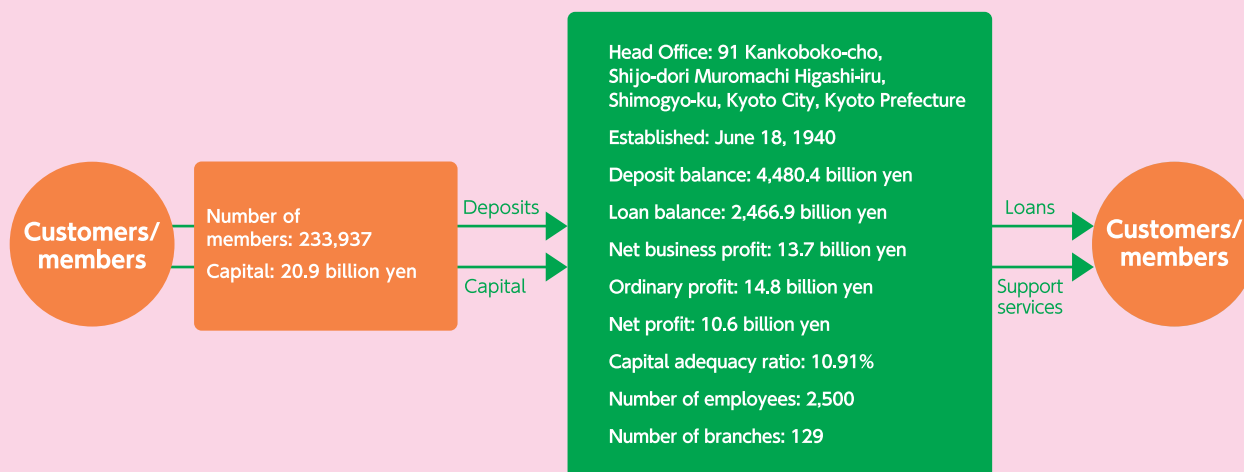


THE KYOTO CHUO SHINKIN BANK

ANNUAL REPORT 2017

Company profile of the Kyoto Chuo Shinkin Bank



(Year ended March 2017)

The Kyoto Chuo Shinkin Bank is a cooperative financial institution that operates under the shared philosophy of prosperity for all, including for local SMEs and individuals. The Kyoto Chuo Shinkin Bank serves Kyoto City and parts of Kyoto, Shiga, Osaka and Nara prefecture. The deposits we look after for our customers in the community are used for investments in customers that require capital, such as venture corporations, in order to foster the continued development of local economies and businesses. Moreover, we have formed a strong network characterized by close ties to the community. With a broad branch system, we provide products and services in-line with the demand of customers and assist them in improving their lives. We are also actively involved in activities designed to help the cultivation of human resources and engage in activities geared toward protecting and passing on to the next generation the local natural environment, scenery, and traditional culture in our community, including within an international city of culture and tourism; Kyoto. Thus, we contribute to development in our community not just financially, but in other various ways as well.

We are actively involved in activities that contribute to a society to which we are thankful.

Unlike city-based commercial banks, which do business on a national scale, credit associations are limited in their terms of where they do business. As such, credit associations cannot hope for their own development without the development of the communities where they do business. The Kyoto Chuo Shinkin Bank (as a financial institution headquartered in the land of the Kyoto Protocol) not only serves to help the region prosper through financial institution activities, but is also actively involved with environmental issues and continuously engages in various activities that contribute to a society we are grateful for.

Fund Procurement and Management

Deposit balances by account type

(Unit : million yen)

	Year ended March 2016 (Component ratio)	Year ended March 2017 (Component ratio)	Changes
Current deposits	76,947 (1.74%)	77,847 (1.73%)	900 (△0.01%)
Ordinary deposits	1,540,993 (35.01%)	1,676,016 (37.40%)	135,023 (2.39%)
Savings deposits	50,596 (1.14%)	52,048 (1.16%)	1,452 (0.02%)
Deposits at notice	26,544 (0.60%)	43,940 (0.98%)	17,395 (0.38%)
Time deposits	2,513,171 (57.10%)	2,433,164 (54.30%)	△80,006 (△2.80%)
Fixed savings deposits	54,056 (1.22%)	46,222 (1.03%)	△7,834 (△0.19%)
Other deposits	138,575 (3.14%)	151,184 (3.37%)	12,608 (0.23%)
Total	4,400,885 (100.00%)	4,480,425 (100.00%)	79,540 (—)

(Notes) Foreign currency deposits are included in "Other deposits".

Deposit balances by depositor

(Unit : million yen)

	Year ended March 2016 (Component ratio)	Year ended March 2017 (Component ratio)	Changes
Individual customers	3,245,392 (73.74%)	3,233,961 (72.17%)	△11,430 (△1.57%)
Corporate customers	904,485 (20.55%)	984,832 (21.98%)	80,346 (1.43%)
Public institutions	61,468 (1.39%)	59,303 (1.32%)	△2,164 (△0.07%)
Financial institutions	189,538 (4.30%)	202,328 (4.51%)	12,789 (0.21%)
Total	4,400,885 (100.00%)	4,480,425 (100.00%)	79,540 (—)

(Notes) Negotiable certificates of deposits are not included in this table.

Loan balances by account

(Unit : million yen)

	Year ended March 2016	Year ended March 2017	Changes
Bills discounted	10,004	8,803	△1,200
Loans on bills	75,483	79,900	4,417
Loans on deeds	2,200,674	2,302,723	102,048
Overdrafts	72,065	75,478	3,412
Total	2,358,228	2,466,906	108,677

(Notes) The Bank does not distinguish between domestic and international operations.

Breakdown of loan balances by business type

(Unit : number, million yen)

	Year ended March 2016			Year ended March 2017		
	Number of borrowers	Loan balance	Component ratio	Number of borrowers	Loan balance	Component ratio
Manufacturing	2,695	126,016	5.34%	2,650	123,634	5.01%
Agriculture, forestry	36	583	0.02%	40	586	0.02%
Mining, quarrying, sand and gravel gathering	8	974	0.04%	8	1,030	0.04%
Construction	3,257	96,680	4.09%	3,343	97,667	3.95%
Electricity, gas, heat supply, water	18	276	0.01%	18	342	0.01%
Telecommunications	189	4,378	0.18%	190	4,427	0.17%
Transportation, postal industry	274	23,535	0.99%	291	24,105	0.97%
Wholesale business	1,445	78,015	3.30%	1,448	75,217	3.04%
Retail business	1,674	49,372	2.09%	1,663	50,245	2.03%
Finance, insurance	60	45,047	1.91%	67	69,816	2.83%
Real estate	4,837	482,762	20.47%	5,029	502,161	20.35%
Rental industry	33	5,935	0.25%	33	4,845	0.19%
Scientific research, specialist/technical services	421	8,469	0.35%	409	7,982	0.32%
Accommodation industry	75	11,413	0.48%	92	12,426	0.50%
Restaurant industry	1,194	25,171	1.06%	1,201	24,942	1.01%
Lifestyle-related service industries, entertainment industry	463	37,694	1.59%	470	39,868	1.61%
Education, study support industry	106	10,271	0.43%	115	12,567	0.50%
Medicine, welfare	643	54,267	2.30%	704	58,137	2.35%
Other services	1,186	41,095	1.74%	1,238	43,204	1.75%
Subtotal	18,614	1,101,963	46.72%	19,009	1,153,210	46.74%
Local public entities	26	111,848	4.74%	25	128,759	5.21%
Individual (housing, consumption, tax payment funds, etc.)	145,635	1,144,416	48.52%	144,035	1,184,935	48.03%
Total	164,275	2,358,228	100.00%	163,069	2,466,906	100.00%

(Notes) 1. Business categories are based on the large classification of Japan Standard Industry Classification.

2. Loans outside Japan are classified in the same manner as those in Japan and are included within their respective business category.

Fund management and securities business

Average balance by type of security

(Unit : million yen)

	Year ended March 2016	Year ended March 2017	Changes
Japanese government bonds	682,005	508,010	△173,994
Local government bonds	237,142	309,489	72,347
Corporate bonds	491,373	529,355	37,982
Stocks	25,996	30,302	4,306
Foreign securities	157,321	191,761	34,439
Other securities	37,730	52,594	14,863
Total	1,631,569	1,621,513	△10,055

Other Indicators

Foreign exchange transaction handling performance

(Unit : million US\$)

	Year ended March 2016	Year ended March 2017	Changes
Export exchange	112	106	△5
Import exchange	173	168	△4
Total	285	275	△10

Foreign currency denominated assets balance

(Unit : million US\$)

	Year ended March 2016	Year ended March 2017	Changes
Balance of foreign currency denominated assets	1,054	1,281	226

About the Capital-to-Asset Ratio

Consolidated Capital-to-Asset Ratio (Basel III Domestic Framework)

(Unit : million yen)

Item		Year ended March 2016	Year ended March 2017	Changes
Fundamental items related to core capital (A)	Member accounts related to ordinary investment	230,001	239,797	9,795
	(Investments)	21,161	20,952	△ 208
	(Earned surplus)	211,037	221,035	9,998
	(Predicted outflow (－))	996	986	△ 10
	(Other)	△ 1,200	△ 1,205	△ 4
	General allowance for doubtful accounts	4,697	4,845	147
	Fundamental items related to core capital among eligible former capital procurement methods	4,804	－	△ 4,804
	Fundamental items related to core capital among the 45% general amount of difference in reevaluation of land	4,632	4,052	△ 579
	Fundamental items related to core capital among non controlling interest	62	57	△ 5
(A)	244,198	248,752	4,554	
Adjusted items related to core capital (B)	Intangible fixed assets	923	1,239	316
	Deferred tax assets (excluding those relating to temporary differences)	－	2	2
	(B)	923	1,242	318
Owned capital (C)	(A) – (B)	243,274	247,510	4,235
Risk assets, etc. (D)	Trust risk assets	2,002,752	2,123,164	120,411
	Amount derived by dividing the total amount equivalent to operational risk by 8%	91,162	89,252	△1,910
	(D)	2,093,915	2,212,416	118,501
Consolidated capital-to-asset ratio	$\frac{(C)}{(D)}$	11.61%	11.18%	△0.43%

(Notes) The above is calculated based on the "Standards for judging whether the owned capital Shinkin Bank or Shinkin Bank Association holds is appropriate according to the assets they possess based on the regulations in Article 14, Section 2 of the Banking Act applying to Article 89, Section 1 of the Shinkin Bank Act (Financial Services Agency announcement 21 of 2006)." Our group has adopted a domestic framework.

Consolidated Financial Statements

Consolidated balance sheet

(Unit : million yen)

(Assets)	As of March 31, 2016	As of March 31, 2017	Changes
Cash and due from banks	964,045	1,011,147	47,101
Bills purchased and call loans	621	558	△ 63
Monetary claims purchased	626	447	△ 178
Trust funds	1,991	1,941	△ 49
Trading securities	1,388	1,502	113
Investment securities	1,610,720	1,589,746	△ 20,973
Loans	2,356,622	2,465,057	108,434
Foreign exchange	1,067	1,182	114
Other assets	26,812	26,510	△ 302
Tangible fixed assets	53,941	53,365	△ 576
Buildings	6,641	6,278	△ 362
Land	42,313	42,363	49
Lease assets	2,354	1,733	△ 620
Construction work in progress	43	231	187
Other tangible fixed assets	2,588	2,758	170
Intangible fixed assets	3,200	2,867	△ 333
Software	884	974	89
Lease assets	1,883	1,491	△ 392
Other intangible fixed assets	432	401	△ 30
Deferred tax assets	775	3,418	2,643
Customers' liabilities for acceptances and guarantees	7,611	8,342	731
Reserve for possible loan loss	△ 16,604	△ 16,924	△ 320
Reserve for investment loss	△ 35	△ 44	△ 8
Total assets	5,012,785	5,149,117	136,332

(Liabilities)	As of March 31, 2016	As of March 31, 2017	Changes
Deposits	4,382,831	4,460,373	77,541
Borrowings	243,600	298,400	54,800
Bills sold and call money	59,353	69,916	10,563
Foreign exchange	6	6	△ 0
Other liabilities	31,618	25,949	△ 5,669
Reserve for bonuses	14	14	—
Retirement benefit liability	11,532	11,175	△ 356
Reserve for retirement bonuses for directors	925	1,063	137
Reserve for reimbursement of deposits	235	267	32
Reserve for contingent losses	115	175	60
Reserve for reward payments of deposits	159	94	△ 65
Deferred tax liabilities	1,103	—	△ 1,103
Deferred tax liabilities as for land revaluation	4,853	4,853	△ 0
Acceptances and guarantees	7,611	8,342	731
Total liabilities	4,743,959	4,880,631	136,671
(Net assets)			
Capital	21,161	20,952	△ 208
Earned surplus	211,037	221,035	9,998
Unsettled equity	△ 1,200	△ 1,205	△ 4
Total members' equity	230,998	240,783	9,785
Net unrealized gains on available-for-sale securities	29,756	19,503	△ 10,253
Deferred hedging gains and losses	△ 21	91	113
Land revaluation surplus	8,013	8,012	△ 0
Total amount on valuation and translation	37,749	27,608	△ 10,140
Non controlling interest	78	95	16
Total net assets	268,825	268,486	△ 338
Total liabilities and net assets	5,012,785	5,149,117	136,332

Consolidated Financial Statements

Consolidated statement of income

(Unit : thousand yen)

	April 1, 2015 through March 31, 2016	April 1, 2016 through March 31, 2017	Changes
Ordinary income	68,396,945	69,910,747	1,513,802
Fund management income	51,323,283	50,185,530	△ 1,137,752
Interest on loans	36,363,514	34,883,190	△ 1,480,324
Interest on deposits	2,410,696	1,842,919	△ 567,777
Interest on bills purchased and call loans	16,718	12,794	△ 3,923
Interest and dividends on securities	11,266,936	11,556,034	289,097
Other interest income	1,265,416	1,890,592	625,175
Fees and commissions	6,301,958	6,382,924	80,966
Other operating income	7,812,717	10,399,458	2,586,741
Other ordinary income	2,958,986	2,942,834	△ 16,152
Bad debt recovered	515,198	940,520	425,322
Other ordinary income	2,443,788	2,002,313	△ 441,475
Ordinary expenses	53,056,343	54,327,565	1,271,221
Financing expenses	5,501,640	4,960,500	△ 541,140
Interest on deposits	4,457,563	3,953,186	△ 504,377
Interest on Fixed savings deposits	14,690	9,961	△ 4,728
Interest on borrowings	247,070	71,038	△ 176,032
Interest on bills sold and call money	335,148	369,856	34,707
Interest paid in bond lending transactions	205,871	334,331	128,460
Other interest expenses	241,296	222,126	△ 19,170
Fees and commissions	5,128,277	5,517,781	389,504
Other operating expenses	4,405,101	6,707,173	2,302,071
Expenses	35,502,738	35,431,432	△ 71,306
Other ordinary expenses	2,518,585	1,710,677	△ 807,907
Provision of allowance for doubtful debt accounts	262,094	892,723	630,629
Other ordinary expenses	2,256,490	817,953	△ 1,438,536
Ordinary profit	15,340,602	15,583,182	242,580
Extraordinary profit	1,540	123	△ 1,417
Gain on disposal of fixed assets	1,540	123	△ 1,417
Extraordinary loss	69,969	148,235	78,266
Loss on disposal of fixed assets	67,305	140,818	73,512
Impairment losses	2,663	7,417	4,754
Net income before taxes and other adjustments	15,272,173	15,435,070	162,896
Corporate tax, inhabitant tax and business tax	4,036,234	4,223,425	187,190
Adjustment with corporate tax, etc.	402,984	220,412	△ 182,572
Total corporate tax, etc.	4,439,218	4,443,837	4,618
Net income	10,832,955	10,991,233	158,278
Profit attributable to non-controlling interests	△ 6,251	△ 3,173	3,078
Profit attributable to owners of parent	10,839,207	10,994,406	155,199

Consolidated statement of retained earnings

(Unit : thousand yen)

(Earned surplus)	April 1, 2015 through March 31, 2016	April 1, 2016 through March 31, 2017	Changes
Earned surplus at the beginning of the term	201,198,537	211,037,252	9,838,715
Increase in earned surplus	10,839,207	10,995,269	156,062
Profit attributable to owners of parent	10,839,207	10,994,406	155,199
Reversal of revaluation reserve for land	—	862	862
Decrease in earned surplus	1,000,491	996,754	△ 3,737
Dividends	1,000,491	996,754	△ 3,737
Earned surplus at the end of the term	211,037,252	221,035,768	9,998,515

Segment information by business type

Some consolidated companies conduct credit guarantee business, etc., in addition to credit association business, but because the ratio of these business activities to all segments is minimal, segment information by business type is not included here.

Status of Loan Assets

Self-assessment and depreciation/allowance

The Bank has established standards in accordance with the financial inspections manual to ensure the health of assets. It has also rigorously implemented "self-assessment" in order to scrutinize its own assets individually, as well as "depreciation and allowance" in accordance with it.

In the self-assessment, the Bank assesses the repayment capacity of borrowers based on their financial condition, cash position and profitability. In accordance with the results of the assessment, they are classified into one of five groups consisting of "Normal entities," "Entities requiring caution," "Potentially bankrupt entities," "Entities bankrupt in substance" and "Bankrupt entities." Then, the Bank classifies each individual loan into one of four groups consisting of "Unclassified," "Classification II," "Classification III" and "Classification IV," based on the degree of the risk inherent in collection of the loan or based on the risk of damage to the value of the loan. The Bank has fully established regulations for depreciation and allowance. It processes based on the classification of borrowers and loans.

Self-assessment, disclosed loans, and coverage conditions (non-consolidated basis)

(Unit : 100 million yen)

	Self-assessment				Disclosure based on the Financial Reconstruction Law (loans and other claims)		Risk management loans (loans)		Coverage conditions		
	Unclassified	Classification II	Classification III	Classification IV*	Classification	Year ended March 2017	Classification	Year ended March 2017	Collectible amount by collateral, guarantees, etc.	Reserve of the Bank	Coverage ratio
Bankrupt entities	16	5	11	—	0	Bankrupt and quasi-bankrupt loans and claims	Loans to bankrupt entities	16	51	19	100.00%
Entities bankrupt in substance	54	7	27	—	19						
Potentially bankrupt entities	580	222	225	132		Doubtful loans and claims			448	81	91.20%
						Substandard loans and claims			28	2	70.78%
Entities requiring caution	3,366	968	2,397			Subtotal			528	102	90.82%
Normal entities	20,745	20,745				Normal loans and claims			19,535	38	81.28%
Total					24,763	Total			20,063	141	81.55%

* Category IV assessment off balance due to amortization is 300 million yen.

* The value of "Disclosure based on the Financial Reconstruction Law" includes the value of privately placed bonds that the Bank guarantees.

In addition, "Coverage conditions" show ratios in proportion to the values shown under "Disclosure based on the Financial Reconstruction Law".

* Coverage ratio is rounded to the third decimal place.

Explanation of terms

	Self-assessment		Financial Reconstruction Law (loans and other claims)		Risk management loans (loans)	
Disclosed loans	Bankrupt entities	Borrowers who are undergoing legal and formal bankruptcy proceedings	Bankrupt and quasi-bankrupt loans and claims	"Bankrupt entities" and "Entities bankrupt in substance" in self-assessment	Loans to bankrupt entities	"Bankrupt entities" in self-assessment
	Entities bankrupt in substance	Borrowers who are not undergoing legal and formal bankruptcy proceedings, but who are in serious financial difficulties and bankrupt in substance			Overdue loans	"Entities bankrupt in substance" and "Potentially bankrupt entities" in self-assessment
	Potentially bankrupt entities	Borrowers who are not bankrupt at present, but who are in financial difficulties, whose measures for management improvement are not progressing well, and who are recognized to be highly likely to become bankrupt in the future (including borrowers who are receiving support)	Substandard loans and claims	i) Loans for which principal and interest payments are overdue for 3 months or more ii) Loans with eased lending conditions such as a reduction in interest or a moratorium on principal repayment, etc.		
	Entities requiring caution	Borrowers who require caution for the management of loans in the future because business is sluggish and unstable or they have problems in their financial conditions	Normal loans and claims	"Normal entities" in self-assessment and "Entities requiring caution" other than substandard loans and claims		
	Normal entities	Borrowers whose business conditions are good and who have no problems in their financial conditions				

Status of Loan Assets

Disclosure of loan assets

The Bank is obliged to disclose the “Disclosed claims based on the Financial Reconstruction Law” and “Risk management loans” based on the Shinkin Bank Act. The difference between the above-mentioned disclosed claims is that while “Disclosed claims based on the Financial Reconstruction Law” include claims other than loans and bills discounted, such as customers’ liabilities for acceptances and guarantees, “Risk management loans” include only loans and bills discounted.

The Bank has a total coverage ratio of 90.82% in combination with collateral, guarantees and reserves for disclosed claims based on the Financial Reconstruction Law (excluding normal loans and claims) and continues to maintain a sufficient level of reserves. The Bank believes that its mission is to contribute to the development of and support for the region, while securing sound management through establishing sufficient reserves.

Disclosed claims and reserve and coverage conditions under the Financial Reconstruction Law

(Disclosure criteria specified in Article 6 and Article 7 of the Law Concerning Emergency Measures for the Reconstruction of the Functions of the Financial System)

(Unit : 100 million yen)

Classification	Year ended March 2016	Year ended March 2017					
	Disclosure balance	Disclosure balance (A)	Ratio	Amount collectible by collateral, guarantee, etc. (B)	Reserve for possible loan loss (C)	Coverage ratio *1 ([B] + [C]) / (A)	Reserve rate *2 (C) / ([A] - [B])
Bankrupt and quasi-bankrupt loans and claims	72	70	0.29%	51	19	100.00%	100.00%
Doubtful loans and claims	583	580	2.34%	448	81	91.20%	61.35%
Substandard loans and claims	34	43	0.18%	28	2	70.78%	14.03%
Subtotal	690	694	2.80%	528	102	90.82%	61.73%
Normal loans and claims	22,984	24,081	97.20%	19,535	38	81.28%	0.84%
Total	23,675	24,775	100.00%	20,063	141	81.55%	2.99%

Reserve and coverage conditions of risk management loans

(Disclosure criteria specified in Article 89 of the Shinkin Bank Act)

The balance of risk management loans on a consolidated accounting basis for the year ended March 31, 2017 is the same as above.

(Unit : 100 million yen)

Classification	Year ended March 2016	Year ended March 2017					
	Disclosure balance	Disclosure balance (A)	Ratio*3	Amount collectible by collateral, guarantee, etc. (B)	Reserve for possible loan loss (C)	Coverage ratio *1 ([B] + [C]) / (A)	Reserve rate *2 (C) / ([A] - [B])
Loans to bankrupt entities	20	16	0.07%	16	0	100.00%	100.00%
Overdue loans	633	633	2.57%	481	100	91.97%	66.43%
Loans overdue for 3 months or more	—	—	0.00%	—	—	—	—
Loans with eased lending conditions	34	43	0.18%	28	2	70.78%	14.03%
Total risk management loans	689	693	2.81%	527	102	90.84%	61.79%

* 1. The coverage ratio indicates the coverage ratio of loans overall and is calculated using the following formula.

Coverage ratio = (estimated amounts collectible by collateral / guarantee, etc. + reserve for possible loan loss prepared for unrecoverable amounts) / claim amounts

* 2. The reserve rate indicates the reserve rate for unsecured balances.

* 3. The ratio of risk management loans shows the ratio of such loans against loans overall.

* 4. All rates within the table are rounded to the third decimal place.