

Annual Report 2020

Year Ended March 31, 2020



Group Philosophy of Mebuki Financial Group

Together with local communities, we will continue to build a more prosperous future by providing high-quality comprehensive financial services.

The ingenuity of the entire Group will be combined to contribute to sustainable growth in communities.

We will build a better future together with local communities, seeking solutions to challenges that affect these communities by providing high-quality, comprehensive financial services.



The Japanese word mebuki, or “green shoots,” conveys an image of new leaves budding on tree branches. This word is used in the Group’s name to express its approach of drawing on the knowledge and creativity of each of its companies to create fresh ideas and new value. The name Mebuki expresses our wish to create new energy and value in local communities and pursue sustainable growth along with these communities.

Corporate History (As of March 31, 2020)

November 2015	Notice Regarding the Basic Agreement Concerning a Business Integration through a Share Exchange of The Joyo Bank, Ltd. and Ashikaga Holdings Co., Ltd.
April 2016	Notice Regarding Definitive Agreement Concerning the Business Integration of The Joyo Bank, Ltd. and Ashikaga Holdings Co., Ltd. through a Share Exchange
June 2016	Approval of stock exchange agreement at the ordinary general meeting of shareholders of The Joyo Bank, Ltd. and Ashikaga Holdings Co., Ltd.
October 2016	Establishment of the Mebuki Financial Group, Inc.
April 2017	Acquired all shares of Mebuki Lease Co., Ltd. (formerly known as The Joyo Lease Co., Ltd.) from The Joyo Bank, Ltd.
October 2017	Acquired all shares of Mebuki Securities Co., Ltd. (formerly known as The Joyo Securities Co., Ltd.) from The Joyo Bank, Ltd.
December 2017	Opened The Ashikaga Bank, Ltd. Bangkok Representative Office
March 2018	Opened The Joyo Bank, Ltd. Hanoi Representative Office

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Disclaimer regarding forward-looking statements

This Annual Report contains certain forward-looking statements, including estimates, forecasts, targets and plans. Such forward-looking statements are based on the information available and the assumptions deemed reasonable by management at the time of publication of the Annual Report, and do not represent any guarantee by management of future performance. We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

Details on ESG information are available on our website : <https://www.mebuki-fg.co.jp/eng/esg/esg.html>

Developments of Mebuki Financial Group

- History of Ibaraki Prefecture
- History of Tochigi Prefecture

Financial and economic developments and history of the prefectures

<p>1929 Start of the Great Depression</p> <p>1945 End of the Pacific War</p>	<p>1960 Start of development of Utsunomiya Industrial Park</p> <p>1962 Start of large-scale development of Kashima Industrial Zone</p> <p>1964 Tokyo Olympic Games</p>	<p>1974 Completion of Tohoku Expressway within Tochigi Prefecture</p> <p>1982 Opening of Tohoku Shinkansen</p> <p>1985 Plaza Accord</p>	<p>1985 Holding of Tsukuba EXPO</p> <p>1991 Collapse of bubble economy</p> <p>1995 Japanese version of "Big Bang" financial reforms</p> <p>1997 Asian currency crisis</p> <p>1999 "Shrines and Temples of Nikko" registered as World Heritage Site</p> <p>2005 Opening of the Tsukuba Express</p> <p>2008 Global financial crisis following Lehman Brothers' bankruptcy</p> <p>2010 European debt crisis</p> <p>2011 Great East Japan Earthquake</p> <p>2016 BOJ's introduction of negative interest rate policy</p> <p>2019 Suffered extensive damage by Typhoon Hagibis and other disasters</p> <p>2020 Spread of COVID-19</p>
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History of Joyo Bank



1935
Establishment of Joyo Bank through the merger of the Tokiwa Bank and the Goju Bank

1974
Establishment of Joyo Lease (currently Mebuki Lease)

1995
Established Joyo Industrial Research Institute in commemoration of the Bank's 60th anniversary

1996
Opened Shanghai Representative Office

1999
Established the "sound management, collaboration, and partnership with the home region" philosophy



2006
Started operating new branches in areas along the new Tsukuba Express line
Opened Joyo Tsukuba Building in 2008

2007
Established Joyo Securities (currently Mebuki Securities)



2011
Launched Joyo's reconstruction project "Kizuna (bond)" in hopes of the regional recovery and growth after the Great East Japan Earthquake

2012
Opened Representative Office Registered in Singapore

2014
Opened New York Representative Office
Launched "PLUS+" Project for the Collaborative Creation of the Region's Future

2015
Initiated study sessions and seminars for development of regional comprehensive strategies

2016
Commenced handling of private placement bonds with donation schemes to "support future dreams"

2018
Joyo Industrial Research Institute started offering personnel placement services
Opened Hanoi Representative Office

History of Mebuki Financial Group

Joyo Bank and Ashikaga Bank of Mebuki Financial Group ("the Group"), with their core markets in Ibaraki and Tochigi Prefectures, have been meeting the needs of the times and growing together with their customers and the region. In October 2016, Joyo Bank and Ashikaga Holdings entered into a business integration, and with the subsequent consolidation of Mebuki Lease and Mebuki Securities, the Group has grown into a structure capable of meeting the diverse needs of its customers more than ever before. The Company will continue to forge ahead in order to solve regional problems and to realize the region's sustainable growth as well as the improvement of the Company's corporate value.



2016
Established Mebuki Financial Group
Hosted the Mebuki Business Award
Set up the Mebuki Regional Revitalization Fund



2019
Commenced handling of Mebuki SDGs private placement bonds

2017
Mebuki Lease and Mebuki Securities became directly and wholly-owned subsidiaries.

2020
Completed the system integration of Joyo Bank and Ashikaga Bank
Invested in fund to help recovery efforts in areas affected by typhoons in 2019

History of Ashikaga Bank



1895
Established in Ashikaga town, Ashikaga county Tochigi Prefecture

1897
Opened its first branch in Kiryu town, Yamada county, Gunma Prefecture



1967
Relocated the head office to Utsunomiya city in Tochigi Prefecture

1985
Established "Corporate Philosophy" in commemoration of its 90th anniversary
Established the Ashigin International Exchange Foundation

2003
Decision made by Japanese government to designate Ashikaga Bank a bank under special crisis management



2008
Established Ashikaga Holdings
Special crisis management designation lifted

2009
Established Ashigin Research Institute

2013
Ashikaga Holdings listed on the first section of the Tokyo Stock Exchange

2015
Opened Hong Kong Representative Office
Signed agreements with 10 local governments as part of its efforts under the Comprehensive Strategy for Overcoming Population Decline and Vitalizing Local Economy (as of July 2020)

2017
Commenced handling of private placement bonds with donation schemes to "support the future of children"
Opened Bangkok Representative Office

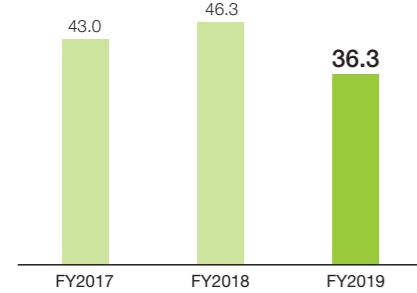
2019
Started offering personnel placement services
Started offering trust services

Performance of Mebuki Financial Group

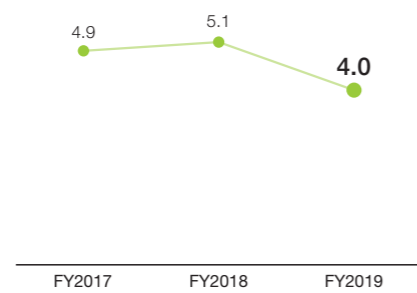
Financial Highlights

Mebuki FG (Consolidated)

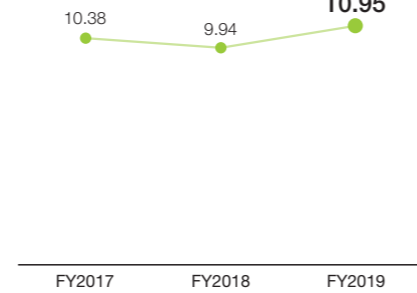
Consolidated net income (Billion yen)



Consolidated ROE (%)



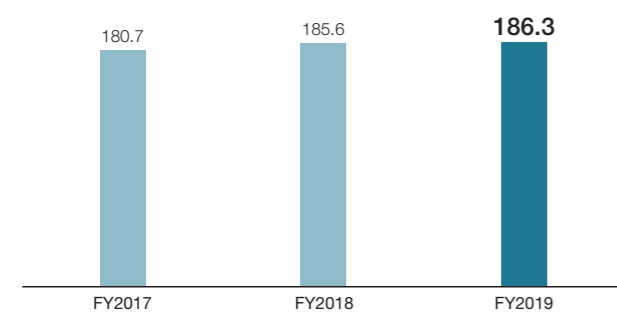
Capital adequacy ratio (%)



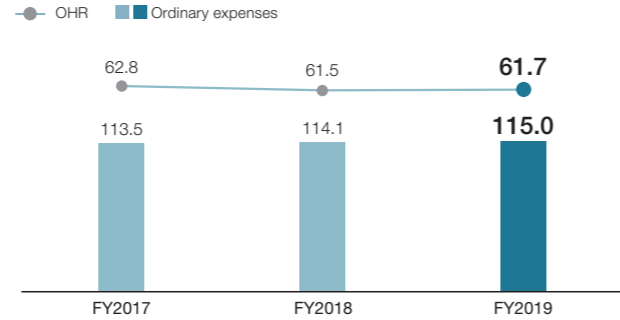
Bank Total*

*Joyo Bank + Ashikaga Bank

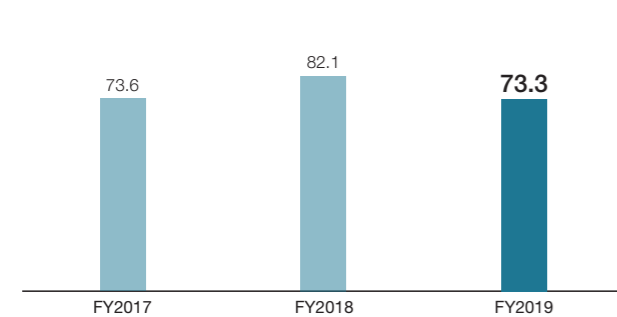
Gross business profit (Billion yen)



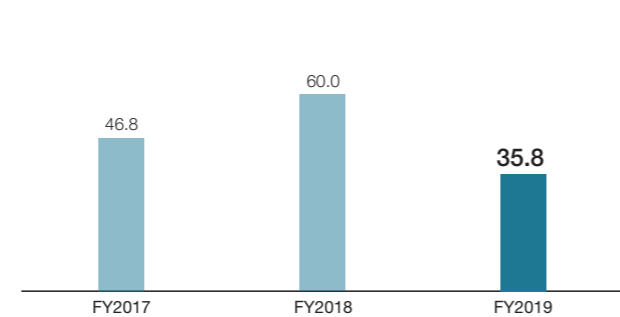
Ordinary expenses /OHR (Billion yen/%)



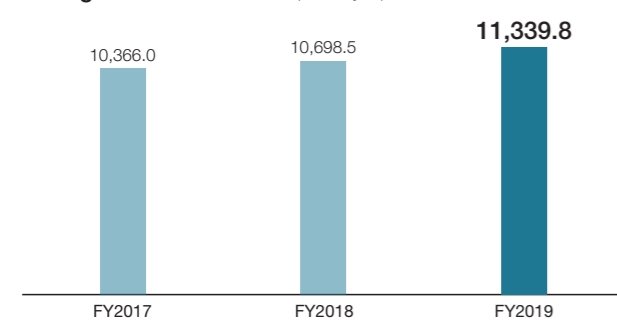
Core net business income (Billion yen)



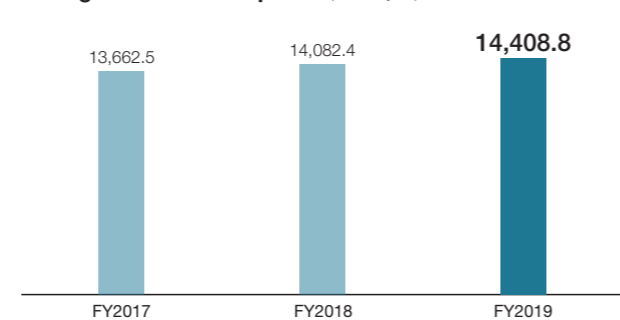
Net income (Billion yen)



Average balance of loans (Billion yen)

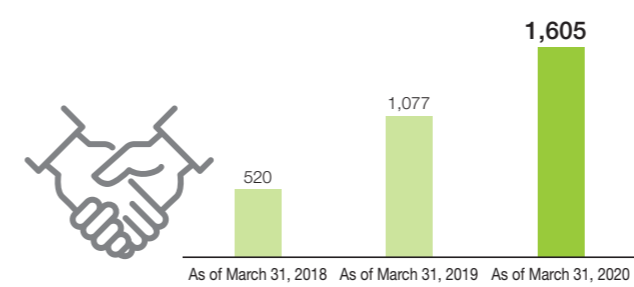


Average balance of deposits (Billion yen)

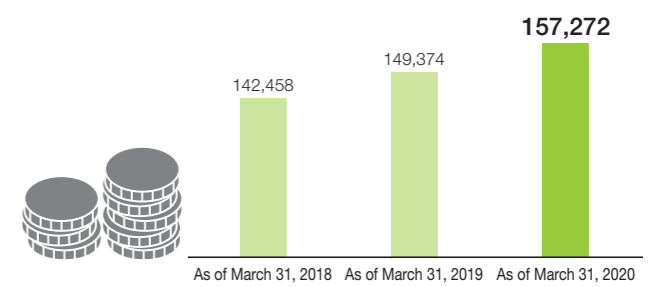


Non-financial Highlights (Bank Total)

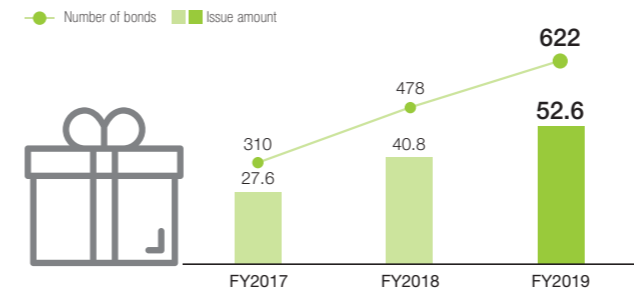
Number of business matches (Cumulative total)



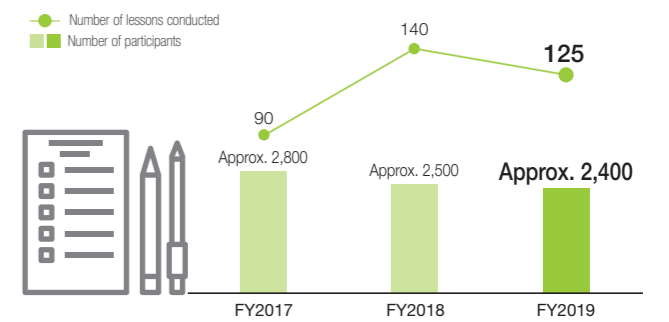
Number of customers of accumulation services



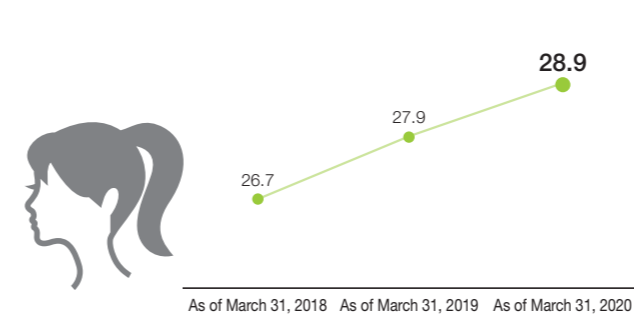
Issuance of private placement bonds with donation scheme (Cumulative total in billion yen)



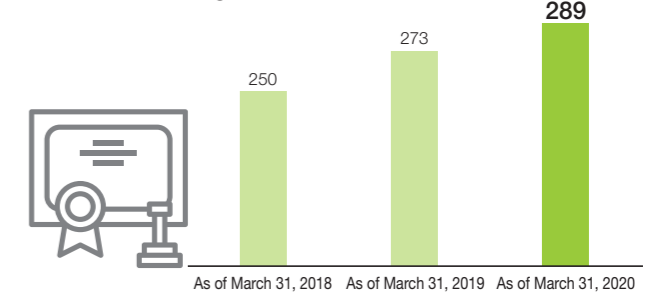
Financial education lessons



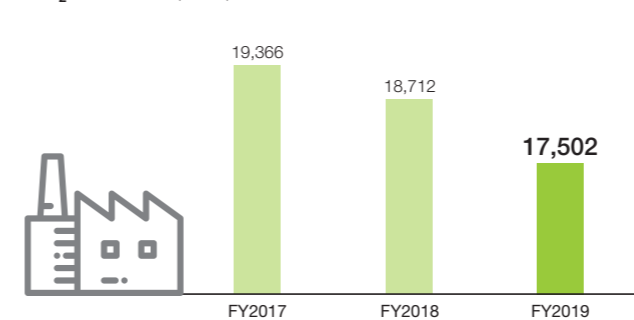
Percentage of women in assistant manager positions or higher



Number of 1st-grade Certified Skilled Professionals of Financial Planning (Cumulative total)



CO₂ emission (t-CO₂)



External evaluation



"Platinum Kurumin" certification was granted as a company that provides superior support for childcare to its employees based on the Act to Advance Measures to Support Next-Generation Child-Rearing

(Joyo Bank)

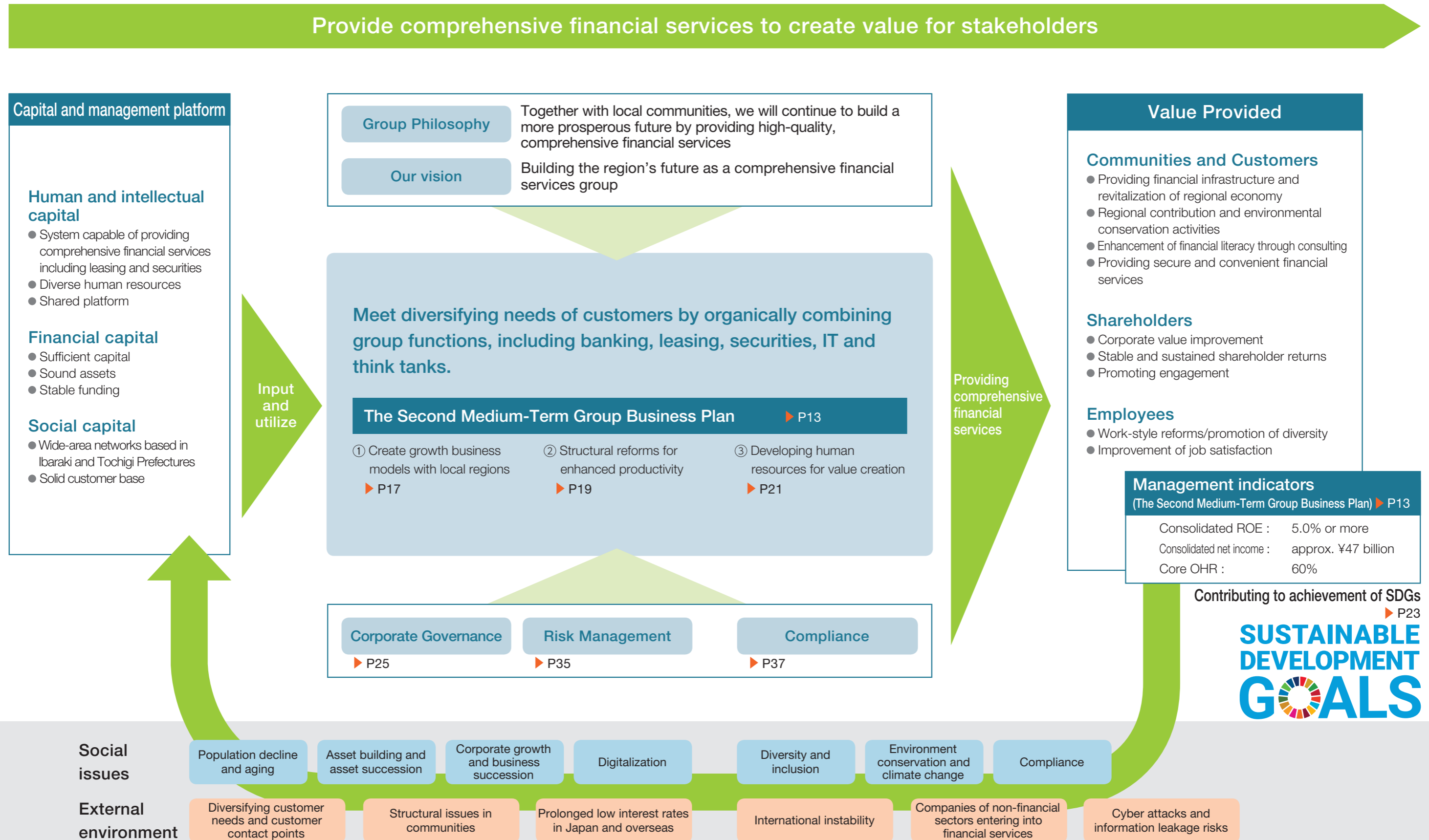


Recognized as outstanding organizations under the 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program (large enterprise category)

(Joyo Bank+Ashikaga Bank)

Value Creation Process

Based on the corporate philosophy of the Group, Mebuki Financial Group will provide high-quality, comprehensive financial services by taking advantage of its wide-area network, solid customer base and other strengths, while contributing to the sustainable growth of local communities through improving the Group's corporate value and creating value for stakeholders.



“Change for the future!”

Build a more prosperous future through continuous change



Ritsuo Sasajima,
President



Kazuyuki Shimizu,
Executive Vice President

Operate sustainably in response to drastically changing external environment

With various developments such as prolonged low interest rate policies in Japan and overseas, regional demographical problems such as declining population due to an aging society with fewer children, diversifying customer needs, and new entrants into financial services, the external environment surrounding regional financial institutions has been constantly changing, and the magnitude and speed of such change is intensifying lately.

Moreover, the global increase of large-scale disasters in number, including the impact of novel coronavirus disease (COVID-19) on social and economic activities, the extensive damage brought by Typhoon Hagibis and other disasters last year in Japan, has reminded us of the statuses of external environment and risk factors surrounding us, and

highlighted an urgent need to address various issues that need to be resolved.

Amid the progress of globalization, all businesses have become intertwined with each other. Under these circumstances, we realize that, once something happens anywhere, whether in Japan or abroad, it will inevitably affect our business significantly.

Bearing this situation in mind, the Group will focus on strengthening its consulting function to solve issues of communities and customers, creating communities in which people can live safe and comfortable lives and contributing to customers' growth, while promoting initiatives, such as digitalization, business continuity plans (BCP) and financial gerontology.

Provide new value based on the strengths accumulated by the Group

Our Group was born through a business integration between two leading regional banks, Joyo Bank and Ashikaga Bank. Our greatest strength is a vast amount of information accumulated by both banks with a deep trust of customers based on our long-standing presence in communities. Therefore, solutions we offer on the basis of such trust and information are different from mere “consulting.” We provide an optimal solution to various issues customers are facing, by making use of information extracted from a huge database built up to date and organically combining it with the Group's wide-area network and customer base.

We are strengthening our consulting function, while proactively promoting digitalization at the same time. In February 2020, we began joint research with Resona Holdings on banking apps, over-the-counter self-service terminals placed in branches, and digital business processes, and then in June 2020 signed a strategic business partnership on digitization. To enhance productivity through streamlining operations and improve customers' convenience, we will also utilize external knowledge and seek collaboration with external institutions to accelerate the shift to digitalization. Further, we intend to allocate human resources freed up by digitalization to our consulting service so that we can put more effort into offering new value to our customers.

For corporate customers, we have been promoting the use of internet banking. With this, customers can check their account balance and transaction history, and transfer money online from their personal computers. Internet banking saves customers' time and effort of having to visit a branch and also streamlines our

administrative work. As we anticipate possible second and third COVID-19 waves, we are making necessary preparations to enable our customers to use our financial services to ensure business continuity without visiting a branch. After experiencing the impact of COVID-19 and the extensive damage from typhoons last year, now more than ever, we find these initiatives necessary from a viewpoint of BCP in time of emergency.

As for the issue of aging population in our local communities, we are responding to the demand for measures related to inheritance and vacant houses in our communities, and at the same time are proactively promoting initiatives based on the idea of financial gerontology for individual customers in preparation for an even more accelerated aging society. We are also planning to offer financial products and services for our customers to better prepare themselves for an increased longevity, including the enhancement of collaboration with regional comprehensive support centers to watch over the elderly and provision of support services for asset management, asset succession and various procedures that may become difficult for customers to take care of as they get older.

To meet ever-changing customers' needs precisely, and address challenges that need to be overcome, the Group will utilize strengths it has accumulated to date to provide communities and customers with new value through comprehensive financial services. We hope that, by providing this new value, we can help drive the growth of our local communities, customers and the Group, leading to the creation of a prosperous future.

Progress of the Second Medium-Term Group Business Plan

In October 2020, the Group will mark the fourth anniversary of the business integration of Joyo Bank and Ashikaga Holdings. We believe that the Group has succeeded in generating synergetic effects from the integration under the First Medium-Term Group Business Plan (October 2016 to March 2019), resulting in our improved business operations

including, among others, loans and solution transactions for corporate customers.

Under the Second Medium-Term Group Business Plan (April 2019 to March 2022) launched in last April, we first integrated the core systems of Joyo Bank and Ashikaga Bank, and, using the integrated core system, have been carrying out other structural

reforms mainly of business processes and organizational structure. We intend to invest management resources freed up by these initiatives into consulting and IT/digital fields and thereby build a sustainable business model.

We have managed to take measures in a number of fields so far, including digitalization, at a faster pace than originally planned. The completion of the integration of the core systems, which is the key of our structural reforms, in January 2020, laid the foundation for us to improve customer service and streamline the Group's business processes. Following



Build effective governance structure for sustainable business growth

As one of the management platforms that support sustainable growth through the execution of the Second Medium-Term Group Business Plan, we believe that it is critical to develop a governance structure centering on corporate governance, risk management and compliance, and ensure its effectiveness.

Regarding corporate governance, it is extremely important for the Board of Directors to hold discussions and make judgements in light of economic rationality in supervising business execution group-wide in order to ensure the fairness and transparency of the Group's business operations.

For this reason, in June 2019, the Company increased the number of outside directors from 3 to 5, raising the ratio from 25% (3 out of 12 members) to 41% (5 out of 12 members).

the integration of the core systems, we will accelerate initiatives to reduce infrastructure costs and unify administrative processes.

Meanwhile, net income attributable to owners of the parent for FY2019 fell short of the forecast mainly due to inflated credit related costs and loss (gain) on sales of investment securities resulting from the spread of COVID-19. However, thanks to measures in various fields in the Second Medium-Term Group Business Plan that have been making faster progress than originally planned, core net business income (excluding loss (gain) on cancellation of private offering investment trusts) and profit of customer services* were above the plans for the first year.

By harnessing the ongoing changes in environment, including the increasing impact of COVID-19, as a trigger to implement structural reforms, we want to assure the achievement of the targets in the Second Medium-Term Group Business Plan by speeding up reforms of old business processes.

*Profit of customer services = difference of interests between deposits and loans + net fees and commissions for customers + net trading income (e.g. derivatives income from trading for customers) - expenses

Then in June 2020, we decreased the total number of directors of subsidiary banks, mainly to revitalize discussions. We also had directors responsible for executing important business operations serve concurrently as delegated executive officers in order to clarify their roles. At the subsidiary banks, not only company management but also the execution, supervision and oversight of their banking businesses are important. Therefore, we made sure that the right personnel are placed in positions in charge of carrying out these duties. By doing these, we aim to separate the management decision-making, supervising and execution functions more clearly, and further reinforce our corporate governance structure.

Furthermore, also in June 2020, the Company introduced a new restricted stock remuneration plan to provide an incentive to directors and executive officers of

the Company and subsidiary banks in order to achieve sustainable improvement of the Company's corporate value and to allow them to share more values with our shareholders.

We will continue to focus on further developing the governance structure and ensure its effectiveness and thus enhance the Group's ability of value creation, with the aim of realizing a sustainable future.



For a prosperous future, always "Change for the Future!"

Currently we are exposed to the external environment and related risk factors that are changing more drastically and at a more accelerated pace than ever before, including COVID-19 as well as heavy rains, typhoons and other natural disasters brought about by climate change. To make business growth and development sustainable under these circumstances, it is essential to keep changing ourselves. Therefore, "We will not change" or "We cannot change" is not an option. The slogan of the Second Medium-Term Group Business Plan, "Change for the future!" represents this attitude.

We believe that, as catastrophic disasters have become more rampant worldwide in recent years, people are reminded more strongly than ever of the importance of changing themselves. We are required to change in many dimensions going forward, including economic activities in general and our way of living.

Meanwhile, we will never be able to create businesses that are sustainable and capable of growing with their local communities by merely pursuing one-off profits and sticking to self-centered business activities. Supporting customers in communities, while being supported by their deep trust in us, on the basis of an effective governance structure, the Group has sought both to

improve business performance and create value for all stakeholders. In this sense, we see that the existence of our Group and its corporate activities coincide with Sustainable Development Goals (SDGs).

The Group has made it a point to keep changing and engaged in structural reforms and business development. Therefore, we are confident that our Group has a great advantage over companies and organizations that just recently, when facing challenges, came to realize the importance of changing. However, rather than becoming complacent with our current status, all directors and employees of the Group are working together as one to further step up our efforts to keep changing.

We must change the future by changing ourselves now. We can make our future brighter by constantly changing. Everyone in the Group believes in this.

We, at Mebuki Financial Group, will make continuous changes and put our utmost effort into serving as a "Comprehensive Financial Services Group Building the Region's Future" and bringing about a prosperous future for local customers and shareholders. We, therefore, ask for your continued patronage in the future as well.

July 2020

Ritsuo Sasajima, President
Kazuyuki Shimizu, Executive Vice President

Management and Financial Strategies

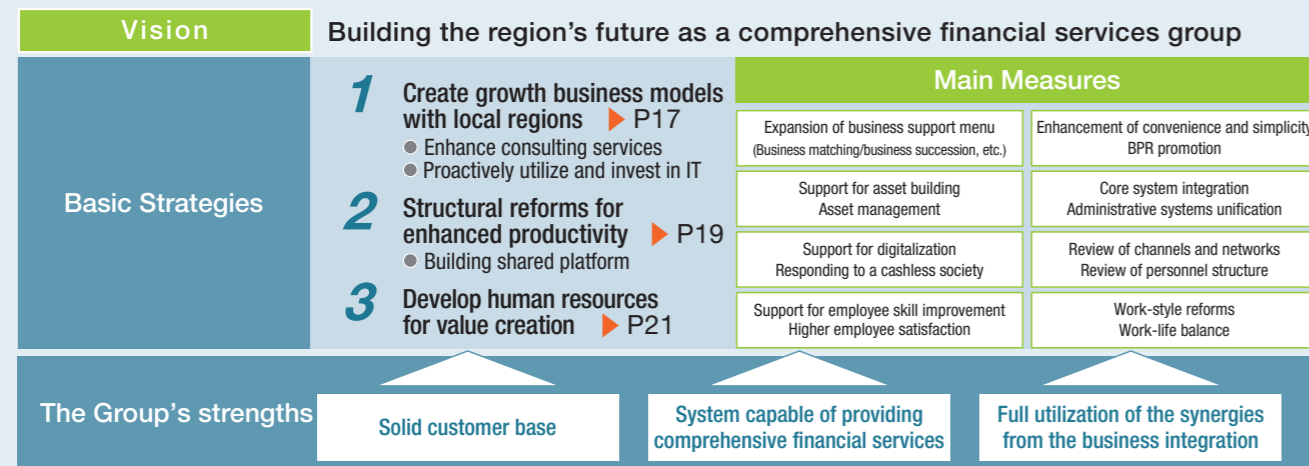
Medium-Term Business Plan

Under the Second Medium-Term Group Business Plan for the three years from April 2019 to March 2022, our Group has been taking various measures based on its basic strategies, namely “Create growth business models with local regions,” “Structural reforms for enhanced productivity” and “Develop human resources for value creation.”

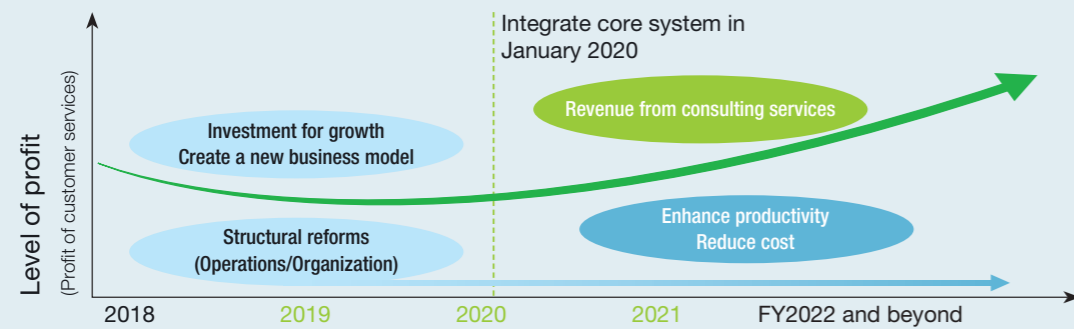
We position the three-year period of the Second Medium-Term Group Business Plan as a period for

“producing solid results and upshifting for the next stage of growth.” Under the plan, we will promote structural reforms mainly of business processes and organizational structure, starting with the integration of the core systems in January 2020. We will invest the management resources freed up through these measures into consulting services and IT fields and thus create business models that grow with local communities.

Outline of the Second Medium-Term Group Business Plan



Positioning of the Second Medium-Term Group Business Plan



Shift in management resources resulting from structural reforms

Shift in Management Resources Resulting via Structural Reforms	People (Staff)	<ul style="list-style-type: none"> ● “Invested” area 200 people (Consulting services/ IT planning, etc.) ● “Saved” area 1,000 people (Administrative systems/ head office functions, etc.)
	Things (Investment amount)	<ul style="list-style-type: none"> ● IT investment Total of ¥15 billion in 3 years (Increase of ¥4.0 billion from the previous 3 years) ● Branch investment Improved efficiency of approx. 20% of existing branches (review of functions, etc.)
	Money (Expenses)	<ul style="list-style-type: none"> ● Cost reduction by structural reform ¥5.0 billion or more per year* <p>*Expenses in or after FY2022 - Expenses in FY2018 (excluding system integration costs)</p>

Management Objectives

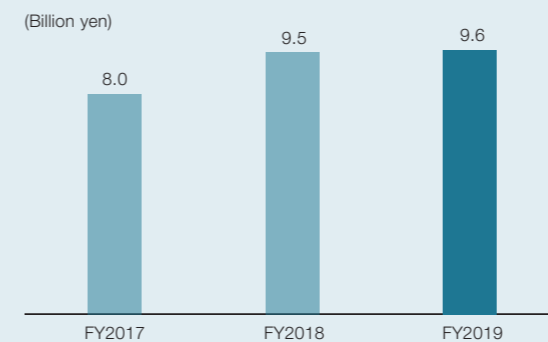
Management Objectives (FY2021)	Consolidated ROE	5.0% or more
	Net income attributable to owners of the parent	Approx. ¥47 billion
	Core OHR (Bank total)	approx. 60% (excluding system integration expenses)

Results for FY2019

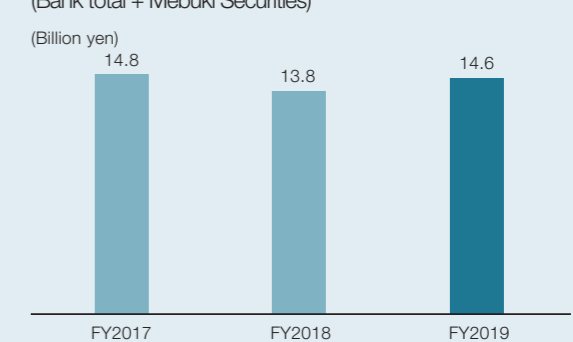
In FY2019, the first year of the Second Medium-Term Group Business Plan, the Group actively engaged in structural reforms and enhancement of consulting services. As a result, ordinary profit (Bank total) steadily progressed as planned until the third quarter of FY2019, mainly because cost reduction exceeded the plan, and both commissions for corporate solution and commissions for customer assets under custody increased year on year (nine-month operating profit for the third quarter was 50.5 billion yen, reaching 86.4% of the full-year plan of 58.5 billion yen).

However, in the fourth quarter, although core net business income for the three-month period (Bank total) remained at a reasonable level at 16.1 billion yen, loss on securities of 7.8 billion yen and credit related costs of 6.8 billion yen due to the impact of COVID-19 negatively affected full-year profitability. Ordinary profit for FY2019 (Bank total) fell short of the plan and FY2018 results. As a result, net income attributable to owners of the parent amounted to 36.3 billion yen, lower than the forecast and the results of the previous year.

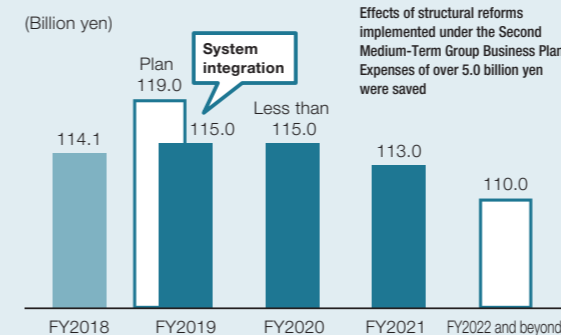
Fees from Corporate customers (Bank total)



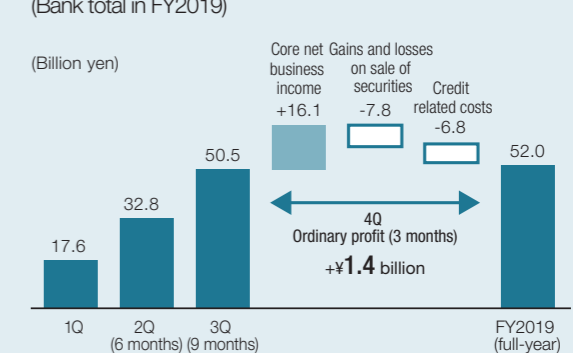
Customer assets under custody commissions (Bank total + Mebuki Securities)



Expenses (Bank total)



Quarterly ordinary profit (Bank total in FY2019)



Progress toward management objectives

Management Objectives (Results for FY2019)	Consolidated ROE	4.0%	(Year-on-year change)
	Net income attributable to owners of the parent	¥36.3 billion	(-¥9.9 billion)
	Core OHR (Bank total)	approx. 58.9% (excluding system integration expenses)	(+1.8 points)

Forecast for FY2020

Taking into account uncertain situations about COVID-19 and based on a set of predictable assumptions, we expect net income attributable to owners of the parent for FY2020 to decrease 3.3 billion

Assumptions for calculating forecasts

We expect COVID-19 to be resolved in the first half of FY2020. Economic activity will gradually recover then. However, since effects of lower sales in some industries will still remain, we estimate credit related costs of 10.0 billion yen due to the effects of COVID-19.

yen to 33 billion yen compared to the previous year. We will immediately announce forecast revisions if the COVID-19 situation changes and revisions are required.

Forecast (Mebuki FG)

(Billion yen)		
	Forecast for FY2020	(Year-on-year change)
Ordinary profit	48.5	-4.6
Net income attributable to owners of the parent	33.0	-3.3

Forecast (Bank total)

(Billion yen)		
	Forecast for FY2020	(Year-on-year change)
Ordinary profit	47.0	-5.0
Net income	33.5	-2.3
(Credit related costs)	(Approx. 20.0)	(+ Approx. +1.0)

Shareholder Returns and Capital Policy

We will target a total return ratio of 30% or more while taking into account both the maintenance of solid capital levels for our future growth and the appropriate distribution of profits to our shareholders. We will continue to consider the total return ratio including the dividend level in light of market trend and business forecast.

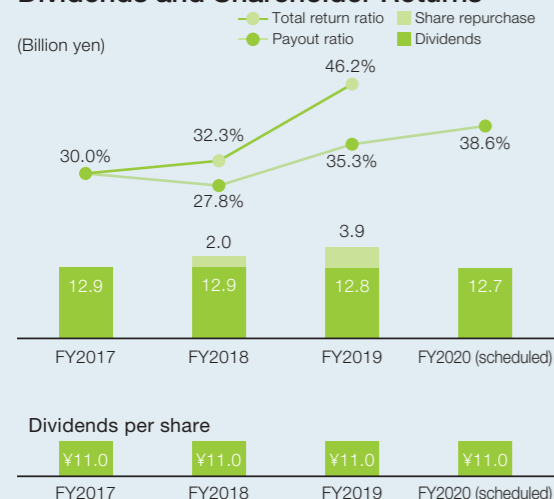
We maintained stable dividends and paid out 11 yen per share in FY2019 (the same level as the previous year), and acquired our own shares in a flexible manner, making the total return ratio reach 46.2%, well above the

target of 30%. Aiming to maintain stable dividends, we plan to pay out annual dividends of 11.0 yen per share in FY2020 as we did in the previous year.

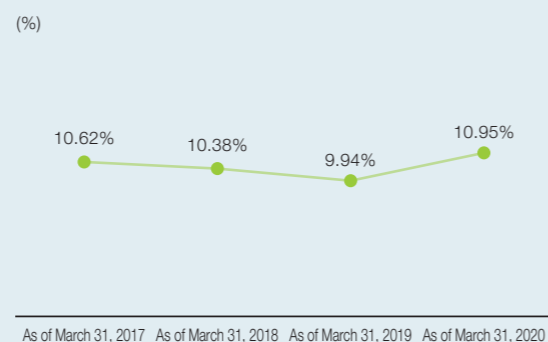
Consolidated capital adequacy ratio of Mebuki Financial Group as of March 31, 2020 increased by 1.01 percentage point year on year to 10.95%.

Ashikaga Bank started to calculate each risk-weighted asset according to foundation internal rating-based approach (FIRB) from the end of March 2020 in its efforts to better control credit-related risk.

Dividends and Shareholder Returns



Consolidated capital adequacy ratio



Reduction of Strategic Shareholdings

The subsidiary banks that hold strategic shareholdings are making efforts to reduce the balance of strategic shareholdings, taking into consideration the risk reduction and capital efficiency based on its economic rationality. We have been holding sufficient dialogues with the issuing companies upon sales of such shares.

The amount of reduction in FY2019 was approx. 12.2 billion yen (based on acquisition cost, total of subsidiary banks). The balance of strategic shareholdings (listed companies) was 106.8 billion yen as of March 31, 2020. Ratio of the balance of strategic shareholdings to consolidated capital assets decreased from 15.0% to 13.7%.

Assessing the rationality of holding individual stock by the Board of Directors, etc.

Our basic policy for strategic shareholdings is based on medium- to long-term economic rationality on the basis of risk and returns and future outlook in order to secure sustainable growth, increase corporate value of the Group and issuing companies over the medium- to long-term, and build stable business relationships with those companies.

The economic rationality of strategic shareholdings is examined from the viewpoint of profitability, creditworthiness, regional characteristics (relevancy to principal base of operations), improvement of business relationship, etc., using their overall business RORA (*) based on our ROE target.

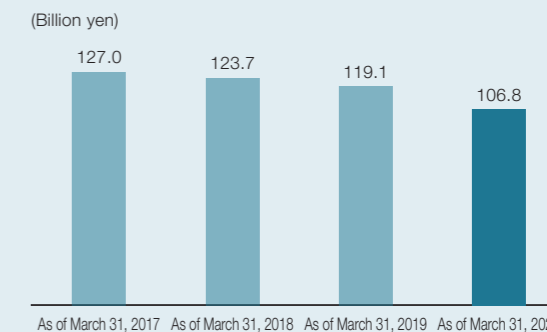
As of March 31, 2020, the Board of Directors confirmed every strategic shareholding to be meaningful pursuant to the basic policy to secure a sustainable growth, increase corporate value of the Group and issuing companies over the medium- to long-term, and build stable business relationships with those

companies. Regarding the profitability, we confirmed that their overall business RORA combining all listed companies of strategic shareholdings exceeded the target value.

(*)RORA = (Net interest margin on loans and deposits - Expenses (including credit related costs) + Fees and Commissions + Dividends) ÷ Risk-weighted Assets (Loans and Stocks)

Strategic shareholdings

(Bank total, listed companies only, based on acquisition cost)



Dialogue with Shareholders and Investors

Our Group has endeavored to improve soundness and transparency of the management and ensure timely and easy-to-understand information disclosure and provision in order to earn trust from and improve our Group's reputation among all stakeholders including customers, shareholders and community residents.

In FY2019, although we held fewer investor relations sessions than planned due to the impact of the spread of COVID-19, we have enhanced information disclosure by other means, including through our website. We will continue to ensure impartial and fair information disclosure and promote constructive dialogue with shareholders and investors.

Investor relations sessions

	FY2018	FY2019
IR sessions for individual investors	8 times, 845 participants	(Cancelled)
IR sessions for institutional investors and analysts in Japan (including exclusive interviews)	79 times, 418 companies	68 times, 454 companies
IR sessions for overseas institutional investors and analysts	3 times, 19 companies	2 times, 12 companies
Total	90 times, 1,282 people (companies)	70 times, 466 companies

Initiatives for Value Creation

Create Growth Business Models With Local Regions

Since the business integration in October 2016, a wide range of support policies utilizing the wide-area network mainly in Ibaraki and Tochigi prefectures are being implemented backed by the Group's strong customer base, which is a strength of both Joyo Bank and Ashikaga Bank. Under the Second Medium-Term Group Business Plan, which was launched in April 2019, we support the growth and problem resolution of customers by leveraging the Group's strengths through the enhancement of consulting services and IT services/data utilization, while at the same time we utilize the resources held by the Group to cultivate and expand our business areas, thereby creating a business model that grows with customers and local communities.

Enhancement of consulting function

Reinforcing the organization for consulting services to corporate customers

We have increased the number of specialists in consulting service to corporate customers at the head office, and have them work full time at branches. Through this initiative, we are working to provide our customers with solutions to various management problems, such as smooth financing, business strategies and business succession.

Number of specialists staffed in branches



*Planning to shift 100 people (Bank total) in three years to consulting business for corporate and individual customers.

Support for Securing Personnel

To support companies in securing necessary personnel, which has become a major management issue for many companies, Joyo Industrial Research Institute Ltd. (a subsidiary of Joyo Bank) in October 2018, and Ashikaga Bank in April 2019, commenced personnel placement services. We are strengthening our consulting services by deepening our dialogues with our customers, sharing their management issues and providing appropriate personnel placement and matching services to solve their personnel problems, and supporting the review of their personnel systems.

Results of personnel placement (cumulative)

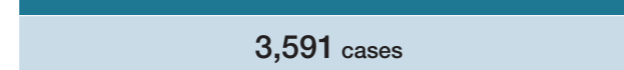
Information gathering on personnel-related needs (from both banks' offices)	Cases of successful personnel placement
861 companies	61 companies, 80 cases

(As of March 31, 2020)

Business Succession Support

Along with the aging of management executives, an increasing number of companies are having business succession issues. At the Group, the respective head offices and branches of Joyo Bank and Ashikaga Bank, as well as external specialized institutions, collaborate with each other to think through problems together with customers in order to facilitate business and asset succession, and provide them with assistance in various ways to resolve their issues.

Number of business succession and M&A consultation cases

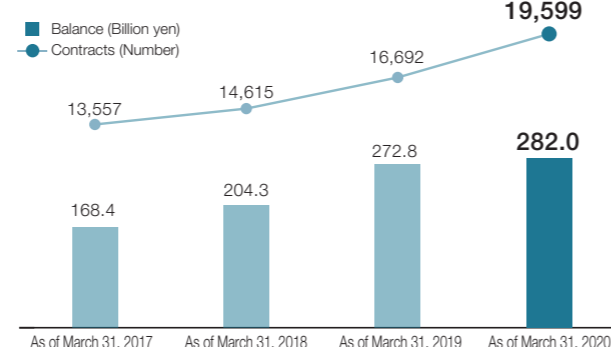


(FY2019, bank total)

Reinforcing the organization for consulting services to individual customers

We have our employees acquire necessary knowledge and market outlook information regularly through lecture-based and on-the-job training sessions to offer financial products that suit each customer's life plan and risk appetite. To meet diversifying needs of customers, we are making proposals of customer oriented asset management and asset building by creating a one-stop sales scheme of highly specialized financial products through collaboration between our banks and the Group securities company.

Contracts and balance of customer assets under custody of Mebuki Securities



Measures to meet the needs of an aging society

To create communities in which people can continue to live their lives in comfort, we have started expanding our financial services in order to respond to financial transaction problems and other diverse needs expected from the imminent surge of the older population.



Officers and employees learning through a care-fitter training program

■ Asset management

- Expanding transactions by proxy, providing guarantor and voluntary guardian services (Joyo Bank)
- Starting handling of "guardianship support deposits" (Ashikaga Bank)

■ Asset succession

- Provision of services such as trust by will, trust as a substitute for a will, estate arrangement services, and inheritance assistance using insurance products
- Setup of dedicated inheritance consulting service on Saturdays and Sundays "Holiday Wealth Salon" (Ashikaga Bank)

■ Measures taken to respond to an aging society

- Providing "Elderly watching service" in collaboration with a security company, etc. (Joyo Bank)
- Watching over elderly customers in collaboration with municipalities
- Encouraging officers and employees to get qualified as a dementia supporter, placement of care-fitters at branches

IT services and data utilization

We are working to improve convenience for customers and enhance the over-the-counter environment by utilizing IT services within the Group as well as leveraging external knowledge, so that customers can use our banking services anytime and anywhere they like.

■ Strategic business partnership with external bank

We signed a strategic business partnership in the digital field with Resona Holdings, Inc. We start developing a new banking app for individual customers of Joyo Bank and Ashikaga Bank, and will launch services during FY2020. Both companies will seek synergies by sharing knowledge and expertise with each other to explore new digital banking services.

Details of the Strategic Business Partnership

- Enhancing banking apps and continuously promoting reforms in sales processes and over-the-counter operations
- Sharing and enhancing expertise through partnership and exchange of human resources in the digital field
- Increasing collaboration and partnership with external financial institutions and enterprises of different industries

■ Development and utilization of smartphone apps

We introduced smartphone apps (for digital receipts/company cars) in order to enhance efficiency of and upgrade sales activities of sales staff. The apps are utilized for issuing digital receipts for passbooks and other items received from customers, management of company cars, and management of customer visits based on the GPS function.

Patented



In April 2020, the Group obtained a patent on "Digital Receipts App" for its function of receipt and return management of customers' passbook and other items.

(Image of the smartphone app for business use)

■ Utilization of robot advisor for investment trusts

Customers can utilize a robot advisor for simulation to find asset management options and specific investment products that meet their needs just by answering simple questions on their PCs or smartphones, without visiting a bank branch.



(Robot Advisor website)

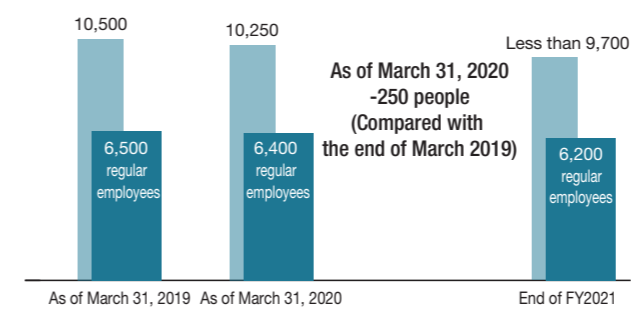
Structural Reform for Enhanced Productivity

In January 2020, we integrated the core systems of Joyo Bank and Ashikaga Bank. This allows us to accelerate our efforts to control the total number of staff and review our current channel network, so that management resources freed up by the integration, such as staff and time, can be utilized for growth areas and improvement of customer service instead.

Control of total number of staff

3-Year Plan (April 2019 through March 2022)		Achievements in FY2019 (First year of the medium-term plan)	
Unification and rationalization of business processing and IT division Consolidation of head office functions and subsidiary functions and streamlining operations BPR and digitization of branch office operations Optimizing branch networks	Freed up -1,000 people	Freed up -300 people	Upon completion of integration of core system (in January 2020), we started to accelerate structural reform <ul style="list-style-type: none"> ● Unification/Integration of IT Division ● Unification/Integration of Business Administration and Concentration Section ● Unification/Integration of the Head Offices' Corporate Planning and Administration functions ● Restructuring organization of consulting services ● Reorganization of group companies
Enhancement of consulting function Strengthening IT planning and IT consulting Invest in securities investment, structured finance, new fields	Invested +200 people	Invested +50 people	

Change in total number of staff



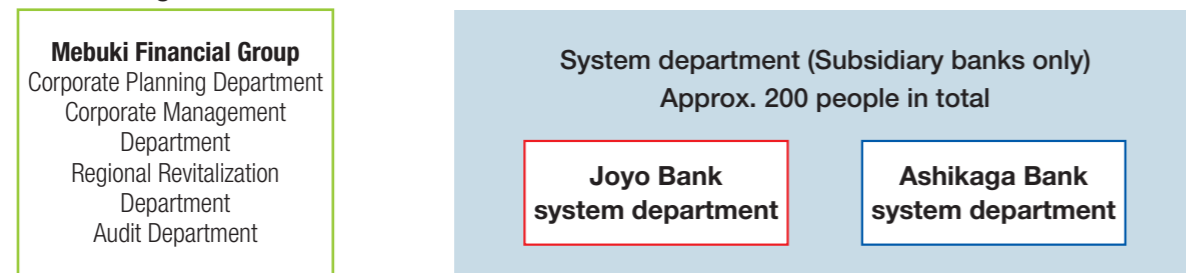
At the end of March 2020, the number of personnel decreased by 250 people compared to the end of March 2019, when we started Medium-Term Group Business Plan. By taking the measures mentioned in the previous page, we will continue to control total staff through reallocation of personnel.

Reorganization of system Departments

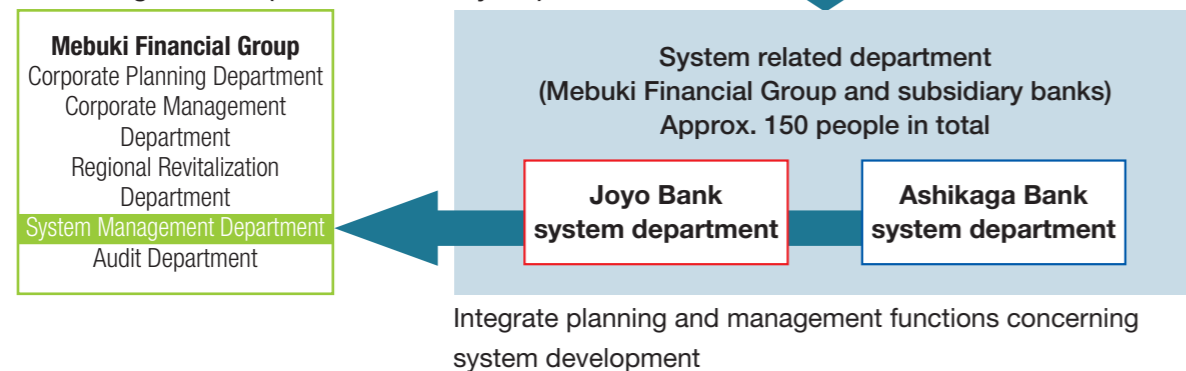
In June 2020, we set up a new department in the Group (holding company), responsible for supervising project management concerning system development in the Group.

Purpose Strengthen IT governance and improve organizational efficiency

Before reorganization



After reorganization (Jun 2020 and beyond)



Optimization of Channels/Networks

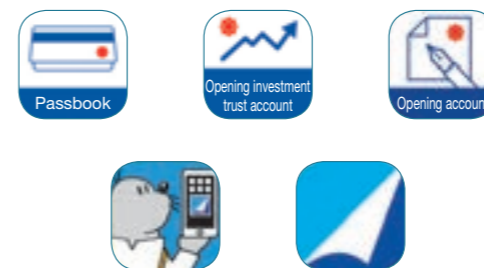
Within the 3 years under the Medium-Term Group Business Plan, we will optimize branch network by enhancing efficiency of about 20% of current 337 domestic branches. At the same time, we will increase digital services through the internet and other methods,

so that customers can use banking services at anytime and anywhere they like, and thus aim to provide services that better meet their needs. The Group will continue to provide financial services seamlessly even during the COVID-19 pandemic.

Improvement of digital services

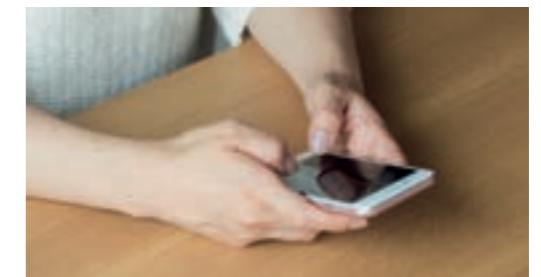
Banking App (Expansion of available functions)

- Balance inquiries • Transaction details
- Opening account • Collaboration with Internet Banking



Expansion of loan products available online (WEB)

- Automobile loans • Educational loans
- Card loans • Free loans



Free up human resources and time

- Increase time spent on consultation with customers
- Develop and provide valuable products and services

Developing Human Resources for Value Creation

We are conducting training to improve the skills of each employee in order to meet the diverse needs of customers and the local communities through the utilization of IT and digital technology. We are also striving to enhance our employees' knowledge and skills through having them acquire various qualifications in response to a growing demand for comprehensive consulting services among corporate customers.

Training specialized human resources

Training human resources capable of utilizing IT technology

We are reinforcing our support for employees to raise their skill levels and training specialized human resources through seminars by external lecturers on the utilization of IT-related knowledge and information.

We are aiming to increase human resources with advanced IT-related skills and encourage the utilization of the Group's IT services and data, while at the same time providing our customers with tools and expertise developed internally by the Group.



"IT Service Creation Work Shop"

Promotion of Diversity

Acquisition of Expertise and Qualifications

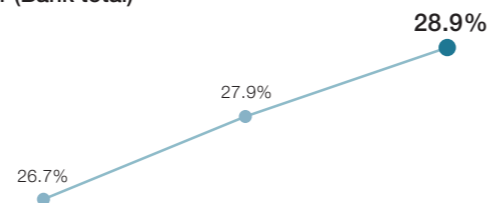
We are providing support for employees to acquire various qualifications, such as financial planner, small and mid-size enterprise management consultant and securities analyst.

In order to grow together with our local communities, we are also striving to establish a working environment in which diverse people feel job satisfaction and can continue to work in the long term regardless of changes in their lifestyles.

Promotion of active participation of women

We are proactively promoting capable and motivated women employees to assistant manager positions or higher. In order to foster women leaders who will lead the active participation of women in the entire Group and become role models for younger women employees, we are conducting "Mebuki Women's Class."

Percentage of women in assistant manager positions or higher (Bank total)



As of March 31, 2018 As of March 31, 2019 As of March 31, 2020

Providing a pleasant working environment

We are establishing systems and working environments that allow employees to work in line with their life stages, such as raising children or nursing care of family, as well as according to their lifestyles.

- Flexible work system
- Shortened work hour system (for childcare and nursing care)
- Hourly paid leave
- Seminars for employees returning to the workplace from childcare leave



Seminars for employees returning to the workplace from childcare leave

Measures Against the Spread of COVID-19

We are making the utmost effort to support customers affected by the spread of COVID-19 by prioritizing the health and safety of customers and endeavoring to provide them with smooth financial services.

Business Continuity Support

Establishment of loan consultation desk including on holidays

We have started offering special emergency loans for customers affected by the spread of COVID-19. We set up consultation desks at branches on weekdays and holidays, including Golden Week, to provide consultation for small and mid-size enterprises and individual business owners.

by Regional Economy Vitalization Corporation of Japan (REVIC) and working together with other financial institutions.

Individual consultations for employment adjustment subsidy

We are offering individual consultations concerning the employment adjustment subsidy by HR and labor management experts including licensed social insurance consultants free of charge.



Funding support to affected business owners through disaster recovery fund

We have added companies facing deteriorating business environment due to the spread of COVID-19 to the disaster recovery fund as its investment target. Through this fund, we will support such companies by utilizing a wealth of expertise in business restructuring possessed

Measures to prevent infection at branches

We are prioritizing the safety and security of customers and the health of employees and their family members, while continuing to provide financial services as a social infrastructure.

- Introduction of shift-work arrangements and lunch break closure during the state of emergency declaration
- Recommendation of social distancing (lobby area, around ATMs)
- Mask wearing, installment of partitions to prevent droplet transmission
- Teleworking, split operation

Improvement of digital services

To help prevent the spread of COVID-19 by decreasing human-to-human contact, we encourage our customers to use our digital services instead of visiting a bank branch. We are striving to promote the use of our internet banking services and banking apps by increasing functions of digital services and lowering some of the transaction fees.

- Recommendation of transactions through internet banking services for corporate customers and individual customers
- Inquiries by phone/e-mail and notices sent by post
- Increasing of banking apps' functions

<Joyo Bank's passbook app, Ashikaga Bank's Ashigin app>

Customers can now prepare a "proof of account number," a material identifying a bank account to receive payment under programs including the government's special cash payment program.



Support to healthcare institutions

Healthcare Institutions added as donation recipients of SDGs private placement bonds

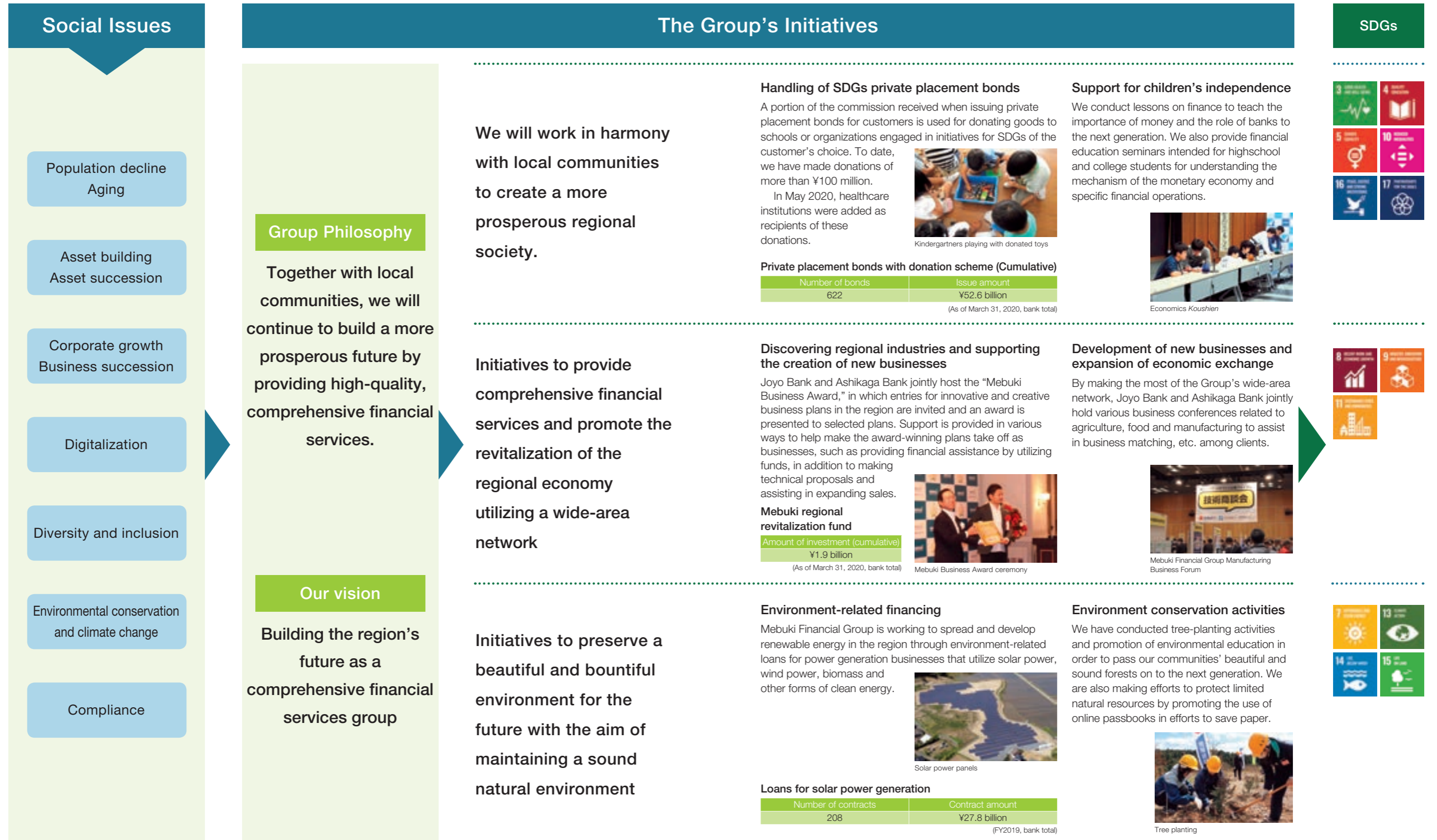
With respect and gratitude to healthcare institutions that are treating patients at the forefront while facing a high risk of infection, we added healthcare institutions as recipients of the donations, to help maintain healthcare systems in our local communities.

Officers' and employees' contributions

To support healthcare workers at the forefront, we raised money from our Group's officers and employees and donated it as "funds supporting medical institutions" to Ibaraki and Tochigi prefectural governments.

Mebuki Financial Group will work with all of our stakeholders, including customers, shareholders, employees and business partners, to create a more prosperous regional society and aim to keep growing together with our local communities. To achieve SDGs together with people in our local communities, we have prepared leaflets describing our SDGs approach and examples of initiatives and are engaged in promoting activities and providing support regarding SDGs efforts.

What are SDGs?
 In September 2015 the Sustainable Development Goals (SDGs) were adopted at a United Nations summit.
 The SDGs established 17 goals and 169 targets of specific actions as the global sustainability agenda to be achieved by all countries including advanced and developing countries by 2030.



Governance of Mebuki Financial Group

Corporate Governance

Basic approach to corporate governance

A commitment to management characterized by responsibility, and sound, appropriate business operations will earn greater trust for the Group from all stakeholders - customers, shareholders, local communities and employees - and boost corporate value. By following the approaches listed below, we are working to strengthen and improve corporate governance.

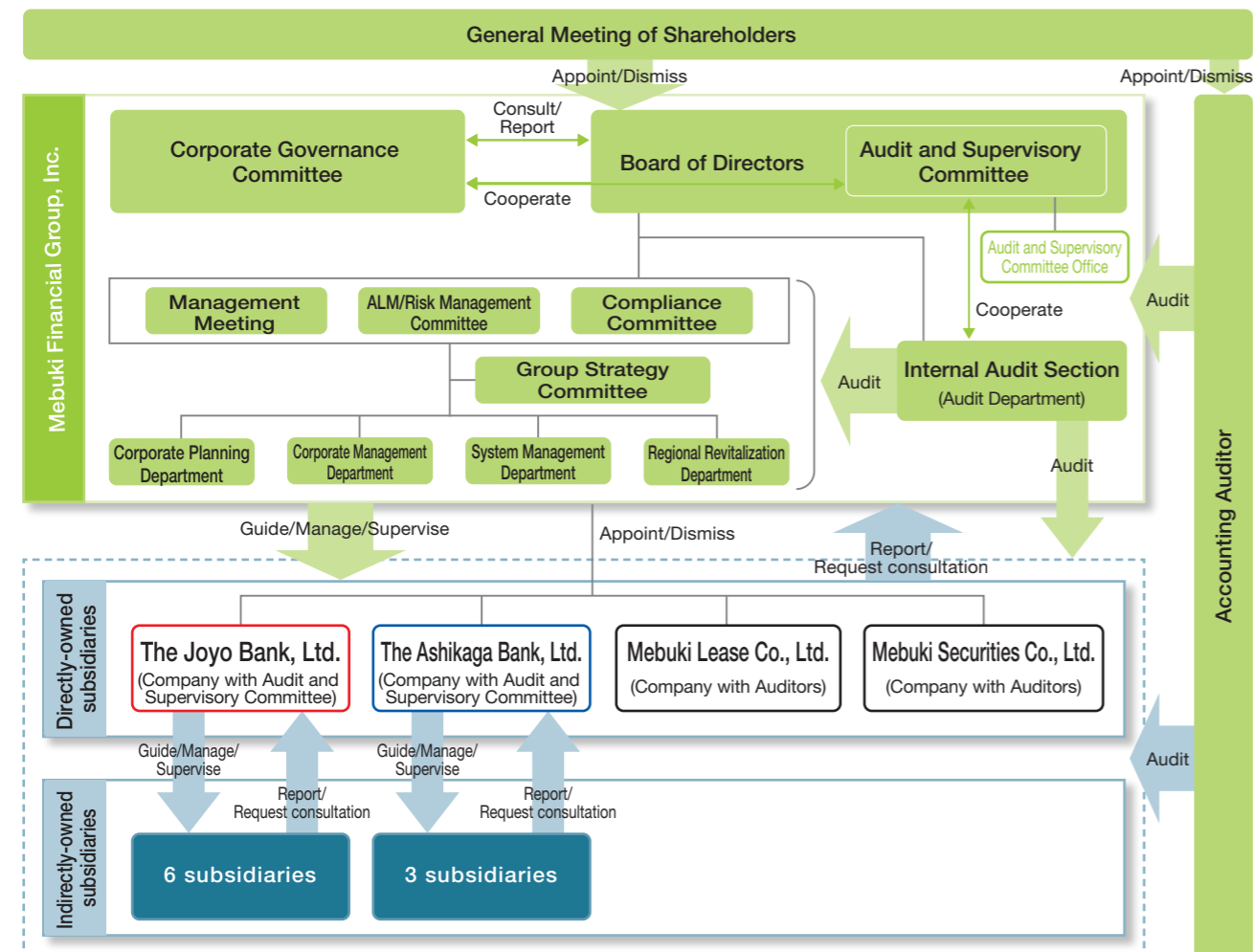
- We respect shareholders' rights and ensure equality.
- We consider the benefits of stakeholders, including shareholders, and cooperate appropriately with stakeholders.
- We disclose company information appropriately and ensure transparency.
- We ensure the effectiveness of a transparent, fair, prompt and decisive decision-making function and supervisory function of the Board of Directors on business operation by utilizing independent outside directors.
- We work to communicate with shareholders constructively about the continuous growth and improvement of medium-to-long term corporate values.

Corporate governance structure

The Company has adopted a company with an Audit and Supervisory Committee as a corporate governance system, which allows us to realize prompt and decisive decision-making and business execution by entrusting many of the decision-making authorities relevant to business execution to directors as constituent members

of the Board of Directors in which the Group's knowledge and expertise are concentrated, while ensuring the transparent and fair decision-making function and the solid audit and supervisory function through the appointment of multiple outside directors.

(Mebuki Financial Group's corporate governance structure)



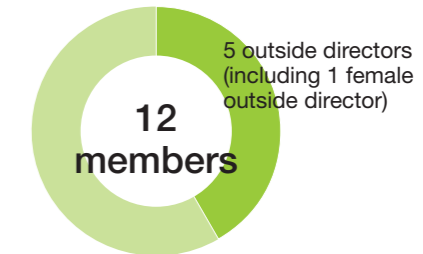
Details of the Company's organizations

(Board of Directors)

The Board of Directors decides basic corporate policies and important business matters and supervises the execution of duties by directors. We aim to realize prompt and decisive decision-making and business execution by entrusting most decision-making authorities relevant to business execution to directors as constituent members of the Board of Directors in which our Group's knowledge and expertise are concentrated, while ensuring a transparent and fair decision-making function and a solid supervisory function through the appointment of multiple outside directors that have experience as corporate managers, lawyers, and academic experts.

The Board of Directors meets monthly in principle.

■ Board of Directors



(Audit and Supervisory Committee)

The Audit and Supervisory Committee audits the execution of duties by directors and determines the details of proposals related to the appointment, dismissal, and non-reappointment of accounting auditors to be submitted to the General Meeting of Shareholders.

The Audit and Supervisory Committee meets monthly in principle.

■ Audit and Supervisory Committee

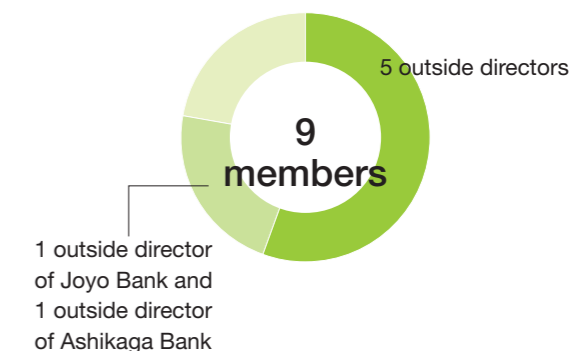


(Corporate Governance Committee)

We have established the Corporate Governance Committee as an advisory board to the Board of Directors to ensure the objectivity and transparency of the compensation for and the appointment of directors. Matters regarding the nomination of director candidates and the compensation for directors are decided by the Board of Directors upon deliberation by the Corporate Governance Committee.

The Corporate Governance Committee is chaired by an outside director, and the majority of its members are also outside directors including the outside directors of subsidiary banks.

■ Corporate Governance Committee



[Main matters for deliberation]

- Remuneration and bonuses for directors
- Evaluation of the effectiveness of the Board of Directors
- The Group's governance structure
- Appointment of director candidates, etc.

(Decision-Making Bodies)

We have established the Management Meeting, the ALM/Risk Management Committee and the Compliance Committee as bodies to discuss and decide important matters regarding business execution based on the decisions made by the Board of Directors. Each

decision-making body reports the status of deliberation and decisions regarding business execution to the Board of Directors, and is supervised by the Board of Directors.

Decision-Making Bodies	Overview	Composition
Management Meeting	The Management Meeting is responsible for making decisions on business execution to the extent of the authorities delegated by the Board of Directors, as well as discussion on important matters regarding business execution.	All 5 Executive Directors Both Executive Officers, a total of 7 members
ALM/Risk Management Committee	The ALM/Risk Management Committee is responsible for making decisions on business execution relevant to group risk management and ALM to the extent of the authorities delegated by the Board of Directors and for considering and discussing important matters on business execution.	All 5 Executive Directors Both Executive Officers General Manager, Corporate Planning Department General Manager, Corporate Management Department General Manager, Basel Unit, Corporate Management Department, a total of 10 members
Compliance Committee	The Compliance Committee is responsible for making decisions on business execution regarding compliance to the extent of the authorities delegated by the Board of Directors, and considering and discussing important matters relevant to the practice of compliance.	All 5 Executive Directors Both Executive Officers General Manager, Corporate Planning Department General Manager, Corporate Management Department General Manager, Audit Department, a total of 10 members

Evaluation of the effectiveness of the Board of Directors

The Board of Directors of the Company conducts analysis and evaluation of its effectiveness as a whole each year, in order to utilize the results of such evaluation to improve the operations of the Board of Directors, by confirming the opinions of each director on such matters as the composition and operation of the Board of Directors.

<Evaluation method>

Regarding the FY2019 evaluation, opinions were exchanged on the evaluation method and the contents of the questionnaire at the executive session comprising all outside directors of the Company and its subsidiary banks, as was the case in the previous fiscal year.

Based on this discussion, questionnaires on the composition and operations of the Board of Directors and other matters were distributed to all directors, and replies

and comments were obtained. With regard to the results of the evaluations based on these replies and comments, the Board of Directors of the Company, upon deliberation by the Corporate Governance Committee (with outside directors accounting for the majority of its members), finalized and determined the results of analysis and evaluation of the effectiveness of the Board of Directors as a whole.

<Evaluation results>

The Board of Directors of the Company has confirmed that directors with diverse knowledge and experience have been elected and the composition is well balanced; all directors, upon sharing the roles and responsibilities of the Board of Directors, have successfully fulfilled both decision-making and supervising functions while taking advantage of the perspective of independent outside directors; and thus the effectiveness of the Board of Directors as a whole has been mostly assured.

With regard to issues recognized during the previous fiscal year's evaluation, "Review of the composition of the Board of Directors in order to improve effectiveness" and "Further improvement of the operations of the Board of Directors," were remediated by increasing the number of outside directors to reflect diverse perspectives, as well as through the operations of the Board of Directors throughout the year.

<Future Measures>

The following matters were recognized as issues that we need to continuously address in aiming for the sustainable growth of the Group and the further improvement of its corporate value in the medium- to long-term. By implementing the necessary responses to these issues, our Group will strive to enhance the effectiveness of its corporate governance structure.

1. "Improvement of the discussions by the Board of Directors"

- Enhancement of discussions aiming for improvement of corporate value in the medium- to long-term.

- Expression of opinion by directors from a company-wide perspective, beyond the boundary of their duties

2. "Utilization of the perspectives of independent outside directors"

- Enhancement of discussions at the Corporate Governance Committee as an advisory body regarding the appointment of and remuneration for directors.
- Improvement of information provision to outside directors, facilitation of communication among outside directors, etc.

Appointment of Directors

(Directors)

The Board of Directors selects candidates for directors who satisfy the selection criteria for directors based on the deliberation at the Corporate Governance Committee.

(Outside Directors)

The Board of Directors selects candidates for outside directors who meet the following selection criteria, in addition to meeting the legal requisites for outside directors. Two or more of such outside directors shall be the persons who fulfill the independence standards for outside directors of the Company.

Selection criteria for candidates for outside directors

- Shall be an appropriate person to supervise the management who has a wealth of experience as a corporate manager; is assuming a post as a legal, accounting or financial expert or has equivalent knowledge and experience.
- Shall have personality and insight appropriate for an outside director
- Shall be able to secure time necessary to execute duties as a director with integrity
- Shall have no health- or business-related issues that may prevent them from executing duties as an outside director.

Reasons for being selected as an outside director, concurrent positions and other statuses for each outside director are as follows. The Group registered all of the five directors with the Tokyo Stock Exchange as independent directors who do not have conflicts of interest with general shareholders.

Name	Reasons for selection	Concurrent positions and other statuses
Hiromichi Ono	Mr. Hiromichi Ono has accumulated a broad range of insight and abundant experience as a manager of a major food company. He has been appointed as an Outside Director in the expectation that he may provide appropriate guidance and advice for the overall business operation of the Company by utilizing his insight and experience as a corporate manager.	Outside Audit & Supervisory Board Member, Tokyo Gas Co., Ltd.
Yoshimi Shu	Ms. Yoshimi Shu has accumulated abundant work experience as well as experience and achievements as a senior manager at a global financial institution. She also has insight and experience in various aspects towards the development corporate leaders. She has been appointed as an Outside Director in the expectation that she may provide appropriate guidance and advice for the overall business operation of the Company from a professional perspective.	Deputy President & Representative Director, Core Value Management, Co., Ltd.
Satoru Kawamata	Mr. Satoru Kawamata has accumulated abundant insight and experience as a corporate manager and conducted his duties appropriately as Outside Director (Audit and Supervisory Committee Member) of The Jojo Bank, Ltd. from June 2018 to June 2020. He has been appointed as an Outside Director who is an Audit and Supervisory Committee Member in the expectation that he may utilize his insight and experience corporate manager to provide appropriate guidance and advice in relation to the overall business management of the Company.	—
Toru Nagasawa	Mr. Toru Nagasawa has specialized knowledge and experience in corporate legal affairs as an attorney. He has been appointed as an Outside Director who is an Audit and Supervisory Committee Member in the expectation that he may provide appropriate guidance and advice from a specialist's perspective, especially corporate legal affairs in relation to the overall business management of the Company.	Representative Attorney, Nagasawa Law Offices Outside Corporate Auditor, GREE, Inc. Outside Director, Toho Holdings Co., Ltd. Outside Corporate Auditor, Lancers, Inc.
Takashi Shimizu	Mr. Takashi Shimizu has academic experience as well as specialized knowledge and extensive experience in accounting. He has been appointed as an Outside Director who is an Audit and Supervisory Committee Member in the expectation that he may provide appropriate guidance and advice from a specialist's perspective, especially accounting in relation to the overall business management of the Company.	Professor, Graduate School of Accountancy, Waseda University

Compensation for Directors

(Directors' Compensation System)

Under the Company's directors' compensation system, compensation amounts are to be determined, as follows, upon dividing the directors into "directors (excluding directors who are Audit and Supervisory Committee Members)" and "directors (who are Audit and Supervisory Committee Members)," within the maximum amount resolved by the Ordinary General Meeting of Shareholders. At the General Meeting of Shareholders held on June 28, 2016, a resolution was adopted setting the maximum amount of directors' compensation at ¥200 million per year for "directors (excluding directors who are Audit and Supervisory Committee Members) and ¥80 million per year for "directors (who are Audit and Supervisory Committee Members).

<Compensation, etc. for Executive Directors>

The compensation for executive directors among the "directors (excluding directors who are Audit and Supervisory Committee Members) comprises a monthly compensation, which is a fixed compensation, stock options, and a bonus which is a performance-linked compensation.

The basic amount of the monthly compensation for each executive director is determined by the director's position.

With regard to bonuses which are performance-linked compensation, the basic amount is determined in accordance with the director's position and the total amount of bonus payment is determined within a maximum amount which fluctuates each year according to consolidated profit levels (ROE), and the amount paid to each executive director is determined based on the basic amount by the director's position, which is adjusted according to the level of contribution of each executive director to business performance. The consolidated ROE has been adopted as a performance indicator in order to provide stronger incentives to the directors to improve the Group's corporate value. Under the Second Medium-Term Group Business Plan (April 1, 2019 to March 31, 2022), an ROE of 5.0% or more was targeted, and in the current fiscal year an ROE of 4.0% was achieved. During the fiscal year under review,

performance-linked compensation accounted for approximately 5% of the total compensation for executive directors.

Stock options comprise stock acquisition rights, with an exercise price of ¥1 per share, granted as stock compensation-type stock options, and the amount of stock options for each executive director is determined based on the director's position. In FY2020, the Group introduced a new restricted stock remuneration plan for the purpose of providing the Company's Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors; the "Eligible Directors") with incentives to achieve sustainable enhancement of the Company's corporate value as well as promoting further value-sharing with the Company's shareholders, in lieu of the above-mentioned stock compensation-type stock options. In conjunction, the stock compensation-type stock option was abolished and future stock acquisition rights granted as stock compensation-type stock options will no longer be allocated to the Directors. Under the restricted stock remuneration plan, the Eligible Directors shall make payments in kind as contributed assets using all of the monetary compensation claims provided to them by the Company and receive the issuance or disposal of the Company's common shares. Each of the Eligible Directors shall enter into a restricted stock allocation agreement with the Company. Remuneration to be paid for the granting of restricted stock is monetary compensation claims and the total amount of such claims will be set within the amount of annual remuneration for the Company's Directors (excluding Directors who are Audit and Supervisory Committee Members), that is, at 20 million yen or less per year. The total number of common shares issued or disposed of by the Company shall be 200 thousand shares or less per year. The amount of monetary compensation claims for each of the Eligible Directors is determined based on the director's position.

<Compensation for Outside Directors>

The compensation for outside directors who are not Audit and Supervisory Committee Members is comprised only of a monthly fixed compensation, and

this monthly compensation amount is determined in accordance with the regulations on compensation set forth by the Board of Directors.

<Compensation for Audit and Supervisory Committee Members>

The compensation for "directors (who are Audit and Supervisory Committee Members) is comprised only of a monthly fixed compensation. This monthly compensation amount is determined separately for full time and part time Directors (who are Audit and Supervisory Committee Members), in accordance with the regulations on compensation set forth by the Audit and Supervisory Committee, and the compensation amount for each director (who is an Audit and Supervisory Committee Member) is determined through discussions among Audit and Supervisory Committee Members in accordance with said regulations.

(Procedure for Determining Directors' compensation)

In order to ensure the objectivity and transparency of directors' compensation, the compensation for directors (excluding directors who are Audit and Supervisory Committee Members) is determined by the Board of Directors, and the compensation for directors (who are Audit and Supervisory Committee Members) is determined by the Audit and Supervisory Committee upon deliberation by the Corporate Governance Committee.

Matters discussed by the Corporate Governance Committee and the Board of Directors in determining directors' compensation (FY2019)

(Corporate Governance Committee)

April 2019	Matter regarding total amount of directors' bonuses
May 2019	Matter regarding individual distribution of directors' bonuses, monthly compensation for directors
February 2020	Matter regarding revision of directors' compensation

(Board of Directors)

May 2019	Matters regarding directors' bonuses, and establishment and revision of the regulations on directors' compensation (Revision in accordance with the introduction of outside directors who are Audit and Supervisory Committee Members, etc.)
June 2019	Matter regarding determining monthly compensation amount for directors
July 2019	Matter regarding the allocation of stock acquisition rights and stock option compensation amount

List of Directors

7 Directors



President and Director
Ritsuo Sasajima

June 2011 Executive Officer and General Manager, Corporate Planning Division, The Joyo Bank, Ltd.
June 2013 Managing Director, The Joyo Bank, Ltd.
October 2016 Director, in charge of Corporate Planning, the Company
June 2017 Senior Managing Director, The Joyo Bank, Ltd.
June 2018 President, the Company (current position)
President, The Joyo Bank, Ltd. (current position)



Executive Vice President and Director
Kazuyuki Shimizu

April 2012 Executive Officer, The Ashikaga Bank, Ltd.
April 2014 Executive Officer, Ashikaga Holdings Co., Ltd.
Executive Officer, The Ashikaga Bank, Ltd.
April 2015 Managing Executive Officer, The Ashikaga Bank, Ltd.
June 2016 Managing Director, The Ashikaga Bank, Ltd.
October 2016 Director, the Company
June 2018 Senior Managing Director, The Ashikaga Bank, Ltd.
June 2019 Executive Officer, the Company
June 2020 Executive Vice President, the Company (current position)
President, The Ashikaga Bank, Ltd. (current position)



Director
Hidebumi Nishino

June 2013 Executive Officer and General Manager, Business Promotion Division, The Joyo Bank, Ltd.
June 2015 Managing Executive Officer and Vice Director-General of Business Headquarters, The Joyo Bank, Ltd.
October 2016 Director in charge of Regional Revitalization, the Company
June 2017 Retired from the position as Director, the Company
Managing Director, The Joyo Bank, Ltd.
June 2020 Director in charge of Regional Revitalization, the Company (current position)
Managing Executive Officer, The Joyo Bank, Ltd. (current position)



Director
Yoshihiro Naito

April 2016 Executive Officer, The Ashikaga Bank, Ltd.
June 2019 Managing Director, The Ashikaga Bank, Ltd.
June 2020 Director in charge of Corporate Management, Risk Management and Information Security, the Company (current position)
Director, Managing Executive Officer, The Ashikaga Bank, Ltd. (current position)



Director
Tetsuya Akino

June 2016 Executive Officer and General Manager, Personnel Division, The Joyo Bank, Ltd.
October 2016 General Manager, Corporate Management Department, the Company
June 2017 General Manager, Corporate Planning Department, the Company
Executive Officer and General Manager, Corporate Planning Division, The Joyo Bank, Ltd.
June 2018 Director, in charge of Corporate Planning, the Company (current position)
Managing Director, The Joyo Bank, Ltd.
June 2020 Director, Managing Executive Officer, The Joyo Bank, Ltd. (current position)



Director (Audit and Supervisory Committee Member)
Eiji Murashima

June 2010 Executive Officer and General Manager, Business Administration Division, The Joyo Bank, Ltd.
June 2011 Executive Officer and General Manager, Business Promotion Division, The Joyo Bank, Ltd.
June 2012 Managing Executive Officer and Vice Director-General of Business Headquarters, The Joyo Bank, Ltd.
June 2013 Managing Director, The Joyo Bank, Ltd.
October 2016 Senior Managing Director, The Joyo Bank, Ltd.
June 2018 Retired from the position as Senior Managing Director, The Joyo Bank, Ltd.
June 2020 Director (Audit and Supervisory Committee Member), the Company (current position)
Corporate Auditor, Mebuki Securities Co., Ltd. (current position)



Director (Audit and Supervisory Committee Member)
Kunihiko Ono

June 2010 Executive Officer, General Manager, New Accounting System Transition Promotion Division, The Ashikaga Bank, Ltd.
October 2011 Executive Officer, The Ashikaga Bank, Ltd.
June 2012 Director, The Ashikaga Bank, Ltd.
June 2013 Director, Ashikaga Holdings Co., Ltd.
June 2016 Retired from the position as Director, The Ashikaga Bank, Ltd.
October 2016 Director (Audit and Supervisory Committee Member), the Company (current position)
June 2017 Corporate Auditor, Mebuki Lease Co., Ltd. (current position)

Outside Directors (5)

Outside Director Hiromichi Ono

April 1979 Joined Ajinomoto Co., Inc.
March 2004 General Manager, Finance Department, Ajinomoto Co., Inc.
June 2007 Corporate Executive Officer, Ajinomoto Co., Inc.
June 2011 Member of the Board & Corporate Vice President in charge of finance and procurement, Ajinomoto Co., Inc.
June 2017 Retired from the position as Member of the Board & Corporate Vice President, Ajinomoto Co., Inc.
June 2019 Outside Director, the Company (current position)
June 2020 Outside Audit & Supervisory Board Member, Tokyo Gas Co., Ltd. (current position)

Outside Director Yoshimi Shu

August 2000 Joined JP Morgan Securities Japan Co., Ltd.
June 2006 Head of Tokyo Control Room, Compliance Department, JP Morgan Securities Japan Co., Ltd.
May 2012 Managing Director, JP Morgan Securities Japan Co., Ltd.
October 2012 Head of Japan Controls & Oversight Department, JP Morgan Securities Japan Co., Ltd.
January 2014 Retired from JP Morgan Securities Japan Co., Ltd.
February 2014 Joined Core Value Management, Co., Ltd.
November 2016 Deputy President & Representative Director, Core Value Management, Co., Ltd. (current position)
June 2019 Outside Director, the Company (current position)

Outside Director (Audit and Supervisory Committee Member) Satoru Kawamata

April 1968 Joined Hitachi, Ltd.
June 1995 Deputy Head, Hitachi Works, Hitachi, Ltd.
April 1999 Head, Power and Electricity Group, Hitachi Works, Hitachi, Ltd.
June 1999 Director, Head, Power and Electricity Group, Hitachi Works, Hitachi, Ltd.
June 2001 Representative Director and President, Hitachi Life, Ltd.
June 2009 Advisor, Hitachi Life, Ltd.
June 2011 Honorary Advisor, Hitachi Life, Ltd.
March 2013 Retired from position as Honorary Advisor, Hitachi Life Ltd.
June 2018 Outside Director (Audit and Supervisory Committee Member), The Joyo Bank, Ltd.
June 2020 Outside Director, the Company (current position)

Outside Director (Audit and Supervisory Committee Member) Toru Nagasawa

April 1984 Registered as an attorney
April 1995 Nagasawa Law Office (Currently, Nagasawa Law Offices) opened, Representative Attorney (current position)
September 2007 Outside Corporate Auditor, GREE, Inc. (current position)
October 2014 Outside Corporate Auditor, Lancers, Inc. (current position)
June 2015 Outside Director, Toho Holdings Co., Ltd. (current position)
June 2016 Outside Director, Ashikaga Holdings Co., Ltd.
October 2016 Outside Director (Audit and Supervisory Committee Member), the Company (current position)

Outside Director (Audit and Supervisory Committee Member) Takashi Shimizu

April 1995 Lecturer, School of Commerce, Waseda University
April 1997 Associate Professor, School of Commerce, Waseda University
September 2000 Received Ph.D. in Commerce (Waseda University)
April 2002 Professor, School of Commerce, Waseda University
August 2002 Visiting Researcher, University of California, Berkeley (until August 2003)
April 2005 Professor, Graduate School of Accountancy, Waseda University (current position)
October 2016 Outside Director (Audit and Supervisory Committee Member), the Company (current position)

(List of Directors of subsidiaries)

JOYO BANK

Directors

Chairman and Director Kazuyoshi Terakado
President and Director Ritsuo Sasajima
Director and Senior Managing Executive Officer Masaru Seki
Director and Managing Executive Officer Hitoshi Takenouchi
Director and Managing Executive Officer Tetsuya Akino
Director and Managing Executive Officer Yuji Gorai
Director and Managing Executive Officer Kiyoshi Nozaki
Director (part-time) Hiroyuki Kimura
Director (Audit and Supervisory Committee Member) Yoshihiko Yoshihara

Outside Director

Outside Director (Audit and Supervisory Committee Member) Naoki Goto
Outside Director (Audit and Supervisory Committee Member) Zenichiro Ishihashi
Outside Director (Audit and Supervisory Committee Member) Tomoko Ogura

ASHIKAGA BANK

Directors

Chairman and Director Masanao Matsushita
President and Director Kazuyuki Shimizu
Director and Senior Managing Executive Officer Eisuke Suzuki
Director and Senior Managing Executive Officer Hiroshi Arai
Director and Managing Executive Officer Akio Hosoya
Director and Managing Executive Officer Yoshihiro Naito
Director and Managing Executive Officer Hideto Usui
Director (part-time) Toshihiko Ono
Director (Audit and Supervisory Committee Member) Akihiko Kuwako

Outside Director

Outside Director (Audit and Supervisory Committee Member) Shoji Fukui
Outside Director (Audit and Supervisory Committee Member) Seiichi Suzuki
Outside Director (Audit and Supervisory Committee Member) Yoshikatsu Sugiyama

MEBUKI LEASE

Director

President and Director Hiroshige Sonobe
Senior Managing Director Yoshiaki Kosugi
Senior Managing Director Jun Ajima
Managing Director Hiroo Sugaya
Managing Director Teruo Yamaguchi

Corporate Auditor

Corporate Auditor Yasuhiro Katada
Corporate Auditor (part time) Kunihiko Ono

MEBUKI SECURITIES

Director

President and Director Fuminori Nakajima
Senior Managing Director Hiroshi Mori
Senior Managing Director Toshihisa Onizawa
Senior Managing Director Hiroo Shimada
Director Katsuhiro Noda

Corporate Auditor

Corporate Auditor Hiroshi Matsumoto
Corporate Auditor (part time) Eiji Murashima

Interview with Outside Directors

The Company has adopted the structure of a company with an audit and supervisory committee as its corporate governance system in order to enhance its corporate governance. We asked our outside directors about the management challenges the Company is facing and the roles they hope to play by utilizing their own experience.



Questions

- Q1** Our external environment has been drastically changing recently due to various developments including prolonged low interest rates, advancement of digitalization and unpredictable events such as COVID-19. What management challenges are posed by such environmental changes?
- Q2** In addressing management challenges, what role can you play as an outside director by harnessing your experience?



Outside Director
Hiromichi Ono

A1 First of all, we need to streamline existing operations swiftly in response to a shrinking market due to the ongoing population decline. Also, it is indispensable for the Company to secure a broad range of revenue sources, while providing financing to customers. It is also important for us to create a new business model in which profit is gained from provision of information and know-how by enhancing the quality of services incidental to financing which have been provided free of charge. Moreover, in an effort to promote digital transformation, it is necessary to further accelerate the shift toward digitalization in collaboration with external partners, or through outsourcing.

A2 Since I have engaged in financial affairs at a manufacturing company for years, I had opportunities to receive services from various banks and other financial institutions. Through my extensive investor relations activities in Japan and abroad, I have also learned values of people involved in capital markets.

By utilizing these experiences and perspectives, I would like to propose useful ideas in a broad range of areas, including governance. I was appointed as an outside director last year, and now I realize that, most of all, regional banks are expected to serve the public interest in communities and contribute to their revitalization. I hope that the Group will work in harmony with local governments, focus on measures such as attracting industries and responding to a possible population increase in line with the new way of life, and contribute to further revitalization of the regional economy in the future.



Outside Director
Yoshimi Shu

A1 I understand that, as listed in the Second Medium-Term Group Business Plan, the enhancement of consulting services to meet various needs, the streamlining of business operations through digitalization, and the structural reforms based on it, are matters of the highest urgency, which need to be addressed at an even faster pace. I believe that, in order to respond to the ever-changing environment of today, we must take a wide range of actions including transforming our current business models.

A2 It is important to hire and train personnel capable of identifying and solving problems and accomplishing their missions independently. To this end, we need to nurture corporate culture that draws out character and passion of each and every employee, and enables them to build their career with a long-term vision. Taking advantage of my experience and lessons learned from working for a global financial institution, I would like to contribute to the creation of such corporate culture.

Given the public nature of the Company, it is extremely important to position SDGs and ESG as the foundation of its business. However, to continue to work on these initiatives, the Company must also be profitable.

I intend to observe whether initiatives for SDGs and ESG lead to stable revenue growth, and promote the sustainability of communities as well, and thereby contribute to value creation.



Outside Director (Audit
and Supervisory
Committee Member)
Satoru Kawamata

A1 I realize that, in this challenging external environment, the Company's biggest role is to contribute to the revitalization of local economies. To this end, it is crucial to assist our customers by providing them with not only funding but also know-how and information on how to manage the provided funds as well; that is, consulting service that contributes to addressing their business challenges.

Such service designed to listen to needs of local small and mid-size enterprises and then provide necessary assistance must differentiate us from new entrants into the financial industry, such as IT companies specializing in FinTech. Obviously, it is necessary to thoroughly pursue operational efficiency through the promotion of digitalization. We should work together with our local communities to revitalize the regional economy.

A2 From my experience in management reforms and new business development as a manager of a manufacturing company, I have become aware that banks are less willing to take risks or take on new challenges because they are expected by the public to be more creditworthy and stable than other businesses.

Now that banks are required to create new value by growing out of the conventional notion of the business, I would like to utilize my insight to invite the Group to take on new challenges.

Needless to say, these new challenges must be transparent and fair. Now more than ever before, the Board of Directors is functioning as a place for governance checking from a long-term perspective and discussion for supervising management. I will continue to see how our business contributes to value creation while ensuring its transparency and fairness.



Outside Director (Audit
and Supervisory
Committee Member)
Toru Nagasawa

A1 Lately, I feel that roles of a banking business built on a solid customer base are changing, and "game change" is required. To be more specific, I find it important to offer problem-solving type of financial services, which is beyond the boundary of the traditional finance industry, through providing not only financing solutions but also people or information required by customers. The Company should remain as committed as ever to its local communities and customers and carefully listen to their needs, while striving to improve its responsiveness to a rapidly changing environment and to become able to offer new services in need.

A2 I, as a lawyer, have been involved in numerous cases of civil rehabilitation, corporate reorganization and business revitalization. From such experience, I am well aware of how business operators see banks. So I believe I will be able to give suggestions on creating new value from multiple perspectives.

The Company is now working on value creation based on a medium- to long-term strategy. I will closely observe whether business operations are executed appropriately, while constantly looking at and redefining how our corporate activities are seen and evaluated by customers and business partners. Sticking to my motto, "speak frankly," I will take full advantage of my perspective as an outsider to the Company.



Outside Director (Audit
and Supervisory
Committee Member)
Takashi Shimizu

A1 Among roles fulfilled by banks, financial intermediary and settlement functions are now affected especially severely by the challenging environment of today. The financial intermediary function is becoming less profitable due to diversified financing methods and zero interest rates. The settlement function is suffering a drop in customers who are attracted by new entrants in the industry capitalizing on the trends of FinTech.

However, the most important job for a regional bank under any circumstances should be to support the development of the regional economy. I think that is our mission. It is essential for us to provide local companies and individuals with not only funds but also ideas and methods for how to utilize the procured funds, along with information accumulated by the bank over the years, and to offer new consulting services that are helpful for any corporate manager to make better decisions.

A2 Management accounting, my field of specialization, is an academic field that studies how to motivate people in an organization to achieve a goal through developing management strategies and providing information useful in its execution. I would like to use the knowledge I gained in this field for developing and operating an organization dedicated to provide this new consulting service.

Any company capable of doing things that are obvious as a matter of course will always be strong and resilient under any circumstances and unlikely to make a big mistake. By saying "things that are obvious" here, I don't mean the things that must be done because the company's specific theory requires so, but those that are expected to be done in light of social norms. In other words, companies are expected to conduct their business activities in ways the society deems appropriate. I would like to closely monitor whether this is being done at the Group while serving the Board of Directors and, based on my experience of having observed many companies' management, I will endeavor to revitalize the local economy with the aim of increasing the gross prefectural production.

Risk Management System

The Group aims to enhance the risk management system by positioning it as an important management task from the perspective of the maintenance and improvement of sound corporate management.

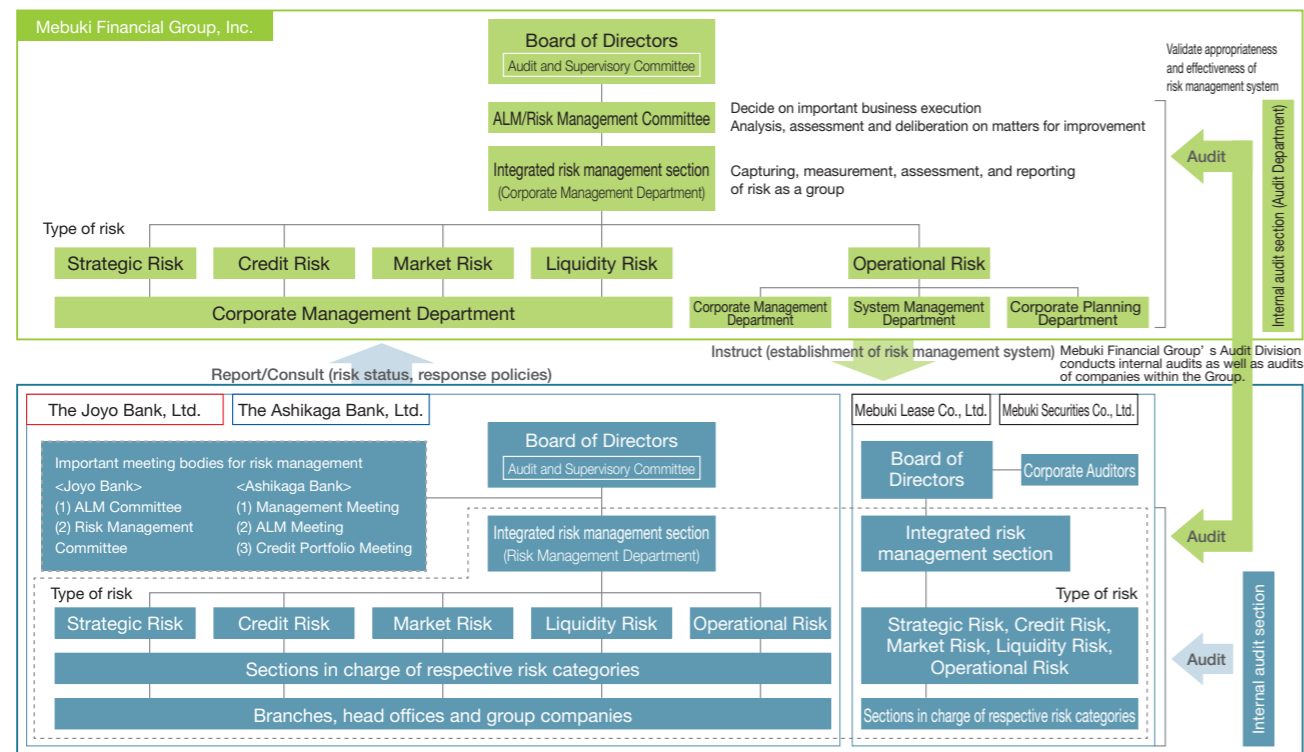
Risk management system

The Group undertakes its risk management based on the Basic Rules on Group Risk Management determined by the Board of Directors of the Company.

In order to perform the matters set forth in the Basic Rules on Group Risk Management, the Company has established the ALM/Risk Management Committee, which makes decisions on important business execution regarding the Group's risk management and performs analysis, assessment and improvement of the matters relevant to the risk management of the overall Group. The said committee ensures corporate management emphasizing the risk and return relationship

through consideration and discussion focused on closer coordination between risk management and profit management while controlling risks appropriately, and facilitates prompt and efficient decision-making by management.

Furthermore, we have organized the integrated risk management section responsible for the supervision and integrated management of various risks, and at the same time, established the framework under which the audit section independent from business execution sections performs internal auditing and validates the appropriateness and effectiveness of the respective risk management status.



(Integrated risk management)

The Group undertakes "integrated risk management" which quantitatively measures various types of risk including credit risk and market risk, using statistical methods, such as VaR (value at risk), in order to individually manage increasingly diversified and complicated types of risk relevant to financial services, and at the same time, to comprehensively capture said risks. We aim at maintaining an appropriate level of our capital reserves by comparing and contrasting the total amount of risk with our financial soundness (our capital reserves).

Specifically, we allocate capital to each type of risk (credit risk, interest rate risk, price fluctuation risk and operational risk) in advance to the extent of our capital reserves and monitor whether the amount of each risk quantified (risk capital used) stays within the extent of allocated capital. Upon the allocation of capital, we secure a risk buffer to cover losses larger than those expected in the statistical methods or risks unable to be captured by the statistical methods. We confirm the sufficiency of our capital reserves, including the capital to cover the aforementioned risks, by performing stress tests by which we capture the impact on our capital reserves under assumed

scenarios such as a sudden economic downturn. Furthermore, we confirm the reasonableness and effectiveness of the statistical methods through back tests in which the risk amount calculated by VaR (value at risk) is compared with actual profit or loss.

(Credit risk management)

Credit risk refers to the risk of incurring losses as a result of customers becoming unable to pay the principal and interest of loans as promised primarily due to the deterioration of their financial conditions.

Recognizing credit risk as a material risk in our business operations, the Group aims to enhance the management system to prevent the emergence of new non-performing loans and to improve asset soundness.

• Credit risk management system

The Group has established the Group Guidelines for Credit Risk Management, which set forth, as our basic policy of credit risk management, the appropriate management of credit risk on individual loans and the management of the credit portfolio focusing on risk diversification.

The section in charge of credit risk management, which is organizationally and functionally independent from the business promotion sections, is responsible for the planning and operational management of the internal credit rating system, self-assessment systems, write-offs and provisions to the reserve for loan losses, as well as for the monitoring of loan assets as the specialized organization for the comprehensive supervision and management of the credit portfolio.

• Management of credit risk on individual loans

We separate the credit-screening sections of companies within the Group from the business promotion sections to ensure strict screening while also focusing on credit management during repayment to prevent the status of a claim from deteriorating.

• Internal credit ratings

We categorize our customers into 12-grade rating levels by adding qualitative assessment to the data on their financial condition and cash flow status. In addition to serving as the basis for self-assessment systems, internal credit ratings are used across the full range of credit risk management, including the capturing of credit risk exposure, the setting of lending rates and the allocation of lending authority.

• Self-assessment systems

Companies within the Group strictly implement self-assessment systems based on common standards and provide appropriate reserves or write down problem loans based on such assessment. In addition, the reasonableness of such assessment is validated and audited by the sections in charge of validation and auditing, respectively, and is also subject to external audits by accounting auditors.

• Quantification of credit risk

The quantification of credit risk refers to the statistical forecasting of future losses (amount of credit risk) that can be expected due to bankruptcies or the deterioration of financial conditions of customers. The Group calculates the amount of credit risk for each customer based on "internal credit ratings" with collateral and other factors taken into account.

• Credit portfolio management

We capture loan assets in their entirety as a single portfolio and conduct credit risk management from a macro perspective. Based on the quantification of credit risk, we carry out periodic monitoring such as whether the credit risk is concentrated in specific sectors or corporate groups, and analysis and evaluation of credit situations by rating and region, or based on composition by industry.

(Market risk management)

Market risk refers to the risk of incurring losses due to changes in the value of financial assets and liabilities of the Group caused by fluctuation in interest rates, foreign exchange rates, and stock prices.

Our subsidiaries are engaged in investment activities based on their understanding of risk supported by sufficient advance research and analysis of market transactions.

For the appropriate control of market risk, we also perform and report to the ALM/Risk Management Committee of the Company held periodically the quantitative management and measurement under the ALM (asset and liability management) framework to take action according to the situation.

(Liquidity risk management)

Liquidity risk refers to the risk of incurring losses primarily due to difficulty in securing necessary funds caused by an unexpected outflow of funds or similar events, or a sharp rise in funding costs.

The Group has established the Group Liquidity Risk Management Rules to set up the framework under which action plans according to respective situations ranging from a normal state to urgent cases are defined to promptly respond thereto.

Specifically, under cash flow management in a normal situation, we manage indicators such as the trend of deposit/loan balances and funding limits in addition to primary indicators

(funding gap and liquid asset balance) to avoid an increase of liquidity risk. Furthermore, we define and perform periodical drills for action plans upon a liquidity crisis to enhance the effectiveness in a crisis.

(Operational risk management)

Operational risk refers to the risk of incurring losses caused by inappropriateness in the Group's business processes, activities of directors and employees or system operations, or by external events. The Group classifies and manages such risk according to the following six categories: administrative risk, system risk, compliance (legal) risk, personnel management risk, tangible asset risk, and reputational risk.

Furthermore, the Group designates the sections responsible for each of the aforementioned six categories, and also has the comprehensive risk management section manage overall operational risk.

• Administrative risk

Administrative risk refers to the risk of incurring losses due to directors, employees or external contractors neglecting precise administration, causing incidents, or committing acts of fraud.

In the Group, the sections responsible for administrative risk and the comprehensive risk management section responsible for operational risk gather information on and analyze the causes of administrative incidents occurring inside or outside the Group to establish or revise administrative rules or enhance the efficiency of administrative processes through the information system based on the results of such analysis. In addition, the Group has the internal audit section validate the effectiveness of the risk management system to establish the framework to detect or prevent administrative incidents.

• System risk

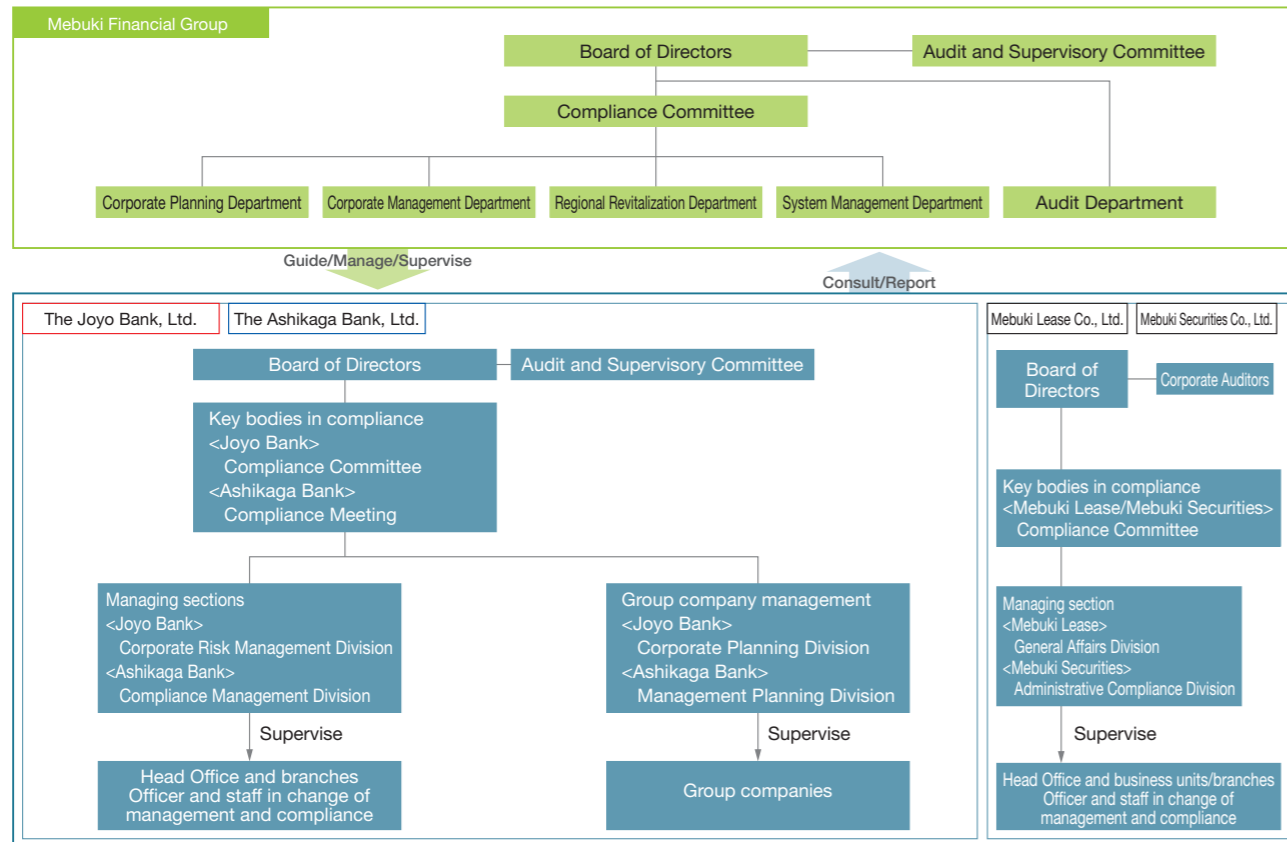
System risk is the risk of incurring losses primarily due to the failure of computer systems, erroneous computer operation, or inappropriate computer use.

The Group has taken necessary measures to ensure the safety and reliability of computer systems including failure response exercises aiming to establish the framework for early recovery from system failure, in addition to sufficient advance testing upon the development or operation of systems, the continuous monitoring of operational status and duplexing facilities.

• Compliance (legal) risk, personnel management risk, tangible asset risk and reputational risk

We also identify and assess risk through methods in line with risk characteristics and take appropriate actions for: compliance (legal) risk, the risk of incurring losses mainly due to an illegal act committed by directors and employees; personnel management risk, the risk of incurring losses mainly due to an act in violation of laws, regulations or agreements relevant to employment, health or safety; tangible asset risk, the risk of incurring losses due to damage to tangible assets caused by disasters or defective management of buildings; and reputational risk, the risk of incurring losses due to the deterioration of credit worthiness mainly attributable to reputational damage caused by inappropriate actions taken by the Group or the circulation of unfounded rumors.

Initiatives for Compliance



The Company has established a management system aimed at group-wide comprehensive management which enables the Group to perform business operations under the appropriate compliance framework. We aim to enhance the compliance framework by positioning compliance as one of the most material management tasks.

Organization and structure

We have established the Basic Rules on Group Compliance as the Group's highest standards for compliance, and thereunder, other relevant rules and regulations systematically.

The Compliance Committee established within the Company is responsible for decisions on compliance-related important business execution of the Company and the Group, and for analysis, assessment and deliberation on matters for improvement relevant to group-wide compliance.

Furthermore, we put compliance into practice through, among other factors, the establishment of the Legal and

Compliance Group of the Corporate Management Department as the managing and supervising section in charge of group-wide compliance, the designation of the officer responsible for the Corporate Management Department, and the assignment of compliance staff at each management organization within the Group. Important matters regarding compliance at directly-owned subsidiaries are consulted on and reported to the Corporate Management Department, which is responsible for the guidance, management and supervision thereof, pursuant to the Rules for Management of Companies within the Group.

Compliance program

The Group establishes a compliance program as the action plan to realize compliance. The companies within the Group establish a program based on the Basic Policy on Group Compliance Program developed annually by the Company.

The status of the compliance program performed by companies within the Group is reported to and validated by the Compliance Committee quarterly, and is also

subject to the annual overall assessment which is reflected in the next year's program.

In addition, the Company established the FY2020 Group's Basic Policy for Anti-Money Laundering, and has decided to build and maintain a risk management system against money laundering and financing of terrorism through a risk-based approach.

Severing connections with antisocial forces

The Group has established the basic policy against antisocial forces to stand firmly against and sever any connections with antisocial forces which threaten the order and safety of civil society and hinder sound economic and social development.

Regarding severing connections with antisocial forces

Mebuki Financial Group, Inc. and its group companies will take the following initiatives to sever all connections with antisocial forces.

1. We will respond to antisocial forces as an organization with a strong recognition of our social responsibility.
2. We will maintain close relationships with the police, the Center for Removal of Criminal Organizations and external expert organizations including lawyers.
3. We will sever all connections with antisocial forces, including any transactions therewith.
4. We will decisively reject any and all unreasonable demands from antisocial forces and take legal action from both civil and criminal perspectives.
5. We will never provide any funding or benefits to antisocial forces.

Our customer protection management system (Measures for Customer Protection)

Our Group has established the "Group Management Policy for Customer Protection" to organize and ensure the appropriate management system for customer protection from the perspective of the protection and improvement of convenience for all existing and future customers of the Group, as well as for facilitating finance.

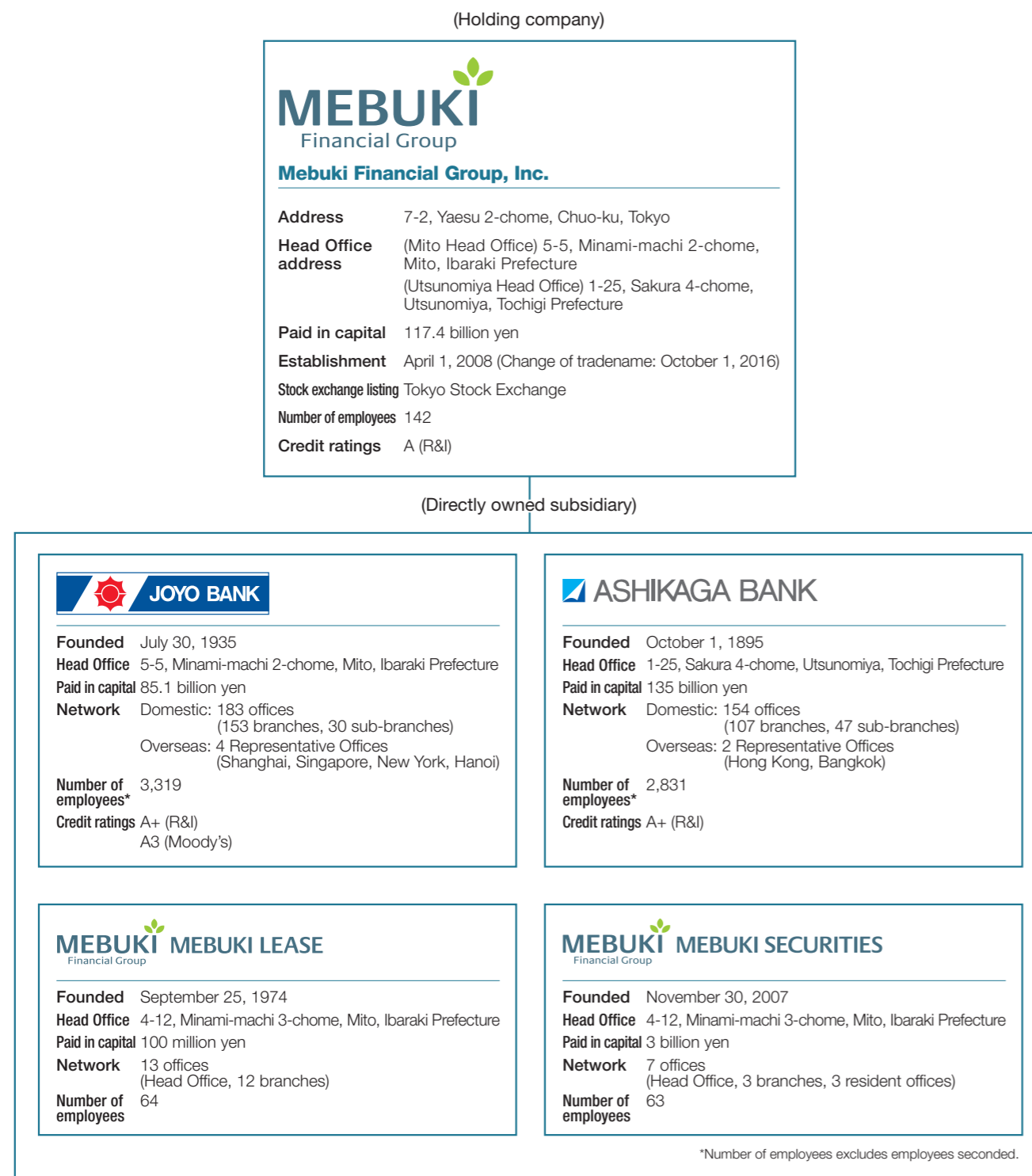
Joyo Bank and Ashikaga Bank have established a supervising section in charge of consultation, complaints and other communication from customers, and have also entered into a basic contract for the implementation of dispute resolution procedures with the Japanese Bankers Association, the designated dispute resolution organization under the Banking Act, and with the Trust Companies Association of Japan, the designated dispute resolution organization under the Trust Business Act and the Act on Engagement in Trust Business by Financial Institutions, to utilize the financial ADR system

for dispute resolution with customers through the involvement of third parties.

The Company has defined the Declaration on Personal Information Protection and various regulations with regard to handling of personal information, individual numbers and specific personal information received from customers ("Personal Information, etc.") and thereby takes proper measures for security control of Personal Information, etc. The Company, Joyo Bank and Ashikaga Bank have also set up customer inquiry windows for consultation and complaints regarding Personal Information, etc. in their custody. In addition, they are members of the All Banks Personal Data Protection Council, an authorized organization for the protection of personal information under the Act on the Protection of Personal Information. The Council also accepts complaints, and provides consultation on the handling of Personal Information, etc.

Group Structure and Corporate Data

Group Structure (as of March 31, 2020)

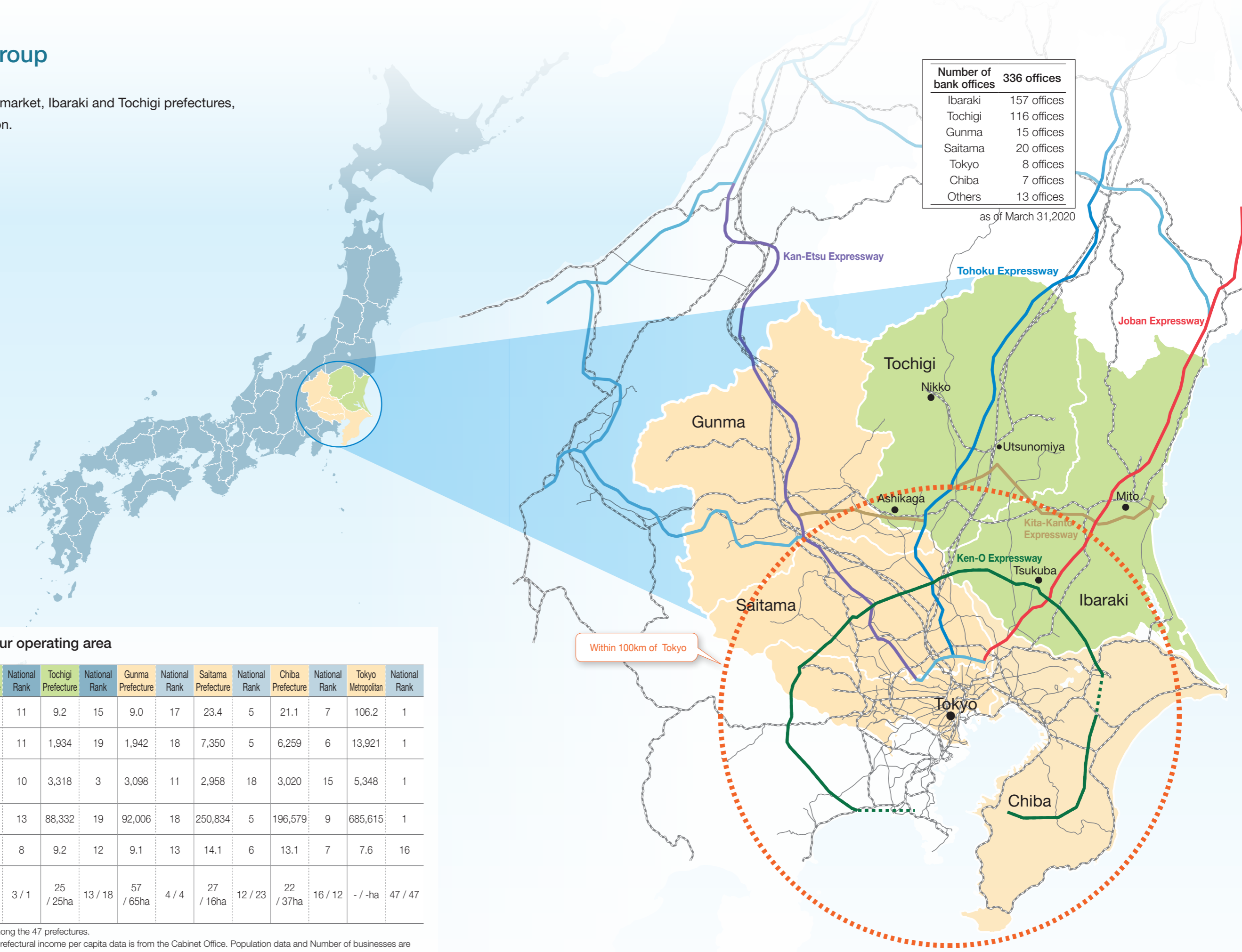


Market of the Group

Impressive share of its core market, Ibaraki and Tochigi prefectures, Near the greater Tokyo region.

Number of bank offices	336 offices
Ibaraki	157 offices
Tochigi	116 offices
Gunma	15 offices
Saitama	20 offices
Tokyo	8 offices
Chiba	7 offices
Others	13 offices

as of March 31, 2020



Economic scale of our operating area

	Ibaraki Prefecture	National Rank	Tochigi Prefecture	National Rank	Gunma Prefecture	National Rank	Saitama Prefecture	National Rank	Chiba Prefecture	National Rank	Tokyo Metropolitan	National Rank
Prefectural gross product (2017) (¥ trillion)	13.8	11	9.2	15	9.0	17	23.4	5	21.1	7	106.2	1
Population (2019) (thousand)	2,860	11	1,934	19	1,942	18	7,350	5	6,259	6	13,921	1
Prefectural income per capita (2016) (¥ thousand)	3,116	10	3,318	3	3,098	11	2,958	18	3,020	15	5,348	1
Number of businesses (2016)	118,031	13	88,332	19	92,006	18	250,834	5	196,579	9	685,615	1
Manufactured goods shipped (2018) (¥ trillion)	13.0	8	9.2	12	9.1	13	14.1	6	13.1	7	7.6	16
New Factory Locations (excluding power supply sector) (2019) (number/area(ha))	65 / 150ha	3 / 1	25 / 25ha	13 / 18	57 / 65ha	4 / 4	27 / 16ha	12 / 23	22 / 37ha	16 / 12	- / -ha	47 / 47

Note: The above ranks are the ranks among the 47 prefectures.

Source: Prefectural gross product and prefectural income per capita data is from the Cabinet Office. Population data and Number of businesses are from the Ministry of Internal Affairs and Communications. Manufactured goods shipped and new factory locations data come from the Ministry of Economy, Trade and Industry.

Mebuki Financial Group's Overseas Business Support Activities

The Group offers various overseas business support services including foreign currency exchange, overseas remittances, loans and standby credit in local currencies, and the provision of information obtained from local partner banks and government agencies.

In addition to six overseas representative offices of the Group (four offices of Joyo Bank and two offices of Ashikaga Bank, as of March 2020), we offer a wide variety of support services through business alliances with local financial institutions and government agencies in Asia and North America.

The Group co-hosted events such as Manufacturers' Business Meeting in Bangkok, Ho Chi Minh and Shanghai, as well as Food Japan 2019 in Singapore.

Shanghai Representative Office, Joyo Bank

Address: Room 1901, Shanghai International Trade Centre, 2201 Yan An Road (West), Shanghai 200336, P. R. China

Phone: +86-21-6209-0258




Hong Kong Representative Office, Ashikaga Bank

Address: Suite 1601, 16th Floor, Tower 2, The Gateway, Harbour City, Kowloon, Hong Kong

Phone: +852-2251-9475




New York Representative Office, Joyo Bank

Address: 712 Fifth Avenue, 8th Floor, New York, NY 10019, U. S. A.

Phone: +1-347-686-8420




Hanoi Representative Office, Joyo Bank

Address: 5th Floor, Sun Red River, 23 Phan Chu Trinh Street, Hoan Kiem District, Hanoi, Vietnam

Phone: +84-24-3218-1668




Bangkok Representative Office, Ashikaga Bank

Address: 689, Bhiraj Tower at EmQuartier, 27th Floor, Room No.2714, Sukhumvit Road, Klongton-nua, Wattana, Bangkok 10110, Thailand

Phone: +66-2-261-2852




Representative Office Registered in Singapore, Joyo Bank

Address: 63 Market Street, #11-03, Bank of Singapore Centre, Singapore 048942

Phone: +65-6225-6543





Major alliance partners	Joyo Bank	Ashikaga Bank	Business overview of alliance partners
● Japan External Trade Organization (JETRO)	●	●	Provision of various types of information concerning overseas business development; provision of information concerning foreign country regulations, etc.
● Japan International Cooperation Agency (JICA)	●	●	Provision of various types of information concerning overseas business development in developing nations; provision of information concerning foreign country regulations
● Japan Bank for International Cooperation (JBIC)	●		Provision of loans to support overseas business development
● Nippon Export and Investment Insurance (NEXI)	●	●	Provision of various types of trade insurance to cover foreign transaction risks in export transactions
● Organization for Small & Medium Enterprises and Regional Innovation, JAPAN		●	Provision of various types of information concerning overseas business development; provision of information concerning foreign country regulations, etc.
● Tokio Marine & Nichido Fire Insurance	●	●	Provision of risk information overseas; provision of risk management consulting services; provision of various types of P&C insurance
● Sompo Japan Nipponkoa Insurance	●	●	
● Mitsui Sumitomo Insurance	●	●	
● SECOM	●		Provision of security system and crime prevention equipment overseas; provision of security services overseas
● Sohgo Security Services	●		

Country/region	Major alliance partners	Joyo Bank	Ashikaga Bank	Business overview of alliance partners
East Asia	● China	●	●	Provision of information regarding China; provision of various financial services including establishment of accounts
	● Taiwan	●		Provision of information regarding Taiwan; provision of various financial services including establishment of accounts
South East Asia/South Asia	● Thailand	●	●	Provision of information regarding Thailand; provision of various financial services including establishment of accounts
	● Indonesia	●	●	Provision of information regarding Indonesia; provision of various financial services including establishment of accounts
South East Asia/South Asia	● Vietnam	●	●	Provision of information regarding Vietnam; provision of various financial services including establishment of accounts
	● Philippines	●		Provision of information regarding Philippines; provision of various financial services including establishment of accounts
	● India	●	●	Provision of information regarding India; provision of various financial services including establishment of accounts
Central America	● Mexico	●	●	Provision of information regarding Mexico; provision of various financial services including establishment of accounts

Consolidated Balance Sheet

March 31, 2020 Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
ASSETS			
Cash and due from banks (Notes 3 and 23).....	¥ 1,935,324	¥ 1,468,877	\$ 17,810,826
Call loans and bills bought (Note 23).....	18,754	10,389	172,602
Monetary claims bought (Note 23).....	11,849	15,152	109,047
Trading assets (Notes 4 and 23).....	15,632	13,799	143,867
Money held in trust (Note 5).....	1	23,175	9
Securities (Notes 4, 10, 11, and 23).....	4,076,146	4,346,628	37,512,850
Loans and bills discounted (Notes 7, 11, 23, and 27).....	11,342,541	11,122,484	104,385,618
Foreign exchanges (Note 7).....	16,150	6,508	148,630
Lease receivables and investments in lease (Note 22).....	67,710	62,653	623,138
Other assets (Notes 11 and 24).....	218,875	205,611	2,014,315
Tangible fixed assets (Note 8).....	109,693	112,518	1,009,513
Intangible fixed assets (Note 9).....	19,316	18,388	177,769
Asset for retirement benefits (Note 14).....	17,814	16,550	163,947
Deferred tax assets (Note 21).....	1,920	1,583	17,675
Customers' liabilities for acceptances and guarantees (Note 10).....	23,029	21,442	211,943
Allowance for loan losses.....	(69,658)	(73,179)	(641,068)
Allowance for investment losses.....	(292)	(9)	(2,692)
TOTAL	¥17,804,808	¥17,372,575	\$163,857,986
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits (Notes 11 and 23).....	¥14,756,658	¥14,373,888	\$135,805,803
Negotiable certificates of deposit (Note 23).....	283,131	282,158	2,605,667
Call money and bills sold (Note 23).....	110,745	191,740	1,019,190
Payables under repurchase agreements (Note 11).....	129,195	120,832	1,188,989
Payables under securities lending transactions (Notes 11 and 23).....	215,548	202,152	1,983,693
Trading liabilities.....	1,770	1,065	16,298
Borrowed money (Notes 11, 12, and 23).....	1,252,801	1,053,077	11,529,554
Foreign exchanges.....	1,941	637	17,866
Bonds (Note 13).....	5,000	5,000	46,015
Bonds with warrants (Note 13).....	—	33,297	—
Due to trust account.....	1,573	566	14,477
Other liabilities.....	115,621	116,512	1,064,068
Provision for bonuses for directors.....	237	284	2,186
Liability for retirement benefits (Note 14).....	8,724	7,429	80,291
Provision for retirement benefits for directors.....	37	57	345
Provision for reimbursement of deposits.....	2,874	3,253	26,453
Provision for contingent losses.....	2,141	1,955	19,711
Provision for point card certificates.....	452	406	4,165
Provision for losses on interest repayments.....	12	16	115
Reserves under special laws.....	2	2	18
Deferred tax liabilities (Note 21).....	1,365	27,241	12,570
Deferred tax liabilities for land revaluation (Note 8).....	8,680	8,823	79,888
Negative goodwill.....	1,027	1,185	9,453
Acceptances and guarantees (Note 10).....	23,029	21,442	211,943
Total liabilities	16,922,573	16,453,028	155,738,758
EQUITY (Notes 15 and 16):			
Common stock.....	117,495	117,495	1,081,314
Capital surplus.....	148,549	148,545	1,367,108
Stock acquisition rights.....	248	233	2,289
Retained earnings.....	547,270	523,792	5,036,539
Treasury stock.....	(5,970)	(2,026)	(54,949)
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities (Note 6).....	69,821	123,042	642,571
Deferred losses on derivatives under hedge accounting (Note 24).....	(1,068)	(267)	(9,837)
Land revaluation surplus (Note 8).....	13,485	13,497	124,110
Defined retirement benefit plans (Note 14).....	(7,597)	(4,765)	(69,916)
Total accumulated other comprehensive income	74,641	131,507	686,927
Total equity	882,235	919,547	8,119,228
TOTAL	¥17,804,808	¥17,372,575	\$163,857,986

See notes to consolidated financial statements.

Consolidated Statement of Income

Year Ended March 31, 2020 Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
INCOME:			
Interest income:			
Interest on loans and discounts.....	¥112,331	¥113,944	\$1,033,788
Interest and dividends on securities.....	52,674	57,377	484,768
Interest on call loans and bills bought.....	113	179	1,044
Interest on deposits with banks.....	682	764	6,278
Other interest income.....	490	482	4,516
Trust fees.....	52	31	481
Fees and commissions.....	53,244	52,905	490,011
Trading income.....	3,840	2,418	35,345
Other operating income.....	7,384	3,751	67,959
Other income (Note 18).....	51,987	56,362	478,439
Total income	282,801	288,217	2,602,628
EXPENSES:			
Interest expenses:			
Interest on deposits.....	5,361	6,030	49,343
Interest on negotiable certificates of deposit.....	68	86	631
Interest on call money and bills sold.....	956	1,364	8,801
Interest on payables under repurchase agreements.....	2,026	298	18,648
Interest on payables under securities lending transactions.....	1,364	2,422	12,553
Interest on borrowing and rediscounts.....	2,213	2,284	20,367
Interest on bonds.....	132	132	1,218
Other interest expenses.....	4,325	3,886	39,808
Fees and commissions.....	14,719	14,078	135,461
Other operating expenses.....	7,178	11,766	66,062
General and administrative expenses (Note 19).....	119,630	119,636	1,100,965
Provision of allowance for loan losses.....	9,555	2,771	87,940
Other expenses (Note 20).....	63,696	57,042	586,196
Total expenses	231,227	221,799	2,127,993
INCOME BEFORE INCOME TAXES	51,573	66,418	474,635
INCOME TAXES (Note 21)			
Current.....	17,264	21,683	158,889
Deferred.....	(2,061)	(1,603)	(18,972)
Total income taxes	15,203	20,079	139,916
NET INCOME	36,370	46,338	334,719
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 36,370	¥ 46,338	\$ 334,719

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 17):		
Basic EPS.....	¥31.14	¥39.47
Diluted EPS.....	31.12	39.45
Cash dividends applicable to the year (Note 15).....	11.00	11.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2020 Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 36,370	¥46,338	\$ 334,719
OTHER COMPREHENSIVE INCOME (LOSS) (Note 25):			
Unrealized (losses) gains on available-for-sale securities.....	(53,220)	2,314	(489,790)
Deferred losses on derivatives under hedge accounting.....	(801)	(211)	(7,378)
Land revaluation surplus.....	0	2	2
Defined retirement benefit plans.....	(2,831)	(2,109)	(26,059)
Total other comprehensive loss.....	(56,853)	(3)	(523,225)
COMPREHENSIVE INCOME (LOSS)	¥(20,483)	¥46,335	\$ (188,506)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent.....	¥(20,483)	¥46,335	\$ (188,506)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year Ended March 31, 2020 Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen										
	Common Stock (Note 14)	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Total Equity
						Unrealized Gains on Available-for-Sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Land Revaluation Surplus	Defined Retirement Benefit Plans	Total	
BALANCE, APRIL 1, 2018	¥117,495	¥148,541	¥216	¥489,697	¥ (8)	¥120,727	¥ (56)	¥14,182	¥(2,656)	¥132,197	¥888,139
Cash dividends				(12,930)							(12,930)
Net income attributable to owners of the parent				46,338							46,338
Purchase of treasury stock					(2,090)						(2,090)
Disposal of treasury stock		3			72						76
Reversal of land revaluation surplus				687							687
Net changes during the fiscal year			16			2,314	(211)	(685)	(2,109)	(690)	(674)
Total changes during the fiscal year		3	16	34,095	(2,017)	2,314	(211)	(685)	(2,109)	(690)	31,407
BALANCE, MARCH 31, 2019	¥117,495	¥148,545	¥233	¥523,792	¥(2,026)	¥123,042	¥(267)	¥13,497	¥(4,765)	¥131,507	¥919,547

	Millions of Yen										
	Common Stock (Note 14)	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Total Equity
						Unrealized Gains (Losses) on Available-for-Sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Land Revaluation Surplus	Defined Retirement Benefit Plans	Total	
BALANCE, APRIL 1, 2019	¥117,495	¥148,545	¥233	¥523,792	¥(2,026)	¥123,042	¥ (267)	¥13,497	¥(4,765)	¥131,507	¥919,547
Cash dividends				(12,904)							(12,904)
Net income attributable to owners of the parent				36,370							36,370
Purchase of treasury stock					(4,000)						(4,000)
Disposal of treasury stock		4			56						60
Reversal of land revaluation surplus				11							11
Net changes during the fiscal year		4	15	23,477	(3,944)	(53,220)	(801)	(11)	(2,831)	(56,865)	(56,849)
Total changes during the fiscal year		4	15	23,477	(3,944)	(53,220)	(801)	(11)	(2,831)	(56,865)	(37,311)
BALANCE, MARCH 31, 2020	¥117,495	¥148,549	¥248	¥547,270	¥(5,970)	¥ 69,821	¥(1,068)	¥13,485	¥(7,597)	¥ 74,641	¥882,235

	Thousands of U.S. Dollars										
	Common Stock (Note 14)	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Total Equity
						Unrealized Gains on Available-for-Sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Land Revaluation Surplus	Defined Retirement Benefit Plans	Total	
BALANCE, APRIL 1, 2019	\$1,081,314	\$1,367,065	\$2,144	\$4,820,474	\$(18,648)	\$1,132,361	\$(2,460)	\$124,218	\$(43,857)	\$1,210,262	\$8,462,611
Cash dividends				(118,763)							(118,763)
Net income attributable to owners of the parent				334,719							334,719
Purchase of treasury stock					(36,818)						(36,818)
Disposal of treasury stock		43			518						560
Reversal of land revaluation surplus				110							110
Net changes during the fiscal year		43	144	216,065	(36,300)	(489,790)	(7,378)	(108)	(26,059)	(523,335)	(523,190)
Total changes during the fiscal year		43	144	216,065	(36,300)	(489,790)	(7,378)	(108)	(26,059)	(523,335)	(343,383)
BALANCE, MARCH 31, 2020	\$1,081,314	\$1,367,108	\$2,289	\$5,036,539	\$(54,949)	\$ 642,571	\$(9,837)	\$124,110	\$(69,916)	\$ 686,927	\$8,119,228

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended March 31, 2020 Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	
	OPERATING ACTIVITIES:		
Income before income taxes	¥ 51,573	¥ 66,418	\$ 474,635
Adjustments for:			
Income taxes paid	(16,197)	(22,828)	(149,069)
Depreciation and amortization	8,608	8,762	79,226
Impairment loss	1,112	2,747	10,234
Amortization of negative goodwill	(158)	(158)	(1,454)
Increase (decrease) in allowance for loan losses	(3,521)	(6,144)	(32,406)
Increase in allowance for investment loss	283	—	2,610
Increase (decrease) in provision for bonuses for directors	(46)	154	(431)
Increase in asset for retirement benefits	(2,596)	(3,849)	(23,896)
Decrease in liability for retirement benefits	(1,821)	(234)	(16,760)
Increase (decrease) in provision for retirement benefits for directors	(20)	(5)	(188)
Increase (decrease) in provision for reimbursement of deposits	(379)	(528)	(3,490)
Increase in provision for contingent losses	186	352	1,717
Increase in provision for point card certificates	45	112	419
Increase (decrease) in provision for interest repayments	(4)	3	(39)
Gain on fund management	(166,292)	(172,748)	(1,530,394)
Financing expenses	16,447	16,504	151,369
Losses related to securities	7,929	10,471	72,976
Foreign exchange losses (gains)	7,598	(8,097)	69,925
Losses on disposal of fixed assets	493	368	4,542
Net increase in trading assets	(1,833)	(1,259)	(16,873)
Net increase in trading liabilities	705	560	6,490
Net increase in loans and bills discounted	(220,057)	(624,507)	(2,025,190)
Net increase in deposits	382,769	395,975	3,522,638
Net increase in negotiable certificates of deposit	973	9,518	8,959
Net increase in borrowed money (excluding subordinated borrowings)	199,723	215,221	1,838,061
Net decrease (increase) in due from banks (excluding cash equivalents)	15,583	(19,082)	143,417
Net decrease (increase) in call loans	(5,061)	4,482	(46,579)
Net increase (decrease) in call money	(72,632)	(148,800)	(668,435)
Net increase (decrease) in payables under securities lending transactions	13,395	44,003	123,278
Net decrease (increase) in foreign exchanges - assets	(9,641)	(92)	(88,728)
Net decrease (increase) in foreign exchanges - liabilities	1,304	(71)	12,002
Net increase in lease receivables and investments in lease	(5,056)	(6,032)	(46,538)
Net increase (decrease) in due to trust account	1,006	554	9,264
Proceeds from fund management	168,513	171,997	1,550,831
Payments for finance	(17,285)	(16,381)	(159,082)
Other-net	456	88,699	4,198
Total adjustments	304,531	(60,330)	2,802,606
Net cash provided by operating activities	¥ 356,104	¥ 6,087	\$ 3,277,240

Notes to Consolidated Financial Statements

Year Ended March 31, 2020 Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
INVESTING ACTIVITIES:			
Purchases of securities	¥ (815,535)	¥(1,371,972)	\$ (7,505,393)
Proceeds from sales of securities	483,205	822,176	4,446,946
Proceeds from redemption of securities	493,125	374,002	4,538,239
Increase in money held in trust	—	(23,175)	—
Decrease in money held in trust	23,174	—	213,271
Purchases of tangible fixed assets	(3,519)	(5,730)	(32,388)
Proceeds from sales of tangible fixed assets	160	259	1,481
Purchases of intangible fixed assets	(4,365)	(7,086)	(40,173)
Other-net	(151)	11	(1,395)
Net cash provided by (used in) investing activities	176,093	(211,514)	1,620,587
FINANCING ACTIVITIES:			
Repayments of subordinated borrowings	—	(40,000)	(306,433)
Redemption of bonds with warrants attached	(33,297)	—	(36,818)
Purchase of treasury stocks	(4,000)	(2,090)	(36,818)
Proceeds from sales of treasury stocks	55	75	514
Cash dividends paid	(12,904)	(12,930)	(118,763)
Net cash used in financing activities	(50,146)	(54,944)	(461,500)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(19)	1,432	(180)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	482,031	(258,939)	4,436,148
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,434,627	1,693,567	13,202,907
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	¥1,916,659	¥ 1,434,627	\$17,639,056

NONCASH INVESTING AND FINANCING ACTIVITY:

Not applicable.

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of Mebuki Financial Group, Inc. (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, in accordance with the Enforcement Regulation for the Banking Act, 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company 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 ¥108.66 to \$1, the approximate rate of exchange at March 31, 2020. 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, 2020, include the accounts of the Company and its 13 significant subsidiaries.

Joyo Cash Service, Inc. was excluded from the scope of consolidation due to dissolution on March 31, 2019 and completion of liquidation on August 9, 2019.

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

All consolidated subsidiaries have a fiscal year ending on March 31, which is the same as the fiscal year of the Company.

The consolidated financial statements as of March 31, 2020, do not include the accounts of four subsidiaries because the total assets, total income, net income, retained earnings, and accumulated other comprehensive income of those entities would not have had a material effect on the consolidated financial statements.

Investments in unconsolidated subsidiaries and associated companies were stated at cost. 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.

The consolidated financial statements as of March 31, 2020, do not apply to the equity method of accounting of four unconsolidated subsidiaries and six associated companies because the net income, retained earnings, and accumulated other comprehensive income of those entities would not have had a material effect on the consolidated financial statements.

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

Negative goodwill represents the difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition. Negative goodwill incurred before March 31, 2010, is amortized using the straight-line method over 20 years.

b. Business Combinations — Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. Trading Assets and Trading Liabilities — Transactions for "trading purposes" (seeking to capture gains arising from short-term changes in interest rates, currency exchange rates, market prices of securities, and other market-related indices or from arbitrage between markets) are valued at market or fair value, and have been included in trading assets and trading liabilities on a trade-date basis. Gains or losses on such trading transactions are reflected as trading income or trading expenses in the consolidated statement of income.

Among the trading assets and liabilities, securities and monetary claims are carried at market value as of the consolidated balance sheet date. Derivatives, including swaps, futures, and options are valued assuming settlement on the consolidated balance sheet date.

Trading income or trading expenses include interest received or paid during the fiscal year. The year-on-year valuation differences of securities and monetary claims are also recorded in the above-mentioned accounts. As for the derivatives, assuming that the settlement will be made in cash, the year-on-year valuation differences are also recorded in the above-mentioned accounts.

d. Securities — Securities are classified and accounted for, depending on management's intent, as follows:

- (1) 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 using the straight-line method.
- (2) Investments in unconsolidated subsidiaries that are not accounted for by the equity method are stated at cost determined by the moving-average method.
- (3) 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. Securities whose fair values cannot be reliably determined are stated at cost determined by the moving-average cost method.

For other-than-temporary declines in fair value, securities are reduced to net realizable value by a charge to income.

e. Tangible Fixed Assets — Tangible fixed assets (except for leased assets) are stated at cost, less accumulated depreciation. Depreciation of tangible fixed assets owned by the consolidated banking subsidiaries is computed by the straight-line method.

The range of useful lives is from 3 to 50 years for buildings and from 3 to 20 years for other tangible fixed assets.

Depreciation of tangible fixed assets owned by other subsidiaries is mainly computed by the declining-balance method in estimated useful lives.

Depreciation of leased assets from finance lease transactions that do not deem to transfer ownership of the leased property to the lessee is computed using the straight-line method over the respective lease periods. The residual value of leased assets is determined using the guaranteed residual value indicated on the lease contracts where provided; otherwise, they have a nil residual value.

f. Intangible Fixed Assets — Amortization of intangible fixed assets is computed by the straight-line method. The cost of computer software obtained for internal use is amortized principally using the straight-line method over the estimated useful lives of mainly five years.

g. 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 is 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.

h. Allowance for Loan Losses — The consolidated banking subsidiaries have provided an allowance for loan losses, which is determined based on management's judgment and assessment of future losses based on their self-assessment systems. These systems reflect past experience of credit losses; possible credit losses; business and economic conditions; the character, quality, and performance of the portfolio; value of collateral or guarantees; and other pertinent indicators.

The consolidated banking subsidiaries have implemented self-assessment systems to determine their asset quality. The quality of all loans is assessed by the branches and the related head office divisions, with a subsequent audit by the Internal Audit division, which is independent from these divisions in accordance with the consolidated banking subsidiaries' policy and guidelines for the self-assessment of asset quality.

The consolidated banking subsidiaries have established credit rating systems, under which their customers are classified into five categories. The credit rating systems are used in the self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes: "normal," "in need of caution," "possible bankruptcy," "virtual bankruptcy," and "legal bankruptcy."

For claims on borrowers that have entered into bankruptcy, special liquidation proceedings, or similar legal proceedings ("legal bankruptcy"), or borrowers that are not legally or formally insolvent, but are regarded as substantially in the same situation ("virtual bankruptcy"), an allowance is provided based on the amount of claims, after the write-offs as stated below, net of the expected amount of recoveries from collateral and guarantees.

For claims on borrowers that are not currently bankrupt, but are likely to become bankrupt in the future ("possible bankruptcy"), an allowance is provided in the amount deemed necessary based on an overall solvency assessment of the claims, net of the expected amount of recoveries from collateral and guarantees.

For claims on borrowers whose loans are classified as "restructured loans" over a certain amount, for which future cash flows from the collection of principal and interest are reasonably estimated, an allowance is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rate and the carrying value of the claims based on the discounted cash flow method.

For claims other than abovementioned, an allowance is provided mainly for the expected loan losses for the next one to three years. Expected loan losses are computed by using the loan loss ratios derived from the average of historical loan loss ratio of the past one to three years. Where necessary, the expected loan losses are modified for possible future scenarios.

For collateralized or guaranteed claims of borrowers who are in "virtual bankruptcy" or "legal bankruptcy," the amount exceeding the estimated value of collateral or guarantees has been deducted as deemed uncollectible directly from those claims. As of March 31, 2020 and 2019, the deducted amounts were ¥34,329 million (\$315,935 thousand) and ¥25,870 million, respectively.

Other consolidated subsidiaries determine allowances for loan losses that are provided for general claims at an amount based on the actual historical rate of loan losses and for specific claims (from potentially bankrupt customers, etc.) at an estimate of the amounts deemed uncollectible based on the respective assessments.

i. Allowance for Investment Losses — Allowance for investment losses is provided at the amount deemed necessary to cover estimated possible losses on certain type of non-marketable investments.

j. Provision for Bonuses for Directors — Provision for bonuses for directors (including executive officers) is provided in the amount of the estimated bonuses that are attributable to each fiscal year.

k. Retirement Benefits for Employees — The Group accounts for the liability for retirement benefits based on the projected benefit obligations and the fair value of plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs 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 from the next year of incurrence and the year of incurrence, respectively, by the straight-line method over a period (mainly 10 years) no longer than the expected average remaining service period of the employees.

l. Provision for Retirement Benefits for Directors — Provision for retirement benefits for directors, which is provided for payments of retirement benefits to directors, is recorded in the amount deemed accrued at the fiscal year end date based on the estimated amount of benefits.

m. Provision for Reimbursement of Deposits — Provision for reimbursement of deposits, which were derecognized as liabilities under certain conditions, is provided for possible losses on future claims and is calculated based on the historical reimbursement experience.

n. Provision for Contingent Losses — Provision for contingent losses is provided for possible loan losses guaranteed by the credit guarantee corporations in an amount deemed necessary based on estimated losses in the future, calculated using historical default rates after exclusion of contingent losses covered by other reserves.

o. Provision for Point Card Certificates — Provision for point card certificates, which is provided for the future use of points granted to customers under credit card points program, is calculated by converting the outstanding points into a monetary amount and rationally estimating and recognizing the amount that will be redeemed in the future.

p. Provision for Losses on Interest Repayments — Certain consolidated subsidiaries provide a provision for losses on interest repayments in an amount deemed necessary based on estimated amounts to be repaid, taking into account historical records of interest repayments on the portion of loans whose interest rates exceeded the maximum interest rate stipulated by the Interest Limitation Law.

q. Reserves under Special Laws — Reserves under special laws is provided for contingent liabilities incurred by an accident in relation to the sales and purchase or other transactions of securities which is amounted to ¥2 million (\$18 thousand) and ¥2 million as of March 31, 2020 and 2019, pursuant to Article 46-5-1 of the Financial Instruments and Exchange Act and Article 175 of the related cabinet order.

r. Stock Options — Compensation expense for employee stock options which were granted on and after May 1, 2006, is recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with the Accounting Standards Board of Japan ("ASBJ") Statement No. 8, "Accounting Standard for Stock Options." Stock options granted to nonemployees are accounted for 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 accounting standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

s. Stock Issuance Costs — Stock issuance costs are charged to income as incurred.

t. Leases — As a lessor, finance leases that are not deemed to transfer ownership of the leased property to the lessee are recognized as investments in lease.

Income and expenses are recognized when lease receivables are collected as for finance lease transactions that do not transfer ownership of the property.

As for finance lease transactions that do not transfer ownership of the leased property and which commenced prior to April 1, 2008, in line with the stipulations of Article 81 of the Guidance on Accounting Standard for Lease Transactions the ASBJ Guidance No. 16, March 25, 2011), book value (after deduction of accumulated depreciation) of lease assets included in tangible fixed assets and intangible assets as of the previous consolidated balance sheet date (March 31, 2008) was recorded as the initial balance of "Lease receivables and investments in lease."

u. 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.

The Group files a tax return under the consolidated taxation system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly-owned subsidiaries.

v. Translation of Foreign Currencies — Assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing as of the consolidated balance sheet date.

w. Derivatives and Hedging Activities — Derivative financial instruments are classified and accounted for as follows: (a) all derivatives, except those entered into for hedging purposes, are recognized as either assets or liabilities and measured at fair value, with gains or losses on derivative transactions recognized in the consolidated statement of income, or (b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives are deferred until maturity of the hedged transactions (deferral hedge accounting).

The consolidated banking subsidiaries apply deferral hedge accounting based on the rules of the Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 24, "Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry," for interest rate derivatives to manage interest rate risk from various financial assets and liabilities, as a whole. Under these rules, the effectiveness of a fair value hedge is assessed by an identified group of hedge deposits, loans, and similar instruments and by a corresponding group of hedging instruments, such as interest rate swaps in the same maturity category. Also, under these rules, the effectiveness of cash flow hedges is assessed based on the correlation between a base interest rate index of the hedged cash flow and that of the hedging instrument.

The consolidated banking subsidiaries apply deferral hedge accounting based on the rules of the JICPA Industry Audit Committee Report No. 25, "Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry," to currency swaps and funding swaps used for the purpose of currency exchange. Under the 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 foreign exchange swaps, as hedging instruments. Effectiveness of derivative transactions, such as currency swap transactions and foreign exchange swap transactions, is reviewed by comparing the total foreign currency position of the hedged items and the hedging instrument by currency.

One consolidated banking subsidiary applies individual deferral hedge accounting to offset the price fluctuation of the strategic shares that are classified under available-for-sale securities, using stock forward contracts as hedged items. The hedge effectiveness of derivative transactions is reviewed by comparing the changes in value of the hedged item and hedging instruments.

The consolidated banking subsidiaries apply individual deferral hedge accounting and exceptional accrual method for interest rate swap to some assets and liabilities.

x. Cash and Cash Equivalents — Cash and cash equivalents in the consolidated statements of cash flows represent cash and due from banks in the consolidated balance sheets, excluding deposits with banks other than the Bank of Japan, of the consolidated banking subsidiaries and exclude the time deposits of the Company and the other consolidated subsidiaries.

y. Consumption Taxes — Consumption tax is excluded from transactions reported by the Group. However, noneductible consumption tax on tangible fixed assets is charged to income as incurred.

z. Per Share Information — Basic net income per share (EPS) of common stocks is computed by dividing net income attributable to common shareholders by the weighted-average number of shares of common stock 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 year.

New Accounting Pronouncements

Accounting Standards for Fair Value Measurement

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No.10 (revised 2019), July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Statement No.19 (2019 revised), March 31, 2020)

(i) Overview

To improve the comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value" (together, Accounting Standards for Fair Value Measurement) were developed and provide the guidance on fair value measurement. The accounting standards for fair value measurement to be applied to the fair value of the followings.

- Financial instruments under "Accounting Standard for Financial Instruments"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised and guidance for the breakdown by level of the fair value hierarchy of financial instruments has been introduced.

(ii) Scheduled date of application

The Group will apply these accounting standards from the beginning of the fiscal year ending March 31, 2022.

(iii) Effects of application

The effect of applying these accounting standards is currently being examined.

Accounting Standard for Disclosure of Accounting Estimates

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(i) Overview

The International Accounting Standards Board ("IASB") issued the "International Accounting Standards (IASs)" 1, "Presentation of Financial Statements" in 2003, and the paragraph 125 of this accounting standard requires a disclosure of key sources of estimation uncertainty. As these information is required for the convenience of users of financial statements in Japan, the ASBJ has issued "Accounting Standard for Disclosure of Accounting Estimates."

The accounting standard was developed by referring to the paragraph 125 of "Presentation of Financial Statements." It provides that the item, the nature and the extent of the information to be disclosed should be decided by management, with due consideration given to the objective of the disclosure while Management should also present the principal (objective) of the disclosure.

(ii) Scheduled date of application

The Group will apply this accounting standard from the end of the fiscal year ending March 31, 2021.

Additional Information

Application of Tax Effect Accounting on Transition from the Consolidated Taxation System to the Group Tax Sharing System

Pursuant to the transitional treatment of the paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020), which is prescribed after the institution of the "Act on Partial Revision of the Income Tax Act" (Act No.8 of 2020) which is the law revising the nonconsolidated tax system, the Group records the amounts of deferred tax assets and deferred tax liabilities on the related items in accordance with the provisions of the previous tax law, not applying 44 of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018).

Impact of the spread of COVID-19 on financial condition

The Group considers that the spread of COVID-19 will settle down in the first half of the fiscal year ending March 31, 2021 and economic activities will gradually resume. However, the Group also assumes that certain impacts on the business will remain, such as declining sales to customers and, in particular, a heightened credit risks on the Group's loans.

Given these assumptions, the Group has provided for future loan losses by reflecting the current worsening business performance of certain borrowers expected to be affected by the COVID-19 on the borrowers' credit category.

However, these assumptions carry uncertainty, and the business performance of the Group may differ from what the Group currently anticipates depending on the situation of the spread of COVID-19 and the associated economic fallout.

3. CASH AND CASH EQUIVALENTS

The reconciliation of "Cash and cash equivalents" in the consolidated statements of cash flows and "Cash and due from banks" in the consolidated balance sheets as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash and due from banks.....	¥1,935,324	¥1,468,877	\$17,810,826
Deposits with banks of the consolidated banking subsidiaries other than the Bank of Japan.....	(18,664)	(34,249)	(171,771)
Cash and cash equivalents	¥1,916,659	¥1,434,627	\$17,639,056

4. TRADING SECURITIES AND SECURITIES

The amounts shown in the following tables include "Securities," trading securities in "Trading assets," and trust beneficiary right in "Monetary claims bought", as described in the consolidated balance sheet.

Valuation differences recognized as income and expenses as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Trading securities.....	¥(14)	¥15	\$(130)

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Japanese national government bonds	¥ 585,117	¥ 708,237	\$ 5,384,851
Japanese local government bonds	944,224	939,276	8,689,712
Japanese corporate bonds.....	830,102	789,381	7,639,445
Japanese corporate stocks	230,183	284,579	2,118,386
Other securities	1,486,518	1,625,152	13,680,455
Total	¥4,076,146	¥4,346,628	\$37,512,850

The cost and aggregate fair value of available-for-sale securities and held-to-maturity securities as of March 31, 2020 and 2019, were as follows:

March 31, 2020	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:	¥3,783,049	¥163,035	¥63,862	¥3,882,222
Equity securities.....	139,131	99,299	12,372	226,057
Debt securities:	2,185,373	12,019	2,799	2,194,593
Japanese national government bonds	504,654	3,921	1,328	507,246
Japanese local government bonds	940,366	3,616	258	943,724
Japanese corporate bonds.....	740,353	4,481	1,212	743,622
Others:	1,458,544	51,717	48,690	1,461,571
Foreign bonds	807,357	32,639	8,304	831,693
Others.....	651,186	19,077	40,386	629,878
Held-to-maturity:	164,851	1,251	73	166,028
Japanese national government bonds.....	77,871	240	—	78,111
Japanese local government bonds.....	499	0	0	499
Japanese corporate bonds	86,479	1,011	73	87,417

March 31, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:	¥3,979,199	¥213,014	¥38,037	¥4,154,177
Equity securities.....	143,988	141,744	5,514	280,218
Debt securities:	2,246,502	21,321	217	2,267,607
Japanese national government bonds	614,856	7,552	85	622,322
Japanese local government bonds	933,329	5,478	31	938,776
Japanese corporate bonds.....	698,316	8,291	100	706,507
Others:	1,588,708	49,948	32,305	1,606,351
Foreign bonds	819,268	16,280	5,890	829,657
Others.....	769,440	33,667	26,415	776,693
Held-to-maturity:	169,288	1,658	44	170,902
Japanese national government bonds.....	85,914	610	—	86,524
Japanese local government bonds.....	500	0	—	500
Japanese corporate bonds	82,874	1,047	44	83,877

March 31, 2020	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:	\$34,815,476	\$1,500,419	\$587,728	\$35,728,167
Equity securities.....	1,280,427	913,851	113,862	2,080,415
Debt securities:	20,112,035	110,613	25,767	20,196,881
Japanese national government bonds	4,644,341	36,087	12,230	4,668,198
Japanese local government bonds	8,654,211	33,281	2,382	8,685,111
Japanese corporate bonds.....	6,813,483	41,244	11,155	6,843,572
Others:	13,423,014	475,955	448,099	13,450,871
Foreign bonds	7,430,130	300,382	76,425	7,654,087
Others.....	5,992,884	175,573	371,673	5,796,784
Held-to-maturity:	1,517,127	11,518	681	1,527,965
Japanese national government bonds.....	716,653	2,209	—	718,862
Japanese local government bonds.....	4,601	0	2	4,600
Japanese corporate bonds	795,873	9,309	679	804,503

Information for available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, is as follows:

March 31, 2020	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 20,482	¥ 9,799	¥ 1,215
Debt securities:	107,668	268	851
Japanese national government bonds....	50,815	230	797
Japanese local government bonds	56,180	35	53
Japanese corporate bonds.....	672	3	—
Others:	302,089	11,952	21,109
Foreign bonds.....	82,318	2,821	0
Others.....	219,770	9,131	21,109
Total	¥430,240	¥22,021	¥23,176

March 31, 2019	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 12,215	¥ 5,852	¥ 3
Debt securities:	243,200	435	711
Japanese national government bonds....	177,798	345	644
Japanese local government bonds	50,338	66	60
Japanese corporate bonds.....	15,063	22	6
Others	495,026	19,029	25,908
Foreign bonds.....	221,295	205	6,168
Others.....	273,730	18,823	19,739
Total	¥750,442	¥25,317	¥26,623

March 31, 2020	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$ 188,497	\$ 90,189	\$ 11,186
Debt securities:	990,877	2,474	7,838
Japanese national government bonds....	467,659	2,117	7,344
Japanese local government bonds	517,028	329	494
Japanese corporate bonds.....	6,190	28	—
Others:	2,780,137	110,000	194,273
Foreign bonds.....	757,582	25,963	2
Others.....	2,022,555	84,037	194,271
Total	\$3,959,511	\$202,664	\$213,296

Marketable available-for-sale securities, whose fair value significantly declined in comparison with the acquisition cost and whose fair value is not considered likely to recover to their acquisition cost, are written down and recognized as impairment losses.

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2020 and 2019, were ¥1,573 million (\$14,485 thousand) and ¥273 million, respectively.

Pursuant to "Practical Guidelines for Accounting for Financial Instruments" (JICPA Accounting Committee Report No. 14, April 14, 2015), the criteria for determining whether the fair value is "significantly declined" defined that securities whose fair value has declined by 30% or more of the acquisition cost are deemed to be impaired.

As of March 31, 2020 and 2019, securities included equity investments in unconsolidated subsidiaries and associated companies of ¥9 million (\$85 thousand) and ¥9 million and capital subscriptions of ¥3,070 million (\$28,261 thousand) and ¥3,018 million, respectively.

5. MONEY HELD IN TRUST

Money held in trust for trading purposes as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Amounts recorded in the consolidated balance sheets	¥1	¥23,175	\$9
Valuation gain (loss) included in the consolidated statements of income....	—	—	—

6. UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES

Unrealized gains on available-for-sale securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gains:	¥99,391	¥175,255	\$914,699
Available-for-sale securities	99,391	175,255	914,699
Money held in trust, except for trading and held-to-maturity purpose.....	—	—	—
Deferred tax liabilities:	29,569	52,212	272,128
Unrealized gains on available-for-sale securities before adjustments by ownership share.....	69,821	123,042	642,571
Noncontrolling interests.....	—	—	—
Company's ownership share in unrealized gains on available-for-sale securities held by affiliates accounted for using the equity method.....	—	—	—
Unrealized gains on available-for-sale securities.....	¥69,821	¥123,042	\$642,571

As of March 31, 2020 and 2019, the total unrealized gains include an unrealized gain of ¥218 million (\$2,008 thousand) and ¥277 million, respectively, on available-for-sale-securities contained in certain fund.

7. LOANS AND BILLS DISCOUNTED

The following loans were included in loans and bills discounted as of March 31, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans to borrowers in legal bankruptcy	¥ 2,279	¥ 3,505	\$ 20,974
Past due loans	138,147	136,152	1,271,375
Loans past due for three months or more.....	391	178	3,607
Restructured loans.....	27,586	32,117	253,878
Total	¥168,405	¥171,953	\$1,549,835

The amounts above are stated before the deduction of the allowance for loan losses.

"Loans to borrowers in legal bankruptcy" are nonaccrual loans, which are highly probable to become unrecoverable. Specific conditions for inclusion in this category are as follows:

(i) Borrowers have made application for procedures under the Corporate Reorganization Act, Civil Rehabilitation Act, Bankruptcy Act, liquidation under the Companies Act of Japan (the "Companies Act"), or liquidation under other legal provisions.

(ii) Clearance of promissory notes or bills issued by the borrower is suspended.

"Past due loans" are loans on which accrued interest income is not recognized, excluding "loans to borrowers in legal bankruptcy" and loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

"Loans past due for three months or more" include accruing loans for which principal or interest is past due three months or more.

"Restructured loans" are loans to borrowers in financial difficulty to whom the Group has provided financial support through modification of the lending terms to be more favorable to the borrower, including reduction of interest rates, suspension of repayment of principal and interest, and debt forgiveness.

Contracts of overdraft facilities and loan commitment limits are contracts under which the consolidated banking subsidiaries and certain consolidated subsidiaries lend to customers up to the prescribed limits in response to customer applications for loans as long as there is no violation of any condition in the contracts. As of March 31, 2020 and 2019, the amounts of unused commitments were ¥2,900,178 million (\$26,690,394 thousand) and ¥3,052,722 million, respectively. As of March 31, 2020 and 2019, the amounts of unused commitments whose remaining contract terms were within one year were ¥1,983,104 million (\$18,250,545 thousand) and ¥2,139,690 million, respectively.

As many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions whereby the consolidated banking subsidiaries and certain consolidated subsidiaries can refuse customer applications for loans or decrease the contract limits for certain reason (e.g., changes in financial situation and deterioration in customers' creditworthiness). At the inception of the contracts, the consolidated banking subsidiaries and certain consolidated subsidiaries obtain real estate, securities, or other assets as collateral if considered to be necessary. Subsequently, the consolidated banking subsidiaries and certain consolidated subsidiaries perform periodic reviews of the customers' business results based on the internal rules and take necessary measures to reconsider conditions in the contracts and/or require additional collateral and guarantees.

Discounting bills are treated as secured lending transactions. As of March 31, 2020 and 2019, consolidated banking subsidiaries have the right to sell or repledge bills discounted and foreign exchange bills bought and their total face value was ¥36,056 million (\$331,831 thousand) and ¥45,440 million, respectively.

8. TANGIBLE FIXED ASSETS

Tangible fixed assets as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings	¥ 39,302	¥ 40,181	\$ 361,705
Land	58,044	59,047	534,182
Leased assets.....	11	16	108
Construction in progress.....	632	587	5,823
Other	11,702	12,685	107,694
Total	¥109,693	¥112,518	\$1,009,513

The accumulated depreciation of tangible fixed assets as of March 31, 2020 and 2019, amounted to ¥125,697 million (\$1,156,798 thousand) and ¥123,859 million, respectively.

Under certain conditions, such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. As of March 31, 2020 and 2019, such deferred profit amounted to ¥10,047 million (\$92,470 thousand) and ¥10,091 million, respectively. Newly recognized amounts for the years ended March 31, 2020 and 2019, were ¥30 million (\$281 thousand) and ¥28 million, respectively.

Under the "Law of Land Revaluation," one banking subsidiary elected a onetime revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1998. The resulting revaluation reserve for land represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the revaluation reserve for land account and related deferred tax liabilities. As of March 31, 2020 and 2019, the carrying amount of the land after the above onetime revaluation exceeded the market value by ¥24,041 million (\$221,253 thousand) and ¥25,244 million, respectively.

9. INTANGIBLE FIXED ASSETS

Intangible fixed assets as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Software.....	¥15,706	¥14,237	\$144,551
Other	3,609	4,150	33,217
Total	¥19,316	¥18,388	\$177,769

10. CUSTOMERS' LIABILITIES FOR ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees in the consolidated balance sheet. As a contra account, customers' liabilities for acceptances and guarantees are presented as assets, representing the consolidated banking subsidiaries' and certain consolidated subsidiaries' rights of indemnity from the applicants.

Guarantee obligations for private placement bonds included in "Securities" (provided in accordance with the Article 2-3 of the "Financial Instruments and Exchange Act") as of March 31, 2020 and 2019, were ¥175,576 million (\$1,615,830 thousand) and ¥167,258 million, respectively.

11. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral and the related liabilities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets pledged as collateral:			
Securities.....	¥1,666,746	¥1,512,757	\$15,339,098
Loans and bills discounted	119,578	34,000	1,100,484
Total	¥1,786,324	¥1,546,757	\$16,439,582
Related liabilities to above assets:			
Deposits	¥ 101,168	¥ 97,107	\$ 931,058
Payables under repurchase agreements	129,195	120,832	1,188,989
Payables under securities lending transactions.....	215,548	202,152	1,983,693
Borrowed money	1,215,433	1,012,938	11,185,657

Additionally, securities amounting to ¥5,470 million (\$50,343 thousand) and ¥5,661 million as of March 31, 2020 and 2019, respectively, were pledged as collateral for settlements of exchange or as substitute securities for margins on futures transactions.

Moreover, other assets included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deposits for central counterparty.....	¥94,918	¥94,672	\$873,533
Cash collateral paid for financial instruments.....	3,737	1,059	34,392
Cash collateral paid for transactions involving public funds.....	2,065	2,070	19,011
Guarantee deposits.....	1,984	2,014	18,261

12. BORROWED MONEY

Borrowed money as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Borrowed money of which the weighted-average annual interest rates were 0.15 %, due from April, 2020 to March, 2026.....	¥1,252,801	¥1,053,077	\$11,529,554

Annual maturities of borrowed money as of March 31, 2020, for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021.....	¥992,102	\$9,130,337
2022.....	62,768	577,664
2023.....	81,153	746,859
2024.....	86,577	796,774
2025.....	143	1,322

Borrowed money included borrowings from the Bank of Japan and other financial institutions. In addition, borrowed money included subordinated borrowings totaling ¥30,000 million (\$276,091 thousand) and ¥30,000 million as of March 31, 2020 and 2019, respectively.

13. BONDS

Bonds as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unsecured Euro-US dollar-denominated convertible bonds with stock acquisition rights issued by the Company, date of issue October 1, 2016, due April 24, 2019*1.....	¥ —	¥33,297	\$ —
Unsecured straight bonds issued by Joyo, date of issue May 24, 2000, due May 22, 2020, 2.64% interest.....	5,000	5,000	46,015
Total.....	¥5,000	¥38,297	\$46,015

*1 On October 1, 2016, the Company succeeded Euro-US dollar-denominated convertible bonds that were originally issued by Joyo.

Information on convertible bonds with stock acquisition rights is as follows:

Name:	Euro-US dollar-denominated convertible bonds with stock acquisition rights issued by the Company due 2019
Type of stock:	Common stock
Issue price of stock acquisition rights:	Free of charge
Issue price of stock:	\$5.03
Total sum of issue price:	\$300,000 thousand
Grant ratio of stock acquisition rights:	100.0%
Exercise period of stock acquisition rights:	From October 1, 2016, to April 10, 2019
Description and price of the property to be contributed upon the exercise of the stock acquisition rights:	On execution of the stock acquisition rights, the corresponding bonds are to be invested, and the bond's price is same as face amount.

Annual maturities of bonds as of March 31, 2020, for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021.....	¥5,000	\$46,015
2022.....	—	—
2023.....	—	—
2024.....	—	—
2025.....	—	—

14. RETIREMENT AND PENSION PLANS

(1) Outline of the adopted retirement benefit plans

The Company's banking subsidiary, Joyo, and its consolidated subsidiaries have adopted defined employees' retirement benefit plans, i.e., the employees' welfare pension fund supplemented by the employees' public pension system and lump-sum retirement benefits.

In addition, extra benefits that are excluded from the projected benefit obligation in employees' retirement benefits accounting may be paid on a case-by-case basis. Joyo has established an employees' retirement benefit trust.

The Company's banking subsidiary, Ashikaga Bank, Ltd. ("Ashikaga"), and its consolidated subsidiaries have adopted funded and unfunded defined benefit plans as well as defined contribution plans to provide for the employees' retirement benefits. All of the retirement benefit plans are managed in an integrated manner through retirement benefit points that are determined based on years of service and capabilities of employees, as well as employee performance evaluation. The determined points are then allocated to each plan.

The defined benefit pension plans (funded plans) have introduced pension plans similar to cash balance plan-type pension plans. Under the plan, each participant will set up a virtual individual account where pension or lump-sum payments will be made based on the accumulated retirement benefit points allocated. A retirement benefit trust is established for this defined benefit pension plan.

Under the lump-sum retirement benefit plans (unfunded plans that have become funded plans due to the establishment of a retirement benefit trust), lump-sum payments are made based on the accumulated retirement benefit points allocated. In some cases, premium severance payments may be made to employees in conjunction with the employees' retirement, etc.

Under the defined contribution plans, the contribution amount is decided based on the accumulated retirement benefit points allocated.

The Company's consolidated subsidiaries are members of the defined benefit pension funds under the multiemployer plans, and as the amount of plan assets corresponding to the contribution of each subsidiary may be reasonably calculated, such information is included in the notes to defined benefit plans.

Regarding the lump-sum retirement benefit plans adopted by certain consolidated subsidiaries, liability for retirement benefits and retirement benefit expenses are calculated by the simplified method.

(2) Defined benefit plans

(a) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year.....	¥122,177	¥118,902	\$1,124,405
Current service cost.....	3,778	3,757	34,773
Interest cost.....	374	505	3,444
Actuarial losses.....	261	4,668	2,408
Benefits paid.....	(6,258)	(5,718)	(57,599)
Past service cost.....	—	—	—
Others.....	38	62	356
Balance at end of year.....	¥120,372	¥122,177	\$1,107,789

*Figures above exclude retirement and benefit plans calculated by the simplified method.

(b) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year.....	¥132,585	¥129,651	\$1,220,187
Expected return on plan assets.....	2,572	2,925	23,674
Actuarial gains.....	(4,361)	173	(40,143)
Contributions from the employer.....	3,551	3,482	32,683
Benefits paid.....	(3,661)	(3,685)	(33,701)
Others.....	38	38	354
Balance at end of year.....	¥130,723	¥132,585	\$1,203,054

*Figures above exclude retirement and benefit plans calculated by the simplified method.

(c) The changes in liabilities for retirement benefits adopting the simplified method for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year.....	¥1,286	¥1,334	\$11,842
Retirement benefit expense.....	345	413	3,177
Benefits paid.....	(143)	(156)	(1,322)
Contribution to the defined benefit pension plan.....	(233)	(281)	(2,145)
Other.....	6	(23)	59
Balance at end of year.....	¥1,261	¥1,286	\$11,610

(d) Reconciliation between the liabilities recorded in the consolidated balance sheets and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation.....	¥125,261	¥127,353	\$1,152,787
Plan assets.....	(135,613)	(137,760)	(1,248,053)
Total.....	(10,351)	(10,407)	(95,265)
Unfunded defined benefit obligation.....	1,261	1,286	11,610
Net asset arising from defined benefit obligation.....	¥ (9,090)	¥ (9,120)	\$ (83,655)

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits.....	¥ 8,724	¥ 7,429	\$ 80,291
Asset for retirement benefits.....	(17,814)	(16,550)	(163,947)
Net asset arising from defined benefit obligation.....	¥ (9,090)	¥ (9,120)	\$ (83,655)

*Figures above include retirement and benefit plans calculated by the simplified method.

(e) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost.....	¥ 3,778	¥ 3,757	\$ 34,773
Interest cost.....	374	505	3,444
Expected return on plan assets.....	(2,572)	(2,925)	(23,674)
Recognized actuarial losses.....	554	1,464	5,104
Amortization of prior service cost.....	—	—	—
Retirement benefit expense calculated by the simplified method.....	345	413	3,177
Others.....	(14)	(13)	(131)
Net periodic benefit costs.....	¥ 2,465	¥ 3,201	\$ 22,693

(f) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost.....	¥ —	¥ —	\$ —
Actuarial losses.....	4,069	3,030	37,447
Total.....	¥4,069	¥3,030	\$37,447

(g) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost.....	¥ —	¥ —	\$ —
Unrecognized actuarial losses.....	4,246	2,888	39,079
Total.....	¥4,246	¥2,888	\$39,079

(h) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
	Debt investments.....	47.5%
Equity investments.....	34.3%	37.0%
General accounts.....	10.8%	10.5%
Others.....	7.4%	6.1%
Total.....	100.0%	100.0%

* As of March 31, 2020 and 2019, total plan assets that were set up on corporate pension plans include a retirement benefit trust of 17.2% and 20.3%, respectively.

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 are expected currently and in the future from the various components of the plan assets.

(i) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
	Discount rate.....	0.20% — 0.50%
Expected rate of return on plan assets.....	2.50%	2.50% — 3.30%
Expected rate of increase in salary.....	4.54% — 9.00%	4.52% — 9.00%

(3) Defined contribution plans

The amounts of the required contribution to the defined contribution plans of certain consolidated subsidiaries were ¥725 million (\$6,679 thousand) and ¥740 million as of March 31, 2020 and 2019, respectively.

15. EQUITY

Japanese companies are subject to the Companies Act. The significant provisions in 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. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

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 equity after dividends must be maintained at no less than ¥3 million.

(1) Capital Stock Changes during the Year

The changes in the number and class of issued stock and treasury stock for the year ended March 31, 2020, were as follows:

	Shares in Thousands			
	As of April 1, 2019	Changes During the Year		As of March 31, 2020
		Increase	Decrease	
Issued stock:				
Common stock	1,179,055	—	—	1,179,055
Total	1,179,055	—	—	1,179,055
Treasury stock:				
Common stock	5,971	13,939 ^{*1}	165 ^{*2}	19,745
Total	5,971	13,939	165	19,745

*1 The number of shares of treasury stock increased by 13,937 thousand shares due to purchases of own shares and by 2 thousand shares due to purchases of shares less than the trading unit.

*2 The number of shares of treasury stock decreased by 2 thousand shares due to sales to shareholders in response to their demand to buy additional shares up to the trading unit and by 163 thousand shares due to exercise of the stock acquisition rights.

The changes in the number and class of issued stock and treasury stock for the year ended March 31, 2019, were as follows:

	Shares in Thousands			
	As of April 1, 2018	Changes During the Year		As of March 31, 2019
		Increase	Decrease	
Issued stock:				
Common stock	1,179,055	—	—	1,179,055
Total	1,179,055	—	—	1,179,055
Treasury stock:				
Common stock	1,183	5,002 ^{*1}	214 ^{*2}	5,971
Total	1,183	5,002	214	5,971

*1 The number of shares of treasury stock increased by 5,000 thousand shares due to purchases of own shares and by 2 thousand shares due to purchases of shares less than the trading unit.

*2 The number of shares of treasury stock decreased by 2 thousand shares due to sales to shareholders in response to their demand to buy additional shares up to the trading unit and by 211 thousand shares due to exercise of the stock acquisition rights.

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 that was charged upon the payment of such dividends until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of capital 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 capital 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 of 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.

(2) Cash Dividends Per Share

Cash dividends per share for the years ended March 31, 2020 and 2019, were as follows:

Year ended March 31, 2020

Dividends paid in the fiscal year ended March 31, 2020

	Total Amount (Millions of Yen /Thousands of U.S. Dollars)	Per Share Amount (Yen /U.S. Dollars)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors' meeting held on May 13, 2019:				
Common stock	¥6,451 (\$59,378)	¥5.50 (\$0.05)	Mar. 31, 2019	Jun. 4, 2019

	Total Amount (Millions of Yen /Thousands of U.S. Dollars)	Per Share Amount (Yen /U.S. Dollars)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors' meeting held on Nov. 11, 2019:				
Common stock	¥6,452 (\$59,386)	¥5.50 (\$0.05)	Sep. 30, 2019	Dec. 3, 2019

Dividends to be paid after March 31, 2020

	Total Amount (Millions of Yen /Thousands of U.S. Dollars)	Per Share Amount (Yen /U.S. Dollars)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors' meeting held on May 13, 2020:				
Common stock	¥6,376 (\$58,680)	¥5.50 (\$0.05)	Mar. 31, 2020	Jun. 2, 2020

Year ended March 31, 2019:

Dividends paid in the fiscal year ended March 31, 2019

	Total Amount (Millions of Yen)	Per Share Amount (Yen)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors' meeting held on May 11, 2018:				
Common stock	¥6,478	¥5.50*	Mar. 31, 2018	Jun. 4, 2018
Cash dividends approved at the Board of Directors' meeting held on Nov. 12, 2018:				
Common stock	¥6,451	¥5.50	Sep. 30, 2018	Dec. 4, 2018

*Of the per share amount above, ¥1.00 is the amount of a commemorative dividend for the business integration.

Dividends to be paid after March 31, 2019

	Total Amount (Millions of Yen)	Per Share Amount (Yen)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors' meeting held on May 13, 2019:				
Common stock	¥6,451	¥5.50	Mar. 31, 2019	Jun. 4, 2019

16. STOCK OPTIONS

The Company's stock option plans grant options to directors and others to purchase certain shares of the Company's common stock in the respective exercise periods.

The Company recorded stock option expenses in "General and administrative expenses" of ¥75 million (\$697 thousand) and ¥91 million for the fiscal years ended March 31, 2020 and 2019, respectively.

The stock options outstanding as of March 31, 2020, were as follows:

Stock Options	Persons Granted	Number of Options Granted (Shares)	Date of Grant	Exercise Price	Exercise Period
Mebuki Financial Group, Inc. 1st Series of Stock Acquisition Rights*1	10 directors of Joyo*2	6,733	August 24, 2009*3	¥1	From October 1, 2016, to August 24, 2039
Mebuki Financial Group, Inc. 2nd Series of Stock Acquisition Rights*1	10 directors of Joyo*2	9,453	July 21, 2010*3	¥1	From October 1, 2016, to July 21, 2040
Mebuki Financial Group, Inc. 3rd Series of Stock Acquisition Rights*1	10 directors of Joyo*2	14,040	July 20, 2011*3	¥1	From October 1, 2016, to July 20, 2041
Mebuki Financial Group, Inc. 5th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	13,586	July 19, 2012*3	¥1	From October 1, 2016, to July 19, 2042
Mebuki Financial Group, Inc. 7th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	16,802	July 18, 2013*3	¥1	From October 1, 2016, to July 18, 2043
Mebuki Financial Group, Inc. 8th Series of Stock Acquisition Rights*1	15 executive officers of Joyo*2	3,107	July 18, 2013*3	¥1	From October 1, 2016, to July 18, 2043
Mebuki Financial Group, Inc. 9th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	17,408	July 18, 2014*3	¥1	From October 1, 2016, to July 18, 2044
Mebuki Financial Group, Inc. 10th Series of Stock Acquisition Rights*1	14 executive officers of Joyo*2	6,416	July 18, 2014*3	¥1	From October 1, 2016, to July 18, 2044
Mebuki Financial Group, Inc. 11th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	16,099	July 17, 2015*3	¥1	From October 1, 2016, to July 17, 2045
Mebuki Financial Group, Inc. 12th Series of Stock Acquisition Rights*1	13 executive officers of Joyo*2	12,366	July 17, 2015*3	¥1	From October 1, 2016, to July 17, 2045
Mebuki Financial Group, Inc. 13th Series of Stock Acquisition Rights	29 directors of the Company, Joyo and Ashikaga	72,513	December 6, 2016	¥1	From December 7, 2016, to December 6, 2046
Mebuki Financial Group, Inc. 14th Series of Stock Acquisition Rights	16 executive officers of Joyo	40,040	December 6, 2016	¥1	From December 7, 2016, to December 6, 2046
Mebuki Financial Group, Inc. 15th Series of Stock Acquisition Rights	29 directors of the Company, Joyo and Ashikaga	92,160	August 9, 2017	¥1	From August 10, 2017, to August 9, 2047
Mebuki Financial Group, Inc. 16th Series of Stock Acquisition Rights	16 executive officers of Joyo	50,948	August 9, 2017	¥1	From August 10, 2017, to August 9, 2047
Mebuki Financial Group, Inc. 17th Series of Stock Acquisition Rights	24 directors of the Company, Joyo and Ashikaga	127,508	August 14, 2018	¥1	From August 15, 2018, to August 14, 2048
Mebuki Financial Group, Inc. 18th Series of Stock Acquisition Rights	34 executive officers of Joyo and Ashikaga	147,282	August 14, 2018	¥1	From August 15, 2018, to August 14, 2048
Mebuki Financial Group, Inc. 19th Series of Stock Acquisition Rights	23 executive officers of Joyo and Ashikaga	201,104	August 20, 2019	¥1	From August 21, 2019, to August 20, 2049
Mebuki Financial Group, Inc. 20th Series of Stock Acquisition Rights	29 executive officers of Joyo and Ashikaga	193,295	August 20, 2019	¥1	From August 21, 2019, to August 20, 2049

*1 As a result of the share exchange conducted between the Company and Joyo on October 1, 2016, stock acquisition rights of the Company were allotted to the holders of stock acquisition rights of Joyo based on the share exchange ratio.

*2 The number is initially granted by Joyo.

*3 The date is initially granted by Joyo.

The stock option activity was as follows:

	Mebuki FG 1st	Mebuki FG 2nd	Mebuki FG 3rd	Mebuki FG 5th
Year ended March 31, 2020				
Non-vested (shares):				
April 1, 2019 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2019 — Outstanding	6,733	9,453	14,040	13,586
Vested	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2020 — Outstanding	6,733	9,453	14,040	13,586
Excise price (Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise (Yen/US Dollars)	—	—	—	—
Fair value price at grant date (Yen/US Dollars)	¥417 \$3.84	¥297 \$2.73	¥300 \$2.76	¥310 \$2.85
Year ended March 31, 2019				
Non-vested (shares):				
April 1, 2019 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2019 — Outstanding	16,802	3,107	17,408	6,416
Vested	—	—	—	—
Exercised	—	3,107	—	6,416
Canceled	—	—	—	—
March 31, 2020 — Outstanding	16,802	—	17,408	—
Excise price (Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise (Yen/US Dollars)	—	¥271 \$2.49	—	¥271 \$2.49
Fair value price at grant date (Yen/US Dollars)	¥518 \$4.77	¥542 \$4.99	¥500 \$4.60	¥525 \$4.83

	Mebuki FG 11th	Mebuki FG 12th	Mebuki FG 13th	Mebuki FG 14th
Year ended March 31, 2020				
Non-vested (shares):				
April 1, 2019 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2019 — Outstanding	16,099	12,366	72,513	40,040
Vested	—	—	—	—
Exercised	—	5,232	14,258	16,940
Canceled	—	—	—	—
March 31, 2020 — Outstanding	16,099	7,134	58,255	23,100
Excise price				
(Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise				
(Yen/US Dollars)	— \$2.49	¥271 \$2.49	¥271 \$2.49	¥271 \$2.49
Fair value price at grant date				
(Yen/US Dollars)	¥680 \$6.26	¥708 \$6.52	¥345 \$3.18	¥374 \$3.44

	Mebuki FG 15th	Mebuki FG 16th	Mebuki FG 17th	Mebuki FG 18th
Year ended March 31, 2020				
Non-vested (shares):				
April 1, 2019 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2019 — Outstanding	92,160	50,948	127,508	147,282
Vested	—	—	—	—
Exercised	18,998	19,936	21,664	57,093
Canceled	—	—	—	—
March 31, 2020 — Outstanding	73,162	31,012	105,844	90,189
Excise price				
(Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise				
(Yen/US Dollars)	¥271 \$2.49	¥271 \$2.49	¥271 \$2.49	¥271 \$2.49
Fair value price at grant date				
(Yen/US Dollars)	¥360 \$3.31	¥390 \$3.59	¥319 \$2.94	¥348 \$3.20

	Mebuki FG 19th	Mebuki FG 20th
Year ended March 31, 2020		
Non-vested (shares):		
April 1, 2019 — Outstanding	—	—
Granted	201,104	193,295
Canceled	—	—
Vested	201,104	193,295
March 31, 2020 — Outstanding	—	—
Vested (shares):		
April 1, 2019 — Outstanding	—	—
Vested	201,104	193,295
Exercised	—	—
Canceled	—	—
March 31, 2020 — Outstanding	201,104	193,295
Excise price		
(Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise		
(Yen/US Dollars)	— \$1.90	— \$1.90
Fair value price at grant date		
(Yen/US Dollars)	¥179 \$1.65	¥206 \$1.90

The Assumptions Used to Measure Fair Value of Stock Option

Stock options issued by the Company in the fiscal year ended March 31, 2020, were valued using the Black-Scholes option-pricing model and the following principal parameters:

	Mebuki FG 19th	Mebuki FG 20th
Volatility of stock price*1:	27.47%	25.27%
Estimated remaining outstanding period*2:	6 years	3 years
Estimated dividend*3:	¥11 per share	¥11 per share
Risk free interest rate*4:	(0.34)%	(0.28)%

*1. Volatility of stock price is calculated based on the actual stock price of the Company during the period. Only a short time has passed since the business combination was conducted through a share exchange between the Company and Joyo. During the period before the business combination was completed, the volatility of the stock price was calculated based on the actual stock price of a similar publicly traded company.

Mebuki FG 19th: From August 20, 2013, to August 19, 2019
Mebuki FG 20th: From August 20, 2016, to August 19, 2019

*2. Estimated remaining outstanding period is calculated based on average tenure of retired directors of the Company, Joyo, and Ashikaga and executive officers of Joyo.

*3. Estimated dividend paid in the fiscal year ended March 31, 2017 (excluding a commemorative dividend)

*4. Yield of Japanese government bonds approximating the estimated remaining outstanding period at the time when the Company issued each stock option

The Method Used to Estimate the Number of Stock Options Expected to Vest

Since it is difficult to rationally estimate the number of unexercised options in the future, a method of only reflecting actual unexercised options is adopted.

17. PER SHARE OF COMMON STOCK

(1) EPS

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2020				
Basic EPS —				
Net income available to common shareholders.....	¥36,370	1,167,915	¥31.14	\$0.29
Effect of dilutive securities:				
Warrants.....	—	760	—	—
Diluted EPS —				
Net income for computation.....	¥36,370	1,168,675	¥31.12	\$0.29

Year Ended March 31, 2019

Basic EPS —				
Net income available to common shareholders.....	¥46,338	1,173,785	¥39.47	
Effect of dilutive securities				
Warrants.....	—	594	—	
Diluted EPS —				
Net income for computation.....	¥46,338	1,174,379	¥39.45	

(2) Total equity per share

Total equity per share as of March 31, 2020 and 2019, was as follows:

	Yen		U.S. Dollars
	2020	2019	2020
Total equity per share.....	¥760.78	¥783.67	\$7.00

Total equity per share as of March 31, 2020 and 2019, is calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total equity.....	¥882,235	¥919,547	\$8,119,228
Deductions from total equity.....	248	233	2,289
Total equity attributable to common shareholders.....	¥881,986	¥919,314	\$8,116,939

	Number of Shares in Thousands	
	2020	2019
Number of shares of common stock used in computing total equity per share at year-end.....	1,159,309	1,173,083

18. OTHER INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Gain on sales of stock and other securities.....	¥16,970	¥24,506	\$156,180
Recoveries of write-off of claims.....	2,178	2,237	20,052
Gain on disposal of fixed assets.....	64	77	591
Other.....	32,773	29,541	301,616
Total.....	¥51,987	¥56,362	\$478,439

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries and allowances.....	¥ 53,197	¥ 53,685	\$ 489,578
Periodic benefit costs.....	3,067	3,826	28,234
Other.....	63,365	62,124	583,152
Total.....	¥119,630	¥119,636	\$1,100,965

20. OTHER EXPENSES

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loss on sales of stocks and other securities.....	¥15,998	¥15,081	\$147,235
Write-off of loans.....	11,612	9,877	106,872
Impairment on fixed assets*.....	1,112	2,747	10,234
Loss on disposal of fixed assets.....	557	446	5,133
Other.....	34,414	28,890	316,722
Total.....	¥63,696	¥57,042	\$586,196

* Impairment losses on long-lived assets were recognized mainly on the properties of the Bank's branches in the Tochigi and Ibaraki prefectures, whose operations were discontinued because the Company believed the investment would not be recoverable. The components of impairment losses on fixed assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Land.....	¥706	¥1,643	\$6,503
Buildings.....	316	854	2,913
Leasehold improvements.....	45	58	423
Equipment.....	42	72	395
Software.....	—	92	—
Telephone subscription rights.....	—	24	—

21. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.62% and 30.86% for the years ended March 31, 2020 and 2019, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which result in deferred tax assets and liabilities, as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for loan losses.....	¥ 28,912	¥ 27,467	\$ 266,084
Write-offs of securities.....	12,583	12,705	115,808
Liability for retirement benefits.....	11,351	11,196	104,467
Provision for employee bonuses.....	1,899	1,886	17,484
Tax loss carryforwards.....	1,666	1,738	15,337
Provision for reimbursement of deposits.....	874	989	8,044
Depreciation.....	802	1,263	7,383
Other.....	10,635	9,758	97,882
Subtotal deferred tax assets.....	68,726	67,004	632,490
Less valuation allowance.....	(17,782)	(18,247)	(163,657)
Total deferred tax assets.....	50,943	48,756	468,833
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities.....	(39,266)	(63,483)	(361,368)
Retirement benefit trust.....	(4,467)	(4,467)	(41,116)
Other.....	(6,654)	(6,463)	(61,245)
Total deferred tax liabilities.....	(50,388)	(74,414)	(463,728)
Net deferred tax assets(liabilities).....	¥ 554	¥(25,657)	\$ 5,105

Since the difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting is equal to or less than 5% of the legally effective tax rate, a reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, is omitted.

22. LEASES

Future minimum payments under noncancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year.....	¥145	¥159	\$1,340
Due after one year.....	141	124	1,306
Total.....	¥287	¥284	\$2,646

Lessor

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year.....	¥2	¥2	\$25
Due after one year.....	2	4	22
Total.....	¥5	¥7	\$47

23. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policies for Financial Instruments

The Group provides comprehensive financial services, such as lease and securities centering on banking. As the central business operation of the Group, the consolidated banking subsidiaries raise funds by deposits as its basic function as a bank; the consolidated banking subsidiaries also procure funds by call money transactions from short-term markets to maintain an adequate degree of liquidity. The consolidated banking subsidiaries manage those funds through lending to corporate customers and individuals, such as housing loans; investing in securities, mainly bonds; and investing in money markets.

The Group utilizes Asset Liability Management (ALM) to avoid unfavorable floating interest rate fluctuation of the financial assets and liabilities it holds. As a part of ALM, the Group has entered into derivative transactions.

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

The Group's financial assets are mainly loans made by the consolidated banking subsidiaries to domestic corporations and individuals in Japan, which are exposed not only to interest rate fluctuation risks but also to customers' credit risks. Securities and investment securities, such as bonds, stocks, and investment trusts, are possessed to trade, to hold to maturity dates to generate stable interest income, and to promote business relationships with the issuers. These securities are exposed to the issuers' credit risks, interest rate fluctuation risks, and market price fluctuation risks.

The Group's main financial liabilities are deposits received by the consolidated banking subsidiaries, which are exposed to interest rate fluctuation risks and liquidity risks. Borrowed money and bonds are exposed to the risks that the Group may not be able to repay them on their maturity dates if, under certain circumstances, the Group is not able to access a capital market.

The consolidated banking subsidiaries utilize derivative transactions to hedge the customers' interest and currency risks and to control the interest rate fluctuation risks in ALM. Derivatives transactions are utilized to hedge interest rate fluctuation risks, foreign currency exchange rate fluctuation risks, and market price fluctuation risks on the Group's financial assets and liabilities. Derivatives mainly include interest rate swaps, currency swaps, and bond futures and are exposed to the interest rate fluctuation risks, market price fluctuation risks, foreign currency exchange rate fluctuation risks, and credit risks.

Hedge accounting is applied to certain derivatives.

In hedge transactions against foreign currency fluctuation risks, mainly currency swaps and foreign exchange swaps, the effectiveness of hedging is determined by confirming that the amount of the hedging instruments is generally consistent with that of the hedged items. Regarding an exceptional accounting treatment in interest rate swaps, post testing is conducted to confirm that requirements for the treatment are satisfied.

Derivatives transactions to which hedge accounting is not applied are exposed to interest rate fluctuation risks, foreign currency exchange rate fluctuation risks, price fluctuation risks, and credit risks.

(3) Risk Management for Financial Instruments

(a) Integrated Risk Management

The Group conducts integrated risk management to holistically control risks from various financial assets and liabilities and risks related to the banking business. More specifically, the periodically quantified risks of the Group are controlled so as to not exceed Tier 1 capital allocated by each risk category. The bank assesses unquantifiable risks using stress tests and other measures.

(b) Credit Risk Management

The Group has enacted "Group Guidelines for Credit Risk Management," which provides for basic policies comprising appropriate credit exposure management on individual and portfolio bases. The portfolio-based credit exposure management involves diversification of risks.

Credit risk management divisions have been segregated from the divisions under business headquarters to achieve rigorous credit review and conduct monitoring of borrowers' financial condition to prevent deterioration of loans.

In the self-assessments that evaluate the quality of assets, the business offices categorize the borrowers based on credit ratings, which are then reviewed by credit-related divisions in the headquarters. Furthermore, audit divisions examine results and process of the self-assessments for accuracy and adequacy.

As for credit risks of the issuers of securities and the counterparties of derivatives transactions, global markets and market operation divisions monitor credit information and market prices and give the issuers and counterparties credit ratings as well as carrying out assessments of the issuers and counterparties as general borrowers.

(c) Market Risk Management

① Market Risk Management Measures

The Group manages market risks by ALM. Risk management policies and procedures are prescribed in relevant ALM rules and manuals, and these policies, decided in ALM / Risk Management Committee and so forth, are closely monitored and regularly discussed.

② Market Risk Quantitative information

(i) Banking Account

a. Interest Rate Risk

The Group adopts the variance-covariance method as the measurement method (a holding period of six months, a confidence interval of 99%, and an observation period of one year) for calculating VaR related to interest rate risk of loans and bills discounted, domestic bonds, deposits, borrowed money, corporate bonds, and derivatives such as interest rate swaps. The Group uses the historical simulation method (a holding period of six months, a confidence interval of 99%, and an observation period of five years) for the calculation of VaR related to interest rate risk of foreign bonds, trust beneficiary right, market fund transaction, and derivatives like interest rate swaps and currency swaps.

As of March 31, 2020 and 2019, the Group's VaR related to interest rate risks, which is a simple sum of its consolidated banking subsidiaries' VaR, were ¥73,266 million (\$674,276 thousand) and ¥52,967 million, respectively.

b. Price Fluctuation Risk

The Group adopts the historical simulation method (a holding period of six months, a confidence interval of 99%, and an observation period of five years) for calculating VaR related to price fluctuation risk of listed equities and investment trust.

As of March 31, 2020 and 2019, the Group's VaR related to price fluctuation risk, which is a simple sum of its consolidated banking subsidiaries' VaR, were ¥103,979 million (\$956,928 thousand) and ¥100,252 million, respectively. Correlation between interest rate risk and price fluctuation risk has not been considered.

(ii) Trading Account

The Group adopts the historical simulation method (a holding period of 10 days, a confidence interval of 99%, and an observation period of five years) for calculating VaR related to trading securities; trading purpose foreign exchange transactions; and trading purpose derivatives, such as forward transactions and option transactions. As of March 31, 2020 and 2019, the Group's VaR related to trading account, which is simple sum of its consolidated banking subsidiaries' VaR, were ¥11 million (\$104 thousand) and ¥7 million, respectively.

(iii) Validity of VaR

The Group performs back testing to compare VaR calculated by its internal measurement model with the actual profit and loss to confirm whether the model captures market risks with sufficient accuracy. However, there could be cases in which VaR cannot capture risks under sudden and dramatic changes in market conditions beyond normal circumstances since VaR is statistically calculated based on historical market fluctuation.

(d) Liquidity Risk Management

Under "Group Liquidity Risk Management Rules," the Group conducts financing activities after fully analyzing its cash flows and strives to maintain the diversity and stability of funding sources, while paying continuous attention to the consolidated balance sheet structure, lines of credit provided to the Group, collateral management, and costs to maintain the liquidity.

(4) Supplementary Explanation on Fair Values of Financial Instruments

The fair values of financial instruments are based on their market prices and, in cases where market prices are not readily available, reasonably calculated prices. Such prices have been calculated using certain assumptions and may differ if calculated based on different assumptions.

(5) Fair Values of Financial Instruments

(a) Fair value of financial instruments

March 31, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
(1) Cash and due from banks.....	¥ 1,935,324	¥ 1,935,324	¥ —
(2) Securities:			
Held-to-maturity securities	164,851	166,028	1,177
Available-for-sale securities.....	3,881,842	3,881,842	—
(3) Loans and bills discounted.....	11,342,541		
Allowance for loan losses*1	(64,324)		
Net.....	11,278,216	11,390,121	111,904
Total assets	¥17,260,234	¥17,373,317	¥113,082
(1) Deposits	¥14,756,658	¥14,757,116	¥ (457)
(2) Negotiable certificates of deposit.....	283,131	283,162	(30)
(3) Call money and bills sold	—	—	—
(4) Payables under securities lending transactions.....	215,548	215,548	—
(5) Borrowed money.....	1,252,801	1,252,888	(87)
Total liabilities	¥16,508,139	¥16,508,715	¥ (575)
Derivative instruments*2 :			
Hedge accounting is not applied.....	¥ 2,423	¥ 2,423	¥ —
Hedge accounting is applied.....	665	665	—
Total derivative instruments	¥ 3,088	¥ 3,088	¥ —

March 31, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
(1) Cash and due from banks.....	¥ 1,468,877	¥ 1,468,877	¥ —
(2) Securities:			
Held-to-maturity securities	169,288	170,902	1,613
Available-for-sale securities.....	4,152,863	4,152,863	—
(3) Loans and bills discounted.....	11,122,484		
Allowance for loan losses*1	(66,422)		
Net.....	11,056,061	11,168,148	112,087
Total assets	¥16,847,090	¥16,960,791	¥113,701
(1) Deposits	¥14,373,888	¥14,374,359	¥ (470)
(2) Negotiable certificates of deposit.....	282,158	282,170	(12)
(3) Call money and bills sold	191,740	191,740	—
(4) Payables under securities lending transactions.....	202,152	202,152	—
(5) Borrowed money.....	1,053,077	1,053,406	(328)
Total liabilities	¥16,103,018	¥16,103,829	¥ (811)
Derivative instruments*2 :			
Hedge accounting is not applied.....	¥ 2,020	¥ 2,020	¥ —
Hedge accounting is applied.....	724	724	—
Total derivative instruments	¥ 2,744	¥ 2,744	¥ —

March 31, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
(1) Cash and due from banks.....	\$ 17,810,826	\$ 17,810,826	\$ —
(2) Securities:			
Held-to-maturity securities	1,517,127	1,527,965	10,837
Available-for-sale securities.....	35,724,672	35,724,672	—
(3) Loans and bills discounted.....	104,385,618		
Allowance for loan losses*1	(591,980)		
Net.....	103,793,638	104,823,498	1,029,860
Total assets	\$158,846,263	\$159,886,960	\$1,040,697
(1) Deposits	\$135,805,803	\$135,810,015	\$ (4,212)
(2) Negotiable certificates of deposit.....	2,605,667	2,605,952	(284)
(3) Call money and bills sold	—	—	—
(4) Payables under securities lending transactions.....	1,983,693	1,983,693	—
(5) Borrowed money.....	11,529,554	11,530,358	(804)
Total liabilities	\$151,924,717	\$151,930,018	\$ (5,301)
Derivative instruments*2 :			
Hedge accounting is not applied.....	\$ 22,303	\$ 22,303	\$ —
Hedge accounting is applied.....	6,120	6,120	—
Total derivative instruments	\$ 28,424	\$ 28,424	\$ —

*1 Allowances for loan losses relevant to loans and bills discounted have been deducted.
*2 Derivative instruments recorded as trading assets, trading liabilities, other assets, and other liabilities include derivative transactions. Derivative instruments are presented as net of assets and liabilities associated with derivative transactions.

Assets

(1) Cash and due from banks

The fair values of these items approximate the carrying amount, which are deemed to be the fair value.

(2) Securities

The fair values of marketable equity securities are measured at the quoted market price of the stock exchange for equity instruments. Fair values of bonds are measured at the market price or the quoted price obtained from financial institutions. Fair values of investment trusts are measured at the quoted price.

The fair values of private placement bonds are determined by discounting future cash flows. The discount rates used in the calculation were calculated based on the bankruptcy probability by credit rating and the coverage ratio of each claim.

The Group treats market prices as fair values for floating-rate Japanese Government Bonds and securitized products.

(3) Loans and bills discounted

The carrying amounts of loans and bills discounted with floating-interest rates approximate fair value as long as customers' credit risks have not changed significantly after lending because the market rates are promptly reflected in the floating-interest rates.

The fair values of loans and bills discounted with fixed-interest rates are determined by discounting the principal and interest amount with the interest rate used for new loans for each category of loan calculated based on the bankruptcy probability by credit rating and the coverage ratio of each claim, internal credit rating, and loan period. The carrying amounts of loans and bills discounted with maturity less than one year approximate fair value because of their short maturities.

For loans to obligors classified as "legal bankruptcy," "virtual bankruptcy," and "possible bankruptcy," an allowance is provided based on the discounted cash flow method or based on amounts expected to be collected through the disposal of collateral or execution of guarantees. The carrying value net of the allowance as of the consolidated balance sheet date is a reasonable estimate of the fair values of those loans.

The carrying amounts of loans and bills discounted that do not have fixed maturities due to loan characteristics, such as limited loan amounts within the value of pledged assets, approximate fair value due to their expected repayment periods and interest rate conditions.

Liabilities

(1) Deposits

The fair values of demand deposits are recognized as the payment at the date of the consolidated balance sheet. The fair values of time deposits are determined by discounting the contractual cash flows grouped by the remaining duration at the rates that would be applied for similar new contracts.

(2) Negotiable certificates of deposit

Refer to (1) Deposits.

(3) Call money and bills sold

The carrying amounts of call money and bills sold approximate fair value because they have maturities of one year or less.

(4) Payables under securities-lending transactions

Refer to (3) Call money and bills sold.

(5) Borrowed Money

The fair value of borrowed money is discounted at the rate that would be applied for similar new contracts. The carrying amount of borrowed money with maturity of one year or less approximates fair value because of its short maturity period.

Derivatives

See "Note 24. DERIVATIVES."

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Equity securities without readily available market price*1*2	¥ 4,126	¥ 4,360	\$ 37,973
Investments in partnerships*3	24,427	19,167	224,807
Beneficial interests in trust	898	948	8,271
Total	¥29,452	¥24,476	\$271,051

*1 Equity securities without readily available market prices are out of the scope of the fair value disclosure because their fair values cannot be reliably determined.

*2 During the years ended March 31, 2020 and 2019, impairment losses on equity securities without readily available market price of ¥192 million (\$1,770 thousand) and ¥6 million, respectively, were recognized.

*3 Investments in partnerships, the assets of which comprise equity securities without readily available market price, are out of the scope of the fair value disclosure.

(6) Maturity Analysis for Financial Assets and Liabilities with Contractual Maturities

March 31, 2020	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	¥1,780,991	¥ —	¥ —	¥ —	¥ —	¥ —
Securities:						
Held-to-maturity securities	39,725	38,375	22,581	4,044	50,262	—
Japanese national government bonds	18,000	—	—	—	50,000	—
Japanese local government bonds	50	150	300	—	—	—
Japanese corporate bonds	21,675	38,225	22,281	4,044	262	—
Available-for-sale securities with contractual maturities	372,066	513,382	587,481	330,813	723,590	663,268
Japanese national government bonds	159,500	80,000	35,000	—	41,150	176,300
Japanese local government bonds	84,165	188,087	289,421	165,571	202,947	5,033
Japanese corporate bonds	110,809	166,455	86,646	35,200	33,068	301,032
Foreign currency bonds	11,869	65,914	108,279	114,086	335,992	160,095
Other	5,722	12,925	68,133	15,955	110,432	20,805
Loans and bills discounted*1	2,836,747	1,777,555	1,434,690	935,533	1,019,385	2,997,509
Total	¥5,029,531	¥2,329,312	¥2,044,753	¥1,270,390	¥1,793,238	¥3,660,777

March 31, 2019	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	¥1,328,182	¥ —	¥ —	¥ —	¥ —	¥ —
Securities:						
Held-to-maturity securities	25,166	52,884	26,422	2,721	1,188	50,000
Japanese national government bonds	7,000	18,000	—	—	—	50,000
Japanese local government bonds	150	50	300	—	—	—
Japanese corporate bonds	18,016	34,834	26,122	2,721	1,188	—
Available-for-sale securities with contractual maturities	414,911	600,774	560,357	388,127	850,133	483,840
Japanese national government bonds	208,300	214,500	25,000	35,000	41,150	78,000
Japanese local government bonds	85,802	148,641	257,794	174,703	253,549	6,240
Japanese corporate bonds	77,250	164,124	123,966	71,272	11,787	241,727
Foreign currency bonds	22,227	35,713	105,853	80,551	428,279	138,057
Other	21,331	37,794	47,742	26,600	115,368	19,813
Loans and bills discounted*2	2,685,194	1,856,590	1,386,877	925,491	1,013,460	2,933,551
Total	¥4,453,455	¥2,510,249	¥1,973,657	¥1,316,339	¥1,864,782	¥3,467,392

March 31, 2020	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	\$16,390,501	\$ —	\$ —	\$ —	\$ —	\$ —
Securities:						
Held-to-maturity securities	365,595	353,166	207,822	37,217	462,564	—
Japanese national government bonds	165,654	—	—	—	460,151	—
Japanese local government bonds	460	1,380	2,761	—	—	—
Japanese corporate bonds	199,481	351,785	205,061	37,217	2,413	—
Available-for-sale securities with contractual maturities	3,424,130	4,724,666	5,406,599	3,044,479	6,659,217	6,104,071
Japanese national government bonds	1,467,881	736,241	322,106	—	378,704	1,622,492
Japanese local government bonds	774,579	1,730,972	2,663,551	1,523,754	1,867,726	46,323
Japanese corporate bonds	1,019,777	1,531,889	797,411	323,953	304,325	2,770,412
Foreign currency bonds	109,233	606,613	996,497	1,049,937	3,092,146	1,473,366
Other	52,660	118,951	627,035	146,835	1,016,316	191,477
Loans and bills discounted*1	26,106,642	16,358,874	13,203,486	8,609,728	9,381,422	27,586,134
Total	\$46,286,868	\$21,436,706	\$18,817,907	\$11,691,424	\$16,503,203	\$33,690,205

*1 As of March 31, 2020, loans and bills discounted with no contractual maturities amounting to ¥200,693 million (\$1,846,982 thousand) and loans and bills discounted whose cash flow cannot be estimated, such as "legal bankruptcy," "virtual bankruptcy," and "possible bankruptcy" loans, amounting to ¥140,426 million (\$1,292,350 thousand) are not included.

*2 As of March 31, 2019, loans and bills discounted with no contractual maturities amounting to ¥181,659 million and loans and bills discounted whose cash flow cannot be estimated, such as "legal bankruptcy," "virtual bankruptcy," and "possible bankruptcy" loans, amounting to ¥139,657 million are not included.

March 31, 2020	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits *1	¥13,749,903	¥855,999	¥130,080	¥2,184	¥18,490	¥—
Negotiable certificates of deposit	283,131	—	—	—	—	—
Call money and bills sold	—	—	—	—	—	—
Payables under securities lending transactions	215,548	—	—	—	—	—
Borrowed money	1,022,102	143,922	86,721	55	—	—
Total	¥15,270,685	¥999,922	¥216,801	¥2,239	¥18,490	¥—

March 31, 2019	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits *1	¥13,314,783	¥ 913,897	¥134,067	¥3,905	¥7,235	¥—
Negotiable certificates of deposit	281,658	500	—	—	—	—
Call money and bills sold	191,740	—	—	—	—	—
Payables under securities lending transactions	202,152	—	—	—	—	—
Borrowed money	815,162	135,975	101,673	241	25	—
Total	¥14,805,498	¥1,050,372	¥235,740	¥4,146	¥7,260	¥—

March 31, 2020	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits *1	\$126,540,614	\$7,877,780	\$1,197,134	\$20,104	\$170,170	\$—
Negotiable certificates of deposit	2,605,667	—	—	—	—	—
Call money and bills sold	—	—	—	—	—	—
Payables under securities lending transactions	1,983,693	—	—	—	—	—
Borrowed money	9,406,427	1,324,523	798,097	507	—	—
Total	\$140,536,402	\$9,202,303	\$1,995,231	\$20,611	\$170,170	\$—

*1 The cash flow of demand deposits is included in "Due in one year or less."

24. DERIVATIVES

(1) Derivative Transactions to Which Hedge Accounting Is Not Applied as of March 31, 2020 and 2019

With respect to derivatives to which hedge accounting is not applied, contract amount or notional principal, fair value, and the related valuation gains (losses) at the fiscal year end date by transaction type and valuation method of fair value are described below. Note that contract amounts do not represent the market risk exposure associated with derivatives.

Consolidated banking subsidiaries had the following derivative contracts, which were quoted on listed exchanges, outstanding as of March 31, 2020 and 2019, as follows:

March 31, 2020	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gains/Losses
Bond-related transactions								
Bond futures:								
Sold	¥1,546	¥—	¥21	¥21	\$14,234	\$—	\$193	\$193
Bought	—	—	—	—	—	—	—	—
Total	—	—	¥21	¥21	—	—	\$193	\$193

March 31, 2019	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gains/Losses
Bond-related transactions				
Bond futures:				
Sold	¥2,290	¥—	¥(8)	¥(8)
Bought	—	—	—	—
Total	—	—	¥(8)	¥(8)

Note: 1 The above transactions are stated at fair value, and the related valuation gains (losses) are reported in the consolidated statement of income.
2 Fair values of above transactions are determined based on closing prices at the Osaka Exchange or other relevant exchanges.

Consolidated banking subsidiaries had the following derivative contracts, which were not quoted on listed exchanges, outstanding as of March 31, 2020 and 2019, as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses
March 31, 2020								
Interest rate-related transactions								
Interest rate swaps:								
Receive fixed and pay floating.....	¥148,971	¥137,184	¥ 4,262	¥ 4,262	\$1,370,985	\$1,262,514	\$ 39,228	\$ 39,228
Receive floating and pay fixed.....	148,971	137,184	(2,390)	(2,390)	1,370,985	1,262,514	(21,999)	(21,999)
Cap transactions:								
Sold	1,073	656	(0)	8	9,876	6,046	(6)	77
Bought	1,073	656	0	(5)	9,876	6,046	6	(47)
Swaption:								
Sold	15,690	15,690	(243)	(131)	144,395	144,395	(2,240)	(1,206)
Bought	15,690	15,690	243	243	144,395	144,395	2,240	2,240
Total	—	—	¥ 1,872	¥ 1,987	—	—	\$ 17,228	\$ 18,293

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses
March 31, 2020								
Currency-related transactions								
Currency swaps.....	¥216,463	¥163,777	¥ 274	¥ 274	\$1,992,117	\$1,507,249	\$ 2,529	\$ 2,529
Forward exchange contracts:								
Sold	96,442	4,400	(1,084)	(1,084)	887,561	40,495	(9,981)	(9,981)
Bought	96,282	4,129	1,334	1,334	886,090	38,000	12,279	12,279
Currency option contracts:								
Sold	121,434	81,589	(3,235)	269	1,117,561	750,873	(29,776)	2,479
Bought	121,424	81,585	3,241	1,926	1,117,476	750,830	29,832	17,728
Total	—	—	¥ 530	¥ 2,720	—	—	\$ 4,882	\$25,033

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value*3	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value*3	Unrealized Gains/Losses
March 31, 2020								
Other transactions								
Earthquake derivatives:								
Sold	¥5,500	—	¥(95)	—	\$50,617	—	\$(883)	—
Bought	5,500	—	95	—	50,617	—	883	—
Total	—	—	—	—	—	—	—	—

March 31, 2019	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses
Interest rate-related transactions				
Interest rate swaps:				
Receive fixed and pay floating.....	¥116,901	¥ 99,854	¥ 3,018	¥ 3,018
Receive floating and pay fixed.....	116,901	99,854	(1,483)	(1,483)
Cap transactions				
Sold	1,173	1,073	(0)	8
Bought	1,173	1,073	0	(4)
Swaption:				
Sold	4,690	4,690	(56)	(23)
Bought	4,690	4,690	56	56
Total	—	—	¥ 1,535	¥ 1,571
Currency-related transactions				
Currency swaps.....	¥228,866	¥205,485	¥ 318	¥ 318
Forward exchange contracts:				
Sold	63,689	5,963	(321)	(321)
Bought	63,806	5,380	487	487
Currency option contracts:				
Sold	130,934	83,923	(3,569)	(188)
Bought	130,931	83,919	3,578	2,142
Total	—	—	¥ 493	¥ 2,438

March 31, 2019	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value*3	Unrealized Gains/Losses
Other transactions				
Earthquake derivatives:				
Sold	¥4,800	—	¥(84)	—
Bought	4,800	—	84	—
Total	—	—	—	—

Note: *1 The above transactions are stated at fair value and the related valuation gains (losses) are reported in the consolidated statement of income.
*2 Fair values of above transactions are determined based on a discounted cash flow model, an option-pricing model, or other models as appropriate.
*3 Acquisition costs are regarded as fair value as it is extremely difficult to determine the fair appraised value.

(2) Derivative Transactions to Which Hedge Accounting Is Applied as of March 31, 2020 and 2019

With respect to derivatives to which hedge accounting is applied, contract amount or notional principal and fair value at the fiscal year end date by transaction type and hedge accounting method and valuation method of fair value are as follows. Note that contract amounts do not represent the market risk exposure associated with derivatives.

Consolidated banking subsidiaries had the following derivative contracts, which were accounted for based on the principle method, outstanding as of March 31, 2020 and 2019, as follows:

March 31, 2020	Hedged Item	Millions of Yen			Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions*1*4							
Interest rate swaps:							
Receive floating and pay fixed.....Securities		¥ 85,000	¥85,000	¥ (834)	\$ 782,257	\$782,257	\$ (7,678)
Total		¥ 85,000	¥85,000	¥ (834)	\$ 782,257	\$782,257	\$ (7,678)
Currency-related transactions*2*5	Loans, securities, deposits, foreign exchanges, etc., which are denominated in foreign currencies						
Currency swaps.....		¥137,400	¥15,429	¥ 2,293	\$1,264,498	\$141,998	\$ 21,110
Forward exchange contracts		—	—	—	—	—	—
Foreign exchange swap		92,116	56,503	(1,731)	847,748	520,000	(15,937)
Total		—	—	¥ 562	—	—	\$ 5,173
Equity-related transactions*3*6							
Stock forward contracts	Available-for-sale securities						
Sold		¥ 3,235	¥ —	¥ 937	\$ 29,781	\$ —	\$ 8,625
Total		—	—	¥ 937	—	—	\$ 8,625

March 31, 2019	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Currency-related transactions*2*5				
Currency swaps.....	Loans, securities, deposits, foreign exchanges, etc., which are denominated in foreign currencies	¥147,355	¥34,000	¥637
Forward exchange contracts		2,042	—	22
Foreign exchange swap		34,041	—	97
Total		—	—	¥757
Equity-related transactions*3*6				
Stock forward contracts	Available-for-sale securities			
Sold		¥ 3,899	¥ —	¥ (33)
Total		—	—	¥ (33)

- Note: 1. Interest rate-related transactions are primarily accounted for using the deferral method in accordance with "Accounting and Auditing Treatment relating to the Adoption of 'Accounting for Financial Instruments' for Banks" (JICPA Industry Audit Committee Report No. 24, February 13, 2002).
2. Currency-related transactions are primarily accounted for using the deferral method in accordance with "Accounting and Auditing Treatment relating to Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002).
3. Equity-related transactions are accounted for using the deferral method.
4. Fair values of exchange-traded transactions are determined based on closing prices at the Tokyo Financial Exchange or other relevant exchanges. Fair values of over-the-counter-traded transactions are determined based on a discounted cash flow model, an option-pricing model, or other models, as appropriate.
5. Fair value is determined based on a discounted cash flow model.
6. Fair value is determined based on prices provided by correspondent financial institutions.

Consolidated banking subsidiaries had the following derivative contracts, which were accounted for by the exceptional accrual method, outstanding as of March 31, 2020:

March 31, 2020	Hedged Item	Millions of Yen			Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions							
Interest rate swaps:							
Receive fixed and pay floating.....	Loans and borrowed money	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Receive floating and pay fixed.....		11,464	6,920	(346)	105,512	63,692	(3,189)
Total		—	—	¥(346)	—	—	\$(3,189)

March 31, 2019	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions				
Interest rate swaps:				
Receive fixed and pay floating.....	Loans and borrowed money	¥ —	¥ —	¥ —
Receive floating and pay fixed.....		16,910	11,588	(320)
Total		—	—	¥(320)

Note: The exceptional accrual method of hedge accounting, as specifically permitted for certain interest rate swaps, is valued with the hedged items as a whole so that the fair value is included in the fair value of borrowed money and loans and bills discounted ("Note 23. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (5) Fair Values of Financial Instruments").

25. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gains (losses) on available-for-sale securities:			
(Losses) gains arising during the year	¥(72,359)	¥13,017	\$(665,927)
Reclassification adjustments to profit or loss.....	(3,504)	(9,648)	(32,252)
Amount before income tax effect.....	(75,864)	3,369	(698,178)
Income tax effect	22,643	(1,054)	208,388
Total	¥(53,220)	¥ 2,314	\$(489,790)
Deferred gains (losses) on derivatives under hedge:			
Gains arising during the year	¥ 837	¥ 1,683	\$ 7,707
Reclassification adjustments to profit or loss.....	(1,990)	(1,985)	(18,323)
Amount before income tax effect.....	(1,153)	(302)	(10,616)
Income tax effect	351	91	3,239
Total	¥ (801)	¥ (211)	\$ (7,378)
Land revaluation excess, net of taxes:			
Gains arising during the year	¥ —	¥ —	\$ —
Reclassification adjustments to profit or loss.....	—	—	—
Amount before income tax effect.....	—	—	—
Income tax effect	0	2	2
Total	¥ 0	¥ 2	\$ 2
Defined retirement benefit plans:			
Gains arising during the year	¥ (4,623)	¥ (4,494)	\$(42,551)
Reclassification adjustments to profit or loss	554	1,464	5,104
Amount before income tax effect.....	(4,069)	(3,030)	(37,447)
Income tax effect	1,237	921	11,389
Total	¥ (2,831)	¥ (2,109)	\$ (26,059)
Total other comprehensive loss.....	¥(56,853)	¥ (3)	\$(523,225)

26. 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.

The Group engages in banking and other related activities, such as leasing, securities, and credit card services. Segment information is not disclosed due to the immateriality of operations other than banking.

Other segment-related information:

(1) Information by services

March 31, 2020	Millions of Yen (Thousands of U.S. Dollars)			
	Lending Operations	Investment Operations	Other	Total
Ordinary income from external customers.....	¥112,331	¥74,700	¥95,705	¥282,737
	\$(1,033,788)	\$(687,470)	\$(880,779)	\$(2,602,037)

March 31, 2019	Millions of Yen			
	Lending Operations	Investment Operations	Other	Total
Ordinary income from external customers.....	¥113,944	¥82,695	¥91,499	¥288,139

(2) Information by geographic region

Since the ordinary income and total tangible fixed assets attributable to the "Japan" segment account for more than 90% of the total of all geographic segments, geographical segment information has not been presented.

(3) Information by major customers

Since there has been no specific customer to whom the Group sells more than 10% of total ordinary income on the consolidated statement of income, information on major customers has not been presented.

(4) Information on loss on impairment of fixed assets by reportable segment
Information on loss on impairment of fixed assets is not disclosed due to immateriality, except for the banking business.

(5) Information on amortization and unamortized balance of goodwill by reportable segment
Information on amortization and unamortized balance of goodwill is not disclosed due to immateriality, except for the banking business.

(6) Information on gain on negative goodwill by reportable segment
Information on gain on negative goodwill is not disclosed due to immateriality, except for the banking business.

27. RELATED-PARTY TRANSACTIONS

Related-party transactions of consolidated subsidiaries of the Company with its directors or major individual shareholders for the years ended March 31, 2020 and 2019, were as follows:

Year ended March 31, 2020

Type	Name	Location	Capital (Millions of Yen /Thousands of U.S. Dollars)	Business	Ownerships	Relationship	Transactions (Millions of Yen/ Thousands of U.S. Dollars)	Outstanding Balance (Millions of Yen/ Thousands of U.S. Dollars)
A director or director's close relative	Kinichi Suzuki	—	—	—	—	—	Loan ¥102 (\$940)	Loans and bills discounted ¥100 (\$920)
	Yoshie Suto	—	—	—	—	—	Loan ¥134 (\$1,237)	Loans and bills discounted ¥133 (\$1,232)
	Yoshihiro Ono	—	—	—	—	—	Loan ¥12 (\$110)	Loans and bills discounted ¥11 (\$104)
Companies in which a majority of voting rights are owned by a director or director's close relatives	Hoshino Seisakusyo Co., Ltd.	Gunma	¥7 (\$64)	Steel manufacturing	—	—	Loan ¥11 (\$102)	Loans and bills discounted ¥11 (\$102)

Terms and conditions on transactions and transaction policy:

The interest rate on loans is reasonably determined considering the market rate.

Year ended March 31, 2019

Type	Name	Location	Capital (Millions of Yen)	Business	Ownerships	Relationship	Transactions (Millions of Yen)	Outstanding Balance (Millions of Yen)
A director or director's close relative	Kinichi Suzuki	—	—	—	—	—	Loan ¥106	Loans and bills discounted ¥104
	Yoshie Suto	—	—	—	—	—	Loan ¥138	Loans and bills discounted ¥135
	Yoshihiro Ono	—	—	—	—	—	Loan ¥13	Loans and bills discounted ¥12
Companies in which a majority of voting rights are owned by a director or director's close relatives	Hoshino Seisakusyo Co., Ltd.	Gunma	¥7	Steel manufacturing	—	—	Loan ¥11	Loans and bills discounted ¥11

Terms and conditions on transactions and transaction policy:

The interest rate on loans is reasonably determined considering the market rate.

28. SUBSEQUENT EVENTS

Not applicable.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Mebuki Financial Group, Inc.:

Opinion

We have audited the consolidated financial statements of Mebuki Financial Group, Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Member of
Deloitte Touche Tohmatsu Limited

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



June 24, 2020

Non-Consolidated Balance Sheet (Unaudited)

March 31, 2020 The Joyo Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
ASSETS			
Cash and due from banks	¥ 1,118,929	¥ 726,456	\$ 10,297,530
Call loans and bills bought	12,778	9,546	117,602
Monetary claims bought	5,901	7,271	54,313
Trading assets	13,124	10,817	120,789
Securities	2,837,426	3,025,904	26,112,892
Loans and bills discounted	6,759,983	6,594,731	62,212,257
Foreign exchanges	10,224	3,420	94,092
Other assets	83,685	80,821	770,161
Tangible fixed assets	74,635	77,171	686,874
Intangible fixed assets	7,998	8,531	73,613
Prepaid pension cost	7,102	6,365	65,361
Customers' liabilities for acceptances and guarantees	12,897	44,283	118,699
Allowance for loan losses	(32,903)	(32,610)	(302,814)
Allowance for investment losses	(292)	(9)	(2,692)
TOTAL	¥10,911,493	¥10,562,699	\$100,418,676
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits	¥ 8,973,110	¥ 8,729,187	\$ 82,579,698
Negotiable certificates of deposit	84,279	85,123	775,624
Call money and bills sold	73,257	59,542	674,190
Payables under repurchase agreement	67,430	62,482	620,560
Payables under securities lending transactions	110,835	84,286	1,020,020
Trading liabilities	1,770	1,065	16,298
Borrowed money	938,779	786,125	8,639,607
Foreign exchanges	1,689	351	15,548
Bonds	5,000	5,000	46,015
Due to trust account	1,199	566	11,035
Other liabilities	35,559	40,275	327,252
Provision for bonuses for directors	121	154	1,116
Provision for retirement benefits	7,618	8,301	70,109
Provision for reimbursement of deposits	1,923	2,261	17,699
Provision for point card certificates	121	114	1,119
Provision for contingent losses	952	949	8,764
Deferred tax liabilities	9,501	32,131	87,444
Deferred tax liabilities for land revaluation	8,000	8,143	73,631
Acceptances and guarantees	12,897	44,283	118,699
Total liabilities	¥10,334,047	¥ 9,950,348	\$ 95,104,429
EQUITY:			
Common stock	¥ 85,113	¥ 85,113	\$ 783,297
Capital surplus	58,574	58,574	539,058
Retained earnings	352,538	337,172	3,244,419
Valuation adjustments:	81,220	131,491	747,473
Unrealized gains on available-for-sale securities	69,472	119,723	639,352
Deferred losses on derivatives under hedge accounting	(180)	(171)	(1,657)
Land revaluation surplus	11,928	11,940	109,778
Total equity	577,446	612,351	5,314,247
TOTAL	¥10,911,493	¥10,562,699	\$100,418,676

Non-Consolidated Statement of Income (Unaudited)

Year Ended March 31, 2020 The Joyo Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
INCOME:			
Interest income:			
Interest on loans and bills discounted	¥ 63,264	¥ 64,082	\$ 582,228
Interest and dividends on securities	36,802	33,074	338,695
Interest on call loans and bills bought	99	139	917
Interest on deposits with banks	325	419	2,995
Other interest income	401	361	3,691
Trust Fees	46	31	430
Fees and commissions	26,145	25,709	240,622
Trading income	517	362	4,762
Other operating income	6,666	1,954	61,349
Other income	16,319	25,283	150,190
Total income	150,589	151,418	1,385,878
EXPENSES:			
Interest expenses:			
Interest on deposits	3,760	3,893	34,611
Interest on negotiable certificates of deposit	23	24	217
Interest on call money and bills sold	623	283	5,740
Interest on payables under repurchase agreements	378	16	3,480
Interest on payables under securities lending transactions	38	114	353
Interest on borrowed money	1,550	1,449	14,271
Interest on bonds	132	132	1,218
Interest on interest swap	2,150	1,944	19,795
Other interest expenses	474	274	4,367
Fees and commissions	8,992	8,535	82,757
Other operating expenses	5,934	8,186	54,620
General and administrative expenses	64,791	66,892	596,279
Provision of allowance for loan losses	5,196	386	47,824
Other expenses	22,187	18,633	204,192
Total expenses	116,236	110,770	1,069,722
INCOME BEFORE INCOME TAXES	34,353	40,648	316,156
INCOME TAXES:			
Current	10,851	11,709	99,866
Deferred	(1,151)	210	(10,601)
Total income taxes	9,699	11,919	89,265
NET INCOME	¥ 24,653	¥ 28,729	\$ 226,891

Non-Consolidated Balance Sheet (Unaudited)

March 31, 2020 The Ashikaga Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
ASSETS			
Cash and due from banks	¥ 816,321	¥ 741,475	\$ 7,512,622
Call loans and bills bought.....	5,976	843	55,000
Monetary claims bought.....	5,947	7,881	54,734
Trading account securities.....	2,507	2,982	23,078
Money held in trust.....	1	23,175	9
Securities.....	1,257,599	1,338,495	11,573,710
Loans and bills discounted.....	4,717,392	4,657,025	43,414,253
Foreign exchanges.....	5,925	3,088	54,537
Other assets.....	86,845	82,670	799,238
Tangible fixed assets.....	28,201	28,608	259,541
Intangible fixed assets.....	10,940	9,480	100,689
Prepaid pension cost.....	23,351	20,764	214,905
Deferred tax assets.....	4,903	2,475	45,127
Customers' liabilities for acceptances and guarantees	10,131	10,456	93,243
Allowance for loan losses.....	(27,311)	(30,142)	(251,349)
TOTAL.....	¥6,948,735	¥6,899,280	\$63,949,339
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits	¥5,813,460	¥5,709,204	\$53,501,389
Negotiable certificates of deposit	265,902	263,084	2,447,106
Call money and bills sold	37,487	132,198	345,000
Payables under repurchase agreement	61,765	58,349	568,429
Payables under securities lending transactions	104,712	117,866	963,674
Borrowed money	276,937	229,574	2,548,662
Foreign exchanges.....	251	286	2,318
Due to trust account	374	—	3,442
Other liabilities.....	27,132	27,229	249,701
Provision for bonuses for directors.....	108	121	994
Provision for reimbursement of deposits.....	951	992	8,754
Provision for contingent losses.....	1,189	1,005	10,948
Provision for point card certificates	237	210	2,190
Acceptances and guarantees.....	10,131	10,456	93,243
Total liabilities	¥6,600,643	¥6,550,580	\$60,745,848
EQUITY:			
Common stock	¥ 135,000	¥ 135,000	\$ 1,242,408
Retained earnings.....	188,074	181,429	1,730,852
Valuation adjustments.....	25,016	32,270	230,232
Unrealized gains on available-for-sale securities.....	25,905	32,365	238,412
Deferred losses on hedges.....	(888)	(95)	(8,181)
Total equity.....	348,091	348,699	3,203,491
TOTAL.....	¥6,948,735	¥6,899,280	\$63,949,339

Non-Consolidated Statement of Income (Unaudited)

Year Ended March 31, 2020 The Ashikaga Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
INCOME:			
Interest income:			
Interest on loans and bills discounted	¥47,945	¥ 48,772	\$441,239
Interest and dividends on securities	20,596	29,474	189,548
Interest on call loans and bills bought	13	41	127
Interest on deposits with banks	356	344	3,283
Other interest income	104	132	964
Trust Fees.....	5	—	51
Fees and commissions.....	21,670	22,100	199,430
Other operating income.....	927	3,320	8,540
Other income	4,655	16,543	42,848
Total income.....	96,275	120,730	886,028
EXPENSES:			
Interest expenses:			
Interest on deposits	1,605	2,203	14,778
Interest on negotiable certificates of deposit.....	51	68	476
Interest on call money and bills sold	332	1,081	3,061
Interest on payables under repurchase agreements	1,648	281	15,168
Interest on payables under securities lending transactions	1,325	2,308	12,200
Interest on borrowed money.....	135	135	1,251
Interest on interest swap.....	1,042	—	9,598
Other interest expenses	626	1,633	5,766
Fees and commissions payments	7,515	7,162	69,168
Other operating expenses	1,285	5,013	11,826
General and administrative expenses	51,078	49,088	470,078
Provision of allowance for loan losses	4,652	1,268	42,814
Other expenses	8,892	10,649	81,842
Total expenses.....	80,194	80,892	738,028
INCOME BEFORE INCOME TAXES	16,081	39,837	148,000
INCOME TAXES:			
Current	4,341	8,351	39,955
Deferred.....	495	195	4,557
Total income taxes	4,836	8,546	44,512
NET INCOME	¥11,245	¥ 31,291	\$103,488