



**The Awa Bank, Ltd.**

Consolidated Financial Statements

The Awa Bank, Ltd. and its Consolidated Subsidiaries

Years Ended March 31, 2018 and 2019



## **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, 2019 and 2018, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

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

December 25, 2019  
Osaka, Japan

*KPMG AZSA LLC*

Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the Years Ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
<b>Assets</b>			
Cash and due from banks (Notes 3 and 4)	¥ 256,640	¥ 255,631	\$ 2,303,189
Call loans and bills purchased (Note 4)	2,656	5,549	49,995
Commercial paper and other debt purchased (Notes 4 and 5)	1,884	1,260	11,352
Trading account securities (Notes 4 and 5)	314	952	8,577
Securities (Notes 4, 5 and 9)	1,069,732	1,049,832	9,458,798
Loans and bills discounted (Notes 4, 6, 7 and 8)	1,836,056	1,899,448	17,113,685
Foreign exchange (Note 7)	5,229	7,008	63,140
Lease receivables and investment assets (Notes 4 and 6)	27,851	28,522	256,978
Other assets (Note 9)	46,464	45,566	410,541
Tangible fixed assets (Notes 10 and 11)	34,123	35,331	318,325
Intangible fixed assets	3,453	4,143	37,327
Net defined benefit asset (Note 19)	7,467	6,411	57,761
Deferred tax assets (Note 16)	18	213	1,919
Customers' liabilities for acceptances and guarantees (Note 17)	8,836	8,164	73,556
Reserve for possible loan losses	(16,118)	(17,265)	(155,554)
Total assets	¥ 3,284,611	¥ 3,330,769	\$ 30,009,631
<b>Liabilities</b>			
Deposits (Notes 4 and 9)	¥ 2,721,003	¥ 2,755,865	\$ 24,829,849
Negotiable certificates of deposit (Note 4)	139,300	180,878	1,629,678
Call money and bills sold (Note 4)	21,248	3,884	34,994
Payables under securities lending transactions (Notes 4 and 9)	28,169	27,437	247,202
Borrowed money (Notes 4, 9 and 18)	33,907	38,993	351,319
Foreign exchange	372	2	18
Other liabilities (Note 18)	18,561	20,346	183,313
Accrued employees' bonuses	27	28	252
Accrued directors' bonuses	60	47	423
Net defined benefit liability (Note 19)	5,401	506	4,558
Accrued directors' retirement benefits	476	12	108
Accrued stock compensation program for directors	—	58	522
Reserve for reimbursement of deposits	539	466	4,198
Reserve for contingent liabilities	841	962	8,667
Reserve for asset demolition costs	447	—	—
Deferred tax liabilities (Note 16)	20,678	18,049	162,618
Deferred tax liabilities for land revaluation account (Note 11)	2,733	2,732	24,614
Acceptances and guarantees (Note 17)	8,836	8,164	73,556
Total liabilities	3,002,605	3,058,437	27,555,969
<b>Net Assets</b>			
Common stock			
Authorized – 100,000,000 shares in 2019 and 500,000,000 shares in 2018			
Issued – 43,240,000 shares in 2019 and 226,200,000 shares in 2018	23,452	23,452	211,298
Capital surplus	16,232	20,069	180,818
Retained earnings	158,143	160,069	1,442,192
Treasury stock	(5,313)	(1,043)	(9,397)
— Issued 299,229 shares in 2019 and 7,405,523 shares in 2018			
Total shareholders' equity	192,515	202,548	1,824,921
Net unrealized holding gains (losses) on securities (Note 5)	71,624	65,837	593,179
Net deferred gains (losses) on derivatives under hedge accounting	(2,447)	(2,629)	(23,686)
Land revaluation account (Note 11)	5,138	5,187	46,733
Remeasurements of defined benefit plans (Note 19)	1,220	387	3,486
Total accumulated other comprehensive income	75,535	68,783	619,722
Noncontrolling interests	13,954	1,000	9,009
Total net assets	282,005	272,331	2,453,653
Total liabilities and net assets	¥ 3,284,611	¥ 3,330,769	\$ 30,009,631

The Bank executed a consolidation of shares at a ratio of one share for each five shares on October 1, 2018.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the Years Ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
<b>Income:</b>			
Interest and dividend income:			
Interest on loans and discounts	¥ 24,473	¥ 23,702	\$ 213,550
Interest and dividends on securities	15,545	14,473	130,399
Other interest income	530	309	2,784
Trust fees	0	1	9
Fees and commissions	8,527	8,829	79,547
Other operating income	14,772	15,251	137,408
Other income (Note 13)	4,271	7,785	70,141
Total income	68,120	70,352	633,858
<b>Expenses:</b>			
Interest expense:			
Interest on deposits and certificates of deposit	730	748	6,739
Interest on borrowings, rediscounts and bonds	965	1,184	10,667
Other interest expense	2,096	2,486	22,398
Fees and commissions	1,519	1,495	13,469
Other operating expenses	12,876	13,562	122,191
General and administrative expenses (Note 12)	28,621	27,528	248,022
Other expenses:			
Provision for loan losses	1,176	4,166	37,534
Other expenses (Note 14)	844	1,149	10,352
Total expenses	48,831	52,323	471,420
<b>Income before income taxes</b>	19,289	18,028	162,429
<b>Income taxes (Note 16):</b>			
Current	5,447	5,094	45,896
Deferred	1,199	253	2,279
<b>Net income</b>	12,642	12,681	114,253
<b>Net income attributable to noncontrolling interests</b>			
in income of consolidated subsidiaries	779	1,723	15,523
<b>Net income attributable to owners of the parent company</b>	¥ 11,863	¥ 10,958	\$ 98,729

**Per share of common stock**

	Yen		U.S. dollars (Note 1)
	2018	2019	2019
<b>Net income per share – basic</b>	¥ 268.44	¥ 252.78	\$ 2.277
<b>Dividends</b>	45.00	45.00	0.405

For the years ended March 31, 2018 and 2019, diluted net income per share of common stock was not disclosed because no dilutive securities were outstanding.

The Bank executed a consolidation of shares at a ratio of one share for each five shares on October 1, 2018. Net income per share and dividends per share are calculated assuming the consolidation of shares was executed on April 1, 2017.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the Years Ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Net income	¥ 12,642	¥ 12,681	\$ 114,253
Other comprehensive income:			
Net unrealized holding gains (losses) on securities	(175)	(6,207)	(55,923)
Net deferred gains (losses) on derivatives under hedge accounting	196	(182)	(1,639)
Remeasurements of defined benefit plans	1,164	(828)	(7,460)
Total other comprehensive income (Note 15)	1,186	(7,218)	(65,032)
Comprehensive income	<u>¥ 13,828</u>	<u>¥ 5,462</u>	<u>\$ 49,211</u>
Comprehensive income attributable to:			
Owners of the parent company	¥ 12,689	¥ 4,156	\$ 37,444
Noncontrolling interests	1,139	1,306	11,766

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the Years Ended March 31, 2018 and 2019

	Number of shares of common stock issued	Millions of yen					
		Stockholders' equity					Total shareholders' equity
		Common stock	Capital surplus	Retained earnings	Treasury stock		
Balance at April 1, 2017	226,200,000	¥ 23,452	¥ 16,232	¥ 148,085	¥ (2,814)	¥ 184,956	
Changes during the accounting period							
Dividends	-	-	-	(1,993)	-	(1,993)	
Net income attributable to owners of the parent company	-	-	-	11,863	-	11,863	
Purchase of treasury stock	-	-	-	-	(2,499)	(2,499)	
Disposal of treasury stock	-	-	0	-	0	0	
Reversal of land revaluation account	-	-	-	188	-	188	
Changes other than changes in stockholders' equity (net)	-	-	-	-	-	-	
Total changes during the accounting period	-	-	0	10,057	(2,498)	7,559	
Balance at March 31, 2018	226,200,000	¥ 23,452	¥ 16,232	¥ 158,143	¥ (5,313)	¥ 192,515	
Changes during the accounting period							
Dividends	-	-	-	(1,962)	-	(1,962)	
Net income attributable to owners of the parent company	-	-	-	10,958	-	10,958	
Purchase of treasury stock	-	-	-	-	(2,750)	(2,750)	
Disposal of treasury stock	-	-	(0)	(0)	0	0	
Cancellation of treasury stock	(2,000,000)	-	-	(7,019)	7,019	-	
Change in ownership interests of the parent company due to transactions with noncontrolling interests	-	-	3,836	-	-	3,836	
Reversal of land revaluation account	-	-	-	(49)	-	(49)	
Consolidation of shares	(180,960,000)	-	-	-	-	-	
Changes other than changes in stockholders' equity (net)	-	-	-	-	-	-	
Total changes during the accounting period	(182,960,000)	-	3,836	1,926	4,269	10,032	
Balance at March 31, 2019	43,240,000	¥ 23,452	¥ 20,069	¥ 160,069	¥ (1,043)	¥ 202,548	

	Millions of yen						
	Accumulated other comprehensive income						
	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on derivatives under hedge accounting	Land revaluation account	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total net assets
Balance at April 1, 2017	¥ 72,139	¥ (2,644)	¥ 5,326	¥ 76	¥ 74,897	¥ 12,831	¥ 272,685
Changes during the accounting period							
Dividends	-	-	-	-	-	-	(1,993)
Net income attributable to owners of the parent company	-	-	-	-	-	-	11,863
Purchase of treasury stock	-	-	-	-	-	-	(2,499)
Disposal of treasury stock	-	-	-	-	-	-	0
Reversal of land revaluation account	-	-	-	-	-	-	188
Changes other than changes in stockholders' equity (net)	(514)	196	(188)	1,144	637	1,123	1,760
Total changes during the accounting period	(514)	196	(188)	1,144	637	1,123	9,320
Balance at March 31, 2018	¥ 71,624	¥ (2,447)	¥ 5,138	¥ 1,220	¥ 75,535	¥ 13,954	¥ 282,005
Changes during the accounting period							
Dividends	-	-	-	-	-	-	(1,962)
Net income attributable to owners of the parent company	-	-	-	-	-	-	10,958
Purchase of treasury stock	-	-	-	-	-	-	(2,750)
Disposal of treasury stock	-	-	-	-	-	-	0
Cancellation of treasury stock	-	-	-	-	-	-	-
Change in ownership interests of the parent company due to transactions with noncontrolling interests	-	-	-	-	-	-	3,836
Reversal of land revaluation account	-	-	-	-	-	-	(49)
Consolidation of shares	-	-	-	-	-	-	-
Changes other than changes in stockholders' equity (net)	(5,786)	(182)	49	(832)	(6,752)	(12,954)	(19,706)
Total changes during the accounting period	(5,786)	(182)	49	(832)	(6,752)	(12,954)	(9,673)
Balance at March 31, 2019	¥ 65,837	¥ (2,629)	¥ 5,187	¥ 387	¥ 68,783	¥ 1,000	¥ 272,331

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the Years Ended March 31, 2018 and 2019

	Number of shares of common stock issued	Thousands of U.S. dollars (Note 1)				
		Stockholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2018	226,200,000	\$ 211,298	\$ 146,247	\$ 1,424,840	\$ (47,869)	\$ 1,734,525
Changes during the accounting period						
Dividends	-	-	-	(17,677)	-	(17,677)
Net income attributable to owners of the parent company	-	-	-	98,729	-	98,729
Purchase of treasury stock	-	-	-	-	(24,777)	(24,777)
Disposal of treasury stock	-	-	(0)	(0)	0	0
Cancellation of treasury stock	(2,000,000)	-	-	(63,239)	63,239	-
Change in ownership interests of the parent company due to transactions with noncontrolling interests	-	-	34,561	-	-	34,561
Reversal of land revaluation account	-	-	-	(441)	-	(441)
Consolidation of shares	(180,960,000)	-	-	-	-	-
Changes other than changes in stockholders' equity (net)	-	-	-	-	-	-
Total changes during the accounting period	(182,960,000)	-	34,561	17,352	38,462	90,386
Balance at March 31, 2019	43,240,000	\$ 211,298	\$ 180,818	\$ 1,442,192	\$ (9,397)	\$ 1,824,921

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on derivatives under hedge accounting	Land revaluation account	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total net assets
Balance at April 1, 2018	\$ 645,319	\$ (22,047)	\$ 46,292	\$ 10,991	\$ 680,556	\$ 125,723	\$ 2,540,814
Changes during the accounting period							
Dividends	-	-	-	-	-	-	(17,677)
Net income attributable to owners of the parent company	-	-	-	-	-	-	98,729
Purchase of treasury stock	-	-	-	-	-	-	(24,777)
Disposal of treasury stock	-	-	-	-	-	-	0
Cancellation of treasury stock	-	-	-	-	-	-	-
Change in ownership interests of the parent company due to transactions with noncontrolling interests	-	-	-	-	-	-	34,561
Reversal of land revaluation account	-	-	-	-	-	-	(441)
Consolidation of shares	-	-	-	-	-	-	-
Changes other than changes in stockholders' equity (net)	(52,130)	(1,639)	441	(7,496)	(60,834)	(116,713)	(177,547)
Total changes during the accounting period	(52,130)	(1,639)	441	(7,496)	(60,834)	(116,713)	(87,151)
Balance at March 31, 2019	\$ 593,179	\$ (23,686)	\$ 46,733	\$ 3,486	\$ 619,722	\$ 9,009	\$ 2,453,653

See Notes to Consolidated Financial Statements.



Consolidated Statements of Income  
The Awa Bank, Ltd. and its Consolidated Subsidiaries  
For the Years Ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 19,289	¥ 18,028	\$ 162,429
Depreciation	2,275	2,185	19,686
Impairment loss	409	297	2,675
Increase (decrease) in reserve for possible loan losses	(1,174)	1,147	10,334
Net change in provision for contingent liabilities	(78)	120	1,081
Increase (decrease) in accrued employees' bonuses	(0)	1	9
Increase (decrease) in accrued directors' bonuses	(9)	(12)	(108)
Decrease (increase) in net defined benefit asset	786	24	216
Increase (decrease) in net defined benefit liability	(79)	(51)	(459)
Contribution to retirement benefit trust	–	(5,000)	(45,049)
Net change in reserve for retirement payments to directors	(37)	(463)	(4,171)
Net change in accrued stock compensation program for directors	–	58	522
Net change in reserve for claims on dormant accounts	(4)	(73)	(657)
Net change in reserve for asset demolition costs	–	(447)	(4,027)
Interest and dividend income	(40,549)	(38,484)	(346,733)
Interest expense	3,792	4,419	39,814
Securities losses (gains), net	(1,933)	(5,200)	(46,851)
Losses (gains) on investments in money held in trust, net	(0)	(0)	(0)
Foreign exchange losses (gains), net	6,173	(4,950)	(44,598)
Losses (gains) on disposal of tangible fixed assets, net	(24)	107	964
Net decrease (increase) in trading account securities	38	(637)	(5,739)
Net decrease (increase) in loans and bills discounted	(75,437)	(63,391)	(571,141)
Net increase (decrease) in deposits	49,316	34,862	314,100
Net increase (decrease) in certificates of deposit	37,542	41,577	374,601
Net increase (decrease) in borrowed money (except for subordinated borrowed money)	(905)	5,085	45,814
Net decrease (increase) in due from banks (except for deposits with the Bank of Japan)	(183)	(954)	(8,595)
Net decrease (increase) in call loans, bills purchased, commercial paper and other debt purchased	83,749	(2,268)	(20,434)
Net increase (decrease) in call money	(1,788)	(17,363)	(156,437)
Net increase (decrease) in payables under securities lending transactions	(6,100)	(731)	(6,586)
Net decrease (increase) in foreign exchange (assets)	(349)	(2,670)	(24,056)
Net increase (decrease) in foreign exchange (liabilities)	(108)	(369)	(3,324)
Net increase (decrease) in straight bond issuance and redemption	(10,000)	–	–
Interest and dividends received	39,165	38,993	351,319
Interest paid	(3,826)	(4,522)	(40,742)
Other	(21,630)	4,116	37,084
Subtotal	78,318	3,431	30,912
Income taxes paid	(5,271)	(5,277)	(47,544)
Net cash provided by (used in) operating activities	73,047	(1,846)	(16,632)
<b>Cash flows from investing activities:</b>			
Payments for purchases of securities	(179,486)	(171,490)	(1,545,094)
Proceeds from sales of securities	73,215	81,371	733,138
Proceeds from maturities of securities	132,301	109,980	990,900
Payments for increases in money held in trust	(2,600)	(2,100)	(18,920)
Proceeds from decreases in money held in trust	2,600	2,100	18,920
Payments for purchases of tangible fixed assets	(2,323)	(3,116)	(28,074)
Payments for disposals of tangible fixed assets	(38)	(188)	(1,693)
Proceeds from sales of tangible fixed assets	222	219	1,973
Purchases of intangible fixed assets	(1,354)	(1,755)	(15,812)
Net cash provided by (used in) investing activities	22,536	15,020	135,327
<b>Cash flows from financing activities:</b>			
Dividends paid	(1,993)	(1,962)	(17,677)
Dividends paid to noncontrolling interests stockholders	(16)	(16)	(144)
Payments for purchases of treasury stock	(2,499)	(2,750)	(24,777)
Proceeds from sales of treasury stock	0	0	0
Payments from changes in ownership interests in subsidiaries that do not result in a change in scope of consolidation	–	(10,407)	(93,765)
Net cash provided by (used in) financing activities	(4,508)	(15,136)	(136,372)
<b>Foreign currency translation adjustments</b>	(2)	(1)	(9)
<b>Net increase (decrease) in cash and cash equivalents</b>	91,072	(1,963)	(17,686)
<b>Cash and cash equivalents at beginning of year</b>	163,511	254,584	2,293,756
<b>Cash and cash equivalents at end of year (Note 3)</b>	¥ 254,584	¥ 252,620	\$ 2,276,060

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, 2018 and 2019

## 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.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

The Bank has applied the above presentation method effective the year ended March 31, 2019. The Japanese yen amounts shown in the accompanying financial statements for the year ended March 31, 2018 have also been restated accordingly.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2019, which was ¥110.99 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, 2018 and 2019 include the accounts of the Bank and the following five subsidiaries:

The Awagin Business Service Company Limited  
The Awagin Guaranty Company Limited  
The Awagin Card Company Limited  
The Awagin Consulting 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.

The following two subsidiaries of the Bank were excluded from the scope of consolidation for the years ended March 31, 2018 and 2019 because 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 or accumulated other comprehensive income.

The Awagin AFFrinnovation Investment Limited Partnership (for 2018 and 2019)  
The Awagin Growth Companies Investment Limited Partnership (for 2019)

The following two subsidiaries of the Bank were also not accounted for using the equity method for the years ended March 31, 2018 and 2019 because 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 or accumulated other comprehensive income.

The Awagin AFFrinnovation Investment Limited Partnership (for 2018 and 2019)  
The Awagin Growth Companies Investment Limited Partnership (for 2019)

The following affiliates of the Bank were not accounted for using the equity method for the years ended March 31, 2018 and 2019 because 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 or accumulated other comprehensive income.

Shikoku Alliance Capital Company Limited (for 2018 and 2019)  
The Awagin Regional Revitalization Investment Limited Partnership (for 2018 and 2019)

## 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. Costs are calculated by the moving average method.

### (3) Securities

Held-to-maturity debt securities are stated at amortized cost. Equity securities of nonconsolidated subsidiaries and affiliates which are not accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value, 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, 2018 and 2019, the estimated useful life for buildings and equipment was 19 to 50 years and 4 to 8 years, respectively.

#### 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. The residual value of a leased asset with a residual value guarantee clause is the guaranteed amount. For a leased asset without such a clause, the residual value is zero.

## 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 becoming 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, 2018 and 2019, 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, 2018 and 2019, the write-off of the estimated unrecoverable amounts was ¥19,990 million and ¥19,564 million (\$176,268 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, 2018 and 2019.

### (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 in calculating net defined benefit liability and retirement benefit expenses assumes the Bank's projected benefit obligation to be equal to the benefits payable and the voluntary retirement of all employees at the fiscal year-end.

### (8) Accrued directors' bonuses

Accrued directors' bonuses were recorded to provide for the 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) Accrued stock compensation program for directors

A provision is made for the accrued stock compensation program for directors, etc., based on the internal regulations for the distribution of shares to directors in the amount deemed accrued at the end of the reporting period.

### (11) Reserve for reimbursement of deposits

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

### (12) Reserve for contingent liabilities

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

### (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 Hedging against 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 Hedging against 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 the 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.

## 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.

The Bank executed a consolidation of shares at a ratio of one share for each five shares on October 1, 2018. Net income per share and cash dividends per share are calculated assuming the consolidation of shares was executed on April 1, 2017.

The Bank's own shares held by the Directors Compensation BIP Trust are recorded as treasury stock in the net assets section and are deducted from the weighted average number of shares outstanding during the year for the purpose of calculating net income per share.

### (18) Unadopted accounting standards

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

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

#### ① Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

#### ② Effective date

The standard shall be effective from the beginning of the fiscal year ending March 31, 2022.

#### ③ Effects of application of the standard

The Bank and its consolidated subsidiaries are in the process of determining the effects of the new standard on the consolidated financial statements.

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

### (19) Additional information

(Abolishment of directors' retirement benefit plan)

At the Directors' meeting held on May 11, 2018, the Bank resolved to abolish the Bank's retirement benefit plan for the Bank's directors and corporate auditors at the time of closure of the annual meeting of shareholders held on June 26, 2018, and a proposal for the payment of retirement benefits was approved as proposed. As a result, accrued directors' retirement benefits were reversed and payables in relation to the abolishment of the plan of ¥407 million (\$3,666 thousand) are included in other liabilities as they will be paid upon the retirement of each director.

(Introduction of performance linked stock compensation program for directors, etc.)

The Bank introduced a performance linked stock compensation program using a scheme referred to as the "Executive Compensation BIP (Board Incentive Plan) Trust" (the "BIP") for directors of the Bank (excluding members of the Audit and Supervisory Committee and outside directors) and executive officers (together the "Directors, etc.") to motivate them to contribute to the improvement of the Bank's mid- to long-term business performance and its corporate value.

#### ① Overview of the transaction

Based on internal regulations for the distribution of shares, the Bank's shares and the cash equivalent of the market value of the Bank's shares will be delivered and paid to the Directors, etc., according to points granted based on business performance and the individual's position among Directors, etc., at the time of retirement.

#### ② The remaining balance of the Bank's own stock in the trusts

- (i) The Bank records the remaining balance of the Bank's own stock in the BIP as treasury stock in the section of net assets
- (ii) The carrying amount and the number of shares of such treasury stock as of March 31, 2019 were ¥749 million (\$6,748 thousand) and 215 thousand shares, respectively.

(Establishment of retirement benefit trust)

The Bank established a retirement benefit trust and made a contribution in cash of ¥5,000 million (\$45,049 thousand) in the year ended March 31, 2019 in order to increase the soundness of the retirement benefit plan. As a result, net defined benefit liability decreased by the same amount.

## 3. Cash and Cash Equivalents

A 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, 2018 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cash and due from banks -----	¥ 256,640	¥ 255,631	\$ 2,303,189
Due from banks (excluding deposits with the Bank of Japan) -----	(2,055)	(3,010)	(27,119)
Cash and cash equivalents -----	<u>¥ 254,584</u>	<u>¥ 252,620</u>	<u>\$ 2,276,060</u>



## 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 reduces its total credit risk by holding a well-diversified portfolio of loans and not concentrating its lending with 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 the deposits of domestic customers, which create liquidity risk in connection with the raising of necessary funds in case of unexpected capital outflows. To manage this risk, the Group tries to maintain and improve the soundness and reliability of its assets and ensure stable cash management.

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 hedged items such as deposits and loans and 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:

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

(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 works to improve it.

The Credit Division functions independently from the Business Promotion Division to maintain and improve the soundness of assets. The Risk Management Division verifies credit ratings, conducts self assessments, administers the credit portfolio and exerts influence on the system of internal checks 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 characteristics of the business to earn a profit.” In this way, the Bank enhances its system of management and optimizes its market risk management.

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

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 strives to improve risk management, in part, by discussing future measures. The Bank uses the VaR (Value at Risk) method for calculations of interest rate risk, foreign exchange risk and market price risk. For interest rate risk denominated in Japanese yen, the Bank analyzes the gaps in 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.

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

(Quantitative information on market risk)

The Bank measures market risk based on the VaR method. The variance-covariance 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, 2018 and 2019 was ¥33,753 million and ¥45,648 million (\$411,280 thousand), respectively.

The Bank identifies the interest rate risk sorted by an internal model for 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 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 the risk amount was measured. The bank believes that the model estimates market risk with sufficient accuracy. As VaR represents the market risk arising with a certain probability using a statistical methodology based on historical market volatilities, however, 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 and 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 for the fair value of financial instruments

In addition to values based on 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.

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

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

The following table summarizes book values, fair values and any differences between the book value and fair value as of March 31, 2018 and 2019. 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		
	2018		
	Book value	Fair value	Difference
(1) Cash and due from banks	¥ 256,640	¥ 256,640	¥ -
(2) Call loans and bills purchased	2,656	2,656	-
(3) Commercial paper and other debt purchased	1,884	1,884	-
(4) Trading account securities			
Trading securities	314	314	-
(5) Securities			
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	1,059,464	1,059,464	-
(6) Loans and bills discounted	1,836,056		
Reserve for possible loan losses (*1)	(15,404)		
	1,820,652	1,828,506	7,854
(7) Lease receivables and investment assets	27,851		
Reserve for lease losses (*1)	(389)		
(*2)	27,461	29,450	1,988
Total assets:	¥ 3,169,074	¥3,178,916	¥ 9,842
(1) Deposits	¥ 2,721,003	¥2,721,141	¥ 138
(2) Negotiable certificates of deposit	139,300	139,302	2
(3) Call money and bills sold	21,248	21,248	-
(4) Payables under securities lending transactions	28,169	28,169	-
(5) Borrowed money	33,907	33,886	(21)
Total liabilities:	¥ 2,943,628	¥2,943,748	¥ 119
Derivative transactions (*3)			
Hedge accounting not applied	¥ (194)	¥ (194)	¥ -
Hedge accounting applied	(1,193)	(1,193)	-
Total derivative transactions:	¥ (1,387)	¥ (1,387)	¥ -

(\*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 ¥24,032 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, and net liabilities are presented in parentheses.

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

	Millions of yen			Thousands of U.S. dollars		
	2019			2019		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and due from banks	¥ 255,631	¥ 255,631	¥ -	\$ 2,303,189	\$ 2,303,189	\$ -
(2) Call loans and bills purchased	5,549	5,549	-	49,995	49,995	-
(3) Commercial paper and other debt purchased	1,260	1,260	-	11,352	11,352	-
(4) Trading account securities						
Trading securities	952	952	-	8,577	8,577	-
(5) Securities						
Held-to-maturity debt securities	-	-	-	-	-	-
Available-for-sale securities	1,040,429	1,040,429	-	9,374,078	9,374,078	-
(6) Loans and bills discounted	1,899,448			17,113,685		
Reserve for possible loan losses (*1)	(16,529)			(148,923)		
	1,882,919	1,892,059	9,140	16,964,762	17,047,112	82,349
(7) Lease receivables and investment assets	28,522			256,978		
Reserve for lease losses (*1)	(528)			(4,757)		
(*2)	27,994	30,064	2,070	252,220	270,871	18,650
Total assets:	¥ 3,214,736	¥3,225,947	¥ 11,211	\$28,964,194	\$29,065,204	\$ 101,009
(1) Deposits	¥ 2,755,865	¥2,755,982	¥ 116	\$24,829,849	\$24,830,903	\$ 1,045
(2) Negotiable certificates of deposit	180,878	180,881	3	1,629,678	1,629,705	27
(3) Call money and bills sold	3,884	3,884	-	34,994	34,994	-
(4) Payables under securities lending transactions	27,437	27,437	-	247,202	247,202	-
(5) Borrowed money	38,993	38,989	(3)	351,319	351,283	(27)
Total liabilities:	¥ 3,007,059	¥3,007,175	¥ 116	\$27,093,062	\$27,094,107	\$ 1,045
Derivative transactions (*3)						
Hedge accounting not applied	¥ 697	¥ 697	¥ -	\$ 6,279	\$ 6,279	\$ -
Hedge accounting applied	(3,956)	(3,956)	-	(35,642)	(35,642)	-
Total derivative transactions:	¥ (3,258)	¥ (3,258)	¥ -	\$ (29,353)	\$ (29,353)	\$ -

(\*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 ¥24,215 million (\$218,172 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 are presented in parentheses.

(Note 1) Methods used to determine 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 the book value because the fair value of these items approximates the book value.

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

(2) Call loans and bills purchased

The fair value of call loans and bills purchased is deemed to be the book value because these items have short contractual terms (within 1 year) and the fair value approximates the book value.

(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). Therefore, the fair value is considered to be 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 is 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 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 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.

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#### 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 deemed to be 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 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 the book value because the fair value of these items approximates the book value.

##### Derivative Transactions

Information on derivative transactions is disclosed in Note 20, "Derivative Transactions."

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

	Book value		
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2018	2019	2019
Unlisted stocks (*1)(*2)	¥ 8,608	¥ 6,312	\$ 56,869
Investments in			
partnerships (*3)	¥ 1,659	¥ 3,090	\$ 27,840
Total -----	¥ 10,267	¥ 9,403	\$ 84,719

(\*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, 2018 and 2019 was nil 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.



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

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

	Millions of yen					
	2018					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥227,942	¥ -	¥ -	¥ -	¥ -	¥ -
Call loans and bills purchased	2,656	-	-	-	-	-
Commercial paper and other debt purchased	1,205	-	672	-	-	-
Securities						
Held-to-maturity debt securities	-	-	-	-	-	-
Japanese government bonds	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-
Short-term corporate bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Available-for-sale securities with maturities	89,588	244,450	178,760	119,795	78,496	60,032
Japanese government bonds	24,500	124,700	76,600	49,100	6,000	18,800
Municipal bonds	25,695	36,383	27,069	26,269	39,142	18,911
Short-term corporate bonds	-	-	-	-	-	-
Corporate bonds	21,996	37,520	23,871	13,323	15,499	17,303
Others	17,395	45,846	51,219	31,102	17,854	5,017
Loans and bills discounted (*1)	390,450	345,801	292,875	172,666	210,418	362,293
Lease receivables and investment assets (*2)	7,977	11,490	5,925	1,318	493	355
Total	¥719,820	¥601,743	¥478,232	¥293,781	¥289,408	¥422,681

(\*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 ¥37,706 million and those without terms in the amount of ¥23,843 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 ¥290 million are not included.

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

	Millions of yen					
	2019					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥222,276	¥ -	¥ -	¥ -	¥ -	¥ -
Call loans and bills purchased	5,549	-	-	-	-	-
Commercial paper and other debt purchased	708	-	545	-	-	-
Securities						
Held-to-maturity debt securities	-	-	-	-	-	-
Japanese government bonds	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-
Short-term corporate bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Available-for-sale securities with maturities	108,211	232,301	167,464	95,735	96,933	60,972
Japanese government bonds	45,200	117,000	62,300	25,700	6,200	18,800
Municipal bonds	26,420	32,466	30,982	31,976	48,424	18,973
Short-term corporate bonds	-	-	-	-	-	-
Corporate bonds	18,740	30,403	26,440	11,309	17,160	18,504
Others	17,850	52,430	47,740	26,748	25,148	4,694
Loans and bills discounted (*1)	409,871	377,213	277,145	184,836	219,384	367,809
Lease receivables and investment assets (*2)	8,057	11,727	6,330	1,292	456	294
<b>Total</b>	<b>¥754,674</b>	<b>¥621,242</b>	<b>¥451,485</b>	<b>¥281,863</b>	<b>¥316,775</b>	<b>¥429,076</b>

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

	Thousands of U.S. dollars					
	2019					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	\$2,002,666	\$ -	\$ -	\$ -	\$ -	\$ -
Call loans and bills purchased	49,995	-	-	-	-	-
Commercial paper and other debt purchased	6,378	-	4,910	-	-	-
Securities						
Held-to-maturity debt securities	-	-	-	-	-	-
Japanese government bonds	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-
Short-term corporate bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Available-for-sale securities with maturities	974,961	2,092,990	1,508,820	862,555	873,348	549,346
Japanese government bonds	407,243	1,054,149	561,311	231,552	55,860	169,384
Municipal bonds	238,039	292,512	279,142	288,098	436,291	170,943
Short-term corporate bonds	-	-	-	-	-	-
Corporate bonds	168,844	273,925	238,219	101,892	154,608	166,717
Others	160,825	472,384	430,128	240,994	226,578	42,292
Loans and bills discounted (*1)	3,692,864	3,398,621	2,497,026	1,665,339	1,976,610	3,313,893
Lease receivables and investment assets (*2)	72,592	105,658	57,032	11,640	4,108	2,648
<b>Total</b>	<b>\$6,799,477</b>	<b>\$5,597,279</b>	<b>\$4,067,798</b>	<b>\$2,539,535</b>	<b>\$2,854,085</b>	<b>\$3,865,897</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 ¥40,166 million (\$361,888 thousand) and those without terms in the amount of ¥23,020 million (\$207,406 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 ¥364 million (\$3,279 thousand) are not included.

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

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

	Millions of yen					
	2018					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*)	¥ 2,561,124	¥ 134,732	¥ 22,648	¥ 1,429	¥ 1,068	¥ -
Negotiable certificates of deposit	139,250	50	-	-	-	-
Call money and bills sold	21,248	-	-	-	-	-
Payables under securities lending transactions	28,169	-	-	-	-	-
Borrowed money	25,054	6,941	1,912	-	-	-
Total	¥ 2,774,846	¥ 141,723	¥ 24,560	¥ 1,429	¥ 1,068	¥ -

	Millions of yen					
	2019					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*)	¥ 2,579,231	¥ 152,017	¥ 22,632	¥ 1,116	¥ 868	¥ -
Negotiable certificates of deposit	179,978	900	-	-	-	-
Call money and bills sold	3,884	-	-	-	-	-
Payables under securities lending transactions	27,437	-	-	-	-	-
Borrowed money	5,019	5,651	28,322	-	-	-
Total	¥ 2,795,551	¥ 158,568	¥ 50,954	¥ 1,116	¥ 868	¥ -

	Thousands of U.S. dollars					
	2019					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*)	\$23,238,408	\$1,369,645	\$ 203,910	\$ 10,054	\$ 7,820	\$ -
Negotiable certificates of deposit	1,621,569	8,108	-	-	-	-
Call money and bills sold	34,994	-	-	-	-	-
Payables under securities lending transactions	247,202	-	-	-	-	-
Borrowed money	45,220	50,914	255,176	-	-	-
Total	\$25,187,413	\$1,428,669	\$ 459,086	\$ 10,054	\$ 7,820	\$ -

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

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## 5. Securities

Unsecured securities that have been loaned and that allow the borrowers to sell the borrowed securities amounted to ¥90,879 million and ¥104,312 million (\$939,832 thousand) as of March 31, 2018 and 2019, respectively, and are included in Japanese government bonds in Securities.

### (1) Acquisition costs, book values and fair values of securities with available fair values

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2018 and 2019. 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 U.S. dollars	
	2018	2019	2019	
Amount of net unrealized gains (losses) included in statements of income -----	¥ (2)	¥ 7	\$	63

#### ② Held-to-maturity debt securities for the years ended March 31, 2018 and 2019:

Not applicable.

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

③ Available-for-sale securities:

※Book value exceeded acquisition cost.

Millions of yen				
2018				
	Book (fair) value	Acquisition cost	Difference	
Equity securities -----	¥ 137,517	¥ 47,255	¥	90,261
Bonds:				
Japanese government bonds -	307,268	297,959		9,308
Municipal bonds -----	133,134	130,328		2,806
Corporate bonds -----	112,760	109,560		3,200
Other -----	90,732	83,765		6,967
Total -----	¥ 781,414	¥ 668,869	¥	112,544

※ Book value did not exceed acquisition cost.

Equity securities -----	¥ 3,544	¥ 4,006	¥	(462)
Bonds:				
Japanese government bonds -	5,296	5,305		(9)
Municipal bonds -----	46,585	46,851		(265)
Corporate bonds -----	20,807	21,017		(209)
Other -----	202,495	208,798		(6,302)
Total -----	¥ 278,729	¥ 285,978	¥	(7,249)
Grand total -----	¥ 1,060,143	¥ 954,848	¥	105,295

Notes to Consolidated Financial Statements  
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**5. Securities (cont'd)**

※ Book value exceeded acquisition cost.

Millions of yen				
2019				
	Book (fair) value	Acquisition cost	Difference	
Equity securities -----	¥ 117,450	¥ 43,578	¥	73,871
Bonds:				
Japanese government bonds -	253,042	244,960		8,082
Municipal bonds -----	195,933	192,593		3,340
Corporate bonds -----	108,386	105,017		3,368
Other -----	187,981	176,204		11,777
Total -----	¥ 862,794	¥ 762,354	¥	100,440

※ Book value did not exceed acquisition cost.

Equity securities -----	¥ 7,215	¥ 8,121	¥	(906)
Bonds:				
Japanese government bonds -	33,327	33,477		(150)
Municipal bonds -----	480	484		(3)
Corporate bonds -----	18,736	18,897		(161)
Other -----	118,426	121,196		(2,769)
Total -----	¥ 178,186	¥ 182,177	¥	(3,991)
Grand total -----	¥ 1,040,981	¥ 944,532	¥	96,448



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

※ Book value exceeded acquisition cost.

Thousands of U.S. dollars			
2019			
	Book (fair) value	Acquisition cost	Difference
Equity securities -----	\$ 1,058,203	\$ 392,629	\$ 665,564
Bonds:			
Japanese government bonds --	2,279,863	2,207,045	72,817
Municipal bonds -----	1,765,321	1,735,228	30,092
Corporate bonds -----	976,538	946,184	30,345
Other -----	1,693,675	1,587,566	106,108
Total -----	<u>\$ 7,773,619</u>	<u>\$ 6,868,672</u>	<u>\$ 904,946</u>

※ Book value did not exceed acquisition cost.

Equity securities -----	\$ 65,005	\$ 73,168	\$ (8,162)
Bonds:			
Japanese government bonds --	300,270	301,621	(1,351)
Municipal bonds -----	4,324	4,360	(27)
Corporate bonds -----	168,808	170,258	(1,450)
Other -----	1,066,997	1,091,954	(24,948)
Total -----	<u>\$ 1,605,423</u>	<u>\$ 1,641,382</u>	<u>\$ (35,958)</u>
Grand total -----	<u>\$ 9,379,052</u>	<u>\$ 8,510,063</u>	<u>\$ 868,979</u>

④ Held-to-maturity debt securities sold for the years ended March 31, 2018 and 2019:

Not applicable.

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

⑤ Available-for-sale securities sold in the years ended March 31, 2018 and 2019:

Millions of yen			
2018			
	Amount sold	Gains	Losses
Equity securities -----	¥ 4,560	¥ 2,071	¥ 19
Bonds:			
Japanese government bonds --	24,256	56	58
Municipal bonds -----	9,543	17	11
Corporate bonds-----	5,233	12	13
Other -----	29,622	489	558
Total -----	¥ 73,215	¥ 2,648	¥ 661

Millions of yen			
2019			
	Amount sold	Gains	Losses
Equity securities -----	¥ 11,911	¥ 5,914	¥ 179
Bonds:			
Japanese government bonds -	14,044	33	-
Municipal bonds -----	10,570	8	12
Corporate bonds-----	1,708	9	1
Other -----	43,137	249	789
Total -----	¥ 81,371	¥ 6,215	¥ 981

Thousands of U.S. dollars			
2019			
	Amount sold	Gains	Losses
Equity securities -----	\$ 107,315	\$ 53,284	\$ 1,612
Bonds:			
Japanese government bonds -	126,533	297	-
Municipal bonds -----	95,233	72	108
Corporate bonds-----	15,388	81	9
Other -----	388,656	2,243	7,108
Total -----	\$ 733,138	\$ 55,996	\$ 8,838

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## 5. Securities (cont'd)

⑥ Securities reclassified for the years ended March 31, 2018 and 2019:

Not applicable.

⑦ 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 years ended March 31, 2018 was ¥52 million, including ¥22 million of equity securities and ¥30 million of other. Impairment loss for the fiscal years ended March 31, 2019 was ¥60 million (\$540 thousand), including nil of equity securities and ¥60 million (\$540 thousand) of other.

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.

### (2) Net unrealized holding gains on securities stated at market value

Net unrealized holding gains on securities stated at market value at March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Available-for-sale securities -----	¥ 105,295	¥ 96,448	\$ 868,979
Deferred tax liabilities -----	(31,708)	(29,069)	(261,906)
Net unrealized holding gains on securities (before adjustment for noncontrolling interests)-----	73,586	67,379	607,072
Noncontrolling interests-----	(1,962)	(1,541)	(13,884)
Net unrealized holding gains on securities ---	¥ 71,624	¥ 65,837	\$ 593,179

### (3) Guarantee obligations for privately placed bonds

At March 31, 2018 and 2019, the amount of guarantee obligations for privately placed bonds (Securities and Exchange Law, Article 2, Item 3) included in corporate bonds amounted to ¥16,511 million and ¥18,700 million (\$168,483 thousand), respectively.

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## 6. Loans and Bills Discounted

At March 31, 2018 and 2019, loans and bills discounted included the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Loans to bankrupt customers-----	¥ 1,811	¥ 2,105	\$ 18,965
Nonaccrual loans-----	36,185	38,425	346,202
Loans past due three months or more-----	274	493	4,441
Restructured loans -----	6,514	5,820	52,437
Total -----	¥ 44,785	¥ 46,845	\$ 422,065

The amounts above represent gross receivable amounts before deducting reserves 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.

Nonaccrual 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 ¥15,616 million and ¥15,417 million (\$138,904 thousand) at March 31, 2018 and 2019, respectively.

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## 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, 2018 and 2019 amounted to ¥369,106 million and ¥368,589 million (\$3,320,920 thousand), respectively. Of these amounts, ¥360,912 million and ¥361,505 million (\$3,257,095 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, 2018 and 2019, assets and future receipts pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Securities -----	¥ 61,828	¥ 88,857	\$ 800,585

The above pledged amounts secure the following liabilities:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Deposits -----	¥ 11,388	¥ 15,083	\$ 135,895
Payables under securities lending transactions -----	28,169	27,437	247,202
Borrowed money -----	20,000	27,000	243,265

At March 31, 2018 and 2019, certain investment securities amounting to ¥6,523 million and ¥1,367 million (\$12,316 thousand), respectively, and other assets of ¥29,357 million including deposits with the central counterparty of ¥29,333 million and other of ¥24 million and other assets of ¥30,049 million (\$270,736 thousand) including deposits with the central counterparty of ¥30,000 million (\$270,294 thousand) and other of ¥49 million (\$441 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, 2018 and 2019, other assets included cash collateral paid for financial instruments of ¥7,640 million and ¥4,426 million (\$39,877 thousand), respectively, and guarantee deposits of ¥330 million and ¥339 million (\$3,054 thousand), respectively.

## **10. Tangible Fixed Assets**

Accumulated depreciation of tangible fixed assets at March 31, 2018 and 2019 amounted to ¥33,209 million and ¥32,240 million (\$290,476 thousand), respectively. Accumulated capital gains that directly offset acquisition costs of tangible fixed assets to obtain tax benefits at March 31, 2018 and 2019 amounted to ¥807 million and ¥734 million (\$6,613 thousand), respectively. No such offset was newly recorded for the years ended March 31, 2018 and 2019.

## **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, 2018 and 2019, the market values of the revalued land decreased from the revalued amount by ¥7,965 million and ¥7,872 million (\$70,925 thousand), respectively.

## **12. General and Administrative Expenses**

For the years ended March 31, 2018 and 2019, general and administrative expenses included salaries and allowances of ¥10,121 million and ¥9,919 million (\$89,368 thousand), respectively, and outsourcing expenses of ¥3,558 million and ¥3,525 million (\$31,759 thousand), respectively.

## **13. Other Income**

For the years ended March 31, 2018 and 2019, other income included gain on sale of securities of ¥2,503 million and ¥6,144 million (\$55,356 thousand), respectively.

## **14. Other Expenses**

### **(1) Loss on loans and securities**

For the years ended March 31, 2018 and 2019, other expenses included loans written off of ¥12 million and ¥17 million (\$153 thousand), respectively, loss on sale of securities of ¥60 million and ¥179 million (\$1,612 thousand), respectively, and securities written off of ¥22 million and ¥2 million (\$18 thousand), respectively.

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

##### (2) Impairment loss

For the year ended March 31, 2018, the Bank reduced the book value of business use assets whose operating cash flows had decreased and real estate values had declined and assets that were to be disposed of due to relocation and rebuilding to the recoverable amounts and recognized impairment loss of ¥409 million.

					Impairment loss		
					Millions of yen		
					2018		
Operating assets	Tokushima area	Branches and others	4 locations	Land and buildings	¥	74	
				(Land)		48	
				(Buildings)		26	
	Other area	Branches and others	3 locations	Land and buildings		334	
				(Land)		255	
(Buildings)					78		
Idle assets	Tokushima area	Idle assets	2 locations	Land		0	
Total					¥	409	
					(Land)	¥	304
					(Buildings)		105

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.



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14. Other Expenses (cont'd)

(2) Impairment loss (cont'd)

For the year ended March 31, 2019, the Bank reduced the book value of business use assets whose operating cash flows had decreased and real estate values had declined and assets that were to be disposed of due to relocation and rebuilding to the recoverable amounts and recognized impairment loss of ¥297 million (\$2,675 thousand).

					Impairment loss	
					Millions of yen	Thousands of U.S. dollars
					2019	
Operating assets	Tokushima area	Branches and others	8 locations	Land and buildings	¥ 143	\$ 1,288
				(Land)	76	684
				(Buildings)	66	594
	Other area	Company housing	1 location	Buildings	151	1,360
Idle assets	Tokushima area	Idle assets	4 locations	Land and buildings	1	9
				(Land)	0	0
				(Buildings)	0	0
Total					¥ 297	\$ 2,675
					¥ 77	\$ 693
					219	1,973

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.

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## 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, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Net unrealized holding gains (losses) on securities			
Increase (decrease) during the year -----	¥ 1,710	¥ (5,587)	\$ (50,337)
Reclassification adjustments -----	(1,928)	(3,258)	(29,353)
Subtotal, before tax -----	(217)	(8,846)	(79,700)
Tax (expense) benefit -----	42	2,638	23,767
Subtotal, net of tax -----	(175)	(6,207)	(55,923)
Net deferred gains (losses) on derivatives under hedge accounting			
Increase (decrease) during the year -----	(1,812)	(2,749)	(24,767)
Reclassification adjustments -----	2,096	2,487	22,407
Subtotal, before tax -----	283	(262)	(2,360)
Tax (expense) benefit -----	(87)	79	711
Subtotal, net of tax -----	196	(182)	(1,639)
Remeasurements of defined benefit plans			
Increase (decrease) during the year -----	977	(1,266)	(11,406)
Reclassification adjustments -----	681	77	693
Subtotal, before tax -----	1,659	(1,188)	(10,703)
Tax (expense) benefit -----	(494)	359	3,234
Subtotal, net of tax -----	1,164	(828)	(7,460)
Total other comprehensive income -----	¥ 1,186	¥ (7,218)	\$ (65,032)

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## 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 30.6% for the year ended March 31, 2018.

The reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2018 was as follows:

	2018
Statutory tax rate	30.6%
(Adjustments)	
Items permanently excluded from expenses such as entertainment expenses	0.3
Items permanently excluded from income such as dividend income	(1.2)
Inhabitants tax on per capita basis	0.2
Increase (decrease) in valuation allowance	4.2
Others	0.3
Effective tax rate after application of deferred income tax accounting	34.4%

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2019 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, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Deferred tax assets:			
Excess reserve for possible loan losses -----	¥ 9,751	¥ 10,110	\$ 91,089
Excess depreciation -----	713	508	4,576
Net defined benefit liability-----	113	356	3,207
Tax loss carryforwards -----	16	8	72
Net deferred gains (losses) on derivatives under hedge accounting -----	1,071	1,151	10,370
Others-----	2,274	1,948	17,551
Valuation allowance -----	(2,632)	(2,600)	(23,425)
Total deferred tax assets -----	11,309	11,483	103,459
Deferred tax liabilities:			
Deferred gains on real property -----	(244)	(244)	(2,198)
Unrealized gains on securities -----	(31,708)	(29,069)	(261,906)
Others-----	(17)	(6)	(54)
Total deferred tax liabilities -----	(31,969)	(29,319)	(264,158)
Net deferred tax liabilities-----	¥ (20,660)	¥ (17,836)	\$ (160,699)

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## 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, 2018 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Borrowings from banks and others-----	¥ 33,907	¥ 38,993	\$ 351,319
Lease obligations (included in other liabilities)-----	¥ 305	¥ 288	\$ 2,594

The following is a summary of aggregate annual maturities of borrowings from banks and others and lease obligations at March 31, 2019.

•Borrowings from banks and others:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2020-----	¥ 5,019	\$ 45,220
2021-----	3,361	30,282
2022-----	2,289	20,623
2023-----	28,022	252,473
2024-----	300	2,702
2025 and thereafter -----	—	—
Total -----	¥ 38,993	\$ 351,319

•Lease obligations:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2020 -----	¥ 113	\$ 1,018
2021 -----	82	738
2022 -----	67	603
2023 -----	17	153
2024 -----	5	45
2025 and thereafter -----	0	0
Total -----	¥ 288	\$ 2,594

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## 19. 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 U.S. dollars
	2018	2019	2019
Projected benefit obligation at beginning of year --	¥ 30,602	¥ 30,677	\$ 276,394
Service cost -----	766	773	6,964
Interest cost -----	225	198	1,783
Actuarial differences -----	513	521	4,694
Retirement benefits paid -----	(1,430)	(1,451)	(13,073)
Projected benefit obligation at end of year -----	¥ 30,677	¥ 30,720	\$ 276,781

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

② Movement in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Plan assets at beginning of year -----	¥ 31,963	¥ 32,986	\$ 297,197
Expected return on plan assets -----	584	662	5,964
Actuarial differences -----	1,490	(745)	(6,712)
Employer contribution -----	28	26	234
Contribution for the retirement benefit trust -----	-	5,000	45,049
Employee contribution -----	32	32	288
Retirement benefits paid -----	(1,113)	(1,110)	(10,000)
Plan assets at end of year -----	<u>¥ 32,986</u>	<u>¥ 36,851</u>	<u>\$ 332,020</u>

(\*1) 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 U.S. dollars
	2018	2019	2019
Net defined benefit liability at beginning of year ---	¥ 246	¥ 242	\$ 2,180
Net retirement benefit expenses -----	25	21	189
Retirement benefits paid -----	(28)	(37)	(333)
Net defined benefit liability at end of year -----	<u>¥ 242</u>	<u>¥ 227</u>	<u>\$ 2,045</u>

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**19. 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 U.S. dollars
	2018	2019	2019
Funded projected benefit obligation -----	¥ 25,519	¥ 30,720	\$ 276,781
Plan assets -----	(32,986)	(36,851)	(332,020)
	(7,467)	(6,131)	(55,239)
Unfunded projected benefit obligation -----	5,401	227	2,045
Net liability and asset recorded on the consolidated balance sheet ----	¥ (2,066)	¥ (5,904)	\$ (53,193)
Net defined benefit liability -----	¥ 5,401	¥ 506	\$ 4,558
Net defined benefit asset -----	(7,467)	(6,411)	(57,761)
Net liability and asset recorded on the consolidated balance sheet ----	¥ (2,066)	¥ (5,904)	\$ (53,193)

(\*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 U.S. dollars
	2018	2019	2019
Service cost -----	¥ 759	¥ 763	\$ 6,874
Interest cost -----	225	198	1,783
Expected return on plan assets -----	(584)	(662)	(5,964)
Amortization of actuarial differences -----	787	183	1,648
Amortization of prior service costs -----	(105)	(105)	(946)
Net retirement benefit expenses -----	¥ 1,081	¥ 378	\$ 3,405

(\*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.

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**19. 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 U.S. dollars
	2018	2019	2019
Prior service costs -----	¥ (105)	¥ (105)	\$ (946)
Actuarial differences -----	1,765	(1,082)	(9,748)
Total -----	¥ 1,659	¥ (1,188)	\$ (10,703)

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unrecognized prior service costs -----	¥ (203)	¥ (97)	\$ (873)
Unrecognized actuarial differences -----	(1,505)	(423)	(3,811)
Total -----	¥ (1,709)	¥ (520)	\$ (4,685)

- ⑧ Plan assets  
(i) Plan assets comprise:

	2018	2019
Debt securities -----	51.6%	44.3%
Equity securities -----	34.0	30.5
Life insurance general accounts -----	10.5	13.2
Cash and due from banks and others -----	3.9	7.7
Other -----	—	4.3
Total -----	100.0%	100.0%

- (\*) As of March 31, 2018 and 2019, plan assets consisted of 7.2% and 5.5%, respectively, of assets of the retirement benefit trust established for the funded contributory pension plan and nil and 13.4%, respectively, of assets of the retirement benefit trust established for the lump-sum payment plans.

- (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.



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

⑨ Actuarial assumptions at end of year:

	2018	2019
Discount rate -----	0.6%	0.5%
Expected long-term rate of return on plan assets		
Funded contributory pension plan -----	2.0%	2.0%
Employee retirement benefit trust -----		
Funded contributory pension plan	0.0%	0.0%
Lump-sum payment plan	-	2.0%
Expected rate of salary increase		
Funded contributory pension plan -----	2.0%	2.5%
Lump-sum payment plan-----	2.3%	2.4%

(\*1) The discount rate for the years ended March 31, 2018 and 2019 was presented using a weighted average rate.

(\*2) The expected rate of salary increase is based on the expected rate of increase in points calculated for each plan as a point system is used to determine retirement benefits.

### (3) Defined contribution plans

The amount of required contribution to the defined contribution plans was ¥120 million and ¥124 million (\$1,117 thousand) as of March 31, 2018 and 2019, respectively.

## 20. Derivative Transactions

The Bank enters into various derivative 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. In connection with these transactions, 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, 2018 and 2019, outstanding derivatives were as follows:

### (1) Interest related transactions:

There were no interest related transactions at March 31, 2018 and 2019.

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20. Derivative Transactions (cont'd)

(2) Currency and foreign exchange transactions:

Millions of yen				
2018				
	Contract amount	Portion maturing over one year	Market value	Recognized gain (loss)
<b>Over-the-counter transactions:</b>				
Forward exchange contracts				
Sell -----	¥ 24,262	¥ 2,175	¥ (132)	¥ (132)
Buy -----	3,044	73	(61)	(61)
Currency options				
Sell -----	30,328	–	(321)	(69)
Buy -----	30,328	–	321	179

Millions of yen					Thousands of U.S. dollars
2019					2019
	Contract amount	Portion maturing over one year	Market value	Recognized gain (loss)	Recognized gain (loss)
<b>Over-the-counter transactions:</b>					
Forward exchange contracts					
Sell -----	¥ 59,398	¥ 26,447	¥ 39	¥ 39	\$ 351
Buy -----	27,043	23,944	657	657	5,919
Currency options					
Sell -----	45,121	–	(411)	(160)	(1,441)
Buy -----	45,121	–	411	215	1,937

The above transactions were recorded at market values, and recognized gains and losses were included in the consolidated statements of income. Market values for over-the-counter transactions were calculated at discounted present values or values based on option price calculation models and other methods for the balances at March 31, 2018 and 2019. Derivative transactions for which hedge accounting was applied were excluded from the above table.

## 21. 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 assess 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, credit guarantee services, credit card services and management consulting 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.

Notes to Consolidated Financial Statements  
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21. 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, 2018 and 2019 was as follows:

	Millions of yen							
	2018							
	Reportable segment							
	Commercial banking		Leasing		Total	Adjustments	Consolidated total	
Ordinary income								
Customers	¥	54,004	¥	14,047	¥	68,051	¥	68,051
Intersegment		152		206		359		–
Total	¥	54,157	¥	14,253	¥	68,411	¥	68,051
Segment profit	¥	18,953	¥	737	¥	19,690	¥	19,675
Segment assets	¥	3,250,888	¥	43,831	¥	3,294,720	¥	3,284,611
Segment liabilities	¥	2,985,842	¥	28,049	¥	3,013,892	¥	3,002,605
Other items								
Depreciation	¥	2,067	¥	174	¥	2,241	¥	2,275
Interest income received		40,336		275		40,611		40,549
Interest expense paid		3,743		97		3,840		3,792
Extraordinary income		69		0		69		69
Gains on disposal of fixed assets		69		0		69		69
Extraordinary losses		454		0		454		454
Losses on disposal of fixed assets		44		0		44		44
Impairment loss		409		–		409		409
Tax expenses		6,432		214		6,647		6,647
Increase in tangible fixed assets and intangible fixed assets		3,580		43		3,623		3,678

(\*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 ¥15 million is for the elimination of intersegment transactions.
2. Adjustment of segment assets of negative ¥10,109 million is for the elimination of intersegment transactions and others.
3. Adjustment of segment liabilities of negative ¥11,286 million is for the elimination of intersegment transactions and others.
4. Adjustment of depreciation of ¥33 million is due to intersegment transactions.
5. Adjustment of interest income received of negative ¥62 million is for the elimination of intersegment transactions.
6. Adjustment of interest expense paid of negative ¥48 million is for the elimination of intersegment transactions.
7. Adjustment of losses on disposal of fixed assets of ¥0 million is due to 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 ¥54 million is due to intersegment transactions.

(\*3) Segment profit is reconciled to net income in the consolidated statements of income.

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21. Segment Information (cont'd)

Millions of yen								
2019								
	Reportable segment						Adjustments	Consolidated total
	Commercial banking		Leasing		Total			
Ordinary income								
Customers	¥	53,716	¥	16,606	¥	70,323	¥	–
Intersegment		151		164		316		(316)
Total	¥	53,867	¥	16,771	¥	70,639	¥	(316)
Segment profit	¥	15,707	¥	2,753	¥	18,460	¥	(26)
Segment assets	¥	3,298,600	¥	41,978	¥	3,340,578	¥	(9,809)
Segment liabilities	¥	3,043,773	¥	24,818	¥	3,068,592	¥	(10,155)
Other items								
Depreciation	¥	1,974	¥	170	¥	2,144	¥	41
Interest income received		38,448		87		38,535		(51)
Interest expense paid		4,380		76		4,457		(37)
Extraordinary income		27		1		29		–
Gains on disposal of fixed assets		27		1		29		–
Extraordinary losses		417		16		433		0
Losses on disposal of fixed assets		120		16		136		0
Impairment loss		297		–		297		–
Tax expenses		4,519		827		5,347		0
Increase in tangible fixed assets and intangible fixed assets		4,784		34		4,818		54

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

Thousands of U.S. dollars						
2019						
	Reportable segment			Adjustments	Consolidated total	
	Commercial banking	Leasing	Total			
Ordinary income						
Customers	\$ 483,971	\$ 149,617	\$ 633,597	\$ -	\$ 633,597	
Intersegment	1,360	1,477	2,847	(2,847)	-	
Total	\$ 485,332	\$ 151,103	\$ 636,444	\$ (2,847)	\$ 633,597	
Segment profit	\$ 141,517	\$ 24,804	\$ 166,321	\$ (234)	\$ 166,078	
Segment assets	\$ 29,719,794	\$ 378,214	\$ 30,098,008	\$ (88,377)	\$ 30,009,631	
Segment liabilities	\$ 27,423,848	\$ 223,605	\$ 27,647,463	\$ (91,494)	\$ 27,555,969	
Other items						
Depreciation	\$ 17,785	\$ 1,531	\$ 19,317	\$ 369	\$ 19,686	
Interest income received	346,409	783	347,193	(459)	346,733	
Interest expense paid	39,463	684	40,156	(333)	39,814	
Extraordinary income	243	9	261	-	261	
Gains on disposal of fixed assets	243	9	261	-	261	
Extraordinary losses	3,757	144	3,901	0	3,901	
Losses on disposal of fixed assets	1,081	144	1,225	0	1,225	
Impairment loss	2,675	-	2,675	-	2,675	
Tax expenses	40,715	7,451	48,175	0	48,175	
Increase in tangible fixed assets and intangible fixed assets	43,102	306	43,409	486	43,895	

(\*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 ¥26 million (\$234 thousand) is for the elimination of intersegment transactions.
2. Adjustment of segment assets of negative ¥9,809 million (\$88,377 thousand) is for the elimination of intersegment transactions and others.
3. Adjustment of segment liabilities of negative ¥10,155 million (\$91,494 thousand) is for the elimination of intersegment transactions and others.
4. Adjustment of depreciation of ¥41 million (\$369 thousand) is due to intersegment transactions.
5. Adjustment of interest income received of negative ¥51 million (\$459 thousand) is for the elimination of intersegment transactions.
6. Adjustment of interest expense paid of negative ¥37 million (\$333 thousand) is for the elimination of intersegment transactions.
7. Adjustment of losses on disposal of fixed assets of ¥0 million (\$0 thousand) is due to 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 ¥54 million (\$486 thousand) is due to intersegment transactions.

(\*3) Segment profit is reconciled to net income in the consolidated statements of income.

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

**(4) Related information**

For the years ended March 31, 2018 and 2019:

Information by service:

		Millions of yen				
		2018				
		Loans	Security investments	Leasing	Other businesses	Total
Ordinary income						
Customers	¥	25,525	¥ 18,210	¥ 14,047	¥ 10,268	¥ 68,051
		Millions of yen				
		2019				
		Loans	Security investments	Leasing	Other businesses	Total
Ordinary income						
Customers	¥	24,778	¥ 18,462	¥ 16,606	¥ 10,475	¥ 70,323
		Thousands of U.S. dollars				
		2019				
		Loans	Security investments	Leasing	Other businesses	Total
Ordinary income						
Customers	\$	223,245	\$ 166,339	\$ 149,617	\$ 94,377	\$ 633,597

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

For the years ended March 31, 2018 and 2019:

		Millions of yen		
		2018		
		Reportable segments		
		Commercial banking	Leasing	Total
Impairment loss	¥	409	¥ -	¥ 409
		Millions of yen		
		2019		
		Reportable segments		
		Commercial banking	Leasing	Total
Impairment loss	¥	297	¥ -	¥ 297
		Thousands of U.S. dollars		
		2019		
		Reportable segments		
		Commercial banking	Leasing	Total
Impairment loss	\$	2,675	\$ -	\$ 2,675

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## 22. Transactions with Related Parties

The Bank and related party transactions for the years ended March 31, 2018 and 2019 were as follows:

For the year ended March 31, 2018:

Related party	Transactions	Transaction amount	Account	Balance at end of year
		Millions of yen		Millions of yen
Nishino Kinryo Co., Ltd. *1	Lending	¥180	Loans	¥3,580
	Interest received	¥32	Unearned income	¥1
	Guarantees of liabilities	–	Liabilities for acceptances and guarantees	¥15
	Guarantee deposits received	¥0	Unearned income	¥0
Kinryo Co., Ltd. *1	Lending	¥(10)	Loans	–
	Interest received	¥0	Unearned income	–
Kagawa Shurui Hanbai Co., Ltd. *2	Lending	¥(300)	Loans	¥470
	Interest received	¥5	Unearned income	¥0
Hasui Saketen Co., Ltd. *2	Lending	–	Loans	¥50
	Interest received	¥0	Unearned income	¥0

(\*1) A corporate auditor of the Bank, Takeaki Nishino, serves as chairman of Nishino Kinryo Co., Ltd. and Kinryo Co., Ltd.

(\*2) Companies whose voting rights are owned entirely by Nishino Kinryo Co., Ltd.

For the year ended March 31, 2019:

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
Nishino Kinryo Co., Ltd. *1	Lending	¥(124)	\$(1,117)	Loans	¥3,455	\$31,128
	Interest received	¥6	\$54	Unearned income	¥0	\$0
	Guarantees of liabilities	–	–	Liabilities for acceptances and guarantees	¥15	\$135
	Guarantee deposits received	¥0	\$0	Unearned income	¥0	\$0
Kagawa Shurui Hanbai Co., Ltd. *2	Lending	–	–	Loans	¥470	\$4,234
	Interest received	¥1	\$9	Unearned income	¥0	\$0
Hasui Saketen Co., Ltd. *2	Lending	–	–	Loans	¥50	\$450
	Interest received	¥0	\$0	Unearned income	¥0	\$0

(\*1) A corporate auditor of the Bank, Takeaki Nishino, serves as chairman of Nishino Kinryo Co., Ltd.

(\*2) Companies whose voting rights are owned entirely by Nishino Kinryo Co., Ltd.

(\*3) Takeaki Nishino resigned as a corporate auditor of the Bank on June 26, 2018. Therefore, the transaction amounts include transactions for the period to that date and the balances represent amounts as of that date.



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

Related party transactions involving consolidated subsidiaries of the Bank for the years ended March 31, 2018 and 2019 were as follows:

Related party	Transactions	Transaction amount		
		Millions of yen		Thousands of U.S. dollars
		2018	2019	2019
Nishino Kinryo Co., Ltd.	Receiving lease payments	¥11	¥2	\$18
	Lease commitments	¥20	¥17	\$153

(\*1) A corporate auditor of the Bank, Takeaki Nishino, serves as chairman of Nishino Kinryo Co., Ltd.

(\*2) Takeaki Nishino resigned as a corporate auditor of the Bank on June 26, 2018. Therefore, the transaction amounts include transactions for the period to that date and the balances represent amounts as of that date.

## 23. Changes in Net Assets

### (1) Type and number of shares

The type and number of shares issued and treasury stock for the years ended March 31, 2018 and 2019 were as follows:

For the year ended March 31, 2018:

	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	3,984	3,422	1	(*1) 7,405
Total	3,984	3,422	1	7,405

(\*1) The 3,422 thousand increase in the number of shares of treasury stock was due to the purchase of fractional shares (22 thousand shares) and acquisition through the market (3,400 thousand shares). The 1 thousand decrease in the number of shares of treasury stock was due to the sale of fractional shares (1 thousand shares).

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

For the year ended March 31, 2019:

	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	–	182,960	(*1 and *2) 43,240
Total	226,200	–	182,960	43,240
Treasury stock				
Common stock	7,405	2,883	9,989	(*1, *3 and *4) 299
Total	7,405	2,883	9,989	299

(\*1) The Bank executed a consolidation of shares at a ratio of one share for each five shares on October 1, 2018.

(\*2) The 182,960 thousand decrease in the number of shares issued was due to the consolidation of shares (180,960 thousand shares) and cancellation of treasury stock (2,000 thousand shares) (2,000 thousand shares after the consolidation of shares).

(\*3) The number of treasury stock as of March 31, 2019 included the Bank's own shares of 215 thousand shares held by the BIP.

(\*4) The 2,883 thousand increase in the number of shares of treasury stock was due to the purchase of fractional shares (6 thousand shares) (4 thousand shares before the consolidation of shares, 1 thousand shares acquired in relation to the consolidation of shares and 0 thousand shares after the consolidation of shares), acquisition through the market (1,800 thousand shares) (1,500 thousand shares before the consolidation of shares and 300 thousand shares after the consolidation of shares) and purchase by the BIP (1,077 thousand shares) (1,077 thousand shares before the consolidation of shares). The 9,989 thousand decrease in the number of shares of treasury stock was due to the sale of fractional shares (0 thousand shares) (0 thousand shares after the consolidation of shares), decrease due to the consolidation of shares (7,989 thousand shares) and cancellation of treasury stock (2,000 thousand shares) (2,000 thousand shares after the consolidation of shares).

#### (2) Dividends

The following dividends were paid in the years ended March 31, 2018 and 2019:

Year ended March 31, 2018:

Date of resolution	Type of shares	Amount of dividends	Cash dividends per share	Record date	Effective date
		Millions of yen	Yen		
Annual meeting of stockholders held on June 29, 2017	Common stock	¥ 999	¥ 4.50	March 31, 2017	June 30, 2017
Directors' meeting held on November 10, 2017	Common stock	¥ 993	¥ 4.50	September 30, 2017	December 5, 2017

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

Year ended March 31, 2019:

Date of resolution	Type of shares	Amount 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 26, 2018	Common stock	¥ 984	\$ 8,865	¥ 4.50	\$ 0.04	March 31, 2018	June 27, 2018
Directors' meeting held on November 9, 2018	Common stock	¥ 977	\$ 8,802	¥ 4.50	\$ 0.04	September 30, 2018	December 5, 2018

(\*1) The amount of dividends resolved at the Directors' meeting held on November 9, 2018 includes ¥4 million (\$36 thousand) of dividends for the Bank's own shares held by the BIP.

(\*2) The cash dividends per share resolved at the Directors' meeting held on November 9, 2018 does not include the effect of the consolidation of shares on October 1, 2018 because the record date was September 30, 2018.

The following dividends were recorded during the fiscal years ended March 31, 2018 and 2019 and became effective after March 31, 2018 and 2019:

For the fiscal year ended March 2018, the dividends became effective after March 31, 2018:

Date of resolution	Type of shares	Amount of dividends	Source of dividends	Cash dividends per share	Record date	Effective date
		Millions of yen		Yen		
Annual meeting of stockholders held on June 26, 2018	Common stock	¥ 984	Retained earnings	¥ 4.50	March 31, 2018	June 27, 2018

For the fiscal year ended March 2019, the dividends became effective after March 31, 2019:

Date of resolution	Type of shares	Amount 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		
Directors' meeting held on May 10, 2019	Common stock	¥ 971	\$ 8,748	Retained earnings	¥ 22.50	\$ 0.20	March 31, 2019	June 10, 2019

(\*) The amount of dividends includes ¥4 million (\$36 thousand) of dividends for the Bank's own shares held by the BIP.

## 24. Business Combinations

### Transaction under common control

Additional acquisition of subsidiary shares by the Bank

#### 1. Outline of the transaction

##### (1) Name and business of the companies under the business combination

Name:	Business:
The Awagin Guaranty Company Limited	Credit guarantee business
The Awagin Card Company Limited	Credit card business
The Awagin Lease Company Limited	Leasing business

##### (2) Date of the business combination

September 25, 2018 and September 28, 2018

##### (3) Legal form of the business combination

Acquisition of shares from noncontrolling shareholders

##### (4) Company name after the business combination

Unchanged

##### (5) Other matters related to the outline of the transaction

The Bank has acquired the stock of noncontrolling shareholders in order to strengthen the uniform management of the Group.

#### 2. Outline of accounting policy applied

The transaction is accounted for as a transaction with noncontrolling shareholders within a transaction under common control based on “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

#### 3. Information on the acquisition of additional shares of the subsidiary

Acquisition cost and its breakdown

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash and due from banks	¥ 10,407	\$ 93,765
Total acquisition cost		¥ 10,407	\$ 93,765

#### 4. Changes in the Bank’s ownership interests in relation to the transactions with noncontrolling shareholders

##### (1) Major reason for the change in capital surplus

Additional acquisition of subsidiary shares

##### (2) Amount of capital surplus increased due to the transactions with noncontrolling shareholders

¥3,836 million (\$34,561 thousand)

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## 25. Subsequent Events

### (1) Acquisition of treasury stock

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 10, 2019 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:	330,000 shares
Aggregate acquisition cost:	¥1,000 million (\$9,009 thousand)
Acquisition period:	May 20, 2019 to June 18, 2019

### (2) Transaction under common control

Acquisition of treasury stock by consolidated subsidiary

The Awagin Lease Company Limited, a consolidated subsidiary of the Bank has acquired its treasury stock on July 16, 2019.

#### 1. Outline of the transaction

##### (1) Name and business of the company under the business combination

Name:	The Awagin Lease Company Limited
Business:	Leasing business

##### (2) Date of the business combination

July 16, 2019

##### (3) Legal form of the business combination

Acquisition of treasury stock by a consolidated subsidiary from noncontrolling shareholders

##### (4) Company name after the business combination

Unchanged

##### (5) Other matters related to the outline of the transaction

The subsidiary has acquired the treasury stock from noncontrolling shareholders in order to strengthen the uniform management of the Group. As a result of this transaction, the percent of voting rights held by the Group became 100% at all of the consolidated subsidiaries.

#### 2. Outline of accounting policy applied

The transaction is accounted for as a transaction with noncontrolling shareholders within a transaction under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

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## 25. Subsequent Events (cont'd)

### 3. Information on acquisition of treasury stock by the consolidated subsidiary

Acquisition cost and its breakdown

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash and due from banks	¥ 958	\$ 8,631
Total acquisition cost		¥ 958	\$ 8,631

### 4. Changes in the Bank's ownership interests in relation to the transactions with noncontrolling shareholders

#### (1) Major reason for the change in capital surplus

The amount of acquisition cost of treasury stock by a consolidated subsidiary from noncontrolling shareholders was less than the amount of noncontrolling interests decreased due to the acquisition of treasury stock.

#### (2) Amount of capital surplus increased due to the transactions with noncontrolling shareholders

¥36 million (\$324 thousand)

#### (3) Merger of consolidated subsidiary

The Bank, at the Directors' meeting held on February 26, 2019 resolved to merge The Awagin Business Service Company Limited, a consolidated subsidiary of the Bank and the transaction has been completed on October 1, 2019 as resolved.

#### 1. Outline of the transaction

##### (1) Name and business of the companies under the business combination

Name of the merging company:	The Awa Bank, Ltd.
Business:	Banking business

Name of the merged company:	The Awagin Business Service Company Limited
Business:	Outsourcing business of banking operations

##### (2) Date of the business combination

October 1, 2019

##### (3) Legal form of the business combination

Absorption type merger in which the Bank is the surviving company and The Awagin Business Service Company Limited is the absorbed company.

##### (4) Company name after the business combination

The Awa Bank, Ltd.

##### (5) Other matters related to the outline of the transaction

The Bank has merged The Awagin Business Service Company Limited, a wholly owned subsidiary, in order to facilitate more efficient management as well as to better utilize the management resources of the Group.

## **25. Subsequent Events (cont'd)**

### **2. Outline of accounting policy applied**

The transaction is accounted for as a transaction under common control based on “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).



**The Awa Bank, Ltd.**

24-1, Nishisemba-cho 2 chome, Tokushima 770-8601, Japan  
Phone: 088(623)3131