名古屋銀行

Bank of NAGOYA

2018 ANNUAL REPORT

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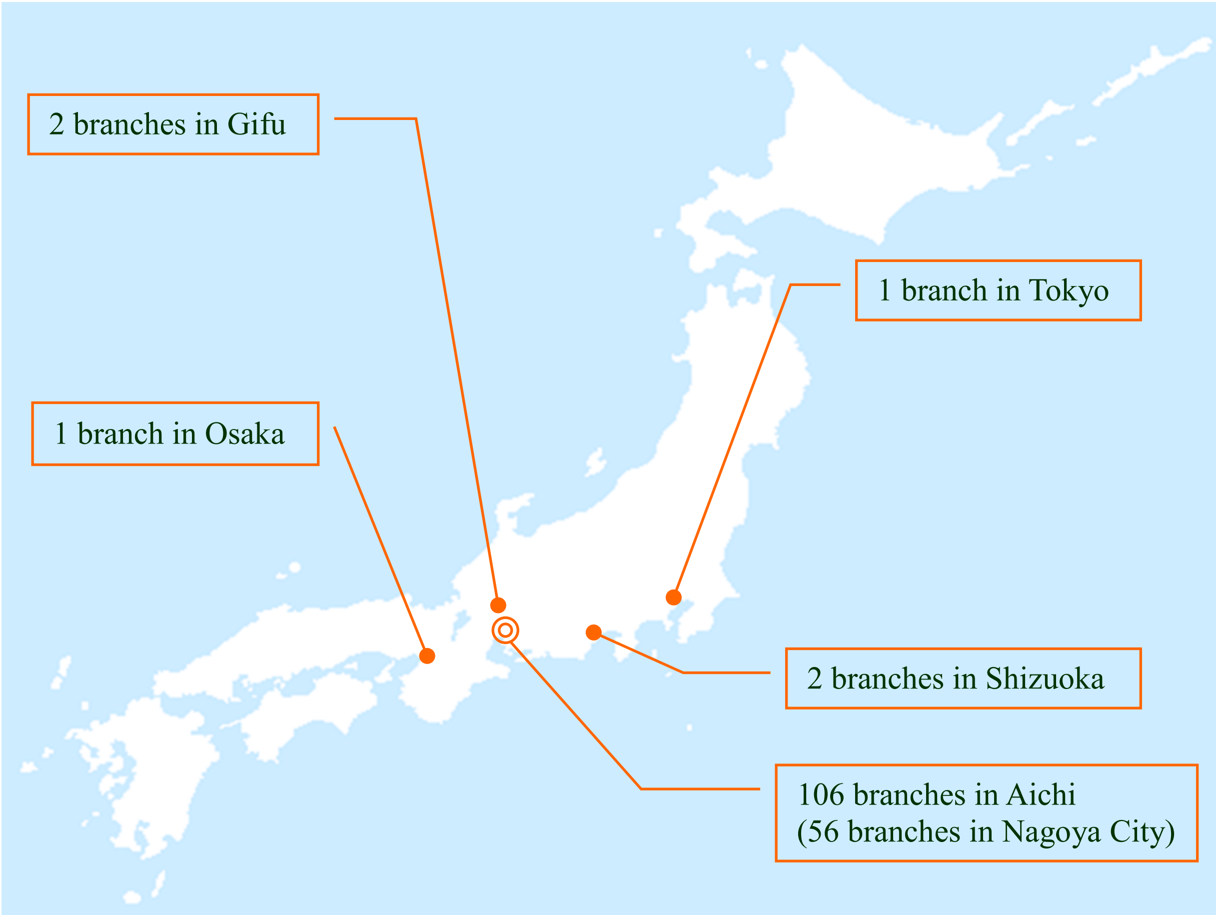
Established 1949
Number of Employees 1,906
(As of March 31, 2018)

Subsidiaries
NagoyaLease Co., Ltd.
Nagoya Business Service Co., Ltd.
Nagoya Card, Ltd.
NAGOYA MC Card Co., Ltd.

THE BANK OF NAGOYA, LTD.
19-17 Nishiki 3-chome, Naka-ku,
Nagoya City, Aichi 460-0003 Japan
Tel: +81 52 962 9520
Fax: +81 52 961 6605
https://www.meigin.com/

Domestic Branches

Number of Branches: 112 (As of March 31, 2018)



Overseas

Nantong Branch

2nd Floor, Business Service Outsourcing Center,
Building C, 188 Tongsheng Road, Economic and
Technological Development Area,
Nantong, Jiangsu, China
Tel +86 513 89192280
Fax +86 513 89192281

Shanghai Representative Office

Room 1809, Shanghai International Trade Center,
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Message from the Management

We would first like to extend our sincere gratitude to all our stakeholders for their patronage to the Bank of Nagoya.

In the fiscal year ended March 31, 2017, we started our three-year 20th medium-term management plan, "Stronger, Longer, Deeper" - Deepening Bonds with Local Community. We will work to exercise our financial intermediary functions and consulting functions as we aim to grow and develop together with the local community.

We seek to fulfill our mission as a regional financial institution, to be trusted by the local community, and to increase our presence. To this end, we will put into practice our guiding precept of "fostering regional prosperity," and we ask you to give us your even stronger support and patronage in the future.

June 2018

Kazumaro Kato
Chairman

Ichiro Fujiwara
President

Operating Environment

In the fiscal year ended March 31, 2018, the Bank conducted a range of initiatives to increase vitality in the local community and increase customer satisfaction.

Firstly, we held “Meigin Joint,” which is a reverse-style trade fair highly focused on particular themes and industries, as well as a number of different trade fairs in conjunction with other financial institutions, as an initiative to support our customers in their business. By serving as a bridge between major companies and local small and medium-sized enterprises, we are supporting initiatives aimed at enlarging new sales channels. We also proactively hold seminars tailored to our customers’ needs and to social conditions. We present specific case studies for leveraging intellectual property in business and provide high-quality information including the means of utilizing cellulose nanofiber, one of the world’s cutting-edge biomass materials.

Furthermore, starting last November, we began handling yuan-based transactions at our Nantong Branch. With the start of yuan-based transactions, financial services including yuan-denominated financing and deposits became possible. We are the first of the local banks in the three prefectures in the Tokai region to handle yuan-based transactions. We also proactively hold trade fairs, networking events, and seminars related to overseas business, and going forward, we will work together with our domestic and overseas businesses to enhance our support system for our customers’ overseas expansion.

Moreover, as an initiative to improve convenience and satisfaction for our customers, last October we began offering the “MEIGIN JCB Debit,” the first branded debit card among financial institutions in Aichi Prefecture. The MEIGIN JCB Debit is a convenient card that can be used just like cash, with the purchase amount immediately withdrawn from the customer’s designated account. We believe the card will lead to further convenience for individual customers. Regarding our “Customizable Design IC Cash Card Service,” which has been extremely positively received, in addition to the existing 57 card designs, this February we began newly offering the “IC Cash Card in Collaboration with Local Governments.” Local landmarks and characters are used in the card designs, and as the first cards in the series, we launched collaboration cards with the city of Konan and the town of Togo. Going forward, we will continue to develop products that are loved and treasured by our local customers.

Next, with regard to our branches, we have refurbished our Anjo and Konan branches. Furthermore, utilizing our business collaboration with HOKEN NO MADOGUCHI GROUP INC., last May we opened “HOKEN Plaza Toyota Minami,” and this March, we opened “HOKEN Plaza Dainagoya Building.” By leveraging the sales knowhow and various tools at the disposal of the HOKEN NO MADOGUCHI GROUP, we will respond to the insurance needs of our ever-diversifying customers.

Operating Results (Nonconsolidated basis)

The Bank's guiding precept is "fostering regional prosperity." The Bank has strived to provide financial services in order to develop the regional economy, and going forward we will continue to conduct business strongly rooted in the region in order to help our customers grow and prosper.

The Bank's policy with regard to our customers is to comply with the intent of the "Benchmarks for Financial Intermediary Functions," developed by the Financial Services Agency. In addition, we have selected disclosure items from the "Benchmarks" in accordance with our management policy and strategy. Going forward, we will give consideration to revising and adding to these as appropriate. Furthermore, if any of the following initiatives correspond to a "Benchmark" they have been marked with BENCHMARK.

The Bank's Numerical Targets and Results

(1) Fiscal 2017 Numerical Targets and Achievement (From April 2017 to March 2018)

Item	Target	Results
Consultation on M&A and business succession	550	587
Support for the formulation of startup plans	10	47
Provision of management improvement support initiatives	350	411

(2) Fiscal 2018 Numerical Targets (From April 2018 to March 2019)

Item	Target
Consultation on M&A and business succession	550
Support for the formulation of startup plans	50
Provision of management improvement support initiatives	400

Initiatives to Improve the Management of Small and Medium Sized Enterprises (“SME”), and Increase the Vitality of Local Communities

● Initiatives relating to management support, including new loans for small and medium sized enterprises

Number of borrowers and amount financed for each stage of life **BENCHMARK**

(As of March 31, 2018)

Management support system for each stage of life
(Total borrowers: 26,778. Total loaned funds: ¥1,731.0 billion)

– Founding stage –
1,802

– Growth stage –
1,937
¥114.3 billion

– Stable stage –
16,290
¥1,211.1 billion

– Downturn stage –
916
¥48.4 billion

– Regeneration stage –
1,578
¥79.2 billion

*Borrowers for whom it is not possible to determine a stage of life (4,255 borrowers for whom settlement information for the past five fiscal years has not been obtained that have borrowed a total of ¥224.7 billion) have been excluded

Routine visits
Creating a relationship of trust, understanding and analyzing management issues, and continuous monitoring

Providing varied solutions for each stage

Venture capital referrals
Support for business plan announcement conferences
Referrals for public aid systems

M&A, Business succession

Support for the overseas expansion
Business matching
Management consultation

Management improvement and business recovery

THE BANK OF NAGOYA ⟷ Collaboration ⟷ External specialists and external support organizations

Number of clients for whom an improvement in management indices or an increase in the number of employees can be observed, of companies for whom we are the main bank (on a group basis), and the amount financed

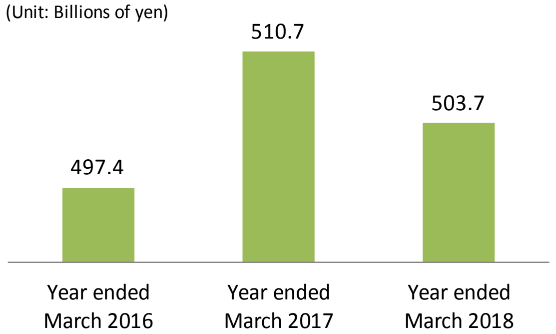
(As of March 31, 2018)
BENCHMARK

Number of main clients and amount financed Clients are counted on a group basis	10,753 ¥694.5 billion
Number of clients for whom management indices, etc., improved and amount financed Including clients for whom the main group companies improved (1) net sales, (2) operating profit margin, (3) labor productivity, or (4) increased number of employees	7,520 ¥503.7 billion

*Management indices (net sales, operating profit margin, labor productivity, etc.)

Amount financed for clients over time that have improved management indices, etc., as of the end of the fiscal year

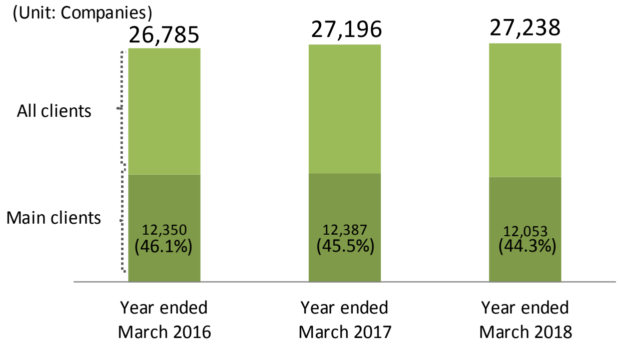
(As of March 31, 2018)
BENCHMARK



*Management indices (net sales, operating profit margin, labor productivity, etc.)

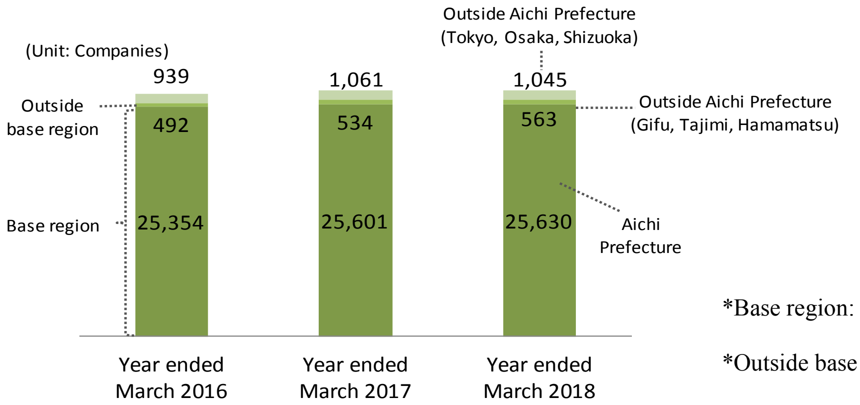
(As of March 31, 2018)

Number of main clients as a proportion of all clients over time BENCHMARK



*Clients: Borrowers and recipients of all types of assistance

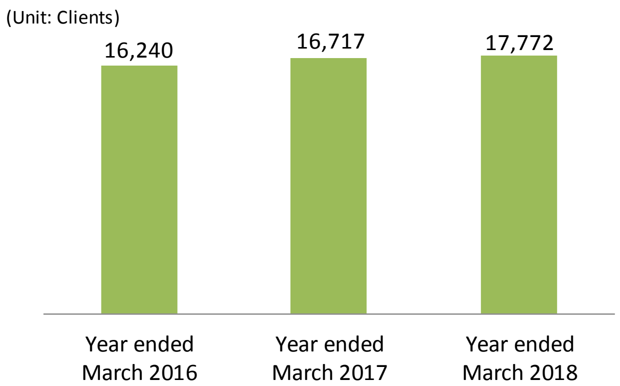
Clients over time by region BENCHMARK



*Base region: Branches within Aichi Prefecture, Gifu branch, Tajimi branch, Hamamatsu branch

*Outside base region: Tokyo branch, Osaka branch, Shizuoka branch

Number of corporate clients engaged in compound transactions UNIQUE BENCHMARK



*Number of corporate clients engaged in compound transactions: Number of business clients (corporate clients) that have one or more transactions listed in the Bank's designated main client items (EB bundle transfer, direct payroll deposit, Densai operators, NISA account operators, or related corporate clients)

● Initiative on Business Manager Guarantee Guidelines

○ Now, the Bank will observe the "Guideline on Business Manager Guarantees" announced by the Business Manager Guarantee Guideline Working Group (Secretariat: Japanese Bankers Association and The Japan Chamber of Commerce and Industry) and has upgraded its systems to respect and comply with the Guideline.

[Achievements]

	Results for Fiscal 2017
Number of new unsecured loans	2,629
Number of loans with guarantee contracts cancelled	586
Number of guaranteed debt clearances based on the Guideline	3
Ratio of new loans that do not depend on business manager guarantees	11.25%

● Status of Measures on Business Viability Evaluation

Number of borrowers for whom financing is conducted based on a business viability evaluation as well as amount financed, and proportion of all borrowers and amount financed (Nonconsolidated basis)
BENCHMARK

(As of March 31, 2018)

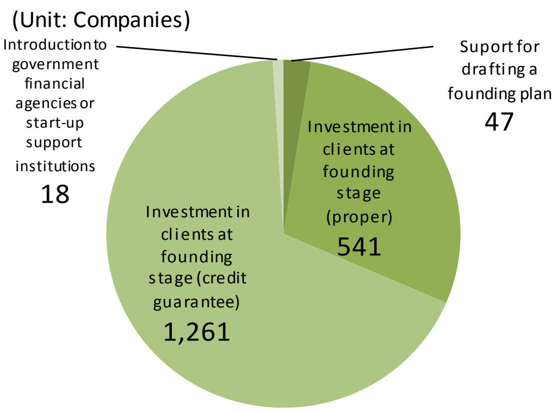
Number of borrowers (Proportion of all borrowers)	3,291 (12.3%)
Balance of amount financed (Proportion of balance of amount financed for all borrowers)	¥516.1 billion (29.8%)

*Number of borrowers for whom financing is conducted based on a business viability evaluation:
Clients for whom financing has been conducted having drafted the Business Viability Evaluation Sheet prescribed by the Bank

● Start-ups and New Business Pioneers

(As of March 31, 2018)

Clients that received support at founding stage (Type of support) **BENCHMARK**



Total clients that received support at founding stage *Founding stage: Period of five years from founding	1,867

- Support for Overseas Expansion
  - ○ We support our customers' overseas expansion into China and Southeast Asia with a focus on regional mid-sized companies and SMEs. In particular, we help them to diversify the fund procurement methods used by their local subsidiaries overseas by actively providing cross-border loans and syndicated loans with the JBIC.

[Achievements]

	Results for Fiscal 2017
Transfers of capital	17
Transfer of loans to parent and subsidiary	19
Standby letters of credit	5
Cross-border loans and syndicated loans with the JBIC	1
Bond	1
Total	43

○ In addition to our Nantong Branch in China, we also dispatch Bank employees to local affiliated financial institutions and the Japan External Trade Organization (JETRO) to provide information aligned to actual local situations.

[Bank Employee Dispatch Destinations]
Bangkok Bank Public Company Limited (Thailand), PT. Bank Negara Indonesia (Persero) Tbk. (Indonesia), Sumitomo Mitsui Banking Corporation (China), JETRO Ho Chi Minh (Vietnam), JETRO Nagoya

○ We have also set up an environment for providing information, etc. on local areas by forming alliances with financial institutions other than those to which we have dispatched Bank employees.

[Alliance Partners]
KASIKORNBANK Public Company Limited (Thailand), Metropolitan Bank and Trust Company (Philippines), Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietnam), Foreign Investment Agency (Vietnam), State Bank of India (India), State of Aguascalientes (Mexico), State of Jalisco (Mexico), State of Guanajuato (Mexico), State of Nuevo León (Mexico), Banamex (Mexico), Bank of Communications Co., Ltd. (China), Bank of China (China)

○ The International Business Promotion Group within the Corporate Banking Division provides support for overseas expansion and trade.

[Achievements]

	Results for Fiscal 2017
Number of accompanied visits with branch Bank employees:	314

○ To respond to the yuan-based fundraising needs of companies expanding into China, in November 2017, we began offering yuan-based transactions at our Nantong Branch.

Support for Sales Channel Development

[Reverse-style Trade Fair]

We hold “Meigin Joint,” which is a reverse-style trade fair that gathers suppliers that can meet the needs of buyers. We have held this event 15 times in the fiscal year ended March 31, 2018, and we plan to continue holding it periodically going forward.

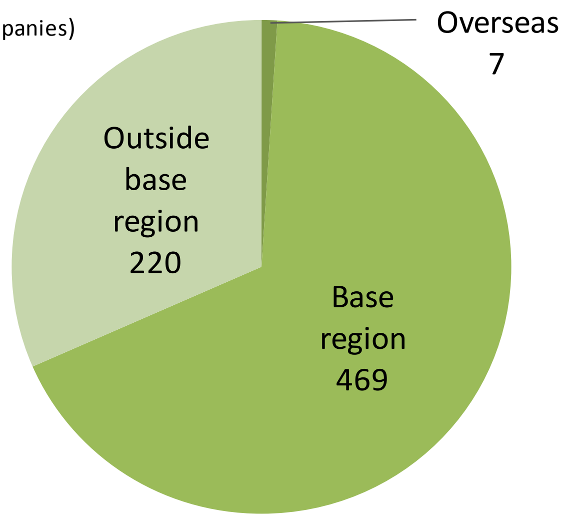
[Support for Companies Involved with Food and Agriculture]

Since March 2016, we have held the “Aichi-Jimoto Agriculture, Forestry and Fisheries Growth Support ‘Food’ and ‘Agriculture’ Trade Fair,” which is a trade fair relating to food and agriculture for regional vitalization through sixth-sector industrialization and collaboration between agriculture, commerce and industry, together with seven local credit unions. We support the sales channel development of our customers.

(Fiscal 2017)

Clients for whom sales channel development support was provided **BENCHMARK**

(Unit: Companies)



*Base region refers to instances where both the seller and the purchaser are companies located in the base region (Aichi Prefecture, Gifu Prefecture, Shizuoka Prefecture (Hamamatsu area)). Outside base region refers to instances where either the seller, the purchaser, or both, are companies located outside of the base region. Overseas refers to instances where either the seller, the purchaser, or both are overseas companies.

● Management Improvement

○ We aggressively promote efforts to support identification and resolution of customers' management issues by introducing them to our affiliated consulting companies and enhancing our links with external organizations.

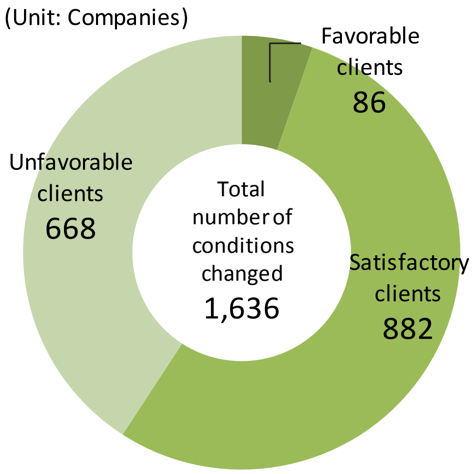
[Initiatives with Affiliated Organizations and External Organizations]

◆ Introducing affiliated consulting companies
◆ Strengthened cooperation with the Aichi Prefecture Small and Medium-Sized Enterprise Revitalization Support Council
◆ Utilization of the Aichi Prefecture Management Improvement Support Center
◆ Utilization of the Aichi SME Revitalization No. 2 Fund

	Results for Fiscal 2017
Number of cases acquired from the Aichi Prefecture Small and Medium-Sized Enterprise Revitalization Support Council	9
Number of companies in the process of negotiations with the Aichi Prefecture Small and Medium-Sized Enterprise Revitalization Support Council	59
Number of cases in the process of negotiations by the Aichi Prefecture Management Improvement Support Center	115
Management analysis by the Credit Guarantee Corporations	202

Progress of management improvement plans for SME clients that change loan conditions
BENCHMARK

(As of March 31, 2018)



● Business Succession

○ For owner-operated companies who face the absence of a successor or concerns over the problem of transferring owner's shares to a successor, we provide funding support and consultation regarding M&As.

[Achievements]

Details		Results for Fiscal 2017
Business Succession	Suggestion of issues arising in proposals for business succession	238
	Of which, introductions to affiliated consulting company in conjunction with business succession	3
	Of which, funding support provided in conjunction with business succession	6
M&A	Consultation on M&A regarding corporate acquisition and corporate divestment	349
	Of which, successful M&As	5

Medium- and Long-term Management Strategies

We are conducing initiatives based on the following five basic policies in the three-year 20th medium-term management plan “Stronger, Longer, Deeper - Deepening Bonds with Local Community,” started in April 2017, in order to create strong, long, and deep bonds with stakeholders such as “local communities,” “regional customers,” and “employees” by providing highly satisfying service, and remain the most relied upon financial institution in the region.

(1) Stronger - Realizing a more fulfilling lifestyle for our regional customers
The entire Bank of Nagoya Group creates strong bonds with customers by establishing a service and sales framework from the perspective of the customers.

(2) Longer - Maintaining a framework that aims for “transactions over many years”
Creating long-lasting bonds with our customers by establishing a framework to provide solutions that meet the needs of customers, based on business viability evaluations.

(3) Deeper - Actively creating a pleasant environment within the bank through thorough staff education
Creating deep bonds with our customers by creating challenging yet pleasant corporate environment and deepening diversity through staff education.

(4) Strengthening our All-Hands-In Sales Platform through a continuous BPR strategy

(5) Strengthening our governance, risk management, and compliance (GRC) systems

Issues to Address

Social structure is rapidly changing due to the declining birth rate and aging population, the declining population, developments in IT (information technology), etc. The business environment in which financial institutions operate is also feeling the impact on profits from reduced loan interest income, with intense competition between banks in Aichi Prefecture including with megabanks and financial institutions from other prefectures, in addition to the introduction of the negative interest rate policy.

In order to adapt to the business environment, it is our policy to strengthen earning potential by deepening transactions by increasing the Bank’s share and weight for each customer, in addition to increasing the number of our customers.

We will actively carry out various initiatives to achieve this deepening of transactions, including measures to expand financing through business viability evaluations, ensure full business support, enhance solution proposals, enhance regional vitalization support through collaboration between industry, universities, government, and financial institutions, and provide products that are suited to the customer’s life stage.

Under our philosophy of “fostering regional prosperity,” we will solve our customers’ various issues and achieve co-existence with local communities with the goal of becoming a bank truly needed by the region.

Management Policy

Based on the guiding precept of “fostering regional prosperity—which shall both develop the Bank and bring happiness to bank employees,” the Bank’s management policy comprises the following five matters which cover the overall image of what the Bank aims to be: “Contribute to the regional community,” “Strengthen our earnings power and ensure thoroughness in risk management,” “Provide financial services that suit the needs of the customers,” “Put compliance into practice” and “Establish a free and open-minded corporate climate.” In accordance with this basic policy, we will strive to further increase our corporate value as a regional financial institution which fosters regional prosperity. At the same time, we will work to fulfill this duty and earn the unshakeable support and trust of our shareholders and all other stakeholders.

The Bank's Corporate Governance

At the Bank of Nagoya, we consider enhancing corporate governance to be one of the most important management challenges. While striving to further enhance our corporate value as a regional financial institution that fosters regional prosperity, we shall fulfill our responsibilities as a corporate citizen and work to establish unshakeable support and trust from all stakeholders, particularly the shareholders.

Based on this principle, the Bank's motto, which is the foundation of its management, is to "foster regional prosperity—which shall both develop the Bank and bring happiness to bank employees." Also, the Bank has the following precepts: (1) good service—a sincere, considerate and speedy service; (2) good people—lift people, broaden people and create a cheery workplace; and (3) good management—sound and richly innovative management that seeks full participation from employees. To this end, we shall strive to share the basic sense of values and ethics of directors and employees of the Bank, and to ensure that these are reflected in the Bank's operations. We have formulated a "Code of Ethics for Bank of Nagoya Directors and Employees" and "Regulations for Complying with Laws and Regulations etc." and through this we are striving to raise corporate value.

The Bank has a swift decision-making framework, led by the Board of Directors, that strictly operates internal regulations and delegates authority as appropriate. To this end, in order to enhance the clarity of the system of responsibility, further improve the vitality and strengthen the supervisory functions of the Board of Directors, we have invited two highly independent outside directors, and adopted an executive officer system by the appointment of the Board of Directors. Furthermore, we have adopted an audit and supervisory board members system featuring five audit and supervisory board members (of whom three are outside audit and supervisory board members) that coordinate with the independent auditor and the Internal Audit Division to audit the execution of the duties of directors. We have determined that we are able to adequately strengthen our corporate governance through this system.

Risk Management System

The Bank has enhanced its risk management system by establishing the Asset Liability Management (ALM) Committee to oversee credit risk, liquidity risk, and market risk, and the Operational Risk Management Committee to oversee system risk, administrative risk, etc. The Bank also considers compliance as a top priority and aims to establish a system of checks and balances and tighten internal controls by, for example, establishing a Compliance Committee that includes attorneys at law from outside the Bank. Status of all risks the Bank should address is covered by monthly meetings of these three committees, which will be then reported to the Board of Directors. This consolidated reporting system is designed in the way to enhance the Board of Directors' ability to monitor the Bank's risk control functions.

Breakdown of Loans (Nonconsolidated basis)

Balance of problem loans under the Banking Act (risk monitored loans)

(As of March 31)

	2018 (Millions of yen)	2017 (Millions of yen)	Rate of change (%)
Total loans and bills discounted	2,458,293	2,389,010	2.90
Claims to borrowers in bankruptcy *1	1,785	1,071	66.66
Past due loans *2	50,000	48,883	2.28
Accruing loans past due three months or more *3	35	22	59.09
Restructured loans *4	8,369	12,115	-30.92
Ratio of risk monitored loans to total loans and bills discounted	2.45%	2.60%	-0.15%

*1 Claims to borrowers in bankruptcy

Of non-accrual loans for which there is no prospect of payment or collection of principal and/or interest, for reasons such as the delay in payment of interest or principal having continued for a considerable period of time, those are subject to the following grounds set forth in the Order for Enforcement of the Corporation Tax Act of Japan:

(a) Petition for commencement of reorganization proceedings pursuant to the provisions of the Corporate Reorganization Act or Act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions.

(b) Petition for commencement of rehabilitation proceedings pursuant to the provisions of the Civil Rehabilitation Act.

(c) Petition for commencement of bankruptcy proceedings pursuant to the provisions of the Bankruptcy Act.

(d) Petition for commencement of special liquidation proceedings pursuant to the provisions of the Companies Act.

(e) Suspension of transactions through a clearing house (including bank syndicates that undertake clearing in the relevant regions when there is no clearing house)

(f) Should there be a significant decrease in the economic value of monetary claims against foreign governments, central banks, and local governments, due to long-term delays in the performance of obligations, and should the receipt of payment be recognized as being extremely difficult.

*2 Past due loans

These are non-accrual loans other than claims to borrowers in bankruptcy and loans for which interest payments are deferred in order to assist the financial recovery of borrowers in financial difficulties.

*3 Accruing loans past due three months or more

These are loans for which the payment of the principal and/or interest is past due three months or more from the day following contractual payment date, excluding claims to borrowers in bankruptcy and past due loans.

*4 Restructured loans

These are loans for which the Bank has relaxed the lending conditions for borrowers in financial difficulties—such as by a reduction of the original rate, forbearance of interest and/or principal payment, granting a maturity date extension, and renunciation of claims—in order to support their financial recovery or restructuring. These exclude claims to borrowers in bankruptcy, past due loans and accruing loans past due three months or more.

Balance of problem loans under the Financial Revitalization Act

(As of March 31)

	2018 (Millions of yen)	2017 (Millions of yen)	Rate of change (%)
Bankrupt and quasi-bankrupt *5	5,598	4,932	13.50
Doubtful *6	46,455	45,130	2.93
Need of special attention *7	8,404	12,137	-30.75
Normal *8	2,435,772	2,359,099	3.25

*5 Bankrupt and quasi-bankrupt

These are loans to borrowers who are currently in legal bankruptcy procedures, including bankruptcy, liquidation, corporate reorganization, and rearrangement, and borrowers who are not currently in legal bankruptcy, but in quasi-bankruptcy.

*6 Doubtful

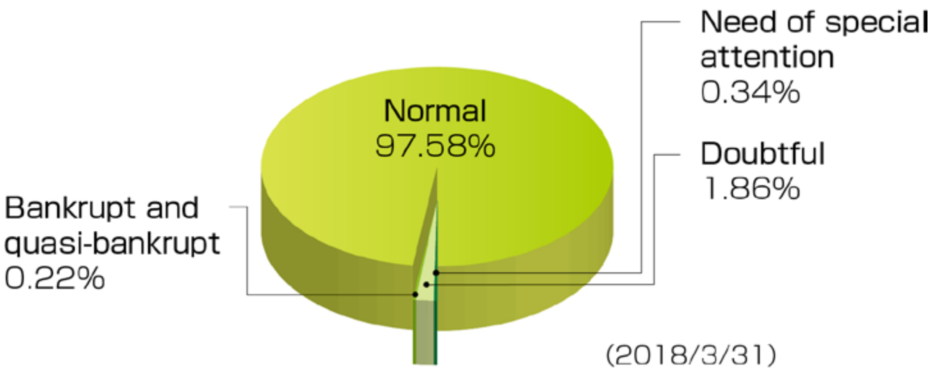
These are loans to borrowers who are not currently in bankruptcy, but in difficult financial situations and with a possibility of higher default risk.

*7 Need of special attention

These are accruing loans past due three months or more (excluding those under *5 and *6), and restructured loans (excluding those under *5 and *6 and accruing loans past due three months or more).

*8 Normal

These are loans to borrowers not having particular problems regarding their financial situations and operating conditions, and excluding loans classified as “Bankrupt and quasi-bankrupt,” “Doubtful” and “Need of special attention.”

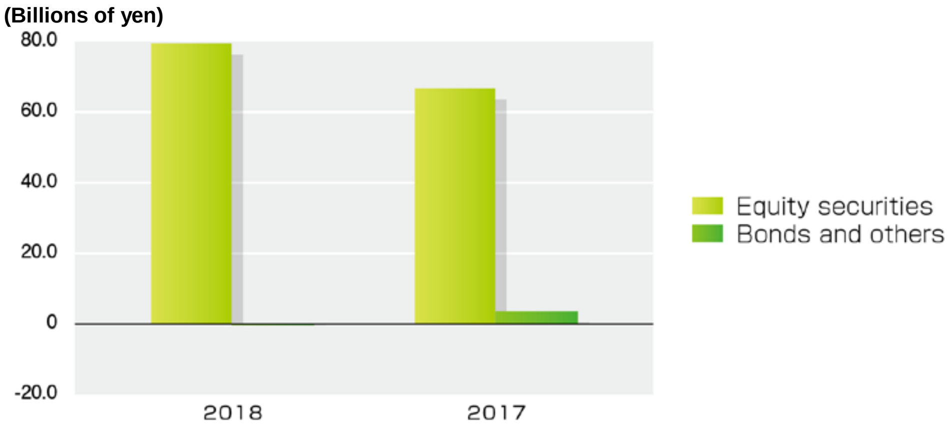


At March 31, 2018, the ratio of problem loans under the Financial Reconstruction Law was 2.42%.

Unrealized Gains on Securities (Nonconsolidated basis)

(As of March 31)

	2018 (Billions of yen)	2017 (Billions of yen)
Equity securities	79.4	66.7
Bonds and others	-0.4	3.6
Total	78.9	70.4



Capital Adequacy Ratio

A credit rating is a symbol provided by a credit rating agency indicating the degree of certainty that the principle and interest on an individual bond issued by a company will be paid as contracted. It is strongly related to the evaluation of a company's creditworthiness, and in a broad sense expresses the level of confidence in a bank.

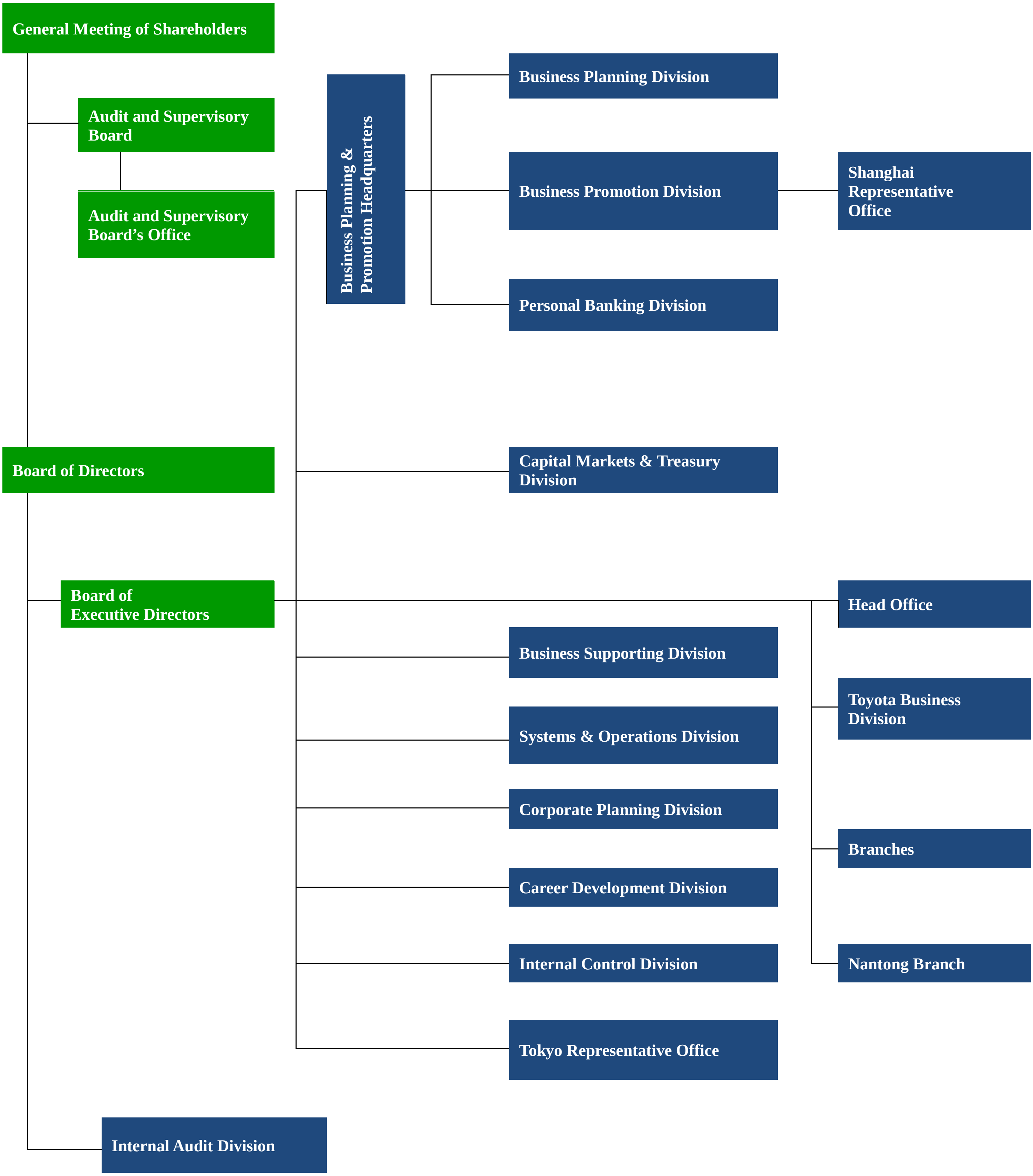
The Bank has obtained a credit rating of "A+" from Japan Credit Rating Agency, Ltd. (JCR) with respect to the Bank's long-term issuer rating. This rating indicates that the debt is investment grade, and is a high rating among Japanese financial institutions.

Rating

Japan Credit Rating Agency, Ltd. (JCR)	A^{+}	A high level of capacity to honor the financial commitment on the obligation.

Organization of the Bank

(As of July 1, 2018)



Board of Directors and Audit and Supervisory Board

(As of June 22, 2018)

Chairman
Kazumaro Kato

President
Ichiro Fujiwara

Senior Managing Director
Yasuhisa Yamamoto

Managing Directors
Shinichi Yokota
Shogo Ukai

Directors
Itaru Iyoda
Kiyoshi Imaoka
Satoru Hattori
Kenji Suzuki
Toshi Saeki*1
Takehisa Matsubara*1

*1 Outside director

Audit and Supervisory Board Members
Tetsundo Nakamura*2
Naoto Sugita*2
Haruhiko Asano
Nobuyoshi Hasegawa
Takao Kondo

*2 Full-time

Executive Officers
Takayuki Yogo
Isao Takami
Tadashi Takahashi
Seiji Inagaki
Katsutoshi Yamamoto
Masao Minamide
Naoya Ohno

Principal Shareholders

(As of March 31, 2018)

Sumitomo Mitsui Banking Corporation	5.49%
Mizuho Bank, Ltd.	4.48%
Nippon Life Insurance Company	3.86%
Meiji Yasuda Life Insurance Company	3.86%
The Bank of Nagoya Employees' Shareholding Association (Meigin Minori-kai)	3.83%
The Master Trust Bank of Japan, Ltd. (Toyota Motor Corporation Account)	3.10%
SUMITOMO LIFE INSURANCE COMPANY	2.74%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.33%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	2.30%
Mitsui Sumitomo Insurance Company, Limited	2.17%

Notes:
1. Shares held by The Master Trust Bank of Japan, Ltd. (Toyota Motor Corporation Account and Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account 4) are shares in association with their trust business.
2. In addition to the above, the Bank holds 958,000 treasury shares.
3. In a report to amend a report of possession of large volume dated March 21, 2017, it is stated that Mitsubishi UFJ Trust and Banking Corporation, along with joint holders, Mitsubishi UFJ Kokusai Asset Management Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and MU Investments Co., Ltd. are the owners of the following shares as of March 13, 2017. However, as the bank is unable to confirm the number of shares substantially owned as of March 31, 2018, the details of the shares recorded in the shareholder register have been listed in the status of major shareholders above. Details included in the report to amend the report of possession of large volume are as follows:

Mitsubishi UFJ Trust and Banking Corporation	4.72%
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	0.22%
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	0.47%
MU Investments Co., Ltd.	0.82%

4. In a report to amend a report of possession of large volume dated February 26, 2018, it is stated that Asset Management One Co., Ltd. (1-8-2 Marunouchi, Chiyoda-ku, Tokyo) is the owner of 445,300 shares, etc. (1.95% of ownership ratio of share certificates, etc.) as of February 19, 2018. However, as the bank is unable to confirm the number of shares substantially owned as of March 31, 2018, the details of the shares recorded in the shareholder register have been listed in the status of major shareholders above.

Independent Auditor's Report

To the Board of Directors of The Bank of Nagoya, Ltd.:

We have audited the accompanying consolidated financial statements of The Bank of Nagoya, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Nagoya, Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of Notes to the Consolidated Financial Statements.

KPMG AZSA LLC

August 10, 2018
Nagoya, Japan

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Cash and due from banks (Note 3)	¥ 348,141	¥ 249,635	$ 3,276,936
Call loans and bills purchased (Note 3)	1,988	1,698	18,719
Securities (Notes 3, 4, 7, 12 and 20)	867,439	919,295	8,164,902
Loans and bills discounted (Notes 3, 5, 15 and 20)	2,458,028	2,389,465	23,136,568
Foreign exchange	4,887	3,748	46,001
Lease receivables and investments in leased assets (Note 15)	31,978	28,593	301,004
Other assets (Note 7)	73,048	27,449	687,584
Tangible fixed assets (Note 6)	36,189	35,951	340,635
Intangible fixed assets	1,971	2,045	18,557
Employee retirement benefit assets (Note 11)	12,068	10,998	113,600
Deferred tax assets (Note 17)	677	758	6,375
Customers' liabilities for acceptances and guarantees (Note 12)	9,899	11,021	93,178
Reserve for possible loan losses (Note 3)	(12,621)	(13,076)	(118,802)
Total assets	¥ 3,833,697	¥ 3,667,586	$ 36,085,257

(Continued)

See accompanying Notes to Consolidated Financial Statements.

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liabilities:			
Deposits (Notes 3, 7 and 8)	¥ 3,403,642	¥ 3,281,431	$ 32,037,302
Call money and bills sold (Note 3)	16,998	12,340	160,000
Payables under securities lending transactions (Notes 3 and 7)	43,713	31,088	411,459
Borrowed money (Notes 3, 7 and 9)	40,817	34,207	384,196
Foreign exchange	139	17	1,314
Bonds payable (Notes 3 and 10)	20,000	10,000	188,252
Bonds with stock acquisition rights (Notes 3 and 10)	10,624	11,219	100,000
Other liabilities (Notes 9 and 17)	21,339	21,392	200,864
Reserve for employee bonuses	1,056	1,078	9,943
Reserve for executive bonuses	48	46	459
Employee retirement benefit liability (Note 11)	4,688	5,055	44,134
Reserve for executive retirement benefits	31	30	300
Reserve for losses on repayments of dormant bank accounts	354	360	3,335
Reserve for contingent losses	2,088	2,157	19,660
Reserve for loss on interest repayments	173	184	1,635
Deferred tax liabilities (Note 17)	18,635	15,139	175,408
Deferred tax liabilities for revaluation (Notes 6 and 17)	2,792	3,223	26,283
Acceptances and guarantees (Note 12)	9,899	11,021	93,178
Total liabilities	3,597,044	3,439,995	33,857,722
Net assets (Notes 13, 14 and 19):			
Common stock	25,090	25,090	236,171
Capital surplus	21,231	18,810	199,847
Retained earnings	134,213	128,758	1,263,301
Less treasury stock, at cost	(4,167)	(3,614)	(39,223)
Total shareholders' equity	176,368	169,045	1,660,096
Accumulated other comprehensive income	59,501	54,037	560,070
Stock acquisition rights	123	102	1,165
Noncontrolling interests	659	4,405	6,204
Total net assets	236,653	227,591	2,227,535
Total liabilities and net assets	¥ 3,833,697	¥ 3,667,586	$ 36,085,257

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Income:			
Interest income:			
Interest on loans and discounts	¥ 22,676	¥ 23,560	$ 213,450
Interest and dividends on securities	8,955	9,315	84,291
Other interest income	295	236	2,783
Total interest income	31,927	33,112	300,524
Fees and commissions	8,898	8,236	83,760
Other operating income	20,392	20,115	191,948
Gain on sales of stocks and other securities	1,322	1,130	12,446
Gain on return of assets from retirement benefit trusts (Note 11)	–	712	–
Gain on conversion of fixed asset rights (Note 6)	4,138	–	38,956
Compensation for transfer (Note 6)	1,062	–	9,998
Other income	541	534	5,098
Total income	68,283	63,842	642,730
Expenses:			
Interest expense:			
Interest on deposits	941	1,220	8,858
Interest on borrowings and rediscounts	543	326	5,117
Other interest expense	1,631	941	15,352
Total interest expense	3,115	2,489	29,327
Fees and commissions	2,584	2,404	24,324
Other operating expenses	15,960	15,514	150,227
General and administrative expenses (Notes 14 and 18)	32,112	32,033	302,263
Provision of reserve for possible loan losses	358	1,306	3,377
Loss on devaluation of stocks and other securities	226	0	2,132
Impairment loss on fixed assets	133	126	1,257
Loss on reduction of fixed assets (Note 6)	4,138	–	38,956
Other expenses	1,450	1,721	13,653
Total expenses	60,080	55,598	565,516
Profit before income taxes	8,203	8,244	77,214
Income taxes (Note 17)	2,321	2,047	21,852
Profit	5,881	6,196	55,362
Profit attributable to noncontrolling interests	69	251	650
Profit attributable to owners of the parent	¥ 5,812	¥ 5,945	$ 54,712

	Yen		U.S. dollars
Earnings per share (Note 2(u)):			
Basic	¥ 308.14	¥ 303.34	$ 2.90
Diluted	250.29	265.02	2.36
Cash dividends	70.00	38.50	0.66

See accompanying Notes to Consolidated Financial Statements.

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended March 31, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Profit	¥	5,881	¥	6,196	$	55,362
Other comprehensive income (Note 19):						
Net change in unrealized gains (losses) on available-for-sale securities		5,787		(2,533)		54,479
Net change in deferred gains (losses) on hedging instruments		0		(0)		0
Net change in land revaluation excess		(9)		–		(86)
Retirement benefit adjustments		654		(863)		6,158
Total other comprehensive income		6,432		(3,396)		60,551
Comprehensive income	¥	12,314	¥	2,800	$	115,913
Comprehensive income attributable to:						
Owners of the parent	¥	12,243	¥	2,552	$	115,244
Noncontrolling interests		71		247		669
Total comprehensive income	¥	12,314	¥	2,800	$	115,913

See accompanying Notes to Consolidated Financial Statements.

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2018 and 2017

	Millions of yen												
	Shareholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Net deferred gains (losses) on hedging instruments	Land revaluation excess	Retirement benefit adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at March 31, 2016	¥ 25,090	¥ 18,810	¥ 127,458	¥ (3,592)	¥ 167,766	¥ 52,614	¥ 0	¥ 4,400	¥ 415	¥ 57,430	¥ 76	¥ 4,161	¥ 229,434
Profit attributable to owners of the parent	–	–	5,945	–	5,945	–	–	–	–	–	–	–	5,945
Cash dividends	–	–	(1,379)	–	(1,379)	–	–	–	–	–	–	–	(1,379)
Purchases of treasury stock	–	–	–	(3,297)	(3,297)	–	–	–	–	–	–	–	(3,297)
Disposition of treasury stock	–	(1)	–	11	10	–	–	–	–	–	–	–	10
Retirement of treasury stock	–	(3,264)	–	3,264	–	–	–	–	–	–	–	–	–
Transfer from retained earnings to capital surplus	–	3,265	(3,265)	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	(2,529)	(0)	–	(863)	(3,392)	25	244	(3,121)
Balance at March 31, 2017	25,090	18,810	128,758	(3,614)	169,045	50,085	(0)	4,400	(447)	54,037	102	4,405	227,591
Profit attributable to owners of the parent	–	–	5,812	–	5,812	–	–	–	–	–	–	–	5,812
Cash dividends	–	–	(1,324)	–	(1,324)	–	–	–	–	–	–	–	(1,324)
Purchases of treasury stock	–	–	–	(570)	(570)	–	–	–	–	–	–	–	(570)
Disposition of treasury stock	–	(3)	–	18	14	–	–	–	–	–	–	–	14
Change in ownership interest of parent arising from transactions with noncontrolling interests	–	2,421	–	–	2,421	–	–	–	–	–	–	–	2,421
Reversal of land revaluation excess	–	–	970	–	970	–	–	–	–	–	–	–	970
Transfer from retained earnings to capital surplus	–	3	(3)	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	5,789	0	(979)	654	5,464	21	(3,746)	1,738
Balance at March 31, 2018	¥ 25,090	¥ 21,231	¥ 134,213	¥ (4,167)	¥ 176,368	¥ 55,874	¥ 0	¥ 3,421	¥ 206	¥ 59,501	¥ 123	¥ 659	¥ 236,653

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2018 and 2017

	Thousands of U.S. dollars												
	Shareholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Net deferred gains (losses) on hedging instruments	Land revaluation excess	Retirement benefit adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at March 31, 2017	$ 236,171	$ 177,056	$ 1,211,957	$ (34,020)	$ 1,591,164	$ 471,434	$ (0)	$ 41,420	$ (4,216)	$ 508,638	$ 962	$ 41,472	$ 2,142,236
Profit attributable to owners of the parent	–	–	54,712	–	54,712	–	–	–	–	–	–	–	54,712
Cash dividends	–	–	(12,471)	–	(12,471)	–	–	–	–	–	–	–	(12,471)
Purchases of treasury stock	–	–	–	(5,373)	(5,373)	–	–	–	–	–	–	–	(5,373)
Disposition of treasury stock	–	(31)	–	170	139	–	–	–	–	–	–	–	139
Change in ownership interest of parent arising from transactions with non-controlling interests	–	22,791	–	–	22,791	–	–	–	–	–	–	–	22,791
Reversal of land revaluation excess	–	–	9,134	–	9,134	–	–	–	–	–	–	–	9,134
Transfer from retained earnings to capital surplus	–	31	(31)	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	54,493	0	(9,218)	6,157	51,432	203	(35,268)	16,367
Balance at March 31, 2018	$ 236,171	$ 199,847	$ 1,263,301	$ (39,223)	$ 1,660,096	$ 525,927	$ 0	$ 32,202	$ 1,941	$ 560,070	$ 1,165	$ 6,204	$ 2,227,535

See accompanying Notes to Consolidated Financial Statements.

The Bank of Nagoya, Ltd. and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 8,203	¥ 8,244	$ 77,214
Adjustments for:			
Depreciation and amortization	2,505	2,647	23,587
Impairment loss on fixed assets	133	126	1,257
Stock option expenses	36	36	343
(Decrease) increase in reserve for possible loan losses	(454)	124	(4,279)
(Increase) decrease in employee retirement benefit assets	(1,070)	3,619	(10,073)
(Decrease) increase in employee retirement benefit liability	(367)	118	(3,455)
Increase in reserve for executive retirement benefits	1	6	16
(Decrease) increase in reserve for contingent losses	(69)	323	(652)
Interest income recognized on statement of income	(31,927)	(33,112)	(300,524)
Interest expense recognized on statement of income	3,115	2,489	29,327
Net gains on securities	(1,609)	(2,283)	(15,152)
Foreign exchange losses, net	6,368	1,410	59,947
Amortization of bond issuance cost	56	57	531
Net (increase) decrease in call loans and bills purchased and others	(290)	1,173	(2,735)
Net increase in loans and bills discounted	(68,563)	(147,512)	(645,363)
Net increase in lease receivables and investments in leased assets	(3,385)	(2,149)	(31,863)
Net increase in deposits	122,211	81,728	1,150,334
Net increase in call money and bills sold	4,657	2,199	43,839
Net increase in payables under securities lending transactions	12,624	12,599	118,830
Net increase in borrowed money (excluding subordinated borrowings)	6,609	7,681	62,214
Interest income received	32,247	33,939	303,539
Interest expense paid	(3,050)	(2,546)	(28,710)
Others, net	(45,031)	(12,517)	(423,865)
Subtotal	42,953	(41,594)	404,307
Income taxes paid	(2,746)	(1,467)	(25,853)
Net cash provided by (used in) operating activities	40,206	(43,061)	378,454
Cash flows from investing activities:			
Purchases of securities	(394,490)	(437,881)	(3,713,203)
Proceeds from sales and maturities of securities	448,927	484,639	4,225,602
Purchases of tangible fixed assets	(2,350)	(1,647)	(22,122)
Proceeds from sales of tangible fixed assets	206	3	1,943
Purchases of intangible fixed assets	(615)	(684)	(5,797)
Net cash provided by investing activities	51,677	44,429	486,423
Cash flows from financing activities:			
Proceeds from issuance of subordinated bonds	9,943	9,942	93,596
Dividends paid to shareholders	(1,325)	(1,380)	(12,475)
Dividends paid to noncontrolling shareholders	(2)	(2)	(25)
(Purchase) disposition of treasury stock, net	(570)	(3,297)	(5,373)
Purchases of stocks of subsidiaries not resulting in change in scope of consolidation	(1,390)	–	(13,088)
Net cash provided by financing activities	6,654	5,262	62,635
Effect of exchange rate changes on cash and cash equivalents	(2)	6	(22)
Net increase in cash and cash equivalents	98,536	6,635	927,490
Cash and cash equivalents at beginning of year	247,512	240,876	2,329,746
Cash and cash equivalents at end of year (Note 2(b))	¥ 346,048	¥ 247,512	$ 3,257,236

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of The Bank of Nagoya, Ltd. (the "Bank") and its consolidated subsidiaries (together with the Bank, the "Group") have been prepared in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from the International Financial Reporting Standards. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, has not been presented in the accompanying consolidated financial statements.

The amounts in Japanese yen are presented in millions of yen and are rounded down to the nearest million. Accordingly, the totals shown in the accompanying consolidated financial statements and these notes may not equal the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to US$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its significant subsidiaries. At both March 31, 2018 and 2017, the Bank had four consolidated subsidiaries, engaged primarily in the business of providing a wide range of financial services to customers.

A subsidiary, Aichi-Jimoto Fund for Agriculture, Forestry and Fisheries Investment Limited Partnership, is excluded from the scope of consolidation and the scope of application of the equity method because its profit, retained earnings, accumulated other comprehensive income (each in proportion to the Bank's interests) and assets are immaterial to the Group's consolidated financial statements. The carrying amount of the investment in the subsidiary, which is included in "Securities" on the consolidated balance sheets, was ¥2 million ($21 thousand) and ¥3 million at March 31, 2018 and 2017, respectively. In addition, the Bank had no affiliates at either March 31, 2018 or 2017.

The difference between the cost of investments in subsidiaries and the underlying equity in their net assets, adjusted based on fair value at the time of acquisition, is deferred as goodwill and amortized over five years using the straight-line method. Negative goodwill resulting from an acquisition, measured as the excess of the underlying equity in the net assets over the acquisition cost, is charged to income. In consolidation, all intercompany transactions and accounts have been eliminated. In addition, all significant unrealized profits, included in assets, resulting from transactions within the Group have been eliminated.

(b) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consisted of cash and due from banks with an original maturity of three months or less at March 31, 2018 and 2017 as follows.

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Cash and due from banks	¥	348,141	¥	249,635	$	3,276,936
Less due from banks whose period exceeds three months		(2,092)		(2,122)		(19,700)
Cash and cash equivalents	¥	346,048	¥	247,512	$	3,257,236

(c) Trading account securities

Trading account securities are stated at fair value at the fiscal year-end. Related gains and losses, both realized and unrealized, are included in current earnings. Accrued interest on trading account securities is included in "other assets."

(d) Securities

Debt securities for which the Group has both the intent and the ability to hold to maturity are classified as held-to-maturity debt securities and are stated at amortized cost. In principle, available-for-sale securities other than those classified as trading or held-to-maturity debt securities are carried at fair value based on their market prices at the applicable fiscal year-end, with net unrealized gains and losses reported as a component of accumulated other comprehensive income in net assets, net of applicable income taxes. Available-for-sale securities whose fair values are extremely difficult to determine are stated at moving average cost. The carrying values of individual securities are reduced, if necessary, through write-downs to reflect other-than-temporary declines in value. Gains and losses on disposal of securities are computed based principally on the moving average method. Accrued interest on securities is included in "other assets."

(e) Derivatives and hedge accounting

The Bank uses various derivative instruments. Derivatives are recorded at fair value, with changes in fair values included in the consolidated statements of income for the period in which they arise, except for derivatives that are designated as hedging instruments and qualify for hedge accounting.

The Bank applies the deferral method of hedge accounting for hedging foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities in accordance with the Industry Audit Committee Report No. 25 (July 29, 2002), entitled the "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry," issued by the Japanese Institute of Certified Public Accountants ("JICPA"). The effectiveness of the currency swap transactions, foreign exchange swap transactions and similar transactions that hedge foreign exchange risks of monetary receivables and payables denominated in foreign currencies as described above is assessed based on a comparison of the hedged monetary receivables and payables denominated in foreign currencies and the foreign currency positions of the corresponding hedging instruments.

(f) Loans and bills discounted and reserve for possible loan losses

A reserve for possible loan losses is maintained based on the Bank's management's judgment and assessment of future losses. The Bank implements a self-assessment system for asset quality. The quality of all loans is assessed by each of the Bank's branches and business units and is subsequently examined by the Bank's Credit Supervision Division in accordance with the Bank's policies and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which customers are classified into five categories. All loans are classified through self-assessment into the following categories: "legal bankruptcy," "de facto bankruptcy," "bankruptcy risk," "under observation" and "normal." The Bank provides a reserve for possible loan losses at an amount deemed necessary to cover possible future losses. For claims against borrowers in legal bankruptcy and de facto bankruptcy, a reserve is provided based on the amounts of such claims, net of the amounts expected to be collected through disposal of collateral or from guarantees. For claims against borrowers who have bankruptcy risk, a reserve is provided in the amount considered necessary based on a solvency assessment performed for the amounts of such claims, net of the amounts expected to be collected through disposal of collateral or from guarantees. For claims against borrowers in the "under observation" and "normal" category, a reserve is provided based on the historical loss experience of the Bank.

Reserve amounts recorded by consolidated subsidiaries are provided at the aggregate amount of estimated credit losses based on an individual financial review approach for doubtful or troubled claims. For other claims, an amount deemed necessary is provided as reserve taking into consideration the historical loss experience.

(g) Tangible fixed assets and depreciation

Tangible fixed assets are principally stated at cost less accumulated depreciation. Depreciation is computed by the declining balance method over the estimated useful life of the asset, except for buildings (excluding facilities attached thereto) acquired on or after April 1, 1998, and facilities attached thereto and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method. For the years ended March 31, 2018 and 2017, the useful life of buildings ranged from 15 to 50 years, and the useful life of equipment and other tangible fixed assets ranged from 4 to 20 years. Tangible fixed assets of the consolidated subsidiaries are depreciated mainly using the straight-line method over the estimated useful life of the asset.

(h) Intangible fixed assets and amortization

Intangible fixed assets are amortized using the straight-line method. Costs of computer software developed or obtained for internal use are capitalized and amortized principally using the straight-line method over the estimated useful life of mainly five years.

(i) Leases

(Accounting for leases as lessor)

A certain consolidated subsidiary engaged in leasing operations, as lessor, recognizes as "investments in leased assets" finance leases that do not transfer ownership of the leased assets to the lessee and recognizes as "lease receivables" finance leases that transfer ownership in a manner similar to the accounting treatment for ordinary sale transactions. The total amount equivalent to interest is allocated over the lease term using the interest method, and the subsidiary recognizes as income lease payments received from customers at the time of receipt and related costs, net of imputed interest, as permitted by the accounting standard. With respect to finance leases commenced prior to April 1, 2008, the book values of fixed assets, net of accumulated depreciation, as of March 31, 2008 are recognized as the value of the investments in such leased assets at April 1, 2008, and the total amount equivalent to interest is allocated over the lease term using the straight-line method. Although the revised accounting standard generally requires the use of the interest method as the principal method of calculation, it permits the use of the straight-line method during the transitional period. As a result, revenues from interests for the years ended March 31, 2018 and 2017 were ¥0 million ($0 thousand) and ¥3 million more, respectively, than the amount that would have been calculated using the interest method.

(j) Impairment of fixed assets

A fixed asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of the impaired asset or a group of assets to the recoverable amount, measured at the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and other forms of property, including intangible assets, and are grouped at the lowest level at which there are identifiable cash flows separate from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets of the Bank other than idle or unused property are grouped into cash generating units such as operating branches, and fixed assets of the consolidated subsidiaries are grouped into respective units which manage and determine income and expenses relating to such assets. The Group recognized impairment loss on fixed assets amounting to ¥133 million ($1,257 thousand) and ¥126 million for unprofitable operating branches for the years ended March 31, 2018 and 2017, respectively. Recoverable amounts of the assets were measured based on their net selling prices, which were based on appraisal values or expected selling amounts less estimated costs of disposal. Accumulated impairment loss is deducted from the net book value of each asset.

(k) Foreign currency translation

The Group's assets and liabilities denominated in foreign currencies, including the accounts of its foreign branches, are translated into Japanese yen at the exchange rate prevailing at the fiscal year-end. Revenues and expenses are translated at the exchange rate prevailing on the applicable transaction dates. Gains and losses resulting from transactions are included in the determination of profit (loss).

(l) Reserve for employee bonuses

A reserve for employee bonuses is provided based on the estimated amount of future payments attributable to the respective year.

(m) Reserve for executive bonuses

A reserve for executive bonuses is provided for the payment of bonuses to directors and audit and supervisory board members based on the estimated amount of the payments attributable to the respective year.

(n) Reserve for employee retirement benefits

Employees who terminate their services with the Group are entitled to retirement benefits based generally on the basic rate of pay at the time of termination, length of service and the conditions under which the termination occurred.

The Group recognizes retirement benefits based principally on the actuarial present value of the retirement benefit obligation using the actuarial appraisal approach and the fair value of pension plan assets available for benefits at the respective fiscal year-end.

In the calculation of retirement benefit obligation, the expected retirement benefits are attributed to periods up to the end of the respective fiscal year using the benefit formula method. Past service cost is amortized by the straight-line method over a certain period within the average remaining years of service of employees. Actuarial differences arising from changes in the retirement benefit obligation or value of plan assets not anticipated by previous assumptions or from changes in the assumptions themselves are amortized on a straight-line basis over a certain period within the average remaining years of service of employees, measured from the year following the year in which the differences arise. For the amortization of past service cost and actuarial differences, the Bank recognizes an amortization period of 13 years as the period within the average remaining years of services of employees. The consolidated subsidiaries use the simplified method in calculating employee retirement benefit liability and retirement benefit expenses. Under this method, the amount for severance payments required at the year-end for voluntary termination is deemed the retirement benefit obligation.

(o) Reserve for executive retirement benefits

For consolidated subsidiaries, a reserve for executive retirement benefits is provided based on the Group’s internal rules in the amount that would be payable assuming the directors and audit and supervisory board members of the consolidated subsidiaries terminated their services at the balance sheet date.

(p) Reserve for losses on repayments of dormant bank accounts

In order to cover possible losses on claims from customers for repayment of dormant bank accounts, the balances of which were previously recognized as income, the Bank provides a reserve to the extent of estimated losses based on historical loss experience and taking into consideration the repayment conditions for a certain past period. A reserve for losses on repayments of dormant bank accounts was included in “other expenses” and amounted to ¥126 million ($1,194 thousand) and ¥114 million for the years ended March 31, 2018 and 2017, respectively.

(q) Reserve for contingent losses

A reserve for contingent losses is provided at an amount deemed necessary to cover possible future losses from default of loans under the responsibility-sharing system on guarantees of loans with the Credit Guarantee Corporation based on historical default loss experience. For the years ended March 31, 2018 and 2017, a reversal of reserve for contingent losses of ¥69 million ($652 thousand) and none, respectively, was included in “other income.”

(r) Reserve for loss on interest repayments

In order to cover possible losses on the repayment of interest to be received from customers that exceeds the upper limit of interest rates prescribed under the Interest Rate Restriction Act, two consolidated subsidiaries provide a reserve for loss on interest repayments to the extent of the estimated losses that may be incurred from repayment claims against customers for whom court settlements have not been reached. Such estimated losses are based on historical loss experience taking into consideration the repayment conditions for a certain past period.

(s) Income taxes

Income taxes are accounted for by the asset-liability method. Deferred tax assets and liabilities are recognized as future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

(t) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Bank’s Board of Directors and/or shareholders.

(u) Per share data

Basic earnings per share is computed by dividing profit attributable to common shareholders of the parent by the weighted average number of shares of common stock outstanding during the respective year. Diluted earnings per share is computed by reflecting the potential dilution that could occur if all dilutive securities were exercised or converted into common stock.

Diluted earnings per share for the year ended March 31, 2018 was computed by taking into account 2,712 thousand potential shares of common stock in relation to bonds with stock acquisition rights of 2,680 thousand shares and stock acquisition rights of 31 thousand shares. In addition, diluted earnings per share for the year ended March 31, 2018 was computed by adjusting profit attributable to the owners of the parent by ¥(412) million ($(3,881) thousand), which was the adjustment to other operating income after tax effect.

Diluted earnings per share for the year ended March 31, 2017 was computed by taking into account 2,705 thousand potential shares of common stock in relation to bonds with stock acquisition rights of 2,680 thousand shares and stock acquisition rights of 24 thousand shares. In addition, diluted earnings per share for the year ended March 31, 2017 was computed by adjusting profit attributable to the owners of the parent by ¥(33) million, which was the adjustment to other operating income after tax effect.

Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared applicable to the respective years shown.

The Bank implemented a consolidation of shares at a ratio of one share per 10 shares effective on October 1, 2016. Earnings per share were computed assuming that the share consolidation had been implemented at the beginning of fiscal year ended March 31, 2016.

(v) New accounting standards not yet applied by the Group

- Accounting Standard for Revenue Recognition (Corporate Accounting Standards No. 29, March 30, 2018 Accounting Standards Board of Japan (ASBJ))
- Implementation Guidance on Accounting Standard for Revenue Recognition (Corporate Accounting Standards Application Guideline No. 30, March 30, 2018 ASBJ)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and issued "Revenue from Contracts with Customers" in May 2014. The IASB issued IFRS 15, which is effective from the fiscal year beginning on or after January 1, 2018, and the FASB issued Topic 606, which is effective from the fiscal year beginning after December 15, 2017. In accordance with the IASB and FASB standard, the ASBJ developed its own comprehensive accounting standard for revenue recognition and issued it with the implementation guidance.

The ASBJ's basic policy in developing the accounting standard for revenue recognition was to establish accounting standards with the incorporation of the basic principles of IFRS 15 as a starting point from a viewpoint of comparability between financial statements, which is one of benefits of maintaining consistency with IFRS 15, and to add alternative treatments to the extent necessary to address practices conducted in Japan, but not to the extent that would impair comparability.

(2) Effective date

The Bank will adopt the new standard and related guidance from the beginning of the year ending March 31, 2022.

(3) Effect of application

The Bank is currently assessing the effect of applying the new standard and related guidance on the consolidated financial statements.

3. Financial Instruments and Related Disclosures

(a) Qualitative information on financial instruments

(1) Group policy for financial instruments

The Group undertakes deposit, loan and investment operations. Since the Group has financial assets and liabilities which involve interest rate risk, the Bank has established an Asset Liability Management ("ALM") system to avoid unfavorable effects of interest rate fluctuations. Derivative transactions are used as part of ALM.

(2) Nature of financial instruments and related risks

Financial assets held by the Group comprise mainly loans to domestic corporate entities and individuals and securities. Loans are subject to customer credit risk arising from default by borrowers. There is a possibility that the borrowers will not perform their obligations in accordance with the applicable contract terms due to economic circumstances or other reasons. Securities, which primarily comprise equity securities, bonds and investment trusts, are held for investment and business promotion purposes. These securities are exposed to the credit risk of issuers, interest rate fluctuation risk and/or market price fluctuation risk. For securities denominated in foreign currencies, bonds denominated in foreign currencies are basically purchased at an amount up to the corresponding amount of deposits and funds are procured from the market in foreign currencies to avoid foreign exchange fluctuation risk.

Financial liabilities include mainly deposits from customers and are subject to liquidity risk. There is an interest or maturity mismatch between assets such as loans and bills discounted and liabilities such as deposits that exposes these assets and liabilities to interest rate fluctuation risk.

Derivative transactions include interest rate swaps and forward foreign exchange contracts. The Group uses derivative transactions in line with ALM in order to avoid interest rate fluctuation risk in relation to deposits and loans and to fulfill the customers' hedging requirements for foreign exchange fluctuation risk. Hedge accounting is applied to certain transactions which offset market fluctuations or fix cash flows and fulfill preliminary and subsequent requirements. Derivative transactions which do not meet the hedge accounting criteria are exposed to foreign exchange fluctuation risk and interest rate fluctuation risk.

(3) Risk management for financial instruments

(i) Credit risk management

The Group manages its credit risk by maintaining a credit exposure management system in relation to loans in accordance with its "Credit Policy," which stipulates the basic concepts in relation to its credit exposure management and administrative rules regarding credit risk. The system includes the credit administration of loans, credit lines, credit records and internal ratings and the establishment of guarantees and/or collateral and handling of doubtful loans. These credit exposure management procedures are performed by each of the Group's sales branches and operation support department and are reported to the Board of Executive Directors and/or Board of Directors on a regular basis.

The credit risk of issuers of securities and the counterparty risk of derivative transactions are managed by the Bank's Capital Markets and Treasury Division which monitors credit information and fair values on a regular basis.

(ii) Market risk management

(a) Interest rate risk management

The Group has established the ALM committee for the purpose of recognizing and managing interest rate fluctuation risk comprehensively and implementing appropriate ALM. Risk control methods and procedures are stipulated in the ALM committee codes, and the ALM committee operates in accordance with the management policy of ALM determined at the Board of Directors' meeting. The status of implementation is monitored and future actions are discussed at the Board of Directors' meeting. On a daily basis, the Bank's Risk Control Division checks interest rates and periods of financial assets and liabilities, monitors risks using gap analysis and interest rate sensitivity analysis and reports to the ALM committee and Board of Directors monthly. Interest rate swap transactions are also used under the ALM system to avoid interest rate fluctuation risk.

(b) Foreign exchange risk management

The Group manages foreign exchange fluctuation risk by transaction and enters into forward foreign exchange contracts to avoid foreign exchange fluctuation risk on transactions with customers.

(c) Market price fluctuation risk management

The Group holds investment products, including securities based on marketable securities investment planning, determined by the Board of Executive Directors in accordance with the basic market fluctuation risk management rules of the Board of Directors. Since the Bank's Capital Markets and Treasury Division purchases investment products from outside, market price fluctuation risk is reduced through effective monitoring after preliminary review and the establishment of investment limits. Most of the equity securities managed by the Bank's Planning Division are for business promotion purposes, and market conditions and the financial status of customers are monitored and reported to the Board of Executive Directors on a regular basis.

(d) Derivative transactions

An internal checking system has been established through segregating functions related to derivative transactions, including trading functions such as entering into derivative contracts, operations functions such as the processing of transactions and the evaluation of hedge effectiveness.

(e) Quantitative information on market risk

i) Financial instruments for trading purposes

The Group uses the historical simulation method (based on the assumptions of a holding period of 120 business days, 99% confidence level and observation period of 1,200 business days) for the calculation of interest-related Value at Risk (VaR) for trading account securities. As of both March 31, 2018 and 2017, the market risk exposures (the expected maximum loss) of the Group's trading operation amounted to zero.

ii) Financial instruments other than for trading purposes

Market risk is the primary risk to the Group. The major financial instruments subject to market risk are "loans and bills discounted," debt and equity securities and investment trusts included in "securities" and "deposits" and interest rate swaps included in "derivatives." The historical simulation method (based on the assumptions of a holding period of 120 business days, 99% confidence level and observation period of 1,200 business days) is used for the calculation of VaR of these financial assets and liabilities. As of March 31, 2018 and 2017, the market risk exposures (the expected maximum loss) of the Bank's banking operations were as follows.

	Value at Risk		
	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities for investment purposes *(*1)*	¥ 10,907	¥ 16,033	$ 102,669
Strategically held equity securities	22,355	20,904	210,428
Loans and deposits *(*2)*	7,292	6,818	68,641

Notes:

*(*1) Securities for investment purposes: yen bonds, foreign bonds, equity securities for investment purposes, investment trusts and OTC options*

*(*2) Loans and deposits: deposits, negotiable certificates of deposit, loans and bills discounted, interest rate swaps for ALM hedging purposes, call loans, due from banks, bonds payable, bonds with stock acquisition rights, payables under securities lending transactions and borrowed money*

iii) Supplementary explanation about quantitative information on market risk

The Group evaluates the effectiveness of its measurement model by performing back-testing procedures to compare VaR calculated by the measurement system with actual gain or loss. VaR provides information regarding market risk exposure statistically calculated with certain probability based on historical market fluctuations. Therefore, VaR may not be able to measure risks under extreme situations in which the market environment changes extraordinarily.

(iii) Management of liquidity risk associated with fund raising

The Group regards the stable funding of its operations as its top priority and conducts effective fund management. In addition, the Group manages liquidity risk by diversifying the means of raising funds and adjusting the balance of long-term and short-term accounts taking into consideration market conditions.

(4) Supplementary explanation on fair values

The fair value of financial instruments is based on market price. If the market price is not available, alternative valuation techniques are used. Since assumptions must be made when using alternative methods to calculate fair values, different assumptions may lead to different fair values.

(b) Fair values of financial instruments

The carrying values and fair values of financial instruments at March 31, 2018 and 2017 were as follows.

	Millions of yen		
	2018		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 348,141	¥ 348,141	¥ –
Call loans and bills purchased	1,988	1,988	–
Securities - available-for-sale securities *(*1)*	864,843	864,843	–
Loans and bills discounted:	2,458,028		
Reserve for possible loan losses *(*2)*	(11,916)		
Loans and bills discounted – subtotal	2,446,112	2,461,934	15,821
Total	¥ 3,661,086	¥ 3,676,908	¥ 15,821
Deposits	¥ 3,403,642	¥ 3,404,151	¥ 508
Call money and bills sold	16,998	16,998	–
Payables under securities lending transactions	43,713	43,713	–
Borrowed money	40,817	40,826	9
Bonds payable	20,000	20,038	38
Bonds with stock acquisition rights	10,624	11,287	663
Total	¥ 3,535,795	¥ 3,537,015	¥ 1,219
Derivative transactions *(*3)*:			
Hedge accounting not applied	¥ 1,244	¥ 1,244	¥ –
Hedge accounting applied	–	–	–
Total	¥ 1,244	¥ 1,244	¥ –

	Millions of yen		
	2017		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 249,635	¥ 249,635	¥ –
Call loans and bills purchased	1,698	1,698	–
Securities - available-for-sale securities *(*1)*	916,759	916,759	–
Loans and bills discounted:	2,389,465		
Reserve for possible loan losses *(*2)*	(12,266)		
Loans and bills discounted – subtotal	2,377,199	2,394,582	17,382
Total	¥ 3,545,291	¥ 3,562,674	¥ 17,382
Deposits	¥ 3,281,431	¥ 3,282,370	¥ 939
Call money and bills sold	12,340	12,340	–
Payables under securities lending transactions	31,088	31,088	–
Borrowed money	34,207	34,245	38
Bonds payable	10,000	9,998	(1)
Bonds with stock acquisition rights	11,219	11,930	711
Total	¥ 3,380,287	¥ 3,381,975	¥ 1,688
Derivative transactions *(*3)*:			
Hedge accounting not applied	¥ (500)	¥ (500)	¥ –
Hedge accounting applied	2	2	–
Total	¥ (497)	¥ (497)	¥ –

	Thousands of U.S. dollars		
	2018		
	Carrying value	Fair value	Difference
Cash and due from banks	$ 3,276,936	$ 3,276,936	$ –
Call loans and bills purchased	18,719	18,719	–
Securities - available-for-sale securities *(*1)*	8,140,467	8,140,467	–
Loans and bills discounted:	23,136,568		
Reserve for possible loan losses *(*2)*	(112,162)		
Loans and bills discounted – subtotal	23,024,406	23,173,331	148,925
Total	$ 34,460,528	$ 34,609,453	$ 148,925
Deposits	$ 32,037,302	$ 32,042,091	$ 4,789
Call money and bills sold	160,000	160,000	–
Payables under securities lending transactions	411,459	411,459	–
Borrowed money	384,196	384,288	92
Bonds payable	188,253	188,613	360
Bonds with stock acquisition rights	100,000	106,242	6,242
Total	$ 33,281,210	$ 33,292,693	$ 11,483
Derivative transactions *(*3)*:			
Hedge accounting not applied	$ 11,718	$ 11,718	$ –
Hedge accounting applied	–	–	–
Total	$ 11,718	$ 11,718	$ –

Notes:

*(*1) The following securities were excluded from the above tables because management of the Bank concluded that the fair value was virtually impossible to estimate.*

	Millions of yen		*Thousands of U.S. dollars*
	2018	*2017*	*2018*
*Unlisted stocks *1*	*¥ 2,306*	*¥ 2,342*	*$ 21,707*
*Investments in partnerships *2 and *3*	*289*	*194*	*2,728*
Total	*¥ 2,595*	*¥ 2,536*	*$ 24,435*

**1 The Group wrote off unlisted stocks amounting to ¥226 million ($2,132 thousand) and ¥0 million for the years ended March 31, 2018 and 2017, respectively.*

**2 The fair value of investments in partnerships that comprised assets whose fair value could not be reliably determined were not disclosed.*

**3 The Group wrote off investments in partnerships amounting to ¥13 million ($129 thousand) and ¥10 million for the years ended March 31, 2018 and 2017, respectively.*

*(*2) General and individual reserves for possible loan losses corresponding to loans and bills discounted were deducted.*

*(*3) Derivative transactions show net amounts after offsetting related receivables and payables. Amounts in parentheses denote net payables.*

The methods and assumptions used to calculate fair values of financial instruments are summarized below.

Financial assets:

Cash and due from banks

Since the carrying value of due from banks on demand or with an original maturity of up to one year approximates the fair value, the carrying value is deemed the fair value. For due from banks with an original maturity exceeding one year, the present value is calculated by discounting the amount by the remaining term to maturity at the rate applicable to a similar new transaction.

Call loans and bills purchased

The carrying value of call loans and bills purchased approximate fair value because of the short maturity (original maturities of up to one year).

Securities

The fair value of equity securities, bonds and investment trusts is based on the quoted market price at the applicable exchange, the price published by JSDA or provided by the contracted financial institution and publicly available net asset value, respectively. The fair value of privately-placed bonds is determined by discounting the estimated future cash flows at the risk free rate plus the credit spread or the like. The fair value of securities issued by issuers in legal bankruptcy or de facto bankruptcy or who are at risk of bankruptcy are calculated based on the present value of estimated future cash flows or the amount expected to be collected through the disposal of collateral or from guarantees.

Loans and bills discounted

The fair value of commercial bills, loans on bills and overdrafts, all of which have short maturities (original maturities of up to one year), approximate the carrying value unless the credit status of the borrower has changed dramatically after execution because of the quick reaction of market interest rates to such changes. Therefore, the carrying value of these instruments is deemed the fair value. The fair value of loans on deeds is determined by discounting the estimated future cash flows at the risk free rate plus the credit spread or the like at the rate for a similar new loan, depending on the nature of such loans. The fair value of structured loans is determined by considering the value calculated by using the option pricing model in addition to using the method applicable to measuring the fair value of loans on deeds as described above.

For loans to borrowers in legal bankruptcy or de facto bankruptcy or who are at risk of bankruptcy, a reserve for possible loan losses is estimated based on the present value of estimated future cash flows or the amount expected to be collected through disposal of collateral or from guarantees. Thus, the fair value of such loans approximates the carrying amount of the receivables minus the corresponding reserve for possible loan losses on the consolidated balance sheets at the closing date. Therefore, such carrying amounts are deemed to be the fair value of such loans. The carrying value of loans and bills discounted without repayment terms due to characteristics such as limitations on loans to the limits of the collateral assets is deemed the fair value as the carrying values approximates the fair value when considering the expected repayment period and interest rate conditions for such loans and bills discounted without repayment terms.

Financial liabilities:

Deposits

The fair value of demand deposits in Japanese yen is deemed the amount to be paid (carrying amount) assuming that the Group is demanded to pay on the consolidated balance sheet date. The fair value of time deposits in Japanese yen and negotiable certificates of deposit is determined by discounting future cash flows by the term to maturity at the rate used for a new deposit. For all deposits in foreign currencies, original maturities are short (within one year) and the carrying value approximates the fair value. Thus, the carrying value is deemed the fair value.

Call money and bills sold

The original maturities of call money and bills sold are short (within one year), and the carrying value approximates the fair value. Thus, the carrying value is deemed the fair value.

Payables under securities lending transactions

The original maturities of payables under securities lending transactions are short (within one year), and their carrying values approximate their fair values. Thus, the carrying value is deemed the fair value.

Borrowed money

The carrying value of borrowed money with a variable interest rate is deemed the fair value since the carrying value approximates the fair value. This is due to the quick reaction of market interest rates and immaterial changes in the credit status of the Bank and its subsidiaries after execution of such borrowing. The fair value of borrowed money with a fixed interest rate is the present value determined by discounting the sum of principal and interest by the term to maturity at the rate for similar new borrowing. For borrowed money with a short maturity (original maturity of up to one year), the carrying value is deemed the fair value since the carrying value approximates the fair value.

Bonds payable

The fair value of bonds payable issued by the Bank is based on market price.

Bonds with stock acquisition rights

The fair value of bonds with stock acquisition rights issued by the Bank is based on market price.

(c) Maturity analysis for monetary claims and securities with contractual maturities as of March 31, 2018

	Millions of yen					
	2018					
	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	¥ 316,969	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills purchased	1,988	–	–	–	–	–
Securities:						
Available-for-sale securities with maturities *(*1)*						
National government bonds	26,400	18,700	6,000	–	12,500	4,000
Local government bonds	13,835	29,100	29,907	9,317	34,624	500
Bonds and debentures	55,725	137,815	90,980	55,360	51,534	3,318
Others *(*2)*	8,085	27,285	59,374	22,638	12,570	–
Securities - total	104,045	212,901	186,263	87,316	111,229	7,818
Loans and bills discounted *(*3)*	715,890	453,151	302,119	194,669	203,352	536,865
Total	¥ 1,138,894	¥ 666,053	¥ 488,383	¥ 281,986	¥ 314,581	¥ 544,683

	Thousands of U.S. dollars					
Due from banks	$ 2,983,520	$ –	$ –	$ –	$ –	$ –
Call loans and bills purchased	18,719	–	–	–	–	–
Securities:						
Available-for-sale securities with maturities *(*1)*						
National government bonds	248,494	176,017	56,476	–	117,658	37,651
Local government bonds	130,228	273,913	281,510	87,698	325,909	4,706
Bonds and debentures	524,521	1,297,211	856,371	521,093	485,077	31,234
Others *(*2)*	76,102	256,827	558,876	213,085	118,318	–
Securities - total	979,345	2,003,968	1,753,233	821,876	1,046,962	73,591
Loans and bills discounted *(*3)*	6,738,431	4,265,357	2,843,746	1,832,360	1,914,083	5,053,328
Total	$ 10,720,015	$ 6,269,325	$ 4,596,979	$ 2,654,236	$ 2,961,045	$ 5,126,919

Notes:

*(*1) Amounts of securities were stated on the basis of scheduled redemption amounts regarding the principal and do not match the amounts shown in the consolidated balance sheets.*

*(*2) "Others" include Samurai bonds, Euro-Yen bonds and other foreign bonds.*

*(*3) The portion of loans and bills discounted whose timing of collection is unforeseeable, including loans to "legal bankruptcy" borrowers, loans to "de facto bankruptcy" borrowers and loans to "bankruptcy risk" borrowers, amounting to ¥51,979 million ($489,263 thousand) was not included in the above table.*

(d) Repayment schedule for bonds, borrowed money and other debts with contractual maturities as of March 31, 2018

	Millions of yen					
	2018					
	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 *(*1)*	¥ 3,223,934	¥ 145,362	¥ 33,097	¥ 524	¥ 722	¥ –
Call money and bills sold	16,998	–	–	–	–	–
Payables under securities lending transactions	43,713	–	–	–	–	–
Borrowed money	24,677	12,215	3,925	–	–	–
Bonds payable	–	–	–	–	20,000	–
Bonds with stock acquisition rights	–	10,624	–	–	–	–
Total	¥ 3,309,323	¥ 168,201	¥ 37,022	¥ 524	¥ 20,722	¥ –

	Thousands of U.S. dollars					
Deposits *(*1)*	$ 30,345,773	$ 1,368,244	$ 311,539	$ 4,941	$ 6,805	$ –
Call money and bills sold	160,000	–	–	–	–	–
Payables under securities lending transactions	411,459	–	–	–	–	–
Borrowed money	232,276	114,975	36,945	–	–	–
Bonds payable	–	–	–	–	188,253	–
Bonds with stock acquisition rights	–	100,000	–	–	–	–
Total	$ 31,149,508	$ 1,583,219	$ 348,484	$ 4,941	$ 195,058	$ –

Note:
*(*1) Demand deposits were included in "due in one year or less."*

4. Securities

At March 31, 2018 and 2017, securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
National government bonds	¥ 71,599	¥ 129,926	$ 673,941
Local government bonds	118,406	128,167	1,114,515
Bonds and debentures	398,218	414,001	3,748,295
Equity securities	131,620	120,955	1,238,894
Other securities	147,594	126,246	1,389,257
	¥ 867,439	¥ 919,295	$ 8,164,902

Securities are classified as trading, held-to-maturity or available-for-sale securities. Such classification determines the respective accounting method to be applied as stipulated under the accounting standard for financial instruments. Securities in the accompanying consolidated balance sheets include marketable securities traded on stock exchanges.

Gross unrealized gains and losses on available-for-sale securities with fair values at March 31, 2018 and 2017 are summarized as follows.

	Millions of yen			
	Acquisition Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Available-for-sale securities with fair values at March 31, 2018:				
Equity securities	¥ 49,852	¥ 79,719	¥ (257)	¥ 129,314
Bonds:				
National government bonds	71,015	649	(65)	71,599
Local government bonds	117,759	756	(110)	118,406
Bonds and debentures	396,995	1,593	(370)	398,218
Others	150,219	187	(3,102)	147,304
	¥ 785,843	¥ 82,906	¥ (3,906)	¥ 864,843
Available-for-sale securities with fair values at March 31, 2017:				
Equity securities	¥ 51,820	¥ 66,923	¥ (130)	¥ 118,612
Bonds:				
National government bonds	128,598	2,000	(673)	129,925
Local government bonds	127,055	1,397	(284)	128,167
Bonds and debentures	411,741	2,907	(647)	414,001
Others	127,109	454	(1,512)	126,051
	¥ 846,323	¥ 73,683	¥ (3,248)	¥ 916,759

	Thousands of U.S. dollars			
Available-for-sale securities with fair value at March 31, 2018:				
Equity securities	$ 469,245	$ 750,371	$ (2,428)	$ 1,217,188
Bonds:				
National government bonds	668,442	6,116	(618)	673,940
Local government bonds	1,108,432	7,118	(1,036)	1,114,514
Bonds and debentures	3,736,779	15,002	(3,486)	3,748,295
Others	1,413,968	1,767	(29,205)	1,386,530
	$ 7,396,866	$ 780,374	$ (36,773)	$ 8,140,467

At March 31, 2018 and 2017, net unrealized gains on available-for-sale securities, net of applicable income taxes, and noncontrolling interests, included in accumulated other comprehensive income of net assets on the accompanying consolidated balance sheets were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gains	¥ 79,000	¥ 70,435	$ 743,601
Deferred tax liabilities	(23,123)	(20,346)	(217,650)
Noncontrolling interests portion	(2)	(4)	(24)
Net unrealized gains in net assets	¥ 55,874	¥ 50,085	$ 525,927

During the years ended March 31, 2018 and 2017, the Group sold available-for-sale securities and recorded gains of ¥3,105 million ($29,228 thousand) and ¥4,365 million, respectively, and losses of ¥1,473 million ($13,870 thousand) and ¥2,103 million, respectively, in the accompanying consolidated statements of income.

At March 31, 2018 and 2017, the Group recorded losses on write-downs of available-for-sale securities with fair values due to other-than-temporary declines in value amounting to none and ¥1 million, respectively.

5. Loans and Bills Discounted

At March 31, 2018 and 2017, loans and bills discounted consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bills discounted	¥ 38,994	¥ 36,937	$ 367,043
Loans on bills	108,438	115,665	1,020,689
Loans on deeds	2,017,523	1,958,018	18,990,241
Overdrafts	281,392	267,532	2,648,649
Others	11,680	11,311	109,946
	¥ 2,458,028	¥ 2,389,465	$ 23,136,568

Bills discounted are accounted for as finance transactions in accordance with JICPA Industry Audit Committee Report No. 24 (February 13, 2002), entitled "Treatment of Accounting and Auditing Concerning Application of Accounting Standard for Financial Instruments in Banking Industry." The Group has rights to sell or pledge (repledge) bankers' acceptances, commercial bills, documentary bills and foreign bills bought without restrictions. The total face value of these bills amounted to ¥40,177 million ($378,177 thousand) and ¥37,946 million at March 31, 2018 and 2017, respectively.

Claims against borrowers in bankruptcy and past due loans are included in "loans and bills discounted" and amounted to ¥51,883 million ($488,365 thousand) and ¥50,068 million at March 31, 2018 and 2017, respectively. Loans are generally placed on nonaccrual status when there is substantial doubt about the ultimate collectability of either the principal or interest because the principal or interest is past due for a considerable period or for other reasons. Accrued interest is not recorded when loans are classified as claims against borrowers in bankruptcy or past due loans. Claims against borrowers in bankruptcy represent nonaccrual loans after charge-off against legally bankrupt borrowers as defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of the Order for Enforcement of the Corporation Tax Law of Japan. Other than claims against borrowers in bankruptcy and loans for which interest payments are deferred in order to assist the financial recovery of borrowers in financial difficulties, past due loans are recognized as nonaccrual loans.

At March 31, 2018 and 2017, accruing loans for which the payment of principal or interest was contractually past due by three months or more, excluding nonaccrual loans, amounted to ¥35 million ($330 thousand) and ¥22 million, respectively.

At March 31, 2018 and 2017, restructured loans (excluding nonaccrual and accruing loans contractually past due by three months or more as mentioned above) for which the Bank had restructured the terms and conditions in favor of borrowers in financial difficulties through measures such as the reduction or exemption of the original interest rate, extension of interest payments and/or principal repayments and debt forgiveness in order to support the financial recovery of such borrowers amounted to ¥9,838 million ($92,604 thousand) and ¥13,824 million, respectively.

Before charge-offs, total nonperforming loans, consisting of non-accrual loans, accruing loans contractually past due by three months or more and restructured loans, amounted to ¥61,757 million ($581,299 thousand) and ¥63,915 million at March 31, 2018 and 2017, respectively.

In accordance with JICPA Accounting Committee Report No. 3 (November 28, 2014), "Accounting Treatment and Presentation of Loan Participation," the participation principal is accounted for as loans to the original obligor and recorded in the consolidated balance sheets. At March 31, 2018 and 2017, this amounted to ¥1,929 million ($18,160 thousand) and zero, respectively.

6. Tangible Fixed Assets

At March 31, 2018 and 2017, major classifications of accounts were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Land	¥ 22,639	¥ 23,371	$ 213,102
Buildings and structures	8,876	9,085	83,551
Equipment	2,947	3,325	27,740
Construction in progress	1,725	169	16,242
Tangible fixed assets	¥ 36,189	¥ 35,951	$ 340,635

At March 31, 2018 and 2017, accumulated depreciation for tangible fixed assets amounted to ¥33,452 million ($314,876 thousand) and ¥34,045 million, respectively.

Pursuant to the Action Revaluation of Land and effective March 31, 1998, the Bank elected a one-time revaluation to restate the cost of land used for the banking business at values reassessed and reflecting adjustments for geographical shape and other factors in accordance with the municipal property tax bases. According to the Act, the amount equivalent to the tax effect on the excess of reassessed values over the original book values is to be recorded as “deferred tax liabilities for revaluation,” and the remainder of the excess, net of the tax effect, is to be recorded as “land revaluation excess” under accumulated other comprehensive income of net assets in the consolidated balance sheets. At March 31, 2018 and 2017, the differences in the carrying values of land used for the banking business after revaluation over market values amounted to ¥8,470 million ($79,731 thousand) and ¥8,882 million, respectively.

As permitted by Japanese GAAP, deferred capital gains on the sale of real property are deducted from the original acquisition costs of property which is newly acquired for replacement purposes in the same line of business as the property sold. At March 31, 2018 and 2017, ¥5,884 million ($55,389 thousand) and ¥1,750 million, respectively, were directly deducted from the acquisition costs of such land.

Gain on conversion of fixed asset rights amounting to ¥4,138 million ($38,956 thousand) at March 31, 2018 was the result of the exchange of rights conducted by order of confirmation for the Yaesu 2-Chome North District Category-I Urban Redevelopment Project. The same amount was recognized as loss on reduction of fixed assets.

Compensation for transfer amounting to ¥1,062 million ($9,998 Thousand) at March 31, 2018 consisted of ¥881 million ($8,298 thousand) provided for Tokyo branch in connection with the redevelopment project and ¥180 million ($1,700 thousand) provided for the Anjo branch in connection with the expropriation of land.

7. Pledged Assets

The carrying amounts of assets pledged as collateral and related collateralized debt at March 31, 2018 and 2017 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Assets pledged:						
Securities	¥	75,523	¥	63,046	$	710,876
Other assets		20		20		192
Related collateralized debts:						
Deposits	¥	4,766	¥	19,229	$	44,865
Payables under securities lending transactions		43,713		31,088		411,459
Borrowed money		15,199		10,887		143,063

In addition, securities amounting to ¥8,016 million ($75,458 thousand) and ¥54,796 million at March 31, 2018 and 2017, respectively, were pledged as collateral for the settlement of exchange and other transactions.

8. Deposits

At March 31, 2018 and 2017, deposits consisted of the following.

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Demand deposits	¥	2,128,335	¥	1,958,023	$	20,033,282
Time deposits		1,173,334		1,209,835		11,044,189
Other deposits		40,071		50,391		377,180
Subtotal		3,341,742		3,218,250		31,454,651
Negotiable certificates of deposit		61,900		63,180		582,651
	¥	3,403,642	¥	3,281,431	$	32,037,302

9. Borrowed Money and Finance Lease Obligations

Borrowed money consisted principally of borrowings from financial institutions due through February 2023 with average interest rates of 0.70% and 0.63% per annum at March 31, 2018 and 2017, respectively. There were no financial lease obligations outstanding at March 31, 2018.

At March 31, 2018, the annual maturities of borrowed money were as follows.

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
2019	¥	24,677	$	232,276
2020		6,342		59,700
2021		5,872		55,276
2022		2,850		26,826
2023		1,075		10,118
	¥	40,817	$	384,196

10. Bonds

At March 31, 2018 and 2017, bonds consisted of the following.

	Millions of yen		Thousands of U.S. dollars			
	2018	2017	2018	Interest rate	Collateral	Due
U.S. dollar denominated zero-coupon convertible bond-type bonds with stock acquisition rights, due in 2020	¥ 10,624	¥ 11,219	$ 100,000	–	–	March 26, 2020
1st Unsecured bonds with early redemption clauses (with special contracts for exemption at time of de facto bankruptcy and subordination agreements)	¥ 10,000	¥ 10,000	$ 94,126	0.59% March 24, 2017 to March 23, 2022 0.48% +6-month JPY LIBOR After March 24, 2022	–	March 24, 2027
2nd Unsecured bonds with early redemption clauses (with special contracts for exemption at time of de facto bankruptcy and subordination agreements)	¥ 10,000	¥ –	$ 94,126	0.48% October 18, 2017 to October 17, 2022 0.37% +6-month JPY LIBOR After October 18, 2022	–	October 18, 2027

The following is a summary of the terms for conversion and redemption of convertible bonds with stock acquisition rights:

	Issue price of stock acquisition rights	Issue price of common stock	Total issue price	Exercise period
U.S. dollar denominated zero-coupon convertible bond-type bonds with stock acquisition rights, due in 2020	Gratis	$ 37.30	$100,000 thousand	From April 9, 2015 to March 12, 2020

Note: The value of the assets to be invested at the exercise of the stock acquisition rights is equal to the face value of the convertible bond.

At March 31, 2018, the annual maturities of bonds with stock acquisitions rights were as follows.

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
2019	¥	–	$	–
2020		10,624		100,000
2021		–		–
2022		–		–
2023		–		–
	¥	10,624	$	100,000

11. Employee Retirement Benefits

The Bank maintains "funded and unfunded defined benefit plans" and "a selection of either a defined contribution plan or prepayment of retirement allowance" for employee retirement benefits. Eligible employees are entitled to receive lump-sum payments or pension payments based on the level of salary and the length of service under the defined benefit ("DB") corporate pension plans, all of which are funded plans. The Bank has set up retirement benefit trusts for certain plans among the defined benefit corporate pension plans. Eligible employees are entitled to receive lump-sum payments based on the level of salary and the length of service under the lump-sum payment plans, most of which are funded as a result of establishing retirement benefit trusts; however, some are unfunded plans. One of the Bank's consolidated subsidiaries participates in a multi-employer pension program under a certain public pension plan as part of the lump-sum retirement benefit plan. The Bank's other three consolidated subsidiaries have each adopted only the lump-sum retirement benefit plan. The consolidated subsidiaries use the simplified method in calculating employee retirement defined benefit liability and retirement benefit expenses. Under this method, the amount for severance payments required at the year-end for voluntary termination is deemed the retirement benefit obligation.

(a) Defined benefit plans

(1) Movement in retirement benefit obligation, excluding plans applying the simplified method:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Balance at beginning of year	¥	33,071	¥	33,713	$	311,286
Service cost		875		886		8,244
Interest cost		99		101		934
Actuarial differences		(34)		(174)		(326)
Retirement benefits paid		(1,896)		(1,455)		(17,848)
Balance at end of year	¥	32,115	¥	33,071	$	302,290

(2) Movement in plan assets, excluding plans applying the simplified method:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 39,143	¥ 43,519	$ 368,447
Expected return on pension plan assets	680	685	6,400
Actuarial differences	788	(423)	7,422
Contribution paid by employer	198	944	1,872
Return of assets from retirement benefit trusts	–	(4,400)	–
Retirement benefits paid	(1,194)	(1,183)	(11,244)
Balance at end of year	¥ 39,616	¥ 39,143	$ 372,897

(3) Movement in employee retirement benefit liability for plans applying the simplified method:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Employee retirement benefit liability at beginning of year	¥ 129	¥ 124	$ 1,222
Retirement benefit expenses	30	35	291
Retirement benefits paid	(39)	(30)	(372)
Employee retirement benefit liability at end of year	¥ 121	¥ 129	$ 1,141

(4) Reconciliation from retirement benefit obligation and plan assets to retirement benefit (asset) liability recognized in the consolidated balance sheets:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Funded retirement benefit obligation	¥	32,173	¥	33,143	$	302,838
Plan assets		(39,616)		(39,143)		(372,897)
		(7,443)		(6,000)		(70,059)
Unfunded retirement benefit obligation		62		57		593
Net retirement benefit (asset) liability	¥	(7,380)	¥	(5,942)	$	(69,466)
Employee retirement benefit liability	¥	4,688	¥	5,055	$	44,134
Employee retirement benefit assets		(12,068)		(10,998)		(113,600)
Net retirement benefit (asset) liability	¥	(7,380)	¥	(5,942)	$	(69,466)

(5) Net periodic retirement benefit expense and its breakdown:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Service cost	¥	875	¥	886	$	8,244
Interest cost		99		101		934
Expected return on plan assets		(680)		(685)		(6,401)
Amortization of actuarial differences		263		(134)		2,480
Amortization of past service cost		(144)		(144)		(1,364)
Retirement benefit expense for plans applying the simplified method		30		35		291
Gain on return of assets from retirement benefit trusts		–		(712)		–
Others		6		8		63
Net periodic retirement benefit expense of defined benefit plans	¥	451	¥	(647)	$	4,247

(6) Retirement benefit adjustments in other comprehensive income, before tax effects:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Past service cost	¥	(144)	¥	(144)	$	(1,364)
Actuarial differences		1,086		(1,097)		10,228
Total	¥	941	¥	(1,242)	$	8,864

(7) Retirement benefit adjustments in accumulated other comprehensive income, before tax effects:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Unrecognized past service cost	¥	1,014	¥	1,159	$	9,551
Unrecognized actuarial differences		(717)		(1,804)		(6,754)
Total	¥	297	¥	(644)	$	2,797

(8) Plan assets

(i) Plan assets comprise:

	2018	2017
Debt securities	41%	39%
Equity securities	28%	28%
Cash and deposits	9%	11%
General accounts	22%	22%
Total *	100%	100%

Note: As of March 31, 2018 and 2017, assets in retirement benefit trusts set up for the defined benefit pension plans and lump-sum retirement benefit plans represented 39% and 38% of total plan assets, respectively.

(ii) Determination of long-term expected rate of return on plan assets

In determining the long-term expected rate of return on plan assets, the Group considers the current and target asset allocation as well as the current and expected long-term rate of return on various asset categories comprising plan assets.

(9) Actuarial assumptions at end of year:

	2018	2017
Discount rate	0.3%	0.3%
Long-term expected rate of return on plan assets	2.5%	2.5%

Note: The Bank maintains a point system for defined benefit corporate pension plans and lump-sum payment plans. Points are calculated based on past salaries.

(b) Defined contribution plans

The required contribution of the Bank and its consolidated subsidiaries to defined contribution plans amounted to ¥181 million ($1,712 thousand) and ¥175 million for the years ended March 31, 2018 and 2017, respectively.

12. Acceptances and Guarantees

The Bank provides guarantees with respect to liabilities of its customers for payment of loans or other liabilities with other financial institutions. As a contra account, "customers' liabilities for acceptances and guarantees" has been shown in assets on the accompanying consolidated balance sheets, indicating the Bank's right of indemnity from customers.

Guarantees are provided on certain privately placed bonds included in securities in accordance with Article 2, Paragraph 3 of the Financial Instruments and Exchange Act of Japan. The guarantees amounted to ¥26,068 million ($245,373 thousand) and ¥19,432 million at March 31, 2018 and 2017, respectively.

13. Net Assets

At March 31, 2018 and 2017, the number of shares of common stock without par value authorized was 50 million shares and the number of shares of common stock issued was 19,755,487 shares. At March 31, 2018 and 2017, the number of shares of treasury stock held by the Group was 958 thousand and 830 thousand shares, respectively.

The Group implemented a consolidation of shares at a ratio of one share per 10 shares effective on October 1, 2016. In connection with the consolidation, the number of shares of stock issued decreased by 185,299 thousand shares, representing a decrease of 184,549 thousand shares of outstanding common stock and a decrease of 750 thousand shares by retirement of treasury stock for the year ended March 31, 2017.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Capital surplus consists principally of additional paid-in capital. The Banking Act of Japan provides that an amount equivalent to at least 20% of the cash payments as appropriation of retained earnings shall be appropriated as legal earnings reserve until the total amount of additional paid-in capital and legal earnings reserve equals 100% of common stock. The legal earnings reserve has been included in the retained earnings in the accompanying consolidated balance sheets. Under the Act, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution at the shareholders' meeting. The additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which may become available for distribution as dividends.

At both March 31, 2018 and 2017, the legal earnings reserve amounted to ¥8,029 million ($75,583 thousand).

The maximum amount that the Bank can distribute as dividends is calculated based on the nonconsolidated financial statements of the Bank in accordance with Japanese laws and regulations.

14. Stock Options

(a) Stock option expenses

The Bank recorded stock option expenses of ¥36 million ($342 thousand) in "General and administrative expenses" for the years ended March 31, 2018 and 2017.

(b) Outline of stock options

i) Outline of stock options:

	2014 stock options	2015 stock options	2016 stock options	2017 stock options
Resolution date	July 29, 2014	July 29, 2015	July 27, 2016	July 26, 2017
Position and number of grantees	13 directors of the Bank excluding outside directors	13 directors of the Bank excluding outside directors	12 directors of the Bank excluding outside directors	12 directors of the Bank excluding outside directors
Number of options granted *(*1)*	10,980 common shares of the Bank	8,870 common shares of the Bank	12,280 common shares of the Bank	9,620 common shares of the Bank
Grant date	August 13, 2014	August 13, 2015	August 12, 2016	August 10, 2017
Conditions for vesting	Not defined	Not defined	Not defined	Not defined
Requisite service period	Not defined	Not defined	Not defined	Not defined
Exercise period	August 14, 2014 to August 13, 2064	August 14, 2015 to August 13, 2065	August 13, 2016 to August 12, 2066	August 11, 2017 to August 10, 2067
Number of stock acquisition rights *(*2)*	742 *(*3)*	659 *(*3)*	1,063 *(*3)*	962 *(*3)*
Type, content and number of shares to be issued upon exercise of stock acquisition rights *(*2)*	7,420 common shares of the Bank *(*4)*	6,590 common shares of the Bank *(*4)*	10,630 common shares of the Bank *(*4)*	9,620 common shares of the Bank *(*4)*
Amount to be paid upon the exercise of stock acquisition rights *(*2)*	¥1 ($0.01) per share	¥1 ($0.01) per share	¥1 ($0.01) per share	¥1 ($0.01) per share
Issue price of shares due to the exercise of stock acquisition rights and amount to be incorporated into capital stock *(*2)*	Issue price: ¥3,471 ($32.67) per share *(*5)*	Issue price: ¥4,591 ($43.21) per share *(*5)*	Issue price: ¥2,951 ($27.78) per share *(*5)*	Issue price: ¥3,783 ($35.61) per share *(*5)*
Conditions for exercise of stock acquisition rights	*(*6)*	*(*6)*	*(*6)*	*(*6)*
Criteria for transfer of stock acquisition rights	Approval by Board of Directors is required.	Approval by Board of Directors is required.	Approval by Board of Directors is required.	Approval by Board of Directors is required.
Matters related to issuance of stock acquisition rights in connection with organizational restructuring *(*2)*	*(*7)*	*(*7)*	*(*7)*	*(*7)*

Notes:

(*1) *The number of stock options is calculated in terms of the number of shares.*

(*2) *This information is provided as of March 31, 2018.*

(*3) *The number of shares to be issued upon exercise of each stock acquisition right (the "Number of Shares Granted") is 10 shares.*

(*4) *Number of shares subject to stock acquisition rights*
The Number of Shares Granted is adjusted using a certain formula if the Bank conducts a stock split of its common stock (including the allotment of its common stock without consideration, the same shall apply hereinafter for the provisions of the stock split) or a stock consolidation after the date when the stock acquisition rights were allotted (the "Allotment Date"). Any fractional share less than one share arising from the adjustment shall be rounded down.
The applicable formula is as follows: Number of Shares Granted after adjustment = Number of Shares Granted before adjustment x Ratio of stock split or stock consolidation. In addition, the Bank may make reasonable adjustments to the Number of Shares Granted as appropriate due to a merger, corporate split, etc., after the Allotment Date.

(*5) *The amount to be incorporated into capital stock shall be half of the maximum amount of increase in capital stock calculated pursuant to Article 17 (1) of the "Rules of Corporate Accounting," with fractions of less than ¥1 resulting from the calculation rounded up.*

(*6) *Conditions for exercise of stock acquisition rights*
(1) *Holders of stock acquisition rights ("Rights Holder(s)") may exercise their stock acquisition rights from the day following the day when they lose the position of Bank director.*
(2) *The above (1) is not applicable to a successor who acquires the rights by inheritance.*
(3) *Rights Holders cannot exercise stock acquisition rights when they abandon the rights.*

(*7) *Matters pertaining to issuance of stock acquisition rights resulting from organizational restructuring*
If the Bank merges (limited to cases in which the Bank becomes a dissolving company), conducts an absorption-type company split or an incorporation-type company split (limited to cases in which the Bank becomes a splitting company) or conducts a share exchange or a share transfer (limited to cases in which the Bank becomes a wholly owned subsidiary) (collectively, the "Organizational Restructuring"), stock acquisition rights of a stock company described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Companies Act (the "Restructured Company") shall be delivered to the Rights Holders of stock acquisition rights remaining unexercised (the "Remaining Stock Acquisition Rights") immediately prior to the effective date of the Organizational Restructuring (the effective date of an absorption-type merger, the date of establishment of the stock company incorporated in a consolidation-type merger, the effective date of an absorption-type company split, the date of establishment of a stock company incorporated in an incorporation-type company split, the effective date of the share exchange in the case of a share exchange or the date of establishment of the wholly-owning parent company upon a share transfer. However, the foregoing shall apply only to cases in which the delivery of stock acquisition rights of the Restructured Company according to the following conditions was stipulated in the absorption-type merger agreement, the consolidation-type merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.
(1) *Number of stock acquisition rights of the Restructured Company to be delivered*
The same number as the Remaining Stock Acquisition Rights held by the Rights Holders.
(2) *Class of shares of the Restructured Company to be issued upon the exercise of stock acquisition rights*
Common stock of the Restructured Company
(3) *Number of shares of the Restructured Company to be issued upon the exercise of stock acquisition rights*
*Shall be determined according to (*4) above after taking into consideration the conditions for the Organizational Restructuring and any other related matters.*
(4) *Value of the assets to be contributed upon the exercise of stock acquisition rights*
The value of the assets to be contributed upon the exercise of each stock acquisition right to be delivered shall be the amount obtained by multiplying the exercise price after reorganization as stipulated below by the number of shares of the Restructured Company to be issued upon the exercise of stock acquisition rights determined in accordance with (3) above. The exercise price after reorganization is ¥1 per share of the Restructured Company to be delivered upon the exercise of the issued stock acquisition rights.
(5) *Exercise period of stock acquisition rights*
Starting from the later of either the first date of the exercise period for the stock acquisition rights as stipulated in "Exercise period" above or the effective date of the Organizational Restructuring, and ending on the expiration date for the exercise of stock acquisition rights as stipulated in "Exercise period" above.
(6) *Matters concerning capital stock and capital surplus to be increased when shares are issued upon the exercise of stock acquisition rights*
Shall be determined in accordance with the above "Issue price of shares due to the exercise of stock acquisition rights and amount to be incorporated into capital stock."
(7) *Restriction on acquisition of stock acquisition rights by transfer*
Acquisition of stock acquisition rights by transfer shall be subject to the approval of the Board of Directors of the Restructured Company.
(8) *Conditions for acquisition of stock acquisition rights*
Shall be determined in accordance with the items below.
If a proposal a, b, c, d or e below is approved by the shareholders' meeting of the Bank (or by the Board of

Directors of the Bank if the approval of the shareholders' meeting is not required), the Bank may acquire stock acquisition rights at the date specifically determined by the Board of Directors of the Bank without any compensation therefor.

a. A proposal for an approval of any merger agreement under which the Bank is dissolved
b. A proposal for an approval of any company split agreement or plan in which the Bank will be a splitting company
c. A proposal for an approval of any share exchange agreement or share transfer plan in which the Bank will be a wholly owned subsidiary
d. A proposal for an approval of amendments to the Articles of Incorporation to establish new provisions by which any acquisition by way of transfer of shares to be issued by the Bank will be subject to the Bank's approval
e. A proposal for an approval of amendments to the Articles of Incorporation to establish new provisions by which any acquisition by way of transfer of shares in the relevant class to be issued upon exercise of stock acquisition rights will be subject to the Bank's approval or the Bank may acquire all of the shares in the relevant class to be issued upon exercise of stock acquisition rights following the resolution by the shareholders' meeting of the Bank

(9) Other conditions for the exercise of stock acquisition rights
*Shall be determined in accordance with (*6) above.*

ii) Size and changes in stock options:

The following describes the size of and changes in stock options that existed during the year ended March 31, 2018. The number of stock options is calculated in terms of the number of shares.

a) Number of stock options

	2014 stock options	2015 stock options	2016 stock options	2017 stock options
Nonvested				
April 1, 2017 – Outstanding	–	–	–	–
Granted	–	–	–	9,620 shares
Forfeited	–	–	–	–
Vested	–	–	–	9,620 shares
March 31, 2018 – Outstanding	–	–	–	–
Vested				
April 1, 2017 – Outstanding	8,800 shares	7,710 shares	12,280 shares	–
Vested	–	–	–	9,620 shares
Exercised	1,380 shares	1,120 shares	1,650 shares	–
Forfeited	–	–	–	–
March 31, 2018 – Outstanding	7,420 shares	6,590 shares	10,630 shares	9,620 shares

b) Price information:

	2014 stock options	2015 stock options	2016 stock options	2017 stock options
Exercise price	¥1 ($0.01) per share	¥1 ($0.01) per share	¥1 ($0.01) per share	¥1 ($0.01) per share
Average exercise price	¥4,165 ($39.20) per share	¥4,165 ($39.20) per share	¥4,165 ($39.20) per share	–
Fair value at grant date	¥3,470 ($32.66) per share	¥4,590 ($43.20) per share	¥2,950 ($27.77) per share	¥3,782 ($35.60) per share

Valuation technique to estimate fair value of stock options

a) Valuation technique used: Black-Scholes model

b) Major assumptions and estimation method

	2017 stock option
Expected volatility *(*1)*	33.446%
Expected life *(*2)*	5.8 years
Expected dividends *(*3)*	¥70 ($0.66) per share
Risk free interest rate *(*4)*	(0.051)%

*Notes: (*1) Expected volatility is calculated based on the actual stock prices on each trading day during the period from October 7, 2011 to August 10, 2017.*

*(*2) Expected life is estimated based on the average term of office of directors, etc., who retired during the past 10 years.*

*(*3) Expected dividends are the actual dividends for the year ended March 31, 2017.*

*(*4) Risk free interest rate is a Japanese government bond yield which corresponds to the expected life.*

iii) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the number of stock options to be forfeited in the future.

15. Commitments

(a) Loan commitments

Overdraft facilities and loan commitment lines are contracts under which the Bank is obligated to advance funds up to a predetermined amount to a customer upon request, provided that the customer has met the terms and conditions of the applicable contract. At March 31, 2018 and 2017, the unused amounts of these contracts amounted to ¥731,664 million ($6,886,900 thousand) and ¥728,787 million, respectively. The unused contract amounts included amounts which originally expire within one year or are revocable by the Bank at any time without any conditions in the amount of ¥716,685 million ($6,745,915 thousand) and ¥717,632 million at March 31, 2018 and 2017, respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that allow the Bank to refuse customers' applications for loans or decrease the contract limits for appropriate reasons (e.g., changes in financial situation and deterioration in customers' creditworthiness). At the execution of such contracts, the Bank obtains real estate, securities, etc., as collateral if considered necessary. Subsequently, the Bank performs periodic reviews of customers' business results based on internal rules and may take necessary measures that include reconsidering the terms and conditions of such contracts and/or requiring additional collateral and/or guarantees.

(b) Lease commitments

(Lessee contracts)
The Group leases certain office space and equipment as lessee under long-term noncancellable lease contracts. The aggregate future minimum lease commitments for noncancellable operating leases at March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases as lessee:			
Due within one year	¥ 643	¥ 655	$ 6,054
Due after one year	1,085	1,487	10,215
	¥ 1,728	¥ 2,142	$ 16,269

(Lessor contracts)
A consolidated subsidiary engaged in leasing operations as lessor entered into long-term, noncancellable lease contracts with third parties which were categorized as finance leases. At March 31, 2018 and 2017, investments in the leased assets as lessor consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Future minimum lease payments to be received	¥ 30,969	¥ 28,131	$ 291,509
Estimated residual value	3,574	2,807	33,648
Imputed interest	(2,757)	(2,451)	(25,957)
Investments in leased assets	¥ 31,787	¥ 28,487	$ 299,200

The aggregate annual maturities of future minimum lease payments to be received related to lease receivables and investments in leased assets at March 31, 2018 were as follows.

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31,	Lease receivables	Investments in leased assets	Lease receivables	Investments in leased assets
2019	¥ 34	¥ 9,285	$ 321	$ 87,399
2020	34	7,654	321	72,051
2021	34	5,958	321	56,082
2022	34	4,098	321	38,579
2023	33	2,329	317	21,926
2024 and thereafter	40	1,643	380	15,472
	¥ 210	¥ 30,969	$ 1,981	$ 291,509

At March 31, 2018 and 2017, future lease payments to be received for noncancellable operating leases were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases as lessor:			
Due within one year	¥ 135	¥ 107	$ 1,276
Due after one year	196	182	1,851
	¥ 332	¥ 290	$ 3,127

16. Derivative Instruments

At March 31, 2018 and 2017, derivative instruments, other than those to which hedge accounting was applied, were stated at fair value with valuation gains and losses recognized as current earnings in the accompanying consolidated statements of income as follows.

	Millions of yen			
	Notional principal or contract amounts			
	Total	Over one year	Fair value *	Valuation gain (loss)
March 31, 2018:				
Currency swaps	¥ 42,437	¥ –	¥ 1,160	¥ 1,160
Forward foreign exchange contracts	6,976	–	84	84
March 31, 2017:				
Interest rate swaps	¥ 20,000	¥ –	¥ (304)	¥ (304)
Currency swaps	39,554	–	(179)	(179)
Forward foreign exchange contracts	2,734	–	(16)	(16)
	Thousands of U.S. dollars			
March 31, 2018:				
Currency swaps	$ 399,447	$ –	$ 10,925	$ 10,925
Forward foreign exchange contracts	65,668	–	793	793

*Note: *Fair values were calculated based on the discounted cash flow method, etc.*

Derivative instruments to which hedge accounting was applied at March 31, 2018 and 2017 were as follows.

		Millions of yen		
		Notional principal or contract amounts		
	Hedged items	Total	Over one year	Fair value *
Currency swap contracts:				
March 31, 2018	–	¥ –	¥ –	¥ –
March 31, 2017	Loans in foreign currencies	74	–	2
		Thousands of U.S. dollars		
Currency swap contracts:				
March 31, 2018	–	$ –	$ –	$ –

*Note: *Fair values were calculated based on the discounted cash flow method, etc.*

17. Income Taxes

Income taxes for the years ended March 31, 2018 and 2017 consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Income taxes:			
Current	¥ 2,248	¥ 2,182	$ 21,166
Deferred	72	(135)	686
	¥ 2,321	¥ 2,047	$ 21,852

At March 31, 2018 and 2017, income taxes, including enterprise taxes, payable amounting to ¥786 million ($7,407 thousand) and ¥1,381 million, respectively, were included in "other liabilities" in the accompanying consolidated balance sheets.

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Reserve for possible loan losses	¥ 3,695	¥ 3,920	$ 34,786
Employee retirement benefit (asset) liability	1,157	1,594	10,898
Loss on devaluation of stocks and other securities	2,563	2,496	24,126
Reserve for contingent losses	638	658	6,012
Depreciation	927	945	8,733
Others	2,415	2,630	22,740
Less valuation allowance	(3,937)	(3,992)	(37,059)
Subtotal	7,461	8,254	70,236
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(23,123)	(20,346)	(217,650)
Gain on transfer of securities to trusts for retirement benefit plan	(2,224)	(2,217)	(20,937)
Others	(72)	(72)	(682)
Subtotal	(25,419)	(22,635)	(239,269)
Net deferred tax assets (liabilities)	¥ (17,958)	¥ (14,380)	$ (169,033)

At March 31, 2018 and 2017, deferred tax assets and liabilities were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets	¥ 677	¥ 758	$ 6,375
Deferred tax liabilities	(18,635)	(15,139)	(175,408)

In assessing the realizability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At both March 31, 2018 and 2017, a valuation allowance was provided to reduce deferred tax assets to amounts that management believed would be realizable.

The Group is subject to Japanese national and local income taxes which in the aggregate resulted in an effective statutory tax rate of approximately 30.7% for the years ended March 31, 2018 and 2017. Reconciliations between the Japanese statutory tax rate and the effective tax rate on pretax profit reflected in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017 were as follows.

	Percentage of pre-tax profit	
	2018	2017
Japanese statutory tax rate	30.7 %	30.7 %
Increase (decrease) due to:		
Permanently nondeductible expenses	0.7	0.7
Tax exempt income	(5.0)	(2.4)
Local minimum taxes - per capita basis	0.8	0.8
Changes in valuation allowance	(0.8)	(5.1)
Changes in income tax rates	(0.1)	–
Consolidation adjustment for gain on sales of securities	1.5	–
Others	0.5	0.1
Effective tax rate	28.3 %	24.8 %

Following the promulgation on April 1, 2018 of the Act for Partial Revision of Nagoya City Municipal Tax Reduction Act (Nagoya City Act No. 18 of 2018), 5% reduction in corporate municipal tax will be abolished from the fiscal year ending on or after April 1, 2019. In line with this revision, the Bank has changed the statutory tax rate used to calculate deferred tax assets and liabilities from 30.5% to 30.6% for temporary differences expected to be reversed in or after the fiscal year beginning on April 1, 2019. As a result of this tax rate change, "deferred tax liabilities," net of deferred tax assets, increased by ¥67 million ($639 thousand), and "net unrealized gains on available-for-sale securities," "retirement benefit adjustments" and "income taxes - deferred" decreased by ¥75 million ($711 thousand), ¥0 million ($3 thousand) and ¥7 million ($75 thousand), respectively, as of March 31, 2018. "Deferred tax liabilities for revaluation" increased by ¥9 million ($86 thousand) and "land revaluation excess" decreased by the same amount as of March 31, 2018.

18. General and administrative expenses

General and administrative expenses for the years ended March 31, 2018 and 2017 included the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and allowances (including bonuses)	¥ 15,111	¥ 15,369	$ 142,235
Retirement benefit expenses	633	240	5,963

19. Comprehensive Income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net change in unrealized gains (losses) on available-for-sale securities:			
Increase (decrease) during the year	¥ 10,016	¥ (1,307)	$ 94,285
Reclassification adjustments	(1,452)	(2,428)	(13,670)
Pretax amount	8,564	(3,735)	80,615
Tax effect amount	(2,776)	1,202	(26,136)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	5,787	(2,533)	54,479
Net change in deferred gains (losses) on hedging instruments:			
Decrease during the year	(36)	(41)	(345)
Reclassification adjustments	36	41	345
Pretax amount	0	(0)	0
Tax effect amount	(0)	0	(0)
Net change in deferred gains (losses) on hedging instruments, net of tax	0	(0)	0
Land revaluation excess:			
Tax effect amount	(9)	–	(86)
Land revaluation excess, net of tax	(9)	–	(86)
Retirement benefit adjustments:			
Increase (decrease) during the year	823	(249)	7,748
Reclassification adjustments	118	(992)	1,116
Pretax amount	941	(1,242)	8,864
Tax effect amount	(287)	378	(2,706)
Retirement benefit adjustments, net of tax	654	(863)	6,158
Total other comprehensive income	¥ 6,432	¥ (3,396)	$ 60,551

20. Related Party Transactions

During the years ended March 31, 2018 and 2017, the Bank had significant transactions with the Bank's directors and audit and supervisory board members and their immediate family members and/or the companies in which they hold directly or indirectly a majority voting interest.

A summary of the significant related party transactions as of and for the years ended March 31, 2018 and 2017 is as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
For the year:			
Number of related parties	11	12	
Amount of loan transactions (average balance)	¥ 367	¥ 422	$ 3,459
Underwriting private placement bonds (average balance)	27	50	260
At year-end:			
Loans and bills discounted	¥ 350	¥ 417	$ 3,300
Securities (bonds and debentures)	20	45	188

During the years ended March 31, 2018 and 2017 the Bank received a partial refund from the retirement benefit trusts in the amount of none and ¥4,400 million, respectively.

21. Business Combination

Transaction under common control
Acquisition of additional shares of a subsidiary

(a) Outline of the transaction

(1) Name and business of the company under the business combination

Name	Business
Nagoya Lease Co., Ltd.	Comprehensive finance leasing business
Nagoya Card Co., Ltd.	Credit card business and assurance business
Nagoya MC Card Co., Ltd.	Credit card business

(2) Date of the business combination

Name	Date of the business combination
Nagoya Lease Co., Ltd.	May 19, 2017
Nagoya Card Co., Ltd.	May 17, 2017
Nagoya MC Card Co., Ltd.	May 17, 2017

(3) Legal form of the business combination
Acquisition of shares from noncontrolling shareholders

(4) Name of company after the business combination
Unchanged

(5) Other matters related to the business combination
The Bank acquired the shares to expand the profitability of the Bank and the Group as a result of greater synergy.

(b) Outline of accounting treatment
This transaction was accounted for as a transaction with noncontrolling shareholders under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

(c) Acquisition cost and consideration paid
Consideration paid for acquisition:
Cash and due from banks in the aggregate amount of ¥1,390 million ($13,088 thousand)

(d) Change in capital surplus of the Bank in connection with the transaction with noncontrolling shareholders

(1) Major reason for change in capital surplus
Acquisition of additional shares of subsidiaries

(2) Increase in capital surplus due to the transaction with noncontrolling shareholders
¥2,219 million ($20,893 thousand)

22. Subsequent Events

Appropriation of retained earnings

Shareholders of the Bank approved the following appropriation of retained earnings at the annual general meeting held on June 22, 2018.

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥35.0 per share ($0.33 per share)	¥ 657	$ 6,193

23. Segment Information

(a) General information about reportable segments

The Group defines a reportable segment as a component of the Group for which separate financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about the allocation of resources and to assess performance.

The Group engages in financial services primarily in banking and also in comprehensive finance leasing services and credit card services. The reportable segments of the Group are determined based on the types of financial services as follows.

"Banking" — head office and branches

- Deposits and loans
- Domestic and foreign exchange transactions
- Securities investments
- Trading of trading account securities
- Underwriting and registration of corporate bonds

"Leasing" — Nagoya Lease Co., Ltd., a domestic subsidiary of the Bank

- Comprehensive finance leasing business

"Credit Card" — Nagoya Card Co., Ltd. and Nagoya MC Card Co., Ltd., domestic subsidiaries of the Bank

- Credit card business

(b) Basis of measurement for segment profit, segment assets, segment liabilities and other material items for each reportable segment

The basis of measurement for reportable segment information follows the accounting principles used in the consolidated financial statements as described in Note 2, "Summary of Significant Accounting Policies." Segment profit is based on "ordinary income," which is defined as total income less certain special gains and special losses included in the accompanying consolidated statements of income. Intersegment income is accounted for based on prices of ordinary transactions with independent third parties.

(c) Information about reportable segment profit, segment assets, segment liabilities and other material items by reportable segment

Segment information as of and for the years ended March 31, 2018 and 2017 was as follows.

	Millions of yen					
	2018					
	Reportable segment					
	Banking	Leasing	Credit Card	Total	Other *(*2)*	Total
Ordinary income *(*1)*:						
External customers	¥ 44,994	¥ 15,679	¥ 2,411	¥ 63,085	¥ 0	¥ 63,085
Intersegment	198	434	382	1,015	120	1,135
Total ordinary income	45,193	16,114	2,793	64,101	120	64,221
Segment profit	6,072	668	1,138	7,878	9	7,888
Segment assets	3,792,608	47,091	17,709	3,857,409	383	3,857,792
Segment liabilities	3,565,942	40,889	10,607	3,617,438	14	3,617,453
Other material items:						
Depreciation and amortization *(*3)*	2,156	342	7	2,505	0	2,505
Interest income	31,882	4	91	31,978	–	31,978
Interest expense	3,036	136	3	3,176	–	3,176
Provision for possible loan losses	368	–	–	368	–	368
Increase in tangible and intangible fixed assets	2,767	256	16	3,041	–	3,041

	Millions of yen					
	2017					
	Reportable segment					
	Banking	Leasing	Credit Card	Total	Other *(*2)*	Total
Ordinary income *(*1)*:						
External customers	¥ 46,355	¥ 14,581	¥ 2,189	¥ 63,125	¥ 0	¥ 63,125
Intersegment	204	226	198	629	127	756
Total ordinary income	46,560	14,807	2,387	63,754	127	63,881
Segment profit	6,595	359	717	7,672	6	7,679
Segment assets	3,629,073	43,389	16,608	3,689,072	378	3,689,450
Segment liabilities	3,411,188	37,360	10,112	3,458,661	16	3,458,677
Other material items:						
Depreciation and amortization *(*3)*	2,334	304	8	2,647	0	2,647
Interest income	33,056	6	104	33,166	–	33,166
Interest expense	2,405	149	3	2,558	–	2,558
Provision for possible loan losses	1,166	49	90	1,306	–	1,306
Increase in tangible and intangible fixed assets	2,060	308	8	2,377	–	2,377

	Thousands of U.S. dollars					
	2018					
	Reportable segment					
	Banking	Leasing	Credit Card	Total	Other *(*2)*	Total
Ordinary income *(*1)*:						
External customers	$ 423,522	$ 147,584	$ 22,698	$ 593,804	$ 1	$ 593,805
Intersegment	1,868	4,091	3,600	9,559	1,130	10,689
Total ordinary income	425,390	151,675	26,298	603,363	1,131	604,494
Segment profit	57,155	6,291	10,713	74,159	87	74,246
Segment assets	35,698,498	443,257	166,689	36,308,444	3,610	36,312,054
Segment liabilities	33,564,968	384,879	99,841	34,049,688	135	34,049,823
Other material items:						
Depreciation and amortization *(*3)*	20,297	3,222	68	23,587	0	23,587
Interest income	300,103	43	860	301,006	–	301,006
Interest expense	28,581	1,285	34	29,900	–	29,900
Provision for possible loan losses	3,468	–	–	3,468	–	3,468
Increase in tangible and intangible fixed assets	26,049	2,415	160	28,624	–	28,624

*Notes: *1. "Ordinary income" represents total income less certain special gains included in the accompanying consolidated statements of income.*
**2. The "other" business segment includes principally the clerical outsourcing business.*
**3. Depreciation and amortization include amounts related to information technology investments.*

(d) Reconciliations of the totals of each segment item to corresponding Group amounts

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Ordinary income:						
Total reportable segments	¥	64,101	¥	63,754	$	603,363
Other		120		127		1,131
Intersegment elimination		(1,135)		(756)		(10,689)
Reversal of provision for possible loan losses		(9)		–		(90)
		63,076		63,125		593,715
Other gains		5,207		716		49,015
Total income on consolidated statements of income	¥	68,283	¥	63,842	$	642,730

Note: "Other gains" include gain on disposal of fixed assets, gain on return of assets from retirement benefit trusts, gain on conversion of fixed asset rights and compensation for transfer.

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Segment profit:						
Total reportable segments	¥	7,878	¥	7,672	$	74,159
Other		9		6		87
Intersegment elimination		(407)		(15)		(3,840)
		7,480		7,663		70,406
Other gains (losses), net		723		580		6,808
Profit before income taxes on consolidated statements of income	¥	8,203	¥	8,244	$	77,214

Note: "Other gains (losses), net" include gain and loss on disposal of fixed assets, gain on return of assets from retirement benefit trusts, gain on conversion of fixed asset rights, compensation for transfer, impairment loss on fixed assets and loss on reduction of fixed assets.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Segment assets:			
Total reportable segments	¥ 3,857,409	¥ 3,689,072	$ 36,308,444
Other	383	378	3,610
Intersegment elimination	(24,678)	(21,877)	(232,287)
Adjustment of retirement benefit assets	583	14	5,490
Total assets on consolidated balance sheets	¥ 3,833,697	¥ 3,667,586	$ 36,085,257

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Segment liabilities:			
Total reportable segments	¥ 3,617,438	¥ 3,458,661	$ 34,049,688
Other	14	16	135
Intersegment elimination	(20,785)	(19,144)	(195,649)
Adjustment of retirement benefit liability	376	462	3,548
Total liabilities on consolidated balance sheets	¥ 3,597,044	¥ 3,439,995	$ 33,857,722

	Millions of yen			
	2018			
Other material items:	Total reportable segments	Other	Reconciliation	Consolidated
Depreciation and amortization	¥ 2,505	¥ 0	¥ –	¥ 2,505
Interest income	31,978	–	(51)	31,927
Interest expense	3,176	–	(60)	3,115
Provision for possible loan losses	368	–	(9)	358
Increase in tangible and intangible fixed assets	3,041	–	–	3,041

	Millions of yen			
	2017			
Other material items:	Total reportable segments	Other	Reconciliation	Consolidated
Depreciation and amortization	¥ 2,647	¥ 0	¥ –	¥ 2,647
Interest income	33,166	–	(54)	33,112
Interest expense	2,558	–	(69)	2,489
Provision for possible loan losses	1,306	–	–	1,306
Increase in tangible and intangible fixed assets	2,377	–	–	2,377

	Thousands of U.S. dollars			
	2018			
Other material items:	Total reportable segments	Other	Reconciliation	Consolidated
Depreciation and amortization	$ 23,587	$ 0	$ –	$ 23,587
Interest income	301,006	–	(482)	300,524
Interest expense	29,900	–	(573)	29,327
Provision for possible loan losses	3,468	–	(91)	3,377
Increase in tangible and intangible fixed assets	28,624	–	–	28,624

(e) Related information for enterprise-wide disclosure

(1) Information by service

	Millions of yen									
	Service									
		Loans		Security investments		Leasing		Other		Total
Ordinary income from external customers:										
For the year ended March 31, 2018	¥	22,677	¥	12,276	¥	15,679	¥	12,452	¥	63,085
For the year ended March 31, 2017		23,552		13,665		14,581		11,326		63,125

	Thousands of U.S. dollars									
Ordinary income from external customers:										
For the year ended March 31, 2018	$	213,458	$	115,553	$	147,584	$	117,210	$	593,805

(2) Information by geographical area for the years ended March 31, 2018 and 2017 was omitted since income from operations in Japan accounted for more than 90% of total consolidated income, and tangible fixed assets in Japan were more than 90% of tangible fixed assets on the consolidated balance sheets.

(3) Information by major customer for the years ended March 31, 2018 and 2017 was omitted since there were no external customers accounting for 10% or more of consolidated income.

(f) Information about impairment loss on fixed assets by reportable segment

	Millions of yen											
	Reportable segment											
		Banking		Leasing		Credit Card		Total		Other		Total
Impairment loss on fixed assets:												
For the year ended March 31, 2018	¥	133	¥	–	¥	–	¥	133	¥	–	¥	133
For the year ended March 31, 2017		126		–		–		126		–		126

	Thousands of U.S. dollars											
Impairment loss on fixed assets:												
For the year ended March 31, 2018	$	1,257	$	–	$	–	$	1,257	$	–	$	1,257

(g) Information with regard to goodwill by reportable segment: None.