

77BANK

ANNUAL REPORT

2018

おかげさまで140周年

140

Best Consulting Bank

THE 77 BANK, LTD.

Profile |

The 77 Bank, Ltd., was founded in 1878 as Japan's 77th national bank. Headquartered in Sendai—the capital of Miyagi Prefecture—the Bank is the largest in the Tohoku region, with a branch network covering the northern part of Honshu, Japan's largest island.

We will work to strengthen our consulting capabilities to further enhance the degree of customer satisfaction and confidence in the Bank by offering the optimum solutions for customers' needs and issues. At the same time, we will work to establish a robust business foundation with the aim of achieving sustainable growth.

As of March 31, 2018, The 77 Bank had capital of ¥24.7 billion, 142 domestic branches and 2,822 employees.



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Consolidated Financial Highlights

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
For the fiscal year			
Net interest income	¥ 69,644	¥ 67,678	\$ 655,534
Net fees and commission	10,963	10,973	103,190
Net other operating loss	(7,869)	(5,213)	(74,068)
Net income attributable to owners of the parent	18,314	16,114	172,383
At the fiscal year-end			
Total assets	¥8,718,097	¥8,649,396	\$82,060,400
Deposits	7,946,100	7,805,860	74,793,862
Loans and bills discounted	4,621,062	4,443,883	43,496,442
Trading account securities and investment securities	3,146,865	3,262,638	29,620,340
Equity	490,737	468,195	4,619,135
Common stock	24,658	24,658	232,097
		Yen	U.S. Dollars
	2018	2017	2018
Per share of common stock			
Basic net income	¥ 246.87	¥ 215.73	\$ 2.323
Diluted net income	246.45	214.74	2.319
Equity	6,613.28	6,306.73	62.248
Cash dividends applicable to the year	45.00	45.00	0.423
Capital adequacy ratio (%)			
Domestic standard	10.43	10.73	

Notes: 1. Throughout this report, U.S. dollar amounts are translated, for convenience only, at the rate of ¥106.24 = US\$1, the exchange rate prevailing on March 31, 2018.

2. Per share figures have been restated as appropriate, to reflect a one-for-five share consolidation effected October 1, 2017.

● Message from the President

The 77 Bank aims to be the “Best Consulting Bank” that responds to customers’ needs by offering the optimum solutions.



Hidefumi Kobayashi, President

Regarding the Japanese economy, against the backdrop of moderate growth of overseas economies, exports and production are trending upward. In addition, following the improvement of corporate earnings and rising business confidence, capital investment is also trending upward. Consequently, the moderate recovery of the Japanese economy is continuing.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, although demand for reconstruction and recovery from the Great East Japan Earthquake has largely run its course, economic activity generally remained at a high level and the moderate recovery trend continued.

Looking to the future, in addition to the issue of “decline in profitability” against the backdrop of structural problems, such as population aging, a declining birthrate and a shrinking population, and the negative interest rate policy, financial institutions are also facing a new threat of “less revenue opportu-

nities” because new contenders, such as companies in other business sectors and FinTech companies, are entering the financial field. In these circumstances, financial institutions need to establish a “sustainable business model” that will contribute to the resolving of various management issues.

While aspiring to become a bank that is truly supported by customers through differentiation from other financial institutions, companies in other business sectors, and FinTech companies that are strengthening their efforts to increase their business in the Sendai area, The 77 Bank also needs to establish a more robust business foundation. As a financial institution based in the region struck by the Great East Japan Earthquake, our task is to support the acceleration of reconstruction and recovery through proposals of solutions and support of implementation according to the circumstances and needs of the disaster victims.

In order to address these various issues, the Bank launched a medium-term management plan “For The Customer & For The Future—Best Consulting Bank Project—” in April 2018. Based on this plan, we will work to strengthen our consulting capabilities to further enhance the degree of customer satisfaction and confidence in the Bank by offering the optimum solutions for customers’ needs and issues. At the same time, we will work to establish a robust business foundation with the aim of achieving sustainable growth.

Outline of Medium-term Management Plan

1. Name

“For The Customer & For The Future”
—Best Consulting Bank Project—

2. Period

3 years [from April 1, 2018 to March 31, 2021]

3. Basic policies (Medium-term business model)

Further enhance the degree of customer satisfaction and confidence in the Bank through “consulting” offering the optimum solutions by identifying customers’ needs and issues. Moreover, enhance profitability and employee satisfaction through these initiatives.

4. Key Strategies

Key Strategy 1	Growth strategy —Strengthening of profitability—	Key Strategy 2	Regional economy vitalization strategy —Enhancement of value of the region—
(1) Establish systems and structures for strengthening consulting capabilities (2) Strengthen consulting-based sales capabilities throughout the Group (3) Strengthen the channel strategy utilizing IT and FinTech (4) Promote sophisticated management of securities		(1) Continue earthquake recovery support (2) Contribute to regional revitalization (3) Strengthen relations with regional public bodies (4) Strengthen support for corporate rehabilitation and business reform	
Key Strategy 3	Productivity enhancement strategy —Effective and efficient allocation of resources—	Key Strategy 4	Governance strategy—Strengthening of governance for sustainable growth—
(1) Make effective investment in light of sales measures (2) Continue business reform (3) Promote working style reform (4) Optimize allocation of human resources and promote strategic utilization		(1) Enhance and strengthen governance • Vigorously address ESG-related issues (2) Establish brand strategy (3) Enhance shareholder value	



5. Targets / KPIs

○ Targets

Targets for the final year of MTMP (FY2021)

	Item	FY2018 results	FY2021 targets
Enhancement of profitability	<ul style="list-style-type: none"> Net income (consolidated) Interest on loans and bills discounted Fees and commissions 	JPY18.3 bn JPY41.4 bn JPY9.3 bn	JPY19.0 bn or more JPY45.0 bn or more JPY11.5 bn or more
Pursuit of efficiency	<ul style="list-style-type: none"> Core OHR (core gross operating income expense ratio) ROE (consolidated) 	69.5% 3.8%	Less than 70% 3.7% or more
Pursuit of soundness	<ul style="list-style-type: none"> Capital adequacy ratio (consolidated) 	10.4%	10% or more
Strengthening of corporate sales capabilities	<ul style="list-style-type: none"> Balance of corporate loans (term-end) Of which Miyagi Prefecture Of which Sendai City 	JPY2,796.0 bn JPY1,698.9 bn JPY1,223.3 bn	JPY3,000.0 bn or more JPY1,900.0 bn or more JPY1,370.0 bn or more
Strengthening of retail sales capabilities	<ul style="list-style-type: none"> Balance of assets in custody, Group (term-end) (Note) Balance of consumer loans (term-end) 	JPY606.2 bn JPY1,101.4 bn	JPY740.0 bn or more JPY1,200.0 bn or more

Note: Sum of assets in custody of The 77 Bank and those of 77 Securities (Foreign currency deposits exclude deposits by financial institutions and offshore accounts.)

○ Key Performance Indicators (KPIs) for strengthening consulting capabilities

	Item	FY2018 results	FY2021 targets
Enhancement of consulting capabilities	<ul style="list-style-type: none"> No. of employees with qualifications (1st grade Certified Financial Planner, CFP, and Small and Medium enterprise Management Consultant) (final year) 	111 persons	700 persons or more
Strengthening of consulting for corporate clients	<ul style="list-style-type: none"> No. of corporate loan borrowers (final year) No. of clients who signed contracts for customized solutions based on business evaluation (cumulative total for 3 years) (Note 2) Fees and commissions from corporate clients (final year) (Note 1) 	12,290 borrowers (1,114 clients) JPY0.6 bn	13,000 borrowers or more 2,000 clients or more JPY1.8 bn or more
Strengthening of consulting for retail customers	<ul style="list-style-type: none"> No. of business succession, inheritance, and asset succession support recipients (cumulative total for 3 years) (Note 2) No. of increases in contracts for installment-type assets in custody [compared with FY2018 term-end] (Note 2) No. of seminars for customers (cumulative total for 3 years) (Note 2) 	(677 recipients) (10,856 contracts) (80 times)	3,300 recipients or more 40,000 contracts or more 1,100 times or more

Note 1: Fees and commissions for syndicated loans, commitment lines, business matching, M&A, privately placed corporate bonds, manager insurance products, etc.

Note 2: Results indicated for FY2018 are results for the single year.

Bank Creed as a Code of Conduct

The Bank Creed has been deeply engrained as a code of conduct among the Bank's executives and employees to this day, since its establishment as the basic principle of management in 1961. The Bank Creed declares our commitment to "contribute to the local community while achieving a harmonious balance between self-interest and public interest." In this context, it gives top priority to "elevating the spirit of voluntary service" and advocates a service-minded approach to bring about prosperity in the local community.

Bank Creed

The Bank's mission is to absorb funds and create credit by exercising its own creativity based on the principle of self-responsibility, in a spirit of maintaining orderly credit conditions and protecting depositors, and thereby contribute to the growth of the national economy. In light of such public mission, the Bank shall contribute to the local community while seeking a harmonious balance between self-interest and public interest as a regional bank.

Based on the aforementioned principles, the code of conduct to be observed by any and all persons employed by the Bank is set forth as follows.

1. Elevate the Spirit of Voluntary Service

Acknowledge that the Bank's progress goes hand in hand with prosperity in the local community, and seek to elevate the spirit of voluntary service at all times.

2. Improve Creditworthiness

Bear in mind that credit is the Bank's lifeblood, and endeavor to improve credit at all times.

3. Nurture the Spirit of Harmony

Recognize that the spirit of harmony is fundamental to the execution of duties, and strive to nurture such spirit at all times.

Based on such basic principles, the Bank aspires to become an enterprise in harmony with the local community by demonstrating its leadership and fulfilling its social responsibility for the sustained growth of the local community.

Specifically, our activities include supplying the region with funds smoothly, offering products and services tailored to customers' needs and providing support to corporate activities as well as various information. We also continually engage in activities that contribute to society, from the standpoint of a good corporate citizen.

In order to fulfill the principles set forth in our Bank Creed, we will continue to proactively contribute to the local community and make efforts so that they are fully understood by local residents.

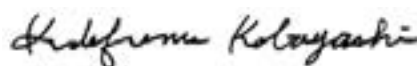
Corporate Governance Status

The Bank transitioned to a "company with an audit & supervisory committee" in June 2017. The purpose of this transition is to enhance corporate value through further enhancement of corporate governance.

The Board of Directors consists of a total of 16 Directors, comprising 11 Directors (excluding Directors serving as Audit & Supervisory Committee Members), of whom three are Outside Directors, and five Directors serving as Audit & Supervisory Committee Members, of whom three are Outside Directors. The Board of Directors is responsible for decision-making on key issues related to management, and has established the Executive Committee to discuss important business matters and determine courses of action within the authority granted by the Board of Directors. The Bank has adopted an executive officer system for the purpose of separating management decision-making and supervision from execution of operations, as well as from the viewpoint of strengthening and expediting implementation of these functions. Moreover, the Bank has established the Corporate Governance Committee, which is a voluntary Committee advisory body for the Board of Directors, to further enhance management transparency and appropriateness of processes and thus strengthen corporate governance functions.

The Audit & Supervisory Committee, consisting of five Directors serving as Audit & Supervisory Committee Members (of whom three are Outside Directors), audits execution of duties of Directors and monitors the Board of Directors' oversight functions.

Hidefumi Kobayashi
President



Toward a Firmer Business Position

Toward a Firmer Business Position

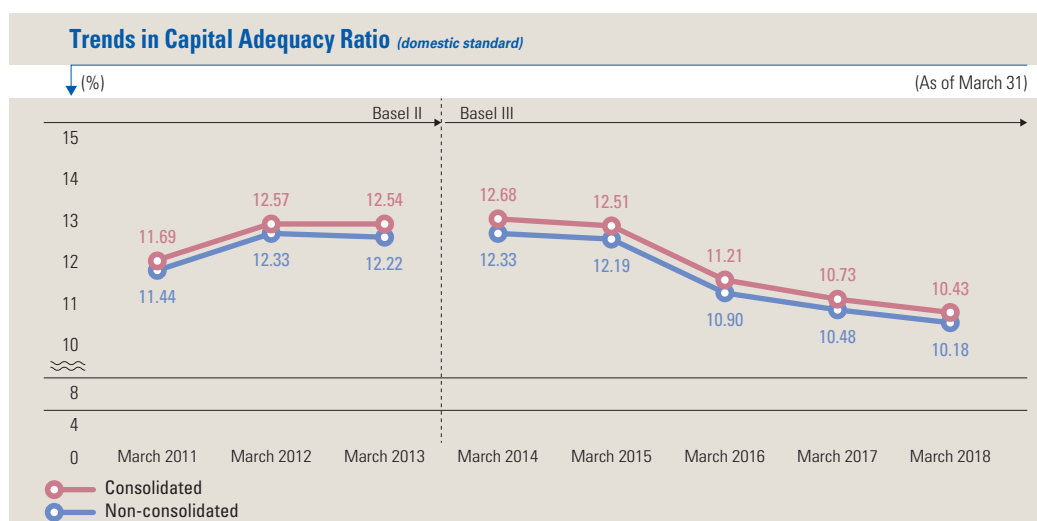
Some of the key indicators of sound financial management are “capital adequacy ratio” and “ratings.” The Bank has always concentrated on the improvement of financial soundness and kept these indicators at favorable levels.

Capital Adequacy Ratio

Capital adequacy ratio refers to the ratio of capital relative to assets calculated according to risks (risk assets). It is one of the major barometers of a bank’s financial soundness. Banks that have no overseas bases are required to maintain a capital adequacy ratio of at least 4% under domestic standards.

The 77 Bank applies domestic standards for calculation of the capital adequacy ratio. The Bank’s capital adequacy ratio was 10.18% at March 31, 2018, which is well above the required level (4%).

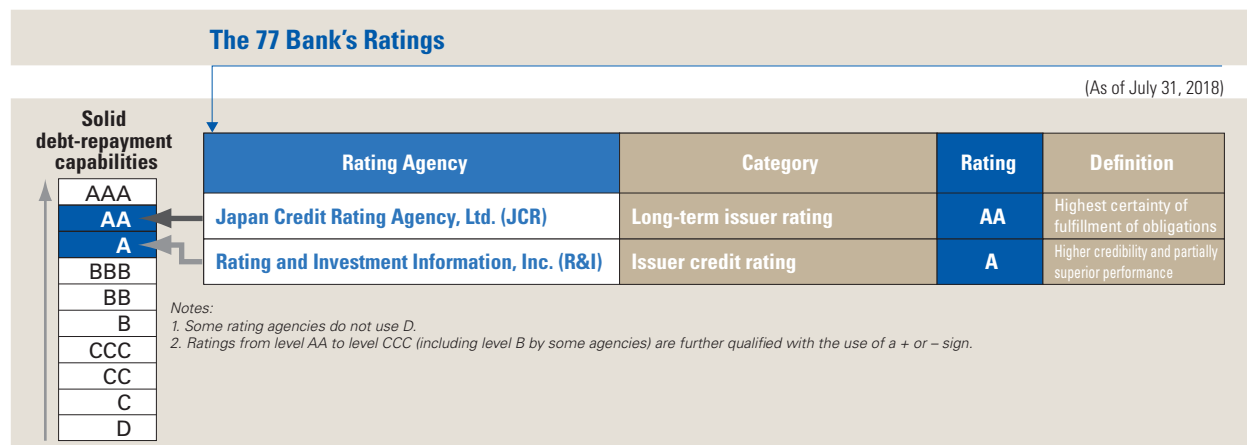
*The Bank has applied Basel III for calculation of the capital adequacy ratio since the end of March 2014.



Ratings

“Rating” is an indicator of the certainty of the principal, interest, etc. of bonds issued by companies and other entities and those of bank deposits being paid in accordance with predetermined terms and conditions, and is denoted by such symbols as alphabets. As a third-party rating agency assesses the financial position, etc. and discloses the results to the market, ratings are used as an indicator of a bank’s credit worthiness and security.

The 77 Bank has acquired ratings from two rating agencies that are among the highest of any Japanese financial institution.



Risk-Management Structure

Sophisticated Techniques Based on Sound Principles

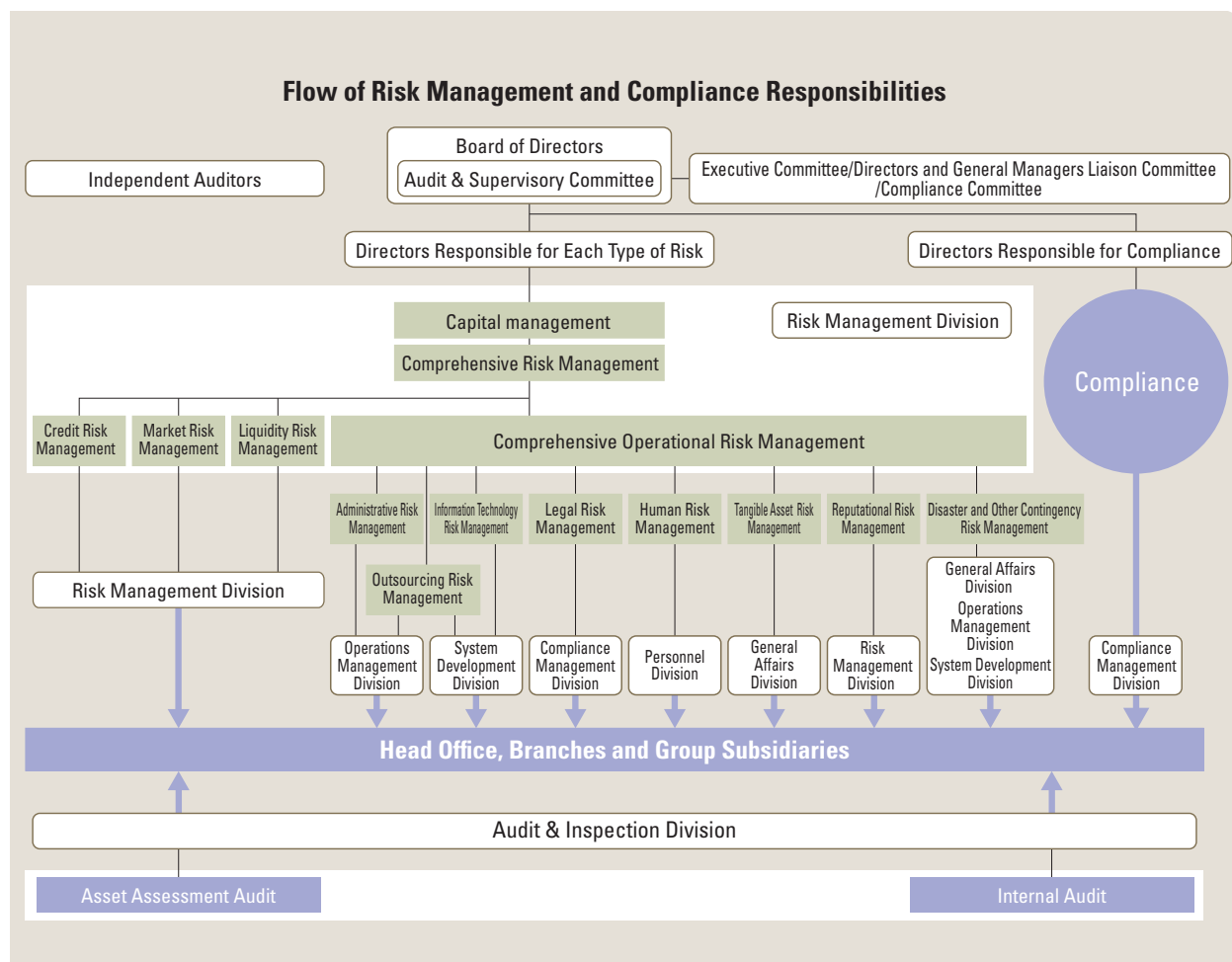
Rapidly changing conditions in the financial sector have significantly transformed the operating environment for financial institutions and caused the risk that surrounds financial institutions to become comparatively more complex than in the past. These conditions demand that financial institutions execute even more accurate identification and analysis of risks, and take appropriate control of such risks.

The 77 Bank works to reinforce comprehensive risk management with the improved soundness of business in mind. The risks the Bank faces are assessed by category and comprehensive risk management systems are established for self-control type risk management by taking an overall look at them, and comparing and contrasting with the Bank's capital. At the same time, efforts are being made to improve risk management methods by such means as the enhancement of risk measurement techniques.

We have implemented risk capital management as a specific framework for comprehensive risk management. Risk capital management is a management method where a risk capital budget, which is the risk tolerance, is allocated by risk category to each unit (domestic business units, funds and securities units, and another unit), and the measured risks of each unit are monitored to ensure that they do not exceed the respective budget. Risk capital management is also utilized to monitor whether expected profits suitable for the risks taken are being secured.

Roles of the Bank's Risk-Management Units

Various risks have been classified into four categories—credit risks, market risks, liquidity risks, and operational risks—and each risk category is overseen by dedicated divisions, in addition to comprehensive risk management by the Risk Management Division. Credit risks, market risks and liquidity



risks are managed by the Risk Management Division and the Risk Management Division supervises the comprehensive operational risk management. Of the operational risks, administrative risks are managed by the Operations Management Division, information technology risks by the System Development Division, legal risks by the Compliance Management Division, human risks by Personnel Division, tangible assets risks by the General Affairs Division, reputational risks by the Risk Management Division, and outsourcing risks by the Operations Management Division and System Development Division, and disaster and other contingency risks by the General Affairs Division, Operations Management Division, and System Development Division.

The Audit & Inspection Division is independent of all business units, as it is the evaluating unit for internal processes and asset status. The Audit & Inspection Division assesses the risk-management positions of each division and branch, as well as those of group companies. The Bank conducts two types of audit: a comprehensive audit for internal management systems, including financial facilitation, compliance, customer protection, governance and management, and risk control; and physical inspection of cash and cash equivalents for the prevention of illegality. In addition, the Bank undergoes external audits, performed by outside audit & Supervisory Committee members, in order to further consolidate the internal management structure.

Compliance

The Bank formulated the Compliance Policies in order to clarify its stance on compliance and to ensure the effectiveness thereof. Further, the Bank established the Compliance Guidelines (Compliance Standards) to articulate specific guidelines and a code of conduct so that the executives and employees place importance on compliance, thereby ensuring the lawful conduct of business.

Compliance Guidelines

Basic Direction

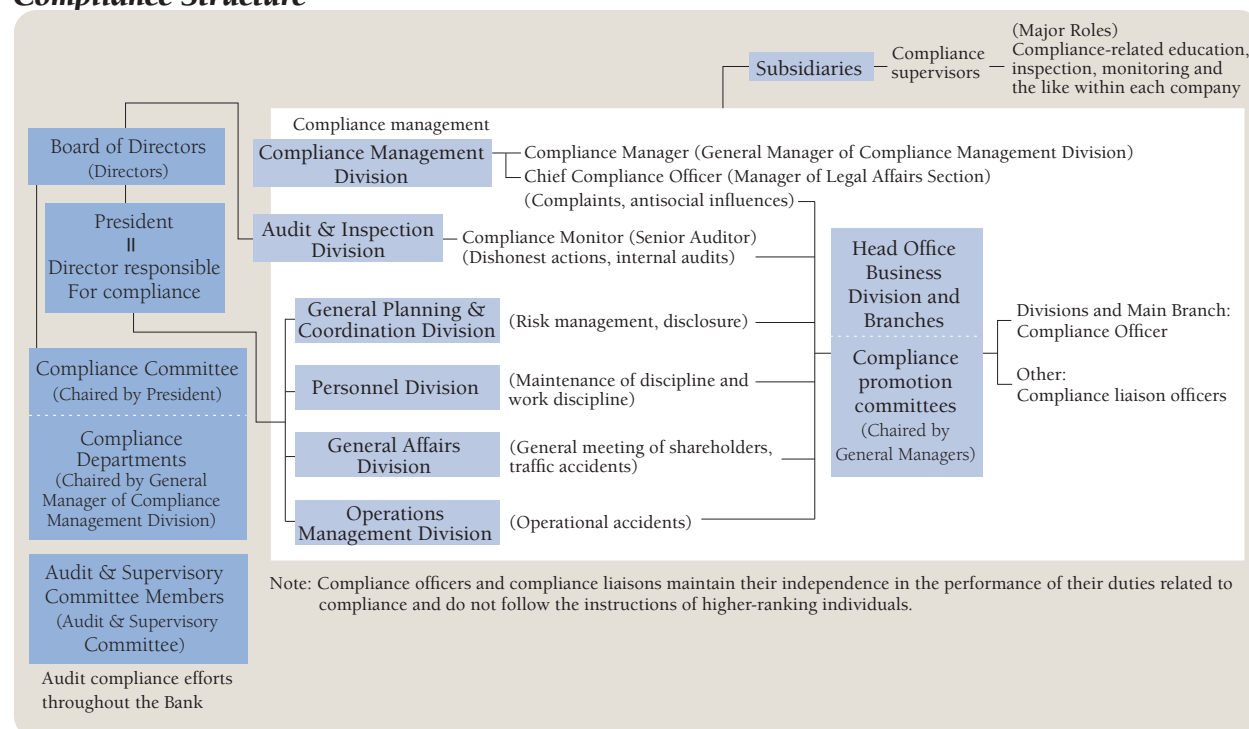
1. Ensure sound management and pay the utmost attention to sustaining the Bank's credibility and its ability to maintain smooth financing.
2. Comply with laws and the code of corporate ethics and maintain fair and honest practices.
3. Take a principled stand with regard to issues that threaten social order or public peace.
4. Provide financial services that the region, customers, and society broadly trust and endeavor to achieve sustainable development together with them as a good corporate citizen.
5. Foster a flexible and constructive working environment conducive to the well-being of all employees.

Code of Conduct

1. We will comply with laws, ordinances, the Articles of Incorporation, the Rules of Employment, and internal rules of the Bank.
2. We will not force unfair transaction on our customers.
3. We will not divulge confidential information of our customers or the Bank, or material information that has not been made public.
4. We will not neglect to provide reports required by laws, ordinances, and internal rules of the Bank, or provide false reports.
5. We recognize the public nature and the large social responsibility of the Bank and will devote ourselves to our duties.

6. We will not follow instructions or orders given by an individual that go beyond or deviate from the authorities given to said individual.
7. We will not engage in such conduct as will undermine the credibility or honor of the Bank.
8. We will not do favors for our customers in violation of law, ordinances, or internal rules of the Bank.
9. We will not seek to make unfair profits by taking advantage of our duties or position.
10. We will not borrow from or mediate for someone to borrow from our customers, other executives, or other employees without legitimate reason.
11. We will not engage in socially unacceptable entertaining or gift giving.
12. We will make efforts to maintain order in the workplace.

Compliance Structure



Thorough compliance with laws and the code of corporate ethics is essential for a financial institution if it is to uphold its social responsibility and public duty and thus maintain the trust of the region in which it operates, customers and society at large. From this perspective, The 77 Bank established the Legal Affairs Office in 1998 to monitor legal compliance. Following subsequent organizational reforms, the authority of the Legal Affairs Office was superseded by the Compliance Management Division, which now tracks the situation with respect to legal compliance.

The President is the director ultimately responsible for legal compliance. He is supported by the general manager of the Compliance Management Division, who supervises inspections, and the head of the Legal Affairs Section, who acts as a compliance officer. Each division and branch is assigned a compliance officer and other oversight personnel who undertake regular inspections to ascertain the situation with respect to compliance. The 77 Bank also advocates measures to preclude inappropriate behavior or legal errors. The Bank encourages greater awareness of laws and other compliance issues among executives and employees, and strives to foster a deeper understanding of pertinent laws.

To further strengthen the compliance structure, the Bank established the Compliance Committee chaired by the President and compliance departments as subcommittees of the Compliance Committee. Also, divisions and branches have compliance promotion committees.

Growing with the Region -Toward Reconstruction from the Great East Japan Earthquake-

The Economy of Miyagi Prefecture

Miyagi Prefecture, the primary base of operations for The 77 Bank, is located in the southeast of the Tohoku region. The prefecture is an important crossroads linking Tohoku to Tokyo, the nation's capital. In 1989, Sendai, the prefectural capital, became the 11th city in Japan specially designated by ordinance. The higher profile encouraged major national businesses and organizations, including government agencies, to set up branches and offices in Sendai, thereby positioning Sendai as the pre-eminent city of the Tohoku region.

In Miyagi Prefecture, the Great East Japan Earthquake damaged many houses and other buildings, mainly on the coast, and devastated infrastructure such as roads and ports, but progress is now being made toward reconstruction and revitalization.

Composition of Gross Prefectural and Gross Domestic Product (Nominal)

	Miyagi Prefecture	Japan
Agriculture, forestry and fishery	1.2	1.1
Manufacturing	13.1	18.6
Construction	13.3	5.8
Utilities	1.9	2.4
Wholesale and retail	13.0	13.9
Financial institutions	3.5	4.6
Real estate	13.4	13.9
Transportation	4.9	4.8
Information and communications	3.9	5.3
Services	19.0	19.7
Municipalities and others	12.7	10.7
Total	100.0	100.0

Progress of Reconstruction Projects in Miyagi Prefecture

Source: "Reconstruction Progress Statuses" issued by Miyagi Prefecture and other materials

Item	Progress (% of completion)					Overview (State of reconstruction/ damage and base date)
	20	40	60	80	100	
Infrastructure	100% (track length with service resumed)					456/456km (total track length) (December 10, 2016)
	97% (completed locations)					1,490/1,534locations (May 31, 2018)
	69% (completed locations)					194/281locations (May 31, 2018)
Residential environment	100% (volume disposed of)					1,888/1,888t (March 31, 2014)
	99% (relocation completed)					194/195communities (May 31, 2018)
	97% (construction completed)					15,415/15,823houses (May 31, 2018)
Agriculture/ Fisheries	98% (number of fishing boats restored)					8,800/9,000boats (May 31, 2018)
	82% (completed locations)					1,032/1,260fishing ports (May 31, 2018)
	98% (completed area)					12,808/13,000ha (May 31, 2018)
	99% (area recovered)					177/178ha (May 31, 2018)
Commerce and industry	80% (number of chamber of commerce members near the coastline that resumed operation)					6,240/7,798members (March 31, 2017)
	95% (number of facilities that resumed operation)					430/453facilities (February 28, 2018)

Reconstruction Support Policy

In view of the massive damage inflicted by the Great East Japan Earthquake, The 77 Bank formulated its “Reconstruction Support Policy” to contribute to the reconstruction and development of the regional economy. The objective of this policy is to fulfill the Bank’s responsibility as a regional financial institution that should work hand-in-hand with the local region, through the provision of financial services and financial intermediary functions aimed at supporting reconstruction efforts of the region and customers.

All executives and employees of the Bank are working to support the region and the Bank’s customers by tackling various challenges in order to restore Miyagi and the wider Tohoku region to their original states of places brimming with vitality, affluence and kindness.

Reconstruction Support Policy

-To restore the Miyagi and Tohoku region with flourishing vitality, abundance, and overflowing kindness-

1. Fulfill our financial intermediation function

As a financial institution working with the local region, we are striving to meet funding needs related to reconstruction and revitalization efforts. We are working sincerely to resolve the problems of customers who were affected by the disaster through altering lending conditions and resolving double mortgages for customers who are working proactively for rebuilding.

2. Contribute to reconstruction and further development for the region

We will further enhance our consulting and judgment capabilities, and provide swift and optimal solutions to customers with reconstruction needs that were identified through vigorous customer visiting. At the same time, we will participate actively in initiatives for regional rehabilitation and industrial revitalization through enhanced collaboration with the municipal governments that are taking the lead in implementing reconstruction measures in the region. In this way, we will contribute to reconstruction and further development of the region.

Additionally, we will work to improve the branch network and sales platform in an effort to help enhance customer convenience and to fully assist efforts to achieve regional revitalization and rehabilitation through stable provision of financial services.

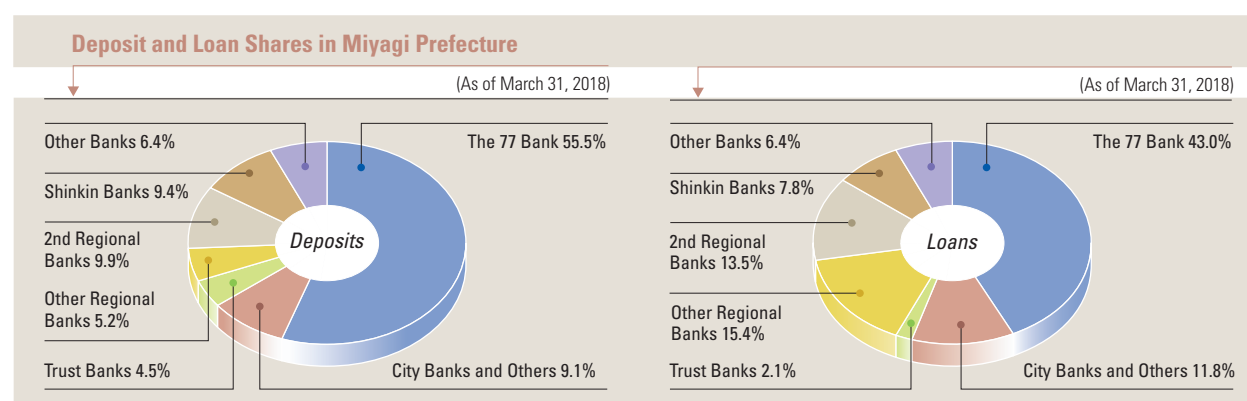
3. Assist efforts to achieve a disaster prevention-aware, safe and environmentally-friendly society

In light of the massive damage caused by the earthquake, we will pay even closer attention to disaster prevention and mitigation, as well as safety. In addition, we will take measures to bolster the business continuity framework in order to provide continuous financial services in disasters and other emergencies.

Furthermore, we will make long-term and sustainable contributions to the local community through initiatives to enhance energy conservation and environmental friendliness in anticipation of an environmentally-friendly society in the region after reconstruction.

Deposit and Loan Shares in Miyagi Prefecture

Our mission, as a regional financial institution, is to contribute to regional socioeconomic development through the timely and accurate provision of financial services geared to the needs of the region. Our efforts have earned us the support of customers, boosting our regional share of deposits and loans to the highest level among Japanese regional banks.

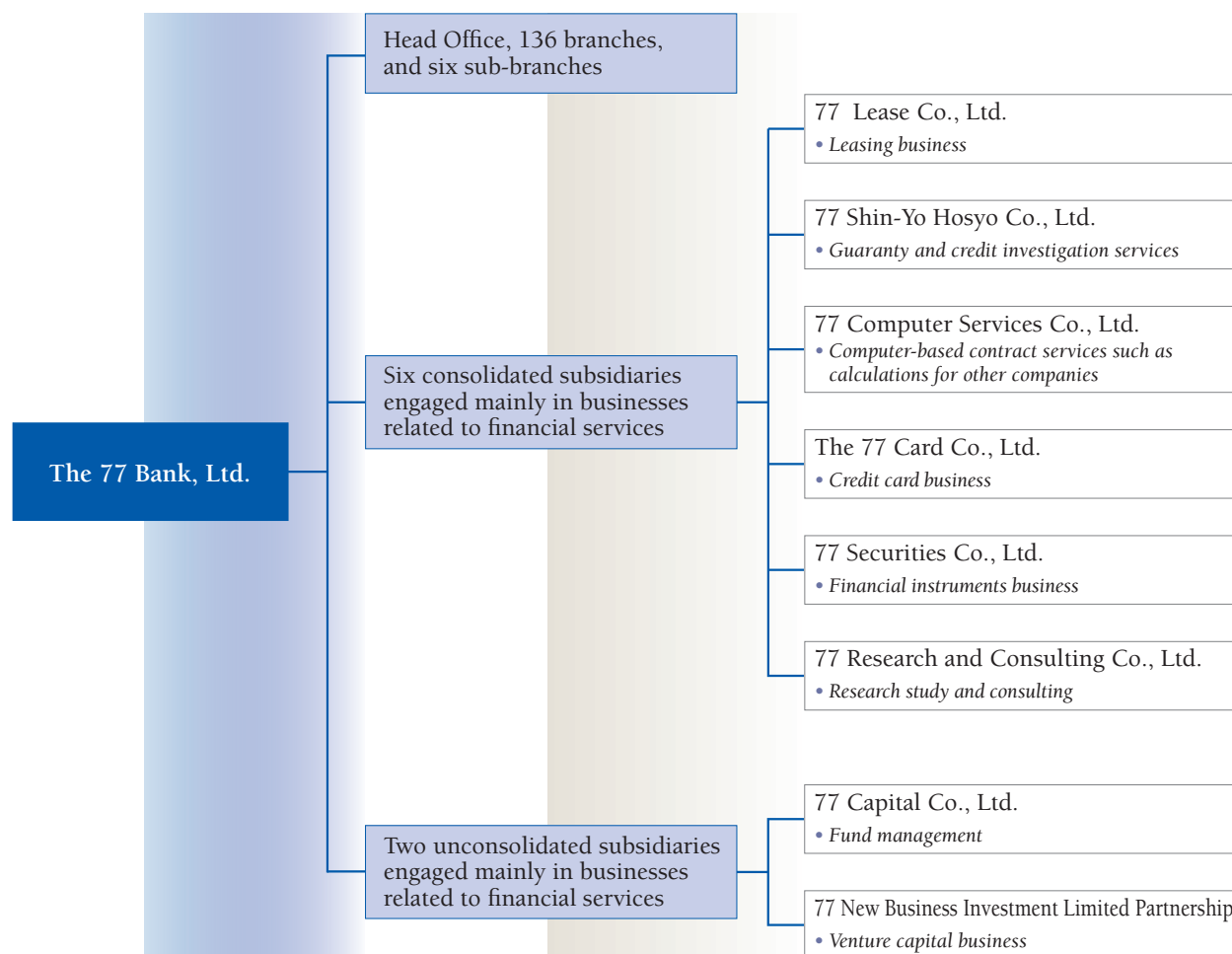


77 Bank Group

(As of July 31, 2018)

Main Business and Organization

The 77 Bank Group is engaged in leasing, credit card and other financial businesses in addition to the banking business. The Group consists of the following:



Consolidated Subsidiaries

	Established	Paid-in capital	Percentage of parent company's voting stock	Percentage of consolidated companies' voting stock
77 Lease Co., Ltd.	November 1974	¥ 100 million	100.00%	—
77 Shin-Yo Hosyo Co., Ltd.	October 1978	¥ 30 million	100.00%	—
77 Computer Services Co., Ltd.	January 1982	¥ 20 million	100.00%	—
The 77 Card Co., Ltd.	February 1983	¥ 64 million	100.00%	—
77 Securities Co., Ltd.	July 2016	¥3,000 million	100.00%	—
77 Research and Consulting Co., Ltd.	July 2018	¥ 200 million	100.00%	—

Board of Directors and Audit & Supervisory Committee Members

(As of June 30, 2018)



From left: Hidefumi Kobayashi, President; Teruhiko Ujiie, Chairman; and Makoto Igarashi, Senior Managing Director

Chairman
Teruhiko Ujiie

President
Hidefumi Kobayashi

Senior Managing Director
Makoto Igarashi

Managing Directors
Masakatsu Tsuda
Toru Sugawara
Koichi Suzuki
Atsushi Shitoh
Yoshikazu Onodera

Outside Directors
Masahiro Sugita
Ken Nakamura
Emiko Okuyama

Director, Audit & Supervisory Committee Members (Standing)
Yoshiaki Nagayama
Shuji Nakamura

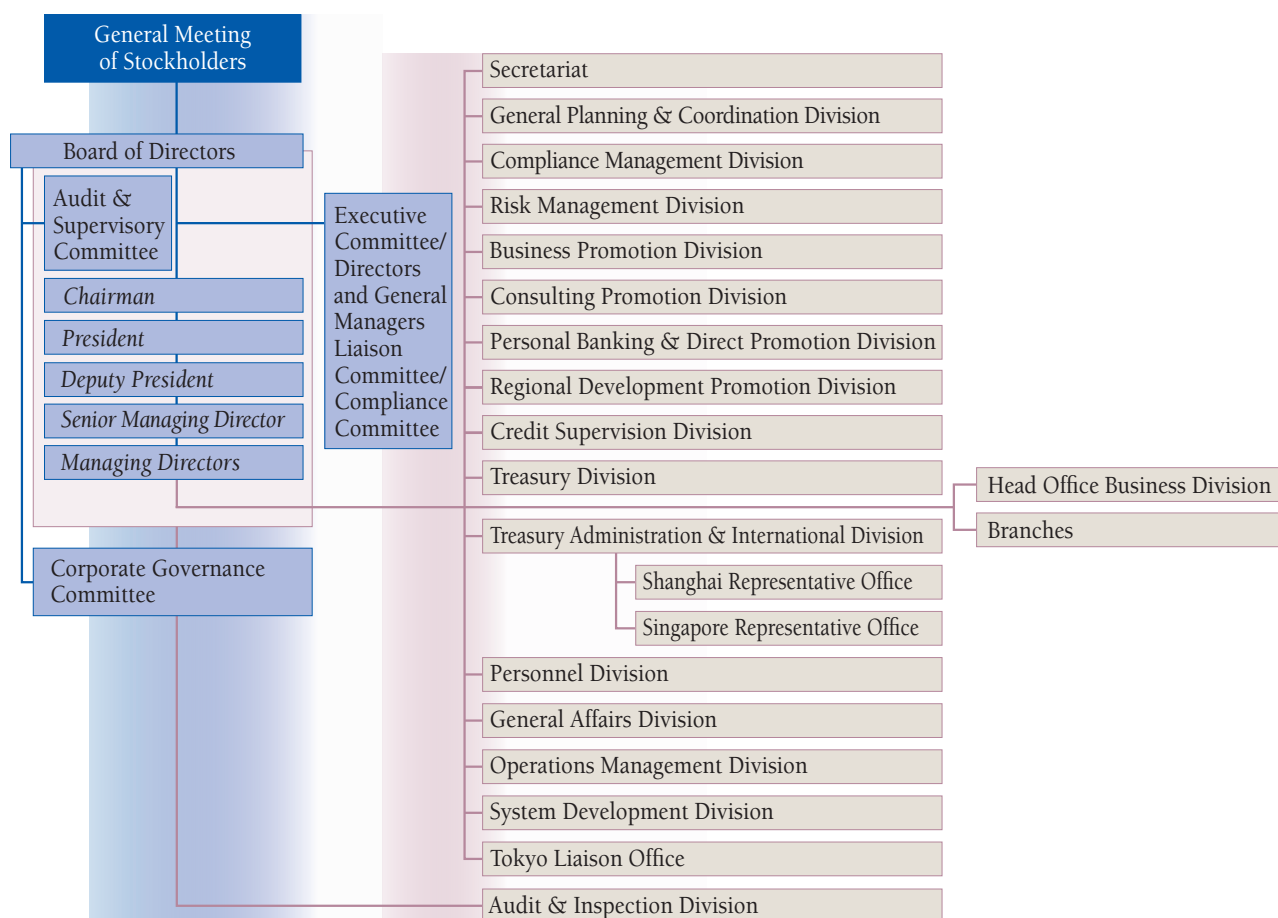
Director, Audit & Supervisory Committee Members (Outside Directors)
Toshio Suzuki
Masai Yamaura
Masahiro Wako

Senior Executive Officer
Toshimi Homareda
Kenji Kikuchi
Yasumichi Meguro
Takuji Tabata

Executive Officer
Yoshiki Nakajima
Hiroyuki Suda
Atsushi Kobayashi
Masanori Muranushi
Yoshihiro Endo

Organization

(As of June 30, 2018)



Financial Section

Consolidated Five-Year Summary

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
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Net income attributable to owners of the parent	18,314	16,114	15,857	17,049	15,059
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Total assets	¥8,718,097	¥8,649,396	¥8,598,583	¥8,588,463	¥8,507,205
Deposits	7,946,100	7,805,860	7,963,738	7,849,299	7,871,879
Loans and bills discounted	4,621,062	4,443,883	4,350,795	4,219,621	3,998,209
Trading account securities and investment securities	3,146,865	3,262,638	3,519,568	3,708,968	3,746,477
Equity	490,737	468,195	452,310	472,029	397,011
Common stock	24,658	24,658	24,658	24,658	24,658

	Yen				
	2018	2017	2016	2015	2014
Per share of common stock					
Basic net income	¥ 246.87	¥ 215.73	¥ 42.37	¥ 45.56	¥ 40.26
Diluted net income	246.45	214.74	42.18	45.38	40.10
Equity	6,613.28	6,306.73	1,165.83	1,223.49	1,027.15
Cash dividends	45.00	45.00	9.00	8.50	7.50
Capital adequacy ratio (%)					
Domestic standard	10.43	10.73	11.21	12.51	12.68

Notes: 1. The national consumption tax and the local consumption tax are excluded from transaction amounts.

2. The Bank's capital adequacy ratio on the domestic standard is accompanied by the revision of Article 14, Paragraph 2, of the Banking Law of Japan, in line with enforcement of the related law for financial system reform.

3. On October 1, 2017, the Bank conducted consolidation of shares at a ratio of five shares to one share. Per share information is computed as if the share consolidation was conducted on April 1, 2016.

● Consolidated Performance for Fiscal 2018

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31

Financial and Economic Conditions

Based in Miyagi Prefecture, The 77 Bank has a network of branches extending across Fukushima Prefecture, Iwate Prefecture, Yamagata Prefecture, Akita Prefecture, Tokyo, Aichi Prefecture, Osaka and Hokkaido. In accordance with the principle of sound management, the Bank aspires to be the “Value-creating bank that grows together with and is the most trusted by the region,” and vigorously worked on various measures based on the medium-term management plan “Value Up: Challenge Value Creation,” a plan covering the three-year period from April 2015 to March 2018.

In view of the massive damage caused by the Great East Japan Earthquake, the Bank strove to maintain the stable provision of financial services and to continue to fulfill its financial intermediary functions, in order to contribute to the reconstruction and development of communities and the regional economy as a financial institution working hand-in-hand with the region.

In terms of support for corporate customers that were affected by the Great East Japan Earthquake, we vigorously responded to their funding needs for the resumption of business and restoration of facilities by utilizing the support measures provided by central and local government, including the Restoration and Maintenance Subsidy Project for Facilities of Small and Medium-sized Enterprise Groups and Compensation for Interest Rates on Special Zones for Reconstruction. Through business matching and other core business support, we continued making efforts to resolve customers’ management issues, including the development and expansion of sales routes.

To support customers facing difficulties in continuing business or making loan repayments because of the impact of the earthquake, the Bank continued to be flexible, such as accepting change of loan terms and conditions, in light of the situation faced by each customer. In response to the “double loan” problem, the Bank utilized external institutions, such as the Corporation for Revitalizing Earthquake-affected Business and the Miyagi Industry Revitalization Corporation, as necessary, to support corporate customers burdened by double loans, and offered consultation to help them improve management and revitalize their businesses through collaboration with external experts present at the Bank’s headquarters. For individual customers, the Bank strove to communicate the advantages and implications of the Individual Debtor Guidelines for Out-of-Court Workouts. Moreover, for customers subject to group relocation projects for disaster mitigation, the Bank vigorously offered the 77 Earthquake Recovery Support Home Loan (Group Relocation Type and Leased Land Type), a dedicated mortgage product to support the building of new homes.

In these circumstances, all officers and employees at the Bank and its consolidated subsidiaries made a concerted effort to promote business and assist in the recovery from the Great East Japan Earthquake with the support of shareholders and customers. As a result, the outline of the financial position, operating results and cash flows (hereinafter, “operating results, etc.”) of the Bank and its consolidated subsidiaries for the year under review is as follows.

Consolidated Business Results

Deposits, including negotiable deposits, amounted to ¥7,946.1 billion at the end of the year under review, having increased by ¥140.2 billion.

Loans and bills discounted increased by ¥177.1 billion to ¥4,621.0 billion at the end of the year. Investment securities decreased by ¥119.9 billion to ¥3,121.8 billion at the end of the year.

Total assets stood at ¥8,718.0 billion at the end of the year under review, having increased by ¥68.7 billion.

With regard to profit and loss, ordinary income increased by ¥6,488 million from the previous year to ¥113,180 million, mainly owing to an increase in investment income resulting from increases in interest on loans and bills discounted and interest and dividends on investment securities, and an increase in other ordinary income resulting primarily from an increase in securities-related income. Meanwhile, ordinary expenses increased by ¥4,535 million from the previous year to ¥87,430 million, mainly due to an increase in expenses on other activities partly resulting from an increase in loss on redemption of bonds and other securities.

As a result, ordinary profit increased by ¥1,953 million from the previous year to ¥25,749 million and net income attributable to owners of the parent increased by ¥2,200 million to ¥18,314 million. Net income per share was ¥246.87.

Cash Flows

Net cash used in operating activities totaled ¥105,188 million, a decrease of ¥176,565 million from the previous year, mainly due to an increase in loans and bills discounted.

Net cash provided by investing activities totaled ¥108,678 million, a decrease of ¥48,339 million from the previous year to, mainly due to redemption of securities.

Net cash used in financing activities amounted to ¥3,362 million, an increase of ¥5,946 million from the previous year, mainly due to dividends paid.

Consequently, cash and cash equivalents at March 31, 2018 amounted to ¥701,935 million, having increased by ¥120 million from the previous year.

● Consolidated Balance Sheet

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS:			
Cash and due from banks (Notes 3 and 27)	¥ 705,563	¥ 708,975	\$ 6,641,217
Call loans and bills bought	530	557	4,988
Debt purchased	4,895	5,042	46,074
Trading account securities (Note 4)	24,975	20,793	235,080
Money held in trust (Notes 5 and 27)	170,985	168,053	1,609,422
Investment securities (Notes 4, 10, 11, 27 and 28)	3,121,890	3,241,844	29,385,259
Loans and bills discounted (Notes 6, 12, 27, 28 and 29)	4,621,062	4,443,883	43,496,442
Foreign exchange assets (Note 7)	5,956	4,748	56,061
Lease receivables and investments in leases (Notes 26 and 29)	16,124	15,217	151,769
Tangible fixed assets (Notes 8, 9 and 16):			
Buildings	9,747	8,607	91,745
Land	19,873	20,127	187,057
Lease assets	86	79	809
Construction in progress	534	1,128	5,026
Other tangible fixed assets	4,886	5,514	45,990
Intangible fixed assets:			
Software	66	11	621
Other intangible fixed assets	274	289	2,579
Deferred tax assets (Note 24)	859	1,144	8,085
Customers' liabilities for acceptances and guarantees (Notes 10 and 29)	29,060	30,448	273,531
Other assets (Notes 11, 28 and 29)	43,260	43,312	407,191
Reserve for possible loan losses	(62,537)	(70,384)	(588,638)
TOTAL	¥8,718,097	¥8,649,396	\$82,060,400
LIABILITIES:			
Deposits (Notes 11, 13 and 27)	¥7,946,100	¥7,805,860	\$74,793,862
Call money and bills sold	14,342	79,991	134,996
Payables under securities lending transactions (Note 11)	12,886	30,998	121,291
Borrowed money (Notes 11, 14 and 27)	111,704	110,740	1,051,430
Foreign exchange liabilities (Note 7)	113	72	1,063
Liability for employees' retirement benefits (Note 15)	33,749	35,228	317,667
Reserve for stock-based benefits (Note 17)	876		8,245
Reserve for reimbursement of deposits	455	443	4,282
Reserve for contingent losses	695	744	6,541
Deferred tax liabilities (Note 24)	28,100	22,377	264,495
Acceptances and guarantees (Notes 10 and 29)	29,060	30,448	273,531
Other liabilities (Notes 16 and 28)	49,275	64,296	463,808
Total liabilities	8,227,360	8,181,201	77,441,265
EQUITY (Notes 17,18 and 32):			
Common stock—authorized, 268,800,000 shares; issued, 76,655,746 shares in 2018 and 2017*	24,658	24,658	232,097
Capital surplus	20,517	20,267	193,119
Stock acquisition rights (Note 19)		728	
Retained earnings	332,619	317,655	3,130,826
Less: treasury stock—at cost, 2,450,902 shares and 2,533,887 shares in 2018 and 2017, respectively*	(6,658)	(6,578)	(62,669)
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities (Note 4)	127,283	120,817	1,198,070
Deferred losses on derivatives under hedge accounting (Note 28)	(1,473)	(1,848)	(13,864)
Defined retirement benefit plans (Note 15)	(6,209)	(7,504)	(58,443)
Total equity	490,737	468,195	4,619,135
TOTAL	¥8,718,097	¥8,649,396	\$82,060,400

*Shares of common stock and treasury stock have been restated as appropriate, to reflect a one-for-five share consolidation effected October 1, 2017. See notes to consolidated financial statements.

Consolidated Statement of Income

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
INCOME:			
Interest income:			
Interest on loans and discounts	¥ 41,502	¥ 41,318	\$ 390,643
Interest and dividends on trading account and investment securities	31,078	29,066	292,526
Other	206	171	1,939
Fees and commissions (Note 29)	17,128	17,069	161,219
Other operating income (Note 20)	11,350	10,055	106,833
Reversal of reserve for possible loan losses	2,945	2,141	27,720
Gains on sales of money held in trust	4,044	2,967	38,064
Other income (Note 21)	4,924	3,901	46,347
Total income	113,180	106,692	1,065,323
EXPENSES:			
Interest expense:			
Interest on deposits	1,512	1,454	14,231
Interest on borrowings and rediscounts	464	303	4,367
Other	1,166	1,119	10,975
Fees and commissions	6,164	6,096	58,019
Other operating expenses (Note 22)	19,220	15,268	180,911
General and administrative expenses (Note 19)	57,745	57,288	543,533
Other expenses (Notes 9 and 23)	1,866	1,870	17,564
Total expenses	88,140	83,400	829,631
INCOME BEFORE INCOME TAXES	25,039	23,291	235,683
INCOME TAXES (Note 24):			
Current	4,280	4,246	40,286
Deferred	2,444	2,167	23,004
Total income taxes	6,725	6,414	63,300
NET INCOME	18,314	16,877	172,383
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS		763	
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 18,314	¥ 16,114	\$ 172,383

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 31):		
Basic net income	¥ 246.87	¥ 215.73
Diluted net income	246.45	214.74
Cash dividends applicable to the year	45.00	45.00

Per share figures have been restated as appropriate, to reflect a one-for-five share consolidation effected October 1, 2017.

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥18,314	¥16,877	\$ 172,383
OTHER COMPREHENSIVE INCOME (Note 25):			
Unrealized gains on available-for-sale securities	6,465	5,582	60,852
Deferred gains on derivatives under hedge accounting	375	1,597	3,529
Defined retirement benefit plans	1,295	991	12,189
Total other comprehensive income	8,136	8,171	76,581
COMPREHENSIVE INCOME	¥26,450	¥25,048	\$ 248,964
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥26,450	¥24,297	\$ 248,964
Noncontrolling interests		750	

See notes to consolidated financial statements.

● Consolidated Statement of Changes in Equity

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2018

	Thousands			Millions of Yen								
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Non controlling Interests	Total Equity	
							Unrealized Gains on Available- for-Sale Securities	Deferred Losses on Deriva- tives under Hedge Accounting	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2016	374,228	¥24,658	¥7,835	¥721	¥304,910	¥(4,396)	¥115,223	¥(3,446)	¥(8,495)	¥437,009	¥15,301	¥452,310
Net income attributable to owners of the parent					16,114					16,114		16,114
Cash dividends, ¥45.00 per share					(3,369)					(3,369)		(3,369)
Acquisition of additional shares of subsidiaries			10,444							10,444		10,444
Increase due to share exchange	1,442		2,034			704				2,739		2,739
Purchase of treasury stock	(5,364)					(3,008)				(3,008)		(3,008)
Sales of treasury stock	302		(46)			122				76		76
Net change in the year				6			5,594	1,597	991	8,190	(15,301)	(7,111)
BALANCE, MARCH 31, 2017	370,609	24,658	20,267	728	317,655	(6,578)	120,817	(1,848)	(7,504)	468,195		468,195
One-for-five share consolidation (Note 18)	(306,622)											
Net income attributable to owners of the parent					18,314					18,314		18,314
Cash dividends, ¥45.00 per share*					(3,349)					(3,349)		(3,349)
Purchase of treasury stock	(2,772)					(1,530)				(1,530)		(1,530)
Sales of treasury stock	12,991		249			1,450				1,699		1,699
Net change in the year				(728)			6,465	375	1,295	7,408		7,408
BALANCE, MARCH 31, 2018	74,205	¥24,658	¥20,517		¥332,619	¥(6,658)	¥127,283	¥(1,473)	¥(6,209)	¥490,737		¥490,737

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Total Equity	
						Unrealized Gains on Available- for-Sale Securities	Deferred Losses on Deriva- tives under Hedge Accounting	Defined Retirement Benefit Plans			
BALANCE, MARCH 31, 2017	\$232,097	\$190,766	\$6,852	\$2,989,975	\$(61,916)	\$1,137,208	\$(17,394)	\$(70,632)	\$4,406,955	\$4,406,955	
Net income attributable to owners of the parent				172,383					172,383	172,383	
Cash dividends, \$0.423 per share*				(31,522)					(31,522)	(31,522)	
Purchase of treasury stock					(14,401)				(14,401)	(14,401)	
Sales of treasury stock		2,343			13,648				15,992	15,992	
Net change in the year			(6,852)			60,852	3,529	12,189	69,728	69,728	
BALANCE, MARCH 31, 2018	\$232,097	\$193,119		\$3,130,826	\$(62,669)	\$1,198,070	\$(13,864)	\$(58,443)	\$4,619,135	\$4,619,135	

*Per share figures have been restated as appropriate, to reflect a one-for-five share consolidation effected October 1, 2017.

See notes to consolidated financial statements.

● Consolidated Statement of Cash Flows

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 25,039	¥ 23,291	\$ 235,683
Adjustments for:			
Income taxes—paid	(2,170)	(10,768)	(20,425)
Depreciation and amortization	3,625	3,856	34,120
Losses on impairment of fixed assets	709	505	6,673
Net change in reserve for possible loan losses	(7,847)	(4,565)	(73,861)
Net change in reserve for reimbursement of deposits	12	40	112
Net change in reserve for contingent losses	(48)	(55)	(451)
Net change in reserve for stock-based benefits	876		8,245
Net change in liability for employees' retirement benefits	381	374	3,586
Interest income	(72,787)	(70,556)	(685,118)
Interest expense	3,143	2,877	29,583
Losses on investment securities—net	5,525	2,548	52,004
Gains on money held in trust—net	(4,044)	(2,550)	(38,064)
Foreign exchange losses —net	9,598	543	90,342
Losses on sales and disposals of fixed assets—net	65	220	611
Net change in loans and bills discounted	(177,179)	(93,087)	(1,667,724)
Net change in deposits	140,239	(157,877)	1,320,020
Net change in borrowed money (except for subordinated loans)	964	106,273	9,073
Net change in due from banks (except for the Bank of Japan)	3,532	(3,972)	33,245
Net change in call loans and bills bought	174	114,700	1,637
Net change in call money and bills sold	(65,649)	79,991	(617,931)
Net change in payables under securities lending transactions	(18,112)	10,090	(170,481)
Net change in trading account securities	(4,181)	7,263	(39,354)
Net change in foreign exchange assets	(1,208)	(434)	(11,370)
Net change in foreign exchange liabilities	40	(9)	376
Net change in lease receivables and investments in leases	(907)	339	(8,537)
Interest received	77,880	76,449	733,057
Interest paid	(3,185)	(2,936)	(29,979)
Other—net	(19,676)	(11,175)	(185,203)
Total adjustments	(130,228)	48,085	(1,225,790)
Net cash (used in) provided by operating activities—(Forward)	¥(105,188)	¥ 71,377	\$ (990,097)
INVESTING ACTIVITIES:			
Purchases of investment securities	(371,459)	(314,823)	(3,496,413)
Proceeds from sales of investment securities	38,901	53,211	366,161
Proceeds from maturity of investment securities	441,505	508,055	4,155,732
Investment in money held in trust		(100,000)	
Proceeds from dispositions of money held in trust	3,708	14,473	34,902
Purchases of tangible fixed assets	(3,973)	(3,925)	(37,396)
Proceeds from sales of tangible fixed assets	130	46	1,223
Purchases of intangible fixed assets	(79)	(6)	(743)
Payment for execution of asset retirement obligations	(54)	(14)	(508)
Net cash provided by investing activities	108,678	157,017	1,022,948
FINANCING ACTIVITIES:			
Purchases of treasury stock	(1,530)	(3,008)	(14,401)
Proceeds from sale of treasury stock	1,516	1	14,269
Dividends paid	(3,348)	(3,374)	(31,513)
Dividends paid for noncontrolling interests		(8)	
Purchases of investments in subsidiaries not resulting in change in scope of consolidation		(2,916)	
Net cash used in financing activities	(3,362)	(9,308)	(31,645)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(5)	(5)	(47)
NET INCREASE IN CASH AND CASH EQUIVALENTS	120	219,081	1,129
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	701,814	482,733	6,605,929
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	¥ 701,935	¥ 701,814	\$ 6,607,068

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES

Year Ended March 31, 2018

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan (the "Banking Law"), and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2017 consolidated financial statements to conform to the classifications used in 2018.

In accordance with the Japanese Financial Instruments and Exchange Act and other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items. Also, U.S. dollar amounts have been rounded down to the nearest thousand dollars.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which The 77 Bank, Ltd. (the "Bank") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to U.S.\$1, the approximate rate of exchange as of March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Bank and its significant subsidiaries (collectively, the "Companies"). There were seven (seven in 2017) consolidated subsidiaries as of March 31, 2018.

Under the control and influence concepts, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated in consolidation.

(1) Scope of consolidation

Consolidated Subsidiaries

77 Business Services Co., Ltd. and 77 Jimu Daiko Co., Ltd. were dissolved on March 31, 2018, and currently in the process of liquidation.

Unconsolidated Subsidiaries

77 Capital Co., Ltd.

77 New Business Investment Limited Partnership

Unconsolidated subsidiaries are excluded from the scope of consolidation because such exclusion has no material impact on the consolidated financial statements in terms of total assets, income, net income (corresponding to the Bank's share), retained earnings (corresponding to the Bank's share) and accumulated other comprehensive income (corresponding to the Bank's share).

(2) Equity method

Unconsolidated Subsidiaries Not Accounted for by the Equity Method

77 Capital Co., Ltd.

77 New Business Investment Limited Partnership

These companies are excluded from the scope of equity method accounting because such exclusion has no material impact on the consolidated financial statements in terms of net income (corresponding to the Bank's share), retained earnings

(corresponding to the Bank's share) and accumulated other comprehensive income (corresponding to the Bank's share).

b. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. Cash and Cash Equivalents—For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash and amounts due from the Bank of Japan.

d. Trading Account Securities, Investment Securities and Money Held in Trust

Securities other than investments in affiliates are classified into three categories, based principally on the Companies' intent, as follows: (1) trading account securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

The cost of trading account securities and available-for-sale securities sold is determined based on the moving-average method.

In addition, investments in unconsolidated subsidiaries not accounted for by the equity method are reported at cost determined by the moving-average method.

Available-for-sale securities for which fair value is extremely difficult to determine are reported at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Securities included in money held in trust are also classified and accounted for using the same method as above.

The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other income/expenses. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains/losses recorded directly in a separate component of equity. Instruments held in trust classified as held to maturity are carried at amortized cost.

e. Tangible Fixed Assets—Tangible fixed assets are stated at cost less accumulated depreciation and gains deferred on the sale and replacement of certain assets. Depreciation of tangible fixed assets, except for lease assets, is mainly computed using the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 5 to 31 years for buildings and from 4 to 20 years for equipment. Lease assets under finance lease transactions, in which substantial ownership is not deemed to have been transferred, are depreciated using the straight-line method over the lease term. The salvage value is zero or the guaranteed amounts if specified in the lease contracts (see Note 2.p).

f. Intangible Fixed Assets—The amortization of intangible fixed assets is calculated using the straight-line method. Capitalized costs of computer software developed/obtained for internal use are amortized using the straight-line method over the estimated useful lives of five years.

g. Long-Lived Assets—The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows (“DCF”) from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Foreign Currency Items—Assets and liabilities denominated in foreign currencies held by the Bank at year-end are translated into Japanese yen at the current exchange rates in effect at each consolidated balance sheet date. Exchange gains and losses are recognized in the fiscal periods in which they occur.

i. Reserve for Possible Loan Losses—The Bank determines the amount of the reserve for possible loan losses by means of management’s judgment and assessment of future losses based on a self-assessment system. This system reflects past experience of credit losses, possible future credit losses, business and economic conditions, the character, quality and performance of the portfolio, and other pertinent indicators.

As part of the Bank’s self-assessment system, the quality of all loans is assessed by branches and the credit supervisory division with a subsequent audit by the Bank’s asset review and inspection division in accordance with the Bank’s policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its debtors are classified into five categories. The credit rating system is used in the self-assessment of asset quality. All loans are classified into one of the following five categories for self-assessment purposes: “normal,” “caution,” “possible bankruptcy,” “virtual bankruptcy,” and “legal bankruptcy.”

For loans to borrowers classified as legal bankruptcy or virtual bankruptcy, the Bank fully provides the net amount of loans and estimated collectible amounts by collateral or guarantees. Regarding loans to borrowers classified as possible bankruptcy, a specific reserve is provided to the necessary extent for the net amount of loans and estimated collectible amounts by collateral or guarantees.

For large debtors who are likely to become bankrupt and debtors with restructured loans, if the cash flows from collection of the principal and interest can be reasonably estimated, the reserve is provided based on the difference between the relevant cash flows discounted by the initial contractual interest rates and the carrying amounts of the loans (the “DCF method”).

The reserve for other possible loan losses is calculated based on the specific actual past loss ratio for normal and caution categories and the fair value of the collateral for collateral-dependent loans and other solvency factors including the value of future cash flows for the other self-assessment categories.

The Bank’s subsidiaries determine the reserve for possible loan losses by a similar self-assessment system as that of the Bank.

j. Reserve for Stock-Based Benefits—Reserve for stock-based benefits is provided for the grants of the Bank’s shares to directors, etc. in accordance with the stock grant program based on the estimated stock-based benefits liabilities as of the fiscal year end.

k. Reserve for Reimbursement of Deposits—Reserve for reimbursement of deposits which were derecognized as liabilities is provided for the future estimated payments for reimbursement claims on dormant deposit accounts based on the historical reimbursement experience.

l. Reserve for Contingent Losses—Reserve for contingent losses is provided for the future estimated payments of burden money to the Credit Guarantee Corporations based on the historical experience of subrogation.

m. Employees’ Retirement and Pension Plans—In calculation of projected benefit obligations, expected benefits are attributed to periods on a benefit formula basis. Treatment of prior service cost and actuarial gains and losses is as follows:

Prior service cost is charged to expenses when incurred.

Unrecognized actuarial gains and losses are amortized by the straight-line method from the following fiscal year after the fiscal year when they were incurred over a definite period (10 years) with the employees’ average remaining service period when incurred.

Consolidated subsidiaries apply a shortcut method whereby the amount of the retirement benefits required to be paid if all the employees voluntarily retired at the end of the fiscal year is regarded as projected benefit obligations in determining the liability for employees’ retirement benefits and net periodic retirement benefit costs.

n. Asset Retirement Obligations—The asset retirement obligation is recognized as the sum of the DCFs required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. Stock Options—The Bank recognizes compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The Bank also accounts for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

p. Leases

As a lessee

Finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet.

As a lessor

All finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables, and all finance leases that are deemed not to transfer ownership of the leased property to the lessee are recognized as investments in leases.

q. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to

recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

r. Derivatives and Hedging Activities—It is the Bank's policy to use derivative financial instruments ("derivatives") primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities. The Bank enters into interest rate swaps and interest rate swaptions as a means of hedging its interest rate risk on certain loans and investment securities and to meet the needs of its clients. The Bank also enters into currency swaps, foreign exchange forward contracts, and currency options to hedge foreign currency exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Derivatives are recognized as either assets or liabilities and measured at fair value. Gains or losses on derivative transactions are recognized in the consolidated statement of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, the gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

s. Per Share Information—Basic net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits or share consolidation.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

The Company conducted a one-for-five share consolidation of its common stock effected October 1, 2017. All prior year share and per share figures have been restated to reflect the impact of the share consolidation, and to provide data on a basis comparable to the year ended March 31, 2017. Such restatements include calculations regarding the Company's weighted-average number of common shares, basic net income per share, diluted net income per share and cash dividends per share.

3. CASH AND CASH EQUIVALENTS

The reconciliation of cash and cash equivalents at the end of the year and cash and due from banks in the consolidated balance sheet as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Cash and due from banks	¥705,563	¥708,975	\$6,641,217
Due from banks, excluding due from the Bank of Japan	(3,627)	(7,160)	(34,139)
Cash and cash equivalents at the end of year	¥701,935	¥701,814	\$6,607,068

4. TRADING ACCOUNT SECURITIES AND INVESTMENT SECURITIES

Trading account securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
National government bonds	¥ 567	¥ 594	\$ 5,336
Local government bonds	7,407	6,199	69,719
Other securities	17,000	13,999	160,015
Total	¥24,975	¥20,793	\$235,080

Investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
National government bonds	¥ 992,921	¥1,233,137	\$ 9,346,018
Local government bonds	384,566	249,904	3,619,785
Corporate bonds	960,182	983,202	9,037,857
Equity securities	148,295	139,598	1,395,849
Other securities	635,924	636,002	5,985,730
Total	¥3,121,890	¥3,241,844	\$29,385,259

Securities loaned under securities lending agreements are included in the above national government bonds in the amount of ¥41,236 million (\$388,140 thousand) and ¥25,160 million as of March 31, 2018 and 2017, respectively.

Investment in an unconsolidated subsidiary in the amount of ¥25 million (\$235 thousand) and ¥25 million and investment in interest in partnership in the amount of ¥926 million (\$8,716 thousand) and ¥971 million are included in the above equity securities and other securities as of March 31, 2018 and 2017, respectively.

The carrying amounts and aggregate fair values of securities as of March 31, 2018 and 2017, were as follows:

Securities below include trading account securities and investment securities:

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 24,975
Available-for-sale:				
Equity securities*	¥ 55,931	¥90,762	¥ 285	146,408
Debt securities	2,305,308	25,644	381	2,330,571
Other securities*	584,564	58,055	10,377	632,241
Held to maturity	7,099	15		7,115

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 20,793
Available-for-sale:				
Equity securities*	¥ 58,497	¥79,591	¥ 473	137,615
Debt securities	2,420,185	35,975	516	2,455,644
Other securities*	590,223	51,224	9,085	632,362
Held to maturity	10,600	48		10,648

	Thousands of U.S. Dollars			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				\$ 235,080
Available-for-sale:				
Equity securities*	\$ 526,458	\$854,310	\$ 2,682	1,378,087
Debt securities	21,699,058	241,378	3,586	21,936,850
Other securities*	5,502,296	546,451	97,675	5,951,063
Held to maturity	66,820	141		66,971

* Unlisted equity securities for which the fair value is extremely difficult to determine are not included.

Securities, other than trading account securities, with readily determinable fair value, whose fair value significantly declined compared with the acquisition cost and whose fair value is not considered likely to recover to their acquisition cost, are written down to the respective fair value. The related losses on revaluation are charged to income for the fiscal year.

Impairment losses were recognized for available-for-sale securities in the amount of ¥99 million (\$931 thousand), consisting of ¥99 million (\$931 thousand) of other securities for the year ended March 31, 2018.

No impairment loss was recognized for securities for the year ended March 31, 2017.

The criteria for determining whether the fair value has "significantly declined" are defined based on the asset classification of the issuer in the internal standards for asset quality self-assessment as follows:

- Normal issuer: Fair value declined by 50% or more of the acquisition cost or fair value declined between 30% and 50% and average fair value during the past one month declined by 50% or more (30% or more for issuers who have credit risk more than a certain level).
- Caution issuers: Fair value declined by 30% or more of the acquisition cost.
- Legally bankrupt, virtually bankrupt, and possibly bankrupt issuers: Fair value is lower than the acquisition cost.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2018 and 2017, were ¥38,786 million (\$365,079 thousand) and ¥50,680 million, respectively. Gross realized gains and losses on these sales, computed on a moving average cost basis, were ¥3,030 million (\$28,520 thousand) and ¥880 million (\$8,283 thousand), respectively, for the year ended March 31, 2018, and ¥2,057 million and ¥155 million, respectively, for the year ended March 31, 2017.

Unrealized gains on available-for-sale securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Valuation differences:			
Available-for-sale securities	¥163,159	¥156,457	\$1,535,758
Available-for-sale money held in trust	17,617	15,020	165,822
Deferred tax liabilities	(53,493)	(50,660)	(503,510)
Unrealized gains on available-for-sale securities	¥127,283	¥120,817	\$1,198,070

5. MONEY HELD IN TRUST

The carrying amounts and aggregate fair values of money held in trust as of March 31, 2018 and 2017, were as follows:

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥131,787
Available-for-sale	¥21,581	¥17,617		39,198
Total	¥21,581	¥17,617		¥170,985

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥131,451
Available-for-sale	¥21,581	¥15,020		36,601
Total	¥21,581	¥15,020		¥168,053

	Thousands of U.S. Dollars			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				\$1,240,464
Available-for-sale	\$203,134	\$165,822		368,957
Total	\$203,134	\$165,822		\$1,609,422

Available-for-sale securities held in trust, whose fair value significantly declined compared with the acquisition cost and whose fair value is not considered likely to recover to their acquisition cost, are written down to the respective fair value.

No impairment loss was recognized for money held in trust for the years ended March 31, 2018 and 2017.

6. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Bills discounted	¥ 11,149	¥ 9,144	\$ 104,941
Loans on bills	143,298	156,710	1,348,814
Loans on deeds	3,927,919	3,768,063	36,972,129
Overdrafts	538,696	509,965	5,070,557
Total	¥4,621,062	¥4,443,883	\$43,496,442

Bills discounted are accounted for as financial transactions in accordance with "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (the Japanese Institute of Certified Public Accountants (the "JICPA") Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge these bills discounted. The total of the face value of bills discounted was ¥11,149 million (\$104,941 thousand) and ¥9,144 million as of March 31, 2018 and 2017, respectively.

Loans and bills discounted as of March 31, 2018 and 2017, included the following loans:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans to borrowers in bankruptcy	¥ 3,074	¥ 834	\$ 28,934
Past due loans	67,665	77,394	636,907
Past due loans (three months or more)	1,900	772	17,884
Restructured loans	26,235	26,892	246,940
Total	¥98,876	¥105,893	\$930,685

Loans to borrowers in bankruptcy represent nonaccrual loans to debtors who are legally bankrupt, as defined in the Enforcement Ordinance for the Corporation Tax Law.

Past due loans are nonaccrual loans which include loans classified as “possible bankruptcy” and “virtual bankruptcy.”

Nonaccrual loans are defined as loans for which the Bank has discontinued accruing interest income due to substantial doubt existing about the ultimate collection of principal and/or interest. Such loans are classified either as “possible bankruptcy” or “virtual bankruptcy” under the Bank’s self-assessment guidelines.

In addition to past due loans, certain other loans classified as “caution” under the Bank’s self-assessment guidelines include past due loans (three months or more) which consist of loans for which the principal and/or interest is three months or more past due, but exclude loans to borrowers in bankruptcy and past due loans.

Restructured loans are loans where the Bank and its subsidiaries relax lending conditions by reducing the original interest rate or by forbearing interest payments or principal repayments to support the borrower’s reorganization. Restructured loans exclude loans to borrowers in bankruptcy, past due loans or past due loans (three months or more).

7. FOREIGN EXCHANGES

Foreign exchange assets and liabilities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Assets			
Foreign exchange bills receivable	¥ 24	¥ 14	\$ 225
Due from foreign correspondent accounts	5,931	4,733	55,826
Total	¥5,956	¥4,748	\$56,061
Liabilities			
Foreign exchange bills sold	¥ 62	¥42	\$ 583
Foreign exchange bills payable	50	29	470
Total	¥113	¥72	\$1,063

8. TANGIBLE FIXED ASSETS

The accumulated depreciation of tangible fixed assets as of March 31, 2018 and 2017, amounted to ¥79,629 million (\$749,519 thousand) and ¥78,088 million, respectively.

As of March 31, 2018 and 2017, deferred gains for tax purposes of ¥7,695 million (\$72,430 thousand) and ¥7,695 million, respectively, on tangible fixed assets sold and replaced with similar assets have been deducted from the cost of newly acquired tangible fixed assets.

9. LONG-LIVED ASSETS

The Bank recognized impairment losses of ¥709 million (\$6,673 thousand) and ¥505 million on certain operating branches, business premises, branches to be closed, and unused facilities for the years ended March 31, 2018 and 2017, respectively.

The impairment losses were composed of ¥401 million (\$3,774 thousand) on buildings, ¥243 million (\$2,287 thousand) on land and ¥65 million (\$611 thousand) on other fixed assets for the year ended March 31, 2018, and ¥167 million on buildings, ¥266 million on land and ¥70 million on other fixed assets for the year ended March 31, 2017.

For the purpose of testing for impairment, the Bank recognizes each individual branch office as a cash-generating unit for which it continues to manage and monitor identifiable cash flows. Branch offices to be closed and facilities not in operation are individually assessed for impairment. Subsidiaries recognize each company as a cash-generating unit. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the DCFs from the continued use and eventual disposition of the asset or the net selling price at disposition. The DCFs were calculated using discount rates of 5.0% and 2.9% for the years ended March 31, 2018 and 2017, respectively, and the net selling price was determined by quotation from a third-party vendor.

10. CUSTOMERS’ LIABILITIES FOR ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in “Acceptances and guarantees.” “Customers’ liabilities for acceptances and guarantees” are shown as assets, representing the Bank’s right to receive indemnity from the applicants.

The amount of guarantee obligations for privately placed corporate bonds included in securities as of March 31, 2018 and 2017, was ¥6,165 million (\$58,028 thousand) and ¥1,995 million, respectively.

11. ASSETS PLEDGED

Assets pledged as collateral and their relevant liabilities as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Assets pledged as collateral:			
Investment securities	¥232,517	¥251,523	\$2,188,601
Other assets	144	144	1,355
Relevant liabilities to above assets:			
Deposits	48,676	67,214	458,170
Payables under securities lending transactions	12,886	30,998	121,291
Borrowed money	106,800	106,800	1,005,271

Additionally, investment securities amounting to ¥45,482 million (\$428,106 thousand) and ¥46,757 million as of March 31, 2018 and 2017, respectively, and other assets amounting to ¥14,393 million (\$135,476 thousand) and ¥14,393 million as of March 31, 2018 and 2017, respectively, are pledged as collateral for transactions, such as exchange settlement transactions or as substitute securities for future transaction initial margin and others.

Other assets include security deposits for financial instruments amounting to ¥2,130 million (\$20,048 thousand) and ¥3,564 million as of March 31, 2018 and 2017, respectively, and guarantee deposits for leased tangible fixed assets (lessee side) amounting to ¥93 million (\$875 thousand) and ¥93 million as of March 31, 2018 and 2017, respectively.

12. LOAN COMMITMENTS

Contracts of overdraft facilities and loan commitments are contracts with customers to lend up to the prescribed limits in response to customers' applications for a loan, as long as there is no violation of any condition within the contracts. As of March 31, 2018, the unused amount of such contracts totaled ¥1,661,188 million (\$15,636,182 thousand), of which amounts with original agreement terms of less than one year were ¥1,569,181 million (\$14,770,152 thousand). As of March 31, 2017, the unused amount of such contracts totaled ¥1,720,890 million, of which amounts with original agreement terms of less than one year were ¥1,646,058 million.

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

13. DEPOSITS

Deposits as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current deposits	¥ 202,200	¥ 244,096	\$ 1,903,237
Ordinary deposits	4,663,111	4,461,129	43,892,234
Deposits at notice	14,902	17,029	140,267
Time deposits	2,322,878	2,378,135	21,864,439
Negotiable certificates of deposit	481,570	451,440	4,532,850
Other deposits	261,436	254,029	2,460,805
Total	¥7,946,100	¥7,805,860	\$74,793,862

14. BORROWED MONEY

As of March 31, 2018 and 2017, the weighted-average annual interest rates applicable to borrowed money were 0.015% and 0.020%, respectively.

Borrowed money consisted of borrowings from the Bank of Japan and other financial institutions. Annual maturities of borrowed money as of March 31, 2018, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥110,274	\$1,037,970
2020	543	5,111
2021	356	3,350
2022	297	2,795
2023	84	790
2024 and thereafter	148	1,393
Total	¥111,704	\$1,051,430

15. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

The Companies have severance payment plans consisting of contributory pension fund plans and noncontributory lump-sum payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Companies and annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in projected benefit obligations for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥71,320	¥72,211	\$671,310
Service cost	1,723	1,707	16,217
Interest cost	451	457	4,245
Actuarial losses	527	294	4,960
Benefits paid	(3,678)	(3,533)	(34,619)
Prior service cost			
Others	183	184	1,722
Balance at end of year	¥70,527	¥71,320	\$663,846

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥36,091	¥35,933	\$339,711
Expected return on plan assets	1,263	1,257	11,888
Actuarial gains (losses)	470	(80)	4,423
Contributions from the employer	773	776	7,275
Benefits paid	(2,004)	(1,980)	(18,862)
Others	183	184	1,722
Balance at end of year	¥36,778	¥36,091	\$346,178

(Note) Plan assets related to the multiemployer welfare pension fund plans adopted by certain consolidated subsidiaries are not included in the above plan assets.

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of projected benefit obligations and plan assets as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded projected benefit obligations	¥48,307	¥48,635	\$454,696
Plan assets	(36,778)	(36,091)	(346,178)
Total	11,529	12,543	108,518
Unfunded projected benefit obligations	22,220	22,685	209,149
Net liability arising from projected benefit obligations	¥33,749	¥35,228	\$317,667

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for employees' retirement benefits	¥33,749	¥35,228	\$317,667
Asset for employees' retirement benefits			
Net liability arising from projected benefit obligations	¥33,749	¥35,228	\$317,667

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 1,729	¥ 1,713	\$ 16,274
Interest cost	451	457	4,245
Expected return on plan assets	(1,263)	(1,257)	(11,888)
Recognized actuarial losses	1,917	1,798	18,044
Amortization of prior service cost			
Others			
Net periodic retirement benefit costs	¥ 2,834	¥ 2,711	\$ 26,675

(Notes) 1. Employees' contribution to corporate pension funds is deducted.
2. Net periodic retirement benefit costs of the consolidated subsidiaries which adopt a shortcut method are included in "Service cost."

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost			
Actuarial gains	¥1,860	¥1,424	\$17,507
Others			
Total	¥1,860	¥1,424	\$17,507

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost			
Unrecognized actuarial gains	¥8,921	¥10,782	\$83,970
Others			
Total	¥8,921	¥10,782	\$83,970

(7) Plan assets as of March 31, 2018 and 2017

a. Components of plan assets

Plan assets consisted of the following:

	2018	2017
Debt investments	31%	31%
Equity investments	33	32
Cash and cash equivalents		
Life insurance company accounts (general accounts)	28	28
Call loans, etc.	8	9
Others		
Total	100%	100%

b. Method of determining the long-term expected rate of return on plan assets

The expected rate of return on plan assets is determined considering allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.6%	0.6%
Long-term expected rate of return on plan assets	3.5	3.5
Expected rate of salary increase	4.5	4.5

16. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations which were recognized on the consolidated balance sheet for the years ended March 31, 2018 and 2017, were as follows:

a. Overview of asset retirement obligations

Asset retirement obligations are recognized for obligations of restoring leased buildings, such as branch premises, to their original state, based on the real estate lease contracts and asbestos removal costs.

b. Calculation of asset retirement obligations

Asset retirement obligations are calculated based on the estimated available periods of 16 to 31 years depending on the expected useful lives of buildings using discount rates from 0.139% to 2.324%.

c. The changes in asset retirement obligations for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥675	¥641	\$6,353
Increase due to acquisition of tangible assets	29	35	272
Reconciliation associated with passage of time	6	6	56
Decrease due to execution of asset retirement obligations	(32)	(8)	(301)
Other			
Balance at end of year	¥678	¥675	\$6,381

17. PERFORMANCE-LINKED STOCK COMPENSATION SYSTEM

The Bank has introduced a performance-linked stock compensation system (the "System") based on the Board Incentive Plan ("BIP") trust from the perspective of enhancing motivation to make contributions to improving the medium- to long-term performance and corporate value by further clarifying the linkage between compensation to directors, etc. and stock value of the Bank.

Under the System, the Bank's shares are acquired using the funds contributed by the Bank as compensation to directors, etc. through the trust and such shares are granted to directors, etc. through the trust according to their ranks and achievement of management plans. Said transactions are related to the System.

The transition to the System was implemented as of August 17, 2017, for those persons who hold the stock compensation-type stock options that were allotted in the past but are not exercised.

The Bank's shares remaining in the trust are recorded as treasury stock under "Equity" and the carrying amount of such treasury stock was ¥1,514 million (\$14,250 thousand) and the number of shares was 551 thousand as of March 31, 2018.

18. EQUITY

Japanese banks are subject to the Banking Law and to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act and the Banking Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the general meeting of stockholders. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Bank meets all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to stockholders subject to certain limitations and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Bank can do so because it stipulates this in its articles of incorporation. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon

the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 100% of stated capital.

Under the Companies Act and the Banking Law, the aggregate amount of additional paid-in capital and the legal reserve that exceeds 100% of the stated capital may be made available for dividends by resolution of the stockholders after transferring such excess to retained earnings in accordance with the Companies Act. Under the Companies Act, the total amount of additional paid-in capital and the legal reserve may be reversed without limitation. The Companies Act also provides that stated capital, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

d. Share Consolidation

On October 1, 2017, the Bank conducted consolidation of shares at a ratio of five shares to one share and every five shares of the Bank's issued and outstanding common stock were exchanged for one issued and outstanding share of common stock of the Bank, taking into consideration the announcement of “Action Plan for Consolidating Trading Units” by the stock exchanges nationwide.

19. STOCK OPTIONS

Expenses related to stock options in the amount of ¥33 million (\$310 thousand) and ¥139 million are recorded under general and administrative expenses for the years ended March 31, 2018 and 2017, respectively.

As noted in Note 17, the Bank abolished the stock compensation-type stock options plan on August 17, 2017, and introduced the System.

The stock options outstanding as of March 31, 2018, are as follows:

Nature and extent of stock options:

The Bank conducted consolidation of shares at a ratio of five shares to one share on October 1, 2017.

However, the following tables are presented using the figures before the share consolidation.

	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Persons granted	16 directors of the Bank	16 directors of the Bank	16 directors of the Bank	16 directors of the Bank	15 directors of the Bank (excluding outside directors)	13 directors (excluding outside directors) and 4 executive officers (excluding executive directors) of the Bank	13 directors (excluding outside directors) and 6 executive officers (excluding executive directors) of the Bank	13 directors (excluding outside directors) and 4 executive officers (excluding executive directors) of the Bank
Number of stock options by type of share*	281,800 shares of common stock of the Bank	357,500 shares of common stock of the Bank	498,900 shares of common stock of the Bank	498,900 shares of common stock of the Bank	296,800 shares of common stock of the Bank	245,800 shares of common stock of the Bank	183,100 shares of common stock of the Bank	369,400 shares of common stock of the Bank
Date of grant	August 3, 2009	August 2, 2010	August 1, 2011	July 27, 2012	July 29, 2013	August 1, 2014	July 31, 2015	August 1, 2016
Vesting conditions	Not defined	Not defined	Not defined	Not defined	Not defined	Not defined	Not defined	Not defined
Eligible service period	Not defined	Not defined	Not defined	Not defined	Not defined	Not defined	Not defined	Not defined
Exercise period	From August 4, 2009 to August 3, 2034	From August 3, 2010 to August 2, 2035	From August 2, 2011 to August 1, 2036	From July 28, 2012 to July 27, 2037	From July 30, 2013 to July 29, 2038	From August 2, 2014 to August 1, 2039	From August 1, 2015 to July 31, 2040	From August 2, 2016 to August 1, 2041

*Number of stock options is converted into number of shares.

Stock option activity is as follows:

	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
	(Shares)							
Non-vested								
March 31, 2017 —Outstanding	122,500	175,000	287,400	309,000	211,200	194,700	148,900	366,300
Granted								
Forfeited	80,300	120,000	210,600	232,200	163,100	156,800	116,700	293,800
Vested	42,200	55,000	76,800	76,800	48,100	37,900	32,200	72,500
March 31, 2018 —Outstanding								
Vested								
March 31, 2017 —Outstanding								
Vested	42,200	55,000	76,800	76,800	48,100	37,900	32,200	72,500
Exercised	42,200	55,000	76,800	76,800	48,100	37,900	32,200	72,500
Forfeited								
March 31, 2018 —Outstanding								

Note: “Forfeited” under “Non-vested” means that the rights on unexercised stock options granted were disclaimed subject to granting appropriate points based on the System as the System was introduced in place of the abolished stock compensation-type stock options plan.

Unit price information is as follows:

	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Exercise price	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)	¥1 (\$0.00)
Average stock price at the time of exercise	¥557 (\$5.24)	¥557 (\$5.24)	¥557 (\$5.24)	¥557 (\$5.24)	¥557 (\$5.24)	¥557 (\$5.24)	¥557 (\$5.24)	¥557 (\$5.24)
Fair value at the date of grant	¥523 (\$4.92)	¥415 (\$3.90)	¥317 (\$2.98)	¥275 (\$2.58)	¥444 (\$4.17)	¥527 (\$4.96)	¥775 (\$7.29)	¥374 (\$3.52)

20. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gain on sales and redemption of bonds and other securities	¥ 202	¥ 92	\$ 1,901
Lease receipts	6,808	6,880	64,081
Other	4,339	3,082	40,841
Total	¥11,350	¥10,055	\$106,833

21. OTHER INCOME

Other income for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gains on sales of stocks and other securities	¥2,833	¥1,965	\$26,666
Gains on sales of tangible fixed assets	103	30	969
Other	1,986	1,905	18,693
Total	¥4,924	¥3,901	\$46,347

22. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Losses on sales, redemption and devaluation of bonds and other securities	¥ 8,383	¥ 4,587	\$ 78,906
Lease costs	6,206	6,250	58,414
Other	4,630	4,430	43,580
Total	¥19,220	¥15,268	\$180,911

23. OTHER EXPENSES

Other expenses for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Bad debt losses	¥ 19	¥ 10	\$ 178
Losses on dispositions of money held in trust		416	
Losses on sales of loans	331	151	3,115
Losses on impairments and disposals of fixed assets	878	756	8,264
Provision for reserve for reimbursement of deposits	197	229	1,854
Other	439	305	4,132
Total	¥1,866	¥1,870	\$17,564

24. INCOME TAXES

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Reserve for possible loan losses	¥ 15,346	¥ 18,489	\$ 144,446
Liability for employees' retirement benefits	10,283	10,731	96,790
Fixed assets (depreciation)	5,935	6,431	55,864
Losses on devaluation of stocks and other securities	3,310	3,286	31,155
Other	6,460	6,600	60,805
Less valuation allowance	(13,935)	(14,833)	(131,165)
Total	27,400	30,705	257,906
Deferred tax liabilities:			
Unrealized gains on available-for- sale securities	53,493	50,660	503,510
Deferred gain on sales of shares of consolidated subsidiaries	801	805	7,539
Fixed assets (deferred gain on sales and replacements)	329	332	3,096
Other	16	139	150
Total	54,641	51,938	514,316
Net deferred tax liabilities	¥(27,240)	¥(21,233)	\$(256,400)

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2018 and 2017, was as follows:

	2018	2017
Normal effective statutory tax rate	30.8%	30.8%
Expenses not deductible for income tax purposes	0.4	0.4
Nontaxable dividend income	(1.2)	(1.2)
Inhabitants taxes	0.3	0.3
Valuation allowance	(3.6)	(8.5)
Consolidation adjustment on gain on sales of shares of consolidated subsidiaries		4.5
Other—net	0.2	1.2
Actual effective tax rate	26.9%	27.5%

25. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gains on available-for-sale securities:			
Gain arising during the year	¥ 5,953	¥ 6,227	\$ 56,033
Reclassification adjustment to profit or loss	3,345	1,605	31,485
Amount before income tax effect	9,298	7,832	87,518
Income tax effect	(2,833)	(2,250)	(26,666)
Total	¥ 6,465	¥ 5,582	\$ 60,852
Deferred gains on derivatives under hedge accounting:			
(Loss) gain arising during the year	¥ (293)	¥ 1,428	\$ (2,757)
Reclassification adjustment to profit or loss	833	866	7,840
Amount before income tax effect	539	2,294	5,073
Income tax effect	(164)	(697)	(1,543)
Total	¥ 375	¥ 1,597	\$ 3,529
Defined retirement benefit plans:			
Loss arising during the year	¥ (56)	¥ (374)	\$ (527)
Reclassification adjustment to profit or loss	1,917	1,798	18,044
Amount before income tax effect	1,860	1,424	17,507
Income tax effect	(565)	(432)	(5,318)
Total	¥ 1,295	¥ 991	\$ 12,189
Total other comprehensive income	¥ 8,136	¥ 8,171	\$ 76,581

26. LEASES

Finance Leases

Lessor

A subsidiary leases certain equipment and other assets to various customers.

The net investments in leases as of March 31, 2018 and 2017, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gross lease receivables	¥16,581	¥15,845	\$156,071
Estimated residual values	1,084	988	10,203
Unearned interest income	(1,704)	(1,728)	(16,039)
Investments in leases	¥15,961	¥15,105	\$150,235

Maturities of lease receivables for finance leases as of March 31, 2018, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥121	\$1,138
2020	38	357
2021	6	56
Total	¥165	\$1,553

Maturities of investment in leases for finance leases as of March 31, 2018, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 5,413	\$ 50,950
2020	4,206	39,589
2021	3,124	29,405
2022	2,090	19,672
2023	1,061	9,986
2024 and thereafter	685	6,447
Total	¥16,581	\$156,071

27. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Companies provide financial services such as credit card business and leasing operations in addition to banking operations. In the course of these operations, the Companies raise funds principally through deposit taking and invest funds in loans, securities, and others. As such, the Bank holds financial assets and liabilities which are subject to fluctuation in interest rates and conducts comprehensive Asset and Liability Management (“ALM”) to avoid unfavorable effects from interest rate fluctuations. Derivatives are also employed by the Bank as part of ALM.

(2) Nature and Extent of Risks Arising from Financial Instruments
Financial assets held by the Companies mainly consist of loans to domestic corporations, local government agencies, and individual customers which are exposed to credit risk that the Companies may suffer from losses resulting from nonperformance of borrowers and interest rate risk that the Companies may suffer from losses resulting from fluctuations in interest rates.

Securities, mainly debt securities, equity securities, and investment trusts are held to maturity and for other purposes and also certain debt securities are held for the purpose of selling to customers. These securities are exposed to credit risk of issuers and market risks of fluctuations in interest rates and market prices. In addition, they are exposed to market liquidity risk that the Companies may suffer from losses resulting from difficulties in executing financial transactions in certain environments such as market turmoil.

Financial liabilities, mainly consisting of liquid deposits or time deposits taken from corporate and individual customers, are exposed to cash flow risk that the Bank may experience a situation where unexpected cash flows are incurred in certain environments where the credit rating of the Bank may be lowered and, accordingly, necessary funding may become difficult.

Foreign currency denominated assets and liabilities are exposed to foreign exchange risk that the Bank may suffer from losses resulting from fluctuations in foreign exchange rates.

Derivatives mainly include interest rate swaps and bond futures, which are used to manage exposure to market risks from changes in interest rates of loans and investment securities, and foreign exchange forward contracts, which are used to hedge foreign exchange risk associated with foreign currency-denominated assets and liabilities. Hedge accounting is applied to certain hedging activities related to loans and investment securities as hedged items.

(3) Risk Management for Financial Instruments

Credit risk management

The Bank has established the “Credit Risk Control Policy” as a basic policy for credit risk management and various rules concerning credit risk management. Based on these policies and rules, the Companies clarify fundamental approaches to secure the soundness of assets and control procedures for identifying, monitoring, and controlling credit risk. Additionally, the Bank utilizes the “Credit Rating System” applied to counterparties granted with credit from the viewpoint of identifying credit risk objectively and enhancing credit risk control.

In addition, as an organization responsible for credit risk management, credit risk control functions and review functions have been established to secure the effectiveness of credit risk management.

The Risk Management Division, as a credit risk control function, is engaged in identifying the level of future possible credit risk and the status of credit concentration in major borrowers through measurement of the level of credit risk and analysis of credit portfolios.

The Credit Supervision Division, as a review control function, is engaged in reviewing lending operations based on strict examination standards, system development for strengthening the daily control of loan receivables, and appropriate maintenance of operational procedures.

Market risk management

a. Market Risk Management System

The Bank has established the “Market Risk Control Policy” as a basic policy for market risk management and various rules concerning market risk management. Based on these policies and

rules, the Bank clarifies fundamental approaches for appropriate market risk control operations and control procedures for identifying, monitoring and controlling market risk.

As an organization responsible for market risk management, a market risk control function (middle office) has been established and furthermore, the operating function (front office) and the administration function (back office) have been separated. Additionally, market risk control function staffs are assigned to the operating function to secure the effectiveness of market risk management.

The Risk Management Division, as a market risk control function, measures the level of market risk of the Bank as a whole using Value-at-Risk (“VaR”) approach models and other models and regularly monitors the status of compliance with position limits and loss limits established according to the type and characteristics of transactions to control the level of market risk within a certain range.

In addition, an ALM and Income Control Committee was established for the purpose of analyzing flexible investment strategies in order to prevent risks resulting from fluctuations in interest rates and market prices, while forecasting future interest rates, market prices, and trends of fund and business conditions. The committee is also responsible for securing the soundness of management and also improving profitability at the same time based on appropriate asset and liability management through the unification of risk management and earnings control.

b. Quantitative Information about Market Risk

The Bank adopts the variance-covariance method (holding period: 125 business days for strategic equity securities and 60 business days for others; confidence interval: 99.0%; observation period: 250 business days) in computing the VaR with respect to money held in trust, securities, Japanese yen deposits and loans, and Japanese yen money market funds. The volume of market risk (estimated losses) that the Bank is exposed to as of March 31, 2018, amounts to ¥66,894 million (\$629,649 thousand) (¥98,039 million in 2017) as a whole. However, the risk under certain abnormal market fluctuations may not be captured since, under the VaR method, the volume of market risk under a definite probability of statistically computed incidence is measured based on historical market fluctuations.

The Bank implements back testing to compare the VaR computed by the model with actual profit and loss in the securities and confirms that the measurement model in use captures the market risk with sufficient precision.

Liquidity risk management

The Bank has established the “Liquidity Risk Control Policy” as a basic policy for liquidity risk management and various rules concerning liquidity risk management. Based on these policies and rules, the Bank clarifies fundamental approaches for stable funding of operations and control procedures for identifying, monitoring and controlling liquidity risk. In addition, the Bank has established the “Contingency Plan for Liquidity” to enable it to make quick and correct responses to unexpected events.

Furthermore, as an organization responsible for liquidity risk management, a liquidity risk control function has been established and a cash management function and a settlement control function have been established to control daily cash management and settlement related to cash and securities.

The Risk Management Division, as a liquidity risk control function, manages the liquidity risk of the Bank as a whole by identifying, monitoring and controlling liquidity risk.

The Treasury Administration and International Division, as a cash management control function and settlement control function, prepares daily or monthly cash flow projections and conducts cash management by identifying possible funds and liquidity of assets and verifying the concentration of settlement of major account funds to a certain date. The Division also controls settlement by identifying the status of settlement through systems such as the BOJ-NET and among financial institutions.

Risk management system of subsidiaries

The subsidiaries have a risk management system similar to that of the Bank.

(4) Supplementary Explanation about Fair Values of Financial Instruments

The fair values of financial instruments include, in addition to the value determined based on market prices, valuations calculated on

a reasonable basis if no market prices are available. Since certain assumptions are used in calculating the value, the outcome of such calculation may vary if different assumptions are used.

(5) Fair Values of Financial Instruments

The carrying amount, the fair value, and the differences thereof as of March 31, 2018 and 2017, are disclosed below. Note that unlisted equity securities for which fair value is extremely difficult to determine are not included in the following table (see Note 2 below) and insignificant accounts in terms of the carrying amount are omitted:

March 31, 2018	Millions of Yen		
	Carrying Amount	Fair Value	Difference
(1) Cash and due from banks	¥ 705,563	¥ 705,563	
(2) Money held in trust	170,985	170,985	
(3) Investment securities	3,116,320	3,116,336	¥ 15
Held-to-maturity securities	7,099	7,115	15
Available-for-sale securities	3,109,221	3,109,221	
(4) Loans and bills discounted	4,621,062		
Reserve for possible loan losses*	(60,858)		
	4,560,203	4,571,534	11,330
Total assets	¥8,553,074	¥8,564,420	¥11,346
(1) Deposits	¥7,946,100	¥7,946,455	¥ 355
(2) Borrowed money	111,704	111,689	(15)
Total liabilities	¥8,057,805	¥8,058,146	¥ 340

March 31, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Difference
(1) Cash and due from banks	¥ 708,975	¥ 708,975	
(2) Money held in trust	168,053	168,053	
(3) Investment securities	3,236,221	3,236,270	¥ 48
Held-to-maturity securities	10,600	10,648	48
Available-for-sale securities	3,225,621	3,225,621	
(4) Loans and bills discounted	4,443,883		
Reserve for possible loan losses*	(68,203)		
	4,375,679	4,393,614	17,934
Total assets	¥8,488,930	¥8,506,912	¥17,982
(1) Deposits	¥7,805,860	¥7,806,342	¥ 481
(2) Borrowed money	110,740	110,735	(4)
Total liabilities	¥7,916,600	¥7,917,078	¥ 477

March 31, 2018	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
(1) Cash and due from banks	\$ 6,641,217	\$ 6,641,217	
(2) Money held in trust	1,609,422	1,609,422	
(3) Investment securities	29,332,831	29,332,981	\$ 141
Held-to-maturity securities	66,820	66,971	141
Available-for-sale securities	29,266,010	29,266,010	
(4) Loans and bills discounted	43,496,442		
Reserve for possible loan losses*	(572,835)		
	42,923,597	43,030,252	106,645
Total assets	\$80,507,097	\$80,613,893	\$106,795
(1) Deposits	\$74,793,862	\$74,797,204	\$ 3,341
(2) Borrowed money	1,051,430	1,051,289	(141)
Total liabilities	\$75,845,303	\$75,848,512	\$ 3,200

*General and specific reserves for possible loan losses corresponding to loans and bills discounted are deducted.

Notes:

1. Calculation method for the fair value of financial instruments

Assets

(1) Cash and due from banks

For due from banks, the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

(2) Money held in trust

For securities that are part of trust property in an independently managed monetary trust with the primary purpose to manage securities, the fair values of equity securities and debt securities are determined using the quoted price of the stock exchange, Japan Securities Dealers Association, or the price calculated by financial institutions. The fair value of investment trust is determined using the published standard quotation or the standard quotation offered by the securities investment advisors.

See Note 5, "Money Held in Trust" for notes on "Money held in trust" by categories based on different holding purposes.

(3) Investment securities

The fair values of equity securities and debt securities are determined using the quoted price of the stock exchange, Japan Securities Dealers Association, or the price calculated by financial institutions. The fair value of investment trust is determined using the published standard quotation or the standard quotation offered by the securities investment advisors. With respect to privately placed guaranteed bonds, the fair value is determined using the future cash flows (coupons, redemption of principal, guarantee fees) discounted at an interest rate considering the market interest rates and issuers' credit risk.

(4) Loans and bills discounted

With respect to loans with floating interest rates, the carrying amount is presented as the fair value since the fair value approximates the carrying amount as they reflect the market interest rates over a short period, unless the creditworthiness of the borrower has changed significantly since the loan origination. With respect to loans with fixed interest rates, for each category of loan based on the type of loan, internal ratings, and maturity length, the fair value is determined based on the present value of expected cash flows of aggregated amounts of principal and interest discounted at a rate which is the rate assumed if a new loan was made, or market interest rate, which is adjusted by the standard spread (including overhead ratio) by credit rating. The carrying amount is presented as the fair value if the maturity is within a short time period (less than one year) and the fair value approximates the carrying amount.

For receivables from "legally bankrupt," "virtually bankrupt," and "possibly bankrupt" borrowers, possible loan losses are estimated based on the DCF method or factors such as the expected amounts to be collected from collateral and guarantees. Since the fair value of these items approximates the carrying amount, net of the currently expected loan losses, such carrying amount is presented as the fair value.

For loans for which the repayment due date is not defined because of the characteristics that the loan amount is limited within the pledged assets, the carrying amount is presented as the fair value since the fair value is assumed to approximate the carrying amount considering the expected repayment schedule and terms of the interest rates.

Liabilities

(1) Deposits

Regarding demand deposits, the amount payable as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. Time deposits and negotiable certificates of deposit are grouped by maturity length, and the fair value is determined using the present value of the aggregate amounts of principal and interest discounted at an interest rate that would be applied to newly accepted deposits. For deposits with maturities within a short time period (less than one year) and whose fair value approximates the carrying amount, the carrying amount is presented as the fair value.

(2) Borrowed money

For each type of borrowed money financed, the fair value is determined based on the present value of the aggregated amounts of principal and interest discounted at a rate which is the rate assumed if a new financing was made. The carrying amount is presented as the fair value if the maturity is within a short time period (less than one year) and the fair value approximates the carrying amount.

2. The financial instruments whose fair value is extremely difficult to determine are as follows. These items are not included in (3) "Available-for-sale securities" under "Assets" in the above table of fair value information of financial instruments.

*¹ Unlisted equity securities are not treated as instruments whose fair value is required to be disclosed since there is no market price and it is extremely difficult to determine the fair value.

*² Impairment losses in the amount of ¥20 million (\$188 thousand) and ¥5 million were recognized for unlisted equity securities for the years ended March 31, 2018 and 2017, respectively.

*³ Capital subscription in investment business partnerships, whose assets (i.e., unlisted equity securities) consist of those whose fair values are extremely difficult to determine, is not treated as instruments whose fair value is required to be disclosed.

Category	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unlisted equity securities ^{*1,*2}	¥1,887	¥1,983	\$17,761
Capital subscription in investment business partnerships ^{*3}	3,682	3,639	34,657
Total	¥5,569	¥5,622	\$52,419

3. Maturity analysis for financial assets and securities with contractual maturities as of March 31, 2018

Category	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	¥ 647,058					
Investment securities	447,605	¥ 959,468	¥ 592,206	¥393,183	¥378,888	
Held-to-maturity securities	3,000	4,100				
National government bonds	1,600	2,800				
Local government bonds	1,400	1,300				
Available-for-sale securities with contractual maturities	444,605	955,368	592,206	393,183	378,888	
National government bonds	272,100	487,350	180,700	26,000	5,000	
Local government bonds		6,500	51,400	118,500	197,200	
Corporate bonds	106,572	325,692	292,481	192,006	27,714	
Other	65,932	135,825	67,624	56,677	148,974	
Loans and bills discounted*	1,067,686	847,502	662,139	405,857	456,164	¥1,065,633
Total	¥2,162,349	¥1,806,970	¥1,254,345	¥799,040	¥835,052	¥1,065,633

Category	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	\$ 6,090,530					
Investment securities	4,213,149	\$ 9,031,137	\$ 5,574,228	\$3,700,894	\$3,566,340	
Held-to-maturity securities	28,237	38,591				
National government bonds	15,060	26,355				
Local government bonds	13,177	12,236				
Available-for-sale securities with contractual maturities	4,184,911	8,992,545	5,574,228	3,700,894	3,566,340	
National government bonds	2,561,182	4,587,255	1,700,865	244,728	47,063	
Local government bonds		61,182	483,810	1,115,399	1,856,174	
Corporate bonds	1,003,125	3,065,625	2,753,021	1,807,285	260,862	
Other	620,594	1,278,473	636,521	533,480	1,402,240	
Loans and bills discounted*	10,049,755	7,977,240	6,232,483	3,820,190	4,293,712	\$10,030,431
Total	\$20,353,435	\$17,008,377	\$11,806,711	\$7,521,084	\$7,860,052	\$10,030,431

* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to "legally bankrupt" borrowers, loans to "virtually bankrupt" borrowers, and loans to "possibly bankrupt" borrowers, amounting to ¥70,740 million (\$665,850 thousand) are not included in the above table. Loans that do not have a contractual maturity, amounting to ¥45,338 million (\$426,750 thousand), are not included either.

4. Repayment schedule of bonds, borrowed money, and other interest-bearing liabilities subsequent to March 31, 2018

	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits*	¥7,507,939	¥377,775	¥60,385			
Borrowed money	110,274	900	381	¥58	¥64	¥25
Total	¥7,618,213	¥378,675	¥60,767	¥58	¥64	¥25

	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits*	\$70,669,606	\$3,555,864	\$568,382			
Borrowed money	1,037,970	8,471	3,586	\$545	\$602	\$235
Total	\$71,707,577	\$3,564,335	\$571,978	\$545	\$602	\$235

* Demand deposits included in deposits are presented under "Due in 1 year or less."

28. DERIVATIVES

It is the Bank's policy to use derivatives primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities.

The Bank enters into interest rate swaps and interest rate swaptions as a means of hedging its interest rate risk on certain loans and investment securities while entering into interest rate swaps and interest rate swaptions to meet the needs of its clients.

The Bank also enters into currency swaps, foreign exchange forward contracts, and currency options to hedge foreign exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations of market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform its obligations under a contract.

The Bank sets limits on credit risk for those derivatives by limiting the counterparties to major financial institutions and securities companies and establishing maximum risk exposures to the counterparties.

The Bank has established a standard of risk management including management approaches for each type of risk. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate trading activities and credit risk management including maximum risk exposures and loss-cutting rules. Concerning risk management associated with derivative transactions, the front and back offices of the trading divisions are clearly separated and risk managers are assigned to the trading divisions, while the Risk Management Division synthetically manages the Bank's market risks. In this manner, an internal control system is effectively secured.

The Bank's positions, gain and loss, risk amount, and other conditions are periodically reported to the executive committee.

The Bank has the following derivatives contracts outstanding as of March 31, 2018 and 2017:

Derivative Transactions to Which Hedge Accounting Is Not Applied

With respect to derivatives to which hedge accounting is not applied, contract or notional amount, fair value, and unrealized gains/losses, and the calculation method of fair value are as shown below. Note that the contract or notional amounts of the derivatives which are shown in the table do not represent the amounts of the Bank's exposure to credit or market risk.

	Millions of Yen								Thousands of U.S. Dollars			
	2018				2017				2018			
	Contract or Notional Amount		Unrealized Gains/Losses		Contract or Notional Amount		Unrealized Gains/Losses		Contract or Notional Amount		Unrealized Gains/Losses	
Total	Due after One Year	Fair Value	Unrealized Gains/Losses	Total	Due after One Year	Fair Value	Unrealized Gains/Losses	Total	Due after One Year	Fair Value	Unrealized Gains/Losses	
Interest rate-related over-the-counter ("OTC") transactions:												
Interest rate swaps:												
Fixed rate receipt/ floating rate payment	¥4,456	¥4,256	¥34	¥34	¥3,050	¥500	¥2	¥2	\$41,942	\$40,060	\$320	\$320
Floating rate receipt/ fixed rate payment	4,793	4,278	(20)	(20)	3,425	875	(10)	(10)	45,114	40,267	(188)	(188)
Interest rate swaption:												
Selling												
Buying												
Currency-related OTC transactions:												
Currency swaps	36,138	19,665	549	549	23,201	16,076	(533)	(533)	340,154	185,099	5,167	5,167
Foreign exchange forward contracts:												
Selling	134,859	192	1,501	1,501	151,288		911	911	1,269,380	1,807	14,128	14,128
Buying	3,272	192	(42)	(42)	4,831		19	19	30,798	1,807	(395)	(395)
Currency option:												
Selling	3,247	1,687	(140)	39	4,443	2,864	(158)	74	30,562	15,879	(1,317)	367
Buying	3,247	1,687	140	3	4,443	2,864	158	(14)	30,562	15,879	1,317	28

Notes:

- The above transactions are stated at fair value and unrealized gains (losses) for the years ended March 31, 2018 and 2017, are recognized in the consolidated statement of income.
- The fair value of interest rate-related OTC transactions is determined using the discounted present value or option-pricing models, and the fair value of currency-related OTC transactions is determined using the discounted present value.

Derivative Transactions to Which Hedge Accounting Is Applied

With respect to derivatives to which hedge accounting is applied, contract or notional amount, fair value, and the calculation method of fair value are as shown below. Note that the contract or notional amounts of the derivatives which are shown in the table do not represent the amounts of the Bank's exposure to market risk.

At March 31, 2018

Hedge Accounting Method	Type of Derivatives	Major Hedged Item	Millions of Yen		
			Contract or Notional Amount	Fair Value	Unrealized Gains/Losses
			Total	Due after One Year	Fair Value
Normal method	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans and investment securities	¥225,384	¥224,275	¥(2,278)
Special matching criteria	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans	76,436	75,663	(875)
	Other— Buying	Loans	750	750	(3)
Total					¥(3,157)

At March 31, 2017			Millions of Yen		
Hedge Accounting Method	Type of Derivatives	Major Hedged Item	Contract or Notional Amount		Fair Value
			Total	Due after One Year	
Normal method	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans and investment securities	¥227,817	¥227,004	¥(2,799)
Special matching criteria	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans	87,878	81,678	(1,232)
	Other— Buying	Loans	916	916	(4)
Total					¥(4,036)

At March 31, 2018			Thousands of U.S. Dollars		
Hedge Accounting Method	Type of Derivatives	Major Hedged Item	Contract or Notional Amount		Fair Value
			Total	Due after One Year	
Normal method	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans and investment securities	\$2,121,460	\$2,111,022	\$(21,442)
Special matching criteria	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans	719,465	712,189	(8,236)
	Other— Buying	Loans	7,059	7,059	(28)
Total					\$(29,715)

Notes:

- These are principally accounted for under the deferral hedge method in accordance with the JICPA Industry Audit Committee Report No. 24, "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry."
- Fair value is determined using the discounted present value, option-pricing models, etc.

29. RELATED-PARTY TRANSACTIONS

Related-party transactions for the years ended March 31, 2018 and 2017, were as follows:

a. Transactions between the Bank and Its Related Parties

Related Party	Account Classification *3	Transactions for the Year**4			Balance at End of Year		
		Millions of Yen		Thousands of U.S. Dollars	Millions of Yen		Thousands of U.S. Dollars
		2018	2017	2018	2018	2017	2018
Department Store Fujisaki Co., Ltd.*1	Loans and bills discounted	¥4,562	¥4,769	\$42,940	¥4,823	¥5,276	\$45,397
	Customers' liabilities for acceptances and guarantees	360	328	3,388	360	360	3,388
Fuji Styling Co., Ltd.*1	Loans and bills discounted	287	255	2,701	282	292	2,654
Fujisaki Agency Co., Ltd.*1	Customers' liabilities for acceptances and guarantees	981	758	9,233	1,000	860	9,412
Mr. Minokichi Akaizawa*2	Loans and bills discounted	224	45	2,108	439	42	4,132

Notes: *1 Company whose voting rights are majority owned by a director or his close relatives (including subsidiaries of such company)

*2 Mr. Minokichi Akaizawa is a close relative of a director.

*3 Terms are substantially the same as for similar transactions with third parties.

*4 Amounts of transactions were reported at the average balance for the period.

b. Transactions between a Consolidated Subsidiary and Its Related Party

Related Party	Account Classification *2	Transactions for the Year			Balance at End of Year		
		Millions of Yen		Thousands of U.S. Dollars	Millions of Yen		Thousands of U.S. Dollars
		2018	2017	2018	2018	2017	2018
Department Store Fujisaki Co., Ltd.*1	Fees and commissions	¥23	¥22	\$216			
Fuji Styling Co., Ltd.*1	Other assets	17	16	160	¥41	¥59	\$385

Notes: *1 Company whose voting rights are majority owned by a director or his close relatives (including subsidiaries of such company)

*2 Terms are substantially the same as for similar transactions with third parties.

30. SEGMENT INFORMATION

Description of Reportable Segments

The Companies are principally engaged in the banking business and also leasing business and other financial services. The reportable segments of the Bank are the segments for which separate financial information is available, and are subject to periodic review by the chief operating decision maker to determine the allocation of management resources and assess performance.

Since the reportable segments of the Companies consist only of the “Banking” segment and since the “Other” segment is immaterial, segment information is omitted.

Related Information for the Years Ended March 31, 2018 and 2017 Information by Service Line

	Millions of Yen				
	2018				
	Loan	Securities Investment	Lease	Other	Total
External customers	¥41,491	¥38,152	¥8,007	¥25,529	¥113,180

	Millions of Yen				
	2017				
	Loan	Securities Investment	Lease	Other	Total
External customers	¥41,308	¥34,091	¥8,214	¥23,077	¥106,692

	Thousands of U.S. Dollars				
	2018				
	Loan	Securities Investment	Lease	Other	Total
External customers	\$390,540	\$359,111	\$75,367	\$240,295	\$1,065,323

Information about Geographical Area

Information about geographical areas is omitted because the Companies conduct banking and other related activities only in Japan and do not have foreign subsidiaries or foreign branches.

Information about Major Customers

Information about major customers is not presented because there are no customers who account for over 10% of ordinary income.

Information about Asset Impairment Losses

Information about asset impairment losses for the years ended March 31, 2018 and 2017, is omitted because the only reportable segment is “Banking” and “Other” is immaterial.

31. NET INCOME PER SHARE

Basic and diluted net income per share (“EPS”) for the years ended March 31, 2018 and 2017, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2018				
Basic EPS—Net income attributable to common stockholders	¥18,314	74,185	¥246.87	\$2.32
Effect of dilutive securities—Stock acquisition rights	—	125	—	—
Diluted EPS—Net income for computation	¥18,314	74,310	¥246.45	\$2.31
Year Ended March 31, 2017				
Basic EPS—Net income attributable to common stockholders	¥16,114	74,694	¥215.73	—
Effect of dilutive securities—Stock acquisition rights	—	343	—	—
Diluted EPS—Net income for computation	¥16,114	75,037	¥214.74	—

Above information about the weighted-average number of shares and EPS have been restated as appropriate, to reflect a one-for-five share consolidation effected October 1, 2017.

The Bank’s shares held by the directors’ compensation BIP trust that are recorded as treasury stock under “Equity” are included in the treasury stock to be deducted when computing the average number of shares during the fiscal year for the calculation of basic net income per share and diluted net income per share.

32. SUBSEQUENT EVENT*Cash Dividends*

At the Bank's general meeting of stockholders held on June 28, 2018, the Bank's stockholders approved the following appropriations of retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥22.50 (\$0.211) per share	¥1,682	\$15,832

Note: Above total amount of cash dividends includes dividends for the Bank's shares held by BIP trust in an amount of ¥12 million (\$112 thousand).

● Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The 77 Bank, Ltd.:

We have audited the accompanying consolidated balance sheet of The 77 Bank, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The 77 Bank, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2018

Member of
Deloitte Touche Tohmatsu Limited

● Capital Adequacy Ratios

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Consolidated (Domestic standard)			
Capital adequacy ratio (Domestic standard) = (A)/(B) x 100 (%)	10.43	10.73	
Capital: (A)	396,036	385,086	3,727,748
Risk-adjusted assets: (B)	3,796,259	3,587,937	35,732,859

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-Consolidated (Domestic standard)			
Capital adequacy ratio (Domestic standard) = (A)/(B) x 100 (%)	10.18	10.48	
Capital: (A)	383,593	373,434	3,610,626
Risk-adjusted assets: (B)	3,767,679	3,561,587	35,463,846

● Non-Consolidated Balance Sheet (Parent Company)

THE 77 BANK, LTD.
March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Assets:			
Cash and due from banks	¥ 705,553	¥ 708,964	\$ 6,641,123
Call loans and bills bought	530	557	4,988
Debt purchased	4,895	5,042	46,074
Trading account securities	24,975	20,793	235,080
Money held in trust	170,985	168,053	1,609,422
Investment securities	3,126,044	3,242,629	29,424,359
Loans and bills discounted	4,627,118	4,450,327	43,553,445
Foreign exchange assets	5,956	4,748	56,061
Tangible fixed assets:			
Buildings	9,720	8,597	91,490
Land	19,873	20,127	187,057
Lease assets	87	89	818
Construction in progress	534	1,128	5,026
Other tangible fixed assets	4,478	5,074	42,149
Intangible fixed assets	269	284	2,532
Customers' liabilities for acceptances and guarantees	29,060	30,448	273,531
Other assets	28,255	30,818	265,954
Reserve for possible loan losses	(56,867)	(64,045)	(535,269)
Total	¥8,701,473	¥8,633,641	\$81,903,925
Liabilities:			
Deposits	¥7,964,302	¥7,821,397	\$74,965,192
Call money	14,342	79,991	134,996
Payables under securities lending transaction	12,886	30,998	121,291
Borrowed money	107,112	107,140	1,008,207
Foreign exchange liabilities	113	72	1,063
Liability for retirement benefits	24,404	23,996	229,706
Reserve for stock compensation	876		8,245
Reserve for reimbursement of deposits	455	443	4,282
Reserve for contingent losses	695	744	6,541
Acceptances and guarantees	29,060	30,448	273,531
Deferred tax liabilities	30,541	25,471	287,471
Other liabilities	34,060	49,916	320,594
Total liabilities	8,218,851	8,170,620	77,361,172
Equity:			
Common stock	24,658	24,658	232,097
Capital surplus	8,937	8,688	84,120
Retained earnings	329,205	315,800	3,098,691
Treasury stock	(5,818)	(5,738)	(54,762)
Total stockholders' equity	356,983	343,409	3,360,156
Unrealized gains on available-for-sale securities	127,111	120,732	1,196,451
Deferred losses on derivatives under hedge accounting	(1,473)	(1,848)	(13,864)
Total valuation adjustments	125,638	118,883	1,182,586
Stock acquisition rights		728	
Total equity	482,622	463,020	4,542,752
Total	¥8,701,473	¥8,633,641	\$81,903,925

● Non-Consolidated Statement of Income (Parent Company)

THE 77 BANK, LTD.

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Income:			
Interest income:			
Interest on loans and discounts	¥41,410	¥41,222	\$389,777
Interest on dividends on trading account and investment securities	31,076	29,040	292,507
Other	206	171	1,939
Fees and commissions	16,140	16,076	151,920
Other operating income	859	92	8,085
Other income	11,888	8,974	111,897
Total income	101,581	95,578	956,146
Expenses:			
Interest expense:			
Interest on deposits	1,513	1,455	14,241
Interest on call money	440	273	4,141
Other	1,171	1,127	11,022
Fees and commissions	6,867	6,667	64,636
Other operating expenses	12,053	7,953	113,450
General and administrative expenses	55,068	55,156	518,335
Other expenses	1,822	1,820	17,149
Total expenses	78,938	74,454	743,015
Income before income taxes	22,642	21,123	213,121
Income taxes:			
Current	3,770	3,058	35,485
Deferred	2,117	1,438	19,926
Total income taxes	5,888	4,496	55,421
Net income	¥16,754	¥16,627	\$157,699

● Loan Portfolio

Loan Portfolio by Industry	Billions of yen		Millions of U.S. Dollars
	2018	2018	2018
Domestic offices (Excluding Japan offshore banking accounts)	¥4,627		\$43,553
Manufacturing	433		4,080
Agriculture and forestry	6		58
Fisheries	5		53
Mining and quarrying of stone and gravel	4		40
Construction	159		1,499
Electricity, gas, heat supply and water	161		1,519
Information and communications	21		204
Transport and postal activities	125		1,184
Wholesale and retail trade	389		3,662
Finance and insurance	311		2,928
Real estate and goods rental and leasing	924		8,703
Services, N.E.C.	332		3,132
Government, except elsewhere classified	654		6,163
Other	1,096		10,321
Japan's offshore banking accounts			
Financial institutions	—		—
Total	¥4,627		\$43,553

Loan Portfolio by Industry	Billions of yen	
	2017	2017
Domestic offices (Excluding Japan offshore banking accounts)	¥4,450	
Manufacturing	471	
Agriculture and forestry	6	
Fisheries	4	
Mining and quarrying of stone and gravel	3	
Construction	151	
Electricity, gas, heat supply and water	139	
Information and communications	28	
Transport and postal activities	125	
Wholesale and retail trade	405	
Finance and insurance	286	
Real estate and goods rental and leasing	851	
Services, N.E.C.	325	
Government, except elsewhere classified	637	
Other	1,012	
Japan's offshore banking accounts		
Financial institutions	—	
Total	¥4,450	

Loans by Collateral	Billions of yen		Millions of U.S. Dollars
	2018	2017	2018
Securities	¥ 5	¥ 6	\$ 55
Commercial claims	22	26	210
Real estate	744	674	7,006
Subtotal	772	707	7,272
Guaranteed	1,244	1,238	11,709
Unsecured	2,610	2,503	24,571
Total	¥4,627	¥4,450	\$43,553

Reserve for Loan Losses	Billions of yen		Millions of U.S. Dollars
	2018	2017	2018
General reserve for loan losses	¥27	¥30	\$261
Specific reserve for estimated loan losses on certain doubtful loans	29	33	274
Total	¥56	¥64	\$535

Bank Data

THE 77 BANK, LTD.
As of March 31, 2018

Head Office

3-20, Chuo 3-chome, Aoba-ku, Sendai,
Miyagi 980-8777, Japan
Phone: +81-22-267-1111
<http://www.77bank.co.jp/>

Founded

December 1878

Number of Branches

142

Number of Employees

2,822

Treasury Administration & International Division

Planning & Business Department
3-20, Chuo 3-chome, Aoba-ku, Sendai,
Miyagi 980-8777, Japan
Phone: +81-22-211-9914
Facsimile: +81-22-211-9916
SWIFT Address: BOSSJPT

Paid-in Capital

¥24,658 million (US\$232 million)

Number of Stockholders

9,312

Shares Outstanding

76,655 thousand

Note: On October 1, 2017, the Bank conducted consolidation of shares at a ratio of five shares to one share.

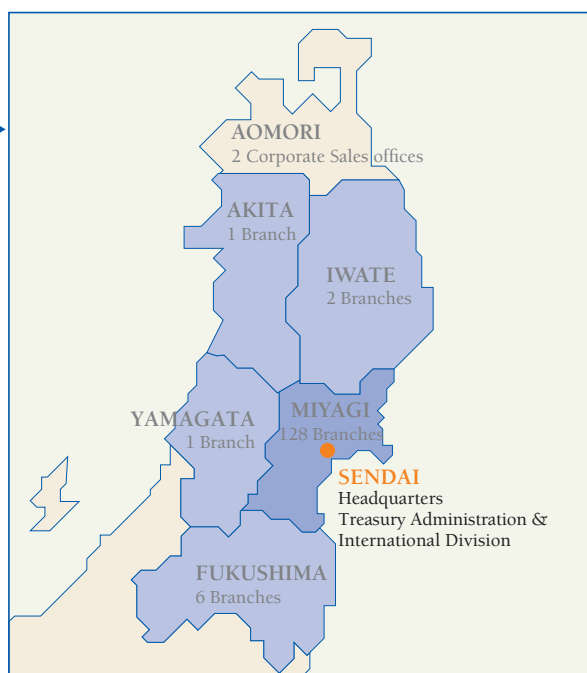
Major Stockholders

	Number of shares held (thousands)	%
Meiji Yasuda Life Insurance Company	3,785	4.93
Nippon Life Insurance Company	3,086	4.02
Sumitomo Life Insurance Company	3,082	4.02
Japan Trustee Services Bank, Limited (trust account)	2,842	3.70
The Master Trust Bank of Japan, Limited (trust account)	2,696	3.51
The Dai-ichi Life Insurance Company, Limited	2,455	3.20
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,775	2.31
Tohoku Electric Power Co., Ltd	1,695	2.21
Japan Trustee Services Bank, Limited (trust account 9)	1,612	2.10
Aioi Nissay Dowa Insurance Co., Ltd.	1,545	2.01

Note: The Bank owned 1,899 thousand shares of treasury stock as of March 31, 2018, which is excluded from the major stockholders listed above.

Service Network

As of July 31, 2018



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