

# ***NANTO BANK*** ***Integrated Report 2021***

Fiscal year ended March 2021

# Management Philosophy

1. We conduct sound, efficient management.
2. We provide superior comprehensive financial services.
3. We pursue efforts to promote regional development.
4. We seek an identity as a trustworthy bank with strong customer appeal.

# Management Vision

## “Vitality Creation Bank”

Our mission as a regional financial institution is to contribute to the growth and development of our region and customers. Maximizing all our management and staff capabilities, and creating new value unique to the Nanto Bank Group, we are reinforcing our position as the banking group of choice for customers throughout our region.

### Editorial Policy

Compiled in pursuit of a deeper understanding of the Nanto Bank Group's strategies for creating sustainable value in the medium-to-long term, this Integrated Report was edited in compliance with the “International Integrated Reporting Framework” of the Value Reporting Foundation (former IIRC).

The specific purpose of its creation was to illuminate the path to achievement of our Management Plan, “Nanto Mission and Objectives for the Next 10 Years.”

For detailed financial information, please refer to the documents published in *2021 Disclosure, Nanto Bank Report*.

### 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, 2020 ~ March 31, 2021

### Date issued

July 2021

### 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.





Basis for creation and presentation

# CONTENTS

## About the Nanto Bank Group

Information Highlights 2

## Target Image

President's Message 4

Value Creation Process 10

Management Plan and Goals 12

## Increasing Nara Prefecture's GDP

Nanto Method 14

Productivity Enhancement 14

Asset Formation 16

Commercialization 18

**Special Feature** Stakeholders' Voices 22

Management Base Reinforcement 28

Human Resources Procurement and Training 28

Raising business efficiency 30

## Further Efforts Toward SDG Realization

Climate Change and Gender Equality 32

Social Contribution Activities 34

## Governance Enhancement

Corporate Governance 36

Corporate Officers 36

Governance Reinforcement Strategies 38

Risk Management 40

Comprehensive Risk Management and Compliance 40

## Nanto Bank Group Information

Group Data 42

## Consolidated Financial Statements

Consolidated Financial Statements 44

Independent Auditors' Report 81

Capital Management 86



### Compiling the Nanto Report

Icons representing the eight categories of content advocated by the Value Reporting Foundation's International Integrated Reporting Framework have been employed to strengthen understanding of the Nanto Bank Group's corporate culture.



**Organizational overview and external environment**  
What is the nature of the operating environment, and how is the Bank organized to respond?



**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.



**Outlook**  
What are the challenges and uncertainties for executing strategies, and how might they impact the Bank's business model and future performance?



**Governance**  
How does the governance structure ensure short-, medium- and long-term value creation?



**Strategies and resources allocation**  
What are our goals, and how do we plan to reach them?



**Basis for creation and presentation**  
How were the contents of the Report quantified and evaluated, and how were they selected?



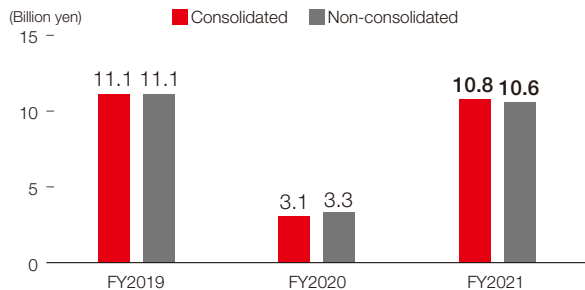
**Business model**  
What is the business model, and how resilient is it?



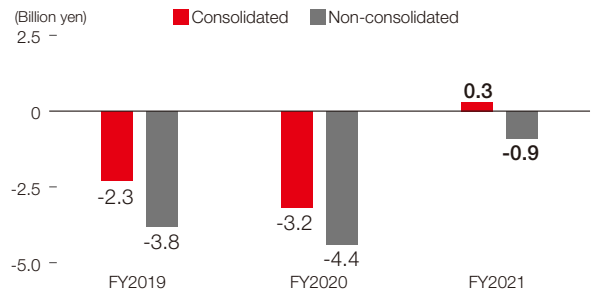
**Performance**  
To what extent is the Bank achieving its strategic objectives, and what is the effect on capital?

## Financial Highlights

**Net Income** (Consolidated) **10.8 billion yen** (Non-consolidated) **10.6 billion yen**

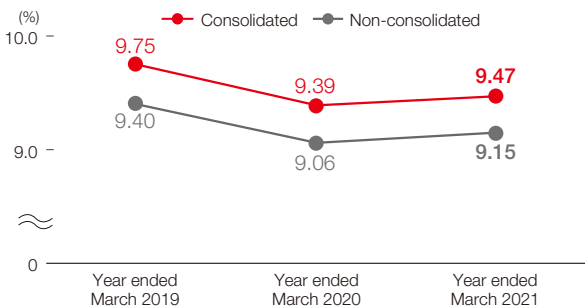


**Profit / loss on customer services** (Consolidated) **300 million yen** (Non-consolidated) **-900 million yen**

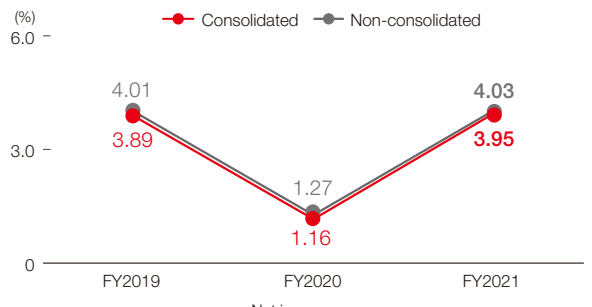


Profit / loss on customer services = Profit from main businesses (loans / commission business)  
Average loan balance x deposits / loan yield difference + profit from service transactions - expenses

**Capital adequacy ratio** (Consolidated) **9.47%** (Non-consolidated) **9.15%**

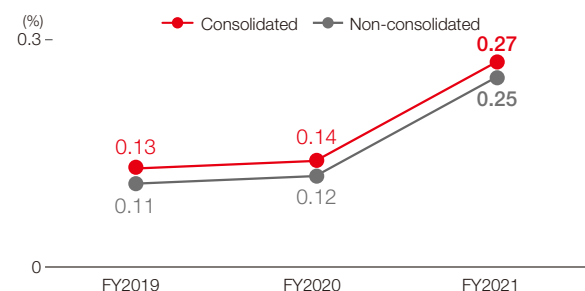


**ROE** (Consolidated) **3.95%** (Non-consolidated) **4.03%**



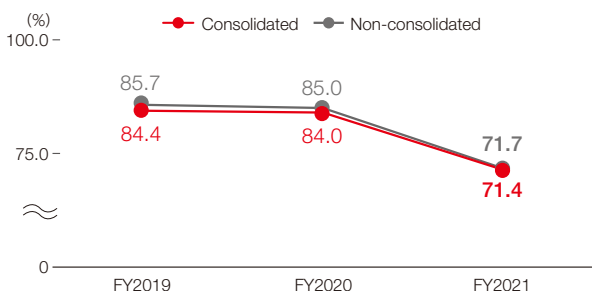
ROE =  $\frac{\text{Net income}}{[\text{Starting net assets (excluding stock acquisition rights)} + \text{Ending net assets (excluding stock acquisition rights)}] \div 2} \times 100$

**ROA** (Consolidated) **0.27%** (Non-consolidated) **0.25%**



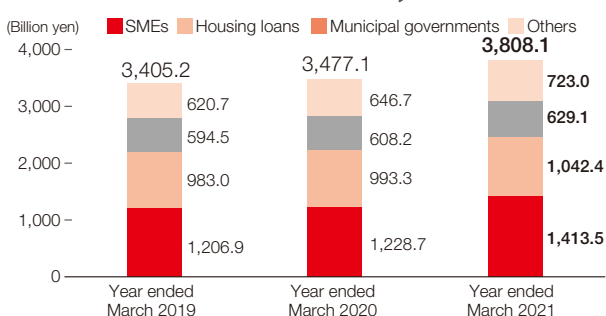
ROA =  $\frac{\text{Core business net income}}{\text{Average balance of total assets} - \text{Average balance of payments received}} \times 100$

**OHR** (Consolidated) **71.4%** (Non-consolidated) **71.7%**

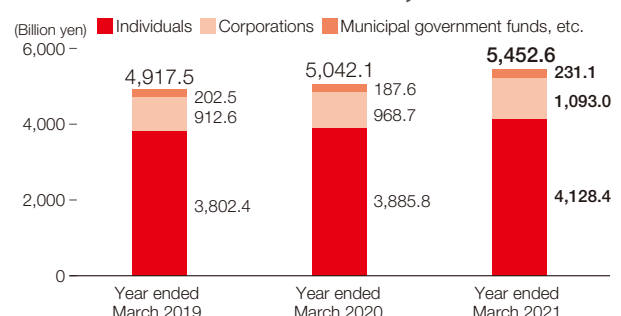


OHR =  $\frac{\text{Expenditures}}{\text{Gross profit from core businesses}} \times 100$

**Loan balance** (Non-consolidated) **3,808.1 billion yen**



**Balance of deposits** (Non-consolidated) **5,452.6 billion yen**



## Non-financial Highlights (Nanto Bank)



### Environment

Rate of CO<sub>2</sub> emissions reduction  
(FY2013 → FY2019)

**32.5%**

(Emissions for scopes 1 and 2)

CO<sub>2</sub> reduction through renewable  
energy-related loans  
(FY2020)

Approx. **50,000** tons CO<sub>2</sub>  
(Number of loans: 6: 530 million yen)



### Society

(End March 2021)

Percentage of female executives

**14.5%**

(+ 0.2% compared to end March 2020)

Unconventional human resources  
Certified personnel participating  
in vitality creation

**458**

(Percentage of employees 19.0%)  
(End March 2020: 422)

Percentage of employees 17.0%)



### Governance

(End June 2021)

Board of Directors diversification  
Members with employment experience  
in other organizations



**2** of **6** internal directors

Ratio of outside directors



**3** directors = **33%**

### Nanto Bank Profile (as of March 31, 2021)

Established: June 1, 1934

Capitalization: ¥37,924.15 million

Headquarters: 16 Hashimoto-cho, Nara, Japan

Homepage: <https://www.nantobank.co.jp/>



Nanto Bank Co., Ltd. was established on June 1, 1934 through a merger of Sixty-eight Bank Co., Ltd., Yoshino Bank Co., Ltd., Yagi Bank Co., Ltd. and Gosho Bank Co., 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.

## Establishing a bank group that inspires regional vitality through step-by-step efforts to realize the future described in the “Nanto Mission and Objectives for the Next 10 Years”



President (Representative Director)  
**Takashi Hashimoto**

### Joining forces with customers to overcome the coronavirus pandemic

First and foremost, I would like to extend our condolences to those who have passed away from the coronavirus and to express our sympathy for those who continue to suffer from the disease and their families. I also wish to express our deepest gratitude and express our admiration for all those who are striving to prevent the spread of the virus, including front-line medical personnel and governmental organizations.

The environment in which we operate has changed significantly in fiscal 2020 due to the spread of the coronavirus pandemic all over the world.

A look back over the past year reveals that online remote meetings, Web-based information dissemination, and remote work have become commonplace practices in our work.

We have also seen changes in our customers' behavior. Many have realized that they can avoid leaving home by accessing various financial services without actually visiting the bank. Transactions through non-face-to-face channels such as Internet banking have taken hold and accelerated worldwide as a result.

At the same time, however, Japan's economic environment has been severely restricted due to stagnating movement of people and goods during the pandemic. While some companies have succeeded in strengthening their business performance by responding to demand from the expanded home-centered consumer market, the outlook has become increasingly uncertain for the tourism and retail industries in Nara prefecture as well as for service businesses such as restaurants and bars due to a sharp decline in the numbers of inbound tourists.

In this environment, the Nanto Bank Group has facilitated financial transactions by such means as providing special consultation counters and telephone support on weekends. We would like to maintain a key position in the social infrastructure, even as the coronavirus pandemic continues. We will also prioritize expansion of our services to meet emerging customer needs as new channels open up for conducting business without face-to-face contact.

## Targeting a 10% increase in Nara prefecture's GDP in pursuit of regional development

### Commitment to our region

Fiscal 2020 saw the introduction of a new Management Plan designed to transform our business model.

The Plan defined a three-faceted Mission centered on pursuit of regional development, fostering of vitality-creating human resources, and profitability enhancement. It established our “Objectives for the Next 10 Years” to serve as an index for implementation of the Management Plan. One of these objectives for realization within 10 years is a “10% increase in Nara prefecture's GDP.” Our stakeholders have responded positively to the fact that the Nanto Bank Group, a private entity, has adopted the GDP of Nara prefecture as an index in its Management Plan.

Allow me to explain our objective to increase Nara Prefecture's GDP by 10% a little further.

The first issue our management team took up when formulating the Management Plan was, “What should the Nanto Bank Group do to survive the next 10 years soundly?” For the past two decades, we had grown by strengthening our sales in Tokyo and Osaka and expanding our business domain to peripheral businesses such as trusts and securities. We have now concluded, however, that sustainable growth will not be possible in the future in the absence of regional growth.

We realize that it would be difficult for us to achieve sustainable growth in profits by following our existing business model alone. At the same time, local SMEs and municipal governments are facing various issues of their own, including delays in IT implementation and shortages of management personnel. We have set our sights on revitalizing the local economy by constructing a business model that takes the initiative in solving these issues as a means of resolving and eliminating the anxieties and worries of local customers. Our goal is to achieve growth of our Group in tandem with that of the community.

Since our Management Plan is devoted not only to our own growth but also to regional development, we will seek to achieve enhanced growth and profitability along with a 10% increase in Nara prefecture's GDP.

### Efforts to enhance performance

I would like to say a few words here about our approaches to increasing GDP by 10%.

In the past, the Nanto Bank Group focused on providing financial products and services that met the needs of our customers. Our adoption of GDP enhancement as a goal has changed the equation, however, making it necessary to consider mechanisms that can work throughout the region.

Creating a virtuous cycle of economic activities comprising the three aspects of GDP—production, distribution, and expenditure—will require us to observe operations from three perspectives: productivity improvement, asset formation, and commercialization. We will develop new strategies from these perspectives to resolve issues facing our regional community and our customers.

We will start by finding solutions to the problems of individual customers. Going a step further to extend economic effects throughout Nara prefecture will require involving people from various companies and local governments. We believe it is possible to position ourselves at the core of a mechanism of this type based on our long-standing relationship of trust with the community.

Another extremely important factor in raising GDP is to increase the number of people who come, work, and live in Nara prefecture. To this end, we will provide support for startups and new business development while pursuing efforts to attract companies and promote employment in the region. We will also work to stimulate the tourism industry by encouraging a conversion from day-trip tourism to multi-day tourism and by creating new towns.

Thus, the Nanto Bank Group will seek to revitalize economic activity in Nara prefecture and realize growth of the prefecture's GDP by identifying regional issues in the economic cycle and solving them independently.

## Building a platform business through DX

Establishing a new sustainable business model will require deployment of digital technologies, reinforcement of local organizations' ability to respond flexibly to environmental change, and acquisition and development of human resources to support the new model.

These efforts will start with a digital transformation (DX). I do not believe the digitalization of the Nanto Bank Group's business operations and customer services is especially advanced at the current time. We can classify the DX of the Nanto Bank Group into roughly three categories.

The first of these is "comprehensive introduction of IT into the Nanto Bank Group," including its branch functions, operations, and paperless processes. The second is "maximizing customer convenience" with digitized customer services such as cashless payments. We will begin by proceeding with these two transformations simultaneously.

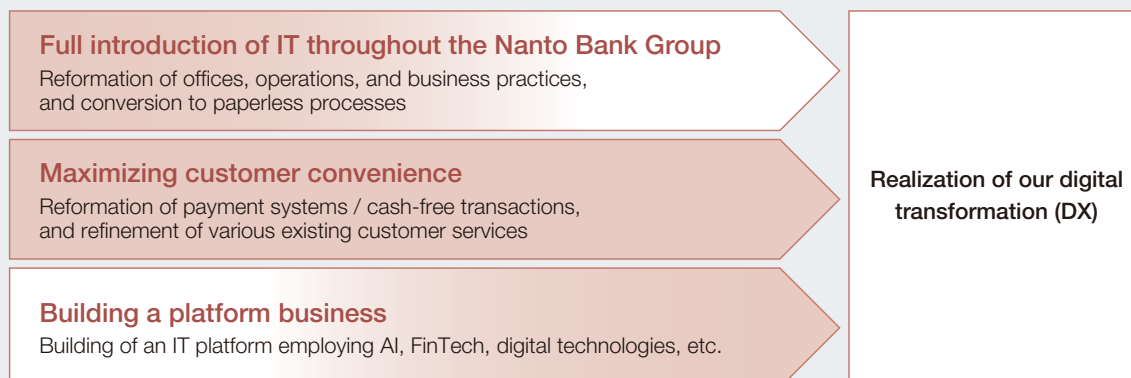
Digital technology can not only greatly reduce workloads that rely on such factors as manual labor, experience, and intuition, but it can also provide a judiciousness enabling superior problem-solving utilizing various assorted data. While meeting our obligation to play a public role as a cornerstone of the region's financial infrastructure, we must also allocate our limited management resources effectively as a private entity. Digital technologies can be powerful tools for solving these seemingly contradictory issues.

We will deploy digital technologies to change our cost structures and develop a robust corporate organization as well as to provide value-added information and services involving both face-to-face and remote interactions.

Our third DX category is "building a platform business" using AI and other digital technologies. It is only when we have completed this stage that we can say we have achieved a true DX.

One idea still in the conceptual stage is the possibility of mechanisms that connect customers and financial institutions seamlessly in areas other than financial services. This might include mechanisms that support seamless sharing of ideas, technologies, and human resources for creating new businesses with open participation across industries. Realizing mechanisms of this kind will require all of us, both managers and staff, to change our perceptions and preconceptions.

### ■ Promotion of DX





## Realizing change by adopting new perspectives in developing human resources and creating organizations

### Requisite image of human resources

I am proud that all members of the Nanto Bank Group's management and staff are excellent human resources with a strong desire to contribute to development of our region. We have been unable to eliminate the conventional image of banks as institutions that should build trust by maintaining order, respecting rules, and completely avoiding risks, however, and a culture that accepts failure in efforts to create new businesses, products, and services has yet to take root.

The more experience people, myself included, accumulate in banking, the more certain they feel that they have done above average work that has produced positive results. The reason for this may be that we are accustomed to making decisions on the basis of our experience, intuition, and routines.

The problem is that this pride in our "positive results" creates barriers to thoughtful acceptance of suggestions and advice from third parties, which is detrimental to human resources development.

It is said that "the essence of familiar objects can be determined by viewing them from different angles." Applying this axiom repeatedly reveals areas that need reinforcement and improvement, and repeated trial and error engenders an ability to respond flexibly to sudden change. We intend to increase the number of staff with a capacity for this kind of self-reflection, and thus to develop a thoroughly self-aware organization. We are convinced that continuing to grow in this way will produce a Nanto Bank Group that can operate independently in any environment.



### Developing human resources and reinforcing organizational strength

The roles played by business entities, and perhaps by other organizations as well, will change with the times and operating environment, and the human resources employed by businesses will have to change with them.

If it is to achieve stable change, the Nanto Bank Group will require personnel who can recognize and respond accurately to various issues that arise with support from administrators, managers, and colleagues who can assess the appropriateness of their responses.

Our Management Plan identifies development of "unconventional human resources" as the core component of our human resources strategy. Our efforts to identify and promote highly specialized personnel and employees with superior reformation capabilities include recruitment and training outside the bounds of the conventional framework. The secondary business systems introduced in April 2021, and the creation of opportunities for young employees they represent, are examples of concrete measures introduced to this end. Our aim is not only to make use of our banking business, but also to leverage the diverse experience, skills and expertise, personal connections, and networks acquired through ancillary activities for application in our main business.

We are promoting introduction of a talent management system that employs fresh perceptions from new perspectives to discover superior human resources, moreover, as we pursue efforts to enhance our personnel evaluation capabilities.

While expanding our recruitment of human resources from outside the Group, moreover, we will also work on adjusting our human resources development programs to raise the abilities of every member of our management and staff to upgrade their organizational capabilities. This development as a highly engaged organization will enable us to complete the transformation required for sustainable growth.

## Promoting a stable, efficient, sophisticated new business model

This transformation of our business model by deploying digital technologies and reinforcing our organizational strength cannot be achieved overnight. It will require us to adopt a medium- to long-term perspective. While gradually renovating the constitution and structure of our organization, we will pursue two objectives: cost reduction through further improved business efficiency and sophistication and stabilization of our market operations aimed at creating new revenue sources to supplement our core business revenues.

In the area of business efficiency, we continue to reform our office procedures and review our operations. A reorganization of our office network has led to a decrease in the number of bases from 138 in March 2019 to 105 at the end of March 2021. Looking ahead, with maintaining a full-fledged banking system in every area as our basic policy, we plan to implement the 30% reduction to a 95-base system we originally planned for 2030 six years ahead of schedule in 2024.

As concerns the stabilization and sophistication of our market management, we recognize the difficulty of securing term-by-term profits while continuing to operate in the conventional buy-and-hold investment style, in which bonds are held until maturity, in a years-long environment of low global interest rates. We have adopted a basic policy of building and managing well-balanced portfolios combining stocks, bonds, and other instruments that can assure stable yields of 1% or higher by identifying market trends, steadily accumulating capital income, and covering declines in income.

Thus, while creating a virtuous financial cycle from the three perspectives of productivity improvement, asset formation, and commercialization, we will pursue human resources development and organizational reinforcement leading to construction of a new profit model. We expect these efforts to reduce costs while improving and stabilizing our market operations.



## Efforts to solve regional issues and realize the SDGs

As regards efforts to address environmental and social issues, realization of a carbon-free society is attracting especially fast-growing attention today. We realize that responding to these concerns will require not only implementing measures to deal with environmental problems, but also transformation of our industrial structures to attain a sustainable society.

The Sustainable Development Goals (SDGs) established by the UN for realizing a sustainable society have gained universal recognition by now, and the

Environmental, Social, and Governance (ESG) criteria have emerged as the accepted standards in asset management.

Fully aware that sustainable growth of our region is indispensable to the Nanto Bank Group's sustainable growth as well, we have made regional development a key element of our Management Plan, and we are committed to continuing our pursuit of solutions to regional issues.

As things currently stand, however, a number of our stakeholders have pointed out short-comings in the Group's efforts to realize the SDGs. We responded in April 2021 by appointing our Vice President to the new position of Executive Officer in Charge of SDGs. Under his leadership, we continue to reinforce our activities in this area.

We are especially concerned in 2021 with making up for our delays in responding to issues related to gender and climate change. With respect to gender, to begin with, we recognize the disproportionately high ratio of men among our managers and the relative lack of women in management as major issues.

It is essential that we not only pursue the advancement of female employees and their promotion to managerial positions, but that we also respect different ways of thinking and workstyles. We must adopt new thinking in our business by adapting to changes in the environment. Our reflection on the failure of management to tackle these matters seriously has increased our awareness of their importance as significant issues that management must make serious efforts to correct.

## Enhancing management efficiency in consideration of the cost of capital

We are on course to move our revenues from customer services into the black in the profit-and-loss column—a goal we previously set as an interim target for the Bank in 2025—four years ahead of schedule in fiscal 2021. Every management index is showing steady improvement, with non-consolidated OHR at 71.7% and ROA at 0.25% in fiscal 2020.

Encouraged by these results, we will continue to enhance efficiency through such measures as improving the expense ratio and optimizing capital efficiency through risk asset control. We expect these efforts to increase our corporate value further and meet the expectations of our stakeholders.

We are fully aware that strategically held stocks are currently viewed as problematic by domestic and foreign investors, moreover, due to fears that management will pay less attention to them, causing capital efficiency to deteriorate.

Looking to the future, as part of our efforts to realize efficient management in consideration of the cost of capital, we have set a goal of reducing our strategically held shares to about 20% of our consolidated net assets on a market value basis by the end of March 2025.

## Seeking a bright tomorrow with our stakeholders

The Nanto Bank Group boasts sizable shares of both the deposit and loan transactions performed in Nara prefecture—a reflection of the large numbers of customers who trust us, conduct business with us, and provide us with valuable information. Determined to live up to this trust, we are engaged in constructing a new business model that employs digital technologies and provides higher-value-added services.

If the management and staff of the Nanto Bank Group can all realize themselves as unconventional human resources, and if each individual among them can maximize their performance, we are certain to share a bright future with our stakeholders.

As the future unfolds, we will continue to work together to create regional vitality and to assure our position as a permanent presence in the region. We look forward to our readers' continued understanding and support.

# Value Creation Through Ongoing Pursuit of the Nanto Mission

The Nanto Bank Group is implementing its Management Plan with a view to 10 years from April 2020, centered on its Management Vision as a “Vitality Creation Bank” engaged in regional revitalization. We are seeking to realize the Plan’s goals in the course of 10 years by providing value to stakeholders through a three-faceted mission comprising **pursuit of regional development, fostering of vitality-creating human resources, and profitability enhancement.**

**External environment** (Nanto Bank Group risks / opportunities)

Shrinking population / declining birthrate and aging population	Continued low interest rates	New coronavirus	Technological evolution	Deregulation	Increasing awareness of climate change
---	------------------------------	-----------------	-------------------------	--------------	--

## Management capital

## Business activity / business model

### Customer base

- Information-gathering strengths achieved through relationships with customers
- Affording trust and peace of mind earned through many years of providing financial services
- Large share of deposits and loans conducted in Nara prefecture

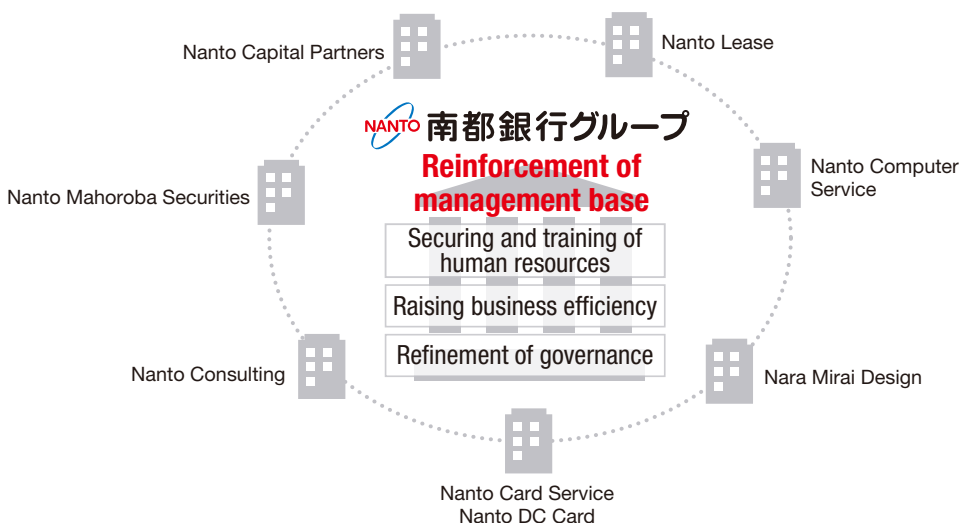
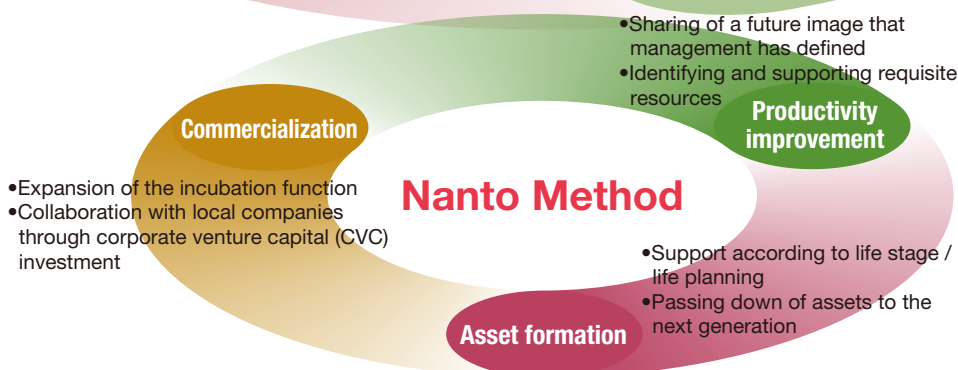
### Human resources

- 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

### Financial base

- Full capital adequacy  
Capital adequacy ratio  
Consolidated **9.47%**  
Non-consolidated **9.15%**  
(End March 2021)

## Creation of a virtuous cycle of regional economic activity by implementing the Nanto Method





Organizational overview and external environment



Governance



Business model



Risks and opportunities



Strategies and resources allocation



Performance



Outlook

People come

People work

People live

Values we provide to stakeholders as a "vitality creation bank"

Goals for achievement in 10 years (2030)

### Nanto Mission



Pursuit of regional development



Fostering of vitality-creating human resources



Profitability enhancement

#### Customers

- Supply of funds in accordance with the borrower's business characteristics
- Financial products and services to support affluent living
- Provision of management personnel
- Creation of new business opportunities

#### Local community

- Collaboration as a leader in regional development with local governments, businesses and educational institutions
- Lively town development and business creation

#### Employees

- Realizing flexible workstyles
- Providing opportunities for active engagement outside the business of banking

#### Shareholders

- High market rating
- Continuing stable dividends



Nara prefecture GDP\*1

Increase of approx. **¥350 billion**



Management personnel cultivation\*2

**350**



ROA

**0.35% or above**

\*1 Since Nara prefecture's GDP will be announced approximately two-and-a-half years after the fiscal year-end, we intend to achieve this goal by the end of fiscal 2026 for announcement during 2029.

\*2 Human resources who can share management decision-making with local customers

## Approaches to increasing Nara prefecture's GDP

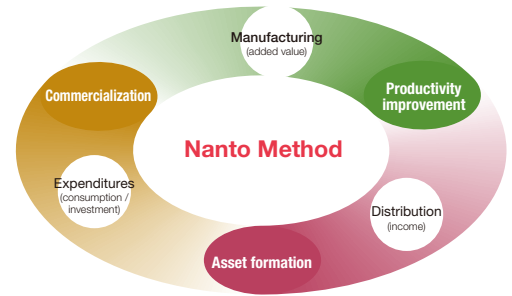
In April 2020, the Nanto Bank Group launched a new 10-year Management Plan entitled "Nanto Mission and Objectives for the Next 10 Years." The Plan presents a three-faceted mission comprising pursuit of regional development, fostering of vitality-creating human resources, and profitability enhancement to serve as an index for realizing the Management Plan's objectives within 10 years. We have also set "goals and interim goals to attain in 5 years." One of the key goals set for achievement in 10 years is a 10% increase in GDP in Nara prefecture.

To achieve our goals, we will adopt the three perspectives of the Nanto Method\*— productivity improvement, asset formation, and commercialization—to approach the issues of production, distribution and expenditures, the three aspects of GDP with respect to our region and customers. We expect these efforts to stimulate a virtuous cycle of economic activity, and to contribute to realization of an increase in Nara prefecture's GDP from multiple perspectives.

By proactively solving various issues in our operating environment, we will promote productivity enhancement and increased corporate profits and, as a result, raise the income of business owners and employees.

While still working to increase corporate profits and personal income, moreover, we will promote asset formation as a means of stimulating consumption and new investment. In addition to these funding activities, we will contribute to creation of a vibrant regional economic cycle by facilitating new business establishment.

Thus, by identifying such regional issues as inefficiencies in the economic cycle and providing solutions on our own initiative, we intend to create a virtuous cycle of economic activity within Nara prefecture, and to realize an increase in Nara prefecture's GDP.



**\*Nanto Method**  
A structure for solving and monetizing the issues faced by customers (productivity improvement / business succession / asset formation).

### Nanto Mission

- Pursuit of regional development**  
Provision of expertise, human resources, and funding to revitalize our regional community and customers
- Fostering of vitality-creating human resources**  
Developing unconventional human resources for our region and customers
- Profitability enhancement**  
Revitalizing our region and customers, and maximizing profits for the Nanto Bank Group

### Intermediate goals

- Profit and loss from customer services\*** Return to profitability  
OHR\*\* Under **70%**  
ROA **0.25%** or higher
- Certification in fields related to vitality creation\*\*** Certified staff **1,000**

### Goals for achievement

- Nara Prefecture GDP\*\*** **10% increase**  
(Up approx. 350 billion yen)
- Management personnel cultivation\*\*** **350**
- ROA** **0.35%** or above

2020

2025

2030

\*1 Profit from main businesses (loan / commission businesses) Profit from loan balance x Difference in interest rates on deposits and loans + Profit on service transactions - Expenses  
\*2 Profit from funds comprising interest income from deposits, loans, securities, etc.; service transaction profit comprising the balance of fees, etc.; and profit from other businesses comprising the balance of profits from other businesses after deducting the ratio of expenses to profit after deducting gains and losses on bonds such as government bonds  
\*3 IT engineers, registered management consultants, licensed real estate brokers, FP level 1, bookkeeping level 2 equivalent or higher qualification  
\*4 Since Nara prefecture's GDP will be announced approximately two-and-a-half years after the fiscal year-end, we aim to achieve this goal by the end of fiscal 2026 for announcement during 2029.  
\*5 Human resources who can share management decision-making with local customers



## Business plan and the SDGs

Our Management Plan, “Nanto Mission and Objectives for the Next 10 Years,” is aimed at helping to achieve a sustainable regional community by realizing the objectives of the Nanto Mission: regional development, vitality-creating human resources, and profitability enhancement. These objectives are closely similar to the goals and orientations of the SDGs.



## SDG policy

We will work proactively to realize a sustainable regional community and to solve social problems facing our region by implementing the three facets of our Mission: regional development, fostering of vitality-creating human resources, and improvement of profitability.

## Priority action goals

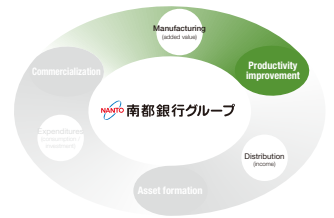
Among the 17 SDGs, the Nanto Bank Group has identified seven priority goals that are particularly relevant to our areas of operation and business strategies, and to our objectives for sustainable preservation of our regional environment.



\*What are the SDGs (Sustainable Development Goals)?

The SDGs are 17 goals elucidated in the 2030 Agenda for Sustainable Development adopted by the General Assembly of the United Nations in September 2015. The Nanto Bank Group aims to contribute to realization of a sustainable society by implementing solutions to social issues such as poverty, hunger eradication, and gender equality as well as to environmental challenges in the years leading up to 2030.

# Productivity improvement



## Basic Policy

### Applying expertise as a Group to solve issues facing customers

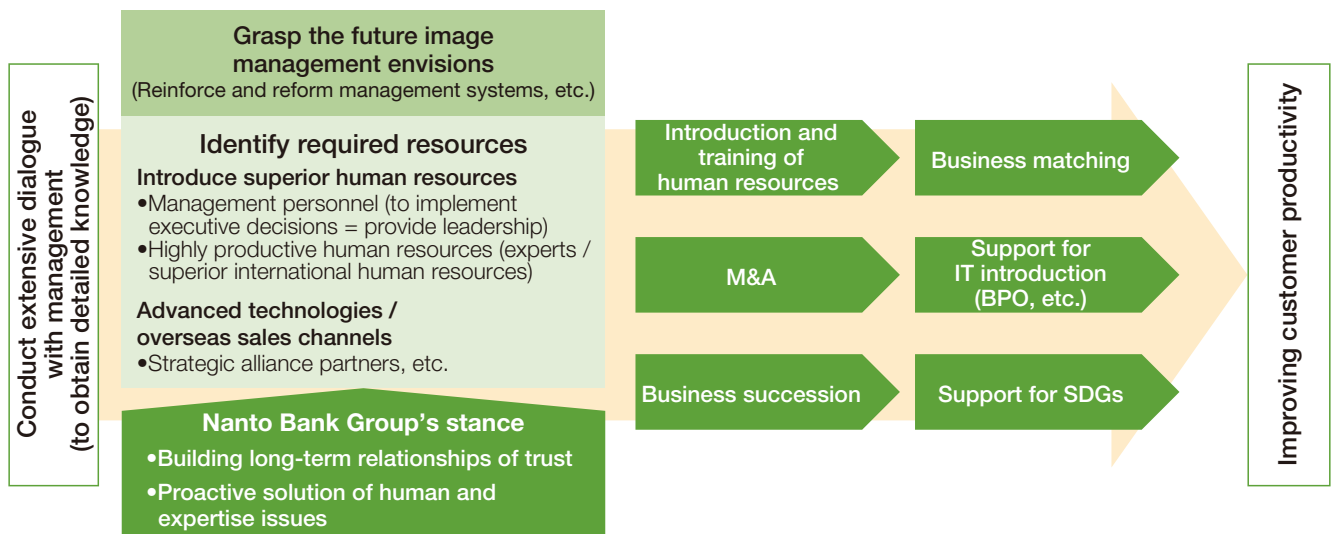
We consider it our mission to develop and enrich the region in which we operate by increasing the added value of our local customers. The starting point in our efforts to raise regional added value (GDP) is to help increase customers' productivity throughout the prefecture. Since customers face a diverse range of issues, we seek to deepen our knowledge of individual companies through activities that bring us face to face with their management to determine their actual issues and propose solutions as a Group. Solving customers' issues and improving their productivity will lead to increased personal income, including corporate profits and salaries.

## Action Plan

Our customer productivity enhancement begins with acquiring an understanding of the client company's target image through comprehensive dialogue with its management, followed by efforts by our Group as a whole to overcome the problems impeding its realization.

Improving customer productivity requires continuous pursuit of business possibilities from a wide range of perspectives based on a relationship of trust with management. The members of the Nanto Bank Group communicate extensively with the customer's management to grasp the future image they envision, identify the resources lacking for its realization, such as a need for management system reinforcement and reform, and work as a Group to resolve them.

The resources customers lack and the issues they face vary with the customer. If they lack sufficient sales channels, we support their expansion through business matching; if they lack management expertise, we introduce appropriate management personnel to promote growth and strengthen their management; and if they lack suitable business successors, we provide the requisite expertise in succession and M&A. Whatever their issues, we respond with a view to achieving regional development from a medium-to-long-term perspective.

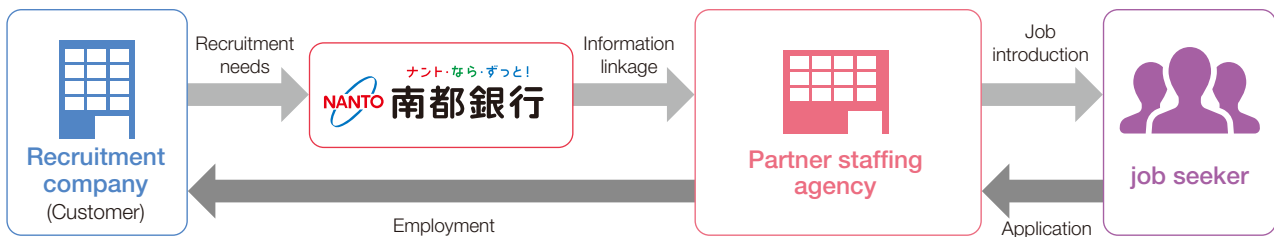




## Initiatives in the recruitment business

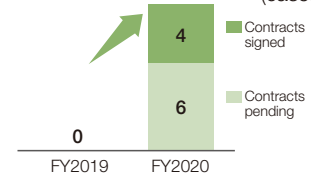
The Nanto Bank Group supports regional SMEs by introducing management personnel, expert specialists, and highly skilled international personnel imbued with the requisite expertise and technological know-how to solve their problems. Our accompanying consulting extends to follow-up for an appropriate period of time after the new personnel join the company, moreover, as well as to further support to ensure the customer's growth and systems improvement.

### Basic flow of human resources introduction



- STEP1** Conduct detailed discussions of the customer's management strategies and envisioned future business structure and grasp the issues to resolve.
- STEP2** Define the requirements for the most suitable human resources, produce recruiting materials, and provide the information to affiliated staffing agencies.
- STEP3** Receive recommendations of potential employees from employment agencies and maintain support until the client company secures the most suitable human resources.
- STEP4** Introduce management personnel (department head/administrator level) or highly skilled international human resources to promote corporate growth and improve management.

### Human resources introduction (cases)



## Support for smooth business succession and M&A.

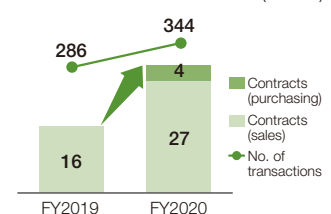
The pressing issues for maintenance and development of the local economy include challenges faced by many SMEs in their business succession as their owners age amid a shortage of appropriate successors.

The number of customers who are worried about the future of their business due to the prolonged coronavirus epidemic is growing, moreover, and their M&A-related management needs are increasing from the standpoint of maintaining business continuity and staff employment.

The Nanto Bank Group has established systems for solving problems collectively as a Group in matters related to company succession and corporate owners' assets, sharing in our customers' futures through deep involvement with management, with the Asset Management and Succession Office playing a leadership role supported by specialized outside business partners.

We continue at the same time to reinforce our systems in such areas as business matching and support for IT introduction to improve our customers' productivity.

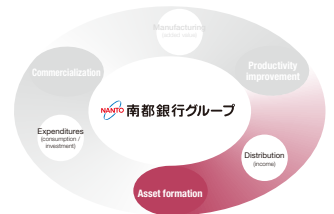
### M&A (cases)



### Productivity improvement support...Sustainable business model construction for the coronavirus epidemic and beyond

Business establishment support	Growth support	Business stabilization support	Business revitalization / succession support
<ul style="list-style-type: none"> <li>•Business establishment support</li> <li>•Crowdfunding</li> <li>•Support for capital expenditures</li> </ul>	<ul style="list-style-type: none"> <li>•Business matching</li> <li>•Funding support</li> <li>•Equity finance</li> </ul>	<ul style="list-style-type: none"> <li>•Business succession / M&amp;A</li> <li>•Support for IT introduction / BPO</li> </ul>	<ul style="list-style-type: none"> <li>•Capital lending</li> <li>•Management improvement support</li> </ul>

# Asset formation



## Basic Policy

### Asset Formation According to Life Stage

The Nanto Bank Group helps customers achieve asset formation in a cyclical process in which higher incomes from improved productivity are circulated through consumer spending and investment.

In an era in which people live a hundred years or longer, it is essential to extend the lifetime of their wealth as well. Customers' expectations of financial institutions are changing as their lifestyles and personal values diversify, moreover, and demand for instruments of a kind resembling individual life planning is emerging.

As a "companion for life" to our customers, we provide the best customer service under every circumstance, sharing their life planning and goals with them through dialogue and employing goal-based approaches as a Group to conduct the asset formation and asset management they require.

#### Future life planning

### Generation initiating asset formation

We plan to enhance convenience for our younger customers by improving our apps' functions and Internet banking procedures to enable them to conduct a wide variety of transactions anytime, anywhere according to their lifestyle.

We will also work on making our various payment procedures more convenient by encouraging the use of debit cards and credit cards and employing APIs to create linkage with other industries.

#### Nanto Bank smartphone app

- Balance and deposit / withdrawal inquiries**: Easy checking of account balances and deposit / withdrawal details at any time!
- Account opening**: Users can open an account by smartphone anytime, anywhere.
- Personalized home screen**: App users can decorate their home screen with their own favorite photos.
- Direct login**: Nanto Direct facilitates easy login to Internet investment trusts.
- Branches / ATMs**: Customers can search for nearby Nanto Bank branches and ATMs from their current location.
- Security function assuring safe, secure use!**: Activating this application provides users with access to various contents after automatically checking the security of their terminal and confirming its safety.

\* The Nanto Bank smartphone app can be downloaded from Google Play or the App Store.

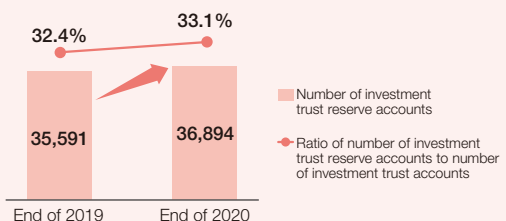
#### For your children's future and your own retirement

### Generations pursuing asset formation

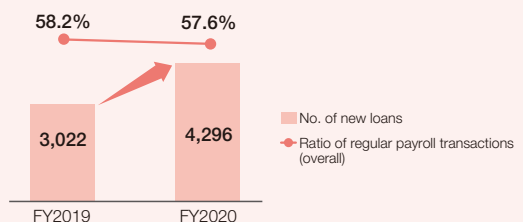
Asset-formation from a medium-to-long-term perspective is essential for those who want to lead a prosperous life in the future. From bank savings to asset formation, the Nanto Bank Group supports investment-centered asset formation by proposing instruments with an emphasis on long-term planning, savings, and diversification, and by leveraging systems such as NISA and iDeCo to match the investments to customers' future life design.

Acquisition of homes or other real estate and movables such as automobiles is another means of asset formation. We seek to improve convenience by further enhancing our product lineup to meet a wide range of asset formation needs, and by introducing mechanisms for completing procedures on the Internet.

#### Number of investment trust reserve accounts (Cases)

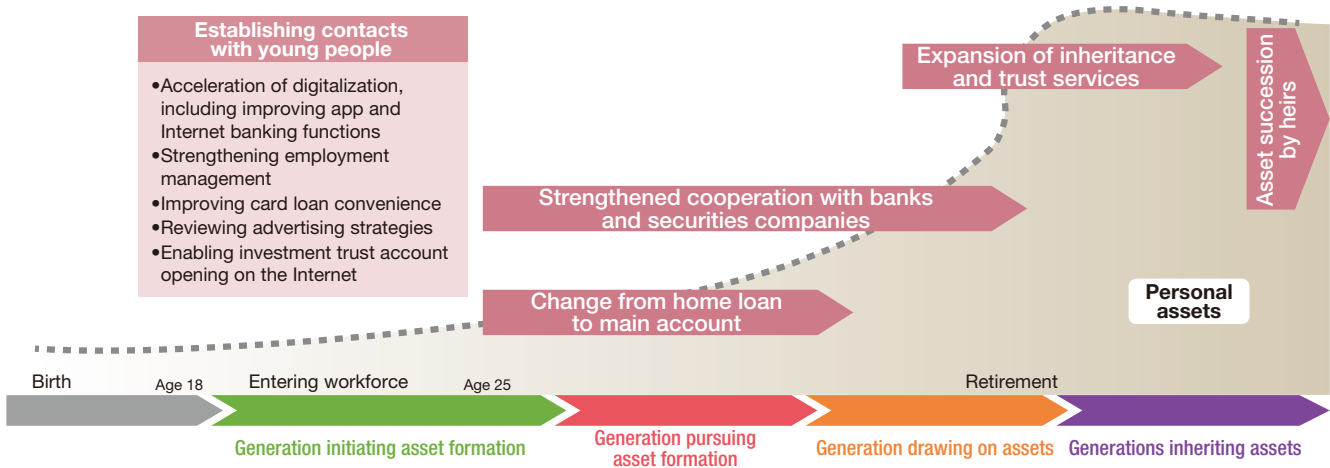


#### Home loans (No. of loans)



## Action Plan

Reinforcing and expanding functions to support asset formation from a medium-to-long-term perspective according to customers' life stages

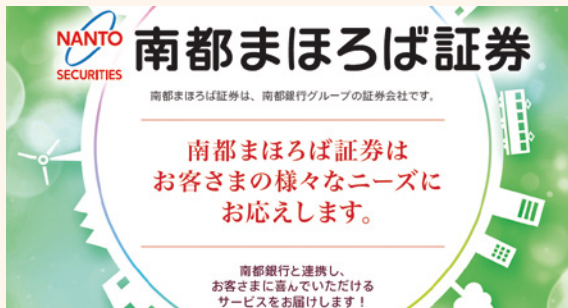


For a comfortable retirement life

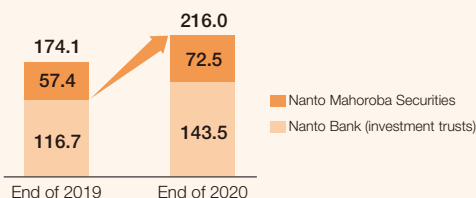
### Generation drawing on assets

In addition to long-term diversified investment, the ability to lead a rich life in retirement requires asset management matched to customers' lifestyles. The Nanto Bank Group has developed a one-stop system to meet the needs of widely varied customers by providing highly specialized hybrid bank/securities financial products in collaboration with Nanto Mahoroba Securities.

We are preparing for the era of 100-year lifespans, moreover, by proposing insurance products that employ guarantees and functions to meet the various needs of our customers.



Balance of assets under management (Billion yen)



For customers' precious families and grandchildren

### Generations inheriting assets

Passing down assets to the next generation is another important aspect of asset formations. Its early entry into the trust business among Japan's regional financial institutions positioned the Nanto Bank Group to lead the way in developing systems that assure peace of mind in matters of asset succession.

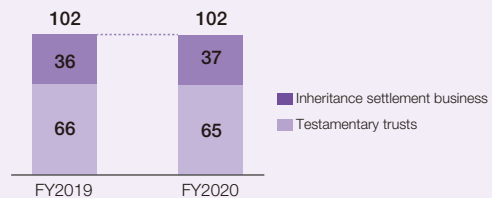
We are responding to the issue of dementia as well by providing instruments such as our Tsukaete Anshin trust with a proxy withdrawal function that allows families to manage their funds without worries.

Providing these structures to assure asset succession with peace of mind is a means of building relationships with both elderly customers and members of the next generation.

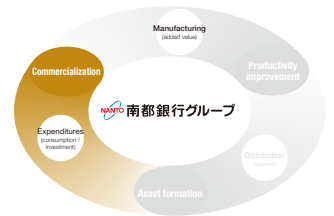


Trust business

(Cases)



# Commercialization



## Basic Policy

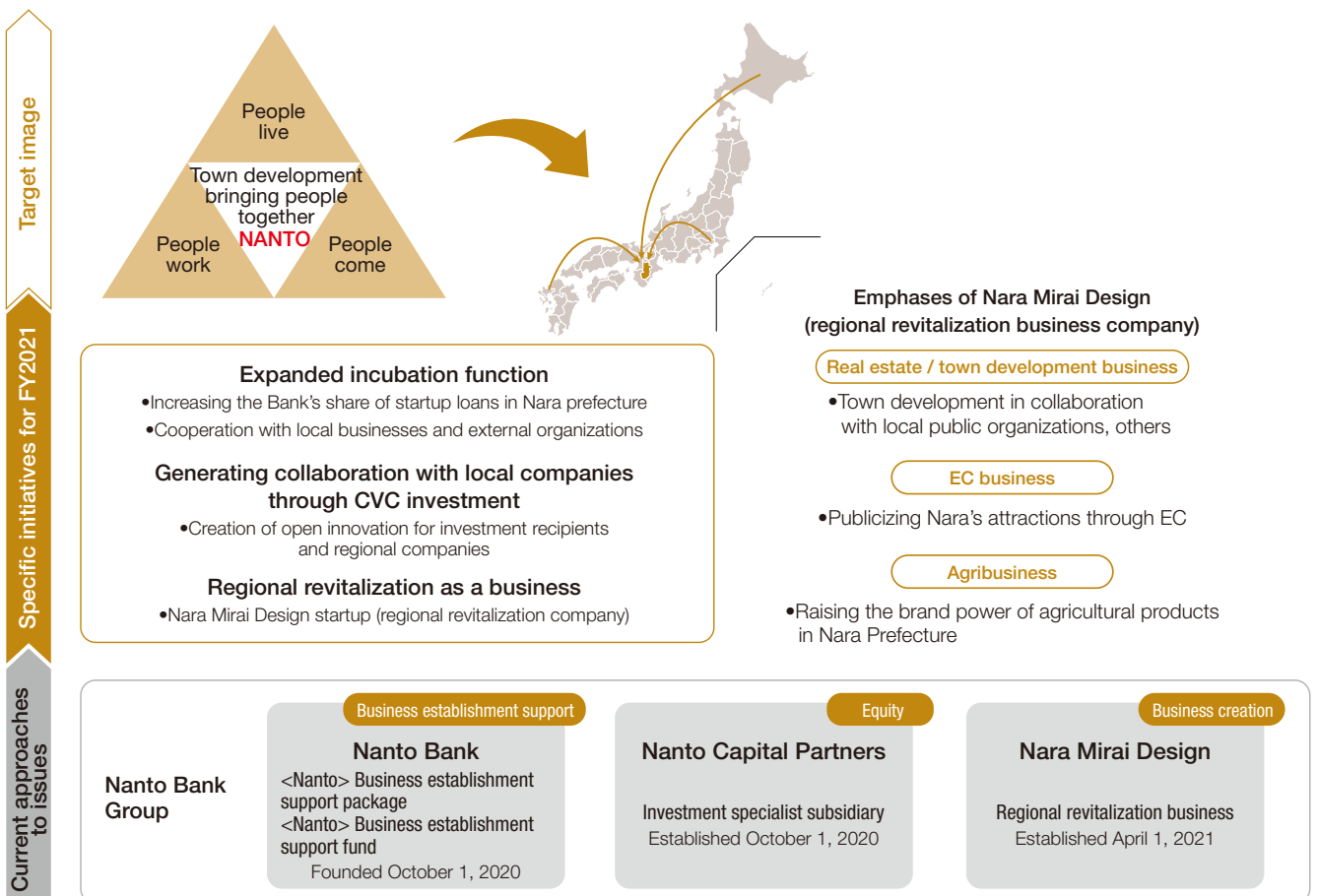
### Regional Revitalization Through Independent Business Development

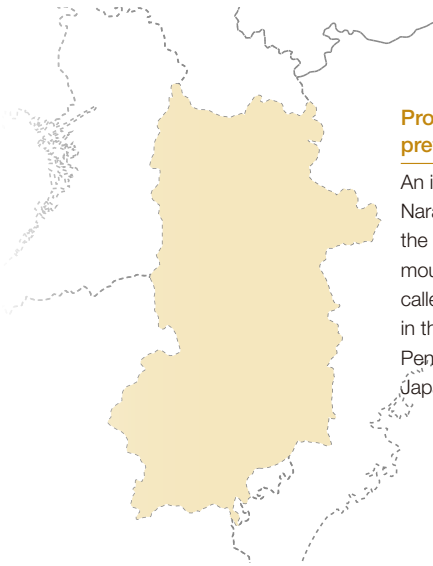
Against the background of a declining population and aging society, sustainable development of Nara prefecture will necessitate revitalization of the local economy by activating people x things x equity in addition to funding.

The Nanto Bank Group is striving to expand the incubation function designed to foster new industries in Nara prefecture, develop collaborative businesses in the prefecture through investment in venture companies, and spawn new commercialized businesses by leveraging the strengths of regional revitalization companies.

## Action Plan

### Participation as a Group in regional projects and efforts to enhance and nurture the earning potential of the regional economy





### Profile of Nara prefecture

An inland prefecture, Nara prefecture occupies the southern part of a mountainous region called the "Roof of Kinki" in the center of the Kii Peninsula in the heart Japan.

### Population / life

- Population of Nara prefecture  
**1,331,330**  
Males / 626,977  
Females / 704,353
- Number of households  
**596,741**
- Income per capita  
**2.6** million yen

### Economy / industry

- Number of factory and research institute locations  
**32** (FY2019)
- Number of businesses offices  
**49,823**
- Number of employees  
**486,777**
- Nara prefecture GDP (real)  
**3,611.7** billion yen
- Agricultural output  
**40.7** billion yen
- Ratio of disused cultivated land  
**21.2**%

Source: Nara Prefecture 2020

## Human resources [business establishment]

Although Nara prefecture boasts a superior pool of human resources with a high percentage of college-educated residents, its employment rate is surprisingly low, and consumer spending in the prefecture tends to be restrained as a result. We believe the Nanto Bank Group can provide leadership in promoting employment of our superior local human resources, with resulting higher consumption, and in creating new added value by providing support for startups and new business development and inviting companies to Nara prefecture.

### Current situation of Nara prefecture

- Nara Prefecture new business opening rate **4.3**% **15th** place in Japan
- University / junior college enrollment rate **59.4**% **7th** place in Japan
- Males **55.9**% **7th** place in Japan
- Females **63.1**% **4th** place in Japan
- Prefectural employment rate **71.2**% **46th** place in Japan
- Female workers in labor force **42.4**% **47th** place in Japan
- Percentage of consumer spending within the prefecture **84.8**% **47th** place in Japan

### Solutions

- Create employment through initiatives such as support for startups / new business development and attracting companies to the prefecture.
- Promote regional employment to increase salaries and create new added value.

## Tourism resources [business establishment / tourism]

Our goal is to increase GDP by simulating higher tourist spending and regional revitalization by converting Nara prefecture from a day-trip tourist destination to a multi-day tourist destination.

The Nanto Bank Group will promote excursions and multi-day tourism by establishing tourism bases with accompanying accommodations in the central and southern areas of the prefecture.

### Current situation of Nara prefecture

- Number of tourists **44.21** million
- National treasures and important cultural properties **1,327** **3rd** place in Japan
- Number of foreign visitors **3.5** million **5th** place in Japan
- World Heritage sites **3** **No.1** in Japan
- Historical scenic site natural monuments **146** **No.1** in Japan
- Guest rooms at inns and hotels **9,426** **47th** place in Japan
- Number of annual visitors **2.73** million
- Per-capita tourist spending  
Overnight visitors **27,451** yen    Day-trip visitors **4,781** yen

### Solutions

- Create local tourism bases by utilizing and renewing existing bases that are not fully utilized.
- Create busy districts to serve as tourist bases.







Source: Nara Prefecture 2020

## Nanto Method

### New Business Establishment and Support

#### ● <Nanto> Business Establishment Support Package

The <Nanto> Business Establishment Support Package, which bundles services and benefits for entrepreneurs, was established in October 2020 to provide one-stop services that meet all their needs. As of end June 2021, 54 of the Bank's customers are using the package.

 <p><b>Benefits of the &lt;Nanto&gt; Web Business Banking app (domestic)</b></p> <ul style="list-style-type: none"> <li>•Basic monthly fee 6 months free</li> </ul>	 <p><b>Cashless payment support for corporations and sole proprietors</b></p> <ul style="list-style-type: none"> <li>•Corporate credit card enrollment</li> <li>•3,000-yen gift card for new customers</li> <li>•Cashless payment member stores</li> <li>No initial introduction fees, preferential payment fees</li> </ul>	 <p><b>System installation support</b></p> <ul style="list-style-type: none"> <li>•Payroll services</li> <li>10% discount on cost of initial installation</li> </ul>
 <p><b>Financing consultation</b></p> <ul style="list-style-type: none"> <li>•Support for business plan / financial plan formulation</li> <li>•Credit Guarantee Association application support</li> <li>•Equipment procurement support</li> <li>•Loan product information</li> </ul>	 <p><b>Management support</b></p> <ul style="list-style-type: none"> <li>•Introduction of management professionals</li> <li>•Business monitoring</li> <li>•Subsidies / subsidy information provision</li> <li>•Business matching, etc.</li> </ul>	 <p><b>Membership services</b></p> <ul style="list-style-type: none"> <li>•Invitations to management seminars</li> <li>•Package membership</li> <li>Invitations to opinion exchange meetings / social gatherings</li> <li>•Email newsletter distribution, etc.</li> </ul>

#### ● <Nanto> Business Establishment Support Fund

In October 2020, we joined the Nara branch of the Japan Finance Corporation in a co-financing project organized to introduce the <Nanto> Business Establishment Support Fund aimed at helping entrepreneurs start new businesses in Nara prefecture.

Nanto Bank and the Japan Finance Corporation's Nara branch cooperate in responding promptly and flexibly to customer needs before and after they receive loans from the <Nanto> Business Establishment Support Fund. As of end June 2021, loans had been extended to two business owners.



#### ● <Nanto> Success Road Business Plan Commercialization Support Project



Thirty winners of the 7th <Nanto> Success Road\* Awards were announced in March 2021. In addition to awarding monetary prizes, the Bank assigns specialists to take responsibility for following up regularly and implementing efforts to realize early commercialization.

\*<Nanto> Success Road is a commercialization support project aimed at realization of a sustainable regional community in accordance with Nanto Bank's SDG policy.

## ● Participation through the Regional Co-creation Promotion Office

Prompted by its commitment to solving regional issues, Nanto Bank teamed up with the Nara Institute of Science and Technology to establish the Regional Co-creation Promotion Office. The Office's aim is to build a "regional co-creation platform" through collaboration among the industrial, academic, and public sectors with "co-creation" as the keyword.

With the Office as a starting point, we will expand future participation to companies and regional governments, and work as a collaborative project involving industry, academia, and government to overcome obstacles to the digitalization of regional communities and creation of new industries.



## Equity

In accordance with its mission of "adding new value to Nara through investment," Nanto Capital Partners Co., Ltd. pursues regional economic development by investing in venture companies as well as by working together with the Nanto Bank Group, regional companies, and venture companies. In fiscal 2020, the company invested in nine projects valued at 965 million yen.

## Business Creation

Nara Mirai Design was established by the Nanto Bank Group and NOTE Nara to solve regional issues through commercialization as a business operator.

### ■ Company profile

Company name	Nara Mirai Design Co., Ltd.	Contents of business	<b>[Town development business]</b> We will make use of vacant houses and stores in efforts to create lively towns and active businesses.
Location	43 Nishinoshinya-cho, Nara City, Nara Prefecture		<b>[EC business]</b> We will create structures that motivate people to visit Nara by communicating producers' perspectives and the stories behind the products to consumers nationwide.
Date of establishment	April 1, 2021		<b>[Agribusiness]</b> We will contribute to regional revitalization through branding of Yamato Vegetables grown on disused cultivated land.
Capital	30 million yen		

## Narawashi EC Mall established July 16, 2021



Nara Mirai Design has opened the Narawashi EC Mall Website, a new platform connecting producers with consumers.



The number of items available on the site was initially about 40, but the company intends to offer 300 or so items in the future.



<https://narawashi.jp/>



## Targeting a 10% Increase in Nara Prefecture's 2030 GDP

Nara Institute of Science and Technology, which established the Regional Co-creation Office to oversee regional revitalization, and the Nanto Bank Group, which has set the goal of raising Nara prefecture's GDP by 10% (approx. 350 billion yen) by 2030, share the common goals of revitalizing Nara prefecture and solving issues facing the region.

The university's Vice President Tsukasa Ogasawara, Director of the Co-creation Office, and Nanto Bank's Managing Executive Director Ryuichiro Funaki recently discussed their respective hopes for mutual cooperation and their institutions' roles in solving the issues concerned in regional economic revitalization.



The Nanto Bank, Ltd.  
Director and Managing Executive Officer  
**Ryuichiro Funaki**

Nara Institute of Science and Technology  
Director / Vice President  
**Tsukasa Ogasawara**



## Regional Co-creation Promotion Office established with “co-creation” as the keyword to coordinate collaboration among the industrial, academic, and public sectors.

**Ogasawara:** The increasingly challenging environment surrounding the University in recent years due to social changes such as a declining birthrate and aging population has made cooperation with the regional community, businesses, and government an important issue for us as well. About a year and a-half ago, our former President attended an ICT convention on the West Coast of the United States, where he was impressed by the highly productive cooperation between academia and the community. This inspired our University to take the lead in collaborating with various regional organizations and promote a new program of regional collaboration. Our purpose in establishing the Regional Co-creation Office was to encourage collaboration among regional financial institutions and the industrial, academic, and public sectors, and to extend this collaboration nationwide and around the globe.



In establishing the Office, we consciously incorporated the concept of a co-creation circle with other segments of society. It is relatively easy for universities and businesses to collaborate, with universities providing technical support. But when it comes to economic or social issues, universities cannot handle them alone. This will require us to discuss challenges based on the concept of regional issue solution, and to continue to expand our field of activities involving corporations and local governments by creating a platform-type organization capable of impacting and changing systems.

**Funaki:** The Nanto Bank Group would like to discover ways of joining your university, a depository of knowledge and expertise, in contributing to our region. We have been supporting entrepreneurial activities through our original <Nanto> Success Road project, and promoting a program of new business establishment for purposes of technological innovation and human resources development. Without accelerating these efforts and implementing measures to expand them, however, we will be unable to achieve our target of increasing Nara prefecture’s GDP by 350 billion yen. For this reason, we would like to contribute to creation of an environment in which some students of your University establish businesses and develop them right here in Nara prefecture. I am sure our banking specialists would prove useful in providing education and practical applications in the fields of finance and business planning, which are not to our knowledge among the University’s strengths. We are also interested in supporting startups by matching regional companies with students as potential human resources who possess seeds and technologies that can contribute to the community.

**Ogasawara:** As I mentioned, the key is collaborative funding by the regional industrial, academic, and public sectors. By co-creating an organization through cooperation between academia and finance, especially, we can identify issues that the University and Bank can tackle together, and form a team to work toward solutions to the issues facing Nara prefecture. There are various challenges to overcome, including the issues of car-sharing, smart cities, and tourism. We have a shortage of innovative human resources in Nara prefecture, however, and we would like to nurture more of them in cooperation with Nanto Bank. We are promoting an entrepreneurship education program, for example, to nurture students’ ability to sow seeds. This means fostering students with entrepreneurial mindsets. We would like to support them in cooperation with the Bank to help them start businesses in Nara prefecture and contribute to solving our regional issues.

**Funaki:** We do seem to have a particularly notable shortage of human resources specializing in IT in Nara prefecture. We banks are among those struggling to secure human resources to handle our digital strategies. If you have teachers and students working on FinTech at your university, I hope we can find ways to cooperate in developing cutting-edge services. At the same time, we would like to enable teachers and students to use us as a stepping stone for taking entrepreneurial capabilities born in Nara out into the world.

## Contributing to revitalization of the regional economy and problem-solving through collaboration between the Regional Co-creation Office and the Nanto Bank Group

**Ogasawara:** Our University specializes in advanced technological research. Our graduates will play active roles throughout the region, adding to the nation's technological capabilities. There are many issues that technologies can help to resolve including meeting the multiple future needs of society in places like Nara prefecture, where the population is likely to contract by one-third in coming years, or overcoming challenges faced by areas with



aging residents and inconvenient transportation. Supporting people who are facing challenges may become one of our major concerns, but we cannot overcome them alone. We must join forces with software development companies, for example, various service companies, and municipal governments. I believe we will need a body to oversee these efforts as well as a venue where participants can meet for regular discussions. Universities are thought to discourage public access. Establishing a place where community residents can gather easily to talk and solve problems would improve the community and create a virtuous cycle that brings people together.

**Funaki:** The Bank views these efforts from two perspectives. First, since we conduct a financial business ourselves, we can deploy technologies developed by the University's professors and students in collaboration with the industrial, academic, and public sectors in our business. Second, as a regional financial institution, we have built relationships with many regional companies. When it comes to funding for collaboration among these sectors, we can find regional companies to participate in joint research. In our daily work, we pursue activities aimed at achieving a full understanding of our customers and their management issues. If we add an understanding of the university's research themes and technologies to this, we believe we can upgrade the corporate business model through matching with appropriate regional companies depending on the theme. By linking research into such issues as smart cities and MaaS (Mobility as a Service) with companies in the automotive sector, we should be able to overcome such challenges as transportation inadequacies in areas whose population is declining as society ages. Regional companies could tackle these issues on their own, but the costs involved would be very high. We think the University's knowledge and know-how can be employed here to create new industries through collaboration among various companies, establishing a platform from which the possibilities for solving regional issues will become apparent. Banks as such operate under certain restrictions, but we feel certain that we can serve as an intermediary to connect local companies with local governments.



**Ogasawara:** It may be difficult for any of us to identify problems and consider solutions on our own, but we can respond by increasing the number of participants such as venture companies, and by collaborating with multiple universities, not only in technology but also in fields such as culture and economics. We can also divide the workload further by assigning different roles to specialists in various fields.

## Realizing untapped potential by taking advantage of the location characteristics of Nara prefecture to develop an incubation organization

**Ogasawara:** I, for one, am convinced of Nara prefecture's potential to create new businesses. Conditions may be better in Osaka and Kyoto at present, but if word gets out about an organization that supports entrepreneurs in

Nara, human resources will return. Nara is also an ideal place for experimenting with new businesses, a factor that interests me from an academic perspective.

**Funaki:** Nara may actually be better suited to experimentation than a metropolitan area. Conveniently located adjacent to Osaka and Kyoto, it offers easy airport and Shinkansen bullet train access. It is a particularly suitable region for creative activities such as IT and design that fit easily into remote business structures. We are considering establishing an incubation organization and providing infrastructure for the Nara of tomorrow. During the coronavirus pandemic, online conferences have become ubiquitous, and when 5G networks are fully in place, this trend can be accelerated further. We also intend to continue working with government entities such as local governments and the Ministry of Economy, Trade and Industry to encourage budding entrepreneurs to launch their startups in Nara.



**Ogasawara:** We have many competitors in this. Our organizational efforts will be futile if we do the same things as everyone else. We want to set Nara prefecture apart by making the most of its location near Osaka and Kyoto in a region where universities, companies, and research institutes are congregated. We will invite people to come to Nara, stay for a time, and learn what an agreeable place it is to live. If these newcomers team up with members of the local community, they can form a unique platform for co-creation in the community. Our first step will be to bring these sorts of people to our region.

**Funaki:** There are many companies concentrated in Keihanna Science City, which straddles the borders of Osaka, Kyoto, and Nara. We would like to make the most of our capabilities as a regional bank to establish a salon-like venue where entrepreneurs can gather in Nara, and to create a mechanism for exchanging information.

**Ogasawara:** I have taken students from our Entrepreneurship Education Program to the U.S. West Coast, where we visited a unique facility that supports organizations that are starting businesses. A number of support booths were set up at the facility to assure participants of their ability to succeed. It will be important for us to establish a support system of this kind, and I believe we should do so right away to provide entrepreneurs with virtual consultations and a place to gather and discuss their challenges.

**Funaki:** There should be a place where entrepreneurs who encounter problems can meet with people with experience and search for solutions with them. It would be wonderful if you could simply tell them to “come to our laboratory.”

## Pursuing regional revitalization by researching ideal ways of conducting regional finance that leverage advanced technologies and the evolution of DX

**Ogasawara:** The University’s classes have traditionally centered on face-to-face meetings. The coronavirus pandemic made it clear, however, that this is now not always the case. Since biology experiments deal with living organisms, researchers cannot conduct them away from their lab, but scientists who experiment by shaking test tubes can conduct their research remotely. Remote research activities will lead to advances in automation. Even office work can be conducted remotely, meanwhile, by digitizing stacks of documents. I believe DX has evolved from this. Anyone, even members of the general public in depopulated regions, can access and make effective use of data that is uploaded by computer to the cloud. This capability will make office work increasingly efficient as long as security measures can be fully implemented. Banks will operate without teller windows or ATMs, moreover, and will handle information instead of money. Nevertheless, our economic activity will continue. Further activities and services will be required to realize these changes, and we can employ our technical resources to pursue them. I believe we have a lot to learn about services through cooperation with your Bank.

**Funaki:** In the era to come, we will have to consider new approaches to regional finance. I would like to work with students on a project employing FinTech and blockchain technology to create forms of finance that are easy to use for the younger generation while remaining rooted in the community as a whole. Of course, not everything will be virtual. If customers have a partner like Nanto Bank that can advise them with a view to the actual situations of regional companies, they can invest with confidence. I want the Bank to play this role. I would like to join them in studying ways of combining Internet operations and real-life activities.

The financial world is entering an era of dramatic change, and I want to convey my fascination with this to students. We are in the midst of a paradigm shift to a world no one has ever before imagined. I certainly welcome the opportunity to benefit from your knowledge in this time of change.

**Ogasawara:** IT is also contributing to agriculture, a development with special appeal for young people.

**Funaki:** Many of our customers are already employing ICT in their farming operations, but it is not yet being applied in the forestry industry, where we are closely monitoring trends in carbon pricing. The closer you look at Nara prefecture, the more challenges you see—and the more opportunities you see as well. I would like to monetize our valuable forest assets. Developing a mechanism to measure the amount of CO<sub>2</sub> that can be absorbed by reforesting mountains will open up abundant opportunities for forestry in Nara prefecture. Many next-generation managers of local companies are aware of the problems, and of the possibilities for solving them.

**Ogasawara:** We can revitalize various areas of the region by bringing people like these young regional managers together. This is one reason why I believe Nara prefecture has such great potential.



## Collaborative efforts to create new systems by matching human resources and companies with the University's technologies

**Ogasawara:** Nanto Bank is currently engaged in promoting regional support projects and activities. If you help us match human resources and companies with the University's technologies, we can achieve something really significant. We hope to work with your Bank to deepen the University's ties with regional companies and governments. Developing new financial systems and promoting DX will require new mechanisms, and we look forward to working with you toward these goals.

**Funaki:** Financial institutions are also in the process of refining their services and risk management, and to tell the truth, we are keenly aware of our need for personnel with backgrounds in science. We can benefit from your knowledge in the areas of finance and deep learning, for example, in rethinking what services would be most beneficial to the people of our region considered from a zero base. I hope to realize "co-creation" by drawing on your expertise to supplement the knowledge and skills we lack ourselves. Thank you for taking time for us today.



Organizational overview and external environment



Governance



Business model



Risks and opportunities



Outlook

# National University Corporation Nara Institute of Science and Technology



## History

- Oct. 1991 Nara Institute of Science and Technology established. Graduate School of Information Science established. University Library established.
- Apr. 1992 Graduate School of Biological Sciences established. Information Science Center established.
- Apr. 1993 Research and Education Center for Genetic Information established. Graduate School of Information Science (Master's Program) accepts 1st-semester students.
- Apr. 1994 Graduate School of Biological Sciences (Master's Program) accepts 1st-semester students.
- June 1994 Research Center for Advanced Science and Technology established.
- Apr. 1995 Graduate School of Information Science (Doctoral Program) accepts 1st-semester students. Health Care Center established.
- Apr. 1996 Graduate School of Biological Sciences (Doctoral Program) accepts 1st-semester students.
- May 1996 Graduate School of Materials Science established.
- Apr. 1998 Graduate School of Science and Technology (Master's Program) accepts 1st-semester students. Research and Education Center for Materials Science established.
- Apr. 2000 Graduate School of Science and Technology (Doctoral Program) accepts 1st-semester students.
- Apr. 2002 Graduate School of Information Science, Department of Information Science begins accepting students.
- Oct. 2003 Intellectual Property Division established.
- Apr. 2004 Nara Institute of Science and Technology becomes a National University Corporation. Intellectual Property Division closed. Industry-Government-Academia Collaboration Group established.
- Sep. 2009 Gender Equality Promotion Office established.
- Dec. 2009 Center for International Cooperation established.
- July 2010 Information Initiative Center established.
- Aug. 2010 Center for Frontier Science and Technology established.
- Apr. 2011 Graduate School of Information Science, Department of Information Science established / begins accepting students. Graduate School of Biological Sciences, Department of Biological Sciences established / begins accepting students.
- Apr. 2013 Career Services Office established.
- Oct. 2013 Division for Research Strategy established.
- Apr. 2015 Center for Strategy and Planning established. Institute for Educational Initiatives established. Institute for Research Initiatives established.
- Apr. 2017 Data Science Center established.
- Apr. 2018 Graduate School of Science and Technology, Department of Science and Technology established / begins accepting students.
- Jan. 2021 Center for Digital Green Innovation established.
- Apr. 2021 Regional Co-creation Office established.

## — Outgrow your limits —

### On the cutting edge of infinite possibilities

Nara Institute of Science and Technology, a Japanese National University Corporation, offers an environment that enables the people who gather here to succeed in taking on and overcoming new challenges. In addition to the students and faculty who make up the University, everything from its academic fields to its organizational structures is predicated on achieving unrestricted growth and development.

## Regional Co-creation Office staff

We will realize a sustainable future society, not only through digitalization but also through the application of science and technology, by leveraging the advanced expertise of our many stakeholders who are leaders in the regional economy and society and co-creation of diversity.



### Tsukasa Ogasawara

Director, Regional Co-creation Office (Executive Director / Vice President, Nara Institute of Science and Technology)

#### Profile

Dr. Ogasawara graduated in 1978 from the University of Tokyo's Department of Numerical Engineering, Faculty of Engineering, from which he also earned his doctorate in information engineering in 1983. He joined the National Institute of Advanced Industrial Science and Technology of the National Institute of Advanced Industrial Science and Technology that same year, and later spent a year from 1993-1994 as a visiting researcher at Karlsruhe Institute of Technology in Germany. He has been a professor of Nara Institute of Science and Technology since 1998. His areas of research include intelligent robot systems, human robot interactions and biometrics, among others.



Regional Co-creation Director

### Masato Miyake

(Associate Professor, Nara Institute of Science and Technology, Institute for Research Initiatives)



Regional Co-creation Advisor

### Yoshihiro Furukawa

(Deputy Director, Nanto Bank Corporate Sales Department)



Regional Co-creation Coordinator

### Aya Nita

(URA, Nara Institute of Science and Technology, Institute for Research Initiatives)



Regional Co-creation Advisor

### Katsutoshi Akagi

(Deputy Director, Nanto Bank Sales Support Department, Digital Promotion Office)



Regional Co-creation Coordinator

### Masahiro Nishizawa

(URA, Nara Institute of Science and Technology, Institute for Research Initiatives)



Regional Co-creation Advisor

### Ryo Matsuyama

(Investigator, Nanto Bank Regional Business Creation Department)



Regional Co-creation Advisor

### Tetsuya Matsushita

(Nara Institute of Science and Technology, Planning and Academic Affairs Department, Planning and General Affairs Division)



Regional Co-creation Advisor

### Katsutoshi Kaneda

(Nanto Bank Sales Support Department, Digital Promotion Office)

# Human Resources Procurement and Training



## Basic Policy

### Creation of unconventional human resources

Implementing its human resources strategies will require Nanto Bank to secure and imbue its personnel with highly developed skills and capabilities. While pushing forward with our scheduled scaling back of human resources, we intend to pursue recruitment and training outside the bounds of the usual frameworks, with the aim of discovering and promoting highly specialized human resources with superior reformation capabilities.

In our awareness of the difficulty of securing superior human resources from various perspectives using conventional personnel evaluation methods, moreover, we are constructing appropriate new evaluation mechanisms and pursuing enhancement of our human resources development program to secure suitable management personnel for the future.

## Action Plan

### Expansion of mid-career recruitment and upgrading of human resources development programs, while constructing systems for appropriate evaluation of diverse human resources



### Introduction of side business policy to encourage employee growth

Since April 2021, the Bank has been cultivating an environment that allows employees to engage in side businesses based on an awareness that diverse experiences, advanced expertise and skills, personal connections, and networks acquired not only in the banking business but also in non-business activities are indispensable attributes. As of June 2021, 14 employees were benefiting from this policy.

#### Overview

#### [Target businesses]

Businesses without employment contracts with subsidiary companies  
\*Side business application required in advance

#### [Examples of target side business occupations]

- Qualification-related...Lecturer with official qualification, translator / interpreter, career consultant, etc.
- Internet-related...Web designer, programmer, YouTuber, blogger, etc.
- Others...Sale of personal handicrafts / artworks (decorations, paintings, photographs, etc.), musical activities, etc.

#### [Target personnel]

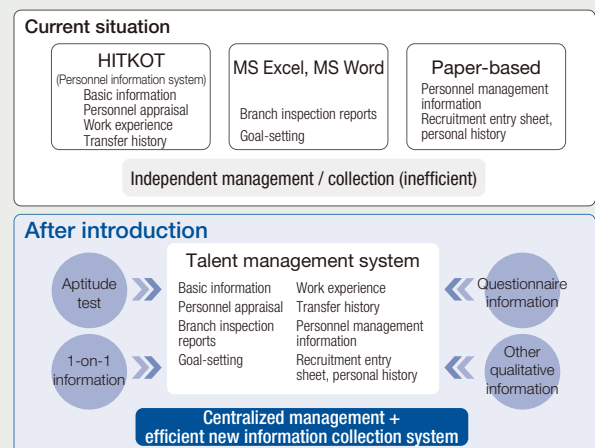
- Nanto Bank employees Approx. 2,600

### Introduction of talent management system

(Scheduled for October 2021)

We plan to introduce a talent management system for centralized collection, accumulation, and visualization of personnel information, and implementation of strategic data-based personnel measures (recruitment, training, placement, promotion).

This new system will enable us to discern such factors as employee qualifications, experience and capabilities, and to promote human resources optimization by placing the right person in the right position.



## Unconventional human resources development activities



### Tetsuya Sakamoto

Investigator, Personnel and General Affairs Department, Nanto Bank  
April 2021 Seconded to Kawakami Village

#### Work history

2005 Joined Nanto Bank Bojo branch  
2013 Corporate Sales Office, Sales Management Department (Hokusetsu)  
2017 Esaka branch  
2019 Corporate Planning Division  
2021 Personnel and General Affairs Divisions

#### Main qualifications

•Registered management consultant •Securities analyst  
•Nissho bookkeeping (level 2) •FP level 2



### Kawakami Village profile

Kawakami Village is located in the mountains of southeastern Nara prefecture, a region 95% covered by forest. Its position at the headwaters of the Yoshino and Kinokawa rivers makes it a "water resource village" that provides an enduring supply of clean water to many of the prefecture's municipalities.

### Business activities in Kawakami Village

Kawakami Village is losing its vitality in an environment of rapid depopulation, with the population falling from over 8,000 at its peak to about 1,300 today.

Organized in response to concerns that a continued contraction of the population would lead to a crisis threatening the village's very survival, a youth-centered migration and settlement project called the "Kawakami-ing Strategy" has been in operation for several years as a notable example of efforts to keep the village alive. I am currently participating in the Kawakami-ing Strategy.

### Differences from banking and disorientation I experienced when seconded to another sector

It took time for me to get used to the change, because not only the business content, but the organizational culture and value system as well were completely different from the Bank's. Looking back, I realize that my horizons have definitely been broadened by working in a context with a different perspective from the Bank's and interacting with people I had never met before.

Kawakami Village advocates the concept presented in the "Kawakami Declaration," for example, calling for action based on free ideas from a long-term perspective to protect its water sources and realize a rich life for its residents. This is quite different from the banking business, where we work with a constant awareness of profits.

Another difference is that bankers consider what they can do to address the issues of individual customers, but we campaign workers devote ourselves to considering what we can do to address the overall social issues of Kawakami Village.

### Rewards of working in Kawakami Village

I still feel the desire I had even when working at the Bank to help revitalize the Bank's home region of Nara prefecture, and I have learned how rewarding it can be to face local issues and think about ways of solving them with my superiors and colleagues.

### Utilizing this seconding experience when returning to the Bank The benefit I can provide to the community

When I return to the Bank, I hope to make use of my experience in working on a regional revitalization project from the perspective of a local government by playing an active role as a human resource with fuller knowledge than most of my colleagues.

In the future, the Bank will have to promote new initiatives with unprecedented ideas aimed at realization of a vibrant regional society. I am absolutely certain the insights and perspectives I have gained from my seconding to Kawakami Village will prove useful.

### Possibility of cooperation between regional governments and regional banks

Regional governments and banks are currently developing measures to solve social issues such as the declining population and aging of society from their respective points of view.

In the future, I believe that regional governments and banks, the institutions with the deepest knowledge of the actual situation of their region, will cooperate in building relationships that allow discussions across organizations, and collaborate to find optimal comprehensive solutions to various social issues.

### Village Mayor's views

As its name suggests, Kawakami ("river head") Village is a water source village located at the headwaters of the Yoshino River.\*

I view Tetsuya Sakamoto's seconding to Kawakami Village as evidence that the village and Nanto Bank have a shared a destiny. I am therefore impressed by President Hashimoto's preparedness and willingness to take solution of regional issues seriously with a sincere consciousness of the challenges facing Nara prefecture. Mr. Sakamoto is currently involved in the "Kawakami-ing Strategy" migration and settlement project. We hope he will acquire a deep interest in the efforts of the village as a water source that supports the region, and collaborate with us to achieve regional development.

\*The river's official name is Kinokawa ("Kino River"), but the people of Nara prefecture still call it the Yoshinogawa due to its association with the former Yoshino region where it originates.

Mayor of Kawakami Village 栗山忠昭



## Management Base Reinforcement

### Raising business efficiency



#### Basic Policy

### Optimizing Cost Resources to Raise Productivity

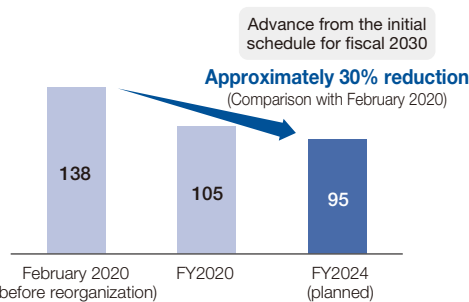
Improving the Nanto Bank Group's profitability while increasing customer satisfaction in an environment of lifestyle diversification and digitalization of society as a whole will be made possible only by optimizing business efficiency and allocating strategic staff to focus on high-value-added operations.

The Nanto Bank Group is responding with efforts toward branch network reorganization, administrative reform, product discontinuation, and headquarters office work reduction as measures toward improved business efficiency.

#### Action Plan

### Continuing to improve business efficiency in full consideration of customer convenience

#### Branch network reorganization (number of bases)



\*Excluding Mahoroba branch (Internet branch)

#### Branch network reorganization matched to the local market environment

Pursuit of a joint branch structure where two or more branches and branch offices conduct business in the same building has enabled the Bank to reduce the number of its bases from 138 in fiscal 2019 to 105 in fiscal 2020. We will continue these efforts to reorganize our branch network going forward, with the aim of constructing a 95-base system by the end of fiscal 2024, a reduction of approximately 30% compared to February 2020.

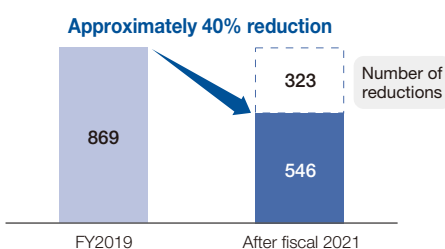
#### Administrative reform

	Past achievements	Future efforts
ATM tellers	56 branches	Sequential introduction according to branch type
Reception desk navigation system	Introduction to all branches (New account opening / partial notification)	Increase in rate of digitalization by expanding types of possible transactions
Back office centralization	Trials at 6 branches	Construction of a new systems adoption framework by the Operations Concentration Division

#### Administrative reform from a "3 lesses" perspective (cashless, paperless, back officeless)

We are working to simplify customer procedures and reduce the administrative burden through digitalization of three types of procedures. These begin with the introduction of teller ATMs that customers can operate to complete procedures themselves without paper, and extend to paper-free and cash-free operations achieved by expanding our "reception desk navigation" function for opening accounts and performing various notification procedures on tablets instead of paper. The third factor is office space reduction achieved by centralizing these procedures along with those previously conducted in the back office.

#### Product discontinuations (number of products handled)



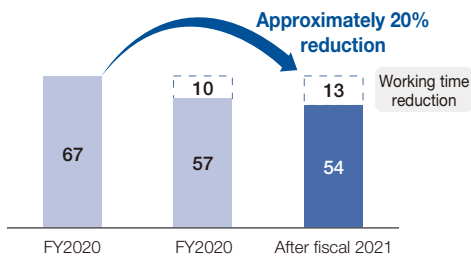
\*Discontinued / newly discontinued products

#### Product discontinuations guided by a concept of remote, contact-free operation and conversion to Web-based procedures

To improve productivity, we are discontinuing many products as a means of reducing our administrative and system cost burden. In fiscal 2020, we decided to eliminate or cease new provision of 323 products, or approximately 40% of our 869 products, in order to reduce the number of personal interactions required. In future, we will continue to eliminate products and discontinue new provision of others one after another to improve the Bank's productivity.



■ **Headquarters workload reduction** (10,000 headquarters work hours)

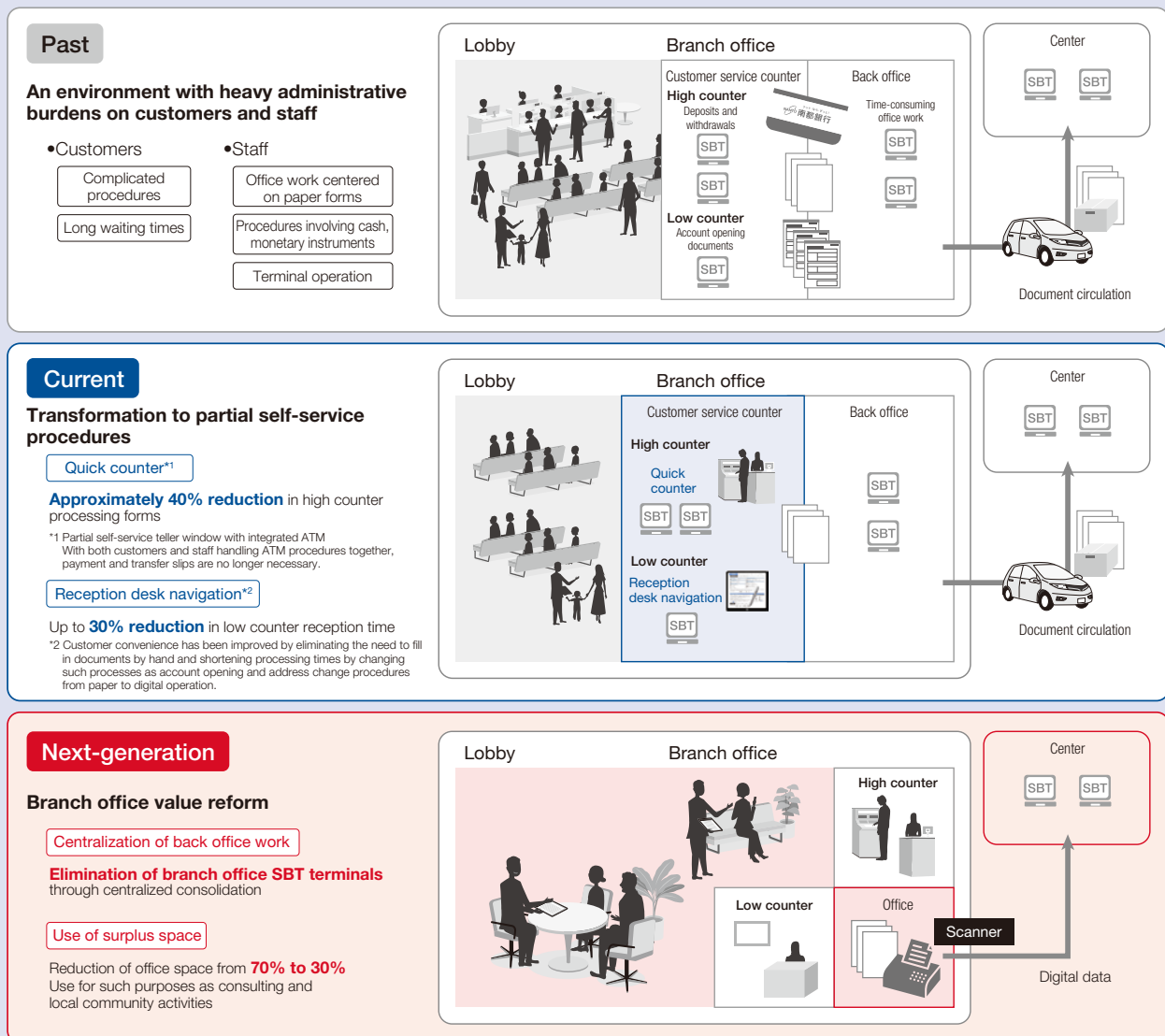


**Workload reduction through a process of discontinuation, centralization and outsourcing**

Besides discontinuing products, our efforts to improve productivity include working to achieve an approximately 20% reduction in the workload shouldered by the Headquarters' Planning, Operations Concentration and Internal Audit divisions. In fiscal 2020, we succeeded in cutting employee working time by 100,000 hours, which represents a little over 10% of the total working hours. We will continue these workload reduction efforts after fiscal 2021 as well, with the aim of reducing working hours by 130,000 hours, or 20% of the former total.

**Reformation of branch office work and our vision of the next-generation branch offices**

In the future, we will continue to examine possibilities for digitalization of the next-generation certification infrastructure and of all our paper forms as we move toward digitalization of office work at the Bank. Making use of leading-edge technologies such as remote business channels and AI that equip anyone to conduct business anywhere, we will promote a transformation to next-generation branch offices capable of solving regional issues.



\*SBT: The SBT (super banking terminal) is a device used by the branch office tellers and back office staff of financial institutions.

# Ongoing Efforts to Realize the SDGs

## — Environmental and gender-conscious management strategies —

The Nanto Bank Group is pursuing sustainable growth along with the regional community in full consideration of the environment.

As a regional financial institution, we are continuously engaged in activities concerning such challenges as responding to climate change risk, environmental conservation, and gender equality in our own operations and in collaboration with municipal governments and other stakeholders.

### Environmental conservation efforts in our main businesses

#### Loan policy toward industries and sectors with a significant impact on the environment and society

In considering loans that may exert a negative impact on the environment and society, we seek to reduce or avoid negative impacts by carefully judging their advisability. When serving customers who take environmental and social issues seriously, meanwhile, we provide appropriate knowledge and support in our capacity as a regional financial institution.

Please note that we are especially cautious with respect to loans to the following industries and sectors that are considered to have a particularly deleterious impact on the environment and society.

##### 1. Weapons manufacture

We do not lend to manufacturers of inhumane weapons, such as cluster munitions designed to kill or destroy in wars and other conflicts.

##### 2. Coal-fired power generation

We do not engage, as a rule, in financing for new coal-fired power plant construction. When it comes to projects such as high-efficiency power plant construction in response to national energy policies, however, we carefully consider the merits and demerits of undertaking each individual project.

##### 3. Deforestation

When asked to provide financing for development projects that involve deforestation, we investigate the legality and environmental impact of the logging and carefully consider the propriety of providing funds.

### Introduction of a syndicated loan product with TBM Co., Ltd., a unicorn venture capital company concerned with environmental issues



The Nanto Bank compiled a syndicated loan totaling 2.4 billion yen for TBM Co., Ltd. as lead underwriter for 10 regional banks. TBM develops, manufactures, and markets LIMEX\*, a new material that can be substituted for plastic and paper.

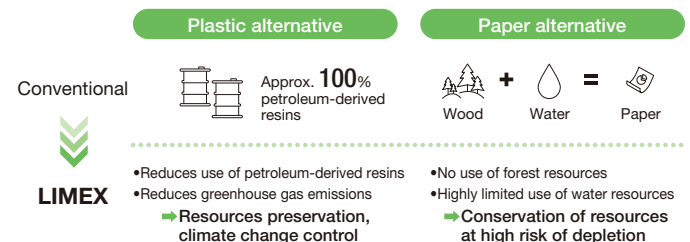
This loan has received the highest [Green 1] green loan certification from the Japan Credit Rating Agency (JCR).

\*A product with limestone as its main raw material that serves as an alternative to plastic and paper.

#### Overview of TBM Co., Ltd.

Headquarters	2-7-17 Ginza 6F, Chuo-ku, Tokyo
Established	2011
Capital	23,429,930,000 yen (including capital reserve) / as of July 2021
Contents of business	Development, manufacture, and sales of environmentally friendly materials and products

**About LIMEX:** An alternative to plastic and paper produced using limestone as the main raw material.



Besides the above, Nanto Bank devotes efforts to popularizing and promoting such renewable energy sources as solar and biomass power generation in its project financing activities.

## Climate change initiatives

### Compliance with TCFD recommendations

In this era of high international awareness of the need to respond to social disruptions due to climate change, Nanto Bank has endorsed a proposal introduced in July 2021 by the Task Force on Climate-related Financial Disclosures (TCFD).\*



We will continue to follow TCFD recommendations in order to strengthen our responses to climate change and enhance our information disclosure with respect to climate-related risks and opportunities.

\*The Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) at the G20 London summit in April 2009 at the request of the G20 Finance Ministers and Central Bank Governors. In June 2017, the TCFD published a final report containing summary recommendations encouraging voluntary disclosure by companies, not only for the financial sector but for the corporate sector as a whole.

## Efforts toward gender equality

The Nanto Bank Group is working to create an environment in which every employee can exhibit their individuality and make full use of their capabilities. Efforts include enhancing our policies concerning such issues as a balance of work with childrearing.

### Promoting women's advancement

With the goal of increasing the ratio of women in management positions (including section chiefs) to 15% or above by March 2023, we are implementing concerted efforts to assuring fairness in the availability of job opportunities for men and women, and to developing a new generation of female managers.

We are also working to establish a work environment in which women can participate actively, even after pregnancy and childbirth, by implementing measures to support reinstatement of employees returning from childcare leave.

#### Changes in the number of female managers (employees (ratio of women))

	March 2017	March 2018	March 2019	March 2020	March 2021
Female managers (including section chiefs)	118 (13.4%)	115 (13.4%)	113 (13.1%)	130 (14.3%)	132 (14.5%)

### Pursuit of a balance of work / childrearing

Other provisions besides childcare leave (up to 2 years of age) include shorter working hours, exemption from overtime work (until admission to elementary school) and nursing leave (until admission to elementary school). We also provide up to five days of family support leave for employees with newborn children or grandchildren for up to six months after their birth. To date, 100% of the Bank's employees whose spouse has given birth have taken this leave. We support realization of a balance between work and childrearing by increasing the rate of male employees taking childcare leave.



We are proud to report that the Bank's efforts in support of a work / life balance have earned it special Platinum Kurumin certification from the Ministry of Health, Labor and Welfare in accordance with the Act on Advancement of Measures to Support Raising the Next Generation of Children.

# Ongoing Efforts to Realize the SDGs

— Strengthening contact points with the community through social contribution activities —

We engage in a variety of activities in a variety of fields with a view to contributing to our regional community. We pursue these activities in the belief that the contacts with the community they provide are valuable opportunities.

## Use of vacant stores

Among these activities, we make active use of store vacancies that occur in connection with the reorganization of our branch network.



### [Former Shimoichi branch]

Our former Shimoichi branch reopened on April 5, 2021 as the Nara Co-op Shimoichi Station operated by the Citizens' Co-operative Nara Co-op for use as a base for business and community development activities to support the lives of regional residents.

#### ■ Nara Co-op Shimoichi Station overview

Concept	Community life and food support, employment creation, regional community building, renewable energy development, disaster preparedness, and evacuation site provision
Facility overview	[1st floor] Daily food home delivery base, product sales, relaxation space, Nanto Bank ATM, others [2nd floor] Meeting room, living consultation space, others [Rooftop] Solar panel installation



### [Former Oji branch]

Situated in a highly convenient location across from the train station, the Bank's former Oji branch will be converted for use as the No. 2 Oji Station Nursery Center. This facility will help to realize an environment the town of Oji is working actively to achieve in which parents can balance work and childrearing.

#### ■ No. 2 Oji Station Nursery Center overview

Operating company	Wakokai Social Welfare Corp.
Address	2-3-1 Kudo, Oji-cho, Kitakatsuragi-gun, Nara Prefecture (former Oji branch, 2nd floor)
Capacity	19 infants
Content	Childcare facility for children up to 2 years of age
Operating hours	Monday-Saturday 7: 00 a.m. - 10: 00 p.m.



### [Former Takada Honmachi branch]

At present, the former Takada Honmachi branch is on loan at no charge to Yamatotakada City for use as a vaccination venue.

#### ■ Overview of facilities provided to Yamatotakada City

Name of facility	Former Nanto Bank Takada Honmachi branch
Address	167-2 Nishimachi, Yamatotakada City, Nara Prefecture
Area	Land area 1,994.39m <sup>2</sup> Floor space 1,995.72m <sup>2</sup>

Yamatotakada City will conduct the vaccinations.

## Various donations / contributions



### Magokoro no Issatsu (“books from true hearts”) project

Each year, Nanto Bank donates books contributed by its executives and employees to the Nara Training School for Juvenile Delinquents as Christmas gifts.

This activity has been carried out since 1987 as part of the Magokoro no Issatsu project with the aim of contributing to boys’ emotional education. The donated books include dictionaries, reference books, and other practical educational resources in addition to books on currently trending topics.

### Contribution through <Nanto> Manba Charity Walk

Nanto Bank contributes to charity each year through the <Nanto> Manba Charity Walk, first organized in 2004 to celebrate the 70th anniversary of the Bank’s founding with the aim of contributing to the regional community and improving its citizens’ welfare. The charity walk was canceled in fiscal 2020 to prevent the spread of the new coronavirus, but we nevertheless made our usual donation in the amount of 600,000 yen. The donations are used to help operate a children’s cafeteria and to subsidize volunteer organizations.

## Nanto Ikueikai Foundation

In accordance with the Bank’s commitment to development of regional human resources, the Nanto Ikueikai, Public Interest Foundation provides scholarship support for financially disadvantaged high school and university students with excellent characters and academic ability from Nara prefecture. From its establishment in 1964 to March 2021, the Foundation has supported 1,440 students through scholarships.

## Participation in Yoshino Sakura cherry tree preservation campaign



The Bank participates as a special member of a team dedicated to protecting the famous Shiroyama Sakura cherry trees of Mt. Yoshino (Yoshino-cho, Nara Prefecture) established through concerted efforts of governmental and private organizations. The Shiroyama Sakura (about 30,000 trees) of Mt. Yoshino, a World Heritage Site, have shown signs of remarkable deterioration in recent years,

We cooperate actively as a regional financial institution in efforts to protect and develop the Yoshino Sakura by such means as dispatching volunteers and staff to various events.

## Sports promotion



Two players from the Nanto Bank Hockey Club were selected to join the 16-member Japanese Women’s Hockey Team at the Tokyo 2020 Olympics. This was the first time in nine years dating back to the 2012 London Olympics and Paralympics that players have been selected from Nanto Bank’s team to represent Japan at the Olympic Games.

### Nanto Bank Shooting Stars - notable results

All Japan Adult Hockey Championship	Victories 4	2nd-place finishes 13	3rd-place finishes 5
All Japan Women’s Hockey Championship	Victories 1	2nd-place finishes 6	3rd-place finishes 6
Prince Takamado Cup Women’s Hockey Japan League	—	2nd-place finishes 1	3rd-place finishes 15
All-Japan Business Team Hockey Championship	Victories 3	2nd-place finishes 6	—
West Japan 6-Person Hockey Championship	Victories 5	2nd-place finishes 7	—

# Bank Officers



## Directors



President (Representative Director)

### Takashi Hashimoto

Apr. 1977 Joined Nanto Bank  
June 1999 Manager, Kamimaki branch  
Apr. 2001 Manager, Kyoto Corporate Sales Office, Sales Management Department  
June 2002 Assistant Manager, Kyoto Sales Management Department; Manager, Corporate Sales Office  
June 2003 Manager, Kyoto branch  
June 2005 General Manager, Nanto Bank Public Affairs Division  
June 2007 Executive Officer and General Manager, Personnel Planning Division  
June 2010 Executive Officer and General Manager, Sales Management Division  
June 2011 Executive Officer and General Manager, Osaka District Headquarters  
June 2013 Executive Officer, Nanto Bank  
June 2014 Senior Executive Officer  
June 2015 President (current position)



Vice President (Representative Director)

### Satoshi Ishida

(Departments and responsibilities) Overall executive control, Corporate Planning Division, Osaka Block Headquarters, responsibility for special DX / SDGs missions  
Apr. 1997 Joined Dai-ichi Kangyo Bank, Ltd. (current Mizuho Bank, Ltd.)  
July 2001 Chief of Management Guidance, Construction Industry Division, General Policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism  
Nov. 2003 Manager, Industrial Revitalization Corporation of Japan  
July 2010 Director, Industrial Growth Platform Inc.  
Aug. 2013 Supervisory Coordinator, General Affairs Division; Supervisory Bureau, Financial Services Agency  
July 2015 Policy Manager, Policy Division, General Affairs Planning Bureau, Financial Services Agency  
July 2016 Manager, Monitoring Planning Office, General Affairs Division, Inspection Bureau, Financial Services Agency  
July 2017 Director, Regional Financial Planning Office, Supervisory Bureau, Financial Services Agency  
Nov. 2018 Director, Industrial Growth Platform Inc.  
Feb. 2019 Advisor, Nanto Bank  
Apr. 2019 Senior Managing Executive Officer and General Manager, Corporate Strategy Headquarters  
June 2019 Vice President and Executive Officer, General Manager, Corporate Strategy Headquarters  
Apr. 2020 Vice President and Executive Officer (current position)



Director and Managing Executive Officer

### Kazuya Yokotani

(Departments and responsibilities) Personnel and General Affairs divisions, Risk Management Division

Apr. 1985 Joined Nanto Bank  
June 2007 Assistant Manager, General Planning Division  
Apr. 2011 Manager, Higashi-Ikoma branch  
Aug. 2012 Assistant General Manager, General Planning Department  
June 2014 General Manager, General Planning Department  
Apr. 2016 Executive Officer and General Manager, Corporate Planning Division  
Apr. 2018 Executive Officer and General Manager, Public Affairs and Regional Vitality Creation Department  
Apr. 2019 Managing Executive Officer and General Manager, Financial Market Headquarters  
June 2019 Director and Managing Executive Officer, General Manager, Operations Division  
Apr. 2020 Director and Managing Executive Officer (current position)



Director and Managing Executive Officer

### Kazunobu Nishikawa

(Departments and responsibilities) IT Strategy Department, Administrative Support Department, Nara Hokuwa Block Headquarters, Kyoto Block Headquarters

Apr. 1986 Joined Nanto Bank  
June 2008 Manager, Amagasaki Corporate Sales Office, Sales Management Department  
Sep. 2009 Manager, Amagasaki branch  
Oct. 2010 Group Manager, Sales Management Department, Nanto Bank  
Oct. 2012 Assistant General Manager, Sales Management Department  
Apr. 2013 Manager, Takada Honmachi branch  
Apr. 2015 General Manager, General Affairs Division  
Apr. 2017 Executive Officer and General Manager, Business Promotion Headquarters  
Apr. 2019 Executive Officer and General Manager, Corporate Planning Division  
Apr. 2020 Executive Officer and General Manager, Nara Hokuwa Block Headquarters  
Apr. 2021 Managing Executive Officer  
June 2021 Director and Managing Executive Officer (current position)



Director and Managing Executive Officer

### Tsuyoshi Sugiura

(Departments and responsibilities) Financial Investment Division, Investigation Department, Nara Chuwa Block Headquarters, Nara Nanwa / Wakayama Block Headquarters

Apr. 1986 Joined Nanto Bank  
June 2008 Manager, Kami-Koma branch  
May 2010 Senior Analyst, Credit Analysis Division, Nanto Bank  
June 2011 Manager, Unebi branch  
Apr. 2013 Manager, Osaka branch  
June 2014 Manager, Sakurai branch  
Apr. 2017 Executive Officer and Manager, Sakurai branch  
Apr. 2018 Executive Officer and Manager, Tokyo branch  
Apr. 2019 Executive Officer and General Manager, Nara Chuwa Block Headquarters  
Apr. 2021 Managing Executive Officer  
June 2021 Director and Managing Executive Officer (current position)



Director and Managing Executive Officer

### Ryuichiro Funaki

(Departments and responsibilities) General Manager, Sales Promotion Headquarters, Regional Business Creation Division, Tokyo Sales Department

Apr. 1991 Joined Fuji Bank, Ltd. (current Mizuho Bank, Ltd.)  
Apr. 2002 Investigator, Corporate Planning Department, Mizuho Bank, Ltd.  
May 2004 ShinGinko Tokyo, Ltd. (current The Yachiyo Bank, Ltd.)  
Senior Manager, Planning Group  
Jan. 2009 Advisor, Industrial Growth Platform, Inc.  
June 2009 Executive Officer, Howa Bank, Ltd.  
July 2012 Principal, Industrial Growth Platform, Inc.  
July 2012 Participant, Nuclear Damage Compensation and Decommissioning Facilitation Corporation  
Nov. 2016 Specialist Investigator, Financial Services Agency  
Apr. 2019 Advisor, Nanto Bank  
July 2019 President, Nanto Consulting Co., Ltd.  
Apr. 2021 Managing Executive Officer and General Manager, Sales Promotion Division, Nanto Bank  
June 2021 Director and Managing Executive Officer, General Manager, Sales Promotion Division (current position)

## Auditors



Member (full-time), Audit and Supervisory Board

### Naoki Minowa

Apr. 1979 Joined Nanto Bank  
Feb. 2001 Assistant Section Chief, Credit Analysis Division  
June 2004 Assistant Manager, Credit Analysis Division  
June 2005 Assistant General Manager, Credit Analysis Division  
June 2008 General Manager, General Planning Division  
June 2009 Director and General Manager, General Planning Division  
June 2010 Director and General Manager, Business Promotion Headquarters  
Apr. 2012 Director and General Manager, Credit Analysis Division  
June 2013 Member (full-time), Audit and Supervisory Board  
June 2015 Managing Director  
Apr. 2017 Director and Senior Managing Executive Officer (Representative Director)  
Apr. 2019 Director  
June 2019 Member, Audit and Supervisory Board (current position)



Member (full-time), Audit and Supervisory Board

### Takao Handa

Apr. 1981 Joined Nanbu Bank  
June 2002 Manager, Keihanna Plaza branch  
June 2004 Manager, Nabari branch  
June 2006 Manager, Osaka North branch  
Nov. 2008 Manager, Osaka Kita branch and Manager, Sales Office, Osaka West Corporate Sales Department  
Jan. 2009 Assistant Manager, Osaka Central Sales Department  
Oct. 2009 Manager, Takada Branch  
Oct. 2011 General Manager, Management Administration Headquarters  
June 2013 Director and General Manager, Value Development Division  
June 2014 Director and General Manager, Human Resources Division  
Apr. 2016 Director and Executive Officer, General Manager, Human Resources Division  
June 2016 Member, Audit and Supervisory Board (current position)



Director  
**Matazaemon Kitamura**

(Main concurrent positions)  
President, Kitamura Forestry Co., Ltd.

Apr. 1978 Joined Fuji Bank, Ltd. (current Mizuho Bank, Ltd.)  
Feb. 1988 Director, Kitamura Forestry Co., Ltd.  
Sep. 2005 President and CEO, Kitamura Forestry Co., Ltd. (current position)  
June 2016 Director (outside), Nanto Bank (current position)



Director  
**Hidetaka Matsuzaka**

(Main concurrent positions)  
Chairman, Board of Directors, Aussie Capital Co., Ltd.  
Advisor, Osaka Gas Co., Ltd.  
Director (outside), Hiroshima Gas Co., Ltd.

Apr. 1980 Joined Osaka Gas Co., Ltd.  
June 2009 Executive Officer and General Manager, Planning Department, Osaka Gas Co., Ltd.  
Apr. 2011 Managing Executive Officer and General Manager, Resources and Overseas Business Department  
June 2011 Director and Managing Executive Officer, General Manager, Resources and Overseas Business Division  
Apr. 2014 Director and Managing Executive Officer, General Manager, Corporate Planning Division  
Apr. 2015 Vice President and Representative Director  
Apr. 2019 Chairman, Board of Directors, Aussie Capital Co., Ltd. (current position)  
June 2019 Advisor, Osaka Gas Co., Ltd. (current position)  
June 2020 Director (outside), Nanto Bank (current position)  
June 2020 Director (outside), Hiroshima Gas Co., Ltd. (current position)



Director  
**Shuhei Aoki**

(Main concurrent positions)  
Executive Strategist, Hitachi, Ltd.

Apr. 1981 Joined Bank of Japan  
Nov. 2003 Manager, Yokohama branch  
July 2005 Assistant Director, System Information Bureau  
May 2008 Supervisor, U.S. Business Relations; Manager, New York Office  
June 2011 Director, Financial Markets Bureau  
May 2013 Director, Bank Settlement Organization  
July 2014 Director, Hitachi, Ltd.  
Apr. 2020 Executive Strategist, Hitachi, Ltd. (current position)  
June 2020 Director (outside), Nanto Bank (current position)

(Note) Directors Matazaemon Kitamura, Hidetaka Matsuzaka and Shuhei Aoki are outside directors as stipulated in Article 2.15 of the Companies Act, and Audit and Supervisory Board members Takatoshi Kurahashi and Motoi Mitsuishi are outside auditors as stipulated in Article 2.16 of the Companies Act.

All outside directors and outside corporate auditors meet the "Independence Judgment Criteria" established by Nanto Bank, and all are registered with the Tokyo Stock Exchange, Inc. as independent officers of the Bank.



Member (outside), Audit and Supervisory Board  
**Takatoshi Kurahashi**

(Main concurrent positions)  
Group Executive Officer, Kintetsu Group Holdings, Inc.  
President, Kintetsu Real Estate Co., Ltd.

Apr. 1980 Joined Kintetsu Railway Co., Ltd.  
June 2012 Executive Officer, Kintetsu Railway Co., Ltd.  
Apr. 2015 Executive Officer, Kintetsu Group Holdings, Inc.  
June 2015 Director and Managing Executive Officer  
June 2016 Director and Senior Managing Executive Officer  
June 2017 Director, Senior Managing Executive Officer, Kintetsu Railway Co., Ltd.  
June 2019 Director, Kintetsu Group Holdings, Inc.  
June 2019 Executive Officer, Kintetsu Real Estate Co., Ltd. (current position)  
June 2019 Member (outside), Nanto Bank Audit and Supervisory Board (current position)  
June 2021 Group Executive Officer, Kintetsu Group Holdings, Inc. (current position)



Member (outside), Audit and Supervisory Board  
**Motoi Mitsuishi**

(Main concurrent positions)  
Vice President and Representative Director, Mitsubishi UFJ Research & Consulting Co., Ltd.

Apr. 1987 Joined The Bank of Tokyo-Mitsubishi, Ltd. (current The Bank of Tokyo-Mitsubishi UFJ, Ltd.)  
May 2012 General Manager for Thailand and Manager, Bangkok branch, Bank of Tokyo-Mitsubishi UFJ, Ltd.  
June 2013 Executive Officer, General Manager for Thailand and Manager, Bangkok branch  
Jan. 2015 Executive Officer, dispatched to Bank of Ayudhya (Vice President)  
July 2015 Corporate Officer and Assistant General Manager, Asia & Oceania Headquarters (responsible for special missions); Manager, Asia & Oceania Sales Department; Manager, Singapore Branch  
May 2017 Managing Executive Officer and General Manager, Transaction Banking Division  
July 2018 Managing Executive Officer and General Manager, Payment Business Division; Assistant General Manager, Global Commercial Banking Division  
July 2018 Managing Executive Officer, General Manager, Settlement Business Unit, Mitsubishi UFJ Financial Group, Inc.  
June 2019 Vice President and Representative Director, Mitsubishi UFJ Research & Consulting Co., Ltd. (current position)  
June 2020 Member (outside), Nanto Bank Audit and Supervisory Board (current position)

# Governance Reinforcement Strategies

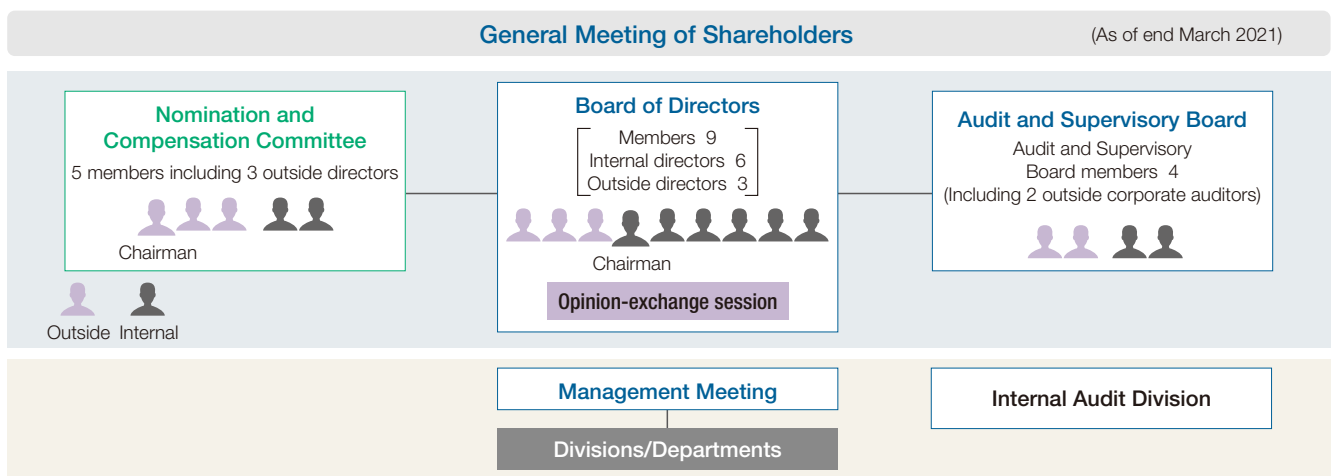
We believe that the basis for governance is a constant pursuit of the best ways of maximizing the value we provide stakeholders in our efforts to achieve the goals of the Nanto Mission and to play an indispensable role in regional development.



## Corporate governance system

The core of Nanto Bank's corporate governance system is the Board of Directors, which comprises nine directors (including three outside directors). The Board is organized to achieve fast, efficient decision-making while strictly observing the rules governing the Board of Directors.

The Board meets once a month, in principle, and on an extraordinary basis as necessary, to make decisions concerning significant management matters and business operations, and to report on business performance and the activities of various committees.



## Fiscal 2020 initiatives

Nanto Bank has implemented the following measures to strengthen the functions of the Board of Directors and establish a governance system that enables prompt, timely execution of important decisions in today's highly uncertain business environment.

### 1. Transition of the Board meeting from a forum for deliberation to a forum for debate

<b>Provision of advance information to outside directors</b>	A system of explaining the details of the Board's agenda, including background information, to each participant at least a day before Board meetings has reduced the time required to introduce the agenda at the meetings themselves, leaving more time for constructive discussion.
<b>Addition of an opinion-exchange segment to Board meetings</b>	The Board of Directors has added an opinion-exchange segment to its meetings as a forum for discussing medium-to-long-term themes after the main business of resolutions and reports is completed. In fiscal 2020, we held three opinion-exchange sessions each on the issues of raising Nara prefecture's GDP and the future direction of DX. The sessions were particularly notable for the opinions from various perspectives expressed by outside directors and the ensuing lively discussions.

<b>Board of Directors Meeting</b>	Chairman President	Times convened 12	Average meeting time	Approx. 2 hours
<b>Main subjects of discussion in fiscal 2020</b>				
<ul style="list-style-type: none"> <li>•Action Plan for fiscal 2020 in accordance with the Management Plan and monitoring of its progress</li> <li>•Branch network reorganization</li> <li>•Establishment of an SDGs policy and determination of priority action issues</li> <li>•Evaluation of Board of Directors' effectiveness and follow-up initiatives</li> </ul>			<Board of Directors> Approx. 2 hours ←-----→	
<b>Opinion-exchange session</b>	Chairman President	Times convened 6	Average meeting time	Approx. 1 hour
<b>Main subjects of discussion in fiscal 2020</b>				
<ul style="list-style-type: none"> <li>•Efforts to increase Nara prefecture's GDP</li> <li>•Future directions of DX</li> </ul>				



## 2. Establishment of the Nomination and Compensation Committee

Nomination and Compensation Committee establishment	The new Nomination and Compensation Committee was established under the auspices of the Board of Directors for the purpose of enhancing independence, objectivity, and transparency in the appointment of directors and the determination of remuneration. The Committee members include the President, Vice President, and three outside directors - one of whom serves as Chairman. A lawyer from outside the Bank with expert knowledge of committee operations participates as an observer and provides timely advice as appropriate.
---	---

<b>Nomination and Compensation Committee</b>	<b>Chairman</b> Matazaemon Kitamura (Outside Director)	<b>Times convened</b> 7	<b>Average meeting time</b> Approx. 1 hour
<b>Main subjects of discussion in fiscal 2020</b> <ul style="list-style-type: none"> <li>•Proposals to the General Meeting of Shareholders concerning the selection of candidates for appointment to the Board of Directors</li> <li>•Review of the system of determining directors' remuneration, including possible introduction of performance-linked remuneration</li> <li>•Policy on determining remuneration for individual directors</li> </ul>			

## Fiscal 2021 initiatives

### 1. Announcement of reduction targets for strategically held shares

Reduction to about 20% of net assets by end March 2025	In its efforts to achieve efficient management in consideration of the cost of capital, the Bank set a goal of reducing strategically held shares to about 20% of its consolidated net assets on a market value basis by the end of March 2025. The decision was announced in the Bank's "Report on Corporate Governance" published on July 2, 2021.
--	--

### 2. Major issues for future consideration in accordance with the revised Corporate Governance Code

Sustainability initiatives	The Nanto Bank Group recognizes that responding to sustainability issues in accordance with such recommendations as the SDGs and TCFD is an important issue for management that is closely linked to risk reduction and creation of profit opportunities. It is consequently pursuing efforts to achieve medium-to-long-term sustainability of the region, its customers, and the Group itself.
Diversification initiatives	Besides reconsidering its attitudes toward diversification activities such as promoting women and mid-career hires to managerial / core positions, Nanto Bank is reviewing its business goals, human resources development policy, and internal environment maintenance policy.
Basic policy regarding the business portfolio	Achieving sustainable growth in today's rapidly changing business environment will require the Bank to allocate management resources to reinforcing its core businesses as well as to new businesses and growth businesses with higher returns on capital. The Board of Directors is considering creation of a mechanism to review its business portfolio regularly to assure smooth transitions of resources.

## Nanto Bank Group governance from the Audit and Supervisory Committee members' perspective

The focus of Japan's corporate governance reforms in recent years has switched from the historical concern with preventing scandals to achieving sustainable corporate growth.

In this connection, for promoting sustainable growth and raising corporate value over the medium-to-long term, while improving such factors as profitability and capital efficiency, the Board of Directors is required to: (1) indicate the key directions of the corporate strategy; (2) create an environment that allows for an appropriate level of risk-taking by executives; and (3) provide highly effective supervision of executives from an objective, independent perspective.

As concerns auditors and Audit and Supervisory Board members, meanwhile, it is becoming increasingly necessary to switch from conducting conventional defensive function-centered auditing to actively and proactively exercising their authority and expressing appropriate opinions.

Efforts to strengthen the Nanto Bank Group's governance by reforming the Board of Directors will focus on sharing problem awareness and solutions, centered on the outside directors, with a positive attitude toward transparent, fair, swift, and bold decision-making, and with active opinion exchange contributing to resolving issues and determining strategic directions.

Of particular note among major changes in line with the times, the Board of Directors has transitioned from a deliberative body focused on agenda matters to a forum for exchanging opinions and discussing management issues, with the outside directors fully engaged in the opinion exchanges. There can be no doubt that the reforms are making steady progress. Regular performance reviews of the Board of Directors have given its members a high evaluation, concluding that effective performance of the Board is assured. Rather than a simple divided structure of opposing internal and outside directors, moreover, the Board's six internal directors include two who come from outside the organization, another factor providing reason to believe that its effectiveness is not limited by a stereotypical management perspective as a banking group.

Major issues to be addressed in the future include efforts toward sustainability and diversity. We hope these issues will be resolved through further reformation of the Board of Directors and other actions demonstrating its functional strengths.

Auditor (Full-time) **Naoki Minowa**    Auditor (Full-time) **Takao Handa**

# Comprehensive Risk Management and Compliance Systems



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 as a result. Under these severe circumstances, the Nanto Bank Group is working to ensure customers' ability to conduct business with confidence by positioning risk management as one of its most important management issues, and working to optimize its risk management systems to maintain the soundness and appropriateness of its businesses.

## Risk management systems

### Integrated risk management

To reinforce its ability to manage the risks it faces in its banking business, Nanto Bank has assigned responsibility for each risk to an appropriate department and established the Risk Management Division to handle them in an integrated manner by determining the various risks' individual positioning and magnitude and responding to each promptly and accurately.

In our commitment to risk management, we have specified basic risk management policies through various directives, including our "Integrated Risk Management Regulations."

To realize integrated risk management in which risks are quantified on a unified scale and the amount of each is controlled to an appropriate level in relation to equity capital in consideration of management strength, moreover, we determine the risk capital allotment (capital allocation amount) for each type of risk semi-annually within the range of equity capital, and control each risk amount (VaR, or "value at risk") to ensure it falls within the scope of capital. The ALM Committee evaluates the status of each risk at its monthly meetings as part of efforts to achieve more efficient, effective risk / return management, and systems are in place to exercise appropriate controls for ensuring management stability and improving profitability from the perspective of effective use of capital.



### [Credit risk]

Credit risk refers to the possibility of loss if an asset should decrease in value or cease to exist due to deterioration of a creditor's financial condition.

Nanto Bank has established a Risk Management Division and Credit Analysis Division separately from the Business Promotion Headquarters to serve as credit risk management bodies with responsibility for securing and maintaining asset soundness.

The Risk Management Division plans and supervises the Bank's credit risk management systems, analyzes its credit portfolio according to industry segment and rating group, and evaluates current conditions by managing the credit concentration status of the Bank's large credit partners. It assures maintenance of a sound credit portfolio by applying statistical methods to measure credit risk and ascertain the amounts of possible future losses.

The Credit Analysis Division has created systems for flexible credit risk management that responds to the various challenges facing the Bank's business partners. These include establishing a Business Revitalization Support Office to support activities aimed at improving partners' performance as well as assigning examiners to conduct general and industry-specific examinations.

Among measures to improve our examination management, we employ credit-rating systems that are consistent with strict self-assessment and the self-assessment debtor classification to grasp customers' creditworthiness objectively and manage it effectively. We have introduced a credit rating-based interest rate pricing policy, moreover, and we continue to implement operational measures to strengthen management and improve profitability.

Other efforts to reduce credit risk include executing strict controls, such as regular timely reviews of our transaction policies, and enforcing credit limits for borrowers of more than set amounts.

### [Market risk]

Market risk refers to the risk of losses due to changes in the value or revenues from Nanto Bank's assets or to debts incurred through fluctuations in interest rates, exchange rates, or stock prices.

Nanto Bank clearly separates the financial investment (front office) and office work (back office) functions to create a mutual checking system. As the department responsible for risk management (middle office), meanwhile, the Risk Management Division develops management systems, checks the compliance status of its risk management regulations in the market, and oversees the positions and profit-and-loss situations of the trading departments. The Division also analyzes the risk associated with such assets and debts as deposits, loans, and securities from various perspectives through application of such methods as the VaR and BPV (basis point value) methods and interest rate fluctuation simulation, and reports the results to management in a timely manner.

The Nanto Bank ALM Committee determines the market risk limit by VaR every six months in consideration of equity capital and the market environment, and strives to earn profits through its market operations while observing the risk limits. The ALM Committee considers the actual results in terms of risks and profits for each market operation at its monthly meetings, and considers appropriate risk control and efficient approaches to profit-making in consideration of the market outlook. To understand the impact of market fluctuations beyond the range of VaR forecasts, moreover, it conducts stress tests based on scenarios replicating the market environment and portfolio characteristics in preparation for unforeseen circumstances.

### [Liquidity risk]

Liquidity risk is the “cash-flow risk” Nanto Bank faces of suffering losses that make it difficult to secure requisite funds or force it to raise money at significantly higher-than-usual interest rates due to mismatches between the investment and procurement periods or unexpected outflows of funds.

With the monthly financial plan formulated by the ALM Committee as a basis, the Nanto Bank’s Cash-flow Management Department (Market Operations Department) manages daily cash flows, and the Risk Management Division’s Liquidity Risk Management Section monitors their management status. The ALM Committee provides comprehensive cash-flow risk management, moreover, in consideration of such factors as the funds available for cashing procedures and the cash procurement status.

An appropriate management system is devised for each stage of the cash-flow situation — “normal”, “concerning”, or “crisis” — to facilitate agile responsiveness.

### [Operational risk]

This is the risk of Nanto Bank suffering losses due to engagement in improper banking processes, systems, or activities by its officers or employees (including part-time or dispatched employees) or to extraneous events. Each of the Bank’s departments with responsibility for operational risk manages risks such as administrative risk, system risk, legal risk, human risk, tangible asset risk, and reputation risk with professional acumen.

What is more, establishment of the Operational Risk Management Committee has created a forum for studying CSA STAR risk control analyses, a method of managing potential risk, and the results of collection / analysis of information on losses such as those resulting from administrative accidents. The Committee also manages each risk centrally and discusses countermeasures systematically. Its findings enable the Bank to prioritize its responses to the most critical risks, minimize them, and establish a PDCA cycle.

### Crisis management system

In addition to the risk management structures discussed above, Nanto Bank has systems in place to minimize the impact of crises on business by providing guidance and giving orders in a unified manner.

It has formulated a Crisis Management Plan and compiled a “Crisis Management Plan Response Manual,” for example, to guide Nanto Bank personnel in dealing appropriately with crises that exert a significant impact on business continuity, as exemplified by natural disasters such as powerful earthquakes, infrastructure failures, or epidemics of infectious diseases such as the new coronavirus. Upon the occurrence and manifestation of crises of any kind, the Emergency Response Meeting and Countermeasures Headquarters collect information, provide centralized guidance, and issue orders to minimize the impact on business operations. As a cornerstone of the social infrastructure, moreover, the Bank continuously implements measures in preparation for providing services to its customers, such as improving facilities so that it can continue to conduct business, even in the event of a disaster. We also strive to ensure the effectiveness of our crisis management systems, moreover, and to improve them continuously through annual management training courses.

## Commitment to strict compliance

### Compliance systems reinforcement

Compliance is a matter of unwavering observance, not only of laws, government ordinances, and internal rules, but also of ethical and social norms. It is imperative that banks fulfill their social responsibilities and public missions in good faith. At Nanto Bank, we are implementing the following measures to ensure complete compliance.

- Fully aware of its public mission and social responsibility as a financial institution, Nanto Bank seeks to gain the trust of its stakeholders, including its regional community and shareholders, by positioning compliance with laws and regulations as the most important issue for management. To this end, it has formulated “Basic Guidelines” and a “Code of Conduct” as corporate policies with which all the Bank’s officers and employees are expected to comply.
- In order to define a basic framework for our compliance systems, we have clarified our stance toward compliance with laws and regulations, not only by establishing compliance regulations but also by formulating disciplinary regulations that show the fairness and transparency of our disciplinary actions.
- We have established a Compliance Committee chaired by the President to serve as a cross-sectional organization within the Bank that discusses and decides important matters related to compliance, as well as a supervisory department responsible for planning and supervising compliance.
- Each fiscal year, we prepare a compliance program as a concrete, practical plan for achieving compliance, after which we investigate the program’s implementation status and make appropriate revisions.
- The Bank is pursuing efforts to optimize operation of its compliance hotline, a whistle-blower system established for purposes of prevention and early detection and correction of violations of laws and regulations.
- We have compiled a “Compliance Handbook” to serve as a detailed guide to maintaining compliance, and we are following up with efforts to foster a compliance mindset by distributing the handbook to all our management and general personnel, and by holding regular group training and study sessions at every workplace.
- In accordance with our resolute attitude toward antisocial forces that threaten the order and safety of civil society, moreover, we have formulated a set of “Regulations for Dealing with Antisocial Forces, Etc.” and have terminated relationships with all such elements.

### Money laundering and terrorist financing countermeasures

Demands from the international community for measures against money laundering and terrorist financing (hereinafter, “money laundering, etc.”) have increased quickly in recent years. Nanto Bank has responded by positioning measures to combat money laundering, etc., as one of its most important management issues, and formulating a basic “money laundering and terrorist financing countermeasures policy.” We continue our efforts to improve the effectiveness and sophistication of our measures against money laundering, etc. In response to the increasing complexity and sophistication of financial crimes, meanwhile, we are reinforcing our preventive measures designed to protect Nanto Bank customers from falling victim to financial crimes, while continuing to maintain safe, convenient financial services.

**Corporate Data** (As of March 31, 2021)**Company profile**

<b>Name:</b>	The Nanto Bank, Ltd.
<b>Founded:</b>	June 1, 1934
<b>Head Office:</b>	16, Hashimoto-cho, Nara City, Nara, Japan
<b>Capital:</b>	37,924.15 million yen
<b>Total assets:</b>	6,542.5 billion yen
<b>Deposit balance:</b>	5,452.6 billion yen
<b>Loan balance:</b>	3,808.1 billion yen
<b>Loans to small and medium-sized enterprises worth:</b>	1,413,546 million yen
<b>Domestic offices:</b>	106 (67 in Nara Prefecture, including Internet branches, and 39 in other locations)
	Overseas representative offices: 2*1 (1 each in Hong Kong and Shanghai)
	*1 Closed effective April 30, 2021
<b>Employees:</b>	2,398
<b>Capital adequacy ratio:</b>	9.47% (consolidated); 9.15% (non-consolidated)
<b>URL:</b>	<a href="https://www.nantobank.co.jp">https://www.nantobank.co.jp</a>

**Nanto Bank Group\*2 member companies**

(As of July 31, 2021)

Company name and location	Main content of work
Nanto Management Service Co., Ltd.	Services offered by Nanto Management Service include management of subsidiaries, management and leasing of commercial real estate, outsourcing, and employee placement services.
Nanto Business Service Co., Ltd.	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.	Nanto Credit Guarantee backs up customers' borrowing activities by providing guarantee services related to various personal loans, including Nanto Bank mortgages.
Nanto Lease Co., Ltd.	Nanto Lease contributes to development of regional business and industry by supporting the introduction of movables ranging from OA equipment to large industrial equipment and automobiles to meet the diverse needs of its customers.
Nanto Computer Service Co., Ltd.	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 DC Card Co., Ltd.	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.	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.	As specialists in various areas of management, Nanto Consulting proposes solutions through consulting and business-matching operations.
Nanto Challenged Co., Ltd.	Nanto Challenged helps to upgrade Nanto Bank's administrative work efficiency as a special subsidiary with the necessary certification to engage in employment of people with disabilities, and by centralizing and professionalizing routine office work such as supply management and dispatching.
Nanto Mahoroba Securities Co., Ltd.	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.
Nanto Capital Partners Co., Ltd.	Nanto Capital Partners contributes to revitalization and development of the regional economy by investing in venture companies and business successor companies, and by pursuing solutions to problems facing its investee companies and raising their corporate value.
Nara Mirai Design Co., Ltd.	Nara Mirai Design contributes to regional revitalization by engaging in community development projects such as finding uses for vacant houses and stores, centered on restoration of old folk houses, and constructing and operating an EC site that sells specialty products from Nara prefecture.

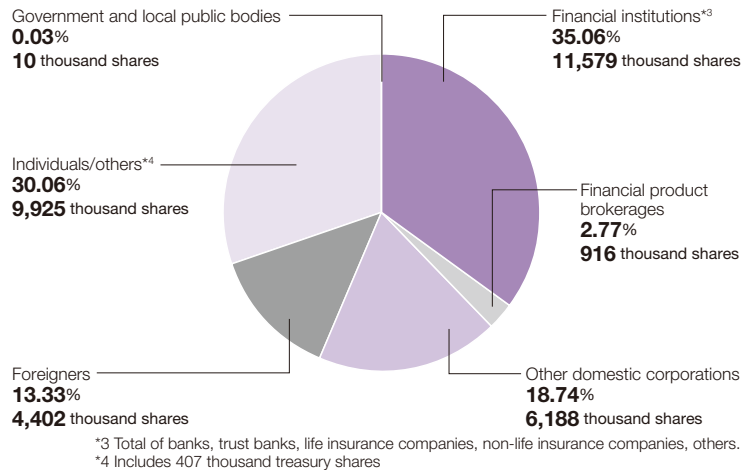
\* 2 Consolidated subsidiary / equity-method affiliate

## Stock situation

Total shares issued: 33,025 thousand

Number of shareholders: 15,489

## Stock distribution by owner category



## Major shareholders (top 10)

Name	Number of shares owned (unit: 1,000) <sup>*5</sup>	Ratio of number of shares owned to total number of shares issued (%) <sup>*6</sup>
The Master Trust Bank of Japan, Ltd. (trust account)	2,097	6.43
Custody Bank of Japan, Ltd. (trust account)	1,555	4.76
Nippon Life Insurance Company	1,053	3.22
Meiji Yasuda Life Insurance Company	1,043	3.19
Nanto Bank Employee Stock Ownership Association	899	2.75
Sumitomo Life Insurance Company	662	2.02
Mitsubishi UFJ Bank, Ltd.	508	1.55
DMG Mori Seiki Co., Ltd.	476	1.46
Daiwa Gas Co., Ltd.	452	1.38
Custody Bank of Japan, Ltd. (5 trust accounts)	440	1.34

(Note) <sup>\*5</sup> The number of shares owned is rounded down to the nearest thousand.

<sup>\*6</sup> The ratio of the number of shares owned is calculated by deducting treasury stocks (407 thousand shares) and is rounded down to two decimal places.

## Total shareholder return (TSR)

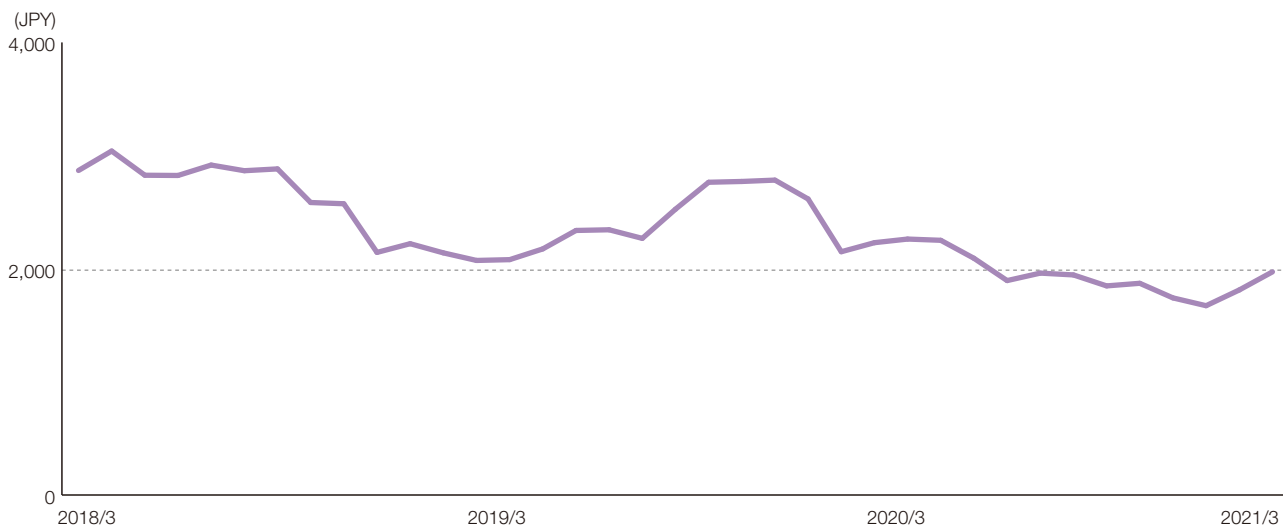
	Mar. 2019	Mar. 2020	Mar. 2021
Nanto Bank	74.9	82.6	76.8
TOPIX (including dividend)	126.1	114.2	162.3

## Dividends per share / Dividend payout ratio

	Mar. 2019	Mar. 2020	Mar. 2021
Dividends per share (yen)	80.00 <sup>*7</sup>	80.00	80.00
Payout ratio (%)	23.40	78.47	24.54

(Note) <sup>\*6</sup> 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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Assets:</b>			
Cash and due from banks (Notes 21 and 23).....	¥ 1,191,207	¥ 693,798	\$ 10,759,705
Debt purchased (Note 23).....	1,827	2,412	16,502
Money held in trust (Notes 23 and 24).....	40,500	39,470	365,820
Securities (Notes 8, 10, 13, 23 and 24).....	1,428,362	1,340,346	12,901,833
Loans and bills discounted (Notes 9, 10, 11 and 23).....	3,786,878	3,457,276	34,205,383
Foreign exchanges (Note 9).....	1,238	1,114	11,182
Lease receivables and lease investment assets.....	25,180	25,072	227,441
Other assets (Note 10).....	55,126	67,424	497,931
Tangible fixed assets (Note 12).....	38,106	39,183	344,196
Buildings.....	10,978	11,485	99,159
Land.....	24,162	24,596	218,245
Construction in progress.....	—	1	—
Other tangible fixed assets.....	2,965	3,099	26,781
Intangible fixed assets.....	5,297	6,413	47,845
Software.....	4,846	5,961	43,772
Other intangible fixed assets (Note 10).....	450	451	4,064
Deferred tax assets (Note 28).....	1,103	12,611	9,962
Customers' liabilities for acceptances and guarantees.....	7,172	6,615	64,781
Reserve for possible loan losses (Note 23).....	(21,768)	(20,810)	(196,621)
<b>Total assets.....</b>	<b>¥ 6,560,231</b>	<b>¥ 5,670,929</b>	<b>\$ 59,255,993</b>
<b>Liabilities and net assets:</b>			
<b>Liabilities:</b>			
Deposits (Notes 10 and 23).....	¥ 5,439,967	¥ 5,029,759	\$ 49,137,087
Negotiable certificates of deposit (Note 23).....	4,040	7,370	36,491
Call money and bills sold (Note 23).....	—	5,441	—
Payables under repurchase agreements (Notes 10 and 23).....	37,077	42,475	334,901
Payables under securities lending transactions (Notes 10 and 23).....	106,465	135,144	961,656
Borrowed money (Notes 10, 23 and 33).....	626,700	135,538	5,660,735
Foreign exchanges.....	578	155	5,220
Borrowed money from trust account.....	6,265	6,763	56,589
Other liabilities (Note 33).....	24,893	33,432	224,848
Liability for retirement benefits (Note 26).....	11,872	11,842	107,235
Reserve for reimbursement of deposits.....	158	216	1,427
Reserve for contingent losses.....	1,134	1,101	10,242
Reserve under special laws.....	3	3	27
Deferred tax liabilities (Note 28).....	454	15	4,100
Acceptances and guarantees.....	7,172	6,615	64,781
<b>Total liabilities.....</b>	<b>¥ 6,266,784</b>	<b>¥ 5,415,875</b>	<b>\$ 56,605,401</b>
<b>Net assets (Note 6):</b>			
Common stock: Authorized 64,000 thousand shares in 2021 and 2020 Issued 33,025 thousand shares in 2021 and 2020.....	¥ 37,924	¥ 37,924	\$ 342,552
Capital surplus.....	34,749	34,749	313,874
Retained earnings.....	189,861	181,640	1,714,939
Less treasury stock: Issued 407 thousand shares in 2021 and 418 thousand shares in 2020.....	(1,693)	(1,745)	(15,292)
<b>Total stockholders' equity.....</b>	<b>260,842</b>	<b>252,569</b>	<b>2,356,083</b>
Valuation difference on available-for-sale securities (Note 24).....	31,221	3,357	282,007
Deferred gains or losses on hedges (Note 25).....	2,008	(162)	18,137
Accumulated adjustments for retirement benefits (Note 26).....	(688)	(798)	(6,214)
<b>Total accumulated other comprehensive income.....</b>	<b>32,542</b>	<b>2,395</b>	<b>293,939</b>
<b>Stock acquisition rights.....</b>	<b>63</b>	<b>88</b>	<b>569</b>
<b>Total net assets.....</b>	<b>293,447</b>	<b>255,053</b>	<b>2,650,591</b>
<b>Total liabilities and net assets.....</b>	<b>¥ 6,560,231</b>	<b>¥ 5,670,929</b>	<b>\$ 59,255,993</b>

See Notes to Consolidated Financial Statements.

## • Consolidated Statements of Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Income:</b>			
Interest income:			
Interest on loans and bills discounted.....	¥ 31,956	¥ 30,159	\$ 288,646
Interest and dividends on securities.....	15,528	13,482	140,258
Other interest income.....	635	514	5,735
Trust fees.....	8	13	72
Fees and commissions.....	22,228	20,643	200,776
Other operating income (Note 14).....	4,597	8,071	41,522
Other income (Note 15).....	6,306	8,200	56,959
Total income.....	81,262	81,087	734,007
<b>Expenses:</b>			
Interest expense:			
Interest on deposits.....	423	541	3,820
Interest on borrowings and rediscounts.....	320	768	2,890
Interest on payables under securities lending transactions.....	48	422	433
Other interest expense.....	463	1,380	4,182
Fees and commissions.....	11,935	10,736	107,804
Other operating expenses (Note 16).....	3,869	4,112	34,947
General and administrative expenses (Note 17).....	41,622	42,980	375,955
Other expenses (Note 18).....	7,245	14,270	65,441
Total expenses.....	65,931	75,215	595,528
<b>Income before income taxes.....</b>	<b>15,330</b>	<b>5,872</b>	<b>138,469</b>
<b>Income taxes (Note 28):</b>			
Current.....	4,606	4,148	41,604
Deferred.....	(117)	(1,455)	(1,056)
Total income taxes.....	4,488	2,692	40,538
<b>Net income.....</b>	<b>10,841</b>	<b>3,179</b>	<b>97,922</b>
<b>Net income attributable to owners of parent.....</b>	<b>¥ 10,841</b>	<b>¥ 3,179</b>	<b>\$ 97,922</b>

	Yen		U.S. dollars (Note 1)
	2021	2020	2021
<b>Per share of common stock (Note 31):</b>			
Net income - basic.....	¥ 332.41	¥ 97.52	\$ 3.00
Net income - diluted.....	332.12	97.43	2.99
Dividends.....	80.00	80.00	0.72

See Notes to Consolidated Financial Statements.

## • Consolidated Statements of Comprehensive Income

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net income.....	¥ 10,841	¥ 3,179	\$ 97,922
Other comprehensive income (loss) (Note 20):			
Valuation difference on available-for-sale securities.....	27,863	(35,330)	251,675
Deferred gains (losses) on hedges.....	2,171	47	19,609
Adjustments for retirement benefits (Note 26).....	110	(100)	993
Total other comprehensive income (loss).....	30,146	(35,382)	272,296
Total comprehensive income for the year.....	40,988	(32,203)	370,228
Total comprehensive income attributable to:			
Owners of parent.....	40,988	(32,203)	370,228

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, 2021 and 2020

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
<b>Balance at April 1, 2019</b> .....	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)
<b>Balance at April 1, 2020</b> .....	33,025	¥ 37,924	¥ 34,749	¥ 181,640	¥ (1,745)	¥ 3,357	¥ (162)	¥ (798)	¥ 88	¥ 255,053
Changes in items during period										
Cash dividends .....				(2,609)						(2,609)
Net income attributable to owners of parent .....				10,841						10,841
Purchase of treasury stock .....					(1)					(1)
Disposition of treasury stock .....			(11)		53					41
Transfer from retained earnings to capital surplus .....			11	(11)						—
Net changes in items other than stockholders' equity .....						27,863	2,171	110	(24)	30,121
Total changes in items during period .....		—	—	8,221	51	27,863	2,171	110	(24)	38,393
<b>Balance at March 31, 2021 (Note 6)</b> .....	33,025	¥ 37,924	¥ 34,749	¥ 189,861	¥ (1,693)	¥ 31,221	¥ 2,008	¥ (688)	¥ 63	¥ 293,447

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	
<b>Balance at April 1, 2020</b> .....	\$ 342,553	\$ 313,874	\$ 1,640,683	\$ (15,762)	\$ 30,322	\$ (1,463)	\$ (7,208)	\$ 795	\$ 2,303,794	
Changes in items during period										
Cash dividends .....			(23,566)							(23,566)
Net income attributable to owners of parent .....			97,922							97,922
Purchase of treasury stock .....				(9)						(9)
Disposition of treasury stock .....		(99)		478						370
Transfer from retained earnings to capital surplus .....		99	(99)							—
Net changes in items other than stockholders' equity .....					251,675	19,609	993	(216)		272,071
Total changes in items during period .....			74,257	460	251,675	19,609	993	(216)		346,788
<b>Balance at March 31, 2021 (Note 6)</b> .....	\$ 342,552	\$ 313,874	\$ 1,714,939	\$ (15,292)	\$ 282,007	\$ 18,137	\$ (6,214)	\$ 569	\$ 2,650,591	

See Notes to Consolidated Financial Statements.



## • Consolidated Statements of Cash Flows

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Cash flows from operating activities</b>			
Income before income taxes .....	¥ 15,330	¥ 5,872	\$ 138,469
Depreciation.....	3,574	3,788	32,282
Impairment loss.....	389	1,822	3,513
Increase (decrease) in reserve for possible loan losses .....	957	2,428	8,644
Increase (decrease) in liability for retirement benefits.....	188	546	1,698
Increase (decrease) in reserve for reimbursement of deposits .....	(57)	(22)	(514)
Increase (decrease) in reserve for contingent losses .....	33	247	298
Interest income .....	(48,121)	(44,158)	(434,658)
Interest expense.....	1,258	3,114	11,363
Loss (gain) on investment securities .....	(997)	(6,741)	(9,005)
Loss (gain) on money held in trust.....	(534)	51	(4,823)
Foreign exchange losses (gains).....	(5,353)	6,357	(48,351)
Losses (gains) on sales of fixed assets .....	2	143	18
Net decrease (increase) in loans and bills discounted .....	(329,601)	(64,955)	(2,977,156)
Net increase (decrease) in deposits .....	410,208	125,732	3,705,247
Net increase (decrease) in negotiable certificates of deposit .....	(3,330)	(14,252)	(30,078)
Net increase (decrease) in borrowed money .....	491,162	(75,110)	4,436,473
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)...	(406)	(932)	(3,667)
Net decrease (increase) in call loans and bills bought .....	584	1,489	5,275
Net increase (decrease) in call money .....	(10,839)	5,315	(97,904)
Net increase (decrease) in payables under securities lending transactions ..	(28,679)	(144,435)	(259,046)
Net decrease (increase) in foreign exchange assets.....	(123)	777	(1,111)
Net increase (decrease) in foreign exchange liabilities .....	422	(104)	3,811
Net decrease (increase) in lease receivables and lease investment assets ..	(181)	(5,314)	(1,634)
Net increase (decrease) in borrowed money from trust account .....	(497)	316	(4,489)
Interest received.....	46,631	45,568	421,199
Interest paid.....	(1,566)	(3,331)	(14,145)
Other .....	(3,094)	5,584	(27,946)
Subtotal .....	537,362	(150,200)	4,853,780
Income taxes paid.....	(5,283)	(3,089)	(47,719)
Net cash provided by (used in) operating activities.....	532,079	(153,289)	4,806,060
<b>Cash flows from investing activities</b>			
Purchases of securities .....	(847,735)	(643,774)	(7,657,257)
Proceeds from sales of securities .....	655,200	473,942	5,918,164
Proceeds from maturities of securities .....	162,204	197,465	1,465,125
Increase in money held in trust .....	(1,104)	(5,652)	(9,971)
Decrease in money held in trust .....	608	200	5,491
Purchase of tangible fixed assets .....	(1,194)	(1,395)	(10,784)
Proceeds from sales of tangible fixed assets .....	261	143	2,357
Purchase of intangible fixed assets.....	(658)	(2,770)	(5,943)
Payments for asset retirement obligations .....	(77)	(75)	(695)
Other .....	24	(7)	216
Net cash provided by (used in) investing activities .....	(32,470)	18,075	(293,288)
<b>Cash flows from financing activities</b>			
Dividends paid .....	(2,607)	(2,607)	(23,548)
Purchase of treasury stock.....	(1)	(5)	(9)
Other .....	0	0	0
Net cash used in financing activities .....	(2,609)	(2,612)	(23,566)
<b>Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>3</b>	<b>(2)</b>	<b>27</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>497,002</b>	<b>(137,829)</b>	<b>4,489,224</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>691,364</b>	<b>829,194</b>	<b>6,244,819</b>
<b>Cash and cash equivalents at end of year (Note 20) .....</b>	<b>¥ 1,188,367</b>	<b>¥ 691,364</b>	<b>\$ 10,734,052</b>

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, 2021 and 2020

#### 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, 2021, which was ¥110.71 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, 2021.

(Change in scope of consolidation)

Nanto Capital Partners Co., Ltd. has been included in the scope of consolidation from the current consolidated fiscal year due to its new establishment on October 1, 2020. In addition, Nangin Agency Co., Ltd. has been excluded from the scope of consolidation because the company resolved to dissolve at the extraordinary general meeting of shareholders held on September 30, 2020, and its liquidation was completed on March 25, 2021.

The Bank had two (two in 2020) 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 2020) 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 two (one in 2020) affiliates not accounted for by the equity method, Nanto CVC Investment Partnership and Nanto CVC No. 2 Investment Partnership. The unconsolidated subsidiaries and affiliates not accounted for by the equity method were excluded from the scope of the equity method because the effect of their inclusion on the consolidated financial statements would not have been 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. Nanto CVC Investment Partnership and Nanto CVC No. 2 Investment Partnership are treated as affiliates not accounted for by the equity method from the current consolidated fiscal year due to the fact that Nanto Capital Partners, a subsidiary of the Bank, has become an unlimited liability partner of both partnerships jointly with another company.

Furthermore, the Nara Prefecture Tourism Revitalization Investment Limited Partnership was dissolved and its liquidation completed during the current consolidated fiscal year.

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, 2021 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, 2021 and 2020, 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, October 8, 2020). 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 by region 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, 2021 and 2020, the deducted amounts were ¥7,689 million (\$69,451 thousand) and ¥9,053 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.

## Consolidated Financial Statements

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.

### q. Consumption taxes

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

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

Those items whose amounts have been recognized in the consolidated financial statements for the current consolidated fiscal year based on accounting estimates which could have a material impact on the consolidated financial statements for the next consolidated fiscal year are as follows.

### 1. Recognition of the reserve for possible loan losses

Loan operations is one of the major operations of the Group, and assets with credit risk, such as loans, occupy a very important place in consolidated net assets on the consolidated balance sheet. So recognition of the reserve for possible loan losses has a large impact on the operating results and financial position and is judged to be material in the accounting estimates.

### 2. Amount recognized in the consolidated financial statements for the current consolidated fiscal year

The reserve for possible loan losses recognized in the consolidated balance sheet for the current consolidated fiscal year was ¥21,768 million (\$196,621 thousand). The details concerning the accounting estimates adopted when making the calculation are set forth below.

### 3. Accounting estimates

#### (1) Methods for calculating amounts

Calculation methods are stated in the Notes (SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES i. Reserve for possible loan losses).

The asset appraisals stated in the reserve for possible loan losses recognition standards refer to individually analyzing and considering the assets held and classifying them based on the degree of nonrecovery risk and loss of value risk. Appropriate depreciation and reservation are implemented based on the category of borrowers (normal borrowers, needs attention borrowers, likely to become bankrupt borrowers, effectively bankrupt borrowers and bankrupt borrowers).

#### (2) Major assumptions used in the calculation of the amounts

Under the assumption that there is a relationship to some extent between the loan loss ratio for each past category of borrowers and the expected future loss rate, for the claims equivalent to normal claims and claims which need attention, the Bank calculates the required reserve amount for each region using the expected loss rate taking into consideration the necessary adjustments to the average value of the loan loss ratio for a fixed period in the past.

The determination of the borrower category is based on the credit rating determined by the rating models and the borrower's repayment ability based on their substantial financial position, financing capacities, and profitability, etc., and the terms and conditions of the loans and payment status of the borrower. Also, the Company gives comprehensive consideration to the borrower's sustainability, projected profitability, and ability to pay obligations based on their annual repayable amount, appropriateness of their management improvement plans, and other factors in light of the borrower's industry characteristics.

Furthermore, in the case that management reconstruction is thought to be proceeding in line with a drastic and highly feasible management improvement plan and a reasonable and highly feasible management improvement plan, the loans shall be deemed not to qualify as claims corresponding to restructured loans or claims likely to become bankrupt borrowers.

Note that, at the end of the current consolidated fiscal year, we anticipated that the impact of the new coronavirus would continue for a certain period of time and that the determination of the individual category of borrowers would be implemented based on the available information after taking into account the characteristics of the industrial sector, the possibility of recovery from the short-term business performance, cash flow status, etc.

(3) The impact on the consolidated financial statements for the next consolidated fiscal year

The uncertainties of the material estimates are included in the major assumptions used for the calculation of the amount of the reserve for possible loan losses, including the expected loss rate by region and by debt classification, the category of borrowers as of the end of the current consolidated fiscal year, the amount expected to be recovered using collateral and guarantees and the impact of the new coronavirus, etc.

The major assumptions concerning the estimate of the reserve for possible loan losses are determined based on the available information. However, if the business condition of a major customer worsens or the situation regarding the new coronavirus worsens or becomes prolonged, there is a possibility that such events would have an impact on the operating results and financial position for the next consolidated fiscal year, such as an increase in the reserve for possible loan losses becoming necessary.

#### 4. STANDARDS AND GUIDANCE NOT YET ADOPTED

For the year ended March 31, 2021

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 26, 2021)

##### (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 have determined that the effects of these new standards on the consolidated financial statements are immaterial.

“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.

#### 5. CHANGE IN PRESENTATION METHOD

Application of the “Accounting Standard for Disclosure of Accounting Estimates”

The Group has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the Notes to Consolidated Financial Statements.

The Notes do not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in Paragraph 11 of the Accounting Standard.

## Consolidated Financial Statements

## 6. CHANGES IN NET ASSETS

(1) Type and numbers of shares issued and treasury stock for the fiscal years ended March 31, 2021 and 2020 were as follows:

	(Thousands of shares)				Remarks
	2021				
	April 1, 2020	Increase	Decrease	March 31, 2021	
Shares issued					
Common stock.....	33,025	—	—	33,025	
Total.....	33,025	—	—	33,025	
Treasury stock					
Common stock.....	418	1	12	407	Notes 1 & 2
Total.....	418	1	12	407	

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 12 thousand shares in common stock of treasury stock is the decrease of 12 thousand shares due to the execution of stock options and the decrease of 0 shares due to sale of shares of less than one unit.

	(Thousands of shares)				Remarks
	2020				
	April 1, 2019	Increase	Decrease	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.

## (2) Matters concerning stock acquisition rights

For the fiscal year ended March 31, 2021

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, 2020	Increase	Decrease	March 31, 2021		
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥63	\$569
	Total	—	—	—	—	¥63	\$569

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)
		Number of shares				
		April 1, 2019	Increase	Decrease	March 31, 2020	
The Bank	Stock acquisition rights granted as stock options	—	—	—	—	¥88
	Total	—	—	—	—	¥88

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

## (a) Dividends paid in the fiscal year ended March 31, 2021

Resolution	Type of shares	Millions of yen (thousands of U.S. dollars), except per share amounts (yen (U.S. dollars))			
		Aggregate amount of dividends	Cash dividends per share	Record date	Effective date
Annual stockholders' meeting held on June 26, 2020	Common stock	¥1,304 (\$11,778)	¥40.00 (\$0.36)	March 31, 2020	June 29, 2020
Board of Directors' meeting held on November 12, 2020	Common stock	¥1,304 (\$11,778)	¥40.00 (\$0.36)	September 30, 2020	December 7, 2020

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

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 27, 2019	Common stock	¥1,303	¥40.00	March 31, 2019	June 28, 2019
Board of Directors' meeting held on November 8, 2019	Common stock	¥1,304	¥40.00	September 30, 2019	December 5, 2019

**(c) Dividends to be paid in the fiscal year ending March 31, 2022**

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 29, 2021	Common stock	¥1,304 (\$11,778)	Retained earnings	¥40.00 (\$0.36)	March 31, 2021	June 30, 2021

**7. STOCKHOLDERS' EQUITY**

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

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

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

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

**8. SHARES OR INVESTMENTS IN CAPITAL OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES**

Shares or investments in capital of unconsolidated subsidiaries and affiliates at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Shares or investments in capital.....	¥ 2,446	¥ 282	\$ 22,093

**9. NONPERFORMING LOANS**

Nonperforming loans at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans to bankrupt borrowers.....	¥ 1,055	¥ 2,571	\$ 9,529
Past due loans.....	45,325	44,249	409,402
Past due loans (three months or more) .....	167	494	1,508
Restructured loans.....	5,361	4,333	48,423
Total.....	¥ 51,910	¥ 51,648	\$ 468,882

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, October 8, 2020). 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 ¥12,797 million (\$115,590 thousand) and ¥16,378 million at March 31, 2021 and 2020, 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.

¥3,104 million (\$28,037 thousand) and ¥3,105 million at March 31, 2021 and 2020, respectively.

## Consolidated Financial Statements

### 10. PLEDGED ASSETS

At March 31, 2021 and 2020, securities of ¥503,578 million (\$4,548,622 thousand) and ¥477,613 million, respectively, loans and other assets of ¥401,289 million (\$3,624,686 thousand) and ¥1,979 million, respectively, were pledged as collateral for deposits of ¥55,878 million (\$504,724 thousand) and ¥32,755 million, respectively, call money and bills sold of ¥0 (\$0) and ¥5,441 million, respectively, payables under repurchase agreements of ¥37,077 million (\$334,901 thousand) and ¥42,475 million, respectively, payables under securities lending transactions of ¥106,465 million (\$961,656 thousand) and ¥135,144 million, respectively, and borrowed money of ¥620,012 million (\$5,600,325 thousand) and ¥127,975 million, respectively.

Securities of ¥0 (\$0) and ¥210 million and other assets of ¥20,144 million (\$181,952 thousand) and ¥20,018 million were pledged for transaction guarantees at March 31, 2021 and 2020, respectively.

Unexpired lease contract claims of ¥3,752 million (\$33,890 thousand) and ¥3,846 million were pledged as collateral for borrowed money of ¥2,847 million (\$25,715 thousand) and ¥3,086 million at March 31, 2021 and 2020, respectively.

At March 31, 2021 and 2020, other assets included initial margins of futures markets of ¥664 million (\$5,997 thousand) and ¥168 million, respectively, and security deposits of ¥968 million (\$8,743 thousand) and ¥1,049 million, respectively, and other intangible fixed assets included key money of ¥450 million (\$4,064 thousand) and ¥451 million, respectively.

### 11. 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, 2021 and 2020 were ¥980,457 million (\$8,856,083 thousand) and ¥978,728 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, 2021 and 2020 was ¥905,950 million (\$8,183,090 thousand) and ¥901,064 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.

### 12. TANGIBLE FIXED ASSETS

Accumulated depreciation of tangible fixed assets was ¥44,621 million (\$403,043 thousand) and ¥45,231 million at March 31, 2021 and 2020, respectively. Accumulated capital gains directly offset against the acquisition cost of tangible fixed assets to obtain tax benefits were ¥806 million (\$7,280 thousand) and ¥783 million at March 31, 2021 and 2020, respectively. For the years ended March 31, 2021 and 2020, the capital gain offset from acquisition costs was nil.

### 13. 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 ¥36,586 million (\$330,466 thousand) and ¥27,676 million at March 31, 2021 and 2020, respectively.

### 14. OTHER OPERATING INCOME

For the fiscal years ended March 31, 2021 and 2020, other operating income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gains on sales of bonds .....	¥ 3,861	¥ 7,506	\$ 34,874
Other .....	736	565	6,647
Total.....	¥ 4,597	¥ 8,071	\$ 41,522

### 15. OTHER INCOME

For the fiscal years ended March 31, 2021 and 2020, other income consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gains on sales of stocks and other securities.....	¥ 3,493	¥ 6,750	\$ 31,550
Recovery of written-off claims .....	921	356	8,319
Other .....	1,892	1,094	17,089
Total.....	¥ 6,306	¥ 8,200	\$ 56,959



## 16. OTHER OPERATING EXPENSES

For the fiscal years ended March 31, 2021 and 2020, other operating expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Losses on sales of bonds .....	¥ 3,866	¥ 3,220	\$ 34,920
Other .....	3	892	27
Total .....	¥ 3,869	¥ 4,112	\$ 34,947

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

For the fiscal years ended March 31, 2021 and 2020, general and administrative expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Salaries and allowances .....	¥ 19,859	¥ 20,380	\$ 179,378
Retirement benefit costs .....	1,616	1,809	14,596
Other .....	20,147	20,791	181,979
Total .....	¥ 41,622	¥ 42,980	\$ 375,955

## 18. OTHER EXPENSES

For the fiscal years ended March 31, 2021 and 2020, other expenses consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Write-offs of loans .....	¥ 938	¥ 3,683	\$ 8,472
Provision for possible loan losses .....	2,599	3,185	23,475
Losses on sales of stocks and other securities .....	2,457	3,167	22,193
Other .....	1,251	4,235	11,299
Total .....	¥ 7,245	¥ 14,270	\$ 65,441

## 19. IMPAIRMENT LOSSES

The Group reports impairment losses for the following asset groups.

Current consolidated fiscal year (from April 1, 2020 to March 31, 2021)

Region	Principle use	Type	Impairment loss (Millions of yen)	Impairment loss (Thousands of U.S. dollars)
Inside Nara Prefecture	10 business stores and Headquarters, etc.	Land and buildings, etc.	389	3,513
Total			389	3,513

Regarding the fixed assets above, due to the decline in operating cash flows, the reorganization of the store network and changes in the use of the assets, the Bank reduced the carrying amount to the recoverable amount and reported the decrease as an impairment loss (¥389 million).

The Bank uses the grouping method of area and business store units because it continuously determines income and expenditure for each area 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 1.8%.

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

Region	Principle use	Type	Impairment loss (Millions of yen)
Inside Nara Prefecture	25 business stores, etc.	Land and buildings, etc.	1,172
Outside Nara Prefecture	10 business stores, etc.	Land and buildings, etc.	649
Total			1,822

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 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%.

## Consolidated Financial Statements

## 20. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the fiscal years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Valuation difference on available-for-sale securities:			
Gains (losses) incurred during the year .....	¥ 39,930	¥ (45,749)	\$ 360,672
Reclassification adjustments to net income .....	(998)	(3,747)	(9,014)
Amount before tax effect .....	38,931	(49,497)	351,648
Tax effect .....	(11,067)	14,167	(99,963)
Valuation difference on available-for-sale securities .....	27,863	(35,330)	251,675
Deferred gains or losses on hedges			
Gains (losses) incurred during the year .....	2,990	(28)	27,007
Reclassification adjustments to net income .....	130	96	1,174
Amount before tax effect .....	3,120	68	28,181
Tax effect .....	(948)	(20)	(8,562)
Deferred gains or losses on hedges .....	2,171	47	19,609
Adjustments for retirement benefits:			
Gains (losses) incurred during the year .....	(72)	(325)	(650)
Reclassification adjustments to net income .....	230	181	2,077
Amount before tax effect .....	158	(143)	1,427
Tax effect .....	(48)	43	(433)
Adjustments for retirement benefits .....	110	(100)	993
Total other comprehensive income (loss) .....	¥ 30,146	¥ (35,382)	\$ 272,296

## 21. STATEMENTS OF CASH FLOWS

The reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2021 and 2020 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
	2021	2020	2021
Cash and due from banks on the consolidated balance sheets .....	¥ 1,191,207	¥ 693,798	\$ 10,759,705
Current deposits due from banks .....	(1,114)	(1,251)	(10,062)
Time deposits due from banks .....	(600)	(600)	(5,419)
Other due from banks .....	(1,126)	(582)	(10,170)
Cash and cash equivalents on the consolidated statements of cash flows .....	¥ 1,188,367	¥ 691,364	\$ 10,734,052

## 22. LEASE TRANSACTIONS

## Operating leases

## As lessee:

Future minimum lease payments under operating leases which were not cancelable at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Due within one year .....	¥ 158	¥ 87	\$ 1,427
Due after one year .....	873	845	7,885
Total .....	¥ 1,031	¥ 932	\$ 9,312

## 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, 2021 and 2020.

## 23. 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 twelve 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 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  $\Delta$ 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.

## Consolidated Financial Statements

### (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, 2021, the Group's total market risk (decrease in estimated economic value) was ¥58,770 million (\$530,846 thousand) (¥52,531 million in 2020). 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, 2021 and 2020. 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		
	2021		
	Carrying amount	Fair value	Difference
Cash and due from banks .....	¥ 1,191,207	¥ 1,191,207	¥ —
Debt purchased.....	1,827	1,827	—
Money held in trust .....	40,500	40,500	—
Securities			
Held-to-maturity debt securities .....	36,586	36,634	48
Available-for-sale securities .....	1,380,014	1,380,014	—
Loans and bills discounted .....	3,786,878		
Reserve for possible loan losses (*1) .....	(21,385)		
	3,765,493	3,774,099	8,605
Total assets .....	¥ 6,415,629	¥ 6,424,284	¥ 8,654
Deposits .....	¥ 5,439,967	¥ 5,440,015	¥ 47
Negotiable certificates of deposit .....	4,040	4,040	—
Call money and bills sold .....	—	—	—
Payables under repurchase agreements .....	37,077	37,077	—
Payables under securities lending transactions .....	106,465	106,465	—
Borrowed money .....	626,700	626,651	(48)
Total liabilities .....	¥ 6,214,251	¥ 6,214,249	¥ (1)
Derivative transactions (*2)			
Hedge accounting not applied .....	(1,264)	(1,264)	—
Hedge accounting applied (*3) .....	2,902	2,902	—
Total derivative transactions .....	¥ 1,637	¥ 1,637	¥ —

	Millions of yen		
	2020		
	Carrying amount	Fair value	Difference
Cash and due from banks .....	¥ 693,798	¥ 693,798	¥ —
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	¥ —

## Consolidated Financial Statements

	Thousands of U.S. dollars		
	2021		
	Carrying amount	Fair value	Difference
Cash and due from banks .....	\$ 10,759,705	\$ 10,759,705	\$ —
Debt purchased.....	16,502	16,502	—
Money held in trust .....	365,820	365,820	—
Securities			
Held-to-maturity debt securities.....	330,466	330,900	434
Available-for-sale securities .....	12,465,125	12,465,125	—
Loans and bills discounted .....	34,205,383		
Reserve for possible loan losses (*1) .....	(193,162)		
	<b>34,012,221</b>	<b>34,089,955</b>	<b>77,726</b>
Total assets .....	<b>\$ 57,949,859</b>	<b>\$ 58,028,037</b>	<b>\$ 78,168</b>
Deposits .....	\$ 49,137,087	\$ 49,137,521	\$ 425
Negotiable certificates of deposit .....	36,491	36,491	—
Call money and bills sold .....	—	—	—
Payables under repurchase agreements .....	334,901	334,901	—
Payables under securities lending transactions .....	961,656	961,656	—
Borrowed money .....	5,660,735	5,660,292	(434)
Total liabilities.....	<b>\$ 56,130,891</b>	<b>\$ 56,130,873</b>	<b>\$ (9)</b>
Derivative transactions (*2)			
Hedge accounting not applied .....	(11,417)	(11,417)	—
Hedge accounting applied (*3).....	26,212	26,212	—
Total derivative transactions .....	<b>\$ 14,786</b>	<b>\$ 14,786</b>	<b>\$ —</b>

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

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

(\*3) These are interest rate swaps, etc., designated as hedging instruments in order to fix the cash flow from loans, etc., which are the hedged items, and mainly deferred hedge accounting is applied.

The Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (Practical Issues Task Force (PITF) No. 40, September 29, 2020) is applied to these hedging relationships.

## (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.

## 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 24, "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 24, "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 25, "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		
	2021	2020	2021
Unlisted equity securities (*1) (*2) .....	¥ 1,688	¥ 1,690	\$ 15,247
Bonds denominated in foreign currencies (*1) .....	—	1,088	—
Investment in partnerships (*3) .....	10,071	8,988	90,967
Total .....	¥ 11,760	¥ 11,767	\$ 106,223

(\*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 the fiscal year ended March 31, 2020. In the current consolidated fiscal year, an impairment loss of ¥1 million (\$9 thousand) has been recognized for unlisted shares.

(\*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					
	2021					
	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 .....	¥ 1,137,792	¥ —	¥ —	¥ —	¥ —	¥ —
Debt purchased .....	1,827	—	—	—	—	—
Securities .....	64,148	128,542	62,525	18,069	207,673	227,102
Held-to-maturity debt securities .....	7,912	17,820	9,917	936	—	—
Bonds .....	7,912	17,820	9,917	936	—	—
Available-for-sale securities with contractual maturities .....	56,236	110,721	52,608	17,133	207,673	227,102
Japanese government bonds .....	31,500	27,000	40,000	—	5,000	33,500
Japanese local government bonds .....	18,215	26,638	6,282	1,062	134,183	2,647
Corporate bonds .....	3,405	43,794	6,326	5,000	3,000	156,859
Other .....	3,115	13,288	—	11,071	65,490	34,095
Loans and bills discounted (*) .....	437,805	715,438	622,734	406,843	400,465	860,514
Total .....	¥ 1,641,574	¥ 843,980	¥ 685,260	¥ 424,913	¥ 608,139	¥ 1,087,616

## Consolidated Financial Statements

	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	¥ —	¥ —	¥ —	¥ —	¥ —
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

	Thousands of U.S. dollars					
	2021					
	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.....	\$10,277,228	\$ —	\$ —	\$ —	\$ —	\$ —
Debt purchased.....	16,502	—	—	—	—	—
Securities .....	579,423	1,161,069	564,763	163,210	1,875,828	2,051,323
Held-to-maturity debt securities.....	71,465	160,961	89,576	8,454	—	—
Bonds.....	71,465	160,961	89,576	8,454	—	—
Available-for-sale securities with contractual maturities.....	507,957	1,000,099	475,187	154,755	1,875,828	2,051,323
Japanese government bonds.....	284,527	243,880	361,304	—	45,163	302,592
Japanese local government bonds.....	164,528	240,610	56,742	9,592	1,212,022	23,909
Corporate bonds .....	30,756	395,574	57,140	45,163	27,097	1,416,845
Other .....	28,136	120,025	—	100,000	591,545	307,966
Loans and bills discounted (*) .....	3,954,520	6,462,270	5,624,911	3,674,853	3,617,243	7,772,685
Total .....	\$14,827,693	\$ 7,623,340	\$ 6,189,684	\$ 3,838,072	\$ 5,493,081	\$ 9,824,008

(\*) Loans from "bankrupt," "effectively bankrupt" and "likely to become bankrupt" borrowers, which are not expected to be repaid, amounting to ¥36,696 million (\$331,461 thousand) and ¥27,421 million at March 31, 2021 and 2020, respectively, are not included.

Loans whose payment terms were not determined amounting to ¥306,379 million (\$2,767,401 thousand) and ¥304,129 million at March 31, 2021 and 2020, respectively, are not included.

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

	Millions of yen					
	2021					
	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 (*).....	¥ 5,023,510	¥ 366,353	¥ 50,104	¥ —	¥ —	¥ —
Negotiable certificates of deposits .....	4,040	—	—	—	—	—
Call money and bills sold .....	—	—	—	—	—	—
Payables under repurchase agreements .....	37,077	—	—	—	—	—
Payables under securities lending transactions .....	106,465	—	—	—	—	—
Borrowed money.....	415,634	22,861	185,965	25	2,214	—
Total .....	¥ 5,586,727	¥ 389,215	¥ 236,069	¥ 25	¥ 2,214	¥ —



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	¥ —	¥ —

Thousands of U.S. dollars

2021

	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 (*)	\$ 45,375,395	\$ 3,309,122	\$ 452,569	\$ —	\$ —	\$ —
Negotiable certificates of deposits	36,491	—	—	—	—	—
Call money and bills sold	—	—	—	—	—	—
Payables under repurchase agreements	334,901	—	—	—	—	—
Payables under securities lending transactions	961,656	—	—	—	—	—
Borrowed money	3,754,258	206,494	1,679,748	225	19,998	—
Total	\$ 50,462,713	\$ 3,515,626	\$ 2,132,318	\$ 225	\$ 19,998	\$ —

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

## 24. 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, 2021 and 2020 was as follows:

### (a) Trading securities

Not applicable for the years ended March 31, 2021 and 2020

### (b) Held-to-maturity debt securities

Millions of yen

2021

	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds	¥ 33,128	¥ 33,191	¥ 62
Subtotal	¥ 33,128	¥ 33,191	¥ 62
Fair value not exceeding carrying amount:			
Corporate bonds	¥ 3,458	¥ 3,443	¥ (14)
Subtotal	¥ 3,458	¥ 3,443	¥ (14)
Total	¥ 36,586	¥ 36,634	¥ 48

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

## Consolidated Financial Statements

	Thousands of U.S. dollars		
	2021		
	Carrying amount	Fair value	Unrealized gains (losses)
Fair value exceeding carrying amount:			
Corporate bonds .....	\$ 299,232	\$ 299,801	\$ 560
Subtotal.....	\$ 299,232	\$ 299,801	\$ 560
Fair value not exceeding carrying amount:			
Corporate bonds .....	\$ 31,234	\$ 31,099	\$ (126)
Subtotal.....	\$ 31,234	\$ 31,099	\$ (126)
Total .....	\$ 330,466	\$ 330,900	\$ 433

## (c) Available-for-sale securities

	Millions of yen		
	2021		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks.....	¥ 79,031	¥ 36,336	¥ 42,695
Bonds .....	330,549	326,506	4,042
Japanese government bonds .....	100,423	98,672	1,750
Japanese local government bonds .....	101,588	100,662	925
Japanese corporate bonds .....	128,538	127,171	1,366
Others .....	500,188	491,264	8,924
Foreign securities included.....	62,643	60,797	1,846
Subtotal.....	¥ 909,769	¥ 854,107	¥ 55,662
Carrying amount not exceeding acquisition cost:			
Stocks.....	¥ 1,202	¥ 1,302	¥ (100)
Bonds .....	218,746	219,728	(982)
Japanese government bonds .....	38,038	38,401	(363)
Japanese local government bonds .....	88,092	88,384	(292)
Japanese corporate bonds .....	92,616	92,942	(325)
Others .....	250,296	263,444	(13,148)
Foreign securities included.....	73,980	79,644	(5,664)
Subtotal.....	¥ 470,245	¥ 484,476	¥ (14,230)
Total .....	¥ 1,380,014	¥ 1,338,583	¥ 41,431

	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

Thousands of U.S. dollars

	2021		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
Carrying amount exceeding acquisition cost:			
Stocks .....	\$ 713,856	\$ 328,208	\$ 385,647
Bonds .....	2,985,719	2,949,200	36,509
Japanese government bonds .....	907,081	891,265	15,807
Japanese local government bonds .....	917,604	909,240	8,355
Japanese corporate bonds .....	1,161,033	1,148,685	12,338
Others .....	4,518,001	4,437,394	80,606
Foreign securities included .....	565,829	549,155	16,674
Subtotal .....	\$ 8,217,586	\$ 7,714,813	\$ 502,773
Carrying amount not exceeding acquisition cost:			
Stocks .....	\$ 10,857	\$ 11,760	\$ (903)
Bonds .....	1,975,846	1,984,716	(8,870)
Japanese government bonds .....	343,582	346,861	(3,278)
Japanese local government bonds .....	795,700	798,338	(2,637)
Japanese corporate bonds .....	836,563	839,508	(2,935)
Others .....	2,260,825	2,379,586	(118,760)
Foreign securities included .....	668,232	719,393	(51,160)
Subtotal .....	\$ 4,247,538	\$ 4,376,081	\$ (128,534)
Total .....	\$ 12,465,125	\$ 12,090,895	\$ 374,229

The securities loaned under unsecured securities lending transactions are included in Japanese government bonds under "Securities" in the amount of ¥40,582 million (\$366,561 thousand) and ¥39,567 at March 31, 2021 and 2020, respectively.

## (2) Held-to-maturity debt securities sold for the fiscal years ended March 31, 2021 and 2020

	Millions of yen		
	2021		
	Sales amount	Gains on sales	Losses on sales
Bonds .....	¥ 175	¥ 0	¥ —
Japanese corporate bonds .....	175	0	—
Total .....	¥ 175	¥ 0	¥ —

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

	Thousands of U.S. dollars		
	2021		
	Sales amount	Gains on sales	Losses on sales
Bonds .....	\$ 1,580	\$ 0	\$ —
Japanese corporate bonds .....	1,580	0	—
Total .....	\$ 1,580	\$ 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, 2021 and 2020

	Millions of yen		
	2021		
	Sales amount	Gains on sales	Losses on sales
Stocks .....	¥ 5,790	¥ 1,399	¥ 128
Bonds .....	82,968	219	0
Japanese government bonds .....	82,681	219	—
Japanese local government bonds .....	179	—	0
Japanese corporate bonds .....	107	—	0
Others .....	291,086	5,735	6,195
Foreign securities included .....	241,444	4,787	629
Total .....	¥ 379,845	¥ 7,354	¥ 6,324

## Consolidated Financial Statements

	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

	Thousands of U.S. dollars		
	2021		
	Sales amount	Gains on sales	Losses on sales
Stocks.....	\$ 52,298	\$ 12,636	\$ 1,156
Bonds .....	749,417	1,978	0
Japanese government bonds .....	746,825	1,978	—
Japanese local government bonds .....	1,616	—	0
Japanese corporate bonds .....	966	—	0
Others .....	2,629,265	51,802	55,957
Foreign securities included.....	2,180,868	43,239	5,681
Total .....	\$ 3,430,990	\$ 66,425	\$ 57,122

## (4) Information on money held in trust at March 31, 2021 and 2020 was as follows:

Money held in trust for trading purposes

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Carrying amount (fair value).....	¥ 38,000	¥ 38,000	\$ 343,239
Amount of net unrealized gains (losses) included in the statements of income.....	(58)	71	(523)

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Carrying amount .....	¥ 2,500	¥ 1,470	\$ 22,581
Acquisition cost .....	2,500	1,470	22,581
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
	2021	2020	2021
Money in trust.....	¥ 6,265	¥ 6,763	\$ 56,589

## (5) The components of the valuation difference on available-for-sale securities recorded under net assets at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Valuation difference.....	¥ 41,431	¥ 2,499	\$ 374,229
Deferred tax assets or deferred tax liabilities.....	(10,209)	857	(92,213)
Amounts equivalent to difference on available-for-sale securities.....	¥ 31,221	¥ 3,357	\$ 282,007
Noncontrolling interests adjustment .....	—	—	—
Valuation difference on available-for-sale securities .....	¥ 31,221	¥ 3,357	\$ 282,007

## (6) Securities reclassified for the fiscal years ended March 31, 2021 and 2020

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 ¥33 million (\$298 thousand) on stocks for the fiscal year ended March 31, 2021. The Bank recognized impairment loss of ¥1,126 million on stocks for the fiscal year ended March 31, 2020.

## 25. 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, 2021 and 2020 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			
		2021			
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 .....	¥ 25,445	¥ 25,445	¥ 257	¥ 257
	Receive floating rate/pay fixed rate .....	28,084	27,758	(102)	(102)
	Receive floating rate/pay floating rate.....	—	—	—	—
	Interest rate options				
	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
Sold.....	—	—	—	—	
Bought .....	—	—	—	—	
Total .....		¥ —	¥ —	¥ 154	¥ 154

		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

## Consolidated Financial Statements

Thousands of U.S. dollars

		2021			
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 .....	\$ 229,834	\$ 229,834	\$ 2,321	\$ 2,321
	Receive floating rate/pay fixed rate .....	253,671	250,727	(921)	(921)
	Receive floating rate/pay floating rate.....	—	—	—	—
	Interest rate options				
	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
<b>Total .....</b>		<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,391</b>	<b>\$ 1,391</b>

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

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

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

3. As of March 31, 2021 and 2020, "Receive floating rate/pay fixed rate" of interest rate swaps included the contract amount of ¥2,638 million (\$23,828 thousand) and ¥1,303 million, fair value of ¥(87) million (\$786 thousand) and ¥(46) million and unrealized gains (losses) of ¥(87) million (\$785 thousand) and ¥(46) 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 ¥(118) million (\$1,065 thousand) and ¥(71) million at March 31, 2021 and 2020, respectively, were deferred over the hedge period due to the cancellation.

## (b) Currency related transactions

Millions of yen

		2021			
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 .....	¥ 514,988	¥ 348,172	¥ (1,148)	¥ (1,148)
	Forward foreign exchange contracts				
	Sold.....	19,079	8,801	(418)	(418)
	Bought .....	11,421	8,026	147	147
	Currency options				
	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
	Other				
	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
<b>Total .....</b>		<b>¥ —</b>	<b>¥ —</b>	<b>¥ (1,419)</b>	<b>¥ (1,419)</b>

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

Thousands of U.S. dollars

		2021			
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 .....	\$ 4,651,684	\$ 3,144,901	\$ (10,369)	\$ (10,369)
	Forward foreign exchange contracts				
	Sold.....	172,333	79,495	(3,775)	(3,775)
	Bought .....	103,161	72,495	1,327	1,327
	Currency options				
	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
Other	Sold.....	—	—	—	—
	Bought .....	—	—	—	—
Total .....		\$ —	\$ —	\$ (12,817)	\$ (12,817)

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, 2021 and 2020 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		
			2021		
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 and securities denominated in foreign currencies			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		¥ 17,971	¥ 17,971	¥ 2,902
	Interest rate futures		—	—	—
	Interest rate options		—	—	—
	Other		—	—	—
Exceptional accounting method for interest rate swaps	Interest rate swaps	—			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		—	—	—
Total		—	—	—	¥ 2,902

			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)

			Thousands of U.S. dollars		
			2021		
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 and securities denominated in foreign currencies			
	Receive fixed rate/pay floating rate		—	—	—
	Receive floating rate/pay fixed rate		\$ 162,324	\$ 162,324	\$ 26,212
	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		—	—	—	\$ 26,212

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

**26. 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
	2021	2020	2021
Balance at the beginning of the fiscal year .....	¥ 12,028	¥ 11,324	\$ 108,644
Service cost .....	645	671	5,826
Interest cost .....	80	77	722
Actuarial (gain) loss .....	72	325	650
Benefits paid .....	(754)	(603)	(6,810)
Past service cost .....	—	232	—
Increase due to new consolidation .....	—	—	—
Balance at the end of the fiscal year .....	¥ 12,072	¥ 12,028	\$ 109,041

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

**(b) Movements in plan assets**

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

Not applicable.

The current consolidated fiscal year (from April 1, 2020 to March 31, 2021)

Not applicable.

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded projected benefit obligations .....	¥ 415	¥ 380	\$ 3,748
Plan assets .....	—	—	—
Funded assets under the SERAMA Scheme .....	(199)	(185)	(1,797)
	216	195	1,951
Unfunded projected benefit obligations .....	11,656	11,647	105,284
Net liability for retirement benefits recorded on the consolidated balance sheet .....	¥ 11,872	¥ 11,842	\$ 107,235
Liability for retirement benefits .....	¥ 11,872	¥ 11,842	\$ 107,235
Asset for retirement benefits .....	—	—	—
Net liability for retirement benefits recorded on the consolidated balance sheet .....	¥ 11,872	¥ 11,842	\$ 107,235

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

## Consolidated Financial Statements

**(d) Retirement benefit costs**

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost.....	¥ 645	¥ 671	\$ 5,826
Interest cost.....	80	77	722
Expected return on plan assets.....	—	—	—
Net actuarial loss amortization .....	230	181	2,077
Amortization of past service cost .....	—	232	—
Total retirement benefit costs .....	¥ 956	¥ 1,163	\$ 8,635

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

**(e) Adjustments for retirement benefits**

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gain (loss) .....	¥ 158	¥ (143)	\$ 1,427
Total.....	¥ 158	¥ (143)	\$ 1,427

**(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
	2021	2020	2021
Unrecognized actuarial gain (loss) .....	¥ (988)	¥ (1,147)	\$ (8,924)
Total.....	¥ (988)	¥ (1,147)	\$ (8,924)

**(g) Matters concerning pension assets**

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

Not applicable.

The current consolidated fiscal year (from April 1, 2020 to March 31, 2021)

Not applicable.

**(h) Actuarial assumptions**

The principal actuarial assumptions for the fiscal years ended March 31, 2021 and 2020 were as follows:

	2021	2020
Discount rate .....	0.70%	0.70%
Long-term expected rate of return .....	—%	—%
Estimated rate of increase in salary .....	2.50%	2.50%

**(3) Defined contribution plans****(a) Retirement benefit costs for defined contribution plans**

The Bank's required contributions to the defined contribution plans were ¥648 million in the previous consolidated fiscal year and ¥661 million (\$5,970 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 ¥1,300 million (\$11,742 thousand), and the number of years remaining for contributions equivalent to the contributions that are commensurate with risks is eight and a half years.

## 27. STOCK OPTIONS

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
General and administrative expenses.....	¥ 16	¥ 18	\$ 144

### (b) Stock options outstanding at March 31, 2021

#### 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, 2021:

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
2020 Stock Options	6 directors (excluding outside directors) of the Bank	Common stock 10,410 shares	July 22, 2020	¥1 (\$0.00)	From July 23, 2020 to July 22, 2050	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	2020 Stock Options	
<b>Nonvested</b>												
March 31, 2020 – Outstanding.....	—	—	—	—	—	—	—	—	—	—	2,543	—
Granted .....	—	—	—	—	—	—	—	—	—	—	—	10,410
Forfeited .....	—	—	—	—	—	—	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—	—	—	—	—	2,543	7,807
March 31, 2021 – Outstanding.....	—	—	—	—	—	—	—	—	—	—	—	2,603
<b>Vested</b>												
March 31, 2020 – Outstanding.....	1,520	1,950	2,290	2,030	1,840	2,030	2,430	3,250	4,580	7,627	—	—
Vested .....	—	—	—	—	—	—	—	—	—	—	2,543	7,807
Exercised .....	930	1,210	1,420	1,260	1,090	980	1,170	1,240	1,400	1,970	—	—
Forfeited .....	—	—	—	—	—	—	—	—	—	—	—	—
March 31, 2021 – Outstanding.....	590	740	870	770	750	1,050	1,260	2,010	3,180	8,200	7,807	—

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	2020 Stock Options	
Exercise price .....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise date....	2,116	2,116	2,116	2,116	2,116	2,116	2,116	2,116	2,116	2,116	2,116	—
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	1,485	—

	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	2020 Stock Options	
Exercise price .....	\$ 0.00	\$ 0.00	\$ 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....	19.11	19.11	19.11	19.11	19.11	19.11	19.11	19.11	19.11	19.11	19.11	—
Fair value price at grant date.....	39.83	34.87	27.37	33.60	36.22	35.86	33.06	25.84	24.05	16.14	13.41	—

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 2020 Stock Options granted in the fiscal year ended March 31, 2021 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: 29.46% calculated using the market price of the Bank's stock from November 2011 to July 2020.
  2. Estimated remaining outstanding period: 8.7 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: ¥80 per share, which was calculated based on the actual amount of dividends for the fiscal year ended March 31, 2020.
  4. Risk-free interest rate: (0.05) %, 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.

## 28. 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, 2021 and 2020.

(1) Significant components of deferred tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Deferred tax assets:</b>			
Excess reserve for possible loan losses.....	¥ 7,252	¥ 7,020	\$ 65,504
Liability for retirement benefits.....	3,619	3,609	32,689
Depreciation.....	737	812	6,657
Write-down of land.....	872	872	7,876
Loss on impairment of fixed assets.....	1,430	1,644	12,916
Valuation loss on securities.....	2,757	2,792	24,902
Valuation difference on available-for-sale securities.....	—	857	—
Tax loss carryforwards.....	428	296	3,865
Deferred gains or losses on hedges.....	—	71	—
Other.....	2,371	2,577	21,416
<b>Subtotal deferred tax assets:</b> .....	<b>19,471</b>	<b>20,554</b>	<b>175,873</b>
Valuation allowance pertaining to the tax loss carryforwards (Note 2).....	(425)	(293)	(3,838)
Valuation allowance pertaining to the total of the deductible temporary difference, etc. ....	(7,245)	(7,595)	(65,441)
Subtotal valuation allowance.....	(7,671)	(7,889)	(69,289)
<b>Total deferred tax assets</b> .....	<b>11,800</b>	<b>12,664</b>	<b>106,584</b>
<b>Deferred tax liabilities:</b> .....			
Valuation difference on available-for-sale securities.....	(10,209)	—	(92,213)
Deferred gains or losses on hedges.....	(877)	—	(7,921)
Other.....	(63)	(68)	(569)
<b>Total deferred tax liabilities:</b> .....	<b>(11,151)</b>	<b>(68)</b>	<b>(100,722)</b>
<b>Net deferred tax liabilities (Note 1)</b> .....	<b>¥ 649</b>	<b>¥ 12,596</b>	<b>\$ 5,862</b>

Note 1: Net deferred tax assets ((liabilities) as of March 31, 2021 and 2020 are included in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets.....	¥ 1,103	¥ 12,611	\$ 9,962
Deferred tax liabilities.....	454	15	4,100

Note 2: Amount of tax loss carryforwards and their deferred tax assets by the carryforward periods

Current consolidated fiscal year (March 31, 2021)

	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 (*)	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 428	¥ 428
Valuation allowance	—	—	—	—	—	(425)	(425)
Deferred tax assets	—	—	—	—	—	3	3

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

Previous 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.

Current consolidated fiscal year (March 31, 2021)

	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 (*)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,865	\$ 3,865
Valuation allowance	—	—	—	—	—	(3,838)	(3,838)
Deferred tax assets	—	—	—	—	—	27	27

(\*) 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, 2021 and 2020:

	2021	2020
Statutory tax rate .....	30.4%	30.4%
Valuation allowance.....	(1.4)%	14.4%
Non-deductible expenses .....	0.1%	0.8%
Non-taxable income.....	(0.7)%	(2.4)%
Inhabitants tax on per capita basis, etc. ....	0.4%	1.3%
Other .....	0.3%	1.2%
Effective tax rate .....	29.2%	45.8%

## 29. 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 leasing services and operates securities services, credit card services, and consulting services. The Group has divided its business operations into the two reportable segments of "Banking" and "Leasing."

## (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, 2021 and 2020 is summarized as follows:

	Millions of yen						
	Reportable segments			Other	Total	Adjustment	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers .....	¥ 69,680	¥ 8,458	¥ 78,138	¥ 2,960	¥ 81,099	¥ 98	¥ 81,198
Intersegment income .....	1,127	788	1,915	2,664	4,580	(4,580)	—
Total .....	70,808	9,246	80,054	5,625	85,680	(4,481)	81,198
Segment profit .....	14,967	382	15,350	1,294	16,644	(928)	15,715
Segment assets.....	6,542,567	38,249	6,580,816	31,767	6,612,583	(52,351)	6,560,231
Segment liabilities .....	6,260,077	33,573	6,293,651	13,357	6,307,008	(40,224)	6,266,784
Others:							
Depreciation .....	3,383	98	3,481	113	3,595	(20)	3,574
Interest income .....	48,645	5	48,650	547	49,198	(1,077)	48,121
Interest expense .....	1,264	84	1,348	7	1,355	(96)	1,258
Extraordinary gain .....	92	—	92	0	93	(28)	64
Extraordinary loss .....	444	0	444	4	449	—	449
Tax expense .....	3,984	121	4,105	355	4,461	27	4,488
Increase in tangible and intangible fixed assets .....	1,778	51	1,830	66	1,896	(44)	1,852

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 ¥98 million is mainly the recovery of written-off claims included in "Others."

(2) Adjustment of segment profit of negative ¥928 million is the elimination of intersegment transactions.

(3) Adjustment of segment assets of negative ¥52,351 million is the elimination of intersegment transactions.

(4) Adjustment of segment liabilities of negative ¥40,224 million is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.

(5) Adjustment of depreciation of negative ¥20 million is the elimination of intersegment transactions.

(6) Adjustment of interest income of negative ¥1,077 million is the elimination of intersegment transactions.

(7) Adjustment of interest expense of negative ¥96 million is the elimination of intersegment transactions.

(8) Adjustment of extraordinary gain of negative ¥28 million is the elimination of intersegment transactions.

(9) Adjustment of tax expense of ¥27 million is the elimination of intersegment transactions.

(10) Adjustment of increase in tangible and intangible fixed assets of negative ¥44 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

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 negative ¥0 million is the elimination of intersegment transactions.

(9) Adjustment of tax expense of negative ¥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.

Thousands of U.S. dollars

2021

	Reportable segments			Other	Total	Adjustment	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers .....	\$ 629,392	\$ 76,397	\$ 705,789	\$ 26,736	\$ 732,535	\$ 885	\$ 733,429
Intersegment income .....	10,179	7,117	17,297	24,062	41,369	(41,369)	—
Total .....	639,580	83,515	723,096	50,808	773,913	(40,475)	733,429
Segment profit .....	135,191	3,450	138,650	11,688	150,338	(8,382)	141,947
Segment assets .....	59,096,441	345,488	59,441,929	286,938	59,728,868	(472,866)	59,255,993
Segment liabilities .....	56,544,819	303,251	56,848,080	120,648	56,968,729	(363,327)	56,605,401
Others:							
Depreciation .....	30,557	885	31,442	1,020	32,472	(180)	32,282
Interest income .....	439,391	45	439,436	4,940	444,386	(9,728)	434,658
Interest expense .....	11,417	758	12,175	63	12,239	(867)	11,363
Extraordinary gain .....	830	—	830	0	840	(252)	578
Extraordinary loss .....	4,010	0	4,010	36	4,055	—	4,055
Tax expense .....	35,985	1,092	37,078	3,206	40,294	243	40,538
Increase in tangible and intangible fixed assets .....	16,059	460	16,529	596	17,125	(397)	16,728

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 \$885 thousand is mainly the recovery of written-off claims included in "Others."

(2) Adjustment of segment profit of negative \$8,382 thousand is the elimination of intersegment transactions.

(3) Adjustment of segment assets of negative \$472,866 thousand is the elimination of intersegment transactions.

(4) Adjustment of segment liabilities of negative \$363,327 thousand is the elimination of intersegment transactions and the adjustment of liability for retirement benefits.

(5) Adjustment of depreciation of negative \$180 thousand is the elimination of intersegment transactions.

(6) Adjustment of interest income of negative \$9,728 thousand is the elimination of intersegment transactions.

(7) Adjustment of interest expense of negative \$867 thousand is the elimination of intersegment transactions.

(8) Adjustment of extraordinary gain of negative \$252 thousand is the elimination of intersegment transactions.

(9) Adjustment of tax expense of \$243 thousand is the elimination of intersegment transactions.

(10) Adjustment of increase in tangible and intangible fixed assets of negative \$397 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.

## Consolidated Financial Statements

## (4) Information about services

	Millions of yen				
	2021				
	Lending	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers.....	¥ 32,018	¥ 23,964	¥ 8,458	¥ 16,757	¥ 81,198

	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

	Thousands of U.S. dollars				
	2021				
	Lending	Securities and investments	Leasing	Other	Total
Ordinary income from outside customers.....	\$ 289,206	\$ 216,457	\$ 76,397	\$ 151,359	\$ 733,429

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, 2021 and 2020; 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, 2021 and 2020; 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, 2021 or 2020. 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			
	2021			
	Reportable segments			Total
	Banking	Leasing	Other	
Impairment loss .....	¥ 385	¥ —	¥ 4	¥ 389

	Millions of yen			
	2020			
	Reportable segments			Total
	Banking	Leasing	Other	
Impairment loss .....	¥ 1,730	¥ —	¥ 92	¥ 1,822

Note: "Other" comprises financial product transactions.

	Thousands of U.S. dollars			
	2021			
	Reportable segments			Total
	Banking	Leasing	Other	
Impairment loss .....	\$ 3,477	\$ —	\$ 36	\$ 3,513

Note: "Other" comprises financial product transactions.

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

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

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

There is no information to be reported on gain on negative goodwill for each reportable segment.



### 30. RELATED PARTY TRANSACTIONS

For the fiscal year ended March 31, 2021, 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	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer)	Lending of money*2	—	—	Loans	24	216
							Interest receivable	0	0	—	—	—
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	1,806	Loans	200	1,806
							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	60	541	Loans	90	812
							Interest receivable	0	0	—	—	—
A company in which a majority of voting rights are held by relatives of officers of the Bank	Kyowa Shokai Yakuin K.K. *5	Kizugawa City, Kyoto	10	Sales of chemicals	—	Loans	Lending of money	77	695	Loans	80	722
							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. Relatives of Hisayoshi Tahara (Executive Officer of the Bank) owned 62.5% of the voting rights of this company directly.

6. Mr. Yasuo Ueno resigned as a Director of the Bank on June 26, 2020, and the loan balance to Mr. Kohei Ueno, his second son, was ¥20 million (\$180 thousand) as of that date.

7. Mr. Masashi Hashimoto resigned as an Executive Officer of the Bank on March 31, 2021, and the loan balance to Mr. Kazuyuki Hashimoto, his younger brother, was ¥11 million (\$99 thousand) as of that date.

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)	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	—	Loans	21
							Interest receivable	0	—	—
Relatives of officers of the Bank	Masato Ibi	—	—	Office worker	—	Son-in-law of Satoru Wada (Executive Officer)	Lending of money*2	—	Loans	25
							Interest receivable	0	—	—
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	Loans	200
							Interest receivable	2	—	—
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
							Interest receivable	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 loan balance to Mr. Atsuto Hashimoto, his eldest son, was ¥17 million as of that day.

### 31. PER SHARE INFORMATION

Net assets per share at March 31, 2021 and 2020 and net income per share for the fiscal years then ended were as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net assets per share.....	¥ 8,994.43	¥ 7,819.42	\$ 812.4
Net income per share – basic .....	332.41	97.52	3.00
Net income per share – diluted .....	332.12	97.43	2.99

## Consolidated Financial Statements

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
(Net assets per share)			
Net assets .....	¥ 293,447	¥ 255,053	\$ 2,650,591
Amounts to be deducted from net assets: .....	63	88	569
Stock acquisition rights .....	(63)	(88)	(569)
Net assets attributed to common stock .....	293,384	254,965	2,650,022
Outstanding number of shares of common stock at end of year (unit: thousands of shares) .....	32,618	32,606	294,625
(Basic and diluted net income per share)			
Net income attributable to owners of parent .....	¥ 10,841	¥ 3,179	\$ 97,922
Net income attributable to common stockholders of parent .....	10,841	3,179	97,922
Average outstanding number of shares during the year (unit: thousands of shares) .....	32,615	32,605	294,598
Adjustment to net income attributable to owners of parent .....	—	—	—
Increase in number of shares of common stock: (unit: thousands of shares) .....	28	29	252
Stock acquisition rights (unit: thousands of shares) .....	(28)	(29)	(252)
Convertible securities not diluting net income per share .....	—	—	—

### 32. SUBSEQUENT EVENTS

(Introduction of performance-based stock compensation plan)

At the Board of Director's meeting held on May 14, 2021, the Bank resolved to submit the "Abolition of the system of stock options granted as stock-based compensation" and the "Introduction of a performance-based stock compensation plan," a compensation plan for the directors of the Bank (excluding outside directors and directors not residents of Japan), as proposals to the 133rd Annual stockholders' meeting to be held on June 29, 2021. These proposals were approved and passed at that Annual stockholders' meeting.

### 33. BORROWED MONEY AND LEASE OBLIGATIONS

a. The details of borrowed money as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Borrowed money			
Due from April 2020 through Nov. 2026	¥ 626,700	¥ 135,538	\$ 5,660,735
Average interest rate: 0.42% p.a. ....			

Annual maturities of borrowed money as of March 31, 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Millions of yen	Thousands of U.S. dollars	
2022 .....	¥ 415,634	\$ 3,754,258	
2023 .....	21,732	196,296	
2024 .....	1,129	10,197	
2025 .....	185,684	1,677,210	
2026 .....	281	2,538	
2027 and thereafter .....	2,240	20,233	
Total .....	¥ 626,700	\$ 5,660,735	

#### 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, 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Millions of yen	Thousands of U.S. dollars	
2022 .....	¥ 0	\$ 0	
2023 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, 2021 and 2020, 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 and 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, 2021 and 2020, and its consolidated financial performance and its consolidated 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.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Appropriateness of the estimates of a reserve for possible loan losses for loans and bills discounted to small and medium-sized enterprises (SMEs)

The key audit matter	How the matter was addressed in our audit
<p>The Nanto Bank, Ltd. (“the Company”) and its consolidated subsidiaries reported loans and bills discounted of ¥3,786,878 million, accounting for 57.7% of total assets, and a related reserve for possible loan losses of ¥21,385 million in the consolidated balance sheet. Reserve for possible loan losses reported in the balance sheet of the Company accounted for a significant portion in the consolidated balance sheet.</p> <p>As described in the Notes to Consolidated Financial Statements, 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES i. Reserve for possible loan losses and 3 SIGNIFICANT ACCOUNTING ESTIMATES, the Company classifies borrowers based on their credit risk rating in accordance with the predetermined standards for write-offs and reserves, and reports the reserve for possible loan losses by calculating the loan loss ratio based on the category of borrowers by region.</p> <p>The determination of the borrower category is based on the credit rating determined by the rating models and the borrower’s repayment ability based on their substantial financial position, financing capacities, and profitability, etc., and the terms and conditions of the loans and payment status of the borrower. Also, the Company gives comprehensive consideration to the borrower’s sustainability, projected profitability, and ability to pay obligations based on their annual repayable amount, appropriateness of their management improvement plans, and other factors in light of the borrower’s industry characteristics.</p> <p>The Company aims to increase Nara prefecture’s real gross domestic product by 10% in its management plan, “Nanto Mission and Objectives for the Next 10 Years,” targeted to be achieved by 2029. To achieve this goal, the Company will take the initiative in resolving regional economic issues and contribute to the development of the region by focusing on three factors: productivity improvement, business succession, and asset formation.</p> <p>The Company operates mainly in Nara prefecture, neighboring prefectures, and Tokyo, but its business coverage area is limited, and the main borrowers are SMEs. The Company’s balance sheet reported loans and bills</p>	<p>The primary procedures we performed to assess whether the Company’s estimates of the reserve for possible loan losses for loans and bills discounted to SMEs was appropriate included the following:</p> <p><b>(1) Internal control testing</b> In order to test the design and operating effectiveness of certain of the Company’s internal controls relevant to the determination of the category of borrowers, we:</p> <ul style="list-style-type: none"> <li>● assessed whether the credit risk management system was operating in accordance with internal policies by inspecting the Company’s organization chart, related policies, meeting minutes of the Board of Directors, and other relevant materials;</li> <li>● tested the effectiveness of internal controls to ensure the reliability of borrowers’ financial information entered into the financing support system; and</li> <li>● tested IT application controls over the quantitative determination of the category of borrowers.</li> </ul> <p><b>(2) Assessment of determination of the category of borrowers</b></p> <p>In order to assess the appropriateness of the determination of the category of borrowers, we selected borrowers to be tested individually by considering qualitative and quantitative factors and performed the following procedures:</p> <ul style="list-style-type: none"> <li>● compared the quantitative information of borrowers, including financial ratios, to the supporting materials;</li> <li>● inquired of personnel in the</li> </ul>

discounted to SMEs of ¥1,413,546 million.

Since the fundamental business foundation of SMEs generally tends to be weaker than medium to large-sized enterprises, the Company determines the category of SME borrowers by comprehensively considering not only their financial conditions but their technical capabilities, sales capacity and growth potential, their managements' income status, asset quality, and guarantee status and capacity, in light of their business condition.

Therefore, there is judgment over the qualitative factors including the estimate of reasonableness and feasibility of the management improvement plan which is important for borrowers categorized as needs attention borrowers (excluding claims corresponding to restructured loans) based mainly on the grounds that a drastic and highly feasible or a reasonable and highly feasible management improvement plan exists.

In addition, SMEs may be significantly impacted by the deterioration of the local economy due to the spread of the new coronavirus. Accordingly, management's judgment on the determination of the category of borrowers may have a significant impact on the reported amount of the reserve for possible loan losses.

We, therefore, determined that our assessment of the appropriateness of the estimates of the reserve for possible loan losses for loans and bills discounted to SMEs, especially the appropriateness of the management's judgment on the category of borrowers, was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

relevant divisions, such as the Credit Analysis Division, to assess whether judgments based on qualitative factors were made in a timely and appropriate manner, and assessed whether the categories of borrowers were appropriately determined based on qualitative factors for borrowers whose category have a relatively high degree of dependence on management's judgment, including those under intensive credit monitoring and those categorized as needs attention borrowers (excluding claims corresponding to restructured loans) based mainly on the grounds that a reasonable and highly feasible management improvement plan exists; and

- assessed whether the determined categories of borrowers were appropriate, focusing on the recoverability from the current business performance and financing situation by understanding the latest business conditions of borrowers and considering their industry characteristics to evaluate the impact of the spread of the new coronavirus on borrowers' operating results.

## 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 with regard to 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.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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

KPMG AZSA LLC

Osaka Office, Japan

October 28, 2021

### **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, 2021 and 2020

	Millions of yen	
	2021	2020
(1) Capital adequacy ratio ((2)/(3)).....	<b>9.47%</b>	9.39%
(2) Capital .....	¥ <b>264,565</b>	¥ 254,319
(3) Risk-weighted assets .....	<b>2,793,490</b>	2,706,983
(4) Requisite capital.....	<b>111,739</b>	108,279

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, 2021 and 2020

	Millions of yen	
	2021	2020
(1) Capital adequacy ratio ((2)/(3)).....	<b>9.15%</b>	9.06%
(2) Capital .....	¥ <b>253,354</b>	¥ 243,278
(3) Risk-weighted assets .....	<b>2,768,260</b>	2,682,686
(4) Requisite capital.....	<b>110,730</b>	107,307

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 CO<sub>2</sub> 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: October 2021

Nanto Bank, Ltd. Corporate Planning Department

16, Hashimoto-cho, Nara City, Nara Prefecture 630-8677, Japan

Tel.: +81-742-27-1599