(1,254)	—	—	—	—	—	—	(1,254)
Net income attributable to owners of parent	—	—	4,187	—	4,187	—	—	—	—	—	—	4,187
Acquisition of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	—	(4)
Disposal of treasury stock	—	—	(7)	47	40	—	—	—	—	—	—	40
Net changes in items other than stockholders' equity during year	—	—	—	—	—	(4,666)	(582)	(161)	(5,409)	6	—	(5,403)
Total change during year	—	—	2,926	43	2,969	(4,666)	(582)	(161)	(5,409)	6	—	(2,434)
BALANCE, 31 March 2019	¥12,090	¥5,667	¥154,162	¥(2,946)	¥168,973	¥37,030	¥(3,940)	¥(1,328)	¥31,762	¥209	¥—	¥200,944

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (losses) on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (losses)	Stock acquisition rights	Non-controlling interests	Total net assets
BALANCE, 1 April 2018	\$108,929	\$51,059	\$1,362,609	\$ (26,930)	\$1,495,667	\$375,673	\$ (30,255)	\$ (10,514)	\$334,904	\$1,829	\$—	\$1,832,400
Change during year												
Cash dividends	—	—	(11,298)	—	(11,298)	—	—	—	—	—	—	(11,298)
Net income attributable to owners of parent	—	—	37,724	—	37,724	—	—	—	—	—	—	37,724
Acquisition of treasury stock	—	—	—	(36)	(36)	—	—	—	—	—	—	(36)
Disposal of treasury stock	—	—	(63)	423	360	—	—	—	—	—	—	360
Net changes in items other than stockholders' equity during year	—	—	—	—	—	(42,039)	(5,244)	(1,451)	(48,734)	54	—	(48,680)
Total change during year	—	—	26,363	387	26,750	(42,039)	(5,244)	(1,451)	(48,734)	54	—	(21,930)
BALANCE, 31 March 2019	\$108,929	\$51,059	\$1,388,972	\$ (26,543)	\$1,522,417	\$333,634	\$ (35,499)	\$ (11,965)	\$286,170	\$1,883	\$—	\$1,810,470

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥6,253	¥8,065	\$56,339
Adjustments to reconcile income before income taxes to net cash used in operating activities:			
Depreciation	1,940	2,064	17,479
Impairment losses	76	181	685
Increase (decrease) in allowance for doubtful accounts	3,648	354	32,868
Increase (decrease) in provision for contingent losses	23	(62)	207
Increase (decrease) in accrued bonuses for directors and corporate auditors	(1)	0	(9)
(Increase) decrease in net defined benefit asset	3	329	27
Increase (decrease) in net defined benefit liability	(24)	(33)	(216)
Increase (decrease) in retirement benefits for directors and corporate auditors	0	(1)	0
Increase (decrease) in provision for losses on reimbursement of dormant deposits	(60)	(118)	(541)
Interest income	(30,780)	(31,267)	(277,322)
Interest expenses	1,239	1,255	11,163
Investment securities (gains) losses, net	(3,045)	(774)	(27,435)
(Increase) decrease in money held in trust	182	(160)	1,640
Foreign exchange (gains) losses, net	(807)	877	(7,271)
(Gains) losses on disposal of premises and equipment	1	37	9
Net (increase) decrease in loans and bills discounted	(42,441)	(47,909)	(382,386)
Net increase (decrease) in deposits	(123,098)	23,861	(1,109,091)
Net increase (decrease) in negotiable certificates of deposit	60,500	(15,139)	545,094
Net increase (decrease) in borrowed money	28,802	(500)	259,501
Net (increase) decrease in due from banks, excluding the Bank of Japan	(449)	(1)	(4,045)
Net (increase) decrease in call loans and others	(1,354)	(1,426)	(12,199)
Net increase (decrease) in call money and others	(118)	(3,272)	(1,063)
Net increase (decrease) in payables under securities lending transactions	2,380	3,004	21,443
Net (increase) decrease in foreign exchange assets	339	(624)	3,054
Net increase (decrease) in foreign exchange liabilities	(7)	(12)	(63)
Interest received	31,558	31,910	284,332
Interest paid	(1,371)	(1,354)	(12,353)
Other, net	(2,626)	(24,285)	(23,660)
Sub-total	(69,237)	(55,000)	(623,813)
Income taxes paid	(3,740)	(1,638)	(33,696)
Income taxes refunded	20	635	180
Net cash used in operating activities	(72,957)	(56,003)	(657,329)
Cash flows from investing activities:			
Acquisition of securities	(660,301)	(996,635)	(5,949,194)
Proceeds from sale of securities	30,230	43,760	272,367
Proceeds from redemption of securities	707,011	997,608	6,370,042
Increase of money held in trust	(5,000)	(3,000)	(45,049)
Acquisition of premises and equipment	(1,156)	(1,828)	(10,415)
Proceeds from sale of premises and equipment	58	75	523
Payment for retirement of premises and equipment	(21)	(63)	(189)
Acquisition of intangible assets	(220)	(353)	(1,982)
Payment for asset retirement obligations	(63)	(30)	(568)
Net cash provided by investing activities	70,538	39,534	635,535

Consolidated Statements of Cash Flows (Continued)

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from financing activities:			
Redemption of			
subordinated bonds and corporate bonds with stock acquisition rights	(11,054)	—	(99,595)
Repayments of lease obligations	(485)	(487)	(4,370)
Cash dividends paid	(1,254)	(1,252)	(11,298)
Dividends paid to non-controlling interests	—	(0)	—
Payment for acquisition of treasury stock	(4)	(3)	(36)
Proceeds from sale of treasury stock	0	0	0
Payment for acquisition of shares of subsidiaries that do not result in change in scope of consolidation	—	(2)	—
Proceeds from sale of shares of parent held by subsidiaries	—	145	—
Net cash used in financing activities	(12,797)	(1,599)	(115,299)
Effect of exchange rate changes on cash and cash equivalents	20	14	180
Net increase (decrease) in cash and cash equivalents	(15,196)	(18,054)	(136,913)
Cash and cash equivalents at the beginning of the year	408,527	426,581	3,680,755
Cash and cash equivalents at the end of the year (Note 3)	¥393,331	¥408,527	\$3,543,842

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2019 and 2018

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Bank of Iwate, Ltd. (the “Bank”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange 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 2019, which was ¥110.99 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries. Japanese GAAP on consolidated financial statements requires consolidation of all significant investees that are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany transactions and account balances are eliminated.

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

Investments in affiliates over which the Bank has the ability to exercise significant influence in terms of operating and financial policies of the investees are accounted for by the equity method.

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

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

Trading account securities and other securities

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

(a) Trading account securities — National government bonds held for trading purpose are presented as trading account securities. Trading account securities are stated at fair value (cost of securities sold is calculated using the moving-average method). Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change.

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

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

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

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

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

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

Money held in trust

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

Derivatives and hedge accounting

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Bank defers recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related 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 Standards 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 that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair values, but the differential to be paid or received under the swap contracts is recognized as interest expenses or income (exceptional method).

Depreciation and amortization methods

(1) Premises and equipment (excluding leased assets)

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

Buildings: 3-30 years

Equipment and furniture: 2-20 years

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

(2) Intangible assets (excluding leased assets)

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

(3) Leased assets

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

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

Allowance for doubtful accounts

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

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

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 that are attributable to each fiscal year.

Retirement benefits for directors and corporate auditors

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

Provision for losses on reimbursement of dormant deposits

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

Provision for contingent losses

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

Accounting for retirement benefits

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

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

The consolidated subsidiaries adopt a simplified method, as allowed for small companies, which is to record retirement 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 the Bank and each of its consolidated subsidiaries with certain adjustments required for tax purposes.

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

Foreign currency translation

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

Appropriations of retained earnings

Under the Companies 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 29.

Amounts per share

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

Consumption taxes

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

Accounting standards that have not been applicable yet

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

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

(1) Overview

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

Step 1: Identify contracts with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

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

(2) Application date

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

(3) Effects of the application of the standards

The Group is currently assessing the effects of these standards.

3. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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 2019 and 2018, 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
	2019	2018	2019
Cash and due from banks	¥394,250	¥408,997	\$3,552,122
Less: Deposits in banks other than the Bank of Japan	(919)	(470)	(8,280)
Cash and cash equivalents	¥393,331	¥408,527	\$3,543,842

4. SECURITIES

Securities held by the Group at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
National government bonds	¥239,026	¥326,976	\$2,153,581
Local government bonds	342,427	331,192	3,085,206
Corporate bonds	300,691	301,860	2,709,172
Corporate stocks	44,848	53,131	404,072
Other securities	292,009	285,649	2,630,949
	<u>¥1,219,001</u>	<u>¥1,298,808</u>	<u>\$10,982,980</u>

The securities placed under unsecured lending agreements, which borrowers have the right to sell or pledge in the amount of ¥22,100 million (\$199,117 thousand) and ¥87,000 million at 31 March 2019 and 2018, respectively, were included in national government bonds

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at 31 March 2019 and 2018:

(a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2019:	¥26,261	¥30,726	¥4,465	¥4,465	¥ –
At 31 March 2018:	¥37,368	¥41,627	¥4,259	¥4,260	¥ (1)

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2019:	\$236,607	\$276,836	\$40,229	\$40,229	\$ –

(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 2019:					
Corporate stocks	¥22,760	¥43,602	¥20,842	¥22,015	¥(1,173)
Bonds	831,211	859,883	28,672	28,760	(88)
Other	278,389	281,794	3,405	6,668	(3,263)
	<u>¥1,132,360</u>	<u>¥1,185,279</u>	<u>¥52,919</u>	<u>¥57,443</u>	<u>¥(4,524)</u>
At 31 March 2018:					
Corporate stocks	¥24,449	¥51,918	¥27,469	¥27,848	¥(379)
Bonds	900,081	927,467	27,386	27,713	(327)
Other	271,797	276,373	4,576	7,855	(3,279)
	<u>¥1,196,327</u>	<u>¥1,255,758</u>	<u>¥59,431</u>	<u>¥63,416</u>	<u>¥(3,985)</u>

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2019:					
Corporate stocks	\$205,064	\$392,846	\$187,782	\$198,351	\$(10,569)
Bonds	7,489,062	7,747,392	258,330	259,123	(793)
Other	2,508,235	2,538,913	30,678	60,077	(29,399)
	<u>\$10,202,361</u>	<u>\$10,679,151</u>	<u>\$476,790</u>	<u>\$517,551</u>	<u>\$(40,761)</u>

B. There were no sales of held-to-maturity debt securities for the years ended 31 March 2019 and 2018.

Total sales of available-for-sale securities in the years ended 31 March 2019 and 2018 amounted to ¥30,229 million (\$272,358 thousand) and ¥43,759 million, respectively. The related gains and losses amounted to ¥4,508 million (\$40,616 thousand) and ¥206 million (\$1,856 thousand), respectively, in 2019, and ¥2,560 million and ¥60 million, respectively, in 2018.

C. Available-for-sale securities written down for the year ended 31 March 2019 amounted to ¥27 million (\$243 thousand).

There were no available-for-sale securities written down for the year ended 31 March 2018.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities (Note)	¥52,895	¥59,432	\$476,575
Deferred tax liabilities	(15,865)	(17,736)	(142,941)
Net unrealized holding gains before interests adjustment	37,030	41,696	333,634
Amount equivalent to non-controlling interests	—	—	—
Net unrealized holding gains on available-for-sale securities	¥37,030	¥41,696	\$333,634

Note: The amounts of ¥(24) million (\$216 thousand) and ¥2 million, which are net unrealized holding gains (losses) before deferred tax on available-for-sale securities that are component assets of investment limited partnerships classified as securities for which it is extremely difficult to determine the fair values, were included in the balance at 31 March 2019 and 2018, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Shares	¥20	¥20	\$180
Investments	860	916	7,748

5. MONEY HELD IN TRUST

Money held in trust at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Money held in trust for trading purposes:			
Carrying amount	¥12,775	¥7,982	\$115,100
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, 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 category of loans as of the current fiscal year-end was individuals, followed by local governments, real estate industries and leasing more or less all kinds of industries and manufacturing industries.

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

Liabilities, such as deposits, corporate bonds and call money, are exposed to risks arising from fluctuation of interest rates stemming from mismatch between interests or periods of assets and liabilities. In addition, these are exposed to risks of fund shortage where the Bank fails to control cash receipts and disbursement due to unexpected fund outflow and suffers losses from 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 the ALM control and applies hedge accounting to them as hedging instruments for interest rate risks on loans and bonds as hedged items. The Bank evaluates 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 its 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 periodic reviews 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 the ALM.

(Foreign currency exchange risks)

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

(Price fluctuation risks)

In accordance with the internal policies of the Bank on managing market related risks, the risks arising from fluctuation of market price of investment securities are controlled through a daily VaR based on certain holding periods and confidence 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 or 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 the primary policies on investing, and controlled through continuous monitoring. The information related to the market environment and the investment status is reported to the management on a regular basis.

(Derivative transactions)

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

(Information on volume of market risk)

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

The volume of market risk, which is supposed to be estimated losses, at the end of the year ended 31 March 2019 was ¥20,227 million (\$182,242 thousand).

For securities, the Bank periodically verifies the effectiveness of risk measurement by a back-testing protocol that compares the volume under VaR with the amount of actual gains or losses or hypothetical gains or losses on a fixed portfolio. As a result of conducting the back-testing protocol, the Group supposes the method undertaken to provide a reliable indicator of the market risks. The method of variance and covariance that the Bank uses to measure the volume under VaR assumes that changes in the market follow a normal distribution. Accordingly, under conditions subject to changes in the market exceeding the assumption, risks may be underestimated.

e. Monitoring of liquidity risks

The Bank adequately manages its liquidity risks based on various internal quantitative standards prescribed in liquidity risks management regulations, monitoring 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 2019 and 2018 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2019		2018		2019	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥394,250	¥394,250	¥408,997	¥408,997	\$3,552,122	\$3,552,122
Monetary claims bought	5,446	5,458	4,005	4,024	49,067	49,176
Money held in trust	12,775	12,775	7,982	7,982	115,100	115,100
Securities						
Held-to-maturity debt securities	22,262	26,715	34,686	38,926	200,576	240,697
Available-for-sale securities	1,185,279	1,185,279	1,255,758	1,255,758	10,679,151	10,679,151
Loans and bills discounted	1,795,100		1,752,659		16,173,529	
Allowance for doubtful accounts	(12,442)		(8,901)		(112,100)	
	1,782,658	1,787,916	1,743,758	1,747,582	16,061,429	16,108,803
Liabilities:						
Deposits	3,217,522	3,217,605	3,280,121	3,280,252	28,989,296	28,990,044
Call money and bills sold	2,220	2,220	2,337	2,337	20,002	20,002
Payables under securities lending transactions	6,514	6,514	4,134	4,134	58,690	58,690
Borrowed money	42,404	42,404	13,602	13,603	382,052	382,052
Corporate bonds with stock acquisition rights	—	—	10,624	10,619	—	—
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	(154)	(154)	182	182	(1,388)	(1,388)
Derivative instruments qualifying for hedge accounting	(5,661)	(9,429)	(4,826)	(8,200)	(51,005)	(84,954)

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

a. Cash and due from banks

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

b. Monetary claims bought

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

c. Money held in trust

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

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

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

e. Loans and bills discounted

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

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

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

f. Deposits

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

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

g. Call money and bills sold, and payables under securities lending transactions

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

h. Borrowed money

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

i. Corporate bonds with stock acquisition rights

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

j. Derivative transactions

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

(Note 2) The following table summarizes book values of securities for which it is extremely difficult to determine the fair values at 31 March 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Available-for-sale securities	¥11,460	¥8,364	\$103,253
Monetary claims bought	185	272	1,667

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2019 and 2018 were as follows:

	Millions of yen					
	2019					
	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)	¥368,095	¥—	¥—	¥—	¥—	¥—
Monetary claims bought	1,447	—	—	—	—	4,184
Securities						
Held-to-maturity debt securities	—	303	—	—	1,985	19,974
Mainly consists of the following:						
National bonds	—	—	—	—	1,985	19,974
Corporate bonds	—	303	—	—	—	—
Available-for-sale securities	162,484	250,840	148,928	125,411	330,666	78,974
Mainly consists of the following:						
National bonds	55,527	69,555	9,471	10,519	24,550	47,445
Local government bonds	6,456	28,319	7,087	69,337	210,834	20,394
Corporate bonds	60,060	97,645	70,323	9,905	45,423	8,698
Loans and bills discounted	305,302	366,643	332,910	166,804	126,614	302,053
Deposits	3,102,389	107,608	6,261	1,225	39	—
Call money and bills sold	2,220	—	—	—	—	—
Payables under securities lending transactions	6,514	—	—	—	—	—
Borrowed money (*2)	1,861	—	9	12	18	61

	Millions of yen					
	2018					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks (*1)	¥384,041	¥—	¥—	¥—	¥—	¥—
Monetary claims bought	1,323	—	—	—	—	2,954
Securities						
Held-to-maturity debt securities	10,301	2,430	—	—	1,983	19,972
Mainly consists of the following:						
National bonds	10,000	—	—	—	1,983	19,972
Corporate bonds	300	305	—	—	—	—
Available-for-sale securities	175,851	330,054	145,173	74,659	363,722	73,535
Mainly consists of the following:						
National bonds	77,547	118,347	14,701	10,686	21,215	52,525
Local government bonds	6,842	30,651	7,388	30,671	245,597	10,043
Corporate bonds	54,724	109,879	82,701	8,848	33,234	4,557
Loans and bills discounted	292,186	420,680	296,541	147,202	131,637	274,173
Deposits	3,160,552	111,678	6,532	278	1,081	—
Call money and bills sold	2,337	—	—	—	—	—
Payables under securities lending transactions	4,134	—	—	—	—	—
Borrowed money (*2)	4,762	85	—	—	—	—

Thousands of U.S. dollars						
2019						
	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)	\$3,316,470	\$—	\$—	\$—	\$—	\$—
Monetary claims bought	13,037	—	—	—	—	37,697
Securities						
Held-to-maturity debt securities	—	2,730	—	—	17,884	179,962
Mainly consists of the following:						
National bonds	—	—	—	—	17,884	179,962
Corporate bonds	—	2,730	—	—	—	—
Available-for-sale securities	1,463,952	2,260,023	1,341,815	1,129,931	2,979,241	711,542
Mainly consists of the following:						
National bonds	500,288	626,678	85,332	94,774	221,191	427,471
Local government bonds	58,167	255,149	63,853	624,714	1,899,577	183,746
Corporate bonds	541,130	879,764	633,598	89,242	409,253	78,367
Loans and bills discounted	2,750,716	3,303,388	2,999,459	1,502,874	1,140,769	2,721,443
Deposits	27,951,969	969,529	56,410	11,037	351	—
Call money and bills sold	20,002	—	—	—	—	—
Payables under securities lending transactions	58,690	—	—	—	—	—
Borrowed money (*2)	16,767	—	81	108	162	550

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

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

Derivatives

As stated 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 2019 and 2018 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2019			2018			2019		
	Unrealized		Notional amounts	Unrealized		Notional amounts	Unrealized		Notional amounts
	Fair value	(losses)		Fair value	(losses)		Fair value	(losses)	
Forward foreign exchange:									
Sell	¥21,539	¥(160)	¥(160)	¥14,529	¥196	¥196	\$194,063	\$(1,442)	\$(1,442)
Buy	1,987	21	21	384	(14)	(14)	17,903	189	189

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

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

(Credit derivative transactions)

	Millions of yen								Thousands of U.S. dollars			
	2019				2018				2019			
	Notional amounts	Over one year	Fair value	Unrealized gains (losses)	Notional amounts	Over one year	Fair value	Unrealized gains (losses)	Notional amounts	Over one year	Fair value	Unrealized gains (losses)
Credit default swap:												
Sell	¥1,000	¥1,000	¥(15)	¥(15)	—	—	—	—	\$9,010	\$9,010	\$(135)	\$(135)
Buy	—	—	—	—	—	—	—	—	—	—	—	—

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

(Earthquake derivatives)

	Millions of yen						Thousands of U.S. dollars		
	2019			2018			2019		
	Notional amounts	Unrealized gains (losses)	Fair value	Notional amounts	Unrealized gains (losses)	Fair value	Notional amounts	Unrealized gains (losses)	Fair value
Earthquake derivatives:									
Sell	¥1,740	¥(23)	—	¥705	¥(10)	—	\$15,677	\$(207)	—
Buy	1,740	23	—	705	10	—	15,677	207	—

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

b. Derivative instruments qualifying for hedge accounting

Notional amounts and fair values for the years ended 31 March 2019 and 2018 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2019		2018		2019	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate (Deferral method)	¥39,944	¥(5,661)	¥40,915	¥(4,826)	\$359,888	\$(51,005)
Receive floating / Pay fixed rate (Exceptional method)	22,335	(3,768)	22,430	(3,374)	201,234	(33,949)

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bills discounted	¥4,067	¥4,782	\$36,643
Loans on notes	55,922	67,749	503,847
Loans on deeds	1,541,274	1,493,615	13,886,602
Overdrafts	193,837	186,513	1,746,437
	<u>¥1,795,100</u>	<u>¥1,752,659</u>	<u>\$16,173,529</u>

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Group has rights to sell or pledge commercial bills discounted and foreign bills of exchange bought without restrictions. The total face value at 31 March 2019 and 2018 was ¥4,067 million (\$36,643 thousand) and ¥4,781 million, respectively.

The Group is required to disclose loans to customers who meet specific criteria in accordance with the Banking Law. Doubtful loans at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans to borrowers under bankruptcy proceedings	¥3,455	¥853	\$31,129
Past due loans	30,593	29,345	275,637
Loans past due three months or more	4	26	36
Restructured loans, including loans to borrowers financially assisted by the Bank	7,371	7,695	66,411
	<u>¥41,423</u>	<u>¥37,919</u>	<u>\$373,213</u>

8. PLEDGED ASSETS

At 31 March 2019, deposits of ¥46,412 million (\$418,164 thousand), payables under securities lending transactions of ¥6,514 million (\$58,690 thousand) and borrowed money of ¥42,176 million (\$379,998 thousand) were secured by a pledge of securities in the amount of ¥129,146 million (\$1,163,582 thousand) and guarantee money deposits in the amount of ¥100 million (\$901 thousand). At 31 March 2018, deposits of ¥42,482 million, payables under securities lending transactions of ¥4,134 million, borrowed money of ¥13,162 million were secured by a pledge of securities in the amount of ¥102,353 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 ¥1,506 million at 31 March 2018, and other assets in the amount of ¥35,003 million (\$315,371 thousand) and ¥34,225 million as collateral for transactions such as exchange settlement transactions at 31 March 2019 and 2018, respectively.

Other assets include cash collateral paid for financial instruments, guarantee deposits and lease deposits in the amount of ¥9,453 million (\$85,170 thousand) and ¥8,370 million, ¥89 million (\$802 thousand) and ¥90 million, and ¥167 million (\$1,505 thousand) and ¥193 million at 31 March 2019 and 2018, respectively.

9. COMMITMENT LINE AGREEMENTS

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 2019 and 2018 amounted to ¥710,596 million (\$6,402,343 thousand) and ¥707,700 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 ¥675,858 million (\$6,089,359 thousand) and ¥673,027 million at 31 March 2019 and 2018, respectively. The amount of unused commitment line does not necessarily affect the future cash flows of the Group because most of such agreements were terminated without being used. The majority of these agreements contain provisions that stipulate that the Group may refuse to make loans or may decrease the commitment line 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 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Accrued income	¥3,432	¥3,558	\$30,922
Other	59,197	56,469	533,354
	<u>¥62,629</u>	<u>¥60,027</u>	<u>\$564,276</u>

11. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Land	¥8,862	¥8,884	\$79,845
Buildings	35,229	35,046	317,407
Equipment	8,288	8,365	74,673
Leased assets	1,278	1,213	11,515
Other	1,064	956	9,587
	<u>54,721</u>	<u>54,464</u>	<u>493,027</u>
Accumulated depreciation	<u>37,749</u>	<u>37,155</u>	<u>340,112</u>
	<u>¥16,972</u>	<u>¥17,309</u>	<u>\$152,915</u>

To conform with the Companies Law of Japan, deferred gains on sale of real estate in the amount of ¥922 million (\$8,307 thousand) and ¥922 million at 31 March 2019 and 2018, respectively, were deducted from the acquisition cost of premises and equipment.

12. INTANGIBLE ASSETS

Intangible assets at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Software	¥909	¥1,082	\$8,190
Leased assets	111	94	1,000
Other	19	65	171
	<u>¥1,039</u>	<u>¥1,241</u>	<u>\$9,361</u>

13. DEPOSITS

Deposits at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current deposits	¥52,090	¥54,341	\$469,321
Ordinary deposits	1,775,199	1,792,480	15,994,225
Deposits at notice	1,493	1,758	13,452
Time deposits	1,048,702	1,157,586	9,448,617
Other deposits	76,192	70,610	686,476
Negotiable certificates of deposit	263,846	203,346	2,377,205
	<u>¥3,217,522</u>	<u>¥3,280,121</u>	<u>\$28,989,296</u>

14. CORPORATE BONDS WITH STOCK ACQUISITION RIGHTS

Corporate bonds with stock acquisition rights at 31 March 2019 and 2018 were summarized as follows:

Name	Issued	Millions of yen		Thousands of U.S. dollars	Coupon rate (%)	Secured or unsecured	Due
		2019	2018	2019			
Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars	25 July 2013	—	¥10,624	—	Non-interest	Unsecured	25 July 2018

15. OTHER LIABILITIES

Other liabilities at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Accrued income taxes	¥548	¥1,927	\$4,937
Accrued expenses	2,370	2,588	21,353
Unearned income	487	468	4,388
Lease obligations	1,884	2,058	16,975
Other	15,719	14,909	141,626
	<u>¥21,008</u>	<u>¥21,950</u>	<u>\$189,279</u>

16. CONTINGENT LIABILITIES, ACCEPTANCES AND GUARANTEES

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

The amount of guarantee obligation for privately placed bonds (Financial Instruments and Exchange Law, Article 2, Paragraph 3), out of bonds included in securities, stands at ¥3,521 million (\$31,724 thousand) in 2019 and ¥2,518 million in 2018.

17. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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

period and current pensioners) to defined contribution plans.

Under the defined benefit pension plan, which is a funded plan, employees receive lump-sum payments or pensions based on salaries and service periods and a cash balance plan has been introduced. Each participant has a hypothetical individual account with the amount equivalent to the reserve as resource of pension for each participant. In hypothetical individual accounts, interest credits based on trends in market interest rates and benefit credits based on the salary level are accumulated. Also, the Bank has set up retirement benefit trusts related to the 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
	2019	2018	2019
Balance at the beginning of the year	¥25,514	¥25,644	\$229,877
Service costs (including the amount of employee contributions)	679	673	6,118
Interest costs	108	107	973
Actuarial differences	180	219	1,621
Retirement benefits paid	(1,117)	(1,129)	(10,064)
Balance at the end of the year	¥25,364	¥25,514	\$228,525

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
	2019	2018	2019
Balance at the beginning of the year	¥28,113	¥28,015	\$253,293
Expected return on plan assets	703	582	6,334
Actuarial differences	(459)	97	(4,136)
Employer contributions	113	114	1,018
Employee contributions	52	53	469
Retirement benefits paid	(769)	(748)	(6,928)
Balance at the end of the year	¥27,753	¥28,113	\$250,050

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded projected benefit obligation	¥25,044	¥25,187	\$225,642
Plan assets	(27,753)	(28,113)	(250,050)
	(2,709)	(2,926)	(24,408)
Unfunded projected benefit obligation	320	327	2,883
Net liability (asset) recognized in consolidated balance sheets	¥(2,389)	¥(2,599)	\$(21,525)
Net defined benefit liability	2,134	1,944	19,227
Net defined benefit asset	(4,523)	(4,543)	(40,752)
Net liability (asset) recognized in consolidated balance sheets	¥(2,389)	¥(2,599)	\$(21,525)

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

(iv) Retirement benefit expenses and their breakdown

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs (excluding the amount of employee contributions)	¥627	¥620	\$5,649
Interest costs	108	107	973
Expected return on plan assets	(703)	(582)	(6,334)
Amortization of actuarial differences	408	645	3,676
Retirement benefit expenses	¥440	¥790	\$3,964

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial differences	¥(231)	¥523	\$(2,081)
Total	¥(231)	¥523	\$(2,081)

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial differences	¥(1,908)	¥(1,677)	\$(17,191)
Total	¥(1,908)	¥(1,677)	\$(17,191)

(vii) Plan assets

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

	2019	2018
Bonds	57%	53%
Equities	16%	29%
General account	15%	15%
Cash and deposits	12%	3%
Other	0%	0%
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 2019 and 2018, respectively. In addition, retirement benefit trusts set up for the lump-sum retirement benefit plans account for 23% and 22% of total plan assets for the years ended 31 March 2019 and 2018, 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 2019 and 2018 was as follows:

	2019	2018
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	2.5%	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 (\$1,135 thousand) and ¥126 million for the year ended 31 March 2019 and 2018, respectively.

The amount of plan assets transferred to the defined contribution plans resulting from the transfer of its portion from retirement benefit plans to such plans was ¥1,802 million (\$16,236 thousand) and the transfer is expected to be completed in four years.

The remaining transfer of plan assets as of 31 March 2019 in the amount of ¥408 million (\$3,676 thousand) is included in accounts payable under other liabilities.

18. INCOME TAXES

The Group is subject to a number of taxes based on income such as corporation, inhabitant and enterprise taxes, which, in the aggregate, indicated a statutory tax rate in Japan of approximately 30.4% and 30.6% for the years ended 31 March 2019 and 2018, respectively.

Significant components of the Group's deferred tax assets and liabilities at 31 March 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	¥3,581	¥2,755	\$32,264
Net defined benefit liability	2,825	2,844	25,453
Accumulated depreciation	1,130	1,119	10,181
Securities	482	567	4,343
Deferred hedge	1,721	1,467	15,506
Other	1,330	1,492	11,983
Subtotal	11,069	10,244	99,730
Valuation allowance (*)	(2,428)	(2,240)	(21,876)
Total deferred tax assets	8,641	8,004	77,854
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(15,966)	(17,838)	(143,851)
Deferred gains on sale of real estate	(412)	(422)	(3,712)
Other	(1)	(4)	(9)
Total deferred tax liabilities	(16,379)	(18,264)	(147,572)
Net deferred tax liabilities	¥ (7,738)	¥ (10,260)	\$(69,718)

Note (*): Valuation allowance increased by ¥189 million (\$1,703 thousand) in the year ended 31 March 2019. The main reason of this increase is due to the recognition of valuation allowance against deductible temporary differences arising in the year ended 31 March 2019 from allowance for doubtful accounts for the Bank and its consolidated subsidiaries, of which it is not likely that the differences will be deductible within the future reasonable terms.

(Change in presentation)

(Change in presentation associated with adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Bank adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, 16 February 2018) from the year ended 31 March 2019 and changed the notes related to deferred tax accounting.

In the notes related to deferred tax accounting, the items described in the explanatory note 8 of “Accounting Standard for Tax Effect Accounting” (excluding total of the valuation allowance) provided in Paragraphs 3 to 5 of “Partial Amendments to Accounting Standard for Tax Effect Accounting” have been added.

The following summarizes the significant difference between the statutory tax rate and the Bank’s effective tax rate for the years ended 31 March 2019 and 2018.

	2019	2018
Statutory tax rate	30.4%	30.6%
Non-deductible expenses	0.4	0.4
Non-taxable income	(1.5)	(1.0)
Per capita inhabitant taxes	0.7	0.5
Valuation allowance	3.0	0.8
Other, net	0.0	0.3
Effective tax rate	33.0%	31.6%

19. NET ASSETS

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

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

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

The number of treasury stock held by the Group was 583 thousand shares and 591 thousand shares at 31 March 2019 and 2018, respectively.

20. STOCK OPTIONS

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

The balance of stock acquisition rights granted for the stock option program was ¥209 million (\$1,883 thousand) and ¥203 million at 31 March 2019 and 2018, respectively.

Share-based compensation expenses accounted for as general and administrative expenses for the years ended 31 March 2019 and 2018 amounted to ¥45 million (\$405 thousand) and ¥46 million, respectively.

2. Details of stock options, volume and activity

(a) Details of stock options

	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan	2016 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9	Directors of the Bank: 9	Directors of the Bank: 9	Directors of the Bank: 9
Number of stock options by type of shares	Common stock: 13,400 shares	Common stock: 10,400 shares	Common stock: 9,100 shares	Common stock: 12,100 shares
Grant date	24 July 2013	24 July 2014	23 July 2015	25 July 2016
Condition for vesting	Not applicable	Not applicable	Not applicable	Not applicable
Requisite service period	Not applicable	Not applicable	Not applicable	Not applicable
Exercise period	From 25 July 2013 to 24 July 2043	From 25 July 2014 to 24 July 2044	From 24 July 2015 to 23 July 2045	From 26 July 2016 to 25 July 2046

	2017 Stock Option Plan	2018 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9	Directors of the Bank: 7
Number of stock options by type of shares	Common stock: 11,100 shares	Common stock: 10,200 shares
Grant date	26 July 2017	25 July 2018
Condition for vesting	Not applicable	Not applicable
Requisite service period	Not applicable	Not applicable
Exercise period	From 27 July 2017 to 26 July 2047	From 26 July 2018 to 25 July 2048

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 2019. 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 2018	9,000	7,800	6,900	12,100
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	2,000	1,400	1,200	2,500
Outstanding	7,000	6,400	5,700	9,600
After vesting (shares):				
At 31 March 2018	—	—	—	—
Vested	2,000	1,400	1,200	2,500
Exercised	2,000	1,400	1,200	2,500
Forfeited	—	—	—	—
Outstanding	—	—	—	—

	2017 Stock Option Plan	2018 Stock Option Plan
Before vesting (shares):		
At 31 March 2018	11,100	—
Granted	—	10,200
Forfeited	—	—
Vested	2,200	—
Outstanding	8,900	10,200
After vesting (shares):		
At 31 March 2018	—	—
Vested	2,200	—
Exercised	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	¥4,205 (\$37.89)	¥4,205 (\$37.89)	¥4,205 (\$37.89)	¥4,205 (\$37.89)
Fair value at the grant	¥4,119 (\$37.11)	¥4,437 (\$39.98)	¥5,287 (\$47.63)	¥4,032 (\$36.33)

	2017 Stock Option	2018 Stock Option
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)
Average exercise price	¥4,205 (\$37.89)	¥— (\$—)
Fair value at the grant	¥4,178 (\$37.64)	¥4,439 (\$39.99)

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 2019 were as follows:

(a) The valuation method: Black-Scholes formula

(b) Major basic numerical values and valuation method

	2018 Stock Option Plan
Stock price volatility (*1)	18.6%
Expected years to expiration (*2)	1.6 years
Expected dividends (*3)	¥70 (\$0.63) per share
Risk-free interest rate (*4)	(0.11)%

Notes:*1. Stock price volatility was calculated based on the actual stock prices from 12 December 2016 to 16 July 2018.

*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 2018.

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

4. Estimation method for the vested number of stock options

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

21. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other operating income:			
Gain on trading account securities transactions	¥1	¥0	\$9
Gain on sale of bonds	282	242	2,541
Gain on financial instruments	—	25	—
Other	3,960	4,135	35,679
	<u>¥4,243</u>	<u>¥4,402</u>	<u>\$38,229</u>

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other operating expenses:			
Loss on sale of foreign bills of exchange	¥486	¥152	\$4,379
Loss on sales of bonds	79	4	712
Loss on redemption of bonds	1,229	1,726	11,073
Loss on financial instruments	14	—	126
Other	3,411	3,640	30,732
	<u>¥5,219</u>	<u>¥5,522</u>	<u>\$47,022</u>

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries and allowances	¥11,558	¥11,762	\$ 104,135
Fringe benefits and welfare	3,043	3,069	27,417
Retirement benefit expenses	565	918	5,091
Depreciation for premises and equipment	1,900	2,033	17,119
Rental expenses	797	817	7,181
Taxes other than income taxes	1,458	1,571	13,136
Deposit insurance premium	989	1,068	8,911
Business outsourcing expenses	2,687	2,691	24,209
Other expenses	4,092	4,179	36,868
	<u>¥27,089</u>	<u>¥28,108</u>	<u>\$ 244,067</u>

23. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other income:			
Gain on sale of stocks and other securities	¥4,226	¥2,318	\$38,075
Gain on disposal of premises and equipment	25	48	225
Other	768	931	6,920
	<u>¥5,019</u>	<u>¥3,297</u>	<u>\$45,220</u>

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other expenses:			
Provision of allowance for doubtful accounts	¥ 4,550	¥ 598	\$40,995
Loss on disposal of premises and equipment	26	85	234
Loss on devaluation of stocks and other securities	29	0	261
Loss on sales of stocks and other securities	127	57	1,144
Impairment losses	76	181	685
Loss on money held in trust	203	-	1,829
Loss on transfer of receivables	135	31	1,216
Other	355	202	3,199
	<u>¥5,501</u>	<u>¥1,154</u>	<u>\$49,563</u>

24. LEASE TRANSACTIONS

A. Finance leases

(a) As lessee

(1) Finance leases that transfer the ownership

(i) Details of leased assets

Premises and equipment:

Not applicable

Intangible assets:

Mainly consist of software for the branch operating system

(ii) Depreciation and amortization methods of leased assets

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

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

(i) Details of leased assets

Premises and equipment:

Mainly consist of equipment for the branch operating system

Intangible assets:

Mainly consists of software for the branch operating system

(ii) Depreciation and amortization methods of leased assets

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

(3) Current portion of lease obligations and lease obligations (excluding current portion) at 31 March 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2019	2018	2019	2019
Current portion of lease obligations	¥764	¥915	\$6,884	2.84%
Lease obligations (excluding current portion)	1,120	1,143	10,091	2.47%
	<u>¥1,884</u>	<u>¥2,058</u>	<u>\$16,975</u>	

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

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

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
	2019	2019
2020	¥764	\$6,884
2021	404	3,640
2022	291	2,622
2023	199	1,793
2024 and thereafter	226	2,036

Year ending 31 March	Millions of yen
	<u>2018</u>
2019	¥915
2020	618
2021	258
2022	153
2023 and thereafter	114

B. Operating leases

(a) As lessee

There were no future lease payments under non-cancelable operating leases at 31 March 2019 and 2018.

(b) As lessor

Future lease receivables under non-cancelable operating leases at 31 March 2019 were ¥298 million (\$2,685 thousand) including ¥32 million (\$288 thousand) due within one year.

Future lease receivables under non-cancelable operating leases at 31 March 2018 were ¥340 million including ¥42 million due within one year.

25. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income (losses) for the years ended 31 March 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding gains (losses) on available-for-sale securities:			
Amount for the year	¥(2,108)	¥1,656	\$(18,993)
Reclassification adjustment	(4,429)	(1,207)	(39,904)
Amount before tax effect	(6,537)	449	(58,897)
Tax effect amount	1,871	(170)	16,858
Net unrealized holding gains (losses) on available-for-sale securities	(4,666)	279	(42,039)
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	(1,380)	(562)	(12,433)
Reclassification adjustment	545	557	4,910
Amount before tax effect	(835)	(5)	(7,523)
Tax effect amount	253	2	2,279
Net unrealized gains (losses) on hedging derivatives	(582)	(3)	(5,244)
Remeasurements of defined benefit plans:			
Amount for the year	(639)	(122)	(5,757)
Reclassification adjustment	408	645	3,676
Amount before tax effect	(231)	523	(2,081)
Tax effect amount	70	(160)	630
Remeasurements of defined benefit plans	(161)	363	(1,451)
Total other comprehensive income (losses)	¥ (5,409)	¥ 639	\$(48,734)

26. PER SHARE DATA

Amounts per share at 31 March 2019 and 2018 and for the years then ended were as follows:

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share	¥11,204.81	¥11,346.27	\$100.95
Net income per share	233.72	308.70	2.11
Diluted net income per share	225.15	276.91	2.03

Amounts per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2019	2018	2019
Net assets per share:			
Total net assets	¥200,944	¥203,378	\$1,810,470
Amount to be deducted from total net assets	209	203	1,883
Stock acquisition rights	209	203	1,883
Net assets at the end of the fiscal year attributed to common stock	200,735	203,175	1,808,587
Number of shares of common stock at the end of the fiscal year used in computing net assets per share attributed to common stock	17,915	17,907	
Net income per share:			
Net income attributable to owners of parent	4,187	5,523	37,724
Net income attributable to owners of parent attributed to common stock	4,187	5,523	37,724
Average number of shares of common stock during the year	17,913	17,893	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share	682	2,054	
Convertible bond-type bonds with stock acquisition rights	635	2,011	
Compensation-type stock option	47	43	

27. SEGMENT INFORMATION

(1) Reportable segment information

a. Description of reportable segments

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

The principal business of the Group is financial services primarily focused on domestic commercial banking business. The Group's business consists of segments classified by type of financial services and has two reportable segments: "Commercial banking business" and "Leasing business."

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

"Leasing business" consists of leasing, and computer processing contracted business.

Although the Group had previously omitted the reportable segment information, since its reportable segment consisted solely of "Commercial banking business," the Bank has changed the reportable segments to "Commercial banking business" and "Leasing business" from the year ended 31 March 2019, since the Group's leasing business had become material in terms of volume. Following this change, the reportable segment information for the year ended 31 March 2018 is stated based on the reportable segments after the change.

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “SIGNIFICANT ACCOUNTING POLICIES.”

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

Intersegment income is based on the prevailing market price.

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

	2019						
	Millions of yen						
	Reportable Segment			Others	Total	Adjustments	Consolidated
	Commercial Banking	Leasing	Total				
Ordinary income:							
Income from external customers	¥43,423	¥3,997	¥47,420	¥1,100	¥48,520	¥—	¥48,520
Intersegment income	289	332	621	413	1,034	(1,034)	—
Total	¥43,712	¥4,329	¥48,041	¥1,513	¥49,554	¥(1,034)	¥48,520
Segment profit (loss)	6,421	(151)	6,270	294	6,564	(235)	6,329
Segment assets	3,507,704	12,026	3,519,730	9,793	3,529,523	(20,103)	3,509,420
Segment liabilities	3,311,196	7,987	3,319,183	4,246	3,323,429	(14,953)	3,308,476
Other items:							
Depreciation	1,886	53	1,939	1	1,940	—	1,940
Interest income	30,990	0	30,990	54	31,044	(264)	30,780
Interest expense	1,237	31	1,268	2	1,270	(31)	1,239
Provision for income taxes	1,874	55	1,929	137	2,066	—	2,066
Increase in premises and equipment and intangible assets	1,530	—	1,530	—	1,530	10	1,540

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

2. “Others” are business segments not included in the reportable segments, and include credit card business and credit guarantee business.
3. “Adjustments” are as follows.
 - (1) The adjustments for segment profit (loss) were primarily elimination of intersegment transactions.
 - (2) The adjustments for segment assets were primarily elimination of intersegment transactions and adjustments for net defined benefit assets.
 - (3) The adjustments for segment liabilities were primarily elimination of intersegment transactions and adjustments for net defined benefit liability.
 - (4) The adjustments for interest income were primarily elimination of intersegment transactions.
4. Segment profit (loss) is adjusted with ordinary profit in the consolidated statements of income.

2018							
Millions of yen							
	Reportable Segment			Others	Total	Adjustments	Consolidated
	Commercial Banking	Leasing	Total				
Ordinary income:							
Income from external customers	¥41,895	¥4,144	¥46,039	¥1,133	¥47,172	¥(3)	¥47,169
Intersegment income	60	457	517	390	907	(907)	—
Total	41,955	4,601	46,556	1,523	48,079	(910)	47,169
Segment profit (loss)	8,020	(131)	7,889	405	8,294	(11)	8,283
Segment assets	3,554,547	11,411	3,565,958	10,028	3,575,986	(19,154)	3,556,832
Segment liabilities	3,355,952	7,162	3,363,114	4,507	3,367,621	(14,167)	3,353,454
Other items:							
Depreciation	2,017	48	2,065	1	2,066	(2)	2,064
Interest income	31,242	1	31,243	60	31,303	(36)	31,267
Interest expense	1,251	29	1,280	2	1,282	(27)	1,255
Provision for income taxes	2,329	62	2,391	178	2,569	(24)	2,545
Increase in premises and equipment and intangible assets	2,162	152	2,314	—	2,314	16	2,330

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

2. “Others” are business segments not included in the reportable segments, and include credit card business and credit guarantee business.

3. “Adjustments” are as follows.

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

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

2019							
Thousands of U.S. dollars							
Reportable Segment							
Commercial							
	Banking	Leasing	Total	Others	Total	Adjustments	Consolidated
Ordinary income:							
Income from external customers	\$391,233	\$36,012	\$427,245	\$9,911	\$437,156	\$—	\$437,156
Intersegment income	2,604	2,991	5,595	3,721	9,316	(9,316)	—
Total	\$393,837	\$39,003	\$432,840	\$13,632	\$446,472	\$(9,316)	\$437,156
Segment profit (loss)	57,852	(1,360)	56,492	2,648	59,140	(2,117)	57,023
Segment assets	31,603,784	108,352	31,712,136	88,233	31,800,369	(181,124)	31,619,245
Segment liabilities	29,833,282	71,961	29,905,243	38,256	29,943,499	(134,724)	29,808,775
Other items:							
Depreciation	16,992	478	17,470	9	17,479	—	17,479
Interest income	279,214	0	279,214	487	279,701	(2,379)	277,322
Interest expense	11,145	279	11,424	18	11,442	(279)	11,163
Provision for income taxes	16,884	496	17,380	1,235	18,615	—	18,615
Increase in premises and equipment and intangible assets	13,785	—	13,785	—	13,785	90	13,875

(2) Other segment-related information

a. Information by service

Information by service for the years ended 31 March 2019 and 2018 was as follows:

2019				
Millions of yen				
	Banking	Securities investment	Other	Total
Ordinary income from external customers	¥17,624	¥17,605	¥13,291	¥48,520
2018				
Millions of yen				
	Banking	Securities investment	Other	Total
Ordinary income from external customers	¥17,816	¥15,964	¥13,389	¥47,169
2019				
Thousands of U.S. dollars				
	Banking	Securities investment	Other	Total
Ordinary income from external customers	\$158,789	\$158,618	\$119,749	\$437,156

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

b. Information by geographic region

i. Ordinary income

Information on ordinary income from domestic customers for the years ended 31 March 2019 and 2018 was omitted, because the amount of ordinary income from domestic customers was more than 90% of consolidated ordinary income.

ii. Premises and equipment

Information on premises and equipment for the years ended 31 March 2019 and 2018 was omitted, because there were no premises and equipment located abroad.

c. Major customers' segment information

Segment information on major customers was not shown for the years ended 31 March 2019 and 2018, 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

		2019				
		Millions of yen				
		Reportable Segment				
		Commercial				
		Banking	Leasing	Total	Others	Total
Impairment losses		¥76	¥—	¥76	¥—	¥76

		2018				
		Millions of yen				
		Reportable Segment				
		Commercial				
		Banking	Leasing	Total	Others	Total
Impairment losses		¥181	¥—	¥181	¥—	¥181

		2019				
		Thousands of U.S. dollars				
		Reportable Segment				
		Commercial				
		Banking	Leasing	Total	Others	Total
Impairment losses		\$685	\$—	\$685	\$—	\$685

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 2019 and 2018.

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

There is no information to be reported on gain on negative goodwill for the years ended 31 March 2019 and 2018.

28. 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 2019

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance at 31 March 2019
Executive officer and close family members	Mizuhiko Yoshida	Corporate Director and Audit & Supervisory Committee Member of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥21 million (\$189 thousand)

For the year ended 31 March 2018

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

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

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

There is no significant transaction to be disclosed between the Bank's consolidated subsidiaries and related parties for the years ended 31 March 2019 and 2018.

(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 2019 and 2018.

29. SUBSEQUENT EVENTS

Cash dividends

On 21 June 2019, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2019:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35 (\$0.32) per share for year-end)	¥627	\$5,649



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Bank of Iwate, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March, 2019 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, 2019
Tokyo, Japan

KPMG AZSA LLC.

