

Financial Section

Consolidated Balance Sheets

For more details about the financial information contained in this annual report, please refer to the financial information that has been made public on the Hiroshima Bank website.

 <http://www.hirogin.co.jp/eng/index.html>

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2017 and 2018

	Millions of yen		Millions of U.S. dollars (Note 1)
	2017	2018	2018
ASSETS			
Cash and due from banks (Notes 3, 4, 12 and 19)	¥1,253,275	¥1,511,177	\$14,224
Call loans and bills purchased (Note 19)	17,396	18,521	174
Financial receivables purchased (Notes 4 and 19)	7,091	7,424	70
Trading assets (Notes 3, 4 and 19)	9,145	5,847	55
Money held in trust (Notes 5 and 19)	156	8,256	78
Securities (Notes 3, 4, 7, 10 and 19)	1,761,462	1,382,716	13,015
Loans and bills discounted (Notes 6, 8 and 19)	5,605,677	5,861,796	55,175
Foreign exchanges	7,890	7,741	73
Other assets (Note 7)	57,766	88,949	837
Tangible fixed assets (Note 3)	92,305	91,982	866
Intangible fixed assets (Note 3)	10,249	9,585	90
Net defined benefit assets	46,078	54,607	514
Deferred tax assets (Notes 3 and 16)	699	735	7
Customers' liabilities for acceptances and guarantees (Note 10)	42,001	38,237	360
Reserve for possible loan losses (Note 3)	(37,933)	(35,429)	(333)
Total assets	¥8,873,264	¥9,052,152	\$85,205
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 7 and 19)	¥7,296,113	¥7,441,054	\$70,040
Call money and bills sold (Note 19)	3,365	50,000	471
Payables under repurchase agreements	137,187	111,329	1,048
Deposits received for bonds lending/borrowing transactions (Notes 7 and 19)	401,641	262,859	2,474
Trading liabilities (Note 3)	7,183	4,023	38
Borrowed money (Notes 7, 9 and 19)	453,379	585,551	5,512
Foreign exchanges	163	224	2
Bonds (Note 19)	20,000	—	—
Due to trust account	22	42	1
Other liabilities	42,914	49,741	468
Net defined benefit liabilities	38	42	0
Reserve for retirement benefits of directors and corporate auditors (Note 3)	27	26	0
Reserve for reimbursement of deposits (Note 3)	1,461	4,447	42
Reserve for point loyalty programs (Note 3)	125	129	1
Reserve for stock payments (Note 3)	—	176	2
Reserve for loss related to Head Office rebuilding (Note 3)	1,095	1,987	19
Reserve under special laws (Note 3)	—	41	0
Deferred tax liabilities (Note 16)	5,790	10,876	102
Deferred tax liabilities for land revaluation reserve (Note 3)	13,613	13,613	128
Acceptances and guarantees	42,001	38,237	360
Total liabilities	8,426,125	8,574,404	80,708
Net Assets (Notes 3 and 11):			
Common stock:			
Authorized – 1,000,000,000 shares	54,573	54,573	514
Issued – 312,633,171 shares			
Capital surplus	30,743	30,746	289
Retained earnings	290,180	309,747	2,916
Common stock in treasury	(437)	(1,260)	(12)
Total stockholders' equity	375,060	393,807	3,707
Net unrealized holding gains on securities available for sale	39,492	48,399	456
Net deferred gains (losses) on hedging instruments, net of tax	(512)	(547)	(5)
Land revaluation and translation adjustments, net of tax (Note 3)	27,763	27,763	261
Remeasurements of defined benefit plans	5,011	8,016	75
Total accumulated other comprehensive income	71,755	83,632	787
Stock acquisition rights (Note 20)	322	308	3
Total net assets	447,138	477,748	4,497
Total liabilities and net assets	¥8,873,264	¥9,052,152	\$85,205

See notes to consolidated financial statements.

Consolidated Statements of Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2018

	Millions of yen		Millions of U.S. dollars (Note 1)
	2017	2018	2018
Income:			
Interest income:			
Interest on loans and discounts	¥ 61,190	¥ 61,786	\$ 581
Interest and dividends on securities	18,253	13,945	131
Other interest income	1,135	1,340	13
Fees and commissions	28,907	31,732	299
Other operating income	10,817	4,525	43
Other income	17,967	15,774	148
Total income	138,270	129,105	1,215
Expenses:			
Interest expenses:			
Interest on deposits	3,056	2,865	27
Interest on borrowings and rediscounts	3,805	3,779	36
Other interest expenses	2,555	2,890	27
Fees and commissions	9,323	9,518	90
Other operating expenses	11,809	4,691	44
General and administrative expenses (Note 20)	57,379	61,129	575
Other expenses	6,489	7,975	75
Total expenses	94,419	92,850	874
Income before income taxes and others	43,850	36,255	341
Income taxes (Notes 3 and 16):			
Provision for income taxes and others	13,704	10,696	101
Deferred income taxes	(1,061)	(250)	(3)
Net income	31,207	25,809	243
Profit attributable to owners of the parent	¥ 31,207	¥ 25,809	\$ 243

	Yen		U.S. dollars (Note 1)
	2017	2018	2018
Amounts per share of common stock (Note 12):			
Net assets	¥1,431.67	¥1,534.40	\$14.44
Net income	100.04	82.81	0.78
Diluted net income	99.92	82.71	0.78
Cash dividends applicable to the year	11.00	—	—

See notes to consolidated financial statements.

Note: The Bank conducted a share consolidation of common shares at the ratio of 1 share for 2 shares on October 1, 2017. As a result, figures for cash dividends applicable to the year for the year ended March 31, 2018 have been stated after including the impact of the share consolidation, and the total annual dividends were “—.”

Consolidated Statements of Comprehensive Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2018

	Millions of yen		Millions of U.S. dollars (Note 1)
	2017	2018	2018
Net income	¥ 31,207	¥25,809	\$243
Other comprehensive income (Note 21):			
Net unrealized holding gains (losses) on securities available for sale	(26,309)	8,900	84
Net deferred gains (losses) on hedging instruments, net of tax	252	(34)	(0)
Remeasurements of defined benefit plans	463	3,004	28
Share of other comprehensive income of affiliated companies accounted for by equity method	4	6	0
Comprehensive income (Note 21)	¥ 5,618	¥37,686	\$355
Attributable to (Note 21):			
Comprehensive income attributable to owners of the parent	¥ 5,618	¥37,686	\$355

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2018

Item	Millions of yen				
	2017				
	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,817	¥265,811	¥(982)	¥350,220
Changes of items during the period:					
Dividends from surplus			(6,859)		(6,859)
Profit attributable to owners of the parent			31,207		31,207
Purchase of common stock in treasury				(7)	(7)
Disposal of common stock in treasury		(73)		552	478
Reversal of land revaluation reserve			20		20
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	(73)	24,369	545	24,840
Balance at the end of current period	¥54,573	¥30,743	¥290,180	¥(437)	¥375,060

Item	Millions of yen						
	2017						
	Accumulated other comprehensive income						
	Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	¥ 65,797	¥(764)	¥27,784	¥4,548	¥ 97,365	¥334	¥447,919
Changes of items during the period:							
Dividends from surplus							(6,859)
Profit attributable to owners of the parent							31,207
Purchase of common stock in treasury							(7)
Disposal of common stock in treasury							478
Reversal of land revaluation reserve							20
Net changes of items other than stockholders' equity	(26,304)	252	(20)	463	(25,609)	(11)	(25,621)
Total changes of items during the period	(26,304)	252	(20)	463	(25,609)	(11)	(780)
Balance at the end of current period	¥ 39,492	¥(512)	¥27,763	¥5,011	¥ 71,755	¥322	¥447,138

Item	Millions of yen				
	2018				
	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,743	¥290,180	¥ (437)	¥375,060
Changes of items during the period:					
Dividends from surplus			(6,242)		(6,242)
Profit attributable to owners of the parent			25,809		25,809
Purchase of common stock in treasury				(855)	(855)
Disposal of common stock in treasury		2		32	35
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	2	19,566	(822)	18,746
Balance at the end of current period	¥54,573	¥30,746	¥309,747	¥(1,260)	¥393,807

Item	Millions of yen						
	2018						
	Accumulated other comprehensive income					Stock acquisition rights	Total net assets
Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	¥39,492	¥(512)	¥27,763	¥5,011	¥71,755	¥322	¥447,138
Changes of items during the period:							
Dividends from surplus							(6,242)
Profit attributable to owners of the parent							25,809
Purchase of common stock in treasury							(855)
Disposal of common stock in treasury							35
Net changes of items other than stockholders' equity	8,906	(34)	—	3,004	11,877	(14)	11,862
Total changes of items during the period	8,906	(34)	—	3,004	11,877	(14)	30,609
Balance at the end of current period	¥48,399	¥(547)	¥27,763	¥8,016	¥83,632	¥308	¥477,748

Millions of U.S. dollars					
2018					
Stockholders' equity					
Item	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	\$514	\$289	\$2,732	\$ (4)	\$3,531
Changes of items during the period:					
Dividends from surplus			(59)		(59)
Profit attributable to owners of the parent			243		243
Purchase of common stock in treasury				(8)	(8)
Disposal of common stock in treasury		0		0	0
Net changes of items other than stockholders' equity	—				
Total changes of items during the period		0	184	(8)	176
Balance at the end of current period	\$514	\$289	\$2,916	\$(12)	\$3,707

Millions of U.S. dollars							
2018							
Item	Accumulated other comprehensive income					Stock acquisition rights	Total net assets
	Net unrealized holding gains on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	\$372	\$(5)	\$261	\$47	\$675	\$ 3	\$4,209
Changes of items during the period:							
Dividends from surplus							(59)
Profit attributable to owners of the parent							243
Purchase of common stock in treasury							(8)
Disposal of common stock in treasury							0
Net changes of items other than stockholders' equity	84	(0)	—	28	112	(0)	112
Total changes of items during the period	84	(0)	—	28	112	(0)	288
Balance at the end of current period	\$456	\$(5)	\$261	\$75	\$787	\$ 3	\$4,497

Consolidated Statements of Cash Flows

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2018

	Millions of yen		Millions of U.S. dollars (Note 1)
	2017	2018	2018
Cash flows from operating activities:			
Income before income taxes and others:	¥ 43,850	¥ 36,255	\$ 341
Depreciation of premises, equipment and others	4,501	6,610	62
Impairment losses of fixed assets	40	31	0
Gains on negative goodwill	—	(4,196)	(40)
Equity in earnings of affiliates	(225)	(149)	(1)
Loss on step acquisitions	—	2,123	20
Net change in reserve for possible loan losses	1,936	(2,504)	(24)
Decrease (increase) in net defined benefit asset	(4,414)	(8,529)	(80)
Increase (decrease) in net defined benefit liability	(2)	4	0
Net change in reserve for retirement benefits of directors and corporate auditors	(14)	(1)	(0)
Net change in reserve for reimbursement of deposits	(34)	2,985	28
Net change in reserve for point loyalty programs	14	3	0
Net change in reserve for stock payments	—	176	2
Net change in reserve under special laws	—	(2)	(0)
Net change in reserve for loss related to Head Office rebuilding	1,095	892	8
Interest income	(80,579)	(77,073)	(725)
Interest expense	9,417	9,534	90
Net losses on securities transactions	(11,583)	(3,981)	(37)
Net losses on dispositions of fixed assets	99	130	1
Net change in trading assets	3,138	3,369	32
Net change in trading liabilities	(3,049)	(3,159)	(30)
Net change in loans	(337,865)	(244,990)	(2,306)
Net change in deposits	193,345	185,386	1,745
Net change in negotiable certificates of deposit	89,048	(40,444)	(381)
Net change in borrowed money excluding subordinated loans	302,251	128,681	1,211
Net change in due from banks other than from the Bank of Japan	(3,895)	285	3
Net change in call loans and bills bought	(6,897)	(1,458)	(14)
Net change in call money and bills sold	(13,918)	20,775	196
Net change in deposits received for bonds lending/borrowing transactions	133,561	(138,782)	(1,306)
Net change in foreign exchanges (assets)	(575)	148	1
Net change in foreign exchanges (liabilities)	(21)	60	1
Interest received	88,307	83,171	783
Interest paid	(9,590)	(9,776)	(92)
Net change due to issuance and redemption of bonds	—	(20,000)	(188)
Other – net	(16,089)	(27,331)	(257)
Subtotal	337,998	(138,010)	(1,298)
Income taxes paid	(16,108)	(14,415)	(136)
Total adjustments	321,890	(152,426)	(1,434)
Net cash provided by (used in) operating activities	365,741	(116,170)	(1,093)
Cash flows from investing activities:			
Purchases of securities	(786,813)	(284,859)	(2,681)
Proceeds from sales of securities	800,076	249,618	2,349
Proceeds from maturity of securities	183,499	420,335	3,956
Increase in money held in trust	(0)	(0)	(0)
Decrease in money held in trust	33	1,300	12
Purchases of tangible fixed assets	(5,964)	(3,545)	(33)
Purchases of intangible fixed assets	(3,247)	(2,037)	(19)
Proceeds from sales of tangible fixed assets	52	0	0
Payments for retirement of tangible fixed assets	—	(9)	(0)
Net cash provided by (used in) investing activities	187,634	380,803	3,584
Cash flows from financing activities:			
Repayments of subordinated loans	(10,000)	—	—
Dividends paid	(6,857)	(6,242)	(58)
Purchases of treasury stock	(7)	(855)	(8)
Proceeds from sales of treasury stock	377	0	0
Payments of lease liabilities	(69)	(70)	(1)
Net cash provided by (used in) financing activities	(16,557)	(7,167)	(67)
Effect of foreign exchange rate changes on cash and cash equivalents	46	2	0
Net change in cash and cash equivalents	536,865	257,466	2,424
Cash and cash equivalents at the beginning of year	708,294	1,245,160	11,720
Increase in cash and cash equivalents from newly consolidated subsidiary	—	53	0
Cash and cash equivalents at the end of year (Note 12)	¥1,245,160	¥1,502,680	\$14,144

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2017 and 2018

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Hiroshima Bank, Ltd. (the "Bank") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to 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 Law. Some supplementary 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.

The Bank maintains its accounting records in Japanese yen, the currency in which the Bank is incorporated and operates. In preparing the accompanying consolidated financial statements and notes thereto, Japanese yen figures less than one million yen have been rounded down to the nearest million yen, except for per share data, in accordance with the Financial Instruments and Exchange Law and Enforcement Regulation concerning Banking Law of Japan. Therefore, total or subtotal amounts shown in the accompanying consolidated financial statements and notes thereto do not necessarily agree with the sums of individual amounts. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S. \$1.00. The convenience 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 Principles of consolidation

The consolidated financial statements include the accounts of the Bank and 8 subsidiaries. The Bank includes the accounts of several companies which are less than 50% owned in the accompanying consolidated financial statements in the case that the Bank has control over these companies through cross-shareholdings, transfer of management, and provision of debt guarantees and loans. All significant intercompany balances and transactions have been eliminated.

Investments in 20% to 50% owned companies are carried at cost adjusted for equity in undistributed earnings or losses since acquisition (the equity method). The Bank also applies the equity method for investments in certain companies which are less than 20% owned in the case that the Bank is able to exercise significant influence over these companies.

The consolidated financial statements do not include the accounts of a subsidiary because the total assets, total income, net income, retained earnings and total accumulated other comprehensive income of the subsidiary would not have had a material effect on the consolidated financial statements.

Investment in the unconsolidated subsidiary was stated at cost. If the equity method of accounting had been applied to the investments in the subsidiary, the effect on the accompanying consolidated financial statements would not be material.

Consequently, the consolidated financial statements include the account of the Bank and its subsidiaries and affiliated companies (eight subsidiaries and two affiliated companies).

As of March 31, 2018, the fiscal year ending dates are March 31 for 8 subsidiaries.

3 Significant accounting policies

Trading assets and trading liabilities

The Bank adopted mark-to-market accounting for trading assets and trading liabilities including securities, financial receivables and financial derivatives for trading purposes. Trading assets and trading liabilities are recorded on a trade date basis, and revenues and expenses related to trading securities transactions are also recorded on a trade date basis. Securities and financial receivables for trading purposes are stated at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are stated at a deemed settlement amount at the balance sheet date. Unrealized gains or losses incurred by the mark-to-market method are charged to income.

Securities

All companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Securities available-for-sale for which fair value cannot be reliably determined are carried at cost determined by the moving average method.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for by the equity method, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

When market values of available-for-sale securities with fair market values decline by 50% or more of the acquisition cost at the balance sheet date, the Bank writes down such securities to the fair market values and records the related write-downs as loss in its consolidated statements of income. When market values of available-for-sale securities with fair market value decline by 30% or more but less than 50% of the acquisition cost, write-downs to the fair market values may be recognized for certain issuers based on evaluation of issuers' debtor classification. The Bank devaluated the securities other than securities held for trading purposes and recognized a loss of ¥143 million (¥143 million for equity securities) as for the year ended March 31, 2016.

Derivatives and hedge accounting

Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

(1) Hedging against interest rate fluctuations

The Bank applies deferred hedge accounting pursuant to the treatment regulated by "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24) to hedge transactions such as interest rate swaps entered into to mitigate interest rate risk arising from financial assets and liabilities. The Bank assessed the hedge effectiveness by considering the adequacy of offsetting movement of the fair value by the changes in interest rates through classifying the hedged items such as loans and borrowed money and the hedging transactions such as interest rate swaps by their maturity.

With respect to hedging transactions to fix the cash flows, hedging instruments (e.g. interest rate swaps) are designated to hedged items collectively by interest rate indices and tenors in accordance with JICPA Industry Audit Committee Report No. 24. Since material terms related to hedged items and hedging instruments are substantially identical, and such hedging transactions are deemed highly effective, the assessment of effectiveness is based on the similarity of the terms.

(2) Hedging against foreign currency fluctuations

The Bank applies deferred hedge accounting to hedge transactions such as currency swaps and foreign exchange swaps entered into to mitigate foreign exchange risk arising from foreign-currency-denominated financial assets and liabilities.

The Bank applies the hedge accounting pursuant to “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 25) to currency swap transactions and foreign exchange swap transactions for the purpose of funds lending and borrowing in different currencies. The Bank assesses the hedge effectiveness by confirming that the positions of hedge instruments (currency swap and foreign exchange swap transactions) do not exceed the corresponding foreign-currency-denominated financial receivables and debts as hedged items.

(3) Exceptional treatment

For some assets and liabilities, the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Tangible fixed assets (except for lease assets)

Tangible fixed assets except for land utilized for business operations are stated at cost less accumulated depreciation. Accumulated impairment losses are deducted from acquisition costs.

The Bank and its consolidated subsidiaries depreciate their tangible fixed assets under the straight-line method over their estimated useful lives. Estimated useful lives of major items are as follows:

Buildings:	22–50 years
Others:	3–20 years

Accumulated depreciation for tangible assets, recognized for the fiscal years ended March 31, 2017 and 2018, amounted to ¥48,238 million and ¥50,922 million (\$479 million), respectively.

Intangible fixed assets (except for lease assets)

Intangible fixed assets are amortized using the straight-line method. Software utilized by the Bank is amortized over the period in which it is expected to be utilized (mainly 5–10 years).

Lease assets

Lease assets in “Tangible fixed assets” of the finance leases other than those that transfer the ownership of leased property to the lessees are computed under the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

Reserve for possible loan losses

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to available security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after evaluating the customer’s overall financial conditions.

For other loans, the reserve for possible loan losses is provided based on the Bank’s actual rate of loan losses in the past.

Consolidated subsidiaries provide the reserve for possible loan losses mainly based on the actual rate of loan losses in the past.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and the credit supervision department, and the evaluations are revised as required based on the audits.

Secured and guaranteed loans which are for insolvent borrowers or in a similar financial condition are disclosed based on the amount of loans net of amounts estimated not to be collected through disposition of collateral or through execution of guarantees. Such amounts directly set off against those loans at March 31, 2017 and 2018 were ¥15,289 million and ¥15,536 million (\$146 million), respectively.

Employees' severance and retirement benefits

The liabilities and expenses for severance and retirement benefits were determined based on the amounts actuarially calculated using certain assumptions.

The Bank and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2017 and 2018 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates. Actuarial gains and losses were recognized in expenses using the straight-line method over 14 years, which was not longer than the average of the estimated remaining service lives, commencing with the following period.

In calculating the projected benefit obligation, the straight-line method is used to attribute the expected benefit attributable to the respective fiscal year. Prior service costs were recognized in the consolidated statements of income as incurred.

Certain consolidated subsidiaries adopt the simplified method for the calculation of net defined benefit liability and expenses for severance and retirement benefits.

Reserve for retirement benefits of directors and Audit & Supervisory Board members

Reserve for retirement benefits of directors and Audit & Supervisory Board members is provided for in payment of retirement benefits to directors, corporate auditors and other executive officers, in the amount deemed accrued at the fiscal year-end based on our internal regulations.

Reserve for retirement of deposits

Reserve for retirement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal.

Reserve for point loyalty programs

Reserve for point loyalty program is provided for the estimated expenses based on an estimate of the future usage of points. Points are granted to credit card holders through card usage under the point loyalty program which is designed to promote card usage.

Reserve for stock payments

Reserve for stock payments is provided for the Bank's share payment to its directors, etc., based on the Director Share Payment Regulations.

Reserve for loss related to Head Office rebuilding

Reserve for loss related to Head Office rebuilding is provided to cover estimated losses arising from the rebuilding of the Head Office of the Bank.

Reserve under special laws

Reserve under special laws is provided for contingent liabilities and provided for compensation for losses from securities-related transactions or derivative transactions, pursuant to Article 46-5-1 of the Financial Instruments and Exchange Act and Article 175 of the related cabinet order.

Foreign currency translation

The consolidated financial statements of the Bank are maintained in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates, etc.

Income taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of the Bank and each of its consolidated subsidiaries with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Valuation allowances are recorded to reduce deferred tax assets based on the assessment of the realizability of the tax benefits.

Consumption tax

National and local consumption taxes of the Bank and its consolidated domestic subsidiaries are accounted for using the tax-excluded method.

Consolidated statements of cash flows and cash equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents.

Amounts per share

Net assets per share is calculated by dividing net assets by the number of common stocks outstanding at the year-end (excluding "treasury stock").

Net income per share is calculated by dividing profit attributable to owners of the parent by the average number of shares of common stock outstanding during the year (excluding "treasury stock").

Cash dividends per share represent the actual amounts declared as applicable to the respective years.

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform with the 2018 presentation.

Additional information

Transactions vesting treasury stocks through the trust

The Bank has introduced the BIP (Board Incentive Plan) Trust aiming at improvement of the Bank's mid- and long-term performance as well as raising awareness of contributions to increasing corporate value.

(1) Outline

This system grants specified points to directors, etc., depending on the Director Share Payment Regulations. The Bank's shares and cash in the amount of converted value of such Bank's shares equivalent to the number of such points may be granted and paid through the trust at the time of retirement. The Bank's shares to be granted to directors are acquired through the trust by the Bank.

(2) The Bank's shares remaining in the trust

1. The shares of the Bank remaining in the trust are recorded as treasury stock under net assets at the carrying value.
2. The carrying value of treasury stock remaining in the trust was ¥847 million (\$8 million) at March 31, 2018.
3. The number of shares of the Bank remaining in the trust was 968 thousand at March 31, 2018.

4 Securities

(1) Trading account securities included in "Trading assets," certificates of deposit with banks included in "Cash and due from banks," and trust beneficiary rights included in "Financial receivables purchased," which are separately reported from "Securities" in the consolidated balance sheets, are included in this section.

(2) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2017 and 2018:

a) Trading securities:

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Amount of net unrealized gains (losses) included in the consolidated statements of income	¥(4)	¥(2)	\$(0)

b) Available-for-sale securities:

At March 31, 2017

	Millions of yen		
	Book value	Acquisition cost	Gross unrealized gain (loss)
Fair value exceeding cost:			
Equity securities	¥ 94,579	¥ 42,217	¥ 52,362
Bonds:	1,007,469	997,200	10,268
National government bonds	736,618	731,170	5,448
Local government bonds	115,510	113,567	1,943
Bonds	155,339	152,462	2,876
Others	95,449	86,003	9,445
Subtotal	1,197,498	1,125,422	72,076
Fair value not exceeding cost:			
Equity securities	18,919	22,568	(3,648)
Bonds:	132,850	134,160	(1,310)
National government bonds	49,859	50,491	(631)
Local government bonds	23,945	24,075	(130)
Bonds	59,045	59,593	(547)
Others	399,774	410,683	(10,909)
Subtotal	551,544	567,412	(15,867)
Total	¥1,749,043	¥1,692,834	¥ 56,208

At March 31, 2018

Fair value exceeding cost:	Millions of yen		
	Book value	Acquisition cost	Gross unrealized gain (loss)
Equity securities	¥ 119,558	¥ 45,888	¥ 73,669
Bonds:	701,291	694,738	6,552
National government bonds	445,288	442,539	2,749
Local government bonds	96,230	94,889	1,340
Bonds	159,772	157,309	2,463
Others	85,513	80,938	4,574
Subtotal	906,362	821,565	84,797

Fair value not exceeding cost:			
Equity securities	13,885	16,396	(2,511)
Bonds:	121,400	121,862	(462)
National government bonds	40,982	41,103	(121)
Local government bonds	25,193	25,259	(65)
Bonds	55,223	55,499	(275)
Others	332,639	345,354	(12,714)
Subtotal	467,925	483,613	(15,688)
Total	¥1,374,288	¥1,305,179	¥ 69,109

Fair value exceeding cost:	Millions of U.S. dollars		
	Book value	Acquisition cost	Gross unrealized gain (loss)
Equity securities	\$ 1,125	\$ 432	\$ 693
Bonds:	6,601	6,539	62
National government bonds	4,191	4,165	26
Local government bonds	906	893	13
Bonds	1,504	1,481	23
Others	805	762	43
Subtotal	8,531	7,733	798

Fair value not exceeding cost:			
Equity securities	131	154	(23)
Bonds:	1,143	1,147	(4)
National government bonds	386	387	(1)
Local government bonds	237	238	(1)
Bonds	520	522	(2)
Others	3,131	3,251	(120)
Subtotal	4,405	4,552	(147)
Total	\$12,936	\$12,285	\$ 651

(3) Total sales of available-for-sale securities sold at March 31, 2017 and 2018 were as follows:

At March 31, 2017

Type	Millions of yen		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	¥ 5,773	¥ 4,400	¥ 236
Bonds:	380,924	3,760	3,460
National government bonds	378,061	3,758	3,459
Local government bonds	—	—	—
Bonds	2,863	2	1
Others	398,878	15,965	8,836
Total	¥785,576	¥24,126	¥12,532

At March 31, 2018

Type	Millions of yen		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	¥ 8,501	¥2,019	¥ 154
Bonds:	31,122	227	10
National government bonds	25,870	215	—
Local government bonds	3,910	9	8
Bonds	1,342	2	1
Others	192,226	6,580	4,632
Total	¥231,850	¥8,827	¥4,797

Type	Millions of U.S. dollars		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	\$ 80	\$19	\$ 1
Bonds:	293	2	0
National government bonds	243	2	—
Local government bonds	37	0	0
Bonds	13	0	0
Others	1,809	62	44
Total	\$2,182	\$83	\$45

5 Money held in trust

(1) Money held in trust for trading purposes

There was no money held in trust for trading purposes for the years ended March 31, 2017 and 2018.

(2) Money held in trust classified as held-to-maturity

There was no money held in trust classified as held-to-maturity for the years ended March 31, 2017 and 2018.

(3) Other money held in trust

	Millions of yen				
	Year ended March 31, 2017				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	¥156	¥156	¥—	¥—	¥—

	Millions of yen				
	Year ended March 31, 2018				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	¥8,256	¥8,256	¥—	¥—	¥—

	Millions of U.S. dollars				
	Year ended March 31, 2018				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	\$78	\$78	\$—	\$—	\$—

Notes: 1. Consolidated balance sheet amount is calculated using market prices at the fiscal year-end.
2. "Unrealized gain" and "Unrealized loss" are breakdowns of "Net unrealized gain (loss)."

6 Loans and bills discounted

(1) Doubtful loans of loans and bills discounted at March 31, 2017 and 2018 were as follows:

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥ 1,313	¥ 1,538	\$ 14
Other delinquent loans	53,917	50,895	479
Accrual loans past due three months or more	2,027	2,876	27
Restructured loans, including loans to supported companies	12,626	13,923	131

The Bank does not accrue interest on loans to borrowers under bankruptcy proceedings and other delinquent loans, which are classified based on the results of self-assessment.

(2) Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank and its consolidated banking subsidiaries have rights to sell or pledge commercial bills discounted and foreign bills of exchange purchased without restrictions, and their total face amounts were ¥25,671 million and ¥27,359 million (\$258 million) at March 31, 2017 and 2018, respectively.

7 Assets pledged

At March 31, 2017 and 2018, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Securities	¥999,484	¥848,175	\$7,984
Other assets	18	1,600	15

The collateral was pledged to secure:

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Deposits	¥ 1,505	¥ 1,488	\$ 14
Payables under repurchase agreements	137,187	111,329	1,048
Deposits received for bonds lending/borrowing transactions	401,641	262,859	2,474
Borrowed money	422,684	555,664	5,230

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as exchange settlements. These securities amounted to ¥42,301 million and ¥5,013 million (\$47 million) at March 31, 2017 and 2018, respectively, and others amounted to ¥11,994 million and ¥48,888 million (\$460 million) at March 31, 2017 and 2018, respectively.

Security deposits, included in other assets, amounted to ¥2,323 million and ¥2,567 million (\$24 million) at March 31, 2017 and 2018, respectively, deposits for financial instruments amounted to ¥5,427 million and ¥8,703 million (\$82 million) at March 31, 2017 and 2018, respectively, and deposits for futures trading amounted to ¥1,113 million and ¥1,115 million (\$10 million) at March 31, 2017 and 2018, respectively.

Of the securities received as collateral under transactions with repurchase agreement, those which the Bank holds rights to dispose of by sale or provision of collateral at its discretion amounted to ¥938 million and ¥21,070 million (\$198 million) at March 31, 2017 and 2018, respectively.

Bills rediscounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24), and the total face amount of commercial bills discounted and foreign exchanges purchased that have been pledged were ¥4 million at March 31, 2017.

8 Commitment line

Commitment line contracts on overdrafts and loans are the contracts, under which the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits totaled ¥1,679,803 million and ¥1,735,338 million (\$16,334 million) relating to these contracts at March 31, 2017 and 2018, respectively. Among them, the amounts of unused commitment of which term of contracts is less than one year or revocable at any time totaled ¥1,608,558 million and ¥1,655,587 million (\$15,583 million) as of March 31, 2017 and 2018, respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank and its consolidated subsidiaries can refuse customers' applications for loans or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank and its consolidated subsidiaries obtain real estate, securities, etc., as collateral if considered to be necessary. Subsequently, the Bank and its consolidated subsidiaries perform periodic review of the customers' business results based on internal rules, and take necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

9 Borrowed money

Borrowed money including subordinated loans totaled ¥15,000 million and ¥15,000 million (\$141 million) at March 31, 2017 and 2018, respectively.

10 Privately placed bonds

The amount guaranteed by banking subsidiaries to privately placed bonds (stipulated by Article 2-3 of the Financial Instruments and Exchange Law) in "Securities" was ¥42,675 million and ¥39,647 million (\$373 million) at March 31, 2017 and 2018, respectively.

11 Net assets

Under the Company Law of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company 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 of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. 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 being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the 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 unconsolidated financial statements of the Bank in accordance with the Company Law of Japan.

In accordance with the customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period in which the stockholders' approval has been obtained. Retained earnings at March 31, 2018 include the amount representing the year-end cash dividend of ¥2,809 million (\$26 million), ¥9.00 (\$0.08) per share, which was approved at the stockholders' meeting held on June 27, 2018.

12 Cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2017 and 2018, was as follows:

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Cash and due from banks	¥1,253,275	¥1,511,177	\$14,224
Foreign currency deposits with banks	(8,115)	(8,496)	(80)
Cash and cash equivalents	¥1,245,160	¥1,502,680	\$14,144

Significant non-money transactions

Hirogin Utsumiya Securities Co., Ltd. has been included in the scope of consolidation as it became a wholly owned subsidiary. The increased assets and liabilities due to consolidation were as follows:

	Millions of yen	Millions of U.S. dollars
	2018	2018
Current assets	¥24,236	\$228
Non-current assets	611	6
Total assets	¥24,847	\$234
Current liabilities	¥15,607	\$147
Non-current liabilities	43	0
Total liabilities	¥15,650	\$147

14 Derivative transactions

Derivative transactions to which hedge accounting is not applied

Contracted amount (including notional principal amount), fair value and unrealized gains or losses of financial derivatives at March 31, 2017 and 2018 were as follows:

Interest related:

Year ended March 31, 2017

Items not traded on exchanges	Type	Millions of yen			
		Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
	Interest rate swaps*:				
	Receive fixed, pay variable	¥132,456	¥100,095	¥ 3,549	¥ 3,549
	Receive variable, pay fixed	132,420	100,085	(2,670)	(2,670)
	Receive variable, pay variable	—	—	—	—
	Interest rate options*:				
	Sell	2,800	2,800	(8)	8
	Buy	2,800	2,800	8	(5)
	Other contracts*:				
	Sell	—	—	—	—
	Buy	—	—	—	—
	Total	¥ —	¥ —	¥ 878	¥ 880

13 Lease transactions

Finance leases

Tangible fixed assets in lease assets mainly consisted of branches. The depreciation method of lease assets is shown in "3. Significant accounting policies."

Finance leases other than those that transfer the ownership of the leased property to the lessees which commenced in fiscal years beginning prior to April 1, 2008 are accounted for in a similar way to operating leases.

Operating leases

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

	Millions of yen	Millions of U.S. dollars
	2018	2018
Due within 1 year	¥ 4	\$0
Due after 1 year	7	0
Total	¥12	\$0

Year ended March 31, 2018

		Millions of yen			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Interest rate swaps*:				
	Receive fixed, pay variable	¥100,356	¥90,390	¥ 2,738	¥ 2,738
	Receive variable, pay fixed	100,342	90,390	(1,961)	(1,961)
	Receive variable, pay variable	—	—	—	—
	Interest rate options*:				
	Sell	2,533	2,533	(2)	10
	Buy	2,533	2,533	2	(8)
	Other contracts*:				
	Sell	—	—	—	—
	Buy	—	—	—	—
	Total	¥ —	¥ —	¥ 777	¥ 779

		Millions of U.S. dollars			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Interest rate swaps*:				
	Receive fixed, pay variable	\$945	\$851	\$ 26	\$ 26
	Receive variable, pay fixed	944	851	(19)	(19)
	Receive variable, pay variable	—	—	—	—
	Interest rate options*:				
	Sell	24	24	(0)	0
	Buy	24	24	0	(0)
	Other contracts*:				
	Sell	—	—	—	—
	Buy	—	—	—	—
	Total	\$ —	\$ —	\$ 7	\$ 7

Notes: 1. The unrealized gains or losses on interest rate swaps, interest rate options and other contracts are recognized in the consolidated statements of income.

2. Fair value of transactions listed on exchanges is calculated using the closing prices on the Tokyo Financial Exchange and others. Fair value of OTC transactions is calculated using the discounted present value method and option pricing models.

Currency related:

Year ended March 31, 2017

		Millions of yen			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Currency swaps*	¥672,338	¥357,692	¥ 164	¥1,072
	Forward foreign exchange contracts*:				
	Sell	62,054	8,902	596	596
	Buy	59,674	8,868	(384)	(384)
	Currency options*:				
	Sell	169,862	56,422	(4,439)	904
	Buy	169,862	56,422	4,439	(383)
	Total	¥ —	¥ —	¥ 377	¥1,805

Year ended March 31, 2018

		Millions of yen			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Currency swaps*	¥411,637	¥257,397	¥ 129	¥ 207
	Forward foreign exchange contracts*:				
	Sell	43,733	6,479	1,278	1,278
	Buy	43,723	6,130	(654)	(654)
	Currency options*:				
	Sell	145,553	65,823	(4,305)	1,292
	Buy	145,553	65,823	4,305	(592)
	Total	¥ —	¥ —	¥ 752	¥1,530

		Millions of U.S. dollars			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Currency swaps*	\$3,875	\$2,423	\$ 1	\$ 2
	Forward foreign exchange contracts*:				
	Sell	412	61	12	12
	Buy	412	58	(6)	(6)
	Currency options*:				
	Sell	1,370	620	(41)	12
	Buy	1,370	620	41	(6)
	Total	\$ —	\$ —	\$ 7	\$14

Notes: 1. The unrealized gains or losses on currency swaps, forward foreign exchange contracts and currency options are recognized in the consolidated statements of income.
2. Fair value is calculated using the discounted present value method and option pricing models.

Bond related:

There were no bond related transactions for the years ended March 31, 2017 and 2018.

Others:

Year ended March 31, 2017

		Millions of yen			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Earthquake derivative*:				
	Sell	¥900	¥—	¥(10)	¥—
	Buy	900	—	10	—
	Total	¥ —	¥—	¥ —	¥—

Year ended March 31, 2018

		Millions of yen			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Earthquake derivative*:				
	Sell	¥4,575	¥—	¥(55)	¥—
	Buy	4,575	—	55	—
	Total	¥ —	¥—	¥ —	¥—

		Millions of U.S. dollars			
		Contracted amount		Fair value	Unrealized gains (losses)
Type		Over one year			
Items not traded on exchanges	Earthquake derivative*:				
	Sell	\$43	\$—	\$ (1)	\$—
	Buy	43	—	1	—
	Total	\$—	\$—	\$—	\$—

* Transactions above that fair value are not readily determinable are stated at cost.

Derivative transactions to which hedge accounting is applied

The notional principal amount and fair value of financial derivatives at March 31, 2017 and 2018 were as follows:

Interest related:

Year ended March 31, 2017

				Millions of yen	
				Contracted amount	
Method of hedge accounting	Type	Main hedged items	Over one year	Fair value	
Deferral method	Interest rate swaps:	Loans and bills discounted			
	Receive fixed, pay variable		¥120,000	¥120,000	¥(113)
	Receive variable, pay fixed		58,444	43,916	(268)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		99,647	93,187	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	1,000	Note 3
	Total		¥ —	¥ —	¥(381)

Year ended March 31, 2018

Method of hedge accounting	Type	Main hedged items	Millions of yen		
			Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted			
	Receive fixed, pay variable		¥ 70,000	¥ 20,000	¥ 0
	Receive variable, pay fixed		111,831	107,831	(333)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		101,918	75,580	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	1,000	Note 3
	Total		¥ —	¥ —	¥(333)

Method of hedge accounting	Type	Main hedged items	Millions of U.S. dollars		
			Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted			
	Receive fixed, pay variable		\$ 659	\$ 188	\$ 0
	Receive variable, pay fixed		1,053	1,015	(3)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		959	711	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		9	9	Note 3
	Total		\$ —	\$ —	\$(3)

Notes: 1. As for interest rate swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 24.

2. Fair value of transactions listed on exchanges is calculated using the closing prices on the Tokyo Financial Exchange and others. Fair value of OTC transactions is calculated using the discounted present value method, option pricing models and prices obtained from the counterparty financial institutions.

3. Interest rate swaps which meet specific matching criteria are accounted for as a component of hedged loans and bills discounted. Therefore, the fair value of those interest rate swaps is included in the fair value of loans and bills discounted in fair value information shown in "19. Financial instruments and related disclosures."

Currency related:

Year ended March 31, 2017

Method of hedge accounting	Type	Main hedged items	Millions of yen		
			Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted	¥ 69,812	¥69,747	¥ 544
	Forward foreign exchange contracts	in foreign currencies, securities	123,350	—	1,124
	Total		¥ —	¥ —	¥1,669

Year ended March 31, 2018

Method of hedge accounting	Type	Main hedged items	Millions of yen		
			Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted	¥76,376	¥65,752	¥2,912
	Forward foreign exchange contracts	in foreign currencies, securities	73,165	—	477
	Total		¥ —	¥ —	¥3,390

Method of hedge accounting	Type	Main hedged items	Millions of U.S. dollars		
			Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted	\$719	\$619	\$27
	Forward foreign exchange contracts	in foreign currencies, securities	689	—	4
	Total		\$ —	\$ —	\$32

Notes: 1. The Bank has applied the deferred hedge accounting stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002).

2. Fair value has been measured on the basis of the calculation of discounted or present value.

15 Employees' severance and retirement benefits

For the years ended March 31, 2017 and 2018

Change in projected benefit obligation

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Projected benefit obligation, beginning of the year	¥46,434	¥45,916	\$432
Service costs—benefits earned during the year	1,187	1,180	11
Interest cost on projected benefit obligation	22	21	0
Actuarial differences incurred	1,129	230	2
Benefits paid	(2,968)	(2,807)	(26)
Other	110	111	1
Projected benefit obligation at the end of the year	¥45,916	¥44,651	\$420

Change in plan assets

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Plan assets, beginning of the year	¥88,056	¥91,956	\$866
Expected return on plan assets	3,522	3,678	35
Actuarial differences incurred	1,805	4,933	46
Contribution by the business owner	737	737	7
Benefits paid	(2,272)	(2,194)	(21)
Other	107	106	1
Plan assets at the end of the year	¥91,956	¥99,217	\$934

The adjustment of the ending balances of projected benefit obligation and plan assets to net defined benefit liability and net defined benefit asset

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Funded projected benefit obligation	¥ 45,877	¥ 44,609	\$ 420
Plan assets	(91,956)	(99,217)	(934)
	(46,078)	(54,607)	(514)
Unfunded projected benefit obligation	38	42	0
Net on consolidated balance sheets	¥(46,039)	¥(54,565)	\$(514)

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Net defined benefit liability	¥ 38	¥ 42	\$ 0
Net defined benefit asset	(46,078)	(54,607)	(514)
Net on consolidated balance sheets	¥(46,039)	¥(54,565)	\$(514)

Severance and retirement benefit expenses

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Service costs—benefits earned during the year	¥ 1,187	¥ 1,180	\$ 11
Interest cost on projected benefit obligation	22	21	0
Expected return on plan assets	(3,522)	(3,678)	(35)
Amortization of actuarial differences	(3)	(347)	(3)
Severance and retirement benefit expenses calculated by simplified method	3	4	0
Severance and retirement benefit expenses	¥(2,312)	¥(2,820)	\$(27)

Remeasurements of accumulated defined benefit plans

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Actuarial differences	¥671	¥4,354	\$41

Remeasurements of defined benefit plans

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Unrecognized actuarial differences	¥(7,263)	¥(11,617)	\$(109)

Classification of plan assets

	2017	2018
Bonds	17.1%	3.9%
Securities	67.9	70.7
Cash and due from banks	0.1	0.1
Other	14.9	25.3
Plan assets at the end of the year	100%	100%

Assumptions

	2017	2018
Discount rate	0.2%	0.2%
Rates of expected return on plan assets	4.0%	4.0%
Expected increase rate in salary	2.9%	2.9%

Defined contribution pension plan

The amount required to be contributed by the Bank is ¥295 million and ¥296 million (\$3 million) for the years ended March 31, 2017 and 2018, respectively.

16 Income taxes

Income taxes in the consolidated statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The statutory tax rate was approximately 31% and 31% as of March 31, 2017 and 2018.

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

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Deferred tax assets:			
Reserve for possible loan losses	¥ 15,237	¥ 14,932	\$ 141
Write-down of securities	733	747	7
Depreciation	1,322	1,865	18
Other	3,677	4,860	46
Subtotal deferred tax assets	20,971	22,406	211
Valuation allowance	(970)	(978)	(9)
Total deferred tax assets	20,001	21,428	202
Deferred tax liabilities:			
Net defined benefit assets	(7,678)	(10,156)	(96)
Gain on securities contributed to employee retirement benefit trust	(691)	(691)	(7)
Net unrealized holding gains on securities available for sale	(16,721)	(20,721)	(195)
Total deferred tax liabilities	(25,092)	(31,569)	(297)
Net deferred tax assets	¥ (5,090)	¥(10,140)	\$ (95)

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2017 and 2018 were as follows:

	2017	2018
Normal effective statutory tax rate	31.0%	31.0%
Reconciliation:		
Change in valuation allowance	(1.5)	(0.0)
Permanently tax-exempt income	(0.7)	(1.5)
Gains on negative goodwill	—	(3.5)
Loss on step acquisitions	—	1.8
Dividend income offset of consolidated subsidiaries	0.2	0.9
Other	(0.0)	0.2
Actual effective tax rate	28.8%	28.8%

17 Segment information

Operations of the Bank and its consolidated subsidiaries include appraisal of collateral premises and land, servicing businesses and other businesses, in addition to banking business. As such operations are immaterial, separate segment information is not required to be disclosed for the years ended March 31, 2017 and 2018.

Income by service

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Lending	¥ 60,995	¥ 61,427	\$ 578
Investment in securities	42,464	24,331	229
Fees and commissions	28,907	31,732	299
Other	5,897	7,418	70
Total	¥138,263	¥124,908	\$1,176

18 Related party transactions

Not disclosed as immaterial

19 Financial instruments and related disclosures

(1) Policy for financial instruments

The Bank and its consolidated subsidiaries conduct financial services such as financial instruments transactions, credit guarantees, leasing and credit card services, with banking as their core activity. Among these businesses, core banking operations include fund procurement through deposit-taking and fund management through loans and investment security portfolios. The financial assets and liabilities of the Bank are subject to Asset Liability Management ("ALM," comprehensive management of assets and liabilities) in such a way as to prevent adverse impact from interest-rate, foreign-exchange and market-value fluctuation.

(2) Nature and extent of risk arising from financial instruments

Loans and bills discounted are primarily provided to domestic institutional and individual customers, in which the Bank is exposed to customers' credit risk. Securities primarily consist of stocks, bonds and investment trusts held by the Bank for the purposes of building and maintaining good relationships with customers, sole investment objective and held-to-maturity investment objective.

They are exposed to risk of fluctuation in interest rates and prices in the bond/stock markets and in addition, credit risk arising from downgrading of the issuer's credit rating. Borrowed money, bonds and commercial papers are exposed to liquidity risk, the risk that the Bank is unable to meet its obligations as they fall due.

The Bank enters into the following derivative transactions, such as currency swaps and forward foreign exchange contracts to meet the financial needs of customers and interest rate swaps for the purpose of optimizing ALM. As part of optimizing ALM, the Bank uses hedge accounting, specifying derivatives such as interest rate swaps as hedging instruments, and loans as hedged items.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of sustaining losses due to reduction or loss of value of assets due to deteriorating credit circumstances at a borrower.

(Credit screening system)

For all major loans made by branches, the Bank has in place a system of rigorous credit-screening carried out by a credit-screening department, which is independent of the sales departments. In addition to establishing teams for each sector, the credit-screening department has established a dedicated team to ensure sounder borrower finances and effective corporate rehabilitation, and also offers support to management trying to improve operational management.

In evaluating a customer application for a loan, the Bank will give a considered response, in line with "The Basic Principles Prescribing Credit" set up by the Board of Directors, turning down any application that runs counter to the law or public morality and taking careful account of profitability and public benefit, in addition to fund use, repayment source, and guarantee and collateral arrangements.

In cases where customers apply for a review of borrowing terms, the Bank will give a considered response taking account of actual circumstances faced by the customer, in line with "The Basic Principles for Facilitation of Finance" set up by the Board of Directors. Appropriate and prompt credit screening is carried out after joint appraisal of a customer's needs and concerns—and not just based on a mechanical, uniform judgment informed only by financial statements and other superficial statistics and industry-specific guidelines.

To strengthen and expand the credit-screening system, the Bank seeks to duly appraise the creditworthiness of a given company through case-by-case credit management and takes continuous measures to improve the credit-screening skills of employees by various kinds of training program.

(Risk management using the credit rating system)

The Bank has introduced the credit rating system to give an objective overview of credit risk on loans. Based on financial and other data indicating the level of creditworthiness of the borrower, the Bank has divided borrowers into 12 grades, and continuously monitors changes in credit risk. The Bank then carries out credit risk quantification based on these grades, to assess credit risk on loan assets and set baseline interest rates on loans.

The Bank also accumulates and organizes the data necessary for quantification of credit risks, such as the default rate within each grade and extent of asset recovery from customers in default, and uses a highly sophisticated quantification technique to obtain a still more detailed picture of risk-monitored assets.

(Self-assessment of assets)

In parallel with the credit rating system, the Bank conducts strict checks into the soundness of loans and other assets through annual assessment. Screening is carried out by particular Bank branches in light of the financial situation faced by the borrower, and the results are checked by the credit-screening department of the Head Office. In addition, the Risk Management Division extracts important information and conducts a rigorous review of screening due process and accuracy, and the Audit Division carries out the process audit. Based on this self-assessment of assets, in cases where there is no realistic prospect of asset recovery, provisions are made to reserve for possible loan losses to cover the entire value of the sum at risk. This provision is then recorded as a loss for the fiscal year under review. In this way the Bank ensures asset soundness on a continuous basis.

Market risk management

(i) Market risk management system

Market risk which is associated with change in the value of financial instruments from fluctuations in interest rates, securities prices, foreign exchange rates, and other market-related indices, has an effect on our financial performance. The Bank controls market risk to stabilize earnings by endeavoring to improve and strengthen ALM.

Management of trading account risk

With regard to the trading accounts (for securities and off-balance-sheet transactions that target short-term gains on sales or purchases, and trading at the behest of customers), the Bank has special management mechanisms in place to guard against risk, since these transactions differ qualitatively from banking account transactions (involving deposits and loans, investment securities, and related transactions). The Bank has set up designated trading accounts, and is strengthening their management using transparent accounting procedures based on fair value.

For proprietary position dealing, the Bank limits the position by complying with strict rules in terms of position limits and loss-cutting measures. For positions and transactions on behalf of customers, the Bank follows a policy of square positions by fully covering them through the interbank market.

(ii) Quantitative information relating to market risk

(a) Financial products for trading purposes

The Bank holds securities and derivative transactions including interest-rate and currency swaps for trading purposes.

To measure the amount of market risk, the Bank adopts VaR (Value at Risk) using the variance-covariance method (observation period: one year; confidence interval: 99.9%; holding period: one day).

As of March 31, 2018, the entire VaR of the Bank was ¥1 million (\$0 million).

(b) Financial products held for other than trading purposes

The Bank holds various products such as loans, securities, deposits, corporate bonds, and derivatives for other than trading purposes.

To measure the amount of market risk associated with these products, the Bank uses the VaR method using the variance-covariance method (observation period: one year; confidence interval: 99.9%; holding period: six months for strategic equity investments, three months for securities other than strategic equity investments, and one year for others).

The total VaR as of March 31, 2018 was ¥54,186 million (\$510 million). Within liquid deposits, the Bank recognizes interest risks related to deposits left in the Bank for long periods without withdrawal, which are allocated each fiscal period as core deposits.

(c) VaR adequacy

The relationship between the VaR calculated with the model and actual gains and losses data is back-tested. The Bank has confirmed that the calculating model used for these measurements captures market risk with the necessary degree of accuracy.

However, because VaR is a method of measuring the amount of market risk in terms of the probability of a certain event happening based on past statistical variation, it cannot be used for assessing risk in a market environment characterized by abnormal change.

Management of liquidity risks related to fund procurement

Liquidity risk is the risk of incurring losses due to a decline in cash flow or being obliged to procure funds at interest rates that are markedly higher than usual due to an unexpected outflow of cash.

The Bank has secured highly liquid assets such as government bonds to prepare for cash outflows in times of short-term stress. Moreover, to mitigate long-term fund procurement risks, the Bank manages the gap between low-liquidity loans and stable procurement.

The Bank has a structure to conduct liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used.

Since the calculations of the reasonably calculated prices are implemented under certain conditions and assumptions, the result of calculations would differ if such calculations are made under different conditions and assumptions.

Fair values of financial instruments as of March 31, 2017 and 2018 were as follows:

	Millions of yen		
	Year ended March 31, 2017		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	¥1,253,275	¥1,253,275	¥ —
(2) Call loans and bills purchased	17,396	17,396	—
(3) Financial receivables purchased	7,091	7,091	—
(4) Trading assets* ²			
Securities held for trading purposes	919	919	—
(5) Money held in trust	156	156	—
(6) Securities:			
Securities held-to-maturity	—	—	—
Securities available-for-sale	1,745,883	1,745,883	—
(7) Loans and bills discounted	5,605,677		
Reserve for possible loan losses* ¹	(34,915)		
Net	5,570,762	5,708,736	137,973
Total assets	¥8,595,484	¥8,733,458	¥137,973
(1) Deposits	¥6,985,538	¥6,986,113	¥ 574
(2) Negotiable certificates of deposit	310,574	310,572	(1)
(3) Call money and bills sold	3,365	3,365	—
(4) Payables under repurchase agreements	137,187	137,187	—
(5) Deposits received for bonds lending/borrowing transactions	401,641	401,641	—
(6) Borrowed money	453,379	454,281	902
(7) Bonds	20,000	20,174	174
Total liabilities	¥8,311,687	¥8,313,336	¥ 1,649
Derivative instruments* ^{1, 3} :			
Hedge accounting is not applied	¥ 1,187	¥ 1,187	¥ —
Hedge accounting is applied	1,287	1,287	—
Derivative instruments total	¥ 2,475	¥ 2,475	¥ —

	Millions of yen		
	Year ended March 31, 2018		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	¥1,511,177	¥1,511,177	¥ —
(2) Call loans and bills purchased	18,521	18,521	—
(3) Financial receivables purchased	7,424	7,424	—
(4) Trading assets* ²			
Securities held for trading purposes	917	917	—
(5) Money held in trust	8,256	8,256	—
(6) Securities:			
Securities held-to-maturity	—	—	—
Securities available-for-sale	1,371,648	1,371,648	—
(7) Loans and bills discounted	5,861,796		
Reserve for possible loan losses* ¹	(32,737)		
Net	5,829,059	5,967,373	138,314
Total assets	¥8,747,005	¥8,885,320	¥138,314
(1) Deposits	¥7,170,925	¥7,171,400	¥ 475
(2) Negotiable certificates of deposit	270,129	270,131	1
(3) Call money and bills sold	50,000	50,000	—
(4) Payables under repurchase agreements	111,329	111,329	—
(5) Deposits received for bonds lending/borrowing transactions	262,859	262,859	—
(6) Borrowed money	585,551	586,266	715
(7) Bonds	—	—	—
Total liabilities	¥8,450,793	¥8,451,986	¥ 1,192
Derivative instruments* ^{1, 3} :			
Hedge accounting is not applied	¥ 1,519	¥ 1,519	¥ —
Hedge accounting is applied	3,056	3,056	—
Derivative instruments total	¥ 4,576	¥ 4,576	¥ —

	Millions of U.S. dollars		
	Year ended March 31, 2018		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	\$14,224	\$14,224	\$ —
(2) Call loans and bills purchased	174	174	—
(3) Financial receivables purchased	70	70	—
(4) Trading assets*2			
Securities held for trading purposes	9	9	—
(5) Money held in trust	78	78	—
(6) Securities:			
Securities held-to-maturity	—	—	—
Securities available-for-sale	12,911	12,911	—
(7) Loans and bills discounted	55,175		
Reserve for possible loan losses*1	(308)		
Net	54,867	56,168	1,301
Total assets	\$82,333	\$83,634	\$ 1,301
(1) Deposits	\$67,497	\$67,502	\$ 5
(2) Negotiable certificates of deposit	2,543	2,543	0
(3) Call money and bills sold	471	471	—
(4) Payables under repurchase agreements	1,048	1,048	—
(5) Deposits received for bonds lending/borrowing transactions	2,474	2,474	—
(6) Borrowed money	5,511	5,518	7
(7) Bonds	—	—	—
Total liabilities	\$79,544	\$79,556	\$ 12
Derivative instruments*1, 3:			
Hedge accounting is not applied	\$ 14	\$ 14	\$ —
Hedge accounting is applied	29	29	—
Derivative instruments total	\$ 43	\$ 43	\$ —

*1. The amounts only include the general reserve for possible loan losses and the specific reserve for possible loan losses provided to "Loans and bills discounted." Reserve for possible loan losses provided in "Derivative instruments" is directly deducted from the carrying amounts due to immateriality.

*2. Derivative instruments are not included in trading assets.

*3. Derivative instruments recorded in "Trading assets," "Liabilities," "Other assets" and "Other liabilities" are aggregated and shown herein. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets.

(Note 1) Valuation methodology for financial instruments

Assets

(1) Cash and due from banks

The carrying amounts of due from banks with no maturities approximate fair values because they have no maturity. For due from banks with maturities, the carrying amounts approximate fair value because most of them have short maturities.

(2) Call loans and bills purchased

The carrying amounts of call loans and bills purchased approximate fair values because most of these instruments have short maturities.

(3) Financial receivables purchased

Financial receivables purchased which have been divided by priority such as subordinated and preferred interest and which have multiple owners are measured at the quoted price from a third party. The carrying amounts of other financial receivables purchased approximate fair values because most of these instruments have short maturities.

(4) Trading assets

The fair values of securities held for trading purposes are measured at observable market prices or quoted price from a third party.

(5) Money held in trust

The fair values of money held in trust, which have an external rating, are determined using the discounted cash flow method. The fair values of other money held in trust approximate fair values because most consists of deposits with no maturities.

(6) Securities

The fair values of marketable equity securities are measured at market prices. The fair values of bonds are measured at market prices or quoted price from a third party.

The fair values of investment trusts are measured at the published benchmark price or quoted price from a third party.

The value reasonably estimated for such bonds was calculated by discounting the estimated future cash flows at the rate derived from yields of Japanese government bonds. The yields of Japanese government bonds and volatility are major variables in pricing.

(7) Loans and bills discounted

The fair values of loans and bills discounted are determined by discounting expected cash flows at the rates that would be applied for the new same contract for each type of loan product, interest, period of time and internal ratings-based classification.

For loans to obligors "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," since the reserve is provided based on amounts expected to be collected through the disposal of collateral or execution of guarantees, the net carrying amount as of the consolidated balance sheet date is the reasonable estimate of the fair value of those loans.

Loans with no maturities approximate fair values because most are without concern of collectability.

Liabilities

(1) Deposits, (2) Negotiable certificates of deposit

The fair values of demand deposits are recognized as the payment at the date of the consolidated balance sheets. The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for the same, new contracts.

(3) Call money and bills sold, (4) Payables under repurchase agreements, (5) Deposits received for bonds lending/borrowing transactions

The carrying amounts of call money and bills sold, deposits received for bonds lending/borrowing transactions approximate fair values, because these instruments have short maturities.

(6) Borrowed money

The fair values of borrowed money are determined by discounting the contractual cash flows at the rate that would be applied for the same, new contracts. The carrying amounts of borrowed money with short maturities approximate fair values.

(7) Bonds

The fair values of bonds are measured at quoted price from a third party.

Derivative instruments

The fair values of derivative instruments are measured at the market prices or determined using the discounted cash flow method or option pricing models.

(Note 2) Financial instruments whose fair value cannot be reliably determined

	Carrying amount		
	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Equity securities without readily available market price*1, 2	¥13,881	¥ 6,753	\$ 64
Other	1,697	4,315	41
Total	¥15,579	¥11,068	\$104

*1. Equity securities without readily available market prices are out of the scope of fair value disclosure because their fair value cannot be reliably determined.

*2. Impairment loss on equity securities without readily available market prices was ¥9 million and ¥1 million (\$0 million) for the years ended March 31, 2017 and 2018, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

As of March 31, 2017

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	¥1,172,672	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	17,396	—	—	—	—	—
Financial receivables purchased	7,091	—	—	—	—	—
Money held in trust	156	—	—	—	—	—
Securities:	417,455	455,551	126,254	147,177	94,272	319,935
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	417,455	455,551	126,254	147,177	94,272	319,935
National government bonds	347,500	307,100	45,000	25,000	—	42,500
Local government bonds	27,420	51,391	9,490	—	48,660	—
Bonds	11,776	49,885	18,893	13,028	3,647	111,737
Others	30,758	47,173	52,870	109,149	41,964	165,697
Loans and bills discounted*	622,789	580,022	730,208	483,383	676,365	1,823,741
Total	¥2,237,561	¥1,035,573	¥856,463	¥630,561	¥770,637	¥2,143,676

As of March 31, 2018

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	¥1,431,761	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	18,521	—	—	—	—	—
Financial receivables purchased	7,424	—	—	—	—	—
Money held in trust	8,256	—	—	—	—	—
Securities:	304,727	207,169	120,151	46,474	90,217	376,228
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	304,727	207,169	120,151	46,474	90,217	376,228
National government bonds	245,000	77,100	45,000	10,000	—	94,300
Local government bonds	18,479	36,812	10,360	18,350	35,745	—
Bonds	32,883	27,947	17,648	7,293	5,641	118,770
Others	8,365	65,309	47,142	10,830	48,830	163,158
Loans and bills discounted*	679,833	576,258	744,037	512,207	689,815	1,924,751
Total	¥2,450,525	¥783,427	¥864,188	¥558,681	¥780,032	¥2,300,980

	Millions of U.S. dollars					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	\$13,477	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills purchased	174	—	—	—	—	—
Financial receivables purchased	70	—	—	—	—	—
Money held in trust	78	—	—	—	—	—
Securities:	2,868	1,950	1,131	438	849	3,541
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	2,868	1,950	1,131	438	849	3,541
National government bonds	2,306	726	424	94	—	888
Local government bonds	174	346	97	173	336	—
Bonds	309	263	166	69	53	1,118
Others	79	615	444	102	460	1,536
Loans and bills discounted*	6,399	5,424	7,003	4,821	6,493	18,117
Total	\$23,066	\$7,374	\$8,134	\$5,259	\$7,342	\$21,658

* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to "legally bankrupt" borrowers, loans to "virtually bankrupt" borrowers and loans to "possibly bankrupt" borrowers amounting to ¥55,231 million and ¥52,433 million (\$494 million), is not included in the above table as of March 31, 2017 and 2018, respectively. Loans that do not have contractual maturity, amounting to ¥633,936 million and ¥682,459 million (\$6,424 million), are not included either.

(Note 4) Maturity analysis for interest-bearing liabilities as of March 31, 2017 and 2018

As of March 31, 2017

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	¥6,743,967	¥220,313	¥ 18,603	¥1,035	¥ 1,618	¥ —
Negotiable certificates of deposit	307,939	2,635	—	—	—	—
Call money and bills sold	3,365	—	—	—	—	—
Payables under repurchase agreements	137,187	—	—	—	—	—
Deposits received for bonds lending/ borrowing transactions	401,641	—	—	—	—	—
Borrowed money	17,257	112,810	303,588	1,977	16,168	1,577
Bonds	20,000	—	—	—	—	—
Total	¥7,631,358	¥335,759	¥322,191	¥3,013	¥17,786	¥1,577

As of March 31, 2018

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	¥6,959,597	¥191,777	¥ 17,201	¥ 987	¥ 1,362	¥ —
Negotiable certificates of deposit	269,176	953	—	—	—	—
Call money and bills sold	50,000	—	—	—	—	—
Payables under repurchase agreements	111,329	—	—	—	—	—
Deposits received for bonds lending/ borrowing transactions	262,859	—	—	—	—	—
Borrowed money	75,857	309,046	181,779	1,551	16,080	1,235
Bonds	—	—	—	—	—	—
Total	¥7,728,819	¥501,776	¥198,980	¥2,539	¥17,442	¥1,235

	Millions of U.S. dollars					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	\$65,508	\$1,805	\$ 162	\$ 9	\$ 13	\$—
Negotiable certificates of deposit	2,534	9	—	—	—	—
Call money and bills sold	471	—	—	—	—	—
Payables under repurchase agreements	1,048	—	—	—	—	—
Deposits received for bonds lending/ borrowing transactions	2,474	—	—	—	—	—
Borrowed money	714	2,909	1,711	15	151	12
Bonds	—	—	—	—	—	—
Total	\$72,749	\$4,723	\$1,873	\$24	\$164	\$12

* Deposits on demand are included in "Less than 1 year."

20 Stock options

A) The Bank recorded stock option expenses in "General and administrative expenses" of ¥89 million and ¥20 million (\$0 million) for the years ended March 31, 2017 and 2018, respectively.

B) Outline of stock options, size and changes in the year ended March 31, 2018

(1) Outline of stock options

	Stock options 2010	Stock options 2011	Stock options 2012
Persons to whom stock options are granted	Directors of the Bank: 12	Directors of the Bank: 11	Directors of the Bank: 10
Type and number of shares*	Common stock: 191,600	Common stock: 179,150	Common stock: 225,050
Date of rights granted	July 28, 2010	July 27, 2011	July 27, 2012
Condition for vesting	Not applicable	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable	Not applicable
Period for exercise of stock options	From July 29, 2010 to July 28, 2040	From July 28, 2011 to July 27, 2041	From July 28, 2012 to July 27, 2042

	Stock options 2013	Stock options 2014	Stock options 2015
Persons to whom stock options are granted	Directors of the Bank: 10	Directors of the Bank: 10	Directors of the Bank: 8
Type and number of shares*	Common stock: 133,700	Common stock: 154,700	Common stock: 82,500
Date of rights granted	July 25, 2013	July 30, 2014	July 31, 2015
Condition for vesting	Not applicable	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable	Not applicable
Period for exercise of stock options	From July 26, 2013 to July 25, 2043	From July 31, 2014 to July 30, 2044	From August 1, 2015 to July 31, 2045

	Stock options 2016
Persons to whom stock options are granted	Directors of the Bank: 7
Type and number of shares*	Common stock: 125,350
Date of rights granted	July 29, 2016
Condition for vesting	Not applicable
Eligible service period	Not applicable
Period for exercise of stock options	From July 30, 2016 to July 29, 2046

* The table above presents the number of common stock converted from the stock options.

(2) Size and changes of stock options

a. Number of stock options for the year ended March 31, 2018

	Stock options 2010	Stock options 2011	Stock options 2012	Stock options 2013	Stock options 2014	Stock options 2015	Stock options 2016
Non-vested:							
Previous fiscal year-end outstanding	—	—	—	—	—	—	125,350
Granted	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	125,350
Outstanding on March 31, 2018	—	—	—	—	—	—	—
Vested:							
Previous fiscal year-end outstanding	30,300	32,100	57,150	46,350	78,500	63,550	—
Vested	—	—	—	—	—	—	125,350
Exercised	—	—	—	—	13,000	8,800	17,050
Forfeited	—	—	—	—	—	—	—
Exercisable	30,300	32,100	57,150	46,350	65,500	54,750	108,300

Note: The figures have been stated taking into account the share consolidation of October 1, 2017 (ratio of 1 share for 2 shares).

b. Price information for the year ended March 31, 2018

	Yen	U.S. dollars
Stock options 2010		
Exercise price	¥ 1	\$ 0
Average exercise price	—	—
Fair value at the granted date	652	6

	Yen	U.S. dollars
Stock options 2011		
Exercise price	¥ 1	\$ 0
Average exercise price	—	—
Fair value at the granted date	644	6

	Yen	U.S. dollars
Stock options 2012		
Exercise price	¥ 1	\$ 0
Average exercise price	—	—
Fair value at the granted date	446	4

	Yen	U.S. dollars
Stock options 2013		
Exercise price	¥ 1	\$ 0
Average exercise price	—	—
Fair value at the granted date	820	8

	Yen	U.S. dollars
Stock options 2014		
Exercise price	¥ 1	\$ 0
Average exercise price	998	9
Fair value at the granted date	914	9

	Yen	U.S. dollars
Stock options 2015		
Exercise price	¥ 1	\$ 0
Average exercise price	998	9
Fair value at the granted date	1,346	13

	Yen	U.S. dollars
Stock options 2016		
Exercise price	¥ 1	\$ 0
Average exercise price	998	9
Fair value at the granted date	654	6

Note: The figures reflect the effect caused by the share consolidation of October 1, 2017 (ratio of 1 share for 2 shares).

(3) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of stock options that will be forfeited in the future.

21 Comprehensive income

Reclassification adjustments and the related tax effects concerning other comprehensive income for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Net unrealized holding gains (losses) on securities available for sale:			
The amount arising during the period	¥(29,804)	¥16,860	\$ 159
Reclassification adjustments	(8,328)	(3,959)	(37)
Before adjustments for tax effect	(38,132)	12,900	122
The amount of tax effect	11,823	(3,999)	(38)
Net unrealized holding gains (losses) on securities available for sale	(26,309)	8,900	84
Net deferred gains (losses) on hedging instruments, net of tax:			
The amount arising during the period	(925)	(1,708)	(16)
Reclassification adjustments	1,290	1,658	16
Before adjustments for tax effect	365	(50)	(0)
The amount of tax effect	(113)	15	0
Net deferred gains (losses) on hedging instruments, net of tax	252	(34)	(0)
Remeasurements of defined benefit plans:			
The amount arising during the period	675	4,702	44
Reclassification adjustments	(3)	(347)	(3)
Before adjustments for tax effect	671	4,354	41
The amount of tax effect	(208)	(1,349)	(13)
Remeasurements of defined benefit plans	463	3,004	28
Share of other comprehensive income of affiliated companies accounted for by equity method:			
The amount arising during the period	4	6	0
Reclassification adjustments	—	—	—
Share of other comprehensive income of affiliated companies accounted for by equity method	4	6	0
Total other comprehensive income	¥(25,589)	¥11,877	\$ 112

22 Business combination

Change of an affiliated company accounted for by the equity method into a wholly owned subsidiary

Hirogin Utsumiya Securities Co., Ltd., an affiliated company accounted for by the equity method, acquired common stock in treasury on June 1, 2017 and became a wholly owned subsidiary.

A) Outline of business combination

(1) Name of the acquired company and its business

Hirogin Utsumiya Securities Co., Ltd., (Financial instruments business)

(2) Main reason for business combination

The Bank aims to strengthen cooperation with Hirogin Utsumiya Securities Co., Ltd. and contribute valuable financial instruments and services with consideration for protection of customers' interests and improve customers' convenience, content and peace of mind.

(3) Date of business combination

June 1, 2017 (April 1, 2017 deemed the acquisition date)

(4) Legal form of business combination

Acquisition of common stock in treasury by the affiliated company accounted for by the equity method

(5) Name of the company after business combination

Hirogin Securities Co., Ltd.

(6) Percentage of voting rights acquired

Before acquisition: 50%

Acquisition percentage: 50%

After acquisition: 100%

(7) Main reason for decision to acquire the company

Bank aims to acquire majority of voting rights of the acquired company.

B) Period of business performances of the acquired company to be included in the consolidated statements of operations in the fiscal year ended March 31, 2018

From April 1, 2017 to March 31, 2018

C) Acquisition cost of the acquired company

(1) Acquisition cost of the acquired company

Fair value of Hirogin Utsumiya Securities Co., Ltd., as of the acquisition date: ¥5,000 million (\$47 million)

(2) Difference between the acquisition cost and the total amount of the acquisition cost

Loss on step acquisition ¥2,123 million (\$20 million)

D) Allocation of the acquisition cost

(1) The amount of assets and liabilities assumed on the acceptance date of business combination

	Millions of yen	Millions of U.S. dollars
Current assets	¥24,236	\$228
Non-current assets	611	6
Total assets	¥24,847	\$234
Current liabilities	¥15,607	\$147
Non-current liabilities	43	0
Total liabilities	¥15,650	\$147

(2) The amount and cause of negative goodwill

a. Negative goodwill

¥4,196 million (\$39 million)

b. The reason for negative goodwill

Negative goodwill was incurred as net asset value in current value exceeded the acquisition cost.

23 Significant subsequent events

Merger between consolidated subsidiaries

The Bank resolved the merger between Hirogin Mortgage Service Co., Ltd. and Hirogin Business Support Co., Ltd. at the Board of Directors meeting on April 27, 2018.

A) Outline of business combination

(1) Name and business of combined companies

Name of combined company: Hirogin Mortgage Service Co., Ltd.

Business of combined company: Investigation and evaluation of real estate collateral

Name of combined company: Hirogin Business Support Co., Ltd.

Business of combined company: Consolidated accounting, printing and bookbinding business

(2) Date of business combination

July 1, 2018

(3) Legal form of business combination

Absorption-type merger in which Hirogin Mortgage Service Co., Ltd. is the surviving company and Hirogin Business Support Co., Ltd. is the absorbed company

(4) Name of the company after business combination

Hirogin Business Service Co., Ltd.

(5) Others

This merger aims at efficiency of operations and further strengthening of the group management.

B) Outline of accounting treatment

The transaction is treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), as well as the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013).

Non-Consolidated Balance Sheets

THE HIROSHIMA BANK, LTD.
As of March 31, 2017 and 2018

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
ASSETS			
Cash and due from banks	¥1,252,600	¥1,509,905	\$14,212
Call loans and bills purchased	17,396	18,521	174
Financial receivables purchased	5,536	5,904	55
Trading assets	9,145	5,842	55
Money held in trust	156	156	1
Securities	1,765,068	1,393,440	13,116
Loans and bills discounted	5,605,192	5,852,316	55,086
Foreign exchanges	7,890	7,741	73
Other assets	54,292	82,094	773
Tangible fixed assets	91,974	91,473	861
Intangible fixed assets	10,235	9,420	89
Prepaid pension cost	38,814	42,989	405
Customers' liabilities for acceptances and guarantees	39,950	36,506	344
Reserve for possible loan losses	(35,775)	(33,474)	(315)
Reserve for investment losses	(4,901)	—	—
Total assets	¥8,857,577	¥9,022,839	\$84,929
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits	¥7,308,542	¥7,459,316	\$70,212
Call money and bills sold	3,365	50,000	471
Payables under repurchase agreements	137,187	111,329	1,048
Deposits received for bonds lending/borrowing transactions	401,641	262,859	2,474
Trading liabilities	7,183	4,023	38
Borrowed money	453,379	581,122	5,470
Foreign exchanges	163	224	2
Bonds	20,000	—	—
Due to trust account	22	42	0
Other liabilities	34,882	28,892	272
Reserve for reimbursement of deposits	1,461	4,447	42
Reserve for point loyalty programs	86	89	1
Reserve for stock payments	—	176	2
Reserve for loss related to Head Office rebuilding	1,095	1,987	19
Deferred tax liabilities	2,891	7,274	68
Deferred tax liabilities for land revaluation reserve	13,613	13,613	128
Acceptances and guarantees	39,950	36,506	343
Total liabilities	8,425,466	8,561,905	80,590
Net Assets:			
Common stock:			
Authorized – 1,000,000,000 shares			
Issued – 312,633,171 shares	54,573	54,573	514
Capital surplus	30,742	30,745	289
Retained earnings	280,157	300,948	2,833
Common stock in treasury	(423)	(1,246)	(12)
Total stockholders' equity	365,050	385,022	3,624
Net unrealized holding gains on securities available for sale	39,486	48,387	456
Net deferred losses on hedging instruments, net of tax	(512)	(547)	(5)
Land revaluation reserve, net of tax	27,763	27,763	261
Total valuation and translation adjustments	66,738	75,604	712
Stock acquisition rights	322	308	3
Total net assets	432,110	460,934	4,339
Total liabilities and net assets	¥8,857,577	¥9,022,839	\$84,929

Non-Consolidated Statements of Income

THE HIROSHIMA BANK, LTD.
Years ended March 31, 2017 and 2018

	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Income:			
Interest income:			
Interest on loans and discounts	¥ 61,120	¥ 61,410	\$ 578
Interest and dividends on securities	18,625	15,056	142
Other interest income	1,106	1,300	12
Fees and commissions	25,337	25,183	237
Other operating income	10,817	4,515	43
Other income	17,778	14,971	141
Total income	134,785	122,438	1,153
Expenses:			
Interest expenses:			
Interest on deposits	3,058	2,867	27
Interest on borrowings and rediscounts	3,805	3,724	35
Other interest expenses	2,551	2,886	27
Fees and commissions	9,717	9,889	93
Other operating expenses	11,809	4,691	44
General and administrative expenses	55,629	55,740	525
Other expenses	6,217	5,505	52
Total expenses	92,788	85,304	803
Income before income taxes and others	41,996	37,134	350
Income taxes:			
Provision for income taxes and others	13,074	9,700	92
Deferred income taxes	(1,067)	399	4
Net income	¥ 29,989	¥ 27,034	\$ 254
		Yen	U.S. dollars
Amounts per share of common stock:			
Net assets	¥1,383.40	¥1,480.24	\$13.93
Net income	96.13	86.74	0.82
Diluted net income	96.01	86.63	0.82
Cash dividends applicable to the year	11.00	—	—

Note: The Bank conducted a share consolidation of common shares at the ratio of 1 share for 2 shares on October 1, 2017. As a result, the figure for cash dividends applicable to the year for the year ended March 31, 2018 has been stated after including the impact of the share consolidation, and the total annual dividend was “—.”