



Annual Securities Report

“Yukashoken Hokokusho”

(Excerpt)

For the fiscal years ended March 31, 2019 and 2018

**FIDEA Holdings Co. Ltd.
and Subsidiaries**

Message from the President and CEO

Dear Shareholders and Investors,

We, the FIDEA Group, are pleased to announce that we are celebrating the 10-year anniversary of our establishment in October 2009, through the business integration between the Shonai Bank, Ltd. and the Hokuto Bank, Ltd. as the first region-wide banking group in Tohoku.

On behalf of the group, I deeply appreciate the tremendous support of our business partners, shareholders and valued customers.

Over the last ten years, the business environment has been constantly challenging us with persistent ultra-low interest rates, stricter capital adequacy rules, emergence of new competitors from such fields as Fin-tech and shrinking working-age population in the regions, to name a few.

As a banking group committed to the region, our mission is to show outstanding contribution to fulfill customers' expectations diversified by longevity society and lifestyle changes, as well as to revitalize the regional economies.

In line with our third Medium-term Management Plan, "Consulting and Innovation," our business model has been shifting further to facilitate sustainable growth of regional economies with timely and appropriate consultation which satisfies customers' both explicit and implicit needs.

Followings are some of our achievements in fiscal 2018, the second year of our medium-term plan mentioned above: providing solution or support for customers and partners; to move forward CCRC (Continuing Care Retirement Community) projects around Akita Station, to introduce financial solutions including investment partnership in launching new businesses, to help sake and other local products expand their foreign markets and to establish Yamagata-Kingdom of Thailand Friendship Association through the same course of Akita.

In addition, we focused on developing structures to support business successions and M&As based on customers' feedback that revealed considerable worries and concerns about those issues. We also acquired ownership of an affiliated leasing company, which is now called and operates as FIDEA Lease Co. Ltd., in order to enhance solution line-ups. The other approach was from the perspective of operational efficiency that we have introduced a semi-self teller terminal system, "Quick counter," on a trial basis.

Under the slogan "Reaching out to the community and stepping into the next generation – Trust FIDEA," the FIDEA Group aims to become a banking group that is trusted and consulted by regional customers. To establish a robust business base, we will continue to advance the shift to a consolidated sales structure for corporate and retail customer sales and the transformation to a lean management structure. I appreciate your continued support and guidance.

July 2019
Yuichi Tao
President and CEO
FIDEA Holdings Co. Ltd.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Balance Sheets March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Assets:			
Cash and due from banks (Notes 11, 19 and 23)	¥ 146,336	¥ 156,177	\$ 1,318,223
Monetary claims bought (Note 23)	4,233	4,121	38,131
Trading account securities (Notes 5 and 23)	595	303	5,359
Money held in trust (Notes 6 and 23)	13,081	14,002	117,836
Securities (Notes 5, 6, 11, 13 and 23)	749,874	744,685	6,755,013
Loans and bills discounted (Notes 7, 22 and 23)	1,716,998	1,738,367	15,467,057
Foreign exchange assets (Note 23)	1,736	2,145	15,638
Lease receivables and investments in leases	3,418	-	30,790
Tangible fixed assets (Note 8):			
Buildings	14,894	15,753	134,168
Land	10,212	10,741	91,991
Lease assets	136	187	1,225
Construction in progress	98	41	882
Other tangible fixed assets	2,238	2,385	20,160
Intangible fixed assets:			
Software	1,544	1,856	13,908
Goodwill	134	-	1,207
Other intangible fixed assets	171	136	1,540
Defined benefit asset (Note 12)	112	348	1,008
Deferred tax assets (Note 20)	1,156	1,720	10,413
Customers' liabilities for acceptances and guarantees (Note 22)	23,626	22,015	212,827
Other assets (Note 11)	55,005	61,391	495,495
Allowance for loan losses (Notes 7 and 23)	(14,310)	(14,410)	(128,907)
Total assets	¥ 2,731,298	¥ 2,761,970	\$ 24,604,071

(Continued)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Balance Sheets March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Liabilities:			
Deposits (Note 23)	¥ 2,394,711	¥ 2,429,106	\$ 21,572,029
Negotiable certificates of deposit (Note 23)	72,817	99,843	655,949
Payables under securities lending transactions (Notes 11 and 23)	64,171	60,778	578,065
Borrowed money (Notes 10, 11 and 23)	16,900	15,100	152,238
Foreign exchange liabilities (Note 23)	16	52	144
Provision for bonuses for directors and other officers	30	-	270
Defined benefit liability (Note 12)	2,434	2,266	21,925
Provision for reimbursement of deposits	623	762	5,612
Provision for contingent loss	348	419	3,134
Other provisions	15	17	135
Deferred tax liabilities (Notes 6 and 20)	3,297	3,888	29,700
Deferred tax liabilities for land revaluation (Note 9)	488	502	4,396
Acceptances and guarantees	23,626	22,015	212,827
Other liabilities (Note 10)	32,309	11,460	291,045
Total liabilities	2,611,789	2,646,213	23,527,511
Net assets (Note 14):			
Common stock	18,000	18,000	162,147
Capital surplus	29,261	29,261	263,588
Retained earnings	51,248	48,634	461,652
Treasury stock	(5)	(5)	(45)
Total shareholders' equity	98,504	95,890	887,343
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 6)	20,252	19,168	182,434
Deferred gain on hedges	272	-	2,450
Revaluation reserve for land (Note 9)	1,059	1,090	9,539
Remeasurements of defined benefit plans	(829)	(644)	(7,467)
Total accumulated other comprehensive income	20,754	19,614	186,956
Non-controlling interests	250	250	2,252
Total net assets	119,508	115,756	1,076,551
Total liabilities and net assets	¥ 2,731,298	¥ 2,761,970	\$ 24,604,071

See notes to consolidated financial statements.

(Concluded)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Income Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Income:			
Interest income:			
Interest on loans and discounts	¥ 20,978	¥ 21,996	\$ 188,973
Interest and dividends on securities	10,355	12,785	93,279
Other	26	36	234
Fees and commissions	8,680	8,555	78,191
Other operating income	6,113	3,830	55,067
Other income	2,781	3,970	25,051
Total income	<u>48,935</u>	<u>51,175</u>	<u>440,816</u>
Expenses:			
Interest expenses:			
Interest on deposits	748	1,518	6,738
Interest on payables under securities lending transactions	555	602	4,999
Interest on borrowings and rediscounts	73	73	657
Interest on bonds payable	-	44	-
Other	5	5	45
Fees and commissions	3,632	3,634	32,717
Other operating expenses	6,805	6,258	61,300
General and administrative expenses (Note 15)	28,709	29,854	258,616
Provision of allowance for loan losses	488	763	4,396
Other expenses (Notes 16 and 17)	3,616	2,158	32,573
Total expenses	<u>44,635</u>	<u>44,913</u>	<u>402,080</u>
Income before income taxes	<u>4,300</u>	<u>6,261</u>	<u>38,735</u>
Income taxes (Note 20):			
Current	1,014	1,710	9,134
Deferred	(517)	236	(4,657)
Total income taxes	<u>497</u>	<u>1,947</u>	<u>4,477</u>
Net income	3,802	4,314	34,249
Net income attributable to non-controlling interests	<u>17</u>	<u>32</u>	<u>153</u>
Net income attributable to owners of parent	<u>¥ 3,785</u>	<u>¥ 4,281</u>	<u>\$ 34,096</u>
		Yen	U.S. dollars
Per share of common stock (Note 25):			
Basic net income	¥ 20.23	¥ 22.98	\$ 0.1822
Diluted net income	14.71	18.38	0.1325
Cash dividends applicable to the year	6.00	6.00	0.0540

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net income	¥ 3,802	¥ 4,314	\$ 34,249
Other comprehensive income (Note 18):			
Unrealized gain on available-for-sale securities	1,068	388	9,620
Deferred gain on hedges	272	-	2,450
Remeasurements of defined benefit plans	(185)	301	(1,666)
Total other comprehensive income	<u>1,154</u>	<u>689</u>	<u>10,395</u>
Comprehensive income	<u>¥ 4,957</u>	<u>¥ 5,004</u>	<u>\$ 44,653</u>
Total comprehensive income attributable to:			
Owners of parent	¥ 4,954	¥ 4,949	\$ 44,626
Non-controlling interests	2	54	18

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries
**Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2019 and 2018**

	Millions of yen												
	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2017	¥ 18,000	¥ 29,272	¥ 45,519	¥ (9)	¥ 92,781	¥ 18,808	¥ -	¥ 1,127	¥ (945)	¥ 18,990	¥ 165	¥ 111,937	
Cash dividends			(1,203)		(1,203)							(1,203)	
Net income attributable to owners of parent			4,281		4,281							4,281	
Acquisition of treasury stock				(0)	(0)							(0)	
Sale of treasury stock		(0)		5	4							4	
Purchase of shares of consolidated subsidiaries		(9)			(9)							(9)	
Reversal of revaluation reserve for land			36		36							36	
Net changes of items other than shareholders' equity						359		(36)	301	624	85	709	
Balance as of March 31, 2018	18,000	29,261	48,634	(5)	95,890	19,168	-	1,090	(644)	19,614	250	115,756	
Cash dividends			(1,201)		(1,201)							(1,201)	
Net income attributable to owners of parent			3,785		3,785							3,785	
Acquisition of treasury stock				(0)	(0)							(0)	
Sale of treasury stock		(0)		0	0							0	
Reversal of revaluation reserve for land			30		30							30	
Net changes of items other than shareholders' equity						1,083	272	(30)	(185)	1,139	(0)	1,138	
Balance as of March 31, 2019	¥ 18,000	¥ 29,261	¥ 51,248	¥ (5)	¥ 98,504	¥ 20,252	¥ 272	¥ 1,059	¥ (829)	¥ 20,754	¥ 250	¥ 119,508	

	Thousands of U.S. dollars (Note 1)												
	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of March 31, 2018	\$ 162,147	\$ 263,588	\$ 438,104	\$ (45)	\$ 863,796	\$ 172,669	\$ -	\$ 9,818	\$ (5,801)	\$ 176,686	\$ 2,252	\$1,042,752	
Cash dividends			(10,818)		(10,818)							(10,818)	
Net income attributable to owners of parent			34,096		34,096							34,096	
Acquisition of treasury stock				(0)	(0)							(0)	
Sale of treasury stock		(0)		0	0							0	
Reversal of revaluation reserve for land			270		270							270	
Net changes of items other than shareholders' equity						9,755	2,450	(270)	(1,666)	10,260	(0)	10,251	
Balance as of March 31, 2019	\$ 162,147	\$ 263,588	\$ 461,652	\$ (45)	\$ 887,343	\$ 182,434	\$ 2,450	\$ 9,539	\$ (7,467)	\$ 186,956	\$ 2,252	\$1,076,551	

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Operating activities:			
Income before income taxes	¥ 4,300	¥ 6,261	\$ 38,735
Adjustments for:			
Income taxes—paid	(1,805)	(1,341)	(16,259)
Depreciation and amortization	2,568	2,663	23,133
Loss on impairment—fixed assets	692	255	6,233
Amortization of goodwill	14	-	126
Gain on step acquisitions	(31)	-	(279)
Change in allowance for loan losses	(100)	(1,905)	(900)
Change in provision for bonuses for directors and other officers	30	-	270
Change in defined benefit asset	227	273	2,044
Change in defined benefit liability	10	131	90
Change in provision for reimbursement of deposits	(139)	115	(1,252)
Change in provision for contingent loss	(71)	75	(639)
Change in other provisions	(2)	(13)	(18)
Interest income	(31,360)	(34,818)	(282,497)
Interest expenses	1,384	2,244	12,467
(Gain) loss on securities—net	(751)	102	(6,765)
Loss (gain) on money held in trust—net	487	(1,050)	4,386
Foreign exchange (gain) loss—net	(3)	5	(27)
Loss on sale and disposal of fixed assets—net	120	71	1,080
Loss on reduction of non-current assets	-	100	-
Subsidy income	-	(100)	-
Net change in loans and bills discounted	21,368	20,958	192,487
Net change in deposits	(34,394)	36,785	(309,827)
Net change in negotiable certificates of deposit	(27,025)	(41,752)	(243,446)
Net change in trading account securities	(292)	401	(2,630)
Net change in borrowed money, excluding subordinated borrowings	1,800	(1,300)	16,214
Net change in due from banks, excluding due from Bank of Japan	(1,171)	2,858	(10,548)
Net change in call loans and bills bought	(112)	(279)	(1,008)
Net change in payables under securities lending transactions	3,392	(69,011)	30,555
Net change in foreign exchange assets	409	(89)	3,684
Net change in foreign exchange liabilities	(36)	15	(324)
Net change in lease receivables and investments in leases	(3,418)	-	(30,790)
Interest received	32,036	35,785	288,586
Interest paid	(1,853)	(2,701)	(16,692)
Other—net	(1,630)	(42,612)	(14,683)
Total adjustments	(39,657)	(94,133)	(357,238)
Net cash used in operating activities —(Forward)	¥ (35,357)	¥ (87,872)	\$ (318,502)

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FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net cash used in operating activities —(Forward)	¥ (35,357)	¥ (87,872)	\$ (318,502)
Investing activities:			
Purchase of securities	(433,930)	(330,522)	(3,908,927)
Proceeds from sales of securities	358,021	398,526	3,225,123
Proceeds from maturity of securities	103,648	114,332	933,681
Increase in money held in trust	(8,000)	(5,000)	(72,065)
Decrease in money held in trust	8,424	1,483	75,885
Purchase of tangible fixed assets	(837)	(2,702)	(7,539)
Proceeds from sales of tangible fixed assets	199	189	1,792
Purchase of intangible fixed assets	(742)	(341)	(6,684)
Proceeds from subsidy income	-	39	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,175)	-	(10,584)
Net cash provided by investing activities	<u>25,607</u>	<u>176,006</u>	<u>230,672</u>
Financing activities:			
Redemption of subordinated bonds	-	(5,000)	-
Repayment of lease obligations	(66)	(76)	(594)
Dividends paid	(1,197)	(1,201)	(10,782)
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	0	3	0
Net cash used in financing activities	<u>(1,265)</u>	<u>(6,274)</u>	<u>(11,395)</u>
Effect of exchange rate change on cash and cash equivalents	<u>3</u>	<u>(5)</u>	<u>27</u>
Net (decrease) increase in cash and cash equivalents	(11,011)	81,854	(99,189)
Cash and cash equivalents at the beginning of year	154,143	72,289	1,388,550
Cash and cash equivalents at the end of year (Note 19)	<u>¥ 143,132</u>	<u>¥ 154,143</u>	<u>\$ 1,289,361</u>

See notes to consolidated financial statements.

(Concluded)

FIDEA Holdings Co. Ltd. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

1. Basis of Presentation

FIDEA Holdings Co. Ltd. (the “Company”) is a holding company and conducts its operations through its subsidiaries and affiliates. The Company was established as a joint holding company between The Shonai Bank, Ltd. (“Shonai”) and The Hokuto Bank, Ltd. (“Hokuto”) on October 1, 2009 by way of a transfer of shares.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, the Ordinance for the Enforcement of the Banking Act of Japan (the “Banking Act”) and the Companies Act of Japan (the “Companies Act”), and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In preparing the accompanying consolidated financial statements, Japanese yen amounts are presented in millions of yen by rounding down figures to the nearest million. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥111.01 = U.S.\$1.00, the exchange rate prevailing on March 31, 2019. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

2. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 7 subsidiaries (collectively the “Group”) as of March 31, 2019 (6 subsidiaries as of March 31, 2018).

As stated in Note 4, the Company acquired all shares of FIDEA Lease Co. Ltd. (former Grand Yamagata Leasing Co., Ltd.) and included it in the scope of consolidation from the year ended March 31, 2019.

Under the control of influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. The Company has 4 unconsolidated subsidiaries as of March 31, 2019 and 2018.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The excess of the acquisition cost over the underlying equity in the net assets of the consolidated subsidiaries measured at fair value at their respective dates of acquisition is presented as “goodwill” and is amortized by the straight-line method over a period of five years. Insignificant amounts of goodwill are fully charged to income in the fiscal year when it is incurred.

The balance sheet dates of all 7 subsidiaries are March 31.

Those companies over which the Company has the ability to exercise significant influence, but does not control are accounted for using the equity method. However, the Company has no affiliates to be accounted for using the equity method.

3. Significant Accounting Policies

(1) Trading account securities

Trading account securities are stated at fair value as of the balance sheet date, and cost of trading account securities sold is determined principally using the moving-average method.

(2) Securities

Non-trading securities are classified into two categories: held-to-maturity debt securities and available-for-sale securities. Held-to-maturity debt securities are carried at amortized cost being determined by the moving-average method. Available-for-sale securities are generally stated at fair value determined based on the quoted market price as of the balance sheet date, except for equity securities which are stated at fair value determined based on the average market price during one month before the balance sheet date. Cost of sales of these available-for-sale securities is principally determined using the moving-average method. Available-for-sale securities, for which it is extremely difficult to determine the fair value, are stated at cost determined by the moving-average method.

Unrealized gain or loss on available-for-sale securities is recorded under net assets, net of income taxes.

(3) Securities held in money trusts

Securities that are part of trust assets in independently managed money trusts with the primary purpose to manage securities are stated at fair value as of the balance sheet date.

(4) Derivatives

Derivatives are stated at fair value.

(5) Tangible fixed assets

Depreciation of tangible fixed assets of the Group, except for lease assets, is calculated by the straight-line method. The principal useful lives are as follows:

Buildings	5 to 50 years
Others	4 to 20 years

The Group leases automated teller machines, etc. under finance lease arrangements as a lessee.

Lease assets under finance lease arrangements which do not transfer ownership of the lease assets to the lessee are depreciated over the respective lease contract periods using the straight-line method with salvage values defined in the lease contracts, otherwise with no residual value.

(6) Intangible fixed assets

Intangible fixed assets, except for lease assets, are amortized by the straight-line method. Amortization of the cost of software intended for internal use is calculated by the straight-line method based on a useful life (principally five years) determined by the Group.

(7) Allowance for loan losses

Allowance for loan losses is provided by the consolidated banking subsidiaries and other major consolidated subsidiaries in accordance with the prescribed standards. For claims on borrowers who have declared bankruptcy or have commenced special liquidation proceedings or similar legal proceedings (the “bankrupt borrowers”), or borrowers who are not legally or formally insolvent but are regarded as substantially in the same situation (the “virtually bankrupt borrowers”), an allowance is generally provided based on the carrying amount of the claims, after the write-off stated below, net of the expected amount recoverable from collateral and guarantees.

For claims on borrowers who are not currently bankrupt but are likely to become bankrupt (the “potentially bankrupt borrowers”), an allowance is provided at the amount deemed necessary based on the overall solvency assessment of the borrowers and the amount of the claims, net of the expected amount recoverable from collateral and guarantees.

For other claims, an allowance is provided based on the historical loan-loss ratio calculated from past experiences during a certain period after categorizing into definite types.

All claims are assessed for the quality by the Asset Assessment Department with the cooperation by operating offices in accordance with the Standards for Asset Self-Assessment, and then the assessment results are audited by the Asset Audit Department which is independent from the Asset Assessment Department.

For collateralized or guaranteed claims on the bankrupt borrowers and virtually bankrupt borrowers of Hokuto and certain consolidated subsidiaries, the amount of the claims exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and is charged off against the total amount of the outstanding claims. These write-offs amounted to ¥12,157 million (\$109,512 thousand) and ¥12,073 million for the years ended March 31, 2019 and 2018, respectively.

Allowances for loan losses of other consolidated subsidiaries are provided based on the historical loan loss ratio.

(8) Provision for bonuses for directors and other officers

Provision for bonuses for directors and other officers is provided for the payment of bonuses to directors and other officers at an estimated amount attributed to the current fiscal year.

(9) Provision for reimbursement of deposits

Provision for reimbursement of deposits is provided at an estimated amount of the future payments to be made for reimbursement claims on deposits which were derecognized and credited from liability to income.

(10) Provision for contingent loss

Provision for contingent loss is provided at an estimated amount of the future payments to be made for a burden charge to the Credit Guarantee Corporations in connection with the responsibility-sharing system.

(11) Other provisions

Other provisions include provision for point service program of the consolidated subsidiaries.

Provision for point service program relating to credit business engaged by consolidated subsidiaries is provided for the future burdens when the service will be used at the necessary amount based on the reasonably estimated amount to be used in future.

(12) Retirement benefits

The benefit formula method is used as a method of attributing expected retirement benefits to each period in calculating retirement benefit obligation.

Past service costs are amortized by the straight-line method over a certain period (five years) within the average remaining years of service of the eligible employees when such past service costs occur at Shonai, a consolidated subsidiary of the Company.

Actuarial gains and losses are amortized from the year following the year in which the gains and losses occur by the straight-line method over a certain period of 10 to 15 years within the average remaining years of service of the eligible employees when such actuarial gains and losses occur.

Certain consolidated subsidiaries adopt the simplified method in calculating defined benefit liability and retirement benefit expenses. Under this method, the severance payment amount required at the fiscal year-end for voluntary termination is deemed as retirement benefit obligations.

(13) Foreign currency translation

The assets and liabilities denominated in foreign currencies of the consolidated subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date.

(14) Hedge accounting

Interest rate risk hedging

With respect to the hedge accounting for the interest rate risk arising from financial assets and liabilities of the consolidated banking subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the Japanese Institute of Certified Public Accountants (“JICPA”) Industry Audit Committee Report No. 24 (February 13, 2002). With respect to hedging transactions to offset fluctuations of the market price, the effectiveness of hedging transactions is assessed by specifying the hedged items such as deposits and loans and bills discounted and hedging instruments such as interest rate swaps after grouping these items by definite remaining maturity. With respect to hedging transactions to fix cash flows, the effectiveness of hedging is assessed by verifying the correlation of interest floating factors of hedged items and hedging instruments.

Foreign exchange risk hedging

With respect to the hedge accounting for the foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies of the consolidated banking subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the JICPA Industry Audit Committee Report No. 25 (July 29, 2002). Hedge effectiveness is assessed by comparing the amount of monetary assets and liabilities denominated in foreign currencies as underlying hedged items with the corresponding foreign-currency amount of the respective hedging instruments such as currency swaps and foreign exchange swaps entered into in order to hedge foreign exchange risk associated with monetary assets and liabilities denominated in foreign currencies.

In addition, in order to hedge foreign exchange risk of available-for-sale securities denominated in foreign currencies except for debt securities, the fair value hedge is applied as portfolio hedging on the condition that liabilities of spot and forward foreign exchange contracts exceeding the acquisition costs of the foreign currency denominated securities on a basis of foreign currency exist, designating the issues of foreign currency denominated securities to be hedged in advance.

Equity price fluctuation risk hedging

With respect to hedge accounting for the equity price fluctuation risk arising from equity securities out of available-for-sale securities held by the consolidated banking subsidiaries, the Group applies deferral hedge accounting for equity forward contracts and others as hedging instruments.

Hedge effectiveness is assessed by periodically comparing the aggregate amounts of price fluctuations or changes in cash flows of underlying hedged items with those of corresponding hedging instruments, in principle, for the period from the beginning of the hedge and the point in time of evaluating hedge effectiveness. However, if the material conditions of the hedged item and the hedging instrument are consistent and it is obvious that the hedge is highly effective, the assessment for the effectiveness is omitted.

(15) Cash and cash equivalents

In preparing the consolidated statements of cash flows, of cash and due from banks in the consolidated balance sheets, cash and due from Bank of Japan (“BoJ”) are considered to be cash and cash equivalents.

(16) Consumption taxes

Transactions are principally stated exclusive of national and local consumption taxes.

(17) Accounting standard and guidance issued but not yet applied

“Accounting Standard for Revenue Recognition” (the Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, March 30, 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

(i) Overview

Conducting a joint project to clarify the comprehensive principles for recognizing revenues, the International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) in the US issued “Revenues from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 shall be effective from a fiscal period beginning on or after January 1, 2018 and Topic 606 shall be effective from a fiscal period beginning after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive accounting standard for revenue recognition and issued a new standard together with its implementation guidance.

As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 in order to enhance comparability of financial statements, which is one of the benefits aligning with IFRS 15. In addition, for any practical issue to be considered in Japan, alternative treatment shall be added to the extent that comparability is not impaired.

(ii) Scheduled date of application

The Company and its consolidated subsidiaries will apply the new accounting standard and implementation guideline effective from the fiscal year beginning on April 1, 2021.

- (iii) Effect from the application of the new accounting standard and implementation guideline
The effect from the application of the new accounting standard and implementation guideline is currently under evaluation.

4. Business Combination

Business combination through acquisition

(1) Overview of the business combination

(i) Name of the company and description of the business

Name of the company: Grand Yamagata Leasing Co., Ltd.

Description of the business: General leasing business

(ii) Reason for the business combination

The Company conducted the business combination with the aim of expanding solution service line-up and strengthening the consulting service operation.

(iii) Date of business combination

October 1, 2018

(iv) Legal form of the business combination

Share acquisition

(v) Name of the company after the business combination

FIDEA Lease Co. Ltd.

(vi) Voting rights acquired

Voting rights held before the business combination (including indirect holdings): 5%

Voting rights additionally acquired at the date of the business combination: 95%

Voting rights after the business combination 100%

(vii) Grounds for determining acquiring company

The Company acquired all voting rights of Grand Yamagata Leasing Co., Ltd. through share acquisition in exchange for cash as consideration.

(2) Period of operating results of acquired company, which is included in the consolidated financial statements
From October 1, 2018 to March 31, 2019

(3) Breakdown of acquisition cost of acquired company and type of consideration

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Fair value of common stock held before the business combination as of the date of the business combination	¥ 81	\$ 729
Consideration for acquisition (cash)	<u>1,577</u>	<u>14,205</u>
Acquisition cost	<u>¥ 1,658</u>	<u>\$ 14,935</u>

(4) Difference between the acquisition cost and total amount of transactions to acquire the acquired company
Gain on step acquisitions: ¥31 million (\$279 thousand)

(5) Description of major acquisition-related costs and the amounts

Advisory fee and other fee: ¥3 million (\$27 thousand)

(6) Goodwill arising from the business combination, reason for the goodwill and method and period of amortization

(i) Goodwill arising from the business combination: ¥149 million (\$1,342 thousand)

(ii) Reason for the goodwill
The excess of the acquisition cost over the net amount of assets acquired and liabilities assumed is recognized as goodwill.

(iii) Method and period of amortization
Straight-line amortization over five years

(7) Breakdown of assets acquired and liabilities assumed on the date of the business combination

(i) Assets

Total assets:	¥4,980 million	(\$44,860 thousand)
Out of which, lease receivables and investments in leases:	¥3,370 million	(\$30,357 thousand)

(ii) Liabilities

Total liabilities:	¥3,471 million	(\$31,267 thousand)
Out of which, borrowed money:	¥3,100 million	(\$27,925 thousand)

(8) Approximate amount and calculation method of the impact of business combination on the consolidated statement of income for the year ended March 31, 2019 assuming the acquisition was completed on April 1, 2018

The disclosure is omitted since the approximate amount of the impact is immaterial.

5. Securities

Gain and loss from revaluation of trading account securities included in the consolidated statements of income was ¥2 million (\$18 thousand) for the years ended March 31, 2019 and 2018.

Securities at March 31, 2019 and 2018 consisted of the following:

March 31, 2019	Millions of yen		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 14,113	¥ 7,078	¥ 7,035
Debt securities:	492,236	480,276	11,959
Japanese government bonds	165,584	162,319	3,264
Municipal bonds	244,219	237,977	6,242
Corporate bonds	82,431	79,979	2,452
Other	166,619	151,797	14,821
Subtotal	¥ 672,968	¥ 639,152	¥ 33,816
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 4,054	¥ 4,509	¥ (455)
Debt securities:	12,404	12,508	(103)
Japanese government bonds	-	-	-
Municipal bonds	7,392	7,435	(43)
Corporate bonds	5,012	5,073	(60)
Other	56,550	60,674	(4,124)
Subtotal	¥ 73,009	¥ 77,693	¥ (4,683)
Total	¥ 745,978	¥ 716,845	¥ 29,133

March 31, 2018	Millions of yen		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 19,250	¥ 9,966	¥ 9,284
Debt securities:	438,922	427,252	11,669
Japanese government bonds	194,051	189,407	4,644
Municipal bonds	167,893	163,111	4,782
Corporate bonds	76,977	74,734	2,242
Other	85,019	72,583	12,435
Subtotal	¥ 543,192	¥ 509,803	¥ 33,389
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 4,026	¥ 4,383	¥ (356)
Debt securities:	63,977	64,538	(561)
Japanese government bonds	5,947	6,011	(63)
Municipal bonds	42,772	43,152	(380)
Corporate bonds	15,257	15,374	(117)
Other	129,979	134,851	(4,872)
Subtotal	¥ 197,983	¥ 203,773	¥ (5,790)
Total	¥ 741,175	¥ 713,577	¥ 27,598

As of March 31, 2019 and 2018, ¥330 million (\$2,972 thousand) and ¥276 million of capital investment in unconsolidated subsidiaries were included in the balance of securities, respectively.

March 31, 2019	Thousands of U.S. dollars		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	\$ -	\$ -	\$ -
Available-for-sale securities:			
Equity securities	\$ 127,132	\$ 63,760	\$ 63,372
Debt securities:	4,434,159	4,326,421	107,729
Japanese government bonds	1,491,613	1,462,201	29,402
Municipal bonds	2,199,972	2,143,743	56,229
Corporate bonds	742,554	720,466	22,088
Other	1,500,936	1,367,417	133,510
Subtotal	\$ 6,062,228	\$ 5,757,607	\$ 304,621
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	\$ -	\$ -	\$ -
Available-for-sale securities:			
Equity securities	\$ 36,519	\$ 40,617	\$ (4,098)
Debt securities:	111,737	112,674	(927)
Japanese government bonds	-	-	-
Municipal bonds	66,588	66,975	(387)
Corporate bonds	45,149	45,698	(540)
Other	509,413	546,563	(37,149)
Subtotal	\$ 657,679	\$ 699,873	\$ (42,185)
Total	\$ 6,719,917	\$ 6,457,481	\$ 262,435

Available-for-sale securities sold for the years ended March 31, 2019 and 2018 were as follows:

March 31, 2019	Millions of yen		
	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 12,366	¥ 1,676	¥ 824
Debt securities:	100,268	1,558	57
Japanese government bonds	62,801	1,397	56
Municipal bonds	37,467	161	1
Corporate bonds	-	-	-
Other	239,169	2,326	3,926
Total	¥ 351,805	¥ 5,561	¥ 4,809

March 31, 2018	Millions of yen		
	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 7,938	¥ 1,733	¥ 164
Debt securities:	110,216	1,245	57
Japanese government bonds	59,853	772	20
Municipal bonds	44,928	471	31
Corporate bonds	5,434	1	5
Other	287,083	1,518	4,347
Total	¥ 405,238	¥ 4,497	¥ 4,568

March 31, 2019	Thousands of U.S. dollars		
	Sales proceeds	Realized gain	Realized loss
Equity securities	\$ 111,395	\$ 15,097	\$ 7,422
Debt securities:	903,233	14,034	513
Japanese government bonds	565,723	12,584	504
Municipal bonds	337,510	1,450	9
Corporate bonds	-	-	-
Other	2,154,481	20,953	35,366
Total	\$3,169,128	\$ 50,094	\$ 43,320

Write-down of securities

Non-trading securities, with the exception of those whose fair value is extremely difficult to determine, whose fair value significantly declined compared with their acquisition cost and is not considered to be able to recover their acquisition cost, are written down to their respective fair value which is recorded as the carrying amount on the consolidation balance sheet. The related loss on revaluation is charged to income for the year.

For the year ended March 31, 2019, no available-for-sale securities were written down. For the year ended March 31, 2018, ¥27 million of available-for-sale securities were written down. Of which, equity securities were ¥27 million.

The criteria for determining whether the fair value is “significantly declined” are as follows:

- (1) If the fair value as of the balance sheet date declines 50% or more compared to the acquisition cost, the difference is recognized as write-down of securities.
- (2) If the fair value as of the balance sheet date declines by 30% or more but less than 50% compared to the acquisition cost, write-down of securities is recognized for the securities which meets criteria of the Group after considering the financial condition of the issuer and past trend of the market value for a certain period.

6. Unrealized Gain on Available-for-Sale Securities

Unrealized gain on available-for-sale securities at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized gain:	¥ 29,133	¥ 27,598	\$ 262,435
Available-for-sale securities	29,133	27,598	262,435
Money held in trust	-	-	-
Deferred tax liabilities	(8,866)	(8,400)	(79,866)
Unrealized gain on available-for-sale securities before adjustments by equity interest:	20,266	19,198	182,560
Non-controlling interests	(14)	(29)	(126)
Unrealized gain on available-for-sale securities	¥ 20,252	¥ 19,168	\$ 182,434

7. Loans and Bills Discounted and Risk Monitored Loans

Loans and bills discounted

Bills discounted are accounted for as financial transactions rather than as purchased bills in accordance with JICPA Industry Audit Committee Report No. 24 “Treatment of Accounting and Auditing concerning Application of Accounting Standard for Financial Instruments in Banking Industry” (February 13, 2002). The Group has the right to sell or pledge (repledge) such bills without any restrictions. These include commercial bills discounted and foreign exchange bills purchased, etc. The total face value of such financial transactions at March 31, 2019 and 2018 amounted to ¥5,739 million (\$51,698 thousand) and ¥4,919 million, respectively.

Contracts for overdraft facilities and loan commitments are contracts under which the Group lends money to customers up to their prescribed limits at the customers’ request as long as there are no violations of any of the conditions in the contracts. The aggregate unutilized balances within the limits of these contracts totaled ¥301,245 million (\$2,713,674 thousand) and ¥307,257 million at March 31, 2019 and 2018, respectively, including the contracts whose contractual periods were either less than one year or revocable at any time, in the amount of ¥284,395 million (\$2,561,886 thousand) and ¥278,438 million, respectively.

Since many of these commitments expire without being fully utilized, the unutilized amounts do not necessarily represent future cash commitments of the consolidated subsidiaries. Most of these contracts include provisions which stipulate that the consolidated subsidiaries can reject customers’ requests or decrease the contract limits for an appropriate reason, such as a change in financial situation and preservation of claims. At the inception of the contracts, they obtain collateral in the form of real estate, securities, and so forth, if deemed necessary. Subsequently, they, based on its internal rules, perform periodic reviews of the customers’ business results and may take necessary measures such as reconsidering the terms and conditions of the contracts and/or requiring additional collateral or guarantees.

Risk monitored loans

Risk monitored loans which were included in loans and bills discounted at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans to bankrupt borrowers	¥ 1,366	¥ 1,192	\$ 12,305
Delinquent loans	25,812	29,720	232,519
Loans past due for 3 months or more	-	-	-
Restructured loans	3,149	3,059	28,366
Total	¥ 30,328	¥ 33,971	\$ 273,200

Loans to bankrupt borrowers represent non-accrual loans to borrowers who are legally bankrupt as defined in Articles 96-1-3 and 96-1-4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965).

Delinquent loans represent non-accrual loans other than (i) loans to bankrupt borrowers and (ii) loans on which interest payments have been suspended in order to facilitate or support the reconstruction of borrowers who are experiencing financial difficulties.

Loans past due for 3 months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the day after the due date, and which are not classified as “loans to bankrupt borrowers” or “delinquent loans.”

Restructured loans are loans which have been restructured to facilitate or support the reconstruction of borrowers who are experiencing financial difficulties, with the intention of ensuring the recovery of the loans by providing more flexible repayment terms for the borrowers (such as reducing the rate of interest, suspending the payment of principal/interest, forgiving debt, etc.) and loans which are not classified in any of the above categories.

The amounts presented in the table above are stated before deducting the amount of allowance for loan losses.

8. Tangible Fixed Assets

At March 31, 2019 and 2018, accumulated depreciation of tangible fixed assets was ¥33,508 million (\$301,846 thousand) and ¥32,076 million, respectively.

The amounts of advanced depreciation by reduction of carrying amount of assets as of and for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance as of the fiscal year-end	¥ 1,147	¥ 1,237	\$ 10,332
Amount applicable for the year	-	100	-

9. Revaluation of Land

In accordance with the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998), land used for business operations of Shonai was revalued as of the date indicated below. The excess of revaluation to carrying amount at the time of revaluation, net of income taxes corresponding to the excess which are recognized as “Deferred tax liabilities for land revaluation,” is stated as “Revaluation reserve for land” under net assets.

Date of revaluation: September 30, 1999

The method of revaluation of asset set forth in Article 3, Paragraph 3 of the “Act on Revaluation of Land”:

Fair values are determined based on the land price registered in the book of taxation on land stipulated in Article 2-3 of the “Order for Enforcement of Act on Revaluation of Land” (the “Ordinance”) (Cabinet Order No. 119 of March 31, 1998), with price adjustments by shape and time and the appraisal value by an independent real estate appraiser as provided by Article 2-5 of the Ordinance.

The difference between the total fair values of land used for business operations revalued pursuant to Article 10 of the “Act on Revaluation of Land” and carrying amount after revaluation of the relevant land at March 31, 2019 and 2018 was ¥1,397 million (\$12,584 thousand) and ¥1,494 million, respectively.

10. Borrowed Money and Lease Obligations

Borrowed money and lease obligations at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of	Average	Maturity
	2019	2018	U.S. dollars	interest rate	
			2019	(%)	
Borrowed money	¥ 16,900	¥ 15,100	\$ 152,238	0.43	Apr. 2019 through Mar. 2023
Current portion of lease obligations	63	63	567	1.00	-
Lease obligations, less current portion	115	129	1,035	0.93	Apr. 2020 through Feb. 2026

Note: Average interest rate is calculated based on the interests and the balances as of the balance sheet date by the weighted average method.

Annual maturities of borrowed money and lease obligations within five years at March 31, 2019 are as follows:

	Millions of yen				
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Borrowed money	¥ 8,500	¥ 1,100	¥ 2,400	¥ 4,900	¥ -
Lease obligations	63	49	41	16	6

	Thousands of U.S. dollars				
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Borrowed money	\$ 76,569	\$ 9,909	\$ 21,619	\$ 44,140	\$ -
Lease obligations	567	441	369	144	54

Note: Lease obligations are included in “Other liabilities” in the accompanying consolidated balance sheet.

Subordinated borrowings of ¥5,000 million (\$45,040 thousand) and ¥5,000 million were included in borrowed money at March 31, 2019 and 2018, respectively.

11. Assets Pledged

Assets pledged as collateral at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities	¥ 77,316	¥ 72,843	\$ 696,477

The liabilities secured by the above pledged assets at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Payables under securities lending transactions	¥ 64,171	¥ 60,778	\$ 578,065
Borrowed money	11,900	10,100	107,197

In addition to the pledged assets listed above, the following assets are pledged as collateral of domestic exchange transactions or as margins on futures contracts at March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities	¥ 123,782	¥ 126,323	\$ 1,115,052
Cash and due from banks	8	8	72
Other assets	42,000	41,063	378,344

Note: Other assets include guarantee deposits in the amount of ¥552 million (\$4,972 thousand) and ¥551 million at March 31, 2019 and 2018, respectively.

12. Retirement Benefit Plans

Shonai, a consolidated banking subsidiary of the Company, has a funded defined benefit corporate pension plan and an unfunded lump-sum payment plan as defined benefit plans to provide for employees' retirement benefits. Under the defined benefit corporate pension plan, a lump-sum payment or pension is provided based on the base salary used for retirement benefits calculation and service years. In addition, this plan is a type of quasi cash balance plan. Under the lump-sum payment plan, a lump-sum payment is provided as a retirement benefit based on the base salary used for retirement benefits calculation and service years.

Hokuto, a consolidated banking subsidiary of the Company, has a funded defined benefit corporate pension plan and a funded lump-sum payment plan as defined benefit plans to provide for employees' retirement benefits. Under the defined benefit corporate pension plan, pension or a lump-sum payment is provided based on service years. Hokuto maintains a cash balance plan for defined benefit corporate pension plan and a virtual individual account balance which is corresponding to each participant's funded amount and the source of pension amount is established under this plan. In this virtual individual account balance, mainly interest credits based on the trend of market interest rate and contributed credits based on the interest granted each month are accumulated.

Under the lump-sum payment plan, points are accumulated during the service based on the service years and the functional classes. Employees who terminate their employment are entitled to lump-sum payments based on the accumulated points at the time of the termination multiplied by unit price by point and additional benefits based on the functional class at the time of the termination. A retirement benefit trust is established for the lump-sum payment plan.

Each of Shonai and Hokuto has a defined contribution corporate pension plan as the defined contribution plan. Certain consolidated subsidiaries other than consolidated banking subsidiaries have unfunded defined benefit pension plans (lump-sum payment plans only). These consolidated subsidiaries adopt the simplified method in calculating defined benefit liability and retirement benefit expenses under lump-sum payment plans.

Defined benefit pension plans

(1) Reconciliation between retirement benefit obligations at beginning of year and end of year

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligations at beginning of year	¥ 13,683	¥ 13,819	\$ 123,259
Service costs	481	491	4,332
Interest costs	11	16	99
Actuarial gains and losses arising during year	88	86	792
Retirement benefits paid	(768)	(730)	(6,918)
Retirement benefit obligations at end of year	¥ 13,497	¥ 13,683	\$ 121,583

(2) Reconciliation between plan assets at beginning of year and end of year

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at beginning of year	¥ 11,766	¥ 11,748	\$ 105,990
Expected return on plan assets	151	151	1,360
Actuarial gains and losses	(205)	326	(1,846)
Contribution from employer	112	113	1,008
Retirement benefits paid	(649)	(574)	(5,846)
Plan assets at end of year	¥ 11,175	¥ 11,766	\$ 100,666

Note: Retirement benefit trust is included in plan assets.

(3) Reconciliation between retirement benefit obligations and plan assets at end of year and defined benefit liability and defined benefit asset on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 11,583	¥ 11,814	\$ 104,341
Plan assets	(11,175)	(11,766)	(100,666)
	407	48	3,666
Unfunded retirement benefit obligation	1,913	1,868	17,232
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 2,321	¥ 1,917	\$ 20,908

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Defined benefit liability	¥ 2,434	¥ 2,266	\$ 21,925
Defined benefit asset	(112)	(348)	(1,008)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 2,321	¥ 1,917	\$ 20,908

Note: Retirement benefit trust is included in plan assets.

(4) Retirement benefit expenses and components thereof

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥ 481	¥ 491	\$ 4,332
Interest costs	11	16	99
Expected return on plan assets	(151)	(151)	(1,360)
Amortization of actuarial gains and losses	79	234	711
Amortization of past service costs	(31)	(42)	(279)
Other	1	1	9
Retirement benefit expenses on defined benefit plans	¥ 390	¥ 549	\$ 3,513

Note: Retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are collectively included in "Service costs."

(5) Components of items recorded in remeasurements of defined benefit plans in other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service costs	¥ (31)	¥ (42)	\$ (279)
Actuarial gains and losses	(214)	474	(1,927)
Total	¥ (246)	¥ 432	\$ (2,216)

(6) Components of items recorded in remeasurements of defined benefit plans in accumulated other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized past service costs	¥ -	¥ (31)	\$ -
Unrecognized actuarial gains and losses	1,079	864	9,719
Total	¥ 1,079	¥ 833	\$ 9,719

(7) Components of plan assets

(a) Percentages to total plan by major category are as follows:

	2019	2018
Debt securities	45.0%	36.3%
Equity securities	28.9	36.6
Cash and deposits	3.4	11.8
Call loans	0.1	0.2
General account	6.6	6.2
Other	16.0	8.9
Total	100.0%	100.0%

Note: 31.1% and 30.3% of the total plan assets consisted of the retirement benefit trust established for the lump-sum payment plan as of March 31, 2019 and 2018, respectively.

(b) Determination of expected long-term rate of plan assets

The expected long-term rate of return on plan assets is determined considering current and expected distribution of plan assets and current and expected long-term rate of return derived from various components of plan assets.

(8) Actuarial assumptions at end of year

	2019	2018
Discount rate	0.00% - 0.04%	0.00% - 0.18%
Expected long-term rate of return on plan assets	1.00% - 1.50%	1.00% - 1.50%
Expected rate of salary increase (Note)	3.64%	3.61%

Note: Hokuto maintains a cash balance plan for the defined benefit corporate pension plan, and a point system is adopted for the lump-sum payment plan. Accordingly, the expected rate of salary increase is not included in the basis for calculation of retirement benefit obligations and others for the years ended March 31, 2019 and 2018.

Defined contribution pension plans

The amounts to be contributed to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥160 million (\$1,441 thousand) and ¥163 million as of March 31, 2019 and 2018, respectively.

13. Contingent Liabilities

Guarantee liabilities for corporate bonds acquired through private offering (as defined in Article 2-3 of the Financial Instruments and Exchange Act) among those classified as corporate bonds in “Securities” amounted to ¥11,461 million (\$103,242 thousand) and ¥8,070 million at March 31, 2019 and 2018, respectively.

14. Shareholders' Equity

Japanese banks are required to comply with the Banking Act and the Companies Act. The Companies Act stipulates that neither additional paid-in capital nor the legal reserve is available for dividends, but that both may be used to reduce or eliminate a deficit. Under the Banking Act, an amount which is at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period is to be appropriated to the legal reserve until the aggregate amount of the legal reserve and the capital surplus account equals 100% of the amount of share capital. The Companies Act also provides that if the aggregate amount of additional paid-in capital and the legal reserve exceeds 100% of the amount of share capital, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

The maximum amount which the bank can distribute as dividends is calculated based on the non-consolidated financial statements of the bank and in accordance with the Companies Act.

Movements in common stock, preferred stock and treasury stock during the years ended March 31, 2019 and 2018 are summarized as follows:

	Number of shares (in thousands)				Ref.
	April 1, 2018	Increase	Decrease	March 31, 2019	
Issued shares:					
Common stock	181,421	-	-	181,421	
Preferred stock class B	25,000	-	-	25,000	
Total	206,421	-	-	206,421	
Treasury stock:					
Common stock	25	2	0	28	Note
Total	25	2	0	28	

Note: Increase in number of shares is due to request for purchase of less than one unit. Decrease in number of shares is due to request for sale of less than one unit.

	Number of shares (in thousands)				Ref.
	April 1, 2017	Increase	Decrease	March 31, 2018	
Issued shares:					
Common stock	181,421	-	-	181,421	
Preferred stock class B	25,000	-	-	25,000	
Total	206,421	-	-	206,421	
Treasury stock:					
Common stock	42	2	19	25	Note
Total	42	2	19	25	

Note: Increase in number of shares is due to request for purchase of less than one unit. Decrease in number of shares is due to request for sale of less than one unit and sale of the shares held by consolidated subsidiaries.

15. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2019 and 2018 included the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries and allowances	¥ 12,765	¥ 13,221	\$ 114,989
Retirement benefit expenses	550	712	4,954

16. Other Expenses

Other expenses for the years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loss on sales of equity securities, etc.	¥ 1,342	¥ 272	\$ 12,089
Loss on disposal of fixed assets	141	121	1,270
Impairment loss	692	255	6,233
Loss on reduction of non-current assets	-	100	-
Other	1,441	1,410	12,980
Total	¥ 3,616	¥ 2,158	\$ 32,573

17. Impairment Loss

For the years ended March 31, 2019 and 2018, with regard to assets from which cash flows declined due to decrease in income from operating activities, idle properties and assets which were determined to be sold, the Company recognized the impairment loss by writing off the carrying amount of each asset to its respective recoverable amount.

March 31, 2019				Impairment loss	
Category	Area	Main use	Description	Millions of yen	Thousands of U.S. dollars
Business assets	Within Yamagata Prefecture	Banking office – six locations	Buildings	¥ 54	\$ 486
Business assets	Within Akita Prefecture	Banking office – 17 locations	Land and buildings	94	846
Business assets	Within Miyagi Prefecture	Banking office – eight locations	Land and buildings	185	1,666
Business assets	Within Fukushima Prefecture	Banking office – two locations	Land and buildings	164	1,477
Business assets	Within Tokyo Metropolitan area	Banking office – two locations	Buildings	54	486
Idle assets	Within Yamagata Prefecture	Idle assets – one location	Land	80	720
Idle assets	Within Akita Prefecture	Idle assets – four locations	Land and buildings	7	63
Assets held for sale	Within Yamagata Prefecture	Employee housing – one location	Land and buildings	34	306
Assets held for sale	Within Akita Prefecture	Banking office – one location	Land	15	135
Total				¥ 692	\$ 6,233

March 31, 2018				Impairment loss	
Category	Area	Main use	Description	Millions of yen	
Business assets	Within Yamagata Prefecture	Banking office – three locations	Land and buildings	¥ 116	
Business assets	Within Akita Prefecture	Banking office – one location	Buildings	0	
Business assets	Within Miyagi Prefecture	Banking office – one location	Land	52	
Idle assets	Within Yamagata Prefecture	Idle assets – two locations	Land	25	
Idle assets	Within Akita Prefecture	Idle assets – 21 locations	Land and buildings	14	
Assets held for sale	Within Akita Prefecture	Banking office – one location	Land	47	
Total				¥ 255	

Banking offices of consolidated subsidiaries in the banking business are grouped by office which is the minimum unit for management accounting purposes. Certain banking office group which operates in cooperation is considered as one unit, and banking offices located in the same building are also considered as one unit. For idle assets and assets held for sale, each asset is considered as the minimum unit. Head office, administrative centers and others are considered as corporate assets since they contribute to generate future cash flows of multiple assets or asset groups.

The Company and consolidated subsidiaries in other than the banking business are grouped by entity as a general rule.

The recoverable amount of relevant asset group is measured at net selling price and calculated by deducting estimated costs to sell from the amount which properly reflects the fair market value such as real estate appraisal value or roadside land prices.

18. Other Comprehensive Income

Reclassification adjustments and income tax effect for each component of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Unrealized gain on available-for-sale securities:			2019
Gain arising during the year	¥ 2,287	¥ 461	\$ 20,601
Reclassification adjustments	(752)	102	(6,774)
Before income tax effect	1,534	563	13,818
Income tax effect	(466)	(175)	(4,197)
Unrealized gain on available-for-sale securities	1,068	388	9,620
Deferred gain on hedges:			
Adjustments arising during the year	391	-	3,522
Reclassification adjustments	-	-	-
Before income tax effect	391	-	3,522
Income tax effect	(119)	-	(1,071)
Deferred gain on hedges	272	-	2,450
Remeasurements of defined benefit plans:			
Adjustments arising during the year	(293)	240	(2,639)
Reclassification adjustments	47	192	423
Before income tax effect	(246)	432	(2,216)
Income tax effect	60	(131)	540
Remeasurements of defined benefit plans	(185)	301	(1,666)
Total other comprehensive income	¥ 1,154	¥ 689	\$ 10,395

19. Cash and Cash Equivalents

A reconciliation of cash and due from banks in the accompanying consolidated balance sheets to cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2019 and 2018 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and due from banks	¥ 146,336	¥ 156,177	\$1,318,223
Due from banks (excluding due from BoJ)	(3,204)	(2,033)	(28,862)
Cash and cash equivalents	¥ 143,132	¥ 154,143	\$1,289,361

Major breakdown of assets and liabilities, acquisition cost and net payment for acquisition of FIDEA Lease Co. Ltd. (hereinafter referred to as “FIDEALCL”) due to share acquisition at the beginning of consolidation is as follows:

	Millions of yen	Thousands of U.S. dollars
	Assets	¥ 4,980
Liabilities	(3,471)	(31,267)
Goodwill	149	1,342
Cost to acquire FIDEALCL’s shares	1,658	14,935
Shares held before acquisition	(50)	(450)
Gain on step acquisitions	(31)	(279)
Cash and cash equivalents of FIDEALCL	(402)	(3,621)
Net: Payment for acquisition	¥ 1,175	\$ 10,584

20. Income Taxes

The tax effect of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for loan losses	¥ 7,234	¥ 7,171	\$ 65,165
Defined benefit liability	2,026	1,913	18,250
Tax loss carryforwards	1,402	1,659	12,629
Depreciation	778	695	7,008
Write-down of securities	93	98	837
Other	1,199	1,214	10,800
Gross deferred tax assets	12,735	12,751	114,719
Valuation allowance	(5,308)	(5,918)	(47,815)
Total deferred tax assets	¥ 7,426	¥ 6,833	\$ 66,894
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (8,866)	¥ (8,400)	\$ (79,866)
Other	(700)	(601)	(6,305)
Total deferred tax liabilities	(9,566)	(9,001)	(86,172)
Net deferred tax assets (liabilities)	¥ (2,140)	¥ (2,168)	\$ (19,277)

Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2019 is shown as below. Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2018 is omitted since the difference is less than 5% of the effective statutory tax rate.

	2019
Normal effective statutory tax rate	30.57%
Non-deductible expenses such as entertainment expenses	0.68
Non-taxable income such as dividend income	(21.09)
Per capita inhabitant tax	1.36
Valuation allowance	(17.82)
Consolidation adjustments	18.92
Other	(1.06)
Actual effective tax rate	11.56%

21. Segment Information

(1) Segment information

The Group has a single segment of banking business. Accordingly, segment information by reportable segment is omitted.

(2) Related information

Information by service

March 31, 2019	Millions of yen			
	Lending	Securities investment	Other	Total
Ordinary income from external customers	¥ 21,206	¥ 15,918	¥ 11,758	¥ 48,883

March 31, 2018	Millions of yen			
	Lending	Securities investment	Other	Total
Ordinary income from external customers	¥ 22,104	¥ 17,283	¥ 11,638	¥ 51,026

March 31, 2019	Thousands of U.S. dollars			
	Lending	Securities investment	Other	Total
Ordinary income from external customers	\$ 191,027	\$ 143,392	\$ 105,918	\$ 440,347

Note: "Ordinary income" is defined as income less certain special income included in the accompanying consolidated statements of income.

Geographic information

a. Ordinary income

Information about ordinary income by geographic area for the years ended March 31, 2019 and 2018 is omitted as ordinary income from external customers in Japan was more than 90% of ordinary income in the consolidated statements of income.

b. Tangible fixed assets

Information about tangible fixed assets by geographic area as of March 31, 2019 and 2018 is omitted as tangible fixed assets in Japan was more than 90% of "Tangible fixed assets" in the consolidated balance sheets.

Information by major customer

Information by major customer for the years ended March 31, 2019 and 2018 is omitted since there was no single external customer accounting for 10% or more of the consolidated ordinary income.

22. Related Party Transactions

Transactions between the Company's consolidated subsidiaries and their directors and major shareholders as of March 31, 2019 and 2018 and for the years then ended are as follows:

2019									
Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2019
Director	Hiroyuki Sato	-	¥-	Director of the Company	-	Lending	¥25 million (\$225 thousand)	Loans and bills discounted	¥74 million (\$666 thousand)
Companies, etc. whose voting rights are owned by the director (including the director of the consolidated subsidiaries) or his/her relatives	Akita Kubota Co., Ltd. Note (1)	Akita city, Akita Pref.	¥60	Agricultural machines distributor	0.0% directly held	Lending	¥108 million (\$972 thousand)	Loans and bills discounted	¥63 million (\$567 thousand)
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥952 million (\$8,575 thousand)	Loans and bills discounted	¥900 million (\$8,107 thousand)
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥305 million (\$2,747 thousand)	Loans and bills discounted	¥500 million (\$4,504 thousand)
	Ugo Setsubi Co., Ltd. Note (3)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥7 million (\$63 thousand)	-	-
						Guarantee for liabilities	¥3 million (\$27 thousand)	Customers' liabilities for acceptances and guarantees	¥1 million (\$9 thousand)
	Ugo Densetsu Kogyo Co., Ltd. Note (4)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥20 million (\$180 thousand)	-	-
						Guarantee for liabilities	¥98 million (\$882 thousand)	Customers' liabilities for acceptances and guarantees	¥71 million (\$639 thousand)
Ugo Hatsuhenden Koji Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥9 million (\$81 thousand)	-	-	
2018									
Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2018
Companies, etc. whose voting rights are owned by the director (including the director of the consolidated subsidiaries) or his/her relatives	Akita Kubota Co., Ltd. Note (1)	Akita city, Akita Pref.	¥60	Agricultural machines distributor	0.0% directly held	Lending	¥123 million	Loans and bills discounted	¥69 million
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥931 million	Loans and bills discounted	¥900 million
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥300 million	Loans and bills discounted	¥300 million
	Ugo Setsubi Co., Ltd. Note (3)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥27 million	-	-
						Guarantee for liabilities	¥7 million	Customers' liabilities for acceptances and guarantees	¥4 million
	Ugo Densetsu Kogyo Co., Ltd. Note (4)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥51 million	-	-
						Guarantee for liabilities	¥81 million	Customers' liabilities for acceptances and guarantees	¥103 million
Ugo Hatsuhenden Koji Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥22 million	Loans and bills discounted	¥10 million	
					Guarantee for liabilities	¥0 million	-	-	

- Notes: (1) Akita Kubota Co., Ltd. is a subsidiary of Ishii Shoji Co., Ltd. Tadanari Ishii, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, and his relatives own the majority of voting rights of Ishii Shoji Co., Ltd.
- (2) Tadanari Ishii, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, his relatives and Ishii Shoji Co., Ltd. own the majority of voting rights of Netz Toyota Akita Co., Ltd. Toyota Rent-a-Lease Akita Co., Ltd. is a subsidiary of Netz Toyota Akita Co., Ltd.
- (3) As of March 2019 and 2018, Hiroyuki Sato, who is a director of the Company, his relatives and Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto, which is a significant consolidated subsidiary of the Company, own the majority of voting rights of Ugo Setsubi Co., Ltd.
- (4) Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto which is a significant consolidated subsidiary of the Company, and his relatives own the majority of voting rights of Ugo Densetsu Kogyo Co., Ltd. Ugo Hatsuhenden Koji Co., Ltd. is a subsidiary of Ugo Densetsu Kogyo Co., Ltd.
- (5) The transactions are with Hokuto, which is a significant consolidated subsidiary of the Company, and the trading conditions and policies are the same as those of the transactions with general parties.
- (6) The transaction amount is shown by the average balance.

There is no other related party transaction to be disclosed for the years ended March 31, 2019 and 2018.

23. Financial Instruments and Related Disclosures

1. Status of Financial Instruments

(1) Policy on financial instruments

The Group is engaged in financial information services centering on banking business such as deposit-taking and lending services for domestic corporate and individual customers and management of securities such as debt and equity securities and investment trusts. The Group accepts risk as long as it remains financially healthy and intends to improve its earning power in order to continue to conduct these services.

The Group holds financial assets and liabilities exposed to the fluctuation risk of interest rates. Accordingly, the Group conducts asset and liability management (ALM) and enters into derivative transactions if necessary in order to avoid adverse effect by the interest-rate fluctuation.

(2) Contents of financial instruments and their risks

Financial assets held by the Group mainly consist of loans and bills discounted to domestic corporate and individual customers, which are exposed to credit risk arising from customers' nonperformance of contractual obligations. In addition, securities, principally consisting of equity securities, debt securities, investment trusts and investment in partnerships, are held for the purposes of net investment and strategic investment. These financial assets are exposed to credit risk of issuers and fluctuation risk of interest rates and market prices.

Major financial liabilities, consisting of deposits and negotiable certificates of deposit, are principally deposits accepted from domestic corporate and individual customers. They require attentions to liquidity risk arising from concentrated cancellation of deposits, but most of those deposits are from individual customers and accordingly, the risk is dispersed to small accounts. The liquidity risk is also controlled by limiting the ratio of large deposit accounts to a certain level.

Derivative contracts which the Group enters into consist of interest rate swaps employed as part of ALM and futures of debt securities held as available-for-sale securities, options, etc. These derivatives are not entered into for speculative purpose but mainly for hedging purposes.

(3) Risk management system for financial instruments

The Group has established the "Basic Policy on Risk Management" and various risk control rules and a system to conduct the risk management as follows:

a. Credit risk management:

In accordance with the "Credit Policy" and "Credit Risk Management Rule," for loans and bills discounted, a credit control system has been established and maintained, including credit review by individual contract, credit limit control, credit information control, internal ratings, retrospective control including self-assessment, establishment of guaranty and security, countermeasures for problem accounts, credit concentration risk management, etc. These credit controls are performed by the loan departments in addition to each operating office, being reported to and discussed at the management meetings on a regular basis. Furthermore, the status of credit control is examined by the internal audit department.

b. Market risk management:

For market transactions, front office, middle office and back office, each of which is independent of others, are mutually controlled.

Interest rate risk management:

The Group manages the fluctuation risk of interest rates by ALM. In accordance with the “Market Risk Management Rule,” the Group measures the exposure of interest rate risk, monitoring by gap analysis and sensitivity analysis on a regular basis, and the monitoring results are reported to the management meetings on a regular basis. In addition, the future countermeasures based on the analysis of current status are discussed.

Foreign exchange risk management:

The Group manages foreign exchange risk, in accordance with the “Market Risk Management Rule,” by establishing total positions and loss limits or entering into hedging activities.

Price fluctuation risk management:

The Group manages price fluctuation risk in accordance with “Market Risk Management Rule.” Risk exposures to securities are monitored for usage against the pre-set limit by the Risk Control Department on a daily basis based on Value at Risk (VaR) and other risk indexes such as 10BVP and reported to the management meetings.

Derivative transactions:

With respect to derivative transactions, the Group segregates the duties of the departments responsible for execution of transactions, verification of hedge effectiveness, and operation administration and conducts transactions under the management and control based on the handling rules.

Quantitative information about market risk:

Financial instruments not for trading purposes

The Group identifies and manages the market risk volume using VaR on a daily basis (monthly basis with regard to interest rate risk volume of deposits, loans and bills discounted, etc.), since the Group holds many financial instruments whose fair values fluctuate on a daily basis and such fluctuation amount is greater than other risk categories. The market risk volume of the Group is controlled as the total amounts of market risk volume of Shonai and Hokuto which are the subsidiaries.

Market risk volume of the banking business of the Group at March 31, 2019 and 2018 and for the years then ended was as follows:

	Billions of yen			
	2019			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Securities:	28.8	33.9	24.9	31.4
Debt securities	3.7	4.7	3.2	4.8
Equity securities	7.7	9.8	6.2	9.0
Other	17.4	19.4	15.5	17.6

Billions of yen				
2018				
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Securities:	27.3	35.2	21.7	23.3
Debt securities	5.8	8.8	3.4	3.4
Equity securities	5.6	7.7	4.2	6.4
Other	19.9	25.5	15.5	15.6
Millions of U.S. dollars				
2019				
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Securities:	259.4	305.3	224.3	282.8
Debt securities	33.3	42.3	28.8	43.2
Equity securities	69.3	88.2	55.8	81.0
Other	156.7	174.7	139.6	158.5

- (*1) VaR is measured in principle using the variance/co-variance method.
- (*2) Holding period is assumed to be 60 business days for higher market liquidity financial instruments such as Japanese government bonds, municipal bonds, listed equity securities (excluding strategic investments), etc., 250 business days for cross-holding shares of listed equity securities, and 125 or 250 business days for less market liquidity financial instruments, due from banks, loans and bills discounted, etc.
- (*3) 99 % is used for confidence interval, and 250 business days are used as extraction period of market data to measure volatility.
- (*4) The total amount does not agree with the sum of the individual amounts since correlation between the risk factors of debt securities and equity securities is taken into account.
- (*5) The current interest rate risk volume of deposits, loans and bills discounted, etc., represents decreasing interest rate risk, not increasing interest rate risk. The increasing interest rate risk is managed as internal control. Therefore, the interest rate risk volume of due from banks, loans and bills discounted and others is considered to be zero.

Within the Group, each banking subsidiary implements backtests comparing the VaR of one day holding period measured by the model and actual change in losses, in order to verify the accuracy of the measurement model of the market risk volume concerning the VaR of securities.

The measurement model currently in use is deemed to capture the market risk on the reasonably accurate basis. However, the Group will take conservative actions as necessary when VaR is expected to increase due to an increase in volatility.

In implementing the risk management using the VaR, the following particular points are paid attention to:

- (i) Quantitative information such as VaR of market risk is determined based on the statistical assumptions and may result in a different value depending on the different assumptions and calculation methods.
- (ii) Quantitative information such as VaR of market risk is a statistical value calculated based on the assumptions and not intended to estimate the amount of maximum losses. Profit or loss is assumed to exceed VaR on the frequency corresponding to the confidence interval.
- (iii) Future market conditions may differ significantly from the past.

Financial instruments for trading purposes are excluded from the scope of disclosure, since the outstanding balance at any banking subsidiary is very insignificant and the materiality of effect on the management is quite limited.

c. Liquidity risk management:

The Group sets limits on liquidity risk management and reports to the management meetings, monitoring the results on a daily basis in accordance with the “Liquidity Risk Management Rule.”

(4) Supplementary explanation about fair value of financial instruments

The fair value of financial instruments includes, in addition to the value determined based on the market price, a valuation calculated on a reasonable basis, such as theoretical price if no market price is available. Since certain assumptions are used in calculating the value, the result of such calculation may vary if different assumptions are used.

2. Fair value of financial instruments

The carrying amount, the fair value and their difference as of March 31, 2019 and 2018 were as follows. Note that unlisted equity securities for which fair value is extremely difficult to determine are not included in the following table (See Note 2 below).

March 31, 2019	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 146,336	¥ 146,336	¥ -
Monetary claims bought (*1)	4,214	4,214	-
Trading account securities:			
Trading securities	595	595	-
Money held in trust	13,081	13,081	-
Securities:			
Available-for-sale securities	745,978	745,978	-
Loans and bills discounted:	1,716,998		
Allowance for loan losses (*1)	(14,172)		
	1,702,826	1,738,554	35,727
Foreign exchange assets (*1)	1,735	1,735	-
Total assets	¥2,614,769	¥2,650,496	¥ 35,727
Deposits	¥2,394,711	¥2,394,760	¥ 48
Negotiable certificates of deposit	72,817	72,819	2
Payables under securities lending transactions	64,171	64,171	-
Borrowed money	16,900	16,900	0
Foreign exchange liabilities	16	16	-
Total liabilities	¥2,548,616	¥2,548,667	¥ 51
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ 322	¥ 322	¥ -
To which hedge accounting is applied	391	391	-
Total derivative transactions	¥ 713	¥ 713	¥ -

March 31, 2018	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 156,177	¥ 156,177	¥ -
Monetary claims bought (*1)	4,100	4,100	-
Trading account securities:			
Trading securities	303	303	-
Money held in trust	14,002	14,002	-
Securities:			
Available-for-sale securities	741,175	741,175	-
Loans and bills discounted:	1,738,367		
Allowance for loan losses (*1)	(14,304)		
	1,724,062	1,758,436	34,374
Foreign exchange assets (*1)	2,144	2,144	-
Total assets	¥2,641,966	¥2,676,340	¥ 34,374
Deposits	¥2,429,106	¥2,429,243	¥ 136
Negotiable certificates of deposit	99,843	99,843	-
Payables under securities lending transactions	60,778	60,778	-
Borrowed money	15,100	15,162	62
Foreign exchange liabilities	52	52	-
Total liabilities	¥2,604,880	¥2,605,080	¥ 199
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ 334	¥ 334	¥ -
Total derivative transactions	¥ 334	¥ 334	¥ -

March 31, 2019	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Cash and due from banks	\$ 1,318,223	\$ 1,318,223	\$ -
Monetary claims bought (*1)	37,960	37,960	-
Trading account securities:			
Trading securities	5,359	5,359	-
Money held in trust	117,836	117,836	-
Securities:			
Available-for-sale securities	6,719,917	6,719,917	-
Loans and bills discounted:	15,467,057		
Allowance for loan losses (*1)	(127,664)		
	15,339,392	15,661,237	321,835
Foreign exchange assets (*1)	15,629	15,629	-
Total assets	\$23,554,355	\$23,876,191	\$ 321,835
Deposits	\$21,572,029	\$21,572,470	\$ 432
Negotiable certificates of deposit	655,949	655,967	18
Payables under securities lending transactions	578,065	578,065	-
Borrowed money	152,238	152,238	0
Foreign exchange liabilities	144	144	-
Total liabilities	\$22,958,436	\$22,958,895	\$ 459
Derivative transactions (*2):			
To which hedge accounting is not applied	\$ 2,900	\$ 2,900	\$ -
To which hedge accounting is applied	3,522	3,522	-
Total derivative transactions	\$ 6,422	\$ 6,422	\$ -

- (*1) General and specific allowances for loan losses corresponding to loans and bills discounted are deducted. With respect to allowance for loan losses related to monetary claims bought and foreign exchange assets, carrying amount is shown, net of allowance, since the amount is insignificant.
- (*2) Assets and liabilities arising from derivative transactions are presented in net amounts, and net liabilities are shown in parenthesis.

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

Assets:

Cash and due from banks

For due from banks without maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For due from banks with maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining maturity is mostly short (within one year).

Monetary claims bought

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining term is short (within one year).

Trading account securities

For securities such as debt securities held for dealing purpose, the fair value is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

Money held in trust

For securities that are invested as part of trust assets in an independently managed money trust with the primary purpose of managing securities, the fair value of equity securities is determined using the price at the exchange and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

Securities

The fair value of equity securities is determined using the price at the exchange (average market price during one month before the fiscal year-end) and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted. The fair value of investment trust is determined based on the published standard quotation price.

For privately placed bonds, the fair value is determined by discounting the future cash flows of bonds categorized based on the internal ratings and terms using credit risk spread by credit rating and market interest rate.

Loans and bills discounted

For the loans and bills discounted with short remaining terms (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For the loans and bills discounted without predetermined maturity because of characteristics such as the loans and bills discounted being limited within the amount of the pledged assets, the carrying amount is presented as the fair value since the fair value is considered to approximate the carrying amount considering the expected repayment term and interest rate conditions.

The fair value of the loans and bills discounted with fixed interest rates categorized by type of loans and bills discounted, internal rating and term is calculated by discounting the total of principal and interest using credit risk spread by credit rating and market interest rate. The fair value of the loans and bills discounted with floating interest rates, categorized by internal rating and term, is calculated by discounting the total of principal and interest, basically until the interest maturity date, using credit risk spread by credit rating and market interest rate. Credit risk spread is calculated by remaining term based on accumulated default rate by credit rating and loss rate by debtor classification.

For loans and bills discounted due from bankrupt, virtually bankrupt or potentially bankrupt borrowers, loan losses are estimated based on factors such as the present value of estimated future cash flows or the expected amount to

be collected from collaterals and guarantees. Since the fair value of these items approximates the carrying amount net of the recorded amount of allowance for loan losses, such carrying amount is presented as the fair value.

Foreign exchange assets

Foreign exchange assets consist of foreign currency deposits with other banks (due from other foreign banks) and export bills and traveler's checks, etc. (foreign bills bought). For these items, the carrying amount is presented as the fair value, since the fair value approximates the carrying amount because they are deposit without maturity or have short-term remaining terms (within one year).

Liabilities:

Deposits and Negotiable certificates of deposit

For demand deposits, the amount payable on demand as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. The fair value of time deposit is determined using the discounted present value of future cash flows, grouping by certain maturity length. The discount rate used is the interest rate that would be applied to newly accepted deposits. For deposits whose remaining term is short (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

Payables under securities lending transactions

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining term is short (within one year).

Borrowed money

For borrowed money whose remaining term is short (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

For subordinated borrowed money whose remaining term is more than one year and which is subject to call option giving a right to redeem before maturity and step-up clause, the fair value is calculated by discounting the estimated cash flows after taking into consideration the possibility of redemption before maturity by the interest rate corresponding to the estimated period after taking into consideration credit risk of the consolidated subsidiaries.

Foreign exchange liabilities

The carrying amount is presented as the fair value, since the fair value of these liabilities approximates the carrying amount because they are settled within a short period of time.

Derivative transactions:

Please see Note 24.

(Note 2) Financial instruments whose fair value is extremely difficult to determine are as follows. These financial instruments are not included in "Securities" under "Assets" of the fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted equity securities (*1) (*2)	¥ 1,697	¥ 1,547	\$ 15,286
Investment in partnerships (*3)	2,198	1,962	19,800
Total	¥ 3,896	¥ 3,510	\$ 35,095

(*1) The fair value of unlisted equity securities is not disclosed since no market price is available and it is extremely difficult to determine the fair value.

(*2) The Company recognized write-down of unlisted equity securities in an amount of ¥0 million (\$0 thousand) and ¥0 million for the years ended March 31, 2019 and 2018, respectively.

(*3) The fair value of investment in partnerships whose assets consist of securities such as unlisted equity securities whose fair value is extremely difficult to determine is not disclosed.

(Note 3) Repayment schedule of monetary receivables and securities with contractual maturities subsequent to March 31, 2019

March 31, 2019	Millions of yen					
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks (*1)	¥ 114,026	¥ -	¥ -	¥ -	¥ -	¥ -
Monetary claims bought	4,233	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	78,832	153,797	96,516	50,029	147,945	128,799
Japanese government bonds	51,000	65,900	22,500	4,000	3,000	15,500
Municipal bonds	14,649	47,299	40,038	30,774	65,225	46,714
Corporate bonds	8,218	9,513	11,563	6,127	5,803	43,752
Other	4,964	31,084	22,414	9,128	73,917	22,832
Loans and bills discounted (*2)	310,774	300,263	247,943	185,368	171,271	409,562
Total	¥ 507,865	¥ 454,060	¥ 344,459	¥ 235,398	¥ 319,216	¥ 538,362

March 31, 2019	Thousands of U.S. dollars					
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks (*1)	\$ 1,027,168	\$ -	\$ -	\$ -	\$ -	\$ -
Monetary claims bought	38,131	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	710,134	1,385,433	869,435	450,671	1,332,717	1,160,246
Japanese government bonds	459,418	593,640	202,684	36,032	27,024	139,627
Municipal bonds	131,961	426,078	360,670	277,218	587,559	420,808
Corporate bonds	74,029	85,694	104,161	55,193	52,274	394,126
Other	44,716	280,010	201,909	82,226	665,858	205,675
Loans and bills discounted (*2)	2,799,513	2,704,828	2,233,519	1,669,831	1,542,842	3,689,415
Total	\$ 4,574,948	\$ 4,090,262	\$ 3,102,954	\$ 2,120,511	\$ 2,875,560	\$ 4,849,671

(*1) Due from banks without maturity is shown under "Due in one year or less."

(*2) Loans and bills discounted as of March 31, 2019 do not include ¥27,170 million (\$244,752 thousand) of receivables such as those due from bankrupt, virtually bankrupt or potentially bankrupt borrowers since these are not certain when they can be collected or redeemed, and ¥64,644 million (\$582,325 thousand) of receivables without maturity.

(Note 4) Repayment schedule of bonds payable, borrowed money and other interest bearing liabilities subsequent to March 31, 2019

March 31, 2019	Millions of yen					
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	¥ 2,127,594	¥ 92,999	¥ 15,646	¥ -	¥ -	¥ -
Negotiable certificates of deposit	68,317	4,500	-	-	-	-
Payables under securities lending transactions	64,171	-	-	-	-	-
Borrowed money	8,500	3,500	4,900	-	-	-
Total	¥ 2,268,583	¥ 100,999	¥ 20,546	¥ -	¥ -	¥ -

March 31, 2019	Thousands of U.S. dollars					
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	\$19,165,786	\$ 837,753	\$ 140,942	\$ -	\$ -	\$ -
Negotiable certificates of deposit	615,413	40,536	-	-	-	-
Payables under securities lending transactions	578,065	-	-	-	-	-
Borrowed money	76,569	31,528	44,140	-	-	-
Total	\$20,435,843	\$ 909,818	\$ 185,082	\$ -	\$ -	\$ -

(*) Demand deposits are shown under “Due in one year or less” of deposits.

24. Derivatives

Derivative transactions to which hedge accounting is not applied

With respect to derivatives to which hedge accounting is not applied, contract amount or notional principal, fair value and related valuation gain or loss by transaction type at the balance sheet date and calculation method of the fair value were as follows. Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

Currency related derivatives

Currency related derivatives at March 31, 2019 and 2018 were as follows:

March 31, 2019	Millions of yen			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
OTC transactions:				
Forward foreign exchange contracts:				
Sold	¥ 77,579	¥ 100	¥ 318	¥ 318
Bought	6,206	99	6	6
Total			¥ 325	¥ 325

March 31, 2018	Millions of yen			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
OTC transactions:				
Forward foreign exchange contracts:				
Sold	¥ 84,733	¥ 42	¥ 376	¥ 376
Bought	965	42	(41)	(41)
Total			¥ 334	¥ 334

March 31, 2019	Thousands of U.S. dollars			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
OTC transactions:				
Forward foreign exchange contracts:				
Sold	\$ 698,846	\$ 900	\$ 2,864	\$ 2,864
Bought	55,904	891	54	54
Total			\$ 2,927	\$ 2,927

Notes: (1) Above transactions are stated at the fair value, and the related valuation gain (loss) are reported in the consolidated statements of income.

(2) The fair value is calculated using the discounted present value.

Equity securities related derivatives

Equity securities related derivatives at March 31, 2019 were as shown below. There was no equity securities related derivative at March 31, 2018.

March 31, 2019	Millions of yen			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Exchange-traded transactions:				
Stock index futures contracts:				
Sold	¥ 632	¥ -	¥ (3)	¥ (3)
Bought	-	-	-	-
Total			¥ (3)	¥ (3)

March 31, 2019	Thousands of U.S. dollars			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Exchange-traded transactions:				
Stock index futures contracts:				
Sold	\$ 5,693	\$ -	\$ (27)	\$ (27)
Bought	-	-	-	-
Total			\$ (27)	\$ (27)

Notes: (1) Above transactions are stated at the fair value, and the related valuation gain (loss) are reported in the consolidated statements of income.

(2) The fair value is the closing price on Osaka Exchange and other exchanges.

Debt securities related derivatives

Debt securities related derivatives at March 31, 2019 were as shown below. There was no debt securities related derivative at March 31, 2018.

March 31, 2019	Millions of yen			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Exchange-traded transactions:				
Bond futures contracts:				
Sold	¥ 4,598	¥ -	¥ -	¥ -
Bought	-	-	-	-
Total			¥ -	¥ -

March 31, 2019	Thousands of U.S. dollars			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Exchange-traded transactions:				
Stock index futures contracts:				
Sold	\$ 41,419	\$ -	\$ -	\$ -
Bought	-	-	-	-
Total			\$ -	\$ -

Notes: (1) Above transactions are stated at the fair value, and the related valuation gain (loss) are reported in the consolidated statements of income.

(2) The fair value is the closing price on Osaka Exchange and other exchanges.

Derivative transactions to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, contract amount or notional principal and fair value at the balance sheet date by transaction type and hedge accounting method and calculation method of the fair value were as follows. Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

Equity securities related derivatives

Equity securities related derivatives at March 31, 2019 were as shown below. There was no derivative transaction to which hedge accounting is applied at March 31, 2018.

Hedge accounting method	Transaction type	Major hedged item	Millions of yen		
			Contract amount		Fair value
			Total	Over one year	
Deferral hedge accounting	Equity forward contracts	Available-for-sale securities (Equity securities)			
	Sold		¥ 1,361	¥ -	¥ 391
	Bought		-	-	-
Total					¥ 391

March 31, 2019			Thousands of U.S. dollars		
			Contract amount		
Hedge accounting method	Transaction type	Major hedged item	Total	Over one year	Fair value
Deferral hedge accounting	Equity forward contracts	Available-for-sale securities (Equity securities)			
	Sold		\$ 12,260	\$ -	\$ 3,522
	Bought		-	-	-
Total					\$ 3,522

Notes: (1) In principle, the deferred hedge accounting is applied in accordance with the JICPA Industry Audit Committee Report No. 24 “Treatment of Accounting and Auditing concerning Application of Accounting Standard for Financial Instruments in Banking Industry” (February 13, 2002.)

(2) The fair value is the closing price on Osaka Exchange and other exchanges for exchange-traded transactions. For OTC transactions, the fair value is measured by the discounted present value, prices calculated by option pricing models or other method, or prices provided by counterparty financial institutions.

25. Amounts per Share

Amounts per share at March 31, 2019 and 2018 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2019	2018	2019
Net assets	¥ 602.01	¥ 581.32	\$ 5.4230
Net income:			
Basic	20.23	22.98	0.1822
Diluted	14.71	18.38	0.1325

Net income per share—basic and net income per share—diluted for the years ended March 31, 2019 and 2018 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income attributable to owners of parent —basic:	¥ 3,785	¥ 4,281	\$ 34,096
Amounts not attributed to common stock shareholders	113	112	1,017
O/W, dividends for preferred stock based on the resolution at the Board of Directors’ meeting	56	56	504
O/W, interim dividends for preferred stock	56	56	504
Net income attributable to common stock owners of parent	¥ 3,671	¥ 4,169	\$ 33,069
Average outstanding number of shares of common stock (Unit: thousand shares)	181,394	181,381	
Net income attributable to owners of parent —diluted:			
Adjustments to net income attributable to owners of parent	¥ 113	¥ 112	\$ 1,017
O/W, dividends for preferred stock class B	113	112	1,017
Increase in number of shares of common stock (Unit: thousand shares)	75,757	51,546	
O/W, preferred stock class B	75,757	51,546	

Net assets per share at March 31, 2019 and 2018 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total net assets	¥ 119,508	¥ 115,756	\$1,076,551
Amounts deducted from total net assets:	10,306	10,307	92,838
O/W, payment for preferred stock	10,000	10,000	90,081
O/W, dividends for preferred stock	56	56	504
O/W, non-controlling interests	250	250	2,252
Net assets attributable to common stock as of March 31, 2019 and 2018	¥ 109,201	¥ 105,449	\$ 983,704
Number of shares of common stock as of March 31, 2019 and 2018 used to calculate net assets per share (Unit: thousand shares)	181,393	181,396	

26. Subsequent Events

Transaction under common control

At the Board of Directors' meeting held on May 15, 2019, the Company resolved to merge its consolidated subsidiaries, FIDEA Information Systems INC. and The FIDEA Research Institute Corporation. It was also resolved that FIDEA Information Systems INC., the surviving company, would change its company name.

(1) Overview of the business combination

(i) Name of the company and description of the business

Name of the owing company: FIDEA Information Systems INC.

Description of the business: IT solution business, marketing of computer equipment and others

Name of the owned company: The FIDEA Research Institute Corporation

Description of the business: Regional policy consulting, corporate management consulting and others

(ii) Date of business combination

October 1, 2019 (Planned)

(iii) Legal form of the business combination

Absorption-type merger with FIDEA Information Systems INC. as the surviving company and The FIDEA Research Institute Corporation as the dissolving company

(iv) Company name after the business combination

FIDEA Information and Research Institute, Inc.

(v) Other matters

The Company conducted the business combination with the aim of expanding solution service line-up, promoting efficient use of management resources and strengthening comprehensive consulting function of the Group as a whole.

(2) Overview of the accounting treatment

For the accounting purposes, the transaction will be treated as a transaction under common control in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

27. Non-Consolidated Financial Statements of Shonai and Hokuto as of March 31, 2019 and 2018 and for the Years Then Ended

The Shonai Bank, Ltd.

**Non-Consolidated Balance Sheets
March 31, 2019 and 2018**

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets:			
Cash and due from banks	¥ 52,188	¥ 58,652	\$ 470,119
Monetary claims bought	1,933	1,923	17,412
Trading account securities	564	284	5,080
Money held in trust	10,905	10,500	98,234
Securities	384,352	381,800	3,462,318
Loans and bills discounted	901,782	940,744	8,123,430
Foreign exchange assets	987	1,455	8,891
Tangible fixed assets:			
Buildings	9,481	10,066	85,406
Land	6,182	6,466	55,688
Construction in progress	96	41	864
Other tangible fixed assets	1,434	1,609	12,917
Intangible fixed assets:			
Software	530	654	4,774
Other intangible fixed assets	68	68	612
Customers' liabilities for acceptances and guarantees	8,103	6,543	72,993
Other assets	16,394	23,495	147,680
Allowance for loan losses	(7,183)	(7,075)	(64,705)
Total assets	<u>¥ 1,387,823</u>	<u>¥ 1,437,236</u>	<u>\$ 12,501,783</u>

(Continued)

The Shonai Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liabilities:			
Deposits	¥ 1,177,210	¥ 1,224,322	\$ 10,604,540
Negotiable certificates of deposit	56,497	67,796	508,936
Payables under securities lending transactions	51,116	47,118	460,463
Borrowed money	16,900	15,100	152,238
Foreign exchange liabilities	16	0	144
Provision for bonuses for directors and other officers	10	-	90
Provision for retirement benefits	1,395	1,396	12,566
Provision for reimbursement of deposits	152	254	1,369
Provision for contingent loss	246	277	2,216
Deferred tax liabilities	3,533	4,048	31,825
Deferred tax liabilities for land revaluation	488	502	4,396
Acceptances and guarantees	8,103	6,543	72,993
Other liabilities	4,066	3,281	36,627
Total liabilities	<u>1,319,736</u>	<u>1,370,642</u>	<u>11,888,442</u>
Net assets:			
Common stock	8,500	8,500	76,569
Capital surplus	20,308	20,308	182,938
Retained earnings	24,485	23,339	220,565
Total shareholders' equity	<u>53,293</u>	<u>52,148</u>	<u>480,073</u>
Unrealized gain on available-for-sale securities	13,733	13,355	123,709
Revaluation reserve for land	1,059	1,090	9,539
Total valuation and translation adjustments	<u>14,793</u>	<u>14,445</u>	<u>133,258</u>
Total net assets	<u>68,087</u>	<u>66,594</u>	<u>613,341</u>
Total liabilities and net assets	<u>¥ 1,387,823</u>	<u>¥ 1,437,236</u>	<u>\$ 12,501,783</u>

(Concluded)

The Shonai Bank, Ltd.

Non-Consolidated Statements of Income
Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Income:			
Interest income:			
Interest on loans and discounts	¥ 11,315	¥ 11,884	\$ 101,927
Interest and dividends on securities	5,711	7,329	51,445
Other	24	21	216
Fees and commissions	3,913	4,015	35,249
Other operating income	900	833	8,107
Other income	1,602	2,101	14,431
Total income	<u>23,468</u>	<u>26,186</u>	<u>211,404</u>
Expenses:			
Interest expenses:			
Interest on deposits	439	926	3,954
Interest on negotiable certificates of deposit	16	33	144
Interest on payables under securities lending transactions	286	194	2,576
Interest on borrowings and rediscounts	73	73	657
Other	2	2	18
Fees and commissions	2,327	2,370	20,962
Other operating expenses	2,875	3,052	25,898
General and administrative expenses	14,062	14,953	126,673
Other expenses	2,005	1,981	18,061
Total expenses	<u>22,089</u>	<u>23,633</u>	<u>198,982</u>
Income before income taxes	<u>1,378</u>	<u>2,552</u>	<u>12,413</u>
Income taxes:			
Current	413	1,119	3,720
Deferred	(694)	53	(6,251)
Total income taxes	<u>(281)</u>	<u>1,172</u>	<u>(2,531)</u>
Net income	<u>¥ 1,659</u>	<u>¥ 1,379</u>	<u>\$ 14,944</u>

The Hokuto Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2019 and 2018

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Assets:			
Cash and due from banks	¥ 93,785	¥ 97,506	\$ 844,833
Monetary claims bought	1,001	964	9,017
Trading account securities	30	18	270
Money held in trust	2,175	3,502	19,592
Securities	365,437	362,754	3,291,928
Loans and bills discounted	832,774	811,973	7,501,792
Foreign exchange assets	748	689	6,738
Tangible fixed assets:			
Buildings	5,058	5,329	45,563
Land	7,320	7,802	65,940
Lease assets	11	1	99
Construction in progress	1	-	9
Other tangible fixed assets	651	681	5,864
Intangible fixed assets:			
Software	350	812	3,152
Other intangible fixed assets	62	62	558
Prepaid pension cost	345	561	3,107
Deferred tax assets	775	1,345	6,981
Customers' liabilities for acceptances and guarantees	15,540	15,490	139,987
Other assets	35,928	36,727	323,646
Allowance for loan losses	(5,159)	(5,303)	(46,473)
Total assets	<u>¥ 1,356,840</u>	<u>¥ 1,340,922</u>	<u>\$ 12,222,682</u>

(Continued)

The Hokuto Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2019 and 2018

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Liabilities:			
Deposits	¥ 1,221,350	¥ 1,209,429	\$11,002,161
Negotiable certificates of deposit	19,320	36,347	174,038
Payables under securities lending transactions	13,054	13,659	117,593
Borrowed money	2,500	2,500	22,520
Foreign exchange liabilities	-	51	-
Provision for bonuses for directors and other officers	10	-	90
Provision for retirement benefits	11	-	99
Provision for reimbursement of deposits	471	508	4,242
Provision for contingent loss	102	142	918
Deferred tax liabilities for land revaluation	1,013	1,060	9,125
Acceptances and guarantees	15,540	15,490	139,987
Other liabilities	23,508	3,624	211,764
Total liabilities	1,296,882	1,282,813	11,682,569
Net assets:			
Common stock	12,500	12,500	112,602
Capital surplus	19,999	19,999	180,154
Retained earnings	18,575	17,661	167,327
Total shareholders' equity	51,075	50,161	460,093
Unrealized gain on available-for-sale securities	6,501	5,779	58,562
Deferred gain on hedges	272	-	2,450
Revaluation reserve for land	2,109	2,168	18,998
Total valuation and translation adjustments	8,882	7,947	80,010
Total net assets	59,958	58,108	540,113
Total liabilities and net assets	¥ 1,356,840	¥ 1,340,922	\$12,222,682

(Concluded)

The Hokuto Bank, Ltd.

Non-Consolidated Statements of Income
Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Income:			
Interest income:			
Interest on loans and discounts	¥ 9,895	¥ 10,345	\$ 89,136
Interest and dividends on securities	4,641	5,420	41,807
Other	1	13	9
Fees and commissions	4,142	3,870	37,311
Other operating income	2,820	1,552	25,403
Other income	1,188	1,807	10,701
Total income	<u>22,690</u>	<u>23,009</u>	<u>204,396</u>
Expenses:			
Interest expenses:			
Interest on deposits	283	543	2,549
Interest on negotiable certificates of deposit	9	15	81
Interest on payables under securities lending transactions	269	407	2,423
Interest on borrowings and rediscounts	36	58	324
Other	0	0	0
Fees and commissions	1,728	1,675	15,566
Other operating expenses	2,485	2,722	22,385
General and administrative expenses	13,824	14,131	124,529
Other expenses	2,023	1,326	18,223
Total expenses	<u>20,659</u>	<u>20,881</u>	<u>186,100</u>
Income before income taxes	<u>2,031</u>	<u>2,127</u>	<u>18,295</u>
Income taxes:			
Current	430	348	3,873
Deferred	88	(35)	792
Total income taxes	<u>519</u>	<u>312</u>	<u>4,675</u>
Net income	<u>¥ 1,512</u>	<u>¥ 1,815</u>	<u>\$ 13,620</u>