



The Hachijuni Bank, LTD.

2018 Annual Report

Year ended March 31, 2018

Corporate Outline

Equity
(Consolidated)

777 billions of yen

Total Assets
(Consolidated)

9,309 billions of yen

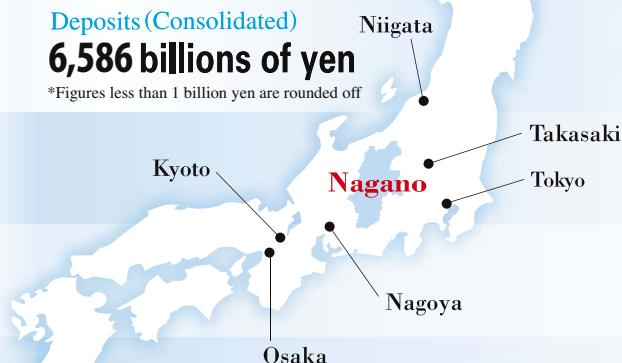
Loans and Bills Discounted
(Consolidated)

5,040 billions of yen

Deposits (Consolidated)

6,586 billions of yen

*Figures less than 1 billion yen are rounded off



Number of Employees

3,192

Total Capital Ratio

20.51% (BIS standards)

Network

151 Domestic Branches (Japan)

1 Overseas Branch (Hong Kong)

**4 Representative Offices
(Dalian, Shanghai, Bangkok & Singapore)**

Credit Rating (Long-Term)

Rating and Investment Information, Inc.

A+

S&P Global Ratings

A

as of March 31, 2018



The Hachijuni Bank, Ltd. is one of the leading regional banks in Japan. We are mainly based in Nagano Prefecture, which is geographically located in the center of Japan and is well-known for its coexistence with beautiful nature and advanced industries.

Since its establishment in 1931 in Nagano City, Hachijuni Bank has consistently maintained sound management policies, and is now playing a significant role as one of the largest regional banks in Japan.

Branches of Hachijuni Bank can be found in Nagano, Gunma, Saitama, Niigata and Gifu Prefectures, as well as in Tokyo, Osaka and Nagoya metropolitan areas. We also have an overseas branch in Hong Kong, as well as, the Dalian Representative Office, the Shanghai Representative Office, the Bangkok Representative Office, and the Singapore Representative Office.

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Yoshiyuki Yamaura
Chairman



Shoichi Yumoto
President

Message from the Management

August 2018

We would like to begin by expressing our sincere gratitude for your patronage.

Since its establishment in 1931, and in tandem with the development of the regional economy, Hachijuni Bank (“the Bank”) has continued to grow and has established itself as a key financial institution within its community. This is in large part due to the long-lasting support and patronage of our shareholders, our customers, and the community, for which we are very grateful.

We have designed our “Annual Report 2018” to present, in an easy-to-understand format, our earnings results and the details of our businesses for the fiscal year ended March 31, 2018. We sincerely hope that this report will help give you a better understanding of the Bank.

The Japanese economy continued a moderate recovery in FY2017 as exports increased on the back of the growth in the overseas economies and domestic demand improved with the pickup of private-sector capital investment. Regarding the economy of Nagano Prefecture, the Bank’s main business area, production continued on an increasing trend supported by firm demand centering on semiconductor device manufacturing equipment. Especially in the manufacturing sector, a year-on-year increase in capital investment was seen in some areas, reflecting positive investment stance of companies. Personal consumption such as of food remained solid, while sales of large-scale stores kept its steady pace, running above the previous year’s level.

Under such favorable economic conditions, the outstanding balance of loans as of the end of FY2017 exceeded the 5 trillion yen mark, hitting -record highs along with the outstanding balance of deposits.

The Bank commenced its 31st Long-Term Management Plan entitled “Dare to Change; Create the Next Generation” targeting three years from FY2018 to FY2020 as described in the next page. All of us at the Bank will take on the challenge of confronting the tough conditions that dramatically change in the short term.

We kindly ask for your continued support and patronage in the years to come; in exchange, we will commit ourselves to doing our utmost to live up to your expectations.

Sincerely yours,

Yoshiyuki Yamaura
Chairman

Shoichi Yumoto
President

Management Policies

Management Philosophy

“Stick firmly to the sound banking principles, thereby contributing to the development of the regional community”

Corporate Vision: “Shining at the center of Japan” – 8 “shines”

Strong trustworthiness from the people and the region of Nagano

Entirely sound, constant & steady earning power

Agreeable correspondence to the request of our customers

Business promotion from our customers' viewpoint

High awareness of compliance

Every staff's speedy, lively & responsible action

Trustworthy, efficient & assured operational system and condition

Advanced and confident computer system

Long-Term Management Guideline

ROE : 5% or higher

The 31st Long-Term Management Plan (April 1, 2018 ~ March 31, 2021)

“Dare to Change; Create the Next Generation”

Strengthening and expansion of “face-to-face sales” in order to realize customer profits

Expansion of investment in developing “human resources” and more opportunities for their active participation

Reform of sales promotion structure and operational processes

Numerical Targets

Management Targets

Net income attributable to owners of the parent (for March 2021)	¥25 billion
Ratio of consolidated profits to parent company's profits (for March 2021)	1.25
Dividend payout ratio (consolidated; annual)	Over 30%

Regional Vitality Targets

Number of new business launches (over three years)	1,000
Number of cases through business matching (sales channel development, etc.) (over three years)	6,000
Number of cases utilizing private placement bonds, funds, etc. (over three years)	500
Number of business successions, M&As, and change/discontinuation of businesses (over three years)	1,000

Environmental Targets

Amount of greenhouse gas emissions reduced (for March 2021)	15% reduced (compared to fiscal 2013)
Number of new contracts for electronic delivery services (over three years)	3,000
Number of new contracts for and renewals to e-livret (over three years)	100,000
Number of environmental investments and loans (over three years)	3,000

Challenge Targets

Target item	As of March 31, 2018	Target amount	Target achievement period
Balance of loans to SMEs	¥1,431.5 billion	¥2,000 billion	March 2028
Number of SME borrowers	25,777	30,000	March 2028
Revenue from investment type products (bank + securities)	¥6.8 billion	¥10.0 billion	March 2023
OHR (gross business profit basis)	65.0%	Under 60%	March 2023
Amount of greenhouse gas emissions reduced (compared to fiscal 2013)	11.2%	30% reduced	By fiscal 2030

Business Performance and Financial Standings

Financial Highlights (Consolidated)

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
For the year:			
Total income	181,281	209,163	1,706,341
Total expenses	141,955	169,540	1,336,176
Income before income taxes	39,326	39,622	370,165
Net income attributable to owners of the parent	25,840	26,312	243,231
Net income per share	¥ 51.00	¥ 51.92	\$ 0.48
At year-end:			
Deposits	6,586,969	6,390,778	62,000,843
Loans and bills discounted	5,040,098	4,864,144	47,440,686
Securities	2,510,142	2,459,732	23,627,098
Total assets	9,309,043	8,703,848	87,622,775
Equity	777,068	743,555	7,314,278
Total capital ratio : Basel 3 standards	20.51%	20.62%	

Notes: 1. Yen figures have been rounded down to the nearest million yen.

2. The United States dollar amounts represent translations of Japanese yen at the exchange rate of ¥106.24 to US\$1.00 on March 31, 2018.

3. Net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Summary of Business Performance

Consolidated Business Results

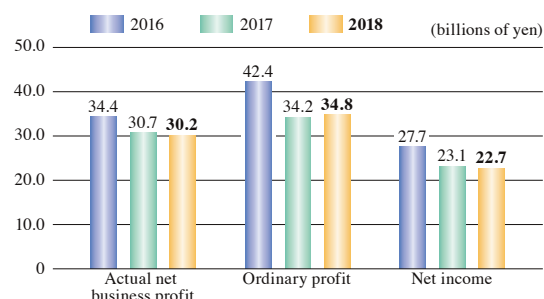
Ordinary profit increased ¥1,086 million from the previous year to ¥41,507 million and net income attributable to owners of the parent decreased ¥471 million to ¥25,840 million.

Non-Consolidated Business Results

Ordinary income decreased ¥28,838 million from a year earlier to ¥140,720 million due to decreases in other operating income such as gains on sales of bonds and in interest income such as interest and dividends on securities and interest on loans despite an increase in fees and commissions.

Ordinary expenses decreased ¥29,530 million from a year earlier to ¥105,822 million due to decreases in other operating expenses such as loss on sales of bonds, in interest expenses such as interest on deposits and interest payment of interest rate swaps, and in general and administrative expenses.

As a result, ordinary profit increased ¥692 million from the previous year to ¥34,898 million. While extraordinary losses increased ¥1,364 million mainly by as a result of recording impairment losses, net income decreased ¥447 million to ¥22,726 million.



Summary of Financial Standings

Results of Consolidated Main Accounts

Outstanding balance of deposits increased ¥196.1 billion to ¥6,586.9 billion from a year earlier owing to increases in deposits from general corporations and from individuals.

Outstanding balance of loans and bills discounted increased ¥175.9 billion to ¥5,040.0 billion due to increases in loans for general corporations and individuals as well as local public entities.

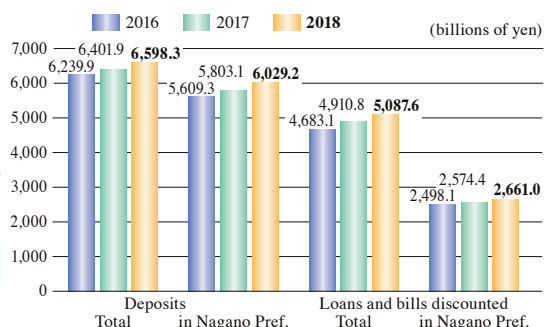
Outstanding balance of securities increased ¥50.4 billion to ¥2,510.1 billion due to increases in municipal bonds, stocks, and foreign securities despite a decrease in Japanese government bonds.

Results of Non-Consolidated Main Accounts

Outstanding balance of deposits increased ¥196.4 billion from a year earlier to ¥6,598.3 billion.

Outstanding balance of loans and bills discounted increased ¥176.7 billion to ¥5,087.6 billion.

Outstanding balance of securities increased ¥49.3 billion to ¥2,514.3 billion.



Total Capital Ratio (Basel 3 standards)

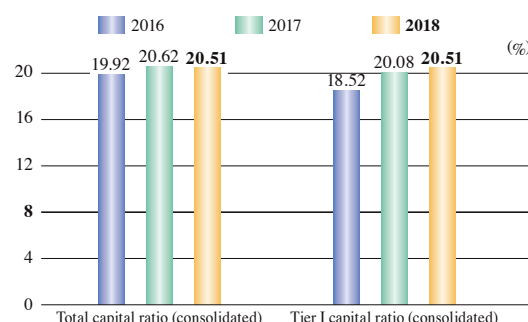
Total capital ratio was 20.51% on a consolidated basis and 19.70% on a non-consolidated basis.

Profit Sharing

The Bank changed the dividend policy in FY2015 as follows.

Setting the lower limit of dividend per share to ¥5.0 a year, the Bank will positively provide returns to shareholders by stable dividend and purchase of own stocks.

With respect to year-end dividends, the Bank decided to pay ¥7.0 per share. As a result, annual dividends, together with the interim dividend, were ¥13.0 in total.



Corporate Governance

Corporate Governance Principle

- ▶ The Bank defines the Corporate Governance Principle as the basic policy which regulates all of the Bank's business activities, keeps the group's sustainability, enhances corporate value and carries out its social responsibility to realize the Bank's philosophy.
- ▶ The Corporate Governance Principle defines our basic stance toward the "customers," "shareholders," "employees," and the "regional community," as well as basic policies related to corporate governance, observation of laws, corporate ethics and disclosure of information.

Organizational Structure

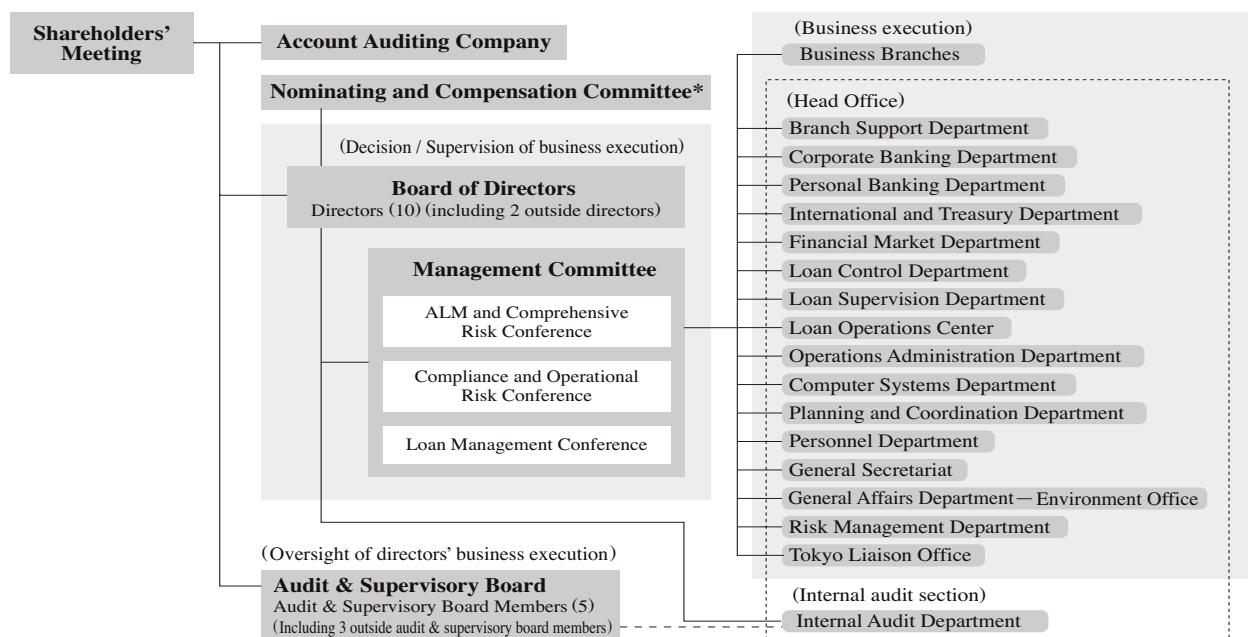
- ▶ The Bank appoints audit & supervisory board members (to form an Audit & Supervisory Board) based on the recognition that business oversight function should be separated from business execution function. While the Board of Directors decides and implements business operations, the Audit & Supervisory Board oversees business operations.
- ▶ Furthermore, the Bank appoints both outside directors and outside audit & supervisory board members who are not prone to having conflicts of interest with shareholders.

Decision / Supervision of Business Execution

- ▶ Under the Board of Directors, the Management Committee is established with three special conferences: ALM and Comprehensive Risk Conference, Compliance and Operational Risk Conference and Loan Management Conference.
- ▶ The Board of Directors is held at least once a month in principle. In this meeting, directors engage in substantial discussions and supervise the status of business operations with one another.
- ▶ The Board of Directors consists of eight (8) internal directors and two (2) outside directors and the Management Committee consists of senior executives.
- ▶ The Bank has established the "Nominating and Compensation Committee" as an advisory body in an aim to strengthen the independence, objectivity, and accountability of the Board of Directors.

Oversight of Directors' Business Execution

- ▶ The Audit & Supervisory Board is held every month in principle. It consists of five (5) members including three (3) outside audit & supervisory board members. By attending the Board of Directors and providing appropriate advice, each member strictly oversees the execution of duties of directors. Two full-time audit & supervisory board members may attend the Management Committee and oversee the execution of business operations through inspecting each kind of matter, such as the status of internal controls and branches' audit results. They regularly discuss with Representative Directors in order to provide their views about management policy or issues, and also discuss with the Account Auditing Company.



* It is not a committee pursuant to the Companies Act but established voluntarily by the Bank.

(as of June 22, 2018)

Remuneration

- ▶ As for directors' remuneration, the Bank introduces three types of remuneration: fixed-amount compensation, performance-linked compensation and stock-based compensation.
- ▶ The monthly amount of fixed-amount compensation is limited to be within ¥25 million. Performance-linked compensation is based on the Bank's net income. The form of stock-based compensation is stock options (share options). The total amount of stock options is limited to be within ¥100 million in a year, to be decided at the shareholders' meeting. The payment amount to each director is decided by a consultation of the Board of Directors.
- ▶ Audit & supervisory board members' remuneration is fixed-amount compensation. The monthly amount of such remuneration is limited to be within ¥8 million by the resolutions of the shareholders' meeting and the payment amount to each member is decided by a consultation among audit & supervisory board members.
- ▶ With respect to the proposals for submission to the shareholders' meeting regarding remuneration of directors and audit & supervisory members and other remuneration-related matters, the Board of Directors receives advice and proposal from the Nominating and Compensation Committee.

Risk Management

Comprehensive Risk Management

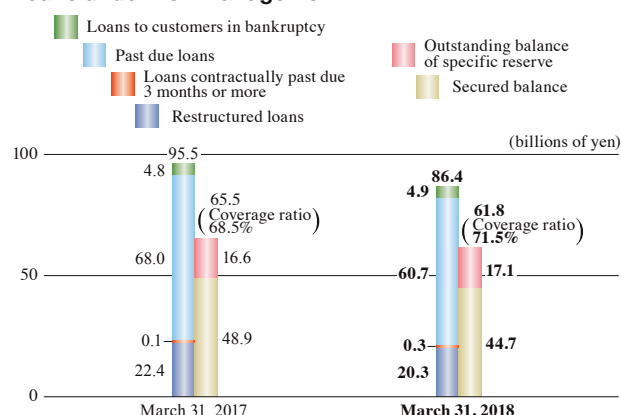
- ▶ The Bank's Board of Directors defines the basic policy regarding comprehensive risk management to ensure soundness of management and adequacy of its business operations. Targeted main risks are market risk, liquidity risk, operational risk and credit risk as described in the Risk Management Organization Chart (see below). By managing these risks comprehensively and reflecting them in the decision-making process of executives, the Bank restrains risk amount to the appropriate level relative to the Bank's capacity. The Bank makes a profit plan and allocates management resources suited to each form of risk.
- ▶ ALM and Comprehensive Risk Conference manages market risk, credit risk and liquidity risk. Compliance and Operational Risk Conference manages operation risk, computer system risk, and other operational risk. Loan Management Conference manages more diversified credit risks.

Risk Management Organization Chart



(as of June 22, 2018)

Loans under risk management



Note : Possible amounts of recoveries through disposition of collaterals pledged to the Bank are not included in the foregoing disclosed amounts. Therefore the disclosed amounts do not necessarily represent actual future loss amounts of the Bank.

	(billions of yen,%)	
	March 31, 2017	March 31, 2018
Loans to Customers in Bankruptcy	4.8(0.09)	4.9(0.09)
Past Due Loans	68.0(1.38)	60.7(1.19)
Loans Contractually Past Due 3 months or more	0.1(0.00)	0.3(0.00)
Restructured Loans	22.4(0.45)	20.3(0.40)
Total	95.5(1.94)	86.4(1.69)
Outstanding Balance of loans and bills discounted	4,910.8	5,087.6

(Loans under risk management as a percentage of outstanding balance of loans and bills discounted)

Regarding Terminologies:

Loans to Customers in Bankruptcy

Of loans for which substantial doubt is judged to exist as to ultimate collectibility of either principal or interest because they are past due for a certain period or for other reasons, the loans to customers who are alleged to commence legal corporate rearrangement procedures under Company Rehabilitation Law, Bankruptcy Law, Civil Rehabilitation Law, Commercial Code of Japan and other related laws, and/or to customers whose transactions with banks are suspended by the rules of clearing house.

Past Due Loans

Of loans for which substantial doubt is judged to exist as to ultimate collectibility of either principal or interest because they are past due for a certain period or for other reasons, the loans to customers other than customers in bankruptcy and customers on

which the Bank granted concessions such as deferral of interest payments in order to support for their management reconstruction.

Loans Contractually Past Due 3 months or more

Loans, either principal or interest payment of which is contractually past due for 3 months or more; excludes loans to customers in bankruptcy and past due loans.

Restructured Loans

Loans to customers on which the Bank granted concessions such as reduction of the stated interest rate, deferral of interest payments, extension of maturity date, debt forgiveness and other arrangements favoring customers to support for their management reconstruction; excludes loans to customers in bankruptcy, past due loans and loans contractually past due 3 months or more.

International Operations

Nagano Prefecture, which is the major business base for the Bank, has developed as an advanced region in Japan in terms of foreign trade and international business operations. Now there are about 2,700 bases of our customers in other countries, primarily in Asia.

Since the launch of its foreign exchange business in January 1962, the Bank has expanded its international operations to meet the growing needs of customers who operate worldwide.

The Bank maintains a network of overseas bases covering five major Asian cities. In addition to the Hong Kong Branch, which functions as the Asian control center and offers full banking services, we have four representative offices – Dalian, Shanghai, Bangkok and Singapore.

Leveraging this network – one of the most powerful of any Japanese regional bank – our staff of international banking specialists at headquarters and overseas offices stand ready to offer customers a wide range of support services to meet their needs in overseas transactions, overseas business expansion and business development. The Bank continues to be one of Japan's leading regional banks in terms of the amount of foreign exchange transactions handled. The Bank offers to parent companies in Japan the funds they need to expand overseas and the funds they need to finance their overseas subsidiaries ("parent-subsidiary loans"). And we are also promoting initiatives to expand cross-border loans whereby our domestic offices offer direct loans to customers operating overseas. We have extended cross-border loans to customers operating in China, Thailand, Indonesia, Vietnam and India (as of the end of March 2018). We also handle loans denominated in Thai baht.

Our Hong Kong Branch offers loans to customers planning to operate in Hong Kong/South China as well as cross-border loans to customers' subsidiaries in Southeast Asia and mainland China. The Hong Kong Branch also offers loans denominated in RMB (renminbi).

In addition, the Bank can meet the fund-raising needs of customers' overseas subsidiaries by making the most of our partnership with leading overseas banks.

International and Treasury Department

◆ Nagano Main Office

178-8, Okada, Nagano-City 380-8682, Japan
Phone: (026)227-1182 Facsimile: (026)226-2982

◆ Tokyo Office

1-22, Nihonbashi Muromachi 4-chome, Chuo-ku, Tokyo 103-0022, Japan
Phone: (03)3242-0082 Facsimile: (03)3277-0146
SWIFT Address: HABK JPJT

Financial Market Department

◆ Tokyo Office

1-22, Nihonbashi Muromachi 4-chome, Chuo-ku, Tokyo 103-0022, Japan
Phone: (03)3277-0082 Facsimile: (03)3246-4675

Hong Kong Branch

Since its opening in May 1991, the Hong Kong Branch has been expanding with offering the financial services to the customers. As a result, the Bank now handles the large foreign exchange volume due to the Hong Kong Branch. Furthermore, the Hong Kong Branch offers a wide range of services such as providing various information, supporting business expansion for customers who seek to extend business in China and other Asian countries. In September 2010, the Hong Kong Branch started the renminbi-denominated transactions such as deposit, transfer and loan amid a surge of our customers' needs.

1602-05, 16F The Gateway Tower 2 25 Canton Road, Tsimshatsui, Kowloon, Hong Kong
Phone: 852-2845-4188 Facsimile: 852-2537-1757 SWIFT Address: HABKHKHH



Singapore Representative Office / Bangkok Representative Office

Southeast Asia, together with China, has always attracted the attention of our customers as a region with strong growth potential. Currently, there are over about 1,000 customer bases in ASEAN countries.

Singapore is the distribution, financial and economic center in Southeast Asia. The Bank established its Singapore Representative Office in 1997. And in 2007, it established the Bangkok Representative Office, which is the first in Thailand among all regional banks in Japan. Both offices collect and analyze information on the rapidly changing social, financial and economic conditions in the region, and offer the latest information to local customers. In cooperation with the Bank's head office and domestic branches, both offices help customers to expand their businesses in Southeast Asia.



◆ Singapore Representative Office

16 Raffles Quay, #15-05 Hong Leong Building, Singapore 048581
Phone: 65-6221-1182 Facsimile: 65-6221-0556

◆ Bangkok Representative Office

Bhiraj Tower at EmQuartier 18th floor, Unit 1804 689 Sukhumvit Road, North Klongton, Vadhana, Bangkok 10110 Thailand Phone: 66-2261-8226 Facsimile: 66-2261-8227

Shanghai Representative Office / Dalian Representative Office

China is an important huge market for Japan and Nagano Prefecture. Our customers have established over 800 manufacturing and sales facilities in mainland China, and their making inroads to coastal regions are especially remarkable. Since its opening in May 2002, the Shanghai Representative Office supports its customers in their making inroads to China from various aspects and tries to provide them with every kind of information from the city of Shanghai, which is the largest business city as well as a center of the economy and finance in China. In January 2008, the Bank established the Dalian Representative Office to offer careful support to customers.

◆ Shanghai Representative Office

8F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road, Pudong New Area, Shanghai, China
Phone: 86-21-6841-1882 Facsimile: 86-21-6841-2118

◆ Dalian Representative Office

6F, Senmao Building, 147 Zhongshan Road, Xigang District, Dalian, Liaoning, China
Phone: 86-411-3960-8266 Facsimile: 86-411-3960-8182



Corporate Social Responsibility (CSR)

Environmental Conservation Activities

Environmental Policy



Environmental Philosophy

The Hachijuni Bank Group positions environmental conservation activities as elements vital to corporate social responsibility and will contribute to the creation of a sustainable regional community through positive and continual improvements in the environment.

Action Program

1. The Group will try to prevent pollution, mitigate the effects of climate change and adapt to climate change by accurately determining the impact of its activities on the environment as well as the impact from the external environment, and will set, achieve, and review its environmental objectives.
2. The Group will comply with all laws, regulations, and agreements concerning the environment.
3. The Group will make efforts to conserve resources and energy toward reducing environmental burden.
4. By providing financial products, services, and information, the Group aims to support its clients who are directly involved with environmental preservation, thereby contributing to improving the local environment.
5. Recognizing the importance of biodiversity which is a blessing of nature, the Group will work to preserve biodiversity.
6. All officers and employees of the Group, and their families, will engage in activities for environmental conservation, as well as enhance their awareness of environmental issues.

Three Pillars

1 Environmental conservation activities by the Bank's core business

(Target of FY2018) Contribution to customers' activities in environmental improvements by providing environment-friendly financial products

2 Reduction of internal environmental burden

(Target of FY2018) Achievement of the reduction in both environmental burden and the Bank's costs through energy saving and resource conservation

3 Contribution to the regional economy and reinforcement of environmental education

(Target of FY2018) Contribution to the regional community through environmental volunteer activities

Topics

Our replies to CDP rewarded with No. 1 rank in the banking sector

The Bank responded to the CDP 2017 questionnaire and gained the comprehensive rating "B (management)" that falls under the first rank group in the Japanese banking sector (5th rank group in the overall financial sector). CDP rated our business management particularly highly for being conscious of climate change, and its steady reduction of greenhouse gas emissions by setting medium-and long-term goals.

Environmental Management Survey Ranking

The Bank ranked first for the fourth year in a row (for FY2017) in the Japanese regional banking sector (2nd rank in the overall financial sector) in the 21st Environmental Management Survey Ranking announced by the Nihon Keizai Shimbun. This survey evaluates Japanese companies to see how their environmental initiatives harmonize with management efficiency in 4 categories: systems for environmental management promotion, measures for pollution control and biodiversity promotion, resource circulation, and measures against global warming. As such, this survey is considered to be one of the most important rankings in Japan in terms of corporate environmental management.

Our Initiatives to Address Global Warming

Current State of Greenhouse Gas Emissions

Beginning in FY2014, the Bank has calculated GHG emissions up to Scope 3, including emissions in its supply chains.

(Unit:t-CO₂)

Items			FY2016	FY2017
Scope 1	Direct emissions	Heavy oil, kerosene, city gas, gasoline, propane gas	2,692	2,727
Scope 2	Energy-derived indirect emissions	Electricity	10,006	9,478
Scope 3			13,628	13,134
	1 Purchased goods & services	Stationery, copying paper, water and sewage, etc.	3,963	3,284
	2 Capital goods	All buildings belonging to the Bank, construction-in-progress accounts and other tangible fixed assets	4,723	4,948
	3 Fuel and energy-related activities not included in Scope 1 or 2	Heavy oil, kerosene, city gas, gasoline, propane gas, electricity	1,110	1,064
	4 Transportation and delivery (upstream)	Postage, transportation	1,782	1,803
	5 Waste generated in operations	All forms of waste	83	34
	6 Business travel	Business trips	534	521
	7 Employee commuting	Commuting	1,483	1,480
Total			26,326	25,339

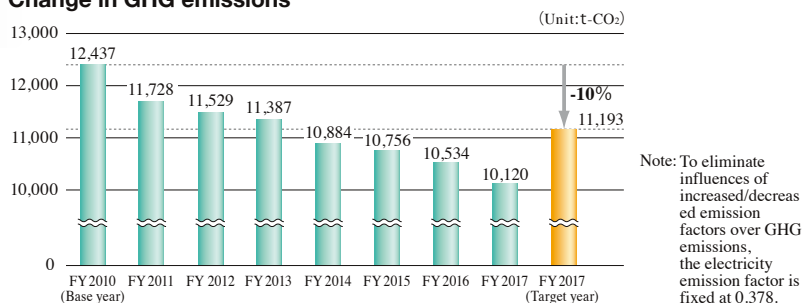
Note1 : Categories 8, 9, 10, 11, 12, 13 and 14 of scope 3 were zero. Category 15 of scope 3 was not calculated.

Note2: The above figures were authorized by Lloyd's Register Quality Assurance Limited (LRQA) as the third party guarantee.

Reduction Targets for Greenhouse Gas Emissions

During FY2017, the Bank has reduced GHG emissions by 18.6% from the base year of FY2010. The figure substantially exceeded the 10% - the Bank's reduction target. The Bank has set as a new target for FY2020 a 15% reduction in GHG emissions from the base year of FY2013.

Change in GHG emissions



Results of Environmental Accounting for Fiscal Year 2017

Environmental conservation cost

(millions of yen)

Classification	FY2016	FY2017
Business area cost	310	172
Resource circulation cost	31	30
Pollution prevention cost	0	0
Global environmental conservation cost	279	142(*1)
Administrative activity cost	64	63
Personnel cost	43	42
Disclosure of environment information and advertisement	14	12
Maintenance of environmental management system	6	5
Monitoring of environmental burden	1	4
Social activity cost(*2)	18	19
Total	392	254

Economic benefit associated with environmental conservation activities

(millions of yen)

Item	FY2016	FY2017
Income	1,293	1,711
Income from environment-related loans	1,240	1,688
Income from EB contracts	41	17
Income from ISO14001 consultations	12	6
Cost saved(*3)	40	△ 23
Total	1,330	1,688

*1 Installation cost of LED, solar power generation system, introduction cost of energy-saving window glass

*2 Support funds for "Hachijuni-no-Mori," donations to Nagano Environment Conservation Associations

*3 The amount reduced in utilities expenses, supplies expenses and expenses for disposing of wastes through energy and resource saving efforts (stated by straight comparison with the previous fiscal year)
A negative figure means an increase from the previous fiscal year.

Environmental conservation benefit (Reduction of carbon dioxide emission)

(t-CO₂)

Classification	FY2016	FY2017
CO ₂ emission reduced by the Bank's internal efforts (by straight comparison with the previous fiscal year)	228	410
CO ₂ emission reduced by customers through the help of the Bank's core businesses	491,211	403,678
Total	491,439	404,088

ISO14001 Certification

- ▶ The Bank received the ISO14001 certification for its head office in March 1999, which was a first for a regional bank in Japan. It expanded the scope of this certification to all domestic branches in March 2002. A total of 175 offices (as of March 31, 2018) and nearly 5,000 employees are involved in this effort.

Contribution to the Region and Society

- ▶ As members of the "Hachijuni Volunteer Club," our employees are encouraged to participate in various social activities which include community cleaning campaigns, forest management programs, collaborations in events, and others. Our offices are also working actively in their own unique ways by cooperating in major events such as the "Nagano Prefecture Judan Ekiden (ekiden relay race through Nagano Prefecture)," welfare-related activities and collection volunteers, along with environmental volunteer activities. During FY2017, a total of around 6,300 of our employees worked as volunteers.
- ▶ To further support volunteers and motivate them, the Bank introduced the "Special Holiday System to Encourage Volunteer Activities."
- ▶ The Bank established the "Nagano Economic Research Institute" in March 1984 as a think tank to contribute to the advancement and development of the regional community in response to its highly sophisticated needs.
- ▶ The Bank also established the "Hachijuni Culture Foundation" in 1985 to contribute to the development of the regional community, specifically in arts and culture.

Board of Directors

Yoshiyuki Yamaura
Chairman

Masaki Matsushita
Deputy President

Yoshinori Matsuda
Managing Director

Muneo Yoshie
Managing Director

Kayo Tashita
Director (Outside Director)

Shoichi Yumoto
President

Takashi Nakamura
Managing Director

Hideo Funami
Managing Director

Yuichi Sato
Managing Director

Sokichi Kurosawa
Director (Outside Director)

Audit & Supervisory Board Members

Koichi Sakai
Audit & Supervisory Board Member

Takeshi Kadota
Outside Audit & Supervisory Board Member

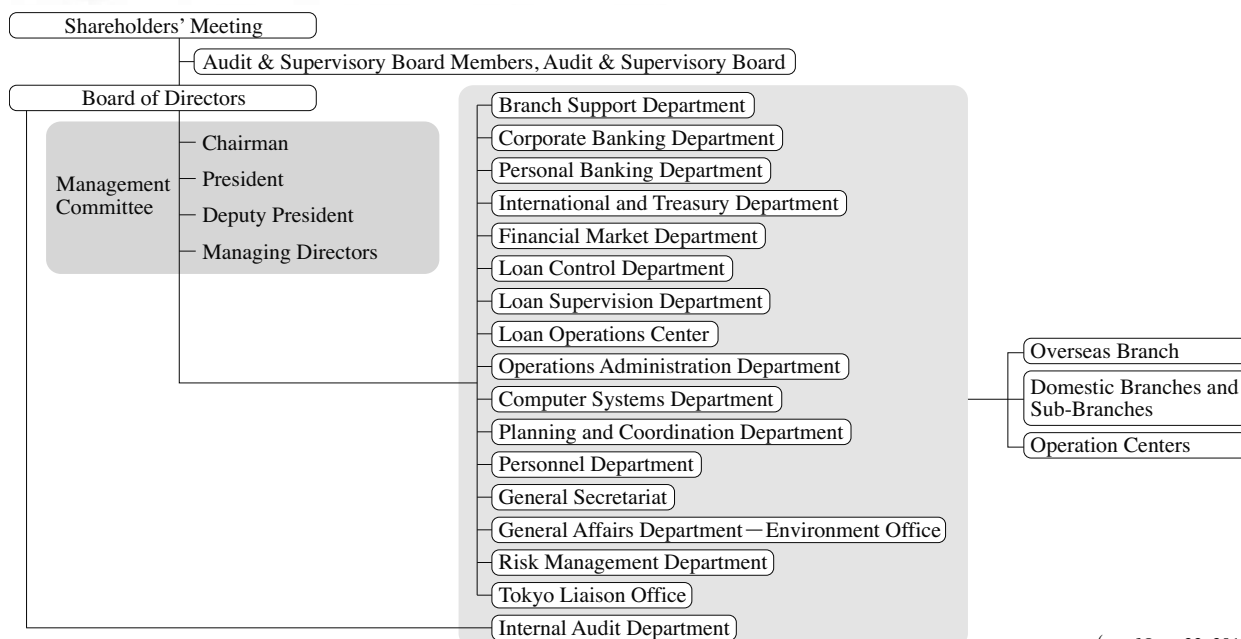
Kiyohito Yamasawa
Outside Audit & Supervisory Board Member

Yoshimi Kitazawa
Audit & Supervisory Board Member

Yasuyoshi Wada
Outside Audit & Supervisory Board Member

(as of June 22, 2018)

Organization



(as of June 22, 2018)

Major Affiliated Companies

		Date of establishment	Line of business
The Hachijuni Bank, Ltd.	Hachijuni Staff Service Co., Ltd.	● September 1986	● Placement of temporary working staff
	Hachijuni Securities Co., Ltd.	● May 1949	● Securities business
	Hachijuni Credit Guarantee Co., Ltd.	● December 1983	● Guarantee to consumer loan
	Yamabiko Services Co., Ltd.	● June 2000	● Credit collection and management
	Hachijuni Lease Co., Ltd.	● June 1974	● Leasing
	Hachijuni DC Card Co., Ltd.	● August 1982	● Credit card business
	Hachijuni System Development Co., Ltd.	● December 1983	● Development of computer systems
	Hachijuni Capital Co., Ltd.	● September 1984	● Venture capital for high-tech companies
	Hachijuni Auto Lease Co., Ltd.	● October 2005	● Leasing

(as of June 22, 2018)

Major Shareholders

Name	Number of shares in thousands	%	Name	Number of shares in thousands	%
State Street Bank and Trust Company 505223	19,022	3.77	The Master Trust Bank of Japan, Ltd. (Trust Account)	12,540	2.48
Meiji Yasuda Life Insurance Company	17,867	3.54	Shin-Etsu Chemical Co., Ltd.	11,830	2.34
Nippon Life Insurance Company	17,000	3.37	Showa Shoji Co., Ltd.	11,820	2.34
The Bank of Tokyo-Mitsubishi UFJ, Ltd	16,364	3.24	Aioi Nissay Dowa Insurance Co., Ltd.	11,441	2.27
Japan Trustee Services Bank, Ltd. (Trust Account)	13,926	2.76	Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,098	1.80

(as of March 31, 2018)

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan
Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of The Hachijuni Bank, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, 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, the auditor considers 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, but 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 referred to above present fairly, in all material respects, the consolidated financial position of The Hachijuni Bank, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2018

Member of
Deloitte Touche Tohmatsu Limited

Financial Section

Consolidated Balance Sheet March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS:			
Cash and due from banks (Notes 3 and 26)	¥ 1,348,767	¥ 885,456	\$ 12,695,475
Call loans and bills bought	11,367	100,485	107,000
Monetary claims bought	58,113	60,836	547,000
Trading assets (Notes 4 and 27)	14,415	15,444	135,690
Money held in trust (Note 5)	60,577	61,651	570,197
Securities (Notes 6, 12 and 26)	2,510,142	2,459,732	23,627,098
Loans and bills discounted (Notes 7, 26 and 28)	5,040,098	4,864,144	47,440,686
Foreign exchanges (Note 8)	16,492	24,756	155,236
Lease receivables and investments in leases (Note 24)	65,011	63,583	611,926
Other assets (Note 12)	123,094	112,716	1,158,647
Property, plant, and equipment—net (Notes 9 and 10)	35,458	38,056	333,759
Intangible assets—net (Note 9)	5,509	5,221	51,857
Asset for employees' retirement benefits (Note 15)	28,550	23,689	268,738
Deferred tax assets (Note 23)	1,958	2,088	18,435
Customers' liabilities for acceptances and guarantees (Note 11)	34,445	32,218	324,224
Allowance for credit losses	(44,960)	(46,233)	(423,201)
TOTAL	¥ 9,309,043	¥ 8,703,848	\$ 87,622,775
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits (Notes 12, 13 and 26)	¥ 6,586,969	¥ 6,390,778	\$ 62,000,843
Negotiable certificates of deposit (Note 26)	503,652	502,283	4,740,706
Call money and bills sold		3,594	
Payables under repurchase agreements	82,223		773,942
Payables under securities lending transactions (Notes 12 and 26)	681,737	596,632	6,416,955
Trading liabilities (Notes 4 and 27)	4,960	4,735	46,687
Borrowed money (Notes 14 and 26)	443,483	234,613	4,174,354
Foreign exchanges (Note 8)	891	1,572	8,391
Other liabilities	99,100	105,337	932,794
Liability for employees' retirement benefits (Note 15)	12,269	12,058	115,487
Provision for reimbursement of deposits	836	879	7,872
Provision for contingent losses	1,000	1,112	9,417
Reserve under special laws	9	8	85
Deferred tax liabilities (Note 23)	80,395	74,468	756,734
Acceptances and guarantees (Note 11)	34,445	32,218	324,224
Total liabilities	8,531,974	7,960,293	80,308,496
EQUITY (Notes 16 and 31):			
Common stock—authorized, 2,000,000 thousand shares; issued, 511,103 thousand shares in 2018 and 2017	52,243	52,243	491,746
Capital surplus	34,484	34,516	324,592
Stock acquisition rights (Note 17)	312	343	2,942
Retained earnings	446,197	427,451	4,199,899
Treasury stock—at cost, 7,226 thousand shares in 2018 and 4,416 thousand shares in 2017	(4,864)	(3,154)	(45,783)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	217,035	212,936	2,042,877
Deferred loss on hedges	(3,008)	(9,979)	(28,317)
Defined retirement benefit plans	6,343	2,801	59,709
Total	748,744	717,158	7,047,666
Noncontrolling interests	28,324	26,396	266,611
Total equity	777,068	743,555	7,314,278
TOTAL	¥ 9,309,043	¥ 8,703,848	\$ 87,622,775

See notes to consolidated financial statements.

Consolidated Statement of Income

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
INCOME:			
Interest income:			
Interest on loans and discounts	¥ 46,767	¥ 48,331	\$ 440,202
Interest and dividends on securities	29,593	34,494	278,550
Other interest income	2,740	3,051	25,794
Fees and commissions	20,857	20,270	196,326
Trading income	2,978	1,735	28,034
Other operating income (Note 18)	67,081	88,515	631,416
Other income (Note 19)	11,263	12,764	106,016
Total income	181,281	209,163	1,706,341
EXPENSES:			
Interest expenses:			
Interest on deposits	2,662	3,927	25,064
Interest on borrowings and rediscounts	2,407	1,954	22,658
Other interest expenses	3,838	5,971	36,129
Fees and commission payments	7,028	6,910	66,159
Other operating expenses (Note 20)	54,872	77,489	516,497
General and administrative expenses (Note 21)	62,909	66,081	592,140
Provision for credit losses	224		2,112
Other expenses (Note 22)	8,011	7,206	75,413
Total expenses	141,955	169,540	1,336,176
INCOME BEFORE INCOME TAXES	39,326	39,622	370,165
INCOME TAXES (Note 23):			
Current	12,826	11,505	120,731
Deferred	(627)	322	(5,904)
Total income taxes	12,199	11,827	114,827
NET INCOME	27,127	27,794	255,337
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,286	1,482	12,106
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 25,840	¥ 26,312	\$ 243,231
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 30):			
Basic net income	¥ 51.00	¥ 51.92	\$ 0.48
Diluted net income	50.94	51.86	0.47
Cash dividends applicable to the year	13.00	14.00	0.12

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥ 27,127	¥ 27,794	\$ 255,337
OTHER COMPREHENSIVE INCOME (LOSS) (Note 29):			
Unrealized gain (loss) on available-for-sale securities	4,803	(3,633)	45,216
Deferred gain on derivatives under hedge accounting	6,971	33,766	65,615
Defined retirement benefit plans	3,499	7,020	32,937
Total other comprehensive income	15,274	37,153	143,770
COMPREHENSIVE INCOME	¥ 42,401	¥ 64,948	\$ 399,108
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 40,452	¥ 62,763	\$ 380,768
Noncontrolling interests	1,948	2,185	18,339

See notes to consolidated financial statements.

Year Ended March 31, 2018

Thousands	Millions of Yen											
	Accumulated Other Comprehensive Income											
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Valuation	Deferred	Defined Retirement Benefit Plans	Total	Noncon- trolling Interests	Total Equity
							Difference on Available-for-Sale Securities	Gain (Loss) on Hedges				
BALANCE, MARCH 31, 2016	511,103	¥ 52,243	¥ 34,516	¥ 274	¥ 408,739	¥ (3,153)	¥ 217,206	¥ (43,745)	¥ (4,153)	¥ 661,926	¥ 24,231	¥ 686,158
Net income attributable to owners of the parent					26,312					26,312		26,312
Cash dividends, ¥15.00 per share					(7,600)					(7,600)		(7,600)
Purchases of treasury stock												
Disposals of treasury stock												
Net change during the period				69			(4,270)	33,766	6,955	36,520	2,164	38,685
BALANCE, MARCH 31, 2017	511,103	52,243	34,516	343	427,451	(3,154)	212,936	(9,979)	2,801	717,158	26,396	743,555
Net income attributable to owners of the parent					25,840					25,840		25,840
Cash dividends, ¥14.00 per share					(7,094)					(7,094)		(7,094)
Purchases of treasury stock						(1,846)				(1,846)		(1,846)
Disposals of treasury stock			(31)			136				105		105
Net change during the period				(31)			4,099	6,971	3,541	14,580	1,927	16,508
BALANCE, MARCH 31, 2018	511,103	¥ 52,243	¥ 34,484	¥ 312	¥ 446,197	¥ (4,864)	¥ 217,035	¥ (3,008)	¥ 6,343	¥ 748,744	¥ 28,324	¥ 777,068

Thousands of U.S. Dollars (Note 1)											
	Accumulated Other Comprehensive Income										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Deferred Earnings	Treasury Stock	Valuation Difference on Available-for-Sale Securities	Deferred Gain (Loss) on Hedges	Defined Retirement Benefit Plans	Total	Noncon- forming Interests	Total Equity
BALANCE, MARCH 31, 2017	\$ 491,746	\$ 324,887	\$ 3,234	\$4,023,448	\$ (29,688)	\$2,004,294	\$ (93,933)	\$ 26,371	\$ 6,750,361	\$ 248,464	\$ 6,998,826
Net income attributable to owners of the parent				243,231					243,231		243,231
Cash dividends, \$0.13 per share				(66,780)					(66,780)		(66,780)
Purchases of treasury stock					(17,378)				(17,378)		(17,378)
Disposals of treasury stock		(295)			1,283				988		988
Net change during the period			(292)			38,583	65,615	33,338	137,244	18,147	155,391
BALANCE, MARCH 31, 2018	\$ 491,746	\$ 324,592	\$ 2,942	\$4,199,899	\$ (45,783)	\$2,042,877	\$ (28,317)	\$ 59,709	\$ 7,047,666	\$ 266,611	\$ 7,314,278

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 39,326	¥ 39,622	\$ 370,165
Adjustments for:			
Income taxes—paid	(10,629)	(14,056)	(100,047)
Depreciation and amortization	6,161	6,169	57,991
Impairment losses	2,095	727	19,727
Increase in allowance for credit losses	(1,272)	(4,856)	(11,974)
Interest income	(79,100)	(85,877)	(744,547)
Interest expense	8,908	11,852	83,853
Interest received	80,966	88,530	762,112
Interest paid	(9,118)	(11,855)	(85,828)
Net increase in loans and bills discounted	(175,953)	(228,742)	(1,656,190)
Net increase in borrowed money	208,869	147,546	1,966,015
Net increase in deposits	196,191	161,689	1,846,680
Net (increase) decrease in call loans and bills bought	91,841	(78,722)	864,470
Net (decrease) increase in call money and bills sold	78,629	(121,509)	740,113
Net increase in due from banks, excluding due from the Bank of Japan	(462)	(2,785)	(4,354)
Net increase in payables under securities lending transactions	85,104	368,035	801,057
Other—net	(30,959)	(3,744)	(291,407)
Total adjustments	451,272	232,404	4,247,671
Net cash provided by operating activities	490,598	272,026	4,617,836
INVESTING ACTIVITIES:			
Purchases of investment securities	(991,482)	(957,778)	(9,332,474)
Proceeds from sales of investment securities	845,115	973,373	7,954,777
Proceeds from maturities of investment securities	131,570	167,536	1,238,428
Payments for increase in money held in trust	(5,655)	(26,043)	(53,230)
Proceeds from decrease in money held in trust	7,701	27,193	72,487
Purchases of fixed assets	(7,721)	(7,224)	(72,680)
Proceeds from sales of fixed assets	1,687	1,455	15,881
Net cash provided by (used in) investing activities	(18,784)	178,511	(176,812)
FINANCING ACTIVITIES:			
Payments to acquire treasury stock	(1,846)		(17,378)
Proceeds from sales of treasury stock			2
Dividends paid	(7,094)	(7,600)	(66,780)
Dividends paid to noncontrolling interests	(20)	(20)	(191)
Net cash used in financing activities	(8,961)	(7,620)	(84,349)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5)	(1)	(49)
NET INCREASE IN CASH AND CASH EQUIVALENTS	462,847	442,915	4,356,626
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	867,254	424,339	8,163,165
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR (Note 3)	¥ 1,330,102	¥ 867,254	\$ 12,519,792

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended March 31, 2018

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018.

All Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen. Accordingly, the total of each account may not be equal to the combined total of the individual items.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which The Hachijuni Bank, Ltd. (the "Bank") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to \$1, the rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements as of March 31, 2018, include the accounts of the Bank and its 10 significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Bank, directly or indirectly, is able to exercise control over their operations are fully consolidated.

Investments in seven (seven in 2017) unconsolidated subsidiaries and in one associated company are stated at cost, and are included in securities in the consolidated financial statements. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

b. Cash Equivalents – For the purpose of reporting of cash flows, "Cash and cash equivalents" consists of "Cash" and "Due from the Bank of Japan."

c. Trading Assets and Liabilities – Transactions for trading purposes (for purposes of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates, or market prices of securities and other market-related indices or from gaps among markets) are included in "Trading assets" and "Trading liabilities" on a trade-date basis.

Trading securities and monetary claims bought for trading purposes are stated at fair value at the consolidated balance sheet date. Trading-related financial derivatives, such as swaps, futures, and options are stated at amounts that would be received or paid for settlement if such transactions were terminated at the consolidated balance sheet date.

Trading income includes interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities, monetary claims bought, and derivatives between the consolidated balance sheet dates.

d. Securities – Securities other than investments in unconsolidated subsidiaries and associated company are classified into three categories, based principally on the Group's intent, as follows: (a) trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers and are carried at fair value with corresponding unrealized gains and losses recorded in income; (b) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost computed using straight-line method; and (c) securities not classified as held-to-maturity debt securities, other than trading securities, are classified as available-for-sale securities. Marketable available-for-sale securities are stated at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Available-for-sale securities for which a fair value is not reliably determined are stated at cost computed using the moving-average method.

In addition, investments in unconsolidated subsidiaries and associated company that are not accounted for by the equity method are carried at cost determined by the moving-average method.

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary.

e. Securities in Money Held in Trust – Securities included in "Money held in trust" are stated at fair value.

f. Property, Plant, and Equipment – Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation for buildings and equipment of the Group is computed under the declining-balance method at rates based on the estimated useful lives, which are principally from 3 to 50 years for buildings and from 3 to 20 years for equipment.

g. Software – Capitalized software for internal use is depreciated using the straight-line method over its estimated useful life (principally 5 years).

h. Long-Lived Assets – The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- i. Allowance for Credit Losses** – An allowance for credit losses is determined based on a credit assessment made by management at each consolidated balance sheet date. A key element relating to policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The categorization is based on conditions that may affect the ability of borrowers to service their debt, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments, and current trends. In determining the appropriate level of the allowance, the Group evaluates the probable loss by category of loan based on its type and characteristics.

The Bank performs a credit assessment of its loan asset quality. The quality of all loans is assessed by branches and the credit supervisory division with a subsequent audit by the asset review and the credit inspection division in accordance with the Bank's policies and discipline.

Under the policies and discipline, all loans are classified into five categories, which are: "normal"; "caution, including substandard"; "possible bankrupt"; "virtual bankrupt"; and "legal bankrupt."

The allowance for credit losses is calculated based on the past loss ratio for normal and caution categories, and on the fair value of the collateral and other factors of solvency, including value of future cash flows for possible bankrupt, virtual bankrupt, and legal bankrupt categories.

The Bank applied the "discounted cash flow method" (the "DCF method") in calculating the loan loss reserve amounts for most of the claims against obligors categorized as possible bankrupt or substandard under the self-assessment guidelines, when total loan amounts exceed a certain amount. Under the DCF method, the loan loss allowance is determined as the difference between (a) relevant estimated cash flows discounted by the original contractual interest rate and (b) the book value of the claim.

The consolidated subsidiaries provide an "Allowance for credit losses" at the amount deemed necessary to cover such losses, principally based on past experience and management's assessment of the loan portfolio.

- j. Asset and Liability for Employees' Retirement Benefits** – The Bank and its consolidated subsidiaries have a contributory funded pension plan and noncontributory unfunded retirement benefit plans, together covering substantially all of their employees.

The Bank accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years no longer than the expected average remaining service period of the employees.

- k. Provision for Reimbursement of Deposits** – A provision for reimbursement of deposits, which were derecognized as liabilities under certain conditions, is provided for possible losses on future claims of withdrawal based on historical reimbursement experience.

- l. Provision for Contingent Losses** – A provision for contingent losses is provided for the contribution to the National Federation of Credit Guarantee Corporations'

liability sharing program and is recorded in the amount of estimated future contributions based on subrogate performance, etc.

- m. Reserve under Special Laws** – A reserve under special laws is provided for contingent liabilities from brokering of securities or derivative transactions in accordance with Article 46-5 of the Financial Instruments and Exchange Act.

- n. Stock Options** – In December 2005, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No.8, "Accounting Standard for Stock Options," and related guidance that require companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

- o. Leases** – Finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables, and finance leases that are not deemed to transfer ownership of the leased property to the lessee are recognized as investments in lease.

- p. Income Taxes** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

- q. Foreign Currency Transactions** – Assets and liabilities denominated in foreign currencies held domestically and the accounts of the Bank's overseas branch are translated into Japanese yen generally at the exchange rates prevailing on the consolidated balance sheet date.

- r. Derivatives and Hedging Activities** – Derivatives are stated at fair value. Derivative transactions that meet hedge accounting criteria are primarily accounted for under the deferral method whereby unrealized gains and losses are deferred until maturity as deferred gain (loss) under hedge accounting in a separate component of equity.

The hedging derivative instruments must be highly effective in achieving offsetting changes in fair values or variable cash flows from the hedged items attributable to the risk being hedged.

The Bank adopted portfolio hedging in accordance with Industry Audit Committee Report No.24 issued by the Japanese Institute of Certified Public Accountants ("JICPA"). Under portfolio hedging, a portfolio of hedged items, such as deposits or loans with common maturities, is matched with a group of hedging instruments, such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedge is assessed by each

group.

Currency swap and foreign exchange swap transactions are accounted for using deferral hedge accounting by fully applying Industry Audit Committee Report No.25 issued by the JICPA. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions, such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

With respect to derivative transactions between consolidated subsidiaries or internal transactions between trading accounts and other accounts, the Bank manages interest rate swap and currency swap transactions designated as hedging instruments in accordance with the strict hedging criteria for external mirror transactions stipulated in the Industry Audit Committee Reports No.24 and No.25. Therefore, the Bank accounts for the gains and losses on these swap transactions in its earnings or defers until maturity as deferred gain (loss) under hedge accounting in a separate component of equity.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value but the net payments or receipts under the swap agreements are recognized and included in interest expense or income.

s. Per Share Information – Basic net income per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted EPS reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted EPS of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the fiscal year.

3. CASH AND CASH EQUIVALENTS

The reconciliation of "Cash and cash equivalents" in the consolidated statement of cash flows and "Cash and due from banks" in the consolidated balance sheet as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Cash and due from banks	¥ 1,348,767	¥ 885,456	\$ 12,695,475
Due from banks, excluding amounts due from the Bank of Japan	(18,664)	(18,202)	(175,683)
Cash and cash equivalents	¥ 1,330,102	¥ 867,254	\$ 12,519,792

4. TRADING ASSETS AND LIABILITIES

Trading assets and liabilities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Trading assets:			
Trading securities	¥ 1,053	¥ 2,308	\$ 9,920
Financial derivatives	5,362	5,136	50,474
Other trading assets	7,999	7,999	75,295
Total	¥ 14,415	¥ 15,444	\$ 135,690
Trading liabilities			
— Financial derivatives	¥ 4,959	¥ 4,735	\$ 46,686

5. MONEY HELD IN TRUST

The aggregate fair value of money held in trust that is listed on stock exchanges or over-the-counter markets as of March 31, 2018 and 2017, is as follows:

	Fair Value Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Money held in trust—Trading	¥ 60,577	¥ 61,651	\$ 570,197

6. SECURITIES

Securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Securities:			
National government bonds	¥ 997,273	¥ 1,103,176	\$ 9,386,983
Local government bonds	255,015	185,639	2,400,375
Corporate bonds	287,584	275,476	2,706,934
Equity securities	379,258	347,127	3,569,823
Other securities	591,011	548,312	5,562,982
Total	¥ 2,510,142	¥ 2,459,732	\$ 23,627,098

The securities placed under unsecured lending agreements are included in the above national government bonds in the amount of ¥194,778 million (\$1,833,383 thousand) and ¥129,120 million as of March 31, 2018 and 2017 respectively.

In the following description, in addition to "Securities" in the consolidated balance sheet, also presented are beneficial interests in trust investments within the item "Monetary claims bought."

The carrying amounts and aggregate fair value of the securities as of March 31, 2018 and 2017, are as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2018				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 98,254	¥ 273,873	¥ 179	¥ 371,948
Debt securities	1,502,749	38,140	1,215	1,539,673
Other securities	569,125	9,547	6,188	572,484
Held-to-maturity	199	4		204
March 31, 2017				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 98,359	¥ 240,008	¥ 229	¥ 338,138
Debt securities	1,504,325	62,964	3,197	1,564,092
Other securities	526,440	13,344	5,850	533,934
Held-to-maturity	199	6		206

March 31, 2018	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 924,833	\$ 2,577,875	\$ 1,689	\$ 3,501,019
Debt securities	14,144,854	359,000	11,442	14,492,412
Other securities	5,356,979	89,869	58,248	5,388,600
Held-to-maturity	1,880	46		1,927

Proceeds from sales of available-for-sale securities for the years ended March 31, 2018 and 2017, were ¥849,373 million (\$7,994,854 thousand) and ¥1,015,515 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥34,980 million (\$329,260 thousand) and ¥7,062 million (\$66,480 thousand), respectively, for the year ended March 31, 2018, and ¥53,573 million and ¥10,986 million, respectively, for the year ended March 31, 2017.

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Bills discounted	¥ 19,820	¥ 18,029	\$ 186,559
Loans on bills	166,361	171,456	1,565,903
Loans on deeds	4,181,400	4,035,585	39,358,060
Overdrafts	672,516	639,074	6,330,162
Total	¥ 5,040,098	¥ 4,864,144	\$ 47,440,686

Of total loans, loans to customers in bankruptcy, which represent nonaccrual loans and which were included in loans and bills discounted, amounted to ¥4,957 million (\$46,662 thousand) and ¥4,902 million as of March 31, 2018 and 2017, respectively; past due loans, which represent nonaccrual loans other than loans to customers in bankruptcy, amounted to ¥61,045 million (\$574,604 thousand) and ¥68,376 million as of March 31, 2018 and 2017, respectively.

Of total loans, accruing loans contractually past due three months or more amounted to ¥366 million (\$3,449 thousand) and ¥128 million as of March 31, 2018 and 2017, respectively.

Of total loans, restructured loans amounted to ¥20,368 million (\$191,723 thousand) and ¥22,485 million as of March 31, 2018 and 2017, respectively. Restructured loans, designed to assist in the recovery of the financial health of debtors, were loans on which the Bank granted concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, reduction of the face amount). Loans classified as nonaccrual loans or accruing loans contractually past due three months or more were excluded from restructured loans.

8. FOREIGN EXCHANGES

Foreign exchanges as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Assets:			
Due from foreign banks	¥ 13,191	¥ 22,375	\$ 124,164
Foreign exchange bills bought	2,831	2,063	26,655
Foreign exchange bills receivable	469	316	4,416
Total	¥ 16,492	¥ 24,756	\$ 155,236
Liabilities:			
Overdrafts from foreign banks	¥ 23	¥ 43	\$ 216
Foreign exchange bills sold	333	797	3,140
Foreign exchange bills payable	534	730	5,034
Total	¥ 891	¥ 1,572	\$ 8,391

9. PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant, and equipment as of March 31, 2018 and 2017, net of accumulated depreciation of ¥70,743 million (\$665,886 thousand) and ¥70,128 million, respectively, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Land	¥ 12,491	¥ 13,986	\$ 117,576
Buildings	11,598	12,293	109,169
Lease assets	25	57	238
Construction in progress	56	315	532
Other tangible fixed assets	11,287	11,401	106,243
Software	4,890	4,599	46,033
Other intangible fixed assets	618	621	5,824
Total	¥ 40,967	¥ 43,277	\$ 385,617

As of March 31, 2018 and 2017, deferred gains for tax purposes of ¥8,209 million (\$77,268 thousand) and ¥8,210 million, respectively, on property, plant, and equipment sold and replaced with similar assets have been deducted from the cost of newly acquired property, plant, and equipment.

10. LONG-LIVED ASSETS

Impairment losses on the tangible fixed assets, consisted of the following:

Year Ended March 31, 2018			Millions of Yen	Thousands of U.S. Dollars
Area	Use	Category		
Nagano Prefecture	28 Operating assets	Land	¥ 846	\$ 7,969
Nagano Prefecture	8 Operating assets	Buildings	362	3,413
Nagano Prefecture	9 Idle assets	Land and buildings	821	7,733
Others	2 Operating assets	Land	30	291
Others	1 Operating assets	Buildings	23	223
Others	4 Idle assets	Land and buildings	10	96
Total			¥ 2,095	\$ 19,727

Year Ended March 31, 2017			Millions of Yen
Area	Use	Category	
Nagano Prefecture	16 Operating assets	Land	¥ 569
Nagano Prefecture	4 Operating assets	Buildings	66
Nagano Prefecture	6 Idle assets	Land and buildings	90
Others	3 Idle assets	Land and buildings	
Total			¥ 727

In the case of the above asset groups, book values were written down to the recoverable levels due to falling land prices and lower net cash from operating activities, and decision made to abolish the branch, and differences have been recorded as impairment losses. In this method of asset grouping, operating assets as a rule are treated as business premises units, and idle assets are treated as individual asset units. For the consolidated subsidiaries, each company is treated as one asset units, and idle assets are treated as individual asset units. The recoverable values of such assets are measured as their net selling prices determined by the appraisal value based on Japanese real estate appraisal standard.

11. ACCEPTANCES AND GUARANTEES

Acceptances and guarantees include all contingent liabilities associated with the issuance of letters of credit, acceptances of bills, and issuances of guarantees. The contra account included in the assets side of the consolidated balance sheet represents the Bank's potential claim against applicants.

12. ASSETS PLEDGED

Assets pledged as collateral as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Assets pledged:			
Cash (other assets)	¥ 400	¥ 400	\$ 3,768
Securities	1,117,197	906,754	10,515,794
Loans and bills discounted	188,595		1,775,178
Total	¥ 1,306,193	¥ 907,154	\$ 12,294,741
Related liabilities:			
Deposits	¥ 22,598	¥ 50,222	\$ 212,708
Payables under securities lending transactions	681,737	596,632	6,416,955
Total	¥ 704,335	¥ 646,855	\$ 6,629,663

In addition to the above, assets pledged as collateral for transactions, such as exchange settlement transactions, or as substitute securities for initial margin on futures transactions and others were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Securities	¥ 29,020	¥ 63,694	\$ 273,159
Cash (other assets)	25	25	235
Cash collateral received for financial instrument liabilities (other assets)	2,822	11,029	26,562
Deposits to central counterparty (other assets)	58,746	23,217	552,964

Additionally, initial margin of futures markets and guarantee deposits on office space included in other assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Initial margins of futures markets	¥ 345	¥ 79	\$ 3,256
Guarantee deposits on office space	863	843	8,129

13. DEPOSITS

Deposits as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current deposits	¥ 309,102	¥ 262,486	\$ 2,909,471
Ordinary deposits	3,682,866	3,452,032	34,665,532
Savings deposits	56,893	57,809	535,514
Deposits at notice	6,154	9,028	57,929
Time deposits	2,382,753	2,414,396	22,428,024
Other deposits	149,200	195,025	1,404,372
Total	¥ 6,586,969	¥ 6,390,778	\$ 62,000,843

14. BORROWED MONEY

As of March 31, 2018 and 2017, the weighted-average annual interest rates applicable to borrowed money were 0.24% and 0.35%, respectively.

Borrowed money includes borrowings from the Bank of Japan and other financial institutions. Annual maturities of borrowed money as of March 31, 2018, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 427,106	\$ 4,020,201
2020	12,883	121,263
2021	219	2,068
2022	614	5,779
2023	2,638	24,831
2024 and thereafter	22	209
Total	¥ 443,483	\$ 4,174,354

15. RETIREMENT AND PENSION PLANS

The Bank and its domestic consolidated subsidiaries have a contributory funded pension plan and noncontributory unfunded retirement benefit plans.

In the contributory funded pension plan, the Group adopted a cash balance plan that each employee has a "hypothetical account balance," which accumulates pay credits based on each salary level, interest credits based on the trend of market interest rate, and pay retirement lump-sum grants or pension, based on their salary and length of service. Some funded pension plan contributed to employee pension trust.

In the noncontributory unfunded plan, the Group pays retirement lump-sum grants based on salary and length of service.

Employees whose service with the Bank or its domestic consolidated subsidiaries is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service, and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or death, the employee is typically entitled to a larger payment than in the case of voluntary termination.

In addition, some consolidated subsidiaries adopt the simplified method to calculate their liability for employees' retirement benefit and retirement benefit costs.

(1) The changes in defined benefit obligation, excluding the ones calculated by the simplified method, (3) below, for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 50,786	¥ 52,638	\$ 478,036
Current service cost	2,111	2,241	19,874
Interest cost	158	71	1,496
Actuarial (gains) losses	922	(1,379)	8,685
Benefits paid	(2,644)	(2,914)	(24,888)
Others	127	128	1,197
Balance at end of year	¥ 51,462	¥ 50,786	\$ 484,401

(2) The changes in plan assets, excluding the ones calculated by the simplified method, (3) below, for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 62,345	¥ 55,656	\$ 586,841
Expected return on plan assets	1,013	939	9,539
Actuarial gains	4,939	6,343	46,494
Contributions from the employer	791	964	7,445
Benefits paid	(1,684)	(1,686)	(15,853)
Others	127	128	1,197
Balance at end of year	¥ 67,533	¥ 62,345	\$ 635,665

(3) The changes in liability for employees' retirement benefits calculated by the simplified method for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ (71)	¥ (280)	\$ (672)
Net periodic benefit cost	(90)	264	(851)
Benefits paid	(49)	(55)	(463)
Balance at end of year	¥ (211)	¥ (71)	\$ (1,987)

(4) Reconciliation between the asset and liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets, including that calculated by the simplified method (3) above is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥ 45,776	¥ 45,279	\$ 430,882
Plan assets	(74,228)	(68,878)	(698,690)
Total	(28,451)	(23,598)	(267,808)
Unfunded defined benefit obligation	12,170	11,967	114,556
Net asset arising from defined benefit obligation	¥ (16,281)	¥ (11,630)	\$ (153,251)

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for employees' retirement benefits	¥ 12,269	¥ 12,058	\$ 115,487
Asset for employees' retirement benefits	(28,550)	(23,689)	(268,738)
Net asset arising from defined benefit obligation	¥ (16,281)	¥ (11,630)	\$ (153,251)

(5) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 2,111	¥ 2,241	\$ 19,874
Interest cost	158	71	1,496
Expected return on plan assets	(1,013)	(939)	(9,539)
Recognized actuarial losses	996	2,360	9,377
Net periodic benefit costs calculated by the simplified method	(90)	264	(851)
Others	82	124	779
Net periodic benefit costs	¥ 2,245	¥ 4,125	\$ 21,137

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial gains	¥ 5,013	¥ 10,083	\$ 47,186

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans, before adjusting for tax effects, as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial gains	¥ (9,223)	¥ (4,210)	\$ (86,815)

(8) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments	19.16 %	21.85 %
Equity investments	52.96	47.71
General account assets of life insurance companies	21.80	22.89
Cash and cash equivalents	1.10	0.60
Others	4.98	6.95
Total	100.00 %	100.00 %

Employee pension trusts for the years ended March 31, 2018 and 2017, are 37.81% and 33.89%, respectively, and are included in the total above.

b. Method of determining the expected rate of return on plan assets

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

(9) Assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rates	0.0%–0.3%	0.0%–0.4%
Expected rates of return on plan assets	1.0%–2.0%	1.0%–2.0%
Salary increase rates	10.0%	10.0%

16. EQUITY

The significant provisions in the Banking Law and the Companies Act of Japan (the "Companies Act") that affect financial and accounting matters are summarized below:

a Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Bank meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed

without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution by the shareholders.

c Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Banking Law provides that an amount at least equal to 20% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 100% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 100% of common stock may be available for dividends upon resolution by the shareholders. In addition, the Companies Act permits the transfer of a portion of additional paid-in capital and legal reserves to common stock upon resolution by the Board of Directors.

17. STOCK ACQUISITION RIGHTS

The Bank's stock option plans grant options to directors to purchase certain shares of the Bank's common stock in the respective periods. Stockbased compensation expenses were ¥73 million (\$693 thousand) and ¥69 million for the years ended March 31, 2018 and 2017, respectively.

The stock options outstanding as of March 31, 2018, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2008 Stock Option	9 directors	105,700 shares	July 28, 2008	¥ 1 (\$0.01)	From July 29, 2008, to July 28, 2033
2009 Stock Option	8 directors	135,900 shares	July 27, 2009	¥ 1 (\$0.01)	From July 28, 2009, to July 27, 2034
2010 Stock Option	8 directors	150,000 shares	August 2, 2010	¥ 1 (\$0.01)	From August 3, 2010, to August 2, 2035
2011 Stock Option	8 directors	150,000 shares	August 8, 2011	¥ 1 (\$0.01)	From August 9, 2011, to August 8, 2036
2012 Stock Option	8 directors	150,000 shares	August 6, 2012	¥ 1 (\$0.01)	From August 7, 2012, to August 6, 2037
2013 Stock Option	7 directors	129,300 shares	August 5, 2013	¥ 1 (\$0.01)	From August 6, 2013, to August 5, 2038
2014 Stock Option	8 directors	133,800 shares	July 22, 2014	¥ 1 (\$0.01)	From July 23, 2014, to July 22, 2039
2015 Stock Option	8 directors	78,900 shares	July 27, 2015	¥ 1 (\$0.01)	From July 28, 2015, to July 27, 2040
2016 Stock Option	8 directors	150,000 shares	July 25, 2016	¥ 1 (\$0.01)	From July 26, 2016, to July 25, 2041
2017 Stock Option	7 directors	109,600 shares	July 24, 2017	¥ 1 (\$0.01)	From July 25, 2017, to July 24, 2042

The stock option activity is as follows:

	Stock Option				
	2008	2009	2010	2011	2012
(Shares)					
Year Ended March 31, 2017					
Nonvested					
March 31, 2016- Outstanding	21,200	41,500	45,600	66,500	66,500
Granted					
Canceled					
Vested					
March 31, 2017- Outstanding	21,200	41,500	45,600	66,500	66,500
Vested					
March 31, 2016- Outstanding					
Vested					
Exercised					
Canceled					
March 31, 2017- Outstanding					
Year Ended March 31, 2018					
Nonvested					
March 31, 2017- Outstanding	21,200	41,500	45,600	66,500	66,500
Granted					
Canceled					
Vested		13,500	15,000	19,900	19,900
March 31, 2018- Outstanding	21,200	28,000	30,600	46,600	46,600
Vested					
March 31, 2017- Outstanding					
Vested		13,500	15,000	19,900	19,900
Exercised		13,500	15,000	19,900	19,900
Canceled					
March 31, 2018- Outstanding					
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise					
Fair value price at grant date	¥617 (\$5.80)	¥512 (\$4.81)	¥452 (\$4.25)	¥374 (\$3.52)	¥410 (\$3.85)

	Stock Option				
	2013	2014	2015	2016	2017
(Shares)					
Year Ended March 31, 2017					
Nonvested					
March 31, 2016- Outstanding	87,600	94,800	78,900		
Granted				150,000	
Canceled					
Vested					
March 31, 2017- Outstanding	87,600	94,800	78,900	150,000	
Vested					
March 31, 2016- Outstanding					
Vested					
Exercised					
Canceled					
March 31, 2017- Outstanding					

	Stock Option				
	2013	2014	2015	2016	2017
Year Ended March 31, 2018	(Shares)				
<u>Nonvested</u>					
March 31, 2017- Outstanding	87,600	94,800	78,900	150,000	
Granted					109,600
Canceled					
Vested	34,700	32,400	19,100	36,400	
March 31, 2018- Outstanding	52,900	62,400	59,800	113,600	109,600
<u>Vested</u>					
March 31, 2017- Outstanding					
Vested	34,700	32,400	19,100	36,400	
Exercised	34,700	32,400	19,100	36,400	
Canceled					
March 31, 2018- Outstanding					
Exercise price	¥1 (\$ 0.01)	¥1 (\$ 0.01)	¥1 (\$ 0.01)	¥1 (\$ 0.01)	¥1 (\$ 0.01)
Average stock price at exercise					
Fair value price at grant date	¥602 (\$ 5.66)	¥628 (\$ 5.91)	¥927 (\$ 8.72)	¥455 (\$ 4.28)	¥689 (\$ 6.48)

The Assumptions Used to Measure the Fair Value of the 2017 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	33.80%
Estimated remaining outstanding period:	28 months
Estimated dividend:	¥14 per share
Risk-free interest rate:	(0.092)%

18. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gains on foreign exchange transactions	¥ 866	¥ 834	\$ 8,153
Gains on sales of bonds	31,479	53,518	296,303
Gains on redemption of bonds	229		2,158
Income on lease transaction and installment receivables	29,734	32,931	279,878
Other	4,772	1,231	44,921
Total	¥ 67,081	¥ 88,515	\$ 631,416

19. OTHER INCOME

Other income for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gains on sales of equity securities	¥ 5,766	¥ 3,217	\$ 54,282
Gains on money held in trust	1,598	3,925	15,045
Reversal of allowance for credit losses		2,298	
Other	3,897	3,323	36,689
Total	¥ 11,263	¥ 12,764	\$ 106,016

20. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loss on sales of bonds	¥ 24,328	¥ 47,932	\$ 228,997
Cost of lease transaction and installment receivables	30,348	29,556	285,658
Other	195		1,841
Total	¥ 54,872	¥ 77,489	\$ 516,497

21. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Salaries and related expenses	¥ 25,216	¥ 25,616	\$ 237,352
Other	37,692	40,464	354,787
Total	¥ 62,909	¥ 66,081	\$ 592,140

22. OTHER EXPENSES

Other expenses for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Write-off of loans	¥ 2	¥ 3	\$ 20
Losses on sales of equity securities	1,652	373	15,554
Valuation losses on equity securities	178	171	1,675
Losses on money held in trust	626	2,892	5,895
Losses on sales of real estate	116	73	1,092
Impairment losses	2,095	727	19,727
Other	3,340	2,964	31,447
Total	¥ 8,011	¥ 7,206	\$ 75,413

23. INCOME TAXES

The Bank and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in normal effective statutory tax rates of 30.34% and 30.57% for the years ended March 31, 2018 and 2017, respectively.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities as of March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Allowance for credit losses	¥ 12,246	¥ 12,219	\$ 115,270
Valuation difference on available-for-sale securities	2,300	2,814	21,652
Deferred losses on hedges	3,157	6,640	29,716
Valuation losses on equity securities	1,446	1,565	13,617
Depreciation	2,925	2,814	27,535
Accrued enterprise tax	440	254	4,144
Impairment losses	1,482	870	13,958
Other	1,876	3,161	17,663
Less—valuation allowance	(3,119)	(2,654)	(29,366)
Total deferred tax assets	22,755	27,686	214,191
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	96,591	94,971	909,181
Gain on contribution of securities to employee retirement benefit trust	1,665	1,665	15,672
Deferred losses on hedges	1,846	2,294	17,382
Other	1,089	1,135	10,254
Total deferred tax liabilities	101,192	100,066	952,490
Net deferred tax liabilities	¥ (78,436)	¥ (72,380)	\$ (738,298)

Reconciliation is not presented for the years ended March 31, 2018 and 2017, because the difference was immaterial (less than 5% of the normal statutory tax rate).

24. LEASES

Lessor

The net investments in leases are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gross lease receivables	¥ 57,768	¥ 58,717	\$ 543,753
Estimated residual values	5,745	5,332	54,076
Estimated maintenance cost	(1,442)	(1,405)	(13,579)
Unearned interest income	(3,866)	(4,071)	(36,397)
Investments in leases	¥ 58,203	¥ 58,572	\$ 547,853

Maturities of lease receivables for finance leases that are deemed to transfer ownership of the leased property to the lessee are as follows:

March 31	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due in 1 year or less	¥ 1,995	¥ 1,691	\$ 18,782
Due from 1 to 2 years	1,533	1,242	14,431
Due from 2 to 3 years	1,158	798	10,907
Due from 3 to 4 years	791	469	7,453
Due from 4 to 5 years	505	251	4,755
Due after 5 years	954	583	8,987
Total	¥ 6,939	¥ 5,036	\$ 65,318

Maturities of investments in leases for finance leases that are deemed not to transfer ownership of the leased property to the lessee are as follows:

March 31	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due in 1 year or less	¥ 18,290	¥ 18,206	\$ 172,160
Due from 1 to 2 years	14,632	14,874	137,732
Due from 2 to 3 years	11,220	11,201	105,614
Due from 3 to 4 years	7,428	7,814	69,923
Due from 4 to 5 years	3,907	4,134	36,778
Due after 5 years	2,288	2,486	21,543
Total	¥ 57,768	¥ 58,717	\$ 543,753

The minimum rental commitments under noncancelable operating leases as of March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within 1 year	¥ 3,057	¥ 2,976	\$ 28,779
Due after 1 year	3,716	3,754	34,978
Total	¥ 6,773	¥ 6,731	\$ 63,758

25. RELATED-PARTY TRANSACTIONS

Related-party transactions for the fiscal years ended March 31, 2018 and 2017, are as follows:

Related Party	Category	Description of the Transaction	2018			
			Amounts of Transactions		Balance at End of the Year	
			Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Takeshi Kadota	Audit & Supervisory Board member	Loan	(Average amounts)			
			¥ 14	\$ 134	¥ 13	\$ 128
Related Party	Category	Description of the Transaction	2017			
			Amounts of Transactions		Balance at End of the Year	
			Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Takeshi Kadota	Audit & Supervisory Board member	Loan	(Average amounts)			
			¥ 15		¥ 15	

26. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group offers financial services such as providing loans and sales of investment products to customers. In performing these operations, the Bank uses funds received as deposits from customers or by borrowing money from the market in consideration of market conditions and the balance in funding periods between the short term and the long term.

As the Bank holds financial assets and liabilities affected by interest rate movements, it carries out Asset Liability Management ("ALM") to avoid negative effects of interest movements. In managing interest rate movements, the Bank utilizes derivatives.

The Bank and certain consolidated subsidiaries also hold securities for sale to customers.

(2) Nature and Extent of Risks Arising from Financial Instruments

(a) Loans

The Bank provides loans mainly to domestic customers, but does not focus on specific groups of companies. These loans are exposed to credit risk in the case of the customers' breach of the contract. In all domestic loans, the percentage of loans in Nagano Prefecture, the Bank's main business area, is approximately 50%. As such, the Bank's credit risk is likely to deteriorate if there are negative changes in the economy in Nagano Prefecture.

(b) Securities

Securities are mainly bonds, stocks, investment trusts, and corporate investment funds. These securities are classified into categories, such as (1) securities held to maturity, (2) securities available for sale, and (3) securities for trading purposes to sell to customers. All securities are exposed to the credit risk of the securities' issuers or interest rate risk, market price risk, foreign exchange risk, and liquidity risk.

(c) Deposits

The Bank receives deposits from customers. These deposits are exposed to interest rate risk, foreign exchange risk, and liquidity risk.

(d) Derivatives

The purpose of using derivatives is to provide customers various hedging instruments to hedge the Bank's portfolio under ALM and to enhance the Bank's profit. Derivatives include interest rate swaps, interest cap transactions, and currency exchange swaps. Using these derivatives as hedging instruments for loans and securities, the Bank applies hedge accounting to derivative transactions and assesses the effectiveness between the hedged items and hedging instruments from the start of hedging. These derivative transactions are exposed to market risk and credit risk.

Derivative transactions used for hedging purposes are carried out in accordance with the Bank's annual hedging policy.

(3) Risk Management for Financial Instruments

(a) Credit risk management

In accordance with internal rules of credit risk management, the Bank examines every loan, manages loans according to credit lines for each debtor, addresses troubled loans, reviews each debtor's credit rating, and manages the Bank's loan portfolio. Regarding the loan examination structure, the loan promotion section is separated from the loan examination section in the head office. These two sections monitor and check each other. Every loan from the business branches is examined in

many stages from loan application to the Bank's final decision. The Bank reviews each debtor's credit rating on a regular basis to identify troubled loans in a timely manner. In addition, the Bank uses examination results in order to reduce credit risk and to manage the Bank's loan portfolio.

To address the credit risk of securities' issuers, the Bank carries out its business under credit line limits for each debtor. Such limits are defined by the Risk Management Department on a semiannual basis.

(b) Market risk management (interest rate risk, foreign exchange risk, and market price risk)

The Group stipulates internal rules of market risk management and controls market risk so as to maintain management soundness and profitability.

Considering the market and the Bank's conditions, the Bank updates its Market Risk Management Policy on a semiannual basis to maintain an appropriate balance between risk and return and to adjust the volume of risk. Furthermore, the management committee confirms the risk limit and loss limit by each transaction type for each customer according to the Market Risk Management Policy. The Bank defines the limit of investment, limit of holding, and limit of valuation losses, as necessary. It also defines the threshold that should limit market risk and losses to certain amounts. Each section should carry out its business within risk limits, as well as report the risk status to an executive officer on a daily basis.

Regarding management of business operations, the front office is separated from the back office. The middle office which controls and manages risk is also separated from these two offices. These three offices monitor and check each other.

Management of Interest Rate Risk

To manage risk caused by interest rate fluctuations, the Bank uses Value at Risk ("VaR") for the change of economic value and uses ALM for the change of interest rate in gap analysis. The "ALM and Integrated Risk Conference" monitors the Group's risk status and discusses various measures corresponding to risks. As stated above, the Bank uses some derivative transactions under ALM.

Management of Foreign Exchange Risk

The Bank manages the change of economic value arising from fluctuations in foreign exchange rates by VaR. To avoid excessive foreign exchange risk, the Bank defines the upper holding limit in its Market Risk Management Policy.

Management of Market Price Risk

The Bank manages the change of economic value arising from fluctuations in market prices by VaR. The Board of Directors define the upper limit of risk on a semiannual basis by taking into account the Bank's capital status and market conditions. Certain consolidated subsidiaries report market values of holding securities to the Bank's Board of Directors on a regular basis.

The Principles of Derivative Transactions

The Bank establishes internal rules for derivative transactions and manages the Group's risk in an integrated fashion, including derivative transactions made by consolidated subsidiaries. Regarding derivatives, the Risk Management Department reports the total positions, market values, and market risk amounts to both executive officers and the "ALM and Integrated Risk Conference" on a regular basis.

To manage risk arising from derivative transactions, the middle office, which checks and controls risk, is separated from the front office so as to monitor the front office's transactions.

Quantitative Information on Market Risk

The Bank principally uses VaR for quantitative analysis of the market risk of all financial instruments. For calculating VaR, the historical simulation method (confidence interval of 99.9%; observation period of 1,250 days; and holding period of 10 days for Bank's trading business, 240 days for Bank's banking business, and 120 days for others) has been adopted.

The VaRs in the Bank's trading business are ¥408 million (\$3,848 thousand) and ¥355 million and the VaRs in the Bank's banking business are ¥329,014 million (\$3,096,898 thousand) and ¥303,766 million as of March 31, 2018 and 2017, respectively.

The Bank conducts backtesting to compare the VaR calculated using the model with actual loss amounts. According to the bank testing results, it is believed that the measurement model that the Bank uses is adequate to capture market risk. It should be noted that VaR measures the amount of market risk at certain probability levels statistically calculated based on historical market fluctuations, and therefore, there may be cases where market risk cannot be captured in situations when market conditions change dramatically beyond what has been experienced historically.

(c) Liquidity risk management

The Bank manages liquidity risk through diversification of funding and adjustment of funding periods between long term and short term under ALM.

(4) Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 27 for the details of the fair value of derivatives.

(a) Fair value of financial instruments

March 31, 2018	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains(Losses)
Cash and due from banks	¥1,348,767	¥1,348,767	
Securities:			
Held to maturity	199	204	¥ 4
Available for sale	2,483,408	2,483,408	
Loans and bills discounted	5,040,098		
Allowance for credit losses	(37,721)		
Subtotal	5,002,376	5,042,452	40,075
Total	¥8,834,752	¥8,874,833	¥ 40,080
Deposits	¥6,586,969	¥6,587,189	¥ (219)
Negotiable certificates of deposit	503,652	503,652	
Payables under securities lending transactions	681,737	681,737	
Borrowed money	443,483	443,460	22
Total	¥8,215,842	¥8,216,039	¥ (196)
Derivative transactions:			
Hedge accounting not applied	¥ 262	¥ 262	
Hedge accounting applied	(6,453)	(6,453)	
Total	¥ (6,190)	¥ (6,190)	

March 31, 2017

Cash and due from banks	¥ 885,456	¥ 885,456	
Securities:			
Held to maturity	199	206	¥ 6
Available for sale	2,434,485	2,434,485	
Loans and bills discounted	4,864,144		
Allowance for credit losses	(39,213)		
Subtotal	4,824,931	4,873,024	48,093
Total	¥8,145,073	¥8,193,173	¥ 48,099
Deposits	¥6,390,778	¥6,391,270	¥ (492)
Negotiable certificates of deposit	502,283	502,283	
Payables under securities lending transactions	596,632	596,632	
Borrowed money	234,613	234,624	(10)
Total	¥7,724,308	¥7,724,811	¥ (502)
Derivative transactions:			
Hedge accounting not applied	¥ 437	¥ 437	
Hedge accounting applied	(18,630)	(18,630)	
Total	¥ (18,193)	¥ (18,193)	

March 31, 2018	Thousands of U.S.Dollars		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
Cash and due from banks	\$12,695,475	\$12,695,475	
Securities:			
Held to maturity	1,880	1,927	\$ 46
Available for sale	23,375,456	23,375,456	
Loans and bills discounted	47,440,686		
Allowance for credit losses	(355,062)		
Subtotal	47,085,624	47,462,842	377,218
Total	\$83,158,437	\$83,535,703	\$ 377,265
Deposits	\$62,000,843	\$62,002,909	\$ (2,066)
Negotiable certificates of deposit	4,740,706	4,740,706	
Payables under securities lending transactions	6,416,955	6,416,955	
Borrowed money	4,174,354	4,174,139	215
Total	\$77,332,858	\$77,334,709	\$ (1,850)
Derivative transactions:			
Hedge accounting not applied	\$ 2,469	\$ 2,469	
Hedge accounting applied	(60,740)	(60,740)	
Total	\$ (58,271)	\$ (58,271)	

Cash and Due from Banks

Carrying values of cash and due from banks that have no maturity dates are approximately equivalent to fair values.

Regarding due from banks with maturity dates, the carrying values of products with short maturities (less than one year) are equivalent to the fair values.

Securities

Fair values of stocks are measured at the quoted market prices in stock markets. Fair values of bonds are measured at the quoted market prices in bond markets or the quoted prices obtained from financial institutions.

Fair values of investment trusts are measured at the standard prices disclosed in public.

Fair values of private placement bonds with guarantees are measured at the total amounts of the principal and interest discounted at market rates, plus spreads. The spreads are defined in internal guidelines.

Information relating to securities for holding purpose is included in Note 6.

Loans

Because floating-rate loans are immediately affected by the movement of interest rates, the carrying values of these loans are equivalent to fair values in cases where the credit risk of debtors has not totally changed from the execution of the loans.

For fixed-rate loans used to fund business, fair values are determined by discounting the total amounts of the principal and interest at market rates plus spreads. The spreads are defined in internal guidelines.

For fixed-rate loans other than business funds, fair values are determined by discounting the total amounts of the principal and interest at expected rates if the Bank newly executes similar loans to customers. Such expected rates are determined according to the loans' type and period. The carrying values of fixed-rate loans other than business funds with short maturity (less than one year) are equivalent to the fair values.

For loans to debtors who are legally bankrupt, virtually bankrupt, and possibly bankrupt, a reserve for possible loan losses calculated from the current value of expected future cash flows or from the amount expected to be collected through disposal of collateral or execution of guarantees is provided. Therefore, the book values at the consolidated balance sheet date, net of reserve amounts, are regarded as the fair values.

Specific loans in which the loan amount can be increased or decreased within the collateral amount have no maturity dates. The carrying values of such loans are assumed to be equivalent to the fair values because of the loans' period and conditions.

Deposits and Negotiable Certificates of Deposit

Fair values of demand deposits are measured at the expected amount to be paid to depositors from the Bank at the consolidated balance sheet date (book values). For time deposits, according to each period, fair values are measured at the total amount of the principal and interest discounted at the rate that the Bank applies to new deposits.

Payables under Securities Lending Transactions

Carrying value of payables under securities lending transactions whose term is short (within one year) approximates the fair value and is therefore deemed equal to the fair value.

Borrowed Money

Because floating-rate borrowed money is immediately affected by the movement of interest rates, the carrying value of this borrowed money is equivalent to fair value in cases where the credit risk of consolidated subsidiaries has not totally changed from when the money was borrowed.

The fair value of fixed-rate borrowed money, which is classified in accordance with its period, is estimated by discounting future cash flows, using rates that would be offered to similar borrowings. The carrying value of borrowed money whose term is short (within one year) approximates the fair value and is therefore deemed equal to the fair value.

Derivatives

Information on the fair value of derivatives is included in Note 27.

(b) Financial instruments whose fair value cannot be reliably determined

March 31	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥ 25,415	¥ 23,696	\$ 239,225

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2018	Millions of Yen					
	Due in 1 Year or Less	Due from 1 to 3 Years	Due from 3 to 5 Years	Due from 5 to 7 Years	Due from 7 to 10 Years	Due after 10 Years
Due from banks	¥ 1,267,153					
Securities	194,721	¥ 467,961	¥ 185,572	¥ 119,012	¥ 351,446	¥ 460,519
Held to maturity	100			100		
National government bonds	100			100		
Available for sale	194,621	467,961	185,572	118,912	351,446	460,519
National government bonds	118,500	286,400	98,100	32,000	56,500	350,000
Local government bonds	21,659	41,688	13,758	16,466	157,310	1,540
Corporate bonds	23,096	106,606	47,437	323	35,112	69,585
Loans and bills discounted	1,002,077	1,022,417	741,207	448,923	431,180	723,558
Total	¥ 2,463,951	¥ 1,490,378	¥ 926,779	¥ 567,935	¥ 782,626	¥ 1,184,078

March 31, 2017						
Due from banks	¥ 807,188	¥ 500				
Securities	61,062	366,961	¥ 341,858	¥ 107,441	¥ 353,129	¥ 530,231
Held to maturity		100		100		
National government bonds		100		100		
Available for sale	61,062	366,861	341,858	107,341	353,129	530,231
National government bonds	22,200	221,900	164,100	48,000	146,400	411,500
Local government bonds	11,182	23,290	15,806	13,293	119,134	
Corporate bonds	11,895	50,485	116,061	5,612	5,396	79,145
Loans and bills discounted	956,978	1,005,923	718,364	443,659	415,090	685,054
Total	¥ 1,825,229	¥ 1,373,385	¥ 1,060,223	¥ 551,101	¥ 768,219	¥ 1,215,285

March 31, 2018	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due from 1 to 3 Years	Due from 3 to 5 Years	Due from 5 to 7 Years	Due from 7 to 10 Years	Due after 10 Years
Due from banks	\$ 11,927,274					
Securities	1,832,843	\$ 4,404,755	\$ 1,746,725	\$ 1,120,219	\$ 3,308,044	\$ 4,334,710
Held to maturity	941			941		
National government bonds	941			941		
Available for sale	1,831,902	4,404,755	1,746,725	1,119,278	3,308,044	4,334,710
National government bonds	1,115,399	2,695,783	923,381	301,204	531,814	3,294,427
Local government bonds	203,873	392,394	129,499	154,988	1,480,704	14,495
Corporate bonds	217,396	1,003,450	446,512	3,041	330,496	654,980
Loans and bills discounted	9,432,201	9,623,654	6,976,724	4,225,557	4,058,548	6,810,604
Total	\$ 23,192,319	\$ 14,028,409	\$ 8,723,449	\$ 5,345,777	\$ 7,366,593	\$ 11,145,315

(6) Scheduled Repayment Amount after the Consolidated Balance Sheet Date for Borrowed Money and Other Interest-Bearing Liabilities

March 31, 2018	Millions of Yen					
	Due in 1 Year or Less	Due from 1 to 3 Years	Due from 3 to 5 Years	Due from 5 to 7 Years	Due from 7 to 10 Years	Due after 10 Years
Deposits	¥ 5,795,105	¥ 744,212	¥ 30,462	¥ 4,871	¥ 12,316	
Negotiable certificates of deposit	503,252	400				
Payables under securities lending transactions	681,737					
Borrowed money	427,106	13,102	3,252	13	8	
Total	¥ 7,407,201	¥ 757,715	¥ 33,714	¥ 4,885	¥ 12,325	

March 31, 2017						
Deposits	¥ 5,571,413	¥ 774,930	¥ 31,833	¥ 5,087	¥ 7,512	
Negotiable certificates of deposit	502,283					
Payables under securities lending transactions	596,632					
Borrowed money	233,728	250	619	11	3	
Total	¥ 6,904,058	¥ 775,181	¥ 32,453	¥ 5,099	¥ 7,515	

March 31, 2018	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due from 1 to 3 Years	Due from 3 to 5 Years	Due from 5 to 7 Years	Due from 7 to 10 Years	Due after 10 Years
Deposits	\$ 54,547,303	\$ 7,005,012	\$ 286,735	\$ 45,858	\$ 115,933	
Negotiable certificates of deposit	4,736,940	3,765				
Payables under securities lending transactions	6,416,955					
Borrowed money	4,020,201	123,332	30,610	130	79	
Total	\$ 69,721,400	\$ 7,132,110	\$ 317,346	\$ 45,988	\$ 116,012	

27. DERIVATIVES

Derivatives that the Bank and certain consolidated subsidiaries use are as follows:

Interest rate-related transactions:	Interest rate swaps, and interest rate options
Currency-related transactions:	Currency swaps, currency options, and forward foreign exchange contracts
Stock-related transactions:	Stock index futures and stock index future options
Bond-related transactions:	Bond futures and bond future options

The Bank and certain subsidiaries use derivatives primarily to hedge risks for customers to maximize the profit of their own trading account and to manage the potential risks in their own portfolio as a part of ALM.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest rates, foreign exchange rates, or prices of bonds. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

The Bank comprehensively controls derivative risks of the Bank and certain consolidated subsidiaries in accordance with its Risk Management Regulations and Market Risk Management Regulations. The position amounts, market values, and market risks are reported periodically to the responsible executive officers and the ALM Committee, where evaluations and analyses of derivatives are made.

Risk control of derivatives is the responsibility of the Risk Management Department independent from the front office. The Risk Management Department is in charge of controlling market risks in order to make the risk control system work effectively.

On the other hand, concerning credit risk management, the Bank sets up credit limits of customers according to their credit standings and manages it strictly not to exceed each credit ceiling of customers.

It should be noted that the nominal contract value or notional principal amount is used in determining the value of receipts or payments of interest and as an indicator representative of the volume of transactions, but those values do not necessarily reflect such things as market risk or credit risk.

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2018

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gains(Losses)	Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gains(Losses)
Interest Rate-Related Transactions								
Listed—interest-rate futures:								
Selling								
Buying								
Over the counter—interest rate swaps:								
Receipt fixed—payments floating	¥ 67,795	¥ 57,491	¥ 1,114	¥ 1,114	\$ 638,132	\$ 541,142	\$ 10,488	\$ 10,488
Receipt floating—payments fixed	67,344	56,698	(710)	(710)	633,891	533,687	(6,683)	(6,683)
Receipt floating—payments floating	2,200	1,200	(1)	(1)	20,707	11,295	(16)	(16)
Over the counter—interest rate options:								
Selling	40	40		4	379	379		39
Buying	40	40		(3)	379	379		(30)
Currency-Related Transactions								
Over the counter—currency swaps								
Over the counter—currency futures:								
Selling	23,496	594	694	694	221,161	5,600	6,535	6,535
Buying	32,585		(813)	(813)	306,715		(7,660)	(7,660)
Over the counter—currency options:								
Selling	20,630	13,592	(1,082)	394	194,191	127,945	(10,192)	3,710
Buying	20,630	13,592	1,083	(23)	194,191	127,945	10,194	(222)
Foreign exchange swaps								
Stock-Related Transactions								
Listed—stock index futures:								
Selling								
Buying	1,095		48	48	10,308		451	451
Listed—stock index options:								
Selling	6,710		(109)	(56)	63,158		(1,028)	(534)
Buying	6,343		28	(45)	59,711		265	(428)
Bond-Related Transactions								
Listed—bond futures:								
Selling	150				1,417		(1)	(1)
Buying	16,873		12	12	158,828		115	115
Listed—bond futures options:								
Selling								
Buying								

The contract or notional amounts of derivatives that are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2018

	Hedged Item	Millions of Yen			Thousands of U.S. Dollars		
		Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value	Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value
Interest Rate-Related Transactions							
Interest rate swaps:	Loans and bills discounted,						
Receipt fixed—payments floating	available-for-sale securities,	¥ 185,000	¥ 130,000	¥ 527	\$1,741,340	\$1,223,644	\$ 4,966
Receipt floating—payments fixed	and other financial assets	571,708	532,634	(5,476)	5,381,291	5,013,501	(51,545)
Currency-Related Transactions							
Currency swaps	Foreign currency loans	23,372	19,123	636	220,000	180,000	5,987
Foreign exchange swaps	and deposits	70,364		(1,638)	662,319		(15,425)
Bond-Related Transactions							
Listed—bond futures-selling	Available-for-sale securities	83,183		(41)	782,973		(394)
Over the counter— bond options:	Available-for-sale securities						
Selling		83,397		(547)	784,990		(5,149)
Buying		83,397		87	784,990		821

The contract or notional amounts of derivatives that are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The below interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

		Millions of Yen			Thousands of U.S. Dollars		
		Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value	Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value
Hedged Item							
Interest Rate-Related Transactions							
Interest rate swaps—Receipt fixed — payments floating	Loans and deposits	¥ 5,678	¥ 5,678		\$ 53,450	\$ 53,450	
Interest rate swaps—Receipt floating—payments fixed		10,518	9,742		99,004	91,699	

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2017

Millions of Yen				
	Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gains(Losses)
Interest Rate-Related Transactions				
Listed—interest-rate futures:				
Selling				
Buying				
Over the counter—interest rate swaps:				
Receipt fixed—				
payments floating	¥ 76,266	¥ 61,442	¥ 1,343	¥ 1,343
Receipt floating—				
payments fixed	75,948	59,981	(937)	(937)
Receipt floating—				
payments floating	2,800	2,200	(4)	(4)
Over the counter—interest rate options:				
Selling	62	62		6
Buying	62	62		(4)
Currency-Related Transactions				
Over the counter—				
currency swaps	29		2	2
Over the counter—				
currency futures:				
Selling	24,750	382	(662)	(662)
Buying	24,597		746	746
Over the counter—				
currency options:				
Selling	17,303	10,740	(861)	446
Buying	17,303	10,740	861	(101)
Foreign exchange swaps				
Stock-Related Transactions				
Listed—stock index futures:				
Selling				
Buying				
Listed—stock index options:				
Selling				
Buying				
Bond-Related Transactions				
Listed—bond futures:				
Selling	63,283		(100)	(100)
Buying	45,352		87	87
Listed—bond futures options:				
Selling	38,636		(44)	1
Buying	37,282		6	(27)

The contract or notional amounts of derivatives that are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2017

Millions of Yen				
	Hedged Item	Contract or Notional Amount	Contract Amount Due after 1 Year	Fair Value
Interest Rate-Related Transactions				
Interest rate swaps:	Loans and bills			
Receipt fixed—	discounted,			
payments floating	available-for-sale	¥ 295,000	¥ 145,000	¥ 1,129
Receipt floating—	securities, and			
payments fixed	other financial assets	559,145	559,145	(21,125)
Currency-Related Transactions				
Currency swaps	Foreign currency	20,701	4,487	986
Foreign exchange swaps	loans and deposits	68,368		760
Bond-Related Transactions				
Listed—bond futures—	Available-for-sale			
selling	securities	18,018		(15)
Over the counter—	Available-for-sale			
bond options:	securities			
Selling		82,568		(544)
Buying		82,568		179

The contract or notional amounts of derivatives that are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The below interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Millions of Yen			
	Hedged Item	Contract or Notional Amount	Contract Amount Due after 1 Year
Interest Rate-Related Transactions			
Interest rate swaps—			
Receipt fixed —			
payments floating			
Interest rate swaps—			
Receipt floating—	Loans and		
payments fixed	borrowed money	¥ 11,305	¥ 10,072

28. LOAN COMMITMENTS

The Bank and its consolidated subsidiaries issue commitments to extend credit and establish credit lines for overdrafts to meet the financing needs of their customers. Unfunded amounts relating to these contracts totaled ¥1,671,486 million (\$15,733,118 thousand) and ¥1,663,515 million as of March 31, 2018 and 2017, respectively.

As a large majority of these commitments expire without being drawn down upon, the unfunded amounts do not necessarily represent future cash requirements. Many of these agreements include conditions granting the Bank the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

29. OTHER COMPREHENSIVE INCOME

The components 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
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ 31,223	¥ 34,841	\$ 293,895
Reclassification adjustments to profit or loss	(24,285)	(40,257)	(228,592)
Amount before income tax effect	6,937	(5,416)	65,303
Income tax effect	(2,133)	1,783	(20,086)
Subtotal	4,803	(3,633)	45,216
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	(7,369)	11,973	(69,365)
Reclassification adjustments to profit or loss	17,376	36,499	163,559
Amount before income tax effect	10,007	48,473	94,194
Income tax effect	(3,036)	(14,706)	(28,578)
Subtotal	6,971	33,766	65,615
Defined retirement benefit plans:			
Adjustments arising during the year	4,016	7,722	37,809
Reclassification adjustments to profit or loss	996	2,360	9,377
Amount before income tax effect	5,013	10,083	47,186
Income tax effect	(1,513)	(3,062)	(14,249)
Subtotal	3,499	7,020	32,937
Total other comprehensive income	¥ 15,274	¥ 37,153	\$ 143,770

30. PER SHARE DATA

(1) Basic EPS for the years ended March 31, 2018 and 2017, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2018	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—net income available to common shareholders	¥ 25,840	506,660	¥ 51.00	\$ 0.48
Effect of dilutive—stock acquisition rights		585		
Diluted EPS—net income for computation	¥ 25,840	507,246	¥ 50.94	\$ 0.47
Year Ended March 31, 2017				
Basic EPS—net income available to common shareholders	¥ 26,312	506,687	¥ 51.92	
Effect of dilutive—stock acquisition rights		622		
Diluted EPS—net income for computation	¥ 26,312	507,310	¥ 51.86	

(2) Net assets per share for the years ended March 31, 2018 and 2017, were as follows:

	Yen		U.S. Dollars
	2018	2017	2018
Net assets per share	¥ 1,485.34	¥ 1,414.70	\$ 13.98

The net assets per share figure is calculated on the basis of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Net assets	¥ 777,068	¥ 743,555	\$ 7,314,278
Less subscription rights to shares	312	343	2,942
Noncontrolling interests	28,324	26,396	266,612
Net assets attributable to common shareholders	¥ 748,431	¥ 716,814	\$ 7,044,725
	Thousands of Number of Shares		
	2018	2017	
Number of common stock at fiscal year-end used for calculation of net assets per share	503,876	506,686	

31. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2018, were approved at the Bank's shareholders' meeting held on June 22, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.00 (\$0.06) per share	¥ 3,527	\$ 33,199

32. SEGMENT INFORMATION

Under ASBJ Statement No.17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No.20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which financial information is available separately and regular evaluation by the Bank's management is performed in order to decide how resources are allocated among the Group. The Group consists of the banking and leasing segments. Banking consists of the banking and credit card businesses. Leasing consists of the leasing business.

(2) Methods of Measurement for Sales, Profit (Loss), Assets, Liabilities, and Other Items

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Ordinary Income, Profit, Assets, Liabilities, and Other Items

	Millions of Yen						
	2018						
	Reportable Segment			Other	Total	Reconciliations	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers	¥ 142,607	¥ 33,690	¥ 176,297	¥ 4,953	¥ 181,250		¥ 181,250
Intersegment	1,226	744	1,971	32	2,004	¥ (2,004)	
Total	¥ 143,834	¥ 34,434	¥ 178,268	¥ 4,986	¥ 183,254	¥ (2,004)	¥ 181,250
Segment profit	¥ 37,216	¥ 2,606	¥ 39,823	¥ 1,694	¥ 41,518	¥ (10)	¥ 41,507
Segment assets	9,247,567	95,507	9,343,074	22,979	9,366,053	(57,010)	9,309,043
Segment liabilities	8,511,676	61,955	8,573,631	12,257	8,585,888	(53,913)	8,531,974
Other:							
Depreciation	4,293	1,834	6,127	33	6,161		6,161
Interest income	79,091	80	79,172	119	79,291	(190)	79,100
Interest expense	8,870	201	9,072	27	9,099	(190)	8,908
Impairment losses of assets	2,091		2,091	3	2,095		2,095
Income taxes	11,011	652	11,664	535	12,199		12,199
Increase in property, plant, and equipment and intangible assets	4,484	3,198	7,683	38	7,721		7,721

Millions of Yen							
2017							
	Reportable Segment			Other	Total	Reconciliations	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers	¥ 172,506	¥ 33,081	¥ 205,587	¥ 3,572	¥ 209,160		¥ 209,160
Intersegment	842	813	1,656	30	1,686	¥ (1,686)	
Total	¥ 173,349	¥ 33,894	¥ 207,244	¥ 3,602	¥ 210,846	¥ (1,686)	¥ 209,160
Segment profit	¥ 36,725	¥ 2,814	¥ 39,539	¥ 889	¥ 40,428	¥ (7)	¥ 40,421
Segment assets	8,644,936	93,323	8,738,260	21,083	8,759,344	(55,495)	8,703,848
Segment liabilities	7,938,527	62,149	8,000,677	12,025	8,012,702	(52,409)	7,960,293
Other :							
Depreciation	4,409	1,728	6,137	32	6,169		6,169
Interest income	85,853	83	85,937	117	86,054	(177)	85,877
Interest expense	11,784	219	12,003	26	12,030	(177)	11,852
Impairment losses of assets	727		727		727		727
Income taxes	10,890	704	11,594	233	11,827		11,827
Increase in property, plant, and equipment and intangible assets	3,596	3,547	7,144	80	7,224		7,224

Thousands of U.S. Dollars							
2018							
	Reportable Segment			Other	Total	Reconciliations	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers	\$ 1,342,314	\$ 317,112	\$ 1,659,427	\$ 46,622	\$ 1,706,050		\$ 1,706,050
Intersegment	11,547	7,005	18,553	310	18,863	\$ (18,863)	
Total	\$ 1,353,862	\$ 324,118	\$ 1,677,980	\$ 46,933	\$ 1,724,913	\$ (18,863)	\$ 1,706,050
Segment profit	\$ 350,304	\$ 24,538	\$ 374,843	\$ 15,954	\$ 390,797	\$ (98)	\$ 390,698
Segment assets	87,044,124	898,974	87,943,099	216,293	88,159,392	(536,617)	87,622,775
Segment liabilities	80,117,433	583,164	80,700,597	115,372	80,815,969	(507,472)	80,308,496
Other :							
Depreciation	40,409	17,270	57,679	311	57,991		57,991
Interest income	744,464	758	745,222	1,120	746,343	(1,796)	744,547
Interest expense	83,495	1,896	85,391	257	85,649	(1,796)	83,853
Impairment losses of assets	19,690		19,690	36	19,727		19,727
Income taxes	103,644	6,146	109,790	5,039	114,830	(2)	114,827
Increase in property, plant, and equipment and intangible assets	42,211	30,108	72,319	361	72,680		72,680

(4) Information about Services

Millions of Yen					
2018					
	Lending Operations	Investment Operations	Leasing Operations	Other	Total
Sales to external customers	¥ 46,767	¥ 75,332	¥ 33,690	¥ 25,460	¥ 181,250

Millions of Yen					
2017					
	Lending Operations	Investment Operations	Leasing Operations	Other	Total
Sales to external customers	¥ 48,331	¥ 99,943	¥ 33,081	¥ 27,803	¥ 209,160

Thousands of U.S. Dollars					
2018					
	Lending Operations	Investment Operations	Leasing Operations	Other	Total
Sales to external customers	\$ 440,202	\$ 709,079	\$ 317,112	\$ 239,654	\$ 1,706,050

(5) Information about Geographical Areas

a. Ordinary income

This information is not disclosed as the domestic share of ordinary income from external customers exceeds 90% of ordinary income in the consolidated statement of income.

b. Tangible fixed assets

This information is not disclosed as the domestic share of tangible fixed assets exceeds 90% of tangible fixed assets in the consolidated balance sheet.

(6) Information about Major Customers

This information is not disclosed as ordinary income from a specific customer does not exceed 10% of ordinary income in the consolidated statement of income.



THE HACHIJUNI BANK, LTD.

178-8, Okada, Nagano-city 380-8682, Japan

Phone:(026)227-1182

<https://www.82bank.co.jp/>



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