Annual Report 2020

THE BANK OF IWATE, LTD.

1. Management Policy

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

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

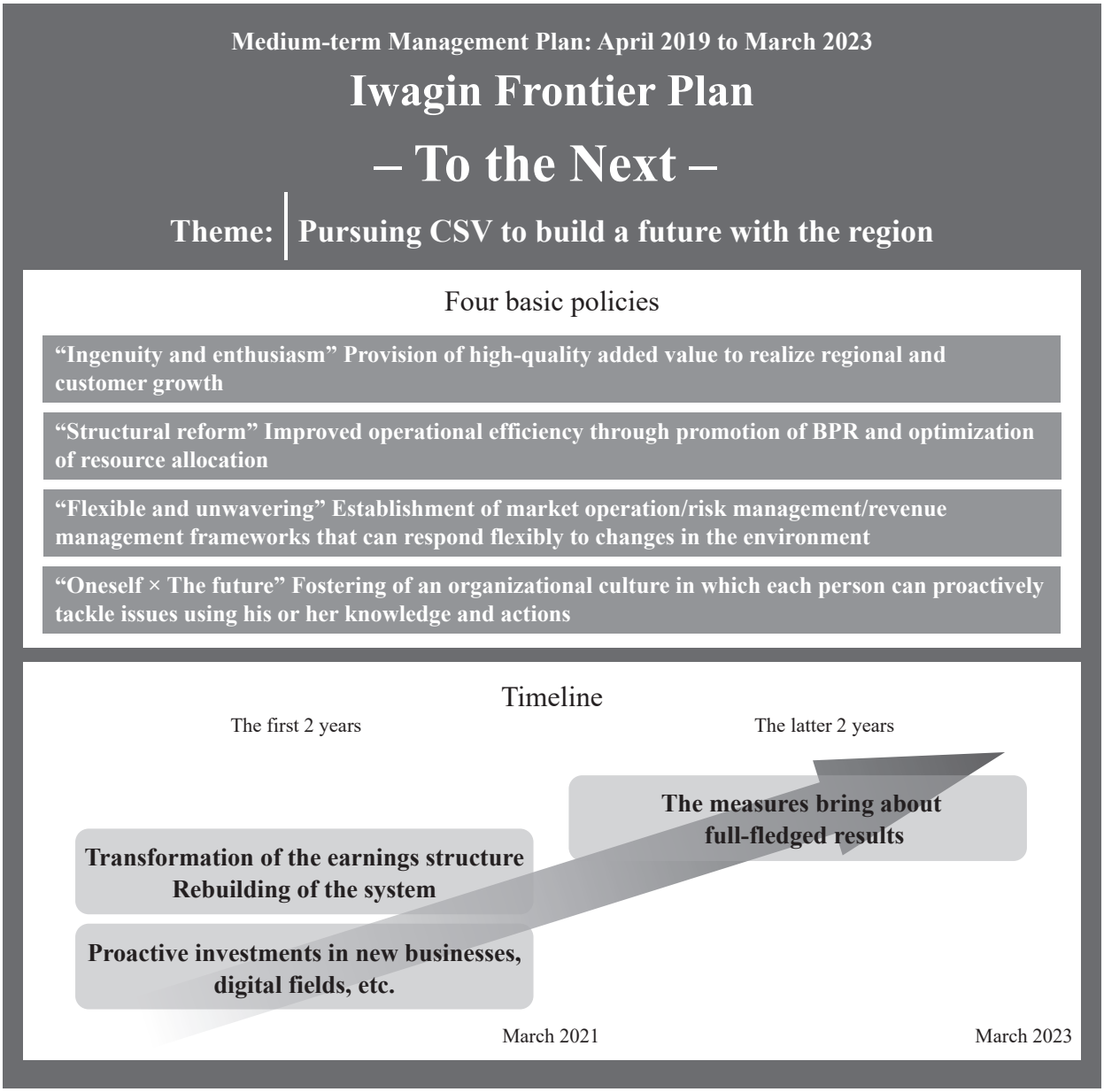
2. Overview of the Medium-term Management Plan

(1) Overview of the Medium-term Management Plan

In April 2019, after the accomplishment of our long-term vision, we launched our new medium-term management plan "Iwagin Frontier Plan – To the Next" (the "Plan") as a preparation period toward the future. "To the Next" embodies our desire of paving a path for the next generation of the regional community and the Bank through various initiatives to solve issues facing the region.

The theme of the Plan is "pursuing CSV to build a future with the region." CSV stands for "Creating Shared Value," and represents the creation of common values. This is the notion that, by making efforts to address social needs and issues, social values are created, and at the same time, economic values are created. In other words, as the Bank's CSV, it means "by making efforts to strengthen our relationships with customers, confronting issues facing our region head-on, and endeavoring to resolve them, we can enhance social and economic values for both the region and the Bank." Under the Plan, we will fulfill our ideal of "co-prosperity" with the region by giving shape to this theme.

The Plan covers the four years from April 2019 to March 2023. For the first two years of the Plan, we have been moving ahead with BPR and reorganization of our branches as part of the management structure reinforcement project which began under the previous medium-term management plan, the transformation of the Bank's earnings structure including reviewing the sales structure together with the rebuilding of the system, as well as promoting the creation of new business domains and digital strategies to revitalize the regional economy ahead of schedule. The latter two years of the Plan have been designated as the period to respond to various possible changes in the environment as well as reaping full-fledged profits and results generated from the measures which were carried out in the first two years of the Plan, such as the transformation of the earnings structure and the creation of new business domains.



(2) Progress of the Medium-term Management Plan

The Plan has set the four principal target indicators, including the profitability indicator of "consolidated net income," the efficiency indicator of "OHR," the management soundness indicator of "consolidated capital ratio," and the challenging indicator of "Business succession/M&A support recipients" to proactively address and solve issues facing the region and realize CSV.

In FY2019, the first year of the Plan, while we failed to achieve the targeted consolidated net income due to reporting impairment losses on our shareholdings as a result of the decline in share prices at the fiscal year-end, we were able to achieve our targets for OHR, the consolidated capital ratio, and business succession/M&A support recipients.

Indicator	FY2019 targets	FY2019 results	FY2022 (final year of the Plan) targets
Consolidated net income	¥4.0 billion	¥3.7 billion	¥5.0 billion
OHR	81.4%	76.8%	70% levels
Consolidated capital ratio	Lower 12% levels	12.1%	Over 10%
Business succession/ M&A support recipients	600	618	2,400 *Accumulated total plan period

3. Issues to be addressed

We believe the first two years are especially crucial in the timeline of the Plan, and we are strengthening initiatives in the following areas in particular to reap profits and results in the latter two years of the Plan generated from the measures carried out in the first two years.

(1) Transformation of the earnings structure and rebuilding of the system

Since October 2017, the Bank, under the Management Structure Reinforcement Project, has been carrying out initiatives to strengthen its management structure, namely BPR for our Head Office and business branches and reorganization of the branches. The BPR for our Head Office and business branches consists of streamlining and re-allocating its personnel, according to each business operation. As for the reorganization of its branches, 20 designated branches will be consolidated or downsized, using the branch-within-a-branch format during the project period (from October 2017 to March 2023). The project has also been promoting cost structure reforms.

The project, including BPR, branch reorganization and cost structure reforms, is designed to generate a number of sales staff by improving operational efficiency and productivity, thereby increasing contact points with our customers and reinforcing profitability, while at the same time optimizing the cost structure in order to build a management structure that will support the region under any circumstances going forward. This project is the main pillar of the Plan, and is intended to prevent a further decline in revenues expected as a result of the continuing low-interest-rate environment by strengthening the Bank's sales capabilities through securing a number of sales staff, while ensuring the targeted profits in the final year of the Plan by reviewing the cost structure.

(2) Proactive initiatives into new businesses, digital fields, etc.

In terms of the creation of new business domains to revitalize the region, in April 2020, we established the wholly-owned, Iwagin consulting Co., Ltd., to provide business succession support services, including business succession measures and M&A support, as well as management support services, including support in formulating business strategies and management plans and the referral of core personnel; and the wholly-owned, manorda Iwate Co., Ltd. to provide regional trading company services that will contribute to regional revitalization in cooperation with regional business owners and local governments, in addition to services to support sales channel expansion and branding of our customers.

Iwagin consulting aims to strengthen and upgrade its financial intermediation functions by consolidating the Group's consulting functions and developing dedicated talent. It will provide meticulous consulting services including business succession measures, measures to secure necessary manpower, human resources and labor measures, and the formulation of management plans, to address the various management issues facing our corporate customers.

manorda Iwate aims to encourage regional revitalization and the creation of industries by entering new business domains and establish a sustainable business model, while at the same time enhance the sustainability of the regional communities by engaging in social impact businesses that are linked to the SDGs and CSV measures. For the time being, we will work to revitalize the primary sector, Iwate prefecture's key industry, disseminate information on the prefecture's traditional industries, develop regionally branded products in collaboration with local designers and creators, and promote the development and creation of thriving communities.

Furthermore, our lifestyles are changing as seen for example in the widespread use of smartphones and the influx of different industries harnessing digital technologies into the finance sector, heralding an age where customers seek quicker and more convenient financial services. The Bank has also taken such changes in the environment into consideration and has pressed forward with services that offer customer-oriented interface (contact points) and channels as well as highly-satisfying services in line with diverse lifestyles and tastes, to win over customers who tend not to visit the Bank in person, in addition to our existing customers.

(3) Developing a structure in which every employee can play an active role

In terms of human resources development, we consider training and retention of our young employees who will lead the future of the Bank as an essential task. We have adopted training measures to promptly make our young employees work-ready, as well as promoting initiatives to improve retention through the enhancement of engagement. Also, in light of the increasing diversification of services, we are considering career design seminars for specialists to fill the need for talent equipped with profound expertise and know-how to provide such services as life-planning, consulting, and FinTech to our customers.

As part of efforts to develop an environment in which every employee can play an active role, we started the flextime system from April 2020 to improve productivity, reduce working hours and support "work-life balance," including the time for child-rearing, nursing and receiving medical treatment, through the independent and efficient allocation of working hours by the employees themselves. Also, from the standpoint of effecting change in the corporate culture such as going paperless and encouraging cross-divisional communication, we are in the midst of adopting a free-address office where employees don't have a fixed space at work.

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

The Bank has been monitoring the business conditions of our corporate customers who have been affected by the spread of COVID-19. The impact of COVID-19 on the business of our corporate customers has become increasingly severe, with the decline in consumption and inbound demand from visitors to Japan due to self-quarantine and suspension of imports of raw materials and other supplies from overseas. This impact extends not only to the restaurant and tourism industries, but also a wide range of industries.

Given that the pressing issue for our corporate customers who have been impacted by COVID-19 is cash flow, i.e. to secure the necessary working capital for the time being, the Bank's highest priority right now is to provide them financing support. Specifically, in addition to providing special financing which is substantially interest-free and unsecured, we have established a special lending system from our own funds to respond to our customers' wide range of financing needs, as well as waiving fees on the modification of loan terms, necessitated by the impact of COVID-19.

We have also established a cross-divisional Regional Support Team to provide comprehensive support, including the maintenance and recovery of sales channels in addition to financing, as well as holding free online consultation sessions regarding Employment Adjustment Subsidies for corporate customers who have been forced to cut back business activities and have concerns over maintaining the employment of their employees under the COVID-19 pandemic.

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 ¥16.2 billion from the previous fiscal year-end to ¥3,201.3 billion (US$29,416.4 million). This was attributable to a decrease in public deposits and deposits by corporate clients, despite an increase in deposits by individuals.

The fiscal year-end balance of assets under management posted a decrease of ¥14.5 billion from the previous fiscal year-end to ¥319.2 billion (US$2,933.0 million), due to a decrease in investment trusts, despite increases in insurances and public bonds.

Loans

The fiscal year-end balance of loans increased by ¥20.0 billion from the previous fiscal year-end to ¥1,815.0 billion (US$16,678.2 million). This was attributable to increases in loans to SMEs and individuals, despite a decrease in loans to local governments.

Securities

The value of total securities decreased by ¥18.9 billion from the previous fiscal year-end to ¥1,200.1 billion (US$11,028.0 million). This was attributable to a decrease in national government bonds, investment trusts, and others under management.

Cash Flow Analysis

Net cash used in operating activities was a net outflow of ¥19.8 billion (US$182.7 million) in the current fiscal year, while net cash of ¥73.0 billion was used in the previous fiscal year. This was due to an increase in loans, as well as a decrease in net cash resulting from a decrease in deposits, etc. in both the previous and current fiscal years.

Net cash used in investing activities was a net outflow of ¥1.2 billion (US$10.6 million), while net cash of ¥70.5 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 the previous fiscal year, while the proceeds from sale and redemption of securities fell below the acquisition of securities in the current fiscal year.

Net cash used in financing activities was a net outflow of ¥2.5 billion (US$23.1 million) in the current fiscal year, while net cash of ¥12.8 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 previous fiscal year, and acquisition of treasury stock in the current fiscal year.

As a result of the above, the fiscal year-end balance of cash and cash equivalents decreased by ¥23.5 billion from the previous fiscal year-end to ¥369.8 billion (US$3,397.9 million).

Business Performance

Earnings

Total income decreased by ¥3.2 billion from the previous fiscal year to ¥45.3 billion (US$416.5 million). This was mainly attributable to a decrease in interest income including interest and dividends on securities as well as a decrease in other income including gain on sale of stocks and other securities.

Total expenses decreased by ¥2.2 billion from the previous fiscal year to ¥40.1 billion (US$368.4 million). This was mainly due to a decrease in provision of allowance for doubtful accounts, despite an increase in other expenses such as loss on devaluation of stocks and other securities, as a result of the sharp decline in share prices at the fiscal year-end due to the impact of COVID-19.

As a result, income before income taxes decreased by ¥1.0 billion from the previous fiscal year to ¥5.2 billion (US$48.1 million). Net income attributable to owners of parent decreased by ¥0.4 billion from the previous fiscal year to ¥3.8 billion (US$34.8 million).

Capital Ratio

The capital ratio declined 0.14 percentage points from the previous fiscal year-end to 12.10% on a consolidated capital adequacy basis and by 0.12 percentage points from the previous fiscal year-end to 11.75% 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.

Corporate Governance

■ 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 fourteen Directors, including ten Directors who are not serving as Audit & Supervisory Committee Members, three of whom are Outside Directors, and four Directors serving as Audit & Supervisory Committee Members, three of whom are Outside Directors. Outside Directors currently account for 42.8% of the Board of Directors. Additionally, two female Outside Directors have been appointed.

■ Audit & Supervisory Committee

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

■ Executive Committee and Compliance Committee

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

■ Nomination and Compensation Advisory Committee

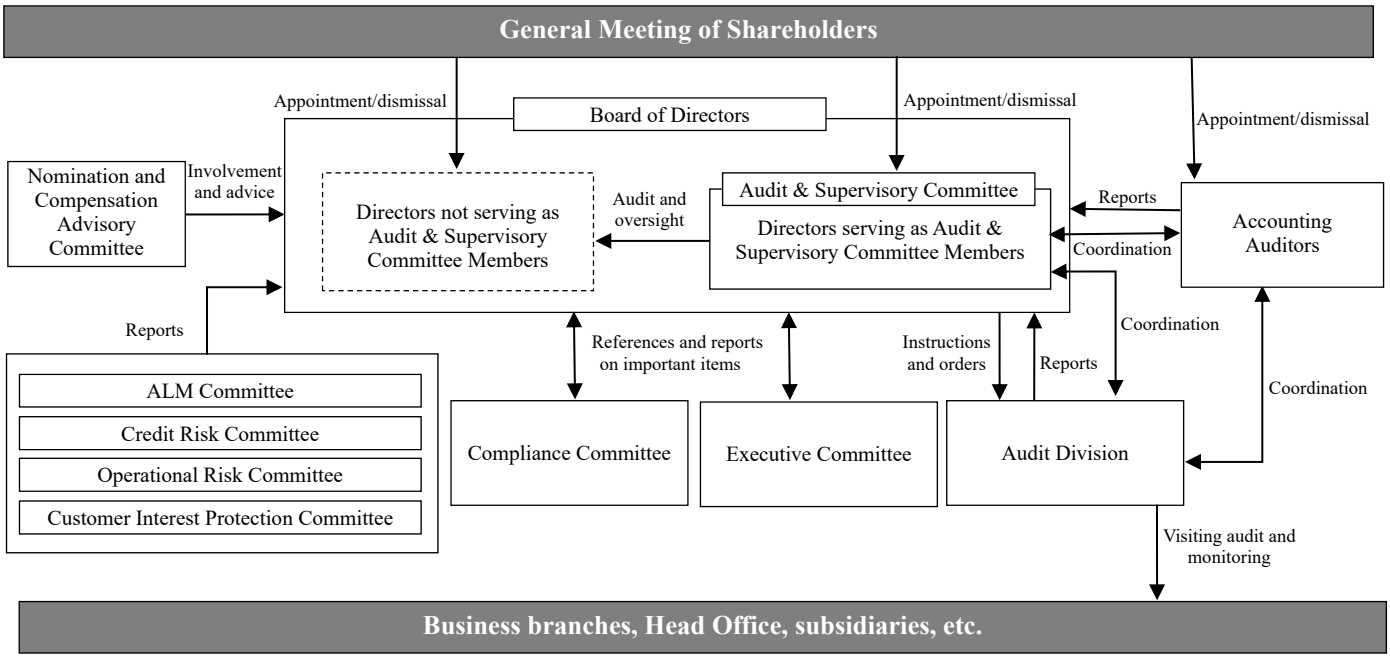
The Nomination and Compensation Advisory Committee has been established as an advisory body to the Board of Directors to improve the transparency and objectivity regarding decisions on the nomination and compensation of Directors. The Bank stipulates that the Nomination and Compensation Advisory Committee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

■ **Enrichment of information disclosure activities**

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

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

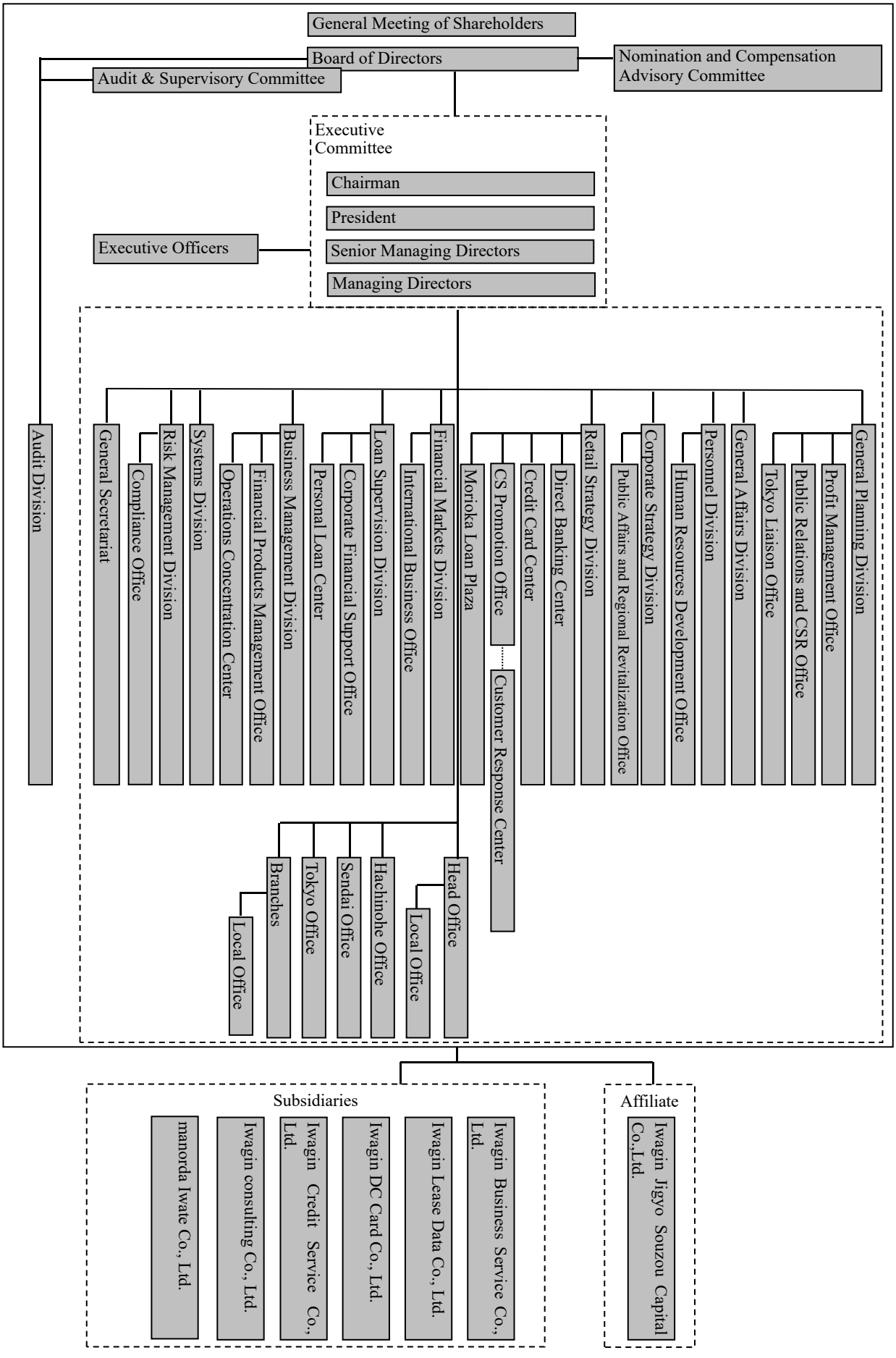
［Corporate governance structure］



・Board of Directors (As of July 1, 2020)

Chairman	Masahiro Takahashi	**President**	Sachio Taguchi
Senior Managing Director	Motomu Sato	**Managing Director (General Manager of General Planning Division)**	Yasushi Sasaki
Managing Director	Kensei Ishikawa	**Managing Director (General Manager of Personnel Division)**	Yasutaka Kakiki
Managing Director	Shinji Niisato	**Director (Outside Director)**	Atsushi Takahashi
Director (Outside Director)	Fumio Ube	**Director (Outside Director)**	Atsushi Miyanoya
Director serving as an Audit & Supervisory Committee Member	Yuji Chiba	**Director serving as an Audit & Supervisory Committee Member (Outside Director)**	Shinobu Obara
Director serving as an Audit & Supervisory Committee Member (Outside Director)	Etsuko Sugawara	**Director serving as an Audit & Supervisory Committee Member (Outside Director)**	Masakazu Watanabe
Managing Executive Officer / General Manager of Sendai Office	Katsuhiro Kawamura	**Executive Officer / General Manager of Tokyo Office**	Toru Iwayama
Executive Officer / General Manager of Kitakami Branch and Kitakami Ekimae Branch	Satoshi Ito	**Executive Officer / General Manager of Head Office**	Shinei Kishi
Executive Officer / General Manager of Financial Markets Division	Shinichi Matsumoto	**Executive Officer / General Manager of Audit Division**	Shuichi Fujisawa

・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 consulting Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	100	Business succession support, Management support, Personnel consulting	April 1, 2020	100%	0%
manorda Iwate Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	70	Sales channel expansion support, Regional revitalization support	April 1, 2020	100%	0%
Iwagin Jigyo Souzou Capital Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	50	Investment fund management	April 1, 2015	40%	0%

Efforts towards SDGs

■Iwagin Group SDGs Declaration

The Bank supports the objectives of the Sustainable Development Goals (SDGs) to be achieved by global society for a more sustainable future and established the "Iwagin Group SDGs Declaration" in September 2019 to further contribute to the achievement of the SDGs.

The Bank strives to realize a sustainable regional community by engaging in initiatives to solve regional issues through its banking activities as part of its Corporate Social Responsibility (CSR) and Creating Shared Value (CSV) activities, as well as rolling out corporate activities that give due consideration to society and the environment. These efforts by the Bank align with the basic philosophy "leaving no one behind" of the SDGs which aims to realize a society that is sustainable, diverse, and inclusive.

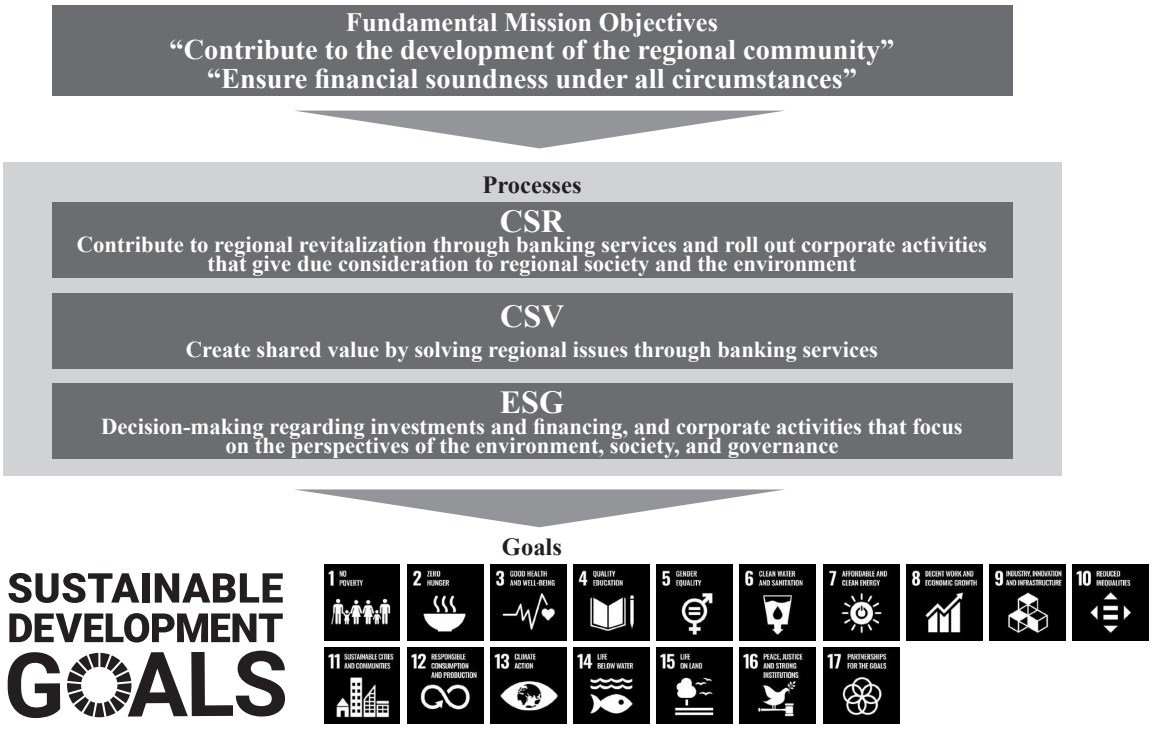
The Bank considers the SDGs to be one of the ultimate goals beyond its CSR, CSV, and ESG efforts (processes) and is committed to making group-wide efforts for the realization of a sustainable regional community.

*ESG: ESG, taking the first letters of Environment, Social and Governance, is a concept that stresses the importance of corporate responses to environmental, social and governance issues in the sustainable growth of a company.

Iwagin Group SDGs Declaration
The Iwagin Group, under its management philosophy of contributing to the development of the regional community and ensuring financial soundness under all circumstances, will make proactive efforts to solve the social and environmental issues facing the region towards achieving a sustainable future and contribute to the achievement of the Sustainable Development Goals (SDGs) adopted by the United Nations.

■Flow Chart of Efforts toward SDGs

Our fundamental mission objectives of contributing to the development of the regional community and ensuring financial soundness under all circumstances will serve as the cornerstone of all our activities as we strive to contribute to the achievement of the SDGs through our CSR, CSV, and ESG efforts.



■Priority Themes

"Prosperous Life"

We will contribute to realizing a sustainable regional community by solving issues facing regional society through the provision of various financial services and products.

"Abundant Nature"

We will contribute to the preservation and improvement of the region's rich natural environment through efforts to promote use of renewable energy by utilizing regional resources and nature conservation activities.

"Healthy Mind"

We will foster the "minds" of future generations and contribute to improving the people's financial literacy through financial education activities and efforts to support culture and sports.

"Governance"

We will strive to enhance the transparency of our management while making efforts to provide an environment in which every employee can play an active role.

■Initiatives for the Priority Themes

Prosperous Life

○ Supporting our corporate customers in solving issues through an understanding of business feasibility

"Understanding business feasibility" refers to the support provided to improve the corporate value of our corporate customers, upon fully understanding their business, challenges, and growth potential. By raising the corporate value of our corporate customers, we will raise the general level of the industries of the regional economy, the aggregate of our corporate customers.

○ Business succession/M&A support

Many of the business operators in the region are facing generation changes and business succession and M&As have become pressing but familiar management issues. We are facilitating the business succession and M&As of our corporate customers while at the same time supporting the development of the next generation of business managers.

Iwagin Next-generation Management School

○ Entrepreneurship and start-up support

Iwate Prefecture has seen both a decrease in the number of business establishments and employees and an increase in the outflow of college graduates to other prefectures. We are proactively supporting initiatives for entrepreneurs, start-ups, and the development of new businesses that will create local jobs and revitalize the regional economy.

Liaison-I R&D Commercialization Development Fund

○ Initiatives for regional revitalization

Under the partnership agreement for regional revitalization with the local governments in Iwate Prefecture, we have been making every effort to cooperate with each other to create virtuous cycles of regional "work" and "people," and revitalize the "towns" that support these movements.

Abundant Nature

○ Initiatives to popularize the use of renewable energy

Since the Great East Japan Earthquake, the use of renewable energy as clean energy has become increasingly important. We are supporting the popularization and the expanded use of renewable energy utilizing abundant natural resources in Iwate Prefecture which has an area second only to Hokkaido.

Supporting smart agriculture (basil cultivation) utilizing IoT technology and geothermally-heated water (In Hachimantai City)

○ Initiative to protect the natural environment of the region and enhance the regional brand

We have a "Lacquer Forest Building Partnership Agreement" with Ninohe City, acquiring and managing the Bank's own lacquer forest in Ninohe, as a partner company. Ninohe is a major producing area of lacquer and produces 70% of lacquer in Japan. The Bank supports the "securing the stable supply of lacquer trees" and the "maintenance and the enhancement of the regional brand."

Additionally, we plant lacquer trees with local junior high school students and provide opportunities for experiencing the abundance of nature and culture of the region.

Healthy Mind

○ Financial education activities

The Bank is visiting the local elementary schools with the local hero character, "Tetsujin (Iron Hero), Ganriser" and conducting "visiting lectures on money basics," as well as airing mini-programs on financial education on TV.

We are also conducting financial education activities suited to each age group such as accepting workplace visits by the local junior high school students, visiting high school students to conduct financial education classes, and providing endowed lectures at universities.

○ Promotion of sports

Through the co-sponsorship of professional sports teams in Iwate Prefecture, we are proactively promoting sports for the young people of the region by inviting local children to the games, in addition to hosting competitions.

○ The Bank of Iwate Red Brick Building

We have opened to the public the Bank's former head office main building on Nakanohashi Dori in Morioka City as "The Bank of Iwate Red Brick Building" from July 2016. Visitors can view the architectural style of the Meiji era as well as the various historical displays. The Bank of Iwate Red Brick Building is also used for concerts and exhibitions and is contributing to the creation of a thriving regional community.

○ Promoting women's active participation

We are making efforts to provide a better working environment in which every employee can play an active role. Among these efforts, we are striving to promote women's active participation by providing a comfortable workplace for women through the holding of various training workshops for female employees and offering return-to-work support through seminars to support employees on childcare leave.

We are also proactively supporting the promotion of women to managerial positions and their career advancement, and we have received the "Eruboshi" (the highest 3rd grade) certification under the Act on Promotion of Women's Participation and Advancement in the Workplace.

Seminar to support employees on childcare leave

○ Supporting the balance of work and childrearing

To support employees to balance their work and childrearing, the Bank has established and operates childcare services within its premises in cooperation with Iwate University. This childcare center has been named "Ganchan Sukusuku Nursery" after "Ganchan," the character symbolizing both Iwate University and the Bank.

The Bank has also been certified a "Platinum Kurumin" operator by the Ministry of Health, Labour and Welfare, in recognition for "the ratio of the total number of employees taking childcare leave to the number of male employees whose spouses had given birth" and the "ratio of female employees taking childcare leave."

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

○ Transparency of management

In an effort to enhance the transparency of management and to strengthen the supervisory functions of the Board of Directors, the Bank transitioned to a company with Audit & Supervisory Committee in June 2018 and has been making efforts to further reinforce its governance. As of March 31, 2020, the ratio of Outside Directors to the total number of Directors of the Board was 42.8% and two female Outside Directors had been appointed.

Consolidated Balance Sheets

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2020	2019	2020
Cash and due from banks (Notes 3 and 6)	¥370,821	¥394,250	$3,407,342
Monetary claims bought (Note 6)	4,840	5,631	44,473
Money held in trust (Notes 5 and 6)	10,750	12,775	98,778
Securities (Notes 4, 6, 8 and 15)	1,200,178	1,219,001	11,028,007
Loans and bills discounted (Notes 6, 7, 9 and 27)	1,815,084	1,795,100	16,678,159
Foreign exchange assets	3,934	2,159	36,148
Premises and equipment (Notes 11 and 23)	16,826	16,972	154,608
Intangible assets (Notes 12 and 23)	1,465	1,039	13,461
Net defined benefit asset (Note 16)	3,698	4,523	33,980
Deferred tax assets (Note 17)	493	422	4,530
Customers' liabilities for acceptances and guarantees (Note 15)	5,359	7,829	49,242
Other assets (Notes 6, 8 and 10)	64,050	62,629	588,532
Allowance for doubtful accounts (Note 6)	(11,960)	(12,910)	(109,896)
Total assets	¥3,485,538	¥3,509,420	$32,027,364
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 6, 8 and 13)	¥3,201,384	¥3,217,522	$29,416,374
Call money and bills sold (Note 6)	–	2,220	–
Payables under securities lending transactions (Notes 6 and 8)	–	6,514	–
Borrowed money (Notes 6 and 8)	56,553	42,404	519,645
Foreign exchange liabilities	4	0	36
Accrued bonuses for directors and corporate auditors	25	25	230
Net defined benefit liability (Note 16)	2,484	2,134	22,825
Retirement benefits for directors and corporate auditors	25	19	230
Provision for losses on reimbursement of dormant deposits	420	392	3,859
Provision for contingent losses	228	249	2,095
Deferred tax liabilities (Note 17)	2,355	8,160	21,639
Acceptances and guarantees (Note 15)	5,359	7,829	49,242
Other liabilities (Notes 6, 14 and 23)	29,245	21,008	268,722
Total liabilities	3,298,082	3,308,476	30,304,897
Net assets (Note 18):			
Common stock:			
Authorized — 49,450 thousand shares as at 31 March 2020 and 2019			
Issued and outstanding —18,498 thousand shares as at 31 March 2020 and 2019	12,090	12,090	111,091
Capital surplus	5,667	5,667	52,072
Retained earnings	156,688	154,162	1,439,751
Treasury stock, at cost	(3,906)	(2,946)	(35,891)
Total shareholders' equity	170,539	168,973	1,567,023
Net unrealized holding gains on available-for-sale securities (Note 4)	23,084	37,030	212,111
Net unrealized losses on hedging derivatives (Note 6)	(4,103)	(3,940)	(37,701)
Remeasurements of defined benefit plans (Note 16)	(2,289)	(1,328)	(21,033)
Total accumulated other comprehensive income	16,692	31,762	153,377
Stock acquisition rights (Note 19)	225	209	2,067
Total net assets	187,456	200,944	1,722,467
Total liabilities and net assets	¥3,485,538	¥3,509,420	$32,027,364

	Yen		U.S. dollars
	2020	2019	2020
Per share data:			
Net assets (Note 25)	¥10,644.27	¥11,204.81	$97.81

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥17,277	¥17,634	$158,752
Interest and dividends on securities	12,528	13,097	115,115
Other interest income	43	49	395
Fees and commissions	8,544	8,504	78,508
Other operating income (Note 20)	4,623	4,243	42,479
Other income (Note 22)	2,311	5,019	21,235
Total income	45,326	48,546	416,484
Expenses:			
Interest expenses:			
Interest on deposits	424	440	3,896
Interest on borrowings	91	237	836
Other interest expenses	550	562	5,054
Fees and commissions	3,304	3,245	30,359
Other operating expenses (Note 20)	5,385	5,219	49,481
General and administrative expenses (Note 21)	26,215	27,089	240,880
Other expenses (Note 22)	4,127	5,501	37,922
Total expenses	40,096	42,293	368,428
Income before income taxes	5,230	6,253	48,056
Provision for income taxes (Note 17)			
Current	965	2,391	8,867
Deferred	481	(325)	4,419
	1,446	2,066	13,286
Net income	3,784	4,187	34,770
Net income attributable to owners of parent	¥3,784	¥4,187	$34,770

	Yen		U.S. dollars
	2020	2019	2020
Per share data:			
Net income (Note 25)	¥212.50	¥233.72	$1.95
Diluted net income (Note 25)	211.86	225.15	1.95
Cash dividends applicable to the year (Note 28)	70.00	70.00	0.64

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net income	¥3,784	¥4,187	$34,770
Other comprehensive losses (Note 24):			
Net unrealized holding losses on available-for-sale securities	(13,946)	(4,666)	(128,145)
Net unrealized losses on hedging derivatives (Note 6)	(163)	(582)	(1,498)
Remeasurements of defined benefit plans (Note 16)	(961)	(161)	(8,830)
Total other comprehensive losses	(15,070)	(5,409)	(138,473)
Comprehensive losses	¥(11,286)	¥(1,222)	$(103,703)
Total comprehensive losses	¥(11,286)	¥(1,222)	$(103,703)
Attributable to:			
Owners of parent	(11,286)	(1,222)	(103,703)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2020 and 2019

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding losses on available-for-sale securities	Net unrealized losses on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive losses	Stock acquisition rights	Total net assets
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 the 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 the year	—	—	—	—	—	(4,666)	(582)	(161)	(5,409)	6	(5,403)
Total change during the year	—	—	2,926	43	2,969	(4,666)	(582)	(161)	(5,409)	6	(2,434)
BALANCE, 1 April 2019	12,090	5,667	154,162	(2,946)	168,973	37,030	(3,940)	(1,328)	31,762	209	200,944
Change during the year											
Cash dividends	—	—	(1,254)	—	(1,254)	—	—	—	—	—	(1,254)
Net income attributable to owners of parent	—	—	3,784	—	3,784	—	—	—	—	—	3,784
Acquisition of treasury stock	—	—	—	(987)	(987)	—	—	—	—	—	(987)
Disposal of treasury stock	—	—	(4)	27	23	—	—	—	—	—	23
Net changes in items other than stockholders' equity during the year	—	—	—	—	—	(13,946)	(163)	(961)	(15,070)	16	(15,054)
Total change during the year	—	—	2,526	(960)	1,566	(13,946)	(163)	(961)	(15,070)	16	(13,488)
BALANCE, 31 March 2020	¥12,090	¥5,667	¥156,688	¥ (3,906)	¥170,539	¥23,084	¥ (4,103)	¥ (2,289)	¥16,692	¥225	¥187,456

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding losses on available-for-sale securities	Net unrealized losses on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive losses	Stock acquisition rights	Total net assets
BALANCE, 1 April 2019	$111,091	$52,072	$1,416,540	$ (27,070)	$1,552,633	$340,255	$ (36,203)	$ (12,203)	$291,849	$1,920	$1,846,402
Change during the year											
Cash dividends	—	—	(11,523)	—	(11,523)	—	—	—	—	—	(11,523)
Net income attributable to owners of parent	—	—	34,770	—	34,770	—	—	—	—	—	34,770
Acquisition of treasury stock	—	—	—	(9,069)	(9,069)	—	—	—	—	—	(9,069)
Disposal of treasury stock	—	—	(36)	248	212	—	—	—	—	—	212
Net changes in items other than stockholders' equity during the year	—	—	—	—	—	(128,144)	(1,498)	(8,830)	(138,472)	147	(138,325)
Total change during the year	—	—	23,211	(8,821)	14,390	(128,144)	(1,498)	(8,830)	(138,472)	147	(123,935)
BALANCE, 31 March 2020	$111,091	$52,072	$1,439,751	$ (35,891)	$1,567,023	$212,111	$ (37,701)	$ (21,033)	$153,377	$2,067	$1,722,467

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes	¥5,230	¥6,253	$48,056
Adjustments to reconcile income before income taxes to net cash used in operating activities:			
Depreciation	1,690	1,940	15,529
Impairment losses	78	76	717
Increase (decrease) in allowance for doubtful accounts	(950)	3,648	(8,729)
Increase (decrease) in provision for contingent losses	(21)	23	(193)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(0)	(1)	(0)
(Increase) decrease in net defined benefit asset	(199)	3	(1,829)
Increase (decrease) in net defined benefit liability	(7)	(24)	(64)
Increase (decrease) in retirement benefits for directors and corporate auditors	5	0	46
Increase (decrease) in provision for losses on reimbursement of dormant deposits	29	(60)	266
Interest income	(29,848)	(30,780)	(274,262)
Interest expenses	1,065	1,239	9,786
Investment securities (gains) losses, net	296	(3,045)	2,720
(Increase) decrease in money held in trust	189	182	1,737
Foreign exchange (gains) losses, net	286	(807)	2,628
(Gains) losses on disposal of premises and equipment	13	1	119
Net (increase) decrease in loans and bills discounted	(19,984)	(42,441)	(183,626)
Net increase (decrease) in deposits	11,732	(123,098)	107,801
Net increase (decrease) in negotiable certificates of deposit	(27,870)	60,500	(256,087)
Net increase (decrease) in borrowed money	14,148	28,802	130,001
Net (increase) decrease in due from banks, excluding the Bank of Japan	(110)	(449)	(1,011)
Net (increase) decrease in call loans and others	791	(1,354)	7,268
Net increase (decrease) in call money and others	(2,220)	(118)	(20,399)
Net increase (decrease) in payables under securities lending transactions	(6,514)	2,380	(59,855)
Net (increase) decrease in foreign exchange assets	(1,775)	339	(16,310)
Net increase (decrease) in foreign exchange liabilities	4	(7)	37
Interest received	30,738	31,558	282,441
Interest paid	(1,132)	(1,371)	(10,402)
Other, net	6,518	(2,626)	59,892
Sub-total	(17,818)	(69,237)	(163,723)
Income taxes paid	(2,082)	(3,740)	(19,131)
Income taxes refunded	14	20	129
Net cash used in operating activities	(19,886)	(72,957)	(182,725)
Cash flows from investing activities:			
Acquisition of securities	(657,477)	(660,301)	(6,041,321)
Proceeds from sale of securities	44,801	30,230	411,660
Proceeds from redemption of securities	611,708	707,011	5,620,766
Increase in money held in trust	–	(5,000)	–
Decrease in money held in trust	1,816	–	16,687
Acquisition of premises and equipment	(1,237)	(1,156)	(11,366)
Proceeds from sale of premises and equipment	143	58	1,314
Payment for retirement of premises and equipment	(88)	(21)	(809)
Acquisition of intangible assets	(784)	(220)	(7,204)
Payment for asset retirement obligations	(38)	(63)	(349)
Net cash provided by (used in) investing activities	(1,156)	70,538	(10,622)

Consolidated Statements of Cash Flows (Continued)

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from financing activities:			
Redemption of subordinated bonds and corporate bonds with stock acquisition rights	—	(11,054)	—
Repayments of lease obligations	(275)	(485)	(2,527)
Cash dividends paid	(1,254)	(1,254)	(11,523)
Payment for acquisition of treasury stock	(987)	(4)	(9,069)
Proceeds from sale of treasury stock	0	0	0
Net cash used in financing activities	(2,516)	(12,797)	(23,119)
Effect of exchange rate changes on cash and cash equivalents	19	20	175
Net increase (decrease) in cash and cash equivalents	(23,539)	(15,196)	(216,291)
Cash and cash equivalents at the beginning of the year	393,331	408,527	3,614,178
Cash and cash equivalents at the end of the year (Note 3)	¥369,792	¥393,331	$3,397,887

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2020 and 2019

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Bank of Iwate, Ltd. (the "Bank") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan, its related accounting regulations and the Banking 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 as at 31 March 2020, which was ¥108.83 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

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

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

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

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

Trading account securities and other securities

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

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

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

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

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

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

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

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

Money held in trust

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

Derivatives and hedge accounting

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Bank defers recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related 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 the remaining maturity period. The effectiveness of a cash flow hedge is assessed on the basis of the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

As for the hedging transactions against currency exchange risks arising from assets and liabilities in foreign currencies, the Bank

applies deferred hedge accounting in accordance with the provisions of "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry 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 expense or income (exceptional method).

Depreciation and amortization methods

(1) Premises and equipment (excluding leased assets)

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

Buildings: 3-30 years

Equipment and furniture: 2-20 years

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

(2) Intangible assets (excluding leased assets)

The Bank and its consolidated subsidiaries (the "Group") amortize 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 normal and requiring attention is primarily calculated based on the amount of expected loss during the one-year period or the three-year period subsequent to the balance sheet date. The amount of expected loss is calculated based on the average loan loss ratio derived from the actual loan loss during the past one year or the past three years with necessary amendments such as future prospects.

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

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

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 its 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 using the benefit formula. The Bank has also set up retirement benefit trusts.

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

at the time the actuarial differences occur.

The consolidated subsidiaries adopt a simplified method, as allowed for small companies, which is to record retirement 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 inhabitant taxes. The provision for income taxes is computed based on the pretax income of the Bank and each of its consolidated subsidiaries with certain adjustments required for tax purposes.

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

Foreign currency translation

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

Appropriations of retained earnings

Under the Companies 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 28.

Amounts per share

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

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

“Revised Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, 31 March, 2020)

(1) Overview

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

Step1: Identify contracts with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

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

Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Application date

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

(3) Effects of the application of the standards

The Group is currently assessing the effects of these standards.

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

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

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

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

(1) Overview

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

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

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

(2) Application date

The Group will apply these accounting standards and guidances 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.

“Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, 31 March, 2020)

(1) Overview

The objective of the standard is to disclose an overview of accounting principles and procedures adopted when provisions of the related accounting standards are not clearly defined.

(2) Application date

The Group will apply the accounting standard from the end of the fiscal year ending 31 March 2021.

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, 31 March, 2020)

(1) Overview

The objective of the standard is to disclose information valuable for the users of the financial statements regarding accounting estimates for items that have risks of significantly affecting the financial statements of the following year, among those used in preparation of the current year financial statements.

(2) Application date

The Group will apply the accounting standard from the end of the fiscal year ending 31 March 2021.

Additional information

The effects of novel coronavirus disease (COVID-19) are extensive, and it is very difficult to estimate how COVID-19 will spread further or when it will be contained in the future. Significant accounting estimates affected by COVID-19 and assumptions that the Group used for the accounting estimates are as follows:

Allowance for doubtful accounts

We have prepared estimates for allowance for doubtful accounts based on the assumption that the economic effects of COVID-19 will last approximately one year and the credit risk of the Bank’s loans may be affected to a certain degree, but there is no significant effect on the consolidated financial statements for the year ended 31 March 2020. However, if there is a change in the circumstance of COVID-19 or its effects on the economic environment, there is a possibility that additional losses may be incurred in the consolidated financial statements for the following fiscal year and onwards.

3. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents. As at 31 March 2020 and 2019, 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
	2020	2019	2020
Cash and due from banks	¥370,821	¥394,250	$3,407,342
Less: Deposits in banks other than the Bank of Japan	(1,029)	(919)	(9,455)
Cash and cash equivalents	¥369,792	¥393,331	$3,397,887

4. SECURITIES

Securities held by the Group as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
National government bonds	¥210,187	¥239,026	$1,931,333
Local government bonds	375,118	342,427	3,446,825
Corporate bonds	318,719	300,691	2,928,595
Corporate stocks	36,351	44,848	334,017
Other securities	259,803	292,009	2,387,237
	¥1,200,178	¥1,219,001	$11,028,007

The securities placed under unsecured lending agreements, which borrowers have the right to sell or pledge in the amount of ¥59,100 million ($543,049 thousand) and ¥22,100 million as at 31 March 2020 and 2019, respectively, were included in national government bonds.

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as at 31 March 2020 and 2019:

(a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
As at 31 March 2020:	¥25,412	¥29,231	¥3,819	¥3,819	¥ –
As at 31 March 2019:	¥26,261	¥30,726	¥4,465	¥4,465	¥ –

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
As at 31 March 2020:	$233,502	$268,593	$35,091	$35,091	$ –

(b) Available-for-sale securities

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

	Millions of yen				
	Acquisition cost	Book value	Difference	Gain	Loss
As at 31 March 2020:					
Corporate stocks	¥20,122	¥35,132	¥15,010	¥16,091	¥(1,081)
Bonds	860,713	881,761	21,048	22,203	(1,155)
Other	250,811	247,859	(2,952)	4,494	(7,446)
	¥1,131,646	¥1,164,752	¥33,106	¥42,788	¥(9,682)
As 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)
	¥1,132,360	¥1,185,279	¥52,919	¥57,443	¥(4,524)

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
As at 31 March 2020:					
Corporate stocks	$184,894	$322,815	$137,921	$147,854	$(9,933)
Bonds	7,908,784	8,102,187	193,403	204,015	(10,612)
Other	2,304,613	2,277,488	(27,125)	41,294	(68,419)
	$10,398,291	$10,702,490	$304,199	$393,163	$(88,964)

B. There were no sales of held-to-maturity debt securities for the years ended 31 March 2020 and 2019.

Total sales of available-for-sale securities in the years ended 31 March 2020 and 2019 amounted to ¥44,801 million ($411,660 thousand) and ¥30,229 million, respectively. The related gains and losses amounted to ¥2,142 million ($19,682 thousand) and ¥485 million ($4,456 thousand), respectively, in 2020, and ¥4,508 million and ¥206 million, respectively, in 2019.

C. Available-for-sale securities written down for the year ended 31 March 2020 and 2019 amounted to ¥883 million ($8,114 thousand) and ¥27 million, respectively.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities (Note)	¥33,082	¥52,895	$303,979
Deferred tax liabilities	(9,998)	(15,865)	(91,868)
Net unrealized holding gains before interests adjustment	23,084	37,030	212,111
Amount equivalent to non-controlling interests	—	—	—
Net unrealized holding gains on available-for-sale securities	¥23,084	¥37,030	$212,111

Note: The amounts of ¥(24) million ($(221) thousand) and ¥(24) million, which are net unrealized holding 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 as at 31 March 2020 and 2019, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Shares	¥20	¥20	$184
Investments	1,123	860	10,319

5. MONEY HELD IN TRUST

Money held in trust as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Money held in trust for trading purposes:			
Carrying amount	¥10,750	¥12,775	$98,778
Realized losses included in earnings	(2)	—	(18)

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

b. Types of financial instruments and related risks

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

Loans are exposed to credit risks stemming from defaults of borrowers. The largest industrial category of loans as of the current fiscal year end was individuals, followed by local governments, financial industries and insurance industries, real estate industries and leasing industries, and loans are mostly distributed in each industry.

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 imposed unusual high

interest rates, as well as market liquidity risks where the Bank fails to raise funds owing to market shrinkage and is obliged to enter into unusual unfavorable transactions.

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

Furthermore, there are 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. The Audit Division strictly reviews the results 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 the Financial Markets Division.

d. Monitoring of market risks

(Interest rate risks)

The risks arising from fluctuations in interest rates are controlled using the ALM at the ALM committee, with reference to the discussion at the fund management meeting and interest rate analysis group, through monitoring and analysis of the 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 whether the quantities of its risk fall under a 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 the Risk Management Division to the management on a daily basis.

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

to the management on a regular basis.

(Derivative transactions)

In conducting derivative transactions, each division responsible for the 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 2020 was ¥25,392 million ($233,318 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 as at 31 March 2020 and 2019 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥370,821	¥370,821	¥394,250	¥394,250	$3,407,342	$3,407,342
Monetary claims bought	4,682	4,689	5,446	5,458	43,021	43,086
Money held in trust	10,750	10,750	12,775	12,775	98,778	98,778
Securities						
Held-to-maturity debt securities	22,264	26,075	22,262	26,715	204,576	239,594
Available-for-sale securities	1,164,752	1,164,752	1,185,279	1,185,279	10,702,490	10,702,490
Loans and bills discounted	1,815,084		1,795,100		16,678,159	
Allowance for doubtful accounts	(11,444)		(12,442)		(105,155)	
	1,803,640	1,804,838	1,782,658	1,787,916	16,573,004	16,584,012
Liabilities:						
Deposits	3,201,384	3,201,455	3,217,522	3,217,605	29,416,374	29,417,027
Call money and bills sold	—	—	2,220	2,220	—	—
Payables under securities lending transactions	—	—	6,514	6,514	—	—
Borrowed money	56,553	56,553	42,404	42,404	519,645	519,645
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	(100)	(100)	(154)	(154)	(919)	(919)
Derivative instruments qualifying for hedge accounting	(5,895)	(9,751)	(5,661)	(9,429)	(54,167)	(89,598)

(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 the 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 of loans and bills discounted. As for loans and bills with short-term settlement (within a year), their carrying amounts are supposed to approximate the fair value.

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

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

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. 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 as at 31 March 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Available-for-sale securities	¥13,162	¥11,460	$120,941
Monetary claims bought	158	185	1,452

(Note 3) Expected collections of assets and payments of liabilities with maturities as at 31 March 2020 and 2019 were as follows:

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

	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

	Thousands of U.S. dollars					
	2020					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks(*1)	$3,165,460	$—	$—	$—	$—	$—
Monetary claims bought	14,086	—	—	—	—	30,387
Securities						
Held-to-maturity debt securities	2,766	—	—	18,258	—	183,552
Mainly consists of the following:						
National bonds	—	—	—	18,258	—	183,552
Corporate bonds	2,766	—	—	—	—	—
Available-for-sale securities	1,652,090	1,463,512	1,556,290	1,341,882	2,999,798	996,876
Mainly consists of the following:						
National bonds	555,803	131,857	95,011	84,260	353,625	508,967
Local government bonds	202,398	51,567	276,082	786,199	1,793,623	336,956
Corporate bonds	439,511	836,258	710,999	153,717	538,868	129,615
Loans and bills discounted	2,518,111	3,484,333	3,386,842	1,326,105	1,123,541	3,038,206
Deposits	28,435,036	916,475	54,654	9,841	368	—
Call money and bills sold	—	—	—	—	—	—
Payables under securities lending transactions	—	—	—	—	—	
Borrowed money (*2)	12,000	28	110	110	165	505

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 2020 and 2019 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2020			2019			2020		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Forward foreign exchange:									
Sell	¥17,458	¥82	¥82	¥21,539	¥(160)	¥(160)	$160,415	$753	$753
Buy	16	0	0	1,987	21	21	147	0	0

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			
	2020				2019				2020			
	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	¥(182)	¥(182)	¥1,000	¥1,000	¥(15)	¥(15)	$9,189	$9,189	$(1,672)	$(1,672)
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		
	2020			2019			2020		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Earthquake derivatives:									
Sell	¥2,335	¥(30)	—	¥1,740	¥(23)	—	$21,455	$(276)	—
Buy	2,335	30	—	1,740	23	—	21,455	276	—

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 2020 and 2019 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate (Deferral method)	¥38,973	¥(5,894)	¥39,944	¥(5,661)	$358,109	$(54,157)
Receive floating / Pay fixed rate (Exceptional method)	22,239	(3,857)	22,335	(3,768)	204,346	(35,441)

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bills discounted	¥2,597	¥4,067	$23,863
Loans on notes	51,906	55,922	476,946
Loans on deeds	1,564,845	1,541,274	14,378,802
Overdrafts	195,736	193,837	1,798,548
	¥1,815,084	¥1,795,100	$16,678,159

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 without restrictions. The total face value as at 31 March 2020 and 2019 was ¥2,597 million ($23,863 thousand) and ¥4,067 million, respectively.

The Group is required to disclose loans to customers who meet specific criteria in accordance with the Banking Law. Doubtful loans as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans to borrowers under bankruptcy proceedings	¥947	¥3,455	$8,702
Past due loans	33,606	30,593	308,794
Loans past due three months or more	1	4	9
Restructured loans, including loans to borrowers financially assisted by the Bank	4,683	7,371	43,030
	¥39,237	¥41,423	$360,535

8. PLEDGED ASSETS

As at 31 March 2020, deposits of ¥50,168 million ($460,976 thousand) and borrowed money of ¥56,106 million ($515,538 thousand) were secured by a pledge of securities in the amount of ¥125,923 million ($1,157,061 thousand) and guarantee money deposits in the amount of ¥71 million ($652 thousand). As at 31 March 2019, deposits of ¥46,412 million, payables under securities lending transactions of ¥6,514 million and borrowed money of ¥42,176 million were secured by a pledge of securities in the amount of ¥129,146 million and guarantee money deposits in the amount of ¥100 million. In addition to the above-mentioned assets pledged as collateral, the Group provided other assets in the amount of ¥35,003 million ($321,630 thousand) and ¥35,003 million as collateral for transactions such as exchange settlement transactions as at 31 March 2020 and 2019, respectively.

Other assets include cash collateral paid for financial instruments, guarantee deposits and lease deposits in the amount of ¥9,790 million ($89,957 thousand) and ¥9,453 million, ¥89 million ($818 thousand) and ¥89 million, and ¥166 million ($1,525 thousand) and ¥167 million as at 31 March 2020 and 2019, 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 as at 31 March 2020 and 2019 amounted to ¥686,008 million ($6,303,482 thousand) and ¥710,596 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 ¥650,439 million ($5,976,652 thousand) and ¥675,858 million as at 31 March 2020 and 2019, 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 as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Accrued income	¥3,005	¥3,432	$27,612
Other	61,045	59,197	560,920
	¥64,050	¥62,629	$588,532

11. PREMISES AND EQUIPMENT

Premises and equipment as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Land	¥8,786	¥8,862	$80,731
Buildings	35,142	35,229	322,907
Equipment	8,285	8,288	76,128
Leased assets	80	1,278	735
Other	1,354	1,064	12,442
	53,647	54,721	492,943
Accumulated depreciation	36,821	37,749	338,335
	¥16,826	¥16,972	$154,608

To conform with the Companies Law of Japan, deferred gains on sale of real estate in the amount of ¥805 million ($7,397 thousand) and ¥922 million as at 31 March 2020 and 2019, respectively, were deducted from the acquisition cost of premises and equipment.

12. INTANGIBLE ASSETS

Intangible assets as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Software	¥1,287	¥909	$11,826
Leased assets	76	111	698
Other	102	19	937
	¥1,465	¥1,039	$13,461

13. DEPOSITS

Deposits as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current deposits	¥45,702	¥52,090	$419,939
Ordinary deposits	1,834,753	1,775,199	16,858,890
Deposits at notice	1,880	1,493	17,275
Time deposits	1,005,353	1,048,702	9,237,830
Other deposits	77,720	76,192	714,141
Negotiable certificates of deposit	235,976	263,846	2,168,299
	¥3,201,384	¥3,217,522	$29,416,374

14. OTHER LIABILITIES

Other liabilities as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Accrued income taxes	¥91	¥548	$836
Accrued expenses	2,047	2,370	18,809
Unearned income	647	487	5,945
Lease obligations	1,494	1,884	13,728
Other	24,966	15,719	229,404
	¥29,245	¥21,008	$268,722

15. CONTINGENT LIABILITIES, ACCEPTANCES AND GUARANTEES

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

The amount of guarantee obligation for privately placed bonds (Financial Instruments and Exchange Law, Article 2, Paragraph 3), out of bonds included in securities, stands at ¥8,338 million ($76,615 thousand) in 2020 compared with ¥3,521 million in 2019.

16. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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

Under the defined benefit pension plan, which is a funded plan, employees receive lump-sum payments or pensions based on salaries and service periods 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 (this unfunded plan 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
	2020	2019	2020
Balance at the beginning of the year	¥25,364	¥25,514	$233,061
Service costs (including the amount of employee contributions)	692	679	6,359
Interest costs	108	108	992
Actuarial differences	117	180	1,075
Retirement benefits paid	(1,149)	(1,117)	(10,558)
Balance at the end of the year	¥25,132	¥25,364	$230,929

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
	2020	2019	2020
Balance at the beginning of the year	¥27,753	¥28,113	$255,012
Expected return on plan assets	694	703	6,377
Actuarial differences	(1,475)	(459)	(13,553)
Employer contributions	113	113	1,038
Employee contributions	52	52	478
Retirement benefits paid	(791)	(769)	(7,268)
Balance at the end of the year	¥26,346	¥27,753	$242,084

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded projected benefit obligation	¥24,800	¥25,044	$227,878
Plan assets	(26,346)	(27,753)	(242,084)
	(1,546)	(2,709)	(14,206)
Unfunded projected benefit obligation	332	320	3,051
Net liability (asset) recognized in consolidated balance sheets	¥(1,214)	¥(2,389)	$(11,155)
Net defined benefit liability	2,484	2,134	22,825
Net defined benefit asset	(3,698)	(4,523)	(33,980)
Net liability (asset) recognized in consolidated balance sheets	¥(1,214)	¥(2,389)	$(11,155)

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
	2020	2019	2020
Service costs (excluding the amount of employee contributions)	¥640	¥627	$5,881
Interest costs	108	108	992
Expected return on plan assets	(694)	(703)	(6,377)
Amortization of actuarial differences	210	408	1,929
Retirement benefit expenses	¥264	¥440	$2,425

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
	2020	2019	2020
Actuarial differences	¥(1,382)	¥(231)	$(12,699)
Total	¥(1,382)	¥(231)	$(12,699)

(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
	2020	2019	2020
Unrecognized actuarial differences	¥ (3,289)	¥ (1,908)	$(30,221)
Total	¥ (3,289)	¥ (1,908)	$(30,221)

(vii) Plan assets

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

	2020	2019
Bonds	26%	57%
Equities	15%	16%
General account	14%	15%
Cash and deposits	45%	12%
Total	100%	100%

Retirement benefit trusts set up for defined benefit pension plans accounted for 20% and 19% of total plan assets for the years ended 31 March 2020 and 2019, respectively. In addition, retirement benefit trusts set up for the lump-sum retirement benefit plans accounted for 24% and 23% of total plan assets for the years ended 31 March 2020 and 2019, 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) for the years ended 31 March 2020 and 2019 was as follows:

	2020	2019
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	2.5%	2.5%
Expected salary increase rate in defined benefit plans	3.9%	3.9%
Expected salary increase rate in lump-sum retirement benefit plans	7.4%	7.4%

The contribution made by the Bank to defined contribution plans was ¥125 million ($1,149 thousand) and ¥126 million for the years ended 31 March 2020 and 2019, respectively.

17. INCOME TAXES

The Group is subject to a number of taxes based on income such as corporation, inhabitant and enterprise taxes, which, in the aggregate, indicated a statutory tax rate in Japan of approximately 30.4% and 30.4% for the years ended 31 March 2020 and 2019, respectively. Significant components of the Group's deferred tax assets and liabilities as at 31 March 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for doubtful accounts	¥3,327	¥3,581	$30,571
Net defined benefit liability	3,136	2,825	28,816
Accumulated depreciation	1,142	1,130	10,493
Securities	375	482	3,446
Deferred hedge	1,792	1,721	16,466
Other	1,159	1,330	10,649
Subtotal	10,931	11,069	100,441
Valuation allowance (*)	(2,287)	(2,428)	(21,014)
Total deferred tax assets	8,644	8,641	79,427
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(10,100)	(15,966)	(92,805)
Deferred gains on sale of real estate	(405)	(412)	(3,722)
Other	(1)	(1)	(9)
Total deferred tax liabilities	(10,506)	(16,379)	(96,536)
Net deferred tax liabilities	¥ (1,862)	¥ (7,738)	$(17,109)

Note (*): Valuation allowance decreased by ¥141 million ($1,296 thousand) in the year ended 31 March 2020. The main reason of this decrease is the recognition of tax deductible expenses incurred by sales of securities against a portion of valuation allowance related to the securities for which impairment loss was recognized in the past fiscal year.

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2020 and 2019.

	2020	2019
Statutory tax rate	30.4%	30.4%
Non-deductible expenses	0.5	0.4
Non-taxable income	(1.8)	(1.5)
Per capita inhabitant taxes	0.7	0.7
Valuation allowance	(2.5)	3.0
Other, net	0.3	0.0
Effective tax rate	27.6%	33.0%

18. 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 908 thousand shares and 583 thousand shares as at 31 March 2020 and 2019, respectively.

19. 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 ¥225 million ($2,067 thousand) and ¥209 million as at 31 March 2020 and 2019, respectively.

Share-based compensation expenses accounted for as general and administrative expenses for the years ended 31 March 2020 and 2019 amounted to ¥39 million ($358 thousand) and ¥45 million, respectively.

2. Details of stock options, volume and activity

(a) Details of stock options

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

	2017 Stock Option Plan	2018 Stock Option Plan	2019 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9	Directors of the Bank: 7	Directors of the Bank: 7
Number of stock options by type of shares	Common stock: 11,100 shares	Common stock: 10,200 shares	Common stock: 14,500 shares
Grant date	26 July 2017	25 July 2018	25 July 2019
Condition for vesting	Not applicable	Not applicable	Not applicable
Requisite service period	Not applicable	Not applicable	Not applicable
Exercise period	From 27 July 2017 to 26 July 2047	From 26 July 2018 to 25 July 2048	From 26 July 2019 to 25 July 2049

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 2020. The number of stock options is reported in terms of shares of stock.

(i) Number of stock options

	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan	2016 Stock Option Plan
Before vesting (shares):				
As at 31 March 2019	7,000	6,400	5,700	9,600
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	400	300	1,600
Outstanding	7,000	6,000	5,400	8,000
After vesting (shares):				
As at 31 March 2019	—	—	—	—
Vested	—	400	300	1,600
Exercised	—	400	300	1,600
Forfeited	—	—	—	—
Outstanding	—	—	—	—

	2017 Stock Option Plan	2018 Stock Option Plan	2019 Stock Option Plan
Before vesting (shares):			
As at 31 March 2019	8,900	10,200	—
Granted	—	—	14,500
Forfeited	—	—	—
Vested	1,400	1,600	—
Outstanding	7,500	8,600	14,500
After vesting (shares):	—	—	—
As at 31 March 2019	—	—	—
Vested	1,400	1,600	—
Exercised	1,400	1,600	—
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 ($0.01)
Average exercise price	¥— ($—)	¥2,912 ($26.76)	¥2,912 ($26.76)	¥2,912 ($26.76)
Fair value at the grant	¥4,119 ($37.85)	¥4,437 ($40.77)	¥5,287 ($48.58)	¥4,032 ($37.05)

	2017 Stock Option	2018 Stock Option	2019 Stock Option
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average exercise price	¥2,912 ($26.76)	¥2,912 ($26.76)	¥— ($—)
Fair value at the grant	¥4,178 ($38.39)	¥4,439 ($40.79)	¥2,693 ($24.75)

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 2020 were as follows:

(a) Valuation method: Black-Scholes formula

(b) Major basic numerical values and valuation method

	2019 Stock Option Plan
Stock price volatility (*1)	31.5%
Expected years to expiration (*2)	0.6 years
Expected dividends (*3)	¥70 ($0.64) per share
Risk-free interest rate (*4)	(0.19)%

Notes:*1. Stock price volatility was calculated based on the actual stock prices from 10 December 2018 to 15 July 2019.

*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 2019.

*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.

20. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other operating income:			
Gain on trading account securities transactions	¥0	¥1	$0
Gain on sale of bonds	423	282	3,887
Other	4,200	3,960	38,592
	¥4,623	¥4,243	$42,479

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other operating expenses:			
Loss on sale of foreign bills of exchange	¥384	¥486	$3,528
Loss on sales of bonds	9	79	83
Loss on redemption of bonds	1,062	1,229	9,758
Loss on financial instruments	168	14	1,544
Other	3,762	3,411	34,568
	¥5,385	¥5,219	$49,481

21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and allowances	¥11,222	¥11,558	$103,115
Fringe benefits and welfare	2,909	3,043	26,730
Retirement benefit expenses	389	565	3,574
Depreciation for premises and equipment	1,655	1,900	15,207
Rental expenses	790	797	7,259
Taxes other than income taxes	1,455	1,458	13,369
Deposit insurance premium	959	989	8,812
Business outsourcing expenses	2,683	2,687	24,653
Other expenses	4,153	4,092	38,161
	¥26,215	¥27,089	$240,880

22. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other income:			
Gain on sale of stocks and other securities	¥1,720	¥4,226	$15,804
Gain on disposal of premises and equipment	81	25	745
Other	510	768	4,686
	¥2,311	¥5,019	$21,235

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other expenses:			
Provision of allowance for doubtful accounts	¥ 2,028	¥ 4,550	$18,635
Loss on disposal of premises and equipment	94	26	864
Loss on devaluation of stocks and other securities	892	29	8,196
Loss on sales of stocks and other securities	476	127	4,374
Impairment losses	78	76	717
Loss on money held in trust	203	203	1,865
Loss on transfer of receivables	14	135	129
Other	342	355	3,142
	¥4,127	¥5,501	$37,922

23. LEASE TRANSACTIONS

A. Finance leases

(a) As lessee

(1) Finance leases that transfer the ownership

(i) Details of leased assets

Premises and equipment:

Not applicable

Intangible assets:

Mainly consist of software for the branch operating system

(ii) Depreciation and amortization methods of leased assets

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

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

(i) Details of leased assets

Premises and equipment:

Mainly consist of equipment for the branch operating system

Intangible assets:

Mainly consists of software for the branch operating system

(ii) Depreciation and amortization methods of leased assets

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

(3) Current portion of lease obligations and lease obligations (excluding current portion) as at 31 March 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2020	2019	2020	2020
Current portion of lease obligations	¥507	¥764	$4,659	2.56%
Lease obligations (excluding current portion)	987	1,120	9,069	2.45%
	¥1,494	¥1,884	$13,728	

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
	2020	2020
2021	¥507	$4,659
2022	371	3,409
2023	267	2,453
2024	194	1,783
2025 and thereafter	155	1,424

Year ending 31 March	Millions of yen
	2019
2020	¥764
2021	404
2022	291
2023	199
2024 and thereafter	226

B. Operating leases

(a) As lessee

There were no future lease payments under non-cancelable operating leases as at 31 March 2020 and 2019.

(b) As lessor

Future lease receivables under non-cancelable operating leases as at 31 March 2020 were ¥285 million ($2,619 thousand) including ¥28 million ($257 thousand) due within one year.

Future lease receivables under non-cancelable operating leases as at 31 March 2019 were ¥298 million including ¥32 million due within one year.

24. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income (losses) for the years ended 31 March 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holding losses on available-for-sale securities:			
Amount for the year	¥(18,547)	¥(2,108)	$(170,422)
Reclassification adjustment	(1,266)	(4,429)	(11,633)
Amount before tax effect	(19,813)	(6,537)	(182,055)
Tax effect amount	5,867	1,871	53,910
Net unrealized holding losses on available-for-sale securities	(13,946)	(4,666)	(128,145)
Net unrealized losses on hedging derivatives:			
Amount for the year	(775)	(1,380)	(7,121)
Reclassification adjustment	541	545	4,971
Amount before tax effect	(234)	(835)	(2,150)
Tax effect amount	71	253	652
Net unrealized losses on hedging derivatives	(163)	(582)	(1,498)
Remeasurements of defined benefit plans:			
Amount for the year	(1,592)	(639)	(14,628)
Reclassification adjustment	210	408	1,929
Amount before tax effect	(1,382)	(231)	(12,699)
Tax effect amount	421	70	3,869
Remeasurements of defined benefit plans	(961)	(161)	(8,830)
Total other comprehensive losses	¥ (15,070)	¥ (5,409)	$(138,473)

25. PER SHARE DATA

Amounts per share as at 31 March 2020 and 2019 and for the years then ended were as follows:

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥10,644.27	¥11,204.81	$97.81
Net income per share	212.50	233.72	1.95
Diluted net income per share	211.86	225.15	1.95

Amounts per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2020	2019	2020
Net assets per share:			
Total net assets	¥187,456	¥200,944	$1,722,467
Amount to be deducted from total net assets	225	209	2,067
Stock acquisition rights	225	209	2,067
Net assets at the end of the fiscal year attributed to common stock	187,231	200,735	1,720,400
Number of shares of common stock at the end of the fiscal year used in computing net assets per share attributed to common stock	17,590	17,915	
Net income per share:			
Net income attributable to owners of parent	3,784	4,187	34,770
Net income attributable to owners of parent attributed to common stock	3,784	4,187	34,770
Average number of shares of common stock during the year	17,809	17,913	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share	54	682	
Convertible bond-type bonds with stock acquisition rights	—	635	
Compensation-type stock option	54	47	

26. SEGMENT INFORMATION

(1) Reportable segment information

a. Description of reportable segments

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

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

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

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

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

	2020						
	Millions of yen						
	Reportable Segment						
	Commercial Banking	Leasing	Total	Others	Total	Adjustments	Consolidated
Ordinary income:							
Income from external customers	¥39,942	¥4,206	¥44,148	¥1,096	¥45,244	¥—	¥45,244
Intersegment income	222	462	684	445	1,129	(1,129)	—
Total	¥40,164	¥4,668	¥44,832	¥1,541	¥46,373	¥(1,129)	¥45,244
Segment profit	5,152	3	5,155	328	5,483	(163)	5,320
Segment assets	3,485,151	12,708	3,497,859	9,705	3,507,564	(22,026)	3,485,538
Segment liabilities	3,301,246	8,683	3,309,929	4,065	3,313,994	(15,912)	3,298,082
Other items:							
Depreciation	1,642	47	1,689	1	1,690	—	1,690
Interest income	29,994	0	29,994	50	30,044	(196)	29,848
Interest expense	1,064	35	1,099	2	1,101	(36)	1,065
Provision for income taxes	1,350	13	1,363	83	1,446	—	1,446
Increase in premises and equipment and intangible assets	2,178	15	2,193	—	2,193	(108)	2,085

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

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

3. "Adjustments" are as follows.

(1) The adjustments for segment profit 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.

(5) The adjustments for increase in premises and equipment and intangible assets were primarily elimination of intersegment transactions.

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

	2019						
	Millions of yen						
	Reportable Segment						
	Commercial Banking	Leasing	Total	Others	Total	Adjustments	Consolidated
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 the credit card and credit guarantee businesses.

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.

	2020						
	Thousands of U.S. dollars						
	Reportable Segment						
	Commercial Banking	Leasing	Total	Others	Total	Adjustments	Consolidated
Ordinary income:							
Income from external customers	$367,013	$38,647	$405,660	$10,071	$415,731	$—	$415,731
Intersegment income	2,040	4,245	6,285	4,089	10,374	(10,374)	—
Total	$369,053	$42,892	$411,945	$14,160	$426,105	$(10,374)	$415,731
Segment profit	47,340	27	47,367	3,014	50,381	(1,498)	48,883
Segment assets	32,023,808	116,769	32,140,577	89,176	32,229,753	(202,389)	32,027,364
Segment liabilities	30,333,970	79,785	30,413,755	37,352	30,451,107	(146,210)	30,304,897
Other items:							
Depreciation	15,088	432	15,520	9	15,529	—	15,529
Interest income	275,604	0	275,604	459	276,063	(1,801)	274,262
Interest expense	9,777	322	10,099	18	10,117	(331)	9,786
Provision for income taxes	12,405	119	12,524	762	13,286	—	13,286
Increase in premises and equipment and intangible assets	20,013	138	20,151	—	20,151	(993)	19,158

(2) Other segment-related information

a. Information by service

Information by service for the years ended 31 March 2020 and 2019 was as follows:

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

	2019			
	Millions of yen			
	Banking	Securities investment	Other	Total
Ordinary income from external customers	¥17,624	¥17,605	¥13,291	¥48,520

	2020			
	Thousands of U.S. dollars			
	Banking	Securities investment	Other	Total
Ordinary income from external customers	$158,780	$134,797	$122,154	$415,731

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 2020 and 2019 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 2020 and 2019 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 2020 and 2019, since no customer accounted 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

	2020				
	Millions of yen				
	Reportable Segment				
	Commercial Banking	Leasing	Total	Others	Total
Impairment losses	¥78	¥—	¥78	¥—	¥78

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

	2020				
	Thousands of U.S. dollars				
	Reportable Segment				
	Commercial Banking	Leasing	Total	Others	Total
Impairment losses	$717	$—	$717	$—	$717

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 2020 and 2019.

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 2020 and 2019.

27. RELATED PARTY TRANSACTIONS

(1) Related party transactions

a. Transactions between the Bank and related parties

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

For the year ended 31 March 2020

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance as at 31 March 2020
Executive officer and close family members	Mizuhiko Yoshida	Corporate Director and Audit & Supervisory Committee Member of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥19 million ($175 thousand)

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 as at 31 March 2019
Executive officer and close family members	Mizuhiko Yoshida	Corporate Director and Audit & Supervisory Committee Member of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥21 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 2020 and 2019.

(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 2020 and 2019.

28. SUBSEQUENT EVENTS

Cash dividends

On 23 June 2020, the shareholders of the Bank authorized the following appropriations of retained earnings as at 31 March 2020:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35 ($0.32) per share for year end)	¥616	$5,660

KPMG

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of The Bank of Iwate, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a

guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

草野 和彦

Kusano Kazuhiko

Designated Engagement Partner

Certified Public Accountant

高橋 秀和

Takahashi Hidekazu

Designated Engagement Partner

Certified Public Accountant

成島 徹

Narushima Toru

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Sendai Office, Japan

September 11, 2020

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