

# Consolidated Financial Statements

## Consolidated Balance Sheets

The Chugoku Bank, Limited and its Consolidated Subsidiaries  
March 31, 2021 and 2020

|   | Millions of Yen    |                    | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|--------------------|--------------------|--|
|   | 2021               | 2020               | 2021                                     |
| <b>ASSETS:</b>  |                    |                    |  |
| Cash and due from banks (Notes 21 and 24).....                        | ¥ 1,000,773        | ¥ 576,348          | \$ 9,039,589                             |
| Call loans .....  | 125,878            | 59,877             | 1,137,006                                |
| Other debt purchased (Notes 6, 10 and 21).....                        | 21,485             | 24,928             | 194,065                                  |
| Trading account securities (Notes 6, 13 and 21).....                  | 1,148              | 1,316              | 10,369                                   |
| Money trusts (Notes 7 and 21).....                                    | 27,300             | 27,100             | 246,590                                  |
| Securities (Notes 6, 8, 13 and 21) .....                              | 2,618,039          | 2,339,566          | 23,647,719                               |
| Loans and bills discounted (Notes 9, 10 and 21).....                  | 5,135,435          | 4,899,984          | 46,386,369                               |
| Foreign exchange (Note 9).....  | 8,333              | 11,960             | 75,268                                   |
| Lease receivables and investments in leased assets.....               | 24,291             | 24,130             | 219,411                                  |
| Other assets (Notes 13, 18 and 21) .....                              | 162,723            | 140,349            | 1,469,813                                |
| Tangible fixed assets (Note 11).....                                  | 38,766             | 39,460             | 350,158                                  |
| Intangible fixed assets (Note 12).....                                | 2,437              | 3,064              | 22,012                                   |
| Deferred tax assets (Note 14) .....                                   | 809                | 6,611              | 7,307                                    |
| Customers' liabilities for acceptances and guarantees.....            | 32,031             | 33,413             | 289,323                                  |
| Reserve for possible loan losses.....                                 | (46,291)           | (40,724)           | (418,128)                                |
| <b>Total assets .....</b>   | <b>¥ 9,153,162</b> | <b>¥ 8,147,386</b> | <b>\$ 82,676,921</b>                     |
| <b>LIABILITIES AND NET ASSETS:</b>                                    |                    |                    |  |
| <b>Liabilities:</b>   |                    |                    |  |
| Deposits (Notes 13 and 21).....                                       | ¥ 7,667,019        | ¥ 6,896,745        | \$ 69,253,174                            |
| Call money .....  | 71,293             | 30,068             | 643,961                                  |
| Payables under repurchase agreements (Notes 6 and 13).....            | 129,640            | 124,704            | 1,170,987                                |
| Payables under securities lending transactions (Notes 13 and 21)..... | 172,747            | 217,164            | 1,560,355                                |
| Commercial paper (Note 15).....                                       | 54,228             | 32,611             | 489,820                                  |
| Borrowed money (Notes 13 and 15).....                                 | 286,194            | 157,365            | 2,585,078                                |
| Foreign exchange .....  | 289                | 272                | 2,610                                    |
| Bonds payable (Note 16).....  | 10,000             | —                  | 90,326                                   |
| Due to trust account.....   | 4,857              | 3,309              | 43,871                                   |
| Other liabilities (Notes 15, 18 and 21).....                          | 143,853            | 119,768            | 1,299,367                                |
| Accrued employees' bonuses .....                                      | 1,332              | 1,395              | 12,031                                   |
| Accrued directors' bonuses .....                                      | 27                 | 31                 | 243                                      |
| Reserve for directors' retirement benefits.....                       | 67                 | 82                 | 605                                      |
| Reserve for reimbursement of deposits.....                            | 307                | 642                | 2,773                                    |
| Reserve for point program .....                                       | 88                 | 94                 | 794                                      |
| Net defined benefit liability (Note 17).....                          | 6,624              | 18,245             | 59,831                                   |
| Deferred tax liabilities (Note 14) .....                              | 10,354             | 271                | 93,523                                   |
| Reserves under special laws .....                                     | 6                  | 6                  | 54                                       |
| Acceptances and guarantees.....                                       | 32,031             | 33,413             | 289,323                                  |
| <b>Total liabilities .....</b>  | <b>¥ 8,590,965</b> | <b>¥ 7,636,192</b> | <b>\$ 77,598,816</b>                     |
| <b>Net assets (Note 23):</b>  |                    |                    |  |
| <b>Shareholders' equity:</b>  |                    |                    |  |
| <b>Common stock</b>   |                    |                    |  |
| Authorized shares: 391,000,000 shares in 2021 and 2020                |                    |                    |  |
| Issued shares: 195,272,106 shares in 2021 and 2020.....               | ¥ 15,149           | ¥ 15,149           | \$ 136,834                               |
| Capital surplus.....  | 8,153              | 8,153              | 73,642                                   |
| Retained earnings .....   | 463,305            | 453,024            | 4,184,852                                |
| Less treasury stock, at cost  |                    |                    |  |
| 7,213,056 shares in 2021 and 7,212,380 shares in 2020.....            | (9,622)            | (9,622)            | (86,911)                                 |
| Accumulated other comprehensive income:                               |                    |                    |  |
| Net unrealized gains on available-for-sale securities (Note 8).....   | 96,574             | 62,987             | 872,315                                  |
| Net deferred losses on hedging instruments.....                       | (5,320)            | (11,456)           | (48,053)                                 |
| Accumulated adjustments for retirement benefits (Note 17).....        | (6,258)            | (7,221)            | (56,526)                                 |
| <b>Total.....</b>   | <b>84,994</b>      | <b>44,308</b>      | <b>767,717</b>                           |
| Subscription rights to shares (Note 25).....                          | 217                | 179                | 1,960                                    |
| <b>Total net assets .....</b>   | <b>562,197</b>     | <b>511,193</b>     | <b>5,078,104</b>                         |
| <b>Total liabilities and net assets .....</b>                         | <b>¥ 9,153,162</b> | <b>¥ 8,147,386</b> | <b>\$ 82,676,921</b>                     |

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, 2021 and 2020

|   | Millions of Yen |                | Thousands of U.S. Dollars (Note 1) |      |
|---|-----------------|----------------|------------------------------------|------|
|   | 2021            | 2020           | 2021                               | 2020 |
| <b>Income:</b>  |                 |                |                                    |      |
| Interest and dividends on:                                |                 |                |                                    |      |
| Loans and discounts.....                                  | ¥ 45,813        | ¥ 50,485       | \$ 413,810                         |      |
| Securities .....  | 18,871          | 25,189         | 170,454                            |      |
| Other .....   | 762             | 757            | 6,882                              |      |
| Fees and commissions .....                                | 18,641          | 18,995         | 168,376                            |      |
| Other operating income.....                               | 23,240          | 21,789         | 209,917                            |      |
| Bad debt recovered.....                                   | 0               | 3              | 0                                  |      |
| Other income.....   | 9,648           | 10,099         | 87,146                             |      |
| <b>Total income.....</b>                                  | <b>116,979</b>  | <b>127,320</b> | <b>1,056,625</b>                   |      |
| <b>Expenses:</b>  |                 |                |                                    |      |
| Interest on:  |                 |                |                                    |      |
| Deposits .....  | 871             | 2,596          | 7,867                              |      |
| Borrowings .....  | 1,078           | 2,182          | 9,737                              |      |
| Other .....   | 4,954           | 13,688         | 44,747                             |      |
| Fees and commissions .....                                | 4,281           | 4,359          | 38,668                             |      |
| Other operating expenses.....                             | 14,162          | 14,182         | 127,919                            |      |
| General and administrative expenses .....                 | 57,285          | 58,212         | 517,432                            |      |
| Reserve for possible loan losses.....                     | 8,736           | 6,153          | 78,908                             |      |
| Losses on impairment of fixed assets (Note 11) .....      | 249             | 608            | 2,249                              |      |
| Other expenses.....                                       | 4,449           | 8,512          | 40,186                             |      |
| <b>Total expenses.....</b>                                | <b>96,069</b>   | <b>110,495</b> | <b>867,753</b>                     |      |
| Income before income taxes .....                          | 20,910          | 16,824         | 188,871                            |      |
| Income taxes (Note 14):                                   |                 |                |                                    |      |
| Current .....   | 8,332           | 5,176          | 75,259                             |      |
| Deferred .....  | (1,840)         | (268)          | (16,619)                           |      |
|   | 6,491           | 4,907          | 58,630                             |      |
| <b>Net income.....</b>                                    | <b>14,418</b>   | <b>11,916</b>  | <b>130,232</b>                     |      |
| Net income attributable to non-controlling interests..... | —               | —              | —                                  |      |
| Net income attributable to owners of parent.....          | ¥ 14,418        | ¥ 11,916       | \$ 130,232                         |      |
| <b>Per share of common stock</b>                          |                 |                |                                    |      |
| Basic net income.....                                     | ¥ 76.66         | ¥ 63.35        | \$ 0.692                           |      |
| Diluted net income .....                                  | 76.58           | 63.29          | 0.691                              |      |
| Cash dividends applicable to the year (Note 23) .....     | 23.00           | 22.00          | 0.207                              |      |

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, 2021 and 2020

|   | Millions of Yen |                   | Thousands of U.S. Dollars (Note 1) |      |
|---|-----------------|-------------------|------------------------------------|------|
|   | 2021            | 2020              | 2021                               | 2020 |
| Net income.....   | ¥ 14,418        | ¥ 11,916          | \$ 130,232                         |      |
| Other comprehensive income (Note 20):                               |                 |                   |                                    |      |
| Net unrealized gains (losses) on available-for-sale securities..... | 33,586          | (30,699)          | 303,369                            |      |
| Net deferred gains (losses) on hedging instruments.....             | 6,136           | (2,563)           | 55,424                             |      |
| Adjustments for retirement benefits .....                           | 963             | (573)             | 8,698                              |      |
| <b>Total other comprehensive income.....</b>                        | <b>40,685</b>   | <b>(33,836)</b>   | <b>367,491</b>                     |      |
| <b>Comprehensive income.....</b>                                    | <b>¥ 55,104</b> | <b>¥ (21,919)</b> | <b>\$ 497,732</b>                  |      |
| Comprehensive income attributable to:                               |                 |                   |                                    |      |
| Owners of parent.....   | ¥ 55,104        | ¥ (21,919)        | \$ 497,732                         |      |
| Non-controlling 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, 2021 and 2020

|  | Millions of Yen |                 |                   |                |  |   |           |          |                               |                  |
|--|-----------------|-----------------|-------------------|----------------|--|---|-----------|----------|-------------------------------|------------------|
|  | 2021            |                 |                   |                |  |   |           |          |                               |                  |
|  | 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         | ¥ 453,024         | ¥ (9,622)      | ¥ 62,987                                   | ¥ (11,456)                                      | ¥ (7,221) | ¥ 44,308 | ¥ 179                         | ¥ 511,193        |
| Net income attributable to owners of parent.....               |                 |                 | 14,418            |                |  |   |           |          |                               | 14,418           |
| Cash dividends.....  |                 |                 | (4,137)           |                |  |   |           |          |                               | (4,137)          |
| Purchases of treasury stock.....                               |                 |                 |                   | (0)            |  |   |           |          |                               | (0)              |
| Disposals of treasury stock.....                               |                 |                 | (0)               | 0              |  |   |           |          |                               | 0                |
| Net changes in items other than shareholders' equity.....      |                 |                 |                   |                | 33,586                                     | 6,136   | 963       | 40,685   | 37                            | 40,723           |
| Net changes during the year.....                               | —               | —               | 10,280            | (0)            | 33,586                                     | 6,136   | 963       | 40,685   | 37                            | 51,003           |
| Balance at end of year.....                                    | ¥ 15,149        | ¥ 8,153         | ¥ 463,305         | ¥ (9,622)      | ¥ 96,574                                   | ¥ (5,320)                                       | ¥ (6,258) | ¥ 84,994 | ¥ 217                         | ¥ 562,197        |

See accompanying Notes to Consolidated Financial Statements.

|  | 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.

|  | Thousands of U.S. Dollars (Note 1) |                 |                   |                |  |   |             |            |                               |                  |
|--|------------------------------------|-----------------|-------------------|----------------|--|---|-------------|------------|-------------------------------|------------------|
|  | 2021                               |                 |                   |                |  |   |             |            |                               |                  |
|  | 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.....                              | \$ 136,834                         | \$ 73,642       | \$ 4,091,988      | \$ (86,911)    | \$ 568,936                                 | \$ (103,477)                                    | \$ (65,224) | \$ 400,216 | \$ 1,616                      | \$ 4,617,405     |
| Net income attributable to owners of parent.....               |                                    |                 | 130,232           |                |  |   |             |            |                               | 130,232          |
| Cash dividends.....  |                                    |                 | (37,367)          |                |  |   |             |            |                               | (37,367)         |
| Purchases of treasury stock.....                               |                                    |                 |                   | (0)            |  |   |             |            |                               | (0)              |
| Disposals of treasury stock.....                               |                                    |                 | (0)               | 0              |  |   |             |            |                               | 0                |
| Net changes in items other than shareholders' equity.....      |                                    |                 |                   |                | 303,369                                    | 55,424  | 8,698       | 367,491    | 334                           | 367,834          |
| Net changes during the year.....                               | —                                  | —               | 92,855            | (0)            | 303,369                                    | 55,424  | 8,698       | 367,491    | 334                           | 460,690          |
| Balance at end of year.....                                    | \$ 136,834                         | \$ 73,642       | \$ 4,184,852      | \$ (86,911)    | \$ 872,315                                 | \$ (48,053)                                     | \$ (56,526) | \$ 767,717 | \$ 1,960                      | \$ 5,078,104     |

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, 2021 and 2020

|   | Millions of Yen |           | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------|--|
|   | 2021            | 2020      | 2021                                     |
| <b>Cash flows from operating activities:</b>  |                 |           |  |
| Income before income taxes  | ¥ 20,910        | ¥ 16,824  | \$ 188,871                               |
| Depreciation  | 4,474           | 4,452     | 40,411                                   |
| Losses on impairment of fixed assets  | 249             | 608       | 2,249                                    |
| Share-based compensation expenses   | 37              | 35        | 334                                      |
| Increase (decrease) in reserve for possible loan losses                                 | 8,736           | 6,153     | 78,908                                   |
| Increase (decrease) in reserve for point program  | (6)             | (19)      | (54)                                     |
| Increase (decrease) in reserve for directors' retirement benefits                       | (14)            | (1)       | (126)                                    |
| Increase (decrease) in accrued employees' bonuses                                       | (63)            | (8)       | (569)                                    |
| Increase (decrease) in accrued directors' bonuses                                       | (3)             | 7         | (27)                                     |
| Increase (decrease) in net defined benefit liability                                    | (10,234)        | (10,962)  | (92,439)                                 |
| Increase (decrease) in reserve for reimbursement of deposits                            | (335)           | (353)     | (3,025)                                  |
| Interest and dividend income  | (65,448)        | (76,431)  | (591,166)                                |
| Interest expense  | 6,904           | 18,467    | 62,361                                   |
| Losses (gains) on sales of securities, net  | (5,037)         | 443       | (45,497)                                 |
| Losses (gains) on money trusts, net   | (109)           | (9)       | (984)                                    |
| Foreign exchange losses (gains), net  | (5,163)         | 5,980     | (46,635)                                 |
| Losses (gains) on disposals of fixed assets, net  | 11              | 9         | 99                                       |
| Decrease (increase) in trading account securities, excluding foreign exchange contracts | 167             | 1,059     | 1,508                                    |
| Decrease (increase) in call loans and other debt purchased                              | (62,557)        | (13,577)  | (565,052)                                |
| Increase (decrease) in payables under repurchase agreements                             | 4,935           | (383)     | 44,575                                   |
| Decrease (increase) in due from banks, excluding the Bank of Japan                      | 9,715           | 2,286     | 87,751                                   |
| Increase (decrease) in commercial paper   | 21,617          | (16,106)  | 195,257                                  |
| Decrease (increase) in foreign exchange assets  | 3,626           | (2,918)   | 32,752                                   |
| Decrease (increase) in loans and bills discounted                                       | (238,621)       | (100,510) | (2,155,369)                              |
| Decrease (increase) in lease receivables and investments in leased assets               | (161)           | (3,141)   | (1,454)                                  |
| Decrease (increase) in other assets   | (19,468)        | (12,382)  | (175,846)                                |
| Increase (decrease) in deposits   | 770,274         | 96,454    | 6,957,582                                |
| Increase (decrease) in borrowed money   | 128,828         | (6,723)   | 1,163,652                                |
| Increase (decrease) in call money   | 41,224          | 11,278    | 372,360                                  |
| Increase (decrease) in foreign exchange liabilities                                     | 17              | (1,437)   | 153                                      |
| Increase (decrease) in payables under securities lending transactions                   | (44,416)        | (160,060) | (401,192)                                |
| Increase (decrease) in due to trust account   | 1,548           | 549       | 13,982                                   |
| Increase (decrease) in other liabilities  | 28,207          | 16,590    | 254,782                                  |
| Interest and dividends received   | 69,155          | 81,119    | 624,649                                  |
| Interest paid   | (8,461)         | (19,601)  | (76,424)                                 |
| Subtotal  | 660,539         | (162,306) | 5,966,389                                |
| Income taxes paid   | (4,088)         | (7,053)   | (36,925)                                 |
| Income taxes refund   | 30              | —         | 270                                      |
| Net cash provided by (used in) operating activities                                     | 656,480         | (169,359) | 5,929,726                                |
| <b>Cash flows from investing activities:</b>  |                 |           |  |
| Purchases of securities   | (949,024)       | (862,548) | (8,572,161)                              |
| Proceeds from sales of securities   | 410,210         | 570,149   | 3,705,266                                |
| Proceeds from redemption of securities  | 314,319         | 291,041   | 2,839,120                                |
| Purchases of money trusts   | (205)           | (7,565)   | (1,851)                                  |
| Proceeds from money trusts  | 114             | 2,074     | 1,029                                    |
| Purchases of tangible fixed assets  | (2,605)         | (3,572)   | (23,529)                                 |
| Purchases of intangible fixed assets  | (820)           | (21)      | (7,406)                                  |
| Proceeds from sales of tangible fixed assets  | 18              | 71        | 162                                      |
| Net cash used in investing activities   | (227,992)       | (10,370)  | (2,059,362)                              |
| <b>Cash flows from financing activities:</b>  |                 |           |  |
| Issuance of subordinated bonds  | 10,000          | —         | 90,326                                   |
| Cash dividends paid   | (4,137)         | (4,328)   | (37,367)                                 |
| Purchases of treasury stock   | (0)             | (412)     | (0)                                      |
| Repayments on lease obligations   | (220)           | (228)     | (1,987)                                  |
| Proceeds from sales of treasury stock   | 0               | 0         | 0  |
| Proceeds from execution of stock options  | —               | 0         | —  |
| Net cash provided by (used in) financing activities                                     | 5,642           | (4,969)   | 50,961                                   |
| Effect of exchange rate changes on cash and cash equivalents                            | 10              | (9)       | 90                                       |
| Net increase (decrease) in cash and cash equivalents                                    | 434,140         | (184,709) | 3,921,416                                |
| Cash and cash equivalents at beginning of year  | 564,672         | 749,382   | 5,100,460                                |
| Cash and cash equivalents at end of year (Note 24)                                      | ¥ 998,813       | ¥ 564,672 | \$ 9,021,886                             |

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, 2021, which was ¥110.71 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.

Seven investment partnerships and a subsidiary, of which the Bank owns a majority of the voting rights, were excluded from the scope of consolidation for the year ended March 31, 2021 (six in 2020) 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 Seven investment partnerships, a subsidiary and an affiliated company also were not accounted for by the equity method for the year ended March 31, 2021 (six and one, respectively, in 2020) 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, 2021 (one in 2020) 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 Committee Practical Guideline No. 24, October 8, 2020) 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 Committee Practical Guideline No. 25, October 8, 2020). 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. Costs of software for the Bank's internal use are amortized based on the useable period determined by the Bank (five years).

**(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 utilizing the internal rules on self-assessment of assets 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 card holders.

**(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) Accounting Policy for Deferred Assets**

The Bank recognizes bond issuance cost as an expense when incurred.

**(p) Leases**

As lessor:

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

**(q) 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).

**(r) Accounting Policy for Loss/Gain on Cancellation of Securities Investment Trusts**

The Bank records loss/gain on cancellation during the period of securities investment trusts in interest and dividends on securities. If a negative amount arises for interest and dividends on securities for a particular yen-denominated securities investment trust or foreign-currency-denominated securities investment trust, the full negative amount is recorded in loss on redemption of bonds.

(Additional Information)

The Bank has applied the "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (Revision ASBJ Statement No. 24, March 31, 2020) for the year-end consolidated financial statements for the fiscal year ended March 31, 2021, and newly discloses accounting principles and procedures adopted in the cases where the relevant provisions set forth in the related accounting standards etc., are not clear.



#### **(s) 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.

#### **(t) 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.

### **3. Significant Accounting Estimates**

The following describes possible significant impacts that may occur in the consolidated financial statements for the following fiscal year as a result of amounts being recorded in the consolidated financial statements for the fiscal year under review based on accounting estimates.

#### **(1) Reserve for Possible Loan Losses**

Credit services are the largest source of revenue for the Group, and credit risk assets such as loans and bills discounted, and customers' liabilities for acceptances and guarantees constitute a high level of materiality on the consolidated balance sheet, and their impact on business results and financial position is large. Accordingly accounting estimates for such are deemed to be items of significance.

#### **(a) Amounts Recorded on the Consolidated Financial Statements for the Fiscal Year Under Review**

The reserve for possible loan losses recorded on the consolidated balance sheet as of March 31, 2021 was ¥46,291 million (\$418,128 thousand), and the details related to the accounting estimates adopted when calculating that amount are described below.

#### **(b) Information to Facilitate Understanding of the Details Related to the Significant Accounting Estimates for the Identified Items**

##### **1) Method for Calculating Amounts**

For a description of the methods used to calculate amounts, refer to No 2 (g) "Significant Accounting Policies"-"Reserve for Possible Loan Losses."

The self-assessments of assets described in the "Reserve for Possible Loan Losses" refers to the classification of assets according to the degree of risk of collection or risk of damage to value, which is determined by examining each asset held individually. Appropriate write-offs and provisions are made according to classification of borrowers (normal borrowers, borrowers requiring caution, potentially bankrupt borrowers, effectively bankrupt borrowers, and bankrupt borrowers). Loans that are delinquent for over three months and restructured loans are classified as "substandard loans" and are written off or a provision is made for them.

The Bank determines a borrower's ability to repay loans by considering the borrower's actual financial position, cash flow, profitability, etc., based on the basic rating using a rating model, etc., confirms the borrower's loan conditions and their fulfillment status, and determines the classification of borrowers by taking into consideration the characteristics of the industry, etc., the prospects for business continuity and profitability, the ability to repay the debt based on the annual repayment amount, the appropriateness of the business improvement plan, etc. and support from financial institutions, etc.

Among the borrowers whose lending conditions have been relaxed, loans and bills discounted to such borrowers are not considered to be restructured loans if the borrowers have started to restructure its business through the implementation of financial support in accordance with a drastic business restructuring plan that is highly feasible and a reasonable and highly feasible business improvement plan.

In addition, the Bank manages loans and bills discounted managed by the Structured Finance Center and the International Department, such as structured finance including marketable loans and loans to non-Japanese entities, as Headquarters Loans and bills discounted, and the Bank bases its determination of the classification of the borrowers by comprehensively taking into account all factors including not only formal aspects such as the borrower's cash flow status, whether the borrower is delinquent and the length of any delinquency, and whether the borrower is in legal liquidation or not, but also the understanding of risk factors, analyzing the degree of risk, and available information such as external ratings..

##### **2) Major Assumptions Used for Significant Accounting Estimates**

Based on the assumption that there is a certain relationship between the historical default ratio and the expected future credit loss ratio, the Bank calculates the allowance for expected credit loss on loans to normal borrowers and loans to borrowers requiring caution mainly by calculating the credit loss ratio based on the average of the historical default ratio over a certain period of time, which is based on the historical defaults for three years, and then calculating the expected credit loss ratio after taking into account necessary adjustments such as the average remaining term on loans and bills discounted. The Bank calculates the allowance for expected credit loss on loans to potentially bankrupt borrowers by deducting the estimated amount receivable through the disposal of collateral and the estimated amount that can be collected through guarantees from the amount of the credit loss, and multiplying the remaining amount by the expected credit loss ratio based on the historical default ratio.

As stated in 1) Method for Calculating Amounts, in cases where a borrower whose loan conditions have been relaxed has started to restructure its business through the implementation of financial support in accordance with drastic management restructuring plan that is highly feasible and a reasonable and feasible business improvement plan, the loans and bills discounted to such borrowers are not considered to be restructured loans.

As of March 31, 2021, it was assumed that the impact of COVID-19 would continue for a certain period of time, and reserve for possible loan losses was recorded after determining the classification of the borrowers, giving consideration to the results of examination based on information currently available to the Bank, such as the future trends of the industries that will be significantly affected under this assumption, forecasts for the business recovery of individual borrowers that are impacted, and expected achievement of business improvement plans etc., created by the borrowers.

##### **3) Impact on Consolidated Financial Statements in the Following Fiscal Year**

The major assumptions used when determining the classification of the borrowers and calculating the reserve for possible loan losses such as assumptions on the correlating relationship between the historical default rate and the expected loss rate, the average remaining term on loans and bills discounted, the feasibility of business improvement plan created by the borrowers and the impact of COVID-19, include uncertainties, and if there is an unexpected increase in the default rate due to deteriorated business conditions for major borrowers, extensions on the remaining term on loans and bills discounted, changes to the business environment that form the basis of assumption for figures in business improvement plans created by the borrowers, or if the impact from COVID-19 is worse than anticipated, the amount of loss may increase due to the need to increase the reserve for possible loan losses.

### **4. 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 26, 2021)

#### **(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 are minor.

- "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 on the fair 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 evaluation.

## **5. Changes in Presentation**

### **Application of "Accounting Standard for Disclosure of Accounting Estimates"**

From the year-end consolidated financial statements for the fiscal year ended March 31, 2021, the Bank has applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) and has presented notes to significant accounting estimates for the Consolidated Financial Statements.

However, in accordance with the transitional treatment provided in the proviso to paragraph 11 of the accounting standard, these notes do not contain information pertaining to the previous fiscal year.

## **6. Securities**

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amounts of ¥2,650 million (\$23,936 thousand) and ¥108 million (\$975 thousand) as at March 31, 2021 and ¥1,998 million and ¥23 million as at March 31, 2020.

Securities received under repurchase agreements, etc., that are permitted to be disposed of through methods of sale or pledge (re-pledge) in the amount of none were held at March 31, 2021 and ¥113 million as at March 31, 2020 without such disposal.

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 ¥100,209 million (\$905,148 thousand) and ¥94,922 million as at March 31, 2021 and 2020, respectively.



## (1) Trading account securities

|   | Millions of Yen |        | Thousands of |
|---|-----------------|--------|--------------|
|   | 2021            | 2020   | U.S. Dollars |
| Amount of net unrealized gains (losses) included in the consolidated income statements..... | ¥ (3)           | ¥ (10) | \$ (27)      |

(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, 2021 and 2020:

| Type   | Millions of Yen |                  |            |
|--|-----------------|------------------|------------|
|  | Carrying amount | Acquisition cost | Difference |
| Available-for-sale securities whose fair value exceeds acquisition cost:         |                 |                  |            |
| Equity securities.....   | ¥ 125,208       | ¥ 59,543         | ¥ 65,664   |
| Bonds .....  | 1,359,396       | 1,334,347        | 25,048     |
| Japanese government bonds .....  | 508,227         | 492,072          | 16,154     |
| Japanese municipal bonds.....  | 609,065         | 601,931          | 7,133      |
| Japanese corporate bonds.....  | 242,103         | 240,344          | 1,759      |
| Other .....  | 420,708         | 356,973          | 63,734     |
| Foreign bonds.....   | 267,467         | 259,301          | 8,166      |
| Other.....   | 153,240         | 97,672           | 55,567     |
| Subtotal.....  | ¥ 1,905,312     | ¥ 1,750,865      | ¥ 154,447  |
| Available-for-sale securities whose fair value does not exceed acquisition cost: |                 |                  |            |
| Equity securities.....   | ¥ 9,739         | ¥ 10,632         | ¥ (893)    |
| Bonds .....  | 439,871         | 444,858          | (4,986)    |
| Japanese government bonds .....  | 237,443         | 241,253          | (3,809)    |
| Japanese municipal bonds.....  | 138,870         | 139,736          | (866)      |
| Japanese corporate bonds.....  | 63,557          | 63,868           | (310)      |
| Other .....  | 235,853         | 245,241          | (9,388)    |
| Foreign bonds.....   | 174,333         | 181,865          | (7,531)    |
| Other.....   | 61,519          | 63,375           | (1,856)    |
| Subtotal.....  | 685,464         | 700,731          | (15,267)   |
| Total .....  | ¥ 2,590,777     | ¥ 2,451,597      | ¥ 139,179  |

| Type   | Thousands of U.S. Dollars |                  |              |
|--|---------------------------|------------------|--------------|
|  | 2021                      |                  |              |
|  | Carrying amount           | Acquisition cost | Difference   |
| Available-for-sale securities whose fair value exceeds acquisition cost:         |                           |                  |              |
| Equity securities .....  | \$ 1,130,954              | \$ 537,828       | \$ 593,117   |
| Bonds .....  | 12,278,890                | 12,052,633       | 226,248      |
| Japanese government bonds .....  | 4,590,615                 | 4,444,693        | 145,912      |
| Japanese municipal bonds .....   | 5,501,445                 | 5,437,006        | 64,429       |
| Japanese corporate bonds .....   | 2,186,821                 | 2,170,933        | 15,888       |
| Other .....  | 3,800,090                 | 3,224,397        | 575,684      |
| Foreign bonds .....  | 2,415,924                 | 2,342,164        | 73,760       |
| Other .....  | 1,384,156                 | 882,232          | 501,914      |
| Subtotal .....   | \$ 17,209,935             | \$ 15,814,876    | \$ 1,395,059 |
| Available-for-sale securities whose fair value does not exceed acquisition cost: |                           |                  |              |
| Equity securities .....  | \$ 87,968                 | \$ 96,034        | \$ (8,066)   |
| Bonds .....  | 3,973,182                 | 4,018,227        | (45,036)     |
| Japanese government bonds .....  | 2,144,729                 | 2,179,143        | (34,405)     |
| Japanese municipal bonds .....   | 1,254,358                 | 1,262,180        | (7,822)      |
| Japanese corporate bonds .....   | 574,085                   | 576,894          | (2,800)      |
| Other .....  | 2,130,367                 | 2,215,165        | (84,798)     |
| Foreign bonds .....  | 1,574,681                 | 1,642,715        | (68,024)     |
| Other .....  | 555,676                   | 572,441          | (16,764)     |
| Subtotal .....   | 6,191,527                 | 6,329,428        | (137,900)    |
| Total .....  | \$ 23,401,472             | \$ 22,144,313    | \$ 1,257,149 |

| Type   | Millions of Yen |                  |            |
|--|-----------------|------------------|------------|
|  | 2020            |                  |            |
|  | 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   |

(3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2021 and 2020:

Held-to-maturity securities

| Type  | Millions of Yen |            |            |  |
|---|-----------------|------------|------------|--|
|   | 2021            |            |            |  |
|   | Carrying amount | Fair value | Difference |  |
| Held-to-maturity securities whose fair value exceeds carrying amount: |                 |            |            |  |
| Japanese government bonds .....                                       | ¥ 11,398        | ¥ 11,643   | ¥ 244      |  |
| Subtotal.....   | ¥ 11,398        | ¥ 11,643   | ¥ 244      |  |
| Total .....   | ¥ 11,398        | ¥ 11,643   | ¥ 244      |  |

| Type  | Thousands of U.S. Dollars |            |            |  |
|---|---------------------------|------------|------------|--|
|   | 2021                      |            |            |  |
|   | Carrying amount           | Fair value | Difference |  |
| Held-to-maturity securities whose fair value exceeds carrying amount: |                           |            |            |  |
| Japanese government bonds .....                                       | \$ 102,953                | \$ 105,166 | \$ 2,203   |  |
| Subtotal.....   | \$ 102,953                | \$ 105,166 | \$ 2,203   |  |
| Total .....   | \$ 102,953                | \$ 105,166 | \$ 2,203   |  |

| 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      |  |

(4) The Bank recognized impairment loss on equity securities and Japanese corporate bonds in the amounts of ¥149 million (\$1,345 thousand) and ¥150 million (\$1,354 thousand), respectively, in the year ended March 31, 2021, and impairment loss on equity securities and Japanese corporate bonds in the amounts of ¥2,403 million and ¥50 million, respectively, in the year ended March 31, 2020.

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, 2021 and 2020 were as follows:

| Type                            | Millions of Yen     |                |                 |  |
|---------------------------------|---------------------|----------------|-----------------|--|
|                                 | 2021                |                |                 |  |
|                                 | Proceeds from sales | Gains on sales | Losses on sales |  |
| Equity securities.....          | ¥ 23,615            | ¥ 4,626        | ¥ 1,021         |  |
| Bonds .....                     | 149,358             | 1,124          | 686             |  |
| Japanese government bonds ..... | 144,322             | 1,002          | 686             |  |
| Japanese municipal bonds.....   | —                   | —              | —               |  |
| Japanese corporate bonds.....   | 5,035               | 122            | —               |  |
| Other .....                     | 182,204             | 3,978          | 2,734           |  |
| Foreign bonds .....             | 155,074             | 2,349          | 2,152           |  |
| Other.....                      | 27,129              | 1,628          | 581             |  |
| Total.....                      | ¥ 355,177           | ¥ 9,729        | ¥ 4,442         |  |

| Type                            | Thousands of U.S. Dollars |                |                 |  |
|---------------------------------|---------------------------|----------------|-----------------|--|
|                                 | 2021                      |                |                 |  |
|                                 | Proceeds from sales       | Gains on sales | Losses on sales |  |
| Equity securities.....          | \$ 213,305                | \$ 41,784      | \$ 9,222        |  |
| Bonds .....                     | 1,349,092                 | 10,152         | 6,196           |  |
| Japanese government bonds ..... | 1,303,604                 | 9,050          | 6,196           |  |
| Japanese municipal bonds.....   | —                         | —              | —               |  |
| Japanese corporate bonds.....   | 45,479                    | 1,101          | —               |  |
| Other .....                     | 1,645,777                 | 35,931         | 24,695          |  |
| Foreign bonds .....             | 1,400,722                 | 21,217         | 19,438          |  |
| Other.....                      | 245,045                   | 14,705         | 5,247           |  |
| Total.....                      | \$ 3,208,174              | \$ 87,878      | \$ 40,122       |  |

| 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         |  |

## 7. Money Trusts

(1) Money trusts as a type of trading account securities as at March 31, 2021 and 2020 were as follows:

|   | Millions of Yen |          | Thousands of U.S. Dollars |      |
|---|-----------------|----------|---------------------------|------|
|   | 2021            | 2020     | 2021                      | 2020 |
| Carrying amount (fair value).....   | ¥ 23,000        | ¥ 23,000 | \$ 207,749                |      |
| 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, 2021 and 2020 were as follows:

|                   | Millions of Yen |                  |            |  |  |
|-------------------|-----------------|------------------|------------|--|--|
|                   | 2021            |                  |            |  |  |
|                   | Carrying amount | Acquisition cost | Difference | Difference when carrying amount exceeds acquisition cost | Difference when carrying amount does not exceed acquisition cost |
| Money trust ..... | ¥ 4,300         | ¥ 4,300          | ¥ —        | ¥ —  | ¥ —  |

|                   | Thousands of U.S. Dollars |                  |            |  |  |
|-------------------|---------------------------|------------------|------------|--|--|
|                   | 2021                      |                  |            |  |  |
|                   | Carrying amount           | Acquisition cost | Difference | Difference when carrying amount exceeds acquisition cost | Difference when carrying amount does not exceed acquisition cost |
| Money trust ..... | \$ 38,840                 | \$ 38,840        | \$ —       | \$ —   | \$ —   |

|                   | 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          | ¥ —        | ¥ —  | ¥ —  |

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

Net unrealized gains and losses on available-for-sale securities as at March 31, 2021 and 2020 were as follows:

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2021            | 2020     | 2021                      |
| Net unrealized gains on available-for-sale securities .....  | ¥ 138,656       | ¥ 90,460 | \$ 1,252,425              |
| Deferred tax liabilities .....   | (42,082)        | (27,472) | (380,110)                 |
| Net unrealized gains on available-for-sale securities before adjustment for non-controlling interests, net of taxes..... | 96,574          | 62,987   | 872,315                   |
| Non-controlling interests  | —               | —        | —                         |
| Net unrealized gains on available-for-sale securities, net of taxes.....   | ¥ 96,574        | ¥ 62,987 | \$ 872,315                |

## 9. Loans and Bills Discounted

Loans and bills discounted as at March 31, 2021 and 2020 included the following:

|  | Millions of Yen |          | Thousands of U.S. Dollars |      |
|--|-----------------|----------|---------------------------|------|
|  | 2021            | 2020     | 2021                      | 2020 |
| Loans to bankrupt customers.....                                 | ¥ 4,874         | ¥ 5,702  | \$ 44,024                 |      |
| Loans past due six months or more .....                          | 56,646          | 45,533   | 511,661                   |      |
| Loans past due three months or more but less than six months ... | 833             | 757      | 7,524                     |      |
| Restructured loans .....   | 30,343          | 22,206   | 274,076                   |      |
| Total.....   | ¥ 92,697        | ¥ 74,201 | \$ 837,295                |      |

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" (JICPA Industry Committee Practical Guideline No. 24, October 8, 2020). 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, 2021 and 2020 was ¥16,373 million (\$147,890 thousand) and ¥23,725 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" (JICPA Accounting System Committee Report No. 3, November 28, 2014), was ¥1,296 million (\$11,706 thousand) and ¥1,345 million as at March 31, 2021 and 2020, respectively.

## 10. Commitment Lines

Commitment line agreements are loan agreements that oblige the Bank and its consolidated subsidiaries to lend funds up to certain limits agreed to in advance. The Bank and its consolidated subsidiaries make loans upon the request of an obligor to draw down funds as long as there is no breach 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, 2021 and 2020 amounted to ¥1,629,855 million (\$14,721,840 thousand) and ¥1,509,352 million, respectively. Of these amounts, ¥1,503,729 million (\$13,582,594 thousand) for 2021 and ¥1,411,309 million for 2020 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.

## 11. Tangible Fixed Assets

Tangible fixed assets as at March 31, 2021 and 2020 were as follows:

|                                   | Millions of Yen |          | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|----------|---------------------------|
|                                   | 2021            | 2020     | 2021                      |
| Land .....                        | ¥ 19,473        | ¥ 19,725 | \$ 175,891                |
| Buildings .....                   | 11,227          | 11,720   | 101,409                   |
| Lease assets .....                | 2,082           | 2,328    | 18,805                    |
| Other tangible fixed assets ..... | 5,915           | 5,581    | 53,427                    |
| Construction in progress.....     | 67              | 103      | 605                       |
| Total.....                        | ¥ 38,766        | ¥ 39,460 | \$ 350,158                |

Accumulated depreciation as at March 31, 2021 and 2020 was ¥80,597 million (\$728,001 thousand) and ¥80,676 million, respectively. The amounts that were directly offset against acquisition costs as at March 31, 2021 and 2020 were ¥5,082 million (\$45,903 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, 2021 and 2020 as follows:

| (Millions of Yen)              |                | 2021       |                    | Losses on impairment of fixed assets |
|--------------------------------|----------------|------------|--------------------|--------------------------------------|
|                                | Purpose of Use | Type       |                    |                                      |
| Okayama Prefecture             | Branches       | 3 branches | Land and buildings | ¥ 32                                 |
|                                | Idle assets    | 2 items    |                    |                                      |
| Prefectures other than Okayama | Branches       | 6 branches | Land and buildings | ¥ 216                                |
|                                | Idle assets    | 3 items    |                    |                                      |

| (Thousands of U.S. Dollars)    |                | 2021       |                    | Losses on impairment of fixed assets |
|--------------------------------|----------------|------------|--------------------|--------------------------------------|
|                                | Purpose of Use | Type       |                    |                                      |
| Okayama Prefecture             | Branches       | 3 branches | Land and buildings | \$ 289                               |
|                                | Idle assets    | 2 items    |                    |                                      |
| Prefectures other than Okayama | Branches       | 6 branches | Land and buildings | \$1,951                              |
|                                | Idle assets    | 3 items    |                    |                                      |

| (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     |                    |                                      |

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, 2021, the value in use for one branch of the Bank, and the net realizable value for other assets, and for the year ended March 31, 2020, the value in use for two branches in Okayama Prefecture, and the net realizable value for other assets) and recognized a corresponding loss of ¥249 million (\$2,249 thousand) and ¥608 million as "Losses on impairment of fixed assets" for the years ended March 31, 2021 and 2020, 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%.

## 12. Intangible Fixed Assets

Intangible fixed assets as at March 31, 2021 and 2020 were as follows:

|                                    | Millions of Yen |         | Thousands of U.S. Dollars |
|------------------------------------|-----------------|---------|---------------------------|
|                                    | 2021            | 2020    | 2021                      |
| Software.....                      | ¥ 1,721         | ¥ 2,929 | \$ 15,545                 |
| Software in progress .....         | 620             | —       | 5,600                     |
| Other intangible fixed assets..... | 94              | 135     | 849                       |
| Total.....                         | ¥ 2,437         | ¥ 3,064 | \$ 22,012                 |

## 13. Pledged Assets

Pledged assets as at March 31, 2021 and 2020 were as follows:

|                    | Millions of Yen |           | Thousands of U.S. Dollars |
|--------------------|-----------------|-----------|---------------------------|
|                    | 2021            | 2020      | 2021                      |
| Securities .....   | ¥ 741,443       | ¥ 739,359 | \$ 6,697,163              |
| Other assets ..... | 81              | 81        | 731                       |
| Total.....         | ¥ 741,525       | ¥ 739,441 | \$ 6,697,904              |

Liabilities secured by pledged assets were as follows:

|  | Millions of Yen |           | Thousands of U.S. Dollars |
|--|-----------------|-----------|---------------------------|
|  | 2021            | 2020      | 2021                      |
| Deposits.....  | ¥ 30,563        | ¥ 25,708  | \$ 276,063                |
| Payables under securities lending transactions ..... | 172,747         | 217,164   | 1,560,355                 |
| Payables under repurchase agreements .....           | 129,640         | 124,704   | 1,170,987                 |
| Borrowed money.....                                  | 268,229         | 140,269   | 2,422,807                 |
| Total.....   | ¥ 601,180       | ¥ 507,846 | \$ 5,430,223              |

At March 31, 2021 and 2020, certain trading account securities in the aggregate amount of ¥111 million (\$1,002 thousand) and ¥112 million, respectively, and certain other securities in the aggregate amount of ¥21,521 million (\$194,390 thousand) and ¥24,388 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, 2021 and 2020:

|   | Millions of Yen |          | Thousands of U.S. Dollars |
|---|-----------------|----------|---------------------------|
|   | 2021            | 2020     | 2021                      |
| Initial margins for central counterparty .....      | ¥ 63,743        | ¥ 66,588 | \$ 575,765                |
| Cash collateral paid for financial instruments..... | 13,538          | 6,925    | 122,283                   |
| Initial margins for futures markets...              | 776             | 478      | 7,009                     |
| Guarantee deposits.....                             | 806             | 832      | 7,280                     |

## 14. Deferred Tax Assets (Liabilities)

Significant components of deferred tax assets and liabilities as at March 31, 2021 and 2020 were as follows:

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2021            | 2020     | 2021                      |
| Deferred tax assets:   |                 |          |                           |
| Reserve for possible loan losses...                            | ¥ 13,620        | ¥ 11,922 | \$ 123,024                |
| Net defined benefit liability .....                            | 9,574           | 9,895    | 86,478                    |
| Unrealized holding losses on available-for-sale securities.... | 4,656           | 6,027    | 42,055                    |
| Depreciation .....   | 4,906           | 5,321    | 44,313                    |
| Deferred losses on hedging instruments .....                   | 3,283           | 5,140    | 29,654                    |
| Write-down of securities .....                                 | 1,607           | 1,387    | 14,515                    |
| Losses on impairment of fixed assets.....                      | 1,198           | 1,163    | 10,821                    |
| Accrued employees' bonuses.....                                | 464             | 487      | 4,191                     |
| Software.....  | 176             | 206      | 1,589                     |
| Other.....   | 1,529           | 1,475    | 13,810                    |
| Subtotal.....  | 41,016          | 43,027   | 370,481                   |
| Valuation allowance.....                                       | (2,650)         | (2,700)  | (23,936)                  |
| Total deferred tax assets.....                                 | 38,366          | 40,327   | 346,545                   |

Deferred tax liabilities:

|  |           |          |             |
|--|-----------|----------|-------------|
| Unrealized holding gains on available-for-sale securities....    | (46,727)  | (33,456) | (422,066)   |
| Reserve for advanced depreciation of tangible fixed assets ..... | (235)     | (235)    | (2,122)     |
| Other.....   | (948)     | (296)    | (8,562)     |
| Total deferred tax liabilities .....                             | (47,911)  | (33,988) | (432,761)   |
| Net deferred tax assets (liabilities) ..                         | ¥ (9,545) | ¥ 6,339  | \$ (86,216) |

Figures for reconciliation between the statutory tax rate and the effective tax rate of the Bank for the years ended March 31, 2021 and 2020 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.

## 15. Borrowed Money, Commercial Paper and Other Liabilities

Borrowed money, commercial paper and other liabilities as at March 31, 2021 and 2020 were as follows:

|  | Millions of Yen |           | Thousands of U.S. Dollars |
|--|-----------------|-----------|---------------------------|
|  | 2021            | 2020      | 2021                      |
| Borrowed Money.....                        | ¥ 286,194       | ¥ 157,365 | \$ 2,585,078              |
| Commercial paper.....                      | 54,228          | 32,611    | 489,820                   |
| Lease liabilities (due within one year)... | 220             | 220       | 1,987                     |
| Lease liabilities (due after one year).... | 1,576           | 1,789     | 14,235                    |

The weighted average interest rates on the outstanding balances as at March 31, 2021 and 2020 were as follows:

|  | 2021   | 2020   |
|--|--------|--------|
| Borrowed Money.....                          | 0.078% | 1.088% |
| Commercial paper.....                        | 0.300% | 1.933% |
| 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, 2021 and 2020 was as follows:

|                               | Millions of Yen |           | Thousands of U.S. Dollars |
|-------------------------------|-----------------|-----------|---------------------------|
|                               | 2021            | 2020      | 2021                      |
| Less than one year.....       | ¥ 273,032       | ¥ 144,770 | \$ 2,466,190              |
| From one to two years.....    | 3,843           | 3,474     | 34,712                    |
| From two to three years.....  | 3,074           | 2,605     | 27,766                    |
| From three to four years..... | 2,451           | 1,836     | 22,138                    |
| From four to five years.....  | 1,325           | 2,138     | 11,968                    |
| Over five years.....          | 2,466           | 2,540     | 22,274                    |
| Total borrowed money.....     | ¥ 286,194       | ¥ 157,365 | \$ 2,585,078              |

Commercial paper classified by maturity as at March 31, 2021 and 2020 was as follows:

|                             | Millions of Yen |          | Thousands of U.S. Dollars |
|-----------------------------|-----------------|----------|---------------------------|
|                             | 2021            | 2020     | 2021                      |
| Less than one year.....     | ¥ 54,228        | ¥ 32,611 | \$ 489,820                |
| Total commercial paper..... | ¥ 54,228        | ¥ 32,611 | \$ 489,820                |

Lease liabilities classified by maturity as at March 31, 2021 and 2020 were as follows:

|                               | Millions of Yen |         | Thousands of U.S. Dollars |
|-------------------------------|-----------------|---------|---------------------------|
|                               | 2021            | 2020    | 2021                      |
| Less than one year.....       | ¥ 220           | ¥ 220   | \$ 1,987                  |
| From one to two years.....    | 218             | 219     | 1,969                     |
| From two to three years.....  | 217             | 217     | 1,960                     |
| From three to four years..... | 216             | 217     | 1,951                     |
| From four to five years.....  | 214             | 214     | 1,932                     |
| Over five years.....          | 709             | 920     | 6,404                     |
| Total lease liabilities.....  | ¥ 1,796         | ¥ 2,009 | \$ 16,222                 |

## 16. Bonds Payable

|                        | Millions of Yen |      | Thousands of U.S. Dollars |
|------------------------|-----------------|------|---------------------------|
|                        | 2021            | 2020 | 2021                      |
| Subordinated Bond..... | ¥ 10,000        | ¥ —  | \$ 90,326                 |

## 17. 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, 2021 and 2020, were as follows:

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2021            | 2020     | 2021                      |
| Beginning balance of projected benefit obligation..... | ¥ 64,909        | ¥ 65,133 | \$ 586,297                |
| Service cost.....                                      | 2,019           | 2,073    | 18,236                    |
| Interest cost.....                                     | 129             | 129      | 1,165                     |
| Actuarial differences.....                             | 1,377           | 144      | 12,437                    |
| Retirement benefits paid.....                          | (2,567)         | (2,571)  | (23,186)                  |
| Prior service cost.....                                | —               | —        | —                         |
| Other.....   | —               | —        | —                         |
| Ending balance of projected benefit obligation.....    | ¥ 65,867        | ¥ 64,909 | \$ 594,950                |

(b) Changes in plan assets for the years ended March 31, 2021 and 2020 were as follows:

|                                     | Millions of Yen |          | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|----------|---------------------------|
|                                     | 2021            | 2020     | 2021                      |
| Beginning balance of plan assets... | ¥ 46,664        | ¥ 36,750 | \$ 421,497                |
| Expected return on plan assets ..   | 974             | 1,309    | 8,797                     |
| Actuarial differences.....          | 1,443           | (1,622)  | 13,034                    |
| Contribution from the employer ..   | 11,419          | 11,436   | 103,143                   |
| Retirement benefits paid.....       | (1,259)         | (1,210)  | (11,372)                  |
| Other.....                          | —               | —        | —                         |
| Ending balance of plan assets.....  | ¥ 59,242        | ¥ 46,664 | \$ 535,109                |

(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 |
|---|-----------------|----------|---------------------------|
|   | 2021            | 2020     | 2021                      |
| Funded defined benefit obligation...                                  | ¥ 65,481        | ¥ 64,574 | \$ 591,464                |
| Plan assets.....  | (59,242)        | (46,664) | (535,109)                 |
|   | 6,238           | 17,909   | 56,345                    |
| Unfunded defined benefit obligation.....                              | 385             | 335      | 3,477                     |
| Net liability (asset) recorded in the consolidated balance sheet..... | ¥ 6,624         | ¥ 18,245 | \$ 59,831                 |

|   | Millions of Yen |          | Thousands of U.S. Dollars |
|---|-----------------|----------|---------------------------|
|   | 2021            | 2020     | 2021                      |
| Net defined benefit liability.....                                    | ¥ 6,624         | ¥ 18,245 | \$ 59,831                 |
| Net defined benefit asset.....  | —               | —        | —                         |
| Net liability (asset) recorded in the consolidated balance sheet..... | ¥ 6,624         | ¥ 18,245 | \$ 59,831                 |

(d) The components of retirement benefit expenses for the years ended March 31, 2021 and 2020 were as follows:

|   | Millions of Yen |         | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
|   | 2021            | 2020    | 2021                      |
| Service cost.....   | ¥ 2,019         | ¥ 2,073 | \$ 18,236                 |
| Interest cost.....  | 129             | 129     | 1,165                     |
| Expected return on plan assets.....                       | (974)           | (1,309) | (8,797)                   |
| Amortization of actuarial differences.....                | 1,319           | 942     | 11,914                    |
| Amortization of prior service cost...                     | —               | —       | —                         |
| Other.....  | 0               | (3)     | 0                         |
| Retirement benefit expenses on defined benefit plans..... | ¥ 2,493         | ¥ 1,832 | \$ 22,518                 |

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 |
|----------------------------|-----------------|---------|---------------------------|
|                            | 2021            | 2020    | 2021                      |
| Prior service cost.....    | ¥ —             | ¥ —     | \$ —                      |
| Actuarial differences..... | 1,385           | (824)   | 12,510                    |
| Total.....                 | ¥ 1,385         | ¥ (824) | \$ 12,510                 |

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

|   | Millions of Yen |            | Thousands of U.S. Dollars |
|---|-----------------|------------|---------------------------|
|   | 2021            | 2020       | 2021                      |
| Unrecognized prior service cost.....    | ¥ —             | ¥ —        | \$ —                      |
| Unrecognized actuarial differences..... | (9,005)         | (10,391)   | (81,338)                  |
| Other.....                              | —               | —          | —                         |
| Total.....                              | ¥ (9,005)       | ¥ (10,391) | \$ (81,338)               |

(g) Plan assets

1) Components of plan assets

Plan assets consisted of the following:

|                        | 2021   | 2020   |
|------------------------|--------|--------|
| Bonds.....             | 15.3%  | 13.9%  |
| Equity securities..... | 17.3%  | 19.6%  |
| Cash and deposits..... | 25.6%  | 30.7%  |
| General account.....   | 7.3%   | 9.2%   |
| Other.....             | 34.4%  | 26.5%  |
| Total.....             | 100.0% | 100.0% |

Note: Total plan assets as at March 31, 2021 and 2020 included an employees' retirement benefit trust established for corporate welfare pension plans that represented 44.5% and 35.3% of the total plan assets respectively.

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

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

(h) Assumptions used for the years ended March 31, 2021 and 2020 were as follows:

|                                   | 2021            | 2020            |
|-----------------------------------|-----------------|-----------------|
| Discount rate                     | 0.200%          | 0.200%          |
| Long-term expected rate of return | 2.068% - 2.100% | 1.765% - 3.959% |

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, 2021 and 2020 was ¥186 million (\$1,680 thousand) and ¥174 million, respectively.

## 18. Derivative Transactions

Derivative transactions as at March 31, 2021 and 2020 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 |             |            |                           |
|--------------------------------------|-----------------|-------------|------------|---------------------------|
|                                      | 2021            |             |            |                           |
|                                      | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions        |                 |             |            |                           |
| Interest rate swaps                  |                 |             |            |                           |
| Pay fixed/<br>receive floating ..... | ¥ 45,448        | ¥ 43,243    | ¥ (496)    | ¥ (496)                   |
| Pay floating/<br>receive fixed ..... | 42,872          | 41,567      | 782        | 782                       |
| Total .....                          | —               | —           | ¥ 286      | ¥ 286                     |

| Type                                 | Thousands of U.S. Dollars |             |            |                           |
|--------------------------------------|---------------------------|-------------|------------|---------------------------|
|                                      | 2021                      |             |            |                           |
|                                      | Contract amount           | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions        |                           |             |            |                           |
| Interest rate swaps                  |                           |             |            |                           |
| Pay fixed/<br>receive floating ..... | \$ 410,513                | \$ 390,597  | \$ (4,480) | \$ (4,480)                |
| Pay floating/<br>receive fixed ..... | 387,245                   | 375,458     | 7,063      | 7,063                     |
| Total .....                          | —                         | —           | \$ 2,583   | \$ 2,583                  |

| Type                                 | Millions of Yen |             |            |                           |
|--------------------------------------|-----------------|-------------|------------|---------------------------|
|                                      | 2020            |             |            |                           |
|                                      | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions        |                 |             |            |                           |
| Interest rate swaps                  |                 |             |            |                           |
| Pay fixed/<br>receive floating ..... | ¥ 32,398        | ¥ 28,928    | ¥ (994)    | ¥ (994)                   |
| Pay floating/<br>receive fixed ..... | 29,013          | 26,343      | 954        | 954                       |
| Total .....                          | —               | —           | ¥ (39)     | ¥ (39)                    |

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 |             |            |                           |
|-------------------------------|-----------------|-------------|------------|---------------------------|
|                               | 2021            |             |            |                           |
|                               | Contract amount | Over 1 year | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                 |             |            |                           |
| Currency swaps .....          | ¥ 615,652       | ¥ 485,460   | ¥ 153      | ¥ 153                     |
| Forward foreign exchange      |                 |             |            |                           |
| Sold .....                    | 65,720          | 44,977      | 1,451      | 1,451                     |
| Bought .....                  | 59,471          | 44,144      | (390)      | (390)                     |
| Currency options              |                 |             |            |                           |
| Sold .....                    | 9,828           | 3,743       | (291)      | 257                       |
| Bought .....                  | 9,828           | 3,743       | 291        | (191)                     |
| NDF                           |                 |             |            |                           |
| Sold .....                    | 95              | —           | (5)        | (5)                       |
| Bought .....                  | 92              | —           | 7          | 7                         |
| Total .....                   | —               | —           | ¥ 1,217    | ¥ 1,283                   |

| Type                          | Thousands of U.S. Dollars |              |            |                           |
|-------------------------------|---------------------------|--------------|------------|---------------------------|
|                               | 2021                      |              |            |                           |
|                               | Contract amount           | Over 1 year  | Fair value | Recognized gains (losses) |
| Over-the-counter transactions |                           |              |            |                           |
| Currency swaps .....          | \$ 5,560,943              | \$ 4,384,969 | \$ 1,381   | \$ 1,381                  |
| Forward foreign exchange      |                           |              |            |                           |
| Sold .....                    | 593,622                   | 406,259      | 13,106     | 13,106                    |
| Bought .....                  | 537,178                   | 398,735      | (3,522)    | (3,522)                   |
| Currency options              |                           |              |            |                           |
| Sold .....                    | 88,772                    | 33,809       | (2,628)    | 2,321                     |
| Bought .....                  | 88,772                    | 33,809       | 2,628      | (1,725)                   |
| NDF                           |                           |              |            |                           |
| Sold .....                    | 858                       | —            | (45)       | (45)                      |
| Bought .....                  | 830                       | —            | 63         | 63                        |
| Total .....                   | —                         | —            | \$ 10,992  | \$ 11,588                 |

| 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                     |

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) |
|--|-----------------|-------------|------------|-------|---------------------------|
|  | 2021            |             |            |       |                           |
|  | Contract amount | Over 1 year | Fair value |       |                           |
| Financial products exchange transactions |                 |             |            |       |                           |
| Bond futures                             |                 |             |            |       |                           |
| Sold.....                                | ¥ 302           | ¥ —         | ¥ (0)      | ¥ (0) |                           |
| Total.....                               | —               | —           | ¥ (0)      | ¥ (0) |                           |

| Type                                     | Thousands of U.S. Dollars |             |            |        | Recognized gains (losses) |
|--|---------------------------|-------------|------------|--------|---------------------------|
|  | 2021                      |             |            |        |                           |
|  | Contract amount           | Over 1 year | Fair value |        |                           |
| Financial products exchange transactions |                           |             |            |        |                           |
| Bond futures                             |                           |             |            |        |                           |
| Sold.....                                | \$ 2,727                  | \$ —        | \$ (0)     | \$ (0) |                           |
| Total.....                               | —                         | —           | \$ (0)     | \$ (0) |                           |

| 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 |                           |

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 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 |             |            |
|---|--|-----------------|-------------|------------|
|   |  | 2021            |             |            |
|   |  | 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) | ¥ 282,904       | ¥ 273,690   | ¥ (6,902)  |
| Total.....                              |  | —               | —           | ¥ (6,902)  |

## Thousands of U.S. Dollars

| Type                | Hedged items   | 2021                                    |              |             |
|---------------------|--|---|--------------|-------------|
|                     |  | 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) | \$ 2,555,360                            | \$ 2,472,134 | \$ (62,343) |
| Total.....          |  | —                                       | —            | \$ (62,343) |

| 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) |

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 Committee Practical Guideline No. 24, October 8, 2020).

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 |             |            |
|---|--------------|-----------------|-------------|------------|
|   |              | 2021            |             |            |
|   |              | Contract amount | Over 1 year | Fair value |
| The deferral method of hedge accounting |              |                 |             |            |
| Fund-related swaps.....                 | Call loans   | ¥ 22,332        | ¥ —         | ¥ (3)      |
| Currency swaps.....                     | Loans        | 315,065         | 223,634     | (749)      |
| Total.....                              |              | —               | —           | ¥ (752)    |

| Type                                    | Hedged items | Thousands of U.S. Dollars |             |            |
|---|--------------|---------------------------|-------------|------------|
|   |              | 2021                      |             |            |
|   |              | Contract amount           | Over 1 year | Fair value |
| The deferral method of hedge accounting |              |                           |             |            |
| Fund-related swaps.....                 | Call loans   | \$ 201,716                | \$ —        | \$ (27)    |
| Currency swaps.....                     | Loans        | 2,845,858                 | 2,019,998   | (6,765)    |
| Total.....                              |              | —                         | —           | \$ (6,792) |

| 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      |

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 Committee Practical Guideline No. 25, October 8, 2020).

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



## 19. 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, 2021 and 2020 were as follows:

|                           | Millions of Yen |       | Thousands of |
|---------------------------|-----------------|-------|--------------|
|                           | 2021            | 2020  | U.S. Dollars |
| Due within one year ..... | ¥ 122           | ¥ 151 | \$ 1,101     |
| Due after one year .....  | 27              | 146   | 243          |
| Total.....                | ¥ 150           | ¥ 298 | \$ 1,354     |

## 20. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2021 and 2020 were as follows:

|   | Millions of Yen |            | Thousands of |
|---|-----------------|------------|--------------|
|   | 2021            | 2020       | U.S. Dollars |
| Net unrealized gains (losses) on available-for-sale securities: |                 |            |              |
| Decrease during the year  | ¥ 53,089        | ¥ (44,064) | \$ 479,532   |
| Reclassification adjustments                                    | (4,892)         | 120        | (44,187)     |
| Subtotal, before tax  | 48,196          | (43,943)   | 435,335      |
| Tax benefit or (expense)  | (14,610)        | 13,243     | (131,966)    |
| Subtotal, net of tax  | 33,586          | (30,699)   | 303,369      |
| Net deferred gains (losses) on hedging instruments:             |                 |            |              |
| Decrease during the year  | 4,865           | (12,345)   | 43,943       |
| Reclassification adjustments                                    | 3,963           | 8,657      | 35,796       |
| Subtotal, before tax  | 8,829           | (3,688)    | 79,748       |
| Tax benefit or (expense)  | (2,692)         | 1,125      | (24,315)     |
| Subtotal, net of tax  | 6,136           | (2,563)    | 55,424       |
| Adjustments for retirement benefits:                            |                 |            |              |
| Decrease during the year  | 66              | (1,767)    | 596          |
| Reclassification adjustments                                    | 1,319           | 942        | 11,914       |
| Subtotal, before tax  | 1,385           | (824)      | 12,510       |
| Tax benefit or (expense)  | (422)           | 251        | (3,811)      |
| Subtotal, net of tax  | 963             | (573)      | 8,698        |
| Total other comprehensive income                                | ¥ 40,685        | ¥ (33,836) | \$ 367,491   |

## 21. 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, 2021 and 2020 was as follows:

|                                 | Millions of Yen   |            | Thousands of U.S. Dollars |
|---------------------------------|-------------------|------------|---------------------------|
|                                 | 2021              | 2020       | 2021                      |
| Market risk volume .....        | ¥ <b>162,887</b>  | ¥ 118,994  | <b>\$1,471,294</b>        |
| Banking business .....          | <b>162,884</b>    | 118,989    | <b>1,471,267</b>          |
| [Price fluctuation risk] .....  | <b>[117,769]</b>  | [92,892]   | <b>[1,063,761]</b>        |
| [Interest rate risk] .....      | <b>[57,771]</b>   | [37,328]   | <b>[521,822]</b>          |
| [Considering correlation] ..... | <b>[(12,657)]</b> | [(11,231)] | <b>[(114,325)]</b>        |
| Trading activities .....        | <b>2</b>          | 5          | <b>18</b>                 |

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

However, since VaR is statistically computed under certain assumptions based on historical market fluctuations, certain 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, 2021 and 2020. 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 |
| <b>Assets</b>   |                 |             |            |
| (1) Cash and due from banks.....                                      | ¥ 1,000,773     | ¥ 1,000,773 | ¥ —        |
| (2) Trading account securities.....                                   | 1,148           | 1,148       | —          |
| (3) Money trusts.....   | 27,300          | 27,300      | —          |
| (4) Securities  |                 |             |            |
| Bonds held to maturity.....   | 11,398          | 11,643      | 244        |
| Available-for-sale securities.....                                    | 2,585,103       | 2,585,103   | —          |
| (5) Loans and bills discounted.....                                   | 5,135,435       |             |            |
| Reserve for possible loan losses (*1).....                            | 45,415          |             |            |
|   | 5,090,020       | 5,131,309   | 41,289     |
| Total assets.....   | ¥ 8,715,744     | ¥ 8,757,279 | ¥ 41,534   |
| <b>Liabilities</b>  |                 |             |            |
| (1) Deposits.....   | ¥ 7,499,830     | ¥ 7,500,109 | ¥ 278      |
| (2) Negotiable certificates of deposit.....                           | 167,189         | 167,196     | 7          |
| (3) Payables under securities lending transactions.....               | 172,747         | 172,747     | —          |
| Total liabilities.....  | ¥ 7,839,767     | ¥ 7,840,053 | ¥ 286      |
| <b>Derivative transactions (*2)</b>                                   |                 |             |            |
| Derivative transactions to which hedge accounting is not applied..... | ¥ (10,179)      | ¥ (10,179)  | ¥ —        |
| Derivative transactions to which hedge accounting is applied.....     | (7,655)         | (7,655)     | —          |
| Total derivative transactions.....                                    | ¥ (17,834)      | ¥ (17,834)  | ¥ —        |

|   | Thousands of U.S. Dollars |               |            |
|---|---------------------------|---------------|------------|
|   | Book value                | Fair value    | Difference |
| <b>Assets</b>   |                           |               |            |
| (1) Cash and due from banks.....                                      | \$ 9,039,589              | \$ 9,039,589  | \$ —       |
| (2) Trading account securities.....                                   | 10,369                    | 10,369        | —          |
| (3) Money trusts.....   | 246,590                   | 246,590       | —          |
| (4) Securities  |                           |               |            |
| Bonds held to maturity.....   | 102,953                   | 105,166       | 2,203      |
| Available-for-sale securities.....                                    | 23,350,221                | 23,350,221    | —          |
| (5) Loans and bills discounted.....                                   | 46,386,369                |               |            |
| Reserve for possible loan losses (*1).....                            | 410,215                   |               |            |
|   | 45,976,153                | 46,349,101    | 372,947    |
| Total assets.....   | \$ 78,725,896             | \$ 79,101,065 | \$ 375,160 |
| <b>Liabilities</b>  |                           |               |            |
| (1) Deposits.....   | \$ 67,743,022             | \$ 67,745,542 | \$ 2,511   |
| (2) Negotiable certificates of deposit.....                           | 1,510,152                 | 1,510,215     | 63         |
| (3) Payables under securities lending transactions.....               | 1,560,355                 | 1,560,355     | —          |
| Total liabilities.....  | \$ 70,813,539             | \$ 70,816,123 | \$ 2,583   |
| <b>Derivative transactions (*2)</b>                                   |                           |               |            |
| Derivative transactions to which hedge accounting is not applied..... | \$ (91,942)               | \$ (91,942)   | \$ —       |
| Derivative transactions to which hedge accounting is applied.....     | (69,144)                  | (69,144)      | —          |
| Total derivative transactions.....                                    | \$ (161,087)              | \$ (161,087)  | \$ —       |

|   | Millions of Yen |             |            |
|---|-----------------|-------------|------------|
|   | 2020            |             |            |
|   | Book value      | Fair value  | Difference |
| <b>Assets</b>   |                 |             |            |
| (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      | —          |
| <b>(4) Securities</b>   |                 |             |            |
| 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     |
| <b>Total assets</b> .....   | ¥ 7,783,111     | ¥ 7,823,996 | ¥ 40,885   |
| <b>Liabilities</b>  |                 |             |            |
| (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     | —          |
| <b>Total liabilities</b> .....  | ¥ 7,113,909     | ¥ 7,114,363 | ¥ 454      |
| <b>Derivative transactions (*2)</b>                                   |                 |             |            |
| Derivative transactions to which hedge accounting is not applied..... | ¥ (62)          | ¥ (62)      | ¥ —        |
| Derivative transactions to which hedge accounting is applied.....     | (16,484)        | (16,484)    | —          |
| <b>Total derivative transactions</b> .....                            | ¥ (16,547)      | ¥ (16,547)  | ¥ —        |

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 that the items subject to hedge accounting are the interest rate swaps designated as hedging instruments to offset the market fluctuations of hedged items such as securities and loans and bills discounted, and although deferral hedge accounting has been principally adopted, "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ PITF No.40, September 29, 2020) is applied to the hedging relationships of these.



## **(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 6, "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 7, "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 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 6, "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, 2021.

#### **(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 |
|   | 2021            | 2020            | 2021                      |
| (1) Unlisted equity securities (*1) (*2).....     | ¥ 5,158         | ¥ 5,553         | \$ 46,590                 |
| (2) Investments in partnerships (*3).....         | 15,579          | 14,693          | 140,718                   |
| (3) Privately placed investment trusts (*1) ..... | 797             | 800             | 7,198                     |
| (4) Foreign stocks in foreign currency (*1).....  | 0               | 0               | 0                         |
| <b>Total.....</b>                                 | <b>¥ 21,536</b> | <b>¥ 21,047</b> | <b>\$ 194,526</b>         |

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

(\*2) Impairment losses on unlisted stocks were recognized in the amount of ¥0 million (\$0 thousand) and ¥0 million for the fiscal years ended March 31, 2021 and 2020, 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    |                                 |                                  |                                  |                                   |                    |
|---|--------------------|---------------------------------|----------------------------------|----------------------------------|-----------------------------------|--------------------|
|   | 2021               |                                 |                                  |                                  |                                   |                    |
|   | 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).....                            | ¥ 957,200          | —                               | —                                | —                                | —                                 | —                  |
| Securities .....                                    | 178,431            | ¥ 411,422                       | ¥ 216,155                        | ¥ 151,510                        | ¥ 361,268                         | ¥ 962,874          |
| Bonds held to maturity.....                         | —                  | 5,099                           | 6,299                            | —                                | —                                 | —                  |
| Japanese government bonds.....                      | —                  | 5,099                           | 6,299                            | —                                | —                                 | —                  |
| Available-for-sale securities with maturities ..... | 178,431            | 406,322                         | 209,856                          | 151,510                          | 361,268                           | 962,874            |
| Japanese government bonds.....                      | 98,643             | 171,101                         | 49,245                           | 5,047                            | 98,445                            | 323,187            |
| Japanese municipal bonds .....                      | 18,220             | 45,163                          | 25,816                           | 60,382                           | 138,847                           | 459,505            |
| Corporate bonds.....                                | 46,947             | 103,387                         | 81,227                           | 8,204                            | 3,604                             | 62,290             |
| Other .....   | 14,620             | 86,669                          | 53,567                           | 77,876                           | 120,371                           | 117,890            |
| Loans and bills discounted (*2) .....               | 1,406,069          | 1,020,942                       | 754,411                          | 458,147                          | 453,548                           | 954,520            |
| <b>Total .....</b>                                  | <b>¥ 2,541,701</b> | <b>¥ 1,432,364</b>              | <b>¥ 970,567</b>                 | <b>¥ 609,657</b>                 | <b>¥ 814,817</b>                  | <b>¥ 1,917,394</b> |

|   | Thousands of U.S. Dollars |                                 |                                  |                                  |                                   |                      |
|---|---------------------------|---------------------------------|----------------------------------|----------------------------------|-----------------------------------|----------------------|
|   | 2021                      |                                 |                                  |                                  |                                   |                      |
|   | 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).....                            | \$ 8,646,012              | —                               | —                                | —                                | —                                 | —                    |
| Securities .....                                    | 1,611,697                 | \$ 3,716,213                    | \$ 1,952,443                     | \$ 1,368,530                     | \$ 3,263,192                      | \$ 8,697,263         |
| Bonds held to maturity.....                         | —                         | 46,057                          | 56,896                           | —                                | —                                 | —                    |
| Japanese government bonds.....                      | —                         | 46,057                          | 56,896                           | —                                | —                                 | —                    |
| Available-for-sale securities with maturities ..... | 1,611,697                 | 3,670,147                       | 1,895,546                        | 1,368,530                        | 3,263,192                         | 8,697,263            |
| Japanese government bonds.....                      | 891,003                   | 1,545,488                       | 444,810                          | 45,587                           | 889,215                           | 2,919,221            |
| Japanese municipal bonds .....                      | 164,574                   | 407,939                         | 233,185                          | 545,406                          | 1,254,150                         | 4,150,528            |
| Corporate bonds.....                                | 424,053                   | 933,854                         | 733,691                          | 74,103                           | 32,553                            | 562,641              |
| Other .....   | 132,056                   | 782,847                         | 483,849                          | 703,423                          | 1,087,264                         | 1,064,854            |
| Loans and bills discounted (*2) .....               | 12,700,469                | 9,221,768                       | 6,814,298                        | 4,138,262                        | 4,096,721                         | 8,621,804            |
| <b>Total .....</b>                                  | <b>\$ 22,958,188</b>      | <b>\$ 12,937,982</b>            | <b>\$ 8,766,750</b>              | <b>\$ 5,506,792</b>              | <b>\$ 7,359,922</b>               | <b>\$ 17,319,067</b> |

|   | Millions of Yen |                                    |                                     |                                     |                                      |                       |
|---|-----------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|   | 2020            |                                    |                                     |                                     |                                      |                       |
|   | Within 1 year   | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| 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           |

(\*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 ¥61,756 million (\$557,817 thousand) and ¥51,236 million and loans without contract due dates in the amount of ¥26,039 million (\$235,200 thousand) and ¥28,675 million are not included in the above tables as at March 31, 2021 and 2020, 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 |                                    |                                     |                                     |                                      |                       |
|--|-----------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|  | 2021            |                                    |                                     |                                     |                                      |                       |
|  | Within 1 year   | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Deposits (*).....                                    | ¥ 7,252,814     | ¥ 205,087                          | ¥ 41,179                            | ¥ 98                                | ¥ 650                                | ¥ —                   |
| Negotiable certificates of deposit.....              | 166,660         | 528                                | —                                   | —                                   | —                                    | —                     |
| Payables under securities lending transactions ..... | 172,747         | —                                  | —                                   | —                                   | —                                    | —                     |
| Total .....  | ¥ 7,592,222     | ¥ 205,616                          | ¥ 41,179                            | ¥ 98                                | ¥ 650                                | ¥ —                   |

|  | Thousands of U.S. Dollars |                                    |                                     |                                     |                                      |                       |
|--|---------------------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|  | 2021                      |                                    |                                     |                                     |                                      |                       |
|  | Within 1 year             | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Deposits (*).....                                    | \$ 65,511,823             | \$ 1,852,470                       | \$ 371,953                          | \$ 885                              | \$ 5,871                             | \$ —                  |
| Negotiable certificates of deposit.....              | 1,505,374                 | 4,769                              | —                                   | —                                   | —                                    | —                     |
| Payables under securities lending transactions ..... | 1,560,355                 | —                                  | —                                   | —                                   | —                                    | —                     |
| Total .....  | \$ 68,577,563             | \$ 1,857,248                       | \$ 371,953                          | \$ 885                              | \$ 5,871                             | \$ —                  |

|  | Millions of Yen |                                    |                                     |                                     |                                      |                       |
|--|-----------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-----------------------|
|  | 2020            |                                    |                                     |                                     |                                      |                       |
|  | Within 1 year   | More than 1 year<br>within 3 years | More than 3 years<br>within 5 years | More than 5 years<br>within 7 years | More than 7 years<br>within 10 years | More than<br>10 years |
| Deposits (*).....                                    | ¥ 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                                | ¥ —                   |

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

## **22. 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     |            |         |           |         |           |  |
|--------------------------|---------------------|------------|---------|-----------|---------|-----------|--|
|                          | 2021                |            |         |           |         |           |  |
|                          | Reportable segments |            |         |           | Other   | Total     |  |
| Banking                  | Leasing             | Securities | Total   |           |         |           |  |
| Ordinary income:         |                     |            |         |           |         |           |  |
| External customers.....  | ¥ 97,956            | ¥ 12,241   | ¥ 3,048 | ¥ 113,247 | ¥ 3,729 | ¥ 116,976 |  |
| Intersegment income..... | 1,808               | 212        | 62      | 2,083     | 1,630   | 3,713     |  |
| Total .....              | ¥ 99,765            | ¥ 12,453   | ¥ 3,111 | ¥ 115,330 | ¥ 5,360 | ¥ 120,690 |  |
| Segment profit.....      | 19,045              | 537        | 236     | 19,819    | 1,929   | 21,748    |  |
| Segment assets.....      | 9,119,651           | 41,745     | 11,068  | 9,172,465 | 28,765  | 9,201,231 |  |
| Segment liabilities..... | 8,581,902           | 24,565     | 6,520   | 8,612,988 | 12,407  | 8,625,395 |  |
| Other items:             |                     |            |         |           |         |           |  |
| Depreciation .....       | 4,096               | 305        | 6       | 4,408     | 28      | 4,437     |  |
| Interest income .....    | 65,741              | 111        | 2       | 65,855    | 158     | 66,014    |  |
| Interest expense.....    | 6,878               | 94         | 2       | 6,975     | 0       | 6,975     |  |

|                          | Thousands of U.S. Dollars |            |           |              |           |              |  |
|--------------------------|---------------------------|------------|-----------|--------------|-----------|--------------|--|
|                          | 2021                      |            |           |              |           |              |  |
|                          | Reportable segments       |            |           |              | Other     | Total        |  |
| Banking                  | Leasing                   | Securities | Total     |              |           |              |  |
| Ordinary income:         |                           |            |           |              |           |              |  |
| External customers.....  | \$ 884,798                | \$ 110,568 | \$ 27,531 | \$ 1,022,915 | \$ 33,682 | \$ 1,056,598 |  |
| Intersegment income..... | 16,330                    | 1,914      | 560       | 18,814       | 14,723    | 33,538       |  |
| Total .....              | \$ 901,138                | \$ 112,483 | \$ 28,100 | \$ 1,041,730 | \$ 48,414 | \$ 1,090,145 |  |
| Segment profit.....      | 172,026                   | 4,850      | 2,131     | 179,017      | 17,423    | 196,441      |  |
| Segment assets.....      | 82,374,229                | 377,066    | 99,972    | 82,851,278   | 259,822   | 83,111,110   |  |
| Segment liabilities..... | 77,516,954                | 221,886    | 58,892    | 77,797,741   | 112,067   | 77,909,809   |  |
| Other items:             |                           |            |           |              |           |              |  |
| Depreciation .....       | 36,997                    | 2,754      | 54        | 39,815       | 252       | 40,077       |  |
| Interest income .....    | 593,812                   | 1,002      | 18        | 594,842      | 1,427     | 596,278      |  |
| Interest expense.....    | 62,126                    | 849        | 18        | 63,002       | 0         | 63,002       |  |

|                              | 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    |  |

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 |
|--|-----------------|-----------|---------------------------|
|  | 2021            | 2020      | 2021                      |
| Ordinary income  |                 |           |                           |
| Total amount for reportable segments.....                  | ¥ 115,330       | ¥ 125,620 | \$ 1,041,730              |
| Ordinary income of "Other".....                            | 5,360           | 5,532     | 48,414                    |
| Reclassification of reserves.....                          | —               | —         | —                         |
| Elimination of intersegment transactions.....              | (3,713)         | (3,835)   | (33,538)                  |
| Ordinary income in the consolidated income statements..... | ¥ 116,976       | ¥ 127,318 | \$ 1,056,598              |

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 |
|--|-----------------|----------|---------------------------|
|  | 2021            | 2020     | 2021                      |
| Segment profit   |                 |          |                           |
| Total amount for reportable segments.....                  | ¥ 19,819        | ¥ 16,129 | \$ 179,017                |
| Segment profit of "Other".....                             | 1,929           | 1,839    | 17,423                    |
| Elimination of intersegment transactions.....              | (496)           | (505)    | (4,480)                   |
| Ordinary profit in the consolidated income statements..... | ¥ 21,252        | ¥ 17,463 | \$ 191,960                |

(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 |
|---|-----------------|-------------|---------------------------|
|   | 2021            | 2020        | 2021                      |
| Segment assets  |                 |             |                           |
| Total amount for reportable segments.....               | ¥ 9,172,465     | ¥ 8,166,255 | \$ 82,851,278             |
| Segment assets of "Other".....                          | 28,765          | 27,583      | 259,822                   |
| Elimination of intersegment transactions.....           | (34,350)        | (32,734)    | (310,270)                 |
| Elimination of shares in consolidated subsidiaries..... | (13,718)        | (13,718)    | (123,909)                 |
| Total assets in the consolidated balance sheets.....    | ¥ 9,153,162     | ¥ 8,147,386 | \$ 82,676,921             |

(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 |
|---|-----------------|-------------|---------------------------|
|   | 2021            | 2020        | 2021                      |
| Segment liabilities                                       |                 |             |                           |
| Total amount for reportable segments.....                 | ¥ 8,612,988     | ¥ 7,656,535 | \$ 77,797,741             |
| Segment liabilities of "Other".....                       | 12,407          | 12,478      | 112,067                   |
| Elimination of intersegment transactions.....             | (34,430)        | (32,821)    | (310,992)                 |
| Total liabilities in the consolidated balance sheets..... | ¥ 8,590,965     | ¥ 7,636,192 | \$ 77,598,816             |

(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 |
|-----------------------|--------------------------------------|-------|-------------|-----------------------------------|
|                       | 2021                                 |       |             |                                   |
| Other items           | Total amount for reportable segments | Other | Adjustments |                                   |
| Depreciation.....     | ¥ 4,408                              | ¥ 28  | ¥ 37        | ¥ 4,474                           |
| Interest income.....  | 65,855                               | 158   | (566)       | 65,448                            |
| Interest expense..... | 6,975                                | 0     | (71)        | 6,904                             |

|                       | Thousands of U.S. Dollars            |        |             | Consolidated financial statements |
|-----------------------|--------------------------------------|--------|-------------|-----------------------------------|
|                       | 2021                                 |        |             |                                   |
| Other items           | Total amount for reportable segments | Other  | Adjustments |                                   |
| Depreciation.....     | \$ 39,815                            | \$ 252 | \$ 334      | \$ 40,411                         |
| Interest income.....  | 594,842                              | 1,427  | (5,112)     | 591,166                           |
| Interest expense..... | 63,002                               | 0      | (641)       | 62,361                            |

|                       | 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                            |

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 |                       |          |          |           |
|--|-----------------|-----------------------|----------|----------|-----------|
|  | 2021            |                       |          |          |           |
|  | Lending         | Securities investment | Services | Other    | Total     |
| Ordinary income from external customers..... | ¥ 45,813        | ¥ 28,642              | ¥ 18,641 | ¥ 23,879 | ¥ 116,976 |

|  | Thousands of U.S. Dollars |                       |            |            |              |
|--|---------------------------|-----------------------|------------|------------|--------------|
|  | 2021                      |                       |            |            |              |
|  | Lending                   | Securities investment | Services   | Other      | Total        |
| Ordinary income from external customers..... | \$ 413,810                | \$ 258,711            | \$ 168,376 | \$ 215,689 | \$ 1,056,598 |

|  | 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 |

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     |         |            |       |       |       |
|---|---------------------|---------|------------|-------|-------|-------|
|   | 2021                |         |            |       |       |       |
|   | Reportable segments |         |            |       | Other | Total |
|   | Banking             | Leasing | Securities | Total |       |       |
| Losses on impairment of fixed assets..... | ¥ 244               | ¥ —     | ¥ 4        | ¥ 249 | ¥ —   | ¥ 249 |

|   | Thousands of U.S. Dollars |         |            |          |       |          |
|---|---------------------------|---------|------------|----------|-------|----------|
|   | 2021                      |         |            |          |       |          |
|   | Reportable segments       |         |            |          | Other | Total    |
|   | Banking                   | Leasing | Securities | Total    |       |          |
| Losses on impairment of fixed assets..... | \$ 2,203                  | \$ —    | \$ 36      | \$ 2,249 | \$ —  | \$ 2,249 |

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

### 23. 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, 2021 and 2020 was as follows:

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

For the year ended March 31, 2021

| Type of shares    | Balance at beginning of year | Increase during the year | Decrease during the year | Balance at end of year | Remarks |
|-------------------|------------------------------|--------------------------|--------------------------|------------------------|---------|
| Issued stock:     |                              |                          |                          |                        |         |
| Common stock..... | 195,272                      | —                        | —                        | 195,272                |         |
| Treasury stock:   |                              |                          |                          |                        |         |
| Common stock..... | 7,212                        | 0                        | 0                        | 7,213                  | Note    |

Note: The increase in treasury stock of 0 thousand shares was due to purchases of shares of less than one unit. The decrease in treasury stock of 0 thousand shares was due to the sale of 0 thousand shares of less than one unit.

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 |
|-------------------|------------------------------|--------------------------|--------------------------|------------------------|---------|
| 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.

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

For the year ended March 31, 2021

| 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<br>(\$18,679 thousand) | ¥11.00<br>(\$0.099) | Mar. 31, 2020  | Jun. 26, 2020  |
| Nov. 13, 2020      | Board of Directors              | Common stock   | ¥2,068 million<br>(\$18,679 thousand) | ¥11.00<br>(\$0.099) | Sep. 30, 2020  | Dec. 8, 2020   |

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   | ¥12.00           | Mar. 31, 2019  | Jun. 27, 2019  |
| Nov. 8, 2019       | Board of Directors              | Common stock   | ¥2,068 million   | ¥11.00           | Sep. 30, 2019  | Dec. 6, 2019   |

Dividends were applicable to the year ended March 31, 2021 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, 2021      | General meeting of shareholders | Common stock   | ¥2,256 million<br>(\$20,377 thousand) | ¥12.00<br>(\$0.108) | Mar. 31, 2021  | Jun. 28, 2021  |

Note: The aforementioned has been submitted as a proposal to the Annual General Meeting of Shareholders scheduled to be held on June 25, 2021.

The above cash dividends are distributed from retained earnings.

## 24. 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 |
|---|-----------------|-----------|---------------------------|
|   | 2021            | 2020      | 2021                      |
| Cash and due from banks.....                      | ¥ 1,000,773     | ¥ 576,348 | \$ 9,039,589              |
| Due from banks, excluding the Bank of Japan ..... | (1,960)         | (11,675)  | (17,703)                  |
| Cash and cash equivalents .....                   | ¥ 998,813       | ¥ 564,672 | \$ 9,021,886              |

## 25. Stock Options

### (1) Line item where Stock option expense is presented and the amount

|   | Millions of Yen |      | Thousands of U.S. Dollars |
|---|-----------------|------|---------------------------|
|   | 2021            | 2020 | 2021                      |
| General and administrative expenses ..... | ¥ 37            | ¥ 35 | \$ 334                    |

### (2) Stock options outstanding as of March 31, 2021 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   |
| 2020 Stock Options | 8 directors (excluding outside directors and directors serving as audit and supervisory committee members)  | 48,000                             | Jul. 30, 2020 | From Jul. 31, 2020 to Jul. 30, 2050 |

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, 2021. Number of stock options is converted to number of shares.

|                                   | 2009             | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          | 2019          | 2020          |
|-----------------------------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                   | Stock Options    | 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, 2021 | Number of Shares |               |               |               |               |               |               |               |               |               |               |               |
| Non-vested:                       |                  |               |               |               |               |               |               |               |               |               |               |               |
| April 1, 2020 – Outstanding ..... | 3,800            | 4,700         | 12,200        | 11,900        | 13,100        | 13,500        | 10,300        | 17,000        | 17,400        | 21,800        | 45,300        | —             |
| Granted.....                      | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | 48,000        |
| Forfeited .....                   | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| Vested .....                      | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| March 31, 2021 – Outstanding..... | 3,800            | 4,700         | 12,200        | 11,900        | 13,100        | 13,500        | 10,300        | 17,000        | 17,400        | 21,800        | 45,300        | 48,000        |
| Vested:                           |                  |               |               |               |               |               |               |               |               |               |               |               |
| April 1, 2020 – Outstanding ..... | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| Vested .....                      | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| Exercised .....                   | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| Forfeited .....                   | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| March 31, 2021 – Outstanding..... | —                | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |

Price information for 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020 stock options is as follows:

|  | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          | 2019          | 2020          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | Stock Options | 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           | ¥ 1           |
| Average share price at time of exercise... | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| Fair appraisal price at date of grant..... | 1,197         | 935           | 917           | 926           | 1,281         | 1,483         | 1,815         | 1,022         | 1,508         | 1,099         | 753           | 800           |

|  | 2009           | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          | 2019          | 2020          |
|--|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | Stock Options  | 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       | \$ 0.00       |
| Average share price at time of exercise... | —              | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             | —             |
| Fair appraisal price at date of grant..... | 10.81          | 8.45          | 8.28          | 8.36          | 11.57         | 13.40         | 16.39         | 9.23          | 13.62         | 9.93          | 6.80          | 7.23          |

### (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 2020 stock options were as follows:

|   | 2020 Stock Options    |
|---|-----------------------|
| Volatility of stock prices (Note 1)             | 31.143%               |
| Estimated remaining outstanding period (Note 2) | 6 years and 11 months |
| Estimated dividend (Note 3)                     | ¥22.00 per share      |
| Risk-free interest rate (Note 4)                | (0.122)%              |

- Notes: 1. The volatility of stock prices was computed based on the actual stock prices from August 2013 to July 2020, 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, 2021.  
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.

### 26. 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.

## 27. Related-party Transactions

Related party transactions for the fiscal years ended March 31, 2021 and 2020 were as follows:

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

2021

| 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<br>¥30 million  | Loans and bills<br>discounted | ¥29 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<br>¥41 million  | Loans and bills<br>discounted | ¥41 million            |
|   | Nishi Techno Co., Ltd.        | Okayama-city, Okayama Prefecture  | ¥20 million | Civil engineering    | —  | Borrowing and lending        | Lending Note         | Average balance<br>¥537 million | Loans and bills<br>discounted | ¥534 million           |

Terms of transactions and policies for determining terms

Note: Interest was based on money market rates.

2021

| 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<br>\$270 thousand   | Loans and bills<br>discounted | \$261 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<br>\$370 thousand   | Loans and bills<br>discounted | \$370 thousand         |
|   | Nishi Techno Co., Ltd.        | Okayama-city, Okayama Prefecture  | \$180 thousand | Civil engineering    | —  | Borrowing and lending        | Lending Note         | Average balance<br>\$4,850 thousand | Loans and bills<br>discounted | \$4,823 thousand       |

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<br>¥33 million  | Loans and bills<br>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<br>¥41 million  | Loans and bills<br>discounted | ¥41 million            |
|   | Nishi Techno Co., Ltd.        | Okayama-city, Okayama Prefecture  | ¥20 million | Civil engineering    | —  | Borrowing and lending        | Lending Note         | Average balance<br>¥303 million | Loans and bills<br>discounted | ¥427 million           |

Terms of transactions and policies for determining terms

Note: Interest was based on money market rates.

## 28. Subsequent Events

Purchases of treasury stock

On May 14, 2021, the Board of Directors of the Bank passed a resolution to purchase up to 1,200 thousand shares of the Bank's common stock from the market at a price not exceeding ¥1,000 million (\$9,032 thousand). The purpose of this purchase was to return profit to shareholders through improvement in its capital efficiency. In accordance with the resolution, the Bank acquired 1,148 thousand shares for ¥999 million (\$9,023 thousand) by Jul. 6, 2021.



## 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, 2021 and 2020, 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 and 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, 2021 and 2020, and its consolidated financial performance and its consolidated 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



**Appropriateness of the classification of borrowers who are small and medium-size enterprises or managed by the headquarters operation**

| The key audit matter  | How the matter was addressed in our audit  |
|---|--|
| <p>In the consolidated balance sheet of The Chugoku Bank, Limited (hereinafter, “Chugoku Bank”) and its consolidated subsidiaries, loans and bills discounted of ¥5,135,435 million were recognized, representing a significant proportion (approximately 56%) of the total assets of ¥9,153,162 million. For those loans and bills discounted, reserve for possible loan losses of ¥45,415 million was recognized.</p> <p>As described in Notes 2, “Significant Accounting Policies (g) Reserve for Possible Loan Losses” and Notes 3, “Significant Accounting Estimates” to the consolidated financial statements Chugoku Bank classified borrowers based on assessment results utilizing the internal rules on self-assessment of assets, and measured the amount of the reserve for possible loan losses for each borrower category.</p> <p>As a regional financial institution, Chugoku Bank provides comprehensive financial services to contribute to the development of regional society in the Eastern Setouchi region centering on Okayama prefecture. As a characteristic of such a regional financial institution, Chugoku Bank provides loans to a relatively large number of small and medium-size enterprises (hereinafter, “SMEs”). As a result, the balance of those loans amounted to ¥2,746,407 million, representing 53% of the total loans and bills discounted.</p> <p>For a number of SMEs that support the development of the regional society, Chugoku Bank provides not only loans but also consulting activities in different life stages. Especially for the periods when SMEs are in lower performance, Chugoku Bank identifies borrowers’ management challenges, technical and sales capabilities to address them, growth potential, and business continuity through these consulting activities.</p> <p>In order to classify borrowers into borrower categories, Chugoku Bank considers the borrower’s current financial position, as well as the results of</p> | <p>The primary procedures we performed to assess appropriateness of the classification of borrowers who are SMEs or Headquarters Loans included the following:</p> <p><b>(1) Internal control testing</b><br/>We assessed the design and operating effectiveness of relevant internal controls over the classification of borrowers in the self-assessment of loan quality.</p> <p>In this assessment, we focused our testing on the following:</p> <ul style="list-style-type: none"> <li>● controls to validate whether the internal rules on self-assessment criteria was set out in compliance with relevant accounting standards;</li> <li>● IT application controls over the classification of borrowers on a quantitative basis;</li> <li>● controls to ensure the effectiveness of the secondary assessment department’s verification in the classification of borrowers; and</li> <li>● controls to sufficiently identify risk factors and analyze the extent of those risks for individual loan facility among Headquarters Loans.</li> </ul> <p><b>(2) Assessment of the appropriateness of the classification of borrowers</b><br/>In order to assess appropriateness of the classification of borrowers who are SMEs or Headquarters Loans, we:</p> <ul style="list-style-type: none"> <li>● evaluated whether the borrowers’ information, including financial data as the basis for classifying the borrower, was sufficient and most recent information by inspecting supporting documents and comparing the information with relevant documents;</li> <li>● inquired of relevant personnel in the secondary assessment department in order to assess the timeliness and appropriateness of judgments regarding qualitative factors, and inspected relevant documents that contribute to the judgments of the actual conditions of the borrowers’ business. Particularly for the borrowers whose financial position had deteriorated or those that were deemed to be significantly affected by the COVID-19 pandemic, we examined their business conditions and forecasts, as well as their cash</li> </ul> |



assessing the feasibility of the profit plan prepared by the borrower. However, as the plan is based on various assumptions, it often involve management's expert judgment to assess its feasibility.

In particular, in the current consolidated fiscal year, there are a number of borrowers that have been facing stagnant business performance more than ever due to the impacts of COVID-19 infections, making it difficult to assess the feasibility of their profit plans, including judgment on whether the impacts were temporary or not.

In addition, Chugoku Bank, leveraging its fund raising capacity, has maintained a certain level of profitability through the headquarters operation for Structured Finance, including marketable loans, and non-Japanese loans (hereinafter, "Headquarters Loans"). As a result, Headquarters Loans of ¥574,658 million was recorded, which accounted for 11% of total loans and bills discounted. Headquarters Loans include loan facilities, such as loans combined with specific derivative transactions such as credit linked loans, project finance for specific projects, and object finance for specific assets including marine vessels, real estate, and aircraft. Compared to the loans to general corporate customers, these loans have the following characteristics:

- The amount of loan per project is relatively large; and
- The repayment source, in principle, is limited to cash flows generated from the specific projects and assets subject to the finance. There are a wide variety of risk factors that affect these cash flows, and accordingly, determination of the extent of the risks involves significant management's expert judgment.

Chugoku Bank considered the aforementioned characteristics and determined the classification of the borrowers by comprehensively considering the results of identifying risk factors, analyzing the extent of the risks, and available information such as external ratings.

flow conditions, and evaluated the appropriateness of the judgments regarding qualitative factors;

- among the loans to SMEs, for the borrowers whose business conditions have not been favorable and whose profit plans served as a key factor for classifying the borrowers, examined the feasibility of those plans in light of the current regional economic conditions, business environment outlook, historical business performance, industry trends related to the borrowers, among others. In addition, we evaluated whether the impacts of COVID-19 infections could be an impediment for achieving the profit plans, by examining the borrowers' business conditions and forecasts, as well as their cash flow conditions; and
- for some loan facilities among Headquarters Loans, where there was an increased risk to the certainty in securing cash flows as a repayment source due to the impacts of COVID-19 infections, we inspected available information such as external ratings and relevant market reports, as well as inquired of management.

For the current consolidated fiscal year, there were some Headquarters Loans such as object finance for aircraft and syndicate loans, to borrowers whose business performance has been stagnant and prospects for recovery timing was difficult to predict, as well as some borrowers whose repayment conditions have been modified, due to the adverse impacts of COVID-19 infections. This raised concerns over the recoverability of these loans, and therefore, significant judgment was increasingly required in determining the classification of those borrowers.

We, therefore, determined that our assessment of the appropriateness of the classification of borrowers who are SMEs or Headquarters Loans was the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.



## 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 with regard to 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.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.




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August 31, 2021