

# 2018

## ANNUAL REPORT

The Aichi Bank, Ltd

## PROFILE

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Aichi Bank is a regional bank whose business base is Aichi Prefecture, the central prefecture of the Tokai region, one of the country's three main industrial areas. Since its establishment in 1910, the Bank has worked to meet the diverse needs of customers in the region, based on its corporate mission of contributing to the prosperity of the community via a thorough commitment to sound management and business growth.

Aichi Bank has a domestic service network comprising 106 branches, and also engages in international operations. The Bank's head office is located in Nagoya, Aichi Prefecture, Japan's fourth-largest prefecture by population, and an area that combines a beautiful natural environment with a rich historical and cultural heritage.

As of March 31, 2018, the Bank had total assets of ¥3,153,970 million (US\$29,687 million) on a consolidated basis, and deposits amounting to ¥2,751,372 million (US\$25,897 million). Its capital ratio, calculated according to standards for banks operating only in Japan, stood at 11.15%.

# FINANCIAL HIGHLIGHTS

## Years ended March 31, 2018 and 2017

Consolidated	Millions of Yen		Thousands of U.S. Dollars	
	2018	2017	2018	2017
For the year:				
Total income	¥ 50,241	¥ 50,031	\$ 472,900	\$ 470,924
Total expenses	44,056	42,470	414,683	399,755
Profit before income taxes	6,185	7,561	58,217	71,169
Profit attributable to owners of parent	4,274	5,067	40,229	47,693
At year-end:				
Deposits	¥ 2,751,372	¥ 2,703,993	\$25,897,703	\$25,451,741
Loans and bills discounted	1,803,966	1,733,008	16,980,101	16,312,198
Investment securities	1,112,075	1,140,769	10,467,573	10,737,660
Total assets	3,153,970	3,109,996	29,687,217	29,273,305
Total net assets	236,045	225,475	2,221,809	2,122,317

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥106.24 = US\$1.00 on March 31, 2018.

# MESSAGE FROM THE MANAGEMENT

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## Business and Financial Conditions

Looking back at Japan's economy during the year ended March 31, 2018, in the first half of the year, there was an increase in exports and production backed by the gradual recovery of overseas economies, and increased capital investment focused on labor and energy saving investments. Subsequently, while the improvement in corporate earnings eased, capital investment and personal consumption both remained firm. As a result, the Japanese economy maintained a trend of recovery.

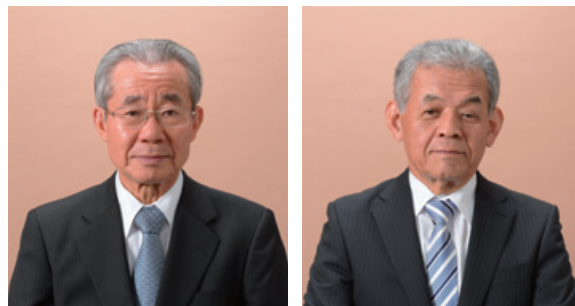
The local economy of our business base, which is centered in Aichi Prefecture, continues to expand moderately, particularly for the automobile industry, one of the major local industries, with production, exports and capital expenditure all on the rise.

Looking forward, in regard to the economic outlook, despite uncertainties such as concerns over economic slowdown in China, the deterioration of the environment for exports following increased trade friction triggered by the U.S., and intensifying geopolitical risks, there are expected to be increases in capital investment and personal consumption due to ongoing firm corporate earnings and employment conditions. Also, economic expansion led by domestic demand is expected to continue backed primarily by construction demand leading up to the Olympic Games to be held in Tokyo.

In the financial sector, the Bank of Japan decided to maintain its current financial policies at its monetary policy meeting in March, and intends to continue observing the effects on economic recovery of the present policy of setting the interest rate for 10-year Japanese government bonds to approx. zero percent.

The Nikkei Stock Average remained solid overall in the first half of the year. In September, the Nikkei Stock Average exceeded the ¥20,000 level due to optimism regarding improved earnings for domestic companies, rising share prices in the U.S., and yen depreciation. In January 2018, the Nikkei Stock Average climbed to the ¥24,000 level for the first time in 26 years. However, due in part to concerns regarding increased long-term interest rates in the U.S. and trade friction with the U.S., the year-end closing price was ¥21,454, a year-on-year increase of only ¥2,545.

The Bank has been proceeding with the three-year "Tenth Medium-Term Management Plan," which took effect in April 2016. We are undertaking various initiatives under the plan, in which we describe what we aim to be in ten years as "The leading bank in Aichi that puts serious effort into regional procurement and regional operation, and contributes to the development of regional communities and the betterment of our customer's lives."



Shinichi Koide, *Chairman* & Katsuyuki Yazawa, *President*

## Earnings

Our business results on a consolidated basis for the year ended March 31, 2018 are as follows.

Total income increased ¥210 million year on year to ¥50,241 million (US\$472 million) mainly due to an increase in fees and commissions, and an increase in other income, which principally resulted from an increase in gains on sales of equity securities. Total expenses increased ¥1,586 million year on year to ¥44,056 million (US\$414 million) mainly due to an increase in fees and commissions, and an increase in other expenses, which principally resulted from an increase in losses on sales of bonds and others. As a result, profit attributable to owners of parent decreased ¥792 million year on year to ¥4,274 million (US\$40 million).

By segment, ordinary income of the banking segment decreased ¥528 million year on year to ¥42,920 million (US\$403 million) and its segment profit decreased ¥1,206 million to ¥6,117 million (US\$57 million). Ordinary income of the leasing segment increased ¥484 million year on year to ¥6,754 million (US\$63 million), and its segment profit decreased ¥147 million to ¥220 million (US\$2 million).

## Cash Flows

Net cash used in operating activities amounted to ¥26,126 million (US\$245 million), an increase in cash used of ¥80,381 million. This was mainly attributable to an increase in loans and bills discounted. Net cash provided by investing activities increased ¥19,173 million to ¥24,577 million (US\$231 million). This was mainly attributable to sales and maturities of securities. Net cash used in financing activities amounted to ¥1,037 million (US\$9 million), an increase in cash used of ¥168 million. This is mainly due to dividends paid.

As a result, cash and cash equivalents at the end of the year stood at ¥160,202 million (US\$1,507 million), a decrease of ¥2,586 million from the previous year-end.

## Medium-term Strategy

In our tenth medium-term management plan we describe what we aim to be in ten years as “The leading bank in Aichi that puts serious effort into regional procurement and regional operation, and contributes to the development of regional communities and the betterment of our customer’s lives.”

Contributing to the development of regional communities has been a major theme for us, with efforts such as increasing staff at sales branches by primarily establishing the new business structure, started in October, 2015, and streamlining head office organizations, which has led to increased opportunities to visit our customers in small and medium sized enterprises.

Handwritten signatures of Shinichi Koide and Katsuyuki Yazawa in black ink.

**Shinichi Koide**  
*Chairman*

**Katsuyuki Yazawa**  
*President*

# BOARD OF DIRECTORS AND CORPORATE AUDITORS

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**Chairman**

Shinichi Koide

**President**

Katsuyuki Yazawa

**Managing Directors**

Masato Kobayashi

Yoshihiro Ito

Yukinori Ito

Tomoyuki Takahashi

**Directors**

Wataru Ota

Hiroyasu Matsuno

Nobuhiko Kuratomi

**Directors**

**Audit and Supervisory Committee Members**

Shigemasa Yoshida<sup>\*1</sup>

Akira Katsuragawa<sup>\*3</sup>

Akio Hayashi<sup>\*2</sup>

Ichio Miwa<sup>\*2</sup>

Toshiyasu Hayashi<sup>\*3</sup>

Yasutoshi Emoto<sup>\*3</sup>

<sup>\*1</sup>Standing Audit and Supervisory Committee  
Member

<sup>\*2</sup>Non-Standing Audit and Supervisory Committee  
Member

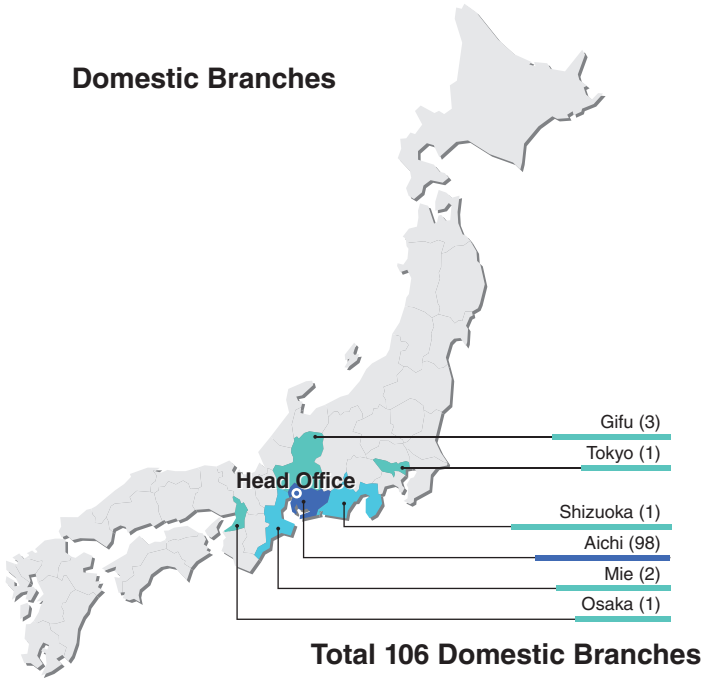
<sup>\*3</sup>Outside Audit and Supervisory Committee  
Member

# CORPORATE DIRECTORY

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## Service Network

Head Office (Securities & Foreign Business Department)
14-12, Sakae 3-chome, Naka-ku, Nagoya 460-8678
Telephone: 81-52-251-3211
SWIFT: AICHJPJN
Facsimile: 81-52-262-5793



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## Consolidated Companies

Aigin Business Service Co., Ltd.

Aigin DC Card Co., Ltd.

Aigin Lease Co., Ltd.

Aigin Computer Service Co., Ltd.

**The Aichi Bank, Ltd.**  
**Consolidated Financial Statements**  
March 31, 2018 and 2017

KPMG AZSA LLC





## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of The Aichi Bank, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Aichi Bank, Ltd. and its subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2018 and 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

August 7, 2018  
Nagoya, Japan

KPMG AZSA LLC

**The Aichi Bank, Ltd. and Subsidiaries**  
**Consolidated Balance Sheets**  
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
<b>Assets:</b>				
Cash and due from banks (Note 3)	¥ 162,132	¥ 164,668	\$ 1,526,091	\$ 1,549,962
Call loans and bills purchased (Note 3)	2,294	3,487	21,592	32,821
Trading securities (Notes 3 and 4)	-	20	-	188
Investment securities (Notes 3, 4 and 8)	1,112,075	1,140,769	10,467,573	10,737,660
Reserve for possible losses on investments	(8)	(17)	(75)	(160)
Loans and bills discounted (Notes 3, 5, 15 and 20)	1,803,966	1,733,008	16,980,101	16,312,198
Foreign exchange (Note 6)	2,077	1,497	19,550	14,090
Other assets	28,352	25,920	266,867	243,975
Tangible fixed assets (Note 7)	35,163	35,468	330,977	333,847
Intangible fixed assets	966	572	9,092	5,384
Employee retirement benefit asset (Note 11)	4,547	3,117	42,799	29,339
Deferred tax assets (Note 17)	174	148	1,637	1,393
Customers' liabilities for acceptances and guarantees (Note 12)	8,444	9,356	79,480	88,064
Allowance for possible loan losses	(6,217)	(8,020)	(58,518)	(75,489)
Total assets	¥ 3,153,970	¥ 3,109,996	\$ 29,687,217	\$ 29,273,305

The accompanying notes are an integral part of these consolidated financial statements.

**The Aichi Bank, Ltd. and Subsidiaries**  
**Consolidated Balance Sheets (Continued)**  
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
<b>Liabilities:</b>				
Deposits (Notes 3 and 9)	¥ 2,751,372	¥ 2,703,993	\$ 25,897,703	\$ 25,451,741
Negotiable certificates of deposit (Notes 3 and 9)	4,100	4,100	38,591	38,591
Call money and bills sold (Notes 3 and 8)	10,624	-	100,000	-
Security deposits received related to securities lending transactions (Notes 3 and 8)	65,824	83,042	619,578	781,645
Borrowings (Notes 3, 8 and 10)	37,742	29,975	355,252	282,144
Foreign exchange (Note 6)	1,123	519	10,570	4,885
Other liabilities (Note 10)	9,141	26,918	86,041	253,369
Reserve for employee bonuses	647	648	6,089	6,099
Reserve for bonuses to directors	42	46	395	432
Employee retirement benefit liability (Note 11)	1,063	1,094	10,005	10,297
Reserve for executive retirement benefits	5	7	47	65
Reserve for reimbursement of deposits	117	105	1,101	988
Reserve for contingencies	1,171	1,323	11,022	12,452
Deferred tax liabilities (Note 17)	21,767	18,648	204,885	175,527
Deferred tax liabilities for revaluation (Note 7)	4,735	4,740	44,568	44,615
Acceptances and guarantees (Note 12)	8,444	9,356	79,480	88,064
Total liabilities	2,917,924	2,884,520	27,465,399	27,150,978
<b>Net assets (Note 13):</b>				
Common stock	18,000	18,000	169,427	169,427
Capital surplus	13,883	13,883	130,675	130,675
Retained earnings	133,439	130,155	1,256,014	1,225,103
Less treasury stock, at cost	(765)	(768)	(7,200)	(7,228)
Total shareholders' equity	164,557	161,270	1,548,917	1,517,978
Accumulated other comprehensive income (Note 7)	67,181	60,027	632,351	565,013
Stock acquisition rights	265	228	2,494	2,146
Non-controlling interests	4,040	3,949	38,027	37,170
Total net assets	236,045	225,475	2,221,809	2,122,317
Total liabilities and net assets	¥ 3,153,970	¥ 3,109,996	\$ 29,687,217	\$ 29,273,305

The accompanying notes are an integral part of these consolidated financial statements.

**The Aichi Bank, Ltd. and Subsidiaries**  
**Consolidated Statements of Income**  
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
<b>Income:</b>				
Interest and dividend income:				
Interest on loans and bills discounted and purchased	¥ 17,141	¥ 18,119	\$ 161,342	\$ 170,547
Interest on and dividends from securities	12,128	12,800	114,156	120,481
Other interest and dividend income	98	96	922	903
Total interest and dividend income	29,368	31,015	276,430	291,933
Fees and commissions	13,914	12,716	130,967	119,691
Other operating income (Note 4)	1,392	1,501	13,102	14,128
Other income (Note 4)	5,566	4,797	52,390	45,152
<b>Total income (Note 19)</b>	<b>50,241</b>	<b>50,031</b>	<b>472,900</b>	<b>470,924</b>
<b>Expenses:</b>				
Interest expense:				
Interest on deposits	752	1,240	7,078	11,671
Interest on call money and bills sold	193	5	1,816	47
Interest on borrowings	49	29	461	272
Other interest expense	11	6	103	56
Total interest expense	1,006	1,282	9,469	12,067
Fees and commissions	9,038	8,228	85,071	77,447
Other operating expenses (Note 4)	4,699	3,936	44,230	37,048
General and administrative expenses (Notes 14 and 18)	26,900	27,054	253,200	254,649
Impairment loss on fixed assets (Note 2(k))	176	51	1,656	480
Other expenses (Notes 4 and 5)	2,234	1,918	21,027	18,053
<b>Total expenses (Note 19)</b>	<b>44,056</b>	<b>42,470</b>	<b>414,683</b>	<b>399,755</b>
<b>Profit before income taxes</b>	<b>6,185</b>	<b>7,561</b>	<b>58,217</b>	<b>71,169</b>
Income taxes (Note 17)	1,826	2,337	17,187	21,997
<b>Profit</b>	<b>4,358</b>	<b>5,223</b>	<b>41,020</b>	<b>49,162</b>
<b>Profit attributable to non-controlling interests</b>	<b>84</b>	<b>156</b>	<b>790</b>	<b>1,468</b>
<b>Profit attributable to owners of parent</b>	<b>¥ 4,274</b>	<b>¥ 5,067</b>	<b>\$ 40,229</b>	<b>\$ 47,693</b>
	Yen		U.S. dollars	
Earnings per share:				
Basic	¥ 394.27	¥ 467.37	\$ 3.71	\$ 4.39
Diluted	392.49	465.64	3.69	4.38
Cash dividends	90.00	90.00	0.84	0.84

The accompanying notes are an integral part of these consolidated financial statements.

**The Aichi Bank, Ltd. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
<b>Profit</b>	¥ 4,358	¥ 5,223	\$ 41,020	\$ 49,162
<b>Other comprehensive income (Note 21):</b>				
Unrealized gains on available-for-sale securities	6,492	(5,658)	61,106	(53,256)
Land revaluation increment	(14)	-	(131)	-
Retirement benefit adjustment	729	71	6,861	668
Total other comprehensive income	7,207	(5,586)	67,836	(52,579)
<b>Comprehensive income</b>	<u>¥ 11,566</u>	<u>¥ (362)</u>	<u>\$ 108,866</u>	<u>\$ (3,407)</u>
Comprehensive income attributable to:				
Owners of parent	¥ 11,473	¥ (506)	\$ 107,991	\$ (4,762)
Non-controlling interests	92	144	865	1,355
Total comprehensive income	<u>¥ 11,566</u>	<u>¥ (362)</u>	<u>\$ 108,866</u>	<u>\$ (3,407)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**The Aichi Bank, Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
For the Years Ended March 31, 2018 and 2017

		Millions of yen												
		Shareholders' equity					Accumulated other comprehensive income							
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities (Note 4)	Land revaluation increment (Note 7)	Retirement benefit adjustment (Note 11)	Total accumulated other comprehensive income	Stock acquisition rights	Non- controlling interests	Total net assets	
Balance at April 1, 2016	10,943,240	¥ 18,000	¥ 13,883	¥ 125,966	¥ (787)	¥ 157,063	¥ 59,152	¥ 8,385	¥ (1,933)	¥ 65,604	¥ 194	¥ 3,806	¥ 226,670	
Profit attributable to owners of parent	-	-	-	5,067	-	5,067	-	-	-	-	-	-	5,067	
Cash dividends	-	-	-	(867)	-	(867)	-	-	-	-	-	-	(867)	
Reversal of land revaluation increment	-	-	-	3	-	3	-	-	-	-	-	-	3	
Treasury stock acquired, net	-	-	(14)	-	18	3	-	-	-	-	-	-	3	
Transfer to capital surplus from retained earnings	-	-	14	(14)	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(5,645)	(3)	71	(5,577)	33	142	(5,401)	
Balance at March 31, 2017	10,943,240	18,000	13,883	130,155	(768)	161,270	53,506	8,381	(1,861)	60,027	228	3,949	225,475	
Profit attributable to owners of parent	-	-	-	4,274	-	4,274	-	-	-	-	-	-	4,274	
Cash dividends	-	-	-	(1,030)	-	(1,030)	-	-	-	-	-	-	(1,030)	
Reversal of land revaluation increment	-	-	-	44	-	44	-	-	-	-	-	-	44	
Treasury stock acquired, net	-	-	(5)	-	3	(2)	-	-	-	-	-	-	(2)	
Transfer to capital surplus from retained earnings	-	-	5	(5)	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity	-	-	-	-	-	-	6,483	(58)	729	7,154	36	90	7,282	
Balance at March 31, 2018	10,943,240	¥ 18,000	¥ 13,883	¥ 133,439	¥ (765)	¥ 164,557	¥ 59,990	¥ 8,323	¥ (1,131)	¥ 67,181	¥ 265	¥ 4,040	¥ 236,045	
Thousands of U.S. dollars														
Balance at April 1, 2016		\$ 169,427	\$ 130,675	\$ 1,185,673	\$ (7,407)	\$ 1,478,379	\$ 556,777	\$ 78,925	\$ (18,194)	\$ 617,507	\$ 1,826	\$ 35,824	\$ 2,133,565	
Profit attributable to owners of parent		-	-	47,693	-	47,693	-	-	-	-	-	-	47,693	
Cash dividends		-	-	(8,160)	-	(8,160)	-	-	-	-	-	-	(8,160)	
Reversal of land revaluation increment		-	-	28	-	28	-	-	-	-	-	-	28	
Treasury stock acquired, net		-	(131)	-	169	28	-	-	-	-	-	-	28	
Transfer to capital surplus from retained earnings		-	131	(131)	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity		-	-	-	-	-	(53,134)	(28)	668	(52,494)	310	1,336	(50,837)	
Balance at March 31, 2017		169,427	130,675	1,225,103	(7,228)	1,517,978	503,633	78,887	(17,516)	565,013	2,146	37,170	2,122,317	
Profit attributable to owners of parent		-	-	40,229	-	40,229	-	-	-	-	-	-	40,229	
Cash dividends		-	-	(9,695)	-	(9,695)	-	-	-	-	-	-	(9,695)	
Reversal of land revaluation increment		-	-	414	-	414	-	-	-	-	-	-	414	
Treasury stock acquired, net		-	(47)	-	28	(18)	-	-	-	-	-	-	(18)	
Transfer to capital surplus from retained earnings		-	47	(47)	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity		-	-	-	-	-	61,022	(545)	6,861	67,338	338	847	68,542	
Balance at March 31, 2018		\$ 169,427	\$ 130,675	\$ 1,256,014	\$ (7,200)	\$ 1,548,917	\$ 564,664	\$ 78,341	\$ (10,645)	\$ 632,351	\$ 2,494	\$ 38,027	\$ 2,221,809	

The accompanying notes are an integral part of these consolidated financial statements.

**The Aichi Bank, Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
<b>Cash flows from operating activities:</b>				
Profit before income taxes	¥ 6,185	¥ 7,561	\$ 58,217	\$ 71,169
Adjustments for:				
Depreciation	1,413	1,306	13,300	12,292
Impairment loss on fixed assets	176	51	1,656	480
Decrease in allowance for possible loan losses	(1,802)	(815)	(16,961)	(7,671)
Interest and dividend income	(29,368)	(31,015)	(276,430)	(291,933)
Interest expense	1,006	1,282	9,469	12,067
Decrease (increase) in trading securities	20	(20)	188	(188)
Increase in loans and bills discounted	(70,957)	(53,067)	(667,893)	(499,501)
Decrease (increase) in call loans and bills purchased	1,192	(734)	11,219	(6,908)
Increase in call money and bills sold	10,624	-	100,000	-
Increase in deposits	47,378	42,301	445,952	398,164
Increase in negotiable certificates of deposit	-	4,100	-	38,591
(Decrease) increase in security deposits received related to securities lending transactions	(17,218)	45,468	(162,067)	427,974
Increase in borrowings (excluding subordinated borrowings)	7,767	11,060	73,108	104,103
Gain on securities transactions	(1,064)	(912)	(10,015)	(8,584)
Loss (gain) on foreign currency transactions	2,363	(183)	22,242	(1,722)
Decrease in reserve for contingencies	(152)	(524)	(1,430)	(4,932)
Interest and dividend income received	29,959	32,122	281,993	302,353
Interest expense paid	(858)	(1,590)	(8,076)	(14,966)
Other, net	(11,397)	(237)	(107,275)	(2,230)
Subtotal	(24,732)	56,152	(232,793)	528,539
Income taxes paid	(1,393)	(1,897)	(13,111)	(17,855)
Net cash (used in) provided by operating activities	(26,126)	54,254	(245,914)	510,673
<b>Cash flows from investing activities:</b>				
Purchases of securities	(325,945)	(247,778)	(3,068,006)	(2,332,247)
Proceeds from sales and maturities of securities	352,059	255,099	3,313,808	2,401,157
Purchases of tangible fixed assets	(1,096)	(1,544)	(10,316)	(14,533)
Proceeds from sales of tangible fixed assets	116	109	1,091	1,025
Purchases of intangible fixed assets	(557)	(482)	(5,242)	(4,536)
Net cash provided by investing activities	24,577	5,403	231,334	50,856
<b>Cash flows from financing activities:</b>				
Dividends paid	(1,030)	(867)	(9,695)	(8,160)
Other, net	(7)	(1)	(65)	(9)
Net cash used in financing activities	(1,037)	(868)	(9,760)	(8,170)
Net (decrease) increase in cash and cash equivalents	(2,586)	58,789	(24,341)	553,360
Cash and cash equivalents at beginning of year	162,789	104,000	1,532,275	978,915
Cash and cash equivalents at end of year (Note 2(b))	¥ 160,202	¥ 162,789	\$ 1,507,925	\$ 1,532,275

The accompanying notes are an integral part of these consolidated financial statements.

**The Aichi Bank, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
For the Years Ended March 31, 2018 and 2017

**1. Basis of Presenting Consolidated Financial Statements**

The consolidated financial statements of The Aichi Bank, Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards. The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S. \$1.00. This translation should not be construed as a representation 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.

The Japanese yen amounts in the accompanying consolidated financial statements are expressed in millions of Japanese yen and have been rounded down. U.S. dollar amounts in the accompanying consolidated financial statements are expressed in thousands of U.S. dollars and also have been rounded down. As a result, total amounts expressed in both Japanese yen and U.S. dollars appearing in the consolidated financial statements and the notes thereto may not be equal to the sum of the individual amounts.

Certain comparative figures have been reclassified with conform to the current year’s presentation.

**2. Summary of Significant Accounting Policies**

**(a) Principles of consolidation**

The consolidated financial statements include the accounts of the Bank and all of its subsidiaries, which are engaged primarily in providing a wide range of financial services. At both March 31, 2018 and 2017, the Bank had four subsidiaries but no affiliates. All intercompany transactions and accounts have been eliminated.

**(b) Cash and cash equivalents**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consisted of cash and due from the Bank of Japan as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Cash and due from banks	¥ 162,132	¥ 164,668	\$ 1,526,091	\$ 1,549,962
Less due from banks other than Bank of Japan	(1,929)	(1,878)	(18,157)	(17,676)
Cash and cash equivalents	¥ 160,202	¥ 162,789	\$ 1,507,925	\$ 1,532,275



**(c) Trading securities**

Trading securities are stated at fair value at the end of the fiscal year. Related gains and losses, both realized and unrealized, are included in the consolidated statements of income. Accrued interest on trading securities is included in “Other assets.”

**(d) Investment securities**

Debt securities for which the Group has both the intent and the ability to hold to maturity are classified as held-to-maturity debt securities and are stated at amortized cost determined by the moving average method. In principle, available-for-sale securities are carried at the fair value as of the balance sheet date. Net unrealized gain and loss on these securities, net of tax, are reported as a component of accumulated other comprehensive income in net assets. Available-for-sale securities for which the fair value is extremely difficult to determine are stated at moving average cost. The carrying value of individual investment securities is reduced, if necessary, through a write-down when a decline in value is deemed other than temporary. Gain and loss on the disposal of investment securities are computed principally using the moving average method. Accrued interest on securities is included in “Other assets.”

**(e) Derivative financial instruments**

Derivative financial instruments are recorded at fair value if hedge accounting is not applied, and gain and loss on the derivatives are recognized in the consolidated statements of income.

**(f) Reserve for possible losses on investments**

Pursuant to the internal rules of the Bank, a reserve for possible losses on investments is provided in an amount necessary to absorb future losses after considering the financial positions of the issuers of the securities. A provision of reserve for possible losses on investments is included in “Other expenses” and amounted to none and ¥6 million (\$56 thousand) for the years ended March 31, 2018 and 2017, respectively.

**(g) Loans and bills discounted and allowance for possible loan losses**

Loans and bills discounted are stated at the amount of unpaid principal. Unearned interest and discounts are recorded as liabilities and recognized as income over the term of the loan or bill.

An allowance for possible loan losses of the Bank is provided to cover future credit losses in accordance with internal rules for self-assessment of asset quality. Loans written off are charged either to an allowance for possible loan losses and/or current income. Recoveries on loans that have been written off are recorded as other income. The allowance for possible loan losses is made based on the Bank’s internal rules in accordance with Report No. 4 of the Ad Hoc Committee for Audits of Banks, “Practical Guideline for Audits of Write-off of Bad Loans and Allowance for Doubtful Loans of Banks and Similar Financial Institutions,” issued by the Japanese Institute of Certified Public Accountants (“JICPA”). For loans to borrowers that are legally or substantially bankrupt, an allowance is provided based on the amount of the claims, net of amounts expected to be collected through the disposal of collateral or the execution of guarantees. For loans to borrowers who are likely to become bankrupt, an allowance is provided based on an overall solvency assessment, net of amounts expected to be collected through the disposal of collateral or the execution of guarantees. For loans to borrowers not mentioned above, an allowance is provided based on the historical loss experience of the Bank for a certain past period. All claims are assessed by the Bank’s operating divisions based on the Bank’s internal rules for self-assessment of asset quality. The inspection division, which is independent from the operating divisions, conducts examinations of these assessments.

An allowance for possible loan losses of the subsidiaries is made for the aggregate amount of estimated credit loss based on an individual financial review of doubtful or troubled receivables and a general reserve based on historical loss experience for other receivables.

**(h) Tangible fixed assets and depreciation (except for leases)**

Tangible fixed assets of the Bank are stated at cost, less accumulated depreciation. Depreciation is principally computed using the declining balance method over the estimated useful life of the asset. Buildings, excluding facilities attached thereto, acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are, however, depreciated using the straight-line method. The useful lives of tangible fixed assets range from 8 to 50 years for buildings and from 3 to 20 years for other fixed assets.

Tangible fixed assets of the subsidiaries are depreciated principally by the straight-line method over the estimated useful life of the asset.

**(i) Intangible fixed assets and amortization (except for leases)**

Intangible fixed assets are amortized using the straight-line method. Costs of computer software developed or obtained for internal use are deferred and amortized by the straight-line method principally over the estimated useful life of five years as determined by the Bank and its subsidiaries.

**(j) Leases**

All finance lease transactions are accounted for in a manner similar to that used for ordinary sale and purchase transactions.

**(Accounting for leases as lessee)**

The Group, as lessee, capitalizes leased assets used under finance leases, except for certain immaterial or short-term finance leases which are accounted for as operating leases as permitted under the accounting standard for leases. Depreciation of the leased assets capitalized in finance lease transactions are computed by the straight-line method over the lease term, which is used as the useful life, and with the assumption of no residual value.

**(Accounting for leases as lessor)**

In accordance with the relevant accounting standards for leases, a certain subsidiary engaged primarily in leasing operations as a lessor recognizes “investments in leased assets” for finance leases that do not transfer ownership of the leased assets to the lessee in a manner similar to the accounting treatment for ordinary sales transactions. The “investment in leased assets” account is presented as other assets in the accompanying consolidated balance sheets. The amount equivalent to total interest is allocated over the lease term using the effective interest method, and lease income from lease payments and related costs, net of imputed interest, are recognized when the lease payments are received.

**(k) Impairment loss on fixed assets**

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the carrying value of an asset or a group of assets exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposal of the asset or group of assets, impairment loss is recognized in the income statement by reducing the carrying value of the impaired asset or group of assets to the recoverable amount, measured as net selling price. Fixed assets include intangible assets as well as land, buildings and other forms of property. To recognize and measure an impairment loss, fixed assets are grouped at the lowest level for which there are cash flows identifiably different from those of other groups of assets, such as operating business branches, other than idle or unused property. Recoverable amounts of the assets are based on net selling prices based primarily on appraisal valuations, net of the estimated costs of disposal.

For the years ended March 31, 2018 and 2017, the Group recognized impairment loss, which is included in “Impairment loss on fixed assets,” in the accompanying consolidated statements of income as follows:

Millions of yen				
2018				
	Land	Buildings and structures	Other properties	Total
Operating assets:				
Aichi Prefecture	¥ 86	¥ 88	¥ -	¥ 174
Other	-	-	-	-
Idle assets:				
Aichi Prefecture	-	0	-	0
Other	1	-	-	1
Total	¥ 87	¥ 88	¥ -	¥ 176

Millions of yen				
2017				
	Land	Buildings and structures	Other properties	Total
Operating assets:				
Aichi Prefecture	¥ -	¥ 34	¥ -	¥ 34
Other	0	9	-	9
Idle assets:				
Aichi Prefecture	5	-	-	5
Other	1	0	-	1
Total	¥ 7	¥ 44	¥ -	¥ 51

Thousands of U.S. dollars				
2018				
	Land	Buildings and structures	Other properties	Total
Operating assets:				
Aichi Prefecture	\$ 809	\$ 828	\$ -	\$ 1,637
Other	-	-	-	-
Idle assets:				
Aichi Prefecture	-	0	-	0
Other	9	-	-	9
Total	\$ 818	\$ 828	\$ -	\$ 1,656

Thousands of U.S. dollars				
2017				
	Land	Buildings and structures	Other properties	Total
Operating assets:				
Aichi Prefecture	\$ -	\$ 320	\$ -	\$ 320
Other	0	84	-	84
Idle assets:				
Aichi Prefecture	47	-	-	47
Other	9	0	-	9
Total	\$ 65	\$ 414	\$ -	\$ 480

**(l) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are generally translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at the exchange rate in effect at the transaction date. Gain and loss resulting from foreign currency translation are included in the consolidated statements of income.

**(m) Reserve for employee bonuses**

A reserve for employee bonuses is provided based on the estimated amounts of future payments attributable to the respective fiscal year.

**(n) Reserve for bonuses to directors**

A reserve for bonuses to directors and audit and supervisory board members is provided for future bonus payments to directors and audit and supervisory board members that reflect an amount estimated to have accrued as of the consolidated balance sheet date.

**(o) Employee retirement benefits**

Employees who terminate their service with the Group are entitled to retirement benefits generally determined with reference to the basic salary at the time of termination, years of service and conditions under which the termination occurs.

The Group recognizes retirement benefits, including pension costs and related liabilities, based principally on the actuarial present value of the retirement benefit obligation using an actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end.

In determining retirement benefit obligation, the benefit formula method is used for attributing expected retirement benefits to the period up to the end of the respective fiscal year. Actuarial differences arising from changes in the projected benefit obligation or value of pension plan assets resulting from outcomes which are different from those assumed and from changes in the assumptions themselves are amortized on a straight-line basis principally over 13 to 14 years, a period within the average remaining years of service of the employees at the time when the differences arise, from the fiscal year after the year the differences arise.

**(p) Reserve for executive retirement benefits**

A reserve for executive retirement benefits is provided for payment of retirement benefits to directors, audit and supervisory board members and other executive officers in the amount deemed to have accrued at the consolidated balance sheet date according to the internal rules of the Group.

**(q) Reserve for reimbursement of deposits**

A reserve for reimbursement of deposits is provided for possible losses on the future claims of withdrawal based on historical reimbursement experience. A provision of reserve for reimbursement of deposits was included in "Other expenses" and amounted to ¥83 million (\$781 thousand) and ¥88 million (\$828 thousand) for the years ended March 31, 2018 and 2017, respectively.

**(r) Reserve for contingencies**

A provision of reserve for contingencies is made in an amount deemed necessary to cover possible losses resulting from the default of loans under a responsibility-sharing system with Credit Guarantee Corporation based primarily on historical default rates. No provision was recorded for the years ended March 31, 2018 and 2017.

#### **(s) Stock options**

The Group has applied ASBJ Statement No. 8, “Accounting Standard for Stock Options,” and its related guidance. This standard and guidance are applicable to stock options granted on or after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the grant date and recognize compensation expense over the vesting period as consideration for the goods or services received from the employees. The standard also requires companies to account for stock options granted to non-employees based on the fair values of either the stock options or goods or services received from the non-employees. In the balance sheets, stock options are presented as stock acquisition rights, a separate component of net assets, until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if the fair value cannot be reliably estimated.

#### **(t) Income taxes**

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying values of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

#### **(u) Appropriation of retained earnings**

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the shareholders.

#### **(v) Per share data**

Earnings per share is computed by dividing profit attributable to owners of parent by the weighted average number of shares of common stock outstanding during the respective year.

Diluted earnings per share is computed to reflect the potential dilution that could occur if securities were exercised or converted into common stock, assuming the full exercise of the outstanding stock options.

Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared by the Bank as applicable to the respective year.

#### **(w) New accounting standards not yet adopted by the Group**

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

#### **i) Overview**

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the

starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments in Japan, when necessary to address accounting practice issues, but not to an extent that would impair comparability.

ii) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

iii) Effects of the application of the standards

The Group is in the process of determining the effects of these new standards on the consolidated financial statements.

### **3. Financial Instruments**

#### **(a) Qualitative information on financial instruments**

##### **i) Policies for financial instruments**

The Group procures funds by accepting deposits from clients and utilizes the funds for financial investments in the bond and stock markets and for making loans to corporate and individual clients.

The Group enters into derivative transactions in order to avoid the risk of foreign currency fluctuations on customers' funds as well as to conduct foreign financing transactions and to avoid the risk of rising interest rates for the Bank. From an overall risk management standpoint, the Bank uses derivative instruments as hedging instruments in order to avoid the market risk to which financial assets and liabilities are exposed.

##### **ii) Details of financial instruments and related risks**

Financial assets of the Group consist mainly of loans to corporate and individual clients and are exposed to interest rate risk and credit risk resulting from any deterioration in the financial condition of the counterparty.

Investment securities comprise mainly debt and equity securities. The Group holds debt securities classified as held-for-sale, available-for-sale or held-to-maturity and equity securities to pursue capital gain or to maintain relationships with corporate clients. These securities are exposed to the credit risk of the issuers, interest rate risk, market risk and foreign currency risk. Deposits consist of demand deposits and time deposits. The maturities of time deposits are within five years.

Asset-liability management techniques are employed to manage financial assets and liabilities sensitive to interest rate fluctuations.

##### **iii) Risk management for financial instruments**

###### **Credit risk management**

The Bank manages credit risk by conducting strict credit examinations on respective debtors. Additionally, the Bank analyzes the risk by credit rating and industry in chronological order and diversifies the risk of its portfolios in the entirety.

The Group manages credit risk under the Credit Supervision Section, examining and assessing financial circumstances, industry trends, purposes of loans and repayment plans of respective debtors. Assessments are conducted to evaluate the credit standing of prospective debtors before entering into a transaction, for credit management after execution, as a self-assessment on a regular basis and at any time when a relevant event occurs. By the self-assessment, assets are classified by the degree of risk based on the debtor's classification and the existence of any collateral or guarantees. The results of the self-assessments are examined by the Self-Assessment Verification Section and are reported to the management.

As to the credit portfolios in the entirety, the level of concentration in the industry and large transactions are monitored by the Credit Management Section on a regular basis in order to construct portfolios that avoid concentration risk. The Credit Management Section periodically reports the results to management.

Moreover, an internal credit rating system has been introduced that classifies debtors according to creditworthiness. The Bank uses the credit rating for screening and credit management of debtors as well as monitoring the credit portfolio.

As credit risk is quantified, the Bank is able to manage the credit risk more effectively.

## Market risk management

The Compliance and Risk Control Department of the Bank monitors market risk. The department quantifies the risk whenever possible and performs stress tests and simulation analyses to analyze the possible effects of changes in market variables such as interest rates, stock prices and exchange rates on the amount of market risk the Bank is exposed to and on the profit and loss of the Bank.

The results of the analyses are regularly reported to the Board of Directors, the Risk Management Committee and other relevant parties. The Risk Management Committee and other relevant parties confirm that the level of risk is sufficiently limited considering the equity of the Bank and review the policies for controlling market risk.

Interest rate risk and stock price risk are significant risks for the Group. Major financial instruments which are exposed to interest rate risk are “Loans and bills discounted,” debt securities classified as available-for-sale securities under “Investment securities” and “Deposits.” Financial instruments which are exposed to stock price risk are equity securities classified as available-for-sale securities in “Investment securities.” The Group uses Value at Risk (“VaR”) calculated based on the financial assets and liabilities categorized into “integrated market risk,” “debt securities,” “investment trust and other securities,” “equity securities held for investment” and “strategically held equity securities” to perform quantitative analysis and manage interest rate and stock price fluctuation risks. For the years ended March 31, 2018 and 2017, VaR was calculated using the historical simulation method with the assumption of a holding period of 125 business days, a 99% confidence interval and an observation period of 10 years.

The total market risk exposure of the Group as estimated loss amounted to ¥44,769 million (\$421,394 thousand) and ¥37,190 million (\$350,056 thousand) as of March 31, 2018 and 2017, respectively. In calculating VaR as of March 31, 2018 and 2017, VaR amounts for interest rate risk associated with the banking account and price fluctuation risk associated with the investment trust and other securities and fluctuation risk associated with the equity securities held for investment were summed with that for price fluctuation risk associated with strategically held equity securities.

The Group ensures the reliability and accuracy of the measurement model by performing back-testing, that is, comparing VaR amounts measured using the model with actual amounts of profit and loss. However, VaR reflects market risk exposures statistically calculated under certain probabilities based on historical market volatility; therefore, it may not be able to accurately reflect the risks when the market environment changes extraordinarily.

### iv) Supplemental information on fair value of financial instruments

Fair values of financial instruments are estimated based on quoted market prices or based on reasonably calculated prices if quoted market prices are not available. Certain assumptions are used to calculate such prices. Therefore, prices may be different under different assumptions.



**(b) Fair value of financial instruments**

The following is a summary of the carrying values and fair values of financial instruments at March 31, 2018 and 2017.

	Millions of yen		
	2018		
	Carrying value	Fair value	Difference
Financial assets:			
Cash and due from banks	¥ 162,132	¥ 162,132	¥ -
Call loans and bills purchased	2,294	2,294	-
Trading securities	-	-	-
Investment securities:			
Available-for-sale securities (*1)	1,109,757	1,109,757	-
Loans and bills discounted:			
Loans and bills discounted	1,803,966		
Allowance for possible loan losses (*2)	(5,366)		
Loans and bills discounted, net	1,798,599	1,824,619	26,020
Total assets	¥ 3,072,783	¥ 3,098,804	¥ 26,020
Financial liabilities:			
Deposits	¥ 2,751,372	¥ 2,751,500	¥ 127
Negotiable certificates of deposit	4,100	4,100	-
Call money and bills sold	10,624	10,624	-
Security deposits received related to securities lending transactions	65,824	65,824	-
Borrowings	37,742	37,774	32
Total liabilities	¥ 2,869,663	¥ 2,869,823	¥ 159
Derivative transactions (*3):			
Not qualifying for hedge accounting	¥ 314	¥ 314	¥ -
Total derivative transactions	¥ 314	¥ 314	¥ -
2017			
	Carrying value	Fair value	Difference
Financial assets:			
Cash and due from banks	¥ 164,668	¥ 164,668	¥ -
Call loans and bills purchased	3,487	3,487	-
Trading securities	20	20	-
Investment securities:			
Available-for-sale securities (*1)	1,138,631	1,138,631	-
Loans and bills discounted:			
Loans and bills discounted	1,733,008		
Allowance for possible loan losses (*2)	(7,329)		
Loans and bills discounted, net	1,725,679	1,751,889	26,209
Total assets	¥ 3,032,486	¥ 3,058,696	¥ 26,209
Financial liabilities:			
Deposits	¥ 2,703,993	¥ 2,704,873	¥ 879
Negotiable certificates of deposit	4,100	4,100	-
Security deposits received related to securities lending transactions	83,042	83,042	-
Borrowings	29,975	30,013	38
Total liabilities	¥ 2,821,111	¥ 2,822,029	¥ 917
Derivative transactions (*3):			
Not qualifying for hedge accounting	¥ (229)	¥ (229)	¥ -
Total derivative transactions	¥ (229)	¥ (229)	¥ -

Thousands of U.S. dollars			
2018			
	Carrying value	Fair value	Difference
Financial assets:			
Cash and due from banks	\$ 1,526,091	\$ 1,526,091	\$ -
Call loans and bills purchased	21,592	21,592	-
Trading securities	-	-	-
Investment securities:			
Available-for-sale securities (*1)	10,445,754	10,445,754	-
Loans and bills discounted:			
Loans and bills discounted	16,980,101		
Allowance for possible loan losses (*2)	(50,508)		
Loans and bills discounted, net	16,929,583	17,174,501	244,917
Total assets	\$ 28,923,032	\$ 29,167,959	\$ 244,917
Financial liabilities:			
Deposits	\$ 25,897,703	\$ 25,898,908	\$ 1,195
Negotiable certificates of deposit	38,591	38,591	-
Call money and bills sold	100,000	100,000	-
Security deposits received related to securities lending transactions	619,578	619,578	-
Borrowings	355,252	355,553	301
Total liabilities	\$ 27,011,135	\$ 27,012,641	\$ 1,496
Derivative transactions (*3):			
Not qualifying for hedge accounting	\$ 2,955	\$ 2,955	\$ -
Total derivative transactions	\$ 2,955	\$ 2,955	\$ -
2017			
	Carrying value	Fair value	Difference
Financial assets:			
Cash and due from banks	\$ 1,549,962	\$ 1,549,962	\$ -
Call loans and bills purchased	32,821	32,821	-
Trading securities	188	188	-
Investment securities:			
Available-for-sale securities (*1)	10,717,535	10,717,535	-
Loans and bills discounted:			
Loans and bills discounted	16,312,198		
Allowance for possible loan losses (*2)	(68,985)		
Loans and bills discounted, net	16,243,213	16,489,919	246,696
Total assets	\$ 28,543,731	\$ 28,790,436	\$ 246,696
Financial liabilities:			
Deposits	\$ 25,451,741	\$ 25,460,024	\$ 8,273
Negotiable certificates of deposit	38,591	38,591	-
Security deposits received related to securities lending transactions	781,645	781,645	-
Borrowings	282,144	282,501	357
Total liabilities	\$ 26,554,132	\$ 26,562,772	\$ 8,631
Derivative transactions (*3):			
Not qualifying for hedge accounting	\$ (2,155)	\$ (2,155)	\$ -
Total derivative transactions	\$ (2,155)	\$ (2,155)	\$ -

Notes:

(\*1) The following securities were excluded from the above tables because their fair values were extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Unlisted stocks*	¥ 1,644	¥ 1,643	\$ 15,474	\$ 15,464
Other nonmarketable securities	673	494	6,334	4,649
	<u>¥ 2,318</u>	<u>¥ 2,138</u>	<u>\$ 21,818</u>	<u>\$ 20,124</u>

\* For the years ended March 31, 2018 and 2017, loss on the write-down of these securities was recognized in the amount of none and ¥8 million (\$75 thousand), respectively.

(\*2) Allowance for possible loan losses on ordinary and specific claims corresponding to loans and bills discounted is deducted.

(\*3) Derivative transactions recorded in other assets and liabilities are presented in a lump sum on a net basis. A net liability position is shown in parenthesis.

Methods for calculating the fair value of financial instruments were as follows:

Financial assets:

- Cash and due from banks – The fair value of due from banks without maturities approximates the carrying value. As for those with maturities, the present value calculated by discounting the amount categorized based on the remaining term to maturity as of the consolidated balance sheet date at the risk free rate is used as the fair value. As for those with maturities up to one year as of the consolidated balance sheet date, the carrying value is used as the fair value after it is confirmed that the fair value approximates the carrying value.
- Call loans and bills purchased – The present value calculated by discounting the amount categorized based on the remaining term to maturity as of the consolidated balance sheet date at the risk free rate is used as the fair value of call loans and bills purchased. As for those with maturities up to one year as of the consolidated balance sheet date, the carrying value is used as the fair value after it is confirmed that the fair value approximates the carrying value.
- Trading securities – The fair value of trading securities such as debt securities held for dealing operations is based on the quoted market price or the price obtained from the counterparty financial institution.
- Investment securities – The fair value of equity securities is based on the quoted market price. The fair value of debt securities is based on the quoted market price or the price obtained from the counterparty financial institution. The fair value of investment trust funds is based on the constant value.

The fair value of private placement bonds guaranteed by the Bank is calculated by discounting the future cash flows at the risk free rate to which the consideration (risk premium) to cover uncertainty inherent in cash flows (credit risk and others), which is calculated based on the amount expected to be collected according to the internal credit rating and the existence of collateral or guarantees, is added. As for transactions with maturities up to one year as of the consolidated balance sheet date, the carrying value is used as the fair value after it is confirmed that the fair value approximates the carrying value. Additional information on securities classified by holding purpose is presented in Note 4, “Trading Securities and Investment Securities.”

- Loans and bills discounted – The fair value of loans and bills discounted to corporate clients is calculated by discounting the future cash flows at the risk free rate to which the consideration (risk premium) to cover uncertainty inherent in cash flows (credit risk and others), which is calculated based on the amount expected to be collected according to the internal credit rating and the existence of collateral or guarantees, is added. The fair value of those to individual clients is calculated as the total of principal and interest discounted by the rate assumed when a similar loan is executed.

As for transactions whose due date is within one year as of the consolidated balance sheet date, the

carrying value is used as the fair value after it is confirmed that the fair value approximates the carrying value.

As for loans to borrowers that are legally or substantially bankrupt and those who are likely to become bankrupt, the estimated loan losses are calculated based on the present value of the estimated future cash flows or the amount expected to be collected due to collateral or guarantees. As a result, the fair value approximates the carrying value as of the consolidated balance sheet date minus the allowance for possible loan losses.

Financial liabilities:

- Deposits and negotiable certificates of deposit – The fair value of demand deposits is deemed as the amount that would be paid if demanded by the clients as of the consolidated balance sheet date (the carrying value). The fair value of time deposits is the present value calculated by discounting future cash flows of the amount categorized based on a certain period. The discount rate is the rate that would apply when a new deposit is accepted. As for those with maturities up to one year as of the consolidated balance sheet date, the carrying value is used as the fair value after it is confirmed that the fair value approximates the carrying value.
- Call money and bills sold, security deposits received related to securities lending transactions and borrowings – The present value calculated by discounting the amount categorized based on the remaining term to maturity as of the consolidated balance sheet date at the risk free rate is used as the fair value. As for transactions with maturities up to one year as of the consolidated balance sheet date, the carrying value is used as the fair value after it is confirmed that the fair value approximates the carrying value.

Derivative transactions:

Information on fair value of derivative transactions is presented in Note 16, “Derivative Financial Instruments.”

**(c) Redemption schedule for financial instruments with maturities**

The redemption schedule for financial instruments with maturities at March 31, 2018 was as follows:

Millions of yen						
2018						
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Financial assets:						
Due from banks	¥ 124,047	¥ -	¥ -	¥ -	¥ -	¥ -
Call loans and bills purchased	2,294	-	-	-	-	-
Investment securities:						
Available-for-sale securities:						
Japanese government bonds	20,300	137,000	21,600	-	2,000	27,500
Local government bonds	7,489	44,415	13,908	6,499	40,439	-
Corporate bonds	57,560	129,350	98,395	26,832	45,917	9,036
Foreign bonds	10,173	25,155	18,139	-	-	-
Other	2,858	29,540	28,637	24,175	77,847	8,082
Total investment securities	98,381	365,461	180,680	57,508	166,204	44,618
Loans and bills discounted (*1)	302,236	371,417	236,839	147,997	156,789	359,456
	<u>¥ 526,960</u>	<u>¥ 736,878</u>	<u>¥ 417,520</u>	<u>¥ 205,505</u>	<u>¥ 322,994</u>	<u>¥ 404,075</u>
Financial liabilities:						
Deposits (*2)	¥ 2,566,015	¥ 176,675	¥ 8,682	¥ -	¥ -	¥ -
Negotiable certificates of deposit	4,100	-	-	-	-	-
Call money and bills sold	10,624	-	-	-	-	-
Security deposits received related to securities lending transactions	65,824	-	-	-	-	-
Borrowings	30,382	5,050	2,310	-	-	-
	<u>¥ 2,676,945</u>	<u>¥ 181,725</u>	<u>¥ 10,992</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>
Thousands of U.S. dollars						
2018						
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Financial assets:						
Due from banks	\$ 1,167,611	\$ -	\$ -	\$ -	\$ -	\$ -
Call loans and bills purchased	21,592	-	-	-	-	-
Investment securities:						
Available-for-sale securities:						
Japanese government bonds	191,076	1,289,533	203,313	-	18,825	258,847
Local government bonds	70,491	418,062	130,911	61,172	380,638	-
Corporate bonds	541,792	1,217,526	926,157	252,560	432,200	85,052
Foreign bonds	95,754	236,775	170,736	-	-	-
Other	26,901	278,049	269,550	227,550	732,746	76,073
Total investment securities	926,025	3,439,956	1,700,677	541,302	1,564,420	419,973
Loans and bills discounted (*1)	2,844,841	3,496,018	2,229,282	1,393,044	1,475,800	3,383,433
	<u>\$ 4,960,090</u>	<u>\$ 6,935,975</u>	<u>\$ 3,929,969</u>	<u>\$ 1,934,346</u>	<u>\$ 3,040,229</u>	<u>\$ 3,803,416</u>
Financial liabilities:						
Deposits (*2)	\$ 24,153,002	\$ 1,662,980	\$ 81,720	\$ -	\$ -	\$ -
Negotiable certificates of deposit	38,591	-	-	-	-	-
Call money and bills sold	100,000	-	-	-	-	-
Security deposits received related to securities lending transactions	619,578	-	-	-	-	-
Borrowings	285,975	47,533	21,743	-	-	-
	<u>\$ 25,197,147</u>	<u>\$ 1,710,513</u>	<u>\$ 103,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes:

- (\*1) At March 31, 2018, the total amount of loans which were not expected to be recovered, including claims to borrowers that were legally or substantially bankrupt and to those who were likely to become bankrupt, amounted to ¥31,364 million (\$295,218 thousand). Loans without due dates in the amount of ¥197,865 million (\$1,862,434 thousand) were excluded.
- (\*2) Demand deposits were included in "Due in 1 year or less."

#### 4. Trading Securities and Investment Securities

There was no carrying value of trading securities at March 31, 2018. At March 31, 2017, trading securities consisted of Japanese government bonds only.

At March 31, 2018 and 2017, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Japanese government bonds	¥ 215,518	¥ 264,875	\$ 2,028,595	\$ 2,493,175
Local government bonds	114,438	108,396	1,077,164	1,020,293
Bonds and debentures	372,387	356,602	3,505,148	3,356,570
Equity securities	137,238	125,217	1,291,773	1,178,623
Other	272,493	285,677	2,564,881	2,688,977
	<u>¥ 1,112,075</u>	<u>¥ 1,140,769</u>	<u>\$ 10,467,573</u>	<u>\$ 10,737,660</u>

At March 31, 2018 and 2017, investment securities included Japanese government bonds of ¥7,170 million (\$67,488 thousand) and ¥2,110 million (\$19,860 thousand), respectively, as loans without collateral (securities lending transactions).

At March 31, 2018 and 2017, liabilities for guarantees on corporate bonds included in "Investment securities," which were issued by private placement (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act), amounted to ¥20,710 million (\$194,935 thousand) and ¥15,068 million (\$141,829 thousand), respectively.

Securities are classified as trading, held-to-maturity or available-for-sale. The classification determines the respective accounting method that should be used to account for these securities, as stipulated by the accounting standard for financial instruments. At March 31, 2018 and 2017, the carrying values of trading securities and the related valuation differences included in the consolidated statements of income were as follows:

	Millions of yen				Thousands of U.S. dollars			
	2018		2017		2018		2017	
	Carrying value	Valuation difference	Carrying value	Valuation difference	Carrying value	Valuation difference	Carrying value	Valuation difference
Trading securities	¥ -	¥ -	¥ 20	¥ 0	\$ -	\$ -	\$ 188	\$ 0

The Group did not have any held-to-maturity debt securities as of March 31, 2018 and 2017.

At March 31, 2018 and 2017, gross unrealized gains and losses for available-for-sale securities with fair value were as follows:

Millions of yen				
2018				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Available-for-sale securities with fair value:				
Japanese government bonds	¥ 211,990	¥ 3,687	¥ (159)	¥ 215,518
Local government bonds	112,993	1,525	(79)	114,438
Bonds and debentures	368,456	4,116	(185)	372,387
Equity securities	57,172	79,029	(608)	135,593
Other	273,933	3,955	(6,069)	271,819
	<u>¥ 1,024,546</u>	<u>¥ 92,314</u>	<u>¥ (7,104)</u>	<u>¥ 1,109,757</u>
Millions of yen				
2017				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Available-for-sale securities with fair value:				
Japanese government bonds	¥ 259,664	¥ 5,756	¥ (545)	¥ 264,875
Local government bonds	106,297	2,176	(77)	108,396
Bonds and debentures	351,141	5,562	(101)	356,602
Equity securities	57,990	66,377	(794)	123,574
Other	287,705	5,100	(7,622)	285,182
	<u>¥ 1,062,800</u>	<u>¥ 84,973</u>	<u>¥ (9,142)</u>	<u>¥ 1,138,631</u>
Thousands of U.S. dollars				
2018				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Available-for-sale securities with fair value:				
Japanese government bonds	\$ 1,995,387	\$ 34,704	\$ (1,496)	\$ 2,028,595
Local government bonds	1,063,563	14,354	(743)	1,077,164
Bonds and debentures	3,468,147	38,742	(1,741)	3,505,148
Equity securities	538,140	743,872	(5,722)	1,276,289
Other	2,578,435	37,227	(57,125)	2,558,537
	<u>\$ 9,643,693</u>	<u>\$ 868,919</u>	<u>\$ (66,867)</u>	<u>\$ 10,445,754</u>
Thousands of U.S. dollars				
2017				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Available-for-sale securities with fair value:				
Japanese government bonds	\$ 2,444,126	\$ 54,179	\$ (5,129)	\$ 2,493,175
Local government bonds	1,000,536	20,481	(724)	1,020,293
Bonds and debentures	3,305,167	52,353	(950)	3,356,570
Equity securities	545,839	624,783	(7,473)	1,163,158
Other	2,708,066	48,004	(71,743)	2,684,318
	<u>\$ 10,003,765</u>	<u>\$ 799,821</u>	<u>\$ (86,050)</u>	<u>\$ 10,717,535</u>

During the years ended March 31, 2018 and 2017, the Group recorded no losses on the write-down of available-for-sale securities with fair value due to other than temporary decline in value.

At March 31, 2018 and 2017, net unrealized gains on available-for-sale securities, net of applicable income taxes and non-controlling interests, recorded as a component of accumulated other comprehensive income in net assets on the consolidated balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Unrealized gains	¥ 85,210	¥ 75,830	\$ 802,051	\$ 713,761
Less applicable income taxes	(25,156)	(22,268)	(236,784)	(209,600)
Less non-controlling interests portion	(64)	(55)	(602)	(517)
Net unrealized gains	¥ 59,990	¥ 53,506	\$ 564,664	\$ 503,633

During the years ended March 31, 2018 and 2017, the Group sold available-for-sale securities and recorded gains and losses on the consolidated statements of income as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Gains on sales of:				
Equity securities	¥ 4,841	¥ 3,858	\$ 45,566	\$ 36,314
Bonds and others	1,386	1,495	13,045	14,071
	¥ 6,228	¥ 5,353	\$ 58,621	\$ 50,385
Losses on sales of:				
Equity securities	¥ 678	¥ 838	\$ 6,381	\$ 7,887
Bonds and others	4,485	3,593	42,215	33,819
	¥ 5,163	¥ 4,432	\$ 48,597	\$ 41,716

## 5. Loans and Bills Discounted

At March 31, 2018 and 2017, loans and bills discounted consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Bills discounted	¥ 26,432	¥ 24,093	\$ 248,795	\$ 226,778
Loans on bills	47,566	49,494	447,722	465,869
Loans on deeds	1,530,473	1,455,604	14,405,807	13,701,091
Overdrafts	199,493	203,816	1,877,757	1,918,448
	¥ 1,803,966	¥ 1,733,008	\$ 16,980,101	\$ 16,312,198

Bills discounted are accounted for as financial transactions in accordance with the JICPA Industry Audit Committee Report No. 24 issued on February 13, 2002, "Treatment of Accounting and Auditing Concerning Application of Accounting Standard for Financial Instruments in Banking Industry." The Group has the right to sell or pledge (repledge) bankers' acceptances, commercial bills, documentary bills and foreign bills of exchange purchased without restrictions. The total face value of these bills amounted to ¥26,438 million (\$248,851 thousand) and ¥24,138 million (\$227,202 thousand) at March 31, 2018 and 2017, respectively.

Claims to borrowers in bankruptcy and past due loans amounted to ¥31,364 million (\$295,218 thousand) and ¥36,964 million (\$347,929 thousand) at March 31, 2018 and 2017, respectively, and are included in "Loans and bills discounted." Loans are generally placed on non-accrual status when there is substantial doubt about the ultimate collectability of either principal or interest because the principal or interest is past due for a considerable period or for other reasons. Claims to borrowers in bankruptcy represent



non-accrual loans after charge-off to legally bankrupt borrowers as defined in Article 96, Paragraph 1, Subparagraph 3 and 4 of the Order for Enforcement of the Corporation Tax Act of Japan. Past due loans are non-accrual loans other than claims to borrowers in bankruptcy and loans for which interest payments are deferred in order to assist the financial recovery of borrowers in financial difficulties.

At March 31, 2018 and 2017, delinquent loans for which the payment of principal or interest was contractually past due three months or more, excluding non-accrual loans, amounted to ¥650 million (\$6,118 thousand) and ¥543 million (\$5,111 thousand), respectively.

For borrowers in financial difficulties, the Bank may support their financial recovery or restructuring by restructuring the terms and conditions of their loans such as by a reduction or exemption of the original interest rate, extension of interest payments and/or principal repayments or debt forgiveness. At March 31, 2018 and 2017, restructured loans for which the Bank had restructured the terms and conditions in favor of borrowers in financial difficulties, excluding “claims to borrowers in bankruptcy,” “past due loans” and “delinquent loans contractually past due three months or more” described above, amounted to ¥3,805 million (\$35,815 thousand) and ¥5,177 million (\$48,729 thousand), respectively.

Total non-performing assets before charge-offs of claims deemed uncollectible, consisting of “claims to borrowers in bankruptcy,” “past due loans,” “delinquent loans contractually past due three months or more” and “restructured loans,” aggregated ¥35,820 million (\$337,161 thousand) and ¥42,685 million (\$401,778 thousand) at March 31, 2018 and 2017, respectively.

A provision of allowance for possible loan losses in the amount of ¥518 million (\$4,875 thousand) and none for the years ended March 31, 2018 and 2017, respectively, is included in “Other expenses” in the accompanying consolidated statements of income.

## 6. Foreign Exchange

At March 31, 2018 and 2017, foreign exchange consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Assets:				
Due from banks	¥ 1,641	¥ 982	\$ 15,446	\$ 9,243
Foreign bills of exchange purchased	5	45	47	423
Foreign bills of exchange receivable	430	469	4,047	4,414
	<u>¥ 2,077</u>	<u>¥ 1,497</u>	<u>\$ 19,550</u>	<u>\$ 14,090</u>
	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Liabilities:				
Foreign bills of exchange sold	¥ 1,050	¥ 463	\$ 9,883	\$ 4,358
Foreign bills of exchange payable	73	55	687	517
	<u>¥ 1,123</u>	<u>¥ 519</u>	<u>\$ 10,570</u>	<u>\$ 4,885</u>

## 7. Tangible Fixed Assets

At March 31, 2018 and 2017, tangible fixed assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Land	¥ 23,214	¥ 23,300	\$ 218,505	\$ 219,314
Buildings and structures	8,547	8,620	80,449	81,137
Construction in progress	1	1	9	9
Other tangible fixed assets	3,400	3,547	32,003	33,386
Tangible fixed assets	<u>¥ 35,163</u>	<u>¥ 35,468</u>	<u>\$ 330,977</u>	<u>\$ 333,847</u>

Accumulated depreciation of tangible fixed assets at March 31, 2018 and 2017 was ¥23,433 million (\$220,566 thousand) and ¥23,322 million (\$219,521 thousand), respectively.

As permitted by the accounting principles and practices generally accepted in Japan, deferred capital gains on sales of real property are deducted from the original acquisition cost of property newly acquired for replacement purposes in the same line of business as the property sold. At both March 31, 2018 and 2017, the amount of ¥2,286 million (\$21,517 thousand) of deferred capital gains was directly reduced from the acquisition cost of land.

The Bank elected the one-time revaluation of land used for the banking business effective on March 31, 1998, reflecting appropriate adjustments for land shape and other factors based on appraisal values issued by the Japanese National Tax Agency under the Act on Revaluation of Land. According to the Act, the amount equivalent to the tax effect on the excess of the reassessed values over the original book value is stated as “Deferred tax liabilities for revaluation,” and the remainder of the excess, net of the tax effect, is disclosed as “Land revaluation increment” and included in a component of accumulated other comprehensive income in net assets on the consolidated balance sheets. At March 31, 2017, the difference in the carrying value of land used for the banking business after reassessment over the market value amounted to ¥1,114 million (\$10,485 thousand). However, the information of the difference at March 31, 2018 was not disclosed because the market value at that time was greater than the carrying value of such land after reassessment.

## 8. Pledged Assets

At March 31, 2018 and 2017, investment securities totaling ¥141,497 million (\$1,331,861 thousand) and ¥145,822 million (\$1,372,571 thousand), respectively, were pledged as collateral for “Call money and bills sold” of ¥10,624 million (\$100,000 thousand) and none, respectively, for “Security deposits received related to securities lending transactions” of ¥65,824 million (\$619,578 thousand) and ¥83,042 million (\$781,645 thousand), respectively, and for “Borrowings” of ¥27,337 million (\$257,313 thousand) and ¥21,300 million (\$200,489 thousand), respectively.

At March 31, 2018 and 2017, investment securities totaling ¥26,731 million (\$251,609 thousand) and ¥24,929 million (\$234,647 thousand), respectively, were pledged as collateral for the settlement of exchange and other transactions.

## 9. Deposits and Negotiable Certificates of Deposit

At March 31, 2018 and 2017, deposits consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Demand deposits	¥ 1,579,721	¥ 1,465,667	\$ 14,869,361	\$ 13,795,811
Time deposits	1,137,426	1,207,227	10,706,193	11,363,205
Other	34,225	31,098	322,147	292,714
Deposits	2,751,372	2,703,993	25,897,703	25,451,741
Negotiable certificates of deposit	4,100	4,100	38,591	38,591
	<u>¥ 2,755,472</u>	<u>¥ 2,708,093</u>	<u>\$ 25,936,295</u>	<u>\$ 25,490,333</u>

## 10. Borrowings and Lease Obligations

At March 31, 2018 and 2017, borrowings, which consisted of the borrowings from other financial institutions, amounted to ¥37,742 million (\$355,252 thousand) and ¥29,975 million (\$282,144 thousand), respectively. At March 31, 2018 the annual maturities of borrowings due through February 2023 at an average interest rate of 0.15% per annum were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 30,382	\$ 285,975
2020	2,715	25,555
2021	2,335	21,978
2022	1,645	15,483
2023	665	6,259
	<u>¥ 37,742</u>	<u>\$ 355,252</u>

At March 31, 2018 and 2017, other liabilities included lease obligations of ¥7 million (\$65 thousand) and ¥10 million (\$94 thousand), respectively.

## 11. Employee Retirement Benefits

The Group has corporate pension fund plans and lump-sum retirement benefit plans as defined benefit plans, and defined contribution corporate pension plans as defined contribution plans that cover substantially all employees. Furthermore, retirement benefit trusts are set up to cover lump-sum retirement benefit plans. At March 31, 2018 and 2017, employee retirement benefits consisted of the following:

(Defined benefit plans)

(a) Movement in retirement benefit obligations:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Retirement benefit obligations at beginning of year	¥ 22,525	¥ 22,632	\$ 212,019	\$ 213,027
Service cost	776	786	7,304	7,398
Interest cost	73	73	687	687
Actuarial differences	114	291	1,073	2,739
Retirement benefits paid	(1,176)	(1,257)	(11,069)	(11,831)
Retirement benefit obligations at end of year	<u>¥ 22,312</u>	<u>¥ 22,525</u>	<u>\$ 210,015</u>	<u>\$ 212,019</u>

(b) Movement in plan assets:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Plan assets at beginning of year	¥ 24,548	¥ 24,281	\$ 231,061	\$ 228,548
Expected return on plan assets	616	620	5,798	5,835
Actuarial differences	982	220	9,243	2,070
Contribution paid by the employer	553	301	5,205	2,833
Retirement benefits paid	(905)	(874)	(8,518)	(8,226)
Plan assets at end of year	<u>¥ 25,795</u>	<u>¥ 24,548</u>	<u>\$ 242,799</u>	<u>\$ 231,061</u>

(c) Reconciliation from retirement benefit obligations and plan assets to employee retirement benefit asset or liability recorded on the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Funded retirement benefit obligations	¥ 22,312	¥ 22,525	\$ 210,015	\$ 212,019
Plan assets	(25,795)	(24,548)	(242,799)	(231,061)
	(3,483)	(2,023)	(32,784)	(19,041)
Unfunded retirement benefit obligations	-	-	-	-
Net balance of (asset) liability for retirement benefits recorded on the consolidated balance sheets at end of year	<u>(3,483)</u>	<u>(2,023)</u>	<u>(32,784)</u>	<u>(19,041)</u>
Employee retirement benefit liability	1,063	1,094	10,005	10,297
Employee retirement benefit asset	(4,547)	(3,117)	(42,799)	(29,339)
Net balance of (asset) liability for retirement benefits recorded on the consolidated balance sheets at end of year	<u>¥ (3,483)</u>	<u>¥ (2,023)</u>	<u>\$ (32,784)</u>	<u>\$ (19,041)</u>

(d) Net periodic retirement benefit expenses and their breakdown:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Service cost	¥ 776	¥ 786	\$ 7,304	\$ 7,398
Interest cost	73	73	687	687
Expected return on plan assets	(616)	(620)	(5,798)	(5,835)
Amortization of actuarial differences	179	174	1,684	1,637
Other	40	43	376	404
Net periodic retirement benefit expenses under defined benefit plans	¥ 452	¥ 457	\$ 4,254	\$ 4,301

(e) Retirement benefit adjustment in other comprehensive income, before tax effects:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Actuarial differences	¥ 1,047	¥ 103	\$ 9,855	\$ 969
Total	¥ 1,047	¥ 103	\$ 9,855	\$ 969

(f) Retirement benefit adjustment in accumulated other comprehensive income, before tax effects:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Actuarial differences yet to be recognized	¥ (1,631)	¥ (2,678)	\$ (15,352)	\$ (25,207)
Total	¥ (1,631)	¥ (2,678)	\$ (15,352)	\$ (25,207)

(g) Plan assets

i) Plan assets comprise:

	2018	2017
Debt securities	31.8%	38.9%
Equity securities	45.8	39.3
Cash and deposits	8.6	7.8
General account	12.6	13.3
Other	1.2	0.7
Total	100.0%	100.0%

*Note: At March 31, 2018 and 2017, 36.7% and 36.4% of plan assets consisted of retirement benefit trusts that are set up for corporate pension plans and lump-sum retirement benefit plans, respectively.*

ii) Determination of expected long-term rate of plan assets

The expected long-term rate of return on plan assets is determined by considering the current and future portfolios of plan assets and the current and expected long-term rates of return generated from various components of the plan assets.

(h) Actuarial assumptions at end of year:

	2018	2017
Discount rate for corporate pension plans	0.3%	0.3%
Discount rate for lump-sum retirement benefit plans	0.2%	0.2%
Expected long-term rate of return on plan assets	3.0%	3.0%

(Defined contribution plans)

The required contributions to the defined contribution plans of the Bank amounted to ¥32 million (\$301 thousand) for the year ended March 31, 2018. There were no required contributions for the year ended March 31, 2017.

## 12. Acceptances and Guarantees

The Bank provides guarantees for liabilities of certain customers for payments on the customers' loans from other financial institutions. A contra account, "Customers' liabilities for acceptances and guarantees," is classified as an asset in the consolidated balance sheets, indicating the Bank's right of indemnity from these customers.

## 13. Net Assets

At March 31, 2018 and 2017, the authorized number of shares of common stock without par value was 30 million, and the number of shares of common stock issued was 10,943,240 shares. At March 31, 2018 and 2017, the number of shares of treasury stock held by the Group was 100,742 and 100,916 shares, respectively.

At March 31, 2018 and 2017, capital surplus consisted principally of additional paid-in capital. Included in retained earnings was the legal earnings reserve of the Bank in the amount of ¥5,392 million (\$50,753 thousand) at both March 31, 2018 and 2017. The Japanese Banking Act provides that an amount equivalent to at least 20% of the cash payments as appropriations of retained earnings shall be appropriated as the legal earnings reserve until the total amount of additional paid-in capital and such reserve equals the common stock. The legal earnings reserve is not available for distributions as dividends, but may be used to reduce a deficit or may be transferred to common stock by proper action of the Board of Directors and/or the shareholders.

In November 2017, the Board of Directors of the Bank resolved to pay interim dividends of ¥487 million (\$4,583 thousand) at ¥45 per share (\$0.42 per share). The shareholders of the Bank approved the following appropriation of retained earnings at the annual shareholders meeting on June 22, 2018.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥45 per share (\$0.42 per share)	¥ 487	\$ 4,583

## 14. Stock Options

### (a) Stock option expenses

The Bank recorded stock option expenses of ¥44 million (\$414 thousand) and ¥47 million (\$442 thousand) in “General and administrative expenses” for the years ended March 31, 2018 and 2017, respectively.

### (b) Outline of stock options and size of and changes in stock options

#### i) Outline of stock options:

	2012 stock options	2013 stock options	2014 stock options
Position and number of grantees	13 directors of the Bank (excluding outside directors)	13 directors of the Bank (excluding outside directors)	13 directors of the Bank (excluding outside directors)
Number of options granted*	13,000 common shares of the Bank	12,200 common shares of the Bank	9,100 common shares of the Bank
Grant date	July 20, 2012	July 19, 2013	July 25, 2014
Conditions for vesting	Not defined	Not defined	Not defined
Requisite service period	Not defined	Not defined	Not defined
Exercise period	July 21, 2012 to July 20, 2042	July 20, 2013 to July 19, 2043	July 26, 2014 to July 25, 2044
	2015 stock options	2016 stock options	2017 stock options
Position and number of grantees	13 directors of the Bank (excluding outside directors)	13 directors of the Bank (excluding directors who are Audit and Supervisory Committee Members and outside directors)	11 directors of the Bank (excluding directors who are Audit and Supervisory Committee Members and outside directors)
Number of options granted*	7,100 common shares of the Bank	10,600 common shares of the Bank	7,400 common shares of the Bank
Grant date	July 24, 2015	July 22, 2016	July 21, 2017
Conditions for vesting	Not defined	Not defined	Not defined
Requisite service period	Not defined	Not defined	Not defined
Exercise period	July 25, 2015 to July 24, 2045	July 23, 2016 to July 22, 2046	July 22, 2017 to July 21, 2047

Note: \* Calculated in terms of the number of shares.

ii) Size of and changes in stock options:

The following describes the size of and changes in stock options that existed during the years ended March 31, 2018 and 2017. The number of stock options is calculated in terms of the number of shares.

a) Number of stock options

	2012 stock options	2013 stock options	2014 stock options
Non-vested:			
Outstanding at April 1, 2016	-	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested	-	-	-
Outstanding at March 31, 2017	-	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested	-	-	-
Outstanding at March 31, 2018	-	-	-
Vested:			
Outstanding at April 1, 2016	12,600 shares	12,200 shares	9,100 shares
Vested	-	-	-
Exercised	(3,700 shares)	-	-
Forfeited	-	-	-
Outstanding at March 31, 2017	8,900 shares	12,200 shares	9,100 shares
Vested	-	-	-
Exercised	(300 shares)	(1,400 shares)	-
Forfeited	-	-	-
Outstanding at March 31, 2018	8,600 shares	10,800 shares	9,100 shares
	2015 stock options	2016 stock options	2017 stock options
Non-vested:			
Outstanding at April 1, 2016	-	-	-
Granted	-	10,600 shares	-
Forfeited	-	-	-
Vested	-	(10,600 shares)	-
Outstanding at March 31, 2017	-	-	-
Granted	-	-	7,400 shares
Forfeited	-	-	-
Vested	-	-	(7,400 shares)
Outstanding at March 31, 2018	-	-	-
Vested:			
Outstanding at April 1, 2016	7,100 shares	-	-
Vested	-	10,600 shares	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at March 31, 2017	7,100 shares	10,600 shares	-
Vested	-	-	7,400 shares
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at March 31, 2018	7,100 shares	10,600 shares	7,400 shares



b) Price information

	2012	2013	2014	2015	2016	2017
	<u>stock options</u>	<u>stock options</u>	<u>stock options</u>	<u>stock options</u>	<u>stock options</u>	<u>stock options</u>
(Per share)						
Exercise price	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)
Average stock price at exercise	¥5,470 (\$51.48)	¥5,970 (\$56.19)	-	-	-	-
Fair value at grant date	¥3,645 (\$34.30)	¥4,556 (\$42.88)	¥4,959 (\$46.67)	¥6,811 (\$64.10)	¥4,466 (\$42.03)	¥6,004 (\$56.51)

iii) Valuation technique to estimate fair value of stock options granted for the years ended March 31, 2018 and 2017:

(1) 2016 stock options:

a) Valuation technique used: Black-Scholes model

b) Major assumptions and estimation method

	<u>2016 stock options</u>
Expected volatility (*1)	36.579%
Expected life (*2)	2.2 years
Expected dividends (*3)	¥80 (\$0.75) per share
Risk free interest rate (*4)	(0.342)%

Notes: (\*1) Expected volatility is calculated based on the actual stock prices during the period from May 2014 to July 2016, which corresponds to the expected life of the options.

(\*2) Expected life is estimated based on the difference between the average term of office of directors who retired during the past 10 years and the average term of office of existing directors in office.

(\*3) Expected dividends are the actual dividends for the year ended March 31, 2016.

(\*4) Risk free interest rate is a Japanese government bond yield which corresponds to the expected life.

(2) 2017 stock options:

a) Valuation technique used: Black-Scholes model

b) Major assumptions and estimation method

	<u>2017 stock options</u>
Expected volatility (*1)	39.199%
Expected life (*2)	1.4 years
Expected dividends (*3)	¥90 (\$0.84) per share
Risk free interest rate (*4)	(0.120)%

Notes: (\*1) Expected volatility is calculated based on the actual stock prices during the period from February 2016 to July 2017, which corresponds to the expected life of the options.

(\*2) Expected life is estimated based on the difference between the average term of office of directors who retired during the past 10 years and the average term of office of existing directors in office.

(\*3) Expected dividends are the actual dividends for the year ended March 31, 2017.

(\*4) Risk free interest rate is a Japanese government bond yield which corresponds to the expected life.

iv) Method of estimating number of stock options vested

Basically, only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the number of stock options to be forfeited in the future.

## 15. Commitments

### (a) Loan commitments

Contracts related to overdraft facilities and loan commitment lines are agreements that allow customers to overdraw or borrow up to prescribed limits unless there is violation of any condition in the contract. At March 31, 2018 and 2017, the unused amounts within the limits of these contracts, which originally expire within one year or are revocable by the Bank at any time without any conditions, aggregated ¥593,875 million (\$5,589,937 thousand) and ¥595,114 million (\$5,601,600 thousand), respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash flow. In addition, most of these contracts have conditions that the Group can refuse customer applications or decrease the contract limits for appropriate reasons such as changes in the financial situation or deterioration in creditworthiness of the customer. At the execution of the contract, the Bank obtains real estate, securities, etc., as collateral if considered necessary. Subsequently, the Bank performs periodic reviews of the customer's business performance in accordance with the Bank's internal rules and takes necessary measures such as modifying the terms and conditions of the contracts and/or requiring additional collateral and/or guarantees if necessary.

### (b) Lease commitments

The Group has entered into various lease agreements as a lessee principally for land for office space. These leases are generally cancelable with a few months advance notice and are accounted for as operating leases. The Group has also entered into non-cancelable operating lease agreements. The future minimum lease payments under these non-cancellable operating leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Due within one year	¥ 100	¥ 101	\$ 941	\$ 950
Due after one year	1,257	1,170	11,831	11,012
	<u>¥ 1,358</u>	<u>¥ 1,272</u>	<u>\$ 12,782</u>	<u>\$ 11,972</u>

In addition, a subsidiary engaged in the leasing business as a lessor has entered into various long-term, non-cancelable lease agreements with third parties that were categorized as finance leases. Information concerning future minimum lease payments to be received as of March 31, 2018 and 2017 for finance leases which do not transfer ownership of the leased assets to the lessee was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Total future minimum lease payments to be received	¥ 14,626	¥ 13,579	\$ 137,669	\$ 127,814
Estimated residual value of leased assets	760	726	7,153	6,833
Imputed interest	(149)	(408)	(1,402)	(3,840)

The aggregate annual maturities of future minimum lease payments to be received as of March 31, 2018 were as follows:

<u>Year ending March 31,</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
2019	¥ 3,999	\$ 37,641
2020	3,337	31,410
2021	2,687	25,291
2022	1,960	18,448
2023	1,233	11,605
2024 and thereafter	1,409	13,262
	<u>¥ 14,626</u>	<u>\$ 137,669</u>

As permitted by the accounting standard for lease transactions with respect to finance leases entered into before April 1, 2008, the appropriate carrying value, net of accumulated depreciation, of the underlying assets at March 31, 2008 is recognized as the value of the investment in the leased assets, and the total amount equivalent to interest income on these transactions is allocated over the lease term using the straight-line method, instead of the effective interest method, as the principal method of the accounting standard. As a result, profit before income taxes for the years ended March 31, 2018 and 2017 were ¥0 million (\$0 thousand) and ¥5 million (\$47 thousand) more, respectively, than the amounts that would have been recorded under the effective interest method based on lease payments receivable.

## 16. Derivative Financial Instruments

Derivative financial instruments, other than those to which hedge accounting was applied, which were traded on the over-the-counter market and stated at fair value and whose valuation gains and losses are recognized in the consolidated statements of income, as of March 31, 2018 and 2017 are summarized as follows:

Millions of yen				
	Notional principal or contract amounts		Fair value*	Valuation gains (losses)
	Total	Over one year		
Foreign exchange forward contracts:				
At March 31, 2018	¥ 22,232	¥ -	¥ 314	¥ 314
At March 31, 2017	42,490	-	(229)	(229)
Thousands of U.S. dollars				
	Notional principal or contract amounts		Fair value*	Valuation gains (losses)
	Total	Over one year		
Foreign exchange forward contracts:				
At March 31, 2018	\$ 209,262	\$ -	\$ 2,955	\$ 2,955
At March 31, 2017	399,943	-	(2,155)	(2,155)

Note: \* Fair value was based on the discounted cash flow method.

There were no outstanding derivative financial instruments to which hedge accounting was applied as of March 31, 2018 and 2017.

## 17. Income Taxes

Income taxes for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Income taxes:				
Current	¥ 1,959	¥ 1,665	\$ 18,439	\$ 15,672
Deferred	(132)	671	(1,242)	6,315
Total income taxes	¥ 1,826	¥ 2,337	\$ 17,187	\$ 21,997

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Deferred tax assets:				
Allowance for possible loan losses	¥ 1,434	¥ 1,796	\$ 13,497	\$ 16,905
Employee retirement benefit liability	1,549	1,554	14,580	14,627
Investment securities	1,490	1,499	14,024	14,109
Other	2,966	2,971	27,917	27,964
Subtotal	7,441	7,822	70,039	73,625
Less valuation allowance	(2,287)	(2,297)	(21,526)	(21,620)
Total deferred tax assets	5,154	5,524	48,512	51,995
Deferred tax liabilities:				
Employee retirement benefit asset	(732)	(187)	(6,890)	(1,760)
Unrealized gains on available-for-sale securities	(25,156)	(22,268)	(236,784)	(209,600)
Gains on transfer of investment securities to trusts for retirement benefit plans	(644)	(1,356)	(6,061)	(12,763)
Deferred gains on sale of property and other	(213)	(211)	(2,004)	(1,986)
Total deferred tax liabilities	(26,746)	(24,025)	(251,750)	(226,138)
Net deferred tax liabilities	¥ (21,592)	¥ (18,500)	\$ (203,237)	\$ (174,134)

At March 31, 2018 and 2017, deferred tax assets and liabilities reported on the accompanying consolidated balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Deferred tax assets	¥ 174	¥ 148	\$ 1,637	\$ 1,393
Deferred tax liabilities	21,767	18,648	204,885	175,527

In assessing the realizability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At March 31, 2018 and 2017, a valuation allowance was provided to reduce deferred tax assets to the extent that the management believed that the deferred tax assets were not realizable.

A reconciliation between the Japanese statutory tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for both the years ended March 31, 2018 and 2017 was not disclosed because the difference between the Japanese statutory tax rate and the effective income tax rate was less than 5% of the Japanese statutory tax rate.

## 18. General and administrative expenses

General and administrative expenses for the years ended March 31, 2018 and 2017 included following items:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
General and administrative expenses:				
Salaries and allowances	¥ 12,421	¥ 12,532	\$ 116,914	\$ 117,959
Net periodic retirement benefit expenses	452	457	4,254	4,301
Rental expenses for land, buildings and machinery	2,926	2,960	27,541	27,861

## 19. Segment Information

### (a) General information about reportable segments

The Group defines a reportable segment as a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

The Group engages in a wide range of financial services to customers primarily in the areas of banking and leasing. The reportable segments of the Group, therefore, are based on operating segments as follows:

#### “Banking”

- Deposits and loans
- Foreign exchange transactions
- Over-the-counter sales of investment trusts and life insurance products
- Securities business

#### “Leasing”

- Leasing business

### (b) Accounting treatment for reportable segment profit, segment assets, segment liabilities and other material items

The accounting treatment for reportable segment information follows the accounting principles used in the consolidated financial statements as described in Note 2, “Summary of Significant Accounting Policies.” The segment profit is based on ordinary income, which is defined as “Total income” less certain special income included in “Other income” in the accompanying consolidated statements of income, and intersegment income is accounted for based on prices in ordinary transactions with independent third parties.

**(c) Information about reportable segment profit, segment assets, segment liabilities and other material items**

Segment information as of and for the year ended March 31, 2018 was as follows:

Millions of yen								
2018								
	Reportable segment			Other (*2)	Total	Reconciliation (*3)	Consolidated	
	Banking	Leasing	Total					
Ordinary income (*1):								
External customers	¥ 42,748	¥ 6,486	¥ 49,235	¥ 998	¥ 50,233	¥ -	¥ 50,233	
Intersegment	171	267	439	279	718	(718)	-	
Total ordinary income	42,920	6,754	49,674	1,278	50,952	(718)	50,233	
Segment profit (*4)	6,117	220	6,337	79	6,417	(53)	6,363	
Segment assets	3,135,173	22,786	3,157,959	5,583	3,163,543	(9,573)	3,153,970	
Segment liabilities	2,909,218	17,285	2,926,504	994	2,927,499	(9,574)	2,917,924	
Other material items:								
Depreciation	¥ 1,297	¥ 97	¥ 1,395	¥ 18	¥ 1,413	¥ -	¥ 1,413	
Interest and dividend income	29,400	10	29,410	38	29,449	(80)	29,368	
Interest expense	1,024	55	1,079	3	1,083	(76)	1,006	
Provision of allowance for possible loan losses	309	155	465	52	518	0	518	
Loss on write-down of securities	-	-	-	-	-	-	-	
Increase in tangible fixed assets and intangible fixed assets	1,650	-	1,650	2	1,653	-	1,653	

Thousands of U.S. dollars								
2018								
	Reportable segment			Other (*2)	Total	Reconciliation (*3)	Consolidated	
	Banking	Leasing	Total					
Ordinary income (*1):								
External customers	\$ 402,371	\$ 61,050	\$ 463,431	\$ 9,393	\$ 472,825	\$ -	\$ 472,825	
Intersegment	1,609	2,513	4,132	2,626	6,758	(6,758)	-	
Total ordinary income	403,990	63,573	467,564	12,029	479,593	(6,758)	472,825	
Segment profit (*4)	57,577	2,070	59,647	743	60,400	(498)	59,892	
Segment assets	29,510,288	214,476	29,724,764	52,550	29,777,324	(90,107)	29,687,217	
Segment liabilities	27,383,452	162,697	27,546,159	9,356	27,555,525	(90,116)	27,465,399	
Other material items:								
Depreciation	\$ 12,208	\$ 913	\$ 13,130	\$ 169	\$ 13,300	\$ -	\$ 13,300	
Interest and dividend income	276,731	94	276,826	357	277,193	(753)	276,430	
Interest expense	9,638	517	10,156	28	10,193	(715)	9,469	
Provision of allowance for possible loan losses	2,908	1,458	4,376	489	4,875	0	4,875	
Loss on write-down of securities	-	-	-	-	-	-	-	
Increase in tangible fixed assets and intangible fixed assets	15,530	-	15,530	18	15,559	-	15,559	

**Notes:**

(\*1) Ordinary income represents "Total income" less certain special income included in "Other income" in the accompanying consolidated statements of income. "Total income" of ¥50,241 million (\$472,900 thousand) in the accompanying consolidated statement of income is derived from ordinary income of ¥50,233 million (\$472,825 thousand) through the addition of certain special income of ¥7 million (\$65 thousand).

(\*2) The "Other" business segment in the table above represents operating segments not included in the reportable segments and includes credit card business, administrative outsourcing business and information technology management operations.

(\*3) Reconciliation represents the eliminations of intersegment transactions.

(\*4) Segment profit is reconciled to ordinary profit, which represents ordinary income less ordinary expenses. Ordinary expenses represent "Total expenses" of ¥44,056 million (\$414,683 thousand) less certain special expenses of ¥186 million (\$1,750 thousand) included in "Other expenses" in the accompanying consolidated statements of income. Therefore, consolidated segment profit, which shows ordinary profit of ¥6,363 million (\$59,892 thousand), is reconciled to "Profit before income taxes" of ¥6,185 million (\$58,217 thousand) through the deduction of certain special expenses, net.

Segment information as of and for the year ended March 31, 2017 was as follows:

Millions of yen								
2017								
Reportable segment					Reconciliation			
	Banking	Leasing	Total	Other (*1)	Total	(*2)	Consolidated	
Ordinary income:								
External customers	¥ 43,147	¥ 5,898	¥ 49,045	¥ 986	¥ 50,031	¥ -	¥ 50,031	
Intersegment	302	371	673	357	1,031	(1,031)	-	
Total ordinary income	43,449	6,270	49,719	1,343	51,062	(1,031)	50,031	
Segment profit (*3)	7,323	368	7,691	140	7,832	(184)	7,648	
Segment assets	3,093,554	21,340	3,114,894	5,484	3,120,379	(10,382)	3,109,996	
Segment liabilities	2,878,006	15,984	2,893,991	913	2,894,904	(10,383)	2,884,520	
Other material items:								
Depreciation	¥ 1,187	¥ 101	¥ 1,288	¥ 18	¥ 1,306	¥ -	¥ 1,306	
Interest and dividend income	31,174	9	31,184	44	31,228	(212)	31,015	
Interest expense	1,305	55	1,361	3	1,365	(83)	1,282	
Provision of allowance for possible loan losses	(7)	(18)	(25)	18	(7)	(0)	(7)	
Loss on write-down of securities	8	-	8	-	8	-	8	
Increase in tangible fixed assets and intangible fixed assets	2,004	-	2,004	50	2,055	-	2,055	
Thousands of U.S. dollars								
2017								
Reportable segment					Reconciliation			
	Banking	Leasing	Total	Other (*1)	Total	(*2)	Consolidated	
Ordinary income:								
External customers	\$ 406,127	\$ 55,515	\$ 461,643	\$ 9,280	\$ 470,924	\$ -	\$ 470,924	
Intersegment	2,842	3,492	6,334	3,360	9,704	(9,704)	-	
Total ordinary income	408,970	59,017	467,987	12,641	480,628	(9,704)	470,924	
Segment profit (*3)	68,928	3,463	72,392	1,317	73,719	(1,731)	71,987	
Segment assets	29,118,542	200,865	29,319,408	51,618	29,371,037	(97,722)	29,273,305	
Segment liabilities	27,089,664	150,451	27,240,126	8,593	27,248,719	(97,731)	27,150,978	
Other material items:								
Depreciation	\$ 11,172	\$ 950	\$ 12,123	\$ 169	\$ 12,292	\$ -	\$ 12,292	
Interest and dividend income	293,429	84	293,524	414	293,938	(1,995)	291,933	
Interest expense	12,283	517	12,810	28	12,848	(781)	12,067	
Provision of allowance for possible loan losses	(65)	(169)	(235)	169	(65)	(0)	(65)	
Loss on write-down of securities	75	-	75	-	75	-	75	
Increase in tangible fixed assets and intangible fixed assets	18,862	-	18,862	470	19,342	-	19,342	

Notes:

(\*1) The "Other" business segment in the table above represents operating segments not included in the reportable segments and includes credit card business, administrative outsourcing business and information technology management operations.

(\*2) Reconciliation represents the eliminations of intersegment transactions.

(\*3) Segment profit is reconciled to ordinary profit, which represents ordinary income less ordinary expenses. Ordinary expenses represent "Total expenses" of ¥42,470 million (\$399,755 thousand) less certain special expenses of ¥86 million (\$809 thousand) included in "Other expenses" in the accompanying consolidated statements of income. Therefore, consolidated segment profit, which shows ordinary profit of ¥7,648 million (\$71,987 thousand), is reconciled to "Profit before income taxes" of ¥7,561 million (\$71,169 thousand) through the deduction of certain special expenses, net.



**(d) Other information**

i) Information by service

		Millions of yen				
		Service				
		Loans	Security investments	Leasing	Other	Total
Ordinary income from external customers:						
For the year ended March 31, 2018	¥	17,333	¥ 18,443	¥ 6,486	¥ 7,971	¥ 50,233
For the year ended March 31, 2017		18,209	18,214	5,898	7,708	50,031

		Thousands of U.S. dollars				
		Service				
		Loans	Security investments	Leasing	Other	Total
Ordinary income from external customers:						
For the year ended March 31, 2018	\$	163,149	\$ 173,597	\$ 61,050	\$ 75,028	\$ 472,825
For the year ended March 31, 2017		171,394	171,442	55,515	72,552	470,924

ii) Information by geographical area for the years ended March 31, 2018 and 2017 is omitted since income in Japan accounted for more than 90% of the consolidated ordinary income and all tangible fixed assets were located in Japan.

iii) Information by major customer for the years ended March 31, 2018 and 2017 is omitted since there was no single external customer accounting for 10% or more of the consolidated ordinary income.

**(e) Information about impairment loss on fixed assets by reportable segment**

		Millions of yen				
		Reportable segment			Other	Total
		Banking	Leasing	Total		
Impairment loss:						
For the year ended March 31, 2018	¥	176	¥ -	¥ 176	¥ -	¥ 176
For the year ended March 31, 2017		51	-	51	-	51

		Thousands of U.S. dollars				
		Reportable segment			Other	Total
		Banking	Leasing	Total		
Impairment loss:						
For the year ended March 31, 2018	\$	1,656	\$ -	\$ 1,656	\$ -	\$ 1,656
For the year ended March 31, 2017		480	-	480	-	480

## 20. Transactions with Related Parties

Significant transactions with parties related to the Group for the years ended March 31, 2018 and 2017 were as follows:

Transactions with relatives of the Bank's directors:

		Description of the Bank's transaction	Transaction amounts		Account	Balances		
Name	Business		Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars	
<u>For the year ended March 31, 2018:</u>								
Chieko Hayashi	Real estate leasing business	Loan	(Average balance during period)		Loans and bills discounted			
			¥ 12	\$ 112		¥ -	\$ -	
			(Interest income)					
			¥ 0	\$ 0				
<u>For the year ended March 31, 2017:</u>								
Chieko Hayashi	Real estate leasing business	Loan	(Average balance during period)		Loans and bills discounted			
			¥ 19	\$ 178		¥ 19	\$ 178	
			(Interest income)					
			¥ 0	\$ 0				

*Note: Terms and conditions of the loans are determined in the same manner as loans under general lending transactions with third parties.*

## 21. Comprehensive Income

Amounts reclassified to profit (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Net unrealized gains on available-for-sale securities:				
Decrease during the year	¥ 12,488	¥ (4,728)	\$ 117,545	\$ (44,503)
Reclassification adjustments	(3,108)	(3,670)	(29,254)	(34,544)
Pre-tax amount	9,379	(8,399)	88,281	(79,056)
Tax effect amount	(2,887)	2,741	(27,174)	25,800
Net unrealized gains on available-for-sale securities, net of tax	6,492	(5,658)	61,106	(53,256)
Land revaluation increment:				
Increase (decrease) during the year	-	-	-	-
Reclassification adjustments	-	-	-	-
Pre-tax amount	-	-	-	-
Tax effect amount	(14)	-	(131)	-
Land revaluation increment, net of tax	(14)	-	(131)	-
Retirement benefit adjustment:				
Decrease during the year	867	(70)	8,160	(658)
Reclassification adjustments	179	174	1,684	1,637
Pre-tax amount	1,047	103	9,855	969
Tax effect amount	(317)	(31)	(2,983)	(291)
Retirement benefit adjustment, net of tax	729	71	6,861	668
Total other comprehensive income	¥ 7,207	¥ (5,586)	\$ 67,836	\$ (52,579)