



Nanto Report

Year ended March 2020

CONTENTS

Preface

On the Occasion of Issuing This 1st Integrated *Nanto Report*



In our desire to deepen our stakeholders' understanding of the Nanto Bank Group's business strategies and the future it envisions, we have issued this new publication, the *Nanto Report*, which replaces our previous disclosure magazine.

In today's severe business environment with its decreasing working-age population and rapid technological progress, the meaning of the Nanto Bank Group's existence is being asked.

We consider it one of our important responsibilities to our stakeholders to explore this new reality and specify our vision for the Bank's future, which is based on our Group's strengths and approaches to solving social issues, and the path we have determined to realize it.

We also intend to use this report as an important tool for communication between our employees and executives, in whom the Nanto Bank Group's value is rooted.

July 2020

President
(Representative Director)

籙本隆史

Vice President (Representative Director)
Satoshi Ishida

Senior Managing Executive Officer
(Representative Director)

Keizo Nishikawa

Director and Managing Executive Officer
Kazuomi Nakamuro

Director and Managing Executive Officer
Kazuya Yokotani

Director and Managing Executive Officer
Business Promotion Headquarters

Satoru Wada

Director
Matzaemon Kitamura

Director
Hidetaka Matsuzaka

Director
Shuhei Aoki

Auditor (full-time)
Naoki Minowa

Auditor (full-time)
Takao Handa

Auditor
Takatoshi Kurahashi
Auditor
Motoi Mitsuishi

2 What is Nanto Bank?



2 Nanto Bank Introduction

4 Our Goals



4 Message from the President

8 Value Creation Process

Editorial policy

Conceived to deepen understanding of the strategies employed by the Nanto Bank Group to create sustainable value for the medium-to-long term, this integrated report has been edited with reference to the "International Integrated Reporting Framework" established by the International Integrated Reporting Council (IIRC).

This year's report provides brief explanations, centered on non-financial concerns, of the management issues and concrete countermeasures laid out in our new Management Plan, "Nanto Mission and Objectives for the Next 10 Years," announced in December 2019.

To compile the report, public relations personnel conducted interviews as representatives of our stakeholders concerning the factors influencing the Nanto Bank Group's operations, risks and opportunities, and its approaches to creating value for stakeholders.

Please note that this report contains concise summaries of information of particular importance to value creation by the Nanto Bank Group. For detailed financial information, please refer to the publication *2020 DISCLOSURE Nanto Bank Report*.

10 Business Environment



- 10 Challenges Facing Nara Prefecture
- 14 A Prefecture Where People Gather (Come, Work and Live)

16 Business Strategies



- 16 Implementing the Nanto Method
- 18 Cost and Resources Optimization

20 Business Execution



- 20 IT Strategy
- 22 Human Resources Strategy
- 26 “Advancing Toward Our Goals”: The Nanto Bank Group’s Diverse Human Resources + Nanto Bank in Numbers

28 Supporting Functions



- 28 Risk Management
- 30 Corporate Governance
- 32 Executive Officers

34 Corporate Data



- 34 Corporate Data
- 35 Stock Information

36 Consolidated Financial Statements

- 36 Consolidated Financial Statements
- 72 Independent Auditors’ Report
- 73 Capital Management

Navigating the *Nanto Report*

Icons representing the eight content categories advocated by the International Integrated Reporting Framework established by the International Integrated Reporting Council (IIRC) guide the reader’s way to deeper insight into the Nanto Bank Group.

-  **Organizational overview and external environment**
A look at the operating environment
-  **Governance**
How does the governance structure ensure short-, medium- and long-term value creation?
-  **Business model**
What is the business model, and how resilient is it?
-  **Risks and opportunities**
The real risks and opportunities affecting our ability to create value in the short, medium and long term, and ways of dealing with them.
-  **Strategies and resources allocation**
What are our goals, and how do we plan to reach them?
-  **Performance**
To what extent have the Bank’s strategic objectives been achieved, and what is their effect on capital?
-  **Outlook**
Challenges and uncertainties for executing strategies, and their impact on the business model and future performance
-  **Basis for creation and presentation**
How were the contents of the Report quantified and evaluated, and how were they selected?

Range of coverage

The Report presents key information about the Nanto Bank Group’s management strategies, business model, business conditions, stakeholders, primary risks and opportunities, performance and outlook, and governance.

Period of coverage

April 1, 2019 ~ March 31, 2020

Date issued

July 2020

Precautions concerning future predictions

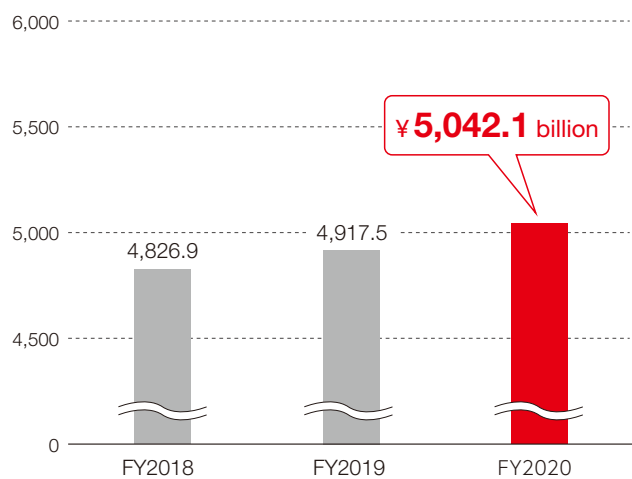
This report contains forecasts and statements concerning the future prospects for the Nanto Bank Group’s business strategies and financial condition. These forecasts and statements involve risks and uncertainties stemming from their dependence on future events. Please be aware that the actual results may differ materially from those foreseen by the Nanto Bank Group.

Introducing Nanto Bank



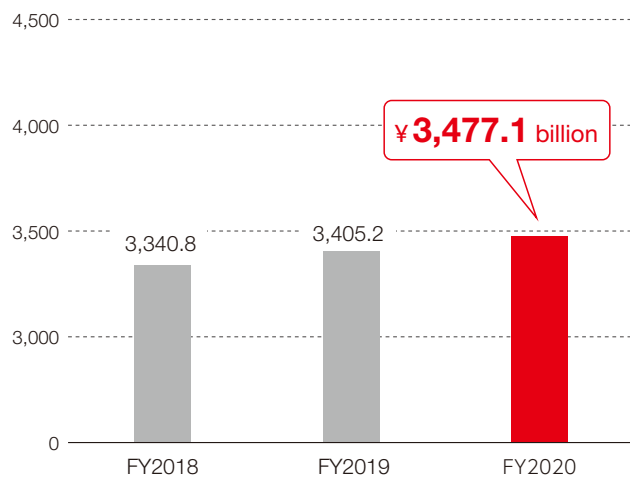
Deposits

(Unit: ¥100 million)



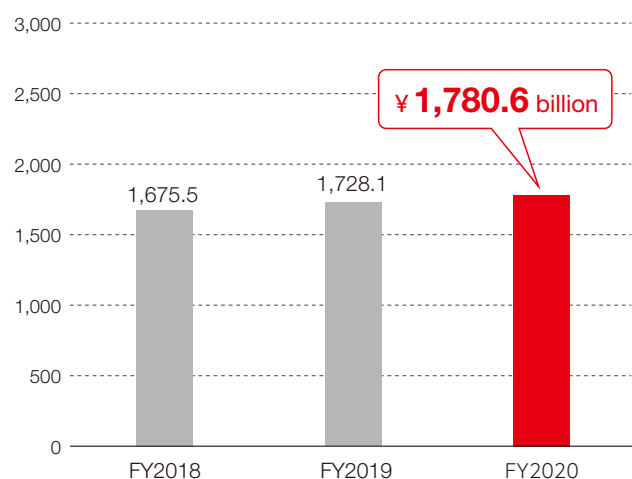
Loans

(Unit: ¥100 million)



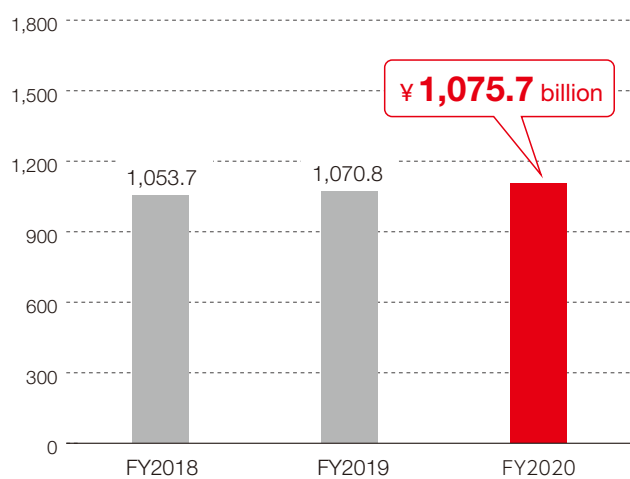
Business loans

(Unit: ¥100 million)



Personal loans

(Unit: ¥100 million)



(Enter the balance at the end of each period)

Nanto Bank Profile (as of March 31, 2020)

Established: June 1, 1934
Headquarters: 16 Hashimoto-cho, Nara, Japan
Capitalization: ¥37,924.15 million
Homepage: <https://www.nantobank.co.jp/>

June 1, 1934

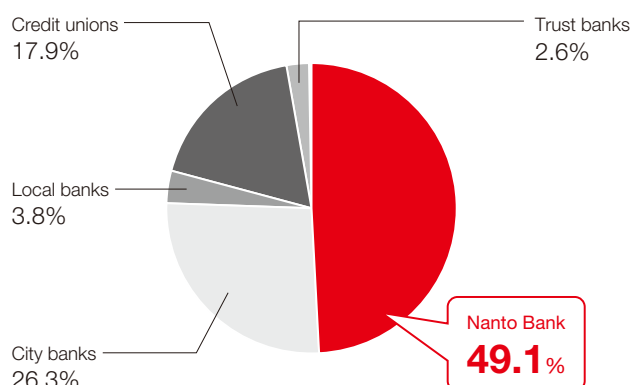
Nanto Bank Co., Ltd. was established through a merger of Sixty-eight Bank Co., Ltd., Yoshino Bank, Ltd., Yagi Bank, Ltd., and Gosho Bank, Ltd.

Today, Nanto Bank offers comprehensive financial services including leasing, trust banking, securities and consulting as the Nanto Bank Group and conducts the banking business (deposits, loans, exchange, etc.), with Nara Prefecture and the surrounding region as its primary base of operations.

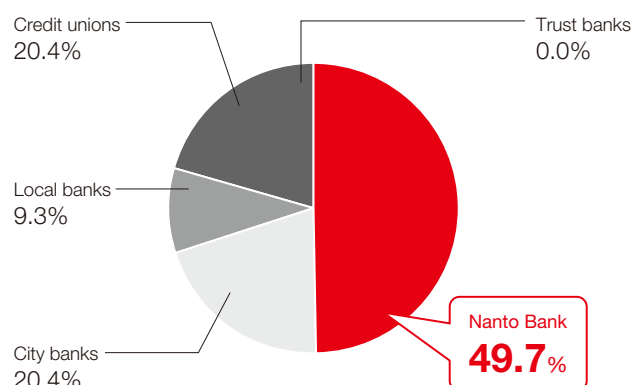
As of end March 2020, the Bank's deposits amounted to ¥5 trillion, a sum that positions it in 20th place among Japan's 64 regional banks. Its share of deposits and loans in Nara Prefecture is nearly 50%.

Shares held in Nara prefecture

Deposits

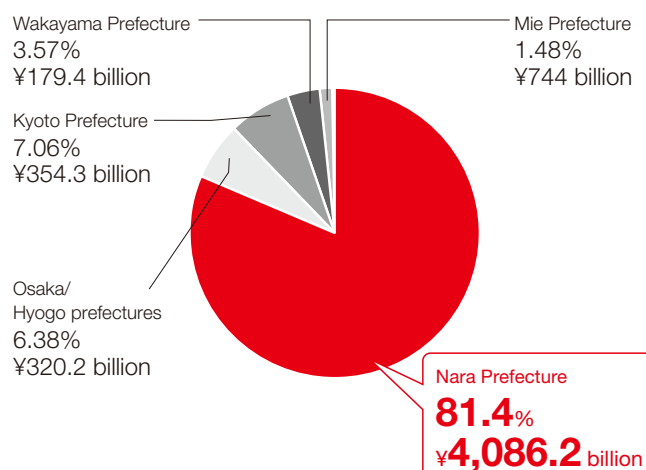


Loans

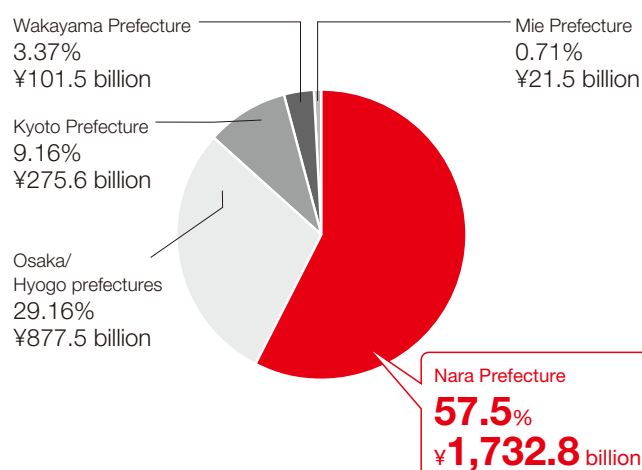


(As of end March 2020: Covering Banks/prefectural credit unions <excluding Japan Post Bank, agricultural cooperatives, etc.>)

Regional* deposit balance and ratio by prefecture



Regional* loan balance and ratio by prefecture



*Definition of the Nanto Bank region

The Nanto Bank has expanded its base of operations to include six prefectures, Nara, Osaka, Hyogo, Kyoto, Wakayama, and Mie prefectures, as its local business region. References to our region are to this region, to whose people and economy we have been providing close, active support for many years.

Seeking to become the leader in regional revitalization



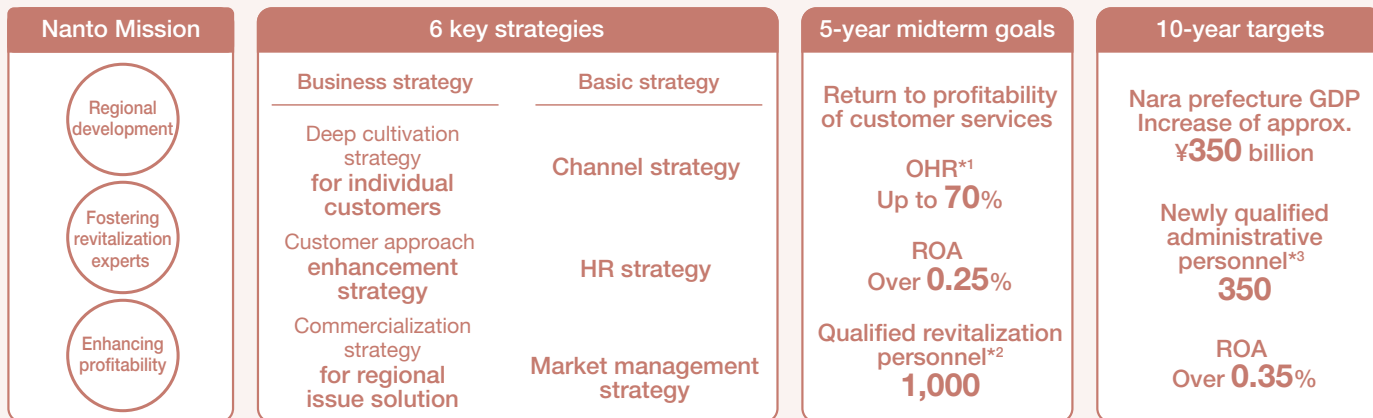
President (Representative Director)
Takashi Hashimoto

Currently, financial institutions are required to rethink their business models to realize sustainable management in today's rapidly changing operating environment. We, Nanto Bank retains its appeal as a trusted institution that has earned community respect through its dedication to regional development. A creator of revitalization strategies, it continues to play an indispensable role in the development of its home region.

In December 2019, the Nanto Bank Group introduced "Nanto Mission and Objectives for the Next 10 Years," a new Long-term Management Plan aimed at forwarding regional development through adept implementation of sophisticated financial intermediation and consulting functions.

The purpose of this integrated report is to share our goals and show our determination to achieve them with our shareholders, customers and other stakeholders.

■ "Nanto Mission and Objectives for the Next 10 Years"



*1 Ratio of expenses to profit after deducting gains and losses on government and other bonds from the total profit from the following: Profit from interest on deposits, loans and securities (net income); profit from fees and commissions (service transaction income); and other business profit (balance of income from other businesses)

*2 Applied information engineering, SME diagnostics, real estate brokerage, FPI grade 1, bookkeeping grade 2, other equivalent or higher certification

*3 Human resources application information facilitating management decisions with regional customers

Nanto Mission Future objectives

Background to the “Nanto Mission and Objectives for the Next 10 Years” Management Plan

Since implementing the “Revitalization Plan,” our 10-year Management Plan, in 2014, we have worked to strengthen our operations and reduce personnel expenses and equipment costs. We found it difficult to generate stable profits solely with a business model centered on deposits and loans, however, while operating in an environment characterized by the introduction of negative interest rates and the successive entry into the financial industry of companies from other sectors.

Development of our regional economy is essential to sustaining and improving Nanto Bank’s profitability. There can be no development of Nanto Bank without development of Nara prefecture, our base of operations. We will ensure that Nanto Bank takes the initiative in solving regional economic issues and contributing to regional development in an effort to improve Nara prefecture’s GDP.

Determined to realize sustainable management, we formulated a new Long-term Management Plan, “The Nanto Mission and Objectives for the Next 10 Years,” in December 2019 on the basis of our traditional “Vitality Creation Bank” Management Vision. The Plan identifies the Nanto Mission as comprising three strategies: Regional Development, Cultivation of Human Resources for Revitalization and Enhanced Profitability.

Future image

The Nanto Bank Group aims to become the leading group in regional revitalization efforts within 10 years. As such, we will dedicate ourselves to eliminating and resolving the anxieties and concerns of our regional customers as if they were our own personal issues.

Not just asserting to be the leader in regional revitalization, we have set our concrete target to increase Nara prefecture’s GDP by 10% over the coming decade.

Achieving this target will not be easy. The prefecture’s GDP has decreased by 3.5% over the past 10 years as the local economy has shrunk due to such factors as a decreasing working-age population and a sluggish tourism business. We have exhibited powerful determination, however, by adopting the development of Nara prefecture as our mission as a regional bank.

We believe that this will lead to proactive solution of the challenges facing the creation of a sustainable regional society. It will also contribute to realization of the SDGs.

Need for “Non-consecutive” management approaches

President’s crisis awareness

The ongoing evolution of digital technologies and other dramatic changes in our business environment have convinced me, as I mentioned earlier, that we cannot meet our customers’ future needs if we adhere to conventional banking practices alone.

Besides the entrance of companies into different industrial sectors, the emergence in the business world of a young generation who grew up in an environment of smartphones and tablets and for whom Internet use comes naturally has greatly expanded customers’ options when choosing financial services.

We have sought to improve our ability to adapt to these changes in our business environment and to provide services that meet our customers’ needs. Looking ahead to the Nanto Bank a decade from now, however, I realized anew that it is not improvements based on precedent that we require, but rather the abandonment of precedents and established concepts accompanied by the adoption of innovative reforms through what I call “non-consecutive” thinking.

Reflections on the following of precedents

○Inviting external personnel to the management team

In the past, Nanto Bank executives have been appointed from among its regular personnel on the basis of seniority or meritorious performance. Relying on the perspectives of regular personnel alone, however, makes it difficult to respond to changes in today’s fast-changing business environment and to accelerate reforms. With this in mind, we have recently invited Satoshi Ishida of the Industrial Revitalization Corporation of Japan and the Japanese Financial Services Agency to join us as an outside human resource in the position of Vice President, where he has already demonstrated impressive capabilities.

During the year or so since his arrival, we have seen gradual changes, as the Bank’s officers and employees, including its executive officers, have come to recognize the need to avoid entrapment in Nanto Bank’s precedents and conventional thinking. We have also invited outside personnel to join our Group companies Nanto Consulting and Nanto Mahoroba Securities for the first time. Even if this results in a “halo effect,” I consider it essential that innovations of this type occur.

○Branch network reorganization

Nanto Bank has traditionally assumed that a large number of customers would come to its branch offices, and that enhancement of the branch network would exert the greatest possible impact on performance.

Today, however, the number of customers visiting the

Message from the President

Seeking to become the leader in regional revitalization

branches has dropped off significantly. Considering the resulting reduced need for service counters and personnel to serve as bank tellers, we have restructured our 30-branch office network.

This branch office network reorganization was unprecedented in terms of both scale and speed, requiring just three months, but it was conducted in response to our crisis awareness, which convinced us that Nanto Bank's future is inconceivable unless we can respond quickly to changes in customer needs.

At the same time, we not only sent DMs to all the customers of the branches subject to reorganization, but we also established contact points for inquiries at Headquarters to facilitate our ability to respond as promptly and politely as possible to customer inquiries to avoid inconveniencing them.

Measures such as deploying mobile ATM vehicles in mountainous areas and forming a tie-up with Japan Post Co., Ltd. enabled us to obtain maximum understanding and cooperation from our customers and other stakeholders, moreover, and to complete the reorganization with no serious problems.

○Alliance with Japan Post

We gave careful consideration to measures for maximizing customer convenience during the branch office reorganization. One of these was establishment of shared service counters in collaboration with Japan Post. In this first initiative of its kind in the industry, we set up shared counters and Nanto Bank ATMs in post offices in areas which lacked Nanto Bank branches to enable customers to make name and address changes, update their passbooks and conduct other such normal banking procedures. This has enabled these post offices to conduct the same procedures as Nanto Bank service counters.

No such collaboration with competing post offices would have been conceivable if we had stuck to our conventional business practices.

Value to be preserved through “non-consecutive” management

○Customers

Despite our belief in the importance of “non-consecutiveness,” we realize that regional banks are founded on relationships of trust formed with our customers from the past, and we continue to serve our customers with the “customer first” spirit they associate with Nanto Bank.

In the face of the ongoing coronavirus pandemic, Nanto Bank, as an indispensable social infrastructure, is cooperating with local governments' efforts to prevent serious impacts on customers' cash flows.

In addition to employing various loan instruments to meet customers' financial needs, we have also responded swiftly

and flexibly to changing conditions with respect to individual customers' situations by such means as deferring repayment of the principal and interest on existing debt.

Our interactions with large numbers of customers in providing this cash flow support has deepened our understanding of their concerns, which has led in turn to renewed awareness of our responsibilities as a provider of financial services.

○Employees

Nanto Bank recognizes its employees as invaluable assets. Even during the coronavirus crisis, they have been playing a leading role in providing financial services, motivated by a strong will to respond to customer inquiries speedily and appropriately.

I want to see Nanto Bank employees develop into “Omoshiroi” (unique) human resources. To this end, our Management Plan includes creating interesting human resources among its goals. Such human resources Nanto Bank envisions are people with whom customers choose to work because they consider them unique. I am convinced that nurturing increasing numbers of such human resources will increase the value of the Nanto Bank Group.

In the past, we supported our customers by working as something like stagehands, but going forward, our employees will uncover issues our customers have not noticed, and take the initiative to resolve them. I want to see them take a place of honor on the front lines and provide our customers with guidance.

Working at Nanto Bank equips employees with skills and know-how they can use in corporate management and regional development, thus preparing them to play active roles in every aspect of regional life. It is precisely this kind of corporate culture, overflowing with dreams and pride, that we seek to create.

Steps toward achieving goals set 10 years in advance

An Action Plan for approaching goals

The new Action Plan introduced on May 29 this year includes a variety of ideas Nanto Bank has never considered before. It presents an image of the Bank as it will appear 10 years in the future, and of the actions required to achieve it.

Our business operations will not be directed merely toward producing large volumes of numbers, but will be aimed instead at developing new profit sources by actually developing close relations with customers and generating a problem-solving style. We will also undertake a radical review of our branch office and Headquarters operations aimed at achieving an overwhelming improvement in productivity.

In order to realize a “restoration of profitability of customer services” within 5 years, the Action Plan calls for establishing the “Nanto Method” to increase income as well as for reducing expenditures by optimizing costs and resources through such means as branch network reorganization and office work reform.

The Nanto Method is a system/structure for securing revenue by establishing close relationships with customers and solving their long-term challenges systematically and continuously. Customers’ long-term challenges include market shrinkage due to such structural social problems as the decreasing working-age population, the aging of corporate owners, and anxieties concerning living expenses in retirement. Nanto Bank’s solutions focus on three factors: Productivity Enhancement, Business Succession and Asset Formation.

At the same time, motivated by the coronavirus pandemic, we will move to construct a management base that can respond promptly and flexibly to all kinds of risks and regulations by enhancing our risk management and compliance systems.

We are discussing how the ways in which social and financial services will be like in the coming five or ten years. I had believed this to be a question for the future, but we now realize the changes will come sooner than expected.

It has been reported, for example, that remote work, formerly considered difficult, has been normalized under the influence of the pandemic, and that the penetration rate of cashless payments has increased. The evolution of digital technologies and changes in our values are creating major differences that extend into the very core of our lives, including the places where we live and work. Under these circumstances, it seems self-evident that we should elaborate a vision unbounded by the conventional banking framework.

Vision extending beyond the banking sector

From another perspective, the banking industry can be seen to be a platform business that earns money by permitting customers to use the highly reliable financial infrastructure it has accumulated over many years.

Having constructed a banking service system over the years, Nanto Bank would now like to create a regional platform that can provide the value required by customers and local governments who share a desire to develop our region.

Among the innovations we can expect to emerge from the pandemic is an accelerating flow of people from centralized Tokyo to rural areas, and a resulting enhancement of Nara’s reputation. Located in the vicinity of Osaka and Kyoto, Nara has a well-maintained infrastructure, relative freedom from disasters, and a rich cultural and historical heritage. I would like to take advantage of this high potential for residence and tourism, and



create a mechanism for regional development through factors such as increases in population, tourism and business activity under the leadership of Nanto Bank.

To this end, besides pursuing human resources development, we must employ today’s quickly evolving digital technologies to promote a digital transformation capable of providing services that fulfill our customers’ needs. We are also contemplating construction of IT architecture designed to benefit both our customers and the Bank itself by considering the ideals of our region as a basis for formulating a roadmap for overall optimization, rather than starting with the most suitable attributes from the Bank’s perspective.

Also in connection with regional development, I want to pursue efforts outside the conventional bank parameters by seeking the cooperation of various industries and starting businesses on our own. This will require our employees at all levels to break out of their shells, think for themselves, and act on their own initiative.

To our stakeholders

This integrated report was created to share the Nanto Bank Group’s commitment to its newly announced Management Plan with all our stakeholders. In it, we reiterate a story of value creation in which supporting our local communities and customers and helping them solve their problems will eventually lead to growth of our Group.

In closing, I wish to express our gratitude for your continued understanding and support for the Nanto Bank Group.





Management capital

Customer base

- Information-gathering strengths achieved through relationships with customers
- Affording trust and peace of mind earned through many years of providing financial services (Approximately 50% share of transactions in Nara prefecture)

Human resources

- Human resources who respond proactively to change, think and act independently
- “Omoshiroi” (unique) human resources who contribute to regional growth and Nanto Bank’s profitability

Business activities

Nanto Mission

Regional development	Cultivation of who create vitality human resources
<p>[Business strategy] P.10 - P.17</p> <ul style="list-style-type: none"> ● Commercialization strategy Initiatives for regional issue solution ○ Tourism ○ Business creation ● Deep cultivation strategy/ Sophistication strategy Nanto Method formulation ○ Productivity enhancement ○ Business succession ○ Asset formation 	
<p>◆ Channel strategy P.18 - P.21 Cost and resources optimization ○ Branch network reorganization ○ Office work reform ○ IT optimization</p>	

Governance P.28 - P.33

*1 Ratio of expenses to profit after deducting gains and losses on government and other bonds from the total profit from the following: Profit from interest on deposits, loans and securities (net income); profit from fees and commissions (service transaction income); and other business profit (balance of income from other businesses)
 *2 Applied information engineering, SME diagnostics, real estate brokerage, FPI grade 1, bookkeeping grade 2, other equivalent or higher certification
 *3 Human resources application information facilitating management decisions with regional customers

Values we provide to stakeholders as a “vitality creation bank”

Customers

- Providing professional management personnel
- Eliminating the root causes of problems
- Offering optimal financial products and services

Local community

- Participation as leader in regional development in collaboration with local governments and local businesses
- Active urban development and business creation

Employees

- A corporate culture inspiring dreams and pride
- Provision of opportunities for activities outside conventional bank parameters
- Assuring safe, healthy workplaces

Shareholders

- High market rating
- Continuing stable dividends



SDG policy

Solving regional issues proactively to achieve a sustainable local society and realize the Nanto Mission

People live



Goals for achievement in 10 years

Nara Prefecture GDP Increase of approx. ¥350 billion

Management personnel cultivation*3 350

ROA 0.35% or above

Presenting the activities implemented to achieve the Bank’s goals.

The city built on the ground represents the community, while the soil represents Nanto Bank.

Nanto Bank will employ its management base comprising customers and employees to implement the Nanto Mission through regional development, while cultivating human resources who create vitality to enhance the profitability of the Nanto Bank Group. It will provide leadership to achieve its 5-year goals of profitable customer services, enhanced OHR (overall human rating), improved ROA, and increased number of qualified regional revitalization personnel.

By implementing the Nanto Mission and pursuing efforts to achieve our goals, Nanto Bank will nourish the tree in the center of the picture on this page and the fruit it will bear. This “fruit” is the value we offer stakeholders as we develop Nanto Bank’s business region as a region to which “people come,” “people work” and “people live.”

The rainbow in the sky above represents Nanto Bank’s cycle of value creation. Rotating this cycle reveals the goals set for 10 years in the future, which include increasing the GDP of Nara prefecture by some ¥350 billion, the number of administrative personnel cultivated by 350, and our ROA by at least 0.35%.

Mid-term targets (5-year)

Return to profitability of customer services

OHR*1 improvement

ROA improvement

Increased number of qualified vitality creation personnel*2

Enhancing the profitability of the Nanto Bank Group

[Basic strategy] P.22 - P.27

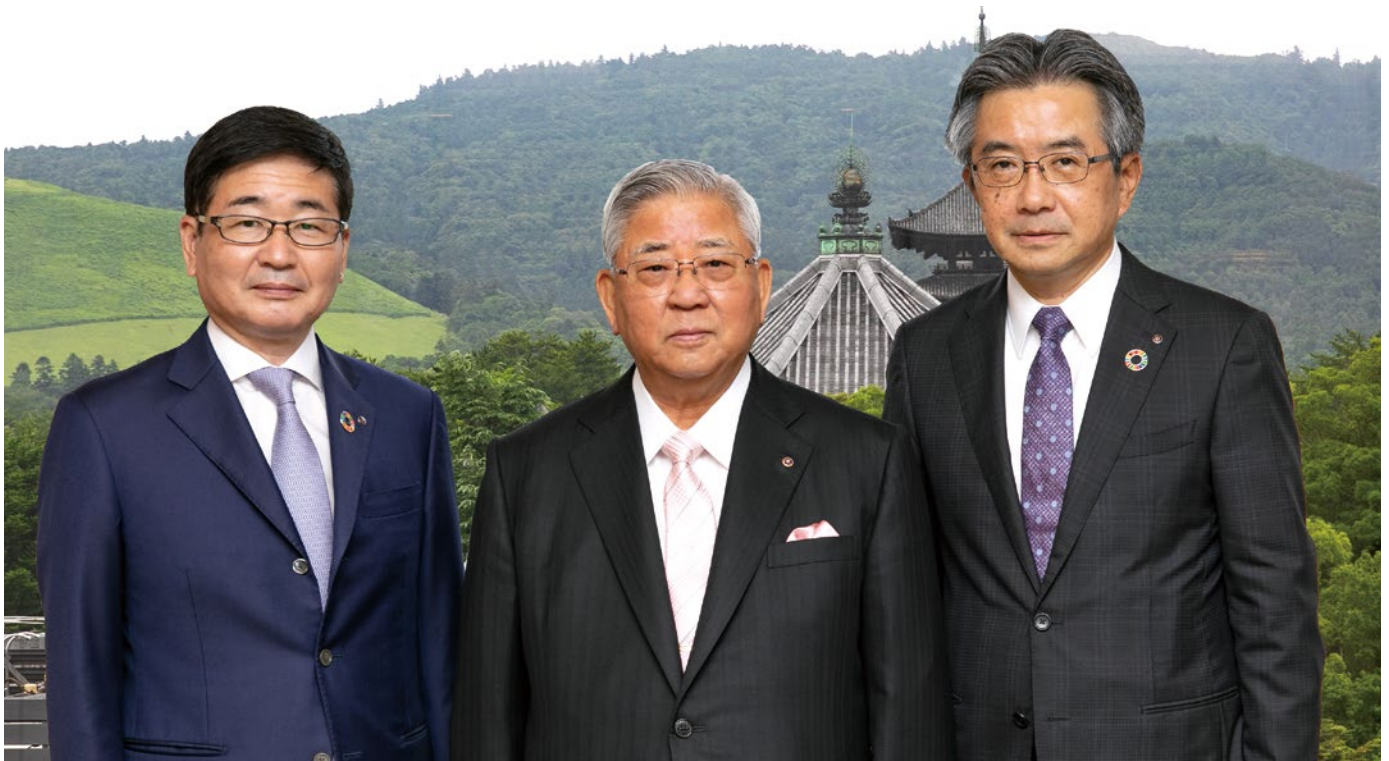
◆ Human resources strategy
Cultivation of “Omoshiro” (unique) human resources to implement planning

◆ Market management strategy
Securing stable earnings over the medium to long term

Quick, timely strategic trajectory correction

In the short term, we will provide full support for customers suffering damage from the coronavirus pandemic, while moving in the medium and long term to construct and steadily implement structures and mechanisms leading to local reactivation and regional revitalization.

At a time when Nanto Bank is implementing the Nanto Mission, its Management Plan, we welcomed President Shinzo Koyama of the Nara Prefecture Chamber of Commerce and Industry to discuss the current situation and future outlook of Nara Prefecture, and the role Nanto Bank should play in confronting the pandemic and future prefectural development, with Nanto Bank executive officers Kazuya Yokotani and Satoru Wada.



Director and Managing Executive Officer
Business Promotion Headquarters

Satoru Wada

(Director, Business Promotion Headquarters)

Nara Chamber of Commerce
President

Shinzo Koyama

Director and Managing Executive Officer

Kazuya Yokotani

(Director, Regional Business Creation/
Market Operations Department)

Anticipating the growth potential of Nara prefecture, where infrastructure development is progressing

President Koyama: Since Nara Prefecture have a limited number of businesses comprising mainly small companies, I have always considered sustainable development to be unlikely until this problem was overcome. On the other hand, the government has been making active efforts to attract businesses considering a high rate of local residents working outside the prefecture. The expressway network connecting us with Osaka and Nagoya is well developed, and the number of companies locating here in 2019 was 32, the eighth highest in Japan and second highest among the seven prefectures in the Kinki region, including Fukui prefecture. The Nara Prefecture Chamber of Commerce and Industry has pursued efforts to

develop roads and railroads for many years, moreover, with the cooperation of local governments. Not only have the long-pending decision to commercialize the Yamato-Kita Road been reached as part of a project aimed at completing the Kyonawa Expressway and its branches, but construction of a Nara Station near Nara City on the Linear Chuo Shinkansen, which will be the world's fastest bullet train has been approved.

Development has been hindered in the past by a lack of sufficient physical infrastructure, but I believe the recent advances in the development of our highway and railroad systems have expanded business opportunities in Nara Prefecture. The tourism industry is in an especially difficult situation due to the pandemic, but in the mid- to long-term, we think we can break the mold of “day trip sightseeing” and attract more tours that include hotel accommodations.

Another issue I see is that businesses in Nara tend to be

independent and firmly established by themselves, and they make little effort to cooperate and help each other. It seems to me that this has hindered our response to the coronavirus. We need more comprehensive action, and Nanto Bank, with its deep understanding of our local business community, can play a role in this point.

Dedication to solving the issues facing customers in accordance with the “Nanto Mission”

President Koyama: The idea of introducing proactive solutions to individual and regional issues, and boosting GDP is appealing, but our individual business operators seem to be far from doing that.

Wada: We’re working hard to provide financial support. As you know, Nara prefecture has incurred serious damage, especially to its tourism industry, due to its prevalence of small and medium-sized businesses, and we’re responding quickly to provide support.

President Koyama: Speaking of financial support, financial institutions in Nara prefecture have acted promptly with requests from the Prefecture. The local economy finds itself in unprecedented circumstances today, however, and the future is difficult to predict. Regardless of their size, our businesses face challenges such as securing jobs, maintaining employment, and obtaining finance, with the prospect of being forced to close or go bankrupt. The national and local governments have announced various support measures to offset this challenge, but the adverse effects of the pandemic are expected to continue for years to come. This is why we need Nanto Bank to maintain a close relationship with the community as a local bank. Our businesses want to see the Bank’s consulting function strengthened.

In 2015, the Nara Chamber of Commerce was commissioned by the Japanese government to open the Nara Prefecture Business Succession Support Center, and we are reinforcing our activities to facilitate succession by passing companies’ valuable businesses and technologies on to a new generation. Although these activities are achieving positive results year-by-year, I’m afraid that some companies will close their business due to this pandemic. I would like to see Nanto Bank, having ample opportunities to communicate closely with our business community, to employ its proposal capabilities to find solutions to business succession as well as to cash management issues.

Wada: Increased number of opportunities for Nanto Bank’s personnel to deepen communication with customers gives us to perceive the true nature of the challenges facing them. This has motivated our Group members to work together to tackle



issues other than cash flow.

President Koyama: With this opportunity, I have read to Nanto Bank’s Management Plan again, and understood. The Nanto Method, a system and structure for getting closely acquainted with customers and solving their chronic problems systematically as they arise to help ensure their profitability. In fact, we’re watching for Nanto Bank to engage in these efforts. We hope you’ll do everything you can to solve the problems facing our business community.

Wada: The ongoing problems that Nanto Bank is called on to tackle include market shrinkage due to contraction of the working-age population, which is a structural social problem, the aging of corporate owners, and people’s anxieties about meeting living expenses in retirement. At Nanto Bank, we’re responding to these issues by getting to know our customers and solving the problems facing individuals with a focus on three factors: productivity enhancement; business succession; and asset formation.

We intend to continue enhancing these efforts to create linkage between solutions to problems and profits. When it comes to productivity enhancement, for example, the Nanto Bank Group as a whole is working on IT support and outsourcing of peripheral operations. In the area of business succession, we’re supporting smooth business succession to enhance corporate value and encouraging successor development efforts to protect businesses, activities that will in turn contribute to Nanto Bank’s own profitability. In the asset formation segment, we’re creating points of contact for customers by employing digital channels; providing long-term, fully funded, diversified investments; and communicating the need for retirement funding. For customers who are thinking of stable asset succession by their heirs, we are expanding face-to-face customer consulting opportunities and providing appropriate products to solve customers’ issues and secure profits.

The coronavirus pandemic has enabled Nanto Bank

Challenges Facing Nara Prefecture



to learn more about the worries of many of our customers, including new customers. We want to deepen our acquaintance with customers further through our funding support activities, while accelerating our efforts to implement the Nanto Method.

President Koyama: As I understand it, the Nanto Method begins with becoming more closely acquainted with customers.

Wada: That's right. And to be honest, I regret not doing so earlier. We didn't know them as well as we thought. We have determined to work more closely with our customers from now on.

We focus on developing Nara prefecture free from the restrictions of conventional banking practices.

Yokotani: I'd like to say a few words here about regional revitalization. The coronavirus pandemic has given me ample opportunity to consider what we should do to revitalize our region. Nara's tourism industry, which has prospered due to an influx of visitors in recent years, may not be able to expect the same levels of foreign tourists to Japan as in the past. On the other hand, the results of a survey of tourist activity in fiscal 2018 published by Nara Prefecture showed that 87% of tourism consumption was by domestic tourists. We want to stimulate domestic demand by branding local products and publicizing them domestically and internationally, while also communicating the appeal of our historical assets, without overreliance on inbound travel. We often hear Japanese people say they haven't visited Nara since their school trip. But Nara has lost nothing of its rich potential. Nanto Bank will play a central role in its recovery efforts by working with the tourism industry to create a mechanism for changing from day-trip tourism to tourism with accommodations.

In this connection, we are also participating in a traditional Japanese-style house restoration and utilization project. The City of Nara signed a cooperation agreement with NOTE Nara,

an organization that engages in renovation of old traditional buildings, and worked on renovation of an old sake brewery and residential hotel. In September of last year, we invested in the Nara Kominka Machizukuri Fund and contributed to the first project of this fund, the revival of a soy sauce brewing company founded in the Edo period. Plans are under way to resurrect this soy sauce factory as a high-end tourist accommodation facility.

Also outside the bounds of conventional banking practices, we are considering establishment of a regional revitalization business company in our desire to serve as the regional flagship by maximizing the use of Nara's tourism resources and revitalizing the regional economy. We're thinking of converting a number of empty offices whose staff were relocated during our branch network reorganization for use in this new business in accordance with the concept of contributing to regional development in collaboration with local governments and local businesses. Our aim is to change the character of the Nanto Bank branches to help attract an influx of child-rearing young adults to Nara prefecture, promote social advancement of women, and maintain our local population and consumption levels.

President Koyama: The reconstruction of your bank branches will provide the region with new hubs. If the Chamber of Commerce and Industry is able to cooperate with these efforts, I would be happy to help. I find it heartening that the two of you are looking to do this, even in these trying times. You have also set a goal of increasing GDP in Nara Prefecture by ¥350 billion in 10 years. How do you expect to realize this increase?

Yokotani: Population growth is the key to increasing GDP. It will be important to increase the number of people who come to Nara, the number of people who work here, and the number of people who live here.

President Koyama: Our local businesses also need to give their best to these efforts. If we are to raise the GDP, increasing the population will be essential, so stimulating population growth should be our top priority. Achieving this will not be easy, even for Nanto Bank. Our regional cities and prefectures must work together to create residential appeal.

Yokotani: We want to continue strengthening our cooperation with the prefectural and other local governments as well as with regional residents. We'll also take the initiative in disseminating local government policies among regional businesses and play a leadership role in attracting companies to our region. Among our efforts to promote new business establishment and create employment, we plan to expand our incubation function to support entrepreneurs and provide leadership to support company foundation in collaboration with businesses and universities in the prefecture. These activities reflect our belief that redressing the concentration of companies and population in the metropolitan area will enhance the attractiveness of Nara



Prefecture, which borders on Osaka, and contribute to its GDP.

Wada: Another result of the pandemic is that many companies have introduced remote work. This is an extremely efficient way of working, and one that has the advantages of eliminating commuting and giving workers a great deal more freedom. If remote work leads to a working style that enables more women to participate in the economy, it will contribute to the region's GDP by creating more employment opportunities for women in Nara prefecture, where the ratio of housewives is quite high.

President Koyama: Active participation by women in business is an important issue for the Chamber of Commerce. Besides that, I sense a change in Nanto Bank, where a new interest in taking on unprecedented challenges has emerged. The reorganization of your branch network is a particularly drastic measure we have never seen before. Creation of "unique" human resources, another initiative included in your Management Plan, targets human resources development. It

is important to change the character of the Bank as a whole. Human resources of the kind you seek are necessary for Nara Prefecture.

Providing leadership in regional revitalization to determine the Nara Prefecture of the future

President Koyama: In the short term, I ask that you provide ample support for businesses facing cash flow challenges. This means fully exercising your role as a regional bank in these difficult times. I would also like to see you provide comprehensive services related to such aspects of finance as customer asset management, which should include offering financial products that never existed before, and that make them feel happy to do business with Nanto Bank. In the medium to long term, moreover, I would like you to do all you can to become a navigator who arrives at a vision by depicting not only the future image of the Bank, but also the future image of Nara prefecture, including its citizens and the companies located here.

Wada: We'll provide full support for customers who are anxious about the impact of the pandemic. We'll then implement the Nanto Method at an early stage and work hard to solve the problems faced by our customers and local communities.

Yokotani: It won't be possible to achieve an increase in the prefecture's GDP overnight, but we're determined to demonstrate leadership by steadily introducing systems and mechanisms that lead to local reactivation and regional revitalization.



Nara is a place where people come for various reasons and stay to work and live.

Nara prefecture, a region with the Nanto Bank Group at the center of business, has a long history as a gathering place for people.

In the current coronavirus era, expectations for its immense potential are growing.

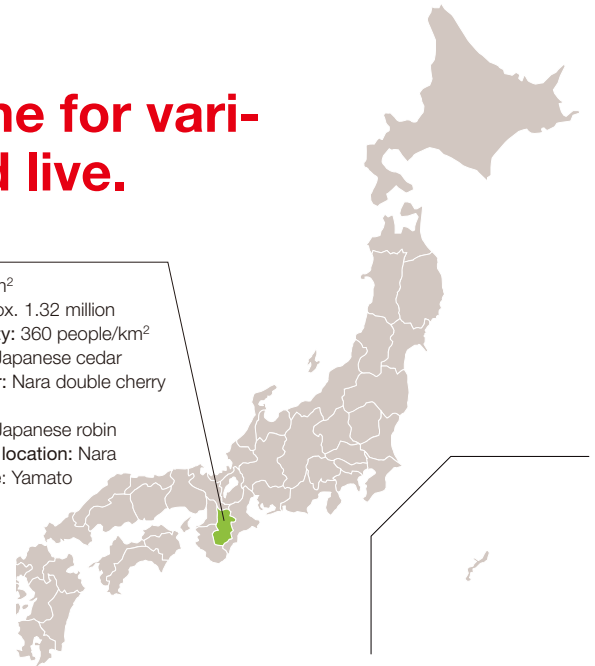
As the birthplace of Japanese cultural history, Nara is still home to many such splendid cultural heritage sites as Horyuji Temple, Yakushiji Temple, Kofukuji Temple and Todaiji Temple. Said to have marked the end of the Silk Road, Nara is a repository of cultures from around the world that prospered here mainly through its temples and shrines.

The Nara Magistrate's Office, established during the Edo period under the direct control of the Shogunate, led the town's development into a center of commerce and industry.

Since the Meiji era, the railroad has connected Nara with Osaka and Kyoto, making the city with its abundance of shrines and temples a prosperous tourist destination.

In recent years, transportation between Osaka/Kyoto and Nara has become even more convenient, leading to Nara's remarkable development as a bedroom community.

Area: 3,690.94 km²
Population: Approx. 1.32 million
Population density: 360 people/km²
Prefectural tree: Japanese cedar
Prefectural flower: Nara double cherry blossom
Prefectural bird: Japanese robin
Prefectural office location: Nara
Old regional name: Yamato



Horyuji Temple



Yakushiji Temple



Kofukuji Temple



Todaiji Temple





People come

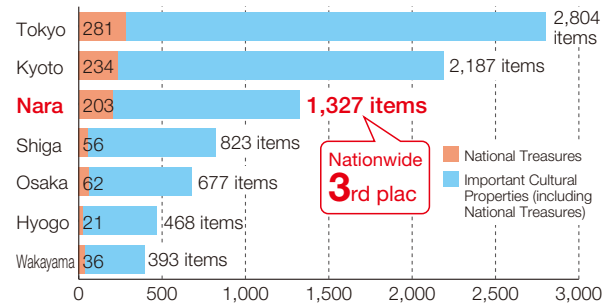
World-class tourist destination

The many historical buildings in Nara provide ample tourism resources.

Although not a flashy town, Nara offers visitors an opportunity to relax in an environment defined by an old Japanese townscape and historic buildings. Besides the many centuries-old buildings that remain here, Nara is home to large numbers of restaurants and general stores occupying old folk houses. This creates an atmosphere no other tourist destination can match.

The economic effect of these historical assets is insufficient, however, since Nara has the lowest number of overnight guests in Japan. With the number of foreign tourists declining sharply due to the impact of the pandemic, the proportion of foreigners among its visitors is painfully low at about 13%. It is essential that we find ways of stimulating domestic demand.

National Treasures and Important Cultural Properties



Source: Agency for Cultural Affairs, "Numbers of designated National Treasures and Important Cultural Properties by prefecture"

People work

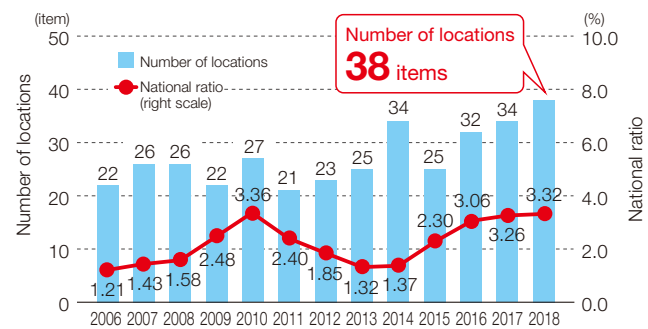
History as a prosperous commercial and industrial town

In ancient times, Nara was a thriving hub of industries such as armor and sword-making and ink and medicine production. Also of note, the many shrines and temples such as Nanto Shichidaiji Temple fostered the craft of Nara bleaching for use in making costumes for monks and priests, which became immensely popular after the craftsmen became purveyors to the Shogunate in the early Edo period. It is said, however, that the emergence of guilds that refused entry to outsiders stifled opportunities for technological progress.

Today, Nara prefecture is engaged in active efforts to attract businesses, and the number of new business locations here was 32 in FY2019, the eighth most in Japan and second most among the seven prefectures in the Kinki region, including Fukui prefecture.

With the dissemination of teleworking and other new workstyles today, it is expected that many people employed outside their home prefectures will return to their hometowns, and that full-time housewives will return to the work force.

Number of factory and research laboratory locations



Source: "Factory Location Trend Survey," Ministry of Economy, Trade and Industry

People live

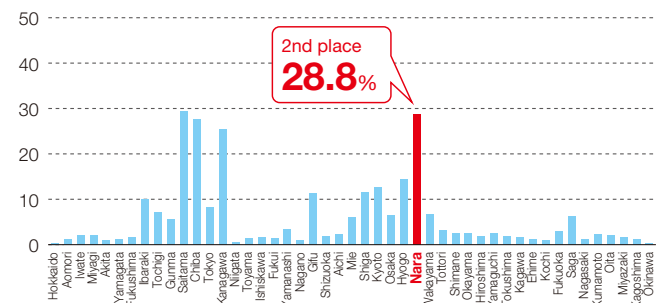
Development as a bedroom community

The Nara Basin is located in northwestern Nara Prefecture. Its close proximity to Osaka has attracted housing development, making it a high-appeal bedroom community for Osaka and Kyoto.

New towns have also been developed in the hills surrounding the basin (including the towns of Keihanna Hills, Akajin Hills, Yada Hills and Mami Hills).

If proximity to work is no longer necessary for residence in the new normal era, Nara prefecture's abundant historical, cultural and natural heritage; its relative freedom from earthquakes and other disasters; and its stable, temperate weather, promise to make it even more attractive as place to live.

Employment rate of people from outside the prefecture (2015)



Source: "2015 Census," Statistics Bureau, Ministry of Internal Affairs and Communications

Determination to pursue solutions until the root cause of problems is resolved, beginning with the perennial problems facing our region and customers, while ensuring Nanto Bank's profitability

If Nanto Bank, which enjoys a majority share of the prefecture's banking business, is to grow with the region, it will first be necessary to solve customer problems stemming from regional structural issues.

The Nanto Method is an approach to optimal team and system formation that employs human resources to solve customers' challenges with a focus on enhancing productivity, facilitating business succession, and supporting asset formation.

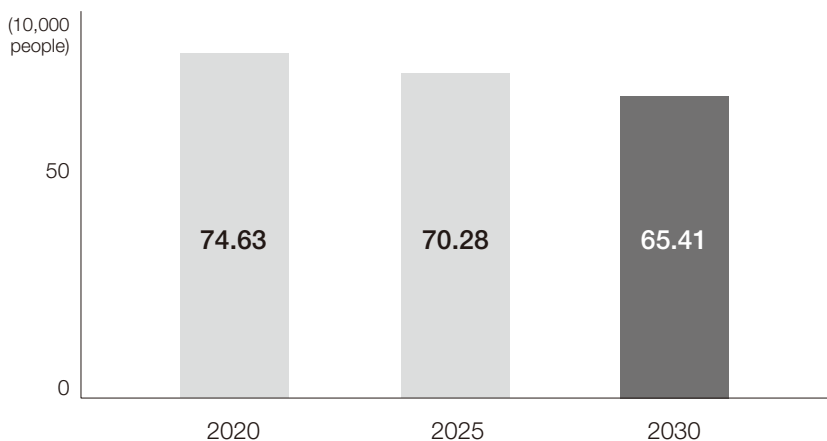
By resolving the issues facing its customers, the Nanto Bank Group will contribute to regional development and customer prosperity, and spearhead the movement to enhanced profitability for Nanto Bank.

Customer base

Regional structural issues: Decrease in the working-age population

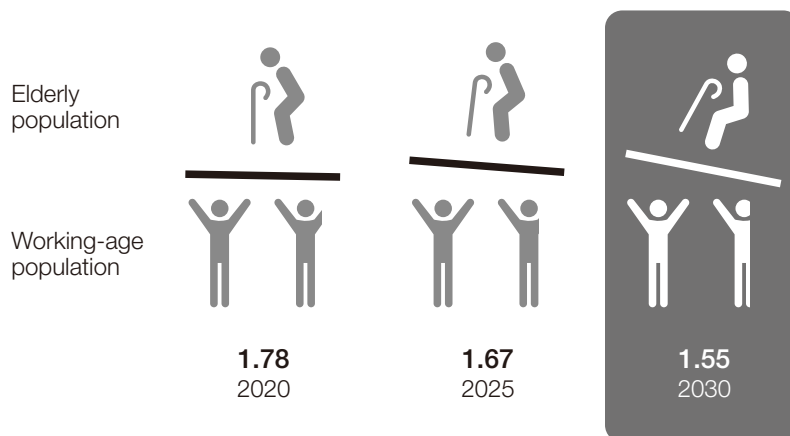
Customer issues

[Changes in the working-age population of Nara Prefecture]



Source: National Institute of Population and Social Security Research

[Ratios of working-age and elderly population in Nara Prefecture]



Source: National Institute of Population and Social Security Research

Shrinking market
Worker shortage

Aging corporate owners

Anxiety concerning living expenses in retirement

Human resources

Cultivation of human resources who create vitality

Nanto Bank Group's problem-solving capabilities	Nanto Bank	Asset management/succession office Trust/consulting office	Business evaluation team Medical/nursing team
	Group companies	Nanto Consulting Nanto Mahoroba Securities	Nanto Lease Nanto Card Services(?)
	External specialists	Tax accountants/accountants/attorneys	Partners

Implementation of the Nanto Method

The Nanto Bank Group aims to provide appropriate solutions by focusing on the root cause of issues facing individual customers after acquiring deep knowledge of each customer.

Productivity enhancement

Business succession

Asset formation

Deep knowledge of customers

Issues recognized by customers

Issues customers fail to recognize

Pursuing problem solutions until the root cause is eliminated

Resolving issues facing individual customers

Future image

Regional and customer development



Enhancing the Nanto Bank Group's profitability

NANTO



Seeking to achieve the goals of the Nanto Mission by optimizing our branch offices, products and Headquarters operations

We will work to improve productivity by optimizing costs and resources in three aspects of our business to achieve profitability in our customer services within five years.



Director and Managing Executive Officer
Kazuomi Nakamuro
 (Director, Credit Analysis/Operations divisions)

Branch function optimization

- Branch network reorganization
- Office operations reform

Product optimization

- Eliminating products involving large administrative burdens and high costs

Headquarters operations optimization

- 20% reduction in Headquarters operations

Optimization of branch functions through branch network reorganization and office operations reform

The first of our optimization strategies, branch function optimization, involves two approaches starting with branch network reorganization. Today's banking business is undergoing a major transformation due to a decline in the number of customers visiting banks' branch offices and the rise of Internet banking, which has been further accelerated by the coronavirus pandemic. In this environment, the basic idea

of branch network reorganization is to improve our ability to provide customer services. Customer lifestyles and the financial services they require have changed dramatically in recent years with the increase in two-income households, proliferation of convenience store ATMs, and evolution of digital technologies. In the midst of these changes, the roles played by conventional bank service counters and ATMs that perform only banking operations have changed significantly, leading to a long-term decline in the number of customers visiting the service counters. Nanto Bank is responding by reorganizing its branch offices that are located in close proximity to each other in the same areas, concentrating personnel at its core business offices, and improving its consulting capabilities to strengthen its ability to provide customer services.

Announced in November 2019, the branch office network reorganization was completed on June 1, 2020, with the establishment of 30 combined branches, 4 branches with reduced working hours, and 4 branches operating on alternate days. This reduced the number of the Bank's business bases from 138 before the reorganization to 108 afterwards. To avoid inconveniencing our customers to the greatest extent possible with this reorganization, we developed joint branches employing a "branch-in-branch" method that eliminates the need for customer procedures and adopted shared service counters in collaboration with Japan Post. This use of shared service counters is particularly remarkable as the first by any bank. We also installed and deployed mobile ATM vehicles and installed tablets employing a system developed by ATM Japan, Ltd. in post offices in regions with no nearby Nanto Bank branch. It is now possible for customers to use these facilities to change their names and addresses, and reissue their passbooks. In fact, the installation of Nanto Bank ATMs in post offices has enabled customers to conduct transactions previously possible only at bank counters.

This year, we will continue to monitor performance by our reorganized branches and, while closely observing the impact of the coronavirus pandemic on our region, consider further reorganization of the branch network. Since Nanto Bank branches are all relatively well located, we hope to employ the restructured branches as bases for regional revitalization in cooperation with local governments and industries.

Another approach of the branch function optimization: office operations reform.

At a time when the complexity of our conventional work procedures has become a pressing issue, Nanto Bank is

actively promoting digitalization of its regional branch offices by implementing the use of tablets and other paperless office work measures to support procedures such as investment trust and life insurance applications with the aim of transforming our branches into next-generation offices. The heavy burden of administration duties, such as the operation of SBT terminals* and other equipment and the handling of cash and vouchers, limits the ability of branch office staff to concentrate on resolving issues that our customers are facing, and customers also are required to spend time filling out and signing various types of documents.

To solve these problems, we are introducing three office work innovations: paperless, cashless and backless. These will be accompanied by a variety of administrative reforms, such as the elimination of SBT terminals. We have set the goals of reducing branch office work by approximately 50%, introducing quick counters and reception navigation to facilitate semi-self-service counters, and centralization of back offices. In June 2020, meanwhile, we began transitioning from paper-based to digital operation of various notification procedures such as address changes, thus eliminating the need for customers to fill out documents and shortening our staff's processing times to improve convenience for customers and reduce the administrative burden on the Bank's personnel.

We are working at the same time to reduce the need for face-to-face transactions and accelerate the transition to next-generation branch offices.

Promoting these three office work innovation will reduce the administrative burden and create an environment that enables our staff to focus on cultivating deeper customer relationships.

Product optimization

Product optimization, our second optimization strategy, is another important initiative that will impact the future of Nanto

Bank. In the past, we directed efforts toward expanding our product lineup to meet customers' diversifying needs. Today, however, ongoing changes in customer desires and lifecycles have made many of the remaining conventional services and products obsolete. Reducing the number of these products is extremely important to cutting administrative costs and future system costs. We plan to give close consideration to diversifying customer needs in order to identify and eliminate outmoded products and services.

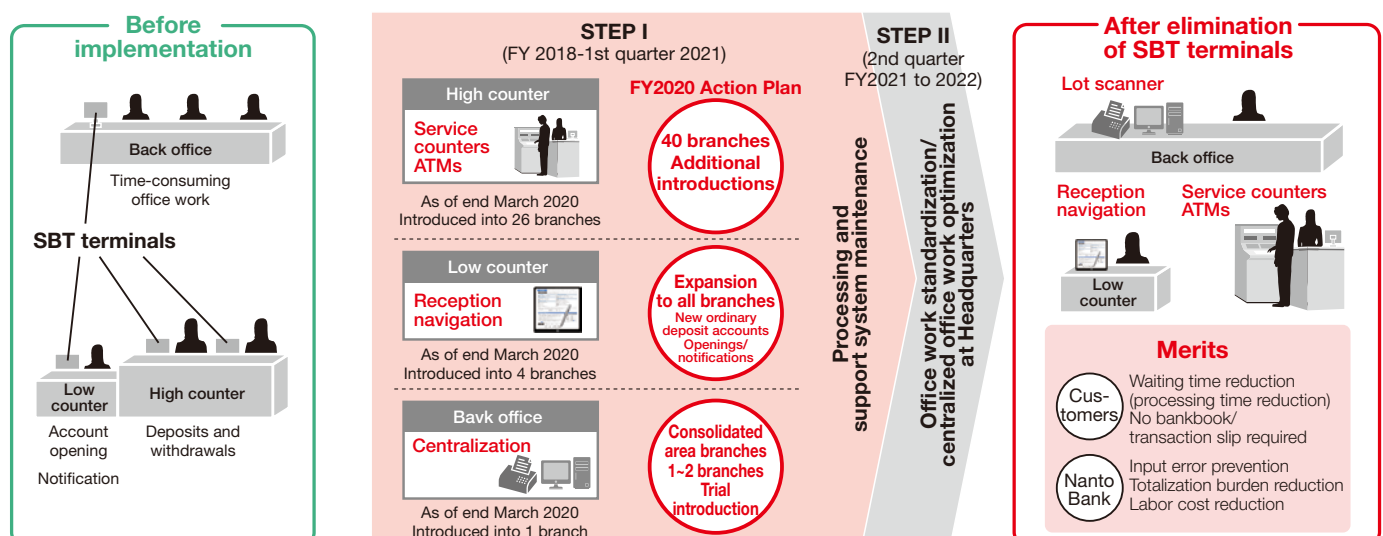
Headquarters operations optimization

Our third optimization strategy is Headquarters operations optimization.

This important strategy involves allocating personnel to growth areas in order to maintain and expand profits with limited expenditure of resources. Since reducing the volume of work assigned to Headquarters staff is key to its realization, we have set the goal of reducing our Headquarters work volume by 20% this year. This will involve revealing the operations targeted by the Planning, Operations Concentration, and Internal Audit divisions at Headquarters; eliminating unnecessary operations; reducing the number of operations that cannot be eliminated and acting to advance efficiency and standardization using tools such as RPA; and centralizing or, in many cases, outsourcing the remaining operations.

We are deploying these three optimization strategies to improve productivity and realize the Nanto Mission. The use of AI and other digital technologies is, of course, central to promoting these measures, but we remain fully aware that the Bank is composed of employees. Our executives and employees will work together with the shared goal of achieving our Management Plan, with the significance of providing optimal customer services always in mind.

*SBT: "Super banking terminals" employed in such locations as financial institution service counters and back offices



Overcoming the 2025 Digital Cliff by promoting a digital transformation originating with our customers

Nanto Bank will review its current complicated IT systems, and construct new architecture in pursuit of a new IT strategy that meets customers' needs for optimized services.

Environment surrounding the financial system

Today's business scene requires creation of a new business model that employs new digital technologies that permit flexible change. In Japan's industrial sector as a whole, however, the aging IT systems currently in place are deteriorating in efficacy as they become increasingly complicated and black-boxed due to excessive customization. Failure to resolve these issues would make it impossible to change business models swiftly and flexibly in response to market changes, leading to economic losses of up to ¥12 trillion a year by industry at large in the years after 2025. Referred to collectively as the "2025 Digital Cliff," these losses are expected to amount to three times current losses.

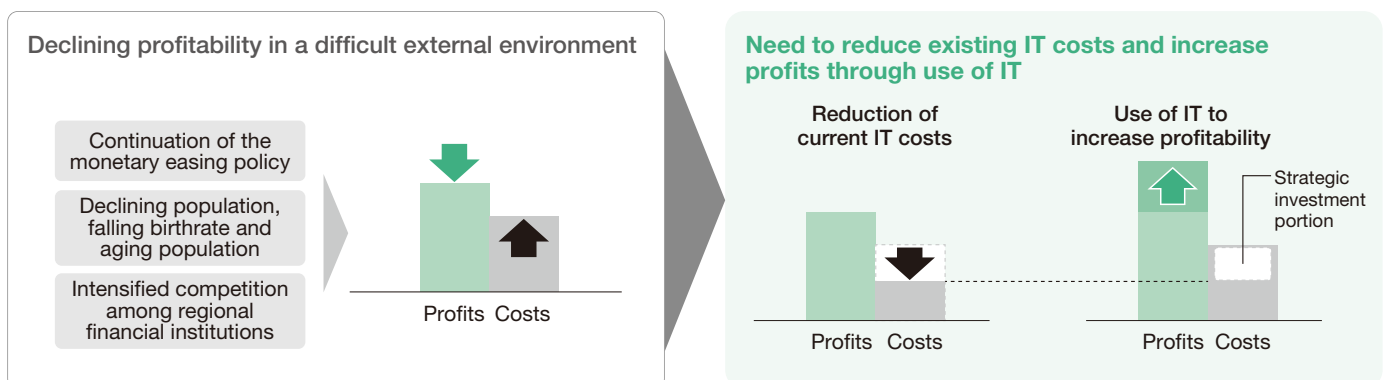
In the financial industry as well, the system structure has become increasingly complex due to repeated partial optimization in various business segments without considering IT optimization in the organization as a whole. With the passage of time, human resources capable of meeting complex design challenges have been lost due to such changes as the retirement of system experts and termination of system support programs. This trend, which has turned existing IT systems into black boxes whose operation no one can fathom, continues to advance.

As the existing IT systems become increasingly incomprehensible, organizations' dependence on IT vendors has increased, and unit prices for development by a diminishing number of experts have risen. We can anticipate further increases in IT costs. These increases will put pressure on financial firms' strategic investment capacity, leading to a decline in competitiveness. This is precisely what triggered the emergence of 2025 Digital Cliff fears. Solving these issues will require implementing measures based on the two axes of curtailing existing IT costs and deploying IT to increase profits.

Nanto Bank's challenges and vision

We are currently operating in this environment as a passive IT organization with a complicated black-boxed IT system. This makes cost-effectiveness difficult to assess and leaves our systems only partially optimized. Besides the insufficiency of IT system management, the system configurations themselves have become black-boxed, making them complicated, oversized structures that are vulnerable to changes. Even our management still takes a passive attitude toward responding to requests from sales and related departments. In the area of development, meanwhile, reliance on IT partner vendors has created major challenges to fostering human resources equipped with system development skills. Faced with this

Efforts by regional banks to reduce existing IT costs while making effective use of IT



situation, we now envision pursuing a future of promoting waste-free IT investment from our customers' perspective. A dramatic change of this kind in their customer behavior will force IT providers to take the initiative in constructing IT systems that can be adapted easily to changes. We will implement business reforms that adopt IT systems incorporating best practices that facilitate clear evaluation of cost-effectiveness, and conduct investment from a long-term perspective with overall system optimization in mind.

It is important when constructing new architecture to consider whether to use complicated, heavy, partially modified existing IT systems as is, or to incorporate new technologies while making decisions on what to discard in consideration of departures from precedent.

Nanto Bank will provide clear IT system management that can visualize system configurations and realize new configurations capable of responding flexibly to changes. In our organizational management as well, we will cultivate a corporate culture that supports Nanto Bank's competitiveness and foster a climate that changes autonomously with the times. We will review our dependence on IT partners and vendors, moreover, and accumulate IT skills that allow Nanto Bank to conduct independent planning with the aim of constructing systems that enable the Bank's personnel to conduct continuous development.

An IT system strategy conceived to achieve the desired vision

Nanto Bank will proactively promote digital transformation to evade the 2025 Digital Cliff and to realize the Nanto Mission and our goals for achievement within 10 years. Our Customer Approach Enhancement Strategy, for example, requires an accurate grasp of changes in customer behavior in order to realize services that meet customer needs. Even greater use of data is important to this. To this end, we consider it essential to build a foundation that enables integrated data management and redefinition of data flows.

Since Nanto Bank's systems do not yet provide centralized data management, its data is scattered through various individual systems. This leads to waste by requiring storage of the same data on multiple systems. Each time a new system is linked in or a new function added, it becomes necessary to conduct a large-scale impact survey, which makes the system as a whole inefficient. Analyzing and identifying customer needs in this piecemeal manner leaves us unable to obtain a full grasp of customers' real needs from our data.

We believe that one solution to these problems is to construct a hub to centralize this scattered data and manage and manipulate it to suit our basic considerations concerning IT investment and the future image of our IT systems. Data movement can then be visualized and aggregated, limiting the scope of impacts stemming from introduction of new systems and realizing simplified collaboration by facilitating speedy, flexible IT policy decisions.

Without hesitating to discard our current IT systems, we will construct new Nanto Bank IT architecture to optimize our overall systems. This will give us a unique position as a regional bank among today's rapidly changing industrial and financial firms, and enable us to provide enhanced services that give our customers full satisfaction.

Guided by the concept of cultivating “unique human resources,” we will pursue a new human resources strategy in an effort to realize our mission.

Nanto Bank’s new Management Plan is aimed at realizing regional development, cultivating human resources who create vitality and improving profitability. The Plan promotes a distinctive human resources strategy that attaches special importance to diversity. By discovering and training talented human resources who receives with great appreciation by our stakeholders, we will realize the vision of Nanto Bank 10 years in the future projected in the Plan.



Vice President (Representative Director)
Satoshi Ishida

Discovering and training “unique human resources”

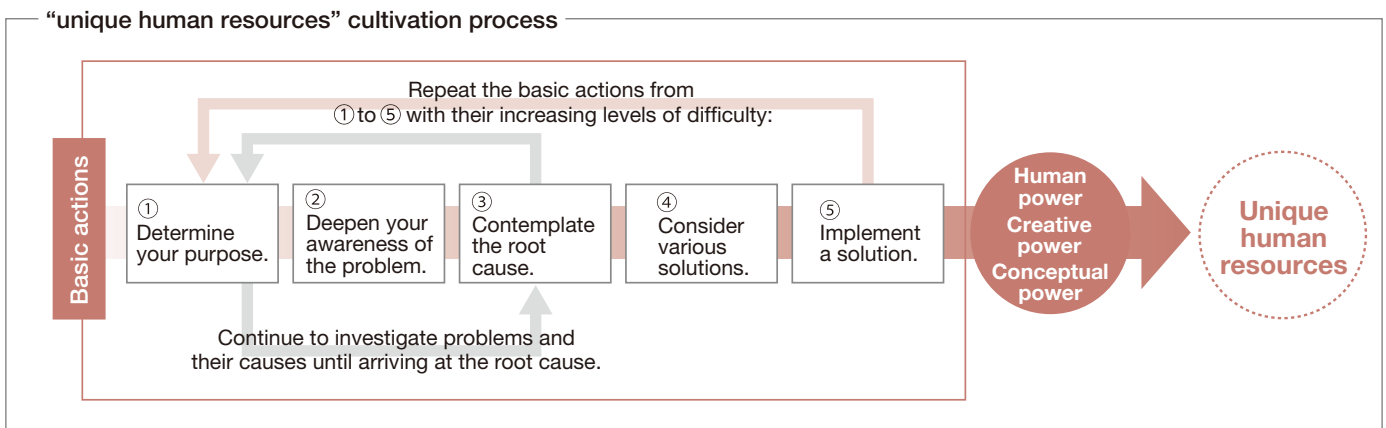
With realizing the Nanto Mission as its goal, Nanto Bank is promoting a new human resources strategy designed to achieve regional development, cultivation of human resources who create vitality, and improved profitability. I wish to illuminate here the concept reflected in our short-, medium-, and long-term human resources development plans to achieve our goals for achievement in the decade to come. This core concept is to discover and train “unique human resources”.

What do we mean by “unique human resources”? This is keyword selected to give others the idea that our employees are interesting. In fact, most of us probably do not think many of the people we meet are unique. When we are interested in other people, they tend to be people who have something we lack, or who think more deeply about something than we do.

In promoting our new Management Plan, we defined the term “unique human resources” as the core concept of our human resources strategy desiring to ensure that our customers and other stakeholders find it interesting to do business with people at Nanto Bank. It is also based on a realization that the presence of many such employees will help to ensure that Nanto Bank never loses its value. In other words, it is essential to our HR strategy that our stakeholders consider our employees unique.

Personnel sought by Nanto Bank
“unique human resources”

Personnel who do not stop at finding and pointing out problems, but who take the initiative to solve them





Initiatives for FY2020: Cultivating problem awareness and training appraisers

<Problem awareness>

Our first approach in this initial year of the Plan is to determine the extent of our employees' awareness of customer problems. To begin with, simply having a clear opinion concerning a problem indicates some degree of awareness. Starting with this awareness and thinking deeply about solutions leads to establishment of a firm opinion. People who do this will also be perceived by others as having a policy comprising their own opinions.

Every person has a unique personality, of course, but Nanto Bank seeks to gather employees with their own ideas and policies. If their thinking is recognized as highly diverse, they will come to be considered as an unique group.

There is a tendency toward homogeneity within organizations, however, because everyone is usually evaluated by certain rules determined by the organization. I believe that this homogeneity weakens organizations.

Since every person has a completely different personality, it is natural that each should have different ideas. I personally think it impossible for every stakeholder to find myself unique.

I believe that gathering many employees with a variety of ideas will lead to organizational strength.

<Conducting appraisal training to ensure appropriate evaluation>

The second approach is "personnel evaluation for practice of basic actions," or "appraisal training to ensure proper evaluation." Evaluation of personnel is extremely important. As employees advance in an organization, it becomes impossible for them to move on to the next step without being evaluated by others. From the perspective of the homogeneity mentioned above, employees who are equipped with apparently heterogeneous thinking, even if correct, tend to receive a low evaluation.

In such cases, it is essential that the evaluator determine whether or not the employee's distinctive way of thinking will contribute to the Bank's future and make a proper evaluation.

The needs of 30 years ago may be quite different from today's needs, for example, or from those of 10 or 20 years in the future. It seems clear that the axis of personnel evaluations should be changed from time to time. To begin with, how should we evaluate heterogeneity? Knowing that heterogeneity will determine the future of Nanto Bank, we must learn to accept heterogeneity, evaluate it and nurture it. This is why appraiser training is so important.

<Cultivation of problem awareness through discussion>

The third approach involves conducting one-on-one discussions aimed at getting to know each employee or group discussions aimed at strengthening the members' thinking ability.

This activity is based on realization of the importance of fostering problem awareness through discussion, forming one's own opinions, and communicating these opinions to others. One important question to ask in the discussions is, "Why are you engaged in your current business?"

The answer is, "To improve Nanto Bank." But in fact, simply to improve the Bank may be too narrow. "I want to improve the world" would also be a good answer.

Since seeking to achieve this broader goal would result in a loss of cohesion, however, the first step should be to improve Nanto Bank.

The reason sectionalism occurs so commonly in conventional organizations is that they have been seeking to optimize their various sections independently. Even when employees are trying to improve the Bank as a whole, the process can easily be influenced by such factors as departmental customs, the likes and dislikes of executive officers, and the employees' own preferences and self-interest. It is from this that sectionalism is born.

In order to avoid falling into this trap, I urge all our employees to acquire awareness through discussions of what they are accomplishing in their job.

Mid-term initiatives/Early development of human resources equipped with a management perspective

<1,000 employees with certifications participating in vitality>

Our mid-term goals for the 5th year of the Plan provide concrete numbers in the form of indications such as “1,000 recipients of certifications related to creation.” Certifications are not unique to Nanto Bank. Many are official certifications issued by external organizations or agencies.

The purpose of acquiring official certifications is to transform employees into human resources that are highly valued both inside and outside the Nanto Bank community. Creation of unique human resources also requires that objective external evaluations be conducted to determine whether candidates have acquired the requisite knowledge of the relevant materials to qualify for certification. Some may criticize the process as placing too much weight on “book knowledge,” but we consider certification meaningful because it raises the recipients’ value.

<Management candidate development/Early promotion of executives and officers>

We are also contemplating mid-term goals of “cultivating management personnel candidates” and “gradually accelerating the appointment of executives and officers.” The objective of these plans, currently in the formulation stage, is to anticipate what these human resources can contribute to Nanto Bank’s sustainable growth.

If an employee becomes an officer under the existing organizational structure, in which an assistant manager becomes a branch manager and a branch manager becomes a division manager, it is questionable whether such employee is a qualified officer. We need to reconsider the responsibilities of officers and the qualities they should bring to the job. No one can broaden their field of view, heighten their perspective, and learn strategic thinking overnight. This is why we want to implement early officer development.

Candidate selection is obviously essential, but the number of qualified candidates may be limited if they are selected using a conventional, highly homogeneous evaluation process. We want all our employees to know that the door is open. This expression may seem somewhat emotional, but we welcome anyone who is motivated, interested in changing the Bank and capable of planning the changes. It is likely that people who have been highly rated thus far in their careers will be the focus of consideration, of course, but those who are not selected will now have a chance at promotion as well.

<Human resources development and organizational reform through assignments and transfers>

In our efforts to increase motivation by cultivating unique human resources, we intend to establish a Unique Human Resources Development Office in the Human Resources and General Affairs divisions, whose members’ duties will center on meeting all the employees involved and planning discussions among them. In our awareness that enhancing our employees’ value will broaden our horizons, we will expand our activities aimed at developing interesting human resources.

Not every career follows the same path. From the perspective of broadening employees’ fields of view and elevating their viewpoints, the banking business encompasses a variety of jobs other than deposits and loans. Those who wish to embark on a career path leading to management in the future require experience in various operations. Rather than fostering only generalists, however, we consider it essential for each employee to have a specialty, such that those who are not adept at sales may be excellent planners, for example.

Career path development at Nanto Bank is oriented toward development of human resources with confidence in their abilities in accordance with their individual strengths.

We have been moving forward with these changes in personnel development since last year. In one example, we gather mainly employees with little experience in planning in the Headquarters department responsible for planning. When the employees complete their training here and return to their customary positions, they find that the scenery has a new look. The corporate value of Nanto Bank as a whole will also have grown in this process. When diversification of a homogeneous organization advances little by little, its members have no problem understanding each other’s feelings.

Conflicts of interest are inevitable within an organization. Governance is impossible, for example, if the Credit Analysis Division is working hand in hand with the sales personnels. However, if both parties understand what the other is thinking, what their aims are, and what they are working toward, the organization can operate smoothly.

Long-term goals — human resources with heterogenous ideas building our future

<Cultivating 350 management personnel>

To begin with, it is important to understand the fundamental premise that management personnel are not limited to those employed by Nanto Bank. Management personnel are objectively recognized by various stakeholders. In the business world, our standing begins to rise when we receive positive

evaluations from our personnel department as well as from customers and others outside our own organization. In other words, I think that management personnel have a will of their own, and that they are in positions of leadership because the strength of their convictions is recognized by stakeholders.

This is precisely the same thing as the unique human resources discussed above. It is also in line with our 10-year goal of cultivating 350 management personnel in the Bank, moreover, and becoming an organization with a perpetually renewed deep pool of such personnel on board.

<Changing business models and unique ideas>

In our current environment, banking's business model itself is being questioned. It is a fact that the conventional banking activities we have pursued are no longer generating profits. This will require the banking industry to seek new revenue sources while making use of the legacy it has cultivated in the past.

We have a pressing need for human resources who can generate unique ideas. I am convinced, moreover, that without a deep pool of people whose thinking is out of the ordinary, there will be no future for the Nanto Bank Group in 10 or 20 years. We need to change our mindset. It is said that the people in the world who generate reforms are eccentric in accordance with their heterogeneity and their perspectives. Reform can proceed only when there are people with unusual ideas, and when an organization capable of accepting these ideas is established.

From the customer's perspective, on the other hand, banks should be safe and secure. Nanto Bank will continue to meet these expectations, of course, but we believe the definitions of safety and security customers expect from their banks will change in the future. The time may come when safety and security do not summarize the added value offered by banks. We clearly need personnel who can maintain a grasp of our customers' true needs in the future.

Customers' demands are changing dramatically. The things customers in their 40s and 70s are looking for are quite different, and young people who are in their teens and 20s today will be in their 40s and 50s in 30 years.

It is important to stop to reconsider what customers want from a bank from time to time. It is possible that the added value offered by banks and the reasons why customers engage in transactions with banks will change dramatically in the future, and we need human resources who can consider our value to serve them.

<Efficient organizational management and communication>

In the future, business activities such as consulting may become mainstays of our business. This raises the question of what form our organization should take at that time. Some say that project units are more effective and efficient than the conventional business structure comprising a headquarters and branches. Organizations that can fully leverage the abilities of their newly trained personnel will of change to the conditions of the day.

There may very well be differences in awareness between management and regular employees concerning the strategies and ideas described here. We would like to have the Unique Human Resources Development Office take on the task of filling this gap. I myself am in charge of some Headquarters departments, but I place great importance on dialogue with their staff and make a point of spending time in dialogue.

We believe that deepening communication is the key to aligning employees' awareness of policies and strategies. At the same time, top-down management also plays a vital role in promoting reform. Placing value on various forms of communication, I am determined to ensure that the Nanto Bank Group realizes our vision 10 years in the future.



Agenda for Nanto Bank's pursuit of future greatness

Nanto Bank will challenge increasingly large goals as a Group in the future.

To achieve the Nanto Mission, each of us will seek to become unique "interesting" employee our customers need.

This will prepare us for efforts to develop the region, and to put smiles on growing numbers of faces.



Founding*¹

141s anniversary

*1 Establishment of the The Sixty-Eighth Bank, Ltd.

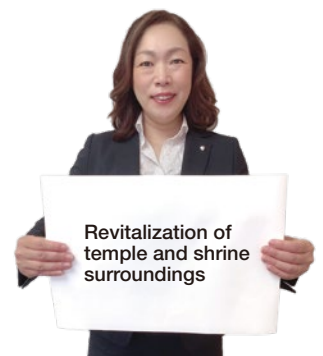
Platinum Kurumin certification
Awarded by the Ministry of Health, Labour and Welfare

プラチナくるみん
子育てをサポートしています



No. of employees

2,482



Average age

39 years and 6 months



Founding

86th anniversary

Processes

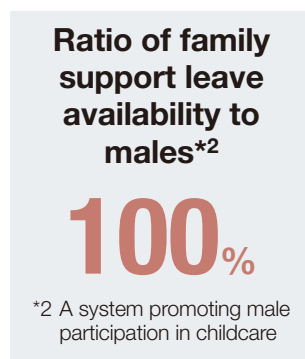
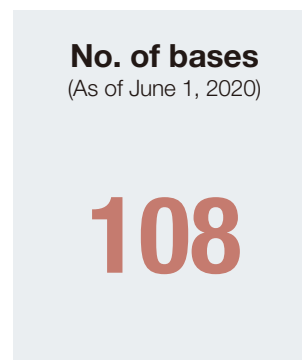
•Every Nanto Bank employee is responsible for providing leadership.

Nanto Bank embodies a traditional character created by unifying the contributions of every executive and employee. The words and actions of every individual contribute to the image of Nanto Bank our stakeholders will evaluate. Each of us must represent the Bank with self-awareness and pride.

•Every employee becomes a customer advisor.

Nanto Bank is active as a regional financial institution inspired by a social mission. In order to develop the region, all employees must provide customers with kindhearted but firm advice. To this end, we all must work to improve ourselves and earn our customers' trust as consultants.

(March 31, 2020)



Strengthening both defensive and aggressive governance, implementing responses/support for coronavirus pandemic victims, and supporting regional communities and customers

By strengthening governance to construct a new risk management system, we are seeking to realize the Nanto Mission's goals of achieving regional development and enhanced profitability.

Defensive governance

<Impact of the coronavirus pandemic and Nanto Bank's response>

A priority on the health and safety of our customers and personnel

As a financial institution, we are responsible for continuing to provide financial services as essential infrastructure required to maintain social functions. We are fulfilling this role in accordance with our policy of prioritizing the health and safety of our customers, employees and executives, even in the present circumstances in which a nationwide emergency declaration has been issued due to the coronavirus pandemic. Our efforts to this end include continuing to provide financial services while implementing measures to prevent the spread of the disease. We have introduced alternative work and staggered work systems to reduce the risk of infection during commuting and at work, moreover, while also conducting telework using tablets and mobile phones in response to inquiries and requests from customers.

Supporting the local economy

Industries ranging widely from tourism to manufacturing and retail have seen profits fall due to the coronavirus pandemic, here in Nara prefecture, the business base of Nanto Bank, as elsewhere. Many of the Bank's individual customers have also been forced to change their lifestyles as their incomes have declined.

Nanto Bank has responded by installing special consultation and telephone consultation desks to facilitate prompt, polite service to financially impacted customers and to provide repayment and cash flow consultations every day, even on holidays. We also access such financing systems as the Emergency Coronavirus Response Fund to support customers' cash flows.

Living with the coronavirus

With the impact on the economy expected to continue into the future, Nanto Bank recognizes the importance of finding a "living with coronavirus" business model.

The Bank has also introduced a self-assessment program for customers who are suffering from temporary declines in sales due to the pandemic. New rules introduced under this program protect customers from demotion to a lower debt classification after a thorough interview process has been conducted to verify their past sales records and post-pandemic business plans.

Through such measures, we will continue to provide smooth financial support for our customers and to maintain the financial health of Nanto Bank. In preparation for a possible recession, we anticipate suffering ¥8.5 billion in preventive credit-related costs during fiscal years 2019 and 2020. To help maintain stable earnings in the financial markets, meanwhile, we are implementing changes to a more flexible investment style and portfolio restructuring to improve our asset liquidity.

On the sales front, we will continue to engage in direct dialogue with customers aimed at solving their management issues together, while observing measures to prevent the spread of the coronavirus.

At the same time, we are promoting a digital transformation by introducing quick counters and reception navigation facilities that enable customers to conduct transactions efficiently without conducting complicated procedures such as filling out documents at branch office service counters. This reduces processing times and decreases congestion at our branches, thus helping to prevent transmission of the virus by

■Nanto Bank's risk management system

The business environment in which financial institutions operate has changed dramatically in recent years, and the risks they face have become increasingly diverse and complex.

Nanto Bank is working under these conditions to enhance risk management in order to maintain sound, appropriate management and ensure customers' ability to conduct business with confidence.

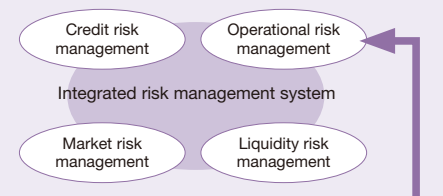
■Integrated risk management system

Nanto Bank has strengthened its risk management system by assigning responsibility for each of the various risks it faces in conducting its banking business to an appropriate department. It has also established a Risk Management Division, moreover, as a body that integrates the risks faced by the Bank to determine the location and

magnitude of the risks accurately, appraise them and implement prompt responses.

Based on the idea of "integrated risk management," under which every risk is quantified on a uniform scale and the amount of risk is controlled to an appropriate level of capital with reference to its management strength, we determine the level of risk capital (amount of equity distribution) every half year and control it to maintain each risk quantity (such as VaR) within the range of risk capital.

Efficient, effective risk/return management is assured by evaluating the status of each risk factor at monthly meetings of the ALM Committee and implementing systems for appropriate control from the perspective of ensuring sound management, improving profitability, and making effective use of capital.



- **Administrative risk management**
(Thorough, accurate office work)
- **System risk management**
(Response to system failures/prevention of unauthorized use)
- **Legal risk management**
(Observance of legal compliance)
- **Human risk management**
(Response to personnel and labor problems)
- **Tangible asset risk management**
(Response to impairment of tangible assets)
- **Rumor risk management**
(Response to false assertions circulating in the market and among customers)

implementing the “3C’s” avoidance: crowded places, close-contact settings, and confined, enclosed spaces.

Natural disaster response planning is another concern for Nara prefecture, in the vicinity of which a major Nankai Trough earthquake is predicted with a probability of 70 to 80 percent within the next 30 years, and where flooding and landslides caused by typhoons and heavy rains threaten with greater frequency every year due to climate change. We continue to review and fortify our crisis management plans and manuals in an effort to establish a more robust BCP (business continuity system).

Aggressive governance

Future image

Nanto Bank continues to pursue ongoing efforts to improve its credit rating and self-assessment systems with the aims of strengthening its credit risk management systems and building a sound and appropriate credit portfolio. Besides realizing the Nanto Mission’s goals of regional development and enhanced profitability, our new Management Plan calls for enhancing our integrated risk management system, including credit risk management. By boosting profitability through appropriate risk-taking, we will maintain sufficient capital in terms of both quality and quantity. Seeking to further strengthen our regional financial intermediary function, meanwhile, we are proceeding with a transition to the basic internal rating method (FIRB) for calculating our capital adequacy ratio to assure positive coexistence and co-prosperity with the local community.

Management initiatives to reinforce governance

From the perspective of ensuring stable operation of the FIRB system, there are three lines of defense in place under the supervision of the management team: the (1) branch offices/ Credit Analysis Division, (2) Risk Management Division and (3) Internal Audit Division. These bodies constitute a system that facilitates ongoing autonomous improvement by imposing controls on each other. We will secure stable profits and sound future operations by conducting repeated organizational discussions led by management, while working to reinforce our

credit risk management systems.

By realizing business management with a greater emphasis on risks and returns than ever before, FIRB makes it possible to secure sufficient lending capacity, backed by a generous capital adequacy ratio, to support regional development through financial intermediation functions. Both “acquiring deep knowledge of customers,” an important process in the deep-cultivation and sophistication strategies implemented under the Action Plan formulated in accordance with the Nanto Method to realize the objectives of the new Management Plan, and “enhancement of actual conditions,” an objective of FIRB, are recognized as completely consistent measures.

Compliance risk initiatives

Although the compliance system has been defined as the most important issue for management in the past, it has so far served merely as a superficial check on violations of law, a reactive response to individual issues that arise, and a partial response centered on departmental management, all of which are distinct from management issues.

The internal control system we should seek is one that facilitates formulation of a business model and management strategy in consideration of the kinds of compliance risk expected to emerge, and that confirms that the content is shared among all our executives and employees.



Senior Managing Executive Officer (Representative Director)
Keizo Nishikawa (Director, Risk Management Department)

■Crisis management preparation

Nanto Bank has implemented various measures, beginning with preparation of a crisis management plan and a crisis management plan response manual for each type of crisis, to minimize the impact of various crises associated with the spread of infectious diseases such as the new coronavirus, natural disasters such as large-scale earthquakes, and business-related calamities such as system failures. In the event of a crisis, the Emergency Measures Meeting, the Measures Headquarters and other bodies will move quickly to gather information according to the crisis level and to determine optimal responses and minimize the impact on business by providing centralized instructions for implementing them.

We are also taking steps to assure our ability to continue providing services to our customers, thus fulfilling our social responsibility through such means as enhancing our facilities to enable continued operation, even in the face of a disaster. We conduct training and implement continuous improvements to ensure the effectiveness of our crisis management systems.

■Internal audit system

Enhancing and reinforcing risk management requires that effective functioning of the PDCA cycle supporting autonomous improvement be secured, while the various branch offices and departments responsible for individual risks and the Risk Management Division check and balance each other.

Our efforts to ensure the soundness of management and the appropriateness of our business procedures begin with the Internal Audit Division, which grasps the risk occurrence status of each business, verifies the performance of the PDCA cycle functions, and recommends improvements as necessary to enhance and strengthen risk management.

The Nanto brand An unseen but vitally important asset

Each of us does what is right for society, and clarifies the thinking that guides our actions. Doing these things builds trust in the Bank. This is how we earn trust through our daily decisions and actions.

Basic idea

In implementing the Nanto Mission:

- Pursuing regional development**
- Cultivating personnel who creates vitality**
- Enhancing profitability**

We will bring vitality to the region and our customers with the intention of becoming the “Leading group in vitality creation” by 2030.

To implement the Nanto Mission and achieve our goals, we will further enhance management transparency and fairness, and respond flexibly to the opinions of stakeholders and changes in the business environment by making swift, timely corrections. We will work to construct a governance structure that facilitates these efforts. And we will follow our management philosophy to revitalize Nanto Bank and its business arena, guided by our 10-year Management Vision, as we prepare to celebrate the 90th anniversary of our foundation as a “regional revitalization bank” in 2024.

Initiatives to strengthen corporate governance

To achieve the goals of the Nanto Mission and become an indispensable force for regional development, we must seek to maximize the value we provide our stakeholders in a constant pursuit of the best, a pursuit we consider to be the basis for governance.

Faced with unprecedented conditions today, we must respond to changes in the surrounding environment by establishing new sources of earnings outside the traditional banking field, while retaining our role as a vital part of the regional

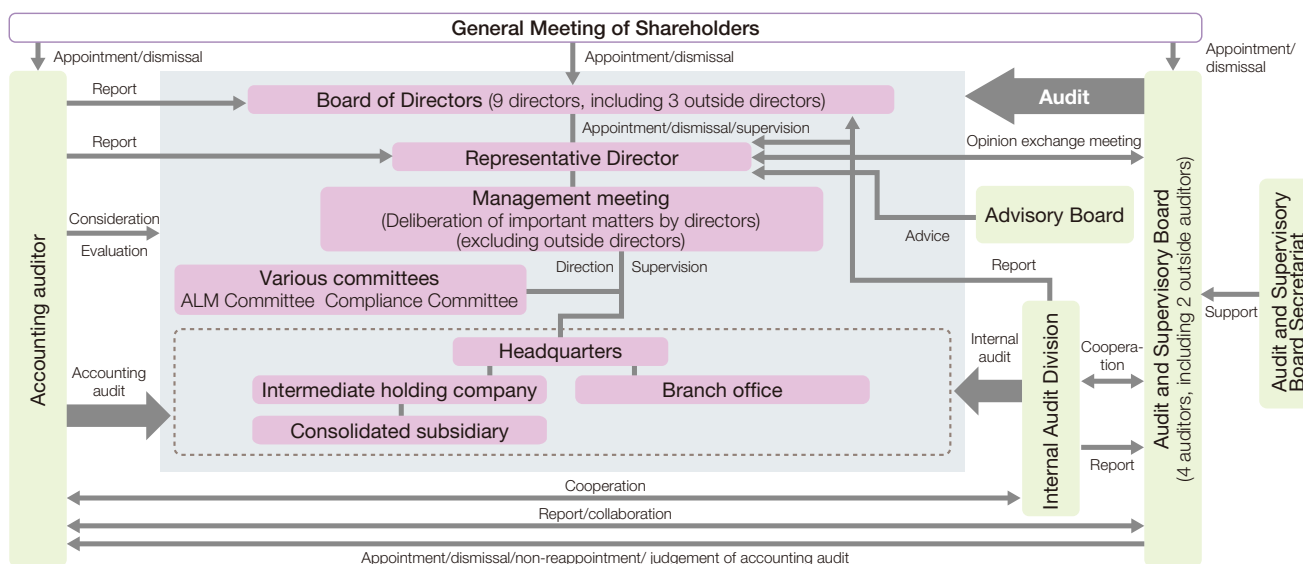
financial infrastructure supported by community trust accumulated through long-term stable management in our region. As we take on the formidable challenge of engendering new strategies, we must consider a wide range of possible strategies and implementation methods from various perspectives.

We took a significant step in this direction last year with the invitation of Satoshi Ishida to serve as Deputy President. We followed up this year with the election of Hidetaka Matsuzaka, an outside director with experience in managing a non-financial business firm, and Shuhei Aoki, an expert on financial administration and international affairs. We also reappointed Matazaemon Kitamura as a representative of the local business world. We believe that these moves have created a diversified Board of Directors with a variety of expertise appropriate to Nanto Bank’s future goals. Going forward, we will review the operation of the Board of Directors further, including consideration of establishing a voluntary Nomination and Compensation Committee with outside directors as its primary members.

Nanto Bank’s governance structure includes the Audit and Supervisory Board, whose activities are crucial to its enhancement of governance. This board is directing efforts toward reinforcing cooperation with the accounting auditor and the Internal Audit Division by working to deepen the Bank’s three-way auditing system.

Certain issues such as the appointment of female directors and formulation of succession plans remain to be resolved, but we continue working to strengthen governance by initiating and activating discussions by the Board of Directors from a higher perspective.

Corporate Governance System



Message

Nanto Bank's efforts to solve regional issues

The role of regional financial institutions in the coronavirus pandemic

With the advent of the coronavirus pandemic, the government declared a national emergency. Economic activities have been severely constrained as a result, corporate performances have rapidly destabilized, and customers in Nanto Bank's operating region have suffered devastating impacts. Nanto Bank has moved quickly to provide solid support, especially for struggling small and medium-sized enterprises, efforts which have been highly appreciated. With the possibility of second and third waves of the disease threatening, however, future challenges await us, making it imperative that we create new mechanisms with the region's new normal taken into account. To this end, Nanto Bank will not only provide financial support as a regional bank, but it will also play a leadership role as a regional business operator in motivating the community and leading the way to a resurgence of lively towns and businesses.

My family have been involved in forestry management for generations, and I look forward to working to protect our abundant nature, which is one of the SDG targets, while at the same time stimulating business growth. I was honestly surprised that only one private company committed itself to regional development in its management plan for the period beginning in April, but I am profoundly aware of Nanto Bank's preparedness to do so, and strongly enthusiastic about seeking to achieve it.

Changes in Nanto Bank

Since my appointment as an outside director in 2016, I have observed changes in Nanto Bank with each passing year. We have been proactive in implementing changes, as seen in our decision to reorganize the branches and move toward a business structure that emphasizes consulting. In fiscal 2017, moreover, a questionnaire was introduced to evaluate the efficacy of the Board of Directors in order to enhance its effectiveness. This monitoring of the Board of Directors is a



Outside Directors
Matazaemon Kitamura

positive change that is being deployed in the Board of Directors for the next fiscal year. I use the results of the effectiveness questionnaire myself to point out areas in which we can improve from an objective perspective.

Proposals regarding important management or business strategies are submitted to the Board of Directors at appropriate times. After the executives have elucidated the purposes of the strategies, it is apparent that the accuracy of the various information considered necessary and sufficient for deliberations (financial and market information as well as information on the domestic and overseas financial environment, etc.) has gradually increased.

Future of Nanto Bank's Corporate Governance System

Customer needs are diversifying in every field today, and business operators must respond sincerely with high regard for compliance to ensure formation of a highly desirable society. As a regional business leader, Nanto Bank has the responsibility of serving as a model for its customers by working to observe compliance and strengthen governance. The Bank is currently considering establishment of independent committees, such as voluntary nomination and compensation committees, but from my position as an outside director, I am also considering ways of optimizing operations and contributing actively to reinforcing good governance. As for the Management Plan introduced in April, moreover, we consider it necessary to conduct objective, diversified examinations and discussions from a medium- to long-term perspective while monitoring the implementation status of the Plan.

Strengthening the functions of the Audit and Supervisory Board

Nanto Bank, whose operations are overseen by its Audit and Supervisory Board, recognizes that strengthening this body is an important issue for governance from the standpoint of ensuring the fairness and transparency of the Board of Directors' decision-making process. At present, the system comprises two full-time corporate auditors and two outside corporate auditors, one from a megabank and the other a business firm manager. We full-time auditors attend not only the Board of Directors' Meetings of Nanto Bank and other Group companies, but also other important business management, ALM Committee and Compliance Committee meetings, at which we seek to grasp the status of business execution and contribute opinions on the basis of our expertise in the banking business. We share the information acquired in this way with other auditors, especially the outside auditors.

The Audit and Supervisory Board works closely with the accounting auditor and the Internal Audit Department, taking into account the differences in the roles they play, from the perspective of "three-way" auditing and conducts efficient and effective audits. We gather many suggestions from the accounting auditor at "three-way" auditing meetings held twice



Auditor (full-time)
Naoki Minowa



Auditor (full-time)
Takao Handa

a year, an approach that proves highly effective in improving the effectiveness of optimizing the audits conducted by the corporate auditors.

We also hold opinion-exchange meetings to share mutual awareness and challenges with three company presidents twice a year.

In the future, we plan to verify the action status of each measure in the Action Plan based on the current Management Plan from the standpoint of the Audit & Supervisory Board. We are also in discussions with the Accounting Auditor regarding KAM, which will be introduced from FY2020 in preparation for organizing a response policy.

Corporate Governance



9

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1

Director

1 President
(Representative Director)
Shares owned: 5,703

Takashi Hashimoto

2 Director
Vice President
(Representative Director)
Shares owned: 602

Satoshi Ishida

3 Director
Senior Managing Executive
Officer (Representative
Director)
Shares owned: 4,710

Keizo Nishikawa

4 Director
Managing Executive Officer
Shares owned: 3,424

Kazuomi Nakamuro

5 Director
Managing Executive Officer
Shares owned: 2,705

Kazuya Yokotani

6 Director
Managing Executive Officer
Director, Business
Promotion Headquarters
Shares owned: 4,005

Satoru Wada

7 Director
Shares owned: 4,702
(Notable concurrent position)
President, Kitamura Forestry Co., Ltd.

Matazaemon Kitamura

8 Director
Shares owned: 0
(Notable concurrent positions)
Chairman, Aussie Capital Co., Ltd.
Advisor, Osaka Gas Co., Ltd.

Hidetaka Matsuzaka

9 Director
Shares owned: 0
(Notable concurrent position)
Contracted Executive Strategist, Hitachi, Ltd.

Shuhei Aoki

(As of June 26, 2020)



2

10

4

11

6

12

13

Auditors

10 Auditor (full-time)

Naoki Minowa

Shares owned: 11,188

11 Auditor (full-time)

Takao Handa

Shares owned: 5,055

12 Auditor

Takahisa Kurahashi

Shares owned: 461
(Notable concurrent positions)
Director, Kintetsu Group Holdings Co., Ltd.
President, Kintetsu Real Estate Co., Ltd.

13 Auditor

Motoi Mitsuishi

Shares owned: 0
(Notable concurrent positions)
Vice President, Mitsubishi UFJ Research & Consulting Co., Ltd.

(Note) Directors Matazaemon Kitamura, Hidetaka Matsuzaka and Shuheji Aoki are outside directors as described in Article 2, Item 15 of the Companies Act, and corporate auditors Takatoshi Kurahashi and Motoi Mitsuishi are outside auditors as described in Article 2, Item 16 of the Companies Act. All outside directors and outside corporate auditors meet the "Independence Criteria" established by Nanto Bank, and all are registered as independent officers with the Tokyo Stock Exchange, Inc.

Company profile

Name:	The Nanto Bank, Ltd.
Founded:	June 1, 1934
Head Office:	16, Hashimoto-cho, Nara City, Nara, Japan
Capital:	37,924.15 million yen
Total assets:	5,653.8 billion yen
Deposit balance:	5,042.1 billion yen
Loan balance:	3,477.1 billion yen
Domestic offices:	140 (92 in Nara Prefecture, including Internet branches, and 48 in other locations)
	Overseas representative offices: 2 (1 each in Hong Kong and Shanghai)
Employees:	2,482
Capital adequacy ratio:	9.06% (non-consolidated); 9.39% (consolidated)
URL:	https://www.nantobank.co.jp

Overview of consolidated subsidiaries' business operations

Company name and location	Main content of work
Nanto Management Service Co., Ltd. 297-2, Omiya-cho 4-chome, Nara City, Nara, Japan	Services offered by Nanto Management include management of subsidiaries, management and leasing of commercial real estate, outsourcing, and employee placement services.
Nanto Business Service Co., Ltd. 93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	Besides conducting centralized monitoring of Nanto Bank's ATMs to support improvement of customer services, Nanto Business Service provides restructuring/optimization of such routine operations as cash counting/sorting and DM mailing to optimize the efficiency of Nanto Bank operations.
Nanto Credit Guarantee Co., Ltd. 297-2, Omiya-cho 4-chome, Nara City, Nara, Japan	Nanto Credit Guarantee's business centers on provision of guarantee services for consumer loans, including Nanto Bank mortgages, and support for customers' loan use.
Nanto Lease Co., Ltd. 52-1, Omori-cho, Nara City, Nara, Japan	Nanto Lease contributes to the development of regional business and industry by supporting the introduction of movables ranging from OA equipment to large industrial equipment and automobiles in order to meet the diverse needs of customers.
Nanto Computer Service Co., Ltd. 93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	Established to support customers' efforts to optimize their office procedures and IT environments, Nanto Computer Service provides computer system development and sales, consultations on computer introduction and use, and outsourcing of various calculation tasks.
Nanto Investment Advisors Co., Ltd. 297-2, Omiya-cho 4-chome, Nara City, Nara, Japan	Nanto Investment Advisors applies extensive expertise in gathering wide-ranging general information and specialized knowledge to help customers manage funds efficiently in the securities markets.
Nanto DC Card Co., Ltd. 61-7, Higashi Ikoma 1-chome, Ikoma City, Nara, Japan	As a member of the DC Group, Nanto DC Card meets customers' diverse needs in the credit card business. It also guarantees consumer loans (credit card loans) extended by Nanto Bank.
Nanto Card Service Co., Ltd. 61-7, Higashi Ikoma 1-chome, Ikoma City, Nara, Japan	A member of the VJA group, Nanto Card Service engages in the credit card business, centered on the Nanto Cotoca, and provides guarantees for consumer loans extended by Nanto Bank.
Nanto Consulting Co., Ltd. 16, Hashimoto-cho, Nara City, Nara, Japan	As specialists in various areas of management, Nanto Consulting proposes solutions through consulting and business-matching operations.
Nangin Agency Co., Ltd. 93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	As a third business in an office shared with a Nanto Bank branch office and sub-branch, Nangin Agency operates a financial services agency business for regional customers.*
Nanto Challenged Co., Ltd. 93-2, Minami-Kyobate-cho 1-chome, Nara City, Nara, Japan	A company that engages actively in finding employment for people with disabilities, Nanto Challenged has acquired special certification of a special subsidiary to centralizing and professionalizing routine office work, such as supply management and dispatching, to support business efficiency.
Nanto Mahoroba Securities Co., Ltd. 1-56, Saidaiji-Higashi-machi 2-chome, Nara City, Nara, Japan	Nanto Mahoroba Securities leverages know-how cultivated over a long history in the securities business, supported by its access to the Group's regional management base, to contribute to customers' asset formation through provision of high-quality securities services.

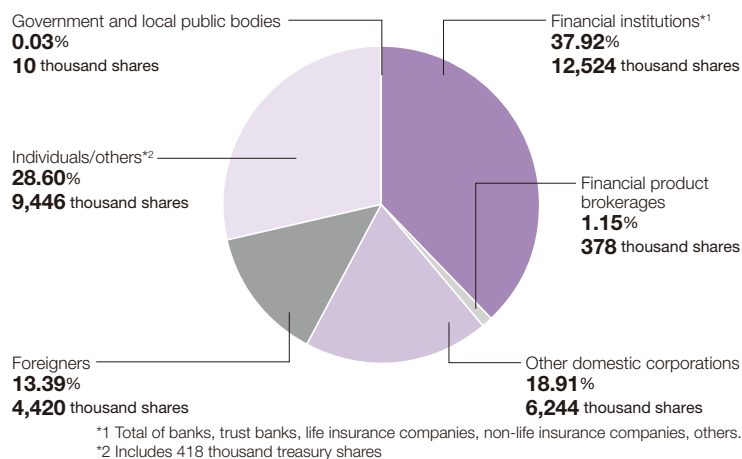
*The Kido agency was converted to a branch office of Nanto Bank in April of this year as part of our branch network reorganization, and is now conducting joint operation. There is currently no independent agency in the Nanto Bank Group.

Stock situation

Total shares issued: 33,025 thousand

Number of shareholders: 14,870

Stock distribution by owner category



Major shareholders (top 10)

Name	Number of shares owned (unit: 1,000)*3	Ratio of number of shares owned to total number of shares issued (%)*4
The Master Trust Bank of Japan, Ltd. (trust account)	2,002	6.14
Japan Trustee Services Bank, Ltd. (trust account)	1,475	4.52
Japan Trustee Services Bank, Ltd. (trust account 9)	1,115	3.42
Nippon Life Insurance Company	1,053	3.22
Meiji Yasuda Life Insurance Company	1,043	3.19
Nanto Bank Employee Stock Ownership Association	842	2.58
Japan Trustee Services Bank, Ltd. (trust account 5)	666	2.04
Sumitomo Life Insurance Company	662	2.03
Mitsubishi UFJ Bank, Ltd.	508	1.55
JP MORGAN CHASE BANK 385151	502	1.54

(Note) *3 The number of shares owned is rounded down to the nearest thousand.

*4 The ratio of the number of shares owned is calculated by deducting treasury stocks (418 thousand shares) and is rounded down to two decimal places.

Total shareholder return (TSR)

	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Mar. 2020
Nanto Bank	75.0	101.0	73.8	56.6	62.3
TOPIX (including dividend)	89.1	102.2	118.5	112.5	101.8

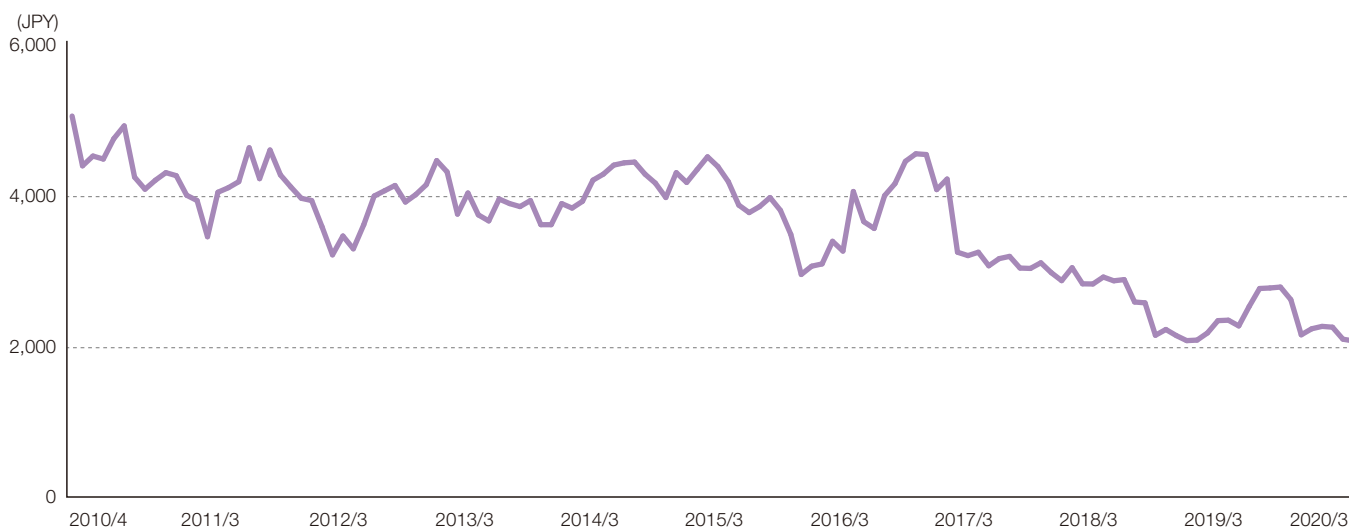
Dividends per share / Dividend payout ratio

	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Mar. 2020
Dividends per share*5 (yen)	70.00	70.00	70.00	80.00*6	80.00
Payout ratio (%)	16.04	15.50	17.18	23.40	78.47

(Note) *5 As of October 1, 2016, 10 shares have been consolidated into one share. Dividends per share for the years ended March 31, 2016 and 2017, were calculated assuming that share consolidation was conducted at the beginning of the fiscal year ended March 31, 2016.

*6 10.00 yen of the 80.00 yen per share dividend for the year ending March 31, 2019 was a 140th anniversary commemorative dividend.

Stock price transitions



Consolidated Financial Statements

• Consolidated Balance Sheets

The Nanto Bank, Ltd. and Consolidated Subsidiaries as of March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets:			
Cash and due from banks (Notes 18 and 20).....	¥ 693,798	¥ 830,696	\$ 6,375,062
Call loans and bills bought (Note 20).....	—	388	—
Debt purchased (Note 20).....	2,412	3,514	22,163
Money held in trust (Notes 20 and 21).....	39,470	34,070	362,675
Securities (Notes 5, 7, 10, 20 and 21).....	1,340,346	1,432,780	12,315,960
Loans and bills discounted (Notes 6, 8 and 20).....	3,457,276	3,392,321	31,767,674
Foreign exchanges (Note 6).....	1,114	1,891	10,236
Lease receivables and lease investment assets.....	25,072	19,838	230,377
Other assets (Note 7).....	67,424	46,225	619,535
Tangible fixed assets (Note 9).....	39,183	41,183	360,038
Buildings.....	11,485	12,405	105,531
Land.....	24,596	25,351	226,003
Construction in progress.....	1	—	9
Other tangible fixed assets.....	3,099	3,426	28,475
Intangible fixed assets.....	6,413	5,474	58,926
Software.....	5,961	4,981	54,773
Other intangible fixed assets (Note 7).....	451	493	4,144
Deferred tax assets (Note 25).....	12,611	1,311	115,877
Customers' liabilities for acceptances and guarantees.....	6,615	7,556	60,782
Reserve for possible loan losses (Note 20).....	(20,810)	(18,382)	(191,215)
Total assets.....	¥ 5,670,929	¥ 5,798,870	\$ 52,108,141
Liabilities and net assets:			
Liabilities:			
Deposits (Notes 7 and 20).....	¥ 5,029,759	¥ 4,904,027	\$ 46,216,659
Negotiable certificates of deposit (Note 20).....	7,370	21,622	67,720
Call money and bills sold (Note 20).....	5,441	—	49,995
Payables under repurchase agreements (Notes 7 and 20).....	42,475	42,601	390,287
Payables under securities lending transactions (Notes 7 and 20).....	135,144	279,580	1,241,789
Borrowed money (Notes 7, 20 and 31).....	135,538	210,648	1,245,410
Foreign exchanges.....	155	260	1,424
Borrowed money from trust account.....	6,763	6,446	62,142
Other liabilities (Note 31).....	33,432	19,665	307,194
Liability for retirement benefits (Note 23).....	11,842	11,152	108,811
Reserve for reimbursement of deposits.....	216	238	1,984
Reserve for contingent losses.....	1,101	853	10,116
Reserve under special laws.....	3	3	27
Deferred tax liabilities (Note 25).....	15	4,360	137
Acceptances and guarantees.....	6,615	7,556	60,782
Total liabilities.....	¥ 5,415,875	¥ 5,509,018	\$ 49,764,541
Net assets (Note 3):			
Common stock: Authorized 64,000 thousand shares in 2020 and 2019 Issued 33,025 thousand shares in 2020 and 2019.....	¥ 37,924	¥ 37,924	\$ 348,470
Capital surplus.....	34,749	34,749	319,296
Retained earnings.....	181,640	181,077	1,669,025
Less treasury stock: Issued 418 thousand shares in 2020 and 425 thousand shares in 2019.....	(1,745)	(1,776)	(16,034)
Total stockholders' equity	252,569	251,974	2,320,766
Valuation difference on available-for-sale securities (Note 21).....	3,357	38,687	30,846
Deferred gains or losses on hedges (Note 22).....	(162)	(210)	(1,488)
Accumulated adjustments for retirement benefits (Note 23).....	(798)	(698)	(7,332)
Total accumulated other comprehensive income	2,395	37,778	22,006
Stock acquisition rights	88	98	808
Total net assets.....	255,053	289,852	2,343,590
Total liabilities and net assets.....	¥ 5,670,929	¥ 5,798,870	\$ 52,108,141

See Notes to Consolidated Financial Statements.

• Consolidated Statements of Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and bills discounted.....	¥ 30,159	¥ 30,485	\$ 277,120
Interest and dividends on securities.....	13,482	13,654	123,881
Other interest income.....	514	541	4,722
Trust fees.....	13	29	119
Fees and commissions.....	20,643	19,214	189,681
Other operating income (Note 11).....	8,071	7,851	74,161
Other income (Note 12).....	8,200	14,637	75,346
Total income.....	81,087	86,414	745,079
Expenses:			
Interest expense:			
Interest on deposits.....	541	640	4,971
Interest on borrowings and rediscounts.....	768	622	7,056
Interest on payables under securities lending transactions.....	422	947	3,877
Other interest expense.....	1,380	1,719	12,680
Fees and commissions.....	10,736	10,057	98,649
Other operating expenses (Note 13).....	4,112	9,720	37,783
General and administrative expenses (Note 14).....	42,980	41,618	394,927
Other expenses (Note 15).....	14,270	5,619	131,121
Total expenses.....	75,215	70,947	691,123
Income before income taxes.....	5,872	15,467	53,955
Income taxes (Note 25):			
Current.....	4,148	2,570	38,114
Deferred.....	(1,455)	1,723	(13,369)
Total income taxes.....	2,692	4,293	24,735
Net income.....	3,179	11,174	29,210
Net income attributable to owners of parent.....	¥ 3,179	¥ 11,174	\$ 29,210

	Yen		U.S. dollars (Note 1)
	2020	2019	2020
Per share of common stock (Note 29):			
Net income - basic.....	¥ 97.52	¥ 342.79	\$ 0.89
Net income - diluted.....	97.43	342.47	0.89
Dividends.....	80.00	80.00	0.73

See Notes to Consolidated Financial Statements.

• Consolidated Statements of Comprehensive Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net income.....	¥ 3,179	¥ 11,174	\$ 29,210
Other comprehensive income (loss) (Note 17):			
Valuation difference on available-for-sale securities.....	(35,330)	(6,641)	(324,634)
Deferred gains (losses) on hedges.....	47	71	431
Adjustments for retirement benefits (Note 23).....	(100)	3,507	(918)
Total other comprehensive income (loss).....	(35,382)	(3,061)	(325,112)
Total comprehensive income for the year.....	(32,203)	8,112	(295,901)
Total comprehensive income attributable to:			
Owners of parent.....	(32,203)	8,112	(295,901)

See Notes to Consolidated Financial Statements.

Consolidated Financial Statements

• Consolidated Statements of Changes in Net Assets

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2020 and 2019

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 hedge	Accumulated adjustments for retirement benefits	Stock acquisition rights	Total net assets
Balance at April 1, 2018	33,025	¥ 37,924	¥ 34,749	¥ 172,353	¥ (1,812)	¥ 45,328	¥ (282)	¥ (4,206)	¥ 113	¥ 284,169
Changes in items during period										
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 items other than stockholders' equity						(6,641)	71	3,507	(14)	(3,076)
Total changes in items during period		—	—	8,723	35	(6,641)	71	3,507	(14)	5,682
Balance at April 1, 2019	33,025	¥ 37,924	¥ 34,749	¥ 181,077	¥ (1,776)	¥ 38,687	¥ (210)	¥ (698)	¥ 98	¥ 289,852
Changes in items during period										
Cash dividends				(2,608)						(2,608)
Net income attributable to owners of parent				3,179						3,179
Purchase of treasury stock					(5)					(5)
Disposition of treasury stock			(8)		36					28
Transfer from retained earnings to capital surplus			8	(8)						—
Net changes in items other than stockholders' equity						(35,330)	47	(100)	(10)	(35,393)
Total changes in items during period		—	—	563	31	(35,330)	47	(100)	(10)	(34,798)
Balance at March 31, 2020 (Note 3)	33,025	¥ 37,924	¥ 34,749	¥ 181,640	¥ (1,745)	¥ 3,357	¥ (162)	¥ (798)	¥ 88	¥ 255,053

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 hedge	Accumulated adjustments for retirement benefits	Stock acquisition rights	Total net assets	
Balance at April 1, 2019	\$ 348,470	\$ 319,296	\$ 1,663,851	\$ (16,319)	\$ 355,481	\$ (1,929)	\$ (6,413)	\$ 900	\$ 2,663,346	
Changes in items during period										
Cash dividends			(23,964)							(23,963)
Net income attributable to owners of parent			29,210							29,210
Purchase of treasury stock				(45)						(45)
Disposition of treasury stock		(73)		330						257
Transfer from retained earnings to capital surplus		73	(73)							—
Net changes in items other than stockholders' equity					(324,634)	431	(918)	(91)		(325,213)
Total changes in items during period			5,173	284	(324,634)	431	(918)	(91)		(319,746)
Balance at March 31, 2020 (Note 3)	\$ 348,470	\$ 319,296	\$ 1,669,025	\$ (16,034)	\$ 30,846	\$ (1,488)	\$ (7,332)	\$ 808	\$ 2,343,590	

See Notes to Consolidated Financial Statements.

• Consolidated Statements of Cash Flows

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities			
Income before income taxes	¥ 5,872	¥ 15,467	\$ 53,955
Depreciation.....	3,788	3,582	34,806
Impairment loss.....	1,822	41	16,741
Gain on step acquisitions	—	(12)	—
Gain on negative goodwill	—	(14)	—
Increase (decrease) in reserve for possible loan losses	2,428	(1,430)	22,310
Increase (decrease) in liability for retirement benefits.....	546	(5,796)	5,016
Increase (decrease) in reserve for reimbursement of deposits.....	(22)	(6)	(202)
Increase (decrease) in reserve for contingent losses	247	(13)	2,269
Interest income	(44,158)	(44,680)	(405,752)
Interest expense.....	3,114	3,930	28,613
Loss (gain) on investment securities	(6,741)	(4,475)	(61,940)
Loss (gain) on money held in trust	51	190	468
Foreign exchange losses (gains).....	6,357	(5,492)	58,412
Losses (gains) on sales of fixed assets	143	26	1,313
Net decrease (increase) in loans and bills discounted	(64,955)	(61,601)	(596,848)
Net increase (decrease) in deposits	125,732	86,536	1,155,306
Net increase (decrease) in negotiable certificates of deposit	(14,252)	2,666	(130,956)
Net increase (decrease) in borrowed money.....	(75,110)	2,241	(690,158)
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)...	(932)	(68)	(8,563)
Net decrease (increase) in call loans and bills bought	1,489	(429)	13,681
Net increase (decrease) in call money.....	5,315	(32,629)	48,837
Net increase (decrease) in payables under securities lending transactions..	(144,435)	(65,669)	(1,327,161)
Net decrease (increase) in foreign exchange assets.....	777	315	7,139
Net increase (decrease) in foreign exchange liabilities	(104)	9	(955)
Net decrease (increase) in lease receivables and lease investment assets ..	(5,314)	(3,877)	(48,828)
Net increase (decrease) in borrowed money from trust account	316	3,596	2,903
Interest received.....	45,568	46,124	418,708
Interest paid.....	(3,331)	(4,152)	(30,607)
Other	5,584	(20,319)	51,309
Subtotal	(150,200)	(85,941)	(1,380,134)
Income taxes paid.....	(3,089)	(3,038)	(28,383)
Net cash used in operating activities	(153,289)	(88,979)	(1,408,517)
Cash flows from investing activities			
Purchases of securities	(643,774)	(755,331)	(5,915,409)
Proceeds from sales of securities.....	473,942	749,645	4,354,883
Proceeds from maturities of securities.....	197,465	112,443	1,814,435
Increase in money held in trust.....	(5,652)	(247)	(51,934)
Decrease in money held in trust	200	407	1,837
Purchase of tangible fixed assets	(1,395)	(1,770)	(12,818)
Proceeds from sales of tangible fixed assets	143	97	1,313
Purchase of intangible fixed assets.....	(2,770)	(2,450)	(25,452)
Purchase of shares of a subsidiary resulting in change in scope of consolidation ...	—	(867)	—
Payments for asset retirement obligations	(75)	—	(689)
Other	(7)	(79)	(64)
Net cash provided by investing activities	18,075	101,846	166,084
Cash flows from financing activities			
Dividends paid	(2,607)	(2,442)	(23,954)
Purchase of treasury stock.....	(5)	(4)	(45)
Other	0	0	0
Net cash used in financing activities	(2,612)	(2,447)	(24,000)
Effect of exchange rate changes on cash and cash equivalents.....	(2)	4	(18)
Net increase (decrease) in cash and cash equivalents	(137,829)	10,424	(1,266,461)
Cash and cash equivalents at beginning of year	829,194	818,769	7,619,167
Cash and cash equivalents at end of year (Note 17)	¥ 691,364	¥ 829,194	\$ 6,352,696

See Notes to Consolidated Financial Statements.

Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Nanto Bank, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2020 and 2019

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 readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 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 subsidiaries at March 31, 2020.

The Bank had two (two in 2019) 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 2019) 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 2019) 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, 2020 because it is held by the Bank's unconsolidated subsidiary for the purpose of incubating the investee 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 straightline method.

For the fiscal years ended March 31, 2020 and 2019, 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 between the hedged items and 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 with 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 Bank deducts the estimated future cash flows and the amount expected to be recovered from collateral and guarantees from the loan amount and of that remainder reports the amount that it recognizes to be necessary after comprehensively judging the customer’s ability to pay.

For loans pertaining to customers other than the above, the Bank reports mainly the anticipated loss for the next one or three years. The anticipated loss is calculated using the loss rate based on the average value in a fixed past period of the loan loss ratio with the actual loan loss of one or three years as its foundation with necessary adjustments such as future prospects, etc.

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, 2020 and 2019, the deducted amounts were ¥9,053 million (\$83,184 thousand) and ¥7,237 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 the reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for possible losses on 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.

Consolidated Financial Statements

q. Consumption taxes

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

r. Standards and guidance not yet adopted

For the year ended March 31, 2020

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

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)

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

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the 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 obligations 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.

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

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

“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

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

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

(1) Overview

In order to improve comparability with the provisions in international accounting standards, the “Accounting Standards for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (“fair value measurement accounting

standards, etc.”) were developed, and guides, etc., concerning the method of measuring fair value were stipulated. The fair value measurement accounting standards, etc., are applied to the fair value of the following items.

- Financial instruments in the “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes in the “Accounting Standard for Measurement of Inventories”

Furthermore, the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised, and notes on the breakdown, etc., for each level of the fair value of financial instruments were stipulated.

(2) Effective date

The Group is scheduled to apply the standards and 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.

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

(1) Overview

The purpose of this accounting standard is to disclose information that contributes to the understanding of the users of the financial statements regarding the content of the amounts reported in the financial statements for the current fiscal year based on accounting estimates, which are accounting estimates in items for which there is risk that they will have a material effect on the financial statements for the following fiscal year.

(2) Effective date

The Group plans to apply the standard from the end of the fiscal year ending March 31, 2021.

s. Additional information

The economic impact of COVID-19 is likely to continue for approximately one year, and the Bank is assuming that there will be an effect on the credit risk of the loans and bills discounted, etc., of the Bank. The Bank is determining the category of borrowers and reporting the reserve for possible loan losses based on the information available at the present time. However, the assumption is uncertain, and if the situation due to COVID-19 or its effect on the economy changes, there is a possibility that this will have an effect on business performance in the following consolidated fiscal year and onwards.

3. CHANGES IN NET ASSETS

(1) Type and numbers of shares issued and treasury stock for the fiscal years ended March 31, 2020 and 2019 were as follows:

	(Thousands of shares)			Remarks
	April 1, 2019	Increase	Decrease	
	2020			
				March 31, 2020
Shares issued				
Common stock.....	33,025	—	—	33,025
Total.....	33,025	—	—	33,025
Treasury stock				
Common stock.....	425	2	8	418 Notes 1 & 2
Total.....	425	2	8	418

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

2. The decrease of 8 thousand shares in common stock of treasury stock was due to the execution of stock options.

	(Thousands of shares)				Remarks
	2019				
	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.

(2) Matters concerning stock acquisition rights

For the fiscal year ended March 31, 2020

Classification	Breakdown	Shares expected to be acquired upon exercise of stock acquisition rights				Balance at end of current fiscal year (Millions of yen)	(Thousands of U.S. dollars)
		Number of shares					
		April 1, 2019	Increase	Decrease	March 31, 2020		
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥88	\$808
	Total	—	—	—	—	¥88	\$808

For the fiscal year ended March 31, 2019

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

(3) Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2020

Millions of yen (thousands of U.S. dollars), except per share amounts (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 27, 2019	Common stock	¥1,303 (\$11,972)	¥40.00 (\$0.36)	March 31, 2019	June 28, 2019	
Board of Directors' meeting held on November 8, 2019	Common stock	¥1,304 (\$11,981)	¥40.00 (\$0.36)	September 30, 2019	December 5, 2019	

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

Millions of yen, except per share amounts (yen)						
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	¥35.00	March 31, 2018	June 29, 2018	
Board of Directors' meeting held on November 9, 2018	Common stock	¥1,303	¥40.00	September 30, 2018	December 5, 2018	

(c) Dividends to be paid in the fiscal year ending March 31, 2021

Millions of yen (thousands of U.S. dollars), except per share amounts (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 26, 2020	Common stock	¥1,304 (\$11,981)	Retained earnings	¥40.00 (\$0.36)	March 31, 2020	June 29, 2020

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

Consolidated Financial Statements

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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Shares or investments in capital.....	¥ 282	¥ 163	\$ 2,591

6. NONPERFORMING LOANS

Nonperforming loans at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans to bankrupt borrowers.....	¥ 2,571	¥ 1,419	\$ 23,624
Past due loans.....	44,249	43,042	406,588
Past due loans (three months or more)	494	571	4,539
Restructured loans.....	4,333	8,921	39,814
Total.....	¥ 51,648	¥ 53,954	\$ 474,575

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 ¥16,378 million (\$150,491 thousand) and ¥23,366 million at March 31, 2020 and 2019, respectively.

Regarding loan participation, based on the "Accounting Treatment and Presentation of Loan Participation" (JICPA Accounting System Committee Report No. 3, November 28, 2014), of the participating principal amount accounted for as loans and bills discounted with respect to the original debtor, the amount recorded in the consolidated balance sheets is as follows.

¥3,105 million (\$28,530 thousand) and ¥2,501 million at March 31, 2020 and 2019, respectively.

7. PLEDGED ASSETS

At March 31, 2020 and 2019, securities of ¥477,613 million (\$4,388,615 thousand) and ¥643,515 million, respectively, and other assets of ¥1,979 million (\$18,184 thousand) and ¥1,978 million, respectively, were pledged as collateral for deposits of ¥32,755 million (\$300,973 thousand) and ¥37,496 million, respectively, call money and bills sold of ¥5,441 million (\$49,995 thousand) and none, respectively, payables under repurchase agreements of ¥42,475 million (\$390,287 thousand) and ¥42,601 million, respectively, payables under securities lending transactions of ¥135,144 million (\$1,241,789 thousand) and ¥279,580 million, respectively, and borrowed money of ¥127,975 million (\$1,175,916 thousand) and ¥202,520 million, respectively.

Securities of ¥210 million (\$1,929 thousand) and ¥92 million and other assets of ¥20,018 million (\$183,938 thousand) and ¥20,034 million were pledged for transaction guarantees at March 31, 2020 and 2019, respectively.

Unexpired lease contract claims of ¥3,846 million (\$35,339 thousand) and ¥3,984 million were pledged as collateral for borrowed money of ¥3,086 million (\$28,356 thousand) and ¥2,897 million at March 31, 2020 and 2019, respectively.

At March 31, 2020 and 2019, other assets included initial margins of futures markets of ¥168 million (\$1,543 thousand) and ¥192 million, respectively, and security deposits of ¥1,049 million (\$9,638 thousand) and ¥1,145 million, respectively, and other intangible fixed assets included key money of ¥451 million (\$4,144 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, 2020 and 2019 were ¥978,728 million (\$8,993,182 thousand) and ¥967,303 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, 2020 and 2019 was ¥901,064 million (\$8,279,555 thousand) and ¥916,872 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 ¥45,231 million (\$415,611 thousand) and ¥44,892 million at March 31, 2020 and 2019, respectively. Accumulated capital gains directly offset against the acquisition cost of tangible fixed assets to obtain tax benefits were ¥783 million (\$7,194 thousand) and ¥783 million at March 31, 2020 and 2019, respectively. For the years ended March 31, 2020 and 2019, 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 ¥27,676 million (\$254,304 thousand) and ¥20,722 million at March 31, 2020 and 2019, respectively.

11. OTHER OPERATING INCOME

For the fiscal years ended March 31, 2020 and 2019, other operating income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gains on sales of bonds	¥ 7,506	¥ 7,550	\$ 68,969
Other	565	301	5,191
Total	¥ 8,071	¥ 7,851	\$ 74,161

12. OTHER INCOME

For the fiscal years ended March 31, 2020 and 2019, other income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gains on sales of stocks and other securities.....	¥ 6,750	¥ 8,379	\$ 62,023
Reversal of allowance for loan losses	—	—	—
Recovery of written-off claims	356	407	3,271
Gain on revision of retirement benefit plan.....	—	4,784	—
Other	1,094	1,067	10,052
Total	¥ 8,200	¥ 14,637	\$ 75,346

13. OTHER OPERATING EXPENSES

For the fiscal years ended March 31, 2020 and 2019, other operating expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Losses on sales of bonds	¥ 3,220	¥ 5,625	\$ 29,587
Losses on redemption of bonds	—	2,892	—
Other	892	1,203	8,196
Total	¥ 4,112	¥ 9,720	\$ 37,783

14. GENERAL AND ADMINISTRATIVE EXPENSES

For the fiscal years ended March 31, 2020 and 2019, general and administrative expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and allowances.....	¥ 20,380	¥ 19,832	\$ 187,264
Retirement benefit costs	1,809	1,638	16,622
Other	20,791	20,148	191,041
Total	¥ 42,980	¥ 41,618	\$ 394,927

15. OTHER EXPENSES

For the fiscal years ended March 31, 2020 and 2019, other expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Write-offs of loans.....	¥ 3,683	¥ 1,036	\$ 33,841
Provision for possible loan losses.....	3,185	597	29,265
Losses on sales of stocks and other securities	3,167	2,589	29,100
Other	4,235	1,397	38,913
Total	¥ 14,270	¥ 5,619	\$ 131,121

16. IMPAIRMENT LOSSES

The Group reports impairment losses for the following asset groups.

Current consolidated fiscal year (from April 1, 2019 to March 31, 2020)

Region	Principle use	Type	Impairment loss (Millions of yen)	Impairment loss (Thousands of U.S. dollars)
Inside Nara Prefecture	25 business stores, etc.	Land and buildings, etc.	1,172	10,769
Outside Nara Prefecture	10 business stores, etc.	Land and buildings, etc.	649	5,963
Total			1,822	16,741

Regarding the fixed assets above, due to the decline in operating cash flows and the reorganization of the store network, the Bank reduced the carrying amount to the recoverable amount and reported the decrease as an impairment loss (¥1,822 million).

The Bank uses the grouping method of area and business store units because it continuously determines income and expenditure for each area

Consolidated Financial Statements

and for each business store. For idle assets, the grouping is carried out using each asset as the unit. Furthermore, the head office, Administrative Center, Training Center, etc. are assets that contribute to the generation of the future cash flows of multiple assets and asset groups, so they are deemed to be corporate assets. Each subsidiary uses the grouping with each respective company as the unit.

The calculation of the recoverable amount uses the fair value less costs to sell or the value in use, whichever is higher. The fair value is calculated based on Real Estate Appraisal Standards, etc., and the value in use is computed by discounting future cash flows by 1.9%.

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

Region	Principle use	Type	Impairment loss (Millions of yen)
Inside Nara Prefecture	1 business stores, etc.	Land	32
Outside Nara Prefecture	1 business stores, etc.	Land and buildings, etc.	9
Total			41

Regarding the fixed assets above, due to the decline of operating cash flows, the Bank reduced the carrying amount to the recoverable amount and reported the decrease as an impairment loss (¥41 million).

The Bank uses the grouping method of business store units because the stores, etc., continuously determine income and expenditure individually. For idle assets, the grouping is carried out using each asset as the unit. Furthermore, the head office, Administrative Center, Training Center, etc. are assets that contribute to the generation of the future cash flows of multiple assets and asset groups, so they are deemed to be corporate assets. Each subsidiary uses the grouping with each respective company as the unit.

In principle, the calculation of the recoverable amount uses the fair value less costs to sell, and the fair value is calculated based on Real Estate Appraisal Standards, etc.

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the fiscal years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities:			
Gains (losses) incurred during the year	¥ (45,749)	¥ (1,653)	\$ (420,371)
Reclassification adjustments to net income	(3,747)	(7,714)	(34,429)
Amount before tax effect	(49,497)	(9,368)	(454,810)
Tax effect	14,167	2,727	130,175
Valuation difference on available-for-sale securities	(35,330)	(6,641)	(324,634)
Deferred gains or losses on hedges			
Gains (losses) incurred during the year	(28)	(29)	(257)
Reclassification adjustments to net income	96	132	882
Amount before tax effect	68	103	624
Tax effect	(20)	(31)	(183)
Deferred gains or losses on hedges	47	71	431
Adjustments for retirement benefits:			
Gains (losses) incurred during the year	(325)	200	(2,986)
Reclassification adjustments to net income	181	4,839	1,663
Amount before tax effect	(143)	5,039	(1,313)
Tax effect	43	(1,532)	395
Adjustments for retirement benefits	(100)	3,507	(918)
Total other comprehensive income (loss)	¥ (35,382)	¥ (3,061)	\$ (325,112)

18. STATEMENTS OF CASH FLOWS

The reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2020 and 2019 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
	2020	2019	2020
Cash and due from banks on the consolidated balance sheets.....	¥ 693,798	¥ 830,696	\$ 6,375,062
Current deposits due from banks.....	(1,251)	(464)	(11,494)
Time deposits due from banks.....	(600)	(600)	(5,513)
Other due from banks.....	(582)	(437)	(5,347)
Cash and cash equivalents on the consolidated statements of cash flows	¥ 691,364	¥ 829,194	\$ 6,352,696

Major components of assets and liabilities of a company which has become a consolidated subsidiary due to acquisition of shares
Current consolidated fiscal year (from April 1, 2019 to March 31, 2020)
No applicable matters.

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

Major components of assets and liabilities of a company which has become a consolidated subsidiary due to the 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	
Assets	¥	1,984
Liabilities		(1,071)
Negative goodwill		(14)
Acquisition cost of shares		898
Acquisition cost of shares before control was obtained		(10)
Gain on step acquisitions		(12)
Cash and cash equivalents		(8)
Net payment for acquisition	¥	867

19. LEASE TRANSACTIONS

Operating leases

As lessee:

Future minimum lease payments under operating leases which were not cancelable at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	¥ 87	¥ 79	\$ 799
Due after one year	845	801	7,764
Total	¥ 932	¥ 880	\$ 8,563

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, 2020 and 2019.

20. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

a. Matters related 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 its surplus and deficit of funds, raises funds by loans and bonds with consideration for the financial market conditions.

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

Consolidated Financial Statements

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.

In addition to the VaR methodology, it utilizes a combination of the BPV (basis point value) methodology, simulations of interest rate fluctuations, and Δ EVE (the decrease in economic value with respect to an interest rate shock), etc., to 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 Solution Business 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, 2020, the Group's total market risk (decrease in estimated economic value) was ¥52,531 million (\$482,688 thousand) (¥43,069 million in 2019). 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 between the carrying amounts and fair values of financial instruments as of March 31, 2020 and 2019. 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		
	2020		
	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 693,798	¥ 693,798	¥ —
Call loans and bills bought	—	—	—
Debt purchased.....	2,412	2,412	—
Money held in trust	39,470	39,470	—
Securities			
Held-to-maturity debt securities	27,676	27,736	59
Available-for-sale securities	1,300,902	1,300,902	—
Loans and bills discounted	3,457,276		
Reserve for possible loan losses (*1)	(20,396)		
	3,436,880	3,448,083	11,203
Total assets	¥ 5,501,140	¥ 5,512,404	¥ 11,263
Deposits	¥ 5,029,759	¥ 5,029,768	¥ 8
Negotiable certificates of deposit	7,370	7,370	—
Call money and bills sold	5,441	5,441	—
Payables under repurchase agreements	42,475	42,475	—
Payables under securities lending transactions	135,144	135,144	—
Borrowed money	135,538	135,513	(24)
Total liabilities	¥ 5,355,729	¥ 5,355,713	¥ (16)
Derivative transactions (*2)			
Hedge accounting not applied	410	410	—
Hedge accounting applied	(172)	(172)	—
Total derivative transactions	¥ 237	¥ 237	¥ —

	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	¥ —

Consolidated Financial Statements

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Fair value	Difference
Cash and due from banks	\$ 6,375,062	\$ 6,375,062	\$ —
Call loans and bills bought	—	—	—
Debt purchased	22,163	22,163	—
Money held in trust	362,675	362,675	—
Securities			
Held-to-maturity debt securities	254,304	254,856	542
Available-for-sale securities	11,953,523	11,953,523	—
Loans and bills discounted	31,767,674		
Reserve for possible loan losses (*1)	(187,411)		
	31,580,262	31,683,203	102,940
Total assets	\$ 50,548,010	\$ 50,651,511	\$ 103,491
Deposits	\$ 46,216,659	\$ 46,216,741	\$ 73
Negotiable certificates of deposit	67,720	67,720	—
Call money and bills sold	49,995	49,995	—
Payables under repurchase agreements	390,287	390,287	—
Payables under securities lending transactions	1,241,789	1,241,789	—
Borrowed money	1,245,410	1,245,180	(220)
Total liabilities	\$ 49,211,880	\$ 49,211,733	\$ (147)
Derivative transactions (*2)			
Hedge accounting not applied	3,767	3,767	—
Hedge accounting applied	(1,580)	(1,580)	—
Total derivative transactions	\$ 2,177	\$ 2,177	\$ —

(*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 flows 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 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		Thousands of U.S. dollars
	Millions of yen		
	2020	2019	2020
Unlisted equity securities (*1) (*2)	¥ 1,690	¥ 1,639	\$ 15,528
Bonds denominated in foreign currencies (*1)	1,088	—	9,997
Investment in partnerships (*3)	8,988	5,776	82,587
Total	¥ 11,767	¥ 7,415	\$ 108,122

(*1) The fair value of unlisted equity securities and bonds denominated in foreign currencies is not disclosed, since there were no market prices and it was extremely difficult to estimate the fair values.

(*2) No impairment loss was recognized for either the fiscal year ended March 31, 2020 or 2019.

(*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					
	2020					
	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	¥ 693,798	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	—	—	—	—	—	—
Debt purchased	2,412	—	—	—	—	—
Securities	143,151	122,343	113,255	7,963	179,072	191,618
Held-to-maturity debt securities	5,129	12,612	8,354	1,579	—	—
Bonds	5,129	12,612	8,354	1,579	—	—
Available-for-sale securities with contractual maturities	138,021	109,730	104,900	6,383	179,072	191,618
Japanese government bonds	57,500	44,000	54,500	—	5,000	—
Japanese local government bonds	15,123	22,411	24,597	4,544	104,157	3,088
Corporate bonds	29,310	38,296	14,425	404	7,700	147,788
Other	36,088	5,023	11,377	1,434	62,215	40,741
Loans and bills discounted (*)	448,640	644,659	519,682	356,700	331,142	814,900
Total	¥ 1,288,003	¥ 767,002	¥ 632,938	¥ 364,663	¥ 510,214	¥ 1,006,518

Consolidated Financial Statements

	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

	Thousands of U.S. dollars					
	2020					
	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.....	\$ 6,375,062	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought.....	—	—	—	—	—	—
Debt purchased.....	22,163	—	—	—	—	—
Securities.....	1,315,363	1,124,166	1,040,659	73,169	1,645,428	1,760,709
Held-to-maturity debt securities.....	47,128	115,887	76,761	14,508	—	—
Bonds.....	47,128	115,887	76,761	14,508	—	—
Available-for-sale securities with contractual maturities.....	1,268,225	1,008,269	963,888	58,651	1,645,428	1,760,709
Japanese government bonds.....	528,346	404,300	500,781	—	45,943	—
Japanese local government bonds.....	138,959	205,926	226,013	41,753	957,061	28,374
Corporate bonds.....	269,319	351,888	132,546	3,712	70,752	1,357,971
Other.....	331,599	46,154	104,539	13,176	571,671	374,354
Loans and bills discounted (*).....	4,122,392	5,923,541	4,775,172	3,277,588	3,042,745	7,487,825
Total.....	\$ 11,834,999	\$ 7,047,707	\$ 5,815,841	\$ 3,350,758	\$ 4,688,174	\$ 9,248,534

(*) Loans from "bankrupt," "effectively bankrupt" and "likely to become bankrupt" borrowers, which are not expected to be repaid, amounting to ¥37,421 million (\$343,848 thousand) and ¥35,530 million at March 31, 2020 and 2019, respectively, are not included.

Loans whose payment terms were not determined amounting to ¥304,129 million (\$2,794,532 thousand) and ¥300,243 million at March 31, 2020 and 2019, respectively, are not included.

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

	Millions of yen					
	2020					
	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 (*).....	¥ 4,576,383	¥ 412,539	¥ 40,837	¥ —	¥ —	¥ —
Negotiable certificates of deposits.....	7,370	—	—	—	—	—
Call money and bills sold.....	5,441	—	—	—	—	—
Payables under repurchase agreements.....	14,146	28,328	—	—	—	—
Payables under securities lending transactions.....	135,144	—	—	—	—	—
Borrowed money.....	71,103	63,385	973	76	—	—
Total.....	¥ 4,809,589	¥ 504,253	¥ 41,810	¥ 76	¥ —	¥ —

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	¥ —	¥ —

Thousands of U.S. dollars

2020

	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 (*)	\$ 42,050,748	\$ 3,790,673	\$ 375,236	\$ —	\$ —	\$ —
Negotiable certificates of deposits	67,720	—	—	—	—	—
Call money and bills sold	49,995	—	—	—	—	—
Payables under repurchase agreements	129,982	260,295	—	—	—	—
Payables under securities lending transactions	1,241,789	—	—	—	—	—
Borrowed money	653,340	582,422	8,940	698	—	—
Total	\$ 44,193,595	\$ 4,633,400	\$ 384,177	\$ 698	\$ —	\$ —

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

21. 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, 2020 and 2019 was as follows:

(a) Trading securities

Not applicable for the years ended March 31, 2020 and 2019

(b) Held-to-maturity debt securities

Millions of yen

2020

	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds	¥ 25,268	¥ 25,343	¥ 74
Subtotal	¥ 25,268	¥ 25,343	¥ 74
Fair value not exceeding carrying amount:			
Corporate bonds	¥ 2,408	¥ 2,392	¥ (15)
Subtotal	¥ 2,408	¥ 2,392	¥ (15)
Total	¥ 27,676	¥ 27,736	¥ 59

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

Consolidated Financial Statements

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds	\$ 232,178	\$ 232,867	\$ 679
Subtotal.....	\$ 232,178	\$ 232,867	\$ 679
Fair value not exceeding carrying amount:			
Corporate bonds	\$ 22,126	\$ 21,979	\$ (137)
Subtotal.....	\$ 22,126	\$ 21,979	\$ (137)
Total	\$ 254,304	\$ 254,856	\$ 542

(c) Available-for-sale securities

	Millions of yen		
	2020		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks.....	¥ 50,294	¥ 26,240	¥ 24,053
Bonds	467,090	460,897	6,193
Japanese government bonds	164,170	161,253	2,916
Japanese local government bonds	109,391	107,953	1,437
Japanese corporate bonds	193,528	191,690	1,838
Others	232,377	227,605	4,772
Foreign securities included.....	108,771	105,648	3,123
Subtotal.....	¥ 749,762	¥ 714,743	¥ 35,019
Carrying amount not exceeding acquisition cost:			
Stocks.....	¥ 10,387	¥ 11,894	¥ (1,507)
Bonds	111,972	112,577	(604)
Japanese government bonds	—	—	—
Japanese local government bonds	65,722	65,987	(265)
Japanese corporate bonds	46,250	46,589	(339)
Others	428,779	459,187	(30,407)
Foreign securities included.....	66,596	72,962	(6,366)
Subtotal.....	¥ 551,139	¥ 583,659	¥ (32,519)
Total	¥ 1,300,902	¥ 1,298,402	¥ 2,499

	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

Thousands of U.S. dollars

	2020		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks.....	\$ 462,133	\$ 241,109	\$ 221,014
Bonds	4,291,923	4,235,017	56,905
Japanese government bonds	1,508,499	1,481,696	26,794
Japanese local government bonds	1,005,154	991,941	13,204
Japanese corporate bonds	1,778,259	1,761,370	16,888
Others	2,135,229	2,091,381	43,848
Foreign securities included.....	999,457	970,761	28,696
Subtotal.....	\$ 6,889,295	\$ 6,567,518	\$ 321,777
Carrying amount not exceeding acquisition cost:			
Stocks.....	\$ 95,442	\$ 109,289	\$ (13,847)
Bonds	1,028,870	1,034,429	(5,549)
Japanese government bonds	—	—	—
Japanese local government bonds	603,895	606,330	(2,434)
Japanese corporate bonds	424,974	428,089	(3,114)
Others	3,939,897	4,219,305	(279,399)
Foreign securities included.....	611,926	670,421	(58,494)
Subtotal.....	\$ 5,064,219	\$ 5,363,034	\$ (298,805)
Total	\$ 11,953,523	\$ 11,930,552	\$ 22,962

The securities loaned under unsecured securities lending transactions are included in Japanese government bonds under “Securities” in the amount of ¥39,567 million (\$363,567 thousand) and ¥30,683 at March 31, 2020 and 2019, respectively.

(2) Held-to-maturity debt securities sold for the fiscal years ended March 31, 2020 and 2019

	Millions of yen		
	2020		
	Sales amount	Gains on sales	Losses on sales
Bonds	¥ 107	¥ 0	¥ —
Japanese corporate bonds	107	0	—
Total	¥ 107	¥ 0	¥ —

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

	Thousands of U.S. dollars		
	2020		
	Sales amount	Gains on sales	Losses on sales
Bonds	\$ 983	\$ 0	\$ —
Japanese corporate bonds	983	0	—
Total	\$ 983	\$ 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, 2020 and 2019

	Millions of yen		
	2020		
	Sales amount	Gains on sales	Losses on sales
Stocks.....	¥ 26,126	¥ 6,319	¥ 1,961
Bonds	71,936	174	0
Japanese government bonds	71,559	174	—
Japanese local government bonds	179	—	0
Japanese corporate bonds	196	0	0
Others	200,975	7,762	4,427
Foreign securities included.....	147,661	5,025	265
Total	¥ 299,038	¥ 14,256	¥ 6,388

Consolidated Financial Statements

	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

	Thousands of U.S. dollars		
	2020		
	Sales amount	Gains on sales	Losses on sales
Stocks.....	\$ 240,062	\$ 58,063	\$ 18,018
Bonds	660,994	1,598	0
Japanese government bonds	657,530	1,598	—
Japanese local government bonds	1,644	—	0
Japanese corporate bonds	1,800	0	0
Others	1,846,687	71,322	40,678
Foreign securities included.....	1,356,804	46,172	2,434
Total	\$ 2,747,753	\$ 130,993	\$ 58,697

(4) Information on money held in trust at March 31, 2020 and 2019 was as follows:

Money held in trust for trading purposes

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Carrying amount (fair value).....	¥ 38,000	¥ 33,000	\$ 349,168
Amount of net unrealized gains (losses) included in the statements of income.....	71	21	652

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Carrying amount	¥ 1,470	¥ 1,070	\$ 13,507
Acquisition cost	1,470	1,070	13,507
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
	2020	2019	2020
Money in trust.....	¥ 6,763	¥ 6,446	\$ 62,142

(5) The components of the valuation difference on available-for-sale securities recorded under net assets at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference.....	¥ 2,499	¥ 51,997	\$ 22,962
Deferred tax assets or deferred tax liabilities.....	857	(13,309)	7,874
Amounts equivalent to difference on available-for-sale securities.....	¥ 3,357	¥ 38,687	\$ 30,846
Noncontrolling interests adjustment	—	—	—
Valuation difference on available-for-sale securities	¥ 3,357	¥ 38,687	\$ 30,846

(6) Securities reclassified for the fiscal years ended March 31, 2020 and 2019

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 ¥1,126 million (\$10,346 thousand) on stocks for the fiscal year ended March 31, 2020. The Bank recognized impairment loss of ¥335 million on stocks for the fiscal year ended March 31, 2019.

22. 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, 2020 and 2019 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			
		2020			
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	¥ 9,123	¥ 9,123	¥ 127	¥ 127
	Receive floating rate/pay fixed rate	10,426	10,426	(96)	(96)
	Receive floating rate/pay floating rate.....	—	—	—	—
	Interest rate options				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
	Other				
Sold.....	—	—	—	—	
Bought	—	—	—	—	
Total		¥ —	¥ —	¥ 30	¥ 30

		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)

Consolidated Financial Statements

Thousands of U.S. dollars

		2020			
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	\$ 83,827	\$ 83,827	\$ 1,166	\$ 1,166
	Receive floating rate/pay fixed rate	95,800	95,800	(882)	(882)
	Receive floating rate/pay floating rate.....	—	—	—	—
	Interest rate options				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
	Other				
	Sold.....	—	—	—	—
Bought	—	—	—	—	
Total		\$ —	\$ —	\$ 275	\$ 275

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, 2020 and 2019, "Receive floating rate/pay fixed rate" of interest rate swaps included the contract amount of ¥1,303 million (\$11,972 thousand) and ¥2,858 million, fair value of ¥(46) million (\$422 thousand) and ¥(86) million and unrealized gains (losses) of ¥(46) million (\$422 thousand) and ¥(86) 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 ¥(71) million (\$652 thousand) and ¥(100) million at March 31, 2020 and 2019, respectively, were deferred over the hedge period due to the cancellation.

(b) Currency related transactions

Millions of yen

		2020			
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	¥ 444,048	¥ 337,581	¥ 263	¥ 263
	Forward foreign exchange contracts				
	Sold.....	20,702	9,576	(472)	(472)
	Bought	24,994	7,889	588	588
	Currency options				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
	Other				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
Total		¥ —	¥ —	¥ 379	¥ 379

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

Thousands of U.S. dollars

		2020			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gains (losses)
Exchange transactions	Currency futures				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
	Currency options				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
Over-the-counter transactions	Currency swaps	\$ 4,080,198	\$ 3,101,911	\$ 2,416	\$ 2,416
	Forward foreign exchange contracts				
	Sold.....	190,223	87,990	(4,337)	(4,337)
	Bought	229,660	72,489	5,402	5,402
	Currency options				
	Sold.....	—	—	—	—
	Bought	—	—	—	—
Other	Sold.....	—	—	—	—
	Bought	—	—	—	—
Total		\$ —	\$ —	\$ 3,482	\$ 3,482

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

Consolidated Financial Statements

(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, 2020 and 2019 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		
			2020		
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		¥ 4,807	¥ 4,218	¥ (172)
	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		—	—	¥ (172)	

			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)	

			Thousands of U.S. dollars		
			2020		
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		\$ 44,169	\$ 38,757	\$ (1,580)
	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		—	—	\$ (1,580)	

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

23. 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		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the fiscal year	¥ 11,324	¥ 65,008	\$ 104,052
Effects from transition to risk sharing pension plans	—	(53,679)	—
Balance at the beginning of the fiscal year reflecting transition to risk sharing pension plans.....	11,324	11,329	104,052
Service cost.....	671	719	6,165
Interest cost.....	77	75	707
Actuarial (gain) loss	325	(200)	2,986
Benefits paid.....	(603)	(652)	(5,540)
Past service cost.....	232	—	2,131
Increase due to new consolidation	—	52	—
Balance at the end of the fiscal year.....	¥ 12,028	¥ 11,324	\$ 110,520

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
	2020	2019	2020
Balance at the beginning of the fiscal year	¥ —	¥ 43,072	\$ —
Effects from transition to risk sharing pension plans	—	(42,913)	—
Transfer to the funded assets under the SERAMA Scheme	—	(158)	—
Balance at the beginning of the fiscal year reflecting transition to risk sharing pension plans.....	—	—	—
Expected return on plan assets.....	—	—	—
Actuarial gain (loss)	—	—	—
Contributions paid by the employer	—	—	—
Benefits paid.....	—	—	—
Balance at the end of the fiscal year.....	¥ —	¥ —	\$ —

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

Consolidated Financial Statements

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded projected benefit obligations	¥ 380	¥ 342	\$ 3,491
Plan assets	—	—	—
Funded assets under the SERAMA Scheme	(185)	(171)	(1,699)
	195	170	1,791
Unfunded projected benefit obligations	11,647	10,981	107,020
Net liability for retirement benefits recorded on the consolidated balance sheet.....	¥ 11,842	¥ 11,152	\$ 108,811
Liability for retirement benefits.....	¥ 11,842	¥ 11,152	\$ 108,811
Asset for retirement benefits	—	—	—
Net liability for retirement benefits recorded on the consolidated balance sheet.....	¥ 11,842	¥ 11,152	\$ 108,812

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

(d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost.....	¥ 671	¥ 719	\$ 6,165
Interest cost.....	77	75	707
Expected return on plan assets.....	—	—	—
Net actuarial loss amortization	181	222	1,663
Amortization of past service cost	232	—	2,131
Total retirement benefit costs	¥ 1,163	¥ 1,017	\$ 10,686

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 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
	2020	2019	2020
Actuarial gain (loss)	¥ (143)	¥ 5,039	\$ (1,313)
Total.....	¥ (143)	¥ 5,039	\$ (1,313)

Note: The above actuarial gain (loss) at March 31, 2019 includes reclassification adjustments of ¥4,616 million 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
	2020	2019	2020
Unrecognized actuarial gain (loss)	¥ (1,147)	¥ (1,003)	\$ (10,539)
Total.....	¥ (1,147)	¥ (1,003)	\$ (10,539)

(g) Actuarial assumptions

The principal actuarial assumptions for the fiscal years ended March 31, 2020 and 2019 were as follows:

	2020	2019
Discount rate	0.70%	0.70%
Long-term expected rate of return	—%	—%
Estimated rate of increase in salary	2.50%	3.90%

(3) Defined contribution plans

(a) Retirement benefit costs for defined contribution plans

The Bank's required contributions to the defined contribution plans were ¥629 million in the previous consolidated fiscal year and ¥648 million (\$5,954 thousand) in the current consolidated fiscal year.

(b) The amounts equivalent to contributions commensurate with risks

The contributions that are commensurate with risks required to be contributed from the next consolidated fiscal year onwards are ¥1,465 million (\$13,461 thousand), and the number of years remaining for contributions equivalent to the contributions that are commensurate with risks is nine and a half years.

(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, and the amounts equivalent to special contributions of ¥467 million (\$4,291 thousand) at March 31, 2020 was recorded under other liabilities.

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

24. STOCK OPTIONS

(a) Items and amounts expensed related to stock options

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
General and administrative expenses.....	¥ 18	¥ 19	\$ 165

(b) Stock options outstanding at March 31, 2020

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, 2020:

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
2019 Stock Options	6 directors (excluding outside directors) of the Bank	Common stock 10,170 shares	July 26, 2019	¥1 (\$0.00)	From July 27, 2019 to July 26, 2049	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.

Consolidated Financial Statements

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	2019 Stock Options
Nonvested										
March 31, 2019 – Outstanding.....	—	—	—	—	—	—	—	—	1,720	—
Granted.....	—	—	—	—	—	—	—	—	—	10,170
Forfeited.....	—	—	—	—	—	—	—	—	—	—
Vested.....	—	—	—	—	—	—	—	—	1,720	7,627
March 31, 2020 – Outstanding.....	—	—	—	—	—	—	—	—	—	2,543
Vested										
March 31, 2019 – Outstanding.....	1,520	1,950	3,000	2,660	2,380	3,310	3,970	5,080	5,160	—
Vested.....	—	—	—	—	—	—	—	—	1,720	7,627
Exercised.....	—	—	710	630	540	1,280	1,540	1,830	2,300	—
Forfeited.....	—	—	—	—	—	—	—	—	—	—
March 31, 2020 – Outstanding.....	1,520	1,950	2,290	2,030	1,840	2,030	2,430	3,250	4,580	7,627

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	2019 Stock Options
Exercise price.....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise date....	—	—	2,338	2,338	2,338	2,338	2,338	2,338	2,338	—
Fair value price at grant date.....	4,410	3,860	3,030	3,720	4,010	3,970	3,660	2,861	2,663	1,787

	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	2019 Stock Options
Exercise price.....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average stock price at exercise date....	—	—	21.48	21.48	21.48	21.48	21.48	21.48	21.48	—
Fair value price at grant date.....	40.52	35.46	27.84	34.18	36.84	36.47	33.63	26.28	24.46	16.42

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 2019 Stock Options granted in the fiscal year ended March 31, 2020 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: 27.26% calculated using the market price of the Bank's stock from December 2009 to July 2019.
 2. Estimated remaining outstanding period: 9.6 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, 2019.
 4. Risk-free interest rate: (0.17) %, 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.

25. INCOME TAXES

The Group is subject to a number of taxes based on income, including corporation tax, inhabitants 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, 2020 and 2019.

(1) Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Excess reserve for possible loan losses.....	¥ 7,020	¥ 5,892	\$ 64,504
Liability for retirement benefits.....	3,609	3,398	33,161
Depreciation.....	812	819	7,461
Write-down of land.....	872	872	8,012
Loss on impairment of fixed assets.....	1,644	1,258	15,106
Valuation loss on securities.....	2,792	2,967	25,654
Valuation difference on available-for-sale securities.....	857	—	7,874
Tax loss carryforwards.....	296	133	2,719
Net deferred loss on hedging instruments.....	71	91	652
Other.....	2,577	1,937	23,679
Subtotal deferred tax assets:	20,554	17,371	188,863
Valuation allowance pertaining to the tax loss carryforwards (Note 3).....	(293)	(133)	(2,692)
Valuation allowance pertaining to the total of the deductible temporary difference, etc.	(7,595)	(6,908)	(69,787)
Subtotal valuation allowance (Note 2).....	(7,889)	(7,042)	(72,489)
Total deferred tax assets	12,664	10,329	116,364
Deferred tax liabilities:			
Valuation difference on available-for-sale securities.....	—	(13,309)	—
Other.....	(68)	(69)	(624)
Total deferred tax liabilities:	(68)	(13,378)	(624)
Net deferred tax liabilities (Note 1)	¥ 12,596	¥ (3,049)	\$ 115,740

Note 1: Net deferred tax assets ((liabilities) as of March 31, 2020 and 2019 are included in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets.....	¥ 12,611	¥ 1,311	\$ 115,877
Deferred tax liabilities.....	15	4,360	137

Note 2: The valuation allowance increased by ¥847 million (\$7,782 thousands) in the current fiscal year. The major reasons for this increase were the increase in the valuation allowance pertaining to the reserve for possible loan losses by ¥301 million (\$2,765 thousands) and the increase in the valuation allowance concerning impairment loss by ¥405 million (\$3,721 thousands).

Note 3: Amount of tax loss carryforwards and their deferred tax assets by the carryforward periods

Current consolidated fiscal year (March 31, 2020)

	Millions of yen						
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Tax loss carryforwards (*)	¥ —	¥ —	¥ —	¥ 2	¥ —	¥ 293	¥ 296
Valuation allowance	—	—	—	—	—	(293)	(293)
Deferred tax assets	—	—	—	2	—	—	2

(*) The tax loss carryforwards are the amounts multiplied by the statutory effective tax rate.

Previous consolidated fiscal year (March 31, 2019)

	Millions of yen						
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Tax loss carryforwards (*)	¥ —	¥ —	¥ 3	¥ 3	¥ 5	¥ 121	¥ 133
Valuation allowance	—	—	(3)	(3)	(5)	(121)	(133)
Deferred tax assets	—	—	—	—	—	0	0

(*) The tax loss carryforwards are the amounts multiplied by the statutory effective tax rate.

Current consolidated fiscal year (March 31, 2020)

	Thousands of U.S. dollars						
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Tax loss carryforwards (*)	\$ —	\$ —	\$ —	\$ 18	\$ —	\$ 2,692	\$ 2,719
Valuation allowance	—	—	—	—	—	(2,692)	(2,692)
Deferred tax assets	—	—	—	18	—	—	18

(*) The tax loss carryforwards are the amounts multiplied by the statutory effective tax rate.

Consolidated Financial Statements

(2) 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, 2020 and 2019:

	2020	2019
Statutory tax rate	30.4%	30.4%
Valuation allowance.....	14.4%	(2.7)%
Non-deductible expenses	0.8%	0.3%
Non-taxable income.....	(2.4)%	(1.0)%
Inhabitants tax on per capita basis, etc.	1.3%	0.5%
Other	1.2%	0.2%
Effective tax rate	45.8%	27.7%

26. BUSINESS COMBINATIONS

Business combinations under common control, etc.

(Company split)

At the Board of Directors' meeting held on June 17, 2019, the Bank resolved to succeed a part of its subsidiary management operations to Nanto Estate Co., Ltd. (now "Nanto Management Service Co., Ltd."), a wholly owned subsidiary of the Bank, by absorption-type company split, subject to approval from the relevant authorities and concluded the absorption-type split agreement on the same date. As a consequence of this, the Bank effected the company split on September 2, 2019.

(1) Outline of the transaction

1) Name of the business subject to the company split and the content of that business

Name of the business: subsidiary management operations of the Bank

Content of the business: guidance, support and control operations pertaining to the operation of the subsidiaries

2) Date of business combination

September 2, 2019

3) Legal form of the business combination

An absorption-type split in which the Bank became the company splitting in the absorption-type split and Nanto Estate Co., Ltd. (a consolidated subsidiary of the Bank) became the company succeeding in the absorption-type split

4) Name of the company after the business combination

Nanto Estate Co., Ltd.

Note that the trade name of this company was changed to "Nanto Management Service Co., Ltd." on September 2, 2019.

5) Other matters concerning the outline of the transaction

The Bank carried out the transaction for the purpose of increasing the efficiency of the financial services provided by the whole Group and contributing to the development of the local community and economy by converting Nanto Estate Co., Ltd. (now Nanto Management Service Co., Ltd.) into an intermediate holding company and centralizing management guidance operations such as the support for formulating the business plans and common operations of its subsidiaries (shared services) in the intermediate holding company.

(2) Outline of the implemented accounting treatment

The Bank treated the transaction as a business combination under common control based on the "Accounting Standard for Business Combinations" and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

27. 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 performance 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 has 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, 2020 and 2019 is summarized as follows:

	Millions of yen						
	2020						
	Reportable segments			Other	Total	Adjustment	Consolidated
Banking	Leasing	Total					
Ordinary income:							
Outside customers	¥ 70,972	¥ 7,266	¥ 78,238	¥ 2,757	¥ 80,996	¥ 70	¥ 81,066
Intersegment income	1,103	873	1,976	2,112	4,089	(4,089)	—
Total	72,075	8,139	80,215	4,869	85,085	(4,018)	81,066
Segment profit	7,446	220	7,666	661	8,328	(494)	7,833
Segment assets	5,653,885	37,711	5,691,597	29,906	5,721,504	(50,574)	5,670,929
Segment liabilities	5,409,452	33,246	5,442,698	11,509	5,454,208	(38,333)	5,415,875
Others:							
Depreciation	3,485	122	3,608	134	3,742	46	3,788
Interest income	44,681	5	44,687	39	44,727	(568)	44,158
Interest expense	3,129	85	3,214	7	3,222	(107)	3,114
Extraordinary gain	21	—	21	—	21	—	21
Extraordinary loss	1,862	0	1,862	121	1,983	(0)	1,982
Tax expense	2,282	69	2,351	341	2,692	(0)	2,692
Increase in tangible and intangible fixed assets	4,121	57	4,179	67	4,246	(80)	4,166

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 ¥70 million is mainly the recovery of written-off claims included in "Others."

(2) Adjustment of segment profit of negative ¥494 million is the elimination of intersegment transactions.

(3) Adjustment of segment assets of negative ¥50,574 million is the elimination of intersegment transactions.

(4) Adjustment of segment liabilities of negative ¥38,333 million is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.

(5) Adjustment of depreciation of ¥46 million is the elimination of intersegment transactions.

(6) Adjustment of interest income of negative ¥568 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 extraordinary loss of ¥0 million is the elimination of intersegment transactions.

(9) Adjustment of tax expense of ¥0 million is the elimination of intersegment transactions.

(10) 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.

	Millions of yen						
	2019						
	Reportable segments			Other	Total	Adjustment	Consolidated
Banking	Leasing	Total					
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.

Consolidated Financial Statements

	Thousands of U.S. dollars						
	Reportable segments			2020		Adjustment	Consolidated
	Banking	Leasing	Total	Other	Total		
Ordinary income:							
Outside customers	\$ 652,136	\$ 66,764	\$ 718,901	\$ 25,333	\$ 744,243	\$ 643	\$ 744,886
Intersegment income	10,135	8,021	18,156	19,406	37,572	(37,572)	—
Total	662,271	74,786	737,066	44,739	781,815	(36,919)	744,886
Segment profit	68,418	2,021	70,440	6,073	76,523	(4,539)	71,974
Segment assets	51,951,529	346,512	52,298,052	274,795	52,572,856	(464,706)	52,108,141
Segment liabilities	49,705,522	305,485	50,011,007	105,752	50,116,769	(352,228)	49,764,541
Others:							
Depreciation	32,022	1,121	33,152	1,231	34,383	422	34,806
Interest income	410,557	45	410,612	358	410,980	(5,219)	405,752
Interest expense	28,751	781	29,532	64	29,605	(983)	28,613
Extraordinary gain	192	—	192	—	192	—	192
Extraordinary loss	17,109	0	17,109	1,111	18,221	(0)	18,211
Tax expense	20,968	634	21,602	3,133	24,735	(0)	24,735
Increase in tangible and intangible fixed assets	37,866	523	38,399	615	39,014	(735)	38,279

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 \$643 thousand is mainly the recovery of written-off claims included in "Others."
- (2) Adjustment of segment profit of negative \$4,539 thousand is the elimination of intersegment transactions.
- (3) Adjustment of segment assets of negative \$464,706 thousand is the elimination of intersegment transactions.
- (4) Adjustment of segment liabilities of negative \$352,228 thousand million is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.
- (5) Adjustment of depreciation of \$422 thousand is the elimination of intersegment transactions.
- (6) Adjustment of interest income of negative \$5,219 thousand is the elimination of intersegment transactions.
- (7) Adjustment of interest expense of negative \$983 thousand is the elimination of intersegment transactions.
- (8) Adjustment of extraordinary loss of \$0 thousand is the elimination of intersegment transactions.
- (9) Adjustment of tax expense of \$0 thousand is the elimination of intersegment transactions.
- (10) Adjustment of increase in tangible and intangible fixed assets of negative \$735 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				
	2020				
	Lending	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers	¥ 30,242	¥ 28,405	¥ 7,266	¥ 15,152	¥ 81,066

	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

	Thousands of U.S. dollars				
	2020				
	Lending	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers	\$ 277,882	\$ 261,003	\$ 66,764	\$ 139,226	\$ 744,886

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, 2020 and 2019; 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, 2020 and 2019; 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, 2020 or 2019. 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				
	2020				
	Reportable segments			Other	Total
Banking	Leasing				
Impairment loss	¥ 1,730	¥ —	¥ 92	¥ 1,822	

	Millions of yen				
	2019				
	Reportable segments			Other	Total
Banking	Leasing				
Impairment loss	¥ 41	¥ —	¥ —	¥ 41	

	Thousands of U.S. dollars				
	2020				
	Reportable segments			Other	Total
Banking	Leasing				
Impairment loss	\$ 15,896	\$ —	\$ 845	\$ 16,741	

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

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

There is no information to be reported on gain on negative goodwill for the year ended March 31, 2020.

28. RELATED PARTY TRANSACTIONS

For the fiscal year ended March 31, 2020, related party transactions were as follows:

Relationship with the Bank	Name	Location	Paid-in capital (millions of yen)	Occupation/Business	Voting rights ownership (%)	Relationship of related parties	Details of transactions	Transaction amount (millions of yen)	Transaction amount (thousands of U.S. dollars)	Accounting title	Year-end balance (millions of yen)	Year-end balance (thousands of U.S. dollars)
Relatives of officers of the Bank	Kohei Ueno	—	—	Office worker	—	Second son of Yasuo Ueno (Director & Chairman of the Bank)	Lending of money*2	—	—	Loans	21	192
							Interest receivable	0	0	—	—	
							Loans					
	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer)	Lending of money*2	—	—	Loans	25	229
							Interest receivable	0	0	—	—	
							Loans					
Kazuyuki Hashimoto	—	—	Public officer	—	Younger brother of Masashi Hashimoto (Executive Officer)	Lending of money*2	—	—	Loans	12	110	
						Interest receivable	0	0	—	—		
						Loans						
A company in which a majority of voting rights are held by relatives of officers of the Bank	Kitamura Forestry Co., Ltd.*3	Osaka City Osaka	32	Forestry	Direct 1.28	Loans	Lending of money	200	1,837	Loans	200	1,837
							Interest receivable	2	18	—	—	
A company in which a majority of voting rights are held by relatives of officers of the Bank	NIKKEN BLAST CO., LTD.*4	Daito City Osaka	10	Metal processing	—	Loans	Lending of money	—	—	Loans	46	422
							Interest receivable	0	0	—	—	

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

4. Relatives of Naoki Minowa (Corporate Auditor of the Bank) owned 62.5% of the voting rights of this company directly.

5. Mr. Masaaki Hashimoto resigned as a Corporate Auditor of the Bank on June 27, 2019. The loans and bills discounted for his eldest son, Mr. Atsuto Hashimoto, were ¥17 million as of that day.

Consolidated Financial Statements

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)	Occupation/Business	Voting rights ownership (%)	Relationship of related parties	Details of transactions	Transaction amount (millions of yen)	Accounting title	Year-end balance (millions of yen)
Relatives of officers of the Bank	Kohei Ueno	—	—	Office worker	—	Second son of Yasuo Ueno (Director & Chairman of the Bank)	Lending of money*2 Interest receivable	— 0	Loans —	21 —
	Atsuto Hashimoto	—	—	Public officer	—	Eldest son of Masaaki Hashimoto (Corporate Auditor)	Lending of money*2 Interest receivable	— 0	Loans —	17 —
	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer)	Lending of money*2 Interest receivable	— 0	Loans —	25 —
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 —	36 —
	Kitamura Forestry Co., Ltd.*4	Osaka City Osaka	32	Forestry	Direct 1.28	Loans	Lending of money Interest receivable	200 2	Loans —	200 —

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.

29. PER SHARE INFORMATION

Net assets per share at March 31, 2020 and 2019 and net income per share for the fiscal years then ended were as follows:

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share.....	¥ 7,819.42	¥ 8,888.16	\$ 71.84
Net income per share – basic	97.52	342.79	0.89
Net income per share – diluted	97.43	342.47	0.89

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
(Net assets per share)			
Net assets	¥ 255,053	¥ 289,852	\$ 2,354,407
Amounts to be deducted from net assets:	88	98	812
Stock acquisition rights	(88)	(98)	(812)
Net assets attributed to common stock	254,965	289,753	2,353,595
Outstanding number of shares of common stock at end of year (unit: thousands of shares)	32,606	32,599	—
(Basic and diluted net income per share)			
Net income attributable to owners of parent	¥ 3,179	¥ 11,174	\$ 29,345
Net income attributable to common stockholders of parent	3,179	11,174	29,345
Average outstanding number of shares during the year (unit: thousands of shares)	32,605	32,598	—
Adjustment to net income attributable to owners of parent	—	—	—
Increase in number of shares of common stock: (unit: thousands of shares)	29	29	—
Stock acquisition rights (unit: thousands of shares)	(29)	(29)	—
Convertible securities not diluting net income per share	—	—	—

30. SUBSEQUENT EVENTS

In the Board of Directors' meeting held on September 17, 2020, the Bank passed a resolution for the establishment of Nanto Capital Partners Co., Ltd., a wholly owned subsidiary of the Bank, and established this new subsidiary as of October 1, 2020, as follows.

1. Purpose

In order to deliver optimum and sophisticated services by promptly meeting the increasingly diverse needs of customers, the Group is working on the consolidation of consulting-oriented sales run by the entire group.

The purpose of this new subsidiary is to handle venture company development and business succession, resolve of management issues and support operating companies that contribute to regional revitalization, by forming and managing funds in order to provide capital to its customers.

2. Overview of the subsidiary

(1) Trade name	Nanto Capital Partners Co., Ltd.
(2) Head office address	16 Hashimoto-cho, Nara City, Nara Prefecture (inside the Nanto Bank head office)
(3) Representative	Representative Director and President Atsuyuki Sakai
(4) Business	Investment business
(5) Date of incorporation	October 1, 2020
(6) Paid-in capital	¥100 million (\$918 thousand)
(7) Stockholder	The Nanto Bank, Ltd. (wholly owned subsidiary)

31. BORROWED MONEY AND LEASE OBLIGATIONS

a. The details of borrowed money as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Borrowed money			
Due from April 2020 through Nov. 2026	¥ 135,538	¥ 210,648	\$ 1,245,410
Average interest rate: 0.42% p.a.			

Annual maturities of borrowed money as of March 31, 2020 were as follows:

	Millions of yen	Thousands of U.S. dollars
2021.....	¥ 71,103	\$ 653,340
2022.....	2,072	19,038
2023.....	61,312	563,374
2024.....	709	6,514
2025.....	264	2,425
2026 and thereafter	78	716
Total.....	¥ 135,538	\$ 1,245,410

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, 2020 were as follows:

	Millions of yen	Thousands of U.S. dollars
2021.....	¥ 0	\$ 0
2022 and thereafter	—	—
Total.....	¥ 0	\$ 0

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

c. Other

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



Independent auditor's report

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

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Convenience Translation

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

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

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

Katsuhiko Akimune

Designated Engagement Partner

Certified Public Accountant

Manabu Matsumoto

Designated Engagement Partner

Certified Public Accountant

Satoshi Kihira

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

December 23, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Capital Management

• Consolidated Capital Adequacy Ratio

As of March 31, 2020 and 2019

	Millions of yen	
	2020	2019
(1) Capital adequacy ratio ((2)/(3))	9.39%	9.75%
(2) Capital	¥ 254,319	¥ 255,264
(3) Risk-weighted assets	2,706,983	2,616,951
(4) Requisite capital	108,279	104,678

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, 2020 and 2019

	Millions of yen	
	2020	2019
(1) Capital adequacy ratio ((2)/(3))	9.06%	9.40%
(2) Capital	¥ 243,278	¥ 243,955
(3) Risk-weighted assets	2,682,686	2,592,780
(4) Requisite capital	107,307	103,711

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.



This publication uses Yoshino 3.9 paper, which supports the use of thinned trees in the Yoshino region of Nara Prefecture, contributing to increased CO₂ absorption by the forests in the region.

Nanto Bank is a supporter of the “Kizukai Movement” organized to promote use of wood from Japan’s domestic forests.

Issued: December 2020

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