

ANNUAL REPORT

YEAR ENDED March 31, 2019

2019



The Akita Bank, Ltd.

Profile

Since its establishment in 1879, The Akita Bank, Ltd., has worked diligently to extend comprehensive financial services geared to the funding requirements of clients in Akita Prefecture. These efforts are underpinned by a philosophy that seeks to contribute to regional prosperity and help the Bank achieve growth as a financial institution in tune with the economic development of the community. The Akita Bank Group, which comprises the Bank and five consolidated subsidiaries, maintains a full line of financial services and provides guarantee and leasing services hinging on the banking business. Several issues that characterize our operating environment are expanding in scope and taking on a greater urgency in terms of management responses. The key priority is well-balanced approach to expand the profitability of the Bank, and to secure common interest of regional clients. Based on the current medium-term management plan, Kachi Kyoso - Grow with Our Community -, the Bank will execute its role as a regional bank, which its network covers the area in eastern Japan and expand our financial services including international operations emphasizing relations with regional clients.

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In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ materially from those anticipated in these statements.

Consolidated Financial Highlight

The Akita Bank, Ltd. and subsidiaries
As of and for the years ended March 31, 2019 and 2018

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
| For the years ended March 31 | 2019 | 2018 | 2019 |
| Total income | ¥45,173 | ¥47,492 | \$407,000 |
| Total expenses | 39,112 | 40,737 | 352,392 |
| Income before income taxes | 6,061 | 6,754 | 54,608 |
| Net income attributable to owners of parent | 4,142 | 4,733 | 37,318 |

| | Yen | U.S. dollars (Note 1) |
|----------------------|---------|-----------------------|
| Net income per share | ¥230.77 | \$2.07 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|------------|---------------------------------------|
| As of March 31 | 2019 | 2018 | 2019 |
| Total assets | ¥3,024,615 | ¥3,146,827 | \$27,251,238 |
| Trading account securities and securities | 670,767 | 795,977 | 6,043,490 |
| Loans and bills discounted | 1,667,321 | 1,672,607 | 15,022,263 |
| Deposits | 2,574,268 | 2,545,808 | 23,193,693 |
| Total net assets | 178,393 | 178,509 | 1,607,288 |

Notes: (1) U.S. dollar amounts are translated, for convenience only, at ¥110.99 = U.S.\$1.00, the exchange rate prevailing as of March 31, 2019.
 (2) Capital adequacy ratio stood at 11.49% and 11.24% as of March 31, 2019 and 2018, respectively, in accordance with guidelines established by the Ministry of Finance and the Financial Services Agency.
 (3) Common shares were consolidated at the rate of 1 per 10, on October 1, 2017. It is assumed that the share consolidation was carried out at the beginning of previous fiscal year.

Consolidated Five-Year Summary

The Akita Bank, Ltd. and subsidiaries
For the years ended March 31

| | Millions of yen | | | | |
|---|-----------------|---------|---------|---------|---------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Total income | ¥45,173 | ¥47,492 | ¥47,465 | ¥56,331 | ¥48,063 |
| Net income attributable to owners of parent | 4,142 | 4,733 | 4,741 | 6,578 | 6,916 |

| | Yen | | | | |
|----------------------|---------|---------|---------|--------|--------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Net income per share | ¥230.77 | ¥263.65 | ¥261.26 | ¥35.82 | ¥37.27 |

| | Percent | | | | |
|-------------------------------|---------|-------|-------|-------|-------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Income ratio | | | | | |
| Net income to total assets | 0.13 | 0.15 | 0.15 | 0.21 | 0.23 |
| Net income to owned capital | 2.33 | 2.72 | 2.78 | 3.87 | 4.40 |
| Capital adequacy ratio | | | | | |
| Domestic guidelines | 11.49 | 11.24 | 11.55 | 12.04 | 11.96 |

Notes: (1) The Bank's capital adequacy ratio and net income to owned capital ratio are calculated in accordance with guidelines established by the Ministry of Finance and the Financial Services Agency.

(2) Common shares were consolidated at the rate of 1 per 10, on October 1, 2017. It is assumed that the share consolidation was carried out at the beginning of fiscal year 2016.

Consolidated Balance Sheets

The Akita Bank, Ltd. and subsidiaries
As of March 31, 2019 and 2018

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-------------------|-------------------|---------------------------------------|
| | 2019 | 2018 | 2019 |
| ASSETS | | | |
| Cash and due from banks (Note 37) | ¥ 595,933 | ¥ 571,797 | \$ 5,369,249 |
| Call loans and bills bought | 1,480 | 18,382 | 13,334 |
| Monetary claims bought | 8,182 | 7,909 | 73,718 |
| Trading account securities (Note 4) | 536 | 645 | 4,829 |
| Securities (Notes 5 and 12) | 670,231 | 795,331 | 6,038,661 |
| Loans and bills discounted (Note 6) | 1,667,321 | 1,672,607 | 15,022,263 |
| Foreign exchanges (Note 7) | 1,471 | 2,433 | 13,253 |
| Other assets (Notes 8 and 12) | 57,808 | 56,674 | 520,839 |
| Premises and equipment (Notes 9 and 30) | 20,617 | 20,403 | 185,755 |
| Intangible assets (Note 10) | 1,737 | 1,204 | 15,650 |
| Net defined benefit asset (Note 19) | 2,811 | 3,098 | 25,326 |
| Deferred tax assets (Note 14) | 344 | 360 | 3,099 |
| Customers' liabilities for acceptances and guarantees (Note 13) | 8,333 | 8,089 | 75,078 |
| Reserve for possible loan losses (Note 6) | (12,193) | (12,109) | (109,856) |
| Reserve for investment losses | (0) | (0) | (0) |
| Total assets | ¥3,024,615 | ¥3,146,827 | \$27,251,238 |

See notes to consolidated financial statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-------------------|-------------------|---------------------------------------|
| | 2019 | 2018 | 2019 |
| LIABILITIES | | | |
| Deposits (Notes 12 and 15) | ¥2,574,268 | ¥2,545,808 | \$23,193,693 |
| Negotiable certificates of deposit | 94,074 | 141,400 | 847,589 |
| Call money and bills sold | 11,999 | 35,499 | 108,108 |
| Payables under securities lending transactions (Note 12) | 45,913 | 124,528 | 413,667 |
| Borrowed money (Notes 12 and 16) | 83,799 | 85,219 | 755,013 |
| Foreign exchanges (Note 17) | 270 | 45 | 2,432 |
| Other liabilities (Note 18) | 12,279 | 11,166 | 110,631 |
| Reserve for directors' bonuses | 20 | 20 | 180 |
| Net defined benefit liability (Note 19) | 2,666 | 2,562 | 24,020 |
| Reserve for directors' retirement benefits | 21 | 18 | 189 |
| Reserve for reimbursement of dormant deposits | 639 | 615 | 5,757 |
| Reserve for contingent losses | 726 | 631 | 6,541 |
| Deferred tax liabilities (Note 14) | 9,609 | 11,092 | 86,575 |
| Deferred tax liability for land revaluation (Note 20) | 1,598 | 1,621 | 14,397 |
| Acceptances and guarantees (Note 13) | 8,333 | 8,089 | 75,078 |
| Total liabilities | ¥2,846,221 | ¥2,968,318 | \$25,643,940 |
| NET ASSETS | | | |
| Capital stock (Note 34) | 14,100 | 14,100 | 127,038 |
| Capital surplus | 9,212 | 9,212 | 82,998 |
| Retained earnings (Note 36) | 121,664 | 118,729 | 1,096,170 |
| Treasury stock (Note 34) | (509) | (506) | (4,585) |
| Total stockholders' equity | 144,468 | 141,536 | 1,301,630 |
| Valuation difference on available-for-sale securities (Note 21) | 31,452 | 34,224 | 283,376 |
| Deferred losses on hedges | — | (1) | — |
| Land revaluation excess (Note 20) | 2,980 | 3,029 | 26,849 |
| Remeasurements of defined benefit plans (Note 19) | (1,238) | (978) | (11,154) |
| Total accumulated other comprehensive income | 33,194 | 36,274 | 299,071 |
| Stock option rights (Note 35) | 84 | 69 | 756 |
| Non-controlling interests | 646 | 628 | 5,820 |
| Total net assets | 178,393 | 178,509 | 1,607,288 |
| Total liabilities and net assets | ¥3,024,615 | ¥3,146,827 | \$27,251,238 |

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

The Akita Bank, Ltd. and subsidiaries
For the years ended March 31, 2019 and 2018

Thousands of
U.S. dollars (Note 1)

| | 2019 | 2018 | 2019 |
|---|----------------|----------------|-----------------------|
| Income | | | |
| Interest income | | | |
| Interest on loans and discounts | ¥17,035 | ¥17,460 | \$153,482 |
| Interest and dividends on securities | 9,175 | 10,809 | 82,665 |
| Other interest income (Note 22) | 313 | 205 | 2,820 |
| Fees and commissions (Note 23) | 6,896 | 6,517 | 62,131 |
| Other operating income (Note 24) | 8,072 | 8,975 | 72,727 |
| Other income (Note 25) | 3,679 | 3,524 | 33,147 |
| Total income | 45,173 | 47,492 | 407,000 |
| Expenses | | | |
| Interest expenses | | | |
| Interest on deposits | 562 | 689 | 5,063 |
| Interest on borrowings, call money and bills sold | 651 | 782 | 5,865 |
| Other interest expenses (Note 26) | 266 | 259 | 2,396 |
| Fees and commissions (Note 27) | 2,473 | 2,439 | 22,281 |
| Other operating expenses (Note 28) | 8,705 | 10,513 | 78,430 |
| General and administrative expenses | 24,070 | 24,515 | 216,866 |
| Other expenses (Notes 29 and 30) | 2,382 | 1,537 | 21,461 |
| Total expenses | 39,112 | 40,737 | 352,392 |
| Income before income taxes | 6,061 | 6,754 | 54,608 |
| Income taxes (Note 14) | | | |
| Current | 2,216 | 1,908 | 19,965 |
| Deferred | (312) | (779) | (2,811) |
| Net income | 4,157 | 5,625 | 37,453 |
| Net income attributable to non-controlling interests | 14 | 892 | 126 |
| Net income attributable to owners of parent | ¥ 4,142 | ¥ 4,733 | \$ 37,318 |
| Net income | ¥ 4,157 | ¥ 5,625 | \$ 37,453 |
| Other comprehensive income (Note 31) | | | |
| Valuation difference on available-for-sale securities | (2,769) | 1,503 | (24,948) |
| Deferred gains on hedges | 1 | 37 | 9 |
| Remeasurements of defined benefit plans | (260) | 890 | (2,342) |
| Total other comprehensive income | (3,027) | 2,431 | (27,272) |
| Comprehensive income | ¥ 1,129 | ¥ 8,057 | \$ 10,172 |
| Comprehensive income attributable to: | | | |
| Owners of parent | ¥ 1,111 | ¥ 7,109 | \$ 10,009 |
| Non-controlling interests | 17 | 948 | 153 |
| | Yen | | U.S. dollars (Note 1) |
| Net income per share (Note 40) | ¥230.77 | ¥263.65 | \$2.07 |

Notes: (1) See notes to consolidated financial statements.

(2) Common shares were consolidated at the rate of 1 per 10, on October 1, 2017. It is assumed that the share consolidation was carried out at the beginning of previous fiscal year.

Consolidated Statements of Changes in Net Assets

The Akita Bank, Ltd. and subsidiaries
For the years ended March 31, 2019 and 2018

| | Millions of yen | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------|
| | Stockholders' equity | | | | Total |
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | |
| Balance at March 31, 2017 | ¥14,100 | ¥6,271 | ¥115,214 | ¥(515) | ¥135,070 |
| Changes of items during the period | | | | | |
| Dividends from surplus | — | — | (1,256) | — | (1,256) |
| Net income attributable to owners of parent | — | — | 4,733 | — | 4,733 |
| Additional purchase of stock in subsidiary | — | 2,940 | — | — | 2,940 |
| Purchase of treasury stock | — | — | — | (10) | (10) |
| Disposal of treasury stock | — | — | (4) | 20 | 16 |
| Reversal of revaluation reserve for land | — | — | 43 | — | 43 |
| Net changes of Items other than stockholders' equity | — | — | — | — | — |
| Total changes of items during the period | — | 2,940 | 3,515 | 9 | 6,465 |
| Balance at March 31, 2018 | ¥14,100 | ¥9,212 | ¥118,729 | ¥(506) | ¥141,536 |
| Changes of items during the period | | | | | |
| Dividends from surplus | — | — | (1,256) | — | (1,256) |
| Net income attributable to owners of parent | — | — | 4,142 | — | 4,142 |
| Purchase of treasury stock | — | — | — | (3) | (3) |
| Disposal of treasury stock | — | — | (0) | 0 | 0 |
| Reversal of revaluation reserve for land | — | — | 49 | — | 49 |
| Net changes of Items other than stockholders' equity | — | — | — | — | — |
| Total changes of items during the period | — | — | 2,934 | (2) | 2,932 |
| Balance at March 31, 2019 | ¥14,100 | ¥9,212 | ¥121,664 | ¥(509) | ¥144,468 |

| | Millions of yen | | | | | | | |
|--|---|---------------------------|-------------------------|---|---------|---------------------|---------------------------|------------------|
| | Accumulated other comprehensive income | | | | | Stock option rights | Non-controlling interests | Total net assets |
| | Valuation difference on available-for-sale securities | Deferred losses on hedges | Land revaluation excess | Remeasurements of defined benefit plans | Total | | | |
| Balance at March 31, 2017 | ¥32,776 | ¥(39) | ¥3,073 | ¥(1,868) | ¥33,941 | ¥70 | ¥6,176 | ¥175,258 |
| Changes of items during the period | | | | | | | | |
| Dividends from surplus | — | — | — | — | — | — | — | (1,256) |
| Net income attributable to owners of parent | — | — | — | — | — | — | — | 4,733 |
| Additional purchase of stock in subsidiary | — | — | — | — | — | — | — | 2,940 |
| Purchase of treasury stock | — | — | — | — | — | — | — | (10) |
| Disposal of treasury stock | — | — | — | — | — | — | — | 16 |
| Reversal of revaluation reserve for land | — | — | — | — | — | — | — | 43 |
| Net changes of Items other than stockholders' equity | 1,448 | 37 | (43) | 890 | 2,333 | (0) | (5,547) | (3,214) |
| Total changes of items during the period | 1,448 | 37 | (43) | 890 | 2,333 | (0) | (5,547) | 3,251 |
| Balance at March 31, 2018 | ¥34,224 | ¥ (1) | ¥3,029 | ¥ (978) | ¥36,274 | ¥69 | ¥ 628 | ¥178,509 |
| Changes of items during the period | | | | | | | | |
| Dividends from surplus | — | — | — | — | — | — | — | (1,256) |
| Net income attributable to owners of parent | — | — | — | — | — | — | — | 4,142 |
| Purchase of treasury stock | — | — | — | — | — | — | — | (3) |
| Disposal of treasury stock | — | — | — | — | — | — | — | 0 |
| Reversal of revaluation reserve for land | — | — | — | — | — | — | — | 49 |
| Net changes of Items other than stockholders' equity | (2,772) | 1 | (49) | (260) | (3,080) | 14 | 17 | (3,048) |
| Total changes of items during the period | (2,772) | 1 | (49) | (260) | (3,080) | 14 | 17 | (116) |
| Balance at March 31, 2019 | ¥31,452 | — | ¥2,980 | ¥(1,238) | ¥33,194 | ¥84 | ¥ 646 | ¥178,393 |

See notes to consolidated financial statements.

| | Thousands of U.S. dollars (Note 1) | | | | |
|--|------------------------------------|-----------------|-------------------|----------------|-------------|
| | Stockholders' equity | | | | |
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total |
| Balance at March 31, 2018 | \$127,038 | \$82,998 | \$1,069,727 | \$(4,558) | \$1,275,213 |
| Changes of items during the period | | | | | |
| Dividends from surplus | — | — | (11,316) | — | (11,316) |
| Net income attributable to owners of parent | — | — | 37,318 | — | 37,318 |
| Purchase of treasury stock | — | — | — | (27) | (27) |
| Disposal of treasury stock | — | — | (0) | 0 | 0 |
| Reversal of revaluation reserve for land | — | — | 441 | — | 441 |
| Net changes of Items other than stockholders' equity | — | — | — | — | — |
| Total changes of items during the period | — | — | 26,434 | (18) | 26,416 |
| Balance at March 31, 2019 | \$127,038 | \$82,998 | \$1,096,170 | \$(4,585) | \$1,301,630 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | |
|--|---|---------------------------|-------------------------|---|-----------|---------------------|---------------------------|------------------|
| | Accumulated other comprehensive income | | | | | | | |
| | Valuation difference on available-for-sale securities | Deferred losses on hedges | Land revaluation excess | Remeasurements of defined benefit plans | Total | Stock option rights | Non-controlling interests | Total net assets |
| Balance at March 31, 2018 | \$308,352 | \$(9) | \$27,290 | \$ (8,811) | \$326,822 | \$621 | \$5,658 | \$1,608,334 |
| Changes of items during the period | | | | | | | | |
| Dividends from surplus | — | — | — | — | — | — | — | (11,316) |
| Net income attributable to owners of parent | — | — | — | — | — | — | — | 37,318 |
| Purchase of treasury stock | — | — | — | — | — | — | — | (27) |
| Disposal of treasury stock | — | — | — | — | — | — | — | 0 |
| Reversal of revaluation reserve for land | — | — | — | — | — | — | — | 441 |
| Net changes of Items other than stockholders' equity | (24,975) | 9 | (441) | (2,342) | (27,750) | 126 | 153 | (27,461) |
| Total changes of items during the period | (24,975) | 9 | (441) | (2,342) | (27,750) | 126 | 153 | (1,045) |
| Balance at March 31, 2019 | \$283,376 | — | \$26,849 | \$(11,154) | \$299,071 | \$756 | \$5,820 | \$1,607,288 |

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Akita Bank, Ltd. and subsidiaries
For the years ended March 31, 2019 and 2018

Thousands of
U.S. dollars (Note 1)

| | Millions of yen | | |
|---|-----------------|-----------------|--------------------|
| | 2019 | 2018 | 2019 |
| Cash flows from operating activities | | | |
| Income before income taxes | ¥ 6,061 | ¥ 6,754 | \$ 54,608 |
| Depreciation and amortization | 1,704 | 1,680 | 15,352 |
| Losses on impairment of fixed assets | 170 | 200 | 1,531 |
| Net change in reserve for possible loan losses | 83 | (1,315) | 747 |
| Net change in reserve for investment losses | 0 | (0) | 0 |
| Net change in net defined benefit liability | (62) | (2,149) | (558) |
| Net change in reserve for directors' retirement benefits | 3 | (0) | 27 |
| Net change in reserve for reimbursement of dormant deposits | 24 | (26) | 216 |
| Net change in reserve for contingent losses | 94 | (2) | 846 |
| Gain on fund management | (26,524) | (28,475) | (238,976) |
| Financing expenses | 1,480 | 1,731 | 13,334 |
| Net (gain) loss related to securities transactions | (1,214) | (447) | (10,937) |
| Net (gain) loss on money held in trust | (42) | 115 | (378) |
| Net foreign exchange (gains) losses | (958) | 3,999 | (8,631) |
| Net loss on disposal of premises and equipment | 81 | 149 | 729 |
| Net change in loans and bills discounted | 4,683 | (37,005) | 42,192 |
| Net change in deposits | 28,460 | 91,442 | 256,419 |
| Net change in negotiable certificates of deposit | (47,326) | 4,034 | (426,398) |
| Net change in borrowed money (excluding subordinated borrowing) | (1,419) | 39,927 | (12,784) |
| Net change in due from banks (excluding deposit paid to Bank of Japan) | (348) | 392 | (3,135) |
| Net change in call loans | 16,623 | (4,119) | 149,770 |
| Net change in call money | (23,499) | 5,413 | (211,721) |
| Net change in payable under securities lending transactions | (78,614) | 21,847 | (708,298) |
| Net change in foreign exchanges assets | 962 | 2,713 | 8,667 |
| Net change in foreign exchanges liabilities | 225 | 36 | 2,027 |
| Proceeds from fund management | 27,262 | 29,129 | 245,625 |
| Payments for finance | (1,651) | (1,804) | (14,875) |
| Net change in trading account securities | 115 | 6 | 1,036 |
| Other, net | 814 | (34,451) | 7,333 |
| Sub-total | (92,810) | 99,778 | (836,201) |
| Income taxes paid | (1,868) | (1,158) | (16,830) |
| Net cash provided by (used in) operating activities | (94,679) | 98,620 | (853,040) |
| Cash flows from investing activities | | | |
| Purchases of securities | (271,433) | (316,266) | (2,445,562) |
| Proceeds from sales of securities | 225,975 | 252,383 | 2,035,994 |
| Proceeds from redemption of securities | 167,883 | 241,596 | 1,512,595 |
| Increase in money held in trust | (1,000) | (1,000) | (9,009) |
| Decrease in money held in trust | 1,000 | 1,000 | 9,009 |
| Purchases of premises and equipment | (1,675) | (1,312) | (15,091) |
| Proceeds from sales of premises and equipment | 90 | 72 | 810 |
| Payments for retirement of premises and equipment | (39) | (110) | (351) |
| Purchases of intangible fixed assets | (1,077) | (275) | (9,703) |
| Net cash provided by (used in) investing activities | 119,722 | 176,087 | 1,078,673 |
| Cash flows from financing activities | | | |
| Purchases of treasury stock | (3) | (10) | (27) |
| Proceeds from sales of treasury stock | 0 | 0 | 0 |
| Cash dividends paid | (1,256) | (1,256) | (11,316) |
| Cash dividends paid to non-controlling interests | (0) | (9) | (0) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | — | (3,545) | — |
| Net cash provided by (used in) financing activities | (1,260) | (4,821) | (11,352) |
| Effect of exchange rate change on cash and cash equivalents | 3 | (4) | 27 |
| Net increase (decrease) in cash and cash equivalents | 23,786 | 269,882 | 214,307 |
| Cash and cash equivalents at beginning of year | 565,635 | 295,753 | 5,096,269 |
| Cash and cash equivalents at end of year (Note 37) | ¥589,422 | ¥565,635 | \$5,310,586 |

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Akita Bank, Ltd. and subsidiaries

As of and for the years ended March 31, 2019 and 2018

1. Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of The Akita Bank, Ltd. (the "Bank") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Bank as required by the Financial Instruments and Exchange Act of Japan, and the original consolidated financial statements in Japanese language are audited by Deloitte Touche Tohmatsu LLC from this consolidated fiscal year. In the previous fiscal year, accounting auditor was Ernst & Young ShinNihon LLC.

In preparing these consolidated financial statements in English language, 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. The amount of net income attributable to owners of parent in these consolidated financial statements after such modification is the same as that in the audited original consolidated financial statements issued domestically.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, as a matter of arithmetic computation only, at the rate of ¥110.99 to U.S.\$1.00, the prevailing exchange rate at March 31, 2019. 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.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. Principles of Consolidation

Consolidated subsidiaries

The consolidated financial statements include the accounts of the Bank and five of its subsidiaries, including The Akita Guarantee Service Ltd. and others, whose fiscal year end is consistent to that of the Bank. All significant intercompany transactions and accounts have been eliminated in consolidation. The consolidated financial statements do not include the accounts of a limited partnership due to insignificance.

3. Summary of Significant Accounting Policies

(a) Trading account securities

Trading account securities are stated at fair value and the cost of securities sold is determined by the moving average method.

(b) Securities

Securities are classified, and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost computed using the straight-line method and (2) available-for-sale securities are stated at fair value with unrealized

holding gains and losses, net of applicable taxes, reported as valuation difference on available-for-sale securities in a separate component of net assets. Securities whose fair values cannot be reliably estimated are stated at cost determined using the moving-average cost method.

Securities held in money trusts, of which funds are principally invested in securities and are separately managed from other beneficiaries, are carried at fair value with unrealized holding gains and losses included in earnings.

For available-for-sale securities, in cases where the fair value has fallen significantly from the acquisition price and it is considered there is little likelihood of recovery to the acquisition price level, the Bank considers recognizing a loss on impairment. The Bank considers the decline to be significant when the fair value of the available-for-sale securities declines more than 30% of the carrying amount. When the fair value of the available-for-sale securities declines 50% or more, the securities are stated at fair value on the consolidated balance sheets and the difference between the fair value and the acquisition price is recognized as a loss. When the fair value of the available-for-sale securities declines from 30% to less than 50% of the carrying amount, the Bank recognizes a loss based on the recoverability of the securities after examining the trends of market prices and the financial position of the issuers.

(c) Derivatives

Derivatives are carried at fair value which is based on market quotation.

(d) Premises and equipment

The Bank's depreciation policies are in line with the Corporation Tax Act of Japan. Depreciation is charged using the declining balance method over the estimated useful lives of respective assets. The straight-line method is applied to buildings acquired on or after April 1, 1998 and fixtures and structures acquired on or after April 1, 2016.

The estimated useful lives of major items are as follows:

| | |
|------------|------------|
| Buildings: | 3–50 years |
| Others: | 3–20 years |

Depreciation of premises and equipment owned by consolidated subsidiaries is predominantly charged using the declining balance method over the estimated useful lives of respective assets.

(e) Intangible assets

Intangible assets are amortized using the straight-line method. Cost of software held for internal-use is amortized over its estimated useful life (mainly 5 years).

(f) Leased assets

Leased assets under finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the lease periods as the useful life of assets with zero residual value. The Bank leases mainly peripheral devices and automobiles, included in premises and equipment, and software, included in intangible assets.

(g) Reserve for possible loan losses

Reserve for possible loan losses is provided as follows, in conformity with the internal policies regarding write-offs and reserves for possible loan losses.

The Bank has established a credit rating system in accordance with the provisions set forth in the Guidelines issued by the Japanese Institute of Certified Public Accountants under which customers are classified into five categories for self-assessment purposes: "Bankrupt Obligors," "Substantially Bankrupt Obligors," "Potential Bankrupt Obligors," "Cautious Obligors" and "Normal Obligors."

For loans to Bankrupt and Substantially Bankrupt Obligors, the Bank has

provided a reserve for possible loan losses based on the amount claimed, net of the expected recovery amount from collateral and guarantee. For loans to Potential Bankrupt Obligors, the Bank has provided a reserve at an amount deemed necessary to cover possible losses which are estimated based on the expected recovery amount from collateral and guarantee as well as other factors of solvency, including the Obligors' future cash flows.

For loans to all other obligors, reserves are maintained at rate derived from default experiences for a certain period in the past.

The Bank applied the DCF method to estimate a reserve for possible loan losses, if future cash flows of principal and interest are reasonably estimated, for (1) loans to Potential Bankrupt Obligors, where the loan balance, net of the amount secured by collateral, exceeds a certain amount and (2) loans to obligors with restructured loans and their loan balance exceeds a certain amount. Thus, the difference between the amount calculated by discounting future cash flows of principal and interest using the original interest rate of respective loans and its book value is accounted for as reserve for loan losses.

The collectability of all loans is assessed by branches and the credit supervisory division, with an internal audit by the asset review and inspection division, in accordance with the Bank's policies and rules for the self-assessment of asset quality.

The consolidated subsidiaries calculate their reserve for possible loan losses as the amount deemed necessary to cover possible losses, which is estimated based on the actual historical loan loss experience in addition to amounts deemed necessary based on estimation of the collectability of specific loans.

(h) Reserve for investment losses

Reserve for investment losses is provided for possible losses at the estimated amounts based on the financial position of securities' issuers.

(i) Reserve for employees' retirement benefits

For the calculation of retirement benefit obligation, the Bank applies the benefit formula basis as the method of attributing expected benefit to period. Unrecognized net actuarial gains and losses are amortized using the straight-line method over the average remaining service period of employees (10 years), commencing from the next fiscal year after incurrence.

The consolidated subsidiaries apply a simplified method to calculate net defined benefit liability and retirement benefit cost.

(j) Reserve for directors' bonuses

Reserve for directors' bonuses is provided as the amount of the estimated bonuses which are attributable to each fiscal year.

(k) Reserve for retirement benefits to directors

Consolidated subsidiaries of the Bank accrue 100% of obligations for their retirement benefits according to the internal rules, which are based under the assumption that all directors terminate their services at the year end.

(l) Reserve for reimbursement of dormant deposits

Reserve for the reimbursement of dormant deposits which were de-recognized as liabilities under certain conditions is provided for possible losses on the future claims.

(m) Reserve for contingent losses

The Bank provides a reserve for future payments under the Responsibility-sharing System with Credit Guarantee Corporations, at an amount estimated based on historical experience.

(n) Foreign currency transaction

Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

(o) Hedge accounting

(1) Hedge against interest rate risk

For interest rate derivatives to mitigate the interest rate risks arising from various financial assets and liabilities, the Bank applies the deferred hedge accounting based on the rules prescribed in the JICPA Industry Audit Committee Report No. 24, the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (February 13, 2002). Under these rules, hedge effectiveness is assessed by specifying hedged items (such as securities and loans) and the corresponding hedging instruments (such as interest rate swaps).

(2) Hedge against foreign exchange risk

For foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies, the Bank applies the deferred method of hedge accounting based on the rules prescribed in the JICPA Industry Audit Committee Report No. 25, the "Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry" (July 29, 2002). Hedge effectiveness is assessed for designating currency swaps and foreign exchange swaps, etc., which offset foreign exchange risks of claim and debt denominated in foreign currency as hedging instruments, by verifying the correlation between the hedged items and the foreign exchange positions of hedging instruments.

(p) Consumption taxes

Transactions are recorded exclusive of consumption taxes.

(q) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and deposit with the Bank of Japan.

(r) Income taxes

Deferred tax assets and liabilities are recorded based on the temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using the enacted tax rates in effect for the year in which the temporary differences are expected to be settled. Deferred tax assets are also recognized for the estimated future tax effects attributable to the operating loss carried forward. A valuation allowance is recorded to reduce deferred tax assets if it is more likely than not that some or all the deferred tax assets will not be realized.

4. Trading Account Securities

Trading account securities as of March 31, 2019 and 2018 consisted of Japanese government bonds and local government bonds as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Amount in the balance sheet | ¥536 | ¥645 | \$4,829 |
| Valuation gain (loss) included in income for the year | 3 | (0) | 27 |

5. Securities

Securities as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Japanese government bonds | ¥126,902 | ¥195,444 | \$1,143,364 |
| Local government bonds | 115,045 | 62,829 | 1,036,534 |
| Corporate bonds | 220,727 | 280,891 | 1,988,710 |
| Share stocks | 55,527 | 64,224 | 500,288 |
| Other securities | 152,028 | 191,941 | 1,369,745 |
| Total | ¥670,231 | ¥795,331 | \$6,038,661 |

Fair value and valuation differences of securities as of March 31, 2019 and 2018 and other related information are stated below.

(a) Held-to-maturity debt securities

The Bank and its consolidated subsidiaries' investments in held-to-maturity debt securities as of March 31, 2019 and 2018 were summarized as follows:

| | Millions of yen | | |
|---------------------------|------------------------------------|------------|------------|
| | 2019 | | |
| | Carrying value | Fair value | Difference |
| Japanese government bonds | ¥599 | ¥610 | ¥11 |
| | Millions of yen | | |
| | 2018 | | |
| | Carrying value | Fair value | Difference |
| Japanese government bonds | ¥598 | ¥616 | ¥18 |
| | Thousands of U.S. dollars (Note 1) | | |
| | 2019 | | |
| | Carrying value | Fair value | Difference |
| Japanese government bonds | \$5,396 | \$5,495 | \$99 |

(b) Available-for-sale securities

The Bank and its consolidated subsidiaries' investments in available-for-sale securities as of March 31, 2019 and 2018 were summarized in the following tables. For presentation purposes, the tables also include: (i) trading account securities, (ii) some negotiable certificates of deposits included in cash and deposits and (iii) a part of securities included in monetary claims bought on the consolidated balance sheets, but exclude the stocks of the Bank's subsidiaries and affiliates.

| | Millions of yen | | |
|------------------------------------|-----------------|----------|------------|
| | 2019 | | |
| | Carrying value | Cost | Difference |
| Carrying value exceeding cost: | | | |
| Stocks | ¥ 50,961 | ¥ 22,506 | ¥28,454 |
| Bonds: | | | |
| Japanese government bonds | 126,303 | 122,605 | 3,698 |
| Local government bonds | 115,045 | 113,099 | 1,946 |
| Corporate bonds | 212,324 | 209,582 | 2,741 |
| Bonds total | 453,673 | 445,286 | 8,386 |
| Others | 100,510 | 91,369 | 9,140 |
| Subtotal | 605,144 | 559,162 | 45,982 |
| Carrying value not exceeding cost: | | | |
| Stocks | 2,714 | 3,210 | (495) |
| Bonds: | | | |
| Corporate bonds | 8,403 | 8,418 | (15) |
| Bonds total | 8,403 | 8,418 | (15) |
| Others | 47,468 | 47,888 | (419) |
| Subtotal | 58,586 | 59,517 | (930) |
| Total | ¥663,731 | ¥618,680 | ¥45,051 |
| | Millions of yen | | |
| | 2018 | | |
| | Carrying value | Cost | Difference |
| Carrying value exceeding cost: | | | |
| Stocks | ¥ 60,818 | ¥ 28,184 | ¥32,634 |
| Bonds: | | | |
| Japanese government bonds | 194,845 | 188,161 | 6,684 |
| Local government bonds | 48,602 | 48,214 | 388 |
| Corporate bonds | 250,240 | 246,764 | 3,476 |
| Bonds total | 493,688 | 483,139 | 10,548 |
| Others | 104,307 | 96,920 | 7,387 |
| Subtotal | 658,814 | 608,244 | 50,570 |
| Carrying value not exceeding cost: | | | |
| Stocks | 1,516 | 1,795 | (279) |
| Bonds: | | | |
| Local government bonds | 14,227 | 14,300 | (72) |
| Corporate bonds | 30,651 | 30,740 | (88) |
| Bonds total | 44,879 | 45,040 | (161) |
| Others | 85,518 | 86,764 | (1,245) |
| Subtotal | 131,913 | 133,599 | (1,686) |
| Total | ¥790,728 | ¥741,844 | ¥48,884 |

| Thousands of U.S. dollars (Note 1) | | | |
|------------------------------------|----------------|-------------|------------|
| 2019 | | | |
| | Carrying value | Cost | Difference |
| Carrying value exceeding cost: | | | |
| Stocks | \$ 459,149 | \$ 202,775 | \$256,365 |
| Bonds: | | | |
| Japanese government bonds | 1,137,967 | 1,104,649 | 33,318 |
| Local government bonds | 1,036,534 | 1,019,001 | 17,533 |
| Corporate bonds | 1,913,001 | 1,888,296 | 24,695 |
| Bonds total | 4,087,512 | 4,011,947 | 75,556 |
| Others | 905,577 | 823,218 | 82,349 |
| Subtotal | 5,452,238 | 5,037,949 | 414,289 |
| Carrying value not exceeding cost: | | | |
| Stocks | 24,452 | 28,921 | (4,459) |
| Bonds: | | | |
| Corporate bonds | 75,709 | 75,844 | (135) |
| Bonds total | 75,709 | 75,844 | (135) |
| Others | 427,678 | 431,462 | (3,775) |
| Subtotal | 527,849 | 536,237 | (8,379) |
| Total | \$5,980,097 | \$5,574,195 | \$405,901 |

(c) Available-for-sale securities sold

Available-for-sale securities sold and the gains and losses on sale of those securities for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Proceeds from sales | ¥228,031 | ¥249,189 | \$2,054,518 |
| Gains | 6,095 | 5,427 | 54,914 |
| Losses | (1,464) | (2,665) | (13,190) |

There were no investment securities which were impaired for the year ended March 31, 2019 and 2018.

6. Loans and Bills Discounted

(a) Loans and bills discounted as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|------------------|-----------------|------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Bills discounted | ¥ 4,687 | ¥ 5,684 | \$ 42,229 |
| Loans on notes | 35,308 | 39,909 | 318,118 |
| Loans on deeds | 1,450,735 | 1,457,960 | 13,070,862 |
| Overdrafts | 176,590 | 169,052 | 1,591,044 |
| Total | ¥1,667,321 | ¥1,672,607 | \$15,022,263 |

(b) Non-performing loans

In accordance with the disclosure requirements under the Rules for Bank Accounting in Japan, the following non-performing loans are included in the balance of loans and bills discounted at March 31, 2019 and 2018.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Loans in bankruptcy and dishonored bills (*1) | ¥ 2,392 | ¥ 2,375 | \$ 21,551 |
| Delinquent loans (*2) | 31,629 | 30,495 | 284,971 |
| Loans past due for three months or more (*3) | — | — | — |
| Restructured loans (*4) | 2,697 | 392 | 24,299 |
| Total | ¥36,719 | ¥33,262 | \$330,831 |

*1. "Loans in bankruptcy and dishonored bills" consist of non-accrual loans on which the payment of principal or interest is well past due or where there is no prospect of recovery of the principal or interest from the borrower (excluding the written-down portion of the loan). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Order for Enforcement of Corporation Tax Act (Cabinet Order No. 97 of 1965).

*2. "Delinquent loans" are non-accrual loans, which do not fall under the classifications of loans in bankruptcy and dishonored bills, or financial assistance loans where interest has been suspended for the purpose of business rehabilitation or debtor assistance.

*3. "Loans past due for three months or more" are classified in this category when three months or more have elapsed since the due date with no payment of principal or interest. Excluded from this balance are the balances of loans in bankruptcy and dishonored bills and the balances of delinquent loans.

*4. "Restructured loans" include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by revising terms of repayment favorable to the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, debt waiver, etc.). Excluded from this balance are the balances of loans in bankruptcy and dishonored bills, the balances of delinquent loans and the balances of loans past due for three months or more.

(c) Bills discounted

Bills discounted are accounted for as financial transactions in accordance with the JICPA Industry Audit Committee Report No. 24, the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (February 13, 2002). The Bank has the rights to sell or pledge commercial bills discounted and foreign exchange bills bought without restrictions. Their total face value as of March 31, 2019 and 2018 were ¥4,687 million (U.S.\$42,229 thousand) and ¥5,684 million, respectively.

(d) Contracts of overdraft facilities and loan commitment limits

Contracts of overdraft facilities and loan commitment limits are the contracts detailing that the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Unused balance within the limits | ¥621,651 | ¥603,683 | \$5,600,964 |
| Of which, the term of contracts is less than one year or revocable at any time | 597,003 | 576,026 | 5,378,889 |

Since many of these commitments expire without being utilized, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions such that the Bank can refuse customers' applications for loans and can decrease the contract limits as they see with proper reasons (e.g., changes in financial situations, deterioration of customers' creditworthiness). At the inception of a contract the Bank obtains real estate, securities, etc. as collateral, if considered necessary. Subsequently, the Bank performs periodic reviews of customers' business results based on internal rules, and takes necessary measures to reconsider conditions in contracts and/or the requirement for additional collateral and guarantees.

7. Foreign Exchange Assets

Foreign exchange assets as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-------------------------------|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Due from foreign banks | ¥1,471 | ¥2,433 | \$13,253 |
| Foreign exchange bills bought | 0 | 0 | 0 |
| Total | ¥1,471 | ¥2,433 | \$13,253 |

8. Other Assets

Other assets as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Lease receivables and lease investment assets | ¥ 9,083 | ¥ 8,693 | \$ 81,836 |
| Prepaid expenses | 18 | 17 | 162 |
| Accrued income | 5,072 | 5,311 | 45,697 |
| Futures margins | 359 | 103 | 3,234 |
| Derivatives | 44 | 145 | 396 |
| Cash collateral paid for financial instruments | — | 30 | — |
| Others | 43,230 | 42,372 | 389,494 |
| Total | ¥57,808 | ¥56,674 | \$520,839 |

9. Premises and Equipment

Premises and equipment as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--------------------------|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Buildings | ¥ 7,448 | ¥ 7,755 | \$ 67,105 |
| Land | 10,702 | 10,748 | 96,423 |
| Leased assets | 2 | 3 | 18 |
| Construction in Progress | 110 | 20 | 991 |
| Others | 2,353 | 1,874 | 21,200 |
| Total | ¥20,617 | ¥20,403 | \$185,755 |

The accumulated depreciation of premises and equipment as of March 31, 2019 and 2018 amounted to ¥37,715 million (U.S.\$339,805 thousand) and ¥33,344 million, respectively.

Deferred gain on real estate (Asshuku-kicho) deductible for tax purpose amounted to ¥1,948 million (U.S.\$17,551 thousand) and ¥1,963 million as of March 31, 2019 and 2018, respectively.

10. Intangible Assets

Intangible assets as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|----------|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Software | ¥1,552 | ¥1,012 | \$13,983 |
| Others | 184 | 192 | 1,657 |
| Total | ¥1,737 | ¥1,204 | \$15,650 |

11. Leases

Finance leases

Finance leases that do not transfer ownership

(1) Outline of lease assets

(i) Tangible fixed assets

Vehicle

(ii) Intangible assets

None

(2) Method of depreciation of lease assets

Please refer to Note 3. "Summary of Significant Accounting Policies, (f) Leased assets" in "Notes to Consolidated Financial Statements."

12. Assets Pledged

Assets pledged as collateral as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--------------|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Securities | ¥143,015 | ¥226,509 | \$1,288,539 |
| Other assets | 49 | 51 | 441 |
| Total | ¥143,064 | ¥226,560 | \$1,288,980 |

Liabilities related to above pledged assets as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Deposits | ¥16,307 | ¥ 12,331 | \$146,923 |
| Payables under securities lending transactions | 45,913 | 124,528 | 413,667 |
| Borrowed money | 81,900 | 82,300 | 737,904 |

In addition, the following asset was pledged as collateral for settlements of exchange as of March 31, 2019 and 2018, respectively.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--------------|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Securities | ¥ 5,070 | ¥ 5,073 | \$ 45,679 |
| Other assets | 39,000 | 39,000 | 351,383 |

13. Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for payment of loans from other financial institutions. As a contra account, "Customers' Liabilities for Acceptances and Guarantees" are shown on the assets side, indicating the Bank's right of indemnity from the applicants.

14. Income Taxes

Income taxes applicable to the Bank and consolidated subsidiaries include corporate tax, inhabitants' tax and enterprise tax, which results in a statutory rate of approximately 30.5% and 30.7% for the years ended March 31, 2019 and 2018, respectively.

Significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|-----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Deferred tax assets: | | | |
| Net defined benefit liability | ¥ 2,490 | ¥ 2,384 | \$ 22,434 |
| Reserve for possible loan losses | 3,282 | 3,256 | 29,570 |
| Securities | 493 | 506 | 4,441 |
| Depreciation | 280 | 273 | 2,522 |
| Remeasurements of defined benefit plans | 543 | 429 | 4,892 |
| Others | 1,496 | 1,481 | 13,478 |
| Total deferred tax assets | 8,587 | 8,331 | 77,367 |
| Valuation allowance for the total of deductible temporary differences | (2,574) | — | (23,191) |
| Subtotal valuation allowance | (2,574) | (2,485) | (23,191) |
| Total deferred tax assets, net | 6,013 | 5,845 | 54,176 |
| Deferred tax liabilities: | | | |
| Gain on establishment of the trust for employees' retirement benefits | (1,200) | (2,046) | (10,811) |
| Valuation difference on available-for-sale securities | (13,367) | (14,430) | (120,434) |
| Reserve for advanced depreciation of real estate | (86) | (88) | (774) |
| Others | (624) | (12) | (5,622) |
| Total deferred tax liabilities | (15,279) | (16,578) | (137,661) |
| Net deferred tax assets (liabilities) | ¥ (9,265) | ¥(10,732) | \$ (83,475) |

The following summarizes the amounts shown on the consolidated balance sheets.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------------------|-----------------|-----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Deferred tax assets | ¥ 344 | ¥ 360 | \$ 3,099 |
| Deferred tax liabilities | (9,609) | (11,092) | (86,575) |
| Net deferred tax assets (liabilities) | ¥(9,265) | ¥(10,732) | \$(83,475) |

A reconciliation between the effective income tax rate applied to the consolidated financial statements and the statutory tax rate for the year ended March 31, 2019 and 2018 was as follows:

| | 2019 | 2018 |
|--|--------|--------|
| Statutory tax rate | 30.5 % | 30.7 % |
| (Adjustments) | | |
| Expenses not deductible for income tax purpose | 0.4 | 0.4 |
| Dividend income not included in taxable income | (3.8) | (4.3) |
| Inhabitant tax on per capital basis | 0.7 | 0.6 |
| Change in valuation allowance | 1.5 | (14.2) |
| Others | 2.1 | 3.5 |
| Actual effective tax rate | 31.4 % | 16.7 % |

15. Deposits

An analysis of deposits as of March 31, 2019 and 2018 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------|-----------------|------------|--|
| | 2019 | 2018 | 2019 |
| Current deposits | ¥ 136,063 | ¥ 146,992 | \$ 1,225,903 |
| Ordinary deposits | 1,357,378 | 1,303,606 | 12,229,732 |
| Saving deposits | 41,742 | 41,136 | 376,087 |
| Deposits at notice | 8,724 | 9,390 | 78,601 |
| Time deposits | 1,000,239 | 1,019,576 | 9,011,974 |
| Installment savings | 5 | 10 | 45 |
| Other deposits | 30,115 | 25,095 | 271,330 |
| Total | ¥2,574,268 | ¥2,545,808 | \$23,193,693 |

16. Borrowed Money

Borrowed money as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-----------------------------|-----------------|---------|--|
| | 2019 | 2018 | 2019 |
| Borrowings from other banks | ¥83,799 | ¥85,219 | \$755,013 |

The average interest rates of the loans were 0.010% and 0.016% as of March 31, 2019 and 2018, respectively. The aggregate annual maturities of the loans from banks subsequent to March 31, 2019 were summarized as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|------|--------------------|--|
| 2020 | ¥82,642 | \$744,589 |
| 2021 | 472 | 4,252 |
| 2022 | 320 | 2,883 |
| 2023 | 135 | 1,216 |
| 2024 | 60 | 540 |

17. Foreign Exchanges Liabilities

Foreign exchange liabilities as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--------------------------------|-----------------|------|--|
| | 2019 | 2018 | 2019 |
| Foreign exchange bills sold | ¥ 54 | ¥38 | \$ 486 |
| Foreign exchange bills payable | 216 | 6 | 1,946 |
| Total | ¥270 | ¥45 | \$2,432 |

18. Other Liabilities

Other liabilities as of March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|--|
| | 2019 | 2018 | 2019 |
| Domestic exchange settlement | ¥ 270 | ¥ 128 | \$ 2,432 |
| Income taxes payable | 1,174 | 825 | 10,577 |
| Accrued expenses | 1,981 | 1,761 | 17,848 |
| Unearned income | 2,423 | 2,439 | 21,830 |
| Reserve for interest on installment savings | 0 | 0 | 0 |
| Derivatives | 381 | 164 | 3,432 |
| Lease obligations | 677 | 641 | 6,099 |
| Others | 5,369 | 5,205 | 48,373 |
| Total | ¥12,279 | ¥11,166 | \$110,631 |

19. Reserve for Employees' Retirement Benefits

The Bank and its consolidated subsidiaries have defined benefit plans, i.e., Employees' Pension Fund plan (funded plan), and lump-sum retirement plan (non-funded plan). Under these defined benefit plans, employees are generally entitled to lump-sum payments and/or pension payments, the amounts of which are determined by reference to their basic salary and length of service. Retirement benefit trust is established for the Employees' Pension Fund plan and the lump-sum retirement plan. Some lump-sum retirement plan is substantially the same as funded plan due to the retirement benefit trust.

The Bank has a defined contribution pension plan as well. The amount of contribution required to the defined contribution pension plan was ¥171 million (U.S. \$1,540 thousand) and ¥174 million for the year ended March 31, 2019 and 2018.

(a) Changes in projected benefit obligation for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|---------|--|
| | 2019 | 2018 | 2019 |
| Projected benefit obligation | | | |
| – Beginning balance | ¥25,046 | ¥25,142 | \$225,659 |
| Service cost | 657 | 656 | 5,919 |
| Interest cost | 117 | 136 | 1,054 |
| Actuarial gains and losses arising in the year | 768 | 430 | 6,919 |
| Retirement benefits paid | (1,207) | (1,319) | (10,874) |
| Projected benefit obligation | | | |
| – Ending balance | ¥25,382 | ¥25,046 | \$228,687 |

(b) Changes in plan assets for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Plan assets – Beginning balance | ¥25,581 | ¥22,669 | \$230,480 |
| Expected return on plan assets | 671 | 605 | 6,045 |
| Actuarial gains and losses arising in the year | (162) | 770 | (1,459) |
| Employer's contributions | 141 | 239 | 1,270 |
| Retirement benefits paid | (748) | (746) | (6,739) |
| Establishment of retirement benefit trust | — | 2,000 | — |
| Others | 43 | 44 | 387 |
| Plan assets – Ending balance | ¥25,527 | ¥25,581 | \$229,993 |

(c) Ending balances of projected benefit obligation and plan assets and amounts on the consolidated balance sheets as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Projected benefit obligation under funded plan | ¥25,336 | ¥25,005 | \$228,272 |
| Plan assets | (25,527) | (25,581) | (229,993) |
| | (190) | (576) | (1,711) |
| Projected benefit obligation under non-funded plan | 45 | 40 | 405 |
| Net balance on the consolidated balance sheets | ¥ (145) | ¥ (535) | \$ (1,306) |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Net defined benefit liability | ¥2,666 | ¥2,562 | \$24,020 |
| Net defined benefit asset | (2,811) | (3,098) | (25,326) |
| Net balance on the consolidated balance sheets | ¥ (145) | ¥ (535) | \$ (1,306) |

(d) Components of retirement benefit cost as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Service cost | ¥613 | ¥ 611 | \$5,523 |
| Interest cost | 117 | 136 | 1,054 |
| Expected return on plan assets | (671) | (605) | (6,045) |
| Amortization of actuarial gains and losses | 556 | 941 | 5,009 |
| Retirement benefit cost | ¥615 | ¥1,084 | \$5,541 |

(e) Items accounted for as remeasurements of defined benefit plans, before tax effect, for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|----------------------------|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Actuarial gains and losses | ¥374 | ¥(1,281) | \$3,369 |
| Total | ¥374 | ¥(1,281) | \$3,369 |

(f) Remeasurements of defined benefit plans, before tax effect, as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Unrecognized actuarial gains and losses | ¥1,781 | ¥1,407 | \$16,046 |
| Total | ¥1,781 | ¥1,407 | \$16,046 |

(g) Plan assets consisted of the following investments as of March 31, 2019 and 2018.

| | 2019 | 2018 |
|-------------------|------|------|
| Debt securities | 39% | 38% |
| Equity securities | 41 | 48 |
| Others | 20 | 14 |
| Total | 100% | 100% |

The total plan assets included the retirement benefit trust established for Employees' Pension Fund plan. The portion to the total plan assets was 39% and 38% as of March 31, 2019 and 2018, respectively.

Long-term expected rate of return on plan assets is determined based on the assumption of: (i) allocation of plan assets and (ii) long-term returns on such assets.

(h) Assumption used for the calculation of actuarial gains and losses

The assumption used for the calculation of actuarial gains and losses, on a basis of weighted average, is as follows:

| | 2019 | 2018 |
|-----------------------------------|-----------------|-----------------|
| Discount rate | 0.192 to 0.355% | 0.310 to 0.540% |
| Long-term expected rate of return | 2.5 to 3.2 | 2.5 to 2.8 |
| Expected salary raise | 3.2 | 3.2 |

20. Land Revaluation Excess

Pursuant to the Law Concerning Land Revaluation (Law No. 34, promulgated on March 31, 1998), the Bank recorded the land owned by the Bank at the fair value and related unrealized gain, net of the applicable income tax effect, was reported as "Land revaluation excess" in net assets. The corresponding deferred tax liability amount was recorded as "Deferred tax liability for land revaluation."

Revaluation date: March 31, 2000

Revaluation method stated in Article 3, Section 3 of the Law Concerning Land Revaluation:

The value of land is based on the official notice prices determined by the public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2, Section 4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No. 119, promulgated on March 31, 1998), after making reasonable adjustments, such as for location and quality of sites.

Differences between the fair value and the carrying value were: ¥5,192 million (U.S. \$46,778 thousand) and ¥5,340 million as of March 31, 2019 and 2018, respectively.

21. Valuation Difference on Available-for-sale Securities

The components of valuation difference on available-for-sale securities as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Valuation differences: | | | |
| Available-for-sale securities | ¥44,830 | ¥48,663 | \$403,910 |
| Deferred tax liabilities | (13,367) | (14,430) | (120,434) |
| Non-controlling interests | (10) | (7) | (90) |
| Valuation differences on available-for-sale securities | ¥31,452 | ¥34,224 | \$283,376 |

22. Other Interest Income

Other interest income for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|----------------------|-----------------|------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Interest on deposits | ¥112 | ¥119 | \$1,009 |
| Others | 201 | 86 | 1,810 |
| Total | ¥313 | ¥205 | \$2,820 |

23. Fees and Commissions—Income

Fees and commission income for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-------------------------------|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Domestic and foreign exchange | ¥1,742 | ¥1,709 | \$15,695 |
| Others | 5,154 | 4,807 | 46,436 |
| Total | ¥6,896 | ¥6,517 | \$62,131 |

24. Other Operating Income

Other operating income for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Gains on trading account securities transactions | ¥ 2 | ¥ 0 | \$ 18 |
| Gains of sales and redemption of bonds | 3,430 | 4,464 | 30,903 |
| Gains on foreign exchange transactions | 90 | 49 | 810 |
| Others | 4,550 | 4,460 | 40,994 |
| Total | ¥8,072 | ¥8,975 | \$72,727 |

25. Other Income

Other income for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Reversal of reserve for possible loan losses | ¥ — | ¥ 339 | \$ — |
| Recoveries of written off claims | 0 | 13 | 0 |
| Gains on sales of available-for-sale securities | 2,898 | 2,481 | 26,110 |
| Gains on money held in trust | 42 | — | 378 |
| Gains on disposal of fixed assets | 10 | 3 | 90 |
| Others | 728 | 687 | 6,559 |
| Total | ¥3,679 | ¥3,524 | \$33,147 |

26. Other Interest Expenses

Other interest expenses for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------------|-----------------|------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Interest on interest rate swaps | ¥ 6 | ¥ 58 | \$ 54 |
| Others | 259 | 200 | 2,333 |
| Total | ¥266 | ¥259 | \$2,396 |

27. Fees and Commissions—Expenses

Fees and commissions expenses for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--------------------------------|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Domestic and foreign exchanges | ¥ 274 | ¥ 277 | \$ 2,468 |
| Others | 2,199 | 2,162 | 19,812 |
| Total | ¥2,473 | ¥2,439 | \$22,281 |

28. Other Operating Expenses

Other operating expenses for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-------------------------------|-----------------|----------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Losses on redemption of bonds | ¥1,693 | ¥ 2,753 | \$15,253 |
| Losses on sales of bonds | 2,765 | 3,631 | 24,912 |
| Others | 4,246 | 4,128 | 38,255 |
| Total | ¥8,705 | ¥10,513 | \$78,430 |

29. Other Expenses

Other expenses for the years ended March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Provision of reserve for possible loan losses | ¥ 670 | ¥ — | \$ 6,036 |
| Written off of loans | 138 | 52 | 1,243 |
| Losses on sales of available-for-sale securities | 636 | 112 | 5,730 |
| Losses on devaluation of available-for-sale securities | 18 | 1 | 162 |
| Losses on money held in trust | — | 115 | — |
| Losses on disposals of fixed assets | 91 | 152 | 819 |
| Impairment losses | 170 | 200 | 1,531 |
| Others | 656 | 902 | 5,910 |
| Total | ¥2,382 | ¥1,537 | \$21,461 |

30. Losses on Impairment of Fixed Assets

The Bank recognized losses on impairment of the following fixed assets, included in "other expenses," for the years ended March 31, 2019 and 2018.

For the year ended March 31, 2019

| Area | Main purpose | Variety | Thousands of U.S. dollars (Note 1) | |
|----------------------------------|------------------|---------------------------------|------------------------------------|----------------|
| | | | Millions of yen | U.S. dollars |
| Akita Prefecture | Branch Buildings | Land and Buildings; five places | ¥ 60 | \$ 540 |
| | Idle Assets | Land and Buildings; ten places | 34 | 306 |
| Other | Branch Buildings | Land and Buildings; two places | 70 | 630 |
| | Idle Assets | Buildings; one place | 5 | 45 |
| Total | | | ¥170 | \$1,531 |
| Components of impairment losses: | | | | |
| Building | | | ¥135 | \$1,216 |
| Land | | | 35 | 315 |

For the year ended March 31, 2018

| Area | Main purpose | Variety | Millions of yen |
|----------------------------------|------------------|----------------------------------|-----------------|
| Akita Prefecture | Branch Buildings | Land and Buildings; seven places | ¥109 |
| | Idle Assets | Land; five places | 3 |
| Other | Branch Buildings | Buildings; one place | 86 |
| Total | | | ¥200 |
| Components of impairment losses: | | | |
| Building | | | ¥129 |
| Land | | | 70 |

For the purpose of identifying impaired assets, the assets of each individual branch are grouped as a unit.

The recoverable values of such assets are measured as the higher of net realizable values or value in use. Net realizable values are determined by the appraisal value based on Japanese Real Estate Appraisal Standards (issued by the Ministry of Lands, Infrastructure and Transport) less estimated costs of disposal. Value in use is calculated by discounting the future cash flow by 2.6%.

31. Supplementary Information to Consolidated Statements of Comprehensive Income

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Valuation difference on available-for-sale securities: | | | |
| Amount arising in the year | ¥ (895) | ¥2,174 | \$ (8,063) |
| Recycling | (2,936) | (7) | (26,452) |
| Before tax effect adjustment | (3,832) | 2,166 | (34,525) |
| Tax effect | 1,063 | (662) | 9,577 |
| Valuation difference on available-for-sale securities | ¥(2,769) | ¥1,503 | \$(24,948) |
| Deferred gains on hedges: | | | |
| Amount arising in the year | ¥ (77) | ¥ (134) | \$ (693) |
| Recycling | 80 | 188 | 720 |
| Before tax effect adjustment | 2 | 54 | 18 |
| Tax effect | (0) | (16) | (0) |
| Deferred gains on hedges | ¥ 1 | ¥ 37 | \$ 9 |
| Remeasurements of defined benefit plans | | | |
| Amount arising in the year | ¥ (931) | ¥ 339 | \$ (8,388) |
| Recycling | 556 | 941 | 5,009 |
| Before tax effect adjustment | (374) | 1,281 | (3,369) |
| Tax effect | 114 | (390) | 1,027 |
| Remeasurements of defined benefit plans | ¥ (260) | ¥ 890 | \$ (2,342) |
| Total other comprehensive income | ¥(3,027) | ¥2,431 | \$(27,272) |

32. Financial Instruments

(a) Status

(1) Policy on financial instruments

The Bank and its consolidated subsidiaries (the "Group") engage in banking as the mainstay of business, as well as other financial services such as leasing and guarantee. To execute these services, the Bank utilizes funds acquired primarily from deposits and applies funds mainly to extend loans and purchase securities. To ensure sound and appropriate banking operations without succumbing to the pursuit of excessive profit or risk aversion, the Bank conducts suitable risk management and seeks to maintain the right balance between profit and risk in fund-raising and application activities. The Bank also utilizes derivative transactions to hedge potential risks.

(2) Financial instruments and associated risks

Financial assets held by the Bank and its subsidiaries are primarily loans and investment securities.

Loans are exposed to credit risk, which could lead to losses if the financial status of certain borrowers deteriorates, causing the asset value of collateral to decrease or disappear altogether.

Securities held by the Bank are mainly bonds, stocks, investment trusts, and investments in partnerships through capital contributions. The Bank holds these securities to secure profit, primarily from interest and dividends, for strategic purposes, such as business alliances, or as held-to-maturity bonds in consolidated subsidiaries. These securities are exposed to the credit risk of the respective issuers as well as market risk that could lead to losses caused by fluctuations, particularly in interest rates, exchange rates and market prices, that erode the value of held assets.

Financial liabilities held by the Bank and its consolidated subsidiaries are mainly deposits. Deposits are exposed to liquidity risk, which could lead to losses if an unexpected outflow of cash, for example, forces the Bank to acquire funds at significantly higher interest rates than usual (funding liquidity risk), or changes in the market environment force the Bank into transactions at prices that are more disadvantageous than usual (market liquidity risk).

The Bank engages in derivative transactions, including interest rate swaps, bond futures, forward exchange contracts and currency options. Interest rate swaps and bond futures serve to hedge against interest rate fluctuations affecting on-balance-sheet transactions. Forward exchange contracts and currency options serve to hedge foreign exchange fluctuations. (Please refer to Note 3. "Summary of Significant Accounting Policies, (o) Hedge accounting," regarding hedging instruments, hedged items, the Bank's accounting standards and qualifying method.)

Some transactions that do not meet hedge accounting criteria are exposed to interest rate risk and foreign exchange risk.

(3) Risk management for financial instruments

To ensure the quality and appropriateness of its banking operations, the Bank undertakes integrated risk management, a self-administered process whereby inherent risks are evaluated according to category, such as credit risk and market risk, and are viewed in total and compared against operating capacity, that is, net worth. Risk management for financial instruments also falls within the scope of this process.

Integrated risk management entails risk capital allocation by division and risk category within net worth on a yearly basis, monitoring risk volume, which is quantified using methods such as Value at Risk (VaR) and the status of allocated risk capital, and sufficient verification of business soundness and capital adequacy. In addition, corporate structures, such as the Board of Directors, are provided with regular updates on risk status and risk volume is capped when conditions require such action.

In setting caps on risk volume, the Bank considers profitability and efficiency, including a suitable assessment of risk and return, to underpin efforts that will enhance operations and results.

(i) Credit risk management

Through the application of a credit policy that outlines the Bank's basic lending policy and screening criteria, and a credit risk management standard outlining/detailing specific lending rules, the Bank has established an

administration policy for consolidated subsidiaries and strategic investments, in order to prevent excessive loan volume to a specific industry or group, with the aim of making risk management as accurate as possible.

In addition, the Bank maintains a credit rating system for corporate clients to quantify credit risks and is improving loan pricing. Furthermore, for loans and bills discounted, which account for the majority of credit risk, the Bank has separated the screening and administration division from the sales promotion division and set up a screening and administration system that is not influenced by the sales promotion division. Through a specialized screening and loan management and recovery structure, the Bank is able to ensure asset quality and improve asset value.

(ii) Market risk management

The Bank's risk volume control structure is supported by regular reports to the ALM Committee on interest rate risk volume associated with the Bank's assets and liabilities, and interest rate, exchange rate and stock price risk volume associated with market transactions.

In its market transactions, the Bank strives for the efficient application of funds and optimum risk and return, within the limits of allocated risk capital determined through integrated risk management and the predetermined annual capital budget. The Bank also maintains a structure with middle offices specializing in risk management that are independent of both front offices, which engage in market transactions, and back offices, which handle administrative tasks. This structure reinforces the system of mutual checks and balances and helps to prevent potential processing mistakes and unauthorized transactions, although these are very unlikely.

(iii) Liquidity risk management

The Bank maintains an appropriate financial position with regard to liquidity risk by continually improving the accuracy of the methods used to estimate and verify fund utilization and acquisition balances. In addition, the Bank strives to prevent liquidity risk through the assessment and analysis of conditions in financial markets and society at large that could affect cash flow. To respond quickly to fund-impacting situations that arise, the Bank has established classifications for cash flow conditions, ranging from "normal" to "cause for concern" and "critical," and procedures are in place for dealing with situations that fall into the "cause for concern" and "critical" categories.

(iv) Risk management relating to derivative transactions

To manage risks relating to interest rate swaps, the necessity of hedging transactions and the status of derivative transactions are continuously monitored at the ALM Committee. Bond futures are operated based on commitment lines and loss-cut rules as prescribed in the annual operation policy for securities, and the status of its operations is periodically monitored by the market risk management department. Regarding forward exchange contracts and currency options, it is vital to manage total balances including on-balance-sheet and off-balance-sheet transactions, in addition to the assessment of individual transactions.

(v) Quantitative information on market risk

For the Group, the key financial instruments influenced by interest rate risk, a major risk variable, are: loans, bonds classified as available-for-sales securities under investment securities, deposits, negotiable certificates of deposit, and interest rate swaps under derivative transactions. The Group uses the measure VaR to calculate changes in the economic value of these financial assets and financial liabilities, which facilitates quantitative analysis for controlling the risk of interest rate fluctuations.

To calculate the associated value impact of interest rate risk on revenues using VaR, the Group divides risk-prone financial assets and financial liabilities into fixed interest rate and floating interest rate groups, breaks down the balances into appropriate periods corresponding to respective interest due dates, and applies the variance-covariance method reflecting the correlation effect among risk factors (holding period: 40 days; confidence interval: 99%; observation period: 5 years) based on interest rate margins, the spread between lending and borrowing rates, for each period. As of March 31, 2019 and 2018, the Group's interest rate risk volume (estimated decrease in economic value) was ¥8,265 million (U.S. \$74,466 thousand) and

¥6,324 million, respectively.

Interest due dates on demand deposits subject to VaR measurement are sorted according to set periods, based on effective due dates estimated using internal models.

The Group also tests financial instruments with market value to compare actual losses at the end of the horizon period with model-derived VaR estimates, in an effort to verify that the measurement models used to identify interest rate risk are suitably accurate. However, VaR measures interest rate risk at a certain degree of probability statistically based on past market movements, so the technique may be unable to identify risk when market conditions are uncharacteristically volatile.

(4) Supplemental information relating to fair market values

Fair market values include prices at market as well as values reasonably estimated in cases where there is no available quoted market price. Certain assumptions are used for the calculation of such amounts. Accordingly, the result of such calculations may vary if different assumptions are used.

(b) Fair value of financial instruments

The amounts on the consolidated balance sheets, fair values and their differences as of March 31, 2019 and 2018 are shown below. The securities for which fair value is not reliably determined are excluded from the table.

As of March 31, 2019

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) | | |
|--|-----------------|------------|------------|------------------------------------|--------------|------------|
| | Book value | Fair value | Difference | Book value | Fair value | Difference |
| (1) Cash and due from banks | ¥ 595,933 | ¥ 595,933 | ¥ — | \$ 5,369,249 | \$ 5,369,249 | \$ — |
| (2) Call loans and bills bought | 1,480 | 1,480 | — | 13,334 | 13,334 | — |
| (3) Monetary claims bought | 8,182 | 8,182 | — | 73,718 | 73,718 | — |
| (4) Securities (*1) | | | | | | |
| Held-to-maturity debt securities | 599 | 610 | 11 | 5,396 | 5,495 | 99 |
| Available-for-sale securities | 663,731 | 663,731 | — | 5,980,097 | 5,980,097 | — |
| (5) Loans and bills discounted | 1,667,321 | | | 15,022,263 | | |
| Reserve for possible loan losses (*1) | (10,949) | | | (98,648) | | |
| | 1,656,371 | 1,682,137 | 25,765 | 14,923,605 | 15,155,752 | 232,138 |
| Total assets | ¥2,926,299 | ¥2,952,075 | ¥25,776 | \$26,365,429 | \$26,597,666 | \$232,237 |
| (1) Deposits | ¥2,574,268 | ¥2,574,370 | ¥ 101 | \$23,193,693 | \$23,194,612 | \$ 909 |
| (2) Negotiable certificates of deposits | 94,074 | 94,075 | 1 | 847,589 | 847,598 | 9 |
| (3) Call moneys and bills sold | 11,999 | 11,999 | — | 108,108 | 108,108 | — |
| (4) Payables under securities lending transactions | 45,913 | 45,913 | — | 413,667 | 413,667 | — |
| (5) Borrowed money | 83,799 | 83,799 | — | 755,013 | 755,013 | — |
| Total liabilities | ¥2,810,055 | ¥2,810,159 | ¥ 103 | \$25,318,091 | \$25,319,028 | \$ 928 |
| Derivative transactions (*2) | | | | | | |
| For which: | | | | | | |
| Hedge accounting is not applied | ¥ (337) | ¥ (337) | ¥ — | \$ (3,036) | \$ (3,036) | \$ — |
| Hedge accounting is applied | — | — | — | — | — | — |
| Total derivative transactions | ¥ (337) | ¥ (337) | ¥ — | \$ (3,036) | \$ (3,036) | \$ — |

*1. General reserve for possible loan losses and allowances provided for the individual receivables are deducted. Reserve for investment losses relating to securities is deducted directly from the balance amount because its amount is not significant.

*2. Amounts include all derivative transactions that are included in other assets and other liabilities on the consolidated balance sheets. Figures are net amounts and figures in parenthesis indicate negative amounts.

As of March 31, 2018

| | Millions of yen | | |
|--|-----------------|------------|------------|
| | Book value | Fair value | Difference |
| (1) Cash and due from banks | ¥ 571,797 | ¥ 571,797 | ¥ — |
| (2) Call loans and bills bought | 18,382 | 18,382 | — |
| (3) Monetary claims bought | 7,909 | 7,909 | — |
| (4) Securities (*1) | | | |
| Held-to-maturity debt securities | 598 | 616 | 18 |
| Available-for-sale securities | 788,856 | 788,856 | — |
| (5) Loans and bills discounted | 1,672,607 | | |
| Reserve for possible loan losses (*1) | (10,699) | | |
| | 1,661,908 | 1,685,684 | 23,776 |
| Total assets | ¥3,049,453 | ¥3,073,248 | ¥23,794 |
| (1) Deposits | ¥2,545,808 | ¥2,546,003 | ¥ 195 |
| (2) Negotiable certificates of deposits | 141,400 | 141,403 | 2 |
| (3) Call moneys and bills sold | 35,499 | 35,499 | — |
| (4) Payables under securities lending transactions | 124,528 | 124,528 | — |
| (5) Borrowed money | 85,219 | 85,219 | — |
| Total liabilities | ¥2,932,455 | ¥2,932,653 | ¥ 198 |
| Derivative transactions (*2) | | | |
| For which: | | | |
| Hedge accounting is not applied | ¥ (33) | ¥ (33) | ¥ — |
| Hedge accounting is applied | 15 | 15 | — |
| Total derivative transactions | ¥ (18) | ¥ (18) | ¥ — |

*1. General reserve for possible loan losses and allowances provided for the individual receivables are deducted. Reserve for investment losses relating to securities is deducted directly from the balance amount because its amount is not significant.

*2. Amounts include all derivative transactions that are included in other assets and other liabilities on the consolidated balance sheets. Figures are net amounts and figures in parenthesis indicate negative amounts.

Fair value measurement

Assets

(1) Cash and due from banks

The book values are deemed fair market value as the fair value approximates such carrying amounts.

(2) Call loans and bills bought

Book values of call loans and bills bought are deemed fair values as the majority of transactions have short contract terms (within three months) and the fair value approximates such carrying amounts.

(3) Monetary claims bought

The fair value of long-term trust beneficiary interest is determined based on the price quoted by the financial institutions. Regarding monetary claims bought other than the long-term trust beneficiary interest, book values are deemed fair values as the majority of such monetary claim are due within six months and the fair value approximates such carrying amounts.

(4) Securities

The fair value of equity securities is determined based on the price quoted by the relevant stock exchange and the fair value of bonds is determined based on the price quoted by the relevant stock exchange or the financial institutions from which they are purchased. The fair value of investment trusts is determined based on the publicly available price.

Privately placed bonds are categorized using an internal credit rating and maturity, and their fair value is calculated based on the future cash flows discounted by the market interest rate, after the deduction of credit risk equivalents. For privately placed bonds from potentially bankrupt borrowers, the fair value is deemed to be its carrying amount, net of a specific reserve.

Please refer to Note 5. "Securities" as to notes regarding securities by holding purpose.

(5) Loans and bills discounted

For loans and bills discounted with floating interest rates, the book values are deemed fair values as the fair values approximate such carrying amounts because the market interest rate is reflected in the interest rate set within a short time period for such floating-rate loans and bills discounted.

Loans and bills discounted with fixed interest rates are categorized by nature, internal credit rating and maturity, and the present value is calculated based on the future cash flows, net of reserves for possible loan loss, discounted by the market interest rate.

Regarding loans to Bankrupt Obligors, Substantially Bankrupt Obligors and Potential Bankrupt Obligors, possible loan losses are estimated based on the collectible amounts from collateral and guarantees. Thus, the book value is deemed as fair value since the fair value approximates the carrying value of loans.

Regarding loans and bills discounted which have no predetermined maturity since they are fully secured by collateral, their book values are deemed fair values as the fair values approximate such carrying amounts based on the repayment period and interest rate terms.

Liabilities

(1) Deposits and (2) negotiable certificates of deposits

For demand deposits, the amount payable on demand as of the consolidated balance sheet date (i.e., the book value) is used as the fair value. For time deposits and negotiable certificates of deposits, the fair value is calculated based on the future cash flows discounted by the interest rate applied on new deposits, after each deposit is categorized by product and maturity.

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

Book values are deemed fair market values as the majority of transactions have short contract terms (within three months) and their fair values approximate such carrying amounts.

(5) Borrowed money

For floating-rate borrowings, the book values are deemed fair values as the fair values approximate such carrying amounts because the market interest rate is reflected in the interest rate set within a short time period and there has been no significant change in creditworthiness of the Bank or its consolidated subsidiaries after execution of such borrowings.

The book values of fixed rate borrowings are used as their fair values as both the amounts on the consolidated balance sheets and the fair values are insignificant.

Derivative transactions

The Bank uses derivative transactions including (i) interest-related derivatives such as interest rate swaps, (ii) currency-related derivatives such as forward exchange contracts and currency options, and (iii) bond-related derivatives such as bond futures. The fair values are determined based on the market quotes at the relevant exchanges or the present values calculated by discounting cash flows or option price models.

The following securities of which market value is not calculable are excluded from "(b) Fair Value of Financial Instruments, (4) Available-for-sale securities" shown above.

Their book values as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------------|-----------------|--------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Non-listed stocks (*1, *2) | ¥1,850 | ¥1,889 | \$16,668 |
| Investment in partnerships (*3) | 5,098 | 3,400 | 45,932 |
| Others (*4) | 35 | 30 | 315 |
| Total | ¥6,984 | ¥5,321 | \$62,924 |

*1. Non-listed stocks are not included in the fair value information in the above table ((b) Fair Value of Financial Instruments), because their fair value is not reliably determined.

*2. The Bank recognizes impairment losses of ¥18 million (\$162 thousand) and ¥1 million, for the year ended March 31, 2019 and 2018, respectively.

*3. When assets held by partnerships consist of non-listed stocks whose fair value is not reliably determined, such investment in partnership is not included in the fair value information in the above table ((b) Fair Value of Financial Instruments).

*4. Other includes non-listed foreign stocks, and is not disclosed in the above table ((b) fair value of financial instruments), because their fair value is not reliably determined.

Redemption schedules for monetary claims and securities with maturity dates as of March 31, 2019 were as follows:

| | Millions of yen | | | | | |
|---|--------------------------|-------------------------------|--------------------------------|--------------------------------|---------------------------------|-----------------------|
| | Due in 1 year or less | Due from 1 year to 3 years | Due from 3 years to 5 years | Due from 5 years to 7 years | Due from 7 years to 10 years | Due after 10 years |
| Due from banks | ¥560,505 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Call loans and bills bought | 1,480 | — | — | — | — | — |
| Monetary claims bought | 7,741 | — | — | — | — | 440 |
| Securities | | | | | | |
| Securities held-to maturity | — | 599 | — | — | — | — |
| Japanese government bonds | — | 599 | — | — | — | — |
| Available-for-sale securities with maturity | 76,552 | 187,818 | 96,882 | 32,069 | 103,184 | 77,800 |
| Japanese government bonds | 13,613 | 87,687 | 15,001 | — | — | 10,000 |
| Local government bonds | — | — | 13,593 | 503 | 42,628 | 58,319 |
| Corporate bonds | 39,896 | 84,546 | 60,939 | 25,311 | 8,507 | 1,525 |
| Loans and bills discounted (*) | 127,705 | 219,871 | 258,578 | 179,195 | 165,621 | 503,571 |
| Total | ¥773,985 | ¥408,288 | ¥355,461 | ¥211,265 | ¥268,806 | ¥581,811 |

(*) Loans and bills discounted in the above table excluded loans to Bankrupt Obligor, Substantially Bankrupt Obligor and Potential Bankrupt Obligor in the total amount of ¥32,487 million (U.S.\$292,702 thousand) since those principals may not be fully collectible. The table also excluded loans without maturity in the total amount of ¥180,290 million (U.S.\$1,624,380 thousand).

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|------------------------------------|-------------------------------|--------------------------------|--------------------------------|---------------------------------|-----------------------|
| | Due in 1 year or less | Due from 1 year to 3 years | Due from 3 years to 5 years | Due from 5 years to 7 years | Due from 7 years to 10 years | Due after 10 years |
| Due from banks | \$5,050,049 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Call loans and bills bought | 13,334 | — | — | — | — | — |
| Monetary claims bought | 69,745 | — | — | — | — | 3,964 |
| Securities | | | | | | |
| Securities held-to maturity | — | 5,396 | — | — | — | — |
| Japanese government bonds | — | 5,396 | — | — | — | — |
| Available-for-sale securities with maturity | 689,719 | 1,692,206 | 872,889 | 288,935 | 929,669 | 700,964 |
| Japanese government bonds | 122,650 | 790,044 | 135,156 | — | — | 90,098 |
| Local government bonds | — | — | 122,470 | 4,531 | 384,070 | 525,443 |
| Corporate bonds | 359,455 | 761,744 | 549,049 | 228,047 | 76,646 | 13,739 |
| Loans and bills discounted (*) | 1,150,599 | 1,980,998 | 2,329,741 | 1,614,514 | 1,492,215 | 4,537,084 |
| Total | \$6,973,466 | \$3,678,601 | \$3,202,639 | \$1,903,459 | \$2,421,893 | \$5,242,012 |

Redemption schedules for borrowed money and interest-bearing debts as of March 31, 2019 were as follows:

| | Millions of yen | | | | | |
|--|--------------------------|-------------------------------|--------------------------------|--------------------------------|---------------------------------|-----------------------|
| | Due in 1 year or less | Due from 1 year to 3 years | Due from 3 years to 5 years | Due from 5 years to 7 years | Due from 7 years to 10 years | Due after 10 years |
| Deposits (*) | ¥2,418,946 | ¥29,742 | ¥7,951 | ¥ — | ¥ — | ¥ — |
| Negotiable certificates of deposits | 94,074 | — | — | — | — | — |
| Call moneys and bills sold | 11,999 | — | — | — | — | — |
| Payables under securities lending transactions | 45,913 | — | — | — | — | — |
| Borrowed money | 82,642 | 792 | 195 | 115 | 55 | — |
| Total | ¥2,653,575 | ¥30,534 | ¥8,146 | ¥115 | ¥ 55 | ¥ — |

(*) Demand deposits were included in the "Due in 1 year or less." Cumulative time deposits of ¥117,629 million (U.S.\$1,059,816 thousand) were not included in the above table.

| | Thousands of U.S. dollars (Note 1) | | | | | |
|--|------------------------------------|-------------------------------|--------------------------------|--------------------------------|---------------------------------|-----------------------|
| | Due in 1 year or less | Due from 1 year to 3 years | Due from 3 years to 5 years | Due from 5 years to 7 years | Due from 7 years to 10 years | Due after 10 years |
| Deposits (*) | \$21,794,269 | \$267,970 | \$71,637 | \$ — | \$ — | \$ — |
| Negotiable certificates of deposits | 847,589 | — | — | — | — | — |
| Call moneys and bills sold | 108,108 | — | — | — | — | — |
| Payables under securities lending transactions | 413,667 | — | — | — | — | — |
| Borrowed money | 744,589 | 7,135 | 1,756 | 1,036 | 495 | — |
| Total | \$23,908,234 | \$275,105 | \$73,393 | \$1,036 | \$495 | \$ — |

33. Derivative Financial Instruments Transaction

Derivative transactions to which hedge accounting is not applied

Contract amounts, fair value and valuation gains/losses of derivatives outstanding as of March 31, 2019 and 2018 were summarized below.

(1) Foreign exchange related transactions (over the counter)

| As of March 31 | Millions of yen | | | |
|-----------------------------|-----------------|--------------------|------------|-------------|
| | 2019 | | | |
| | Contact amounts | Due after one year | Fair value | Gain/losses |
| Currency swaps: | ¥8,168 | ¥5,682 | ¥10 | ¥10 |
| Forward exchange contracts: | | | | |
| Sold | 205 | — | (0) | (0) |
| Bought | 180 | — | 0 | 0 |
| Currency options: | | | | |
| Sold | 1,534 | — | (15) | (5) |
| Bought | 1,534 | — | 15 | 7 |
| Total | | | ¥10 | ¥12 |

Changes in fair value of the above derivatives are recognized as income or loss. Fair value of over the counter derivative is determined by discounted present value or option price model.

| As of March 31 | Millions of yen | | | |
|-----------------------------|-----------------|--------------------|------------|-------------|
| | 2018 | | | |
| | Contact amounts | Due after one year | Fair value | Gain/losses |
| Currency swaps: | ¥8,329 | ¥6,289 | ¥11 | ¥11 |
| Forward exchange contracts: | | | | |
| Sold | 654 | — | 8 | 8 |
| Bought | 491 | — | (7) | (7) |
| Currency options: | | | | |
| Sold | 2,093 | — | (20) | (20) |
| Bought | 2,093 | — | 20 | 20 |
| Total | | | ¥13 | ¥13 |

| As of March 31 | Thousands of U.S. dollars (Note 1) | | | |
|-----------------------------|------------------------------------|--------------------|------------|-------------|
| | 2019 | | | |
| | Contact amounts | Due after one year | Fair value | Gain/losses |
| Currency swaps: | \$73,592 | \$51,193 | \$90 | \$ 90 |
| Forward exchange contracts: | | | | |
| Sold | 1,847 | — | (0) | (0) |
| Bought | 1,621 | — | 0 | 0 |
| Currency options: | | | | |
| Sold | 13,821 | — | (135) | (45) |
| Bought | 13,821 | — | 135 | 63 |
| Total | | | \$90 | \$108 |

(2) Bond futures related transactions (listed)

| As of March 31 | Millions of yen | | | |
|----------------|-----------------|--------------------|------------|-------------|
| | 2019 | | | |
| | Contact amounts | Due after one year | Fair value | Gain/losses |
| Bond futures: | | | | |
| Sold | ¥55,000 | ¥ — | ¥(348) | ¥(348) |
| Total | | | ¥(348) | ¥(348) |

The above derivatives are valued at the closing market price and changes in fair values are recognized as income or loss.

| As of March 31 | Millions of yen | | | |
|----------------|-----------------|--------------------|------------|-------------|
| | 2018 | | | |
| | Contact amounts | Due after one year | Fair value | Gain/losses |
| Bond futures: | | | | |
| Sold | ¥70,000 | ¥ — | ¥(47) | ¥(47) |
| Total | | | ¥(47) | ¥(47) |

| As of March 31 | Thousands of U.S. dollars (Note 1) | | | |
|----------------|------------------------------------|--------------------|------------|-------------|
| | 2019 | | | |
| | Contact amounts | Due after one year | Fair value | Gain/losses |
| Bond futures: | | | | |
| Sold | \$495,540 | \$ — | \$(3,135) | \$(3,135) |
| Total | | | \$(3,135) | \$(3,135) |

Derivative transactions to which hedge accounting is applied

(1) Interest rate related transactions

Contract amounts, and fair value of derivatives outstanding as of March 31, 2019 and 2018 were as follows:

No transaction to report as of March 31, 2019.

| As of March 31 | Millions of yen | | | |
|--------------------------------|----------------------------|-----------------|--------------------|------------|
| | 2018 | | | |
| | Hedged item | Contact amounts | Due after one year | Fair value |
| Interest rate swaps | | | | |
| Receive floating/ pay fixed | Loans and bills discounted | ¥3,000 | ¥ — | ¥(26) |
| Total | | | | ¥(26) |

Deferred hedge accounting is applied for the interest rate swaps. Fair value is determined based on the discounted present value.

(2) Foreign exchange related transactions

No transaction to report as of March 31, 2019.

| As of March 31 | Millions of yen | | | |
|---------------------------|-----------------|-----------------|--------------------|------------|
| | 2018 | | | |
| | Hedged item | Contact amounts | Due after one year | Fair value |
| Forward exchange contract | Call money | ¥23,868 | ¥ — | ¥41 |
| Total | | | | ¥41 |

Deferred hedge accounting is applied. Fair value is determined based on the discounted present value.

34. Capital Stock

The number of the Bank's authorized shares was 68,745,500 as of March 31, 2019 and 2018.

The number of shares in issue was 18,093,643 as of March 31, 2019 and 2018.

The number of treasury stocks held by the Bank, not including shares held by the trust of Employee Stock Ownership Plan was 143,074 and 141,969 as of March 31, 2019 and 2018, respectively.

Common shares were consolidated at the rate of 1 per 10, on October 1, 2017.

35. Stock Option Rights

(a) Expenses on stock option plan

Expenses on stock option plan included in general and administrative expenses amounted to ¥14 million (U.S.\$126 thousand) and ¥15 million for the years ended March 31, 2019 and 2018, respectively.

(b) Details of stock option

The details of stock option plan adopted are as follows:

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------------------|---------------------------------|--|
| Title and number of recipients | Full-time nine directors | Full-time ten directors | Full-time nine directors | Full-time eight directors | Full-time nine directors | Full-time nine directors | Full-time eight directors | Full-time eight directors | Full-time eight directors | Eight directors (Excludes audit & supervisory committee members and outside directors) |
| Number of stock options (*1) | 4,220 shares of common stock | 5,230 shares of common stock | 6,850 shares of common stock | 6,560 shares of common stock | 7,160 shares of common stock | 5,710 shares of common stock | 3,720 shares of common stock | 4,960 shares of common stock | 5,030 shares of common stock | 5,090 shares of common stock |
| Grant date | July 31, 2009 | July 30, 2010 | July 29, 2011 | July 31, 2012 | July 31, 2013 | July 31, 2014 | July 31, 2015 | August 1, 2016 | July 31, 2017 | July 31, 2018 |
| Conditions of exercise | None | None | None | None | None | None | None | None | None | None |
| Required service period | None | None | None | None | None | None | None | None | None | None |
| Exercise period | August 1, 2009 to July 31, 2039 | July 31, 2010 to July 30, 2040 | July 30, 2011 to July 29, 2041 | August 1, 2012 to July 31, 2042 | August 1, 2013 to July 31, 2043 | August 1, 2014 to July 31, 2044 | August 1, 2015 to July 31, 2045 | August 2, 2016 to August 1, 2046 | August 1, 2017 to July 31, 2047 | August 1, 2018 to July 31, 2048 |
| Remaining stock options (*1,2) | 970 shares | 1,320 shares | 1,810 shares | 1,860 shares | 3,540 shares | 3,240 shares | 2,630 shares | 3,890 shares | 5,030 shares | 5,090 shares |
| Exercise price | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share |
| Fair value at grant date (*1,3) | ¥3,340 per share | ¥2,680 per share | ¥2,220 per share | ¥2,090 per share | ¥2,440 per share | ¥2,770 per share | ¥3,640 per share | ¥3,240 per share | ¥3,030 per share | ¥2,920 per share |

*1. Common shares were consolidated at the rate of 1 per 10, on October 1, 2017. It is assumed that the share consolidation was carried out at the beginning of fiscal year 2009.

*2. It shows the number of outstanding stock option which is not yet vested as of March 31, 2019.

*3. Fair value at grant date was measured based on dividend adjusted Black-Scholes Option Pricing Model.

36. Retained Earnings

Japanese banks, including the Bank, are required to comply with the Banking Act. In accordance with the Companies Act ("the Act"), the Bank has provided a legal reserve which is included in retained earnings. The Act stipulates that neither additional paid-in capital nor the legal reserve is available for dividends, but that both may be used to reduce or eliminate a deficit. Under the Banking Act, an amount which is at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period is to be appropriated as a legal reserve until the aggregate amount of the legal reserve and the capital surplus account equals 100% of the common stock account. The Act also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 100% of the amount of common stock, the excess may be distributed to the stockholders either as a return of capital or as dividends subject to the approval of the stockholders.

The maximum amount which the Bank can distribute as dividends is calculated based on the non-consolidated financial statements of the Bank in accordance with the Act.

37. Cash and Cash Equivalents

Reconciliation between cash and due from banks in the consolidated balance sheets, and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2019 and 2018 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------------|-----------------|----------|------------------------------------|
| | 2019 | 2018 | 2019 |
| Cash and due from banks | ¥595,933 | ¥571,797 | \$5,369,249 |
| Due from banks without interest | (262) | (373) | (2,360) |
| Ordinary due from banks | (898) | (633) | (8,090) |
| Time deposits with banks | (5,000) | (5,000) | (45,049) |
| Others | (350) | (155) | (3,153) |
| Cash and cash equivalents | ¥589,422 | ¥565,635 | \$5,310,586 |

38. Segment Information

(a) Outline of reportable segment

A reportable segment is a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

The Group offers total financial services mainly through operating branches with a philosophy that seeks to contribute to regional prosperity. Reportable segments are composed of banking business, leasing business and other businesses including consulting business, guarantee business and credit card business.

(b) Basis of measurement for the amount of ordinary income (or loss), assets and other items by reporting segment

Accounting procedures applied to operating segments are consistent to those applied to the preparation of consolidated financial statements. Ordinary income from inter-segment transactions is measured on the assumption of arm's length transaction.

(c) Ordinary income, segment profit, assets and other items by reportable segment for the years ended March 31, 2019 and 2018

| Year ended March 31, 2019 | Millions of yen | | | | | |
|--|--------------------|---------|---------|-----------|------------|--------------|
| | Reportable segment | | | | Adjustment | Consolidated |
| | Banking | Leasing | Other | Total | | |
| Ordinary income | | | | | | |
| External customers | ¥ 39,727 | ¥ 4,602 | ¥ 917 | ¥ 45,246 | ¥ (83) | ¥ 45,163 |
| Inter-segment | 479 | 152 | 596 | 1,228 | (1,228) | — |
| Total | ¥ 40,206 | ¥ 4,754 | ¥ 1,513 | ¥ 46,474 | ¥ (1,311) | ¥ 45,163 |
| Segment profit | ¥ 6,045 | ¥ 162 | ¥ 531 | ¥ 6,738 | ¥ (425) | ¥ 6,313 |
| Segment assets | 3,017,952 | 13,311 | 11,063 | 3,042,326 | (17,711) | 3,024,615 |
| Segment liabilities | 2,845,907 | 8,689 | 3,558 | 2,858,155 | (11,933) | 2,846,221 |
| Other items: | | | | | | |
| Depreciation and amortization | ¥ 1,689 | ¥ 7 | ¥ 6 | ¥ 1,704 | ¥ — | ¥ 1,704 |
| Interest income | 26,889 | 7 | 87 | 26,983 | (459) | 26,524 |
| Interest expenses | 1,468 | 46 | 0 | 1,515 | (35) | 1,480 |
| Extraordinary income | 10 | — | — | 10 | — | 10 |
| Extraordinary losses | 262 | 0 | 0 | 262 | — | 262 |
| (Of which, Impairment losses) | 170 | — | — | 170 | — | 170 |
| Income taxes | 1,690 | 51 | 162 | 1,904 | (0) | 1,904 |
| Increase in premises & equipment and intangibles | 2,754 | (2) | (1) | 2,751 | 1 | 2,753 |

| Year ended March 31, 2018 | Millions of yen | | | | | |
|--|--------------------|---------|---------|-----------|------------|--------------|
| | Reportable segment | | | | Adjustment | Consolidated |
| | Banking | Leasing | Other | Total | | |
| Ordinary income | | | | | | |
| External customers | ¥ 40,926 | ¥ 4,979 | ¥ 1,618 | ¥ 47,525 | ¥ (36) | ¥ 47,489 |
| Inter-segment | 142 | 170 | 557 | 871 | (871) | — |
| Total | ¥ 41,068 | ¥ 5,150 | ¥ 2,176 | ¥ 48,396 | ¥ (907) | ¥ 47,489 |
| Segment profit | ¥ 5,283 | ¥ 707 | ¥ 1,210 | ¥ 7,201 | ¥ (96) | ¥ 7,104 |
| Segment assets | 3,140,144 | 13,289 | 10,904 | 3,164,339 | (17,511) | 3,146,827 |
| Segment liabilities | 2,968,072 | 8,777 | 3,462 | 2,980,312 | (11,994) | 2,968,318 |
| Other items: | | | | | | |
| Depreciation and amortization | ¥ 1,659 | ¥ 14 | ¥ 6 | ¥ 1,680 | ¥ — | ¥ 1,680 |
| Interest income | 28,491 | 10 | 97 | 28,598 | (123) | 28,475 |
| Interest expenses | 1,717 | 50 | 0 | 1,767 | (35) | 1,731 |
| Extraordinary income | 3 | — | 8 | 11 | (8) | 3 |
| Extraordinary losses | 353 | — | 0 | 353 | — | 353 |
| (Of which, Impairment losses) | 200 | — | — | 200 | — | 200 |
| Income taxes | 931 | 159 | 37 | 1,128 | (0) | 1,128 |
| Increase in premises & equipment and intangibles | 1,687 | 0 | 15 | 1,703 | 9 | 1,712 |

| Year ended March 31, 2019 | Thousands of U.S. dollars (Note 1) | | | | | |
|--|------------------------------------|-----------|-----------|------------|-------------|--------------|
| | Reportable segment | | | | Adjustment | Consolidated |
| | Banking | Leasing | Other | Total | | |
| Ordinary income | | | | | | |
| External customers | \$ 357,933 | \$ 41,463 | \$ 8,262 | \$ 407,658 | \$ (747) | \$ 406,910 |
| Inter-segment | 4,315 | 1,369 | 5,369 | 11,064 | (11,064) | — |
| Total | \$ 362,248 | \$ 42,832 | \$ 13,631 | \$ 418,722 | \$ (11,811) | \$ 406,910 |
| Segment profit | \$ 54,464 | \$ 1,459 | \$ 4,784 | \$ 60,708 | \$ (3,829) | \$ 56,878 |
| Segment assets | 27,191,206 | 119,929 | 99,675 | 27,410,811 | (159,572) | 27,251,238 |
| Segment liabilities | 25,641,111 | 78,286 | 32,056 | 25,751,464 | (107,514) | 25,643,940 |
| Other items: | | | | | | |
| Depreciation and amortization | \$ 15,217 | \$ 63 | \$ 54 | \$ 15,352 | \$ — | \$ 15,352 |
| Interest income | 242,265 | 63 | 783 | 243,111 | (4,135) | 238,976 |
| Interest expenses | 13,226 | 414 | 0 | 13,649 | (315) | 13,334 |
| Extraordinary income | 90 | — | — | 90 | — | 90 |
| Extraordinary losses | 2,360 | 0 | 0 | 2,360 | — | 2,360 |
| (Of which, Impairment losses) | 1,531 | — | — | 1,531 | — | 1,531 |
| Income taxes | 15,226 | 459 | 1,459 | 17,154 | (0) | 17,154 |
| Increase in premises & equipment and intangibles | 24,813 | (18) | (9) | 24,786 | 9 | 24,804 |

39. Related Party Transactions

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

| Related party | Category/Business | Account | Amounts of transaction | | | Balance at end of year | | |
|-----------------------|--|-------------------|------------------------|------|------------------------------------|------------------------|------|------------------------------------|
| | | | Millions of yen | | Thousands of U.S. dollars (Note 1) | Millions of yen | | Thousands of U.S. dollars (Note 1) |
| | | | 2019 | 2018 | 2019 | 2019 | 2018 | 2019 |
| Yoshiyuki Tsuji | Director of the Bank | Loan | ¥ — | ¥ — | \$ — | 31 | 37 | \$279 |
| Kiichiro Nishimura | Director / Statutory Auditor of the Bank | Loan | 3 | 6 | 27 | 17 | 18 | 153 |
| Yukihiko Nishimura | President and Representative Director / Executive Director of YAMANI Co., Ltd. | Loan | — | — | — | 43 | 44 | 387 |
| IYATAKA GROUP (*1) | Wedding halls | Loan | — | 200 | — | 553 | 633 | 4,982 |
| | | Lease transaction | 15 | 17 | 135 | 21 | 35 | 189 |
| Produce Pro Inc. (*2) | Advertising | Loan | 23 | — | 207 | 21 | — | 189 |

The conditions of the above transactions were the same as arm's length transactions.

*1. Mr. Masashi Kitajima and his family own 59.2% and 58.7% of voting rights of IYATAKA GROUP as of March 31, 2019 and 2018, respectively.

*2. Mr. Masashi Kitajima and his family own 100.0% of voting rights of Produce Pro Inc. as of March 31, 2019.

40. Per Share Information

Consolidated net assets and income per share and related information for the years ended March 31, 2019 and 2018 were as follows:

| | Yen | | U.S. dollars (Note 1) |
|------------------------------|-----------|-----------|--------------------------|
| | 2019 | 2018 | 2019 |
| Net assets per share | ¥9,897.33 | ¥9,904.97 | \$89.17 |
| Net income per share | 230.77 | 263.65 | 2.07 |
| Diluted net income per share | 230.41 | 263.29 | 2.07 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|--|
| | 2019 | 2018 | 2019 |
| Net income attributable to owners of parent | ¥ 4,142 | ¥ 4,733 | \$ 37,318 |
| Net income not attributable to common stockholders | — | — | — |
| Net income attributable to common stock owners of parent | 4,142 | 4,733 | 37,318 |
| Average number of common stock (thousand shares) | 17,951 | 17,952 | |

Notes: Common shares were consolidated at the rate of 1 per 10, on October 1, 2017. It is assumed that the share consolidation was carried out at the beginning of previous fiscal year.

41. Subsequent Events

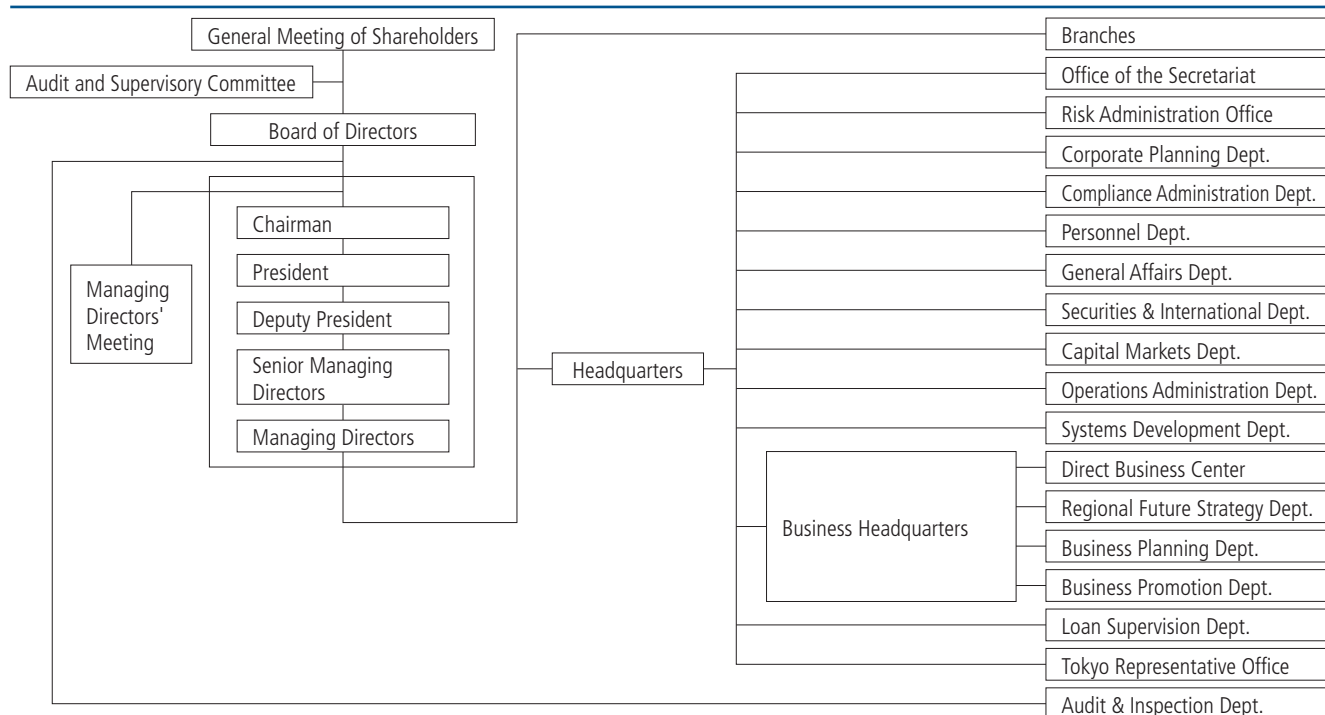
None to report.

Corporate Information

Corporate Data (As of March 31, 2019)

| | |
|---|--|
| Corporate Name | The Akita Bank, Ltd. |
| Head Office | 2-1, Sanno 3-Chome, Akita-shi, Akita 010-8655, Japan |
| Date of Establishment | January, 1879 |
| Number of Shares Issued and Outstanding | 18,093 thousand shares |
| Number of Employees | 1,381 |
| Number of Branches | 98 |
| Paid-in Capital | ¥14.1 billion |

Organization (As of July 17, 2019)



Directors, Audit and Supervisory Committee Members & Executive Officers (As of June 26, 2019)

| | | | |
|----------------------------------|-------------------|---|--|
| Chairman | Takao Minatoya | * | Directors, Audit and Supervisory Committee Members |
| President | Akihiro Araya | * | Hideto Ono |
| | | | Masahiko Sato |
| Senior Managing Director | Toshiyuki Sasaki | | Outside Directors, Audit and Supervisory Committee Members |
| Managing Directors | | | Masashi Kitajima |
| | | | Masahiro Morohashi |
| | | | Kenichi Kobayashi |
| | | | Executive Officers |
| | Takanori Kudo | | Hironobu Yamada |
| | Naoki Handa | | Tadami Iwaya |
| | Masato Tsuchiya | | Reisei Shindo |
| Directors and Executive Officers | | | Satoru Nakayama |
| | Takashi Kato | | Jyushin Kudo |
| | Tsuyoshi Minakawa | | Tatsuo Kanazawa |
| Outside Directors | | | Chikara Miura |
| | Yoshiyuki Tsuji | | Arata Tateoka |
| | Junichi Sakaki | | Hiroyoshi Miura |
| | Naofumi Nakata | | Tetsuya Hayashiguchi |
| * Representative Directors | | | Kosuke Ashida |

ANNUAL REPORT

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SWIFT AKITJPJT

2019



The Akita Bank, Ltd.