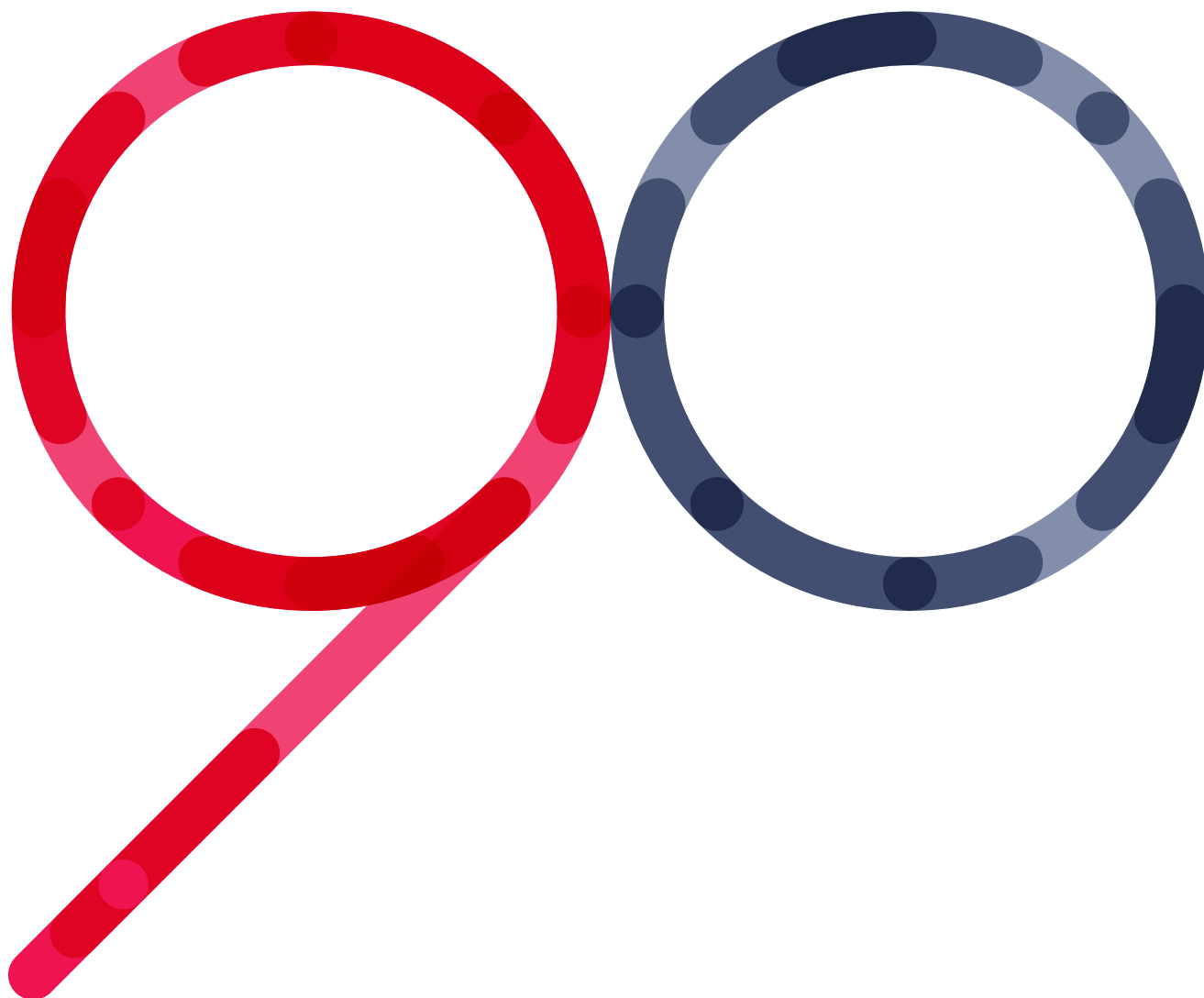


ANNUAL REPORT 2020

THE CHUGOKU BANK, LTD.



THE CHUGOKU BANK, LTD.



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

Corporate Vision

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



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THE CHUGOKU BANK, LTD.

Chugin-no-kokoro (Philosophy of Chugoku Bank)

“Chugin-no-kokoro” was formulated as a guide and set of values that each individual in the Chugoku Bank Group should hold when engaging in self-motivated work.

To Customers: We will aim for a Win-Win relationship with customers

[Added value] We will deliver satisfaction and emotion to our customers through “mindful service”

[Stance] We will work toward mutual growth with customers

As Individuals: We will realize dreams through our work

[Growth] We will hold high motivation and challenge ourselves to grow

[Concentration of strength] We will recognize, respect, and cooperate with each other

As a Company: We will provide motivating work and a place to grow

[Culture] The Chugoku Bank Group will provide a motivating workplace

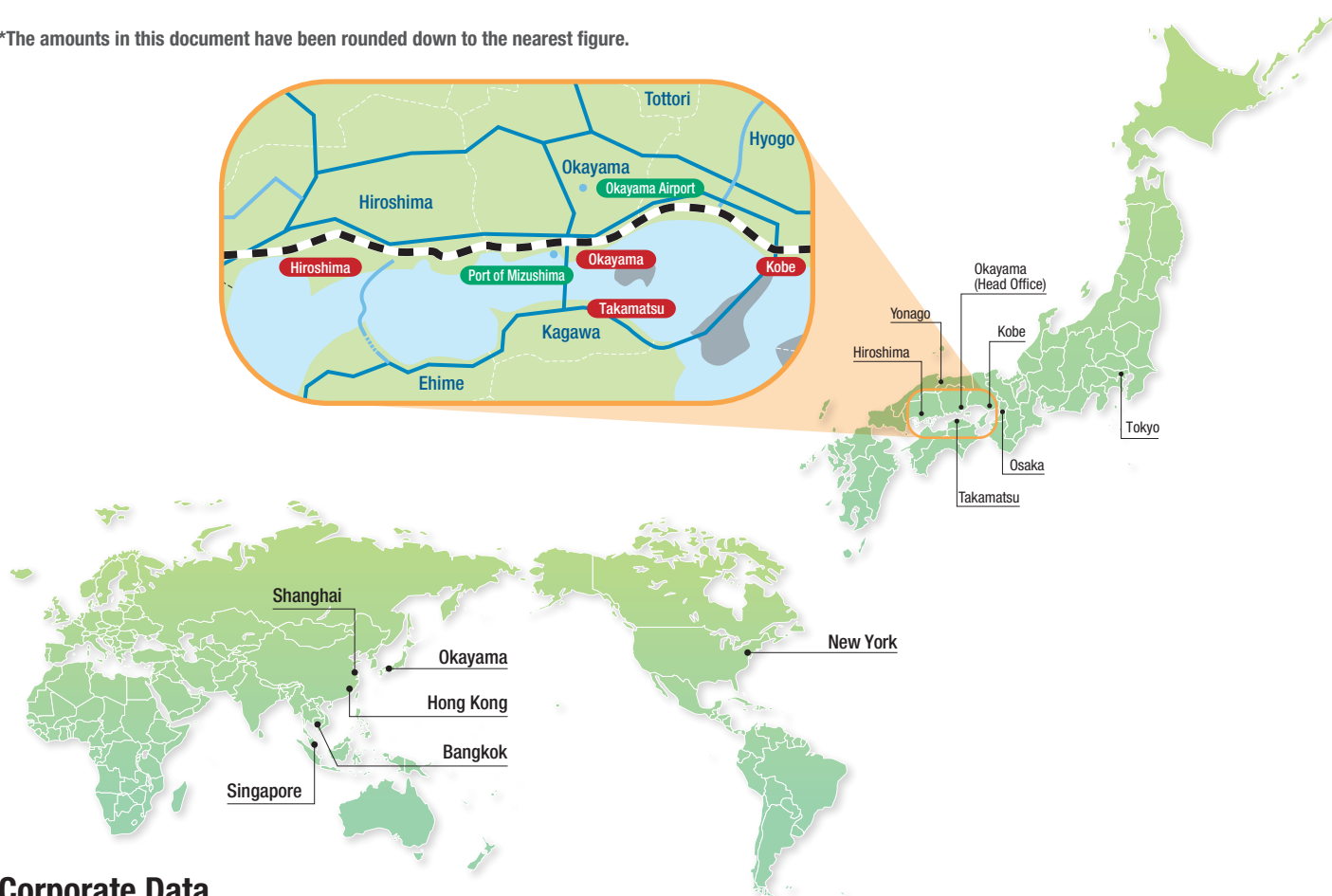
[Organizational strength] The Chugoku Bank Group will collect diverse strengths to raise its organizational strength

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 ¥7,681 billion (U.S.\$70,579 million), or an impressive 1.40% 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.



Corporate Data

(As of March 31, 2020)

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: 13,391
 Number of Employees: 2,831

Number of Employees

As of March 31	Number of Employees		
	2020	2019	2018
Employees	2,831	2,884	2,961

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

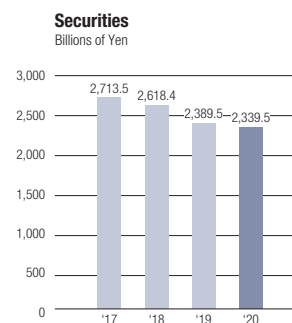
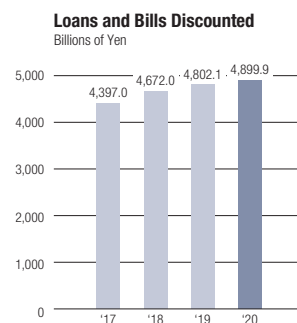
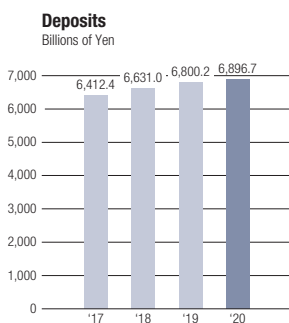
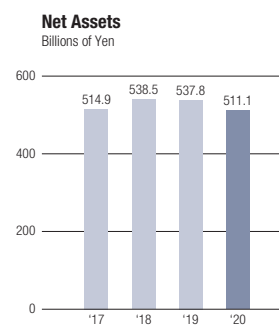
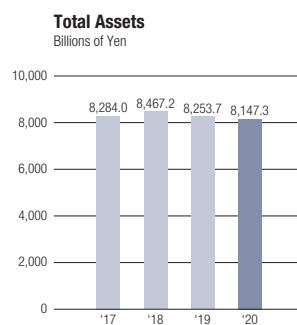
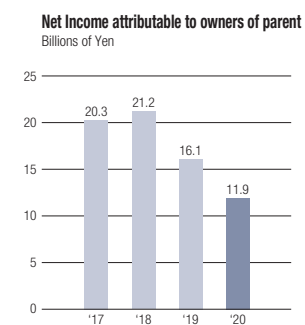
Consolidated Financial Highlights

The Chugoku Bank, Limited and its Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

	Millions of Yen (except per share amounts)		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
For the year:			
Total income	¥ 127,320	¥ 128,637	\$ 1,169,898
Total expenses	110,495	105,215	1,015,299
Net income attributable to owners of parent	11,916	16,199	109,491
Per share of common stock (yen/U.S. dollars):			
Basic net income	¥ 63.35	¥ 85.67	\$ 0.582
Diluted net income	63.29	85.55	0.581
At year-end:			
Deposits	¥ 6,896,745	¥ 6,800,290	\$ 63,371,726
Loans and bills discounted	4,899,984	4,802,184	45,024,202
Securities	2,339,566	2,389,510	21,497,436
Total assets	8,147,386	8,253,750	74,863,420
Net assets	511,193	537,818	4,697,169
For the year:			
Cash flows used in operating activities	(169,359)	(240,799)	(1,556,179)
Cash flows used in (provided by) investing activities	(10,370)	235,740	(95,286)
Cash flows used in financing activities	(4,969)	(6,014)	(45,658)
Cash and cash equivalents at end of year	564,672	749,382	5,188,569

Notes: 1. U.S. dollar amounts represent translations from yen, for convenience only, at the rate of ¥108.83 = US\$1 in effect on March 31, 2020.

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





Director and President
Sadanori Kato

As a regional financial institution striving to provide solutions to social issues that may occur in future, we aim to create even more business opportunities by providing our new services.

We are deeply grateful to all our stakeholders including the shareholders for their continued support.

While the business environment of regional banks has increased its severity, since early spring of this year the spread of the novel coronavirus disease (COVID-19) has made a great impact on regional economies.

Under these circumstances, we are exerting all possible efforts as an entire organization to advance structural reforms to respond to social changes, as well as further strengthening our contributions to the regional customers whom we have valued since our foundation.

Accordingly, I would like to explain our future growth strategies based on our medium-term management plan.

Long-term management plan has been formulated based on our corporate principles cultivated over the long history of ours

The Chugoku Bank (hereinafter, the “Bank”) originates in the establishment of The 86th National Bank in 1878 which later became Daiichi Godo Bank and then merged with Sanyo Bank in 1930 to establish KK Chugoku Bank (which changed its trade name to the Chugoku Bank in 1990). The year 1930 was in the midst of the Showa Depression in Japan. As Magosaburo Ohara, the first president of the Bank, was a prominent figure in economic circles in the Okayama region, we have been told that he had experienced a lot of hardship in bringing forth the build-up of the regional economies.

Also, Hisashi Moriwake, who became the third president of the Bank in 1946 (immediately after the end of the Pacific War), had endeavored in rebuilding the Bank amid the turmoil after the war. In such endeavor, he had, with a vision of “self-driven sound management” and with over 30 years of being president of the Bank, contributed to the development of the Bank and the regional economies. For the Bank, “self-driven sound management” means to “protect with our lives the money entrusted to us by our customers,” in other words, the Bank can provide added value to customers only after building unwavering trust and continuing to grow, and this reflects the strong commitment upon which our management principles are based. This vision is intended that, under any business environment, the Bank will aim to maintain and ensure sound management, seeking no quick gains but maintaining steady growth of its business. Also, our basic principle is to establish trust by maintaining and strengthening a solid business foundation through the enhancement of capital adequacy with thorough cost saving and implementation of a personnel policy that values small numbers with superior talent, which constitutes the source of our business strength. These philosophies have been inherited without any interruption to all members of the Bank in the past through lessons learned by our predecessors since its foundation and through the post-war turmoil period. Still today, these philosophies are engraved in the minds of each and every one of the members of our workforce in performing their duties.

Over 90 years of our history, the Bank has been pursuing contribution to local customers as a financial institution that supports regional economies and people’s livelihood, with the belief in “following a path of co-existence and co-prosperity with our customers.” Our corporate principles of “remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services,” will transcend the ages as unchanging values.

In addition, based on our corporate principles cultivated over many years, we have established “Chugin-no-kokoro (Philosophy of Chugoku Bank)” in 2014 to look ahead to the new age and strengthen our management fundamentals. This philosophy provides the standard and common values to be the basis for members of the workforce of the Chugoku Bank Group in performing their duties for their actions and judgments. By sharing this, we aim to strengthen our organization, and provide our customers with satisfaction and excitement, as well as creating a positive growth cycle of capacity development of our staff members and their job satisfaction.

Moreover, we have formulated our ten-year long-term management plan “Vision 2027: Plan for Creating the Future Together” in 2017 based on our corporate principles and “Chugin-no-kokoro.” With our long-term vision of “Create with Our Community, Customers and Employees a Rich Future that We Can All Share,” we shall overcome any adverse external environment such as population decline and continuing ultra-low interest rates, and steadily move forward to build a sustainable business model.

During the period of the previous medium-term management plan, “Plan for Creating the Future Together: Stage I ,” we have steadily produced results in the structural reforms

We formulate medium-term management plans in line with our long-term management plan that covers until year 2027, and strive to steadily carry out and operate the medium-term management plans. The previous medium-term management plan “Stage I” was designed as the period to implement structural reforms. As such, we have endeavored during the three-year period ended March 2020 to achieve these objectives.

To be specific, we have endeavored to eliminate redundant work and pursued efficiency by undertaking a fundamental review of our work system, as well as introducing BPR (Business Process Re-engineering/operational reforms) such as utilizing ICT (Information and Communication Technology) tools. As a result, as for the KPI (Key Performance Indicator) in the plan, most of the performance indicators ranging from the consolidated capital adequacy ratio (Basel III) to each figure for individual and corporate customers have exceeded the target. Net income attributable to owners of parent did not reach the target against the

▶ 11

Overview of the long-term management plan, “Vision 2027: Plan for Creating the Future Together”

▶ 11

The previous medium-term management plan, which focused on strengthening hardware aspects (Stage I)

backdrop of the deteriorating external environment and increased credit costs. Since a severe revenue environment is expected to continue, building a new business model toward growth is vital under the new medium-term management plan “Stage II.”

As for the structural reforms made during “Stage I,” strategic investment has been made especially to strengthen hardware, which resulted in the reduction of clerical work, and an increase in the number of sales staff. In fact, 326 members have been secured and engaged in core business such as sales sectors.

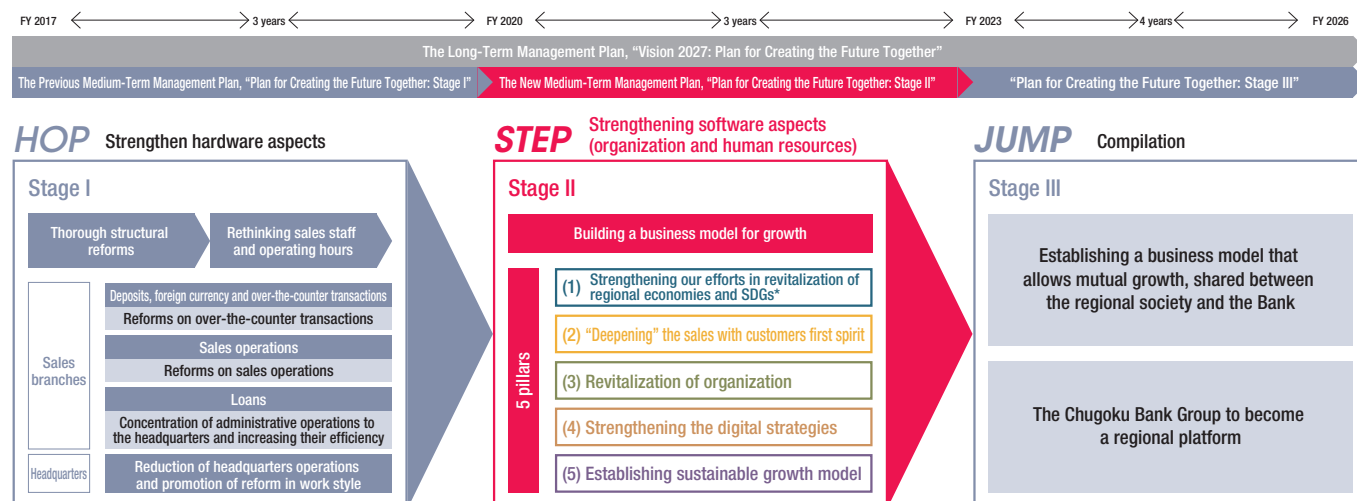
Also, in order to achieve changes in individual ways of thinking and reforms of organizational culture, we are continuing “a dialogue session to discuss the present and the future of the Bank” with our staff members of our sales branches. Specifically, executive officers (including myself) and general managers of each department in the headquarters visit all sales branches one by one to exchange candid opinions with the staff members. This session started in the fiscal year ended March 31, 2017 to instill “Chugin-no-kokoro” and is intended to encourage information sharing and activate communication between executive officers and headquarters, and the sales branches, by implementing the “Chugin-no-kokoro” philosophy. We believe all these efforts of holding face to face exchanges of opinions between the management and the sales branches will help create a sense of unity toward making a bright future. We will reflect these opinions in our future initiatives and accelerate the reforms. These initiatives are the ones based on “Chugin-no-kokoro” that I referred to in the beginning, and are intended to have all the executive and staff members of the Chugoku Bank Group working together toward the common goal to strengthen the power of our organization and to provide satisfaction and excitement to our customers.

With the result of the structural reforms in “Stage I” as a basis, and mobilizing increased number of sales staff from this fiscal year, we are willing to increase contact points with our customers and offer further service.

As for the improvement of quality of our service, we embarked on strengthening partnerships in addition to in-house initiatives. We are one of the 10 regional banks who have formed “TSUBASA Alliance,” the largest of its kind by regional banks in Japan, and under this alliance, the parties are enhancing their collaborative efforts such as sharing of their mission-critical system. Also, we have other forward-looking collaborations under way, such as sharing the operations of the same FinTech platform using ICT or introduction of bankbook applications. Instead of going through mergers or capital tie-ups, we will use this new framework of alliance by regional banks to create a large synergy (multiple effect) such as making possible further cost saving and improving our services. We will seek to achieve the maximum performance out of this alliance, which is something that a single bank cannot achieve without it.



Positioning of “Plan for Creating the Future Together: Stage II”



*SDGs: The acronym of “Sustainable Development Goals.” It sets forth the targets applicable to all international societies as determined by the UN Summit in September 2015.

In our home ground of Chugoku area, we have entered into the “Alliance Agreement Pertaining to Regional Revitalization/Okayama Revitalization Partnership” with TOMATO BANK, LTD., Japan Finance Corporation and Okayama Credit Guarantee Corporation. This Agreement is intended to have parties under the Agreement to coordinate and cooperate among them to strengthen their efforts toward revitalization of the regional economies.

The parties are sharing their know-how and knowledge, and holding consultation meetings for company founders and various seminars to help further regional development.

Also, during “Stage I,” we have strengthened our efforts in open innovation by aligning with industries, educational institutions, administrative bodies, financial institutions and press media in order to support fostering the local industry and start-ups. As concerns over extreme economic concentration in metropolitan areas are growing against the backdrop of the spread of COVID-19, we are of the opinion that now is the time to focus on the potential of rural areas, and we (together with industries, educational institutions, administrative bodies, financial institutions and press media) will apply financial services to contribute to the regional development.

The new medium-term management plan “Stage II” places the first priority on “strengthening our efforts in revitalization of regional economies and SDGs”

The new medium-term management plan “Stage II” that started in April 2020, incorporates the results of the structural reforms carried out during the preceding medium-term management plan “Stage I.” In this new plan “Stage II,” we will strive to exert even more efforts in “building a business model that allows mutual growth, shared between the regional society and the Bank.” While pondering over what kind of organization we ought to be in future, the Chugoku Bank Group will strive to build its own original business model that allows mutual growth with the regional society.

“Stage II” provides for strategies that consist of “5 Pillars” as the outlines of the plan. By steadily achieving these pillars, we intend to reverse the trend of declining profit during “Stage I,” and to establish sustainable growth.

Our net interest income on securities are decreasing against the backdrop of prolonged negative interest rates. To reverse the trend, we will secure revenues by strengthening the headquarters operation for Structured Finance (SF) and non-Japanese loans, and by building up service and non-financial revenues, all the while carrying out stringent reduction of non-personnel expenses and personnel expenses. Also, reflecting contributions attributable to the growth of each company of our Chugoku Bank Group, we aim to achieve an additional ¥3,100 million of net income attributable to owners of parent for the last fiscal year of “Stage II.”

As for the context of the “5 Pillars,” “strengthening our efforts in revitalization of regional economies and Sustainable Development Goals (SDGs)” is presented as “Strategy I.” The Chugoku Bank Group formulated in March 2020 “the Declaration of

▶ 13
The new medium-term management plan, which focuses on strengthening software aspects (Stage II)

Chugin Pertaining to SDGs” which incorporates our policy and initiatives in making contributions to achieve SDGs through our business activities, and in achieving sustainable growth with the local society. SDGs were determined by the UN Summit in 2015 and their goals are shared by the entire international communities. As such, we are presenting our initiatives for SDGs on top of our pillars with an eye toward the future, and we will strive to establish a business model that allows mutual growth with regional society. And these are the main initiatives that we intend to accomplish during “Stage II.”

As referred to in the beginning, Magosaburo Ohara, the first president of the Bank, greatly devoted himself to the startup of financial institutions in the strong hope of development of a regional society. His behavior was something literally similar to the spirit of SDGs. During my stay in the U.S. as a student, I was surprised to find in a local newspaper the name of Magosaburo Ohara appearing in the list of individuals who had made contributions to industries along with Henry Ford, a person who had started and built an automobile industry. His behavior of aggressively advancing corporate management with a spirit of high ideal toward vitalization of local communities, had been highly regarded in the U.S. In recent days, we can see the local economy stagnating against the backdrop of low birthrate and aging population. We believe that now is the time to bring out his founding spirit, and that this spirit will certainly go in line with the Bank’s aspiration and idealism during “Stage II.”

While the fundamental mission of a financial institution is to provide sufficient funds to its individual and corporate customers, the institution has another important role of providing various proposals to the diversified customers for their needs, and assisting the customers in bringing about the solutions. “Strategy II,” one of the 5 pillars, posts a mission of “‘deepening’ the sales with customers first spirit.” With the “deepening” process, we are willing to face sincerely various issues held by individual and corporate customers, and to contribute to bringing about the solutions.

In the past, the Bank’s business has been classified by functions, such as by asset management function and loan function. We will renew this practice. Our business will be classified by individual customers and corporate customers, with the spirit of customers first, and with the expectation that we will advance the sophistication of our problem-solving capacity. Also, we believe that our mission is to adapt to diversified and highly sophisticated needs held by our customers. Accordingly, we are endeavoring to develop professionals in each area of individual and corporate customers.

From now on, we will make stronger ties between our sales branches and headquarters and have them work as one in an integrated manner. We will also expand our services, participate in new business domains and maximize our group synergy. By carrying out all these new actions, we will provide new value to our customers. We believe these actions will ultimately increase profitability of our Group.

We will endeavor to “revitalize our organization” through efforts such as implementation of human resource system reforms

One of the important things in advancing the initiatives of the new medium-term management plan “Stage II” is the motivation of the staff members who are supposed to provide new value. It is important that every staff member gets actively involved in the making of the future of the region, and that our organization as a whole feels rewarded for being of service to our customers. “Strategy III” under the “5 Pillars” posts a mission of “revitalization of organization.” Under this mission, we will carry out human resource system reforms, and rethink our internal training system to increase job satisfaction, and help realize self-fulfillment and growth of our staff members. Also, adaptation to diversified values in our society (so-called “diversity and inclusion”) is essential to achieve “revitalization of organization.”

What is required of a bank employee in the coming days is to become sensible to the change of time and for each to provide solutions to problems held by customers, making full use of one’s expertise. We believe that every bank employee should own their own expertise and enlarge such expertise. Also, we believe that such employee will be able to play a greater role as a talented person who can address problems held by customers and further to cope with challenges pertaining to SDGs. In order to achieve all this, during “Stage II” we will strive to implement “revitalization of organization” including human resource system reforms with all our might to achieve substantial results.

In addition, “Strategy IV” under the “5 Pillars” posts the mission of “strengthening the digital strategies,” and “Strategy V” posts “establishing sustainable growth model.” All these strategies are based on a change of market conditions. Strangely enough, triggered by the emergence of problems arising out from COVID-19, society is now required to cope with the fact that it has entered into a new stage, literally “a new norm.” Our society is now facing with new social problems one after another, such as how to mitigate extreme economic concentration in metropolitan areas, how to cope with a new work style including remote



Director and President Career of Sadanori Kato

- 1957 Born in Kurashiki City, Okayama Prefecture
- 1981 Entered KK Chugoku Bank (Currently the Chugoku Bank)
- 1988 Assigned to Tokyo Branch Office, International Department
Engaged in international financial business
- 1993 Graduated master's course at The University of Chicago
Booth School of Business (Received MBA)
- 2003 Branch Manager of Kamogata Branch
- 2005 Branch Manager of Kounan Branch
- 2008 Manager of Computer System Department
- 2013 Director and Manager of Personnel Department
- 2015 Managing Director
- 2017 Senior Managing Director
- 2019 Director and President (current position)

work and the need to build BCP (Business Continuity Plan) for an emergency. All these issues are related to the SDGs, and the Bank will strive to solve them through the period of "Stage II."

We aim to carry out sustainable growth of the Chugoku Bank Group, while driving the development of the regional economies.

Time is rapidly changing. It is essential for us as a regional financial institution to respond swiftly to those changes. We have cultivated since our founding the 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." Bearing this principle in our mind, we will always answer to the challenges facing our customers, which I believe is the way that will lead us to sustainable growth of the Bank. While from now on driving the development of regional economies from long-term perspectives, I am determined to push forward sustainable growth of the Chugoku Bank Group and shall precisely meet the expectations of our shareholders and investors.

Although the financial institutions are facing a severe management environment, we have the assets and knowledge cultivated by our predecessors over 90 years of our history. We, also, have employees who value customers' viewpoints and faithfully carry out any duties. Moreover, we have a geographical advantage of favorable climate (Okayama as its center) and wide-ranging industrial clusters. By making use of these strength and characteristics of ours in the coming era, we shall move forward to create a business model that allows development hand in hand with our local communities. In closing, I would sincerely ask you all for your continued support.

The New Medium-Term Management Plan, “Plan for Creating the Future Together: Stage II”

Overview of the long-term management plan, “Vision 2027: Plan for Creating the Future Together”

In order to respond proactively to changes in the business environment, such as population decline and changes in the societal structure, the Chugoku Bank Group has formulated our ten-year long-term management plan “Vision 2027: Plan for Creating the Future Together” in 2017, consisting of what our Group wishes to become ten years from now, its long-term vision, and strategies to realize these goals.

This long-term management plan sets forth our long-term vision of “Create with Our Community, Customers and Employees a Rich Future that We Can All Share” and aims to establish a sustainable business model that builds a system which does not seek to achieve balanced contraction, in which elimination of personnel and branches is prioritized, but instead allows us to focus on our business in a true sense in terms of both quality and quantity by implementing thorough structural reforms, even in a harsh business environment, driving mutual development of our customers, the regional society and the Group.

The previous medium-term management plan, which focused on strengthening hardware aspects (Stage I)

In the previous medium-term management plan, “Plan for Creating the Future Together: Stage I” (fiscal year ended March 31, 2018 through fiscal year ended March 31, 2020), which was at the start of the long-term management plan, we regarded the period of the plan as one for building strong foundations and implemented structural reforms through strategic system investment and Business Process Re-engineering (BPR).

As part of the strategic system investment, we have introduced a variety of systems that help improve convenience for customers and productivity of operations, including an electronic approval system, in-house information terminals that can be connected from outside branches, and “TSUBASA Smile,” an in-store tablet that helps streamline operations at customer service counters. We also promoted BPR for administrative operations in sales branches and headquarters, significantly improving work efficiency and rethinking sales staff and operating hours.

In sales operations, as part of our efforts for the corporate business sector, we have shifted our focus from conventional activities of offering monetary loans to “regional support activities,” which provide a wide range of solutions to help our customers increase their corporate value. As part of our efforts for the individual sales sector, we have worked on “life plan support activities,” which provide optimal products and services personalized for customers in different life stages and life events.

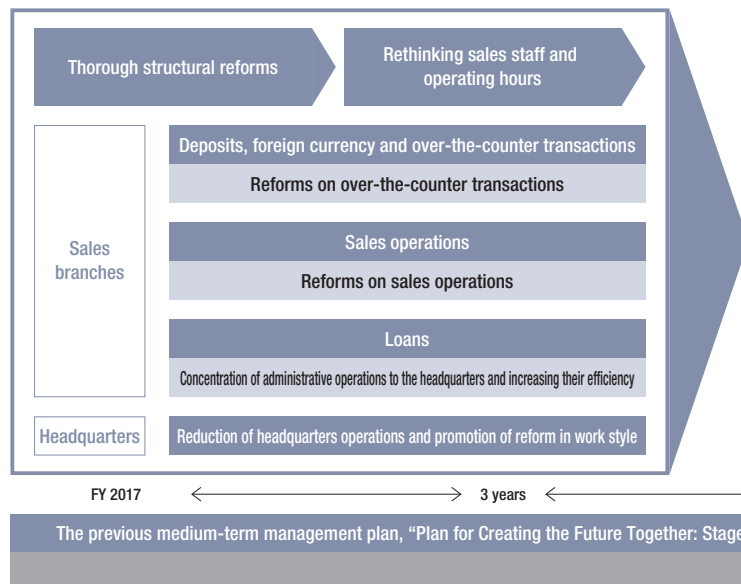
We will continue to focus on “regional support activities” and “life plan support activities” in the new medium-term management plan (Stage II), reminding ourselves of the sales with customers first spirit.

Positioning of “Plan for Creating the Future Together: Stage II” in Vision 2027

Stage I

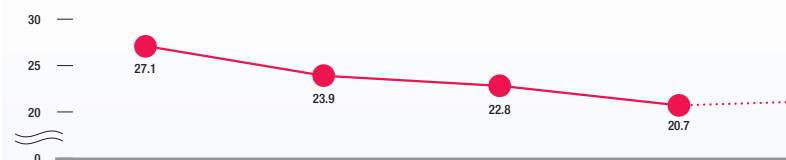
HOP

Strengthening hardware aspects



Numerical plans

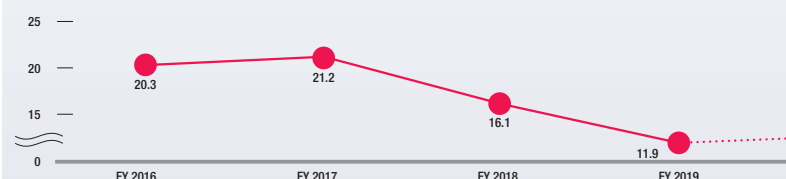
Core business net profit (Billions of Yen)



Consolidated ordinary profit (Billions of Yen)



Consolidated net income attributable to owners of parent (Billions of Yen)



The previous medium-term management plan, “Plan for Creating the Future Together: Stage I”

Stage II
STEP Strengthening software aspects
(organization and human resources)

Building a business model for growth

5 pillars

- (1) Strengthening our efforts in revitalization of regional economies and SDGs*
- (2) "Deepening" the sales with customers first spirit
- (3) Revitalization of organization
- (4) Strengthening the digital strategies
- (5) Establishing sustainable growth model

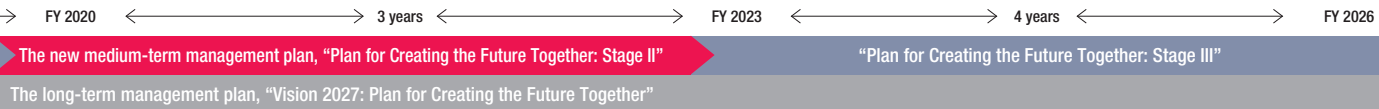
Stage III
JUMP Compilation

Establishing a business model that allows mutual growth, shared between the regional society and the Bank



The Chugoku Bank Group to become a regional platform

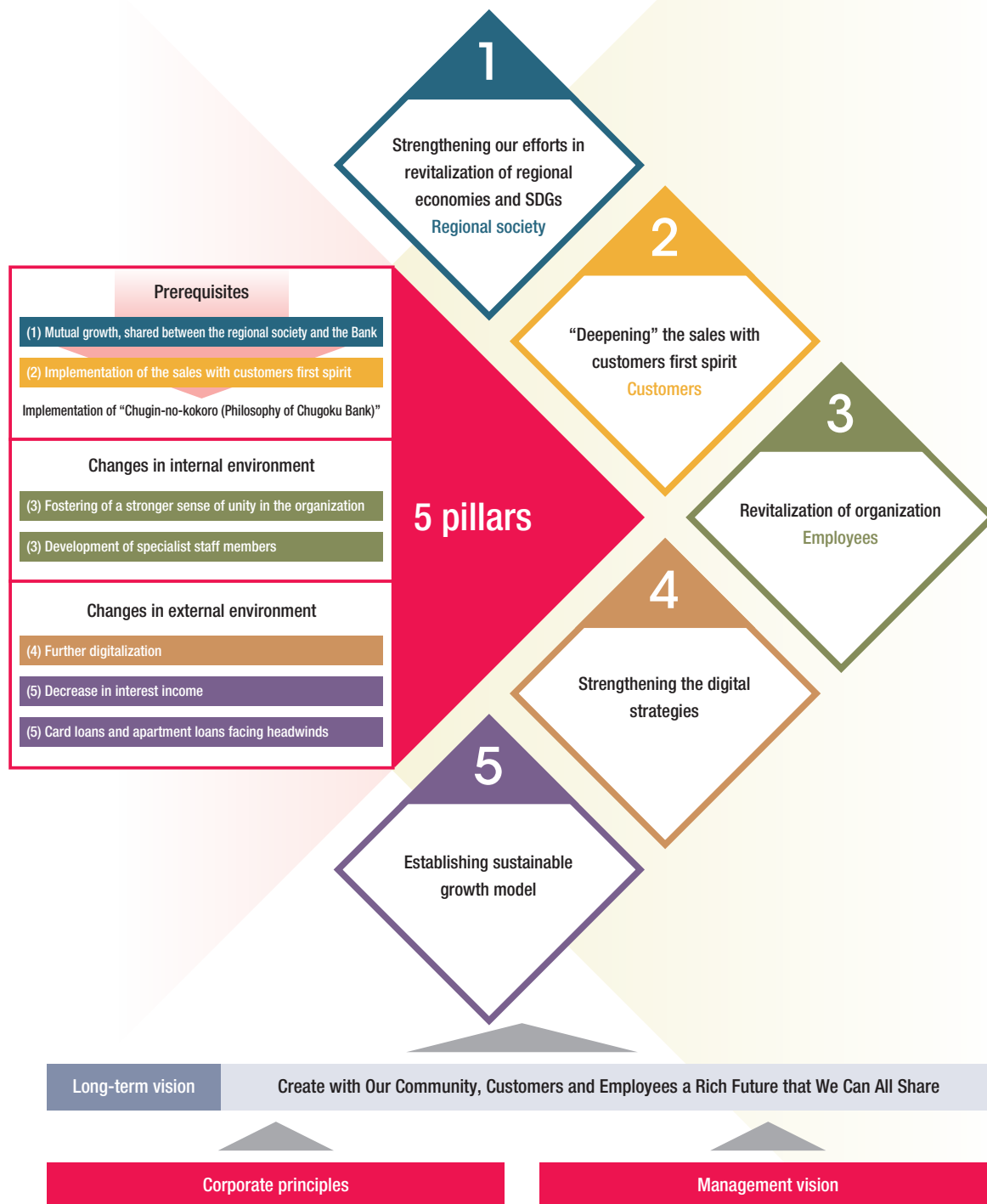
*SDGs: The acronym of "Sustainable Development Goals." It sets forth the targets applicable to all international societies as determined by the UN Summit in September 2015.



Through our 5 pillars of activities, we will create new value by addressing

The new medium-term management plan, which focuses on strengthening software aspects (Stage II)

Under our new medium-term management plan, "Plan for Creating the Future Together: Stage II" (fiscal year ending March 31, 2021 through fiscal year ending March 31, 2023), we will endeavor to enhance the human resources and organizational capability of the Group in order to improve our capacity of solving regional and customers' problems. We will also implement many reforms ranging from strategies, organizations, systems to structures. For corporate customers, we will build a system under which solutions can be developed by one-stop and speedy measures, and for individual customers, a system under which customers may experience comprehensive lifelong services including non-financial services through a wide scope of services and channels. In order to realize these sales systems, we will also conduct a drastic review of the "human resource system, internal training system, and performance award system, etc." We will establish a business model that allows mutual growth, shared between the regional society and the Bank, which will lead to further growth at the next final stage.



various challenges of customers from the regional community

1

In our message to the regional society, “strengthening our efforts in revitalization of regional economies and SDGs,” we will face up to various issues surrounding local communities, and aim to solve issues, create new businesses, and put the SDGs into practice, so as to develop together with the regional society. We are committed to solving social and environmental issues by creating a regional platform that will serve as a platform for creation involving local governments, other financial institutions, and other types of businesses; offering our know-how including non-financial expertise such as BCP to the regional customers; collaborating with other industries; and conducting businesses practicing the SDGs.

2

In our message to our customers, “‘deepening’ the sales with customers first spirit,” we will not only provide support for assets in custody and loans, but also solve a variety of issues held by customers and help them realize their dreams. The Chugoku Bank Group is committed to providing new value to customers by strengthening the integrated sales activities of our sales branches and headquarters, expanding our services including non-financial services, participating in and strengthening new business domains such as recruitment agency, regional trading company and business consulting services, and enhancing our group synergy.

3

In our activities for the “revitalization of organization,” we will recognize our employees as one of the most important stakeholders of the Group and aim to increase their job satisfaction, help realize their self-fulfillment and growth, and enhance a sense of unity among our sales branches, headquarters and Group companies. Our work will build an organizational structure that enables our employees to work with greater satisfaction than ever before, by reforming our human resource system (including the integration of a career-track course and a non-career-track course, establishment of a specialist course, and the abolition of the early retirement system at age of 55), reviewing the performance award system, and transferring more authority to the Block and sales branches.

4

With respect to “strengthening the digital strategies,” in order to respond to the rapid development of digitalization of financial services, we will aim to expand customer contact and to create new customer experiences utilizing digital technology, by enhancing smartphone applications for individual customers and launching a portal site for corporate customers. We will also continue to vigorously promote improvement of work efficiency through the use of IT, including further digitalization of headquarters operations.

5

With respect to “establishing sustainable growth model,” we aim to realize our growth scenario by increasing fees and commissions and lowering the overhead ratio (OHR), in order to respond to the challenging market environment such as prolonged negative interest rates. We aim to achieve sustainable profit growth even in a harsh environment, by stabilizing profit levels in our core businesses including the new business domains and fundamentally reviewing our cost structure.

Numerical plans

Stakeholders	New KPI	Results in FY 2019	Final year of the medium-term management plan (FY 2022)
Regional society	Number of projects to address regional issues that contributed to the SDGs	—	Continuous improvement
	(1) Total of the number of start-ups for which we provided support ^{*1} and the number of companies for which we provided support in business succession ^{*2}	—	Total of 3 years: 200 customers
	(2) Activities contributing to the improvement of financial literacy, etc. ^{*3}	—	Continuous improvement
Customers	Customer satisfaction ^{*4} (individuals)	Continuous improvement	Continuous improvement
	Customer satisfaction ^{*4} (corporate)	Continuous improvement	Continuous improvement
Employees	Labor share in core business net profit before payment of personnel expenses ^{*5}	57.6%	54% or more
Shareholders, etc. (all stakeholders)	Net income attributable to owners of parent	¥11.9 billion	¥15.0 billion
	Consolidated capital adequacy ratio (Basel III)	13.04%	Maintained stably at 12%

*1 Number of start-ups for which we provided support: Number of supported customers that started business through our events for start-up support

*2 Number of companies for which we provided support in business succession: Number of entrusted contracts for business succession consulting services

*3 Activities contributing to the improvement of financial literacy, etc.: Number of events and study meetings held for the improvement of financial literacy and business skills, etc.

*4 Customer satisfaction: Number of answers indicating “Satisfied” or “Almost satisfied” in the customer questionnaires

*5 Labor share in core business net profit before payment of personnel expenses: Personnel expenses divided by (core business net profit + personnel expenses)

Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

Ordinary income decreased by ¥2,632 million year on year, or 2.3%, to ¥110,829 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 gain on sales of securities.

Ordinary profit decreased by ¥6,444 million year on year, or 29.3%, to ¥15,475 million, in addition to the decrease in ordinary income, due to an increase in credit costs and losses on securities with the slump in the stock market caused by the spread of the novel coronavirus disease (COVID-19).

Leasing business

Ordinary income increased by ¥726 million year on year, or 6.4%, to ¥12,038 million due to such factors as an increase in leases, while ordinary profit decreased by ¥109 million year on year, or 12.4%, to ¥764 million due to an increase in credit costs.

Due to the impact of the spread of COVID-19, the Bank restricted some business activities and implemented other measures toward the end of the fiscal year ended March 31, 2020, but there was no significant impact during the fiscal year.

Securities business

Ordinary income increased by ¥22 million year on year, or 0.8%, to ¥2,753 million, and ordinary profit, however, decreased by ¥9 million year on year, resulting in an ordinary loss of ¥109 million.

Due to the impact of the spread of COVID-19, the Bank restricted some business activities and implemented other measures toward the end of the fiscal year ended March 31, 2020, but there was no significant impact during the fiscal year.

Other

Ordinary income increased by ¥107 million year on year, or 1.9%, to ¥5,532 million, and ordinary profit increased by ¥24 million year on year, or 1.3%, to ¥1,839 million.

Credit card companies were affected by the slump in economic activities due to the spread of COVID-19, and the amount of credit card purchases, etc. decreased toward the end of the fiscal year ended March 31, 2020, but there was no significant impact.

Earnings

Regarding the results for the fiscal year ended March 31, 2020, consolidated ordinary income decreased by ¥1,303 million year on year, or 1.0%, to ¥127,318 million due primarily to a decrease in interest and dividends on securities and a decrease in gains on sales of securities. Consolidated ordinary expenses increased by ¥4,929 million year on year, or 4.6%, to ¥109,854 million due to a significant impact from losses on securities and an increase in credit costs, despite a decrease in general and administrative expenses.

Consolidated ordinary profit decreased by ¥6,233 million year on year, or 26.3%, to ¥17,463 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 ¥4,283 million year on year, or 26.4%, to ¥11,916 million.

Cash Flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2020 decreased by ¥184,710 million year on year to ¥564,672 million due primarily to cash flows from operating activities being negative due to a decrease in payables under securities lending transactions caused by controls over securities investment balances.

Cash flows from operating activities

Net cash used in operating activities for the fiscal year ended March 31, 2020 increased by ¥71,440 million year on year to ¥169,359 million due to such factors as an increase in cash flows from payables under securities lending transactions. This was due to a smaller decrease in payables under securities lending transactions in the fiscal year ended March 31, 2020 compared to the significant decrease in the fiscal year ended March 31, 2019 accompanying the reduction in the short-term investment balance.

Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2020 decreased by ¥246,110 million year on year to ¥10,370 million due to a decrease in cash flows from sales of securities. This was due primarily to sales in order to substantially reduce the investment balance of government bonds from the perspective of risk management due to the rise in foreign interest rates in the fiscal year ended March 31, 2019.

Cash flows from financing activities

Net cash used in financing activities decreased by ¥1,045 million year on year to ¥4,969 million, due to a decrease in purchases of treasury stock.

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, 2021, the Chugoku Bank Group forecasts consolidated ordinary income of ¥113,400 million, consolidated ordinary profit of ¥16,700 million and net income attributable to owners of parent of ¥11,100 million.

The above forecasts reflect a certain amount of the impact that the downturn in economic activities caused by the spread of COVID-19 is expected to have on market conditions and the financial conditions of our customers.

However, although the effects that the Bank has deemed difficult to reasonably estimate at this time have not been included, the Bank will promptly announce them once their impact on the forecasts becomes clear.

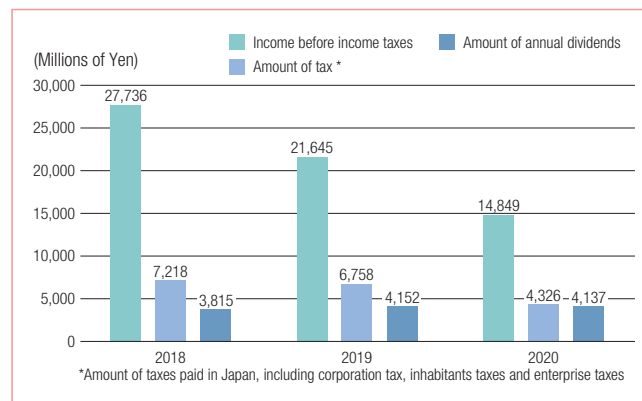
Dividend Policy

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 maintaining shareholder returns in order to maintain a firm financial standing capable of withstanding any challenging environment.

Specifically, we aim to achieve a total payout ratio of 35%, which includes dividends and share buybacks. For the fiscal year ended March 31, 2020, the Bank will pay an annual per-share dividend of ¥22 (interim dividend of ¥11) based on the shareholder return ratio of 35% in our return policy. With respect to the expected dividends for the fiscal year ending March 31, 2021, the Bank plans to pay an annual per-share dividend of ¥22 (interim dividend of ¥11) with the goal of a shareholder return ratio of 35% of the total of dividends plus own shares acquired. From the fiscal year ending March 31, 2021, profits, which are the basis for the calculation of the shareholder return ratio, changed from "standalone profits" to "net income attributable to owners of parent" in the consolidated financial results.

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

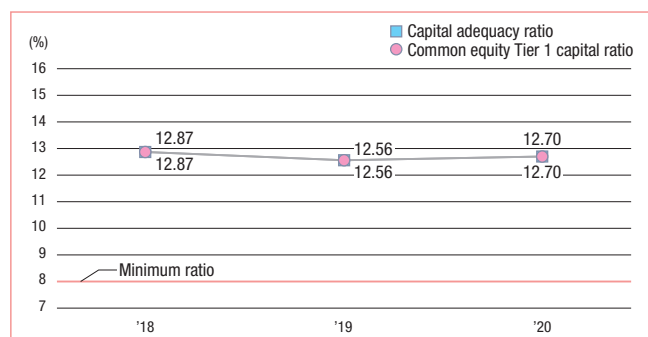
The Bank's capital adequacy ratio was 12.70% as of the end of March 2020.

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 increased by ¥3,929 million year on year, to ¥72,731 million as of the end of March 2020, despite 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) increased by 0.05 percentage point year on year, to 1.48% as of the end of March 2020.

	End of March 2020	End of March 2019
Loans to bankrupt customers	¥ 5,340	¥ 3,578
Loans past due six months or more	44,426	45,158
Loans past due three months or more	757	876
Restructured loans	22,206	19,189
Total	¥ 72,731	¥ 68,802
The ratio of risk-managed loans (against the total loan balance) (%)	1.48	1.43

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.

	Moody's	R&I
* Long-term deposit rating	Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, CC-, D
* Short-term deposit rating	P-1 (PRIME-1)	
* Baseline Credit Assessment (BCA)	aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3	
* Long-term credit rating		

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

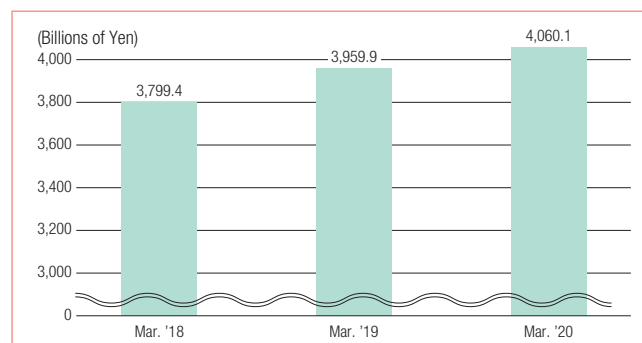
- By setting up a “Comprehensive Town, Person, and Work Creation Strategy Structure,” the Bank actively participates in each local government from the regional comprehensive strategic planning stage.
- In the strategy execution stage as well, the Bank continues to work in cooperation with local governments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

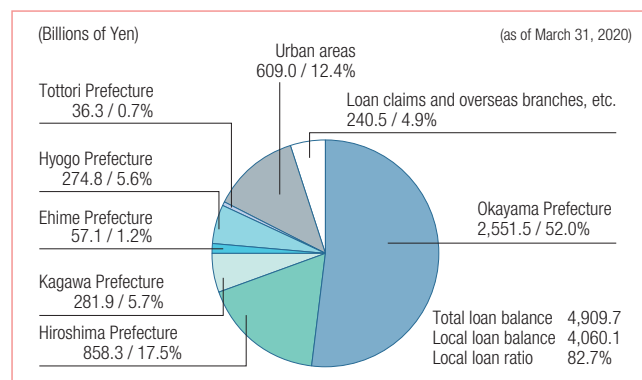
- The Bank actively offers information about specific activities and their results with regard to efforts related to community-based financial services. We will strive to improve our services even further in order to earn the trust and support of our regional customers.

Loan Balance to Regionals

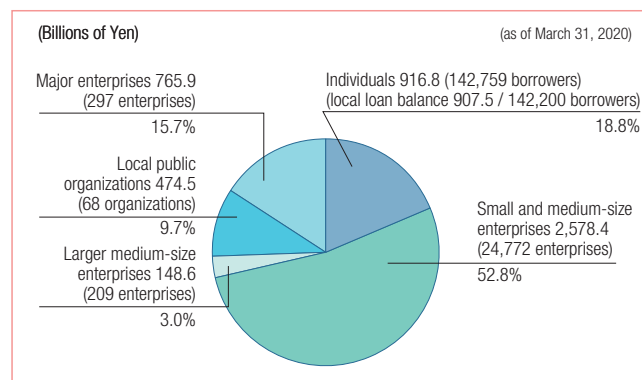
The Bank will take on risks proactively to meet the financing needs of customers.



Breakdown of Loans to the Regional Community



Loan Balance by Type and Number of Borrowers



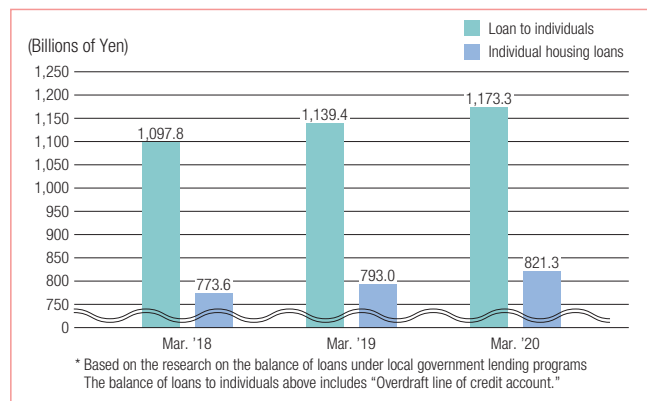
Loans to Individuals

The Bank has a lineup that includes many types of loans to individuals, including housing loans, as well as card loans, automobile loans and student loans, corresponding to various life events of individual customers.

Furthermore, we have established a Life Plan Center/Housing Loan Center in each branch to provide support for financing plans based on the customer’s life plan, while also strengthening our remote channels, such as transactions over the internet using a smartphone or a personal computer and our call center.

As a result of these efforts, the balance of loans to individuals for the year increased ¥33.9 billion from the end of March 2019, to ¥1,173.3 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.

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

I Corporate Governance of the Bank

Basic principles

The Bank is committed to strengthening and enhancing the corporate governance based on our corporate principles and management vision, in order to 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, regional society, and employees.

1. The Bank strives 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 strives 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 discussion in the Board of Directors and accurate execution of duties by Directors involved in the execution of business, alongside audits 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 is committed to establishing 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 statements, etc., as well as ensuring the real equality of shareholders.

Corporate governance framework

The Bank has adopted the form of a company with an Audit and Supervisory Committee as its organizational design pursuant to the Companies Act.

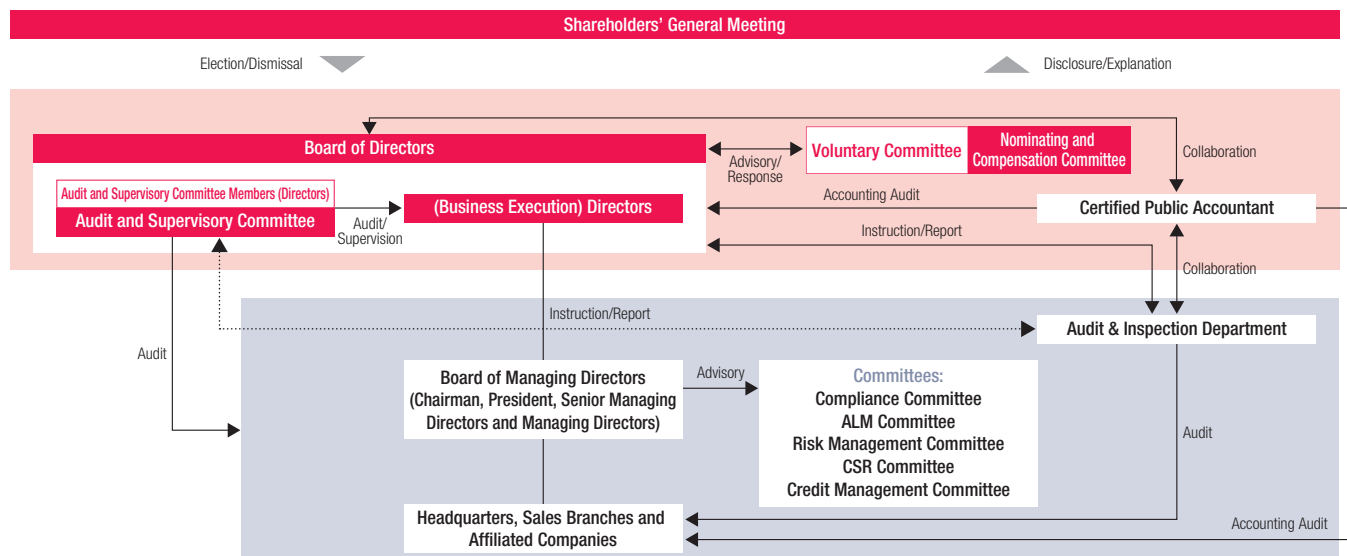
Since voting rights at the Board of Directors are granted to Directors serving as Audit and Supervisory Committee Members at a company with an Audit and Supervisory Committee, highly effective audit and supervisory system over the Board of Directors and Directors has been secured.

In addition, since a part of the authority of the Board of Directors can be delegated to Directors pursuant to provisions of the Companies Act, prompt management decision-making of the Bank is ensured and matters submitted to the Board of Directors are narrowed down to highly important proposals, leading to discussions at the Board of Directors becoming even more enriched.

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.

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



Response to the corporate governance code

The Bank recognizes the corporate governance code as the requests and expectations from society and is actively working to adhere to it. This has enabled the Bank to implement all principles stipulated in the corporate governance code as of June 2020. For more information, please refer to our report on corporate governance.

Report on corporate governance

https://www.chugoku.co.jp/upload_files/company/governance/cpgv.pdf

Board of Directors and Audit & Supervisory Board Members (As of June 30, 2020)

Directors



Director and President

Sadanori Kato



Senior Managing Director

Koji Terasaka



Senior Managing Director

Ikuhide Harada



Chairman

Masato Miyanaga



Managing Director

Shinichi Taniguchi



Managing Director

Tatsuo Hiramoto



Managing Director

Hiroyuki Ohara



Managing Director

Hiromichi Kato



Outside Director

Yoshio Sato



Outside Director

Akira Kodera

Directors (Audit and Supervisory Committee Members)



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

Hiromichi Furuya



Outside Audit and
Supervisory Committee
Member

Toshihide Saito



Outside Audit and
Supervisory Committee
Member

Kazuhiro Tanaka



Outside Audit and
Supervisory Committee
Member

Yukiyo Kiyono

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

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

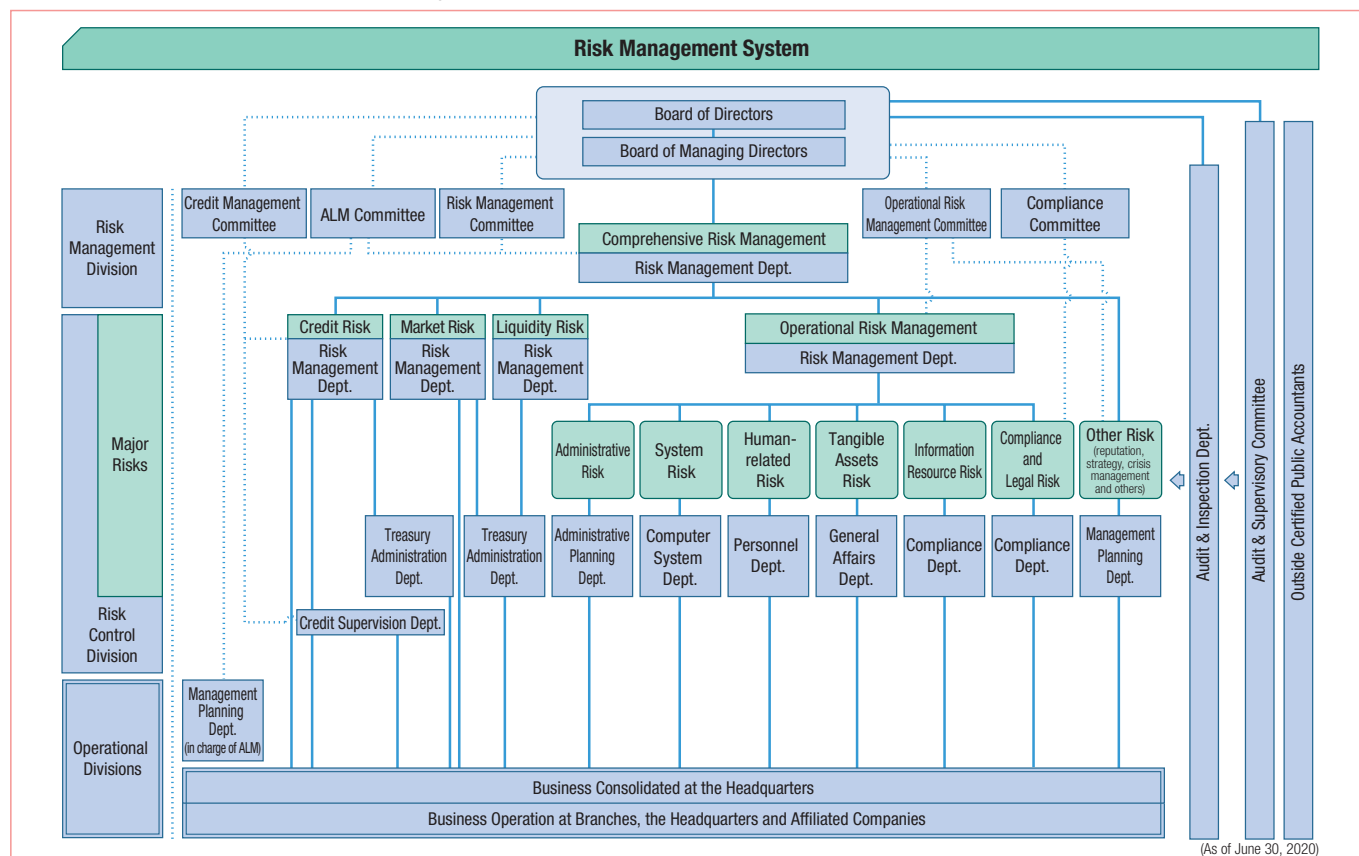
Operational risk refers to risks of losses arising from bank operational

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.



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

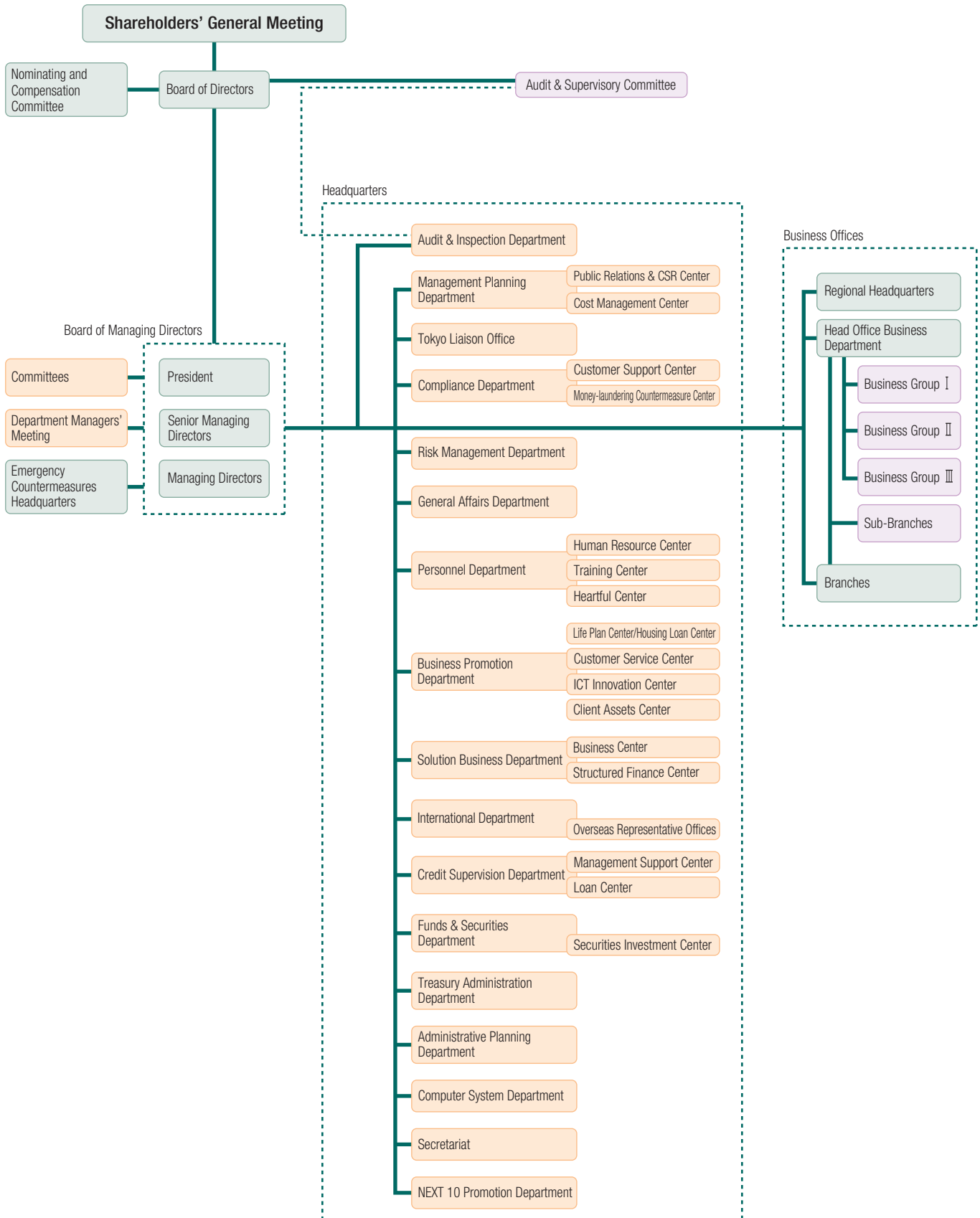
In accordance with the Auditing Standards for Audit & Supervisory Committee, the Bank shall include a budget in advance for the expenses acknowledged by the Audit & Supervisory Committee to be necessary for the execution of duties. Expenses expended urgently or temporary may be claimed to the Bank for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

Organization Chart

(As of June 30, 2020)



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 special sub-branch office, 1 representative office, 1 internet branch — Locations with ATM installed Outside branches: 214 locations (238 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, 2020)

Shareholder Information

(As of March 31, 2020)

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.....	49	534,777	27.41
Securities firms.....	22	16,935	0.87
Other corporations	502	528,039	27.06
Foreign investors	207	292,229	14.98
Individuals	10,891	579,039	29.68
Total.....	11,673	1,951,110	100.00
Number of shares held in less than trading units.....	—	161,106	—

Major Shareholders

Unit: 1,000 shares

Name of Shareholders	Number of holding shares	Percentage of outstanding shares
Japan Trustee Services Bank, Ltd.	18,578	9.87
The Master Trust Bank of Japan, Ltd.	10,188	5.41
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch).....	5,742	3.05
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	2.38
Chugoku Bank Employee Stock Ownership Plan.....	4,319	2.29
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch).....	3,032	1.61
Total	65,769	34.97

Service Networks

(As of June 30, 2020)

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: CHGKJPJT

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,
Watthana, 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

2-9, Higashi-Gosho-cho, 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, 2020)

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

Financial Section

Consolidated Financial Statements

Consolidated Balance Sheets

The Chugoku Bank, Limited and its Consolidated Subsidiaries
March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
ASSETS:			
Cash and due from banks (Notes 18 and 21).....	¥ 576,348	¥ 763,344	\$ 5,295,855
Call loans	59,877	39,677	550,188
Other debt purchased (Notes 4, 8 and 18).....	24,928	31,550	229,054
Trading account securities (Notes 4, 11 and 18).....	1,316	2,375	12,092
Money trusts (Notes 5 and 18).....	27,100	21,600	249,012
Securities (Notes 4, 6, 11 and 18).....	2,339,566	2,389,510	21,497,436
Loans and bills discounted (Notes 7, 8 and 18).....	4,899,984	4,802,184	45,024,202
Foreign exchange (Note 7).....	11,960	9,042	109,896
Lease receivables and investments in leased assets (Note 11).....	24,130	21,019	221,721
Other assets (Notes 11, 15 and 18).....	140,349	133,214	1,289,616
Tangible fixed assets (Note 9).....	39,460	39,588	362,583
Intangible fixed assets (Note 10).....	3,064	4,487	28,154
Deferred tax assets (Note 12).....	6,611	947	60,746
Customers' liabilities for acceptances and guarantees.....	33,413	32,490	307,020
Reserve for possible loan losses.....	(40,724)	(37,281)	(374,198)
Total assets	¥ 8,147,386	¥ 8,253,750	\$ 74,863,420
LIABILITIES AND NET ASSETS:			
Liabilities:			
Deposits (Notes 11 and 18).....	¥ 6,896,745	¥ 6,800,290	\$ 63,371,726
Call money (Note 11).....	30,068	18,790	276,284
Payables under repurchase agreements (Notes 4 and 11).....	124,704	125,088	1,145,860
Payables under securities lending transactions (Notes 11 and 18).....	217,164	377,224	1,995,442
Commercial paper (Note 13).....	32,611	48,717	299,650
Borrowed money (Notes 11 and 13).....	157,365	164,089	1,445,970
Foreign exchange	272	1,709	2,499
Due to trust account.....	3,309	2,760	30,405
Other liabilities (Notes 13, 15 and 18).....	119,768	104,264	1,100,505
Accrued employees' bonuses	1,395	1,404	12,818
Accrued directors' bonuses	31	23	284
Reserve for directors' retirement benefits.....	82	83	753
Reserve for reimbursement of deposits.....	642	995	5,899
Reserve for point program	94	114	863
Net defined benefit liability (Note 14).....	18,245	28,383	167,646
Deferred tax liability (Note 12).....	271	9,496	2,490
Reserves under special laws	6	6	55
Acceptances and guarantees.....	33,413	32,490	307,020
Total liabilities	¥ 7,636,192	¥ 7,715,931	\$ 70,166,240
Net assets (Note 20):			
Shareholders' equity			
Common stock			
Authorized shares: 391,000,000 shares in 2020 and 2019			
Issued shares: 195,272,106 shares in 2020 and 2019.....	¥ 15,149	¥ 15,149	\$ 139,198
Capital surplus	8,153	8,153	74,915
Retained earnings	453,024	445,459	4,162,675
Less treasury stock, at cost			
7,212,380 shares in 2020 and 6,955,248 shares in 2019.....	(9,622)	(9,401)	(88,413)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 6).....	62,987	93,687	578,765
Net deferred losses on hedging instruments.....	(11,456)	(8,893)	(105,265)
Accumulated adjustments for retirement benefits (Note 14).....	(7,221)	(6,648)	(66,351)
Total.....	44,308	78,145	407,130
Subscription rights to shares (Note 22).....	179	311	1,644
Total net assets	511,193	537,818	4,697,169
Total liabilities and net assets	¥ 8,147,386	¥ 8,253,750	\$ 74,863,420

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

The Chugoku Bank, Limited and its Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2020	2019	2020	2019
Income:				
Interest and dividends on:				
Loans and discounts.....	¥ 50,485	¥ 51,427	\$ 463,888	
Securities	25,189	27,041	231,452	
Other	757	1,185	6,955	
Fees and commissions.....	18,995	18,008	174,538	
Other operating income.....	21,789	22,232	200,211	
Bad debt recovered.....	3	0	27	
Other income.....	10,099	8,742	92,796	
Total income.....	127,320	128,637	1,169,898	
Expenses:				
Interest on:				
Deposits	2,596	2,373	23,853	
Borrowings	2,182	2,530	20,049	
Other	13,688	12,324	125,774	
Fees and commissions.....	4,359	4,288	40,053	
Other operating expenses.....	14,182	14,772	130,313	
General and administrative expenses.....	58,212	58,947	534,889	
Reserve for possible loan losses.....	6,153	4,359	56,537	
Losses on impairment of fixed assets (Note 9).....	608	222	5,586	
Other expenses.....	8,512	5,396	78,213	
Total expenses.....	110,495	105,215	1,015,299	
Income before income taxes.....	16,824	23,421	154,589	
Income taxes (Note 12):				
Current.....	5,176	7,587	47,560	
Deferred.....	(268)	(365)	(2,462)	
	4,907	7,221	45,088	
Net income.....	11,916	16,199	109,491	
Net income attributable to non-controlling interests.....	—	—	—	
Net income attributable to owners of parent.....	¥ 11,916	¥ 16,199	\$ 109,491	
Per share of common stock				
Basic net income.....	¥ 63.35	¥ 85.67	\$ 0.582	
Diluted net income.....	63.29	85.55	0.581	
Cash dividends applicable to the year (Note 20).....	22.00	22.00	0.202	

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, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2020	2019	2020	2019
Net income.....	¥ 11,916	¥ 16,199	\$ 109,491	
Other comprehensive income (Note 17):				
Net unrealized gains (losses) on available-for-sale securities.....	(30,699)	(6,137)	(282,082)	
Net deferred gains (losses) on hedging instruments.....	(2,563)	(3,894)	(23,550)	
Adjustments for retirement benefits.....	(573)	(1,132)	(5,265)	
Total other comprehensive income.....	(33,836)	(11,164)	(310,906)	
Comprehensive income.....	¥ (21,919)	¥ 5,035	\$ (201,405)	
Comprehensive income attributable to:				
Owners of parent.....	¥ (21,919)	¥ 5,035	\$ (201,405)	
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, 2020 and 2019

	Millions of Yen									
	2020									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	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				
Balance at beginning of year.....	¥15,149	¥8,153	¥445,459	¥(9,401)	¥93,687	¥(8,893)	¥(6,648)	¥78,145	¥311	¥537,818
Net income attributable to owners of parent.....			11,916							11,916
Cash dividends.....			(4,328)							(4,328)
Purchases of treasury stock.....				(412)						(412)
Disposals of treasury stock.....			(23)	191						168
Net changes in items other than shareholders' equity.....					(30,699)	(2,563)	(573)	(33,836)	(131)	(33,968)
Net changes during the year.....	—	—	7,564	(221)	(30,699)	(2,563)	(573)	(33,836)	(131)	(26,624)
Balance at end of year.....	¥15,149	¥8,153	¥453,024	¥(9,622)	¥62,987	¥(11,456)	¥(7,221)	¥44,308	¥179	¥511,193

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen									
	2019									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	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				
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.

	Thousands of U.S. Dollars (Note 1)									
	2020									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	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				
Balance at beginning of year.....	\$139,198	\$74,915	\$4,093,163	\$(86,382)	\$860,856	\$(81,714)	\$(61,086)	\$718,046	\$2,857	\$4,941,817
Net income attributable to owners of parent.....			109,491							109,491
Cash dividends.....			(39,768)							(39,768)
Purchases of treasury stock.....				(3,785)						(3,785)
Disposals of treasury stock.....			(211)	1,755						1,543
Net changes in items other than shareholders' equity.....					(282,082)	(23,550)	(5,265)	(310,906)	(1,203)	(312,119)
Net changes during the year.....	—	—	69,502	(2,030)	(282,082)	(23,550)	(5,265)	(310,906)	(1,203)	(244,638)
Balance at end of year.....	\$139,198	\$74,915	\$4,162,675	\$(88,413)	\$578,765	\$(105,265)	\$(66,351)	\$407,130	\$1,644	\$4,697,169

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, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities			
Income before income taxes	¥ 16,824	¥ 23,421	\$ 154,589
Depreciation	4,452	4,331	40,907
Losses on impairment of fixed assets	608	222	5,586
Share-based compensation expenses	35	42	321
Increase (decrease) in reserve for possible loan losses	6,153	4,359	56,537
Increase (decrease) in reserve for point program	(19)	1	(174)
Increase (decrease) in reserve for directors' retirement benefits	(1)	11	(9)
Increase (decrease) in accrued employees' bonuses	(8)	16	(73)
Increase (decrease) in accrued directors' bonuses	7	(2)	64
Increase (decrease) in net defined benefit liability	(10,962)	(986)	(100,725)
Increase (decrease) in reserve for reimbursement of deposits	(353)	(388)	(3,243)
Interest and dividend income	(76,431)	(79,654)	(702,297)
Interest expense	18,467	17,229	169,686
Losses (gains) on sales of securities, net	443	(2,621)	4,070
Losses (gains) on money trusts, net	(9)	104	(82)
Foreign exchange losses (gains), net	5,980	(11,973)	54,948
Losses (gains) on disposals of fixed assets, net	9	25	82
Decrease (increase) in trading account securities, excluding foreign exchange contracts	1,059	(548)	9,730
Decrease (increase) in call loans and other debt purchased	(13,577)	99,021	(124,754)
Increase (decrease) in payables under repurchase agreements	(383)	53,519	(3,519)
Decrease (increase) in due from banks, excluding the Bank of Japan	2,286	3,267	21,005
Increase (decrease) in commercial paper	(16,106)	2,560	(147,992)
Decrease (increase) in foreign exchange assets	(2,918)	(1,092)	(26,812)
Decrease (increase) in loans and bills discounted	(100,510)	(131,967)	(923,550)
Decrease (increase) in lease receivables and investments in leased assets	(3,141)	(3,102)	(28,861)
Decrease (increase) in other assets	(12,382)	(8,266)	(113,773)
Increase (decrease) in deposits	96,454	169,208	886,281
Increase (decrease) in borrowed money	(6,723)	(31,266)	(61,775)
Increase (decrease) in call money	11,278	(39,137)	103,629
Increase (decrease) in foreign exchange liabilities	(1,437)	1,485	(13,204)
Increase (decrease) in payables under securities lending transactions	(160,060)	(370,045)	(1,470,734)
Increase (decrease) in due to trust account	549	1,184	5,044
Increase (decrease) in other liabilities	16,590	962	152,439
Interest and dividends received	81,119	83,014	745,373
Interest paid	(19,601)	(16,216)	(180,106)
Subtotal	(162,306)	(233,279)	(1,491,371)
Income taxes paid	(7,053)	(7,519)	(64,807)
Net cash used in operating activities	(169,359)	(240,799)	(1,556,179)
Cash flows from investing activities			
Purchases of securities	(862,548)	(912,223)	(7,925,645)
Proceeds from sales of securities	570,149	879,627	5,238,895
Proceeds from redemption of securities	291,041	263,920	2,674,271
Purchases of money trusts	(7,565)	(7,909)	(69,512)
Proceeds from money trusts	2,074	15,204	19,057
Purchases of tangible fixed assets	(3,572)	(2,929)	(32,821)
Purchases of intangible fixed assets	(21)	—	(192)
Proceeds from sales of tangible fixed assets	71	49	652
Net cash used in (provided by) investing activities	(10,370)	235,740	(95,286)
Cash flows from financing activities			
Cash dividends paid	(4,328)	(3,793)	(39,768)
Purchases of treasury stock	(412)	(2,000)	(3,785)
Repayments on lease obligations	(228)	(220)	(2,095)
Proceeds from sales of treasury stock	0	0	0
Proceeds from execution of stock options	0	—	0
Net cash used in financing activities	(4,969)	(6,014)	(45,658)
Effect of exchange rate changes on cash and cash equivalents	(9)	5	(82)
Net increase (decrease) in cash and cash equivalents	(184,709)	(11,068)	(1,697,225)
Cash and cash equivalents at beginning of year	749,382	760,451	6,885,803
Cash and cash equivalents at end of year (Note 21)	¥ 564,672	¥ 749,382	\$ 5,188,569

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, 2020, which was ¥108.83 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, 2020 (six in 2019) 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, 2020 (six and one, respectively, in 2019) 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, 2020 (one in 2019) 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 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 estimated loss for the average remaining term on loans and other transactions or the estimated loss over the next three years is recorded, and these estimated losses are calculated by using the loss ratio, derived from the average value for the Bank's actual rate of loan losses for a fixed past period based on the three-year historical default rate and adding to that the necessary corrections for future estimates. 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 that would be 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 accounted for mainly 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 the full exercise of the outstanding stock options at the beginning of the year or at the time of the grant.

(s) Additional Information

The effect on the economy from the spread of novel coronavirus disease (COVID-19) is expected to continue for a certain period, and the Bank recognizes the possibility of the impact spreading to future credit risk related to loans in particular if the effect on economic activity becomes more serious. Because of these circumstances, the Bank recorded a reserve for possible loan losses based on the information available as of the end of the current fiscal year.

However, the current assumptions include a degree of uncertainty, and if the circumstances of COVID-19 and its effect on the economy change, then losses may increase from the following fiscal year onward, such as through increasing the amount recorded for reserve for possible loan losses.

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 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 31, 2020)

(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 not to the extent that the alternative treatments would threaten comparability, when consideration should be given to the practice having been used in Japan.

(b) Scheduled Date of Application

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

(c) Effects of Application of the Accounting Standard, etc.

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

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued by the Accounting Standards Board of Japan on July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, issued by the Accounting Standards Board of Japan on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued by the Accounting Standards Board of Japan on July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued by the Accounting Standards Board of Japan on March 31, 2020)

(a) Overview

In light of the situation in which the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have established detailed guidance on fair value measurement with almost the same content (IFRS 13 “Fair Value Measurement” in International Financial Reporting Standards (IFRS), and Accounting Standards Codification Topic 820 “Fair Value Measurement” in the US GAAP), the Accounting Standards Board of Japan (ASBJ) worked to ensure consistency with international accounting standards mainly for guidance and disclosures the value of financial instruments and issued the “Accounting Standard for Fair Value Measurement” and issued or revised related accounting standards and implementation guidance.

The ASBJ’s basic policy for the development of the accounting standard for fair value measurement is to incorporate basically all the provisions of IFRS 13 from the perspective of increasing comparability of financial statements among companies in Japan and overseas by using the unified measurement method. Other treatments of individual items are established, however, to the extent those treatments do not impair comparability among financial statements largely, taking into consideration the practice having been used in Japan.

(b) Scheduled Date of Application

These ASBJ statements and guidances will be applied at the start of the fiscal year beginning April 1, 2021.

(c) Effects of Application of the Accounting Standard, etc.

The effects of the application of the Accounting Standard for Fair Value Measurement and its related guidances on the consolidated financial statements are currently under investigation.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued by the Accounting Standards Board of Japan on March 31, 2020)
- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, issued by the Accounting Standards Board of Japan on March 31, 2020)

(a) Overview

SAC (Standards Advisory Council) established within Japan’s Financial Accounting Standards Foundation addressed the issue of “sources of estimation uncertainty,” which is required to be disclosed under Paragraph 125 of International Accounting Standard (IAS) 1 “Presentation of Financial Statements” issued by the International Accounting Standards Board (IASB). The above standards were developed and issued in response to requests to consider requiring that those sources of estimation uncertainty to be treated as information that is highly useful to financial statement users and disclosed in the form of note information in the Japanese GAAP.

The ASBJ’s basic policy for the development of the Accounting Standard for Disclosure of Accounting Estimates is to present the principle instead of enhancing individual notes, and under such presentation, which is developed while referring to the provision of Paragraph 125 of IAS 1, the onus is placed on entities to determine the specific information to be disclosed according to the disclosure purpose.

(b) Scheduled Date of Application

These ASBJ statements will be applied at the end of the fiscal year ending March 31, 2021.

4. Securities

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amounts of ¥1,998 million (\$18,358 thousand) and ¥23 million (\$211 thousand) as at March 31, 2020 and ¥1,560 million and ¥23 million as at March 31, 2019.

Securities received under repurchase agreements, etc., that are permitted to be sold or pledged (re-pledged) in the amount of ¥113 million (\$1,038 thousand) were held at March 31, 2020. None were held at March 31, 2019.

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 ¥94,922 million (\$872,204 thousand) and ¥90,317 million as at March 31, 2020 and 2019, respectively.

(1) Trading account securities

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
Amount of net unrealized gains (losses) included in the consolidated income statements.....	¥ (10)	¥ 12	\$ (91)

(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, 2020 and 2019:

Type	Millions of Yen		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	¥ 89,240	¥ 46,887	¥ 42,353
Bonds	1,487,091	1,454,559	32,532
Japanese government bonds	548,971	528,427	20,544
Japanese municipal bonds.....	700,784	691,056	9,728
Japanese corporate bonds.....	237,335	235,075	2,259
Other	217,635	181,777	35,857
Foreign bonds.....	108,974	103,126	5,848
Other.....	108,660	78,650	30,009
Subtotal.....	¥ 1,793,967	¥ 1,683,224	¥ 110,742
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	¥ 19,824	¥ 24,302	¥ (4,478)
Bonds	262,789	264,830	(2,040)
Japanese government bonds	93,719	95,232	(1,513)
Japanese municipal bonds.....	50,532	50,723	(191)
Japanese corporate bonds.....	118,538	118,874	(336)
Other	239,070	252,311	(13,240)
Foreign bonds.....	180,720	185,831	(5,110)
Other.....	58,350	66,480	(8,129)
Subtotal.....	521,684	541,444	(19,760)
Total.....	¥ 2,315,651	¥ 2,224,668	¥ 90,982

Type	Thousands of U.S. Dollars		
	2020		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	\$ 819,994	\$ 430,827	\$ 389,166
Bonds	13,664,348	13,365,423	298,924
Japanese government bonds	5,044,298	4,855,526	188,771
Japanese municipal bonds.....	6,439,253	6,349,866	89,387
Japanese corporate bonds.....	2,180,786	2,160,020	20,757
Other	1,999,770	1,670,283	329,477
Foreign bonds.....	1,001,323	947,587	53,735
Other.....	998,437	722,686	275,741
Subtotal.....	\$ 16,484,122	\$ 15,466,544	\$ 1,017,568
Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	\$ 182,155	\$ 223,302	\$ (41,146)
Bonds	2,414,674	2,433,428	(18,744)
Japanese government bonds	861,150	875,052	(13,902)
Japanese municipal bonds.....	464,320	466,075	(1,755)
Japanese corporate bonds.....	1,089,203	1,092,290	(3,087)
Other	2,196,728	2,318,395	(121,657)
Foreign bonds.....	1,660,571	1,707,534	(46,953)
Other.....	536,157	610,860	(74,694)
Subtotal.....	4,793,567	4,975,135	(181,567)
Total	\$ 21,277,689	\$ 20,441,679	\$ 836,001

Type	Millions of Yen		
	2019		
	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

(3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2020 and 2019:

Held-to-maturity securities

Type	Millions of Yen			
	2020			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	¥ 11,398	¥ 11,718	¥	320
Subtotal.....	¥ 11,398	¥ 11,718	¥	320
Total	¥ 11,398	¥ 11,718	¥	320

Type	Thousands of U.S. Dollars			
	2020			
	Carrying amount	Fair value	Difference	
Held-to-maturity securities whose fair value exceeds carrying amount:				
Japanese government bonds	\$ 104,732	\$ 107,672	\$	2,940
Subtotal.....	\$ 104,732	\$ 107,672	\$	2,940
Total	\$ 104,732	\$ 107,672	\$	2,940

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

(4) The Bank recognized impairment loss on equity securities and Japanese corporate bonds in the amounts of ¥2,403 million (\$22,080 thousand) and ¥50 million (\$459 thousand), respectively, in the year ended March 31, 2020, and impairment loss on Japanese corporate bonds in the amounts of ¥125 million in the year ended March 31, 2019.

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, 2020 and 2019 were as follows:

Type	Millions of Yen		
	2020		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	¥ 65,274	¥ 6,056	¥ 3,617
Bonds	236,002	964	768
Japanese government bonds	216,833	831	768
Japanese municipal bonds.....	17,421	117	—
Japanese corporate bonds.....	1,746	15	—
Other	175,822	3,079	3,730
Foreign bonds	113,266	1,162	458
Other.....	62,556	1,917	3,272
Total.....	¥ 477,098	¥ 10,100	¥ 8,116

Type	Thousands of U.S. Dollars		
	2020		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	\$ 599,779	\$ 55,646	\$ 33,235
Bonds	2,168,538	8,857	7,056
Japanese government bonds	1,992,400	7,635	7,056
Japanese municipal bonds.....	160,075	1,075	—
Japanese corporate bonds.....	16,043	137	—
Other	1,615,565	28,291	34,273
Foreign bonds	1,040,760	10,677	4,208
Other.....	574,804	17,614	30,065
Total.....	\$ 4,383,883	\$ 92,805	\$ 74,575

Type	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

5. Money Trusts

(1) Money trusts as a type of trading account securities as at March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2020	2019	2020	
Carrying amount (fair value).....	¥ 23,000	¥ 18,000	\$ 211,338	
Amount of net unrealized gains (losses) included in the consolidated income statements.....	—	—	—	

(2) Money trusts, other than for investment purposes or held-to-maturity purposes as at March 31, 2020 and 2019 were as follows:

	Millions of Yen				
	2020				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	¥ 4,100	¥ 4,100	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars				
	2020				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust	\$ 37,673	\$ 37,673	\$ —	\$ —	\$ —

	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	¥ —	¥ —	¥ —

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, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net unrealized gains on available-for-sale securities	¥ 90,460	¥ 134,403	\$ 831,204
Deferred tax liabilities	(27,472)	(40,716)	(252,430)
Net unrealized gains on available-for-sale securities before adjustment for non-controlling interests, net of taxes.....	62,987	93,687	578,765
Non-controlling interests	—	—	—
Net unrealized gains on available-for-sale securities, net of taxes.....	¥ 62,987	¥ 93,687	\$ 578,765

7. Loans and Bills Discounted

Loans and bills discounted as at March 31, 2020 and 2019 included the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2020	2019	2020	
Loans to bankrupt customers.....	¥ 5,702	¥ 3,779	\$ 52,393	
Loans past due six months or more	45,533	46,390	418,386	
Loans past due three months or more but less than six months ...	757	876	6,955	
Restructured loans	22,206	19,189	204,043	
Total.....	¥ 74,201	¥ 70,235	\$ 681,806	

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 (re-pledge) commercial bills discounted and foreign exchange bought without restriction. The total face amount of such instruments as at March 31, 2020 and 2019 was ¥23,725 million (\$218,000 thousand) and ¥31,787 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 ¥1,345 million (\$12,358 thousand) and ¥1,434 million as at March 31, 2020 and 2019, 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 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 in the various terms and conditions stipulated in the relevant agreement. The total unused commitment line balance related to these agreements as at March 31, 2020 and 2019 amounted to ¥1,509,352 million (\$13,868,896 thousand) and ¥1,544,767 million, respectively. Of these amounts, ¥1,411,309 million (\$12,968,014 thousand) for 2020 and ¥1,429,387 million for 2019 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, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Land	¥ 19,725	¥ 20,032	\$ 181,245
Buildings	11,720	11,905	107,690
Lease assets	2,328	2,241	21,391
Other tangible fixed assets	5,581	4,996	51,281
Construction in progress.....	103	413	946
Total.....	¥ 39,460	¥ 39,588	\$ 362,583

Accumulated depreciation as at March 31, 2020 and 2019 was ¥80,676 million (\$741,302 thousand) and ¥79,089 million, respectively. The amounts that were directly offset against acquisition costs as at March 31, 2020 and 2019 were ¥5,082 million (\$46,696 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, 2020 and 2019 as follows:

(Millions of Yen)		2020		Losses on impairment of fixed assets
	Purpose of Use	Type		
Okayama Prefecture	Branches	13 branches	Land and buildings	¥ 480
	Idle assets	2 items		
Prefectures other than Okayama	Branches	7 branches	Land and buildings	¥ 127
	Idle assets	2 items		

(Thousands of U.S. Dollars)		2020		Losses on impairment of fixed assets
	Purpose of Use	Type		
Okayama Prefecture	Branches	13 branches	Land and buildings	\$ 4,410
	Idle assets	2 items		
Prefectures other than Okayama	Branches	7 branches	Land and buildings	\$ 1,166
	Idle assets	2 items		

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

Within the Bank, the Group office or branch 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, 2020, the value in use for two branches of the Bank in Okayama Prefecture, and the net realizable value for other assets, and 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 ¥608 million (\$5,586 thousand) and ¥222 million as "Losses on impairment of fixed assets" for the years ended March 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Software.....	¥ 2,929	¥ 4,336	\$ 26,913
Other intangible fixed assets.....	135	151	1,240
Total.....	¥ 3,064	¥ 4,487	\$ 28,154

11. Pledged Assets

Pledged assets as at March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Securities.....	¥ 739,359	¥ 748,558	\$ 6,793,705
Other assets.....	81	80	744
Total.....	¥ 739,441	¥ 748,639	\$ 6,794,459

Liabilities secured by pledged assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deposits.....	¥ 25,708	¥ 24,318	\$ 236,221
Call money.....	—	5,216	—
Payables under securities lending transactions.....	217,164	377,224	1,995,442
Payables under repurchase agreements.....	124,704	125,088	1,145,860
Borrowed money.....	140,269	146,967	1,288,881
Total.....	¥ 507,846	¥ 678,816	\$ 4,666,415

At March 31, 2020 and 2019, certain trading account securities in the aggregate amount of ¥112 million (\$1,029 thousand) and ¥114 million, respectively, and certain other securities in the aggregate amount of ¥24,388 million (\$224,092 thousand) and ¥76,276 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, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Initial margins for central counterparty.....	¥ 66,588	¥ 42,642	\$ 611,853
Cash collateral paid for financial instruments.....	6,925	6,521	63,631
Initial margins for futures markets...	478	655	4,392
Guarantee deposits.....	832	862	7,644

12. Deferred Tax Assets (Liabilities)

Significant components of deferred tax assets and liabilities as at March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Reserve for possible loan losses...	¥ 11,922	¥ 10,871	\$ 109,546
Net defined benefit liability.....	9,895	9,917	90,921
Unrealized holding losses on available-for-sale securities....	6,027	1,641	55,379
Depreciation.....	5,321	5,415	48,892
Deferred losses on hedging instruments.....	5,140	3,931	47,229
Write-down of securities.....	1,387	1,600	12,744
Losses on impairment of fixed assets.....	1,163	1,036	10,686
Accrued employees' bonuses....	487	489	4,474
Software.....	206	384	1,892
Other.....	1,475	1,821	13,553
Subtotal.....	43,027	37,110	395,359
Valuation allowance.....	(2,700)	(2,877)	(24,809)
Total deferred tax assets.....	40,327	34,232	370,550

Deferred tax liabilities:

Unrealized holding gains on available-for-sale securities....	(33,456)	(42,354)	(307,415)
Reserve for advanced depreciation of tangible fixed assets.....	(235)	(235)	(2,159)
Other.....	(296)	(191)	(2,719)
Total deferred tax liabilities.....	(33,988)	(42,781)	(312,303)
Net deferred tax assets (liabilities) ..	¥ 6,339	¥ (8,548)	\$ 58,246

Figures for reconciliation between the statutory tax rate and the effective tax rate of the Bank for the years ended March 31, 2020 and 2019 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, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Borrowed Money.....	¥ 157,365	¥ 164,089	\$ 1,445,970
Commercial paper.....	32,611	48,717	299,650
Lease liabilities (due within one year)...	220	219	2,021
Lease liabilities (due after one year)....	1,789	2,004	16,438

The weighted average interest rates on the outstanding balances as at March 31, 2020 and 2019 were as follows:

	2020	2019
Borrowed Money.....	1.088%	1.722%
Commercial paper.....	1.933%	2.812%
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, 2020 and 2019 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Less than one year.....	¥ 144,770	¥ 152,365	\$ 1,330,239
From one to two years.....	3,474	3,557	31,921
From two to three years.....	2,605	2,665	23,936
From three to four years.....	1,836	1,796	16,870
From four to five years.....	2,138	1,017	19,645
Over five years.....	2,540	2,687	23,339
Total borrowed money.....	¥ 157,365	¥ 164,089	\$ 1,445,970

Commercial paper classified by maturity as at March 31, 2020 and 2019 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Less than one year.....	¥ 32,611	¥ 48,717	\$ 299,650
Total commercial paper.....	¥ 32,611	¥ 48,717	\$ 299,650

Lease liabilities classified by maturity as at March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Less than one year.....	¥ 220	¥ 219	\$ 2,021
From one to two years.....	219	218	2,012
From two to three years.....	217	217	1,993
From three to four years.....	217	215	1,993
From four to five years.....	214	214	1,966
Over five years.....	920	1,138	8,453
Total lease liabilities.....	¥ 2,009	¥ 2,223	\$ 18,459

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, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Beginning balance of projected benefit obligation.....	¥ 65,133	¥ 65,847	\$ 598,483
Service cost.....	2,073	2,201	19,048
Interest cost.....	129	131	1,185
Actuarial differences.....	144	(308)	1,323
Retirement benefits paid.....	(2,571)	(2,737)	(23,624)
Prior service cost.....	—	—	—
Other.....	—	0	—
Ending balance of projected benefit obligation.....	¥ 64,909	¥ 65,133	\$ 596,425

(b) Changes in plan assets for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Beginning balance of plan assets...	¥ 36,750	¥ 38,107	\$ 337,682
Expected return on plan assets ..	1,309	1,907	12,027
Actuarial differences.....	(1,622)	(3,435)	(14,903)
Contribution from the employer ..	11,436	1,357	105,081
Retirement benefits paid.....	(1,210)	(1,185)	(11,118)
Other.....	—	—	—
Ending balance of plan assets.....	¥ 46,664	¥ 36,750	\$ 428,778

(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
	2020	2019	2020
Funded defined benefit obligation...	¥ 64,574	¥ 64,808	\$ 593,347
Plan assets.....	(46,664)	(36,750)	(428,778)
	17,909	28,057	164,559
Unfunded defined benefit obligation.....	335	325	3,078
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 18,245	¥ 28,383	\$ 167,646

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net defined benefit liability.....	¥ 18,245	¥ 28,383	\$ 167,646
Net defined benefit asset.....	—	—	—
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 18,245	¥ 28,383	\$ 167,646

(d) The components of retirement benefit expenses for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost.....	¥ 2,073	¥ 2,201	\$ 19,048
Interest cost.....	129	131	1,185
Expected return on plan assets.....	(1,309)	(1,907)	(12,027)
Amortization of actuarial differences.....	942	1,497	8,655
Amortization of prior service cost ...	—	—	—
Other	(3)	(3)	(27)
Retirement benefit expenses on defined benefit plans.....	¥ 1,832	¥ 1,918	\$ 16,833

Note: Retirement benefit expenses 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
	2020	2019	2020
Prior service cost.....	¥ —	¥ —	\$ —
Actuarial differences.....	(824)	(1,629)	(7,571)
Total.....	¥ (824)	¥ (1,629)	\$ (7,571)

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost.....	¥ —	¥ —	\$ —
Unrecognized actuarial differences.....	(10,391)	(9,566)	(95,479)
Other	—	—	—
Total.....	¥ (10,391)	¥ (9,566)	\$ (95,479)

(g) Plan assets

1) Components of plan assets

Plan assets consisted of the following:

	2020	2019
Bonds	13.9%	19.9%
Equity securities.....	19.6%	28.8%
Cash and deposits	30.7%	12.1%
General account.....	9.2%	11.4%
Other	26.5%	27.8%
Total.....	100.0%	100.0%

Note: Total plan assets as at March 31, 2020 and 2019 included an employees' retirement benefit trust established for corporate welfare pension plans that represented 35.3% and 17.9% 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, 2020 and 2019 were as follows:

	2020	2019
Discount rate	0.200%	0.200%
Long-term expected rate of return	1.765% - 3.959%	1.889% - 5.850%

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, 2020 and 2019 was ¥174 million (\$1,598 thousand) and ¥198 million, respectively.

15. Derivative Transactions

Derivative transactions as at March 31, 2020 and 2019 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			
	2020			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	¥ 32,398	¥ 28,928	¥ (994)	¥ (994)
Pay floating/ receive fixed	29,013	26,343	954	954
Total	—	—	¥ (39)	¥ (39)

Type	Thousands of U.S. Dollars			
	2020			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating	\$ 297,693	\$ 265,809	\$ (9,133)	\$ (9,133)
Pay floating/ receive fixed	266,590	242,056	8,765	8,765
Total	—	—	\$ (358)	\$ (358)

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)

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			
	2020			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	¥ 696,328	¥ 535,831	¥ 144	¥ 144
Forward foreign exchange				
Sold	56,847	12,564	(579)	(579)
Bought	37,840	11,815	995	995
Currency options				
Sold	14,762	7,009	(426)	467
Bought	14,762	7,009	426	(371)
NDF				
Sold	324	95	16	16
Bought	315	92	(6)	(6)
Total	—	—	¥ 570	¥ 666

Type	Thousands of U.S. Dollars			
	2020			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps	\$ 6,398,309	\$ 4,923,559	\$ 1,323	\$ 1,323
Forward foreign exchange				
Sold	522,346	115,446	(5,320)	(5,320)
Bought	347,698	108,563	9,142	9,142
Currency options				
Sold	135,642	64,403	(3,914)	4,291
Bought	135,642	64,403	3,914	(3,408)
NDF				
Sold	2,977	872	147	147
Bought	2,894	845	(55)	(55)
Total	—	—	\$ 5,237	\$ 6,119

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

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				Recognized gains (losses)
	2020				
	Contract amount	Over 1 year	Fair value		
Financial products exchange transactions					
Bond futures					
Sold.....	¥ 308	¥ —	¥ 3	¥ 3	
Total.....	—	—	¥ 3	¥ 3	

Type	Thousands of U.S. Dollars				Recognized gains (losses)
	2020				
	Contract amount	Over 1 year	Fair value		
Financial products exchange transactions					
Bond futures					
Sold.....	\$ 2,830	\$ —	\$ 27	\$ 27	
Total.....	—	—	\$ 27	\$ 27	

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

Note: The above transactions were stated at fair value, and gains and losses were 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 items	Millions of Yen		
		2020		
		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 (bonds)	¥ 221,075	¥ 218,575	¥ (16,588)
Total.....		—	—	¥ (16,588)

Thousands of U.S. Dollars

Type	Hedged items	2020		
		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 (bonds)	\$ 2,031,379	\$ 2,008,407	\$ (152,421)
Total.....		—	—	\$ (152,421)

Type	Hedged items	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 (bonds)	¥ 211,168	¥ 207,068	¥ (11,984)
Total.....		—	—	¥ (11,984)

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 items	Millions of Yen		
		2020		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Fund-related swaps.....	Call loans	¥ 17,412	¥ —	¥ (0)
Currency swaps.....	Loans	241,602	116,448	104
Total.....		—	—	¥ 103

Thousands of U.S. Dollars

Type	Hedged items	2020		
		Contract amount	Over 1 year	Fair value
		The deferral method of hedge accounting		
Fund-related swaps.....	Call loans	\$ 159,992	\$ —	\$ (0)
Currency swaps.....	Loans	2,219,994	1,069,999	955
Total.....		—	—	\$ 946

Millions of Yen

Type	Hedged items	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)

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, 2020 and 2019 was as follows:

As lessee:

Obligations under operating leases that were not cancellable as at March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
Due within one year	¥ 151	¥ 150	\$ 1,387
Due after one year	146	289	1,341
Total.....	¥ 298	¥ 440	\$ 2,738

17. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
Net unrealized gains (losses) on available-for-sale securities:			
Decrease during the year	¥ (44,064)	¥ (6,536)	\$ (404,888)
Reclassification adjustments	120	(2,170)	1,102
Subtotal, before tax	(43,943)	(8,707)	(403,776)
Tax benefit or (expense)	13,243	2,570	121,685
Subtotal, net of tax	(30,699)	(6,137)	(282,082)
Net deferred gains (losses) on hedging instruments:			
Decrease during the year	(12,345)	(12,508)	(113,433)
Reclassification adjustments	8,657	6,905	79,546
Subtotal, before tax	(3,688)	(5,603)	(33,887)
Tax benefit or (expense)	1,125	1,709	10,337
Subtotal, net of tax	(2,563)	(3,894)	(23,550)
Adjustments for retirement benefits:			
Decrease during the year	(1,767)	(3,126)	(16,236)
Reclassification adjustments	942	1,497	8,655
Subtotal, before tax	(824)	(1,629)	(7,571)
Tax benefit or (expense)	251	496	2,306
Subtotal, net of tax	(573)	(1,132)	(5,265)
Total other comprehensive income	¥ (33,836)	¥ (11,164)	\$ (310,906)

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, 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 more notably disadvantageous 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, 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 groups 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.

With credit concentration risk, the credit status is monitored and managed by debtor, industry and country and reported to the Board of Directors and other management bodies on a regular basis.

In addition, to strengthen its credit control over large accounts the Bank has established the Large Account Credit Committee as part of its systematic measures.

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 fluctuations in both present value and net interest income 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 and monitors, analyzes, evaluates and controls risks from various aspects, implementing limit controls and stress tests.

The Bank has adopted a variance-covariance model assuming that fluctuations in prices and interest rates will follow a normal distribution and uses a five-year observation period, a 99.9% confidence interval, a

125-business-day holding period for banking business and a 10-business-day holding period for trading activities. Among financial instruments, market price fluctuation risk is measured for equity securities (excluding unlisted equity securities), investment trusts and other assets. Interest rate risk is measured for debt securities, deposits and loans, taking into consideration the correlation between price fluctuation risk and interest rate risk.

Under normal circumstances, interest rates will generally rise when stock prices rise (prices of debt securities will decline) and decline when the stock prices decline (prices of debt securities will rise). Thus, stock prices and interest rates are mutually related, and stock prices and prices of debt securities are inversely related. The Bank maintains a market risk volume smaller than the total price fluctuation risk and interest rate risk taking the correlation into account. At a time of stress, such as in times of 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, 2020 and 2019 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Market risk volume	¥ 118,994	¥ 117,309	\$ 1,093,393
Banking business	118,989	117,297	1,093,347
[Price fluctuation risk]	[92,892]	[89,073]	[853,551]
[Interest rate risk]	[37,328]	[41,242]	[342,993]
[Considering correlation]	[(11,231)]	[(13,018)]	[(103,197)]
Trading activities	5	12	45

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, 2020 and 2019. Unlisted 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.....	¥ 576,348	¥ 576,348	¥ —
(2) Trading account securities.....	1,316	1,316	—
(3) Money trusts.....	27,100	27,100	—
(4) Securities			
Bonds held to maturity.....	11,398	11,718	320
Available-for-sale securities.....	2,307,119	2,307,119	—
(5) Loans and bills discounted.....	4,899,984		
Reserve for possible loan losses (*1).....	40,155		
	4,859,828	4,900,393	40,565
Total assets.....	¥ 7,783,111	¥ 7,823,996	¥ 40,885
Liabilities			
(1) Deposits.....	¥ 6,701,781	¥ 6,702,231	¥ 449
(2) Negotiable certificates of deposit.....	194,963	194,968	4
(3) Payables under securities lending transactions.....	217,164	217,164	—
Total liabilities.....	¥ 7,113,909	¥ 7,114,363	¥ 454
Derivative transactions (*2)			
Derivative transactions to which hedge accounting is not applied.....	¥ (62)	¥ (62)	¥ —
Derivative transactions to which hedge accounting is applied.....	(16,484)	(16,484)	—
Total derivative transactions.....	¥ (16,547)	¥ (16,547)	¥ —

	Thousands of U.S. Dollars		
	Book value	Fair value	Difference
Assets			
(1) Cash and due from banks.....	\$ 5,295,855	\$ 5,295,855	\$ —
(2) Trading account securities.....	12,092	12,092	—
(3) Money trusts.....	249,012	249,012	—
(4) Securities			
Bonds held to maturity.....	104,732	107,672	2,940
Available-for-sale securities.....	21,199,292	21,199,292	—
(5) Loans and bills discounted.....	45,024,202		
Reserve for possible loan losses (*1).....	368,969		
	44,655,223	45,027,961	372,737
Total assets.....	\$ 71,516,227	\$ 71,891,904	\$ 375,677
Liabilities			
(1) Deposits.....	\$ 61,580,271	\$ 61,584,406	\$ 4,125
(2) Negotiable certificates of deposit.....	1,791,445	1,791,491	36
(3) Payables under securities lending transactions.....	1,995,442	1,995,442	—
Total liabilities.....	\$ 65,367,168	\$ 65,371,340	\$ 4,171
Derivative transactions (*2)			
Derivative transactions to which hedge accounting is not applied.....	\$ (569)	\$ (569)	\$ —
Derivative transactions to which hedge accounting is applied.....	(151,465)	(151,465)	—
Total derivative transactions.....	\$ (152,044)	\$ (152,044)	\$ —

	Millions of Yen		
	2019		
	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 to which hedge accounting is not applied.....	¥ (3,052)	¥ (3,052)	¥ —
Derivative transactions to which hedge accounting is applied.....	(12,796)	(12,796)	—
Total derivative transactions	¥ (15,848)	¥ (15,848)	¥ —

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), prices on financial products exchanges 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 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, commercial bills discounted and overdrafts 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 borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers, 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, 2020.

(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
	2020	2019	2020
(1) Unlisted equity securities (*1) (*2).....	¥ 5,553	¥ 5,572	\$ 51,024
(2) Investments in partnerships (*3).....	14,693	14,734	135,008
(3) Privately placed investment trusts (*1)	800	—	7,350
(4) Foreign stocks in foreign currency (*1).....	0	0	0
Total.....	¥ 21,047	¥ 20,307	\$ 193,393

(*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 ¥0 million (\$0 thousand) and ¥3 million for the fiscal years ended March 31, 2020 and 2019, 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					
	2020					
	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).....	¥ 576,348	—	—	—	—	—
Securities	220,425	¥ 381,363	¥ 275,813	¥ 69,221	¥ 238,608	¥ 888,188
Bonds held to maturity.....	—	—	10,502	896	—	—
Japanese government bonds.....	—	—	10,502	896	—	—
Available-for-sale securities with maturities	220,425	381,363	265,310	68,325	238,608	888,188
Japanese government bonds.....	85,705	177,814	80,203	—	79,399	219,567
Japanese municipal bonds	34,658	41,680	39,714	39,562	137,509	458,192
Corporate bonds.....	81,984	115,570	73,307	12,708	4,077	68,224
Other	18,076	46,298	72,084	16,055	17,621	142,204
Loans and bills discounted (*2)	1,399,115	970,154	697,458	426,245	412,683	914,414
Total	¥ 2,195,888	¥ 1,351,517	¥ 973,271	¥ 495,467	¥ 651,291	¥ 1,802,603

	Thousands of U.S. Dollars					
	2020					
	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).....	\$ 5,295,855	—	—	—	—	—
Securities	2,025,406	\$ 3,504,208	\$ 2,534,347	\$ 636,047	\$ 2,192,483	\$ 8,161,242
Bonds held to maturity.....	—	—	96,499	8,233	—	—
Japanese government bonds.....	—	—	96,499	8,233	—	—
Available-for-sale securities with maturities	2,025,406	3,504,208	2,437,838	627,814	2,192,483	8,161,242
Japanese government bonds.....	787,512	1,633,869	736,956	—	729,569	2,017,522
Japanese municipal bonds	318,459	382,982	364,917	363,521	1,263,521	4,210,162
Corporate bonds.....	753,321	1,061,931	673,591	116,769	37,462	626,885
Other	166,093	425,415	662,354	147,523	161,913	1,306,661
Loans and bills discounted (*2)	12,855,968	8,914,398	6,408,692	3,916,613	3,791,996	8,402,223
Total	\$ 20,177,230	\$ 12,418,607	\$ 8,943,039	\$ 4,552,669	\$ 5,984,480	\$ 16,563,475

	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

(*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 ¥51,236 million (\$470,789 thousand) and ¥50,170 million and loans without contract due dates in the amount of ¥28,675 million (\$263,484 thousand) and ¥28,794 million are not included in the above tables as at March 31, 2020 and 2019, 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					
	2020					
	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 (*).....	¥ 6,459,982	¥ 197,276	¥ 44,060	¥ —	¥ 461	¥ —
Negotiable certificates of deposit.....	194,291	672	—	—	—	—
Payables under securities lending transactions	217,164	—	—	—	—	—
Total	¥ 6,871,438	¥ 197,949	¥ 44,060	¥ —	¥ 461	¥ —

	Thousands of U.S. Dollars					
	2020					
	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 (*).....	\$ 59,358,467	\$ 1,812,698	\$ 404,851	\$ —	\$ 4,235	\$ —
Negotiable certificates of deposit.....	1,785,270	6,174	—	—	—	—
Payables under securities lending transactions	1,995,442	—	—	—	—	—
Total	\$ 63,139,189	\$ 1,818,882	\$ 404,851	\$ —	\$ 4,235	\$ —

	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	¥ —

(*) 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" segment 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					
	2020					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	¥ 109,066	¥ 11,830	¥ 2,660	¥ 123,558	¥ 3,759	¥ 127,318
Intersegment income.....	1,762	207	92	2,062	1,773	3,835
Total	¥ 110,829	¥ 12,038	¥ 2,753	¥ 125,620	¥ 5,532	¥ 131,153
Segment profit (losses).....	15,475	764	(109)	16,129	1,839	17,969
Segment assets	8,116,803	40,419	9,032	8,166,255	27,583	8,193,839
Segment liabilities.....	7,627,804	24,021	4,709	7,656,535	12,478	7,669,014
Other items:						
Depreciation	4,201	213	16	4,431	30	4,462
Interest income	76,726	112	3	76,841	179	77,021
Interest expense.....	18,442	84	1	18,529	0	18,529

	Thousands of U.S. Dollars					
	2020					
	Reportable segments				Other	Total
Banking	Leasing	Securities	Total			
Ordinary income:						
External customers.....	\$ 1,002,168	\$ 108,701	\$ 24,441	\$ 1,135,330	\$ 34,540	\$ 1,169,879
Intersegment income.....	16,190	1,902	845	18,946	16,291	35,238
Total	\$ 1,018,368	\$ 110,612	\$ 25,296	\$ 1,154,277	\$ 50,831	\$ 1,205,118
Segment profit (losses).....	142,194	7,020	(1,001)	148,203	16,897	165,110
Segment assets	74,582,403	371,395	82,991	75,036,800	253,450	75,290,260
Segment liabilities.....	70,089,166	220,720	43,269	70,353,165	114,655	70,467,830
Other items:						
Depreciation	38,601	1,957	147	40,714	275	40,999
Interest income	705,007	1,029	27	706,064	1,644	707,718
Interest expense.....	169,456	771	9	170,256	0	170,256

	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

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 in the accompanying consolidated income statements

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Ordinary income			
Total amount for reportable segments.....	¥ 125,620	¥ 127,505	\$ 1,154,277
Ordinary income of "Other".....	5,532	5,425	50,831
Reclassification of reserves.....	—	(131)	—
Elimination of intersegment transactions.....	(3,835)	(4,177)	(35,238)
Ordinary income in the consolidated income statements.....	¥ 127,318	¥ 128,621	\$ 1,169,879

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 in the accompanying consolidated income statements

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Segment profit			
Total amount for reportable segments.....	¥ 16,129	¥ 22,692	\$ 148,203
Segment profit of "Other".....	1,839	1,815	16,897
Elimination of intersegment transactions.....	(505)	(812)	(4,640)
Ordinary profit in the consolidated income statements.....	¥ 17,463	¥ 23,696	\$ 160,461

(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
	2020	2019	2020
Segment assets			
Total amount for reportable segments.....	¥ 8,166,255	¥ 8,269,631	\$ 75,036,800
Segment assets of "Other".....	27,583	26,132	253,450
Elimination of intersegment transactions.....	(32,734)	(28,294)	(300,781)
Elimination of shares in consolidated subsidiaries.....	(13,718)	(13,718)	(126,049)
Total assets in the consolidated balance sheets.....	¥ 8,147,386	¥ 8,253,750	\$ 74,863,420

(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
	2020	2019	2020
Segment liabilities			
Total amount for reportable segments.....	¥ 7,656,535	¥ 7,732,328	\$ 70,353,165
Segment liabilities of "Other".....	12,478	11,976	114,655
Elimination of intersegment transactions.....	(32,821)	(28,373)	(301,580)
Total liabilities in the consolidated balance sheets.....	¥ 7,636,192	¥ 7,715,931	\$ 70,166,240

(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
	2020			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation.....	¥ 4,431	¥ 30	¥ (9)	¥ 4,452
Interest income.....	76,841	179	(589)	76,431
Interest expense.....	18,529	0	(62)	18,467

	Thousands of U.S. Dollars			Consolidated financial statements
	2020			
Other items	Total amount for reportable segments	Other	Adjustments	
Depreciation.....	\$ 40,714	\$ 275	\$ (82)	\$ 40,907
Interest income.....	706,064	1,644	(5,412)	702,297
Interest expense.....	170,256	0	(569)	169,686

	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

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				
	2020				
	Lending	Securities investment	Services	Other	Total
Ordinary income from external customers.....	¥ 50,488	¥ 35,304	¥ 18,995	¥ 22,529	¥ 127,318

	Thousands of U.S. Dollars				
	2020				
	Lending	Securities investment	Services	Other	Total
Ordinary income from external customers.....	\$ 463,916	\$ 324,395	\$ 174,538	\$ 207,010	\$ 1,169,879

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

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					
	2020					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets.....	¥ 596	¥ —	¥ 12	¥ 608	¥ —	¥ 608

	Thousands of U.S. Dollars					
	2020					
	Reportable segments					
	Banking	Leasing	Securities	Total	Other	Total
Losses on impairment of fixed assets.....	\$ 5,476	\$ —	\$ 110	\$ 5,586	\$ —	\$ 5,586

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

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, 2020 and 2019 was as follows:

(a) Number of outstanding shares and treasury stock

For the year ended March 31, 2020

Type of shares	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year	Remarks
(Thousands of shares)					
Issued stock:					
Common stock.....	195,272	—	—	195,272	
Treasury stock:					
Common stock.....	6,955	400	143	7,212	Note

Note: The increase in treasury stock of 400 thousand shares was due to the public bidding of 400 thousand shares pursuant to the resolution made at the Board of Directors' meeting held on May 14, 2019, and due to purchases of 0 thousand shares of less than one unit. The decrease in treasury stock of 143 thousand shares was due to the exercise of stock options of 143 thousand shares and the sale of 0 thousand shares of less than one unit.

For the year ended March 31, 2019

Type of shares	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year	Remarks
(Thousands of shares)					
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.

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

For the year ended March 31, 2020

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 (\$20,757 thousand)	¥12.00 (\$0.110)	Mar. 31, 2019	Jun. 27, 2019
Nov. 8, 2019	Board of Directors	Common stock	¥2,068 million (\$19,002 thousand)	¥11.00 (\$0.101)	Sep. 30, 2019	Dec. 6, 2019

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	¥10.00	Mar. 31, 2018	Jun. 27, 2018
Nov. 9, 2018	Board of Directors	Common stock	¥1,892 million	¥10.00	Sep. 30, 2018	Dec. 7, 2018

Dividends were applicable to the year ended March 31, 2020 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. 25, 2020	General meeting of shareholders	Common stock	¥2,068 million (\$19,002 thousand)	¥11.00 (\$0.101)	Mar. 31, 2020	Jun. 26, 2020

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
	2020	2019	2020
Cash and due from banks.....	¥ 576,348	¥ 763,344	\$ 5,295,855
Due from banks, excluding the Bank of Japan	(11,675)	(13,962)	(107,277)
Cash and cash equivalents	¥ 564,672	¥ 749,382	\$ 5,188,569

22. Stock Options

(1) Stock-based compensation expenses were ¥35 million (\$321 thousand) and ¥42 million for the fiscal years ended March 31, 2020 and 2019, respectively.

(2) Stock options outstanding as of March 31, 2020 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
2019 Stock Options	8 directors (excluding outside directors and directors serving as audit and supervisory committee members)	45,300	Aug. 2, 2019	From Aug. 3, 2019 to Aug. 2, 2049

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, 2020. Number of stock options is converted to number of shares.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Stock Options	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, 2020	Number of Shares										
Non-vested:											
April 1, 2019 – Outstanding	13,800	17,200	32,400	31,700	26,100	26,900	20,300	33,400	29,800	37,400	—
Granted.....	—	—	—	—	—	—	—	—	—	—	45,300
Forfeited	—	—	—	—	—	—	—	—	—	—	—
Vested	10,000	12,500	20,200	19,800	13,000	13,400	10,000	16,400	12,400	15,600	—
March 31, 2020 – Outstanding.....	3,800	4,700	12,200	11,900	13,100	13,500	10,300	17,000	17,400	21,800	45,300
Vested:											
April 1, 2019 – Outstanding	—	—	—	—	—	—	—	—	—	—	—
Vested	10,000	12,500	20,200	19,800	13,000	13,400	10,000	16,400	12,400	15,600	—
Exercised	10,000	12,500	20,200	19,800	13,000	13,400	10,000	16,400	12,400	15,600	—
Forfeited	—	—	—	—	—	—	—	—	—	—	—
March 31, 2020 – Outstanding	—	—	—	—	—	—	—	—	—	—	—

Price information for 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 stock options is as follows:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options	Stock Options
	(Yen)										
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise...	970	970	970	970	970	970	970	970	970	970	—
Fair appraisal price at date of grant.....	1,197	935	917	926	1,281	1,483	1,815	1,022	1,508	1,099	753

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Stock Options	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	\$ 0.00
Average share price at time of exercise...	8.91	8.91	8.91	8.91	8.91	8.91	8.91	8.91	8.91	8.91	—
Fair appraisal price at date of grant.....	10.99	8.59	8.42	8.50	11.77	13.62	16.67	9.39	13.85	10.09	6.91

(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 2019 stock options were as follows:

	2019 Stock Options
Volatility of stock prices (Note 1)	27.475%
Estimated remaining outstanding period (Note 2)	7 years and 10 months
Estimated dividend (Note 3)	¥22.00 per share
Risk-free interest rate (Note 4)	(0.219)%

- Notes: 1. The volatility of stock prices was computed based on the actual stock prices from September 2011 to August 2019, corresponding to the estimated remaining outstanding period.
2. The remaining outstanding period was estimated based on historical data.
3. The estimated dividend was at the time of grant for the dividend for the year ended March 31, 2020.
4. The risk-free interest rate is equal to 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, 2020 and 2019 were as follows:

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

2020

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
Directors or their close family members	Tsuyoshi Nishiyama	—	—	Officer of a company	—	Borrowing and lending	Lending Note	Average balance ¥33 million	Loans and bills discounted	¥31 million
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	—	Borrowing and lending	Lending Note	Average balance ¥41 million	Loans and bills discounted	¥41 million
	Nishi Techno Co., Ltd.	Okayama-city, Okayama Prefecture	¥20 million	Civil engineering	—	Borrowing and lending	Lending Note	Average balance ¥303 million	Loans and bills discounted	¥427 million

Terms of transactions and policies for determining terms

Note: Interest was based on money market rates.

2020

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
Directors or their close family members	Tsuyoshi Nishiyama	—	—	Officer of a company	—	Borrowing and lending	Lending Note	Average balance \$303 thousand	Loans and bills discounted	\$284 thousand
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	—	Borrowing and lending	Lending Note	Average balance \$376 thousand	Loans and bills discounted	\$376 thousand
	Nishi Techno Co., Ltd.	Okayama-city, Okayama Prefecture	\$183 thousand	Civil engineering	—	Borrowing and lending	Lending Note	Average balance \$2,784 thousand	Loans and bills discounted	\$3,923 thousand

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	¥3 million	Hat manufacturing	—	Borrowing and lending	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

Not applicable



Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of The Chugoku Bank, Limited and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

松山 和弘 

Matsuyama Kazuhiro

Designated Engagement Partner


Certified Public Accountant

神田 正史 

Kanda Masashi

Designated Engagement Partner

Certified Public Accountant

斎藤 幸治 

Saito Koji

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

August 31, 2020

Non-consolidated Financial Statements

Non-consolidated Balance Sheets

The Chugoku Bank, Limited
March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
ASSETS:			
Cash and due from banks.....	¥ 576,290	¥ 763,284	\$ 5,295,322
Call loans	59,877	39,677	550,188
Other debt purchased.....	23,065	29,599	211,936
Trading account securities.....	1,316	2,375	12,092
Money trusts	23,000	18,000	211,338
Securities	2,345,154	2,394,994	21,548,782
Loans and bills discounted	4,909,791	4,808,712	45,114,315
Foreign exchange	11,960	9,042	109,896
Other assets	124,009	118,371	1,139,474
Tangible fixed assets.....	38,040	38,894	349,535
Intangible fixed assets.....	3,019	4,427	27,740
Deferred tax assets	2,215	—	20,352
Customers' liabilities for acceptances and guarantees.....	33,413	32,490	307,020
Reserve for possible loan losses.....	(37,519)	(34,158)	(344,748)
Total assets	¥ 8,113,634	¥ 8,225,712	\$ 74,553,284
LIABILITIES AND NET ASSETS:			
Liabilities:			
Deposits.....	¥ 6,916,076	¥ 6,818,255	\$ 63,549,352
Call money	30,068	18,790	276,284
Payables under repurchase agreements	124,704	125,088	1,145,860
Payables under securities lending transactions	217,164	377,224	1,995,442
Commercial paper.....	32,611	48,717	299,650
Borrowed money.....	148,005	155,936	1,359,965
Foreign exchange	272	1,709	2,499
Due to trust account.....	3,309	2,760	30,405
Other liabilities.....	102,216	87,725	939,226
Liability for employees' severance and retirement benefits.....	7,585	18,556	69,695
Accrued employees' bonuses	1,284	1,291	11,798
Reserve for reimbursement of deposits.....	642	995	5,899
Reserve for point program	59	78	542
Deferred tax liabilities	—	12,540	—
Acceptances and guarantees.....	33,413	32,490	307,020
Total liabilities	¥ 7,617,413	¥ 7,702,161	\$ 69,993,687
Net assets			
Shareholders' equity			
Common stock.....	¥ 15,149	¥ 15,149	\$ 139,198
Capital surplus	6,286	6,286	57,759
Retained earnings	433,148	426,685	3,980,042
Less treasury stock, at cost.....	(9,622)	(9,401)	(88,413)
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities.....	62,535	93,412	574,611
Net deferred losses on hedging instruments.....	(11,456)	(8,893)	(105,265)
Subscription rights to shares.....	179	311	1,644
Total net assets	496,220	523,551	4,559,588
Total liabilities and net assets	¥ 8,113,634	¥ 8,225,712	\$ 74,553,284

Non-consolidated Income Statements

The Chugoku Bank, Limited
For the Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Income:			
Interest and dividends on:			
Loans and discounts.....	¥ 50,493	¥ 51,412	\$ 463,962
Securities	25,499	27,659	234,301
Other	733	1,158	6,735
Fees and commissions	20,217	19,175	185,766
Other operating income:			
Gains on sales and redemptions of other securities and trading account securities.....	3,052	4,865	28,043
Foreign exchange gains	411	—	3,776
Other	223	367	2,049
Other income:			
Bad debt recovered	3	0	27
Gains on sales of equity securities	7,073	5,574	64,991
Gains on money trusts	72	—	661
Gains on disposals of fixed assets	1	15	9
Other	3,048	3,248	28,006
Total income	110,830	113,476	1,018,377
Expenses:			
Interest on:			
Deposits	2,599	2,375	23,881
Borrowing	2,156	2,504	19,810
Interest rate swaps	8,460	7,347	77,735
Other	5,227	4,976	48,029
Fees and commissions	4,359	4,288	40,053
Other operating expenses:			
Losses on sales and redemptions of bonds and trading account securities.....	3,583	3,753	32,922
Foreign exchange losses.....	—	843	—
Other	—	407	—
General and administrative expenses	54,953	55,708	504,943
Other expenses:			
Losses on sales and write-offs of shares.....	7,000	4,078	64,320
Losses on money trusts	63	104	578
Reserve for possible loan losses	5,592	4,060	51,382
Write-offs of loans	0	65	0
Losses on disposals of fixed assets	31	67	284
Losses on impairment of fixed assets	596	222	5,476
Other	1,358	1,026	12,478
Total expenses	95,981	91,831	881,935
Income before income taxes	14,849	21,645	136,442
Income taxes:			
Current	4,326	6,758	39,750
Deferred	(291)	(451)	(2,673)
	4,034	6,306	37,066
Net income	¥ 10,815	¥ 15,338	\$ 99,375

Non-consolidated Statements of Changes in Net Assets

The Chugoku Bank, Limited
For the Years Ended March 31, 2020 and 2019

	Millions of Yen							
	2020							
	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	¥ 426,685	¥ (9,401)	¥ 93,412	¥ (8,893)	¥ 311	¥ 523,551
Net income.....			10,815					10,815
Cash dividends.....			(4,328)					(4,328)
Purchases of treasury stock.....				(412)				(412)
Disposal of treasury stock.....			(23)	191				168
Net changes in items other than shareholders' equity					(30,877)	(2,563)	(131)	(33,572)
Net changes during the year	—	—	6,463	(221)	(30,877)	(2,563)	(131)	(27,330)
Balance at end of year.....	¥ 15,149	¥ 6,286	¥ 433,148	¥ (9,622)	¥ 62,535	¥ (11,456)	¥ 179	¥ 496,220

	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

	Thousands of U.S. Dollars (Note 1)							
	2020							
	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.....	\$ 139,198	\$ 57,759	\$ 3,920,656	\$ (86,382)	\$ 858,329	\$ (81,714)	\$ 2,857	\$ 4,810,723
Net income.....			99,375					99,375
Cash dividends.....			(39,768)					(39,768)
Purchases of treasury stock.....				(3,785)				(3,785)
Disposal of treasury stock.....			(211)	1,755				1,543
Net changes in items other than shareholders' equity					(283,717)	(23,550)	(1,203)	(308,481)
Net changes during the year	—	—	59,386	(2,030)	(283,717)	(23,550)	(1,203)	(251,125)
Balance at end of year.....	\$ 139,198	\$ 57,759	\$ 3,980,042	\$ (88,413)	\$ 574,611	\$ (105,265)	\$ 1,644	\$ 4,559,588

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.