

ANNUAL REPORT 2019

THE CHUGOKU BANK, LTD.



Vision2027 Plan for Creating the Future Together



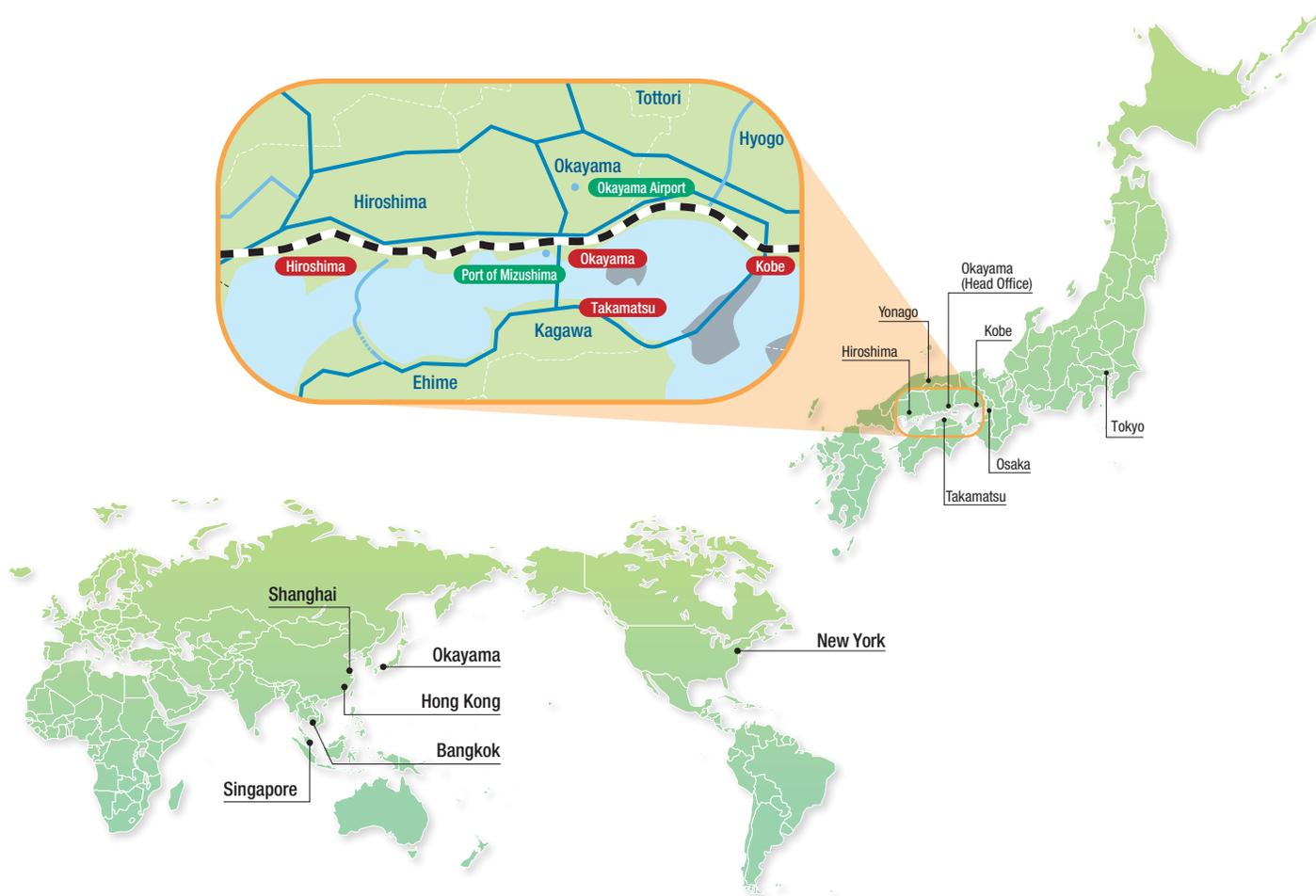
THE CHUGOKU BANK, LTD.

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 1.91 million people, Okayama Prefecture yields a gross prefectural product of over ¥7,787 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.



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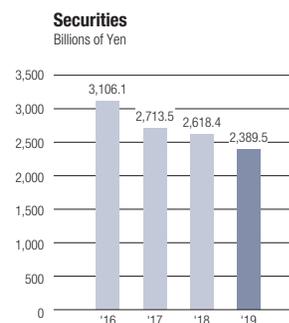
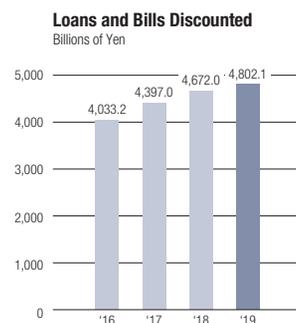
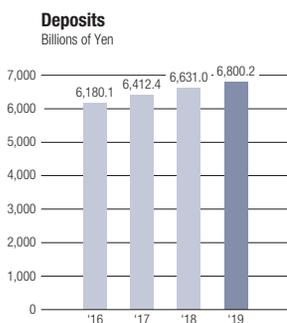
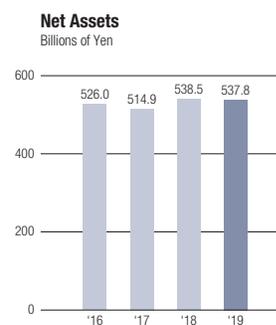
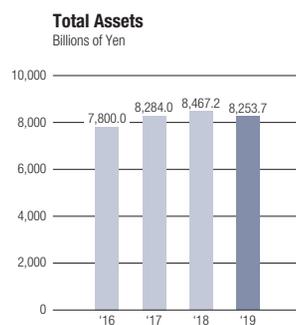
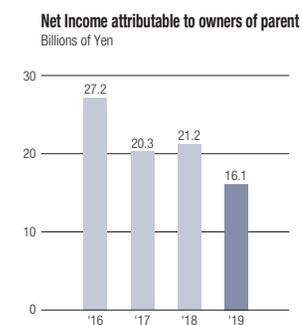
Consolidated Financial Highlights

The Chugoku Bank, Limited and its Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of Yen (except per share amounts)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
For the year:			
Total income	¥ 128,637	¥ 132,459	\$ 1,158,996
Total expenses	105,215	101,733	947,968
Net income attributable to owners of parent	16,199	21,258	145,950
Per share of common stock (yen/U.S. dollars):			
Basic net income	¥ 85.67	¥ 111.19	\$ 0.771
Diluted net income	85.55	111.05	0.770
At year-end:			
Deposits	¥ 6,800,290	¥ 6,631,082	\$ 61,269,393
Loans and bills discounted	4,802,184	4,672,001	43,266,816
Securities	2,389,510	2,618,448	21,529,056
Total assets	8,253,750	8,467,295	74,364,807
Net assets	537,818	538,534	4,845,643
For the year:			
Cash flows used in operating activities	(240,799)	(101,208)	(2,169,555)
Cash flows provided by investing activities	235,740	73,151	2,123,975
Cash flows used in financing activities	(6,014)	(6,654)	(54,185)
Cash and cash equivalents at end of year	749,382	760,451	6,751,797

Notes: 1. U.S. dollar amounts represent translations from yen, for convenience only, at the rate of ¥110.99 = US\$1 in effect on March 31, 2019.

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



Greeting



Chairman
Masato Miyanaga

Director and President
Sadanori Kato

During the first half of the fiscal year ended March 31, 2019, the Japanese economy has been in a moderate recovery trend, as exports and production continued to pick up against the backdrop of a robust overseas economy, and corporate performance and capital investment in the private sector improved.

However, as the second half of the year is on the corner, political risks such as the economic friction between the United States and China and the slowdown of the Chinese economy have affected the Japanese economy, increasing the uncertainty of the economy.

The future economic trend still needs careful monitoring as capital investment related to the Olympics will gradually peak out and the impacts of the consumption tax increase are expected.

As for the local economy, the western Japan region was badly hit by the record heavy rain in July 2018, a serious natural disaster causing a lot of damage in various places including the areas that we do business in.

Some of our customers were forced to temporarily stop their production. Following this, however, production activities have been steadily improving and disaster recovery works are also in full operation.

We are committed, with all-out efforts of our Group as a whole, to offering supports for disaster recovery by working closely with every customer.

Regarding the financial and economic environment surrounding the Bank, we expect harsh business environment will persist into the future, due to not only depopulation of the business area providing the bank's economic foundation, but also the decline in the yield on our

investments caused by the continued negative interest rate policy by the government, intensifying competition with other banks, entry into banking business by companies from different industries, and price decline in our service fees due to digitalization.

It is our belief that, under these circumstances, we need to enhance the added value we offer through further sophistication of regional support activities and life plan support activities, and to push forward with our structural reforms such as cost reduction efforts including streamlining our branches and digitalization of operations, so that the Bank continues to be chosen by regional customers and be trusted by our stakeholders.

Our medium-term management plan which was launched in April 2017 sets fiscal year ending March 31, 2020 as its final year.

This medium-term management plan is the first stage of our long-term management plan "Vision 2027: Plan for Creating the Future Together" spanning 10 years and, at the same time, covers the period for our structural reforms, during which we will implement various reform measures centered on BPR. And, for the period of the next medium-term management plan from the fiscal year ending March 31, 2021, we will improve productivity by utilizing what we gain from the structural reforms. Directors and employees will make concerted efforts to establish a business model that empowers the Bank to achieve mutual development with our customers.

June 2019
Director and President
Sadanori Kato

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

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 long-term 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, we worked on making our “regional support activities” more advanced to better provide optimal solutions geared towards resolving various issues that are specific to each customer.

In our consulting business, we have actively tackled various management issues of our customers, such as by reviewing their human resource management programs and helping them formulate their medium-term management plans to put their growth strategies into practice.

As for the start-up support activities, we established, in November 2018, “Okayama Tech Planter” in an aim to

discover and foster venture businesses.

We held “Okayama Innovation Contest,” a regularly held event since the fiscal year ended March 31, 2018, and going forward, we will continue to strengthen our efforts to revitalize regional economies through providing support for business start-ups.

We are committed to contributing to the development and growth of the regional economy, by providing solutions to various issues held by our customers and high-value-added services, through “regional support activities.”

[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, in cooperation with our group company Chugin Securities Co., Ltd., we have carried out solution proposals and sales activities aimed at realizing

optimal asset creation for our customers.

We stepped up our efforts in the testamentary trust and inherited assets disposition trust businesses that offer various solutions for asset inheritance, and established “Financial Advisor Desk” in the headquarters to build a system that caters to a wide range of customer needs.

[Maximizing group synergies, cultivating new business domains]

As part of our efforts to expand into new business domains, the TSUBASA Alliance formed by eight regional banks (consisting of The Chugoku Bank, Ltd., The Chiba Bank, Ltd., The Daishi Bank, Ltd., The Iyo Bank, Ltd., The Toho Bank, Ltd., North Pacific Bank, Ltd., The Hokuetsu Bank, Ltd., and The Musashino Bank, Ltd.) is jointly developing open APIs to enable its users to safely utilize services offered by FinTech providers. The alliance also worked on a wide range of collaborative projects such as forming syndicated loans and

operating a trainee exchange program between the participating banks.

In May 2019, The Shiga Bank, Ltd. joined the TSUBASA Alliance.

Going forward, we will continue to develop businesses that leverage the economies of scale achieved by the largest regional bank alliance in Japan, and to make coordinated efforts in a wide range of fields.

2) Expanding opportunities to provide services

[Revising and recreating channels]

In order to satisfy various needs of customers who are interested in asset creation, we expanded the functions of our three “Housing Loan Centers” in Okayama Prefecture with their new name of “Life Plan Center,” building a system that provides one-stop consultation service for various loans, asset creation, and insurance.

As part of our efforts to enhance FinTech services, we have started offering “Money Forward ME ” and “Moneytree” services and “J-Coin Pay” smartphone QR code payment service.

We will continue to provide a wide range of financial services utilizing the latest technology.

[Rethinking operating hours and sales staff]

Two years have passed since we started the “BPR Promotion Project” with the goal of rethinking operating hours and sales staff.

From the perspective of “concentration, simplification, and efficiency,” various measures are being considered and are now put into practice.

The “Loan Center” was established in the loan-related business, and as a result, loan-related operations that were previously run by sales branches were brought together at the

headquarters.

For headquarters operations, “Electronic Workflow” has been introduced to digitize approvals and reports, improving work efficiency and promoting paperless operations. Sales branches are now equipped with “Tablets for Negotiation” to promote efficiency in sales activities and paperless operations.

We will make effective use of the human resource and time saved by BPR activities, leading to a stronger relationship with our customers.

3) Strengthening power to provide services

[Strengthening personnel development]

We have implemented a variety of measures for strengthening our personnel development, including long-term training for new employees and support for acquiring advanced certifications.

We have also considered various measures such as quantification of necessary skills as a bank employee, introduction of a “Headquarters Job Posting System” that

realizes the wishes of employees who are working hard, and introduction of an “Appointed Leader System” which selects leaders for young employees to have consultations with.

We will continue to improve the skills and motivation of individual employees for this to enhance organizational capabilities.

4) Changing individual ways of thinking and reforming organizational culture

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

As part of our efforts to promote diversity and reform the work style, we conducted the “Diamond Training for Female Employees” to help raise awareness of being a female leader. Going forward, we plan to step up these efforts further and develop them into Diversity & Inclusion initiatives (an approach that makes the initiatives of promoting diversity evolve further so as to contribute to management strategies).

Furthermore, we worked to enhance the features of the “Flat Meeting,” which has been implemented aiming towards

revitalizing in-office communication.

We organized the “Flat Leader Workshop” and enhanced the support structure at the headquarters, aiming to make internal communications more effective, and create an organization that makes its employees feel free to express their opinion and solve problems on their own.

We will continue to enhance measures that transform our corporate culture into the one which is free, open-hearted, and lively.

[Compliance]

In the area of compliance with laws, intensifying threats of international crimes and terrorism have led to increasing requests from international communities for stronger measures to combat money laundering and terrorist financing. Against this backdrop, we established, on October 1, 2018, “Money-

laundering Countermeasure Center,” implementing “Policy on Anti-Money Laundering and Combating the Financing of Terrorism,” and are currently sophisticating our systems in this regard.



June 2019 Director and President **Sadanori Kato**

Fortuitous timing

Threats and risks surrounding the Bank (External factors)

Decline of regional society due to depopulation and population aging

Prolongation of ultra-easy monetary policy

Emerging new technologies such as FinTech, and penetrations into our business domains by new entrants

We have formulated our long-term management plan
long-term vision is indispensable, a vision that takes

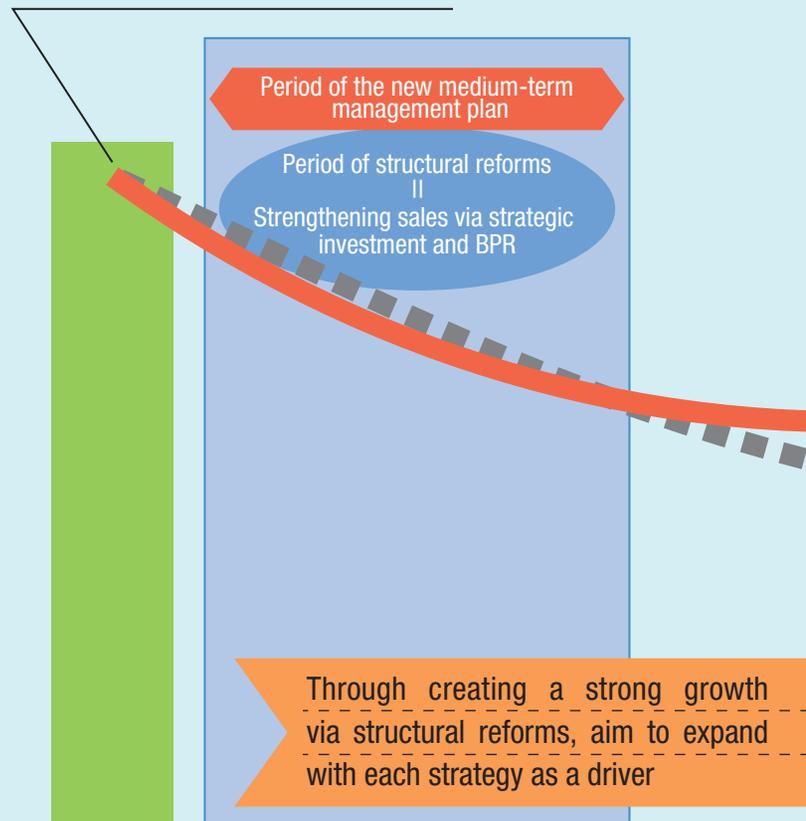
Long-term Management Plan April 2017 – March 2027

Vision2027

Long-term Vision

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

***Consolidated net income: ¥20.3 billion**

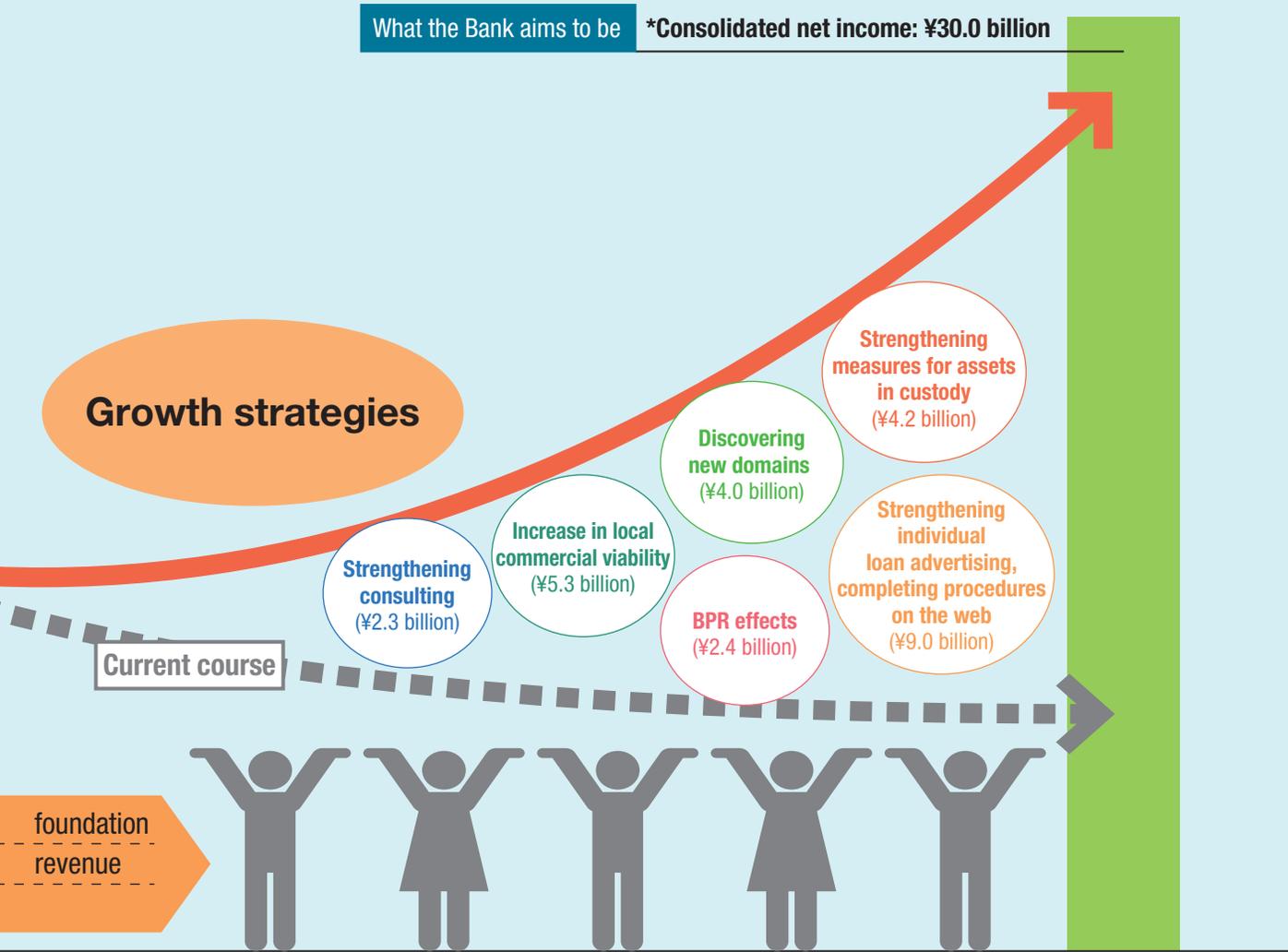


Fiscal year ended March 31, 2017

“Vision 2027: Plan for Creating the Future Together,” based on our belief that a account of the sense of crisis about the present conditions and the changing society.

Plan for Creating the Future Together (Chugin 10-year Strategy)

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



Plan for fiscal year ending March 31, 2027

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

Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

Ordinary income decreased by ¥3,038 million year on year, or 2.6%, to ¥113,461 million, due primarily to a decrease in interest and dividends on securities as a result of reduction of securities investment balance in light of the interest rate trend, and a decrease in reversal of reserve for possible loan losses.

Ordinary profit decreased by ¥6,012 million year on year, or 21.5%, to ¥21,919 million, due to the substantial increase in credit costs as a result of the need for an additional reserve for possible loan losses, in addition to the decrease in ordinary income as mentioned earlier, despite favorable factors such as decrease in general and administrative expenses.

Leasing business

Ordinary income increased by ¥67 million year on year, or 0.5%, to ¥11,312 million due to such factors as an increase in reversal of reserve for possible loan losses; so did ordinary profit by ¥50 million year on year, or 6.0%, to ¥873 million.

Securities business

Ordinary income decreased by ¥1,572 million year on year, or 36.5%, to ¥2,731 million as the sale of structured bonds, which was strong in the previous fiscal year, declined significantly due to the sluggish stock market in the current fiscal year, and ordinary profit decreased by ¥837 million year on year, resulting in an ordinary loss of ¥100 million.

Other

Ordinary income increased by ¥92 million year on year, or 1.7%, to ¥5,425 million, due primarily to an increase in guarantee commission received in the credit card business and the credit guarantee business. Ordinary profit, however, decreased by ¥107 million year on year, or 5.5%, to ¥1,815 million, due to the significant impact of increasing credit costs in the credit guarantee business.

Earnings

Consolidated ordinary income decreased by ¥3,824 million year on year, or 2.8%, to ¥128,621 million, due primarily to a decrease in interest and dividends on securities, and a decrease in reversal of reserve for possible loan losses.

Consolidated ordinary expenses increased by ¥3,403 million year on year, or 3.3%, to ¥104,925 million, due to the large impact of increasing credit costs and foreign currency procurement costs, despite favorable factors such as the decreases in loss on sales of securities and general and administrative expenses.

Consolidated ordinary profit decreased by ¥7,226 million year on year, or 23.3%, to ¥23,696 million, due to a decrease in the consolidated ordinary income and an increase in the consolidated ordinary expenses, as mentioned above.

Net income attributable to owners of parent decreased by ¥5,059 million year on year, or 23.7%, to ¥16,199 million.

Cash Flows

Cash and cash equivalents as of the end of the current fiscal year decreased by ¥11,069 million year on year to ¥749,382 million. This was due to the decrease in payables under securities lending transactions as a result of balance management for securities investment operations and our focus on increasing the loan balance centered on local commercial viability, although some portions of the loss were set off by such increasing factors as the restraint on reinvestments utilizing the redemption proceeds in our investments on securities, and an increase in the deposit balance due to the inflow of insurance proceeds resulting from heavy rainfall disasters.

Cash flows from operating activities

Net cash used in operating activities decreased by ¥139,591 million year on year to ¥240,799 million.

This is due mainly to a greater decrease in payables under securities lending transactions as a result of reduction of securities investment balance.

Cash flows from investing activities

Cash flows from investing activities amounted to ¥235,740 million, increasing by ¥162,589 million year on year.

This is due to the decrease in the acquisition of securities as reinvestments utilizing the redemption proceeds, in order to restrain the increase in the balance of investments on securities in view of the interest rate trend.

Cash flows from financing activities

Net cash used in financing activities decreased by ¥640 million year on year to ¥6,014 million.

This is due to a decrease in the amount of share buybacks year on year based on our policy of distributing returns to shareholders.

Forecast for Next Term

For the fiscal year ending March 31, 2020, the Chugoku Bank Group forecasts consolidated ordinary income of ¥125,700 million, consolidated ordinary profit of ¥20,700 million and net income attributable to owners of parent of ¥13,800 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, 2019, the Bank will pay an annual per-share dividend of ¥22 (year-end dividend of ¥12), an increase of ¥2.

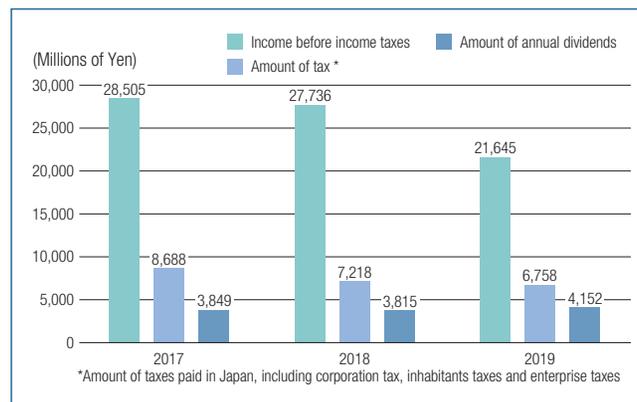
With respect to the expected dividends for the fiscal year ending March 31, 2020, the Bank plans to increase the stable per-share dividend by ¥4 and pay an annual per-share dividend of ¥22 (interim dividend of ¥11).

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.

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



Capital Adequacy Ratios

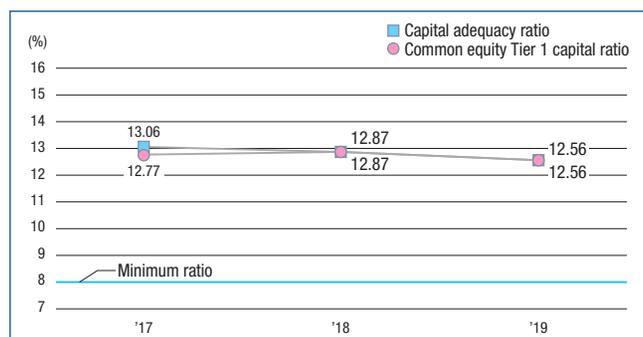
The Bank's capital adequacy ratio was 12.56% as of the end of March 2019.

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 ¥2,366 million year on year, to ¥68,802 million as of the end of March 2019, 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) decreased by 0.09 percentage point year on year, to 1.43% as of the end of March 2019.

Status of impaired loans		
	(Millions of Yen)	
	End of March 2019	End of March 2018
Loans to bankrupt customers	¥ 3,578	¥ 3,881
Loans past due six months or more	45,158	50,956
Loans past due three months or more	876	1,509
Restructured loans	19,189	14,819
Total	¥ 68,802	¥ 71,168
The ratio of risk-managed loans (against the total loan balance) (%)	1.43	1.52

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 net unrealized gains on available-for-sale-securities (if its value is 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

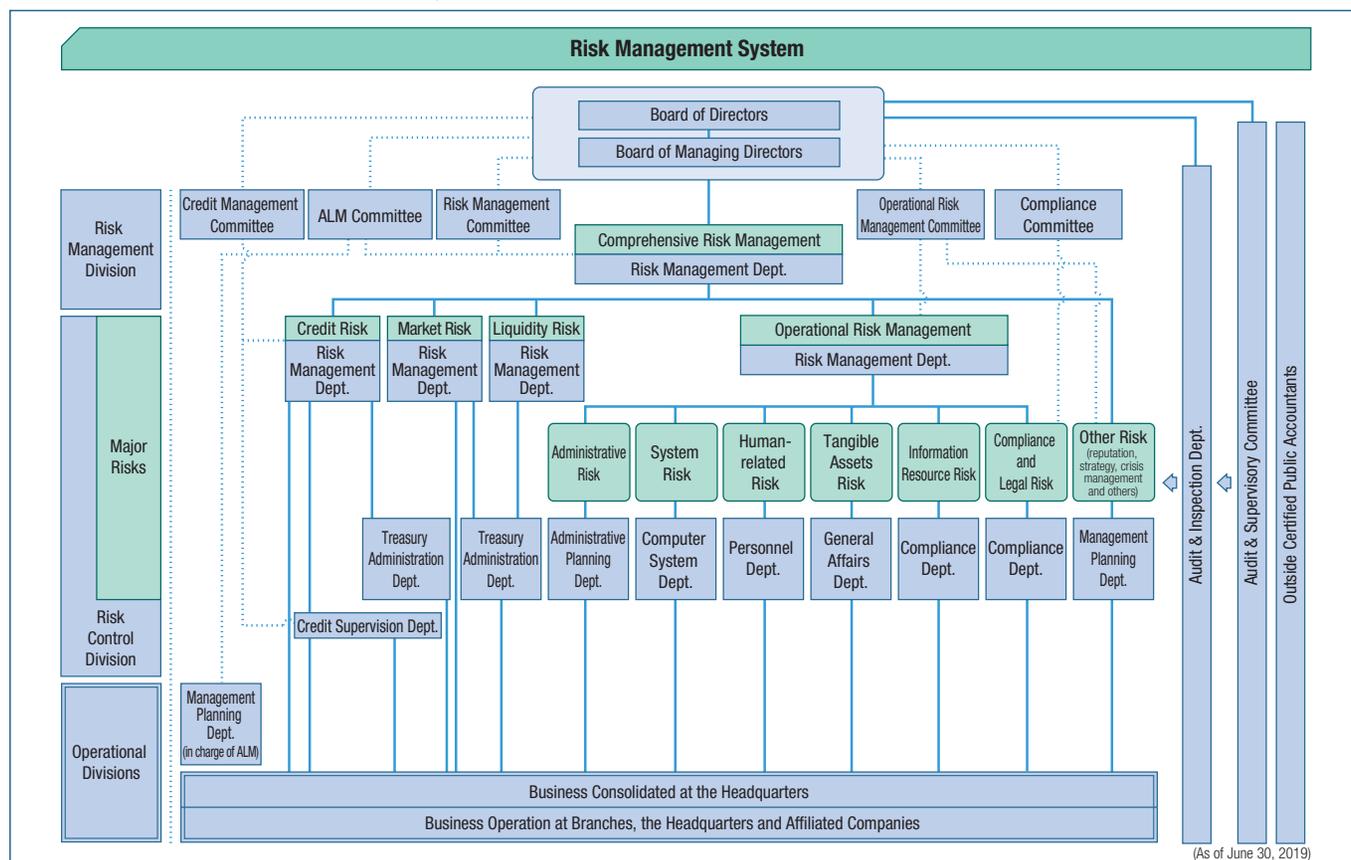
Operational risk refers to risks of losses arising from bank operational

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.



(As of June 30, 2019)

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.

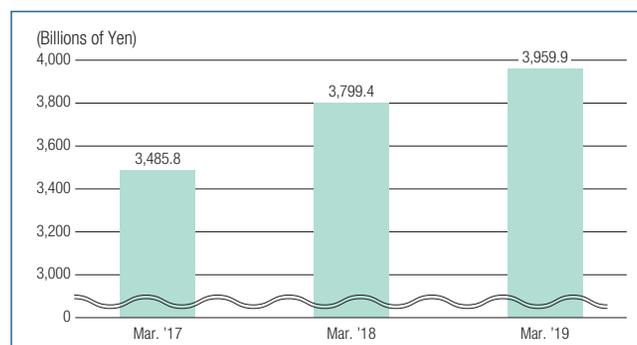
- The Bank collects and analyzes various forms of information from the region, and actively promotes industry-academia-government-finance cooperation. In addition, the Bank is strengthening efforts to support the cultivation of growth fields and efforts to promote the region.

Actively Offering Information to the Regional Society and Our Customers

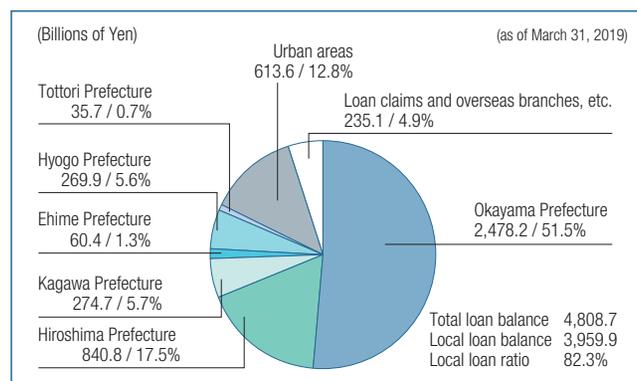
- The Bank actively offers information about specific activities and their results with regard to efforts related to community-based financial services. We will strive to improve our services even further in order to earn the trust and support of our regional customers.

Loan Balance to Regionals

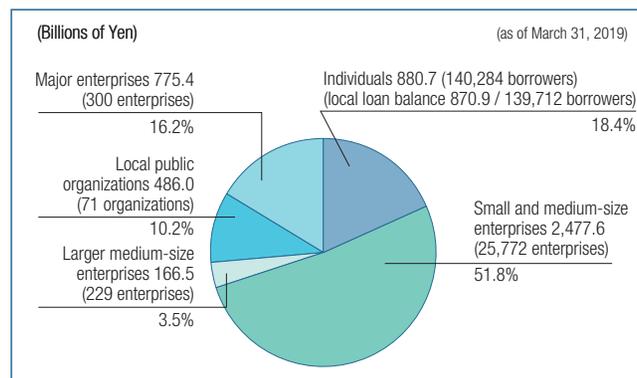
The Bank will take on risks proactively to meet the financing needs of customers.



Breakdown of Loans to the Regional Community



Loan Balance by Type and Number of Borrowers



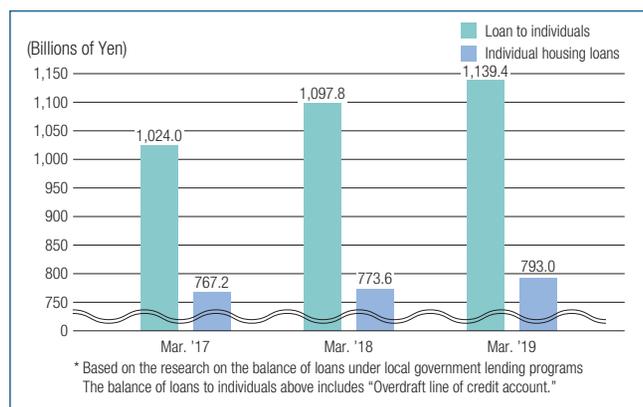
Loans to Individuals

We have established Life Plan Center/Housing Loan Center 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 for the year increased ¥41.6 billion from the end of March 2018, to ¥1,139.4 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 Anti-Money Laundering and Combating the Financing of Terrorism

The Chugoku Bank, Limited
The Chugoku Bank Group (hereinafter, the "Group") recognizes that measures for anti-money laundering and combating the financing of terrorism (hereinafter, "AML/CFT") is a priority task required not only domestically but also from the rest of the global community. Based on this recognition, the Group shall take the initiative in establishing the management system in which it shall execute agile and effective responses to ever-changing international situations and the risks facing the Group, and set forth the following policy as a basis for execution of operations.

1. Management Policy

In order to execute agile and effective responses to changes in international situations, the Group shall take proactive steps to establish and maintain the management system based on the concept of "risk-based approach," in which it shall identify and assess its money laundering and the financing of terrorism (hereinafter, "ML/FT") risks in a timely and appropriate manner and take mitigation measures that are proportionate to the risks.

2. Organizational Structure and Officer

The Group shall define AML/CFT as one of its critical management agenda and shall clarify the internal roles and responsibilities for that purpose.

The Group shall appoint the officer in charge of the Compliance Department of the Chugoku Bank as the supervisory manager for AML/CFT. A dedicated division shall be newly established within the Compliance Department of the Chugoku Bank to provide the centralized function of ensuring the execution of measures for AML/CFT.

3. Measures for AML/CFT under Laws and Regulations

The Group shall establish an internal system capable of carrying out timely and appropriate measures for AML/CFT under laws and regulations, including, but not limited to, verification at the time of transaction, retention of transaction records, confirmation of sanctions including freezing of assets, and notification of suspicious transactions.

4. Administration of Customer Information and Policy for Handling Customers

The Group shall establish an internal system for making appropriate investigations about the basic information of customers in the course of the transactions with them and for carrying out measures that are proportionate to their attributes.

Furthermore, the Group shall determine and carry out required risk mitigation measures by way of making periodic investigations and analyses on the history of transactions with customers.

5. Transaction Monitoring and Screening

The Group shall determine and carry out required risk mitigation measures by way of investigating and analyzing the status of transactions by the use of reports submitted by its branches or detection made by its computer systems for any unusual transactions or transactions subject to sanctions.

6. Management of Correspondent Banks

The Group shall endeavor to collect sufficient information about its correspondent banks, conduct an appropriate assessment on them, and carry out appropriate measures that are proportionate to the risks involved.

Corporate Governance

No relationship shall be established or maintained with any shell banks without a physical presence or operations.

7. Development Training of Directors and Employees

The Group shall continually conduct training or other programs for all of its Directors and employees to deepen their understanding and raise their awareness of AML/CFT, in an effort to develop and retain human resources having expertise and fitness for the given roles.

8. Verification of Status of Compliance

The Group shall inspect the status of compliance with regard to AML/CFT, and based on the results of such inspections, shall continually make efforts to improve its risk management system against ML/FT.

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 10 (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 2019.

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.

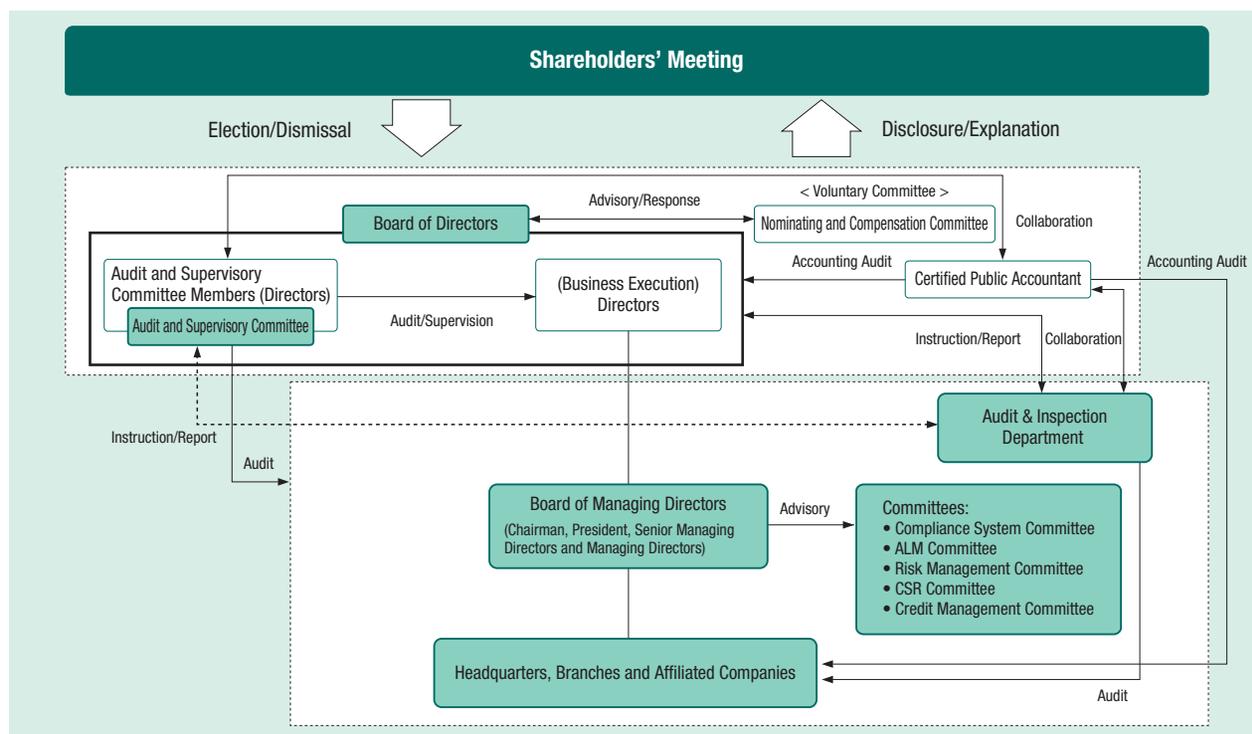
In addition, since a company with an Audit and Supervisory Committee can delegate part of the authority of the Board of Directors to Directors pursuant to provisions of the Companies Act, a structure has been in place, under which matters submitted to the Board of Directors are narrowed down to highly 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, 2019)

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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
ASSETS:			
Cash and due from banks (Notes 18 and 21).....	¥ 763,344	¥ 777,680	\$ 6,877,592
Call loans	39,677	141,250	357,482
Other debt purchased (Notes 4, 8 and 18).....	31,550	28,998	284,259
Trading account securities (Notes 4, 11 and 18).....	2,375	1,827	21,398
Money trusts (Notes 5 and 18).....	21,600	29,000	194,612
Securities (Notes 4, 6, 11 and 18).....	2,389,510	2,618,448	21,529,056
Loans and bills discounted (Notes 7, 8 and 18).....	4,802,184	4,672,001	43,266,816
Foreign exchange (Note 7).....	9,042	7,949	81,466
Lease receivables and investments in leased assets (Note 11).....	21,019	17,934	189,377
Other assets (Notes 11, 15 and 18).....	133,214	126,184	1,200,234
Tangible fixed assets (Note 9).....	39,588	39,887	356,680
Intangible fixed assets (Note 10).....	4,487	5,914	40,427
Deferred tax assets (Note 12).....	947	837	8,532
Customers' liabilities for acceptances and guarantees.....	32,490	34,087	292,729
Reserve for possible loan losses.....	(37,281)	(34,707)	(335,895)
Total assets	¥ 8,253,750	¥ 8,467,295	\$ 74,364,807
LIABILITIES AND NET ASSETS:			
Liabilities:			
Deposits (Notes 11 and 18).....	¥ 6,800,290	¥ 6,631,082	\$ 61,269,393
Call money (Note 11).....	18,790	57,928	169,294
Payables under repurchase agreements (Notes 4 and 11).....	125,088	71,568	1,127,020
Payables under securities lending transactions (Notes 11 and 18).....	377,224	747,270	3,398,720
Commercial paper (Note 13).....	48,717	46,157	438,931
Borrowed money (Notes 11 and 13).....	164,089	195,355	1,478,412
Foreign exchange	1,709	223	15,397
Due to trust account.....	2,760	1,575	24,867
Other liabilities (Notes 13, 15 and 18).....	104,264	98,256	939,399
Accrued employees' bonuses	1,404	1,387	12,649
Accrued directors' bonuses	23	26	207
Reserve for directors' retirement benefits.....	83	71	747
Reserve for reimbursement of deposits.....	995	1,383	8,964
Reserve for point program	114	112	1,027
Net defined benefit liability (Note 14).....	28,383	27,740	255,725
Deferred tax liability (Note 12).....	9,496	14,528	85,557
Reserves under special laws.....	6	6	54
Acceptances and guarantees.....	32,490	34,087	292,729
Total liabilities	¥ 7,715,931	¥ 7,928,760	\$ 69,519,154
Net assets (Note 20):			
Shareholders' equity			
Common stock			
Authorized shares: 391,000,000 shares in 2019 and 2018			
Issued shares: 195,272,106 shares in 2019 and 2018.....	¥ 15,149	¥ 15,149	\$ 136,489
Capital surplus	8,153	8,153	73,457
Retained earnings	445,459	433,053	4,013,505
Less treasury stock, at cost			
6,955,248 shares in 2019 and 5,202,795 shares in 2018.....	(9,401)	(7,400)	(84,701)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 6).....	93,687	99,824	844,103
Net deferred losses on hedging instruments.....	(8,893)	(4,998)	(80,124)
Accumulated adjustments for retirement benefits (Note 14).....	(6,648)	(5,516)	(59,897)
Total.....	78,145	89,309	704,072
Subscription rights to shares (Note 22).....	311	269	2,802
Total net assets	537,818	538,534	4,845,643
Total liabilities and net assets	¥ 8,253,750	¥ 8,467,295	\$ 74,364,807

See accompanying Notes to Consolidated Financial Statements.

Consolidated Income Statements

The Chugoku Bank, Limited and its Consolidated Subsidiaries
For the Years Ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2019	2018	2019	2018
Income:				
Interest and dividends on:				
Loans and discounts.....	¥ 51,427	¥ 47,055	\$ 463,348	
Securities	27,041	31,182	243,634	
Other	1,185	1,473	10,676	
Fees and commissions	18,008	17,144	162,248	
Other operating income.....	22,232	22,778	200,306	
Reversal of reserve for possible loan losses	—	1,568	—	
Bad debt recovered.....	0	5	0	
Other income.....	8,742	11,250	78,763	
Total income	128,637	132,459	1,158,996	
Expenses:				
Interest on:				
Deposits	2,373	1,986	21,380	
Borrowings	2,530	1,270	22,794	
Other	12,324	10,533	111,037	
Fees and commissions	4,288	4,301	38,634	
Other operating expenses.....	14,772	17,933	133,093	
General and administrative expenses	58,947	60,712	531,101	
Reserve for possible loan losses.....	4,359	—	39,273	
Losses on impairment of fixed assets (Note 9)	222	148	2,000	
Other expenses.....	5,396	4,846	48,616	
Total expenses.....	105,215	101,733	947,968	
Income before income taxes	23,421	30,726	211,019	
Income taxes (Note 12):				
Current.....	7,587	8,265	68,357	
Deferred	(365)	1,202	(3,288)	
	7,221	9,467	65,059	
Net income.....	16,199	21,258	145,950	
Net income attributable to non-controlling interests.....	—	—	—	
Net income attributable to owners of parent.....	¥ 16,199	¥ 21,258	\$ 145,950	

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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2019	2018	2019	2018
Net income.....	¥ 16,199	¥ 21,258	\$ 145,950	
Other comprehensive income (Note 17):				
Net unrealized gains (losses) on available-for-sale securities.....	(6,137)	6,403	(55,293)	
Net deferred gains (losses) on hedging instruments.....	(3,894)	1,087	(35,084)	
Adjustments for retirement benefits.....	(1,132)	1,196	(10,199)	
Total other comprehensive income	(11,164)	8,687	(100,585)	
Comprehensive income	¥ 5,035	¥ 29,946	\$ 45,364	
Comprehensive income attributable to:				
Owners of parent.....	¥ 5,035	¥ 29,946	\$ 45,364	
Noncontrolling interests.....	—	—	—	

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, 2019 and 2018

	Millions of Yen									
	2019									
	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	¥433,053	¥(7,400)	¥99,824	¥(4,998)	¥(5,516)	¥89,309	¥269	¥538,534
Net income attributable to owners of parent.....			16,199							16,199
Cash dividends.....			(3,793)							(3,793)
Purchases of treasury stock.....				(2,000)						(2,000)
Disposals of treasury stock.....			(0)	0						0
Net changes in items other than shareholders' equity.....					(6,137)	(3,894)	(1,132)	(11,164)	42	(11,122)
Net changes during the year.....	—	—	12,406	(2,000)	(6,137)	(3,894)	(1,132)	(11,164)	42	(716)
Balance at end of year.....	¥15,149	¥8,153	¥445,459	¥(9,401)	¥93,687	¥(8,893)	¥(6,648)	¥78,145	¥311	¥537,818

See accompanying Notes to Consolidated Financial Statements.

	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.

	Thousands of U.S. Dollars (Note 1)									
	2019									
	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.....	\$136,489	\$73,457	\$3,901,729	\$(66,672)	\$899,396	\$(45,031)	\$(49,698)	\$804,658	\$2,423	\$4,852,094
Net income attributable to owners of parent.....			145,950							145,950
Cash dividends.....			(34,174)							(34,174)
Purchases of treasury stock.....				(18,019)						(18,019)
Disposals of treasury stock.....			(0)	0						0
Net changes in items other than shareholders' equity.....					(55,293)	(35,084)	(10,199)	(100,585)	378	(100,207)
Net changes during the year.....	—	—	111,775	(18,019)	(55,293)	(35,084)	(10,199)	(100,585)	378	(6,451)
Balance at end of year.....	\$136,489	\$73,457	\$4,013,505	\$(84,701)	\$844,103	\$(80,124)	\$(59,897)	\$704,072	\$2,802	\$4,845,643

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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities			
Income before income taxes	¥ 23,421	¥ 30,726	\$ 211,019
Depreciation	4,331	4,376	39,021
Losses on impairment of fixed assets	222	148	2,000
Share-based compensation expenses	42	46	378
Increase (decrease) in reserve for possible loan losses	4,359	(1,568)	39,273
Increase (decrease) in reserve for point program	1	14	9
Increase (decrease) in reserve for directors' retirement benefits	11	(3)	99
Increase (decrease) in accrued employees' bonuses	16	(39)	144
Increase (decrease) in accrued directors' bonuses	(2)	(3)	(18)
Increase (decrease) in net defined benefit liability	(986)	(520)	(8,883)
Increase (decrease) in reserve for reimbursement of deposits	(388)	320	(3,495)
Interest and dividend income	(79,654)	(79,711)	(717,668)
Interest expense	17,229	13,790	155,230
Losses (gains) on sales of securities, net	(2,621)	(1,965)	(23,614)
Losses (gains) on money trusts, net	104	33	937
Foreign exchange losses (gains), net	(11,973)	22,631	(107,874)
Losses (gains) on disposals of fixed assets, net	25	20	225
Decrease (increase) in trading account securities, excluding foreign exchange contracts	(548)	516	(4,937)
Decrease (increase) in call loans and other debt purchased	99,021	43,727	892,161
Increase (decrease) in payables under repurchase agreements	53,519	50,061	482,196
Decrease (increase) in due from banks, excluding the Bank of Japan	3,267	(6,794)	29,435
Increase (decrease) in commercial paper	2,560	21,950	23,065
Decrease (increase) in foreign exchange assets	(1,092)	(1,481)	(9,838)
Decrease (increase) in loans and bills discounted	(131,967)	(276,918)	(1,188,999)
Decrease (increase) in lease receivables and investments in leased assets	(3,102)	7	(27,948)
Decrease (increase) in other assets	(8,266)	(69,110)	(74,475)
Increase (decrease) in deposits	169,208	218,614	1,524,533
Increase (decrease) in borrowed money	(31,266)	5,869	(281,701)
Increase (decrease) in call money	(39,137)	(91,364)	(352,617)
Increase (decrease) in foreign exchange liabilities	1,485	87	13,379
Increase (decrease) in payables under securities lending transactions	(370,045)	(85,120)	(3,334,039)
Increase (decrease) in due to trust account	1,184	1,419	10,667
Increase (decrease) in other liabilities	962	36,864	8,667
Interest and dividends received	83,014	84,482	747,941
Interest paid	(16,216)	(13,600)	(146,103)
Subtotal	(233,279)	(92,493)	(2,101,801)
Income taxes paid	(7,519)	(9,008)	(67,744)
Income taxes refund	—	293	—
Net cash used in operating activities	(240,799)	(101,208)	(2,169,555)
Cash flows from investing activities			
Purchases of securities	(912,223)	(1,162,615)	(8,218,965)
Proceeds from sales of securities	879,627	973,169	7,925,281
Proceeds from redemption of securities	263,920	274,935	2,377,871
Purchases of money trusts	(7,909)	(23,565)	(71,258)
Proceeds from money trusts	15,204	13,032	136,985
Purchases of tangible fixed assets	(2,929)	(1,633)	(26,389)
Purchases of intangible fixed assets	—	(229)	—
Proceeds from sales of tangible fixed assets	49	58	441
Net cash provided by investing activities	235,740	73,151	2,123,975
Cash flows from financing activities			
Cash dividends paid	(3,793)	(3,832)	(34,174)
Purchases of treasury stock	(2,000)	(2,601)	(18,019)
Repayments on lease obligations	(220)	(221)	(1,982)
Proceeds from sales of treasury stock	0	—	0
Proceeds from execution of stock options	—	0	—
Net cash used in financing activities	(6,014)	(6,654)	(54,185)
Effect of exchange rate changes on cash and cash equivalents	5	(6)	45
Net increase (decrease) in cash and cash equivalents	(11,068)	(34,717)	(99,720)
Cash and cash equivalents at beginning of year	760,451	795,168	6,851,527
Cash and cash equivalents at end of year (Note 21)	¥ 749,382	¥ 760,451	\$ 6,751,797

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 ¥1 million 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 the U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate as at March 31, 2019, which was ¥110.99 for 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 the 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, 2019 (six in 2018) 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, 2019 (six and one, respectively, in 2018) because their exclusion had no significant effect on the consolidated financial statements.

One company, of which the Bank owns between 20% and 50% of the voting rights (execution rights), was not recognized as an affiliate accounted for using the equity method for the year ended March 31, 2019 (two in 2018) because it is 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 entity.

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 that 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.

Assessment and classification are conducted by each business department and Credit Supervision Department and 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 10 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 10 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 non-deductible 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)
- "Implementation 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 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 have not yet been determined.

4. Securities

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amounts of ¥1,560 million (\$14,055 thousand) and ¥23 million (\$207 thousand) as at March 31, 2019 and ¥855 million and ¥23 million as at March 31, 2018.

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 ¥90,317 million (\$813,739 thousand) and ¥88,811 million as at March 31, 2019 and 2018, respectively.

(1) Trading account securities

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2018	2019	2018
Amount of net unrealized gains (losses) included in the consolidated income statements.....	¥ 12	¥ (14)	\$ 108	\$ (14)

(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, 2019 and 2018:

Type	Millions of Yen		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	¥ 117,888	¥ 60,364	¥ 57,524
Bonds	1,670,304	1,627,730	42,573
Japanese government bonds	610,038	583,949	26,089
Japanese municipal bonds.....	723,472	710,755	12,716
Japanese corporate bonds.....	336,792	333,025	3,767
Other	329,420	289,203	40,217
Foreign bonds.....	202,526	199,826	2,699
Other.....	126,893	89,376	37,517
Subtotal.....	¥ 2,117,613	¥ 1,977,298	¥ 140,314
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	¥ 21,808	¥ 24,954	¥ (3,145)
Bonds	67,372	67,531	(158)
Japanese government bonds	27,961	28,022	(61)
Japanese corporate bonds.....	39,410	39,508	(97)
Other	161,049	163,134	(2,084)
Foreign bonds.....	115,592	115,702	(110)
Other.....	45,457	47,431	(1,974)
Subtotal.....	250,231	255,619	(5,388)
Total	¥ 2,367,844	¥ 2,232,918	¥ 134,926

Type	Thousands of U.S. Dollars		
	2019		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	\$ 1,062,149	\$ 543,868	\$ 518,280
Bonds	15,049,139	14,665,555	383,575
Japanese government bonds	5,496,333	5,261,275	235,057
Japanese municipal bonds.....	6,518,353	6,403,775	114,568
Japanese corporate bonds.....	3,034,435	3,000,495	33,939
Other	2,968,015	2,605,667	362,347
Foreign bonds.....	1,824,722	1,800,396	24,317
Other.....	1,143,283	805,261	338,021
Subtotal.....	\$ 19,079,313	\$ 17,815,100	\$ 1,264,203
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	\$ 196,486	\$ 224,831	\$ (28,335)
Bonds	607,009	608,442	(1,423)
Japanese government bonds	251,923	252,473	(549)
Japanese corporate bonds.....	355,077	355,959	(873)
Other	1,451,022	1,469,808	(18,776)
Foreign bonds.....	1,041,463	1,042,454	(991)
Other.....	409,559	427,344	(17,785)
Subtotal.....	2,254,536	2,303,081	(48,544)
Total	\$ 21,333,849	\$ 20,118,190	\$ 1,215,659

Type	Millions of Yen		
	2018		
	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

(3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2019 and 2018:

Held-to-maturity securities

Type	Millions of Yen			
	2019			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	¥ 13,393	¥ 13,851	¥	457
Subtotal.....	¥ 13,393	¥ 13,851	¥	457
Total	¥ 13,393	¥ 13,851	¥	457

Type	Thousands of U.S. Dollars			
	2019			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	\$ 120,668	\$ 124,795	\$	4,117
Subtotal.....	\$ 120,668	\$ 124,795	\$	4,117
Total	\$ 120,668	\$ 124,795	\$	4,117

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

(4) The Bank recognized impairment loss on Japanese corporate bonds in an amount of ¥125 million (\$1,126 thousand) in the year ended March 31, 2019. No impairment loss on securities was recognized in the year ended March 31, 2018.

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 between 30% and 50% of the 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, 2019 and 2018 were as follows:

	Millions of Yen		
	2019		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	¥ 56,556	¥ 4,706	¥ 3,450
Bonds	475,768	3,048	764
Japanese government bonds	358,596	1,927	764
Japanese municipal bonds.....	109,050	1,089	—
Japanese corporate bonds.....	8,122	30	—
Other	276,537	2,685	3,473
Foreign bonds	234,571	1,021	2,945
Other.....	41,965	1,663	527
Total.....	¥ 808,863	¥ 10,439	¥ 7,688

	Thousands of U.S. Dollars		
	2019		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	\$ 509,559	\$ 42,400	\$ 31,083
Bonds	4,286,584	27,461	6,883
Japanese government bonds	3,230,885	17,361	6,883
Japanese municipal bonds.....	982,520	9,811	—
Japanese corporate bonds.....	73,177	270	—
Other	2,491,548	24,191	31,291
Foreign bonds	2,113,442	9,199	26,533
Other.....	378,097	14,983	4,748
Total.....	\$ 7,287,710	\$ 94,053	\$ 69,267

	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

5. Money Trusts

(1) Money trusts as a type of trading account securities as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2018	2019	2018
Carrying amount (fair value).....	¥ 18,000	¥ 25,000	\$ 162,176	
Net unrealized gains (losses) recognized in the income statements	—	—	—	—

(2) Money trusts, other than for investment purposes or held to maturity purposes as at March 31, 2019 and 2018 were as follows:

	Millions of Yen				
	2019				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	¥ 3,600	¥ 3,600	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars				
	2019				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	\$ 32,435	\$ 32,435	\$ —	\$ —	\$ —

	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	¥ —	¥ —	¥ —

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

Net unrealized gains and losses on available-for-sale securities as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net unrealized gains on available-for-sale securities	¥ 134,403	¥ 143,111	\$ 1,210,946
Deferred tax liabilities	(40,716)	(43,286)	(366,843)
Net unrealized gains on available-for-sale securities before adjustment for non-controlling interests, net of taxes	93,687	99,824	844,103
Non-controlling interests	—	—	—
Net unrealized gains on available-for-sale securities, net of taxes	¥ 93,687	¥ 99,824	\$ 844,103

7. Loans and Bills Discounted

Loans and bills discounted as at March 31, 2019 and 2018 included the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2018	2019	2018
Loans to bankrupt customers	¥ 3,779	¥ 4,121	\$ 34,048	
Loans past due six months or more	46,390	52,128	417,965	
Loans past due three months or more but less than six months ...	876	1,509	7,892	
Restructured loans	19,189	14,819	172,889	
Total	¥ 70,235	¥ 72,579	\$ 632,804	

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 "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 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 as at March 31, 2019 and 2018 was ¥31,787 million (\$286,395 thousand) and ¥31,940 million, respectively.

The amount of loan participation recorded in the consolidated balance sheet and included in participated principals that were accounted for as loans to original debtors in accordance with "Accounting Treatment and Representation of Loan Participation" (Accounting System Committee Report No. 3, November 28, 2014) issued by the JICPA, was ¥1,434 million (\$12,920 thousand) and nil as at March 31, 2019 and 2018, respectively.

8. Commitment Lines

Commitment line agreements are loan agreements that 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 as at March 31, 2019 and 2018 amounted to ¥1,544,767 million (\$13,918,073 thousand) and ¥1,539,219 million, respectively. Of these amounts, ¥1,429,387 million (\$12,878,520 thousand) for 2019 and ¥1,423,595 million for 2018 were 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 that 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 as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Land	¥ 20,032	¥ 20,179	\$ 180,484
Buildings	11,905	12,631	107,261
Lease assets	2,241	2,459	20,191
Other tangible fixed assets	4,996	4,583	45,013
Construction in progress.....	413	34	3,721
Total.....	¥ 39,588	¥ 39,887	\$ 356,680

Accumulated depreciation as at March 31, 2019 and 2018 was ¥79,089 million (\$712,577 thousand) and ¥77,897 million, respectively. The amounts that were directly offset against acquisition costs as at March 31, 2019 and 2018 were ¥5,082 million (\$45,787 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, 2019 and 2018 as follows:

(Millions of Yen)		2019		
	Purpose of Use	Type	Losses on impairment of fixed assets	
Okayama Prefecture	Branches	2 branches	Land and buildings	¥ 63
	Idle assets	1 item		
Prefectures other than Okayama	Branches	4 branches	Land and buildings	¥ 158

(Thousands of U.S. Dollars)		2019		
	Purpose of Use	Type	Losses on impairment of fixed assets	
Okayama Prefecture	Branches	2 branches	Land and buildings	\$ 567
	Idle assets	1 item		
Prefectures other than Okayama	Branches	4 branches	Land and buildings	\$ 1,423

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

Within the Bank, it is the Group office or branch that manages and determines income and expenses, and it is the Group office or branch that is the smallest unit of an asset group for recognition and measurement of impairment loss. Fixed assets that 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 (for the year ended March 31, 2019, the value in use for one branch of the Bank in Okayama Prefecture, and the net realizable value for other assets) and recognized a corresponding loss of ¥222 million (\$2,000 thousand) and ¥148 million as "Losses on impairment of fixed assets" for the years ended March 31, 2019 and 2018, 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%.

10. Intangible Fixed Assets

Intangible fixed assets as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Software.....	¥ 4,336	¥ 5,814	\$ 39,066
Other intangible fixed assets.....	151	99	1,360
Total.....	¥ 4,487	¥ 5,914	\$ 40,427

11. Pledged Assets

Pledged assets as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Securities.....	¥ 748,558	¥ 1,076,542	\$ 6,744,373
Other assets.....	80	80	720
Total.....	¥ 748,639	¥ 1,076,623	\$ 6,745,103

Liabilities secured by pledged assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deposits.....	¥ 24,318	¥ 15,686	\$ 219,100
Call money.....	5,216	—	46,995
Payables under securities lending transactions.....	377,224	747,270	3,398,720
Payables under repurchase agreements.....	125,088	71,568	1,127,020
Borrowed money.....	146,967	179,097	1,324,146
Total.....	¥ 678,816	¥ 1,013,623	\$ 6,116,010

At March 31, 2019 and 2018, certain trading account securities in the aggregate amount of ¥114 million (\$1,027 thousand) and ¥115 million, respectively, and certain other securities in the aggregate amount of ¥76,276 million (\$687,233 thousand) and ¥82,651 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 as at March 31, 2019 and 2018:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Initial margins for central counterparty.....	¥ 42,642	¥ 30,666	\$ 384,196
Cash collateral paid for financial instruments.....	6,521	4,117	58,753
Initial margins for futures markets...	655	823	5,901
Guarantee deposits.....	862	842	7,766

12. Deferred Tax Assets (Liabilities)

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Reserve for possible loan losses...	¥ 10,871	¥ 10,009	\$ 97,945
Net defined benefit liability.....	9,917	9,694	89,350
Depreciation.....	5,415	5,529	48,788
Deferred losses on hedging instruments.....	3,931	2,295	35,417
Unrealized holding losses on available-for-sale securities....	1,641	2,598	14,785
Write-down of securities.....	1,600	1,432	14,415
Losses on impairment of fixed assets.....	1,036	1,063	9,334
Accrued employees' bonuses....	489	483	4,405
Software.....	384	382	3,459
Other.....	1,821	1,752	16,406
Subtotal.....	37,110	35,241	334,354
Valuation allowance.....	(2,877)	(2,691)	(25,921)
Total deferred tax assets.....	34,232	32,550	308,424

Deferred tax liabilities:

Unrealized holding gains on available-for-sale securities....	(42,354)	(45,880)	(381,601)
Reserve for advanced depreciation of tangible fixed assets.....	(235)	(232)	(2,117)
Other.....	(191)	(127)	(1,720)
Total deferred tax liabilities.....	(42,781)	(46,240)	(385,449)
Net deferred tax assets (liabilities) ..	¥ (8,548)	¥ (13,690)	\$ (77,015)

Figures for reconciliation between the statutory tax rate and the effective tax rate of the Bank for the years ended March 31, 2019 and 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 as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Borrowed Money.....	¥ 164,089	¥ 195,355	\$ 1,478,412
Commercial paper.....	48,717	46,157	438,931
Lease liabilities (due within one year)...	219	221	1,973
Lease liabilities (due after one year)....	2,004	2,221	18,055

The weighted average interest rates on the outstanding balances as at March 31, 2019 and 2018 were as follows:

	2019	2018
Borrowed Money.....	1.722%	0.945%
Commercial paper.....	2.812%	1.976%
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 as at March 31, 2019 and 2018 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Less than one year.....	¥ 152,365	¥ 183,846	\$ 1,372,781
From one to two years.....	3,557	3,649	32,047
From two to three years.....	2,665	2,517	24,011
From three to four years.....	1,796	1,625	16,181
From four to five years.....	1,017	781	9,162
Over five years.....	2,687	2,934	24,209
Total borrowed money.....	¥ 164,089	¥ 195,355	\$ 1,478,412

Commercial paper classified by maturity as at March 31, 2019 and 2018 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Less than one year.....	¥ 48,717	¥ 46,157	\$ 438,931
Total commercial paper.....	¥ 48,717	¥ 46,157	\$ 438,931

Lease liabilities classified by maturity as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Less than one year.....	¥ 219	¥ 221	\$ 1,973
From one to two years.....	218	219	1,964
From two to three years.....	217	218	1,955
From three to four years.....	215	217	1,937
From four to five years.....	214	214	1,928
Over five years.....	1,138	1,352	10,253
Total lease liabilities.....	¥ 2,223	¥ 2,442	\$ 20,028

14. Liability for Employees' Severance and Retirement Benefits

(1) Outline of retirement benefit plans

The Bank has defined retirement benefit plans and contribution retirement benefit plans. As for defined retirement 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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Beginning balance of projected benefit obligation.....	¥ 65,847	¥ 66,400	\$ 593,269
Service cost.....	2,201	2,245	19,830
Interest cost.....	131	132	1,180
Actuarial differences.....	(308)	15	(2,775)
Retirement benefits paid.....	(2,737)	(2,945)	(24,659)
Prior service cost.....	—	—	—
Other.....	0	—	0
Ending balance of projected benefit obligation.....	¥ 65,133	¥ 65,847	\$ 586,836

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Beginning balance of plan assets...	¥ 38,107	¥ 36,412	\$ 343,337
Expected return on plan assets ..	1,907	1,783	17,181
Actuarial differences.....	(3,435)	(157)	(30,948)
Contribution from the employer ..	1,357	1,279	12,226
Retirement benefits paid.....	(1,185)	(1,210)	(10,676)
Other.....	—	—	—
Ending balance of plan assets.....	¥ 36,750	¥ 38,107	\$ 331,110

(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
	2019	2018	2019
Funded defined benefit obligation...	¥ 64,808	¥ 65,547	\$ 583,908
Plan assets.....	(36,750)	(38,107)	(331,110)
	28,057	27,439	252,788
Unfunded defined benefit obligation.....	325	300	2,928
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 28,383	¥ 27,740	\$ 255,725

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net defined benefit liability.....	¥ 28,383	¥ 27,740	\$ 255,725
Net defined benefit asset.....	—	—	—
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 28,383	¥ 27,740	\$ 255,725

(d) The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost.....	¥ 2,201	¥ 2,245	\$ 19,830
Interest cost.....	131	132	1,180
Expected return on plan assets.....	(1,907)	(1,783)	(17,181)
Amortization of actuarial differences.....	1,497	1,899	13,487
Amortization of prior service cost ...	—	—	—
Other	(3)	33	(27)
Retirement benefit expenses on defined benefit plans.....	¥ 1,918	¥ 2,528	\$ 17,280

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
	2019	2018	2019
Prior service cost.....	¥ —	¥ —	\$ —
Actuarial differences.....	(1,629)	1,727	(14,676)
Total.....	¥ (1,629)	¥ 1,727	\$ (14,676)

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost.....	¥ —	¥ —	\$ —
Unrecognized actuarial differences.....	(9,566)	(7,937)	(86,187)
Other	—	—	—
Total.....	¥ (9,566)	¥ (7,937)	\$ (86,187)

(g) Plan assets

1) Components of plan assets

Plan assets consisted of the following:

	2019	2018
Bonds	19.9%	17.9%
Equity securities.....	28.8%	36.8%
Cash and deposits	12.1%	6.6%
General account.....	11.4%	10.9%
Other	27.8%	27.8%
Total.....	100.0%	100.0%

Note: Total plan assets as at March 31, 2019 and 2018 included an employees' retirement benefit trust established for corporate welfare pension plans that represented 17.9% and 21.3% 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, 2019 and 2018 were as follows:

	2019	2018
Discount rate	0.200%	0.200%
Long-term expected rate of return	1.889% - 5.850%	2.077% - 5.629%

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) Amount of retirement benefit expenses for defined contribution plans

The amount of required contribution to the defined contribution plan of the Bank and its consolidated subsidiaries for the years ended March 31, 2019 and 2018 was ¥198 million (\$1,783 thousand) and ¥127 million, respectively.

15. Derivative Transactions

Derivative transactions as at March 31, 2019 and 2018 were as follows:

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

For derivative 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			
	2019			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	¥ 22,497	¥ 21,729	¥ (454)	¥ (454)
Pay floating/ receive fixed	18,702	18,334	288	288
Total	—	—	¥ (165)	¥ (165)

Type	Thousands of U.S. Dollars			
	2019			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	\$202,693	\$195,774	\$ (4,090)	\$ (4,090)
Pay floating/ receive fixed	168,501	165,186	2,594	2,594
Total	—	—	\$ (1,486)	\$ (1,486)

Type	Millions of Yen			
	2018			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
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

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			
	2019			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	¥ 831,624	¥ 599,294	¥ 112	¥ 112
Forward foreign exchange				
Sold	106,103	14,026	277	277
Bought	24,329	12,604	(155)	(155)
Currency options				
Sold	23,774	12,514	(635)	576
Bought	23,774	12,514	635	(440)
NDF				
Sold	922	354	1	1
Bought	884	343	35	35
Total	—	—	¥ 271	¥ 408

Type	Thousands of U.S. Dollars			
	2019			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	\$7,492,783	\$5,399,531	\$ 1,009	\$ 1,009
Forward foreign exchange				
Sold	955,969	126,371	2,495	2,495
Bought	219,199	113,559	(1,396)	(1,396)
Currency options				
Sold	214,199	112,748	(5,721)	5,189
Bought	214,199	112,748	5,721	(3,964)
NDF				
Sold	8,307	3,189	9	9
Bought	7,964	3,090	315	315
Total	—	—	\$ 2,441	\$ 3,676

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	—	—	¥ 2,046	¥ 2,203

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			
	2019			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold.....	¥ 1,374	¥ —	¥ (5)	¥ (5)
Total.....	—	—	¥ (5)	¥ (5)

Type	Thousands of U.S. Dollars			
	2019			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold.....	\$ 12,379	\$ —	\$ (45)	\$ (45)
Total.....	—	—	\$ (45)	\$ (45)

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

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

(2) Derivative transactions to which hedge accounting is applied

For derivative 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		
		2019		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Interest rate swaps	Loans and bills discounted and available-for-sale securities (bond)	¥211,168	¥ 207,068	¥ (11,984)
Total.....		—	—	¥ (11,984)

Thousands of U.S. Dollars

Type	Hedged item	2019		
		Contract amount	Over 1 year	Fair value
		The deferral method of hedge accounting		
Interest rate swaps	Loans and bills discounted and available-for-sale securities (bond)	\$1,902,585	\$ 1,865,645	\$ (107,973)
Total.....		—	—	\$ (107,973)

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

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:

Type	Hedged item	Millions of Yen		
		2019		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Fund-related swaps.....	Call loans	¥ 3,851	¥ —	¥ 0
Currency swaps.....	Loans	202,001	79,912	(811)
Total.....		—	—	¥ (811)

Type	Hedged item	Thousands of U.S. Dollars		
		2019		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Fund-related swaps.....	Call loans	\$ 34,696	\$ —	\$ 0
Currency swaps.....	Loans	1,819,992	719,992	(7,306)
Total.....		—	—	\$ (7,306)

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

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 as at March 31, 2019 and 2018 was as follows:

As lessee:

Obligations under operating leases that were not cancellable as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Due within one year	¥ 150	¥ 67	\$ 1,351
Due after one year	289	74	2,603
Total.....	¥ 440	¥ 141	\$ 3,964

17. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Net unrealized gains (losses) on available-for-sale securities:			
Increase (decrease) during the year	¥ (6,536)	¥ 10,975	\$ (58,888)
Reclassification adjustments	(2,170)	(1,823)	(19,551)
Subtotal, before tax	(8,707)	9,151	(78,448)
Tax benefit or (expense)	2,570	(2,747)	23,155
Subtotal, net of tax	(6,137)	6,403	(55,293)
Net deferred gains (losses) on hedging instruments:			
Decrease during the year	(12,508)	(3,542)	(112,694)
Reclassification adjustments	6,905	5,107	62,212
Subtotal, before tax	(5,603)	1,565	(50,482)
Tax benefit or (expense)	1,709	(478)	15,397
Subtotal, net of tax	(3,894)	1,087	(35,084)
Adjustments for retirement benefits:			
Increase during the year	(3,126)	(172)	(28,164)
Reclassification adjustments	1,497	1,899	13,487
Subtotal, before tax	(1,629)	1,727	(14,676)
Tax benefit or (expense)	496	(530)	4,468
Subtotal, net of tax	(1,132)	1,196	(10,199)
Total other comprehensive income	¥ (11,164)	¥ 8,687	\$ (100,585)

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 by the Bank. In addition, the Bank provides hedging services to customers in accordance with their needs.

(b) Details of financial instruments used and the exposure to risks 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 changes 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, the 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 risks 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 a foreign currency by corporations, local public organizations, local public corporations 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, non-resident 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 by the Bank.

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 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 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, which stipulate the structure and systems for credit risk management 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 the 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, Value at Risk (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 VaR as well as 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 a 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, 2019 and 2018 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Market risk volume	¥ 117,309	¥ 144,952	\$ 1,056,933
Banking business	117,297	144,801	1,056,824
[Price fluctuation risk]	[89,073]	[112,228]	[802,531]
[Interest rate risk]	[41,242]	[53,478]	[371,583]
[Considering correlation]	[(13,018)]	[(20,905)]	[(117,289)]
Trading activities	12	151	108

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 risks beyond the assumptions may not be fully captured. Accordingly, a complementary system is established by different stress tests and other 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 become necessary due to a mismatch between the timing of procurement and use, an unexpected outflow of funds (hereafter, "funds procurement risks") or 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 funds procurement as an important management issue, and its basic funds 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 funds procurement risk management and market liquidity risk management based on its Market Liquidity Risk Management Standards, which stipulate the framework and systems for funds 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 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) Supplementary 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, 2019 and 2018. 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		
	Book value	Fair value	Difference
Assets			
(1) Cash and due from banks.....	¥ 763,344	¥ 763,344	¥ —
(2) Trading account securities.....	2,375	2,375	—
(3) Money trusts.....	21,600	21,600	—
(4) Securities			
Bonds held to maturity.....	13,393	13,851	457
Available-for-sale securities.....	2,355,809	2,355,809	—
(5) Loans and bills discounted.....	4,802,184		
Reserve for possible loan losses (*1).....	36,526		
	4,765,658	4,807,694	42,035
Total assets.....	¥ 7,922,181	¥ 7,964,674	¥ 42,493
Liabilities			
(1) Deposits.....	¥ 6,630,177	¥ 6,630,898	¥ 720
(2) Negotiable certificates of deposit.....	170,112	170,120	8
(3) Payables under securities lending transactions.....	377,224	377,224	—
Total liabilities.....	¥ 7,177,515	¥ 7,178,243	¥ 728
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting.....	¥ (3,052)	¥ (3,052)	¥ —
Derivative transactions qualifying for hedge accounting.....	(12,796)	(12,796)	—
Total derivative transactions.....	¥ (15,848)	¥ (15,848)	¥ —

	Thousands of U.S. Dollars		
	Book value	Fair value	Difference
Assets			
(1) Cash and due from banks.....	\$ 6,877,592	\$ 6,877,592	\$ —
(2) Trading account securities.....	21,398	21,398	—
(3) Money trusts.....	194,612	194,612	—
(4) Securities			
Bonds held to maturity.....	120,668	124,795	4,117
Available-for-sale securities.....	21,225,416	21,225,416	—
(5) Loans and bills discounted.....	43,266,816		
Reserve for possible loan losses (*1).....	329,092		
	42,937,724	43,316,460	378,727
Total assets.....	\$ 71,377,430	\$ 71,760,284	\$ 382,854
Liabilities			
(1) Deposits.....	\$ 59,736,706	\$ 59,743,202	\$ 6,487
(2) Negotiable certificates of deposit.....	1,532,678	1,532,750	72
(3) Payables under securities lending transactions.....	3,398,720	3,398,720	—
Total liabilities.....	\$ 64,668,123	\$ 64,674,682	\$ 6,559
Derivative transactions (*2)			
Derivative transactions not qualifying for hedge accounting.....	\$ (27,497)	\$ (27,497)	\$ —
Derivative transactions qualifying for hedge accounting.....	(115,289)	(115,289)	—
Total derivative transactions.....	\$ (142,787)	\$ (142,787)	\$ —

	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)	¥ —

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 either no maturity date or a short term (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 the 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 amount 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 deposit by grouping the deposits based on future cash flows and discounting to present value using the interest rate on new deposits as at March 31, 2019.

(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” and in the fair value information on financial instruments in the tables above.

Category	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
(1) Unlisted equity securities (*1) (*2).....	¥ 5,572	¥ 5,595	\$ 50,202
(2) Investments in partnerships (*3).....	14,734	12,205	132,750
(3) Foreign stocks in foreign currency (*1).....	0	0	0
(4) Warrants (*1).....	—	0	—
Total	¥ 20,307	¥ 17,800	\$ 182,962

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

(*2) Impairment losses on unlisted stocks were recognized in the amount of ¥3 million (\$27 thousand) and nil for the fiscal years ended March 31, 2019 and 2018, respectively.

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

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

	Millions of Yen					
	2019					
	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).....	¥ 725,569	—	—	—	—	—
Securities	231,244	¥ 431,122	¥ 317,293	¥ 112,919	¥ 186,737	¥ 828,461
Bonds held to maturity.....	1,994	—	5,099	6,299	—	—
Japanese government bonds.....	1,994	—	5,099	6,299	—	—
Available-for-sale securities with maturities	229,249	431,122	312,194	106,620	186,737	828,461
Japanese government bonds.....	94,282	187,761	103,635	22,404	18,466	211,450
Japanese municipal bonds	42,059	69,245	52,128	26,259	135,463	398,314
Corporate bonds.....	63,405	132,909	90,932	17,671	6,526	64,757
Other	29,502	41,205	65,498	40,284	26,280	153,938
Loans and bills discounted (*2)	1,374,813	958,829	659,128	425,834	412,477	892,137
Total	¥ 2,331,626	¥ 1,389,952	¥ 976,421	¥ 538,754	¥ 599,214	¥ 1,720,599

	Thousands of U.S. Dollars					
	2019					
	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).....	\$ 6,537,246	—	—	—	—	—
Securities	2,083,466	\$ 3,884,331	\$ 2,858,753	\$ 1,017,379	\$ 1,682,466	\$ 7,464,285
Bonds held to maturity.....	17,965	—	45,941	56,752	—	—
Japanese government bonds.....	17,965	—	45,941	56,752	—	—
Available-for-sale securities with maturities	2,065,492	3,884,331	2,812,811	960,627	1,682,466	7,464,285
Japanese government bonds.....	849,463	1,691,692	933,732	201,856	166,375	1,905,126
Japanese municipal bonds	378,944	623,885	469,663	236,588	1,220,497	3,588,737
Corporate bonds.....	571,267	1,197,486	819,281	159,212	58,798	583,448
Other	265,807	371,249	590,125	362,951	236,778	1,386,953
Loans and bills discounted (*2)	12,386,818	8,638,877	5,938,625	3,836,687	3,716,343	8,037,994
Total	\$ 21,007,532	\$ 12,523,218	\$ 8,797,378	\$ 4,854,076	\$ 5,398,810	\$ 15,502,288

	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

(*1) Amounts 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 ¥50,170 million (\$452,022 thousand) and ¥56,250 million and loans without contract due dates in the amount of ¥28,794 million (\$259,428 thousand) and ¥29,904 million are not included in the above tables as at March 31, 2019 and 2018, 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					
	2019					
	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 (*).....	¥ 6,360,213	¥ 224,024	¥ 45,665	¥ —	¥ 274	¥ —
Negotiable certificates of deposit.....	169,485	626	—	—	—	—
Payables under securities lending transactions	377,224	—	—	—	—	—
Total	¥ 6,906,924	¥ 224,650	¥ 45,665	¥ —	¥ 274	¥ —

	Thousands of U.S. Dollars					
	2019					
	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 (*).....	\$ 57,304,378	\$ 2,018,416	\$ 411,433	\$ —	\$ 2,468	\$ —
Negotiable certificates of deposit.....	1,527,029	5,640	—	—	—	—
Payables under securities lending transactions	3,398,720	—	—	—	—	—
Total	\$ 62,230,146	\$ 2,024,056	\$ 411,433	\$ —	\$ 2,468	\$ —

	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	¥ —

(*) 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					
	2019					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	¥ 111,475	¥ 11,062	¥ 2,640	¥ 125,177	¥ 3,575	¥ 128,753
Intersegment income.....	1,986	250	91	2,327	1,849	4,177
Total	¥ 113,461	¥ 11,312	¥ 2,731	¥ 127,505	¥ 5,425	¥ 132,930
Segment profit (losses).....	21,919	873	(100)	22,692	1,815	24,508
Segment assets	8,225,712	34,967	8,951	8,269,631	26,132	8,295,763
Segment liabilities.....	7,708,809	19,037	4,480	7,732,328	11,976	7,744,304
Other items:						
Depreciation	4,233	86	17	4,337	34	4,372
Interest income	80,230	111	4	80,345	183	80,528
Interest expense.....	17,204	68	2	17,276	0	17,276

	Thousands of U.S. Dollars					
	2019					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	\$ 1,004,369	\$ 99,666	\$ 23,785	\$ 1,127,822	\$ 32,210	\$ 1,160,041
Intersegment income.....	17,893	2,252	819	20,965	16,659	37,634
Total	\$ 1,022,263	\$ 101,919	\$ 24,605	\$ 1,148,797	\$ 48,878	\$ 1,197,675
Segment profit (losses).....	197,486	7,865	(900)	204,450	16,352	220,812
Segment assets	74,112,190	315,046	80,646	74,507,892	235,444	74,743,337
Segment liabilities.....	69,454,986	171,519	40,363	69,666,888	107,901	69,774,790
Other items:						
Depreciation	38,138	774	153	39,075	306	39,390
Interest income	722,857	1,000	36	723,894	1,648	725,542
Interest expense.....	155,004	612	18	155,653	0	155,653

	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

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 are calculated by deducting non-recurring items from total income or income before income taxes and non-controlling interests.

2. "Other" represents business segments that 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
	2019	2018	2019
Ordinary income			
Total amount for reportable segments.....	¥ 127,505	¥ 132,047	\$ 1,148,797
Ordinary income of "Other".....	5,425	5,333	48,878
Reclassification of reserves.....	(131)	(261)	(1,180)
Elimination of intersegment transactions.....	(4,177)	(4,674)	(37,634)
Ordinary income.....	¥ 128,621	¥ 132,445	\$ 1,158,852

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
	2019	2018	2019
Segment profit			
Total amount for reportable segments.....	¥ 22,692	¥ 29,492	\$ 204,450
Segment profit of "Other".....	1,815	1,922	16,352
Elimination of intersegment transactions.....	(812)	(492)	(7,315)
Ordinary profit.....	¥ 23,696	¥ 30,922	\$ 213,496

(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
	2019	2018	2019
Segment assets			
Total amount for reportable segments.....	¥ 8,269,631	¥ 8,478,910	\$ 74,507,892
Segment assets of "Other".....	26,132	25,259	235,444
Elimination of intersegment transactions.....	(28,294)	(23,155)	(254,923)
Elimination of shares in consolidated subsidiaries.....	(13,718)	(13,718)	(123,596)
Assets.....	¥ 8,253,750	¥ 8,467,295	\$ 74,364,807

(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
	2019	2018	2019
Segment liabilities			
Total amount for reportable segments.....	¥ 7,732,328	¥ 7,940,295	\$ 69,666,888
Segment liabilities of "Other".....	11,976	11,680	107,901
Elimination of intersegment transactions.....	(28,373)	(23,214)	(255,635)
Liabilities.....	¥ 7,715,931	¥ 7,928,760	\$ 69,519,154

(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
	2019			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation.....	¥ 4,337	¥ 34	¥ (40)	¥ 4,331
Interest income.....	80,345	183	(874)	79,654
Interest expense.....	17,276	0	(47)	17,229

	Thousands of U.S. Dollars			Consolidated financial statements
	2019			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation.....	\$ 39,075	\$ 306	\$ (360)	\$ 39,021
Interest income.....	723,894	1,648	(7,874)	717,668
Interest expense.....	155,653	0	(423)	155,230

	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

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				
	2019				
	Lending	Securities investment	Service	Other	Total
Ordinary income from external customers.....	¥ 51,427	¥ 37,466	¥ 18,008	¥ 21,851	¥ 128,753

	Thousands of U.S. Dollars				
	2019				
	Lending	Securities investment	Service	Other	Total
Ordinary income from external customers.....	\$ 463,348	\$ 337,561	\$ 162,248	\$ 196,873	\$ 1,160,041

	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

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					
	2019					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets.....	¥ 222	¥ —	¥ —	¥ 222	¥ —	¥ 222

	Thousands of U.S. Dollars					
	2019					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets.....	\$ 2,000	\$ —	\$ —	\$ 2,000	\$ —	\$ 2,000

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

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, 2019 and 2018 was as follows:

(a) Number of outstanding shares and treasury stock

For the year ended March 31, 2019

(Thousands of shares)					
Type of shares	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year	Remarks
Issued stock:					
Common stock.....	195,272	—	—	195,272	
Treasury stock:					
Common stock.....	5,202	1,752	0	6,955	Note

Note: The increase in treasury stock of 1,752 thousand shares was due to the public bidding of 778 thousand, 483 thousand and 490 thousand shares pursuant to the resolutions made at the Board of Directors' meetings held on May 10, 2018, November 9, 2018 and January 30, 2019, respectively, and due to purchases of 0 thousand shares of less than one unit. The decrease in treasury stock of 0 thousand shares was due to the sale of shares of less than one unit.

For the year ended March 31, 2018

(Thousands of shares)					
Type of shares	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year	Remarks
Issued stock:					
Common stock.....	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 issued 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.

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

For the year ended March 31, 2019

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 (\$17,118 thousand)	¥10.00 (\$0.090)	Mar. 31, 2018	Jun. 27, 2018
Nov. 9, 2018	Board of Directors	Common stock	¥1,892 million (\$17,046 thousand)	¥10.00 (\$0.090)	Sep. 30, 2018	Dec. 7, 2018

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	¥10.00	Mar. 31, 2017	Jun. 26, 2017
Nov. 10, 2017	Board of Directors	Common stock	¥1,914 million	¥10.00	Sep. 30, 2017	Dec. 8, 2017

Dividends were applicable to the year ended March 31, 2019 but were 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, 2019	General meeting of shareholders	Common stock	¥2,259 million (\$20,353 thousand)	¥12.00 (\$0.108)	Mar. 31, 2019	Jun. 27, 2019

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
	2019	2018	2019
Cash and due from banks.....	¥ 763,344	¥ 777,680	\$ 6,877,592
Due from banks, excluding the Bank of Japan	(13,962)	(17,229)	(125,795)
Cash and cash equivalents	¥ 749,382	¥ 760,451	\$ 6,751,797

22. Stock Options

(1) Stock-based compensation expenses were ¥42 million (\$378 thousand) and ¥46 million for the fiscal years ended March 31, 2019 and 2018, respectively.

(2) Stock options outstanding as of March 31, 2019 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
2018 Stock Options	9 directors (excluding outside directors and directors serving as audit and supervisory committee members)	37,400	Aug. 3, 2018	From Aug. 4, 2018 to Aug. 3, 2048

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 table describes changes in the number of stock options that existed during the year ended March 31, 2019. Number of stock options is converted to number of shares.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options
For the year ended March 31, 2019	Number of Shares									
Non-vested:										
April 1, 2018 – Outstanding	13,800	17,200	32,400	31,700	26,100	26,900	20,300	33,400	29,800	—
Granted.....	—	—	—	—	—	—	—	—	—	37,400
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
March 31, 2019 – Outstanding.....	13,800	17,200	32,400	31,700	26,100	26,900	20,300	33,400	29,800	37,400
Vested:										
April 1, 2018 – Outstanding	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
March 31, 2019 – Outstanding	—	—	—	—	—	—	—	—	—	—

Price information for 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 stock options is as follows:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Stock Options									
	(Yen)									
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise...	—	—	—	—	—	—	—	—	—	—
Fair appraisal price at date of grant.....	1,197	935	917	926	1,281	1,483	1,815	1,022	1,508	1,099

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	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	\$ 0.00
Average share price at time of exercise...	—	—	—	—	—	—	—	—	—	—
Fair appraisal price at date of grant.....	10.78	8.42	8.26	8.34	11.54	13.36	16.35	9.20	13.58	9.90

(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 2018 stock options were as follows:

	2018 Stock Options
Volatility of stock prices (Note 1)	29.136%
Estimated remaining outstanding period (Note 2)	5 years and 9 months
Estimated dividend (Note 3)	¥20.00 per share
Risk-free interest rate (Note 4)	(0.026)%

- Notes: 1. The volatility of stock prices was computed based on the actual stock prices from October 2012 to August 2018, corresponding to the estimated remaining outstanding period.
2. The remaining outstanding period was estimated based on historical data.
3. Estimated at the time of grant for the dividend for the year ended March 31, 2019.
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 assets related to the obligations cannot be determined because no termination, transfer, etc., has been planned. Therefore, the Bank cannot reasonably estimate the asset retirement obligations and no asset retirement obligation has been recorded.

24. Related-party Transactions

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

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

2019

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.

2019

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	\$27 thousand	Hat manufacturing	—	—	Lending Note	Average balance \$378 thousand	Loans and bills discounted	\$378 thousand

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	¥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.

25. Subsequent Events

Purchases of treasury stock

On May 14, 2019, the Board of Directors of the Bank passed a resolution to purchase up to 400 thousand shares of the Bank's common stock from the market at a price not exceeding ¥500 million (\$4,504 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 400 thousand shares for ¥412 million (\$3,712 thousand) by June 14, 2019.



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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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 26, 2019
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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
ASSETS:			
Cash and due from banks.....	¥ 763,284	¥ 777,658	\$ 6,877,051
Call loans	39,677	141,250	357,482
Other debt purchased.....	29,599	27,106	266,681
Trading account securities.....	2,375	1,827	21,398
Money trusts	18,000	25,000	162,176
Securities	2,394,994	2,620,862	21,578,466
Loans and bills discounted	4,808,712	4,676,114	43,325,632
Foreign exchange	9,042	7,949	81,466
Other assets	118,371	113,605	1,066,501
Tangible fixed assets.....	38,894	39,682	350,427
Intangible fixed assets.....	4,427	5,834	39,886
Customers' liabilities for acceptances and guarantees.....	32,490	34,087	292,729
Reserve for possible loan losses.....	(34,158)	(31,432)	(307,757)
Total assets	¥ 8,225,712	¥ 8,439,546	\$ 74,112,190
LIABILITIES AND NET ASSETS:			
Liabilities:			
Deposits.....	¥ 6,818,255	¥ 6,646,080	\$ 61,431,255
Call money	18,790	57,928	169,294
Payables under repurchase agreements.....	125,088	71,568	1,127,020
Payables under securities lending transactions	377,224	747,270	3,398,720
Commercial paper.....	48,717	46,157	438,931
Borrowed money.....	155,936	188,524	1,404,955
Foreign exchange	1,709	223	15,397
Due to trust account.....	2,760	1,575	24,867
Other liabilities.....	87,725	83,462	790,386
Liability for employees' severance and retirement benefits.....	18,556	19,544	167,186
Accrued employees' bonuses	1,291	1,269	11,631
Reserve for reimbursement of deposits.....	995	1,383	8,964
Reserve for point program	78	76	702
Deferred tax liabilities.....	12,540	16,972	112,983
Acceptances and guarantees.....	32,490	34,087	292,729
Total liabilities	¥ 7,702,161	¥ 7,916,123	\$ 69,395,089
Net assets			
Shareholders' equity			
Common stock.....	¥ 15,149	¥ 15,149	\$ 136,489
Capital surplus	6,286	6,286	56,635
Retained earnings	426,685	415,140	3,844,355
Less treasury stock, at cost.....	(9,401)	(7,400)	(84,701)
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities.....	93,412	98,976	841,625
Net deferred losses on hedging instruments.....	(8,893)	(4,998)	(80,124)
Subscription rights to shares.....	311	269	2,802
Total net assets	523,551	523,422	4,717,100
Total liabilities and net assets	¥ 8,225,712	¥ 8,439,546	\$ 74,112,190

Nonconsolidated Income Statements

The Chugoku Bank, Limited
For the Years Ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Income:			
Interest and dividends on:			
Loans and discounts.....	¥ 51,412	¥ 47,027	\$ 463,212
Securities	27,659	31,545	249,202
Other	1,158	1,442	10,433
Fees and commissions	19,175	18,911	172,763
Other operating income:			
Gains on sales and redemptions of other securities and trading account securities	4,865	3,827	43,832
Other	367	604	3,306
Other income:			
Reversal of reserve for possible loan losses	—	1,778	—
Bad debt recovered	0	5	0
Gains on sales of equity securities	5,574	6,888	50,220
Gains on money trusts	—	85	—
Gains on disposals of fixed assets	15	14	135
Other	3,248	4,380	29,263
Total income	113,476	116,513	1,022,398
Expenses:			
Interest on:			
Deposits	2,375	1,989	21,398
Borrowing	2,504	1,237	22,560
Interest rate swaps	7,347	5,311	66,195
Other	4,976	5,221	44,832
Fees and commissions	4,288	4,301	38,634
Other operating expenses:			
Losses on sales and redemptions of bonds and trading account securities	3,753	6,317	33,813
Foreign exchange losses	843	1,873	7,595
Other	407	—	3,666
General and administrative expenses	55,708	57,565	501,919
Other expenses:			
Losses on sales and write-offs of shares	4,078	2,450	36,742
Losses on money trusts	104	118	937
Reserve for possible loan losses	4,060	—	36,579
Write-offs of loans	65	—	585
Losses on disposals of fixed assets	67	61	603
Losses on impairment of fixed assets	222	148	2,000
Other	1,026	2,179	9,244
Total expenses	91,831	88,777	827,380
Income before income taxes	21,645	27,736	195,017
Income taxes:			
Current	6,758	7,218	60,888
Deferred	(451)	1,107	(4,063)
	6,306	8,326	56,815
Net income	¥ 15,338	¥ 19,409	\$ 138,192

Nonconsolidated Statements of Changes in Net Assets

The Chugoku Bank, Limited
For the Years Ended March 31, 2019 and 2018

	Millions of Yen							
	2019							
	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	¥ 415,140	¥ (7,400)	¥ 98,976	¥ (4,998)	¥ 269	¥ 523,422
Net income.....			15,338					15,338
Cash dividends.....			(3,793)					(3,793)
Purchases of treasury stock.....				(2,000)				(2,000)
Disposal of treasury stock.....			(0)	0				0
Net changes in items other than shareholders' equity.....					(5,563)	(3,894)	42	(9,415)
Net changes during the year.....	—	—	11,545	(2,000)	(5,563)	(3,894)	42	128
Balance at end of year.....	¥ 15,149	¥ 6,286	¥ 426,685	¥ (9,401)	¥ 93,412	¥ (8,893)	¥ 311	¥ 523,551

	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

	Thousands of U.S. Dollars (Note 1)							
	2019							
	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.....	\$ 136,489	\$ 56,635	\$ 3,740,336	\$ (66,672)	\$ 891,756	\$ (45,031)	\$ 2,423	\$ 4,715,938
Net income.....			138,192					138,192
Cash dividends.....			(34,174)					(34,174)
Purchases of treasury stock.....				(18,019)				(18,019)
Disposal of treasury stock.....			(0)	0				0
Net changes in items other than shareholders' equity.....					(50,121)	(35,084)	378	(84,827)
Net changes during the year.....	—	—	104,018	(18,019)	(50,121)	(35,084)	378	1,153
Balance at end of year.....	\$ 136,489	\$ 56,635	\$ 3,844,355	\$ (84,701)	\$ 841,625	\$ (80,124)	\$ 2,802	\$ 4,717,100

Corporate Information

Board of Directors and Audit & Supervisory Board Members (As of June 30, 2019)



Chairman

Masato Miyanaga



Director and
President

Sadanori Kato



Senior Managing
Director

Koji Terasaka



Senior Managing
Director

Ikuhide Harada



Managing Director

Shinichi Taniguchi



Managing Director

Tatsuo Hiramoto



Managing Director

Hiroyuki Ohara



Managing Director

Hiromichi Kato



Outside Director

Yoshio Sato



Outside Director

Akira Kodera



Full-time of Audit and
Supervisory Committee
Member

Hiromichi Ando



Full-time of Audit and
Supervisory Committee
Member

Kotaro Kogame



Outside Audit and Supervisory
Committee Member

Michiyo Nishida



Outside Audit and Supervisory
Committee Member

Hiromichi Furuya



Outside Audit and Supervisory
Committee Member

Toshihide Saito



Outside Audit and Supervisory
Committee Member

Kazuhiro Tanaka

Managing Executive Officer

Tatsuo Urakami

Managing Executive Officer

Kiyotaka Tsugiyama

Managing Executive Officer

Yasusuke Mitani

Managing Executive Officer

Yasunori Saimyoji

Managing Executive Officer

Soichi Yamamoto

Executive Officer

Toshiyuki Koyama

Executive Officer

Shunji Miyazaki

Executive Officer

Takeo Nishiu

Executive Officer

Hideaki Yoshimoto

Executive Officer

Teruchika Watanabe

Executive Officer

Takekazu Okagaki

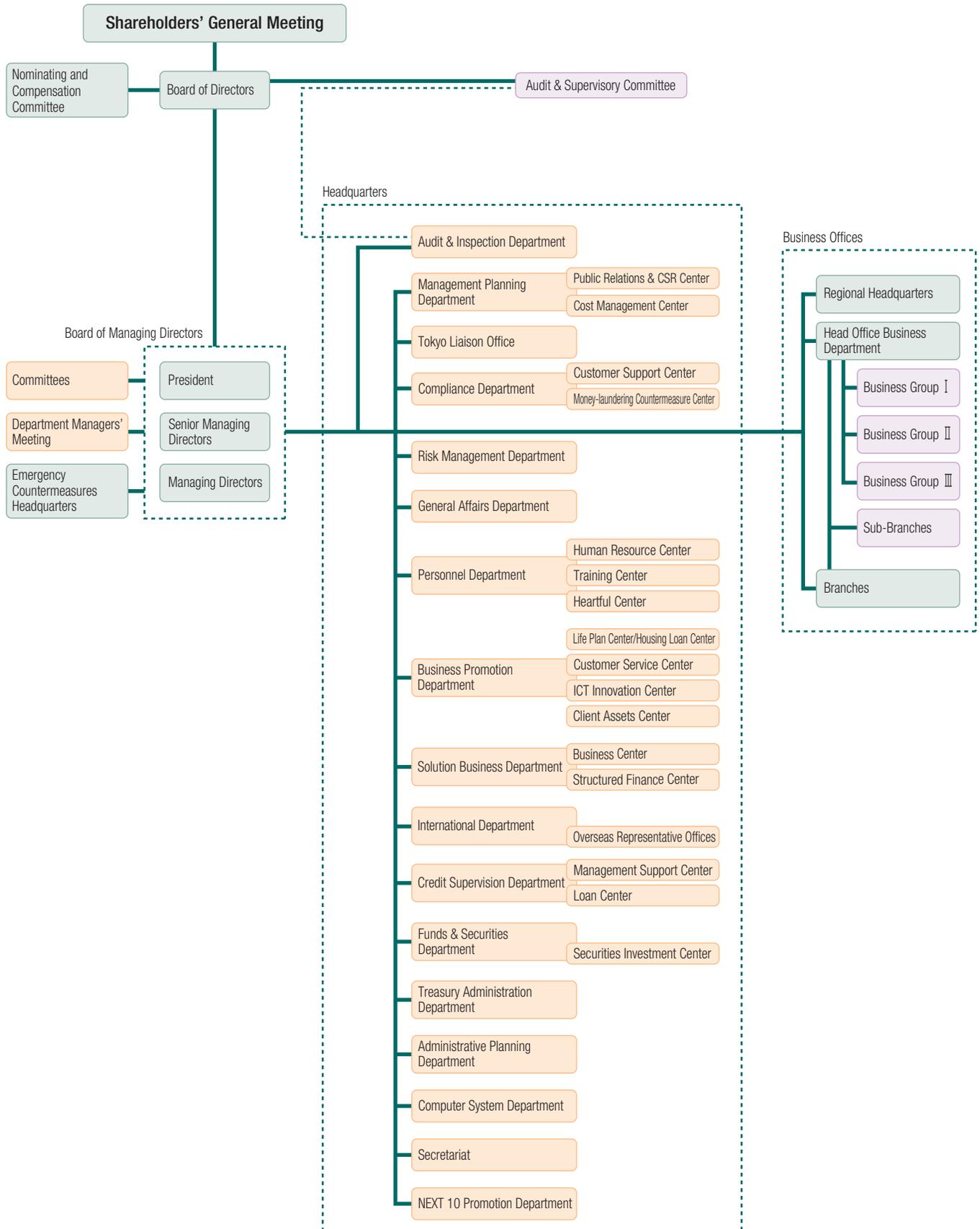
Executive Officer

Masakazu Yamagata

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, 2019)



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, 2019)



Service Networks

(As of June 30, 2019)

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

1-5-5, Muromachi Chibagin Mitsui Building,
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

Representative Office Registered in Singapore

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

New York Representative Office

150 East 52nd Street, 17th 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-machi, 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, 2019)

Location	Number of Offices
Okayama Pref.	109
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, 2019)

Head Office

Address:	1-15-20, Marunouchi, Kita-ku, Okayama, Japan
Telephone:	(81) 86-223-3111
SWIFT Code:	CHGKJPJZ
Website:	https://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:	11,688
Number of Employees:	2,884

Number of Employees

As of March 31	Number of Employees		
	2019	2018	2017
Employees	2,884	2,961	3,074

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

Shareholder Information

(As of March 31, 2019)

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.....	48	480,164	24.61
Securities firms.....	27	23,614	1.21
Other corporations	492	538,899	27.62
Foreign investors	225	324,795	16.65
Individuals	10,894	583,555	29.91
Total.....	11,688	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
Japan Trustee Services Bank, Ltd.	15,911	8.44
The Master Trust Bank of Japan, Ltd.	7,075	3.75
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch).....	5,469	2.90
Okayama Estate and Warehousing Co., Ltd.	5,358	2.84
Nippon Life Insurance Company.....	4,756	2.52
Meiji Yasuda Life Insurance Company	4,754	2.52
KURABO INDUSTRIES LTD.	4,559	2.42
CP CHEMICAL INCORPORATED.....	4,478	2.37
Chugoku Bank Employee Stock Ownership Plan.....	4,290	2.27
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch).....	2,977	1.58
Total	59,632	31.66

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.