

# Financial Section

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# Consolidated Financial Statements

## Consolidated Balance Sheets

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2023	
<b>ASSETS:</b>		
Cash and due from banks (Notes 21 and 25) .....	¥ 1,510,394	\$ 11,311,270
Call loans .....	178,907	1,339,826
Other debt purchased (Notes 6 and 10) .....	22,329	167,220
Trading account securities (Notes 6, 13 and 21) .....	2,023	15,150
Money trusts (Notes 7 and 21) .....	24,600	184,228
Securities (Notes 6, 9, 13 and 21) .....	2,324,053	17,404,725
Loans and bills discounted (Notes 9, 10, 13 and 21) .....	5,555,795	41,607,092
Foreign exchange (Note 9) .....	14,742	110,402
Lease receivables and investments in leased assets .....	27,010	202,276
Other assets (Notes 9, 13, 18, 21 and 22) .....	158,076	1,183,823
Tangible fixed assets (Note 11) .....	35,631	266,838
Intangible fixed assets (Note 12) .....	1,712	12,821
Deferred tax assets (Note 14) .....	17,594	131,760
Customers' liabilities for acceptances and guarantees (Note 9) .....	31,110	232,981
Reserve for possible loan losses (Note 3) .....	(54,302)	(406,665)
<b>Total assets</b> .....	<b>¥ 9,849,678</b>	<b>\$ 73,763,783</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Deposits (Notes 13 and 21) .....	¥ 8,053,522	\$ 60,312,454
Call money .....	1,79,987	1,347,914
Payables under repurchase agreements (Note 13) .....	9,3,913	703,310
Payables under securities lending transactions (Notes 13 and 21) .....	423,430	3,171,047
Commercial paper (Note 15) .....	46,530	348,461
Borrowed money (Notes 13, 15 and 21) .....	320,843	2,402,778
Foreign exchange .....	492	3,684
Bonds payable (Note 16) .....	10,000	74,889
Due to trust account .....	8,496	63,626
Other liabilities (Notes 15, 18, 21 and 22) .....	147,572	1,105,159
Accrued employees' bonuses .....	1,547	11,585
Accrued directors' bonuses .....	25	187
Reserve for directors' retirement benefits .....	49	366
Reserve for reimbursement of deposits .....	250	1,872
Reserve for point program .....	114	853
Net defined benefit liability (Note 17) .....	3,466	25,956
Deferred tax liabilities (Note 14) .....	423	3,167
Reserves under special laws .....	7	52
Acceptances and guarantees .....	31,110	232,981
<b>Total liabilities</b> .....	<b>¥ 9,321,784</b>	<b>\$ 69,810,409</b>
<b>Net assets (Note 24):</b>		
<b>Shareholders' equity</b>		
<b>Common stock</b>		
Authorized shares: 500,000,000 shares in 2023 .....		
Issued shares: 184,771,461 shares in 2023 .....	¥ 16,000	\$ 119,823
Capital surplus .....	7,302	54,684
Retained earnings .....	479,223	3,588,878
Less treasury stock, at cost		
1,071,607 shares in 2023 .....	(1,000)	(7,488)
<b>Accumulated other comprehensive income:</b>		
Net unrealized gains on available-for-sale securities (Note 8) .....	34,234	256,376
Net deferred losses on hedging instruments .....	(3,320)	(24,863)
Accumulated adjustments for retirement benefits (Note 17) .....	(4,818)	(36,081)
<b>Total</b> .....	<b>26,096</b>	<b>195,431</b>
Subscription rights to shares (Note 26) .....	272	2,036
<b>Total net assets</b> .....	<b>527,894</b>	<b>3,953,373</b>
<b>Total liabilities and net assets</b> .....	<b>¥ 9,849,678</b>	<b>\$ 73,763,783</b>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2023		
Income (Note 22):		
Interest and dividends on:		
Loans and discounts .....	¥ 60,294	\$ 451,538
Securities .....	29,653	222,069
Other .....	3,208	24,024
Fees and commissions .....	20,545	153,860
Other operating income .....	47,440	355,275
Bad debt recovered .....	30	224
Other income .....	22,501	168,508
<b>Total income .....</b>	<b>183,675</b>	<b>1,375,533</b>
Expenses:		
Interest on:		
Deposits .....	4,245	31,790
Borrowings .....	2,037	15,254
Other .....	21,852	163,648
Fees and commissions .....	3,427	25,664
Other operating expenses .....	56,333	421,875
General and administrative expenses .....	55,662	416,850
Reserve for possible loan losses .....	5,717	42,814
Losses on impairment of fixed assets (Note 11) .....	55	411
Other expenses .....	4,841	36,254
<b>Total expenses .....</b>	<b>154,172</b>	<b>1,154,586</b>
Income before income taxes .....	29,503	220,946
Income taxes (Note 14):		
Current .....	9,705	72,680
Deferred .....	(679)	(5,084)
	9,025	67,587
Net income .....	20,477	153,351
Net income attributable to non-controlling interests .....	—	—
Net income attributable to owners of parent .....	¥ 20,477	\$ 153,351

	Yen	U.S. Dollars (Note 1)
2023		
Per share of common stock .....		
Basic net income .....	¥ 110.96	\$ 0.830
Diluted net income .....	110.80	0.829
Cash dividends applicable to the year (Note 24) .....	30.00	0.224

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Financial Statements Consolidated Statements of Comprehensive Income

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2023		
Net income .....	¥ 20,477	\$ 153,351
Other comprehensive income (Note 20):		
Net unrealized losses on available-for-sale securities .....	(33,373)	(249,928)
Net deferred losses on hedging instruments .....	(2,713)	(20,317)
Adjustments for retirement benefits .....	(1,356)	(10,155)
<b>Total other comprehensive income .....</b>	<b>(37,443)</b>	<b>(280,408)</b>
<b>Comprehensive income .....</b>	<b>¥ (16,966)</b>	<b>\$ (127,057)</b>
Comprehensive income attributable to:		
Owners of parent .....	¥ (16,966)	\$ (127,057)
Non-controlling interests .....	—	—

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

Millions of Yen										
2023										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	Subscription rights to shares	Total net assets
					Net unrealized gains (losses) on available-for-sale securities	Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits			
Balance at beginning of year.....	¥ 15,149	¥ 8,153	¥ 476,938	¥ (11,623)	¥ 67,608	¥ (606)	¥ (3,461)	¥ 63,540	¥ 256	¥ 552,414
Net income attributable to owners of parent.....			20,477							20,477
Changes by share transfer .....	850	(850)								—
Cash dividends .....			(5,651)							(5,651)
Purchases of treasury stock .....				(1,941)						(1,941)
Disposals of treasury stock.....		1		21						23
Cancellation of treasury stock.....		(1)	(12,540)	12,542						—
Net changes in items other than shareholders' equity .....					(33,373)	(2,713)	(1,356)	(37,443)	15	(37,428)
Net changes during the year .....	850	(850)	2,285	10,622	(33,373)	(2,713)	(1,356)	(37,443)	15	(24,520)
Balance at end of year.....	¥ 16,000	¥ 7,302	¥ 479,223	¥ (1,000)	¥ 34,234	¥ (3,320)	¥ (4,818)	¥ 26,096	¥ 272	¥ 527,894

See accompanying Notes to Consolidated Financial Statements.

Thousands of U.S. Dollars (Note 1)										
2023										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	Subscription rights to shares	Total net assets
					Net unrealized gains (losses) on available-for-sale securities	Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits			
Balance at beginning of year.....	\$ 113,450	\$ 61,057	\$ 3,571,766	\$ (87,044)	\$ 506,313	\$ (4,538)	\$ (25,919)	\$ 475,848	\$ 1,917	\$ 4,137,002
Net income attributable to owners of parent.....			153,351							153,351
Changes by share transfer .....	6,365	(6,365)								—
Cash dividends .....			(42,320)							(42,320)
Purchases of treasury stock .....				(14,536)						(14,536)
Disposals of treasury stock.....		7		157						172
Cancellation of treasury stock.....		(7)	(93,911)	93,926						—
Net changes in items other than shareholders' equity .....					(249,928)	(20,317)	(10,155)	(280,408)	112	(280,296)
Net changes during the year .....	6,365	(6,365)	17,112	79,547	(249,928)	(20,317)	(10,155)	(280,408)	112	(183,629)
Balance at end of year.....	\$ 119,823	\$ 54,684	\$ 3,588,878	\$ (7,488)	\$ 256,376	\$ (24,863)	\$ (36,081)	\$ 195,431	\$ 2,036	\$ 3,953,373

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2023	
Cash flows from operating activities		
Income before income taxes .....	¥ 29,503	\$ 220,946
Depreciation .....	3,177	23,792
Losses on impairment of fixed assets .....	55	411
Share-based compensation expenses .....	39	292
Provision of reserve for possible loan losses .....	5,717	42,814
Increase (decrease) in reserve for point program .....	6	44
Increase (decrease) in reserve for directors' retirement benefits .....	2	14
Increase (decrease) in accrued employees' bonuses .....	67	501
Increase (decrease) in accrued directors' bonuses .....	0	0
Increase (decrease) in net defined benefit liability .....	(290)	(2,171)
Increase (decrease) in reserve for reimbursement of deposits .....	190	1,422
Interest and dividend income .....	(93,157)	(697,648)
Interest expense .....	28,134	210,694
Losses (gains) related to securities, net .....	1,745	13,068
Losses (gains) on money trusts, net .....	297	2,224
Foreign exchange losses (gains), net .....	(36,402)	(272,612)
Losses (gains) on disposals of fixed assets, net .....	1	7
Decrease (increase) in trading account securities, excluding foreign exchange contracts .....	811	6,073
Decrease (increase) in call loans and other debt purchased .....	265,676	1,989,635
Increase (decrease) in payables under repurchase agreements .....	(97,093)	(727,124)
Decrease (increase) in due from banks, excluding the Bank of Japan .....	(256)	(1,917)
Increase (decrease) in commercial paper .....	(8,486)	(63,551)
Decrease (increase) in foreign exchange assets .....	(8,459)	(63,349)
Decrease (increase) in loans and bills discounted .....	(300,191)	(2,248,116)
Decrease (increase) in lease receivables and investments in leased assets .....	(1,606)	(12,027)
Decrease (increase) in other assets .....	(14,065)	(105,332)
Increase (decrease) in deposits .....	191,848	1,436,740
Increase (decrease) in borrowed money .....	(353,291)	(2,645,779)
Increase (decrease) in call money .....	69,278	518,819
Increase (decrease) in foreign exchange liabilities .....	(133)	(996)
Increase (decrease) in payables under securities lending transactions .....	(164,925)	(1,235,115)
Increase (decrease) in due to trust account .....	1,560	11,682
Increase (decrease) in other liabilities .....	21,098	158,001
Interest and dividends received .....	91,567	685,741
Interest paid .....	(28,113)	(210,536)
Subtotal .....	(395,694)	(2,963,334)
Income taxes paid .....	(7,787)	(58,316)
Net cash used in operating activities .....	(403,482)	(3,021,658)
Cash flows from investing activities		
Purchases of securities .....	(1,390,078)	(10,410,229)
Proceeds from sales of securities .....	1,273,089	9,534,104
Proceeds from redemption of securities .....	280,810	2,102,973
Purchases of money trusts .....	(7,323)	(54,841)
Proceeds from money trusts .....	10,025	75,076
Purchases of tangible fixed assets .....	(2,143)	(16,048)
Purchases of intangible fixed assets .....	(642)	(4,807)
Proceeds from sales of tangible fixed assets .....	562	4,208
Net cash provided by investing activities .....	164,298	1,230,420
Cash flows from financing activities		
Cash dividends paid .....	(5,651)	(42,320)
Purchases of treasury stock .....	(1,941)	(14,536)
Repayments on lease obligations .....	(251)	(1,879)
Proceeds from sales of treasury stock .....	0	0
Proceeds from exercise of employee share options .....	0	0
Net cash used in financing activities .....	(7,844)	(58,743)
Effect of exchange rate changes on cash and cash equivalents .....	—	—
Net decrease in cash and cash equivalents .....	(247,028)	(1,849,981)
Cash and cash equivalents at beginning of year .....	1,753,389	13,131,049
Cash and cash equivalents at end of year (Note 25) .....	¥ 1,506,361	\$ 11,281,067

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Chugin Financial Group, Inc. and its Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Chugin Financial Group, Inc. (the "Company") and its consolidated subsidiaries (collectively, 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, the Japanese Banking Law and the Japanese Uniform Rules for Bank Accounting and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Since the Company was established on October 3, 2022, information for the previous fiscal year is not presented.

The consolidated financial statements for the year ended March 31, 2023 were prepared by succeeding to the consolidated financial statements of The Chugoku Bank, Limited, which became a wholly owned subsidiary through a sole share transfer. Therefore, the consolidated financial statements for the year ended March 31, 2023 include results of The Chugoku Bank, Limited for the six months ended September 30, 2022.

The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

As permitted by the Financial Instruments and Exchange Act, amounts of less than ¥1 million have been rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

The translations of the Japanese yen amounts into the U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate as at March 31, 2023, which was ¥133.53 for US\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into the U.S. dollars at this or any other rate of exchange.

## 2. Significant Accounting Policies

### (a) Principles of Consolidation

#### *Scope of Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method*

The consolidated financial statements include the accounts of the Company and its eleven significant subsidiaries after elimination of all significant intercompany transactions, balances and unrealized profits.

Following the establishment of the Company, The Chugoku Bank, Limited (hereinafter, "The Chugoku Bank") became a wholly owned subsidiary of the Company, and the Company acquired all of the seven companies' shares held by The Chugoku Bank, through distribution-in-kind from The Chugoku Bank. As a result, The Chugoku Bank, its consolidated subsidiaries, and the seven companies were included in the scope of consolidation for the year ended March 31, 2023.

Ten subsidiaries, of which the Company owns a majority of the voting rights, were excluded from the scope of consolidation for the year ended March 31, 2023 because the total amounts of their assets, net income and retained earnings were immaterial and their exclusion from the scope of consolidation would not hinder a rational judgment regarding the consolidated financial position or results of operations.

Investments in ten subsidiaries and one affiliated company also were not accounted for by the equity method for the year ended March 31, 2023 because their exclusion had no significant effect on the consolidated financial statements.

One company, of which the Company owns between 20% and 50% of the voting rights (execution rights), was not recognized as an affiliate accounted for using the equity method for the year ended March 31, 2023 because it is held by the Company's unconsolidated subsidiary for the purpose of incubating investees or earning capital gains through business transactions and not for the purpose of controlling the entity.

### *Balance Sheet Date of Subsidiaries*

The balance sheet date of all consolidated subsidiaries is March 31, the same as that of the Company.

### *Goodwill*

Goodwill is amortized using the straight-line method over a period of five years. Goodwill which is immaterial in amount is fully charged as loss when incurred.

### *(b) Trading Account Securities, Securities and Money Trusts*

Trading account securities are stated at fair value (cost of sales is computed by the moving-average method). Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations of these securities are recognized as gains and losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost (straight-line method) using the moving average method. Investments in affiliated companies that are not accounted for by the equity method are stated at cost determined by the moving average method. Available-for-sale securities are stated at fair value. Unrealized gains and losses on these securities, net of applicable income taxes, are reported as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using the moving average method.

Available-for-sale securities without a market price are stated at cost using the moving average method.

Securities constituting trust assets of money trusts are stated in the same manner as trading account securities.

### *(c) Derivatives and Hedge Accounting*

Derivatives are stated at fair value.

The consolidated subsidiaries that engage in the banking business apply the deferred method of hedge accounting for transactions entered into to hedge the interest rate risks associated with various financial assets and liabilities as stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Committee Practical Guideline No. 24, March 17, 2022) issued by the Japanese Institute of Certified Public Accountants ("JICPA"). The effectiveness of the hedges is assessed for each identified group of hedged loans and securities and the corresponding group of hedging instruments, such as interest rate swaps, in the same maturity bucket.

The consolidated subsidiaries that engage in the banking business apply the deferred method of hedge accounting for transactions entered into to hedge foreign exchange risks associated with various foreign currency-denominated monetary assets and liabilities as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 25, October 8, 2020). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions that hedge the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on a comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

In addition to the above methods, the consolidated subsidiary that engage in the banking business applies the fair value hedge method to portfolio hedges for foreign exchange risks associated with foreign securities, except for bonds, identified as hedged items in advance as long as the amount of foreign currency

payables of spot and forward foreign exchange contracts exceeds the acquisition cost of the hedged foreign securities in foreign currency.

**(d) Tangible Fixed Assets**

Tangible fixed assets owned by the consolidated subsidiary that engage in the banking business is stated at cost less accumulated depreciation. Depreciation is computed by the declining balance method over the estimated useful life of the asset. For the consolidated subsidiary that engage in the banking business, estimated useful lives are mainly as follows:

Buildings.....	4 to 40 years
Other.....	2 to 20 years

For the Company and other consolidated subsidiaries, the useful life of an asset is mainly based on the Corporation Tax Law of Japan.

Lease assets with respect to finance leases that do not transfer ownership of the lease assets and are recorded in “Tangible fixed assets” are depreciated using the straight-line method over the term of the lease, assumed to be the useful life, with a salvage value of zero or the guaranteed amount.

**(e) Intangible Fixed Assets**

Intangible fixed assets are depreciated using the straight-line method. Costs of software for the internal use are amortized based on the useable period determined by the Company and its consolidated subsidiaries (five years).

**(f) Foreign Currency Translation**

The Company’s assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the end of the fiscal year.

**(g) Reserve for Possible Loan Losses**

The consolidated subsidiaries that engage in the banking business write off loans and makes provisions for possible loan losses. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or who are in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion estimated to be recoverable due to security interests or guarantees.

For large borrowers who are likely to become bankrupt and borrowers with restructured loans, if the cash flows from the collection of principal and interest can be reasonably estimated, a reserve is provided based on the difference between the relevant cash flows discounted by the initial contractual interest rates and the carrying amounts of the loans.

For unsecured and unguaranteed portions of loans to customers not presently in these circumstances but who face a high probability of so becoming, the reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of the customer’s overall financial condition. For other loans such as normal loans and loans requiring special attention, the estimated loss for the average remaining term on loans and other transactions or the estimated loss over the next three years is recorded, and these estimated losses are calculated by using the loss ratio, derived from the average rate for the actual rate of loan losses of the consolidated subsidiaries that engage in the banking business for a fixed past period based on the three-year historical default rate or the past average rate with the long-term perspective such as business cycles, and adding to that the necessary corrections for future estimates. A specific reserve for loans to borrowers in certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans.

Assessment and classification are conducted by each business department and Credit Supervision Department utilizing the internal rules on self-assessment of assets and audited by the Risk Management Department (an independent department). The reserve for possible loan losses is provided based on the auditing results.

Reserves for possible loan losses of other consolidated subsidiaries are provided for general claims in the amount deemed necessary based on historical loan loss ratios and for certain doubtful claims in the amount deemed uncollectable based on individual assessments.

**(h) Accrued Employees’ Bonuses**

Accrued employees’ bonuses are provided for the future payment of bonuses to employees in the amounts of the estimated bonuses attributable to the current fiscal year.

**(i) Accrued Directors’ Bonuses**

Accrued directors’ bonuses are provided for the payment of bonuses to directors and corporate auditors based on an estimated amount.

**(j) Reserve for Directors’ Retirement Benefits**

A reserve for directors’ retirement benefits is provided for severance and retirement benefits to directors and corporate auditors based on the required amounts determined by internal regulations.

**(k) Reserve for Reimbursement of Deposits**

A reserve for reimbursement of deposits is provided for reimbursement of deposits that were derecognized from liabilities and credited to income. The amount is determined based on the historical reimbursement ratio for such accounts.

**(l) Reserve for Point Program**

A reserve for the point program is provided for the accumulation of points granted to credit card holders. The amount of reserve is determined based on the past usage ratio of points by card holders.

**(m) Reserve Under Special Laws**

A reserve under special laws is provided for contingent liabilities from financial instruments and exchange. This is a reserve pursuant to Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of Cabinet Office Order on the Financial Instruments Business to indemnify losses incurred in connection with the purchase and sale of securities and derivatives and other transactions.

**(n) Accounting for Employees’ Severance and Retirement Benefits**

In determining projected benefit obligation for the consolidated subsidiaries that engage in the banking business, the estimated amount of retirement benefits is attributed to periods based on a benefit formula basis.

Prior service cost of the cash balance pension plans is recognized as expense using the straight-line method over 10 years, which is within the average of the estimated remaining service years, commencing with the period in which it arises.

Actuarial gains and losses are recognized as expenses using the straight-line method over 10 years, which is within the average of the estimated remaining service years, commencing with the following period.

In calculating the liability for retirement benefits and retirement benefit expenses, other consolidated subsidiaries and subsidiary corporations, etc. apply a simplified method under which the amount that would be required to be paid if all the employees voluntarily retired at the fiscal year end is regarded as projected benefit obligation.

### ***(o) Recognition of Revenue and Expenses***

#### ***(1) Finance leases***

As lessor:

Income from finance leases and related leasing costs are recognized when lease payments are received.

#### ***(2) Revenue from contracts with customers***

The Company and its consolidated subsidiaries recognize revenue from contracts with customers applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Company and its consolidated subsidiaries, which provide services related to a wide range of the banking business such as domestic exchange, sales of customers' assets in custody and investment banking business, recognize revenue when satisfying a performance obligation based on contracts with customers.

### ***(p) Income Taxes***

Deferred income taxes are recognized for loss carryforwards and taxable temporary differences between carrying amounts for financial reporting purposes and tax bases. In Japan, income taxes applicable to the Company and its consolidated subsidiaries consist of corporation tax (national), inhabitant taxes (local) and enterprise taxes (local).

### ***(q) Accounting Policy for Loss/Gain on Cancellation of Securities Investment Trusts***

The consolidated subsidiary that engage in the banking business records loss/gain on cancellation during the period of securities investment trusts in interest and dividends on securities. If a negative amount arises for interest and dividends on securities for a particular yen-denominated securities investment trust or foreign-currency-denominated securities investment trust, the full negative amount is recorded in loss on redemption of bonds.

### ***(r) Consumption Taxes***

Any non-deductible consumption taxes associated with asset purchases are recorded as expense during the fiscal year.

### ***(s) Per Share Information***

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the year, excluding treasury stock. Diluted net income per share reflects the potential dilution that could occur if outstanding stock options were exercised. Diluted net income per share of common stock assumes the full exercise of the outstanding stock options at the beginning of the year or at the time of the grant.

## **3. Significant Accounting Estimates**

The following describes possible significant impacts that may occur in the consolidated financial statements for the following fiscal year as a result of amounts being recorded in the consolidated financial statements for the fiscal year under review based on accounting estimates.

### ***Reserve for Possible Loan Losses***

Credit services are the largest source of revenue for the Group, and credit risk assets such as loans and bills discounted, and customers' liabilities for acceptances and guarantees constitute a high level of materiality on the consolidated balance sheet, and their impact on business results and financial position is large. Accordingly accounting estimates for such are deemed to be items of significance.

### ***(a) Amounts Recorded on the Consolidated Financial Statements for the Fiscal Year Under Review***

The reserve for possible loan losses recorded on the consolidated balance sheet as of March 31, 2023 was ¥54,302 million (\$406,665 thousand), and the details related to the accounting estimates adopted when calculating that amount are described below.

### ***(b) Information to Facilitate Understanding of the Details Related to the Significant Accounting Estimates for the Identified Items***

#### ***1) Method for Calculating Amounts***

For a description of the methods used to calculate amounts, refer to Note 2 (g) "Significant Accounting Policies"- "Reserve for Possible Loan Losses."

The self-assessments of assets described in the "Reserve for Possible Loan Losses" refers to the classification of assets according to the degree of risk of collection or risk of damage to value, which is determined by examining each asset held individually. Appropriate write-offs and provisions are made according to classification of borrowers (normal borrowers, borrowers requiring caution, potentially bankrupt borrowers, effectively bankrupt borrowers, and bankrupt borrowers). Loans that are delinquent for over three months and restructured loans are classified as "substandard loans" and are written off or a provision is made for them.

The Company determines a borrower's ability to repay loans by considering the borrower's actual financial position, cash flow, profitability, etc., based on the basic rating using a rating model, etc., confirms the borrower's loan conditions and their fulfillment status, and determines the classification of borrowers by taking into consideration the characteristics of the industry, etc., the prospects for business continuity and profitability, the ability to repay the debt based on the annual repayment amount, the appropriateness of the business improvement plan, etc., and support from financial institutions, etc.

Among the borrowers whose lending conditions have been relaxed, loans and bills discounted to such borrowers are not considered to be restructured loans if the borrowers have started to restructure its business through the implementation of financial support in accordance with a drastic business restructuring plan that is highly feasible and a reasonable and highly feasible business improvement plan.

In addition, The Chugoku Bank manages loans and bills discounted managed by the Structured Finance Center and the International Department, such as structured finance including marketable loans and loans to non-Japanese entities, as Headquarters Loans and bills discounted, and the Company bases its determination of the classification of the borrowers by comprehensively taking into account all factors including not only formal aspects such as the borrower's cash flow status, whether the borrower is delinquent and the length of any delinquency, and whether the borrower is in legal liquidation or not, but also the understanding of risk factors, analyzing the degree of risk, and available information such as external ratings.

#### ***2) Major Assumptions Used for Significant Accounting Estimates***

Based on the assumption that there is a certain relationship between the historical default ratio and the expected future credit loss ratio, the Company

calculates the allowance for expected credit loss on loans to normal borrowers and loans to borrowers requiring caution mainly by calculating the credit loss ratio based on the average of the historical default ratio over a certain period of time, which is based on the historical defaults for three years or the past average value with the long-term perspective such as business cycles, and then calculating the expected credit loss ratio after taking into account necessary adjustments such as the average remaining term on loans and bills discounted (The average remaining period for the fiscal year ended March 31, 2023 was 5.22 years, for normal borrowers; 3.93 years, for borrowers requiring caution). The Company calculates the allowance for expected credit loss on loans to potentially bankrupt borrowers by deducting the estimated amount receivable through the disposal of collateral and the estimated amount that can be collected through guarantees from the amount of the credit loss, and multiplying the remaining amount by the expected credit loss ratio based on the historical default ratio.

As stated in 1) Method for Calculating Amounts, in cases where a borrower whose loan conditions have been relaxed has started to restructure its business through the implementation of financial support in accordance with drastic management restructuring plan that is highly feasible and a reasonable and feasible business improvement plan, the loans and bills discounted to such borrowers are not considered to be restructured loans.

As of March 31, 2023, although the impact of COVID-19 was easing, there were concerns regarding the impact of the yen's depreciation and soaring resource and energy prices on corporate earnings. A reserve for possible loan losses was recorded after determining the classification of the borrowers, giving consideration to the results of examination based on information currently available to the Company, such as forecasts for the business recovery of individual borrowers that are impacted, and expected achievement of business improvement plans etc., created by the borrowers.

### 3) Impact on Consolidated Financial Statements in the Following Fiscal Year

The major assumptions used when determining the classification of the borrowers and calculating the reserve for possible loan losses such as assumptions on the correlating relationship between the historical default rate and the expected loss rate, the average remaining term on loans and bills discounted, the feasibility of business improvement plan created by the borrowers and future trends in the business environment, include uncertainties, and if there is an unexpected increase in the default rate due to deteriorated business conditions for major borrowers, extensions on the remaining term on loans and bills discounted, sharp changes to the business environment that form the basis of assumption for figures in business improvement plans created by the borrowers, the amount of loss may increase due to the need to increase the reserve for possible loan losses.

## 4. Changes in Accounting Policies

### ***Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement, etc.***

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Implementation Guidance") from the beginning of the year ended March 31, 2023. The Company has prospectively adopted the new accounting policies stipulated by the Fair Value Measurement Implementation Guidance in accordance with the transitional treatment provided for in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance.

As a result, for investment trusts whose assets are real assets, in cases in which there are no transaction prices in the market and there are material restrictions on cancellation, etc., such that market participants demand compensation for the risk, the Company has changed its method of valuation

from using the acquisition cost as the balance sheet amount to using the most recently available reference price as the fair value. The effect on the consolidated financial statements was immaterial.

## 5. New Accounting Standards to Be Applied

- "Accounting Standard for Current Income Taxes" (Revised ASBJ Statement No. 27, October 28, 2022)
- "Accounting Standard for Presentation of Comprehensive Income" (Revised ASBJ Statement No. 25, October 28, 2022)
- "Guidance on Accounting Standard for Tax Effect Accounting" (Revised ASBJ Guidance No. 28, October 28, 2022)

### ***(a) Overview***

The classification of income taxes in cases in which other comprehensive income is subject to taxation and the tax effect treatment of sales of shares of subsidiaries in cases in which Group Taxation Regime is applied.

### ***(b) Scheduled Date of Application***

These ASBJ statements and guidance will be applied from the start of the fiscal year ending March 31, 2025.

### ***(c) Effects of Application of the Accounting Standard***

The effects of the application of the Accounting Standard for Current Income Taxes on the consolidated financial statements are currently being evaluated.

## 6. Securities

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amounts of ¥4,021 million (\$30,113 thousand) and ¥108 million (\$808 thousand) as at March 31, 2023.

Securities received under repurchase agreements, etc., that are permitted to be disposed of through sale or pledge (re-pledge) were held in the amount of ¥3,328 million (\$24,923 thousand) as at March 31, 2023 without such disposal.

The amounts shown in the following tables include trust certificates classified as "Other debt purchased" and "Trading account securities" in addition to "Securities" stated in the consolidated balance sheet.

The amount of liabilities for guarantees on corporate bonds included in securities issued by private placement (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act) was ¥96,884 million (\$725,559 thousand) as at March 31, 2023.

(1) Trading account securities

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Amount of net unrealized gains (losses) included in the consolidated statements of income.....	¥ (21)	\$ (157)

(2) The following tables summarize acquisition costs and carrying amounts (fair value) of available-for-sale securities with available fair values as of March 31, 2023:

Type	Millions of Yen		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	¥ 92,347	¥ 47,898	¥ 44,449
Bonds .....	726,150	717,231	8,919
Japanese government bonds.....	383,905	376,867	7,038
Japanese municipal bonds .....	203,626	202,689	937
Japanese corporate bonds .....	138,618	137,674	943
Other .....	209,209	175,015	34,193
Foreign bonds .....	116,979	115,281	1,698
Other .....	92,229	59,734	32,495
Subtotal .....	¥ 1,027,707	¥ 940,144	¥ 87,562

Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	¥ 21,132	¥ 23,196	¥ (2,064)
Bonds .....	916,562	932,094	(15,532)
Japanese government bonds.....	169,607	171,694	(2,086)
Japanese municipal bonds .....	561,457	572,353	(10,896)
Japanese corporate bonds .....	185,498	188,047	(2,549)
Other .....	325,402	345,863	(20,460)
Foreign bonds .....	253,379	267,321	(13,942)
Other .....	72,023	78,542	(6,518)
Subtotal .....	¥ 1,263,098	¥ 1,301,155	¥ (38,056)
Total.....	¥ 2,290,805	¥ 2,241,299	¥ 49,505

Type	Thousands of U.S. Dollars		
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	\$ 691,582	\$ 358,705	\$ 332,876
Bonds .....	5,438,103	5,371,309	66,793
Japanese government bonds.....	2,875,046	2,822,339	52,707
Japanese municipal bonds .....	1,524,945	1,517,928	7,017
Japanese corporate bonds .....	1,038,103	1,031,034	7,062
Other .....	1,566,756	1,310,679	256,069
Foreign bonds .....	876,050	863,334	12,716
Other .....	690,698	447,345	243,353
Subtotal .....	\$ 7,696,450	\$ 7,040,694	\$ 655,747

Available-for-sale securities whose fair value does not exceed acquisition cost:			
Equity securities.....	\$ 158,256	\$ 173,713	\$ (15,457)
Bonds .....	6,864,090	6,980,408	(116,318)
Japanese government bonds.....	1,270,178	1,285,808	(15,621)
Japanese municipal bonds .....	4,204,725	4,286,325	(81,599)
Japanese corporate bonds .....	1,389,185	1,408,275	(19,089)
Other .....	2,436,920	2,590,152	(153,223)
Foreign bonds .....	1,897,543	2,001,954	(104,410)
Other .....	539,376	588,197	(48,813)
Subtotal .....	\$ 9,459,282	\$ 9,744,289	\$ (284,999)
Total.....	\$ 17,155,732	\$ 16,784,984	\$ 370,740

(3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2023:

Held-to-maturity debt securities

Type	Millions of Yen		
	2023		
	Carrying amount	Fair value	Difference
Held-to-maturity debt securities whose fair value exceeds carrying amount:			
Japanese government bonds .....	¥ 11,398	¥ 11,485	¥ 86
Japanese municipal bonds .....	1,900	1,919	19
Subtotal .....	¥ 13,298	¥ 13,404	¥ 105
Total .....	¥ 13,298	¥ 13,404	¥ 105

Type	Thousands of U.S. Dollars		
	2023		
	Carrying amount	Fair value	Difference
Held-to-maturity debt securities whose fair value exceeds carrying amount:			
Japanese government bonds .....	\$ 85,359	\$ 86,010	\$ 644
Japanese municipal bonds .....	14,229	14,371	142
Subtotal .....	\$ 99,588	\$ 100,381	\$ 786
Total .....	\$ 99,588	\$ 100,381	\$ 786

(4) The Company recognized impairment loss on equity securities and Japanese corporate bonds in the amounts of ¥532 million (\$3,984 thousand) and ¥12 million (\$89 thousand), respectively, in the year ended March 31, 2023.

Impairment loss on securities other than trading account securities, excluding equity securities, etc., without a market price and investments in partnerships, is recognized for the full amount of loss when the loss is 50% or more of the acquisition cost. For loss between 30% and 50% of the acquisition cost, impairment is determined by the possibility of recovery, with consideration for the trends in market values during the past year.

(5) Total sales of available-for-sale securities for the year ended March 31, 2023 were as follows:

Type	Millions of Yen		
	2023		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities .....	¥ 59,752	¥ 15,373	¥ 1,001
Bonds .....	812,384	21,189	19,158
Japanese government bonds .....	753,490	21,095	18,366
Japanese municipal bonds .....	53,937	92	755
Japanese corporate bonds .....	4,956	0	36
Other .....	305,371	7,558	25,253
Foreign bonds .....	266,349	582	24,953
Other .....	39,022	6,975	300
Total .....	¥ 1,177,508	¥ 44,121	¥ 45,413

Type	Thousands of U.S. Dollars		
	2023		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities .....	\$ 447,479	\$ 115,127	\$ 7,496
Bonds .....	6,083,906	158,683	143,473
Japanese government bonds .....	5,642,851	157,979	137,542
Japanese municipal bonds .....	403,931	688	5,654
Japanese corporate bonds .....	37,115	0	269
Other .....	2,286,909	56,601	189,118
Foreign bonds .....	1,994,675	4,358	186,871
Other .....	292,233	52,235	2,246
Total .....	\$ 8,818,303	\$ 330,420	\$ 340,095

## 7. Money Trusts

(1) Money trusts as a type of trading account securities as at March 31, 2023 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2023			
Carrying amount (fair value) .....	¥	20,000	\$	149,779
Amount of net unrealized gains (losses) included in the consolidated statements of income .....		—		—

(2) Money trusts, other than for investment purposes or held-to-maturity purposes as at March 31, 2023 were as follows:

	Millions of Yen					
	2023					
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost	
Money trust .....	¥ 4,600	¥ 4,600	¥ —	¥ —	¥ —	

  

	Thousands of U.S. Dollars					
	2023					
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost	
Money trust .....	\$ 34,449	\$ 34,449	\$ —	\$ —	\$ —	

## 8. Net Unrealized Gains and Losses on Available-for-sale Securities

Net unrealized gains on available-for-sale securities as at March 31, 2023 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2023			
Net unrealized gains on available-for-sale securities .....	¥	49,010	\$	367,033
Deferred tax liabilities .....		(14,775)		(110,649)
Net unrealized gains on available-for-sale securities before adjustment for non-controlling interests, net of taxes .....		34,234		256,376
Non-controlling interests .....		—		—
Net unrealized gains on available-for-sale securities, net of taxes .....	¥	34,234	\$	256,376

## 9. Loans and Bills Discounted, Other Assets

Loans based on the Banking Act and the Law concerning Emergency Measures for the Revitalization of the Financial Functions are as follows:

Loans are defined as corporate bonds included in "Securities" in the consolidated balance sheet (the whole or part of the redemption of the principal and payment of interest are guaranteed and limited to the corporate bonds issued through private placement of the securities (as provided for by Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)), loans, foreign exchange, those which are included in the accounts of accrued interest and temporary payments under other assets and customers' liabilities for acceptances and guarantees and lent securities (limited to loan contract for use or lease contracts).

	Millions of Yen		Thousands of U.S. Dollars	
	2023			
Loans in Bankruptcy/rehabilitation or similar proceedings .....	¥	20,019	\$	149,921
Loans at risk .....		62,106		465,108
Loans past due three months or more but less than six months .....		724		5,422
Restructured loans .....		26,295		196,922
Total .....	¥	109,146	\$	817,389

Loans under bankruptcy/rehabilitation or similar proceedings are loans to borrowers under bankruptcy or similar proceedings due to the commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, petition for rehabilitation proceedings, etc.

Loans at risk are loans whose principal and interest are not likely to be collected pursuant to the contract due to the deteriorated financial positions and operating performances of the debtors, although they have not gone bankrupt, and do not fall in the category of loans under bankruptcy/rehabilitation or similar proceedings.

Loans past due three months or more but less than six months are loans whose payment of principal and/or interest is past due for three months or more from the due date, and which do not fall in the category of loans under bankruptcy/rehabilitation or similar proceedings, or loans at risk.

Restructured loans are loans whose terms and conditions have been amended in favor of borrowers, in order to facilitate or assist the borrowers' restructuring by reducing the rate of interest, by providing a grace period for the payment of principal or interest, or by loan forgiveness, and are not classified in any of the above categories.

The amounts of above loans are before deducting reserve for possible loan losses.

Bills discounted such as commercial bills discounted and foreign exchanges bought are accounted for as financial transactions in accordance with the

“Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry” (JICPA Industry Committee Practical Guideline No. 24, March 17, 2022). The Company has the right to sell or pledge (re-pledge) commercial bills discounted and foreign exchange bought without restriction. The total face amount of such instruments as at March 31, 2023 was ¥14,800 million (\$110,836 thousand).

The amount of loan participation recorded in the consolidated balance sheet and included in participated principals that were accounted for as loans to original debtors in accordance with “Accounting Treatment and Representation of Loan Participation” (JICPA Accounting System Committee Report No. 3, November 28, 2014), was ¥1,363 million (\$10,207 thousand) as at March 31, 2023.

## 10. Commitment Lines

Commitment line agreements are loan agreements that oblige the Company and its consolidated subsidiaries to lend funds up to certain limits agreed to in advance. The Company and its consolidated subsidiaries make loans upon the request of an obligor to draw down funds as long as there is no breach in the various terms and conditions stipulated in the relevant agreement. The total unused commitment line balance related to these agreements as at March 31, 2023 amounted to ¥1,564,786 million (\$11,718,610 thousand). Of this amount, ¥1,450,085 million (\$10,859,619 thousand) was related to loans in which the term of the agreement was one year or less or for which the unconditional cancellation of the agreement was allowed at any time.

With many of these commitment line agreements, the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment does not necessarily affect future cash flows. In certain loan agreements, conditions are included that allow consolidated subsidiaries and subsidiary corporations, etc. either to decline the request to drawdown the loan or to reduce the agreed limit when there is cause to do so, such as when there is a change in financial condition or when it is necessary to protect credit of the consolidated subsidiaries and subsidiary corporations, etc. The consolidated subsidiaries and subsidiary corporations, etc. take various measures to protect their credit, including having the obligor pledge collateral such as real estate or securities when signing a loan agreement or confirming the obligor's financial condition at regular intervals in accordance with the established internal procedures of the consolidated subsidiaries and subsidiary corporations, etc.

## 11. Tangible Fixed Assets

Tangible fixed assets as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Land .....	¥ 18,827	\$ 140,994
Buildings .....	10,043	75,211
Lease assets .....	1,595	11,944
Other tangible fixed assets .....	5,101	38,201
Construction in progress.....	62	464
Total.....	¥ 35,631	\$ 266,838

Accumulated depreciation as at March 31, 2023 was ¥82,030 million (\$614,318 thousand). The amount that was directly offset against acquisition costs as at March 31, 2023 was ¥4,909 million (\$36,763 thousand).

The differences between the recoverable amount and the book value of the assets below were recognized as “Losses on impairment of fixed assets” for the year ended March 31, 2023 as follows:

(Millions of Yen) 2023

	Purpose of Use		Type	Losses on impairment of fixed assets
Okayama Prefecture	Branches	4 branches	Land and buildings	¥54
	Idle assets	1 item		
Prefectures other than Okayama	Idle assets	2 items	Land	¥0

(Thousands of U.S. Dollars) 2023

	Purpose of Use		Type	Losses on impairment of fixed assets
Okayama Prefecture	Branches	4 branches	Land and buildings	\$404
	Idle assets	1 item		
Prefectures other than Okayama	Idle assets	2 items	Land	\$0

Within the consolidated subsidiary that engage in the banking business, the Group office or branch manages and determines income and expenses, and it is the Group office or branch that is the smallest unit of an asset group for recognition and measurement of impairment loss. Fixed assets that do not have identifiable cash flows, such as the corporate headquarters' facilities, the computer center and recreational facilities, are grouped with other assets. As for idle assets and assets to be disposed of, impairment loss on each asset is measured individually.

With regard to the Company and other consolidated subsidiaries, each company is considered as the smallest grouping unit.

For assets in which investments were not expected to be recovered following the decision of branch consolidation, etc. made by The Chugoku Bank, Limited, a consolidated subsidiary of the Company, the Company reduced the carrying amount for branches to the recoverable amount (the net realizable value for all assets) and recognized a corresponding loss of ¥55 million (\$411 thousand) as “Losses on impairment of fixed assets” for the year ended March 31, 2023.

The recoverable amount for branches was the net realizable value. The net realizable value was based on the appraisal value in accordance with Real Estate Appraisal Standards.

## 12. Intangible Fixed Assets

Intangible fixed assets as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Software.....	¥ 1,251	\$ 9,368
Software in progress .....	367	2,748
Other intangible fixed assets.....	93	696
Total.....	¥ 1,712	\$ 12,821

## 13. Pledged Assets

Pledged assets as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Securities .....	¥ 802,802	\$ 6,012,147
Loans and bills discounted .....	479,785	3,593,087
Other assets .....	73	546
Total.....	¥ 1,282,662	\$ 9,605,796

Liabilities secured by pledged assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Payables under securities lending transactions ....	¥ 423,430	\$ 3,171,047
Borrowed money .....	305,599	2,288,616
Payables under repurchase agreements .....	93,913	703,310
Deposits .....	24,071	180,266
Total .....	¥ 847,014	\$ 6,343,248

In addition, the following assets were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes as at March 31, 2023:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Securities .....	¥ 57,981	\$ 434,217
Trading account securities .....	98	733
Other assets .....	25	187

Other assets included the following items as at March 31, 2023:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Initial margins for central counterparty .....	¥ 52,569	\$ 393,686
Cash collateral paid for financial instruments .....	46,309	346,805
Initial margins for futures markets .....	1,902	14,243
Guarantee deposits .....	808	6,051

#### 14. Deferred Tax Assets (Liabilities)

Significant components of deferred tax assets and liabilities as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Deferred tax assets:		
Reserve for possible loan losses .....	¥ 15,830	\$ 118,550
Unrealized losses on available-for-sale securities...	11,592	86,811
Net defined benefit liability .....	8,497	63,633
Depreciation .....	3,896	29,176
Deferred losses on hedging instruments .....	2,207	16,528
Losses on impairment of fixed assets .....	1,246	9,331
Accrued employees' bonuses .....	534	3,999
Write-down of securities .....	532	3,984
Software .....	463	3,467
Other .....	1,621	12,139
Subtotal .....	46,422	347,652
Valuation allowance .....	(1,908)	(14,288)
Total deferred tax assets .....	44,513	333,355

Deferred tax liabilities:

Unrealized gains on available-for-sale securities..	(26,357)	(197,386)
Deferred gains on hedges .....	(750)	(5,616)
Reserve for advanced depreciation of tangible fixed assets .....	(235)	(1,759)
Other .....	(0)	(0)
Total deferred tax liabilities .....	(27,343)	(204,770)
Net deferred tax assets (liabilities) .....	¥ 17,170	\$ 128,585

Figures for reconciliation between the statutory tax rate and the effective tax rate of the Company for the year ended March 31, 2023 have been omitted as the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

#### 15. Borrowed Money, Commercial Paper and Other Liabilities

Borrowed money, commercial paper and other liabilities as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Borrowed money .....	¥ 320,843	\$ 2,402,778
Commercial paper .....	46,530	348,461
Lease liabilities (due within one year) .....	220	1,647
Lease liabilities (due after one year) .....	1,153	8,634

The weighted average interest rates on the outstanding balances as at March 31, 2023 were as follows:

	2023
Borrowed money .....	1.146%
Commercial paper .....	4.978%
Lease liabilities (due within one year) .....	—
Lease liabilities (due after one year) .....	—

Note: The weighted average interest rate is not shown for lease liabilities because the Company uses a method that includes amounts equal to the interest in the total capital lease liabilities and that spreads the total amount equal to interest equally over each fiscal year of the lease period.

Borrowed money classified by maturity as at March 31, 2023 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Less than one year .....	¥ 310,338	\$ 2,324,106
From one to two years .....	3,735	27,971
From two to three years .....	2,886	21,613
From three to four years .....	1,628	12,192
From four to five years .....	730	5,466
Over five years .....	1,524	11,413
Total borrowed money .....	¥ 320,843	\$ 2,402,778

Commercial paper classified by maturity as at March 31, 2023 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Less than one year .....	¥ 46,530	\$ 348,461
Total commercial paper .....	¥ 46,530	\$ 348,461

Lease liabilities classified by maturity as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Less than one year .....	¥ 220	\$ 1,647
From one to two years .....	218	1,632
From two to three years .....	217	1,625
From three to four years .....	215	1,610
From four to five years .....	215	1,610
Over five years .....	286	2,141
Total lease liabilities .....	¥ 1,374	\$ 10,289

## 16. Bonds Payable

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Subordinated bond.....	¥ 10,000	\$ 74,889

## 17. Liability for Employees' Severance and Retirement Benefits (1) Outline of retirement benefit plans

The consolidated subsidiary that engage in the banking business has defined retirement benefit plans and contribution retirement benefit plans. As for defined retirement benefit plans, the consolidated subsidiary that engage in the banking business has a corporate pension fund plan and a lump-sum payment plan.

Other consolidated subsidiaries mostly provide unfunded lump-sum payment plans. In determining projected benefit obligation, a simplified method has been adopted, and the consolidated subsidiary that engage in the banking business has set up an employees' retirement benefit trust.

### (2) Defined benefit plans

(a) Changes in projected benefit obligation for the year ended March 31, 2023, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Beginning balance of projected benefit obligation....	¥ 61,490	\$ 460,495
Service cost .....	1,757	13,158
Interest cost .....	122	913
Actuarial differences .....	65	486
Retirement benefits paid .....	(1,690)	(12,656)
Prior service cost .....	—	—
Other .....	—	—
Ending balance of projected benefit obligation .....	¥ 61,745	\$ 462,405

(b) Changes in plan assets for the year ended March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Beginning balance of plan assets .....	¥ 59,685	\$ 446,978
Expected return on plan assets .....	1,376	10,304
Actuarial differences .....	(2,875)	(21,530)
Contribution from the employer.....	1,449	10,851
Retirement benefits paid .....	(1,358)	(10,169)
Other .....	—	—
Ending balance of plan assets.....	¥ 58,279	\$ 436,448

(c) Reconciliation between the ending balances of projected benefit obligation and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Funded defined benefit obligation.....	¥ 61,342	\$ 459,387
Plan assets.....	(58,279)	(436,448)
	3,063	22,938
Unfunded defined benefit obligation .....	402	3,010
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 3,466	\$ 25,956

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Net defined benefit liability.....	¥ 3,466	\$ 25,956
Net defined benefit asset.....	—	—
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 3,466	\$ 25,956

(d) The components of retirement benefit expenses for the year ended March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Service cost.....	¥ 1,757	\$ 13,158
Interest cost .....	122	913
Expected return on plan assets .....	(1,376)	(10,304)
Amortization of actuarial differences.....	1,406	10,529
Amortization of prior service cost .....	(418)	(3,130)
Other .....	(7)	(52)
Retirement benefit expenses on defined benefit plans.....	¥ 1,483	\$ 11,106

Note: Retirement benefit expenses of consolidated subsidiaries that adopted the simplified method are included in "Service cost."

(e) The components of adjustments for retirement benefits (before tax effect) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Prior service cost .....	¥ (418)	\$ (3,130)
Actuarial differences .....	(1,534)	(11,488)
Total.....	¥ (1,952)	\$ (14,618)

(f) The components of accumulated adjustments for retirement benefits (before tax effect) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Unrecognized prior service cost .....	¥ 3,694	\$ 27,664
Unrecognized actuarial differences.....	(10,627)	(79,585)
Other .....	—	—
Total.....	¥ (6,932)	\$ (51,913)

(g) Plan assets

1) Components of plan assets

Plan assets consisted of the following:

	2023
Investment trusts .....	23.5%
Equity securities.....	18.2%
Cash and deposits .....	20.7%
Bonds .....	10.0%
General account.....	7.7%
Other .....	19.9%
Total.....	100%

Note: Total plan assets as at March 31, 2023 included an employees' retirement benefit trust established for corporate welfare pension plans that represented 42.0% of the total plan assets.

2) Method used to determine the long-term expected rate of return on plan assets  
The long-term expected rate of return on plan assets is determined by considering the allocation of plan assets and the long-term rates of return, which are expected currently and in the future from the various components of the plan assets.

**(h) Assumptions used for the year ended March 31, 2023 were as follows:**

	2023
Discount rate	<b>0.200%</b>
Long-term expected rate of return	<b>2.100% - 2.622%</b>

Note: Since the Company has applied the benefit formula basis for calculating retirement benefit obligation, the expected rate of salary increase is not taken into consideration.

**(3) Amount of retirement benefit expenses for defined contribution plans**

The amount of required contribution to the defined contribution plan of the consolidated subsidiaries for the year ended March 31, 2023 was ¥200 million (\$1,497 thousand).

**18. Derivative Transactions**

Derivative transactions as at March 31, 2023 were as follows:

**(1) Derivative transactions to which hedge accounting is not applied**

For derivative transactions to which hedge accounting is not applied, the contract amount or corresponding principal amount stipulated by the contract, the fair value, recognized gains (losses) and the method used to calculate fair value by type of transaction as of the consolidated balance sheet date are set forth in the tables below. The actual contract amounts do not indicate the market risk for the derivative transactions themselves.

Interest Rate Derivatives:

Type	Millions of Yen			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating.....	¥ 62,723	¥ 59,377	¥ 1,263	¥ 1,263
Pay floating/ receive fixed.....	59,165	56,419	(805)	(805)
Total.....			¥ 457	¥ 457

Type	Thousands of U.S. Dollars			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating.....	\$ 469,729	\$ 444,671	\$ 9,458	\$ 9,458
Pay floating/ receive fixed.....	443,083	422,519	(6,028)	(6,028)
Total.....			\$ 3,422	\$ 3,422

Note: The above transactions were stated at fair value, and gains and losses were recognized in the consolidated statements of income.

Currency-related Derivatives:

Type	Millions of Yen			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps.....	¥1,014,530	¥ 967,776	¥ (7)	¥ (7)
Forward foreign exchange				
Sold.....	90,391	70,931	(1,691)	(1,691)
Bought.....	86,927	68,246	3,238	3,238
Currency options				
Sold.....	4,600	2,014	(82)	73
Bought.....	4,600	2,014	82	(50)
Total.....			¥ 1,539	¥ 1,562

Type	Thousands of U.S. Dollars			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps.....	\$7,597,768	\$7,247,629	\$ (52)	\$ (52)
Forward foreign exchange				
Sold.....	676,934	531,198	(12,663)	(12,663)
Bought.....	650,992	511,091	24,249	24,249
Currency options				
Sold.....	34,449	15,082	(614)	546
Bought.....	34,449	15,082	614	(374)
Total.....			\$ 11,525	\$ 11,697

Note: The above transactions were stated at fair value, and gains and losses were recognized in the consolidated statements of income.

Bond-related Derivatives:

Type	Millions of Yen			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold.....	¥ 1,600	¥ —	¥ (29)	¥ (29)
Total.....			¥ (29)	¥ (29)

Type	Thousands of U.S. Dollars			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold.....	\$ 11,982	\$ —	\$ (217)	\$ (217)
Total.....			\$ (217)	\$ (217)

Note: The above transactions were stated at fair value, and gains and losses were recognized in the consolidated statements of income.

## (2) Derivative transactions to which hedge accounting is applied

For derivative transactions to which hedge accounting is applied, the contract amounts or corresponding principal amounts stipulated by the contract, the fair value, the method used to calculate fair value by type of transaction and the hedge accounting method as of the consolidated balance sheet date are set forth in the tables below. The actual contract amounts do not indicate the market risk for the derivative transactions themselves.

### Interest Rate Derivatives:

		Millions of Yen		
		2023		
Type	Hedged items	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Interest rate swaps	Loans and bills discounted and available-for-sale			
Pay fixed/receive floating .....	securities (bonds)	¥ 431,106	¥ 421,130	¥ (4,573)
Total.....				¥ (4,573)

		Thousands of U.S. Dollars		
		2023		
Type	Hedged items	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Interest rate swaps	Loans and bills discounted and available-for-sale			
Pay fixed/receive floating .....	securities (bonds)	\$3,228,532	\$3,153,823	\$(34,246)
Total.....				\$(34,246)

Note: The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 24, March 17, 2022).

### Currency-related Derivatives:

		Millions of Yen		
		2023		
Type	Hedged items	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Fund-related swaps .....	Call loans	¥ 22,566	¥ —	¥ 106
Currency swaps .....	Loans	405,763	256,432	(309)
Total.....				¥ (203)

		Thousands of U.S. Dollars		
		2023		
Type	Hedged items	Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting				
Fund-related swaps .....	Call loans	\$ 168,995	\$ —	\$ 793
Currency swaps .....	Loans	3,038,740	1,920,407	(2,314)
Total.....				\$ (1,520)

Note: The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 25, October 8, 2020).

## 19. Lease Transactions

Information about operating leases as at March 31, 2023 was as follows:

As lessee:

Obligations under operating leases that were not cancellable as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Due within one year .....	¥ 112	\$ 838
Due after one year .....	465	3,482
Total.....	¥ 578	\$ 4,328

## 20. Other Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Net unrealized losses on available-for-sale securities:		
Decrease during the year	¥ (64,206)	\$ (480,835)
Reclassification adjustments	16,128	120,781
Subtotal, before tax	(48,078)	(360,053)
Tax benefit	14,704	110,117
Subtotal, net of tax	(33,373)	(249,928)
Net deferred losses on hedging instruments:		
Decrease during the year	(3,006)	(22,511)
Reclassification adjustments	(897)	(6,717)
Subtotal, before tax	(3,904)	(29,236)
Tax benefit	1,190	8,911
Subtotal, net of tax	(2,713)	(20,317)
Adjustments for retirement benefits:		
Decrease during the year	(2,940)	(22,017)
Reclassification adjustments	988	7,399
Subtotal, before tax	(1,952)	(14,618)
Tax benefit	595	4,455
Subtotal, net of tax	(1,356)	(10,155)
Total other comprehensive income	¥ (37,443)	\$ (280,408)

## 21. Financial Instruments

### (1) Information about Status of Financial Instruments

#### (a) Policies for using financial instruments

The Group is engaged in financial services, primarily the banking business. The Group's core business of banking is mainly financing through deposit-taking operations and investing funds through its loan and securities investment operations.

The Group engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest and exchange rates related to assets and liabilities held by the Group as well as the risk of fluctuation in the market prices of bonds, stocks and other investment instruments held by the Group. In addition, the Group provides hedging services to customers in accordance with their needs.

#### (b) Details of financial instruments used and the exposure to risks and how they arise

The financial assets held by the Group consist primarily of loans to corporations, local public organizations, local public corporations and individuals in Japan. The Group's loans are categorized into bills discounted,

loans on bills, loans on deeds and overdrafts. These loans are subject to the “credit risk” of decline in value or loss due to changes in the financial status of those to whom credit is provided and to the “interest rate risk” of decline in value due to changes in interest rates.

Among other financial assets, the Group holds securities, trading account securities and other debt purchased, which mainly comprise Japanese stocks and bonds and foreign bonds and trust certificates. The purpose of these instruments include holding to maturity, investment and business development. As financial assets, they are subject to various types of risk. These include the credit risk of the issuer, interest rate risk, which is the risk that the value of the assets may decline due to changes in the prices of securities or other assets (“price fluctuation risk”) and the risk of loss incurred if exchange rates differ from original expectations (“exchange rate risk”). Moreover, the Group’s financial assets are subject to the risk that the Group might not be able to make trades due to turmoil, etc., in the marketplace or be unable to avoid making trades at prices that are more notably disadvantageous than usual (“liquidity risk”). Note that interest rate, price fluctuation and exchange rate risks are collectively known as “market risk.”

The Group also holds financial liabilities in the form of deposits and negotiable certificates of deposit, which are chiefly deposits held in yen or a foreign currency by corporations, local public organizations, local public corporations and individuals in Japan. These deposits are categorized into current deposits, ordinary deposits, saving deposits, deposits at notice, time deposits, installment time deposits, deposits for tax payment, non-resident yen deposits, foreign currency deposits and deposits for offshore accounts. The deposits are subject to the interest rate risk as well as the risk of loss arising from the Group having difficulty in raising necessary funds or being forced to raise funds at significantly higher interest rates than usual in the event of a shortage of capital due to a mismatch in the terms of the Group’s deposits and its investment portfolio of loans and securities or an unexpected run on the Group’s deposits (“funding risk”).

Derivative transactions include interest rate-related transactions (swaps and caps), currency-related transactions (swaps, options, forward exchange contracts and non-deliverable forwards), bond-related transactions (bond futures and bond options), stock-related transactions (stock futures and stock options) and credit derivative transactions (credit default swaps). The Group engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest or exchange rates related to assets and liabilities held by the Group and fluctuations in the market prices of bonds, stocks and other investment instruments held by the Group. The Group also provides hedging services to customers in accordance with their needs. Although the Group uses derivative transactions to capture short-term gains in assets for trading purposes, any possible loss on these derivative transactions is limited by maintaining a fixed position quota and capping allowed losses.

Of the above-mentioned derivative transactions, used for hedging purposes are carried out in accordance with the hedging policies (reduction of interest risk, etc.) stipulated in the Company’s internal operating regulations and include interest rate swaps for loans and securities and currency swaps for foreign-currency-denominated securities and deposits. In evaluating the effectiveness of hedges, the Group groups together the loans and interest rate swaps used for market value hedges by the specific term (remaining) of the positions to determine performance. In some cases, the Group also assesses the effectiveness of market value hedging instruments on an individual basis. The Group uses currency swaps and other methods to hedge exchange rate risks and evaluates the effectiveness of the hedges by confirming that a foreign currency hedge position exists in an amount equivalent to the foreign-currency-denominated monetary assets or liabilities being hedged.

### **(c) Policies and processes for managing risk**

#### **1) Credit Risk Management**

Credit risk refers to loss incurred when the value of assets (including off-balance-sheet assets) declines or becomes worthless due to changes in the financial status of those to whom credit is provided.

The Group’s objective of credit risk management is to maintain and improve its financial soundness by appropriately managing credit operations in order to contribute to the sound development of society and the economy, and through this, the development of the Group itself. In addition, the basic credit risk management policy is to appropriately manage the credit risks of the diverse transactions of each of its divisions and business sections in a comprehensive and integrated manner, using credit risk assessment and management methods that suit the special characteristics of each transaction.

Based on this framework, the Group companies manage credit risks pursuant to the basic credit risk management policy, and the Management Administration Department, which is the credit risk management control department, supervises and manages the credit risks of the entire Group.

Credit risk management entails a credit management system that establishes standards and procedures for making credit decisions, and a credit risk assessment system that is part of those procedures and establishes standards and procedures for assessing credit risks as a basis for making credit decisions. These systems are appropriately operated to control risks by preventing the occurrence of credit risk losses or keeping them within a certain range. Credit concentration risks are also managed appropriately by avoiding excessive concentration of credit to specific customers, groups, or industries. Through these efforts, the Group strives to ensure the control of credit risks and its ability to earn stable income.

In light of the importance of capital adequacy requirements in terms of risk management and information disclosure, the Group strictly measures regulatory capital requirements for credit risks under the credit risk management framework. The Group has a scheme in place to assess credit risks and financial conditions under stress conditions such as economic downturns and defaults of large borrowers, to evaluate capital adequacy and the appropriateness of risk management plans, and to reflect the results in credit management and other activities.

#### **2) Market Risk Management**

Market risk refers to the risk of incurring loss from fluctuations in profits arising from assets and liabilities and the risk of incurring loss from fluctuations in the value of assets and liabilities (including off-balance-sheet assets and liabilities) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Group’s basic risk management policy for market risk is to determine and analyze the risk from the point of view of fluctuations in both present value and net interest income and to assess the risk from various angles using stress tests and other methods.

Based on this framework, the Group companies manage market risks pursuant to the basic market risk management policy, and the Management Administration Department, which is the market risk management control department, supervises and manages the market risks of the entire Group.

Trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. The limits are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risk by taking the risk-return balance into consideration through ALM analysis, Value at Risk (VaR) analysis and other means to ensure stable profits over the medium- to long-term. The Group has also

established a system for the flexible management of market risk as well as credit risk and liquidity risk related to market operations.

Market risk management, including lending and deposit services, is carried out by analyzing risk from multiple aspects such as the calculation of interest rate risk. The Group Risk Management Committee and the Group ALM Committee discuss the overall management of assets and liabilities and evaluate management and lending policies.

#### *Quantitative Information about Market Risk*

(Financial instruments to which quantitative analysis of market risk is applied for the purpose of risk management)

The Group measures market risk volume using VaR and monitors, analyzes, evaluates and controls risks from various aspects, implementing limit controls and stress tests.

The Group has adopted a variance-covariance model assuming that fluctuations in prices and interest rates will follow a normal distribution and uses a five-year observation period, a 99.9% confidence interval, a 125-business-day holding period for banking business and a 10-business-day holding period for trading activities. Among financial instruments, market price fluctuation risk is measured for equity securities (excluding unlisted equity securities), investment trusts and other assets. Interest rate risk is measured for debt securities, deposits and loans, taking into consideration the correlation between price fluctuation risk and interest rate risk.

Under normal circumstances, interest rates will generally rise when stock prices rise (prices of debt securities will decline) and decline when the stock prices decline (prices of debt securities will rise). Thus, stock prices and interest rates are mutually related, and stock prices and prices of debt securities are inversely related. The Company maintains a market risk volume smaller than the total price fluctuation risk and interest rate risk taking the correlation into account. At a time of stress, such as in times of a drastic change in the market environment, there is a possibility that the above correlation would not work and another complementary system would be established by different stress tests and capital allocation.

Market risk volume as of March 31, 2023 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Market risk volume .....	¥ 144,120	\$ 1,079,308
Banking business.....	144,104	1,079,188
[Price fluctuation risk] .....	[94,720]	[709,353]
[Interest rate risk] .....	[60,904]	[456,107]
[Considering correlation] .....	[(11,520)]	[(86,272)]
Trading activities .....	16	119

The Group conducts back testing, which compares VaR and profit and loss on a regular basis to verify the effectiveness of its measurement of market risk. The profit or loss expected at the time the measurement of VaR is fixed is used for comparison. As a result of back testing, the Group has determined that there is no problem with its market risk measurement model and measurement methods.

However, since VaR is statistically computed under certain assumptions based on historical market fluctuations, certain risks beyond the assumptions may not be fully captured. Accordingly, a complementary system is established by different stress tests and other considerations.

(Financial instruments to which quantitative analysis of market risk is not applied for the purpose of risk management)

The Group does not apply market risk measurement to unlisted equity securities, which are measured by credit risk.

### 3) Liquidity Risk Management

Liquidity risk refers to the risk of incurring losses when it becomes difficult to secure the requisite funds or when funds at a much higher than normal interest rate become necessary due to a mismatch between the timing of procurement and use, an unexpected outflow of funds (hereafter, "funds procurement risks") or risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, "market liquidity risk").

The Group recognizes funds procurement as an important management issue, and its basic funds procurement risk policy is to ensure a stable supply of funds. The Group's basic policy for managing market liquidity risk is to take into consideration the special features of markets such as market size, liquidity and other factors and pay careful attention to market liquidity.

Based on this framework, the Group companies manage liquidity risks pursuant to the basic liquidity risk management policy, and the Management Administration Department, which is the liquidity risk management control department, supervises and manages the liquidity risks of the entire Group.

Liquidity risk management entails careful monitoring of the daily status of funds procurement, including monitoring of early warning indicators, striving to limit the risks involved in the procurement of funds. In addition, liquidity risks are managed by establishing the management policies for risks of procuring funds such as policies on holding highly liquid assets and setting limits on financing gap between investments and procurement for a certain period.

Deposits comprise the vast majority of procurement for The Chugoku Bank, Limited, which is a consolidated subsidiary of particular importance. Although the procurement of funds is stable, the Group is working to diversify the means of procurement to prepare for unforeseen circumstances such as procurement from the market utilizing marketable securities held by The Chugoku Bank, Limited. In addition, the Group verifies that funding is available for foreign currencies through stress tests that assume a market funding environment that deteriorates and makes it difficult to procure funds in the market. The Group also measures and manages the foreign currency stability ratio, which indicates the degree of stability of foreign currency investments and funding, to maintain the medium- to long-term stability of the foreign currency balance sheet. Furthermore, the Group monitors various indicators related to the yen and foreign currency funding environment, and has a scheme in place to consider and implement countermeasures in response to changes in the environment.

#### **(d) Supplementary information on fair values**

In calculating fair value of financial instruments, certain assumptions are adopted and other factors considered, and the values may differ when adopting different assumptions and when considering other factors.

## (2) Fair Values of Financial Instruments

The following are the consolidated balance sheet amounts and fair values and any differences between them as of March 31, 2023. Equity securities, etc., without market prices and investments in partnerships are not included in the table below (see Note 1). In addition, the notes on cash and due from banks and payables under securities lending transactions are omitted because they are matured or settled in a short period of time and their fair values approximate the book values.

	Millions of Yen		
	2023		
	Book value	Fair value	Difference
<b>Assets</b>			
(1) Trading account securities .....	¥ 2,023	¥ 2,023	—
(2) Money trusts.....	24,600	24,600	—
(3) Securities			
Held-to-maturity debt securities .....	13,298	13,404	¥ 105
Available-for-sale securities(*1) .....	2,286,318	2,286,318	—
(4) Loans and bills discounted.....	5,555,795		
Reserve for possible loan losses (*2).....	(52,963)		
	5,502,832	5,538,125	35,293
Total assets.....	¥ 7,829,072	¥ 7,864,470	¥ 35,398
<b>Liabilities</b>			
(1) Deposits .....	¥ 7,898,033	¥ 7,897,592	¥ (440)
(2) Negotiable certificates of deposit.....	155,489	155,493	4
(3) Borrowed money.....	320,843	320,865	21
Total liabilities.....	¥ 8,374,365	¥ 8,373,951	¥ (414)
<b>Derivative transactions (*3)</b>			
Derivative transactions to which hedge accounting is not applied .....	¥ (45,905)	¥ (45,905)	—
Derivative transactions to which hedge accounting is applied (*4).....	(4,777)	(4,777)	—
Total derivative transactions.....	¥ (50,682)	¥ (50,682)	¥ —

	Thousands of U.S. Dollars		
	2023		
	Book value	Fair value	Difference
<b>Assets</b>			
(1) Trading account securities .....	\$ 15,150	\$ 15,150	—
(2) Money trusts.....	184,228	184,228	—
(3) Securities			
Held-to-maturity debt securities .....	99,588	100,381	\$ 786
Available-for-sale securities (*1) .....	17,122,129	17,122,129	—
(4) Loans and bills discounted.....	41,607,092		
Reserve for possible loan losses (*2).....	(396,637)		
	41,210,454	41,474,762	264,307
Total assets.....	\$ 58,631,558	\$ 58,896,652	\$ 265,093
<b>Liabilities</b>			
(1) Deposits .....	\$ 59,148,004	\$ 59,144,701	\$ (3,295)
(2) Negotiable certificates of deposit.....	1,164,449	1,164,479	29
(3) Borrowed money.....	2,402,778	2,402,943	157
Total liabilities.....	\$ 62,715,232	\$ 62,712,132	\$ (3,100)
<b>Derivative transactions (*3)</b>			
Derivative transactions to which hedge accounting is not applied .....	\$ (343,780)	\$ (343,780)	—
Derivative transactions to which hedge accounting is applied (*4).....	(35,774)	(35,774)	—
Total derivative transactions.....	\$ (379,555)	\$ (379,555)	\$ —

Items that did not have a material impact on the consolidated balance sheets were omitted.

(\*1) Available-for-sale securities include investment trusts to which the treatment in Paragraph 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) is applied, where the standard price is deemed to be the fair value.

(\*2) Included are the general reserve for possible loan losses and the specific reserve for possible loan losses.

(\*3) The net claims and obligations on derivative transactions were shown on a net basis, with obligations shown on a net basis indicated by parentheses.

(\*4) These are derivative transactions such as interest rate swaps designated as hedging instruments to fix cash flows of hedged items such as loans, and the deferral method of hedge accounting is primarily adopted. In addition, "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ PITF No. 40, March 17, 2022) is applied to these hedging relationships.

**(Note 1) Equity securities, etc. without market prices and investments in partnerships are indicated below and are not included in “Available-for-sale securities” in the fair value information on financial instruments in the tables above.**

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Unlisted equity securities (*1) (*2).....	¥ 4,116	\$ 30,824
Investments in partnerships (*3).....	20,319	152,168
Foreign stocks in foreign currency (*1) .....	0	0

(\*1) Unlisted equity securities are exempted from fair value disclosures in accordance with Paragraph 5 of “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020).

(\*2) Impairment losses on unlisted equity securities were not recognized.

(\*3) Investments in partnerships, etc., are exempted from fair value disclosures in accordance with Paragraph 24-16 of “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021).

**(Note 2) Maturities of monetary assets and securities with contractual maturities subsequent to the balance sheet date**

	Millions of Yen					
	2023					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	¥ 1,458,299	—	—	—	—	—
Securities .....	157,611	¥ 272,627	¥ 353,254	¥ 166,209	¥ 218,791	¥ 881,413
Held-to-maturity debt securities.....	5,099	6,299	200	—	1,700	—
Japanese government bonds.....	5,099	6,299	—	—	—	—
Japanese municipal bonds.....	—	—	200	—	1,700	—
Available-for-sale securities with maturities .....	152,512	266,328	353,054	166,209	217,091	881,413
Japanese government bonds.....	51,260	36,447	93,204	56,670	90,028	225,902
Japanese municipal bonds.....	21,063	14,038	73,425	85,708	103,591	467,256
Japanese corporate bonds.....	37,091	97,813	91,745	10,405	16,912	70,148
Other.....	43,096	118,029	94,678	13,425	6,560	118,105
Loans and bills discounted (*2) .....	1,448,814	1,094,208	782,294	509,090	524,754	1,085,678
Total.....	¥ 3,064,725	¥ 1,366,836	¥ 1,135,548	¥ 675,299	¥ 743,546	¥ 1,967,091

	Thousands of U.S. Dollars					
	2023					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	\$ 10,921,133	—	—	—	—	—
Securities .....	1,180,341	\$ 2,041,691	\$ 2,645,502	\$ 1,244,731	\$ 1,638,515	\$ 6,600,861
Held-to-maturity debt securities.....	38,186	47,172	1,497	—	12,731	—
Japanese government bonds.....	38,186	47,172	—	—	—	—
Japanese municipal bonds.....	—	—	1,497	—	12,731	—
Available-for-sale securities with maturities .....	1,142,155	1,994,518	2,644,005	1,244,731	1,625,784	6,600,861
Japanese government bonds.....	383,883	272,949	698,000	424,399	674,215	1,691,769
Japanese municipal bonds.....	157,739	105,129	549,876	641,863	775,788	3,499,258
Japanese corporate bonds.....	277,772	732,517	687,074	77,922	126,653	525,335
Other.....	322,743	883,913	709,039	100,539	49,127	884,482
Loans and bills discounted (*2) .....	10,850,101	8,194,473	5,858,563	3,812,551	3,929,858	8,130,592
Total.....	\$ 22,951,583	\$ 10,236,171	\$ 8,504,066	\$ 5,057,283	\$ 5,568,381	\$ 14,731,453

(\*1) Amounts due from banks with no maturity date are included in “Within 1 year.”

(\*2) Loans due from bankrupt borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers in the amount of ¥82,042 million (\$614,408 thousand) and loans without contract due dates in the amount of ¥28,911 million (\$216,513 thousand) are not included in the above tables as at March 31, 2023.

**(Note 3) Repayment schedule of deposits, negotiable certificates of deposit, payables under securities lending transactions and borrowed money subsequent to the balance sheet date**

	Millions of Yen					
	2023					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	¥ 7,674,200	¥ 179,727	¥ 42,919	¥ 308	¥ 877	—
Negotiable certificates of deposit.....	154,339	1,150	—	—	—	—
Payables under securities lending transactions .....	423,430	—	—	—	—	—
Borrowed money.....	310,338	6,621	2,358	559	471	¥ 492
Total.....	¥ 8,562,308	¥ 187,498	¥ 45,278	¥ 868	¥ 1,349	¥ 492

  

	Thousands of U.S. Dollars					
	2023					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	\$ 57,471,729	\$ 1,345,967	\$ 321,418	\$ 2,306	\$ 6,567	—
Negotiable certificates of deposit.....	1,155,837	8,612	—	—	—	—
Payables under securities lending transactions .....	3,171,047	—	—	—	—	—
Borrowed money.....	2,324,106	49,584	17,658	4,186	3,527	\$ 3,684
Total.....	\$ 64,122,728	\$ 1,404,163	\$ 339,084	\$ 6,500	\$ 10,102	\$ 3,684

(\*) Demand deposits are included in "Within 1 year."

**(3) Fair Value Information by Level Within the Fair Value Hierarchy**

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

1) Financial instruments measured at fair values

	Millions of Yen					
	2023					
	Fair value					
	Level 1	Level 2	Level 3	Total		
Money trusts .....	—	¥ 20,000	—	¥ 20,000		
Trading account securities and securities						
Trading securities						
Japanese government bonds and Japanese municipal bonds, etc.....	¥ 256	1,766	—	2,023		
Available-for-sale securities (*1)						
Equity securities .....	113,479	—	—	113,479		
Japanese government bonds .....	552,442	1,071	—	553,513		
Japanese municipal bonds.....	—	765,083	—	765,083		
Japanese corporate bonds .....	—	224,601	¥ 99,515	324,116		
Other .....	177,606	344,484	6,911	529,002		
Total assets .....	¥ 843,785	¥ 1,357,006	¥ 106,426	¥ 2,307,218		
Derivative transactions (*2)						
Interest rate-related derivatives.....	—	¥ (4,116)	—	¥ (4,116)		
Currency-related derivatives .....	—	(46,537)	—	(46,537)		
Bond-related derivatives.....	¥ (29)	—	—	(29)		
Total derivative transactions.....	¥ (29)	¥ (50,653)	¥ —	¥ (50,682)		

	Thousands of U.S. Dollars				
	2023				
	Fair value				
	Level 1	Level 2	Level 3	Total	
Money trusts .....	—	\$ 149,779	—	\$ 149,779	
Trading account securities and securities					
Trading securities					
Japanese government bonds and Japanese municipal bonds, etc.....	\$ 1,917	13,225	—	15,150	
Available-for-sale securities (*1)					
Equity securities .....	849,838	—	—	849,838	
Japanese government bonds.....	4,137,212	8,020	—	4,145,233	
Japanese municipal bonds.....	—	5,729,671	—	5,729,671	
Japanese corporate bonds .....	—	1,682,026	\$ 745,263	2,427,289	
Other .....	1,330,083	2,579,824	51,756	3,961,671	
Total assets .....	\$ 6,319,066	\$ 10,162,555	\$ 797,019	\$ 17,278,648	
Derivative transactions (*2)					
Interest rate-related derivatives.....	—	\$ (30,824)	—	\$ (30,824)	
Currency-related derivatives .....	—	(348,513)	—	(348,513)	
Bond-related derivatives.....	\$ (217)	—	—	(217)	
Total derivative transactions.....	\$ (217)	\$ (379,337)	\$ —	\$ (379,555)	

(\*1) Available-for-sale securities do not include investment trusts to which the treatment in Paragraph 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) is applied and according to which the standard price is deemed to be the fair value. The carrying amount of the investment trusts to which the treatment in Paragraph 24-9 is applied was ¥1,122 million (\$8,402 thousand).

A reconciliation from the beginning balances to the ending balances of the investment trusts to which the treatment in Paragraph 24-9 is applied

	Millions of Yen							Recognized gains (losses) on investment trusts held at the fiscal year-end included in profit (loss) for the fiscal year
	Profit (loss) or other comprehensive income in the fiscal year		Net amount of purchases, sales, issuances and settlements	Amount where the net asset value of investment trusts is deemed to be the fair value	Amount where the net asset value of investment trusts is not deemed to be the fair value	Ending balance		
	Recorded in profit (loss)	Recorded in other comprehensive income (*a)						
Beginning balance	¥ 877	—	¥ 186	—	—	¥ 1,122	—	

	Thousands of U.S. Dollars							Recognized gains (losses) on investment trusts held at the fiscal year-end included in profit (loss) for the fiscal year
	Profit (loss) or other comprehensive income in the fiscal year		Net amount of purchases, sales, issuances and settlements	Amount where the net asset value of investment trusts is deemed to be the fair value	Amount where the net asset value of investment trusts is not deemed to be the fair value	Ending balance		
	Recorded in profit (loss)	Recorded in other comprehensive income (*a)						
Beginning balance	\$ 6,567	—	\$ 1,392	—	—	\$ 8,402	—	

(\*a) Included in "Net unrealized gains (losses) on available-for-sale securities" under "Other comprehensive income" in the consolidated statements of comprehensive income.

(\*2) The net claims and obligations on derivative transactions were shown on a net basis, with obligations shown on a net basis indicated in parentheses.

2) Financial instruments other than those measured at fair value

	Millions of Yen					
	2023					
	Fair value					
	Level 1	Level 2	Level 3	Total		
Money trusts .....	—	—	¥ 4,600	¥	4,600	
Securities						
Held-to-maturity debt securities						
Japanese government bonds .....	¥ 11,485	—	—		11,485	
Japanese municipal bonds .....	—	¥ 1,919	—		1,919	
Loans and bills discounted .....	—	—	5,538,125		5,538,125	
Total assets .....	¥ 11,485	¥ 1,919	¥ 5,542,725	¥	5,556,129	
Deposits .....	—	¥ 7,897,592	—	¥	7,897,592	
Negotiable certificates of deposit .....	—	155,493	—		155,493	
Borrowed money .....	—	305,599	¥ 15,266		320,865	
Total liabilities .....	¥ —	¥ 8,358,685	¥ 15,266	¥	8,373,951	

	Thousands of U.S. Dollars					
	2023					
	Fair value					
	Level 1	Level 2	Level 3	Total		
Money trusts .....	—	—	\$ 34,449	\$	34,449	
Securities						
Held-to-maturity debt securities						
Japanese government bonds .....	\$ 86,010	—	—		86,010	
Japanese municipal bonds .....	—	\$ 14,371	—		14,371	
Loans and bills discounted .....	—	—	41,474,762		41,474,762	
Total assets .....	\$ 86,010	\$ 14,371	\$ 41,509,211	\$	41,609,593	
Deposits .....	—	\$ 59,144,701	—	\$	59,144,701	
Negotiable certificates of deposit .....	—	1,164,479	—		1,164,479	
Borrowed money .....	—	2,288,616	\$ 114,326		2,402,943	
Total liabilities .....	\$ —	\$ 62,597,805	\$ 114,326	\$	62,712,132	

## **(Note 1) Description of valuation methods and inputs used in the fair value measurement**

### **Assets**

#### ***Money trusts***

In principle, the fair value of money trusts for which trust asset components are securities is based on the price measured in the same method as securities, and is classified as Level 2.

The notes to Money Trusts based on holding purposes are stated in Note 7, "Money Trusts."

#### ***Trading account securities and securities***

The fair value of trading account securities and securities is classified as Level 1 for those whose unadjusted quoted prices in active markets are available, such as for listed equity securities, ETF, listed REIT and Japanese government bonds.

For those using publicly released quoted prices in inactive markets, their fair values are classified as Level 2, such as for Japanese municipal bonds and Japanese corporate bonds. In addition, for investment trusts in cases where there is no transaction price in the market and there are no material restrictions on cancellation or repurchase request such that market participants demand compensation for the risk, the standard price is their fair value and classified as Level 2.

The fair value of private placement bonds is measured by discounting total future cash flows at the risk-free rate plus a premium, which is a credit risk spread of individuals calculated by classification based on in-house rating, and is classified as Level 3.

In cases in which there are no available quoted prices, the fair value is determined using valuation techniques such as the present value method based on future cash flows. Observable inputs, such as swap rates, credit spread and default rates, are made the best of use in the fair value measurement. The fair value measured using significant unobservable inputs is classified as Level 3.

#### ***Loans and bills discounted***

Since the terms of loans on bills, commercial bills discounted and overdrafts are short, the fair value of these items approximates the book value. Therefore, the fair value is deemed to be the book value.

The fair value for loans on deeds is determined by estimating future cash flows for individual transactions and calculating the present value. The discount rate used for commercial businesses, local public organizations and local public corporations is the risk-free rate plus a premium for each in-house credit risk rating factor. For loans to individuals, the interest rate on new loans at the end of the fiscal year under review is used. In estimating future cash flows, since cash flows based on variable interest rates reflect market rates in the short term, their terms are deemed to be the period up to the date of the next interest rate change.

In addition, as to claims against bankrupt borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers, since the estimated amount of bad debt is calculated based on estimated amounts that could be collected from collateral and guarantees, the fair value approximates the consolidated balance sheet amount as of the consolidated balance sheet date minus the present estimated amount of bad debt. Therefore, the fair value is deemed to be this amount.

In measuring these fair values, since the effect of unobservable inputs is significant, these fair values are classified as Level 3.

### **Liabilities**

#### ***Deposits and negotiable certificates of deposit***

For demand deposits, including current deposits and ordinary deposits, the fair value is deemed to be the payment amount required on the consolidated balance sheet date (i.e., book value).

In addition, we calculate the fair values of fixed deposits and others and negotiable certificates of deposit by grouping the deposits based on future cash flows and discounting to present value using the interest rate on new deposits as at March 31, 2023. The fair value is classified as Level 2.

#### ***Borrowed money***

For borrowed money with floating interest rates, the fair value approximates the book value since it follows market interest rates in the short term and the credit standing of the consolidated subsidiaries and subsidiary corporations, etc. has not changed significantly after the transaction. Therefore, the book value serves as fair value.

For borrowed money with fixed interest rates, the fair value is determined based on the present value calculated by discounting the total amount of principal and interest of the borrowed money classified by a certain period, at an interest rate assumed for a new borrowing under the same terms and conditions. For borrowed money whose contract period is short (within a year), the fair value approximates the book value, which is therefore used as fair value.

In measuring these fair values, the fair value is classified as Level 3 if the effect of unobservable inputs is significant. Otherwise, the fair value is classified as Level 2.

#### ***Derivative transactions***

The fair value of derivative transactions is classified as Level 1 for those whose unadjusted quoted prices in active markets are available, such as for bond futures and interest rate futures.

However, as most of the derivative transactions are over-the-counter transactions and there is no publicly released quoted prices, valuation techniques such as the present value method and the Black-Scholes model are used to measure fair value depending on the type of transaction and the period to maturity. The main inputs used in these techniques are interest rates, foreign exchange rates and volatility. In addition, price adjustments are made based on counterparties' credit risk and the Company's own credit risk. In cases in which unobservable inputs are not used or their effect is immaterial, the fair value of derivative transactions is classified as Level 2, such as for plain vanilla interest rate swaps and forward foreign exchange.

**(Note 2) Information about Level 3 fair value of financial instruments measured at fair value**

1) Quantitative information on significant unobservable inputs

	2023			
	Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Japanese corporate bonds				
Private placement bonds	Present value method	Credit risk spread	0.028%-4.688%	0.220%

2) A reconciliation from the beginning balances to the ending balances and recognized gains (losses) included in profit (loss) for the fiscal year

	Millions of Yen							
	2023							
	Beginning balance	Recorded in profit (loss) (*1)	Recorded in other comprehensive income (*2)	Net amount of purchases, sales, issuances and settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance	Recognized gains (losses) on financial assets and financial liabilities held at the fiscal year-end included in profit (loss) for the fiscal year
Trading account securities and securities								
Available-for-sale securities								
Japanese corporate bonds .....	¥ 103,581	¥ (12)	¥ 131	¥ (4,186)	—	—	¥ 99,515	—
Other .....	9,267	—	30	(2,387)	—	—	6,911	—

	Thousands of U.S. Dollars							
	2023							
	Beginning balance	Recorded in profit (loss) (*1)	Recorded in other comprehensive income (*2)	Net amount of purchases, sales, issuances and settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance	Recognized gains (losses) on financial assets and financial liabilities held at the fiscal year-end included in profit (loss) for the fiscal year
Trading account securities and securities								
Available-for-sale securities								
Japanese corporate bonds .....	\$ 775,713	\$ (89)	\$ 981	\$ (31,348)	—	—	\$ 745,263	—
Other .....	69,400	—	224	(17,876)	—	—	51,756	—

(\*1) Included in "Other operating expenses" in the consolidated statements of income.

(\*2) Included in "Net unrealized gains (losses) on available-for-sale securities" under "Other comprehensive income" in the consolidated statements of comprehensive income.

3) Description of valuation processes used for fair value measurement

The back division has established policies and procedures for measuring fair value while the middle division verifies whether inputs used in the fair value measurement and fair value as a result of the measurement are in accordance with the said policies and procedures. In addition, the back division determines the classification of levels of the fair value hierarchy based on the result of such verification. In addition, when using quoted prices obtained from third parties, the Group verifies whether the prices are valid using appropriate methods, such as confirming the valuation techniques and inputs used and comparing them with the fair value of similar financial instruments.

4) Description of sensitivity of the fair value measurement to changes in significant unobservable inputs

**Credit risk spread**

A credit risk spread is an estimated value calculated by classification based on in-house rating. A significant increase or decrease in the credit risk spread will lead to a significant increase or decrease in fair value.

## 22. Revenue Recognition

### (1) Disaggregation of revenue from contracts with customers

Disaggregation of revenue from contracts with customers for the year ended March 31, 2023 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Ordinary income (Note 1).....	¥ 183,586	\$ 1,374,867
Of which, fee and commissions (Note 2) ...	20,545	153,860
Deposit-taking and lending business...	7,887	59,065
Domestic or Foreign exchange business ...	4,803	35,969
Security-related business .....	1,850	13,854
Agency business .....	2,731	20,452
Custody and safe deposit business.....	147	1,100
Guarantee business .....	439	3,287
Other business.....	2,685	20,107
Of which, trust fees .....	0	0
Ordinary income from contracts with customers .....	¥ 20,097	\$ 150,505
Ordinary income other than the above (Note 1).....	163,488	1,224,354
Total ordinary income (Note 1) .....	¥ 183,586	\$ 1,374,867

Notes: 1. Includes revenue based on "Accounting Standard for Financial Instruments" (ASBJ Statement No.10) and "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13).

2. Includes revenue based on "Accounting Standard for Financial Instruments" (ASBJ Statement No.10).

### (2) Balances of receivables and contract liabilities

Disaggregation of receivables from contracts with customers and contract liabilities as of March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Receivables from contracts with customers included in other assets .....	¥ 911	\$ 6,822
Contract liabilities included in other liabilities.....	9	67

## 23. Segment Information

### (1) Description of reportable segments

The Group's reportable segments are components of the Group for which separate information is available and evaluated regularly by the Board of Directors in deciding how to allocate management resources and evaluating operating segment performance. Each operating segment is controlled by each consolidated subsidiary since each company provides different services.

Accordingly, the Group consists of operating segments differentiated by the services each company provides, and the reportable segments are mainly "Banking," "Leasing," and "Securities."

The "Banking" segment provides diversified financial services such as deposit-taking and lending. The "Leasing" segment is engaged in leasing services and installment sales of properties and goods. The "Securities" segment provides brokerage services for financial instruments.

### (2) Changes in reportable segments

Following the establishment of the Company and the reorganization within the Group, the classification of business segments was revised for the fiscal year ended March 31, 2023. As a result, CBS Company, Limited, The Chugin Operation Center Co., Limited, and The Chugin Credit Guarantee Co., Limited, which were previously included in "Other," are now included in the "Banking" segment.

### (3) Methods of measurement for the amounts of ordinary income, profit or loss, assets, liabilities and other items for each reportable segment

The accounting policies for each reportable segment are consistent to those disclosed in Note 2, "Significant Accounting Policies." Intersegment income is based on arm's length prices.

**(4) Information about ordinary income, profit or loss, assets, liabilities and other items is as follows:**

	Millions of Yen							
	2023							
	Reportable segments				Other	Total	Adjustments	Consolidated financial statements
Banking	Leasing	Securities	Total					
Ordinary income:								
External customers .....	¥ 164,419	¥ 14,019	¥ 2,903	¥ 181,343	¥ 2,242	¥ 183,586	—	¥ 183,586
Intersegment income .....	3,126	3,441	69	6,637	12,526	19,164	¥ (19,164)	—
Total .....	¥ 167,546	¥ 17,461	¥ 2,973	¥ 187,981	¥ 14,769	¥ 202,750	¥ (19,164)	¥ 183,586
Segment profit .....	30,360	3,640	239	34,241	11,970	46,211	(16,618)	29,593
Segment assets .....	9,802,088	45,629	9,581	9,857,299	493,865	10,351,164	(501,485)	9,849,678
Segment liabilities .....	9,314,344	24,561	4,821	9,343,727	5,515	9,349,243	(27,459)	9,321,784
Other items:								
Depreciation .....	2,588	496	7	3,092	5	3,098	78	3,177
Interest income .....	93,465	148	1	93,616	9,149	102,765	(9,608)	93,157
Interest expense .....	28,103	102	1	28,206	0	28,207	(73)	28,134

	Thousands of U.S. Dollars							
	2023							
	Reportable segments				Other	Total	Adjustments	Consolidated financial statements
Banking	Leasing	Securities	Total					
Ordinary income:								
External customers .....	\$ 1,231,326	\$ 104,987	\$ 21,740	\$ 1,358,069	\$ 16,790	\$ 1,374,867	—	\$ 1,374,867
Intersegment income .....	23,410	25,769	516	49,704	93,806	143,518	\$ (143,518)	—
Total .....	\$ 1,254,744	\$ 130,764	\$ 22,264	\$ 1,407,781	\$ 110,604	\$ 1,518,385	\$ (143,518)	\$ 1,374,867
Segment profit .....	227,364	27,259	1,789	256,429	89,642	346,072	(124,451)	221,620
Segment assets .....	73,407,384	341,713	71,751	73,820,856	3,698,532	77,519,388	(3,755,597)	73,763,783
Segment liabilities .....	69,754,691	183,936	36,104	69,974,739	41,301	70,016,048	(205,639)	69,810,409
Other items:								
Depreciation .....	19,381	3,714	52	23,155	37	23,200	584	23,792
Interest income .....	699,955	1,108	7	701,085	68,516	769,602	(71,953)	697,648
Interest expense .....	210,462	763	7	211,233	0	211,240	(546)	210,694

- Notes: 1. Ordinary income and ordinary profit (segment profit) are presented in place of net sales and operating profit of non-financial industries. Ordinary income and ordinary profit are calculated by deducting non-recurring items from total income or income before income taxes and non-controlling interests.
2. "Other" represents business segments that are not included in the reportable segments and includes the credit card business and investment management and advisory services in accordance with the Financial Instruments and Exchange Act, etc.
3. Adjustments mainly comprise elimination of intersegment transactions.
4. Chugin Capital Partners Co., Ltd. (newly established on April 1, 2022), Chugin Human Innovations Co., Ltd. (newly established on May 30, 2022), C Cube Consulting Co., Ltd. (newly established on September 1, 2022) and Chugin Financial Group, Inc. (newly established on October 3, 2022) are included in "Other" as their business is the operation of funds, personnel placement business, consulting services, and management, respectively.

Related Information:  
Information about services

	Millions of Yen									
	2023									
	Lending	Securities investment	Services	Other	Total					
Ordinary income from external customers.....	¥	60,325	¥	73,858	¥	20,545	¥	28,855	¥	183,586

	Millions of U.S. Dollars									
	2023									
	Lending	Securities investment	Services	Other	Total					
Ordinary income from external customers.....	\$	451,771	\$	553,119	\$	153,860	\$	216,093	\$	1,374,867

Note: Ordinary income is presented in place of net sales of non-financial industries.

Information about losses on impairment of fixed assets by reportable segments

	Millions of Yen											
	2023											
	Reportable segments											
	Banking	Leasing	Securities	Total	Other	Total						
Losses on impairment of fixed assets.....	¥	55	¥	—	¥	—	¥	55	¥	—	¥	55

	Millions of U.S. Dollars											
	2023											
	Reportable segments											
	Banking	Leasing	Securities	Total	Other	Total						
Losses on impairment of fixed assets.....	\$	411	\$	—	\$	—	\$	411	\$	—	\$	411

## 24. Net Assets

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

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve was included in retained earnings in the accompanying consolidated balance sheets.

The Japanese Banking Law provides that an amount equivalent to at least 20% of cash dividends and other cash appropriations of retained earnings must

be appropriated to a legal reserve until the total amount of legal earnings reserve and additional paid-in capital equals the amount of the Company's stated capital.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or be capitalized. These appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The movement of outstanding shares and cash dividends during the year ended March 31, 2023 was as follows:

### (a) Number of outstanding shares and treasury stock

For the year ended March 31, 2023

Type of shares	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year	Remarks
(Thousands of shares)					
Issued stock:					
Common stock .....	195,272	—	10,500	184,771	Note 1
Treasury stock:					
Common stock .....	9,520	2,071	10,521	1,071	Note 2

Notes: 1. The decrease in issued stock of 10,500 thousand shares was due to the cancellation pursuant to the resolution made at the Board of Directors' meeting.

2. The increase in treasury stock of 2,071 thousand shares was due to the public bidding of 2,071 thousand shares pursuant to the resolution made at the Board of Directors' meeting, and due to purchases of 0 thousand shares of less than one unit.

In addition, the decrease in treasury stock of 10,521 thousand shares was due to the cancellation of 10,500 thousand shares pursuant to the resolution made at the Board of Directors' meeting, the exercise of subscription rights to shares of 20 thousand shares, and due to the sale of 0 thousand shares of less than one unit.

### (b) Dividends paid to the shareholders during the year:

For the year ended March 31, 2023

The Company is a holding company established on October 3, 2022, through a sole share transfer. Accordingly, dividends paid represent the amounts of the wholly owned subsidiary pursuant to a resolution of the general meeting of shareholders or the Board of Directors' meeting.

Date of resolution	Resolution by	Type of shares	Aggregate amount	Amount per share	Date of record	Effective date
Jun. 24, 2022	General meeting of shareholders	Common stock of The Chugoku Bank, Limited	¥3,064 million (\$22,946 thousand)	¥16.50 (\$0.123)	Mar. 31, 2022	Jun. 27, 2022
Nov. 11, 2022	Board of Directors	Common stock of The Chugoku Bank, Limited	¥2,586 million (\$19,366 thousand)	¥14.00 (\$0.104)	Sep. 30, 2022	Dec. 6, 2022

Dividends were applicable to the year ended March 31, 2023 but were not recorded in the accompanying consolidated financial statements since the effective date is subsequent to the current fiscal year:

Date of resolution	Resolution by	Type of shares	Aggregate amount	Amount per share	Date of record	Effective date
Jun. 23, 2023	General meeting of shareholders	Common stock	¥2,939 million (\$22,010 thousand)	¥16.00 (\$0.119)	Mar. 31, 2023	Jun. 26, 2023

The above cash dividends are distributed from retained earnings.

## 25. Cash and Cash Equivalents

The reconciliation between “cash and cash equivalents” in the consolidated statements of cash flows and “cash and due from banks” in the consolidated balance sheets was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Cash and due from banks.....	¥1,510,394	\$11,311,270
Due from banks, excluding the Bank of Japan.....	(4,033)	(30,202)
Cash and cash equivalents .....	¥1,506,361	\$11,281,067

## 26. Stock Options

### (1) Line item where stock option expense is presented and the amount

	Millions of Yen	Thousands of U.S. Dollars
	2023	
General and administrative expenses .....	¥ 39	\$ 292

### (2) Stock options outstanding as of March 31, 2023 were as follows:

Stock Options	Persons granted	Number of options granted (Note 3)	Date of grant	Exercise period
Chugin Financial Group, Inc. 1st Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	3,800	Jul. 31, 2009 (Note 4)	From Oct. 3, 2022 to Jul. 31, 2039
Chugin Financial Group, Inc. 2nd Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	4,700	Aug. 2, 2010 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2040
Chugin Financial Group, Inc. 3rd Subscription Rights to Shares (Note 1)	14 directors of The Chugoku Bank, Limited (Note 2)	7,600	Aug. 1, 2011 (Note 4)	From Oct. 3, 2022 to Aug. 1, 2041
Chugin Financial Group, Inc. 4th Subscription Rights to Shares (Note 1)	14 directors of The Chugoku Bank, Limited (Note 2)	7,400	Aug. 3, 2012 (Note 4)	From Oct. 3, 2022 to Aug. 3, 2042
Chugin Financial Group, Inc. 5th Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	10,300	Aug. 2, 2013 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2043
Chugin Financial Group, Inc. 6th Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	10,600	Aug. 4, 2014 (Note 4)	From Oct. 3, 2022 to Aug. 4, 2044
Chugin Financial Group, Inc. 7th Subscription Rights to Shares (Note 1)	12 directors of The Chugoku Bank, Limited (Note 2)	8,200	Jul. 30, 2015 (Note 4)	From Oct. 3, 2022 to Jul. 30, 2045
Chugin Financial Group, Inc. 8th Subscription Rights to Shares (Note 1)	12 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	13,500	Aug. 2, 2016 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2046
Chugin Financial Group, Inc. 9th Subscription Rights to Shares (Note 1)	9 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	17,400	Aug. 2, 2017 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2047
Chugin Financial Group, Inc. 10th Subscription Rights to Shares (Note 1)	9 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	21,800	Aug. 3, 2018 (Note 4)	From Oct. 3, 2022 to Aug. 3, 2048
Chugin Financial Group, Inc. 11th Subscription Rights to Shares (Note 1)	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	45,300	Aug. 2, 2019 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2049
Chugin Financial Group, Inc. 12th Subscription Rights to Shares (Note 1)	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	48,000	Jul. 30, 2020 (Note 4)	From Oct. 3, 2022 to Jul. 30, 2050
Chugin Financial Group, Inc. 13th Subscription Rights to Shares (Note 1)	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	54,000	Jul. 29, 2021 (Note 4)	From Oct. 3, 2022 to Jul. 29, 2051
Chugin Financial Group, Inc. 14th Subscription Rights to Shares	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members)	50,900	Feb. 2, 2023	From Feb. 3, 2023 to Feb. 2, 2053

Vesting conditions and applicable service periods have not been determined.

Notes: 1. Following the establishment of the Company through a sole share transfer of The Chugoku Bank, Limited, subscription rights to shares of the Company were delivered to the holders of the subscription rights to shares issued by The Chugoku Bank, Limited.

2. Persons granted represent the classification and number of persons granted on the original date of grant at The Chugoku Bank, Limited.

3. Number of options is converted to number of shares.

4. The date of grant represents the original date of grant at The Chugoku Bank, Limited.

The following table describes changes in the number of stock options that existed during the year ended March 31, 2023. Number of stock options is converted to number of shares.

	Number of shares							
	Chugin Financial Group, Inc. 1st Subscription Rights to Shares	Chugin Financial Group, Inc. 2nd Subscription Rights to Shares	Chugin Financial Group, Inc. 3rd Subscription Rights to Shares	Chugin Financial Group, Inc. 4th Subscription Rights to Shares	Chugin Financial Group, Inc. 5th Subscription Rights to Shares	Chugin Financial Group, Inc. 6th Subscription Rights to Shares	Chugin Financial Group, Inc. 7th Subscription Rights to Shares	Chugin Financial Group, Inc. 8th Subscription Rights to Shares
Non-vested:								
April 1, 2022 – Outstanding .....								
Granted .....	3,800	4,700	7,600	7,400	10,300	10,600	8,200	13,500
Forfeited .....	—	—	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	3,800	4,700	7,600	7,400	10,300	10,600	8,200	13,500
Vested:								
April 1, 2022 – Outstanding .....	—	—	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—	—	—
Exercised .....	—	—	—	—	—	—	—	—
Forfeited .....	—	—	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	—	—	—	—	—	—	—	—

	Number of shares					
	Chugin Financial Group, Inc. 9th Subscription Rights to Shares	Chugin Financial Group, Inc. 10th Subscription Rights to Shares	Chugin Financial Group, Inc. 11th Subscription Rights to Shares	Chugin Financial Group, Inc. 12th Subscription Rights to Shares	Chugin Financial Group, Inc. 13th Subscription Rights to Shares	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Non-vested:						
April 1, 2022 – Outstanding .....						
Granted .....	17,400	21,800	45,300	48,000	54,000	50,900
Forfeited .....	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	17,400	21,800	45,300	48,000	54,000	50,900
Vested:						
April 1, 2022 – Outstanding .....	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—
Exercised .....	—	—	—	—	—	—
Forfeited .....	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	—	—	—	—	—	—

Price information for 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th and 14th subscription rights to shares is as follows:

	Yen							
	Chugin Financial Group, Inc. 1st Subscription Rights to Shares	Chugin Financial Group, Inc. 2nd Subscription Rights to Shares	Chugin Financial Group, Inc. 3rd Subscription Rights to Shares	Chugin Financial Group, Inc. 4th Subscription Rights to Shares	Chugin Financial Group, Inc. 5th Subscription Rights to Shares	Chugin Financial Group, Inc. 6th Subscription Rights to Shares	Chugin Financial Group, Inc. 7th Subscription Rights to Shares	Chugin Financial Group, Inc. 8th Subscription Rights to Shares
Exercise price .....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise .....	—	—	—	—	—	—	—	—
Fair appraisal price at date of grant .....	1,197	935	917	926	1,281	1,483	1,815	1,022

	Yen					
	Chugin Financial Group, Inc. 9th Subscription Rights to Shares	Chugin Financial Group, Inc. 10th Subscription Rights to Shares	Chugin Financial Group, Inc. 11th Subscription Rights to Shares	Chugin Financial Group, Inc. 12th Subscription Rights to Shares	Chugin Financial Group, Inc. 13th Subscription Rights to Shares	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Exercise price .....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise .....	—	—	—	—	—	—
Fair appraisal price at date of grant .....	1,508	1,099	753	800	728	777

	U.S. Dollars							
	Chugin Financial Group, Inc. 1st Subscription Rights to Shares	Chugin Financial Group, Inc. 2nd Subscription Rights to Shares	Chugin Financial Group, Inc. 3rd Subscription Rights to Shares	Chugin Financial Group, Inc. 4th Subscription Rights to Shares	Chugin Financial Group, Inc. 5th Subscription Rights to Shares	Chugin Financial Group, Inc. 6th Subscription Rights to Shares	Chugin Financial Group, Inc. 7th Subscription Rights to Shares	Chugin Financial Group, Inc. 8th Subscription Rights to Shares
Exercise price .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average share price at time of exercise ....	—	—	—	—	—	—	—	—
Fair appraisal price at date of grant.....	8.96	7.00	6.86	6.93	9.59	11.10	13.59	7.65

	U.S. Dollars					
	Chugin Financial Group, Inc. 9th Subscription Rights to Shares	Chugin Financial Group, Inc. 10th Subscription Rights to Shares	Chugin Financial Group, Inc. 11th Subscription Rights to Shares	Chugin Financial Group, Inc. 12th Subscription Rights to Shares	Chugin Financial Group, Inc. 13th Subscription Rights to Shares	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Exercise price .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average share price at time of exercise ....	—	—	—	—	—	—
Fair appraisal price at date of grant.....	11.29	8.23	5.63	5.99	5.45	5.81

### (3) Method for estimating the fair value of stock options

The Black-Scholes option pricing model was used to determine fair value.

The assumptions and methods used to estimate the fair value of Chugin Financial Group, Inc. 14th subscription rights to shares were as follows:

	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Volatility of stock prices (Note 1)	27.815%
Estimated remaining outstanding period (Note 2)	5 years and 11 months
Estimated dividend (Note 3)	¥28.00 per share (\$0.209 per share)
Risk-free interest rate (Note 4)	0.279%

Notes: 1. The volatility of stock prices was computed based on the actual stock prices from March 2017 to February 2023, corresponding to the estimated remaining outstanding period.

2. The remaining outstanding period was estimated based on historical data of The Chugoku Bank, Limited.

3. The estimated dividend was based on actual dividends for the year ended March 31, 2023.

4. The risk-free interest rate is equal to the yield on Japanese government bonds corresponding to the estimated remaining outstanding period.

### (4) Method for estimating the number of stock options

The Company adopted a method to reflect only the actual number of forfeited stock options since it is difficult to reasonably estimate the number to be forfeited in the future.

## 27. Business Combinations

### Transactions under common control, etc.

#### 1. Outline of the transaction

- (1) Name and business of the combined company  
The wholly owned subsidiary resulting from the share transfer: The Chugoku Bank, Limited (Banking business)
- (2) Date of the business combination  
October 3, 2022
- (3) Legal form of the business combination  
Establishment of a holding company through a sole share transfer
- (4) Name of the company after the business combination  
The sole parent company established in the share transfer: Chugin Financial Group, Inc.
- (5) Other matters related to the outline of the transaction  
The Company was established for the purpose of contributing to the sustainable development of local communities and enhancing the corporate value of the entire Chugin Group by evolving into a comprehensive service provider with a focus on finance.  
The Company acquired all the shares of The Chugin Lease Company, Limited, Chugin Securities Co., Ltd., The Chugin Card Company, Limited, Chugin Asset Management Company, Limited, Chugin Capital Partners, Limited, Chugin Human Innovations Co., Ltd., and C Cube Consulting Co., Ltd., which are held by The Chugoku Bank, Limited, a wholly owned subsidiary of the Company, and SETONOWA Co., Ltd., a non-consolidated subsidiary of the Company, by the method of receiving distribution-in-kind from The Chugoku Bank, Limited on October 3, 2022.

#### 2. Outline of accounting treatments of the share transfer

The share transfer was accounted for as a common control transaction in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

## 28. Asset Retirement Obligations

The consolidated subsidiaries that engage in the banking business have future obligations pertaining to the restitution of the facilities at the data center in Haga. However, the period of use of the lease assets related to the obligations cannot be determined because no termination, transfer, etc., has been planned. Therefore, the consolidated subsidiaries that engage in the banking business cannot reasonably estimate the asset retirement obligations and no asset retirement obligation has been recorded.

## 29. Subsequent Events

### Establishment of a subsidiary

The Company passed a resolution to establish a wholly owned subsidiary of Chugin Capital Partners Co., Ltd., a subsidiary of the Company, at the Board of Directors' meeting held on December 23, 2022, and the subsidiary was established on April 3, 2023.

#### (1) Objectives of the establishment

While expanding the Group's business, the Group established the subsidiary to proactively find solutions to management issues of customers and support their core business with the realization of Sustainability Transformation (SX) through the promotion of local decarbonization such as with the solar PPA business.

#### (2) Overview of the subsidiary

- 1) Name: Chugin Energy Co., Ltd.
- 2) Location of headquarters: 1-15-20 Marunouchi, Kita-ku, Okayama-city (9th floor in the Chugin Head Office Building)
- 3) Business description: Renewable energy generation business centered on the solar PPA business  
Environmental energy business utilizing storage batteries, EVs, etc.  
Investment and financing business related to the above, de-carbonization consulting and carbon offsetting business
- 4) Date of establishment: April 3, 2023
- 5) Stated capital: ¥100 million (\$748 thousand)
- 6) Shareholders: Chugin Capital Partners Co., Ltd.  
(a wholly owned subsidiary of the Company)

### Purchases of treasury stock

On May 12, 2023, the Board of Directors of the Company passed a resolution to purchase up to 2,400 thousand shares of the Company's common stock from the market at a price not exceeding ¥2,000 million (\$14,977 thousand) during the purchase period from July 24, 2023 to November 10, 2023. The purpose of this purchase was to return profit to shareholders through improvement in its capital efficiency. In accordance with the resolution, the Company acquired 931 thousand shares for ¥857 million (\$6,418 thousand) by August 31, 2023.