ANNUAL REPORT 2019

Year ended March 31, 2019

NANTO BANK

ANNUAL REPORT 2019

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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, 2019, Nanto Bank had deposits of ¥4,917.5 billion, loans of ¥3,392.3 billion and total assets of ¥5,798.8 billion.

Nanto Bank's domestic network of 141 branches extends beyond Nara Prefecture to the neighboring prefectures of Osaka, Kyoto, Hyogo, Mie, Wakayama and Tokyo including Online Branches. 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.

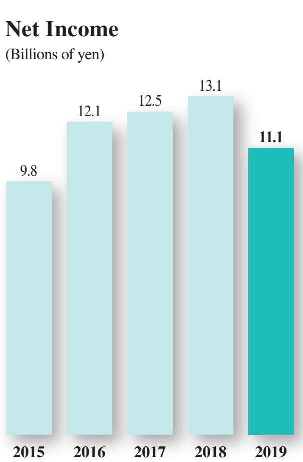
CORPORATE PHILOSOPHY

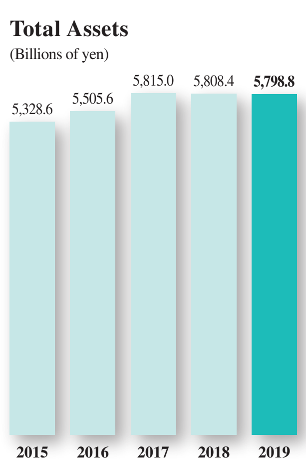
1. Pursue sound and efficient management
2. Provide superior comprehensive financial services
3. Contribute to regional prosperity
4. Strive to become a highly reliable, friendly and attractive bank

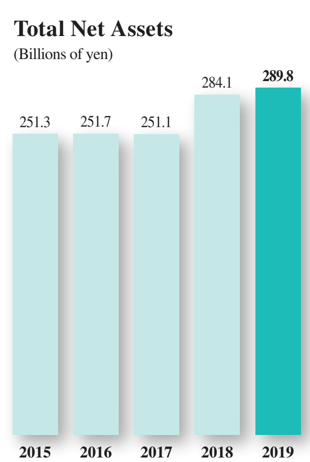
Consolidated Financial Highlights

	Millions of yen 2019	2018	2017	2016	2015	Thousands of U.S. dollars 2019
For the year:						
Total income	¥ 86,414	¥ 79,899	¥ 81,230	¥ 76,417	¥ 81,869	$ 778,574
Total expenses	70,947	61,884	64,450	61,586	63,857	639,219
Income before income taxes	15,467	18,015	16,779	14,831	18,012	139,354
Net income	11,174	13,160	12,508	12,159	9,874	100,675
At year-end:						
Total assets	5,798,870	5,808,433	5,815,095	5,505,607	5,328,661	52,246,778
Loans and bills discounted	3,392,321	3,330,514	3,252,218	3,188,341	3,079,175	30,564,203
Securities	1,432,780	1,539,150	1,686,575	1,797,411	1,693,517	12,909,090
Deposits and negotiable certificates of deposit	4,925,649	4,836,602	4,765,789	4,766,330	4,754,414	44,379,214
Total liabilities	5,509,018	5,524,264	5,563,926	5,523,865	5,077,342	49,635,264
Non-controlling interests	—	—	—	—	7,935	
Total net assets	289,852	284,169	251,168	251,742	251,318	2,611,514
Common stock	37,924	37,924	29,249	29,249	29,249	341,688
Per share data:	Yen					U.S. dollars
Net income	¥ 342.79	¥ 418.05	¥ 466.05	¥ 453.22	¥ 36.81	$ 3.08
Stockholders' equity	8,888.16	8,715.46	9,854.29	9,377.73	906.92	80.08
Capital adequacy ratio (%)	9.75	9.88	9.42	9.36	9.72	

Note: U.S. dollar amounts are included solely for the convenience of readers and are calculated at the exchange rate of 110.99 to US$1.00 the rate prevailing on March 31, 2019.







"Vitality Creating Bank"

- Standing Together with the Local Society. Becoming a Bank that Creates Our Own Unique Value -

Introduction

In this landmark year that saw Japan transition to a new era, from Heisei to Reiwa, we celebrated the 140th anniversary of the founding of our predecessor, the Sixty-Eighth National Bank this January, and the 85th anniversary of our founding this June. This is entirely thanks to the kind understanding and support of many people, including our business partners and stockholders, and we would like to express our deepest appreciation to them.

The Japanese economy has continued a gradual recovery with steady improvement in the employment and wage conditions, despite concerns about the risk of a downturn due to U.S.-China trade friction and other issues. In local communities the social structure itself is undergoing major changes including the lower fertility and aging population, and a declining population. As for the environment surrounding regional bank, we are facing various unprecedented challenges such as the entry of players from other industries and the prolonged ultra-low interest rate policy, in addition to the emergence of new financial services that utilize digital technologies. Under these circumstances, we entered the final year of 'our medium-term management plan titled "Vitality Creation Plan II – Changing and Taking on Challenges." (the "Plan") We have continued to pursue changes unbound by obsolete ideas and to take on the challenge of new initiatives, but we still have a long way to go. During the current fiscal year, we will put the finishing touches on the Plan and implement changes and challenges after sorting out and understanding the actual situation and issues surrounding us.

Looking Back on the Two Years of the Medium-Term Management Plan

We have set five main target metrics under the Plan, namely OHR, non-interest income ratio, capital adequacy ratio, ROA and ROE. However, we have to say that progress has not been steady on any of these metrics. While expenses are decreasing mostly in line with the Plan, the biggest factor in the lack of progress is stagnation, particularly in the non-interest income under the core business gross profit. As the low interest rate environment is expected to continue, we recognize that our crucial tasks will be expanding fees and commissions and transforming ourselves into an efficient and highly productive organization.

Two Challenges Considering Progress Status of Medium-Term Management Plan

We recognize that our current challenges can be largely divided into two main points. The first point is low profit, and the second is organizational operation, which forms the background to low profit. The first point, low profit, can be further broken down into two factors: (i) a deficit in the balance of core business profit; and, (ii) a decrease in gain on investments in securities.

Let us begin with the deficit in the balance of core business profit, which is one factor in the low profit that is our first challenge. The balance of core business profit is the sum of the profit after subtracting interest on deposits from interest on loans and bills discounted, and the fees and commissions earned from the fee business, less expenses. Unfortunately, hawse have recorded a deficit in the balance of core business profit for 11 consecutive years, and we must increase our income and decrease our payments in order to improve to at least the break-even level.

Balance of loans increased steadily, mainly in retail loan. However, interest on loans and bills discounted was on a downward trend because the increase in loans failed to make up for lower yield in the low interest rate environment. Since we may not expect a significant increase in interest on loans and bills discounted under current situation, expansion of fees and commissions has become an important theme for us.

Although we have strived to increase earnings of fees and commissions as a key strategy of the Plan, the gap between our goals and actual results is growing. Putting in place a structure based on a retail business strategy may be the key to improving the balance of core business profit. Meanwhile, regarding costs, the level of core net business profit per store and per person is low, and we are not making profits in proportion to costs, even compared to other banks. In other words, in terms of the balance of core business profit, I believe there is room for improvement in both income and payments.

As for the decrease in gain on investments in securities, which is another factor in low profit, we reduced the balance of securities during the previous fiscal year by redeeming JGBs, and selling foreign bonds in anticipation of a future rise in interest rates.

Yield on securities was down due to the decrease in dividends on investment trusts associated with deteriorating market conditions towards the end of the previous year, and investment trust income declined considerably as a result of carrying out preventive sales of investment trusts for which latent losses were incurred. This decline in gain on investments in securities was the main factor in the year-on-year decrease of ¥5.4 billion in core net business profit. Going forward, I think that it will be an important challenge to anticipate changes in the economic environment and secure stable gain on investments in securities that can supplement the balance of core business profit.

Next is the second challenge, organizational operation. Since the start of the Plan, we have developed various reforms and undertaken numerous measures to realize them aiming to build a robust structure, but these changes have not been sufficient. Furthermore, I believe that changes in our awareness may not happen without changes in our behavior, and we must explore awareness reform in greater depth than ever.

The Four Measures of the Final Year of the Medium-Term Management Plan

To address these challenges, we will work on the following four measures in the current fiscal year, which is the final year of the Plan.

Establishment of Consulting-oriented Sales

Let us begin with the first item, establishment of consulting-oriented sales. We have emphasized both internally and externally the importance of customer-centric, consulting-oriented sales, but we still have not broken away from our Bank-centric marketing style that pursues volume and is based on achieving targets and taking customer orders. Going forward, we will work on the establishment of consulting-oriented sales, where we identify the customer's true needs and issues, then propose optimal solutions to the customer and offer our products and services as the means to solve those issues. Our motto says "All employees should act as head clerks for our customers." We will work to "provide unique added value that only the Nanto Bank can offer" to resolve issues, based on thorough knowledge of our customers and local society. That, I believe, is exactly the first step towards becoming the Nanto Bank that we want to be a decade from now.

Specifically, in the individual sales department, I think there are a lot of customers that need solutions to their plans for retired life and asset succession. For such customers, we are practicing customer-centric consulting through all available channels, including the trust operations launched two years ago and Nanto Mahoroba Securities, a securities subsidiary that started in March 2019. In this way, we hope to build strong relationships with customers that allow them to inquire us on any matter.

Looking next at the corporate sales department, the life cycle of companies is said to progress from "foundation to growth period, maturity, and decline." In particular, for customers that are entering the period of maturity, we will contribute to their growth by discovering their real needs, such as new business development, M&A and business succession, so that they can proceed to a new growth stage without going into a period of decline.

Establishment of Securities Investment Management

We have consistently followed a policy of "pursuing stable, medium- to long-term income and asset formation, based on investments that diversify time and portfolio" in our securities investments. We will continue to aim for stable profit of at least 1% or more through a combination of in-house management and investment trust management from a medium- to long-term perspective. By selling poorly performing investment trusts ahead of time during the previous fiscal year, we have increased our freedom to invest in securities during the current fiscal year and will strive to maximize profits for the period by making full use of permissible risk. At the same time, we will make efforts to stabilize profit by rebalancing the portfolio (reallocating assets) and enhancing risk management in order to build a structure to ensure stable gain on investments in securities.

Review of Branch and ATM Network

With the advancement of decrease in population and the number of customers visiting our branches, we have implemented measures to reduce expenses such as reviewing the operations of branches and the ATM network.

Going forward, we will maintain customer convenience as much as possible as we make even deeper cost cuts while taking into account factors such as the market and branch profitability. In addition, the trend towards a cashless society and spread of ATMs in convenience stores have reduced the need to maintain our current ATM network, and we will sequentially reduce the number of our own ATMs and promote the use of ATMs jointly operated with Seven Bank.

Changes in Organization and Officers

Finally, I would like to discuss changes in our organization and officers.

In April 2019, we established four headquarters, namely (i) Management Strategy, (ii) Corporate Administration, (iii) Business and (iv) Investment, and appointed a managing director as general manager of each headquarter, thereby reclarifying their roles and responsibilities. Going forward, we will pursue swift business operations with regard to management strategy and sales strategy, and aim to further strengthen our governance structure through enhancement of internal controls, and the compliance and risk management systems, while promoting close collaboration among the four headquarters and the departments under each headquarter.

At the same time, we had major changes in our officers and invited a professional from outside the Bank to serve as the general manager of Management Strategy Headquarters, one of the four new headquarters. Not only have we never had a full-time officer from outside the Bank before, but we have almost never hired mid-career employees. This break with tradition by bringing in external human resources stems from a strong sense of crisis that our previous management style, which focused on expanding volume, will not be sustainable in the future amid the severe business environment surrounding regional banks. While there are good aspects to our organizational culture which has been made up of career Bank employees, there is also a negative side that it is difficult to make active changes in circumstances where there is a pressing need to transform our business model. The new general manager of Management Strategy invited from outside the Bank has an extensive track record in reforming conventional organizations and is thoroughly familiar with our industry, in order to reform our corporate culture.

Next, with regard to the establishment of a block/area sales system, we radically revised our sales system starting from the current fiscal year as part of introducing consulting-oriented sales. By dividing our sales areas into five blocks, and further organizing the multiple branches within the block into a single sales unit, or area, we clarified the role of each branch based on the concept of offering full banking functions in the area as a whole. An executive officer is appointed as a general manager of each block and operating authority is largely transferred to him or her. In this way, we enable these general managers to formulate and execute their own sales strategies that respond flexibly to the unique characteristics of each market, as the manager of the region for which they are responsible. This solves the long-standing problem of overlapping of territories between neighboring branches and allows for appropriate allocation of management resources.

Furthermore, in terms of human resources development, we have created an environment that nurtures highly specialized human resources through the sharing of knowledge and know-how that results from concentrating client liaison employees to area supervisory branches. This also allows us to improve the quality of services provided to customers. Most importantly, we will shift from our previous headquarters-led, top-down sales strategy to formulating worksite-led, bottom-up strategies. In doing so, we will nurture our employees who can think and take action on their own, not just waiting for orders from the boss. In other words, through structural and operational changes that are expected to result in changes in behavior, we will further promote awareness reform for all employees and officers, and seek to solve the organizational operation issues that we are facing.

In conclusion, although the environment surrounding regional banks is severe, the direction and path for developing our future business model are opening up.

We believe that the mission and role of regional banks is for all employees and officers to be highly motivated, to practice customer-centric, consulting-oriented sales and to contribute to the growth and development of customers and of the local economy, which will ultimately contribute to our sustainable growth.

We will continue to exert to the utmost the collective abilities of our officers and employees to generate new value unique to the Nanto Bank, with the aim of being a bank that is chosen by the community and customers.

We ask sincerely for the continued support of our stockholders and business partners.

Medium-Term Management Plan

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

Management vision

“Vitality Creating Bank”

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

Medium-term management plan

“Vitality Creation Plan II – Changing and Taking on Challenges” (Term: April 2017 to March 2020)

We have set the three years as a period to strive to change ourselves to a robust organization to cope with the changing financial environment. 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 local 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

Prioritized strategies and initiatives policy

Strategy	Reform	Strategy item	(Initiatives policy)
1) Regional Revitalization			Create local vitality by playing a leading role in community, people and job areas
2) Pursuit of the Four Reforms	Awareness Reform	Human resources and organizational strategy	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
	Sales Reform	Platform and market strategy	Revise the framework of our branches and sales, bolster points-of-contact with customers and deliver high-quality services
		Retail business strategy	Serve as the closest possible consultant for customers of all generations by paying proper attention to their life stages
		Corporate business strategy	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
		Strategy for Osaka Market	Raise the Bank's presence by actively allocating or reallocating our corporate resources based on branch continuity
		Municipality strategy	Seek to develop relationships with individual municipalities by delivering financing and consulting functions to them
		Market investment strategy	Expand profits by diversifying our investment methods while taking risks appropriately
		Group strategy	Grow consolidated profits through delivering comprehensive financial services by tapping into our Group's capabilities
	Clerical Operations Reform	Clerical operations strategy	Fundamentally overhaul the clerical operations of branches and the headquarters, thus transforming the organization into a more efficient one
	Expenses Reform	Expenses strategy	Revise expenses as a whole to transform our expense structure
3) Upgrading of Management and Controls			Upgrade our management and controls to firmly support the business model and to obtain even greater trust from customers

Target metrics

	Fiscal 2016 Result	Fiscal 2017 Result	Fiscal 2018 Result	Fiscal 2019 Target
OHR	74.45%	77.03%	85.70%	Less than 70%
Non-interest income ratio	10.40%	10.83%	13.85%	At least 20%
Capital adequacy ratio	9.19%	9.64%	9.40%	Approx. 10%
ROA	0.24%	0.20%	0.11%	At least 0.3%
ROE	4.88%	4.90%	4.01%	At least 5%

Calculation formals 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

Initiatives on SDGs and ESG

Recently, in response to the spread of the idea of Sustainable Development Goals (SDGs) aimed at realizing a sustainable society, companies are being called upon to address social issues through their corporate activities and the role that they must play in society is becoming increasingly important.

Our management philosophy states that we “provide superior comprehensive financial services” and “contribute to local prosperity.” As a financial institution that supports the sustainability of the local society, we provide consulting and actively engage in social contribution activities in order to help solve the issues faced that the local communities face.

In this report, we present our SDG initiatives organized within an Environment (E), Society (S) and Governance (G) framework to aid the understanding of our investors and customers.

We will continue to contribute to the sustainable growth and development of the local society by actively promoting SDG- and ESG-related initiatives.

What is the SDGs?

A set of international development goals from 2016 to 2030 listed in the 2030 Agenda for Sustainable Development, which was adopted by the UN Sustainable Development Summit held in September 2015

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 to address environmental issues such as global warming. These efforts include continued environmental conservation activities through our main business, and initiatives such as cool biz and everyday environmental conservation activities.

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* where 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 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 2018 reached 294 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.

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_2.

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 though 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

Environmentally-Conscious Financial Products

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

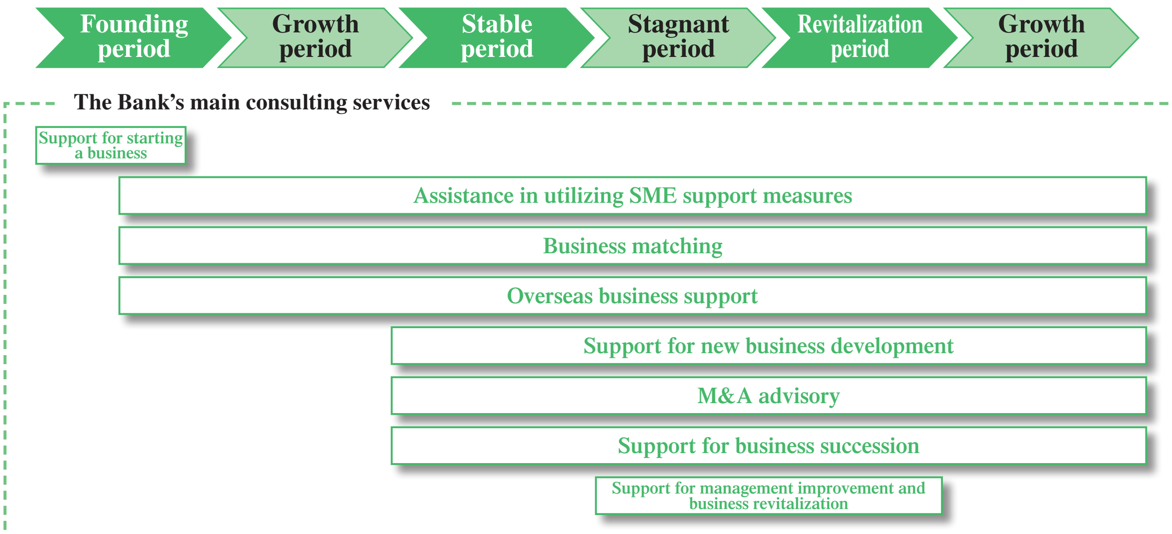
NANTO Green Privately Placed Bonds	A product that provides preferential treatment for some guarantee fees and commissions when underwriting privately placed bonds that are issued by businesses engaged in environmentally-conscious management or in the reduction of environmental burden.
NANTO Environmentally-Conscious Finance	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.
NANTO Eco Private Car Loans	A low-interest product (compared to NANTO Private Car Loans) that supports the purchase of low emission vehicles or low fuel consuming vehicles.
NANTO Eco Renovation Loans	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-

Practicing consulting-oriented sales to business partners

<Development of Consulting-oriented Sales>

We carries out management support for our customer companies by providing solutions according to their life stage and leveraging our consulting function.



Active participation in comprehensive regional revitalization

<Initiatives toward "Regional Creation">

Based on the Japanese Government's "Comprehensive Strategies for Local Community, People and Job Creation," the Bank has established a "Regional Creation Project Team" in the Solution Business Division. We have added the sales branch managers of 34 branches that have transactions with regional governments to this team as regional creation promotion managers for regional governments. This team has actively participated in the planning and smooth implementation of regional comprehensive strategies and cooperated to provide information from the perspective of a regional financial institution.

The Bank is also cooperating with local governments to form a comprehensive partnership for "community revitalization," and is making effective use of our resources in the fields of "communities, people, and jobs," striving to promote regional vitality and the development of the local economy.

■ Industrial support through collaboration among industries, government, governments, schools and finance

[Strengthening collaboration with universities]
The Bank has entered into collaboration agreements with universities, conducting technical consultation and joint research with local companies and matching them with the business needs of our business partners.

In addition to the mutual development of the Bank and universities, we will make efforts to contribute to society by working together to address the needs of local communities.

■ Initiatives for tourism support

In collaboration with various municipalities and tourism organizations in Nara Prefecture, we are making plans and proposals that utilize tourism resources in the prefecture and conducting seminars on tourism promotions. We also operate "Ee Koto (Good Ancient Capital) Nara," a local portal website packed with tourist information about Nara.

In addition, the "NANTO Nara Cheer Squad," a volunteer group composed of retirees from the Bank, is working to revitalize Nara as a tourist destination, such as by offering guided tours of shrines and temples in Nara Prefecture.


"Ee Koto Nara" http://www.nantokanko.jp/

■ Support for Traditional Local Industries

[Forestry Business Field]
We support the Yoshino Heart Project, which consists of activities aimed at revitalizing Yoshino's forestry-related industries and preventing global warming by maintaining forests. We are working to spread awareness of the necessity of "Kizukai," in other words paying attention to forest preservation and forestry revitalization, through activities such as the distribution of disposable wooden chopsticks made in Yoshino and the use of Yoshino 3.9 Paper made with lumber from thinning in booklets. We are also collaborating with Nara and other prefectures to promote the use of materials from Nara Prefecture, and strives proactively to use materials produced in the prefecture primarily in construction of new branches and other Bank facilities.

The Solution Business Division is currently playing a central role in carrying out various initiatives to promote forestry and lumber-related industries.


Branch using materials from Nara Prefecture (Sakurai Branch)

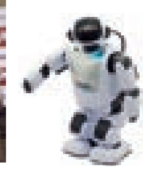
Promoting Social Contribution Activities

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.

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.

Economics Koshien Nara Tournament



PALRO

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, 2019, there were 67 students currently on scholarship, and the total number of graduates is 1,406.

Establishment of Nanto Challenged Co., Ltd., a wholly-owned subsidiary of the Bank

In August 2018, we established Nanto Challenged Co., Ltd. to promote employment of people with disabilities, and in February 2019 acquired certification as a special subsidiary company according to the provisions of the Act on Employment Promotion etc. of Persons with Disabilities. Our Group will contribute to local communities by preparing working environments where people with disabilities can work enthusiastically with greater peace of mind, and making efforts to encourage diverse human resources to play active roles.

SDGs-Related Financial Products

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

NANTO SDGs 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 nursery schools, kindergartens, elementary schools, junior-high schools, senior-high schools, and universities designated by the businesses within our sales target area.

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 "ai Support Company" in this campaign in December 2016.

Establishment of a New Financial Assistance for Child Rearing System

In April 2019, we established a new Financial Assistance for Child Rearing System to contribute to the revitalization and development of local communities. The system, which aims to support child rearing, pays our employees ¥500,000 on the birth of a third child and ¥1,000,000 on the birth of a fourth child and any subsequent children. The previous Birth Celebration System has also been expanded, and amended to pay ¥50,000 for both the first and second child. As the birthrate continues to decline, we will continue contributing to the revitalization and development of local communities as a regional bank, by creating better environment for having and raising children and expanding its support system for child rearing.

Recognized as 2019 Certified Health & Productivity Management Outstanding Organization – White 500

In February 2019, we were recognized as a 2019 Certified Health & Productivity Management Outstanding Organization (the large enterprise category) - White 500 by the Ministry of Economy, Trade and Industry (METI) and the Nippon Kenko Kaigi, based on our implementation of outstanding health and productivity management in collaboration with an insurer. We have carried out various initiatives to practice health and productivity management, such as expanding medical checkups and other procedures, enhancing work-life balance, and prohibiting smoking at the workplace and during working hours. We will further promote such activities in order to achieve an even better workplace environment.

Corporate Governance

To enhance and strenghthe our corporate governance, we 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. Our main corporate governance system (as of July 1, 2019) is as follows.

Corporate Governance System

The Board of Directors, comprising 9 directors, including 3 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.

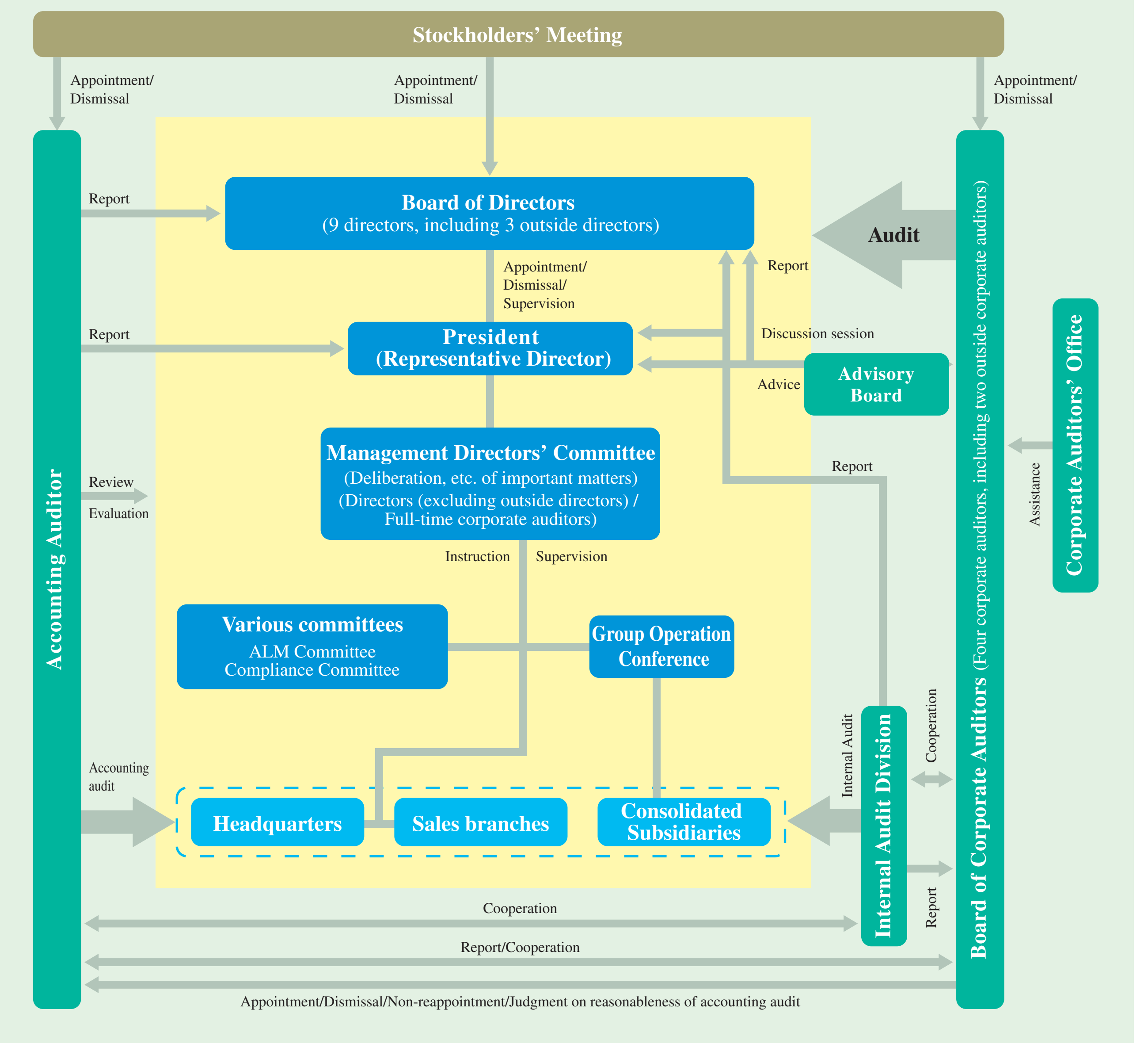
The Board of Directors meetings are held once a month in principle, and extraordinary meetings are convened as necessary. At the meetings, decisions are made on important managerial matters and business execution with all corporate auditors in attendance, and reports on the status of business execution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

Additionally, the Management Directors' Committee meeting, comprising directors (6 directors), excluding outside directors, is held once a week in principle as a decision-making body for important matters concerning daily operational management to ensure swift decision making.

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

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

Corporate Governance Structure



Corporate Auditors and Board of Corporate Auditors

We 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.

Internal Audit and Corporate Auditors' Audit

The Internal Audit Division consists of 32 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.

Corporate Auditors conducts both operational and accounting audits 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, the Board of Directors' meeting has decided 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 banks has changed drastically, and the risks they face have become more diversified and complex.

We regards risk management as one of its most important management issues and aims to create an advanced risk management system so that we can maintain appropriate and sound management and provide reliable services to our customers.

Risk Management Coordination

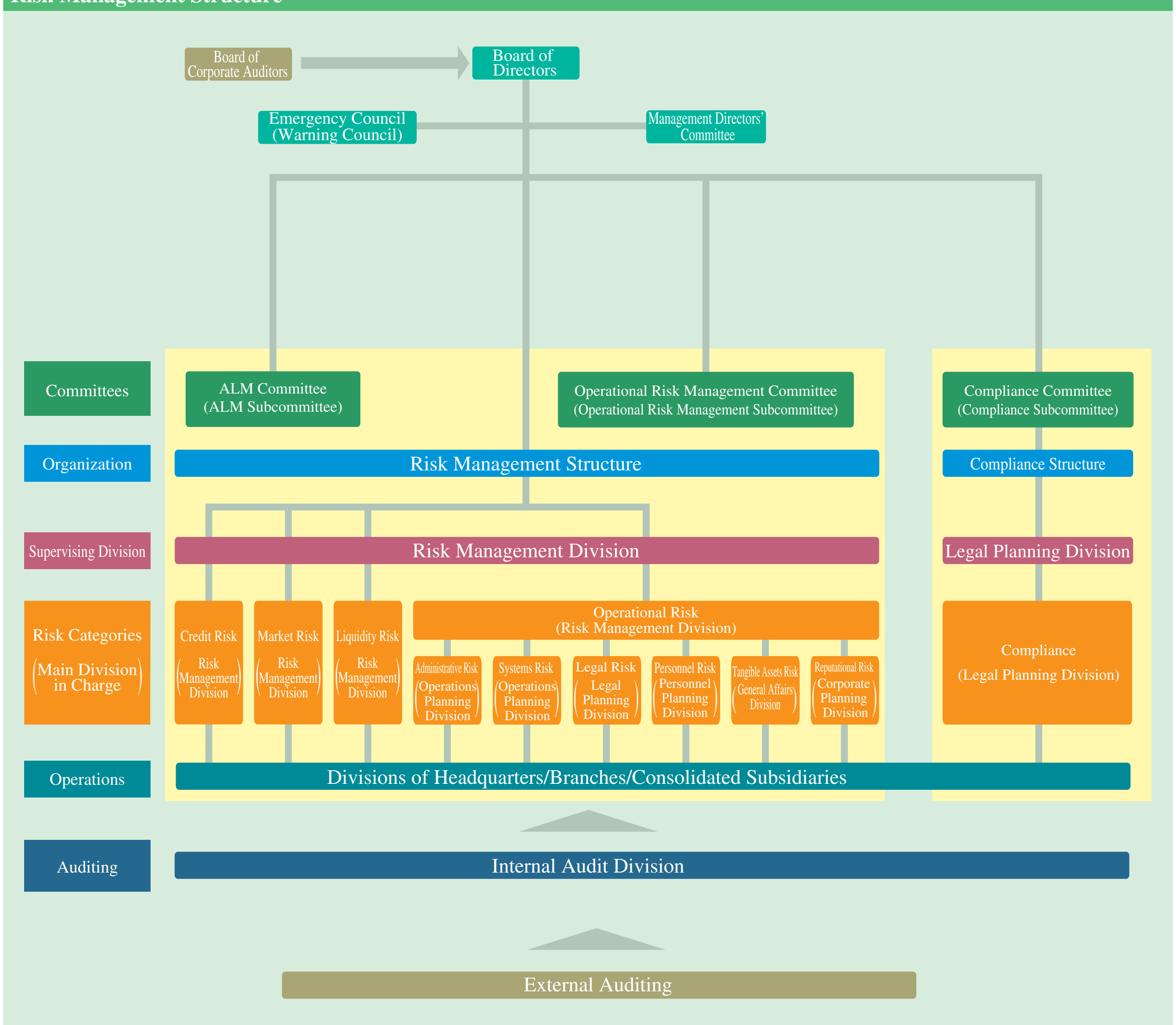
To cope with the various risks that we faces in banking business, we have established specific units for each category of risk. We also incorporate the Risk Management Division responsible for risk management coordination in order to gain a precise understanding of the nature and extent of risks and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

Furthermore, we define our 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, we have 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, we determine 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.

Risk Management Structure



• 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.

We conduct 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 we face, and regularly compare the level of these risks with our internal capital so as to control and carry out the assessments of our internal capital adequacy for each risk.

As for the capital adequacy assessment, we position ourselves to be able to review the allocation of our internal capital, discuss necessary internal capital strategies and other necessary actions through the monthly ALM Committee meeting. We strive 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.

• 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, we have 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 our credit risk management structure, 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, which was established to assist borrowers with business restructuring and recovery initiatives. Together these units form a structure that supports flexible credit 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 we objectively recognizes and manage 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 have taken measures to strengthen our credit risk management and increase profitability.

We 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 banks in order to determine the accurate status of the bank’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 a bank itself is referred to as a self-assessment.

We carry 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, we determine the appropriate amounts of depreciation and allowances. In this way, we strive to perform appropriate asset assessment practices and maintain and improve the soundness of our assets.

• Managing Market Risk

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

We control our market operations under a check and balance system of setting 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 positions 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 our ALM Committee biannually in consideration of its capital status, market conditions and 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, we conduct 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.

● 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 our cash flow position on a day-to-day basis, and the Risk Management Division monitors the management conditions. The ALM Committee is also 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.” We have developed management systems that can be flexibly implemented in each of these situations.

● Managing Operational Risks

Operational risk is the risk 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.

To address operational risks, we apply the perspectives of specialists to the management of administrative risk, systems risk, legal risk, personnel risk, 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 us to preferentially deal with major risks and minimize the effects of the risks.

Internal Audit System

For the enhancement and reinforcement of risk management, a PDCA cycle shoud be functioned effectively for self-improvement through a check and balance between each division and branch, and risk management departments for each risk.

The Internal Audit Division 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 System

Along with the above risk management, we have 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, we respond, 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, we, as an organization responsible for social function maintenance, takes measures to continuously provide customer services, including improvement of facilities to continue our business operations in the event of disasters or other events while striving to ensure the effectiveness of the crisis management system and continuously improve it through measures including risk management training conducted 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.

We have taken 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, we regard compliance with laws and regulations as the most important management issue and have 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.
- We strive 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 organization, 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.
- We have 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, 2019)

Yasuo Ueno
Chairman

Takashi Hashimoto
President
(Representative Director)

Satoshi Ishida
Director
Vice President
(Representative Director)
(Corporate Strategy Headquarters)

Keizo Nishikawa
Director
Senior Managing Executive Officer
(Representative Director)
(Sales Headquarters)

Kazuomi Nakamuro
Director
Managing Executive Officer
(Management Headquarters and General Affairs Division)

Kazuya Yokotani
Director
Managing Executive Officer
(Investment Management Headquarters)

Chairman
Yasuo Ueno

President
Takashi Hashimoto
(Representative Director)

Director and Vice President
Satoshi Ishida
(Representative Director)
(Corporate Strategy Headquarters)

Director and Senior Managing Executive Officers
Keizo Nishikawa
(Representative Director)
(Sales Headquarters)

Director and Managing Executive Officers
Kazuomi Nakamuro
(Management Headquarters and General Affairs Division)
Kazuya Yokotani
(Investment Management Headquarters)

Directors
Hiroshi Nakagawa
Matazaemon Kitamura
Masami Ishii

Managing Executive Officers
Satoru Wada
(North Nara Headquarters)

Executive Officers
Tomomi Onishi
(Financial Investment Division)
Kazunobu Nishikawa
(Corporate Planning Division)
Takahiro Konaka
(South Nara & Wakayama Headquarters)
Takeshi Sugiura
(Middle Nara Headquarters)
Naoki Ota
(In charge of Special Assignment)
Koji Honda
(Osaka Headquarters)
Akira Yabuuchi
(Personnel Planning Division)
Hidetoshi Nishioka
(Kyoto Headquarters)
Koshi Okamoto
(Credit Analysis Division)
Hidetatsu Kasuga
(Solution Business Division)
Masashi Hashimoto
(Internal Audit Division)

Corporate Auditors
Naoki Minowa
Takao Handa
Masahiro Nakamura
Takahisa Kurahashi

Note: Hiroshi Nakagawa, Matazaemon Kitamura and Masami Ishii are outside directors pursuant to Item 15, Article 2 of the Company Law and Masahiro Nakamura and Takahisa Kurahashi 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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Assets:			
Cash and due from banks (Notes 17 and 19)	**¥ 830,696**	¥ 820,151	**$ 7,484,422**
Call loans and bills bought (Note 19)	**388**	489	**3,495**
Debt purchased (Note 19)	**3,514**	2,983	**31,660**
Money held in trust (Notes 19 and 20)	**34,070**	33,000	**306,964**
Securities (Notes 5, 7, 10, 19 and 20)	**1,432,780**	1,539,150	**12,909,090**
Loans and bills discounted (Notes 6, 8 and 19)	**3,392,321**	3,330,514	**30,564,203**
Foreign exchanges (Note 6)	**1,891**	2,206	**17,037**
Lease receivables and lease investment assets	**19,838**	16,093	**178,736**
Other assets (Note 7)	**46,225**	27,574	**416,478**
Tangible fixed assets (Note 9)	**41,183**	41,587	**371,051**
Buildings	**12,405**	12,871	**111,766**
Land	**25,351**	25,416	**228,407**
Construction in progress	**—**	18	**—**
Other tangible fixed assets	**3,426**	3,281	**30,867**
Intangible fixed assets	**5,474**	4,464	**49,319**
Software	**4,981**	3,971	**44,877**
Other intangible fixed assets (Note 7)	**493**	493	**4,441**
Deferred tax assets (Note 24)	**1,311**	1,281	**11,811**
Customers' liabilities for acceptances and guarantees	**7,556**	8,748	**68,078**
Reserve for possible loan losses (Note 19)	**(18,382)**	(19,813)	**(165,618)**
Total assets	**¥5,798,870**	¥5,808,433	**$52,246,778**
Liabilities and net assets:			
Liabilities:			
Deposits (Notes 7 and 19)	**4,904,027**	4,817,646	**44,184,404**
Negotiable certificates of deposit (Note 19)	**21,622**	18,956	**194,810**
Call money and bills sold (Note 19)	**—**	531	**—**
Payables under repurchase agreements (Notes 7 and 19)	**42,601**	74,699	**383,827**
Payables under securities lending transactions (Notes 7 and 19)	**279,580**	345,250	**2,518,965**
Borrowed money (Notes 7, 19 and 30)	**210,648**	208,368	**1,897,900**
Foreign exchanges	**260**	251	**2,342**
Borrowed money from trust account	**6,446**	2,850	**58,077**
Other liabilities (Note 30)	**19,665**	20,141	**177,178**
Liability for retirement benefits (Note 22)	**11,152**	21,936	**100,477**
Reserve for reimbursement of deposits	**238**	244	**2,144**
Reserve for contingent losses	**853**	867	**7,685**
Reserve under special laws	**3**	—	**27**
Deferred tax liabilities (Note 24)	**4,360**	3,771	**39,282**
Acceptances and guarantees	**7,556**	8,748	**68,078**
Total liabilities	**¥5,509,018**	¥5,524,264	**$49,635,264**
Net assets (Note 3):			
Common stock: Authorized 64,000 thousand shares in 2019 and 2018 Issued 33,025 thousand shares in 2019 and 2018	**37,924**	37,924	**341,688**
Capital surplus	**34,749**	34,749	**313,082**
Retained earnings	**181,077**	172,353	**1,631,471**
Less treasury stock: Issued 425 thousand shares in 2019 and 433 thousand shares in 2018	**(1,776)**	(1,812)	**(16,001)**
Total stockholders' equity	**251,974**	243,215	**2,270,240**
Valuation difference on available-for-sale securities (Note 20)	**38,687**	45,328	**348,562**
Deferred gains or losses on hedges (Note 21)	**(210)**	(282)	**(1,892)**
Accumulated adjustments for retirement benefits (Note 22)	**(698)**	(4,206)	**(6,288)**
Total accumulated other comprehensive income	**37,778**	40,840	**340,373**
Stock acquisition rights	**98**	113	**882**
Total net assets	**289,852**	284,169	**2,611,514**
Total liabilities and net assets	**¥5,798,870**	¥5,808,433	**$52,246,778**

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, 2019 and 2018

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Income:			
Interest income:			
Interest on loans and bills discounted	**¥30,485**	¥30,899	**$274,664**
Interest and dividends on securities	**13,654**	19,097	**123,020**
Other interest income	**541**	568	**4,874**
Trust fees	**29**	28	**261**
Fees and commissions	**19,214**	17,516	**173,114**
Other operating income (Note 11)	**7,851**	2,467	**70,736**
Other income (Note 12)	**14,637**	9,322	**131,876**
Total income	**86,414**	79,899	**778,574**
Expenses:			
Interest expense:			
Interest on deposits	**640**	779	**5,766**
Interest on borrowings and rediscounts	**622**	453	**5,604**
Interest on payables under securities lending transactions	**947**	1,150	**8,532**
Other interest expense	**1,719**	1,434	**15,487**
Fees and commissions	**10,057**	9,059	**90,611**
Other operating expenses (Note 13)	**9,720**	4,000	**87,575**
General and administrative expenses (Note 14)	**41,618**	43,366	**374,970**
Other expenses (Note 15)	**5,619**	1,641	**50,626**
Total expenses	**70,947**	61,884	**639,219**
Income before income taxes	**15,467**	18,015	**139,354**
Income taxes (Note 24):			
Current	**2,570**	4,355	**23,155**
Deferred	**1,723**	498	**15,523**
Total income taxes	**4,293**	4,854	**38,679**
Net income	**11,174**	13,160	**100,675**
Net income attributable to owners of parent	**¥11,174**	¥13,160	**$100,675**

	Yen 2019	Yen 2018	U.S. dollars (Note 1) 2019
Per share of common stock (Note 28):			
Net income - basic	**¥342.79**	¥418.05	**$3.08**
Net income - diluted	**342.47**	417.63	**3.08**
Dividends	**80.00**	70.00	**0.72**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2019 and 2018

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Net income	**¥11,174**	¥13,160	**$100,675**
Other comprehensive income (loss) (Note 16):			
Valuation difference on available-for-sale securities	**(6,641)**	1,802	**(59,834)**
Deferred gains (losses) on hedges	**71**	127	**639**
Adjustments for retirement benefits (Note 22)	**3,507**	2,625	**31,597**
Total other comprehensive income (loss)	**(3,061)**	4,555	**(27,579)**
Total comprehensive income for the year	**¥ 8,112**	¥17,716	**$ 73,087**
Total comprehensive income attributable to:			
Owners of parent	**¥ 8,112**	¥17,716	**$ 73,087**

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, 2019 and 2018

		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
Balance at April 1, 2017	27,275	¥29,249	¥26,075	¥161,245	¥(1,828)	¥43,526	¥(409)	¥(6,831)	¥112	¥251,139
Cumulative effects of changes in accounting policies				29						29
Restated balance at April 1, 2017		29,249	26,075	161,275	(1,828)	43,526	(409)	(6,831)	112	251,168
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
Balance at April 1, 2018	33,025	¥37,924	¥34,749	¥172,353	¥(1,812)	¥45,328	¥(282)	¥(4,206)	¥113	¥284,169
Cash dividends	—	—	—	(2,444)	—	—	—	—	—	(2,444)
Net income attributable to owners of parent	—	—	—	11,174	—	—	—	—	—	11,174
Purchase of treasury stock	—	—	—	—	(4)	—	—	—	—	(4)
Disposition of treasury stock	—	—	(5)	—	39	—	—	—	—	33
Transfer from retained earnings to capital surplus	—	—	5	(5)	—	—	—	—	—	—
Net changes in the items other than stockholders' equity	—	—	—	—	—	(6,641)	71	3,507	(14)	(3,076)
Balance at March 31, 2019 (Note 3)	**33,025**	**¥37,924**	**¥34,749**	**¥181,077**	**¥(1,776)**	**¥38,687**	**¥(210)**	**¥(698)**	**¥98**	**¥289,852**

	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
Balance at April 1, 2018	$341,688	$313,082	$1,552,869	$(16,325)	$408,397	$(2,540)	$(37,895)	$1,018	$2,560,311
Cash dividends	—	—	(22,020)	—	—	—	—	—	(22,020)
Net income attributable to owners of parent	—	—	100,675	—	—	—	—	—	100,675
Purchase of treasury stock	—	—	—	(36)	—	—	—	—	(36)
Disposition of treasury stock	—	(45)	—	351	—	—	—	—	297
Transfer from retained earnings to capital surplus	—	45	(45)	—	—	—	—	—	—
Net changes in the items other than stockholders' equity	—	—	—	—	(59,834)	639	31,597	(126)	(27,714)
Balance at March 31, 2019 (Note 3)	**$341,688**	**$313,082**	**$1,631,471**	**$(16,001)**	**$348,562**	**$(1,892)**	**$ (6,288)**	**$ 882**	**$2,611,514**

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities			
Income before income taxes	**¥15,467**	¥18,015	**$139,354**
Depreciation	**3,582**	3,622	**32,273**
Impairment loss	**41**	95	**369**
Gain on step acquisitions	**(12)**	—	**(108)**
Gain on negative goodwill	**(14)**	—	**(126)**
Increase (decrease) in reserve for possible loan losses	**(1,430)**	(5,848)	**(12,884)**
Increase (decrease) in liability for retirement benefits	**(5,796)**	598	**(52,220)**
Increase (decrease) in reserve for reimbursement of deposits	**(6)**	51	**(54)**
Increase (decrease) in reserve for contingent losses	**(13)**	(98)	**(117)**
Interest income	**(44,680)**	(50,565)	**(402,558)**
Interest expense	**3,930**	3,817	**35,408**
Loss (gain) on investment securities	**(4,475)**	(2,159)	**(40,318)**
Loss (gain) on money held in trust	**190**	(471)	**1,711**
Foreign exchange losses (gains)	**(5,492)**	2,380	**(49,481)**
Losses (gains) on sales of fixed assets	**26**	28	**234**
Net decrease (increase) in loans and bills discounted	**(61,601)**	(78,295)	**(555,013)**
Net increase (decrease) in deposits	**86,536**	80,310	**779,673**
Net increase (decrease) in negotiable certificates of deposit	**2,666**	(9,497)	**24,020**
Net increase (decrease) in borrowed money	**2,241**	3,060	**20,191**
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)	**(68)**	1,141	**(612)**
Net decrease (increase) in call loans and bills bought	**(429)**	12,607	**(3,865)**
Net increase (decrease) in call money	**(32,629)**	46,027	**(293,981)**
Net increase (decrease) in payables under securities lending transactions	**(65,669)**	(158,842)	**(591,665)**
Net decrease (increase) in foreign exchange assets	**315**	2,825	**2,838**
Net increase (decrease) in foreign exchange liabilities	**9**	115	**81**
Net decrease (increase) in lease receivables and lease investment assets	**(3,877)**	(2,345)	**(34,931)**
Net increase (decrease) in borrowed money from trust account	**3,596**	2,850	**32,399**
Interest received	**46,124**	51,517	**415,568**
Interest paid	**(4,152)**	(4,061)	**(37,408)**
Other	**(20,319)**	13,108	**(183,070)**
Subtotal	**(85,941)**	(70,013)	**(774,313)**
Income taxes paid	**(3,038)**	(7,143)	**(27,371)**
Net cash used in operating activities	**(88,979)**	(77,157)	**(801,684)**
Cash flows from investing activities			
Purchases of securities	**(755,331)**	(392,267)	**(6,805,396)**
Proceeds from sales of securities	**749,645**	399,756	**6,754,167**
Proceeds from maturities of securities	**112,443**	144,354	**1,013,091**
Increase in money held in trust	**(247)**	(1,986)	**(2,225)**
Decrease in money held in trust	**407**	457	**3,666**
Purchase of tangible fixed assets	**(1,770)**	(2,424)	**(15,947)**
Proceeds from sales of tangible fixed assets	**97**	33	**873**
Purchase of intangible fixed assets	**(2,450)**	(1,204)	**(22,074)**
Purchase of shares of a subsidiary resulting in change in scope of consolidation	**(867)**	—	**(7,811)**
Other	**(79)**	(0)	**(0)**
Net cash provided by investing activities	**101,846**	146,719	**917,614**
Cash flows from financing activities			
Proceeds from issuance of common stock	**—**	17,348	**—**
Dividends paid	**(2,442)**	(2,079)	**(22,001)**
Purchase of treasury stock	**(4)**	(5)	**(36)**
Other	**0**	0	**0**
Net cash provided by (used in) financing activities	**(2,447)**	15,263	**(22,047)**
Effect of exchange rate changes on cash and cash equivalents	**4**	(5)	**36**
Net increase in cash and cash equivalents	**10,424**	84,821	**93,918**
Cash and cash equivalents at beginning of year	**818,769**	733,948	**7,376,961**
Cash and cash equivalents at end of year (Note 17)	**¥829,194**	¥818,769	**$7,470,889**

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Nanto Bank, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

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, 2019, which was ¥110.99 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 twelve (ten in 2018) subsidiaries at March 31, 2019.

Nanto Challenged Co., Ltd. and Nanto Mahoroba Securities Co., Ltd. were included in the scope of consolidation for the year ended March 31, 2019 due to the new establishment of Nanto Challenged Co., Ltd. and the acquisition of shares of Nanto Mahoroba Securities Co., Ltd.

The Bank had two (two in 2018) unconsolidated subsidiaries, Nanto Sixth Industry Support Investment Limited Partnership and Nanto Regional Vitality Creation Support Investment Limited Partnership. The unconsolidated subsidiaries were 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 were immaterial to the extent that their exclusion from the scope of consolidation did not preclude reasonable judgment of the Group's financial position and results of operations.

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

The Bank had two (two in 2018) 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 2018) 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 were excluded from the scope of the equity method because the effect on the accompanying consolidated financial statements was 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, 2019, because it is held by the Bank's unconsolidated subsidiary for the purpose of incubating the 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.

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) has been allocated over the remaining lease term using the straight-line method.

For the fiscal years ended March 31, 2019 and 2018, 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 and 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. Stocks of unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost 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 year-end 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. The Bank assesses the effectiveness of cash flow hedges by verifying the correlation of the hedged items with the hedging instruments.

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 lease assets is the value guaranteed in the lease contract or zero for assets without such guaranteed value.

i. Reserve for possible loan losses

A 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 based on the Bank's actual rate of loan losses in the past.

All 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, 2019 and 2018, the deducted amounts were ¥7,237 million ($65,204 thousand) and ¥7,118 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. Reserve under special laws

Reserve under the special laws represents Financial Instruments Transaction Liability Reserve prescribed in Article 46-5, Paragraph 1 of the Financial Instruments Exchange Act. The amount is recorded as determined by the consolidated subsidiaries in accordance with the provisions of Article 175 of the Cabinet Office Order on Financial Instruments Business, etc., in order to provide for losses arising from security related accidents.

n. Foreign currency translations

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

o. 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.

p. Recognition criteria for lease income and costs for finance leases

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

q. Consumption taxes

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

r. Changes in accounting policies

For the year ended March 31, 2019

The Bank adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the year ended March 31, 2019 and changed the treatments of deductible temporary differences related to the shares of subsidiaries, etc.

Such change in accounting policies was applied retrospectively and the consolidated financial statements for the year ended March 31, 2018 were revised to reflect such retrospective application.

As a result, in comparison with the amounts before the retrospective application, deferred tax liabilities in the consolidated balance sheet as of March 31, 2018 decreased by ¥29 million and retained earnings increased by ¥29 million.

For the year ended March 31, 2018

None

s. Standards and guidance not yet adopted

For the year ended March 31, 2019

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.

t. Additional information

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 pension plan provided in Paragraph 4 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, December 16, 2016). The Bank has applied "Practical Solution on Accounting for Risk Sharing Pension Plan" (Practical Issues Task Force ("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 effects associated with this change are described in Note 22, "PROJECTED BENEFIT OBLIGATIONS."

3. CHANGES IN NET ASSETS

(1) Type and numbers of shares issued and treasury stock for the fiscal years ended March 31, 2019 and 2018 were as follows:

(Thousands of shares)

	2019				Remarks
	April 1, 2018	Increase	Decrease	March 31, 2019	
Shares issued					
Common stock	**33,025**	**—**	**—**	**33,025**	
Total	**33,025**	**—**	**—**	**33,025**	
Treasury stock					
Common stock	**433**	**1**	**9**	**425**	**Notes 1 & 2**
Total	**433**	**1**	**9**	**425**	

Notes: 1. The increase of 1 thousand shares in common stock of treasury stock was due to the purchase of shares of less than one unit.
2. The decrease of 9 thousand shares in common stock of treasury stock was due to the execution of stock options.

	(Thousands of shares) 2018 April 1, 2017	Increase	Decrease	March 31, 2018	Remarks
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 a 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.

(2) Matters concerning Stock Acquisition Rights

For the fiscal year ended March 31, 2019

Classification	Breakdown	Shares expected to be acquired upon exercise of stock acquisition rights — Number of shares: April 1, 2018	Increase	Decrease	March 31, 2019	Balance at end of current fiscal year (Millions of yen)	(Thousands of U.S. dollars)
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥98	$882
	Total	—	—	—	—	¥98	$882

For the fiscal year ended March 31, 2018

Classification	Breakdown	Shares expected to be acquired upon exercise of stock acquisition rights — Number of shares: April 1, 2017	Increase	Decrease	March 31, 2018	Balance at end of current fiscal year (Millions of yen)
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥113
	Total	—	—	—	—	¥113

(3) Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2019

Millions of yen (thousands of U.S. dollars), except per share amount (yen (U.S. dollars))

Resolution	Type of shares	Aggregate amount of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 28, 2018	Common stock	¥1,140 ($10,271)	¥35.00 ($0.31)	March 31, 2018	June 29, 2018
Board of Directors' meeting held on November 9, 2018	Common stock	¥1,303 ($11,739)	¥40.00 ($0.36)	September 30, 2018	December 5, 2018

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

Millions of yen, except per share amount (yen)

Resolution	Type of shares	Aggregate amount of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 29, 2017	Common stock	¥939	¥35.00	March 31, 2017	June 30, 2017
Board of Directors' meeting held on November 10, 2017	Common stock	¥1,140	¥35.00	September 30, 2017	December 5, 2017

(c) Dividends to be paid in the fiscal year ending March 31, 2020

Millions of yen (thousands of U.S. dollars), except per share amount (yen (U.S. dollars))

Resolution	Type of shares	Aggregate amount of dividends	Source of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 27, 2019	Common stock	¥1,303 ($11,739)	Retained earnings	¥40.00 ($0.36)	March 31, 2019	June 28, 2019

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Shares or investments in capital	**¥163**	¥122	**$1,468**

6. NONPERFORMING LOANS

Nonperforming loans at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans to bankrupt borrowers	**¥ 1,419**	¥ 1,607	**$ 12,784**
Past due loans	**43,042**	46,680	**387,800**
Past due loans (three months or more)	**571**	467	**5,144**
Restructured loans	**8,921**	6,764	**80,376**
Total	**¥53,954**	¥55,520	**$486,115**

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 gives the Bank the right to sell or pledge such bills without restrictions. The total face value of commercial bills and purchased foreign exchange bills obtained as a result of discounting was ¥23,366 million ($210,523 thousand) and ¥23,052 million at March 31, 2019 and 2018, respectively.

7. PLEDGED ASSETS

At March 31, 2019 and 2018, securities of ¥643,515 million ($5,797,954 thousand) and ¥720,845 million, respectively, and other assets of ¥1,978 million ($17,821 thousand) and ¥1,978 million, respectively, were pledged as collateral for deposits of ¥37,496 million ($337,832 thousand) and ¥43,693 million, respectively, payables under repurchase agreements of ¥42,601 million ($383,827 thousand) and ¥74,699 million, respectively, payables under securities lending transactions of ¥279,580 million ($2,518,965 thousand) and ¥345,250 million, respectively, and borrowed money of ¥202,520 million ($1,824,668 thousand) and ¥198,592 million, respectively.

Securities of ¥92 million ($828 thousand) and ¥24,146 million and other assets of ¥20,034 million ($180,502 thousand) and ¥55 million were pledged for transaction guarantees at March 31, 2019 and 2018, respectively.

Unexpired lease contract claims of ¥3,984 million ($35,895 thousand) and ¥4,592 million were pledged as collateral for borrowed money of ¥2,897 million ($26,101 thousand) and ¥3,572 million at March 31, 2019 and 2018, respectively.

At March 31, 2019 and 2018, other assets included initial margins of futures markets of ¥192 million ($1,729 thousand) and ¥539 million, respectively, and security deposits of ¥1,145 million ($10,316 thousand) and ¥1,029 million, respectively, and other intangible fixed assets included key money of ¥493 million ($4,441 thousand) and ¥493 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, 2019 and 2018 were ¥967,303 million ($8,715,226 thousand) and ¥963,457 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, 2019 and 2018 were ¥916,872 million ($8,260,852 thousand) and ¥941,700 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.

9. TANGIBLE FIXED ASSETS

Accumulated depreciation of tangible fixed assets was ¥44,892 million ($404,468 thousand) and ¥44,646 million at March 31, 2019 and 2018, respectively. Accumulated capital gains directly offset against the acquisition cost of tangible fixed assets to obtain tax benefits were ¥783 million ($7,054 thousand) and ¥783 million at March 31, 2019 and 2018, respectively. For the years ended March 31, 2019 and 2018, the capital gain offset from acquisition costs was nil.

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 ¥20,722 million ($186,701 thousand) and ¥13,660 million at March 31, 2019 and 2018, respectively.

11. OTHER OPERATING INCOME

For the fiscal years ended March 31, 2019 and 2018, other operating income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Gains on sales of bonds	**¥7,550**	¥2,100	**$68,024**
Other	**301**	366	**2,711**
Total	**¥7,851**	¥2,467	**$70,736**

12. OTHER INCOME

For the fiscal years ended March 31, 2019 and 2018, other income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Gains on sales of stocks and other securities	**¥ 8,379**	¥3,857	**$ 75,493**
Reversal of allowance for loan losses	**—**	3,036	**—**
Recovery of written-off claims	**407**	627	**3,666**
Gain on revision of retirement benefit plan	**4,784**	—	**43,102**
Other	**1,067**	1,801	**9,613**
Total	**¥14,637**	¥9,322	**$131,876**

13. OTHER OPERATING EXPENSES

For the fiscal years ended March 31, 2019 and 2018, other operating expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Losses on sales of bonds	**¥5,625**	¥3,506	**$50,680**
Losses on redemption of bonds	**2,892**	—	**26,056**
Other	**1,203**	493	**10,838**
Total	**¥9,720**	¥4,000	**$87,575**

14. GENERAL AND ADMINISTRATIVE EXPENSES

For the fiscal years ended March 31, 2019 and 2018, general and administrative expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Salaries and allowances	**¥19,832**	¥19,863	**$178,682**
Retirement benefit costs	**1,638**	3,645	**14,758**
Other	**20,148**	19,856	**181,529**
Total	**¥41,618**	¥43,366	**$374,970**

15. OTHER EXPENSES

For the fiscal years ended March 31, 2019 and 2018, other expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Write-offs of loans	**¥1,036**	¥ 514	**$ 9,334**
Provision for possible loan losses	**597**	—	**5,378**
Losses on sales of stocks and other securities	**2,589**	291	**23,326**
Other	**1,397**	835	**12,586**
Total	**¥5,619**	¥1,641	**$50,626**

16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference on available-for-sale securities:			
Gains (losses) incurred during the year	¥(1,653)	¥ 5,344	$(14,893)
Reclassification adjustments to net income	(7,714)	(2,159)	(69,501)
Amount before tax effect	(9,368)	3,184	(84,404)
Tax effect	2,727	(1,381)	24,569
Valuation difference on available-for-sale securities	(6,641)	1,802	(59,834)
Deferred gains or losses on hedges			
Gains (losses) incurred during the year	(29)	(63)	(261)
Reclassification adjustments to net income	132	248	1,189
Amount before tax effect	103	184	928
Tax effect	(31)	(57)	(279)
Deferred gains or losses on hedges	71	127	639
Adjustments for retirement benefits:			
Gains (losses) incurred during the year	200	1,866	1,801
Reclassification adjustments to net income	4,839	1,910	43,598
Amount before tax effect	5,039	3,777	45,400
Tax effect	(1,532)	(1,152)	(13,803)
Adjustments for retirement benefits	3,507	2,625	31,597
Total other comprehensive income (loss)	¥(3,061)	¥ 4,555	$(27,579)

17. STATEMENTS OF CASH FLOWS

The reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2019 and 2018 and cash and cash equivalents in the consolidated statements of cash flows for the fiscal years then ended was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and due from banks on the consolidated balance sheets	¥830,696	¥820,151	$7,484,422
Current deposits due from banks	(464)	(428)	(4,180)
Time deposits due from banks	(600)	(600)	(5,405)
Other due from banks	(437)	(353)	(3,937)
Cash and cash equivalents on the consolidated statements of cash flows	¥829,194	¥818,769	$7,470,889

Major components of assets and liabilities of a company which has become a consolidated subsidiary due to acquisition of shares in the year ended March 31, 2019:
The major components of the assets and liabilities of NARA SECURITIES CO., LTD. (currently Nanto Mahoroba Securities Co., Ltd.), which was newly consolidated through a share acquisition, at the inception of consolidation and the relationship between the acquisition cost of the shares and the payment for the acquisition of shares were as follows:

	Millions of yen	Thousands of U.S. dollars
Assets	¥ 1,984	$17,875
Liabilities	(1,071)	(9,649)
Negative goodwill	(14)	(126)
Acquisition cost of shares	898	8,090
Acquisition cost of shares before control was obtained	(10)	(90)
Gain on step acquisitions	(12)	(108)
Cash and cash equivalents	(8)	(72)
Net payment for acquisition	¥ 867	$ 7,811

18. LEASE TRANSACTIONS

Operating leases

As lessee:

Future minimum lease payments under operating leases which were not cancelable at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year	¥ 79	¥ 87	$ 711
Due after one year	801	859	7,216
Total	¥880	¥946	$7,928

As lessor:

There were no applicable matters to be noted regarding future minimum lease payments under operating leases which were not cancelable at March 31, 2019 and 2018.

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 its 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. 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 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, 2019, the Group's total market risk (decrease in estimated economic value) was ¥43,069 million ($388,043 thousand) (¥56,285 million in 2018). 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 values 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, 2019 and 2018. 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		
	2019		
	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 830,696	¥ 830,696	¥ —
Call loans and bills bought	388	388	—
Debt purchased	3,514	3,514	—
Money held in trust	34,070	34,070	—
Securities			
Held-to-maturity debt securities	20,722	20,796	74
Available-for-sale securities	1,404,641	1,404,641	—
Loans and bills discounted	3,392,321		
Reserve for possible loan losses (*1)	(17,953)		
	3,374,368	3,388,671	14,302
Total assets	¥5,668,401	¥5,682,778	¥ 14,376
Deposits	¥4,904,027	¥4,904,055	¥ 28
Negotiable certificates of deposit	21,622	21,622	—
Call money and bills sold	—	—	—
Payables under repurchase agreements	42,601	42,601	—
Payables under securities lending transactions	279,580	279,580	—
Borrowed money	210,648	210,540	(108)
Total liabilities	¥5,458,480	¥5,458,400	¥ (80)
Derivative transactions (*2)			
Hedge accounting not applied	233	233	—
Hedge accounting applied	(221)	(221)	—
Total derivative transactions	¥ 12	¥ 12	¥ —

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	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	—
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)		
	3,311,190	3,332,246	21,056
Total assets	¥5,702,575	¥5,723,647	¥21,071
Deposits	¥4,817,646	¥4,817,749	¥ 102
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	¥5,465,452	¥5,465,461	¥ 8
Derivative transactions (*2)			
Hedge accounting not applied	2,485	2,485	—
Hedge accounting applied	(287)	(287)	—
Total derivative transactions	¥ 2,198	¥ 2,198	¥ —

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Fair value	Difference
Cash and due from banks	**$ 7,484,422**	**$ 7,484,422**	**$ —**
Call loans and bills bought	**3,495**	**3,495**	**—**
Debt purchased	**31,660**	**31,660**	**—**
Money held in trust	**306,964**	**306,964**	**—**
Securities			
Held-to-maturity debt securities	**186,701**	**187,368**	**666**
Available-for-sale securities	**12,655,563**	**12,655,563**	**—**
Loans and bills discounted	**30,564,203**		
Reserve for possible loan losses (*1)	**(161,753)**		
	30,402,450	**30,531,318**	**128,858**
Total assets	**$51,071,276**	**$51,200,810**	**$129,525**
Deposits	**$44,184,404**	**$44,184,656**	**$ 252**
Negotiable certificates of deposit	**194,810**	**194,810**	**—**
Call money and bills sold	**—**	**—**	**—**
Payables under repurchase agreements	**383,827**	**383,827**	**—**
Payables under securities lending transactions	**2,518,965**	**2,518,965**	**—**
Borrowed money	**1,897,900**	**1,896,927**	**(973)**
Total liabilities	**$49,179,926**	**$49,179,205**	**$ (720)**
Derivative transactions (*2)			
Hedge accounting not applied	**2,099**	**2,099**	**—**
Hedge accounting applied	**(1,991)**	**(1,991)**	**—**
Total derivative transactions	**$ 108**	**$ 108**	**$ —**

(*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.

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 the purposes for which they are held, 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 rate. 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		
	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unlisted equity securities (*1) (*2)	**¥1,639**	¥1,684	**$14,767**
Investment in partnerships (*3)	**5,776**	2,704	**52,040**
Total	**¥7,415**	¥4,389	**$66,807**

(*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, 2019 or 2018.
(*3) The fair value of unlisted equity securities among investment in partnerships is not disclosed since there were no market prices and it was extremely difficult to estimate the fair values.

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

	Millions of yen					
	2019					
	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	¥ 781,424	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	388	—	—	—	—	—
Debt purchased	3,514	—	—	—	—	—
Securities	167,399	196,765	113,434	53,186	126,299	212,950
Held-to-maturity debt securities	3,640	7,995	7,331	1,755	—	—
Bonds	3,640	7,995	7,331	1,755	—	—
Available-for-sale securities with contractual maturities	163,759	188,770	106,102	51,430	126,299	212,950
Japanese government bonds	153,500	89,000	27,000	40,000	—	—
Japanese local government bonds	5,695	33,029	26,650	6,304	40,577	3,529
Corporate bonds	2,564	31,740	43,794	5,126	6,200	109,459
Other	2,000	35,000	8,657	—	79,521	99,961
Loans and bills discounted (*)	470,631	596,729	529,312	358,355	313,778	787,740
Total	¥1,423,359	¥793,494	¥642,746	¥411,541	¥440,077	¥1,000,691

	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

	Thousands of U.S. dollars					
	2019					
	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	$ 7,040,490	$ —	$ —	$ —	$ —	$ —
Call loans and bills bought	3,495	—	—	—	—	—
Debt purchased	31,660	—	—	—	—	—
Securities	1,508,234	1,772,817	1,022,020	479,196	1,137,931	1,918,641
Held-to-maturity debt securities	32,795	72,033	66,050	15,812	—	—
Bonds	32,795	72,033	66,050	15,812	—	—
Available-for-sale securities with contractual maturities	1,475,439	1,700,783	955,959	463,375	1,137,931	1,918,641
Japanese government bonds	1,383,007	801,874	243,265	360,392	—	—
Japanese local government bonds	51,310	297,585	240,111	56,797	365,591	31,795
Corporate bonds	23,101	285,971	394,576	46,184	55,860	986,205
Other	18,019	315,343	77,998	—	716,469	900,630
Loans and bills discounted (*)	4,240,300	5,376,421	4,769,006	3,228,714	2,827,083	7,097,396
Total	$12,824,209	$7,149,238	$5,791,026	$3,707,910	$3,965,014	$9,016,046

(*) Loans from "bankrupt," "effectively bankrupt" and "likely to become bankrupt" borrowers, which are not expected to be repaid, amounting to ¥35,530 million ($320,118 thousand) and ¥40,490 million at March 31, 2019 and 2018, respectively, are not included.
Loans whose payment terms were not determined amounting to ¥300,243 million ($2,705,135 thousand) and ¥282,497 million at March 31, 2019 and 2018, respectively, are not included.

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

	Millions of yen					
	2019					
	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 (*)	**¥4,404,753**	**¥469,164**	**¥ 30,110**	**¥—**	**¥—**	**¥—**
Negotiable certificates of deposits	**21,622**	**—**	**—**	**—**	**—**	**—**
Call money and bills sold	**—**	**—**	**—**	**—**	**—**	**—**
Payables under repurchase agreements	**13,710**	**28,890**	**—**	**—**	**—**	**—**
Payables under securities lending transactions	**279,580**	**—**	**—**	**—**	**—**	**—**
Borrowed money	**35,610**	**78,927**	**96,073**	**37**	**—**	**—**
Total	**¥4,755,276**	**¥576,982**	**¥126,183**	**¥37**	**¥—**	**¥—**

	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	¥—

	Thousands of U.S. dollars					
	2019					
	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 (*)	**$39,686,034**	**$4,227,083**	**$ 271,285**	**$ —**	**$—**	**$—**
Negotiable certificates of deposits	**194,810**	**—**	**—**	**—**	**—**	**—**
Call money and bills sold	**—**	**—**	**—**	**—**	**—**	**—**
Payables under repurchase agreements	**123,524**	**260,293**	**—**	**—**	**—**	**—**
Payables under securities lending transactions	**2,518,965**	**—**	**—**	**—**	**—**	**—**
Borrowed money	**320,839**	**711,118**	**865,600**	**333**	**—**	**—**
Total	**$42,844,184**	**$5,198,504**	**$1,136,886**	**$333**	**$—**	**$—**

(*) 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, 2019 and 2018 was as follows:

(a) Trading securities

Not applicable for the years ended March 31, 2019 and 2018

(b) Held-to-maturity debt securities

	Millions of yen		
	2019		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds	**¥19,028**	**¥19,103**	**¥75**
Subtotal	**¥19,028**	**¥19,103**	**¥75**
Fair value not exceeding carrying amount:			
Corporate bonds	**¥ 1,694**	**¥ 1,692**	**¥ (1)**
Subtotal	**¥ 1,694**	**¥ 1,692**	**¥ (1)**
Total	**¥20,722**	**¥20,796**	**¥74**

	Millions of yen		
	2018		
	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

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds	**$171,438**	**$172,114**	**$675**
Subtotal	**$171,438**	**$172,114**	**$675**
Fair value not exceeding carrying amount:			
Corporate bonds	**$ 15,262**	**$ 15,244**	**$ (9)**
Subtotal	**$ 15,262**	**$ 15,244**	**$ (9)**
Total	**$186,701**	**$187,368**	**$666**

(c) Available-for-sale securities

	Millions of yen		
	2019		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks	**¥ 91,044**	**¥ 47,780**	**¥43,263**
Bonds	**634,334**	**623,759**	**10,574**
Japanese government bonds	**315,130**	**309,636**	**5,493**
Japanese local government bonds	**117,925**	**115,718**	**2,206**
Japanese corporate bonds	**201,278**	**198,404**	**2,874**
Others	**462,349**	**454,282**	**8,066**
Foreign securities included	**191,611**	**187,511**	**4,099**
Subtotal	**¥1,187,728**	**¥1,125,823**	**¥61,905**
Carrying amount not exceeding acquisition cost:			
Stocks	**¥ 9,379**	**¥ 10,231**	**¥ (852)**
Bonds	**929**	**929**	**(0)**
Japanese government bonds	**—**	**—**	**—**
Japanese local government bonds	**70**	**70**	**—**
Japanese corporate bonds	**859**	**859**	**(0)**
Others	**206,604**	**215,659**	**(9,055)**
Foreign securities included	**55,296**	**56,661**	**(1,364)**
Subtotal	**¥ 216,913**	**¥ 226,821**	**¥ (9,908)**
Total	**¥1,404,641**	**¥1,352,644**	**¥51,997**

	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

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks	**$ 820,290**	**$ 430,489**	**$389,791**
Bonds	**5,715,235**	**5,619,956**	**95,269**
Japanese government bonds	**2,839,264**	**2,789,764**	**49,490**
Japanese local government bonds	**1,062,483**	**1,042,598**	**19,875**
Japanese corporate bonds	**1,813,478**	**1,787,584**	**25,894**
Others	**4,165,681**	**4,092,999**	**72,673**
Foreign securities included	**1,726,380**	**1,689,440**	**36,931**
Subtotal	**$10,701,216**	**$10,143,463**	**$557,752**
Carrying amount not exceeding acquisition cost:			
Stocks	**$ 84,503**	**$ 92,179**	**$ (7,676)**
Bonds	**8,370**	**8,370**	**(0)**
Japanese government bonds	**—**	**—**	**—**
Japanese local government bonds	**630**	**630**	**—**
Japanese corporate bonds	**7,739**	**7,739**	**(0)**
Others	**1,861,464**	**1,943,048**	**(81,583)**
Foreign securities included	**498,207**	**510,505**	**(12,289)**
Subtotal	**$ 1,954,347**	**$ 2,043,616**	**$ (89,269)**
Total	**$12,655,563**	**$12,187,079**	**$468,483**

The securities loaned under unsecured securities lending transactions are included in Japanese government bonds under "Securities" in the amount of ¥30,683 million ($276,448 thousand) and ¥20,790 at March 31, 2019 and 2018, respectively.

(2) Held-to-maturity debt securities sold for the fiscal years ended March 31, 2019 and 2018

	Millions of yen		
	2019		
	Sales amount	Gains on sales	Losses on sales
Bonds	**¥50**	**¥0**	**¥—**
Japanese corporate bonds	**50**	**0**	**—**
Total	**¥50**	**¥0**	**¥—**

	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		
	2019		
	Sales amount	Gains on sales	Losses on sales
Bonds	$450	$0	$—
Japanese corporate bonds	450	0	—
Total	$450	$0	$—

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

(3) Available-for-sale securities sold for the fiscal years ended March 31, 2019 and 2018

	Millions of yen		
	2019		
	Sales amount	Gains on sales	Losses on sales
Stocks	¥ 18,088	¥ 6,402	¥1,177
Bonds	246,249	4,807	18
Japanese government bonds	154,797	2,355	16
Japanese local government bonds	71,004	1,986	0
Japanese corporate bonds	20,447	465	1
Others	314,626	4,719	7,019
Foreign securities included	283,325	4,077	5,889
Total	¥578,964	¥15,929	¥8,214

	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

	Thousands of U.S. dollars		
	2019		
	Sales amount	Gains on sales	Losses on sales
Stocks	$ 162,969	$ 57,680	$10,604
Bonds	2,218,659	43,310	162
Japanese government bonds	1,394,693	21,218	144
Japanese local government bonds	639,733	17,893	0
Japanese corporate bonds	184,223	4,189	9
Others	2,834,723	42,517	63,239
Foreign securities included	2,552,707	36,733	53,058
Total	$5,216,361	$143,517	$74,006

(4) Information on money held in trust at March 31, 2019 and 2018 was as follows:

Money held in trust for trading purposes

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Carrying amount (fair value)	¥33,000	¥33,000	$297,324
Amount of net unrealized gains (losses) included in the statements of income	21	30	189

Other money held in trust for purposes other than investment or holding to maturity

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Carrying amount	¥1,070	¥—	$9,640
Acquisition cost	1,070	—	9,640
Difference	—	—	—
Unrealized gain	—	—	—
Unrealized loss	—	—	—

The principal amount in trust with contracts to compensate losses on the principal was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Money in trust	¥6,446	¥2,850	$58,077

(5) The components of the valuation difference on available-for-sale securities recorded under net assets at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference	¥ 51,997	¥ 61,365	$ 468,483
Deferred tax liabilities	(13,309)	(16,036)	(119,911)
Amounts equivalent to difference on available-for-sale securities	¥ 38,687	¥ 45,328	$ 348,562
Noncontrolling interests adjustment	—	—	—
Valuation difference on available-for-sale securities	¥ 38,687	¥ 45,328	$ 348,562

(6) Securities reclassified for the fiscal years ended March 31, 2019 and 2018
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 is not expected to recover within one year. The Bank recognized impairment loss of ¥335 million ($3,018 thousand) on stocks for the fiscal year ended March 31, 2019. No impairment loss was recognized for the fiscal year ended March 31, 2018.

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, 2019 and 2018 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			
		2019			
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	¥2,182	¥2,182	¥ 77	¥ 77
	Receive floating rate/pay fixed rate	5,040	3,880	(114)	(114)
	Receive floating rate/pay floating rate	—	—	—	—
	Interest rate options				
	Sold	—	—	—	—
	Bought	—	—	—	—
	Other				
	Sold	—	—	—	—
	Bought	—	—	—	—
Total		¥ —	¥ —	¥ (36)	¥ (36)

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Category	Transaction type	Millions of yen 2018 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)

Category	Transaction type	Thousands of U.S. dollars 2019 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	**$19,659**	**$19,659**	**$ 693**	**$ 693**
	Receive floating rate/pay fixed rate	**45,409**	**34,958**	**(1,027)**	**(1,027)**
	Receive floating rate/pay floating rate	**—**	**—**	**—**	**—**
	Interest rate options				
	Sold	**—**	**—**	**—**	**—**
	Bought	**—**	**—**	**—**	**—**
	Other				
	Sold	**—**	**—**	**—**	**—**
	Bought	**—**	**—**	**—**	**—**
Total		**$ —**	**$ —**	**$ (324)**	**$ (324)**

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, 2019 and 2018, “Receive floating rate/pay fixed rate” of interest rate swaps included the contract amount of ¥2,858 million ($25,750 thousand) and ¥3,313 million, fair value of ¥(86) million ($(774) thousand) and ¥(136) million and unrealized gains (losses) of ¥(86) million ($(774) thousand) and ¥(136) million, respectively, for which the application of hedge accounting was cancelled since the requirements for hedge accounting were not met. Unrealized gains (losses) on “Receive floating rate/pay fixed rate” of ¥(100) million ($(900) thousand) and ¥(146) million at March 31, 2019 and 2018, respectively, were deferred over the hedge period due to the cancellation.

(b) Currency related transactions

		Millions of yen			
		2019			
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	**¥429,749**	**¥292,038**	**¥295**	**¥295**
	Forward foreign exchange contracts				
	Sold	**8,084**	**566**	**(44)**	**(44)**
	Bought	**1,897**	**—**	**19**	**19**
	Currency options				
	Sold	**—**	**—**	**—**	**—**
	Bought	**—**	**—**	**—**	**—**
	Other				
	Sold	**—**	**—**	**—**	**—**
	Bought	**—**	**—**	**—**	**—**
Total		**¥ —**	**¥ —**	**¥270**	**¥270**

		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	—	—	—	—
Total		¥ —	¥ —	¥2,603	¥2,603

		Thousands of U.S. dollars			
		2019			
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	**$3,871,961**	**$2,631,210**	**$2,657**	**$2,657**
	Forward foreign exchange contracts				
	Sold	**72,835**	**5,099**	**(396)**	**(396)**
	Bought	**17,091**	**—**	**171**	**171**
	Currency options				
	Sold	**—**	**—**	**—**	**—**
	Bought	**—**	**—**	**—**	**—**
	Other				
	Sold	**—**	**—**	**—**	**—**
	Bought	**—**	**—**	**—**	**—**
Total		**$ —**	**$ —**	**$2,432**	**$2,432**

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

(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, 2019 and 2018 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		
			2019		
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		¥5,505	¥5,072	¥(221)
	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		—	¥ —	¥ —	¥(221)

			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)

Hedge accounting method	Transaction type	Major hedged items	Thousands of U.S. dollars 2019 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		**$49,599**	**$45,697**	**$(1,991)**
	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		—	**$ —**	**$ —**	**$(1,991)**

Notes: 1. Gain/loss on the above contracts 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 provides a non-contributory unfunded lump-sum retirement allowance plan, a funded defined benefit pension plan, and a funded defined contribution pension plan for employees.

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). In addition, a plan similar to a cash balance plan has been introduced to some of the employees subject to the risk sharing pension plans.

In addition to the amounts that are equivalent to standard contributions, the Bank makes contributions to risk sharing pension plans that are commensurate with risks as prescribed in the plan terms. Benefits from the risk sharing pension plans increase or decrease each fiscal year based on the assets of the pension plan.

Under the plan similar to a cash balance plan, a virtual individual account balance corresponding to the funded amounts and source of pension funds will be set up for each participant, and after retirement, interest principally based on market interest rate trends will be credited to the balance.

Twelve 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.

Certain consolidated subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid Scheme (the "SERAMA Scheme").

(2) Defined benefit plans

(a) Movement in projected benefit obligations

	Millions of yen 2019	2018	Thousands of U.S. dollars 2019
Balance at the beginning of the fiscal year	**¥ 65,008**	¥65,400	**$ 585,710**
Effects from transition to risk sharing pension plans	**(53,679)**	—	**(483,638)**
Balance at the beginning of the fiscal year reflecting transition to risk sharing pension plans	**11,329**	65,400	**102,072**
Service cost	**719**	2,084	**6,478**
Interest cost	**75**	454	**675**
Actuarial (gain) loss	**(200)**	(325)	**(1,801)**
Benefits paid	**(652)**	(2,605)	**(5,874)**
Increase due to new consolidation	**52**	—	**468**
Balance at the end of the fiscal year	**¥ 11,324**	¥65,008	**$ 102,027**

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
	2019	2018	2019
Balance at the beginning of the fiscal year	**¥ 43,072**	¥40,284	**$ 388,070**
Effects from transition to risk sharing pension plans	**(42,913)**	—	**(386,638)**
Transfer to the funded assets under the SERAMA Scheme	**(158)**	—	**(1,423)**
Balance at the beginning of the fiscal year reflecting transition to risk sharing pension plans	**—**	—	**—**
Expected return on plan assets	**—**	804	**—**
Actuarial gain (loss)	**—**	1,541	**—**
Contributions paid by the employer	**—**	2,307	**—**
Benefits paid	**—**	(1,866)	**—**
Balance at the end of the fiscal year	**—**	¥43,072	**—**

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
	2019	2018	2019
Funded projected benefit obligations	**¥ 342**	¥ 53,982	**$ 3,081**
Plan assets	**—**	(43,072)	**—**
Funded assets under the SERAMA Scheme	**(171)**	—	**(1,540)**
	170	10,910	**1,531**
Unfunded projected benefit obligations	**10,981**	11,025	**98,936**
Net liability for retirement benefits recorded on the consolidated balance sheet	**¥11,152**	¥ 21,936	**$100,477**
Liability for retirement benefits	**¥11,152**	¥ 21,936	**$100,477**
Asset for retirement benefits	**—**	—	**—**
Net liability for retirement benefits recorded on the consolidated balance sheet	**¥11,152**	¥ 21,936	**$100,477**

Note: Plans based on the simplified method have been included in the above.
Funded assets under the SERAMA Scheme which was previously included in plan assets are separately presented from the year ended March 31, 2019.

(d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	**¥ 719**	¥2,084	**$6,478**
Interest cost	**75**	454	**675**
Expected return on plan assets	**—**	(804)	**—**
Net actuarial loss amortization	**222**	1,910	**2,000**
Total retirement benefit costs	**¥1,017**	¥3,645	**$9,162**

Note: Retirement benefit costs of consolidated subsidiaries which have applied the simplified method are included in "Service cost."
In the year ended March 31, 2019, the Bank recorded other income of ¥4,784 million ($43,102 thousand) following the transfer of defined benefit pension plans to risk sharing pension plans and defined contribution pension plans.

(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
	2019	2018	2019
Actuarial gain (loss)	**¥5,039**	¥3,777	**$45,400**
Total	**¥5,039**	¥3,777	**$45,400**

Note: The above actuarial gain (loss) at March 31, 2019 includes reclassification adjustments of ¥4,616 million ($41,589 thousand) following the transition to risk sharing pension plans and defined contribution pension plans.

(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
	2019	2018	2019
Unrecognized actuarial gain (loss)	**¥(1,003)**	¥(6,043)	**$(9,036)**
Total	**¥(1,003)**	¥(6,043)	**$(9,036)**

(g) Plan assets

Plan assets comprise:

	2019	2018
Bonds	—%	14.6%
Stocks	—%	31.1%
Cash and deposits	—%	2.4%
Life insurance general accounts	—%	32.9%
Other	—%	19.0%
Total	—%	100%

(h) Actuarial assumptions

The principal actuarial assumptions for the fiscal years ended March 31, 2019 and 2018 were as follows:

	2019	2018
Discount rate	**0.70%**	0.70%
Long-term expected rate of return	—%	2.00%
Estimated rate of increase in salary	**3.90%**	3.90%

(3) Defined contribution plans

(a) Retirement benefit costs for defined contribution plans

Contributions that the Bank is required to pay to the Bank's defined contribution plans newly established in the year ended March 31, 2019 was ¥629 million ($5,667 thousand).

(b) The amounts equivalent to contributions commensurate with risks

There is no amount equivalent to premiums corresponding to risks required to be contributed in the fiscal year ended March 31, 2019 or 2018.

(c) Other matters

The total amounts equivalent to special contributions included in the contributions prescribed in the agreement at the transition to a risk sharing pension plan was ¥1,364 million ($12,289 thousand) and the amounts equivalent to special contributions of ¥904 million ($8,144 thousand) at March 31, 2019 was recorded under other liabilities.

The number of years remaining for contributions equivalent to special contributions is two years.

23. STOCK OPTIONS

(a) Items and amounts expensed related to stock options

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
General and administrative expenses	**¥19**	¥20	**$171**

(b) Stock options outstanding at March 31, 2019

a. Outline of stock options

Beneficiaries qualifying for stock option rights are entitled to acquire shares of 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, 2019:

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
2018 Stock Options	7 directors (excluding outside directors) of the Bank	Common stock 7,800 shares	July 27, 2018	¥1 ($0.00)	From July 28, 2018 to July 27, 2048	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	2018 Stock Options
Nonvested									
March 31, 2018 – Outstanding	—	—	—	—	—	—	—	1,468	—
Granted	—	—	—	—	—	—	—	—	7,800
Forfeited	—	—	—	—	—	—	—	—	460
Vested	—	—	—	—	—	—	—	1,468	5,620
March 31, 2019 – Outstanding	—	—	—	—	—	—	—	—	1,720
Vested									
March 31, 2018 – Outstanding	2,020	2,590	3,870	4,060	3,580	4,540	5,600	5,182	—
Vested	—	—	—	—	—	—	—	1,468	5,620
Exercised	500	640	870	1,400	1,200	1,230	1,630	1,570	460
Forfeited	—	—	—	—	—	—	—	—	—
March 31, 2019 – Outstanding	1,520	1,950	3,000	2,660	2,380	3,310	3,970	5,080	5,160

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	2018 Stock Options
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise date	2,838	2,838	2,838	2,525	2,525	2,544	2,510	2,479	2,143
Fair value price at grant date	4,410	3,860	3,030	3,720	4,010	3,970	3,660	2,861	2,663

	U.S. dollars								
	2010 Stock Options	2011 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options	2015 Stock Options	2016 Stock Options	2017 Stock Options	2018 Stock Options
Exercise price	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Average stock price at exercise date	25.56	25.56	25.56	22.74	22.74	22.92	22.61	22.33	19.30
Fair value price at grant date	39.73	34.77	27.29	33.51	36.12	35.76	32.97	25.77	23.99

Note: "Average stock price at exercise date" and "Fair value price at grant date" have been calculated 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 2018 Stock Options granted in the fiscal year ended March 31, 2019 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: 28.30% calculated using the market price of the Bank's stock from March 2013 to July 2018.
2. Estimated remaining outstanding period: 5.4 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, 2018.
4. Risk-free interest rate: (0.07) %, 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 % for the fiscal years ended March 31, 2019 and 2018.

Significant components of deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Excess reserve for possible loan losses	**¥ 5,892**	¥ 6,383	**$ 53,085**
Liability for retirement benefits	**3,398**	6,676	**30,615**
Depreciation	**819**	797	**7,379**
Write-down of land	**872**	1,029	**7,856**
Loss on impairment of fixed assets	**1,258**	1,276	**11,334**
Valuation loss on securities	**2,967**	2,989	**26,732**
Tax loss carryforwards	**133**	25	**1,198**
Net deferred loss on hedging instruments	**91**	123	**819**
Other	**1,937**	1,742	**17,452**
Subtotal deferred tax assets:	**17,371**	21,044	**156,509**
Valuation allowance (Note 1)	**(7,042)**	(7,458)	**(63,447)**
Total deferred tax assets	**10,329**	13,585	**93,062**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(13,309)**	(16,036)	**(119,911)**
Other	**(69)**	(39)	**(621)**
Total deferred tax liabilities	**(13,378)**	(16,075)	**(120,533)**
Net deferred tax liabilities	**¥ (3,049)**	¥ (2,490)	**$ (27,470)**

Note: Net deferred tax liabilities as of March 31, 2019 and 2018 are included in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets	**¥1,311**	¥1,281	**$11,811**
Deferred tax liabilities	**4,360**	3,771	**39,282**

Notes: 1. A major component of the change in valuation allowance was a decrease in valuation allowance related to reserve for possible loan losses.

2. As described in "Changes in Accounting Policies," the Bank adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the year ended March 31, 2019 and changed the treatments of deductible temporary differences related to the shares of subsidiaries, etc. This accounting standard was retroactively applied to the figures for the year ended March 31, 2018.

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, 2019 and 2018:

	2019	2018
Statutory tax rate	**30.4%**	30.4%
Valuation allowance	**(2.7)%**	(4.3)%
Non-deductible expenses	**0.3%**	0.2%
Non-taxable income	**(1.0)%**	(0.7)%
Other	**0.7%**	1.3%
Effective tax rate	**27.7%**	26.9%

25. BUSINESS COMBINATIONS

Business combination through acquisition

a. Outline of the business combination

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 in order to make it the Bank's subsidiary by acquiring its shares. As a result, the shares of NARA SECURITIES were acquired on October 1, 2018 and the company became a wholly owned subsidiary (with 100% portion of voting rights) on November 16, 2018.

(1) Name and business of the acquired company

Name: NARA SECURITIES CO., LTD.

Business: Financial instruments business operator

(2) Major reason for the business combination

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

(3) Date of business combination

October 1, 2018

(4) Legal form of the business combination

Share acquisition in consideration for cash

(5) Name of the company after the business combination

NARA SECURITIES CO., LTD., whose trade name was changed to Nanto Mahoroba Securities Co., Ltd. on March 18, 2019

(6) Ratio of voting rights acquired

Ratio of voting rights owned immediately prior to the acquisition: 2.53%

Ratio of voting rights additionally acquired: 97.47%

Ratio of voting rights owned after the acquisition: 100%

(7) Main basis behind the determination of the acquiring company

Determination of the Bank as the acquiring company is based on the fact that the Bank acquired 100% of voting rights by means of share acquisition in consideration for cash.

b. The period for which the operations of the acquired company are included in the consolidated statements of income

From October 1, 2018 to March 31, 2019

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of yen	Thousands of U.S. dollars
Fair value of shares owned immediately prior to the acquisition on the date of business combination	**¥ 22**	**$ 198**
Consideration for additional acquisition (cash)	**875**	**7,883**
Acquisition cost	**¥898**	**$8,090**

d. Details and amount of major acquisition-related cost

Advisory fees and commissions: ¥31 million ($279 thousand)

e. Difference between acquisition cost of the acquired company and the total acquisition cost of individual transactions leading to the acquisition

Gain on step acquisitions: ¥12 million ($108 thousand)

f. The amount of gain on negative goodwill and the reason for its occurrence
(1) Amount of gain on negative goodwill
¥14 million ($126 thousand)
(2) Reasons for its occurrence
Gain on negative goodwill was recorded because the fair value of the net assets acquired at the time of the business combination exceeded the acquisition costs.

g. The amounts of assets acquired and the liabilities assumed at the date of business combination. There is no "breakdown."

	Millions of yen	Thousands of U.S. dollars
Total assets	**¥1,984**	**$17,875**
Total liabilities	**1,071**	**9,649**

h. Estimated effect on the consolidated statements of income assuming the business combination had been completed at the beginning of the consolidated fiscal year ended March 31, 2019

	Millions of yen	Thousands of U.S. dollars
Ordinary income	**¥185**	**$1,666**
Ordinary expenses	**160**	**1,441**
Ordinary profit	**25**	**225**
Net income attributable to owners of parent	**23**	**207**

26. 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 "Leasing."

From the year ended March 31, 2019, the name of the reportable segment "Banking and Securities" has been changed to "Banking." This change only concerns the segment name and there will be no effect on segment information.

(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, 2019 and 2018 is summarized as follows:

	Millions of yen						
	2019						
	Reportable segments						
	Banking	Leasing	Total	Other	Total	Adjustment	Consolidated
Ordinary income:							
Outside customers	**¥ 72,539**	**¥ 6,525**	**¥ 79,065**	**¥ 2,429**	**¥ 81,495**	**¥ 86**	**¥ 81,581**
Intersegment income	**1,048**	**857**	**1,905**	**2,093**	**3,998**	**(3,998)**	**—**
Total	**73,587**	**7,382**	**80,970**	**4,522**	**85,493**	**(3,911)**	**81,581**
Segment profit	**10,258**	**270**	**10,529**	**729**	**11,259**	**(535)**	**10,723**
Segment assets	**5,782,222**	**31,713**	**5,813,935**	**24,231**	**5,838,167**	**(39,296)**	**5,798,870**
Segment liabilities	**5,503,239**	**27,294**	**5,530,534**	**11,119**	**5,541,653**	**(32,635)**	**5,509,018**
Others:							
Depreciation	**3,238**	**128**	**3,366**	**125**	**3,492**	**89**	**3,582**
Interest income	**45,149**	**4**	**45,153**	**39**	**45,193**	**(512)**	**44,680**
Interest expense	**3,939**	**89**	**4,028**	**8**	**4,036**	**(106)**	**3,930**
Extraordinary gain	**4,806**	**—**	**4,806**	**—**	**4,806**	**27**	**4,833**
Extraordinary loss	**70**	**0**	**70**	**18**	**89**	**—**	**89**
Tax expense	**3,850**	**73**	**3,924**	**354**	**4,278**	**14**	**4,293**
Increase in tangible and intangible fixed assets	**3,884**	**135**	**4,019**	**230**	**4,250**	**(29)**	**4,220**

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, credit cards and securities.
3. Adjustments are as below:
(1) Adjustment of ordinary income for outside customers of ¥86 million is mainly the recovery of written-off claims included in “Others.”
(2) Adjustment of segment profit of negative ¥535 million is the elimination of intersegment transactions.
(3) Adjustment of segment assets of negative ¥39,296 million is the elimination of intersegment transactions.
(4) Adjustment of segment liabilities of negative ¥32,635 million is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.
(5) Adjustment of depreciation of ¥89 million is the elimination of intersegment transactions.
(6) Adjustment of interest income of negative ¥512 million is the elimination of intersegment transactions.
(7) Adjustment of interest expense of negative ¥106 million is the elimination of intersegment transactions.
(8) Adjustment of extraordinary gain of ¥27 million is due to a business combination by acquisition.
(9) Adjustment of tax expense of ¥14 million is the elimination of intersegment transactions.
(10) Adjustment of increase in tangible and intangible fixed assets of negative ¥29 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.

Millions of yen

	2018						
	Reportable segments						
	Banking	Leasing	Total	Other	Total	Adjustment	Consolidated
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	5,514,958	22,354	5,537,313	9,549	5,546,863	(22,598)	5,524,265
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.

	Thousands of U.S. dollars						
	2019						
	Reportable segments						
	Banking	Leasing	Total	Other	Total	Adjustment	Consolidated
Ordinary income:							
Outside customers	$ 653,563	$ 58,789	$ 712,361	$ 21,884	$ 734,255	$ 774	735,030
Intersegment income	9,442	7,721	17,163	18,857	36,021	(36,021)	—
Total	663,005	66,510	729,525	40,742	770,276	(35,237)	735,030
Segment profit	92,422	2,432	94,864	6,568	101,441	(4,820)	96,612
Segment assets	52,096,783	285,728	52,382,511	218,316	52,600,837	(354,049)	52,246,778
Segment liabilities	49,583,196	245,914	49,829,119	100,180	49,929,299	(294,035)	49,635,264
Others:							
Depreciation	29,173	1,153	30,327	1,126	31,462	801	32,273
Interest income	406,784	36	406,820	351	407,180	(4,613)	402,558
Interest expense	35,489	801	36,291	72	36,363	(955)	35,408
Extraordinary gain	43,301	—	43,301	—	43,301	243	43,544
Extraordinary loss	630	0	630	162	801	—	801
Tax expense	34,687	657	35,354	3,189	38,544	126	38,679
Increase in tangible and intangible fixed assets	34,994	1,216	36,210	2,072	38,291	(261)	38,021

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, credit cards and securities.
3. Adjustments are as below:
(1) Adjustment of ordinary income for outside customers of $774 thousand is mainly the recovery of written-off claims included in "Others."
(2) Adjustment of segment profit of negative $4,820 thousand is the elimination of intersegment transactions.
(3) Adjustment of segment assets of negative $354,049 thousand is the elimination of intersegment transactions.
(4) Adjustment of segment liabilities of negative $294,035 thousand is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.
(5) Adjustment of depreciation of $801 thousand is the elimination of intersegment transactions.
(6) Adjustment of interest income of negative $4,613 thousand is the elimination of intersegment transactions.
(7) Adjustment of interest expense of negative $955 thousand is the elimination of intersegment transactions.
(8) Adjustment of extraordinary gain of $243 thousand is due to a business combination by acquisition.
(9) Adjustment of tax expense of negative $126 thousand is the elimination of intersegment transactions.
(10) Adjustment of increase in tangible and intangible fixed assets of negative $261 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				
	2019				
	Lending	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers	¥30,582	¥30,096	¥6,525	¥14,376	¥81,581

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

	Thousands of U.S. dollars				
	2019				
	Lending	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers	$275,538	$271,159	$58,789	$129,525	$735,030

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, 2019 and 2018; therefore, no information about geographic areas is required to be disclosed.

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, 2019 and 2018; 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, 2019 or 2018. 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			
	2019			
	Reportable segments			
	Banking	Leasing	Other	Total
Impairment loss	**¥41**	**¥—**	**¥—**	**¥41**

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

	Thousands of U.S. dollars			
	2019			
	Reportable segments			
	Banking	Leasing	Other	Total
Impairment loss	**$369**	**$—**	**$—**	**$369**

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

(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 for the year ended March 31, 2018.

Information on gain on negative goodwill is omitted for the year ended March 31, 2019 as it is considered immaterial.

27. RELATED PARTY TRANSACTIONS

For the fiscal year ended March 31, 2019, related party transactions were as follows:

Relationship with the Bank	Name	Location	Paid-in capital (millions of yen)	Occupa-tion/ 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	— 0	— 0	Loans —	21 —	189 —
	Atsuto Hashimoto	—	—	Public officer	—	Eldest son of Masaaki Hashimoto (Corporate Auditor) Loans	Lending of money*2 Interest receivable	— 0	— 0	Loans —	17 —	153 —
	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer) Loans	Lending of money*2 Interest receivable	— 0	— 0	Loans —	25 —	225 —
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 —	36 —	324 —
	Kitamura Forestry Co., Ltd.*4	Osaka City Osaka	32	Forestry	Direct 1.28	Loans	Lending of money Interest receivable	200 2	1,801 18	Loans —	200 —	1,801 —

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) owned 62.5% of the voting rights of this company directly.
4. Matazaemon Kitamura (Director of the Bank) and his relatives owned 6% and 94% of the voting rights, respectively, of this company directly.

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)	Occupa-tion/ 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	Kohei Ueno	—	—	Office worker	—	Second son of Yasuo Ueno (Director & Chairman of the Bank) Loans	Lending of money*2 Interest receivable	23 0	Loans —	22 —
	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 —	26 —
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 —	66 —
	Kitamura Forestry Co., Ltd. *4	Osaka City Osaka	32	Forestry	Direct 1.28	Loans	Lending of money Interest receivable	200 2	Loans —	200 —
	Murashima Glass Shoji Co., Ltd. *5	Yamato-Takada City Nara	36	Wholesale of sheet glass	—	Loans	Lending of money*2 Interest receivable	90 0	Loans —	90 —

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) owned 62.5% of the voting rights of this company directly.
4. Matazaemon Kitamura (Director of the Bank) and his relatives owned 6% and 94% of the voting rights, respectively, of this company directly.
5. Relatives of Kozo Togawa (Executive Officer of the Bank) owned 91.8% of the voting rights of this company directly.

28. PER SHARE INFORMATION

Net assets per share at March 31, 2019 and 2018 and net income per share for the fiscal years then ended were as follows:

	Yen		U.S. dollars
	2019	2018	**2019**
Net assets per share	**¥8,888.16**	¥8,715.46	**$80.08**
Net income per share – basic	**342.79**	418.05	**3.08**
Net income per share – diluted	**342.47**	417.63	**3.08**

Note: As described in "Changes in Accounting Policies," the Bank adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the year ended March 31, 2019 and changed the treatments of deductible temporary differences related to the shares of subsidiaries.
This accounting standard was applied retroactively and the resulting amounts after the retroactive application for the year ended March 31, 2018 are presented.

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
(Net assets per share)			
Net assets	**¥289,852**	¥284,139	**$2,611,514**
Amounts to be deducted from net assets:	**98**	113	**882**
Stock acquisition rights	**(98)**	(113)	**(882)**
Net assets attributed to common stock	**289,753**	284,025	**2,610,622**
Outstanding number of shares of common stock at end of year (unit: thousands of shares)	**32,599**	32,592	**—**
(Basic and diluted net income per share)			
Net income attributable to owners of parent	**¥ 11,174**	¥ 13,160	**$ 100,675**
Net income attributable to common stockholders of parent	**11,174**	13,160	**100,675**
Average outstanding number of shares during the year (unit: thousands of shares)	**32,598**	31,480	**—**
Adjustment to net income attributable to owners of parent	**—**	—	**—**
Increase in number of shares of common stock: (unit: thousands of shares)	**29**	31	**—**
Stock acquisition rights (unit: thousands of shares)	**(29)**	(31)	**—**
Convertible securities not diluting net income per share	**—**	—	**—**

29. SUBSEQUENT EVENTS

Company split

At the Board of Directors' meeting held on June 17, 2019, the Bank resolved to transfer a part of its subsidiary management operations (hereinafter referred to as the "Business") to Nanto Estate Co., Ltd. ("Nanto Estate"), a wholly owned subsidiary of the Bank, by means of an absorption-type company split (hereinafter referred to as the "Split") in order to transition to an interim holding company structure effective September 2, 2019, subject to the approval from the relevant authorities. On June 17, 2019, the Bank concluded the absorption-type split agreement with Nanto Estate and on September 2, 2019, the Bank transferred the "Business."

a. Purpose of the company split

While the Bank has been offering comprehensive financial services as a group that includes its subsidiaries, it has decided to implement the Split to realize efficient operations by centralizing management guidance operations such as the support for formulating the business plans and common operations of its subsidiaries (shared services) in the interim holding company. Through the Split, the Bank will further increase the efficiency of the financial services provided by the whole Group and further contribute to development of the local community and economy.

b. Outline of the Split

(1) Schedule of the Split

Resolution of the Board of Directors to approve the absorption-type split:	June 17, 2019
Conclusion of the absorption-type split agreement:	June 17, 2019
Extraordinary shareholders' meeting of Nanto Estate to approve the absorption-type split agreement:	June 17, 2019
Effective date of the Split:	September 2, 2019

Note: As the Split falls under a simplified company split provided Article 784, Paragraph 2 of the Companies Act, the Bank, as a splitting company, didn't convene a stockholders' meeting to approve the absorption-type split agreement.

(2) Method of the Split

The Split was implemented in the form of an absorption-type split in which the Bank became the splitting company and Nanto Estate became the successor company.

(3) Allocation of shares associated with the Split

The Bank was allocated one share of common stock to be newly issued by Nanto Estate upon the Split in consideration for the Split.

(4) Handling of stock acquisition rights and bonds with stock acquisition rights following the Split

Not applicable

(5) Paid-in capital to be increased or decreased following the Split

There was no change in paid-in capital of the Bank.

(6) The rights and obligations to be assumed by the successor company

As a result of the Split, Nanto Estate assumed all the shares of the subsidiaries (Nanto Lease Co., Ltd., Nanto DC Card Co., Ltd., Nanto Card Service Co., Ltd., Nanto Investment Management Co., Ltd., Nanto Credit Guarantee Co., Ltd., Nanto Computer Service Co., Ltd., Nanto Challenged Co., Ltd., Nanto Consulting Co., Ltd. (the trade name was changed from Nanto Staff Service Co., Ltd. on July 1, 2019) and Nanto Mahoroba Securities Co., Ltd.) held by the Bank on the effective date.

(7) Prospects of fulfillment of obligations

The Bank has determined that there are no problems regarding the fulfillment of obligations born by the Bank and Nanto Estate that become due on or after the effective date.

c. Outline of the parties related to the Split (as of March 31, 2019)

	Splitting company	Successor company
(1) Trade name	The Nanto Bank, Ltd.	Nanto Estate Co., Ltd. (*)
(2) Head office address	16, Hashimoto-cho, Nara City, Nara	16, Hashimoto-cho, Nara City, Nara
(3) Representative	President Takashi Hashimoto	Representative Director Kozo Togawa
(4) Business	Banking	Leasing and management of real estate
(5) Paid-in capital	¥37,924.15 million ($341,689 thousand)	¥30 million ($270 thousand)
(6) Date of incorporation	June 1, 1934	November 8, 1969
(7) Issued shares	33,025 thousand shares	60 thousand shares
(8) Fiscal year-end	March 31	March 31
(9) Major stockholders and stockholding ratio	Japan Trustee Services Bank, Ltd. (Trust account) 3.66% Japan Trustee Services Bank, Ltd. (Trust account 9) 3.24% Nippon Life Insurance Company 3.23% Meiji Yasuda Life Insurance Company 3.19% The Master Trust Bank of Japan, Ltd. 3.16%	The Nanto Bank, Ltd. 100%

(*) Nanto Estate Co., Ltd. changed its trade name to Nanto Management Service Co. Ltd. on September 2, 2019.

(10) Financial conditions and operating results for the most recent fiscal year

	The Nanto Bank, Ltd. (Consolidated)	
	Millions of yen (thousands of U.S. dollars), except per share amounts (yen (U.S. dollars))	
Consolidated total assets	¥5,798,870	$52,246,778
Consolidated net assets	289,852	2,611,514
Net assets per share	8,888.16	80.08
Consolidated ordinary income	81,581	735,030
Consolidated ordinary profit	10,723	96,612
Net income attributable to owners of parent	11,174	100,675
Net income per share	342.79	3.08

	Nanto Estate Co., Ltd. (Nonconsolidated)	
	Millions of yen (thousands of U.S. dollars), except per share amounts (yen (U.S. dollars))	
Total assets	¥2,027	$18,262
Net assets	1,560	14,055
Net assets per share	26,009.36	234.33
Sales	450	4,054
Operating profit	56	504
Net income	36	324
Net income per share	604.52	5.44

d. Outline of the business section subject to the Split

(1) Outline of the section

Management of operations of the Bank's subsidiaries

(Note) The Bank's subsidiaries represent Nanto Lease Co., Ltd., Nanto DC Card Co., Ltd., Nanto Card Service Co., Ltd., Nanto Investment Management Co., Ltd., Nanto Credit Guarantee Co., Ltd., Nanto Computer Service Co., Ltd., Nanto Challenged Co., Ltd., Nanto Consulting Co., Ltd. (the trade name was changed from Nanto Staff Service Co., Ltd. on July 1, 2019) and Nanto Mahoroba Securities Co., Ltd.

(2) Operating results of the section

It is not applicable because the section is not engaged in operating activities in the Business.

(3) Items and amounts of the assets and liabilities subject to the Split as of September 2, 2019

Securities: ¥5,442 million ($49,031 thousand)

e. Status after the Split

Regarding the Bank, which is the splitting company, there are no changes in the trade name, head office address, the representative's position and name, business, paid-in capital or fiscal year-end due to the Split.

Regarding Nanto Estate, which is the successor company, the trade name, head office address, the representative's position and name, business and paid-in capital were changed after the Split on September 2, 2019 as follows: However, the fiscal year-end wasn't changed due to the Split.

Item	Successor Company
(1) Trade name	Nanto Management Service Co., Ltd.
(2) Head office address	297-2, Ohmiya 4 chome, Nara City, Nara
(3) Representative's position and name	Representative Director and President Hiroki Matsuoka (former Representative Director and President of Nanto Lease Co., Ltd.)
(4) Business	Management business of subsidiaries, leasing and management of real estate, outsourcing business, fee-charging employment agency services
(5) Paid-in capital	¥40 million ($360 thousand)

f. Future outlook

The effects of the Split on the Bank's operating results will be immaterial.

30. BORROWED MONEY AND LEASE OBLIGATIONS

a. The details of borrowed money as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Borrowed money Due from April 2019 through May 2025 Average interest rate: 0.43% p.a.	**¥210,648**	¥208,368	**$1,897,900**

Annual maturities of borrowed money as of March 31, 2019 were as follows:

	Millions of yen	Thousands of U.S. dollars
2020	**¥ 35,610**	**$ 320,839**
2021	**77,313**	**696,576**
2022	**1,613**	**14,532**
2023	**95,848**	**863,573**
2024	**225**	**2,027**
2025 and thereafter	**37**	**333**
Total	**¥210,648**	**$1,897,900**

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, 2019 were as follows:

	Millions of yen	Thousands of U.S. dollars
2020	**¥0**	**$0**
2021 and thereafter	**0**	**0**
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 Auditors' Report

KPMG

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, 2019 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Nanto Bank, Ltd. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

September 18, 2019
Osaka, Japan

Capital Management

Consolidated Capital Adequacy Ratio

As of March 31, 2019 and 2018

Millions of yen

	2019	2018
(1) Capital adequacy ratio ((2)/(3))	**9.75%**	9.88%
(2) Capital	**¥ 255,264**	¥ 245,518
(3) Risk-weighted assets	**2,616,951**	2,482,634
(4) Requisite capital	**104,678**	99,305

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, 2019 and 2018

Millions of yen

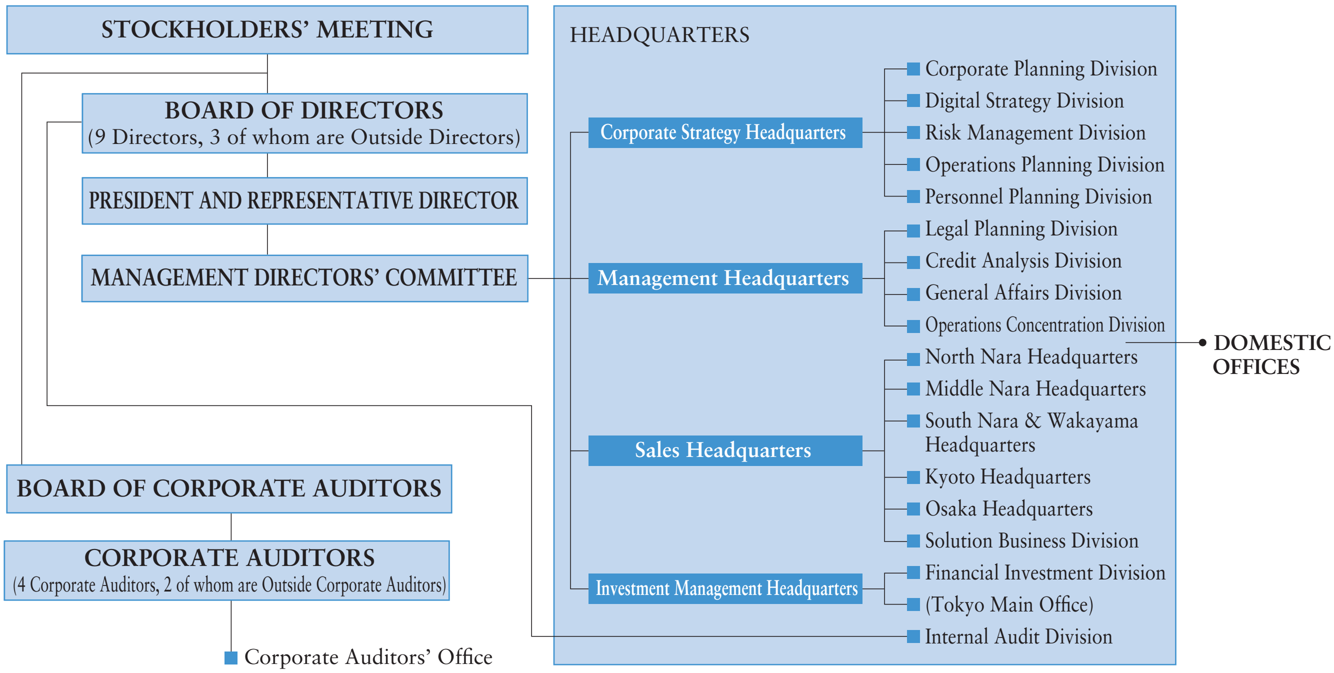
	2019	2018
(1) Capital adequacy ratio ((2)/(3))	**9.40%**	9.64%
(2) Capital	**¥ 243,955**	¥ 236,698
(3) Risk-weighted assets	**2,592,780**	2,454,173
(4) Requisite capital	**103,711**	98,166

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, 2019)

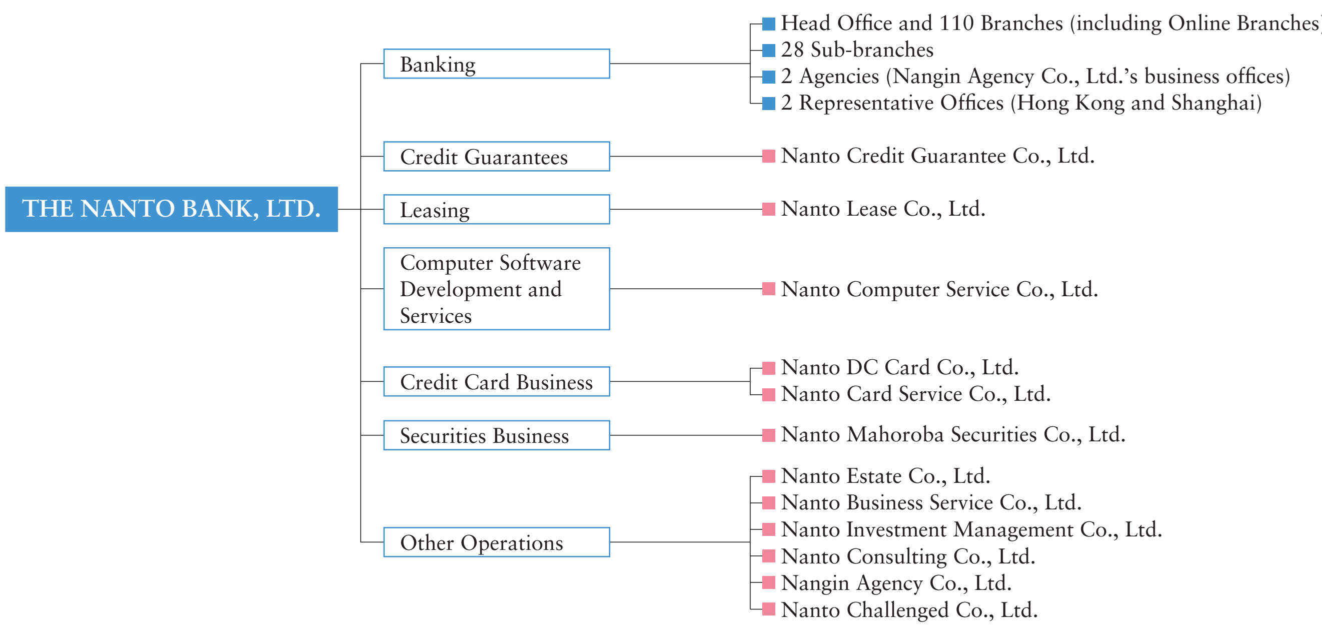
ORGANIZATION



NANTO BANK GROUP

(As of July 1, 2019)

The Nanto Group, which consists of the Nanto Bank and its12 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, 2019)

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 Service Co., Ltd.	61-7, Higashi-Ikoma 1-chome, Ikoma City, Nara, Japan	December 10, 1990	50	100	—	Credit card business
Nanto Consulting Co., Ltd. *2	16, Hashimoto-cho Nara City, Nara, Japan	March 18, 1991	45	100	—	Dispatch of temporary staff. Began consulting business-matching on July 1.
Nangin Agency Co., Ltd.	93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	October 6, 2009	50	100	—	Bank agency services
Nanto Challenged Co., Ltd.	93-2 Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	August 24, 2018	20	100	—	Centrailzed processing of clerical operations for the Bank (special subsidiary for the employment of people with disabilities)
Nanto Mahoroba Securities Co., Ltd.	1-56, Saidaiji-Higashi-machi 2-chome, Nara City, Nara, Japan	November 25, 1944	3,000	100	—	Securities Business

*1: Changed its trade name to Nanto Management Service Co., Ltd. As of September 2, 2019.
*2: Changed its trade name and location as of July 1, 2019. [As of March 31, 2019] Former Trade Name: Nanto Staff Service Co. Ltd. Former Location: 103-1, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan

HEAD OFFICE

16, Hashimoto-cho
Nara City, Nara 630-8677, Japan
Phone: (0742) 22-1131
URL: http://www.nantobank.co.jp/

HONG KONG REPRESENTATIVE OFFICE

Room 1203B, 12TH Floor,
Allied Kajima Building,
No.138 Gloucester Road, Wanchai,
Hong Kong
Phone: 852-2868-9932

SHANGHAI REPRESENTATIVE OFFICE

16F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road,
Pudong New Area, Shanghai, China
Phone: 86-21-6841-2771

CORPORATE DATA (As of March 31, 2019)

Authorized shares:	64,000,000
Outstanding shares:	33,025 thousand
Stated capital:	37,924 million
Number of stockholders:	13,027
Date of incorporation:	June 1934
Domestic network:	141 offices
Overseas network:	2 representative offices
Number of employees:	2,551
Ordinary stockholders' meeting:	June 27, 2019
Stock listings:	Tokyo Stock Exchange

MAJOR STOCKHOLDERS (As of March 31, 2019)

	Number of shares (thousands)	Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	1,195	3.66
Japan Trustee Services Bank, Ltd (trust account 9)	1,058	3.24
Nippon Life Insurance Co.	1,053	3.23
Meiji Yasuda Life Insurance Co.	1,043	3.19
The Master Trust Bank of Japan, Ltd. (trust account)	1,031	3.16
The Nanto Bank Employees' Stockholders Association	811	2.48
Sumitomo Life Insurance Co.	662	2.03
GOVERNMENT OF NORWAY	637	1.95
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	508	1.55
JP MORGAN CHASE BANK 385151	486	1.49
Total	8,486	26.03

THE NANTO BANK, LTD.
16, Hashimoto-cho, Nara City, Nara 630-8677, Japan
Phone: (0742)22-1131