

ANNUAL REPORT 2018

THE CHUGOKU BANK, LTD.

Vision2027 Plan for Creating the Future Together



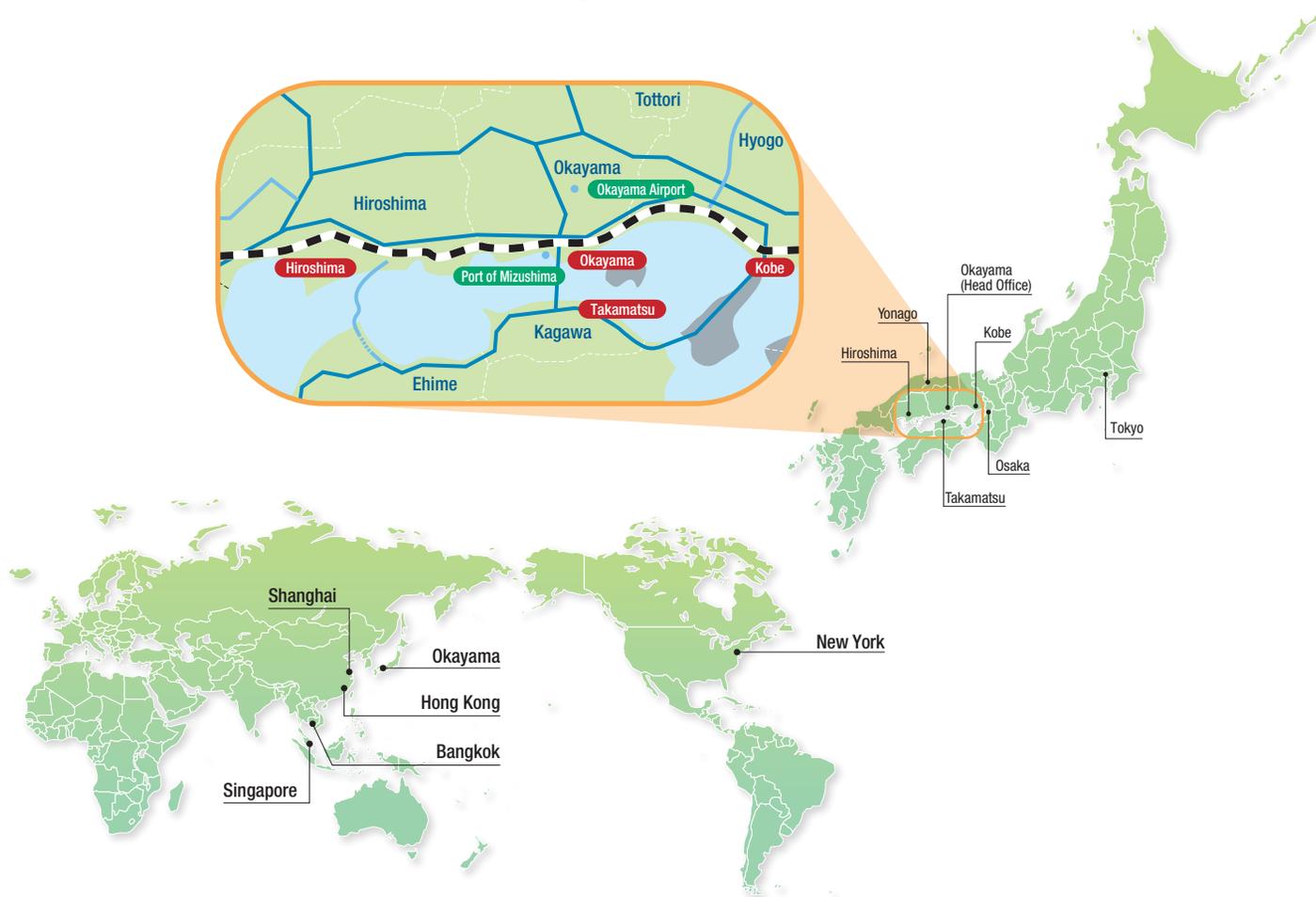
THE CHUGOKU BANK, LTD.

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 nice weather.

With a population of 1.92 million people, Okayama Prefecture yields a gross prefectural product of over ¥7,788 billion (U.S.\$73,305 million), or an impressive 1.42% 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.

*The amounts in this document have been rounded down to the nearest figure.



Contents

Consolidated Financial Highlights	1	Internal Control	15
Corporate Principles	2	Financial Section	17
Corporate Vision	2	Consolidated Financial Statements	18
Chugin-no-kokoro (Philosophy of Chugoku Bank)	3	Independent Auditors’ Report	49
Message from the Management	4	Non-Consolidated Financial Statements	50
Chugin 10-year Strategy, “Vision 2027: Plan for Creating the Future Together”	6	Corporate Information	53
Medium-Term Management Plan, “Plan for Creating the Future Together: Stage I”	6	Board of Directors and Audit & Supervisory Board Members	54
Review of Operations	8	Organization Chart	55
Comprehensive Risk Management System	10	Principal Operations of the Chugoku Bank Group	56
CSR / Compliance	12	Service Networks	57
Corporate Governance	14	Corporate Data	58
		Shareholder Information	58
		Disclosure Policy	59

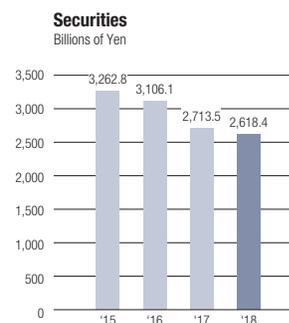
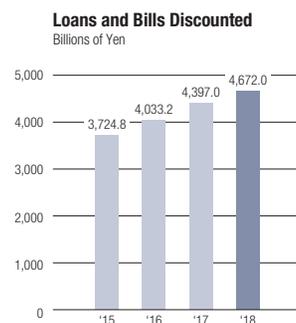
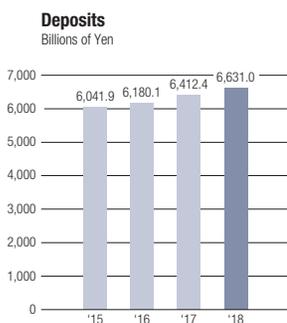
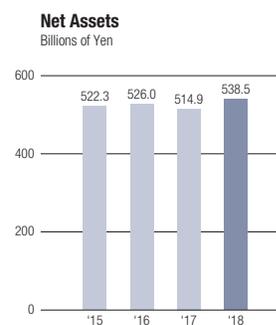
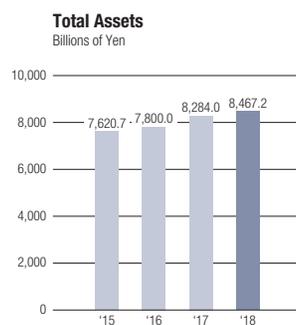
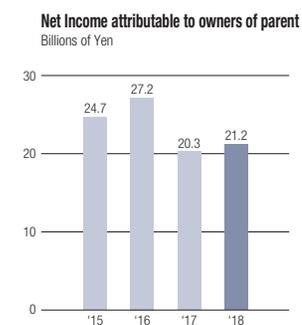
Consolidated Financial Highlights

The Chugoku Bank, Limited and its Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of Yen (except per share amounts)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
For the year:			
Total income	¥ 132,459	¥ 142,872	\$ 1,246,790
Total expenses	101,733	111,736	957,577
Net income attributable to owners of parent	21,258	20,323	200,094
Per share of common stock (yen/U.S. dollars):			
Basic net income	¥ 111.19	¥ 105.34	\$ 1.046
Diluted net income	111.05	105.18	1.045
At year-end:			
Deposits	¥ 6,631,082	¥ 6,412,468	\$ 62,416,057
Loans and bills discounted	4,672,001	4,397,009	43,975,913
Securities	2,618,448	2,713,527	24,646,536
Total assets	8,467,295	8,284,008	79,699,689
Net assets	538,534	514,975	5,069,032
For the year:			
Cash flows used in operating activities	(101,208)	(24,041)	(952,635)
Cash flows provided by investing activities	73,151	351,353	688,544
Cash flows used in financing activities	(6,654)	(13,585)	(62,631)
Cash and cash equivalents at end of year	760,451	795,168	7,157,859

Notes: 1. U.S. dollar amounts represent translations from yen, for convenience only, at the rate of ¥106.24 = US\$1 in effect on March 31, 2018.

2. Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding treasury stock).



Corporate Principles

Remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services

The Chugoku Bank has designated “self-driven sound management” as its corporate principles, and all employees actively work to improve business results and contribute to the region based on this philosophy.

“Self-driven sound management” refers to maintaining unwavering soundness in any type of environmental changes, not seeking quick gains but aiming to enrich equity via expansion of business types from our own knowledge and actions that are balanced in quality and volume, thorough cost saving, and implementation of a personnel policy that values small numbers with superior talent, all in an effort to maintain and develop a firm management foundation. This is also an expression of our strong commitment to “protect with our lives the money entrusted to us by our customers.” This way of thinking originated from important lessons learned from events such as the financial crisis at the beginning of the Showa era and the chaotic period following the close of the World War II, and is carried on by each and every employee to this day.

Amid changes to regional economic structures due to factors such as future advancement of population decline, a low birth rate, and an aging society, competition among financial institutions is becoming increasingly fierce. Under such a management environment, demands on financial institutions to secure soundness and transparency have become increasingly strong. While firmly maintaining its traditions in self-driven sound management, the Bank will appropriately and swiftly respond to changes in the environment and customer needs, working to strengthen its financial standing.

Corporate Vision

A bank that is “chosen” and “trusted” by regional customers

Chugin-no-kokoro (Philosophy of Chugoku Bank)

“Chugin-no-kokoro” was formulated as a guide and set of values that each individual in the Chugoku Bank Group should hold when engaging in self-motivated work. With all employees across the Group facing the same direction, organizational strength will be enhanced, with the goal of providing satisfaction and emotion to our customers.

To Customers

We will aim for a Win-Win relationship with customers

[Added value]

We will deliver satisfaction and emotion to our customers through “mindful service”

- We will provide superior proposals from a customer’s standpoint and through an understanding of true expectations
- We will provide fresh and comfortable service
- We will do work that is memorable, chosen by “people” and welcomed by customers and the region

[S t a n c e]

We will work toward mutual growth with customers

- We will think with our customers and act together
- While attaining further strength to enable our customers to grow, we will work closely and deepen customer ties

As Individuals

We will realize dreams through our work

[Growth]

We will hold high motivation and challenge ourselves to grow

- Each individual will represent the Chugoku Bank Group, executing duties with responsibility
- Skills will be continuously polished as professionals in our respective standpoints
- We will aim to be members of society with sincerity and humanity

[Concentration of strength]

We will recognize, respect, and cooperate with each other

- Through teamwork, we will create an active workplace that understands and respects colleagues
- We will create new value with “All Chugin,” cooperation that exceeds organizational boundaries

As a Company

We will provide motivating work and a place to grow

[Culture]

The Chugoku Bank Group will provide a motivating workplace

- We will foster a workplace culture with open communication, freedom, and vigor
- We will fully support challenges that each individual undertakes
- We will empower positive risk-taking, and value earnest effort

[Organizational strength]

The Chugoku Bank Group will collect diverse strengths to raise its organizational strength

- By respecting various individuality and workstyles, we will create a strong and flexible organization
- Through mutual harmony, we will aim to improve organizational strength through teamwork
- From the viewpoint of emphasizing the actual situation of the workplace, we will all support each other

Message from the Management

We aim to “Create with Our Community, Customers and Employees a Rich Future that We Can All Share.”

At our Bank, we aim to realize a long-term vision: “Create with Our Community, Customers and Employees a Rich Future that We Can All Share.” This vision forms the basis of our 10-year management plan, “Vision 2027: Plan for Creating the Future Together,” which we launched in the fiscal year ended March 31, 2018. We are proposing a variety of measures in our endeavor to see this vision become a reality.

Here we introduce our main activities of this term.

1) Improving quality of services provided

[Enhancing regional support activities]

In the corporate business sector, by using our commercial viability evaluations as a base to more deeply understand our customers’ businesses and management issues, etc., we actively developed our “regional support activities” to better provide optimal solutions geared towards resolving various issues.

Furthermore, regarding our start-up support activities, in addition to developing the “Okayama Innovation Project” and implementing innovation schools and contests, we have established the “Chugin Innovation Fund” and strengthened our endeavors towards the revitalization of regional economies via dynamization of business start-ups.

[Strengthening life planning sales]

In the individual sales sector, we focused on our “Life plan support activities,” which provide optimal products based on each individual customer’s asset conditions, family structure, and future life events.

In our operations of assets in custody, following our “customer-centric operational management principles” and in cooperation with our group company Chugin Securities Co., Ltd., we’ve carried out active sales activities to propose our customers’ future asset creation.

[Maximizing group synergies, cultivating new business domains]

Working to enter new business domains, starting April this year, we launched corporate auto-lease business in our group company The Chugin Lease Company, Limited.

We, as the entire Chugoku Bank Group, continually maintain a policy to strive to provide a wide range of financial services.

Furthermore, in the “TSUBASA Alliance,” we are conducting joint development of open APIs for customers to safely use FinTech providers’ services. The alliance initiatives cover not only such a system development, but also the fields such as business matching and syndicated loans.

2) Expanding opportunities to provide services

[Revising and recreating channels]

In November of last year, we established the “Chugin Kurashiki Insurance Plaza” as an annex of the Kurashiki Housing Loan Center, making it the third dedicated insurance consultation counter for our Bank.

We are working hard to expand our life plan-oriented weekend operations to help customers who cannot contact us during weekdays, regardless of loans or insurance status.

[Rethinking operating hours and sales staff, reassigning personnel]

In April of last year, we launched the “BPR Promotion Project” with the goal of reforming our corporate structure by rethinking operating hours and sales staff and improving productivity, and are considering fundamental revision, headquarters concentration, and systemization of various administrative operations.

In the fiscal year ended March 31, 2018, we reassigned roughly 100 back office personnel to sales branches and the strategic divisions of the headquarters.

3) Strengthening power to provide services

[Strengthening personnel development]

We’ve implemented a variety of measures for our personnel development programs, including long-term training for new employees, expansion of external personnel secondment and long-term training dispatch for young employees, support for acquiring advanced certifications, and the introduction of 360-degrees evaluations and home study support systems.

[Organizational reforms]

As for the headquarters organization, with the goal of improving the effectiveness of our “regional support activities” and “life plan support activities,” we implemented a restructuring of our headquarters organization

on April 2, this year. The sales division, which previously had three sections, has been restructured to consist of two sections: the “Solution Business Department” for corporate sales; and the “Sales Headquarters” for individual customer sales.

Additionally, as part of our endeavor to strengthen our corporate governance, we established a “Nominating and Compensation Committee” in December of last year to act as a voluntary advisory body for the Board of Directors, which improved the supervisory functions of the Board of Directors and strengthened the framework to obtain appropriate involvement and counsel from Outside Directors.

4) Changing individual ways of thinking and reforming organizational culture

[Reforming ways of thinking and organizational culture, CS and ES improvement]

We’ve conducted human resource system reforms targeted at improving diversity and reforming the work style, including new systems and establishments for expanding participation opportunities for senior personnel, and greater flexibility in staggered work hours.

Furthermore, aiming towards revitalizing in-office communication, we launched the “Flat Meeting System.” The goal of flat meetings is to engage in mutual discussion that surpasses the individual viewpoints and positions of each section, and bring about a work climate that is open, natural, and spirited. We, as a policy, will strengthen our endeavors towards the realization of our Bank’s philosophy, “Chugin-no-kokoro.”



June 2018

Masato Miyanaga

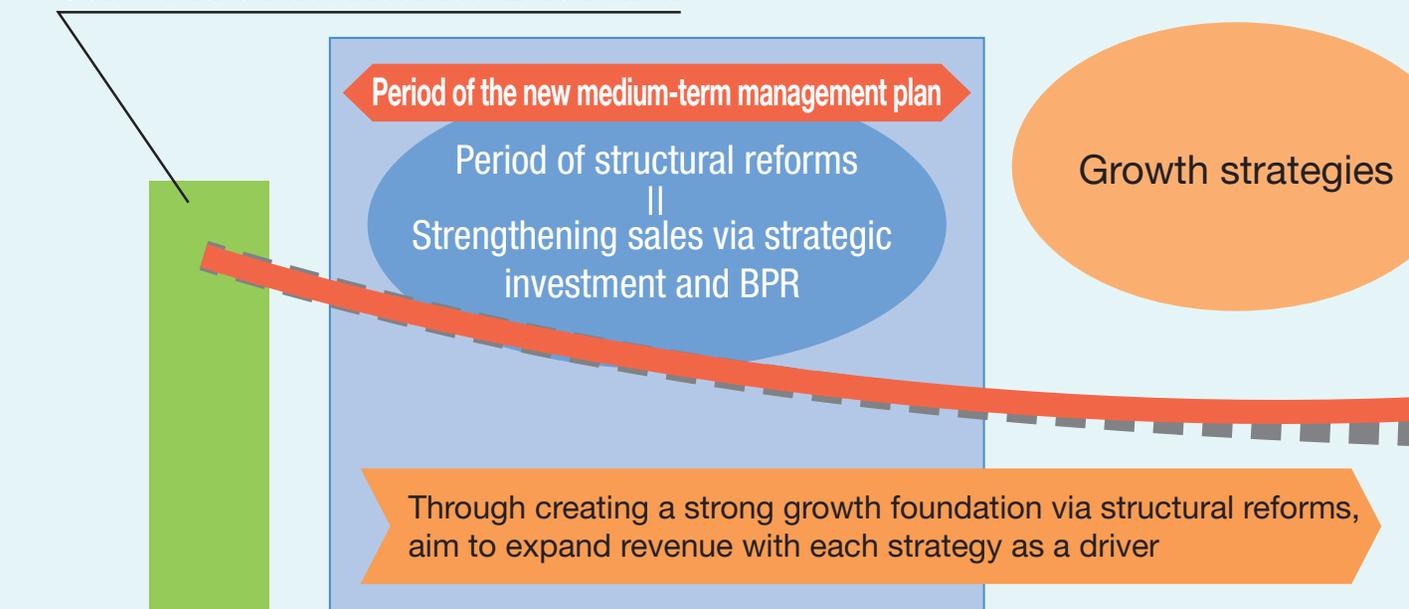
Masato Miyanaga,
President

Chugin 10-year Strategy, “Vision 2027: Plan for Creating the Future Together”

Long-term Vision Create with Our Community, Customers and Employees a Rich Future that We Can All Share

On the current course, revenues can be expected to decline in line with changes to Japan’s but the Bank will aim to expand revenues through realizing growth strategies borne of

*Consolidated net income: ¥20.3 billion



Fiscal year ended March 31, 2017

Medium-Term Management Plan, “Plan for Creating the Future Together: Stage I”

Overview of Medium-Term Management Plan

Period: April 2017 – March 2020 (3 years)

- The name “Plan for Creating the Future Together: Stage I” designates its positioning as the first stage of the 10-year strategy (Vision 2027: Plan for Creating the Future Together).
- The main theme of the new medium-term management plan shall be “Create with Our Community, Customers and Employees a Rich Future that We Can All Share,” which is the same as the long-term vision defined in the 10-year strategy (Vision 2027: Plan for Creating the Future Together).

Four key strategies for the three years of “Plan for Creating the Future Together: Stage I”

Measures to create a rich future

Improving quality of services provided

We will provide superior services through strict adoption of a customer-first mindset

- 1) Enhancing regional support activities
- 2) Strengthening life planning sales
- 3) Maximizing group synergies
- 4) Cultivating new business domains

Expanding opportunities to provide services

We will create a structure that can provide services “anytime,” “anywhere,” aiming to become a bank that is closest and most convenient for customers

- 5) Revising and recreating channels
- 6) Rethinking operating hours and sales staff
- 7) Reassigning personnel

Measures to create management foundations

Strengthening power to provide services

While developing personnel to support the Bank, we will strengthen corporate management functions

- 8) Strengthening personnel development
- 9) Organizational reforms
- 10) Strengthening ALM functions
- 11) Cost management

Changing individual way of thinking and reforming organizational culture

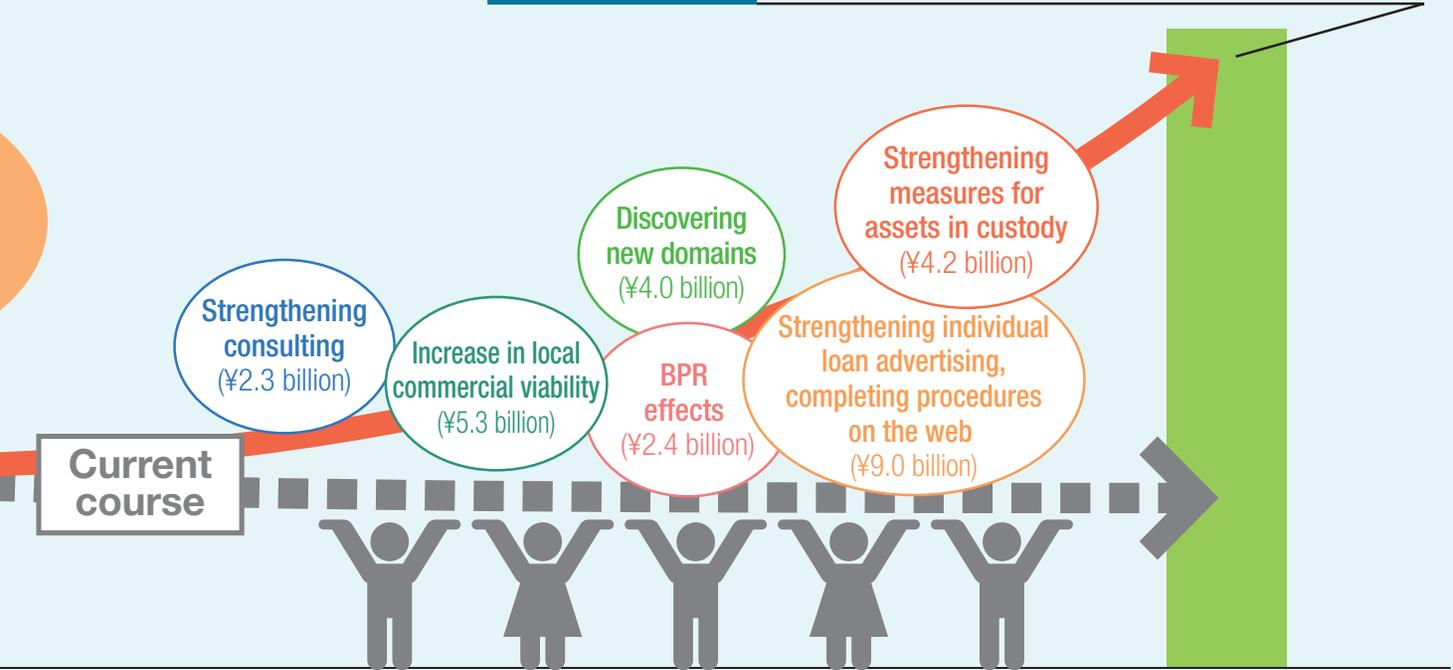
This will serve as the base for embarking on positive challenges with all managers and employees of the Group united as one

- 12) Reforming way of thinking and organizational culture, CS and ES improvement
- 13) Compliance

societal structure,
structural reforms

**What the Bank
aims to be**

***Consolidated net income: ¥30.0 billion**



Plan for fiscal year ending March 31, 2027

*Consolidated net income: net income attributable to owners of parent

Target figures of the medium-term management plan

* The medium-term management plan will use target figures defined in the 10-year strategy (Vision 2027: Plan for Creating the Future Together)

3 years later

10 years later

“Region Support Project” comprehensive points

15,000pt

20,000pt

“Region Support Project comprehensive points” are a unique index used by the Bank to measure activities that provide optimal solutions for needs and issues of communities and customer companies by appropriately evaluating the business content, management issues, and growth possibilities, etc. (evaluating commercial viability) of customer companies according to life stages.

“Life plan support activities” comprehensive points

Continuous improvement

Continuous improvement

“Life plan support activities comprehensive points” are a unique index used by the Bank to measure activities that provide optimal products and services after careful examination of life events for each individual customer and providing pertinent information in view of the customer’s life plan.

Customer satisfaction survey

Continuous improvement

Continuous improvement

The standard shall be “transaction satisfaction” as indicated on surveys conducted by the Bank.

Net income attributable to owners of parent

¥16.0 billion

¥30.0 billion

Consolidated capital adequacy ratio (Basel III)

Maintain stable 12%

Maintain stable 12%

Consolidated ROE

(Single year for the fiscal year ending March 31, 2027) 5% or more

Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

In the banking business, recurring income decreased by ¥8,537 million year on year, or 6.8%, to ¥116,499 million, due primarily to a decrease of gain on sales of securities, and a decrease of interest and dividends on securities as a result of balance management for securities investment operations.

Meanwhile, ordinary profit decreased by ¥1,037 million year on year, or 3.5%, to ¥27,931 million, due to the large impact of downward factors such as the increase in foreign currency procurement costs, despite upward factors such as the decreases of loss on sales of securities and write-off of shares.

Leasing business

In the leasing business, recurring income decreased by ¥3,875 million year on year, or 25.6%, to ¥11,245 million, due to a drop in yields and a decrease of re-lease and installment transactions, while ordinary profit also decreased by ¥266 million year on year, or 24.4%, to ¥823 million.

Securities business

In the securities business, recurring income increased by ¥709 million year on year, or 19.7%, to ¥4,303 million, due primarily to strong sales utilizing the redemption proceeds from structured bonds which increased from the rising stock market, while ordinary profit also increased by ¥345 million year on year, or 88.0%, to ¥737 million.

Other

For other businesses, recurring income increased by ¥142 million year on year, or 2.7%, to ¥5,333 million, due primarily to an increase in guarantee commission received in the credit card business.

Meanwhile, ordinary profit increased by ¥289 million year on year, or 17.7%, to ¥1,922 million, due to a decrease in credit costs in the credit guarantee business.

Earnings

Consolidated recurring income decreased by ¥10,422 million year on year, or 7.2%, to ¥132,445 million, due primarily to a decrease of gain on sales of securities arising in view of the interest rate trend in the U.S., and a decrease of interest and dividends on securities as a result of balance management for investment operations on foreign bonds and other securities.

Ordinary profit decreased by ¥683 million year on year, or 2.1%, to ¥30,922 million, due to the large impact of downward factors such as the aforementioned decrease of interest and dividends on securities and an increase in foreign currency procurement costs, despite upward factors such as decreases of loss on sales of securities and write-off of shares.

Net income attributable to owners of parent increased by ¥935 million year on year, or 4.6%, to ¥21,258 million.

Cash Flows

Cash and cash equivalents as of the end of the current fiscal year decreased by ¥34,717 million year on year to ¥760,451 million. This was due to the policy to focus on increasing the balance of municipal and corporate bonds for securities investment operations and increasing the loan balance centered on local commercial viability, although some portions of the loss were set off by factors such as sales of foreign currency denominated securities in view of the interest rate trend in the U.S., and an increase in deposit balance.

Cash flows from operating activities

Net cash used in operating activities decreased by ¥77,167 million year on year to ¥101,208 million. This is due mainly to a decrease in payables under

securities lending transactions as a result of reduction of securities balance.

Cash flows from investing activities

Cash flows from investing activities amounted to ¥73,151 million, decreasing by ¥278,202 million year on year.

This is due to a decrease in sales of securities as well as an increase in purchases of securities.

Cash flows from financing activities

Net cash used in financing activities increased by ¥6,931 million year on year to ¥6,654 million.

This is due to payments from purchases of stocks of subsidiaries not resulting in change in scope of consolidation during the corresponding period of the previous fiscal year, and a decrease in share buybacks year on year.

Forecast for Next Term

For the fiscal year ending March 31, 2019, the Chugoku Bank Group forecasts consolidated recurring income of ¥124,100 million, consolidated ordinary profit of ¥23,100 million and net income attributable to owners of parent of ¥15,400 million.

Dividend Policy

In light of the public nature and soundness of our banking business, the Bank makes it a basic policy to secure sufficient retained earnings while continuing to pay stable dividends in order to maintain a firm financial standing capable of withstanding any challenging environment. Specifically, we aim to pay a stable per-share dividend of ¥18 per year, and to achieve a total payout ratio of 35%, which includes dividends and share buybacks.

For the fiscal year ended March 31, 2018, the Bank has determined to pay an annual per-share dividend of ¥20 (year-end dividend of ¥10) as originally planned.

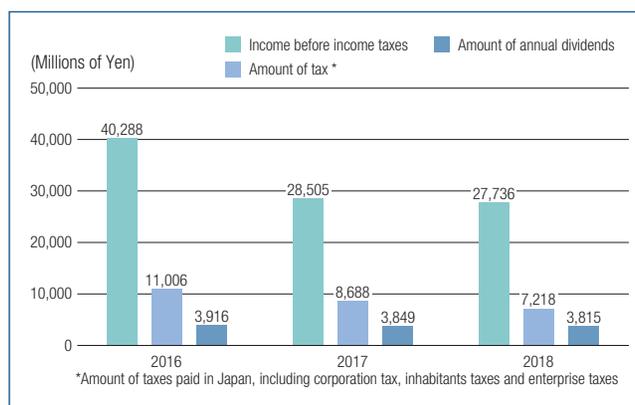
With respect to the expected dividends for the fiscal year ending March 31, 2019, the Bank plans to increase the stable per-share dividend by ¥2 and pay an annual per-share dividend of ¥20 (interim dividend of ¥10).

Under the Bank's basic policy on the number of dividend payout for each fiscal year, the Bank distributes a dividend twice a year (an interim dividend and a year-end dividend). The decision-making bodies for these dividends are the Board of Directors for the interim dividend and a general meeting of shareholders for the year-end dividend.

The Bank has also included a provision in its Articles of Incorporation, which stipulates that it may distribute an interim dividend as permitted in Article 454, paragraph 5 of the Companies Act.

The Bank will strive to continue to pay stable dividends.

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



Capital Adequacy Ratios

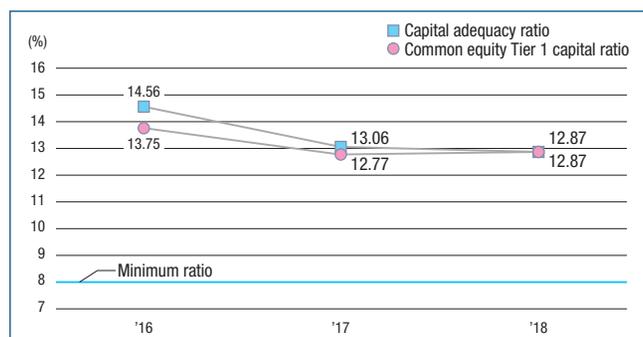
The Bank's capital adequacy ratio was 12.87% as of the end of March 2018.

The Bank calculates its capital adequacy ratio on the basis of the international BIS standards*.

*The international BIS standards call for at least 8% of capital adequacy ratio, at least 6% of Tier 1 capital ratio, and at least 4.5% 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 stock, 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 (Non-consolidated)

The balance of risk-managed loans decreased by ¥9,045 million year on year, to ¥71,168 million as of the end of March 2018, as a result of efforts to upgrade borrowers' status through business rehabilitation activities and reduction efforts including direct write-offs and elimination from balance sheet by debt disposal.

In addition, the ratio of risk-managed loans (against the total loan balance) deteriorated by 0.30 percentage point year on year, to 1.52% as of the end of March 2018, due to an increase in the total loan balance.

Status of impaired loans			(Millions of Yen)	
	End of March 2018	End of March 2017		
Loans to bankrupt customers	¥ 3,881	¥ 4,625		
Loans past due six months or more	50,956	59,435		
Loans past due three months or more	1,509	802		
Restructured loans	14,819	15,349		
Total	¥ 71,168	¥ 80,213		
The ratio of risk-managed loans (against the total loan balance) (%)	1.52	1.82		

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 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	* Long-term credit rating
Investment grade	Aaa	P-1 (PRIME-1)	aaa
	Aa1		aa1
	Aa2		aa2
	Aa3		aa3
	A1		a1
	A2		a2
	A3		a3
	Baa1		baa1
	Baa2		baa2
	Baa3		baa3
Speculative grade	Ba1	ba1	BB+
	Ba2	ba2	BB
	Ba3	ba3	BB-
	B1	b1	B+
	B2	b2	B
	B3	b3	B-
	Caa1	caa1	CCC+
	Caa2	caa2	CCC
	Caa3	caa3	CCC-
	Ca		CC
C		D	

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.

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 "Credit Management 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

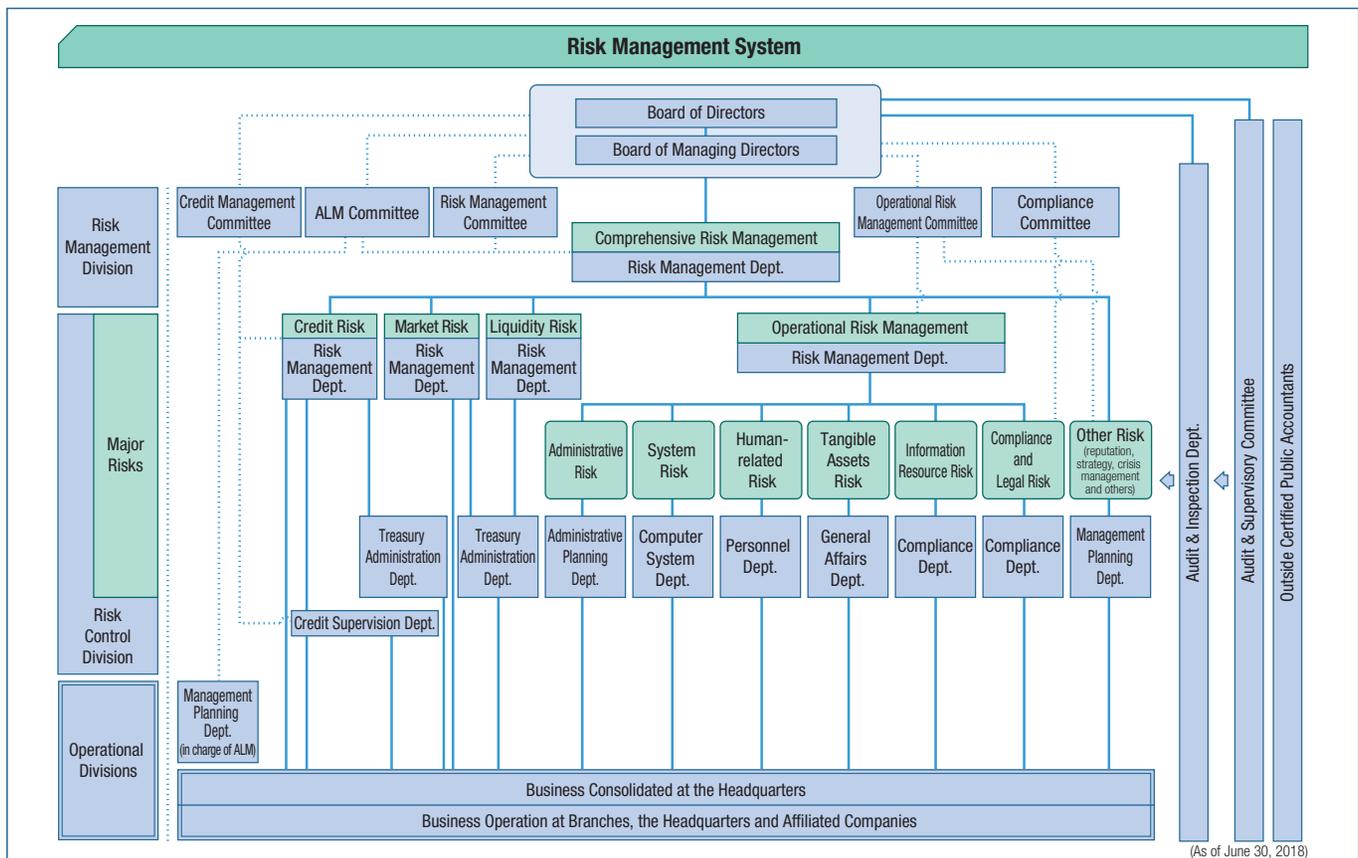
Operational risk refers to risks of losses arising from bank operational

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 management of Operational Risk Management Committee, 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 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)

▶ As its corporate principles, the Bank strives to "Remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services." By providing superior comprehensive financial services to regional customers, the Bank will work to contribute to the revitalization and continuous growth of regional society.

▶ To achieve this, in addition to its role as a provider of funds marked most significantly by loans, the Bank recognizes as an important issue the revitalization of regional economies through consulting that corresponds to the life stage of customers, which includes start-up and new business support, growth support, management improvement and business renovation support, and business continuity.

▶ The following three items have been defined as the "policy on initiatives concerning promotion of regional financing," and the Bank will work to expand its activities in these areas.

Making Full Use of Our Consulting Function According to the Life Stage of Our Customers

- The Bank's policy is to fully comprehend customer companies' management challenges on business and financial terms by evaluating their commercial viability, and also to commit to fulfilling our consulting function in coordination with outside experts.
- In "supporting start-ups/new businesses, growth support such as development of sales channels and support for overseas expansion, and business continuity support," we are strengthening our consulting functions through unified support from the start-up consideration stage until commercialization, various business meetings, and business matching, etc.
- In "management improvement and business rehabilitation supporting," we further enhance our supporting activities for management improvement through integration among the Bank's branches and headquarters to propose the right solutions at the right time, based on comprehension of the business content of our customers. In addition, we actively employ outside expert organizations such as REVIC and the Revitalization Support Council and various funds to provide more advanced methods of assistance in the management improvement and business rehabilitation supporting field.

Contributing to Regional Creation and Revitalization of Regional Economies

- By setting up a "Comprehensive Town, Person, and Work Creation Strategy Structure," the Bank actively participates in each local government from the regional comprehensive strategic planning stage.
- In the strategy execution stage as well, the Bank continues to work in

cooperation with local governments for regional creation via initiatives such as new business proposals and participation in business operation conferences that leverage its knowledge and networks.

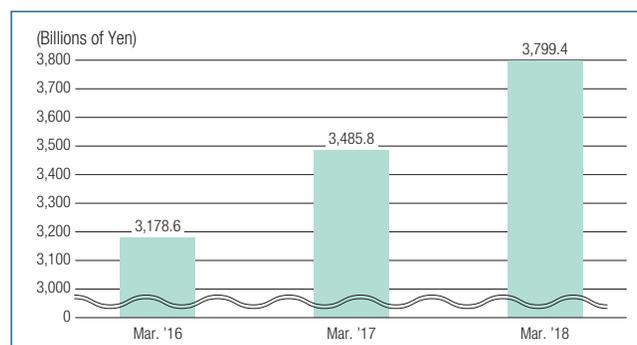
- The Bank collects and analyzes various forms of information from the region, and actively promotes industry-academia-government-finance cooperation. In addition, the Bank is strengthening efforts to support the cultivation of growth fields and efforts to promote the region.

Actively Offering Information to the Regional Society and Our Customers

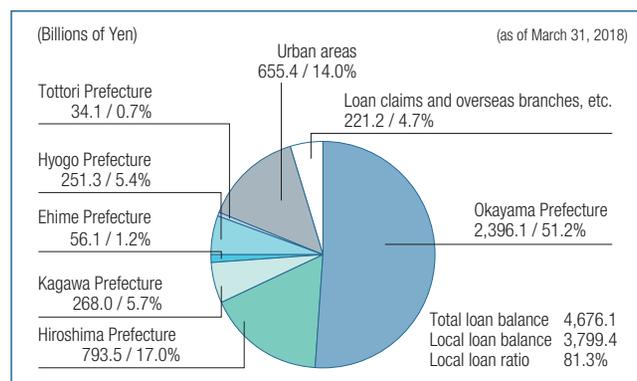
- The Bank actively offers information about specific activities and their results with regard to efforts related to community-based financial services. We will strive to improve our services even further in order to earn the trust and support of our regional customers.

Loan Balance to Regionals

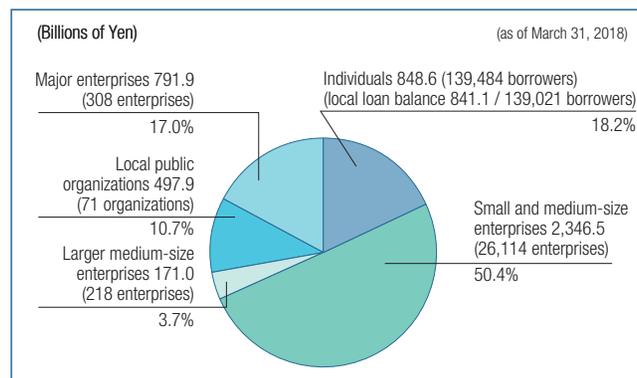
The Bank will take on risks proactively to meet the financing needs of customers.



Breakdown of Loans to the Regional Community



Loan Balance by Type and Number of Borrowers



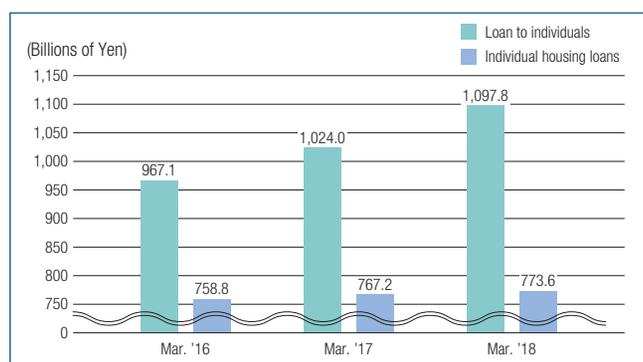
Loans to Individuals

We have established 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 ¥73.8 billion for the year compared with the fiscal year ended March 31, 2017, to ¥1,097.8 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 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 framework 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 such as 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 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 facilitating 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.

Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism

As global threats of nuclear weapons, missiles, and terrorism continue to increase, cutting off financial sources leading to criminals and terrorists is an issue that needs to be addressed jointly by the Japanese and international communities, and measures to prevent money laundering and terrorist financing now bear greater importance.

The Financial Services Agency established and released the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism which outlines the basic approach that financial institutions should take in implementing effective countermeasures. In such climate, the Bank formulated the following policy and takes measures to prevent the flow of funds to criminal syndicates, to maintain safe and convenient financial services, and to create an environment making it difficult for criminal syndicates to engage in activities.

Policy on the Prevention of Money Laundering, etc.

The Chugoku Bank, Limited
The Chugoku Bank, Limited (hereinafter, the "Bank"), based on the recognition that prevention of money laundering and terrorist financing is a priority task required not only domestically but also from the rest of the global community, has set up a management system in order to strictly address this task and has set forth the following policy as a basis for execution of operations.

1. Management Policy

The Bank shall clarify roles and responsibilities associated with the prevention of money laundering and terrorist financing (*1 hereinafter collectively, "Money Laundering, etc.") and establish an internal system capable of responding to Money Laundering, etc. in a timely and accurate manner.

2. Verification at the Time of Transaction (*2)

- The Bank shall establish an internal system capable of conducting verifications at the time of transaction in a timely and accurate manner.
- The Bank shall continually give training to its officers and make them thoroughly understand related laws, regulations and administrative rules, in order to conduct verifications at the time of transaction in a timely and accurate manner.

3. Confirmation of Sanctions Including Freezing of Assets (*3)

- The Bank shall establish an internal system capable of confirming sanctions including the freezing of assets of terrorists, etc., in a timely and accurate manner.
- The Bank shall continually give training to its officers and make them thoroughly understand related laws, regulations and administrative rules, in order to confirm sanctions including the freezing of assets of terrorists, etc., in a timely and accurate manner.

4. Notification of Suspicious Transactions (*4)

- The Bank shall establish an internal system capable of notifying suspicious transactions in a timely and accurate manner.
- The Bank shall promptly notify the authorities of suspicious transactions in accordance with laws and regulations.
- The Bank shall continually give training to its officers and make them thoroughly understand related laws, regulations and administrative rules, in order to notify suspicious transactions in a timely and accurate manner.

5. Verification of the Status of Compliance

The Bank shall inspect the status of compliance with regard to the prevention of Money Laundering, etc., and based on the results of such inspections, shall continually make efforts to improve its internal system.

*1. Money laundering refers to "the act of concealing the source of funds obtained from criminal activities, in order to make them appear as though they were obtained from legitimate transactions," and terrorist financing refers to "the act of providing terrorists with funds necessary for committing terrorist acts, including bomb attacks and hijacking."

Corporate Governance

- *2. Verification at the time of transaction refers to "the mandatory verification by financial institutions of a customer's name, address, date of birth, etc., pursuant to the Act on Prevention of Transfer of Criminal Proceeds."
- *3. Confirmation of sanctions including freezing of assets refers to "the mandatory confirmation by financial institutions of whether a customer is subject to economic sanctions, including the freezing of assets, etc., pursuant to the foreign exchange laws."
- *4. Notification of suspicious transactions refers to "the mandatory notification to the Financial Services Agency by financial institutions, in a case where a fund deposited by a customer is under suspicion of proceeds obtained from a criminal activity, or in a case where a customer is under suspicion of concealing proceeds obtained from a criminal activity, pursuant to the Act on Prevention of Transfer of Criminal Proceeds."

Corporate Governance

The Bank will try to strengthen and enhance the corporate governance in order to develop along with local communities as a bank to be selected and trusted through comprehensive financial services and achieve a sound and sustainable growth and a medium- to long-term improvement of the corporate value, while considering profits of all stakeholders related to the Bank including the shareholders, customers, local communities, and employees by taking following actions.

- (1) The Bank will try to establish an appropriate corporate governance framework while the Board of Directors, the Audit and Supervisory Committee, and Directors recognize the fiduciary responsibility to the shareholders.
- (2) The Bank will try to ensure the appropriateness of the business executions and the effectiveness of audits and supervision by measures such as determining management policies and execution of important duties through adequate deliberation in the Board of Directors and accurate execution of duties by Directors involved in the execution of business, alongside supervision by the Board of Directors, audits by the Audit and Supervisory Committee, and appropriate maintenance and operation of the internal control system based on laws and regulations such as the Companies Act.
- (3) The Bank will try to establish the environment where the rights of shareholders are respected and properly executed, constructive dialogue is

made with shareholders, and active disclosure is made for corporate information including non-financial information, etc., as well as ensure the real equality of shareholders.

The Bank transitioned to a company with an Audit and Supervisory Committee as part of its measures to enhance corporate governance. The number of Directors (excluding Directors serving as Audit and Supervisory Committee Members) stood at 11 (of which, two are Outside Directors) and the number of Directors serving as Audit and Supervisory Committee Members was six (of which, four are Outside Directors) as of the end of June 2018.

Since voting rights at the Board of Directors are granted to Directors serving as Audit and Supervisory Committee Members at a company with an Audit and Supervisory Committee, the audit and supervisory functions over the Board of Directors and Directors have been enhanced.

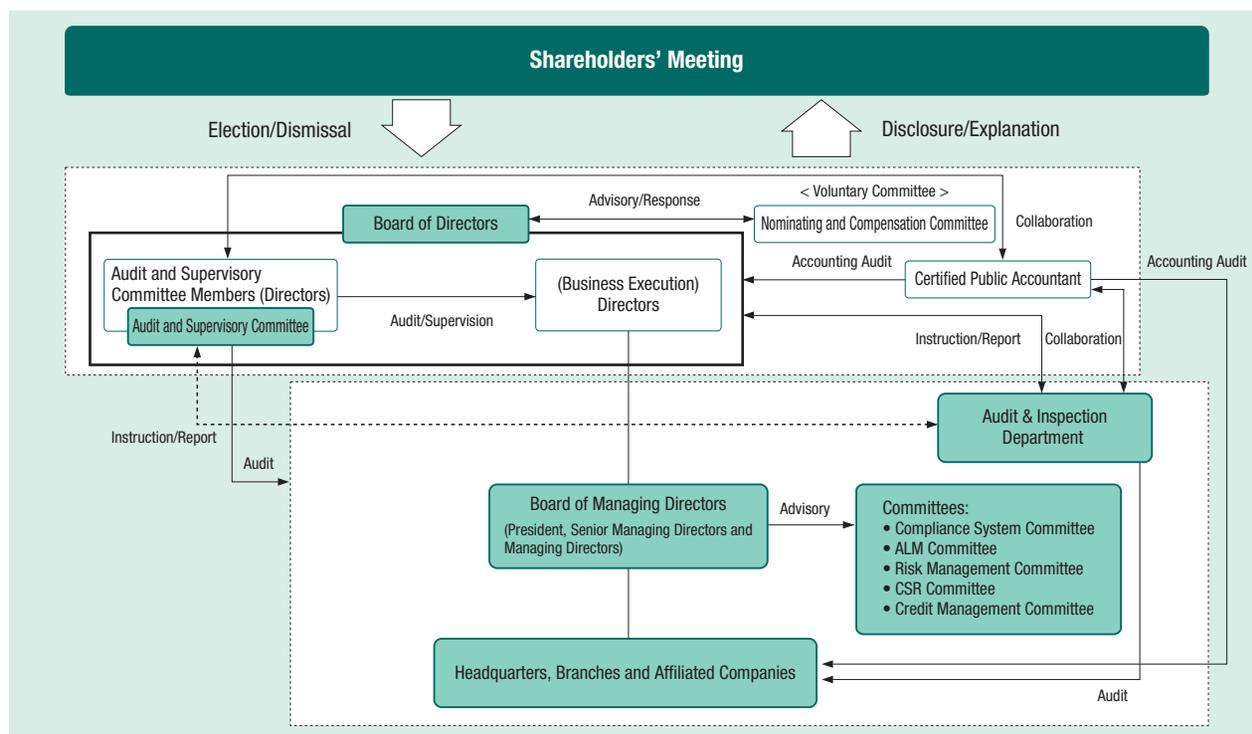
In addition, since a company with an Audit and Supervisory Committee can delegate part of the authority of the Board of Directors to Directors pursuant to provisions of the Companies Act, a structure has been in place, under which matters submitted to the Board of Directors are narrowed down to highly important proposals to enrich discussions on important proposals, including management strategies, at the Board of Directors and accelerate decision-making of the Bank.

As described above, with its structure capable of active discussions and quick decision-making, the Board of Directors of the Bank discusses important matters such as the formulation of business plans and fundamental policies for establishment of internal control system and reports the status of business execution by Directors and other matters.

Also, to ensure mobility in management decision-making, the Bank has established "Board of Managing Directors," which comprises eight Executive Directors, including the President, and discusses matters delegated by the Board of Directors and other matters.

Furthermore, with regard to items such as risk management, which are important for conducting proper corporate activities, the Bank has established various kinds of committee structures as advisory bodies of the Board of Managing Directors to discuss such items flexibly.

Corporate Governance Framework



(As of June 30, 2018)

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 Committee system, wherein each Audit & Supervisory Committee Member 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 Committee 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. 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 which could have a serious impact to the business 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.

4. 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 Committee Members by the Board of Managing Directors, which is comprised of the chairman, vice chairman, president, vice 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.

5. 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 and Regulations etc., and the Compliance Manual 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 Committee chaired by the president shall be established to foster a corporate culture that emphasizes compliance, enhancing compliance systems and monitoring the status of legal compliance. The Compliance Department shall be responsible for overall compliance management and shall examine various measures related to the 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, the Articles of Incorporation and other obligations.

(5) Should legal violations or other compliance-related facts be detected, an appropriate response shall be taken in accordance with employee regulations via the Management Help Line and other means as an internal reporting system.

6. System ensuring the appropriateness of operations throughout the Chugoku Bank Group comprising the Bank 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 and reporting matters to the Bank, those of importance shall be reported to the Bank's Audit & Supervisory Committee Members. The Bank shall conclude an audit agreement with each Group company and conduct internal audits.
- (3) Each group company shall formulate the basic risk management rules to assess and manage each type of risk as well as to establish the system of a comprehensive risk management while they deliberate and report the predetermined matters in accordance with the Chugoku Bank Group Management Regulations. The Bank shall respond appropriately to prevent the spread of damage in accordance with the Risk Management Manual in the event of unforeseen circumstances.
- (4) Business execution pursuant to a resolution of the Board of Directors in each Chugoku Bank Group company 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.
- (5) Each group company of the Chugoku Bank Group shall establish the Corporate Code of Conduct, the Guidelines for the Conduct of Bank Clerks and the Compliance Manual to ensure a compliance framework. The contents of employment regulations and other rules shall be in compliance with laws, regulations and the Articles of Incorporation.
- (6) 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.
- (7) 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 Committee Members.
- (8) The Chugoku Bank Group shall comply with all laws, standards and other obligations concerning accounting practices and establish an internal control system to ensure the appropriateness of the Group's financial reporting.

7. Provisions for hiring assistants to the Audit & Supervisory Committee Members, if required, their independence from directors (excluding directors who are the Audit & Supervisory Committee Members) and ensuring of the effectiveness of directions to the assistants by the Committee Members

- (1) The Bank shall place assistants to the Audit & Supervisory Committee

Members in the Secretariat as employees who are to assist the Audit & Supervisory Committee Members with their duties.

- (2) Employees who are to assist the Audit & Supervisory Committee Members shall be stipulated to perform investigation, planning, management and instruction concerning the audits of the Committee Members, which is ordered by the Members, without performing additional work related to the execution of duties by directors. The Audit & Supervisory Committee Members shall be consulted and their agreement obtained before a decision is made regarding the evaluation, appointment and reassignment of employees who are to assist the Audit & Supervisory Committee Members with their duties to ensure independence from directors (excluding directors who are the Audit & Supervisory Committee Members.)

8. System for reporting to the Audit & Supervisory Committee Members

- (1) In accordance with the Standards of Reporting to Audit & Supervisory Committee Members, directors and employees shall report to the Audit & Supervisory Committee Members matters that may have a significant impact on the Bank's business and other matters essential to report in a timely manner. Notwithstanding the foregoing, the Audit & Supervisory Committee Members may also request reports from directors and employees as required.
- (2) In accordance with the Chugoku Bank Group Management Regulations and the standards related to deliberation and reporting for the subsidiaries, those who are reported from directors, Audit & Supervisory Board Members and the others in the subsidiaries shall report to the Audit & Supervisory Committee Members important matters which may have impact on the Bank's business and other matters essential to report, to the Audit & Supervisory Committee Members in a timely manner.
- (3) The Bank and the subsidiaries shall not give any disadvantageous treatment such as dismissal to directors and employees who reported the matter due to the report.

9. Matters for policies for procedures for advance payment or reimbursement of expense incurred from the execution of duties by the Audit & Supervisory Committee Members and for handling of the other expense or debt incurred regarding the execution of the duties

In accordance with the Auditing Standards for Audit & Supervisory Committee, the Bank shall include a budget in advance for the expenses acknowledged by the Audit & Supervisory Committee to be necessary for the execution of duties. Expenses expended urgently or temporary may be claimed to the Bank for reimbursement after the event.

10. System to ensure that audits of the Audit & Supervisory Committee Members are implemented effectively

The Bank works to ensure the effectiveness of the audits performed by the Audit & Supervisory Committee Members 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 Committee Regulations and the Auditing Standards for Audit & Supervisory Committee. Representative Directors shall exchange opinions with the Audit & Supervisory Committee on a regular basis, and enhance mutual awareness of such matters as to the issues to be addressed by the Bank and improvement of the environment for Audit & Supervisory Committee Members.

Financial Section

Consolidated Financial Statements

Consolidated Balance Sheets

The Chugoku Bank, Limited and its Consolidated Subsidiaries
March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS:			
Cash and due from banks (Notes 18 and 21).....	¥ 777,680	¥ 805,603	\$ 7,320,030
Call loans	141,250	190,556	1,329,536
Other debt purchased (Notes 4, 8 and 18).....	28,998	23,420	272,948
Trading account securities (Notes 4, 11 and 18).....	1,827	2,344	17,196
Money trusts (Notes 5 and 18).....	29,000	18,500	272,966
Securities (Notes 4, 6, 11 and 18).....	2,618,448	2,713,527	24,646,536
Loans and bills discounted (Notes 7, 8 and 18).....	4,672,001	4,397,009	43,975,913
Foreign exchange (Note 7).....	7,949	6,468	74,821
Lease receivables and investments in leased assets (Note 11).....	17,934	17,964	168,806
Other assets (Notes 11, 15 and 18).....	126,184	62,906	1,187,725
Tangible fixed assets (Note 9).....	39,887	41,580	375,442
Intangible fixed assets (Note 10).....	5,914	7,479	55,666
Deferred tax assets (Note 12).....	837	824	7,878
Customers' liabilities for acceptances and guarantees	34,087	34,024	320,849
Reserve for possible loan losses.....	(34,707)	(38,201)	(326,684)
Total assets	¥ 8,467,295	¥ 8,284,008	\$ 79,699,689
LIABILITIES AND NET ASSETS:			
Liabilities:			
Deposits (Notes 11 and 18).....	¥ 6,631,082	¥ 6,412,468	\$ 62,416,057
Call money (Note 11).....	57,928	149,292	545,256
Payables under repurchase agreements (Notes 4 and 11).....	71,568	21,507	673,644
Payables under securities lending transactions (Notes 11 and 18).....	747,270	832,391	7,033,791
Commercial paper (Note 13).....	46,157	24,206	434,459
Borrowed money (Notes 11 and 13).....	195,355	189,485	1,838,808
Foreign exchange	223	135	2,099
Due to trust account.....	1,575	155	14,824
Other liabilities (Notes 13, 15 and 18).....	98,256	63,121	924,849
Accrued employees' bonuses	1,387	1,427	13,055
Accrued directors' bonuses	26	30	244
Reserve for directors' retirement benefits.....	71	75	668
Reserve for reimbursement of deposits.....	1,383	1,063	13,017
Reserve for point program	112	98	1,054
Net defined benefit liability (Note 14).....	27,740	29,987	261,106
Deferred tax liability (Note 12).....	14,528	9,555	136,746
Reserves under special laws.....	6	6	56
Acceptances and guarantees.....	34,087	34,024	320,849
Total liabilities	¥ 7,928,760	¥ 7,769,032	\$ 74,630,647
Net assets (Note 20):			
Shareholders' equity			
Common stock			
Authorized shares: 391,000,000 shares in 2018 and 2017			
Issued shares: 195,272,106 shares in 2018 and 200,272,106 shares in 2017.....	¥ 15,149	¥ 15,149	\$ 142,592
Capital surplus	8,153	8,153	76,741
Retained earnings	433,053	422,805	4,076,176
Less treasury stock, at cost			
5,202,795 shares in 2018 and 8,518,650 shares in 2017.....	(7,400)	(12,116)	(69,653)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 6).....	99,824	93,420	939,608
Net deferred losses on hedging instruments.....	(4,998)	(6,086)	(47,044)
Accumulated adjustments for retirement benefits (Note 14).....	(5,516)	(6,713)	(51,920)
Total.....	89,309	80,621	840,634
Subscription rights to shares (Note 22).....	269	361	2,532
Total net assets	538,534	514,975	5,069,032
Total liabilities and net assets	¥ 8,467,295	¥ 8,284,008	\$ 79,699,689

See accompanying Notes to Consolidated Financial Statements.

Consolidated Income Statements

The Chugoku Bank, Limited and its Consolidated Subsidiaries
For the Years Ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Income:			
Interest and dividends on:			
Loans and discounts.....	¥ 47,055	¥ 42,888	\$ 442,912
Securities	31,182	34,629	293,505
Other	1,473	939	13,864
Fees and commissions	17,144	17,961	161,370
Other operating income	22,778	33,634	214,401
Reversal of reserve for possible loan losses	1,568	18	14,759
Bad debt recovered	5	12	47
Other income	11,250	12,787	105,892
Total income	132,459	142,872	1,246,790
Expenses:			
Interest on:			
Deposits	1,986	1,875	18,693
Borrowings	1,270	618	11,954
Other	10,533	8,554	99,143
Fees and commissions	4,301	4,225	40,483
Other operating expenses	17,933	29,913	168,797
General and administrative expenses	60,712	58,447	571,460
Losses on impairment of fixed assets (Note 9)	148	420	1,393
Other expenses	4,846	7,681	45,613
Total expenses	101,733	111,736	957,577
Income before income taxes	30,726	31,136	289,213
Income taxes (Note 12):			
Current	8,265	9,745	77,795
Deferred	1,202	763	11,314
	9,467	10,508	89,109
Net income	21,258	20,627	200,094
Net income attributable to noncontrolling interests	—	304	—
Net income attributable to owners of parent	¥ 21,258	¥ 20,323	\$ 200,094
Per share of common stock			
Basic net income	¥ 111.19	¥ 105.34	\$ 1.046
Diluted net income	111.05	105.18	1.045
Cash dividends applicable to the year (Note 20)	20.00	20.00	0.188

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

The Chugoku Bank, Limited and its Consolidated Subsidiaries
For the Years Ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net income	¥ 21,258	¥ 20,627	\$ 200,094
Other comprehensive income (Note 17):			
Net unrealized gains (losses) on available-for-sale securities	6,403	(19,641)	60,269
Net deferred gains (losses) on hedging instruments	1,087	675	10,231
Adjustments for retirement benefits	1,196	607	11,257
Total other comprehensive income	8,687	(18,359)	81,767
Comprehensive income	¥ 29,946	¥ 2,268	\$ 281,871
Comprehensive income attributable to:			
Owners of parent	¥ 29,946	¥ 1,754	\$ 281,871
Noncontrolling interests	—	514	—

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, 2018 and 2017

	Millions of Yen									
	2018									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
Net unrealized gains (losses) on available-for-sale securities					Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits	Total			
Balance at beginning of year.....	¥15,149	¥8,153	¥422,805	¥(12,116)	¥93,420	¥(6,086)	¥(6,713)	¥80,621	¥361	¥514,975
Net income attributable to owners of parent.....			21,258							21,258
Cash dividends.....			(3,832)							(3,832)
Purchases of treasury stock.....				(2,601)						(2,601)
Disposals of treasury stock.....			(34)	172						138
Cancellation of treasury stock.....			(7,143)	7,143						—
Net changes in items other than shareholders' equity.....					6,403	1,087	1,196	8,687	(91)	8,596
Net changes during the year.....	—	—	10,247	4,715	6,403	1,087	1,196	8,687	(91)	23,559
Balance at end of year.....	¥15,149	¥8,153	¥433,053	¥(7,400)	¥99,824	¥(4,998)	¥(5,516)	¥89,309	¥269	¥538,534

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen										
	2017										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income				Subscription rights to shares	Noncontrolling interests	Total net assets
Net unrealized gains (losses) on available-for-sale securities					Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits	Total				
Balance at beginning of year.....	¥15,149	¥7,326	¥406,361	¥(7,915)	¥113,272	¥(6,761)	¥(7,320)	¥99,190	¥308	¥5,594	¥526,014
Net income attributable to owners of parent.....			20,323								20,323
Cash dividends.....			(3,878)								(3,878)
Purchases of treasury stock.....				(4,200)							(4,200)
Changes in equity interest due to acquisition of shares in consolidated subsidiaries.....		827								(827)	—
Net changes in items other than shareholders' equity.....					(19,851)	675	607	(18,569)	52	(4,767)	(23,283)
Net changes during the year.....	—	827	16,444	(4,200)	(19,851)	675	607	(18,569)	52	(5,594)	(11,039)
Balance at end of year.....	¥15,149	¥8,153	¥422,805	¥(12,116)	¥93,420	¥(6,086)	¥(6,713)	¥80,621	¥361	¥—	¥514,975

See accompanying Notes to Consolidated Financial Statements.

	Thousands of U.S. Dollars (Note 1)									
	2018									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
Net unrealized gains (losses) on available-for-sale securities					Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits	Total			
Balance at beginning of year.....	\$142,592	\$76,741	\$3,979,715	\$(114,043)	\$879,329	\$(57,285)	\$(63,187)	\$758,857	\$3,397	\$4,847,279
Net income attributable to owners of parent.....			200,094							200,094
Cash dividends.....			(36,069)							(36,069)
Purchases of treasury stock.....				(24,482)						(24,482)
Disposals of treasury stock.....			(320)	1,618						1,298
Cancellation of treasury stock.....			(67,234)	67,234						—
Net changes in items other than shareholders' equity.....					60,269	10,231	11,257	81,767	(856)	80,911
Net changes during the year.....	—	—	96,451	44,380	60,269	10,231	11,257	81,767	(856)	221,752
Balance at end of year.....	\$142,592	\$76,741	\$4,076,176	\$(69,653)	\$939,608	\$(47,044)	\$(51,920)	\$840,634	\$2,532	\$5,069,032

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, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities			
Income before income taxes	¥ 30,726	¥ 31,136	\$ 289,213
Depreciation	4,376	3,607	41,189
Losses on impairment of fixed assets	148	420	1,393
Share-based compensation expenses	46	52	432
Increase (decrease) in reserve for possible loan losses	(1,568)	(18)	(14,759)
Increase (decrease) in reserve for point program	14	2	131
Increase (decrease) in reserve for directors' retirement benefits	(3)	17	(28)
Increase (decrease) in accrued employees' bonuses	(39)	(144)	(367)
Increase (decrease) in accrued directors' bonuses	(3)	1	(28)
Increase (decrease) in net defined benefit liability	(520)	(858)	(4,894)
Increase (decrease) in reserve for reimbursement of deposits	320	6	3,012
Interest and dividend income	(79,711)	(78,457)	(750,291)
Interest expense	13,790	11,048	129,800
Losses (gains) on sales of securities, net	(1,965)	(2,359)	(18,495)
Losses (gains) on money trusts, net	33	20	310
Foreign exchange losses (gains), net	22,631	5,309	213,017
Losses (gains) on disposals of fixed assets, net	20	15	188
Decrease (increase) in trading account securities, excluding foreign exchange contracts	516	(403)	4,856
Decrease (increase) in call loans and other debt purchased	43,727	(184,058)	411,586
Increase (decrease) in payables under repurchase agreements	50,061	21,507	471,206
Decrease (increase) in due from banks, excluding the Bank of Japan	(6,794)	(4,972)	(63,949)
Increase (decrease) in commercial paper	21,950	24,206	206,607
Decrease (increase) in foreign exchange assets	(1,481)	4,309	(13,940)
Decrease (increase) in loans and bills discounted	(276,918)	(365,697)	(2,606,532)
Decrease (increase) in lease receivables and investments in leased assets	7	(253)	65
Decrease (increase) in other assets	(69,110)	(11,492)	(650,508)
Increase (decrease) in deposits	218,614	232,354	2,057,737
Increase (decrease) in borrowed money	5,869	4,853	55,242
Increase (decrease) in call money	(91,364)	(100,757)	(859,977)
Increase (decrease) in foreign exchange liabilities	87	25	818
Increase (decrease) in payables under securities lending transactions	(85,120)	316,599	(801,204)
Increase (decrease) in due to trust account	1,419	48	13,356
Increase (decrease) in other liabilities	36,864	7,424	346,987
Interest and dividends received	84,482	83,946	795,199
Interest paid	(13,600)	(10,327)	(128,012)
Subtotal	(92,493)	(12,887)	(870,604)
Income taxes paid	(9,008)	(11,153)	(84,789)
Income taxes refund	293	—	2,757
Net cash used in operating activities	(101,208)	(24,041)	(952,635)
Cash flows from investing activities			
Purchases of securities	(1,162,615)	(1,080,324)	(10,943,288)
Proceeds from sales of securities	973,169	1,094,417	9,160,099
Proceeds from redemption of securities	274,935	336,175	2,587,867
Purchases of money trusts	(23,565)	(386)	(221,809)
Proceeds from money trusts	13,032	5,066	122,665
Purchases of tangible fixed assets	(1,633)	(2,193)	(15,370)
Purchases of intangible fixed assets	(229)	(1,405)	(2,155)
Proceeds from sales of tangible fixed assets	58	3	545
Net cash provided by investing activities	73,151	351,353	688,544
Cash flows from financing activities			
Cash dividends paid	(3,832)	(3,878)	(36,069)
Cash dividends paid to noncontrolling shareholders	—	(1)	—
Purchases of treasury stock	(2,601)	(4,200)	(24,482)
Repayments on lease obligations	(221)	(225)	(2,080)
Proceeds from execution of stock options	0	—	0
Purchases of stocks of subsidiaries not resulting in change in scope of consolidation	—	(5,280)	—
Net cash used in financing activities	(6,654)	(13,585)	(62,631)
Effect of exchange rate changes on cash and cash equivalents	(6)	(3)	(56)
Net increase (decrease) in cash and cash equivalents	(34,717)	313,722	(326,778)
Cash and cash equivalents at beginning of year	795,168	481,446	7,484,638
Cash and cash equivalents at end of year (Note 21)	¥ 760,451	¥ 795,168	\$ 7,157,859

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 Act 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 Act, 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, 2018, which was ¥106.24 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) Principles 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.

Six investment partnerships of which the Bank owns a majority of the voting rights were excluded from the scope of consolidation for the year ended March 31, 2018 (two in 2017) because the total amounts of their assets, net income and retained earnings were immaterial and 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 six investment partnerships and an affiliated company also were not accounted for by the equity method for the year ended March 31, 2018 (two and one respectively in 2017) because their exclusion had no significant effect on the consolidated financial statements.

Two companies, of which the Bank owns between 20% and 50% of the voting rights (execution rights), were not recognized as affiliates accounted for using the equity method for the year ended March 31, 2018 (two in 2017) because they are held by the Bank's unconsolidated subsidiary for the purpose of incubating investees or earning capital gains through business transactions and not for the purpose of controlling the entities.

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 as loss when incurred.

(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, in principle, stated at fair value 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, February 13, 2002) 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 deferred 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, July 29, 2002). 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 asset. For the Bank, estimated useful lives are mainly as follows:

Buildings	4 to 40 years
Other	2 to 20 years

For consolidated subsidiaries, the useful life of an asset is mainly 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.

(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 the 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 internal 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 Order 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 attributed to periods based on a benefit formula basis.

Prior service cost of the cash balance pension plans is recognized as expense 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 it arises.

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 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).

(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.

3. New accounting standards to be applied

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

(a) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued "Revenue from Contracts with Customers" in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 is applied to fiscal years beginning on or after January 1, 2018, and Topic 606 is applied to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the

perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, when consideration should be given to the practice having been used in Japan.

(b) Scheduled date of application

These ASBJ statement and guidance will be applied at the start of the fiscal year beginning on April 1, 2021.

(c) Effects of application of the accounting standard, etc.

The effects of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements has not yet been determined.

4. Securities

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amounts of ¥855 million (\$8,047 thousand) and ¥23 million (\$216 thousand) at March 31, 2018 and ¥245 million and ¥23 million at March 31, 2017.

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 Instruments and Exchange Act) were ¥88,811 million (\$835,946 thousand) and ¥74,937 million at March 31, 2018 and 2017, respectively.

(1) Trading account securities

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Amount of net unrealized gains (losses) included in the consolidated income statements.....	¥ (14)	¥ (21)	\$ (131)

(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, 2018 and 2017:

Type	Millions of Yen		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	¥ 148,746	¥ 71,068	¥ 77,677
Bonds	1,686,678	1,650,107	36,570
Japanese government bonds	816,331	792,163	24,168
Japanese municipal bonds.....	570,289	561,743	8,546
Japanese corporate bonds.....	300,056	296,200	3,855
Other	306,634	268,729	37,904
Foreign bonds.....	188,207	186,193	2,014
Other.....	118,426	82,536	35,890
Subtotal.....	¥ 2,142,059	¥ 1,989,905	¥ 152,153
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	¥ 21,854	¥ 24,522	¥ (2,668)
Bonds	191,853	192,345	(491)
Japanese government bonds	22,269	22,288	(19)
Japanese municipal bonds.....	107,886	108,270	(384)
Japanese corporate bonds.....	61,697	61,785	(88)
Other	232,795	238,155	(5,359)
Foreign bonds.....	170,922	173,367	(2,445)
Other.....	61,873	64,787	(2,914)
Subtotal.....	446,502	455,022	(8,519)
Total	¥ 2,588,562	¥ 2,444,928	¥ 143,633

Type	Thousands of U.S. Dollars		
	2018		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	\$ 1,400,094	\$ 668,938	\$ 731,146
Bonds	15,876,110	15,531,880	344,220
Japanese government bonds	7,683,838	7,456,353	227,484
Japanese municipal bonds.....	5,367,931	5,287,490	80,440
Japanese corporate bonds.....	2,824,322	2,788,027	36,285
Other	2,886,238	2,529,452	356,777
Foreign bonds.....	1,771,526	1,752,569	18,957
Other.....	1,114,702	776,882	337,820
Subtotal.....	\$ 20,162,452	\$ 18,730,280	\$ 1,432,163
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	\$ 205,704	\$ 230,817	\$ (25,112)
Bonds	1,805,845	1,810,476	(4,621)
Japanese government bonds	209,610	209,789	(178)
Japanese municipal bonds.....	1,015,493	1,019,107	(3,614)
Japanese corporate bonds.....	580,732	581,560	(828)
Other	2,191,217	2,241,669	(50,442)
Foreign bonds.....	1,608,829	1,631,842	(23,013)
Other.....	582,388	609,817	(27,428)
Subtotal.....	4,202,767	4,282,963	(80,186)
Total	\$ 24,365,229	\$ 23,013,253	\$ 1,351,967

Type	Millions of Yen		
	2017		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	¥ 129,217	¥ 67,129	¥ 62,087
Bonds	1,542,192	1,499,955	42,236
Japanese government bonds	770,375	742,800	27,574
Japanese municipal bonds.....	461,264	451,720	9,543
Japanese corporate bonds.....	310,553	305,434	5,118
Other	450,859	411,553	39,305
Foreign bonds.....	317,389	314,402	2,987
Other.....	133,469	97,150	36,318
Subtotal.....	¥ 2,122,269	¥ 1,978,638	¥ 143,630
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	¥ 28,400	¥ 30,775	¥ (2,375)
Bonds	239,036	240,933	(1,896)
Japanese government bonds	122,084	123,099	(1,015)
Japanese municipal bonds.....	102,236	102,951	(715)
Japanese corporate bonds.....	14,716	14,882	(166)
Other	295,056	299,932	(4,876)
Foreign bonds.....	257,739	261,563	(3,824)
Other.....	37,316	38,368	(1,051)
Subtotal.....	562,493	571,641	(9,148)
Total	¥ 2,684,762	¥ 2,550,280	¥ 134,482

(3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2018 and 2017:

Held-to-maturity securities

Type	Millions of Yen			
	2018			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	¥ 18,370	¥ 18,859	¥	488
Subtotal.....	¥ 18,370	¥ 18,859	¥	488
Total	¥ 18,370	¥ 18,859	¥	488

Type	Thousands of U.S. Dollars			
	2018			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	\$ 172,910	\$ 177,513	\$	4,593
Subtotal.....	\$ 172,910	\$ 177,513	\$	4,593
Total	\$ 172,910	\$ 177,513	\$	4,593

Type	Millions of Yen			
	2017			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	¥ 18,333	¥ 18,899	¥	565
Subtotal.....	¥ 18,333	¥ 18,899	¥	565
Total	¥ 18,333	¥ 18,899	¥	565

(4) No impairment loss on securities was recognized in the year ended March 31, 2018 and 2017.

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 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 years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		
	2018		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	¥ 117,965	¥ 4,836	¥ 2,438
Bonds	264,316	1,728	731
Japanese government bonds	193,134	1,335	710
Japanese municipal bonds.....	52,347	215	21
Japanese corporate bonds.....	18,834	177	—
Other	431,305	4,151	5,580
Foreign bonds	375,331	961	5,490
Other.....	55,974	3,189	90
Total.....	¥ 813,587	¥ 10,716	¥ 8,750

	Thousands of U.S. Dollars		
	2018		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	\$ 1,110,363	\$ 45,519	\$ 22,948
Bonds	2,487,914	16,265	6,880
Japanese government bonds	1,817,902	12,565	6,682
Japanese municipal bonds.....	492,724	2,023	197
Japanese corporate bonds.....	177,277	1,666	—
Other	4,059,723	39,071	52,522
Foreign bonds	3,532,859	9,045	51,675
Other.....	526,863	30,016	847
Total.....	\$ 7,658,010	\$ 100,865	\$ 82,360

	Millions of Yen		
	2017		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	¥ 118,265	¥ 9,764	¥ 2,887
Bonds	591,681	10,408	5,670
Japanese government bonds	469,958	9,324	4,145
Japanese municipal bonds.....	81,857	741	1,215
Japanese corporate bonds.....	39,866	342	309
Other	310,302	3,313	9,940
Foreign bonds	299,572	2,250	9,862
Other.....	10,729	1,063	78
Total.....	¥ 1,020,249	¥ 23,486	¥ 18,498

5. Money Trusts

(1) Money trusts as a type of trading account securities at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2018	2017	2018	2017
Carrying amount (fair value).....	¥ 25,000	¥ 15,000	\$ 235,316	
Net unrealized gains (losses) recognized in the income statements	—	—	—	—

(2) Money trusts, other than for investment purposes or held to maturity purposes at March 31, 2018 and 2017 were as follows:

	Millions of Yen				
	2018				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	¥ 4,000	¥ 4,000	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars				
	2018				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	\$ 37,650	\$ 37,650	\$ —	\$ —	\$ —

	Millions of Yen				
	2017				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	¥ 3,500	¥ 3,500	¥ —	¥ —	¥ —

6. Net Unrealized Gains and Losses on Available-for-sale Securities

Net unrealized gains and losses on available-for-sale securities at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Net unrealized gains on available-for-sale securities	¥ 143,111	¥ 134,482	\$ 1,347,053
Deferred tax liabilities.....	(43,286)	(40,538)	(407,435)
Net unrealized gains on available-for-sale securities before adjustment for noncontrolling interests, net of taxes.....	99,824	93,943	939,608
Noncontrolling interests.....	—	522	—
Net unrealized gains on available-for-sale securities, net of taxes.....	¥ 99,824	¥ 93,420	\$ 939,608

7. Loans and Bills Discounted

Loans and bills discounted at March 31, 2018 and 2017 included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans to bankrupt customers.....	¥ 4,121	¥ 4,824	\$ 38,789
Loans past due six months or more	52,128	60,709	490,662
Loans past due three months or more but less than six months ...	1,509	802	14,203
Restructured loans.....	14,819	15,349	139,486
Total.....	¥ 72,579	¥ 81,686	\$ 683,160

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, February 13, 2002), 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, 2018 and 2017 was ¥31,940 million (\$300,640 thousand) and ¥28,148 million, respectively.

8. 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 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, 2018 and 2017 amounted to ¥1,539,219 million (\$14,488,130 thousand) and ¥1,500,087 million, respectively. Of these amounts, ¥1,423,595 million (\$13,399,802 thousand) for 2018 and ¥1,395,417 million for 2017 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 a loan agreement or confirming the obligor's financial condition at regular intervals in accordance with the Bank and its consolidated subsidiaries' established internal procedures.

9. Tangible Fixed Assets

Tangible fixed assets at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Land	¥ 20,179	¥ 20,329	\$ 189,937
Buildings	12,631	13,240	118,891
Lease assets	2,459	2,668	23,145
Other tangible fixed assets	4,583	5,273	43,138
Construction in progress.....	34	68	320
Total.....	¥ 39,887	¥ 41,580	\$ 375,442

Accumulated depreciation at March 31, 2018 and 2017 was ¥77,897 million (\$733,217 thousand) and ¥77,520 million, respectively. The amounts that were directly offset against acquisition costs at March 31, 2018 and 2017 were ¥5,082 million (\$47,835 thousand) and ¥5,082 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, 2018 and 2017 as follows:

(Millions of Yen)		2018			Losses on impairment of fixed assets
Purpose of Use		Type			
Okayama Prefecture	Branches	1 branch	Land and buildings	¥ 128	
Prefectures other than Okayama	Branches	1 branch	Land and buildings	¥ 19	
	Idle assets	2 items			

(Thousands of U.S. Dollars)		2018			Losses on impairment of fixed assets
Purpose of Use		Type			
Okayama Prefecture	Branches	1 branch	Land and buildings	\$ 1,204	
Prefectures other than Okayama	Branches	1 branch	Land and buildings	\$ 178	
	Idle assets	2 items			

(Millions of Yen)		2017			Losses on impairment of fixed assets
Purpose of Use		Type			
Okayama Prefecture	Branches	4 branches	Land and buildings	¥ 340	
	Idle assets	1 item			
Prefectures other than Okayama	Branches	3 branches	Land and buildings	¥ 31	
	Idle assets	2 items			
Other	Idle assets		Telephone subscription rights	¥ 48	

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 ¥148 million (\$1,393 thousand) and ¥420 million as “Losses on impairment of fixed assets” for the years ended March 31, 2018 and 2017, 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, with future cash flow discounted by 4%.

The recoverable amount of telephone subscription rights was reduced to the memorandum value because these assets are not expected to be used nor sold in the market.

10. Intangible Fixed Assets

Intangible fixed assets at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Software.....	¥ 5,814	¥ —	\$ 54,725
Software in progress	—	7,359	—
Other intangible fixed assets.....	99	120	931
Total.....	¥ 5,914	¥ 7,479	\$ 55,666

11. Pledged Assets

Pledged assets at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Securities	¥ 1,076,542	¥ 1,068,308	\$ 10,133,113
Other assets	80	83	753
Total.....	¥ 1,076,623	¥ 1,068,392	\$ 10,133,876

Liabilities secured by pledged assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deposits	¥ 15,686	¥ 42,526	\$ 147,646
Call money	—	1,093	—
Payables under securities lending transactions	747,270	832,391	7,033,791
Payables under repurchase agreements	71,568	21,507	673,644
Borrowed money.....	179,097	171,284	1,685,777
Total.....	¥ 1,013,623	¥ 1,068,803	\$ 9,540,879

At March 31, 2018 and 2017, respectively, certain trading account securities in the aggregate amount of ¥115 million (\$1,082 thousand) and ¥117 million, respectively, and certain other securities in the aggregate amount of ¥82,651 million (\$777,964 thousand) and ¥94,056 million, respectively, were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

Other assets included the following items at March 31, 2018 and 2017:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Initial margins for central counterparty	¥ 30,666	¥ 8,187	\$ 288,648
Cash collateral paid for financial instruments.....	4,117	6,100	38,751
Initial margins for futures markets..	823	1,165	7,746
Guarantee deposits.....	842	839	7,925

12. Deferred Tax Assets (Liabilities)

Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Deferred tax assets:			
Reserve for possible loan losses...	¥ 10,009	¥ 10,883	\$ 94,211
Net defined benefit liability.....	9,694	10,349	91,246
Depreciation	5,529	3,214	52,042
Unrealized holding losses on available-for-sale securities....	2,598	2,790	24,454
Deferred losses on hedging instruments.....	2,295	2,784	21,602
Write-down of securities.....	1,432	1,460	13,478
Losses on impairment of fixed assets.....	1,063	1,057	10,005
Accrued employees' bonuses....	483	497	4,546
Software	382	3,079	3,595
Other	1,752	1,646	16,490
Subtotal.....	35,241	37,763	331,711
Valuation allowance.....	(2,691)	(2,801)	(25,329)
Total deferred tax assets.....	32,550	34,962	306,381
Deferred tax liabilities:			
Unrealized holding gains on available-for-sale securities....	(45,880)	(43,324)	(431,852)
Reserve for advanced depreciation of tangible fixed assets	(232)	(229)	(2,183)
Deferred gains on hedging instruments.....	(101)	(112)	(950)
Loss on deemed transfer of securities	(25)	(24)	(235)
Other.....	(0)	(1)	(0)
Total deferred tax liabilities	(46,240)	(43,693)	(435,240)
Net deferred tax assets (liabilities) ..	¥ (13,690)	¥ (8,731)	\$ (128,859)

A reconciliation between the statutory tax rate and the effective tax rate of the Bank for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Statutory tax rate	—%	30.7%
Increase (decrease) in taxes resulting from:		
Permanently nondeductible expenses	—	0.2
Permanently nontaxable dividends received	—	(1.2)
Valuation allowance	—	2.9
Reduction of deferred tax assets due to tax rate changes	—	—
Other	—	1.1
Effective income tax rate	—%	33.7%

Note: Figures for the year ended March 31, 2018 have been omitted as the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

13. Borrowed Money, Commercial paper and Other liabilities

Borrowed money, Commercial paper and Other liabilities at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Borrowed Money.....	¥ 195,355	¥ 189,485	\$ 1,838,808
Commercial paper.....	46,157	24,206	434,459
Lease liabilities (due within one year) ...	221	220	2,080
Lease liabilities (due after one year) ...	2,221	2,432	20,905

The weighted average interest rates on the outstanding balances at March 31, 2018 and 2017 were as follows:

	2018	2017
Borrowed Money.....	0.945%	0.549%
Commercial paper.....	1.976%	1.238%
Lease liabilities (due within one year).....	—	—
Lease liabilities (due after one year).....	—	—

Note: The weighted average interest rate is not shown for lease liabilities because the Bank uses a method that includes amounts equal to the interest in the total capital lease liabilities and that spreads the total amount equal to interest equally over each fiscal year of the lease period.

Borrowed money classified by maturity at March 31, 2018 and 2017 was as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Less than one year.....	¥ 183,846	¥ 82,794	\$ 1,730,478
From one to two years.....	3,649	40,220	34,346
From two to three years.....	2,517	48,711	23,691
From three to four years.....	1,625	13,479	15,295
From four to five years	781	987	7,351
Over five years.....	2,934	3,293	27,616
Total borrowed money.....	¥ 195,355	¥ 189,485	\$ 1,838,808

Commercial paper classified by maturity at March 31, 2018 and 2017 was as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Less than one year.....	¥ 46,157	¥ 24,206	\$ 434,459
Total commercial paper.....	¥ 46,157	¥ 24,206	\$ 434,459

Lease liabilities classified by maturity at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Less than one year.....	¥ 221	¥ 220	\$ 2,080
From one to two years.....	219	219	2,061
From two to three years.....	218	216	2,051
From three to four years.....	217	215	2,042
From four to five years.....	214	214	2,014
Over five years.....	1,352	1,565	12,725
Total lease liabilities.....	¥ 2,442	¥ 2,652	\$ 22,985

14. Liability for Employees' Severance and Retirement Benefits

(1) Outline of retirement benefit plans

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

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

(2) Defined benefit plans

(a) Changes in projected benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Beginning balance of projected benefit obligation.....	¥ 66,400	¥ 66,565	\$ 625,000
Service cost.....	2,245	2,227	21,131
Interest cost.....	132	132	1,242
Actuarial differences.....	15	129	141
Retirement benefits paid.....	(2,945)	(2,654)	(27,720)
Prior service cost.....	—	—	—
Other.....	—	—	—
Ending balance of projected benefit obligation.....	¥ 65,847	¥ 66,400	\$ 619,794

(b) Changes in plan assets for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Beginning balance of plan assets...	¥ 36,412	¥ 34,840	\$ 342,733
Expected return on plan assets ..	1,783	2,027	16,782
Actuarial differences.....	(157)	(703)	(1,477)
Contribution from the employer ..	1,279	1,339	12,038
Retirement benefits paid.....	(1,210)	(1,091)	(11,389)
Other.....	—	—	—
Ending balance of plan assets.....	¥ 38,107	¥ 36,412	\$ 358,687

(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
	2018	2017	2018
Funded defined benefit obligation...	¥ 65,547	¥ 66,175	\$ 616,971
Plan assets.....	(38,107)	(36,412)	(358,687)
	27,439	29,762	258,273
Unfunded defined benefit obligation.....	300	225	2,823
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 27,740	¥ 29,987	\$ 261,106

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Net defined benefit liability.....	¥ 27,740	¥ 29,987	\$ 261,106
Net defined benefit asset.....	—	—	—
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 27,740	¥ 29,987	\$ 261,106

(d) The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost.....	¥ 2,245	¥ 2,227	\$ 21,131
Interest cost.....	132	132	1,242
Expected return on plan assets.....	(1,783)	(2,027)	(16,782)
Amortization of actuarial differences.....	1,899	1,711	17,874
Amortization of prior service cost ..	—	—	—
Other.....	33	33	310
Retirement benefit expenses on defined benefit plans.....	¥ 2,528	¥ 2,077	\$ 23,795

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost.....	¥ —	¥ —	\$ —
Actuarial differences.....	1,727	878	16,255
Total.....	¥ 1,727	¥ 878	\$ 16,255

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

	Millions of Yen		Thousands of U.S. Dollars	
	2018	2017	2018	2017
Unrecognized prior service cost.....	¥ —	¥ —	\$ —	\$ —
Unrecognized actuarial differences.....	(7,937)	(9,664)	(74,708)	(74,708)
Other	—	—	—	—
Total	¥ (7,937)	¥ (9,664)	\$ (74,708)	\$ (74,708)

(g) Plan assets

1) Components of plan assets

Plan assets consisted of the following:

	2018	2017
Bonds	17.9%	22.3%
Equity securities.....	36.8%	40.6%
Cash and deposits	6.6%	5.9%
General account.....	10.9%	11.2%
Other	27.8%	20.0%
Total	100.0%	100.0%

Note: Total plan assets at March 31, 2018 and 2017 included an employees' retirement benefit trust established for corporate welfare pension plans that represented 21.3% and 14.2% of the total plan assets respectively.

2) Method used to determine the long-term expected rate of return on plan assets

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

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

	2018	2017
Discount rate	0.200%	0.200%
Long-term expected rate of return	2.077% - 5.629%	2.236% - 6.716%

Note: Since the Bank has adopted the benefit formula basis for calculating retirement benefit obligation, the expected rate of salary increase is not taken into consideration.

(3) Defined contribution plans

The amount of required contribution to the defined contribution plan of the Bank for the years ended March 31, 2018 and 2017 was ¥127 million (\$1,195 thousand) and ¥128 million, respectively.

15. Derivative Transactions

Derivative transactions at March 31, 2018 and 2017 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 method used to calculate fair value by 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			
	2018		Fair value	Recognized gains (losses)
Contract amount	Over 1 year			
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	¥ 15,818	¥ 12,309	¥ (60)	¥ (60)
Pay floating/ receive fixed	15,715	12,206	122	122
Total.....	—	—	¥ 62	¥ 62

Type	Thousands of U.S. Dollars			
	2018		Fair value	Recognized gains (losses)
Contract amount	Over 1 year			
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	\$ 148,889	\$ 115,860	\$ (564)	\$ (564)
Pay floating/ receive fixed	147,919	114,890	1,148	1,148
Total.....	—	—	\$ 583	\$ 583

Type	Millions of Yen			
	2017		Fair value	Recognized gains (losses)
Contract amount	Over 1 year			
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	¥ 14,546	¥ 14,246	¥ (209)	¥ (209)
Pay floating/ receive fixed	14,433	14,133	285	285
Total.....	—	—	¥ 76	¥ 76

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			
	2018			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	¥ 856,641	¥ 690,120	¥ 59	¥ 59
Forward foreign exchange				
Sold	133,463	2,726	2,282	2,282
Bought	43,264	1,646	(340)	(340)
Currency options				
Sold	25,062	16,824	1,184	264
Bought	25,062	16,824	1,184	(108)
NDF				
Sold	740	368	1	1
Bought	694	345	43	43
Total	—	—	¥ 4,415	¥ 2,203

Type	Thousands of U.S. Dollars			
	2018			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	\$ 8,063,262	\$ 6,495,858	\$ 555	\$ 555
Forward foreign exchange				
Sold	1,256,240	25,658	21,479	21,479
Bought	407,228	15,493	(3,200)	(3,200)
Currency options				
Sold	235,899	158,358	11,144	2,484
Bought	235,899	158,358	11,144	(1,016)
NDF				
Sold	6,965	3,463	9	9
Bought	6,532	3,247	404	404
Total	—	—	\$ 41,556	\$ 20,736

Type	Millions of Yen			
	2017			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	¥ 822,533	¥ 668,600	¥ 94	¥ 94
Forward foreign exchange				
Sold	285,706	79	3,053	3,053
Bought	97,521	—	954	954
Currency options				
Sold	26,619	18,179	1,225	465
Bought	26,619	18,179	1,225	(294)
NDF				
Sold	557	360	37	37
Bought	523	338	(3)	(3)
Total	—	—	¥ 6,588	¥ 4,307

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			
	2018			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold	¥ 302	¥ —	¥ 301	¥ 0
Total	—	—	¥ 301	¥ 0

Type	Thousands of U.S. Dollars			
	2018			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold	\$ 2,842	\$ —	\$ 2,833	\$ 0
Total	—	—	\$ 2,833	\$ 0

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

There were no bond related derivatives for the year ended March 31, 2017.

(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, the method used to calculate the fair value by type of transaction and the 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:

Type	Hedged item	Millions of Yen		
		2018		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Loans and bills discounted and available-for-sale securities (bond)	¥ 209,495	¥ 194,921	¥ (6,424)
Interest rate swaps Pay fixed/receive floating		—	—	¥ (6,424)
Total		—	—	¥ (6,424)

Type	Hedged item	Thousands of U.S. Dollars		
		2018		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Loans and bills discounted and available-for-sale securities (bond)	\$ 1,971,903	\$ 1,834,723	\$ (60,466)
Interest rate swaps Pay fixed/receive floating		—	—	\$ (60,466)
Total		—	—	\$ (60,466)

		Millions of Yen		
		2017		
Type	Hedged item	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Loans and bills			
Interest rate swaps	discounted and available-for-sale			
Pay fixed/receive floating	securities (bond)	¥ 152,238	¥ 138,637	¥ (6,287)
Total.....		—	—	¥ (6,287)

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, February 13, 2002).
2. Fair values were determined based on the discounted value of future cash flows and other factors.

Currency Derivatives:

		Millions of Yen		
		2018		
Type	Hedged item	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Currency swaps	Loans	¥ 182,732	¥ 87,116	¥ (768)
Total.....		—	—	¥ (768)

		Thousands of U.S. Dollars		
		2018		
Type	Hedged item	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Currency swaps	Loans	\$ 1,719,992	\$ 819,992	\$ (7,228)
Total.....		—	—	\$ (7,228)

		Millions of Yen		
		2017		
Type	Hedged item	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Fund related swaps	Call loans	¥ 7,853	¥ —	¥ (2)
Currency swaps	Loans	192,966	80,776	(2,467)
Total.....		—	—	¥ (2,470)

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, July 29, 2002).
2. Fair values were determined based on the discounted value of future cash flows and other factors.

16. Lease Transactions

Information about operating leases at March 31, 2018 and 2017 was as follows:

As lessee:

Obligations under operating leases which were not cancellable at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2018	2017	2018	2017
Due within one year.....	¥ 67	¥ 142	\$ 630	\$ 630
Due after one year.....	74	132	696	696
Total.....	¥ 141	¥ 275	\$ 1,327	\$ 1,327

17. Other Comprehensive Income

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Net unrealized gains (losses) on available-for-sale securities:			
Increase (decrease) during the year	¥ 10,975	¥ (21,890)	\$ 103,303
Reclassification adjustments	(1,823)	(6,732)	(17,159)
Subtotal, before tax	9,151	(28,623)	86,135
Tax benefit or (expense)	(2,747)	8,981	(25,856)
Subtotal, net of tax	6,403	(19,641)	60,269
Net deferred gains (losses) on hedging instruments:			
Decrease during the year	(3,542)	(4,278)	(33,339)
Reclassification adjustments	5,107	5,250	48,070
Subtotal, before tax	1,565	971	14,730
Tax benefit or (expense)	(478)	(296)	(4,499)
Subtotal, net of tax	1,087	675	10,231
Adjustments for retirement benefits:			
Increase during the year	(172)	(833)	(1,618)
Reclassification adjustments	1,899	1,711	17,874
Subtotal, before tax	1,727	878	16,255
Tax benefit or (expense)	(530)	(271)	(4,988)
Subtotal, net of tax	1,196	607	11,257
Total other comprehensive income	¥ 8,687	¥ (18,359)	\$ 81,767

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 purpose of these instruments include holding to maturity, 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 the 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, the Bank's financial assets 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 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 (bond futures and bond options), stock-related transactions (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 and fluctuations in 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 risk

1) Credit Risk Management

Credit risk refers to loss 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 to ensure, within the scope of its management capabilities, that the Bank carries out transactions that can secure a return while 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 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 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 is responsible for conducting internal audits for credit risk.

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.

As for the credit concentration risk, the credit status is monitored and managed 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 Bank has established the Large Account Credit Committee as part of its systematic measures to strengthen its 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, and to assess 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. The Bank has 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 has adopted a variance-covariance model assuming that fluctuations in prices and interest rates will follow a normal distribution and uses a five-year observation period, a 99.9% confidence interval, a 125-business-day holding period for banking business and a 10-business-day holding 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 normal circumstances, interest rates will generally rise when stock prices rise (prices of debt securities will decline) and 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 Bank maintains a market risk volume smaller than the total price fluctuation risk and interest rate risk taking the correlation 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, 2018 and 2017 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Market risk volume	¥ 144,952	¥ 149,018	\$1,364,382
Banking business	144,801	148,912	1,362,961
[Price fluctuation risk]	[112,228]	[106,922]	[1,056,362]
[Interest rate risk]	[53,478]	[62,826]	[503,369]
[Considering correlation]	[(20,905)]	[(20,836)]	[(196,771)]
Trading activities	151	106	1,421

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 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 procurement and use, an unexpected outflow of funds (hereafter, "fund procurement risks") 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 pay careful attention to market liquidity. The Bank carries out its fund procurement risk management and market liquidity risk management based on its Market Liquidity Risk Management Standards, which stipulate the framework and systems for fund procurement risk management 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 of 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 values calculated by other methods when the financial instruments do not have market prices. Since certain assumptions are adopted and other factors considered when making such calculations, the values may differ when adopting different assumptions and when 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, 2018 and 2017. Non-listed equity securities and other instruments for which the fair value was extremely difficult to determine are not included in the table below (see Note 2).

	Millions of Yen		
	2018		
	Book value	Fair value	Difference
Assets			
(1) Cash and due from banks.....	¥ 777,680	¥ 777,680	¥ —
(2) Trading account securities.....	1,827	1,827	—
(3) Money trusts.....	29,000	29,000	—
(4) Securities			
Bonds held to maturity.....	18,370	18,859	488
Available-for-sale securities.....	2,582,277	2,582,277	—
(5) Loans and bills discounted.....	4,672,001		
Reserve for possible loan losses (*1).....	33,622		
	4,638,379	4,667,111	28,731
Total assets	¥ 8,047,535	¥ 8,076,755	¥ 29,220
Liabilities			
(1) Deposits.....	¥ 6,414,356	¥ 6,415,201	¥ 844
(2) Negotiable certificates of deposit.....	216,725	216,736	10
(3) Payables under securities lending transactions.....	747,270	747,270	—
Total liabilities	¥ 7,378,352	¥ 7,379,208	¥ 855
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting.....	¥ 4,424	¥ 4,424	¥ —
Derivative transactions qualifying for hedge accounting.....	(7,192)	(7,192)	—
Total derivative transactions	¥ (2,767)	¥ (2,767)	¥ —

	Thousands of U.S. Dollars		
	2018		
	Book value	Fair value	Difference
Assets			
(1) Cash and due from banks.....	\$ 7,320,030	\$ 7,320,030	\$ —
(2) Trading account securities.....	17,196	17,196	—
(3) Money trusts.....	272,966	272,966	—
(4) Securities			
Bonds held to maturity.....	172,910	177,513	4,593
Available-for-sale securities.....	24,306,071	24,306,071	—
(5) Loans and bills discounted.....	43,975,913		
Reserve for possible loan losses (*1).....	316,472		
	43,659,440	43,929,885	270,434
Total assets	\$ 75,748,635	\$ 76,023,672	\$ 275,037
Liabilities			
(1) Deposits.....	\$ 60,376,091	\$ 60,384,045	\$ 7,944
(2) Negotiable certificates of deposit.....	2,039,956	2,040,060	94
(3) Payables under securities lending transactions.....	7,033,791	7,033,791	—
Total liabilities	\$ 69,449,849	\$ 69,457,906	\$ 8,047
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting.....	\$ 41,641	\$ 41,641	\$ —
Derivative transactions qualifying for hedge accounting.....	(67,695)	(67,695)	—
Total derivative transactions	\$ (26,044)	\$ (26,044)	\$ —

	Millions of Yen		
	2017		
	Book value	Fair value	Difference
Assets			
(1) Cash and due from banks.....	¥ 805,603	¥ 805,603	¥ —
(2) Trading account securities.....	2,344	2,344	—
(3) Money trusts.....	18,500	18,500	—
(4) Securities			
Bonds held to maturity.....	18,333	18,899	565
Available-for-sale securities.....	2,679,629	2,679,629	—
(5) Loans and bills discounted.....	4,397,009		
Reserve for possible loan losses (*1).....	(36,862)		
	4,360,146	4,397,731	37,584
Total assets	¥ 7,884,557	¥ 7,922,707	¥ 38,150
Liabilities			
(1) Deposits.....	¥ 6,193,707	¥ 6,194,112	¥ 404
(2) Negotiable certificates of deposit.....	218,760	218,778	18
(3) Payables under securities lending transactions.....	832,391	832,391	—
Total liabilities	¥ 7,244,859	¥ 7,245,282	¥ 423
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting.....	¥ (2,346)	¥ (2,346)	¥ —
Derivative transactions qualifying for hedge accounting.....	(8,757)	(8,757)	—
Total derivative transactions	¥ (11,104)	¥ (11,104)	¥ —

Items that did not have a material impact on the consolidated balance sheets were 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) Methods used to calculate fair value of financial instruments

Assets

(1) Cash and Due from Banks

Since the fair value of due from banks with no maturity dates or short terms (within one year) approximates the book value, the fair value is deemed to be the book value.

(2) 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).

The classification of securities according to the purposes for which they are held is described in Note 4, "Securities."

(3) 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 5, "Money Trusts."

(4) 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.

The classification of securities according to the purposes for which they are held is described in Note 4, "Securities."

(5) 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 approximates 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 date of the next interest rate change.

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 value). In addition, we calculate the fair values of fixed deposits and others and negotiable certificates of deposits by grouping the deposits based on future cash flows and discounting to present value using the interest rate on new deposits at March 31, 2018.

(3) Payables under securities lending transactions

Since the terms of securities lending transactions are short (within one year), the fair value approximates the book value, and the fair value is deemed to be the book value.

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 (bond futures and bond options), stock-related transactions (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 - (4) Securities” in the fair value information on financial instruments in the tables above.

Category	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
(1) Unlisted equity securities (*1) (*2).....	¥ 5,595	¥ 5,555	\$ 52,663
(2) Investments in partnerships (*3).....	12,205	10,007	114,881
(3) Foreign stocks in foreign currency (*1).....	0	0	0
(4) Warrants (*1).....	0	0	0
Total.....	¥ 17,800	¥ 15,564	\$ 167,545

(*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 not recognized for the fiscal years ended March 31, 2018 and recognized in the amount of ¥2.628 million for the fiscal years ended March 31, 2017.

(*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					
	2018					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	¥ 740,911	—	—	—	—	—
Securities	284,157	¥ 534,572	¥ 413,802	¥ 185,355	¥ 255,008	¥ 624,275
Bonds held to maturity.....	4,992	1,979	—	10,503	894	—
Japanese government bonds.....	4,992	1,979	—	10,503	894	—
Available-for-sale securities with maturities	279,164	532,592	413,802	174,852	254,113	624,275
Japanese government bonds.....	154,859	215,832	179,233	49,596	27,424	211,656
Japanese municipal bonds.....	28,865	103,308	51,881	53,799	131,195	309,125
Corporate bonds.....	44,554	144,156	93,833	17,477	7,925	53,806
Other	50,885	69,295	88,854	53,978	87,568	49,686
Loans and bills discounted (*2).....	1,339,043	919,199	664,519	422,034	416,192	824,857
Total	¥ 2,364,113	¥ 1,453,772	¥ 1,078,322	¥ 607,389	¥ 671,201	¥ 1,449,132

	Thousands of U.S. Dollars					
	2018					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	\$ 6,973,936	—	—	—	—	—
Securities	2,674,670	\$ 5,031,739	\$ 3,894,973	\$ 1,744,681	\$ 2,400,301	\$ 5,876,082
Bonds held to maturity.....	46,987	18,627	—	98,861	8,414	—
Japanese government bonds.....	46,987	18,627	—	98,861	8,414	—
Available-for-sale securities with maturities	2,627,673	5,013,102	3,894,973	1,645,820	2,391,876	5,876,082
Japanese government bonds.....	1,457,633	2,031,551	1,687,057	466,829	258,132	1,992,243
Japanese municipal bonds.....	271,696	972,402	488,337	506,391	1,234,892	2,909,685
Corporate bonds.....	419,371	1,356,890	883,217	164,504	74,595	506,457
Other	478,962	652,249	836,351	508,076	824,246	467,676
Loans and bills discounted (*2).....	12,603,943	8,652,099	6,254,885	3,972,458	3,917,469	7,764,090
Total	\$ 22,252,569	\$ 13,683,847	\$ 10,149,868	\$ 5,717,140	\$ 6,317,780	\$ 13,640,173

Millions of Yen						
2017						
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	¥ 768,719	—	—	—	—	—
Securities	365,195	¥ 532,113	¥ 559,181	¥ 317,365	¥ 189,550	¥ 458,346
Bonds held to maturity.....	—	6,935	—	5,099	6,298	—
Japanese government bonds.....	—	6,935	—	5,099	6,298	—
Available-for-sale securities with maturities	365,195	525,177	559,181	312,266	183,251	458,346
Japanese government bonds.....	134,641	275,854	202,108	79,679	22,853	177,321
Japanese municipal bonds	51,214	90,842	93,667	65,516	55,271	206,987
Corporate bonds.....	51,213	109,754	80,545	29,701	5,619	48,434
Other	128,124	48,725	182,859	137,369	99,507	25,602
Loans and bills discounted (*2)	1,237,222	954,721	649,041	376,129	386,801	696,736
Total	¥ 2,371,137	¥ 1,486,834	¥ 1,208,222	¥ 693,494	¥ 576,351	¥ 1,155,082

(*1) Amounts in due from banks with no maturity date are included in "Within 1 year."

(*2) Loans due from bankrupt borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers in the amount of ¥56,250 million (\$529,461 thousand) and ¥65,534 million and loans without contract due dates in the amount of ¥29,904 million (\$281,475 thousand) and ¥30,822 million are not included in the above tables at March 31, 2018 and 2017, respectively.

(Note 4) Repayment schedule of deposits, negotiable certificates of deposit and payables under securities lending transactions subsequent to the balance sheet date

Millions of Yen						
2018						
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	¥ 6,140,142	¥ 222,501	¥ 51,590	¥ —	¥ 121	¥ —
Negotiable certificates of deposit.....	215,585	1,140	—	—	—	—
Payables under securities lending transactions	747,270	—	—	—	—	—
Total	¥ 7,102,998	¥ 223,641	¥ 51,590	¥ —	¥ 121	¥ —

Thousands of U.S. Dollars						
2018						
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	\$ 57,795,011	\$ 2,094,324	\$ 485,598	\$ —	\$ 1,138	\$ —
Negotiable certificates of deposit.....	2,029,226	10,730	—	—	—	—
Payables under securities lending transactions	7,033,791	—	—	—	—	—
Total	\$ 66,858,038	\$ 2,105,054	\$ 485,598	\$ —	\$ 1,138	\$ —

Millions of Yen						
2017						
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	¥ 5,795,715	¥ 346,849	¥ 51,143	¥ —	¥ —	¥ —
Negotiable certificates of deposit.....	218,400	360	—	—	—	—
Payables under securities lending transactions	832,391	—	—	—	—	—
Total	¥ 6,846,506	¥ 347,209	¥ 51,143	¥ —	¥ —	¥ —

(*) 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 for 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. 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 for each reportable segment are consistent to those disclosed in Note 2, "Significant Accounting Policies." Intersegment income is based on arm's length prices.

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

	Millions of Yen					
	2018					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	¥ 114,142	¥ 10,939	¥ 4,211	¥ 129,293	¥ 3,413	¥ 132,706
Intersegment income.....	2,356	306	91	2,754	1,920	4,674
Total	¥ 116,499	¥ 11,245	¥ 4,303	¥ 132,047	¥ 5,333	¥ 137,381
Segment profit.....	27,931	823	737	29,492	1,922	31,415
Segment assets	8,439,546	30,806	8,557	8,478,910	25,259	8,504,169
Segment liabilities.....	7,921,640	14,965	3,688	7,940,295	11,680	7,951,975
Other items:						
Depreciation	4,329	40	17	4,388	39	4,427
Interest income	80,016	106	3	80,126	115	80,241
Interest expense.....	13,759	66	2	13,829	0	13,829

	Thousands of U.S. Dollars					
	2018					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	\$ 1,074,378	\$ 102,964	\$ 39,636	\$ 1,216,989	\$ 32,125	\$ 1,249,115
Intersegment income.....	22,176	2,880	856	25,922	18,072	43,994
Total	\$ 1,096,564	\$ 105,845	\$ 40,502	\$ 1,242,912	\$ 50,197	\$ 1,293,119
Segment profit.....	262,904	7,746	6,937	277,597	18,091	295,698
Segment assets	79,438,497	289,966	80,544	79,809,017	237,754	80,046,771
Segment liabilities.....	74,563,629	140,860	34,713	74,739,222	109,939	74,849,162
Other items:						
Depreciation	40,747	376	160	41,302	367	41,669
Interest income	753,162	997	28	754,198	1,082	755,280
Interest expense.....	129,508	621	18	130,167	0	130,167

	Millions of Yen					
	2017					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	¥ 122,939	¥ 14,735	¥ 3,514	¥ 141,189	¥ 2,044	¥ 143,234
Intersegment income.....	2,097	385	80	2,562	3,146	5,709
Total	¥ 125,036	¥ 15,120	¥ 3,594	¥ 143,752	¥ 5,191	¥ 148,943
Segment profit.....	28,968	1,089	392	30,450	1,633	32,084
Segment assets	8,255,459	30,358	7,675	8,293,492	24,354	8,317,847
Segment liabilities.....	7,759,328	15,024	3,197	7,777,549	11,634	7,789,184
Other items:						
Depreciation	3,539	50	18	3,609	39	3,648
Interest income	78,762	126	4	78,892	229	79,122
Interest expense.....	11,006	119	3	11,129	0	11,129

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 and ordinary profit is calculated by deducting non-recurring items from total income or income before income taxes and noncontrolling interests.

2. "Other" represents business segments which are not included in the reportable segments and includes the credit guarantee business, the credit card business, consignment of office work and 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) Reconciliation of the total amount of ordinary income for the reportable segments to ordinary income

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Ordinary income			
Total amount for reportable segments.....	¥ 132,047	¥ 143,752	\$ 1,242,912
Ordinary income of "Other".....	5,333	5,191	50,197
Reclassification of reserves.....	(261)	(366)	(2,456)
Elimination of intersegment transactions.....	(4,674)	(5,709)	(43,994)
Ordinary income	¥ 132,445	¥ 142,867	\$ 1,246,658

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 income statements.

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Segment profit			
Total amount for reportable segments.....	¥ 29,492	¥ 30,450	\$ 277,597
Segment profit of "Other".....	1,922	1,633	18,091
Subsidiary stock acquisition-related cost.....	—	(3)	—
Elimination of intersegment transactions.....	(492)	(475)	(4,631)
Ordinary profit.....	¥ 30,922	¥ 31,605	\$ 291,057

(c) 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
	2018	2017	2018
Segment assets			
Total amount for reportable segments.....	¥ 8,478,910	¥ 8,293,492	\$ 79,809,017
Segment assets of "Other".....	25,259	24,354	237,754
Elimination of intersegment transactions.....	(23,155)	(20,120)	(217,949)
Elimination of shares in consolidated subsidiaries.....	(13,718)	(13,718)	(129,122)
Assets.....	¥ 8,467,295	¥ 8,284,008	\$ 79,699,689

(d) 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
	2018	2017	2018
Segment liabilities			
Total amount for reportable segments.....	¥ 7,940,295	¥ 7,777,549	\$ 74,739,222
Segment liabilities of "Other".....	11,680	11,634	109,939
Elimination of intersegment transactions.....	(23,214)	(20,151)	(218,505)
Liabilities.....	¥ 7,928,760	¥ 7,769,032	\$ 74,630,647

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

	Millions of Yen			Consolidated financial statements
	2018			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation	¥ 4,388	¥ 39	¥ (51)	¥ 4,376
Interest income.....	80,126	115	(530)	79,711
Interest expense	13,829	0	(38)	13,790

	Thousands of U.S. Dollars			Consolidated financial statements
	2018			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation	\$ 41,302	\$ 367	\$ (480)	\$ 41,189
Interest income.....	754,198	1,082	(4,988)	750,291
Interest expense	130,167	0	(357)	129,800

	Millions of Yen			Consolidated financial statements
	2017			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation	¥ 3,609	¥ 39	¥ (41)	¥ 3,607
Interest income.....	78,892	229	(665)	78,457
Interest expense	11,129	0	(81)	11,048

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				
	2018				
	Lending	Securities investment	Service	Other	Total
Ordinary income from external customers.....	¥ 48,629	¥ 41,879	¥ 17,144	¥ 25,052	¥ 132,706

	Thousands of U.S. Dollars				
	2018				
	Lending	Securities investment	Service	Other	Total
Ordinary income from external customers.....	\$ 457,727	\$ 394,192	\$ 161,370	\$ 235,805	\$ 1,249,115

	Millions of Yen				
	2017				
	Lending	Securities investment	Service	Other	Total
Ordinary income from external customers.....	¥ 42,920	¥ 58,094	¥ 17,961	¥ 24,257	¥ 143,234

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

Information about losses on impairment of fixed assets by reportable segments

	Millions of Yen					
	2018					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets	¥ 148	¥ —	¥ —	¥ 148	¥ —	¥ 148

	Thousands of U.S. Dollars					
	2018					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets	\$ 1,393	\$ —	\$ —	\$ 1,393	\$ —	\$ 1,393

	Millions of Yen					
	2017					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets	¥ 414	¥ —	¥ 5	¥ 420	¥ —	¥ 420

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 be 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, 2018 and 2017 was as follows:

(a) Number of outstanding shares and treasury stock

For the year ended March 31, 2018

Type of shares	(Thousands of shares)					Remarks
	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year		
Issued stock:						
Common stock.....	200,272	—	5,000	195,272		Note 1
Treasury stock:						
Common stock.....	8,518	1,805	5,121	5,202		Note 2

Notes: 1. The decrease in treasury stock of 5,000 thousand shares was due to the retirement of treasury stock exercised on June 30, 2017.

2. The increase in treasury stock of 1,805 thousand shares was due to the public bidding of 381 thousand, 682 thousand and 740 thousand shares pursuant to the resolutions made at the Board of Directors' meetings held on May 12, 2017, November 10, 2017 and February 2, 2018, respectively, and due to purchases of 0 thousand shares of less than one unit. The decrease in treasury stock of 5,121 thousand shares was due to the retirement of treasury stock of 5,000 thousand shares exercised on June 30, 2017 and the exercise of stock options of 121 thousand shares.

For the year ended March 31, 2017

Type of shares	(Thousands of shares)					Remarks
	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year		
Issued stock:						
Common stock.....	200,272	—	—	200,272		
Treasury stock:						
Common stock.....	5,561	2,957	—	8,518		Note

Note: The increase in treasury stock of 2,957 thousand shares was due to the public bidding of 1,563 thousand, 944 thousand and 448 thousand shares pursuant to the resolutions made at the Board of Directors' meetings held on May 13, 2016, November 11, 2016 and February 2, 2017, respectively, and due to purchases of 0 thousand shares of less than one unit.

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

For the year ended March 31, 2018

Date of resolution	Resolution by	Type of shares	Aggregate amount	Amount per share	Date of record	Effective date
Jun. 23, 2017	General meeting of shareholders	Common stock	¥1,917 million (\$18,044 thousand)	¥10.00 (\$0.094)	March 31, 2017	Jun. 26, 2017
Nov. 10, 2017	Board of Directors	Common stock	¥1,914 million (\$18,015 thousand)	¥10.00 (\$0.094)	Sep. 30, 2017	Dec. 8, 2017

For the year ended March 31, 2017

Date of resolution	Resolution by	Type of shares	Aggregate amount	Amount per share	Date of record	Effective date
Jun. 24, 2016	General meeting of shareholders	Common stock	¥1,947 million	¥10.00	March 31, 2016	Jun. 27, 2016
Nov. 11, 2016	Board of Directors	Common stock	¥1,931 million	¥10.00	Sep. 30, 2016	Dec. 9, 2016

Dividends applicable to the year ended March 31, 2018 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. 26, 2018	General meeting of shareholders	Common stock	¥1,900 million (\$17,884 thousand)	¥10.00 (\$0.094)	March 31, 2018	Jun. 27, 2018

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
	2018	2017	2018
Cash and due from banks.....	¥ 777,680	¥ 805,603	\$ 7,320,030
Due from banks, excluding the Bank of Japan	(17,229)	(10,435)	(162,170)
Cash and cash equivalents	¥ 760,451	¥ 795,168	\$ 7,157,859

22. Stock Options

(1) Stock-based compensation expenses were ¥46 million (\$432 thousand) and ¥52 million for the fiscal years ended March 31, 2018 and 2017, respectively.

(2) Stock options outstanding as of March 31, 2018 were as follows:

Stock Options	Persons granted	Number of options granted (Note 1)	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
2014 Stock Options	15 directors	51,100	Aug. 4, 2014	From Aug. 5, 2014 to Aug. 4, 2044
2015 Stock Options	12 directors	30,800	Jul. 30, 2015	From Jul. 31, 2015 to Jul. 30, 2045
2016 Stock Options	12 directors (excluding outside directors and directors serving as audit and supervisory committee members)	50,500	Aug. 2, 2016	From Aug. 3, 2016 to Aug. 2, 2046
2017 Stock Options	9 directors (excluding outside directors and directors serving as audit and supervisory committee members)	29,800	Aug. 2, 2017	From Aug. 3, 2017 to Aug. 2, 2047

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.

The following describes changes in the number of stock options that existed during the year ended March 31, 2018. Number of stock options is converted to number of shares.

	2009 Stock Options	2010 Stock Options	2011 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options	2015 Stock Options	2016 Stock Options	2017 Stock Options
For the year ended March 31, 2018	Number of Shares								
Non-vested:									
April 1, 2017 – Outstanding	24,500	30,500	53,900	52,800	39,300	40,500	30,800	50,500	—
Granted.....	—	—	—	—	—	—	—	—	29,800
Forfeited	—	—	—	—	—	—	—	—	—
Vested	10,700	13,300	21,500	21,100	13,200	13,600	10,500	17,100	—
March 31, 2018 – Outstanding.....	13,800	17,200	32,400	31,700	26,100	26,900	20,300	33,400	29,800
Vested:									
April 1, 2017 – Outstanding	—	—	—	—	—	—	—	—	—
Vested	10,700	13,300	21,500	21,100	13,200	13,600	10,500	17,100	—
Exercised	10,700	13,300	21,500	21,100	13,200	13,600	10,500	17,100	—
Forfeited	—	—	—	—	—	—	—	—	—
March 31, 2018 – Outstanding	—	—	—	—	—	—	—	—	—

Price information for 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 stock options is as follows:

	2009 Stock Options	2010 Stock Options	2011 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options	2015 Stock Options	2016 Stock Options	2017 Stock Options
	(Yen)								
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise	1,629	1,629	1,629	1,629	1,629	1,629	1,629	1,629	—
Fair appraisal price at date of grant.....	1,197	935	917	926	1,281	1,483	1,815	1,022	1,508

	2009 Stock Options	2010 Stock Options	2011 Stock Options	2012 Stock Options	2013 Stock Options	2014 Stock Options	2015 Stock Options	2016 Stock Options	2017 Stock Options
	(U.S. Dollars)								
Exercise price	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average share price at time of exercise	15.33	15.33	15.33	15.33	15.33	15.33	15.33	15.33	—
Fair appraisal price at date of grant.....	11.26	8.80	8.63	8.71	12.05	13.95	17.08	9.61	14.19

(3) 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 2017 stock options were as follows:

	2017 Stock Options
Volatility of stock prices (Note 1)	27.47%
Estimated remaining outstanding period (Note 2)	6 years and 7 months
Estimated dividend (Note 3)	¥20.00 per share
Interest rate with risk free (Note 4)	(0.021)%

- Notes: 1. The volatility of stock prices was computed based on the actual stock prices during the period from December 2010 through August 2017, corresponding to the estimated remaining outstanding period.
2. The remaining outstanding period was estimated based on historical data.
3. The expected dividend for the year ended March 31, 2018
4. The yield on Japanese government bonds corresponding to the estimated remaining outstanding period

(4) Method for estimating the number of stock options

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

23. Asset Retirement Obligations

The Bank has future obligations pertaining to the restitution of the facilities at 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 obligation and no asset retirement obligation has been recorded.

24. Related Party Transactions

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

Directors of the Bank or major shareholders (individuals only), etc.

2018

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.	Asakuchi-city, Okayama Prefecture	¥3 million	Hat manufacturing	—	—	Lending Note	Average balance ¥42 million	Loans and bills discounted	¥42 million

Terms of transactions and policies for determining terms
Note: Interest was based on money market rates.

2018

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.	Asakuchi-city, Okayama Prefecture	\$28 thousand	Hat manufacturing	—	—	Lending Note	Average balance \$395 thousand	Loans and bills discounted	\$395 thousand

Terms of transactions and policies for determining terms
Note: Interest was based on money market rates.

2017

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.	Asakuchi-city, Okayama Prefecture	¥3 million	Hat manufacturing	—	—	Lending Note	Average balance ¥43 million	Loans and bills discounted	¥42 million

Terms of transactions and policies for determining terms
Note: Interest was based on money market rates.

25. Subsequent Events

Purchases of treasury stock

On May 10, 2018, the Board of Directors of the Bank passed a resolution to purchase up to 1,000 thousand shares of the Bank's common stock from the market at a price not exceeding ¥1,000 million (\$9,412 thousand). The purpose of this purchase was to return profit to shareholders through improvement in its capital efficiency. In accordance with the resolution, the Bank acquired 778 thousand shares for ¥999 million (\$9,403 thousand) by May 28, 2018.



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, 2018 and 2017, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Chugoku Bank, Limited and its consolidated subsidiaries as at March 31, 2018 and 2017, 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, 2018 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

August 31, 2018
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.

Nonconsolidated Financial Statements

Nonconsolidated Balance Sheets

The Chugoku Bank, Limited
March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS:			
Cash and due from banks.....	¥ 777,658	¥ 805,567	\$ 7,319,823
Call loans	141,250	190,556	1,329,536
Other debt purchased.....	27,106	21,578	255,139
Trading account securities.....	1,827	2,344	17,196
Money trusts	25,000	15,000	235,316
Securities	2,620,862	2,714,686	24,669,258
Loans and bills discounted	4,676,114	4,400,376	44,014,627
Foreign exchange	7,949	6,468	74,821
Other assets	113,605	50,797	1,069,324
Tangible fixed assets.....	39,682	41,372	373,512
Intangible fixed assets.....	5,834	7,449	54,913
Customers' liabilities for acceptances and guarantees.....	34,087	34,024	320,849
Reserve for possible loan losses.....	(31,432)	(34,763)	(295,858)
Total assets	¥ 8,439,546	¥ 8,255,459	\$ 79,438,497
LIABILITIES AND NET ASSETS:			
Liabilities:			
Deposits.....	¥ 6,646,080	¥ 6,424,849	\$ 62,557,228
Call money	57,928	149,292	545,256
Payables under repurchase agreements	71,568	21,507	673,644
Payables under securities lending transactions	747,270	832,391	7,033,791
Commercial paper.....	46,157	24,206	434,459
Borrowed money.....	188,524	181,801	1,774,510
Foreign exchange	223	135	2,099
Due to trust account.....	1,575	155	14,824
Other liabilities.....	83,462	49,154	785,598
Liability for employees' severance and retirement benefits.....	19,544	20,066	183,960
Accrued employees' bonuses	1,269	1,300	11,944
Reserve for reimbursement of deposits.....	1,383	1,063	13,017
Reserve for point program	76	63	715
Deferred tax liabilities.....	16,972	12,603	159,751
Acceptances and guarantees.....	34,087	34,024	320,849
Total liabilities	¥ 7,916,123	¥ 7,752,615	\$ 74,511,699
Net assets			
Shareholders' equity			
Common stock.....	¥ 15,149	¥ 15,149	\$ 142,592
Capital surplus	6,286	6,286	59,167
Retained earnings	415,140	406,741	3,907,567
Less treasury stock, at cost.....	(7,400)	(12,116)	(69,653)
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities.....	98,976	92,507	931,626
Net deferred losses on hedging instruments.....	(4,998)	(6,086)	(47,044)
Subscription rights to shares.....	269	361	2,532
Total net assets	523,422	502,843	4,926,788
Total liabilities and net assets	¥ 8,439,546	¥ 8,255,459	\$ 79,438,497

Nonconsolidated Income Statements

The Chugoku Bank, Limited
For the Years Ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Income:			
Interest and dividends on:			
Loans and discounts.....	¥ 47,027	¥ 42,891	\$ 442,648
Securities	31,545	34,962	296,922
Other	1,442	908	13,573
Fees and commissions	18,911	19,439	178,002
Other operating income:			
Gains on sales and redemptions of other securities and trading account securities	3,827	13,546	36,022
Other	604	129	5,685
Other income:			
Reversal of reserve for possible loan losses.....	1,778	291	16,735
Bad debt recovered	5	12	47
Gains on sales of equity securities	6,888	9,937	64,834
Gains on money trusts	85	67	800
Gains on disposals of fixed assets	14	3	131
Other	4,380	2,850	41,227
Total income	116,513	125,040	1,096,696
Expenses:			
Interest on:			
Deposits	1,989	1,880	18,721
Borrowing	1,237	572	11,643
Interest rate swaps	5,311	3,290	49,990
Call money	1,374	2,436	12,932
Other	3,846	2,827	36,201
Fees and commissions	4,301	4,225	40,483
Other operating expenses:			
Losses on sales and redemptions of bonds and trading account securities.....	6,317	15,575	59,459
Foreign exchange losses.....	1,873	1,101	17,629
General and administrative expenses	57,565	56,598	541,839
Other expenses:			
Losses on sales and write-offs of shares.....	2,450	5,557	23,060
Losses on money trusts	118	88	1,110
Losses on disposals of fixed assets	61	52	574
Losses on impairment of fixed assets	148	414	1,393
Other	2,179	1,914	20,510
Total expenses	88,777	96,534	835,626
Income before income taxes	27,736	28,505	261,069
Income taxes:			
Current	7,218	8,688	67,940
Deferred	1,107	776	10,419
	8,326	9,465	78,369
Net income	¥ 19,409	¥ 19,039	\$ 182,690

Nonconsolidated Statements of Changes in Net Assets

The Chugoku Bank, Limited
For the Years Ended March 31, 2018 and 2017

	Millions of Yen							
	2018							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains (losses) 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	¥ 406,741	¥ (12,116)	¥ 92,507	¥ (6,086)	¥ 361	¥ 502,843
Net income.....			19,409					19,409
Cash dividends.....			(3,832)					(3,832)
Purchases of treasury stock.....				(2,601)				(2,601)
Disposal of treasury stock.....			(34)	172				138
Cancellation of treasury stock.....			(7,143)	7,143				—
Net changes in items other than shareholders' equity.....					6,468	1,087	(91)	7,464
Net changes during the year.....	—	—	8,398	4,715	6,468	1,087	(91)	20,578
Balance at end of year.....	¥ 15,149	¥ 6,286	¥ 415,140	¥ (7,400)	¥ 98,976	¥ (4,998)	¥ 269	¥ 523,422

	Millions of Yen							
	2017							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains (losses) 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	¥ 391,580	¥ (7,915)	¥ 113,030	¥ (6,761)	¥ 308	¥ 511,677
Net income.....			19,039					19,039
Cash dividends.....			(3,878)					(3,878)
Purchases of treasury stock.....				(4,200)				(4,200)
Net changes in items other than shareholders' equity.....					(20,522)	675	52	(19,794)
Net changes during the year.....	—	—	15,160	(4,200)	(20,522)	675	52	(8,834)
Balance at end of year.....	¥ 15,149	¥ 6,286	¥ 406,741	¥ (12,116)	¥ 92,507	¥ (6,086)	¥ 361	¥ 502,843

	Thousands of U.S. Dollars (Note 1)							
	2018							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains (losses) on available-for-sale securities	Net deferred losses on hedging instruments	Subscription rights to shares	Total net assets
Balance at beginning of year.....	\$ 142,592	\$ 59,167	\$ 3,828,510	\$ (114,043)	\$ 870,736	\$ (57,285)	\$ 3,397	\$ 4,733,085
Net income.....			182,690					182,690
Cash dividends.....			(36,069)					(36,069)
Purchases of treasury stock.....				(24,482)				(24,482)
Disposal of treasury stock.....			(320)	1,618				1,298
Cancellation of treasury stock.....			(67,234)	67,234				—
Net changes in items other than shareholders' equity.....					60,881	10,231	(856)	70,256
Net changes during the year.....	—	—	79,047	44,380	60,881	10,231	(856)	193,693
Balance at end of year.....	\$ 142,592	\$ 59,167	\$ 3,907,567	\$ (69,653)	\$ 931,626	\$ (47,044)	\$ 2,532	\$ 4,926,788

Corporate Information

Board of Directors and Audit & Supervisory Board Members (As of June 30, 2018)



President
Masato Miyanaga



Senior Managing Director
Hajime Aoyama



Senior Managing Director
Sadanori Kato



Managing Director
Yoshimasa Asama



Managing Director
Masahiko Fukuda



Managing Director
Koji Terasaka



Managing Director
Ikuhide Harada



Managing Director
Shinichi Taniguchi

President

Masato Miyanaga

Senior Managing Directors

Hajime Aoyama
Sadanori Kato

Managing Directors

Yoshimasa Asama
Masahiko Fukuda
Koji Terasaka
Ikuhide Harada
Shinichi Taniguchi

Director and Managing Executive Officer

Kazushi Shiwaku

Outside Directors

Yoshio Sato
Akira Kodera

Directors serving as Audit and Supervisory Committee Members

Yasuo Okazaki
Hiromichi Ando

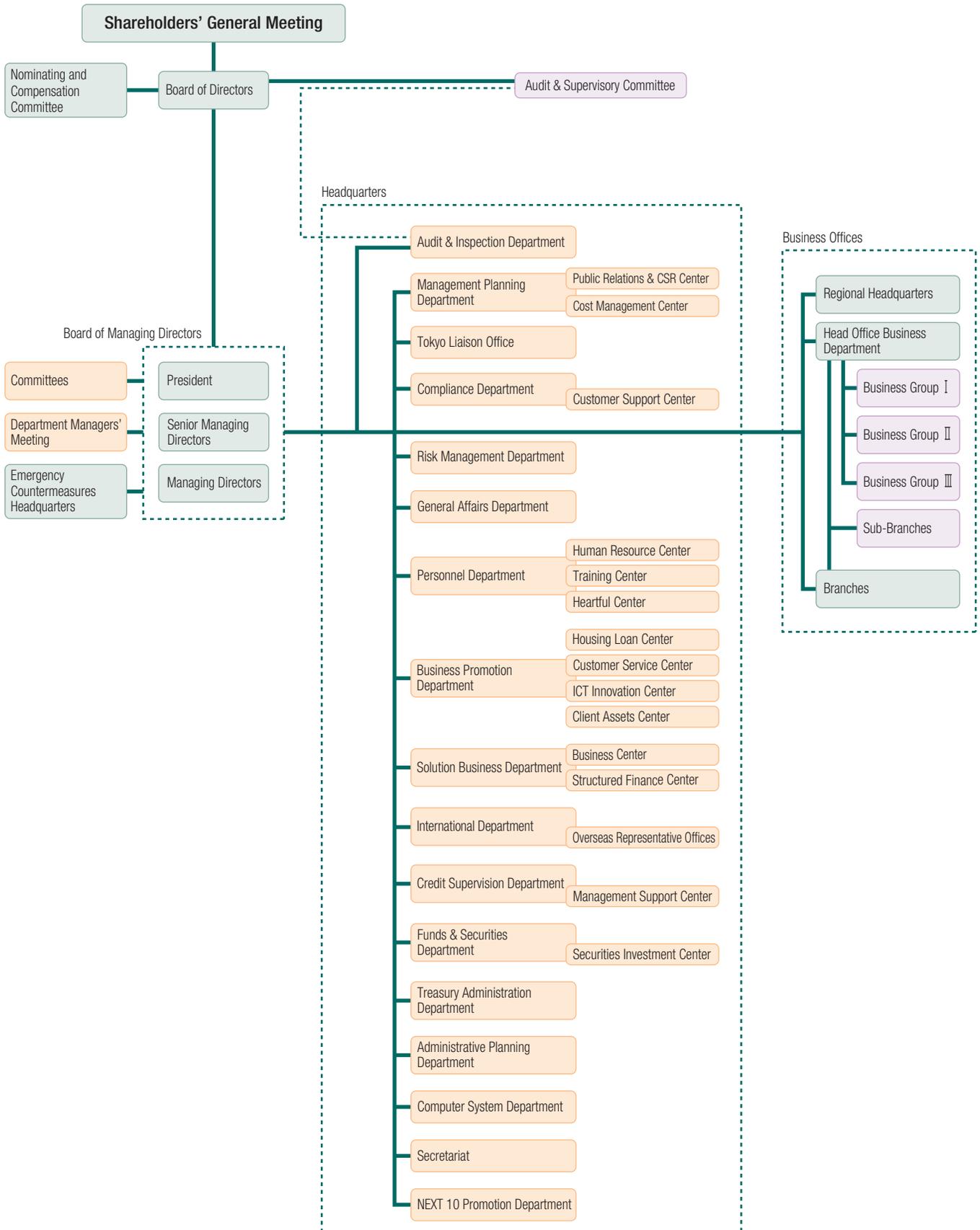
Outside Directors serving as Audit and Supervisory Committee Members

Michiyo Nishida
Hiromichi Furuya
Toshihide Saito
Kazuhiro Tanaka

Messrs. Yoshio Sato, Akira Kodera, Ms. Michiyo Nishida, and Messrs. Hiromichi Furuya, Toshihide Saito and Kazuhiro Tanaka are Outside Directors as stipulated in Article 2, Item 15 of the Companies Act.

Organization Chart

(As of June 30, 2018)



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
The Chugoku Bank, Limited		Banking business
<ul style="list-style-type: none"> — Domestic offices: Head office, 152 branch offices, 7 sub-branch offices, 1 representative office, 1 internet branch — Locations with ATM installed Outside branches: 212 locations (240 ATMs) — Overseas offices: 1 branch and 4 representative offices 		
Consolidated subsidiaries		
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, 2018)



Service Networks

(As of June 30, 2018)

INTERNATIONAL DIVISION:

Head Office, Okayama

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

International Department

Telephone: (81) 86-234-6539
Facsimile: (81) 86-227-6000
SWIFT: CHGKJPJZ

Funds and Securities Department

Telephone: (81) 86-234-6503
Facsimile: (81) 86-234-6595

Treasury Administration Department

Telephone: (81) 86-234-6664
Facsimile: (81) 86-234-7439
SWIFT: CHGKJPJZ

Tokyo Office

Muromachi Chibagin Mitsui Building, 1-5-5,
Nihonbashi-Muromachi, Chuo-ku,
Tokyo, Japan

Funds and Securities Department

Telephone: (81) 3-3243-0459
Facsimile: (81) 3-5255-7750

OVERSEAS OFFICES:

Hong Kong Branch

Rooms 601 & 609-610,
6th Floor Gloucester Tower,
The Landmark,
15 Queen's Road Central,
Hong Kong,
People's Republic of China
Telephone: (852) 2523-0312
Facsimile: (852) 2521-8730

Shanghai Representative Office

Room 2007, Shanghai
International Trade Center,
2201 Yan-an Road (West),
Shanghai, People's Republic of China
Telephone: (86) 21-6275-1988
Facsimile: (86) 21-6275-1989

Singapore Representative Office

16 Collyer Quay, #23-03
Singapore 049318
Telephone: (65) 6536-7757
Facsimile: (65) 6536-7767

New York Representative Office

150 East 52nd Street, 7th Floor,
New York, NY 10022, U.S.A.
Telephone: (1) 212-371-7700
Facsimile: (1) 212-371-7173

Bangkok Representative Office

689, Bhiraj Tower at EmQuartier,
19th Floor, Room No. 1901,
Sukhumvit Road, Khlong Tan Nuea,
Wattana, Bangkok 10110, Thailand
Telephone: (66) 2-261-2676
Facsimile: (66) 2-261-2677

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

Hiroshima Higashi-Branch

1-5-2, Minamikanaya, Minami-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

4062-4, 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

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

Tokyo Branch

1-5-5, Muromachi Chibagin Mitsui Building,
Nihonbashi-Muromachi, Chuo-ku, Tokyo

Foreign Remittance and Exchange Offices

51 Offices

Foreign Currency Exchange Offices

6 Offices

(As of June 30, 2018)

Location	Number of Offices
Okayama Pref.	108
Hiroshima Pref.	26
Tottori Pref.	1
Kagawa Pref.	16
Ehime Pref.	1
Hyogo Pref.	6
Osaka Pref.	1
Tokyo	1
Liaison Offices	1
Overseas Offices	5
Internet Branch	1



Corporate Data

(As of March 31, 2018)

Head Office

Address:	1-15-20, Marunouchi, Kita-ku, Okayama, Japan
Telephone:	(81) 86-223-3111
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 Shares of Common Stock:	195,272,106
Number of Shareholders:	11,212
Number of Employees:	2,961

Number of Employees

As of March 31	Number of Employees		
	2018	2017	2016
Employees	2,961	3,074	3,069

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

Shareholder Information

(As of March 31, 2018)

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.....	45	479,313	24.57
Securities firms.....	28	28,834	1.48
Other corporations	490	549,656	28.17
Foreign investors	241	339,211	17.39
Individuals	10,406	554,013	28.39
Total.....	11,212	1,951,118	100.00
Number of shares held in less than trading units.....	—	160,306	—

Major Shareholders

Unit: 1,000 shares

Name of Shareholders	Number of holding shares	Percentage of outstanding shares	Percentage of outstanding shares (excluding treasury stock)
Japan Trustee Services Bank, Ltd.	15,909	8.14	8.37
The Master Trust Bank of Japan, Ltd.	6,101	3.12	3.20
Okayama Estate and Warehousing Co., Ltd.	5,358	2.74	2.81
Nippon Life Insurance Company.....	4,756	2.43	2.50
Meiji Yasuda Life Insurance Company	4,754	2.43	2.50
KURABO INDUSTRIES LTD.	4,559	2.33	2.39
CP CHEMICAL INCORPORATED.....	4,478	2.29	2.35
Chugoku Bank Employee Stock Ownership Plan.....	4,299	2.20	2.26
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	3,687	1.88	1.94
Shizuka Forestry Co., Ltd.	2,500	1.28	1.31
Total	56,405	28.88	29.67

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.