The Awa Bank, Ltd

Consolidated Financial Statements

The Awa Bank, Ltd. and its Consolidated Subsidiaries

Years Ended March 31, 2020 and 2021

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of The Awa Bank, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as of March 31, 2021 and 2020, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Estimates of reserve for possible loan losses for loans including loans and bills discounted	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated balance sheet for the year ended March 31, 2021, The Awa Bank, Ltd. (the "Bank") and its consolidated subsidiaries recognized the balance of loans and bills discounted of ¥2,086,915 million, which accounted for a significant portion, representing 53.9%, of total assets of ¥3,866,075 million. For credit balances including the loans and bills	The primary procedures we performed to assess whether the Bank's estimates of reserve for possible loan losses for loans including loans and bills discounted were reasonable included the following: (1) Internal control testing We tested the design and operating effectiveness of the Bank's internal controls relevant to determining the classification of borrowers in the self-assessment

discounted, the reserve for possible loan losses of ¥18,337 million was recorded. As described in Note 2. Significant Accounting Policies (5) Reserve for possible loan losses and (18) Significant Accounting Estimates ① Reserve for possible loan losses to the consolidated financial statements, the Bank assessed loan quality based on the internal rules on self-assessment of loan quality and recognized reserve for possible loan losses for each borrower category based on the internal rules on write-offs and provisions. The Bank classifies borrowers into categories based on quantitative factors such as financial indicators and information related to qualitative factors such as performance outlook and expected future cash flows. Determining the classification of a borrower into a relevant borrower category based on qualitative factors specifically requires industry expertise and involves significant management judgment including assessment of the achievement status of business improvement plans of the borrower. The Bank has promoted loans to small and medium-sized enterprises ("SMEs") based on a vision of "Eitai-torihiki", which is a traditional business policy of the Bank to contribute to continuous development of customers through long-lasting transactions over generations. The balance of loans and bills discounted to SMEs of ¥1,736,641 million (representing 83.3% of the total balance of loans and bills discounted) was recognized, which accounted for a significant portion of the balance of loans and bills discounted. Generally, SMEs are more susceptible to the impact of economic conditions than medium to large-sized companies and tend to incur a net loss and/or a net capital deficiency due to temporary adverse factors. In determining the classification of a borrower, it is necessary to reflect its actual business conditions by comprehensively considering various factors such as the enterprise's technologies, sales capabilities, growth potentials, individual income and assets of its representatives, guarantee status and capacities of the individuals. The vision of "Eitai-torihiki" represents a business model in which the Bank continuously supports SMEs through guidance to, development and restoration of borrowers assuming that their	of loan quality. In this assessment, we focused our testing on the following controls: ● controls to validate whether the internal rules on self-assessment of loan quality and write-offs and provisions in compliance with relevant accounting standards; ● controls to ensure the reliability of the financial information of borrowers that was entered into the IT system for self-assessment; ● IT application controls over the credit rating; and ● controls relevant to the verification by the credit supervision department in determining the classification of borrowers. (2) Substantive procedures relevant to determining the classification of borrowers ① With respect to large borrowers that required caution, in order to evaluate appropriateness of the classification of the borrowers, we selected specific borrowers whose credit balance exceeded a certain amount, and we primarily: ● inspected the relevant materials and inquired of the relevant personnel of the credit supervision department to examine that the information of borrowers such as financial data used as the basis for determining the classification of the borrowers was based on sufficient and up-to-date information; ● inspected the relevant materials and inquired of the personnel of the credit supervision department, in case the borrowers had developed their business improvement plans, to examine whether the reasonableness and feasibility of the plans had been thoroughly examined in the self-assessment processes; and ● inspected the relevant materials and inquired of the personnel of the credit supervision department to examine that significant changes in the credit status of the borrowers, which occurred after ad-hoc self-assessments made in the year, were reflected in determining the classification of the borrowers at the fiscal year end. ② With respect to borrowers whose business performance is concerned about deterioration due to the spread of the COVID-19 infection, in order to evaluate appropriateness of the classification of the borrowers, we selected specific borrowers whose credit balance exceeded a certain amount, and we primarily:

business performances are vulnerable by economic conditions and other factors. Gaining a deep understanding of a borrower's conditions through guidance to, development and restoration of the borrower, the Bank can appropriately determine the classification of the borrower based on an accurate understanding of its actual business conditions. Determination of the classification of borrowers, however, requires more careful judgment especially for the following borrowers: (1) Large borrowers that require caution Loans to SMEs constituted low-volume accounts, but included therein were loans to large borrowers whose credit balance exceeded a certain amount. The Bank aims to support borrowers including large borrowers even when their business performances deteriorated, based on its business model under "Eitai-torihiki". Accordingly, there is a concern that reserve for possible loan losses for large borrowers will significantly increase when they are downgraded to the borrower category in which the borrowers have a high probability of becoming insolvent. (2) Borrowers whose business performance is concerned about deterioration due to the spread of the COVID-19 infection SMEs tend to incur a net loss and/or net capital deficiency due to temporary adverse factors, and their business performances are also vulnerable to the spread of the COVID-19 infection. We, therefore, determined that our assessment of the estimates of reserve for possible loan losses for loans including loans and bills discounted to large borrowers that require caution and borrowers whose business performance is concerned about deterioration due to the spread of the COVID-19 infection, was the most significant in our audit of the consolidated financial statements for the years ended March 31, 2021, and accordingly, a key audit matter.	● inspected the relevant materials and inquired of the relevant personnel of the credit supervision department to examine that the information of borrowers such as financial data used as the basis for determining the classification of the borrowers was based on sufficient and up-to-date information; ● inspected the relevant materials and inquired of the personnel of the credit supervision department regarding the business performance outlook and cash flows considering the spread of the COVID-19 infection; and ● inspected the relevant materials and inquired of the personnel of the credit supervision department to examine that significant changes in the credit status of the borrowers, which occurred after ad-hoc self-assessments made in the year, were reflected in determining the classification of the borrowers at the fiscal year end

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

Kuroki Kenichiro

Designated Engagement Partner

Certified Public Accountant

Ohashi Masatsugu

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

December 24, 2021

Consolidated Balance Sheets
The Awa Bank, Ltd. and its Consolidated Subsidiaries
As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2021	2021
Assets			
Cash and due from banks (Notes 3 and 4)	¥ 287,164	¥ 632,773	$ 5,715,590
Call loans and bills purchased (Note 4)	2,151	19,595	176,993
Commercial paper and other debt purchased (Notes 4 and 5)	1,149	1,530	13,819
Trading account securities (Notes 4 and 5)	917	775	7,000
Securities (Notes 4, 5 and 9)	995,428	1,001,096	9,042,507
Loans and bills discounted (Notes 4, 6, 7 and 8)	1,962,862	2,086,915	18,850,284
Foreign exchange (Note 7)	11,070	6,955	62,821
Lease receivables and investment assets (Notes 4 and 6)	28,802	29,187	263,634
Other assets (Note 9)	47,308	47,864	432,336
Tangible fixed assets (Notes 10 and 11)	37,396	36,733	331,794
Intangible fixed assets	5,164	4,954	44,747
Net defined benefit asset (Note 19)	5,261	6,111	55,198
Deferred tax assets (Note 16)	269	229	2,068
Customers' liabilities for acceptances and guarantees (Note 17)	8,437	9,689	87,516
Reserve for possible loan losses	(17,174)	(18,337)	(165,630)
Total assets	¥ 3,376,210	¥ 3,866,075	$ 34,920,738
Liabilities			
Deposits (Notes 4 and 9)	¥ 2,771,127	¥ 3,089,980	$ 27,910,577
Negotiable certificates of deposit (Note 4)	175,149	128,841	1,163,770
Call money and bills sold (Note 4)	20,024	11,071	100,000
Payables under securities lending transactions (Notes 4 and 9)	58,470	42,065	379,956
Borrowed money (Notes 4, 9 and 18)	53,610	236,990	2,140,637
Foreign exchange	83	11	99
Other liabilities (Note 18)	25,493	28,558	257,953
Accrued employees' bonuses	22	22	198
Accrued directors' bonuses	53	43	388
Net defined benefit liability (Note 19)	505	44	397
Accrued directors' retirement benefits	10	9	81
Accrued stock compensation program for directors	139	196	1,770
Reserve for reimbursement of deposits	427	344	3,107
Reserve for contingent liabilities	1,043	1,103	9,962
Deferred tax liabilities (Note 16)	6,515	21,503	194,228
Deferred tax liabilities for land revaluation account (Note 11)	2,730	2,704	24,424
Acceptances and guarantees (Note 17)	8,437	9,689	87,516
Total liabilities	3,123,847	3,573,180	32,275,133
Net Assets			
Common stock			
Authorized – 100,000,000 shares			
Issued – 43,240,000 shares in 2021 and 2020	23,452	23,452	211,832
Capital surplus	20,106	20,106	181,609
Retained earnings	169,299	176,045	1,590,145
Treasury stock	(2,892)	(3,529)	(31,876)
— Issued 1,305,640 shares in 2021 and 1,049,013 shares in 2020			
Total shareholders' equity	209,966	216,075	1,951,720
Net unrealized holding gains (losses) on securities (Note 5)	40,516	73,194	661,132
Net deferred gains (losses) on derivatives under hedge accounting	(2,479)	(1,528)	(13,801)
Land revaluation account (Note 11)	5,184	5,134	46,373
Remeasurements of defined benefit plans (Note 19)	(824)	18	162
Total accumulated other comprehensive income	42,396	76,819	693,875
Total net assets	252,362	292,894	2,645,596
Total liabilities and net assets	¥ 3,376,210	¥ 3,866,075	$ 34,920,738

See Notes to Consolidated Financial Statements.

Consolidated Income Statements
The Awa Bank, Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2021	2021
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥ 23,603	¥ 23,731	$ 214,352
Interest and dividends on securities	15,091	13,529	122,202
Other interest income	243	247	2,231
Trust fees	3	2	18
Fees and commissions	8,775	8,169	73,787
Other operating income	15,442	15,797	142,688
Other income (Note 13)	4,246	4,117	37,187
Total income	67,406	65,596	592,502
Expenses:			
Interest expense:			
Interest on deposits and certificates of deposit	1,005	661	5,970
Interest on borrowings, rediscounts and bonds	906	257	2,321
Other interest expense	2,267	1,208	10,911
Fees and commissions	1,220	1,221	11,028
Other operating expenses	12,770	13,569	122,563
General and administrative expenses (Note 12)	28,005	28,060	253,454
Other expenses:			
Provision for loan losses	3,915	5,855	52,885
Other expenses (Notes 14 and 19)	1,656	2,581	23,313
Total expenses	51,748	53,415	482,476
Income before income taxes	15,658	12,181	110,026
Income taxes (Note 16):			
Current	4,593	3,781	34,152
Deferred	(105)	(98)	(885)
Net income	11,170	8,498	76,759
Net income attributable to noncontrolling interests in income of consolidated subsidiaries	9	–	–
Net income attributable to owners of the parent company	¥ 11,160	¥ 8,498	$ 76,759

Per share of common stock	Yen		U.S. dollars (Note 1)
	2020	2021	2021
Net income per share – basic	¥ 261.80	¥ 202.64	$ 1.830
Dividends	45.00	40.00	0.361

For the years ended March 31, 2020 and 2021, diluted net income per share of common stock was not disclosed because no dilutive securities were outstanding.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
The Awa Bank, Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2021	2021
Net income	¥ 11,170	¥ 8,498	$ 76,759
Other comprehensive income:			
Net unrealized holding gains (losses) on securities	(25,335)	32,678	295,167
Net deferred gains (losses) on derivatives under hedge accounting	150	950	8,580
Remeasurements of defined benefit plans	(1,211)	843	7,614
Total other comprehensive income (Note 15)	(26,397)	34,472	311,372
Comprehensive income	¥ (15,226)	¥ 42,971	$ 388,140
Comprehensive income attributable to:			
Owners of the parent company	¥ (15,222)	¥ 42,971	$ 388,140
Noncontrolling interests	(4)	−	−

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets
The Awa Bank, Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2021

		Millions of yen					
		Stockholders' equity					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2019	43,240,000	¥ 23,452	¥ 20,069	¥ 160,069	¥ (1,043)	¥ 202,548
Changes during the accounting period						
Dividends	–	–	–	(1,934)	–	(1,934)
Net income attributable to owners of the parent company	–	–	–	11,160	–	11,160
Purchase of treasury stock	–	–	–	–	(1,853)	(1,853)
Disposal of treasury stock	–	–	–	(0)	5	4
Change in ownership interests of the parent company due to transactions with noncontrolling interests	–	–	36	–	–	36
Reversal of land revaluation account	–	–	–	3	–	3
Changes other than changes in stockholders' equity (net)	–	–	–	–	–	–
Total changes during the accounting period	–	–	36	9,229	(1,848)	7,417
Balance at March 31, 2020	43,240,000	¥ 23,452	¥ 20,106	¥ 169,299	¥ (2,892)	¥ 209,966
Changes during the accounting period						
Dividends	–	–	–	(1,802)	–	(1,802)
Net income attributable to owners of the parent company	–	–	–	8,498	–	8,498
Purchase of treasury stock	–	–	–	–	(927)	(927)
Disposal of treasury stock	–	–	–	–	290	290
Change in ownership interests of the parent company due to transactions with noncontrolling interests	–	–	–	–	–	–
Reversal of land revaluation account	–	–	–	49	–	49
Changes other than changes in stockholders' equity (net)	–	–	–	–	–	–
Total changes during the accounting period	–	–	–	6,746	(636)	6,109
Balance at March 31, 2021	43,240,000	¥ 23,452	¥ 20,106	¥ 176,045	¥ (3,529)	¥ 216,075

	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 March 31, 2019	¥ 65,837	¥ (2,629)	¥ 5,187	¥ 387	¥ 68,783	¥ 1,000	¥ 272,331
Changes during the accounting period							
Dividends	–	–	–	–	–	–	(1,934)
Net income attributable to owners of the parent company	–	–	–	–	–	–	11,160
Purchase of treasury stock	–	–	–	–	–	–	(1,853)
Disposal of treasury stock	–	–	–	–	–	–	4
Change in ownership interests of the parent company due to transactions with noncontrolling interests	–	–	–	–	–	–	36
Reversal of land revaluation account	–	–	–	–	–	–	3
Changes other than changes in stockholders' equity (net)	(25,321)	150	(3)	(1,212)	(26,386)	(1,000)	(27,386)
Total changes during the accounting period	(25,321)	150	(3)	(1,212)	(26,386)	(1,000)	(19,969)
Balance at March 31, 2020	¥ 40,516	¥ (2,479)	¥ 5,184	¥ (824)	¥ 42,396	¥ –	¥ 252,362
Changes during the accounting period							
Dividends	–	–	–	–	–	–	(1,802)
Net income attributable to owners of the parent company	–	–	–	–	–	–	8,498
Purchase of treasury stock	–	–	–	–	–	–	(927)
Disposal of treasury stock	–	–	–	–	–	–	290
Change in ownership interests of the parent company due to transactions with noncontrolling interests	–	–	–	–	–	–	–
Reversal of land revaluation account	–	–	–	–	–	–	49
Changes other than changes in stockholders' equity (net)	32,678	950	(49)	843	34,422	–	34,422
Total changes during the accounting period	32,678	950	(49)	843	34,422	–	40,532
Balance at March 31, 2021	¥ 73,194	¥ (1,528)	¥ 5,134	¥ 18	¥ 76,819	¥ –	¥ 292,894

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets
The Awa Bank, Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2021

		Thousands of U.S. dollars (Note 1)				
		Stockholders' equity				
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2020	43,240,000	$ 211,832	$ 181,609	$ 1,529,211	$ (26,122)	$ 1,896,540
Changes during the accounting period						
Dividends	–	–	–	(16,276)	–	(16,276)
Net income attributable to owners of the parent company	–	–	–	76,759	–	76,759
Purchase of treasury stock	–	–	–	–	(8,373)	(8,373)
Disposal of treasury stock	–	–	–	–	2,619	2,619
Change in ownership interests of the parent company due to transactions with noncontrolling interests	–	–	–	–	–	–
Reversal of land revaluation account	–	–	–	442	–	442
Changes other than changes in stockholders' equity (net)	–	–	–	–	–	–
Total changes during the accounting period	–	–	–	60,933	(5,744)	55,180
Balance at March 31, 2021	43,240,000	$ 211,832	$ 181,609	$ 1,590,145	$ (31,876)	$ 1,951,720

	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, 2020	$ 365,965	$ (22,391)	$ 46,825	$ (7,442)	$ 382,946	$ –	$ 2,279,486
Changes during the accounting period							
Dividends	–	–	–	–	–	–	(16,276)
Net income attributable to owners of the parent company	–	–	–	–	–	–	76,759
Purchase of treasury stock	–	–	–	–	–	–	(8,373)
Disposal of treasury stock	–	–	–	–	–	–	2,619
Change in ownership interests of the parent company due to transactions with noncontrolling interests	–	–	–	–	–	–	–
Reversal of land revaluation account	–	–	–	–	–	–	442
Changes other than changes in stockholders' equity (net)	295,167	8,580	(442)	7,614	310,920	–	310,920
Total changes during the accounting period	295,167	8,580	(442)	7,614	310,920	–	366,109
Balance at March 31, 2021	$ 661,132	$ (13,801)	$ 46,373	$ 162	$ 693,875	$ –	$ 2,645,596

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
The Awa Bank, Ltd. and its Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2021

	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2021
Cash flows from operating activities:			
Income before income taxes	¥ 15,658	¥ 12,181	$ 110,026
Depreciation	2,629	2,923	26,402
Impairment loss	50	374	3,378
Increase (decrease) in reserve for possible loan losses	(91)	1,163	10,504
Net change in provision for contingent liabilities	81	59	532
Increase (decrease) in accrued employees' bonuses	(5)	(0)	(0)
Increase (decrease) in accrued directors' bonuses	6	(10)	(90)
Decrease (increase) in net defined benefit asset	(599)	(105)	(948)
Increase (decrease) in net defined benefit liability	(2)	7	63
Net change in reserve for retirement payments to directors	(2)	(0)	(0)
Net change in accrued stock compensation program for directors	81	56	505
Net change in reserve for claims on dormant accounts	(38)	(83)	(749)
Interest and dividend income	(38,939)	(37,509)	(338,804)
Interest expense	4,179	2,127	19,212
Securities losses (gains), net	(2,740)	(1,709)	(15,436)
Losses (gains) on investments in money held in trust, net	(0)	–	–
Foreign exchange losses (gains), net	4,149	(7,375)	(66,615)
Losses (gains) on disposal of tangible fixed assets, net	21	32	289
Net decrease (increase) in trading account securities	34	141	1,273
Net decrease (increase) in loans and bills discounted	(63,413)	(124,053)	(1,120,522)
Net increase (decrease) in deposits	15,261	318,853	2,880,074
Net increase (decrease) in certificates of deposit	(5,728)	(46,307)	(418,272)
Net increase (decrease) in borrowed money (except for subordinated borrowed money)	14,617	183,379	1,656,390
Net decrease (increase) in due from banks (except for deposits with the Bank of Japan)	1,121	341	3,080
Net decrease (increase) in call loans, bills purchased, commercial paper and other debt purchased	3,506	(17,827)	(161,024)
Net increase (decrease) in call money	16,140	(8,953)	(80,868)
Net increase (decrease) in payables under securities lending transactions	31,033	(16,405)	(148,179)
Net decrease (increase) in foreign exchange (assets)	(3,561)	6,453	58,287
Net increase (decrease) in foreign exchange (liabilities)	80	(71)	(641)
Interest and dividends received	39,086	38,247	345,470
Interest paid	(4,160)	(2,351)	(21,235)
Other	1,730	1,667	15,057
Subtotal	30,185	305,245	2,757,158
Income taxes paid	(5,132)	(3,688)	(33,312)
Net cash provided by (used in) operating activities	25,053	301,556	2,723,837
Cash flows from investing activities:			
Payments for purchases of securities	(203,698)	(170,572)	(1,540,709)
Proceeds from sales of securities	71,178	65,012	587,227
Proceeds from maturities of securities	150,591	154,616	1,396,585
Payments for increases in money held in trust	(2,100)	–	–
Proceeds from decreases in money held in trust	2,100	–	–
Payments for purchases of tangible fixed assets	(3,433)	(1,028)	(9,285)
Payments for disposals of tangible fixed assets	(52)	(26)	(234)
Proceeds from sales of tangible fixed assets	141	61	550
Purchases of intangible fixed assets	(2,382)	(1,230)	(11,110)
Net cash provided by (used in) investing activities	12,343	46,831	423,006
Cash flows from financing activities:			
Dividends paid	(1,934)	(1,802)	(16,276)
Dividends paid to noncontrolling interests stockholders	(0)	–	–
Payments for purchases of treasury stock	(1,853)	(927)	(8,373)
Proceeds from sales of treasury stock	4	290	2,619
Payments from changes in ownership interests in subsidiaries that do not result in a change in scope of consolidation	(958)	–	–
Net cash provided by (used in) financing activities	(4,742)	(2,438)	(22,021)
Foreign currency translation adjustments	0	2	18
Net increase (decrease) in cash and cash equivalents	32,654	345,951	3,124,839
Cash and cash equivalents at beginning of year	252,620	285,275	2,576,777
Cash and cash equivalents at end of year (Note 3)	¥ 285,275	¥ 631,227	$ 5,701,625

See Notes to Consolidated Financial Statements.

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 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, 2021, which was ¥110.71 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, 2020 and 2021 include the accounts of the Bank and the following six subsidiaries:

The Awagin Guaranty Company Limited
The Awagin Card Company Limited
The Awagin Consulting Company Limited
The Awagin Connect Company Limited (for 2021)
The Awagin Lease Company Limited
The Awagin Growth Companies Investment Limited Partnership

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.

(Change in scope of consolidation)
The Awagin Connect Company Limited is included in the scope of consolidation for the year ended March 31, 2021 due to its establishment.

The following subsidiary of the Bank was excluded from the scope of consolidation for the years ended March 31, 2020 and 2021 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

The following subsidiary of the Bank was also not accounted for using the equity method for the years ended March 31, 2020 and 2021 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

The following three affiliates of the Bank were not accounted for using the equity method for the years ended March 31, 2020 and 2021 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
Shikoku Brand Company Limited (for 2021)
The Awagin Regional Revitalization Investment Limited Partnership

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, 2020 and 2021, 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 5 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, the reserve for possible loan losses is provided at estimated future loss amounts mainly for one year or three years, which is calculated using an estimated loss ratio obtained from an average of the actual default ratio for a certain period in the past based on actual defaults for the past one year or three years with certain necessary adjustments such as future estimates.

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, 2020 and 2021, 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, 2020 and 2021, the write-off of the estimated unrecoverable amounts was ¥19,623 million and ¥19,429 million ($175,494 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, 2020 and 2021.

(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 against 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" (The Japanese Institute of Certified Public Accountant ("JICPA") Industry Committee Report No. 24, October 8, 2020).

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.

The "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 40, September 29, 2020) is applied to these hedging relationships.

② Hedging against foreign currency risk

The Bank applies the deferred method of hedge accounting to hedge against 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 Committee Report No. 25, October 8, 2020). 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.

2. Significant Accounting Policies (cont'd)

(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.

(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's own shares held by the Directors Compensation BIP Trust and the Awagin Group Employee Shareholding Association Dedicated 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) Significant accounting estimates

Items for which the amount has been recorded in the consolidated financial statements for the year ended March 31, 2021 based on accounting estimates that may affect the consolidated financial statements for the year ending March 31, 2022 are as follows:

Reserve for possible loan losses

① Reserve for possible loan losses was recorded in the amount of ¥18,337 million ($165,630 thousand) in the consolidated financial statements for the year ended March 31, 2021.

② Information that contributes to understanding significant accounting estimates for certain identified items

(i) Calculation method

The calculation method of reserve for possible loan losses is described in Note 2. (5), "Significant Accounting Policies- Reserve for possible loan losses."

(ii) Major assumptions

Major assumptions are "Customers' future financial outlook in determining customer classification" and "Effects of COVID-19 on the economy." The "Customers' future financial outlook" is determined by individually evaluating each customer's ability to earn profits. Also the "Effects of COVID-19 on the economy" is based on assumption that although the economy's recovery will continue in the year ending March 31, 2022 due to the progress with of vaccinations and the support of various policies, there are still concerns about the resurgence of COVID-19.

(iii) Effects on consolidated financial statements for the year ending March 31, 2022

If the initial assumptions are changed due to a customer's business performance or delays in ending the COVID-19 pandemic, there may be significant effects on the reserve for possible loan losses in the consolidated financial statements for the year ending March 31, 2022.

2. Significant Accounting Policies (cont’d)

(19) Unadopted accounting standards

The following standard and guidance were issued but not yet adopted.
- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

① Overview

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

The effects of the new standard on the consolidated financial statements are expected to be immaterial.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Revised Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)
- “Revised Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)
- “Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

① Overview

The “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter “Accounting Standard for Fair Value Measurement”) have been developed to enhance comparability between Japanese accounting standards and international accounting standards. The Accounting Standard for Fair Value Measurement is applied to the following items:

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

Further, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised, and related notes have been established, including a breakdown by the level of fair value of financial instruments.

② Effective date

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

2. Significant Accounting Policies (cont'd)

③ Effects of application
The effects of the new standard on the consolidated financial statements are expected to be immaterial.

(20) Change in presentation method

The Bank and its consolidated subsidiaries applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) to the consolidated financial statements for the consolidated fiscal year ended March 31, 2021. Significant accounting estimates are disclosed in the notes to the consolidated financial statements.

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

(21) Additional information

(Executive Compensation BIP (Board Incentive Plan) Trust)
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, 2020 and 2021 were ¥744 million and ¥732 million ($6,611 thousand) and 214 thousand shares and 210 thousand shares, respectively.

(Trust-Based Employee Shareholding Incentive Plan)
The Bank introduced a trust-based employee shareholding incentive plan designed for the employees of the Group and to provide incentives for improving the Bank's medium to long-term corporate value and support asset building by encouraging employees to acquire and hold shares through the expansion of the employee shareholding association as a measure of enhancing employee welfare and benefits from the fiscal year ended March 31, 2021.

2. Significant Accounting Policies (cont'd)

① Overview of the transaction
The Bank will establish the Awagin Group Employee Shareholding Association Dedicated Trust (the "Trust") in the trust bank. The Trust will acquire in advance a certain number of the Bank's shares that are expected to be acquired by the Awagin Group Employee Shareholding Association (the "Shareholding Association") for three years after the establishment. Until the termination of the Trust, the shares will be continually sold to the Shareholding Association. If a significant amount of realized gains on sale of shares remain within the Trust upon its termination, these gains will be distributed as residual assets to the Shareholding Association members who satisfy the eligibility requirements for beneficiaries. Moreover, the Bank will provide guarantees for the loans undertaken to acquire its shares. Therefore, if there is a residual loan balance equivalent to a realized loss on the sale of these shares within the Trust upon its termination due to a decline in the Bank's stock price, the Bank shall repay this residual loan balance based on the guarantee agreement.

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 trusts 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, 2021 were ¥647 million ($5,844 thousand) and 259 thousand shares.

③ Carrying amounts of debt recorded through the application of the gross price method
The carrying amounts of debt recorded through the application of the gross price method was ¥651 million ($5,880 thousand) as of March 31, 2021.

(Retirement Benefit Plan)
On April 1, 2021, the Group has transferred its defined benefit pension plan to a risk sharing pension plan, which is classified as a defined contribution plan stipulated in Paragraph 4 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, December 16, 2016). Regarding the accounting treatment associated with the transition, "Practical Solution on Accounting for Risk Sharing Pension Plan" (PITF No. 33, December 16, 2016), "Accounting for Transfer between Retirement Benefit Plans (ASBJ Guidance No. 1, December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (PITF No. 2, February 7, 2007) are applied. As a result, a loss on termination of retirement benefit plan of ¥75 million ($677 thousand) was recorded in other expenses for the fiscal year ended March 31, 2021. In addition, the retirement benefit trust established by the Bank has been cancelled.

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, 2020 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and due from banks	¥ 287,164	¥ 632,773	$ 5,715,590
Due from banks (excluding deposits with the Bank of Japan)	(1,888)	(1,546)	(13,964)
Cash and cash equivalents	¥ 285,275	¥ 631,227	$ 5,701,625

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 it 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 Committee Report No. 24, October 8, 2020). 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 Committee Report No. 25, October 8, 2020). 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. The middle office reports these 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, 2020 and 2021 was ¥69,769 million and ¥72,216 million ($652,298 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.

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, 2020 and 2021. 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		
	2020		
	Book value	Fair value	Difference
(1) Cash and due from banks	¥ 287,164	¥ 287,164	¥ －
(2) Call loans and bills purchased	2,151	2,151	－
(3) Commercial paper and other debt purchased	1,149	1,149	－
(4) Trading account securities			
Trading securities	917	917	－
(5) Securities			
Held-to-maturity debt securities	－	－	－
Available-for-sale securities	983,503	983,503	－
(6) Loans and bills discounted	1,962,862		
Reserve for possible loan losses (*1)	(16,362)		
	1,946,499	1,950,404	3,904
(7) Lease receivables and investment assets	28,802		
Reserve for lease losses (*1)	(658)		
(*2)	28,143	30,223	2,080
Total assets:	¥ 3,249,529	¥3,255,514	¥ 5,985
(1) Deposits	¥ 2,771,127	¥2,771,249	¥ 122
(2) Negotiable certificates of deposit	175,149	175,150	0
(3) Call money and bills sold	20,024	20,024	－
(4) Payables under securities lending transactions	58,470	58,470	－
(5) Borrowed money	53,610	53,603	(6)
Total liabilities:	¥ 3,078,383	¥3,078,499	¥ 116
Derivative transactions (*3)			
Hedge accounting not applied	¥ 196	¥ 196	¥ －
Hedge accounting applied	(3,290)	(3,290)	－
Total derivative transactions:	¥ (3,093)	¥ (3,093)	¥ －

(*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 ¥23,989 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.

4. Financial Instruments (cont'd)

	Millions of yen			Thousands of U.S. dollars		
	2021			2021		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and due from banks	¥ 632,773	¥ 632,773	¥ –	$ 5,715,590	$ 5,715,590	$ –
(2) Call loans and bills purchased	19,595	19,595	–	176,993	176,993	–
(3) Commercial paper and other debt purchased	1,530	1,530	–	13,819	13,819	–
(4) Trading account securities						
Trading securities	775	775	–	7,000	7,000	–
(5) Securities						
Held-to-maturity debt securities	–	–	–	–	–	–
Available-for-sale securities	988,305	988,305	–	8,926,971	8,926,971	–
(6) Loans and bills discounted	2,086,915			18,850,284		
Reserve for possible loan losses (*1)	(17,446)			(157,582)		
	2,069,469	2,072,194	2,724	18,692,701	18,717,315	24,604
(7) Lease receivables and investment assets	29,187			263,634		
Reserve for lease losses (*1)	(744)			(6,720)		
(*2)	28,442	30,423	1,980	256,905	274,799	17,884
Total assets:	¥3,740,893	¥3,745,599	¥ 4,705	$33,790,018	$33,832,526	$ 42,498
(1) Deposits	¥3,089,980	¥3,090,133	¥ 152	$27,910,577	$27,911,959	$ 1,372
(2) Negotiable certificates of deposit	128,841	128,844	2	1,163,770	1,163,797	18
(3) Call money and bills sold	11,071	11,071	–	100,000	100,000	–
(4) Payables under securities lending transactions	42,065	42,065	–	379,956	379,956	–
(5) Borrowed money	236,990	236,981	(8)	2,140,637	2,140,556	(72)
Total liabilities:	¥3,508,948	¥3,509,096	¥ 147	$31,694,950	$31,696,287	$ 1,327
Derivative transactions (*3)						
Hedge accounting not applied	¥ (2,141)	¥ (2,141)	¥ –	$ (19,338)	$ (19,338)	$ –
Hedge accounting applied (*4)	(5,140)	(5,140)	–	(46,427)	(46,427)	–
Total derivative transactions:	¥ (7,282)	¥ (7,282)	¥ –	$ (65,775)	$ (65,775)	$ –

(*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 ¥24,065 million ($217,369 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.

(*4) Deferred hedging is applied mainly to interest rate swaps and other designated as hedging instruments in offsetting movement in the fair value from changes in interest rates. The "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (PITF No. 40, September 29, 2020) is applied to these hedging relationships.

(Note 1) Methods used to determine the fair value of financial instruments

<u>Assets</u>

(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.

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
	2020	2021	2021
Unlisted stocks (*1)(*2)	¥ 6,679	¥ 7,135	$ 64,447
Investments in partnerships (*3)	¥ 5,245	¥ 5,655	$ 51,079
Total	¥ 11,924	¥ 12,790	$ 115,527

(*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, 2020 and 2021 was¥3 million and ¥4 million ($36 thousand), 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.

4. Financial Instruments (cont'd)

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

	Millions of yen					
	2020					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥249,648	¥ −	¥ −	¥ −	¥ −	¥ −
Call loans and bills purchased	2,151	−	−	−	−	−
Commercial paper and other debt purchased	719	425	−	−	−	−
Securities						
Held-to-maturity debt securities	−	−	−	−	−	−
Japanese government bonds	−	−	−	−	−	−
Municipal bonds	−	−	−	−	−	−
Short-term corporate bonds	−	−	−	−	−	−
Corporate bonds	−	−	−	−	−	−
Others	−	−	−	−	−	−
Available-for-sale securities with maturities	134,597	192,196	175,630	67,360	87,462	77,500
Japanese government bonds	74,500	76,600	50,100	5,000	8,500	18,800
Municipal bonds	17,520	37,226	36,871	33,658	37,666	18,971
Short-term corporate bonds	−	−	−	−	−	−
Corporate bonds	18,885	28,081	20,206	10,374	17,441	33,479
Others	23,691	50,288	68,452	18,327	23,854	6,249
Loans and bills discounted (*1)	435,245	393,552	273,593	200,951	208,624	389,223
Lease receivables and investment assets (*2)	8,176	12,021	6,213	1,298	433	218
Total	¥830,537	¥598,196	¥455,437	¥269,610	¥296,520	¥466,941

(*1) Loans and bills discounted on which full repayment is not expected from debtors such as bankrupt obligors, substantially bankrupt obligors and intensively controlled obligors in the amount of ¥38,299 million and those without terms in the amount of ¥23,371 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 ¥440 million are not included. There are no monetary claims or securities without maturities.

4. Financial Instruments (cont'd)

	Millions of yen					
	2021					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥592,714	¥ −	¥ −	¥ −	¥ −	¥ −
Call loans and bills purchased	19,595	−	−	−	−	−
Commercial paper and other debt purchased	1,528	−	−	−	−	−
Securities						
Held-to-maturity debt securities	−	−	−	−	−	−
Japanese government bonds	−	−	−	−	−	−
Municipal bonds	−	−	−	−	−	−
Short-term corporate bonds	−	−	−	−	−	−
Corporate bonds	−	−	−	−	−	−
Others	−	−	−	−	−	−
Available-for-sale securities with maturities	91,207	183,270	146,841	81,518	82,291	124,698
Japanese government bonds	38,500	59,300	23,700	8,700	8,000	43,800
Municipal bonds	18,626	35,877	36,172	30,212	21,603	19,714
Short-term corporate bonds	−	−	−	−	−	−
Corporate bonds	11,707	31,733	18,068	15,451	16,634	56,987
Others	22,373	56,360	68,900	27,155	36,053	4,196
Loans and bills discounted (*1)	416,293	392,163	318,885	238,897	264,855	397,146
Lease receivables and investment assets (*2)	8,162	12,145	6,348	1,345	527	142
Total	¥1,129,501	¥587,579	¥472,075	¥321,761	¥347,675	¥521,987

4. Financial Instruments (cont'd)

	Thousands of U.S. dollars					
	2021					
	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	$5,353,753	$ −	$ −	$ −	$ −	$ −
Call loans and bills purchased	176,993	−	−	−	−	−
Commercial paper and other debt purchased	13,801	−	−	−	−	−
Securities						
Held-to-maturity debt securities	−	−	−	−	−	−
Japanese government bonds	−	−	−	−	−	−
Municipal bonds	−	−	−	−	−	−
Short-term corporate bonds	−	−	−	−	−	−
Corporate bonds	−	−	−	−	−	−
Others	−	−	−	−	−	−
Available-for-sale securities with maturities	823,837	1,655,406	1,326,357	736,320	743,302	1,126,348
Japanese government bonds	347,755	535,633	214,072	78,583	72,260	395,628
Municipal bonds	168,241	324,062	326,727	272,893	195,131	178,068
Short-term corporate bonds	−	−	−	−	−	−
Corporate bonds	105,744	286,631	163,201	139,562	150,248	514,741
Others	202,086	509,077	622,346	245,280	325,652	37,900
Loans and bills discounted (*1)	3,760,211	3,542,254	2,880,363	2,157,862	2,392,331	3,587,264
Lease receivables and investment assets (*2)	73,724	109,701	57,338	12,148	4,760	1,282
Total	$10,202,339	$5,307,370	$4,264,068	$2,906,340	$3,140,411	$4,714,903

(*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 ¥39,024 million ($352,488 thousand) and those without terms in the amount of ¥19,648 million ($177,472 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 ¥515 million ($4,651 thousand) are not included. There are no monetary claims or securities without maturities.

4. Financial Instruments (cont'd)

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

	Millions of yen					
	2020					
	Within 1 year	1–3 years	3–5 years	5–7 years	7–10 years	Over 10 years
Deposits (*)	¥ 2,611,612	¥ 134,206	¥ 23,432	¥ 740	¥ 1,135	¥ –
Negotiable certificates of deposit	174,949	200	–	–	–	–
Call money and bills sold	20,024	–	–	–	–	–
Payables under securities lending transactions	58,470	–	–	–	–	–
Borrowed money	4,978	32,178	16,454	–	–	–
Total	¥ 2,870,035	¥ 166,584	¥ 39,886	¥ 740	¥ 1,135	¥ –

	Millions of yen					
	2021					
	Within 1 year	1–3 years	3–5 years	5–7 years	7–10 years	Over 10 years
Deposits (*)	¥ 2,938,949	¥ 137,827	¥ 11,286	¥ 531	¥ 1,385	¥ –
Negotiable certificates of deposit	128,341	500	–	–	–	–
Call money and bills sold	11,071	–	–	–	–	–
Payables under securities lending transactions	42,065	–	–	–	–	–
Borrowed money	187,042	47,835	2,112	–	–	–
Total	¥ 3,307,469	¥ 186,163	¥ 13,399	¥ 531	¥ 1,385	¥ –

	Thousands of U.S. dollars					
	2021					
	Within 1 year	1–3 years	3–5 years	5–7 years	7–10 years	Over 10 years
Deposits (*)	$26,546,373	$1,244,937	$ 101,942	$ 4,796	$ 12,510	$ –
Negotiable certificates of deposit	1,159,253	4,516	–	–	–	–
Call money and bills sold	100,000	–	–	–	–	–
Payables under securities lending transactions	379,956	–	–	–	–	–
Borrowed money	1,689,477	432,074	19,076	–	–	–
Total	$29,875,070	$1,681,537	$ 121,027	$ 4,796	$ 12,510	$ –

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

5. Securities

Unsecured securities that have been loaned and that allow the borrowers to sell the borrowed securities amounted to ¥89,781 million and ¥56,329 million ($508,797 thousand) as of March 31, 2020 and 2021, 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, 2020 and 2021. 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
	2020	2021	2021
Amount of net unrealized gains (losses) included in statements of income	¥ 4	¥ 3	$ 27

② Held-to-maturity debt securities for the years ended March 31, 2020 and 2021:

Not applicable.

5. Securities (cont’d)

③ Available-for-sale securities:
※ Book value exceeded acquisition cost.

	Millions of yen		
	2020		
	Book (fair) value	Acquisition cost	Difference
Equity securities	¥ 91,223	¥ 37,667	¥ 53,555
Bonds:			
Japanese government bonds	197,978	192,283	5,694
Municipal bonds	112,576	110,374	2,202
Corporate bonds	86,098	83,654	2,443
Other	202,593	190,640	11,953
Total	¥ 690,469	¥ 614,619	¥ 75,849

※ Book value did not exceed acquisition cost.

Equity securities	¥ 10,983	¥ 13,796	¥ (2,812)
Bonds:			
Japanese government bonds	43,230	44,127	(896)
Municipal bonds	74,322	74,682	(360)
Corporate bonds	47,704	48,320	(615)
Other	117,222	128,572	(11,350)
Total	¥ 293,463	¥ 309,499	¥ (16,035)
Grand total	¥ 983,933	¥ 924,118	¥ 59,814

5. Securities (cont'd)

※ Book value exceeded acquisition cost.

	Millions of yen		
	2021		
	Book (fair) value	Acquisition cost	Difference
Equity securities	¥ 124,711	¥ 44,839	¥ 79,871
Bonds:			
Japanese government bonds	121,112	116,985	4,126
Municipal bonds	130,394	128,427	1,966
Corporate bonds	81,846	79,846	2,000
Other	277,831	254,124	23,707
Total	¥ 735,896	¥ 624,224	¥ 111,671

※ Book value did not exceed acquisition cost.

Equity securities	¥ 4,327	¥ 4,726	¥ (398)
Bonds:			
Japanese government bonds	66,209	66,945	(735)
Municipal bonds	36,378	36,546	(167)
Corporate bonds	74,863	75,722	(859)
Other	70,949	73,653	(2,703)
Total	¥ 252,728	¥ 257,593	¥ (4,865)
Grand total	¥ 988,624	¥ 881,818	¥ 106,806

5. Securities (cont'd)

※ Book value exceeded acquisition cost.

	Thousands of U.S. dollars		
	2021		
	Book (fair) value	Acquisition cost	Difference
Equity securities	$ 1,126,465	$ 405,013	$ 721,443
Bonds:			
Japanese government bonds	1,093,957	1,056,679	37,268
Municipal bonds	1,177,797	1,160,030	17,758
Corporate bonds	739,282	721,217	18,065
Other	2,509,538	2,295,402	214,136
Total	$ 6,647,059	$ 5,638,370	$ 1,008,680

※ Book value did not exceed acquisition cost.

Equity securities	$ 39,084	$ 42,688	$ (3,594)
Bonds:			
Japanese government bonds	598,039	604,687	(6,638)
Municipal bonds	328,588	330,105	(1,508)
Corporate bonds	676,208	683,967	(7,759)
Other	640,854	665,278	(24,415)
Total	$ 2,282,792	$ 2,326,736	$ (43,943)
Grand total	$ 8,929,852	$ 7,965,116	$ 964,736

④ Held-to-maturity debt securities sold for the years ended March 31, 2020 and 2021:

Not applicable.

5. Securities (cont'd)

⑤ Available-for-sale securities sold in the years ended March 31, 2020 and 2021:

	Millions of yen		
	2020		
	Amount sold	Gains	Losses
Equity securities	¥ 7,655	¥ 2,790	¥ 821
Bonds:			
Japanese government bonds	9,027	15	11
Municipal bonds	26,341	57	37
Corporate bonds	2,219	6	1
Other	25,893	916	49
Total	¥ 71,138	¥ 3,786	¥ 920

	Millions of yen		
	2021		
	Amount sold	Gains	Losses
Equity securities	¥ 6,945	¥ 2,547	¥ 936
Bonds:			
Japanese government bonds	20,792	30	242
Municipal bonds	17,197	7	37
Corporate bonds	2,431	1	1
Other	17,645	1,155	401
Total	¥ 65,012	¥ 3,743	¥ 1,620

	Thousands of U.S. dollars		
	2021		
	Amount sold	Gains	Losses
Equity securities	$ 62,731	$ 23,006	$ 8,454
Bonds:			
Japanese government bonds	187,805	270	2,185
Municipal bonds	155,333	63	334
Corporate bonds	21,958	9	9
Other	159,380	10,432	3,622
Total	$ 587,227	$ 33,809	$ 14,632

5. Securities (cont’d)

⑥ Securities reclassified for the years ended March 31, 2020 and 2021:

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, 2020 was ¥182 million, including ¥182 million of equity securities and nil of other. Impairment loss for the fiscal years ended March 31, 2021 was ¥ 408 million ($3,685 thousand), including ¥ 408 million ($3,685 thousand) of equity securities and nil 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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Available-for-sale securities	¥ 59,814	¥ 106,806	$ 964,736
Deferred tax liabilities	(17,968)	(32,281)	(291,581)
Net unrealized holding gains on securities (before adjustment for noncontrolling interests)	41,846	74,524	673,146
Noncontrolling interests	(1,329)	(1,329)	(12,004)
Net unrealized holding gains on securities	¥ 40,516	¥ 73,194	$ 661,132

(3) Guarantee obligations for privately placed bonds
At March 31, 2020 and 2021, the amount of guarantee obligations for privately placed bonds (Securities and Exchange Law, Article 2, Item 3) included in corporate bonds amounted to ¥19,238 million and ¥19,189 million ($173,326 thousand), respectively.

6. Loans and Bills Discounted

At March 31, 2020 and 2021, loans and bills discounted included the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Loans to bankrupt customers	¥ 2,715	¥ 1,265	$ 11,426
Nonaccrual loans	36,024	38,274	345,714
Loans past due three months or more	381	741	6,693
Restructured loans	6,473	6,744	60,915
Total	¥ 45,594	¥ 47,026	$ 424,767

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 Committee Report No. 24, October 8, 2020). 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 ¥10,438 million and ¥6,944 million ($62,722 thousand) at March 31, 2020 and 2021, respectively.

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, 2020 and 2021 amounted to ¥369,371 million and ¥382,712 million ($3,456,887 thousand), respectively. Of these amounts, ¥359,231 million and ¥372,245 million ($3,362,343 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, 2020 and 2021, assets and future receipts pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Securities	¥ 120,421	¥ 288,809	$ 2,608,698

The above pledged amounts secure the following liabilities:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deposits	¥ 15,220	¥ 13,401	$ 121,045
Payables under securities lending transactions	58,470	42,065	379,956
Borrowed money	42,000	224,000	2,023,304

At March 31, 2020 and 2021, certain investment securities amounting to ¥1,287 million and ¥1,421 million ($12,835 thousand), respectively, and other assets of ¥30,049 million including deposits with the central counterparty of ¥30,000 million and other of ¥49 million and other assets of ¥30,049 million ($271,420 thousand) including deposits with the central counterparty of ¥30,000 million ($270,978 thousand) and other of ¥49 million ($442 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, 2020 and 2021, other assets included cash collateral paid for financial instruments of ¥4,756 million and ¥5,037 million ($45,497 thousand), respectively, and guarantee deposits of ¥294 million and ¥292 million ($2,637 thousand), respectively.

10. Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets at March 31, 2020 and 2021 amounted to ¥32,151 million and ¥32,180 million ($290,669 thousand), respectively. Accumulated capital gains that directly offset acquisition costs of tangible fixed assets to obtain tax benefits at March 31, 2020 and 2021 amounted to ¥734 million and ¥734 million ($6,629 thousand), respectively. No such offset was newly recorded for the years ended March 31, 2020 and 2021.

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, 2020 and 2021, the market values of the revalued land decreased from the revalued amount by ¥7,535 million and ¥7,117 million ($64,285 thousand), respectively.

12. General and Administrative Expenses

For the years ended March 31, 2020 and 2021, general and administrative expenses included salaries and allowances of ¥9,637 million and ¥9,482 million ($85,647 thousand), respectively, and outsourcing expenses of ¥3,607 million and ¥3,649 million ($32,959 thousand), respectively.

13. Other Income

For the years ended March 31, 2020 and 2021, other income included gain on sale of securities of ¥3,341million and ¥3,574 million ($32,282 thousand), respectively.

14. Other Expenses

(1) Loss on loans and securities

For the years ended March 31, 2020 and 2021, other expenses included loans written off of ¥24 million and ¥26 million ($234 thousand), respectively, losses on the sale of securities of ¥823 million and ¥1,264 million ($11,417 thousand), respectively, and securities written off of ¥185 million and ¥413 million ($3,730 thousand), respectively.

14. Other Expenses (cont'd)

(2) Impairment loss

For the year ended March 31, 2020, 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 ¥50 million.

	Area	Purpose of use		Type	Impairment loss Millions of yen 2020
Operating assets	Tokushima area	Branches and others	5 locations	Buildings	¥ 50
Total					¥ 50

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.

14. Other Expenses (cont'd)

(2) Impairment loss (cont'd)

For the year ended March 31, 2021, 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 ¥374 million ($3,378 thousand).

					Impairment loss			
	Area	Purpose of use		Type		Millions of yen		Thousands of U.S. dollars
						2021		
Operating assets	Tokushima area	Branches and others	14 locations	Land and buildings	¥	365	$	3,296
				(Land)		147		1,327
				(Buildings)		218		1,969
	Other area	Branch	1 location	Buildings		7		63
Idle assets	Tokushima area	Idle assets	1 location	Land		0		0
Total					¥	374	$	3,378
				(Land)	¥	148	$	1,336
				(Buildings)		226		2,041

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.

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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net unrealized holding gains (losses) on securities			
Increase (decrease) during the year	¥ (33,620)	¥ 48,703	$ 439,915
Reclassification adjustments	(2,729)	(1,711)	(15,454)
Subtotal, before tax	(36,349)	46,992	424,460
Tax (expense) benefit	11,014	(14,313)	(129,283)
Subtotal, net of tax	(25,335)	32,678	295,167
Net deferred gains (losses) on derivatives under hedge accounting			
Increase (decrease) during the year	(2,051)	157	1,418
Reclassification adjustments	2,268	1,209	10,920
Subtotal, before tax	216	1,367	12,347
Tax (expense) benefit	(65)	(416)	(3,757)
Subtotal, net of tax	150	950	8,580
Remeasurements of defined benefit plans			
Increase (decrease) during the year	(1,383)	3,090	27,910
Reclassification adjustments	(366)	(1,878)	(16,963)
Subtotal, before tax	(1,750)	1,212	10,947
Tax (expense) benefit	538	(369)	(3,333)
Subtotal, net of tax	(1,211)	843	7,614
Total other comprehensive income	¥ (26,397)	¥ 34,472	$ 311,372

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 30.4% for the year ended March 31, 2020.

The reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2020 was as follows:

	2020
Statutory tax rate	30.4%
(Adjustments)	
Items permanently excluded from expenses such as entertainment expenses	0.4
Items permanently excluded from income such as dividend income	(1.5)
Inhabitants tax on per capita basis	0.2
Increase (decrease) in valuation allowance	(1.1)
Others	0.2
Effective tax rate after application of deferred income tax accounting	28.6%

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2021 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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets:			
Excess reserve for possible loan losses	¥ 10,209	¥ 10,374	$ 93,704
Excess depreciation	515	702	6,340
Net defined benefit liability	521	21	189
Tax loss carryforwards	−	2	18
Net deferred gains (losses) on derivatives under hedge accounting	1,085	669	6,042
Others	2,058	2,042	18,444
Valuation allowance	(2,423)	(2,557)	(23,096)
Total deferred tax assets	11,968	11,255	101,661
Deferred tax liabilities:			
Deferred gains on real property	(244)	(245)	(2,212)
Unrealized gains on securities	(17,968)	(32,281)	(291,581)
Others	(1)	(2)	(18)
Total deferred tax liabilities	(18,214)	(32,529)	(293,821)
Net deferred tax liabilities	¥ (6,246)	¥ (21,273)	$ (192,150)

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, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Borrowings from banks and others	¥ 53,610	¥ 236,990	$ 2,140,637
Lease obligations (payable within 1 year)	¥ 108	¥ 104	$ 939
Lease obligations (excluding those payable within 1 year)	¥ 122	¥ 63	$ 569

(Lease obligations are included in other liabilities.)

The following is a summary of aggregate annual maturities of borrowings from banks and others and lease obligations within 5 years at March 31, 2021.

・Borrowings from banks and others:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2022	¥ 187,042	$ 1,689,477
2023	30,086	271,755
2024	17,749	160,319
2025	1,512	13,657
2026	600	5,419

・Lease obligations:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2022	¥ 104	$ 939
2023	36	325
2024	16	144
2025	8	72
2026	2	18

19. Employees' Severance and Retirement Benefits

(1) Overview of retirement benefit plan

The Bank and its consolidated subsidiaries provide funded contributory pension plans under the Defined Benefit Corporate Pension Law and lump-sum payment plans 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.

The Bank and its consolidated subsidiaries have transferred their defined benefit pension plans to risk sharing pension plans which are classified as defined contribution plans stipulated in Paragraph 4 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, December 16, 2016) on April 1, 2021.

In risk sharing pension plans, in addition to the standard contribution equivalent, a risk-taking contribution equivalent is stipulated in advance in the policies. The amount of benefits increases or decreases according to the financial status of the risk sharing pension plan in each consolidated fiscal year and the financial balance of the pensions will be maintained. Contributions to the defined contribution plans will be implemented from the fiscal year ending March 31, 2022 and after.

Regarding the accounting treatment associated with the transition, "Practical Solution on Accounting for Risk Sharing Pension Plan" (PITF No. 33, December 16, 2016), "Accounting for Transfer between Retirement Benefit Plans (ASBJ Guidance No. 1, December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (PITF No. 2, February 7, 2007) are applied. As a result, loss on termination of retirement benefit plan of ¥75 million ($677 thousand) was recorded in other expenses for the fiscal year ended March 31, 2021.

In addition, the retirement benefit trust established by the Bank has was cancelled on April 1, 2021.

(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
	2020	2021	2021
Projected benefit obligation at beginning of year	¥ 30,720	¥ 30,073	$ 271,637
Service cost	765	769	6,946
Interest cost	156	176	1,589
Actuarial differences	(180)	421	3,802
Retirement benefits paid	(1,501)	(1,511)	(13,648)
Effects of transition from the simplified method to principal method due to merger	113	–	–
Effects of transition to risk sharing pension plan	–	(5,076)	(45,849)
Projected benefit obligation at end of year	¥ 30,073	¥ 24,853	$ 224,487

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

② Movement in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Plan assets at beginning of year	¥ 36,851	¥ 34,940	$ 315,599
Expected return on plan assets	689	671	6,060
Actuarial differences	(1,564)	3,512	31,722
Employer contribution	33	45	406
Employee contribution	31	30	270
Retirement benefits paid	(1,101)	(1,077)	(9,728)
Effects of transition to risk sharing pension plan	–	(7,083)	(63,977)
Plan assets at end of year	¥ 34,940	¥ 31,038	$ 280,354

(*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
	2020	2021	2021
Net defined benefit liability at beginning of year	¥ 227	¥ 111	$ 1,002
Net retirement benefit expenses	20	8	72
Retirement benefits paid	(23)	(0)	(0)
Effects of transition from the simplified method to principal method due to merger	(113)	–	–
Net defined benefit liability at end of year	¥ 111	¥ 119	$ 1,074

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
	2020	2021	2021
Funded projected benefit obligation	¥ 30,073	¥ 24,853	$ 224,487
Plan assets	(34,940)	(31,038)	(280,354)
	(4,867)	(6,185)	(55,866)
Unfunded projected benefit obligation	111	119	1,074
Net liability and asset recorded on the consolidated balance sheet	¥ (4,756)	¥ (6,066)	$ (54,791)
Net defined benefit liability	¥ 505	¥ 44	$ 397
Net defined benefit asset	(5,261)	(6,111)	(55,198)
Net liability and asset recorded on the consolidated balance sheet	¥ (4,756)	¥ (6,066)	$ (54,791)

(*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
	2020	2021	2021
Service cost	¥ 753	¥ 747	$ 6,747
Interest cost	156	176	1,589
Expected return on plan assets	(689)	(671)	(6,060)
Amortization of actuarial differences	(269)	52	469
Amortization of prior service costs	(97)	–	–
Net retirement benefit expenses	¥ (145)	¥ 306	$ 2,763

(*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.
(*3) In addition to the net retirement benefit expenses described above, loss on termination of retirement benefit plan of ¥75 million ($677 thousand) was recorded in other expenses for the fiscal year ended March 31, 2021.

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
	2020	2021	2021
Prior service costs	¥ (97)	¥ −	$ −
Actuarial differences	(1,652)	1,212	10,947
Total	¥ (1,750)	¥ 1,212	$ 10,947

(*) The remeasurements of defined benefit plans include consolidation adjustments of negative ¥43 million ($388 thousand) for the fiscal year ended March 31, 2021.

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
	2020	2021	2021
Unrecognized prior service costs	¥ −	¥ −	$ −
Unrecognized actuarial differences	1,229	(26)	(234)
Total	¥ 1,229	¥ (26)	$ (234)

⑧ Plan assets
(i) Plan assets comprise:

	2020	2021
Debt securities	42.3%	24.9%
Equity securities	28.8	26.6
Life insurance general accounts	10.2	9.7
Cash and due from banks and others	13.4	33.4
Other	5.3	5.4
Total	100.0%	100.0%

(*) As of March 31, 2020 and 2021, plan assets consisted of 3.9% and 2.4%, respectively, of assets of the retirement benefit trust established for the funded contributory pension plan and 13.8% and 13.5%, 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.

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

⑨ Actuarial assumptions at end of year:

	2020	2021
Discount rate ------------------------------	0.5%	0.6%
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%	2.0%
Expected rate of salary increase		
Funded contributory pension plan -----------	2.5%	2.5%
Lump-sum payment plan-------------------	2.4%	2.4%

(*1) The discount rate for the years ended March 31, 2020 and 2021 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

(i) The amount of retirement benefit expenses related to the defined contribution plans
The amount of required contribution to the defined contribution plans was ¥144 million and ¥125 million ($1,129 thousand) as of March 31, 2020 and 2021, respectively.
(ii) Matters related to the amount of risk-taking contribution equivalent
The amount of risk-taking contribution equivalent required from the fiscal year ending March 31, 2022 and after is nil.

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, 2020 and 2021, outstanding derivatives were as follows:

20. Derivative Transactions (cont'd)

Currency and foreign exchange transactions:

	Millions of yen			
	2020			
	Contract amount	Portion maturing over one year	Market value	Recognized gain (loss)
Over-the-counter transactions:				
Forward exchange contracts				
Sell	¥ 54,231	¥ 26,085	¥ (3,128)	¥ (3,128)
Buy	25,678	23,478	3,325	3,325
Currency options				
Sell	38,046	−	(434)	(144)
Buy	38,046	−	434	326

	Millions of yen				Thousands of U.S. dollars
	2021				2021
	Contract amount	Portion maturing over one year	Market value	Recognized gain (loss)	Recognized gain (loss)
Over-the-counter transactions:					
Currency swaps	¥ 3,132	¥ 3,132	¥ −	¥ −	$ −
Forward exchange contracts					
Sell	88,833	25,323	(5,005)	(5,005)	(45,208)
Buy	28,054	23,884	2,863	2,863	25,860
Currency options					
Sell	51,754	−	(1,120)	(786)	(7,099)
Buy	51,754	−	1,120	1,005	9,077

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, 2020 and 2021. 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' credit guarantee services, credit card services, management consulting services, online mall operation services and investment services to growing companies.

'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.

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, 2020 and 2021 was as follows:

	Millions of yen				
	2020				
	Reportable segment				
	Commercial banking	Leasing	Total	Adjustments	Consolidated total
Ordinary income					
Customers	¥ 53,353	¥ 14,305	¥ 67,658	¥ (284)	¥ 67,374
Intersegment	666	177	844	(844)	−
Total	¥ 54,019	¥ 14,483	¥ 68,503	¥ (1,128)	¥ 67,374
Segment profit	¥ 15,816	¥ 725	¥ 16,541	¥ (811)	¥ 15,729
Segment assets	¥ 3,346,840	¥ 41,520	¥ 3,388,360	¥ (12,150)	¥ 3,376,210
Segment liabilities	¥ 3,109,555	¥ 25,573	¥ 3,135,129	¥ (11,281)	¥ 3,123,847
Other items					
Depreciation	¥ 2,446	¥ 133	¥ 2,580	¥ 49	¥ 2,629
Interest income received	39,425	71	39,497	(558)	38,939
Interest expense paid	4,149	62	4,212	(32)	4,179
Extraordinary income	32	−	32	−	32
Gains on disposal of fixed assets	32	−	32	−	32
Extraordinary losses	103	0	103	0	103
Losses on disposal of fixed assets	52	0	53	0	53
Impairment loss	50	−	50	−	50
Loss on termination of retirement benefit plan	−	−	−	−	−
Tax expenses	4,364	209	4,573	(86)	4,487
Increase in tangible fixed assets and intangible fixed assets	5,682	64	5,746	69	5,815

(*1) Ordinary income is presented as the counterpart of sales of companies in other industries.
(*2) Adjustments are as below.
1. Adjustment of ordinary income from customers of negative ¥284 million is for the adjustment of gain on sale of shares.
2. Adjustment of segment profit of negative ¥811 million is for the adjustment of gain on sale of shares and the elimination of intersegment transactions.
3. Adjustment of segment assets of negative ¥12,150 million is for the elimination of intersegment transactions and others.
4. Adjustment of segment liabilities of negative ¥11,281 million is for the elimination of intersegment transactions and others.
5. Adjustment of depreciation of ¥49 million is due to intersegment transactions.
6. Adjustment of interest income received of negative ¥558 million is for the elimination of intersegment transactions.
7. Adjustment of interest expense paid of negative ¥32 million is for the elimination of intersegment transactions.
8. Adjustment of losses on disposal of fixed assets of ¥0 million is due to intersegment transactions.
9. Adjustment of tax expenses of negative ¥86 million is associated mainly with the adjustment of gain on sale of shares.
10. Adjustment of increase in tangible fixed assets and intangible fixed assets of ¥69 million is due to intersegment transactions.

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

21. Segment Information (cont'd)

	Millions of yen				
	2021				
	Reportable segment				
	Commercial banking	Leasing	Total	Adjustments	Consolidated total
Ordinary income					
Customers	¥ 50,735	¥ 14,852	¥ 65,587	¥ –	¥ 65,587
Intersegment	567	178	745	(745)	–
Total	¥ 51,302	¥ 15,030	¥ 66,333	¥ (745)	¥ 65,587
Segment profit	¥ 12,260	¥ 802	¥ 13,063	¥ (399)	¥ 12,663
Segment assets	¥ 3,834,912	¥ 42,691	¥ 3,877,603	¥ (11,528)	¥ 3,866,075
Segment liabilities	¥ 3,558,382	¥ 26,309	¥ 3,584,692	¥ (11,512)	¥ 3,573,180
Other items					
Depreciation	¥ 2,733	¥ 138	¥ 2,872	¥ 51	¥ 2,923
Interest income received	37,876	62	37,939	(429)	37,509
Interest expense paid	2,099	57	2,156	(29)	2,127
Extraordinary income	0	8	8	–	8
Gains on disposal of fixed assets	0	8	8	–	8
Extraordinary losses	477	22	499	(8)	491
Losses on disposal of fixed assets	41	0	41	0	41
Impairment loss	352	22	374	–	374
Loss on termination of retirement benefit plan	84	–	84	(8)	75
Tax expenses	3,436	245	3,682	0	3,682
Increase in tangible fixed assets and intangible fixed assets	2,196	14	2,211	48	2,259

21. Segment Information (cont'd)

	Thousands of U.S. dollars				
	2021				
	Reportable segment				
	Commercial banking	Leasing	Total	Adjustments	Consolidated total
Ordinary income					
Customers	$ 458,269	$ 134,152	$ 592,421	$ –	$ 592,421
Intersegment	5,121	1,607	6,729	(6,729)	–
Total	$ 463,390	$ 135,760	$ 599,159	$ (6,729)	$ 592,421
Segment profit	$ 110,739	$ 7,244	$ 117,992	$ (3,604)	$ 114,379
Segment assets	$ 34,639,255	$ 385,611	$ 35,024,866	$ (104,127)	$ 34,920,738
Segment liabilities	$ 32,141,468	$ 237,638	$ 32,379,116	$ (103,983)	$ 32,275,133
Other items					
Depreciation	$ 24,686	$ 1,246	$ 25,941	$ 460	$ 26,402
Interest income received	342,119	560	342,688	(3,874)	338,804
Interest expense paid	18,959	514	19,474	(261)	19,212
Extraordinary income	0	72	72	–	72
Gains on disposal of fixed assets	0	72	72	–	72
Extraordinary losses	4,308	198	4,507	(72)	4,435
Losses on disposal of fixed assets	370	0	370	0	370
Impairment loss	3,179	198	3,378	–	3,378
Loss on termination of retirement benefit plan	758	–	758	(72)	677
Tax expenses	31,036	2,212	33,258	0	33,258
Increase in tangible fixed assets and intangible fixed assets	19,835	126	19,971	433	20,404

(*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 ¥399 million ($3,604 thousand) is for the elimination of intersegment transactions.
2. Adjustment of segment assets of negative ¥11,528 million ($104,127 thousand) is for the elimination of intersegment transactions and others.
3. Adjustment of segment liabilities of negative ¥11,512 million ($103,983 thousand) is for the elimination of intersegment transactions and others.
4. Adjustment of depreciation of ¥51 million ($460 thousand) is due to intersegment transactions.
5. Adjustment of interest income received of negative ¥429 million ($3,874 thousand) is for the elimination of intersegment transactions.
6. Adjustment of interest expense paid of negative ¥29 million ($261 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 loss on termination of retirement benefit plan of negative ¥8 million ($72 thousand) is for the adjustment associated with the termination of the retirement benefit plan.
9. Adjustment of tax expenses of ¥0 million ($0 thousand) is due to intersegment transactions.
10. Adjustment of increase in tangible fixed assets and intangible fixed assets of ¥48 million ($433 thousand) is due to intersegment transactions.

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

21. Segment Information (cont'd)

(4) Related information

For the years ended March 31, 2020 and 2021:
Information by service:

	Millions of yen				
	2020				
	Loans	Security investments	Leasing	Other businesses	Total
Ordinary income					
Customers	¥ 24,384	¥ 18,950	¥ 14,305	¥ 9,734	¥ 67,374

	Millions of yen				
	2021				
	Loans	Security investments	Leasing	Other businesses	Total
Ordinary income					
Customers	¥ 24,199	¥ 17,299	¥ 14,852	¥ 9,236	¥ 65,587

	Thousands of U.S. dollars				
	2021				
	Loans	Security investments	Leasing	Other businesses	Total
Ordinary income					
Customers	$ 218,580	$ 156,255	$ 134,152	$ 83,425	$ 592,421

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

For the years ended March 31, 2020 and 2021:

	Millions of yen		
	2020		
	Reportable segments		
	Commercial banking	Leasing	Total
Impairment loss	¥ 50	¥ -	¥ 50

	Millions of yen		
	2021		
	Reportable segments		
	Commercial banking	Leasing	Total
Impairment loss	¥ 352	¥ 22	¥ 374

	Thousands of U.S. dollars		
	2021		
	Reportable segments		
	Commercial banking	Leasing	Total
Impairment loss	$ 3,179	$ 198	$ 3,378

22. Transactions with Related Parties

There were no transactions with related parties for the years ended March 31, 2020 and 2021.

There were no related party transactions involving consolidated subsidiaries of the Bank for the year ended March 31, 2020 and 2021.

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, 2020 and 2021 were as follows:

For the year ended March 31, 2020:

	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	43,240	−	−	43,240
Total	43,240	−	−	43,240
Treasury stock				
Common stock	299	751	1	(*1 and *2) 1,049
Total	299	751	1	1,049

(*1) The number of treasury stock as of March 31, 2019 and 2020 included the Bank's own shares of 215 thousand shares and 214 thousand shares, respectively, held by the BIP.

(*2) The 751 thousand increase in the number of shares of treasury stock was due to the purchase of fractional shares (1 thousand shares) and acquisition through the market (750 thousand shares). The 1 thousand decrease in the number of shares of treasury stock was due to the sale of fractional shares (0 thousand shares) and the delivery of the Bank's own shares by the BIP (1 thousand shares).

For the year ended March 31, 2021:

	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	43,240	−	−	43,240
Total	43,240	−	−	43,240
Treasury stock				
Common stock	1,049	371	114	(*1 and *2) 1,305
Total	1,049	371	114	1,305

(*1) The number of treasury stock as of March 31, 2020 and 2021 included the Bank's own shares of 214 thousand shares and 210 thousand shares, respectively, held by the BIP and the number of treasury stock as of March 31, 2021 included the Bank's own shares of 259 thousand shares held by the Trust.

(*2) The 371 thousand increase in the number of shares of treasury stock was due to the purchase of fractional shares (0 thousand shares) and acquisition by the Trust (370 thousand shares). The 114 thousand decrease in the number of shares of treasury stock was due to the delivery of the Bank's own shares by the BIP (3 thousand shares) and the sales of the Bank's own shares by the Trust (111 thousand shares).

23. Changes in Net Assets (cont'd)

(2) Dividends

The following dividends were paid in the years ended March 31, 2020 and 2021:

Year ended March 31, 2020:

Date of resolution	Type of shares	Amount of dividends	Cash dividends per share	Record date	Effective date
		Millions of yen	Yen		
Directors' meeting held on May 10, 2019	Common stock	¥ 971	¥ 22.50	March 31, 2019	June 10, 2019
Directors' meeting held on November 8, 2019	Common stock	¥ 963	¥ 22.50	September 30, 2019	December 5, 2019

Year ended March 31, 2021:

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		
Directors' meeting held on May 15, 2020	Common stock	¥ 954	$ 8,617	¥ 22.50	$ 0.20	March 31, 2020	June 10, 2020
Directors' meeting held on November 13, 2020	Common stock	¥ 848	$ 7,659	¥ 20.00	$ 0.18	September 30, 2020	December 7, 2020

(*1) The amount of dividends resolved at the Directors' meeting held on May 15, 2020 includes ¥4 million ($36 thousand) of dividends for the Bank's own shares held by the BIP.

(*2) The amount of dividends resolved at the Directors' meeting held on November 13, 2020 includes ¥4 million ($36 thousand) of dividends for the Bank's own shares held by the BIP and ¥6 million ($54 thousand) of dividends for the Bank's own shares held by the Trust.

23. Changes in Net Assets (cont'd)

The following dividends were recorded during the fiscal years ended March 31, 2020 and 2021 and became effective after March 31, 2020 and 2021:

For the fiscal year ended March 2020, the dividends became effective after March 31, 2020:

Date of resolution	Type of shares	Amount of dividends	Source of dividends	Cash dividends per share	Record date	Effective date
		Millions of yen		Yen		
Directors' meeting held on May 15, 2020	Common stock	¥ 954	Retained earnings	¥ 22.50	March 31, 2020	June 10, 2020

For the fiscal year ended March 2021, the dividends became effective after March 31, 2021:

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 14, 2021	Common stock	¥ 848	$ 7,659	Retained earnings	¥ 20.00	$ 0.18	March 31, 2021	June 10, 2021

(*) The amount of dividends includes ¥4 million ($36 thousand) of dividends for the Bank's own shares held by the BIP and ¥5 million ($45 thousand) of dividends for the Bank's own shares held by the Trust.

24. Subsequent Events

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 November 12, 2021 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:	450,000 shares
Aggregate acquisition cost:	¥1,000 million ($9,032 thousand)
Acquisition period:	November 22, 2021 to December 15, 2021

The Awa Bank, Ltd.

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

Phone: 088(623)3131