



**The Awa Bank, Ltd.**

Consolidated Financial Statements

The Awa Bank, Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2016 and 2017



## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Awa Bank, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Awa Bank, Ltd. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

October 25, 2017  
Osaka, Japan

Consolidated Balance Sheets  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

|   | Millions of yen    |                    | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|--------------------|--------------------|--|
|   | 2016               | 2017               | 2017                                     |
| <b>Assets</b>   |                    |                    |  |
| Cash and due from banks (Notes 3 and 4)                           | ¥ 216,516          | ¥ 165,384          | \$ 1,474,142                             |
| Call loans and bills purchased (Note 4)                           | 50,097             | 86,686             | 772,671                                  |
| Commercial paper and other debt purchased (Notes 4 and 5)         | 1,961              | 1,607              | 14,324                                   |
| Trading account securities (Notes 4 and 5)                        | 800                | 353                | 3,147                                    |
| Securities (Notes 4, 5 and 9)                                     | 1,063,127          | 1,099,989          | 9,804,697                                |
| Loans and bills discounted (Notes 4, 6, 7 and 8)                  | 1,711,110          | 1,760,619          | 15,693,190                               |
| Foreign exchange (Note 7)   | 2,927              | 4,888              | 43,569                                   |
| Lease receivables and investment assets (Notes 4 and 6)           | 27,218             | 28,002             | 249,594                                  |
| Other assets (Note 9)   | 11,260             | 25,119             | 223,897                                  |
| Tangible fixed assets (Notes 10 and 11)                           | 33,666             | 33,424             | 297,923                                  |
| Intangible fixed assets   | 2,900              | 3,184              | 28,381                                   |
| Net defined benefit asset (Note 20)                               | 5,851              | 6,496              | 57,902                                   |
| Deferred tax assets (Note 16)                                     | 195                | 146                | 1,301                                    |
| Customers' liabilities for acceptances and guarantees (Note 17)   | 7,183              | 7,325              | 65,291                                   |
| Reserve for possible loan losses                                  | (18,669)           | (17,293)           | (154,140)                                |
| Total assets  | <u>¥ 3,116,142</u> | <u>¥ 3,205,929</u> | <u>\$ 28,575,889</u>                     |
| <b>Liabilities</b>  |                    |                    |  |
| Deposits (Notes 4 and 9)  | ¥ 2,606,224        | ¥ 2,671,687        | \$ 23,813,950                            |
| Negotiable certificates of deposit (Note 4)                       | 101,003            | 101,757            | 907,006                                  |
| Call money and bills sold (Note 4)                                | 12,545             | 23,037             | 205,339                                  |
| Payables under securities lending transactions (Notes 4 and 9)    | 39,929             | 34,270             | 305,464                                  |
| Borrowed money (Notes 4, 9 and 18)                                | 33,970             | 34,813             | 310,304                                  |
| Foreign exchange  | 107                | 481                | 4,287                                    |
| Bonds (Notes 4 and 19)  | 10,000             | 10,000             | 89,135                                   |
| Other liabilities (Note 18)                                       | 20,763             | 20,169             | 179,775                                  |
| Accrued employees' bonuses  | 28                 | 28                 | 250                                      |
| Accrued directors' bonuses  | 69                 | 69                 | 615                                      |
| Net defined benefit liability (Note 20)                           | 5,494              | 5,381              | 47,963                                   |
| Accrued directors' retirement benefits                            | 503                | 514                | 4,582                                    |
| Reserve for reimbursement of deposits                             | 585                | 544                | 4,849                                    |
| Reserve for contingent liabilities                                | 855                | 920                | 8,200                                    |
| Reserve for asset demolition costs                                | -                  | 447                | 3,984                                    |
| Deferred tax liabilities (Note 16)                                | 15,968             | 18,976             | 169,142                                  |
| Deferred tax liabilities for land revaluation account (Note 11)   | 2,970              | 2,826              | 25,189                                   |
| Acceptances and guarantees (Note 17)                              | 7,183              | 7,325              | 65,291                                   |
| Total liabilities   | <u>2,858,196</u>   | <u>2,933,244</u>   | <u>26,145,325</u>                        |
| <b>Net Assets</b>   |                    |                    |  |
| Common stock  |                    |                    |  |
| Authorized - 500,000,000 shares                                   |                    |                    |  |
| Issued - 226,200,000 shares in 2017 and 2016                      | 23,453             | 23,453             | 209,047                                  |
| Capital surplus   | 16,232             | 16,232             | 144,683                                  |
| Retained earnings   | 137,810            | 148,086            | 1,319,957                                |
| Treasury stock  | (76)               | (2,815)            | (25,091)                                 |
| — Issued 3,984,576 shares in 2017 and 117,738 shares in 2016      |                    |                    |  |
| Total shareholders' equity  | 177,419            | 184,956            | 1,648,596                                |
| Net unrealized holding gains on securities (Note 5)               | 67,604             | 72,139             | 643,008                                  |
| Net deferred gains (losses) on derivatives under hedge accounting | (3,214)            | (2,644)            | (23,567)                                 |
| Land revaluation account (Note 11)                                | 5,494              | 5,327              | 47,482                                   |
| Remeasurements of defined benefit plans (Note 20)                 | (1,010)            | 76                 | 677                                      |
| Total accumulated other comprehensive income                      | 68,874             | 74,898             | 667,600                                  |
| Noncontrolling interests  | 11,653             | 12,831             | 114,368                                  |
| Total net assets  | <u>257,946</u>     | <u>272,685</u>     | <u>2,430,564</u>                         |
| Total liabilities and net assets                                  | <u>¥ 3,116,142</u> | <u>¥ 3,205,929</u> | <u>\$ 28,575,889</u>                     |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

|  | Millions of yen |                 | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------------|--|
|  | 2016            | 2017            | 2017                                     |
| <b>Income:</b>   |                 |                 |  |
| Interest and dividend income:                                  |                 |                 |  |
| Interest on loans and discounts                                | ¥ 27,339        | ¥ 25,866        | \$ 230,555                               |
| Interest and dividends on securities                           | 16,216          | 15,335          | 136,688                                  |
| Other interest income  | 599             | 796             | 7,095                                    |
| Trust fees   | 0               | 0               | 0  |
| Fees and commissions   | 9,016           | 8,826           | 78,670                                   |
| Other operating income   | 13,695          | 14,297          | 127,436                                  |
| Other income (Note 13)   | 3,379           | 4,009           | 35,734                                   |
| Total income   | <u>70,244</u>   | <u>69,129</u>   | <u>616,178</u>                           |
| <b>Expenses:</b>   |                 |                 |  |
| Interest expense:  |                 |                 |  |
| Interest on deposits and certificates of deposit               | 913             | 667             | 5,945                                    |
| Interest on borrowings, rediscounts and bonds                  | 637             | 629             | 5,607                                    |
| Other interest expense   | 1,199           | 2,064           | 18,397                                   |
| Fees and commissions   | 1,535           | 1,555           | 13,861                                   |
| Other operating expenses                                       | 11,465          | 12,142          | 108,227                                  |
| General and administrative expenses (Note 12)                  | 28,973          | 29,507          | 263,009                                  |
| Other expenses:  |                 |                 |  |
| Provision for loan losses                                      | 3,820           | 1,578           | 14,065                                   |
| Other expenses (Note 14)                                       | 575             | 2,163           | 19,280                                   |
| Total expenses   | <u>49,117</u>   | <u>50,305</u>   | <u>448,391</u>                           |
| <b>Income before income taxes</b>                              | 21,127          | 18,824          | 167,787                                  |
| <b>Income taxes (Note 16):</b>                                 |                 |                 |  |
| Current  | 6,186           | 5,514           | 49,149                                   |
| Deferred   | 1,245           | 40              | 357                                      |
| <b>Net income</b>  | <u>13,696</u>   | <u>13,270</u>   | <u>118,281</u>                           |
| <b>Net income attributable to noncontrolling interests</b>     |                 |                 |  |
| in income of consolidated subsidiaries                         | 700             | 796             | 7,095                                    |
| <b>Net income attributable to owners of the parent company</b> | <u>¥ 12,996</u> | <u>¥ 12,474</u> | <u>\$ 111,186</u>                        |

| Per share of common stock    | Yen     |         | U.S. dollars<br>(Note 1) |
|------------------------------|---------|---------|--------------------------|
|                              | 2016    | 2017    | 2017                     |
| Net income per share – basic | ¥ 56.89 | ¥ 55.55 | \$ 0.495                 |
| Dividends                    | 12.00   | 9.00    | 0.080                    |

For the years ended March 31, 2016 and 2017, diluted net income per share of common stock was not disclosed because no dilutive securities were outstanding.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

|   | Millions of yen |          | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|-----------------|----------|--|
|   | 2016            | 2017     | 2017                                     |
| Net income  | ¥ 13,696        | ¥ 13,270 | \$ 118,281                               |
| Other comprehensive income:                                       |                 |          |  |
| Net unrealized holding gains (losses) on securities               | (4,035)         | 4,916    | 43,819                                   |
| Net deferred gains (losses) on derivatives under hedge accounting | (1,557)         | 570      | 5,081                                    |
| Land revaluation account  | 156             | -        | -  |
| Remeasurements of defined benefit plans                           | (2,779)         | 1,105    | 9,849                                    |
| Total other comprehensive income (Note 15)                        | (8,215)         | 6,591    | 58,749                                   |
| Comprehensive income  | ¥ 5,481         | ¥ 19,861 | \$ 177,030                               |
| Comprehensive income attributable to:                             |                 |          |  |
| Owners of the parent company                                      | ¥ 4,810         | ¥ 18,666 | \$ 166,378                               |
| Noncontrolling interests  | 671             | 1,195    | 10,652                                   |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

|   | Millions of yen      |                 |                      |                |                                  |           |
|---|----------------------|-----------------|----------------------|----------------|----------------------------------|-----------|
|   | Stockholders' equity |                 |                      |                |                                  |           |
| Number of shares<br>of common stock<br>issued               | Common stock         | Capital surplus | Retained<br>earnings | Treasury stock | Total<br>shareholders'<br>equity |           |
| Balance at April 1, 2015                                    | 231,100,000          | ¥ 23,453        | ¥ 16,293             | ¥ 130,278      | ¥ (789)                          | ¥ 169,235 |
| Changes during the accounting period                        |                      |                 |                      |                |                                  |           |
| Dividends   | -                    | -               | -                    | (2,412)        | -                                | (2,412)   |
| Net income attributable to owners of<br>the parent company  | -                    | -               | -                    | 12,996         | -                                | 12,996    |
| Purchase of treasury stock                                  | -                    | -               | -                    | -              | (2,585)                          | (2,585)   |
| Disposal of treasury stock                                  | -                    | -               | 57                   | -              | 128                              | 185       |
| Retirement of treasury stock                                | (4,900,000)          | -               | (118)                | (3,052)        | 3,170                            | -         |
| Reversal of land revaluation account                        | -                    | -               | -                    | -              | -                                | -         |
| Changes other than changes in<br>stockholders' equity (net) | -                    | -               | -                    | -              | -                                | -         |
| Total changes during the accounting<br>period               | (4,900,000)          | -               | (61)                 | 7,532          | 713                              | 8,184     |
| Balance at March 31, 2016                                   | 226,200,000          | ¥ 23,453        | ¥ 16,232             | ¥ 137,810      | ¥ (76)                           | ¥ 177,419 |
| Changes during the accounting period                        |                      |                 |                      |                |                                  |           |
| Dividends   | -                    | -               | -                    | (2,366)        | -                                | (2,366)   |
| Net income attributable to owners of<br>the parent company  | -                    | -               | -                    | 12,474         | -                                | 12,474    |
| Purchase of treasury stock                                  | -                    | -               | -                    | -              | (2,739)                          | (2,739)   |
| Disposal of treasury stock                                  | -                    | -               | 0                    | -              | 0                                | 0         |
| Retirement of treasury stock                                | -                    | -               | -                    | -              | -                                | -         |
| Reversal of land revaluation account                        | -                    | -               | -                    | 168            | -                                | 168       |
| Changes other than changes in<br>stockholders' equity (net) | -                    | -               | -                    | -              | -                                | -         |
| Total changes during the accounting<br>period               | -                    | -               | 0                    | 10,276         | (2,739)                          | 7,537     |
| Balance at March 31, 2017                                   | 226,200,000          | ¥ 23,453        | ¥ 16,232             | ¥ 148,086      | ¥ (2,815)                        | ¥ 184,956 |

|   | Millions of yen                                  |   |                                |   |  |                             |                     |
|---|--|---|--------------------------------|---|--|-----------------------------|---------------------|
|   | Accumulated other comprehensive income           |   |                                |   |  |                             |                     |
|   | Net unrealized<br>holding gains on<br>securities | Net deferred<br>gains (losses)<br>on derivatives<br>under hedge<br>accounting | Land<br>revaluation<br>account | Remeasurements<br>of defined<br>benefit plans | Total<br>accumulated<br>other<br>comprehensive<br>income | Noncontrolling<br>interests | Total<br>net assets |
| Balance at April 1, 2015                                    | ¥ 71,623   | ¥ (1,657)   | ¥ 5,338                        | ¥ 1,756                                       | ¥ 77,060   | ¥ 10,997                    | ¥ 257,292           |
| Changes during the accounting period                        |  |   |                                |   |  |                             |                     |
| Dividends   | -  | -   | -                              | -   | -  | -                           | (2,412)             |
| Net income attributable to owners of<br>the parent company  | -  | -   | -                              | -   | -  | -                           | 12,996              |
| Purchase of treasury stock                                  | -  | -   | -                              | -   | -  | -                           | (2,585)             |
| Disposal of treasury stock                                  | -  | -   | -                              | -   | -  | -                           | 185                 |
| Retirement of treasury stock                                | -  | -   | -                              | -   | -  | -                           | -                   |
| Reversal of land revaluation account                        | -  | -   | -                              | -   | -  | -                           | -                   |
| Changes other than changes in<br>stockholders' equity (net) | (4,019)  | (1,557)   | 156                            | (2,766)                                       | (8,186)  | 656                         | (7,530)             |
| Total changes during the accounting<br>period               | (4,019)  | (1,557)   | 156                            | (2,766)                                       | (8,186)  | 656                         | 654                 |
| Balance at March 31, 2016                                   | ¥ 67,604   | ¥ (3,214)   | ¥ 5,494                        | ¥ (1,010)                                     | ¥ 68,874   | ¥ 11,653                    | ¥ 257,946           |
| Changes during the accounting period                        |  |   |                                |   |  |                             |                     |
| Dividends   | -  | -   | -                              | -   | -  | -                           | (2,366)             |
| Net income attributable to owners of<br>the parent company  | -  | -   | -                              | -   | -  | -                           | 12,474              |
| Purchase of treasury stock                                  | -  | -   | -                              | -   | -  | -                           | (2,739)             |
| Disposal of treasury stock                                  | -  | -   | -                              | -   | -  | -                           | 0                   |
| Retirement of treasury stock                                | -  | -   | -                              | -   | -  | -                           | -                   |
| Reversal of land revaluation account                        | -  | -   | -                              | -   | -  | -                           | 168                 |
| Changes other than changes in<br>stockholders' equity (net) | 4,535  | 570   | (167)                          | 1,086   | 6,024  | 1,178                       | 7,202               |
| Total changes during the accounting<br>period               | 4,535  | 570   | (167)                          | 1,086   | 6,024  | 1,178                       | 14,739              |
| Balance at March 31, 2017                                   | ¥ 72,139   | ¥ (2,644)   | ¥ 5,327                        | ¥ 76  | ¥ 74,898   | ¥ 12,831                    | ¥ 272,685           |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets (cont'd)  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

|   | Thousands of U.S. dollars (Note 1)            |                   |                   |                      |                    |                                  |
|---|---|-------------------|-------------------|----------------------|--------------------|----------------------------------|
|   | Stockholders' equity                          |                   |                   |                      |                    |                                  |
|   | Number of shares<br>of common stock<br>issued | Common stock      | Capital surplus   | Retained<br>earnings | Treasury stock     | Total<br>shareholders'<br>equity |
| Balance at April 1, 2016                                    | 226,200,000                                   | \$ 209,047        | \$ 144,683        | \$ 1,228,362         | \$ (677)           | \$ 1,581,415                     |
| Changes during the accounting period                        |   |                   |                   |                      |                    |                                  |
| Dividends   | -   | -                 | -                 | (21,089)             | -                  | (21,089)                         |
| Net income attributable to owners of<br>the parent company  | -   | -                 | -                 | 111,186              | -                  | 111,186                          |
| Purchase of treasury stock                                  | -   | -                 | -                 | -                    | (24,414)           | (24,414)                         |
| Disposal of treasury stock                                  | -   | -                 | 0                 | -                    | 0                  | 0                                |
| Retirement of treasury stock                                | -   | -                 | -                 | -                    | -                  | -                                |
| Reversal of land revaluation account                        | -   | -                 | -                 | 1,498                | -                  | 1,498                            |
| Changes other than changes in<br>stockholders' equity (net) | -   | -                 | -                 | -                    | -                  | -                                |
| Total changes during the accounting<br>period               | -   | -                 | 0                 | 91,595               | (24,414)           | 67,181                           |
| Balance at March 31, 2017                                   | <u>226,200,000</u>                            | <u>\$ 209,047</u> | <u>\$ 144,683</u> | <u>\$ 1,319,957</u>  | <u>\$ (25,091)</u> | <u>\$ 1,648,596</u>              |

|   | Thousands of U.S. dollars (Note 1)               |   |                                |   |  |                             |                     |
|---|--|---|--------------------------------|---|--|-----------------------------|---------------------|
|   | Accumulated other comprehensive income           |   |                                |   |  |                             |                     |
|   | Net unrealized<br>holding gains on<br>securities | Net deferred<br>gains (losses)<br>on derivatives<br>under hedge<br>accounting | Land<br>revaluation<br>account | Remeasurements<br>of defined<br>benefit plans | Total<br>accumulated<br>other<br>comprehensive<br>income | Noncontrolling<br>interests | Total<br>net assets |
| Balance at April 1, 2016                                    | \$ 602,585                                       | \$ (28,648)   | \$ 48,971                      | \$ (9,003)                                    | \$ 613,905   | \$ 103,868                  | \$ 2,299,188        |
| Cumulative effects of changes in<br>accounting policies     | -  | -   | -                              | -   | -  | -                           | -                   |
| Restated balance at April 1, 2016                           | 602,585  | (28,648)  | 48,971                         | -9,003  | 613,905  | 103,868                     | 2,299,188           |
| Changes during the accounting period                        |  |   |                                |   |  |                             |                     |
| Dividends   | -  | -   | -                              | -   | -  | -                           | (21,089)            |
| Net income attributable to owners of<br>the parent company  | -  | -   | -                              | -   | -  | -                           | 111,186             |
| Purchase of treasury stock                                  | -  | -   | -                              | -   | -  | -                           | (24,414)            |
| Disposal of treasury stock                                  | -  | -   | -                              | -   | -  | -                           | 0                   |
| Retirement of treasury stock                                | -  | -   | -                              | -   | -  | -                           | -                   |
| Reversal of land revaluation account                        | -  | -   | -                              | -   | -  | -                           | 1,498               |
| Changes other than changes in<br>stockholders' equity (net) | 40,423   | 5,081   | (1,489)                        | 9,680   | 53,695   | 10,500                      | 64,195              |
| Total changes during the accounting<br>period               | 40,423   | 5,081   | (1,489)                        | 9,680   | 53,695   | 10,500                      | 131,376             |
| Balance at March 31, 2017                                   | <u>\$ 643,008</u>                                | <u>\$ (23,567)</u>  | <u>\$ 47,482</u>               | <u>\$ 677</u>                                 | <u>\$ 667,600</u>  | <u>\$ 114,368</u>           | <u>\$ 2,430,564</u> |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

|  | Millions of yen |           | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------|--|
|  | 2016            | 2017      | 2017                                     |
| <b>Cash flows from operating activities:</b>   |                 |           |  |
| Income before income taxes   | ¥ 21,127        | ¥ 18,824  | \$ 167,787                               |
| Depreciation   | 2,394           | 2,214     | 19,734                                   |
| Impairment losses  | 7               | 1,260     | 11,231                                   |
| Increase (decrease) in reserve for possible loan losses  | 264             | (1,376)   | (12,265)                                 |
| Net change in provision for contingent liabilities   | 91              | 65        | 579                                      |
| Increase (decrease) in accrued employees' bonuses  | 0               | 0         | 0  |
| Increase (decrease) in accrued directors' bonuses  | 4               | (0)       | (0)                                      |
| Decrease (increase) in net defined benefit asset   | 374             | 957       | 8,530                                    |
| Increase (decrease) in net defined benefit liability   | (200)           | (130)     | (1,159)                                  |
| Net change in reserve for retirement payments to directors   | 87              | 11        | 98                                       |
| Net change in reserve for claims on dormant accounts   | (11)            | (41)      | (365)                                    |
| Net change in reserve for asset demolition costs   | -               | 447       | 3,984                                    |
| Interest and dividend income   | (44,154)        | (41,997)  | (374,338)                                |
| Interest expense   | 2,749           | 3,360     | 29,949                                   |
| Securities losses (gains), net   | (2,363)         | (2,809)   | (25,038)                                 |
| Losses (gains) on investments in money held in trust, net  | -               | (0)       | (0)                                      |
| Foreign exchange losses (gains), net   | 10,147          | 1,600     | 14,262                                   |
| Losses on disposal of tangible fixed assets, net   | 24              | 88        | 784                                      |
| Net decrease (increase) in trading account securities  | 47              | 446       | 3,975                                    |
| Net decrease (increase) in loans and bills discounted  | (53,224)        | (49,509)  | (441,296)                                |
| Net increase (decrease) in deposits  | 55,624          | 65,464    | 583,510                                  |
| Net increase (decrease) in certificates of deposit   | 12,118          | 754       | 6,721                                    |
| Net increase (decrease) in borrowed money<br>(except for subordinated borrowed money)                | 404             | 843       | 7,514                                    |
| Net decrease (increase) in due from banks<br>(except for deposits with the Bank of Japan)            | (910)           | 98        | 874                                      |
| Net decrease (increase) in call loans, bills purchased,<br>commercial paper and other debt purchased | 14,405          | (36,244)  | (323,059)                                |
| Net increase (decrease) in call money  | (29,508)        | 10,492    | 93,520                                   |
| Net increase (decrease) in payables under securities lending transactions                            | 6,122           | (5,658)   | (50,432)                                 |
| Net decrease (increase) in foreign exchange (assets)   | (370)           | (1,151)   | (10,259)                                 |
| Net increase (decrease) in foreign exchange (liabilities)  | 91              | 373       | 3,325                                    |
| Interest and dividends received  | 43,251          | 40,480    | 360,816                                  |
| Interest paid  | (2,759)         | (3,371)   | (30,047)                                 |
| Other  | (11,295)        | (13,049)  | (116,312)                                |
| Subtotal   | 24,536          | (7,559)   | (67,377)                                 |
| Income taxes paid  | (4,577)         | (6,613)   | (58,944)                                 |
| Net cash provided by (used in) operating activities  | 19,959          | (14,172)  | (126,321)                                |
| <b>Cash flows from investing activities:</b>   |                 |           |  |
| Payments for purchases of securities   | (178,540)       | (231,290) | (2,061,592)                              |
| Proceeds from sales of securities  | 90,727          | 87,072    | 776,112                                  |
| Proceeds from maturities of securities   | 104,177         | 115,924   | 1,033,283                                |
| Payments for increases in money held in trust  | -               | (2,802)   | (24,975)                                 |
| Proceeds from decreases in money held in trust   | -               | 2,802     | 24,975                                   |
| Payments for purchases of tangible fixed assets  | (3,371)         | (2,175)   | (19,387)                                 |
| Payments for disposals of tangible fixed assets  | (18)            | (59)      | (526)                                    |
| Proceeds from sales of tangible fixed assets   | 1               | 207       | 1,845                                    |
| Purchases of intangible fixed assets   | (765)           | (1,426)   | (12,710)                                 |
| Net cash provided by (used in) investing activities  | 12,211          | (31,747)  | (282,975)                                |
| <b>Cash flows from financing activities:</b>   |                 |           |  |
| Redemption of subordinated bonds and bonds with subscription rights to shares                        | (12,000)        | -         | -  |
| Dividends paid   | (2,412)         | (2,366)   | (21,089)                                 |
| Dividends paid to noncontrolling interests stockholders  | (16)            | (16)      | (143)                                    |
| Payments for purchases of treasury stock   | (2,585)         | (2,739)   | (24,414)                                 |
| Proceeds from sales of treasury stock  | 185             | 0         | 0  |
| Net cash used in financing activities  | (16,828)        | (5,121)   | (45,646)                                 |
| <b>Foreign currency translation adjustments</b>  | (5)             | 6         | 53                                       |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | 15,337          | (51,034)  | (454,889)                                |
| <b>Cash and cash equivalents at beginning of year</b>  | 199,209         | 214,546   | 1,912,345                                |
| <b>Cash and cash equivalents at end of year (Note 3)</b>   | ¥ 214,546       | ¥ 163,512 | \$ 1,457,456                             |

See Notes to Consolidated Financial Statements.



Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of The Awa 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 the Japanese Banking Law, generally conform with the Japanese Uniform Rules for Bank Accounting and the guidelines of Japanese regulatory authorities and are in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange 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 translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant Accounting Policies

### (1) Principles of consolidation

The consolidated financial statements for the years ended March 31, 2016 and 2017 include the accounts of the Bank and the following five subsidiaries:

- The Awagin Business Service Company Limited
- The Awagin Consulting Company Limited
- The Awagin Guaranty Company Limited
- The Awagin Card Company Limited
- The Awagin Lease Company Limited

All significant intercompany balances, transactions and unrealized profits and losses included in assets and liabilities have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to noncontrolling shareholders, are evaluated using the fair value at the time the Bank acquired control of the respective subsidiary.

One of the Bank’s subsidiaries, the Awagin AFFrinnovation Investment Limited Partnership, was excluded from the scope of consolidation for the years ended March 31, 2016 and 2017 since the exclusion did not affect the reasonable interpretation of the financial condition and operating results of the enterprise group in terms of assets and the Bank’s ownership percentage of net income, retained earnings and accumulated other comprehensive income.

The Awagin AFFrinnovation Investment Limited Partnership was also not accounted for using the equity method for the years ended March 31, 2016 and 2017 since the exclusion did not have a material impact on the consolidated financial statements in terms of the Bank’s ownership percentage of net income, retained earnings and accumulated other comprehensive income.

The Awagin Regional Revitalization Investment Limited Partnership, an affiliate of the Bank was not accounted for using the equity method for the years ended March 31, 2016 and 2017 since the exclusion did not have a material impact on the consolidated financial statements in terms of the Bank’s ownership percentage of net income, retained earnings and accumulated other comprehensive income.

## 2. Significant Accounting Policies (cont'd)

### (2) Trading account securities

Listed trading account securities of the Bank are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations of the securities are recognized as gains and losses in the period of the change. Cost is calculated by the moving average method.

### (3) Securities

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with available fair market values are stated at fair market value, which is the average for the last month of the fiscal year. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity or net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Available-for-sale securities whose fair values are extremely difficult to determine are stated at moving average cost. Debt securities with no available fair market values are stated at amortized cost, net of the amount considered not collectible.

### (4) Depreciation method for fixed assets

#### ① Tangible fixed assets (except for leased assets)

Tangible fixed assets are generally stated at cost, less accumulated depreciation and deferred gains on the sale of real estate. Depreciation of tangible fixed assets owned by the Bank and its consolidated subsidiaries is recorded using the straight-line method. At March 31, 2016 and 2017, estimated useful lives were as follows:

|           |             |
|-----------|-------------|
| Buildings | 19~50 years |
| Equipment | 4~8 years   |

#### ② Intangible fixed assets

Depreciation for intangible fixed assets of the Bank and its consolidated subsidiaries is recorded using the straight-line method. Internal use software costs of the Bank and its consolidated subsidiaries are depreciated using the straight-line method over the estimated useful life of five years. Goodwill is expensed when incurred.

#### ③ Leased assets

Leased assets are business equipment included in tangible fixed assets. Leased assets in tangible fixed assets capitalized under finance leases that do not transfer ownership of the leased assets to the lessee are depreciated using the straight-line method over the lease period. Residual values are guaranteed residual values for leased assets which have guarantee clauses in the lease contracts and zero for others.

(Changes in accounting policy which are difficult to distinguish from changes in accounting estimates)

The Bank and its consolidated subsidiaries have changed the depreciation method from the declining balance method (except for buildings acquired after April 1, 1998, which had been depreciated using the straight-line method) to the straight-line method from the year ended March 31, 2017.

The Bank started the business plan, "Sparkle 125th" from the year ended March 31, 2017, in which rebuilding of sales branches, replacement of business equipment and other investments are planned to strengthen sales and to improve customer services. Together with these investments, the Bank reviewed its policy for tangible fixed assets and determined that the change in depreciation method from the declining balance method to the straight-line method would more accurately reflect the Bank's operational results and actual usage because the sales branches and business equipment of the Bank would be used for the long term and the value in use is generally constant over the useful lives. As a result of this change, income before income taxes for the year ended March 31, 2017 increased by ¥267 million (\$2,380 thousand) compared with the amount that would have been reported using the previous method.

## 2. Significant Accounting Policies (cont' d)

### (5) Reserve for possible loan losses

The Bank writes off loans and makes provisions for possible loan losses based on the financial circumstances of the borrower and the status of the loan. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or who are in a similar financial condition, the reserve for possible loan losses for the portions of the loans that are neither secured nor guaranteed is provided in the full amount, excluding write-off amounts and the portion that is estimated to be recoverable due to the existence of security interests or guarantees. For loans to customers not presently in the above circumstances but who have a high probability of being declared insolvent, the reserve for possible loan losses for the portions of the loans that are neither secured nor guaranteed is provided for in the amounts estimated to be unrecoverable after an evaluation of the customer's overall financial condition. For other loans such as normal loans and loans requiring special attention, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

Assessments and classifications regarding possible loan losses are made by each business department and credit supervision department and are audited by the independent Credit Administration Department. The reserve for possible loan losses is provided based on the audit results. The consolidated subsidiaries write off loans and make provisions for possible loan losses based on their actual rate of loan losses in the past. However, unrecoverable amounts of loans to customers who have a high probability of becoming bankrupt are estimated and a reserve for possible loan losses is provided based on the estimation.

For the fiscal years ended March 31, 2016 and 2017, the Bank wrote off portions of loans that were estimated to be unrecoverable from insolvent customers who were undergoing bankruptcy or other collection proceedings. The estimated unrecoverable amounts were determined after excluding estimated recoverable amounts due to the existence of security interests or guarantees. As of March 31, 2016 and 2017, the write-off of the estimated unrecoverable amounts was ¥21,119 million and ¥21,047 million (\$187,601 thousand), respectively.

### (6) Accrued employees' bonuses

Accrued employees' bonuses were recorded to pay bonuses to employees of the consolidated subsidiaries for the fiscal years ended March 31, 2016 and 2017.

### (7) Accounting for retirement benefits

The benefit formula basis is used as a method of attributing expected benefits to the period through the end of the fiscal year in calculating projected benefit obligation. Prior service costs are recognized in the statements of income using the straight-line method within the average of the estimated remaining service years of employees (10 years). Actuarial differences are recognized in the statements of income using the straight-line method within the average of the estimated remaining service years (10 years) commencing with the following period.

Consolidated subsidiaries apply the simplified method for their unfunded lump-sum payment plans, which assumes the Bank's projected benefit obligation to be equal to the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end in calculating net defined benefit liability and retirement benefit expenses.

### (8) Accrued directors' bonuses

Accrued directors' bonuses were recorded to provide for payment of bonuses to directors in an estimated payment amount attributable to the current period.

### (9) Accrued directors' retirement benefits

A provision is made for accrued retirement benefits of directors and corporate auditors in the amount deemed accrued at the end of the reporting period.

## 2. Significant Accounting Policies (cont'd)

### (10) Reserve for reimbursement of deposits

A provision is made for losses on future reimbursements of deposits in an amount deemed necessary, taking into account the Bank's estimated refund amount.

### (11) Reserve for contingent liabilities

A provision is made for future payments on loan-loss burden sharing to credit guarantee associations in an estimated payment amount.

### (12) Reserve for asset demolition costs

A provision is made for future payments for the demolition of buildings and other assets in an estimated payment amount.

### (13) Translation of foreign currencies

Foreign currency denominated assets and liabilities held by the Bank at the year end are translated into Japanese yen at the exchange rates prevailing at the end of the fiscal year.

### (14) Derivatives and hedge accounting

Derivative financial instruments are carried at market value.

#### ① Hedge of interest rate risk

In order to hedge the interest rate risk associated with various financial assets and liabilities, the Bank applies the deferred hedge method stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2002).

The effectiveness of hedging is assessed for each identified group of hedged deposits, loans and similar items and the corresponding group of hedging instruments, such as interest rate swaps, in the same maturity bucket. In assessing the effectiveness of cash flow hedges, the correlation between the interest rate sensitivities of the hedged items and the hedging instruments is examined.

#### ② Hedge of foreign currency risk

The Bank applies the deferred method of hedge accounting to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002). Assessment of the effectiveness of these hedge transactions is conducted by confirming whether the notional amounts of hedging foreign exchange swaps, etc., correspond to the hedged foreign currency denominated receivables or payables.

### (15) Cash flow statements

In preparing consolidated statements of cash flows, cash on hand and deposits with the Bank of Japan are considered to be cash and cash equivalents.

### (16) Income taxes

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

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 2. Significant Accounting Policies (cont' d)

### (17) Per share data

Net income per share is based on the weighted average number of shares of common stock outstanding during the year, excluding treasury stock.

Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared as applicable to the respective year.

### (18) Additional Information

(Adoption of “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”)

The Bank and its consolidated subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 26, March 28, 2016) for application from the year ended March 31, 2017.

## 3. Cash and Cash Equivalents

The reconciliation between “Cash and due from banks” in the consolidated balance sheets and “Cash and cash equivalents at end of year” in the consolidated statements of cash flows at March 31, 2016 and 2017 was as follows:

|   | Millions of yen |           | Thousands of<br>U.S. dollars |
|---|-----------------|-----------|------------------------------|
|   | 2016            | 2017      | 2017                         |
| Cash and due from banks -----                                       | ¥ 216,516       | ¥ 165,384 | \$ 1,474,142                 |
| Due from banks (excluding deposits with<br>the Bank of Japan) ----- | (1,970)         | (1,872)   | (16,686)                     |
| Cash and cash equivalents -----                                     | ¥ 214,546       | ¥ 163,512 | \$ 1,457,456                 |

## 4. Financial Instruments

### (1) Overview of financial instruments

#### ① Policy on financial instruments

The Bank and its consolidated subsidiaries (the “Group”) provide mainly banking services and other financial services, including leasing. The Group holds financial assets such as loans and securities raised by deposits. In order to effectively manage its assets and liabilities, the Bank works on asset and liability management (ALM) and conducts derivative transactions as part of this ALM.

#### ② Descriptions and risks of financial instruments

The financial assets of the Bank consist mainly of loans to domestic customers. They are subject to credit risk arising from changes in the domestic economy and the financial status of the borrowers. The Group credits are hedged in small lots as to not concentrate on certain customers.

Also the Bank holds securities that consist mainly of stocks, bonds and mutual funds for investment and trading purposes. They are subject to credit risk, interest rate risk and market price risk. The Group’s portfolio consists mainly of government bonds and municipal bonds which are very safe.

The financial liabilities of the Bank consist mainly of deposits from domestic customers, which are subject to liquidity risk due to the difficulty of raising necessary funds due to unexpected capital outflows. The Group tries to maintain and improve the soundness and reliability of its assets and to ensure stable cash management.

#### 4. Financial Instruments (cont' d)

Derivative transactions include interest rate swaps, currency swaps, forward foreign exchange contracts, currency options and bond futures contracts. The Bank engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest rates, market prices and exchange rates related to assets and liabilities. These transactions are also executed in order to provide various services to customers.

For interest rate risk, the Bank applies hedge accounting based on "Accounting Standards and Auditing Treatment for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2002). The Bank assesses the effectiveness of hedges in offsetting movement in the fair value from changes in interest rates by classifying the hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by incidence and remaining period. For cash flow hedges, the Bank assesses the effectiveness by verifying the correlation of the interest rate fluctuation between the hedged items and the hedging instruments.

For exchange rate risk, the Bank applies hedge accounting based on "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002). The Bank uses currency swaps and other methods to hedge exchange rate risk and evaluates the effectiveness of the hedges by confirming that a foreign currency hedge position exists in an amount equivalent to the foreign currency denominated monetary assets or liabilities being hedged.

Derivative transactions are subject to market risk and credit risk, but the Bank does not engage in complicated or speculative transactions.

##### ③ Risk management systems for financial products

The Bank and its consolidated subsidiaries manage risk as follows:

##### (i) Credit risk management

The Bank prescribes "Credit Risk Management Standards" and carries out its credit risk management by division, maintains an appropriate portfolio and seeks to improve on the soundness of its assets. In addition, the Bank reviews the system for credit risk management periodically and tries to improve it.

The Credit Division is independent from the Business Promotion Division to maintain and improve the soundness of assets. The Risk Managing Division verifies credit ratings, conducts self-assessments, administers the credit portfolio and exerts influence on the internal check system to branches and the Credit Division, while trying to further enhance the credit rating and self-assessment.

##### (ii) Market risk management

(Management for interest rate risks, market price risks and foreign exchange risks)

The Bank has set its market risk policy "to take adequate market risk within the Bank's management vitality, assess market risk accurately and execute policy and controls that corresponds to that vitality and the scale and characteristic of the business to earn a profit." In this way, the Bank enhances the system of management and optimizes market risk.

The Trading Division of the Bank maintains the Market Risk Management Section (middle office) in addition to the Trade Execution Section (front office) and the Administrative Processing Section (back office) to confirm and check the transactions of the Trade Execution Section, sets the tolerance levels for risk and measures profits and losses on market risks, and reports risks to the Board of Directors regularly.

#### 4. Financial Instruments (cont' d)

The Risk Management Division, which is independent from the divisions above, monitors risk and profit and loss and reports the information to the ALM Committee regularly. The Group tries to improve risk management, in part, by discussing future measures. The Bank uses the VaR (Value at Risk) method for calculations of interest rate risks, foreign exchange risks and market price risks. For Japanese yen interest rate risks, the Bank analyzes the gaps of risk including the deposits and loans of the entire Bank and uses the BPV (Basis Point Value) method and present value method for detailed management.

(Quantitative information on market risk)

The Bank measures market risk based on the VaR method. The variance co-variance model is applied in the measurement (holding period: 60 business days (cross-shareholdings: 120 business days), confidence interval: 99%, and historical observation period: 250 business days). The amount of market risk (estimated amount of loss) of the Group as of March 31, 2016 and 2017 was ¥47,936 million and ¥46,630 million (\$415,634 thousand), respectively.

The Bank identifies the interest rate risk sorted by an internal model for the liquid deposits which have had no incoming or outgoing movement to or from the Bank for a considerable period of time as core deposits and by categorizing these using maturity periods of up to 10 years.

The Bank periodically performs back-testing to compare VaR measured by the model with the hypothetical profit and loss which are assumed to have been incurred when the portfolio was fixed, as it was at the point of the risk amount measurement. The bank believes that the model estimates market risk with sufficient accuracy. VaR represents the market risk arising with a certain probability using a statistical methodology based on historical market volatilities. Risks arising from drastic market movements beyond normal estimation may not be captured by this method.

(iii) Liquidity risk management related to fund procurement

The Bank maintains the soundness and reliability of its assets and makes daily analysis of fund procurement and asset management for the stable supply of funds. The Bank maintains a sound level of highly negotiable debt securities such as government bonds. In addition, the Bank sets risk management policies and organizes liquidity risk management to maximize its assurance.

④ Supplementary explanation of the fair value of financial instruments

In addition to values based on the market price, the fair value of financial instruments includes values reasonably calculated if no market price is available. Since certain assumptions are used in the calculation of such values, the results of such calculations may vary if different assumptions are used.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

#### 4. Financial Instruments (cont' d)

##### (2) Fair value of financial instruments

The following table summarizes book values, fair values and any differences between them as of March 31, 2016 and 2017. Unlisted stocks and others for which the fair value was deemed to be extremely difficult to determine were excluded from the table (see Note 2).

|  | Millions of yen    |                   |                 |
|--|--------------------|-------------------|-----------------|
|  | 2016               |                   |                 |
|  | Book value         | Fair value        | Difference      |
| (1) Cash and due from banks                        | ¥ 216,516          | ¥ 216,516         | ¥ -             |
| (2) Call loans and bills purchased                 | 50,097             | 50,097            | -               |
| (3) Commercial paper and other debt purchased      | 1,961              | 1,961             | -               |
| (4) Trading account securities                     |                    |                   |                 |
| Trading securities                                 | 800                | 800               | -               |
| (5) Securities                                     |                    |                   |                 |
| Held-to-maturity debt securities                   | -                  | -                 | -               |
| Available-for-sale securities                      | 1,054,145          | 1,054,145         | -               |
| (6) Loans and bills discounted                     | 1,711,110          |                   |                 |
| Reserve for possible loan losses (*1)              | (17,971)           |                   |                 |
|  | 1,693,139          | 1,708,843         | 15,704          |
| (7) Lease receivables and investment assets        | 27,218             |                   |                 |
| Reserve for lease losses (*1)                      | (211)              |                   |                 |
| (*2)   | 27,007             | 28,989            | 1,982           |
| <b>Total assets:</b>                               | <b>¥ 3,043,665</b> | <b>¥3,061,351</b> | <b>¥ 17,686</b> |
| (1) Deposits                                       | ¥ 2,606,224        | ¥2,606,421        | ¥ 197           |
| (2) Negotiable certificates of deposit             | 101,003            | 101,017           | 14              |
| (3) Call money and bills sold                      | 12,545             | 12,545            | -               |
| (4) Payables under securities lending transactions | 39,929             | 39,929            | -               |
| (5) Borrowed money                                 | 33,970             | 34,016            | 46              |
| <b>Total liabilities:</b>                          | <b>¥ 2,793,671</b> | <b>¥2,793,928</b> | <b>¥ 257</b>    |
| Derivative transactions (*3)                       |                    |                   |                 |
| Hedge accounting not applied                       | ¥ 544              | ¥ 544             | ¥ -             |
| Hedge accounting applied                           | 92                 | 92                | -               |
| <b>Total derivative transactions:</b>              | <b>¥ 636</b>       | <b>¥ 636</b>      | <b>¥ -</b>      |

(\*1) "General and specific reserves for loan losses related to loans and bills discounted" and "General and specific reserves for loan losses related to lease receivables and investment assets" are excluded.

(\*2) The book value after deduction for uncollectible receivables of lease receivables and investment assets for which the fair value was calculated was ¥24,298 million.

(\*3) Derivative transactions recorded in other assets and liabilities are presented as a lump sum.

Net claims and debts that arise from derivative transactions are presented on a net basis.



Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**4. Financial Instruments (cont' d)**

|  | Millions of yen |             |            | Thousands of U.S. dollars |               |            |
|--|-----------------|-------------|------------|---------------------------|---------------|------------|
|  | 2017            |             |            | 2017                      |               |            |
|  | Book value      | Fair value  | Difference | Book value                | Fair value    | Difference |
| (1) Cash and due from banks                        | ¥ 165,384       | ¥ 165,384   | ¥ -        | \$ 1,474,142              | \$ 1,474,142  | \$ -       |
| (2) Call loans and bills purchased                 | 86,686          | 86,686      | -          | 772,671                   | 772,671       | -          |
| (3) Commercial paper and other debt purchased      | 1,607           | 1,607       | -          | 14,324                    | 14,324        | -          |
| (4) Trading account securities                     |                 |             |            |                           |               |            |
| Trading securities                                 | 353             | 353         | -          | 3,147                     | 3,147         | -          |
| (5) Securities                                     |                 |             |            |                           |               |            |
| Held-to-maturity debt securities                   | -               | -           | -          | -                         | -             | -          |
| Available-for-sale securities                      | 1,090,848       | 1,090,848   | -          | 9,723,220                 | 9,723,220     | -          |
| (6) Loans and bills discounted                     | 1,760,619       |             |            | 15,693,190                |               |            |
| Reserve for possible loan losses (*1)              | (16,715)        |             |            | (148,988)                 |               |            |
|  | 1,743,904       | 1,753,899   | 9,995      | 15,544,202                | 15,633,292    | 89,090     |
| (7) Lease receivables and investment assets        | 28,002          |             |            | 249,594                   |               |            |
| Reserve for lease losses (*1)                      | (224)           |             |            | (1,997)                   |               |            |
| (*2)   | 27,778          | 29,850      | 2,072      | 247,597                   | 266,066       | 18,469     |
| Total assets:                                      | ¥ 3,116,560     | ¥ 3,128,627 | ¥ 12,067   | \$ 27,779,303             | \$ 27,886,862 | \$ 107,559 |
| (1) Deposits                                       | ¥ 2,671,687     | ¥ 2,671,871 | ¥ 184      | \$ 23,813,950             | \$ 23,815,590 | \$ 1,640   |
| (2) Negotiable certificates of deposit             | 101,757         | 101,762     | 5          | 907,006                   | 907,050       | 44         |
| (3) Call money and bills sold                      | 23,037          | 23,037      | -          | 205,339                   | 205,339       | -          |
| (4) Payables under securities lending transactions | 34,271          | 34,271      | -          | 305,473                   | 305,473       | -          |
| (5) Borrowed money                                 | 34,813          | 34,794      | (19)       | 310,304                   | 310,135       | (169)      |
| Total liabilities:                                 | ¥ 2,865,565     | ¥ 2,865,735 | ¥ 170      | \$ 25,542,072             | \$ 25,543,587 | \$ 1,515   |
| Derivative transactions (*3)                       |                 |             |            |                           |               |            |
| Hedge accounting not applied                       | ¥ (203)         | ¥ (203)     | ¥ -        | \$ (1,809)                | \$ (1,809)    | \$ -       |
| Hedge accounting applied                           | (4,497)         | (4,497)     | -          | (40,084)                  | (40,084)      | -          |
| Total derivative transactions:                     | ¥ (4,700)       | ¥ (4,700)   | ¥ -        | \$ (41,893)               | \$ (41,893)   | \$ -       |

(\*1) "General and specific reserves for loan losses related to loans and bills discounted" and "General and specific reserves for loan losses related to lease receivables and investment assets" are excluded.

(\*2) The book value after deduction for uncollectible receivables of lease receivables and investment assets for which the fair value was calculated was ¥24,689 million (\$220,064 thousand).

(\*3) Derivative transactions recorded in other assets and liabilities are presented as a lump sum.

Net claims and debts that arise from derivative transactions are presented on a net basis, and net liabilities in total are presented in parentheses.

(Note 1) Calculation method for the fair value of financial instruments

**Assets**

(1) Cash and due from banks

The fair value of due from banks with no maturity is considered to be equal to the book value because the fair value of these items approximates the book value.

(2) Call loans and bills purchased

Call loans and bills purchased have short contractual terms (within 1 year), and the fair value is considered to be equal to the book value because the fair value of these items approximates the book value.

#### 4. Financial Instruments (cont' d)

(3) Commercial paper and other debt purchased

The fair value of trust beneficial rights in other debt purchased is based on the price quoted for corresponding securities. For factoring, these have short contractual terms (within 1 year), and the fair value is considered to be equal to the book value because the fair value of these items approximates the book value.

(4) Trading account securities

The fair value of securities such as bonds held for trading is based on the published market price or the price quoted by correspondent financial institutions.

(5) Securities

The fair value of stocks is based on the market price. The fair value of bonds is determined by the over-the-counter market value or amounts quoted by correspondent financial institutions. The fair value of investment trusts is based on the publicly disclosed net asset value. The fair value of private placement bonds is calculated based on loans and bills discounted. Investments in partnerships are evaluated if the partnership assets can be quoted at fair value and the posted equivalent value of net assets as the fair value of the investment in the partnership.

Information on securities classified by the purpose for which they are held is disclosed in Note 5, "Securities."

(6) Loans and bills discounted

The fair value of loans and bills discounted with floating rates is considered to be equal to the book value since the rate reflects the market rate in a short period, and the fair value of these items approximates the book value, unless the creditworthiness of the borrower changes significantly from the inception date. The fair value of loans and bills discounted with a fixed rate is calculated as the present value, discounting future cash flow at a rate that reflects the proper market rate corresponding to the remaining period and credit risk based on the internal rating. The fair value of loans and bills discounted with short contractual terms (within 1 year) is considered to be equal to the book value because the fair value of these items approximates the book value.

In addition, the fair value of claims against bankrupt obligors, substantially bankrupt obligors and intensive control obligors, because the bad debt is calculated based on the present value of the expected future cash flow or the estimated collectable amount from collateral and/or guarantees, approximates the consolidated balance sheet amount as of the consolidated balance sheet date less the allowance for bad debts.

The fair value of the loans and bills discounted with no maturity due to conditions such as limiting the loans to the value of pledged assets is deemed to be the book value since the fair value is expected to approximate the book value considering the estimated loan period, interest rate and other conditions.

(7) Lease receivables and investment assets

The fair value of lease receivables and investment assets takes into consideration the loan loss ratio of each borrower's category and the discounted market interest rate on the consolidated balance sheet date. In addition, the fair value of claims against bankrupt obligors, substantially bankrupt obligors and intensive control obligors, because the bad debt is calculated based on the present value of the expected future cash flow or the estimated collectable amount from collateral and/or guarantees, approximates the consolidated balance sheet amount as of the consolidated balance sheet date less the allowance for bad debts.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

#### 4. Financial Instruments (cont' d)

##### Liabilities

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

The fair value of demand deposits is considered to be the payable amount as of the consolidated balance sheet date (the book value). In addition, the fair value of fixed-term deposits and negotiable certificates of deposit is calculated as the present value, discounting the future cash flow at a rate that reflects when the Bank received the new deposit. The fair value of floating interest-rate deposits, time deposits (matured), nonresident Japanese yen deposits and foreign currency time deposits is considered less important and is expected to approximate the book value.

(3) Call money and bills sold and (4) Payables under securities lending transactions

The fair value of call money and bills sold is equal to the book value because the contractual terms are within 1 year and the fair value of these items approximates the book value.

(5) Borrowed money

The fair value of borrowed money with floating rates is considered to be equal to the book value since the rate reflects the market rate in a short period, and the fair value of these items approximate the book value, unless the creditworthiness of the Bank and its consolidated subsidiaries changes significantly from the inception date. The fair value of borrowed money with a fixed rate is calculated as the present value by discounting the total amount of principal and interest at an assumed interest rate for similar new loans. The fair value of borrowed money with short contractual terms (within 1 year) is considered to be equal to the book value because the fair value of these items approximates the book value.

##### Derivative Transactions

Derivative transactions consist of interest rate related contracts (interest rate futures, interest rate options, interest rate swaps, etc.), currency related contracts (currency futures, currency options, currency swaps, etc.) and bond related contracts (bond futures, bond futures options etc.). The fair value of these items is calculated from market price, discounted present value and value calculated by option pricing models, etc.

(Note 2) Financial instruments whose fair value was deemed to be extremely difficult to determine were not included in fair value of financial instruments, "Assets (5) Available-for-sale securities." These instruments were as follows:

|                                  | Book value      |                 |                           |
|----------------------------------|-----------------|-----------------|---------------------------|
|                                  | Millions of yen | Millions of yen | Thousands of U.S. dollars |
|                                  | 2016            | 2017            | 2017                      |
| Unlisted stocks (*1)(*2)         | ¥ 8,903         | ¥ 8,901         | \$ 79,338                 |
| Investments in partnerships (*3) | ¥ 79            | ¥ 240           | \$ 2,139                  |
| Total -----                      | ¥ 8,982         | ¥ 9,141         | \$ 81,477                 |

(\*1) Unlisted stocks are not included in the disclosure of fair value because the fair value is deemed extremely difficult to determine.

(\*2) The amount of unlisted stocks impaired during the years ended March 31, 2016 and 2017 were ¥0 million and nil, respectively.

(\*3) Investments in partnerships in which the partnership assets comprise unlisted stocks are not included in the disclosure of fair value because the fair value is deemed extremely difficult to determine.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

#### 4. Financial Instruments (cont' d)

(Note 3) Expected collection of monetary claims and securities with maturities:

|   | Millions of yen  |                 |                 |                 |                 |                  |
|---|------------------|-----------------|-----------------|-----------------|-----------------|------------------|
|   | 2016             |                 |                 |                 |                 |                  |
|   | Within 1<br>year | 1-3<br>years    | 3-5<br>years    | 5-7<br>years    | 7-10<br>years   | Over 10<br>years |
| Due from banks                                  | ¥192,490         | ¥ -             | ¥ -             | ¥ -             | ¥ -             | ¥ -              |
| Call loans and bills purchased                  | 50,097           | -               | -               | -               | -               | -                |
| Commercial paper and other debt<br>purchased    | 957              | -               | -               | 984             | -               | -                |
| Securities                                      | 103,710          | 216,424         | 234,796         | 137,775         | 100,548         | 55,598           |
| Held-to-maturity debt securities                | -                | -               | -               | -               | -               | -                |
| Japanese government bonds                       | -                | -               | -               | -               | -               | -                |
| Municipal bonds                                 | -                | -               | -               | -               | -               | -                |
| Short-term corporate bonds                      | -                | -               | -               | -               | -               | -                |
| Corporate bonds                                 | -                | -               | -               | -               | -               | -                |
| Others  | -                | -               | -               | -               | -               | -                |
| Securities with maturities                      | 103,710          | 216,424         | 234,796         | 137,775         | 100,548         | 55,598           |
| Japanese government bonds                       | 20,000           | 61,300          | 124,700         | 76,600          | 49,100          | 21,300           |
| Municipal bonds                                 | 26,460           | 48,914          | 28,978          | 20,477          | 30,394          | 14,975           |
| Short-term corporate bonds                      | -                | -               | -               | -               | -               | -                |
| Corporate bonds                                 | 22,306           | 58,298          | 31,022          | 19,061          | 14,628          | 13,929           |
| Others  | 34,944           | 47,912          | 50,096          | 21,637          | 6,426           | 5,394            |
| Loans and bills discounted (*1)                 | 396,898          | 335,528         | 247,449         | 176,611         | 168,972         | 318,266          |
| Lease receivables and investment<br>assets (*2) | 7,834            | 11,515          | 5,732           | 1,119           | 418             | 460              |
| <b>Total</b>                                    | <b>¥751,986</b>  | <b>¥563,467</b> | <b>¥487,977</b> | <b>¥316,489</b> | <b>¥269,938</b> | <b>¥374,324</b>  |

(\*1) Loans and bills discounted on which full repayment is not expected from debtors such as bankrupt obligors, substantially bankrupt obligors and intensively controlled obligors in the amount of ¥40,989 million and those without terms in the amount of ¥26,397 million are not included.

(\*2) Lease receivables and investment assets on which full repayment is not expected from debtors such as bankrupt obligors, substantially bankrupt obligors and intensively controlled obligors in the amount of ¥140 million are not included.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**4. Financial Instruments (cont' d)**

|   | Millions of yen  |                 |                 |                 |                 |                  |
|---|------------------|-----------------|-----------------|-----------------|-----------------|------------------|
|   | 2017             |                 |                 |                 |                 |                  |
|   | Within 1<br>year | 1-3<br>years    | 3-5<br>years    | 5-7<br>years    | 7-10 years      | Over 10<br>years |
| Due from banks                                  | ¥141,632         | ¥ -             | ¥ -             | ¥ -             | ¥ -             | ¥ -              |
| Call loans and bills purchased                  | 86,686           | -               | -               | -               | -               | -                |
| Commercial paper and other debt<br>purchased    | 786              | -               | 812             | -               | -               | -                |
| Securities                                      | 112,530          | 207,963         | 222,116         | 129,751         | 94,348          | 68,522           |
| Held-to-maturity debt securities                | -                | -               | -               | -               | -               | -                |
| Japanese government bonds                       | -                | -               | -               | -               | -               | -                |
| Municipal bonds                                 | -                | -               | -               | -               | -               | -                |
| Short-term corporate bonds                      | -                | -               | -               | -               | -               | -                |
| Corporate bonds                                 | -                | -               | -               | -               | -               | -                |
| Others  | -                | -               | -               | -               | -               | -                |
| Securities with maturities                      | 112,530          | 207,963         | 222,116         | 129,751         | 94,348          | 68,522           |
| Japanese government bonds                       | 31,500           | 73,700          | 117,000         | 62,800          | 25,200          | 21,300           |
| Municipal bonds                                 | 29,477           | 47,075          | 24,405          | 22,700          | 32,022          | 24,343           |
| Short-term corporate bonds                      | -                | -               | -               | -               | -               | -                |
| Corporate bonds                                 | 35,703           | 39,951          | 25,773          | 19,215          | 13,935          | 18,238           |
| Others  | 15,850           | 47,237          | 54,938          | 25,036          | 23,191          | 4,641            |
| Loans and bills discounted (*1)                 | 390,395          | 331,117         | 273,300         | 177,128         | 184,573         | 339,784          |
| Lease receivables and investment<br>assets (*2) | 8,076            | 11,646          | 5,936           | 1,291           | 477             | 424              |
| <b>Total</b>                                    | <b>¥740,105</b>  | <b>¥550,726</b> | <b>¥502,164</b> | <b>¥308,170</b> | <b>¥279,398</b> | <b>¥408,730</b>  |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**4. Financial Instruments (cont' d)**

|   | Thousands of U.S. dollars |                    |                    |                    |                    |                    |
|---|---------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | 2017                      |                    |                    |                    |                    |                    |
|   | Within 1<br>year          | 1-3<br>years       | 3-5<br>years       | 5-7<br>years       | 7-10<br>years      | Over 10<br>years   |
| Due from banks                                  | \$1,262,430               | \$ -               | \$ -               | \$ -               | \$ -               | \$ -               |
| Call loans and bills purchased                  | 772,671                   | -                  | -                  | -                  | -                  | -                  |
| Commercial paper and other debt<br>purchased    | 7,006                     | -                  | 7,238              | -                  | -                  | -                  |
| Securities                                      | 1,003,031                 | 1,853,668          | 1,979,820          | 1,156,529          | 840,966            | 610,768            |
| Held-to-maturity debt securities                | -                         | -                  | -                  | -                  | -                  | -                  |
| Japanese government bonds                       | -                         | -                  | -                  | -                  | -                  | -                  |
| Municipal bonds                                 | -                         | -                  | -                  | -                  | -                  | -                  |
| Short-term corporate bonds                      | -                         | -                  | -                  | -                  | -                  | -                  |
| Corporate bonds                                 | -                         | -                  | -                  | -                  | -                  | -                  |
| Others  | -                         | -                  | -                  | -                  | -                  | -                  |
| Securities with maturities                      | 1,003,031                 | 1,853,668          | 1,979,820          | 1,156,529          | 840,966            | 610,768            |
| Japanese government bonds                       | 280,774                   | 656,921            | 1,042,874          | 559,765            | 224,618            | 189,857            |
| Municipal bonds                                 | 262,742                   | 419,601            | 217,533            | 202,335            | 285,427            | 216,980            |
| Short-term corporate bonds                      | -                         | -                  | -                  | -                  | -                  | -                  |
| Corporate bonds                                 | 318,237                   | 356,101            | 229,726            | 171,272            | 124,209            | 162,564            |
| Others  | 141,278                   | 421,045            | 489,687            | 223,157            | 206,712            | 41,367             |
| Loans and bills discounted (*1)                 | 3,479,766                 | 2,951,395          | 2,436,046          | 1,578,822          | 1,645,182          | 3,028,648          |
| Lease receivables and investment<br>assets (*2) | 71,985                    | 103,806            | 52,910             | 11,507             | 4,252              | 3,779              |
| <b>Total</b>                                    | <b>\$6,596,889</b>        | <b>\$4,908,869</b> | <b>\$4,476,014</b> | <b>\$2,746,858</b> | <b>\$2,490,400</b> | <b>\$3,643,195</b> |

(\*1) Loans and bills discounted on which full repayment is not expected from debtors such as bankrupt obligors, substantially bankrupt obligors and intensively controlled obligors in the amount of ¥38,605 million (\$344,104 thousand) and those without terms in the amount of ¥25,717 million (\$229,227 thousand) are not included.

(\*2) Lease receivables and investment assets on which full repayment is not expected from debtors such as bankrupt obligors, substantially bankrupt obligors and intensively controlled obligors in the amount of ¥152 million (\$1,355 thousand) are not included.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

#### 4. Financial Instruments (cont' d)

(Note 4) Amount payable for borrowed money and other interest bearing liabilities:

|                                    | Millions of yen    |                  |                 |                |                |                  |
|------------------------------------|--------------------|------------------|-----------------|----------------|----------------|------------------|
|                                    | 2016               |                  |                 |                |                |                  |
|                                    | Within 1<br>year   | 1-3<br>years     | 3-5<br>years    | 5-7<br>years   | 7-10<br>years  | Over 10<br>years |
| Deposits (*)                       | ¥ 2,419,474        | ¥ 172,171        | ¥ 11,388        | ¥ 1,172        | ¥ 2,019        | ¥ -              |
| Negotiable certificates of deposit | 99,853             | 1,150            | -               | -              | -              | -                |
| Call money and bills sold          | 12,545             | -                | -               | -              | -              | -                |
| Borrowed money                     | 4,357              | 26,735           | 2,878           | -              | -              | -                |
| Bonds                              | -                  | 10,000           | -               | -              | -              | -                |
| <b>Total</b>                       | <b>¥ 2,536,229</b> | <b>¥ 210,056</b> | <b>¥ 14,266</b> | <b>¥ 1,172</b> | <b>¥ 2,019</b> | <b>¥ -</b>       |

|                                    | Millions of yen    |                  |                 |                |                |                  |  |  |
|------------------------------------|--------------------|------------------|-----------------|----------------|----------------|------------------|--|--|
|                                    | 2017               |                  |                 |                |                |                  |  |  |
|                                    | Within 1<br>year   | 1-3<br>years     | 3-5<br>years    | 5-7<br>years   | 7-10<br>years  | Over 10<br>years |  |  |
| Deposits (*)                       | ¥ 2,493,725        | ¥ 151,276        | ¥ 23,665        | ¥ 1,515        | ¥ 1,506        | ¥ -              |  |  |
| Negotiable certificates of deposit | 100,457            | 1,300            | -               | -              | -              | -                |  |  |
| Call money and bills sold          | 23,037             | -                | -               | -              | -              | -                |  |  |
| Borrowed money                     | 4,755              | 27,551           | 2,507           | -              | -              | -                |  |  |
| Bonds                              | 10,000             | -                | -               | -              | -              | -                |  |  |
| <b>Total</b>                       | <b>¥ 2,631,974</b> | <b>¥ 180,127</b> | <b>¥ 26,172</b> | <b>¥ 1,515</b> | <b>¥ 1,506</b> | <b>¥ -</b>       |  |  |

|                                    | Thousands of U.S. dollars |                    |                   |                  |                  |                  |  |
|------------------------------------|---------------------------|--------------------|-------------------|------------------|------------------|------------------|--|
|                                    | 2017                      |                    |                   |                  |                  |                  |  |
|                                    | Within 1<br>year          | 1-3<br>years       | 3-5<br>years      | 5-7<br>years     | 7-10<br>years    | Over 10<br>years |  |
| Deposits (*)                       | \$22,227,694              | \$1,348,391        | \$ 210,937        | \$ 13,504        | \$ 13,423        | \$ -             |  |
| Negotiable certificates of deposit | 895,418                   | 11,588             | -                 | -                | -                | -                |  |
| Call money and bills sold          | 205,339                   | -                  | -                 | -                | -                | -                |  |
| Borrowed money                     | 42,384                    | 245,574            | 22,346            | -                | -                | -                |  |
| Bonds                              | 89,135                    | -                  | -                 | -                | -                | -                |  |
| <b>Total</b>                       | <b>\$23,459,970</b>       | <b>\$1,605,553</b> | <b>\$ 233,283</b> | <b>\$ 13,504</b> | <b>\$ 13,423</b> | <b>\$ -</b>      |  |

(\*) Demand deposits are included in "Within 1 year."

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 5. Securities

Unsecured securities that have been loaned and that allow the borrowers to sell the borrowed securities amounted to ¥112,437 million and ¥85,509 million (\$762,180 thousand) as of March 31, 2016 and 2017, respectively, and are included in Japanese government bonds in Securities.

(1) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2016 and 2017. The amounts in the following tables include trading account securities and trust beneficiary interests in commercial paper and other debt purchased as well as securities

① Trading securities:

|  | Millions of yen |       | Thousands of<br>U.S. dollars |
|--|-----------------|-------|------------------------------|
|  | 2016            | 2017  | 2017                         |
| Amount of net unrealized gains (losses) included in statements of income ----- | ¥ 4             | ¥ (0) | \$ (0)                       |

② Held-to-maturity debt securities for the years ended March 31, 2016 and 2017:

Not applicable.

③ Available-for-sale securities:

※Book value exceeded acquisition cost.

|                              | Millions of yen      |                     |            |
|------------------------------|----------------------|---------------------|------------|
|                              | 2016                 |                     |            |
|                              | Book (fair)<br>value | Acquisition<br>cost | Difference |
| Equity securities -----      | ¥ 108,346            | ¥ 44,292            | ¥ 64,054   |
| Bonds:                       |                      |                     |            |
| Japanese government bonds -- | 341,008              | 326,408             | 14,600     |
| Municipal bonds -----        | 161,836              | 156,381             | 5,455      |
| Corporate bonds -----        | 152,077              | 146,449             | 5,628      |
| Other -----                  | 189,137              | 178,373             | 10,764     |
| Total -----                  | ¥ 952,404            | ¥ 851,903           | ¥ 100,501  |

※ Book value did not exceed acquisition cost.

|                              |             |           |           |
|------------------------------|-------------|-----------|-----------|
| Equity securities -----      | ¥ 2,757     | ¥ 3,214   | ¥ (457)   |
| Bonds:                       |             |           |           |
| Japanese government bonds -- | 30,732      | 31,098    | (366)     |
| Municipal bonds -----        | 14,885      | 14,943    | (58)      |
| Corporate bonds -----        | 13,037      | 13,123    | (86)      |
| Other -----                  | 41,334      | 42,413    | (1,079)   |
| Total -----                  | ¥ 102,745   | ¥ 104,791 | ¥ (2,046) |
| Grand total -----            | ¥ 1,055,149 | ¥ 956,694 | ¥ 98,455  |



Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

5. Securities (cont'd)

※Book value exceeded acquisition cost.

|                             | Millions of yen      |                     |                  |
|-----------------------------|----------------------|---------------------|------------------|
|                             | 2017                 |                     |                  |
|                             | Book (fair)<br>value | Acquisition<br>cost | Difference       |
| Equity securities -----     | ¥ 130,565            | ¥ 46,633            | ¥ 83,932         |
| Bonds:                      |                      |                     |                  |
| Japanese government bonds - | 311,028              | 300,073             | 10,955           |
| Municipal bonds -----       | 139,353              | 135,812             | 3,541            |
| Corporate bonds -----       | 134,149              | 130,398             | 3,751            |
| Other -----                 | 135,907              | 128,108             | 7,799            |
| Total -----                 | <u>¥ 851,002</u>     | <u>¥ 741,024</u>    | <u>¥ 109,978</u> |

※ Book value did not exceed acquisition cost.

|                             |                    |                  |                  |
|-----------------------------|--------------------|------------------|------------------|
| Equity securities -----     | ¥ 2,244            | ¥ 2,603          | ¥ (359)          |
| Bonds:                      |                    |                  |                  |
| Japanese government bonds - | 34,979             | 35,429           | (450)            |
| Municipal bonds -----       | 46,645             | 47,128           | (483)            |
| Corporate bonds -----       | 23,392             | 23,666           | (274)            |
| Other -----                 | 133,407            | 136,306          | (2,899)          |
| Total -----                 | <u>¥ 240,667</u>   | <u>¥ 245,132</u> | <u>¥ (4,465)</u> |
| Grand total -----           | <u>¥ 1,091,669</u> | <u>¥ 986,156</u> | <u>¥ 105,513</u> |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

5. Securities (cont' d)

※ Book value exceeded acquisition cost.

|                              | Thousands of U.S. dollars |                     |            |
|------------------------------|---------------------------|---------------------|------------|
|                              | 2017                      |                     |            |
|                              | Book (fair)<br>value      | Acquisition<br>cost | Difference |
| Equity securities -----      | \$ 1,163,785              | \$ 415,661          | \$ 748,124 |
| Bonds:                       |                           |                     |            |
| Japanese government bonds -- | 2,772,333                 | 2,674,686           | 97,647     |
| Municipal bonds -----        | 1,242,116                 | 1,210,553           | 31,563     |
| Corporate bonds -----        | 1,195,730                 | 1,162,296           | 33,434     |
| Other -----                  | 1,211,400                 | 1,141,884           | 69,516     |
| Total -----                  | \$ 7,585,364              | \$ 6,605,080        | \$ 980,284 |

※ Book value did not exceed acquisition cost.

|                              |              |              |             |
|------------------------------|--------------|--------------|-------------|
| Equity securities -----      | \$ 20,002    | \$ 23,202    | \$ (3,200)  |
| Bonds:                       |              |              |             |
| Japanese government bonds -- | 311,784      | 315,795      | (4,011)     |
| Municipal bonds -----        | 415,768      | 420,073      | (4,305)     |
| Corporate bonds -----        | 208,503      | 210,945      | (2,442)     |
| Other -----                  | 1,189,116    | 1,214,957    | (25,841)    |
| Total -----                  | \$ 2,145,173 | \$ 2,184,972 | \$ (39,799) |
| Grand total -----            | \$ 9,730,537 | \$ 8,790,052 | \$ 940,485  |

⑤ Held-to-maturity debt securities sold for the years ended March 31, 2016 and 2017:

Not applicable.

⑥ Available-for-sale securities sold in the years ended March 31, 2016 and 2017:

|                              | Millions of yen |         |        |
|------------------------------|-----------------|---------|--------|
|                              | 2016            |         |        |
|                              | Amount sold     | Gains   | Losses |
| Equity securities -----      | ¥ 3,120         | ¥ 1,564 | ¥ 112  |
| Bonds:                       |                 |         |        |
| Japanese government bonds -- | 50,155          | 1,002   | 253    |
| Municipal bonds -----        | 7,264           | 10      | -      |
| Corporate bonds -----        | 5,425           | 19      | 0      |
| Other -----                  | 24,250          | 292     | 159    |
| Total -----                  | ¥ 90,214        | ¥ 2,887 | ¥ 524  |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

5. Securities (cont' d)

|                             | Millions of yen |         |        |
|-----------------------------|-----------------|---------|--------|
|                             | 2017            |         |        |
|                             | Amount sold     | Gains   | Losses |
| Equity securities -----     | ¥ 5,320         | ¥ 2,322 | ¥ 39   |
| Bonds:                      |                 |         |        |
| Japanese government bonds - | 14,930          | 396     | 33     |
| Municipal bonds -----       | 25,237          | 52      | -      |
| Corporate bonds-----        | 4,899           | 15      | -      |
| Other -----                 | 36,636          | 425     | 329    |
| Total -----                 | ¥ 87,022        | ¥ 3,210 | ¥ 401  |

|                             | Thousands of U.S. dollars |           |          |
|-----------------------------|---------------------------|-----------|----------|
|                             | 2017                      |           |          |
|                             | Amount sold               | Gains     | Losses   |
| Equity securities -----     | \$ 47,419                 | \$ 20,697 | \$ 348   |
| Bonds:                      |                           |           |          |
| Japanese government bonds - | 133,078                   | 3,530     | 294      |
| Municipal bonds -----       | 224,949                   | 463       | -        |
| Corporate bonds-----        | 43,667                    | 134       | -        |
| Other -----                 | 326,553                   | 3,788     | 2,932    |
| Total -----                 | \$ 775,666                | \$ 28,612 | \$ 3,574 |

⑦ Securities reclassified for the years ended March 31, 2016 and 2017:

Not applicable.

⑧ Available-for-sale securities with market values are considered impaired if the market value decreases materially below the acquisition cost and the decline is not considered recoverable. The market value is used for the balance sheet amount, and the amount of write-down is accounted for as an impairment loss for the fiscal year. Impairment loss for the fiscal year ended March 31, 2016 was ¥10 million, including nil of equity securities and ¥10 million of other. No impairment loss was recorded for the year ended March 31, 2017.

The market value is deemed to have decreased materially when it has fallen by 50% or more from the acquisition cost. In such cases, impairment accounting is applied uniformly. In cases in which the market value has fallen by 30% or more but less than 50%, historical price trends over a specific period and the recent business performance of the issuing company are taken into account to determine whether or not the acquisition cost can be recovered. Securities whose acquisition costs are deemed not to be recoverable are written down to the current market value.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**5. Securities (cont' d)**

(2) Net unrealized holding gains on securities stated at market value at March 31, 2016 and 2017 were as follows:

|  | Millions of yen |                 | Thousands of<br>U.S. dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2016            | 2017            | 2017                         |
| Available-for-sale securities -----  | ¥ 98,455        | ¥ 105,513       | \$ 940,485                   |
| Deferred tax assets  | -               | -               | -                            |
| Deferred tax liabilities -----   | (29,608)        | (31,751)        | (283,011)                    |
| Net unrealized holding gains on securities<br>(before adjustment for noncontrolling<br>interests)----- | 68,847          | 73,762          | 657,474                      |
| Noncontrolling interests-----  | (1,243)         | (1,623)         | (14,466)                     |
| Net unrealized holding gains on securities ---   | <u>¥ 67,604</u> | <u>¥ 72,139</u> | <u>\$ 643,008</u>            |

(3) At March 31, 2016 and 2017, the amount of guarantee obligations for privately placed bonds (Securities and Exchange Law, Article 2, Item 3) included in corporate bonds amounted to ¥11,825 million and ¥14,128 million (\$125,929 thousand), respectively.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 6. Loans and Bills Discounted

At March 31, 2016 and 2017, loans and bills discounted included the following:

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2016            | 2017     | 2017                         |
| Loans to bankrupt customers-----         | ¥ 2,554         | ¥ 1,825  | \$ 16,267                    |
| Non-accrual loans-----                   | 38,574          | 36,931   | 329,183                      |
| Loans past due three months or more----- | 178             | 504      | 4,492                        |
| Restructured loans -----                 | 6,640           | 10,943   | 97,540                       |
| Total -----                              | ¥ 47,946        | ¥ 50,203 | \$ 447,482                   |

The amounts above represent gross receivable amounts before deducting reserve for possible loan losses.

Loans to bankrupt customers are loans to customers undergoing bankruptcy or similar proceedings or who are in similar financial condition. Interest is not being accrued on these loans as there is a strong likelihood that the principal and interest are uncollectible.

Non-accrual loans are loans on which accrued interest income is not recognized, excluding “Bankrupt loans” and loans on which interest payments are deferred in order to support the borrowers’ recovery from financial difficulties.

Loans past due three months or more are loans not included in the above categories or in restructured loans for which payments are past due three months or more but less than six months.

Restructured loans are loans not included in the above categories for which the Bank has granted concessions such as reduced interest rates or the deferral or waiver of interest and/or principal payments to support customers in financial difficulties.

## 7. Commercial Bills

Discounts of commercial bills are accounted for as financing transactions as stipulated in “Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No. 24, February 13, 2002). The Bank has rights to use commercial bills discounted or foreign exchange purchased in the form of sale or use as (re)collateral. The total face value of commercial bills obtained as a result of discounting was ¥16,166 million and ¥14,163 million (\$126,241 thousand) at March 31, 2016 and 2017, respectively.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 8. Commitment Lines

Loan agreements and commitment line agreements related to loans are agreements which oblige the Bank and its consolidated subsidiaries to lend funds up to a certain limit agreed to in advance. The Bank and its consolidated subsidiaries lend the funds upon the request of the borrower to draw down funds under the agreement as long as there is no breach of the various terms and conditions stipulated in the agreement. The unused commitment balances related to these agreements at March 31, 2016 and 2017 amounted to ¥364,789 million and ¥371,680 million (\$3,312,951 thousand), respectively. Of these amounts, ¥359,118 million and ¥366,181 million (\$3,263,936 thousand), respectively, related to loans in which the term of the agreement was one year or less or in which unconditional cancellation of the agreement was allowed at any time.

In many cases, the term of the agreement expires without the loan ever being drawn down. In these cases, the unused loan commitment does not necessarily affect future cash flows. Conditions are also included in certain loan agreements which allow the Bank and its consolidated subsidiaries either to decline the request for a loan drawdown or to reduce the agreed to limit when there is cause to do so, such as when there is a change in financial condition of the borrower or when it is necessary to protect the Bank or its consolidated subsidiaries' credit.

The Bank and its consolidated subsidiaries take various measures to protect their credit. Such measures include having the obligor pledge collateral such as real estate or securities on signing the loan agreement or confirming the obligor's financial condition at regular intervals in accordance with the Bank and its consolidated subsidiaries' established internal procedures.

## 9. Assets Pledged

At March 31, 2016 and 2017, assets and future receipts pledged as collateral were as follows:

|                  | Millions of yen |        | Thousands of<br>U.S. dollars |  |
|------------------|-----------------|--------|------------------------------|--|
|                  | 2016            | 2017   | 2017                         |  |
|                  | ¥               | ¥      | \$                           |  |
| Securities ----- | 74,743          | 69,120 | 616,098                      |  |

The above pledged amounts secure the following liabilities:

|   | Millions of yen |        | Thousands of<br>U.S. dollars |  |
|---|-----------------|--------|------------------------------|--|
|   | 2016            | 2017   | 2017                         |  |
|   | ¥               | ¥      | \$                           |  |
| Deposits -----  | 14,715          | 11,370 | 101,346                      |  |
| Payables under securities lending<br>transactions ----- | 39,929          | 34,271 | 305,473                      |  |
| Borrowed money -----                                    | 20,000          | 20,000 | 178,269                      |  |

At March 31, 2016 and 2017, certain investment securities amounting to ¥41,323 million and ¥36,188 million (\$322,560 thousand), respectively, and other assets of ¥25 million and ¥7,221 million (\$64,364 thousand), respectively, were pledged as collateral for exchange settlement and handling and others of government funds, or in substitution for clearing margins on futures and others.

At March 31, 2016 and 2017, other assets included cash collateral paid for financial instruments of nil and ¥9,948 million (\$88,671 thousand), respectively, and guarantee deposits of ¥318 million and ¥320 million (\$2,852 thousand), respectively.

## 10. Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets at March 31, 2016 and 2017 amounted to ¥34,314 million and ¥33,223 million (\$296,132 thousand), respectively. Accumulated capital gains that directly offset acquisition costs of tangible fixed assets to obtain tax benefits at March 31, 2016 and 2017 amounted to ¥827 million and ¥827 million (\$7,371 thousand), respectively. No such offset was recorded for the years ended March 31, 2016 and 2017.

## 11. Land Revaluation Account

In accordance with the Land Revaluation Law, the Bank revalued land used in the ordinary course of business as of March 31, 1999. The revaluation excess, net of deferred taxes, is shown as land revaluation account, a separate component of shareholders' equity. At March 31, 2016 and 2017, the current market values of the revalued land decreased from the revalued amount by ¥9,658 million and ¥8,777 million (\$78,233 thousand), respectively.

## 12. General and Administrative Expenses

For the years ended March 31, 2016 and 2017, general and administrative expenses included salaries and allowances of ¥10,738 million and ¥10,425 million (\$92,923 thousand), respectively, and outsourcing expenses of ¥3,369 million and ¥3,445 million (\$30,707 thousand), respectively.

## 13. Other Income

For the years ended March 31, 2016 and 2017, other income included gain on sale of securities of ¥1,828 million and ¥2,603 million (\$23,202 thousand), respectively.

## 14. Other Expenses

(1) For the years ended March 31, 2016 and 2017, other expenses included loans written off of ¥44 million and ¥18 million (\$160 thousand), respectively, loss on sale of securities of ¥112 million and ¥39 million (\$348 thousand), respectively, and securities written off of ¥0 million and nil, respectively.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**14. Other Expenses (cont' d)**

(2) Impairment loss

For the year ended March 31, 2016, a description is omitted because the amount was immaterial.

For the year ended March 31, 2017, the Bank reduced the book value of the business use assets whose operating cash flows decreased and the real estate values declined and assets to be disposed of due to relocation and rebuilding to the recoverable amounts and recognized impairment loss of ¥1,260 million (\$11,231 thousand).

|                  | Area           | Purpose of use      | Type        | Impairment loss    |                           |           |
|------------------|----------------|---------------------|-------------|--------------------|---------------------------|-----------|
|                  |                |                     |             | Millions of yen    | Thousands of U.S. dollars |           |
|                  |                |                     |             | 2017               |                           |           |
| Operating assets | Tokushima area | Branches and others | 4 locations | Land and buildings | ¥ 552                     | \$ 4,920  |
|                  |                |                     |             | (Land)             | 10                        | 89        |
|                  |                |                     |             | (Buildings)        | 542                       | 4,831     |
|                  | Other area     | Branches            | 2 locations | Land and buildings | 707                       | 6,302     |
|                  |                |                     |             | (Land)             | 680                       | 6,061     |
|                  |                |                     |             | (Buildings)        | 27                        | 241       |
| Idle assets      | Tokushima area | Idle assets         | 2 locations | Land               | 1                         | 9         |
| Total            |                |                     |             |                    | ¥ 1,260                   | \$ 11,231 |
|                  |                |                     |             | (Land)             | ¥ 690                     | \$ 6,150  |
|                  |                |                     |             | (Buildings)        | 570                       | 5,081     |

The Bank allocates its assets to each branch (or group of branches if the management is in a group) which is the smallest unit of an asset group, and the consolidated subsidiaries regard each entity as a unit in a group. The recoverable amount is the net realizable value, which is determined by the appraisal value based on Real Estate Appraisal Standards less the expected disposal cost or zero for assets to be disposed of due to relocation or rebuilding.

(3) Reserve for asset demolition costs

For the year ended March 31, 2016, no reserve for asset demolition costs was recorded.

For the year ended March 31, 2017, the Bank recorded reserve for asset demolition costs of ¥447 million (\$3,984 thousand) for the future payment of demolition costs of the Awagin Shinmachi Building, which the Head Office Sales Department is planning to relocate to after a new building is constructed.



Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 15. Other Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2016 and 2017 were as follows:

|  | Millions of yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | 2016            | 2017    | 2017                         |
| Net unrealized holding gains (losses) on securities                  |                 |         |                              |
| Increase (decrease) during the year -----                            | ¥ (5,764)       | ¥ 9,828 | \$ 87,601                    |
| Reclassification adjustments -----                                   | (2,357)         | (2,770) | (24,690)                     |
| Subtotal, before tax -----   | (8,121)         | 7,058   | 62,911                       |
| Tax (expense) benefit -----  | 4,086           | (2,142) | (19,092)                     |
| Subtotal, net of tax -----   | (4,035)         | 4,916   | 43,819                       |
| Net deferred gains (losses) on derivatives under hedge<br>accounting |                 |         |                              |
| Increase (decrease) during the year -----                            | (3,381)         | (1,244) | (11,088)                     |
| Reclassification adjustments -----                                   | 1,198           | 2,063   | 18,388                       |
| Subtotal, before tax -----   | (2,183)         | 819     | 7,300                        |
| Tax (expense) benefit -----  | 626             | (249)   | (2,219)                      |
| Subtotal, net of tax -----   | (1,557)         | 570     | 5,081                        |
| Land revaluation account   |                 |         |                              |
| Increase (decrease) during the year -----                            | -               | -       | -                            |
| Reclassification adjustments -----                                   | -               | -       | -                            |
| Subtotal, before tax -----   | -               | -       | -                            |
| Tax (expense) benefit -----  | 156             | -       | -                            |
| Subtotal, net of tax -----   | 156             | -       | -                            |
| Remeasurements of defined benefit plans                              |                 |         |                              |
| Increase (decrease) during the year -----                            | (4,372)         | 734     | 6,543                        |
| Reclassification adjustments -----                                   | 343             | 850     | 7,576                        |
| Subtotal, before tax -----   | (4,029)         | 1,584   | 14,119                       |
| Tax (expense) benefit -----  | 1,250           | (479)   | (4,270)                      |
| Subtotal, net of tax -----   | (2,779)         | 1,105   | 9,849                        |
| Total other comprehensive income -----                               | ¥ (8,215)       | ¥ 6,591 | \$ 58,749                    |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 16. Income Taxes

The Bank and its consolidated subsidiaries are subject to a number of taxes based on income, including corporation tax, inhabitants tax and enterprise tax, which in the aggregate indicate a statutory rate of approximately 32.8% for the year ended March 31, 2016.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2016 was as follows:

|   |              |
|---|--------------|
|   | <u>2016</u>  |
| Statutory tax rate  | 32.8%        |
| (Adjustments)   |              |
| Items permanently excluded from expenses such as entertainment expenses | 0.3          |
| Items permanently excluded from income such as dividend income          | (1.1)        |
| Inhabitants tax on per capita basis                                     | 0.2          |
| Increase (decrease) in valuation allowance                              | (0.3)        |
| Reduction of deferred tax assets due to a change in tax rate            | 3.3          |
| Others  | <u>(0.1)</u> |
| Effective tax rate after application of deferred income tax accounting  | <u>35.1%</u> |

The reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2017 was not disclosed because the difference between the statutory tax rate and effective tax rate was less than 5% of the statutory tax rate.

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

|  | <u>Millions of yen</u> |                   | <u>Thousands of</u> |
|--|------------------------|-------------------|---------------------|
|  | <u>2016</u>            | <u>2017</u>       | <u>U.S. dollars</u> |
|  |                        |                   | <u>2017</u>         |
| Deferred tax assets:   |                        |                   |                     |
| Excess reserve for possible loan losses -----                              | ¥ 11,037               | ¥ 10,399          | \$ 92,691           |
| Excess depreciation -----  | 579                    | 699               | 6,230               |
| Net defined benefit liability -----  | 851                    | 513               | 4,573               |
| Tax loss carryforwards -----   | 33                     | 24                | 214                 |
| Net deferred gains (losses) on derivatives under hedge<br>accounting ----- | 1,408                  | 1,159             | 10,331              |
| Others -----   | 2,156                  | 2,227             | 19,850              |
| Valuation allowance -----  | <u>(1,968)</u>         | <u>(1,838)</u>    | <u>(16,383)</u>     |
| Total deferred tax assets -----  | 14,096                 | 13,183            | 117,506             |
| Deferred tax liabilities:  |                        |                   |                     |
| Deferred gains on real property -----                                      | (244)                  | (244)             | (2,175)             |
| Unrealized gains on securities -----                                       | (29,608)               | (31,751)          | (283,011)           |
| Others -----   | <u>(17)</u>            | <u>(17)</u>       | <u>(151)</u>        |
| Total deferred tax liabilities -----                                       | <u>(29,869)</u>        | <u>(32,012)</u>   | <u>(285,337)</u>    |
| Net deferred tax liabilities -----   | <u>¥ (15,773)</u>      | <u>¥ (18,829)</u> | <u>\$ (167,831)</u> |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 17. Acceptances and Guarantees

All commitments and contingent liabilities arising in connection with customers' needs in foreign trade and other transactions are included in "Acceptances and guarantees" in Liabilities in the Consolidated Balance Sheets. A contra account, "Customers' liabilities for acceptances and guarantees," representing the Bank's right of indemnity from customers is shown in Assets.

## 18. Borrowed Money

Borrowed money at March 31, 2016 and 2017 consisted of the following:

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2016            | 2017     | 2017                         |
| Borrowings from banks and others-----                  | ¥ 33,970        | ¥ 34,813 | \$ 310,304                   |
| Lease obligations (included in other liabilities)----- | ¥ 132           | ¥ 362    | \$ 3,227                     |

The following is a summary of aggregate annual maturities of borrowings from banks and others and lease obligations at March 31, 2017

•Borrowings from banks and others:

| Year ending March 31:     | Millions of yen | Thousands of<br>U.S. dollars |
|---------------------------|-----------------|------------------------------|
| 2018-----                 | ¥ 4,755         | \$ 42,384                    |
| 2019-----                 | 24,193          | 215,643                      |
| 2020-----                 | 3,357           | 29,922                       |
| 2021-----                 | 1,790           | 15,955                       |
| 2022-----                 | 718             | 6,400                        |
| 2023 and thereafter ----- | -               | -                            |
| Total -----               | ¥ 34,813        | \$ 310,304                   |

•Lease obligations:

| Year ending March 31:     | Millions of yen | Thousands of<br>U.S. dollars |
|---------------------------|-----------------|------------------------------|
| 2018 -----                | ¥ 109           | \$ 971                       |
| 2019 -----                | 83              | 740                          |
| 2020 -----                | 63              | 562                          |
| 2021 -----                | 53              | 472                          |
| 2022 -----                | 49              | 437                          |
| 2023 and thereafter ----- | 5               | 45                           |
| Total -----               | ¥ 362           | \$ 3,227                     |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 19. Bonds

Bonds at March 31, 2016 and 2017 consisted of the following:

|   | Millions of yen |          | Thousands of<br>U.S. dollars |
|---|-----------------|----------|------------------------------|
|   | 2016            | 2017     | 2017                         |
| 0.52% bonds, due December 21, 2017 <sup>*1, 2</sup> | ¥ 10,000        | ¥ 10,000 | \$ 89,135                    |
| Total-----  | ¥ 10,000        | ¥ 10,000 | \$ 89,135                    |

<sup>\*1</sup> Terms and conditions of the bonds contain inter-bond pari passu clauses.

<sup>\*2</sup> There is a fixed interest rate of 0.52% through December 21, 2017.

## 20. Employees' Severance and Retirement Benefits

### (1) Overview of retirement benefit plan

The Bank and its consolidated subsidiaries provide a funded contributory pension plan under the Defined Benefit Corporate Pension Law and a lump-sum payment plan as defined benefit plans. The funded contributory pension plans, which were transferred from the welfare pension fund with approval from the Minister of Health, Labour and Welfare, have been provided effective from September 1, 2004. Retirement benefit plans were revised on September 1, 2004 and a "Point system" was introduced in the calculation of retirement benefits. In addition, a portion of the lump-sum payment plans were transferred to defined contribution plans on December 1, 2004. The Bank also has established a retirement benefit trust.

Consolidated subsidiaries apply the simplified method for their lump-sum payment plans in the calculation of net defined benefit liability and retirement benefit expenses.

### (2) Defined benefit plans

① Movement in projected benefit obligation (excluding plans to which the simplified method is applied):

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2016            | 2017     | 2017                         |
| Projected benefit obligation at beginning of year -- | ¥ 28,437        | ¥ 31,520 | \$ 280,952                   |
| Service cost -----                                   | 701             | 802      | 7,149                        |
| Interest cost -----                                  | 296             | 192      | 1,711                        |
| Actuarial differences -----                          | 3,696           | (447)    | (3,984)                      |
| Retirement benefits paid -----                       | (1,610)         | (1,464)  | (13,050)                     |
| Projected benefit obligation at end of year -----    | ¥ 31,520        | ¥ 30,603 | \$ 272,778                   |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**20. Employees' Severance and Retirement Benefits (cont' d)**

② Movement in plan assets:

|  | Millions of yen |                 | Thousands of<br>U.S. dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2016            | 2017            | 2017                         |
| Plan assets at beginning of year ----- | ¥ 33,213        | ¥ 32,110        | \$ 286,211                   |
| Expected return on plan assets -----   | 596             | 580             | 5,170                        |
| Actuarial differences -----            | (677)           | 287             | 2,558                        |
| Employer contribution -----            | 29              | 29              | 259                          |
| Employee contribution -----            | 33              | 33              | 294                          |
| Retirement benefits paid -----         | (1,084)         | (1,075)         | (9,582)                      |
| Plan assets at end of year -----       | <u>¥ 32,110</u> | <u>¥ 31,964</u> | <u>\$ 284,910</u>            |

Note: Plan assets include the assets of the retirement benefits trust.

③ Reconciliation of net defined benefit liability applying the simplified method:

|  | Millions of yen |              | Thousands of<br>U.S. dollars |
|--|-----------------|--------------|------------------------------|
|  | 2016            | 2017         | 2017                         |
| Net defined benefit liability at beginning of year --- | ¥ 216           | ¥ 233        | \$ 2,077                     |
| Net retirement benefit expenses -----                  | 28              | 18           | 161                          |
| Retirement benefits paid -----                         | (11)            | (5)          | (45)                         |
| Net defined benefit liability at end of year -----     | <u>¥ 233</u>    | <u>¥ 246</u> | <u>\$ 2,193</u>              |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**20. Employees' Severance and Retirement Benefits (cont' d)**

④ Reconciliation from the ending balances of projected benefit obligation and plan assets to net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet:

|  | Millions of yen |           | Thousands of<br>U.S. dollars |
|--|-----------------|-----------|------------------------------|
|  | 2016            | 2017      | 2017                         |
| Funded projected benefit obligation -----                                  | ¥ 26,259        | ¥ 25,468  | \$ 227,008                   |
| Plan assets -----  | (32,110)        | (31,964)  | (284,910)                    |
|  | (5,851)         | (6,496)   | (57,902)                     |
| Unfunded projected benefit obligation -----                                | 5,494           | 5,381     | 47,963                       |
| Net liability and asset<br>recorded on the consolidated balance sheet ---- | ¥ (357)         | ¥ (1,115) | \$ (9,939)                   |
| Net defined benefit liability -----  | ¥ 5,494         | ¥ 5,381   | \$ 47,963                    |
| Net defined benefit asset -----  | (5,851)         | (6,496)   | (57,902)                     |
| Net liability and asset<br>recorded on the consolidated balance sheet ---- | ¥ (357)         | ¥ (1,115) | \$ (9,939)                   |

Notes:

1. Plan assets include the assets of the retirement benefits trust.
2. The above table includes plans applying the simplified method.

⑤ Net retirement benefit expenses and their breakdown:

|   | Millions of yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2016            | 2017    | 2017                         |
| Service cost -----                          | ¥ 696           | ¥ 787   | \$ 7,015                     |
| Interest cost -----                         | 296             | 192     | 1,711                        |
| Expected return on plan assets -----        | (596)           | (580)   | (5,170)                      |
| Amortization of actuarial differences ----- | 449             | 956     | 8,522                        |
| Amortization of prior service costs -----   | (106)           | (106)   | (945)                        |
| Net retirement benefit expenses -----       | ¥ 739           | ¥ 1,249 | \$ 11,133                    |

Notes:

1. Retirement benefit expenses of the consolidated subsidiaries applying the simplified method were included in "service cost."
2. Employee contributions to the funded contributory pension plan were not included in service cost.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**20. Employees' Severance and Retirement Benefits (cont' d)**

⑥ The components of remeasurements of defined benefit plans in other comprehensive income (before income tax effect):

|                             | Millions of yen |         | Thousands of<br>U.S. dollars |
|-----------------------------|-----------------|---------|------------------------------|
|                             | 2016            | 2017    | 2017                         |
| Prior service costs -----   | ¥ (106)         | ¥ (106) | \$ (945)                     |
| Actuarial differences ----- | (3,923)         | 1,690   | 15,064                       |
| Total -----                 | ¥ (4,029)       | ¥ 1,584 | \$ 14,119                    |

⑦ The components of remeasurements of defined benefit plans in accumulated other comprehensive income (before income tax effect):

|  | Millions of yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | 2016            | 2017    | 2017                         |
| Unrecognized prior service costs -----   | ¥ (415)         | ¥ (309) | \$ (2,754)                   |
| Unrecognized actuarial differences ----- | 1,949           | 259     | 2,308                        |
| Total -----                              | ¥ 1,534         | ¥ (50)  | \$ (446)                     |

⑧ Plan assets

(i) Plan assets comprise:

|  | 2016   | 2017   |
|--|--------|--------|
| Debt securities -----                    | 56.3%  | 53.9%  |
| Equity securities -----                  | 29.3   | 31.2   |
| Life insurance general accounts -----    | 10.9   | 10.9   |
| Cash and due from banks and others ----- | 3.5    | 4.0    |
| Total -----                              | 100.0% | 100.0% |

Note: As of March 31, 2016 and 2017, 9.6% and 8.5%, respectively, of plan assets consisted of assets of the retirement benefit trust established for the funded contributory pension plan.

(ii) Determination of expected long-term rate of plan assets

The expected long-term rate of return on plan assets is determined considering the current and future portfolio of plan assets and current and expected long-term rate of return generated from various components of the plan assets.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 20. Employees' Severance and Retirement Benefits (cont' d)

⑨ Actuarial assumptions at end of year:

|  | 2016 | 2017 |
|--|------|------|
| Discount rate -----                              | 0.6% | 0.7% |
| Expected long-term rate of return on plan assets |      |      |
| Funded contributory pension plan -----           | 2.0% | 2.0% |
| Employee retirement benefit trust -----          | 0.0% | 0.0% |
| Expected salary increase rate                    |      |      |
| Funded contributory pension plan -----           | 2.0% | 2.0% |
| Lump-sum payment plan-----                       | 2.3% | 2.3% |

Notes:

1. The discount rate for the year ended March 31, 2017 was presented using a weighted average rate.
2. The expected salary increase rate is based on the expected rate of increase in points calculated for each plan as the point system is used to determine retirement benefits.

### (3) Defined contribution plans

The amount of required contribution to the defined contribution plans was ¥140 million and ¥131 million (\$1,168 thousand) as of March 31, 2016 and 2017, respectively.

## 21. Derivative Transactions

The Bank enters into various contracts, including swaps, options, forwards and futures, that cover interest rates, foreign currencies and stocks and bonds in order to meet customers' needs and manage the risks of market fluctuations related to the assets, liabilities and interest rates of the Bank and its consolidated subsidiaries. The Bank has established procedures and controls to minimize market and credit risk, including limits on transaction levels, hedging exposed positions, daily reporting to management and the outside review of trading department activities. At March 31, 2016 and 2017, outstanding derivatives were as follows:

### (1) Interest related transactions:

| Millions of yen    |                                      |                 |                              |
|--------------------|--------------------------------------|-----------------|------------------------------|
| 2016               |                                      |                 |                              |
| Contract<br>amount | Portion<br>maturing<br>over one year | Market<br>value | Recognized<br>gain<br>(loss) |

#### Over-the-counter transactions:

Interest rate swap contracts

|  |   |       |   |       |   |      |   |      |
|--|---|-------|---|-------|---|------|---|------|
| Receive floating rate, pay fixed rate--- | ¥ | 5,000 | ¥ | 5,000 | ¥ | (64) | ¥ | (64) |
|--|---|-------|---|-------|---|------|---|------|



Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 21. Derivative Transactions (cont' d)

The above transactions were recorded at market values, and recognized gains (losses) were included in the consolidated statements of income. Market values for over-the-counter transactions are calculated at discounted present values or based on option price calculation models and others. The derivative transactions for which hedge accounting was applied were excluded from the above table.

There were no interest related transactions at March 31, 2017.

### (2) Currency and foreign exchange transactions:

|                                       |                    | Millions of yen                      |                 |                              |                              |  |
|---------------------------------------|--------------------|--------------------------------------|-----------------|------------------------------|------------------------------|--|
|                                       |                    | 2016                                 |                 |                              |                              |  |
|                                       | Contract<br>amount | Portion<br>maturing<br>over one year | Market<br>value | Recognized<br>gain<br>(loss) |                              |  |
| <b>Over-the-counter transactions:</b> |                    |                                      |                 |                              |                              |  |
| Forward exchange contracts            |                    |                                      |                 |                              |                              |  |
| Sell -----                            | ¥ 11,697           | ¥ 402                                | ¥ 541           | ¥ 541                        |                              |  |
| Buy -----                             | 8,663              | 73                                   | 67              | 67                           |                              |  |
|                                       |                    | Millions of yen                      |                 |                              | Thousands of<br>U.S. dollars |  |
|                                       |                    | 2017                                 |                 |                              | 2017                         |  |
|                                       | Contract<br>amount | Portion<br>maturing<br>over one year | Market<br>value | Recognized<br>gain<br>(loss) | Recognized<br>gain<br>(loss) |  |
| <b>Over-the-counter transactions:</b> |                    |                                      |                 |                              |                              |  |
| Forward exchange contracts            |                    |                                      |                 |                              |                              |  |
| Sell -----                            | ¥ 24,910           | ¥ 149                                | ¥ (216)         | ¥ (216)                      | \$ (1,925)                   |  |
| Buy -----                             | 10,902             | 185                                  | 13              | 13                           | 116                          |  |
| Currency options                      |                    |                                      |                 |                              |                              |  |
| Sell -----                            | 33,295             | -                                    | (378)           | (40)                         | (357)                        |  |
| Buy -----                             | 33,295             | -                                    | 378             | 216                          | 1,925                        |  |

The above transactions were recorded at market values, and recognized gains (losses) were included in the consolidated statements of income. Market values for over-the-counter transactions are calculated at discounted present values for the balances at March 31, 2016 and at discounted present values or values based on option price calculation models and others for the balances at March 31, 2017. The derivative transactions for which hedge accounting was applied were excluded from the above table.

## 22. Segment Information

### (1) General information about reportable segments

The Group's reportable segments are components of the Group for which separate financial information is provided to and used by the ALM Committee and Management Meeting periodically to determine the allocation of resources and assessment of performance.

The Group is engaged mainly in commercial banking and leasing services. Therefore, the Bank and its consolidated subsidiaries recognize reportable segments by the financial services provided: 'Commercial banking' and 'Leasing.'

'Commercial banking' includes deposit services, lending services, securities investment services and exchange services. 'Commercial banking' represents the Bank's banking services and the consolidated subsidiaries' business support services, management consulting services, credit guarantee services and credit card services.

'Leasing' includes the leasing services of Awagin Leasing Company Limited, one of the consolidated subsidiaries.

### (2) Basis of measurement for reporting segment ordinary income, profit or loss, segment assets, segment liabilities and other material items.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2, "Significant Accounting Policies." Reportable segment profit is based on operating profit, and intersegment ordinary income is based on arm's length pricing.

As described in Note 2, "Significant Accounting Policies (4) Depreciation method of fixed assets," the Bank and its consolidated subsidiaries have changed the depreciation method from the declining balance method (except for buildings acquired after April 1, 1998, which had been depreciated using the straight-line method) to the straight-line method from the year ended March 31, 2017. As a result of this change, segment profit of the 'Commercial banking' segment for the year ended March 31, 2017 increased by ¥266 million (\$2,371 thousand) compared with the amount that would have been reported using the previous method. The effect of this change on segment profit of the 'Leasing' segment was immaterial.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 22. Segment Information (cont'd)

(3) Information about reported segment ordinary income, profit or loss and amounts of assets, liabilities and other material items.

Segment information as of and for the years ended March 31, 2016 and 2017 was as follows:

|  | Millions of yen    |          |             |            |                       |
|--|--------------------|----------|-------------|------------|-----------------------|
|  | 2016               |          |             |            |                       |
|  | Reportable segment |          |             |            | Consolidated<br>total |
| Commercial<br>banking  | Leasing            | Total    | Adjustments |            |                       |
| Ordinary income  |                    |          |             |            |                       |
| Customers  | ¥ 57,595           | ¥ 12,648 | ¥ 70,243    | ¥ -        | ¥ 70,243              |
| Intersegment   | 164                | 159      | 323         | (323)      | -                     |
| Total  | ¥ 57,759           | ¥ 12,807 | ¥ 70,566    | ¥ (323)    | ¥ 70,243              |
| Segment profit   | ¥ 20,394           | ¥ 775    | ¥ 21,169    | ¥ (11)     | ¥ 21,158              |
| Segment assets   | ¥ 3,087,594        | ¥ 41,174 | ¥ 3,128,768 | ¥ (12,626) | ¥ 3,116,142           |
| Segment liabilities  | ¥ 2,842,544        | ¥ 27,185 | ¥ 2,869,729 | ¥ (11,533) | ¥ 2,858,196           |
| Other items  |                    |          |             |            |                       |
| Depreciation   | ¥ 2,168            | ¥ 196    | ¥ 2,364     | ¥ 30       | ¥ 2,394               |
| Interest income received   | 43,945             | 274      | 44,219      | (65)       | 44,154                |
| Interest expense paid  | 2,674              | 126      | 2,800       | (51)       | 2,749                 |
| Extraordinary income   | -                  | 0        | 0           | -          | 0                     |
| Gains on disposal fixed assets                                   | -                  | 0        | 0           | -          | 0                     |
| Extraordinary losses   | 31                 | -        | 31          | 0          | 31                    |
| Losses on disposal of fixed assets                               | 24                 | -        | 24          | 0          | 24                    |
| Impairment loss  | 7                  | -        | 7           | -          | 7                     |
| Tax expenses   | 7,190              | 241      | 7,431       | (0)        | 7,431                 |
| Increase in tangible fixed assets<br>and intangible fixed assets | 4,070              | 15       | 4,085       | 51         | 4,136                 |

Notes:

1. Ordinary income is presented as the counterpart of sales of companies in other industries.
2. Adjustments are as below.
  - (1) Adjustment of segment profit of negative ¥11 million is for the elimination of intersegment transactions.
  - (2) Adjustment of segment assets of negative ¥12,626 million is for the elimination of intersegment transactions.
  - (3) Adjustment of segment liabilities of negative ¥11,533 million is for the elimination of intersegment transactions.
  - (4) Adjustment of depreciation of ¥31 million is for the elimination of intersegment transactions.
  - (5) Adjustment of interest income received of negative ¥65 million is for the elimination of intersegment transactions.
  - (6) Adjustment of interest expense paid of negative ¥51 million is for the elimination of intersegment transactions.
  - (7) Adjustment of losses on disposal of fixed assets of ¥0 million is for the elimination of intersegment transactions.
  - (8) Adjustment of tax expenses of negative ¥0 million is for the elimination of intersegment transactions.
  - (9) Adjustment of increase in tangible fixed assets and intangible fixed assets of ¥51 million is for the elimination of intersegment transactions.
3. Segment profit is reconciled to net income in the consolidated statements of income.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

22. Segment Information (cont' d)

|   | Millions of yen    |           |   |        |   |           |             |                    |   |           |
|---|--------------------|-----------|---|--------|---|-----------|-------------|--------------------|---|-----------|
|   | 2017               |           |   |        |   |           |             |                    |   |           |
|   | Reportable segment |           |   |        |   |           | Adjustments | Consolidated total |   |           |
| Commercial banking  |                    | Leasing   |   | Total  |   |           |             |                    |   |           |
| Ordinary income   |                    |           |   |        |   |           |             |                    |   |           |
| Customers   | ¥                  | 55,569    | ¥ | 13,560 | ¥ | 69,129    | ¥           | -                  | ¥ | 69,129    |
| Intersegment  |                    | 200       |   | 165    |   | 365       |             | (365)              |   | -         |
| Total   | ¥                  | 55,769    | ¥ | 13,725 | ¥ | 69,494    | ¥           | (365)              | ¥ | 69,129    |
| Segment profit  | ¥                  | 19,687    | ¥ | 942    | ¥ | 20,629    | ¥           | (10)               | ¥ | 20,619    |
| Segment assets  | ¥                  | 3,173,816 | ¥ | 43,254 | ¥ | 3,217,070 | ¥           | (11,141)           | ¥ | 3,205,929 |
| Segment liabilities   | ¥                  | 2,916,199 | ¥ | 28,200 | ¥ | 2,944,399 | ¥           | (11,155)           | ¥ | 2,933,244 |
| Other items   |                    |           |   |        |   |           |             |                    |   |           |
| Depreciation  | ¥                  | 2,006     | ¥ | 178    | ¥ | 2,184     | ¥           | 30                 | ¥ | 2,214     |
| Interest income received                                      |                    | 41,791    |   | 274    |   | 42,065    |             | (68)               |   | 41,997    |
| Interest expense paid   |                    | 3,298     |   | 116    |   | 3,414     |             | (54)               |   | 3,360     |
| Extraordinary income  |                    | 1         |   | 0      |   | 1         |             | -                  |   | 1         |
| Gains on disposal of fixed assets                             |                    | 1         |   | 0      |   | 1         |             | -                  |   | 1         |
| Extraordinary losses  |                    | 1,794     |   | 1      |   | 1,795     |             | 0                  |   | 1,795     |
| Losses on disposal of fixed assets                            |                    | 88        |   | 0      |   | 88        |             | 0                  |   | 88        |
| Impairment loss   |                    | 1,259     |   | 1      |   | 1,260     |             | -                  |   | 1,260     |
| Provision for reserve for asset demolition costs              |                    | 447       |   | -      |   | 447       |             | -                  |   | 447       |
| Tax expenses  |                    | 5,282     |   | 272    |   | 5,554     |             | 0                  |   | (5,554)   |
| Increase in tangible fixed assets and intangible fixed assets |                    | 3,563     |   | 14     |   | 3,577     |             | 24                 |   | 3,601     |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**22. Segment Information (cont'd)**

|   | Thousands of U.S. dollars |            |               |             |                    |  |
|---|---------------------------|------------|---------------|-------------|--------------------|--|
|   | 2017                      |            |               |             |                    |  |
|   | Reportable segment        |            |               | Adjustments | Consolidated total |  |
| Commercial banking  | Leasing                   | Total      |               |             |                    |  |
| Ordinary income   |                           |            |               |             |                    |  |
| Customers   | \$ 495,312                | \$ 120,866 | \$ 616,178    | \$ -        | \$ 616,178         |  |
| Intersegment  | 1,782                     | 1,471      | 3,253         | (3,253)     | -                  |  |
| Total   | \$ 497,094                | \$ 122,337 | \$ 619,431    | \$ (3,253)  | \$ 616,178         |  |
| Segment profit  | \$ 175,479                | \$ 8,396   | \$ 183,875    | \$ (89)     | \$ 183,786         |  |
| Segment assets  | \$ 28,289,652             | \$ 385,542 | \$ 28,675,194 | \$ (99,305) | \$ 28,575,889      |  |
| Segment liabilities   | \$ 25,993,395             | \$ 251,359 | \$ 26,244,754 | \$ (99,429) | \$ 26,145,325      |  |
| Other items   |                           |            |               |             |                    |  |
| Depreciation  | \$ 17,880                 | \$ 1,587   | \$ 19,467     | \$ 267      | \$ 19,734          |  |
| Interest income received                                      | 372,502                   | 2,442      | 374,944       | (606)       | 374,338            |  |
| Interest expense paid   | 29,397                    | 1,034      | 30,431        | (482)       | 29,949             |  |
| Extraordinary income  | 9                         | 0          | 9             | -           | 9                  |  |
| Gains on disposal of fixed assets                             | 9                         | 0          | 9             | -           | 9                  |  |
| Extraordinary losses  | 15,991                    | 9          | 16,000        | 0           | 16,000             |  |
| Losses on disposal of fixed assets                            | 785                       | 0          | 785           | 0           | 785                |  |
| Impairment loss   | 11,222                    | 9          | 11,231        | -           | 11,231             |  |
| Provision for reserve for asset demolition costs              | 3,984                     | -          | 3,984         | -           | 3,984              |  |
| Tax expenses  | 47,081                    | 2,425      | 49,506        | 0           | 49,506             |  |
| Increase in tangible fixed assets and intangible fixed assets | 31,759                    | 125        | 31,884        | 214         | 32,098             |  |

Notes:

1. Ordinary income is presented as the counterpart of sales of companies in other industries.
2. Adjustments are as below.
  - (1) Adjustment of segment profit of negative ¥10 million (\$89 thousand) is for the elimination of intersegment transactions.
  - (2) Adjustment of segment assets of negative ¥11,141 million (\$99,305 thousand) is for the elimination of intersegment transactions.
  - (3) Adjustment of segment liabilities of negative ¥11,155 million (\$99,429 thousand) is for the elimination of intersegment transactions.
  - (4) Adjustment of depreciation of ¥30 million (\$267 thousand) is for the elimination of intersegment transactions.
  - (5) Adjustment of interest income received of negative ¥68 million (\$606 thousand) is for the elimination of intersegment transactions.
  - (6) Adjustment of interest expense paid of negative ¥54 million (\$482 thousand) is for the elimination of intersegment transactions.
  - (7) Adjustment of losses on disposal of fixed assets of ¥0 million (\$0 thousand) is for the elimination of intersegment transactions.
  - (8) Adjustment of tax expenses of ¥0 million (\$0 thousand) is for the elimination of intersegment transactions.
  - (9) Adjustment of increase in tangible fixed assets and intangible fixed assets of ¥24 million (\$214 thousand) is for the elimination of intersegment transactions.
3. Segment profit is reconciled to net income in the consolidated statements of income.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**22. Segment Information (cont'd)**

(4) Related information

For the years ended March 31, 2016 and 2017:

Information by service:

|                 |   | Millions of yen |                         |        |                  |        |   |        |   |        |
|-----------------|---|-----------------|-------------------------|--------|------------------|--------|---|--------|---|--------|
|                 |   | 2016            |                         |        |                  |        |   |        |   |        |
|                 |   | Loans           | Security<br>investments | Lease  | Other businesses | Total  |   |        |   |        |
| Ordinary income |   |                 |                         |        |                  |        |   |        |   |        |
| Customers       | ¥ | 28,325          | ¥                       | 19,134 | ¥                | 12,648 | ¥ | 10,136 | ¥ | 70,243 |

  

|                 |   | Millions of yen |                         |        |                  |        |   |        |   |        |
|-----------------|---|-----------------|-------------------------|--------|------------------|--------|---|--------|---|--------|
|                 |   | 2017            |                         |        |                  |        |   |        |   |        |
|                 |   | Loans           | Security<br>investments | Lease  | Other businesses | Total  |   |        |   |        |
| Ordinary income |   |                 |                         |        |                  |        |   |        |   |        |
| Customers       | ¥ | 26,870          | ¥                       | 18,568 | ¥                | 13,560 | ¥ | 10,131 | ¥ | 69,129 |

  

|                 |    | Thousands of U.S. dollars |                         |         |                  |         |    |        |    |         |
|-----------------|----|---------------------------|-------------------------|---------|------------------|---------|----|--------|----|---------|
|                 |    | 2017                      |                         |         |                  |         |    |        |    |         |
|                 |    | Loans                     | Security<br>investments | Lease   | Other businesses | Total   |    |        |    |         |
| Ordinary income |    |                           |                         |         |                  |         |    |        |    |         |
| Customers       | \$ | 239,505                   | \$                      | 165,505 | \$               | 120,866 | \$ | 90,302 | \$ | 616,178 |

(5) Impairment loss on tangible fixed assets by reportable segment

For the years ended March 31, 2016 and 2017:

|                 |   | Millions of yen       |         |       |   |   |
|-----------------|---|-----------------------|---------|-------|---|---|
|                 |   | 2016                  |         |       |   |   |
|                 |   | Reportable segments   |         |       |   |   |
|                 |   | Commercial<br>banking | Leasing | Total |   |   |
| Impairment loss | ¥ | 7                     | ¥       | -     | ¥ | 7 |

  

|                 |   | Millions of yen       |         |       |   |       |
|-----------------|---|-----------------------|---------|-------|---|-------|
|                 |   | 2017                  |         |       |   |       |
|                 |   | Reportable segments   |         |       |   |       |
|                 |   | Commercial<br>banking | Leasing | Total |   |       |
| Impairment loss | ¥ | 1,259                 | ¥       | 1     | ¥ | 1,260 |

  

|                 |    | Thousands of U.S. dollars |         |       |    |        |
|-----------------|----|---------------------------|---------|-------|----|--------|
|                 |    | 2017                      |         |       |    |        |
|                 |    | Reportable segments       |         |       |    |        |
|                 |    | Commercial<br>banking     | Leasing | Total |    |        |
| Impairment loss | \$ | 11,222                    | \$      | 9     | \$ | 11,231 |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

### 23. Transactions with Related Parties

The Bank and related party transactions for the years ended March 31, 2016 and 2017 were as follows:

For the year ended March 31, 2016:

| Related party                     | Transactions                | Transaction amount |  | Account                                    | Balance at end of year |  |
|-----------------------------------|-----------------------------|--------------------|--|--|------------------------|--|
|                                   |                             | Millions of yen    |  |  | Millions of yen        |  |
| Kenzo Asaoka *1                   | Lending                     | ¥(0)               |  | Loans                                      | ¥63                    |  |
|                                   | Interest received           | ¥1                 |  | Unearned income                            | ¥0                     |  |
| Nishino Kinryo Co., Ltd. *2       | Lending                     | ¥(294)             |  | Loans                                      | ¥3,449                 |  |
|                                   | Interest received           | ¥52                |  | Unearned income                            | ¥2                     |  |
|                                   | Guarantees of liabilities   | -                  |  | Liabilities for acceptances and guarantees | ¥15                    |  |
|                                   | Guarantee deposits received | ¥0                 |  | Unearned income                            | ¥0                     |  |
| Kinryo Co., Ltd. *2               | Lending                     | ¥(10)              |  | Loans                                      | ¥20                    |  |
|                                   | Interest received           | ¥0                 |  | Unearned income                            | ¥0                     |  |
| Kagawa Shurui Hanbai Co., Ltd. *3 | Lending                     | -                  |  | Loans                                      | ¥770                   |  |
|                                   | Interest received           | ¥11                |  | Unearned income                            | ¥0                     |  |
| Hasui Saketen Co., Ltd. *3        | Lending                     | -                  |  | Loans                                      | ¥50                    |  |
|                                   | Interest received           | ¥1                 |  | Unearned income                            | ¥0                     |  |

\*1 A director of the Bank

\*2 A corporate auditor of the Bank, Takeaki Nishino, serves as chairman of Nishino Kinryo Co., Ltd. and Kinryo Co., Ltd.

\*3 Companies whose voting rights are owned entirely by Nishino Kinryo Co., Ltd.

For the year ended March 31, 2017:

| Related party                     | Transactions                | Transaction amount |                           | Account                                    | Balance at end of year |                           |
|-----------------------------------|-----------------------------|--------------------|---------------------------|--|------------------------|---------------------------|
|                                   |                             | Millions of yen    | Thousands of U.S. dollars |  | Millions of yen        | Thousands of U.S. dollars |
| Kenzo Asaoka *1                   | Lending                     | ¥(14)              | \$(125)                   | Loans                                      | ¥49                    | \$437                     |
|                                   | Interest received           | ¥1                 | \$9                       | Unearned income                            | ¥0                     | \$0                       |
| Nishino Kinryo Co., Ltd. *2       | Lending                     | ¥(50)              | \$(446)                   | Loans                                      | ¥3,399                 | \$30,297                  |
|                                   | Interest received           | ¥36                | \$321                     | Unearned income                            | ¥2                     | \$18                      |
|                                   | Guarantees of liabilities   | -                  | -                         | Liabilities for acceptances and guarantees | ¥15                    | \$134                     |
|                                   | Guarantee deposits received | ¥0                 | \$0                       | Unearned income                            | ¥0                     | \$0                       |
| Kinryo Co., Ltd. *2               | Lending                     | ¥(10)              | \$(89)                    | Loans                                      | ¥10                    | \$89                      |
|                                   | Interest received           | ¥0                 | \$0                       | Unearned income                            | ¥0                     | \$0                       |
| Kagawa Shurui Hanbai Co., Ltd. *3 | Lending                     | -                  | -                         | Loans                                      | ¥770                   | \$6,863                   |
|                                   | Interest received           | ¥11                | \$98                      | Unearned income                            | ¥0                     | \$0                       |
| Hasui Saketen Co., Ltd. *3        | Lending                     | -                  | -                         | Loans                                      | ¥50                    | \$446                     |
|                                   | Interest received           | ¥1                 | \$9                       | Unearned income                            | ¥0                     | \$0                       |

\*1 A director of the Bank

\*2 A corporate auditor of the Bank, Takeaki Nishino, serves as chairman of Nishino Kinryo Co., Ltd. and Kinryo Co., Ltd.

\*3 Companies whose voting rights are owned entirely by Nishino Kinryo Co., Ltd.

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

### 23. Transactions with Related Parties (cont' d)

Related party transactions involving consolidated subsidiaries of the Bank for the years ended March 31, 2016 and 2017 were as follows:

| Related party            | Transactions             | Transaction amount |      |                           |
|--------------------------|--------------------------|--------------------|------|---------------------------|
|                          |                          | Millions of yen    |      | Thousands of U.S. dollars |
|                          |                          | 2016               | 2017 | 2017                      |
| Nishino Kinryo Co., Ltd. | Receiving lease payments | ¥13                | ¥12  | \$107                     |
|                          | Lease commitments        | ¥19                | ¥18  | \$160                     |

A corporate auditor of the Bank, Takeaki Nishino, serves as chairman of Nishino Kinryo Co., Ltd.

### 24. Changes in Net Assets

(1) The type and number of shares issued and treasury stock for the years ended March 31, 2016 and 2017 were as follows:

For the year ended March 31, 2016:

|                | Number of shares as of the previous fiscal year end (thousands) | Increase in number of shares during the accounting period (thousands) | Decrease in number of shares during the accounting period (thousands) | Number of shares as of the fiscal year end (thousands) |
|----------------|---|---|---|--|
| Shares issued  |   |   |   |  |
| Common stock   | 231,100   | -   | 4,900   | (*1)226,200  |
| Total          | 231,100   | -   | 4,900   | 226,200  |
| Treasury stock |   |   |   |  |
| Common stock   | 1,467   | 3,799   | 5,148   | (*2)118  |
| Total          | 1,467   | 3,799   | 5,148   | 118  |

(\*1) The 4,900 thousand decrease in the number of shares issued was due to the retirement of treasury stock (4,900 thousand shares).

(\*2) The 3,799 thousand increase in the number of shares of treasury stock was due to the purchase of fractional shares (21 thousand shares) and acquisition through the market (3,778 thousand shares). The 5,148 thousand decrease in the number of shares of treasury stock was due to the sale of fractional shares (1 thousand shares), retirement of treasury stock (4,900 thousand shares) and stock transfer from the ESOP Trust to the Association (247 thousand shares).



Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 24. Changes in Net Assets (cont'd)

For the year ended March 31, 2017:

|                | Number of shares as of the previous fiscal year end (thousands) | Increase in number of shares during the accounting period (thousands) | Decrease in number of shares during the accounting period (thousands) | Number of shares as of the fiscal year end (thousands) |
|----------------|---|---|---|--|
| Shares issued  |   |   |   |  |
| Common stock   | 226,200   | -   | -   | 226,200  |
| Total          | 226,200   | -   | -   | 226,200  |
| Treasury stock |   |   |   |  |
| Common stock   | 118   | 3,867   | 1   | (*1)3,984  |
| Total          | 118   | 3,867   | 1   | 3,984  |

(\*1) The 3,867 thousand increase in the number of shares of treasury stock was due to the purchase of fractional shares (19 thousand shares) and acquisition through the market (3,848 thousand shares). The one thousand decrease in the number of shares of treasury stock was due to the sale of fractional shares (one thousand shares).

### (2) Dividends

The following dividends were paid in the years ended March 31, 2016 and 2017:

Year ended March 31, 2016:

| Date of resolution                                   | Type of shares | Amounts of dividends | Cash dividends per share | Record date        | Effective date   |
|--|----------------|----------------------|--------------------------|--------------------|------------------|
|  |                | Millions of yen      | Yen                      |                    |                  |
| Annual meeting of stockholders held on June 26, 2015 | Common stock   | ¥ 1,033              | ¥ 4.50                   | March 31, 2015     | June 29, 2015    |
| Directors' meeting held on November 13, 2015         | Common stock   | ¥ 1,379              | ¥ 6.00                   | September 30, 2015 | December 7, 2015 |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

**24. Changes in Net Assets (cont' d)**

Year ended March 31, 2017:

| Date of resolution                                   | Type of shares | Amounts of dividends |                           | Cash dividends per share |              | Record date        | Effective date   |
|--|----------------|----------------------|---------------------------|--------------------------|--------------|--------------------|------------------|
|  |                | Millions of yen      | Thousands of U.S. dollars | Yen                      | U.S. dollars |                    |                  |
| Annual meeting of stockholders held on June 29, 2016 | Common stock   | ¥ 1,356              | \$ 12,087                 | ¥ 6.00                   | \$ 0.05      | March 31, 2016     | June 30, 2016    |
| Directors' meeting held on November 11, 2016         | Common stock   | ¥ 1,010              | \$ 9,003                  | ¥ 4.50                   | \$ 0.04      | September 30, 2016 | December 5, 2016 |

The following dividends were recorded during the fiscal years ended March 31, 2016 and 2017 and became effective after March 31, 2016 and 2017:

For the fiscal year ended March 2016, the dividends became effective after March 31, 2016:

| Date of resolution                                   | Type of shares | Amounts of dividends | Source of dividends | Cash dividends per share | Record date    | Effective date |
|--|----------------|----------------------|---------------------|--------------------------|----------------|----------------|
|  |                | Millions of yen      |                     | Yen                      |                |                |
| Annual meeting of stockholders held on June 29, 2016 | Common stock   | ¥ 1,356              | Retained earnings   | ¥ 6.00                   | March 31, 2016 | June 30, 2016  |

For the fiscal year ended March 2017, the dividends became effective after March 31, 2017:

| Date of resolution                                   | Type of shares | Amounts of dividends |                           | Source of dividends | Cash dividends per share |              | Record date    | Effective date |
|--|----------------|----------------------|---------------------------|---------------------|--------------------------|--------------|----------------|----------------|
|  |                | Millions of yen      | Thousands of U.S. dollars |                     | Yen                      | U.S. dollars |                |                |
| Annual meeting of stockholders held on June 29, 2017 | Common stock   | ¥ 1,000              | \$ 8,913                  | Retained earnings   | ¥ 4.50                   | \$ 0.04      | March 31, 2017 | June 30, 2017  |

Notes to Consolidated Financial Statements  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

## 25. Subsequent Events

Implementing its flexible financial management policy and furthering the return of profits to its shareholders in response to changes in the business environment, the Bank, at the Directors' meeting held on May 12, 2017 and pursuant to Article 156 of the Companies Act, which is applied by replacing Paragraph 3 of Article 165, resolved to acquire its own shares and then completed the acquisition during the acquisition period as follows:

|                                   |                                   |
|-----------------------------------|-----------------------------------|
| Class of shares acquired:         | Common stock of the Bank          |
| Total numbers of shares acquired: | 1,400,000 shares                  |
| Aggregate acquisition cost:       | ¥1,071 million (\$9,546 thousand) |
| Acquisition period:               | May 22, 2017 to June 21, 2017     |



**The Awa Bank, Ltd.**

24-1, Nishisemba-cho 2chome, Tokushima 770-8601, Japan

Phone:088(623)3131