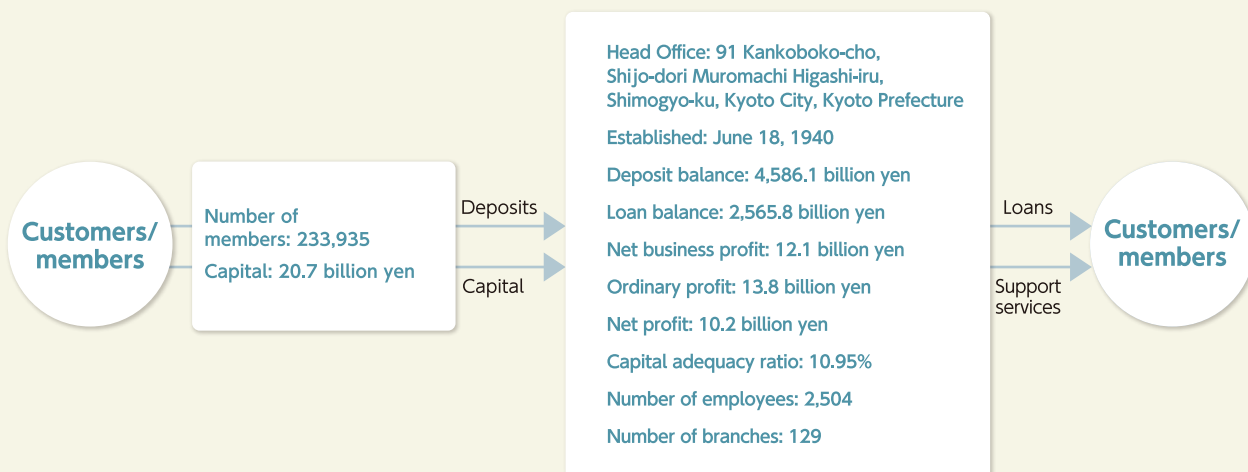


# THE KYOTO CHUO SHINKIN BANK

## ANNUAL REPORT 2018

### Company profile of the Kyoto Chuo Shinkin Bank



(Year ended March 2018)

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 2017 (Component ratio)	Year ended March 2018 (Component ratio)	Changes
Current deposits	77,847 (1.73%)	86,309 (1.88%)	8,462 (0.15%)
Ordinary deposits	1,676,016 (37.40%)	1,800,618 (39.26%)	124,601 (1.86%)
Savings deposits	52,048 (1.16%)	52,421 (1.14%)	372 (△0.02%)
Deposits at notice	43,940 (0.98%)	99,100 (2.16%)	55,159 (1.18%)
Time deposits	2,433,164 (54.30%)	2,291,967 (49.97%)	△141,197 (△4.33%)
Fixed savings deposits	46,222 (1.03%)	44,478 (0.96%)	△1,744 (△0.07%)
Other deposits	151,184 (3.37%)	211,260 (4.60%)	60,076 (1.23%)
<b>Total</b>	<b>4,480,425 (100.00%)</b>	<b>4,586,155 (100.00%)</b>	<b>105,729 (—)</b>

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

### Deposit balances by depositor

(Unit : million yen)

	Year ended March 2017 (Component ratio)	Year ended March 2018 (Component ratio)	Changes
Individual customers	3,233,961 (72.17%)	3,258,251 (71.04%)	24,290 (△1.13%)
Corporate customers	984,832 (21.98%)	1,000,676 (21.81%)	15,844 (△0.17%)
Public institutions	59,303 (1.32%)	66,262 (1.44%)	6,958 (0.12%)
Financial institutions	202,328 (4.51%)	260,963 (5.69%)	58,635 (1.18%)
<b>Total</b>	<b>4,480,425 (100.00%)</b>	<b>4,586,155 (100.00%)</b>	<b>105,729 (—)</b>

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

### Loan balances by account

(Unit : million yen)

	Year ended March 2017	Year ended March 2018	Changes
Bills discounted	8,803	9,523	719
Loans on bills	79,900	74,931	△4,968
Loans on deeds	2,302,723	2,401,444	98,720
Overdrafts	75,478	79,935	4,456
<b>Total</b>	<b>2,466,906</b>	<b>2,565,835</b>	<b>98,929</b>

(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 2017			Year ended March 2018		
	Number of borrowers	Loan balance	Component ratio	Number of borrowers	Loan balance	Component ratio
Manufacturing	2,650	123,634	5.01%	2,614	123,973	4.83%
Agriculture, forestry	40	586	0.02%	46	588	0.02%
Mining, quarrying, sand and gravel gathering	8	1,030	0.04%	8	1,021	0.03%
Construction	3,343	97,667	3.95%	3,454	104,459	4.07%
Electricity, gas, heat supply, water	18	342	0.01%	20	414	0.01%
Telecommunications	190	4,427	0.17%	195	4,941	0.19%
Transportation, postal industry	291	24,105	0.97%	313	25,285	0.98%
Wholesale business	1,448	75,217	3.04%	1,431	75,150	2.92%
Retail business	1,663	50,245	2.03%	1,663	51,868	2.02%
Finance, insurance	67	69,816	2.83%	68	94,321	3.67%
Real estate	5,029	502,161	20.35%	5,200	511,019	19.91%
Rental industry	33	4,845	0.19%	38	4,722	0.18%
Scientific research, specialist/ technical services	409	7,982	0.32%	431	7,491	0.29%
Accommodation industry	92	12,426	0.50%	104	16,013	0.62%
Restaurant industry	1,201	24,942	1.01%	1,218	26,330	1.02%
Lifestyle-related service industries, entertainment industry	470	39,868	1.61%	463	39,226	1.52%
Education, study support industry	115	12,567	0.50%	123	13,497	0.52%
Medicine, welfare	704	58,137	2.35%	759	59,983	2.33%
Other services	1,238	43,204	1.75%	1,304	46,591	1.81%
<b>Subtotal</b>	<b>19,009</b>	<b>1,153,210</b>	<b>46.74%</b>	<b>19,452</b>	<b>1,206,900</b>	<b>47.03%</b>
Local public entities	25	128,759	5.21%	24	141,284	5.50%
Individual ( housing, consumption, tax payment funds, etc. )	144,035	1,184,935	48.03%	141,690	1,217,650	47.45%
<b>Total</b>	<b>163,069</b>	<b>2,466,906</b>	<b>100.00%</b>	<b>161,166</b>	<b>2,565,835</b>	<b>100.00%</b>

(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 2017	Year ended March 2018	Changes
Japanese government bonds	508,010	411,385	△96,625
Local government bonds	309,489	346,129	36,639
Corporate bonds	529,355	558,962	29,607
Stocks	30,302	34,825	4,523
Foreign securities	191,761	210,600	18,839
Other securities	52,594	62,861	10,267
<b>Total</b>	<b>1,621,513</b>	<b>1,624,765</b>	<b>3,251</b>

## Other Indicators

### Foreign exchange transaction handling performance

(Unit : million US\$)

	Year ended March 2017	Year ended March 2018	Changes
Export exchange	106	123	16
Import exchange	168	181	12
<b>Total</b>	<b>275</b>	<b>304</b>	<b>28</b>

### Foreign currency denominated assets balance

(Unit : million US\$)

	Year ended March 2017	Year ended March 2018	Changes
Balance of foreign currency denominated assets	1,281	1,308	26

## About the Capital-to-Asset Ratio

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

(Unit : million yen)

Item		Year ended March 2017	Year ended March 2018	Changes
Fundamental items related to core capital (A)	Member accounts related to ordinary investment	239,797	250,591	10,794
	(Investments and Capital surplus)	20,952	20,772	△ 179
	(Earned surplus)	221,035	232,169	11,133
	(Predicted outflow (－))	986	966	△ 19
	(Other)	△ 1,205	△ 1,383	△ 178
	General allowance for doubtful accounts	4,845	4,528	△ 317
	Fundamental items related to core capital among the 45% general amount of difference in reevaluation of land	4,052	3,473	△ 578
	Fundamental items related to core capital among non controlling interest	57	41	△ 16
	(A)	248,752	258,634	9,882
Adjusted items related to core capital (B)	Intangible fixed assets	1,239	1,276	36
	Deferred tax assets (excluding those relating to temporary differences)	2	－	△ 2
	(B)	1,242	1,276	34
Owned capital (C)	(A) – (B)	247,510	257,358	9,848
Risk assets, etc. (D)	Trust risk assets	2,123,164	2,188,254	65,089
	Amount derived by dividing the total amount equivalent to operational risk by 8%	89,252	87,958	△1,294
	(D)	2,212,416	2,276,212	63,795
Consolidated capital-to-asset ratio	$\frac{(C)}{(D)}$	11.18%	11.30%	0.12%

(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, 2017	As of March 31, 2018	Changes
Cash and due from banks	1,011,147	1,051,190	40,043
Bills purchased and call loans	558	582	24
Monetary claims purchased	447	307	△ 140
Trust funds	1,941	7,939	5,998
Trading securities	1,502	1,549	47
Investment securities	1,589,746	1,583,930	△ 5,815
Loans	2,465,057	2,561,713	96,656
Foreign exchange	1,182	1,004	△ 177
Other assets	26,510	30,111	3,600
<b>Tangible fixed assets</b>	<b>53,365</b>	<b>52,864</b>	<b>△ 500</b>
Buildings	6,278	6,504	225
Land	42,363	42,363	0
Lease assets	1,733	2	△ 1,731
Construction work in progress	231	49	△ 181
Other tangible fixed assets	2,758	3,943	1,185
<b>Intangible fixed assets</b>	<b>2,867</b>	<b>2,219</b>	<b>△ 647</b>
Software	974	1,833	859
Lease assets	1,491	—	△ 1,491
Other intangible fixed assets	401	385	△ 15
<b>Deferred tax assets</b>	<b>3,418</b>	<b>1,337</b>	<b>△ 2,081</b>
Customers' liabilities for acceptances and guarantees	8,342	6,004	△ 2,337
Reserve for possible loan loss	△ 16,924	△ 16,308	616
Reserve for investment loss	△ 44	△ 36	7
<b>Total assets</b>	<b>5,149,117</b>	<b>5,284,411</b>	<b>135,293</b>

(Liabilities)	As of March 31, 2017	As of March 31, 2018	Changes
Deposits	4,460,373	4,564,420	104,047
Borrowings	298,400	333,600	35,200
Bills sold and call money	69,916	54,336	△ 15,579
Foreign exchange	6	13	6
Other liabilities	25,949	24,093	△ 1,855
Reserve for bonuses	14	14	0
Retirement benefit liability	11,175	11,179	3
Reserve for retirement bonuses for directors	1,063	1,211	148
Reserve for reimbursement of deposits	267	292	24
Reserve for contingent losses	175	295	119
Reserve for reward payments of deposits	94	89	△ 4
Deferred tax liabilities as for land revaluation	4,853	4,853	—
Acceptances and guarantees	8,342	6,004	△ 2,337
<b>Total liabilities</b>	<b>4,880,631</b>	<b>5,000,405</b>	<b>119,774</b>
<b>(Net assets)</b>			
Investments	20,952	20,728	△ 224
Capital surplus	—	44	44
Earned surplus	221,035	232,169	11,133
Unsettled equity	△ 1,205	△ 1,383	△ 178
<b>Total members' equity</b>	<b>240,783</b>	<b>251,557</b>	<b>10,774</b>
Net unrealized gains on available-for-sale securities	19,503	24,318	4,814
Deferred hedging gains and losses	91	48	△ 43
Land revaluation surplus	8,012	8,012	—
<b>Total amount on valuation and translation</b>	<b>27,608</b>	<b>32,379</b>	<b>4,771</b>
Non controlling interest	95	68	△ 26
<b>Total net assets</b>	<b>268,486</b>	<b>284,005</b>	<b>15,518</b>
<b>Total liabilities and net assets</b>	<b>5,149,117</b>	<b>5,284,411</b>	<b>135,293</b>

## Consolidated Financial Statements

## Consolidated statement of income

(Unit : thousand yen)

	April 1, 2016 through March 31, 2017	April 1, 2017 through March 31, 2018	Changes
<b>Ordinary income</b>	<b>69,910,747</b>	<b>66,351,687</b>	<b>△ 3,559,060</b>
<b>Fund management income</b>	<b>50,185,530</b>	<b>50,655,576</b>	<b>470,045</b>
Interest on loans	34,883,190	33,829,199	△ 1,053,990
Interest on deposits	1,842,919	1,638,952	△ 203,966
Interest on bills purchased and call loans	12,794	12,747	△ 47
Interest and dividends on securities	11,556,034	12,268,148	712,113
Other interest income	1,890,592	2,906,528	1,015,936
<b>Fees and commissions</b>	<b>6,382,924</b>	<b>6,287,933</b>	<b>△ 94,991</b>
<b>Other operating income</b>	<b>10,399,458</b>	<b>6,020,645</b>	<b>△ 4,378,813</b>
<b>Other ordinary income</b>	<b>2,942,834</b>	<b>3,387,532</b>	<b>444,698</b>
Bad debt recovered	940,520	818,474	△ 122,046
Other ordinary income	2,002,313	2,569,058	566,745
<b>Ordinary expenses</b>	<b>54,327,565</b>	<b>51,924,414</b>	<b>△ 2,403,150</b>
<b>Financing expenses</b>	<b>4,960,500</b>	<b>4,722,833</b>	<b>△ 237,667</b>
Interest on deposits	3,953,186	3,804,887	△ 148,298
Interest on Fixed savings deposits	9,961	6,111	△ 3,849
Interest on borrowings	71,038	7,341	△ 63,696
Interest on bills sold and call money	369,856	638,930	269,074
Interest paid in bond lending transactions	334,331	108,081	△ 226,250
Other interest expenses	222,126	157,480	△ 64,646
<b>Fees and commissions</b>	<b>5,517,781</b>	<b>5,949,007</b>	<b>431,225</b>
<b>Other operating expenses</b>	<b>6,707,173</b>	<b>5,004,502</b>	<b>△ 1,702,670</b>
<b>Expenses</b>	<b>35,431,432</b>	<b>34,848,766</b>	<b>△ 582,666</b>
<b>Other ordinary expenses</b>	<b>1,710,677</b>	<b>1,399,305</b>	<b>△ 311,372</b>
Provision of allowance for doubtful debt accounts	892,723	519,340	△ 373,383
Other ordinary expenses	817,953	879,964	62,010
<b>Ordinary profit</b>	<b>15,583,182</b>	<b>14,427,272</b>	<b>△ 1,155,909</b>
<b>Extraordinary profit</b>	<b>123</b>	<b>1,831,087</b>	<b>1,830,964</b>
Gain on disposal of fixed assets	123	18	△ 105
Gain on bargain purchase	—	1,831,069	1,831,069
<b>Extraordinary loss</b>	<b>148,235</b>	<b>65,604</b>	<b>△ 82,630</b>
Loss on disposal of fixed assets	140,818	55,295	△ 85,522
Impairment losses	7,417	10,308	2,891
<b>Net income before taxes and other adjustments</b>	<b>15,435,070</b>	<b>16,192,755</b>	<b>757,685</b>
<b>Corporate tax, inhabitant tax and business tax</b>	<b>4,223,425</b>	<b>3,794,813</b>	<b>△ 428,611</b>
<b>Adjustment with corporate tax, etc.</b>	<b>220,412</b>	<b>280,358</b>	<b>59,945</b>
<b>Total corporate tax, etc.</b>	<b>4,443,837</b>	<b>4,075,171</b>	<b>△ 368,665</b>
<b>Net income</b>	<b>10,991,233</b>	<b>12,117,584</b>	<b>1,126,350</b>
<b>Profit attributable to non-controlling interests</b>	<b>△ 3,173</b>	<b>△ 1,696</b>	<b>1,476</b>
<b>Profit attributable to owners of parent</b>	<b>10,994,406</b>	<b>12,119,280</b>	<b>1,124,873</b>

## Consolidated statement of retained earnings

(Unit : thousand yen)

	April 1, 2016 through March 31, 2017	April 1, 2017 through March 31, 2018	Changes
<b>(Capital surplus)</b>			
Capital surplus Balance at beginning of year	—	—	—
<b>Increase in capital surplus</b>	<b>—</b>	<b>44,465</b>	<b>44,465</b>
Changes in equity for the acquisition of consolidated subsidiaries	—	44,465	44,465
Capital surplus Balance at end of year	—	44,465	44,465
<b>(Earned surplus)</b>			
Earned surplus Balance at end of year	211,037,252	221,035,768	9,998,515
<b>Increase in earned surplus</b>	<b>10,995,269</b>	<b>12,119,280</b>	<b>1,124,011</b>
Profit attributable to owners of parent	10,994,406	12,119,280	1,124,873
Reversal of revaluation reserve for land	862	—	△ 862
<b>Decrease in earned surplus</b>	<b>996,754</b>	<b>986,006</b>	<b>△ 10,747</b>
Dividends	996,754	986,006	△ 10,747
<b>Earned surplus at the end of the term</b>	<b>221,035,768</b>	<b>232,169,041</b>	<b>11,133,273</b>

## 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 2018	Classification	Year ended March 2018	Collectible amount by collateral, guarantees, etc.	Reserve of the Bank	Coverage ratio	
Bankrupt entities	27	11	16	—	0		Loans to bankrupt entities	27	62	21	100.00%	
Entities bankrupt in substance	56	6	28	—	21	Bankrupt and quasi-bankrupt loans and claims	83					
Potentially bankrupt entities	569	221	236	111		Doubtful loans and claims	569	Overdue loans	625	457	73	93.32%
Entities requiring caution	3,169	828	2,340			Substandard loans and claims	39	Loans overdue for 3 months or more	—	22	1	60.32%
								Loans with eased lending conditions	39			
						Subtotal	693	Subtotal	692	542	96	92.25%
Normal entities	21,912	21,912				Normal loans and claims	25,054			19,937	35	79.72%
Total			25,735			Total	25,747			20,480	132	80.06%

\* Category IV assessment off balance due to amortization is 1,100 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	Loans to bankrupt entities
	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	"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)	Bankrupt and quasi-bankrupt loans and claims
	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	"Bankrupt entities" and "Entities bankrupt in substance" in self-assessment
	Normal entities	Borrowers whose business conditions are good and who have no problems in their financial conditions	Doubtful loans and claims
		Substandard loans and claims	Overdue loans
		Normal loans and claims	Loans overdue for 3 months or more
			Loans with eased lending 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 92.25% 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 2017	Year ended March 2018					
	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	70	83	0.33%	62	21	100.00%	100.00%
Doubtful loans and claims	580	569	2.21%	457	73	93.32%	65.95%
Substandard loans and claims	43	39	0.15%	22	1	60.32%	10.21%
Subtotal	694	693	2.69%	542	96	92.25%	64.26%
Normal loans and claims	24,081	25,054	97.31%	19,937	35	79.72%	0.70%
<b>Total</b>	<b>24,775</b>	<b>25,747</b>	<b>100.00%</b>	<b>20,480</b>	<b>132</b>	<b>80.06%</b>	<b>2.52%</b>

### 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, 2018 is the same as above.

(Unit : 100 million yen)

Classification	Year ended March 2017	Year ended March 2018					
	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	16	27	0.11%	27	0	100.00%	100.00%
Overdue loans	633	625	2.44%	492	94	93.93%	71.43%
Loans overdue for 3 months or more	—	—	0.00%	—	—	—	—
Loans with eased lending conditions	43	39	0.15%	22	1	60.32%	10.21%
<b>Total risk management loans</b>	<b>693</b>	<b>692</b>	<b>2.70%</b>	<b>542</b>	<b>96</b>	<b>92.26%</b>	<b>64.32%</b>

\* 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.