

# Annual Report 2021

Year Ended March 31, 2021



## Group Philosophy of Mebuki Financial Group

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

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

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



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

## Corporate History (As of April 1, 2021)

<b>November 2015</b>	Notice Regarding the Basic Agreement Concerning a Business Integration through a Share Exchange of The Joyo Bank, Ltd. and Ashikaga Holdings Co., Ltd.
<b>April 2016</b>	Notice Regarding Definitive Agreement Concerning the Business Integration of The Joyo Bank, Ltd. and Ashikaga Holdings Co., Ltd. through a Share Exchange
<b>June 2016</b>	Approval of stock exchange agreement at the ordinary general meeting of shareholders of The Joyo Bank, Ltd. and Ashikaga Holdings Co., Ltd.
<b>October 2016</b>	Establishment of the Mebuki Financial Group, Inc.
<b>April 2017</b>	Acquired all shares of Mebuki Lease Co., Ltd. (formerly known as The Joyo Lease Co., Ltd.) from The Joyo Bank, Ltd.
<b>October 2017</b>	Acquired all shares of Mebuki Securities Co., Ltd. (formerly known as The Joyo Securities Co., Ltd.) from The Joyo Bank, Ltd.
<b>December 2017</b>	Opened The Ashikaga Bank, Ltd. Bangkok Representative Office
<b>March 2018</b>	Opened The Joyo Bank, Ltd. Hanoi Representative Office
<b>October 2020</b>	Acquired all shares of Mebuki Credit Guarantee Co., Ltd. (formerly known as The Ashikaga Credit Guarantee Co., Ltd.) from The Ashikaga Bank, Ltd.
<b>April 2021</b>	Acquired all shares of Joyo Credit Co., Ltd. from The Joyo Bank, Ltd., and all shares of Ashigin Card Co., Ltd. from The Ashikaga Bank, Ltd. Both companies merge and change the surviving company's trade name to Mebuki Card Co., Ltd.

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### Disclaimer regarding forward-looking statements

This Annual Report contains certain forward-looking statements, including estimates, forecasts, targets and plans. Such forward-looking statements are based on the information available and the assumptions deemed reasonable by management at the time of publication of the Annual Report, and do not represent any guarantee by management of future performance. We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise. Details on ESG information are available on our website: <https://www.mebuki-fg.co.jp/eng/esg/esg.html>

# Developments of Mebuki Financial Group

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

Developments of Mebuki Financial Group

Developments of Mebuki Financial Group



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

**1974**  
Establishment of Joyo Lease (currently Mebuki Lease)

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

**1996**  
Opened Shanghai Representative Office

**1999**  
Established the “sound management, collaboration, and partnership with the home region” philosophy

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

**2007**  
Established Joyo Securities (currently Mebuki Securities)

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



**2012**  
Opened Representative Office Registered in Singapore

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

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

**2016**  
Established Mebuki Financial Group

Hosted the Mebuki Business Award  
Set up the Mebuki Regional Revitalization Fund



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

**2016**  
Commenced handling of private placement bonds with donation schemes to “support future dreams”

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

**2019**  
Set up the Tsukuba Exceed Fund

**2019**  
Commenced handling of Mebuki SDGs private placement bonds

**2020**  
Completed the system integration of Joyo Bank and Ashikaga Bank  
Invested in fund to help recovery efforts in areas affected by typhoons in 2019  
Mebuki Credit Guarantee became a directly and wholly-owned subsidiary

**2021**  
Joyo Credit and Ashigin Card became directly and wholly-owned subsidiaries, and were subsequently merged to establish Mebuki Card

**2021**  
Established Joyo Capital Partners

JOYO BANK  
ASHIKAGA BANK

Mebuki Financial Group

**1895**  
Established in Ashikaga town, Ashikaga county, Tochigi Prefecture

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

**1967**  
Relocated the head office to Utsunomiya city in Tochigi Prefecture

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



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

**2008**  
Established Ashikaga Holdings  
Special crisis management designation lifted

**2009**  
Established Ashigin Research Institute

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

**2015**  
Opened Hong Kong Representative Office  
Signed agreements with 9 local governments as part of its efforts under the Comprehensive Strategy for Overcoming Population Decline and Vitalizing Local Economy (as of July 2021)

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

**2019**  
Started offering personnel placement services  
Started offering trust services

**2021**  
Established Wing Capital Partners

Financial and economic developments and history of the prefectures

**1985**  
Holding of Tsukuba EXPO

**1982**  
Opening of Tohoku Shinkansen

**1974**  
Completion of Tohoku Expressway within Tochigi Prefecture

**2005**  
Opening of the Tsukuba Express

**2011**  
Great East Japan Earthquake

**2020**  
Spread of COVID-19

**2019**  
Suffered extensive damage by Typhoon Hagibis and other disasters

**1929**  
Start of the Great Depression

**1985**  
Plaza Accord

**2005**  
Full implementation of pay-off system in Japan

**2016**  
BOJ's introduction of negative interest rate policy

**1945**  
End of the Pacific War

**1991**  
Collapse of bubble economy

**2008**  
Global financial crisis following Lehman Brothers' bankruptcy

**1964**  
Tokyo Olympic Games

**1997**  
Japanese version of “Big Bang” financial reforms  
Asian currency crisis

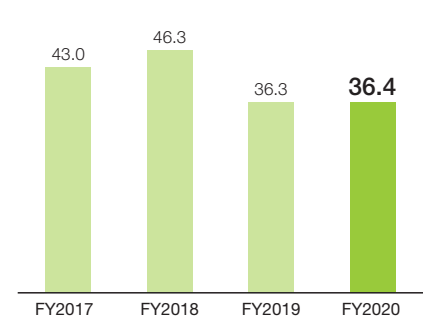
**2010**  
European debt crisis

# Performance of Mebuki Financial Group

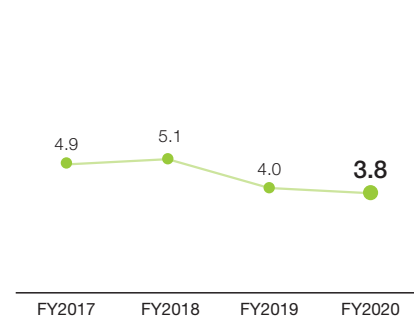
## Financial Highlights

### Mebuki FG (Consolidated)

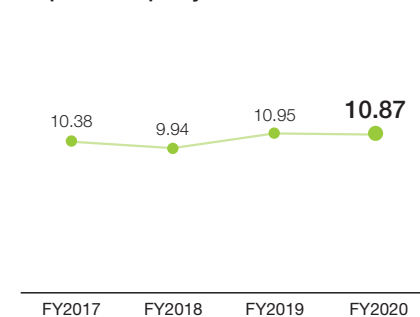
Consolidated net income (Billion yen)



Consolidated ROE (%)



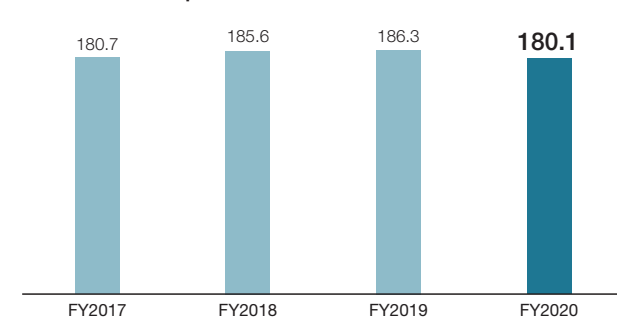
Capital adequacy ratio (%)



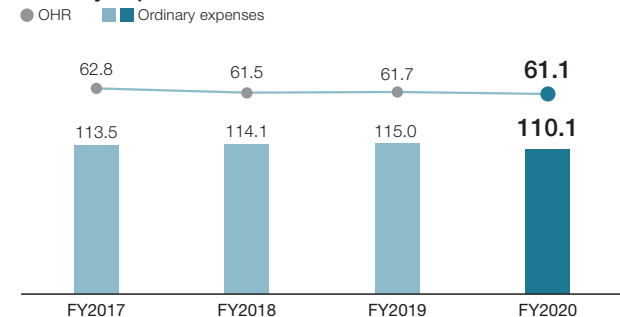
### Bank Total\*

\*Joyo Bank + Ashikaga Bank

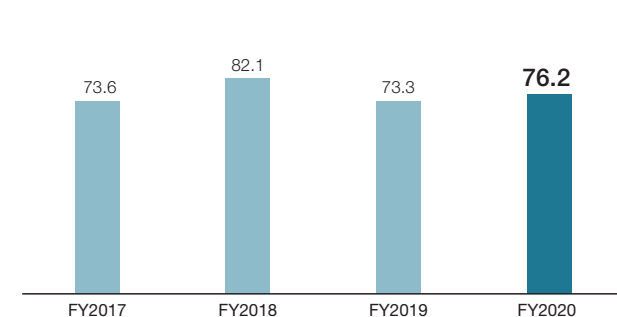
Gross business profit (Billion yen)



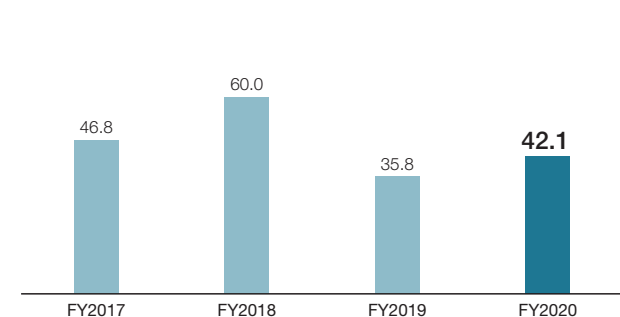
Ordinary expenses /OHR (Billion yen/%)



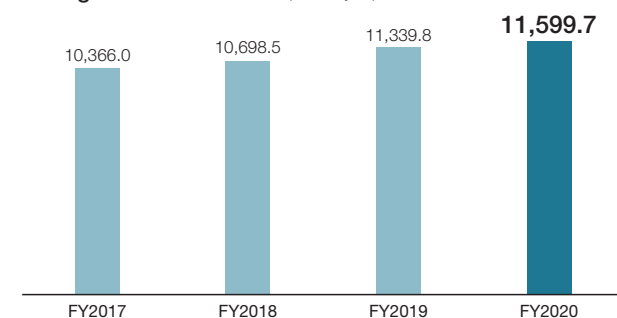
Core net business income (Billion yen)



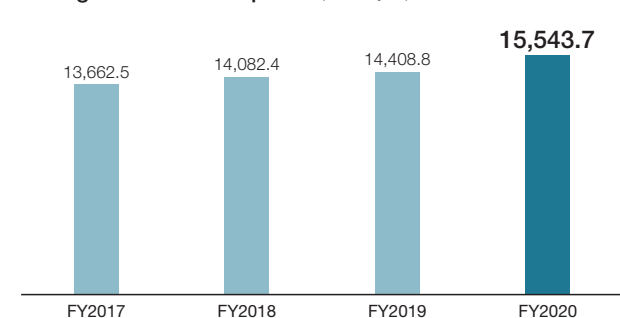
Net income (Billion yen)



Average balance of loans (Billion yen)



Average balance of deposits (Billion yen)



## ESG Highlights (Bank Total)

### Social



Number of business succession and M&A consultation cases

**3,929** cases ▶ P19  
(FY2020)



Number of business matches

**2,041** cases ▶ P19  
(Cumulative since the business integration in October 2016)



Issuance of private placement bonds with donation scheme

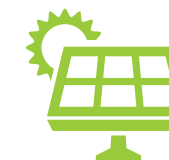
**813** cases Issue amount **68.7** billion yen ▶ P35  
Donation amount approx. 138 million yen  
(Cumulative total since the commencement of handling the bonds in FY2016)



Percentage of women in assistant manager positions or higher

**30.0** % ▶ P30  
(As of March 31, 2021)

### Environment



Balance of investments and loans for renewable energy

**208.1** billion yen ▶ P34  
(As of March 31, 2021)



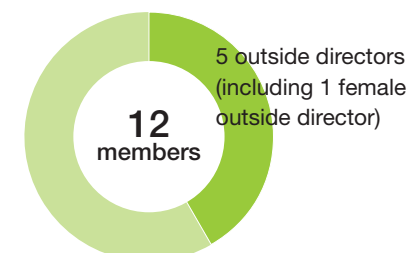
CO<sub>2</sub> emission reduction ratio

**25.0** % ▶ P33  
(Compared with FY2013)

### Governance ▶ P38

### External evaluation ▶ P30

#### Board of Directors



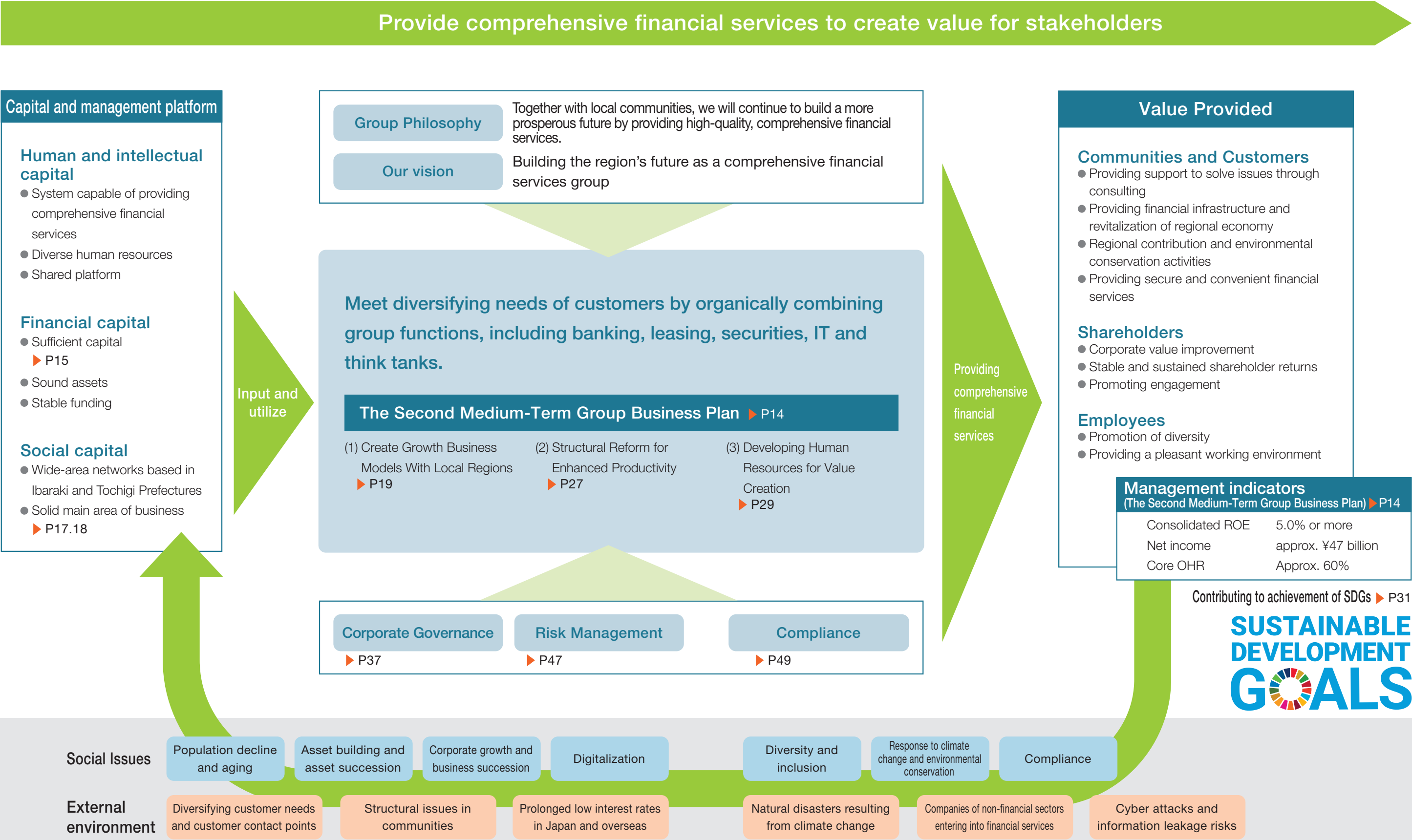
"Platinum Kurumin" certification was granted as a company that provides superior support for childcare to its employees based on the Act to Advance Measures to Support Next-Generation Child-Rearing



Recognized as an outstanding organization under the 2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program (large enterprise category)

# Value Creation Process of Mebuki Financial Group

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





## Be fearless of change and embrace one transformation after another in order to create a better future for the region



Ritsuo Sasajima,  
President

Kazuyuki Shimizu,  
Executive Vice  
President

### Tackling regional issues and translating the solutions into the development of the regional economy is our reason for existence

The long-lasting spread of COVID-19 has exerted an unprecedented impact on the local society/economy, and brought huge changes to the ways people conduct their lives.

When considering the issues to tackle and the measures to deploy, we believe that it is important to divide the problems that exist in the environment that surrounds us into two categories: *structural problems* and *unpredictable problems*.

The former, *structural problems*, refers to factors such as population decline and a drop in the working population, which are occurring in conjunction with the

falling birthrate and aging populace. Specifically, Japan is facing the “2025 problem,” whereby one in four citizens will be aged 75 years or over in the year 2025. As the number of elderly rises, decline in cognitive function will bring various problems to the surface.

Furthermore, to respond to the fall in the working population, the tasks will be to implement work-style reforms and raise productivity, and there are also concerns about people and companies becoming overconcentrated in large cities as they go in search of better markets for their services and products.

The latter, *unpredictable problems*, refers to factors such as natural disasters resulting from climate change and the threat of infectious diseases like COVID-19. Unlike the aforementioned *structural problems*, it is impossible to predict when they will occur and what the scale of the damage will be, and there is a danger of tremendous damage occurring in a short period of time.

The environment surrounding us is comprised of changes due to *structural problems*, which were already taking place pre-COVID-19, and changes due to *unpredictable problems*, which have compounded the pre-existing structural problems and include natural disasters and the COVID-19 pandemic itself. Combined, all these problems bring instability to the potential for business continuity and the realization of safe and secure living.

Among these immense changes, the prefectures of Ibaraki and Tochigi, which form the main area of business of the Group’s business operations, boast strong transportation networks and a high level of potential as important areas of mass consumption that are part of the Tokyo metropolitan area. Their industrial structures are also balanced. We believe that the value of our existence lies in approaching the concerns and troubles of customers and the managerial issues faced by business operators, endeavoring to solve these problems in a speedy fashion, and thereby contributing to the economic development of the region, and all by providing comprehensive financial services.

### Providing optimal solutions to external environment issues based on Group unity

As a regional financial institution, we have been doing our best to help business operators that have been impacted by the COVID-19 pandemic with their cash flow and to provide advice to individual customers on such matters as altering the terms of their home mortgage loans.

For customers that are business operators, we are focusing on providing business support that looks ahead to the so-called *with corona* and *after corona* periods. Specifically, we are endeavoring to assist customers in accomplishing various managerial tasks such as opening up new sales channels, rebuilding their supply chains, and consulting with them about business strategy, business succession, etc. And to help customers address personnel shortages, we are introducing them to and matching them with talent through Group companies or business alliance partners.

Furthermore, to assist them in making the switch to digital, a trend that has been rapidly gathering pace amid the pandemic, we have been cooperating with

branches, head office divisions, affiliates, and external partners, etc. to strengthen the support for digitalization that we offer.

For individual customers, we have been expanding non-face-to-face services that allow procedures to be completed online, and in March this year made a banking app available. This app enables customers to use bank services at any time and wherever they are. The number of users of the app is rising steadily, and going forward we intend to continue working on expanding the functions with the aim of making the app even more convenient.

Furthermore, various problems that are the result of decline in cognitive function have already begun to occur around us on a frequent basis. With the challenge being how to respond to these problems, we are working to develop services that reflect insights from gerontology, and to provide financial products and services that meet the needs of customers in an aging society.

### Implementation of Medium-Term Business Plan progressing smoothly, with target reduction in expenses achieved two years early

In our Medium-Term Business Plan, we declared three basic strategies: Create Growth Business Models With Local Regions, Structural Reform for Enhanced Productivity, and Developing Human Resources for Value Creation.

With the first, Create Growth Business Models With Local Regions, we are proactively deploying resources in growth areas such as a consulting and IT, and working to enhance the consulting function. We are cooperating with Group companies and external

business partners to help corporate customers grow and to resolve their issues, support individual customers with asset building and investment, and meet the need for smooth asset succession by the next generation.



Although the level of our consulting services has improved, we cannot afford to be satisfied with the current situation. No matter how much we say we're "doing well," that's nothing more than self-satisfaction. We can only say that we've produced results when a corporate customer's earnings improve or when an individual customer achieves their goals and objectives.

With the second, Structural Reform for Enhanced Productivity, we have used the integration of the core systems of Joyo Bank and Ashikaga Bank as an opportunity to reorganize the Group's administrative and IT systems departments. We have also reorganized Group companies and centralized Group operations

within a single organization. And in response to deregulation, we have newly established a dedicated investment subsidiary under each of our subsidiary banks. Furthermore, the optimization of our branch network is proceeding at an even faster pace than we had planned.

As a result of these structural reforms, we have managed to reach our goal for reducing expenses two years earlier than the originally targeted FY2022, but with the aim of achieving additional productivity improvements, we intend to further streamline business administration by employing digital technology.

With the third, Developing Human Resources for Value Creation, we are working to develop personnel with specialist knowledge and knowhow who are able to provide high-level consulting services, i.e. identify the needs of customers and the issues they are facing through dialog with them. In the growth fields of consulting and IT, in particular, developing/securing more expert talent is an urgent task.

And to adapt to the diversifying needs of customers and the changes in society, it is also essential for each and every employee to take on challenges. But just saying "Take on challenges" is unlikely to lead them to take action. So to encourage employees to embrace challenge, we are establishing training programs and workplace support structures to that end. We are also planning to explore possible changes to our personnel system to reward challenge. Furthermore, to ensure that diverse human resources feel that their work is worthwhile and to enable them to continue working in ways that match their lifestyles, we will also be implementing measures for promoting diversity and inclusion.

### Working for decarbonization and contributing to the achievement of SDGs

Ibaraki Prefecture and Tochigi Prefecture, the areas where we do the majority of our business, are witnessing environmental changes and are beset by various societal issues as a result. For example, business succession is becoming difficult due to a shortage of successors, the population is becoming dominated by the elderly, digitalization is progressing, the lifestyles of individuals are changing, and natural disasters are becoming more serious as a consequence of climate change.

As a regional financial institution, we have conducted business that is rooted in this region for many years,

and this remains the case today. This is what sustainable management is all about, and we believe that the reason that our business has continued until now is that our efforts have been accepted by customers, and that we have always worked with customers to address such societal issues.

With awareness of the SDGs heightening worldwide, we have established an SDGs Committee, and have reorganized the actions we are taking by mapping our business activities against the 17 SDGs. Going forward, we will be contributing to the attainment of the SDGs through our business activities. For example, we will be

endeavoring to fulfill consulting functions suited to the life stages of business operators, taking measures to meet the needs of an aging society, and endeavoring to revitalize the region.

In addition, we will be properly fulfilling our role as a corporate citizen through community service, environment conservation activities, and the promotion of diversity. We also intend to provide support in the form of consulting to enable customers in the region to participate independently in SDGs-related initiatives.

Abnormal weather phenomena caused by climate change are resulting in increasing numbers of natural disasters bringing great destruction, and the region in which we do business has also seen major flood damage due to typhoons and torrential rainstorms.

In response, we have announced our endorsement of the TCFD recommendations, and declared a goal for cutting our CO<sub>2</sub> emissions, which are the cause of climate change, by 2030. Everyone in the Group is now working to achieve this goal. And in addition to proactively supporting the promotion of renewable energy, we have decided, in principle, to not invest in

or lend money for new coal-fired power station projects. In ways like this, we will be contributing to decarbonization by appropriately investing/lending in specific sectors that could have a major impact on the environment and society.



### Aiming to build the region's future as a comprehensive financial services group, and refusing to fear change as we make one transformation after another

All companies, not just ourselves, are only surviving because they are providing products, services, and functions that are either essential or useful to the people of the world.

We need to think about what we can offer that will be of use to people in the coming era. We must take a fresh look at our business from that perspective. And if we insist on sticking rigidly to "finance," we will not be able to meet the needs of society.

Our deep customer base, which we have built up by earning trust and confidence over many years, is an irreplaceable asset and huge source of strength for us.

Going forward, we will refuse to fear change as we make one transformation after another with an eye to becoming a corporate group that is needed by our customers in the region and the greater regional community.

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

July 2021

**Ritsuo Sasajima**, President  
**Kazuyuki Shimizu**, Executive Vice President



## Results for FY2020

In FY2020, amid a harsh external environment marked by the COVID-19 pandemic, we worked proactively to enhance the consulting function and bring about structural reforms, and as result, core net business income\*, an indicator of the profitability of our main business, increased by 3.3 billion yen compared with the previous fiscal year to 69.4 billion yen. In the first half, the spread of COVID-19 forced us to refrain from making visits to customers, and net fees and commissions\* fell year on year. However, as a result of supporting customers with their cash flow and offering appropriate consulting services, on a full-year basis we were able to perform better than the previous year. And thanks to progress with structural reforms, expenses\* plunged 4.8 billion yen year on year, meaning that we achieved our expense reduction target two years ahead of schedule.

However, with there still being no end to the pandemic in sight, we booked credit related costs\* of 22.4 billion yen, a figure 3.3 billion yen higher than the previous year's as we made provisions of a preventive nature.

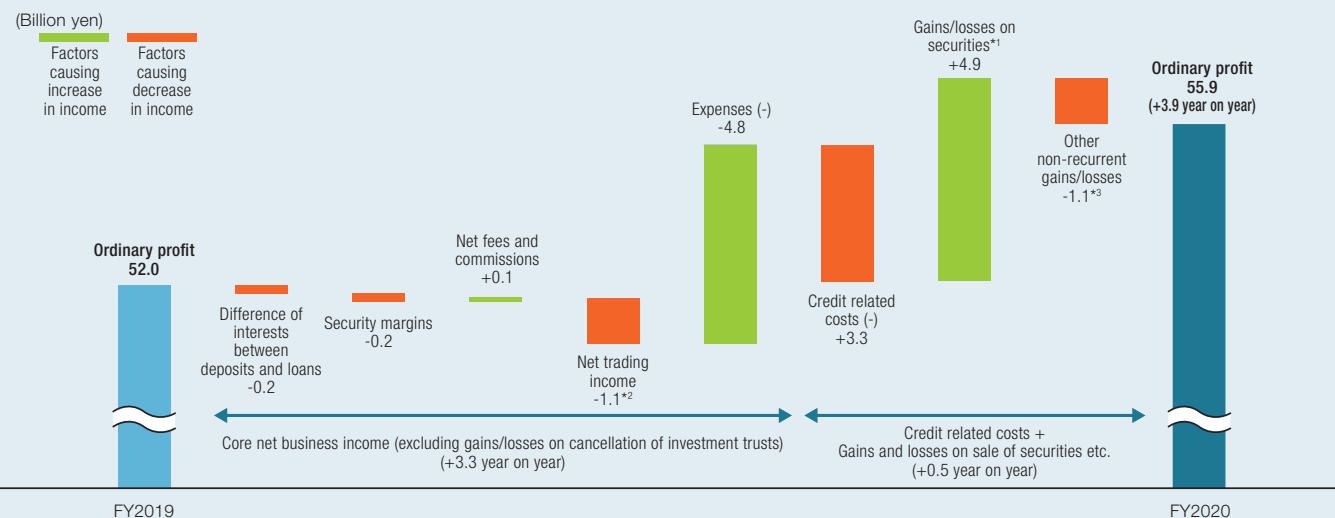
Furthermore, with gains/losses related to stocks\* primarily from strategic shareholdings exceeding the previous year's figure by 9.6 billion yen on the back of a resurgence in Japanese stock prices, ordinary profit\* stood at 55.9 billion yen, marking a rise of 3.9 billion yen from the previous year.

As a result, consolidated net income attributable to owners of the parent of Mebuki Financial Group amounted to 36.4 billion yen, higher than the results for the previous year.

\* Bank total (Core net business income excludes gains/losses on cancellation of investment trusts)

### Year-on-year change in ordinary profit

(Bank Total)



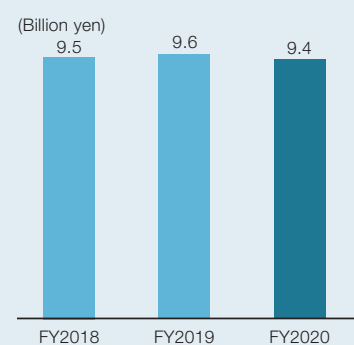
\*1 Gains/losses on cancellation of investment trusts + Gains/losses on bond transactions + Gains/losses related to stocks

\*2 Diminishment of 0.6 billion yen of the previous year's gains on yen currency asset swaps, and decrease of 0.5 billion yen in profit from interest/currency swaps to customers

\*3 Including (-)1.3 billion yen of costs related to liability for retirement benefits

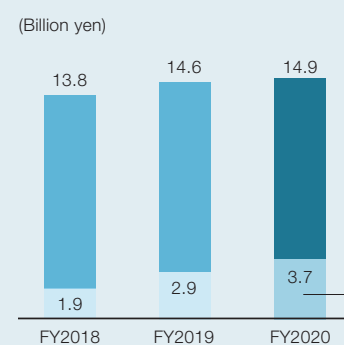
### Fees from Corporate customers

(Bank total)



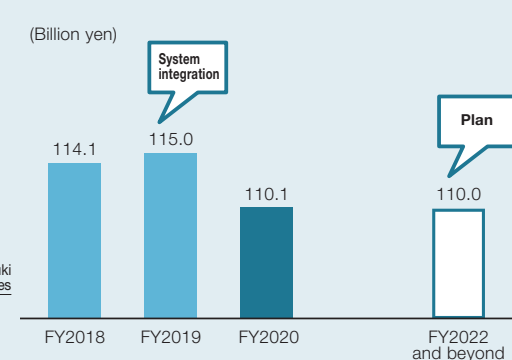
### Customer assets under custody commissions

(Bank total + Mebuki Securities)



### Expenses

(Bank total)



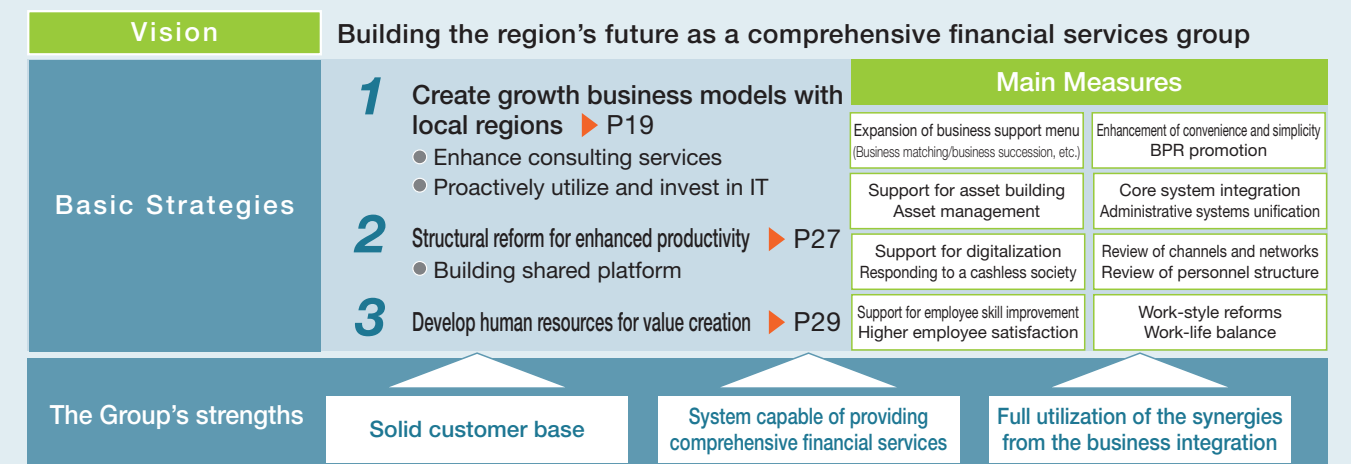
## Progress of Implementation of the Second Medium-Term Group Business Plan

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

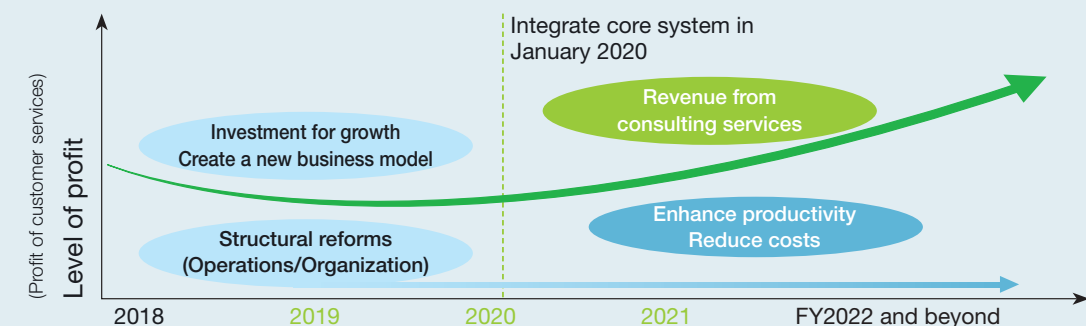
We have positioned the three-year period of the Second Medium-Term Group Business Plan as a period for "producing solid results and upshifting for the next

stage of growth." Under the plan, we are implementing structural reforms, such as optimizing our branch networks and reorganizing division functions, starting with the integration of the core systems in January 2020. We have also deployed a two year cumulative total of 170 people to consulting services and the IT field. We will be putting all our efforts into resolving issues faced by our customers in the region, which are becoming increasingly diverse, and will create business models that grow with local communities.

### Outline of the Second Medium-Term Group Business Plan



### Positioning of the Second Medium-Term Group Business Plan



### Progress of plan implementation

Shift in Management Resources Resulting via Structural Reforms	Three-year plan		(Results for FY2020)
	People (Staff)	Things (Investment amount)	Money (Expenses)
	● "Invested" area <b>200</b> people (consulting services/ IT planning, etc.) ● "Saved" area <b>1,000</b> people (administrative systems/head office functions, etc.)	● Branch investment Improve efficiency of approx. 20% of existing branches (review of functions, etc.)	● Cost reduction by structural reform <b>¥5.0 billion or more per year*1</b> <small>*1 Expenses in or after FY2022 - Expenses in FY2018 (excluding system integration costs)</small>
	<b>170</b> people (two-year cumulative total)	<b>115 sites</b> (two-year cumulative total) (over 30%)	<b>5.1 billion yen*2</b> <small>*2 Expenses in FY2020 - Expenses in FY2018 (excluding system integration costs)</small>

Management Objectives (FY2021)	Management Objectives (FY2021)		(Results for FY2020)
	Consolidated ROE	Net income attributable to owners of the parent	Core OHR (Bank total)
	<b>5.0% or more</b>	<b>Approx. ¥47 billion</b>	<b>approx. 60%</b> (excluding system integration expenses)
	<b>3.8%</b>	<b>36.4 billion yen</b>	<b>59.6%</b>



## Forecast for FY2021

Taking into account our operating environment, market conditions, etc. at the present time, and based on a set of predictable assumptions, we expect net income attributable to owners of the parent for FY2021 to

### Underlying assumptions

We expect COVID-19 to gradually resolve as progress is made with vaccination, and economic activity will also begin to recover.

However, we expect certain sectors to continue to face tough circumstances, and we have conservatively estimated credit related costs at 20.0 billion yen (down 2.4 billion yen year on year).

increase 1.5 billion yen to 38.0 billion yen compared to the previous year. We will immediately announce forecast revisions if the COVID-19 situation changes and revisions are required.

### Forecast (Mebuki FG consolidated)

(Billion yen)	Forecast for FY2021	(Year-on-year change)
Ordinary profit	55.0	+0.8
Net income attributable to owners of the parent	38.0	+1.5

### Forecast (Bank total)

(Billion yen)	Forecast for FY2021
Ordinary profit	53.0
Net income	36.5
(Credit related costs)	(Approx. 20.0)

## Shareholder Returns and Capital Policy

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

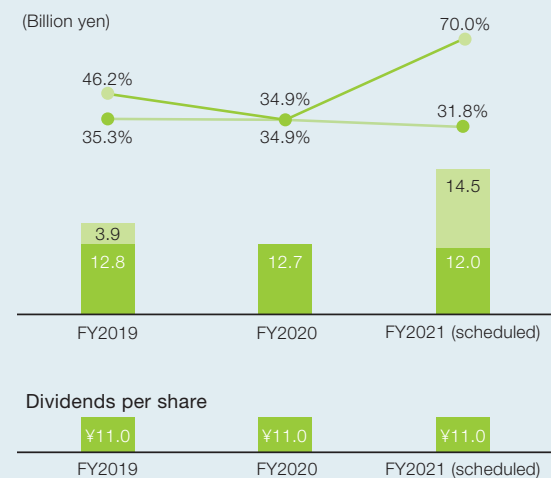
We maintained stable dividends and paid out 11 yen per share in FY2020 (the same level as the previous year). We plan to maintain stable dividends and pay out 11 yen per share in FY2021 (the same level as the

previous year), and acquired our own shares in a flexible manner in May 2021, making the total return ratio expected to reach about 70.0%, well above the target of 30%.

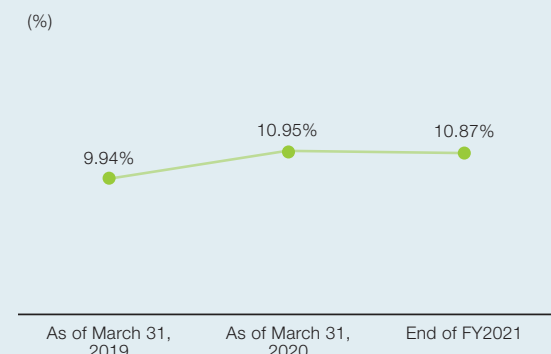
Consolidated capital adequacy ratio of Mebuki Financial Group as of March 31, 2021 decreased by 0.08 percentage point year on year to 10.87%.

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

### Dividends and Shareholder Returns



### Consolidated capital adequacy ratio



## Reduction of Strategic Shareholdings

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

The amount of reduction in FY2020 was approx. 14.8 billion yen (Bank total, based on acquisition cost), and involved shares from 20 issuers. The resulting balance of strategic shareholdings (listed companies) was 92.0 billion yen as of March 31, 2020. The ratio of the balance of strategic shareholdings to consolidated capital decreased from 13.7% to 11.8%.

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

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

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

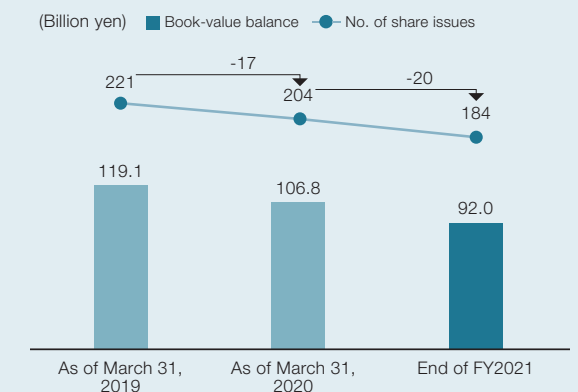
As of March 31, 2021, the Board of Directors confirmed every strategic shareholding to be meaningful pursuant to the basic policy to secure a sustainable growth, increase corporate value of the Group and issuing companies over the medium- to long-term, and build stable business relationships with those companies. Regarding the profitability, we confirmed

that their overall business RORA combining all listed companies of strategic shareholdings exceeded the target value.

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

### Strategic shareholdings

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



## Dialogue with Shareholders and Investors

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

Since the second half of FY2019, we have held fewer investor relations sessions due to the impact of the spread of COVID-19, but we have enhanced information disclosure by other means, including through online videoconferencing tools and the distribution of video content. We will continue to ensure impartial and fair information disclosure and promote constructive dialogue with shareholders and investors

### Investor relations sessions

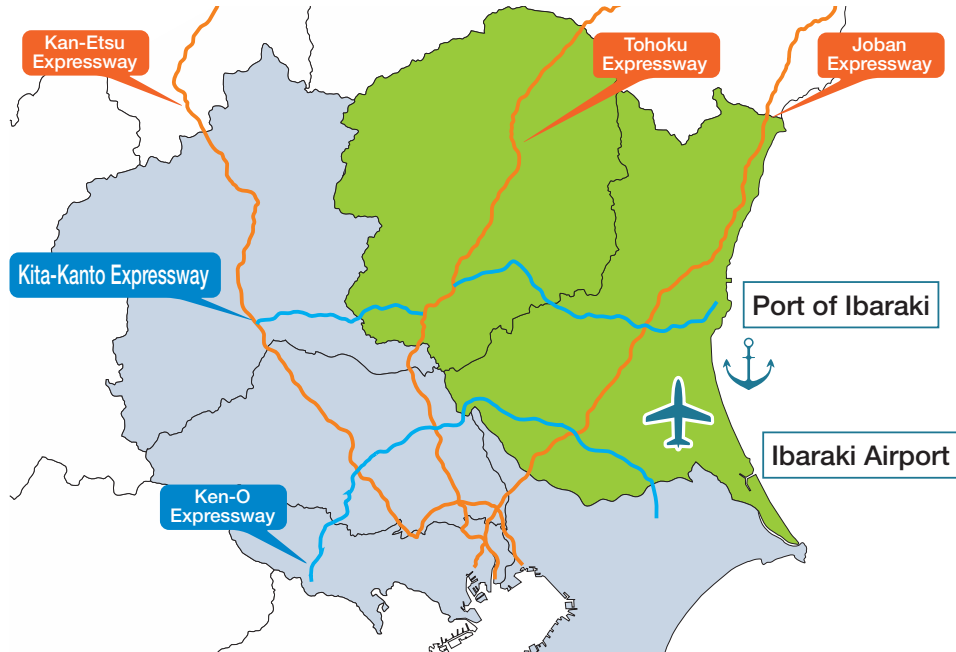
	FY2018	FY2019	FY2020
IR sessions for individual investors	8 times, 845 participants	(Cancelled)	Distribution of explanatory video
IR sessions for institutional investors and analysts in Japan (including exclusive interviews)	79 times, 418 companies	68 times, 454 companies	58 times, 260 companies
IR sessions for overseas institutional investors and analysts (including exclusive interviews)	3 times, 19 companies	2 times, 12 companies	8 times, 8 companies
Total	90 times, 1,282 people (companies)	70 times, 466 companies	66 times, 268 companies

# Strengths of Mebuki Financial Group in Main Area of Business

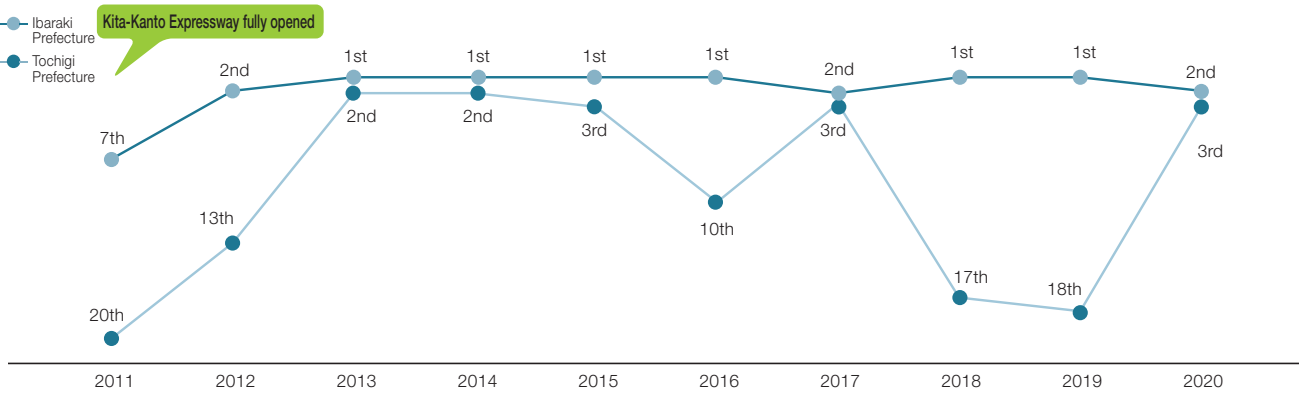
## Market Environment and Scale of Ibaraki Prefecture and Tochigi Prefecture

Mebuki Financial Group's primary areas of business are Ibaraki Prefecture and Tochigi Prefecture, adjacent to the Tokyo metropolitan area, and have been a high concentration area of manufacturers. We also expect future economic benefits, with the further development of the transportation network and high attractiveness as to where to set up factories. Additionally, agricultural output also ranks top in the country, backed by the mass consumption in the Tokyo metropolitan area, and both have balanced industrial structures.

### Connecting expressways developed wide-area networks



### Total area of new factory locations



### Potential in the main area of business

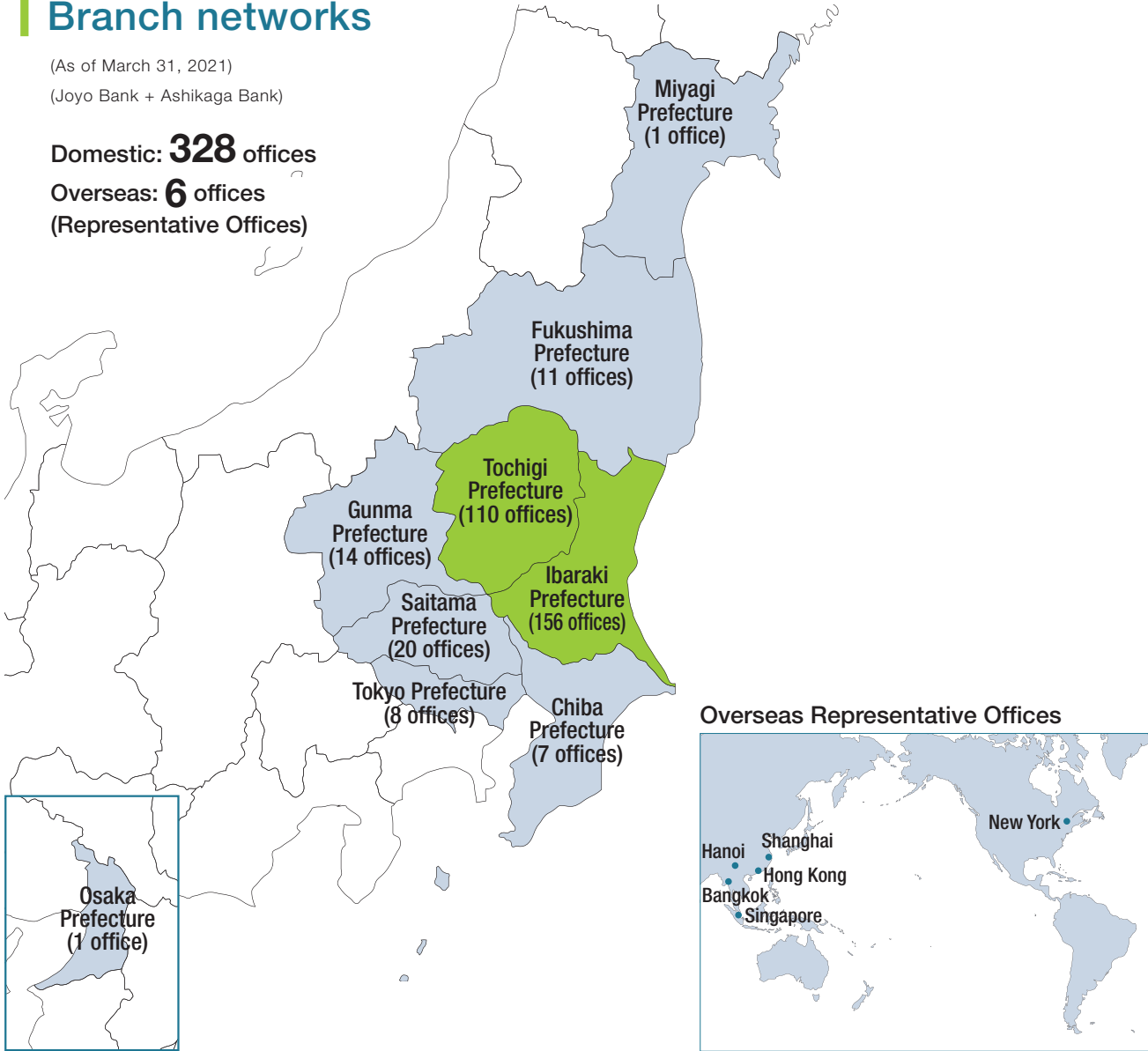
	Economic data	Ibaraki Prefecture	Tochigi Prefecture
Population*1		2.89 million people 11th	1.95 million people 19th
Nominal prefectural gross product*1		13.8 trillion yen 11th	9.1 trillion yen 15th
Prefectural income per capita*1		3.30 million yen 7th	3.41 million yen 3rd
Number of business establishments*2	118 thousand establishments	13th	88 thousand establishments 19th
Manufactured goods shipped*3		12.2 trillion yen 7th	9.2 trillion yen 12th
Agricultural output*4		450.8 billion yen 3rd	287.1 billion yen 9th

\*1 "Prefectural Accounts" by the Cabinet Office  
\*2 "2016 Economic Census for Business Frame" by Statistics Bureau, Ministry of Internal Affairs and Communications  
\*3 "Census of Manufactures" by Ibaraki Prefecture and Tochigi Prefecture  
\*4 "2018 Agricultural Production Income Statistics" by the Ministry of Agriculture, Forestry and Fisheries

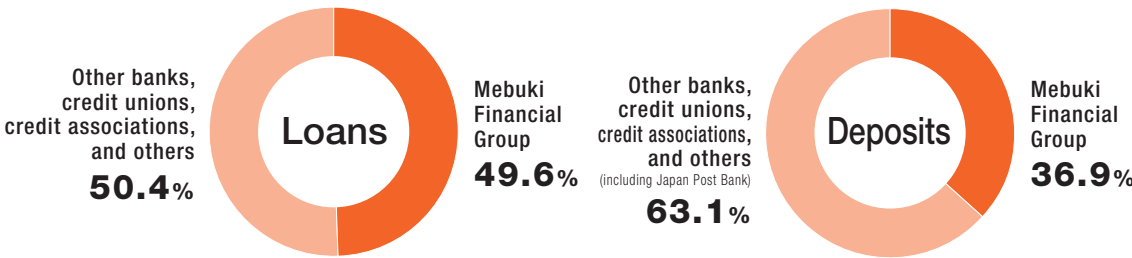
## Branch networks

(As of March 31, 2021)  
(Joyo Bank + Ashikaga Bank)

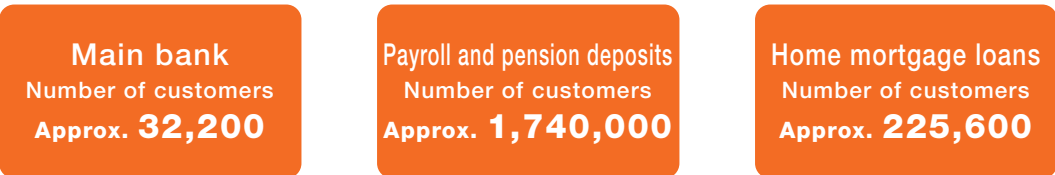
Domestic: **328** offices  
Overseas: **6** offices  
(Representative Offices)



### Mebuki Financial Group's share in Ibaraki Prefecture and Tochigi Prefecture\*



### Main Transactions



# Initiatives for Value Creation

Initiatives for Value Creation

## Create Growth Business Models With Local Regions

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

### Enhancement of consulting function

Various management issues have become apparent to customers as a result of the declining birthrate and aging population, advancement of digitization, and the COVID-19 pandemic. We are working to resolve them through consulting.

#### Eliciting management issues and needs

- Cash flow
- Reconsidering supply chains
- Disaster prevention measures
- Dominant products and an increase in product sales
- Business succession
- Eliminating labor shortages
- Measures for digitalization
- Measures to meet SDGs

#### Providing support to solve issues through consulting

##### Business Support

We provide various solutions for issues, such as reexamining supply chains in the COVID-19 pandemic, expanding sales channels, and consulting on issues related to BCP and SDGs.

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

We respond to meet diverse financing needs of customers, and provide smooth financing by utilizing not only loans, but funds and other means as well.

- Diverse financing by utilizing loans, funds, and others
- Support for business succession and M&A by utilizing network
- Introducing sales channels and suppliers through business matching
- Supporting the development of BCP plans and proposing insurance with special BCP provisions
- Consulting on SDGs

Number of business succession consultation cases	Number of M&A consultation cases
2,703 cases	1,226 cases
(FY2020, bank total)	
Number of business matches	Number of successful cases
2,041 cases	401 cases
(Cumulative total since October 2016, bank total)	

##### Support for digitalization

The Group is promptly working on various digitalization activities that have been accelerated by the COVID-19 pandemic. We have established a structure that enables us to also respond to the highly specialized areathat is digital, and are proposingdigitization that leads to solutions in line with our customers' management strategies. ▶ P26

- Providing solutions by IT specialized staff and business partners

##### Support for Securing Personnel

Deepening our dialogues with our customers, we are sharing their management issues, providing appropriate personnel placement and matching services to solve their personnel problems, and supporting the review of their personnel systems. Additionally, we are working to offer management issue solutions by utilizing personnel who want to utilize their skills at regional companies as a side job.

- Personnel placement through the group companies and business partners

Information gathering on personnel-related needs (cumulative)	Cases of successful personnel placement (cumulative)
1,802 companies	179 companies 240 cases
(As of March 31, 2021, bank total)	

### Support for start-up and new businesses

#### Discovering regional industries and supporting the creation of new businesses

**Mebuki Business Award**  
Joyo Bank and Ashikaga Bank jointly host the "Mebuki Business Award," in which entries for innovative and creative business plans in the region are invited and an award is presented to selected plans. Support is provided to help make the award-winning plans take off as businesses, such as providing financial assistance by utilizing funds, in addition to making technical proposals and assisting in expanding sales.



### Support for sales channel and market expansion

#### Various business conferences

**Mebuki Financial Group Manufacturing Business Forum 2020**  
We hosted business conferences with panel exhibits on highly recommended technology by participants and "technical proposals."  
Panel exhibits: 232 companies; support for making "technical proposals": 222 companies; and reserved business negotiations: 373 cases

**Business conferences based on the needs of individual companies**  
We hold business conferences whenever necessary to match buyers and clients with potential suppliers and contractors who satisfy their needs.



**Mebuki Food Exhibition (online business conferences)**  
We held online business conferences to exhibit products and have business meetings on personal computers or smartphones.  
Online exhibitors: 97 companies  
Online business negotiations: 805 cases

### Information provision

#### Various seminars

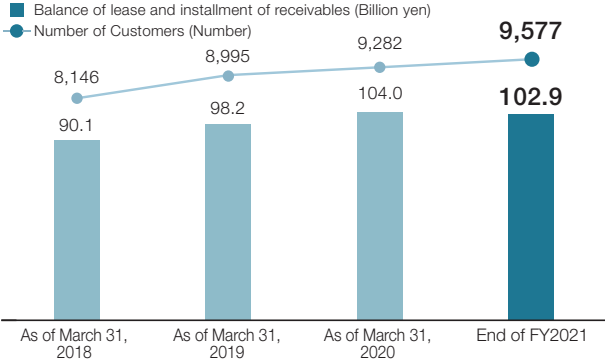
**Online Seminar for Utilizing Subsidies (co-sponsored by Mebuki FG)**  
We explained the points online when applying for various subsidies, including the Business Restructuring Subsidy. Participants: 350 companies

### Providing one-stop financial services by cooperating with group companies

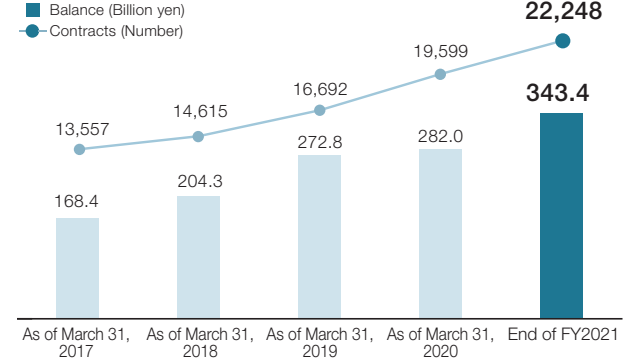
#### Providing comprehensive financial services

Strengthening our group collaboration and providing high-quality financial services to meet diversifying customer needs

##### Number of Mebuki Lease customers / Balance of lease installment receivables



##### Contracts and balance of customer assets under custody of Mebuki Securities



Initiatives for Value Creation



## Mebuki Financial Group's Overseas Business Support Activities

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

In addition to six overseas representative offices of the Group (four offices of Joyo Bank and two offices of Ashikaga Bank, as of March 2021), we offer a wide variety of support services through business alliances with local financial institutions and government agencies in Asia and North America.

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



### Shanghai Representative Office, Joyo Bank

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

**Phone** +86-21-6209-0258






### Hanoi Representative Office, Joyo Bank

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

**Phone** +84-24-3218-1668






### Representative Office Registered in Singapore, Joyo Bank

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

**Phone** +65-6225-6543






### Hong Kong Representative Office, Ashikaga Bank

**Address** Suite 1601, 16th Floor, Tower2, The Gateway, Harbour City, Kowloon, Hong Kong

**Phone** +852-2251-9475






### New York Representative Office, Joyo Bank

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

**Phone** +1-347-686-8420



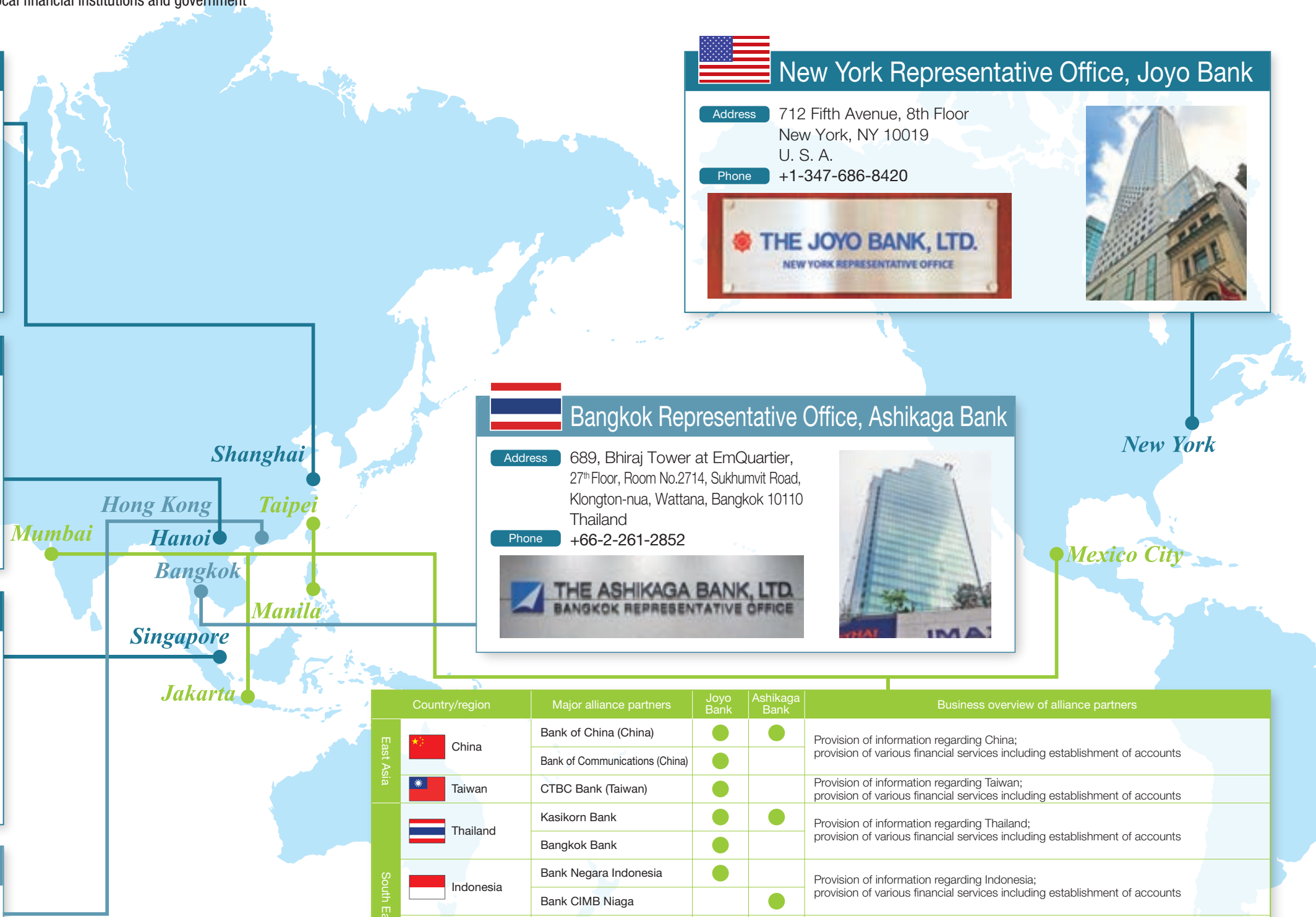








### Bangkok Representative Office, Ashikaga Bank

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

**Phone** +66-2-261-2852



	Country/region	Major alliance partners	Joyo Bank	Ashikaga Bank	Business overview of alliance partners
East Asia	 China	Bank of China (China) Bank of Communications (China)	● ●	●	Provision of information regarding China; provision of various financial services including establishment of accounts
	 Taiwan	CTBC Bank (Taiwan)	●		Provision of information regarding Taiwan; provision of various financial services including establishment of accounts
South East Asia/South Asia	 Thailand	Kasikorn Bank Bangkok Bank	● ●	●	Provision of information regarding Thailand; provision of various financial services including establishment of accounts
	 Indonesia	Bank Negara Indonesia Bank CIMB Niaga	● ●	●	Provision of information regarding Indonesia; provision of various financial services including establishment of accounts
	 Vietnam	Vietin Bank Vietcombank Foreign Investment Agency of Vietnam	● ● ●	●	Provision of information regarding Vietnam; provision of various financial services including establishment of accounts Cooperation in hosting seminars relevant to Vietnam; various support for business expansion to Vietnam; provision of investment-related information
	 Philippines	BDO Unibank Metrobank	● ●	●	Provision of information regarding Philippines; provision of various financial services including establishment of accounts
	 India	State Bank of India	●	●	Provision of information regarding India; provision of various financial services including establishment of accounts
	 Mexico	Banamex Government of Aguascalientes, Government of Jalisco, etc.	● ●	●	Provision of information regarding Mexico; provision of various financial services including establishment of accounts Provision of local market information; provision of investment-related information regarding Mexico



## Supporting asset building and asset succession

Changes in the social situation, called “the 100-year life”, have diversified and intensified customers’ worries and concerns. We provide consideration support tailored to their life events.

### Asset building and asset succession

We have established a system capable of meeting the diverse needs of customers. The entire Group, including branches, head offices, and group companies, has supported customers’ asset building, asset management, and smooth asset succession to the next generation. Specifically, we began the dedicated inheritance consulting service on Saturdays and Sundays and dedicated specialized staff in offices to address the general troubles of the elderly.

#### Holiday Wealth Salon

Respond carefully and politely to matters from preparations for inter vivos inheritance to support after inheritance has occurred

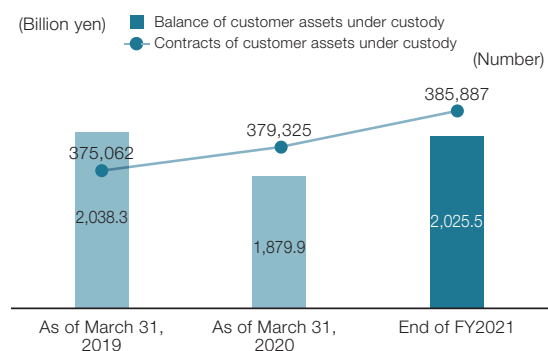
- Inheritance consulting service on Saturdays and Sundays
- Provide peace of mind with appointment-only system and dedicated consultation booths (private rooms)
- Families can reserve consultations at their convenience.
- Specialized staff supports customers in an easy-to-understand and careful manner.

#### Smileful Partner

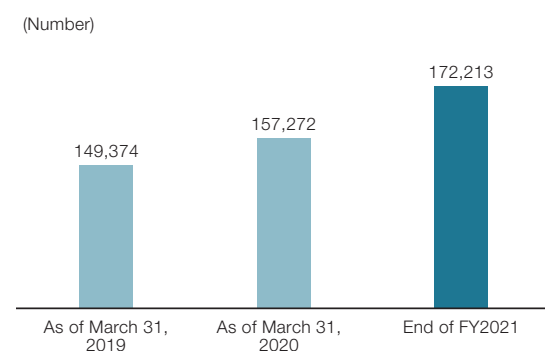
Specialized staff for the elderly respond to troubles of customers and their families

- Respond to current and future troubles
- Address a decline in cognitive function
- Support smooth asset succession to the next generation
- Cultivate measures to prevent financial crimes

Balance of customer assets under custody (Bank total + Mebuki Securities)



Number of customers of accumulation services (Bank total)



#### Started asset management consultation available online

We started asset management consultation available online to increase dialogue time with our customers safely during the COVID-19 pandemic and enhance convenience for them.



## Measures to meet the needs of an aging society

Looking ahead to the imminent arrival of an aged society, we have proactively expanded our financial services to respond to financial transaction problems and other diverse needs by utilizing knowledge on gerontology. This action aims at creating communities in which people can continue to live their lives in comfort.

### Asset management

#### Supporting transactions by family members or other agents

- Utilizing agent cards and passbook apps
- Offering guarantee and voluntary guardianship services
- Family contact registration system

#### Providing guarantor and voluntary guardian services

#### Utilizing real estate

- Handling of reverse mortgage housing loans and leasebacks

#### Provision of services using trusts

- Guardianship support trust
- Family trust



### Asset succession

#### Provision of services using trusts

- Testamentary trust
- Testamentary substitute trust

#### Setup of dedicated inheritance consulting service (on Saturdays and Sundays)

#### Asset succession planning service

#### Provision of gift function using insurance products

#### Testamentary preparation support services

## Measures taken to respond to an aging society

### <Collaborating with external institutions>

#### Collaboration with each municipality and regional comprehensive support center

- Implementing watching over the elderly and others
- Development activities for community residents, Created a special page on our website
- Introduction of the daily life independence support program

#### Providing watching service in collaboration with a security company

(Note) Individual customers with specific transactions are eligible.

### <Establishment of internal organizations>

#### Placement of specialized staff for the elderly (Smileful Partner)

#### Introduction of “Smile Navigation,” a customer proposal tool

#### Expansion of training and education systems

- Getting qualified as a dementia supporter
- Placement of care-fitters at branches
- Expansion of training and lectures regarding providing services to the elderly

#### Measures to prevent damages from fraudulent phone calls

## IT services and data utilization

Utilizing external knowledge, we have developed initiatives for enhancing convenience for customers and the Group's productivity, and upgrading sales activities.

### Enhancing convenience for customers and streamlining our administrative work

#### Started digital banking services

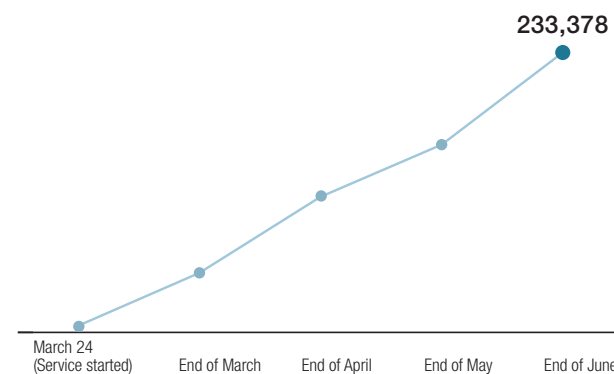
We signed a strategic business partnership in the digital field with Resona Holdings, Inc. Sharing knowledge and expertise with each other, we jointly researched new digital banking services and developed a new banking

app for individual customers of Joyo Bank and Ashikaga Bank. We will continue to add functions and the like with a sense of "portable bank" with you regardless of time or place.

##### New banking app released



##### Banking App Users (Bank total)

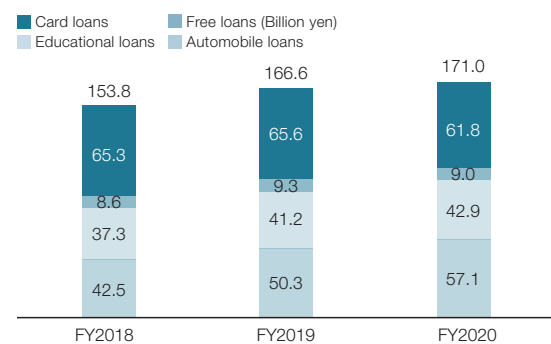


#### Expansion of services for unsecured loans available online (WEB)

We are working on expanding a line of products that enable us to complete the entire loan process, from application to contract, online. Automobile loans, card loans, educational loans, free loans, and some medical

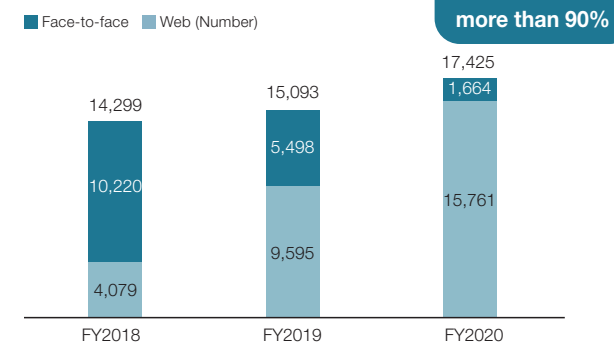
insurance are available online at present. Approx. 90% of automobile loans and educational loans have been applied for online.

##### Unsecured loans (Average balance) (\*)



(\*) Bank total

##### Number of automobile and educational loan applications (\*)



**Web contracts more than 90%**

#### Introduce business management support services available online (WEB)

We introduced "Big Advance" handling business matching services via the internet and "Busikul," a new consulting tool providing various materials for business matching to respond to customers' management issues.

Through these tools, we provide opportunities for new business resolving management issues without constraints on time or location.

#### Started branch visit reservation service

"Branch Visit Reservation Service" online enables us to shorten waiting and processing time for customers. It notifies us of the date and time of the customers' visit and the purpose of their visit in advance. It results in decreasing the waiting time for customers and the

processing time by employees. We aim to avoid congestion, which is an issue in the COVID-19 pandemic, and to ensure that many customers can use our branches in a comfortable and safe manner.

#### Introduce self-counter terminal

Procedures for new applications for ordinary deposits and changes in notifications such as address can be completed on tablet terminals in branches. This eliminates the need to fill out application forms, leading to enhance convenience for customers and our productivity. Simplified and speedy administrative processes and reducing administrative errors resulted in the enhancement of productivity by our employees.



#### Digital contract services

We are scheduled to introduce digital contract services related to business loans and home mortgage loans in December 2021. We will enhance the convenience for

customers and simplify and accelerate the administrative processes by eliminating paperwork for making a contract.

### Support customers' digitalization

#### Reinforcing the organization for supporting digitalization

We are working to improve the IT knowledge of regular employees by encouraging them to take IT-related national examinations and to get qualifications such as "IT Coordinator". We are also developing high-quality services through sharing know-how and cooperating in consultation by collaborating with external institutions.

Additionally, we continue to provide optimal solutions for customers' digitization by collaborating with branches, head offices, affiliated companies, external business partners, and others.

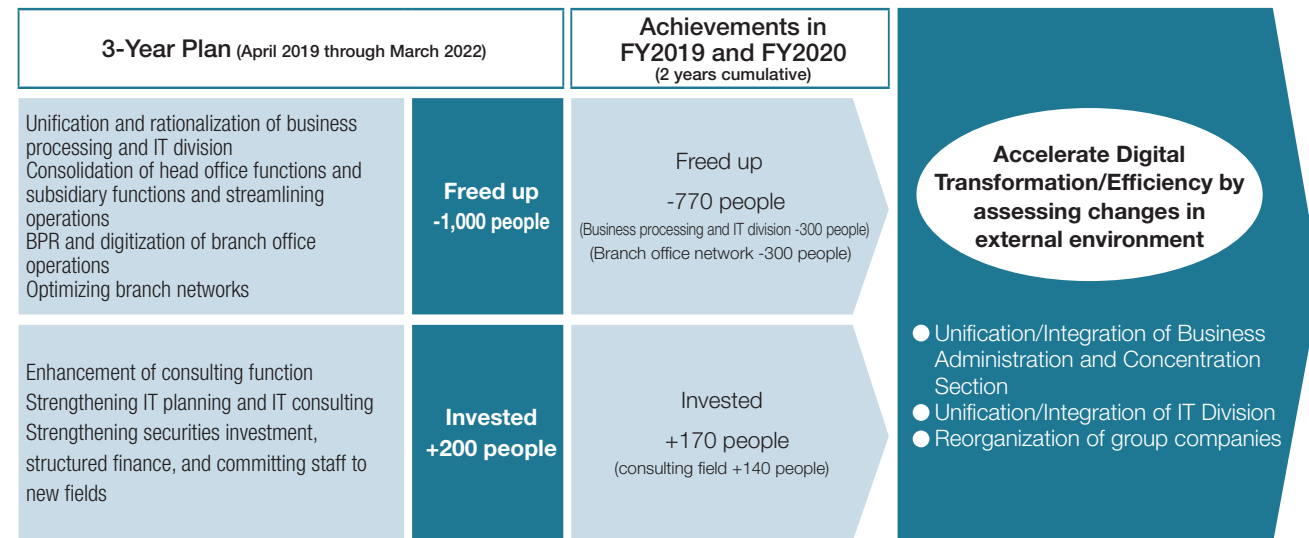
#### <Examples of collaborating with external institutions>

- We held online seminars to support digitization and free consulting for participants in cooperation with the IT Coordinator Association, a non-profit organization.
- We supported consulting and introducing apps through business partnerships with Digital Serve Co. Ltd. and other external IT companies.

## Structural Reform for Enhanced Productivity

In January 2020, we completed the core system integration between Joyo Bank and Ashikaga bank and reorganized IT system and business administration division. We are also optimizing our branch networks and investing management resources in growth fields such as consulting and IT, thereby enhancing our consulting function.

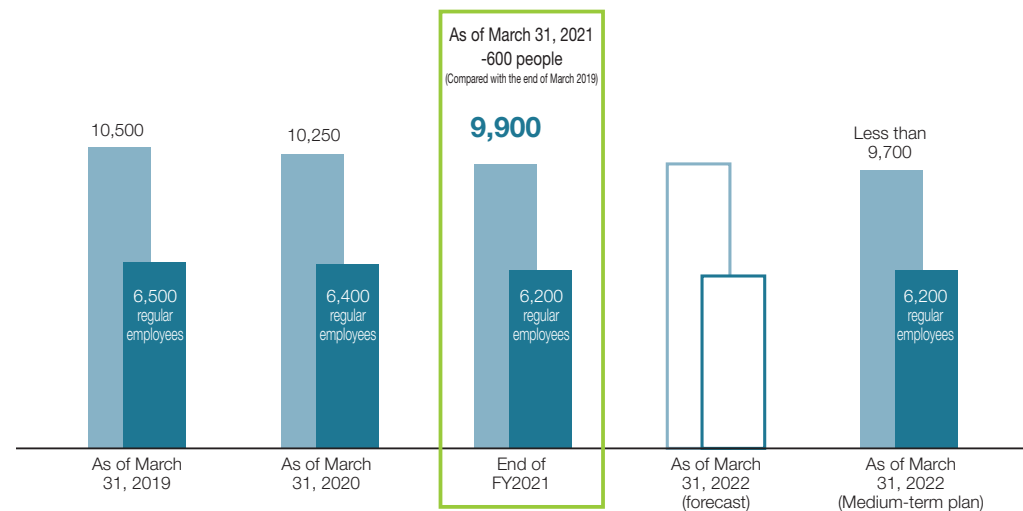
### Control of total number of staff



### Change in total number of staff

As of the end of FY2020, the number of total staff decreased by 600 people from the start of the Second Medium-Term Business Plan as a result of improving productivity and operational efficiency. Of them, the

number of regular employees at both banks decreased by 300 people to 6,200 people from the end of March 2019. We achieved the target figure in the plan one year early in FY2020.



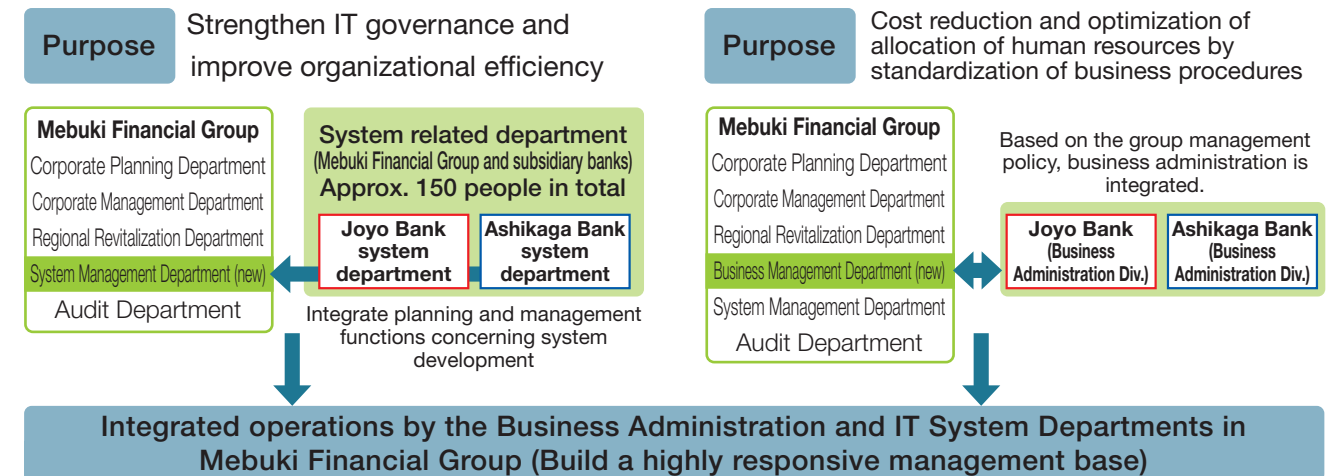
## Reorganization of business processing and IT division

### Reorganization of System Departments

In June 2020, we established the System Management Department, which engages in the control of planning and management operations concerning system development, in order to strengthen IT governance and improve organizational efficiency of system operations.

### Reorganization of Business Administration Department

In April 2021, we established the Business Management Department to lead to standardize, share and unify the business procedures aiming to improve customer service and efficiency in the entire Group. We also unified business process planning and managing functions in Joyo Bank and Ashikaga Bank as Business Administration Departments and have operated them in an integrated manner.

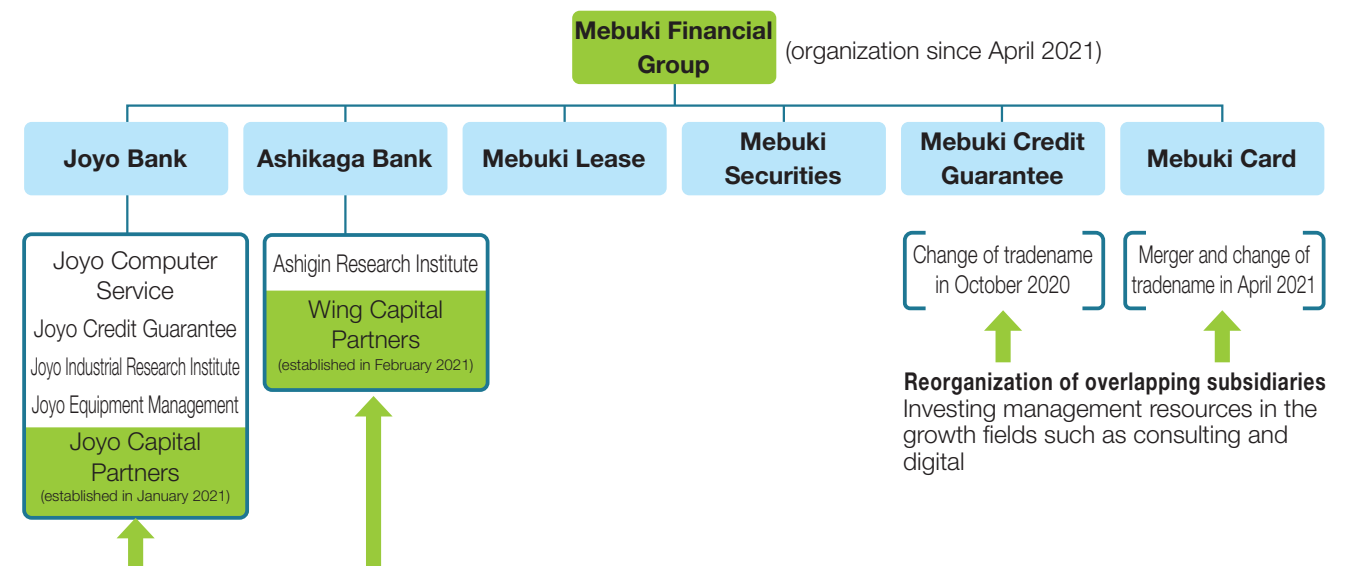


## Restructuring organization of subsidiaries

In the credit guarantee and credit card businesses, we consolidated overlapping operations within the Group into a single organization, making them directly-owned subsidiaries. In response to deregulation, we have newly established a dedicated investment subsidiary under

each of our subsidiary banks.

As a comprehensive financial services group, we will increase the profit contribution of consolidated subsidiaries other than banks.



**Established dedicated investment subsidiaries**  
 By utilizing the deregulation enabling wholly owned investments in operating companies, we will deeply involve ourselves in supporting customers worrying about a shortage of successors and business difficulties

**Reorganization of overlapping subsidiaries**  
 Investing management resources in the growth fields such as consulting and digital



## Developing Human Resources for Value Creation

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

### Training specialized human resources

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

#### Training human resources capable of utilizing IT and digital technologies

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

#### Specific Initiatives

- Encouragement to acquire IT Passport qualifications (national examination) and IT Coordinator qualifications (recommended by the Ministry of Economy, Trade and Industry)
- Dispatching trainees externally and within the bank, mainly in the consulting and IT fields
- Implementation of training on "business evaluation" and "business succession and M&A" aiming at strengthening the ability to discern and resolve issues
- Establishment of various training sessions such as the "Consulting Services Reinforcement Workshop"
- Developing specialists in management field through "Next generation leaders program" to improve the ability to judge situations and make policy decisions

#### Acquisition of Expertise and Qualifications

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

#### Specific Initiatives

- Introducing web correspondence courses to acquire qualification of 1st-grade Certified Skilled Professionals of Financial Planning and hosting Holiday Seminars
- Providing partial subsidy for schooling expenses for specialist schools to employees to acquire qualifications, such as small and mid-size enterprise management consultant and securities analyst

#### Highly qualified professionals (as of March 31, 2021, bank total)

Qualification name	Number
Small and mid-size enterprise management consultant	48
1st-grade Certified Skilled Professionals of Financial Planning	301
1st-grade Financial Service Proficiency Skill Test	61



Mebuki Women's Class

#### Personnel exchange and joint training

- We hold human resource exchange seminars and holiday lectures to realize early synergies in business integration, fuse corporate culture, and deepen mutual understanding. (We postponed them in the COVID-19 pandemic.)
- The two banks have jointly continued to hold Mebuki Women's Class to accelerate the promotion of active participation of women and foster future female leaders. A total of 16 people from both banks participated in FY 2020. We will continue to hold this class in FY2021.

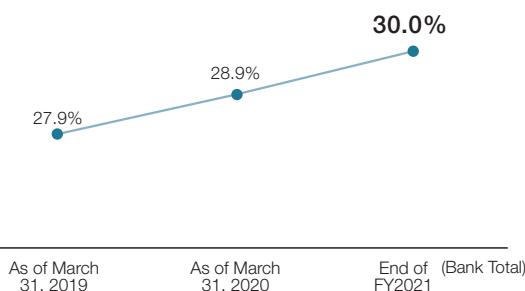
## Promotion of diversity and inclusion measures

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

#### Promotion of active participation of women

We are proactively promoting capable and motivated women employees to assistant manager positions or higher. We are working on supporting career formations based on lifestyles, such as providing career development training and using employee benefit programs.

#### Percentage of women in assistant manager positions or higher



#### Expanding recurrent education

We have enriched and firmly established recurrent education by providing training based on thorough education and training programs to expand the scope of work and move up. We also provide financial support to highly motivated regular employees when they aim to acquire university graduation qualifications.

#### Providing a pleasant working environment

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



Seminars for employees returning to the workplace from childcare leave

#### Flexible work system

For all employees excluding senior manager or higher, the bank has introduced a flexible working system which doesn't fix working hours per day and admits employees to schedule their own start and leave time.

#### Shortened work hour system (for childcare and nursing care)

The employees can shorten their scheduled working hours on a daily basis if they wish, to support day-to-day childcare and nursing care.

#### Work-interval system

We have obligated all employees to have a continuous 11 hour or more break between the end of one workday and the start of the next from the viewpoint of preventing health problems caused by long working hours.

#### Seminars for employees returning to the workplace from childcare leave

We provide opportunities to reduce anxiety about balancing work and parenting, and to raise employees' motivation to help them return to work smoothly.

#### External evaluation



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



Recognized as an outstanding organization under the 2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program (large enterprise category)



Mebuki Financial Group will continue to proactively promote initiatives for communities' sustainable growth (achievement of SDGs) under the leadership of the SDGs Committee (▶ P39).

Initiatives for achievement of SDGs

Major initiatives through the Group's business



Discovering and creating new business  
(Business Award)

For the development of the regional economy, we invite people in the community to offer innovative and creative business plans, for which we provide support toward commercialization and growth.



▶ P20

Identifying management issues and providing solutions for regional companies  
(Business succession, SDGs consulting, etc.)

To support the efforts to solve management issues, we provide optimal solutions through consulting.



▶ P19

Initiatives to revitalize the regional economy  
(Various business conferences)

By making the most of the Group's wide-area network, Joyo Bank and Ashikaga Bank jointly hold various business conferences related to agriculture, food and manufacturing to help develop a market and expand economic exchange through business matching, etc. among clients.



▶ P20

Supporting the growth and enhanced productivity of regional companies

We provide support for appropriate personnel placement as well as for review of personnel systems to solve issues. In addition, we offer management issue solutions utilizing personnel working side jobs.



▶ P19

Initiatives based on the knowledge on gerontology  
(Asset management, asset succession, etc.)

Toward the realization of the communities where the elderly can continuously live in comfort, we are expanding our services utilizing the knowledge on gerontology.



▶ P24

Contributing to communities through private placement bonds with donation scheme

A portion of the commission received when issuing private placement bonds for customers is used for donating goods to schools or organizations engaged in initiatives for SDGs of the customer's choice.



▶ P35

Initiatives for climate change and environment conservation



Initiatives for promoting renewable energy business

We proactively support our clients' efforts toward the realization of a carbon-free society by providing financial support for renewable energy businesses.



▶ P34

Initiatives to reduce greenhouse gas emissions

Setting a reduction goal of CO<sub>2</sub> emissions, the entire Group strives to reduce CO<sub>2</sub> emissions through measures such as establishing environment-friendly branches and integrating the mail carrying system between offices and branches.



▶ P33

Subsidies and donations to environment conservation groups, etc.

To support environment conservation activities, we continue to offer subsidies and donations to organizations and groups working on environment conservation.



▶ P34

Environment conservation activities

(Tree planting, saving paper resources by promoting online passbook, etc.) In addition to tree-planting activities and promotion of environmental education, we make efforts to conserve the environment through reduced paper use by promoting our smartphone app and online passbook. ▶ P34



Initiatives for diversity



Promotion of diversity  
(active participation of women, work-style reforms, etc.)

In addition to promoting active participation of women in the entire Group, we are establishing systems and working environments that allow employees to work in line with their life stages, such as raising children or nursing care of family, as well as according to their lifestyles. ▶ P30



Initiatives for LGBT communities

We offer home mortgage loans and house renovation loans, accepting same-sex partners as spouses. We include same-sex partners as loan recipients in the cases of joint liability or combining income at the time of borrowing, as we aim for a society where people can live by their own values, with their sexual orientation and gender identity being respected.

Policy for SDGs Initiatives for FY2021

1. We will contribute to revitalize the regional economy by achieving a positive growth cycle of the regional economy through financial and consulting functions.

- We will further accelerate initiatives for revitalization of the regional economy and job creation through our support for solving the issues of our clients and communities.
- Additionally, we will implement initiatives toward the realization of a community where our customers are able to continuously live in comfort, including gerontology and enhanced financial literacy.

2. We will develop initiatives for climate change and environment conservation based on our support for TCFD.

- We will provide financial services contributing to environment conservation as well as consulting services including BCP measures, analyzing climate change risks, while striving to reduce environmental burden.
- Additionally, we will formulate a roadmap toward achievement of CO<sub>2</sub> emission reduction target by fiscal 2030.

3. We will develop initiatives for diversity.

- By nurturing corporate culture that utilizes and develops diverse human resources and by promoting capable and motivated human resources regardless of age and gender, we will create a working environment for all employees and officers, including younger and senior generations, to work with motivation.

## Response to Climate Change (Initiatives for TCFD Recommendations)

Positioning the response to climate change as a key issue on management strategy, the Group declared support for the TCFD Recommendations and established the SDGs Committee chaired by the President and Director. We will continue to implement proactive initiatives toward sustainable growth (achievement of SDGs) under the committee's centralized control over formulation of initiative policy, planning and progress.

### Governance

Establishment of the SDGs Committee chaired by the President and Director enabled us to put in place the system by centralizing control over formulation of initiative policy, planning and progress.

Plans to address social issues including climate change are formulated, while their progress is reported at the SDGs Committee, which is held regularly. The deliberations of the SDGs Committee are reported at the Board of Directors meetings as well.

### Strategies

Under the Group's philosophy, "Together with local communities, we will continue to build a more prosperous future by providing high-quality, comprehensive financial services," the Company implements initiatives for issues concerning the regional economy, communities, and environment through our business.

Perceiving measures for climate change and environment conservation as one of the key management issues, we will work on reducing environmental burden through providing comprehensive financial services and conducting business activities.

We, as a community-based financial institution, will also make efforts to realize sustainable communities, involving the whole community, through consulting services concerning climate change risks of our customers.

Furthermore, to clarify our stance for initiatives concerning investments and loans for particular sectors that are considered greatly influential to the environment including climate change and to society such as coal-fired power generation, deforestation, palm oil plantation development, cluster munitions manufacturing, human rights violations, and forced labor, we have set the "Environmentally and Socially Friendly Investments and Loans Policy" and strive to control such investments and loans. ▶P34

We will further accelerate our initiatives toward the communities' sustainable growth including climate change and environment conservation, while seeking to analyze several scenarios about risks and opportunities of climate change.

### Risk Management

With a recognition that climate change risks could cause great impact on the Group's business operations, strategies, and financial plans, we will make efforts to

establish a system where those risks are manageable within an integrated risk management framework.

### Indicators and Targets

We have set the target for CO<sub>2</sub> emission reduction for domestic offices to "reduce by 30% or more by FY2030 compared with FY2013 (\*1).

We have achieved a 25.0% reduction of CO<sub>2</sub> emissions in FY2020 (\*2), compared with FY2013.

\*1 In FY2021, we start formulating a roadmap toward achievement of CO<sub>2</sub> emission reduction target for FY2030.

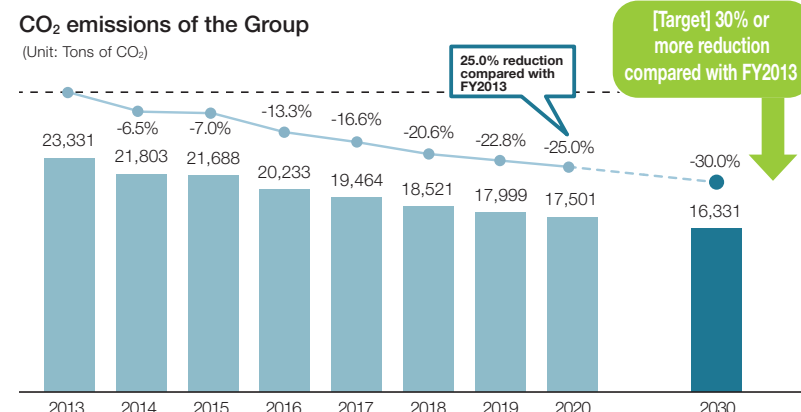
\*2 Total CO<sub>2</sub> emissions of Scope 1 + Scope 2 of Joyo Bank + Ashikaga Bank, calculated based on the reporting standards stipulated in the Energy Efficiency Act.

Strengthening initiatives to reduce greenhouse gas emissions

We will strengthen our initiatives for reduction of CO<sub>2</sub> emissions at the group-wide level, setting the reduction target of "30% or more of CO<sub>2</sub> emissions at domestic offices by FY2030 compared with FY2013."

#### Establishment of environment-friendly branches

- Switching to energy-saving air-conditioning
- Switching to LED bulbs at branches
- Installing solar power generation system at new branches
- Switching to fuel-efficient business cars
- Integrating the mail carrying system between offices and branches



## Environmentally and Socially Friendly Investments and Loans Policy

Concerning investments and loans to particular sectors that could cause great impact on the environment and society, we will appropriately act based on the "Environmentally and Socially Friendly Investments and Loans Policy."

### 1. Coal-fired power generation business

In principle, we will not engage in investments and loans for newly established coal-fired power plants.

(However, exceptions may be considered after taking into account background or characteristics of each project such as overall power generation efficiency, impacts on environment and local communities, etc., based on international guidelines.)

### 2. Deforestation business

Investment decisions for deforestation operations will be made after careful consideration of the status of acquisition of international certifications by FSC or PEFC, environmental considerations, and conflicts with local communities.

### 3. Palm oil plantation development business

Investment decisions for palm oil plantation development will be made after careful consideration of the status of acquisition of international certifications by RSPO, environmental considerations, and conflicts with local communities.

### 4. Cluster munitions manufacturing business

In view of the inhumane nature of cluster munitions, we prohibit investments and loans for businesses that manufacture cluster munitions, regardless of the use of the funds.

### 5. Human rights violations, forced labor, etc.

We prohibit investments and loans for businesses that violate the principles of international human rights standards such as child labor and forced labor.

## Major initiatives for environment conservation

### Initiatives for promoting renewable energy business

We proactively support our customers seeking the realization of a carbon-free society by providing financial support for renewable energy business projects such as solar power generation, biomass power generation, and wind power generation.

Balance of investments and loans related to renewable energy (Joyo Bank + Ashikaga Bank)

Loans	195.7 billion yen
Solar power	175.7 billion yen
Others (biomass power, wind power, etc.)	20.0 billion yen
Investments	12.3 billion yen
Total investment and loan balance	208.1 billion yen

### Subsidies for environment conservation groups, etc.

Utilizing the mechanism of charitable trust, we grant subsidies to organizations and groups working on environment conservation.

### Subsidies through charitable trust (Cumulative total)

Number of bonds	Amount of subsidies
1,484	159.99 million yen

In addition, Ashikaga Bank supports the Nikko Cedar Avenue Ownership System, working on beautification activities, including participation in the cleanup at the Avenue.

Number of cedar trees owned
80

### Environment conservation activities

We have conducted tree-planting and other activities in order to pass our communities' beautiful and sound forests on to the next generation.

We are also making efforts to protect limited natural resources by promoting the use of smartphone apps and online passbooks in efforts to save paper.

### Support for the 21st Century Financial Behavior Principles

Supporting the 21st Century Financial Behavior Principles, which was adopted in December 2011 in order for financial institutions in the banking, securities, and insurance industries to work together on expanding environmental finance initiatives, we make efforts toward the formation of a sustainable society.





# Contributions to Communities

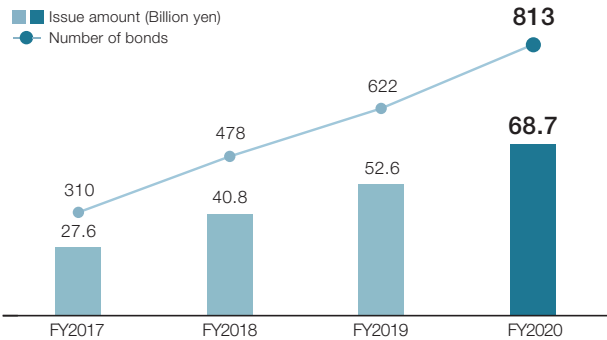
## Donation through private placement bonds with donation scheme

A portion of the commission received when issuing private placement bonds for customers is used for donating goods to schools, organizations engaged in initiatives for SDGs, or healthcare institutions of the

customer's choice.

To date, we have made donations of more than ¥130 million.

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



### Examples of donation recipients

Nurseries and schools  
Healthcare institutions  
Local professional sports teams  
Tochigi Prefecture and Ibaraki Prefecture (as operating expenses for the National Athletic Meet)  
Local governments  
Incorporated non-profit organizations (organizations engaged in initiatives for SDGs, etc.)

## Support for children's independence

We conduct lessons on finance to teach the importance of money and the role of banks to the next generation. We also provide financial education seminars intended for high school and college students for understanding the mechanism of the monetary economy and specific financial operations.



## Employees' efforts to contribute to communities

We provide support to community activities through volunteer activities including environment conservation activities, cleanup in the communities, participation in events such as festivals, and collection of recyclable resources.



Cleanup volunteer activities

## Donations

When communities suffer serious damage due to natural disasters, we make relief donations to local governments to help support the relief of those affected by the disasters and the recovery and reconstruction of the affected areas.

When the area was struck by Typhoon Hagibis in 2019, we made donations to Ibaraki, Tochigi, and

Fukushima prefectural governments. During the COVID-19 pandemic, in order to support medical professionals who are responding at the forefront while facing risk of infection, we made donations collected from executives and employees to Ibaraki and Tochigi prefectures as support money for medical institutions.

# Measures Against the Spread of COVID-19

## Smooth financing for communities and business support during the COVID-19 pandemic

The spread of COVID-19 caused unrest throughout society, bringing great changes to our customers' daily lives and management environment.

Mebuki Financial Group has been making an all-out effort to deal with the needs of our customers impacted by the prolonged COVID-19 pandemic. We will continue to work on solving our customers' diversified challenges, while expanding our area of business and improving the quality of our services with measures including smooth financing, support for digitalization, and an enforced consulting function.

### Cash flow support by smooth financing

We provide proactive support by utilizing the "accompanied support type special credit guarantee program" introduced by the national government, as well as our own loans among others.

### Providing services using digitalization

In addition to our financial services, we support companies' efforts for digitalization.

- Introducing banking apps
- Offering web-enabled procedure for loans
- Introducing web-based management support services
- Reducing waiting and processing time at branches through visit reservation service
- Holding a variety of online seminars

### Major digitalization support for customers

- Holding online seminars to support digitalization
- Consulting and support for introduction and development of apps through business partnerships
- Direct support for customers' digitalization and streamlining of operations by our IT specialists



Online seminar

### Support to solve issues utilizing consulting function

#### Support for corporate customers

The specialists at headquarters and the staff at branches work together to identify and assess the customers' issues related to the COVID-19 pandemic, making all-out effort to provide support to customers taking on issues.

Fully utilizing the Group's comprehensive financial service function, we provide consultation for business matching, business succession, and others to reduce customers' numerous worries.



#### Support for individual customers

We provide consultation to customers having trouble paying back loans including home mortgage loans due to reduced income under the influence COVID-19.

We provide not only suggestions for asset management but a wide range of consulting services for life-planning such as inheritance, asset succession, and real estate, while increasing contact points with customers during the COVID-19 pandemic, using online seminars and online interviews among others.

## Cooperation for vaccination

### Providing a vaccination venue

To support vaccination for community residents, we work together with Ibaraki Prefecture and municipalities in the prefecture. For example, we offered, as a vaccination venue, the clubhouse at Joyo Bank Hirasu Sports Ground to Mito City free of charge, which served as one of its mass vaccination venues.

### Workplace vaccination and introduction of special leave

To ensure the safety of employees and their family members as well as to assure the safety of customers, we implemented workplace vaccination for employees seeking to get vaccinated. In addition, special leave was introduced so that employees can take leave for vaccination and post-vaccination side effects.



Vaccination venue provided by the Group

Corporate Governance

Basic approach to corporate governance

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

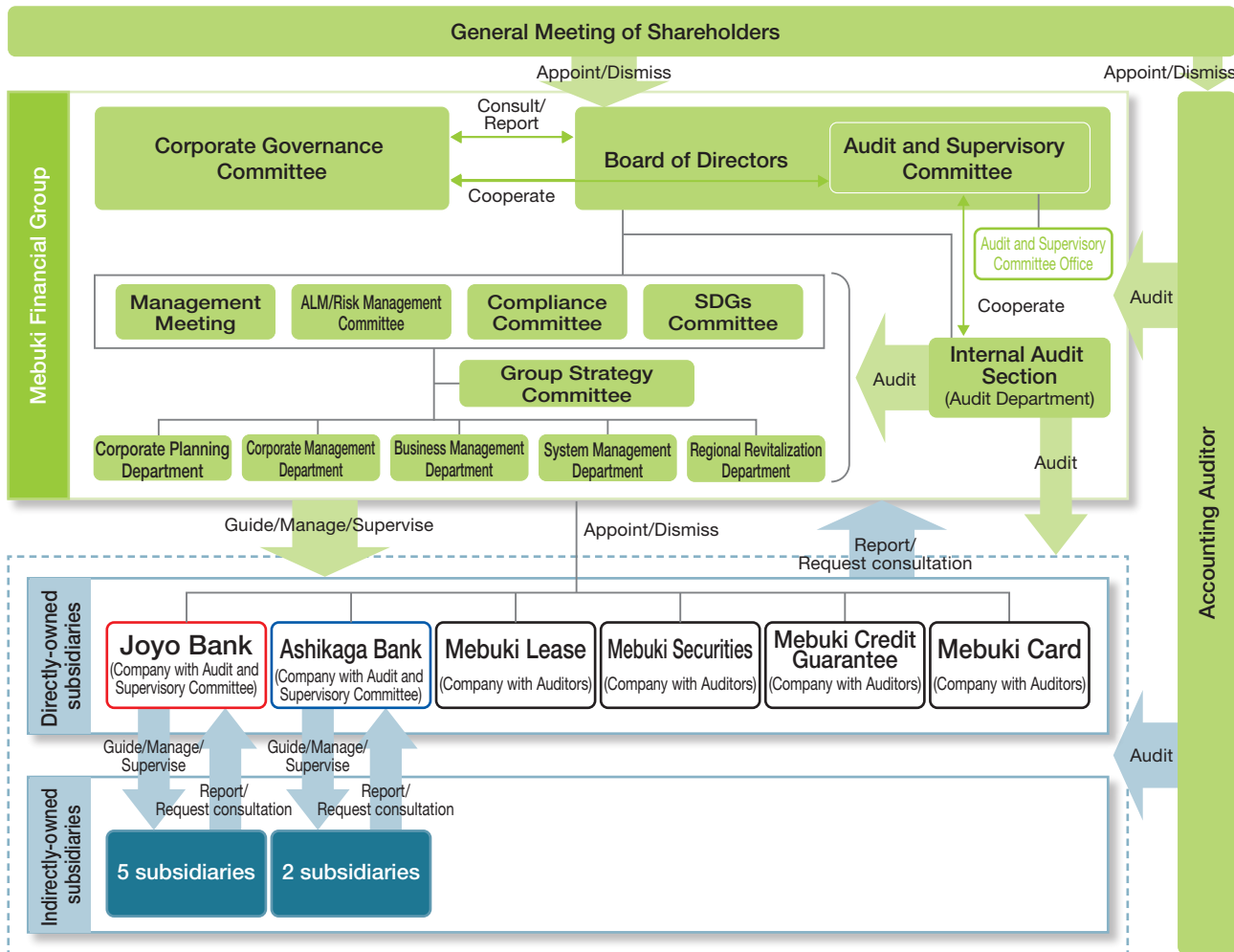
- We respect shareholders' rights and ensure equality.
- We consider the benefits of stakeholders, including shareholders, and cooperate appropriately with stakeholders.
- We disclose company information appropriately and ensure transparency.
- We ensure the effectiveness of a transparent, fair, prompt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

Corporate governance structure

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

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

(Mebuki Financial Group's corporate governance structure)



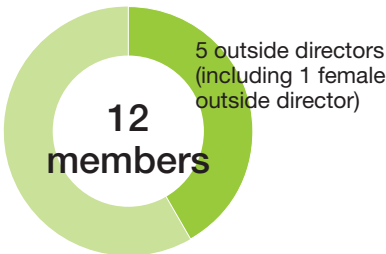
Details of the Company's organizations

(Board of Directors)

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

The Board of Directors meets monthly in principle.

Board of Directors

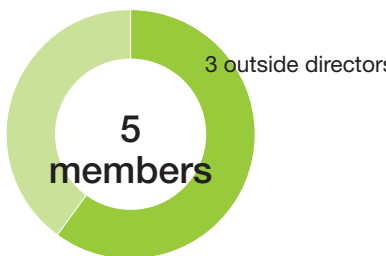


(Audit and Supervisory Committee)

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

The Audit and Supervisory Committee meets monthly in principle.

Audit and Supervisory Committee

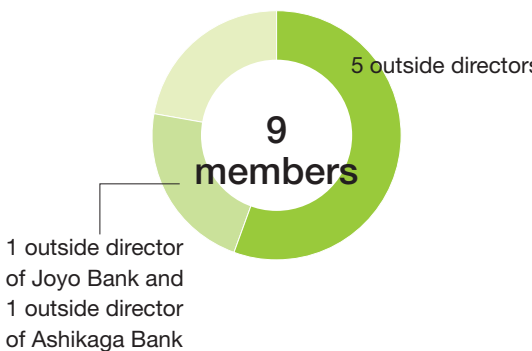


(Corporate Governance Committee)

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

The Corporate Governance Committee is chaired by an outside director, and the majority of its members are also outside directors including the outside directors of subsidiary banks. In FY2020, the meetings of the Corporate Governance Committee were held six times.

Corporate Governance Committee



[Main matters for deliberation]

- Compensation and bonuses for directors
- Evaluation of the effectiveness of the Board of Directors
- Status of dialogue with shareholders
- Election of director candidates, etc.



(Decision-Making Bodies)

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

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

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

Evaluation of the effectiveness of the Board of Directors

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

<Evaluation method>

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

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

<Evaluation results>

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

<Future Measures>

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

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

The initiatives for enhancing the quality of discussions resulted in continued improvements in the issues identified by the previous evaluation, specifically in “Improvement of the discussions by the Board of Directors” and “Utilization of the perspectives of independent outside directors”. However, based on each director’s assessment and opinions, we recognized that it is necessary to continue working toward further improvement.

1. “Improvement of the discussions by the Board of Directors”
- Enhancement of discussions regarding management strategy and providing value to stakeholders
  - Expression of opinion by directors beyond the boundary of their duties
2. “Utilization of the perspectives of independent outside directors”
- Improvement of information provision to outside directors and facilitation of communication among outside directors
  - Enhancement of discussions at the Corporate Governance Committee

Appointment of Directors

(Directors)

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

(Outside Directors)

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

Selection criteria for candidates for outside directors

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

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

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

Compensation for Directors

(Policy for Determining Directors’ Compensation)

Under the Corporate Governance Policy set by the Board of Directors, the director’s compensation amount is determined separately for “directors (excluding Audit and Supervisory Committee Members)” and “directors (who are Audit and Supervisory Committee Members)” as follows.

[Directors (excluding Audit and Supervisory Committee Members)]

- The compensation for directors (excluding Audit and Supervisory Committee Members) is determined appropriately in consideration to their transparency, fairness, objectivity and incentives toward improving results by enhancing the linkage of compensation with the Group’s performance and shareholders’ benefits.
- The amount for each director (excluding Audit and Supervisory Committee Members) is determined by the Board of Directors within the maximum amount of compensation per year resolved at the General Meeting of the Shareholders, while ensuring the objectivity and transparency after deliberation regarding their adequacy and validity in the Corporate Governance Committee.

[Directors (who are Audit and Supervisory Committee Members)]

- The compensation for directors (who are Audit and Supervisory Committee Members) is determined without the factor of incentive to ensure the transparency of their duties as auditor and supervisor.
- The amount for each director (the Audit and Supervisory Committee Member) is determined through discussion among all Audit Committee Members and within the maximum amount of compensation per year resolved at the General Meeting of the Shareholders.

The Company resolved the maximum amount of compensation for directors (excluding Audit and Supervisory Committee Members) at ¥200 million per year (the number of eligible directors: 7 persons) and for Audit and Supervisory Committee Members at ¥80 million per year (the number of eligible directors: 5 persons), at the Ordinary General Meeting of the Shareholders held on June 28, 2016.

(Compensation System for Each Director)

[Executive Directors]

(a) Composition of compensation

The compensation for executive directors among the directors (excluding Audit and Supervisory Committee Members) comprises a monthly compensation as a basic compensation, bonuses as a performance-linked compensation and a restricted stock compensation plan as a non-monetary compensation.

The compensation comprises 86% of monthly compensation, 7% of bonus and 7% of restricted stock compensation plan (Case in which the standard amount of bonuses is paid)

(b) Details of each compensation

- Monthly compensation  
The basic amount of monthly compensation is determined by the director’s position.
- Bonuses  
The basic amount of bonuses is determined in accordance with the director’s position and the total amount of bonus payment is determined within a maximum amount which fluctuates each year in the range of 0% to 150% according to consolidated profit level (indicator based on ROE). The amount for each executive director is determined based on the basic amount for the director’s position, which is adjusted according to the degree of contribution to business performance by each executive director. The indicator based on ROE has been adopted as a performance indicator in order to give stronger incentives to the directors to improve the Group’s corporate value.
- Restricted stock compensation plan  
From FY2020, the Company introduced a new restricted stock compensation plan to provide an incentive to executive directors of the Company in order to achieve sustainable improvement of the Company’s corporate value and to allow them to

share more values with our shareholders. Under the Plan, the Company’s Directors (excluding Audit and Supervisory Committee members; the “Eligible Directors”) shall make payments in kind as contributed assets using all of the monetary compensation claims provided to them by the Company and receive the issuance or disposal of the Company’s common shares and the Company and each of the Eligible Directors shall enter into a restricted stock allocation agreement.

The compensation to be paid to the Eligible Directors for the granting of restricted stock is monetary compensation claims and the total amount of such claims is set at 20 million yen or less per year within the amount of compensation for the Company’s Directors (excluding Audit and Supervisory Committee Members), and the total number of common shares newly issued by the Company is set at 200 thousand shares or less per year, as resolved at the Ordinary General Meeting of the Shareholders held on June 24, 2020. The allocation of payment to each Eligible Director is determined by the director’s position.

[Outside Directors]

The compensation for outside directors (excluding Audit and Supervisory Committee Members) is comprised only of a monthly compensation, which is a basic compensation, and the amount is determined by the director’s position.

[Directors (who are Audit and Supervisory Committee Members)]

The compensation for directors (who are Audit and Supervisory Committee Members) is comprised only of a monthly compensation, which is a basic compensation, and the amount is determined separately for full time and part time directors.

(Procedure for Determining Directors’ Compensation)

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

Regarding determining the details of compensation for each director, the Corporate Governance Committee shall deliberate including the confirmation of the integrity with the above policy and the related regulations. Therefore, the Board of Directors shall in general respect their proposals and judge them to be in line with policy.

The decision of the specific amount for each director is delegated to Ritsuo Sasajima, the Representative Director and President, by resolution of the Board of Directors. This authority is the decision regarding specific amount of bonuses distributed to each director. The reason for the delegation is that he is in a position to judge the degree of contribution to the performance by each director from a company-wide perspective. Regarding this decision, the Corporate Governance Committee shall deliberate including the confirmation of the integrity with the above policy and the validity. Therefore, the Board of Directors shall in general respect his proposal and judge it to be in line with policy.

Matters discussed by the Corporate Governance Committee and the Board of Directors in determining directors’ compensation (FY2020)

(Corporate Governance Committee)

- April 2020 Matter regarding total amount of directors’ bonuses
- May 2020 Matters regarding individual distribution of directors’ bonuses and monthly compensation for directors
- September 2020 Mater regarding the determination method of directors’ bonuses

(Board of Directors)

- May 2020 Matters regarding directors’ bonuses and revision of directors’ compensation regulation (introduction of a restricted stock compensation plan)
- June 2020 Matters regarding determining monthly compensation amount, and provision of monetary compensation claims and disposition of treasury shares for the restricted stock



List of Directors

Director



President and Director  
Ritsuo Sasajima

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



Executive Vice President and Director  
Kazuyuki Shimizu

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



Director  
Tetsuya Akino

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



Director  
Yoshihiro Naito

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



Director  
Kiyoshi Nozaki

June 2016 Executive Officer and General Manager, Corporate Planning Division, The Joyo Bank, Ltd.  
October 2016 General Manager, Corporate Planning Department, the Company  
June 2017 Executive Officer and General Manager, Business Promotion Division, The Joyo Bank, Ltd.  
June 2018 Managing Executive Officer and General Manager, Business Promotion Division, The Joyo Bank, Ltd.  
Director (part-time), The Ashikaga Bank, Ltd.  
June 2020 Director, Managing Executive Officer, The Joyo Bank, Ltd. (current position)  
June 2021 Director, the Company (current position)



Director (Audit and Supervisory Committee Member)  
Eiji Murashima

June 2010 Executive Officer and General Manager, Business Administration Division, The Joyo Bank, Ltd.  
June 2011 Executive Officer and General Manager, Business Promotion Division, The Joyo Bank, Ltd.  
June 2012 Managing Executive Officer and Vice Director-General of Business Headquarters, The Joyo Bank, Ltd.  
June 2013 Managing Director, The Joyo Bank, Ltd.  
October 2016 Director in charge of Corporate Management (Basel), the Company  
June 2018 Senior Managing Director, The Joyo Bank, Ltd.  
June 2020 Retired from the position as Senior Managing Director, The Joyo Bank, Ltd. Director (Audit and Supervisory Committee Member), the Company (current position)  
Auditor, Mebuki Securities Co., Ltd. (current position)  
April 2021 Corporate Auditor, Mebuki Card Co., Ltd. (current position)



Director (Audit and Supervisory Committee Member)  
Kunihiro Ono

June 2010 Executive Officer, General Manager, New Accounting System Transition Promotion Division, The Ashikaga Bank, Ltd.  
October 2011 Executive Officer, The Ashikaga Bank, Ltd.  
June 2012 Director, The Ashikaga Bank, Ltd.  
June 2013 Director, Ashikaga Holdings Co., Ltd.  
June 2016 Retired from the position as Director, The Ashikaga Bank, Ltd.  
October 2016 Director (Audit and Supervisory Committee Member), the Company (current position)  
June 2017 Corporate Auditor, Mebuki Lease Co., Ltd. (current position)  
October 2020 Corporate Auditor, Mebuki Credit Guarantee Co., Ltd. (current position)

(Outside Directors)

Outside Director  
Hiromichi Ono

April 1979 Joined Ajinomoto Co., Inc.  
March 2004 General Manager, Finance Department, Ajinomoto Co., Inc.  
June 2007 Corporate Executive Officer, Ajinomoto Co., Inc.  
June 2011 Member of the Board & Corporate Vice President in charge of finance and procurement, Ajinomoto Co., Inc.  
June 2017 Retired from the position as Member of the Board & Corporate Vice President, Ajinomoto Co., Inc.  
June 2019 Outside Director, the Company (current position)  
June 2020 Outside Audit & Supervisory Board Member, Tokyo Gas Co., Ltd.  
June 2021 Outside Director, Tokyo Gas Co., Ltd. (current position)

Outside Director (Audit and Supervisory Committee Member)  
Satoru Kawamata

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

Outside Director  
Yoshimi Shu

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

Outside Director (Audit and Supervisory Committee Member)  
Toru Nagasawa

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

Outside Director (Audit and Supervisory Committee Member)  
Takashi Shimizu

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

(List of Directors of subsidiaries)

Joyo Bank

Directors

Chairman and Director Kazuyoshi Terakado  
President and Director Ritsuo Sasajima  
Director and Senior Managing Executive Officer Hidebumi Nishino  
Director and Managing Executive Officer Hitoshi Takenouchi  
Director and Managing Executive Officer Tetsuya Akino  
Director and Managing Executive Officer Yuji Gorai  
Director and Managing Executive Officer Kiyoshi Nozaki  
Director (part-time) Takahiro Morikawa  
Director (Audit and Supervisory Committee Member) Yoshihiko Yoshihara

(Outside Directors)

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

Ashikaga Bank

Directors

Chairman and Director Masanao Matsushita  
President and Director Kazuyuki Shimizu  
Director and Senior Managing Executive Officer Eisuke Suzuki  
Director and Managing Executive Officer Yoshihiro Naito  
Director and Managing Executive Officer Hideto Usui  
Director and Managing Executive Officer Hiroyuki Kimura  
Director and Managing Executive Officer Koichi Yamakawa  
Director (part-time) Toshihiko Ono  
Director (Audit and Supervisory Committee Member) Akihiko Kuwako

(Outside Directors)

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

Mebuki Lease

Director

President and Director Masaru Seki  
Senior Managing Director Yoshiaki Kosugi  
Senior Managing Director Jun Ajima  
Managing Director Hiroo Sugaya  
Managing Director Teruo Yamaguchi

Corporate Auditor

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

Mebuki Securities

Director

President and Director Fuminori Nakajima  
Senior Managing Director Hiroshi Mori  
Senior Managing Director Toshihisa Onizawa  
Managing Director Hiroshi Sagara  
Director Katsuhiko Noda

Corporate Auditor

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

Mebuki Credit Guarantee

Director

President and Director Kiyoshi Kato  
Senior Managing Director Hiroyuki Sakurai  
Senior Managing Director Hiroo Shimada  
Director Jun Hikichi

Corporate Auditor

Corporate Auditor (part time) Kunihiro Ono  
Corporate Auditor (part time) Hiroshi Matsumoto

Mebuki Card

Director

President and Director Mitsugu Hoshino  
Senior Managing Director Takashi Hirano  
Managing Director Koji Kazama

Corporate Auditor

Corporate Auditor (part time) Eiji Murashima

## Interview with Outside Directors

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

## Q & A

Q1

Our external environment has been drastically changing recently due to factors such as the declining birthrate and aging population, advancement of digitalization, and the prolonged COVID-19 pandemic. Looking back over the past year, how do you evaluate the Group's responses to the external environment (or risks), management issues, and its governance?

Q2

What are your expectations and requests for the Group for the future? What role can you play as an outside director by harnessing your experience?

A1



Outside Director  
Hiromichi Ono

During the past year, the Group worked hard to address its challenges and achieved certain results. Specifically, the Group quickly improved efficiency to respond to the shrinking market due to the declining birthrate and aging population; enhanced customer services by applying new business models such as information and expertise sharing; and promoted digital transformation. In spite of many restrictions, the Group efficiently addressed the challenges including the expansion of the scope of business as mentioned above. It is no exaggeration to say that the Group did everything that they should have done over the past year.

I have carefully observed how the Board of Directors maintains its governance while they are promoting various business. I reviewed the agenda and the details of the items on it from an outside standpoint, and confirmed that everything was openly discussed, appreciating the transparency again.

A2

It is essential that the Group plants seeds for growth looking to the future because sticking only to the existing business may lead to credit costs. I expect the Group to capture any possible business opportunities on the assumption of coexistence and co-prosperity with local communities. Close-following support that helps facilitate the growth of local companies is required in addition to contribution to local communities.

Since I have engaged in financial affairs at a manufacturing company and received services from financial institutions, I have a high level of understanding of customers' reaction to financial institutions and the viewpoint of investors. By using experiences gained through duties of investor relations and SDGs, I intend to contribute to the initiatives with which the Group creates new business that expands traditional banking.

A1



Outside Director  
Yoshimi Shu

I appreciate the fact that the issues recognized during the previous fiscal year have been resolved earlier than we planned. The Group promptly introduced innovations to provide value to customers. These innovations include promotion of reorganization and digitalization, provision of consulting services, and support for TCFD Recommendations.

When the Group was addressing the challenges, they promptly replied to comments and questions from outside directors. In addition, they proactively disclosed information that was difficult to be noticed outside the Company. In most cases, decision-making was made through mutual trust after discussion in a tense atmosphere (in the good sense), and a high level of governance was maintained.

A2

Going forward, a new style of financial services in local areas needs to be created. I expect the Group to enhance consulting services they are focusing on, and at the same time, improve the Group's capabilities so that they can provide new services that corporate and individual customers need, and are useful to and liked by them.

I oversee the Group to ensure that they continue to make efforts to be what the Group desires to be, steadily and effectively. I have been engaged in the cultivation of candidates for management. In the Group, I have communicated the importance of corporate philosophy to women leaders at "Mebuki Women's Class." The Group is expected to create a working environment where people can experience the pleasure of being involved in the creation of a new financial institution. I intend to continue to support those initiatives.

A1



Outside Director (Audit and  
Supervisory Committee Member)  
Satoru Kawamata

As the external environment changes, traditional values do, too. Under such conditions, I have proposed different ideas that could help the Group play the role of a financial institution rooted in the local community. I highly appreciate the Group achieved an increase in ordinary profit for the past year through efforts such as enhancement of consulting services, despite the tough times when face-to-face sales were limited. This achievement was owing to the fact that the Group sincerely interacted with local small and medium companies by putting themselves in the position of those companies. This also helps differentiate the Group from IT companies aiming to enter the financial industry.

Unexpected events may occur when the Group is working on the Medium-Term Group Business Plan and making efforts to be what it desires to be. In such a circumstance, a strong governance structure will help the Group work together to address challenges. At the same time, transparency and fairness allow us to gain customers' trust. I continue to oversee the Group from the aforementioned aspects.

A2

The Group should further expand the consulting business in the future, and this would be what the local communities expect. In addition, the Group needs to play the roles of investor and capitalist in the true sense of the word while looking ahead to the future. The Group should discover the right companies for a new era and promote the business that helps their future growth more proactively than ever before while supporting local small and medium companies. I think this is the goal of the consulting business that the Group should pursue. To achieve this, all the staff need to accumulate their expertise. In addition, the Group will be required to focus on human resource development and facilitate the use of artificial intelligence.

I intend to propose ideas from the standpoint of the economy of the Group's main area of business because I was born and raised in Ibaraki. Using experience as a corporate manager, I share my opinions to improve the Group's corporate value on the assumption of transparency and fairness.

A1



Outside Director (Audit and  
Supervisory Committee Member)  
Toru Nagasawa

I have provided candid opinions on the transformation in accordance with what financial business is required to be in current and future times as an outside director and from many points of view. This includes the deployment of problem-solving financial service business. As a result, I believe that close two-way communication has been made between the executives and outside directors.

Rather than just reporting, the executives always listened to outside directors' opinions, and in many cases, they promptly implemented directional corrections and new measures we proposed. In addition, they quickly investigated and checked on the matters queried or questioned during the meetings and answered us in a timely manner. I was impressed by their sincere response. Overall, I believe transparent and fair governance was maintained for the past year.

A2

In the future, the Group's challenges will be how they contribute to customers and local communities by demonstrating their presence. To do this, the Group needs to make the most of their strengths such as the solid customer base built through the trust from local communities as well as broad and diverse information accumulated through the network the Group developed. The Group is faced with the need to redefine the meaning of the existence of banking. In such an environment, the Group should use their strengths and resources to provide additional values to their customers by offering expertise on customers' management as well as sharing information and personnel while recognizing the importance of the existing business. In particular, it would be important to work together with customers to help them address challenges related to business succession and digital transformation.

To achieve this, I intend to involve myself in business revitalization as a lawyer by using my diverse experience of serving as an outside director in different regions and different industries.

A1



Outside Director (Audit and  
Supervisory Committee Member)  
Takashi Shimizu

The regional economy is exhausted, but at the same time, some companies are responding to new demand emerging due to the COVID-19 pandemic.

The Group needs to help the companies in need get through the present situation as well as provide the companies responding to new demand with offers with which they can continue stable management after the COVID-19 pandemic. This is the new way of consulting services that I have been proposing since the last year.

I believe the Board of Directors of the Group have sincerely worked to address those challenges. They have always responded to the outside directors' opinions earnestly at the meetings of the Board of Directors. Even when what is asked or suggested is out of the norm for the financial industry, they answer the questions, discuss measures, and provide opportunities for further discussion. Their willingness to strive for improvement has impressed me very favorably.

A2

Today's economic environment is rapidly changing. In such a situation, the Group needs to create flexible plans and steadily respond to events as they occur. If a company sticks too closely to the original plan, the company sometimes loses the right direction and fails to achieve the plan. At worst, wrongdoing occurs. This has been shown by many cases of other companies.

My studies proved that the most powerful strategy to survive the ever-changing environment is as follows: Set a numerical target, and at the same time, continuously make forecasts by looking a little further into the future. Then, to appropriately fill the gap between the plan and the forecast, develop the best action plan flexibly and implement it. While keeping this in mind, I intend to proactively involve myself in management to contribute to the regional economy.



## Risk Management System

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

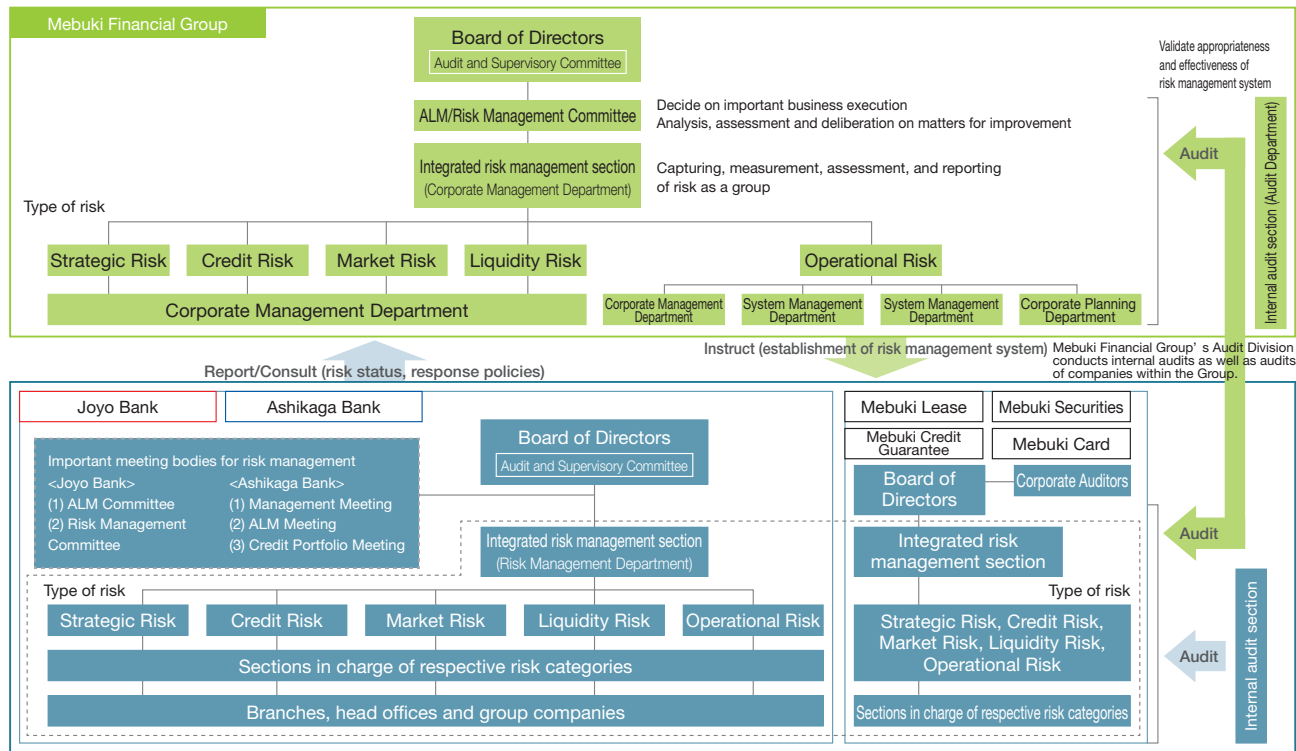
### Risk management system

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

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

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

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



### (Integrated risk management)

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

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

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

### (Credit risk management)

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

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

• Credit risk management system

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

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

• Management of credit risk on individual loans

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

• Internal credit ratings

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

• Asset self-assessment systems

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

• Quantification of credit risk

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

• Credit portfolio management

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

### (Market risk management)

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

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

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

### (Liquidity risk management)

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

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

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

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

### (Operational risk management)

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

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

• Administrative risk

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

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

• System risk

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

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

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

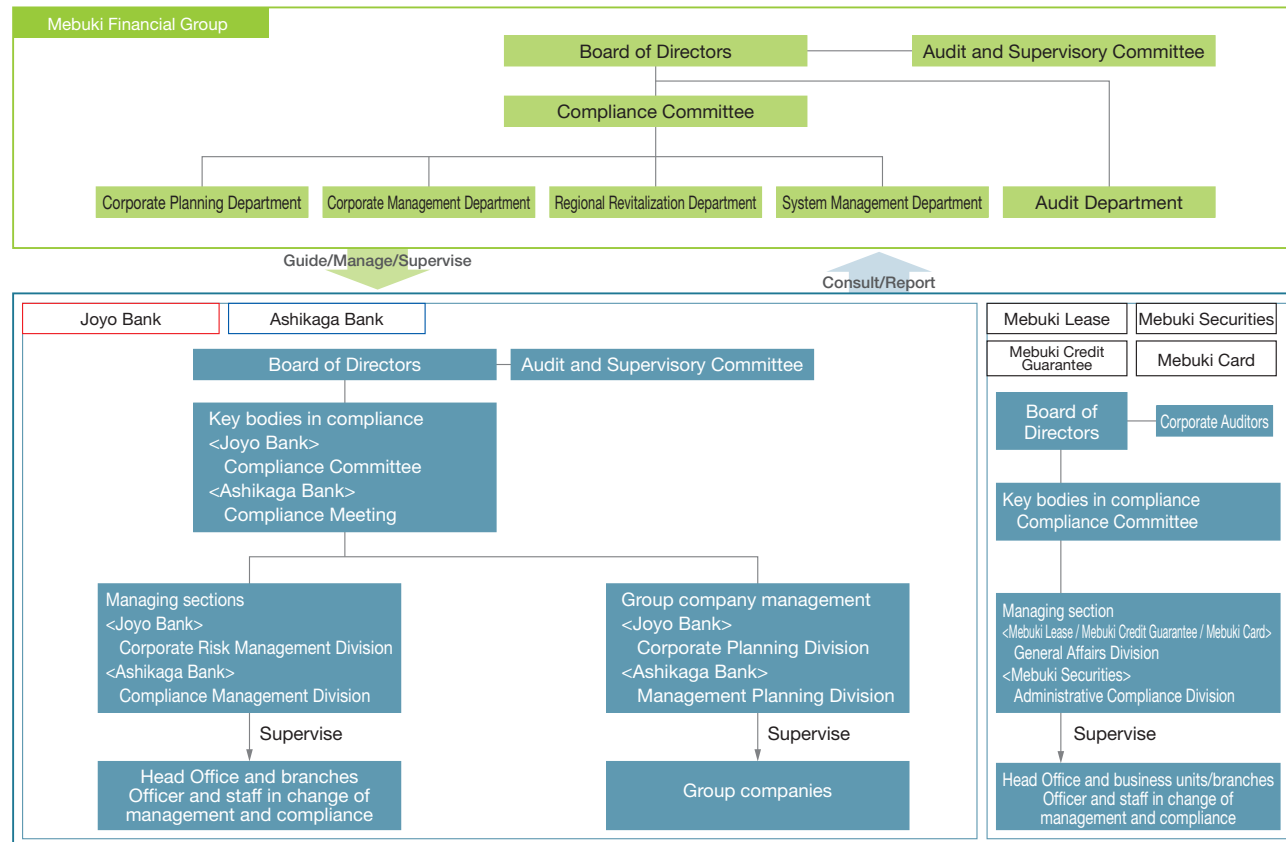
We also identify and assess risk through methods in line with risk characteristics and take appropriate actions for: compliance (legal) risk, the risk of incurring losses mainly due to an illegal act committed by directors and employees; personnel management risk, the risk of incurring losses mainly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

### Crisis management and business continuity management

We have established the framework for the continuity or early recovery of important business operations including the repayment of deposits, fund transfer and remittance upon facing a crisis such as a natural disaster, system failure or pandemic, as well as limiting human and physical damage to the minimum extent possible.

Upon the occurrence of a crisis, we will establish emergency response headquarters at the Company and directly-owned subsidiaries to respond to such emergencies in cooperation with each other. Furthermore, we continuously perform crisis management exercises and review the business continuity plan to enhance the effectiveness thereof upon facing a crisis.

## Initiatives for Compliance



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

### Organization and structure

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

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

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

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

### Compliance program

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

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

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

The status of the compliance program performed by companies within the Group is reported to and validated by the Compliance Committee quarterly, and is also subject to the annual overall assessment which is reflected in the next year's program.

### Measures for anti-money laundering, etc.

The Group acknowledges anti-money laundering and combating the financing of terrorism (hereinafter "AML/CFT") as an important responsibility and one of the important management tasks based on calls made by the international communities. Thus, we formulated the "Anti-Money Laundering and Combating Financing of Terrorism Policy" to take measures for AML/CFT.

To ensure the effective implementation of AML/CFT for the companies within the Group, we appoint the director in charge of Corporate Management Department as the Group head AML/CFT officer. In addition, each of the

companies within the Group appoints, among the directors, the head AML/CFT officer who is in charge of risk management of AML/CFT.

The companies within the Group formulate "AML/CFT Programs" as an annual plan to enhance the risk management of AML/CFT, based on the "Group's Basic Policy for Anti-Money Laundering" formulated by the Company for each fiscal year. We verify the effectiveness and status of implementation of the programs to enhance the management system.

### Severing connections with antisocial forces

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

#### Regarding severing connections with antisocial forces

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

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

### Our customer protection management system (Measures for Customer Protection)

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

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

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

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

### Internal Audit

The Company has established an audit department as the section in charge of internal audits under the Board of Directors, independent of the business execution and risk management departments.

The audit department supervises internal audit functions across the Group. In order to ensure the appropriateness of the Group's business operations and the health of assets, the audit department inspects the appropriateness and effectiveness of the internal audit system by conducting internal audits on subsidiary banks and the companies within the Group in accordance with the "Internal Audit Rules" and the "Group's Audit Plans" defined by the Board of Directors.

The audit results are reported to the Audit and Supervisory Committee and the Representative Director

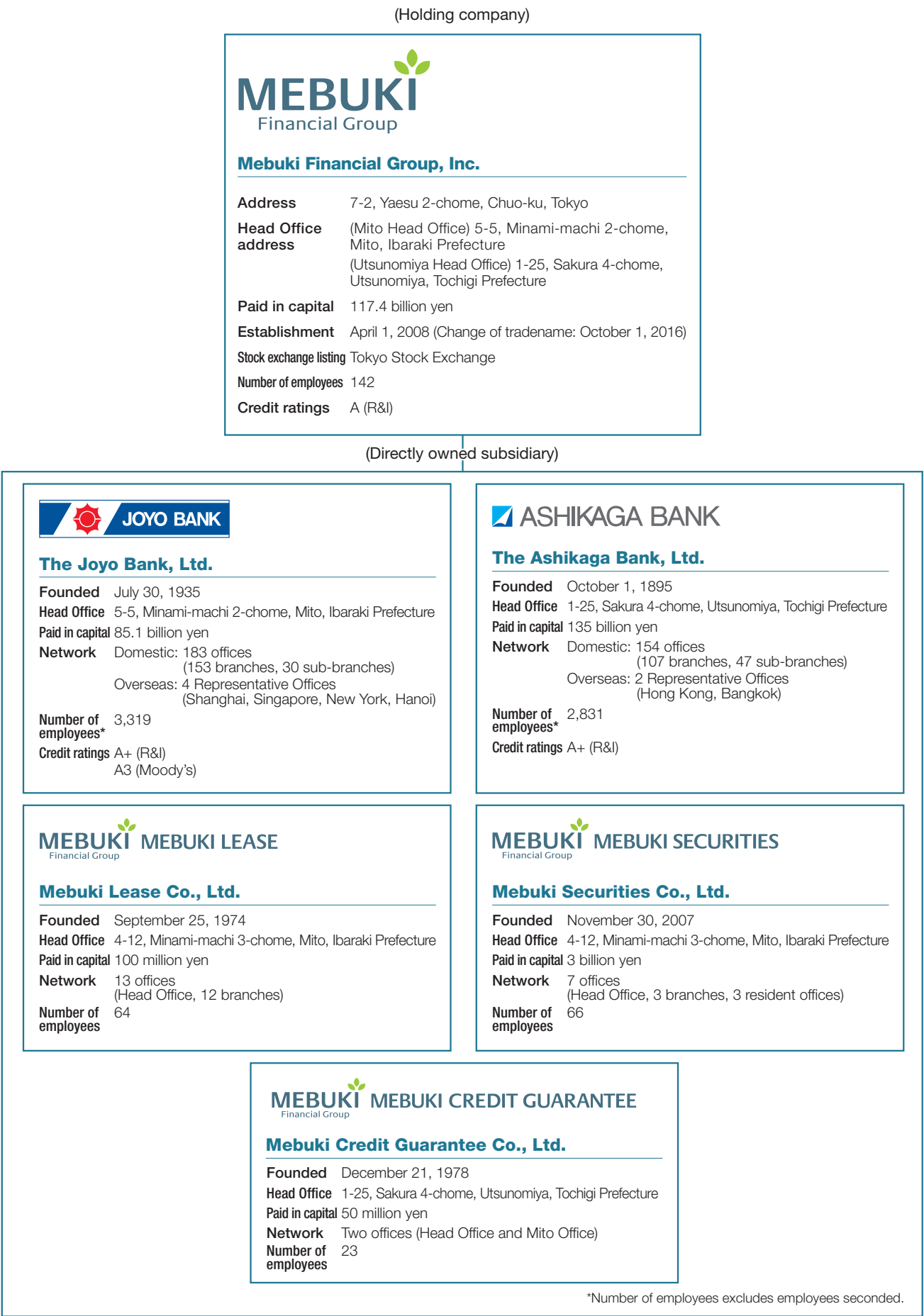
monthly, and to the Board of Directors every three months. In order to conduct appropriate audits, the Group is making efforts to strengthen the cooperation among the Audit and Supervisory Committee (including corporate auditors of companies within the Group), the Internal Audit Section of the Company, and the accounting auditor through close exchanges of views.

The Group strives to further improve its audit methods by conducting risk-based audits in accordance with the international standards of internal audit (of IIA), improving the expertise of auditors by encouraging them to acquire a national qualification of internal audit, and undergoing quality assessment of audit by external institutions.



# Group Structure and Corporate Data

## Group Structure (as of March 31, 2021)





Consolidated Balance Sheet

March 31, 2021   Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
ASSETS			
Cash and due from banks (Notes 3 and 23).....	¥ 6,425,755	¥ 1,935,324	\$ 58,046,574
Call loans and bills bought (Note 23).....	6,809	18,754	61,517
Monetary claims bought (Note 23) .....	11,649	11,849	105,233
Trading assets (Notes 4 and 23) .....	12,425	15,632	112,245
Money held in trust (Note 5) .....	1,970	1	17,796
Securities (Notes 4, 10, 11, and 23) .....	4,333,243	4,076,146	39,144,020
Loans and bills discounted (Notes 7, 11, 23, and 27) .....	11,638,376	11,342,541	105,134,386
Foreign exchanges (Note 7) .....	9,594	16,150	86,670
Lease receivables and investments in lease (Note 22) .....	67,153	67,710	606,623
Other assets (Notes 11 and 24) .....	225,854	218,875	2,040,238
Tangible fixed assets (Note 8) .....	107,412	109,693	970,303
Intangible fixed assets (Note 9) .....	18,127	19,316	163,756
Asset for retirement benefits (Note 14).....	31,189	17,814	281,750
Deferred tax assets (Note 21) .....	1,269	1,920	11,463
Customers' liabilities for acceptances and guarantees (Note 10).....	26,340	23,029	237,944
Allowance for loan losses .....	(81,993)	(69,658)	(740,678)
Allowance for investment losses .....	(9)	(292)	(81)
TOTAL .....	¥22,835,169	¥17,804,808	\$206,279,759
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits (Notes 11 and 23).....	¥16,223,652	¥14,756,658	\$146,555,130
Negotiable certificates of deposit (Note 23).....	291,417	283,131	2,632,501
Call money and bills sold (Note 23) .....	952,917	110,745	8,608,107
Payables under repurchase agreements (Note 11) .....	130,255	129,195	1,176,651
Payables under securities lending transactions (Notes 11 and 23) .....	620,749	215,548	5,607,493
Trading liabilities.....	1,024	1,770	9,255
Borrowed money (Notes 11, 12, and 23).....	3,394,050	1,252,801	30,659,893
Foreign exchanges.....	905	1,941	8,178
Bonds (Note 13) .....	—	5,000	—
Due to trust account .....	2,307	1,573	20,841
Other liabilities.....	142,277	115,621	1,285,256
Provision for bonuses for directors .....	255	237	2,311
Liability for retirement benefits (Note 14).....	249	8,724	2,255
Provision for retirement benefits for directors.....	25	37	227
Provision for reimbursement of deposits.....	2,460	2,874	22,223
Provision for contingent losses.....	1,994	2,141	18,017
Provision for point card certificates .....	466	452	4,217
Provision for losses on interest repayments .....	11	12	100
Reserves under special laws.....	2	2	23
Deferred tax liabilities (Note 21) .....	35,403	1,365	319,812
Deferred tax liabilities for land revaluation (Note 8).....	8,626	8,680	77,928
Negative goodwill.....	869	1,027	7,851
Acceptances and guarantees (Note 10) .....	26,340	23,029	237,944
Total liabilities .....	21,836,262	16,922,573	197,256,214
EQUITY (Notes 15 and 16):			
Common stock .....	117,495	117,495	1,061,387
Capital surplus .....	148,531	148,549	1,341,745
Stock acquisition rights .....	161	248	1,463
Retained earnings.....	570,981	547,270	5,157,916
Treasury stock.....	(5,785)	(5,970)	(52,267)
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities (Note 6) .....	148,013	69,821	1,337,073
Deferred gains (losses) on derivatives under hedge accounting (Note 24) .....	388	(1,068)	3,507
Land revaluation surplus (Note 8) .....	13,497	13,485	121,930
Defined retirement benefit plans (Note 14) .....	5,622	(7,597)	50,790
Total accumulated other comprehensive income .....	167,522	74,641	1,513,301
Total equity.....	998,906	882,235	9,023,545
TOTAL.....	¥22,835,169	¥17,804,808	\$206,279,759

See notes to consolidated financial statements.

Consolidated Statement of Income

Year Ended March 31, 2021   Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
INCOME:			
Interest income:			
Interest on loans and discounts .....	¥108,277	¥112,331	\$ 978,118
Interest and dividends on securities .....	45,864	52,674	414,312
Interest on call loans and bills bought .....	16	113	149
Interest on deposits with banks .....	1,558	682	14,082
Other interest income .....	426	490	3,850
Trust fees.....	38	52	351
Fees and commissions.....	52,833	53,244	477,269
Trading income .....	4,252	3,840	38,414
Other operating income.....	2,254	7,384	20,363
Other income (Note 18).....	59,347	51,987	536,110
Total income.....	274,870	282,801	2,483,019
EXPENSES:			
Interest expenses:			
Interest on deposits .....	1,600	5,361	14,457
Interest on negotiable certificates of deposit.....	40	68	365
Interest on call money and bills sold .....	(36)	956	(333)
Interest on payables under repurchase agreements .....	166	2,026	1,503
Interest on payables under securities lending transactions .....	445	1,364	4,024
Interest on borrowing and rediscounts .....	1,414	2,213	12,780
Interest on bonds.....	18	132	171
Other interest expenses .....	2,325	4,325	21,006
Fees and commissions.....	14,179	14,719	128,089
Other operating expenses.....	7,322	7,178	66,143
General and administrative expenses (Note 19).....	115,763	119,630	1,045,745
Provision of allowance for loan losses .....	19,116	9,555	172,684
Other expenses (Note 20).....	60,314	63,696	544,844
Total expenses.....	222,670	231,227	2,011,481
INCOME BEFORE INCOME TAXES .....	52,199	51,573	471,538
INCOME TAXES (Note 21):			
Current .....	21,527	17,264	194,464
Deferred.....	(5,806)	(2,061)	(52,453)
Total income taxes .....	15,720	15,203	142,010
NET INCOME .....	36,478	36,370	329,528
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT .....	¥ 36,478	¥ 36,370	\$ 329,528

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 17):		
Basic EPS.....	<b>¥31.45</b>	¥31.14
Diluted EPS .....	<b>31.43</b>	31.12
Cash dividends applicable to the year (Note 15).....	<b>11.00</b>	11.00

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2021   Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥ 36,478	¥ 36,370	\$ 329,528
OTHER COMPREHENSIVE INCOME (LOSS) (Note 25):			
Unrealized gains (losses)on available-for-sale securities .....	78,192	(53,220)	706,344
Deferred gains (losses)on derivatives under hedge accounting.....	1,457	(801)	13,163
Land revaluation surplus .....	—	0	—
Defined retirement benefit plans .....	13,219	(2,831)	119,418
Total other comprehensive gain (loss) .....	92,869	(56,853)	838,925
COMPREHENSIVE INCOME(LOSS) .....	¥129,347	¥(20,483)	\$1,168,453
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:			
Owners of the parent .....	¥129,347	¥(20,483)	\$1,168,453

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year Ended March 31, 2021   Mebuki Financial Group, Inc. and Consolidated Subsidiaries

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

	Millions of Yen									
	Common Stock (Note 14)	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				
						Unrealized Gains (Losses) on Available- for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Defined Retirement Benefit Plans	Total
BALANCE, APRIL 1, 2020.....	¥117,495	¥148,549	¥248	¥547,270	¥(5,970)	¥ 69,821	¥(1,068)	¥13,485	¥(7,597)	¥ 74,641
Cash dividends.....				(12,755)						
Net income attributable to owners of the parent.....				36,478						
Decrease due to change in scope of consideration.....				(0)						
Purchase of treasury stock.....					(0)					
Disposal of treasury stock.....		(18)			185					
Reversal of land revaluation surplus.....				(11)						
Net changes during the fiscal year.....			(86)			78,192	1,457	11	13,219	92,880
Total changes during the fiscal year.....	(18)	(18)	(86)	23,710	184	78,192	1,457	11	13,219	92,880
BALANCE, MARCH 31, 2021.....	¥117,495	¥148,531	¥161	¥570,981	¥(5,785)	¥148,013	¥ 388	¥13,497	¥ 5,622	¥167,522

	Thousands of U.S. Dollar									
	Common Stock (Note 14)	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				
						Unrealized Gains (Losses) on Available- for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Defined Retirement Benefit Plans	Total
BALANCE, APRIL 1, 2020.....	\$1,061,387	\$1,341,914	\$2,247	\$4,943,725	\$(53,936)	\$ 630,729	\$(9,656)	\$121,822	\$(68,628)	\$ 674,268
Cash dividends.....				(115,228)						
Net income attributable to owners of the parent.....				329,528						
Decrease due to change in scope of consideration.....				(1)						
Purchase of treasury stock.....					(3)					
Disposal of treasury stock.....		(170)			1,672					
Reversal of land revaluation surplus.....				(108)						
Net changes during the fiscal year.....			(783)			706,344	13,163	108	119,418	839,033
Total changes during the fiscal year.....	(170)	(170)	(783)	214,191	1,669	706,344	13,163	108	119,418	839,033
BALANCE, MARCH 31, 2021.....	\$1,061,387	\$1,341,745	\$1,463	\$5,157,916	\$(52,267)	\$1,337,073	\$ 3,507	\$121,930	\$ 50,790	\$1,513,301

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended March 31, 2021   Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	
OPERATING ACTIVITIES:			
Income before income taxes.....	¥ 52,199	¥ 51,573	\$ 471,538
Adjustments for:			
Income taxes paid.....	(14,023)	(16,197)	(126,680)
Depreciation and amortization.....	9,544	8,608	86,224
Impairment loss.....	1,562	1,112	14,114
Amortization of negative goodwill.....	(158)	(158)	(1,428)
Increase (decrease) in allowance for loan losses.....	12,334	(3,521)	111,424
Increase (decrease) in allowance for investment loss.....	(283)	283	(2,562)
Increase (decrease) in provision for bonuses for directors.....	18	(46)	165
Increase in asset for retirement benefits.....	(1,697)	(2,596)	(15,333)
Decrease in liability for retirement benefits.....	(3,524)	(1,821)	(31,840)
Decrease in provision for retirement benefits for directors.....	(12)	(20)	(111)
Decrease in provision for reimbursement of deposits.....	(414)	(379)	(3,742)
Increase (decrease)in provision for contingent losses.....	(147)	186	(1,331)
Increase in provision for point card certificates.....	14	45	129
Decrease in provision for interest repayments.....	(1)	(4)	(13)
Gains on fund management.....	(156,143)	(166,292)	(1,410,511)
Financing expenses.....	5,975	16,447	53,975
Losses related to securities.....	6,588	7,929	59,518
Losses on money held in trust.....	0	—	3
Foreign exchange losses (gains).....	(37,917)	7,598	(342,527)
Losses on disposal of fixed assets.....	346	493	3,132
Net decrease (increase) in trading assets.....	3,207	(1,833)	28,971
Net increase (decrease) in trading liabilities.....	(746)	705	(6,742)
Net increase in loans and bills discounted.....	(295,835)	(220,057)	(2,672,405)
Net increase in deposits.....	1,466,994	382,769	13,251,981
Net increase in negotiable certificates of deposit.....	8,286	973	74,852
Net increase in borrowed money (excluding subordinated borrowings).....	2,171,248	199,723	19,613,811
Net decrease in due from banks (excluding cash equivalents).....	16,010	15,583	144,627
Net decrease (increase) in call loans.....	12,144	(5,061)	109,709
Net increase (decrease) in call money.....	843,231	(72,632)	7,617,272
Net increase in payables under securities lending transactions.....	405,201	13,395	3,660,356
Net decrease (increase) in foreign exchanges - assets.....	6,555	(9,641)	59,220
Net increase (decrease) in foreign exchanges - liabilities.....	(1,035)	1,304	(9,358)
Net decrease (increase) in lease receivables and investments in lease.....	556	(5,056)	5,031
Decrease in straight bonds - issuance and redemption.....	(5,000)	—	(45,167)
Net increase in due to trust account.....	734	1,006	6,632
Proceeds from fund management.....	158,380	168,513	1,430,721
Payments for finance.....	(7,785)	(17,285)	(70,326)
Other-net.....	4,984	456	45,027
Total adjustments.....	4,609,195	304,531	41,636,817
Net cash provided by operating activities.....	¥4,661,394	¥ 356,104	\$42,108,355

Notes to Consolidated Financial Statements

Year Ended March 31, 2021    Mebuki Financial Group, Inc. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
INVESTING ACTIVITIES:			
Purchases of securities .....	¥(1,104,133)	¥ (815,535)	\$ (9,974,110)
Proceeds from sales of securities .....	486,668	483,205	4,396,282
Proceeds from redemption of securities .....	514,238	493,125	4,645,334
Increase in money held in trust .....	(2,002)	—	(18,085)
Decrease in money held in trust .....	—	23,174	—
Purchases of tangible fixed assets .....	(3,857)	(3,519)	(34,844)
Proceeds from sales of tangible fixed assets .....	429	160	3,883
Purchases of intangible fixed assets .....	(3,571)	(4,365)	(32,261)
Other-net .....	(161)	(151)	(1,460)
Net cash provided by (used in) investing activities .....	(112,389)	176,093	(1,015,260)
FINANCING ACTIVITIES:			
Repayments of subordinated borrowings .....	(30,000)	—	(271,003)
Redemption of bonds with warrants attached .....	—	(33,297)	—
Purchase of treasury stocks .....	(0)	(4,000)	(5)
Proceeds from sales of treasury stocks .....	152	55	1,377
Cash dividends paid .....	(12,755)	(12,904)	(115,228)
Net cash used in financing activities .....	(42,603)	(50,146)	(384,859)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS .....	22	(19)	203
NET INCREASE IN CASH AND CASH EQUIVALENTS .....	4,506,424	482,031	40,708,440
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR .....	1,916,659	1,434,627	17,314,000
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3) .....	¥ 6,423,084	¥1,916,659	\$58,022,440

NONCASH INVESTING AND FINANCING ACTIVITY:  
Not applicable.

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.70 to \$1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 14 significant subsidiaries.

The Joyo Business service Co., Ltd. was excluded from the scope of consolidation due to dissolution on September 30, 2020, and completion of liquidation on March 10, 2021.

The Joyo Capital Partners Co., Ltd. was included in the scope of consolidation since The Joyo Bank, Ltd. (a wholly owned subsidiary of the Company) acquired all shares of Ibaraki Create Co., Ltd. and changed its trade name to The Joyo Capital Partners Co., Ltd. on January 1, 2021.

Wing Capital Partners, Ltd. was included in the scope of consolidation since The Ashikaga Bank, Ltd. (a wholly owned subsidiary of the Company) established the wholly owned subsidiary on February 1, 2021.

The Company acquired all shares of Ashikaga Credit Guarantee Co., Ltd. from Ashikaga Bank through a dividend in kind and changed the subsidiary’s trade name to Mebuki Credit Guarantee Co., Ltd. on October 1, 2020.

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

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

The consolidated financial statements as of March 31, 2021, do not include the accounts of seven subsidiaries because the total assets, total income, net income, retained earnings, and accumulated other comprehensive income of those entities would not have had a material effect on the consolidated financial statements.

Investments in unconsolidated subsidiaries and associated companies were stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The consolidated financial statements as of March 31, 2021, do not apply to the equity method of accounting of seven unconsolidated subsidiaries and seven associated companies because the net income, retained earnings, and accumulated other comprehensive income of those entities would not have had a material effect on the consolidated financial statements.

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

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

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

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

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

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

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

- (1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost using the straight-line method.
- (2) Investments in unconsolidated subsidiaries that are not accounted for by the equity method are stated at cost determined by the moving-average method.
- (3) Available-for-sale securities are stated at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Securities whose fair values cannot be reliably determined are stated at cost determined by the moving-average cost method.

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



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

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

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

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

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

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

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

The quality of all loans performed by the business offices is reviewed by the credit-related divisions in the headquarters, and then independently examined by the Internal Audit division based on the self-assessment of asset quality standards.

The classification of borrowers (six categories: normal borrowers, borrowers requiring caution excluding borrowers requiring monitoring, borrowers requiring monitoring, potentially bankrupt, substantially bankrupt, legally bankrupt) are determined in accordance with self-assessment standards prescribed by the Group to evaluate the credit losses on loans.

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

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

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

For other claims, an allowance is provided, mainly based on expected loan losses for the next three years for claims requiring special caution ("requiring monitoring") in whole or in part among claims against borrowers requiring caution in future management, such as borrowers with unreasonable loan terms, borrowers with questionable performance, borrowers with weak or unstable business conditions, or borrowers with unfavorable financial conditions ("requiring caution"), and expected loan losses for the next one year for claims against borrowers other than requiring monitoring and claims against borrowers with good business conditions and no particular financial problems ("normal"). Expected loan losses are computed using the average historical loan loss ratio of the past one year to three years. Where necessary, the expected loan losses are modified for possible future scenarios.

For collateralized or guaranteed claims of borrowers who are in "virtual bankruptcy" or "legal bankruptcy," the amount exceeding the estimated value of collateral or guarantees has been deducted as deemed uncollectible directly from those claims. As of March 31, 2021 and 2020, the deducted amounts were ¥29,627 million (\$267,639 thousand) and ¥34,329 million, respectively.

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

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

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

**k. Retirement Benefits for Employees** — The Group accounts for the liability for retirement benefits based on the projected benefit obligations and the fair value of plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income) after adjusting for tax effects and are recognized in profit or loss from the next year of incurrence and the year of incurrence, respectively, by the straight-line method over a period (mainly 10 years) no longer than the expected average remaining service period of the employees.

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

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

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

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

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

**q. Reserves under Special Laws** — Reserves under special laws is provided for contingent liabilities incurred by an accident in relation to the sales and purchase or other transactions of securities, which is amounted to ¥2 million (\$23 thousand) and ¥2 million as of March 31, 2021 and 2020, pursuant to Article 46-5-1 of the Financial Instruments and Exchange Act and Article 175 of the related cabinet order.

**r. Stock Options** — Compensation expense for employee stock options is recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**z. Per Share Information** — Basic net income per share (EPS) of common stocks is computed by dividing net income attributable to common shareholders by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits.

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

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

Significant Accounting Estimates

Accounting estimates recorded in the consolidated financial statements for the current fiscal year that may have a material impact on the consolidated financial statements for the following fiscal year are as follows:

Allowance for loan losses

(i) Amount recorded in the consolidated financial statements for the current fiscal year  
Allowance for loan losses ¥81,993 million (\$740,678)

(ii) Information of the consolidated financial statements with regard to the accounting estimates

(a) Calculating method  
As calculation method is stated on “h. Allowance for loan losses” in NOTE “2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,” the classification of borrowers (six categories: normal borrowers, borrowers requiring caution excluding borrowers requiring monitoring, borrowers requiring monitoring, potentially bankrupt, substantially bankrupt, legally bankrupt) are determined in accordance with self-assessment standards prescribed by the Group to prepare for credit losses on loans. In determining the classification of borrowers, the Group considers the projections for changes in the performance of the borrowers that are expected to be affected by COVID-19 spread and other factors. Allowance for loan losses is estimated in accordance with the credit risk by estimating the expected loss amount based on the actual historical rate of loan losses for each classification of the borrowers determined as above.

(b) Significant assumptions  
The classification of borrowers is determined by comprehensively considering various information such as the borrower’s past financial condition, the repayment history, the future forecasts, and other qualitative information of the borrowers.

Since the future forecast information includes the impact of COVID-19 and can be significantly affected by changes in the external environment, the Group evaluates the information based on certain assumptions based on certain assumptions. Furthermore, the impact of COVID-19 is expected to continue even after the end of the current fiscal year.

(c) Impact on the consolidated financial statements for the following fiscal year:  
The assumptions used in determining the classification of borrowers are uncertain, and changes in the situation of COVID-19 spread and the external environment that may affect the borrower’s future performance could increase or decrease the amount of loss and have a material impact on the consolidated financial statements.

New Accounting Pronouncements

Accounting Standards for Fair Value Measurement

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

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

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

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

(i) Overview

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

• Financial instruments under “Accounting Standard for Financial Instruments”

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

(ii) Scheduled date of application

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

(iii) Effects of application

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

Change to Presentation of Financial Information

The company has initially applied ASBJ Guidance No. 31 “Accounting Standard for Disclosure of Accounting Estimates” (March 31,2020) to the consolidated financial statements as of the end and for the current fiscal year and included notes regarding significant accounting estimates in the consolidated financial statements. However, notes in the consolidated financial statements for the previous fiscal year have not been applied in compliance with paragraph 11, proviso of transitional provisions.

3. CASH AND CASH EQUIVALENTS

The reconciliation of “Cash and cash equivalents” in the consolidated statements of cash flows and “Cash and due from banks” in the consolidated balance sheets as of March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Cash and due from banks.....	¥6,425,755	¥1,935,324	\$58,046,574
Deposits with banks of the consolidated banking subsidiaries other than the Bank of Japan.....	(2,671)	(18,664)	(24,133)
Cash and cash equivalents .....	¥6,423,084	¥1,916,659	\$58,022,440

4. TRADING SECURITIES AND SECURITIES

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

Valuation differences recognized as income and expenses as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Trading securities.....	¥(8)	¥(14)	\$ (78)

Securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Japanese national government bonds ....	¥ 656,315	¥ 585,117	\$ 5,928,775
Japanese local government bonds .....	1,027,789	944,224	9,284,454
Japanese corporate bonds.....	826,572	830,102	7,466,775
Japanese corporate stocks .....	269,909	230,183	2,438,207
Other securities .....	1,552,657	1,486,518	14,025,809
Total .....	¥4,333,243	¥4,076,146	\$39,144,020

The cost and aggregate fair value of available-for-sale securities and held-to-maturity securities as of March 31, 2021 and 2020, were as follows:

March 31, 2021	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale: .....	¥3,936,277	¥229,723	¥18,944	¥4,147,056
Equity securities.....	126,326	142,514	3,032	265,807
Debt securities: .....	2,354,930	7,906	5,424	2,357,413
Japanese national government bonds .....	599,043	1,670	3,239	597,473
Japanese local government bonds .....	1,024,117	3,444	373	1,027,189
Japanese corporate bonds.....	731,770	2,791	1,811	732,749
Others: .....	1,455,020	79,302	10,487	1,523,835
Foreign bonds .....	923,848	40,812	5,130	959,530
Others.....	531,172	38,489	5,357	564,304
Held-to-maturity: .....	153,263	963	150	154,076
Japanese national government bonds.....	58,841	3	9	58,835
Japanese local government bonds.....	599	0	—	600
Japanese corporate bonds .....	93,822	959	140	94,640

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

March 31, 2021	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale: .....	\$35,558,063	\$2,075,187	\$171,136	\$37,462,114
Equity securities.....	1,141,156	1,287,397	27,397	2,401,156
Debt securities: .....	21,273,087	71,421	48,997	21,295,511
Japanese national government bonds .....	5,411,411	15,087	29,263	5,397,236
Japanese local government bonds .....	9,251,286	31,118	3,370	9,279,034
Japanese corporate bonds.....	6,610,390	25,216	16,364	6,619,241
Others: .....	13,143,820	716,369	94,741	13,765,447
Foreign bonds .....	8,345,511	368,674	46,343	8,667,842
Others.....	4,798,309	347,695	48,398	5,097,605
Held-to-maturity: .....	1,384,494	8,705	1,363	1,391,835
Japanese national government bonds.....	531,539	32	90	531,481
Japanese local government bonds.....	5,420	2	—	5,422
Japanese corporate bonds .....	847,534	8,670	1,273	854,932



Information for available-for-sale securities, which were sold during the years ended March 31, 2021 and 2020, is as follows:

March 31, 2021	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities .....	<b>¥ 24,696</b>	<b>¥13,763</b>	<b>¥ 464</b>
Debt securities: .....	<b>133,905</b>	<b>19</b>	<b>2,024</b>
Japanese national government bonds....	<b>115,242</b>	<b>12</b>	<b>2,012</b>
Japanese local government bonds .....	<b>16,685</b>	<b>3</b>	<b>12</b>
Japanese corporate bonds.....	<b>1,977</b>	<b>4</b>	<b>—</b>
Others: .....	<b>265,981</b>	<b>8,958</b>	<b>16,939</b>
Foreign bonds.....	<b>43,832</b>	<b>229</b>	<b>1,821</b>
Others.....	<b>222,148</b>	<b>8,728</b>	<b>15,117</b>
Total .....	<b>¥424,582</b>	<b>¥22,741</b>	<b>¥19,429</b>

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

March 31, 2021	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities .....	<b>\$ 223,091</b>	<b>\$124,330</b>	<b>\$ 4,200</b>
Debt securities: .....	<b>1,209,621</b>	<b>180</b>	<b>18,291</b>
Japanese national government bonds....	<b>1,041,030</b>	<b>114</b>	<b>18,177</b>
Japanese local government bonds .....	<b>150,726</b>	<b>27</b>	<b>114</b>
Japanese corporate bonds.....	<b>17,865</b>	<b>38</b>	<b>—</b>
Others: .....	<b>2,402,721</b>	<b>80,925</b>	<b>153,022</b>
Foreign bonds.....	<b>395,961</b>	<b>2,073</b>	<b>16,457</b>
Others.....	<b>2,006,760</b>	<b>78,852</b>	<b>136,566</b>
Total .....	<b>\$3,835,433</b>	<b>\$205,434</b>	<b>\$175,513</b>

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

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2021 and 2020, were ¥6,253 million (\$56,488 thousand) and ¥1,573 million, respectively.

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

As of March 31, 2021 and 2020, securities included equity investments in unconsolidated subsidiaries and associated companies of ¥9 million (\$84 thousand) and ¥9 million and capital subscriptions of ¥3,417 million (\$30,876 thousand) and ¥3,070 million, respectively.

## 5. MONEY HELD IN TRUST

Money held in trust for trading purposes as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Amounts recorded in the consolidated balance sheets .....	<b>¥1,970</b>	¥1	<b>\$17,796</b>
Valuation gain (loss) included in the consolidated statements of income....	<b>(32)</b>	—	<b>(295)</b>

## 6. UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES

Unrealized gains on available-for-sale securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gains: .....	<b>¥211,592</b>	¥99,391	<b>\$1,911,407</b>
Available-for-sale securities	<b>211,592</b>	99,391	<b>1,911,407</b>
Deferred tax liabilities:	<b>63,578</b>	29,569	<b>574,334</b>
Unrealized gains on available-for-sale securities before adjustments by ownership share .....	<b>148,013</b>	69,821	<b>1,337,073</b>
Noncontrolling interests.....	<b>—</b>	—	<b>—</b>
Unrealized gains on available-for-sale securities .....	<b>¥148,013</b>	¥69,821	<b>\$1,337,073</b>

As of March 31, 2021 and 2020, the total unrealized gains include an unrealized gain of ¥814 million (\$7,357 thousand) and ¥218 million, respectively, on available-for-sale securities contained in certain fund.

## 7. LOANS AND BILLS DISCOUNTED

The following loans were included in loans and bills discounted as of March 31, 2021 and 2020:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans to borrowers in legal bankruptcy .....	<b>¥ 1,666</b>	¥ 2,279	<b>\$ 15,050</b>
Past due loans	<b>150,600</b>	138,147	<b>1,360,435</b>
Loans past due for three months or more.....	<b>110</b>	391	<b>1,002</b>
Restructured loans.....	<b>27,382</b>	27,586	<b>247,359</b>
Total .....	<b>¥179,759</b>	¥168,405	<b>\$1,623,846</b>

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

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

- (i) Borrowers have made application for procedures under the Corporate Reorganization Act, Civil Rehabilitation Act, Bankruptcy Act, liquidation under the Companies Act of Japan (the “Companies Act”), or liquidation under other legal provisions.
- (ii) Clearance of promissory notes or bills issued by the borrower is suspended.

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

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

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

Contracts of overdraft facilities and loan commitment limits are contracts under which the consolidated banking subsidiaries and certain consolidated subsidiaries lend to customers up to the prescribed limits in response to customer applications for loans as long as there is no violation of any condition in the contracts. As of March 31, 2021 and 2020, the amounts of unused commitments were ¥2,969,415 million (\$26,823,987 thousand) and ¥2,900,178 million, respectively. As of March 31, 2021 and 2020, the amounts of unused commitments whose remaining contract terms were within one year were ¥1,935,453 million (\$17,483,770 thousand) and ¥1,983,104 million, respectively.

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

Discounting bills are treated as secured lending transactions. As of March 31, 2021 and 2020, consolidated banking subsidiaries have the right to sell or repledge bills discounted and foreign exchange bills bought and their total face value was ¥25,158 million (\$227,270 thousand) and ¥36,056 million, respectively.

## 8. TANGIBLE FIXED ASSETS

Tangible fixed assets as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Buildings .....	<b>¥ 37,717</b>	¥ 39,302	<b>\$340,715</b>
Land .....	<b>55,442</b>	58,044	<b>500,836</b>
Leased assets.....	<b>43</b>	11	<b>395</b>
Construction in progress.....	<b>511</b>	632	<b>4,618</b>
Other .....	<b>13,697</b>	11,702	<b>123,740</b>
Total .....	<b>¥107,412</b>	¥109,693	<b>\$970,303</b>

The accumulated depreciation of tangible fixed assets as of March 31, 2021 and 2020, amounted to ¥126,085 million (\$1,138,981 thousand) and ¥125,697 million, respectively.

Under certain conditions, such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. As of March 31, 2021 and 2020, such deferred profit amounted to ¥9,955 million (\$89,931 thousand) and ¥10,047 million, respectively. Newly recognized amounts for the years ended March 31, 2021 and 2020, were ¥0 million (\$0 thousand) and ¥30 million, respectively.

Under the “Law of Land Revaluation,” one banking subsidiary elected a onetime revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1998. The resulting revaluation reserve for land represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the revaluation reserve for land account and related deferred tax liabilities. As of March 31, 2021 and 2020, the carrying amount of the land after the above onetime revaluation exceeded the market value by ¥23,355 million (\$210,981 thousand) and ¥24,041 million, respectively.

## 9. INTANGIBLE FIXED ASSETS

Intangible fixed assets as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Software.....	<b>¥14,705</b>	¥15,706	<b>\$132,841</b>
Other .....	<b>3,422</b>	3,609	<b>30,916</b>
Total .....	<b>¥18,127</b>	¥19,316	<b>\$163,756</b>

## 10. CUSTOMERS’ LIABILITIES FOR ACCEPTANCES AND GUARANTEES

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

Guarantee obligations for private placement bonds included in “Securities” (provided in accordance with the Article 2-3 of the “Financial Instruments and Exchange Act”) as of March 31, 2021 and 2020, were ¥181,095 million (\$1,635,910 thousand) and ¥175,576 million, respectively.

## 11. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral and the related liabilities as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Assets pledged as collateral:			
Securities.....	<b>¥2,521,026</b>	¥1,666,746	<b>\$22,773,497</b>
Loans and bills discounted .....	<b>2,474,394</b>	119,578	<b>22,352,256</b>
Total .....	<b>¥4,995,420</b>	¥1,786,324	<b>\$45,125,753</b>
Related liabilities to above assets:			
Deposits .....	<b>¥ 198,809</b>	¥ 101,168	<b>\$ 1,795,935</b>
Payables under repurchase agreements .....	<b>130,255</b>	129,195	<b>1,176,651</b>
Payables under securities lending transactions.....	<b>620,749</b>	215,548	<b>5,607,493</b>
Borrowed money .....	<b>3,387,158</b>	1,215,433	<b>30,597,640</b>

Additionally, securities amounting to ¥5,436 million (\$49,114 thousand) and ¥5,470 million as of March 31, 2021 and 2020, respectively, were pledged as collateral for settlements of exchange or as substitute securities for margins on futures transactions.



Moreover, other assets included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deposits for central counterparty.....	<b>¥94,710</b>	¥94,918	<b>\$855,562</b>
Cash collateral paid for financial instruments.....	<b>9,155</b>	3,737	<b>82,701</b>
Cash collateral paid for transactions involving public funds .....	<b>2,063</b>	2,065	<b>18,637</b>
Guarantee deposits .....	<b>1,759</b>	1,984	<b>15,894</b>

## 12. BORROWED MONEY

Borrowed money as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Borrowed money of which the weighted-average annual interest rates were 0.00%, due from April 2021 to June 2035 .....	<b>¥3,394,050</b>	¥1,252,801	<b>\$30,659,893</b>

Annual maturities of borrowed money as of March 31, 2021, for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022.....	<b>¥3,195,212</b>	<b>\$28,863,708</b>
2023.....	<b>81,340</b>	<b>734,779</b>
2024.....	<b>86,763</b>	<b>783,774</b>
2025.....	<b>30,329</b>	<b>273,982</b>
2026.....	<b>240</b>	<b>2,173</b>

Borrowed money included borrowings from the Bank of Japan and other financial institutions. In addition, borrowed money included subordinated borrowings totaling ¥0 million (\$0 thousand) as of March 31, 2021 and ¥30,000 million as of March 31, 2020.

## 13. BONDS

Bonds of the following were redeemed on May 22, 2020.

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unsecured straight bonds issued by Joyo, date of issue May 24, 2000, due May 22, 2020, 2.64% interest .....	<b>¥—</b>	¥5,000	<b>\$—</b>
Total .....	<b>¥—</b>	¥5,000	<b>\$—</b>

## 14. RETIREMENT AND PENSION PLANS

### (1) Outline of the adopted retirement benefit plans

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

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

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

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

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

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

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

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

### (2) Defined benefit plans

(a) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year.....	<b>¥120,372</b>	¥122,177	<b>\$1,087,374</b>
Current service cost.....	<b>3,649</b>	3,778	<b>32,971</b>
Interest cost .....	<b>432</b>	374	<b>3,907</b>
Actuarial losses .....	<b>2,775</b>	261	<b>25,071</b>
Benefits paid .....	<b>(6,301)</b>	(6,258)	<b>(56,926)</b>
Others .....	<b>117</b>	38	<b>1,064</b>
Balance at end of year.....	<b>¥121,046</b>	¥120,372	<b>\$1,093,462</b>

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

(b) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year.....	<b>¥130,723</b>	¥132,585	<b>\$1,180,884</b>
Expected return on plan assets.....	<b>2,527</b>	2,572	<b>22,830</b>
Actuarial gains .....	<b>20,158</b>	(4,361)	<b>182,099</b>
Contributions from the employer....	<b>3,435</b>	3,551	<b>31,033</b>
Benefits paid .....	<b>(3,713)</b>	(3,661)	<b>(33,543)</b>
Others .....	<b>36</b>	38	<b>328</b>
Balance at end of year.....	<b>¥153,167</b>	¥130,723	<b>\$1,383,631</b>

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

(c) The changes in liabilities for retirement benefits adopting the simplified method for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year.....	<b>¥1,261</b>	¥1,286	<b>\$11,396</b>
Retirement benefit expense.....	<b>326</b>	345	<b>2,954</b>
Benefits paid .....	<b>(121)</b>	(143)	<b>(1,099)</b>
Contribution to the defined benefit pension plan .....	<b>(204)</b>	(233)	<b>(1,847)</b>
Other .....	<b>(80)</b>	6	<b>(730)</b>
Balance at end of year.....	<b>¥1,181</b>	¥1,261	<b>\$10,674</b>

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation.....	<b>¥ 124,735</b>	¥ 125,261	<b>\$1,126,790</b>
Plan assets.....	<b>(156,858)</b>	(135,613)	<b>(1,416,966)</b>
Total .....	<b>(32,122)</b>	(10,351)	<b>(290,176)</b>
Unfunded defined benefit obligation ....	<b>1,181</b>	1,261	<b>10,674</b>
Net asset arising from defined benefit obligation .....	<b>¥ (30,940)</b>	¥ (9,090)	<b>\$ (279,502)</b>

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits.....	<b>¥ 249</b>	¥ 8,724	<b>\$ 2,255</b>
Asset for retirement benefits.....	<b>(31,189)</b>	(17,814)	<b>(281,750)</b>
Net asset arising from defined benefit obligation .....	<b>¥(30,940)</b>	¥ (9,090)	<b>\$ (279,495)</b>

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

(e) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost.....	<b>¥ 3,649</b>	¥ 3,778	<b>\$ 32,971</b>
Interest cost.....	<b>432</b>	374	<b>3,907</b>
Expected return on plan assets .....	<b>(2,527)</b>	(2,572)	<b>(22,830)</b>
Recognized actuarial losses .....	<b>1,611</b>	554	<b>14,555</b>
Retirement benefit expense calculated by the simplified method .....	<b>326</b>	345	<b>2,954</b>
Others.....	<b>(14)</b>	(14)	<b>(132)</b>
Net periodic benefit costs .....	<b>¥ 3,478</b>	¥ 2,465	<b>\$ 31,424</b>

(f) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial losses (gains).....	<b>(18,994)</b>	4,069	<b>(171,583)</b>
Total .....	<b>¥(18,994)</b>	¥4,069	<b>\$ (171,583)</b>

(g) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial losses (gains)....	<b>(8,077)</b>	4,246	<b>(72,969)</b>
Total .....	<b>¥(8,077)</b>	¥4,246	<b>\$ (72,969)</b>

(h) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments .....	<b>43.6%</b>	47.5%
Equity investments .....	<b>41.5%</b>	34.3%
General accounts .....	<b>9.5%</b>	10.8%
Others .....	<b>5.4%</b>	7.4%
Total .....	<b>100.0%</b>	100.0%

\* As of March 31, 2021 and 2020, total plan assets that were set up on corporate pension plans include a retirement benefit trust of 33.5% and 17.2%, respectively.

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

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

(i) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate .....	<b>0.20% — 0.50%</b>	0.20% — 0.50%
Expected rate of return on plan assets.....	<b>2.50%</b>	2.50%
Expected rate of increase in salary .....	<b>4.49% — 9.00%</b>	4.54% — 9.00%

### (3) Defined contribution plans

The amounts of the required contribution to the defined contribution plans of certain consolidated subsidiaries were ¥702 million (\$6,347 thousand) and ¥725 million as of March 31, 2021 and 2020, respectively.

15. EQUITY

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee, and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year.

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

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account that was charged upon the payment of such dividends until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of capital stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

(2) Cash Dividends Per Share

Cash dividends per share for the years ended March 31, 2021 and 2020, were as follows:

Year ended March 31, 2021

Dividends paid in the fiscal year ended March 31, 2021

	Total Amount (Millions of Yen /Thousands of U.S. Dollars)	Per Share Amount (Yen /U.S. Dollars)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors’ meeting held on May 13, 2020:				
Common stock	¥6,376 (\$7,599)	¥5.50 (\$0.05)	Mar. 31, 2020	Jun. 2, 2020

	Total Amount (Millions of Yen /Thousands of U.S. Dollars)	Per Share Amount (Yen /U.S. Dollars)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors’ meeting held on Nov. 9, 2020:				
Common stock	¥6,379 (\$7,629)	¥5.50 (\$0.05)	Sep. 30, 2020	Dec. 2, 2020

Dividends to be paid after March 31, 2021

	Total Amount (Millions of Yen /Thousands of U.S. Dollars)	Per Share Amount (Yen /U.S. Dollars)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors’ meeting held on May 12, 2021:				
Common stock	¥6,379 (\$7,629)	¥5.50 (\$0.05)	Mar. 31, 2021	Jun. 2, 2021

Year ended March 31, 2020:

Dividends paid in the fiscal year ended March 31, 2020

	Total Amount (Millions of Yen)	Per Share Amount (Yen)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors’ meeting held on May 13, 2019:				
Common stock	¥6,451	¥5.50*	Mar. 31, 2019	Jun. 4, 2019
Cash dividends approved at the Board of Directors’ meeting held on Nov. 11, 2019:				
Common stock	¥6,452	¥5.50	Sep. 30, 2019	Dec. 3, 2019

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

Dividends to be paid after March 31, 2020

	Total Amount (Millions of Yen)	Per Share Amount (Yen)	Dividend Record Date	Effective Date
Cash dividends approved at the Board of Directors’ meeting held on May 13, 2020:				
Common stock	¥6,376	¥5.50	Mar. 31, 2020	Jun. 2, 2020

(1) Capital Stock Changes during the Year

The changes in the number and class of issued stock and treasury stock for the year ended March 31, 2021, were as follows:

	Shares in Thousands			
	Changes During the Year			As of March 31, 2021
	As of April 1, 2020	Increase	Decrease	
Issued stock:				
Common stock	1,179,055	—	—	1,179,055
Total	1,179,055	—	—	1,179,055
Treasury stock:				
Common stock	19,745	11*1	612*2	19,143
Total	19,745	11	612	19,143

\*1 The number of shares of treasury stock increased by 2 thousand shares due to purchases of shares less than the trading unit and by 8 thousand shares due to acquisitions of restricted stocks without charge.

\*2 The number of shares of treasury stock decreased by 1 thousand shares due to sales to shareholders in response to their demand to buy additional shares up to the trading unit, by 312 thousand shares due to the disposal of the Company’s own shares as restricted stocks, and by 298 thousand shares due to exercise of the stock acquisition rights.

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

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

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

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

16. STOCK OPTIONS

The Company's stock option plans grant options to directors and others to purchase certain shares of the Company's common stock in the respective exercise periods.  
The Company recorded stock option expenses in "General and administrative expenses" of ¥75 million for the fiscal years ended March 31, 2020.  
The stock options outstanding as of March 31, 2021, were as follows:

Stock Options	Persons Granted	Number of Options Granted (Shares)	Date of Grant	Exercise Price	Exercise Period
Mebuki Financial Group, Inc. 1st Series of Stock Acquisition Rights*1	10 directors of Joyo*2	16,833	August 24, 2009*3	¥1	From October 1, 2016, to August 24, 2039
Mebuki Financial Group, Inc. 2nd Series of Stock Acquisition Rights*1	10 directors of Joyo*2	23,634	July 21, 2010*3	¥1	From October 1, 2016, to July 21, 2040
Mebuki Financial Group, Inc. 3rd Series of Stock Acquisition Rights*1	10 directors of Joyo*2	43,430	July 20, 2011*3	¥1	From October 1, 2016, to July 20, 2041
Mebuki Financial Group, Inc. 5th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	42,024	July 19, 2012*3	¥1	From October 1, 2016, to July 19, 2042
Mebuki Financial Group, Inc. 7th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	39,241	July 18, 2013*3	¥1	From October 1, 2016, to July 18, 2043
Mebuki Financial Group, Inc. 9th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	40,656	July 18, 2014*3	¥1	From October 1, 2016, to July 18, 2044
Mebuki Financial Group, Inc. 11th Series of Stock Acquisition Rights*1	10 directors of Joyo*2	40,041	July 17, 2015*3	¥1	From October 1, 2016, to July 17, 2045
Mebuki Financial Group, Inc. 12th Series of Stock Acquisition Rights*1	13 executive officers of Joyo*2	22,830	July 17, 2015*3	¥1	From October 1, 2016, to July 17, 2045
Mebuki Financial Group, Inc. 13th Series of Stock Acquisition Rights	29 directors of the Company, Joyo and Ashikaga	142,176	December 6, 2016	¥1	From December 7, 2016, to December 6, 2046
Mebuki Financial Group, Inc. 14th Series of Stock Acquisition Rights	16 executive officers of Joyo	63,910	December 6, 2016	¥1	From December 7, 2016, to December 6, 2046
Mebuki Financial Group, Inc. 15th Series of Stock Acquisition Rights	29 directors of the Company, Joyo and Ashikaga	135,990	August 9, 2017	¥1	From August 10, 2017, to August 9, 2047
Mebuki Financial Group, Inc. 16th Series of Stock Acquisition Rights	16 executive officers of Joyo	62,024	August 9, 2017	¥1	From August 10, 2017, to August 9, 2047
Mebuki Financial Group, Inc. 17th Series of Stock Acquisition Rights	24 directors of the Company, Joyo and Ashikaga	127,508	August 14, 2018	¥1	From August 15, 2018, to August 14, 2048
Mebuki Financial Group, Inc. 18th Series of Stock Acquisition Rights	34 executive officers of Joyo and Ashikaga	147,282	August 14, 2018	¥1	From August 15, 2018, to August 14, 2048
Mebuki Financial Group, Inc. 19th Series of Stock Acquisition Rights	23 executive officers of Joyo and Ashikaga	201,104	August 20, 2019	¥1	From August 21, 2019, to August 20, 2049
Mebuki Financial Group, Inc. 20th Series of Stock Acquisition Rights	29 executive officers of Joyo and Ashikaga	193,295	August 20, 2019	¥1	From August 21, 2019, to August 20, 2049

\*1 As a result of the share exchange conducted between the Company and Joyo on October 1, 2016, stock acquisition rights of the Company were allotted to the holders of stock acquisition rights of Joyo based on the share exchange ratio.  
\*2 The number is initially granted by Joyo.  
\*3 The date is initially granted by Joyo.

The stock option activity was as follows:

	Mebuki FG 1st	Mebuki FG 2nd	Mebuki FG 3rd	Mebuki FG 5th
<b>Year ended March 31, 2021</b>				
Non-vested (shares):				
April 1, 2020 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2021 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2020 — Outstanding	6,733	9,453	14,040	13,586
Vested	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2021 — Outstanding	6,733	9,453	14,040	13,586
Exercise price	¥1	¥1	¥1	¥1
(Yen/US Dollars)	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	—	—	—	—
(Yen/US Dollars)	—	—	—	—
Fair value price at grant date	¥417	¥297	¥300	¥310
(Yen/US Dollars)	\$3.77	\$2.68	\$2.71	\$2.80

	Mebuki FG 7th	Mebuki FG 9th	Mebuki FG 11th	Mebuki FG 12th
<b>Year ended March 31, 2021</b>				
Non-vested (shares):				
April 1, 2020 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2021 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2020 — Outstanding	16,802	17,408	16,099	7,134
Vested	—	—	—	—
Exercised	4,336	4,492	3,302	4,756
Canceled	—	—	—	—
March 31, 2021 — Outstanding	12,466	12,916	12,797	2,378
Exercise price	¥1	¥1	¥1	¥1
(Yen/US Dollars)	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥246	¥246	¥246	¥246
(Yen/US Dollars)	\$2.22	\$2.22	\$2.22	\$2.22
Fair value price at grant date	¥518	¥500	¥680	¥708
(Yen/US Dollars)	\$4.68	\$4.52	\$6.14	\$6.40



	Mebuki FG 13th	Mebuki FG 14th	Mebuki FG 15th	Mebuki FG 16th
<b>Year Ended March 31, 2021</b>				
Non-vested (shares):				
April 1, 2020 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2020 — Outstanding	58,255	23,100	73,162	31,012
Vested	—	—	—	—
Exercised	25,250	11,550	34,865	11,814
Canceled	—	—	—	—
March 31, 2021 — Outstanding	33,005	11,550	38,297	19,198
Exercise price (Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise (Yen/US Dollars)	¥246 \$2.22	¥246 \$2.22	¥246 \$2.22	¥246 \$2.22
Fair value price at grant date (Yen/US Dollars)	¥345 \$3.12	¥374 \$3.38	¥360 \$3.25	¥390 \$3.52

	Mebuki FG 17th	Mebuki FG 18th	Mebuki FG 19th	Mebuki FG 20th
<b>Year Ended March 31, 2021</b>				
Non-vested (shares):				
April 1, 2020 — Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2021 — Outstanding	—	—	—	—
Vested (shares):				
April 1, 2020 — Outstanding	105,844	90,189	201,104	193,295
Vested	—	—	—	—
Exercised	40,095	31,443	70,727	55,850
Canceled	—	—	—	—
March 31, 2021 — Outstanding	65,749	58,746	130,377	137,445
Exercise price (Yen/US Dollars)	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Average stock price at exercise (Yen/US Dollars)	¥246 \$2.22	¥240 \$2.17	¥246 \$2.22	¥240 \$2.17
Fair value price at grant date (Yen/US Dollars)	¥319 \$2.88	¥348 \$3.14	¥179 \$1.62	¥206 \$1.86

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

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

## 17. PER SHARE OF COMMON STOCK

### (1) EPS

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	EPS	
Year Ended March 31, 2021				
Basic EPS —				
Net income available to common shareholders.....	¥36,478	1,159,757	¥31.45	\$0.28
Effect of dilutive securities:				
Warrants .....	—	642	—	—
Diluted EPS —				
Net income for computation .....	¥36,478	1,160,400	¥31.43	\$0.28

Year Ended March 31, 2020			
Basic EPS —			
Net income available to common shareholders.....	¥36,370	1,167,915	¥31.14
Effect of dilutive securities			
Warrants.....	—	760	—
Diluted EPS —			
Net income for computation .....	¥36,370	1,168,675	¥31.12

### (2) Total equity per share

Total equity per share as of March 31, 2021 and 2020, was as follows:

	Yen		U.S. Dollars
	2021	2020	2021
Total equity per share.....	¥861.05	¥760.78	\$7.78

Total equity per share as of March 31, 2021 and 2020, is calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total equity.....	¥998,906	¥882,235	\$9,023,545
Deductions from total equity .....	161	248	1,463
Total equity attributable to common shareholders.....	¥998,744	¥881,986	\$9,022,082

	Number of Shares in Thousands	
	2021	2020
Number of shares of common stock used in computing total equity per share at year-end .....	1,159,911	1,159,309

## 18. OTHER INCOME

Other income for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Gain on sales of stock and other securities .....	¥21,905	¥16,970	\$197,884
Recoveries of write-off of claims .....	2,435	2,178	21,997
Gain on disposal of fixed assets .....	144	64	1,302
Other .....	34,862	32,773	314,927
Total .....	¥59,347	¥51,987	\$536,110

## 19. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Salaries and allowances .....	¥ 51,971	¥ 53,197	\$ 469,477
Periodic benefit costs .....	4,062	3,067	36,700
Other .....	59,730	63,365	539,568
Total.....	¥115,763	¥119,630	\$1,045,745

## 20. OTHER EXPENSES

Other expenses for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loss on sales of stocks and other securities .....	¥12,107	¥15,998	\$109,370
Write-off of loans .....	5,291	11,612	47,803
Impairment on fixed assets* .....	1,562	1,112	14,114
Loss on disposal of fixed assets .....	490	557	4,434
Other .....	40,862	34,414	369,124
Total.....	¥60,314	¥63,696	\$544,844

\* Impairment losses on long-lived assets were recognized mainly on the properties of the Bank's branches in the Tochigi and Ibaraki prefectures, whose operations were discontinued because the Company believed the investment would not be recoverable. The components of impairment losses on fixed assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Buildings .....	¥689	¥316	\$6,233
Land .....	540	706	4,879
Equipment.....	147	42	1,335
Telephone subscription rights .....	130	—	1,179
Leasehold improvements.....	34	45	308
Guarantee and lease deposits.....	19	—	180

21. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.62% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards, which result in deferred tax assets and liabilities, as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Allowance for loan losses .....	<b>¥ 31,416</b>	¥ 28,912	<b>\$ 283,802</b>
Write-offs of securities .....	<b>8,652</b>	12,583	<b>78,158</b>
Liability for retirement benefits .....	<b>4,967</b>	11,351	<b>44,876</b>
Provision for employee bonuses .....	<b>1,885</b>	1,899	<b>17,034</b>
Tax loss carryforwards .....	<b>1,621</b>	1,666	<b>14,649</b>
Depreciation .....	<b>833</b>	802	<b>7,529</b>
Provision for reimbursement of deposits .....	<b>748</b>	874	<b>6,758</b>
Other .....	<b>10,642</b>	10,635	<b>96,136</b>
Subtotal deferred tax assets .....	<b>60,767</b>	68,726	<b>548,942</b>
Less valuation allowance .....	<b>(13,328)</b>	(17,782)	<b>(120,405)</b>
Total deferred tax assets .....	<b>47,439</b>	50,943	<b>428,538</b>
Deferred tax liabilities:	—	—	—
Unrealized gains on available-for-sale securities .....	<b>(70,365)</b>	(39,266)	<b>(635,643)</b>
Retirement benefit trust .....	<b>(4,467)</b>	(4,467)	<b>(40,358)</b>
Other .....	<b>(6,739)</b>	(6,654)	<b>(60,885)</b>
Total deferred tax liabilities .....	<b>(81,573)</b>	(50,388)	<b>(736,886)</b>
Net deferred tax assets(liabilities) .....	<b>¥(34,134)</b>	¥ 554	<b>\$(308,348)</b>

Since the difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting is equal to or less than 5% of the legally effective tax rate, a reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2021 and 2020, is omitted.

22. LEASES

Future minimum payments under noncancelable operating leases as of March 31, 2021 and 2020, were as follows:

*Lessee*

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year .....	<b>¥108</b>	¥145	<b>\$ 984</b>
Due after one year .....	<b>91</b>	141	<b>830</b>
Total .....	<b>¥200</b>	¥287	<b>\$1,814</b>

*Lessor*

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year .....	<b>¥2</b>	¥2	<b>\$22</b>
Due after one year .....	<b>2</b>	2	<b>26</b>
Total .....	<b>¥5</b>	¥5	<b>\$48</b>

23. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policies for Financial Instruments

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

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

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

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

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

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

Hedge accounting is applied to certain derivatives.

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

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

(3) Risk Management for Financial Instruments

(a) Integrated Risk Management

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

(b) Credit Risk Management

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

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

In the self-assessments that evaluate the quality of assets, the Group designs and operates controls over self-assessment of the quality of assets which is performed in multiple steps. The assessment of the quality of assets performed by the business offices is reviewed by the credit-related divisions in the headquarters, and then independently examined by the Internal Audit division.

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

(c) Market Risk Management

① Market Risk Management Measures

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

② Market Risk Quantitative information

(i) Banking Account

a. Interest Rate Risk

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

As of March 31, 2021 and 2020, the Group's VaR related to interest rate risks, which is a simple sum of its consolidated banking subsidiaries' VaR, were ¥74,521 million (\$673,184 thousand) and ¥73,266 million, respectively.

b. Price Fluctuation Risk

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

As of March 31, 2021 and 2020, the Group's VaR related to price fluctuation risk, which is a simple sum of its consolidated banking subsidiaries' VaR, were ¥149,801 million (\$1,353,218 thousand) and ¥103,979 million, respectively. Correlation between interest rate risk and price fluctuation risk has not been considered.

(ii) Trading Account

The Group adopts the historical simulation method (a holding period of 10 days, a confidence interval of 99%, and an observation period of five years) for calculating VaR related to trading securities; trading purpose foreign exchange transactions; and trading purpose derivatives, such as forward transactions and option transactions. As of March 31, 2021 and 2020, the Group's VaR related to trading account, which is simple sum of its consolidated banking subsidiaries' VaR, were ¥9 million (\$86 thousand) and ¥11 million, respectively.

(iii) Validity of VaR

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

(d) Liquidity Risk Management

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

(4) Supplementary Explanation on Fair Values of Financial Instruments

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

(5) Fair Values of Financial Instruments

(a) Fair value of financial instruments

March 31, 2021	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
(1) Cash and due from banks .....	<b>¥ 6,425,755</b>	<b>¥ 6,425,755</b>	<b>¥ —</b>
(2) Securities: .....			
Held-to-maturity securities .....	<b>153,263</b>	<b>154,076</b>	<b>812</b>
Available-for-sale securities .....	<b>4,147,034</b>	<b>4,147,034</b>	<b>—</b>
(3) Loans and bills discounted .....	<b>11,638,376</b>		
Allowance for loan losses*1 .....	<b>(76,632)</b>		
Net .....	<b>11,561,744</b>	<b>11,649,315</b>	<b>87,571</b>
Total assets .....	<b>¥22,287,797</b>	<b>¥22,376,181</b>	<b>¥ 88,384</b>
(1) Deposits .....	<b>¥16,223,652</b>	<b>¥16,223,944</b>	<b>¥ (291)</b>
(2) Negotiable certificates of deposit .....	<b>291,417</b>	<b>291,426</b>	<b>(8)</b>
(3) Call money and bills sold .....	<b>952,917</b>	<b>952,917</b>	<b>—</b>
(4) Payables under securities lending transactions .....	<b>620,749</b>	<b>620,749</b>	<b>—</b>
(5) Borrowed money .....	<b>3,394,050</b>	<b>3,394,045</b>	<b>5</b>
Total liabilities .....	<b>¥21,482,787</b>	<b>¥21,483,083</b>	<b>¥ (295)</b>
Derivative instruments*2 :			
Hedge accounting is not applied .....	<b>¥ 2,318</b>	<b>¥ 2,318</b>	<b>¥ —</b>
Hedge accounting is applied .....	<b>(6,708)</b>	<b>(6,708)</b>	<b>—</b>
Total derivative instruments .....	<b>¥ (4,390)</b>	<b>¥ (4,390)</b>	<b>¥ —</b>

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

March 31, 2021	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
(1) Cash and due from banks.....	<b>\$ 58,046,574</b>	<b>\$ 58,046,574</b>	<b>\$ —</b>
(2) Securities: .....			
Held-to-maturity securities.....	<b>1,384,494</b>	<b>1,391,835</b>	<b>7,342</b>
Available-for-sale securities.....	<b>37,461,916</b>	<b>37,461,916</b>	<b>—</b>
(3) Loans and bills discounted.....	<b>105,134,386</b>		
Allowance for loan losses*1 .....	<b>(692,252)</b>		
Net.....	<b>104,442,133</b>	<b>105,233,206</b>	<b>791,073</b>
Total assets .....	<b>\$201,335,117</b>	<b>\$202,133,531</b>	<b>\$ 798,414</b>
(1) Deposits .....	<b>\$146,555,130</b>	<b>\$146,557,763</b>	<b>\$ (2,633)</b>
(2) Negotiable certificates of deposit.....	<b>2,632,501</b>	<b>2,632,581</b>	<b>(80)</b>
(3) Call money and bills sold .....	<b>8,608,107</b>	<b>8,608,107</b>	<b>—</b>
(4) Payables under securities lending transactions.....	<b>5,607,493</b>	<b>5,607,493</b>	<b>—</b>
(5) Borrowed money.....	<b>30,659,893</b>	<b>30,659,848</b>	<b>46</b>
Total liabilities .....	<b>\$194,063,125</b>	<b>\$194,065,792</b>	<b>\$ (2,668)</b>
Derivative instruments*2 :			
Hedge accounting is not applied.....	<b>\$ 20,941</b>	<b>\$20,941</b>	<b>\$ —</b>
Hedge accounting is applied.....	<b>(60,605)</b>	<b>(60,605)</b>	<b>—</b>
Total derivative instruments .....	<b>\$ (39,664)</b>	<b>\$ (39,664)</b>	<b>\$ —</b>

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

#### Assets

(1) Cash and due from banks

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

(2) Securities

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

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

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

(3) Loans and bills discounted

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

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

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

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

#### Liabilities

(1) Deposits

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

(2) Negotiable certificates of deposit

Refer to (1) Deposits.

(3) Call money and bills sold

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

(4) Payables under securities-lending transactions

Refer to (3) Call money and bills sold.

(5) Borrowed Money

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

#### Derivatives

See “Note 24. DERIVATIVES.”

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Equity securities without readily available market price*1*2 .....	<b>¥ 4,101</b>	¥ 4,126	<b>\$ 37,053</b>
Investments in partnerships*3 .....	<b>27,988</b>	24,427	<b>252,829</b>
Beneficial interests in trust .....	<b>855</b>	898	<b>7,728</b>
Total .....	<b>¥32,945</b>	¥29,452	<b>\$297,610</b>

\*1 Equity securities without readily available market prices are out of the scope of the fair value disclosure because their fair values cannot be reliably determined.  
\*2 During the years ended March 31, 2021 and 2020, impairment losses on equity securities without readily available market price of ¥1 million (\$18 thousand) and ¥192 million, respectively, were recognized.  
\*3 Investments in partnerships, the assets of which comprise equity securities without readily available market price, are out of the scope of the fair value disclosure.

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

March 31, 2021	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks .....	<b>¥6,255,160</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>
Securities:						
Held-to-maturity securities .....	<b>23,411</b>	<b>42,837</b>	<b>22,425</b>	<b>4,546</b>	<b>50,209</b>	<b>1,000</b>
Japanese national government bonds.....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>50,000</b>	<b>—</b>
Japanese local government bonds .....	<b>—</b>	<b>300</b>	<b>300</b>	<b>—</b>	<b>—</b>	<b>—</b>
Japanese corporate bonds.....	<b>23,411</b>	<b>42,537</b>	<b>22,125</b>	<b>4,546</b>	<b>209</b>	<b>1,000</b>
Available-for-sale securities with contractual maturities.....	<b>232,387</b>	<b>562,166</b>	<b>539,141</b>	<b>600,128</b>	<b>682,068</b>	<b>1,044,538</b>
Japanese national government bonds.....	<b>55,000</b>	<b>25,000</b>	<b>35,000</b>	<b>—</b>	<b>41,150</b>	<b>422,800</b>
Japanese local government bonds .....	<b>72,644</b>	<b>272,091</b>	<b>257,164</b>	<b>225,084</b>	<b>156,571</b>	<b>34,496</b>
Japanese corporate bonds.....	<b>66,524</b>	<b>141,671</b>	<b>94,835</b>	<b>28,580</b>	<b>30,926</b>	<b>362,680</b>
Foreign currency bonds .....	<b>33,624</b>	<b>93,389</b>	<b>88,752</b>	<b>247,732</b>	<b>279,797</b>	<b>171,786</b>
Other.....	<b>4,593</b>	<b>30,014</b>	<b>63,388</b>	<b>98,731</b>	<b>173,623</b>	<b>52,773</b>
Loans and bills discounted*1 .....	<b>2,716,174</b>	<b>1,831,213</b>	<b>1,522,769</b>	<b>990,737</b>	<b>1,064,918</b>	<b>3,091,878</b>
Total .....	<b>¥9,227,134</b>	<b>¥2,436,217</b>	<b>¥2,084,336</b>	<b>¥1,595,412</b>	<b>¥1,797,196</b>	<b>¥4,137,416</b>

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

March 31, 2021	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks .....	<b>\$56,505,511</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Securities:						
Held-to-maturity securities .....	<b>211,490</b>	<b>386,972</b>	<b>202,581</b>	<b>41,067</b>	<b>453,564</b>	<b>9,033</b>
Japanese national government bonds.....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>451,671</b>	<b>—</b>
Japanese local government bonds .....	<b>—</b>	<b>2,710</b>	<b>2,710</b>	<b>—</b>	<b>—</b>	<b>—</b>
Japanese corporate bonds.....	<b>211,490</b>	<b>384,262</b>	<b>199,871</b>	<b>41,067</b>	<b>1,893</b>	<b>9,033</b>
Available-for-sale securities with contractual maturities.....	<b>2,099,252</b>	<b>5,078,285</b>	<b>4,870,294</b>	<b>5,421,217</b>	<b>6,161,417</b>	<b>9,435,759</b>
Japanese national government bonds.....	<b>496,838</b>	<b>225,836</b>	<b>316,170</b>	<b>—</b>	<b>371,725</b>	<b>3,819,332</b>
Japanese local government bonds .....	<b>656,230</b>	<b>2,457,915</b>	<b>2,323,077</b>	<b>2,033,287</b>	<b>1,414,377</b>	<b>311,626</b>
Japanese corporate bonds.....	<b>600,946</b>	<b>1,279,774</b>	<b>856,691</b>	<b>258,178</b>	<b>279,368</b>	<b>3,276,248</b>
Foreign currency bonds .....	<b>303,746</b>	<b>843,625</b>	<b>801,740</b>	<b>2,237,870</b>	<b>2,527,529</b>	<b>1,551,824</b>
Other.....	<b>41,491</b>	<b>271,135</b>	<b>572,615</b>	<b>891,882</b>	<b>1,568,418</b>	<b>476,730</b>
Loans and bills discounted*1 .....	<b>24,536,359</b>	<b>16,542,131</b>	<b>13,755,822</b>	<b>8,949,755</b>	<b>9,619,858</b>	<b>27,930,248</b>
Total .....	<b>\$83,352,611</b>	<b>\$22,007,388</b>	<b>\$18,828,697</b>	<b>\$14,412,039</b>	<b>\$16,234,839</b>	<b>\$37,375,040</b>

\*1 As of March 31, 2021, loans and bills discounted with no contractual maturities amounting to ¥268,417 million (\$2,424,727 thousand) and loans and bills discounted whose cash flow cannot be estimated, such as “legal bankruptcy,” “virtual bankruptcy,” and “possible bankruptcy” loans, amounting to ¥152,266 million (\$1,375,485 thousand) are not included.

\*2 As of March 31, 2020, loans and bills discounted with no contractual maturities amounting to ¥200,693 million and loans and bills discounted whose cash flow cannot be estimated, such as “legal bankruptcy,” “virtual bankruptcy,” and “possible bankruptcy” loans, amounting to ¥140,426 million are not included.



	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
March 31, 2021						
Deposits *1 .....	<b>¥15,241,415</b>	<b>¥ 848,914</b>	<b>¥109,939</b>	<b>¥1,230</b>	<b>¥22,153</b>	<b>¥—</b>
Negotiable certificates of deposit.....	<b>291,117</b>	<b>300</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Call money and bills sold .....	<b>952,917</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Payables under securities lending transactions ....	<b>620,749</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Borrowed money.....	<b>3,195,212</b>	<b>168,103</b>	<b>30,570</b>	<b>149</b>	<b>5</b>	<b>8</b>
Total .....	<b>¥20,301,412</b>	<b>¥1,017,318</b>	<b>¥140,510</b>	<b>¥1,380</b>	<b>¥22,158</b>	<b>¥ 8</b>

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

	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
March 31, 2021						
Deposits *1 .....	<b>\$137,682,161</b>	<b>\$7,668,602</b>	<b>\$ 993,133</b>	<b>\$11,116</b>	<b>\$200,118</b>	<b>\$—</b>
Negotiable certificates of deposit.....	<b>2,629,791</b>	<b>2,710</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Call money and bills sold .....	<b>8,608,107</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Payables under securities lending transactions ....	<b>5,607,493</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Borrowed money.....	<b>28,863,708</b>	<b>1,518,553</b>	<b>276,155</b>	<b>1,352</b>	<b>50</b>	<b>75</b>
Total .....	<b>\$183,391,260</b>	<b>\$9,189,865</b>	<b>\$1,269,288</b>	<b>\$12,468</b>	<b>\$200,168</b>	<b>\$75</b>

\*1 In deposits, the cash flow of demand deposits is included in "Due in one year or less."

## 24. DERIVATIVES

### (1) Derivative Transactions to Which Hedge Accounting Is Not Applied as of March 31, 2021 and 2020

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

Consolidated banking subsidiaries had the following derivative contracts, which were quoted on listed exchanges, outstanding as of March 31, 2021 and 2020, as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gains/Losses
March 31, 2021								
Bond-related transactions								
Bond futures:								
Sold .....	<b>¥905</b>	<b>¥—</b>	<b>¥(1)</b>	<b>¥(1)</b>	<b>\$8,176</b>	<b>\$—</b>	<b>\$ (17)</b>	<b>\$ (17)</b>
Bought .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Total .....	<b>—</b>	<b>—</b>	<b>¥(1)</b>	<b>¥(1)</b>	<b>—</b>	<b>—</b>	<b>\$ (17)</b>	<b>\$ (17)</b>

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gains/Losses
March 31, 2020				
Bond-related transactions				
Bond futures:				
Sold .....	¥1,546	¥—	¥21	¥21
Bought .....	—	—	—	—
Total .....	—	—	¥21	¥21

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

Consolidated banking subsidiaries had the following derivative contracts, which were not quoted on listed exchanges, outstanding as of March 31, 2021 and 2020, as fol-lows:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses
March 31, 2021								
Interest rate-related transactions								
Interest rate swaps:								
Receive fixed and pay floating .....	<b>¥164,294</b>	<b>¥154,105</b>	<b>¥ 3,268</b>	<b>¥ 3,268</b>	<b>\$1,484,141</b>	<b>\$1,392,105</b>	<b>\$ 29,529</b>	<b>\$ 29,529</b>
Receive floating and pay fixed .....	<b>164,294</b>	<b>154,105</b>	<b>(1,289)</b>	<b>(1,289)</b>	<b>1,484,141</b>	<b>1,392,105</b>	<b>(11,647)</b>	<b>(11,647)</b>
Cap transactions:								
Sold .....	<b>656</b>	<b>587</b>	<b>(0)</b>	<b>7</b>	<b>5,935</b>	<b>5,306</b>	<b>(3)</b>	<b>66</b>
Bought .....	<b>656</b>	<b>587</b>	<b>0</b>	<b>(4)</b>	<b>5,935</b>	<b>5,306</b>	<b>3</b>	<b>(41)</b>
Swaption:								
Sold .....	<b>19,020</b>	<b>19,020</b>	<b>(96)</b>	<b>45</b>	<b>171,816</b>	<b>171,816</b>	<b>(872)</b>	<b>408</b>
Bought .....	<b>19,020</b>	<b>19,020</b>	<b>96</b>	<b>96</b>	<b>171,816</b>	<b>171,816</b>	<b>870</b>	<b>870</b>
Total .....	<b>—</b>	<b>—</b>	<b>¥ 1,979</b>	<b>¥ 2,123</b>	<b>—</b>	<b>—</b>	<b>\$ 17,881</b>	<b>\$ 19,185</b>

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses
March 31, 2021								
Currency-related transactions								
Currency swaps.....	<b>¥169,976</b>	<b>¥142,733</b>	<b>¥ 209</b>	<b>¥ 209</b>	<b>\$1,535,472</b>	<b>\$1,289,374</b>	<b>\$ 1,890</b>	<b>\$ 1,890</b>
Forward exchange contracts:								
Sold .....	<b>64,320</b>	<b>4,210</b>	<b>(2,222)</b>	<b>(2,222)</b>	<b>581,032</b>	<b>38,035</b>	<b>(20,081)</b>	<b>(20,081)</b>
Bought .....	<b>62,319</b>	<b>4,145</b>	<b>2,346</b>	<b>2,346</b>	<b>562,961</b>	<b>37,450</b>	<b>21,200</b>	<b>21,200</b>
Currency option contracts:								
Sold .....	<b>118,154</b>	<b>76,594</b>	<b>(2,937)</b>	<b>375</b>	<b>1,067,338</b>	<b>691,908</b>	<b>(26,538)</b>	<b>3,388</b>
Bought .....	<b>118,149</b>	<b>76,594</b>	<b>2,945</b>	<b>1,767</b>	<b>1,067,295</b>	<b>691,908</b>	<b>26,607</b>	<b>15,970</b>
Total .....	<b>—</b>	<b>—</b>	<b>¥ 340</b>	<b>¥ 2,476</b>	<b>—</b>	<b>—</b>	<b>\$ 3,077</b>	<b>\$ 22,367</b>

	Millions of Yen				Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value*3	Unrealized Gains/Losses	Contract Amount	Contract Amount Due after One Year	Fair Value*3	Unrealized Gains/Losses
March 31, 2021								
Other transactions								
Earthquake derivatives:								
Sold .....	<b>¥5,600</b>	<b>—</b>	<b>¥(97)</b>	<b>—</b>	<b>\$50,587</b>	<b>—</b>	<b>\$ (879)</b>	<b>—</b>
Bought .....	<b>5,600</b>	<b>—</b>	<b>97</b>	<b>—</b>	<b>50,587</b>	<b>—</b>	<b>879</b>	<b>—</b>
Total .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

March 31, 2020	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value*1*2	Unrealized Gains/Losses
Interest rate-related transactions				
Interest rate swaps:				
Receive fixed and pay floating .....	¥148,971	¥137,184	¥ 4,262	¥ 4,262
Receive floating and pay fixed .....	148,971	137,184	(2,390)	(2,390)
Cap transactions				
Sold .....	1,073	656	(0)	8
Bought .....	1,073	656	0	(5)
Swaption:				
Sold .....	15,690	15,690	(243)	(131)
Bought .....	15,690	15,690	243	243
Total .....	—	—	¥ 1,872	¥ 1,987
Currency-related transactions				
Currency swaps:.....	¥216,463	¥163,777	¥ 274	¥ 274
Forward exchange contracts:				
Sold .....	96,442	4,400	(1,084)	(1,084)
Bought .....	96,282	4,129	1,334	1,334
Currency option contracts:				
Sold .....	121,434	81,589	(3,235)	269
Bought .....	121,424	81,585	3,241	1,926
Total .....	—	—	¥ 530	¥ 2,720

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

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

## (2) Derivative Transactions to Which Hedge Accounting Is Applied as of March 31, 2021 and 2020

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

Consolidated banking subsidiaries had the following derivative contracts, which were accounted for based on the principle method, outstanding as of March 31, 2021 and 2020, as follows:

		Millions of Yen			Thousands of U.S. Dollars		
March 31, 2021	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions*1*4							
Interest rate swaps:							
	Receive floating and pay fixed .....Securities	¥ 85,000	¥50,000	¥ 1,519	\$ 767,841	\$451,671	\$ 13,727
	Total .....	¥ 85,000	¥50,000	¥ 1,519	\$ 767,841	\$451,671	\$ 13,727
Currency-related transactions*2*5							
	Currency swaps.....Loans, securities, deposits, foreign exchanges, etc., which are denominated in foreign currencies	¥ 85,055	¥ 270	¥(4,060)	\$ 768,341	\$ 2,446	\$(36,678)
	Forward exchange contracts .....	—	—	—	—	—	—
	Foreign exchange swap .....	130,733	70,121	(4,440)	1,180,968	633,438	(40,111)
	Total .....	—	—	¥(8,500)	—	—	\$(76,790)
Equity-related transactions*3*6							
	Stock forward contracts Available-for-sale securities						
	Sold .....	¥ 6,946	¥ —	¥ 272	\$ 62,746	\$ —	\$ 2,458
	Total .....	—	—	¥ 272	—	—	\$ 2,458

		Millions of Yen		
March 31, 2020	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions*1*4				
Interest rate swaps:				
	Receive floating and pay fixed.....Securities	¥ 85,000	¥85,000	¥ (834)
	Total .....	¥ 85,000	¥85,000	¥ (834)
Currency-related transactions*2*5				
	Currency swaps.....	¥137,400	¥15,429	¥ 2,293
	Forward exchange contracts .....	—	—	—
	Foreign exchange swap .....	92,116	56,503	(1,731)
	Total .....	—	—	¥ 562
Equity-related transactions*3*6				
	Stock forward contracts			
	Sold .....	¥ 3,235	¥ —	¥ 937
	Total .....	—	—	¥ 937

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

Consolidated banking subsidiaries had the following derivative contracts, which were accounted for by the exceptional accrual method, outstanding as of March 31, 2021:

		Millions of Yen			Thousands of U.S. Dollars		
March 31, 2021	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions							
Interest rate swaps:							
Receive fixed and pay floating .....Loans and borrowed money		¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Receive floating and pay fixed .....		10,309	9,687	(179)	93,126	87,507	(1,626)
Total .....		—	—	¥(179)	—	—	\$(1,626)

		Millions of Yen		
March 31, 2020	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate-related transactions				
Interest rate swaps:				
	Receive fixed and pay floating.....Loans and borrowed money	¥ —	¥ —	¥ —
	Receive floating and pay fixed.....	11,464	6,920	(346)
	Total .....	—	—	¥(346)

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

25. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
			2021
Unrealized gains (losses) on available-for-sale securities:			
(Losses) gains arising during the year .....	¥115,932	¥(72,359)	\$1,047,269
Reclassification adjustments to profit or loss.....	(3,731)	(3,504)	(33,705)
Amount before income tax effect.....	112,201	(75,864)	1,013,565
Income tax effect .....	(34,009)	22,643	(307,221)
Total .....	¥ 78,192	¥(53,220)	\$ 706,344
Deferred gains (losses) on derivatives under hedge:			
Gains arising during the year.....	¥ 2,118	¥ 837	\$ 19,140
Reclassification adjustments to profit or loss.....	(25)	(1,990)	(228)
Amount before income tax effect.....	2,093	(1,153)	18,912
Income tax effect .....	(636)	351	(5,748)
Total .....	¥ 1,457	¥ (801)	\$ 13,163
Land revaluation excess, net of taxes:			
Gains arising during the year.....	¥ —	¥ —	\$ —
Reclassification adjustments to profit or loss.....	—	—	—
Amount before income tax effect.....	—	—	—
Income tax effect .....	—	0	—
Total .....	¥ —	¥ 0	\$ —
Defined retirement benefit plans:			
(Losses) gains arising during the year .....	¥ 17,382	¥ (4,623)	\$ 157,028
Reclassification adjustments to profit or loss .....	1,611	554	14,555
Amount before income tax effect.....	18,994	(4,069)	171,583
Income tax effect .....	(5,774)	1,237	(52,165)
Total .....	¥ 13,219	¥ (2,831)	\$ 119,418
Total other comprehensive loss.....	¥ 92,869	¥(56,853)	\$ 838,925

26. SEGMENT INFORMATION

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

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

Other segment-related information:

(1) Information by services

	Millions of Yen (Thousands of U.S. Dollars)			
	Lending Operations	Investment Operations	Other	Total
March 31, 2021				
Total income from external customers.....	¥108,277 (\$978,118)	¥68,606 (\$619,752)	¥97,841 (\$883,847)	¥274,726 (\$2,481,717)

	Millions of Yen			
	Lending Operations	Investment Operations	Other	Total
March 31, 2020				
Total income from external customers.....	¥112,331	¥74,700	¥95,705	¥282,737

(2) Information by geographic region

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

(3) Information by major customers

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

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

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

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

27. RELATED-PARTY TRANSACTIONS

Related-party transactions of consolidated subsidiaries of the Company with its directors or major individual shareholders for the years ended March 31, 2021 and 2020, were as follows:

Year ended March 31, 2021

Type	Name	Location	Capital (Millions of Yen /Thousands of U.S. Dollars)	Business	Ownerships	Relationship	Transactions (Millions of Yen/ Thousands of U.S. Dollars)	Outstanding Balance (Millions of Yen/ Thousands of U.S. Dollars)
A director or director’s close relative	Kinichi Suzuki	—	—	—	—	—	Loan ¥99 (\$897)	Loans and bills discounted ¥99 (\$894)

Terms and conditions on transactions and transaction policy:  
The interest rate on loans is reasonably determined considering the market rate.

Year ended March 31, 2020

Type	Name	Location	Capital (Millions of Yen)	Business	Ownerships	Relationship	Transactions (Millions of Yen)	Outstanding Balance (Millions of Yen)
A director or director’s close relative	Kinichi Suzuki	—	—	—	—	—	Loan ¥102	Loans and bills discounted ¥100
	Yoshie Suto	—	—	—	—	—	Loan ¥134	Loans and bills discounted ¥133
	Yoshihiro Ono	—	—	—	—	—	Loan ¥12	Loans and bills discounted ¥11
Companies in which a majority of voting rights are owned by a director or director’s close relatives	Hoshino Seisakusyo Co., Ltd.	Gunma	¥7	Steel manufacturing	—	—	Loan ¥11	Loans and bills discounted ¥11

Terms and conditions on transactions and transaction policy:  
The interest rate on loans is reasonably determined considering the market rate.



28. SUBSEQUENT EVENTS
Acquisition of treasury stock

At the Board of Directors' meeting held on May 12, 2021, the Company resolved to acquire treasury stock for the purpose of enhancement of shareholder returns and improving capital efficiency, pursuant to the provisions of the Articles of Incorporation in accordance with the provision of Article 459, Paragraph 1, of the Companies Act. The repurchase of treasury stock pursuant to the resolution of that meeting has completed.

1. Contents of the resolution adopted by the Board of Directors' meeting held on May 12, 2021

(1) Class of shares to be acquired:	Common stock
(2) Total number of shares to be acquired:	60,000,000 shares (upper limit)
(3) Total acquisition cost:	¥16,000 million (upper limit) (\$144,535 thousand)
(4) Period of acquisition:	From May 13, 2021, to August 31, 2021
(5) Method of acquisition:	Market purchases including an off floor own share repurchase trading on the Tokyo Stock Exchange ( ToSTNeT 3 )

2. Status of acquisition of treasury stock

(1) Class of shares acquired:	Common stock
(2) Total number of shares acquired:	60,000,000 shares
(3) Total acquisition cost:	¥14,520 million (\$131,165 thousand)
(4) Date of acquisition	May 13, 2021
(5) Method of acquisition:	Through off floor own share repurchase trading on the Tokyo Stock Exchange ( ToSTNeT 3 )

Establishment of subsidiary

Based on the premise of obtaining approvals by authorities concerned, The Ashikaga Bank, Ltd. (a wholly owned subsidiary of the Company) will establish the wholly owned subsidiary named "Ashigin Money Design, Ltd.," which provides securities intermediation services professionally.



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Mebuki Financial Group, Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of
Deloitte Touche Tohmatsu Limited



## Determination of the allowance for loan losses

### **Key audit matter description**

Mebuki Financial Group, Inc. has Joyo Bank, Ltd. and Ashikaga Bank, Ltd. as its banking subsidiaries and performs lending operations focusing on the business feasibility evaluation of local companies, such as their potential growth and business sustainability mainly within their core markets, which are Ibaraki Prefecture, Tochigi Prefecture and adjacent areas. Lending operations have a potential risk that a credit loss may be incurred when all or part of a loan becomes uncollectible due to the borrower's bankruptcy and other adverse conditions. The Group records the allowance for loan losses to provide for such credit losses. As of March 31, 2021, the Group recorded the loans and bills discounted of ¥11,638.3 billion and the allowance for loan losses of ¥81.9 billion on the consolidated balance sheet. The Group's accounting policies for the allowance for loan losses are disclosed in Note 2.h, Summary of Significant Accounting Policies—Allowance for Loan Losses, and the Note, Significant Accounting Estimate—Allowance for Loan Losses, included in the consolidated financial statements.

The allowance for loan losses is calculated in accordance with the Group's internal policies related to the self-assessment of asset quality standards and the write-offs and provisions standards. However, the calculation process includes various estimates, such as the determination of the borrower's credit category, which is classified based on the evaluation of the borrower's debt-service capacity, assessment of the value of collateral provided by the borrower, and adjustments for future loss projections for the loss rate calculated based on historical credit loss experiences. These estimates also include assessment of the impact of the spread of the novel coronavirus disease (COVID-19).

Among these estimates, the borrower's credit category, which is a significant factor in determining the allowance for loan losses, is highly dependent on the estimate of a borrower's future business performance, especially in cases when the Group expects future improvement of the borrower's business performance and as a result the borrower is classified as "borrower requiring caution," which includes "borrower requiring monitoring" while the borrower faces unfavorable business performance and financial difficulties.

As estimation of the borrower's future business performance includes future economic forecasts for the region and industry where the borrower operates and evaluation of the feasibility of the borrower's measures to improve its business performance based on such forecasts and other factors, the estimate is therefore highly uncertain and thus requires significant judgments by management. In particular, uncertainty and extent of the judgment may become higher for borrowers who are significantly impacted by the spread of COVID-19.

Also, in cases where the amount of the total lending outstanding on these borrowers, less estimated recoveries from disposal of collaterals and execution of guarantees (hereinafter referred to as "unsecured amount") is quantitatively significant, the Group's allowance for loan losses may be significantly understated if the Group fails to correctly estimate the outlook for future improvement of the borrower's business performance and as a result incorrectly classifies the borrower as a "borrower requiring caution," which includes "borrower requiring monitoring" when that borrower should have been classified as a "possible bankruptcy."

Therefore, we identified, as a key audit matter, the reasonableness of the determination of the borrowers' credit category for those borrowers with a significant unsecured amount who are classified as a "borrower requiring caution," which includes "borrower requiring monitoring" based on the Group's expectation that their business performance will improve in the future despite their current unfavorable business performance and financial positions.

The Group designs and operates controls over self-assessment of the quality of assets which is performed in multiple steps. The assessment of the quality of assets performed by the business offices is reviewed by the credit-related divisions in the headquarters, and then independently examined by the Internal Audit division.

### **How the key audit matter was addressed in the audit**

We performed the following procedures, among others, to address the key audit matter:

We inquired of the personnel who performed the relevant control activities over the Group's self-assessment of the asset quality and inspected relevant documents to corroborate the responses to evaluate the design and operating effectiveness of the internal controls.

We selected, among the borrowers subject to the Group's self-assessment of the asset quality, the borrowers with a significant unsecured amount who are classified as a "borrower requiring caution," which includes "borrower requiring monitoring" because the Group expects their business performance to improve in the future despite their current unfavorable business performance and financial positions. We then made inquiries and performed the following procedures:

- To understand factors of these borrowers' unfavorable business performance, we inspected these borrowers' trial balances and financial statements, as well as various materials containing information about economic trends in the region and industry where these borrowers operate, and the borrowers' business conditions.
- We analyzed the actual progress of the measures for profit improvement and cost reduction taken by borrowers aimed at the recovery of their performance, taking into account the impact of the spread of COVID-19 on the borrowers.
- We assessed the reasonableness of management's judgment that the borrowers could improve their business in the future by implementing various improvement measures, considering the business environment and the nature of the operations of the borrowers.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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



June 24, 2021



# Non-Consolidated Balance Sheet (Unaudited)

March 31, 2021    The Joyo Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<u>ASSETS</u>			
Cash and due from banks .....	<b>¥ 3,977,233</b>	¥ 1,118,929	<b>\$ 35,928,037</b>
Call loans and bills bought .....	<b>2,160</b>	12,778	<b>19,517</b>
Monetary claims bought .....	<b>5,601</b>	5,901	<b>50,598</b>
Trading assets .....	<b>10,113</b>	13,124	<b>91,355</b>
Securities .....	<b>3,024,670</b>	2,837,426	<b>27,323,132</b>
Loans and bills discounted .....	<b>6,856,163</b>	6,759,983	<b>61,934,633</b>
Foreign exchanges .....	<b>5,269</b>	10,224	<b>47,603</b>
Other assets .....	<b>83,674</b>	83,685	<b>755,871</b>
Tangible fixed assets .....	<b>71,875</b>	74,635	<b>649,278</b>
Intangible fixed assets .....	<b>7,735</b>	7,998	<b>69,876</b>
Prepaid pension cost .....	<b>6,961</b>	7,102	<b>62,887</b>
Customers' liabilities for acceptances and guarantees .....	<b>17,084</b>	12,897	<b>154,329</b>
Allowance for loan losses .....	<b>(37,734)</b>	(32,903)	<b>(340,868)</b>
Allowance for investment losses .....	<b>(9)</b>	(292)	<b>(81)</b>
TOTAL .....	<b>¥14,030,800</b>	¥10,911,493	<b>\$126,746,165</b>
<u>LIABILITIES AND EQUITY</u>			
<u>LIABILITIES:</u>			
Deposits .....	<b>¥ 9,705,556</b>	¥ 8,973,110	<b>\$ 87,674,403</b>
Negotiable certificates of deposit .....	<b>143,702</b>	84,279	<b>1,298,128</b>
Call money and bills sold .....	<b>911,314</b>	73,257	<b>8,232,289</b>
Payables under repurchase agreement .....	<b>127,201</b>	67,430	<b>1,149,063</b>
Payables under securities lending transactions .....	<b>378,015</b>	110,835	<b>3,414,777</b>
Trading liabilities .....	<b>1,024</b>	1,770	<b>9,255</b>
Borrowed money .....	<b>2,007,229</b>	938,779	<b>18,132,151</b>
Foreign exchanges .....	<b>672</b>	1,689	<b>6,075</b>
Bonds .....	<b>—</b>	5,000	<b>—</b>
Due to trust account .....	<b>1,432</b>	1,199	<b>12,939</b>
Other liabilities .....	<b>43,422</b>	35,559	<b>392,257</b>
Provision for bonuses for directors .....	<b>124</b>	121	<b>1,127</b>
Provision for retirement benefits .....	<b>6,999</b>	7,618	<b>63,228</b>
Provision for reimbursement of deposits .....	<b>1,621</b>	1,923	<b>14,649</b>
Provision for point card certificates .....	<b>120</b>	121	<b>1,091</b>
Provision for contingent losses .....	<b>1,094</b>	952	<b>9,890</b>
Deferred tax liabilities .....	<b>30,921</b>	9,501	<b>279,331</b>
Deferred tax liabilities for land revaluation .....	<b>7,946</b>	8,000	<b>71,786</b>
Acceptances and guarantees .....	<b>17,084</b>	12,897	<b>154,329</b>
Total liabilities .....	<b>¥13,385,486</b>	¥10,334,047	<b>\$120,916,768</b>
<u>EQUITY:</u>			
Common stock .....	<b>¥ 85,113</b>	¥ 85,113	<b>\$ 768,862</b>
Capital surplus .....	<b>58,574</b>	58,574	<b>529,124</b>
Retained earnings .....	<b>367,837</b>	352,538	<b>3,322,836</b>
Valuation adjustments: .....	<b>133,789</b>	81,220	<b>1,208,575</b>
Unrealized gains on available-for-sale securities .....	<b>120,713</b>	69,472	<b>1,090,455</b>
Deferred losses on derivatives under hedge accounting .....	<b>1,135</b>	(180)	<b>10,258</b>
Land revaluation surplus .....	<b>11,940</b>	11,928	<b>107,862</b>
Total equity .....	<b>645,314</b>	577,446	<b>5,829,397</b>
TOTAL .....	<b>¥14,030,800</b>	¥10,911,493	<b>\$126,746,165</b>

# Non-Consolidated Statement of Income (Unaudited)

Year Ended March 31, 2021    The Joyo Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<u>INCOME:</u>			
Interest income:			
Interest on loans and bills discounted .....	<b>¥ 59,980</b>	¥ 63,264	<b>\$ 541,830</b>
Interest and dividends on securities .....	<b>29,756</b>	36,802	<b>268,799</b>
Interest on call loans and bills bought .....	<b>16</b>	99	<b>148</b>
Interest on deposits with banks .....	<b>662</b>	325	<b>5,981</b>
Other interest income .....	<b>374</b>	401	<b>3,384</b>
Trust Fees .....	<b>28</b>	46	<b>260</b>
Fees and commissions .....	<b>26,242</b>	26,145	<b>237,062</b>
Trading income .....	<b>365</b>	517	<b>3,305</b>
Other operating income .....	<b>1,056</b>	6,666	<b>9,544</b>
Other income .....	<b>21,973</b>	16,319	<b>198,495</b>
Total income .....	<b>140,457</b>	150,589	<b>1,268,809</b>
<u>EXPENSES:</u>			
Interest expenses:			
Interest on deposits .....	<b>1,138</b>	3,760	<b>10,284</b>
Interest on negotiable certificates of deposit .....	<b>10</b>	23	<b>92</b>
Interest on call money and bills sold .....	<b>(57)</b>	623	<b>(520)</b>
Interest on payables under repurchase agreements .....	<b>25</b>	378	<b>233</b>
Interest on payables under securities lending transactions .....	<b>31</b>	38	<b>282</b>
Interest on borrowed money .....	<b>662</b>	1,550	<b>5,983</b>
Interest on bonds .....	<b>18</b>	132	<b>171</b>
Interest on interest swap .....	<b>641</b>	2,150	<b>5,792</b>
Other interest expenses .....	<b>534</b>	474	<b>4,829</b>
Fees and commissions .....	<b>8,983</b>	8,992	<b>81,150</b>
Other operating expenses .....	<b>4,046</b>	5,934	<b>36,552</b>
General and administrative expenses .....	<b>63,218</b>	64,791	<b>571,075</b>
Provision of allowance for loan losses .....	<b>9,509</b>	5,196	<b>85,900</b>
Other expenses .....	<b>16,958</b>	22,187	<b>153,197</b>
Total expenses .....	<b>105,720</b>	116,236	<b>955,020</b>
INCOME BEFORE INCOME TAXES .....	<b>34,736</b>	34,353	<b>313,789</b>
<u>INCOME TAXES:</u>			
Current .....	<b>11,740</b>	10,851	<b>106,057</b>
Deferred .....	<b>(1,515)</b>	(1,151)	<b>(13,689)</b>
Total income taxes .....	<b>10,255</b>	9,699	<b>92,369</b>
NET INCOME .....	<b>¥ 24,511</b>	¥ 24,653	<b>\$ 221,421</b>

## Non-Consolidated Balance Sheet (Unaudited)

March 31, 2021 The Ashikaga Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<b>ASSETS</b>			
Cash and due from banks .....	<b>¥2,447,722</b>	¥ 816,321	<b>\$22,111,318</b>
Call loans and bills bought.....	<b>4,649</b>	5,976	<b>42,000</b>
Monetary claims bought.....	<b>6,048</b>	5,947	<b>54,635</b>
Trading account securities.....	<b>2,312</b>	2,507	<b>20,890</b>
Money held in trust.....	<b>1,970</b>	1	<b>17,796</b>
Securities.....	<b>1,301,546</b>	1,257,599	<b>11,757,420</b>
Loans and bills discounted .....	<b>4,943,603</b>	4,717,392	<b>44,657,665</b>
Foreign exchanges.....	<b>4,324</b>	5,925	<b>39,067</b>
Other assets.....	<b>81,652</b>	86,845	<b>737,599</b>
Tangible fixed assets .....	<b>28,485</b>	28,201	<b>257,325</b>
Intangible fixed assets.....	<b>9,922</b>	10,940	<b>89,631</b>
Prepaid pension cost.....	<b>25,358</b>	23,351	<b>229,074</b>
Deferred tax assets.....	<b>—</b>	4,903	<b>—</b>
Customers' liabilities for acceptances and guarantees .....	<b>9,256</b>	10,131	<b>83,614</b>
Allowance for loan losses .....	<b>(35,153)</b>	(27,311)	<b>(317,556)</b>
TOTAL .....	<b>¥8,831,699</b>	¥6,948,735	<b>\$79,780,479</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits .....	<b>¥6,551,940</b>	¥5,813,460	<b>\$59,186,452</b>
Negotiable certificates of deposit .....	<b>196,765</b>	265,902	<b>1,777,462</b>
Call money and bills sold .....	<b>41,603</b>	37,487	<b>375,818</b>
Payables under repurchase agreement .....	<b>3,053</b>	61,765	<b>27,588</b>
Payables under securities lending transactions .....	<b>242,733</b>	104,712	<b>2,192,717</b>
Borrowed money .....	<b>1,380,253</b>	276,937	<b>12,468,411</b>
Foreign exchanges.....	<b>232</b>	251	<b>2,103</b>
Due to trust account .....	<b>874</b>	374	<b>7,903</b>
Other liabilities.....	<b>30,725</b>	27,132	<b>277,553</b>
Provision for bonuses for directors .....	<b>122</b>	108	<b>1,111</b>
Provision for reimbursement of deposits.....	<b>838</b>	951	<b>7,575</b>
Provision for contingent losses.....	<b>899</b>	1,189	<b>8,128</b>
Provision for point card certificates .....	<b>260</b>	237	<b>2,350</b>
Deferred tax liabilities.....	<b>2,406</b>	—	<b>21,743</b>
Acceptances and guarantees.....	<b>9,256</b>	10,131	<b>83,614</b>
Total liabilities .....	<b>¥8,461,966</b>	¥6,600,643	<b>\$76,440,525</b>
<b>EQUITY:</b>			
Common stock .....	<b>¥ 135,000</b>	¥ 135,000	<b>\$ 1,219,512</b>
Retained earnings:.....	<b>189,385</b>	188,074	<b>1,710,802</b>
Valuation adjustments:.....	<b>45,347</b>	25,016	<b>409,639</b>
Unrealized gains on available-for-sale securities.....	<b>46,094</b>	25,905	<b>416,390</b>
Deferred losses on hedges.....	<b>(747)</b>	(888)	<b>(6,751)</b>
Total equity .....	<b>369,732</b>	348,091	<b>3,339,953</b>
TOTAL.....	<b>¥8,831,699</b>	¥6,948,735	<b>\$79,780,479</b>

## Non-Consolidated Statement of Income (Unaudited)

Year Ended March 31, 2021 The Ashikaga Bank, Ltd.

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<b>INCOME:</b>			
Interest income:			
Interest on loans and bills discounted .....	<b>¥47,171</b>	¥47,945	<b>\$426,121</b>
Interest and dividends on securities .....	<b>19,602</b>	20,596	<b>177,081</b>
Interest on call loans and bills bought .....	<b>(2)</b>	13	<b>(23)</b>
Interest on deposits with banks .....	<b>896</b>	356	<b>8,098</b>
Other interest income .....	<b>69</b>	104	<b>628</b>
Trust Fees.....	<b>10</b>	5	<b>91</b>
Fees and commissions.....	<b>21,235</b>	21,670	<b>191,827</b>
Other operating income.....	<b>1,517</b>	927	<b>13,710</b>
Other income .....	<b>8,757</b>	4,655	<b>79,112</b>
Total income.....	<b>99,258</b>	96,275	<b>896,645</b>
<b>EXPENSES:</b>			
Interest expenses:			
Interest on deposits .....	<b>462</b>	1,605	<b>4,178</b>
Interest on negotiable certificates of deposit.....	<b>32</b>	51	<b>297</b>
Interest on call money and bills sold .....	<b>18</b>	332	<b>163</b>
Interest on payables under repurchase agreements .....	<b>140</b>	1,648	<b>1,270</b>
Interest on payables under securities lending transactions .....	<b>414</b>	1,325	<b>3,743</b>
Interest on borrowed money .....	<b>218</b>	135	<b>1,973</b>
Interest on interest swap.....	<b>225</b>	1,042	<b>2,039</b>
Other interest expenses .....	<b>917</b>	626	<b>8,292</b>
Fees and commissions payments .....	<b>7,043</b>	7,515	<b>63,629</b>
Other operating expenses .....	<b>3,304</b>	1,285	<b>29,850</b>
General and administrative expenses .....	<b>49,159</b>	51,078	<b>444,080</b>
Provision of allowance for loan losses .....	<b>9,427</b>	4,652	<b>85,160</b>
Other expenses .....	<b>4,442</b>	8,892	<b>40,134</b>
Total expenses.....	<b>75,808</b>	80,194	<b>684,807</b>
INCOME BEFORE INCOME TAXES .....	<b>23,450</b>	16,081	<b>211,838</b>
<b>INCOME TAXES:</b>			
Current .....	<b>7,294</b>	4,341	<b>65,891</b>
Deferred.....	<b>(1,508)</b>	495	<b>(13,626)</b>
Total income taxes .....	<b>5,785</b>	4,836	<b>52,266</b>
NET INCOME .....	<b>¥17,664</b>	¥11,245	<b>\$159,572</b>