



# **Annual Securities Report**

*“Yukashoken Hokokusho”*

(Excerpt)

For the fiscal years ended March 31, 2020 and 2019

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

# Message from the President and CEO

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Dear Shareholders and Investors,

On behalf of the FIDEA Group, I would like to express my sincere gratitude for your continued interest and support for all of us, including the Shonai Bank, Ltd. and the Hokuto Bank, Ltd.

I would also like to extend my sincere sympathy to those affected by the Novel Coronavirus (COVID-19), and my cordial thanks to the healthcare professionals who are on the frontline of this pandemic.

We, the FIDEA Group, are a region-wide financial group serving customers and communities extensively across the prefectural border between Akita and Yamagata. This unique organizational structure derived from our wide operating base gives us distinctive advantages to our services, to begin with, capabilities to offer substantial amount of information. In addition, we assign seasoned professionals dedicated to each division so as to deepen their expertise, and as a result, to contribute to our business. Also, our Open Platform Strategy enables us to promote the growth potential through streamlining as well as enhanced productivity. With these advantages and our customer-first principles, we will earnestly strive to meet our customers' needs and the needs of our communities.

Our home ground, Tohoku region, has been challenged by structural problems such as a declining and aging population. On top of that, the aftermath of the recent COVID-19 crisis will inevitably undermine the local economy even further.

It is under these adverse circumstances that we announced our Fourth Medium-term Management Plan, FY2020-2022. Our group's mission is to be a reliable consulting bank with a fountain of wisdom that can take care of the needs of our valued customers.

Firstly, to strengthen the top-line profit, we will fully enforce the consulting operations and enhance our earning power. Secondly, we will further accelerate cost reduction through the intra-group synergies by integrating clerical operations and branch locations.

At the same time, with expansion of the non-face-to-face services and the rearrangement of the branch network, we will improve the efficiency of the operation. We also put emphasis on personnel training to facilitate our staff's ability to provide solutions that meet financial needs for both corporate and retail clients.

Using the sustainable business models that can respond to the ever-changing needs and actions of customers and rapidly changing business environment, we will continue contributing to our customers and regional economies.

August 2020  
Yuichi Tao  
President and CEO  
FIDEA Holdings Co. Ltd.

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Balance Sheets March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets:			
Cash and due from banks (Notes 11, 19 and 23)	¥ 148,358	¥ 146,336	\$ 1,363,208
Monetary claims bought (Note 23)	4,145	4,233	38,086
Trading account securities (Notes 5 and 23)	230	595	2,113
Money held in trust (Notes 6 and 23)	20,996	13,081	192,924
Securities (Notes 5, 6, 11, 13 and 23)	739,251	749,874	6,792,713
Loans and bills discounted (Notes 7, 22 and 23)	1,697,947	1,716,998	15,601,828
Foreign exchange assets (Note 23)	1,838	1,736	16,888
Lease receivables and investments in leases	3,781	3,418	34,742
Tangible fixed assets (Note 8):			
Buildings	14,565	14,894	133,832
Land	9,694	10,212	89,074
Lease assets	90	136	826
Construction in progress	253	98	2324
Other tangible fixed assets	2,065	2,238	18,974
Intangible fixed assets:			
Software	2,223	1,544	20,426
Goodwill	104	134	955
Other intangible fixed assets	163	171	1,497
Defined benefit asset (Note 12)	388	112	3,565
Deferred tax assets (Note 20)	2,558	1,156	23,504
Customers' liabilities for acceptances and guarantees (Note 22)	21,575	23,626	198,244
Other assets (Note 11)	57,215	55,005	525,728
Allowance for loan losses (Notes 7 and 23)	(12,461)	(14,310)	(114,499)
Total assets	<u>¥ 2,714,985</u>	<u>¥ 2,731,298</u>	<u>\$ 24,947,027</u>

(Continued)

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Balance Sheets March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Liabilities:			
Deposits (Note 23)	¥ 2,390,297	¥ 2,394,711	\$ 21,963,585
Negotiable certificates of deposit (Note 23)	74,039	72,817	680,317
Call money and bills sold (Notes 11 and 23)	11,427	-	104,998
Payables under securities lending transactions (Notes 11 and 23)	66,106	64,171	607,424
Borrowed money (Notes 10, 11 and 23)	13,900	16,900	127,722
Foreign exchange liabilities (Note 23)	9	16	82
Provision for bonuses for directors and other officers	-	30	-
Defined benefit liability (Note 12)	1,944	2,434	17,862
Provision for reimbursement of deposits	394	623	3,620
Provision for contingent loss	409	348	3,758
Other provisions	14	15	128
Deferred tax liabilities (Notes 6 and 20)	1,979	3,297	18,184
Deferred tax liabilities for land revaluation (Note 9)	480	488	4,410
Acceptances and guarantees	21,575	23,626	198,244
Other liabilities (Note 10)	20,606	32,309	189,341
<b>Total liabilities</b>	<b>2,603,185</b>	<b>2,611,789</b>	<b>23,919,737</b>
Net assets (Note 14):			
Common stock	18,000	18,000	165,395
Capital surplus	29,197	29,261	268,280
Retained earnings	51,398	51,248	472,277
Treasury stock	(5)	(5)	(45)
<b>Total shareholders' equity</b>	<b>98,590</b>	<b>98,504</b>	<b>905,908</b>
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 6)	11,865	20,252	109,023
Deferred gain on hedges	173	272	1,589
Revaluation reserve for land (Note 9)	1,054	1,059	9,684
Remeasurements of defined benefit plans	(167)	(829)	(1,534)
<b>Total accumulated other comprehensive income</b>	<b>12,926</b>	<b>20,754</b>	<b>118,772</b>
Non-controlling interests	283	250	2,600
<b>Total net assets</b>	<b>111,800</b>	<b>119,508</b>	<b>1,027,290</b>
<b>Total liabilities and net assets</b>	<b>¥ 2,714,985</b>	<b>¥ 2,731,298</b>	<b>\$ 24,947,027</b>

See notes to consolidated financial statements.

(Concluded)

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Statements of Income Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 19,998	¥ 20,978	\$ 183,754
Interest and dividends on securities	9,727	10,355	89,377
Other	29	26	266
Fees and commissions	8,287	8,680	76,146
Other operating income	10,105	6,113	92,851
Other income	2,838	2,781	26,077
Total income	<u>50,988</u>	<u>48,935</u>	<u>468,510</u>
Expenses:			
Interest expenses:			
Interest on deposits	460	748	4,226
Interest on payables under securities lending transactions	309	555	2,839
Interest on borrowings and rediscounts	0	73	0
Other	4	5	36
Fees and commissions	3,695	3,632	33,952
Other operating expenses	10,780	6,805	99,053
General and administrative expenses (Note 15)	27,775	28,709	255,214
Provision of allowance for loan losses	1,168	488	10,732
Other expenses (Notes 16 and 17)	4,329	3,616	39,777
Total expenses	<u>48,523</u>	<u>44,635</u>	<u>445,860</u>
Income before income taxes	<u>2,464</u>	<u>4,300</u>	<u>22,640</u>
Income taxes (Note 20):			
Current	460	1,014	4,226
Deferred	682	(517)	6,266
Total income taxes	<u>1,142</u>	<u>497</u>	<u>10,493</u>
Net income	1,321	3,802	12,138
Net income (loss) attributable to non-controlling interests	<u>(25)</u>	<u>17</u>	<u>(229)</u>
Net income attributable to owners of parent	<u>¥ 1,346</u>	<u>¥ 3,785</u>	<u>\$ 12,367</u>
		Yen	U.S. dollars
Per share of common stock (Note 25):			
Basic net income	¥ 6.79	¥ 20.23	\$ 0.0623
Diluted net income	4.58	14.71	0.0420
Cash dividends applicable to the year	6.00	6.00	0.0551

See notes to consolidated financial statements.

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Statements of Comprehensive Income Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net income	¥ 1,321	¥ 3,802	\$ 12,138
Other comprehensive income (loss) (Note 18):			
Unrealized gain (loss) on available-for-sale securities	(8,391)	1,068	(77,101)
Deferred gain (loss) on hedges	(98)	272	(900)
Remeasurements of defined benefit plans	662	(185)	6,082
Total other comprehensive income (loss)	<u>(7,826)</u>	<u>1,154</u>	<u>(71,910)</u>
Comprehensive income (loss)	<u>¥ (6,505)</u>	<u>¥ 4,957</u>	<u>\$ (59,772)</u>
Total comprehensive income (loss) attributable to:			
Owners of parent	¥ (6,474)	¥ 4,954	\$ (59,487)
Non-controlling interests	(31)	2	(284)

See notes to consolidated financial statements.

**FIDEA Holdings Co. Ltd. and Subsidiaries**
**Consolidated Statements of Changes in Net Assets  
Years Ended March 31, 2020 and 2019**

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
Balance as of April 1, 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
Cash dividends			(1,201)		(1,201)							(1,201)
Net income attributable to owners of parent			1,346		1,346							1,346
Acquisition of treasury stock				(0)	(0)							(0)
Change in scope of consolidation		(63)			(63)							(63)
Reversal of revaluation reserve for land			4		4							4
Net changes of items other than shareholders' equity						(8,386)	(98)	(4)	662	(7,827)	33	(7,793)
Balance as of March 31, 2020	¥ 18,000	¥ 29,197	¥ 51,398	¥ (5)	¥ 98,590	¥ 11,865	¥ 173	¥ 1,054	¥ (167)	¥ 12,926	¥ 283	¥ 111,800

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
Balance as of March 31, 2019	\$ 165,395	\$ 268,868	\$ 470,899	\$ (45)	\$ 905,118	\$ 186,088	\$ 2,499	\$ 9,730	\$ (7,617)	\$ 190,701	\$ 2,297	\$1,098,116
Cash dividends			(11,035)		(11,035)							(11,035)
Net income attributable to owners of parent			12,367		12,367							12,367
Acquisition of treasury stock				(0)	(0)							(0)
Change in scope of consolidation		(578)			(578)							(578)
Reversal of revaluation reserve for land			36		36							36
Net changes of items other than shareholders' equity						(77,055)	(900)	(36)	6,082	(71,919)	303	(71,607)
Balance as of March 31, 2020	\$ 165,395	\$ 268,280	\$ 472,277	\$ (45)	\$ 905,908	\$ 109,023	\$ 1,589	\$ 9,684	\$ (1,534)	\$ 118,772	\$ 2,600	\$1,027,290

See notes to consolidated financial statements.

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Statements of Cash Flows Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating activities:			
Income before income taxes	¥ 2,464	¥ 4,300	\$ 22,640
Adjustments for:			
Income taxes—paid	(379)	(1,805)	(3,482)
Depreciation and amortization	2,007	2,568	18,441
Loss on impairment—fixed assets	309	692	2,839
Amortization of goodwill	29	14	266
Gain on step acquisitions	-	(31)	-
Change in allowance for loan losses	(1,848)	(100)	(16,980)
Change in provision for bonuses for directors and other officers	(30)	30	(275)
Change in defined benefit asset	(52)	227	(477)
Change in defined benefit liability	218	10	2,003
Change in provision for reimbursement of deposits	(229)	(139)	(2,104)
Change in provision for contingent loss	61	(71)	560
Change in other provisions	(1)	(2)	(9)
Interest income	(29,756)	(31,360)	(273,417)
Interest expenses	773	1,384	7,102
(Gain) loss on securities—net	501	(751)	4,603
Loss (gain) on money held in trust—net	498	487	4,575
Foreign exchange (gain) loss—net	3	(3)	27
Loss on sale and disposal of fixed assets—net	30	120	275
Loss on reduction of non-current assets	67	-	615
Net change in loans and bills discounted	19,051	21,368	175,052
Net change in deposits	(4,414)	(34,394)	(40,558)
Net change in negotiable certificates of deposit	1,222	(27,025)	11,228
Net change in trading account securities	364	(292)	3,344
Net change in borrowed money, excluding subordinated borrowings	2,000	1,800	18,377
Net change in due from banks, excluding due from Bank of Japan	(1,083)	(1,171)	(9,951)
Net change in call loans and bills bought	87	(112)	799
Net change in call money and bills sold	11,427	-	104,998
Net change in payables under securities lending transactions	1,934	3,392	17,770
Net change in foreign exchange assets	(102)	409	(937)
Net change in foreign exchange liabilities	(6)	(36)	(55)
Net change in lease receivables and investments in leases	(363)	(3,418)	(3,335)
Interest received	30,451	32,036	279,803
Interest paid	(1,041)	(1,853)	(9,565)
Other—net	11,337	(1,630)	104,171
Total adjustments	43,072	(39,657)	395,773
Net cash provided by (used in) operating activities — (Forward)	¥ 45,536	¥ (35,357)	\$ 418,414

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## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Statements of Cash Flows Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net cash provided by (used in) operating activities — (Forward)	¥ 45,536	¥ (35,357)	\$ 418,414
Investing activities:			
Purchase of securities	(512,637)	(433,930)	(4,710,438)
Proceeds from sales of securities	378,271	358,021	3,475,797
Proceeds from maturity of securities	106,698	103,648	980,409
Increase in money held in trust	(11,738)	(8,000)	(107,856)
Decrease in money held in trust	3,245	8,424	29,817
Purchase of tangible fixed assets	(1,057)	(837)	(9,712)
Proceeds from sales of tangible fixed assets	205	199	1,883
Purchase of intangible fixed assets	(1,317)	(742)	(12,101)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(1,175)	-
Net cash provided by (used in) investing activities	<u>(38,329)</u>	<u>25,607</u>	<u>(352,191)</u>
Financing activities:			
Repayment of subordinated borrowings	(5,000)	-	(45,943)
Repayment of lease obligations	(65)	(66)	(597)
Dividends paid	(1,200)	(1,197)	(11,026)
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	-	0	-
Net cash used in financing activities	<u>(6,266)</u>	<u>(1,265)</u>	<u>(57,576)</u>
Effect of exchange rate change on cash and cash equivalents	<u>(3)</u>	<u>3</u>	<u>(27)</u>
Net (decrease) increase in cash and cash equivalents	937	(11,011)	8,609
Cash and cash equivalents at the beginning of year	143,132	154,143	1,315,188
Cash and cash equivalents at the end of year (Note 19)	<u>¥ 144,070</u>	<u>¥ 143,132</u>	<u>\$ 1,323,807</u>

See notes to consolidated financial statements.

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

### **Notes to Consolidated Financial Statements Years Ended March 31, 2020 and 2019**

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#### **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 ¥108.83 = U.S.\$1.00, the exchange rate prevailing on March 31, 2020. 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 6 subsidiaries (collectively the “Group”) as of March 31, 2020 (7 subsidiaries as of March 31, 2019).

As stated in Note 4, on October 1, 2019, an absorption-type merger was concluded between the Company’s consolidated subsidiaries: FIDEA Information Systems INC. as the surviving company and the FIDEA Research Institute Corporation as the dissolving company. In addition, FIDEA Information Systems INC. changed its company name to FIDEA Information and Research Institute, Inc.

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, 2020 and 2019.

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 6 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, in principle, an allowance is provided based on the expected loan loss amount over the next one year or three years. The consolidated banking subsidiaries estimate the loan loss ratio by taking the average of historical loan loss ratio over a certain period of time based on their past loan loss experience over one year or three years. While applying the loan loss ratio, the consolidated banking subsidiaries make necessary adjustments such as future projections in order to determine the expected loan loss amount.

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 ¥12,501 million (\$114,867 thousand) and ¥12,157 million for the years ended March 31, 2020 and 2019, 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.

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 standards and guidance issued but not yet applied**

##### **(Accounting standard and guidance for revenue recognition)**

- “Accounting Standard for Revenue Recognition” (the Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

##### **(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 the IASB and Topic 606 by the 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, the 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, the 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 guidance effective from the fiscal year beginning on April 1, 2021.

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

**(Accounting standards and guidance for fair value measurement)**

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(i) Overview

The IASB and the FASB provide detailed guidance on fair value measurement that is almost identical (IFRS 13 “Fair Value Measurement” by the IASB and Topic 820 of Accounting Standards Codification “Fair Value Measurement” by the FASB).

Under these circumstances, the ASBJ issued accounting standards such as “Accounting Standard for Fair Value Measurement” to harmonize Japanese GAAP with international accounting standards, mainly for guidance and disclosure of the fair value of financial instruments.

As a basic policy for the development of the new standard, the ASBJ incorporated all the provisions of IFRS 13 to improve the comparability of financial statements between domestic and foreign companies by using a uniform method of the measurement. Further, in consideration of the practices that have been taken in Japan, other treatments for individual items are to be prescribed to the extent that they do not significantly impair comparability between financial statements.

(ii) Scheduled date of application

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

(iii) Effect from the application of the new accounting standards and implementation guidance

The effect from the application of the new accounting standards and implementation guidance on the Company’s consolidated financial statements has not yet clarified.

**(18) Additional information**

The COVID-19 pandemic may give a certain impact mainly on the credit risk associated with loans and bills discounted. While assuming the economic impact of the COVID-19 pandemic would continue over the next year or so, the Company determines the allowance for loan losses based on assumptions that the risk would be controlled to some extent by government’s and local governments’ economic stimulus measures and financial institutions’ supports.

Although the Company estimates the allowance by taking all possible events into account based on information available as of March 31, 2020, there is a high degree of uncertainty in the assumptions used in the estimate under the current economic environment. If the status of the pandemic, its duration, and the impact on the economy and other factors would change, the amounts of allowance for loan losses in the consolidated financial statements may increase or decrease for the year ending March 31, 2021, and thereafter.

**4. Business Combination**

*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. The two companies were merged effective October 1, 2019.

(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
- (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 was 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).
- (3) Matters related to changes in equity interest due to a transaction with non-controlling interests
  - (i) Major factor of changes in capital surplus  
Changes in equity interest due to a merger between subsidiaries
  - (ii) Capital surplus decreased due to transaction with non-controlling interest  
¥75 million (\$689 thousand)

## 5. Securities

Gain and loss from revaluation of trading account securities included in the consolidated statements of income was ¥(2) million (\$18 thousand) and ¥2 million for the years ended March 31, 2020 and 2019, respectively.

Securities at March 31, 2020 and 2019 consisted of the following:

March 31, 2020	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	¥ 8,985	¥ 4,246	¥ 4,738
Debt securities:	384,490	375,620	8,869
Japanese government bonds	109,051	107,098	1,953
Municipal bonds	198,561	193,583	4,978
Corporate bonds	76,876	74,938	1,937
Other	146,880	133,485	13,395
Subtotal	¥ 540,356	¥ 513,352	¥ 27,003
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 2,522	¥ 3,087	¥ (565)
Debt securities:	98,535	99,551	(1,015)
Japanese government bonds	12,531	12,734	(202)
Municipal bonds	61,854	62,415	(560)
Corporate bonds	24,149	24,401	(252)
Other	93,762	102,117	(8,354)
Subtotal	¥ 194,820	¥ 204,756	¥ (9,936)
Total	¥ 735,177	¥ 718,109	¥ 17,067

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

As of March 31, 2020 and 2019, ¥400 million (\$3,675 thousand) and ¥330 million of capital investment in unconsolidated subsidiaries were included in the balance of securities, respectively.

March 31, 2020	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	\$ 82,559	\$ 39,014	\$ 43,535
Debt securities:	3,532,941	3,451,438	81,494
Japanese government bonds	1,002,030	984,085	17,945
Municipal bonds	1,824,506	1,778,765	45,741
Corporate bonds	706,386	688,578	17,798
Other	1,349,627	1,226,545	123,081
Subtotal	\$ 4,965,138	\$ 4,717,008	\$ 248,120
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	\$ -	\$ -	\$ -
Available-for-sale securities:			
Equity securities	\$ 23,173	\$ 28,365	\$ (5,191)
Debt securities:	905,402	914,738	(9,326)
Japanese government bonds	115,142	117,008	(1,856)
Municipal bonds	568,354	573,509	(5,145)
Corporate bonds	221,896	224,212	(2,315)
Other	861,545	938,316	(76,761)
Subtotal	\$ 1,790,131	\$ 1,881,429	\$ (91,298)
Total	\$ 6,755,278	\$ 6,598,447	\$ 156,822

Available-for-sale securities sold for the years ended March 31, 2020 and 2019 were as follows:

March 31, 2020	Millions of yen		
	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 16,892	¥ 1,772	¥ 1,411
Debt securities:	124,785	1,153	165
Japanese government bonds	68,893	1,020	135
Municipal bonds	53,380	131	29
Corporate bonds	2,511	1	-
Other	237,193	5,430	7,415
Total	¥ 378,870	¥ 8,355	¥ 8,991

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, 2020	Thousands of U.S. dollars		
	Sales proceeds	Realized gain	Realized loss
Equity securities	\$ 155,214	\$ 16,282	\$ 12,965
Debt securities:	1,146,604	10,594	1,516
Japanese government bonds	633,033	9,372	1,240
Municipal bonds	490,489	1,203	266
Corporate bonds	23,072	9	-
Other	2,179,481	49,894	68,133
Total	<u>\$ 3,481,301</u>	<u>\$ 76,771</u>	<u>\$ 82,615</u>

### 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, 2020, ¥62 million (\$569 thousand) of available-for sale securities were written down. Of which, equity securities were ¥62 million (\$569 thousand). For the year ended March 31, 2019, no available-for-sale securities were written down.

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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized gain:	¥ 17,067	¥ 29,133	\$ 156,822
Available-for-sale securities	17,067	29,133	156,822
Money held in trust	-	-	-
Deferred tax liabilities	(5,192)	(8,866)	(47,707)
Unrealized gain on available-for-sale securities before adjustments by equity interest:	11,875	20,266	109,115
Non-controlling interests	(10)	(14)	(91)
Unrealized gain on available-for-sale securities	<u>¥ 11,865</u>	<u>¥ 20,252</u>	<u>\$ 109,023</u>

### 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, 2020 and 2019 amounted to ¥4,067 million (\$37,370 thousand) and ¥5,739 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 ¥281,284 million (\$2,584,618 thousand) and ¥301,245 million at March 31, 2020 and 2019, respectively, including the contracts whose contractual periods were either less than one year or revocable at any time, in the amount of ¥266,690 million (\$2,450,519 thousand) and ¥284,395 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans to bankrupt borrowers	¥ 1,175	¥ 1,366	\$ 10,796
Delinquent loans	24,065	25,812	221,124
Loans past due for 3 months or more	-	-	-
Restructured loans	2,726	3,149	25,048
Total	<u>¥ 27,966</u>	<u>¥ 30,328</u>	<u>\$ 256,969</u>

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, 2020 and 2019, accumulated depreciation of tangible fixed assets was ¥32,508 million (\$298,704 thousand) and ¥33,508 million, respectively.

The amounts of advanced depreciation by reduction of carrying amount of assets as of and for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance as of the fiscal year-end	¥ 1,206	¥ 1,147	\$ 11,081
Amount applicable for the year	67	-	615

## 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, 2020 and 2019 was ¥1,377 million (\$12,652 thousand) and ¥1,397 million, respectively.

## 10. Borrowed Money and Lease Obligations

Borrowed money and lease obligations at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	Maturity
	2020	2019	2020	(%)	
Borrowed money	¥ 13,900	¥ 16,900	\$ 127,722	0.00	Apr. 2020 through Mar. 2024
Current portion of lease obligations	53	63	486	0.95	-
Lease obligations, less current portion	77	115	707	1.05	Apr. 2021 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, 2020 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	¥ 800	¥ 2,200	¥ 4,800	¥ 6,100	¥ -
Lease obligations	53	45	20	10	1

	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	\$ 7,350	\$ 20,215	\$ 44,105	\$ 56,050	\$ -
Lease obligations	486	413	183	91	9

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

## 11. Assets Pledged

Assets pledged as collateral at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities	¥ 82,560	¥ 77,316	\$ 758,614

The liabilities secured by the above pledged assets at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Payables under securities lending transactions	¥ 66,106	¥ 64,171	\$ 607,424
Borrowed money	13,900	11,900	127,722

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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities	¥ 221,255	¥ 123,782	\$ 2,033,033
Cash and due from banks	8	8	73
Other assets	42,966	42,000	394,799

Note: Other assets include guarantee deposits in the amount of ¥515 million (\$4,732 thousand) and ¥552 million at March 31, 2020 and 2019, respectively.

## 12. Retirement Benefit Plans

The consolidated banking subsidiaries of the Company have a defined contribution plan as well as a corporate pension plan and a lump-sum payment plan, as defined benefit plans. In addition, additional retirement allowance may be paid to employees when they retire. Further, a retirement benefit trust is established for the lump-sum payment plan of Hokuto, a consolidated banking subsidiary of the Company.

On April 1, 2020, the Company and its consolidated banking subsidiaries unified the comprehensive retirement plan and adopted the point system under which certain points are given based on the functional classes and titles and employees are entitled to lump-sum payments based on the accumulated points at the time of the termination multiplied by unit price by point.

Certain consolidated subsidiaries other than the consolidated banking subsidiaries have lump-sum payment plans as defined benefit pension plans, and adopt the simplified method in calculating defined benefit liability and retirement benefit expenses.

*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
	2020	2019	2020
Retirement benefit obligations at beginning of year	¥ 13,497	¥ 13,683	\$ 124,019
Service costs	463	481	4,254
Interest costs	1	11	9
Actuarial gains and losses arising during year	(27)	88	(248)
Retirement benefits paid	(944)	(768)	(8,674)
Past service costs arising during year	(1,087)	-	(9,988)
Retirement benefit obligations at end of year	¥ 11,902	¥ 13,497	\$ 109,363

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at beginning of year	¥ 11,175	¥ 11,766	\$ 102,683
Expected return on plan assets	144	151	1,323
Actuarial gains and losses	(258)	(205)	(2,370)
Contribution from employer	106	112	973
Retirement benefits paid	(821)	(649)	(7,543)
Plan assets at end of year	¥ 10,346	¥ 11,175	\$ 95,065

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
	2020	2019	2020
Funded retirement benefit obligation	¥ 10,353	¥ 11,583	\$ 95,130
Plan assets	(10,346)	(11,175)	(95,065)
	6	407	55
Unfunded retirement benefit obligation	1,549	1,913	14,233
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 1,556	¥ 2,321	\$ 14,297

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Defined benefit liability	¥ 1,944	¥ 2,434	\$ 17,862
Defined benefit asset	(388)	(112)	(3,565)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 1,556	¥ 2,321	\$ 14,297

Note: Retirement benefit trust is included in plan assets.

(4) Retirement benefit expenses and components thereof

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service costs	¥ 463	¥ 481	\$ 4,254
Interest costs	1	11	9
Expected return on plan assets	(144)	(151)	(1,323)
Amortization of actuarial gains and losses	113	79	1,038
Amortization of past service costs	-	(31)	-
Other	1	1	9
Retirement benefit expenses on defined benefit plans	¥ 434	¥ 390	\$ 3,987

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
	2020	2019	2020
Past service costs	¥ 1,087	¥ (31)	\$ 9,988
Actuarial gains and losses	(117)	(214)	(1,075)
Total	¥ 970	¥ (246)	\$ 8,912

(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
	2020	2019	2020
Unrecognized past service costs	¥ (1,087)	¥ -	\$ (9,988)
Unrecognized actuarial gains and losses	1,196	1,079	10,989
Total	¥ 109	¥ 1,079	\$ 1,001

(7) Components of plan assets

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

	2020	2019
Debt securities	46.0%	45.0%
Equity securities	19.9	28.9
Cash and deposits	8.4	3.4
Call loans	0.1	0.1
General account	7.2	6.6
Other	18.4	16.0
Total	100.0%	100.0%

Note: 30.9% and 31.1% of the total plan assets consisted of the retirement benefit trust established for the lump-sum payment plan as of March 31, 2020 and 2019, 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

	2020	2019
Discount rate	0.02% - 0.31%	0.00% - 0.04%
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%	3.64%

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, 2020 and 2019.

*Defined contribution pension plans*

The amounts to be contributed to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥150 million (\$1,378 thousand) and ¥160 million as of March 31, 2020 and 2019, 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 ¥17,206 million (\$158,099 thousand) and ¥11,461 million at March 31, 2020 and 2019, 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, 2020 and 2019 are summarized as follows:

	Number of shares (in thousands)				Ref.
	April 1, 2019	Increase	Decrease	March 31, 2020	
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	28	2	-	30	Note
Total	28	2	-	30	

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

	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.

### 15. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2020 and 2019 included the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and allowances	¥ 12,290	¥ 12,765	\$ 112,928
Retirement benefit expenses	584	550	5,366

### 16. Other Expenses

Other expenses for the years ended March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loss on sales of equity securities, etc.	¥ 1,978	¥ 1,342	\$ 18,175
Settlement money for unification of back office operational system	500	-	4,594
Loss on disposal of fixed assets	155	141	1,424
Impairment loss	309	692	2,839
Loss on reduction of non-current assets	67	-	615
Other	1,320	1,441	12,129
Total	¥ 4,329	¥ 3,616	\$ 39,777

## 17. Impairment Loss

For the years ended March 31, 2020 and 2019, 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, 2020

Category	Area	Main use	Description	Impairment loss	
				Millions of yen	Thousands of U.S. dollars
Business assets	Within Akita Prefecture	Banking office – 13 locations	Land and buildings	¥ 147	\$ 1,350
Business assets	Within Yamagata Prefecture	Banking office – six locations	Land and buildings	96	882
Business assets	Within Miyagi Prefecture	Banking office – two locations	Buildings	31	284
Idle assets	Within Yamagata Prefecture	Idle assets – two locations	Land and buildings	19	174
Idle assets	Within Akita Prefecture	Idle assets – three locations	Land	5	45
Assets held for sale	Within Yamagata Prefecture	Idle assets – one location	Land and buildings	9	82
Total				¥ 309	\$ 2,839

March 31, 2019

Category	Area	Main use	Description	Impairment loss	
				Millions of yen	
Business assets	Within Yamagata Prefecture	Banking office – six locations	Buildings	¥ 54	
Business assets	Within Akita Prefecture	Banking office – 17 locations	Land and buildings	94	
Business assets	Within Miyagi Prefecture	Banking office – eight locations	Land and buildings	185	
Business assets	Within Fukushima Prefecture	Banking office – two locations	Land and buildings	164	
Business assets	Within Tokyo Metropolitan area	Banking office – two locations	Buildings	54	
Idle assets	Within Yamagata Prefecture	Idle assets – one location	Land	80	
Idle assets	Within Akita Prefecture	Idle assets – four locations	Land and buildings	7	
Assets held for sale	Within Yamagata Prefecture	Employee housing – one location	Land and buildings	34	
Assets held for sale	Within Akita Prefecture	Banking office – one location	Land	15	
Total				¥ 692	

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 (Loss)

Reclassification adjustments and income tax effect for each component of other comprehensive income (loss) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥ (12,767)	¥ 2,287	\$ (117,311)
Reclassification adjustments	702	(752)	6,450
Before income tax effect	(12,065)	1,534	(110,860)
Income tax effect	3,674	(466)	33,759
Unrealized gain (loss) on available-for-sale securities	(8,391)	1,068	(77,101)
Deferred gain (loss) on hedges:			
Adjustments arising during the year	58	391	532
Reclassification adjustments	(200)	-	(1,837)
Before income tax effect	(141)	391	(1,295)
Income tax effect	43	(119)	395
Deferred gain (loss) on hedges	(98)	272	(900)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	856	(293)	7,865
Reclassification adjustments	113	47	1,038
Before income tax effect	970	(246)	8,912
Income tax effect	(307)	60	(2,820)
Remeasurements of defined benefit plans	662	(185)	6,082
Total other comprehensive income (loss)	¥ (7,826)	¥ 1,154	\$ (71,910)

### 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, 2020 and 2019 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and due from banks	¥ 148,358	¥ 146,336	\$1,363,208
Due from banks (excluding due from BoJ)	(4,287)	(3,204)	(39,391)
Cash and cash equivalents	¥ 144,070	¥ 143,132	\$1,323,807

## 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for loan losses	¥ 6,875	¥ 7,234	\$ 63,171
Defined benefit liability	1,726	2,026	15,859
Tax loss carryforwards	1,499	1,402	13,773
Depreciation	669	778	6,147
Write-down of securities	107	93	983
Other	1,257	1,199	11,550
Gross deferred tax assets	12,136	12,735	111,513
Valuation allowance	(5,726)	(5,308)	(52,614)
Total deferred tax assets	¥ 6,409	¥ 7,426	\$ 58,890
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (5,192)	¥ (8,866)	\$ (47,707)
Other	(638)	(700)	(5,862)
Total deferred tax liabilities	(5,830)	(9,566)	(53,569)
Net deferred tax assets (liabilities)	¥ 579	¥ (2,140)	\$ 5,320

Reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2020 and 2019 is shown as below.

	2020	2019
Normal effective statutory tax rate	30.57%	30.57%
Non-deductible expenses such as entertainment expenses	1.08	0.68
Non-taxable income such as dividend income	(26.90)	(21.09)
Per capita inhabitant tax	2.11	1.36
Valuation allowance	20.16	(17.82)
Consolidation adjustments	17.20	18.92
Other	2.15	(1.06)
Actual effective tax rate	46.37%	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

	Millions of yen			
March 31, 2020	Lending	Securities investment	Other	Total
Ordinary income from external customers	¥ 20,069	¥ 18,462	¥ 12,331	¥ 50,864

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

	Thousands of U.S. dollars			
March 31, 2020	Lending	Securities investment	Other	Total
Ordinary income from external customers	\$ 184,406	\$ 169,640	\$ 113,305	\$ 467,371

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, 2020 and 2019 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, 2020 and 2019 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, 2020 and 2019 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, 2020 and 2019 and for the years then ended are as follows:

2020									
Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2020
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 (\$1,130 thousand)	Loans and bills discounted	¥236 million (\$2,168 thousand)
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥935 million (\$8,591 thousand)	Loans and bills discounted	¥961 million (\$8,830 thousand)
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥500 million (\$4,594 thousand)	Loans and bills discounted	¥500 million (\$4,594 thousand)
	Okuyama Boring Co., Ltd. Note (3)	Yokote city, Akita Pref.	¥40	Construction	-	Lending	¥1,040 million (\$9,556 thousand)	Loans and bills discounted	¥1,198 million (\$11,007 thousand)
						Guarantee for liabilities	¥139 million (\$1,277 thousand)	Customers' liabilities for acceptances and guarantees	¥169 million (\$1,552 thousand)
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	Loans and bills discounted	¥74 million
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	Loans and bills discounted	¥63 million
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥952 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	¥305 million	Loans and bills discounted	¥500 million
	Ugo Setsubi Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥7 million	-	-
						Guarantee for liabilities	¥3 million	Customers' liabilities for acceptances and guarantees	¥1 million
	Ugo Densetsu Kogyo Co., Ltd. Note (5)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥20 million	-	-
						Guarantee for liabilities	¥98 million	Customers' liabilities for acceptances and guarantees	¥71 million
Ugo Hatsuhenden Koji Co., Ltd. Note (5)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥9 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 Renta Lease Akita Co., Ltd. is a subsidiary of Netz Toyota Akita Co., Ltd.

(3) Kazuhiko Okuyama, 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 Okuyama Boring Co., Ltd.

(4) 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.

(5) 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.

- (6) 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.
- (7) 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, 2020 and 2019.

## 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, 2020 and 2019 and for the years then ended was as follows:

	Billions of yen			
	2020			
	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:	34.6	64.6	29.2	59.9
Debt securities	7.2	12.1	5.0	12.2
Equity securities	7.1	7.1	6.1	5.6
Other	20.3	45.5	18.1	42.0

  

	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

Millions of U.S. dollars				
2020				
	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:	317.9	593.5	268.3	550.3
Debt securities	66.1	111.1	45.9	112.1
Equity securities	65.2	65.2	56.0	51.4
Other	186.5	418.0	166.3	385.9

- (\*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, 2020 and 2019 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, 2020	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 148,358	¥ 148,358	¥ -
Monetary claims bought (*1)	4,126	4,126	-
Trading account securities:			
Trading securities	230	230	-
Money held in trust	20,996	20,996	-
Securities:			
Available-for-sale securities	735,177	735,177	-
Loans and bills discounted:	1,697,947		
Allowance for loan losses (*1)	(12,244)		
	1,685,702	1,716,212	30,509
Foreign exchange assets (*1)	1,837	1,837	-
<b>Total assets</b>	<b>¥2,596,428</b>	<b>¥2,626,937</b>	<b>¥ 30,509</b>
Deposits	¥2,390,297	¥2,390,331	¥ 33
Negotiable certificates of deposit	74,039	74,040	0
Call money and bills sold	11,427	11,427	-
Payables under securities lending transactions	66,106	66,106	-
Borrowed money	13,900	13,900	-
Foreign exchange liabilities	9	9	-
<b>Total liabilities</b>	<b>¥2,555,779</b>	<b>¥2,555,814</b>	<b>¥ 34</b>
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ (260)	¥ (260)	¥ -
To which hedge accounting is applied	290	290	-
<b>Total derivative transactions</b>	<b>¥ 29</b>	<b>¥ 29</b>	<b>¥ -</b>

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	-
<b>Total assets</b>	<b>¥2,614,769</b>	<b>¥2,650,496</b>	<b>¥ 35,727</b>
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	-
<b>Total liabilities</b>	<b>¥2,548,616</b>	<b>¥2,548,667</b>	<b>¥ 51</b>
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ 322	¥ 322	¥ -
To which hedge accounting is applied	391	391	-
<b>Total derivative transactions</b>	<b>¥ 713</b>	<b>¥ 713</b>	<b>¥ -</b>

March 31, 2020	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Cash and due from banks	\$ 1,363,208	\$ 1,363,208	\$ -
Monetary claims bought (*1)	37,912	37,912	-
Trading account securities:			
Trading securities	2,113	2,113	-
Money held in trust	192,924	192,924	-
Securities:			
Available-for-sale securities	6,755,278	6,755,278	-
Loans and bills discounted:	15,601,828		
Allowance for loan losses (*1)	(112,505)		
	15,489,313	15,769,659	280,336
Foreign exchange assets (*1)	16,879	16,879	-
<b>Total assets</b>	<b>\$23,857,649</b>	<b>\$24,137,985</b>	<b>\$ 280,336</b>
Deposits	\$21,963,585	\$21,963,897	\$ 303
Negotiable certificates of deposit	680,317	680,327	0
Call money and bills sold	104,998	104,998	-
Payables under securities lending transactions	607,424	607,424	-
Borrowed money	127,722	127,722	-
Foreign exchange liabilities	82	82	-
<b>Total liabilities</b>	<b>\$23,484,140</b>	<b>\$23,484,462</b>	<b>\$ 312</b>
Derivative transactions (*2):			
To which hedge accounting is not applied	\$ (2,389)	\$ (2,389)	\$ -
To which hedge accounting is applied	2,664	2,664	-
<b>Total derivative transactions</b>	<b>\$ 266</b>	<b>\$ 266</b>	<b>\$ -</b>

(\*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.

#### *Call money and bills sold and 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
	2020	2019	2020
Unlisted equity securities (*1) (*2)	¥ 1,691	¥ 1,697	\$ 15,537
Investment in partnerships (*3)	2,382	2,198	21,887
Total	¥ 4,074	¥ 3,896	\$ 37,434

(\*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 ¥3 million (\$27 thousand) and ¥0 million for the years ended March 31, 2020 and 2019, 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, 2020

March 31, 2020	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)	¥ 113,944	¥ -	¥ -	¥ -	¥ -	¥ -
Monetary claims bought	4,145	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:						
Japanese government bonds	88,829	116,840	77,055	73,483	161,292	156,818
Municipal bonds	52,900	27,500	11,000	2,000	9,000	16,500
Corporate bonds	16,531	44,744	37,647	39,105	57,105	59,975
Other	5,093	9,386	13,670	6,981	2,700	61,473
Loans and bills discounted (*2)	14,304	35,209	14,738	25,395	92,486	18,868
Total	324,724	307,433	241,629	165,678	171,399	395,016
Total	¥ 531,645	¥ 424,274	¥ 318,685	¥ 239,161	¥ 332,692	¥ 551,834

March 31, 2020	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)	\$ 1,046,990	\$ -	\$ -	\$ -	\$ -	\$ -
Monetary claims bought	38,086	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	816,217	1,073,601	708,030	675,209	1,482,054	1,440,944
Japanese government bonds	486,079	252,687	101,075	18,377	82,697	151,612
Municipal bonds	151,897	411,136	345,924	359,321	524,717	551,088
Corporate bonds	46,797	86,244	125,608	64,145	24,809	564,853
Other	131,434	323,522	135,422	233,345	849,820	173,371
Loans and bills discounted (*2)	2,983,772	2,824,892	2,220,242	1,522,355	1,574,924	3,629,660
Total	\$ 4,885,096	\$ 3,898,502	\$ 2,928,282	\$ 2,197,565	\$ 3,056,987	\$ 5,070,605

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

(\*2) Loans and bills discounted as of March 31, 2020 do not include ¥25,232 million (\$231,847 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 ¥66,831 million (\$614,086 thousand) of receivables without maturity.

(Note 4) Repayment schedule of bonds payable, borrowed money and other interest bearing liabilities subsequent to March 31, 2020

March 31, 2020	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 (*)	¥ 2,120,353	¥ 86,652	¥ 18,773	¥ -	¥ -	¥ -
Negotiable certificates of deposit	71,369	2,670	-	-	-	-
Call money and bills sold	11,427	-	-	-	-	-
Payables under securities lending transactions	66,106	-	-	-	-	-
Borrowed money	800	7,000	6,100	-	-	-
Total	¥ 2,270,056	¥ 96,322	¥ 24,873	¥ -	¥ -	¥ -

March 31, 2020	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 (*)	\$ 19,483,166	\$ 796,214	\$ 172,498	\$ -	\$ -	\$ -
Negotiable certificates of deposit	655,784	24,533	-	-	-	-
Call money and bills sold	104,998	-	-	-	-	-
Payables under securities lending transactions	607,424	-	-	-	-	-
Borrowed money	7,350	64,320	56,050	-	-	-
Total	\$ 20,858,733	\$ 885,068	\$ 228,549	\$ -	\$ -	\$ -

(\*) 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, 2020 and 2019 were as follows:

March 31, 2020	Millions of yen			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
<b>OTC transactions:</b>				
Forward foreign exchange contracts:				
Sold	¥ 53,423	¥ -	¥ (239)	¥ (239)
Bought	10,905	-	(20)	(20)
<b>Total</b>			¥ (260)	¥ (260)

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

March 31, 2020	Thousands of U.S. dollars			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
<b>OTC transactions:</b>				
Forward foreign exchange contracts:				
Sold	\$ 490,884	\$ -	\$ (2,196)	\$ (2,196)
Bought	100,202	-	(183)	(183)
<b>Total</b>			\$ (2,389)	\$ (2,389)

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*

There was no equity securities related derivative at March 31, 2020. Equity securities related derivatives at March 31, 2019 were as follows:

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

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, 2020 and 2019 were as follows:

March 31, 2020	Millions of yen			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
<b>Exchange-traded transactions:</b>				
Bond futures contracts:				
Sold	¥ 457	¥ -	¥ -	¥ -
Bought	-	-	-	-
<b>Total</b>	/		¥ -	¥ -

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

March 31, 2020	Thousands of U.S. dollars			
	Contract amount		Fair value	Valuation gain (loss)
	Total	Over one year		
<b>Exchange-traded transactions:</b>				
Stock index futures contracts:				
Sold	\$ 4,199	\$ -	\$ -	\$ -
Bought	-	-	-	-
<b>Total</b>	/		\$ -	\$ -

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, 2020 and 2019 were as follows:

March 31, 2020			Millions of yen		
			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		¥ 1,228	¥ -	¥ 290
	Bought		-	-	-
<b>Total</b>					<b>¥ 290</b>

March 31, 2019			Millions of yen		
			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		¥ 1,361	¥ -	¥ 391
	Bought		-	-	-
<b>Total</b>					<b>¥ 391</b>

March 31, 2020			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		\$ 11,283	\$ -	\$ 2,664
	Bought		-	-	-
<b>Total</b>					<b>\$ 2,664</b>

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, 2020 and 2019 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2020	2019	2020
Net assets	¥ 559.34	¥ 602.01	\$ 5.1395
Net income:			
Basic	6.79	20.23	0.0623
Diluted	4.58	14.71	0.0420

Net income per share—basic and net income per share—diluted for the years ended March 31, 2020 and 2019 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income attributable to owners of parent —basic:	¥ 1,346	¥ 3,785	\$ 12,367
Amounts not attributed to common stock shareholders	113	113	1,038
O/W, dividends for preferred stock based on the resolution at the Board of Directors' meeting	56	56	514
O/W, interim dividends for preferred stock	56	56	514
Net income attributable to common stock owners of parent	¥ 1,233	¥ 3,671	\$ 11,329
Average outstanding number of shares of common stock (Unit: thousand shares)	181,391	181,394	
Net income attributable to owners of parent —diluted:			
Adjustments to net income attributable to owners of parent	¥ 113	¥ 113	\$ 1,038
O/W, dividends for preferred stock class B	113	113	1,038
Increase in number of shares of common stock (Unit: thousand shares)	112,359	75,757	
O/W, preferred stock class B	112,359	75,757	

Net assets per share at March 31, 2020 and 2019 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥ 111,800	¥ 119,508	\$1,027,290
Amounts deducted from total net assets:	10,340	10,306	95,010
O/W, payment for preferred stock	10,000	10,000	91,886
O/W, dividends for preferred stock	56	56	514
O/W, non-controlling interests	283	250	2,600
Net assets attributable to common stock as of March 31, 2020 and 2019	¥ 101,460	¥ 109,201	\$ 932,279
Number of shares of common stock as of March 31, 2020 and 2019 used to calculate net assets per share (Unit: thousand shares)	181,390	181,393	

## 26. Subsequent Events

None to report.

**27. Non-Consolidated Financial Statements of Shonai and Hokuto as of March 31, 2020 and 2019 and for the Years Then Ended**

**The Shonai Bank, Ltd.**

**Non-Consolidated Balance Sheets  
March 31, 2020 and 2019**

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Cash and due from banks	¥ 62,406	¥ 52,188	\$ 573,426
Monetary claims bought	1,783	1,933	16,383
Trading account securities	169	564	1,552
Money held in trust	14,987	10,905	137,710
Securities	400,924	384,352	3,683,947
Loans and bills discounted	859,252	901,782	7,895,359
Foreign exchange assets	1,221	987	11,219
Tangible fixed assets:			
Buildings	9,195	9,481	84,489
Land	5,840	6,182	53,661
Lease assets	21	-	192
Construction in progress	243	96	2,232
Other tangible fixed assets	1,230	1,434	11,302
Intangible fixed assets:			
Software	1,083	530	9,951
Other intangible fixed assets	67	68	615
Customers' liabilities for acceptances and guarantees	7,609	8,103	69,916
Other assets	15,788	16,394	145,070
Allowance for loan losses	(5,823)	(7,183)	(53,505)
Total assets	<u>¥ 1,376,002</u>	<u>¥ 1,387,823</u>	<u>\$ 12,643,590</u>

(Continued)

**The Shonai Bank, Ltd.**

**Non-Consolidated Balance Sheets**  
**March 31, 2020 and 2019**

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liabilities:			
Deposits	¥ 1,163,328	¥ 1,177,210	\$ 10,689,405
Negotiable certificates of deposit	58,759	56,497	539,915
Call money	11,427	-	104,998
Payables under securities lending transactions	46,235	51,116	424,836
Borrowed money	13,900	16,900	127,722
Foreign exchange liabilities	2	16	18
Provision for bonuses for directors and other officers	-	10	-
Provision for retirement benefits	1,459	1,395	13,406
Provision for reimbursement of deposits	97	152	891
Provision for contingent loss	278	246	2,554
Deferred tax liabilities	1,912	3,533	17,568
Deferred tax liabilities for land revaluation	480	488	4,410
Acceptances and guarantees	7,609	8,103	69,916
Other liabilities	7,185	4,066	66,020
Total liabilities	<u>1,312,675</u>	<u>1,319,736</u>	<u>12,061,701</u>
Net assets:			
Common stock	8,500	8,500	78,103
Capital surplus	20,308	20,308	186,602
Retained earnings	24,347	24,485	223,715
Total shareholders' equity	<u>53,156</u>	<u>53,293</u>	<u>488,431</u>
Unrealized gain on available-for-sale securities	9,116	13,733	83,763
Revaluation reserve for land	1,054	1,059	9,684
Total valuation and translation adjustments	<u>10,170</u>	<u>14,793</u>	<u>93,448</u>
Total net assets	<u>63,327</u>	<u>68,087</u>	<u>581,889</u>
Total liabilities and net assets	<u>¥ 1,376,002</u>	<u>¥ 1,387,823</u>	<u>\$ 12,643,590</u>

(Concluded)

**The Shonai Bank, Ltd.**

**Non-Consolidated Statements of Income**  
**Years Ended March 31, 2020 and 2019**

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Income:			2020
Interest income:			
Interest on loans and discounts	¥ 10,614	¥ 11,315	\$ 97,528
Interest and dividends on securities	5,375	5,711	49,388
Other	19	24	174
Fees and commissions	3,749	3,913	34,448
Other operating income	2,759	900	25,351
Other income	1,472	1,602	13,525
Total income	<u>23,990</u>	<u>23,468</u>	<u>220,435</u>
Expenses:			
Interest expenses:			
Interest on deposits	287	439	2,637
Interest on negotiable certificates of deposit	12	16	110
Interest on payables under securities lending transactions	232	286	2,131
Interest on borrowings and rediscounts	0	73	0
Other	(1)	2	(9)
Fees and commissions	2,410	2,327	22,144
Other operating expenses	3,580	2,875	32,895
General and administrative expenses	13,657	14,062	125,489
Other expenses	2,861	2,005	26,288
Total expenses	<u>23,042</u>	<u>22,089</u>	<u>211,724</u>
Income before income taxes	<u>947</u>	<u>1,378</u>	<u>8,701</u>
Income taxes:			
Current	153	413	1,405
Deferred	392	(694)	3,601
Total income taxes	<u>546</u>	<u>(281)</u>	<u>5,016</u>
Net income	<u>¥ 401</u>	<u>¥ 1,659</u>	<u>\$ 3,684</u>

**The Hokuto Bank, Ltd.**

**Non-Consolidated Balance Sheets**  
**March 31, 2020 and 2019**

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
			2020
Assets:			
Cash and due from banks	¥ 85,437	¥ 93,785	\$ 785,050
Monetary claims bought	1,015	1,001	9,326
Trading account securities	61	30	560
Money held in trust	6,008	2,175	55,205
Securities	338,251	365,437	3,108,067
Loans and bills discounted	852,163	832,774	7,830,221
Foreign exchange assets	616	748	5,660
Tangible fixed assets:			
Buildings	4,992	5,058	45,869
Land	7,024	7,320	64,541
Lease assets	29	11	266
Construction in progress	9	1	82
Other tangible fixed assets	693	651	6,367
Intangible fixed assets:			
Software	959	350	8,811
Other intangible fixed assets	62	62	569
Prepaid pension cost	418	345	3,840
Deferred tax assets	2,162	775	19,865
Customers' liabilities for acceptances and guarantees	13,983	15,540	128,484
Other assets	38,200	35,928	351,006
Allowance for loan losses	(4,727)	(5,159)	(43,434)
Total assets	<u>¥ 1,347,364</u>	<u>¥ 1,356,840</u>	<u>\$ 12,380,446</u>

(Continued)

**The Hokuto Bank, Ltd.**

**Non-Consolidated Balance Sheets**  
**March 31, 2020 and 2019**

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liabilities:			
Deposits	¥ 1,231,065	¥ 1,221,350	\$11,311,816
Negotiable certificates of deposit	16,280	19,320	149,591
Payables under securities lending transactions	19,871	13,054	182,587
Borrowed money	-	2,500	-
Foreign exchange liabilities	6	-	55
Provision for bonuses for directors and other officers	-	10	-
Provision for retirement benefits	190	11	1,745
Provision for reimbursement of deposits	297	471	2,729
Provision for contingent loss	131	102	1,203
Deferred tax liabilities for land revaluation	980	1,013	9,004
Acceptances and guarantees	13,983	15,540	128,484
Other liabilities	8,712	23,508	80,051
<b>Total liabilities</b>	<b>1,291,517</b>	<b>1,296,882</b>	<b>11,867,288</b>
Net assets:			
Common stock	12,500	12,500	114,858
Capital surplus	19,999	19,999	183,763
Retained earnings	18,380	18,575	168,887
Total shareholders' equity	50,880	51,075	467,518
Unrealized gain on available-for-sale securities	2,738	6,501	25,158
Deferred gain on hedges	173	272	1,589
Revaluation reserve for land	2,054	2,109	18,873
Total valuation and translation adjustments	4,966	8,882	45,630
<b>Total net assets</b>	<b>55,847</b>	<b>59,958</b>	<b>513,158</b>
<b>Total liabilities and net assets</b>	<b>¥ 1,347,364</b>	<b>¥ 1,356,840</b>	<b>\$12,380,446</b>

(Concluded)

**The Hokuto Bank, Ltd.**

**Non-Consolidated Statements of Income**  
**Years Ended March 31, 2020 and 2019**

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
			2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 9,591	¥ 9,895	\$ 88,128
Interest and dividends on securities	4,350	4,641	39,970
Other	8	1	73
Fees and commissions	3,961	4,142	36,396
Other operating income	3,875	2,820	35,605
Other income	1,270	1,188	11,669
Total income	<u>23,058</u>	<u>22,690</u>	<u>211,871</u>
Expenses:			
Interest expenses:			
Interest on deposits	153	283	1,405
Interest on negotiable certificates of deposit	6	9	55
Interest on payables under securities lending transactions	77	269	707
Interest on borrowings and rediscounts	0	36	0
Other	1	0	9
Fees and commissions	1,742	1,728	16,006
Other operating expenses	4,821	2,485	44,298
General and administrative expenses	12,938	13,824	118,882
Other expenses	2,465	2,023	22,650
Total expenses	<u>22,206</u>	<u>20,659</u>	<u>204,043</u>
Income before income taxes	<u>852</u>	<u>2,031</u>	<u>7,828</u>
Income taxes:			
Current	175	430	1,608
Deferred	269	88	2,471
Total income taxes	<u>444</u>	<u>519</u>	<u>4,079</u>
Net income	<u>¥ 407</u>	<u>¥ 1,512</u>	<u>\$ 3,739</u>