

Chugin  
Heart  
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THE CHUGOKU BANK, LTD.

ANNUAL REPORT 2014

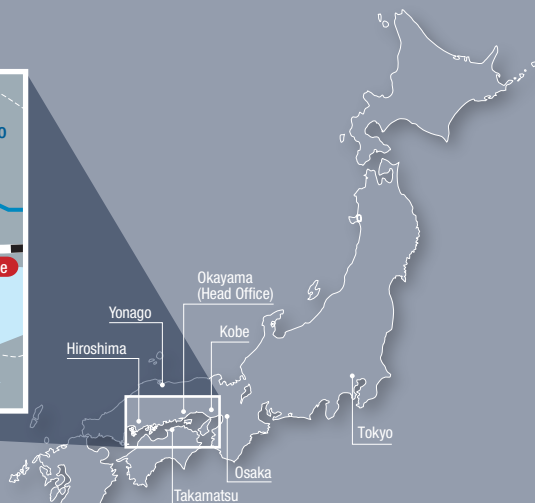
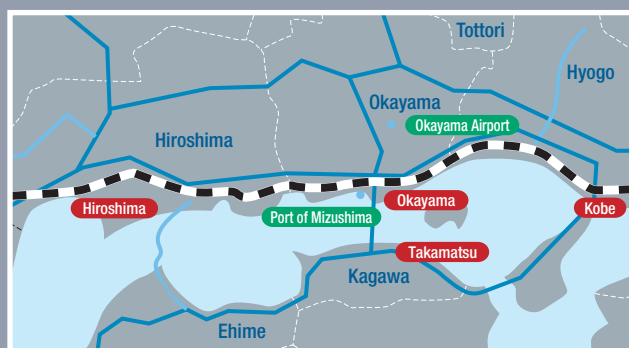


THE CHUGOKU BANK, LTD.

## Profile

Okayama Prefecture, home to the head office of the Chugoku Bank, is situated approximately 700 kilometers west of Tokyo. Facing the Seto Inland Sea, the prefecture is known throughout Japan as “the sunny land” due to its mild climate and consistently fine weather.

With a population of 1.93 million people, Okayama Prefecture yields a gross prefectural product of over ¥7,222 billion (U.S.\$70,177 million), or an impressive 1.45% of Japan's GDP. Manufacturing is the core industry in Okayama, having evolved around the Mizushima Waterfront Industrial District—the world's leading petrochemical complex—which was constructed in the 1960s. Given the prefecture's ever-improving highways, airports, and harbors, there is further growth anticipated, with the area serving as an important economic and cultural center for the Eastern Setouchi region.



### Contents

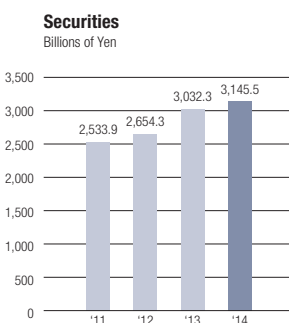
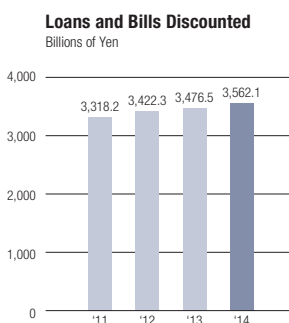
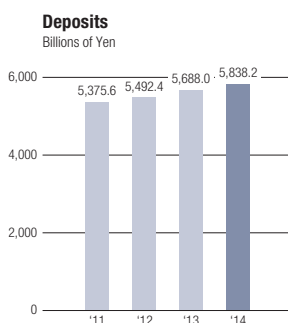
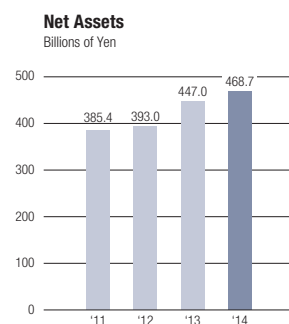
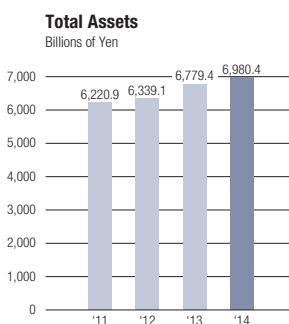
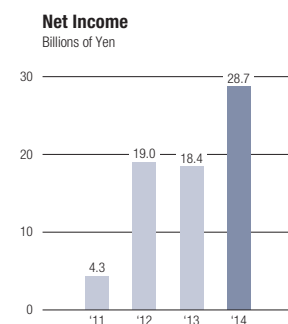
|   |    |  |    |
|---|----|--|----|
| Consolidated Financial Highlights                       | 1  | Independent Auditors' Report                             | 45 |
| Message from the Management                             | 2  | Non-Consolidated Financial Statements                    | 46 |
| New Medium-Term Management Plan—<br>“Chugin Heart 2014” | 3  | Corporate Information                                    | 49 |
| Review of Operations                                    | 4  | Board of Directors and Audit & Supervisory Board Members | 50 |
| Comprehensive Risk Management System                    | 6  | Organization Chart                                       | 51 |
| CSR   | 8  | Principal Operations of the Chugoku Bank Group           | 52 |
| Compliance / Corporate Governance                       | 10 | Service Networks   | 53 |
| Internal Control  | 11 | Corporate Data   | 54 |
| Financial Section                                       | 13 | Shareholder Information                                  | 54 |
| Consolidated Financial Statements                       | 14 | Disclosure Policy  | 55 |

# Consolidated Financial Highlights

The Chugoku Bank, Limited and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

|  | Millions of Yen<br>(except per share amounts) |            | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|---|------------|--|
|  | 2014  | 2013       | 2014                                     |
| For the year:                                      |   |            |  |
| Total income .....                                 | ¥ 133,269                                     | ¥ 117,206  | \$ 1,294,879                             |
| Total expenses .....                               | 85,438  | 86,235     | 830,139                                  |
| Net income .....                                   | 28,717  | 18,426     | 279,022                                  |
| Per share of common stock (yen/U.S. dollars):      |   |            |  |
| Basic net income .....                             | ¥ 142.12                                      | ¥ 90.37    | \$ 1.38                                  |
| Diluted net income .....                           | 141.96  | 90.29      | 1.37                                     |
| At year-end:                                       |   |            |  |
| Deposits .....                                     | ¥5,838,242                                    | ¥5,688,029 | \$56,726,020                             |
| Loans and bills discounted .....                   | 3,562,136                                     | 3,476,550  | 34,610,726                               |
| Securities .....                                   | 3,145,527                                     | 3,032,353  | 30,562,835                               |
| Total assets .....                                 | 6,980,486                                     | 6,779,495  | 67,824,387                               |
| Net assets .....                                   | 468,765                                       | 447,090    | 4,554,654                                |
| For the year:                                      |   |            |  |
| Cash flows provided by operating activities .....  | 89,868  | 289,921    | 873,183                                  |
| Cash flows used in investing activities .....      | (79,333)                                      | (286,811)  | (770,821)                                |
| Cash flows used in financing activities .....      | (7,782)                                       | (4,365)    | (75,612)                                 |
| Cash and cash equivalents at the end of year ..... | 73,297  | 70,513     | 712,174                                  |

Notes: 1. U.S. dollar amounts represent translations from yen, for convenience only, at the rate of ¥102.92 = US\$1 in effect on March 31, 2014.  
2. Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding treasury stock).



The amounts in this document are rounded as follows.  
The amounts are rounded to the nearest figure.

## Message from the Management

**We aim to create a virtuous cycle of growth with our community and customers.**

No matter how the times or the economic conditions may change, we retain the same mission of following a path of co-existence and co-prosperity with our customers, and the same philosophy of contributing to the local community through comprehensive financial services.

Returning to the basic concept that growth of the region is what will fuel the growth of our Bank, our vision is to create a virtuous cycle where the satisfaction and impact our customers feel in turn expands our management base and motivates our employees.

We have formulated our new Medium-Term Management Plan "Chugin Heart 2014," which began in the fiscal year ending in March 2015, in order to achieve this vision.

### Strengthening Sales Capabilities

#### 1. Corporate Sales Business

##### "Promotion of new loans and community-based financial services"

We will actively promote new loans to regional companies through proactive risk-taking. We will also strengthen relationships with regional communities by boosting support to new businesses as well as consulting capabilities, and stepping up lending to regional companies by focusing on their growth potential, to achieve a level of satisfaction beyond customers' expectations.

##### "Supporting growth fields and regional revitalization"

With a view to create new demand for financing in the region, under the initiatives of the Regional Development Section established in June 2013, we will promote coordination between domestic branches and each department of the headquarters. At the same time, we will also strengthen support for growth fields. Our cooperation with outside expert organizations will also be strengthened so that we can further contribute to regional development.

##### "Supporting customers expanding overseas"

We are going to reinforce this framework to respond to accelerating overseas expansion by corporate customers. We are also planning to step up financing activities related to international operations along with boosting a number of staff for supporting overseas business and begin offering overseas remittance operations service at all branches.

##### "Supporting management improvement and business rehabilitation"

We will further enhance V-Support activities that help customers improve their management and business rehabilitation, in an effort to extend the scope of customers who need our support. We will also forge "win-win" relationships by providing optimum solutions to customers in an effort to upgrade their borrower's status.

Meanwhile, we will earnestly address customers' needs for financing by actively capitalizing on the V-Support loans.

#### 2. Individual Sales Business

##### "Development of framework of business structure"

We aim to become a bank that can be trusted by customers across all generations as a lifetime banking relationship by developing a framework to cater to specific needs at each stage of customers' lives, including human resources, financial products and distribution channels.

To lure young customers into lifetime banking relationships, we will encourage first-time users to fully utilize our banking services from opening an account, to direct payroll deposits, credit cards and card loans. For customers seeking asset building, we will enhance proposal development capabilities for comprehensive lifecycle plans, mainly with housing loans, as well as unsecured loans and savings-type financial products.

For pre-senior customers, we are planning to launch sales operations with outbound calls and trial openings on Saturdays and Sundays at branches for broader customer access. For senior customers, we will strengthen our "silver business" through the consolidation of the business succession section and private banking section.

##### "Coordination with affiliates"

The Bank's securities subsidiary, Chugin Securities Co., Ltd., shall seek for improvement of customer convenience through the expansion and optimization of its securities business domain in line with those of the Bank's banking operations, and also develop a business structure fully equipped to capitalize on the coming unified taxation system on income from all financial products. Meanwhile, Chugin Asset Management Company Limited shall further expand its product line-up to facilitate customers' wealth accumulation. We will continue to provide the best possible services to regional customers, with full coordination with other affiliates across the Group.



#### 3. Investing in Securities

We will engage in flexible asset allocation, based on continuous and constant earnings in order to create an optimum portfolio based on adequate risk distribution.

#### Cultivation of Human Resources

##### 4. Reforming Organizational Culture

We have drawn up "Chugin's Mind," a document that provides values and guidelines for each employee of the Chugoku Bank Group to tackle a task on their own motive. With the aim of impressing and providing satisfaction to our customers, we will commit ourselves to enhancing our organizational strength, ensuring that all the officers and employees of our group work toward the same goal.

##### 5. Systematic Cultivation of Human Resources

We will restructure our training system to cater to the needs of employees according to their stages of development by their work types and grades, and also further develop the existing trainee system. Meanwhile, we will work on establishing its internal system to evaluate and improve practical sales capabilities of our employees, not to mention business knowledge.

##### 6. Creating Opportunities for Diversified Talents

We are committed to clarifying career paths and improve work-life balance of our employees to let our female staff members have access to wider opportunities. Furthermore, clear numerical targets shall be set for appointing managers and supervisors to enhance their motivation and energize our organizations.

#### Management administrative system

##### 7. Low Cost Structure

We are committed to creating a cost management framework to reduce expenses to an adequate level. Management resources will be reallocated to businesses that contribute to improvement of corporate earning capacity.

##### 8. Implementation of Efficient Operations

We will tackle a thorough streamlining of operations. This will reduce the administrative burden on staff members at our branches so that they can devote longer hours for their sales activities.

##### 9. Compliance and System Strategies

We are determined to strictly enforce compliance, from the prevention of misconduct to compliance with various regulations. With respect to system strategies, we will work on the steady progress of the TSUBASA Project, stable system operations and reduction of system expenses.

#### Corporate Social Responsibility

We will remain engaged in regional contributions through our financial operations as well as wider social action programs that go beyond the boundary of the financial business.

June 2014

*Masato Miyanaga*

Masato Miyanaga,  
President

## New Medium-Term Management Plan “Chugin Heart 2014”

— Putting our hearts into offering our customers comprehensive financial services —

### Outline of Medium-Term Management Plan

#### Main Theme

**Create a virtuous cycle of growth with local communities and our customers**

#### Period of the Plan

**April 2014-March 2017**

However, we will revise this each fiscal year in accordance with the changes in the environment

#### Name of the Plan

## Chugin **Heart** 2014

We will put our “**hearts**” into:

hotly **H**ot  
energetically and **E**nergy  
actively **A**ctive  
building relationships with local community and our customers **R**elation  
and keep trying **T**ry

### Performance Targets

The main measures in this plan are “contribution to the growth of the regional economy” and “increase in corporate value through uncompromising cost management and development of human resources.” We have created the following operational targets as a barometer for measuring our performance on these measures.

- There are two targets for measuring “contribution to the growth of the regional economy”: total deposits and total loans. We will pursue the advantage of scale through these targets.
- There are four targets for measuring “corporate value”: core net business profit, recurring profit, overhead ratio (OHR), and common equity Tier 1 capital ratio.

#### Contribution to the growth of the region

(final year average balance)

Total deposits (+NCD) **¥6,100 billion**

Total loans **¥3,700 billion**

#### Enhancement of corporate value

(final year plan on a non-consolidated basis)

Core net business profit **¥27 billion or more**

Recurring profit **¥22 billion or more**

OHR **68% or less**

Common equity Tier 1 capital ratio **Upper 13% range**

# Review of Operations

## Financial Condition

Results by business segment are as follows.

### Banking business

In the banking business, recurring income increased by ¥15,597 million year on year, or 15.2%, to ¥117,853 million, while recurring profit increased by ¥16,753 million year on year, or 61.1%, to ¥44,149 million.

### Leasing business

In the leasing business, recurring income decreased by ¥541 million year on year, or 4.5%, to ¥11,381 million, while recurring profit decreased by ¥356 million year on year, or 30.9%, to ¥796 million.

### Securities business

In the securities business, recurring income increased by ¥928 million year on year, or 38.2%, to ¥3,357 million, while recurring profit increased by ¥335 million year on year, or 77.7%, to ¥766 million.

### Other

For other business, recurring income increased by ¥131 million year on year, or 2.7%, to ¥4,811 million, while recurring profit increased by ¥212 million year on year, or 9.8%, to ¥2,357 million.

### Earnings

Consolidated recurring income increased by ¥15,979 million year on year, or 13.6%, to ¥133,177 million, while consolidated recurring profit increased by ¥16,891 million year on year, or 54.1%, to ¥48,107 million, thanks to a substantial amount of reversal of reserve for possible loan losses. As a result, consolidated net income increased by ¥10,291 million year on year, or 55.8%, to ¥28,717 million.

## Loss on Devaluation and Reserves

The Bank conventionally writes off loans and makes provisions for possible loan losses based on rigorous asset assessment with a view to maintaining and enhancing its asset soundness. In the current fiscal year, the Bank posted ¥11,234 million reversal of reserve for possible loan losses, thanks to a decrease in provision rate due to the impact of a large borrower's bankruptcy in the previous fiscal year blown over, as well as the general improvement in the borrowers' business conditions (as a combined effect of ¥4,918 million reversal of general reserve for possible loan losses and ¥6,880 million provision of specific reserve for possible loan losses in the previous fiscal year).

## Cash Flows

Cash and cash equivalents as of the end of the current fiscal year increased by ¥2,784 million year on year to ¥73,297 million.

### Cash flows from operating activities

Cash flows from operating activities amounted to ¥89,868 million, decreasing ¥200,052 million year on year, due in part to decrease in transactions of loans secured by accounts receivable.

### Cash flows from investing activities

Net cash used in investing activities increased by ¥207,477 million year on year to ¥79,333 million, due primarily to an increase in sale of securities.

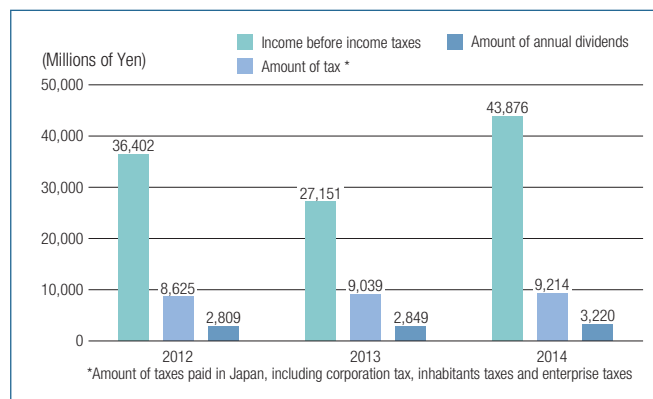
### Cash flows from financing activities

Net cash used in financing activities decreased by ¥3,416 million year on year to ¥7,782 million, due primarily to an increase in purchases of treasury stock.

## Forecast for Next Term

Based on the assumption that the current financial and economic environment will remain relatively unchanged, the Chugoku Bank Group forecasts consolidated recurring profit of ¥32,900 million and consolidated net income of ¥20,200 million for the fiscal year ending March 2015.

## Income before Income Taxes, Amount of Tax, Amount of Annual Dividends



## Capital Adequacy Ratios

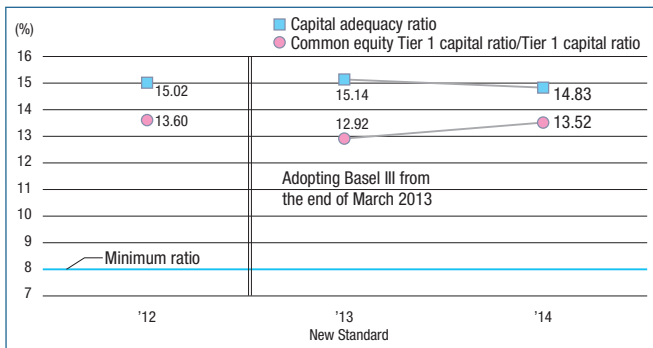
The Bank's capital adequacy ratio was 14.83% as of the end of March 2014.

The Bank started to calculate its capital adequacy ratio in accordance with the new capital adequacy regulations (Basel III) since the end of March 2013, on the basis of the international BIS standards\*.

\*The international BIS standards call for at least 8% of capital adequacy ratio, at least 5.5% of Tier 1 capital ratio, and at least 4% of common equity Tier 1 capital ratio.

$$\text{Capital adequacy ratio (\%)} = \frac{\begin{matrix} (1) \text{ Common equity Tier 1 capital} \\ + \\ (2) \text{ Additional Tier 1 capital} \\ + \\ (3) \text{ Tier 2 capital} \end{matrix}}{(4) \text{ Risk-weighted assets}} \times 100$$

- (1) The amount of common equity Tier 1 capital represents the capital with the highest quality, comprising common shares, retained earnings and others.
- (2) The amount of additional Tier 1 capital comprises preference shares, equity instruments with high loss-absorbing capacity and others.
- (3) The amount of Tier 2 capital comprises subordinated bond, subordinated loans (limited to those which are assured to absorb loss, subordinated to savers and unsecured creditors) and others.
- (4) The amount of risk-weighted assets is derived by integrating the values of various categories of asset commensurate with the degree of their risk.



## Risk-managed Loans (Consolidated)

The balance of risk-managed loans decreased by ¥23,212 million year on year, to ¥87,471 million as of the end of March 2014, thanks to an upgrading of borrowers' status due to general improvement in the borrowers' business conditions and business rehabilitation activities, along with reduction efforts including direct write-offs and elimination from balance sheet by debt disposal.

Consequently, the ratio of risk-managed loans (against the total loan balance) deteriorated by 0.72 percentage point year on year, to 2.46% as of the end of March 2014.

| Status of impaired loans (Millions of Yen) |                    |                    |
|--|--------------------|--------------------|
|  | End of March 2014  | End of March 2013  |
| Loans to bankrupt customers                | ¥ 7,953            | ¥ 17,419           |
| Loans past due six months or more          | 65,097             | 79,298             |
| Loans past due three months or more        | 663                | 569                |
| Restructured loans                         | 13,756             | 13,397             |
| <b>Total</b>                               | <b>¥ 87,471</b>    | <b>¥ 110,683</b>   |
| <b>Total loan balance (ending balance)</b> | <b>¥ 3,562,136</b> | <b>¥ 3,476,550</b> |

## Loans to Bankrupt Customers

Of the loans whose accrued interest is not recognized as revenue, loans to customers who have been bound by legal procedures under the Corporate Reorganization Act, Bankruptcy Act, or the rehabilitation procedures, as well as loans to customers whose transactions have been suspended by the Clearinghouse.

## Loans in Default (Past Due Six Months or More)

Loans whose accrued interest is not recognized as revenue, excluding loans to bankrupt customers as well as those for which payment of the interest has been postponed to ensure the borrowers' business rehabilitation or to assist their management to carry on.

## Loans Past Due Three Months or More

Loans for which repayment of the principal or the interest has been overdue three months or more from the day following the due date, but not classified as either loans to bankrupt customers or loans in default defined above.

## Restructured Loans

Loans for which arrangements have been reached in the borrowers' favor to ensure their business rehabilitation or to assist their management to carry on, including reductions in or exemption of the interest rate, postponed payment of the interest, a grace period for repayment of the principal, and debt forgiveness, but not classified as either loans to bankrupt customers, loans in default or loans past due three months or more defined above.

## Ratings

Ratings is a ranking in terms of its certainty in performing obligations (creditworthiness) to indicate whether it is reliable enough to repay the principal and interest of savings deposited by its customers, as well as its financial soundness, based on the examination of its financial position along with its external business environment by a rating agency operating as a fair third party. The Chugoku Bank has obtained ratings from Moody's as well as Rating and Investment, Inc. (R&I), and is ranked as one of the best among the Japanese banks.

| Rating symbols and gradations |                            |                             |                                  |
|-------------------------------|----------------------------|-----------------------------|----------------------------------|
|                               | Moody's                    |                             | R&I                              |
|                               | * Long-term deposit rating | * Short-term deposit rating | * Bank financial strength rating |
|                               |                            |                             | * Long-term credit rating        |
| Investment grade              | Aaa                        | P-1 (PRIME-1)               | A                                |
|                               | Aa1                        |                             | A-                               |
|                               | Aa2                        |                             | B+                               |
|                               | Aa3                        |                             | B                                |
|                               | A1                         |                             | B-                               |
|                               | A2                         |                             | C+                               |
|                               | A3                         |                             | C                                |
|                               | Baa1                       |                             | C-                               |
|                               | Baa2                       |                             | D+                               |
|                               | Baa3                       |                             | D                                |
|                               | Ba1                        | P-2 (PRIME-2)               | D-                               |
|                               | Ba2                        |                             | E+                               |
|                               | Ba3                        |                             | E                                |
|                               | B1                         |                             |                                  |
|                               | B2                         |                             |                                  |
|                               | B3                         |                             |                                  |
|                               | Caa1                       |                             |                                  |
|                               | Caa2                       |                             |                                  |
|                               | Caa3                       |                             |                                  |
|                               | Ca                         |                             |                                  |
| Speculative grade             | C                          |                             |                                  |
|                               |                            |                             | AAA                              |
|                               |                            |                             | AA+                              |
|                               |                            |                             | AA                               |
|                               |                            |                             | AA-                              |
|                               |                            |                             | A+                               |
|                               |                            |                             | A                                |
|                               |                            |                             | A-                               |
|                               |                            |                             | BBB+                             |
|                               |                            |                             | BBB                              |
|                               |                            |                             | BBB-                             |
|                               |                            |                             | BB+                              |
|                               |                            |                             | BB                               |
|                               |                            |                             | BB-                              |
|                               |                            |                             | B+                               |
|                               |                            |                             | B                                |
|                               |                            |                             | B-                               |
|                               |                            |                             | CCC+                             |
|                               |                            |                             | CCC                              |
|                               |                            |                             | CCC-                             |
|                               |                            |                             | CC                               |
|                               |                            |                             | C                                |

# Comprehensive Risk Management System

## Comprehensive Risk Management System

The Bank defines risk management as one of its critical management agenda and aims at well-balanced management in pursuit of enhanced profitability while maintaining operational soundness through further development of comprehensive risk management. To this end, risks are managed in accordance with the basic risk management rules which set out policies and framework of risk management for the entire Bank along with other basic matters on the subject.

Risks assumed by banks include credit risks, market risks, liquidity risks and operational risks. At the Chugoku Bank, we have established a system for managing the various types of risks comprehensively through the establishment of a controller for risk management as well as various committees such as the Asset and Liability Management (ALM) Committee. We also designate sections in charge of each risk and analyze the status of these risks by risk category, and evaluate and manage them for the entire bank. We have also established a system to ensure proper risk management on a continual basis under which the Audit & Inspection Department monitors the status of risk management by the various divisions.

In order to ensure the effectiveness of the comprehensive risk management, the Bank assesses and verifies the degree of capital adequacy by comparing its own capital with the total amount of risk the Bank is exposed to, as derived by aggregating the amounts of credit, market and operational risks calculated by statistical and other methods. Meanwhile, stress tests are conducted to assess and verify the risk events, for which amount of each category of risk is unlikely to have been fully identified. The results of such assessment and verification are utilized for the development and review of the operation plan and risk management policies, to ensure operational soundness while enhancing profitability at the same time. Furthermore, to ensure operational soundness on a constant basis, the Bank makes it a principle to conduct risk taking within the limit of the common equity Tier 1 capital\* excluding losses that are actualized under certain stress situations and net unrealized gains on available-for-sale-securities if its value is positive (unrealized gain), whereby risk amounts are monitored and managed within the risk limits established for each risk category.

\*Common equity Tier 1 capital is the highly loss-absorbent capital that is additionally required to be maintained above certain level, following the adoption of Basel III (the enhanced global regulatory framework for banking capital adequacy) at the end of March 2013. It replaces Tier 1 capital (based on Basel II) which was used for this purpose up to the fiscal year ended March 2013.

## Credit Risk Management

Credit risk refers to the risks of losses incurred when the value of assets (including off-balance-sheet assets) declines or becomes worthless due to changes in the financial status of those to whom credit is provided.

The Bank's basic credit risk management policy is, (within the scope of its management capabilities), to ensure that return is commensurate with risks in its transactions and to appropriately manage the credit risks of the diverse transactions of each of its divisions and business sections using credit risk assessment and management methods that suit the special characteristics of each transaction in order to maintain a sound asset structure. The Bank carries out its credit risk management appropriately based on its Credit Risk Management Standards and various detailed management methods provided for in the Bank's operating regulations.

Based on this framework, the Credit Rating Center and Credit Supervision Department manage the risks of the individual loans of the operational divisions (branches and loan sales departments at the headquarters). The Risk Management Department, which is completely independent of the loan sale, screening, and approval process, is responsible for managing overall credit risks. The Bank has also established an auditing system for credit risks, appointing a Credit Screening Supervisor in the Audit & Inspection Department who bears the responsibility for conducting internal audits for credit risks.

Specifically, credit risk management entails determining the overall condition of the customer's business through credit ratings, self-assessment, and other methods. This information is utilized to carry out credit screening for individual loans, administer the loans after they have been extended, and properly determine write-offs and reserves. From the perspective of loan portfolio management, the Chugoku Bank strives to strengthen control of credit risks and its ability to earn stable income by monitoring the loan balance composition and credit risks and cost adjusted income.

Risk managers verify that calculated credit risk exposure is within the credit risk limits set under the credit risk management plan, conduct stress tests to assess the Bank's degree of capital adequacy, and report results regularly to the Board of Directors and other management bodies.

Credit concentration risks are managed by grasping and controlling credit exposure by debtor, industry and country, the status of which is reported to the Board of Directors and other management bodies on a regular basis.

In addition, the Bank's "Large Borrowers Credit Review Committee" investigates and analyzes large borrowers with regard to their multidimensional conditions to discuss appropriate policies to cope with their current financial status. These policies are subsequently deliberated on by the Board of Managing Directors; their decisions are regularly reported to the Board of Directors, with a view to conducting proper management of large borrowers' credit risks.

## Market Risk Management

Market risk refers to the risks of incurring losses from fluctuations in profits arising from assets and liabilities and the risks of incurring losses from fluctuations in the value of assets and liabilities (including those off balance sheet) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Bank's basic risk management policy for market risks is to determine and analyze risks from the point of view of both price and return on asset movements as well as assessing the risks from various angles, using stress tests and other methods. The Bank carries out its market risk management appropriately based on its Market Risk Management Standards, which stipulate the framework and systems for market risk management, and various detailed management methods provided for in the Bank's operating regulations.

The structure for market risk management is divided into the business operations division (front office) and the administrative division (back office). We have also established a risk management division (middle office). These serve as reciprocal restraints.

Trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. These are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risks by taking the risk-return balance into consideration through ALM analysis, Value at Risk (VaR) analysis and other means to ensure stable profits over the medium and long term. We have also established a system for the flexible management of market risks as well as credit risks and liquidity risks related to market operations.

Market risk management for the entire bank, including lending and deposit services, is carried out by analyzing risks from multiple aspects, such as the calculation of interest rate risks. The Risk Management Committee and the ALM Committee discuss the overall management of assets and liabilities and consider management and lending policies.

## Liquidity Risk Management

Liquidity risk refers to the risks of incurring losses (hereafter, "fund procurement risks") when it becomes difficult to secure the requisite funds or when procuring funds at a much higher than normal interest rate becomes necessary due to a mismatch between the timing of use and procurement or to an unexpected



outflow of funds, or to risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, "market liquidity risks").

The Bank recognizes fund procurement as an important management issue and its basic fund procurement risks policy is to ensure a stable supply of funds. The Bank's basic policy for managing market liquidity risks is to take into consideration the special features of markets for individual products, such as market size, liquidity, and other factors and pay careful attention to their market liquidity. The Bank carries out its fund procurement risks and market liquidity risk management appropriately based on its Market Liquidity Risk Management Standards, which stipulate the framework and systems for fund procurement risks and market liquidity risk management.

Funds procurement risks are subject to strict management and this is divided between the funds procurement division, which procures funds, and the funds procurement risk management division, which monitors the status of the procurement of those funds.

The funds procurement management division carefully monitors the daily status of funds procurement for market operations and other operations and works to limit the risks involved in the procurement of funds. The funds procurement risk management division determines the management policies for risks of procuring funds such as policies on holding highly liquid assets and setting limits on procurement from the market. The funds procurement risk management division monitors developments to ensure there are no problems with the status of funds procurement in the funds procurement management division.

Deposits comprise the vast majority of procurement for the Chugoku Bank and the procurement of funds is stable. However, we are working to diversify the means of procurement to prepare for unforeseen circumstances by procurement from the market utilizing marketable securities held by the Bank.

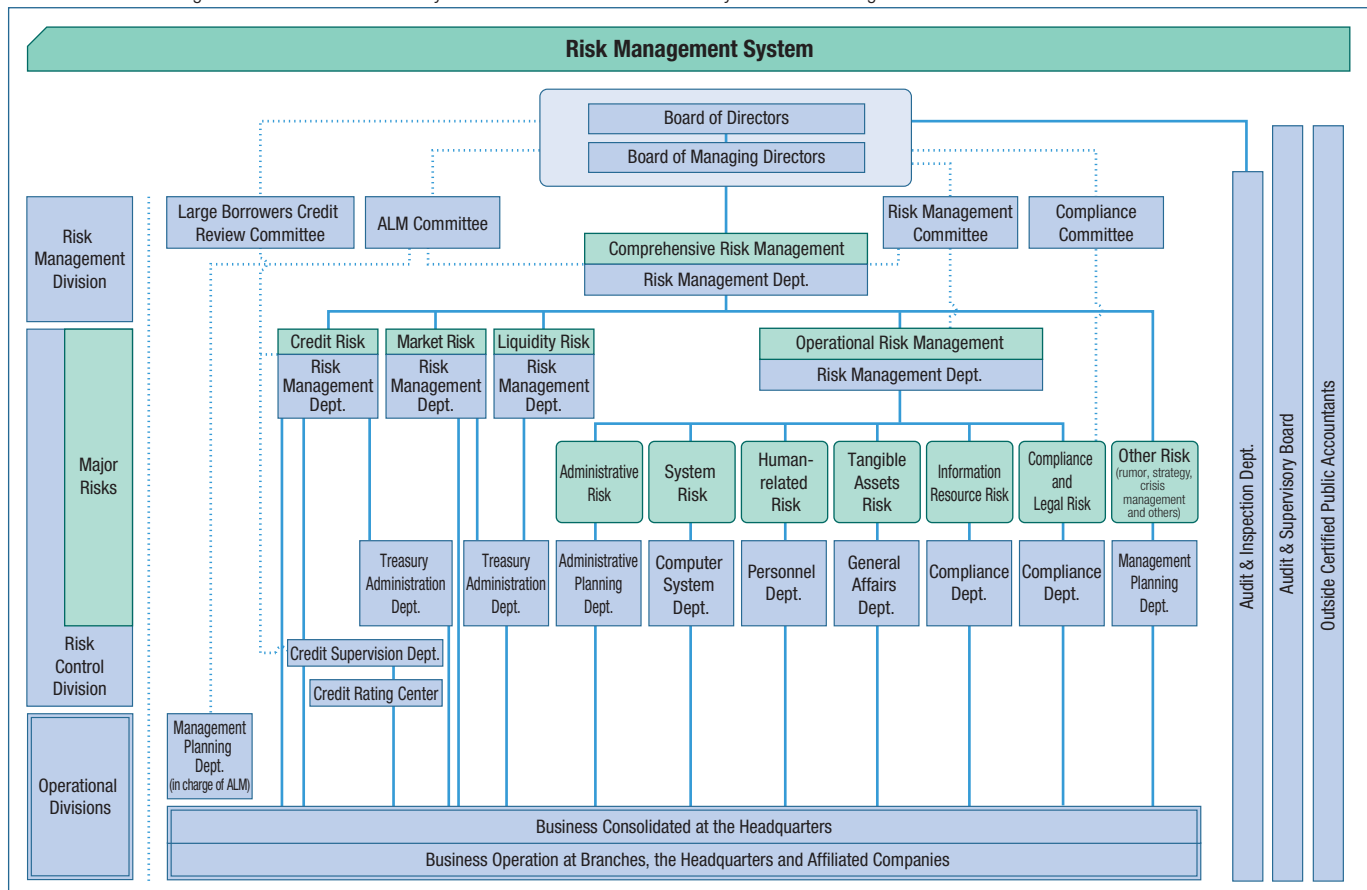
## Operational Risk Management

Operational risk refers to risks of losses arising from bank operational processes, employees' and officers' activities or an unsuitable system or due to external circumstances.

The Chugoku Bank's basic policy on the management of operational risks is to establish a solid organizational structure and mechanism, under which it performs continuous management of operational risks with the aim of preventing their realization or minimizing their impact should they occur. To this end, the Bank has established its Operational Risk Management Standards and other risk management standards and rules for each category of risks. In accordance with these standards and rules, it conducts appropriate management of overall operational risks.

The Bank separates operational risks into six categories: 1) administrative, 2) system, 3) human-related, 4) tangible assets, 5) information resource, and 6) compliance and legal risks; each category of risk is overseen and controlled by a designated division in charge of specific risks, drawing on its specialized point of view. In addition, the Bank established the Operational Risk Management Center of the Administrative Planning Department, the supervisory division for the Bank's overall operational risk management structure, and conducts the integrated monitoring and management of overall operational risks.

As an operational risk management method, specifically, the Chugoku Bank implements Risk Control Self-Assessment (RCSA) programs. In addition to assessing risks, these programs upgrade risk management measures, such as controlling, transferring, and avoiding risks, based on the formulation of measures to prevent recurrence. These procedures involve collecting and analyzing operational risk loss event data as a method of capturing risks and establishing response measures. Moreover, to increase the efficiency of operational risk management, the Bank is endeavoring to set up a Plan-Do-Check-Act (PDCA) cycle for risk management.



# CSR

## CSR Activities

The Bank has established a CSR Committee with the president as chairman. We consider our stakeholders to be current and future customers, shareholders, the regional community and bank employees, and the Bank's approach to CSR activities underlines this broad view.

At the heart of CSR activities is the Bank's integrity upheld through compliance and corporate governance in order to ensure the Bank is an upstanding corporate citizen when conducting its operations.

In activities contributing to society, the Bank places the highest priority on contributions to the region in its capacity as a regional financial institution. We are continuously considering bold, new approaches beyond our core operations in order to contribute to society.

Through these activities we will grow and develop hand in hand with our local communities.

## Social Contribution through Business

### Policy on Initiatives Related to Management Support for SMEs (Basic policy concerning promotion of regional financing)

#### 1. Making Full Use of Our Consulting Function for Corporate Customers

The Bank's policy is to enhance our relationships of trust with our customers through ongoing day-to-day transactions, and to fully comprehend their management challenges on financial and business terms, and also to commit to fulfilling our consulting function in coordination with outside experts as appropriate.

#### (1) Supporting start-ups/new businesses, development of sales channels and general business deployment

We are strengthening our consulting function by cultivating staff with specialized skills and extending the practice of seminars for branch employees and that of visits to branches by headquarters employees.

#### (2) Management Improvement and Business Rehabilitation Supporting Field

We propose the right solutions at the right time, based on accurate evaluation of our customer's life stage as a business through integration among the Bank's branches and headquarters to further enhance our supporting activities for management improvement. In addition, we actively employ outside experts and expert organizations to provide more advanced methods of assistance in the management improvement and business rehabilitation supporting field.

#### 2. Contributing to Revitalization of Regional Economies

With a view to revitalizing the regional economy, the Bank collects and analyzes various forms of information from the region, and continues to play an active role in industry-academic-government cooperation. In addition, the Bank is strengthening its efforts to support the cultivation of growth fields and collaborative efforts with NGOs and other organizations to promote and contribute to the region.

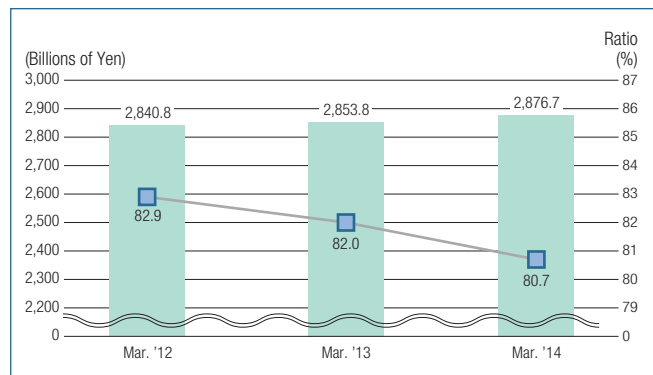
We are therefore working to enhance the finance skills (proficiency in judgment) of our employees including younger employees mainly through various types of seminars, while moving ahead to strengthen preparations for supporting new fields such as agricultural business.

#### 3. Actively offering Information to the Regional Society and Our Customers

The Bank actively offers information about specific activities and their results with regard to efforts related to community-based financial services. We will strive to improve our services even further in order to earn the trust and support of our regional customers.

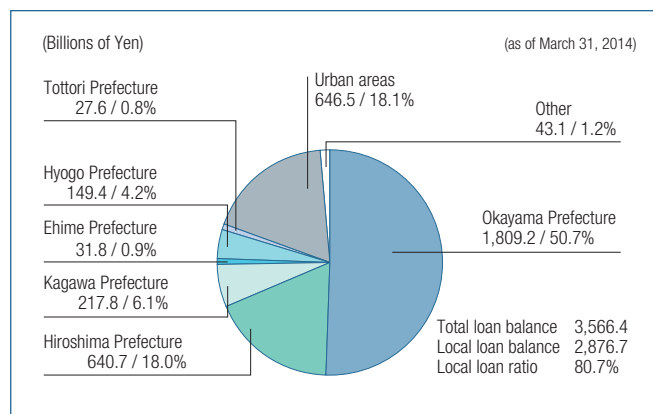
## Loan Balance to Regionals

The Bank takes on appropriate amounts of risk while meeting the financial needs of customers.

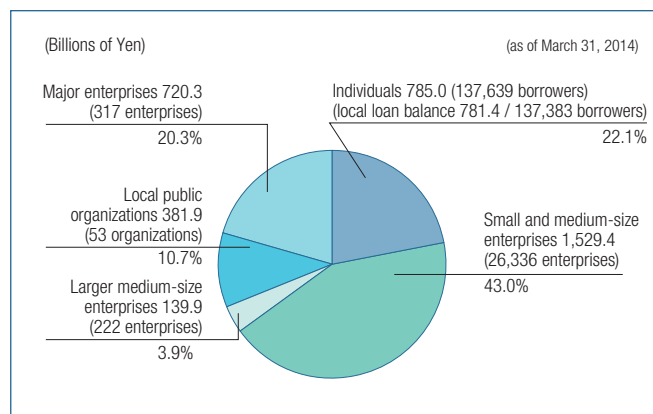


## Breakdown of Loans to the Regional Community

Local loans make up 80.7% of all loans.



## Loan Balance by Type and Number of Borrowers



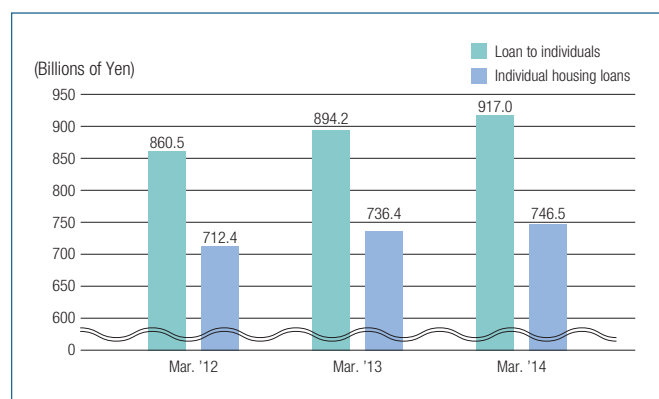
### Loans to Individuals

We have established 13 housing loan centers to actively address individual client needs to acquire a home and provide support for financing plans based on the client's life plan.

In addition to housing loans, we provide card loans, automobile loans and student loans, as well as loans for construction of apartments and other residential property to make the most effective use of underutilized real estate.

As a result of these efforts, the balance of loans to individuals increased ¥22.8 billion for the year compared with the fiscal year ended March 2013, to ¥917.0 billion.

### Loan Balance to Individuals



### Wide-reaching Social Contribution beyond Business

The Bank is engaged in a wide range of activities to contribute to the regional community.

These activities include a think-tank run by the Group's Okayama Economic Research Center, and support for sports, culture, education, and community events, as well as providing time deposits in aid of the Association of Medical Doctors of Asia (AMDA), parenting support, and environmental conservation activities.

# Compliance / Corporate Governance

## Compliance System Overview

All the officers of the Chugoku Bank are aware of the social responsibilities that are required of us. We believe that a critical challenge in our operations is strengthening our compliance system to meet the expectations of our local customers and stockholders. This is seen as one of our CSR activities.

Some of our compliance activities are as follows:

1. We concrete measures to achieve this include the enactment of the Corporate Code of Conduct as the basis for ethical conduct in the course of management and operations; the Guidelines for the Conduct of Bank Clerks, which bank clerks should observe in the course of their duties; the Compliance Manual and the Compliance Handbook, which are the reference manuals for compliance at the Bank.
2. We establish the Compliance Committee and assign Legal Compliance Supervisors at the various branches and offices.
3. We try to ensure that an awareness of compliance permeates the organization by various types of seminars.
4. We create a Compliance Program each year as a plan for the practical implementation of compliance and verify the progress on and degree of achievement on a regular basis.
5. With the objective of preventing inappropriate behavior by bank staff and to facilitate the early detection of unethical activities, we have adopted a system wherein employees may report any wrongdoing directly to top management.
6. The Chugoku Bank Group is taking a firm stance against anti-social forces that threaten social order and safety and prevent the development of a sound economy and society. As an organization, we also collaborate with external bodies with expertise in this area, such as the police, in dealing with inappropriate demands by such anti-social forces.

The Bank takes the approach of giving compliance and morals the highest priority and is emphasizing compliance within its corporate culture.

## Corporate Governance

We consider it essential that each of our officers display unimpeachable ethical sense in the conduct of their duties to conduct our business fairly. We also believe that monitoring the officers in the conduct of their duties and creating a mechanism for

maintaining control are the basis of corporate governance. By strengthening the functions of the Board of Directors and the Audit & Supervisory Board, we can more effectively examine individual items related to management such as the appointment of directors, compensation, monitoring of management and compliance.

The total number of the Bank's directors, which reached 20 directors in 1998, stood at 16 as of June 30, 2014 (including 1 Outside Director). The current framework ensures fruitful discussions and quick decision-making. The Board of Directors deliberates on important matters such as formulation of business plans and fundamental risk management policies. The progress of the execution of duties by directors is reported at a meeting of the Board of Directors.

To ensure flexibility in management decision-making, we have set up a Board of Managing Directors, which comprises eight executive directors, including the Bank's president. This body deliberates on and makes decisions regarding the delegation of authority from directors and other matters.

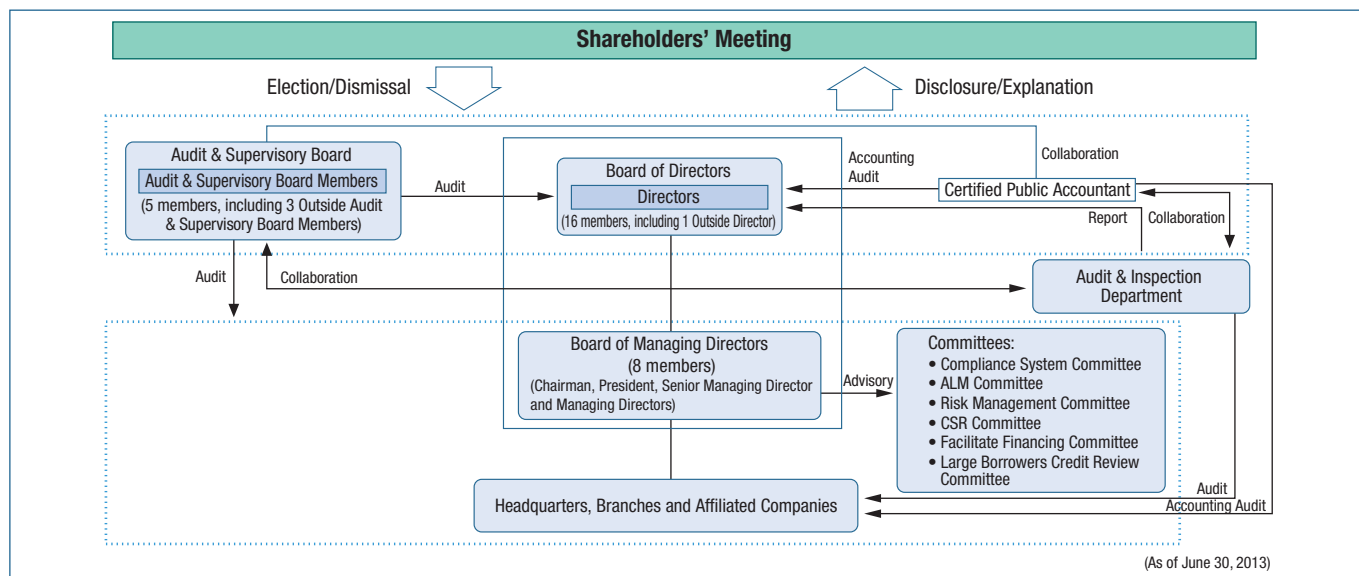
Various committees have been established as consultative bodies to the Board of Managing Directors. These committees discuss different topics and make decisions on important matters to enable fair and appropriate corporate activities.

The Bank is a company with an audit & supervisory board system. Three Outside Audit & Supervisory Board Members and two Internal Audit & Supervisory Board Members (full-time) with extensive knowledge of the Bank's operations combine their capabilities to enhance the effectiveness of audits by the Audit & Supervisory Board Members and meetings of the Audit & Supervisory Board. To ensure that all management decisions are fair and legal, the Audit & Supervisory Board Members perform management oversight functions that include attending and voicing opinions at meetings of the Board of Directors, Board of Managing Directors and other key committees, as well as monitoring decision-making processes and the execution of business affairs.

The Bank didn't have Outside Directors in place at the end of March 2013 but elected one through the resolution at the 133rd Ordinary General Meeting of Shareholders held on June 25, 2014, in an effort to further strengthen management auditing function.

The Bank also appointed one Outside Director and two Outside Audit & Supervisory Board Members as "Independent Directors" pertaining to the provisions of Tokyo Stock Exchange, Inc. and register them with the stock exchange.

## Corporate Governance Framework



# Internal Control

## Fundamental Policy for Establishment of Internal Control System (Excerpt)

The Bank has formulated a fundamental policy concerning the establishment of an internal control system to ensure appropriateness of operations pursuant to a resolution of the Board of Directors. An outline of the policy is as follows.

### 1. System ensuring that the execution of duties by directors conforms to applicable laws, regulations and the Articles of Incorporation

(1) Directors shall execute their duties based on the Corporate Code of Conduct, which sets forth the Bank's corporate ethics, and the Guidelines for the Conduct of Bank Clerks, which must be taken into account in the course of duties, and comply with the Rules for Directors, which codify basic considerations for directors.

In principle, Board of Directors meetings shall be held once a month, and on other occasions as required, to promote communication among directors and enable mutual supervision of the execution of duties. The Board shall be operated in accordance with the Board of Directors Regulations in order to prevent violations of laws and the Articles of Incorporation by ensuring proper business activities.

The Bank is a company with an audit & supervisory board system, wherein each Audit & Supervisory Board Member (full-time) audits the progress of the execution of duties by directors according to the policy and the division of tasks set forth by the Audit & Supervisory Board and, when necessary, voices opinion, prohibits action by a director and/or devises other appropriate measures.

(2) The Board of Directors shall establish systems to cut off and resolutely eliminate any and all relationships with anti-social forces.

### 2. System for retaining and maintaining information regarding the execution of duties by directors

With respect to information concerning the execution of duties by directors, the Bank shall retain the minutes of the Board of Directors meetings, along with other relevant materials, for a period of 10 years in accordance with the Board of Directors Regulations, and maintain them in a state that renders them accessible as needed. Other important documents shall also be maintained in an appropriate manner, depending on the storage medium, in accordance with the Information Asset Management Standards and internal regulations, and shall be maintained in a state that renders this information accessible as needed.

### 3. Provisions for hiring assistants to Audit & Supervisory Board Members (full-time), if required, and their independence from directors

(1) The Bank shall place assistants to the Audit & Supervisory Board Members (full-time) in the Secretariat as employees who are to assist the Audit & Supervisory Board Members (full-time) with their duties.

(2) The assistants to Audit & Supervisory Board Members (full-time) shall not perform additional work related to the execution of duties by directors. The Audit & Supervisory Board Members (full-time) shall be consulted and their agreement obtained before a decision is made regarding the evaluation, appointment and reassignment of such assistants to ensure independence from directors.

### 4. System for reporting by directors and employees to the Audit & Supervisory Board Members (full-time) and system for other reports to the Audit & Supervisory Board Members (full-time)

In accordance with the Standards of Reporting to Audit & Supervisory Board Members (full-time), directors and employees shall report to the Audit & Supervisory Board Members (full-time) matters that may have a significant impact on the Bank's business in a timely manner. Notwithstanding the foregoing, the Audit & Supervisory Board Members (full-time) may also request reports from directors and employees as required.

### 5. System to ensure that audits of the Audit & Supervisory Board Members (full-time) are implemented effectively

The Bank works to ensure the effectiveness of the audits performed by the Audit & Supervisory Board Members (full-time) by having them attend meetings where decisions that have a significant impact on business management are made, as well as through the circulation of important documents to them and their collaboration with the Internal Audit Department, certified public accountants and outside certified public accountants in accordance with the Audit & Supervisory Board Regulations and the Auditing Standards for Audit & Supervisory Board Members.

Representative directors shall exchange opinions with the Audit & Supervisory Board on a regular basis, and enhance mutual awareness of such matters as the issues to be addressed by the Bank and improvement of the environment for Audit & Supervisory Board Members' audits.

### 6. Regulations and other systems concerning managing exposure to loss

(1) The Bank recognizes (a) credit risks, (b) market risks, (c) liquidity risks, (d) operational risks and (e) other risks as key risks involved in the execution of the Bank's operations. Specific risks shall be identified and managed, and a comprehensive risk management system established. A detailed definition of each risk shall be provided in the basic risk management rules.

(2) The Bank shall establish an equity capital management system and an asset evaluation management system to ensure the soundness and appropriateness of the Bank's operations through sufficient capital adequacy proportionate to the risks.

(3) Each type of risk shall be managed in accordance with the basic risk management policy set forth in the basic risk management rules and other regulations pertaining to risk management. The Risk Management

Department shall be responsible for the comprehensive management of the Bank's risks, a responsible department shall be assigned to each type of risk and such committees as the Risk Management Committee shall be established to ensure appropriate risk management.

- (4) A risk management plan shall be created when formulating strategic objectives, such as business plans or the Medium-Term Management Plan. The management status of each type of risk shall be reported to the Board of Directors on a regular basis.
- (5) The Bank shall establish necessary systems, including the Emergency Countermeasures Headquarters in the event of unforeseen circumstances, and respond appropriately to prevent the spread of damage in accordance with the Risk Management Manual.

## **7. System to ensure the efficient execution of duties by directors**

- (1) Matters that impact the Bank's operations, deemed to be significant matters requiring the resolution of the Board of Directors, shall be discussed and deliberated on in advance in the presence of the Audit & Supervisory Board Members by the Board of Managing Directors, which is comprised of the chairman, president, senior managing director and managing directors.
- (2) Business execution pursuant to a resolution of the Board of Directors shall be in accordance with the decision-making authority and procedures stipulated in the Rules Defining the Extent of Job Authority and various other rules.

## **8. System ensuring that the execution of duties by employees conforms to applicable laws, regulations and the Articles of Incorporation**

- (1) The Bank shall establish the Corporate Code of Conduct, the Guidelines for the Conduct of Bank Clerks, the Rules on Compliance with Laws, Regulations, etc., the Compliance Manual and the Compliance Handbook in order to ensure a compliance framework. The contents of employment regulations and other rules, as well as guidelines for the handling of business affairs and other guidelines, shall be in compliance with all pertinent laws and the Articles of Incorporation.
- (2) A Compliance System Committee chaired by the president shall be established to enhance compliance systems, monitor the status of legal compliance and otherwise foster a corporate culture that emphasizes compliance. The Compliance Department shall be responsible for overall compliance management and shall, among other things, examine measures related to compliance.

- (3) Various measures shall be taken in a systematic manner in order to establish a compliance framework, such as the formulation and review of the annual Compliance Program, which serves as the Bank's basic compliance policy and implementation plan, as well as periodic compliance-related checks and compliance training.
- (4) The Audit & Inspection Department shall be established as an internal audit department independent from the business execution departments, and shall perform audits to ensure that employee duties are in compliance with laws, regulations and the Articles of Incorporation.
- (5) Should legal violations or other compliance-related facts be detected, an appropriate response shall be taken in accordance with employee regulations using a system wherein employees may report any wrongdoing directly to top management via the Management Help Line or other means.

## **9. System ensuring the appropriateness of operations throughout the Chugoku Bank Group comprising the Bank, its parent company and its subsidiaries**

- (1) Chugoku Bank Group Management Regulations shall be formulated in order to ensure appropriateness of business operations and effective business management with respect to each company of the Chugoku Bank Group. Each Group company shall formulate its own rules in accordance with the Bank's rules and establish systems befitting its business content and organizational structure to ensure the appropriateness of its business operations.
- (2) The Bank shall formulate standards related to deliberation and reporting for each company in the Chugoku Bank Group and shall manage the business of the Group companies based on a system for making final decisions and receiving reports in accordance with said standards. Of the final decisions to be made by the Bank and reporting matters, those of importance shall be reported to the Bank's Audit & Supervisory Board Members. The Bank shall conclude an audit agreement with each Group company and conduct internal audits.
- (3) The Chugoku Bank Group shall formulate regulations concerning the Management Help Line, an internal reporting system whereby employees can report any wrongdoing directly to top management in order to maintain the sound operation thereof.
- (4) Each Group company shall report any legal violations in business management or content of management guidance by the Bank as well as any other compliance-related issues to the Bank's Audit & Supervisory Board Members.
- (5) The Chugoku Bank Group shall comply with all laws, standards and other obligations concerning accounting practices and shall establish an internal control system to ensure the appropriateness of the Group's financial reporting.

## **Financial Section**

# Consolidated Financial Statements

## Consolidated Balance Sheets

The Chugoku Bank, Limited and Its Consolidated Subsidiaries  
March 31, 2014 and 2013

|  | Millions of Yen   |                   | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|-------------------|-------------------|--|
|  | 2014              | 2013              | 2014                                     |
| <b>ASSETS:</b>   |                   |                   |  |
| Cash and due from banks (Note 21) .....  | ¥ 88,501          | ¥ 100,775         | \$ 859,900                               |
| Call loans .....   | 35,182            | 47,753            | 341,838                                  |
| Other debt purchased (Notes 3, 7 and 18) .....                                 | 29,282            | 28,061            | 284,512                                  |
| Trading account securities (Notes 10 and 18) .....                             | 2,382             | 3,006             | 23,144                                   |
| Money trusts (Notes 4 and 18) .....  | 23,300            | 23,049            | 226,389                                  |
| Securities (Notes 3, 5, 10 and 18) .....                                       | 3,145,527         | 3,032,353         | 30,562,835                               |
| Loans and bills discounted (Notes 6, 7, 14 and 18) .....                       | 3,562,136         | 3,476,550         | 34,610,726                               |
| Foreign exchange (Note 6) .....  | 6,481             | 4,215             | 62,971                                   |
| Lease receivables and investments in leased assets (Note 10) .....             | 16,079            | 15,976            | 156,228                                  |
| Other assets (Notes 10 and 18) .....   | 49,527            | 49,607            | 481,218                                  |
| Tangible fixed assets (Note 8) .....   | 43,875            | 44,935            | 426,301                                  |
| Intangible fixed assets (Note 9) .....   | 2,084             | 887               | 20,248                                   |
| Deferred tax assets (Note 11) .....  | 1,884             | 2,457             | 18,305                                   |
| Customers' liabilities for acceptances and guarantees (Note 15) .....          | 25,651            | 26,001            | 249,232                                  |
| Reserve for possible loan losses .....   | (51,412)          | (76,136)          | (499,533)                                |
| <b>Total assets .....</b>  | <b>¥6,980,486</b> | <b>¥6,779,495</b> | <b>\$67,824,387</b>                      |
| <b>LIABILITIES AND NET ASSETS:</b>   |                   |                   |  |
| <b>Liabilities:</b>  |                   |                   |  |
| Deposits (Notes 10 and 18) .....   | ¥5,838,242        | ¥5,688,029        | \$56,726,020                             |
| Call money (Note 10) .....   | 290,114           | 226,898           | 2,818,830                                |
| Payables under securities lending transactions (Note 10) .....                 | 154,415           | 230,893           | 1,500,340                                |
| Borrowed money (Notes 10 and 12) .....   | 112,696           | 69,441            | 1,094,986                                |
| Foreign exchange .....   | 303               | 164               | 2,944                                    |
| Other liabilities (Notes 14 and 18) .....                                      | 65,182            | 72,266            | 633,326                                  |
| Accrued employees' bonuses .....   | 1,609             | 1,514             | 15,633                                   |
| Accrued directors' bonuses .....   | 26                | 24                | 252                                      |
| Reserve for directors' retirement benefits .....                               | 46                | 39                | 446                                      |
| Reserve for reimbursement of deposits .....                                    | 1,132             | 1,251             | 10,998                                   |
| Reserve for point program .....  | 85                | 81                | 825                                      |
| Liability for employees' severance and retirement benefits (Note 13) .....     | —                 | 14,156            | —  |
| Net defined benefit liability (Note 13) .....                                  | 14,120            | —                 | 137,193                                  |
| Deferred tax liability (Note 11) .....   | 8,069             | 1,556             | 78,400                                   |
| Negative goodwill .....  | 16                | 82                | 155                                      |
| Reserves under the special laws .....  | 7                 | 3                 | 68                                       |
| Acceptances and guarantees (Note 15) .....                                     | 25,651            | 26,001            | 249,232                                  |
| <b>Total liabilities .....</b>   | <b>¥6,511,721</b> | <b>¥6,332,404</b> | <b>\$63,269,733</b>                      |
| <b>Net assets (Note 20):</b>   |                   |                   |  |
| <b>Shareholders' equity</b>  |                   |                   |  |
| <b>Common stock</b>  |                   |                   |  |
| Authorized shares: 391,000,000 shares in 2014 and 2013                         |                   |                   |  |
| Issued shares: 203,272,106 shares in 2014 and 210,272,106 shares in 2013 ..... | ¥ 15,149          | ¥ 15,149          | \$ 147,191                               |
| Capital surplus .....  | 6,351             | 6,351             | 61,708                                   |
| Retained earnings .....  | 372,512           | 354,133           | 3,619,432                                |
| Less treasury stock, at cost   |                   |                   |  |
| 3,070,655 shares in 2014 and 7,224,084 shares in 2013 .....                    | (3,222)           | (6,597)           | (31,305)                                 |
| <b>Accumulated other comprehensive income:</b>                                 |                   |                   |  |
| Net unrealized gains on available-for-sale securities (Note 5) .....           | 69,681            | 71,388            | 677,040                                  |
| Net deferred losses on hedging instruments .....                               | (3,687)           | (4,699)           | (35,823)                                 |
| Accumulated adjustments for retirement benefits (Note 13) .....                | (313)             | —                 | (3,041)                                  |
| <b>Total .....</b>   | <b>65,680</b>     | <b>66,688</b>     | <b>638,165</b>                           |
| Subscription rights to shares (Note 22) .....                                  | 231               | 198               | 2,244                                    |
| Minority interests .....   | 12,062            | 11,167            | 117,197                                  |
| <b>Total net assets .....</b>  | <b>468,765</b>    | <b>447,090</b>    | <b>4,554,654</b>                         |
| <b>Total liabilities and net assets .....</b>                                  | <b>¥6,980,486</b> | <b>¥6,779,495</b> | <b>\$67,824,387</b>                      |

See accompanying Notes to Consolidated Financial Statements.



# Consolidated Income Statements

The Chugoku Bank, Limited and Its Consolidated Subsidiaries  
For the Years Ended March 31, 2014 and 2013

|   | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|--|
|   | 2014            | 2013            | 2014                                     |
| <b>Income:</b>  |                 |                 |  |
| Interest and dividends on:                              |                 |                 |  |
| Loans and discounts .....                               | ¥ 45,513        | ¥ 48,282        | \$ 442,217                               |
| Securities .....  | 31,823          | 29,177          | 309,201                                  |
| Other .....   | 453             | 492             | 4,401                                    |
| Fees and commissions .....                              | 16,662          | 16,734          | 161,892                                  |
| Other operating income .....                            | 19,032          | 17,982          | 184,920                                  |
| Reversal of reserve for possible loan losses .....      | 11,234          | —               | 109,152                                  |
| Bad debt recovered .....                                | 6               | 45              | 58                                       |
| Other income .....                                      | 8,542           | 4,490           | 82,996                                   |
| <b>Total income .....</b>                               | <b>133,269</b>  | <b>117,206</b>  | <b>1,294,879</b>                         |
| <b>Expenses:</b>  |                 |                 |  |
| Interest on:  |                 |                 |  |
| Deposits .....  | 2,540           | 2,756           | 24,679                                   |
| Borrowings .....  | 182             | 164             | 1,768                                    |
| Other .....   | 2,884           | 2,842           | 28,021                                   |
| Fees and commissions .....                              | 4,122           | 3,975           | 40,050                                   |
| Other operating expenses .....                          | 13,150          | 11,145          | 127,769                                  |
| General and administrative expenses .....               | 58,091          | 58,774          | 564,428                                  |
| Reserve for possible loan losses .....                  | —               | 1,961           | —  |
| Losses on impairment of fixed assets (Note 8) .....     | 143             | 79              | 1,389                                    |
| Other expenses .....                                    | 4,323           | 4,536           | 42,003                                   |
| <b>Total expenses .....</b>                             | <b>85,438</b>   | <b>86,235</b>   | <b>830,139</b>                           |
| Income before income taxes and minority interests ..... | 47,830          | 30,971          | 464,729                                  |
| Income taxes (Note 11):                                 |                 |                 |  |
| Current .....   | 10,242          | 10,118          | 99,514                                   |
| Deferred .....  | 7,995           | 1,460           | 77,681                                   |
|   | 18,237          | 11,578          | 177,195                                  |
| Net income before minority interests .....              | 29,592          | 19,392          | 287,524                                  |
| Minority interests in net income .....                  | 874             | 966             | 8,492                                    |
| <b>Net income .....</b>                                 | <b>¥ 28,717</b> | <b>¥ 18,426</b> | <b>\$ 279,022</b>                        |
| <b>Per share of common stock</b>                        |                 |                 |  |
| Basic net income .....                                  | ¥ 142.12        | ¥ 90.37         | \$ 1.38                                  |
| Diluted net income .....                                | 141.96          | 90.29           | 1.37                                     |
| Cash dividends applicable to the year (Note 20) .....   | 16.00           | 14.00           | 0.15                                     |

See accompanying Notes to Consolidated Financial Statements.

(Change in accounting policies)

On May 17, 2012, the ASBJ issued revised ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and revised ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits" (excluding the main clause of Article 35 of ASBJ Statement No. 26 and the main clause of Article 67 of ASBJ Guidance No. 25)

The Bank and its consolidated subsidiaries applied this accounting standard and the guidance effective from the year ended March 31, 2014 and followed the transitional treatments prescribed in Article 37 of ASBJ Statement No. 26.

As a result, net assets per share at March 31, 2014 decreased by ¥1.56 (\$0.01).

# Consolidated Statements of Comprehensive Income

The Chugoku Bank, Limited and Its Consolidated Subsidiaries  
For the Years Ended March 31, 2014 and 2013

|  | Millions of Yen |          | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------|------------------------------------|
|  | 2014            | 2013     | 2014                               |
| Net income before minority interests .....                           | <b>¥ 29,592</b> | ¥ 19,392 | <b>\$ 287,524</b>                  |
| Other comprehensive income (Note 17):                                |                 |          |                                    |
| Net unrealized gains (losses) on available-for-sale securities ..... | <b>(1,682)</b>  | 39,636   | <b>(16,342)</b>                    |
| Net deferred gains (losses) on hedging instruments .....             | <b>1,012</b>    | (923)    | <b>9,832</b>                       |
| Total other comprehensive income .....                               | <b>(669)</b>    | 38,713   | <b>(6,500)</b>                     |
| Comprehensive income .....   | <b>¥ 28,922</b> | ¥ 58,105 | <b>\$ 281,014</b>                  |
| Comprehensive income attributable to:                                |                 |          |                                    |
| Owners of the parent .....   | <b>¥ 28,022</b> | ¥ 57,108 | <b>\$ 272,269</b>                  |
| Minority interests .....   | <b>899</b>      | 997      | <b>8,734</b>                       |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

The Chugoku Bank, Limited and Its Consolidated Subsidiaries  
For the Years Ended March 31, 2014 and 2013

|  | Millions of Yen |                 |                   |                |  |   |        |         |                               |                    |                  |
|--|-----------------|-----------------|-------------------|----------------|--|---|--------|---------|-------------------------------|--------------------|------------------|
|  | 2014            |                 |                   |                |  |   |        |         |                               |                    |                  |
|  | Common stock    | Capital surplus | Retained earnings | Treasury stock | Accumulated other comprehensive income     |   |        | Total   | Subscription rights to shares | Minority interests | Total net assets |
| Net unrealized gains on available-for-sale securities      |                 |                 |                   |                | Net deferred losses on hedging instruments | Accumulated adjustments for retirement benefits |        |         |                               |                    |                  |
| Balance at beginning of year .....                         | ¥15,149         | ¥6,351          | ¥354,133          | ¥(6,597)       | ¥71,388                                    | ¥(4,699)  | ¥ —    | ¥66,688 | ¥198                          | ¥11,167            | ¥447,090         |
| Net income .....   |                 |                 | 28,717            |                |  |   |        |         |                               |                    | 28,717           |
| Cash dividends .....                                       |                 |                 | (2,990)           |                |  |   |        |         |                               |                    | (2,990)          |
| Purchases of treasury stock .....                          |                 |                 |                   | (4,004)        |  |   |        |         |                               |                    | (4,004)          |
| Disposals of treasury stock .....                          |                 | 0               |                   | 31             |  |   |        |         |                               |                    | 32               |
| Cancellation of treasury stock .....                       |                 | (0)             | (7,346)           | 7,347          |  |   |        |         |                               |                    | —                |
| Net changes in items other than shareholders' equity ..... |                 |                 |                   |                | (1,707)                                    | 1,012   | (313)  | (1,008) | 33                            | 895                | (80)             |
| Net changes during the year .....                          | —               | —               | 18,379            | 3,374          | (1,707)                                    | 1,012   | (313)  | (1,008) | 33                            | 895                | 21,674           |
| Balance at end of year .....                               | ¥15,149         | ¥6,351          | ¥372,512          | ¥(3,222)       | ¥69,681                                    | ¥(3,687)  | ¥(313) | ¥65,680 | ¥231                          | ¥12,062            | ¥468,765         |

See accompanying Notes to Consolidated Financial Statements.

|  | Millions of Yen |                 |                   |                |  |   |         |       |                               |                    |                  |
|--|-----------------|-----------------|-------------------|----------------|--|---|---------|-------|-------------------------------|--------------------|------------------|
|  | 2013            |                 |                   |                |  |   |         |       |                               |                    |                  |
|  | Common stock    | Capital surplus | Retained earnings | Treasury stock | Accumulated other comprehensive income     |   |         | Total | Subscription rights to shares | Minority interests | Total net assets |
| Net unrealized gains on available-for-sale securities      |                 |                 |                   |                | Net deferred losses on hedging instruments | Accumulated adjustments for retirement benefits |         |       |                               |                    |                  |
| Balance at beginning of year .....                         | ¥15,149         | ¥6,351          | ¥345,818          | ¥(12,585)      | ¥31,783                                    | ¥(3,776)  | ¥28,006 | ¥129  | ¥10,175                       | ¥393,045           |                  |
| Net income .....   |                 |                 | 18,426            |                |  |   |         |       |                               |                    | 18,426           |
| Cash dividends .....                                       |                 |                 | (2,805)           |                |  |   |         |       |                               |                    | (2,805)          |
| Purchases of treasury stock .....                          |                 |                 |                   | (1,320)        |  |   |         |       |                               |                    | (1,320)          |
| Disposals of treasury stock .....                          |                 | 0               |                   | 1              |  |   |         |       |                               |                    | 1                |
| Cancellation of treasury stock .....                       |                 | (0)             | (7,306)           | 7,306          |  |   |         |       |                               |                    | —                |
| Net changes in items other than shareholders' equity ..... |                 |                 |                   |                | 39,605                                     | (923)   | 38,682  | 68    | 992                           | 39,742             |                  |
| Net changes during the year .....                          | —               | —               | 8,314             | 5,987          | 39,605                                     | (923)   | 38,682  | 68    | 992                           | 54,045             |                  |
| Balance at end of year .....                               | ¥15,149         | ¥6,351          | ¥354,133          | ¥(6,597)       | ¥71,388                                    | ¥(4,699)  | ¥66,688 | ¥198  | ¥11,167                       | ¥447,090           |                  |

See accompanying Notes to Consolidated Financial Statements.

|  | Thousands of U.S. Dollars (Note 1) |                 |                   |                |  |   |           |           |                               |                    |                  |
|--|------------------------------------|-----------------|-------------------|----------------|--|---|-----------|-----------|-------------------------------|--------------------|------------------|
|  | 2014                               |                 |                   |                |  |   |           |           |                               |                    |                  |
|  | Common stock                       | Capital surplus | Retained earnings | Treasury stock | Accumulated other comprehensive income     |   |           | Total     | Subscription rights to shares | Minority interests | Total net assets |
| Net unrealized gains on available-for-sale securities      |                                    |                 |                   |                | Net deferred losses on hedging instruments | Accumulated adjustments for retirement benefits |           |           |                               |                    |                  |
| Balance at beginning of year .....                         | \$147,191                          | \$61,708        | \$3,440,856       | \$(64,098)     | \$693,626                                  | \$(45,656)                                      | \$ —      | \$647,959 | \$1,923                       | \$108,501          | \$4,344,053      |
| Net income .....   |                                    |                 | 279,022           |                |  |   |           |           |                               |                    | 279,022          |
| Cash dividends .....                                       |                                    |                 | (29,051)          |                |  |   |           |           |                               |                    | (29,051)         |
| Purchases of treasury stock .....                          |                                    |                 |                   | (38,904)       |  |   |           |           |                               |                    | (38,904)         |
| Disposals of treasury stock .....                          |                                    | 0               |                   | 301            |  |   |           |           |                               |                    | 310              |
| Cancellation of treasury stock .....                       |                                    | (0)             | (71,375)          | 71,385         |  |   |           |           |                               |                    | —                |
| Net changes in items other than shareholders' equity ..... |                                    |                 |                   |                | (16,585)                                   | 9,832   | (3,041)   | (9,794)   | 320                           | 8,696              | (777)            |
| Net changes during the year .....                          | —                                  | —               | 178,575           | 32,782         | (16,585)                                   | 9,832   | (3,041)   | (9,794)   | 320                           | 8,696              | 210,590          |
| Balance at end of year .....                               | \$147,191                          | \$61,708        | \$3,619,432       | \$(31,305)     | \$677,040                                  | \$(35,823)                                      | \$(3,041) | \$638,165 | \$2,244                       | \$117,197          | \$4,554,654      |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

The Chugoku Bank, Limited and Its Consolidated Subsidiaries  
For the Years Ended March 31, 2014 and 2013

|   | Millions of Yen |             | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-------------|--|
|   | 2014            | 2013        | 2014                                     |
| <b>Cash flows from operating activities</b>   |                 |             |  |
| Income before income taxes and minority interests .....                                       | ¥ 47,830        | ¥ 30,971    | \$ 464,729                               |
| Depreciation .....  | 2,887           | 2,952       | 28,050                                   |
| Losses on impairment of fixed assets .....  | 143             | 79          | 1,389                                    |
| Share-based compensation expenses .....   | 64              | 68          | 621                                      |
| Amortization of negative goodwill .....   | (66)            | (107)       | (641)                                    |
| Increase (decrease) in reserve for possible loan losses .....                                 | (11,234)        | 1,961       | (109,152)                                |
| Increase (decrease) in reserve for point program .....  | 4               | (9)         | 38                                       |
| Increase (decrease) in reserve for directors' retirement benefits .....                       | 7               | 0           | 68                                       |
| Increase (decrease) in accrued employees' bonuses .....                                       | 95              | (126)       | 923                                      |
| Increase (decrease) in accrued directors' bonuses .....                                       | 2               | 0           | 19                                       |
| Increase (decrease) in liability for employees' severance and retirement benefits .....       | —               | (31)        | —  |
| Increase (decrease) in net defined benefit liability .....                                    | (521)           | —           | (5,062)                                  |
| Increase (decrease) in reserve for reimbursement of deposits .....                            | (119)           | (122)       | (1,156)                                  |
| Interest and dividend income .....  | (77,790)        | (77,953)    | (755,829)                                |
| Interest expense .....  | 5,607           | 5,763       | 54,479                                   |
| Losses (gains) on sales of securities, net .....  | (1,016)         | 471         | (9,871)                                  |
| Losses (gains) on money trusts, net .....   | (130)           | (42)        | (1,263)                                  |
| Foreign exchange losses (gains), net .....  | (44,234)        | (47,796)    | (429,790)                                |
| Losses (gains) on disposals of fixed assets, net .....  | (1)             | 117         | (9)                                      |
| Decrease (increase) in trading account securities, excluding foreign exchange contracts ..... | 624             | 676         | 6,062                                    |
| Decrease (increase) in call loans and other debt purchased .....                              | 11,349          | (3,443)     | 110,270                                  |
| Decrease (increase) in due from banks, excluding the Bank of Japan .....                      | 15,058          | (29,898)    | 146,307                                  |
| Decrease (increase) in foreign exchange assets .....  | (2,265)         | 1,135       | (22,007)                                 |
| Decrease (increase) in loans and bills discounted .....                                       | (99,075)        | (60,978)    | (962,640)                                |
| Decrease (increase) in other assets .....   | (1,782)         | 856         | (17,314)                                 |
| Increase (decrease) in deposits, call money and borrowed money .....                          | 256,682         | 279,788     | 2,493,995                                |
| Increase (decrease) in foreign exchange liabilities .....                                     | 138             | (141)       | 1,340                                    |
| Increase (decrease) in other liabilities .....  | (86,638)        | 115,516     | (841,799)                                |
| Interest and dividends received .....   | 91,187          | 87,986      | 885,998                                  |
| Interest paid .....   | (6,357)         | (6,795)     | (61,766)                                 |
| Subtotal .....  | 100,450         | 300,901     | 976,000                                  |
| Income taxes paid .....   | (10,581)        | (10,980)    | (102,808)                                |
| Net cash provided by operating activities .....   | 89,868          | 289,921     | 873,183                                  |
| <b>Cash flows from investing activities</b>   |                 |             |  |
| Purchases of securities .....   | (1,089,493)     | (1,183,245) | (10,585,823)                             |
| Proceeds from sales of securities .....   | 714,716         | 542,491     | 6,944,383                                |
| Proceeds from redemption of securities .....  | 298,682         | 357,433     | 2,902,079                                |
| Purchases of money trusts .....   | (676)           | (207)       | (6,568)                                  |
| Proceeds from money trusts .....  | 557             | 54          | 5,411                                    |
| Purchases of tangible fixed assets .....  | (2,194)         | (2,664)     | (21,317)                                 |
| Purchases of intangible fixed assets .....  | (1,124)         | (697)       | (10,921)                                 |
| Proceeds from sales of tangible fixed assets .....  | 198             | 25          | 1,923                                    |
| Net cash used in investing activities .....   | (79,333)        | (286,811)   | (770,821)                                |
| <b>Cash flows from financing activities</b>   |                 |             |  |
| Cash dividends paid .....   | (2,990)         | (2,805)     | (29,051)                                 |
| Cash dividends paid to minority shareholders .....  | (4)             | (4)         | (38)                                     |
| Purchases of treasury stock .....   | (4,004)         | (1,320)     | (38,904)                                 |
| Proceeds from sales of treasury stock .....   | 0               | 1           | 0  |
| Repayments on lease obligations .....   | (783)           | (236)       | (7,607)                                  |
| Proceeds from execution of stock options .....  | 0               | —           | 0  |
| Net cash used in financing activities .....   | (7,782)         | (4,365)     | (75,612)                                 |
| Effect of exchange rate changes on cash and cash equivalents .....                            | 32              | 41          | 310                                      |
| Net increase (decrease) in cash and cash equivalents .....                                    | 2,784           | (1,213)     | 27,050                                   |
| Cash and cash equivalents at beginning of year .....  | 70,513          | 71,726      | 685,124                                  |
| Cash and cash equivalents at end of year (Note 21) .....                                      | ¥ 73,297        | ¥ 70,513    | \$ 712,174                               |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Chugoku Bank, Limited and Its Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of The Chugoku Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, the Japanese Banking Law and the Japanese Uniform Rules for Bank Accounting and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

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

The translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to US\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant Accounting Policies

### (a) Principals of Consolidation

#### *Scope of Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method*

The consolidated financial statements include the accounts of the Bank and its seven significant subsidiaries after elimination of all significant intercompany transactions, balances and unrealized profits.

Three and two investment partnerships of which the Bank owns a majority of voting rights were excluded from the scope of consolidation for the years ended March 31, 2014 and 2013, respectively, because the total amounts of their assets, net income and retained earnings were so immaterial that their exclusion from the scope of consolidation would not hinder a rational judgment regarding the consolidated financial position or results of operations.

Investments in the above mentioned three (two in 2013) investment partnerships and two affiliated companies were not accounted for by the equity method for the year ended March 31, 2014 because their exclusion had no significant effect on the consolidated financial statements.

#### *Balance Sheet Date of Subsidiaries*

The balance sheet date of all consolidated subsidiaries is March 31, the same as that of the Bank.

#### *Goodwill*

Goodwill is amortized using the straight-line method over a period of five years. Goodwill which is immaterial in amount is fully charged to loss when incurred.

On December 26, 2010, the Accounting Standards Board of Japan ("ASBJ") issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations," and revised ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The Bank adopted the revised accounting standard

and guidance effective April 1, 2010. The revised accounting standard requires the recognition of negative goodwill (bargain purchase) as gain upon the acquisition. However, as a transitional measure prescribed by the revised standard, negative goodwill recognized prior to April 1, 2010 continues to be amortized using the straight-line method over a period of five years.

### (b) Securities and Money Trusts

Trading account securities are stated at fair value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations of these securities are recognized as gains and losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Investments in affiliated companies which are not accounted for by the equity method are stated at cost determined by the moving average method. Available-for-sale securities with available fair values are stated at fair value in principle based on the market price as of the balance sheet date. Unrealized gains and losses on these securities, net of applicable income taxes, are reported as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost.

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

Securities constituting trust assets of money trusts are stated in the same manner as trading account securities.

### (c) Derivatives and Hedge Accounting

The Bank applies the deferred method of hedge accounting for transactions entered into to hedge the interest rate risks associated with various financial assets and liabilities, as stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Audit Committee Report No. 24) issued by the Japanese Institute of Certified Public Accountants ("JICPA"). The effectiveness of the hedges is assessed for each identified group of hedged loans and securities and the corresponding group of hedging instruments, such as interest rate swaps, in the same maturity bucket.

The Bank applies the deferral method of hedge accounting for transactions entered into to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities, as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions that hedge the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on a comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

In addition to the above methods, the Bank applies the fair value hedge method to portfolio hedges for foreign exchange risks associated with foreign securities, except for bonds, identified as hedged items in advance as long as the amount of foreign currency payables of spot and forward foreign exchange contracts exceeds the acquisition cost of the hedged foreign securities in foreign currency.

### (d) Tangible Fixed Assets

Tangible fixed assets owned by the Bank and its consolidated subsidiaries are generally stated at cost less accumulated depreciation. Depreciation is computed by the declining balance method over the estimated useful life of the respective asset.

For the Bank, estimated useful lives are mainly as follows:

|                |               |
|----------------|---------------|
| Buildings..... | 4 to 40 years |
| Equipment..... | 2 to 20 years |

For consolidated subsidiaries, the useful life of an asset is based on the Corporation Tax Law of Japan.

Lease assets with respect to finance leases that do not transfer ownership of the lease assets and that are recorded in "Tangible fixed assets" are depreciated using the straight-line method over the term of the lease, assumed to be the useful life, with a salvage value of zero or the guaranteed amount.

**(Change in Accounting Estimates)**

Buildings owned by the Bank had been depreciated mainly over the useful lives of 24 to 28 years. As a result of the completion of the round of reconstruction, the Bank investigated the use of the buildings and revised the useful lives mainly to 34 to 39 years, making an appropriate inter-period cost allocation by adjusting the economic useful lives to conform to the actual. In addition, the salvage value had been set at 5% of acquisition cost, but as a result of the investigation, it was determined that there was little disposal value, and accordingly, the salvage value was revised to the memorandum value.

Due to this change in depreciation method, the amount of depreciation for the year ended March 31, 2013 decreased by ¥242 million and income before income taxes and minority interests increased by the same amount.

**(Change in Accounting Policies with Amendment of Respective Law or Regulation that were not Distinguishable from Change in Accounting Estimates)**

From the year ending March 31, 2013, in accordance with the amendment in corporate tax law, the Bank and certain consolidated subsidiaries had changed its depreciation method for the movable assets of the Bank and the tangible fixed assets of certain consolidated subsidiaries. The movable assets of the Bank and tangible fixed assets of certain consolidated subsidiaries acquired on or after April 1, 2012 were depreciated using the method prescribed in amended corporate tax law. Due to this change in depreciation method, the amount of depreciation for the year ended March 31, 2013 decreased by ¥24 million and income before income taxes and minority interests increased by the same amount.

**(e) Intangible Fixed Assets**

Intangible fixed assets are depreciated using the straight-line method.

**(f) Foreign Currency Translation**

The Bank's assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the end of the fiscal year.

**(g) Reserve for Possible Loan Losses**

The Bank writes off loans and makes provisions for possible loan losses. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or who are in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion estimated to be recoverable due to security interests or guarantees.

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

For unsecured and unguaranteed portions of loans to customers not presently in these circumstances but who face a high probability of so becoming, the reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition. For other loans such as normal loans and loans requiring special attention, the reserve for possible loan losses is provided based on the Bank's

actual rate of loan losses in the past. A specific reserve for loans to borrowers in certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans.

An assessment and classification is conducted by each business department and credit supervision department and is audited by the Risk Management Department, an independent department. The reserve for possible loan losses is provided based on the auditing results.

Reserves for possible loan losses of the consolidated subsidiaries are provided for general claims in the amount deemed necessary based on historical loan-loss ratios and for certain doubtful claims in the amount deemed uncollectable based on individual assessments.

**(h) Accrued Employees' Bonuses**

Accrued employees' bonuses are provided for the future payment of bonuses to employees in the amounts of the estimated bonuses attributable to the current fiscal year.

**(i) Accrued Directors' Bonuses**

Accrued directors' bonuses of the Bank's consolidated subsidiaries are provided for the payment of bonuses to directors and corporate auditors based on an estimated amount.

**(j) Reserve for Directors' Retirement Benefits**

The Bank's consolidated subsidiaries provide for severance and retirement benefits to directors and corporate auditors based on the required amounts determined by in-house regulations.

**(k) Reserve for Reimbursement of Deposits**

A reserve for reimbursement of deposits is provided for reimbursement of deposits that were derecognized from liabilities and credited to income. The amount is determined based on the Bank's historical reimbursement ratio for such accounts.

**(l) Reserve for Point Program**

A reserve for the point program is provided for the accumulation of points granted to credit card holders. The amount of reserve is determined based on the past usage ratio of points by cardholders.

**(m) Reserve Under Special Laws**

A reserve under special laws is provided for contingent liabilities from financial instruments and exchange. This is a reserve pursuant to Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of Cabinet Office Ordinance on the Financial Instruments Business to indemnify losses incurred in connection with the purchase and sale of securities and derivatives and other transactions.

**(n) Accounting for Employees' Severance and Retirement Benefits**

In determining projected benefit obligation, the estimated amount of retirement benefits is based on straight-line attribution.

Prior service costs of the cash balance pension plans are recognized as expenses using the straight-line method over ten years, which is within the average of the estimated remaining service years, commencing with the period in which they arise.

Actuarial gains and losses are recognized as expenses using the straight-line method over ten years, which is within the average of the estimated remaining service years, commencing with the following period.

In calculating the liability for retirement benefits and retirement benefit expenses, the consolidated subsidiaries apply a simplified method under which the amount required to be paid if all the employees voluntarily retired at the fiscal year end is regarded as projected benefit obligation.

**(o) Leases**

As lessee:

Finance leases are capitalized to recognize lease assets and lease obligations in the balance sheet. However, finance leases which commenced prior to April 1, 2008 and do not transfer ownership of the leased property to the lessee are accounted for in the same manner as operating lease transactions as permitted by the accounting standard for lease transactions (ASBJ Statement No. 13).

As lessor:

Income from finance leases and related leasing costs are recognized when lease payments are received.

**(p) Income Taxes**

Deferred income taxes are recognized for loss carryforwards and taxable temporary differences between carrying amounts for financial reporting purposes and tax bases. In Japan, income taxes applicable to the Bank and its consolidated subsidiaries consist of corporation tax (national), inhabitant taxes (local) and enterprise taxes (local). The statutory tax rate used for calculating deferred tax assets and liabilities at March 31, 2014 and 2013 was 35.4% and 37.8%, respectively.

**(q) Consumption Taxes**

National and local consumption taxes are mainly accounted for on a tax excluded basis. However, any nondeductible consumption taxes associated with asset purchases are recorded as expense during the fiscal year.

**(r) Per Share Information**

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the year, excluding treasury stock. Diluted net income per share reflects the potential dilution that could occur if outstanding stock options were exercised. Diluted net income per share of common stock assumes full exercise of the outstanding stock options at the beginning of the year (or at the time of the grant).

**(s) Accounting Change**

**Accounting Standard for Retirement Benefits**

Effective from the year ended March 31, 2014, the Bank and its consolidated subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012, hereinafter, "Statement No. 26") and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012, hereinafter, "Guidance No. 25"), except Article 35 of Statement No. 26 and Article 67 of Guidance No. 25, and the difference between projected benefit obligations and plan assets has been recognized as net defined benefit liability.

Pursuant to the transitional treatment prescribed in Article 37 of the Statement No. 26, the Bank and its consolidated subsidiaries recorded unrecognized actuarial gains and losses and unrecognized prior service costs under accumulated other comprehensive income, after adjusting for tax effects, as accumulated adjustments for retirement benefits. As a result, net defined benefit liability of ¥14,120 million (\$137,193 thousand) has been recognized. In addition, deferred tax liabilities and accumulated other comprehensive income were ¥172 million (\$1,671 thousand) and ¥313 million (\$3,041 thousand) less, respectively, at the end of the current fiscal year. The effects of this change on per share information are explained in the note to the "Consolidated Income Statements".

**(t) Issued but not yet Adopted Accounting Standard and Others**  
**"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Statement No. 25, May 17, 2012)**

(1) Overview

From the viewpoint of improvements to financial reporting and international convergence, this accounting standard mainly focuses on changes in the treatment of unrecognized actuarial differences and unrecognized past service cost and the enhancement of disclosures and a revision to the determination of projected benefit obligation and current service cost.

(2) Scheduled Date of Application

The Bank is scheduled to apply the revision to the determination of projected benefit obligation and current service cost from the beginning of the fiscal year starting on April 1, 2014.

(3) Effect of Application of this accounting standard

The effect of the application of this accounting standard is to decrease retained earnings at the beginning of the fiscal year starting on April 1, 2014 by ¥7,006 million (\$68,072 thousand).

**"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and its Related Accounting Standards and Guidance**

(1) Overview

These accounting standards and guidance were revised principally concerning (i) "Accounting treatment for changes in a parent's ownership interest in a subsidiary that does not result in loss of control in the additional acquisition of shares in a subsidiary," (ii) "Accounting for acquisition-related costs," "Provisional accounting treatment" and "Presentation of net income and change from minority interests to non-controlling interests."

(2) Scheduled Date of Application

The Bank is scheduled to apply these revised accounting standards and guidance from the beginning of the fiscal year starting on April 1, 2015.

(3) Effects of Application of These Accounting Standards and Guidance

The effect of the application of these accounting standards and guidance is currently under consideration.

**3. Securities**

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amount of ¥483 million (\$4,692 thousand) and ¥286 million at March 31, 2014 and 2013, respectively.

The amounts shown in the following tables include trust certificates classified as "Other debt purchased" and trading account securities, in addition to "Securities" stated in the consolidated balance sheet.

The amounts of liabilities for guarantees on corporate bonds included in securities issued by private placement (Article 2, Paragraph 3 of the Financial Instrument and Exchange Law) were ¥38,451 million (\$373,600 thousand) and ¥35,365 million at March 31, 2014 and 2013, respectively.

## (1) Trading account securities

|  | Millions of Yen |      | Thousands of<br>U.S. Dollars |
|--|-----------------|------|------------------------------|
|  | 2014            | 2013 | 2014                         |
| Amount of net unrealized gains (losses) included in the consolidated income statements ..... | <b>¥(16)</b>    | ¥1   | <b>\$(155)</b>               |

(2) The following tables summarize acquisition costs and carrying amounts (fair value) of available-for-sale securities with available fair values as of March 31, 2014 and 2013:

| Type   | Millions of Yen |                  |            |
|--|-----------------|------------------|------------|
|  | 2014            |                  | Difference |
|  | Carrying amount | Acquisition cost |            |
| Available-for-sale securities whose fair value exceeds acquisition cost: |                 |                  |            |
| Equity securities .....  | ¥ 139,108       | ¥ 97,513         | ¥ 41,595   |
| Bonds .....  | 2,281,106       | 2,242,566        | 38,539     |
| Japanese government bonds .....  | 1,174,482       | 1,156,454        | 18,027     |
| Japanese municipal bonds .....   | 599,364         | 585,934          | 13,430     |
| Japanese corporate bonds .....   | 507,258         | 500,177          | 7,081      |
| Other .....  | 559,120         | 529,546          | 29,573     |
| Foreign bonds .....  | 441,699         | 432,871          | 8,828      |
| Other .....  | 117,421         | 96,675           | 20,745     |
| Subtotal .....   | ¥2,979,335      | ¥2,869,626       | ¥109,709   |

|  |            |            |           |
|--|------------|------------|-----------|
| Available-for-sale securities whose fair value does not exceed acquisition cost: |            |            |           |
| Equity securities .....  | ¥ 13,486   | ¥ 15,124   | ¥ (1,637) |
| Bonds .....  | 77,277     | 77,471     | (194)     |
| Japanese government bonds .....  | 40,833     | 40,904     | (71)      |
| Japanese municipal bonds .....   | 10,143     | 10,153     | (10)      |
| Japanese corporate bonds .....   | 26,301     | 26,413     | (112)     |
| Other .....  | 50,729     | 50,975     | (246)     |
| Foreign bonds .....  | 39,915     | 40,051     | (136)     |
| Other .....  | 10,813     | 10,924     | (110)     |
| Subtotal .....   | 141,492    | 143,571    | (2,078)   |
| Total .....  | ¥3,120,828 | ¥3,013,198 | ¥107,630  |

| Type   | Thousands of U.S. Dollars |                  |             |
|--|---------------------------|------------------|-------------|
|  | 2014                      |                  | Difference  |
|  | Carrying amount           | Acquisition cost |             |
| Available-for-sale securities whose fair value exceeds acquisition cost: |                           |                  |             |
| Equity securities .....  | \$ 1,351,612              | \$ 947,464       | \$ 404,148  |
| Bonds .....  | 22,163,874                | 21,789,409       | 374,465     |
| Japanese government bonds .....  | 11,411,601                | 11,236,436       | 175,165     |
| Japanese municipal bonds .....   | 5,823,591                 | 5,693,101        | 130,489     |
| Japanese corporate bonds .....   | 4,928,663                 | 4,859,862        | 68,801      |
| Other .....  | 5,432,568                 | 5,145,219        | 287,339     |
| Foreign bonds .....  | 4,291,673                 | 4,205,897        | 85,775      |
| Other .....  | 1,140,895                 | 939,321          | 201,564     |
| Subtotal .....   | \$28,948,066              | \$27,882,102     | \$1,065,963 |

|  |              |              |             |
|--|--------------|--------------|-------------|
| Available-for-sale securities whose fair value does not exceed acquisition cost: |              |              |             |
| Equity securities .....  | \$ 131,033   | \$ 146,949   | \$ (15,905) |
| Bonds .....  | 750,845      | 752,730      | (1,884)     |
| Japanese government bonds .....  | 396,745      | 397,434      | (689)       |
| Japanese municipal bonds .....   | 98,552       | 98,649       | (97)        |
| Japanese corporate bonds .....   | 255,547      | 256,636      | (1,088)     |
| Other .....  | 492,897      | 495,287      | (2,390)     |
| Foreign bonds .....  | 387,825      | 389,146      | (1,321)     |
| Other .....  | 105,062      | 106,140      | (1,068)     |
| Subtotal .....   | 1,374,776    | 1,394,976    | (20,190)    |
| Total .....  | \$30,322,852 | \$29,277,089 | \$1,045,763 |

| Type   | Millions of Yen |                  |            |
|--|-----------------|------------------|------------|
|  | 2013            |                  |            |
|  | Carrying amount | Acquisition cost | Difference |
| Available-for-sale securities whose fair value exceeds acquisition cost:         |                 |                  |            |
| Equity securities .....  | ¥ 109,670       | ¥ 78,051         | ¥ 31,619   |
| Bonds .....  | 2,210,840       | 2,162,318        | 48,522     |
| Japanese government bonds .....  | 1,045,468       | 1,024,500        | 20,968     |
| Japanese municipal bonds .....   | 648,010         | 629,968          | 18,041     |
| Japanese corporate bonds .....   | 517,361         | 507,849          | 9,511      |
| Other .....  | 557,958         | 523,234          | 34,723     |
| Foreign bonds .....  | 459,876         | 448,190          | 11,685     |
| Other .....  | 98,081          | 75,043           | 23,037     |
| Subtotal .....   | ¥2,878,469      | ¥2,763,604       | ¥114,864   |
| Available-for-sale securities whose fair value does not exceed acquisition cost: |                 |                  |            |
| Equity securities .....  | ¥ 23,509        | ¥ 26,981         | ¥ (3,472)  |
| Bonds .....  | 85,932          | 86,245           | (312)      |
| Japanese government bonds .....  | 73,950          | 74,163           | (212)      |
| Japanese corporate bonds .....   | 11,981          | 12,081           | (100)      |
| Other .....  | 27,973          | 28,436           | (463)      |
| Foreign bonds .....  | 18,110          | 18,445           | (334)      |
| Other .....  | 9,863           | 9,991            | (128)      |
| Subtotal .....   | 137,415         | 141,663          | (4,247)    |
| Total .....  | ¥3,015,884      | ¥2,905,267       | ¥110,616   |

(3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2014 and 2013:

#### Held-to-maturity securities

| Type  | Millions of Yen |            |            |
|---|-----------------|------------|------------|
|   | 2014            |            |            |
|   | Carrying amount | Fair value | Difference |
| Held-to-maturity securities whose fair value exceeds carrying amount:         |                 |            |            |
| Japanese government bonds .....   | ¥15,063         | ¥15,462    | ¥399       |
| Japanese municipal bonds .....  | 6,395           | 6,485      | 89         |
| Japanese corporate bonds .....  | 2,002           | 2,017      | 14         |
| Subtotal .....  | ¥23,461         | ¥23,964    | ¥503       |
| Held-to-maturity securities whose fair value does not exceed carrying amount: |                 |            |            |
| Japanese government bonds .....   | ¥ 599           | ¥ 597      | ¥ (1)      |
| Subtotal .....  | 599             | 597        | (1)        |
| Total .....   | ¥24,060         | ¥24,562    | ¥501       |

| Type  | Thousands of U.S. Dollars |            |            |
|---|---------------------------|------------|------------|
|   | 2014                      |            |            |
|   | Carrying amount           | Fair value | Difference |
| Held-to-maturity securities whose fair value exceeds carrying amount:         |                           |            |            |
| Japanese government bonds .....   | \$146,356                 | \$150,233  | \$3,876    |
| Japanese municipal bonds .....  | 62,135                    | 63,010     | 864        |
| Japanese corporate bonds .....  | 19,452                    | 19,597     | 136        |
| Subtotal .....  | \$227,953                 | \$232,841  | \$4,887    |
| Held-to-maturity securities whose fair value does not exceed carrying amount: |                           |            |            |
| Japanese government bonds .....   | \$ 5,820                  | \$ 5,800   | \$ (9)     |
| Subtotal .....  | 5,820                     | 5,800      | (9)        |
| Total .....   | \$233,773                 | \$238,651  | \$4,867    |

| Type  | Millions of Yen |            |            |
|---|-----------------|------------|------------|
|   | 2013            |            |            |
|   | Carrying amount | Fair value | Difference |
| Held-to-maturity securities whose fair value exceeds carrying amount: |                 |            |            |
| Japanese government bonds .....                                       | ¥11,693         | ¥12,083    | ¥389       |
| Japanese municipal bonds .....  | 6,990           | 7,184      | 193        |
| Japanese corporate bonds .....  | 2,000           | 2,051      | 51         |
| Total .....   | ¥20,684         | ¥21,319    | ¥635       |



(4) No impairment loss was recognized in the year ended March 31, 2014.

Impairment losses of ¥787 million for shares included in available-for-sale securities were recognized in the year ended March 31, 2013.

Impairment loss on securities other than trading account securities, excluding those securities for which the fair value is extremely difficult to determine, is recognized for the full amount of the loss when the loss is 50% or more of the acquisition cost. For loss of 30% to 50% of acquisition cost, impairment is determined by the possibility of recovery, with consideration for the trends in market values during the past year.

(5) Total sales of available-for-sale securities for the year ended March 31, 2014 and 2013 were as follows:

|                                | Millions of Yen     |                |                 |
|--------------------------------|---------------------|----------------|-----------------|
|                                | 2014                |                |                 |
|                                | Proceeds from Sales | Gains on Sales | Losses on Sales |
| Equity securities .....        | ¥ 53,120            | ¥5,062         | ¥2,415          |
| Bonds .....                    | 392,446             | 489            | 1,443           |
| Japanese government bonds .... | 381,731             | 489            | 1,318           |
| Japanese municipal bonds ..... | 5,549               | —              | 62              |
| Japanese corporate bonds ..... | 5,164               | 0              | 62              |
| Other .....                    | 264,336             | 1,389          | 2,061           |
| Foreign bonds .....            | 202,385             | 682            | 1,909           |
| Other .....                    | 61,951              | 706            | 151             |
| Total .....                    | ¥709,903            | ¥6,941         | ¥5,920          |

|                                | Thousands of U.S. Dollars |                |                 |
|--------------------------------|---------------------------|----------------|-----------------|
|                                | 2014                      |                |                 |
|                                | Proceeds from Sales       | Gains on Sales | Losses on Sales |
| Equity securities .....        | \$ 516,129                | \$49,183       | \$23,464        |
| Bonds .....                    | 3,813,116                 | 4,751          | 14,020          |
| Japanese government bonds ...  | 3,709,006                 | 4,751          | 12,806          |
| Japanese municipal bonds ..... | 53,915                    | —              | 602             |
| Japanese corporate bonds ..... | 50,174                    | 0              | 602             |
| Other .....                    | 2,568,363                 | 13,495         | 20,025          |
| Foreign bonds .....            | 1,966,430                 | 6,626          | 18,548          |
| Other .....                    | 601,933                   | 6,859          | 1,467           |
| Total .....                    | \$6,897,619               | \$67,440       | \$57,520        |

(2) Money trusts, other than for investment purposes or held to maturity purposes at March 31, 2014 and 2013 were as follows:

|                   | Millions of Yen |                  |            |  |  |
|-------------------|-----------------|------------------|------------|--|--|
|                   | 2014            |                  |            |  |  |
|                   | Carrying amount | Acquisition cost | Difference | Difference for money trusts for which the carrying amount exceeds acquisition cost | Difference for money trusts for which the carrying amount does not exceed acquisition cost |
| Money trust ..... | ¥ 3,300         | ¥ 3,300          | ¥—         | ¥—   | ¥—   |

|                   | Thousands of U.S. Dollars |                  |            |  |  |
|-------------------|---------------------------|------------------|------------|--|--|
|                   | 2014                      |                  |            |  |  |
|                   | Carrying amount           | Acquisition cost | Difference | Difference for money trusts for which the carrying amount exceeds acquisition cost | Difference for money trusts for which the carrying amount does not exceed acquisition cost |
| Money trust ..... | \$32,063                  | \$32,063         | \$—        | \$—  | \$—  |

|                                | Millions of Yen     |                |                 |
|--------------------------------|---------------------|----------------|-----------------|
|                                | 2013                |                |                 |
|                                | Proceeds from Sales | Gains on Sales | Losses on Sales |
| Equity securities .....        | ¥ 25,292            | ¥1,628         | ¥2,326          |
| Bonds .....                    | 422,418             | 1,807          | 386             |
| Japanese government bonds .... | 407,154             | 1,616          | 379             |
| Japanese municipal bonds ..... | 9,471               | 144            | —               |
| Japanese corporate bonds ..... | 5,792               | 46             | 6               |
| Other .....                    | 85,641              | 422            | 825             |
| Foreign bonds .....            | 66,420              | 355            | 797             |
| Other .....                    | 19,221              | 67             | 28              |
| Total .....                    | ¥533,352            | ¥3,858         | ¥3,537          |

#### 4. Money Trusts

(1) Money trusts as a type of trading account security at March 31, 2014 and 2013 were as follows:

|   | Millions of Yen |         | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
|   | 2014            | 2013    | 2014                      |
| Carrying amount (fair value) .....                                      | ¥20,000         | ¥20,399 | \$194,325                 |
| Net unrealized gains (losses) recognized in the income statements ..... | —               | —       | —                         |

|                   | Millions of Yen |                  |            |  |  |
|-------------------|-----------------|------------------|------------|--|--|
|                   | 2013            |                  |            |  |  |
|                   | Carrying amount | Acquisition cost | Difference | Difference for money trusts for which the carrying amount exceeds acquisition cost | Difference for money trusts for which the carrying amount does not exceed acquisition cost |
| Money trust ..... | ¥ 2,650         | ¥ 2,650          | ¥—         | ¥—   | ¥—   |

## 5. Net Unrealized Gains or Losses on Available-for-sale Securities

Net unrealized gains or losses on available-for-sale securities at March 31, 2014 and 2013 were as follows:

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2014            | 2013     | 2014                      |
| Net unrealized gains on available-for-sale securities .....  | <b>¥107,630</b> | ¥110,616 | <b>\$1,045,763</b>        |
| Deferred tax liabilities .....   | <b>(37,659)</b> | (38,962) | <b>(365,905)</b>          |
| Net unrealized gains on available-for-sale securities before adjustment for minority interests, net of taxes ..... | <b>69,971</b>   | 71,654   | <b>679,858</b>            |
| Minority interests .....   | <b>(290)</b>    | (265)    | <b>(2,817)</b>            |
| Net unrealized gains on available-for-sale securities, net of taxes .....  | <b>¥ 69,681</b> | ¥71,388  | <b>\$ 677,040</b>         |

## 6. Loans and Bills Discounted

Loans and bills discounted at March 31, 2014 and 2013 included the following:

|   | Millions of Yen |          | Thousands of U.S. Dollars |
|---|-----------------|----------|---------------------------|
|   | 2014            | 2013     | 2014                      |
| Loans to bankrupt customers .....                               | <b>¥ 7,953</b>  | ¥ 17,419 | <b>\$ 77,273</b>          |
| Loans past due six months or more .....                         | <b>65,097</b>   | 79,298   | <b>632,500</b>            |
| Loans past due three months or more but less than six months .. | <b>663</b>      | 569      | <b>6,441</b>              |
| Restructured loans .....  | <b>13,756</b>   | 13,397   | <b>133,657</b>            |
| Total .....   | <b>¥87,471</b>  | ¥110,683 | <b>\$849,893</b>          |

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

Loans past due six months or more are loans not included in the above category or in restructured loans for which payments are past due six months or more. Interest is not being accrued on these loans.

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

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

Bills discounted, such as commercial bills discounted and foreign exchanges bought, are accounted for as financial transactions in accordance with the "Treatment for Accounting and Auditing for the Application of the Accounting Standard for Financial Instruments in Banking Industry" (Industry Audit Committee Report No. 24), issued by the JICPA. The Bank has the right to sell or pledge commercial bills discounted and foreign exchange bought without restriction. The total face amount of such instruments at March 31, 2014 and 2013 was ¥37,728 million (\$366,575 thousand) and ¥43,448 million, respectively.

## 7. Commitment Lines

Commitment line agreements are loan agreements which oblige the Bank and its consolidated subsidiaries to lend funds up to certain limits agreed to in advance. The Bank and its consolidated subsidiaries make loans upon the request of an obligor to draw down funds under such agreements as long as there is no breach of the various terms and conditions stipulated in the relevant agreement. The total unused commitment line balance related to these agreements at March 31, 2014 and 2013 amounted to ¥1,331,646 million (\$12,938,651 thousand) and ¥1,345,713 million, respectively. Of these amounts, ¥1,274,725 million (\$12,385,590 thousand) for 2014 and ¥1,291,402 million for 2013 related to loans in which the term of the agreement was one year or less or for which the unconditional cancellation of the agreement was allowed at any time.

With many of these commitment line agreements, the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment does not necessarily affect future cash flows. In certain loan agreements, conditions are included which allow the Bank and its consolidated subsidiaries either to decline the request to drawdown the loan or to reduce the agreed limit when there is cause to do so, such as when there is a change in financial condition or when it is necessary to protect the Bank and its consolidated subsidiaries' credit. The Bank and its consolidated subsidiaries take various measures to protect their credit, including having the obligor pledge collateral such as real estate or securities when signing loan agreements or confirming the obligor's financial condition at regular intervals in accordance with the Bank and its consolidated subsidiaries' established internal procedures.

## 8. Tangible Fixed Assets

Tangible fixed assets at March 31, 2014 and 2013 were as follows:

|                                   | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|-----------------------------------|-----------------|---------|------------------------------|
|                                   | 2014            | 2013    | 2014                         |
| Land .....                        | <b>¥20,649</b>  | ¥20,791 | <b>\$200,631</b>             |
| Buildings .....                   | <b>15,289</b>   | 15,875  | <b>148,552</b>               |
| Construction in progress .....    | —               | 6       | —                            |
| Lease assets .....                | <b>3,247</b>    | 3,536   | <b>31,548</b>                |
| Other tangible fixed assets ..... | <b>4,689</b>    | 4,724   | <b>45,559</b>                |
|                                   | <b>¥43,875</b>  | ¥44,935 | <b>\$426,301</b>             |

Accumulated depreciation at March 31, 2014 and 2013 was ¥76,672 million (\$744,966 thousand) and ¥75,649 million, respectively. The amounts that were directly offset against acquisition costs at March 31, 2014 and 2013 were ¥5,419 million (\$52,652 thousand) and ¥5,420 million, respectively.

The differences between the recoverable amount and the book value of the assets below were recognized as “Losses on impairment of fixed assets” for the years ended March 31, 2014 and 2013 as follows:

| (Millions of Yen) |                | 2014       |                                      |      |
|-------------------|----------------|------------|--------------------------------------|------|
| Area              | Purpose of Use | Type       | Losses on impairment of fixed assets |      |
| Okayama           | Branches       | 1 branch   | Land and buildings                   | ¥ 11 |
|                   | Idle assets    | 1 item     |                                      |      |
| Other             | Branches       | 4 branches | Land and buildings                   | ¥132 |
|                   | Idle assets    | 1 item     |                                      |      |

| (Thousands of U.S. Dollars) |                | 2014       |                                      |         |
|-----------------------------|----------------|------------|--------------------------------------|---------|
| Area                        | Purpose of Use | Type       | Losses on impairment of fixed assets |         |
| Okayama                     | Branches       | 1 branch   | Land and buildings                   | \$ 106  |
|                             | Idle assets    | 1 item     |                                      |         |
| Other                       | Branches       | 4 branches | Land and buildings                   | \$1,282 |
|                             | Idle assets    | 1 item     |                                      |         |

| (Millions of Yen) |                | 2013       |                                      |     |
|-------------------|----------------|------------|--------------------------------------|-----|
| Area              | Purpose of Use | Type       | Losses on impairment of fixed assets |     |
| Okayama           | Branches       | 2 branches | Land and buildings                   | ¥54 |
|                   | Idle assets    | 2 items    |                                      |     |
| Other             | Branches       | 2 branches | Land and buildings                   | ¥24 |
|                   | Idle assets    | 3 items    |                                      |     |

Within the Bank, it is the Group office or branch that manages and determines income and expenses, and it is the Group office or branch that is the smallest unit of an asset group for recognition and measurement of impairment loss. Fixed assets which do not have identifiable cash flows, such as the corporate headquarters' facilities, the computer center and recreational facilities, are grouped with other assets. As for idle assets and assets to be disposed of, impairment loss

on each asset is measured individually. With regard to the consolidated subsidiaries, each subsidiary is considered as the smallest grouping unit.

For assets in which investments were not expected to be recovered, the Bank and its consolidated subsidiaries reduced the carrying amount for branches, idle assets and assets to be disposed of to the recoverable amount and recognized a corresponding loss of ¥143 million (\$1,389 thousand) and ¥79 million as “Losses on impairment of fixed assets” for the years ended March 31, 2014 and 2013, respectively.

The recoverable amount for branches, idle assets and assets to be disposed of was the higher of the net realizable value and the value in use. The net realizable value was based on the appraisal value in accordance with Real Estate Appraisal Standards. The value in use was used to estimate the recoverable amount, and future cash flow was discounted by 4%.

## 9. Intangible Fixed Assets

Intangible fixed assets at March 31, 2014 and 2013 were as follows:

|                                     | Millions of Yen |      | Thousands of<br>U.S. Dollars |
|-------------------------------------|-----------------|------|------------------------------|
|                                     | 2014            | 2013 | 2014                         |
| Software .....                      | <b>¥ 0</b>      | ¥ 0  | <b>\$ 0</b>                  |
| Software in progress .....          | <b>1,931</b>    | 732  | <b>18,762</b>                |
| Other intangible fixed assets ..... | <b>152</b>      | 154  | <b>1,476</b>                 |
|                                     | <b>¥2,084</b>   | ¥887 | <b>\$20,248</b>              |

## 10. Pledged Assets

Pledged assets at March 31, 2014 and 2013 were as follows:

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|--|-----------------|----------|------------------------------|
|  | 2014            | 2013     | 2014                         |
| Securities .....   | <b>¥291,614</b> | ¥333,690 | <b>\$2,833,404</b>           |
| Lease receivables and investment<br>in leased assets ..... | <b>162</b>      | 620      | <b>1,574</b>                 |
| Other assets .....   | <b>81</b>       | 81       | <b>787</b>                   |
| Total .....  | <b>¥291,858</b> | ¥334,392 | <b>\$2,835,775</b>           |

Liabilities secured by the above were as follows:

|   | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|---|-----------------|----------|------------------------------|
|   | 2014            | 2013     | 2014                         |
| Deposits .....  | <b>¥40,725</b>  | ¥17,358  | <b>\$395,695</b>             |
| Call money .....  | —               | 11,894   | —                            |
| Payables under securities lending<br>transactions ..... | <b>154,415</b>  | 230,893  | <b>1,500,340</b>             |
| Borrowed money .....                                    | <b>97,277</b>   | 50,501   | <b>945,171</b>               |
| Total .....   | <b>¥292,419</b> | ¥310,647 | <b>\$2,841,226</b>           |

At March 31, 2014 and 2013, respectively, certain trading account securities in the aggregate amount of ¥69 million (\$670 thousand) and ¥51 million, respectively, and certain other securities in the aggregate amount of ¥233,027 million (\$2,264,156 thousand) and ¥222,961 million, respectively, were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

Other assets included guarantee deposits of ¥793 million (\$7,705 thousand) and ¥649 million at March 31, 2014 and 2013, respectively. Other assets also included initial margins for futures markets in the amount of ¥114 million (\$1,107 thousand) and ¥75 million at March 31, 2014 and 2013, respectively.

## 11. Deferred Tax Assets (Liabilities)

Significant components of deferred taxes assets and liabilities at March 31, 2014 and 2013 were as follows:

|  | Millions of Yen  |          | Thousands of<br>U.S. Dollars |
|--|------------------|----------|------------------------------|
|  | 2014             | 2013     | 2014                         |
| Deferred tax assets:   |                  |          |                              |
| Reserve for possible loan losses .....                           | <b>¥ 14,970</b>  | ¥ 22,210 | <b>\$ 145,452</b>            |
| Liability for employees' severance and retirement benefits ..... | —                | 6,275    | —                            |
| Net defined benefit liability .....                              | <b>6,247</b>     | —        | <b>60,697</b>                |
| Depreciation .....   | <b>4,767</b>     | 4,945    | <b>46,317</b>                |
| Deferred losses on hedging instruments .....                     | <b>2,022</b>     | 2,586    | <b>19,646</b>                |
| Write-down of securities .....                                   | <b>1,165</b>     | 1,378    | <b>11,319</b>                |
| Unrealized holding losses on available-for-sale securities ..    | <b>736</b>       | 1,506    | <b>7,151</b>                 |
| Accrued employees' bonuses ...                                   | <b>641</b>       | 642      | <b>6,228</b>                 |
| Other .....  | <b>4,416</b>     | 4,755    | <b>42,907</b>                |
| Subtotal .....   | <b>34,967</b>    | 44,300   | <b>339,749</b>               |
| Valuation allowance .....  | <b>(2,536)</b>   | (2,767)  | <b>(24,640)</b>              |
| Total deferred tax assets .....                                  | <b>32,430</b>    | 41,533   | <b>315,099</b>               |
| Deferred tax liabilities:  |                  |          |                              |
| Unrealized holding gains on available-for-sale securities ..     | <b>(38,352)</b>  | (40,395) | <b>(372,638)</b>             |
| Reserve for advanced depreciation of tangible fixed assets ..... | <b>(255)</b>     | (230)    | <b>(2,477)</b>               |
| Reserve for special depreciation for tax purpose .....           | <b>(4)</b>       | (6)      | <b>(38)</b>                  |
| Deferred gains on hedging instruments .....                      | <b>(2)</b>       | (1)      | <b>(19)</b>                  |
| Other .....  | <b>(0)</b>       | —        | <b>(0)</b>                   |
| Total deferred tax liabilities .....                             | <b>(38,615)</b>  | (40,633) | <b>(375,194)</b>             |
| Net deferred tax assets (liabilities) ...                        | <b>¥ (6,184)</b> | ¥ 900    | <b>\$ (60,085)</b>           |

For the years ended March 31, 2014 and 2013, the presentation of the difference between the statutory tax rate and the effective tax rate is omitted because the difference was not significant.

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:

The New Tax Reform Act proclaimed on March 31, 2014 repealed the Special Corporate Tax for fiscal years beginning on and after April 1, 2014. As a result, the statutory tax rate to be used in computing deferred tax assets and liabilities has been reduced from 37.8% to 35.4% for the temporary differences estimated to be settled in the fiscal year beginning on April 1, 2014. As a result, deferred tax assets and net deferred losses on hedging instruments were ¥23 million (\$223 thousand) and ¥1 million (\$9 thousand) less, respectively, and deferred tax liabilities, net unrealized gains on available-for-sale securities and income taxes – deferred were ¥770 million (\$7,481 thousand), ¥39 million (\$378 thousand) and ¥831 million (\$8,074 thousand) more, respectively, than the amounts that would have been reported without the change.

## 12. Borrowed Money

Borrowed money at March 31, 2014 and 2013 consisted of the following:

|   | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|---|-----------------|---------|------------------------------|
|   | 2014            | 2013    | 2014                         |
| Borrowed Money .....                        | <b>¥112,696</b> | ¥69,441 | <b>\$1,094,986</b>           |
| Lease liabilities (due within one year) ... | <b>224</b>      | 232     | <b>2,176</b>                 |
| Lease liabilities (due after one year) ...  | <b>3,008</b>    | 3,289   | <b>29,226</b>                |

The weighted average interest rates on the outstanding balances at March 31, 2014 and 2013 were as follows:

|   | 2014          | 2013   |
|---|---------------|--------|
| Borrowed Money .....                          | <b>0.183%</b> | 0.220% |
| Lease liabilities (due within one year) ..... | —             | —      |
| Lease liabilities (due after one year) .....  | —             | —      |

Borrowed money classified by maturity at March 31, 2014 and 2013 was as follows:

|                                | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|--------------------------------|-----------------|---------|------------------------------|
|                                | 2014            | 2013    | 2014                         |
| Less than one year .....       | <b>¥ 99,921</b> | ¥55,889 | <b>\$ 970,860</b>            |
| From one to two years .....    | <b>4,689</b>    | 4,661   | <b>45,559</b>                |
| From two to three years .....  | <b>2,969</b>    | 3,229   | <b>28,847</b>                |
| From three to four years ..... | <b>2,059</b>    | 2,187   | <b>20,005</b>                |
| From four to five years .....  | <b>985</b>      | 1,254   | <b>9,570</b>                 |
| Over five years .....          | <b>2,071</b>    | 2,220   | <b>20,122</b>                |
| Total borrowed money .....     | <b>¥112,696</b> | ¥69,441 | <b>\$1,094,986</b>           |

Lease liabilities classified by maturity at March 31, 2014 and 2013 were as follows:

|                                | Millions of Yen |        | Thousands of<br>U.S. Dollars |
|--------------------------------|-----------------|--------|------------------------------|
|                                | 2014            | 2013   | 2014                         |
| Less than one year .....       | <b>¥ 224</b>    | ¥ 232  | <b>\$ 2,176</b>              |
| From one to two years .....    | <b>218</b>      | 227    | <b>2,118</b>                 |
| From two to three years .....  | <b>215</b>      | 221    | <b>2,089</b>                 |
| From three to four years ..... | <b>211</b>      | 218    | <b>2,050</b>                 |
| From four to five years .....  | <b>210</b>      | 213    | <b>2,040</b>                 |
| Over five years .....          | <b>2,152</b>    | 2,408  | <b>20,909</b>                |
| Total lease liabilities .....  | <b>¥3,232</b>   | ¥3,521 | <b>\$31,403</b>              |

## 13. Liability for Employees' Severance and Retirement Benefits Year ended March 31, 2014

### (1) Outline of retirement benefit plans

The Bank has defined benefit retirement benefit plans and defined contribution retirement benefit plans. As defined benefit plans, the Bank has a corporate pension fund plan and a lump-sum payment plan.

Consolidated subsidiaries provide unfunded lump-sum payment plans. In determining projected benefit obligation, a simplified method is adopted. The Bank has set up an employees' retirement benefit trust.

## (2) Defined benefit plans

(a) The changes in projected benefit obligation for the year ended March 31, 2014, were as follows:

|   | Millions of Yen | Thousands of U.S. Dollars |
|---|-----------------|---------------------------|
| Beginning balance of projected benefit obligation ... | ¥46,481         | \$451,622                 |
| Service cost .....                                    | 1,573           | 15,283                    |
| Interest cost .....                                   | 924             | 8,977                     |
| Actuarial differences .....                           | 591             | 5,742                     |
| Retirement benefits paid .....                        | (2,426)         | (23,571)                  |
| Prior service cost .....                              | —               | —                         |
| Other .....   | —               | —                         |
| Ending balance of projected benefit obligation .....  | ¥47,143         | \$458,054                 |

(b) The changes in plan assets for the year ended March 31, 2014 were as follows:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Beginning balance of plan assets ..... | ¥31,061         | \$301,797                 |
| Expected return on plan assets .....   | 183             | 1,778                     |
| Actuarial differences .....            | 1,445           | 14,040                    |
| Contribution from the employer .....   | 1,322           | 12,844                    |
| Retirement benefits paid .....         | (989)           | (9,609)                   |
| Other .....                            | —               | —                         |
| Ending balance of plan assets .....    | ¥33,023         | \$320,860                 |

(c) Reconciliation between the ending balances of projected benefit obligation and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet was as follows:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Funded defined benefit obligation .....                                | ¥46,986         | \$456,529                 |
| Plan assets .....  | (33,023)        | (320,860)                 |
|  | 13,962          | 135,658                   |
| Unfunded defined benefit obligation .....                              | 157             | 1,525                     |
| Net liability (asset) recorded in the consolidated balance sheet ..... | ¥14,120         | \$137,193                 |
|  |                 |                           |
|  | Millions of Yen | Thousands of U.S. Dollars |
| Net defined benefit liability .....                                    | ¥14,120         | \$137,193                 |
| Net defined benefit asset .....  | —               | —                         |
| Net liability (asset) recorded in the consolidated balance sheet ..... | ¥14,120         | \$137,193                 |

(d) The components of retirement benefit expenses for the year ended March 31, 2014 were as follows:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Service cost .....   | ¥1,573          | \$15,283                  |
| Interest cost .....  | 924             | 8,977                     |
| Expected return on plan assets .....                       | (183)           | (1,778)                   |
| Amortization of actuarial differences .....                | 219             | 2,127                     |
| Amortization of prior service cost .....                   | (296)           | (2,876)                   |
| Other .....  | 45              | 437                       |
| Retirement benefit expenses on defined benefit plans ..... | ¥2,283          | \$22,182                  |

Note: Retirement benefit costs of consolidated subsidiaries adopted the simplified method are included in "Service cost."

(e) The components of accumulated adjustments for retirement benefits (before tax effect) were as follows:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Unrecognized prior service cost .....    | ¥ 148           | \$ 1,438                  |
| Unrecognized actuarial differences ..... | (634)           | (6,160)                   |
| Other .....                              | —               | —                         |
| Total .....                              | ¥(485)          | \$(4,712)                 |

### (f) Plan assets

1) Components of plan assets

Plan assets consisted of the followings:

|                         |        |
|-------------------------|--------|
| Bonds .....             | 24.8%  |
| Equity securities ..... | 51.0%  |
| Cash and deposits ..... | 0.3%   |
| Other .....             | 23.9%  |
| Total .....             | 100.0% |

Note: Total plan assets included an employees' retirement benefit trust established for corporate welfare pension plans of 16.5%.

2) Method of determining the long-term expected rate of return on plan assets

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

(g) Assumptions used for the year ended March 31, 2014, were as follows:

|                                    |               |
|------------------------------------|---------------|
| Discount rate:                     | 2.000%        |
| Long-term expected rate of return: | 0.000%-2.349% |

### (3) Defined contribution plans

The amount of required contribution to the defined contribution plan of the Bank was ¥121 million (\$1,175 thousand).

#### Year ended March 31, 2013

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2013 consisted of the following:

|  | Millions of Yen |
|--|-----------------|
| Projected benefit obligation .....                               | ¥(46,481)       |
| Less fair value of pension assets .....                          | 31,061          |
| Unrecognized actuarial differences .....                         | 1,707           |
| Unrecognized prior service cost .....                            | (444)           |
| Liability for employees' severance and retirement benefits ..... | ¥(14,156)       |

Included in the consolidated statements of income for the year ended March 31, 2013 were severance and retirement benefit expenses that comprised the following:

|   | Millions of Yen |
|---|-----------------|
| Service costs - benefits earned during the year ..... | ¥(1,735)        |
| Interest cost on projected benefit obligation .....   | (916)           |
| Expected return on plan assets .....                  | 178             |
| Amortization of prior service cost .....              | 296             |
| Amortization of net actuarial loss .....              | (805)           |
| Severance and retirement benefit expenses .....       | ¥(2,981)        |

The discount rate used by the Bank at March 31, 2013 was 2.0%. The rates of expected return on plan assets used by the Bank at March 31, 2013 were as follows:

|   |        |
|---|--------|
| Cash balance pension fund plan .....    | 0.000% |
| Employee retirement benefit trust ..... | 2.303% |

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total number of service years. Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, which is within the average of the estimated remaining service years, commencing with the following period. Prior service costs of the cash balance pension plans are recognized in expenses using the straight-line method over ten years, which is within the average of the estimated remaining service years, commencing with the period when they arise.

### 14. Derivative Transactions

Derivative transactions at March 31, 2014 and 2013 were as follows:

(1) Derivatives transactions to which hedge accounting is not applied

For derivatives transactions to which hedge accounting is not applied, the contract amount or corresponding principal amount stipulated by the contract, the fair value, recognized gains (losses) and the calculation method for the relevant fair value by each type of transaction as of the consolidated balance sheet date are set forth in the tables below. The actual contract amounts do not indicate the market risk for the derivative transactions themselves.

Interest Rate Derivatives:

| Type                          | Millions of Yen |             |            |                           |
|-------------------------------|-----------------|-------------|------------|---------------------------|
|                               | 2014            |             |            |                           |
|                               | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                 |             |            |                           |
| Interest rate swaps           |                 |             |            |                           |
| Pay fixed/                    |                 |             |            |                           |
| receive floating .....        | ¥16,185         | ¥14,685     | ¥(269)     | ¥(269)                    |
| Pay floating/                 |                 |             |            |                           |
| receive fixed .....           | 16,045          | 14,545      | 397        | 397                       |
| Total .....                   | —               | —           | ¥ 127      | ¥ 127                     |

| Type                          | Thousands of U.S. Dollars |             |            |                           |
|-------------------------------|---------------------------|-------------|------------|---------------------------|
|                               | 2014                      |             |            |                           |
|                               | Contract amount           | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                           |             |            |                           |
| Interest rate swaps           |                           |             |            |                           |
| Pay fixed/                    |                           |             |            |                           |
| receive floating .....        | \$157,258                 | \$142,683   | \$(2,613)  | \$(2,613)                 |
| Pay floating/                 |                           |             |            |                           |
| receive fixed .....           | 155,897                   | 141,323     | 3,857      | 3,857                     |
| Total .....                   | —                         | —           | \$ 1,233   | \$ 1,233                  |

| Type                          | Millions of Yen |             |            |                           |
|-------------------------------|-----------------|-------------|------------|---------------------------|
|                               | 2013            |             |            |                           |
|                               | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                 |             |            |                           |
| Interest rate swaps           |                 |             |            |                           |
| Pay fixed/                    |                 |             |            |                           |
| receive floating .....        | ¥18,781         | ¥17,291     | ¥(399)     | ¥(399)                    |
| Pay floating/                 |                 |             |            |                           |
| receive fixed .....           | 18,781          | 17,291      | 569        | 569                       |
| Total .....                   | —               | —           | ¥ 169      | ¥ 169                     |

Notes: 1. The above transactions were stated at fair value, and gains and losses were recognized in the consolidated income statements.

2. Fair values were determined based on the discounted value of future cash flows and other factors.

Currency Derivatives:

| Type                          | Millions of Yen |             |            |                           |
|-------------------------------|-----------------|-------------|------------|---------------------------|
|                               | 2014            |             |            |                           |
|                               | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                 |             |            |                           |
| Currency swaps .....          | ¥554,386        | ¥494,300    | ¥ 186      | ¥ 186                     |
| Forward foreign exchange      |                 |             |            |                           |
| Sold .....                    | 175,188         | 438         | (2,207)    | (2,207)                   |
| Bought .....                  | 14,683          | 30          | 1,159      | 1,159                     |
| Currency options              |                 |             |            |                           |
| Sold .....                    | 35,109          | 18,836      | 1,746      | 2,067                     |
| Bought .....                  | 35,109          | 18,836      | 1,743      | (1,716)                   |
| Total .....                   | —               | —           | ¥ 2,628    | ¥ (511)                   |

| Type                          | Thousands of U.S. Dollars |             |            |                           |
|-------------------------------|---------------------------|-------------|------------|---------------------------|
|                               | 2014                      |             |            |                           |
|                               | Contract amount           | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                           |             |            |                           |
| Currency swaps .....          | \$5,386,572               | \$4,802,759 | \$ 1,807   | \$ 1,807                  |
| Forward foreign exchange      |                           |             |            |                           |
| Sold .....                    | 1,702,176                 | 4,255       | (21,443)   | (21,443)                  |
| Bought .....                  | 142,664                   | 291         | 11,261     | 11,261                    |
| Currency options              |                           |             |            |                           |
| Sold .....                    | 341,129                   | 183,015     | 16,964     | 20,083                    |
| Bought .....                  | 341,129                   | 183,015     | 16,935     | (16,673)                  |
| Total .....                   | —                         | —           | \$ 25,534  | \$ (4,965)                |

| Type                          | Millions of Yen |             |            |                           |
|-------------------------------|-----------------|-------------|------------|---------------------------|
|                               | 2013            |             |            |                           |
|                               | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                 |             |            |                           |
| Currency swaps .....          | ¥459,616        | ¥387,549    | ¥ 191      | ¥ 191                     |
| Forward foreign exchange      |                 |             |            |                           |
| Sold .....                    | 131,070         | 4,740       | (7,239)    | (7,239)                   |
| Bought .....                  | 15,568          | 4,608       | 1,075      | 1,075                     |
| Currency options              |                 |             |            |                           |
| Sold .....                    | 69,564          | 41,089      | 3,472      | 3,317                     |
| Bought .....                  | 69,564          | 41,089      | 3,386      | (2,457)                   |
| NDF                           |                 |             |            |                           |
| Sold .....                    | 57              | —           | (1)        | (1)                       |
| Bought .....                  | 53              | —           | 5          | 5                         |
| Total .....                   | —               | —           | ¥ 890      | ¥(5,109)                  |

Notes: 1. The above transactions were stated at fair value, and gains and losses were recognized in the consolidated income statements.

2. Fair values were determined based on the discounted value of future cash flows and other factors.

Bond Related Derivatives

| Type                                     | Millions of Yen |             |            |                           |
|--|-----------------|-------------|------------|---------------------------|
|  | 2014            |             |            |                           |
|  | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Financial products exchange transactions |                 |             |            |                           |
| Bond futures                             |                 |             |            |                           |
| Sold .....                               | ¥868            | ¥—          | ¥867       | ¥1                        |
| Total .....                              | —               | —           | ¥867       | ¥1                        |

| Type                                     | Thousands of U.S. Dollars |             |            |                           |
|--|---------------------------|-------------|------------|---------------------------|
|  | 2014                      |             |            |                           |
|  | Contract amount           | Over 1 year | Fair value | Recognized gains (losses) |
| Financial products exchange transactions |                           |             |            |                           |
| Bond futures                             |                           |             |            |                           |
| Sold .....                               | \$8,433                   | \$—         | \$8,424    | \$9                       |
| Total .....                              | —                         | —           | \$8,424    | \$9                       |

| Type                                     | Millions of Yen |             |            |                           |
|--|-----------------|-------------|------------|---------------------------|
|  | 2013            |             |            |                           |
|  | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Financial products exchange transactions |                 |             |            |                           |
| Bond futures                             |                 |             |            |                           |
| Sold .....                               | ¥1,015          | ¥—          | ¥1,018     | ¥(2)                      |
| Total .....                              | —               | —           | ¥1,018     | ¥(2)                      |

Note: The above transactions are stated at fair value, and gains or losses are recognized in the consolidated income statements.

Credit Derivatives

There were no credit derivatives outstanding at March 31, 2014.

| Type                          | Millions of Yen |             |            |                           |
|-------------------------------|-----------------|-------------|------------|---------------------------|
|                               | 2013            |             |            |                           |
|                               | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                 |             |            |                           |
| Credit default swap           |                 |             |            |                           |
| Sold .....                    | ¥500            | ¥—          | ¥3         | ¥0                        |
| Total .....                   | —               | —           | ¥3         | ¥0                        |

(2) Derivatives transactions to which hedge accounting is applied

For derivatives transactions to which hedge accounting is applied, the contract amounts or corresponding principal amounts stipulated by the contract, the fair value and the calculation method for the fair value by type of transaction and hedge accounting method as of the consolidated balance sheet date are set forth in the tables below. The actual contract amounts do not indicate the market risk for the derivative transactions themselves.

Interest Rate Derivatives:

|                        |                    | Millions of Yen |             |            |
|------------------------|--------------------|-----------------|-------------|------------|
|                        |                    | 2014            |             |            |
| Type                   | Hedged item        | Contract amount | Over 1 year | Fair value |
| The deferral method of |                    |                 |             |            |
| hedge accounting       | Loans and bills    |                 |             |            |
| Interest rate swaps    | discounted and     |                 |             |            |
| Pay fixed/             | available-for-sale |                 |             |            |
| receive floating ...   | securities (bond)  | ¥130,513        | ¥114,502    | ¥(5,707)   |
| Total .....            |                    | —               | —           | ¥(5,707)   |

|                        |                    | Thousands of U.S. Dollars |             |            |
|------------------------|--------------------|---------------------------|-------------|------------|
|                        |                    | 2014                      |             |            |
| Type                   | Hedged item        | Contract amount           | Over 1 year | Fair value |
| The deferral method of |                    |                           |             |            |
| hedge accounting       | Loans and bills    |                           |             |            |
| Interest rate swaps    | discounted and     |                           |             |            |
| Pay fixed/             | available-for-sale |                           |             |            |
| receive floating ...   | securities (bond)  | \$1,268,101               | \$1,112,534 | \$(55,450) |
| Total .....            |                    | —                         | —           | \$(55,450) |

|                        |                    | Millions of Yen |             |            |
|------------------------|--------------------|-----------------|-------------|------------|
|                        |                    | 2013            |             |            |
| Type                   | Hedged item        | Contract amount | Over 1 year | Fair value |
| The deferral method of |                    |                 |             |            |
| hedge accounting       | Loans and bills    |                 |             |            |
| Interest rate swaps    | discounted and     |                 |             |            |
| Pay fixed/             | available-for-sale |                 |             |            |
| receive floating ...   | securities (bond)  | ¥145,216        | ¥130,438    | ¥(7,285)   |
| Total .....            |                    | —               | —           | ¥(7,285)   |

Notes: 1. The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24).

2. Fair values were determined based on the discounted value of future cash flows and other factors.

Currency Derivatives:

|                          |             | Millions of Yen |             |            |
|--------------------------|-------------|-----------------|-------------|------------|
|                          |             | 2014            |             |            |
| Type                     | Hedged item | Contract amount | Over 1 year | Fair value |
| The deferral method of   |             |                 |             |            |
| hedge accounting         |             |                 |             |            |
| Fund related swaps ..... | Call loans  | ¥4,644          | ¥—          | ¥0         |
| Total .....              |             | —               | —           | ¥0         |

Thousands of U.S. Dollars

|                          |             | 2014            |             |            |
|--------------------------|-------------|-----------------|-------------|------------|
| Type                     | Hedged item | Contract amount | Over 1 year | Fair value |
| The deferral method of   |             |                 |             |            |
| hedge accounting         |             |                 |             |            |
| Fund related swaps ..... | Call loans  | \$45,122        | \$—         | \$0        |
| Total .....              |             | —               | —           | \$0        |

Notes: 1. The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25).

2. Fair values were determined based on the discounted value of future cash flows and other factors.

|                          |             | Millions of Yen |             |            |
|--------------------------|-------------|-----------------|-------------|------------|
|                          |             | 2013            |             |            |
| Type                     | Hedged item | Contract amount | Over 1 year | Fair value |
| The deferral method of   |             |                 |             |            |
| hedge accounting         |             |                 |             |            |
| Fund related swaps ..... | Call loans  | ¥3,968          | ¥—          | ¥(0)       |
| Total .....              |             | —               | —           | ¥(0)       |

Notes: 1. The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25).

2. Fair values were determined based on the discounted value of future cash flows and other factors.

## 15. Acceptances and Guarantees (Contingent Liabilities)

All contingent liabilities arising in compliance with customers' needs in foreign trade and other transactions are included in "Acceptances and guarantees." As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side, representing the Bank's contingent claim of right to indemnity from customers.

## 16. Lease Transactions

Information about operating leases at March 31, 2014 and 2013 was as follows:

As lessee:

Obligations under operating leases which were not cancellable at March 31, 2014 and 2013 were as follows:

|                           |  | Millions of Yen |      | Thousands of U.S. Dollars |
|---------------------------|--|-----------------|------|---------------------------|
|                           |  | 2014            | 2013 | 2014                      |
| Due within one year ..... |  | ¥ 44            | ¥ 53 | \$ 427                    |
| Due after one year .....  |  | 201             | 246  | 1,952                     |
| Total .....               |  | ¥246            | ¥300 | \$2,390                   |



## 17. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013 consisted of the following:

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|--|-----------------|----------|------------------------------|
|  | 2014            | 2013     | 2014                         |
| Net unrealized gains (losses) on<br>available-for-sale securities: |                 |          |                              |
| Increase during the year   | <b>¥(1,965)</b> | ¥ 60,386 | <b>\$(19,092)</b>            |
| Reclassification adjustment  | <b>(1,020)</b>  | 466      | <b>(9,910)</b>               |
| Subtotal, before tax   | <b>(2,986)</b>  | 60,853   | <b>(29,012)</b>              |
| Tax benefit or (expense)   | <b>1,303</b>    | (21,216) | <b>12,660</b>                |
| Subtotal, net of tax   | <b>(1,682)</b>  | 39,636   | <b>(16,342)</b>              |
| Net deferred gains (losses) on<br>hedging instruments:             |                 |          |                              |
| Decrease during the year   | <b>(163)</b>    | (3,059)  | <b>(1,583)</b>               |
| Reclassification adjustment  | <b>1,741</b>    | 1,642    | <b>16,916</b>                |
| Subtotal, before tax   | <b>1,577</b>    | (1,417)  | <b>15,322</b>                |
| Tax benefit or (expense)   | <b>(565)</b>    | 493      | <b>(5,489)</b>               |
| Subtotal, net of tax   | <b>1,012</b>    | (923)    | <b>9,832</b>                 |
| Total other comprehensive income                                   | <b>¥ (669)</b>  | ¥ 38,713 | <b>\$ (6,500)</b>            |

## 18. Financial Instruments

### (1) Information about Status of Financial Instruments

#### (a) Policies for using financial instruments

The Group is engaged in financial services, primarily the banking business. The Group's core business of banking is mainly financing through deposit taking operations and investing funds through its loan and securities investment operations.

The Bank engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest and exchange rates related to assets and liabilities held by the Bank as well as the risk of fluctuation in the market prices of bonds, stocks and other investment instruments held. In addition, the Bank provides hedging services to customers in accordance with their needs.

#### (b) Details of financial instruments used and the exposure to risk and how they arise

The financial assets held by the Group consist primarily of loans to corporations, local public organizations, local public corporations and individuals in Japan. The Group's loans are categorized into bills discounted, loans on bills, loans on deeds and overdrafts. These loans are subject to the "credit risk" of decline in value or loss due to changes in the financial status of those to whom credit is provided and to the "interest rate risk" of decline in value due to a change in interest rates.

Among other financial assets, the Bank holds securities, trading account securities and other debt purchased, which mainly comprise Japanese stocks and bonds and foreign bonds and trust certificates. The purposes of these instruments include holding to maturity and investment and business development. As financial assets, they are subject to various types of risk. These include the credit risk of the issuer and interest rate risk, which is the risk that the value of assets may decline due to changes in the prices of securities or other assets ("price fluctuation risk") and the risk of loss incurred if exchange rates differ from original expectations ("exchange rate risk"). Moreover, they are subject to the risk that the Bank might not be able to make trades due to turmoil, etc. in the marketplace or be unable to avoid making trades at prices that are notably lower than usual ("liquidity risk"). Note that interest rate, price fluctuation and exchange rate risk are collectively known as "market risk."

The Bank also holds financial liabilities in the form of deposits and negotiable certificates of deposit, which are chiefly deposits held in yen or foreign currency by corporations, local public bodies, local public corporation and individuals in Japan. These deposits are categorized into current deposits, ordinary deposits, saving deposits, deposits at notice, time deposits, installment savings accounts, installment time deposits, deposits for tax payment, nonresident yen deposits, foreign currency deposits and deposits for offshore accounts. The deposits are subject to interest rate risk as well as the risk of loss arising from the Bank having difficulty in raising necessary funds or being forced to raise funds at significantly higher interest rates than usual in the event of a shortage of capital due to a mismatch in the terms of the Bank's deposits and its investment portfolio of loans and securities or an unexpected run on the Bank's deposits ("funding risk").

Derivative transactions include interest rate related transactions (swaps and caps), currency related transactions (swaps, options, forward exchange contracts and non-deliverable forwards), bond-related transactions (futures, options, stock futures and stock options) and credit derivative transactions (credit default swaps). The Bank engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest or exchange rates related to assets and liabilities held by the Bank as well as the market prices of bonds, stocks and other investment instruments held.

The Bank also provides hedging services to customers in accordance with their needs. Although the Bank uses derivative transactions to capture short-term gains in assets for trading purposes, any possible loss on these derivative transactions is limited by maintaining a fixed position quota and capping allowed losses.

Of the above mentioned derivative transactions, those transactions used for hedging purposes are carried out in accordance with the hedging policies (reduction of interest risk, etc.) stipulated in the Bank's internal operating regulations and include such derivative transactions as interest swaps for loans and securities and currency swaps for foreign currency denominated securities and deposits. In evaluating the effectiveness of hedges, the Bank uses the method of grouping together the loans and interest swaps used for market value hedges by the specific term (remaining) of the positions to determine performance. In some cases, the Bank also assesses the effectiveness of market value hedging instruments on an individual basis. The Bank uses currency swaps and other methods to hedge exchange rate risks and evaluates the effectiveness of the hedges by confirming that a foreign currency hedge position exists in an amount equivalent to the foreign currency denominated monetary assets or liabilities being hedged.

#### (c) Policies and processes for managing the risk

##### 1) Credit Risk Management

Credit risk refers to loss incurred when the value of assets (including off-balance-sheet assets) decline or become worthless due to changes in the financial status of those to whom credit is provided.

The Bank's basic credit risk management policy is to ensure, within the scope of its management capabilities, that the Bank carries out transactions that can secure a return while appropriately managing the credit risks of the diverse transactions of each of its divisions and business sections using credit risk assessment and management methods that suit the special characteristics of each transaction in order to maintain a sound asset structure. The Bank carries out its credit risk management based on its Credit Risk Management Standards and various detailed management methods provided for in the Bank's operating regulations.

Based on this framework, the Credit Rating Center and Credit Supervision Department manage the risk of the individual loans of the

operational divisions (branches and loan sales departments at the headquarters). The Risk Management Department, which is completely independent of the Credit Rating Center, Credit Supervision Department and the operational divisions, is responsible for managing overall credit risk. The Bank has also established an auditing system for credit risk, appointing a Credit Screening Supervisor in the Audit & Inspection Department who bears the responsibility for conducting internal audits for credit risk.

Specifically, credit risk management entails determining the overall condition of the customer's business through credit ratings, assessments and other methods. This information is used to carry out credit screening for individual loans, administer the loans after they have been extended and determine write-offs and reserves. From the perspective of loan portfolio management, the Bank strives to strengthen control of credit risk and its ability to earn stable income by monitoring the loan balance composition and degree of credit risk and cost adjusted income, etc. In addition, risk managers verify that the calculated degree of credit risk is within the credit risk limits set under the credit risk management plan, conduct stress tests to assess the Bank's degree of capital adequacy and report results regularly to the Board of Directors and other management bodies.

Credit concentration risk is managed by setting credit limits by debtor, industry and country. The status of the credit concentration risk is reported to the Board of Directors and other management bodies on a regular basis. In addition, the Large Account Credit Committee was established as part of systematic measures to strengthen the credit control over large accounts.

## 2) Market Risk Management

Market risk refers to the risk of incurring loss from fluctuations in profits arising from assets and liabilities and the risk of incurring loss from fluctuations in the value of assets and liabilities (including off-balance-sheet assets and liabilities) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Bank's basic risk management policy for market risk is to determine and analyze the risk from the point of view of both present value and net interest income asset movements, as well as assessing the risk from various angles, using stress tests and other methods. The Bank carries out its market risk management based on its Market Risk Management Standards, which stipulate the framework and systems for market risk management and various detailed management methods provided for in the Bank's operating regulations.

The structure for market risk management is divided into the business operations division (front office) and the administrative division (back office). We have also established a risk management division (middle office). Together, these serve as reciprocal restraints.

Trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. The limits are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risk by taking the risk-return balance into consideration through ALM analysis, VaR analysis and other means to ensure stable profits over the medium- to long-term. We have also established a system for the flexible management of market risk as well as credit risk and liquidity risk related to market operations.

Market risk management for the entire bank, including lending and deposit services, is carried out by analyzing risk from multiple aspects, such as the calculation of interest rate risk. The ALM Committee discusses the overall management of assets and liabilities and evaluates management and lending policies each month.

### Quantitative Information about Market Risk

(Financial instruments to which quantitative analysis of market risk is applied for the purpose of risk management)

The Bank measures market risk volume using Value at Risk (VaR) and monitors, analyzes, evaluates and controls risks from various aspects, implementing limit controls and stress tests.

The Bank adopts a variance-covariance model assuming that fluctuations in prices and interest rates will follow a normal distribution and uses a five-year observation period, 99.9% confidence interval, 125-business-day holding period for banking business and 10-business-day period for trading activities. Among financial instruments, market price fluctuation risk is measured for equity securities (excluding unlisted equity securities), investment trusts and other assets. Interest rate risk is measured for debt securities, deposits and loans, taking into consideration the correlation between price fluctuation risk and interest rate risk.

Under the normal circumstances, interest rates will generally rise when stock prices rise (prices of debt securities will decline), and interest rates will decline when the stock prices decline (prices of debt securities will rise). Thus, stock prices and interest rates are mutually related, and stock prices and prices of debt securities are inversely related. The market risk volume of the Bank is smaller than the total of price fluctuation risk and interest rate risk since the correlation is taken into account. At a time of stress, such as in times of drastic change in the market environment, there is a possibility that the above correlation would not work and another complementary system would be established by different stress tests and capital allocation.

Market risk volume as of March 31, 2014 and 2013 was as follows:

|                                | Millions of Yen  |           | Thousands of<br>U.S. Dollars |
|--------------------------------|------------------|-----------|------------------------------|
|                                | 2014             | 2013      | 2014                         |
| Market risk volume .....       | <b>¥134,241</b>  | ¥143,695  | <b>\$1,304,323</b>           |
| Banking business .....         | <b>134,203</b>   | 143,560   | <b>1,303,954</b>             |
| (Price fluctuation risk) ..... | <b>(118,950)</b> | (128,673) | <b>(1,155,752)</b>           |
| (Interest rate risk) .....     | <b>(33,681)</b>  | (26,444)  | <b>(327,254)</b>             |
| (Considering correlation) .... | <b>(△18,428)</b> | (△11,558) | <b>(△179,051)</b>            |
| Trading activities .....       | <b>38</b>        | 135       | <b>369</b>                   |

The Bank conducts back testing which compares VaR and profit and loss on a regular basis to verify the effectiveness of its measurement of market risk. The profit or loss expected at the time the measurement of VaR is fixed is used for comparison. As a result of back testing, the Bank has determined that there is no problem with its market risk measurement model and measurement methods.

However, since VaR is statistically computed under certain assumptions based on historical market fluctuations, certain risk beyond the assumptions may not be fully captured. Accordingly, a complementary system is established by different stress tests and others considerations.

(Financial instruments to which quantitative analysis of market risk is not applied for the purpose of risk management)

The Bank does not apply market risk measurement to unlisted equity securities, which are measured by credit risk.

## 3) Liquidity Risk Management

Liquidity risk refers to the risk of incurring losses (hereafter, "fund procurement risks") when it becomes difficult to secure the requisite funds or

when funds at a much higher than normal interest rate becomes necessary due to a mismatch between the timing of use and procurement or an unexpected outflow of funds or to risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, "market liquidity risk").

The Bank recognizes fund procurement as an important management issue, and its basic fund procurement risk policy is to ensure a stable supply of funds. The Bank's basic policy for managing market liquidity risk is to take into consideration the special features of markets such as market size, liquidity and other factors and to pay careful attention to market liquidity. The Bank carries out its fund procurement risk and market liquidity risk management based on its Market Liquidity Risk Management Standards, which stipulate the framework and systems for fund procurement risk and market liquidity risk management.

Funds procurement risk management is subject to strict management controls, which are divided between the Funds Procurement Management Division, which procures funds, and the Funds Procurement Risk Management Division, which monitors the status of the procurement of those funds. The Funds Procurement Management Division carefully monitors the

daily status of funds procurement for market and other operations and works to limit the risk involved in the procurement of funds. The Funds Procurement Risk Management Division determines the management policies for procuring funds, such as policies on holding highly liquid assets and setting limits on procurement from the market. Therefore, the Funds Procurement Risk Management Division monitors developments to ensure there are no problems with the status of funds procurement in the Funds Procurement Management Division.

Deposits are the source for the vast majority of the Bank's funds, and the Bank's procurement of funds through deposits is stable. However, we are working to diversify the Bank's means of procurement to prepare for unforeseen circumstances by being able to procure funds from the market utilizing marketable securities held by the Bank.

#### (d) Supplemental information on fair values

Fair values of financial instruments include values based on market prices and the values calculated by estimates when the financial instruments do not have market prices. Since certain assumptions are adopted and other factors considered when calculating such values, they may differ when adopting different assumptions and considering other factors.

## (2) Fair Values of Financial Instruments

The following are the consolidated balance sheet amounts and fair values and any differences between them as of March 31, 2014 and 2013. Non-listed equity securities and other instruments for which the fair value was extremely difficult to determine are excluded from the table below (see Note 2).

|   | Millions of Yen |            |            |
|---|-----------------|------------|------------|
|   | 2014            |            | Difference |
|   | Carrying amount | Fair value |            |
| <b>Assets</b>   |                 |            |            |
| (1) Trading account securities .....                              | ¥ 2,382         | ¥ 2,382    | ¥ —        |
| (2) Money trusts .....  | 23,300          | 23,300     | —          |
| <b>(3) Securities</b>   |                 |            |            |
| Bonds held to maturity .....                                      | 24,060          | 24,562     | 501        |
| Available-for-sale securities .....                               | 3,112,621       | 3,112,621  | —          |
| (4) Loans and bills discounted .....                              | 3,562,136       |            |            |
| Reserve for possible loan losses (*1) .....                       | (50,038)        |            |            |
| Total assets .....  | 3,512,098       | 3,558,290  | 46,192     |
|   | ¥6,674,462      | ¥6,721,156 | ¥46,694    |
| <b>Liabilities</b>  |                 |            |            |
| (1) Deposits .....  | ¥5,682,761      | ¥5,683,022 | ¥ 261      |
| (2) Negotiable certificates of deposit .....                      | 155,480         | 155,507    | 27         |
| Total liabilities .....   | ¥5,838,242      | ¥5,838,530 | ¥ 288      |
| <b>Derivative transactions (*2)</b>                               |                 |            |            |
| Derivative transactions not qualifying for hedge accounting ..... | ¥ (771)         | ¥ (771)    | ¥ —        |
| Derivative transactions qualifying for hedge accounting .....     | (5,707)         | (5,707)    | —          |
| Total derivative transactions .....                               | ¥ (6,479)       | ¥ (6,479)  | ¥ —        |

|   | Thousands of U.S. Dollars |                     |                  |
|---|---------------------------|---------------------|------------------|
|   | 2014                      |                     |                  |
|   | Carrying amount           | Fair value          | Difference       |
| <b>Assets</b>   |                           |                     |                  |
| (1) Trading account securities .....                              | \$ 23,144                 | \$ 23,144           | \$ —             |
| (2) Money trusts .....  | 226,389                   | 226,389             | —                |
| <b>(3) Securities</b>   |                           |                     |                  |
| Bonds held to maturity .....                                      | 233,773                   | 238,651             | 4,867            |
| Available-for-sale securities .....                               | 30,243,111                | 30,243,111          | —                |
| (4) Loans and bills discounted .....                              | 34,610,726                |                     |                  |
| Reserve for possible loan losses (*1) .....                       | (486,183)                 |                     |                  |
|   | 34,124,543                | 34,573,357          | 448,814          |
| <b>Total assets</b> .....   | <b>\$64,850,971</b>       | <b>\$65,304,663</b> | <b>\$453,692</b> |
| <b>Liabilities</b>  |                           |                     |                  |
| (1) Deposits .....  | \$55,215,322              | \$55,217,858        | \$ 2,535         |
| (2) Negotiable certificates of deposit .....                      | 1,510,687                 | 1,510,950           | 262              |
| <b>Total liabilities</b> .....                                    | <b>\$56,726,020</b>       | <b>\$56,728,818</b> | <b>\$ 2,798</b>  |
| <b>Derivative transactions (*2)</b>                               |                           |                     |                  |
| Derivative transactions not qualifying for hedge accounting ..... | \$ (7,491)                | \$ (7,491)          | \$ —             |
| Derivative transactions qualifying for hedge accounting .....     | (55,450)                  | (55,450)            | —                |
| <b>Total derivative transactions</b> .....                        | <b>\$ (62,951)</b>        | <b>\$ (62,951)</b>  | <b>\$ —</b>      |

|   | Millions of Yen   |                   |                |
|---|-------------------|-------------------|----------------|
|   | 2013              |                   |                |
|   | Carrying amount   | Fair value        | Difference     |
| <b>Assets</b>   |                   |                   |                |
| (1) Trading account securities .....                              | ¥ 3,006           | ¥ 3,006           | ¥ —            |
| (2) Money trusts .....  | 23,049            | 23,049            | —              |
| <b>(3) Securities</b>   |                   |                   |                |
| Bonds held to maturity .....                                      | 20,684            | 21,319            | 635            |
| Available-for-sale securities .....                               | 3,004,054         | 3,004,054         | —              |
| (4) Loans and bills discounted .....                              | 3,476,550         |                   |                |
| Reserve for possible loan losses (*1) .....                       | (74,742)          |                   |                |
|   | 3,401,807         | 3,462,540         | 60,732         |
| <b>Total assets</b> .....   | <b>¥6,452,603</b> | <b>¥6,513,971</b> | <b>¥61,367</b> |
| <b>Liabilities</b>  |                   |                   |                |
| (1) Deposits .....  | ¥5,485,689        | ¥5,486,113        | ¥ 423          |
| (2) Negotiable certificates of deposit .....                      | 202,339           | 202,398           | 59             |
| <b>Total liabilities</b> .....                                    | <b>¥5,688,029</b> | <b>¥5,688,512</b> | <b>¥ 482</b>   |
| <b>Derivative transactions (*2)</b>                               |                   |                   |                |
| Derivative transactions not qualifying for hedge accounting ..... | ¥ (5,885)         | ¥ (5,885)         | ¥ —            |
| Derivative transactions qualifying for hedge accounting .....     | (7,285)           | (7,285)           | —              |
| <b>Total derivative transactions</b> .....                        | <b>¥ (13,171)</b> | <b>¥ (13,171)</b> | <b>¥ —</b>     |

Items that did not have a material impact on the consolidated balance sheets are omitted.

(\*1) Included are the general reserve for possible loan losses and the specific reserve for possible loan losses.

(\*2) The net claims and obligations on derivative transactions were shown on a net basis, with obligations shown on a net basis indicated by parentheses.

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

### Assets

#### (1) Trading Account Securities

The fair value of bonds and other securities held for trading is determined using published reference prices (yields) or comparative exchange values based on published reference prices (yields).

#### (2) Money Trusts

For securities managed as trust assets in a directed money trust for separate investment with the management of securities as its primary purpose, the fair value of stocks is based on prices on financial products exchanges, and the fair value of bonds is based on prices on financial products exchanges or prices announced by the corresponding financial institutions. The notes to Money Trusts based on holding purposes are stated in Note 4, "Money Trusts."

#### (3) Securities

The fair value of stocks is based on prices on financial products exchanges, and the fair value of bonds is based on published reference prices (yields), comparative exchange values based on published reference prices (yields) or prices (yields) announced by the corresponding financial institutions. The fair value of investment trusts is based on disclosed net asset value.

The fair value of private placement bonds with direct bank guarantees is determined by discounting total future cash flows by the risk free rate plus a premium based on the credit risk spread rate of individual in-house rating categories.

Classification of securities according to the purposes for which they are held is described in Note 3, "Securities."

#### (4) Loans and Bills Discounted

Since the terms of loans on bills, bills discounted and overdrafts on loans and bills discounted are short, the fair value of these items approximate book value. Therefore, we deem the fair value to be the book value.

The fair value for loans on deeds is determined by estimating future cash flows for individual transactions and calculating the present value. The discount rate used for commercial businesses, local public organizations and local public corporations is the risk free rate plus a premium for each in-house credit risk rating factor. For loans to individuals, the interest rate on new loans at the end of the fiscal year under review is used. In estimating future cash flows, since cash flows based on variable interest rates reflect market rates in the short-term, their terms are deemed to be the period up to the next interest rate change date.

In addition, as to claims against bankrupt obligors, substantially bankrupt obligors and intensive control obligors, since the estimated amount of bad debt is calculated based on estimated amounts that would be able to be collected from collateral and guarantees, the fair value approximates the consolidated balance sheet amount as of the consolidated balance sheet date minus the present estimated amount of bad debt. Therefore, the fair value is deemed to be this amount.

### Liabilities

(1) Deposits and (2) Negotiable Certificates of Deposit

For demand deposits, including current deposits and ordinary deposits, we deem the fair value to be the payment amounts required on the consolidated balance sheet date (i.e., book values). In addition, we calculate the fair values of fixed deposits, installment savings accounts and others and negotiable certificates of deposits by grouping their deposits based on their future cash flows and discounting them to present value using the interest rate on new deposits at March 31, 2014.

### Derivative Transactions

Derivative transactions, including interest rate related transactions (swaps and caps), currency related transactions (swaps, options, forward exchange contracts and non-deliverable forwards), bond related transactions (futures, options, stock futures and stock options), credit derivative transactions (credit default swaps) and others are based on the prices on financial products exchanges, the discounted value of future cash flows, option pricing models, prices announced by correspondent financial institutions and others.

**(Note 2) Financial instruments whose fair values are deemed to be extremely difficult to determine are indicated below and are not included in "Assets - (3) Securities" in the fair value information on financial instruments in the tables above.**

| Category                                 | Carrying Amount |        |                           |
|--|-----------------|--------|---------------------------|
|  | Millions of Yen |        | Thousands of U.S. Dollars |
|  | 2014            | 2013   | 2014                      |
| (1) Unlisted equity securities           |                 |        |                           |
| (*1) (*2) .....                          | <b>¥5,083</b>   | ¥5,261 | <b>\$49,387</b>           |
| (2) Investments in partnerships (*3) ... | <b>3,761</b>    | 2,352  | <b>36,542</b>             |
| (3) Foreign stocks in foreign            |                 |        |                           |
| currency (*1) .....                      | <b>0</b>        | 0      | <b>0</b>                  |
| (4) Warrants (*1) .....                  | <b>0</b>        | 0      | <b>0</b>                  |
| Total .....                              | <b>¥8,845</b>   | ¥7,614 | <b>\$85,940</b>           |

(\*1) We do not treat (1), (3) and (4) as subject to disclosure of fair value because there are no market prices and the fair value is deemed extremely difficult to determine.

(\*2) Impairment losses on unlisted stocks were recognized in the amount of ¥4 million (\$38 thousand) and ¥5 million for the fiscal years ended March 31, 2014 and 2013, respectively.

(\*3) Of the investments in partnerships, we do not treat assets that consist of unlisted stocks and other financial instruments for which the fair value is extremely difficult to determine as subject to disclosure of fair value.

**(Note 3) Maturities of monetary assets and securities with contractual maturities subsequent to the balance sheet date**

|   | Millions of Yen   |                                    |                                     |                                     |                                      |                       |
|---|-------------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|   | 2014              |                                    |                                     |                                     |                                      |                       |
|   | Within 1 year     | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Securities  |                   |                                    |                                     |                                     |                                      |                       |
| Bonds held to maturity .....                        | ¥ 8,397           | ¥ 4,936                            | ¥ 4,907                             | ¥ 1,917                             | ¥ 3,901                              | ¥ —                   |
| Japanese government bonds .....                     | —                 | 4,936                              | 4,907                               | 1,917                               | 3,901                                | —                     |
| Japanese municipal bonds .....                      | 6,395             | —                                  | —                                   | —                                   | —                                    | —                     |
| Corporate bonds .....                               | 2,002             | —                                  | —                                   | —                                   | —                                    | —                     |
| Available-for-sale securities with maturities ..... | 284,414           | 901,854                            | 620,493                             | 444,270                             | 447,991                              | 167,854               |
| Japanese government bonds .....                     | 161,199           | 320,521                            | 228,634                             | 201,941                             | 225,583                              | 77,436                |
| Japanese municipal bonds .....                      | 42,758            | 121,057                            | 125,104                             | 174,685                             | 145,902                              | —                     |
| Corporate bonds .....                               | 64,417            | 211,712                            | 123,092                             | 39,858                              | 37,929                               | 56,549                |
| Other .....   | 16,039            | 248,563                            | 143,663                             | 27,785                              | 38,576                               | 33,869                |
| Loans and bills discounted (*) .....                | 1,175,379         | 820,142                            | 486,226                             | 221,376                             | 237,600                              | 510,907               |
| <b>Total .....</b>                                  | <b>¥1,468,191</b> | <b>¥1,726,933</b>                  | <b>¥1,111,627</b>                   | <b>¥667,565</b>                     | <b>¥689,492</b>                      | <b>¥678,762</b>       |

|   | Thousands of U.S. Dollars |                                    |                                     |                                     |                                      |                       |
|---|---------------------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|   | 2014                      |                                    |                                     |                                     |                                      |                       |
|   | Within 1 year             | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Securities  |                           |                                    |                                     |                                     |                                      |                       |
| Bonds held to maturity .....                        | \$ 81,587                 | \$ 47,959                          | \$ 47,677                           | \$ 18,626                           | \$ 37,903                            | \$ —                  |
| Japanese government bonds .....                     | —                         | 47,959                             | 47,677                              | 18,626                              | 37,903                               | —                     |
| Japanese municipal bonds .....                      | 62,135                    | —                                  | —                                   | —                                   | —                                    | —                     |
| Corporate bonds .....                               | 19,452                    | —                                  | —                                   | —                                   | —                                    | —                     |
| Available-for-sale securities with maturities ..... | 2,763,447                 | 8,762,670                          | 6,028,886                           | 4,316,653                           | 4,352,808                            | 1,630,917             |
| Japanese government bonds .....                     | 1,566,255                 | 3,114,273                          | 2,221,472                           | 1,962,116                           | 2,191,828                            | 752,390               |
| Japanese municipal bonds .....                      | 415,448                   | 1,176,224                          | 1,215,546                           | 1,697,289                           | 1,417,625                            | —                     |
| Corporate bonds .....                               | 625,893                   | 2,057,054                          | 1,195,996                           | 387,271                             | 368,528                              | 549,446               |
| Other .....   | 155,839                   | 2,415,108                          | 1,395,870                           | 269,966                             | 374,815                              | 329,080               |
| Loans and bills discounted (*) .....                | 11,420,316                | 7,968,732                          | 4,724,310                           | 2,150,952                           | 2,308,589                            | 4,964,117             |
| <b>Total .....</b>                                  | <b>\$14,265,361</b>       | <b>\$16,779,372</b>                | <b>\$10,800,884</b>                 | <b>\$6,486,251</b>                  | <b>\$6,699,300</b>                   | <b>\$6,595,044</b>    |

|   | Millions of Yen   |                                    |                                     |                                     |                                      |                       |
|---|-------------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|   | 2013              |                                    |                                     |                                     |                                      |                       |
|   | Within 1 year     | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Securities  |                   |                                    |                                     |                                     |                                      |                       |
| Bonds held to maturity .....                        | ¥ —               | ¥ 13,896                           | ¥ —                                 | ¥ 6,788                             | ¥ —                                  | ¥ —                   |
| Japanese government bonds .....                     | —                 | 4,905                              | —                                   | 6,788                               | —                                    | —                     |
| Japanese municipal bonds .....                      | —                 | 6,990                              | —                                   | —                                   | —                                    | —                     |
| Corporate bonds .....                               | —                 | 2,000                              | —                                   | —                                   | —                                    | —                     |
| Available-for-sale securities with maturities ..... | 276,853           | 825,125                            | 645,341                             | 397,277                             | 520,166                              | 116,297               |
| Japanese government bonds .....                     | 136,451           | 354,829                            | 183,881                             | 183,875                             | 227,805                              | 32,575                |
| Japanese municipal bonds .....                      | 43,109            | 121,254                            | 137,825                             | 143,817                             | 202,002                              | —                     |
| Corporate bonds .....                               | 52,579            | 177,179                            | 163,967                             | 39,338                              | 43,762                               | 52,514                |
| Other .....   | 44,712            | 171,861                            | 159,666                             | 30,245                              | 46,594                               | 31,207                |
| Loans and bills discounted (*) .....                | 1,168,856         | 784,563                            | 466,623                             | 226,619                             | 214,518                              | 483,435               |
| <b>Total .....</b>                                  | <b>¥1,445,709</b> | <b>¥1,623,584</b>                  | <b>¥1,111,964</b>                   | <b>¥630,685</b>                     | <b>¥734,684</b>                      | <b>¥599,732</b>       |

(\*) Loans due from bankrupt borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers in the amount of ¥73,051 million (\$709,784 thousand) and ¥96,717 million and loans without contract due dates in the amount of ¥37,452 million (\$363,894 thousand) and ¥35,217 million are not included in the above tables at March 31, 2014 and 2013, respectively.

**(Note 4) Repayment schedule of deposits and negotiable certificates of deposit subsequent to the balance sheet date**

|  | Millions of Yen |                                    |                                     |                                     |                                      |                       |
|--|-----------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|  | 2014            |                                    |                                     |                                     |                                      |                       |
|  | Within 1 year   | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Deposits (*) .....                       | ¥5,243,668      | ¥375,011                           | ¥64,082                             | ¥—                                  | ¥—                                   | ¥—                    |
| Negotiable certificates of deposit ..... | 152,319         | 3,160                              | —                                   | —                                   | —                                    | —                     |
| Total .....                              | ¥5,395,987      | ¥378,171                           | ¥64,082                             | ¥—                                  | ¥—                                   | ¥—                    |

|  | Thousands of U.S. Dollars |                                    |                                     |                                     |                                      |                       |
|--|---------------------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|  | 2014                      |                                    |                                     |                                     |                                      |                       |
|  | Within 1 year             | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Deposits (*) .....                       | \$50,948,970              | \$3,643,713                        | \$622,638                           | \$—                                 | \$—                                  | \$—                   |
| Negotiable certificates of deposit ..... | 1,479,974                 | 30,703                             | —                                   | —                                   | —                                    | —                     |
| Total .....                              | \$52,428,944              | \$3,674,417                        | \$622,638                           | \$—                                 | \$—                                  | \$—                   |

|  | Millions of Yen |                                    |                                     |                                     |                                      |                       |
|--|-----------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|  | 2013            |                                    |                                     |                                     |                                      |                       |
|  | Within 1 year   | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Deposits (*) .....                       | ¥4,993,758      | ¥420,542                           | ¥71,388                             | ¥—                                  | ¥—                                   | ¥—                    |
| Negotiable certificates of deposit ..... | 200,691         | 1,647                              | —                                   | —                                   | —                                    | —                     |
| Total .....                              | ¥5,194,450      | ¥422,189                           | ¥71,388                             | ¥—                                  | ¥—                                   | ¥—                    |

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

**19. Segment Information**

**(1) Description of reportable segments**

The Group's reportable segments are components of the Group about which separate information is available and evaluated regularly by the Board of Directors in deciding how to allocate management resources and evaluating operating segment performance. Each operating segment is controlled by each consolidated subsidiary since each company provides different services.

Accordingly, the Group consists of operating segments differentiated by the services each company provides, and the reportable segments are mainly "Banking" (the Bank), "Leasing" (Chugin Lease) and "Securities" (Chugin Securities).

The "Banking" segment provides diversified financial services such as deposit taking and lending. The "Leasing" segment is engaged in leasing services and installment sales of properties and goods, and the "Securities" business provides brokerage services for financial instruments.

**(2) Methods of measurement for the amounts of ordinary income, profit or loss, assets, liabilities and other items for each reportable segment**

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Significant Accounting Policies."

**(3) Information about ordinary income, profit or loss, assets, liabilities and other items is as follows:**

|                           | Millions of Yen     |            |        |           |         |           |
|---------------------------|---------------------|------------|--------|-----------|---------|-----------|
|                           | 2014                |            |        |           |         |           |
|                           | Reportable segments |            |        |           | Other   | Total     |
| Banking                   | Leasing             | Securities | Total  |           |         |           |
| Ordinary income:          |                     |            |        |           |         |           |
| External customers .....  | ¥ 116,490           | ¥11,045    | ¥3,293 | ¥ 130,830 | ¥ 1,958 | ¥ 132,789 |
| Intersegment income ..... | 1,362               | 336        | 63     | 1,762     | 2,852   | 4,614     |
| Total .....               | ¥ 117,853           | ¥11,381    | ¥3,357 | ¥ 132,592 | ¥ 4,811 | ¥ 137,403 |
| Segment profit .....      | 44,149              | 796        | 766    | 45,712    | 2,357   | 48,069    |
| Segment assets .....      | 6,950,858           | 28,916     | 7,151  | 6,986,925 | 23,322  | 7,010,248 |
| Segment liabilities ..... | 6,504,078           | 15,838     | 3,399  | 6,523,315 | 12,628  | 6,535,944 |
| Other items:              |                     |            |        |           |         |           |
| Depreciation .....        | 2,829               | 73         | 15     | 2,919     | 25      | 2,944     |
| Interest income .....     | 77,648              | 48         | 8      | 77,705    | 174     | 77,879    |
| Interest expense .....    | 5,542               | 138        | 5      | 5,686     | 0       | 5,687     |

|                           | Thousands of U.S. Dollars |            |          |              |           |              |
|---------------------------|---------------------------|------------|----------|--------------|-----------|--------------|
|                           | 2014                      |            |          |              |           |              |
|                           | Reportable segments       |            |          |              | Other     | Total        |
| Banking                   | Leasing                   | Securities | Total    |              |           |              |
| Ordinary income:          |                           |            |          |              |           |              |
| External customers .....  | \$ 1,131,849              | \$107,316  | \$31,995 | \$ 1,271,181 | \$ 19,024 | \$ 1,290,215 |
| Intersegment income ..... | 13,233                    | 3,264      | 612      | 17,120       | 27,710    | 44,830       |
| Total .....               | \$ 1,145,093              | \$110,581  | \$32,617 | \$ 1,288,301 | \$ 46,745 | \$ 1,335,046 |
| Segment profit .....      | 428,964                   | 7,734      | 7,442    | 444,150      | 22,901    | 467,052      |
| Segment assets .....      | 67,536,513                | 280,956    | 69,481   | 67,886,951   | 226,603   | 68,113,563   |
| Segment liabilities ..... | 63,195,472                | 153,886    | 33,025   | 63,382,384   | 122,697   | 63,505,091   |
| Other items:              |                           |            |          |              |           |              |
| Depreciation .....        | 27,487                    | 709        | 145      | 28,361       | 242       | 28,604       |
| Interest income .....     | 754,450                   | 466        | 77       | 755,003      | 1,690     | 756,694      |
| Interest expense .....    | 53,847                    | 1,340      | 48       | 55,246       | 0         | 55,256       |

|                           | Millions of Yen     |            |        |           |         |           |
|---------------------------|---------------------|------------|--------|-----------|---------|-----------|
|                           | 2013                |            |        |           |         |           |
|                           | Reportable segments |            |        |           | Other   | Total     |
| Banking                   | Leasing             | Securities | Total  |           |         |           |
| Ordinary income:          |                     |            |        |           |         |           |
| External customers .....  | ¥ 101,279           | ¥11,569    | ¥2,390 | ¥ 115,240 | ¥ 1,898 | ¥ 117,138 |
| Intersegment income ..... | 976                 | 352        | 38     | 1,368     | 2,781   | 4,149     |
| Total .....               | ¥ 102,256           | ¥11,922    | ¥2,429 | ¥ 116,608 | ¥ 4,680 | ¥ 121,288 |
| Segment profit .....      | 27,396              | 1,152      | 431    | 28,980    | 2,145   | 31,126    |
| Segment assets .....      | 6,745,347           | 28,504     | 8,461  | 6,782,313 | 22,196  | 6,804,510 |
| Segment liabilities ..... | 6,317,694           | 15,911     | 5,179  | 6,338,786 | 13,026  | 6,351,812 |
| Other items:              |                     |            |        |           |         |           |
| Depreciation .....        | 2,849               | 87         | 15     | 2,952     | 22      | 2,975     |
| Interest income .....     | 77,760              | 107        | 6      | 77,875    | 183     | 78,058    |
| Interest expense .....    | 5,681               | 170        | 5      | 5,857     | 0       | 5,858     |

- Notes: 1. Ordinary income and ordinary profit (segment profit) are presented in place of net sales and operating profit of non-financial industries. Ordinary income or ordinary profit is calculated by deducting non-recurring items from total income or income before income taxes and minority interests.
2. "Other" is business segments which are not included in the reportable segments and includes credit guarantee, credit card, consignment of office work, investment management and advisory services in accordance with the Financial Instruments and Exchange Act.

#### (4) Reconciliations between the total amounts for the reportable segments and the corresponding amounts in the consolidated financial statements

(a) A reconciliation of the total amount of ordinary income for the reportable segments to ordinary income

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2014            | 2013     | 2014                      |
| Ordinary income                                |                 |          |                           |
| Total amount for reportable segments .....     | <b>¥132,592</b> | ¥116,608 | <b>\$1,288,301</b>        |
| Ordinary income of "Other" .....               | <b>4,811</b>    | 4,680    | <b>46,745</b>             |
| Amortization of negative goodwill ..           | <b>66</b>       | 107      | <b>641</b>                |
| Reclassification of reserves .....             | <b>322</b>      | (48)     | <b>3,128</b>              |
| Elimination of intersegment transactions ..... | <b>(4,614)</b>  | (4,149)  | <b>(44,830)</b>           |
| Ordinary income .....                          | <b>¥133,177</b> | ¥117,198 | <b>\$1,293,985</b>        |

Note: "Ordinary income" is presented for local reporting purposes and can be calculated by deducting non-recurring items from "Total income" in the accompanying consolidated statements of income.

(b) A reconciliation of the total amount of segment profit for the reportable segments to ordinary profit

| Segment profit                                 | Millions of Yen |         | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
|  | 2014            | 2013    | 2014                      |
| Total amount for reportable segments .....     | <b>¥45,712</b>  | ¥28,980 | <b>\$444,150</b>          |
| Segment profit of "Other" .....                | <b>2,357</b>    | 2,145   | <b>22,901</b>             |
| Amortization of negative goodwill ..           | <b>66</b>       | 107     | <b>641</b>                |
| Elimination of intersegment transactions ..... | <b>(28)</b>     | (17)    | <b>(272)</b>              |
| Ordinary profit .....                          | <b>¥48,107</b>  | ¥31,216 | <b>\$467,421</b>          |



(c) A reconciliation of the total amount of segment assets to total assets in the accompanying consolidated balance sheets

|  | Millions of Yen   |            | Thousands of U.S. Dollars |
|--|-------------------|------------|---------------------------|
|  | 2014              | 2013       | 2014                      |
| Segment assets                                     |                   |            |                           |
| Total amount for reportable segments               | <b>¥6,986,925</b> | ¥6,782,313 | <b>\$67,886,951</b>       |
| Segment assets of "Other"                          | <b>23,322</b>     | 22,196     | <b>226,603</b>            |
| Elimination of intersegment transactions           | <b>(24,332)</b>   | (19,585)   | <b>(236,416)</b>          |
| Elimination of shares in consolidated subsidiaries | <b>(5,429)</b>    | (5,429)    | <b>(52,749)</b>           |
| Assets   | <b>¥6,980,486</b> | ¥6,779,495 | <b>\$67,824,387</b>       |

(d) A reconciliation of the total amount of segment liabilities to total liabilities in the accompanying consolidated balance sheets

|   | Millions of Yen   |            | Thousands of U.S. Dollars |
|---|-------------------|------------|---------------------------|
|   | 2014              | 2013       | 2014                      |
| Segment liabilities                         |                   |            |                           |
| Total amount for reportable segments        | <b>¥6,523,315</b> | ¥6,338,786 | <b>\$63,382,384</b>       |
| Segment liabilities of "Other"              | <b>12,628</b>     | 13,026     | <b>122,697</b>            |
| Negative goodwill recognized as a liability | <b>16</b>         | 82         | <b>155</b>                |
| Elimination of intersegment transactions    | <b>(24,239)</b>   | (19,490)   | <b>(235,513)</b>          |
| Liabilities                                 | <b>¥6,511,721</b> | ¥6,332,404 | <b>\$63,269,733</b>       |

(e) A reconciliation of the total amount of other items to the corresponding accounts in the accompanying consolidated financial statements

|                  | Millions of Yen                      |       |             | Consolidated financial statements |
|------------------|--------------------------------------|-------|-------------|-----------------------------------|
|                  | 2014                                 |       |             |                                   |
| Other items      | Total amount for reportable segments | Other | Adjustments |                                   |
| Depreciation     | ¥ 2,919                              | ¥ 25  | ¥(57)       | ¥ 2,887                           |
| Interest income  | 77,705                               | 174   | (89)        | 77,790                            |
| Interest expense | 5,686                                | 0     | (79)        | 5,607                             |

|                  | Thousands of U.S. Dollars            |        |             | Consolidated financial statements |
|------------------|--------------------------------------|--------|-------------|-----------------------------------|
|                  | 2014                                 |        |             |                                   |
| Other items      | Total amount for reportable segments | Other  | Adjustments |                                   |
| Depreciation     | \$ 28,361                            | \$ 242 | \$(553)     | \$ 28,050                         |
| Interest income  | 755,003                              | 1,690  | (864)       | 755,829                           |
| Interest expense | 55,246                               | 0      | (767)       | 54,479                            |

Millions of Yen

|                  | 2013                                 |       |             | Consolidated financial statements |
|------------------|--------------------------------------|-------|-------------|-----------------------------------|
|                  | Total amount for reportable segments | Other | Adjustments |                                   |
| Other items      |                                      |       |             |                                   |
| Depreciation     | ¥ 2,952                              | ¥ 22  | ¥ (23)      | ¥ 2,952                           |
| Interest income  | 77,875                               | 183   | (104)       | 77,953                            |
| Interest expense | 5,857                                | 0     | (94)        | 5,763                             |

Note: Adjustments of depreciation are related to lease assets transferred between affiliates and adjustments of interest income and interest expense are related to intersegment transactions.

Related Information:  
Information about services

|   | Millions of Yen |                       |         |         |          |
|---|-----------------|-----------------------|---------|---------|----------|
|   | 2014            |                       |         |         |          |
|   | Lending         | Securities investment | Service | Other   | Total    |
| Ordinary income from external customers | ¥56,754         | ¥38,734               | ¥16,662 | ¥20,637 | ¥132,789 |

|   | Thousands of U.S. Dollars |                       |           |           |             |
|---|---------------------------|-----------------------|-----------|-----------|-------------|
|   | 2014                      |                       |           |           |             |
|   | Lending                   | Securities investment | Service   | Other     | Total       |
| Ordinary income from external customers | \$551,438                 | \$376,350             | \$161,892 | \$200,514 | \$1,290,215 |

|   | Millions of Yen |                       |         |         |          |
|---|-----------------|-----------------------|---------|---------|----------|
|   | 2013            |                       |         |         |          |
|   | Lending         | Securities investment | Service | Other   | Total    |
| Ordinary income from external customers | ¥48,328         | ¥33,003               | ¥16,734 | ¥19,071 | ¥117,138 |

Notes: 1. Ordinary income is presented in place of net sales of non-financial industries.

2. Amortization of negative goodwill is excluded.

Information about losses on impairment of fixed assets by reportable segments

|  | Millions of Yen     |         |            |       |       |       |
|--|---------------------|---------|------------|-------|-------|-------|
|  | 2014                |         |            |       |       |       |
|  | Reportable segments |         |            |       |       |       |
|  | Banking             | Leasing | Securities | Total | Other | Total |
| Losses on impairment of fixed assets ..... | ¥143                | ¥—      | ¥—         | ¥143  | ¥—    | ¥143  |

|  | Thousands of U.S. Dollars |         |            |         |       |         |
|--|---------------------------|---------|------------|---------|-------|---------|
|  | 2014                      |         |            |         |       |         |
|  | Reportable segments       |         |            |         |       |         |
|  | Banking                   | Leasing | Securities | Total   | Other | Total   |
| Losses on impairment of fixed assets ..... | \$1,389                   | \$—     | \$—        | \$1,389 | \$—   | \$1,389 |

|  | Millions of Yen     |         |            |       |       |       |
|--|---------------------|---------|------------|-------|-------|-------|
|  | 2013                |         |            |       |       |       |
|  | Reportable segments |         |            |       |       |       |
|  | Banking             | Leasing | Securities | Total | Other | Total |
| Losses on impairment of fixed assets ..... | ¥79                 | ¥—      | ¥—         | ¥79   | ¥—    | ¥79   |

Information about amortization of goodwill and the unamortized balance

|                                 | Millions of Yen     |         |            |       |       |       |
|---------------------------------|---------------------|---------|------------|-------|-------|-------|
|                                 | 2014                |         |            |       |       |       |
|                                 | Reportable segments |         |            |       |       |       |
|                                 | Banking             | Leasing | Securities | Total | Other | Total |
| Amortization for the year ..... | ¥—                  | ¥—      | ¥(66)      | ¥(66) | ¥—    | ¥(66) |
| Unamortized balance .....       | —                   | —       | (16)       | (16)  | —     | (16)  |

|                                 | Thousands of U.S. Dollars |         |            |         |       |         |
|---------------------------------|---------------------------|---------|------------|---------|-------|---------|
|                                 | 2014                      |         |            |         |       |         |
|                                 | Reportable segments       |         |            |         |       |         |
|                                 | Banking                   | Leasing | Securities | Total   | Other | Total   |
| Amortization for the year ..... | \$—                       | \$—     | \$(641)    | \$(641) | \$—   | \$(641) |
| Unamortized balance .....       | —                         | —       | (155)      | (155)   | —     | (155)   |

|                                 | Millions of Yen     |         |            |        |       |        |
|---------------------------------|---------------------|---------|------------|--------|-------|--------|
|                                 | 2013                |         |            |        |       |        |
|                                 | Reportable segments |         |            |        |       |        |
|                                 | Banking             | Leasing | Securities | Total  | Other | Total  |
| Amortization for the year ..... | ¥—                  | ¥(34)   | ¥(66)      | ¥(100) | ¥(7)  | ¥(107) |
| Unamortized balance .....       | —                   | —       | (82)       | (82)   | —     | (82)   |

Notes: 1. Amounts in parenthesis ( ) denotes negative goodwill.

2. "Other" is business segments which are not included in the reportable segments and includes credit guarantee, credit card, consignment of office work, investment management and advisory services under the Financial Instruments and Exchange Act.

## 20. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve was included in retained earnings in the accompanying consolidated balance sheets.

The Japanese Banking Law provides that an amount equivalent to at least 20% of cash dividends and other cash appropriations of retained earnings must be appropriated to a legal reserve until the total amount of legal earnings reserve and additional paid-in capital equals the amount of the Bank's stated capital.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or capitalized. These appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The movement of outstanding shares and cash dividends during the years ended March 31, 2014 and 2013 was as follows:

### (a) Number of outstanding shares and treasury stock

For the year ended March 31, 2014

| Type of shares     | (Thousands of shares)        |                          |                          |                        |         |
|--------------------|------------------------------|--------------------------|--------------------------|------------------------|---------|
|                    | Balance at beginning of year | Increase during the year | Decrease during the year | Balance at end of year | Remarks |
| Issued stock:      |                              |                          |                          |                        |         |
| Common stock ..... | 210,272                      | —                        | 7,000                    | 203,272                | Note 1  |
| Treasury stock:    |                              |                          |                          |                        |         |
| Common stock ..... | 7,224                        | 2,879                    | 7,032                    | 3,070                  | Note 2  |

Notes: 1. The decrease in common stock (7,000 thousand shares) was due to a cancellation of common stock implemented on March 31, 2014.

2. The increase in treasury stock (2,879 thousand shares) was due to the public bidding of 578 thousand, 700 thousand and 1,586 thousand shares pursuant to the resolutions made at the Board of Directors' meetings held on May 13, 2013, November 11, 2013 and January 30, 2014, respectively, and due to purchases of 14 thousand shares of less than one unit. In addition, the decrease in treasury stock (7,032 thousand shares) was due to the cancellation of 7,000 thousand shares implemented on March 31, 2014, the execution of stock subscription rights of 32 thousand shares and the sale of 0 thousand shares of less than one unit.

For the year ended March 31, 2013

| Type of shares     | (Thousands of shares)        |                          |                          |                        |         |
|--------------------|------------------------------|--------------------------|--------------------------|------------------------|---------|
|                    | Balance at beginning of year | Increase during the year | Decrease during the year | Balance at end of year | Remarks |
| Issued stock:      |                              |                          |                          |                        |         |
| Common stock ..... | 218,272                      | —                        | 8,000                    | 210,272                | Note 1  |
| Treasury stock:    |                              |                          |                          |                        |         |
| Common stock ..... | 14,229                       | 995                      | 8,001                    | 7,224                  | Note 2  |

Notes: 1. The decrease in common stock (8,000 thousand shares) was due to a cancellation of common stock implemented on March 22, 2013.

2. The increase in treasury stock (995 thousand shares) was due to the public bidding of 977 thousand shares pursuant to the resolution made at the Board of Directors' meeting held on February 1, 2013 and due to purchases of 18 thousand shares of less than one unit. In addition, the decrease in treasury stock (8,001 thousand shares) was due to the cancellation of 8,000 thousand shares implemented on March 22, 2013 and the sale of 1 thousand shares of less than one unit.

**(b) Dividends paid to the shareholders during the year:**

For the year ended March 31, 2014

| Date of resolution | Resolution by                   | Type of shares | Aggregate amount                      | Amount per share   | Date of record | Effective date |
|--------------------|---------------------------------|----------------|---------------------------------------|--------------------|----------------|----------------|
| Jun. 25, 2013      | General meeting of shareholders | Common stock   | ¥1,472 million<br>(\$14,302 thousand) | ¥7.25<br>(\$0.070) | March 31, 2013 | Jun. 26, 2013  |
| Nov. 11, 2013      | Board of Directors              | Common stock   | ¥1,518 million<br>(\$14,749 thousand) | ¥7.50<br>(\$0.072) | Sep. 30, 2013  | Dec. 10, 2013  |

For the year ended March 31, 2013

| Date of resolution | Resolution by                   | Type of shares | Aggregate amount | Amount per share | Date of record | Effective date |
|--------------------|---------------------------------|----------------|------------------|------------------|----------------|----------------|
| Jun. 26, 2012      | General meeting of shareholders | Common stock   | ¥1,428 million   | ¥7.00            | March 31, 2012 | Jun. 27, 2012  |
| Nov. 9, 2012       | Board of Directors              | Common stock   | ¥1,377 million   | ¥6.75            | Sep. 30, 2012  | Dec. 10, 2012  |

Dividends applicable to the year ended March 31, 2014 but not recorded in the accompanying consolidated financial statements since the effective date is subsequent to the current fiscal year:

| Date of resolution | Resolution by                   | Type of shares | Aggregate amount                      | Amount per share   | Date of record | Effective date |
|--------------------|---------------------------------|----------------|---------------------------------------|--------------------|----------------|----------------|
| Jun. 25, 2014      | General meeting of shareholders | Common stock   | ¥1,701 million<br>(\$16,527 thousand) | ¥8.50<br>(\$0.082) | March 31, 2014 | Jun. 26, 2014  |

(The above cash dividends are distributed from retained earnings.)

## 21. Cash and Cash Equivalents

The reconciliation between “cash and cash equivalents” in the consolidated statements of cash flows and “cash and due from banks” in the consolidated balance sheets was as follows:

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2014            | 2013     | 2014                      |
| Cash and due from banks .....                        | <b>¥88,501</b>  | ¥100,775 | <b>\$859,900</b>          |
| Due from banks, excluding<br>the Bank of Japan ..... | <b>(15,204)</b> | (30,262) | <b>(147,726)</b>          |
| Cash and cash equivalents .....                      | <b>¥73,297</b>  | ¥70,513  | <b>\$712,174</b>          |

## 22. Stock Options

Stock-based compensation expenses were ¥64 million (\$621 thousand) and ¥68 million for the fiscal years ended March 31, 2014 and 2013, respectively.

Stock options outstanding as of March 31, 2014 were as follows:

| Stock Options      | Persons granted | Number of options (Note 1) granted | Date of grant | Exercise period (Note 2)           |
|--------------------|-----------------|------------------------------------|---------------|------------------------------------|
| 2009 Stock Options | 15 directors    | 54,700                             | Jul. 31, 2009 | From Aug. 1, 2009 to Jul. 31, 2039 |
| 2010 Stock Options | 15 directors    | 68,100                             | Aug. 2, 2010  | From Aug. 3, 2010 to Aug. 2, 2040  |
| 2011 Stock Options | 14 directors    | 75,300                             | Aug. 1, 2011  | From Aug. 2, 2011 to Aug. 1, 2041  |
| 2012 Stock Options | 14 directors    | 73,700                             | Aug. 3, 2012  | From Aug. 4, 2012 to Aug. 3, 2042  |
| 2013 Stock Options | 15 directors    | 49,600                             | Aug. 2, 2013  | From Aug. 3, 2013 to Aug. 2, 2043  |

Vesting conditions and applicable service periods have not been determined.

Notes: 1. Number of options is converted to number of shares.

2. Persons granted stock options can exercise stock subscription rights within 10 days after retirement.

Stock option activity was as follows:

| For the year ended March 31, 2014 | 2009 Stock | 2010 Stock | 2011 Stock | 2012 Stock | 2013 Stock |
|-----------------------------------|------------|------------|------------|------------|------------|
|                                   | Options    | Options    | Options    | Options    | Options    |
| Number of Shares                  |            |            |            |            |            |
| <b>Non-vested:</b>                |            |            |            |            |            |
| April 1, 2013 –                   |            |            |            |            |            |
| Outstanding .....                 | 35,400     | 38,300     | 75,300     | 73,700     | —          |
| Granted .....                     | —          | —          | —          | —          | 49,600     |
| Forfeited .....                   | —          | —          | —          | —          | —          |
| Vested .....                      | 6,200      | 7,800      | 9,200      | 9,000      | —          |
| March 31, 2014 –                  |            |            |            |            |            |
| Outstanding .....                 | 29,200     | 30,500     | 66,100     | 64,700     | 49,600     |
| <b>Vested:</b>                    |            |            |            |            |            |
| April 1, 2013 –                   |            |            |            |            |            |
| Outstanding .....                 | —          | —          | —          | —          | —          |
| Vested .....                      | 6,200      | 7,800      | 9,200      | 9,000      | —          |
| Exercised .....                   | 6,200      | 7,800      | 9,200      | 9,000      | —          |
| Forfeited .....                   | —          | —          | —          | —          | —          |
| March 31, 2014 –                  |            |            |            |            |            |
| Outstanding .....                 | —          | —          | —          | —          | —          |

Price information for 2009, 2010, 2011, 2012 and 2013 stock options is as follows:

|                           | 2009 Stock | 2010 Stock | 2011 Stock | 2012 Stock | 2013 Stock |
|---------------------------|------------|------------|------------|------------|------------|
|                           | Options    | Options    | Options    | Options    | Options    |
| (Yen)                     |            |            |            |            |            |
| Exercise price .....      | ¥ 1        | ¥ 1        | ¥ 1        | ¥ 1        | ¥ 1        |
| Average share price       |            |            |            |            |            |
| at time of exercise ..... | 1,090      | 1,090      | 1,392      | 1,392      | —          |
| Fair appraisal price      |            |            |            |            |            |
| at date of grant .....    | 1,197      | 935        | 917        | 926        | 1,281      |

|                           | 2009 Stock | 2010 Stock | 2011 Stock | 2012 Stock | 2013 Stock |
|---------------------------|------------|------------|------------|------------|------------|
|                           | Options    | Options    | Options    | Options    | Options    |
| (U.S. Dollars)            |            |            |            |            |            |
| Exercise price .....      | \$ 0.00    | \$ 0.00    | \$ 0.00    | \$ 0.00    | \$ 0.00    |
| Average share price       |            |            |            |            |            |
| at time of exercise ..... | 10.59      | 10.59      | 13.52      | 13.52      | —          |
| Fair appraisal price      |            |            |            |            |            |
| at date of grant .....    | 11.63      | 9.08       | 8.90       | 8.99       | 12.44      |

### Method for estimating the fair value of stock options

The Black-Scholes option pricing model was used to determine fair value.

The assumptions and methods used to estimate the fair value of 2013 stock options were as follows:

| 2013 Stock Options                              |                      |
|---|----------------------|
| Volatility of stock prices (Note 1)             | 24.66%               |
| Estimated remaining outstanding period (Note 2) | 7 years and 2 months |
| Estimated dividend (Note 3)                     | ¥14.00 per share     |
| Interest rate with risk free (Note 4)           | 0.53%                |

Notes: 1. The volatility of stock prices is computed based on the actual stock prices during the period (May 2006 through August 2013) corresponding to the estimated remaining outstanding period.

2. The remaining outstanding period is estimated based on historical data.

3. The expected dividend for the year ended March 31, 2014.

4. The yield on Japanese government bonds corresponding to the estimated remaining outstanding period.

### Method for estimating the number of stock options

The Bank adopted a method to reflect only the actual forfeited number of stock options since it is difficult to estimate the number to be forfeited in the future on a reasonable basis.

### 23. Asset Retirement Obligations

The Bank has obligations pertaining to restitution at the time of its departure from the data center in Haga. However, the period of use of the lease asset related to the obligations cannot be determined because no termination, transfer, etc., has been planned. Therefore, the Bank cannot reasonably estimate the asset retirement obligations, and no asset retirement obligations have been recorded.

## 24. Related Party Transactions

Related party transactions for the fiscal year ended March 31, 2014 and 2013 were as follows:  
Directors of the Bank or major shareholders (individuals only), etc.

2014

| Party classification  | Name of company or individual | Address                           | Capital    | Type of business  | Percentage of voting rights held by the Bank | Relations with related party | Type of transactions | Transaction amounts         | Account classification     | Balance at end of year |
|---|-------------------------------|-----------------------------------|------------|-------------------|--|------------------------------|----------------------|-----------------------------|----------------------------|------------------------|
| Company, a majority of whose voting rights are owned by directors or their close family members | Nagareo Co., Ltd.             | Asaguchi-city, Okayama Prefecture | ¥3 million | Hat manufacturing | —  | —                            | Lending (1)          | Average balance ¥46 million | Loans and bills discounted | ¥46 million            |
| Directors or their close family members   | Hideshi Nishida               | —                                 | —          | Lawyer            | 0.00   | —                            | Legal fees (2)       | ¥11 million                 | —                          | —                      |

Terms of transactions and policies for determining terms

1. Interest was based on money market rates.
2. Legal fees were based on market price.

2014

| Party classification  | Name of company or individual | Address                           | Capital       | Type of business  | Percentage of voting rights held by the Bank | Relations with related party | Type of transactions | Transaction amounts            | Account classification     | Balance at end of year |
|---|-------------------------------|-----------------------------------|---------------|-------------------|--|------------------------------|----------------------|--------------------------------|----------------------------|------------------------|
| Company, a majority of whose voting rights are owned by directors or their close family members | Nagareo Co., Ltd.             | Asaguchi-city, Okayama Prefecture | \$29 thousand | Hat manufacturing | —  | —                            | Lending (1)          | Average balance \$446 thousand | Loans and bills discounted | \$446 thousand         |
| Directors or their close family members   | Hideshi Nishida               | —                                 | —             | Lawyer            | 0.00   | —                            | Legal fees (2)       | \$106 thousand                 | —                          | —                      |

Terms of transactions and policies for determining terms

1. Interest was based on money market rates.
2. Legal fees were based on market price.

2013

| Party classification  | Name of company or individual | Address                           | Capital    | Type of business  | Percentage of voting rights held by the Bank | Relations with related party | Type of transactions | Transaction amounts         | Account classification     | Balance at end of year |
|---|-------------------------------|-----------------------------------|------------|-------------------|--|------------------------------|----------------------|-----------------------------|----------------------------|------------------------|
| Company, a majority of whose voting rights are owned by directors or their close family members | Nagareo Co., Ltd.             | Asaguchi-city, Okayama Prefecture | ¥3 million | Hat manufacturing | —  | —                            | Lending (1)          | Average balance ¥49 million | Loans and bills discounted | ¥47 million            |
| Directors or their close family members   | Hideshi Nishida               | —                                 | —          | Lawyer            | 0.00   | —                            | Legal fees (2)       | ¥50 million                 | —                          | —                      |

Terms of transactions and policies for determining terms

1. Interest was based on money market rates.
2. Legal fees were based on market price.

## 25. Subsequent Events

On May 12, 2014, as permitted under the Japanese law, the Board of Directors of the Bank made a resolution to purchase up to 1,600 thousand shares of the Bank's common stock from the market at a price not to exceed ¥2,000 million (\$19,432 thousand) during the period from May 13, 2014 through June 19, 2014. The purposed this purchase was to return profit to shareholders and to give the Bank greater flexibility in its capital policies, in light of the changed business environment, through improvement in its capital efficiency and a decrease in the total number of outstanding shares issued.

In accordance with the resolution, the Bank acquired 1,430 thousand shares for ¥1,999 million (\$19,422 thousand) by May 30, 2014.



## Independent Auditor's Report

To the Board of Directors of The Chugoku Bank, Limited:

We have audited the accompanying consolidated financial statements of The Chugoku Bank, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Chugoku Bank, Limited and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

*KPMG AZSA LLC*

September 10, 2014  
Okayama, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# Non-Consolidated Financial Statements

## Non-Consolidated Balance Sheets

The Chugoku Bank, Limited  
March 31, 2014 and 2013

|  | Millions of Yen   |                   | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|-------------------|-------------------|--|
|  | 2014              | 2013              | 2014                                     |
| <b>ASSETS:</b>   |                   |                   |  |
| Cash and due from banks .....                                    | ¥ 88,485          | ¥ 100,758         | \$ 859,745                               |
| Call loans .....   | 35,182            | 47,753            | 341,838                                  |
| Other debt purchased .....                                       | 27,353            | 26,173            | 265,769                                  |
| Trading account securities .....                                 | 2,300             | 3,006             | 22,347                                   |
| Money trusts .....   | 20,000            | 20,000            | 194,325                                  |
| Securities .....   | 3,143,153         | 3,024,063         | 30,539,768                               |
| Loans and bills discounted .....                                 | 3,566,409         | 3,481,142         | 34,652,244                               |
| Foreign exchange .....   | 6,481             | 4,215             | 62,971                                   |
| Other assets .....   | 36,986            | 37,419            | 359,366                                  |
| Tangible fixed assets .....                                      | 43,679            | 44,753            | 424,397                                  |
| Intangible fixed assets .....                                    | 2,075             | 877               | 20,161                                   |
| Customers' liabilities for acceptances and guarantees .....      | 25,651            | 26,001            | 249,232                                  |
| Reserve for possible loan losses .....                           | (46,900)          | (70,818)          | (455,693)                                |
| <b>Total assets .....</b>  | <b>¥6,950,858</b> | <b>¥6,745,347</b> | <b>\$67,536,513</b>                      |
| <b>LIABILITIES AND NET ASSETS:</b>                               |                   |                   |  |
| <b>Liabilities:</b>  |                   |                   |  |
| Deposits .....   | ¥5,852,682        | ¥5,696,656        | \$56,866,323                             |
| Call money .....   | 290,114           | 226,898           | 2,818,830                                |
| Payables under securities lending transactions .....             | 154,415           | 230,893           | 1,500,340                                |
| Borrowed money .....   | 105,888           | 62,496            | 1,028,837                                |
| Foreign exchange .....   | 303               | 164               | 2,944                                    |
| Other liabilities .....  | 50,230            | 56,355            | 488,048                                  |
| Liability for employees' severance and retirement benefits ..... | 13,444            | 13,974            | 130,625                                  |
| Accrued employees' bonuses .....                                 | 1,484             | 1,400             | 14,418                                   |
| Reserve for reimbursement of deposits .....                      | 1,132             | 1,251             | 10,998                                   |
| Reserve for point program .....                                  | 50                | 45                | 485                                      |
| Deferred tax liabilities .....                                   | 8,365             | 1,555             | 81,276                                   |
| Acceptances and guarantees .....                                 | 25,651            | 26,001            | 249,232                                  |
| <b>Total liabilities .....</b>                                   | <b>¥6,503,764</b> | <b>¥6,317,694</b> | <b>\$63,192,421</b>                      |
| <b>Net assets</b>  |                   |                   |  |
| <b>Shareholders' equity</b>                                      |                   |                   |  |
| Common stock .....   | ¥ 15,149          | ¥ 15,149          | \$ 147,191                               |
| Capital surplus .....  | 6,286             | 6,286             | 61,076                                   |
| Retained earnings .....  | 362,853           | 346,105           | 3,525,582                                |
| Less treasury stock, at cost .....                               | (3,222)           | (6,597)           | (31,305)                                 |
| <b>Valuation and translation adjustments:</b>                    |                   |                   |  |
| Net unrealized gains on available-for-sale securities .....      | 69,482            | 71,210            | 675,106                                  |
| Net deferred losses on hedging instruments .....                 | (3,687)           | (4,699)           | (35,823)                                 |
| Subscription rights to shares .....                              | 231               | 198               | 2,244                                    |
| <b>Total net assets .....</b>                                    | <b>447,094</b>    | <b>427,652</b>    | <b>4,344,092</b>                         |
| <b>Total liabilities and net assets .....</b>                    | <b>¥6,950,858</b> | <b>¥6,745,347</b> | <b>\$67,536,513</b>                      |



## Non-Consolidated Income Statements

The Chugoku Bank, Limited  
For the Years Ended March 31, 2014 and 2013

|   | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|--|
|   | 2014            | 2013            | 2014                                     |
| <b>Income:</b>  |                 |                 |  |
| Interest and dividends on:  |                 |                 |  |
| Loans and discounts .....   | ¥ 45,475        | ¥ 48,241        | \$ 441,848                               |
| Securities .....  | 31,751          | 29,041          | 308,501                                  |
| Other .....   | 421             | 476             | 4,090                                    |
| Fees and commissions .....  | 17,831          | 17,509          | 173,251                                  |
| Other operating income:   |                 |                 |  |
| Gains on sales and redemptions of other securities and trading account securities ..... | 1,878           | 2,239           | 18,247                                   |
| Foreign exchange gains .....  | 296             | 104             | 2,876                                    |
| Other .....   | 845             | 205             | 8,210                                    |
| Other income:   |                 |                 |  |
| Reversal of reserve for possible loan losses .....                                      | 10,912          | —               | 106,024                                  |
| Bad debt recovered .....  | 6               | 45              | 58                                       |
| Gains on sales of equity securities .....   | 5,062           | 1,628           | 49,183                                   |
| Gains on money trusts .....   | 152             | 52              | 1,476                                    |
| Gains on disposals of fixed assets .....  | 91              | 8               | 884                                      |
| Other .....   | 3,218           | 2,709           | 31,267                                   |
| <b>Total income .....</b>   | <b>117,944</b>  | <b>102,264</b>  | <b>1,145,977</b>                         |
| <b>Expenses:</b>  |                 |                 |  |
| Interest on:  |                 |                 |  |
| Deposits .....  | 2,544           | 2,758           | 24,718                                   |
| Borrowing .....   | 112             | 80              | 1,088                                    |
| Interest rate swaps .....   | 1,802           | 1,680           | 17,508                                   |
| Call money .....  | 839             | 648             | 8,151                                    |
| Other .....   | 242             | 514             | 2,351                                    |
| Fees and commissions .....  | 4,122           | 3,975           | 40,050                                   |
| Other operating expenses:   |                 |                 |  |
| Losses on sales and redemptions of bonds and trading account securities .....           | 3,516           | 1,195           | 34,162                                   |
| General and administrative expenses .....   | 56,476          | 57,430          | 548,736                                  |
| Other expenses:   |                 |                 |  |
| Losses on sales and write-offs of shares .....  | 2,441           | 3,126           | 23,717                                   |
| Losses on money trusts .....  | 25              | 17              | 242                                      |
| Provision for possible loan losses .....  | —               | 2,337           | —  |
| Write-offs of loans .....   | 6               | —               | 58                                       |
| Losses on disposals of fixed assets .....   | 220             | 174             | 2,137                                    |
| Losses on impairment of fixed assets .....  | 143             | 79              | 1,389                                    |
| Other .....   | 1,573           | 1,096           | 15,283                                   |
| <b>Total expenses .....</b>   | <b>74,068</b>   | <b>75,113</b>   | <b>719,665</b>                           |
| Income before income taxes .....  | 43,876          | 27,151          | 426,311                                  |
| Income taxes:   |                 |                 |  |
| Current .....   | 9,214           | 9,039           | 89,525                                   |
| Deferred .....  | 7,575           | 1,150           | 73,600                                   |
|   | 16,790          | 10,190          | 163,136                                  |
| <b>Net income .....</b>   | <b>¥ 27,086</b> | <b>¥ 16,960</b> | <b>\$ 263,175</b>                        |

## Non-Consolidated Statements of Changes in Net Assets

The Chugoku Bank, Limited  
For the Years Ended March 31, 2014 and 2013

|  | Millions of Yen |                 |                   |                |   |  |                               |                  |
|--|-----------------|-----------------|-------------------|----------------|---|--|-------------------------------|------------------|
|  | 2014            |                 |                   |                |   |  |                               |                  |
|  | Common stock    | Capital surplus | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Net deferred losses on hedging instruments | Subscription rights to shares | Total net assets |
| Balance at beginning of year .....                         | ¥15,149         | ¥6,286          | ¥346,105          | ¥(6,597)       | ¥71,210   | ¥(4,699)                                   | ¥198                          | ¥427,652         |
| Net income .....   |                 |                 | 27,086            |                |   |  |                               | 27,086           |
| Cash dividends .....                                       |                 |                 | (2,990)           |                |   |  |                               | (2,990)          |
| Purchases of treasury stock .....                          |                 |                 |                   | (4,004)        |   |  |                               | (4,004)          |
| Disposals of treasury stock .....                          |                 | 0               |                   | 31             |   |  |                               | 32               |
| Cancellation of treasury stock .....                       |                 | (0)             | (7,346)           | 7,347          |   |  |                               | —                |
| Net changes in items other than shareholders' equity ..... |                 |                 |                   |                | (1,728)   | 1,012                                      | 33                            | (682)            |
| Net changes during the year .....                          | —               | —               | 16,748            | 3,374          | (1,728)   | 1,012                                      | 33                            | 19,441           |
| Balance at end of year .....                               | ¥15,149         | ¥6,286          | ¥362,853          | ¥(3,222)       | ¥69,482   | ¥(3,687)                                   | ¥231                          | ¥447,094         |

|  | Millions of Yen |                 |                   |                |   |  |                               |                  |
|--|-----------------|-----------------|-------------------|----------------|---|--|-------------------------------|------------------|
|  | 2013            |                 |                   |                |   |  |                               |                  |
|  | Common stock    | Capital surplus | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Net deferred losses on hedging instruments | Subscription rights to shares | Total net assets |
| Balance at beginning of year .....                         | ¥15,149         | ¥6,286          | ¥339,255          | ¥(12,585)      | ¥31,645   | ¥(3,776)                                   | ¥129                          | ¥376,105         |
| Net income .....   |                 |                 | 16,960            |                |   |  |                               | 16,960           |
| Cash dividends .....                                       |                 |                 | (2,805)           |                |   |  |                               | (2,805)          |
| Purchases of treasury stock .....                          |                 |                 |                   | (1,320)        |   |  |                               | (1,320)          |
| Disposals of treasury stock .....                          |                 | 0               | —                 | 1              |   |  |                               | 1                |
| Cancellation of treasury stock .....                       |                 | (0)             | (7,306)           | 7,306          |   |  |                               | —                |
| Net changes in items other than shareholders' equity ..... |                 |                 |                   |                | 39,565  | (923)                                      | 68                            | 38,710           |
| Net changes during the year .....                          |                 |                 | 6,849             | 5,987          | 39,565  | (923)                                      | 68                            | 51,547           |
| Balance at end of year .....                               | ¥15,149         | ¥6,286          | ¥346,105          | ¥(6,597)       | ¥71,210   | ¥(4,699)                                   | ¥198                          | ¥427,652         |

|  | Thousands of U.S. Dollars (Note 1) |                 |                   |                |   |  |                               |                  |
|--|------------------------------------|-----------------|-------------------|----------------|---|--|-------------------------------|------------------|
|  | 2014                               |                 |                   |                |   |  |                               |                  |
|  | Common stock                       | Capital surplus | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Net deferred losses on hedging instruments | Subscription rights to shares | Total net assets |
| Balance at beginning of year .....                         | \$147,191                          | \$61,076        | \$3,362,854       | \$(64,098)     | \$691,896   | \$(45,656)                                 | \$1,923                       | \$4,155,188      |
| Net income .....   |                                    |                 | 263,175           |                |   |  |                               | 263,175          |
| Cash dividends .....                                       |                                    |                 | (29,051)          |                |   |  |                               | (29,051)         |
| Purchases of treasury stock .....                          |                                    |                 |                   | (38,904)       |   |  |                               | (38,904)         |
| Disposals of treasury stock .....                          |                                    | 0               |                   | 301            |   |  |                               | 310              |
| Cancellation of treasury stock .....                       |                                    | (0)             | (71,375)          | 71,385         |   |  |                               | —                |
| Net changes in items other than shareholders' equity ..... |                                    |                 |                   |                | (16,789)  | 9,832                                      | 320                           | (6,626)          |
| Net changes during the year .....                          | —                                  | —               | 162,728           | 32,782         | (16,789)  | 9,832                                      | 320                           | 188,894          |
| Balance at end of year .....                               | \$147,191                          | \$61,076        | \$3,525,582       | \$(31,305)     | \$675,106   | \$(35,823)                                 | \$2,244                       | \$4,344,092      |

## **Corporate Information**

## Board of Directors and Audit & Supervisory Board Members (As of June 30, 2014)



**Chairman**  
Fumihiro Izumi



**President**  
Masato Miyanaga



**Senior Managing Director**  
Hiromichi Tsuboi



**Managing Director**  
Hajime Aoyama



**Managing Director**  
Yoshinori Yamamoto



**Managing Director**  
Hiroyuki Hanazawa



**Managing Director**  
Yoshimasa Asama



**Managing Director**  
Masahiko Fukuda

**Chairman**

Fumihiro Izumi

**President**

Masato Miyanaga

**Senior Managing Director**

Hiromichi Tsuboi

**Managing Directors**

Hajime Aoyama  
Yoshinori Yamamoto  
Hiroyuki Hanazawa  
Yoshimasa Asama  
Masahiko Fukuda

**Directors**

Hiromichi Ando  
Hitoshi Ikeda  
Kazushi Shiwaku  
Tokikazu Tsurui  
Koji Terasaka  
Sadanori Kato  
Shunji Watanabe  
Yoshio Sato

**Audit & Supervisory Board Members (full-time)**

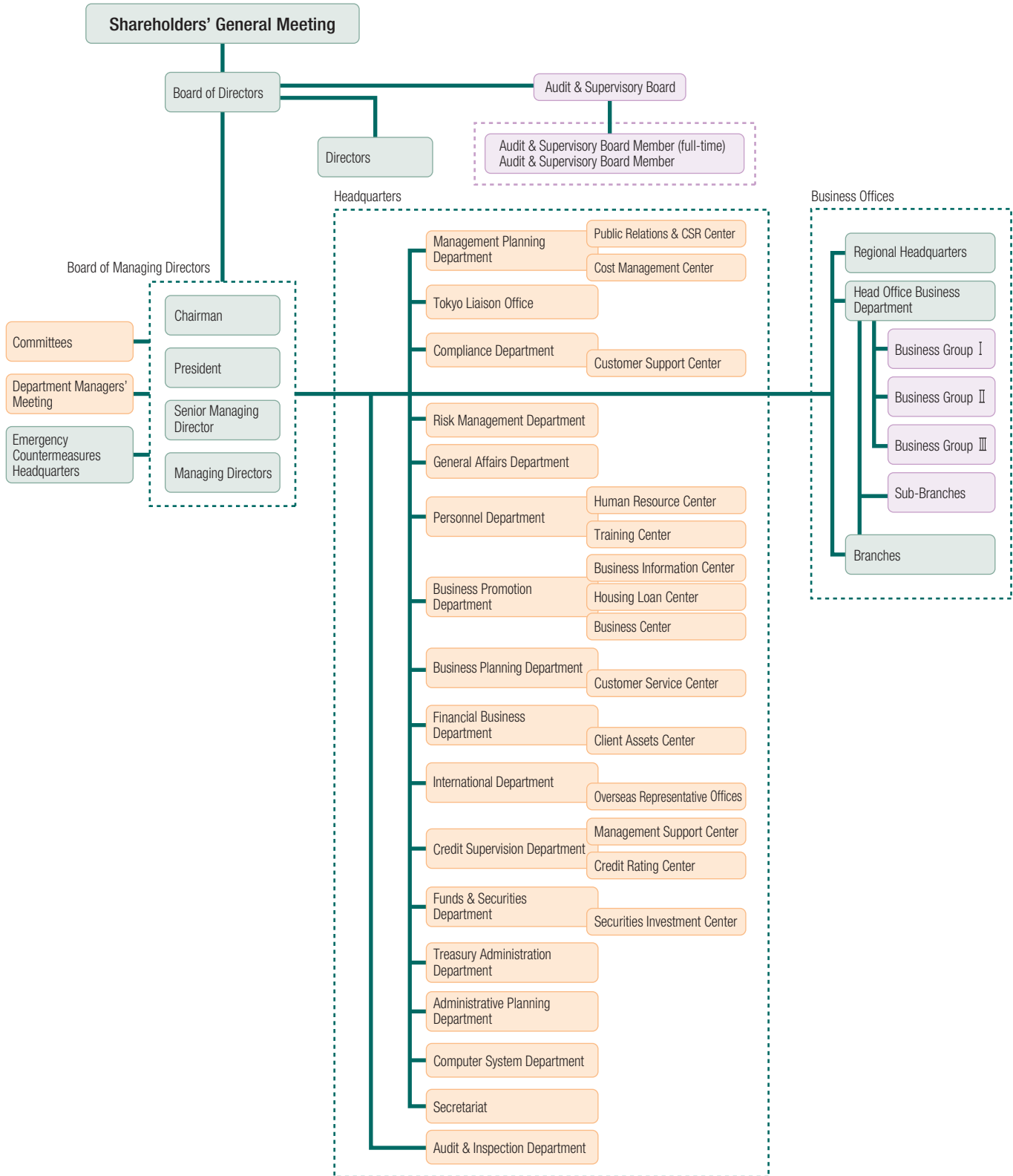
Nobuyasu Tachimori  
Yasuo Okazaki

**Audit & Supervisory Board Members**

Michiyo Nishida  
Hiromichi Furuya  
Shinji Inoue

# Organization Chart

(As of June 30, 2014)



## Principal Operations of the Chugoku Bank Group

Chugoku Bank Group, which comprises the Bank along with seven subsidiaries, is positioned to offer a wealth of financial services, including corporate and personal banking, leasing and securities businesses, and more.

### Organizational Chart for the Chugoku Bank Group

|   |  | Business segment  |
|---|--|---|
| <b>The Chugoku Bank, Limited</b><br>— Domestic offices: Head office, 151 branch offices,<br>8 sub-branch offices, 1 representative office, 1 internet branch<br>— Overseas offices: 1 branch and 3 representative offices |  | <b>Banking business</b>   |
| <b>Consolidated subsidiaries</b>  |  |   |
| CBS Company, Limited  |  | Consigned administrative operations for banks                           |
| The Chugin Operation Center Co., Limited  |  | Deposits, bank remittances, and valuation of collateralized real estate |
| The Chugin Credit Guarantee Co., Limited  |  | Credit guarantee business   |
| The Chugin Lease Company, Limited   |  | Leasing businesses  |
| The Chugin Card Company, Limited  |  | Credit card business  |
| Chugin Asset Management Company, Limited  |  | Asset management business   |
| Chugin Securities Co., Ltd.   |  | Securities business   |

(As of March 31, 2014)



# Service Networks

(As of June 30, 2014)

## INTERNATIONAL DIVISION:

### Head Office, Okayama

1-15-20, Marunouchi, Kita-ku,  
Okayama, Japan

### International Department

Telephone: (086) 234-6539  
Facsimile: (086) 227-6000  
SWIFT: CHGKJPJZ

### Funds and Securities Department

Telephone: (086) 234-6503  
Facsimile: (086) 234-6595

### Treasury Administration Department

Telephone: (086) 234-6664  
Facsimile: (086) 234-7439  
SWIFT: CHGKJPJZ

### Tokyo Office

JP Building, 3-4-4, Nihonbashi-Muromachi,  
Chuo-ku, Tokyo, Japan

### Funds and Securities Department

Telephone: (03) 3243-0459  
Facsimile: (03) 5255-7750

## OVERSEAS OFFICES:

### Hong Kong Branch

Rooms 2704-2706,  
27th Floor Gloucester Tower,  
The Landmark,  
15 Queen's Road Central,  
Hong Kong,  
People's Republic of China  
Telephone: 2523-0312  
Facsimile: 2521-8730

### Shanghai Representative Office

Room 2007, Shanghai  
International Trade Center,  
2201 Yan-an Road (West),  
Shanghai, People's Republic of China  
Telephone: (021) 6275-1988  
Facsimile: (021) 6275-1989

### Singapore Representative Office

16 Collyer Quay, #23-03  
Singapore 049318  
Telephone: 6536-7757  
Facsimile: 6536-7767

### New York Representative Office

150 East 52nd Street, 7th Floor,  
New York, NY 10022, U.S.A.  
Telephone: (212) 371-7700  
Facsimile: (212) 371-7173

## FOREIGN EXCHANGE OFFICES:

### Head Office Business Department

1-15-20, Marunouchi, Kita-ku, Okayama

### Okayama-Minami Branch

1-8-11, Aoe, Kita-ku, Okayama

### Okayama-Nishi Branch

3-101, Toiya-cho, Kita-ku, Okayama

### Saidaiji Branch

3-7-1, Saidaiji-Naka, Higashi-ku, Okayama

### Katakami Branch

36-1, Higashi-Katakami, Bizen, Okayama

### Kojima Branch

2-1-33, Kojima Ajino, Kurashiki, Okayama

### Kurashiki Branch

257-1, Bakuro-cho, Kurashiki, Okayama

### Kurashiki Ekimae Branch

2-2-2, Achi, Kurashiki, Okayama

### Mizushima Branch

4-32, Mizushima Nishiyayoi-cho, Kurashiki, Okayama

### Hayashima Branch

1380, Hayashima, Hayashima-cho,  
Tsukubo-gun, Okayama

### Soja Branch

1-4-20, Ekimae, Soja, Okayama

### Kasaoka Branch

2-8, Rokuban-cho, Kasaoka, Okayama

### Ibara Branch

176-5, Ibara-cho, Ibara, Okayama

### Tsuyama Branch

30-7, Sange, Tsuyama, Okayama

### Fukuyama Branch

1-1, Momiji-cho, Fukuyama, Hiroshima

### Onomichi Branch

4-9, Toyohimotomachi, Onomichi, Hiroshima

### Mihara Branch

1-11-7, Minatomachi, Mihara, Hiroshima

### Shinichi Branch

593-7, Shinichi, Shinichi-cho, Fukuyama, Hiroshima

### Kure Branch

3-6-1, Hon-dori, Kure, Hiroshima

### Fuchu Branch

1-3, Fukawa-cho, Fuchu, Hiroshima

### Hiroshima Branch

15-4, Hatchobori, Naka-ku, Hiroshima

### Takamatsu Branch

3-6, Marugamemachi, Takamatsu, Kagawa

### Sanbonmatsu Branch

610-4, Sanbonmatsu, Higashi-Kagawa, Kagawa

### Sakaide Branch

1-2-2, Kyomachi, Sakaide, Kagawa

### Marugame Branch

207-6, Futaimachi, Marugame, Kagawa

### Kawanoe Branch

4067-1, Kawanoe-cho, Shikoku-chuo, Ehime

### Yonago Branch

1-1-1, Higashi-Fukuhara, Yonago, Tottori

### Kobe Branch

2-6-1, Sakaemachi-dori, Chuo-ku, Kobe, Hyogo

### Himeji Branch

108, Shirogane-cho, Himeji, Hyogo

### Osaka Branch

Aioi Nissay Dowa Insurance Midotsuji Building, 3-6-1,  
Hirano-cho, Chuo-ku, Osaka

### Tokyo Branch

JP Building, 3-4-4, Nihonbashi-Muromachi,  
Chuo-ku, Tokyo

## Foreign Remittance and Exchange Offices

14 Offices

## Foreign Currency Exchange Offices

44 Offices

(As of June 30, 2014)

| Location         | Number of Offices |
|------------------|-------------------|
| Okayama Pref.    | 109               |
| Hiroshima Pref.  | 26                |
| Tottori Pref.    | 1                 |
| Kagawa Pref.     | 16                |
| Ehime Pref.      | 1                 |
| Hyogo Pref.      | 5                 |
| Osaka Pref.      | 1                 |
| Tokyo            | 1                 |
| Liaison Offices  | 1                 |
| Overseas Offices | 4                 |
| Internet Branch  | 1                 |

## Number of ATMs and Locations with ATMs Outside Branches

(As of June 30, 2014)

| Category                      |     |
|-------------------------------|-----|
| Number inside branches:       |     |
| ATMs .....                    | 534 |
| Number outside branches:      |     |
| Cash dispensers .....         | 15  |
| ATMs .....                    | 225 |
| Total .....                   | 774 |
| Locations with ATMs installed |     |
| Outside branches .....        | 214 |

## Corporate Data

(As of March 31, 2014)

### Head Office

|   |   |
|---|---|
| Address:  | 1-15-20, Marunouchi, Kita-ku,<br>Okayama, Japan |
| Telephone:  | (086) 223-3111                                  |
| SWIFT Code:   | CHGKJPJZ  |
| Website:  | http://www.chugin.co.jp/                        |
| Date of Establishment:                                      | December 21, 1930                               |
| Stated Capital:   | 15,149 million yen                              |
| Number of Authorized Shares:                                | 391,000,000                                     |
| Number of Issued and Outstanding<br>Shares of Common Stock: | 203,272,106                                     |
| Number of Shareholders:                                     | 10,276  |
| Number of Employees:  | 3,092   |

### Number of Employees

| As of March 31 | Number of Employees |       |       |
|----------------|---------------------|-------|-------|
|                | 2014                | 2013  | 2012  |
| Employees      | 3,092               | 3,101 | 3,113 |

Note: Number of employees does not include part-time and temporary staff or overseas local staff.

## Shareholder Information

(As of March 31, 2014)

### Breakdown of Types of Shareholders

| Category   | Number of shareholders | Number of shares     |            |
|--|------------------------|----------------------|------------|
|  |                        | (Hundreds of shares) | Percentage |
| Government and local authorities .....                 | 2                      | 91                   | 0.00       |
| Financial institutions .....                           | 57                     | 464,156              | 22.86      |
| Securities firms .....                                 | 23                     | 15,464               | 0.76       |
| Other corporations .....                               | 513                    | 558,272              | 27.49      |
| Foreign investors .....                                | 290                    | 376,750              | 18.55      |
| Individuals .....                                      | 9,391                  | 616,314              | 30.34      |
| Total .....  | 10,276                 | 2,031,047            | 100.00     |
| Number of shares held in less than trading units ..... | —                      | 167,406              | —          |

Note: From October 1, 2013, the number of trading unit of shares was changed from 1,000 to 100 pursuant to the resolution made at the Board of Directors' meeting held on August 2, 2013.

### Major Shareholders

| Name of Shareholders   | Number of holding shares | Unit: 1,000 shares               |  |
|--|--------------------------|----------------------------------|--|
|  |                          | Percentage of outstanding shares |  |
| Japan Trustee Services Bank, Ltd. ....   | 12,217                   | 6.01                             |  |
| Chugoku Bank Employee Stock Ownership Plan .....   | 5,937                    | 2.92                             |  |
| The Master Trust Bank of Japan, Ltd. ....  | 5,397                    | 2.65                             |  |
| Okayama Estate and Warehousing Co., Ltd. ....  | 5,358                    | 2.63                             |  |
| Northern Trust Company (AVFC) Sub-Account American Client .....  | 5,129                    | 2.52                             |  |
| Nippon Life Insurance Company .....  | 4,835                    | 2.37                             |  |
| Meiji Yasuda Life Insurance Company .....  | 4,754                    | 2.33                             |  |
| KURABO INDUSTRIES LTD. ....  | 4,559                    | 2.24                             |  |
| CP CHEMICAL INCORPORATED .....   | 3,478                    | 1.71                             |  |
| Northern Trust Company (AVFC) Re U.S. Tax Exempted Pension Funds<br>(Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch) ..... | 3,160                    | 1.55                             |  |
| Total .....  | 54,828                   | 26.97                            |  |



## Disclosure Policy

The Chugoku Bank proactively undertakes the disclosure of information in order that customers, investors, business partners and other parties can more accurately understand matters concerning the Bank as a result of conducting timely and appropriate information disclosure.

This includes disclosing information in a timely manner by producing disclosure pamphlets, business reports, annual reports and financial reports as well as via our website and other mediums.

The Chugoku Bank will continue to endeavor to disclose information in an appropriate and timely manner.



### Forward-looking Statements

This annual report contains forward-looking statements regarding the future results and performance of Chugoku Bank. Such forward-looking statements are based on current information and assumptions. Please be advised that actual results could differ materially from those anticipated by the forward-looking statements due to a variety of factors.



THE CHUGOKU BANK, LTD.