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# ANNUAL REPORT 2018

Year ended March 31, 2018

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# ANNUAL REPORT 2018

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## PROFILE

The Nanto Bank, Ltd. (the “Bank” or “Nanto Bank”) is based in Nara Prefecture, a region rich in tradition and culture dating back to its development as Japan’s first capital in the early 8th century. Since its establishment in 1934, Nanto Bank has achieved steady growth in partnership with its region and continues to maintain a sound financial structure. As of March 31, 2018, Nanto Bank had deposits of ¥4,817.6 billion, loans of ¥3,330.5 billion and total assets of ¥5,808.4 billion.

Nanto Bank’s domestic network of 140 branches extends beyond Nara Prefecture to the neighboring prefectures of Osaka, Kyoto, Hyogo, Mie, Wakayama and Tokyo. The Bank has become a trusted institution in communities throughout its region thanks to its commitment to regionally focused services designed to meet the needs of local customers.

Nanto Bank continues to make a positive contribution to regional economic development by providing a comprehensive range of financial services, including overseas services, and maintains representative offices in Hong Kong and Shanghai.

## CORPORATE PHILOSOPHY

1. Pursue sound and efficient management
2. Provide superior comprehensive financial services
3. Contribute to regional prosperity
4. Strive to become a highly reliable, friendly and attractive bank

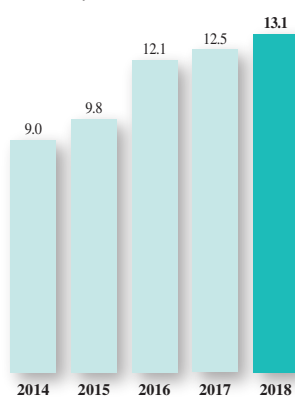


# Consolidated Financial Highlights

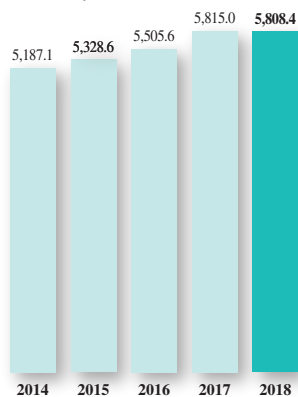
	Millions of yen					Thousands of U.S. dollars
	2018	2017	2016	2015	2014	2018
<b>For the year:</b>						
Total income .....	¥ 79,899	¥ 81,230	¥ 76,417	¥ 81,869	¥ 82,717	\$ 752,061
Total expenses .....	61,884	64,450	61,586	63,857	62,923	582,492
Income before income taxes .....	18,015	16,779	14,831	18,012	19,794	169,568
Net income .....	13,160	12,508	12,159	9,874	9,079	123,870
<b>At year-end:</b>						
Total assets .....	5,808,433	5,815,095	5,505,607	5,328,661	5,187,191	54,672,750
Loans and bills discounted .....	3,330,514	3,252,218	3,188,341	3,079,175	2,972,159	31,348,964
Securities .....	1,539,150	1,686,575	1,797,411	1,693,517	1,907,331	14,487,481
Deposits and negotiable certificates of deposit .....	4,836,602	4,765,789	4,766,330	4,754,414	4,662,888	45,525,244
Total liabilities .....	5,524,294	5,563,956	5,253,894	5,077,342	4,966,542	51,998,249
Non-controlling interests .....	—	—	—	7,935	7,336	—
Total net assets .....	284,139	251,139	251,712	251,318	220,648	2,674,501
Common stock .....	37,924	29,249	29,249	29,249	29,249	356,965
<b>Per share data:</b>						
	Yen					U.S. dollars
Net income .....	¥ 418.05	¥ 466.05	¥ 453.22	¥ 36.81	¥ 33.78	\$ 3.93
Stockholders' equity .....	8,714.54	9,353.18	9,376.62	906.92	794.95	82.02
Capital adequacy ratio (%) .....	9.88	9.42	9.36	9.72	10.51	

Note: U.S. dollar amounts are included solely for the convenience of readers and are calculated at the exchange rate of ¥106.24 to US\$1.00, the rate prevailing on March 31, 2018.

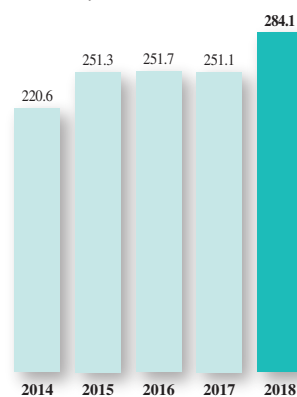
**Net Income**  
(Billions of yen)



**Total Assets**  
(Billions of yen)



**Total Net Assets**  
(Billions of yen)



We would like to express our sincerest condolences and wishes for reconstruction as fast as possible for everyone affected by the heavy rains in July 2018 and the earthquake in the northern part of Osaka Prefecture in June 2018.

The purpose of this Annual Report 2018 is to disclose our performance in fiscal 2017 (the year ended March 31, 2018) and our initiatives conducted during the fiscal year. We would appreciate it if you would read through the report.

The Japanese economy is expanding moderately thanks to the improving corporate performance and the employment situation. This recovery trend is expected to continue with support from strong growth in overseas economies and construction investments in anticipation of the Tokyo Olympics in the future. In terms of the regional economy centered around Nara Prefecture, there were bright signs as a result of inbound tourism and the overall economy is undergoing a recovery in the same manner as the Japanese economy. However, the region is also facing the issues of a decreasing population and insufficient workforce and efforts toward the local community, people and job creation are required for regional revitalization.

Under these circumstances, we are entering the second year of the Bank's medium-term management plan titled "Vitality Creation Plan II – Changing and Taking on Challenges" (April 2017 to March 2020) to realize the management vision of a "Vitality Creating Bank" which creates vitality in the community and itself. We have implemented various measures and made many reforms to create regional economic vitality, deliver customer-centric services, improve productivity and profitability through reviewing operations and upgrade the management and controls framework.

We believe it is the role of a regional financial institution to support the local economy, and all of our executives and employees will adhere to our management philosophies of pursuing sound and efficient management and contributing to regional prosperity while endeavoring to deliver high-quality services that are truly needed.

We look forward to the continued understanding and support of all of our stakeholders.

## “Vitality Creating Bank” - Creating New Values and Revitalizing the Region -

### Introduction



Looking at the Japanese economy, while it will be necessary to watch for the impact of fluctuations in financial markets and protectionist trade policies originating from the U.S., the economy is moderately expanding thanks to factors including the effect of inbound tourism, growing construction investments in anticipation of the Tokyo Olympics, and improvements in employment and wage conditions, and these trends are expected to continue in the future, particularly in major metropolitan areas. However, conditions in the operating environment for financial institution are becoming increasingly severe as a result of factors such as chronic shortage of manpower and shrinking markets stemming from lower fertility and aging

population, and a declining population, and the emergence of new financial services using fintech. Within this environment, we are working to implement the medium-term management plan titled "Vitality Creation Plan II – Changing and Taking on Challenges," which started last year, in order to realize the management vision of a "Vitality Creating Bank" which creates vitality in the community and itself.

In the new medium-term management plan, we have set the three years as a period in which to strive to change to a robust structure in consideration of the changing financial climate. For the plan's final year, coinciding with our 85th anniversary, we will endeavor to achieve good results in terms of earnings and financial position, and we will strongly pursue business model reform through the pursuit of the Four Reforms of awareness reform, sales reform, clerical operations reform, and expenses reform. During the current fiscal year, we will steadily endeavor to achieve these reforms as we implement various measures based on the stance that this reform will lead to the Bank's future.

## Creating Regional Economic Vitality

Regional creation of an autonomous and sustainable society that takes advantage of the characteristics of the local community is an essential initiative for a regional bank. In order to fulfill our role as a coordinator in cooperation with local municipality as well as universities, companies, and various organizations, the Bank actively coordinates and cooperates in a wide range of activities such as regional economy vitalizing projects that include support for business creation and promotion of transfers and permanent citizenship in the region.

Specific projects include the Ikoma Vacant House Distribution Promotion Platform, which was established in May of this year with Ikoma City, and real estate distribution-related organizations in the city to promote the distribution of vacant houses, etc. There are plans to take advantage of the knowledge of experts in various fields and provide support for individual properties.

In response to the corporate management issue of securing high-quality human resources, tours of companies in Nara Prefecture for students were conducted jointly with universities and economic organizations in Nara Prefecture in February of this year. We believe there will be even more demands in the future for efforts in which industries, governments, schools and finance collaborate to unite the region. Going forward, we will work to promote regional revitalization and the development of the regional economy through the effective use of the resources these groups have and cooperating together to respond to regional needs.

In October of last year, the Tourism Strategy Office was established in the Public Institutions & Regional Vitality Creation Division, and a Cooperative Agreement on Tourist Area Creations was signed with the Nara Visitors Bureau. We have dispatched bank employees to cooperate with the establishment of new business models through tourism promotion.

## Delivering Customer-centric Services

The needs of customers are changing at an unprecedented speed and becoming more diverse and sophisticated in line with the social and economic situation. In order to gain the continued support of customers in these circumstances, we would like to deliver optimal services truly desired by customers by constantly responding to these changes.

Based on this stance, we will aim to further instill and entrench a spirit of customer satisfaction (CS) and thoroughly ensure operation management from a customer-oriented approach in an aim to be the “Number One Bank in Service.”

By delivering customer-centered services, we would like to establish new business models in line with the times as a regional financial institution.

In addition, we made a third investment in the Nara Prefecture Tourism Revitalization Fund in April of this year. It is hoped that this fund will further promote regional revitalization using the historic resource of kominka (old houses). Furthermore, we implemented the fourth NANTO Success Road business plan commercialization support project during the previous fiscal year to support customers who want to establish or develop new businesses. Students also submitted plans this time, and 11 plans were awarded. As was done with the previous plans, headquarters representatives will continue to provide support for these plans toward achieving prompt commercialization while working together with external organizations.



Since its foundation, we have endeavored to conduct business closely rooted in the region as a bank that grows together with the region. We will continue to do our utmost in response to challenges in the region and link such efforts to the revitalization of the region.



### Improving Productivity and Profitability through Reviewing Operations

First, in terms of sales, we are reviewing the branch and sales framework in consideration of market characteristics. We are aiming to achieve a balance between improvements in customer convenience and efficiency through efforts including changes from a full bank to branches specializing in individual customers, relocation of branches, and the introduction of mobile ATM vehicles. As a new initiative, Hoken no Madoguchi @Nanto Bank was opened in two branches in July of this year in cooperation with Hoken no Madoguchi Group Inc. We offer a large lineup of insurance products including medical insurance and cancer insurance, and we work to propose products in line with the life plan of customers.



Next, in terms of initiatives for each department, for individual customers, we aim to serve as the closest possible consultant for customers of all generations by paying proper attention to their life stages. As for strengthening our securities business and inheritance business that serve as the pillars of our retail sales, following the launch of trust and inheritance services in April of last year, we are currently preparing to establish a securities subsidiary. In the non-face-to-face channel, we launched a “service completed on the website” that offers one-stop service from various loan applications to contract signing over the Internet from April of this year. Going forward, we will work to introduce new financial services in order to improve customer convenience.

Next, for corporate customers, we aim to become the true main bank for the customer through exercising the consultation function and delivering solutions according to the company’s growth stage. We have supported business creation and development of new businesses through the business plan commercialization support project, the utilization of the dedicated NANTO Commercialization Support Fund 80 financing program, and the formation of the NANTO CVC Limited Liability Investment Partnership (known as: NANTO CVC Fund) in June of last year

and the NANTO Regional Vitality Creation Support Limited Liability Investment Partnership (known as: NANTO Regional Vitality Creation Support Fund) in September. We will utilize these funds in an effort to use technologies and know-how from business partnerships with the companies invested in, improve the corporate value of companies invested in, and achieve further synergies with the bank.

In addition, we will strengthen business matching and overseas business support and do our utmost to support business expansion for customers through means such as continuing to hold the Active Company Matching Fair and the Food and Goods Business Panel, as well as the holding of business panels and business seminars throughout Asia.

Furthermore, we started lease intermediary services with the subsidiary Nanto Lease Co., Ltd. that can propose financing and leases for capital expenditures by customers from April of this year, and we will also provide business succession support and M&A advisory services through headquarters with specialized knowledge.

As more advanced skills and know-how are required than in the past to support the needs of customers in both the personal department and corporate department, our sales branches, specialized personnel at headquarters and the Nanto Bank Group will devote their full efforts while working closely together with external organizations in order to offer optimal solutions for customers.

In terms of clerical operations, we will improve productivity through a fundamental overhaul of sales branch and headquarters clerical operations as we transform ourselves into an efficient organization. At sales branches, we will work to further improve the efficiency of clerical operations from the perspective of abolition, simplification, machine usage/labor saving and concentration and establish branch operations systems that are simple and convenient for customers to use. In July of this year, we opened a semi-self bank counter (quick counter) integrated with an ATM that does not require entry for deposit slips at the Saidaiji Branch. Because these counters are simpler and more convenient for customers and they also reduce bank administrative work, we have plans to gradually increase these counters in the future. In addition, we completed the consolidation of the back-end operations of sales branches at headquarters that we have pursued since 2016 in June of this year at all sales branches. We also established a Document Management Center to reduce the burden of sales branches related to the storage of documents, etc., and started operations of this center from July of this year. We believe these measures will reduce the number

of administrative personnel at sales branches and increase the number of personnel who can respond to the needs of customers.

Next, we will work to vitalize our human resources and organization by fostering the spirit of taking on challenges among the bankers, bolstering the human resource development system, and realizing a work-life balance. In order to improve motivation and fulfillment in work, and ensure that each and every employee can perform to 100% of their ability, we will work to assign appropriate human resources to appropriate positions, develop systems to reduce overtime work and support the diversification of working styles, and develop the capability of young bank employees at an early stage. Furthermore, we have newly established a continuous employment system for further participation of the senior generation.

In addition, in order to develop employees who are capable of thinking and acting for themselves, we have adopted the kaizen (improvement) and 5S approaches of manufacturers and will work to create an improvement culture and ethos that are unique to the Bank.

## Upgrading the Management and Controls Framework

We will continue to work to make our business management structure more advanced in order to firmly support the business model aimed for under the medium-term management plan and further improve the level of trust from customers.

Compliance is fundamental for banks to faithfully carry out their social responsibilities and public missions. In order to earn the constant trust of our stakeholders, we are committed to instilling greater awareness of compliance among all

## In Partnership with the Community

The Bank has conducted business activities rooted in the local community as it has grown together with the community up until now. While there will be no change to this policy in the future, the Bank must respond flexibly to changes in the surrounding environment. For this reason, we have displayed “Break it Down, Nanto” posters\* in our branches since May of this year. These posters represent our message of creating new values beyond common sense and fixed ideas up until now to be reborn as a new bank. All our executives and employees will work together to improve corporate value and live up to the expectations of our stakeholders as we strive for a responsive management based on keen sensibilities and steadily fulfill our mission of creating regional vitality.

We look forward to your continued support.

Furthermore, in terms of expenses, we have been transforming the existing expenses structure and improve productivity and profitability by achieving reforms in awareness, sales, clerical operations and expenses under the medium-term management plan and raising the quality of sales clerical operations, and human resources quality to a higher level.



executives and employees as we enhance the efforts to build a more effective compliance framework.

In addition, we will continue to develop a more advanced risk management structure in order to strengthen credit risk management and market risk management, etc. to maintain the soundness of management and allow customers to safely use our services.



PRESIDENT Takashi Hashimoto

# Medium-Term Management Plan

The Bank embraces a management vision up to its 90th anniversary, aiming to become a bank which creates vitality in the community and itself as “Vitality Creating Bank.” In order to achieve this management vision, the medium-term management plan titled “Vitality Creation Plan II – Changing and Taking on Challenges” was started in April 2017. This plan has set forth the three core strategies of regional revitalization, pursuit of the Four Reforms and upgrading of management and controls. In particular, for the pursuit of the Four Reforms, ten strategies have been set for awareness reform, sales reform, clerical operations reform and expenses reform upon which we will strongly pursue business model reform.



## “Vitality Creating Bank”

We aim to become a bank that creates vitality in the community and itself through i) delivering high-quality financial and consultation functions as a regional financial institution and ii) cultivating a corporate culture full of dreams and pride.



## “Vitality Creation Plan II – Changing and Taking on Challenges”

(Term: April 2017 to March 2020)

We have set the three years as a period in which to strive to change to a robust structure in consideration of the changing financial climate. For the plan’s final year, coinciding with our 85th anniversary, we will endeavor to achieve good results in terms of earnings and financial position.





● **Basic philosophy**

**Create regional economic vitality**

Make utmost efforts to revitalize our salestarget areas in pursuit of co-creation with communities

**Improve productivity and profitability through reviewing operations**

Improve productivity and profitability through enhancing the quality of sales, clerical operations and human resources based on the Four Reforms (to awareness, sales, clerical operations and expenses)

**Deliver customer-centric services**

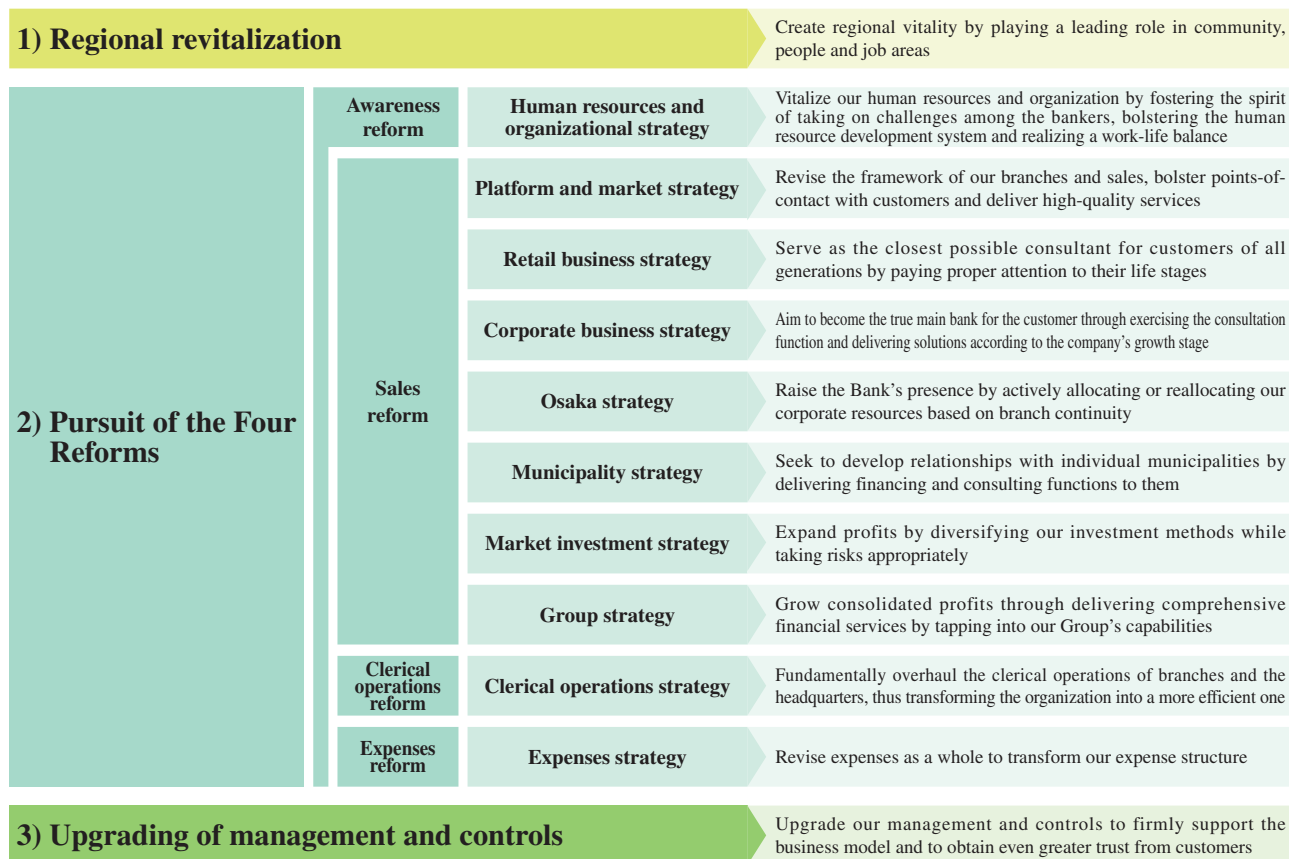
Deliver optimum and sophisticated services by promptly meeting the increasingly diverse needs of customers

**Upgrade the management and controls framework**

Bolster risk controls and earnings management, thus building a management and controls framework capable of responding to the changing environment in a flexible manner

● **Priority strategies and initiatives policy**

(Initiatives policy)



● **Target metrics**

	Fiscal 2016 Result	Fiscal 2017 Result	Fiscal 2019 Target
OHR	74.45%	77.03%	Less than 70%
Non-interest income ratio	10.40%	10.83%	At least 20%
Capital adequacy ratio	9.19%	9.64%	Approx. 10%
ROA	0.24%	0.20%	At least 0.3%
ROE	4.88%	4.90%	At least 5%

**Calculation formal is more common plural form for the metrics**

- OHR : Expenses/Core business gross profit
- Non-interest income ratio : (Fees and commissions + Other operating income (excluding gains/losses on bonds (JGBs, etc.)))/Core gross business profit
- Capital adequacy ratio : Core capital/Risk assets
- ROA : Core net business profit/Total assets
- ROE : Net income/Net assets

# Environmental Initiatives

## Environmental Policy

Nanto Bank has its headquarters in historic Nara, an ancient capital of Japan and spiritual homeland of the Japanese people, where the Bank has grown together with the region. To preserve the splendid culture of Nara that has been protected from time immemorial for future generations, we strive to take regional leadership, and work to protect the environment and promote the creation of a recycling society.

1. We will establish environmental management systems for the purpose of recognizing that consideration of the preservation of the region's blessed natural environment and historic features and reducing environmental impact is the basis for business activities, and making actions accordingly. We strive to continually improve this system and prevent pollution to improve environmental performance.
2. We will support customers involved in environmental conservation through the development and provision of environmentally-conscious financial products and services.
3. We will promote resource and energy conservation and waste reduction by giving consideration to impacts on the environment in our day-to-day operations.
4. We will comply with environmental regulations and other requirements, and conduct environmental conservation activities.
5. To implement these policies, we will establish specific environmental objectives and targets and review them periodically.

October 1, 2001 (established)  
July 1, 2008 (revised)  
December 1, 2017 (revised)

Nanto Bank, Ltd.

PRESIDENT Takashi Hashimoto

## Explanation of terms

### Environmental Management System

A framework for the management of an organization and auditing on its activities in order to conduct environmental conservation activities. The Environmental Policy above serves as the basic policy for the management of this system.

## Promotion of environmental conservation activities

### ■ Environmental ISO activities

The Bank obtained the ISO 14001 certification for the Head Office and Business support center in 2002, and subsequently acquired certification for the recycling center, training center, and other locations.

Members of the Nanto Bank Group are working together to conduct environmental conservation activities that include continued environmental conservation activities according to ISO standards by the departments subject to certification and initiatives such as cool biz and everyday environmental conservation activities at sales branches and affiliates that are not subject to the certification.

In light of the fact that a sufficient awareness of the activities conducted has been instilled, in February 2014, we transitioned to a self-declaration of conformity\* under which we make a declaration based on our own responsibility that our environmental management system is in compliance with the international ISO 14001 standard. Efforts have been further strengthened even after the transition to this system.

In addition, the Bank has approved and registered with the national movement, "COOL CHOICE" national campaign, promoted by the Ministry of the Environment to cope with global warming. The Bank also participates in the "Fun to Share" campaign, promoted by the Ministry of the Environment through activities that aim to reduce carbon gas in a sustainable manner.



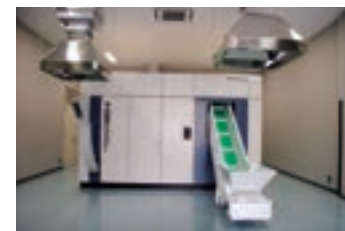
\* A comment regarding this self-declaration of conformity has been received from external consultant Sampo Risk Management & Health Care Inc. as a third-party assessment.

### Recycling Center

We established a recycling center in June 2007 for the purpose of maintaining the confidentiality of documents and recycling them after their retention limits expire.

After paper leaves a large shredder, it is taken to a paper factory to be recycled into toilet paper, notepads, and other items. The amount of paper recycled in this manner during Fiscal 2017 reached 310 tons.

We will continue to contribute to reducing paper waste and the recycling of paper resources in the future.



Recycling center

### Reduction of Energy Usage

The Bank has worked to reduce energy (electricity + city gas + heavy oil) usage through measures such as the standardization of air-conditioning settings (a room temperature of 28°C when cooling and 20°C when heating) as part of environmental ISO activities and the adoption of LED lighting in branches and display windows.

In addition, we formulated a plan aimed at reducing energy

usage by over 5% compared to Fiscal 2009 over a period of four years since Fiscal 2010, and we have worked to streamline energy usage over the medium- to long-term through measures such as the introduction of energy-saving air-conditioning equipment, etc.

We have also worked to save electricity since Fiscal 2011, and we will continue efforts to reduce energy usage in the future.

### River Beatification Activities

As river beatification activities, The Bank has participated as a volunteer in the Yamato River Joint Cleanup (sponsored by Nara Prefecture, etc.) since 2014 and the Kizugawa River Basin Cleaning Campaign (sponsored by the Kizugawa River Basin Cleaning Campaign Committee) since 2017.



The Bank's hockey club also participated in clean-up activities in the basin of the Akishino River during the Yamato River Joint Cleanup

### Start of power supply from Ikoma Civic Power, Ltd.\* for two branches in Ikoma City

The supply of power from Nara Prefecture's first municipal new power company, Ikoma Civic Power, Ltd., was started in February 2018 at two branches in Ikoma City (the Ikoma Branch and Motomachi Sub-branch), which became the first private-sector locations to receive this power supply.

Ikoma Civic Power preferentially supplies electricity generated through clean energy such as solar power and small-scale hydropower from within Ikoma City, and by receiving power from Ikoma Civic Power, the Bank hopes to contribute to reductions in greenhouse-gas emissions, the spread and expansion of renewable energy and local production of energy for local consumption that are being addressed by Ikoma City as a model environmental city.

The Bank will continue to use our expertise as a regional financial institution to support the operation of Ikoma Civic Power by offering management advice and financial assistance such as financing for working capital.

\* A company established in July 2017 through the signing of a shareholders' agreement between Ikoma City and the Bank, Osaka Gas Co., Ltd., Ikoma Chamber of Commerce & Industry and General Incorporated Association Shimin Energy Ikoma. Ikoma Civic Power's basic philosophy is to use the profits gained through its business to improve convenience of the lives of the citizens of Ikoma City and to contribute to regional revitalization, and the profits from power supply are also returned to city residents.

### Kizukai Activities (the Wood Movement) and Yoshino Heart Project

Kizukai Activities is a forest preservation movement that promotes the active use of domestic wood resources to restore sound cycles for forests through tree planting and thinning and to create healthy forests that absorb plenty of CO<sub>2</sub>.

The Bank became the first company in the banking industry to receive the Kizukai Activities logo mark of approval from the Forestry Agency in November 2008.

As part of its support for the Yoshino Heart Project\*, the Bank has emphasized the importance of wood use in environmental preservation through the distribution of environmentally-friendly wood products and the use of Yoshino 3.9 Paper, and these activities are also linked with Kizukai Activities.

The Bank received a letter of appreciation from the Minister of Agriculture, Forestry and Fisheries in October 2011 for our activities that served as significantly effective PR for Kizukai Activities.



Yoshino Heart logo mark



B-(3)-080031

Thank You Green Style logo

### Participation in the Yoshino Cherry Tree Preservation Group

In recent years, signs of blight and decay have been noticed among shiroyama-zakura (cherry trees famous for their blossoms) at the Mount Yoshino World Heritage Site in Yoshino, Nara Prefecture. To preserve about 30,000 of these trees, the Bank is participating as a special member in the Yoshino Cherry Tree Preservation Group established as a public-private partnership.

In addition to providing financial support for this group, the Bank also actively supports group activities through means such as dispatching volunteer staff to various events to actively cooperate in protection and cultivation efforts for the Yoshino Cherry Tree as a regional financial institution.



Fund raising during events

### “Cherry Picking” to raise saplings from mother trees in Mount Yoshino

The group plants cherry tree saplings at Mount Yoshino, and an event named “Cherry Picking” is conducted as part of these efforts. Our employees participate as volunteer staff in this event.

### Environmentally-Conscious Financial Products

The Bank also actively backs up environmental conservation activities in the region through finance.

<b>NANTO Green Privately Placed Bonds</b>	A product that provides preferential treatment for some guarantee fees and commissions when underwriting privately placed bonds that are issued by businesses engaged in environmentally-conscious management or in the reduction of environmental burden.
<b>NANTO Environmentally-Conscious Finance</b>	A product that provides preferential interest rates based on the Bank's prescribed environmental ranking for capital investment funds related to environmental considerations by businesses engaged in environmentally-conscious management.
<b>NANTO Eco Private Car Loans</b>	A low-interest product (compared to NANTO Private Car Loans) that supports the purchase of low emission vehicles or low fuel consuming vehicles.
<b>NANTO Eco Renovation Loans</b>	A low-interest product (compared to NANTO Renovation Loans) which supports home renovations that save energy.

# In Partnership with the Community - Contributing to the Local Community-

## Promoting Social Contribution Activities

### NANTO Manyo Charity Walk

The NANTO Manyo Walk started in 1988 as a walk around local places of historical interest related to Manyoshu every fall and spring.

Since the fall of 2004, it has been held as a charity walk in which we make donations to the Nara Prefecture Council of Social Welfare.



### Initiatives in Financial and Economics Education

The Bank is focusing on local financial and economics education through means such as sending instructors and offering bank tours for local junior-high schools, etc. and holding financial seminars for parents and children during summer vacation. We are also actively involved in financial and economics education, etc. at elementary schools and junior high schools in the region using a humanoid robot named PALRO that can respond to human voice and is capable of mutual communication.

In addition, we sponsored the Nara Tournament of the “National High School Student Finance and Economics Quiz Championship ‘Economic Koshien’” and we broadly provided high-school students in the prefecture with the opportunity to participate.

Furthermore, we also provide learning and employment assistance by offering internships to students from special needs schools.



Economics Koshien Nara Tournament



PALRO

### NANTO Nara Cheer Squad

The NANTO Nara Cheer Squad comprises 38 people who have retired from the Bank. The group was formed during the 1,300th Anniversary of Nara Heijo-kyo Capital in 2010 as a group of volunteer guides for temples and shrines in Nara Prefecture.

The detailed tours by these former bank employees have been very well received by temple visitors, such as in the “Prayer Corridor, Hidden Treasure, and Treasured Buddha Special Exhibition,” which is a special exhibition of cultural treasures at various locations within Nara Prefecture.

Volunteers provided tours at five locations in the spring of 2018.

We will continue to revitalize tourism in Nara Prefecture going forward.



Volunteer guides at the Kasugataisha shrine

### Nanto Bank Hockey Team

On the occasion of the 1982 “Wakakusa” National Sports Festival, we formed a women’s hockey team, to contribute to the promotion of sports in Nara Prefecture.

The team was certified as a Top Sports City Nara partner team in April 2016, and we are working to contribute to the local community and interact with it through hockey with activities such as participating in sports projects and visiting schools in Nara City and holding hockey school for local elementary-school students.



### Nanto Scholarship Society

In order to assist fostering human resources in the local community, academic scholarships are provided for high-school and university students of outstanding character and academic ability who reside in Nara Prefecture.

As of May 31, 2018, there were 67 students currently on scholarship, and the total number of graduates is 1,387.

### CSR-Related Financial Products

The Bank also actively backs up the contributions of business to the local community through finance.

#### NANTO CSR Privately Placed Bonds

A product in which we purchase goods to support the growth and study of children and students within a set ratio of the bond issuance amount to commemorate the bond issuance, reflecting the desires of the business. The goods are then donated to public nursery schools, kindergartens and elementary and junior-high schools designated by the businesses within the Bank’s salestarget area.

### Small Kindness Group

The Nanto Bank's Small Kindness Group carries out a wide variety of public service activities, such as cleanups and blood donations with the aim of creating cheerful local communities.

As part of its "Sincere Books" campaign, the Society donated books to Nara Juvenile Prison from 1987 to 2015 (a total of 55,000 books over 29 years) and then donated to Nara Reformatory from 2016 when it was decided to close the prison.



### Dementia Supporter Training Course and Sign Language Class

In support with the objective of the Dementia Supporter Caravan promoted by the Ministry of Health, Labour and Welfare, we have conducted the Dementia Supporter Training Course as part of new employee training since 2008. The knowledge gained through this course is used in bank counter support and support for people with dementia in the region.

Sign language class is also part of new employee training, and employees learn how to communicate with people with hearing difficulties and about the attitude they should adopt in these situations.



Sign language class

### Certified as Mahoroba "ai Support Company"

The Mahoroba "ai Support Campaign" encourages people to "help out when they see someone with an impairment who is having difficulties in his or her daily life" that is promoted by Nara Prefecture, and we were certified for our involvement as a "Loving Support Company" in this campaign in December 2016.

### Meeting the Needs of the Visually Impaired

For all our ATMs (including ones outside branches), we have adopted universal design specifications with features making them accessible to the elderly, the visually impaired and those in wheelchairs. Furthermore, an operation screen that has acquired certification for its color universal design which emphasizes color contrast that is easy for everyone to see, and for its easy-to-understand boundaries between buttons, it is sequentially introduced to new ATMs.

In March 2018, we installed the COMUOON desktop-type interactive support system in some branches to facilitate easy use of bank counters by elderly customers and customers with hearing impairments.

In addition, at the request of customers, we provide account balance and transaction records in Braille, and make bank book cases and card cases with the account name and number in Braille.

- \* Special features of our ATMs
- Large and easy-to-read letters (enlarged display also available)
  - Equipped with an easy-to-operate voice guidance system
  - Easy access to the display screen for wheelchair users



ATMs with voice interaction (VI) function



ATMs that have easy access for wheelchairs

### Enhancing the Barrier-Free Environment and Environmental Friendliness at Branches

The Bank strives for barrier-free construction in our branches so that the elderly, children, and people with impairments can use our branches with ease.

In addition, we promote the use of equipment that reduces the environmental burden, such as LED (light emitting diode) lighting.

- \* Special features of our barrier-free branches
- Reserved parking spaces for wheelchair users
  - Braille blocks to guide the visually impaired
  - Eliminating steps and bumps

### Installation of AEDs at All Branches

We have installed an AEDs (automated external defibrillator) at cash corners at all branches so that they can be used by people in the region.

\* An AED is a medical device that uses electric shock to bring the heart back to its normal rhythm when it has spasms and is not able to pump blood. Since July 2004, people who are not medical practitioners have been permitted to use this device.



COMUOON desktop-type interactive support system



Counter use example



Dedicated speaker and microphone

# Corporate Governance

From the viewpoint of enhancing and strengthening corporate governance, the Bank considers achieving fair management which can earn strong trust from our customers, stockholders and other stakeholders by increasing the transparency and efficiency of management, as well as

meeting the expectations of stakeholders and continuously enhancing corporate value, as one of our most important management priorities. The Bank's main corporate governance system (as of July 1, 2018) is as follows.

## Corporate Governance System

The Board of Directors, comprising nine directors, including two outside directors, plays a central role in our corporate governance system. The Board of Directors Regulations are strictly applied, and prompt and efficient decision making are undertaken.

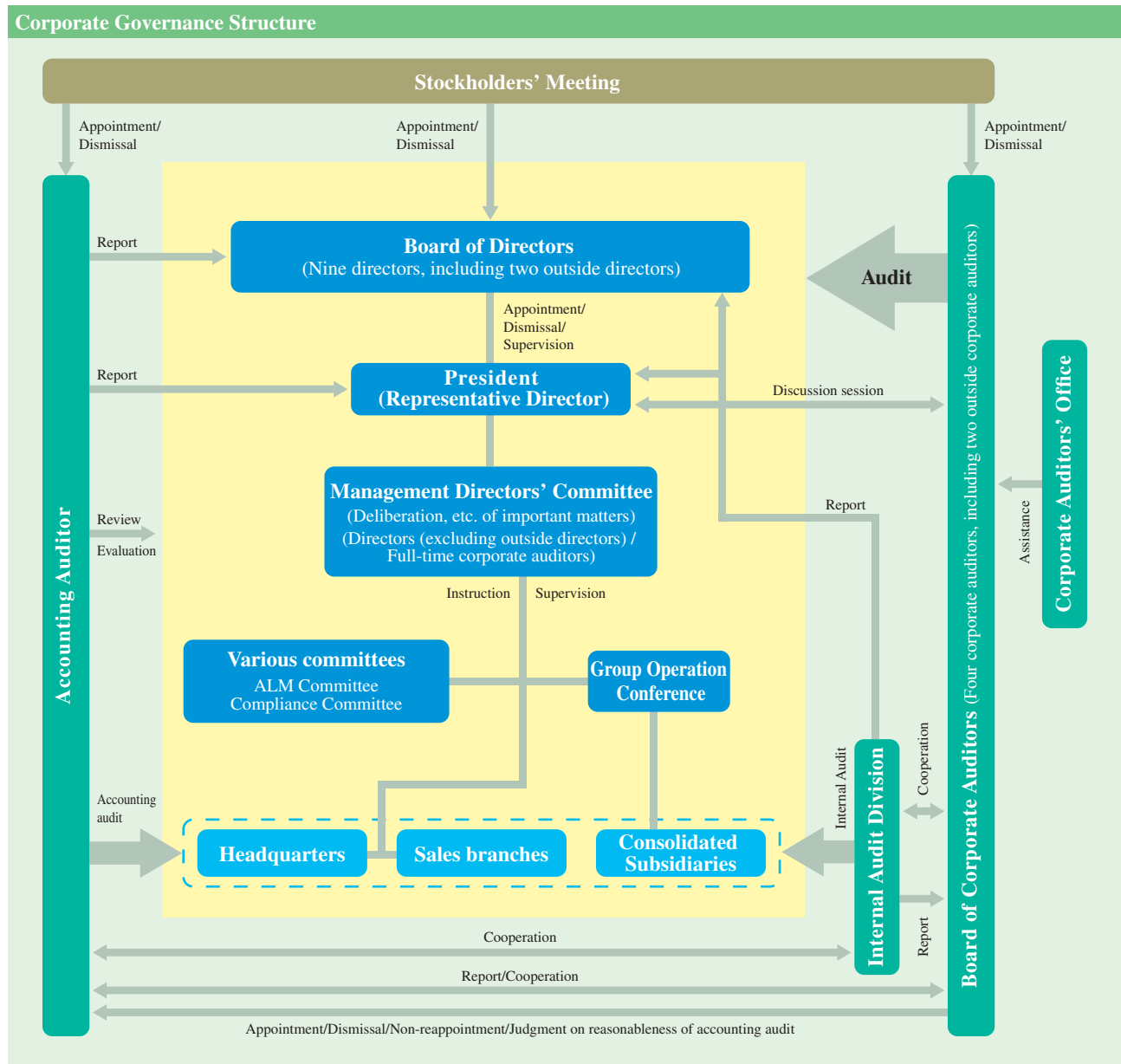
The Board of Directors meetings are held once a month in principle, and extraordinary meetings are convened as necessary. At the meetings, decisions are made on important managerial matters and business execution with all corporate auditors in attendance, and reports on the status of business execution and various committees are made.

Additionally, the Management Directors' Committee

meeting, comprising directors (seven directors), excluding outside directors, is held once a week in principle as a decision-making institution for important matters concerning daily operational management to ensure prompt decision making.

Moreover, with an aim of supplementing appropriate business execution in response to diversification and advancement of operations, committees such as the ALM Committee and the Compliance Committee have been established.

In April 2016, the Bank introduced the executive officer system to assist business execution by directors and revitalize and speed up decision making of the Board of Directors.



## Matters Related to Corporate Auditors and Board of Corporate Auditors

The Bank adopts a corporate auditor system, consisting of two full-time corporate auditors with extensive knowledge of bank operations, finance and accounting and two highly independent outside corporate auditors (independent officers). The four corporate auditors combine their knowledge and capabilities to enhance the effectiveness and transparency of audits conducted by corporate auditors and the Board of Corporate Auditors.

Corporate auditors appropriately monitor and audit directors in the performance of their duties through investigations of operations and assets in various ways, including attending the Board of Directors meetings, the Managing Directors' Committee and other important meetings, as well as inspecting important documents and other items, and ensures the fairness and legality of management decisions.

The Board of Corporate Auditors meeting is held once a month in principle, and extraordinary meetings are convened as necessary. In addition, the Board of Corporate Auditors conducts effective audits while keeping close cooperation through measures such as regularly holding discussion sessions with Representative Directors, regular reporting sessions with accounting auditors and the internal auditing department, as well as exchanging opinions and hearing information, etc. at a three-party audit meeting consisting of corporate auditors, internal auditing department, and Accounting Auditor. The Corporate Auditor's Office assists the Board of Corporate Auditors by assigning two dedicated staff members.

## Status of Internal Audit and Corporate Auditors' Audit

The Internal Audit Division consists of 33 staff members with necessary knowledge and experience. This division is independent from the departments that are audited and is responsible for internal audits as an organization under the direct control of the Board of Directors. Audit results are reported to the Board of Directors.

In regard to the corporate auditors' audits, operational audits and accounting audits are performed at the sole discretion of each responsible auditor. Audit results are reported to the Board of Corporate Auditors, Representative Directors and the Board of Directors.

## Systems to Ensure Proper Operations

In order to ensure the proper operations of the Bank, the Board of Directors has resolved at its meetings to establish the structure outlined below.

- (1) A system to ensure that execution of duties by directors and employees is conducted in compliance with laws, regulations and Articles of Incorporation;
- (2) A system regarding retention and management of information related to execution of duties by directors;
- (3) Regulations on management of risk of loss and other systems;
- (4) A system to ensure efficient execution of duties by directors;
- (5) A system to ensure appropriate operations in the corporate group comprising the Bank and its subsidiaries;
- (6) Matters related to employees whose appointment is requested by corporate auditors to assist them in their duties;
- (7) Matters related to the independence of employees assisting the duties of corporate auditors from directors and ensuring the effectiveness of instructions to such employees;
- (8) A system for directors and employees of the Bank and directors, corporate auditors and employees of subsidiaries, as well as persons who have received reports from the aforementioned persons, to report to corporate auditors and other systems for reporting to corporate auditors;
- (9) A system to ensure that any person who has made the aforementioned report will not be treated disadvantageously on the grounds of having made such report;
- (10) Matters related to advance payment or reimbursement procedures for expenses incurred for execution of duties by corporate auditors and other policies related to the processing of expenses or obligations incurred for such execution of duties by corporate auditors;
- (11) Other systems to ensure that corporate auditors' auditing is conducted effectively.

# Risk Management

In recent years, the management environment surrounding financial institutions has changed drastically, and the risks they face have become more diversified and complex.

The Bank regards risk management as one of its most important management issues and aims to create an advanced

risk management system so that the Bank can maintain appropriate and sound management and provide reliable services to its customers.

## Risk Management Coordination

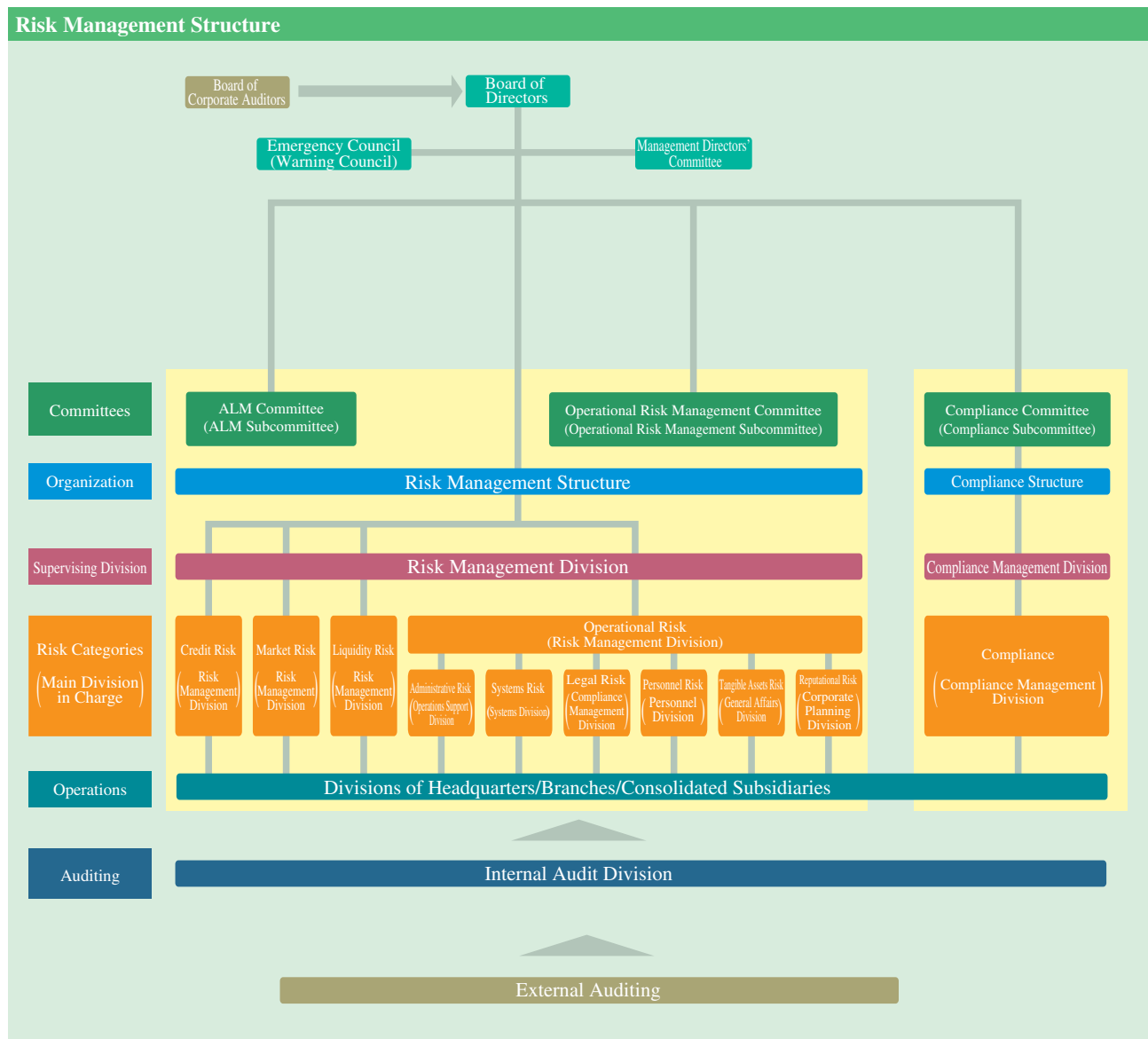
To cope with the various risks that the Bank faces in its banking business, the Bank has established specific units for each category of risk. The Bank also incorporates the Risk Management Division responsible for risk management coordination in order to gain a precise understanding of the nature and extent of risks and take expeditious steps toward their management.

Furthermore, the Bank defines its basic risk management policies in risk management regulations and other requirements, including the Risk Management Coordination Regulations, in an effort to appropriately manage the risks.

Moreover, the Bank has adopted a policy of Risk Management Coordination under which it quantifies various

risks by using the integrated risk management method, intending to keep the amount of risks and its capital adequacy at appropriate levels in the light of its management vitality. Biannually, the Bank determines risk capital (risk based amounts) for each category of risk within the scope of its capital adequacy to limit the value of each risk (e.g., VaR) to the amount of risk capital.

The situation of each risk is evaluated at a monthly ALM Committee meeting which decides the appropriate level of risk control to implement, aiming to conduct more effective and efficient risk and return management from the viewpoint of maintaining sound management and higher profitability alongside effective utilization of capital.





### • Managing Internal Capital

Managing Internal Capital refers to the implementation of measures to maintain a sufficient level of internal capital, capital adequacy assessment and computation of the capital adequacy ratio.

The Bank conducts a quarterly assessment of its internal capital adequacy by analyzing factors that cause the capital adequacy ratio to fluctuate.

We also use the integrated risk management method to quantify the various risks faced by the Bank, and we regularly compare the level of these risks with the Bank's internal capital so as to control and carry out the assessments of our internal capital adequacy for each risk.

### • Managing Credit Risk

Credit risk is the risk of the value of assets decreasing or disappearing due to factors such as deterioration in the financial condition of a borrower and the incurring of loss as a result.

To ensure the soundness of its assets, the Bank has established the Risk Management Division and Credit Analysis Division as credit risk management departments that are separate and independent from business operations departments.

The Risk Management Division plans and supervises the credit risk management structure within the Bank, conducts credit portfolio analysis by segment and current status analysis by managing the levels of credit concentration on major creditors for each industry and rating group and strives to build a sound credit portfolio by measuring credit risks using statistical calculation methods for future potential loss.

The Credit Analysis Division consists of the Credit Analysis Group, which handles general screening and industry-specific screening, the Management Group, which intensively supervises borrowers whose business performance has deteriorated, and the Business Vitalization Support Office,

As for the capital adequacy assessment, the Bank positions itself to be able to review the allocation of its internal capital, discuss necessary internal capital strategies and other necessary actions through the monthly ALM Committee meeting. We intend to maintain a sound management with the help of appropriate risk control practices and increase profitability through the effective utilization of our internal capital by fully implementing this internal capital management structure.

which was established to assist borrowers with business restructuring and recovery initiatives. Together these units form a structure that supports flexible risk management tailored to the specific circumstances of each customer.

Our credit analysis and risk management measures include rigorous self-assessment, credit ratings consistent with the borrower classifications used in the self-assessment and other methods with which the Bank objectively recognizes and manages each customer's credit capability. In addition, we have a policy of setting an interest rate (Pricing) to be applied to individual customers according to their rating-based creditworthiness. Through this, we take measures to strengthen our credit risk management and increase profitability.

The Bank regularly and thoroughly reviews transaction terms and establishes credit limits for borrowers with debt exceeding a certain amount, with a view to reducing credit risk by conducting strict credit control.

### • Managing Asset Appraisals

Asset Appraisals are for the review of assets held by financial institutions in order to determine the accurate status of the institution's assets. It is an important method of credit risk management and a preliminary procedure to accurately assess the amount of depreciation and allowances. Asset assessment conducted by the financial institution itself is referred to as a self-assessment.

The Bank carries out an assessment of its assets in which the actual assessments are conducted by its operating branches

in conformity with the Regulations on Self-Assessment of Assets. Assessment results are then subjected to a rigorous verification process in which the results are examined by the Credit Analysis Division and further audited by the Internal Audit Division. According to the audit results, the Bank determines the appropriate amounts of depreciation and allowances. In this way, the Bank strives to perform appropriate asset assessment practices and maintain and improve the soundness of its assets.

### • Managing Market Risk

Market risk is the risk of fluctuations in the value of assets and liabilities or profits of the Bank due to fluctuations in interest rates, exchange rates, stock prices, etc., and the incurring of losses as a result.

The Bank controls its market operations under a system of reciprocal checks and balances based on a clear demarcation

between front office units, which implement transactions, and back office units, which carry out administrative processing. The middle office unit responsible for risk management is the Risk Management Division, which develops risk management systems, checks compliance with risk management regulations and other requirements and monitors the posi-

tions and profit performance of market units. The Risk Management Division also carries out wide-ranging analyses to quantify the risk levels of assets and liabilities, including deposits, loans and securities. In its analyses, the division uses a variety of analytical techniques, including the value at risk (VaR) and basis point value (BPV) methods and interest rate fluctuation simulations. The results of this work are used to provide timely reports to management.

Allowable risk limits are measured based on VaR and determined by the Bank's ALM Committee biannually in consideration of its capital status, market conditions and

#### • Managing Liquidity Risk

Liquidity risk, also known as fund-raising risk, is defined as the risk of loss due to an obstacle in raising the required funds either because of a mismatch between the use and procurement of funds or an unexpected outflow of funds or being forced to borrow at higher interest rates than usual.

According to monthly fund management plans formulated by the ALM Committee, the Financial Investment Division closely manages the Bank's cash flow position on a day-to-day basis, and the Risk Management Division monitors the management conditions. The ALM Committee is also

#### • Managing Operational Risks

Operational risk is the risk of the Bank incurring a loss due to inadequate or failed processes of banking operations, activities of executives and employees (including part-time and temporary and other similarly classified workers) or systems as well as external events.

At the Bank, departments in charge of operational risks apply the perspectives of specialists to the management of administrative risk, systems risk, legal risk, personnel risk,

other factors. Market operations staff members make efforts to generate profits while complying with these allowable risk limits. Every month, the ALM Committee obtains actual risk and revenue results from each market operation and discusses appropriate ways to control risks and generate earnings efficiently by taking into account the market prospects and other conditions. In addition, the Bank conducts stress tests by using scenarios that capture the characteristics of market environments and its portfolios in order to understand the impact of extreme market fluctuations exceeding VaR projections, bracing for contingency events.

responsible for overall monitoring and management of cash flow risk, including the monitoring of assets available for liquidation and the status of fund procurement.

The cash flow situation is classified into one of three levels according to financial situations: "regular phase," "concern phase" and "crisis phase." The Bank has developed management systems that can be flexibly implemented in each of these situations.

tangible assets risk and reputational risk.

In addition, information about loss from operational accidents and results of potential risk analysis, etc., are collectively reported to the Operational Risk Management Committee, which understands and manages each risk comprehensively. This enables the Bank to preferentially deal with major risks and minimize the effects of the risks.

### Internal Audit Posture

For the enhancement and reinforcement of risk management, it is necessary for the PDCA cycle to function effectively in an aim for self-improvement while each division, branch, etc., that conducts operations management and risk management departments conduct mutual oversight for each risk.

The Internal Audit Division, an internal auditing department, promotes risk management and strives to ensure the soundness of management and the appropriateness of business by ascertaining the risk occurrence situation for each operation and verifying the situation of the PDCA cycle function and providing advice as necessary.

### Crisis Management Posture

Along with the above risk management, the Bank has formulated a Crisis Management Plan and a Crisis Management Plan Response Manual for each type of crisis to properly respond to the occurrence and materialization of crises related to business operations such as natural disasters, including large-scale earthquakes, systems malfunctions or virulent strains of influenza or other pandemics. In the event of a crisis, the Bank responds, depending on the level of emergency of the crisis, by having the Emergency Council, Response Headquarters, or other divisions gather information and

engaging in centralized supervision and command in an effort to minimize the impact of the crisis on its operations.

In the meantime, the Bank, as an organization responsible for social function maintenance, takes measures to continuously provide customer services, including improvement of facilities to continue its business operations in the event of disasters or other events while striving to ensure the effectiveness of the crisis management posture and continuously improve it through measures including risk management training provided every year.

# Compliance

Compliance refers to strict observance of ethics and social norms as well as laws, regulations, government ordinances and the Bank's regulations. Compliance is essential for banks to faithfully carry out their social responsibilities and public missions.

The Bank takes the following approach in order to increase awareness of compliance and respond to legal risks.

## Thorough Execution of Compliance

- In recognition of the public mission and social responsibilities that financial institutions need to perform, the Bank regards compliance with laws and regulations as the most important management issue and has established a Charter of Corporate Behavior which consists of Basic Policies and a Code of Conduct for all officers and employees to follow to gain the trust of all our stakeholders, including local communities, our customers and our shareholders.
- To establish a basic framework for the compliance system, we have established our compliance regulations and rules for disciplinary action and demonstrate fairness and transparency in the administration of disciplinary action as means of establishing a clear stance on compliance with laws and regulations.
- Deliberations and decisions in matters of compliance are the responsibility of the Compliance Committee, which is chaired by the President and operates horizontally across the bank's organizational structure. Plans and supervision of compliance are carried out in the Compliance & Risk Management Division.
- A Compliance Program consisting of concrete plans to achieve compliance is drawn up each year and undergoes appropriate review.
- The Bank strives to properly operate a Compliance Hotline as part of its internal reporting system that was established to prevent legal violations and misconduct before they occur, to discover them promptly if they occur and to rectify them immediately.
- To instill a compliance mindset throughout the Bank, we have compiled a Compliance Handbook, which serves as a guide for achieving compliance and has been distributed to all officers and employees, and regularly conduct seminars and other group training at the workplaces of individual workgroups.
- The Bank has established Regulations on Response to Antisocial Forces in order to take a resolute stand against anti-social forces that pose a threat to the order and security of civil society and takes strong measures to intervene and block any attempt by such forces to create any relationship with the Bank.

# Board of Directors, Executive Officers and Corporate Auditors

(As of July 1, 2018)



**Yasuo Ueno**  
CHAIRMAN



**Takashi Hashimoto**  
PRESIDENT  
(Representative Director)



**Naoki Minowa**  
DIRECTOR  
SENIOR MANAGING EXECUTIVE OFFICER  
(Representative Director)



**Toru Hagihara**  
DIRECTOR  
SENIOR MANAGING EXECUTIVE OFFICER  
(Representative Director)  
(Business Planning & Promotion Headquarters)



**Shigeyori Kawai**  
DIRECTOR  
MANAGING EXECUTIVE OFFICER



**Keizo Nishikawa**  
DIRECTOR  
MANAGING EXECUTIVE OFFICER

**CHAIRMAN**  
**Yasuo Ueno**

**PRESIDENT**  
**Takashi Hashimoto**

**DIRECTOR AND SENIOR  
MANAGING EXECUTIVE  
OFFICERS**  
**Naoki Minowa**  
**Toru Hagihara**  
(Business Planning &  
Promotion Headquarters)

**DIRECTOR AND MANAGING  
EXECUTIVE OFFICERS**  
**Shigeyori Kawai**  
**Keizo Nishikawa**

**DIRECTOR AND  
EXECUTIVE OFFICER**  
**Kazuomi Nakamuro**  
(Internal Audit Division)

**DIRECTORS**  
**Hiroshi Nakagawa**  
**Matazaemon Kitamura**

**MANAGING EXECUTIVE  
OFFICERS**  
**Kiyohide Sawamura**  
(In charge of Osaka Region)  
**Yoshiaki Morita**  
(In charge of Special  
Assignment)

**EXECUTIVE OFFICERS**  
**Satoru Wada**  
(Corporate Planning Division)  
**Kazuya Yokotani**  
(Public Institutions & Regional  
Vitality Creation Division)  
**Tomomi Onishi**  
(Financial Investment Division)  
**Kazunobu Nishikawa**  
(Head Office)  
**Takahiro Konaka**  
(Operations Support Division)  
**Takeshi Sugiura**  
(Tokyo Branch)  
**Satoru Fujiwara**  
(In charge of Special  
Assignment)

**Naoki Ota**  
(Corporate Business Division  
and Corporate Venture Capital  
Office)  
**Koji Honda**  
(Osaka Chuo Office)

**CORPORATE AUDITORS**  
**Masaaki Hashimoto**  
**Takao Handa**  
**Katsuhisa Yoshikawa**  
**Masahiro Nakamura**

Note: Hiroshi Nakagawa and Matazaemon Kitamura are outside directors pursuant to Item 15, Article 2 of the Company Law and Katsuhisa Yoshikawa and Masahiro Nakamura are outside corporate auditors pursuant to Item 16, Article 2 of the Company Law.

# Consolidated Financial Statements

## Consolidated Balance Sheets

The Nanto Bank, Ltd. and Consolidated Subsidiaries as of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Assets:</b>			
Cash and due from banks (Notes 17 and 19) .....	¥ 820,151	¥ 736,472	\$ 7,719,794
Call loans and bills bought (Note 19) .....	489	11,776	4,602
Debt purchased (Note 19) .....	2,983	4,304	28,077
Trading account securities (Notes 19 and 20) .....	—	10	—
Money held in trust (Notes 19 and 20) .....	33,000	31,000	310,617
Securities (Notes 5, 7, 10, 19 and 20) .....	1,539,150	1,686,575	14,487,481
Loans and bills discounted (Notes 6, 8 and 19) .....	3,330,514	3,252,218	31,348,964
Foreign exchanges (Note 6) .....	2,206	5,031	20,764
Lease receivables and lease investment assets .....	16,093	13,863	151,477
Other assets (Note 7) .....	27,574	43,178	259,544
Tangible fixed assets (Note 9) .....	41,587	41,268	391,443
Buildings .....	12,871	12,013	121,150
Land .....	25,416	25,582	239,231
Construction in progress .....	18	315	169
Other tangible fixed assets .....	3,281	3,357	30,882
Intangible fixed assets .....	4,464	4,755	42,018
Software .....	3,971	4,202	37,377
Other intangible fixed assets (Note 7) .....	493	552	4,640
Deferred tax assets (Note 24) .....	1,281	1,307	12,057
Customers' liabilities for acceptances and guarantees .....	8,748	8,995	82,341
Reserve for possible loan losses (Note 19) .....	(19,813)	(25,662)	(186,492)
Total assets .....	¥5,808,433	¥5,815,095	\$54,672,750
<b>Liabilities and net assets:</b>			
<b>Liabilities:</b>			
Deposits (Notes 7 and 19) .....	4,817,646	4,737,336	45,346,818
Negotiable certificates of deposit (Note 19) .....	18,956	28,453	178,426
Call money and bills sold (Note 19) .....	531	—	4,998
Payables under repurchase agreements (Notes 7 and 19) .....	74,699	29,203	703,115
Payables under securities lending transactions (Notes 7 and 19) .....	345,250	504,092	3,249,717
Borrowed money (Notes 7, 19 and 29) .....	208,368	205,308	1,961,295
Foreign exchanges .....	251	136	2,362
Borrowed money from trust account .....	2,850	—	26,826
Other liabilities (Note 29) .....	20,141	23,419	189,580
Liability for retirement benefits (Note 22) .....	21,936	25,115	206,475
Reserve for reimbursement of deposits .....	244	192	2,296
Reserve for contingent losses .....	867	965	8,160
Deferred tax liabilities (Note 24) .....	3,801	737	35,777
Acceptances and guarantees .....	8,748	8,995	82,341
Total liabilities .....	¥5,524,294	¥5,563,956	\$51,998,249
<b>Net assets (Note 3):</b>			
Common stock: Authorized 64,000 thousand shares in 2018 and 2017			
Issued 33,025 thousand shares in 2018 and			
27,275 thousand shares in 2017 .....	37,924	29,249	356,965
Capital surplus .....	34,749	26,075	327,080
Retained earnings .....	172,323	161,245	1,622,016
Less treasury stock: Issued 433 thousand shares in 2018			
and 437 thousand shares in 2017 .....	(1,812)	(1,828)	(17,055)
<b>Total stockholders' equity</b> .....	243,185	214,742	2,289,015
Valuation difference on available-for-sale securities (Note 20) .....	45,328	43,526	426,656
Deferred gains or losses on hedges (Note 21) .....	(282)	(409)	(2,654)
Accumulated adjustments for retirement benefits (Note 22) .....	(4,206)	(6,831)	(39,589)
<b>Total accumulated other comprehensive income</b> .....	40,840	36,284	384,412
<b>Stock acquisition rights</b> .....	113	112	1,063
Total net assets .....	284,139	251,139	2,674,501
Total liabilities and net assets .....	¥5,808,433	¥5,815,095	\$54,672,750

See Notes to Consolidated Financial Statements.

# Consolidated Financial Statements

## Consolidated Statements of Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Income:</b>			
Interest income:			
Interest on loans and bills discounted .....	¥30,899	¥32,372	\$290,841
Interest and dividends on securities .....	19,097	19,824	179,753
Other interest income .....	568	618	5,346
Trust fees .....	28	—	263
Fees and commissions .....	17,516	17,176	164,871
Other operating income (Note 11) .....	2,467	6,360	23,221
Other income (Note 12) .....	9,322	4,878	87,744
Total income .....	79,899	81,230	752,061
<b>Expenses:</b>			
Interest expense:			
Interest on deposits .....	779	1,201	7,332
Interest on borrowings and rediscounts .....	453	475	4,263
Interest on payables under securities lending transactions .....	1,150	1,725	10,824
Other interest expense .....	1,434	335	13,497
Fees and commissions .....	9,059	8,807	85,269
Other operating expenses (Note 13) .....	4,000	3,483	37,650
General and administrative expenses (Note 14) .....	43,366	43,355	408,189
Other expenses (Note 15) .....	1,641	5,066	15,446
Total expenses .....	61,884	64,450	582,492
<b>Income before income taxes .....</b>	<b>18,015</b>	<b>16,779</b>	<b>169,568</b>
<b>Income taxes (Note 24):</b>			
Current .....	4,355	4,624	40,992
Deferred .....	498	(353)	4,687
Total income taxes .....	4,854	4,270	45,689
<b>Net income .....</b>	<b>13,160</b>	<b>12,508</b>	<b>123,870</b>
<b>Net income attributable to owners of parent .....</b>	<b>¥13,160</b>	<b>¥12,508</b>	<b>\$123,870</b>
		Yen	U.S. dollars (Note 1)
<b>Per share of common stock (Note 27):</b>			
Net income - basic .....	¥418.05	¥466.05	\$3.93
Net income - diluted .....	417.63	465.51	3.93
Dividends .....	70.00	70.00	0.65

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income .....	¥13,160	¥ 12,508	\$123,870
Other comprehensive income (loss) (Note 16):			
Valuation difference on available-for-sale securities .....	1,802	(13,546)	16,961
Deferred gains (losses) on hedges .....	127	210	1,195
Adjustments for retirement benefits (Note 22) .....	2,625	2,124	24,708
Total other comprehensive income (loss) .....	4,555	(11,211)	42,874
<b>Total comprehensive income for the year .....</b>	<b>¥17,716</b>	<b>¥ 1,297</b>	<b>\$166,754</b>
<b>Total comprehensive income attributable to:</b>			
Owners of parent .....	¥17,716	¥ 1,297	\$166,754

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Net Assets

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2018 and 2017

	Millions of yen									
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Less treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Accumulated adjustments for retirement benefits	Stock acquisition rights	Total net assets
<b>Balance at April 1, 2016</b> .....	272,756	¥29,249	¥26,075	¥150,620	¥(1,864)	¥57,072	¥(620)	¥(8,956)	¥136	¥251,712
Reverse stock split .....	(245,480)	—	—	—	—	—	—	—	—	—
Cash dividends .....	—	—	—	(1,878)	—	—	—	—	—	(1,878)
Net income attributable to owners of parent .....	—	—	—	12,508	—	—	—	—	—	12,508
Purchase of treasury stock .....	—	—	—	—	(19)	—	—	—	—	(19)
Disposition of treasury stock .....	—	—	(4)	—	55	—	—	—	—	50
Transfer from retained earnings to capital surplus .....	—	—	4	(4)	—	—	—	—	—	—
Net changes in the items other than stockholders' equity .....	—	—	—	—	—	(13,546)	210	2,124	(23)	(11,235)
<b>Balance at April 1, 2017</b> .....	27,275	¥29,249	¥26,075	¥161,245	¥(1,828)	¥43,526	¥(409)	¥(6,831)	¥112	¥251,139
Issuance of new shares .....	5,750	8,674	8,674	—	—	—	—	—	—	17,348
Cash dividends .....	—	—	—	(2,080)	—	—	—	—	—	(2,080)
Net income attributable to owners of parent .....	—	—	—	13,160	—	—	—	—	—	13,160
Purchase of treasury stock .....	—	—	—	—	(5)	—	—	—	—	(5)
Disposition of treasury stock .....	—	—	(2)	—	21	—	—	—	—	19
Transfer from retained earnings to capital surplus .....	—	—	2	(2)	—	—	—	—	—	—
Net changes in the items other than stockholders' equity .....	—	—	—	—	—	1,802	127	2,625	1	4,556
<b>Balance at March 31, 2018 (Note 3) ..</b>	<b>33,025</b>	<b>¥37,924</b>	<b>¥34,749</b>	<b>¥172,323</b>	<b>¥(1,812)</b>	<b>¥45,328</b>	<b>¥(282)</b>	<b>¥(4,206)</b>	<b>¥113</b>	<b>¥284,139</b>

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Less treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Accumulated adjustments for retirement benefits	Stock acquisition rights	Total net assets	
<b>Balance at April 1, 2017</b> .....	\$275,310	\$245,434	\$1,517,742	\$(17,206)	\$409,695	\$(3,849)	\$(64,297)	\$1,054	\$2,363,883	
Issuance of new shares .....	81,645	81,645	—	—	—	—	—	—	163,290	
Cash dividends .....	—	—	(19,578)	—	—	—	—	—	(19,578)	
Net income attributable to owners of parent .....	—	—	123,870	—	—	—	—	—	123,870	
Purchase of treasury stock .....	—	—	—	(47)	—	—	—	—	(47)	
Disposition of treasury stock .....	—	(18)	—	197	—	—	—	—	178	
Transfer from retained earnings to capital surplus .....	—	18	(18)	—	—	—	—	—	—	
Net changes in the items other than stockholders' equity .....	—	—	—	—	16,961	1,195	24,708	9	42,884	
<b>Balance at March 31, 2018 (Note 3) ..</b>	<b>\$356,965</b>	<b>\$327,080</b>	<b>\$1,622,016</b>	<b>\$(17,055)</b>	<b>\$426,656</b>	<b>\$(2,654)</b>	<b>\$(39,589)</b>	<b>\$1,063</b>	<b>\$2,674,501</b>	

See Notes to Consolidated Financial Statements.

# Consolidated Financial Statements

## Consolidated Statements of Cash Flows

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Cash flows from operating activities</b>			
Income before income taxes .....	¥ 18,015	¥ 16,779	\$ 169,568
Depreciation .....	3,622	3,714	34,092
Impairment loss .....	95	—	894
Increase (decrease) in reserve for possible loan losses .....	(5,848)	1,843	(55,045)
Increase (decrease) in liability for retirement benefits .....	598	925	5,628
Increase (decrease) in reserve for reimbursement of deposits .....	51	27	480
Increase (decrease) in reserve for contingent losses .....	(98)	113	(922)
Interest income .....	(50,565)	(52,815)	(475,950)
Interest expense .....	3,817	3,738	35,928
Loss (gain) on investment securities .....	(2,159)	(6,208)	(20,321)
Loss (gain) on money held in trust .....	(471)	(86)	(4,433)
Foreign exchange losses (gains) .....	2,380	1,858	22,402
Losses (gains) on sales of fixed assets .....	28	130	263
Loss on reduction of non-current assets .....	—	68	—
State subsidy .....	—	(68)	—
Net decrease (increase) in loans and bills discounted .....	(78,295)	(63,877)	(736,963)
Net increase (decrease) in deposits .....	80,310	18,013	755,929
Net increase (decrease) in negotiable certificates of deposit .....	(9,497)	(18,553)	(89,391)
Net increase (decrease) in borrowed money .....	3,060	15,583	28,802
Net decrease (increase) in due from banks (excluding due from the Bank of Japan) .....	1,141	147	10,739
Net decrease (increase) in call loans and bills bought .....	12,607	(12,554)	118,665
Net increase (decrease) in call money .....	46,027	29,203	433,236
Net increase (decrease) in payables under securities lending transactions ...	(158,842)	270,444	(1,495,124)
Net decrease (increase) in foreign exchange assets .....	2,825	(1,277)	26,590
Net increase (decrease) in foreign exchange liabilities .....	115	(65)	1,082
Net decrease (increase) in lease receivables and lease investment assets ....	(2,345)	(734)	(22,072)
Net increase (decrease) in borrowed money from trust account .....	2,850	—	26,826
Interest received .....	51,517	55,007	484,911
Interest paid .....	(4,061)	(4,237)	(38,224)
Other .....	13,108	(5,582)	123,381
Subtotal .....	(70,013)	251,539	(659,007)
Income taxes paid .....	(7,143)	(1,247)	(67,234)
Income taxes refunded .....	—	23	—
Net cash provided by (used in) operating activities .....	(77,157)	250,315	(726,251)
<b>Cash flows from investing activities</b>			
Purchases of securities .....	(392,267)	(406,747)	(3,692,272)
Proceeds from sales of securities .....	399,756	281,217	3,762,763
Proceeds from maturities of securities .....	144,354	216,930	1,358,753
Increase in money held in trust .....	(1,986)	(10,031)	(18,693)
Decrease in money held in trust .....	457	1,117	4,301
Purchase of tangible fixed assets .....	(2,424)	(2,873)	(22,816)
Proceeds from sales of tangible fixed assets .....	33	—	310
Purchase of intangible fixed assets .....	(1,204)	(1,594)	(11,332)
Proceeds from state subsidy .....	—	68	—
Other .....	(0)	(84)	(0)
Net cash provided by investing activities .....	146,719	78,001	1,381,014
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock .....	17,348	—	163,290
Dividends paid .....	(2,079)	(1,879)	(19,568)
Purchase of treasury stock .....	(5)	(19)	(47)
Other .....	0	1	0
Net cash provided by (used in) financing activities .....	15,263	(1,897)	143,665
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	(5)	1	(47)
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>84,821</b>	<b>326,421</b>	<b>798,390</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>733,948</b>	<b>407,527</b>	<b>6,908,396</b>
<b>Cash and cash equivalents at end of year (Note 17) .....</b>	<b>¥818,769</b>	<b>¥733,948</b>	<b>\$7,706,786</b>

See Notes to Consolidated Financial Statements.



## Notes to Consolidated Financial Statements

The Nanto Bank, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

### 1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of The Nanto Bank, Ltd. (the “Bank”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and the Ordinance for Enforcement of the Banking Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

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

As permitted by the Financial Instruments and Exchange Act of Japan, amounts less than one million yen have been omitted. As a result, the totals shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to US\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its ten subsidiaries at March 31, 2018 (ten in 2017).

The Bank has two (one in 2017) unconsolidated subsidiaries, Nanto Sixth Industry Support Investment Limited Partnership and Nanto Regional Vitality Creation Support Investment Limited Partnership. The unconsolidated subsidiaries are excluded from the scope of consolidation because the portion of their assets, net income (loss), retained earnings, accumulated other comprehensive income and others that correspond to the Bank’s equity are immaterial to the extent that their exclusion from the scope of consolidation does not preclude reasonable judgment of the Group’s financial position and results of operations.

The Bank has no affiliates over which it has the ability to exercise significant influence over operating and financial policies.

The Bank has two (one in 2017) unconsolidated subsidiaries not accounted for by the equity method, Nanto Sixth Industry Support Investment Limited Partnership and Nanto Regional Vitality Creation Support Investment Limited Partnership, and one (one in 2017) affiliate not accounted for by the equity method, Nara Prefecture Tourism Revitalization Investment Limited Partnership. The unconsolidated subsidiaries and affiliate not accounted for by the equity method are excluded from the scope of the equity method because the effect on the accompanying consolidated financial statements is not significant in terms of the portion of net income (loss), retained earnings, accumulated other comprehensive income, and others which correspond to the Bank’s equity.

Potager Co., Ltd., of which the Bank owns between 20% and 50% of the voting rights (execution rights), was not recognized as an affiliate for the year ended March 31, 2018, because it is held by the Bank’s unconsolidated subsidiary for the purpose of incubating investees and not for the purpose of controlling the entity.

All consolidated subsidiaries have fiscal years ending on March 31.

All significant intercompany accounts, transactions and unrealized profits on transactions are eliminated.

#### b. Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents represents cash and due from the Bank of Japan.

#### c. Finance leases

As lessor:

Finance leases are accounted for in a manner similar to that used for ordinary sale transactions. Revenue from finance lease transactions and related costs are recognized upon receipt of the lease payments. Finance leases which transfer ownership of the lease assets to the lessee are recognized as lease receivables, and all finance leases which do not transfer ownership of the lease assets to the lessee are recognized as lease investment assets.

As for finance leases which commenced before April 1, 2008 and do not transfer ownership of the lease assets to the lessee, the appropriate book value (net of accumulated depreciation and amortization) in tangible and intangible fixed assets as of March 31, 2008 was recorded as the beginning balance of “Lease receivables and lease investment assets,” and the total amount of interest equivalent for the remaining lease term after the adoption of the “Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 13, issued on March 30, 2007) is allocated over the remaining lease term using the straight-line method.

For the fiscal years ended March 31, 2018 and 2017, differences between income before income taxes and income before income taxes calculated as if the accounting treatment for ordinary sale transactions had been applied to the finance leases which do not transfer ownership of the leased assets to the lessee were not material.

#### d. Securities

Trading securities are stated at fair value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the disposal or the change. Cost of sales for such securities is determined using the moving average method. Held-to-maturity debt securities are stated at amortized cost on a straight-line method, cost of which is determined using the moving average method. Available-for-sale securities with available fair values are stated at fair value in principle based on the market price as of the fiscal closing date. Unrealized gains and losses on available-for-sale securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income. Available-for-sale securities for which it is extremely difficult to determine the fair value are stated at moving average cost.

If the fair value of held-to-maturity debt securities or available-for-sale securities declines significantly, the securities are stated at fair value, and the difference between the fair value and the carrying amount is recognized as a loss in the period of the decline. In such a case, the fair value will be the carrying amount of the securities at the beginning of the next fiscal year.

Securities managed as trust assets in the individually managed money held in trust primarily for securities management purposes are measured at fair value.

#### e. Derivatives and hedge accounting

Derivatives are measured at fair value.

To account for hedging transactions in connection with interest rate risk arising from financial assets and liabilities, the Bank applies the deferred hedge accounting method stipulated in “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” (JICPA Industry Audit Committee Report No. 24,

February 13, 2002). The Bank assesses the effectiveness of such hedges in offsetting movement in the fair value from changes in interest rates by classifying the hedged items, such as loans and deposits, and the hedging instruments, such as interest rate swaps, by their maturity. Regarding cash flow hedges, the Bank assesses the effectiveness by verifying the correlation of the hedged items with the hedging instruments.

A portion of the deferred hedge losses and gains that were previously accounted for under the “macro hedge method,” which had been applied in order to manage interest rate risk arising from large volume transactions in loans, deposits and other interest earning assets and interest bearing liabilities as a whole using derivatives pursuant to “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No. 15, February 15, 2000) is no longer subject to hedge accounting. The deferred hedge losses and gains are being charged to “Interest income” or “Interest expense” over a 15-year period (maximum) from March 31, 2004 according to their maturity and notional principal amount. The total amount of deferred hedge loss under the “macro hedge method” was nil in 2018 and ¥0 million in 2017.

In order to hedge risk arising from the volatility of exchange rates for available-for-sale securities (excluding bonds) denominated in foreign currencies, the Bank applies fair value hedge accounting on the condition that the hedged available-for-sale securities are designated in advance and that sufficient on-balance (actual) or off-balance (forward) liability exposure exists to cover the cost of the hedged securities denominated in the same foreign currency.

#### f. Tangible fixed assets (except for leased assets)

Depreciation of tangible fixed assets of the Bank is computed by the declining-balance method, except for buildings (excluding facilities attached to buildings and structures acquired on or before March 31, 2016 which are depreciated by the declining-balance method) which are depreciated by the straight-line method. The estimated useful lives of major items are as follows:

Buildings	6 to 50 years
Others	3 to 20 years

Depreciation of the assets of the consolidated subsidiaries is computed principally by the declining-balance method over the estimated useful life of the asset.

#### g. Intangible fixed assets (except for leased assets)

Amortization of intangible fixed assets is computed by the straight-line method. Acquisition costs of software to be used internally are capitalized and amortized by the straight-line method primarily over a useful life of five years.

#### h. Lease assets

Lease assets with respect to finance leases that do not transfer ownership of tangible fixed assets and intangible fixed assets are depreciated or amortized using the straight-line method with the assumption that the term of the lease is the useful life. The residual value of leased assets is the value guaranteed in the lease contract or zero for assets without such guaranteed value.

#### i. Reserve for possible loan losses

The reserve for possible loan losses is provided according to predetermined standards. For loans to insolvent customers who are undergoing bankruptcy or other special liquidation (“bankrupt borrowers”) or who are in a similar financial condition (“effectively bankrupt borrowers”), the reserve for possible loan losses is provided based on the amount of the claims net of the amount expected to be recovered from collateral and guarantees and net of

the deducted amount mentioned below. For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances but for whom there is a high probability of so becoming (“likely to become bankrupt borrowers”), the reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of each customer’s overall financial condition. For other loans, the reserve for possible loan losses is provided for based on the Bank’s actual rate of loan losses in the past.

All the claims are assessed by the operating divisions based on the self-assessment criteria for asset quality, and the assessment results are audited by the Asset Audit Division, which is independent from the operating divisions.

For claims against “bankrupt borrowers” and “effectively bankrupt borrowers,” the amount exceeding the estimated value of collateral and guarantees is deemed uncollectible and is deducted directly from those claims in principle. At March 31, 2018 and 2017, the deducted amounts were ¥7,118 million (\$66,999 thousand) and ¥6,224 million, respectively. The reserve for possible loan losses of the consolidated subsidiaries is provided for general claims by the amount deemed necessary based on the historical loan-loss ratio and for certain doubtful claims by the amount deemed uncollectible based on an assessment of each claim.

#### j. Employee retirement benefits

In calculating projected benefit obligations, expected benefits are attributed to each period by the benefit formula basis.

Prior service costs are recognized as profit or loss at the time of occurrence.

Actuarial gains and losses are amortized from the fiscal year following the year in which the gains and losses are recognized by the straight-line method over a fixed period (ten years), within the average remaining service years of the current employees.

Consolidated subsidiaries applied the simplified method where the amount to be required for voluntary termination at the fiscal year-end is recorded as projected benefit obligations in the calculation of the liability for retirement benefits and retirement benefit costs.

#### k. Reserve for reimbursement of deposits

A reserve for reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for possible losses on the future claims of withdrawal based on historical reimbursement experience.

#### l. Reserve for contingent losses

To pay its contribution to the Credit Guarantee Corporation, the Bank provides a reserve for contingent liabilities not covered by other reserves in an amount deemed necessary based on estimated future losses.

#### m. Foreign currency translations

Foreign currency assets and liabilities are translated at fiscal year-end exchange rates.

#### n. Income taxes

Deferred income taxes are recorded to reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

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

**o. Recognition criteria for lease income and costs for finance leases**

Lease income and costs are recognized at the time of receiving lease fees.

**p. Consumption taxes**

Transactions subject to national and local consumption taxes are recorded at amounts exclusive of consumption taxes.

**q. Changes in accounting policies**

For the year 2018

None

For the year 2017

Due to amendments to the Japanese Corporation Tax Act, the Bank and its domestic subsidiaries adopted “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (“Practical Issue Task Force No. 32, June 17, 2016 (hereinafter, “PITF No. 32”)) from the current fiscal year and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining-balance method to the straight-line method.

The impact on income before income taxes for the fiscal year ended March 31, 2017 was immaterial.

**r. Standards and guidance not yet adopted**

For the year 2018

The following guidance was issued but not yet adopted.

“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018)

**(1) Overview**

The above guidance was revised regarding the treatment of temporary differences to be added in the future related to items such as shares in subsidiaries in the nonconsolidated financial statements.

**(2) Effective date**

The Group is scheduled to apply the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

**(3) Effects of the application of the guidance**

The above guidance will be applied retroactively and the beginning balance of retained earnings of the consolidated statements of changes in net assets after the retroactive application will increase by ¥29 million (\$272 thousand) because accumulated effects on net assets as of the beginning of the following fiscal year will be reflected.

The following standard and guidance were issued but not yet adopted.

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

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

**(1) Overview**

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following five steps:

- Step 1: Identify the contract(s) with customers.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligation in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

**(2) Effective date**

The Group is scheduled to apply the accounting standard and its guidance from the beginning of the fiscal year ending March 31, 2022.

**(3) Effects of the application of the standards**

The Bank and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

**s. Additional information**

The Bank and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No. 26”)) from the fiscal year ended March 31, 2017.

**3. CHANGES IN NET ASSETS**

**(1) Type and numbers of shares issued and treasury stock for the fiscal years ended March 31, 2018 and 2017 were as follows:**

	(Thousands of shares)				Remarks
	April 1, 2017	Increase	Decrease	March 31, 2018	
Shares issued					
Common stock .....	27,275	5,750	—	33,025	Note 1
Total .....	27,275	5,750	—	33,025	
Treasury stock					
Common stock .....	437	1	5	433	Notes 2&3
Total .....	437	1	5	433	

- Notes: 1. The increase of 5,750 thousand shares in common stock issued was due to capital increase through public offering (5,000 thousand shares) and third-party allocation (750 thousand shares).  
2. The increase of 1 thousand shares in common stock of treasury stock was due to the purchase of shares of less than one unit.  
3. The decrease of 5 thousand shares in common stock of treasury stock was due to the execution of stock options.

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	(Thousands of shares)				Remarks
	April 1, 2016	Increase	2017 Decrease	March 31, 2017	
Shares issued					
Common stock .....	272,756	—	245,480	27,275	Notes 1 & 2
Total .....	272,756	—	245,480	27,275	
Treasury stock					
Common stock .....	4,454	12	4,030	437	Notes 1, 3 & 4
Total .....	4,454	12	4,030	437	

Notes: 1. On October 1, 2016, the Bank implemented a one-for-ten reverse stock split.  
2. The decrease of 245,480 thousand shares in common stock issued was due to the reverse stock split.  
3. The increase of 12 thousand shares in common stock of treasury stock comprises an increase of 8 thousand shares due to the purchase of shares of less than one unit executed before the reverse stock split, an increase of 1 thousand shares due to the purchase of shares of less than one unit after the reverse stock split and an increase of 2 thousand shares due to the purchase of fractional shares less than one unit allotted in the reverse stock split.  
4. The decrease of 4,030 thousand shares in common stock of treasury stock comprises a decrease of 129 thousand shares due to the execution of stock options, a decrease of 1 thousand shares due to sales of shares of less than one unit before the reverse stock split, a decrease of 0 thousand shares due to sales of shares of less than one unit after the reverse stock split, a decrease of 3,898 thousand shares due to the reverse stock split and a decrease of 0 thousand shares due to the disposition of shares of less than one unit in the reverse stock split.

## (2) Matters concerning Stock Acquisition Rights

For the fiscal year ended March 31, 2018

Classification	Breakdown	Shares expected to be acquired upon exercise of stock acquisition rights				Balance at end of current fiscal year (Millions of yen)	(Thousands of U.S. dollars)
		April 1, 2017	Increase	Decrease	March 31, 2018		
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥113	\$1,063
	Total	—	—	—	—	¥113	\$1,063

For the fiscal year ended March 31, 2017

Classification	Breakdown	Shares expected to be acquired upon exercise of stock acquisition rights				Balance at end of current fiscal year (Millions of yen)
		April 1, 2016	Increase	Decrease	March 31, 2017	
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥112
	Total	—	—	—	—	¥112

## (3) Information on dividends is as follows:

### (a) Dividends paid in the fiscal year ended March 31, 2018

Resolution	Type of shares	Millions of yen (thousands of U.S. dollars), except per share amount			
		Aggregate amount of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 29, 2017	Common stock	¥939 (\$8,838)	¥35.00 (\$0.32)	March 31, 2017	June 30, 2017
Board of Directors' meeting held on November 10, 2017	Common stock	¥1,140 (\$10,730)	¥35.00 (\$0.32)	September 30, 2017	December 5, 2017

### (b) Dividends paid in the fiscal year ended March 31, 2017

Resolution	Type of shares	Millions of yen, except per share amount			
		Aggregate amount of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 29, 2016	Common stock	¥939	¥3.50	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 11, 2016	Common stock	¥939	¥3.50	September 30, 2016	December 5, 2016

### (c) Dividends to be paid in the fiscal year ending March 31, 2019

Resolution	Type of shares	Millions of yen (thousands of U.S. dollars), except per share amount				
		Aggregate amount of dividends	Source of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 28, 2018	Common stock	¥1,140 (\$10,730)	Retained earnings	¥35.00 (\$0.32)	March 31, 2018	June 29, 2018

## 4. STOCKHOLDERS' EQUITY

Under the Banking Law of Japan and the Company Law, the entire amount of the issue price of shares is required to be accounted for as capital, although the Bank may, by resolution of its Board of Directors, account for an amount not exceeding one half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Banking Law provides that an amount equal to at least 20% of cash dividends and other cash appropriations be appropriated and set aside as legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Bank has reached 100% of common stock. Therefore, the Bank is not required to provide additional legal earnings reserve.

The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or more than 100% of common stock, they are available for distribution by resolution of the stockholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Bank can distribute as dividends is calculated based on the nonconsolidated financial statements of the Bank in accordance with the Company Law.

## 5. SHARES OR INVESTMENTS IN CAPITAL OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Shares or investments in capital of unconsolidated subsidiaries and affiliates at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Shares or investments in capital .....	¥122	¥32	\$1,148

## 6. NONPERFORMING LOANS

Nonperforming loans at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans to bankrupt borrowers .....	¥ 1,607	¥ 1,105	\$ 15,126
Past due loans .....	46,680	55,588	439,382
Past due loans (three months or more) .....	467	322	4,395
Restructured loans .....	6,764	11,235	63,667
Total .....	¥55,520	¥68,252	\$522,590

Bills discounted are accounted for as financing transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2002). This accounting treatment allows the Bank the right to sell or pledge them without restrictions. The total face value of commercial bills and purchased foreign exchange bills obtained as a result of discounting was ¥23,052 million (\$216,980 thousand) and ¥18,007 million at March 31, 2018 and 2017, respectively.

## 7. PLEDGED ASSETS

At March 31, 2018 and 2017, securities of ¥720,845 million (\$6,785,062 thousand) and ¥842,875 million, respectively, and other assets of ¥1,978 million (\$18,618 thousand) and ¥1,978 million, respectively, were pledged as collateral for deposits of ¥43,693 million (\$411,266 thousand) and ¥44,652 million, respectively, payables under repurchase agreements of ¥74,699 million (\$703,115 thousand) and ¥29,203 million, respectively, payables under securities lending transactions of ¥345,250 million (\$3,249,717 thousand) and ¥504,092 million, respectively, and borrowed money of ¥198,592 million (\$1,869,277 thousand) and ¥196,612 million, respectively.

Securities of ¥24,146 million (\$227,277 thousand) and ¥9,203 million and other assets of ¥55 million (\$517 thousand) and ¥14,000 million were pledged for transaction guarantees at March 31, 2018 and 2017, respectively.

Unexpired lease contract claims of ¥4,592 million (\$43,222 thousand) and ¥3,754 million were pledged as collateral for borrowed money of ¥3,572 million (\$33,621 thousand) and ¥3,117 million at March 31, 2018 and 2017, respectively.

At March 31, 2018 and 2017, other assets included initial margins of futures markets of ¥539 million (\$5,073 thousand) and ¥328 million, respectively, and security deposits of ¥1,029 million (\$9,685 thousand) and ¥1,057 million, respectively, and other intangible fixed assets included key money of ¥493 million (\$4,640 thousand) and ¥552 million, respectively.

## 8. LOAN COMMITMENTS

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing up to a prescribed amount as long as there is no violation of any condition established in the contract. The amounts of unused commitments at March 31, 2018 and 2017 were ¥963,457 million (\$9,068,684 thousand) and ¥972,010 million, respectively, and the amount of unused commitments whose original contract terms were within one year or unconditionally cancelable at any time at March 31, 2018 and 2017 were ¥941,700 million (\$8,863,893 thousand) and ¥948,278 million, respectively.

Since many of these commitment line contracts are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily affect actual future cash flow.

Many of these commitments line contracts have clauses that allow the Group to reject the application from customers or reduce the contract amounts if economic conditions change. In addition, the Group may request that customers pledge collateral such as real estate and securities or take other necessary measures such as scrutinizing customers' financial positions and revising contracts when the need to secure claims arises.

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## 9. TANGIBLE FIXED ASSETS

Accumulated depreciation of tangible fixed assets was ¥44,646 million (\$420,237 thousand) and ¥44,346 million at March 31, 2018 and 2017, respectively. Accumulated capital gains directly offset against the acquisition cost of tangible fixed assets to obtain tax benefits were ¥783 million (\$7,370 thousand) and ¥783 million at March 31, 2018 and 2017, respectively. For the years ended March 31, 2018 and 2017, the capital gain offset from acquisition costs was nil and ¥68 million (\$606 thousand), respectively.

## 10. GUARANTEES

The amount guaranteed by the Bank for privately placed bonds (stipulated by Article 2, Paragraph 3 of the Financial Instruments Exchange Act) included in “Bonds” of “Securities” was ¥13,660 million (\$128,576 thousand) and ¥8,302 million at March 31, 2018 and 2017, respectively.

## 11. OTHER OPERATING INCOME

For the fiscal years ended March 31, 2018 and 2017, other operating income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gains on sales of bonds .....	¥2,100	¥6,132	\$19,766
Other .....	366	227	3,454
Total .....	¥2,467	¥6,360	\$23,221

## 12. OTHER INCOME

For the fiscal years ended March 31, 2018 and 2017, other income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gains on sales of stocks and other securities .....	¥3,857	¥2,505	\$36,304
Reversal of allowance for loan losses .....	3,036	—	28,576
Recovery of written-off claims .....	627	978	5,901
State subsidy .....	—	68	—
Other .....	1,801	1,325	16,961
Total .....	¥9,322	¥4,878	\$87,744

## 13. OTHER OPERATING EXPENSES

For the fiscal years ended March 31, 2018 and 2017, other operating expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Losses on sales of bonds .....	¥3,506	¥2,159	\$33,000
Other .....	493	1,323	4,649
Total .....	¥4,000	¥3,483	\$37,650

## 14. GENERAL AND ADMINISTRATIVE EXPENSES

For the fiscal years ended March 31, 2018 and 2017, general and administrative expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and allowances .....	¥19,863	¥19,363	\$186,963
Retirement benefit costs .....	3,645	3,969	34,309
Other .....	19,856	20,021	186,916
Total .....	¥43,366	¥43,355	\$408,189

## 15. OTHER EXPENSES

For the fiscal year ended March 31, 2018 and 2017, other expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Write-offs of loans .....	¥ 514	¥1,045	\$ 4,838
Provision for possible loan losses .....	—	2,584	—
Losses on sales of stocks and other securities .....	291	269	2,739
Other .....	835	1,166	7,859
Total .....	¥1,641	¥5,066	\$15,436

## 16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Gains (losses) incurred during the year .....	¥ 5,344	¥(13,617)	\$ 50,301
Reclassification adjustments to net income .....	(2,159)	(6,208)	(20,321)
Amount before tax effect .....	3,184	(19,826)	29,969
Tax effect .....	(1,381)	6,279	(12,998)
Valuation difference on available-for-sale securities .....	1,802	(13,546)	16,961
Deferred gains or losses on hedges .....			
Gains (losses) incurred during the year .....	(63)	94	(592)
Reclassification adjustments to net income .....	248	209	2,334
Amount before tax effect .....	184	303	1,731
Tax effect .....	(57)	(92)	(536)
Deferred gains or losses on hedges .....	127	210	1,195
Adjustments for retirement benefits:			
Gains (losses) incurred during the year .....	1,866	880	17,564
Reclassification adjustments to net income .....	1,910	2,178	17,978
Amount before tax effect .....	3,777	3,059	35,551
Tax effect .....	(1,152)	(934)	(10,843)
Adjustments for retirement benefits .....	2,625	2,124	24,708
Total other comprehensive income (loss) .....	¥ 4,555	¥(11,211)	\$ 42,874

## 17. STATEMENTS OF CASH FLOWS

The reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2018 and 2017 and cash and cash equivalents in the consolidated statements of cash flows for the fiscal years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and due from banks on the consolidated balance sheets .....	¥820,151	¥736,472	\$7,719,794
Current deposits due from banks .....	(428)	(1,768)	(4,028)
Time deposits due from banks .....	(600)	(600)	(5,647)
Other due from banks .....	(353)	(154)	(3,322)
Cash and cash equivalents on the consolidated statements of cash flows .....	¥818,769	¥733,948	\$7,706,786

## 18. LEASE TRANSACTIONS

### Operating leases

#### As lessee:

Future minimum lease payments under operating leases which were not cancelable at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year .....	¥ 87	¥ 87	\$ 818
Due after one year .....	859	923	8,085
Total .....	¥946	¥1,011	\$8,904

#### As lessor:

There was no applicable matter to be noted regarding future minimum lease payments under operating leases which were not cancelable at March 31, 2018 and 2017.

## 19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### a. Matters relating to the status of financial instruments

#### (1) Policy on financial instruments

The Group is composed of the Bank and ten consolidated subsidiaries and provides financial services such as banking, securities, leasing and credit guarantee businesses.

The Group's major banking business includes (i) the acceptance of deposits, lending services, bills discounting and remittance, and (ii) the guarantee of debt, acceptance of bills and other services related to the banking business. The securities business includes underwriting and dealing in securities, over-the-counter derivative transactions and other related services including security index future transactions in accordance with the Financial Instruments and Exchange Act.

The Bank, in addition to being a money lender and borrower in the interbank market to adjust surplus and deficit of funds, raises funds by loans and bonds with consideration for the financial market conditions and the balance of length.

The Bank conducts asset and liability management (ALM), identifying various types of risk exposures associated with the banking business as the Bank holds financial assets and liabilities exposed to the market risk associated with fluctuation in interest rates. As part of its risk management, the Bank utilizes derivative transactions such as interest rate swaps. The Bank also enters into derivative transactions for trading purposes with certain position limits.

#### (2) Contents and risk of financial instruments

Financial assets held by the Group are composed mainly of loans to corporate and individual customers that are exposed to credit risk arising from customer nonperformance. In addition, loan balances are significantly concentrated in Nara prefecture, where the head office of the Bank is located. Accordingly, changes in the economic circumstances of the region could have a great impact on the credit risk.

Securities consist principally of Japanese government bonds, Japanese local government bonds, equity securities, foreign securities, investment trusts that are classified as other securities (available-for-sale), private bonds guaranteed by the Bank that are classified as held-to-maturity debt securities and Japanese government bonds classified as trading purpose securities. These securities are exposed to the credit risk of issuers and the market risk of fluctuation in interest rates and market prices. Since financial assets denominated in foreign currencies are exposed to exchange rate risk, currency related derivative transactions are used to balance the amount of funding and amount of operations for each currency to reduce the risk.

In the banking business, financial liabilities consist principally of deposits from retail clients in Japan and are exposed to interest rate risk. In addition, foreign currency deposits are exposed to exchange rate risk. With respect to borrowed money, the Group may be forced to raise funds under unfavorable conditions and, accordingly, become significantly exposed to liquidity risk if the fund raising capacity of the Group significantly declined and led to the inability to repay under circumstances such as the significant deterioration of the financial position of the Group. Furthermore, borrowed money with floating interest rates is exposed to interest rate risk.

Derivative transactions include interest rate swaps for interest rate related transactions, currency swaps and forward foreign exchange transactions for currency related transactions, and bond future transactions and bond option transactions for bond related transactions. In addition, certain credit derivatives are embedded in the financial instruments. The Bank utilizes those derivative transactions in order to hedge the position of the customers as well as to capture various risks associated with transactions with customers and control those risks properly. The Bank also uses derivatives for trading purposes with certain position limits.

The Bank applies the deferred hedge accounting method for derivative transactions when used as hedging instruments. Interest rate swaps are used as hedging instruments to avoid interest rate risks of hedged items such as loans and deposits with fixed interest rates. Deferred hedge accounting has

been applied to derivatives used as hedging instruments.

The Bank assesses the effectiveness of hedges in offsetting movement in the fair value from changes in interest rates by classifying the hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by their maturity. For cash flow hedges, the Bank assesses the effectiveness by verifying the correlation between the hedged items and the hedging instruments. Transactions which do not meet the requirements of hedge accounting and derivative transactions for trading purposes are exposed to interest rate risk, foreign currency risk, price fluctuation risk and credit risk.

#### (3) Risk management system for financial instruments

##### *Credit risk management*

The Group has established a framework for credit control which includes credit reviews for individual transactions, credit limits, credit information management, internal credit ratings, guarantees and collateral and self-assessment in accordance with the Group's "Rules on credit risk management" and "Rules on self-assessment of assets." These credit controls are performed by each branch and the Credit Analysis Division, and the independent Audit Department audits the status of credit risk controls and its results. The status of credit risk controls is periodically evaluated and reported to the Management Directors' Committee and board meeting.

Credit risks associated with the issuers of securities are managed by the Financial Investment Division and Risk Management Division. With respect to the credit risks associated with the issuer of the securities and counterparty risk associated with derivative transactions, related credit information and fair values of the securities are periodically checked to monitor those risks.

##### *Market risk management*

###### (a) Interest rate risk

From the perspective of ALM, the Group manages market risk such as interest rate risk associated with assets and liabilities, including loans, deposits and securities comprehensively. The Group's "Rules on Market Risk Management" stipulates that the Bank makes efforts to manage the market sector effectively, taking risk and reward into account as well as avoiding excessive risk taking by setting appropriate risk limits based on the Group's ability to take risk and identifying market risk properly.

The ALM Committee, the decision making entity for the management of market risks, sets certain semiannual risk limits determined by VaR based upon the Bank's capital adequacy and market conditions. The Bank pursues profit opportunities within the risk limits. The Risk Management Division assesses interest rate risk by VaR, reports to the ALM Committee on a monthly basis and properly monitors its operations. Other methodologies such as BPV and the simulation of the interest rate fluctuation are also used so that the Bank can identify and analyze risk from a broader point of view.

###### (b) Foreign currency risk

With regard to foreign currency risk associated with operations and procurement of financial instruments denominated in foreign currency, the Group manages risk by balancing the amount of funding and amount of operations for each currency. In addition, as for foreign currency exchange transactions for investment purposes, the Risk Management Division assesses the foreign currency risk by VaR, reports to the ALM committee on a monthly basis and properly monitors its operations.

###### (c) Price fluctuation risk

With regard to investments in securities, the Group prepares its asset management plan semiannually and makes investment decisions at the ALM Committee based upon expected returns and correlations between investment items and related market fluctuation risk. The Financial Investment Division plays a part in investments for investment purposes, and the Corporate Business Division plays a part in investments for the purpose of



business alliances and capital affiliation. Continuous monitoring of market conditions and restrictions on investments in riskier assets such as securitized instruments help to avoid unnecessary price fluctuation risk.

The Risk Management Division assesses the price fluctuation risk of equity securities, etc., by VaR, reports monthly to the ALM Committee about compliance with risk limits and properly manages the risk.

(d) Derivative transactions

With respect to derivative transactions for hedging purposes, the Group establishes internal rules defining the authority and hedge policies which are governed by the Risk Management Division. With respect to derivative transactions for trading purposes, certain trading limits and loss limit rules are set semiannually by the ALM Committee. The Risk Management Division, which serves as the middle office, monitors compliance and calculates the total amount of risk. The Financial Investment Division, which serves as the back office, checks each derivative transaction, marked-to-market position, and evaluates the profit and loss from the transactions on a daily basis. In addition to those functions, the related divisions check each other so as not to exceed limits on loss.

The directors of the Bank are reported to from both the middle office and the back office and monitor the risks associated with the Bank's portfolio as a whole, including loans, deposits and securities at the ALM Committee.

(e) Quantitative information relating to market risk

The Group manages the quantity of market risk for financial instruments such as loans, deposits, securities and derivatives by VaR. To calculate VaR, the Group has adopted the historical method (confidence level of 99%, observation period of 1,250 business days, holding period of 120

business days [holding period for equity securities other than purely for investment purposes are 240 business days] and the correlation of risk categories are not considered.).

At March 31, 2018, the Group's total market risk (decrease in estimated economic value) was ¥56,285 million (\$529,791 thousand) (¥59,428 million in 2017). In addition, the Group conducted back tests comparing actual income with the VaR calculated by the model. However, VaR is a statistical measure of market risk based on past fluctuations in the market and certain probability of occurrence. It may not be possible to capture the risk if the market fluctuates rapidly under extraordinary circumstances.

*Management of liquidity risk associated with financing activities*

The Financial Investment Division manages the Bank's cash position based upon the monthly funding plan designed by the ALM Committee, while the Risk Management Division monitors the situation. The ALM Committee manages financing risk comprehensively by understanding the amount of cash for which the Bank can liquidate and also can raise from the market on a regular basis.

In addition, the Group categorizes its financing situation into "Regular Phase" "Concern Phase" and "Crisis Phase" and prepares appropriate management structures for each phase so that the Group can take proper action accordingly.

**(4) Supplementary explanation on the fair value of financial instruments**

The fair values of financial instruments comprise the values determined based on quoted market prices and values calculated on a reasonable basis when no market price is available. Certain assumptions are used for the calculation of such amounts, and, accordingly, the result of such calculations may vary if different assumptions are used.

**b. Fair value of financial instruments**

The table below summarizes the carrying amounts, fair values and differences of financial instruments as of March 31, 2018 and 2017. Note that unlisted equity securities for which it is extremely difficult to identify the fair value and immaterial accounts are not included in the table (see Note 2 below).

Millions of yen

	2018		
	Carrying amount	Fair value	Difference
Cash and due from banks .....	¥ 820,151	¥ 820,151	¥ —
Call loans and bills bought .....	489	489	—
Debt purchased .....	2,983	2,983	—
Trading account securities .....			
Trading securities .....	—	—	—
Money held in trust .....	33,000	33,000	—
Securities .....			
Held-to-maturity debt securities .....	13,660	13,676	15
Available-for-sale securities .....	1,521,099	1,521,099	—
Loans and bills discounted .....	3,330,514		
Reserve for possible loan losses (*1) .....	(19,324)		
	<b>3,311,190</b>	<b>3,332,246</b>	<b>21,056</b>
Total assets .....	<b>¥5,702,575</b>	<b>¥5,723,647</b>	<b>¥21,071</b>
Deposits .....	<b>¥4,817,646</b>	<b>¥4,817,749</b>	<b>¥ 102</b>
Negotiable certificates of deposit .....	18,956	18,956	—
Call money and bills sold .....	531	531	—
Payables under repurchase agreements .....	74,699	74,699	—
Payables under securities lending transactions .....	345,250	345,250	—
Borrowed money .....	208,368	208,274	(94)
Total liabilities .....	<b>¥5,465,452</b>	<b>¥5,465,461</b>	<b>¥ 8</b>
Derivative transactions (*2) .....			
Hedge accounting not applied .....	2,485	2,485	—
Hedge accounting applied .....	(287)	(287)	—
Total derivative transactions .....	<b>¥ 2,198</b>	<b>¥ 2,198</b>	<b>¥ —</b>

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Millions of yen

	2017		
	Carrying amount	Fair value	Difference
Cash and due from banks .....	¥ 736,472	¥ 736,472	¥ —
Call loans and bills bought .....	11,776	11,776	—
Debt purchased .....	4,304	4,304	—
Trading account securities			
Trading securities .....	10	10	—
Money held in trust .....	31,000	31,000	—
Securities			
Held-to-maturity debt securities .....	8,302	8,338	35
Available-for-sale securities .....	1,675,414	1,675,414	—
Loans and bills discounted .....	3,252,218		
Reserve for possible loan losses (*1) .....	(25,045)		
	3,227,173	3,250,545	23,372
<b>Total assets .....</b>	<b>¥5,694,453</b>	<b>¥5,717,861</b>	<b>¥23,408</b>
Deposits .....	¥4,737,336	¥4,737,624	¥ 288
Negotiable certificates of deposit .....	28,453	28,453	—
Call money and bills sold .....	—	—	—
Payables under repurchase agreements .....	29,203	29,203	—
Payables under securities lending transactions .....	504,092	504,092	—
Borrowed money .....	205,308	205,205	(103)
<b>Total liabilities .....</b>	<b>¥5,504,394</b>	<b>¥5,504,579</b>	<b>¥ 185</b>
Derivative transactions (*2) .....			
Hedge accounting not applied .....	(2,049)	(2,049)	—
Hedge accounting applied .....	(448)	(448)	—
<b>Total derivative transactions .....</b>	<b>¥ (2,497)</b>	<b>¥ (2,497)</b>	<b>¥ —</b>

Thousands of U.S. dollars

	2018		
	Carrying amount	Fair value	Difference
Cash and due from banks .....	\$ 7,719,794	\$ 7,719,794	\$ —
Call loans and bills bought .....	4,602	4,602	—
Debt purchased .....	28,077	28,077	—
Trading account securities			
Trading securities .....	—	—	—
Money held in trust .....	310,617	310,617	—
Securities			
Held-to-maturity debt securities .....	128,576	128,727	141
Available-for-sale securities .....	14,317,573	14,317,573	—
Loans and bills discounted .....	31,348,964		
Reserve for possible loan losses (*1) .....	(181,890)		
	31,167,074	31,365,267	198,192
<b>Total assets .....</b>	<b>\$53,676,346</b>	<b>\$53,874,689</b>	<b>\$198,333</b>
Deposits .....	\$45,346,818	\$45,347,788	\$ 960
Negotiable certificates of deposit .....	178,426	178,426	—
Call money and bills sold .....	4,998	4,998	—
Payables under repurchase agreements .....	703,115	703,115	—
Payables under securities lending transactions .....	3,249,717	3,249,717	—
Borrowed money .....	1,961,295	1,960,410	(884)
<b>Total liabilities .....</b>	<b>\$51,444,390</b>	<b>\$51,444,474</b>	<b>\$ 75</b>
Derivative transactions (*2) .....			
Hedge accounting not applied .....	23,390	23,390	—
Hedge accounting applied .....	(2,701)	(2,701)	—
<b>Total derivative transactions .....</b>	<b>\$ 20,689</b>	<b>\$ 20,689</b>	<b>\$ —</b>

(\*1) General reserve for possible loan losses and specific reserve for possible loan losses corresponding to loans are deducted.

(\*2) Assets and liabilities arising from derivative transactions are presented on a net basis, and net liabilities are presented in parentheses.

(Note 1) Computation method for fair value of financial instruments

## Assets

Cash and due from banks:

With respect to due from banks without maturities, the carrying amount is presented as the fair value as the fair value approximates the carrying amount. With respect to due from banks with maturities, the fair value is calculated for each category of maturity by discounting the cash flow at the interest rate assumed if the same due from banks were newly executed.

Call loans and bills bought and debt purchased:

The carrying amount is presented as the fair value as the residual maturity is less than one year and the fair value approximates the carrying amount.

Trading account securities:

The fair value of securities held for trading purposes is determined based on quoted market prices or values calculated on a reasonable basis if no market price is available.

**Money held in trust:**

The fair value of securities managed as trust assets in individually managed money held in trust primarily for securities management purposes is determined based on the values presented by the trust bank. For additional information on money held in trust categorized by holding purposes, see Note 20, "SECURITIES AND MONEY HELD IN TRUST."

**Securities:**

The fair value of equity securities is determined using the market price on exchanges. The fair value of debt securities is determined based on market price or value calculated on a reasonable basis if no market price is available. The fair value of listed investment trusts is determined using the market price on exchanges and the fair value of other investment trusts is determined using standard prices published by the Investment Trust Association, Japan or presented from the financial institutions with which they are transacted. The fair value of the private bonds guaranteed by the Bank is calculated by discounting the aggregate value of principle and interest at the interest rate assumed if the same bond were newly issued for each category based on term, redemption method and guarantees. With respect to the private bonds guaranteed by the Bank issued by "bankrupt borrowers," "effectively bankrupt borrowers" and "likely to become bankrupt borrowers," the amount of possible loan losses is computed based on the present value of estimated future cash flow or the recoverable amounts from collateral and guarantees. Therefore, the fair value approximates the carrying amount, net of reserve for possible loan losses, and such amount is presented as the fair value.

For additional information on securities categorized by holding purposes, see Note 20, "SECURITIES AND MONEY HELD IN TRUST."

**Loans and bills discounted:**

The fair value of loans with floating interest rates is presented using the carrying amount as the fair value approximates the carrying amount, as long as the credit situation of the borrower does not vary significantly after the loan is executed, since they reflect market interest rates due to their short-term nature. The fair value of loans with fixed rates is computed, by discounting the aggregate value of principal and interest at the interest rate assumed if the same loans were newly executed, for each type of loan, internal rating and maturity. As for the loans whose maturity is less than one year, the carrying amount is presented as the fair value as the fair value approximates the carrying amount.

With respect to receivables from "bankrupt borrowers," "effectively bankrupt borrowers" and "likely to become bankrupt borrowers," the amount of possible loan losses is computed based on the present value of the estimated future cash flow or the recoverable amounts from collateral and guarantees. Therefore, the fair value approximates the carrying amount, net of reserve for possible loan losses, and this amount is presented as the fair value.

The fair value of loans without a predetermined repayment date due to the lending amount being limited within the value of the applicable collateral is presented using the carrying amount, as the fair value is deemed to approximate the carrying amount considering the estimated repayment term and interest rates. The fair value of embedded derivative loans is presented using market prices at financial institutions.

**Liabilities****Deposits and negotiable certificates of deposits:**

With respect to on-demand deposits, the payment obligation due when demanded at the balance sheet date, which is the carrying amount, is deemed to be the fair value. The fair value of time deposits is computed using the present value by discounting future cash flows for each category of a certain period. The interest rate to be applied when a new deposit is taken is used as the discount rate. For deposits whose residual maturity is less than one year, the carrying amount is presented as the fair value as the fair value approximates the carrying amount.

**Call money and bills sold and payables under securities lending transactions:**

The carrying amount is presented as the fair value as the residual maturity is less than one year and the fair value approximates the carrying amount.

**Payables under repurchase agreements:**

The carrying amount is presented as the fair value as the fair value is deemed to approximate the carrying amount since the interest rate is the floating interest rate which reflects the market interest rate due to the short-term nature.

**Borrowed money:**

The fair value of borrowed money with floating interest rates is presented using the carrying amount as the fair value approximates the carrying amount since the interest rate reflects the market interest rate due to the short-term nature and the credit situation of the Group does not vary significantly after executing the borrowing. The fair value of borrowed money with fixed interest rates is computed, by discounting the aggregate value of principal and interest at the interest rate assumed if the same borrowing were newly executed, for each category of type of maturities. As for the borrowed money whose maturity is less than one year, the carrying amount is presented as the fair value as the fair value approximates the carrying amount.

**Derivative transactions**

For derivative transactions, see Note 21, "DERIVATIVE TRANSACTIONS."

(Note 2) The table below summarizes financial instruments whose fair value is extremely difficult to estimate. Note that these instruments are not included in the above table regarding the fair value of financial instruments.

	Carrying amount		Thousands of U.S. dollars
	2018	2017	
Unlisted equity securities (*1) (*2) .....	¥1,684	¥1,642	\$15,850
Investment in partnerships (*3) .....	2,704	1,215	25,451
Total .....	¥4,389	¥2,857	\$41,312

(\*1) The fair value of unlisted equity securities is not disclosed, since there is no market price and it is extremely difficult to estimate the fair value.

(\*2) No impairment loss was recognized for either the fiscal year ended March 31, 2018 or 2017.

(\*3) The fair value of unlisted equity securities among the investment in partnerships is not disclosed since there is no market price and it is extremely difficult to estimate the fair value.

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(Note 3) Redemption schedule of monetary claims and securities with maturities

	Millions of yen					
	2018					
	Due within one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks .....	¥ 773,023	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought .....	489	—	—	—	—	—
Debt purchased .....	2,983	—	—	—	—	—
Securities .....	103,940	369,141	179,538	122,043	183,985	167,381
Held-to-maturity debt securities .....	2,597	4,765	5,287	1,010	—	—
Bonds .....	2,597	4,765	5,287	1,010	—	—
Available-for-sale securities with contractual maturities .....	101,343	364,376	174,251	121,033	183,985	167,381
Japanese government bonds .....	53,000	247,000	110,500	68,500	—	—
Japanese local government bonds .....	26,287	20,813	22,373	31,412	66,757	3,970
Corporate bonds .....	9,004	30,534	38,296	20,377	14,004	73,801
Other .....	13,052	66,028	3,080	743	103,224	89,609
Loans and bills discounted (*) .....	479,864	618,828	471,773	338,806	349,829	748,424
Total .....	¥1,360,301	¥987,970	¥651,312	¥460,850	¥533,814	¥915,806

	Millions of yen					
	2017					
	Due within one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks .....	¥ 689,396	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought .....	11,776	—	—	—	—	—
Debt purchased .....	4,304	—	—	—	—	—
Securities .....	133,658	294,172	378,809	160,294	274,337	97,354
Held-to-maturity debt securities .....	1,724	2,918	2,943	716	—	—
Bonds .....	1,724	2,918	2,943	716	—	—
Available-for-sale securities with contractual maturities .....	131,934	291,253	375,866	159,578	274,337	97,354
Japanese government bonds .....	54,000	206,500	215,000	61,500	60,000	—
Japanese local government bonds .....	7,069	31,970	32,975	28,430	73,556	4,412
Corporate bonds .....	12,904	11,204	31,740	42,862	26,451	56,906
Other .....	57,960	41,579	96,150	26,785	114,330	36,036
Loans and bills discounted (*) .....	496,025	625,936	437,952	315,922	364,039	691,686
Total .....	¥1,335,161	¥920,108	¥816,762	¥476,216	¥638,377	¥789,041

	Thousands of U.S. dollars					
	2018					
	Due within one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks .....	\$ 7,276,195	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought .....	4,602	—	—	—	—	—
Debt purchased .....	28,077	—	—	—	—	—
Securities .....	978,350	3,474,595	1,689,928	1,148,748	1,731,786	1,575,498
Held-to-maturity debt securities .....	24,444	44,851	49,764	9,506	—	—
Bonds .....	24,444	44,851	49,764	9,506	—	—
Available-for-sale securities with contractual maturities .....	953,906	3,429,743	1,640,163	1,139,241	1,731,786	1,575,498
Japanese government bonds .....	498,870	2,324,924	1,040,097	644,766	—	—
Japanese local government bonds .....	247,430	195,905	210,589	295,670	628,360	37,368
Corporate bonds .....	84,751	287,405	360,466	191,801	131,814	694,663
Other .....	122,853	621,498	28,990	6,993	971,611	843,458
Loans and bills discounted (*) .....	4,516,792	5,824,811	4,440,634	3,189,062	3,292,818	7,044,653
Total .....	\$12,804,038	\$9,299,416	\$6,130,572	\$4,337,820	\$5,024,604	\$8,620,161

(\*) Loans from “bankrupt,” “effectively bankrupt” and “likely to become bankrupt” borrowers, which are not expected to be repaid, and amounting to ¥40,490 million (\$381,118 thousand) and ¥47,255 million at March 31, 2018 and 2017, respectively, are not included. Loans whose payment term is not determined amounting to ¥282,497 million (\$2,659,045 thousand) and ¥273,399 million at March 31, 2018 and 2017, respectively, are not included.

(Note 4) Redemption schedule of bonds payable, borrowed money and interest bearing liabilities

Millions of yen						
2018						
	Due within one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	¥4,324,543	¥438,163	¥ 54,939	¥—	¥—	¥—
Negotiable certificates of deposits	18,956	—	—	—	—	—
Call money and bills sold	531	—	—	—	—	—
Payables under repurchase agreements	47,045	—	27,654	—	—	—
Payables under securities lending transactions ..	345,250	—	—	—	—	—
Borrowed money	21,895	164,522	21,862	80	7	—
Total	¥4,758,222	¥602,686	¥104,456	¥80	¥ 7	¥—

Millions of yen						
2017						
	Due within one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	¥4,199,138	¥468,473	¥ 69,723	¥ —	¥—	¥—
Negotiable certificates of deposits	28,453	—	—	—	—	—
Payables under repurchase agreements	—	—	29,203	—	—	—
Payables under securities lending transactions ..	504,092	—	—	—	—	—
Borrowed money	39,011	89,662	76,487	108	37	—
Total	¥4,770,696	¥558,136	¥175,414	¥108	¥37	¥—

Thousands of U.S. dollars						
2018						
	Due within one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	\$40,705,412	\$4,124,275	\$517,121	\$ —	\$—	\$—
Negotiable certificates of deposits	178,426	—	—	—	—	—
Call money and bills sold	4,998	—	—	—	—	—
Payables under repurchase agreements	442,818	—	260,297	—	—	—
Payables under securities lending transactions ..	3,249,717	—	—	—	—	—
Borrowed money	206,089	1,548,588	205,779	753	65	—
Total	\$44,787,481	\$5,672,872	\$983,207	\$753	\$65	\$—

(\*) Demand deposits are included in "Due within one year or less."

## 20. SECURITIES AND MONEY HELD IN TRUST

The securities in this note include "Trading account securities" and beneficial trust interests under "Debt purchased," in addition to "Securities" classified on the consolidated balance sheets.

(1) Information on trading account securities and securities with available fair values at March 31, 2018 and 2017 was as follows:

(a) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Amount of net unrealized gains (losses) included in the statements of income ...	¥—	¥(2)	\$—

(b) Held-to-maturity debt securities

	Millions of yen		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds	¥10,308	¥10,351	¥ 43
Subtotal	¥10,308	¥10,351	¥ 43
Fair value not exceeding carrying amount:			
Corporate bonds	¥ 3,352	¥ 3,324	¥(27)
Subtotal	¥ 3,352	¥ 3,324	¥(27)
Total	¥13,660	¥13,676	¥ 15

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	Millions of yen		
	2017		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds .....	¥5,941	¥5,983	¥42
Subtotal .....	¥5,941	¥5,983	¥42
Fair value not exceeding carrying amount:			
Corporate bonds .....	¥2,361	¥2,354	¥ (6)
Subtotal .....	¥2,361	¥2,354	¥ (6)
Total .....	¥8,302	¥8,338	¥35

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds .....	\$ 97,025	\$ 97,430	\$ 404
Subtotal .....	\$ 97,025	\$ 97,430	\$ 404
Fair value not exceeding carrying amount:			
Corporate bonds .....	\$ 31,551	\$ 31,287	\$(254)
Subtotal .....	\$ 31,551	\$ 31,287	\$(254)
Total .....	\$128,576	\$128,727	\$ 141

## (c) Available-for-sale securities

	Millions of yen		
	2018		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks .....	¥ 104,803	¥ 48,469	¥ 56,333
Bonds .....	814,404	796,656	17,747
Japanese government bonds .....	490,505	480,043	10,462
Japanese local government bonds .....	167,470	162,894	4,576
Japanese corporate bonds .....	156,428	153,719	2,709
Others .....	145,529	141,479	4,050
Foreign securities included .....	114,646	111,406	3,239
Subtotal .....	¥1,064,737	¥ 986,605	¥ 78,131
Carrying amount not exceeding acquisition cost:			
Stocks .....	¥ 5,799	¥ 6,214	¥ (414)
Bonds .....	40,777	41,062	(285)
Japanese government bonds .....	—	—	—
Japanese local government bonds .....	8,566	8,702	(136)
Japanese corporate bonds .....	32,210	32,359	(148)
Others .....	409,785	425,852	(16,066)
Foreign securities included .....	185,397	190,542	(5,144)
Subtotal .....	¥ 456,362	¥ 473,128	¥(16,766)
Total .....	¥1,521,099	¥1,459,734	¥ 61,365

	Millions of yen		
	2017		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks .....	¥ 94,094	¥ 48,818	¥ 45,275
Bonds .....	912,199	888,650	23,548
Japanese government bonds .....	593,497	578,736	14,760
Japanese local government bonds .....	175,079	169,303	5,776
Japanese corporate bonds .....	143,621	140,610	3,010
Others .....	211,525	206,654	4,871
Foreign securities included .....	184,037	180,403	3,633
Subtotal .....	¥1,217,818	¥1,144,123	¥ 73,695
Carrying amount not exceeding acquisition cost:			
Stocks .....	¥ 4,840	¥ 5,126	¥ (286)
Bonds .....	70,193	70,778	(584)
Japanese government bonds .....	20,102	20,139	(37)
Japanese local government bonds .....	8,921	9,094	(172)
Japanese corporate bonds .....	41,169	41,545	(375)
Others .....	383,560	398,205	(14,644)
Foreign securities included .....	191,234	198,383	(7,149)
Subtotal .....	¥ 458,595	¥ 474,109	¥(15,514)
Total .....	¥1,676,414	¥1,618,233	¥ 58,180

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks .....	\$ 986,474	\$ 456,221	\$530,242
Bonds .....	7,665,700	7,498,644	167,046
Japanese government bonds .....	4,616,952	4,518,477	98,475
Japanese local government bonds .....	1,576,336	1,533,264	43,072
Japanese corporate bonds .....	1,472,402	1,446,903	25,498
Others .....	1,369,813	1,331,692	38,121
Foreign securities included .....	1,079,122	1,048,625	30,487
Subtotal .....	\$10,021,997	\$ 9,286,568	\$735,419
Carrying amount not exceeding acquisition cost:			
Stocks .....	\$ 54,583	\$ 58,490	\$ (3,896)
Bonds .....	383,819	386,502	(2,682)
Japanese government bonds .....	—	—	—
Japanese local government bonds .....	80,628	81,908	(1,280)
Japanese corporate bonds .....	303,181	304,583	(1,393)
Others .....	3,857,163	4,008,396	(151,223)
Foreign securities included .....	1,745,077	1,793,505	(48,418)
Subtotal .....	\$ 4,295,576	\$ 4,453,388	\$(157,812)
Total .....	\$14,317,573	\$13,739,966	\$ 577,607

The securities loaned under unsecured securities lending transactions are included in Japanese government bonds under “Securities” in the amount of ¥20,790 million (\$195,689 thousand) and nil at March 31, 2018 and 2017, respectively.

## (2) Held-to-maturity debt securities sold for the fiscal years ended March 31, 2018 and 2017

	Millions of yen		
	2018		
	Sales amount	Gains on sales	Losses on sales
Bonds .....	¥110	¥0	¥—
Japanese corporate bonds .....	110	0	—
Total .....	¥110	¥0	¥—

	Thousands of U.S. dollars		
	2018		
	Sales amount	Gains on sales	Losses on sales
Bonds .....	\$1,035	\$0	\$—
Japanese corporate bonds .....	1,035	0	—
Total .....	\$1,035	\$0	\$—

(Reason for sale) Sales of Japanese corporate bonds comprise retirement by purchase of private bonds.

There were no held-to-maturity debt securities sold for the fiscal year ended March 31, 2017.

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## (3) Available-for-sale securities sold for the fiscal years ended March 31, 2018 and 2017

Millions of yen			
2018			
	Sales amount	Gains on sales	Losses on sales
Stocks .....	¥ 11,547	¥3,357	¥ 216
Bonds .....	88,271	345	12
Japanese government bonds .....	84,563	339	—
Japanese local government bonds .....	239	—	0
Japanese corporate bonds .....	3,468	5	11
Others .....	205,830	2,254	3,569
Foreign securities included .....	196,624	1,528	3,215
Total .....	¥305,649	¥5,957	¥3,798

Millions of yen			
2017			
	Sales amount	Gains on sales	Losses on sales
Stocks .....	¥ 10,750	¥2,140	¥ 269
Bonds .....	15,359	116	0
Japanese government bonds .....	15,120	116	—
Japanese local government bonds .....	239	—	0
Others .....	240,999	6,381	2,159
Foreign securities included .....	239,506	5,881	2,159
Total .....	¥267,109	¥8,638	¥2,429

Thousands of U.S. dollars			
2018			
	Sales amount	Gains on sales	Losses on sales
Stocks .....	\$ 108,687	\$31,598	\$ 2,033
Bonds .....	830,864	3,247	112
Japanese government bonds .....	795,961	3,190	—
Japanese local government bonds .....	2,249	—	0
Japanese corporate bonds .....	32,643	47	103
Others .....	1,937,405	21,216	33,593
Foreign securities included .....	1,850,753	14,382	30,261
Total .....	\$2,876,967	\$56,071	\$35,749

## (4) Information on money held in trust at March 31, 2018 and 2017 was as follows:

Money held in trust

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Carrying amount (fair value) .....	¥33,000	¥31,000	\$310,617
Amount of net unrealized gains (losses) included in the statements of income .....	30	22	282

The principal amount of trusts under contracts for replacement of principal losses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Money in trust .....	¥2,850	¥—	\$26,826

## (5) The components of the valuation difference on available-for-sale securities recorded under net assets at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference .....	¥ 61,365	¥ 58,180	\$ 577,607
Deferred tax liabilities .....	(16,036)	(14,654)	(150,941)
Amounts equivalent to difference on available-for-sale securities .....	¥ 45,328	¥ 43,526	\$ 426,656
Non-controlling interests adjustment .....	—	—	—
Valuation difference on available-for-sale securities .....	¥ 45,328	¥ 43,526	\$ 426,656

## (6) Securities reclassified for the fiscal years ended March 31, 2018 and 2017

Not applicable.



## (7) Impairment loss on securities

In the event that the fair value of securities, except trading securities, with available fair values declines significantly from the acquisition cost and the fair value is not expected to recover, such securities are stated at fair value and the difference between the fair value and the acquisition cost is recognized as loss in the period of the decline (“impairment loss”). The fair value is regarded as “significantly declined” when (i) the fair value as of the end of the fiscal year has declined by more than 50% of the acquisition cost or (ii) the fair value as of the end of the fiscal year has declined by more than 30% but less than 50% of the acquisition cost, and has not been expected to recover within one year. No impairment loss was recognized for either the fiscal year ended March 31, 2018 or 2017.

## 21. DERIVATIVE TRANSACTIONS

### (1) Derivative contracts to which hedge accounting is not applied

With respect to derivatives to which hedge accounting is not applied, the contract amount or notional principal amount defined in the contract, fair value, unrealized gains (losses) and the method used to calculate fair value by transaction type as of March 31, 2018 and 2017 were as follows:

Note that the contract amount does not represent the market risk exposure of the derivative transactions themselves.

#### (a) Interest rate related transactions

		Millions of yen			
		2018			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Interest rate futures				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Interest rate options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Over-the-counter transactions	Forward rate agreements				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Interest rate swaps				
	Receive fixed rate/pay floating rate .....	¥ 500	¥ 500	¥ 22	¥ 22
	Receive floating rate/pay fixed rate .....	3,813	3,813	(140)	(140)
	Receive floating rate/pay floating rate .....	—	—	—	—
	Interest rate options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold .....	—	—	—	—
Bought .....	—	—	—	—	
Total .....		¥ —	¥ —	¥(117)	¥(117)
		Millions of yen			
		2017			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Interest rate futures				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Interest rate options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Over-the-counter transactions	Forward rate agreements				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Interest rate swaps				
	Receive fixed rate/pay floating rate .....	¥ 257	¥ —	¥ 2	¥ 2
	Receive floating rate/pay fixed rate .....	4,272	3,768	(204)	(204)
	Receive floating rate/pay floating rate .....	—	—	—	—
	Interest rate options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold .....	—	—	—	—
Bought .....	—	—	—	—	
Total .....		¥ —	¥ —	¥ —	¥(201)

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Thousands of U.S. dollars

		2018			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Interest rate futures				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Interest rate options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Over-the-counter transactions	Forward rate agreements				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Interest rate swaps				
	Receive fixed rate/pay floating rate .....	\$ 4,706	\$ 4,706	\$ 207	\$ 207
	Receive floating rate/pay fixed rate .....	35,890	35,890	(1,317)	(1,317)
	Receive floating rate/pay floating rate .....	—	—	—	—
	Interest rate options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold .....	—	—	—	—
Bought .....	—	—	—	—	
<b>Total .....</b>		<b>\$ —</b>	<b>\$ —</b>	<b>\$(1,101)</b>	<b>\$(1,101)</b>

Notes: 1. The above transactions are measured at fair value, and unrealized gains (losses), except as in Note 3, are recognized in the consolidated statements of income.

2. The fair values of exchange transactions are based on the closing prices on the Tokyo Financial Exchange Inc., etc.

The fair values of over-the-counter transactions are based on the discounted cash flow method, option pricing model, etc.

3. As of March 31, 2018 and 2017, "Receive floating rate/pay fixed rate" of interest rate swaps includes the contract amount of ¥3,313 million (\$31,184 thousand) and ¥4,014 million, fair value of ¥(136) million (\$1,280 thousand) and ¥(202) million, and unrealized gains (losses) of ¥(136) million (\$1,280 thousand) and ¥(202) million, respectively, for which the application of hedge accounting was cancelled since the requirements for hedge accounting were not met. Unrealized gains (losses) on "Receive floating rate/pay fixed rate" of ¥(146) million (\$1,374 thousand) and ¥(195) million at March 31, 2018 and 2017, respectively, were deferred over the hedge period due to the cancellation.

## (b) Currency related transactions

Millions of yen

		2018			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Currency futures				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Currency options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Over-the-counter transactions	Currency swaps	¥455,423	¥314,731	¥2,458	¥2,458
	Forward foreign exchange contracts				
	Sold .....	7,648	1,057	147	147
	Bought .....	945	—	(2)	(2)
	Currency options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
<b>Total .....</b>		<b>¥ —</b>	<b>¥ —</b>	<b>¥2,603</b>	<b>¥2,603</b>

		Millions of yen			
		2017			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Currency futures				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Currency options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Over-the-counter transactions	Currency swaps .....	¥393,351	¥255,457	¥(1,843)	¥(1,843)
	Forward foreign exchange contracts				
	Sold .....	2,722	—	(4)	(4)
	Bought .....	202	—	0	0
	Currency options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Total .....		¥ —	¥ —	¥(1,847)	¥(1,847)

		Thousands of U.S. dollars			
		2018			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Currency futures				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Currency options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Over-the-counter transactions	Currency swaps .....	\$4,286,737	\$2,962,452	\$23,136	\$23,136
	Forward foreign exchange contracts				
	Sold .....	71,987	9,949	1,383	1,383
	Bought .....	8,894	—	(18)	(18)
	Currency options				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold .....	—	—	—	—
	Bought .....	—	—	—	—
Total .....		\$ —	\$ —	\$24,501	\$24,501

Notes: 1. The above transactions are measured at fair value, and unrealized gains (losses) are recognized in the consolidated statements of income.  
2. The fair values are based on the discounted present value, etc.

**(c) Stock related transactions**

None

**(d) Bond related transactions**

None

**(e) Commodity related transactions**

None

**(f) Credit derivative transactions**

None

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## (2) Derivative contracts to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, the contract amount or notional principal amount defined in the contract, fair value and the method used to calculate fair value by transaction type and by hedge accounting method as of March 31, 2018 and 2017 were as follows:

Note that the contract amount does not represent the market risk exposure of the derivative transactions themselves.

### (a) Interest rate related transactions

			Millions of yen		
			2018		
Hedge accounting method	Transaction type	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Fundamental method	Interest rate swaps:	Interest bearing assets and liabilities such as loans and deposits			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		¥6,479	¥6,186	¥(287)
	Interest rate futures		—	—	—
	Interest rate options		—	—	—
	Other		—	—	—
Exceptional accounting method for interest rate swaps	Interest rate swaps	—			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		—	—	—
Total		—	¥ —	¥ —	¥(287)

			Millions of yen		
			2017		
Hedge accounting method	Transaction type	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Fundamental method	Interest rate swaps:	Interest bearing assets and liabilities such as loans and deposits			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		¥13,405	¥7,670	¥(448)
	Interest rate futures		—	—	—
	Interest rate options		—	—	—
	Other		—	—	—
Exceptional accounting method for interest rate swaps	Interest rate swaps	—			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		—	—	—
Total		—	¥ —	¥ —	¥(448)

			Thousands of U.S. dollars		
			2018		
Hedge accounting method	Transaction type	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Fundamental method	Interest rate swaps:	Interest bearing assets and liabilities such as loans and deposits			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		\$60,984	\$58,226	\$(2,701)
	Interest rate futures		—	—	—
	Interest rate options		—	—	—
	Other		—	—	—
Exceptional accounting method for interest rate swaps	Interest rate swaps	—			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		—	—	—
Total		—	\$ —	\$ —	\$(2,701)

Notes: 1. Gain/loss on the above contacts is deferred until maturity of the hedged items under the fundamental method in accordance with the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2002).  
2. The fair values of exchange transactions are based on the closing prices on the Tokyo Financial Exchange Inc., etc.  
The fair values of over-the-counter transactions are based on the discounted cash flow method, option pricing model, etc.

**(b) Currency related transactions**

None

**(c) Stock related transactions**

None

**(d) Bond related transactions**

None

**22. PROJECTED BENEFIT OBLIGATIONS****(1) Outline of employees' retirement allowance**

The Bank has a contributory defined benefit pension plan and a non-contributory unfunded lump-sum retirement allowance plan.

Ten consolidated subsidiaries have non-contributory unfunded lump-sum retirement allowance plans as defined benefit plans and apply the simplified method in the calculation of their liability for retirement benefits and retirement benefit costs using the method in which the necessary amounts to be paid for retirement benefits on a voluntary basis is regarded as the retirement benefit obligations.

**(2) Defined benefit plans****(a) Movement in projected benefit obligations**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the fiscal year .....	¥65,400	¥65,416	\$615,587
Service cost .....	2,084	2,095	19,615
Interest cost .....	454	455	4,273
Actuarial loss (gain) .....	(325)	116	(3,059)
Benefits paid .....	(2,605)	(2,683)	(24,519)
Balance at the end of the fiscal year .....	¥65,008	¥65,400	\$611,897

Note: Plans based on the simplified method have been included in the above.

**(b) Movements in plan assets**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the fiscal year .....	¥40,284	¥38,167	\$379,179
Expected return on plan assets .....	804	759	7,567
Actuarial gain (loss) .....	1,541	997	14,504
Contributions paid by the employer .....	2,307	2,235	21,714
Benefits paid .....	(1,866)	(1,874)	(17,564)
Balance at the end of the fiscal year .....	¥43,072	¥40,284	\$405,421

Note: Plans based on the simplified method have been included in the above.

**(c) Reconciliation from projected benefit obligations and plan assets to liability (asset) for retirement benefits**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded projected benefit obligations	¥ 53,982	¥ 54,408	\$ 508,113
Plan assets	(43,072)	(40,284)	(405,421)
	10,910	14,124	102,692
Unfunded projected benefit obligations	11,025	10,991	103,774
Net liability (asset) for retirement benefits recorded on the consolidated balance sheet	¥ 21,936	¥ 25,115	\$ 206,475
Liability for retirement benefits	¥ 21,936	¥ 25,115	\$ 206,475
Asset for retirement benefits	—	—	—
Net liability (asset) for retirement benefits recorded on the consolidated balance sheet	¥ 21,936	¥ 25,115	\$ 206,475

Note: Plans based on the simplified method have been included in the above.

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## (d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥2,084	¥2,095	\$19,615
Interest cost	454	455	4,273
Expected return on plan assets	(804)	(759)	(7,567)
Net actuarial loss amortization	1,910	2,178	17,978
Total retirement benefit costs	¥3,645	¥3,969	\$34,309

Note: Retirement benefit costs of consolidated subsidiaries which have applied the simplified method are included in "Service cost."

## (e) Adjustments for retirement benefits

The components of adjustments for retirement benefits (before tax effect) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gain (loss)	¥3,777	¥3,059	\$35,551
Total	¥3,777	¥3,059	\$35,551

## (f) Accumulated adjustments for retirement benefits

The components of accumulated adjustments for retirement benefits (before tax effect) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gain (loss)	¥(6,043)	¥(9,820)	\$(56,880)
Total	¥(6,043)	¥(9,820)	\$(56,880)

## (g) Plan assets

1) Plan assets comprise:

	2018	2017
Bonds .....	14.6%	17.1%
Stocks .....	31.1%	31.3%
Cash and deposits .....	2.4%	4.7%
Life insurance general accounts .....	32.9%	33.5%
Other .....	19.0%	13.4%
Total .....	100%	100%

2) Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

## (h) Actuarial assumptions

The principal actuarial assumptions for the fiscal years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate .....	0.70%	0.70%
Long-term expected rate of return .....	2.00%	2.00%
Estimated rate of increase in salary .....	3.90%	3.90%

## 23. STOCK OPTIONS

### (a) Items and amounts expensed related to stock options

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
General and administrative expenses .....	¥20	¥25	\$188

**(b) Stock options outstanding at March 31, 2018****a. Outline of stock options**

Beneficiaries qualifying for stock option rights are entitled to acquire common stock upon the exercise of their rights. The following table summarizes the number of shares upon exercise of the stock option rights granted by the Bank outstanding at March 31, 2018:

Stock options	Persons granted	Number of options granted (Note)	Date of grant	Exercise price	Exercise period	Vesting conditions	Target of service period
2010 Stock Options	15 directors of the Bank	Common stock 9,440 shares	July 29, 2010	¥1 (\$0.00)	From July 30, 2010 to July 29, 2040	Not defined	Not defined
2011 Stock Options	14 directors of the Bank	Common stock 10,940 shares	July 29, 2011	¥1 (\$0.00)	From July 30, 2011 to July 29, 2041	Not defined	Not defined
2012 Stock Options	15 directors of the Bank	Common stock 13,620 shares	July 27, 2012	¥1 (\$0.00)	From July 28, 2012 to July 27, 2042	Not defined	Not defined
2013 Stock Options	15 directors of the Bank	Common stock 11,950 shares	July 26, 2013	¥1 (\$0.00)	From July 27, 2013 to July 26, 2043	Not defined	Not defined
2014 Stock Options	14 directors (excluding outside directors) of the Bank	Common stock 9,970 shares	July 25, 2014	¥1 (\$0.00)	From July 26, 2014 to July 25, 2044	Not defined	Not defined
2015 Stock Options	13 directors (excluding outside directors) of the Bank	Common stock 8,400 shares	July 24, 2015	¥1 (\$0.00)	From July 25, 2015 to July 24, 2045	Not defined	Not defined
2016 Stock Options	7 directors (excluding outside directors) of the Bank	Common stock 6,560 shares	July 29, 2016	¥1 (\$0.00)	From July 30, 2016 to July 29, 2046	Not defined	Not defined
2017 Stock Options	7 directors (excluding outside directors) of the Bank	Common stock 6,910 shares	July 28, 2017	¥1 (\$0.00)	From July 29, 2017 to July 28, 2047	Not defined	Not defined

Note: The number of stock options has been converted to the number of shares after the one-for-ten reverse stock split implemented on October 1, 2016.

**b. Stock option activity:**

## 1) Number of stock options

	Number of shares								
	2010 Stock Options	2011 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options	2015 Stock Options	2016 Stock Options	2017 Stock Options	
<b>Non-vested</b>									
March 31, 2017 – Outstanding .....	—	—	—	—	—	—	1,640	—	—
Granted .....	—	—	—	—	—	—	—	6,910	—
Forfeited .....	—	—	—	—	—	—	—	—	260
Vested .....	—	—	—	—	—	—	1,640	5,182	—
March 31, 2018 – Outstanding .....	—	—	—	—	—	—	—	—	1,468
<b>Vested</b>									
March 31, 2017 – Outstanding .....	2,530	3,330	4,740	4,830	4,240	5,250	4,920	—	—
Vested .....	—	—	—	—	—	—	1,640	5,182	—
Exercised .....	510	740	870	770	660	710	960	—	—
Forfeited .....	—	—	—	—	—	—	—	—	—
March 31, 2018 – Outstanding .....	2,020	2,590	3,870	4,060	3,580	4,540	5,600	5,182	—

Note: The number of stock options has been converted to the number of shares after the one-for-ten reverse stock split implemented on October 1, 2016.

## 2) Price information

	Yen								
	2010 Stock Options	2011 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options	2015 Stock Options	2016 Stock Options	2017 Stock Options	
Exercise price .....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise date .....	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	—
Fair value price at grant date .....	4,410	3,860	3,030	3,720	4,010	3,970	3,660	2,861	—

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U.S. dollars

	2010	2011	2012	2013	2014	2015	2016	2017
	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options
Exercise price .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average stock price at exercise date .....	30.12	30.12	30.12	30.12	30.12	30.12	30.12	—
Fair value price at grant date .....	41.50	36.33	28.52	35.01	37.74	37.36	34.45	26.92

Note: "Average stock price at exercise date" and "Fair value price at grant date" have been converted to the price after the one-for-ten reverse stock split implemented on October 1, 2016.

## (c) Assumptions used to measure the fair value of stock options

The assumptions used to measure the fair value of 2017 stock options granted in the fiscal year ended March 31, 2018 were as follows:

- 1) The Black-Scholes option pricing model was used as a measurement method.
- 2) Assumptions used for the Black-Scholes option pricing model:
  1. Volatility of stock price: 28.61%, calculated using the market price of the Bank's stock from October 2011 to July 2017.
  2. Estimated remaining outstanding period: 5.8 years, which was the average remaining tenure of directors at the date of issue, determined by the average time from appointment to retirement and from appointment to the date of issue.
  3. Estimated dividend: ¥70 per share, which was calculated based on the actual amount of dividends for the fiscal year ended March 31, 2017.
  4. Risk-free interest rate: (0.04)%, determined using the yield of national bonds equivalent to the estimated remaining outstanding period.

## (d) Estimation method for the total number of vested stock option rights

The total number of stock option rights issued is deemed to reflect the actual number of stock option rights expired due to difficulties in estimating reasonably the number of stock option rights that will expire in the future.

## 24. INCOME TAXES

The Group is subject to a number of taxes based on income, including corporation tax, inhabitant tax and enterprise tax, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 30.4 % and 30.6% for the fiscal years ended March 31, 2018 and 2017, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Deferred tax assets:</b>			
Excess bad debt expense .....	¥ 6,383	¥ 7,293	\$ 60,080
Liability for retirement benefits .....	6,676	7,651	62,838
Depreciation .....	797	817	7,501
Write-down of land .....	1,029	1,031	9,685
Loss on impairment of fixed assets .....	1,276	1,247	12,010
Valuation loss on securities .....	2,989	3,375	28,134
Tax loss carryforwards .....	25	46	235
Net deferred loss on hedging instruments .....	123	180	1,157
Other .....	1,742	1,852	16,396
<b>Subtotal deferred tax assets:</b> .....	<b>21,044</b>	<b>23,496</b>	<b>198,079</b>
Valuation allowance .....	(7,458)	(8,226)	(70,199)
<b>Total deferred tax assets</b> .....	<b>13,585</b>	<b>15,270</b>	<b>127,870</b>
<b>Deferred tax liabilities:</b>			
Valuation difference on available-for-sale securities .....	(16,036)	(14,654)	(150,941)
Other .....	(68)	(45)	(640)
<b>Total deferred tax liabilities</b> .....	<b>(16,105)</b>	<b>(14,700)</b>	<b>(151,590)</b>
<b>Net deferred tax assets (liabilities)</b> .....	<b>¥ (2,520)</b>	<b>¥ 570</b>	<b>\$ (23,719)</b>

Note: Net deferred tax assets (liabilities) as of March 31, 2018 and 2017 are included in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets .....	¥1,281	¥1,307	\$12,057
Deferred tax liabilities .....	3,801	737	35,777

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the fiscal years ended March 31, 2018 and 2017:

	2018	2017
Statutory tax rate .....	30.4%	30.6%
Valuation allowance .....	(4.3)%	(6.0)%
Non-deductible expenses .....	0.2%	0.2%
Non-taxable income .....	(0.7)%	(0.6)%
Other .....	1.3%	1.3%
<b>Effective tax rate</b> .....	<b>26.9%</b>	<b>25.4%</b>



## 25. SEGMENT AND RELATED INFORMATION

### (1) Overview of the reportable segments

The Bank's reportable segments are determined on the basis that separate financial information for such segments is available and examined periodically by the Board of Directors to make decisions regarding the allocation of management resources and assess the business performances of the segments within the Group. The Group's main operations are banking services. The Bank also provides securities services and operates credit guarantee services, leasing services and credit card services. The Group has divided its business operations into the two reportable segments of "Banking and Securities" and "Leasing." Banking and Securities includes banking and the securities services, and Leasing includes leasing services.

### (2) Basis of measurement for reported segment profit (loss), segment assets, segment liabilities and other material items

The accounting methods used for reportable business segments are presented in accordance with Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES." The reportable segment profit figures are based on operating profit. Income arising from intersegment transactions is based on arm's length prices.

### (3) Information about reportable segment profit (loss), segment assets, segment liabilities and other material items

Segment information for the fiscal years ended March 31, 2018 and 2017 is summarized as follows:

	Millions of yen						
	2018						
	Reportable segments			Other	Total	Adjustment	Consolidated
Banking and Securities	Leasing	Total					
Ordinary income:							
Outside customers .....	¥ 71,848	¥ 5,766	¥ 77,614	¥ 2,217	¥ 79,832	¥ 67	¥ 79,899
Intersegment income .....	748	952	1,700	2,086	3,787	(3,787)	—
Total .....	72,596	6,718	79,315	4,304	83,620	(3,720)	79,899
Segment profit .....	17,175	475	17,650	982	18,633	(494)	18,139
Segment assets .....	5,791,792	26,755	5,818,547	18,765	5,837,313	(28,879)	5,808,433
Segment liabilities .....	5,514,988	22,354	5,537,343	9,549	5,546,892	(22,598)	5,524,294
Others:							
Depreciation .....	3,348	118	3,467	91	3,558	63	3,622
Interest income .....	51,040	2	51,043	31	51,074	(509)	50,565
Interest expense .....	3,825	92	3,917	7	3,924	(107)	3,817
Extraordinary gain .....	—	—	—	—	—	—	—
Extraordinary loss .....	22	0	23	101	124	—	124
Tax expense .....	4,329	129	4,459	403	4,862	(8)	4,854
Increase in tangible and intangible fixed assets .....	2,813	205	3,019	689	3,709	(80)	3,628

- Notes: 1. Ordinary income ("Total income" less extraordinary gain included in "Other income" in the consolidated statements of income) is presented in place of net sales of operating companies of other industry groups.
2. "Other" includes business segments which are not included in the reportable segments and comprises credit guarantees, real estate leasing and management, software development and credit cards.
3. Adjustments are as below:
- (1) Adjustment of ordinary income for outside customers of ¥67 million is mainly the recovery of written off claims included in "Leasing."
  - (2) Adjustment of segment profit of negative ¥494 million is the elimination of intersegment transactions.
  - (3) Adjustment of segment assets of negative ¥28,879 million is the elimination of intersegment transactions.
  - (4) Adjustment of segment liabilities of negative ¥22,598 million is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.
  - (5) Adjustment of depreciation of ¥63 million is the elimination of intersegment transactions.
  - (6) Adjustment of interest income of negative ¥509 million is the elimination of intersegment transactions.
  - (7) Adjustment of interest expense of negative ¥107 million is the elimination of intersegment transactions.
  - (8) Adjustment of tax expense of negative ¥8 million is the elimination of intersegment transactions.
  - (9) Adjustment of increase in tangible and intangible fixed assets of negative ¥80 million is the elimination of intersegment transactions.
4. Segment profit is reconciled to ordinary profit, which represents ordinary income less ordinary expenses. Ordinary expenses represent "Total expenses" less extraordinary loss included in "Other expenses" in the consolidated statements of income. Therefore, consolidated segment profit, which shows ordinary profit, is reconciled to "Income before income taxes" through the addition/deduction of extraordinary gain/loss, net.

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	Millions of yen						
	2017						Consolidated
	Reportable segments			Other	Total	Adjustment	
Banking and Securities	Leasing	Total	Total				
Ordinary income:							
Outside customers .....	¥ 73,379	¥ 5,537	¥ 78,917	¥ 2,073	¥ 80,990	¥ 170	¥ 81,161
Intersegment income .....	830	970	1,800	2,074	3,875	(3,875)	—
Total .....	74,210	6,507	80,718	4,147	84,866	(3,704)	81,161
Segment profit .....	16,059	421	16,480	1,002	17,483	(574)	16,909
Segment assets .....	5,802,932	23,468	5,826,401	18,042	5,844,443	(29,348)	5,815,095
Segment liabilities .....	5,556,156	19,272	5,575,428	9,005	5,584,434	(20,477)	5,563,956
Others:							
Depreciation .....	3,453	118	3,572	86	3,658	55	3,714
Interest income .....	53,401	2	53,403	36	53,440	(625)	52,815
Interest expense .....	3,745	109	3,855	14	3,870	(132)	3,738
Extraordinary gain .....	—	—	—	68	68	—	68
Extraordinary loss .....	118	0	118	80	199	—	199
Tax expense .....	3,824	108	3,933	366	4,300	(29)	4,270
Increase in tangible and intangible fixed assets .....	4,187	136	4,324	196	4,520	(52)	4,468

Notes: 1. Ordinary income ("Total income" less extraordinary gain included in "Other income" in the consolidated statements of income) is presented in place of net sales of operating companies of other industry groups.

2. "Other" includes business segments which are not included in the reportable segments and comprises credit guarantees, real estate leasing and management, software development and credit cards.

3. Adjustments are as below:

- (1) Adjustment of ordinary income for outside customers of ¥170 million is mainly the recovery of written off claims included in "Leasing."
- (2) Adjustment of segment profit of negative ¥574 million is the elimination of intersegment transactions.
- (3) Adjustment of segment assets of negative ¥29,348 million is the elimination of intersegment transactions.
- (4) Adjustment of segment liabilities of negative ¥20,477 million is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.
- (5) Adjustment of depreciation of ¥55 million is the elimination of intersegment transactions.
- (6) Adjustment of interest income of negative ¥625 million is the elimination of intersegment transactions.
- (7) Adjustment of interest expense of negative ¥132 million is the elimination of intersegment transactions.
- (8) Adjustment of tax expense of negative ¥29 million is the elimination of intersegment transactions.
- (9) Adjustment of increase in tangible and intangible fixed assets of negative ¥52 million is the elimination of intersegment transactions.

4. Segment profit is reconciled to ordinary profit, which represents ordinary income less ordinary expenses. Ordinary expenses represent "Total expenses" less extraordinary loss included in "Other expenses" in the consolidated statements of income. Therefore, consolidated segment profit, which shows ordinary profit, is reconciled to "Income before income taxes" through the addition/deduction of extraordinary gain/loss, net.

	Thousands of U.S. dollars						
	2018						
	Reportable segments			Other	Total	Adjustment	Consolidated
Banking and Securities	Leasing	Total					
Ordinary income:							
Outside customers .....	\$ 676,280	\$ 54,273	\$ 730,553	\$ 20,867	\$ 751,430	\$ 630	\$ 752,061
Intersegment income .....	7,040	8,960	16,001	19,634	35,645	(35,645)	—
Total .....	683,320	63,234	746,564	40,512	787,085	(35,015)	752,061
Segment profit .....	161,662	4,471	166,133	9,243	175,385	(4,649)	170,736
Segment assets .....	54,516,114	251,835	54,767,949	176,628	54,944,587	(271,827)	54,672,750
Segment liabilities .....	51,910,655	210,410	52,121,074	89,881	52,210,956	(212,707)	51,998,249
Others:							
Depreciation .....	31,513	1,110	32,633	856	33,490	592	34,092
Interest income .....	480,421	18	480,449	291	480,741	(4,791)	475,950
Interest expense .....	36,003	865	36,869	65	36,935	(1,007)	35,928
Extraordinary gain .....	—	—	—	—	—	—	—
Extraordinary loss .....	207	0	216	950	1,167	—	1,167
Tax expense .....	40,747	1,214	41,971	3,793	45,764	(75)	45,689
Increase in tangible and intangible fixed assets .....	26,477	1,929	28,416	6,485	34,911	(753)	34,149

- Notes: 1. Ordinary income ("Total income" less extraordinary gain included in "Other income" in the consolidated statements of income) is presented in place of net sales of operating companies of other industry groups.
2. "Other" includes business segments which are not included in the reportable segments and comprises credit guarantees, real estate leasing and management, software development and credit cards.
3. Adjustments are as below:
- (1) Adjustment of ordinary income for outside customers of \$630 thousand is mainly the recovery of written off claims included in "Leasing."
  - (2) Adjustment of segment profit of negative \$4,649 thousand is the elimination of intersegment transactions.
  - (3) Adjustment of segment assets of negative \$271,827 thousand is the elimination of intersegment transactions.
  - (4) Adjustment of segment liabilities of negative \$212,707 thousand is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.
  - (5) Adjustment of depreciation of \$592 thousand is the elimination of intersegment transactions.
  - (6) Adjustment of interest income of negative \$4,791 thousand is the elimination of intersegment transactions.
  - (7) Adjustment of interest expense of negative \$1,007 thousand is the elimination of intersegment transactions.
  - (8) Adjustment of tax expense of negative \$75 thousand is the elimination of intersegment transactions.
  - (9) Adjustment of increase in tangible and intangible fixed assets of negative \$753 thousand is the elimination of intersegment transactions.
4. Segment profit is reconciled to ordinary profit, which represents ordinary income less ordinary expenses. Ordinary expenses represent "Total expenses" less extraordinary loss included in "Other expenses" in the consolidated statements of income. Therefore, consolidated segment profit, which shows ordinary profit, is reconciled to "Income before income taxes" through the addition/deduction of extraordinary gain/loss, net.

#### (4) Information about services

	Millions of yen				
	2018				
	Banking	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers .....	¥30,967	¥25,989	¥5,766	¥17,177	¥79,899

	Millions of yen				
	2017				
	Banking	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers .....	¥32,434	¥29,166	¥5,537	¥14,022	¥81,161

	Thousands of U.S. dollars				
	2018				
	Banking	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers .....	\$291,481	\$244,625	\$54,273	\$161,681	\$752,061

Note: Ordinary income ("Total income" less extraordinary gain) is presented in place of net sales of operating companies of other industry groups.

#### (5) Information about geographic areas

##### a. Ordinary income

The ratio of ordinary income from outside customers within Japan to the total ordinary income in the consolidated statements of income exceeded 90% for both fiscal years ended March 31, 2018 and 2017; therefore, no information about geographic areas is required to be disclosed.

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## b. Tangible fixed assets

The ratio of tangible fixed assets located in Japan to the total tangible fixed assets in the consolidated balance sheets exceeded 90% for both fiscal years ended March 31, 2018 and 2017; therefore, no information about geographic areas is required to be disclosed.

## (6) Information about major customers

There was no ordinary income from a specific customer exceeding 10% of the total consolidated ordinary income for either the fiscal year ended March 31, 2018 or 2017. Therefore, information about major customers is not required to be disclosed.

## (7) Information on impairment loss on fixed assets for each reportable segment

	Millions of yen			
	2018			
	Reportable segments			Total
Banking and securities	Leasing	Other		
Impairment loss .....	¥—	¥—	¥95	¥95

	Thousands of U.S. dollars			
	2018			
	Reportable segments			Total
Banking and securities	Leasing	Other		
Impairment loss .....	\$—	\$—	\$894	\$894

Note: "Other" comprises real estate leasing and management.

There was no impairment loss on fixed assets for the fiscal year ended March 31, 2017.

## (8) Information on amortization of goodwill and its remaining balance for each reportable segment

There is no information to be reported on amortization of goodwill and its remaining balance.

## (9) Information on gain on negative goodwill for each reportable segment

There is no information to be reported on gain on negative goodwill.

## 26. RELATED PARTY TRANSACTIONS

For the fiscal year ended March 31, 2018, related party transactions were as follows:

Relationship with the Bank	Name	Location	Paid-in capital (millions of yen)	Occupation/Business	Voting rights ownership (%)	Relationship of related parties	Details of transactions	Transaction amount (millions of yen)	Transaction amount (thousands of U.S. dollars)	Accounting title	Year-end balance (millions of yen)	Year-end balance (thousands of U.S. dollars)
Relatives of officers of the Bank	Kohei Ueno	—	—	Office worker	—	Second son of Yasuo Ueno (Director & Chairman of the Bank) Loans	Lending of money*2 Interest receivable	23 0	216 0	Loans —	22 —	207 —
	Atsuto Hashimoto	—	—	Public officer	—	Eldest son of Masaaki Hashimoto (Corporate Auditor) Loans	Lending of money*2 Interest receivable	— 0	— 0	Loans —	18 —	169 —
	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer) Loans	Lending of money*2 Interest receivable	— 0	— 0	Loans —	26 —	244 —
A company in which a majority of voting rights are held by relatives of officers of the Bank	NIKKEN BLAST CO., LTD. *3	Daito City Osaka	10	Metal processing	—	Loans	Lending of money Interest receivable	— 0	— 0	Loans —	66 —	621 —
	Kitamura Forestry Co., Ltd. *4	Osaka City Osaka	32	Forestry	Direct 1.28	Loans	Lending of money Interest receivable	200 2	1,882 18	Loans —	200 —	1,882 —
	Murashima Glass Shoji Co., Ltd. *5	Yamato-takada city Nara	36	Wholesale of sheet glass	—	Loans	Lending of money*2 Interest receivable	90 0	847 0	Loans —	90 —	847 —

Policies regarding and terms and conditions of the transactions

Notes: 1. Terms and conditions of loans are determined on an arm's length basis.

2. Real estate is accepted as collateral for loan transactions.

3. Relatives of Naoki Minowa (Senior Managing Executive Officer of the Bank) own 62.5% of the voting rights of this company directly.

4. Matazaemon Kitamura (Director of the Bank) and his relatives own 6% and 94% of the voting rights, respectively, of this company directly.

5. Relatives of Kozo Togawa (Executive Officer of the Bank) own 91.8% of the voting rights of this company directly.

For the fiscal year ended March 31, 2017, related party transactions were as follows:

Relationship with the Bank	Name	Location	Paid-in capital (millions of yen)	Occupation/Business	Voting rights ownership (%)	Relationship of related parties	Details of transactions	Transaction amount (millions of yen)	Accounting title	Year-end balance (millions of yen)
Relatives of officers of the Bank	Atsuto Hashimoto	—	—	Public officer	—	Eldest son of Masaaki Hashimoto (Corporate Auditor) Loans	Lending of money*2 Interest receivable	0	Loans —	18 —
	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer) Loans	Lending of money*2 Interest receivable	0	Loans —	27 —
A company in which a majority of voting rights are held by relatives of officers of the Bank	NIKKEN BLAST CO., LTD. *3	Daito City Osaka	10	Metal processing	—	Loans	Lending of money Interest receivable	— 0	Loans —	105 —
	Kitamura Forestry Co., Ltd. *4	Osaka City Osaka	32	Forestry	Direct 1.55	Loans	Lending of money Interest receivable	90 2	Loans —	200 —
	Sawamura Co., Ltd. *5	Ikoma City Nara	10	Real estate	—	Loans	Lending of money Interest receivable	10 0	Loans —	13 —

Policies regarding and terms and conditions of the transactions

Notes: 1. Terms and conditions of loans are determined on an arm's length basis.

2. Real estate is accepted as collateral for loan transactions.

3. Relatives of Naoki Minowa (Managing Director of the Bank) own 62.5% of the voting rights of this company directly.

4. Matazaemon Kitamura who took office as a Director of the Bank on June 29, 2016 and his relatives own 6% and 94% of the voting rights, respectively, of this company directly.

The above table presents the transactions during the period from June 29, 2016 through March 31, 2017.

5. Kiyohide Sawamura (Managing Executive Officer of the Bank) and his relatives each own 49.25% of the voting rights.

## 27. PER SHARE INFORMATION

Net assets per share at March 31, 2018 and 2017 and net income per share for the fiscal years then ended were as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share .....	<b>¥8,714.54</b>	¥9,353.18	<b>\$82.02</b>
Net income per share – basic .....	<b>418.05</b>	466.05	<b>3.93</b>
Net income per share – diluted .....	<b>417.63</b>	465.51	<b>3.93</b>

Note: The Bank implemented a one-for-ten reverse stock split on October 1, 2016. Net assets per share, basic net income per share and diluted net income per share are computed based on the assumption that the reverse stock split was implemented at the beginning of the fiscal year ended March 31, 2017.

Basic information in computing the above per share data was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
(Net assets per share)			
Net assets .....	<b>¥284,139</b>	¥251,139	<b>\$2,674,501</b>
Amounts to be deducted from net assets: .....	<b>113</b>	112	<b>1,063</b>
Stock acquisition rights .....	<b>(113)</b>	(112)	<b>(1,063)</b>
Net assets attributed to common stock .....	<b>284,025</b>	251,026	<b>2,673,428</b>
Outstanding number of shares of common stock at end of year (unit: thousands of shares) .....	<b>32,592</b>	26,838	—
(Basic and diluted net income per share)			
Net income attributable to owners of parent .....	<b>¥ 13,160</b>	¥ 12,508	<b>\$ 123,870</b>
Net income attributable to common stockholders of parent .....	<b>13,160</b>	12,508	<b>123,870</b>
Average outstanding number of shares during the year (unit: thousands of shares) .....	<b>31,480</b>	26,838	—
Adjustment to net income attributable to owners of parent .....	—	—	—
Increase in number of shares of common stock: .....	<b>31</b>	31	—
Stock acquisition rights .....	<b>(31)</b>	(31)	—
Convertible securities not diluting net income per share .....	—	—	—

# Consolidated Financial Statements

## 28. SUBSEQUENT EVENTS

### (1) Retirement benefit plans

On April 1, 2018, the Bank transferred its defined benefit pension plans to risk sharing pension plans and defined contribution pension plans classified as a defined contribution plan provided in Paragraph 4 of “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, December 16, 2016). Regarding the accounting treatments due to the transfer, the Bank will apply “Practical Solution on Accounting for Risk Sharing Pension Plan” (PITF No. 33, December 16, 2016), “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1, December 16, 2016) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (PITF No. 2, February 7, 2007).

The Bank estimates other income amounting to ¥4,784 million (\$45,030 thousand) in the fiscal year ending March 31, 2019.

### (2) Share transfer agreement

The Bank has resolved to conclude a share transfer agreement with shareholders of NARA SECURITIES CO., LTD. (“NARA SECURITIES”) at the meeting of the Board of Directors held on August 3, 2018 subject to approval by the relevant authorities, etc., in order to make it the Bank’s subsidiary by acquiring its shares.

#### 1. Purpose

The Bank strives to cater to diversifying customer needs in one stop under the slogan of delivering comprehensive financial services by tapping into our Group’s capabilities as stipulated in the medium-term management plan “Vitality Creation Plan II — Changing and Taking on Challenges” rolled out in April 2017.

The agreement aims to integrate the customer bases and know-how accumulated by the Bank and NARA SECURITIES and strengthen Group functions, enabling it to better provide a wide range of solutions and contributing to the asset formation of local customers and the development of the regional society.

#### 2. Summary of NARA SECURITIES

(As of June 30, 2018)

(1) Name	NARA SECURITIES CO., LTD.
(2) Location	212-7, Minami-Koriyama-cho, Yamato-Koriyama City, Nara, Japan
(3) Title and name of representative	Koji Tamura, President and Representative Director
(4) Business	Financial instruments business operator
(5) Paid-in capital	¥117,500,000 (\$1,105 thousand)
(6) Establishment	November 25, 1944

#### 3. Number of shares acquired and shares held before and after acquisition

(1) Number of shares held before transfer	50,000 shares (ratio of voting rights: 2.53%)
(2) Number of shares acquired	1,880,600 shares
(3) Number of shares held after transfer	1,930,600 shares (ratio of voting rights: 97.75%)

\*The Bank is to continue negotiating with other shareholders to make NARA SECURITIES a wholly-owned subsidiary.

#### 4. Schedule

(1) Resolution of the Board of Directors	August 3, 2018
(2) Conclusion of share transfer agreement	August 3, 2018
(3) Execution of share transfer	October 1, 2018 (planned)

\*Execution of share transfer is subject to approval of the relevant authorities.

## 29. BORROWED MONEY AND LEASE OBLIGATIONS

### a. The details of borrowed money as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Borrowed money			
Due from April 2018 through May 2025			
Average interest rate: 0.19% p.a. ....	¥208,368	¥205,308	\$1,961,295

Annual maturities of borrowed money as of March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
2019 .....	¥ 21,895	\$ 206,089
2020 .....	87,508	823,682
2021 .....	77,013	724,896
2022 .....	21,313	200,611
2023 .....	548	5,158
2024 and thereafter .....	87	818
Total .....	¥208,368	\$1,961,295

### b. Lease obligations

Lease obligations are included in "Other liabilities" in the accompanying consolidated balance sheets.

Annual maturities of lease obligation as of March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
2019 .....	¥ 0	\$ 0
2020 and thereafter .....	—	—
Total .....	¥ 0	\$ 0

Average interest rates are omitted since the interest equivalent amount included in total lease charges is allocated over the related period using the straight-line method.

### c. Other

The Group has not issued commercial paper by way of promissory notes for funding for operating activities.



## Independent Auditor's Report

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

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

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Nanto Bank, Ltd. and its consolidated 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.

### **Emphasis of Matter**

We draw attention to Note 28 to the consolidated financial statements, on April 1, 2018, the Bank transferred its defined benefit pension plans to risk sharing pension plans and defined contribution pension plans classified as a defined contribution plan provided in Paragraph 4 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, December 16, 2016). Our opinion is not modified in respect of this matter.

### **Convenience Translation**

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

KPMG AZSA LLC

September 21, 2018  
Osaka, Japan

KPMG AZSA LLC, a limited liability partnership organized under the laws of the State of California, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG IC"), a Swiss entity.



# Capital Management

## Consolidated Capital Adequacy Ratio

As of March 31, 2018 and 2017

	Millions of yen	
	2018	2017
(1) Capital adequacy ratio ((2)/(3)) .....	<b>9.88%</b>	9.42%
(2) Capital .....	<b>¥ 245,518</b>	¥ 219,303
(3) Risk-weighted assets .....	<b>2,482,634</b>	2,327,732
(4) Requisite capital .....	<b>99,305</b>	93,109

Note: The capital adequacy ratio was calculated on the basis of the formula provided by the Ministry of Finance under Provision 14, Clause 2 of the Banking Law.

## Nonconsolidated Capital Adequacy Ratio

As of March 31, 2018 and 2017

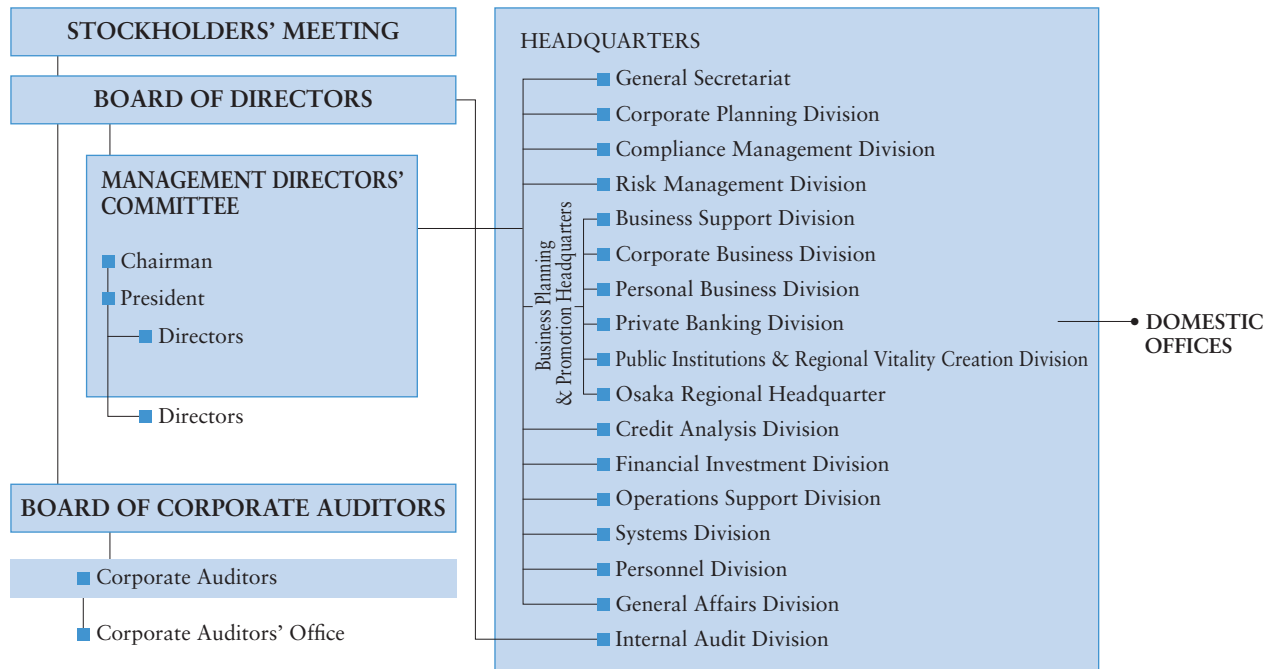
	Millions of yen	
	2018	2017
(1) Capital adequacy ratio ((2)/(3)) .....	<b>9.64%</b>	9.19%
(2) Capital .....	<b>¥ 236,698</b>	¥ 211,545
(3) Risk-weighted assets .....	<b>2,454,173</b>	2,300,789
(4) Requisite capital .....	<b>98,166</b>	92,031

Note: The capital adequacy ratio was calculated on the basis of the formula provided by the Ministry of Finance under Provision 14, Clause 2 of the Banking Law.

# Organization, Group Network

(As of July 1, 2018)

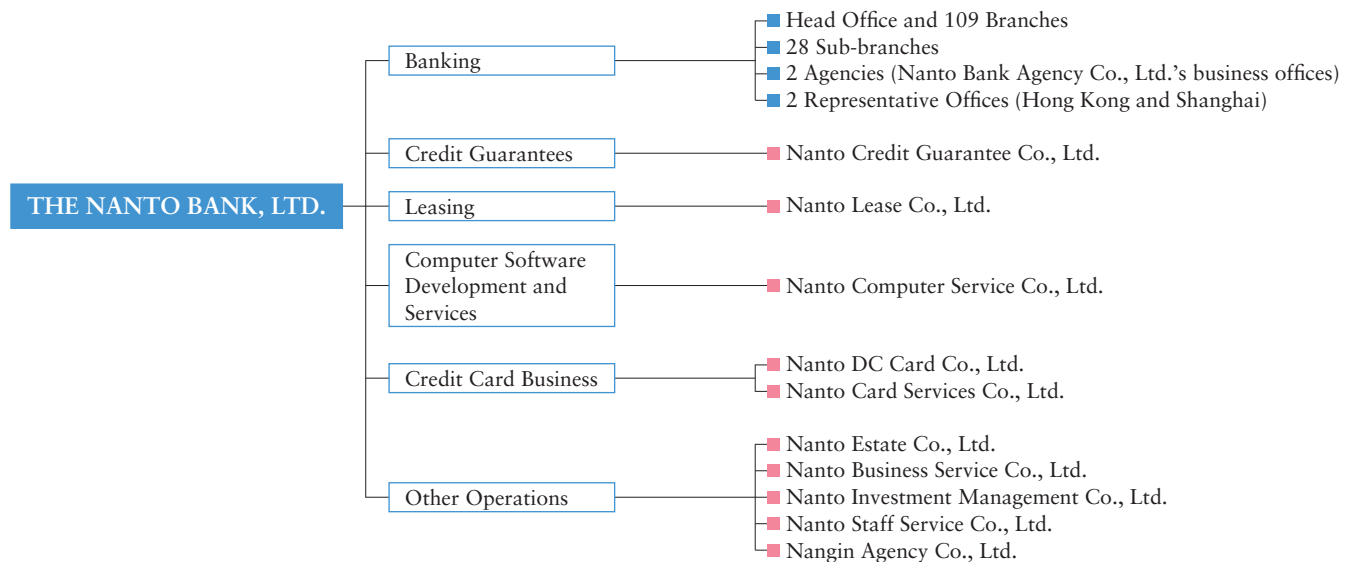
## ORGANIZATION



## NANTO BANK GROUP

(As of July 1, 2018)

The Nanto Group, which consists of the Nanto Bank and its 10 consolidated subsidiaries, offers financial services related to credit guarantees and leasing as well as its primary business, banking services.



Companies indicated with a pink square are consolidated subsidiaries.

# Affiliates and Subsidiaries, Bank Data

(As of July 1, 2018)

## Outline of Consolidated Subsidiaries

Subsidiaries	Address	Established	Capital (millions of yen)	Direct holdings of the Bank (%)	Indirect holdings through subsidiaries (%)	Business line
Nanto Estate Co., Ltd.	16, Hashimoto-cho Nara City, Nara, Japan	November 8, 1969	¥30	100%	—	Leasing and management of real estate
Nanto Business Service Co., Ltd.	93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	June 1, 1984	10	100	—	Centralized processing of clerical operations for the Bank
Nanto Credit Guarantee Co., Ltd.	1-1, Shimo-Sanjo-cho Nara City, Nara, Japan	October 9, 1984	10	100	—	Credit guarantee
Nanto Lease Co., Ltd.	52-1, Omori-cho Nara City, Nara, Japan	December 22, 1984	500	100	—	Leasing
Nanto Computer Service Co., Ltd.	93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	July 1, 1986	10	100	—	Computer software development and services
Nanto Investment Management Co., Ltd.	297-2, Omiya-cho 4-chome Nara City, Nara, Japan	November 21, 1986	120	100	—	Investment advisory services
Nanto DC Card Co., Ltd.	61-7, Higashi-Ikoma 1-chome, Ikoma City, Nara, Japan	October 12, 1990	50	100	—	Credit card business
Nanto Card Services Co., Ltd.	61-7, Higashi-Ikoma 1-chome, Ikoma City, Nara, Japan	December 10, 1990	50	100	—	Credit card business
Nanto Staff Service Co., Ltd.	103-1, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	March 18, 1991	20	100	—	Dispatch of temporary staff
Nangin Agency Co., Ltd.	93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	October 6, 2009	50	100	—	Bank agency services

### HEAD OFFICE

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### SHANGHAI REPRESENTATIVE OFFICE

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Pudong New Area, Shanghai, China  
Phone: 86-21-6841-2771

### CORPORATE DATA (As of March 31, 2018)

Authorized shares: 64,000,000  
Outstanding shares: 33,025 thousand  
Stated capital: 37,924 million  
Number of stockholders: 13,611  
Date of incorporation: June 1934  
Domestic network: 140 offices  
Overseas network: 2 representative offices  
Number of employees: 2,624  
Ordinary stockholders' meeting: June 28, 2018  
Stock listings: Tokyo Stock Exchange

### MAJOR STOCKHOLDERS (As of March 31, 2018)

	Number of shares (thousands)	Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	1,376	4.22
Nippon Life Insurance Co. (standing proxy: The Master Trust Bank of Japan, Ltd.)	1,053	3.23
Meiji Yasuda Life Insurance Co. (standing proxy: Trust & Custody Services Bank, Ltd.)	1,043	3.20
The Master Trust Bank of Japan, Ltd. (trust account)	977	2.99
Japan Trustee Services Bank, Ltd (trust account 9)	948	2.90
The Nanto Bank Employees' Stockholders Association	792	2.43
Sumitomo Life Insurance Co. (standing proxy: Japan Trustee Services Bank, Ltd.)	662	2.03
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	508	1.55
GOVERNMENT OF NORWAY (standing proxy: Citibank, N.A., Tokyo Branch)	505	1.55
DMG MORI Co., Ltd.	476	1.46
Total	8,343	25.59

Note: The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its name to MUFG Bank, Ltd. on April 1, 2018.



**THE NANTO BANK, LTD.**

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