

2020

ANNUAL REPORT

The Aichi Bank, Ltd.

PROFILE

Aichi Bank is a regional bank whose business base is Aichi Prefecture, the central prefecture of the Tokai region, one of the country's three main industrial areas. Since its establishment in 1910, the Bank has worked to meet the diverse needs of customers in the region, based on its corporate mission of contributing to the prosperity of the community via a thorough commitment to sound management and business growth.

Aichi Bank has a domestic service network comprising 106 branches, and also engages in international operations. The Bank's head office is located in Nagoya, Aichi Prefecture, Japan's fourth-largest prefecture by population, and an area that combines a beautiful natural environment with a rich historical and cultural heritage.

As of March 31, 2020, the Bank had total assets of ¥3,246,230 million (US\$29,828 million) on a consolidated basis, and deposits amounting to ¥2,808,769 million (US\$25,808 million). Its capital ratio, calculated according to standards for banks operating only in Japan, stood at 10.38%.

FINANCIAL HIGHLIGHTS Years ended March 31, 2020 and 2019

Consolidated	Millions of Yen		Thousands of U.S. Dollars	
	2020	2019	2020	2019
For the year:				
Total income	¥ 53,172	¥ 49,897	\$ 488,578	\$ 458,485
Total expenses	48,849	43,069	448,856	395,745
Profit before income taxes	4,322	6,828	39,713	62,740
Profit attributable to owners of parent	2,930	4,682	26,922	43,021
At year-end:				
Deposits	¥ 2,808,769	¥ 2,783,678	\$ 25,808,775	\$ 25,578,222
Loans and bills discounted	2,063,699	1,804,367	18,962,593	16,579,683
Securities	964,260	1,067,949	8,860,240	9,813,001
Total assets	3,246,230	3,142,287	29,828,448	28,873,352
Total net assets	209,350	229,790	1,923,642	2,111,458

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥108.83 = US\$1.00 on March 31, 2020.

MESSAGE FROM THE MANAGEMENT

Business and Financial Conditions

Looking back at Japan's economy during the year ended March 31, 2020, in the first half of the year, while weaknesses were seen in exports and production due to such factors as the increasingly severe trade friction between the U.S. and China, capital investment and personal consumption continued on the increasing trend and domestic demand stood strong. However, as the novel coronavirus disease (COVID-19) then began to spread globally, the economy quickly cooled over increasing concerns about stagnating economic activities.

The local economy of our business base, which is centered in Aichi Prefecture, continues to be under strong downward pressure for the time being as restrictions on the movement of people and goods, a sudden drop in the number of foreign visitors to Japan and other factors have led to a weakness in exports and personal consumption, and large automobile manufacturers and other manufacturers have reduced production one after another.

Looking forward, in regard to the economic outlook, there is a large amount of uncertainty over the impact of COVID-19 on the global economy as we cannot predict when the spread of infections will be brought under control, and there is concern that the continuing spread of infections will cause the economy to fall further despite statements from the seven major developed countries that they are taking all measures to manage the risks.

In the financial sector, the Bank of Japan has held its March monetary policy meeting ahead of schedule and decided to continue the current "quantitative and qualitative monetary easing with yield curve control" and increase its buying of exchange-traded funds, and if necessary, it will carry out additional monetary easing measures without hesitation.

Although the Nikkei Stock Average reached the ¥24,000 level in January for the first time in about one year and three months, it temporarily fell below ¥17,000 as the COVID-19 pandemic was showing no signs of being brought under control in addition to a decline in crude oil prices. Due to rising expectations regarding the subsequent large-scale economic measures in the U.S., the year-end closing price was ¥18,917, a year-on-year decrease of ¥2,288.

The Bank has started the three-year "Eleventh Medium-Term Management Plan" from April 2019, under which we have set four basic policies of "reinforce sales capabilities & profitability," "increase productivity," "reinforce human resources" and "reinforce governance," and implemented various initiatives toward our goal of being a "bank that contributes to the local community as our customers' partner."

Earnings

Our business results on a consolidated basis for the year ended March 31, 2020 are as follows.

Total income increased ¥3,275 million year on year to ¥53,172 million (US\$488 million) mainly due to increases in fees and commissions and gains on sales of bonds and others, despite decreases in interest on and dividends from securities and others. Total expenses increased ¥5,780 million year on year to ¥48,849 million (US\$448 million) mainly due to increases in losses on sales of bonds and others and losses on sales of equity securities despite decreases in interest expense and others. As a result, profit attributable to owners of parent decreased ¥1,752 million year on year to ¥2,930 million (US\$26 million).

By segment, ordinary income of the banking segment increased ¥2,280 million year on year to ¥44,339 million (US\$407 million) and its segment profit decreased ¥2,803 million to ¥3,871 million (US\$35 million). Ordinary income of the leasing segment increased ¥672 million year on year to ¥7,842 million (US\$72 million), and its segment profit decreased ¥152 million to ¥91 million (US\$0 million).

Cash Flows

Net cash used in operating activities increased ¥129,527 million year on year to ¥128,698 million (US\$1,182 million). This was mainly attributable to an increase in loans and bills discounted. Net cash provided by investing activities increased ¥53,266 million to ¥79,123 million (US\$727 million). This was mainly attributable to sales and maturities of securities. Net cash used in financing activities amounted to ¥1,504 million (US\$13 million), an increase in cash used of ¥545 million. This was mainly due to treasury stock acquired and dividends paid.

As a result, cash and cash equivalents at the end of the year amounted to ¥134,849 million (US\$1,239 million), a decrease of ¥51,081 million from the previous year-end.

Medium-term Strategy

The Eleventh Medium-Term Management Plan sets our vision as being a "bank that contributes to the local community as our customers' partner," and we will set forth to fully "procure and operate locally" by continuing to follow "community-based finance," and have developed the following three points as our major roles and missions as a regional financial institution:

- 1) Support the growth of local companies
- 2) Support asset building for our individual customers
- 3) Contribution activities for the local community

We have set four basic policies in the Eleventh Medium-Term Management Plan, "reinforce sales capabilities & profitability," "increase productivity," "reinforce human resources" and "reinforce governance." We will demonstrate our consulting functions, which we have built up thus far, to fully support our local customers, and contribute toward the development of the local community.



Yukinori Ito, President

A handwritten signature in black ink that reads "Yuki Ito". The signature is written in a cursive, flowing style.

Yukinori Ito
President

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President

Yukinori Ito

Senior Managing Director

Masato Kobayashi

Managing Directors

Hiroyasu Matsuno

Nobuhiko Kuratomi

Directors

Audit and Supervisory Committee Members

Masahiro Kato*¹

Akira Katsuragawa*²

Toshiyasu Hayashi*²

Yasutoshi Emoto*²

Yasuo Hasegawa*²

Directors

Shigeru Murabayashi

Tokuyasu Iida

Hiroaki Yoshikawa

*¹Standing Audit and Supervisory Committee Member

*²Outside Audit and Supervisory Committee Member

CORPORATE DIRECTORY

Service Network

Head Office (Securities & Foreign Business Department)

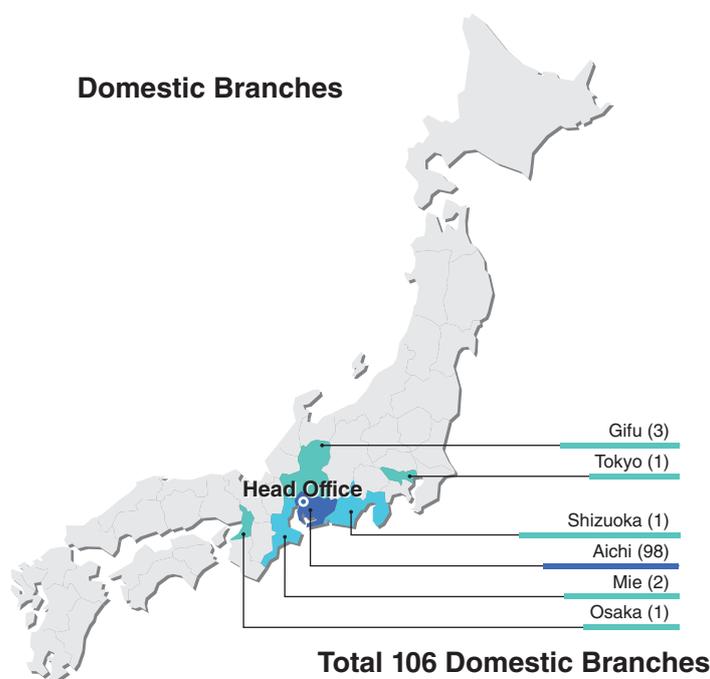
14-12, Sakae 3-chome, Naka-ku, Nagoya 460-8678

Telephone: 81-52-251-3211

SWIFT: AICHJPJN

Facsimile: 81-52-262-5793

Domestic Branches



Consolidated Companies

Aigin Business Service Co., Ltd.

Aigin DC Card Co., Ltd.

Aigin Lease Co., Ltd.

Aigin Computer Service Co., Ltd.

The Aichi Bank, Ltd.
Consolidated Financial Statements
March 31, 2020 and 2019

The Aichi Bank, Ltd. and Subsidiaries
Consolidated Balance Sheets
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Assets:				
Cash and due from banks	¥ 137,615	¥ 188,738	\$ 1,264,495	\$ 1,734,246
Call loans and bills purchased	1,116	1,899	10,254	17,449
Trading securities	1	-	9	-
Securities	964,260	1,067,949	8,860,240	9,813,001
Reserve for possible losses on investments	(2)	(7)	(18)	(64)
Loans and bills discounted	2,063,699	1,804,367	18,962,593	16,579,683
Foreign exchange	2,590	1,924	23,798	17,678
Other assets	40,971	38,141	376,467	350,464
Tangible fixed assets	34,463	34,491	316,668	316,925
Intangible fixed assets	1,030	1,004	9,464	9,225
Employee retirement benefit asset	2,644	3,922	24,294	36,037
Deferred tax assets	263	226	2,416	2,076
Customers' liabilities for acceptances and guarantees	6,299	7,108	57,879	65,312
Allowance for possible loan losses	(8,724)	(7,479)	(80,161)	(68,721)
Total assets	¥ 3,246,230	¥ 3,142,287	\$ 29,828,448	\$ 28,873,352

The Aichi Bank, Ltd. and Subsidiaries
Consolidated Balance Sheets (Continued)
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Liabilities:				
Deposits	¥ 2,808,769	¥ 2,783,678	\$ 25,808,775	\$ 25,578,222
Negotiable certificates of deposit	4,100	4,100	37,673	37,673
Call money and bills sold	5,441	15,538	49,995	142,773
Security deposits received related to securities lending transactions	80,109	25,671	736,092	235,881
Borrowings	95,596	40,011	878,397	367,646
Foreign exchange	1,382	1,297	12,698	11,917
Other liabilities	19,708	9,750	181,089	89,589
Reserve for employee bonuses	600	612	5,513	5,623
Reserve for bonuses to directors	43	39	395	358
Employee retirement benefit liability	985	996	9,050	9,151
Reserve for executive retirement benefits	40	25	367	229
Reserve for reimbursement of deposits	253	339	2,324	3,114
Reserve for contingencies	1,314	1,274	12,073	11,706
Deferred tax liabilities	7,564	17,323	69,502	159,174
Deferred tax liabilities for revaluation	4,670	4,727	42,910	43,434
Acceptances and guarantees	6,299	7,108	57,879	65,312
Total liabilities	3,036,879	2,912,497	27,904,796	26,761,894
Net assets:				
Common stock	18,000	18,000	165,395	165,395
Capital surplus	13,883	13,883	127,565	127,565
Retained earnings	138,933	137,146	1,276,605	1,260,185
Less treasury stock, at cost	(1,071)	(724)	(9,841)	(6,652)
Total shareholders' equity	169,746	168,305	1,559,735	1,546,494
Accumulated other comprehensive income	35,131	57,077	322,806	524,460
Stock acquisition rights	295	274	2,710	2,517
Non-controlling interests	4,177	4,132	38,380	37,967
Total net assets	209,350	229,790	1,923,642	2,111,458
Total liabilities and net assets	¥ 3,246,230	¥ 3,142,287	\$ 29,828,448	\$ 28,873,352

The Aichi Bank, Ltd. and Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Income:				
Interest and dividend income:				
Interest on loans and bills discounted and purchased	¥ 16,505	¥ 16,712	\$ 151,658	\$ 153,560
Interest on and dividends from securities	11,174	12,262	102,673	112,671
Other interest and dividend income	97	103	891	946
Total interest and dividend income	27,779	29,078	255,251	267,187
Fees and commissions	16,246	14,676	149,278	134,852
Other operating income	4,042	2,196	37,140	20,178
Other income	5,104	3,945	46,898	36,249
Total income	53,172	49,897	488,578	458,485
Expenses:				
Interest expense:				
Interest on deposits	448	658	4,116	6,046
Interest on call money and bills sold	223	401	2,049	3,684
Interest on borrowings	110	90	1,010	826
Other interest expense	16	10	147	91
Total interest expense	800	1,160	7,350	10,658
Fees and commissions	10,031	9,469	92,171	87,007
Other operating expenses	4,935	2,445	45,345	22,466
General and administrative expenses	26,176	25,829	240,521	237,333
Impairment loss on fixed assets	38	227	349	2,085
Other expenses	6,868	3,936	63,107	36,166
Total expenses	48,849	43,069	448,856	395,745
Profit before income taxes	4,322	6,828	39,713	62,740
Income taxes	1,330	2,031	12,220	18,662
Profit	2,991	4,796	27,483	44,068
Profit attributable to non-controlling interests	61	113	560	1,038
Profit attributable to owners of parent	¥ 2,930	¥ 4,682	\$ 26,922	\$ 43,021
Per share:				
Basic earnings	¥ 272.08	¥ 431.85	\$ 2.50	\$ 3.96
Diluted earnings	270.64	429.80	2.48	3.94
Cash dividends	100.00	100.00	0.91	0.91

The Aichi Bank, Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Profit	¥ 2,991	¥ 4,796	\$ 27,483	\$ 44,068
Other comprehensive income:				
Unrealized losses on available-for-sale securities	(21,154)	(9,280)	(194,376)	(85,270)
Land revaluation increment	-	(0)	-	(0)
Retirement benefit adjustment	(867)	(824)	(7,966)	(7,571)
Total other comprehensive income	(22,022)	(10,104)	(202,352)	(92,842)
Comprehensive income	<u>¥ (19,030)</u>	<u>¥ (5,308)</u>	<u>\$ (174,859)</u>	<u>\$ (48,773)</u>
Comprehensive income attributable to:				
Owners of parent	¥ (19,077)	¥ (5,402)	\$ (175,291)	\$ (49,637)
Non-controlling interests	47	93	431	854
Total comprehensive income	<u>¥ (19,030)</u>	<u>¥ (5,308)</u>	<u>\$ (174,859)</u>	<u>\$ (48,773)</u>

The Aichi Bank, Ltd. and Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2020 and 2019

	Millions of yen														
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income						Stock acquisition rights	Non-controlling interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation increment	Retirement benefit adjustment	Total accumulated other comprehensive income					
Balance at April 1, 2018	10,943,240	¥ 18,000	¥ 13,883	¥ 133,439	¥ (765)	¥ 164,557	¥ 59,990	¥ 8,323	¥ (1,131)	¥ 67,181	¥ 265	¥ 4,040	¥ 236,045		
Profit attributable to owners of parent	-	-	-	4,682	-	4,682	-	-	-	-	-	-	4,682		
Cash dividends	-	-	-	(975)	-	(975)	-	-	-	-	-	-	(975)		
Reversal of land revaluation increment	-	-	-	18	-	18	-	-	-	-	-	-	18		
Treasury stock acquired, net	-	-	(18)	-	41	22	-	-	-	-	-	-	22		
Transfer to capital surplus from retained earnings	-	-	18	(18)	-	-	-	-	-	-	-	-	-		
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(9,260)	(18)	(824)	(10,103)	9	91	(10,003)		
Balance at March 31, 2019	10,943,240	18,000	13,883	137,146	(724)	168,305	50,729	8,304	(1,956)	57,077	274	4,132	229,790		
Profit attributable to owners of parent	-	-	-	2,930	-	2,930	-	-	-	-	-	-	2,930		
Cash dividends	-	-	-	(1,134)	-	(1,134)	-	-	-	-	-	-	(1,134)		
Reversal of land revaluation increment	-	-	-	(3)	-	(3)	-	-	-	-	-	-	(3)		
Treasury stock acquired, net	-	-	(5)	-	(348)	(353)	-	-	-	-	-	-	(353)		
Transfer to capital surplus from retained earnings	-	-	5	(5)	-	-	-	-	-	-	-	-	-		
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(21,140)	62	(867)	(21,945)	20	45	(21,880)		
Balance at March 31, 2020	10,943,240	¥ 18,000	¥ 13,883	¥ 138,933	¥ (1,071)	¥ 169,746	¥ 29,589	¥ 8,366	¥ (2,823)	¥ 35,131	¥ 295	¥ 4,177	¥ 209,350		

	Thousands of U.S. dollars												
Balance at April 1, 2018	\$ 165,395	\$ 127,565	\$ 1,226,123	\$ (7,029)	\$ 1,512,055	\$ 551,226	\$ 76,477	\$ (10,392)	\$ 617,302	\$ 2,434	\$ 37,122	\$ 2,168,933	
Profit attributable to owners of parent	-	-	43,021	-	43,021	-	-	-	-	-	-	43,021	
Cash dividends	-	-	(8,958)	-	(8,958)	-	-	-	-	-	-	(8,958)	
Reversal of land revaluation increment	-	-	165	-	165	-	-	-	-	-	-	165	
Treasury stock acquired, net	-	(165)	-	376	202	-	-	-	-	-	-	202	
Transfer to capital surplus from retained earnings	-	165	(165)	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity	-	-	-	-	-	(85,086)	(165)	(7,571)	(92,832)	82	836	(91,913)	
Balance at March 31, 2019	165,395	127,565	1,260,185	(6,652)	1,546,494	466,130	76,302	(17,972)	524,460	2,517	37,967	2,111,458	
Profit attributable to owners of parent	-	-	26,922	-	26,922	-	-	-	-	-	-	26,922	
Cash dividends	-	-	(10,419)	-	(10,419)	-	-	-	-	-	-	(10,419)	
Reversal of land revaluation increment	-	-	(27)	-	(27)	-	-	-	-	-	-	(27)	
Treasury stock acquired, net	-	(45)	-	(3,197)	(3,243)	-	-	-	-	-	-	(3,243)	
Transfer to capital surplus from retained earnings	-	45	(45)	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity	-	-	-	-	-	(194,247)	569	(7,966)	(201,644)	183	413	(201,047)	
Balance at March 31, 2020	\$ 165,395	\$ 127,565	\$ 1,276,605	\$ (9,841)	\$ 1,559,735	\$ 271,882	\$ 76,872	\$ (25,939)	\$ 322,806	\$ 2,710	\$ 38,380	\$ 1,923,642	

The Aichi Bank, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Cash flows from operating activities:				
Profit before income taxes	¥ 4,322	¥ 6,828	\$ 39,713	\$ 62,740
Adjustments for:				
Depreciation	1,566	1,492	14,389	13,709
Impairment loss on fixed assets	38	227	349	2,085
Increase in allowance for possible loan losses	1,245	1,262	11,439	11,596
Interest and dividend income	(27,779)	(29,078)	(255,251)	(267,187)
Interest expense	800	1,160	7,350	10,658
Increase in trading securities	(1)	-	(9)	-
Increase in loans and bills discounted	(259,332)	(400)	(2,382,909)	(3,675)
Decrease in call loans and bills purchased	782	394	7,185	3,620
(Decrease) increase in call money and bills sold	(10,097)	4,914	(92,777)	45,152
Increase in deposits	25,091	32,305	230,552	296,839
Increase (decrease) in security deposits received related to securities lending transactions	54,437	(40,152)	500,202	(368,942)
Increase in borrowings (excluding subordinated borrowings)	55,584	2,269	510,741	20,849
Gain on securities transactions	(866)	(2,653)	(7,957)	(24,377)
Loss (gain) on foreign currency transactions	944	(1,835)	8,674	(16,861)
Increase in reserve for contingencies	39	103	358	946
Interest and dividend income received	28,870	29,759	265,276	273,444
Interest expense paid	(938)	(1,689)	(8,618)	(15,519)
Other, net	(1,064)	(1,992)	(9,776)	(18,303)
Subtotal	(126,355)	2,914	(1,161,030)	26,775
Income taxes paid	(2,343)	(2,085)	(21,528)	(19,158)
Net cash (used in) provided by operating activities	(128,698)	828	(1,182,559)	7,608
Cash flows from investing activities:				
Purchases of securities	(377,294)	(384,541)	(3,466,819)	(3,533,409)
Proceeds from sales and maturities of securities	457,520	411,300	4,203,987	3,779,288
Purchases of tangible fixed assets	(1,426)	(771)	(13,103)	(7,084)
Proceeds from sales of tangible fixed assets	575	180	5,283	1,653
Purchases of intangible fixed assets	(242)	(286)	(2,223)	(2,627)
Payment for asset retirement obligations	(9)	(23)	(82)	(211)
Net cash provided by investing activities	79,123	25,857	727,032	237,590
Cash flows from financing activities:				
Dividends paid	(1,134)	(975)	(10,419)	(8,958)
Other, net	(371)	16	(3,408)	147
Net cash used in financing activities	(1,504)	(959)	(13,819)	(8,811)
Net (decrease) increase in cash and cash equivalents	(51,080)	25,727	(469,355)	236,396
Cash and cash equivalents at beginning of year	185,930	160,202	1,708,444	1,472,038
Cash and cash equivalents at end of year	¥ 134,849	¥ 185,930	\$ 1,239,079	\$ 1,708,444

Basis of Presenting Consolidated Financial Statements

The consolidated financial statements of The Aichi Bank, Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards. The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Bank 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.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 to U.S. \$1.00. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

The Japanese yen amounts in the accompanying consolidated financial statements are expressed in millions of Japanese yen and have been rounded down. U.S. dollar amounts in the accompanying consolidated financial statements are expressed in thousands of U.S. dollars and also have been rounded down. As a result, total amounts expressed in both Japanese yen and U.S. dollars appearing in the consolidated financial statements thereto may not be equal to the sum of the individual amounts.

Certain comparative figures have been reclassified with conform to the current year’s presentation.