

# JOYO BANK

Annual Report

未来協創  
プロジェクト **PLUS**

# 2014

## PROFILE

The Joyo Bank, Ltd., was established in 1935 out of the merger of the Tokiwa Bank and Goju Bank (both founded in 1878), and celebrated its 130th year in business.

As a leading financial institution in Ibaraki Prefecture and surrounding regions, the Bank, with the philosophy of “Practicing sound management, creation of values, and partnership with the home region,” is contributing to the growth of its home region by providing stable and comprehensive financial services.

### Management Philosophy

#### “Sound management, creation of value, and partnership with the home region”

- (1) Focusing on retail banking as our core business, Joyo Bank will pursue sound management and steady banking activities.
- (2) Joyo Bank will create high-value business together with our customers, regional communities, and shareholders.
- (3) By providing financial services in our base territory of Ibaraki Prefecture and adjacent areas, Joyo Bank will contribute to social and economic progress in the home region.

### Action Guidelines

We will

- Provide the most appropriate products and services based on a keen understanding of our customers.
- Undertake steady banking activities and grow together with our customers.
- Seek to further improve our financial skills.

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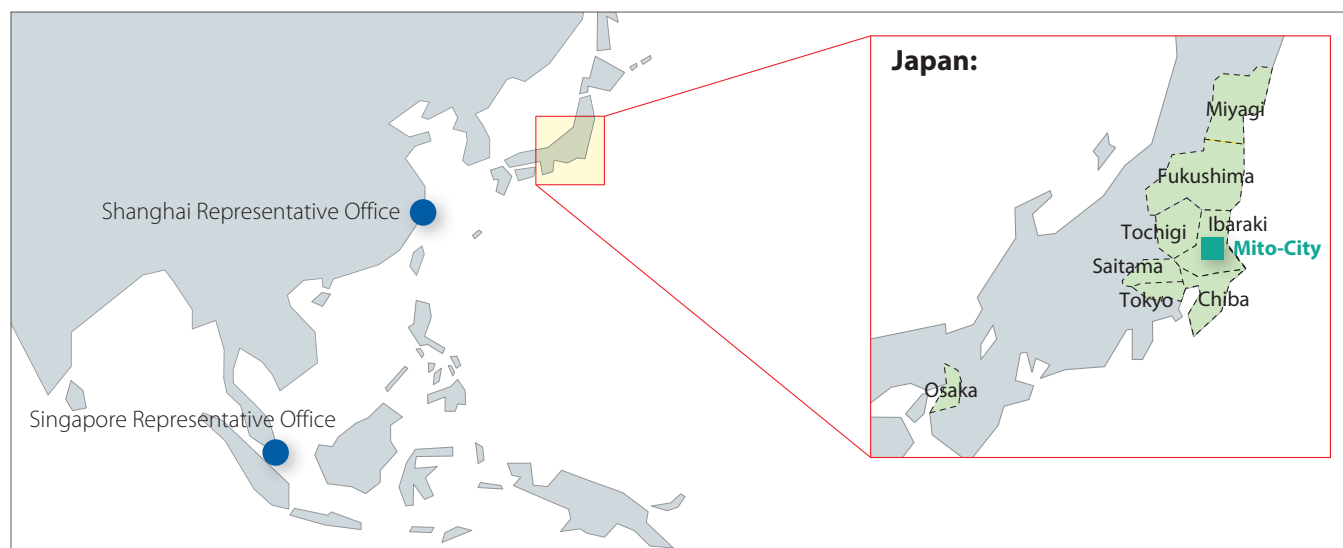
## Corporate Data

As of March 31, 2014

■ Date of Establishment	July 30, 1935	
■ Head Office	5-5, Minami-machi 2-chome, Mito, Ibaraki 310-0021, Japan Phone: 029-231-2151 URL: <a href="http://www.joyobank.co.jp/">http://www.joyobank.co.jp/</a> <a href="http://www.joyobank.co.jp/joyobank/eng/">http://www.joyobank.co.jp/joyobank/eng/</a> (English Page)	
■ Domestic Network	Head Office, Tokyo Business Division (Tokyo Main Office), and 150 Branches, 27 Sub-branches	
■ Overseas Network	2 Representative Office: Shanghai, Singapore	
■ Number of Employees	3,671	
■ Stock Exchange Listing	Tokyo Stock Exchange	
■ Paid-in Capital	¥85,113 million	
■ Number of Shares (as of March 31, 2014)	Authorized Issued and Outstanding	2,167,515 thousand 789,231 thousand
■ Number of Shareholders (1 trading unit = 1,000 shares)	28,232	

## Service Network

As of March 31, 2014



### Japan:

■ Miyagi Pref. (1 Branch)	■ Saitama Pref. (3 Branches)
■ Fukushima Pref. (10 Branches)	■ Chiba Pref. (6 Branches)
■ Tochigi Pref. (Tochigi Wholesale Office, 6 Branches, 1 Sub-Branch)	■ Tokyo (Tokyo Business Div. (Tokyo Main Office), 4 Branches)
■ <b>Mito-City</b> (Head Office, International Business Office, International Operations Office)	■ Treasury and Securities Div. Markets Administration and International Div.
■ Ibaraki Pref. (Head Office, 119 Branches, 26 Sub-Branches)	■ Osaka Pref. (1 Branch)

# MESSAGE FROM THE PRESIDENT

## ***We Will Provide Comprehensive Financial Services as well as to Contribute to the Reconstruction and Growth of our Customers and the Region***

In fiscal 2013, Japan showed moderate recovery, on the back of government measures to bring the country out of deflation and revive the economy under the three-pronged “Abenomics” policy of Japanese Prime Minister Shinzo Abe. The economy of Ibaraki Prefecture also showed signs of pick-up, with an increase in personal consumption and housing investment in the second half offsetting sluggish exports and flat production within the prefecture during the first half.

Against this financial and economic backdrop, the Joyo Bank completed its 11th Medium-Term Business Plan (fiscal 2011-fiscal 2013) intended to create the “best partner bank that grows with its customers in the home region.” In the year under review, the last year of the plan, the Bank carried out the following measures to contribute to recovery and growth at our customers and in our region.

In corporate business, in addition to ongoing measures to ensure a smooth flow of funding to customers, the Bank strengthened measures to foster creation of new businesses including launch of the Collaborative Innovation “Action D” Project, which aims to bring together local manufacturers and major companies in the joint development of new technologies. The Bank also worked on identifying as yet undetected innovative and creative business plans in the region through the Joyo Business Award, which it organized for a second year. In support of measures for agribusiness, the Bank launched the Joyo Growth Support Fund for Agriculture, Forestry and Fisheries and expanded its support for the “sixth industrialization” a government initiative integrating local-level primary, secondary and tertiary industry to boost rural economies (so-named because  $(1) \times (2) \times (3) = (6)$ ). In addition to this measure, the Bank undertook various measures centered on its business matching

meetings for the agricultural production and food processing, restaurant and retail industries. In a sign of its good name in this area, it was also recipient for the second consecutive year of the Food Action Nippon Award of Japan’s Ministry of Agriculture, Forestry and Fisheries.

In individual banking operations, the Bank supported a wide range of customers’ asset management needs including expansion of its lineup of investment trust products ahead of the launch of the Nippon Individual Savings Account (NISA) tax exemption system for small investments. We broadened funding options for those wishing to relocate or renovate their homes or facing major lifestyle changes after retirement, by developing the Joyo Reverse Mortgage “Ju-katsu Style,” the first product of its kind in Japan (a “reverse mortgage” provides rent reimbursements). Additionally, we expanded our alliances with investment trust companies and expanded our lineup of services to meet customers’ diversifying succession-planning and other asset-related needs.

In network initiatives, we opened new branches in promising markets beyond Ibaraki that offered prospects of fruitful economic exchange with our prefecture. Examples were the Saitama branch in Saitama City, and the relocation of the Tochigi branch provisionally operated inside the Oyama Branch to Tochigi City in April 2014. We have also made preparations to step up our information-gathering capabilities as more of our customers respond to globalization by expanding overseas. We have applied to the United States financial authorities to open a New York Representative office, which we plan to launch in the autumn of 2014.

As a result of the foregoing measures, we increased gross business profit by ¥4.1 billion year on year to ¥35.8

billion, and net income by ¥1.16 billion to ¥22.0 billion in the year under review, despite a year-on-year drop in interest income due to lower yield on loans. The capital ratio, an indicator of banking soundness, remained at the high level of 12.19% for the Bank, and at 12.60% on a consolidated basis. In recognition of our shareholders' support over the years, we have increased the annual dividend in fiscal 2013 by ¥0.50 to ¥9.00 per share.

Looking to fiscal 2014 and beyond, our 12th Medium-Term Business Plan embodies our vision of becoming the "best partner bank in collaboration with the community for the future." Under the Plan, we aim to help our regional customers and the local community address challenges raised by social and economic structural change, as well as to accelerate our own growth as a group, through the provision of comprehensive financial services. We have also expanded the Joyo Regional Reconstruction Project "Bonding" activities into the broader "PLUS+ project for collaborative growth for the future," which aims to spur reconstruction and rehabilitation in areas affected by earthquake disasters.

Everybody working for the Joyo Bank, from front-line employees to executives, is committed to meeting the expectations of our customers, shareholders and the local community. I trust we can count on your continued support in this endeavor.



Kazuyoshi Terakado  
*President*

A handwritten signature in black ink that reads "K. Terakado". The signature is stylized, with a long horizontal line above the name.

Kazuyoshi Terakado  
President  
July 2014

## Vision

# Best Partner Bank for the Collaborative Creation of the Region's Future

In the environment surrounding the regional economy, along with changes to the socioeconomic structure such as the decline in the total population and further decrease in the birthrate and aging of the population, and the decline in the potential economic growth rate, a multitude of challenges are expected to emerge.

In the 12th Medium-Term Business Plan, we aim to solve — together with our customers and the region — the local challenges accompanying socioeconomic changes by contributing more than ever to the reconstruction and growth of our customers and the region and providing comprehensive financial services based on original and creative ideas, which we tackled in the 11th Medium-Term Business Plan, and also to contribute to the Joyo Bank Group's growth.

To define this approach, we established the vision of becoming the "Best Partner Bank for the Collaborative Creation of the Region's Future" and we will execute our five basic strategies starting with "collaborative creation."

## Five Basic Strategies to Achieve Our Vision

### 1. Collaborative Creation

We will share the various challenges brought about by changes in the socioeconomic structure with customers and local communities, and demonstrate collaborative creation\*<sup>1</sup> to contribute to solving customers' and communities' problems by providing comprehensive financial services that are original and creative.

As part of these efforts, we will launch the "project for the collaborative creation of the region's future 'PLUS+' and move forward working together as a group.

### 2. Expansion of Customer Base

In demonstrating collaborative creation, it is essential to spread business and expand our customer network based on strong relationships of trust, which area prerequisite for sharing and solving the challenges facing customers' and local communities, and we will expand our customer base in the Ibaraki region\*<sup>2</sup>.

### 3. Strengthening investment return

In light of advancing globalization and securitization, we will strengthen investment returns by increasing returns on securities and foreign currency loans in order to not only raise money for lending, but to also enhance profitability.

### 4. Renewal of operation

Seek to strengthen points of contact with customers in order to share and solve challenges facing customers and local communities, innovate marketing channels by strengthening direct channel marketing, strengthen collaboration among channels, and construct effective marketing channels. In addition, we will pursue innovations in marketing and administrative processes through ongoing construction of BPR promotion systems.

### 5. Remaking human resources portfolio

In the area of human resources, our most important business resource for achieving our vision, we will increase support for self-directed development, strengthen the organizational human resources development structure including the restructuring of the development system, and expand opportunities to participate in comprehensive financial resources.

\*1. Collaborative creation refers to sharing the various challenges brought about by changes in the socioeconomic structure with customers and local communities and contribute to solving the challenges facing customers' and communities' by providing comprehensive financial services based on creative and original ideas that leverage consulting, information technology (IT) and other services.

\*2. The Ibaraki region is that area where the provision and development of the transportation infrastructure is advancing and includes the Tsukuba Express, Kita-Kanto Expressway, Metropolitan Inter-City Expressway (Ken-Ō Expressway) and is forming a deeper connection with Ibaraki Prefecture.



#### [About the logo]

- Orange rectangles show "customers," "local communities," "Joyo Bank," the red rectangle shows "additional value."
- Spread made by four rectangles shows a "+" shape, and projects the image of four rectangles making new value like a wind mill.

To "demonstrate collaborative creation" centered on the basic strategies of the 12th Medium-Term Business Plan, we started the "project for the collaborative creation of region's future 'PLUS+'." We will make ever-greater efforts to recover from the Great East Japan Earthquake and contribute to solving the various challenges of the region.



### Project Policy

Seeking to possibilities for utilizing comprehensive financial service to resolve challenges in local area, create collaboratively the region's future by business development through valuable planning and actions.



### Three "PLUS's"

1. Aiming to create additional values for customers, local communities and the Bank by solving challenges in our home region and to provide greater support for recovery after the Great East Japan Earthquake.
2. Aiming to provide "advanced comprehensive financial service" which are essential service for the economy in our home region, such as "investment, funding, and settlement" and mixed creative functions such as "consulting and information technology."
3. Acting to resolve agendas with positive thinking which improves motivation and brings about better business opportunities.



### Three components

1. Resolving challenges by smooth financial functions
2. Business development through activation the local community and economy
3. Social contribution to region's future

"Best partner bank for the collaborative creation of region's future"

(Individual)  
Contribution to satisfied lives  
(Corporate)  
Assistance for growing sector  
(Public)  
Creating active local communities

## Management Goals

## Expand consolidated net income

Aiming for record-high consolidated and nonconsolidated net income in final fiscal year plan (FY2016)

### Numerical targets (FY2016)

Consolidated net income after tax	¥30.0 billion or more	OHR*1	under 60%
Non-consolidated net income after tax	¥27.0 billion or more	ROE*2	approx. 5%
Non-consolidated ordinary profit	¥40.0 billion or more	Capital adequacy ratio	approx. 12%
Non-consolidated gross business profit	¥120.0 billion or more		

\*1. OHR is a primary indicator of management efficiency and shows the amount of expenses used to generate one unit of gross business profit.

\*2. ROE is a primary indicator of capital efficiency and shows how much profit was raised using shareholders' equity.

## RELATIONSHIP BANKING

### Relationship Banking Policies

The local economy is the bedrock of the operations of a regional bank. Our mission is to contribute to the development of local society and economy by providing communities with reliable financial services.

To fulfill this mission, the Bank has adopted the following three priority policies:

#### Priorities

- Strengthen support for customer companies tailored to their stage of corporate growth
- Develop new financing options for SMEs
- Contribute to a sustainable growth of local economy

### Efforts to Facilitate Financing

Joyo Bank began facilitating the smooth flow of funds through the establishment of the Financial Facilitation Engagement Policy in January 2010. This policy was established with the aim of fulfilling the Bank's important mission as a regional financial institution to contribute to the development of the local society and economy by providing communities with reliable financial services. Although the SME Financing Facilitation Act expired in March 2013, we will earnestly continue efforts to facilitate the smooth flow of funds by actively demonstrating our financial intermediary functions. Joyo Bank will also provide various forms of assistance to small and medium-sized businesses at each business stage by leveraging consulting functions based mainly on collaborations with Group companies and external organizations, beginning with offering smooth financing.

#### Implementation Status Including Changes in Loan Conditions (Standards as of March 31, 2014)

	To SMEs		To housing fund recipients	
	No. of loans	Monetary amounts (millions of yen)	No. of loans	Monetary amounts (millions of yen)
Total amount received	66,141	1,520,027	3,118	33,805
Among loans executed	63,262	1,465,923	2,582	27,276
Among loans declined	497	9,879	69	819
Among loans under review	600	9,811	35	375
Among loans discontinued	1,782	34,412	432	5,334

Notes: 1. Japanese yen amounts are rounded down to the nearest million yen.

2. No. of loans and monetary amounts are the cumulative totals as of the date of the above standards beginning on the effective date of the SME Financing Facilitation Act (December 4, 2009). In addition, the No. of loans represents claim amounts derived from the claim units and monetary amounts as of the application date.



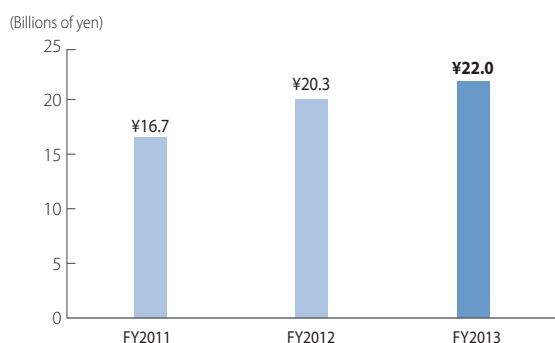
## FINANCIAL HIGHLIGHTS

Despite a decline in business profit due to reduced interest income as a result of lower yield on loans, gross business profit and net income both rose year on year on an increase in gains on shareholdings, etc. and a fall in credit cost.

Business profit declined year on year by ¥8.2 billion to ¥37.2 billion, while gross business profit increased ¥4.1 billion to ¥35.8 billion. Net income increased ¥1.6 billion to ¥22.0 billion. In March 31, 2014, Basel III (domestic) standards were adopted for computing the capital ratio. The consolidated capital ratio was 12.60%, and the Bank-only ratio was 12.19%. Both remain at high levels.

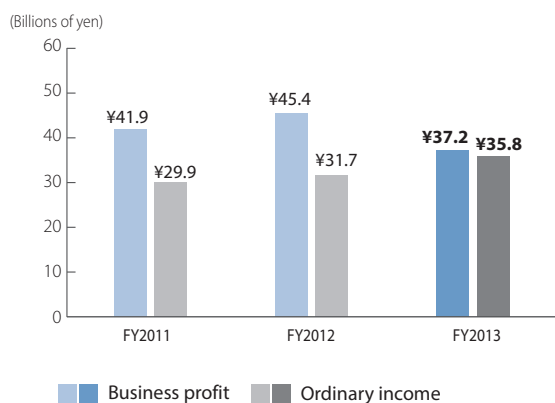
### Net income

Net income climbed ¥1.6 billion to ¥22.0 billion year on year.



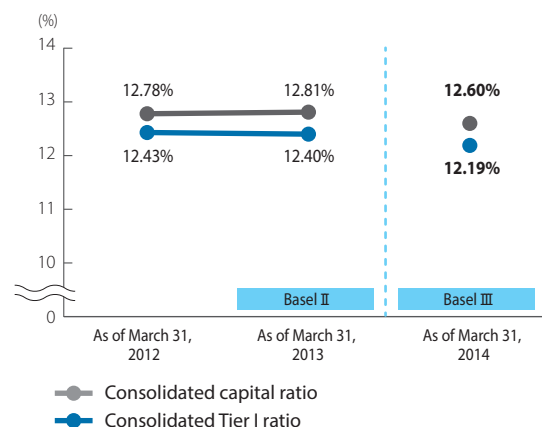
### Business profit, Ordinary income

Business profit decreased ¥8.2 billion year on year to ¥37.2 billion, and ordinary income increased ¥4.1 billion to ¥35.8 billion.



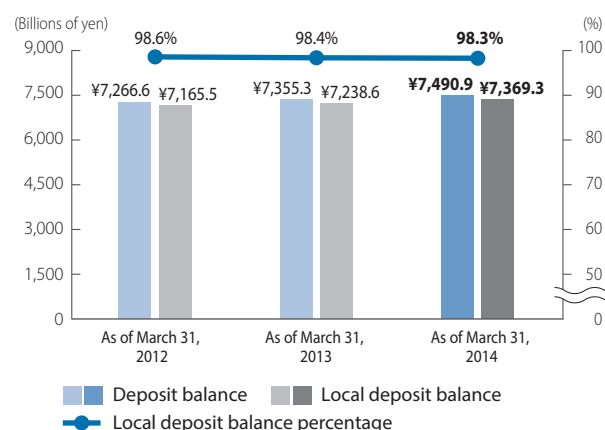
### Consolidated capital ratio

Remained at high levels



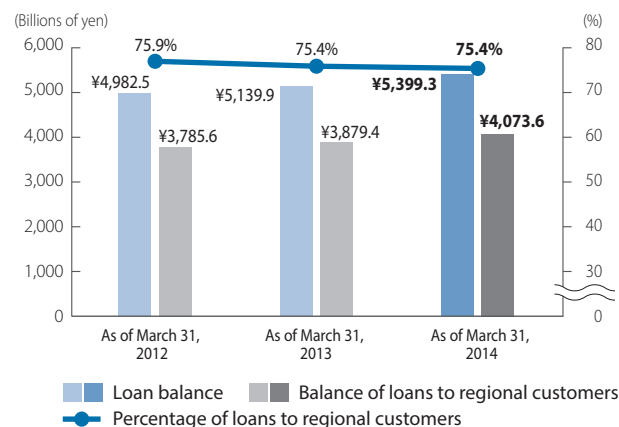
### Deposits

Increased 1.8% from the previous fiscal year-end to ¥7,490.9 billion



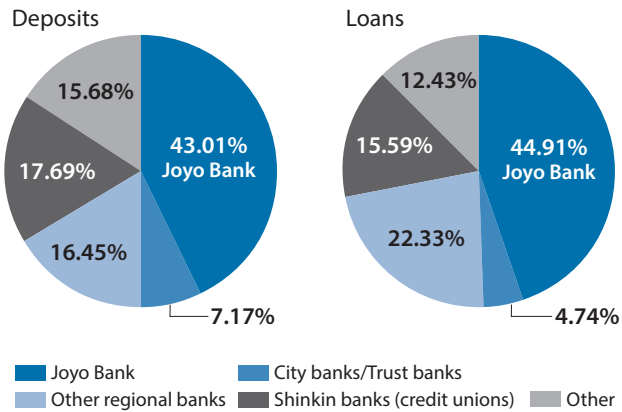
### Loans (Percentage of loans to regional customers)

Increased 5.0% from the previous fiscal year-end to ¥5,399.3 billion



## Market share within Ibaraki Prefecture

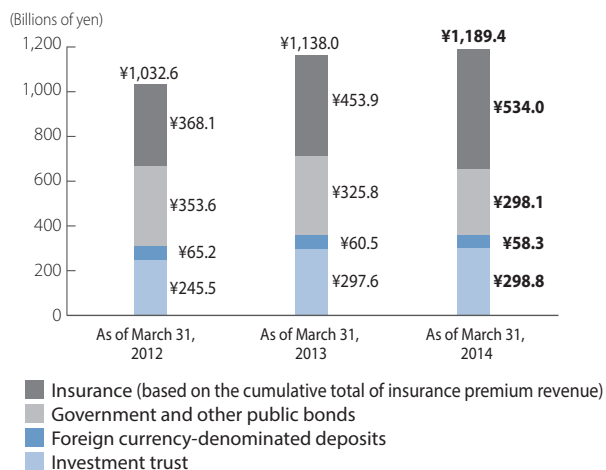
Secured an ongoing high share of both deposits and loans of over 40%.



Note: Market share is calculated on the basis of private financial institutions.

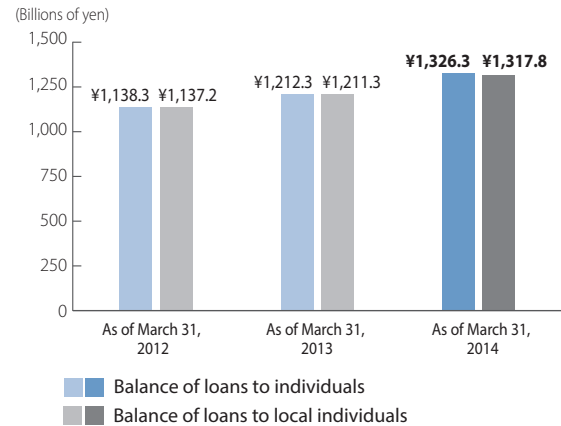
## Assets in custody

Increased 4.5% from the previous fiscal year-end to ¥1,189.4 billion

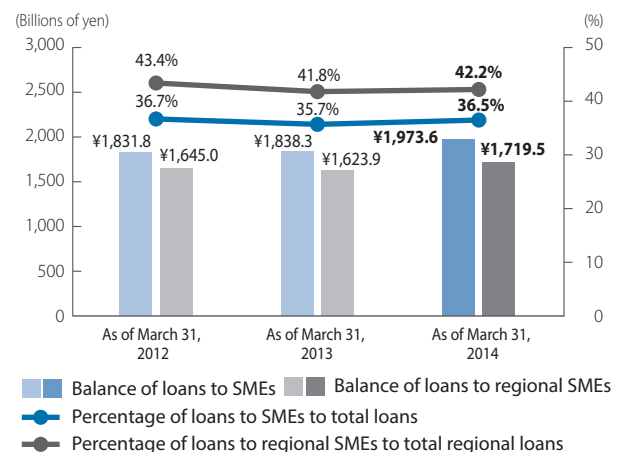


## Loans to individuals

Loans to individuals stood at ¥1,326.3 billion due to the ongoing firm performance of housing loans.

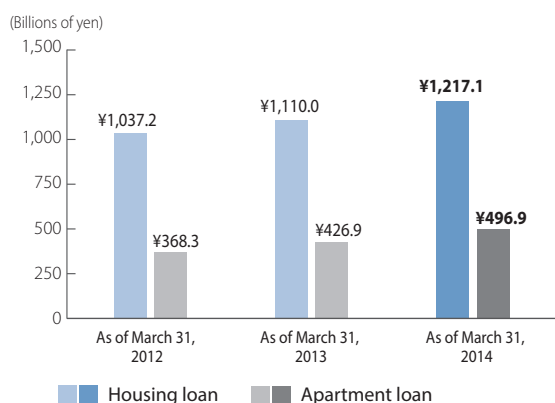


## Loans to SMEs

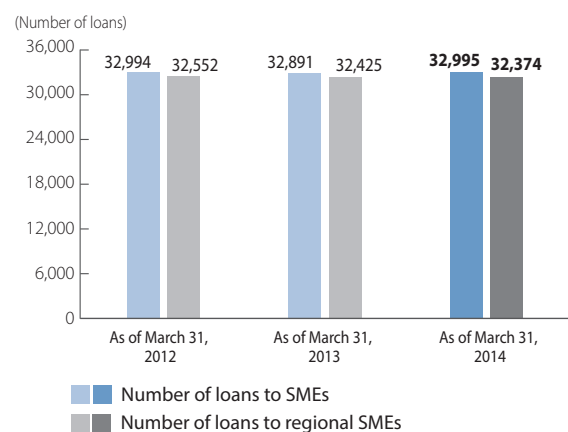


## Housing loan

Housing loans increased 9.6% from the previous fiscal year-end to ¥1,217.1 billion.



## Number of loans to SMEs



## BUSINESS HIGHLIGHTS

### Support for Overseas Business Development

Through alliances with overseas banks and other institutions, we support customers who are moving overseas by making available standby credit denominated in local currencies, and through provision of information. In fiscal 2013, we signed a business alliance with BDO Unibank, Inc. of the Philippines and Vietcombank of Vietnam.

In business matching events, we provided forums for our customer companies to engage in business talks with overseas local companies and also among the companies

exhibiting their wares, including the Japanese Food Trade Fair in Singapore 2013 and the Japan-China Manufacturing Forum in Shanghai and Guangdong in China.

In addition, we positioned ourselves to offer comprehensive support to customers entering foreign markets with overseas network. We plan to open a representative office in New York in autumn in 2014, bringing our total of overseas representative offices to three (Shanghai and Singapore are the other two).

## Overseas Network



### Thailand

- Kasikorn Bank
- Bangkok Bank



### Indonesia

- Bank Negara Indonesia (BNI)



### Philippines

- BDO Unibank

Provides information on each country's domestic banking conditions and offers a variety of financial services, beginning with opening accounts



### Representative Office



常陽銀行

上海代表处

THE JOYO BANK, LTD.

### Japan

### Japan

- NIPPONKOA Insurance Company, Ltd.
- Tokio Marine & Nichido
- Mitsui Sumitomo Insurance Company, Ltd.  
Manages a variety of overseas business risks
- Nippon Export and Investment Insurance (NEXI)  
Provides export insurance to manage the risks associated with overseas export transactions
- Nippon Express (Tokyo Branch Office)  
Offers a full range of logistical services and expertise
- Hitachi Regional Technical Support Center (HITS)  
Supports the overseas development of small- to medium-sized businesses in the Hitachi area
- Secom Co., Ltd.
- SOHGO SECURITY SERVICES CO., LTD. (ALSOK)  
Provides and sells security systems and devices overseas  
Proposes and provides overseas security services
- Japan Bank for International Cooperation (JBIC)  
 (State Bank of India)
  (Vietcom bank)  
 Provides information on country's domestic banking conditions and offers a variety of financial services, beginning with opening accounts



### Representative Office

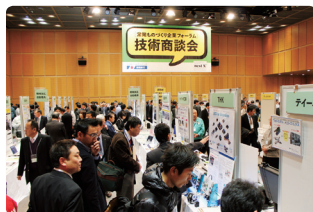


## Support for Manufacturers

Joyo Bank is expanding “next X” activities to provide assistance to local manufacturing businesses over the next decade.



As part of these activities, we provide support for the creation of new businesses and for promotion of alliances among companies and creation of new marketing channels through forums such as the Joyo Manufacturing Forum, technology and business meetings, in which many major companies participate, as well as the “Action D” project, a collaborative venture with Daiwa House Industry Co., Ltd. Likewise, we offer a wide range of support through our own networks, including support for industrial partnerships with universities and government agencies, such as the “Hizazume Meeting,” which brings together small groups for opinion exchanges on technological and product development with university professors and experts from research institutions. Another example is our Joyo Practical Manufacturing Workshop which supports personnel training.



Joyo Manufacturing Forum



Individual presentation in the “Action D” project

## Team for industrial partnerships with universities and government agencies

To be able to provide support to companies involved in manufacturing, it is necessary to have the capability to evaluate their new technologies and products. To enhance our own ability to identify such promising companies, we have established a team specializing in industrial partnerships with universities and government agencies. It comprises three coordinators from external organizations and manufacturers, and two highly experienced branch managers. In addition to helping with applications for various kinds of

subsidy, the team leverages the Bank’s coordination role to support corporate customers’ growth through new technology and product development and business expansion in alliance with external organizations such as universities and research institutes, or other companies.

## Support for the Agri-Business

The Bank offers customers new exchange and business meeting opportunities by convening the Joyo Commercial Food Fair to support the development of sales channels for food businesses as well as the Regional Bank Food Selection event in collaboration with regional banks nationwide. In addition, we are enhancing our financial products for farmers by handling “Daichi” series multi-purpose loans, which are guaranteed by Ibaraki Agriculture Credit Guarantee Fund Association, and operating the Asset-Based Lending (ABL) system as a method for providing finance to cattle breeders using fattening cattle as collateral. We are also strengthening customers’ partnerships with universities and government agencies, including expansion into agribusiness, under the “next X” activities.

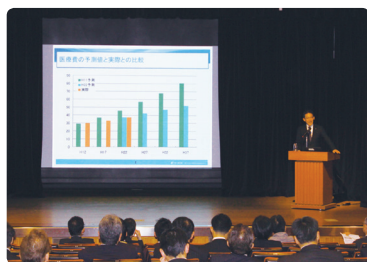


Regional Bank Food Selection event

## Support for Medical and Welfare Businesses

The ongoing demographic change in Japan (a falling birth rate coupled with an increasing number of aged), reform of the social security system and advances in medical care raise the prospect of a range of new financing needs, including funding for upgrading of hospitals and their operation as businesses and for companies entering the healthcare market. We have set up healthcare and welfare teams within the Head Office and provide information

through consultations and seminars on longer-term business development and new business creation in these new fields. In April 2013, we also overhauled the JOYO Clinic Support Loan product. In addition to extending lending caps, we took measures to expand the scope of preferential interest rates and improve ease of use of our services.



## Support for Environmental and New Energy Measures

We support companies that are working to bring about a sustainable society through protection of the environment. In addition to offering loans with preferential interest rates to fund capital investment at companies that protect the environment through renewable energy businesses such as solar power generation, and energy-saving equipment, we are involved in environmental financing, including introduction of environmental screening and ratings for lending. In measures to respond to the government's Feed-in Tariff Scheme for Renewable Energy, we offer services to meet a range of needs, including financing support frameworks for businesses involved in solar power generation using the Asset-Based Lending mechanism, acting as intermediary for solar-panel manufacturers and other companies, and business consultation using the expertise of Joyo Industrial Research Institute, Ltd.



## Joyo Bank's Business Reconstruction Funds

We support the early revival of businesses by establishing the Ibaraki Iki-iki Fund II jointly with financial institutions in the prefecture as well as the Joyo Business Reconstruction Fund in partnership with Risa Partners Inc. In addition, we are working to enhance assistance approaches to small and medium-sized businesses by strengthening our consultation functions based on broader tie-ups with external institutions.

## Online Banking for Corporations JWEBOFFICE

JWEBOFFICE is an online banking service that enables users to undertake balance and payment inquiries, money and bulk transfers, salary deposits, reimbursements and other transactions anywhere. Likewise, customers can use the Joyo Densai Service. Customers may access funding through credit transfer and discount by electronic registration of credit totals, payment dates and other details with densai.net Co., Ltd. using J-WEB OFFICE (Japan only).

## Joyo Industrial Research Institute

In order to revitalize the region, Joyo Industrial Research Institute conducts surveys and research on a consignment basis while providing various consulting services. The Institute's staff includes a large number of experts, including certified SME management consultants, ISO auditors who offer effective solutions to the wide range of issues faced by our customers in the region.

## Joyo Area Research Center

The Joyo Area Research Center cooperates with various economic associations—beginning with those located in Ibaraki Prefecture—and research institutions, performing various tasks that contribute to the regional community and economy. In particular, the Center conducts research and publishes data on economic industry trends and regional development, holding lectures and sending speakers to regional organizations and events.



## CORPORATE SOCIAL RESPONSIBILITY (CSR)

### Environmental Preservation Initiatives

#### Environmental Principles (Established in 2008)

The main operational base of the Joyo Bank Group is Ibaraki Prefecture, an area blessed with beautiful natural scenery, including abundant greenery and water resources. We believe it is the Bank's social mission to help protect and nurture this rich and varied natural environment while realizing a sustainable society in our local region. To this end, we work hand in hand with a diverse range of partners in preserving the natural environment of our home –Ibaraki on a continuous basis.

#### Save The Forest In Japan

The Bank is a member of Save The Forest In Japan, an organization established by regional banks from all over the country dedicated to ensuring healthily growing forests. In conjunction with its efforts to preserve forests in disaster-affected areas, Save The Forest In Japan held the Tohoku Summit in April 2013 with the objective of contributing to the recovery of natural environments in the Tohoku region that were severely damaged during the Great East Japan Earthquake.

#### Joyo Furusato Forest

We have also signed a "forestry partnership agreement" with Ibaraki Prefecture and Ibaraki Forestry Support Center in September 2009. In Naka City, we established the Joyo Furusato Forest. Through thinning, planting and other activities, the Bank is committed to conservation and cultivation of local forests. In addition, we carried out tree-planting activities at Hitachinaka City and Mount Tsukuba. The Bank also provided support for environmental education, enabling local elementary school children to visit the Joyo Furusato Forest in Naka City and get hands-on experience of forestry protection.



### Development of Eco-Friendly Branches

In measure to promote the development of eco-friendly bank branches, we have started to install solar panels and LED lighting, mainly at new branches.



### "Eco-Ibaraki" Environmental Conservation Trust

Joyo Bank subsidizes organizations that engage in environmental preservation activities in Ibaraki Prefecture. In fiscal 2013, we oversaw the environmental protection activities of Kunita Junior High School, Mito City, one of the recipients of grants the Bank makes through the Trust, and held a ceremony for grant presentation.

Overview: Jointly established with Nipponkoa Insurance Co., Ltd. in 1992. Each year, this trust accepts entries from organizations seeking funding, which are evaluated and selected by the executive committee.

Funds donated in fiscal 2013:

85 organizations totaling ¥9,230,000



## Impediment-Removal Initiatives

### Pamphlet entitled Being a People-Friendly Bank

We have detailed in a booklet the various services we offer for the elderly and customers with disabilities. We also provide documents written in Braille.



### Deployment of personnel with Grade 2 Service Care-Fitters qualifications

We have deployed around 200 holders of Grade 2 Service Care-Fitters qualifications at our branches, to assist customers with physical disabilities and provide reassurance to elderly customers.



Studying a guidebook for the visually impaired

### Wheelchairs Available

Wheelchairs are available at 153 Jyo Bank branches to make banking comfortable and worry free for customers with physical disabilities and the elderly.

### Universal design for ATMs screens

We have optimized screen designs, including increased size of buttons and lettering for greater ease of use, and special color patterns and contrast to cater to those who have difficulty distinguishing colors. We have also installed at all branches ATMs with intercom receivers using Braille for the visually impaired.



### Support Program for People with Dementia

We run the Dementia Supporter Training Program for all employees in an effort to promote proper understanding of dementia while cultivating "dementia supporters" who help those suffering from this disease and offer heartfelt support to their families.

## Joyo Geibun Center Foundation

The Center's ongoing objective is to contribute to prosperous and comfortable individual lifestyles by creating

rich local environments through art and culture. Working together with people throughout Ibaraki Prefecture, the Center focuses on supporting cultural promotion activities and local cultural activities.

In fiscal 2013, the Bank published in its in-house journal Joyo Geibun a serial about the ancient work "Hitachi no Kuni Fudoki" (Topography of Hitachi Province), 1,300 years after an imperial edict for the compilation of literature. It also organized a panel exhibit and lectures.



Hiroko Koda soprano recital and tango concert, to commemorate the first anniversary of the opening of the Geibun Gakuen School Tsukuba Course

## Joyo Historical Materials Museum

The Museum features the Currency Gallery, which displays historical currency notes and banking materials, and the Historical Materials Library, where visitors can view documents pertaining to local culture and finance. At the Art Spot, the Museum periodically displays various exhibits.



Art Spot

In addition, the Museum holds classes on finance for various organizations and provides lectures to local residents on financial history and other topics.

## Joyo Volunteer Club

The Bank operates the Joyo Volunteer Club to encourage volunteer-based initiatives by Bank employees. Around 3,200 employees registered in the Club participate in activities in such areas as social welfare, environmental protection, international exchanges, sports activities and various events. We also participated in support and fundraising activities for areas affected by the Great East Japan Earthquake. In October 2013, the Bank took part in a tree-planting event intended as an act of memorial



Commemorative tree-planting event in Minamisoma City

for the deceased and recovery for the town of Minamisoma, in Fukushima Prefecture.

## CORPORATE GOVERNANCE AND INTERNAL CONTROL SYSTEM

To ensure a greater trust from customers, the regional community and our shareholders, we believe it is essential that our management be efficient, sound and transparent, and firmly rooted in compliance. Constantly to be mindful of the importance of corporate ethics, we have established eight basic principles under which we are strengthening and expanding our corporate governance.

### Corporate Governance at Joyo Bank

The Board of Directors meets twice a month in principle to exercise decision-making and supervisory functions. The Bank has a total of 12 directors, of whom two external directors appointed to strengthen supervisory functions by providing an outside perspective. Nine of them are executive directors, and the others a managing director (in charge of internal auditing) and two external directors. Major items relating to conduct of operations excluding those decided by the Board of Directors are handled by an Executive Officer Committee created as an assessment and decision-making body. Executive Officer Committee meetings are held twice a month to discuss and implement specific policies and proposals in the conduct of business.

Special committees (Compliance Committee, General Budget Committee, ALM Committee, Risk Management Committee and Sound Asset Committee) have been established to determine the major themes for management audits. Reports are compiled regarding the discussions and decisions of these committees for perusal of the Board of Directors.

### The Joyo Bank Corporate Philosophy

#### Corporate Social Responsibility (CSR) and Public Mission

Always keep in mind the Bank's CSR and public mission, and deepen trust through sound and open business management.

#### Compliance

Comply with the legal and social code and execute honest and open business activities.

#### Fight Against Crime

Ensure that the Bank has no relationship with organized crime.

#### Provide Valuable Financial Services

We will contribute to the development of the region in which we operate by responding to our customers' needs and providing valuable financial services, considering the security of customers' information.

#### Relationship with the Regional Community

We will communicate openly and freely with the community where we do our business, raising our transparency through active disclosure of corporate information.

#### Respecting the Human Rights of our Employees

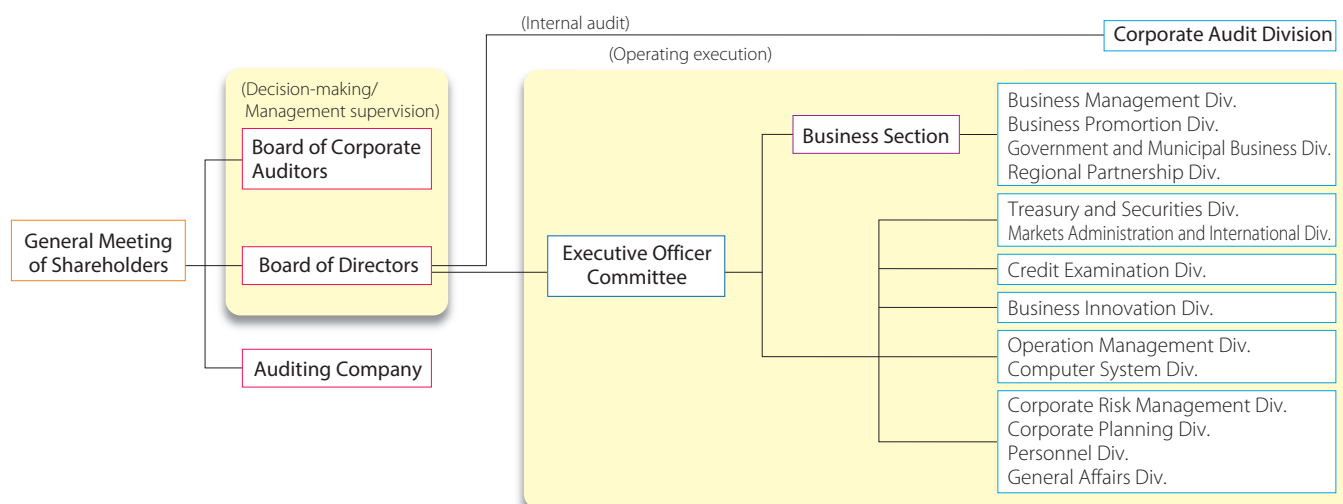
We will provide a work environment that respects individuality and protects the rights of all employees.

#### Environmental Initiatives

We will reduce environmental load, and help the environment through core banking activities.

#### Community Contribution Activities

We are committed to contributing to the community we serve, as a good corporate citizen that marches in step with regional society.





In order to audit performance of duties by directors, the auditors attend important meetings such as the Board of Directors and Executive Officer Committee meetings, peruse relevant documents, and carry out business and asset status inspections, all of which are based on the auditing policies and plans outlined at Board of Corporate Auditors meetings (held once a month in principle).

With regard to internal auditing, the Corporate Audit Division (the auditing office) monitors internal management in terms of appropriateness and effectiveness of conduct, and suggests improvements when problem areas are identified. Results of the audits are regularly submitted in a report to the Board of Directors.

In addition to strengthening internal auditing, we have created a Compliance Audit Committee comprising four outside experts including lawyers and Certified Public Accountants (CPAs) to ensure greater expert input and objectivity.

## **Internal Controls and Risk Management**

### **Compliance**

Based upon our philosophy of soundness, cooperation and partnership with the home region, we attach great importance to compliance in our management. We have established a corporate ethics guideline and a code of conduct. Moreover, we have established a set of guidelines to ensure that every director and employee complies with the law and with the Bank's Articles of Incorporation. Every company within Joyo Bank Group follows the same strict guidelines. We have put standards into place to establish a compliance system across the Group as a whole.

To ensure the best standards in compliance, we have established a Compliance Office that oversees the compliance program as defined by the Board of Directors.

The Office makes regular reports to the Board. Moreover, we have established a whistleblower hotline for the entire Group, called the Compliance Hotline.

In addition to the Compliance Committee, we have appointed outside experts to form a Compliance Audit Committee, which monitors compliance issues on a regular basis.

To ensure that our internal controls perform their intended functions, our various auditing functions, which are independent from business execution departments,

carry out internal audits across the Group. We will resolutely take action to prevent transactions with criminal bodies that threaten public order and security or disrupt economic development.

### **Risk Management Standards and other Controls**

In addition to establishing risk management standards for appropriate management of all categories of risk, it is our mission to build a comprehensive internal risk management structure to ensure a sound financial position and stable earnings in the future by creating frameworks for comprehensive understanding and control of risk. Moreover, we also have business contingency plans in place should any event disrupt our core systems, such as natural disasters or a systems failure.

The management of risk is the responsibility of various risk management departments, as set down in the in-house regulations. Comprehensive risk management is carried out by one department that oversees risk management for the entire Bank. The Board of Directors has appointed the director to oversee the risk management program.

We have established a Risk Management Committee to measure the extent of various risks and make decisions on risk management policies. This committee will meet regularly to ensure an accurate grasp of the situation regarding risk management issues across the Bank. The officer in charge of risk management will make regular reports to the Board of Directors on the current state of risk management and the countermeasures that the Bank is taking against risks.

### **System to Ensure the Effective Execution of their Duties by the Directors of Joyo Bank**

We have put in place business plans to clarify our operational targets, as well as an overall budget every year, to define specific policies.

We have determined the scope of decision-making responsibilities for each director, to achieve efficient operations.

We have established an Executive Officer Committee its functions and details of convocation, etc., are laid down in our Executive Officer regulations. We have also set up a range of committees, grouping executive directors, executive officers and division heads, who meet as and when needed.

## Supporting Corporate Auditors

To support internal auditing, a staff who has enough knowledge and ability as an auditor is assigned to assist the corporate auditor is assigned to assist the corporate auditors.

To ensure the independence of this assistant from the influence of the business execution departments, in case of transfer of the staff, the executive director in charge of all personnel transfers should inform the corporate auditors in advance. The corporate auditors are entitled to express their opinions and advice regarding the personnel transfer of the staff.

The corporate auditors attend meetings of the Executive Officer Committee and offer their opinions on the audit process and all related matters. The directors and employees report any and all information the corporate auditors deem necessary to complete the audit.

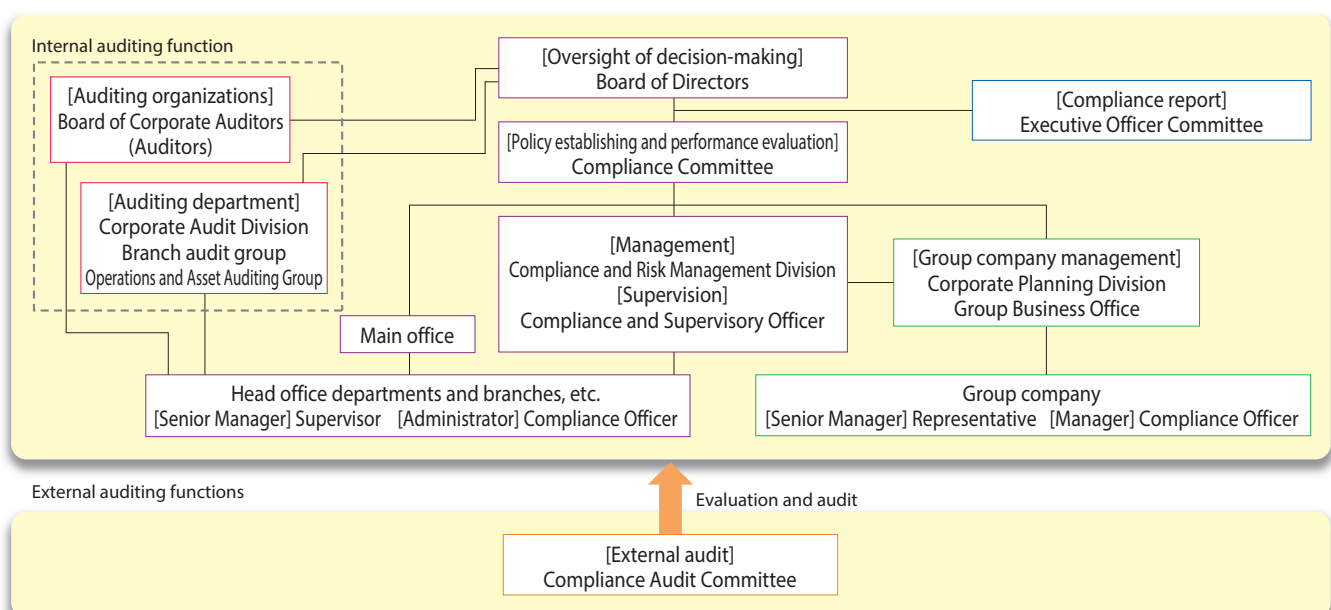
In order to enhance the efficiency of the audit system, the corporate auditors maintain close coordination with all headquarters departments other than the internal audit sections.

The representative directors and accounting auditors each meet regularly with corporate auditors and exchange opinions on the issues related to the audits.

## Compliance System

We place high priority on strengthening our compliance system to ensure sound banking operations, fulfill our social responsibility and public mission, and maintain the trust of customers, shareholders and other stakeholders.

Also, we establish a compliance program each year and ensure that each executive and employee are fulfilling their roles in compliance. In addition, we build a compliance system whose ultimate supervisory organ is the Board of Directors and place dedicated compliance officers in each major division to undertake wide-ranging inspections of legal issues in each division. To supplement internal compliance activities by outside audits to inject the required professional knowledge and objectivity, the Bank set up a Compliance Audit Committee, consisting of outside professionals including lawyers and CPAs. The Committee evaluates and audits the Bank's compliance activities. We strive to further strengthen and improve compliance activities.



## Code of Conduct

We will

- get to know our customers and offer optimal products and services
- expand business scale and grow with our customers
- increase our financial expertise

## Policy Regarding Solicitations for Financial Products

In accordance with the Law Concerning the Sale of Financial Products, our solicitations for products are based on the following policies.

1. Financial product solicitation is based on tailoring products to the level of understanding, experience and financial status of the customer.
2. To ensure that our customers make choices based on their own judgment and at their own liability, we will provide easy-to-understand explanations so that the customer has sufficient understanding of financial products and the risks attached.
3. We assure that sales are never based on the provision of misleading or false statements or information, nor do we act in a manner leading to any misunderstanding by our customers.
4. Our solicitations will not be conducted at times or in locations that cause inconvenience.
5. We are setting up a training system within the Bank to ensure proper solicitation to our customers.

## Risk Management

While the financial industry has grown due to deregulation and the advancement of financial technology, the risks carried by banks continue to diversify and become ever more complicated. In this environment, we are working to meet the highly advanced and various needs of our customers, and we also have placed emphasis on the subject of “risk management” to ensure the maintenance and improvement of sound operations which is one of the most vital issues facing management.

### The Risk Management System

In our fundamental rules regarding risk management, we have outlined our fundamental thinking and management procedures including policies regarding risk management, organizational structure, and responsibilities.

In business management, the departments that carry risks when conducting transactions (marketing departments) and the departments that internally manage the

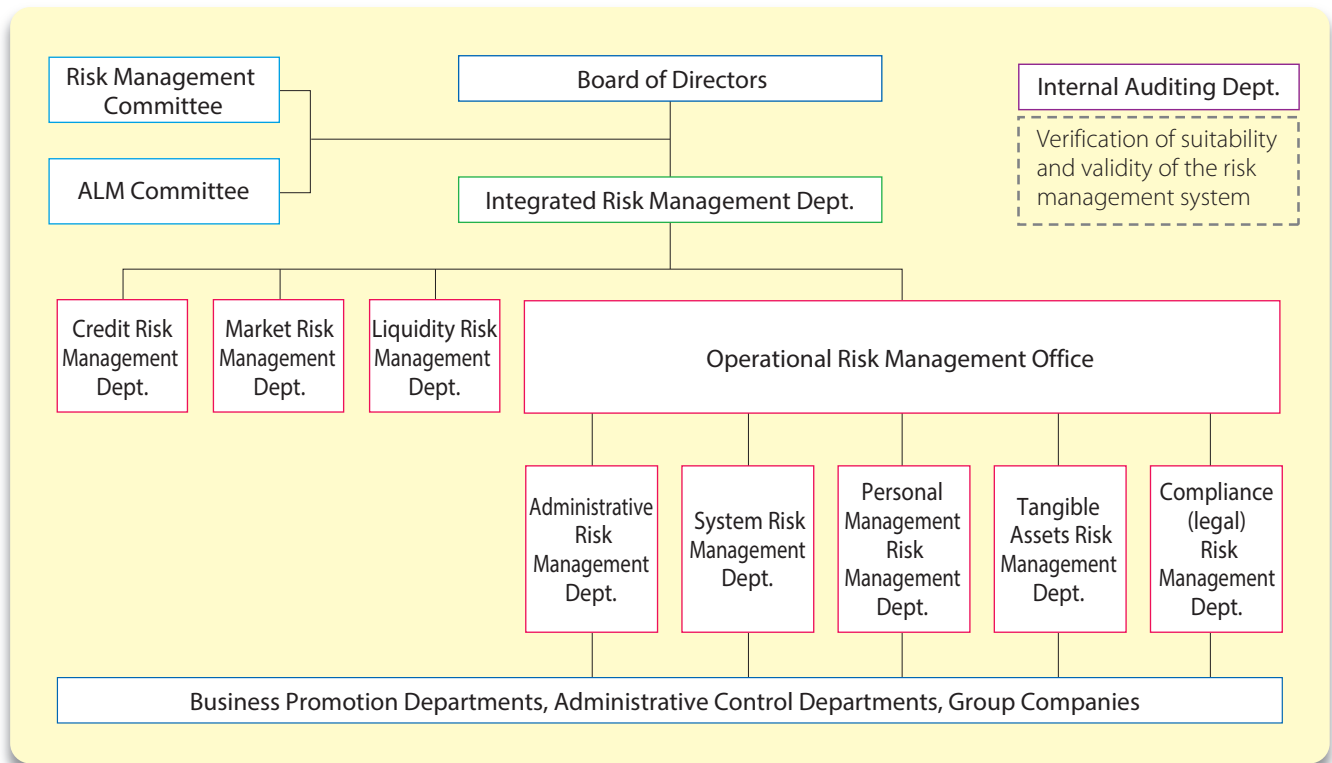
results of transactions (business administration departments) are separated, thus creating an organizational structure that allows for mutual checks and balances.

The various risks that are incurred during banking operations are managed by specific risk management departments depending on the type of risk.

We also have established a risk management supervision department, which supervises the management systems for all risks and is responsible for holding meetings of the Risk Management Committee, an organ for the examination of Bank-wide solutions to risks. The department also provides regular reports on the overall status of risks to the Board of Directors.

Additionally, internal auditing staff verify that risk management is functioning appropriately and effectively through the integrated risk management department and each risk management related department, thereby increasing the effectiveness of the system.

## Risk Management System



## Integrated Risk Management

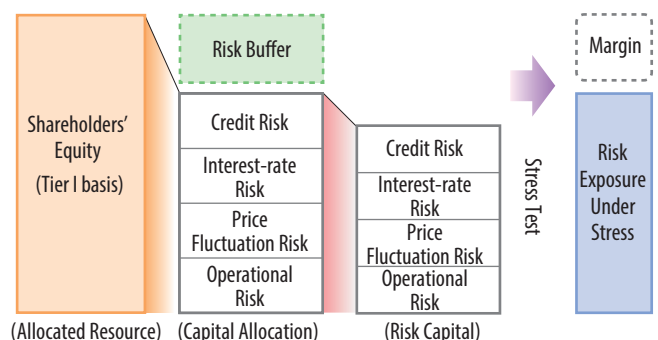
At a time of increasing diversification and complexity in banking operations, we have adopted a policy of integrated risk management to gain a quantitative understanding of risk, using statistical methods such as Value at Risk (VaR) for individual risk categories (credit risk and market risk), to enable systematic risk management rather than management by individual risk category.

By comparing and contrasting comprehensive amounts at risk with the bank's financial resources (own capital), we are committed to maintaining capital at an appropriate level.

### Allocation of Risk Capital

We pre-allocate capital to cover risk in terms of individual categories (credit risk, interest-rate risk, price fluctuation risk and operational risk). Each month, we carry out monitoring to confirm that each quantified risk amount (amount of risk capital to be used) is kept within the allocated capital parameters.

With regard to capital allocation, we ensure a risk buffer is in place to position us to deal with losses that exceed scenarios used by our statistical tools, or which are difficult to quantify using statistical methods. To confirm our capital adequacy including the risks mentioned above, we use stress tests that enable us to appraise the impact on Bank capital of scenarios such as a sudden economic slowdown. In addition, back-testing through comparison of risk amounts calculated using VaR formulas and actual profit performance enables us to confirm the appropriateness and effectiveness of our statistical methods.



## Credit Risk Management

Credit risk is the risk of not receiving principal or loan payments as promised on loans due to a deterioration in creditability of the debtor. This is recognized as one of the most serious risks made within banking operations.

In order to prevent the occurrence of nonperforming loans and improve the soundness of our assets, we make every effort to ensure good credit risk management.

### Overview of Basic Policy and Procedures with Regard to Credit Risk Management

We have compiled management guidelines for credit risk, which serve as a basic policy for appropriate management of credit risk on individual loans and management of the credit portfolio, focusing on risk dispersion as its basic tool.

### Credit Risk Management for Individual Loans

We have separated credit-screening departments from loan departments, and constantly work toward screening stricter while also focusing on credit management before due date to prevent the status of a claim from deteriorating.

We have created a set of basic parameters for loans, designed to speed up decision-making on loans and to ensure more rigorous risk management. We also have a system for accurately reflecting in the asset self-assessments the business performance achieved by the borrower and changes in the value of collateral.

We have also adopted an automated scoring system for small-amount loans to unify credit screening standards and improve efficiency.

### ● *Internal Credit Ratings*

We classify our customers into a 12-grade rating class based on quantitative appraisal of financial condition and cash flows, and qualitative appraisal. In addition to serving as the basis for asset self-assessments, ratings for customers, credit worthiness are used across the full range of credit risk management, including monitoring of credit risk exposure, setting of lending rate and allocation of lending authority.

### ● *Asset Self-Assessment*

In asset self-assessments to evaluate the soundness of assets, the branch carry out a primary evaluation by making a decision on credit category based on a credit rating. Then the head office department in charge of credit screening checks these (secondary assessment), and the Corporate Audit Division audits the results of the asset self-assessment and verifies the appropriateness of procedures. Based on these results, the Bank provides appropriate reserves and writes down problem loans based on the assessments.

### ● *Quantification of Credit Risk Management*

The quantification of credit risk management refers to the statistical forecasting of future losses (amount of credit risk) that can be expected from the bankruptcy or deterioration of business at borrowers. Based on credit ratings, we calculate credit risk for each customer in view of the security and other factors.

### Loan Portfolio Management

We treat 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 to determine whether or not credit risk is concentrated in specific rating groups, sectors or corporate groups, and analyze and evaluate credit situations by rating, region and sector.

## Market Risk Management

Market risk refers to the possibility of losses arising from exposure to risk of change in the value of assets and liabilities of the Bank and in its earnings, due to fluctuations in interest rates, foreign exchange rates and stock prices, etc.

We manage all assets and liabilities (deposits, loans, securities, and others) comprehensively based on ALM (asset and liability management) to manage market risks.

### Market Risk Management System

The front and back office departments are separated. We have also established middle-office risk management sections to enable a mutual system of checks and balances.

### Market Risk Control

To control market risk at appropriate levels, we set loss limits, position limits and other thresholds for each category of transaction, after setting risk tolerance parameters (capital allocation) reflecting the Bank's financial strength, risk-return profile and other factors.

We also have in place a system in which an ALM Committee decides whether to conduct checks on status of compliance with monthly thresholds and other matters and takes measures when necessary. In addition to using VaR, we also approach market risk with multifaceted analysis using tools such as basis point value (BPV) analysis, gap analysis, scenario analysis (simulation method) and sensitivity analysis. This enables us to control risks within a tolerable range reflective of the Bank's financial strength.

## Liquidity Risk Management

Liquidity risk refers to the possibility of losses arising from exposure to risk due to difficulty in securing needed funding after an unforeseen funding outflow or similar events, or a sharp rise in fund-procurement costs. At the Bank, maintaining liquidity risk at a safe and appropriate level is a basic management policy. As a matter of policy, we maintain a certain level of assets that can be quickly converted into liquid form (liquidity reserve assets), and ensure that any funding gap for a given period of time (the amount necessary for fund procurement) is kept within the parameters of assets that can be quickly converted into liquid form. In addition to continuous monitoring of market trends and

liquidity status, we are creating a system enabling us to rapidly respond, to the fullest possible degree, in cases of materialization of liquidity risk events, based on counter-measures drawn up for emergency situations.

## Operational Risk Management

Operational risk refers to the risk of losses arising from irregular procedures or employee conduct in operations, or inappropriate system operation or detrimental external events. The Bank divides such risk into five categories: administrative risk, system risk, risk to tangible assets, personnel management risk, and compliance (legal) risk.

We have also established a management office for each risk category, as well as supervision of overall operational risk measures.

### Administrative Risk

Administrative risk is the risk of damages due to improper administration resulting in accidents or improprieties. We have taken steps to uphold and improve the quality of our administrative operations, to ensure that customers are not inconvenienced by inappropriate administrative management and that administrative management is as error-free and prompt as possible.

In addition to analyzing and evaluating the circumstances, causes and processes surrounding administrative mistakes, we verify the effectiveness of countermeasures after their introduction and repeat them as often as necessary to ensure that the problem is resolved. We are drawing up regulations for administrative processes, and ensuring their strict application by all staff from executives down through guidance and training. We are also verifying the effectiveness of internal audits and taking steps to preempt accidents.

### System Risk

System risk is the risk of losses due to the breakdown of computer systems, erroneous computer operation, and inappropriate computer use. Measures to ensure appropriate management of such risk is based on protection of information data and ensuring stable operation of computer systems.

### **Tangible Assets Risk, Human Resources Risk and Compliance (Legal) Risk**

Risk to tangible assets (inadequate precautions to prevent damage from earthquakes and neglect of building management), personnel management risk relating to safety and hygiene at the workplace, and compliance risk (legality of business, illegal behavior by any executives and employees) are addressed through appropriate measures after identification and evaluation using methods to gauge risk scale and features, and the effect of risk reduction measures is later assessed.

### **Crisis Management**

We have established a set of general emergency guidelines providing specific measures for dealing with situations such as major disasters, system failures and reputational damage, and for minimizing disruption of relations with business partners. We aim to strengthen our crisis management through continuous training and upgrading of procedures.

### **Customer Protection**

To ensure peace of mind for our customers, the Bank established the Customer Protection Management Policy, and is developing a management system that includes the establishment of a controlling division.

### **Adequate explanations of products and services**

We always provide explanations of our financial products and services to ensure that customers understand the products or services adequately. We are working to further improve the quality of explanations by perfecting our staff's knowledge of financial products and services, so they can enable customers to understand them more easily.

### **Listening attentively to customer feedback**

Management of customer queries, consultation, requests, complaints and disputes is undertaken on an integrated basis by the Customer Counseling Office in the business planning division. We have in place a system for discussing measures for improvement and for prevention of issues arising within the operational departments. We have also signed agreements with designated dispute settlement organizations and also work through external entities to reach settlements.

### **Ensuring strict confidentiality in the management of customer information**

We ensure strict confidentiality in our management of customers' personal data. We have drawn up detailed in-house rules for the handling of customer information, practicing strict control of data access and office access as well as the encryption of confidential information. In these ways, we protect our customers from the leakage of their personal information to outside parties as a result of misconduct or human error.

### **Protection of Confidential Private Information**

We have drawn up and made public a privacy policy as a response to the Law Concerning the Protection of Private Information, and have put in place safeguards for the protection and appropriate handling of personal data.

### **Privacy Policy**

We work to build on the mutual trust we have with our customers, the region, and our shareholders, stress the importance of our social responsibility, and offer high-quality financial services. For the protection of personal data, we have established the following policy based on our respect for all individuals, and will put all our efforts into the protection of private information.

### **Privacy Mark**

Based on the "Privacy Mark" certification, administered by Japan Information Processing Development Corporation (JIPDEC), the Bank meets the "requirements for management of personal information protection" (JISQ15001) laid down by Japanese Industrial Standards Committee and now has in place mechanisms for appropriate protection of personal information. The Joyo Bank is the first regional financial institution in the North Kanto area to obtain this certification.





### Policy for Protection of Personal Confidential Information

- **Strict compliance with laws and regulations**

We comply with all laws, ordinances and other regulations regarding confidentiality of personal information.

- **Appropriate access**

We acquire personal information only by appropriate and legal methods, and only when necessary for business operations. Personal information is never gathered in an inappropriate way.

- **Ban on unapproved use of personal information**

We only use personal information inasmuch as it is necessary for achievement of business objectives, and do not use such information for any other purpose.

In addition, information that is registered with credit-data organizations of which we are a member is used where appropriate for credit-related purposes.

- **Ban on provision of personal information to third parties**

Except when prescribed by laws and ordinances, we never provide personal information to third parties without first obtaining the affected person's agreement. In addition, when personal information is

entrusted to an outside organization under an outsourcing arrangement, we require that protection of personal information be contractually assured, and carries out checks.

- **Security management measures**

We have in place appropriate security management mechanisms to ensure prevention of leakage, loss or destruction of personal data, and other measures.

- **Appropriate response to complaints**

When customers have questions or complaints regarding our protection of personal information, we investigate these questions or complaints and deal with them appropriately and promptly, within a reasonable period of time.

- **Continuous improvement**

The Bank has compiled regulations for ensuring strict legal compliance and protection of personal information.

In addition to ensuring that these measures are familiar to all employees and other affected parties, the Bank continually upgrades them. Regular audits into acquisition, use and handling of personal information are part of our broad and thorough commitment to confidentiality.

## Financial Crime Prevention

We are fully committed to preventing crimes involving accounts held at our banks, and to protecting the financial assets of our customers. We require identification when a new account is set up or for a large-amount transaction. In addition to working to prevent inappropriate transactions, when an account is used, we will cancel transactions when considered necessary and will work hard toward crime prevention. We also have implemented measures to prevent the crimes of use of forged ATM cards and online hacking.



# Consolidated Balance Sheets

THE JOYO BANK, LTD. and Consolidated Subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Assets:</b>			
Cash and due from banks (Note 24)	¥ 224,661	¥ 318,396	\$ 2,182,873
Call loans and bills purchased	7,181	1,829	69,773
Other debt purchased	14,660	27,336	142,447
Trading assets (Note 25)	3,387	2,719	32,915
Securities (Notes 7, 8, 13, 24 and 25)	2,760,304	2,651,398	26,819,906
Loans and bills discounted (Notes 6, 10, 11 and 24)	5,363,389	5,108,316	52,112,221
Foreign exchanges (Note 6)	2,251	1,844	21,878
Lease receivables and lease investment assets (Notes 7 and 23)	36,081	30,906	350,579
Other assets (Note 7)	47,812	55,410	464,557
Tangible fixed assets (Note 19)	96,121	93,839	933,943
Intangible fixed assets	10,902	8,958	105,928
Deferred tax assets (Note 15)	2,245	2,801	21,821
Customers' liabilities for acceptances and guarantees	14,522	15,731	141,106
Reserve for possible loan losses	(46,915)	(51,420)	(455,848)
Reserve for devaluation of investment securities	(35)	(35)	(347)
Total assets	¥8,536,571	¥8,268,033	\$82,943,757
<b>Liabilities and net assets</b>			
<b>Liabilities:</b>			
Deposits (Notes 7 and 24)	¥7,489,932	¥7,359,923	\$72,774,317
Call money and bills sold	71,839	38,466	698,016
Payables under securities lending transactions (Notes 7 and 24)	105,996	91,283	1,029,891
Trading liabilities	141	160	1,378
Borrowed money (Notes 7, 10 and 24)	218,248	120,245	2,120,567
Foreign exchanges	353	265	3,437
Bonds (Note 12)	15,000	15,000	145,744
Due to trust account	19	26	186
Other liabilities (Note 10)	62,790	82,157	610,094
Reserve for director's bonuses	48	49	475
Reserve for employees' retirement benefits (Note 14)	—	5,265	—
Net defined benefit liability (Note 14)	8,834	—	85,838
Reserve for directors' retirement benefits	39	33	379
Reserve for reimbursement of dormant deposits	1,993	1,849	19,371
Reserve for frequent users services	127	130	1,243
Reserve for losses on interest refunded	2	6	29
Reserve for other contingent losses	1,505	1,519	14,625
Reserves under the special laws	1	1	17
Deferred tax liabilities (Note 15)	14,352	15,162	139,448
Deferred tax liabilities for land revaluation (Note 3)	11,872	11,974	115,358
Negative goodwill	1,975	2,133	19,193
Acceptances and guarantees	14,522	15,731	141,106
Total liabilities	¥8,019,600	¥7,761,383	\$77,920,719
<b>Net assets:</b>			
Common stock	¥ 85,113	¥ 85,113	\$ 826,982
Capital surplus	58,574	58,574	569,121
Retained earnings	300,506	286,893	2,919,801
Treasury stock	(21,079)	(23,299)	(204,815)
Total shareholders' equity	423,113	407,281	4,111,090
Unrealized gains on available-for-sale securities (Note 25)	86,445	87,047	839,925
Deferred losses on hedging instruments, net of taxes	(2,072)	(2,651)	(20,137)
Land revaluation excess, net of taxes (Note 15)	12,184	12,359	118,391
Remeasurements of defined benefit plans (Note 14)	(5,656)	—	(54,961)
Total accumulated other comprehensive income	90,900	96,754	883,217
Equity warrants	113	120	1,104
Minority interests	2,843	2,493	27,625
Total net assets	516,971	506,649	5,023,037
Total liabilities and net assets	¥8,536,571	¥8,268,033	\$82,943,757

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Income

THE JOYO BANK, LTD. and Consolidated Subsidiaries

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Income:</b>			
Interest and dividend income:	¥ 95,180	¥ 98,070	\$ 924,796
Interest on loans and discounts	69,635	72,786	676,599
Interest and dividends on securities	24,854	24,420	241,495
Other interest income	689	863	6,701
Fees and commissions	24,305	23,949	236,157
Trading income	1,517	1,089	14,747
Other operating income	7,800	5,956	75,788
Other income (Note 17)	30,382	21,401	295,208
Total income	159,186	150,467	1,546,698
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	2,583	3,355	25,105
Interest on borrowings and rediscounts	692	509	6,727
Other interest expenses	1,497	1,362	14,550
Fees and commissions	7,136	7,011	69,342
Other operating expenses	6,215	973	60,387
General and administrative expenses	72,785	71,176	707,207
Other expenses (Note 18)	28,106	31,054	273,092
Total expenses	119,018	115,443	1,156,413
<b>Income before income taxes and minority interests</b>	<b>40,168</b>	<b>35,024</b>	<b>390,285</b>
Income taxes:			
Current	12,277	10,861	119,292
Deferred (Note 15)	2,500	1,143	24,298
<b>Income before minority interests</b>	<b>25,389</b>	<b>23,018</b>	<b>246,694</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	<b>347</b>	<b>291</b>	<b>3,373</b>
<b>Net income</b>	<b>¥ 25,042</b>	<b>¥ 22,726</b>	<b>\$ 243,320</b>
Net income per share (in yen and dollars) (Note 30)	¥ 33.52	¥ 30.06	\$ 0.32

# Consolidated Statements of Comprehensive Income

THE JOYO BANK, LTD. and Consolidated Subsidiaries

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Income before minority interests</b>	<b>¥25,389</b>	<b>¥23,018</b>	<b>\$246,694</b>
Other comprehensive income (Note 20)	(17)	46,888	(171)
Unrealized gains on available-for-sale securities	(596)	46,834	(5,797)
Deferred gains on hedging instruments, net of taxes	579	53	5,626
<b>Comprehensive income</b>	<b>25,372</b>	<b>69,906</b>	<b>246,522</b>
(Attributable to)			
Shareholders of parent	25,019	69,612	243,098
Minority interest	352	294	3,423

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

THE JOYO BANK, LTD. and Consolidated Subsidiaries

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Shareholders' equity</b>			
Common stock			
Balance at end of the previous year	¥ 85,113	¥ 85,113	\$ 826,982
Changes during the year	—	—	—
Total changes during the year	—	—	—
Balance at end of the current year	¥ 85,113	¥ 85,113	\$ 826,982
Capital surplus			
Balance at end of the previous year	¥ 58,574	¥ 58,574	\$ 569,121
Changes during the year	—	—	—
Total changes during the year	—	—	—
Balance at end of the current year	¥ 58,574	¥ 58,574	\$ 569,121
Retained earnings			
Balance at end of the previous year	¥286,893	¥275,598	\$2,787,540
Changes during the year			
Cash dividends	(6,735)	(6,069)	(65,439)
Net income	25,042	22,726	243,320
Disposal of treasury stock	(24)	(5)	(241)
Retirement of treasury stock	(4,844)	(5,450)	(47,071)
Transfer from land revaluation excess	174	93	1,693
Total changes during the year	13,612	11,295	132,261
Balance at end of the current year	¥300,506	¥286,893	\$2,919,801
Treasury stock			
Balance at end of the previous year	¥ (23,299)	¥ (24,913)	\$ (226,385)
Changes during the year			
Purchase of treasury stock	(2,710)	(3,854)	(26,332)
Disposal of treasury stock	85	18	830
Retirement of treasury stock	4,844	5,450	47,071
Total changes during the year	2,219	1,614	21,569
Balance at end of the current year	¥ (21,079)	¥ (23,299)	\$ (204,815)
Total shareholders' equity			
Balance at end of the previous year	¥407,281	¥394,371	\$3,957,259
Changes during the year			
Cash dividends	(6,735)	(6,069)	(65,439)
Net income	25,042	22,726	243,320
Purchase of treasury stock	(2,710)	(3,854)	(26,332)
Disposal of treasury stock	60	13	588
Retirement of treasury stock	—	—	—
Transfer from land revaluation excess	174	93	1,693
Total changes during the year	15,832	12,909	153,831
Balance at end of the current year	¥423,113	¥407,281	\$4,111,090
<b>Accumulated Other Comprehensive Income:</b>			
Unrealized gains on available-for-sale securities			
Balance at end of the previous year	¥ 87,047	¥ 40,214	\$ 845,773
Changes during the year			
Net changes in items other than shareholders' equity	(601)	46,832	(5,848)
Total changes during the year	(601)	46,832	(5,848)
Balance at end of the current year	¥ 86,445	¥ 87,047	\$ 839,925

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Deferred losses on hedging instruments, net of taxes</b>			
Balance at end of the previous year	¥ (2,651)	¥ (2,705)	\$ (25,764)
Changes during the year			
Net changes in items other than shareholders' equity	579	53	5,626
Total changes during the year	579	53	5,626
Balance at end of the current year	¥ (2,072)	¥ (2,651)	\$ (20,137)
<b>Land revaluation excess, net of taxes</b>			
Balance at end of the previous year	¥ 12,359	¥ 12,452	\$ 120,084
Changes during the year			
Net changes in items other than shareholders' equity	(174)	(93)	(1,693)
Total changes during the year	(174)	(93)	(1,693)
Balance at end of the current year	¥ 12,184	¥ 12,359	\$ 118,391
<b>Remeasurements of defined benefit plans</b>			
Balance at end of the previous year	¥ —	¥ —	\$ —
Changes during the year	—	—	—
Net changes in items other than shareholders' equity	(5,656)	—	(54,961)
Total changes during the year	(5,656)	—	(54,961)
Balance at end of the current year	¥ (5,656)	¥ —	\$ (54,961)
<b>Total accumulated other comprehensive income</b>			
Balance at end of the previous year	¥ 96,754	¥ 49,961	\$ 940,094
Changes during the year			
Net changes in items other than shareholders' equity	(5,853)	46,793	(56,876)
Total changes during the year	(5,853)	46,793	(56,876)
Balance at end of the current year	¥ 90,900	¥ 96,754	\$ 883,217
<b>Equity warrants</b>			
Balance at end of the previous year	¥ 120	¥ 81	\$ 1,171
Changes during the year			
Net changes in items other than shareholders' equity	(6)	39	(67)
Total changes during the year	(6)	39	(67)
Balance at end of the current year	¥ 113	¥ 120	\$ 1,104
<b>Minority interests</b>			
Balance at end of the previous year	¥ 2,493	¥ 2,201	\$ 24,223
Changes during the year			
Net changes in items other than shareholders' equity	350	291	3,402
Total changes during the year	350	291	3,402
Balance at end of the current year	¥ 2,843	¥ 2,493	\$ 27,625
<b>Total net assets</b>			
Balance at end of the previous year	¥506,649	¥446,615	\$4,922,748
Changes during the year			
Cash dividends	(6,735)	(6,069)	(65,439)
Net income	25,042	22,726	243,320
Purchase of treasury stock	(2,710)	(3,854)	(26,332)
Disposal of treasury stock	60	13	588
Transfer from land revaluation excess	174	93	1,693
Net changes in items other than shareholders' equity	(5,510)	47,124	(53,542)
Total changes during the year	10,321	60,033	100,288
Balance at end of the current year	¥516,971	¥506,649	\$5,023,037

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

THE JOYO BANK, LTD. and Consolidated Subsidiaries

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥40,168	¥ 35,024	\$390,285
Depreciation	5,841	5,334	56,756
Impairment losses	597	308	5,803
Amortization of negative goodwill	(158)	(158)	(1,535)
Net increase (decrease) in reserve for possible loan losses	(4,504)	713	(43,765)
Net decrease in reserve for devaluation of investment securities	—	(275)	—
Net increase in reserve for directors' retirement benefits	5	7	57
Net increase in reserve for reimbursement of dormant deposits	144	137	1,402
Net decrease in reserve for frequent users services	(2)	(7)	(21)
Net decrease in reserve for other contingent losses	(13)	(221)	(135)
Net decrease in reserve for losses on interest refunded	(3)	(4)	(30)
Net increase (decrease) in reserve for bonuses to directors and corporate auditors	(1)	3	(10)
Net increase in reserve for employees' retirement benefits	—	40	—
Net decrease in net defined benefit liability	(606)	—	(5,894)
Interest and dividend income	(101,539)	(104,699)	(986,583)
Interest expenses	4,773	5,227	46,382
Net losses related to securities transactions	95	4,314	932
Foreign exchange gains, net	(23,567)	(27,468)	(228,991)
Losses on disposal of tangible fixed assets	554	620	5,389
Net decrease (increase) in trading assets	(667)	1,056	(6,487)
Net decrease in trading liabilities	(18)	(31)	(182)
Net increase in lease investment assets	(5,174)	(2,412)	(50,279)
Net increase in loans and bills discounted	(255,073)	(155,545)	(2,478,367)
Net increase in deposits	135,439	86,606	1,315,965
Net decrease in negotiable certificates of deposit	(5,429)	(4,392)	(52,759)
Net increase in borrowed money excluding subordinated borrowings	103,003	20,936	1,000,814
Net decrease (increase) in due from banks excluding cash equivalents	(5,597)	3,729	(54,388)
Net decrease in call loans and others	7,324	7,933	71,165
Net increase in call money and bills sold	33,373	20,904	324,265
Net increase in payables under securities lending transactions	14,712	52,394	142,954
Net increase in foreign exchange (assets)	(407)	(86)	(3,957)
Net decrease in foreign exchange (liabilities)	88	27	858
Net decrease (increase) in due to trust account	(7)	9	(69)
Interest and dividends received	102,620	104,557	997,086
Interest paid	(5,724)	(6,969)	(55,622)
Others, net	(7,559)	1,732	(73,446)
Subtotal	32,686	49,349	317,589
Income taxes paid	(12,453)	(5,370)	(121,005)
Net cash provided by operating activities	20,232	43,978	196,583
<b>Cash flows from investing activities:</b>			
Purchases of securities	(794,302)	(712,034)	(7,717,666)
Proceeds from sale of securities	417,373	319,994	4,055,315
Proceeds from redemption of securities	282,427	302,033	2,744,145
Purchases of tangible fixed assets	(7,099)	(5,486)	(68,981)
Proceeds from sales of tangible fixed assets	154	186	1,502
Purchases of intangible fixed assets	(3,751)	(2,188)	(36,453)
Net cash used in investing activities	(105,198)	(97,494)	(1,022,137)
<b>Cash flows from financing activities:</b>			
Repayments of subordinated borrowings	(5,000)	—	(48,581)
Cash dividends paid	(6,735)	(6,069)	(65,439)
Cash dividends paid to minority interests	(2)	(2)	(21)
Purchases of treasury stock	(2,710)	(3,854)	(26,332)
Proceeds from sales of treasury stock	60	13	588
Net cash used in financing activities	(14,386)	(9,912)	(139,785)
Translation adjustment for cash and cash equivalents	20	25	195
Net increase in (decrease in) cash and cash equivalents	(99,332)	(63,402)	(965,144)
Cash and cash equivalents at beginning of year	309,695	373,098	3,009,092
Cash and cash equivalents at end of year (Note 3)	¥210,363	¥309,695	\$2,043,948

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

THE JOYO BANK, LTD. and Consolidated Subsidiaries

## 1. Basis of Preparation

The accompanying consolidated financial statements of The Joyo Bank, Ltd. (the "Bank") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Bank as required by the Financial Instruments and Exchange Act of Japan.

For the convenience of readers outside Japan, certain items presented in the original consolidated financial statements have been reclassified and rearranged.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

## 2. Japanese Yen and U.S. Dollar Amounts

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts. Solely for the convenience of the reader, the U.S. dollar amounts represent a translation of the Japanese yen amounts at ¥102.92 = US\$1.00, the exchange rate prevailing on March 31, 2014.

## 3. Significant Accounting Policies

### (a) Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and nine major subsidiaries.

There are no unconsolidated subsidiaries. There are no unconsolidated subsidiaries and affiliates that are accounted for by the equity method. An affiliate, Ibaraki-kizuna Investment Limited Partnership, is not accounted for under the equity method because the amounts of net income, retained earnings and accumulated other comprehensive income of the affiliate are immaterial, and as such, it does not have any significant impacts on the consolidated financial statements when excluded from the scope of equity method.

All significant intercompany transactions have been eliminated in consolidation. Assets and liabilities held by consolidated subsidiaries are stated at fair value at a time of acquisition.

### (b) Consolidated subsidiaries' closing date

Closing date of nine consolidated subsidiaries is March 31.

### (c) Transactions for trading purposes

Transactions for "trading purposes" (seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or from 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. Gain or loss on such trading transactions are reflected as trading income or trading expenses in the consolidated statements of income.

Among the trading assets and liabilities, securities and monetary claims are carried at market value as of the balance sheet date. Derivatives including swaps, futures, and options are valued assuming settlement on the 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 other than trading securities have been accounted for by the following methods:

Marketable debt securities held to maturity are stated at amortized cost by the moving-average cost method. Equity shares and investment trusts listed on Japanese markets are stated at fair value based on their average market prices over the month prior to the balance sheet date. (Acquisition cost is basically calculated by the moving-average cost method.) Other listed securities are stated at fair value based on the market prices prevailing on the balance sheet date. (Acquisition cost is basically calculated by the moving-average cost method.) Other available-for-sale securities which are extremely difficult to determine the fair value are stated at cost or amortized cost by the moving-average cost method.

Unrealized gain or loss on available-for-sale securities (net of the related tax effect) has been reported as a component of net assets.

### (e) Derivatives

Derivatives positions held by the Bank (not including transactions for trading purposes) are stated at fair value.



#### **(f) Depreciation of tangible fixed assets**

Depreciation of tangible fixed assets held by the Bank is calculated by the declining-balance method, except for buildings acquired on or after April 1, 1998 of which depreciation is calculated by the straight-line method. The estimated useful lives are as follows:

Buildings: 6~50 years

Other: 3~20 years

Depreciation of tangible fixed assets held by the consolidated subsidiaries is calculated principally by the declining-balance method, based on the respective estimated useful lives of the assets.

Depreciation of intangible fixed assets is calculated using the straight-line method. Software for internal use is depreciated using the straight-line method over its estimated useful life (mainly 5 years).

Depreciation of lease assets in "Tangible fixed assets", which are the finance leases other than those that transfer the ownership lease property to the lessee is calculated using the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

#### **(g) Reserve for possible loan losses**

The reserve for possible loan losses of the Bank is provided as detailed below, in accordance with the internal rules for providing reserves for possible loan losses:

For claims to debtors who are legally bankrupt (as a result of bankruptcy, special liquidation, etc.) or who are substantially bankrupt, a reserve is provided based on the amount of the claims, net of the amounts expected to be collected by the disposal of collateral or as a result of the execution of guarantees.

For claims to debtors who are not currently bankrupt, but are likely to become bankrupt, a reserve is provided based on the amount considered necessary based on an overall solvency assessment of the amount of claims net of the amounts expected to be collected by the disposal of collateral or as a result of the execution of guarantees.

For other claims, a reserve is provided based on the Bank's historical loan-loss experience.

All claims are assessed by the Business Section (at the branches and the related head office divisions) based on the Bank's internal rules for the self-assessment of asset quality.

The Corporate Audit Department, which is independent of the Business Section, subsequently conducts audits of such assessments, and a reserve is provided based on the audit results.

The reserves of the consolidated subsidiaries 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.

For collateralized or guaranteed claims from debtors who are legally or substantially bankrupt, the amounts of the claims deemed uncollectible in excess of the estimated value of the collateral or guarantees have been written off in aggregate amounts of ¥19,748 million and ¥20,250 million as of March 31, 2014 and 2013, respectively.

#### **(h) Reserve for devaluation of investment securities**

A reserve for the devaluation of investment securities is provided at the amount deemed necessary to cover estimated possible losses on investments which the Bank and its consolidated subsidiaries may incur in the future.

#### **(i) Reserve for employees' retirement benefits**

In calculating the projected benefit obligation, the straight-line basis is used to attribute the expected benefit attributable to the respective fiscal year.

Prior service cost is deferred and amortized using the straight-line method over certain years (10 years) within the average remaining service period of the eligible employees.

Unrealized actuarial losses are deferred and amortized using the straight-line method over a ten-year period commencing with the following year, which is shorter than the average remaining service period of the eligible employees.

(Additional information)

The Bank transferred part of the defined benefit plan to the defined contribution plan on May 1, 2014.

The Bank adopted "Guidance on Accounting for Transfers between Retirement Benefit Plans" (Accounting Standards Board of Japan (ASBJ) Application Guidance No.1 issued on January 31, 2002) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (Practical Issues Task Force No. 2 issued on February 7, 2007) to account for the transfer. This change has no material impact on the consolidated financial statements for the year ended March 31, 2014.

#### **(j) Reserve for directors' bonuses**

Reserve for directors' bonuses represents estimated cost of directors' (including executive officers) bonuses attributable to the fiscal year.

**(k) Reserve for directors' retirement benefits**

Reserve is made for the payments of retirement allowances to directors and corporate auditors of the consolidated subsidiaries based on an estimate of the amount attributable to the fiscal year.

**(l) Reserve for reimbursement of dormant deposits**

Reserve for reimbursement of dormant deposits which were derecognized as liabilities under certain conditions is provided for possible losses on the future claims.

**(m) Reserve for frequent users services**

Reserve for frequent users services, which is provided to meet future use of credits granted to credit card customers, is recorded in the amount deemed necessary based on the estimated future use of unused credits. This program applies to cards issued by the Bank and one of its subsidiaries.

**(n) Reserve for losses on interest refunded**

One consolidated subsidiary provides a provision for losses on interest refunded in an amount deemed necessary based on estimated amounts to be refunded, taking into account historical records of interest refunded on the portion of loans whose interest rates exceeded the maximum interest rate stipulated by the Interest Limitation Law.

**(o) Reserve for contingent losses**

The Bank makes reserve for possible losses on loans 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.

**(p) Reserves under special laws**

The reserve under the special laws is a reserve for contingent liabilities and provided for compensation for losses from securities-related transactions or derivative transactions in the amount of ¥1 million as of March 31, 2014 and 2013, pursuant to Article 46-5-1 of the Financial Instruments and Exchange Act and Article 175 of the related cabinet order.

**(q) Negative goodwill**

Negative goodwill is amortized using the straight-line method over 20 years.

**(r) Deferred charges**

Stock issuance costs are charged to expenses as incurred.

**(s) Translation of foreign currencies**

Foreign currency-denominated assets and liabilities of the Bank are translated into Japanese yen at the rates prevailing at the balance sheet date. Foreign currency-denominated assets and liabilities held by consolidated subsidiaries are translated into Japanese yen principally at the rates prevailing at the respective balance sheet dates.

All consolidated subsidiaries have a fiscal year end of March 31.

**(t) Leases**

As for finance lease transactions that do not transfer ownership of the leased property and which commenced prior to April 1, 2008, their treatment was as follows.

**As a lessee**

Using the same method applied to operating lease transactions.

**As a lessor**

In line with the stipulations of Article 81 of the Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No. 16, issued on March 30, 2007), book value (after deduction of accumulated depreciation) of lease assets included in tangible fixed assets and intangible assets as of the previous balance sheet date (March 31, 2008) was recorded as the initial balance of "Lease receivables and lease investment assets."

**(u) Recognition of income on finance lease**

As a lessor income and expense are recognized when lease receivables are collected as for finance lease transactions that do not transfer ownership of the property.



#### (v) Hedging

##### Hedging against interest rate risks

The deferred method of hedge accounting is applied to transactions to hedge against the interest rate risks associated with monetary claims and debt in accordance with the regulations set out in the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24).

The Bank assesses the effectiveness of such hedges in offsetting movement of the fair value with the changes in interest rates, by classifying the hedged items (deposits or loans) and the hedging instruments (interest swaps) by their maturity. As to cash flow hedges, the Bank assesses the effectiveness of such hedges in fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

##### Hedging against foreign exchange fluctuation risks

The deferred method of hedge accounting is applied to transactions to hedge against the foreign exchange fluctuation risks associated with monetary assets and liabilities denominated in foreign currencies, in accordance with the regulations set out in the "Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25).

To minimize the foreign exchange fluctuation risks on monetary assets and liabilities, the Bank engages in currency swaps, foreign exchange swaps, and similar transactions. The effectiveness of these transactions in the hedging of the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed through comparison of the foreign currency position of the hedged monetary assets and liabilities, with that of the hedging instruments.

When certain criteria are met, exceptional accrual method for interest rate swap is applied to some assets and liabilities held by the Bank and its consolidated subsidiaries.

#### (w) Consumption tax

Consumption tax is excluded from transactions reported by the Bank and its consolidated subsidiaries. However, non-deductible consumption tax on tangible fixed assets is charged to income as incurred.

#### (x) Land revaluation excess

In accordance with the Law concerning the Revaluation of Land (Act No. 119, effective March 31, 1998), the Bank revalued the land held for its operations on March 31, 1998. The net unrealized gain is presented in net assets net of the applicable income taxes as land revaluation excess, net of taxes.

The difference between the carrying amount and the fair value of premises revalued pursuant to Article 10 of the Law was ¥29,682 million and ¥29,364 million as of March 31, 2014 and 2013, respectively.

#### (y) Earnings per share

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding during each year.

#### (z) Statements of cash flows

Cash and cash equivalents in the 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 as well as the time deposits of certain consolidated subsidiaries.

March 31,	Millions of yen	
	2014	2013
Cash and due from banks	¥224,661	¥318,396
Deposits with banks other than the Bank of Japan	(14,298)	(8,700)
Cash and cash equivalents	¥210,363	¥309,695

## 4. Accounting change

From the fiscal year ended March 31, 2014, the Bank and its consolidated subsidiaries have adopted the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012) (excluding the provisions set out in the main text of Paragraph 35 and Paragraph 67 of the Accounting Standard and the Guidance, respectively). Accordingly, the difference between the projected benefit obligation and plan assets is reported as net defined benefit liability.

In accordance with the transitional treatment stipulated in Paragraph 37 of the Accounting Standard, unrecognized actuarial loss and unrecognized prior year service cost, net of deferred tax are reported as remeasurements of defined benefit plans in accumulated other comprehensive income from the fiscal year ended March 31, 2014.

As a result of this change, ¥8,834 million was recorded as net defined benefit liability and deferred tax assets increased by ¥3,083 million and accumulated other comprehensive income decreased by ¥5,656 million.

## 5. Standards Issued but not yet effective

### Accounting Standard for Retirement Benefits

#### (1) Outline

The accounting standards have been revised in light of improving financial reporting and considering the trends of international convergence. The major revisions are changes in accounting treatments for unrecognized actuarial losses, unrecognized prior service costs, calculation methods for retirement benefit obligation, service cost and enhancement of disclosure items.

#### (2) Dates of application

The Bank intends to adopt calculation methods for retirement benefit obligation and service cost from the fiscal year beginning on April 1, 2014.

#### (3) Impact of adoption of the revised accounting standards

The impact of adoption of the revised accounting standard is currently being examined.

### Accounting Standard for Business Combinations

#### (1) Outline

The accounting standards have been revised mainly on (i) the treatment of a change in the parent company's ownership interest in a subsidiary in the case where the parent company continues to control the subsidiary upon additionally acquiring the shares of the subsidiary or other cases, (ii) the treatment of acquisition cost, (iii) the treatment of the transitional accounting, and (iv) the presentation of net income and the change in presentation from minority interests to non-controlling interests.

#### (2) Dates of application

The Bank intends to adopt revised accounting standards from the fiscal year beginning on April 1, 2015.

#### (3) Impacts of adoption of the revised accounting standards

Impacts of adoption of the revised accounting standard are not yet determined.

## 6. Bills Discounted

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Bank has the rights to sell or pledge bank acceptances bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The face value at March 31, 2014 and 2013 totaled ¥22,859 million and ¥26,010 million, respectively.

## 7. Pledged Assets

Assets pledged as collateral at March 31, 2014 and 2013 were as follows:

March 31,	Millions of yen	
	2014	2013
Pledged assets:		
Securities	¥440,698	¥289,879
Liabilities covered by pledged assets:		
Deposits	26,047	20,673
Payables under securities lending transactions	105,996	91,283
Borrowed money	196,996	95,940

In addition to the above, securities amounting to ¥48,096 million and ¥45,946 million at book value were pledged as collateral in connection with bank transfer settlements and futures transactions as of March 31, 2014 and 2013, respectively.

One consolidated subsidiary had pledged its lease receivables amounting to ¥259 million and ¥575 million as of March 31, 2014 and 2013, respectively.

“Other assets” included lease deposits of ¥1,401 million and ¥1,518 million, at March 31, 2014 and 2013, respectively. “Other assets” also included Initial margins on futures transactions of ¥160 million at both March 31, 2014 and 2013.

## 8. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Investments	¥423	¥395

## 9. Commitments and Contingent Liabilities

Overdraft facilities and line-of-credit contracts are agreements under which, subject to compliance with the contractual conditions, the Bank or consolidated subsidiaries pledge to provide clients with funds up to a fixed limit upon submission of a loan application to the Bank. The unused amount related to such facilities/contracts stood at ¥1,552,123 million and ¥1,496,374 million at March 31, 2014 and 2013, respectively. Of this amount, facilities/contracts which expire within one year or which are unconditionally cancelable at any time, totaled ¥876,495 and ¥942,282 million at March 31, 2014 and 2013, respectively.

Most of these agreements will expire without the clients' having utilized the financial resources available to them, and the amount of the non-executed financing will not necessarily impact on the Bank or its consolidated subsidiaries' future cash flows. Most of these facilities/contracts contain a clause which allows the Bank or its consolidated subsidiaries to reject a loan application or to reduce the upper limit requested in view of changing financial conditions, credit maintenance and other reasonable concerns.

When necessary, the Bank will demand collateral such as real estate or marketable securities at the date on which an agreement is entered into. In addition, after facilities/contracts are set forth the Bank will regularly assess the business status of the clients, based on predetermined internal procedures and, when prudent, will revise the agreements or reformulate their policies to maintain creditworthiness.

## 10. Borrowed Money

Borrowed money included subordinated debt of ¥5,400 million and ¥10,400 million, at March 31, 2014 and 2013.

Borrowed money at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		%	Due
Description	2014	2013	Average interest rate	
Bills rediscounted	¥ —	¥ —	—	—
Other borrowings	218,248	120,245	0.24	April 2014 - September 2019
Lease obligations	30	3	5.06	April 2014 - July 2020

Notes: 1. Average interest rate represents the weight average interest rate based on the balances and rates at respective fiscal year-end.  
2. The repayment schedule within five years on borrowed money at March 31, 2014 was as follows:

	Millions of yen	
	Other borrowings	Lease obligations
Within 1 year	¥206,032	¥4
After 1 year within 2 years	6,136	4
After 2 years within 3 years	3,055	5
After 3 years within 4 years	2,800	4
After 4 years within 5 years	225	4

## 11. Non-Performing Loans

In accordance with the disclosure requirements under the Rules for Bank Accounting in Japan, the balance of loans and bills discounted at March 31, 2014 and 2013 included the following non-performing loans:

	Millions of yen	
March 31,	2014	2013
Loans in bankruptcy and dishonored bills	¥1,694	¥1,575
Delinquent loans	100,471	116,116
Loans past due with respect to interest payments for more than 3 months	944	854
Restructured loans	23,823	37,139
Total	¥126,933	¥155,685

Notes: 1. Loans in bankruptcy and dishonored bills refers to loans (excluding charged-off amounts) stipulated in Article 96, Paragraph 1, Item 3 (a) to (e) or Item 4 of the Enforcement Regulation to Corporation Tax Act (1965 Enforcement Regulation No. 97) to which accrued interest receivables are not recognized as accruals for accounting purposes since no repayment of principal or payment of interest has been made for a considerable period. Delinquent loans refers to loans with respect to which accrued interest receivables are not recognized as accruals for accounting purposes, excluding loans falling into the category of restructured loans. Loans past due with respect to interest payments for more than 3 months refers to loans with respect to which repayment of principal or payment of interest are past due for three months or more, excluding loans falling into the categories of loans in bankruptcy and dishonored bills or delinquent loans. Restructured loans refers to loans to borrowers to

- whom financial support is given in the form of reduction in interest, waiver of repayment of the principal or payment of interest, or debt forgiveness with the aim of corporate rehabilitation, excluding loans falling into loan categories mentioned above.
2. The above amounts are stated before the deduction of the reserve for possible loan losses.

## 12. Bonds

Bonds at March 31, 2014 and 2013 consisted of the following:

Issuer	Description	Date of issue	Millions of yen		%	Collateral	Due
			2014	2013			
The Jyo Bank, Ltd.	2nd Unsecured Straight Bonds	May 24, 2000	5,000	5,000	2.64	—	May 22, 2020
The Jyo Bank, Ltd.	1st Unsecured Subordinated Bonds with early redemption clause	January 31, 2012	10,000	10,000	1.22	—	January 31, 2022
Total			¥15,000	¥15,000			

Note: After the consolidated closing date, the Bank had no redemption schedule for a period of five years or less.

## 13. Privately placed bonds

Privately placed bonds (Article 2-3 of Financial Instruments and Exchange Law) guaranteed by the Bank at March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Privately placed bonds	¥17,704	¥16,688

## 14. Employees' Retirement Benefits

For the fiscal year ended March 31, 2014

### (a) Outline of current retirement benefit system

The Bank 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 which are excluded from the projected benefit obligation in employees' retirement benefits accounting may be paid on a case-by-case basis. The Bank has established an employees' retirement benefit trust. As of the end of March 31, 2014, the Bank and nine consolidated subsidiaries have lump-sum retirement benefits for employees. The Bank and its consolidated subsidiaries have jointly established a fund under a defined benefit pension plan and it is included in the section of defined benefit pension plan of the note. Net defined benefit liability and service cost in the defined benefit pension plan and lump-sum retirement benefit adopted by the consolidated subsidiaries are calculated by the simplified method.

### (b) Defined benefit pension plan

(1) Reconciliation of the projected benefit obligation between April 1, 2013 and March 31, 2014 is as follows (Except for the simplified method):

	Millions of yen
Retirement benefit obligation as of April 1, 2013	¥64,418
Service cost	1,790
Interest cost	753
Actuarial loss incurred	1,068
Payment of retirement benefit	(3,399)
Prior service cost incurred	—
Decrease due to amendment of defined benefit pension plan	(2,559)
Retirement benefit obligations as of March 31, 2014	¥62,072

**(2) Reconciliation of the plan assets between April 1, 2013 and March 31, 2014 is as follows (Except for the simplified method):**

	Millions of yen
Plan assets as of April 1, 2013	¥50,730
Expected return on plan assets	737
Actuarial loss incurred	4,226
Contribution by the Bank and its consolidated subsidiaries	2,153
Payment of retirement benefit	(1,893)
Decrease due to amendment of defined benefit pension plan	(2,190)
Plan assets as of March 31, 2014	¥53,763

**(3) Reconciliation of the net defined benefit liability adopting the simplified method between April 1, 2013 and March 31, 2014 is as follows:**

	Millions of yen
Net defined benefit liability as of April 1, 2013	¥498
Retirement benefit expense	412
Payment of retirement benefit	(34)
Contribution to the defined benefit pension plan	(349)
Net defined benefit liability as of March 31, 2014	¥526

**(4) Reconciliation of the projected benefit obligation and plan assets between net defined benefit liability and net defined benefit asset is as follows:**

	Millions of yen
Retirement benefit obligation of the funded pension plan	¥69,960
Plan assets	(61,125)
	8,834
Retirement benefit obligation of the unfunded pension plan	—
Net defined benefit liability and asset on the consolidated balance sheet	¥8,834

	Millions of yen
Net defined benefit liability	¥8,834
Net defined benefit asset	—
Net defined benefit liability and asset on the consolidated balance sheet	¥8,834

Note: Including the simplified method

**(5) Components of retirement benefit expenses are as follows:**

	Millions of yen
Service cost	¥1,790
Interest cost	753
Expected return on plan assets	(737)
Amortization of unrecognized actuarial loss	1,082
Amortization of prior service cost	98
Retirement benefit expense adopting the simplified method	412
Other	37
Retirement benefit expense on defined benefit pension plan	¥3,436

**(6) Components of remeasurements of defined benefit plans are as follows (Before deferred tax assets deduction):**

	Millions of yen
Unrecognized prior service cost	¥69
Unrecognized actuarial loss	8,670
Total	¥8,740

**(7) Plan assets****Proportions of major components of plan assets are as follows:**

Bond	38.1%
Equity	40.2%
General account	17.8%
Other	3.9%
Total	100.0%

Note: A retirement benefit trust was established for corporate pension plans and totaling to 17.6% of the total plan assets

Expected rate of return on pension plan assets is determined considering current and future portfolio of pension assets and current and future long term expected rate of return on various assets in the portfolio.

**(8) The assumptions used in accounting for the defined benefit plans:**

Discount rate	1.27%
Expected rate of return on plan assets	2.5%

**For the fiscal year ended March 31, 2013****(a) Outline of current retirement benefit system**

The Bank 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 which are excluded from the projected benefit obligation in employees' retirement benefits accounting may be paid on a case-by-case basis. The Bank has established an employees' retirement benefit trust. As of the end of March 31, 2013, the Bank and nine consolidated subsidiaries have lump-sum retirement benefits for employees. The Bank and its consolidated subsidiaries have jointly established a fund under a defined benefit pension plan.

**(b) The following table sets forth the changes in the retirement benefit obligation, the plan assets and the funded status of the Bank and its consolidated subsidiaries at March 31, 2013:**

	Millions of yen
March 31,	2013
Retirement benefit obligation	¥(72,736)
Fair value of plan assets	58,550
Funded status	(14,186)
Unrecognized actuarial loss	13,312
Unrecognized prior service cost	172
Net retirement benefit obligation	(701)
Prepaid pension cost	4,563
Reserve for employees' retirement benefits	¥(5,265)

Notes: 1. The above amounts do not include any extra benefits.

2. The consolidated subsidiaries have adopted a simplified method for the calculation of their retirement benefit obligation.

**(c) Cost for retirement benefits of the Bank and its consolidated subsidiaries included the following components for the fiscal years ended March 31, 2013:**

	Millions of yen
Years ended March 31,	2013
Service cost	¥1,799
Interest cost	1,109
Expected return on plan assets	(642)
Amortization:	
Amortization of prior service cost	98
Amortization of unrecognized actuarial loss	1,531
Total retirement benefit cost	¥3,895

Note: Retirement benefit cost of consolidated subsidiaries which is calculated by a simplified method has been included in "service cost" referred to above.

**(d) The assumptions used in accounting for the defined benefit plans for the fiscal years ended March 31, 2013 were as follows:**

Years ended March 31,	2013
Discount rate	1.17%
Expected rate of return on plan assets	2.5%
Periodic allocation of estimated retirement benefits	Straight-line method
Amortization period of prior service cost	10 years
Amortization period of actuarial gain/loss	10 years

**15. Deferred Tax Assets**

March 31,	Millions of yen	
	2014	2013
Deferred tax assets:		
Reserve for possible loan losses	¥19,859	¥21,243
Reserve for retirement benefits	—	8,683
Net defined benefit liability	11,379	—
Depreciation	1,531	1,848
Devaluation of securities	1,672	2,586
Reserve for employee bonuses	946	939
Reserve for reimbursement of dormant deposits	703	652
Others	7,726	8,409
Valuation allowance	(3,727)	(4,291)
Total	40,245	¥40,072
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	¥(45,535)	¥(45,615)
Retirement benefit trust	(5,186)	(5,186)
Reversal of reserve for possible loan losses after elimination of intercompany balances	(11)	(15)
Others	(1,618)	(1,616)
Total	(52,351)	(52,433)
Net deferred tax assets	¥(12,106)	¥(12,360)

The effective tax rate reflected in the consolidated statements of income for the fiscal years ended March 31, 2014 and 2013 differs from the statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	37.66%	37.66%
Effect of changes in statutory tax rate	1.69%	—%
Valuation allowance	(1.40)%	(2.69)%
Permanent differences including dividends received deduction	(2.00)%	(2.16)%
Permanent differences including entertainment expenses	0.25%	0.28%
Other	0.59%	1.18%
Effective tax rate	36.79%	34.27%

“Act on Partial Amendment to the Income Tax Act, etc.” (Act No. 10, 2014) was promulgated on March 31, 2014, and the special corporation tax for restoration has been abolished. Accordingly, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities from the temporary differences, expected to be either deductible, taxable or expired on or after the fiscal year beginning April 1, 2014, has been lowered from 37.66% to 35.28%. As a result of this change, deferred tax assets decreased by ¥681 million, deferred losses on hedging instruments, net of taxes increased ¥0 million and deferred income taxes increased by ¥680million.

## 16. Shareholders' Equity

In accordance with the Banking Act of Japan, the Bank has provided a legal reserve by appropriation of retained earnings, which is included in retained earnings. The Banking Act of Japan provides that an amount equivalent to at least 20% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus equals 100% of the common stock.

The Companies Act of Japan (the "Act"), provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Under the Act, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds as capital surplus.

## 17. Other Income

Years ended March 31,	Millions of yen	
	2014	2013
Other ordinary income	¥30,376	¥21,385
Gain on disposal of tangible fixed assets	6	16
Total	¥30,382	¥21,401

## 18. Other Expenses

Years ended March 31,	Millions of yen	
	2014	2013
Losses on disposal of tangible fixed assets	¥561	¥636
Losses on impairment	597	308
Write-offs of claims	4,000	5,088
Write down of equity shares	1,458	1,705
Losses on sale of claims	121	163
Others	21,366	23,150
Total	¥28,106	¥31,054

Impairment losses were recorded in an aggregate amount deemed irrecoverable on idle assets, primarily located in Ibaraki Prefecture.

Impairment losses recognized on a consolidated basis for the fiscal years ended March 31, 2014 and 2013 can be broken down into the three categories of losses on land holdings in the amount of ¥424 million and ¥261 million, respectively, losses on buildings in the amount of ¥171 million and ¥46 million, respectively and losses on movable assets in the amount of ¥1 million and ¥0 million, respectively.

The recoverable amounts used for the measurement of such impairment losses are net sales prices, which are calculated on the basis of appraisal values after deduction of the estimated cost of disposal.

## 19. Tangible Fixed Assets

Accumulated depreciation on tangible fixed assets amounted to ¥90,608 million and ¥92,941 million, as of March 31, 2014 and 2013, respectively.

The accumulated capital gains directly offset against the acquisition costs of tangible fixed assets to obtain tax benefits at March 31, 2014 and 2013 amounted to ¥6,463 million and ¥6,432 million, respectively. For the years ended March 31, 2014 and 2013, the capital gains offset were ¥46 million and ¥116 million.



## 20. Supplementary Information to Consolidated Statements of Comprehensive Income

Years ended March 31,	Millions of yen	
	2014	2013
Unrealized gains on available-for-sale securities:		
The amount arising during the period	¥7,146	¥75,084
Reclassification adjustments	(7,820)	(3,257)
Before adjustments of tax effect	(673)	71,826
Tax effect	77	(24,991)
Unrealized gains on available-for-sale securities	(596)	46,834
Deferred gain (loss) on hedging instruments, net of taxes:		
The amount arising during the period	2,065	1,129
Reclassification adjustments	(1,168)	(1,047)
Before adjustments of tax effect	896	81
Tax effect	(317)	(27)
Deferred gain (loss) on hedging instruments, net of taxes	579	53
Total	¥(17)	¥46,888

## 21. Changes in Net Assets

(1) Types and number of shares issues and treasury stock are as follows:

March 31, 2014	Number of shares			
	April 1, 2013	Increase	Decrease	March 31, 2014
Shares issued:				
Common stock	799,231	—	10,000	789,231
Total	799,231	—	10,000	789,231
Treasury stock:				
Common stock	48,455	5,159	10,176	43,438
Total	48,455	5,159	10,176	43,438

Notes: 1. Decrease in number of shares issued is cancellation of treasury stock stipulated by the Article 178 of the ACT  
2. Increase in number of treasury stock includes purchase of fractional shares 159 thousands and acquisition of common stock 5,000 thousands.  
3. Decrease in number of treasury stock includes purchase of fractional shares 11 thousands, cancellation of treasury stock 10,000 thousands and execution of stock options 164 thousands.

March 31, 2013	Number of shares			
	April 1, 2012	Increase	Decrease	March 31, 2013
Shares issued:				
Common stock	810,231	—	11,000	799,231
Total	810,231	—	11,000	799,231
Treasury stock:				
Common stock	49,370	10,122	11,037	48,455
Total	49,370	10,122	11,037	48,455

Notes: 1. Decrease in number of shares issued is cancellation of treasury stock stipulated by the Article 178 of the ACT  
2. Increase in number of treasury stock includes purchase of fractional shares 122 thousands and acquisition of common stock 10,000 thousands.  
3. Decrease in number of treasury stock includes purchase of fractional shares 15 thousands, cancellation of treasury stock 11,000 thousands and execution of stock options 22 thousands.

**(2) Information on stock acquisition rights is as follows:**

	Detail of stock acquisition rights	Type of shares	Number of shares			Millions of yen	
			April 1, 2013	Increase	Decrease	March 31, 2014	March 31, 2014
<b>March 31, 2014</b>							
The Bank	Stock Options			—			¥113
Total				—			¥113

	Detail of stock acquisition rights	Type of shares	Number of shares			Millions of yen	
			April 1, 2012	Increase	Decrease	March 31, 2013	March 31, 2013
<b>March 31, 2013</b>							
The Bank	Stock Options			—			¥120
Total				—			¥120

**(3) Information on dividends is as follows:**

**(a) Dividends paid in the fiscal year ended March 31, 2014**

	Type of shares	Aggregate amount of dividends (Millions of yen)	Cash dividends per share (yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2013	Common stock	¥3,378	4.5	March 31, 2013	June 27, 2013
Meeting of board of directors held on November 8, 2013	Common stock	¥3,356	4.5	September 30, 2013	December 3, 2013

**(b) Dividends to be paid after March 31, 2014**

	Type of shares	Aggregate amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2014	Common stock	¥3,356	Retained earnings	4.5	March 31, 2014	June 27, 2014

**(c) Dividends paid in the fiscal year ended March 31, 2013**

	Type of shares	Aggregate amount of dividends (Millions of yen)	Cash dividends per share (yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 27, 2012	Common stock	¥3,043	4	March 31, 2012	June 28, 2012
Meeting of board of directors held on November 9, 2012	Common stock	¥3,025	4	September 30, 2012	December 10, 2012

**(d) Dividends to be paid after March 31, 2013**

	Type of shares	Aggregate amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2013	Common stock	¥3,378	Retained earnings	4.5	March 31, 2013	June 27, 2013

## 22. Segment Information

### a. Outline of the reportable segments

The reportable segments of the Company are those units for which discrete financial information can be obtained and which are regularly examined by the management meeting, which is the highest decision-making body for decisions on the allocation of management resources and for assessing business performance.

Comprised of the Bank and its nine subsidiaries, the Group's main business is banking. Other operations include leasing, credit guarantee services, banking administrative agency services, securities trading and other financial business. "Banking" and "leasing" are its reportable segments, while credit guarantee services are included in "Other."

### b. Calculation method of the amount of ordinary income, segment profit, assets and other items by the reportable segment

Accounting method of the reportable segment is as described in "Significant Accounting Policies." Ordinary income is regarded as the segment profit. Ordinary income from internal transactions is calculated based on actual market price.

### c. Information related to ordinary income, segment profit, assets and other items by the reportable segment

Year ended March 31, 2014	Millions of yen						
	The reportable segment			Other	Total	Adjustments	Consolidated
	Banking operations	Leasing	Total				
Ordinary income:							
From external Customers	136,663	16,503	153,167	6,012	159,179	—	159,179
From internal transactions	1,887	543	2,431	5,277	7,708	(7,708)	—
Total	138,551	17,047	155,598	11,289	166,887	(7,708)	159,179
Segment profit	35,837	1,290	37,128	3,845	40,973	346	41,320
Assets	8,509,629	54,636	8,564,265	45,167	8,609,433	(72,861)	8,536,571
Liabilities	8,005,924	46,645	8,052,570	29,230	8,081,800	(62,199)	8,019,600
Others							
Depreciation	5,807	102	5,910	239	6,149	(308)	5,840
Interest income	95,316	62	95,378	186	95,565	(384)	95,180
Interest expenses	4,715	294	5,010	144	5,154	(380)	4,773
Gain on disposal of tangible fixed assets	6	—	6	—	6	—	6
Losses on disposal of tangible fixed assets	522	0	522	39	561	—	561
Losses on impairment	169	—	169	459	629	(31)	597
Provision for Financial Instruments Transaction Liability Reserve	—	—	—	0	0	—	0
Tax expenses	13,047	498	13,546	1,236	14,782	(3)	14,778
Increase in tangible and intangible fixed assets	10,455	8	10,464	387	10,851	—	10,851

Notes: 1. Ordinary income is presented as the counterpart of sales of a non-banking company. Adjustments refer to differences between ordinary income and ordinary income posted in Consolidated Statements of Income.

2. Adjustments are as follows:

- Adjustments in Ordinary income total Include elimination of intersegment transactions of ¥(7,866) million.
- Adjustments in assets of ¥(72,861) million include elimination of intersegment transactions of ¥(59,106) million.
- Adjustments in liabilities of ¥(62,199) million include elimination of intersegment transactions of ¥(56,064) million.
- Adjustments in depreciation of ¥(308) million include depreciation of lease assets presented as tangible fixed assets on the consolidated financial statements of ¥(308) million.
- Adjustments in Interest income of ¥(384) million include intersegment interests of ¥(378) million.
- Adjustments in interest expenses of ¥(380) million include intersegment interest of ¥(378) million.
- Adjustments in tax expenses of ¥(3) million include deferred income taxes of ¥(3) million due to eliminations of intersegment reserve for possible loan losses.

3. Segment profit is adjusted to ordinary profit posted in the Consolidated Statements of Income.

	Millions of yen						
	The reportable segment						
Year ended March 31, 2013	Banking operations	Leasing	Total	Other	Total	Adjustments	Consolidated
Ordinary income:							
From external Customers	¥129,515	¥15,635	¥145,151	¥5,299	¥150,451	¥ —	¥150,451
From internal transactions	1,647	721	2,369	4,875	7,244	(7,244)	—
Total	131,163	16,357	147,520	10,175	157,696	(7,244)	150,451
Segment profit	31,726	1,222	32,948	2,743	35,692	261	35,953
Assets	8,243,641	46,556	8,290,197	42,411	8,332,608	(64,575)	8,268,033
Liabilities	7,746,950	39,363	7,786,314	28,481	7,814,795	(53,411)	7,761,383
Others							
Depreciation	5,180	66	5,246	257	5,504	(170)	5,334
Interest income	98,209	62	98,272	212	98,484	(414)	98,070
Interest expenses	5,180	294	5,475	162	5,638	(411)	5,227
Gain on disposal of tangible fixed assets	16	—	16	—	16	—	16
Losses on disposal of tangible fixed assets	622	—	622	14	636	—	636
Losses on impairment	228	—	228	80	308	—	308
Tax expenses	10,513	502	11,016	993	12,010	(4)	12,005
Increase in tangible and intangible fixed assets	7,462	16	7,479	195	7,674	—	7,674

Notes: 1. Ordinary income is presented as the counterpart of sales of a non-banking company. Adjustments refer to differences between ordinary income and ordinary income posted in Consolidated Statements of Income.

2. Adjustments are as follows:

- a) Adjustments in Ordinary income total Include elimination of intersegment transactions of ¥(7,402) million.
- b) Adjustments in assets of ¥(64,575) million include elimination of intersegment transactions of ¥(53,524) million.
- c) Adjustments in liabilities of ¥(53,411) million include elimination of intersegment transactions of ¥(50,523) million.
- d) Adjustments in depreciation of ¥(170) million include depreciation of lease assets presented as tangible fixed assets on the consolidated financial statements of ¥(169) million.
- e) Adjustments in Interest income of ¥(414) million include intersegment interests of ¥(407) million.
- f) Adjustments in interest expenses of ¥(411) million include intersegment interest of ¥(408) million.
- g) Adjustments in tax expenses of ¥(4) million include deferred income taxes of ¥(4) million due to eliminations of intersegment reserve for possible loan losses.

3. Segment profit is adjusted to ordinary profit posted in the Consolidated Statements of Income.

## Related Information

### a. Information by service

Year ended March 31, 2014	Millions of yen				
	Lending	Investment in securities	Leasing	Other	Total
Ordinary income from external customers:	¥69,594	¥40,457	¥16,503	¥32,623	¥159,179

Note: Ordinary income is presented as the counterpart of sales of a non-banking company. Adjustments refer to differences between ordinary income and ordinary income posted in Consolidated Statements of Income.

Year ended March 31, 2013	Millions of yen				
	Lending	Investment in securities	Leasing	Other	Total
Ordinary income from external customers:	¥72,655	¥30,537	¥15,635	¥31,622	¥150,451

Note: Ordinary income is presented as the counterpart of sales of a non-banking company. Adjustments refer to differences between ordinary income and ordinary income posted in Consolidated Statements of Income.

### b. Information by geographic area

Segment information by geographic area is not disclosed since over 90% of the total consolidated ordinary income and tangible fixed assets of the Bank and its consolidated subsidiaries resides in Japan.

### c. Information by customer

Segment information by customer has not been disclosed since no single customer represented 10% or more of total ordinary income.

### Impairment loss information by the reportable segments

Year ended March 31, 2014	Millions of yen				
	The reportable segment			Other	Total
	Banking operations	Leasing	Total		
Impairment loss:	¥169	¥—	¥169	¥427	¥597

Note: Other includes idle assets and the like of the consolidated subsidiaries and includes adjustments of ¥(31) million.

Year ended March 31, 2013	Millions of yen				
	The reportable segment			Other	Total
	Banking operations	Leasing	Total		
Impairment loss:	¥228	¥—	¥228	¥80	¥308

Note: Other includes idle assets and the like of the consolidated subsidiaries.

### Amortization and unamortized balance of goodwill

Year ended March 31, 2014	Millions of yen				
	The reportable segment			Other	Total
	Banking operations	Leasing	Total		
Negative goodwill:					
Amortization	¥158	¥—	¥158	¥—	¥158
Unamortized balance	1,975	—	1,975	—	1,975

Year ended March 31, 2013	Millions of yen				
	The reportable segment			Other	Total
	Banking operations	Leasing	Total		
Negative goodwill:					
Amortization	¥158	¥—	¥158	¥—	¥158
Unamortized balance	2,133	—	2,133	—	2,133

### Gain on negative goodwill

Not applicable for the fiscal year ended March 31, 2014 and 2013.

## 23. Leases

### (a) Finance leases

Finance lease transactions in which ownership of leased property is not transferred to the lessee are accounted for as operating leases, book value (after deduction of accumulated depreciation) of lease assets included in tangible fixed assets and intangible assets as of the previous balance sheet date (March 31, 2008) was recorded as the initial balance of "Lease receivables and lease investment assets."), as follows:

#### As lessee

Acquisition cost, aggregate depreciation expenses, and book value at March 31, 2014

	Tangible fixed assets	Total
Acquisition cost	<b>¥5 million</b>	<b>¥5 million</b>
Accumulated Depreciation expenses	<b>¥3 million</b>	<b>¥3 million</b>
Book value at term-end	<b>¥1 million</b>	<b>¥1 million</b>

Note: The acquisition cost presented above is inclusive of interest expenses, as the balance of acquisition cost and minimum lease payment is insignificant compare to the total book value of tangible fixed assets.

Acquisition cost, aggregate depreciation expenses, and book value at March 31, 2013

	Tangible fixed assets	Total
Acquisition cost	¥5 million	¥5 million
Accumulated Depreciation expenses	¥3 million	¥3 million
Book value at term-end	¥2 million	¥2 million

Note: The acquisition cost presented above is inclusive of interest expenses, as the balance of acquisition cost and minimum lease payment is insignificant compare to the total book value of tangible fixed assets.

Lease payments that would have been required for finance leases at March 31, 2014:

Within one year	Over one year	Total
<b>¥0 million</b>	<b>¥1 million</b>	<b>¥1 million</b>

Note: Lease payments presented above is inclusive of interest expenses, as the balance of acquisition cost and minimum lease payment is insignificant compare to the total book value of tangible fixed assets.

Lease payments that would have been required for finance leases at March 31, 2013:

Within one year	Over one year	Total
¥0 million	¥1 million	¥2 million

Note: Lease payments presented above is inclusive of interest expenses, as the balance of acquisition cost and minimum lease payment is insignificant compare to the total book value of tangible fixed assets.

Lease fees paid and depreciation expenses that would have been incurred under finance leases for the fiscal year ended March 31, 2014:

Lease fees	Depreciation expenses
<b>¥0 million</b>	<b>¥0 million</b>

Note: Calculation method for depreciation expenses

The lease assets are depreciated by the straight-line method on the assumption that the lease term is the useful life and the residual value is zero.

Lease fees paid and depreciation expenses that would have been incurred under finance leases for the fiscal year ended March 31, 2013:

Lease fees	Depreciation expenses
¥0 million	¥0 million

Note: Calculation method for depreciation expenses

The lease assets are depreciated by the straight-line method on the assumption that the lease term is the useful life and the residual value is zero.

## (b) Operating leases

Future lease payments under non-cancellable operating lease transactions for the fiscal year ended March 31, 2014 were as follows:

	Within one year	Over one year	Total
As lessee	¥53 million	¥250 million	¥303 million
As lessor	¥4 million	¥— million	¥4 million

Future lease payments under non-cancellable operating lease transactions for the fiscal year ended March 31, 2013 were as follows:

	Within one year	Over one year	Total
As lessee	¥46 million	¥279 million	¥325 million
As lessor	¥18 million	¥4 million	¥22 million

No losses are recognized for the impairment of lease assets.

## 24. Financial Instruments

### (1) Status of Financial Instruments

#### a. Policy on Financial Instruments

The Bank and its nine consolidated subsidiaries (the “Group”) provide financial services such as leasing, agent of banking administrative work and securities business, and centering on banking service.

The Group raises funds by acceptance of the deposits, and invests the funds in loans and securities. We have financial assets and liabilities of which the values fluctuate with changes in interest rates, foreign exchange rates and market prices. To avoid adverse effects from such fluctuations, the Group performs integrated assets and liabilities management (the “ALM”) in each company.

Moreover, we are engaged in derivatives transactions, such as those related to interest rates, currencies and bonds, for hedging and non-hedging purposes. Some consolidated subsidiaries are also engaged in interest rate related derivatives in connection with investments in securities and for hedging purposes.

#### b. Financial Instruments and Risks

The financial assets held by the Group consist primarily of securities and loans. Loans are subject to credit risk which could cause financial losses to the Group from non-performance of obligations by borrowers. Securities include mainly bonds, stocks and these are held trading, held-to-maturity and available-for-sale purposes. With regard to securities, the Group is exposed to credit risk of issuers, interest-rate risk, and market price volatility risk.

The deposits include current deposits and savings deposits without maturities, and time deposits with maturities. These deposits expose the Group to liquidity risk that could be caused by concentrated withdrawals by customers.

The Group has liquidity risk with the borrowed money and bonds that it would become impossible to execute payments at the due dates when the Group lost access to the financial markets. Although the floating-rate borrowings expose us to the interest rate risk, we partially mitigate this risk using interest rate swaps.

We are engaged in derivatives transactions to meet customers’ demands to hedge exchange-rate and interest-rate risks and to appropriately manage the Bank’s market risks. Moreover, we utilize derivatives transactions for efficient ALM and hedging of individual transactions.

Derivatives transactions have market risk that losses could arise from market changes including those in interest rates and exchange rates. Additionally, derivatives transactions have credit risk that transactions are not fulfilled as provided by the contracts due to an event such as a failure of the counterparty.

Regarding hedging transactions to offset fluctuations in interest rates, the hedged items (e.g., loans) and the hedging instruments (e.g., interest rate swaps) are grouped by maturity to assess the effectiveness. As for cash flow hedges, we examine interest-rate correlation between the hedged items and the hedging instruments. Moreover, to assess the effectiveness of hedging transactions for foreign exchange risk, we designate transactions such as currency swaps and foreign exchange swaps as the hedging instruments and verify that we hold foreign currency positions of those hedging instruments that match the hedged items including monetary claims and obligations denominated in foreign currencies. We also perform “after-the-fact test” to confirm certain interest rate swaps continuously meet the requirements for exceptional accrual method.

We have set position limits and loss limits for trading transactions involving short-term purchases and sales of financial instruments.



### c. Risk Management for Financial Instruments

#### (a) Integrated Risk Management

The Bank holistically controls risks from various financial assets and liabilities and risks related to banking business through integrated risk management. The Bank calculates apportionable risk capital using Tier I capital and allocates by risk category and by department. The Bank periodically quantifies risks it takes and controls such risks within the allocated capital. The Bank assesses unquantifiable risks using stress test and other measures.

#### (b) Credit Risk Management

The Group has enacted "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 risk. Credit Risk Management Group has been segregated from the divisions under Business Headquarters to achieve rigorous credit review, and conducts thorough monitoring of borrower's 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 Examination Division in the Headquarters. Furthermore, Corporate Audit Division examines results and processes of the self-assessments for accuracy and adequacy. As for credit risk of the issuers of securities, Treasury and Securities Division monitors credit information and market prices and gives the issuers credit ratings as well as carries out self-assessments of the issuers like for general borrowers.

#### (c) Market Risk Management

##### (i) Interest-rate Risk Management

The Group has set risk limits corresponding to the Group's financial strength to interest-rate risk in the banking account, and applies and monitors the limits rigorously through the ALM. In order to control the interest-rate risk appropriately:

- ◆ The Group has established "Risk Management Basic Rules," "Integrated Risk Management Rules," and "ALM Guidance."
- ◆ The Board of Directors (the "Board") establishes risk tolerance limits for interest-rate risk within the allocable capital range after discussions at the General Budget Committee every half year.

The ALM Committee discusses and reports to the Board detail plans to address interest-rate risk every month.

Interest-rate risk is measured using value at risk ("VaR"). The ALM Committee sets alarm points somewhat below the risk limits and monitors the points as well as the limits on a monthly basis.

Moreover, the Group analyzes interest-rate risk from various aspects using tools such as basis-point value ("BPV"), the scenario analysis (simulation method) and the interest rate sensitivity analysis in addition to VaR, and controls the risk within a tolerable range reflective of the Group's financial strength.

##### (ii) Foreign Exchange Risk Management

The Group controls foreign exchange risk by using hedging instruments such as currency swaps and foreign exchange swaps. In addition, the Group also enters into offsetting transactions in financial markets on an individual or aggregate basis, in order to reverse out foreign exchange risk arising from foreign exchange transactions offered by customers. Additionally, the Group converts into yen an amount equivalent to monthly interest income denominated in foreign currencies every month, in order to mitigate foreign exchange risk arising from foreign-currency denominated revenues.

##### (iii) Price Fluctuation Risk Management

The Group has set risk limits corresponding to the Group's financial strength to price-fluctuation risk arising from financial instruments such as stocks and investment trusts, and applies and monitors the limits rigorously through the ALM.

The Board establishes risk tolerance limits for price-fluctuation risk within the allocable capital range after discussions at the General Budget Committee every half year.

Price-fluctuation risk is measured using VaR. The ALM Committee sets alarm points somewhat below the risk limits and monitors the points as well as the limits on a monthly basis. To prevent unrealized losses from being accumulated, the Group monitors and manages unrealized gains and losses under certain policies on a daily basis.

##### (iv) Derivatives Transactions

The Group utilizes derivatives transactions chiefly as hedging instruments for interest-rate and foreign exchange risks. The Group controls counterparty credit risk in derivatives transactions by setting credit limits.

For derivatives transactions with financial institutions, the Group sets an individual credit line and manages credit exposures on a daily basis in accordance with "Credit Line Management Rule for Banking and Security Companies."

For derivatives transactions with customers, the Group also sets an individual credit line to reflect factors such as the creditworthiness and outstanding transactions, just like for financing transactions, and manages the credit exposures together with those arising from other transactions on an individual basis.

##### (v) Trading Transactions

The Group primarily trades bonds, foreign exchanges and derivatives transactions for trading purposes. We set utilize certain measures such as position limits, risk tolerance limits and loss limits in accordance with "Trading and Risk Management Rules."

(vi) Quantitative Information related to Market Risk

1. Banking Account

(1) Interest rate risk

The Bank adopts the variance-covariance method as the measurement method (a holding period of 6 months, a confidence interval of 99%, and observation period of 5 years) for calculating VaR related to interest rate risk of interest rate swaps in loans and bills discounted, domestic bonds, deposits, borrowed money, corporate bonds and derivatives. The Bank adopts the historical simulation method (a holding period of 6 months, a confidence interval 99%, and observation period of 5 years) for calculating VaR related to interest rate risk of interest rate swaps and currency swaps in foreign bonds, trust beneficiary right, market fund transactions and derivatives. As of March 31, 2014 VaR related to interest rate risk was ¥37,338 million.

(2) Price fluctuation risk

The Bank adopts the historical simulation method (a holding period of 6 months, a confidence interval of 99%, and observation period of 5 years) for calculating VaR related to price fluctuation risk of listed equities and mutual funds. As of March 31, 2014 VaR related to price fluctuation risk was ¥55,281 million. Correlation between interest rate risk and price fluctuation risk has not been considered.

2. Trading Account

The Bank adopts the historical simulation method (a holding period of 1 day, a confidence interval of 99%, and observation period of 5 years) for calculating VaR related trading securities, trading purpose foreign exchange transactions and derivatives such as forward transactions and option transactions. As of March 31, 2014, VaR related to trading account was ¥1 million.

3. Validity of VaR

The Bank performs back testing to compare VaR calculated by its internal model against actual profit and loss to confirm the measurement model used captures market risk with sufficient accuracy. However, VaR statistically quantifies market risk calculated based on past market movements. Therefore, there could be cases in which VaR cannot capture risk under sudden and dramatic changes in market conditions beyond normal circumstances.

(d) Management of Liquidity Risk in Funding

To manage liquidity risk under “Market and Liquidity Risk Management Rules,” the Bank:

- ◆ Conducts financing activities after fully analyzing its cash flows.
- ◆ Pays continuous attention to the balance sheet structure, lines of credit provided to the Group, collateral management and costs to maintain the liquidity.
- ◆ Strives to maintain the diversity and stability of funding sources.

In addition, the liquidity risk borne by the Group is reported to the Board and the ALM Committee on a monthly basis.

**d. Supplementary Explanation Concerning Matters Related to Fair Value of Financial Instruments**

Fair value of financial instruments includes a value based on market prices as well as a reasonably calculated value when no market price is available. Because certain assumptions are used in the fair value calculation, such value may vary when different assumptions are used.

## (2) Disclosures Regarding Fair Value of Financial Instruments and Other Items

The table below sets forth fair values of financial instruments at March 31, 2014 and 2013 except for those whose fair values are extremely difficult to determine (see (Note2)). In addition, those financial instruments which are immaterial are not listed below.

March 31, 2014	Millions of yen		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥224,661	¥224,661	¥—
(2) Securities			
Held-to-maturity debt securities	35,757	35,986	228
Available-for-sale securities	2,715,449	2,715,449	—
(3) Loans and bills discounted	5,363,389		
Reserve for possible loan losses (*1)	(41,349)		
Sub-total	5,322,040	5,392,304	70,263
Total assets	8,297,909	8,368,401	70,491
(1) Deposits	7,497,902	7,480,413	(511)
(2) Negotiable certificates of deposit	10,030	10,030	—
(3) Payables under securities lending transactions	105,996	105,996	—
(4) Borrowed money	218,248	217,619	629
Total liabilities	7,814,178	7,814,059	118
Derivatives transactions (*2)			
Transactions not accounted for as hedging instruments	494	494	—
Transactions accounted for as hedging instruments	(4,827)	(4,827)	—
Total derivatives transactions	¥(4,332)	¥(4,332)	¥—

(\*1) General and individual reserves for possible loan losses are deducted from loans and bills discounted.

(\*2) Derivatives transactions recorded in trading assets/liabilities and other assets and other liabilities are presented on an aggregate basis. Claims and debts that arose from derivatives transactions are presented on a net basis.

March 31, 2013	Millions of yen		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥318,396	¥318,396	¥—
(2) Securities			
Held-to-maturity debt securities	34,289	34,544	254
Available-for-sale securities	2,608,405	2,608,405	—
(3) Loans and bills discounted	5,108,316		
Reserve for possible loan losses (*1)	(44,986)		
Sub-total	5,063,329	5,141,569	78,239
Total assets	8,024,420	8,102,914	78,494
(1) Deposits	7,344,463	7,345,331	(867)
(2) Negotiable certificates of deposit	15,459	15,459	—
(3) Payables under securities lending transactions	91,283	91,283	—
(4) Borrowed money	120,245	120,657	(412)
Total liabilities	7,571,452	7,572,732	(1,280)
Derivatives transactions (*2)			
Transactions not accounted for as hedging instruments	511	511	—
Transactions accounted for as hedging instruments	(6,692)	(6,692)	—
Total derivatives transactions	¥(6,181)	¥(6,181)	¥—

(\*1) General and individual reserves for possible loan losses are deducted from loans and bills discounted.

(\*2) Derivatives transactions recorded in trading assets/liabilities and other assets and other liabilities are presented on an aggregate basis. Claims and debts that arose from derivatives transactions are presented on a net basis.

## **(Note 1) Calculation Methods for Fair Value of Financial Instruments**

### **Assets**

#### **(1) Cash and Due from Banks**

Since fair value of these items approximates the book value, we deem the carrying value to be the fair value.

#### **(2) Securities**

Fair value of shares is determined by reference to quoted market prices on stock exchanges. Fair value of bonds is determined by reference to quoted market prices or prices offered by financial institutions, or based on the price best estimated. Fair value of investment trusts is determined by reference to their publicly available net asset value per unit. Fair value of privately placed bonds guaranteed by the Bank is determined by the discounted cash flow method. The discount rates used in the calculation were calculated based on the bankruptcy probability by credit rating and the coverage ratio of an individual claim.

In the fiscal year ended March 31, 2014, we treat market prices as fair value for Japanese Government Bonds (JGBs) with variable interest rates and securitized products that we own.

We used a reasonably estimated value as the fair value of securitized products (e.g., collateralized loan obligations), except those subject to impairment, of which external credit rating is not downgraded, of which collateral asset pools are not deteriorated, and which the Group intends to continue to hold. The reasonably estimated price was calculated using the discounted cash flow method or other pricing methods using the default rate, recovery rate, pre-payment rate and discount rate as primary pricing variables.

Please see "24. Securities Information" for details of securities in each purpose of holding.

#### **(3) Loans and bills discounted**

Since floating-rate loans and bills discounted reflect market interest rates in a short period, the fair value approximates the carrying value unless the credit standing of the borrower is not significantly different after the loan was made or the bill was drawn. The fair value is therefore deemed equal to the carrying value.

Fair value of fixed-rate loans and bills discounted are determined as the total of principal and interest discounted by the type, internal credit rating and maturities. Discount rates used in the calculation were interest rates which would be applied when similar loans were newly extended. Fair value of fixed-rate loans and bills discounted whose terms are short (i.e., within one year) approximates their carrying value and is therefore deemed equal to the carrying value.

Possible losses on legally bankrupt loans, substantially bankrupt loans and potentially bankrupt loans are computed based on recoverable amounts estimated as the present value of future cash flows or the collectible amounts from collateral and guarantees. Then the fair value of those loans approximates the consolidated balance sheet amount at the closing date minus the currently estimated losses, and is therefore deemed equal to the amounts.

Fair value of loans and bills discounted for which repayment terms are not set because of their attributes (e.g., loans are limited to the amounts of assets pledged as collateral) is assumed to approximate their carrying value, considering the expected repayment periods and interest rate conditions, and are deemed equal to the carrying value.

### **Liabilities**

#### **(1) Deposits and (2) Negotiable certificates of deposit**

For demand deposits, we deem the amount that the Group would require to pay on the consolidated balance sheet date (i.e., carrying value) to be the fair value.

With respect to time deposits with long deposit terms (i.e., one year or longer), we used the present value of future cash flows calculated by time band as the fair value. The discount rates used in the calculation were the interest rates that would apply to newly accepted deposits.

#### **(3) Payables under securities lending transactions**

As for short-term loans with maturity of one year or less, the book value is deemed as the fair value since the fair value approximates the book value.

#### **(4) Borrowed money**

We used as the fair value the present value of future cash flows calculated by borrowing period. The discount rates used in the calculation were interest rates that would be applied to new borrowings. Fair value of borrowings for a short term (i.e., within one year) approximates the carrying value and is deemed equal to the carrying value.

### **Derivatives Instruments**

See "26. Derivatives."

**(Note 2) The following table summarizes financial instruments, of which fair value is extremely difficult to determine:**

Fair value of available-for-sale securities in the above table excludes the following items at March 31, 2014 and 2013.

Years ended March 31,	Millions of yen	
	Consolidated balance sheet amounts	
	2014	2013
Unlisted stocks (*1) (*2)	¥5,502	¥5,330
Investments in partnerships and others (*3)	3,594	3,373
Total	¥9,097	¥8,704

(\*1) Unlisted stocks are excluded from "Disclosures Regarding Fair Value of Financial Instruments and Other Items" since no market price is available and their fair value is extremely difficult to determine.

(\*2) Impairment losses on unlisted stocks were ¥5 million and ¥43 million, as of March 31, 2014 and 2013.

(\*3) Out of investments in partnerships and others, certain partnerships holding assets whose fair value was extremely difficult to determine are excluded from "Disclosures Regarding Fair Value of Financial Instruments and Other Items."

**(Note 3) Redemption schedule of money claims and securities with stated maturities after the consolidated balance sheet date is as follows:**

March 31, 2014	Millions of yen					
	1 year or less	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Cash and due from banks	¥224,661	¥—	¥—	¥—	¥—	¥—
Securities						
Held-to-maturity debt securities	12,054	12,526	11,174	—	—	—
Japanese government bonds	9,500	4,000	—	—	—	—
Municipal bonds	—	—	50	—	—	—
Corporate bonds	2,554	8,526	11,124	—	—	—
Available-for-sale securities						
with maturities	248,496	448,986	671,099	598,264	254,480	96,553
Japanese government bonds	140,700	260,600	379,200	417,800	125,000	—
Municipal bonds	60,462	87,123	123,104	15,756	33,305	—
Corporate bonds	31,061	41,583	47,179	129,795	94,257	28,109
Foreign bonds	13,730	58,962	117,780	34,685	—	68,444
Other	2,542	716	3,835	227	1,917	—
Loans and bills discounted (*)	1,482,505	1,016,357	782,908	443,699	422,683	1,043,050
Total	¥1,967,717	¥1,477,871	¥1,465,182	¥1,041,964	¥677,163	¥1,139,604

(\*) Legally bankrupt loans, substantially bankrupt loans and potentially bankrupt loans amounting to ¥102,165 million, and loans and bills discounted without maturities amounting to ¥70,018million were excluded from the table above.

March 31, 2013	Millions of yen					
	1 year or less	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Cash and due from banks	¥318,396	¥—	¥—	¥—	¥—	¥—
Securities						
Held-to-maturity debt securities	13,205	10,872	10,211	—	—	—
Japanese government bonds	11,000	2,100	—	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	2,205	8,772	10,211	—	—	—
Available-for-sale securities						
with maturities	231,132	489,354	504,541	444,097	471,485	106,321
Japanese government bonds	101,000	257,400	342,900	330,300	318,000	—
Municipal bonds	37,037	146,930	61,308	—	50,313	—
Corporate bonds	69,166	55,437	36,464	75,408	101,752	33,784
Foreign bonds	21,515	26,526	62,529	38,389	—	71,207
Other	2,413	3,059	1,338	—	1,420	1,329
Loans and bills discounted (*)	3,072,577	697,694	506,993	251,517	219,949	172,021
Total	¥3,635,310	¥1,197,920	¥1,021,745	¥695,615	¥691,434	¥278,342

(\*) Legally bankrupt loans, substantially bankrupt loans and potentially bankrupt loans amounting to ¥117,692 million, and loans and bills discounted without maturities amounting to ¥69,871million were excluded from the table above.

(Note 4) Redemption schedule of borrowed money and other interest-bearing liabilities after the consolidated balance sheet date at March 31, 2014 and 2013 is as follows:

March 31, 2014	Millions of yen					
	1 year or less	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*)	¥6,772,166	¥597,972	¥103,132	¥2,524	¥4,106	¥—
Negotiable certificates of deposit	10,030	—	—	—	—	—
Payables under securities lending transactions	105,996	—	—	—	—	—
Borrowed money	206,032	9,191	3,025	—	—	—
Total	¥7,094,226	¥607,163	¥106,157	¥2,524	¥4,106	¥—

(\*) Demand deposits were included in “1 year or less.”

March 31, 2013	Millions of yen					
	1 year or less	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*)	¥6,616,152	¥615,630	¥106,207	¥2,099	¥4,372	¥—
Negotiable certificates of deposit	15,459	—	—	—	—	—
Payables under securities lending transactions	91,283	—	—	—	—	—
Borrowed money	103,735	11,540	4,970	—	—	—
Total	¥6,826,631	¥627,170	¥111,177	¥2,099	¥4,372	¥—

(\*) Demand deposits were included in “1 year or less.”

## 25. Securities Information

The amounts shown in the following tables include “Securities”, trading securities in “Trading assets” and trust beneficiary right in “Other debt purchased”.

### Year ended March 31, 2014

#### (a) Trading Securities

March 31, 2014	Millions of yen	
	Unrealized gain recognized as income	
Trading securities		¥(10)

#### (b) Held-to-maturity debt securities

March 31, 2014	Type	Millions of yen		
		Consolidated balance sheet amount	Fair value	Difference
Securities with fair value exceeding consolidated balance sheet amount	Bonds:	¥25,947	¥26,178	¥230
	Japanese government bonds	4,903	4,904	1
	Municipal bonds	49	50	0
	Corporate bonds	20,994	21,223	228
	Other:	—	—	—
	Foreign bonds	—	—	—
	Other	—	—	—
	Sub-total	25,947	26,178	230
Securities with fair value not exceeding consolidated balance sheet amount	Bonds	9,810	9,808	(2)
	Japanese government bonds	8,600	8,600	(0)
	Municipal bonds	—	—	—
	Corporate bond	1,210	1,208	(1)
	Other:	—	—	—
	Foreign bonds	—	—	—
	Other	—	—	—
	Sub-total	9,810	9,808	(2)
Total		¥35,757	¥35,986	¥228

**(c) Available-for-sale securities**

March 31, 2014	Type	Millions of yen		
		Consolidated balance sheet amount	Acquisition cost	Difference
Securities with consolidated balance sheet amount exceeding acquisition cost	Stocks	¥195,165	¥111,070	¥84,095
	Bonds	2,004,673	1,969,315	35,357
	Japanese government bonds	1,358,037	1,334,741	23,295
	Municipal bonds	277,457	273,611	3,845
	Corporate bonds	369,178	360,962	8,215
	Other	267,459	251,519	15,940
	Foreign bonds	163,895	160,913	2,982
	Other	103,563	90,606	12,957
	Sub-total	2,467,298	2,331,905	135,393
Securities with consolidated balance sheet amount not exceeding acquisition cost	Stocks	13,968	15,752	(1,783)
	Bonds	73,386	73,449	(62)
	Japanese government bonds	10,002	10,002	(0)
	Municipal bonds	46,096	46,124	(27)
	Corporate bonds	17,287	17,322	(34)
	Other	169,491	171,574	(2,082)
	Foreign bonds	139,163	140,591	(1,428)
	Other	30,328	30,982	(654)
	Sub-total	256,846	260,776	(3,929)
Total		¥2,724,144	¥2,592,681	¥131,463

**(d) Held-to-maturity debt securities sold during the fiscal year**

No held-to-maturity debt securities were sold during the fiscal year ended March 31, 2014.

**(e) Available-for-sale securities sold during the fiscal year**

Year ended March 31, 2014	Millions of yen		
	Sales proceeds	Gains on sales	Losses on sales
Stocks	¥46,144	¥7,352	¥1,458
Bonds	258,419	1,231	2,277
Japanese government bonds	249,416	1,224	1,911
Municipal bonds	—	—	—
Corporate bonds	9,003	7	365
Other	103,653	5,965	3,937
Foreign bonds	88,562	1,662	3,937
Other	15,091	4,302	0
Total	¥408,217	¥14,549	¥7,673

**(f) Securities Recognized for Impairment Loss**

For available-for-sale securities with market values, in cases where the market value has fallen substantially from the acquisition price and it is considered there is little likelihood of recovery to the acquisition price level, the securities are stated at market value on the consolidated balance sheets and the difference between the market value and the acquisition price is posted as a loss ("impairment loss").

Impairment losses for the fiscal year were nil.

Pursuant to "Practical Guidelines for Accounting for Financial Instruments" (JICPA Accounting Committee Report No. 14), the Bank recognized the impairment losses on listed equity shares whose average market price over the one-month period immediately prior to the balance sheet date declined by 30% or more compared with acquisition cost, and other securities whose market price at the balance-sheet date also declined by 30% or more compared with acquisition cost.

**(g) Money held in trust classified as available-for-sale securities**

Not applicable as of March 31, 2014.



**(h) Unrealized gain on available-for-sale securities**

March 31, 2014	Millions of yen
Unrealized (losses) gains:	
Available-for-sale securities	¥131,987
Other money held in trust	—
Deferred tax assets (liabilities)	(45,535)
Net unrealized gains on available-for-sale securities	86,452
Less minority interests	(7)
Unrealized gains on available-for-sale securities	¥86,445

Note: The total unrealized gains include an unrealized gain of ¥524 million on available-for-sale securities, which constitute the property of related associations.

**Year ended March 31, 2013****(a) Trading Securities**

March 31, 2013	Millions of yen
	Unrealized gain recognized as income
Trading securities	¥(4)

**(b) Held-to-maturity debt securities**

March 31, 2013	Type	Millions of yen Consolidated balance sheet amount	Fair value	Difference
Securities with fair value exceeding consolidated balance sheet amount	Bonds:	¥29,908	¥30,177	¥268
	Japanese government bonds	10,100	10,101	1
	Municipal bonds	—	—	—
	Corporate bonds	19,808	20,075	267
	Other:	—	—	—
	Foreign bonds	—	—	—
	Other	—	—	—
	Sub-total	29,908	30,177	268
Securities with fair value not exceeding consolidated balance sheet amount	Bonds	4,380	4,366	(13)
	Japanese government bonds	3,000	3,000	(0)
	Municipal bonds	—	—	—
	Corporate bonds	1,380	1,366	(13)
	Other:	774	774	(0)
	Foreign bonds	—	—	—
	Other	774	774	(0)
	Sub-total	5,155	5,141	(13)
Total		¥35,063	¥35,318	¥254

**(c) Available-for-sale securities**

March 31, 2013	Type	Millions of yen		
		Consolidated balance sheet amount	Acquisition cost	Difference
Securities with consolidated balance sheet amount exceeding acquisition cost	Stocks	¥177,231	¥108,773	¥68,457
	Bonds	1,987,026	1,942,887	44,138
	Japanese government bonds	1,300,188	1,271,840	28,347
	Municipal bonds	301,379	295,647	5,731
	Corporate bonds	385,458	375,398	10,059
	Other	246,783	222,181	24,602
	Foreign bonds	178,010	171,716	6,294
	Other	68,773	50,464	18,308
	Sub-total	2,411,041	2,273,842	137,199
Securities with consolidated balance sheet amount not exceeding acquisition cost	Stocks	15,390	17,749	(2,358)
	Bonds	103,888	104,159	(271)
	Japanese government bonds	102,090	102,359	(269)
	Municipal bonds	—	—	—
	Corporate bonds	1,798	1,800	(1)
	Other	89,009	91,708	(2,698)
	Foreign bonds	57,878	58,479	(600)
	Other	31,131	33,229	(2,098)
	Sub-total	208,288	213,617	(5,328)
Total		¥2,619,330	¥2,487,460	¥131,870

**(d) Held-to-maturity debt securities sold during the fiscal year**

No held-to-maturity debt securities were sold during the fiscal year ended March 31, 2013.

**(e) Available-for-sale securities sold during the fiscal year**

Year ended March 31, 2013	Sales proceeds	Millions of yen	
		Gains on sales	Losses on sales
Stocks	¥18,958	¥1,178	¥1,705
Bonds	242,413	3,640	81
Japanese government bonds	222,509	3,296	28
Municipal bonds	—	—	—
Corporate bonds	19,903	343	52
Other	47,338	1,031	408
Foreign bonds	41,133	237	408
Other	6,204	793	—
Total	¥308,710	¥5,850	¥2,195

**(f) Securities Recognized for Impairment Loss**

For available-for-sale securities with market values, in cases where the market value has fallen substantially from the acquisition price and it is considered there is little likelihood of recovery to the acquisition price level, the securities are stated at market value on the consolidated balance sheets and the difference between the market value and the acquisition price is posted as a loss ("impairment loss").

Impairment losses for the fiscal year amounted to ¥1,387 million, comprising ¥904 million from stocks and ¥483 million from bonds.

Pursuant to "Practical Guidelines for Accounting for Financial Instruments" (JICPA Accounting Committee Report No. 14), the Bank recognized the impairment losses on listed equity shares whose average market price over the one-month period immediately prior to the balance sheet date declined by 30% or more compared with acquisition cost, and other securities whose market price at the balance-sheet date also declined by 30% or more compared with acquisition cost.

**(g) Money held in trust classified as available-for-sale securities**

Not applicable as of March 31, 2013.

**(h) Unrealized gain on available-for-sale securities**

March 31, 2013	Millions of yen
Unrealized (losses) gains:	
Available-for-sale securities	¥132,661
Other money held in trust	—
Deferred tax assets (liabilities)	(45,612)
Net unrealized gains on available-for-sale securities	87,049
Less minority interests	(2)
Unrealized gains on available-for-sale securities	¥87,047

Note: The total unrealized gains include an unrealized gain of ¥791 million on available-for-sale securities, which constitute the property of related associations.

**26. Money held in trust****(1) Trading money held in trust**

Not applicable as of March 31, 2014

Not applicable as of March 31, 2013

**(2) Held-to-maturity money held in trust**

Not applicable as of March 31, 2014

Not applicable as of March 31, 2013

**(3) Other money held in trust**

Not applicable as of March 31, 2014

Not applicable as of March 31, 2013

## 27. Derivatives

Year ended March 31, 2014

### 1. Derivative instruments not accounted for as hedges

Regarding the derivative instruments to which hedge accounting is not applied, the following tables summarize contract amount, market value and unrealized gain or loss for each type of derivative transaction, respectively, at the end of the consolidated balance sheet date, as well as determination of fair value.

Contract amount does not represent itself the market risk of derivative instruments.

#### (1) Interest-rate Derivatives

	Millions of yen			
	Contract amount	Over 1 year	Fair value	Unrealized gain (loss)
Transactions listed on exchanges:				
Interest-rate futures:				
Sold	¥—	¥—	¥—	¥—
Bought	—	—	—	—
Interest-rate options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over-the-counter transactions:				
Forward rate agreements:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest-rate swaps:				
Receivable fixed / payable floating	153,920	33,626	384	384
Receivable floating / payable fixed	153,920	33,626	(54)	(54)
Receivable floating / payable floating	—	—	—	—
Interest-rate options:				
Sold	—	—	—	—
Bought	—	—	—	—
Caps:				
Sold	340	110	(0)	9
Bought	340	110	0	(4)
Swaption:				
Sold	48,783	4,650	(92)	22
Bought	48,783	4,650	92	92
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			¥330	¥450

Notes: 1. The transactions in this table have been revalued at the market rates prevailing on the balance sheet date, and unrealized gain (loss) is included in the Consolidated Statements of Income.

2. Calculation of fair value

The fair value of transactions listed on exchanges has been calculated on the basis of the closing prices on the Tokyo Financial Exchange, etc. The fair value of over-the-counter transactions has been calculated at their discounted future cash flows or by utilizing option pricing models.

## (2) Currency Derivatives

	Millions of yen			
	Contract amount	Over 1 year	Fair value	Unrealized gain (loss)
Transactions listed on exchanges:				
Currency futures:				
Sold	¥—	¥—	¥—	¥—
Bought	—	—	—	—
Currency options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over-the-counter transactions:				
Currency swaps	258,937	169,438	163	163
Forward foreign exchange contracts:				
Sold	2,062	351	(6)	(6)
Bought	1,110	10	7	7
Currency options:				
Sold	12,733	3,583	(270)	(12)
Bought	12,733	3,583	270	113
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
<b>Total</b>			<b>¥164</b>	<b>¥265</b>

Notes: 1. The transactions in this table have been revalued at the market rates prevailing on the balance sheet date, and unrealized gain (loss) is included in the Consolidated Statements of Income.

2. Calculation of fair value

Fair value is calculated at discounted future cash flows, etc.

## (3) Stock Derivatives

Not applicable as of March 31, 2014.

## (4) Bond Derivatives

	Millions of yen			
	Contract amount	Over 1 year	Fair value	Unrealized gain (loss)
Transactions listed on exchanges:				
Bond futures:				
Sold	¥434	¥—	¥0	¥0
Bought	—	—	—	—
Bond future options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over-the-counter transactions:				
Bond over-the-counter options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
<b>Total</b>			<b>¥0</b>	<b>¥0</b>

Notes: 1. The transactions in this table have been revalued at the market rates prevailing on the balance sheet date, and unrealized gain (loss) is included in the Consolidated Statements of Income.

2. Calculation of fair value

The fair value of transactions listed on exchanges has been calculated on the basis of the closing prices on the Osaka Exchange, Inc. The fair value of over-the-counter transactions has been calculated at their discounted future cash flows or by option pricing models.

## (5) Commodity Derivatives

Not applicable as of March 31, 2014.

## (6) Credit Derivatives

Not applicable as of March 31, 2014.

## 2. Derivative Instruments accounted for as hedges

Regarding the derivative instruments to which hedge accounting is applied, the following tables summarize contract amount, market value and unrealized gain or loss for each type of derivative transaction, respectively, at the end of the consolidated balance sheet date, as well as determination of fair value.

Contract amount does not represent itself the market risk of derivative instruments.

### (1) Interest-rate Derivatives

March 31, 2014

Method of hedge	Type	Hedged items	Millions of yen		
			Contract amounts	Over 1 year	Fair value
Deferred method	Interest rate swap	Interest bearing financial assets and liabilities			
	Receivable fixed / payable floating	including loans, available-for-sale securities, deposits and negotiable certificates of deposit, etc.	¥—	¥—	¥—
	Receivable floating / payable fixed		90,000	90,000	(3,333)
	Interest rate futures		—	—	—
	Interest rate options		—	—	—
	Other		—	—	—
Exceptional accrual method for interest rate swap	Interest rate swap				
	Receivable fixed / payable floating	Loans, borrowed money	9,000	9,000	367
	Receivable floating / payable fixed		38,339	32,817	(2,043)
Total					¥(5,008)

- Notes:
1. Primarily, the Bank applies the deferred method of hedge accounting which is described in "Accounting and Auditing Treatment relating to the Adoption of 'Accounting for Financial Instruments' for Banks," issued by the Japanese Institute of Certified Public Accountants ("JICPA"), (JICPA Industry Audit Committee Report No. 24).
  2. Determination of fair value:  
The fair value of exchange-traded derivative instruments is based on closing prices at the Tokyo Financial Exchange or other relevant exchanges.  
The fair value of over-the-counter traded derivative instruments is determined based on a discounted cash flows model, an option pricing model or other models as appropriate.
  3. 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 Loans and Bills Discounted and other items (See: 31. Financial Instruments (2) Disclosures Regarding the Fair Value of Financial Instruments and Other Items).

### (2) Currency Derivatives

March 31, 2014

Method of hedge	Type	Hedged items	Millions of yen		
			Contract amounts	Over 1 year	Fair value
Deferred method	Currency swaps	Foreign currency-denominated loans, securities, deposits and foreign exchanges, etc.	¥46,084	¥154	¥(1,153)
	Forward foreign exchange contracts		—	—	—
	Foreign exchange swaps		47,704	—	(340)
	Other		—	—	—
Treatment for forward foreign exchange contracts, etc.	Currency swap		—	—	—
	Forward foreign exchange contracts		—	—	—
Total					¥(1,494)

- Notes:
1. Primarily, the Bank applies the deferred method of hedge accounting which is described in "Accounting and Auditing Treatment relating to Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25).
  2. Determination of fair value:  
Fair value is determined based on the discounted cash flows model.

### (3) Stock Derivatives

Not applicable as of March 31, 2014.

#### (4) Bond Derivatives

Not applicable as of March 31, 2014.

#### Year ended March 31, 2013

##### 1. Derivative instruments not accounted for as hedges

Regarding the derivative instruments to which hedge accounting is not applied, the following tables summarize contract amount, market value and unrealized gain or loss for each type of derivative transaction, respectively, at the end of the consolidated balance sheet date, as well as determination of fair value.

Contract amount does not represent itself the market risk of derivative instruments.

##### (1) Interest-rate Derivatives

	Millions of yen			
	Contract amount	Over 1 year	Fair value	Unrealized gain (loss)
Transactions listed on exchanges:				
Interest-rate futures:				
Sold	¥—	¥—	¥—	¥—
Bought	—	—	—	—
Interest-rate options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over-the-counter transactions:				
Forward rate agreements:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest-rate swaps:				
Receivable fixed / payable floating	145,624	23,616	288	288
Receivable floating / payable fixed	145,624	23,616	(49)	(49)
Receivable floating / payable floating	—	—	—	—
Interest-rate options:				
Sold	—	—	—	—
Bought	—	—	—	—
Caps:				
Sold	547	340	(0)	21
Bought	547	340	0	(11)
Swaption:				
Sold	44,600	2,100	(81)	16
Bought	44,600	2,100	81	81
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total	—	—	¥238	¥345

Notes: 1. The transactions in this table have been revalued at the market rates prevailing on the balance sheet date, and unrealized gain (loss) is included in the Consolidated Statements of Income.

2. Calculation of fair value

The fair value of transactions listed on exchanges has been calculated on the basis of the closing prices on the Tokyo Financial Exchange, etc. The fair value of over-the-counter transactions has been calculated at their discounted future cash flows or by utilizing option pricing models.



## (2) Currency Derivatives

	Millions of yen			
	Contract amount	Over 1 year	Fair value	Unrealized gain (loss)
Transactions listed on exchanges:				
Currency futures:				
Sold	¥—	¥—	¥—	¥—
Bought	—	—	—	—
Currency options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over-the-counter transactions:				
Currency swaps	532,930	237,128	272	272
Forward foreign exchange contracts:				
Sold	3,810	51	(282)	(282)
Bought	2,507	—	280	280
Currency options:				
Sold	10,326	2,069	(234)	16
Bought	10,326	2,069	236	70
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total	—	—	¥272	¥357

Notes: 1. The transactions in this table have been revalued at the market rates prevailing on the balance sheet date, and unrealized gain (loss) is included in the Consolidated Statements of Income.

2. Calculation of fair value

Fair value is calculated at discounted future cash flows, etc.

## (3) Stock Derivatives

Not applicable as of March 31, 2013.

## (4) Bond Derivatives

Not applicable as of March 31, 2013.

## (5) Commodity Derivatives

Not applicable as of March 31, 2013.

## (6) Credit Derivatives

Not applicable as of March 31, 2013.

## 2. Derivative Instruments accounted for as hedges

Regarding the derivative instruments to which hedge accounting is applied, the following tables summarize contract amount, market value and unrealized gain or loss for each type of derivative transaction, respectively, at the end of the consolidated balance sheet date, as well as determination of fair value.

Contract amount does not represent itself market the risk of derivative instruments.

## (1) Interest-rate Derivatives

March 31, 2013

Method of hedge	Type	Hedged items	Millions of yen		
			Contract amounts	Over 1 year	Fair value
Deferred method	Interest rate swap	Interest bearing financial assets and liabilities including loans, available-for-sale securities, deposits and negotiable certificates of deposit, etc.			
	Receivable fixed / payable floating		¥ —	¥ —	¥ —
	Receivable floating / payable fixed		80,000	80,000	(4,220)
	Interest rate futures		—	—	—
	Interest rate options		—	—	—
	Other		—	—	—
	Exceptional accrual method for interest rate swap		Interest rate swap		
	Receivable fixed / payable floating	Loans, borrowed money	9,000	9,000	516
	Receivable floating / payable fixed		43,862	38,339	(2,630)
Total		———	———	———	¥ (6,333)

Notes: 1. Primarily, the Bank applies the deferred method of hedge accounting which is described in "Accounting and Auditing Treatment relating to the Adoption of 'Accounting for Financial Instruments' for Banks," issued by the Japanese Institute of Certified Public Accountants ("JICPA"), (JICPA Industry Audit Committee Report No. 24).  
2. Determination of fair value:  
The fair value of exchange-traded derivative instruments is based on closing prices at the Tokyo Financial Exchange or other relevant exchanges. The fair value of over-the-counter traded derivative instruments is determined based on a discounted cash flows model, an option pricing model or other models as appropriate.  
3. 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 Loans and Bills Discounted and other items (See: 31. Financial Instruments (2) Disclosures Regarding the Fair Value of Financial Instruments and Other Items).

## (2) Currency Derivatives

March 31, 2013

Method of hedge	Type	Hedged items	Millions of yen		
			Contract amounts	Over 1 year	Fair value
Deferred method	Currency swaps	Foreign	¥31,962	¥—	(¥2,416)
	Forward foreign exchange contracts	currency-denominated loans, securities, deposits and foreign exchanges, etc.	—	—	—
	Foreign exchange swaps		20,143	—	(56)
	Other		—	—	—
Treatment for forward foreign exchange contracts, etc.	Currency swap		—	—	—
	Forward foreign exchange contracts		—	—	—
Total		— — — —	— — — —	— — — —	¥(2,472)

Notes: 1. Primarily, the Bank applies the deferred method of hedge accounting which is described in "Accounting and Auditing Treatment relating to Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25).  
2. Determination of fair value:  
Fair value is determined based on the discounted cash flows model.

## (3) Stock Derivatives

Not applicable as of March 31, 2013.

## (4) Bond Derivatives

Not applicable as of March 31, 2013.

## 28. Stock Options

(a) The Bank recorded stock option expenses in “General and administrative expenses” of ¥47 million and ¥46 million for the fiscal years ended March 31, 2014 and 2013, respectively.

(b) Outline of stock options, size and changes

(1) Outline of stock options

March 31, 2014	1st equity warrant	2nd equity warrant
Persons to whom stock options are granted	Directors of the Bank: 10	Executive officers of the Bank: 12
Type and number of shares (*)	Common shares: 56,698	Common shares: 41,546
Grant date	August 24, 2009	August 24, 2009
Condition for vesting	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable
Period for exercise of stock options	From August 25, 2009 to August 24, 2039	From August 25, 2009 to August 24, 2039

March 31, 2014	3rd equity warrant	4th equity warrant
Persons to whom stock options are granted	Directors of the Bank: 10	Executive officers of the Bank: 13
Type and number of shares (*)	Common shares: 79,606	Common shares: 61,881
Grant date	July 21, 2010	July 21, 2010
Condition for vesting	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable
Period for exercise of stock options	From July 22, 2010 to July 21, 2040	From July 22, 2010 to July 21, 2040

March 31, 2014	5th equity warrant	6th equity warrant
Persons to whom stock options are granted	Directors of the Bank: 10	Executive officers of the Bank: 13
Type and number of shares (*)	Common shares: 78,720	Common shares: 60,999
Grant date	July 20, 2011	July 20, 2011
Condition for vesting	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable
Period for exercise of stock options	From July 21, 2011 to July 20, 2041	From July 21, 2011 to July 20, 2041

March 31, 2014	7th equity warrant	8th equity warrant
Persons to whom stock options are granted	Directors of the Bank: 10	Executive officers of the Bank: 16
Type and number of shares (*)	Common shares: 76,174	Common shares: 73,080
Grant date	July 19, 2012	July 19, 2012
Condition for vesting	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable
Period for exercise of stock options	From July 20, 2012 to July 19, 2042	From July 20, 2012 to July 19, 2042

March 31, 2014	9th equity warrant	10th equity warrant
Persons to whom stock options are granted	Directors of the Bank: 10	Executive officers of the Bank: 15
Type and number of shares (*)	Common shares: 47,254	Common shares: 41,968
Grant date	July 18, 2013	July 18, 2013
Condition for vesting	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable
Period for exercise of stock options	From July 19, 2013 to July 18, 2043	From July 19, 2013 to July 18, 2043

(\*) The table above presents the number of common shares converted from the stock options.

(2) Size and changes of stock options

a. Number of stock options in the fiscal years ended March 31, 2014

	1st equity warrant	2nd equity warrant	3rd equity warrant	4th equity warrant	5th equity warrant	6th equity warrant	7th equity warrant	8th equity warrant	9th equity warrant	10th equity warrant
<b>March 31, 2014</b>										
Non-vested:										
Previous fiscal										
year-end outstanding	37,408	13,776	52,521	28,073	78,720	51,131	76,174	68,730	47,254	41,968
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	13,812	10,496	19,392	19,017	27,200	24,221	26,320	24,360	—	—
Outstanding on March 31, 2014	23,596	3,280	33,129	9,056	51,520	26,910	49,854	44,370	47,254	41,968
Vested:										
Previous fiscal										
year-end outstanding										
Vested	13,812	10,496	19,392	19,017	27,200	24,221	26,320	24,360	—	—
Exercised	13,812	10,496	19,392	19,017	27,200	24,221	26,320	24,360	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Exercisable	—	—	—	—	—	—	—	—	—	—

b. Price information

	Yen									
	1st equity warrant	2nd equity warrant	3rd equity warrant	4th equity warrant	5th equity warrant	6th equity warrant	7th equity warrant	8th equity warrant	9th equity warrant	10th equity warrant
<b>March 31, 2014</b>										
Exercise price	1	1	1	1	1	1	1	1	1	1
Average share price at exercise	499	499	499	499	499	499	499	499	—	—
Fair value at the grate date	417	439	297	318	300	321	310	331	518	542

c. Valuation technique for fair value of stock options

Stock options granted during the fiscal year ended March 31, 2014 were valued using the Black-Scholes option pricing model and the following principal parameters:

	9th equity warrant	10th equity warrant
Expected volatility (*1)	33.56%	27.19%
Average expected life (*2)	6 years	3 years
Expected dividends (*3)	¥8.5 per share	¥8.5 per share
Risk-free interest rate (*4)	0.38%	0.14%

(\*1) Expected volatility is calculated based on the actual stock prices at the following period corresponding to the average expected life.

9th equity warrant: From July 18, 2007 to July 17, 2013

10th equity warrant: From July 20, 2010 to July 17, 2013

(\*2) The average tenure of the directors and the executive officers who retired in the past is used as the average expected life in the above table.

(\*3) Actual dividends on common stock for the fiscal year ended March 31, 2013.

(\*4) Japanese government bond yield corresponding to the average expected life.

d. Method of estimating number of stock options vested

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

## 29. Related-Party Transactions

No material transactions occurred with related-parties for the fiscal year ended March 31, 2014 and 2013.

### 30. Per-share Data

March 31,	Yen	
	2014	2013
Net assets per share	<b>¥689.21</b>	¥671.35
Earnings per share-basic	<b>33.52</b>	30.06
Earnings per share-diluted	<b>33.51</b>	30.05

Note: Bases for calculation of net assets per share are as follows:

	Millions of yen	
	2014	2013
Net assets	<b>¥516,971</b>	¥506,649
Deduction from nets assets	<b>2,956</b>	2,613
Attributable to equity warrants	<b>113</b>	120
Attributable to minority interests	<b>2,843</b>	2,493
Net assets after deduction of the portion described above	<b>514,014</b>	504,035
Number of common shares (in thousands)	<b>745,792</b>	750,776

Note: Bases for calculation of earnings per share (basic and diluted) are as follows:

March 31,	Millions of yen	
	2014	2013
Earnings per share		
Net income	<b>¥25,042</b>	¥22,726
Earnings not available to common shareholders	—	—
Net income after deduction of the portion described above	<b>25,042</b>	22,726
Weighted average number of common shares for the fiscal year (in thousands)	<b>746,908</b>	755,916
Diluted earnings per share		
Adjustment to net income	—	—
Increase in common shares (in thousands)	<b>320</b>	338
Attributable to equity warrants (in thousands)	<b>320</b>	338
Equity warrants that have no dilutive effects on earnings per share	—	—

From the fiscal year ended March 31, 2014, the Bank and consolidated subsidiaries have adopted the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012) (excluding the provisions set out in the main text of Paragraph 35 and Paragraph 67 of the Accounting Standard and the Guidance, respectively) and the transitional treatment stipulated in Paragraph 37 of the Accounting Standard.

As a result of this change, net assets per share decrease ¥7.58 as of March 31, 2014.

### 31. Significant Subsequent Events

#### 1. Significant Subsequent Events

Issuance of euro-US dollar-denominated convertible bonds with stock acquisition rights (SAR) maturing in 2019 (the "Bonds")

At the board of directors' meeting held on April 8, 2014, the Bank decided to issue the Bonds and payment was completed on April 24, 2014.

- (1) Bond name  
Joyo Bank, Ltd. Euro-U.S. dollar-denominated convertible bonds with SAR maturing in 2019
- (2) Issue price (amount paid)  
100% of the face value of this bond (face value of each bond: US\$100,000)
- (3) Issue price (offer price)  
102.5% of the face value of this bond
- (4) Total sum of issue price (total sum of paid amount)  
US\$300 million
- (5) Bond interest rate  
The Bonds have no interest rate
- (6) Existence of collaterals and guarantees  
The Bonds have no collaterals or guarantees
- (7) Bond due date of payment and date of issue  
April 24, 2014
- (8) Terms of redemption, etc.  
The Bonds will be redeemed for 100% of its face value on April 24, 2019 (maturity date). In addition, there is a provision in terms and condition of issuance concerning early redemption and buyback or retirement in certain cases.
- (9) Matters related to stock acquisition rights
  - a. Total number of SAR  
The total number of 3,000 and the total face value of these bonds connected to alternative stock acquisition rights divided by US\$100,000 .
  - b. Type, content and number of shares which are the object of these SAR  
The type and content of shares which are the object of these SAR will be common shares of the Bank (1,000 shares shall constitute one unit), and the number of the Bank's common shares to be granted through the exercise of the SAR shall be the total of the face value of the bonds connected to the exercise request divided by the convertible value listed in 6. below.  
However, any fraction of less than one (1) share resulting from the exercise shall be rounded down to the nearest number of shares and no cash adjustment shall be made.
  - c. Allotment day of stock acquisition rights  
April 24, 2014
  - d. Exercise period of stock acquisition rights  
From May 9, 2014 to April 10, 2019 (local time at the exercise request location)
  - e. Amount to be paid upon exercise of the SAR  
Upon the exercise of the SAR, the Bonds to which said SAR is attached will be used at face value to pay for the new shares to be issued.
  - f. Convertible value  
US\$6.05 (initially)
  - g. The increase in capital and capital reserves in the event of the issuance of shares through the exercise of the SAR  
The increase in capital in the event of the issuance of shares through the exercise of the SAR shall be the amount obtained by multiplying by 0.5 the limit of the increase in capital, etc., which was calculated as set forth in Article 17 of the Ordinance on Company Accounting . Any fraction of less than one (1) yen created as a result of calculation shall be rounded up. The increase in capital reserves shall be the amount obtained by subtracting the increase in capital from the limit of the increase in capital, etc.
  - h. Granting of SAR by the successor company, etc. in the event of organizational restructuring by the Bank  
Certain provisions exist for the terms and conditions of the issuance.
  - i. Reason that no cash is required in exchange for the SAR  
The SAR is one attached to a convertible bond with SAR. No cash is required in exchange for the SAR considering the fact that the SAR cannot be separately transferred, the Bonds and the SAR are closely related as the Bonds are used as funds at the time of exercise of the SAR, and taking into account the economic value to be acquired by the Bank based on the value of the SAR, the interest rate of the Bonds, and other conditions such as paid-in amount.
- (10) Use of proceeds

Proceeds of approximately US\$300 million raised through the issuance of the convertible bonds with SAR are planned to be allocated to foreign currency-denominated loans in fiscal 2014.

- (11) Financial instruments exchange on which the Bond is listed  
Singapore Stock Exchange

## 2. Acquisition of treasury stock

At the board of directors meeting held on April 8, 2014, the Bank resolved to acquire treasury stock based on the provisions of Article 156 of the Companies Act of Japan, which is applied by replacing the relevant terms and phrases pursuant to the provision of Article 165, Paragraph 3, of the Companies Act.

- (1) Class of shares to be acquired: Common stock of the Bank
- (2) Total number of shares to be acquired: 20,000,000 shares (upper limit)
- (3) Total acquisition cost: ¥12,000 million (upper limit)
- (4) Period of acquisition: From April 9, 2014 to September 22, 2014
- (5) Method of acquisition: Purchase through the market

## 3. Cancellation of treasury stock

At the board of directors meeting held on April 8, 2014, the Bank resolved to cancel treasury stock based on the provisions of Article 178 of the Companies Act of Japan.

- (1) Class of shares to be cancelled: Common stock of the Bank
- (2) Total number of shares to be cancelled: 20,000,000 shares
- (3) Total number of outstanding shares after cancellation: 769,231,875 shares
- (4) Cancellation date: July 18, 2014



## Independent Auditors' Report

The Board of Directors  
The Joyo Bank, Ltd.

We have audited the accompanying consolidated financial statements of The Joyo Bank, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Joyo Bank, Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

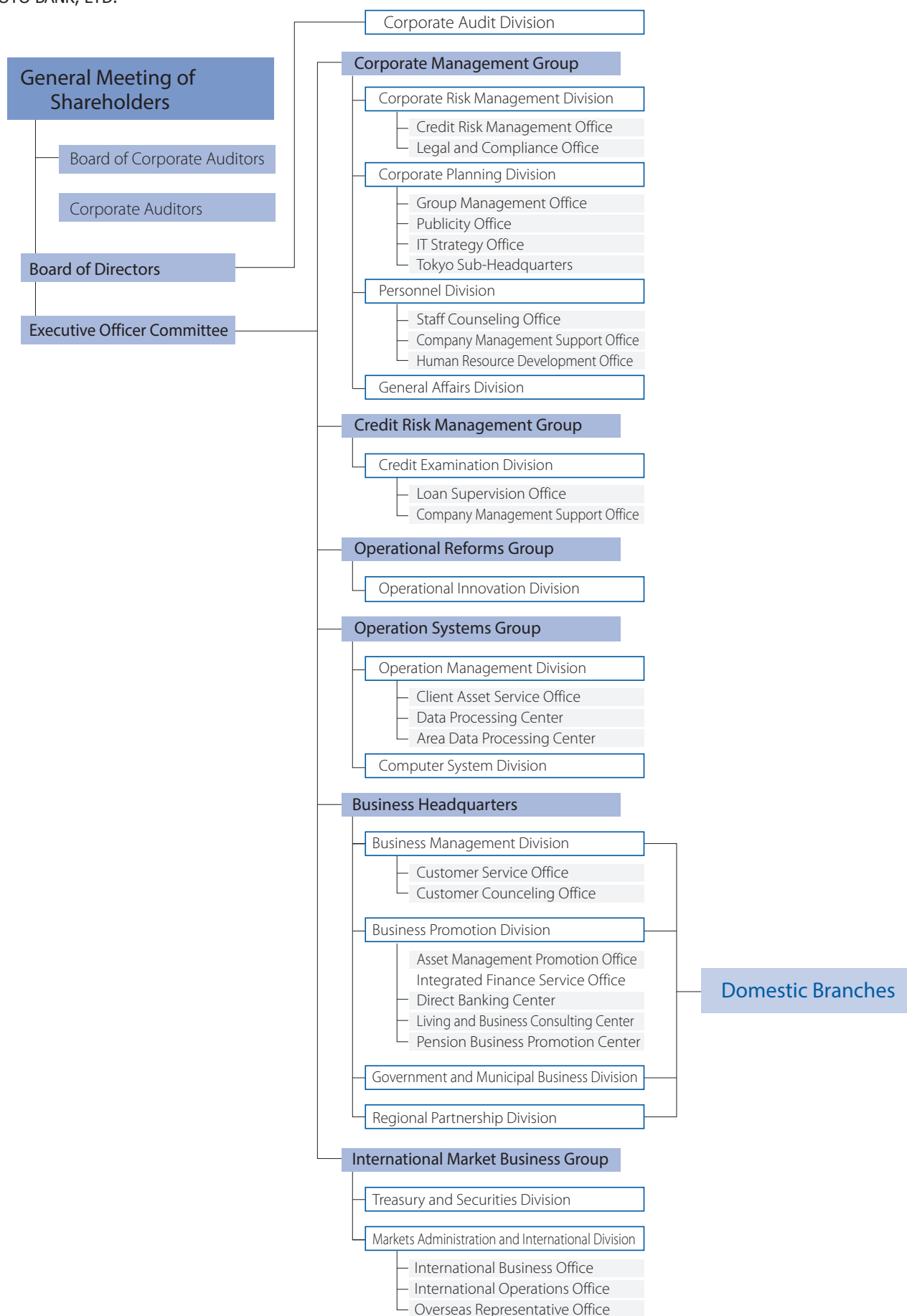
### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

June 26, 2014  
Tokyo, Japan

The JOYO BANK, LTD.



## Board of Directors and Corporate Auditors

As of June 26, 2014

<b>Chairman</b> Kunio Onizawa	<b>Senior Managing Directors</b> Shigeru Ichimura Hideo Sakamoto	<b>Directors</b> Toshihiko Kawamura (outside) Ryuzaburo Kikuchi (outside)	<b>Corporate Auditors</b> Yoshiaki Terakado (standing) Hideo Torihata (standing) Akira Yasu Sanenori Hitomi Toshio Mizushima
<b>President</b> Kazuyoshi Terakado	<b>Managing Directors</b> Katsuhiko Ito Atsuyuki Kurosawa Eiji Murashima Makoto Sasanuma Ritsuo Sasajima		
<b>Deputy President</b> Mikio Kawamata			

## Market Business Group and Overseas Offices

As of June 26, 2014

Head Office	5-5, Minami-machi 2-chome, Mito, Ibaraki 310-0021, Japan	Phone: +81-29-231-2151
Markets Administration and International Division	7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-0028, Japan	Phone: +81-3-3273-1741
International Business Office	5-5 Minami-machi 2-chome, Mito, Ibaraki 310-0021, Japan	Phone: +81-29-300-2727
International Operations Office	3-3, Shinhara 1-chome, Mito, Ibaraki 310-0045, Japan	Phone: +81-29-255-6671
Shanghai Representative Office	Room 1901, Shanghai International Trade Centre, 2201 Yan An Road (West), Shanghai 200336 P.R. of China	Phone: +86-21-6209-0258
Singapore Representative Office	30 Cecil Street, #11-04 Prudential Tower, Singapore 049712	Phone: +65-6225-6543
Treasury and Securities Division	7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-0028, Japan	Phone: +81-3-3273-5245

## Affiliated Companies

As of March 31, 2014

Company Name	Address	Main Business Activities	Established	Capital Stock (millions of yen)	Share of Voting Rights
The Joyo Computer Service Co., Ltd.	16-25, Nishihara 2-chome, Mito, Ibaraki	Sale of software and contract of calculation businesses	1973	47.5	5%
The Joyo Lease Co., Ltd.	4-12, Minami-machi 3-chome, Mito, Ibaraki	Leasing of machinery and equipment, claim acquisition	1974	100	5%
The Joyo Credit Guarantee Co., Ltd.	4-12, Minami-machi 3-chome, Mito, Ibaraki	Credit guarantee of housing loans from the Bank	1978	30	5%
The Joyo Credit Co., Ltd.	4-12, Minami-machi 3-chome, Mito, Ibaraki	Credit card services	1982	100	5%
The Joyo Business Service Co., Ltd.	8-1, Sasano-machi 1-chome, Hitachinaka, Ibaraki	Agent in charge of administrative work for the Bank	1984	100	100%
The Joyo Industrial Research Institute, Ltd.	5-18, Sannomaru 1-chome, Mito, Ibaraki	Consulting, investigation and research	1995	100	5%
The Joyo Equipment Management Co., Ltd.	5-5, Minami-machi 2-chome, Mito, Ibaraki	Maintenance and management of operational properties and equipment of the Bank	1999	100	100%
The Joyo Cash Service Co., Ltd.	3-3, Jonan 1-chome, Mito, Ibaraki	Management and maintenance of ATMs and CDs	1999	50	100%
The Joyo Securities Co., Ltd.	4-12, Minami-machi 3-chome, Mito, Ibaraki	Dealing of securities, mediation, commission and substitution of trading of securities	2007	3,000	100%

### Principal Shareholders

The 10 largest shareholders of the Bank and their respective shareholdings at March 31, 2014 were as follows:

	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd. ....	28,992	3.67
NIPPONKOA Insurance Company, Ltd. ....	28,973	3.67
Nippon Life Insurance Company .....	26,603	3.37
Japan Trustee Services Bank, Ltd. (Trust Account) .....	22,914	2.90
The Dai-ichi Mutual Life Insurance Company .....	17,049	2.16
Northern Trust Co. (AVFC) Re Silchester International Investors International Value Equity .....	16,520	2.09
Sumitomo Life Insurance Company .....	16,448	2.08
Northern Trust Company (AVFC) US Tax Exempted Pension Funds .....	15,165	1.92
State Street Bank and Trust Company 505223 .....	14,556	1.84
The Master Trust Bank of Japan, Ltd. (Trust Account) .....	14,402	1.79
Total .....	201,423	25.52%

For further information, please contact to: Markets Administration and International Division, The Joyo Bank, Ltd.  
7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-0028, Japan

