



# ANNUAL REPORT 2017

THE ASAHI SHINKIN BANK

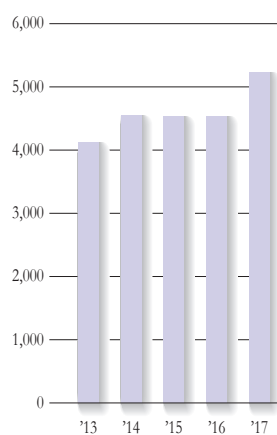
# Five-Year Summary

Years ended March 31,	Millions of Yen				
	2017	2016	2015	2014	2013
Total Income .....	¥ 30,337	¥ 33,733	¥ 32,562	¥ 33,466	¥ 33,581
Total ordinary income after total ordinary expenses .....	6,279	6,216	6,614	6,941	6,203
Net Income .....	5,233	4,537	4,528	4,544	4,123
Paid-in Capital .....	20,952	21,187	21,416	21,617	21,801
Total Number of Units of Members' Equity (Units) .....	419	423	428	432	436
Equity .....	79,815	76,591	78,740	70,687	67,582
Total Assets .....	1,849,956	1,867,006	1,905,744	1,881,966	1,824,996
Deposits .....	1,741,546	1,767,279	1,792,172	1,777,850	1,718,991
Loans and Bills Discounted .....	983,982	945,134	910,437	894,218	893,469
Securities .....	278,996	306,761	334,401	337,261	321,492
Non-consolidated Capital Adequacy Ratio (%) .....	9.20	9.27	9.61	9.97	10.10
Cash Dividends .....	628	635	642	864	1,090
Number of Employees .....	1,395	1,444	1,513	1,549	1,571

Note: The guidelines established by the Minister of the Financial Services Agency (2006 FSA Notice No. 21) based on Article 14-2 of the Banking Act of Japan, on which Article 89-1 of the Shinkin Bank Act is based, in order to judge a *shinkin* bank's capital adequacy in light of its risk-weighted assets were revised on March 8, 2013, and the notice following the revision (Basel III) became applicable from March 31, 2014. Accordingly, the non-consolidated capital adequacy ratio up to 2013 is calculated in accordance with the former notice and that for 2014 onward is calculated in accordance with the new notice. The Bank adopts the domestic standard.

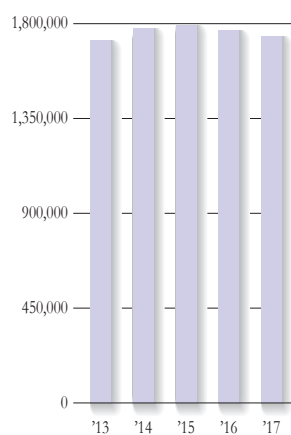
## Net Income

(Millions of Yen)



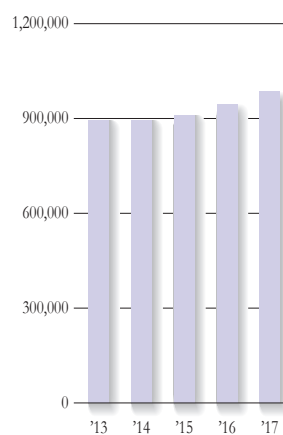
## Deposits

(Millions of Yen)



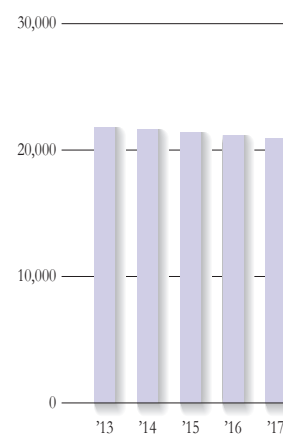
## Loans and Bills Discounted

(Millions of Yen)



## Paid-in Capital

(Millions of Yen)



Fractions less than a unit are rounded down in this report.

# Message from the Management

## Striving to Be the Indispensable and Most Trustworthy Financial Institution in Our Community

Founded in 1923 and subsequently reshaped by several mergers, the Asahi Shinkin Bank is now the seventh-largest *shinkin* bank in Tokyo and the eighteenth-largest in Japan in terms of deposits. Our business territory extends from eastern Tokyo, centering on Taito Ward with its large concentration of small and medium-sized companies, to Edogawa Ward, western Chiba Prefecture and eastern Saitama Prefecture featuring areas of mixed commercial and residential use as well as densely populated residential districts.

In fiscal 2016, the year ended March 31, 2017, in accordance with the philosophy of *shinkin* banks, the Bank strove to offer diverse financial services attuned to customer needs in the community it serves, in order to realize customers' growth and development. Going beyond fulfilling financial intermediary functions, we aimed to enhance consulting functions to respond to various concerns of our customers including core business support starting with business matching, startup support, business succession and inheritance measures, and made efforts to put these into practice.

Regarding operating results, loans outstanding at the end of fiscal 2016 were ¥38.8 billion higher than the figure at the end of fiscal 2015 owing to increases of startup support loans, loans for asset investment, and housing loans for personal customers. On the other hand, deposits at the end of fiscal 2016 were ¥25.7 billion lower than the figure at the end of fiscal 2015 mainly as a consequence of a decrease in deposits related to local governments and the concentration of maturities of time deposits with high interest rates, despite efforts including the promotion of liquid deposits and the launch of *Asahi Kirameki* time deposits. Regarding profit, net profit increased ¥0.69 billion from the previous fiscal year.

The Bank launched its 17th long-term business plan, "Toward Innovation and Creation," covering the three years from fiscal 2017, which sets out the Bank's business strategies going forward. We will continue our efforts to vitalize the local economy in a spirit of co-existence and co-prosperity with the community we serve and aim to become a truly indispensable financial institution for the community.

Furthermore, we would like to report that one of the signatories to this Message from the Management, Hiroshi Hashimoto, assumed the office of the President of the Bank on June 27, 2017 and the other, Kazuo Kobayashi, continues to serve as the Chairman of the Board.

July 2017



*K. Kobayashi*  
Kazuo Kobayashi  
Chairman of the Board

*H. Hashimoto*  
Hiroshi Hashimoto  
President

## Overview of *Shinkin* Banks and their Role in the Community

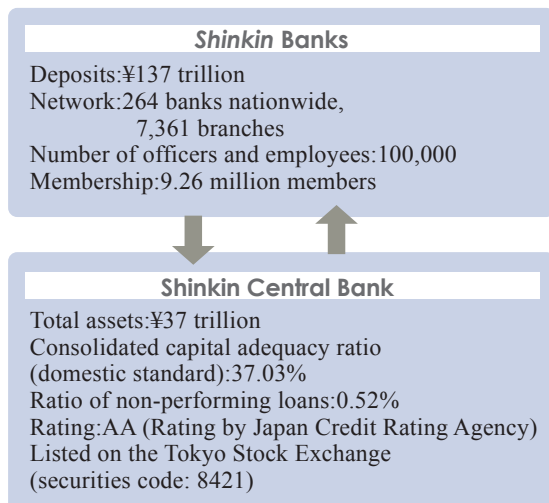
*Shinkin* banks are cooperative regional financial institutions whose members are small and medium-sized businesses and local residents.

The business of *shinkin* banks is not very different from that of other commercial banks, but *shinkin* banks are distinguished from other banks in terms of their organizational structure, the communities they serve and their customers. Whereas banks are incorporated, *shinkin* banks are cooperatives with memberships composed of local residents and those who work or have an office in the area. Corporate members are limited to companies with a maximum of 300 employees and capitalization of up to ¥900 million.

While *shinkin* banks accept deposits in the same way as ordinary banks, their loans are, in principle, restricted to contributing members only and loans to a single borrower must not exceed 25% of the bank's own capital. As financial institutions with close ties to their home territories, *shinkin* banks use locally raised funds exclusively for local development. They thus contribute to the healthy growth of local enterprises, a better quality of life for the area's residents, and the overall development of the local community.

The Shinkin Central Bank (SCB) is the central bank for *shinkin* banks. The role of the SCB is to support the development of the *shinkin* bank sector by broadening the operational functions and enhancing the credit standing of *shinkin* banks, and thus contribute to the prosperity of Japan. The Bank is strengthening collaboration with the SCB in terms of operations.

### Shinkin Banks and the Shinkin Central Bank



(As of March 31, 2017)

## Asahi Shinkin Bank's Support of Small and Medium-sized Businesses in the Community

### Support for Startup Companies and Entry to New Business Fields

The Bank's sales and marketing policy emphasizes face-to-face encounters between our sales representatives, each of whom is responsible for a particular neighborhood, and existing or prospective customers. Through these community-based efforts, in fiscal 2016 the Bank provided startup financing amounting to ¥13.5 billion to 1,458 entrepreneurs eligible for Tokyo Metropolitan Government's startup loan program for small and medium-sized enterprises.

### Measures for Improving Management of Small and Medium-sized Companies and Vitalizing the Community

The Business Support Group of the Customer Support Department, which specializes in helping customers improve their management and revitalize their businesses, offers advice to customers and helps them formulate management improvement plans to deal with the challenges they face.

### Collaboration with External Expert Organizations

The Bank is collaborating with external expert organizations to help small and medium-sized companies resolve their issues. Based on a partnership agreement with Taito Ward, the Bank dispatches the Bank's employee who received specialized education as a business advisor and provides management support to small and medium-sized companies within Taito Ward concerning their management strategies, expansion of sales channels, etc. In fiscal 2016, the Bank newly entered into partnerships with Linkers Corporation, Adult Guardianship Support Center Hilfe and Regional Economy Vitalization Corporation of Japan (REVIC).

## Asahi Shinkin Bank's Corporate Philosophy

All of us at the Asahi Shinkin Bank think and act cheerfully and positively to contribute to development of the local community and our customers' happiness.

**Other Initiatives**

**Asahi Small and Medium-sized Business Management Information Center (ACC)**

We are convinced that the Bank’s fundamental mission is to foster the small and medium-sized businesses in the community that underpin the local economy. Based on this conviction, to support the endeavors of small and medium-sized companies in human resources development and networking among customers, the Bank established the Asahi Small and Medium-sized Business Management Information Center (ACC) in 1996. ACC develops human resources, offers grants, and promotes fruitful exchanges between companies in different industries. (See Page 4 for more about ACC.)

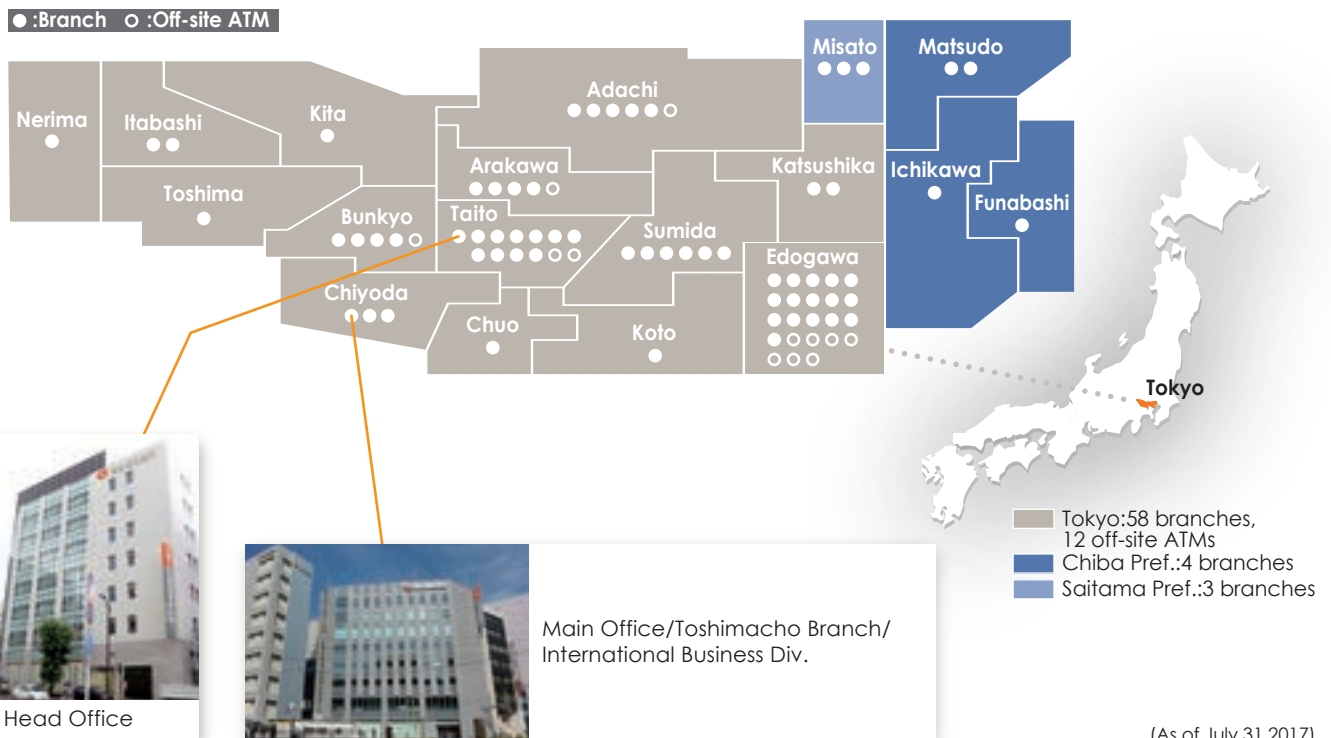
**Asahi Business Matching Project—Power to Connect and Power to Build**

Launched in September 2013 to assist local small and medium-sized enterprises, the Asahi Business Matching Project—Power to Connect and Power to Build supports business matching both via the website and at a business fair. In addition to the holding of an annual business fair, the Bank offers 24/7 services on the website so that enterprises can search for candidate business partners and set up meetings.

Asahi Business Matching 2017 Business Fair where small and medium-sized companies meet major buyers was held on March 3, 2017 at Ueno Seiyoken and 410 meetings were held with vigorous business talks.

**Extensive Network of 65 Branches and 12 Off-site ATMs**

In view of our customer base, we consider it our mission to respond proactively to the funding needs of the small and medium-sized businesses and individuals sustaining the local economy at the grassroots. The Bank’s 65 branches, which include five sub-branches, and 12 off-site ATMs are located in Taito Ward and 13 other wards in Tokyo and also in Chiba Prefecture and Saitama Prefecture. To bring our area management even closer to the community, our operating area is divided into smaller zones, each with a dedicated sales representative. The Bank’s 408 sales representatives emphasize face-to-face, household-based marketing—one of the Bank’s specialties, endeavoring to market excellent proposals and offer optimum solutions in a timely manner.



# Customer-Oriented Financial Services to Enhance the Community's Prosperity

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## Domestic Operations

The Bank offers a wide range of deposit products to meet various savings needs, including foreign currency time deposits with special interest rates and online time deposits. For personal customers, in addition to deposit products, the Bank offers a range of investment products, such as investment trusts, personal pension insurance and Japanese government bonds.

Among the Bank's loan products for personal customers are the *Eco Life Ace Home Loan* for customers purchasing residential property with superior environmental performance, the *Childcare Support Ace Home Loan* for customers who have children younger than 18 years of age or are expecting a child, and the *Asahi Education Card Loan* for educational expenses.

The Personal Loan Plaza in the head office building is open on weekday evenings and Saturdays, in addition to during the daytime on weekdays, so that customers who are unable to visit the Bank during regular opening hours can use the service. At our Pension Advisory Center within the Ichinoe Station Branch, customers can consult dedicated advisors about any matters relating to pensions.

For small and medium-sized businesses, the Bank offers a wide range of loan products tailored to their funding needs, whether for business development or to ensure stable cash flows.

As well as visits to customers by our sales representatives who have excellent problem-solving skills, we also offer various

Internet services, such as *Asahi Business Web* and *Asahi Foreign Exchange Web*. The Consulting Support Group of the Customer Support Department offers practical advice on tax and financial affairs, information technology, pensions and lifetime financial planning. We also hold various seminars to support corporate customers' sales and marketing activities. (See Pages 2-3 for the Bank's support for businesses.)

The Asahi Small and Medium-sized Business Management Information Center (ACC) supports small and medium-sized companies in the following three areas.

- 1) Holding of seminars and courses on business information and know-how that help executives, managers and employees of small and medium-sized companies keep abreast of developments and enhance their capabilities
- 2) Granting of credit guarantee subsidies to small and medium-sized companies pursuing R&D of innovative products and technologies, cultivating promising new fields, focusing on environmental engineering, or engaged in any other innovative, growth-oriented endeavors
- 3) Operation of an inter-industry exchange forum and publication of ACC Information, a newsletter full of useful information for small and medium-sized companies, with the aim of helping them discover hidden value through inter-industry exchanges.

In July 2017, the Bank received the 2017 J.P. Morgan Elite Quality Recognition Award from J.P. Morgan Chase Bank, N. A. commending the excellent performance of the Bank's funds transfer operations. This was the seventh consecutive year for the Bank to be commended. Indeed, we were the only Japanese bank to receive the elite quality award.



## International Operations

Our business territory is home to companies in many industries, including manufacturers and distributors of apparel, leather goods and footwear, jewelry, computer parts and peripherals, medical equipment and toys, as well as food processing and distribution companies. Amid recent structural changes in Japan's economy and the growing importance of international business, many of our customers are becoming more involved in foreign trade.

We offer a wide range of financial services for companies engaged in international business, including advice on investment strategy and business development, integrated import and export support from opening of business relations to bill settlement, services covering trade finance, forward exchange contracts, and coupon swaps.

We are striving to further enhance convenience for our customers by offering Internet banking services for overseas remittances, import letters of credit, etc. We are also working to offer a wider range of services attuned to their needs.

At the end of March 2017, the Bank had a network of overseas correspondent banks totaling 530 branches of 84 banks (of which three are Japanese banks) in 41 countries. Centering on imports, trade-related foreign exchange transactions handled by the Bank in fiscal 2016 amounted to US\$926 million.

We aim to continue serving far into the future as an indispensable partner of companies pursuing business overseas.

## Overseas Correspondent Network



(As of March 31, 2017)

## Becoming the Most Trustworthy Community Bank

Customer deposits should be used to bring new vitality into the community—this is the basic stance of Asahi Shinkin Bank, a financial institution that puts local ties first.

To date, the Bank has developed together with small and medium-sized companies and people in the local community based on a spirit of helping one another as a cooperative financial institution. With the aim of becoming the indispensable and most trustworthy community bank, we have embraced new challenges in our drive to bring new vitality into our community. We have reinforced our business by stepping up support for corporate revival and management improvement, while offering increased support to companies involved in innovative businesses and those active in environmental protection. As we emphasize the cultivation of closer links with our customers, we are helping to bring new vitality into the community through provision of financial services that deliver customer satisfaction and also by doing our part as a member of the community in the cultural, environmental and educational spheres.



Asahi Shinkin Bank's Posters

## Asahi CSR Initiative

With the emergence of corporate social responsibility (CSR) as a subject of great and growing importance, it is essential for companies to fulfill their responsibilities not only to shareholders and business partners, but also to employees, consumers, local communities, and all other stakeholders. The Asahi Shinkin Bank, a customer-oriented bank devoted to the development of its customers and the community it serves, has a long-standing commitment to the fulfillment of CSR. The Bank has been implementing the Asahi CSR Initiative since fiscal 2007 based on a thorough review of its previous CSR activities, including environmental protection, resource saving, energy saving, recycling, and corporate citizenship.

## Corporate Citizenship Activities

### Implementation of the Ecocap Movement

The Ecocap Movement is an initiative to collect and recycle PET bottle caps, which are usually disposed of as waste, and to use the proceeds to provide vaccines for children in developing countries. With help from people in the community, we had collected 120 million caps by the end of March 2017. Sorting of caps collected at branches in Edogawa Ward is contracted to a voluntary organization working to create employment for people with disabilities. In this way, we also support people with disabilities in the community.



### Traffic safety campaign

To promote traffic safety in the community, the Bank extends cooperation to the traffic safety campaign held each spring and autumn. During the campaign period, the Bank's employees at all branches serve as



wardens at nearby crossings. In fiscal 2016, a total of 1,222 employees of the Bank participated in the campaign.



### Blood donation campaign

The Bank held a blood donation campaign three times during fiscal 2016 in which 224 employees took part.



### Donations to public interest corporations

In accordance with the purpose of *Gift*, an installment savings product with a preferential interest rate offered by the Bank in 2011 for a limited time, the Bank makes donations to public service organizations. In fiscal 2016, we donated 40 children's picture books along with 1,000 tote bags for use by book borrowers to Social Welfare Corporation EDOGAWA, which operates licensed nursery schools in Edogawa Ward. The donation was made at MATSUMOTO Ohisama Nursery School.



### Asahi Fureai Concert

Asahi Fureai Concert launched in December 2013 is a concert event organized by Asahi Shinkin Bank featuring members of the Tokyo Metropolitan Symphony Orchestra. In fiscal 2016, four concerts were held at elementary schools, mostly in Edogawa Ward. Some 1,500 children enjoyed the live performances.



### Environmental Protection Initiatives

• The Bank offers a range of loan products to support customers' environmental protection

initiatives, including loans for capital investment, provision of loan guarantees under the government loan-guarantee system, and housing loan products.

- As part of efforts to mitigate global warming, the Bank uses a carbon-offset scheme and Forest Stewardship Council (FSC) certified paper for calendars, leaflets and other printed materials that the Bank produces.

### Support for People with Disabilities and the Elderly

#### ATMs for the visually impaired

All branches have ATMs with braille and audible instructions so that the visually impaired can use ATMs at ease.



#### AED

All branches are equipped with automated external defibrillators (AEDs) at ATM corners in readiness for emergencies such as cardiopulmonary arrest.

#### Braille blocks

Braille blocks leading from outside to inside a branch and to the ATMs are installed at 56 branches and for two off-site ATMs.

#### Slopes for wheelchair users

Slopes are installed at branches with steps at the entrance for barrier-free access. Certain branches have simple, detachable slopes.

#### Other initiatives

The Bank's policy is to make its branches barrier-free and accessible. When opening new branches, barrier-free toilets with features such as safety rails and baby-seats are installed and armchairs and low desks are introduced for ease of use.

## **Thorough Risk Management System**

The Bank has established the basic policy for management of risks, put in place a risk management system and determined management procedures so as to implement appropriate risk management. The Bank has classified risks into three categories and established risk committees corresponding to them. The activities of the risk committees are governed by the Comprehensive Risk Management Committee.

Also, the Bank has established a code of conduct with which all officers and employees are required to comply in order to inculcate corporate ethics and legal compliance throughout the Bank.

Personal information concerning our customers constitutes a vital asset. To ensure appropriate protection and use of personal information, the Bank applies strict control in accordance with its Basic Policy Concerning Protection of Information Assets (Security Policy) to achieve continuing improvement.

## **Major Risks and Risk Management Policies**

### **Market Risk**

Market risk comprises interest rate risk, price fluctuation risk, and exchange risk. Market risk is the possibility of losses from fluctuations in market interest rates, stock prices and foreign exchange markets that cause changes in the value of the Bank's assets and liabilities (including off-balance sheet items) and changes in profits generated by assets and liabilities.

The Bank's Asset and Liability Management (ALM) Committee is responsible for management of market risk.

### **Liquidity Risk**

Liquidity risk is the possibility of losses resulting from an unexpected outflow of funds or any other situation that necessitates fund procurement at

interest rates markedly higher than usual rates or transactions at markedly more disadvantageous terms than usual terms.

The Bank emphasizes liquidity and soundness of market-based funding and has put in place a system to ensure stable cash flow with a sufficient reserve. Moreover, the Bank has formulated a contingency plan to deal with the demand for funds in the event of an unexpected crisis swiftly and appropriately. Thus, the Bank has sufficient systems for management of liquidity risk.

### **Credit Risk**

Credit risk is the possibility of losses from bankruptcies, deterioration in the financial conditions, etc. of borrowers. The Bank has put in place a risk management system in accordance with the Credit Risk Management Rules.

In addition to the deliberation and assessment by the Credit Risk Management Committee and the ALM Committee, the Board of Directors, the Board of Managing Directors, and the Management Committee deliberate on credit risk management, as necessary, to deal with credit risk in an appropriate manner.

### **Operational Risk**

Operational risk is a risk associated with execution of routine operations and every effort is made to avert such risk.

Having established an organizational structure and a system to deal with operational risk in accordance with the Operations Risk Management Policy and the Systems Risk Management Policy, the Bank analyzes and assesses data gathered periodically in order to mitigate risk and to minimize the impact in the event that such risk materializes.

In order to respond to the increasing threat of cyber-attacks, the Bank has established the

Computer Security Incident Response Team (CSIRT) and is well prepared.

In addition to the periodic deliberation and assessment by the Operations and Systems Risk Committee, the Reputation and Legal Risk Committee, and the Comprehensive Risk Management Committee, the Board of Directors, the Board of Managing Directors, and the Management Committee deliberate on operational risk management, as necessary, to deal with operational risk in an appropriate manner.

### Compliance Structure

As well as strictly complying with various laws and regulations and other rules, companies are required to adhere to social ethics when engaging in transactions. In accordance with its goal of becoming the most trustworthy financial institution in the community, the entire workforce is united in a determination to inculcate corporate ethics and legal compliance throughout the Bank.

The Bank has put in place a compliance structure. The Management Legal Affairs Division supervises compliance issues and compliance officers are appointed at all departments, branches, and affiliated companies.

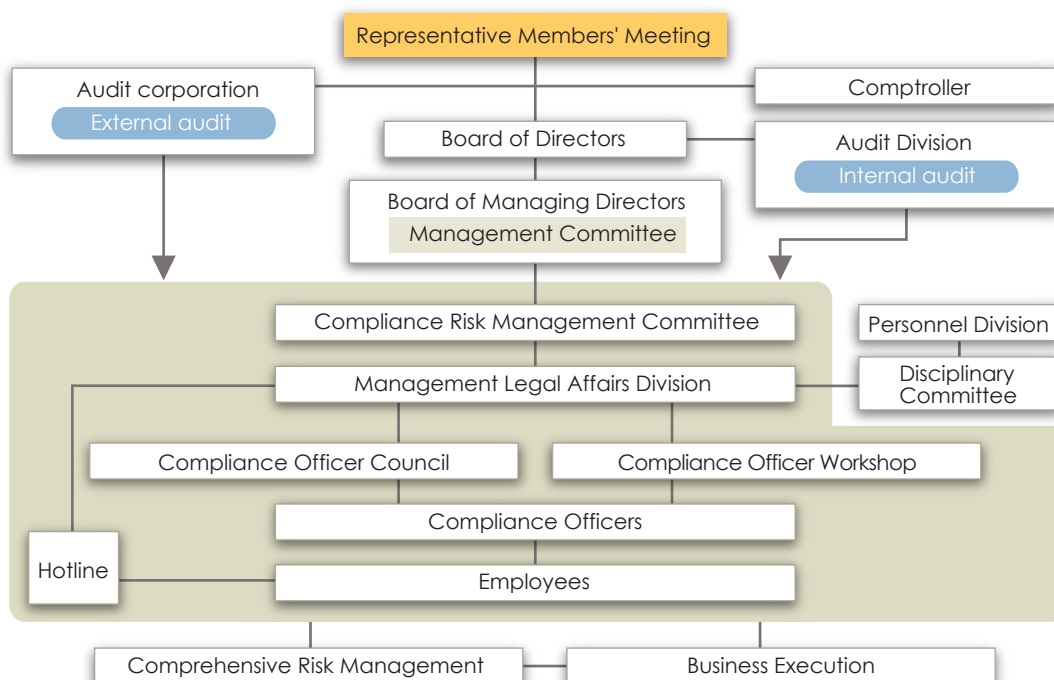
### Against Antisocial Forces

Adhering to the Guidelines for Companies to Prevent Damage by Antisocial Forces, the Bank remains committed to ensuring that no relationship whatsoever exists between the Bank and antisocial forces.

### Basic Policies on Antisocial Forces

1. Deal with antisocial forces as an organization.
2. Coordinate with external specialized agencies.
3. Cut off all relations with any antisocial force, including any transactions.
4. In emergencies, use civil and criminal legal responses.
5. Prohibit financing, inappropriate or abnormal transactions, and offering of benefits.

## Compliance Structure

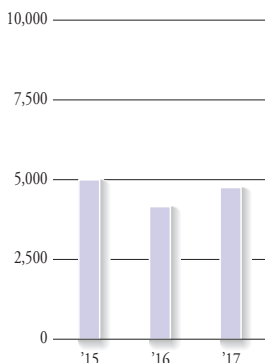


(As of March 31, 2017)

# Financial Review

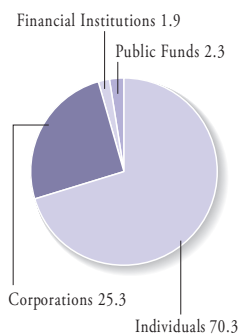
## Operating Income

(Millions of Yen)



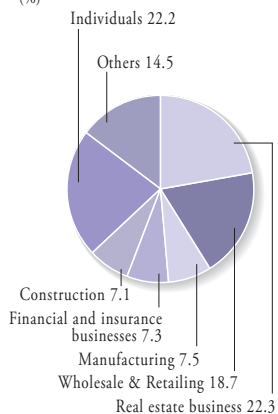
## Deposits by Category of Depositors

(%)



## Loans by Category of Borrowers

(%)



## Business Policy for Fiscal 2016

In fiscal 2016, the final year of the 16th long-term business plan, while recognizing our social mission to fulfill financial intermediary functions as a cooperative financial institution in order “to contribute to development of the local community and our customers’ happiness” as stated in the Bank’s Corporate Philosophy, the Bank sought to create a new financial services business model unconstrained by preconceptions.

Under the overarching theme of “transformation of awareness and actions” in response to the changing times and the diversification of customer needs, the Bank’s officers and employees worked as one to address the following key issues: 1) reinforcement of initiatives to promote problem-solving sales for growth and development of the community, 2) promotion of measures to increase loans and reduction of interest paid on deposits in order to strengthen the profit structure, 3) promotion of vitalization of the community through collaboration and effective utilization of external expert organizations, 4) promotion of measures to deepen and advance CSR management, 5) improvement of operational efficiency at front offices and reinforcement of counter sales by utilizing the new Front-office Solutions System, and 6) securing of management soundness by strengthening various risk management systems.

## Economic & Financial Environment

During fiscal 2016, reflecting the beneficial impact of Abenomics, the employment and income environment in Japan improved and the Japanese economy was generally on a moderate recovery track. This overall improvement is largely attributable to higher corporate earnings centering on exporters due to recovery of the U.S. economy and correction of yen appreciation, although overseas economies were somewhat weak in the first half of fiscal 2016, notably because of the deceleration of emerging economies. However, the household sector was largely untouched by the economic recovery because there was no increase seen in real wages, and growth of personal consumption remained weak throughout the year.

Turning to the financial sector in Japan, the stock market generally remained firm, although there was some significant volatility triggered by overseas political situations, notably the Brexit referendum in June and the American presidential election in November. The Nikkei average increased to ¥18,909 at the end of fiscal 2016, an increase of ¥2,151 compared with the previous fiscal year-end. Long-term interest rates (yields of 10-year Japanese government bonds), which started below 0% at the beginning of fiscal 2016, decreased to nearly -0.3% in the summer, but trended upward from early autumn following the introduction of Quantitative and Qualitative Monetary Easing with Yield Curve Control by the Bank of Japan and an interest rate increase in the U.S., increasing to above 0.1% temporarily, and were 0.07% at the end of fiscal 2016.

## Results of Operations

Results of the Bank’s operations in fiscal 2016 are described below.

### Deposits

Liquid deposits increased ¥81.3 billion compared with the figure at the previous fiscal year-end because the Bank promoted the increase of liquid deposits, which leads to improved profitability. On the other hand, time deposits decreased partly because of the concentration of maturities of deposits with high interest rates. Coupled with a decrease in deposits related to local governments toward the end of the fiscal year, the balance of total deposits decreased ¥25.7 billion compared with the figure at the previous fiscal year-end to ¥1,741.5 billion at the end of fiscal 2016.

### Loans

As a result of an increase in the handling of loans for asset investment and housing loans for personal customers, loans outstanding at the end of fiscal 2016 were ¥983.9 billion, ¥38.8 billion higher than the figure at end of the previous fiscal year.

### Profitability

Income from interest on loans decreased as a result of a further decrease in market interest rates and intensifying competition on loan interest rates. However, the profit margin between deposits and loans exceeded the level of the previous fiscal year because interest paid on deposits decreased slightly. As a result, total ordinary income after total ordinary expenses was unchanged from the previous fiscal year at ¥6.2 billion, and net income increased ¥0.69 billion from the previous fiscal year to ¥5.2 billion.

## Financial soundness

The Bank's capital adequacy ratio decreased 0.07 percentage points from the previous fiscal year-end to 9.20% at the end of March 2017. Despite an increase in members' equity because of an increase in retained earnings, this was exceeded by the impact of the phase-in application of the transitional measure for the international regulatory framework for banks (Basel III) and an increase in risk assets in line with the increase of loans, causing the decrease in capital adequacy ratio. The ratio of non-performing loans decreased 0.85 percentage points to 5.06%. These indicators attest to the ongoing enhancement of the Bank's financial soundness and the Bank recognizes that its fundamentals continue to be robust.

## Performance Indicators

### Capital Adequacy Ratio and Members' Equity

The Bank's capital adequacy ratio was 9.20% at the end of March 2017, which greatly exceeds the 4% minimum requirement stipulated in the guidelines of the Financial Services Agency for banks operating domestically, attesting to the Bank's robust fundamentals.

### Non-performing Loans

In fiscal 2016, non-performing loans outstanding based on the Financial Reconstruction Act decreased ¥6.2 billion compared with the figure at the end of the previous year. The ratio of non-performing loans was 5.06%, down 0.85 percentage points.

As of March 31, 2017, 91.37% of the non-performing loans held by the Bank were covered by mortgage collateral or high-quality guarantees and a reserve for possible loan losses. The Bank maintained a high coverage ratio.

\* The total amount of receivables is the amount of receivables subject to disclosure pursuant to the Financial Reconstruction Act and is different from loans outstanding.

## Issues to be Tackled

In fiscal 2017, there is the prospect of a moderate recovery of the Japanese economy as the Japanese government is expected to steadily implement various growth strategies.

However, amid an ongoing low-interest-rate environment, the real estate market is somewhat overheated. In addition, downside risks are a concern in view of mounting uncertainties centering on overseas economies and unclear political prospects. Management recognizes the need to pay careful attention to the impact of such risks on the Japanese economy from now on.

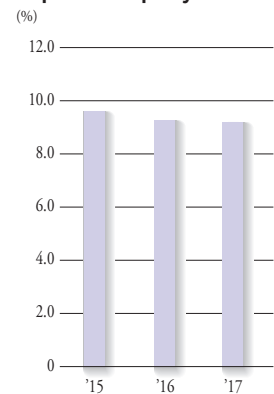
In this operating environment, the Bank will make a concerted effort to tackle the following management issues in accordance with the new three-year business plan starting in fiscal 2017:

- Recognizing our mission as a financial institution supplying funds for small and medium-sized companies, we will promote loans without being overly dependent on collateral or guarantees by further deepening our understanding of feasibility in terms of the content, characteristics and future prospects of our customers' businesses. Furthermore, we will endeavor to offer solutions useful for our customers in their efforts to resolve various management issues, including improvement of management, expansion of sales channels, and business succession, with a view to becoming a main bank advancing together with customers.
- For regional revitalization and community growth and development, we will implement various measures in response to requests of national and local government while reinforcing initiatives to promote problem-solving sales through greater cooperation with external expert organizations. In this way, we will endeavor to offer financial services of outstanding usefulness to our customers.
- In order to strengthen the management fundamentals of the Bank, we will implement measures to increase loans so as to improve earnings of the core business while systematically working to streamline operations and raise productivity per employee.
- We will accord greater emphasis to protection of customers and fiduciary duty and strive for customer-centric operations. As well as strengthening measures to prevent financial crimes and to ensure that no relationship whatsoever exists between the Bank and antisocial forces, we will systematically reinforce control systems and structures.

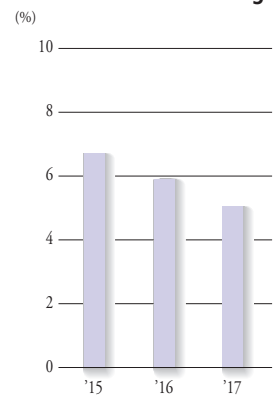
Looking to the Bank's centenary in 2023 in six years' time and the years further ahead, we are fully aware of the importance of pursuing new initiatives and establishing a sustainable business model. Based on the recognition that co-existence and co-prosperity with the community we serve are the most important considerations however changeable the times may be, we will continue our efforts to vitalize the local economy and aim to become a truly indispensable financial institution for the community.

In these endeavors, we will be grateful for your continued support and cooperation.

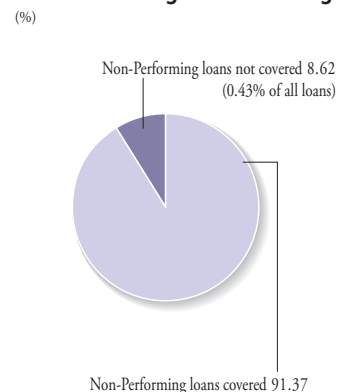
## Capital Adequacy Ratio



## Ratio of Non-Performing Loans



## Non-Performing Loans Coverage



[Calculation Method of Capital Adequacy Ratio (%)]

$$\frac{\text{Members' equity}}{\text{Total amount of risk assets, etc.}} \times 100$$

# Balance Sheets

As of March 31,	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2017	2016	2017
<b>ASSETS</b>			
Cash .....	¥ 31,390	¥ 27,417	\$ 279,771
Due from Banks .....	480,378	505,654	4,281,448
Money Held in Trust .....	17,645	16,795	157,272
Trading Securities .....	5	7	47
Securities (Note 3) .....	278,996	306,761	2,486,598
Loans and Bills Discounted (Note 4) .....	983,982	945,134	8,769,897
Foreign Exchange (Note 6) .....	5,090	10,376	45,368
Other Assets .....	12,293	13,232	109,569
Tangible Fixed Assets .....	35,693	35,531	318,121
Intangible Fixed Assets .....	2,162	2,653	19,272
Deferred Tax Assets .....	2,530	2,170	22,552
Customers' Liabilities for Acceptances and Guarantees .....	2,914	5,058	25,978
Reserve for Possible Loan Losses .....	(3,126)	(3,786)	(27,869)
<b>Total Assets</b> .....	<b>¥1,849,956</b>	<b>¥1,867,006</b>	<b>\$16,488,029</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Note 7) .....	¥1,741,546	¥1,767,279	\$15,521,808
Call Money .....	10,022	23	89,326
Foreign Exchange (Note 6) .....	55	33	497
Other Liabilities .....	7,079	9,486	63,099
Reserve for Employee Bonuses .....	547	547	4,882
Reserve for Retirement Allowances .....	7,145	7,277	63,682
Reserve for Retirement Benefits for Directors .....	224	185	2,002
Reserve for Loss from Refund of Sleeping Accounts .....	334	265	2,982
Reserve for Contingent Loss .....	269	256	2,401
Acceptances and Guarantees .....	2,914	5,058	25,978
<b>Total Liabilities</b> .....	<b>1,770,141</b>	<b>1,790,415</b>	<b>15,776,662</b>
<b>Equity:</b>			
Paid-in Capital .....	20,952	21,187	186,740
Additional Paid-in Capital .....	2,162	2,162	19,276
Legal Reserve .....	53,748	49,151	479,046
<b>Total Members' Equity</b> .....	<b>76,864</b>	<b>72,501</b>	<b>685,063</b>
Unrealized Gain on Available-for-Sale Securities .....	2,951	4,089	26,303
<b>Total Valuation and Translation Adjustments</b> .....	<b>2,951</b>	<b>4,089</b>	<b>26,303</b>
<b>Total Equity</b> .....	<b>79,815</b>	<b>76,591</b>	<b>711,366</b>
<b>Total Liabilities and Equity</b> .....	<b>¥1,849,956</b>	<b>¥1,867,006</b>	<b>\$16,488,029</b>

The accompanying notes are an integral part of these financial statements.

# Statements of Income and Retained Earnings

Years ended March 31,	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2017	2016	2017
<b>Income:</b>			
Interest and Dividends on:			
Loans and Discounts .....	¥16,551	¥17,680	\$147,518
Securities .....	5,775	6,091	51,478
Others .....	188	212	1,677
Fees and Commissions:			
Fees and Commissions on Domestic and Foreign Exchange .....	1,582	1,647	14,103
Others .....	2,377	2,320	21,189
Other Operating Income:			
Gain on Trading Account Securities Transactions .....	—	0	—
Gains on Sales of Bonds .....	909	351	8,108
Gains on Redemption of Bonds .....	73	253	653
Others .....	153	114	1,366
Other Income:			
Reversal of Allowance for Loan Losses .....	526	—	4,692
Collection of Written-off Claims .....	838	556	7,475
Gains on Sales of Stocks and Other Securities .....	408	3,870	3,637
Gains on Money Held in Trust .....	485	49	4,327
Others .....	466	584	4,154
<b>Total Ordinary Income</b> .....	<b>30,337</b>	<b>33,733</b>	<b>270,384</b>
Extraordinary Income (Note 8) .....	702	—	6,262
<b>Total Income</b> .....	<b>31,039</b>	<b>33,733</b>	<b>276,646</b>
<b>Expenses:</b>			
Interest Expenses:			
Deposits .....	840	1,840	7,492
Borrowings and Rediscounts .....	0	0	0
Others .....	4	26	41
Fees and Commissions .....	1,488	1,421	13,266
Other Operating Expenses:			
Losses on Foreign Exchange Transactions .....	1,570	707	13,998
Losses on Trading Account Securities Transactions .....	0	—	0
Losses on Sales of Bonds .....	58	232	524
Losses on Devaluation of Bonds .....	—	2	—
Expenses on Derivatives other than for Trading or Hedging .....	12	—	115
Others .....	29	38	264
General and Administrative Expenses .....	18,932	19,700	168,735
Other Expenses .....	1,119	3,547	9,978
<b>Total Ordinary Expenses</b> .....	<b>24,057</b>	<b>27,516</b>	<b>214,417</b>
Extraordinary Losses (Note 9) .....	243	307	2,170
<b>Total Expenses</b> .....	<b>24,301</b>	<b>27,824</b>	<b>216,588</b>
<b>Income before Income Taxes</b> .....	<b>6,738</b>	<b>5,908</b>	<b>60,057</b>
<b>Current</b> .....	<b>1,424</b>	<b>1,383</b>	<b>12,693</b>
<b>Deferred</b> .....	<b>80</b>	<b>(12)</b>	<b>721</b>
<b>Net Income</b> .....	<b>5,233</b>	<b>4,537</b>	<b>46,642</b>
<b>Retained Earnings (Balance at the Beginning of the Year)</b> .....	<b>2,475</b>	<b>1,433</b>	<b>22,065</b>
<b>Balance at the End of the Year</b> (Note 10) .....	<b>¥ 7,708</b>	<b>¥ 5,971</b>	<b>\$ 68,707</b>

# Notes to Financial Statements

## 1. Yen Amounts

All yen figures are rounded down to the nearest one million yen. Accordingly, breakdown figures may not add up to sums.

## 2. U.S. Dollar Amounts

U.S. dollar amounts presented in the accompanying financial statements are included solely for convenience and should not be construed as

representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥112.20 to US\$1, prevailing on March 31, 2017, has been used for conversion into U.S. dollar amounts in the financial statements.

## 3. Securities

As of March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
National Government Bonds.....	¥ 27,184	¥ 48,718	\$ 242,289
Local Government Bonds.....	1,037	1,049	9,245
Corporate Bonds.....	43,558	55,571	388,218
Stocks.....	21,561	13,655	192,165
Other Securities.....	185,654	187,765	1,654,678
<b>Total</b> .....	<b>¥278,996</b>	<b>¥306,761</b>	<b>\$2,486,598</b>

## 4. Loans and Bills Discounted

As of March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Bills Discounted.....	¥ 25,028	¥ 28,124	\$ 223,069
Loans on Bills.....	26,523	25,572	236,390
Loans on Deeds.....	911,019	873,544	8,119,607
Overdrafts.....	21,411	17,892	190,829
<b>Total</b> .....	<b>¥983,982</b>	<b>¥945,134</b>	<b>\$8,769,897</b>

## 5. Disclosure pursuant to the Financial Reconstruction Act

As of March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Non-Performing Loans			
Bankrupt or De facto Bankrupt .....	¥ 5,473	¥ 6,494	\$ 48,779
Doubtful .....	41,758	46,006	372,175
Special Attention .....	2,795	3,803	24,915
Subtotal .....	50,026	56,304	445,870
Normal .....	937,917	895,071	8,359,337
<b>Total</b> .....	<b>¥987,944</b>	<b>¥951,375</b>	<b>\$8,805,207</b>

## 6. Foreign Exchange

As of March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
<b>(Assets)</b>			
Due from Foreign Banks .....	¥4,740	¥ 9,972	\$42,248
Foreign Currency Bills Bought .....	40	44	358
Foreign Currency Bills Receivable.....	309	359	2,760
<b>Total</b> .....	<b>¥5,090</b>	<b>¥10,376</b>	<b>\$45,368</b>
<b>(Liabilities)</b>			
Foreign Currency Bills Sold.....	¥ 55	¥ 32	\$ 497
Accrued Foreign Exchange .....	—	1	—
<b>Total</b> .....	<b>¥ 55</b>	<b>¥ 33</b>	<b>\$ 497</b>



## 7. Deposits

As of March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current Deposits .....	¥ 62,901	¥ 49,802	\$ 560,619
Ordinary Deposits .....	592,823	526,514	5,283,630
Savings Deposits.....	36,975	36,037	329,551
Deposits at Notice .....	5,416	4,408	48,279
Time Deposits.....	979,013	1,055,301	8,725,606
Installment Savings.....	51,496	78,290	458,971
Other Deposits.....	12,919	16,924	115,149
<b>Total .....</b>	<b>¥1,741,546</b>	<b>¥1,767,279</b>	<b>\$15,521,808</b>

## 8. Extraordinary Income

Years ended March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Gain on Disposal of Fixed Assets .....	¥702	—	\$6,262
<b>Total .....</b>	<b>¥702</b>	<b>—</b>	<b>\$6,262</b>

## 9. Extraordinary Losses

Years ended March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Losses on Sales of Equipment .....	¥211	¥170	\$1,882
Losses on Impairment of Fixed Assets.....	32	137	287
<b>Total .....</b>	<b>¥243</b>	<b>¥307</b>	<b>\$2,170</b>

## 10. Subsequent Event

As of March 31,	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at the End of the Year .....	¥7,708	¥5,971	\$68,707
Appropriations:			
Transfer to Legal Reserve .....	530	460	4,723
Cash Dividends .....	628	635	5,601
Payout Ratio .....	3% per year	3% per year	3% per year
Transfer to Voluntary Reserves .....	4,100	2,400	36,541
<b>Total Appropriations .....</b>	<b>5,258</b>	<b>3,495</b>	<b>46,867</b>
Retained Earnings (Balance at the End of the Year) .....	<b>¥2,450</b>	<b>¥2,475</b>	<b>\$21,840</b>

# Auditor's Report

In accordance with the provisions of Article 38-2, Paragraph 3 of the Shinkin Bank Act, KPMG AZSA LLC audited the balance sheets of the Bank as of March 31, 2017 and 2016, and the related statements of income and statements of retained earnings for the two years ended March 31, 2017 and 2016 and provided the Bank with an auditor's report stating an unqualified opinion.

# Board of Directors and Auditors

(As of July 31, 2017)

## Chairman of the Board

Kazuo Kobayashi

## President

Hiroshi Hashimoto

## Senior Managing Director

Takahiro Nakamura

## Managing Directors

Toshiyuki Misawa

Yoshihiko Maeda

Masaaki Hirokawa \*1

## Standing Directors

Kazuhiro Kojima

Teruhisa Okamoto \*1

Hideo Masuuchi

Hideo Takai

Yasuhiro Ito

Shigeo Yamamoto

## Non-Standing Senior Advisor to the Board

Kunitake Moriwaki \*1

## Non-Standing Managing Director

Keizo Yamaguchi \*1

## Standing Auditor

Shigeyuki Mori

## Non-Standing Auditors

Kiyoshi Sakamoto \*2

Susumu Kobayashi

Kensuke Mori

## Executive Officers

Norikazu Okano

Kouji Iwata

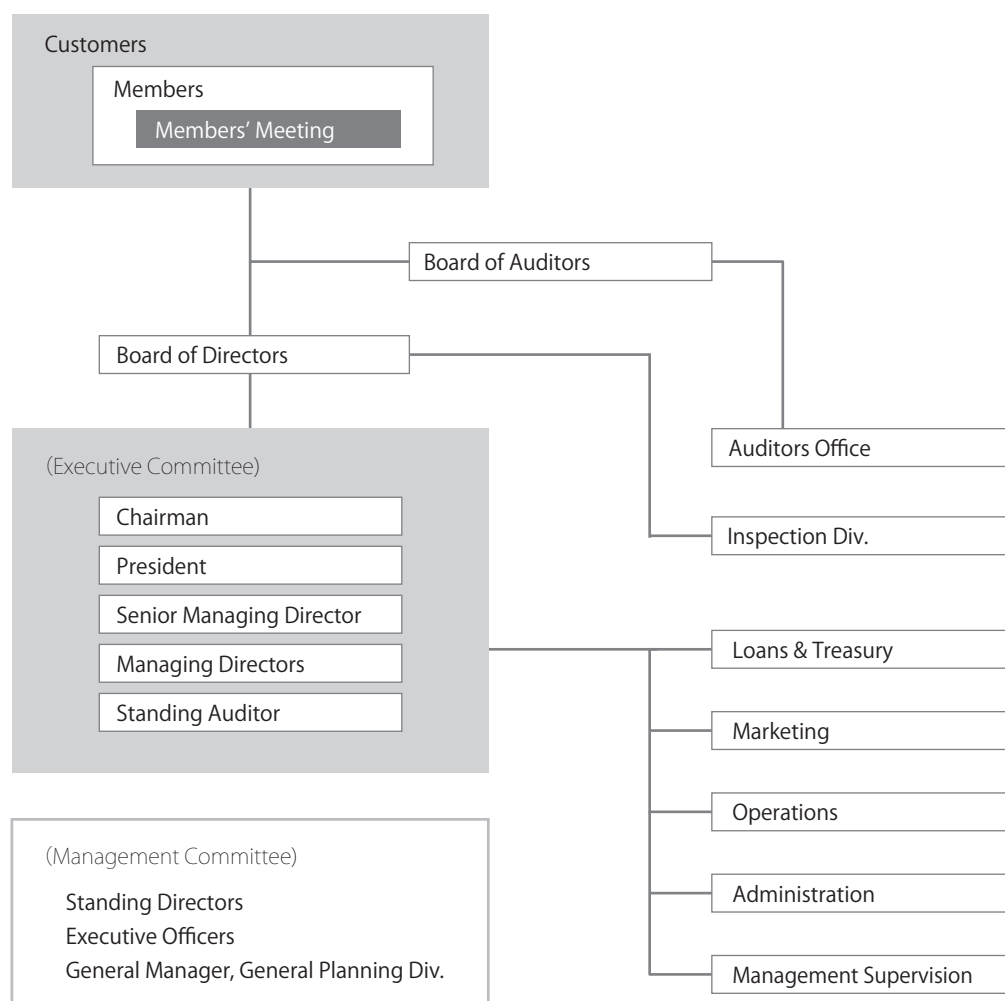
Yasutaka Yoshigiwa

### Notes

1. Outside directors in accordance with the *shinkin* bank industry's agreement on measures to enhance functions of the board of directors.
2. Outside auditor as provided for in Article 32, Paragraph 5 of the Shinkin Bank Act.

# Organization Chart

(As of July 31, 2017)



# Directory

## **BANK DATA**

(As of March 31, 2017)

### **Main Office**

2-1-2, Higashi-Kanda, Chiyoda-ku,  
Tokyo 101-0031  
Telephone: 03-3862-0321

### **Established**

August 3, 1923

### **Number of Employees**

1,395

### **Membership**

114,872

### **Number of Branches**

(including 5 Sub-Branches)  
65

### **Number of ATM Terminals**

(off-site ATMs)  
12

## **SERVICE NETWORK**

(As of July 31, 2017)

### **International Business Division**

3-6-12, Iwamoto-cho, Chiyoda-ku, Tokyo 101-0032  
Telephone: 03-3862-0393

### **Foreign Exchange Offices**

#### **Head Office**

2-8-2, Taito, Taito-ku, Tokyo 110-0016  
Telephone: 03-3833-0251

#### **Toshimacho Branch**

2-1-2, Higashi-Kanda, Chiyoda-ku, Tokyo 101-0031  
Telephone: 03-3862-0311

#### **Nishimachi Branch**

1-2-1, Higashi-Ueno, Taito-ku, Tokyo 110-0015  
Telephone: 03-3833-9241

#### **Kotobuki Branch**

2-10-13, Kotobuki, Taito-ku, Tokyo 111-0042  
Telephone: 03-3844-3166

#### **Asakusa Branch**

4-49-12, Asakusa, Taito-ku, Tokyo 111-0032  
Telephone: 03-3876-0701

#### **Yushima Branch**

2-1-5, Yushima, Bunkyo-ku, Tokyo 113-0034  
Telephone: 03-3814-5261

#### **Asakusabashi Branch**

3-17-7, Asakusabashi, Taito-ku, Tokyo 111-0053  
Telephone: 03-3864-5011

#### **Nihonbashi Branch**

7F Nihon Building annex 1-2-18, Nihonbashi-Kayaba-cho, Chuo-ku,  
Tokyo 103-0025  
Telephone: 03-3663-0650

#### **Kandaogawamachi Branch**

3-1, Kanda-Ogawamachi, Chiyoda-ku, Tokyo 101-0052  
Telephone: 03-3292-5301

In addition to the 9 foreign exchange offices mentioned above, we have 12 foreign exchange sub-offices.



## **THE ASAHI SHINKIN BANK**

2-1-2, Higashi-kanda, Chiyoda-ku,  
Tokyo 101-0031  
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SWIFT:ASKBJPJT  
<http://www.asahi-shinkin.co.jp/>