



Annual Report  
Shinkin Central Bank  
2019

# Shinkin Central Bank, the Central Bank for Shinkin Banks

As the central financial institution in Japan for the cooperative regional financial institutions, known as shinkin banks, the Shinkin Central Bank (hereinafter the SCB) occupies a well-established position in Japan's financial industry. Shinkin banks currently hold funds totaling some ¥143 trillion (around US\$1,293 billion).

## Management Philosophy and Operational Policies

### Management Philosophy

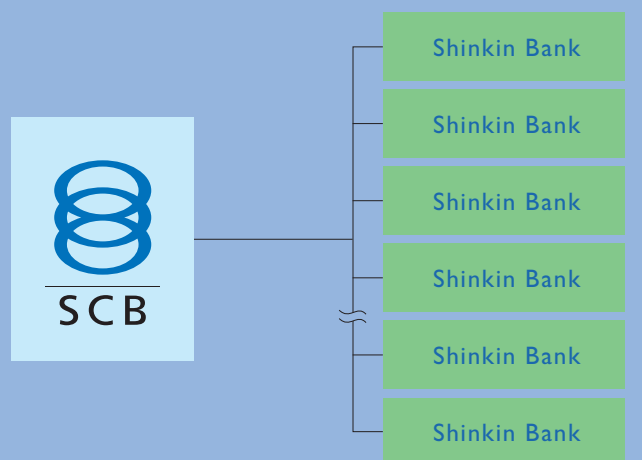
As the central bank for all shinkin banks, the SCB supports the growth of the shinkin bank industry, thereby contributing to economic development throughout Japan.

### Operational Policies

1. Strengthen the corporate base, broaden operational functions, and enhance the credit standing of shinkin banks.
2. Attract stable funds from shinkin banks and diversify funding sources.
3. Upgrade market operations and develop financial services.
4. Pursue new business to reflect changing financial circumstances.
5. Contribute to regional development and revitalization hand in hand with shinkin banks.
6. Achieve sound management through efficiency, capital adequacy, and strengthened risk management.
7. Nurture professionals and create an attractive workplace.
8. Enhance public trust in the SCB.

## Corporate Data (as of March 31, 2019)

Name:	Shinkin Central Bank (SCB)
Established:	June 1, 1950
Number of employees:	1,198
Domestic network:	14
Overseas network:	5
Total assets:	¥39,432 billion (\$355 billion)
Total funds:	¥37,386 billion (\$336 billion)
Paid-in capital:	¥690 billion (\$6,227 million)
Preferred shares:	¥90 billion (\$820 million)
Capital adequacy ratio (consolidated):	23.65%
Number of member shinkin banks:	259
Long-term credit ratings: (as of July 31, 2019)	AI (Moody's) A (S&P) A+ (R&I) AA (JCR)



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Overseas network: 5  
Number of employees: 1,198  
Number of member shinkin banks: 259

Number of shinkin banks: 259  
Total assets: ¥157,690 billion (\$1,421 billion)  
Number of branches: 7,294  
Number of employees: 106,541  
Number of members: 9,197,080

(As of March 31, 2019)

\* The number of employees includes full-time Directors and Corporate Auditors. Our overseas network includes Shinkin International Ltd., a subsidiary in London.

# Financial Highlights (Non-consolidated Financial Summary)

For the years ended March 31,	Millions of Yen			Millions of US Dollars*		
	2019	2018	2017	2019	2018	2017
<b>For the Fiscal Year</b>						
Total income	¥ 258,767	¥ 275,792	¥ 284,018	\$ 2,332	\$ 2,594	\$ 2,531
Total expenses	201,720	213,136	235,680	1,817	2,005	2,100
Net income (loss)	42,286	46,498	41,383	381	437	368
Net business profit (loss)	42,791	50,535	42,657	385	475	380
<b>At the Year-end</b>						
Total assets	¥39,432,740	¥38,552,702	¥37,257,840	\$355,377	\$362,746	\$332,095
Loans and bills discounted	7,045,582	6,952,659	7,995,390	63,496	65,418	71,266
Securities	16,613,593	17,137,785	17,204,776	149,725	161,251	153,353
Total liabilities	37,799,235	36,949,667	35,654,367	340,656	347,663	317,803
Deposits	30,966,816	30,260,341	29,176,129	279,080	284,722	260,059
Debentures	2,486,710	2,714,890	2,952,900	22,410	25,544	26,320
Net assets	1,633,504	1,603,035	1,603,472	14,721	15,083	14,292

\* US dollar amounts are given for convenience only, converted at the rate of ¥112.19, ¥106.28, and ¥110.96 per US\$1.00, the prevailing rate as of March 31, 2017, 2018, and 2019 respectively.

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This material contains certain forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties, while actual results may materially differ from those contained in the forward-looking statements as a result of various factors.

US dollar amounts are converted for convenience only, at ¥110.96 per US\$1.00, the prevailing rate on March 31, 2019.

# Message from the President and CEO



The Shinkin Central Bank (the “SCB”) serves as the central bank for Japan’s 259 shinkin banks—regional financial institutions, which specialize in operations with small and medium-sized enterprises (SMEs).

Since its establishment in 1950, the SCB has provided a wide range of financial services in order to expand the potential of the shinkin bank industry.

## Fiscal 2018 Earnings Performance

In fiscal 2018 (ended March 31, 2019), while the Bank of Japan continued its monetary easing policy, uncertainty over the future persisted due to such factors as trade friction between the United States and China, and the Brexit, leading to an unstable market environment characterized by concerns about the slowdown of the global economy.

Despite of this difficult business environment, as a result of conducting our flexible operations in response to volatile market conditions, continuing our program of diversified investments aimed at building a stable earnings base, and active promotion of loans to business corporations, consolidated ordinary income for fiscal 2018 came to ¥63.4 billion, while profit attributable to owners of parent was ¥44.7 billion.

## Previous Medium-term Management Plan Review

The SCB designated our “SCB Medium-term Action Program 2016” (the “previous medium-term plan”) that ran from fiscal 2016 to fiscal 2018 as “a period in which to strengthen the foundations of the shinkin bank industry, so that it can leverage its collective capabili-

ties over the next ten years”. This program was comprised of three core plans to enable us to contribute to the sustainable development of regional economies, in support of which we implemented various initiatives.

In addition to supporting initiatives aimed at SMEs, individual customers and regional communities to enhance customer relations at shinkin banks, Core Plan 1 involved measures for responding to the digitalization exemplified by “fintech”.

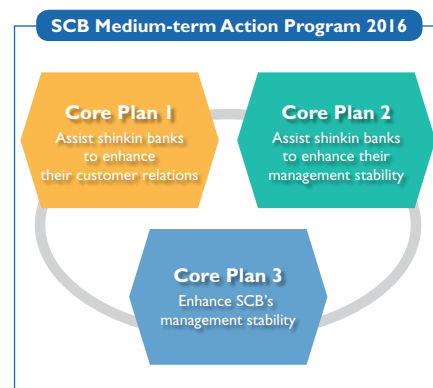
In terms of backing initiatives aimed at SMEs, we have provided support matched to the life stage of the SMEs in the form of capital-like funding for SMEs during their founding and growth phases, as well as business match-making services to find partners that can help them expand their sales channels. We also worked to strengthen the support structure for the overseas expansion of shinkin bank customers by cooperating and partnering with overseas banks and external organizations.

As for initiatives to support individual customers, we are seeing growing demand from our clients for the transfer of their assets between generations, and in January 2017 we began providing trust products for individual customers with the objective of helping them with their inheritance and inter vivos gifts, which are now used by many of our customers.

We have also implemented measures aimed at supporting the regional communities, such as “Regional Revitalization Support Package” that provides consulting services for a variety of regional revitalization themes, as well as partnering with the Nippon Foundation to promote the regional revitalization initiatives of shinkin banks and local companies.

As part of our response to the digitalization of finance, which includes fintech, we established Digital Innovation Office and concluded investment in and business alliance with Origami Inc., which provides smartphone-based payment services, promoting regional revitalization through cashless payment systems.

Core Plan 2 involved supporting important shinkin bank initiatives to “boost earnings capacity” and “enhance financial soundness”, with the goal of enhancing their management stability.



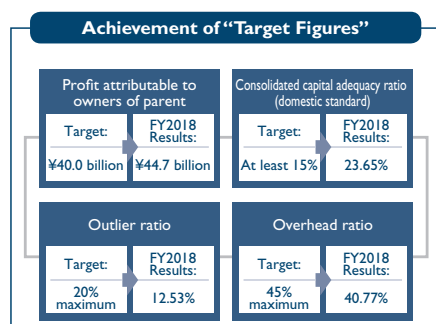
In terms of support for boosting earnings capacity, we have used our trust banking business functions to begin offering investment products for shinkin banks such as “SCB Global Trust”, and “SCB Callable Trust”, while establishing Portfolio Management Support Office which provides analysis of the current state of shinkin bank securities portfolios, support for implementing profit simulations and drawing up investment plans. From the perspective of improving operational efficiency and cost reduction, the SCB also took steps such as centralizing deposit assessment operations, which are common to all shinkin banks.

In order to further enhance financial soundness, we worked to maintain an orderly financial system within the shinkin bank industry by means of the timely and appropriate operation of a unique safety net for the shinkin bank industry, including such elements as the provision of various consulting services and the Shinkin Bank Management Reinforcement System.

Core Plan 3 involved promoting measures to diversify sources of revenue over the medium to long term, such as diversifying investments and strengthening corporate sales, in order to enhance the financial and earnings stability of the SCB and enable it to steadily implement the policies described in Core Plan 1 and Core Plan 2.

We were also able to achieve the target values of the four management indicators that we set as goals.

In terms of backing for reconstruction after natural disasters, which was designated a key measure, through the “Shinkin no Kizuna Reconstruction Support Project” we provided assistance to non-profit organizations sup-



porting those affected by natural disasters, and worked to help shinkin bank customers in the affected regions on the expansion of sales channels.

### Drawing Up the New Medium-Term Management Plan

In addition to reviewing the previous medium-term plan, having taken into account the changes in the internal and external environment, the SCB has drawn up its new Medium-Term Management Plan "SCB Strategy 2019" (the "new medium-term plan"), which runs for the three-year period beginning in fiscal 2019.

Below we explain the four points in developing the new medium-term plan.

The first is that we have decided on a medium- to long-term "vision" for the SCB. The term of the new medium-term plan is three years, but rather than simply listing the measures for these three years, we have also come up with a "vision" for the SCB in five to ten years from today, to show the directions we will take over the years.

The second is that we have presented strategies that emphasizes the "priority" of the measures involved instead of their "comprehensiveness". Rather than exhaustively listing each and every initiative that we should tackle over the next three years, we have specified the highest priority strategies necessary for achieving our "vision".

The third is an approach grounded in going a step beyond providing "support" for shinkin banks and instead working on "cooperation" with them. For measures and so on that would be challenging to apply to individual shinkin banks, the SCB will go a step beyond providing "support" to shinkin banks, which was the previous concept, and instead take the approach of providing "cooperation" by

sharing objectives with shinkin banks, and joining its strengths to theirs to resolve difficult issues.

The fourth is enhancing collaboration with external organizations. In order to develop the shinkin bank industry suitable for the new Reiwa era, we have decided to accelerate our collaboration with external organizations, and proactively introduce the products, services and approaches of companies with different viewpoints and high levels of expertise.

### SCB Strategy 2019

Financial institutions are currently facing an operating environment beset by fundamental problems, such as declining birthrate, aging population and the falling numbers of SMEs, resulting in ailing regional economies. Together with the decline in earnings capacity caused primarily by the Bank of Japan's unprecedented monetary easing and the rapid advance of digitalization, there are many important issues, and it is vital that each financial institution adapts their own business model to these changes and the needs of the time being.

Under these conditions, if shinkin banks wish to increase their presence in the regions and become the most trusted regional financial institutions, they must prioritize the allocation of management resources to resolve the problems faced by regional economies.

In order to achieve this, the SCB will promote increased commonality and joint usage for shinkin bank processing operations and administration business, as well as actively developing joint products and services with the aim of raising the efficiency of operations management and improving problem-solving capabilities.

Furthermore, by focusing not only on shinkin banks but also on building organic partnerships with external organizations that transcend the confines of the sector, the SCB, as a hub and coordinator for the shinkin bank industry, will drive the evolution of the industry network into a kind of "problem-solving system" for both regions and shinkin banks, thus maximizing the value of the network.

In this way, "together with Shinkin Banks, SCB will aim for constructing combined operations as one banking group, improving competitiveness of Shinkin group, and achiev-

ing the future where Shinkin Bank is most reliable bank in every local area, by allocating resources to each banks field of expertise". It is this aim that we have decided to adopt as our "vision" for the next five to ten years.

In order to achieve our aim, we have selected seven high-priority strategies to be executed over the next three years.

We will steadily implement the strategies outlined in the plan, and strive to realize our "vision".

### Realizing a Sustainable Society

The SCB recognizes that compliance with the international Sustainable Development Goals (SDGs) for realizing sustainable societies is an important theme, and in addition to the financial initiatives, the SCB will plan and implement various environmental measures in relation to dealing with climate change and global warming, thus responding to a range of societal demands. At the same time, the SCB will further enhance compliance and strengthen corporate governance to achieve its goal of becoming a financial institution that is valued highly throughout the society.

We will work for an even stronger awareness of the importance of our role as the central bank for shinkin banks, whose mission is to resolve issues faced by regional economies as a regional financial institution while striving for the further development of the shinkin bank industry, and in turn to do everything in our power to contribute to the prosperity of Japan's economy and society.

Going forward, we humbly ask for your continued understanding and support.

*Hiroyuki Shibata*

Hiroyuki Shibata  
President and CEO  
July 2019

# Corporate Management and Auditors



**Koji Sato**  
Chairman of the Board of Directors



**Hiroyuki Shibata**  
President and Chief Executive Officer



**Hajime Hioki**  
Deputy President



**Hiroshi Nakahara**  
Senior Managing Director



**Hiroshi Sudo**  
Senior Managing Director



**Norihiro Takano**  
Senior Managing Director

## **Chairman of the Board of Directors (Part-time)**

Koji Sato

## **President and Chief Executive Officer**

Hiroyuki Shibata

## **Deputy President**

Hajime Hioki

## **Senior Managing Directors**

Hiroshi Nakahara

Hiroshi Sudo

Norihiro Takano

## **Managing Directors**

Keisuke Izutsu

Yuzuru Nishino

Takehiko Murotani

## **Directors**

Hideki Sasaki

Takashi Hanaoka

Zon Suzuki

Kenji Tanaka

## **Director and Executive Advisor (Part-time)**

Mitsuo Tanabe

## **Directors (Part-time)**

Masatoshi Masuda

Ikuo Higuchi

Hiroshi Hiramatsu

Takashi Abe

Tetsuji Hara

Kazuo Kobayashi

Norikazu Shibuya

Shigeharu Obayashi

Kenichiro Mimuro

Masatoshi Takahashi

Toshiyuki Masuda

Masao Kawamura

Hiroyuki Hashimoto

Tatsuo Takeda

Akihide Yokogawa

Hiromi Nomura

Masanori Wada

## **Corporate Auditor**

Hiromichi Chisaka

## **Corporate Auditors (Part-time)**

Rinichi Hoshi

Minoru Kondo

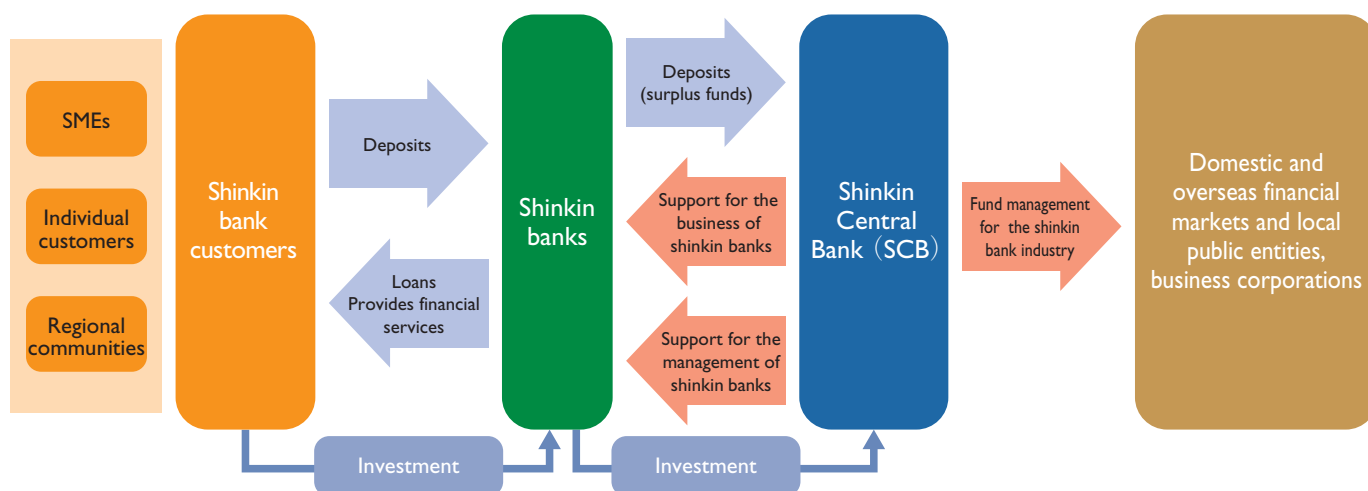
Masamichi Narita

Akio Okuyama

(As of July 31, 2019)

# About Shinkin Central Bank

The SCB was established as a cooperative financial institution funded by the shinkin banks, and serves as the central bank for shinkin banks throughout Japan, which are also its members. Here we will explain the three major functions performed by the SCB in the shinkin bank industry.



## 1. Support Functions for the Business of Shinkin Banks

Japan's 259 shinkin banks play a key role in supporting regional economies by lending to local organizations and SMEs.

However, individual shinkin banks are sometimes restricted in performing their banking functions because of their scale and limitations on their business area.

In order to supplement services that shinkin banks cannot perform easily or efficiently on an individual basis, the SCB, an organization that unifies the group, provides support for the various services performed by SMEs, individual customers and regional communities.

The SCB is also involved in initiatives to assist in areas such as business matchmaking and overseas expansion services to SMEs, asset buildup and inheritance services for individual customers, and revitalization measures and the use of fintech in the regions, with the goal of enabling shinkin banks to respond promptly to the increasing sophistication and diversity of customer needs and to deal with intensifying competition from other business categories.

## 2. Support Functions for the Management of Shinkin Banks

The SCB offers management support to help shinkin banks boost their earnings capacity and enhance their financial soundness.

In order to boost earnings capacity, the SCB provides investment products for shinkin

banks, and works on initiatives to improve operational efficiency and reduce costs by centralizing operations that are common to all in the shinkin bank industry.

As for enhancing financial soundness, through such measures as operating the Shinkin Bank Management Reinforcement System, a unique safety net for the shinkin bank industry that includes such elements as analysis of shinkin bank management, provision of management advice to shinkin banks, and increasing capital for shinkin banks, the SCB seeks to maintain and increase the credibility of the shinkin bank industry, and thus contribute to the stability of Japan's financial system.

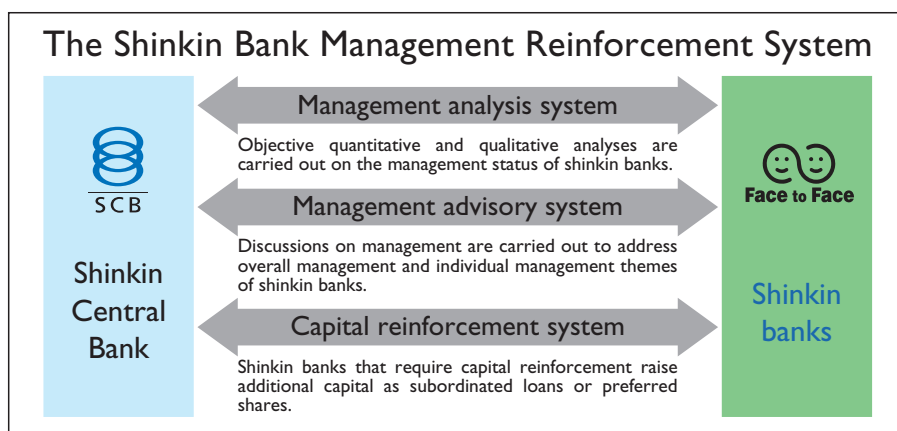
## 3. Fund Management Functions for the Shinkin Bank Industry

The SCB manages funds derived from depos-

its made at shinkin banks throughout Japan and funds obtained through the issue of debentures and invests these in financial products both in Japan and overseas, and in loans to business corporations.

Of approximately ¥38 trillion in assets, around ¥17 trillion is invested in securities such as government bonds, corporate bonds and foreign securities, while ¥14 trillion is invested in short-term money markets and about ¥7 trillion is invested in the form of loans to governmental and local public entities, and business corporations.

The SCB thus takes an important role in Japan's money and securities markets as a leading institutional investor.



# About Shinkin Banks

Shinkin banks are cooperative financial institutions. Their membership comprises local residents and SMEs. Shinkin banks' distinctive characteristics are that they are conveniently located; offer fine-tuned, personalized services; and have a strong relationship of mutual trust with their customers and communities.

Cooperative financial institutions are organizations that operate under the fundamental principle of mutual support.

Shinkin banks limit their lending, in principle, to members. However, their functions are almost the same as those of commercial banks, and they also deal with many people who are not members, accepting deposits, providing exchange services, accepting payments, including those for public utilities, and engaging in over-the-counter sales of public bonds, investment trust funds, and insurance.

Shinkin banks not only provide deposit, lending and exchange services, but also offer a diverse range of services to customers and other members of the local community in such areas as support for management improvement and enterprise renewal, business succession support, business start-up support, and local-area revitalization.

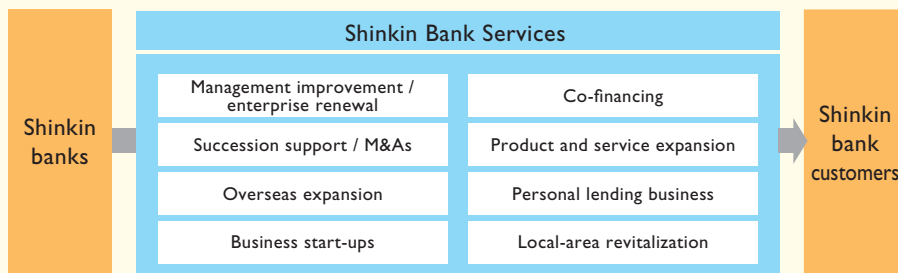
## Outline of Shinkin Banks

Japan's 259 shinkin banks form an extensive network, with approximately 7,300 offices across the country, from Hokkaido in the north to Kyushu and Okinawa in the south.

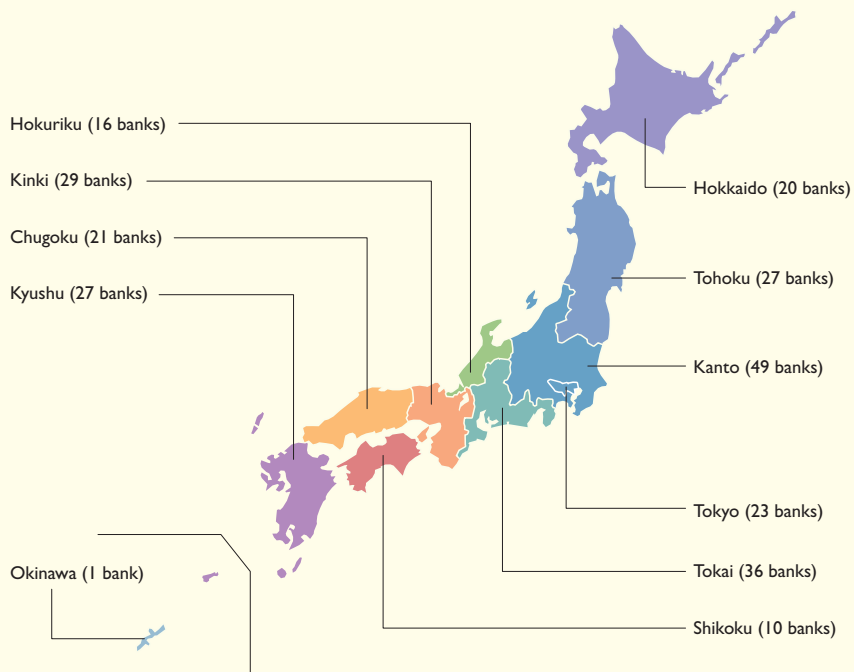
Shinkin banks dedicate themselves to providing high-quality services to local residents, as financial institutions that are deeply rooted in their respective regions, and contribute to regional development.

Total deposits outstanding at 259 shinkin banks as of March 31, 2019, reached approximately ¥143 trillion (\$1,293 billion), which ranks it in third place after Japan's city and regional banks, and gives shinkin banks an important position in Japanese financial markets.

Shinkin banks continue to further deepen their presence and roles as important infrastructure for regional economies and communities.



## Nationwide Network of Shinkin Banks (259 banks)



## Deposits<sup>1</sup> Outstanding by Bank Segment (As of March 31, 2019)

(Billions of US dollars)

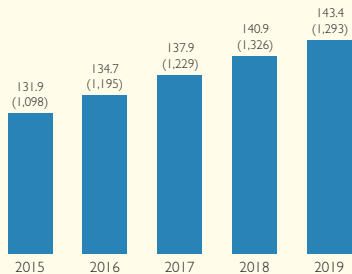
City Banks <sup>2</sup>	\$3,362
Regional Banks <sup>2</sup>	2,409
<b>Shinkin Banks</b>	<b>1,293</b>
Agricultural Cooperatives	930
Second-tier Regional Banks <sup>2</sup>	590
Credit Cooperatives	186
Labor Credit Associations	183

**Notes:** 1. Deposit includes domestic operations.  
2. City banks, regional banks and second-tier regional banks do not include the special international financial transactions account.

**Sources:** Japanese Bankers Association, the Norinchukin Bank, National Central Society of Credit Cooperatives, National Association of Labour Banks and the SCB.

## Deposits Outstanding at Shinkin Banks

(Trillions of yen / billions of US dollars)

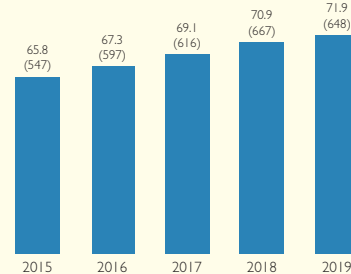


**Note:** Items in parentheses are US dollar amounts. They are given for convenience only, with conversion at ¥120.15, ¥112.69, ¥112.19, ¥106.28 and ¥110.96 per US\$1.00, the prevailing rate on March 31, 2015, 2016, 2017, 2018 and 2019, respectively.

**Source:** The SCB.

## Loan and Bills Discounted Outstanding at Shinkin Banks

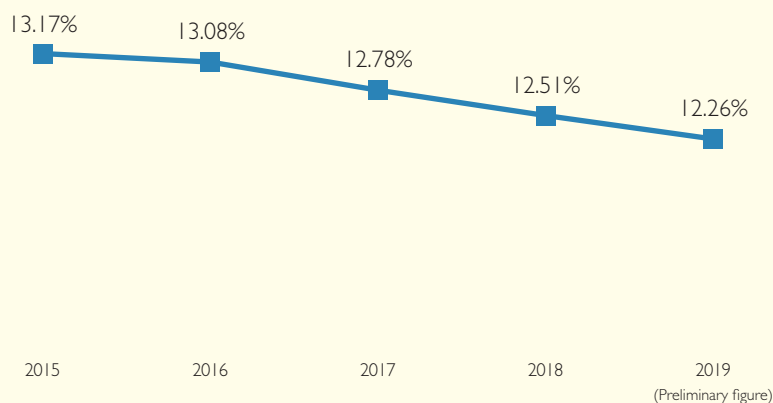
(Trillions of yen / billions of US dollars)



**Note:** Items in parentheses are US dollar amounts. They are given for convenience only, with conversion at ¥120.15, ¥112.69, ¥112.19, ¥106.28 and ¥110.96 per US\$1.00, the prevailing rate on March 31, 2015, 2016, 2017, 2018 and 2019, respectively.

**Source:** The SCB.

## Capital Adequacy Ratio of Shinkin Banks

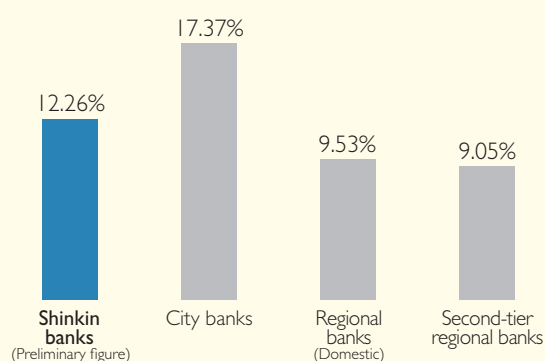


The capital adequacy ratio of shinkin banks fell to 12.26% (preliminary figure) as of March 31 2019, from 12.51% at the end of the previous fiscal period. This decline was driven by the increase in risk-weighted assets relating mainly to loan growth.

The ratio maintains a level that is not inferior to that of other business categories, and is outperforming other domestic regional banks (9.53%) and second-tier regional banks (9.05%).

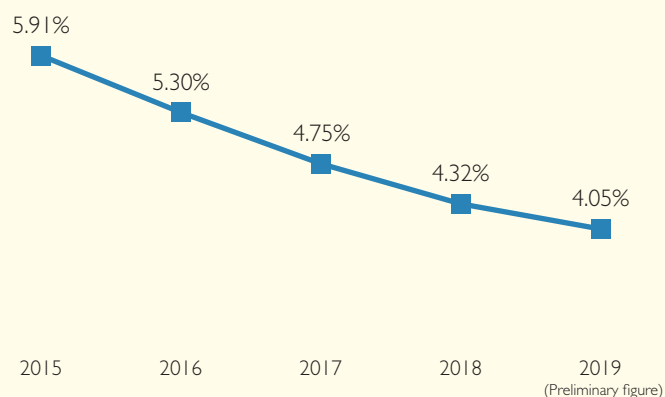
Source: The SCB.

## Non-consolidated Capital Adequacy Ratio by Bank Segment (%) (as of March, 31, 2019)



Sources: Bank disclosure document, Regional Banks Association of Japan, The Second Association of Regional Banks.

## Nonperforming-loan Ratio of Shinkin Banks (%)



Source: The SCB.

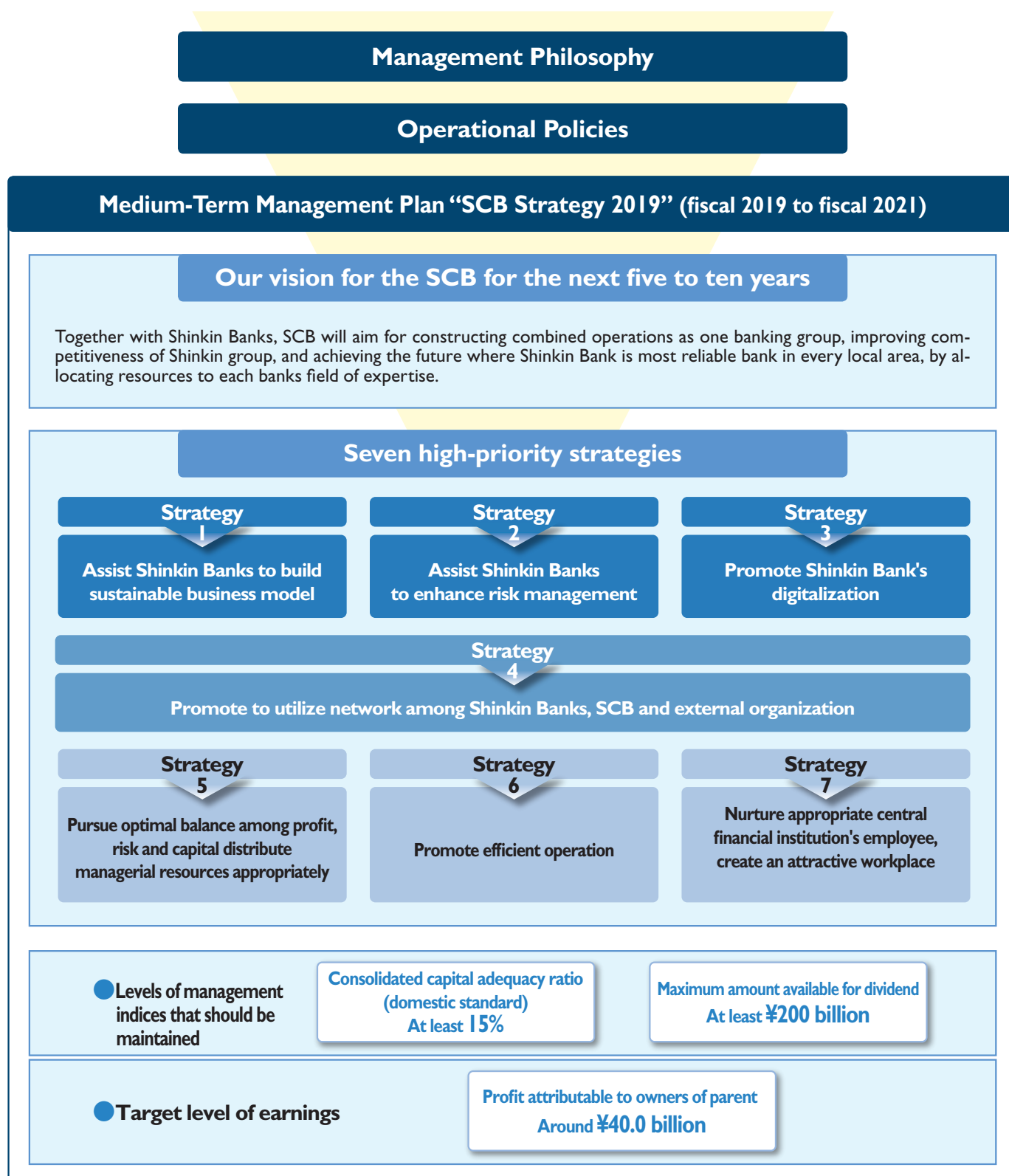
## Difference between Shinkin Banks and Commercial Banks

Category	Shinkin Banks	Commercial Banks
Legal foundation	Shinkin Bank Act	Banking Act
Organization	Non-profit cooperative organization financed by its members	For-profit joint stock corporations
Membership qualifications	(1) Those who have an address or office in the region (2) Those who have a business office in the region (3) Those who work in the region (4) Executive officers of companies that have a business office in the region (In the case of businesses) Businesses with no more than 300 employees or with less than 900 million yen in capital	None

# New Medium-Term Management Plan “SCB Strategy 2019”

The current business environment surrounding shinkin bank industry involves a number of new and important issues that must be dealt with, such as falling earnings capacity caused primarily by the Bank of Japan's unprecedented monetary easing, and the rapid advance of digitalization.

Based on this situation, the SCB has definitely decided the medium to long term “vision”, and in pursuit of this has drawn up the new medium-term management plan “SCB Strategy 2019” that began in April 2019, with seven high-priority strategies as its key components.



## Strategy 1

# Assist Shinkin Banks to build sustainable business model

In order to continue providing a range of services and initiatives for resolving regional issues, shinkin banks must ensure an appropriate level of earnings, and shinkin banks themselves must grow and develop along with their customers. For that reason, we are seeking to strengthen shinkin bank's investment management and operational efficiency.

### • Strengthening Support for Investment Strategies

With the aim of strengthening shinkin bank's investment management, and in order to put into practice the support of shinkin banks based on the ideas jointly held by all of the SCB group, we have drawn up the "Fundamental philosophy on support for shinkin banks investment strategies". By spreading this philosophy among our group companies, we will bolster the support provided by the Group as a whole.

In order to enhance the collective ability of the SCB and its subsidiaries to provide products, the SCB will work to strengthen partnerships both within the Group and with external agencies.

### • Promotion of Commonalization and Cooperation of Work

By collaborating with external agencies, subsidiaries and affiliated companies, the SCB promotes the commonalization and cooperation of internal procedures, such as transactions with customers and payroll, that individual shinkin banks are working on, and will fulfill a role as the central processing division of the industry.

Furthermore, with digitalization and the shift to cashless transactions expected to advance rapidly, we will investigate joint branches as well as strategic allocation in ATM networks in the shinkin bank industry.

## Strategy 2

# Assist Shinkin Banks to enhance risk management

To enable shinkin banks to assign management resources to initiatives aimed at resolving client issues, we will put in place arrangements to support the strengthening of shinkin banks' ability to manage risk, while reinforcing mechanisms for ensuring financial soundness.

### • Strengthen the Ability of Shinkin Banks to Manage Risk

We will implement countermeasures for money laundering and the financing of terrorism, publish information in relation to reinforcing cyber security and provide consulting services to individual shinkin banks in order to raise the bar with regard to the shinkin bank industry's ability to manage risk.

### • Ensuring the Soundness of Shinkin Banks

We will strive to ensure the soundness of shinkin banks by taking into account the management issues and the changes in financial administration, and strengthening our arrangements for follow-up, such as bolstering the management analysis and introducing measures when giving management advice.

## Strategy 3

# Promote Shinkin Bank's digitalization

In addition to promoting the revitalization of regional economies through the utilization of cashless payments, we will develop and provide new products and services in response to digitalization.

### • Promotion of Cashless Payments Aimed at Regional Revitalization

In September 2018, the SCB concluded investment in and business alliance with Origami Inc., with the aim of revitalizing the regions through the use of the smartphone payment service "Origami Pay", by Origami Inc.

Going forward, we will work on initiatives to attract more customers by utilizing marketing functions such as "Origami Pay" discount coupons, and by collaborating with local governments and transportation operating agencies.

**Strategy 4**

## Promote to utilize network among Shinkin Banks, SCB and external organization

As well as bolstering initiatives that make use of the shinkin bank industry network, we will utilize our role as the hub and coordinator of the industry to the full, and move forward to build new platforms to resolve issues.

- **Building a Problem-solving Scheme Using Partnerships Both Inside and Outside the Industry**

In order to support the accounting operations of the SMEs that are the customers of shinkin banks, and also

asset formation by individual customers, we will promote the building of schemes such as those for providing a range of services in partnership with industry organizations and external agencies.

**Strategy 5**

## Pursue optimal balance among profit, risk and capital distribute managerial resources appropriately

To enable the SCB to continue to play an enduring role as the central financial institution of the shinkin bank industry, we will strive to build a financial base for stability over the medium to long term through such measures as the construction of a risk appetite framework, and efficient risk-taking based on the level of capital.

- **Ensuring Financial Stability and Permanence**

As the central financial institution for the shinkin bank industry, the SCB intends to ensure enhanced financial stability and permanence by building and operating a risk appetite framework, with the aim of facilitating the provision of support for shinkin bank operations and management.

- **Optimal and Appropriate Allocation of Management Resources**

By actively increasing operational efficiency and promoting scrap-and-build programs, we will strive for the optimal and appropriate allocation of management resources for the SCB Group as a whole.

**Strategy 6**

## Promote efficient operation

As well as working to enhance the robustness of operations by promoting RPA and to reduce office works, we will pursue improvements in operational efficiency through digitalization, centralization and outsourcing.

- **Utilization of Digital Technology**

Having actively implemented BPR<sup>(\*)1</sup>, we will promote RPA<sup>(\*)2</sup>, introducing electronic approval and paperless workplaces in order to fundamentally improve efficiency.

Another goal is to improve the efficiency, speed and accuracy of the operations interface between shinkin banks and the SCB.

\*1. BPR: Business Process Re-engineering. The comprehensive review and redesign of the content of existing operations and operational flows.

\*2. RPA: Robotic Process Automation. The use of software robots to replace and automate standardized tasks performed by humans.

- **Outsourcing of Various Operations**

We will investigate the outsourcing to external agencies of defined contribution pension operations, market-related operations, trust-related operations and human resources related operations.

**Strategy 7**

## Nurture appropriate central financial institution's employee, create an attractive workplace

The SCB will also strive to strengthen skills required for central financial institution's human resources, work to improve engagement, develop a corporate culture that nurtures human resources who generate innovation, and arrange attractive workplace.

- **Transformation of Corporate Culture**

The SCB will newly establish “project operations system” with the aim of transcending departmental barriers to bring together diverse human resources to resolve problems and promote exchanges of personnel that go beyond the financial industry.

- **Improvement of Work Environments**

We will create highly productive work environments and promote diversity that would generate new ideas.

# Initiatives for Realizing a Sustainable Society

The SCB will implement initiatives for realizing a sustainable society, so as to respond to societal demands such as the SDGs.

## About SDGs

The term stands for Sustainable Development Goals.

These are international goals for 2030 that were adopted at a UN summit in September 2015.

They consist of 17 goals and 169 targets for the realization of a sustainable planet.



## Initiatives for the Development of Regional Society



### SMEs

#### • “Shinkin no Tsubasa” Fund for Supporting the Founding, Nurturing and Growth of Small and Medium-sized Enterprises

In partnership with subsidiary Shinkin Capital Co., Ltd., the SCB uses the “Shinkin no Tsubasa” fund for supporting the founding, nurturing and growth of small and medium-sized enterprises to provide capital or capital-like funding, and to contribute to the development and revitalization of regional economies. As of March 31, 2019, investments in a total of 101 projects, involving a total of ¥3,678 million had been decided.

#### • Offering of Benefits-type Private Placement Bonds

The SCB provides “Shinkin ‘Benefit Support’ Benefits-type Private Placement Bonds” with the aim of supporting SMEs, which are the customers of shinkin banks and the issuers of private placement bonds, in their efforts to implement enhanced welfare plans and to obtain competent human resources. This setup, by a partnership with a benefits administration company, enables the employees of the issuer to obtain welfare services (e.g., accommodation, leisure, various kinds of lifestyle support) at lower prices.

## Regional communities

#### • Offering of CSR Private Placement Bonds

The SCB provides donation-type “Shinkin ‘Kagayaku Mirai’ CSR Private Placement Bonds” to support the growth of the children who are the future of the local communities, and to contribute to appealing urban development. Under this system, the customers of shinkin banks who are the issuers of such bonds donate goods in proportion to the issue amount of the bonds to a school or a public interest incorporated foundation of their choice.

As of March 31, 2019, 73 deals in the total issue amount of ¥5,410 million were concluded, and the donations included grand pianos and books, among others.

#### • Assistance Using the Wagamachi Fund

The SCB provides a regional revitalization support scheme utilizing the Nippon Foundation’s Wagamachi fund to support initiatives aimed at creating new flows of money in shinkin banks’ local communities to solve community issues and develop next-generation leaders. This program offers monetary gift from the Wagamachi fund (up to ¥10 million per project) to shinkin banks and local companies whose business activities contribute to the revitalization of their regions. The total grant amount is approximately ¥1 billion, and the grant period is three years from fiscal 2017. As of March 31, 2019, a total of 31 projects at 30 shinkin banks had been awarded ¥310 million.

#### • Support for Setting up Management-type Urban Development Funds

Based on the partner agreement signed with

the Ministry of Land, Infrastructure, Transport and Tourism and the Organization for Promoting Urban Development, the SCB supports the establishment of managed urban development funds through collaboration between shinkin banks and the Organization for Promoting Urban Development.

In fiscal 2018, four funds were established nationwide, providing funding support for projects designed to solve community issues.

#### • Agreements for the Promotion of Tourism and Industry

Working with shinkin banks in each prefecture, the SCB has concluded agreements related to partnerships with eight prefectures, for the promotion of regional industry.

Based on these agreements, we provide support for expanding sales channels to companies in the prefecture, and for attracting tourists to the prefecture.

#### • Support for Drawing up Model Travel Itineraries

In order to support initiatives by shinkin banks to revitalize their regions by attracting tourists, we have helped shinkin banks and local public entities to draw up model travel itineraries, and have shared a total of 35 such itineraries with shinkin banks nationwide.

These model itineraries are expected to help revitalize the regional cities by increasing the non-resident population by travelers, and have been used by travel organizations such as the “Nenkin Tomo no Kai”, which is sponsored by shinkin banks with 100,000 participants every year.

## Individual customers

### • Seminars for Wills and Inheritances / Provision of Advice

Having concluded a business cooperation agreement with the Yuigon Sozoku Legal Network, whose parent entity is the testamentary trust project team set up within the Japan Federation of Bar Associations, the SCB will support the hosting at shinkin banks of seminars on wills and inheritances.

In addition, on “Yuigon no Hi (Testamentary Day)”, November 15 every year, we partner with the Japan Federation of Bar Associations to provide free legal advice regarding wills and inheritances at shinkin banks nationwide. In fiscal 2018, 195 shinkin banks took part in this event.

### • “Oen Notes”

As part of our educational program for finance, we distributed “Oen Notes” to elementary schools in the areas where the main branches of shinkin banks are located. “Oen Notes” are notebooks of the kind used by elementary school students on a daily basis but with the addition of explanatory notes related to the work performed by shinkin banks and the way money works.

## Environmental Initiatives



### • Endorsement of “Task Force on Climate-related Financial Disclosures” Recommendations

As part of measures being taken to strengthen initiatives related to climate change and global warming, with the aim of realizing a sustainable society, not only has the SCB endorsed the recommendations of the “Task Force on Climate-related Financial Disclosures (TCFD)”<sup>(1)</sup>, which was established by the Financial Stability Board, but it has also joined the TCFD Consortium<sup>(2)</sup> that was established in May 2019.

Going forward, based on the TCFD recommendations, we will analyze the risks and opportunities for the shinkin bank business caused by climate change, and work to achieve fuller information disclosure.

\*1. The Task Force on Climate-related Financial Disclosures (TCFD) was established in December 2015 by the Financial Stability Board at the request of G20 finance ministers and central bankers. In June 2017, it published a final report outlining a framework for the disclosure of information with regard to climate-related risks and opportunities, for voluntary use by corporations.

\*2. The TCFD Consortium is a venue for companies

and financial institutions that have endorsed the TCFD recommendations to come together to discuss initiatives related to climate change. The venue is attended by observers from the Ministry of Economy, Trade and Industry, the Financial Services Agency, and the Ministry of the Environment.

### • Participation in the Japan Climate Initiative

The SCB is actively involved in initiatives to counter environmental problems, such as by using resources efficiently, reducing waste, and providing financial services that contribute to the conservation of the environment. However, as one of these initiatives the SCB participates in the Japan Climate Initiative (JCI)<sup>(\*)</sup>, which was established with the aim of strengthening countermeasures to deal with climate change and achieving a decarbonized society.

Going forward, by gathering information at JCI, we will promote measures to help achieve a zero-carbon society, while further strengthening initiatives to deal with environmental problems.

\*The Japan Climate Initiative was established in July 2018 and consists of a network of companies and organizations working on measures to deal with climate change.

### • Supporting “Metrolink Nihonbashi”

As part of our initiatives to tackle environmental issues, the SCB is supporting the operation of “Metrolink Nihonbashi”, a free electric bus service with low-pollution, low-noise, and low-floor accessible buses that are friendly to both people and the environment. These buses run a circular route, connecting Nihonbashi, Yaesu (the location of the SCB’s head office), and Kyobashi (the location of the SCB Kyobashi Annex).

## Provision of Financial Products



### • ESG Investments

As part of our efforts to provide funding to projects seeking to solve environmental problems, the SCB invests in ESG bonds issued by municipal governments and business corporations. By investing in funds that utilize

information related to environment, social and governance as well as financial information in their investment process, we work to realize a sustainable society and to resolve societal issues.

### • Offering ESG and Other Funds

SCB subsidiary Shinkin Asset Management Co., Ltd. offers the “Shinkin ESG Special Fund” and “Shinkin SRI Fund”, which focus their investments on corporate social responsibility, corporate governance and other ESG issues.

“Shinkin ESG Special Fund” is marketed to institutional investors, while “Shinkin SRI Fund” is marketed to individual customers through shinkin banks.

## Initiatives for Reconstruction After Natural Disasters



### • “Shinkin no Kizuna” Reconstruction Support Project

The “Shinkin no Kizuna Reconstruction Support Project”, which the SCB established in collaboration with the Japan NPO Center, provided assistance to 95 private NPOs (for a total of 111 projects) up to fiscal 2017 and has been used to support activities such as providing mental health care to disaster victims and helping them rebuild their daily lives.

In April 2018, we organized a networking event to encourage cooperation among recipients of this reconstruction support, and we awarded follow-up grants to 21 recipients in April 2019.

### • Recovery Support Sales Event

A recovery support sales event was held at the SCB head office with specialty products from Tohoku area, Kumamoto prefecture and other regions, which were supplied by customers of shinkin banks who had been affected by natural disasters. The event featured 48 products made by 34 customers from 20 shinkin banks.

# Overseas Networks

The SCB has offices in New York, London, Hong Kong, Shanghai, and Bangkok. These offices collect and disseminate information relating to economic and financial conditions, the investment and loan environment, and the laws, taxation regimes, and employment situation of each region.

These offices also work with allied banks to support the overseas expansion of shinkin banks' customers.

Moreover, as part of our support for the overseas business of SMEs, we dispatch employees to allied banks. The overseas offices also provide shinkin bank employees with opportunities to improve their skills related to supporting the overseas businesses of their customers and contribute to human resources development in the shinkin bank industry.

## Alliances with Local Banks Overseas

The SCB formed business alliances with nine local banks overseas to increase its capability to support shinkin bank customers who are expanding their businesses overseas. We provide a wide range of support to shinkin bank customers who conduct business overseas by helping them open local bank accounts, and providing local currency denominated financing using standby L/C, for example.

Additionally, we seconded two employees to Bangkok Bank and one employee each to Maybank Indonesia, Joint Stock Commercial Bank for Investment and Development of Vietnam, and BDO Unibank, Inc.

## Collaboration with External Institutions

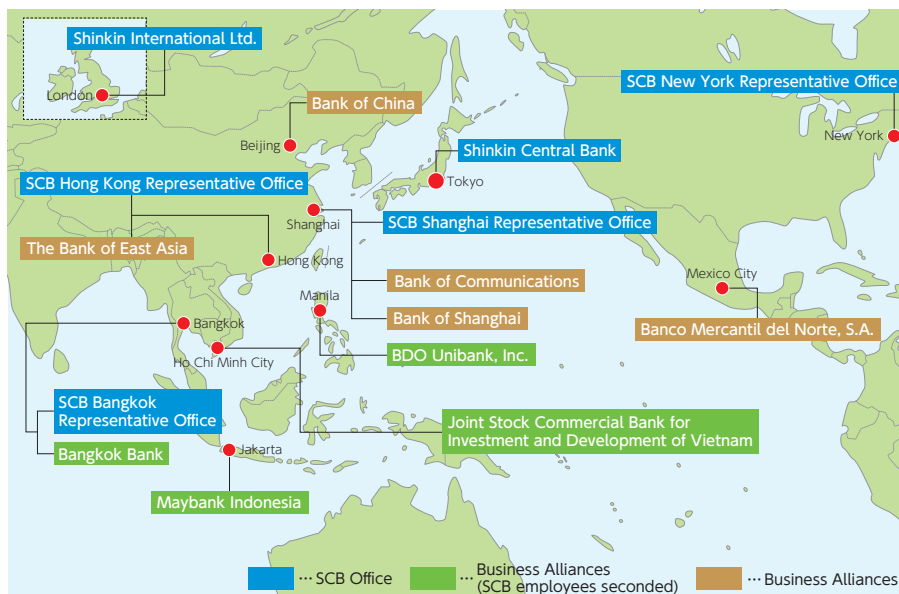
In February 2019, we signed a business cooperation agreement with Organization for Small & Medium Enterprises and Regional Innovation, JAPAN. In addition, we co-host business events between shinkin bank customers and local overseas companies, promote business matching using the matching website operated by that organization.

We also collaborate with foreign and domestic buyers and external experts providing advice to shinkin bank customers aimed at cultivating overseas sales channels, and hold business matching events with buyer companies that have overseas sales channels.

Furthermore, we signed a business cooperation agreement with Japan Bank for International Cooperation (JBIC) to support the overseas business expansion of shinkin bank customers and offer dollar-denominated two-step loans to shinkin banks. This allows shinkin banks to respond promptly and properly to the US dollar funding needs of their customers.

## Providing Information

In addition to publishing "International Business Support News" and other reports for shinkin banks and their customers, we provide up-to-date information related to doing business overseas through various seminars pertaining to overseas business support. Moreover, we provide up-to-date local information



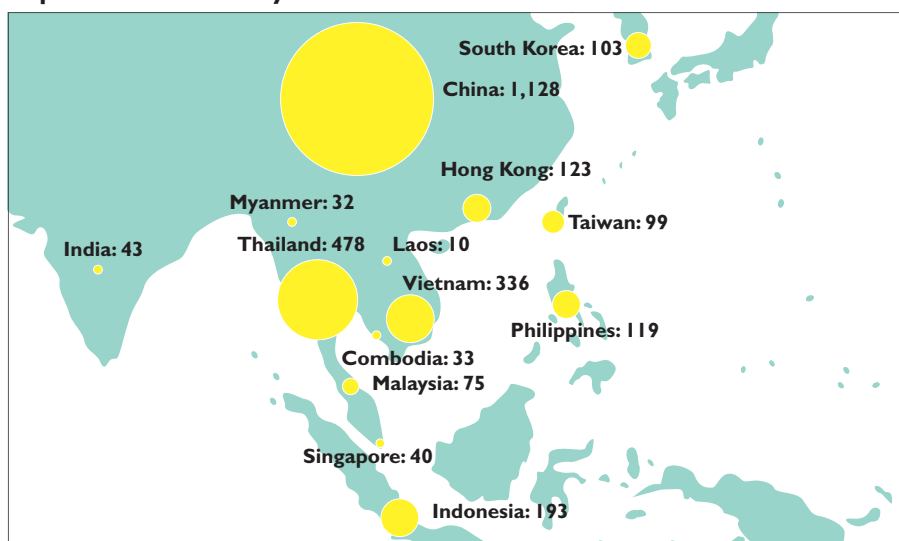
from our overseas representative offices and our employees seconded to allied banks.

## Overseas Business Consultations

We engage in overseas business consultations with the customers of shinkin banks considering new businesses and transactions overseas.

Experts can provide consultations covering such topics as local investment environments, systems, and foreign and domestic market trends, as well as problems related to overseas expansion and ways to solve issues particular to overseas locations.

## Expansion into Asia by Shinkin Bank Customers



Source: Twelfth Survey on the Overseas Business of Shinkin Bank Customers (2017)

# Business Overview

## Earnings Performance

Looking at the financial results for fiscal 2018 (ended March 31, 2019) overall, operating income amounted to ¥258 billion (\$2,331 million), down ¥14 billion (\$134 million), or 5.4%, year on year because, although dividends from investment trust funds increased due to the effects of diversified investment, interest and dividends on securities decreased as a result of constraints on recognizing unrealized gains from investment trust funds. Meanwhile, operating expenses came to ¥200 billion (\$1,803 million), down ¥12 billion (\$115 million), or 6.0%, year on year due to a decrease in loss on redemption of bonds, mainly in losses from canceling investment trust funds as part of the portfolio rebalancing in the previous fiscal year. As a result, ordinary income came to ¥58 billion (\$527 million), a decrease of ¥2 billion (\$19 million), or 3.4%, year on year.

Net income totaled ¥42 billion (\$381 million), down ¥4 billion (\$37 million), or 9.0%, year on year due to a drop in items such as the gain on transfer of business from Shinkin Trust Bank, Ltd., which was recorded as extraordinary income in the previous fiscal year.

## Funding

In fiscal 2018, the total amount of funding increased ¥868 billion (\$7,826 million) year on year, for a total of ¥37,386 billion (\$336,938 million). Of this figure, deposits received came to ¥30,966 billion (\$279,080 million), an increase of ¥706 billion (\$6,366 million), which mainly comprised fixed-term deposits from shinkin banks.

After deducting redemptions, debentures at the end of fiscal 2018 came to ¥2,486 billion (\$22,410 million), down ¥228 billion (\$2,056 million) during the fiscal year, including ¥399 billion (\$3,604 million) in debentures issued by the SCB.

Borrowed money amounted to ¥3,933 billion (\$35,446 million), a year-on-year increase of ¥390 billion (\$3,515 million), mainly comprising borrowings under a funding provision to support increased lending by the Bank of Japan.

## Asset Management

The amount of assets under management in fiscal 2018 increased ¥914 billion (\$8,240 million), or 2.4%, to ¥38,381 billion (\$345,901 million).

Mainly due to lower government bond holdings, outstanding invested securities decreased ¥524 billion (\$4,724 million), or 3.0%, to ¥16,613 billion (\$149,725 million) at fiscal year end.

Loans and bills discounted increased ¥92 billion (\$837 million), or 1.3%, during the year under review to ¥7,045 billion (\$63,496 million) as loans to business corporations increased while loans to national and government agencies and organizations decreased.

The outstanding amount of short-term money market assets rose ¥1,306 billion (\$11,774 million), or 10.0% to ¥14,365 billion (\$129,469 million). This primarily reflects Bank of Japan current deposit increases.

## Securities

As of March 31, 2019, the outstanding amount of securities was ¥16,613 billion (\$149,725 million).

Government bonds, corporate bonds, and other domestic securities accounted for ¥10,627 billion (\$95,773 million), and foreign securities such as government-secured financial institution bonds and government-agency bonds in major developed countries, and foreign investment trusts for ¥4,978 billion (\$44,867 million), and stocks and investment trust funds for ¥810 billion (\$7,305 million).

In terms of foreign securities, the SCB mainly invests in safe assets, which include government-secured financial institution bonds and government-agency bonds in major developed countries.

To advance its diversified investment portfolio, the SCB also invests in such risk assets as stocks and investment trust funds not subject to interest risk, while optimizing its portfolio in response to shifts in the financing and investment environment.

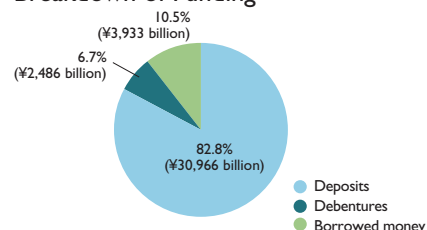
The SCB also carries out interest rate swaps and other derivative trading, to hedge risks linked to assets under management.

## Loans and Bills Discounted

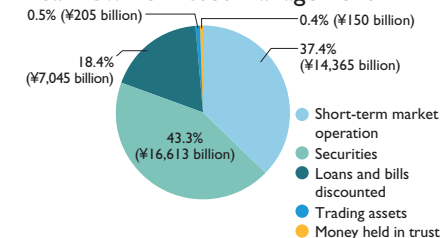
As of March 31, 2019, the outstanding amount of loans and bills discounted was ¥7,045 billion (\$63,496 million). Of the total amount, loans to shinkin bank customers through those banks accounted for ¥347 billion (\$3,135 million), while direct loans to such parties as national and government agencies and organiza-

tions, regional public corporations, and charitable organizations accounted for ¥2,869 billion (\$25,860 million). Direct loans to business corporations accounted for ¥3,131 billion (\$28,221 million).

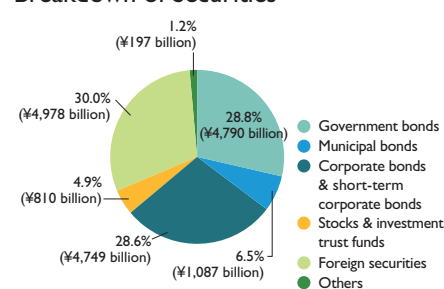
## Breakdown of Funding\*



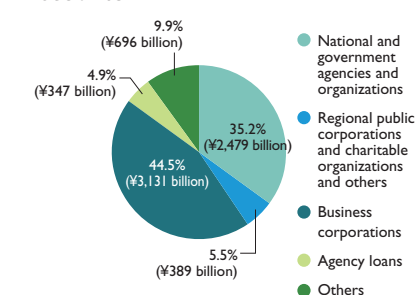
## Breakdown of Asset Management\*



## Breakdown of Securities\*



## Breakdown of Loans and Bills Discounted\*



\* As of March 31, 2019.

## Ordinary Income and Net Income (Non-consolidated)

(Millions of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018
Ordinary income (loss)	81,198	55,971	48,342	60,678	58,562
Net income (loss)	60,817	40,875	41,383	46,498	42,286

# Capital Adequacy

## Outline

The SCB's equity capital, as defined under regulations concerning capital adequacy ratio, mainly comprises common shares from member shinkin banks, public issues of preferred shares that supplement common shares, and internal reserves accumulated to date by the SCB.

The SCB raises funds through the issuance of general common shares and specific common shares. The dividend payout ratio for specific common shares differs from that for general common shares.

Furthermore, in accordance with the SCB's articles of incorporation, the amount of residual assets distributed per specific common share is limited to a maximum of ¥100,000 per share. This makes it possible to raise funds by issuing common shares without diluting the residual assets distributed to preferred shareholders.

According to transitional measures based on new Japanese domestic standards for regulations concerning capital adequacy ratio, equity capital also includes fixed-period and perpetual subordinated loans.

## Consolidated Capital Adequacy Ratio

The SCB's consolidated capital adequacy ratio at March 31, 2019, was 23.65%.

Equity capital, the numerator for calculating the capital adequacy ratio, amounted to ¥1,425 billion (\$12,846 million).

Risk assets, the denominator for calculating the capital adequacy ratio, amounted to ¥6,026 billion (\$54,310 million).

## Risk Management and Capital Adequacy Assessment

The SCB has implemented policies to manage its capital adequacy as part of its integrated risk management. The capital assessment division evaluates capital adequacy using a holistic approach, measuring various types of risks under uniform criteria and comparing quantified risks with the SCB's capital.

In order to assess the potential impacts of shock on its capital, the SCB conducts stress testing to estimate losses under various scenarios and the probability of their occurrence.

Risk limits and risk exposure are reported to senior management at the Risk Management Committee and at other meetings. The Risk Management Committee deliberates measures in response to the results of capital adequacy assessments, and implements measures as deemed necessary.

## Capital Adequacy Ratio (Domestic Standard)

(%, billions of yen)

		FY2014	FY2015	FY2016	FY2017	FY2018
Consolidated	Capital adequacy ratio	36.40	41.10	37.03	30.57	23.65
	Amount of capital	1,656	1,824	1,764	1,645	1,425
	Amount of risk-weighted assets	4,551	4,439	4,765	5,381	6,026
Non-consolidated	Capital adequacy ratio	36.46	42.38	38.28	31.62	24.48



# Asset Quality

## Risk-Monitored Loans

The amount of risk-monitored loans as of the end of March 2019 was ¥82 million (\$0.7 million) for loans to bankrupt borrowers, ¥4,351 million (\$39 million) for delinquent loans, ¥36 million (\$0.3 million) for loans past due three months or more, and ¥19,871

million (\$179 million) for restructured loans.

Total risk-monitored loans decreased ¥17,548 million (\$158 million) to ¥24,341 million (\$219 million) during the fiscal year. The ratio of total risk-monitored loans to total loans remained as low at 0.34%, and the

soundness of the SCB's loan assets remained high.

## Risk-monitored Loans (Non-consolidated)

(%, millions of yen)

	End of March 2018	End of March 2019	Increase or Decrease
Loans to bankrupt borrowers	93	82	(11)
Delinquent loans	11,227	4,351	(6,876)
Loans past due three months or more	77	36	(41)
Restructured loans	30,490	19,871	(10,619)
Total risk-monitored loans (A)	41,889	24,341	(17,548)
Partial direct write-offs	199	355	156
Total loans (B)	6,952,659	7,045,582	92,923
Ratio of total risk-monitored loans to total loans (%) (A/B)	0.60	0.34	(0.26)

## Risk-monitored Loans (Consolidated)

(%, millions of yen)

	End of March 2018	End of March 2019	Increase or Decrease
Loans to bankrupt borrowers	93	82	(11)
Delinquent loans	11,227	4,351	(6,876)
Loans past due three months or more	77	36	(41)
Restructured loans	30,490	19,871	(10,619)
Total risk-monitored loans (A)	41,889	24,341	(17,548)
Partial direct write-offs	199	355	156
Total loans (B)	6,952,660	7,038,785	86,125
Ratio of total risk-monitored loans to total loans (%) (A/B)	0.60	0.34	(0.26)

## Asset Assessment under the Financial Reconstruction Law

As of the end of March 2019, bankrupt and quasi-bankrupt assets amounted to ¥287 million (\$2 million), doubtful assets ¥4,147 million (\$37 million), and substandard assets ¥19,907 million (\$179 million).

Accordingly, the total amount of bad debts under the Financial Reconstruction Law decreased ¥17,548 million (\$158 million) to ¥24,341 million (\$219 million). The coverage

ratio of bad debts (the total of claims deemed collectible with collateral and guarantees and the allowance for possible loan losses divided by total bad debts) was 69.12%.

Bankrupt and quasi-bankrupt assets are recorded for the remaining amount after deducting the amounts deemed collectible with collateral and guarantees, while doubtful assets are recorded for the loss-expected amount of

the remaining amount after similarly deducting the amounts deemed collectible with collateral and guarantees, respectively, in the specific allowance for possible loan losses.

For substandard assets, the anticipated loss ratio is calculated based on the loan loss ratio and recorded in the general allowance for doubtful accounts.

## Asset Assessment under the Financial Reconstruction Law (Non-consolidated)

(%, millions of yen)

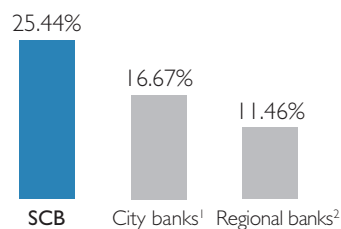
	End of March 2018	End of March 2019	Increase or Decrease
Bankrupt and quasi-bankrupt assets	326	287	(39)
Doubtful assets	10,994	4,147	(6,847)
Substandard assets	30,568	19,907	(10,661)
Total claims under the Financial Reconstruction Law (FRL) (A)	41,889	24,341	(17,548)
Normal claims	7,004,527	7,100,198	95,671
Partial direct write-offs	199	355	156
Total loans (B)	7,046,416	7,124,539	78,123
Ratio of total claims under the FRL to total loans (%) (A/B)	0.59	0.34	(0.25)
Total coverage amounts on disclosed claims under the FRL (C)	30,289	16,826	(13,463)
Coverage ratio (%) (C/A)	72.30	69.12	(3.18)

# Important Management Indices

As the central financial institution for shinkin banks, the SCB strives to attain and maintain sound management.

## Consolidated capital Adequacy Ratio (%)

(As of September 30, 2018)



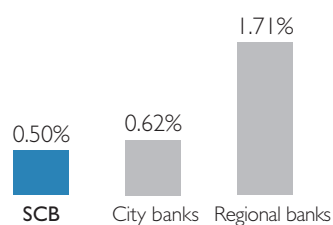
**23.65%**

(As of March 31, 2019)

**Notes:** 1. Average of 5 city banks  
2. Average of 64 regional banks  
**Source:** Bank disclosure documents

## Nonperforming Loan Ratio (%)

(As of September 30, 2018)



**0.34%**

(As of March 31, 2019)

**Note:** NPL ratio = total risk-monitored loans/total loans.  
**Source:** Japanese Bankers Association

## Long-term Credit Rating

(As of July 31, 2019)

<b>A1</b>	<b>A</b>	<b>A+</b>	<b>AA</b>
Moody's	S&P	R&I	JCR

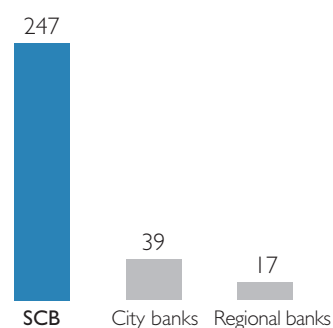
**Note:** Symbols indicating credit rating are assigned by each rating agency.

The SCB promotes streamlining of management through ongoing sweeping restructuring.

## Funds per Employee

(As of September 30, 2018)

(Millions of US dollars)



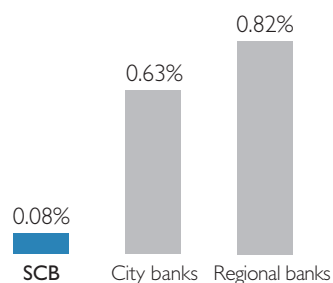
**\$251 million**

(As of March 31, 2019)

**Notes:** 1. Total funds = deposits + CDs + debentures  
2. US dollar amounts are converted for convenience only, at ¥113.54 and ¥110.96 per US\$1.00, the prevailing rate on September 30, 2018 and March 31, 2019, respectively.  
**Source:** Japanese Bankers Association

## Ratio of Expenses (%)

(As of September 30, 2018)



**0.08%**

(As of March 31, 2019)

**Note:** Ratio of expenses = total expenses/ (deposits + CDs + debentures) average outstanding balance  
**Source:** Japanese Bankers Association

# Corporate Governance

The SCB strives to maintain fairness and transparency in its management by fortifying our corporate governance system as we implement various operational strategies. The SCB's goal is to gain the trust of all our stakeholders by demonstrating the strong commitment to establishing a rigorous corporate governance system and to becoming an ever more distinguished financial institution well respected in society.

## Institutional Structure

### General Assembly of Representatives

The SCB is a cooperative financial institution comprising 259 shinkin banks nationwide (as of March 31, 2019) that are its members and investors. The General Assembly of Representatives, equivalent to the general meeting of shareholders in a joint-stock company, is held annually to elect directors and resolve important issues.

### Board of Directors

The SCB's Board of Directors, comparable to the Board of Directors in a joint-stock company, holds regular meetings nine times per year, and makes decisions regarding important business matters.

There are no board members corresponding to the outside directors as defined by the Companies Act, however, the Board of Directors includes 18 part-time directors selected from among the presidents or board chairs of shinkin banks from each region in Japan. This is in accordance with Article 32, paragraph 4 of the Shinkin Bank Act, the SCB's Articles of Incorporation stipulate that more than half the total number of board members must be executive officers of shinkin banks. The SCB is confident that the appropriate check on management provided by the part-time directors ensures that supervision and safeguard functions are in place and have a high degree of objectivity and transparency in business operations.

### Corporate Auditors

The SCB's corporate auditors, comparable to the corporate auditors of a joint-stock company, audit the execution of duties by the directors. The Board of Auditors, which consists of all the corporate auditors, regularly holds discussions on matters concerning audit policies and plans.

The SCB appoints one full-time corporate auditor and two part-time corporate auditors from among the presidents of shinkin banks, and two part-time corporate auditors who are not executives of the SCB or shinkin banks (non-member corporate auditors), equivalent to outside corporate auditors as defined by the Companies Act. Non-member corporate auditors are appointed from among persons who meet the requirements stipulated in Article 32, paragraph 5 of the Shinkin Bank Act. There are no stipulations of standards or guidelines regarding independence for the appointment of non-member corporate

auditors. The SCB is confident that non-member corporate auditors are able to utilize their professional knowledge and experience to conduct audits from an independent perspective.

One of the non-member corporate auditors is a certified accountant with a wealth of knowledge and experience regarding finance and accounting.

There are no particularly notable conflicts of interest between the SCB and non-member corporate auditors.

### Part-time Directors and Corporate Auditors

The General Affairs Division provides information and other support for part-time directors, and the staff members exclusively assisting corporate auditors under their direction provide the same for part-time corporate auditors, in order to facilitate the timely and appropriate execution of duties by part-time directors and corporate auditors.

### General Meeting for Preferred Shares

A general meeting for preferred shareholders may be held to protect their property rights under the Law Concerning Preferred Shares of Cooperative Financial Institutions.

## Checks on Business Operations

### Execution of Business Operations

At the SCB, the Board of Directors makes decisions on important business operations. Based on those decisions, the president presides over the SCB's business operations and the Deputy president and other full-time directors assist the president.

In addition, the SCB has established the Executive Committee to deliberate and make decisions on important managerial matters, including ones to be resolved by or reported to the Board of Directors.

The SCB has also established various committees of the Executive Committee to facilitate robust discussions on all aspects of its business operations. To ensure that deliberations and decisions are carried out on a cross-organizational basis, each committee comprises several directors and general managers of divisions.

### Supervision and Checks

At the SCB, the Board of Directors supervises the execution of business by the directors. More than half of the Board of Directors are executive officers of shinkin banks, thereby ensuring that the Board of Directors fulfills its checking functions.

### Audits

To facilitate audits of the directors' execution of duties, the corporate auditors at the SCB attend Board of Directors' and other important meetings. The corporate auditors also receive reports from directors regarding their execution of duties, and inspect the minutes of the Executive Committee and other important documents. In addition, the

corporate auditors hold regular meetings with independent corporate auditors to exchange opinions and information.

Dedicated staff members are assigned to assist the corporate auditors to ensure that directions are given efficiently, and to help them perform their duties in a timely and appropriate manner.

## Internal Audit System

The Internal Audit Division builds an audit system that aims to realize efficient and effective business operations by examining and assessing compliance management systems, risk management systems and operations management systems of each division, branch, and affiliated company of the SCB, to make sure that they are functioning appropriately and effectively.

At the internal audit, the Internal Audit Division examines and assesses the legal and regulatory compliance status, risk management status, and operations management status, of each division, branch, and affiliated company of the SCB, to make sure that they are functioning appropriately and effectively. When deemed necessary, the Internal Audit Division issues guidance so that corrective measures may be undertaken.

In addition, each division and branch is required to carry out its own internal inspections for the prevention and early detection of administrative errors.

## Use of Outside Specialists

The SCB has appointed Ernst & Young Shin-Nihon LLC as its corporate auditor.

The SCB utilizes the expertise of outside specialists, including independent auditors, attorneys, and tax accountants. To effectively handle more sophisticated and diversified operational requirements, the SCB consults with, and receives advice from, such specialists on a regular basis and as the need arises.

## Appropriate Information Disclosure

The SCB's preferred shares are listed on the Tokyo Stock Exchange. The SCB strives to maintain appropriate disclosure of corporate information, pursuant to the Financial Instruments and Exchange Law, other related laws, and the Securities Listing Regulations of the Tokyo Stock Exchange. The SCB also strives to maintain transparency in its management through appropriate disclosure.

## Improving Internal Control Systems

The SCB regards compliance as the basic premise of all business activities. The SCB continues to strengthen and operate internal control systems, based on a policy of maintaining reliable financial reporting, managing risks flexibly and effectively in response to those characteristics, and implementing internal audits by utilizing the Internal Audit Division, which is independent from the operational divisions and branches.

# Compliance System

The SCB views compliance as one of the highest-priority management agendas. In line with this stance, the SCB is carrying out the measures outlined below as it strives to further strengthen its compliance system.

## Strengthen Compliance System

1. The SCB has formulated the Shinkin Central Bank Code of Ethics, which stipulates the ethical rules and behavior standards that must be upheld by all SCB directors and employees.
2. In order to improve customer protection and satisfaction, the SCB formulates Customer Protection Control Policy.
3. The SCB formulates an annual Compliance Program, which lays out its specific compliance plan for each fiscal year.
4. To clarify the rules to be followed by directors and employees, the SCB has compiled a Compliance Manual as a practical compliance handbook.
5. A compliance supervisory division and compliance-related divisions have been set up, and their respective roles clarified. A compliance supervisor and deputy, both responsible for compliance, are appointed to each division and branch of the SCB.
6. In order to deliberate compliance issues, customer protection issues, and serious

accidents, the SCB has established the Risk Management Committee.

7. In addition to conducting regular lectures and training seminars for directors and employees, each division and branch also carries out its own training programs as part of the SCB's efforts to strengthen compliance education.
8. The audit items used by the Internal Audit Division include compliance-related items, and internal audits include investigation of whether the compliance system is functioning adequately.
9. In cases of compliance violation, reports from the heads of the divisions or branches concerned are promptly called for, and appropriate actions are taken to prevent a recurrence.
10. The SCB operates a hotline to facilitate reporting of compliance breaches by directors and employees. The SCB also has in place strict measures to protect whistle-blowers.
11. Pursuant to the Law on Sales of Financial Products, the SCB has formulated and made public its Financial Products Solicitation Policy. To ensure that solicitation is carried out fairly, important points regarding a product must be explained to the customer at the time of sale.

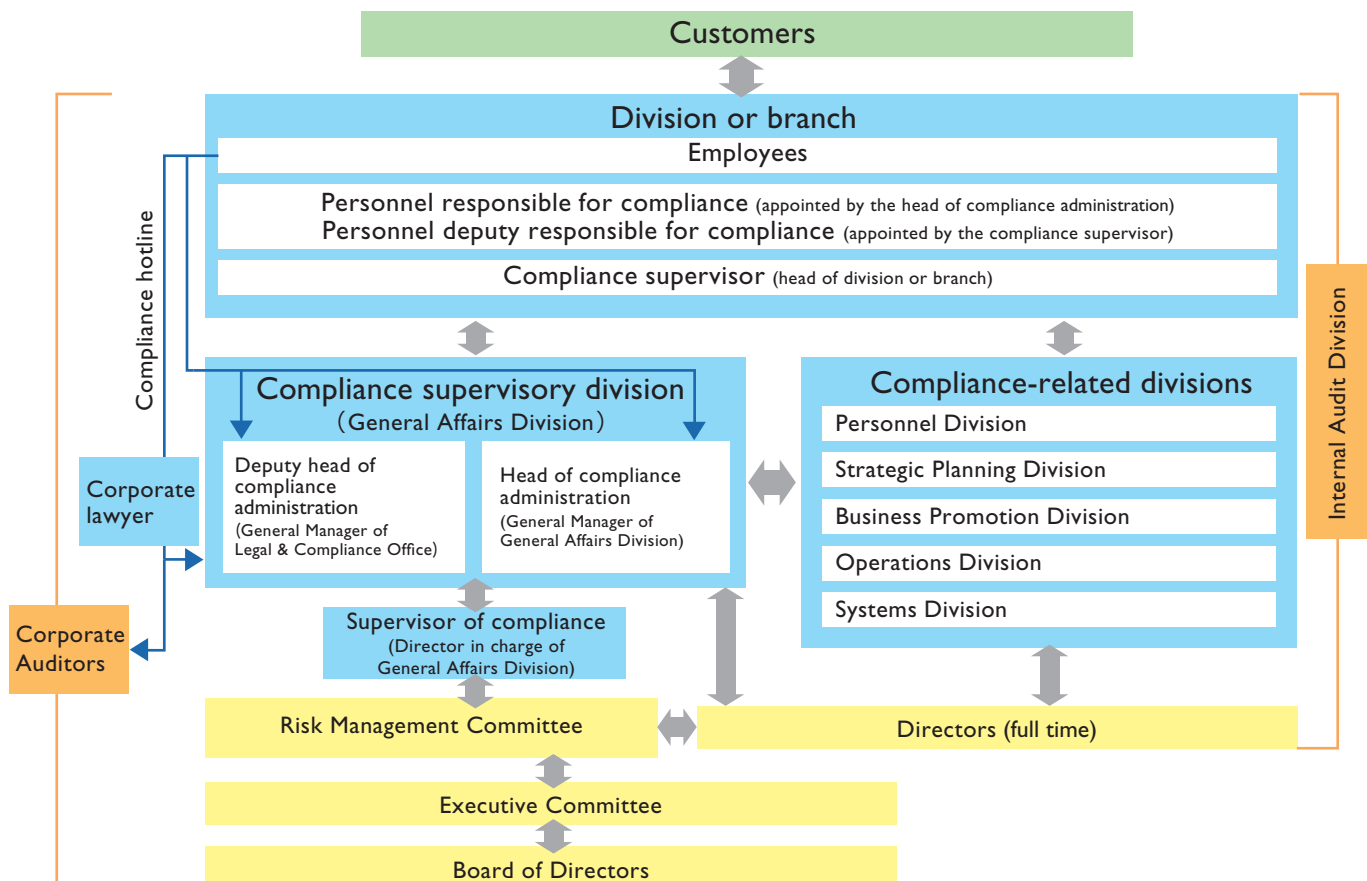
12. Pursuant to the Law on Protection of Personal Information, the SCB has published its Personal Information Protection Policy on its internet website. The SCB takes necessary and appropriate safety measures to protect personal information.

13. In addition to publishing its Outline for Managing Conflicts of Interest on its internet website, pursuant to the Shinkin Bank Act and the Financial Instruments and Exchange Law, the SCB is taking appropriate management steps to ensure that customers' interests are not wrongfully violated.

14. Based on the financial Alternative Dispute Resolution (ADR) system, to respond expeditiously, fairly, and appropriately to customers' inquiries, complaints, disputes, and other issues, the SCB has overhauled its internal management system and is striving to enhance its reliability.

The SCB intends to review and update the content of its Compliance Manual and other policies on an ongoing basis. All SCB directors and employees are working to maintain strict compliance through coordination among related divisions, and by strengthening internal education programs.

## Compliance System Overview



### Countermeasures against Money Laundering and the Financing of Terrorism

Based on societal demands related to the need for countermeasures against money laundering and financing of terrorism (the “money laundering and financing of terrorism countermeasures”), the SCB has designated the prevention of money laundering and of terrorist financing as one of the most important managerial issues, and is working to sophisticate its countermeasures by means of a risk-based approach.

The director in charge of General Affairs

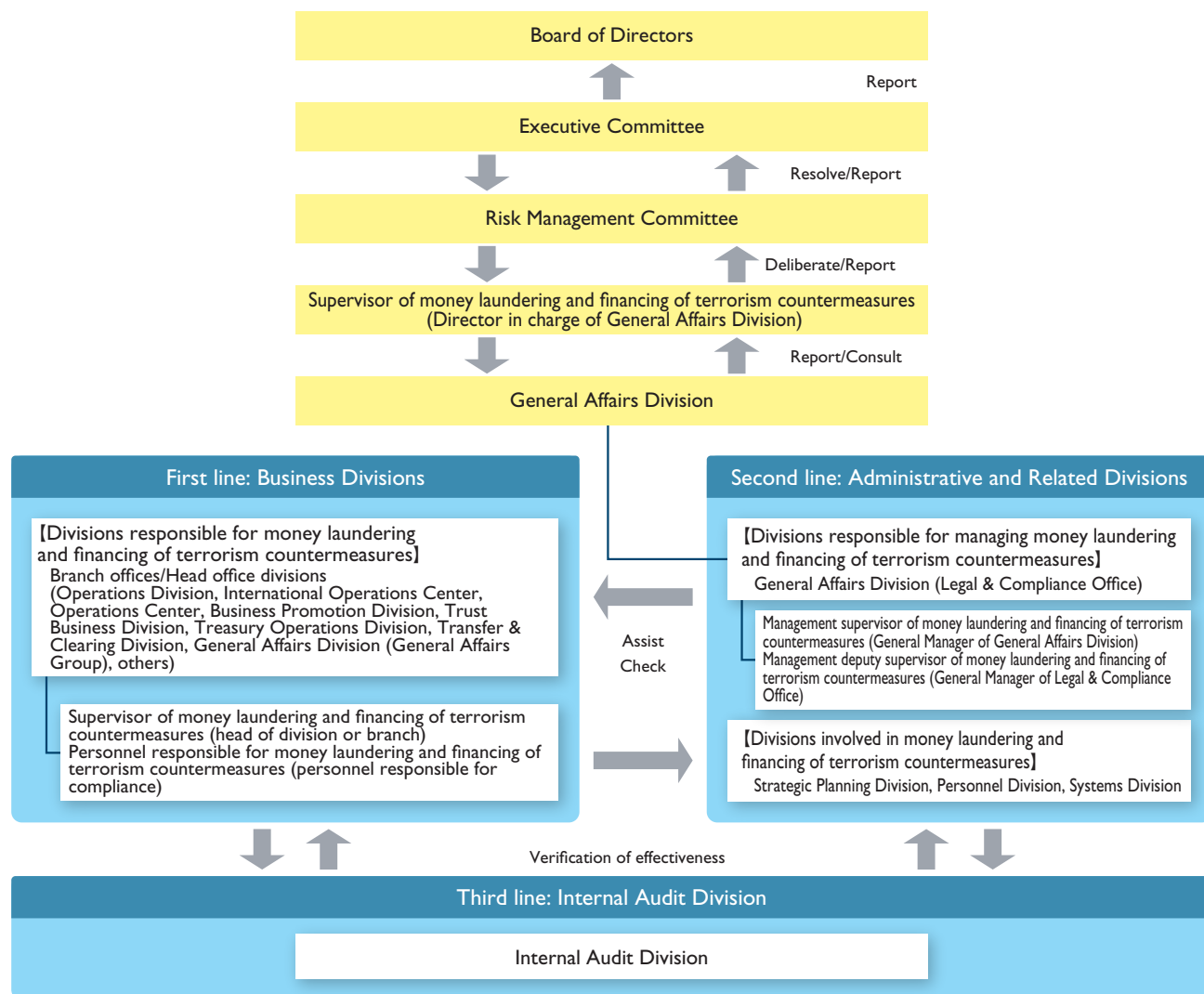
Division is appointed supervisor of money laundering and financing of terrorism countermeasures, and under the active involvement of the management team will put in place risk management arrangements in which the General Affairs Division is the second line of defense (administrative divisions), while also organizing a regulatory system. The General Affairs Division is also providing with support, checks and controls in relation to the first line of defense (business divisions), and training for employees.

Supervisors of and personnel responsible

for money laundering and financing of terrorism countermeasures are assigned to the first line of defense (business divisions), and checks are carried out at the time of the transaction in accordance with the Act on Prevention of Transfer of Criminal Proceeds and so on, with notifications being made for suspicious transactions.

The Audit Division, which is the third line of defense (internal audit division), performs verification of the effectiveness of money laundering and financing of terrorism countermeasures.

## Risk Management System against Money Laundering and the Financing of Terrorism



# Risk Management

Learning from the experience of the financial crisis, the SCB is exhaustively implementing more highly detailed and thorough processes to manage risk by pursuing more sophisticated integrated, market and credit risk management and other measures while also advancing predictor and interim management for credit control.

## Basic Policy on Risk Management

In the wake of the global financial crisis, financial institutions face significant changes in economic and financial market conditions and other aspects of their operating environment. To respond promptly and appropriately to these changes, financial institutions require very finely tuned risk management.

The SCB has positioned risk management as a key management priority for ensuring sound management and securing adequate profits. All directors and employees conduct their daily duties with a full awareness of the importance of risk management.

The SCB classifies risk in two broad categories—risk that must be controlled and risk that must be absolutely minimized—and manages the risks accordingly. The types of risk that must be controlled are market, liquidity, and credit risks. The type of risk that must be minimized is operational risk. The Risk Management Division coordinates the management of different risks to provide comprehensive risk management.

The SCB has also established cross-organizational bodies—the Risk Management Committee, ALM Committee, and Credit Committee,—to manage risk from a Bank-wide perspective. These committees deliberate and

make decisions on specific issues relating to their respective risk management functions based on the policies determined by the Board of Directors and the Executive Committee.

To ensure the effectiveness of its risk management systems, the SCB has also established the Internal Audit Division—a body independent from its risk management systems—to monitor the SCB's risk management activities.

## Integrated Risk Management

To manage risk in a comprehensive manner, the SCB employs the integrated risk management method to cope with quantifiable risk.

Integrated risk management is a way to manage its diverse risks by calculating them with uniform criteria, such as the Value-at-Risk (VaR) method, and comparing their aggregated value to the institution's overall financial strength (i.e., capital adequacy).

For market risk and credit risk, the SCB calculates the VaR. For the calculation of operational risk capital requirements, the SCB employs the basic indicator approach, proposed under regulations concerning capital adequacy ratios.

The SCB defines capital under its integrated risk management system and allocates quantitative risk limits, operation-

al risk and other types of risk.\* Separately, the SCB estimates losses under various stress scenarios as part of its efforts to monitor potential impacts on capital.

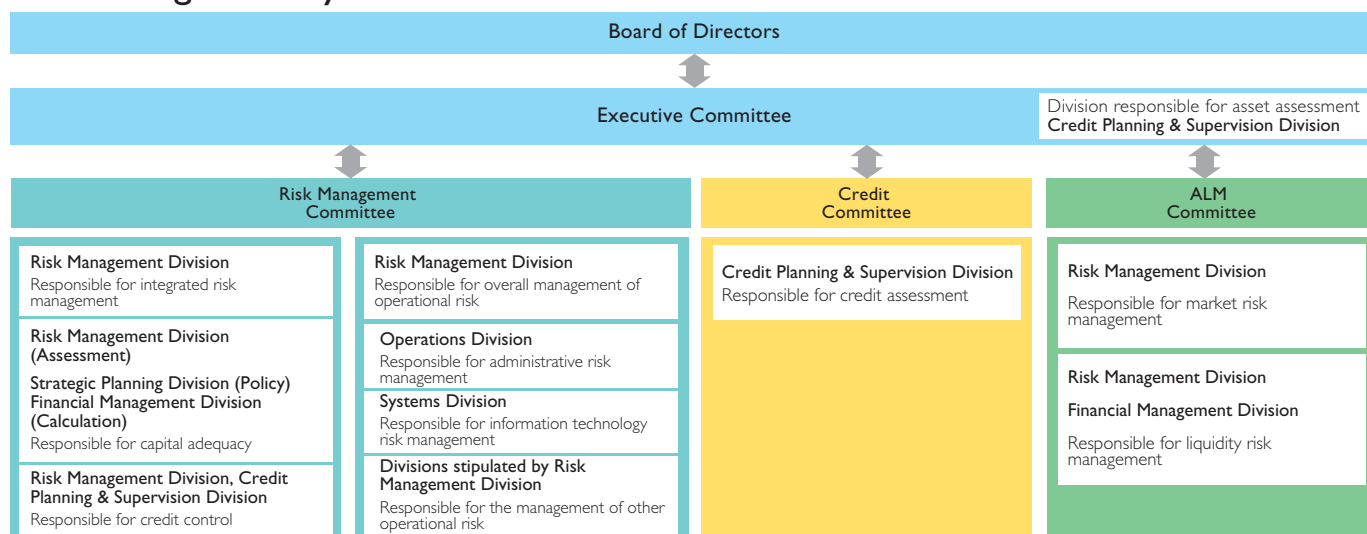
The quantitative risk limits and reserve amounts for each fiscal year are determined by the Executive Committee following deliberation by the Risk Management Committee. The Risk Management Division, which oversees integrated risk management, measures the amount of risk exposure both during and at the end of each month, to ensure that quantitative limits for each type of risk are not exceeded. The Risk Management Division provides reports on risk status to senior management and related divisions through the Risk Management Committee.

\*With regard to subsidiaries within the SCB's scope of consolidation, the SCB monitors risk exposure at each subsidiary and allocates capital commensurate with the amount of risk. These allocations enable subsidiaries to take risks.

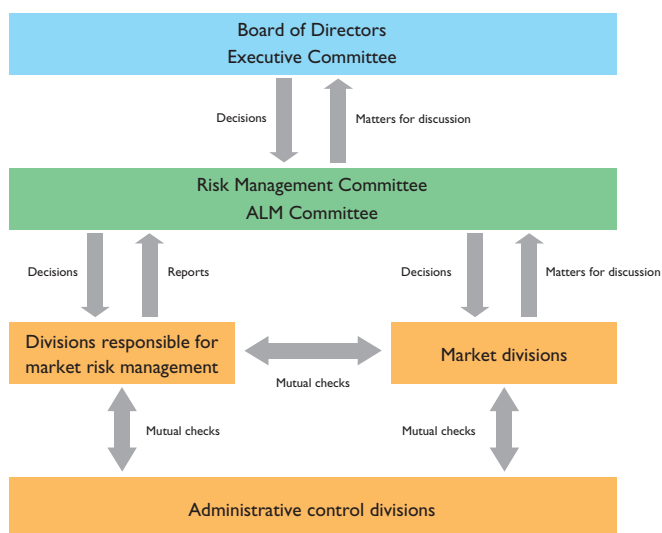
## Risk Categories

Category		Description
Must be controlled	Market risk	Market risk is the risk of loss resulting from fluctuations in asset or liability values (including off-balance-sheet items), due to changes in such market risk factors as interest rates, stock prices, and exchange rates. This includes the risk of loss due to changes in earnings generated by assets and liabilities.
	Liquidity risk	Liquidity risk is the risk that a financial institution will be unable to generate sufficient cash inflow to meet required cash outflows; and the risk of loss resulting from the unavoidable need to procure funds at much higher interest rates than normal (cash flow risk); and the risk that market transactions will become either impossible, or that transactions must be carried out at very unfavorable prices due to market disruptions (market liquidity risk).
	Credit risk	Credit risk is the risk of loss due to the partial or complete loss of asset value (including off-balance-sheet assets), owing to such factors as that a borrower or counterparty will fail to perform on an obligation.
Must be absolutely minimized	Operational risk	Operational risk is the risk of unexpected loss resulting from inadequacies in operational processes, breaches in internal controls, employee actions, or computer systems, as well as the risk of loss resulting from external events.
	Administrative risk	Administrative risk is the risk of loss resulting from administrative failures, accidents, or management or staff fraud.
	Information technology risk	Information technology risk is the risk of loss due to computer system failures, errors, or inadequacies, and the risk of loss due to the fraudulent use of computer systems.
	Other operational risk	Other operational risks are those, other than the ones mentioned above, that may be defined, as necessary, by the divisions responsible for the overall management of operational risk (excluding market, liquidity, and credit risks).

## Risk Management System



## Market Risk Management Framework



### Market Risk\* Management

To maintain an accurate understanding of market risk and rigorously manage this risk, the SCB has issued a market risk management policy. Furthermore, divisions responsible for market risk management are clearly separated from divisions involved in market operations, providing a risk management structure in which internal checks are maintained through the independent functions.

The SCB has established the ALM Committee as the body responsible for deliberating and making decisions on matters relating to market risk management. The ALM Committee comprises senior management

and heads of divisions related to market risk. Based on risk status information—obtained via reports from divisions responsible for managing market risk and other sources—the ALM Committee deliberates widely and expeditiously on policy relating to fund-raising and management as well as proposed market transactions.

For banking operations and trading activities, the divisions responsible for managing market risk quantify and manage market risk by VaR within the limit set by the Executive Committee. In addition, market risk is further divided into several categories, with risk quantities monitored by category.

In addition, the SCB manages our exposure on a variety of fronts, such as monitoring stress losses at times of unexpected market fluctuations, the basis-point-value (BPV) (changes in the valuation of the market value of the portfolio in response to changes in interest rates), and IRRBB (interest rate risk in scenarios specified by the FSA).

The status of these risk management activities is reported to senior management at biweekly meetings of the ALM Committee.

\* Market risk includes interest rate risk and such equity-related risk as stock price fluctuation risk.

### Liquidity Risk Management

As the central financial institution for shinkin banks, the SCB maintains a rigorous system for managing liquidity risk to respond to the needs of shinkin banks for daily working capital and emergency funds.

To maintain an accurate understanding of liquidity risk and rigorously manage this risk, the SCB has formulated a liquidity risk management policy. Divisions responsible for liquidity risk management are clearly separated from divisions involved in cash management and market operations, allowing internal checks to be maintained through the independent functions. In addition, the ALM Committee deliberates and makes decisions on matters relating to liquidity risk management.

Methods used for managing liquidity risk include the daily setting and monitoring of risk limit amounts relating to the gap between cash receipts and payments. This is carried out for individual currencies and periods. In the event that a significant liquidity risk arises, the SCB is prepared to respond rapidly, and even secure funding sources.

### Credit Risk\* Management

To maintain an accurate understanding of credit risk and rigorously manage this risk, the SCB has formulated a credit risk management policy. Furthermore, the SCB has formulated a Credit Policy, which sets out the SCB's fundamental philosophy. The SCB requires strict adherence to the Credit Policy on the part of all directors and employees involved in credit operations. The SCB conducts ongoing internal communications emphasizing the importance of sound ethics in all behavior and decision making.

At the SCB, divisions responsible for credit control, credit assessment and asset assessment are clearly separated from divisions involved in client services. In this way, we are building a structure in which internal checks are maintained through the independent functions given to each part of the system.

The SCB has established the Credit Committee and the Risk Management Committee as the bodies responsible for deliberating and making decisions on matters relating to credit risk management. The Credit Committee and the Risk Management Committee comprise senior management and the general managers of related divisions. The Credit Committee deliberates on credit transactions that exceed a designated amount, and the Risk Management Committee deliberates broadly and thoroughly matters relating to credit risk management. The Executive Committee deliberates, and makes decisions regarding, the results of self-assessment of assets and matters relating to self-assessment of asset write-offs and asset reserve provisions.

Divisions responsible for credit control manage the credit risk for each borrower relating to loans and market trading activities. An overall credit limit is set for each borrower according to their credit rating.

Credit ratings are based on quantitative criteria, set by evaluating the borrower's financial statements, and qualitative criteria, set by evaluating the borrower's competitive strength in the particular industry within which it operates. Based on these assessments of credit strength, each borrower is given a credit rating on the SCB's 10-step scale. The credit ratings given to borrowers are reviewed regularly, and flexibly revised as necessary.

Divisions responsible for credit control analyze the SCB's overall credit portfolio according to credit rating, industry, country, and other criteria. These analyses are used to monitor the diversification of credit risk as well as changes in portfolio credit risk. Furthermore, credit risk is quantified and managed within the risk limit set by the Executive Committee.

The credit risk amount is measured using VaR as well as the Monte Carlo simula-

tion method.

The Credit Planning & Supervision Division—responsible for credit assessment—accurately monitors each borrower's financial condition, the purposes for which funds are used, and repayment resources. In addition to appropriate assessment and post-transaction management, the Credit Planning & Supervision Division continually inspects whether the client service division is conducting appropriate credit controls, and provides guidance as necessary. In the event that there should be any problem on the borrower's side, the Credit Planning & Supervision Division expeditiously assesses the borrower's management situation and provides supervision. Where necessary, action is taken to recover the loan.

The Credit Planning & Supervision Division is also responsible for asset assessment. The division undertakes and manages operations relating to asset self-assessments, and the calculation of asset write-offs and asset reserve provisions.

\* Credit risk includes such risk as counterparty risk for derivative transactions and securitization transaction risk.

### Operational Risk Management

To provide comprehensive management of operational risk, the SCB has issued a policy that governs operational risk management. In addition, the SCB has separate policies to manage two major types of operational risk: administrative and information technology risk. The Risk Management Division is responsible for overall operational risk management, the Operations Division oversees administrative risk management, and the Systems Division is responsible for information technology risk management. The SCB may also create new divisions to cope with other types of operational risk as the need arises. With this structure, the SCB comprehensively manages operational risk.

The SCB has established the Risk Management Committee to deliberate and make decisions on matters relating to operational risk management. The Risk Management Committee, comprising senior management and heads of related divisions, deliberates and makes decisions on comprehensive methods for managing operational risk, including administrative risk and systems risk.

To calculate its operational risk capital requirements, the SCB uses the basic indicator approach proposed under regulations concerning capital adequacy ratios.

### • Administrative Risk Management

The Operations Division oversees administrative risk management and administrative instruction. In addition to developing and

maintaining the administrative processing system and administrative rules, and undertaking reviews of administrative procedures, the Operations Division conducts administrative instruction programs for divisions involved in administrative processing. With this system, the SCB appropriately manages administrative risk.

Furthermore, the SCB is undertaking a range of measures to ensure accurate and efficient administrative processing. These include the systemization of administrative processing, the provision of various training programs, including programs, to encourage staff to submit proposals to improve operating processes at all branches. The SCB also controls the entire process of administrative risk management, from the identification of risk to the implementation of corrective measures.

### • Information Technology Risk Management

The Systems Division takes charge of information technology risk management. It provides control and guidance to divisions involved in system development, operation, and utilization.

Recognizing that cyber attacks are becoming increasingly sophisticated and ingenious, the division is stepping up measures to reinforce its cybersecurity, including the establishment of the Shinkin Central Bank Computer Security Incident Response Team.

In the event of a system failure that seriously affects the execution of business operations, an SCB-wide response is triggered based on crisis management procedures (contingency planning). In addition to periodically conducting crisis response drills, based on system failure crisis scenarios, the SCB also has in place a Disaster Recovery System and other precautions based on the Business Continuity Plan.

### Introduction of Risk Appetite Framework

In order for the SCB to fulfill its role as the central financial institution of shinkin banks, and because it is necessary for it to take appropriate risks, which are matched to its capital and congruent with its own business model and risk culture, to enable it to continue to secure profits, a so-called "risk appetite framework"<sup>(\*)1, (\*)2</sup> has been constructed and is operated in order to put this into practice.

\*1. Risk appetite: the type and size of risks that an organization attempts to take in order to achieve its business plans, based on its own individual business model.

\*2. Risk appetite framework: a business management framework used as a common language within the company in relation to all risk-taking policies, and which includes capital allocation and profit maximization in regard to risk appetite.

# Preferred Shares

## The SCB's Preferred Shares

The SCB issues preferred shares under the Law Concerning Preferred Shares of Cooperative Financial Institutions. The preferred shares, which are regulated by the Financial Instruments and Exchange Law, are issued to complement members' (shinkin banks') common shares and offered publicly to increase the net worth of cooperative financial institutions.

Although the preferred shares do not carry the voting rights that holders of common shares receive, the preferred shares have certain advantages over common shares, such as the guarantee of priority in the payment of dividends.

## Listing of Preferred Shares

The SCB has issued preferred shares since fiscal 1995 and, for the first time in Japan, the preferred shares were listed on the Tokyo Stock Exchange on December 22, 2000 (Securities Identification Code 8421). The SCB's preferred shares are marketable securities that are very similar to preferred stocks, and, basically, the same listing criteria and disclosure rules apply to them.

## Trading of Preferred Shares

Like listed stocks, the SCB's preferred shares can be traded anytime during Tokyo Stock Exchange trading hours through a securities company. Credit transactions are also possible for preferred shares, just as they are for stocks.

## Dividends of Preferred Shares

The SCB's basic policy is to pay stable dividends while securing sound management, enhancing internal reserves, and boosting earnings power.

The SCB's preferred shares pay a dividend to the holders at the end of March of every fiscal year. As the rule of interim dividends is not provided in the Law Concerning Preferred Shares of Cooperative Financial Institutions, the SCB does not pay interim dividends.

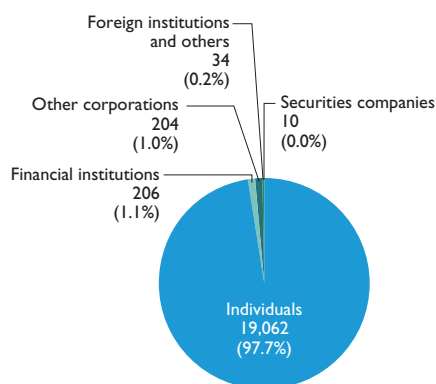
Dividends of preferred shares comprise preferred dividends and participating dividends. Preferred dividends are paid before any dividends are paid to common stock holders (shinkin banks). Participating dividends are paid from retained earnings after preferred dividends. They may vary depending on profits of the SCB.

The SCB's preferred shares are treated as stocks in the taxation system, and are given the same preferential treatment concerning tax as stocks.

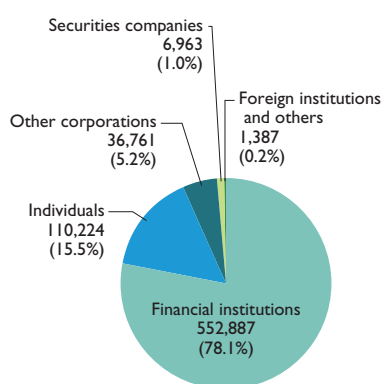
For fiscal 2018, the dividend for preferred shares was ¥6,500 (\$58) per share, which included a preferred dividend of ¥3,000 (\$27) and a participating dividend of ¥3,500 (\$31).

## Composition of Preferred Shares (March 31, 2019)

• Number of Investors (19,516)



• Number of Subscription (708,222)



## Price of Preferred Shares\*

	(Closing price, yen)
First day of listing (December 22, 2000)	200,500
Highest price (March 15, 2006)	311,500
Lowest price (April 14, 2009)	102,400
Closing price (July 31, 2019)	238,600

\* The price of preferred shares is split-adjusted, reflecting the stock split of preferred shares as at July 31, 2009.

# Financial Section

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# Five-Year Summary (Consolidated)

	(Millions of yen)				
	FY2014	FY2015	FY2016	FY2017	FY2018
Total Income	307,894	302,154	319,307	306,892	293,808
Trust Fees	600	665	595	351	399
Total Expenses	223,028	242,097	266,503	244,018	231,873
Profit Attributable to Owners of Parent	62,696	42,781	43,871	44,466	44,781
Comprehensive Income	173,512	18,303	11,056	20,433	53,530
Net Assets	1,433,756	1,632,969	1,625,842	1,626,605	1,660,465
Total Assets	33,516,073	35,092,905	37,464,593	38,790,449	39,693,375
Net Assets per Share (yen)	301,997.98	301,512.71	299,542.84	299,587.63	306,594.84
Net Income per Share (yen)	12,865.13	7,115.71	6,223.20	6,311.86	6,358.89
Dividends	18,957	18,115	19,603	19,603	19,603
General Common Shares	14,000	12,000	12,000	12,000	12,000
Specific Common Shares	—	1,512	3,000	3,000	3,000
Preferred Shares	4,957	4,603	4,603	4,603	4,603
Total Trust Assets	2,096,294	2,181,287	1,859,161	525,445	807,201

## Notes:

1. National and local consumption tax incurred by the Shinkin Central Bank and its domestic consolidated subsidiaries are excluded from transaction amounts.
2. In the fiscal year ended March 31, 2017 the Shinkin Central Bank started trust business; “Trust Fees” and “Total Trust Assets” have therefore been added to the above table.
3. “Total Trust Assets” is calculated by means of simple aggregation of the trust assets for each consolidated company conducting trust business pursuant to the “Act on Engagement in Trust Business Activities by Financial Institutions”. Consolidated companies conducting such trust business comprised only Shinkin Trust Bank, Ltd. in the fiscal years ended March 31, 2015 and 2016, in the fiscal year ended March 31, 2017 comprised the Shinkin Central Bank and Shinkin Trust Bank, Ltd., and in the fiscal years ended March 31, 2018 and 2019 comprised the Shinkin Central Bank.

# Consolidated Balance Sheet

Shinkin Central Bank As of March 31,	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2019	2018	2019
<b>Assets</b>			
Cash and Due from Banks (Note 2 (2), 26)	13,346,876	12,393,632	120,285
Bills Bought and Call Loans (Note 26)	765,887	413,259	6,902
Receivables under Resale Agreements (Note 26)	39,999	89,999	360
Receivables under Securities Borrowing Transactions (Note 26)	23,229	15,340	209
Monetary Claims Bought (Note 26)	221,732	177,359	1,998
Trading Assets (Note 3, 9, 26, 27)	248,586	250,424	2,240
Money Held in Trust (Note 26, 27)	150,317	99,789	1,354
Securities (Note 4, 7, 9, 26, 27)	16,583,668	17,108,434	149,456
Loans and Bills Discounted (Note 5, 6, 9, 26)	7,038,785	6,952,660	63,435
Foreign Exchanges Assets	21,130	20,460	190
Other Assets (Note 9)	936,752	967,208	8,442
Tangible Fixed Assets (Note 8, 14, 25)	76,866	71,353	692
Intangible Fixed Assets (Note 25)	21,570	12,999	194
Deferred Tax Assets (Note 23)	4,160	3,996	37
Customers' Liabilities for Acceptances and Guarantees	244,051	256,687	2,199
Reserve for Possible Loan Losses	(30,238)	(43,157)	(272)
<b>Total Assets</b>	<b>39,693,375</b>	<b>38,790,449</b>	<b>357,726</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Deposits (Note 26)	30,941,297	30,230,956	278,850
Debentures (Note 12, 26)	2,484,300	2,705,490	22,389
Trading Liabilities (Note 10, 26)	72,165	66,636	650
Borrowed Money (Note 9, 11, 26)	1,967,180	1,637,770	17,728
Bills Sold and Call Money (Note 26)	37,878	40,313	341
Payables under Repurchase Agreements (Note 9, 26)	152,777	98,373	1,376
Payables under Securities Lending Transactions (Note 9, 26)	1,784,546	1,789,012	16,082
Foreign Exchanges Liabilities	1,397	447	12
Borrowed Money from Trust Account	14,025	5,375	126
Other Liabilities (Note 11, 13)	198,002	204,426	1,784
Reserve for Employee Bonuses	1,779	1,721	16
Reserve for Directors' Bonuses	86	89	0
Net Defined Benefit Liability (Note 24)	42,406	41,525	382
Reserve for Directors' Retirement Allowances	587	595	5
Reserve under Specific Law	1	1	0
Deferred Tax Liabilities (Note 23)	84,345	78,321	760
Deferred Tax Liabilities for Land Revaluation (Note 14)	6,081	6,100	54
Acceptances and Guarantees	244,051	256,687	2,199
<b>Total Liabilities</b>	<b>38,032,909</b>	<b>37,163,843</b>	<b>342,762</b>
<b>Net Assets</b>			
Common Shares and Preferred Shares (Note 22)	690,998	690,998	6,227
Capital Surplus	100,678	100,678	907
Retained Earnings	595,294	571,563	5,364
Total Shareholders' Equity	1,386,971	1,363,240	12,499
Net Unrealized Gains (Losses) on Other Securities (Note 23, 27)	323,683	299,808	2,917
Deferred Gains or Losses on Hedges (Note 23, 28)	(66,632)	(50,303)	(600)
Land Revaluation Excess (Note 14)	14,894	13,433	134
Foreign Currency Translation Adjustments	(3,383)	(2,848)	(30)
Remeasurements of Defined Benefit Plans (Note 24)	(6,892)	(7,681)	(62)
Total Accumulated Other Comprehensive Income	261,669	252,409	2,358
Non-Controlling Interests	11,824	10,956	106
<b>Total Net Assets</b>	<b>1,660,465</b>	<b>1,626,605</b>	<b>14,964</b>
<b>Total Liabilities and Net Assets</b>	<b>39,693,375</b>	<b>38,790,449</b>	<b>357,726</b>

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

# Consolidated Statement of Income

Shinkin Central Bank For the year ended March 31,	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2019	2018	2019
<b>Income</b>			
Interest Income:	193,754	220,528	1,746
Interest on Loans and Discounts	19,518	17,597	175
Interest on Due from Banks	8,466	8,417	76
Interest on Bills Bought and Call Loans	946	706	8
Interest on Receivables under Resale Agreements	(336)	0	(3)
Interest on Receivables under Securities Borrowing Transactions	6	131	0
Interest and Dividends on Securities	164,344	193,032	1,481
Others	810	642	7
Trust Fees	399	351	3
Fees and Commissions (Note 16)	43,670	42,779	393
Trading Income (Note 17)	4,078	3,904	36
Other Operating Income	33,801	24,406	304
Other Income (Note 19)	18,104	14,922	163
<b>Total Income</b>	<b>293,808</b>	<b>306,892</b>	<b>2,647</b>
<b>Expenses</b>			
Interest Expenses:	119,534	121,559	1,077
Interest on Deposits	40,218	37,839	362
Interest on Debentures	4,489	5,920	40
Interest on Borrowed Money	3,595	7,066	32
Interest on Bills Sold and Call Money	537	461	4
Interest on Payables under Repurchase Agreement	1,258	1,920	11
Interest on Payables under Securities Lending Transactions	23,687	15,883	213
Others	45,746	52,467	412
Fees and Commissions (Note 16)	15,758	15,386	142
Trading Losses (Note 18)	316	133	2
Other Operating Expenses	41,883	54,228	377
General and Administrative Expenses	52,183	51,647	470
Other Expenses (Note 20)	2,195	1,063	19
<b>Total Expenses</b>	<b>231,873</b>	<b>244,018</b>	<b>2,089</b>
<b>Profit before Income Taxes</b>	<b>61,935</b>	<b>62,873</b>	<b>558</b>
<b>Income Taxes (Note 23):</b>			
Current	13,997	16,389	126
Deferred	2,280	1,490	20
<b>Total Income Taxes</b>	<b>16,278</b>	<b>17,880</b>	<b>146</b>
<b>Profit</b>	<b>45,657</b>	<b>44,992</b>	<b>411</b>
<b>Profit Attributable to Non-Controlling Interests</b>	<b>875</b>	<b>526</b>	<b>7</b>
<b>Profit Attributable to Owners of Parent</b>	<b>44,781</b>	<b>44,466</b>	<b>403</b>

	Yen		U.S. Dollars (Note 1)
	2019	2018	2019
Net Income per Share (Note 31)	6,358.89	6,311.86	57.30
Dividend Declared per Share (General Common Shares)	3,000.00	3,000.00	27.03
Dividend Declared per Share (Specific Common Shares)	1,500.00	1,500.00	13.51
Dividend Declared per Share (Preferred Shares)	6,500.00	6,500.00	58.57

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

# Consolidated Statement of Comprehensive Income

Shinkin Central Bank For the year ended March 31,	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2019	2018	2019
<b>Profit</b>	<b>45,657</b>	44,992	<b>411</b>
<b>Other Comprehensive Income (Note 21)</b>	<b>7,873</b>	(24,559)	<b>70</b>
Net Unrealized Gains (Losses) on Other Securities	<b>23,874</b>	(49,122)	<b>215</b>
Deferred Gains or Losses on Hedges	<b>(16,328)</b>	22,401	<b>(147)</b>
Land Revaluation Excess	<b>13</b>	0	<b>0</b>
Foreign Currency Translation Adjustments	<b>(534)</b>	398	<b>(4)</b>
Remeasurements of Defined Benefit Plans	<b>848</b>	1,762	<b>7</b>
<b>Comprehensive Income</b>	<b>53,530</b>	20,433	<b>482</b>
Comprehensive Income Attributable to Owners of Parent	<b>52,594</b>	19,814	<b>473</b>
Comprehensive Income Attributable to Non-Controlling Interests	<b>935</b>	618	<b>8</b>

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

# Consolidated Statement of Changes in Net Assets

Shinkin Central Bank For the year ended March 31, 2019

Millions of Yen

	Shareholders' Equity			
	Common Shares and Preferred Shares	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at Beginning of Year	690,998	100,678	571,563	1,363,240
Fluctuation Amount during the Fiscal Year				
Surplus Dividends			(19,603)	(19,603)
Profit Attributable to Owners of Parent			44,781	44,781
Reversal of Land Revaluation Excess			(1,447)	(1,447)
Net Changes in Items Other Than Shareholders' Equity during the Fiscal Year				
Total Fluctuation Amount during the Fiscal Year	-	-	23,731	23,731
Balance at End of Year	690,998	100,678	595,294	1,386,971

	Accumulated Other Comprehensive Income						Non-Controlling Interests	Total Net Assets
	Net Unrealized Gains (Losses) on Other Securities	Deferred Gains or Losses on Hedges	Land Revaluation Excess	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income		
Balance at Beginning of Year	299,808	(50,303)	13,433	(2,848)	(7,681)	252,409	10,956	1,626,605
Fluctuation Amount during the Fiscal Year								
Surplus Dividends								(19,603)
Profit Attributable to Owners of Parent								44,781
Reversal of Land Revaluation Excess								(1,447)
Net Changes in Items Other Than Shareholders' Equity during the Fiscal Year	23,874	(16,328)	1,460	(534)	788	9,260	868	10,129
Total Fluctuation Amount during the Fiscal Year	23,874	(16,328)	1,460	(534)	788	9,260	868	33,860
Balance at End of Year	323,683	(66,632)	14,894	(3,383)	(6,892)	261,669	11,824	1,660,465

Millions of U.S. Dollars (Note 1)

	Shareholders' Equity			
	Common Shares and Preferred Shares	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at Beginning of Year	6,227	907	5,151	12,285
Fluctuation Amount during the Fiscal Year				
Surplus Dividends			(176)	(176)
Profit Attributable to Owners of Parent			403	403
Reversal of Land Revaluation Excess			(13)	(13)
Net Changes in Items Other Than Shareholders' Equity during the Fiscal Year				
Total Fluctuation Amount during the Fiscal Year	-	-	213	213
Balance at End of Year	6,227	907	5,364	12,499

	Accumulated Other Comprehensive Income						Non-Controlling Interests	Total Net Assets
	Net Unrealized Gains (Losses) on Other Securities	Deferred Gains or Losses on Hedges	Land Revaluation Excess	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income		
Balance at Beginning of Year	2,701	(453)	121	(25)	(69)	2,274	98	14,659
Fluctuation Amount during the Fiscal Year								
Surplus Dividends								(176)
Profit Attributable to Owners of Parent								403
Reversal of Land Revaluation Excess								(13)
Net Changes in Items Other Than Shareholders' Equity during the Fiscal Year	215	(147)	13	(4)	7	83	7	91
Total Fluctuation Amount during the Fiscal Year	215	(147)	13	(4)	7	83	7	305
Balance at End of Year	2,917	(600)	134	(30)	(62)	2,358	106	14,964

	Shareholders' Equity			
	Common Shares and Preferred Shares	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at Beginning of Year	690,998	100,678	546,678	1,338,355
Fluctuation Amount during the Fiscal Year				
Surplus Dividends			(19,603)	(19,603)
Profit Attributable to Owners of Parent			44,466	44,466
Reversal of Land Revaluation Excess			22	22
Net Changes in Items Other Than Shareholders' Equity during the Fiscal Year				
Total Fluctuation Amount during the Fiscal Year	-	-	24,884	24,884
Balance at End of Year	690,998	100,678	571,563	1,363,240

	Accumulated Other Comprehensive Income						Non-Controlling Interests	Total Net Assets
	Net Unrealized Gains (Losses) on Other Securities	Deferred Gains or Losses on Hedges	Land Revaluation Excess	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income		
Balance at Beginning of Year	348,931	(72,705)	13,455	(3,246)	(9,351)	277,083	10,403	1,625,842
Fluctuation Amount during the Fiscal Year								
Surplus Dividends								(19,603)
Profit Attributable to Owners of Parent								44,466
Reversal of Land Revaluation Excess								22
Net Changes in Items Other Than Shareholders' Equity during the Fiscal Year	(49,122)	22,401	(22)	398	1,670	(24,674)	552	(24,121)
Total Fluctuation Amount during the Fiscal Year	(49,122)	22,401	(22)	398	1,670	(24,674)	552	763
Balance at End of Year	299,808	(50,303)	13,433	(2,848)	(7,681)	252,409	10,956	1,626,605

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

# Consolidated Statement of Cash Flows

Shinkin Central Bank For the year ended March 31,	Millions of Yen		Millions of U.S. Dollars
	2019	2018	(Note 1) 2019
<b>Cash Flows from Operating Activities:</b>			
Profit before Income Taxes	61,935	62,873	558
Depreciation	10,260	9,691	92
Impairment Loss	1,567	60	14
Increase (Decrease) in Reserve for Possible Loan Losses	(12,919)	(2,341)	(116)
Increase (Decrease) in Reserve for Employee Bonuses	57	(4)	0
Increase (Decrease) in Reserve for Directors' Bonuses	(3)	6	(0)
Increase (Decrease) in Net Defined Benefit Liability	881	0	7
Increase (Decrease) in Reserve for Directors' Retirement Allowances	(8)	59	(0)
Interest Income	(193,754)	(220,528)	(1,746)
Interest Expenses	119,534	121,559	1,077
Net Losses (Gains) on Securities	(767)	23,339	(6)
Net Losses (Gains) on Money Held in Trust	112	128	1
Net Losses (Gains) on Foreign Exchange	(13,474)	39,214	(121)
Net Losses (Gains) on Disposal of Fixed Assets	(50)	117	(0)
Net Decrease (Increase) in Trading Assets	1,838	(18,336)	16
Net Increase (Decrease) in Trading Liabilities	5,529	(17,709)	49
Net Decrease (Increase) in Trading Receivable	-	101	-
Net Increase (Decrease) in Trading Payables	2,877	19,738	25
Net Decrease (Increase) in Loans and Bills Discounted	(86,124)	1,042,731	(776)
Net Increase (Decrease) in Deposits	710,341	1,080,842	6,401
Net Increase (Decrease) in Debentures	(221,190)	(244,510)	(1,993)
Net Increase (Decrease) in Borrowed Money (Excluding Subordinated Borrowings)	556,400	650,100	5,014
Net Decrease (Increase) in Due from Banks (Excluding Due from Central Bank)	116,589	333,793	1,050
Net Decrease (Increase) in Call Loans and Others	(302,627)	(121,024)	(2,727)
Net Decrease (Increase) in Receivables under Securities Borrowing Transactions	(7,889)	70,866	(71)
Net Increase (Decrease) in Call Money and Others	51,969	(77,538)	468
Net Increase (Decrease) in Payables under Securities Lending Transactions	(4,466)	182,054	(40)
Net Decrease (Increase) in Monetary Claims Bought	(44,372)	3,117	(399)
Net Decrease (Increase) in Foreign Exchanges (Assets)	(669)	54	(6)
Net Increase (Decrease) in Foreign Exchanges (Liabilities)	949	78	8
Net Increase (Decrease) in Due to Trust Accounts	8,650	5,015	77
Interest Received	250,883	275,967	2,261
Interest Paid	(145,715)	(142,068)	(1,313)
Other, Net	(62,350)	(516,450)	(561)
<b>Sub-total</b>	<b>803,994</b>	<b>2,561,001</b>	<b>7,245</b>
Income Taxes Paid	(11,141)	(17,362)	(100)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>792,853</b>	<b>2,543,638</b>	<b>7,145</b>
<b>Cash Flows from Investing Activities:</b>			
Acquisitions of Securities	(4,304,819)	(4,221,520)	(38,796)
Proceeds from Sale of Securities	2,297,629	2,326,190	20,706
Proceeds from Redemption of Securities	2,607,537	1,805,703	23,499
Increase in Money Held in Trust	(50,210)	(100,000)	(452)
Acquisitions of Tangible Fixed Assets	(11,835)	(1,775)	(106)
Acquisitions of Intangible Fixed Assets	(14,660)	(3,416)	(132)
Proceeds from Sales of Tangible Fixed Assets	153	-	1
Proceeds from Sales of Shares of Subsidiaries Resulting in Change in Scope of Consolidation	-	2,417	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>523,793</b>	<b>(192,401)</b>	<b>4,720</b>
<b>Cash Flows from Financing Activities:</b>			
Repayment of Subordinated Borrowings	(226,990)	(216,200)	(2,045)
Dividends Paid	(19,603)	(19,603)	(176)
Dividends Paid to Non-Controlling Interests	(66)	(66)	(0)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(246,660)</b>	<b>(235,870)</b>	<b>(2,222)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>0</b>	<b>(0)</b>	<b>0</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,069,986</b>	<b>2,115,366</b>	<b>9,642</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>11,783,706</b>	<b>9,668,340</b>	<b>106,197</b>
<b>Cash and Cash Equivalents at End of Period (Note 2 (2) )</b>	<b>12,853,693</b>	<b>11,783,706</b>	<b>115,840</b>

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

# Notes to Consolidated Financial Statements

## 1. Basis of Presentation:

The accompanying consolidated financial statements have been prepared from the accounts maintained by Shinkin Central Bank (the “Bank”) and its consolidated subsidiaries in accordance with accounting principles and practices generally accepted in Japan that are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan. The amounts in Japanese yen are presented in millions of yen by rounding down figures. As a result, the totals in yen shown in the consolidated financial statements do not necessarily agree with the sums of the individual account balances.

U.S. dollar amounts represent the arithmetical results of translating original Japanese yen amounts of the respective account balances to U.S. dollars on a basis of ¥110.96 to U.S.\$1, the exchange rate prevailing as of March 31, 2019. The amounts in U.S. dollars are presented in millions of U.S. dollars by rounding down figures. As a result, the totals in U.S. dollars shown in the consolidated financial statements do not necessarily agree with the sums of the individual account balances. The U.S. dollars amounts are included solely for the convenience of readers outside Japan and this translation should not be construed as representation that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or at any other rates.

## 2. Significant Accounting Policies:

### (1) Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its seven consolidated subsidiaries as of March 31, 2019 listed below:

Name	Location	Ownership Percentage
The Shinkin Banks Information		
System Center Co., Ltd.	Tokyo	50.7%
Shinkin International Ltd.	London	100%
Shinkin Chukin Business Co., Ltd.	Tokyo	100%
Shinkin Asset Management Co., Ltd.	Tokyo	100%
Shinkin Securities Co., Ltd.	Tokyo	100%
Shinkin Capital Co., Ltd.	Tokyo	100%
Shinkin Guarantee Co., Ltd.	Tokyo	100%

### Unconsolidated subsidiaries

Shinkin no Kizuna Investment Limited Partnership  
Shinkin no Tsubasa Investment Limited Partnership

Unconsolidated subsidiaries are excluded from the scope of consolidation because their total assets, total income, net income (amount based on the equity method), retained earnings (amount based on the equity method) and accumulated other comprehensive income (amount based on the equity method) are immaterial and do not hinder a rational judgment of the Bank’s financial condition and results of operation when excluded from the scope of consolidation.

The fiscal year and the closing date thereof for the financial statements of the consolidated subsidiaries are in agreement with those of the Bank, except for Shinkin International Ltd., which has a fiscal year ended on December 31. For the consolidation of the subsidiary, the Bank makes appropriate adjustments for any material transactions subsequent to December 31.

All significant intercompany accounts and transactions have been eliminated in consolidation. The Bank’s share of net assets of

subsidiaries is valued at fair value on acquisition. Non-controlling interests in net assets of subsidiaries are valued at fair value on acquisition in the consolidated financial statements. The excess of the cost over the fair value of the underlying net equity in subsidiaries on acquisition is expensed when incurred.

The application of equity-method to unconsolidated subsidiaries and affiliates is as follows:

Non-consolidated equity-method subsidiaries: N/A

Affiliated equity-method companies: N/A

Unconsolidated subsidiaries that are not accounted for by the equity method:

Shinkin no Kizuna Investment Limited Partnership

Shinkin no Tsubasa Investment Limited Partnership

Unconsolidated subsidiaries that are not accounted for by the equity method are excluded from the scope of equity method because their effect on the accompanying consolidated financial statements, in terms of net income (amount based on the equity method) and retained earnings (amount based on the equity method), would not be material.

Affiliated companies to which the equity method is not applied due to immateriality:

Aozora Loan Services Co., Ltd.

### (2) Cash and Cash Equivalents

In the consolidated statement of cash flows, “Cash and Cash Equivalents” consist of Cash and Due from Central Bank.

Reconciliation between Cash and Due from Banks in the consolidated balance sheet and Cash and Cash Equivalents at March 31, 2019 and 2018 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Cash and Due from Banks	13,346,876	12,393,632	120,285
Due from Banks (Excluding Due from Central Bank)	(493,182)	(609,925)	(4,444)
Cash and Cash Equivalents	12,853,693	11,783,706	115,840

### (3) Trading Assets and Liabilities

Transactions for “Trading Purposes” (for purposes of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market related indices or from gaps among markets) are included in “Trading Assets” and “Trading Liabilities” on the consolidated balance sheet on a trade date basis. In addition, gains and losses from “Trading Assets” and “Trading Liabilities” are recorded as “Trading Income” and “Trading Losses” on the consolidated statement of income on a trade date basis.

Securities and Monetary Claims Bought for trading purposes are stated at fair value at the fiscal year end. Trading-related financial derivatives such as swaps, futures and options are stated at the deemed amounts that would be received or paid for settlement if such transactions were terminated at the fiscal year end.

#### (4) Financial Instruments

##### (i) Securities

The Bank and its consolidated subsidiaries classify securities into three categories: held-to-maturity debt securities, investments in affiliates that are not accounted for by the equity method, and other securities. Held-to-maturity debt securities are stated at cost and are amortized by the straight-line depreciation method using the moving-average method. Investments in affiliates that are not accounted for by the equity method are stated at cost using the moving-average method. Stocks and investment trusts in other securities are stated based on the average quoted market price over a month preceding the balance sheet date and others are stated at fair value based on quoted market prices and other applicable information at the balance sheet date (and the cost of securities sold is mainly determined using the moving-average method). Other securities where there is significant difficulty in determining fair value are stated at cost using the moving-average method.

The full amount of net unrealized gains or losses on other securities is recorded directly within Net Assets.

Securities included as trust property in "Money Held in Trust" are stated in the same manner as above.

##### (ii) Derivative Transactions

Derivative transactions are stated at fair value.

##### (iii) Hedge Accounting

###### (a) Hedge of Interest Rate Risk

The Bank applies the deferred method of hedge accounting described in the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 24, February 13, 2002 "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" to transactions to hedge against interest rate risk arising from the financial assets and liabilities.

Effectiveness of a fair value hedge is assessed for each of the identified group of hedged items such as loans and deposits, and corresponding group of hedging instruments such as interest rate swaps with the same maturity bucket. Effectiveness of a cash flow hedge is assessed based on the correlation between an interest rate risk factor of the hedged items and that of the hedging instruments.

For certain assets and liabilities, the exceptional treatment for interest rate swaps is applied.

###### (b) Hedge of Foreign Exchange Fluctuation Risk

The deferred method of hedge accounting is applied to transactions to hedge against foreign exchange fluctuation risks associated with monetary assets and liabilities denominated in foreign currencies in accordance with the regulations set forth in JICPA Industry Audit Committee Report No. 25, July 29, 2002 "Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry".

To minimize foreign exchange fluctuation risk on monetary assets and liabilities, the Bank has engaged in currency swaps, foreign exchange swaps, and similar transactions. Effectiveness of these transactions in the hedging of foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed through comparison of the foreign currency position of the hedged monetary assets and liabilities and that of the hedging instruments.

The Bank has also applied fair value hedge accounting to the foreign exchange risk of other securities in foreign currency (other than bonds) when the hedged foreign currency securities are specified

prior to the commencement of transactions, and there exists spot and forward liabilities exceeding the acquisition costs of the foreign currency securities designated as hedged items on a foreign currency basis.

##### (c) Internal Derivative Transactions

Internal derivative transactions between trading accounts and other accounts, which are designated as hedges, are not eliminated and related gains and losses are recognized in the consolidated statement of income or deferred under hedge accounting because the internal interest rate swaps and currency swaps transactions, etc. designated as hedging instruments are conducted in a manner without any subjection and are appropriately covered by third party transactions conducted in accordance with the standard articulated by JICPA Industry Audit Committee Reports No. 24 and No. 25.

##### (5) Tangible Fixed Assets (excluding Leased Assets)

Tangible fixed assets of the Bank are depreciated by the declining balance method. However, buildings acquired on or after April 1, 1998 (excluding facilities installed in buildings), and facilities installed in buildings and structures that are acquired on or after April 1, 2016, are depreciated by the straight-line method.

The estimated useful lives of major items are as follows:

Buildings ..... 5 to 50 years

Others ..... 3 to 20 years

Tangible fixed assets of consolidated subsidiaries are, in principle, depreciated by the declining balance method, based on their estimated useful lives.

##### (6) Intangible Fixed Assets (excluding Leased Assets)

Intangible fixed assets are amortized by the straight-line method. The costs of software for internal use are amortized by the straight-line method, mainly 5 year period (the estimated useful life of the software).

##### (7) Leased Assets

Leased assets of Tangible Fixed Assets and Intangible Fixed Assets related to finance leases that do not transfer ownership are depreciated by the straight-line method with estimated useful lives equal to lease terms, and zero residual values.

##### (8) Deferred Debenture Charges

Debenture charges are expensed in the fiscal year of issuance.

##### (9) Reserve for Possible Loan Losses

Reserve for possible loan losses of the Bank is provided in accordance with the Bank's predetermined internal rules for write-offs and provisions as follows:

The reserve for loans to borrowers who are classified as substantially bankrupt or who are bankrupt in the legal sense is provided at 100% of the amount remaining after write-offs and deduction of expected collection from the realization of collateral and the execution of guarantees. In addition, a reserve is provided for loans to borrowers who, although not actually go bankrupt in the legal sense, are experiencing serious financial difficulties and whose failure is imminent. In such cases, the reserve is provided at the amount deemed necessary based on the borrower's capability of repayment after deduction of expected collection from the realization of collateral and the execution of guarantees.

The Bank calculates the reserve by the cash flow estimate method to those borrowers who owe the debts classified as Loans to Probably Bankrupt Borrowers and Restructured Loans by the Bank,

whose total credit exceeds a certain amount and also the cash flow related to collection of the principal and interests from whom can be estimated. The cash flow estimate method is to determine the amount of reserve for possible loan losses from the gap between the amounts calculated by discounting the cash flow by the contracted interest rate prior to restructuring of terms and conditions of loans and their book values.

For all other loans, a reserve is provided based on the ratio of historical experiences for similar type of loans for a certain period in the past.

All claims are assessed by the Operating Related Division based on internal rules for self-assessments of asset quality. Subsequently, the Asset Auditing Division, that is independent from the Operating Related Division, audits these self-assessments. The reserve is provided based on the results of the assessments.

For loans to Bankrupt Borrowers and Substantially Bankrupt Borrowers, amounts deemed uncollectible, which are calculated after deduction of expected collection from the realization of collateral and the execution of guarantees, are written off. The amount written off was ¥355 million (\$3 million) as of March 31, 2019 and ¥199 million as of March 31, 2018.

Reserve for possible loan losses of the consolidated subsidiaries for general claims is provided as the amounts deemed necessary based on the default rate calculated from actual default during a certain period in the past, and for doubtful claims as the amounts deemed uncollectible based on the assessment of each claim.

#### (10) Reserve for Employee Bonuses

Reserve for Employee Bonuses is set aside to pay employee bonuses with respect to the portion of estimated bonus payments to employees that correspond to this fiscal year.

#### (11) Reserve for Directors' Bonuses

Reserve for Directors' Bonuses is set aside to pay directors and corporate auditors bonuses with respect to the portion of estimated bonus payments to directors and corporate auditors that correspond to this fiscal year.

#### (12) Reserve for Directors' Retirement Allowances

Reserve for Directors' Retirement Allowances provided for by the Bank is calculated based on the estimated allowances to be paid up to the end of this fiscal year.

#### (13) Reserve under Specific Law

This reserve amount is calculated pursuant to Article 46-5, Paragraph 1 of the "Financial Instruments and Exchange Act" and Article 175 of the "Cabinet Office Ordinance on Financial Instruments Business" to indemnify any losses incurred from accidents in the conduct of market derivative transactions on behalf of clients.

#### (14) Employees' Retirement Benefits

The Bank accounted for retirement benefit obligation based on the projected benefit obligations. The projected benefit obligations are attributed to periods on a benefit formula basis. The methods for amortizing prior service costs and actuarial differences are as follows: Prior service costs:

Prior service costs are amortized, using the straight-line method over a certain number of years (10 years) within the average remaining service period of current employees at the time the cost is incurred.

#### Actuarial differences:

Actuarial differences are amortized from the following year, using the straight-line method over a certain number of years (10 years) within the average remaining service period of current employees at each time the cost is incurred.

Also, certain consolidated subsidiaries calculate the net defined benefit liability and retirement benefit cost using the simplified method which assumes the retirement benefit obligation to be equal to the amount necessary to pay for the voluntary resignation for all employees at the fiscal year-end.

#### (15) Translation of Foreign Currency-Denominated Assets and Liabilities

Foreign currency-denominated assets and liabilities are translated into Japanese yen at exchange rates prevailing at the end of the fiscal year. Foreign currency-denominated assets and liabilities of consolidated subsidiaries are translated into Japanese yen at exchange rates prevailing at the end of the fiscal year.

#### (16) Consumption Tax

National and local consumption tax incurred by the Bank and its domestic consolidated subsidiaries are excluded from transaction amounts. However, national and local consumption tax paid on purchases of tangible fixed assets and intangible fixed assets, which are not deductible as a tax credit, are expensed in this fiscal year.

#### (17) Amortization of Goodwill

Goodwill is fully amortized in the fiscal year incurred.

#### (18) Accounting Standards Issued but not yet Adopted

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued on March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 30, 2018)

##### (i) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

Step 1: Identify the contracts with a customer

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations

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

##### (ii) Date of adoption

The Bank expects to adopt this implementation guidance and others to the consolidated financial statements from the beginning of the fiscal year beginning on April 1, 2021.

##### (iii) Effects of the adoption of the accounting standards and guidance

The Bank is evaluating the effect of the adoption of this implementation guidance and others on its consolidated financial statements.

### 3. Trading Assets:

The details of Trading Assets as of March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Trading Account Securities	42,721	33,191	385
Trading Bonds-Related Financial Derivatives	10	5	0
Derivatives of Securities related to Trading Transactions	6	—	0
Trading-Related Financial Derivatives	31,824	36,198	286
Other Trading Assets	174,023	181,029	1,568
Total	248,586	250,424	2,240

### 4. Securities:

The details of Securities as of March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Japanese Government Bonds	4,797,166	6,366,353	43,233
Municipal Government Bonds	1,087,576	811,316	9,801
Short-Term Corporate Bonds	45,015	40,008	405
Corporate Bonds	4,704,289	4,349,349	42,396
Stocks	84,946	73,410	765
Others	5,864,673	5,467,997	52,853
Total	16,583,668	17,108,434	149,456

Notes:

1. Stocks include investments in affiliated companies totaling ¥189 million (\$1 million) as of March 31, 2019 and 2018.
2. Others include common shares and investment in unconsolidated subsidiaries totaling ¥9,181 million (\$82 million) as of March 31, 2019 and ¥10,161 million as of March 31, 2018. Others also include preferred shares issued by Shinkin Banks which were contributed in accordance with the Shinkin Bank Management Reinforcement System. The amount was ¥183,324 million (\$1,652 million) as of March 31, 2019 and ¥202,525 million as of March 31, 2018. Others also include foreign bonds and equities.

### 5. Loans and Bills Discounted:

Loans and Bills Discounted include the following non-performing loans:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Loans to Bankrupt Borrowers	82	93	0
Delinquent Loans	4,351	11,227	39
Loans Past Due Three Months or More	36	77	0
Restructured Loans	19,871	30,490	179
Total	24,341	41,889	219

The above amounts are the amounts before exclusion of reserves for possible loan losses.

Loans to Bankrupt Borrowers represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96, Paragraph 1, Item 3 (a)-(e) or Item 4 of the “Order for Enforcement of the Corporation Tax Act” (Cabinet Order No. 97 of 1965).

Delinquent Loans represent non-accrual loans other than Loans to Bankrupt Borrowers and certain Restructured Loans with moratorium on interest payments.

Loans Past Due Three Months or More represent loans for which the principal and interests are past due three months or more other than Loans to Bankrupt Borrowers and Delinquent Loans.

Restructured Loans represent loans on which contracts were modified in favor of the borrowers (e.g. the reduction of or exemption from stated interests, the deferral of interest payments, the extension of maturity dates, and the renunciation of claims in order to assist or facilitate the business restructuring of borrowers under financial difficulties) other than Loans to Bankrupt Borrowers, Delinquent Loans and Loans Past Due Three Months or More.

Loans include subordinated loans with a lower priority for repayment of principal and interests than that of other debt claims. The amount was ¥16,500 million (\$148 million) as of March 31, 2019 and ¥19,200 million as of March 31, 2018. Of these amounts, ¥2,000 million (\$18 million) as of March 31, 2019, and ¥4,700 million as of March 31, 2018, were provided to Shinkin Banks in accordance with the Shinkin Bank Management Reinforcement System.

Bills Discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24, February 13, 2002 “Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry”. The face value of bills of lading amounted to ¥206 million (\$1 million) as of March 31, 2019 and ¥186 million as of March 31, 2018. The Bank has the right to freely dispose of, sell or re-hypothecate such bills.

With respect to loan participation, in accordance with “Accounting and Presentation of Loan Participation” (JICPA Accounting Committee Report No. 3, November 28, 2014), the amount of the participation principal is accounted for as a loan to the original debtor, and this amounted to ¥18,067 million (\$162 million) as of March 31, 2019 and ¥22,335 million as of March 31, 2018.

**6. Commitments to Overdrafts and Loans:**

Commitments related to overdrafts and loans represent agreements to extend overdrafts or loans up to a pre-agreed amount at the customer's request as long as there is no violation of the conditions stipulated in commitment agreements.

The amount of unused loan commitments may not necessarily have a significant effect on the future cash flows of the Bank because most of these loan commitments expire without being drawn down. Most of these agreements have provisions which stipulate that the Bank may not extend the loan or may decrease the amount of commitment when there are certain changes in the financial conditions, certain issues relating to credit protection and other reasons. The Bank limits the commitment to an amount not exceeding the amount of the related customer's time deposit. The Bank periodically checks the financial condition of its customers based on its internal rules and performs certain actions to secure loans or revises the contracts, as necessary.

The amounts of unused loan commitments are ¥25,277,846 million (\$227,810 million) as of March 31, 2019 and ¥24,111,394 million as of March 31, 2018.

The amounts which the Bank could unconditionally cancel at any time or of which the original contractual maturity is less than one year are ¥25,163,792 million (\$226,782 million) as of March 31, 2019 and ¥24,028,554 million as of March 31, 2018.

**7. Special Contracts for Securities and Cash-Collateralized Securities Lending and Borrowings:**

Securities lending based on non-collateralized special contracts (securities lending and borrowings) are stated as Japanese Government Bonds in "Securities". The amount in total was ¥349,299 million (\$3,147 million) as of March 31, 2019 and ¥397,919 million as of March 31, 2018.

Of repurchase agreement and cash-collateralized securities borrowings, those freely disposable for sale or re-hypothecated, and pledged as collateral amounted to ¥538 million (\$4 million) as of March 31, 2019 and ¥219 million as of March 31, 2018. Those held by the Bank without being disposed of as of March 31, 2019 amounted to ¥55,630 million (\$501 million) and as of March 31, 2018 amounted to ¥131,192 million.

**8. Tangible Fixed Assets:**

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Accumulated Depreciation on Tangible Fixed Assets	93,113	95,680	839
Accumulated Deferred Gains on Tangible Fixed Assets	1,764	1,764	15
(Deferred Gains recognized for the fiscal year)	(—)	(—)	(—)

**9. Assets Pledged as Collateral and Associated Liabilities:**

Assets pledged as collateral for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
<b>Assets Pledged as Collateral</b>			
Trading Assets	13,036	16,722	117
Securities	3,991,073	3,395,029	35,968
Loans and Bills Discounted	1,421,820	1,717,394	12,813
Total	5,425,930	5,129,146	48,899
<b>Liabilities associated with Assets Pledged as Collateral</b>			
Borrowed Money	1,804,700	1,248,300	16,264
Payables under Repurchase Agreements	152,777	98,373	1,376
Payables under Securities Lending Transactions	1,784,010	1,788,791	16,077

Trading Assets of ¥501 million (\$4 million) as of March 31, 2019 and ¥1,203 million as of March 31, 2018 and Securities in the amount of ¥154,011 million (\$1,387 million) as of March 31, 2019 and ¥125,123 million as of March 31, 2018, were secured as collateral for exchange settlement transactions, etc. or as substitute for margin in futures transactions, etc.

Other assets include Guarantee Money, Cash Collateral Pledged for Financial Instruments, Clearing Margin Deposits for Central Counterparty, and Cash Collateral Pledged for Repurchase Agreement. The amounts are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Guarantee Money	328	335	2
Cash Collateral Pledged for Financial Instruments	182,652	170,786	1,646
Clearing Margin Deposits for Central Counterparty	700,000	684,438	6,308
Cash Collateral Pledged for Repurchase Agreement	500	—	4

**10. Trading Liabilities:**

The details of Trading Liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Trading Bonds Sold	23,597	12,753	212
Trading-Related Financial Derivatives	48,568	53,882	437
Total	72,165	66,636	650

# 11. Borrowed Money and Lease Obligations:

Category	Balance as of April 1, 2018 (Millions of Yen)	Balance as of March 31, 2019 (Millions of Yen)	Balance as of March 31, 2019 (Millions of U.S. Dollars)	Average Interest Rate (%)	Maturity
Borrowings	1,637,770	1,967,180	17,728	0.09	—
Borrowed Money	1,637,770	1,967,180	17,728	0.09	July 2019- Mar. 2029
Lease Obligations Due for Repayment within One Year	813	812	7	0.92	—
Lease Obligations (Excluding Those Due for Repayment within One Year)	559	756	6	2.39	May 2020- Jan. 2025

Notes:

1. Average interest rates were computed by the weighted average method using the interest rates and the balances at the fiscal year-end.
2. The repayment schedule within 5 years after the balance sheet date is as follows:

	Millions of Yen				
	Within 1 year	Over 1 year, within 2 years	Over 2 years, within 3 years	Over 3 years, within 4 years	Over 4 years, within 5 years
Borrowed Money	134,300	468,000	646,000	556,400	—
Lease Obligations	812	231	232	135	118

	Millions of U.S. Dollars				
	Within 1 year	Over 1 year, within 2 years	Over 2 years, within 3 years	Over 3 years, within 4 years	Over 4 years, within 5 years
Borrowed Money	1,210	4,217	5,821	5,014	—
Lease Obligations	7	2	2	1	1

3. Borrowed Money includes subordinated borrowings of ¥162,480 million (\$1,464 million) as of March 31, 2019 and ¥389,470 million as of March 31, 2018.

# 12. Debentures:

Issuer	Name of Issue	Issuance Date	Balance as of April 1, 2018 (Millions of Yen)	Balance as of March 31, 2019 (Millions of Yen)	Balance as of March 31, 2019 (Millions of U.S. Dollars)	Coupon Rate (%)	Collateral	Redemption Date
The Bank	No. 281-352 5-year Interest-bearing debentures	Apr. 2013- Mar. 2019	2,675,490	2,454,300	22,118	0.01- 0.40	—	Apr. 2018- Mar. 2024
The Bank	No. 2 7-year Interest-bearing debentures	Sep. 25, 2015	10,000	10,000	90	0.29	—	Sep. 27, 2022
The Bank	No. 2 10-year Interest-bearing debentures	Sep. 25, 2015	20,000	20,000	180	0.52	—	Sep. 26, 2025
Total	—	—	2,705,490	2,484,300	22,389	—	—	—

Note:

The redemption schedule within 5 years after the balance sheet date is as follows:

Millions of Yen				
Within 1 year	Over 1 year, within 2 years	Over 2 years, within 3 years	Over 3 years, within 4 years	Over 4 years, within 5 years
637,930	598,460	476,330	351,650	399,930

Millions of U.S. Dollars				
Within 1 year	Over 1 year, within 2 years	Over 2 years, within 3 years	Over 3 years, within 4 years	Over 4 years, within 5 years
5,749	5,393	4,292	3,169	3,604

**13. Asset Retirement Obligations:**

The details of Asset Retirement Obligations were omitted because the amount was one-hundredth or less of the total balance of Liabilities and Net Assets as of April 1, 2018 and as of March 31, 2019.

**14. Land Revaluation:**

Based on the “Act on the Revaluation of Land” (Act No. 34, promulgated on March 31, 1998), land used for business was revalued. Deferred tax on the revaluation of the land was recorded as “Deferred Tax Liabilities for Land Revaluation” under Liabilities, and unrealized gain on the revaluation of the land, net of deferred tax, was recorded as “Land Revaluation Excess” under Net Assets.

Date of Revaluation: March 31, 1999

Revaluation method in accordance with Article 3, Paragraph 3 of Act No. 34: Revaluations were made based on the method, determined by the Commissioner of the National Tax Administration, which formed the basis for calculating land value taxes (prescribed by the “Land Value Tax Law”), as set forth in Article 2, Item 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Government Ordinance No. 119, dated March 31, 1998), with appropriate adjustments.

**15. Trusts with contracts:**

The details of principal amounts of trusts with contracts for compensation of principal for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Money Trust	13,724	5,054	123

**16. Fees and Commissions:**

The details of Fees and Commissions for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Deposit, Fixed Income Securities and Lending	517	533	4
Exchange Business	400	412	3
Securities Related Business	9,505	9,371	85
Agency Business	2,128	2,156	19
Guarantee Business	10,705	10,376	96
Trustee Business	19,691	19,395	177
Others	721	534	6
Income on Fees and Commissions Businesses	43,670	42,779	393
Exchange	221	223	1
Others	15,537	15,163	140
Expenses on Fees and Commissions Businesses	15,758	15,386	142

**17. Trading Income:**

The details of Trading Income for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Income from Trading Account Securities	351	303	3
Income from Trading-Related Securities	—	—	—
Income from Trading-Related Financial Derivatives	3,690	3,579	33
Other Trading Income	36	21	0
Total	4,078	3,904	36

**18. Trading Losses:**

The details of Trading Losses for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Expenses from Trading-Related Securities	316	133	2
Total	316	133	2

**19. Other Income:**

The details of Other Income for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Gains on Sale of Stocks and Other Securities	5,259	10,375	47
Gain on Sales of Shares of Subsidiaries	—	2,200	—
Reversal of Allowance for Loan Losses	12,727	2,341	114
Others	117	5	1
Total	18,104	14,922	163

**20. Other Expenses:**

The details of Other Expenses for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Losses on Sale of Stocks and Other Securities	471	752	4
Impairment Losses on Fixed Assets (*)	1,567	60	14
Others	156	250	1
Total	2,195	1,063	19

(\*) Impairment losses on fixed assets:

Each business location such as head office, the assets used in the head office, facilities for employee welfare and branch office are the smallest unit of asset group. Each consolidated subsidiary is treated as a single unit for the asset grouping.

Certain facilities and other assets are designated to be disposed due to obsolescence or other factors. The carrying amount is reduced to the recoverable amount and the reduction amount is recorded as impairment losses as below. The recoverable amount used for measurement of impairment losses is the net selling value and this is derived from real estate appraisal value and others.

For the fiscal year ended March 31, 2019

Location	Principal Use	Category	Millions of Yen	Millions of U.S. Dollars
Kanagawa Prefecture, and others	Employee housing	Land and buildings	1,567	14

For the fiscal year ended March 31, 2018

Data omitted due to immateriality.

**21. Consolidated Statement of Comprehensive Income:**

For the fiscal years ended March 31, 2019 and 2018

Reclassification adjustment amount and tax effect amount related to Other Comprehensive Income

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Net Unrealized Gains (Losses) on Other Securities:			
The Amount Arising during the Period	33,048	(99,316)	297
Reclassification Adjustment Amount	368	31,137	3
Prior to Tax Effect Adjustment	33,416	(68,179)	301
Tax Effect Amount	(9,542)	19,057	(86)
Net Unrealized Gains (Losses) on Other Securities	23,874	(49,122)	215
Deferred Gains or Losses on Hedges:			
The Amount Arising during the Period	(65,666)	(6,565)	(591)
Reclassification Adjustment Amount	43,022	37,648	387
Prior to Tax Effect Adjustment	(22,643)	31,082	(204)
Tax Effect Amount	6,315	(8,681)	56
Deferred Gains or Losses on Hedges	(16,328)	22,401	(147)
Land Revaluation Excess:			
The Amount Arising during the Period	—	—	—
Reclassification Adjustment Amount	—	—	—
Prior to Tax Effect Adjustment	—	—	—
Tax Effect Amount	13	0	0
Land Revaluation Excess	13	0	0
Foreign Currency Translation Adjustments:			
The Amount Arising during the Period	(534)	398	(4)
Reclassification Adjustment Amount	—	—	—
Prior to Tax Effect Adjustment	—	—	—
Tax Effect Amount	—	—	—
Foreign Currency Translation Adjustments	(534)	398	(4)
Remeasurements of Defined Benefit Plans:			
The Amount Arising during the Period	(609)	494	(5)
Reclassification Adjustment Amount	1,802	1,976	16
Prior to Tax Effect Adjustment	1,193	2,470	10
Tax Effect Amount	(344)	(708)	(3)
Remeasurements of Defined Benefit Plans	848	1,762	7
Other Comprehensive Income	7,873	(24,559)	70

## 22. Changes in Net Assets:

### (1) Class and Number of Shares Outstanding, and Class and Number of Shares of Treasury Shares

	Number of Share Units at April 1, 2018 (Thousand Units)	Increase During the Fiscal Year (Thousand Units)	Decrease During the Fiscal Year (Thousand Units)	Number of Share Units at March 31, 2019 (Thousand Units)
Shares Outstanding				
General Common Shares	4,000	—	—	4,000
Specific Common Shares	2,000	—	—	2,000
Preferred Shares (Type-A)	708	—	—	708
Total	6,708	—	—	6,708
Treasury Shares				
General Common Shares	—	—	—	—
Specific Common Shares	—	—	—	—
Preferred Shares (Type-A)	—	—	—	—
Total	—	—	—	—

### (2) Dividends

Dividends paid during the fiscal year ended March 31, 2019

Resolution	Class of Share	Total Dividend Amount (Million Yen)	Amount Per Share (Yen)	Record Date	Effective Date
Annual General Meeting of Shareholders, June 20, 2018	General Common Shares	12,000	3,000	March 31, 2018	June 20, 2018
	Specific Common Shares	3,000	1,500	March 31, 2018	June 20, 2018
	Preferred Shares (Type-A)	4,603	6,500	March 31, 2018	June 20, 2018

Among the dividends whose record date falls within the fiscal year ended March 31, 2019, those whose effective date will fall within the following fiscal year:

Resolution	Class of Share	Total Dividend Amount (Million Yen)	Resource of Dividends	Amount Per Share (Yen)	Record Date	Effective Date
Annual General Meeting of Shareholders, June 19, 2019	General Common Shares	12,000	Retained Earnings	3,000	March 31, 2019	June 19, 2019
	Specific Common Shares	3,000	Retained Earnings	1,500	March 31, 2019	June 19, 2019
	Preferred Shares (Type-A)	4,603	Retained Earnings	6,500	March 31, 2019	June 19, 2019

### 23. Income Taxes:

(1) Breakdown of Deferred Tax Assets and Liabilities is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
<b>Deferred Tax Assets:</b>			
Depreciation	2,949	2,907	26
Reserve for Possible Loan Losses	1,701	5,558	15
Net Defined Benefit Liability	12,257	12,004	110
Write-Downs for Securities	1,458	1,482	13
Deferred Gains or Losses on Hedges	25,809	19,494	232
Tax Loss Carryforwards	—	2	—
Others	4,105	3,137	37
Valuation Allowances	(3,212)	(3,210)	(28)
Total Deferred Tax Assets	45,070	41,377	406
<b>Deferred Tax Liabilities:</b>			
Net Unrealized Gains on Other Securities	(124,809)	(115,268)	(1,124)
Others	(445)	(435)	(4)
Total Deferred Tax Liabilities	(125,254)	(115,703)	(1,128)
Net Deferred Tax Liabilities	(80,184)	(74,326)	(722)

(2) Reconciliation between the effective statutory tax rate and the actual effective tax rate for the fiscal years ended March 31, 2019 and 2018:

	2019	2018
Statutory effective tax rate	27.92 %	— %
(Adjustments)		
Change in Valuation Allowances	0.00 %	— %
Dividends received, not taxable	(1.01 %)	— %
Others	(0.63 %)	— %
Actual effective income tax rate after the application of tax effect accounting	26.28 %	— %

Note:

In the previous fiscal year, since the difference between the statutory effective tax rate and the actual effective income tax rate after the application of tax effect accounting was less than 5% of the statutory effective tax rate, notes on this are omitted.

(3) Amendments to the amounts of deferred tax assets and deferred tax liabilities owing to the changes in corporate tax rates

The “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 2 of 2019) is enacted on March 27, 2019, and the rate of corporate enterprise tax was reduced as a special corporate enterprise tax is to be established in the fiscal year beginning on or after October 1, 2019. As a result, the effective statutory tax rate used to measure the Bank’s deferred tax assets and liabilities, relating to the temporary differences expected to be reversed in the fiscal year beginning April 1, 2020 onwards and is changed from 27.93% to 27.92%.

There is no significant impact on the consolidated financial statements as a result of this change of tax rate.

### 24. Retirement Benefit Plans:

(1) Retirement Benefit Scheme

The Bank and some of its consolidated domestic subsidiaries have a defined benefit plan that offers lump-sum payments upon retirement and contributes to the Employees’ Pension Fund for all shinkin banks nationwide.

With regard to notes related to employees’ retirement benefits based on a multiple-employer plan, they are included in notes related to employees’ retirement benefits based on a defined benefit plan.

(2) Defined Benefit Plan as of March 31, 2019 and 2018 is as follows:

(i) Reconciliation of beginning- and end-of-period balance of Retirement Benefit Obligation

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Retirement Benefit Obligation at Beginning of Period	64,366	63,454	580
Service Cost	2,972	3,013	26
Interest Cost	247	244	2
Actuarial Difference Incurred	(478)	(568)	(4)
Retirement Benefits Paid	(1,781)	(1,777)	(16)
Prior Service Cost	—	—	—
Other	—	—	—
Retirement Benefit Obligation at End of Period	65,325	64,366	588

(ii) Reconciliation of beginning- and end-of-period balance of Pension Plan Assets

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Balance of Pension Plan Assets at Beginning of Period	22,841	21,929	205
Expected Return on Pension Plan Assets	685	438	6
Actuarial Difference Incurred	(1,088)	(74)	(9)
Contributions by the Employer and Employees	1,499	1,491	13
Retirement Benefits Paid	(1,018)	(944)	(9)
Other	—	—	—
Balance of Pension Plan Assets at End of Period	22,919	22,841	206

(iii) Reconciliation of end-of-period balance of Retirement Benefit Obligation and Pension Plan Assets with Net Defined Benefit Liability and Net Defined Benefit Asset presented on the consolidated balance sheet

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Funded Plan Retirement Benefit Obligation	53,866	53,018	485
Pension Plan Assets	(22,919)	(22,841)	(206)
	30,946	30,177	278
Unfunded Plan Retirement Benefit Obligation	11,459	11,347	103
Net Amount of Liabilities and Assets Presented on the Consolidated Balance Sheet	42,406	41,525	382
	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Net Defined Benefit Liability	42,406	41,525	382
Net Defined Benefit Asset	—	—	—
Net Amount of Liabilities and Assets Presented on the Consolidated Balance Sheet	42,406	41,525	382

(iv) Breakdown of Retirement Benefit Expense

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Service Cost	2,972	3,013	26
Interest Cost	247	244	2
Expected Return on Pension Plan Assets	(685)	(438)	(6)
Amortization of Actuarial Differences	1,802	1,976	16
Amortization of Prior Service Cost	—	—	—
Other	(556)	(548)	(5)
Retirement Benefit Expenses Related to Defined Benefit Plan	3,780	4,247	34

Note:

Other includes the employee contribution amount to the Employees' Pension Fund.

(v) Remeasurements of Defined Benefit Plan

Remeasurements of Defined Benefit Plan (before tax effects) comprise the following.

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Prior Service Cost	—	—	—
Actuarial Differences	1,193	2,470	10
Other	—	—	—
Total	1,193	2,470	10

(vi) Accumulated Remeasurements of Defined Benefit Plan

Accumulated Remeasurements of Defined Benefit Plan (before tax effects) comprise the following.

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Unrecognized Prior Service Cost	—	—	—
Unrecognized Actuarial Differences	10,479	11,673	94
Other	—	—	—
Total	10,479	11,673	94

(vii) Pension Plan Assets

(a) The ratios by main asset categories in total pension plan assets are as follows:

	2019	2018
Bonds	63 %	62 %
Stocks	27 %	27 %
Cash and Deposits	7 %	8 %
Other	3 %	3 %
Total	100 %	100 %

(b) Method for setting the Expected Long-Term Rate of Return

To set the Expected Long-Term Rate of Return on Pension Plan Assets, the Bank takes into account past return performance and the current and future expected rate of return on the diverse range of assets that makes up the pension assets.

(viii) Underlying actuarial assumptions

Main underlying actuarial assumptions as of March 31, 2019 and 2018 are as follows:

	2019	2018
Discount Rate	0.0~0.6 %	0.0~0.6 %
Expected Long-Term Rate of Return on Pension Plan Assets	3.0 %	2.0 %
Estimated Rate of Salary Increase	0.0~7.4 %	0.0~7.4 %

**25. Leases:**

1. Finance Leases

(1) Finance leases that do not transfer ownership

(i) Outline of lease assets

(a) Tangible fixed assets

Hardware related to computer equipment

(b) Intangible fixed assets

Software related to computer equipment

(ii) Lease asset depreciation method

Depreciation method is described in the “Significant Accounting Policies”.

(2) Finance leases that do not transfer ownership accounted for in accordance with the ordinary lease transaction method

Data omitted due to immateriality.

2. Operating Leases

Future lease payments related to non-cancelable operating leases:

Data omitted due to immateriality.

**26. Financial Instruments:**

**1. Matters concerning financial instruments**

(1) Policies on financial instruments

Shinkin Central Bank Group (the “Group”) works to ensure the stable funding through the acceptance of deposits mainly from its Shinkin Bank members and through the issuance of debentures. Additionally, the Group takes steps to diversify its funding methods by procuring funds from short-term money markets depending on market conditions.

Procured funds are invested in short-term money market instruments, marketable securities, and loans.

Moreover, the Group uses derivative transactions for the purpose of risk-hedging in ALM (asset liability management) activities and engages in short-term trading of securities and derivatives.

To appropriately manage the various risks that result from these financial instruments, the Group engages in ALM activities including the above-mentioned derivative transactions. For its trading activities, the Group establishes risk limit and loss cut limits amounts and engages in transactions within the scopes of these risk limits, as a way to maintain a financial soundness and to ensure stable earnings.

(2) Types and related risks of financial instruments

Financial assets held by the Group consist mainly of short-term funds, securities, and loans assets.

Short-term funds are invested in the call loan.

These investments are exposed to the counterparty credit risk, and market risks such as interest rate risk and foreign currency exchange risk.

Securities portfolios of the Group consist of domestic securities including Japanese government bonds (JGBs), corporate bonds and other bonds as well as foreign securities such as government bonds, government-guaranteed bonds, and agency bonds issued in the major industrialized countries. The Group also invests in equity securities and investment funds to diversify its portfolio.

These investments are exposed to the individual issuers’ credit risk as well as market risks such as interest rate risk, price fluctuation risk, and foreign currency exchange risk, and market liquidity risk.

Loans assets consist of direct loans to low-risk borrowers including Shinkin Banks, central and local governments, public service corporations, good standing domestic and overseas companies, and agency loans provided through Shinkin Banks.

These loans are exposed to counterparty credit risk, and market risks such as interest rate risk and foreign currency exchange risk.

Meanwhile, financial liabilities of the Group consist mainly of deposits and debentures.

Deposits include current deposits, ordinary deposits, deposits at notice, term deposits, and foreign currency-denominated deposits, most of which are deposits from Shinkin Bank members.

These deposits are exposed to market risks such as interest rate risk and foreign currency exchange risk, and liquidity risk.

As a debenture issuer, the Group issues interest-bearing debentures.

These debentures are exposed to interest rate risk and liquidity risk.

Furthermore, the Group engages in derivative transactions.

Specifically, the Group trades interest rate derivatives (interest swaps, interest futures, and interest options), currency derivatives (foreign currency forwards and currency swaps) and bond derivatives (bond futures and bond futures options).

These transactions are exposed to counterparty credit risk, and market risks such as interest rate risk and foreign currency exchange risk.

The Bank hedges market risks of its financial assets and liabilities through ALM activities.

The Group partially avoids exposure to market risks by mitigating (i) interest rate risk through interest rate swaps and (ii) foreign currency exchange risk of foreign currency-denominated assets through foreign currency-denominated funding, currency swaps, and forex swaps.

Hedge accounting is applied to risk hedging through ALM activities including the use of derivatives. With regard to hedge accounting, hedging instruments, hedged items, hedging policies, and methods of hedge effectiveness assessment, etc. are described in the “Significant Accounting Policies”.

### (3) Risk management frameworks of financial instruments

The basic policies for risk management of the Bank are broadly divided into “risks to be minimized” and “risks to be controlled”. Credit risk, market risks, and liquidity risks fall into the latter category. Both categorized risks are managed by risk management divisions that are independent of the client service divisions. The Risk Management Division comprehensively manages these risks.

#### <Integrated risk management>

For the integrated management of risks, the Bank has introduced integrated risk management for quantifiable risks. Integrated risk management is a risk management method of measuring various risks using a uniform risk measure such as Value at Risk (VaR), aggregating the measurements, and comparing the aggregated amounts with the Bank’s capital. The Bank measures credit risks and market risks using VaR methodology, and monitors this on a daily basis to prevent risk limits from being breached.

These risk limit amounts are reviewed each fiscal year by the Risk Management Committee and determined at the Executive Committee. The values of risk are measured weekly by the Risk Management Division, which takes steps to prevent any of the various risk limits from being breached, and through the Risk Management Committee, reports regularly to the management and relevant divisions.

The values of risk at consolidated subsidiaries are aggregated and managed through the integrated risk management framework.

#### (i) Credit risk management

For the accurate identification and strict management of credit risk, the Bank has established credit risk management policies. Moreover, the Bank has created a structure in which divisions responsible for credit control, credit management and credit assessment are clearly segregated from divisions involved in client services, with mutually independent tasks to ensure effective internal checking functions.

The Bank established the Credit Committee and the Risk Management Committee, comprised of senior management and heads of divisions related to credit risk, as bodies to deliberate and make decisions on matters relating to credit risk management. The Credit Committee deliberates on credit transactions that exceed the credit

limit, while the Risk Management Committee deliberates on the establishment and the review of policies regarding credit management. The Executive Committee deliberates and makes decisions on matters related to asset self-assessments including the results of asset self-assessments, asset write-offs and asset reserve provisions.

Divisions responsible for credit control manage the credit risk for each borrower relating to loans and market trading activities. An overall credit limit is set for each borrower according to the credit rating of the borrower. These divisions analyze the Bank’s overall credit portfolio according to credit rating, industry, country and other criteria. These analyses are used to monitor the diversification of credit risk as well as changes in portfolio credit risk. Additionally, divisions responsible for credit control quantify credit risk in VaR methodology using Monte Carlo simulation methods and manage credit risks based on the limits set at the Executive Committee.

Divisions responsible for credit management accurately monitor each borrower’s financial condition, the purposes for which funds are used and repayment resources. In addition to appropriate assessment and post-transaction management, these divisions continually check whether the client service divisions are conducting appropriate credit control, and provide guidance as necessary.

Divisions responsible for credit assessment undertake and manage operations relating to asset self-assessments, and the calculation of asset write-offs and asset reserve provisions.

Credit risks of consolidated subsidiaries are added to the credit risk of the Bank by each borrower and monitored.

#### (ii) Market risk management

To maintain an accurate understanding of market risk and rigorously manage this risk, the Bank has issued a market risk management policy. Furthermore, divisions responsible for market risk management are clearly separated from divisions involved in market operations, providing a risk management structure in which internal checks are maintained through independent functions.

The Bank has established the ALM Committee as the body responsible for deliberating and making decisions on matters relating to market risk management. The ALM Committee is comprised of senior management and heads of divisions related to market risk. Based on risk status information—obtained via reports from divisions responsible for market risk management and other sources—the ALM Committee deliberates broadly and in a timely manner ALM related policies and market transactions including the Bank’s fund-raising and management as well as the usage of hedging transactions involving derivatives such as interest rate swaps.

Divisions responsible for market risk management quantify and manage market risk mainly by VaR within the limit set by the Executive Committee. In addition, market risk is classified into several categories, and the amount of risk for each category is monitored. Market risk management at the Bank not only uses VaR methodology but takes multi-faceted approaches, that is, monitoring sensitivity to change in individual risk factors such as the basis point value (BPV: the amount of the change in a portfolio’s market value from a specific change in the interest rate), stress loss amounts from unexpected market changes, and appraisal losses from financial instruments. For stress loss amounts, in particular, a supplementary framework has been incorporated into the integrated risk management, in addition to the above monitoring system. In this way, market risks

including those that cannot be captured through VaR methods alone are managed.

Moreover, for trading operations, clear regulations are in place concerning the trading instruments and trading management methods, enabling appropriate trading operations by setting specific loss cut limits.

Market risks of consolidated subsidiaries are not directly added to the values of market risk of the Bank but are managed separately under integrated risk management.

#### <Quantitative information on market risk>

##### (a) Financial instruments held for trading purposes

The Bank uses VaR analysis for quantifying market risk of trading securities held within securities and interest-rate and foreign-exchange instruments held for trading purposes within derivative transactions. The VaR model is based on the delta method and uses a 99.0% confidence interval, a holding period of five business days and an observation period of one year. In addition, with regard to market risk related to trading operations at consolidated subsidiaries, which is managed separately within the integrated risk management framework, the Bank uses a market risk-equivalent amount under the regulations on banks' capital ratio.

The market risk amount (estimated loss amount) of the Bank's trading operations was ¥67 million (\$0 million) as of March 31, 2019 and ¥167 million as of March 31, 2018, and the market risk amount (estimated loss amount) of the trading operations of the Bank's consolidated subsidiaries was ¥922 million (\$8 million) as of March 31, 2019 and ¥871 million as of March 31, 2018.

The Bank conducts back testing to compare VaR calculated using the model with actual loss amounts. Based on the results of back testing covering the fiscal year ended March 31, 2019, the actual loss amount exceeded the VaR calculated losses on three occasions, and the Bank believes that the measurement model it uses has an adequate level of accuracy to capture market risk. However, it should be noted that VaR measures the amount of market risk at certain probability levels statistically calculated based on historical market fluctuation. Hence, there may be cases where market risk cannot be captured in situations where market conditions change unprecedentedly.

##### (b) Financial instruments other than those held for trading purposes

The Bank uses VaR analysis for quantifying market risk of due from banks, securities not held for trading purposes, loans and bills discounted, deposits, debentures, payables under securities lending transactions and, within derivative transactions, interest-rate and foreign-exchange instruments not held for trading purposes. The VaR model is based on the delta method and uses a 99.0% confidence interval, a holding period of one year and an observation period of five years. In addition, with regard to market risk at consolidated subsidiaries related to operations other than trading operations, which is managed separately within the integrated risk management framework, such risk is calculated in accordance with methods used by the Bank.

The Group's market risk amount (estimated loss amount) other than for trading purposes was ¥327,326 million (\$2,949 million) as of March 31, 2019 and ¥316,153 million as of March 31, 2018. The Bank conducts back testing to compare VaR calculated using the model with actual loss amounts, and believes that the measurement model it uses has an adequate level of accuracy to capture market risk. However, it should be noted that VaR measures the amount of market risk at certain probability levels statistically calculated based on historical market fluctuation. Hence, there may be cases where market risk cannot be captured in situations where market conditions change unprecedentedly.

##### (iii) Liquidity risk management related to fund-raising

For the accurate identification and strict management of liquidity risk, the Bank has established liquidity risk management policies. Divisions responsible for liquidity risk management are clearly separated from divisions involved in cash management and market operations, allowing internal checks to be maintained through the independent functions. In addition, the ALM Committee deliberates and makes decisions on matters relating to liquidity risk management.

Methods used for managing liquidity risk include the setting and daily monitoring of risk limit amounts relating to the gap between cash receipts and payments. This is carried out for individual currencies and periods. In the event that a significant liquidity risk arises, the Bank has preparations to respond rapidly, including the securing of funding sources.

The liquidity risk management frameworks created by the Bank include subsidiaries as well, by providing overdraft facilities for consolidated subsidiaries with operations involving fund movements in relatively large amounts.

##### (4) Supplementary explanation concerning the fair values of financial instruments

Fair values of financial instruments, in addition to values based on market prices, also include values based on reasonable estimates if market prices are unavailable. Since value estimates are predicated on certain assumptions, values may vary if the underlying assumptions change.

## 2. Fair value of financial instruments (and other information)

Carrying values stated on the consolidated balance sheet, fair value and differences between them are as follows. Unlisted stocks and similar items with significant difficulty in determining fair value are not included in the table below. (See Note 2.)

Immaterial items have been omitted.

As of March 31, 2019

	Millions of Yen		
	Carrying Value	Fair Value	Difference
(1) Cash and Due from Banks	13,346,876	13,346,889	12
(2) Bills Bought and Call Loans	765,887	765,887	—
(3) Receivables under Resale Agreements	39,999	39,999	—
(4) Receivables under Securities Borrowing Transactions	23,229	23,229	—
(5) Monetary Claims Bought (*1)	221,725	221,732	7
(6) Trading Assets			
Trading Securities	216,744	216,744	—
(7) Money Held in Trust	150,317	150,317	—
(8) Securities			
Held-to-Maturity Debt Securities	546,171	627,223	81,051
Other Securities	15,829,599	15,829,599	—
(9) Loans and Bills Discounted	7,038,785		
Reserve for Possible Loan Losses (*1)	(27,064)		
	7,011,721	7,059,621	47,899
Total Assets	38,152,272	38,281,243	128,971
(1) Deposits	30,941,297	30,942,413	1,116
(2) Debentures	2,484,300	2,489,550	5,250
(3) Trading Liabilities			
Trading Bonds Sold	23,597	23,597	—
(4) Borrowed Money	1,967,180	1,975,337	8,157
(5) Bills Sold and Call Money	37,878	37,878	—
(6) Payables under Repurchase Agreements	152,777	152,777	—
(7) Payables under Securities Lending Transactions	1,784,546	1,784,546	—
Total Liabilities	37,391,577	37,406,102	14,524
Derivatives (*2)			
To which Hedge Accounting is not applied	(2,811)	(2,811)	—
To which Hedge Accounting is applied	(94,109)	(168,543)	(74,433)
Total Derivatives	(96,920)	(171,354)	(74,433)

Millions of U.S. Dollars			
	Carrying Value	Fair Value	Difference
(1) Cash and Due from Banks	120,285	120,285	0
(2) Bills Bought and Call Loans	6,902	6,902	—
(3) Receivables under Resale Agreements	360	360	—
(4) Receivables under Securities Borrowing Transactions	209	209	—
(5) Monetary Claims Bought (*1)	1,998	1,998	0
(6) Trading Assets			
Trading Securities	1,953	1,953	—
(7) Money Held in Trust	1,354	1,354	—
(8) Securities			
Held-to-Maturity Debt Securities	4,922	5,652	730
Other Securities	142,660	142,660	—
(9) Loans and Bills Discounted	63,435		
Reserve for Possible Loan Losses (*1)	(243)		
	63,191	63,623	431
Total Assets	343,838	345,000	1,162
(1) Deposits	278,850	278,860	10
(2) Debentures	22,389	22,436	47
(3) Trading Liabilities			
Trading Bonds Sold	212	212	—
(4) Borrowed Money	17,728	17,802	73
(5) Bills Sold and Call Money	341	341	—
(6) Payables under Repurchase Agreements	1,376	1,376	—
(7) Payables under Securities Lending Transactions	16,082	16,082	—
Total Liabilities	336,982	337,113	130
Derivatives (*2)			
To which Hedge Accounting is not applied	(25)	(25)	—
To which Hedge Accounting is applied	(848)	(1,518)	(670)
Total Derivatives	(873)	(1,544)	(670)

\*1. General and specific reserves for possible loan losses of Loans and Bills Discounted have been deducted. Loss reserves for Monetary Claims Bought are immaterial and have therefore been deducted directly from the carrying value.

\*2. Derivative transactions stated in trading assets and liabilities, and other assets and liabilities are shown as a single amount. For net claims and obligations derived from derivative transactions, net amounts are stated. Sums that represent net obligations are shown in parenthesis.

	Millions of Yen		
	Carrying Value	Fair Value	Difference
(1) Cash and Due from Banks	12,393,632	12,393,641	8
(2) Bills Bought and Call Loans	413,259	413,259	—
(3) Receivables under Resale Agreements	89,999	89,999	—
(4) Receivables under Securities Borrowing Transactions	15,340	15,340	—
(5) Monetary Claims Bought (*1)	177,356	177,359	3
(6) Trading Assets			
Trading Securities	214,220	214,220	—
(7) Money Held in Trust	99,789	99,789	—
(8) Securities			
Held-to-Maturity Debt Securities	918,259	1,005,204	86,944
Other Securities	15,964,904	15,964,904	—
(9) Loans and Bills Discounted	6,952,660		
Reserve for Possible Loan Losses (*1)	(39,572)		
	6,913,088	6,950,953	37,865
Total Assets	37,199,851	37,324,673	124,822
(1) Deposits	30,230,956	30,233,884	2,927
(2) Debentures	2,705,490	2,710,093	4,603
(3) Trading Liabilities			
Trading Bonds Sold	12,753	12,753	—
(4) Borrowed Money	1,637,770	1,646,986	9,216
(5) Bills Sold and Call Money	40,313	40,313	—
(6) Payables under Repurchase Agreements	98,373	98,373	—
(7) Payables under Securities Lending Transactions	1,789,012	1,789,012	—
Total Liabilities	36,514,669	36,531,417	16,748
Derivatives (*2)			
To which Hedge Accounting is not applied	(5,234)	(5,234)	—
To which Hedge Accounting is applied	(63,543)	(132,023)	(68,479)
Total Derivatives	(68,777)	(137,257)	(68,479)

\*1. General and specific reserves for possible loan losses of Loans and Bills Discounted have been deducted. Loss reserves for Monetary Claims Bought are immaterial and have therefore been deducted directly from the carrying value.

\*2. Derivative transactions stated in trading assets and liabilities, and other assets and liabilities are shown as a single amount. For net claims and obligations derived from derivative transactions, net amounts are stated. Sums that represent net obligations are shown in parenthesis.

#### Note 1: Calculation method of fair value for financial instruments

##### Assets

##### (1) Cash and Due from Banks

For deposits that do not mature and have maturities with variable-interest-rates, since fair value approximates carrying value, carrying value is used as fair value. For deposits that have maturities with fixed-interest-rate, present value is calculated by discounting future cash flows using the expected interest rate that would be applied to new deposits. For term deposits with short maturities, since fair value approximates carrying value, carrying value is used as fair value.

##### (2) Bills Bought and Call Loans, (3) Receivables under Resale Agreements and (4) Receivables under Securities Borrowing Transactions

Since contract durations are short-term and fair value approximates carrying value, carrying value is used as fair value.

##### (5) Monetary Claims Bought

Monetary Claims Bought is stated at amounts obtained from brokers, etc.

(6) Trading Assets

Securities including bonds held for trading are stated at market prices, etc.

(7) Money Held in Trust

Securities managed as trust assets of money held in trust whose main purpose is securities investment are valued at the prices quoted by the exchanges in the case of listed equity shares and at market prices in the case of bonds.

Note concerning securities categorized by holding purpose is stated in “Fair Value of Securities and Money Held in Trust”.

(8) Securities

Stocks are valued at the price quoted by the exchanges. Investment trusts are valued at the announced standard price. Bonds are valued at the quoted market prices or price calculated on the basis of rational estimation, etc.

For overseas Collateralized Loan Obligations (CLOs), fair value has been determined using a valuation technique that management believes provides a reasonable estimate of the securities’ fair value at the end of the fiscal year. Fair value based on management’s reasonable estimates is calculated using the discounted cash flow approach, with the primary price variables including default rates for similar assets, recovery rates, early redemption rates, and discount rates.

Note concerning securities categorized by holding purpose is stated in “Fair Value of Securities and Money Held in Trust”.

(9) Loans and Bills Discounted

For floating rate loans, since market interest rates are reflected in fair value in short term and fair value approximates carrying value unless the borrower’s credit standing after the lending undergoes significant change, carrying value is used as fair value. For fixed rate loans, categorized by type of loan and internal credit rating, fair value is determined by discounting loans to present value using the interest rate that would conceivably be applied in case of a newly made loan of the same principal and interest total. For loans with short contractual maturities, since fair value approximates carrying value, carrying value is used as fair value.

With regard to loans to Bankrupt Borrowers, Substantially Bankrupt Borrowers or Probably Bankrupt Borrowers, the Bank estimates loan loss based on the present value of estimated future cash flows or the estimated recoverable value from collateral and guarantees. Since fair value therefore approximates the total loan value on the consolidated balance sheet at the closing date less the total recorded value of the reserve for possible loan losses, this value is used for fair value.

**Liabilities**

(1) Deposits

For demand deposits, the amount payable upon demand on the balance sheet date (carrying value) is used as fair value. For term deposits, fair value is calculated by discounting future cash flows to present value. The discount rate is the interest rate that would be applicable to newly taken deposits. For term deposits with short contractual maturities and term deposits with variable interest rates, since fair value approximates carrying value, carrying value is used as fair value.

(2) Debentures

For debentures issued by the Bank, market prices are used as fair value.

(3) Trading Liabilities

For trading bonds sold, market prices, etc. are used as fair value.

(4) Borrowed Money

For borrowed money, categorized by types of loans, fair value is calculated by discounting borrowed money to present value using the interest rate that would conceivably be applied in case of a newly made loan of the same principal and interest total.

In instances with short contractual maturities, since fair value approximates carrying value, the carrying value is used as fair value.

(5) Bills Sold and Call Money, (6) Payables under Repurchase Agreements, and (7) Payables under Securities Lending Transactions

Since contract durations are short term and fair value approximates carrying value, carrying value is used as fair value.

**Derivative Transactions**

With regard to derivative transactions, these are noted in “Derivatives”.

**Note 2: The following financial instruments have significant difficulty in determining fair value and are not included in fair value information of financial instruments.**

Category	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Unlisted stocks, etc. (*1)	190,498	208,698	1,716
Investment in investment partnerships (*2)	17,398	16,571	156
Total	207,897	225,270	1,873

\*1. Unlisted stocks, etc. means unlisted common shares and preferred shares held by the Bank. Since unlisted stocks, etc. have no market prices and therefore are with significant difficulty in determining fair value, unlisted stocks, etc. are not included in fair value disclosure information.

\*2 Investment in investment partnerships is not included in fair value disclosure information given that investment partnership assets include items such as unlisted stocks, etc., which are with significant difficulty in determining fair value.

**Note 3: Amounts of monetary claims and securities with maturities scheduled for redemption after the consolidated balance sheet date**  
As of March 31, 2019

	Millions of Yen					
	Within 1 year	Over 1 year, within 3 years	Over 3 years, within 5 years	Over 5 years, within 7 years	Over 7 years, within 10 years	Over 10 years
Due from Banks (*1)	13,156,294	128,328	35,192	—	—	—
Bills Bought and Call Loan	765,887	—	—	—	—	—
Receivables under Resale Agreements	39,999	—	—	—	—	—
Receivables under Securities Borrowing Transactions	23,229	—	—	—	—	—
Monetary Claims Bought	28,488	17,525	38,008	15,980	16,161	104,934
Securities						
Held-to-Maturity Debt Securities	90,569	5,993	8,996	70,542	230,000	135,000
Japanese Government Bonds	90,000	—	7,000	70,000	230,000	135,000
Municipal Government Bonds	—	—	—	—	—	—
Short-Term Corporate Bonds	—	—	—	—	—	—
Corporate Bonds	—	—	—	—	—	—
Other Securities with maturities	1,731,264	4,232,172	2,856,155	1,256,941	1,217,951	1,131,576
Japanese Government Bonds	713,900	1,658,800	856,500	272,000	160,000	419,000
Municipal Government Bonds	77,191	280,379	324,865	276,783	112,464	—
Short-Term Corporate Bonds	45,000	—	—	—	—	—
Corporate Bonds	675,202	1,782,122	1,269,512	569,349	188,656	151,246
Loans and Bills Discounted (*2)	3,040,462	1,449,739	1,110,219	536,787	686,409	213,302
Total	18,876,197	5,833,758	4,048,572	1,880,251	2,150,522	1,584,813

	Millions of U.S. Dollars					
	Within 1 year	Over 1 year, within 3 years	Over 3 years, within 5 years	Over 5 years, within 7 years	Over 7 years, within 10 years	Over 10 years
Due from Banks (*1)	118,567	1,156	317	—	—	—
Bills Bought and Call Loan	6,902	—	—	—	—	—
Receivables under Resale Agreements	360	—	—	—	—	—
Receivables under Securities Borrowing Transactions	209	—	—	—	—	—
Monetary Claims Bought	256	157	342	144	145	945
Securities						
Held-to-Maturity Debt Securities	816	54	81	635	2,072	1,216
Japanese Government Bonds	811	—	63	630	2,072	1,216
Municipal Government Bonds	—	—	—	—	—	—
Short-Term Corporate Bonds	—	—	—	—	—	—
Corporate Bonds	—	—	—	—	—	—
Other Securities with maturities	15,602	38,141	25,740	11,327	10,976	10,198
Japanese Government Bonds	6,433	14,949	7,718	2,451	1,441	3,776
Municipal Government Bonds	695	2,526	2,927	2,494	1,013	—
Short-Term Corporate Bonds	405	—	—	—	—	—
Corporate Bonds	6,085	16,060	11,441	5,131	1,700	1,363
Loans and Bills Discounted (*2)	27,401	13,065	10,005	4,837	6,186	1,922
Total	170,117	52,575	36,486	16,945	19,381	14,282

\*1. Current deposits, ordinary deposits, deposits at notice, and transfer deposits, included in “Due from Banks”, are stated under amounts redeemable “Within 1 year”.

\*2. The loans of ¥2,085 million (\$18 million) which obligor categories are Bankrupt Borrowers, Substantially Bankrupt Borrowers or Probably Bankrupt Borrowers and which amounts of redemption cannot be foreseen are not included in Loans and Bills Discounted.

As of March 31, 2018

	Millions of Yen					
	Within 1 year	Over 1 year, within 3 years	Over 3 years, within 5 years	Over 5 years, within 7 years	Over 7 years, within 10 years	Over 10 years
Due from Banks (*1)	12,125,995	191,188	48,628	—	—	—
Bills Bought and Call Loan	413,259	—	—	—	—	—
Receivables under Resale Agreements	89,999	—	—	—	—	—
Receivables under Securities Borrowing Transactions	15,340	—	—	—	—	—
Monetary Claims Bought	10,831	21,130	25,808	8,244	9,522	101,842
Securities						
Held-to-Maturity Debt Securities	365,760	91,368	20,932	40,304	240,000	155,000
Japanese Government Bonds	365,000	90,000	7,000	40,000	240,000	155,000
Municipal Government Bonds	—	—	—	—	—	—
Short-Term Corporate Bonds	—	—	—	—	—	—
Corporate Bonds	—	—	—	—	—	—
Other Securities with maturities	2,208,556	3,276,691	3,643,894	1,454,644	1,426,933	978,866
Japanese Government Bonds	953,600	1,526,700	1,661,000	373,500	325,000	394,000
Municipal Government Bonds	51,537	151,195	291,264	138,386	166,373	—
Short-Term Corporate Bonds	40,000	—	—	—	—	—
Corporate Bonds	865,561	1,181,296	1,261,932	666,756	204,274	105,893
Loans and Bills Discounted (*2)	3,561,058	1,270,969	977,503	405,473	546,251	182,673
Total	18,790,801	4,851,348	4,716,766	1,908,667	2,222,707	1,418,382

\*1. Current deposits, ordinary deposits, deposits at notice, and transfer deposits, included in “Due from Banks”, are stated under amounts redeemable “Within 1 year”.

\*2. The loans of ¥8,655 million which obligor categories are Bankrupt Borrowers, Substantially Bankrupt Borrowers or Probably Bankrupt Borrowers and which amounts of redemption cannot be foreseen are not included in Loans and Bills Discounted.

**Note 4: Amounts of deposits, debentures and other interest bearing debt scheduled for repayment after the balance sheet date**

As of March 31, 2019

	Millions of Yen					
	Within 1 year	Over 1 year, within 3 years	Over 3 years, within 5 years	Over 5 years, within 7 years	Over 7 years, within 10 years	Over 10 years
Deposits (*)	24,216,923	5,405,506	135,447	25,165	1,158,255	—
Debentures	637,930	1,074,790	751,580	20,000	—	—
Borrowed Money	134,300	1,114,000	556,400	—	162,480	—
Bills Sold and Call Money	37,878	—	—	—	—	—
Payables under Repurchase Agreements	152,777	—	—	—	—	—
Payables under Securities Lending Transactions	1,784,546	—	—	—	—	—
Total	26,964,355	7,594,296	1,443,427	45,165	1,320,735	—

	Millions of U.S. Dollars					
	Within 1 year	Over 1 year, within 3 years	Over 3 years, within 5 years	Over 5 years, within 7 years	Over 7 years, within 10 years	Over 10 years
Deposits (*)	218,249	48,715	1,220	226	10,438	—
Debentures	5,749	9,686	6,773	180	—	—
Borrowed Money	1,210	10,039	5,014	—	1,464	—
Bills Sold and Call Money	341	—	—	—	—	—
Payables under Repurchase Agreements	1,376	—	—	—	—	—
Payables under Securities Lending Transactions	16,082	—	—	—	—	—
Total	243,009	68,441	13,008	407	11,902	—

\* Demand deposits, included in “Deposits”, are stated under amounts payable “Within 1 year”.

As of March 31, 2018

	Millions of Yen					
	Within 1 year	Over 1 year, within 3 years	Over 3 years, within 5 years	Over 5 years, within 7 years	Over 7 years, within 10 years	Over 10 years
Deposits (*1)	20,716,136	8,021,640	131,182	4,597	1,357,400	—
Debentures	627,710	1,230,390	827,390	—	20,000	—
Borrowed Money (*2)	134,300	468,000	646,000	—	—	162,480
Bills Sold and Call Money	40,313	—	—	—	—	—
Payables under Repurchase Agreements	98,373	—	—	—	—	—
Payables under Securities Lending Transactions	1,789,012	—	—	—	—	—
Total	23,405,845	9,720,030	1,604,572	4,597	1,377,400	162,480

\*1. Demand deposits, included in “Deposits”, are stated under amounts payable “Within 1 year”.

\*2. Borrowed Money without maturity is not included.

## 27. Fair Value of Securities and Money Held in Trust:

### 1. Securities

The following tables contain information relating to Securities, Trading Assets (trading account securities and short-term corporate bonds), Cash and Due from Banks (negotiable certificates of deposit) and Monetary Claims Bought (beneficiary rights) in the consolidated balance sheet.

#### (1) Trading Securities

	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
Net Unrealized Gains (Losses)			
Recognized as Income	412	47	3

#### (2) Held-to-Maturity Debt Securities

As of March 31, 2019

		Millions of Yen		
		Carrying Value	Fair Value	Unrealized Gains (Losses)
Items with Fair Value Exceeding Carrying Value	Japanese Government Bonds	537,259	618,076	80,816
	Municipal Government Bonds	—	—	—
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	—	—	—
	Others	7,527	7,786	258
	Total	544,787	625,862	81,074
Items with Fair Value not Exceeding Carrying Value	Japanese Government Bonds	—	—	—
	Municipal Government Bonds	—	—	—
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	—	—	—
	Others	1,384	1,361	(22)
	Total	1,384	1,361	(22)
Total		546,171	627,223	81,051

		Millions of U.S. Dollars		
		Carrying Value	Fair Value	Unrealized Gains (Losses)
Items with Fair Value Exceeding Carrying Value	Japanese Government Bonds	4,841	5,570	728
	Municipal Government Bonds	—	—	—
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	—	—	—
	Others	67	70	2
	Total	4,909	5,640	730
Items with Fair Value not Exceeding Carrying Value	Japanese Government Bonds	—	—	—
	Municipal Government Bonds	—	—	—
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	—	—	—
	Others	12	12	(0)
	Total	12	12	(0)
Total		4,922	5,652	730

As of March 31, 2018

		Millions of Yen		
		Carrying Value	Fair Value	Unrealized Gains (Losses)
Items with Fair Value Exceeding Carrying Value	Japanese Government Bonds	903,265	988,427	85,161
	Municipal Government Bonds	—	—	—
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	—	—	—
	Others	14,271	16,057	1,786
	Total	917,536	1,004,484	86,947
Items with Fair Value not Exceeding Carrying Value	Japanese Government Bonds	—	—	—
	Municipal Government Bonds	—	—	—
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	—	—	—
	Others	722	720	(2)
	Total	722	720	(2)
Total		918,259	1,005,204	86,944

### (3) Other Securities

As of March 31, 2019

		Millions of Yen		
		Carrying Value	Acquisition Cost	Unrealized Gains (Losses)
Items with Carrying Value Exceeding Acquisition Cost	Stocks	72,434	27,629	44,804
	Bonds	8,919,357	8,723,559	195,798
	Japanese Government Bonds	4,144,366	3,989,590	154,776
	Municipal Government Bonds	988,868	982,604	6,263
	Short-Term Corporate Bonds	45,015	44,996	19
	Corporate Bonds	3,741,106	3,706,368	34,738
	Others	4,341,116	4,096,590	244,526
	Total	13,332,908	12,847,778	485,129
Items with Carrying Value not Exceeding Acquisition Cost	Stocks	5,341	5,439	(98)
	Bonds	1,177,430	1,178,563	(1,133)
	Japanese Government Bonds	115,540	116,279	(739)
	Municipal Government Bonds	98,707	98,745	(38)
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	963,182	963,538	(355)
	Others	1,548,126	1,583,875	(35,749)
	Total	2,730,898	2,767,879	(36,980)
Total		16,063,807	15,615,658	448,149

		Millions of U.S. Dollars		
		Carrying Value	Acquisition Cost	Unrealized Gains (Losses)
Items with Carrying Value Exceeding Acquisition Cost	Stocks	652	249	403
	Bonds	80,383	78,618	1,764
	Japanese Government Bonds	37,350	35,955	1,394
	Municipal Government Bonds	8,911	8,855	56
	Short-Term Corporate Bonds	405	405	0
	Corporate Bonds	33,715	33,402	313
	Others	39,123	36,919	2,203
	Total	120,159	115,787	4,372
Items with Carrying Value not Exceeding Acquisition Cost	Stocks	48	49	(0)
	Bonds	10,611	10,621	(10)
	Japanese Government Bonds	1,041	1,047	(6)
	Municipal Government Bonds	889	889	(0)
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	8,680	8,683	(3)
	Others	13,952	14,274	(322)
	Total	24,611	24,944	(333)
Total		144,771	140,732	4,038

As of March 31, 2018

		Millions of Yen		
		Carrying Value	Acquisition Cost	Unrealized Gains (Losses)
Items with Carrying Value Exceeding Acquisition Cost	Stocks	62,342	27,720	34,622
	Bonds	8,583,200	8,357,512	225,688
	Japanese Government Bonds	5,445,124	5,254,363	190,760
	Municipal Government Bonds	482,605	478,400	4,205
	Short-Term Corporate Bonds	40,008	39,996	11
	Corporate Bonds	2,615,462	2,584,751	30,710
	Others	3,264,610	3,051,400	213,209
	Total	11,910,154	11,436,633	473,520
Items with Carrying Value not Exceeding Acquisition Cost	Stocks	4,895	5,435	(539)
	Bonds	2,080,560	2,082,285	(1,724)
	Japanese Government Bonds	17,963	18,072	(109)
	Municipal Government Bonds	328,710	328,979	(268)
	Short-Term Corporate Bonds	—	—	—
	Corporate Bonds	1,733,887	1,735,233	(1,346)
	Others	2,174,563	2,230,263	(55,699)
	Total	4,260,020	4,317,985	(57,964)
Total		16,170,174	15,754,618	415,556

**(4) Held-to-Maturity Debt Securities Sold during the Fiscal Year**

Not applicable.

**(5) Other Securities Sold during the Fiscal Year**

For the Fiscal Year Ended March 31, 2019

	Millions of Yen		
	Amounts of Securities Sold	Aggregate Gains on Sale	Aggregate Losses on Sale
Stocks	41,114	5,145	(471)
Bonds	740,804	20,795	(670)
Japanese Government Bonds	734,955	20,795	(633)
Municipal Government Bonds	5,849	—	(36)
Short-Term Corporate Bonds	—	—	—
Corporate Bonds	—	—	—
Others	1,094,477	5,864	(10,786)
Total	1,876,395	31,806	(11,927)

	Millions of U.S. Dollars		
	Amounts of Securities Sold	Aggregate Gains on Sale	Aggregate Losses on Sale
Stocks	370	46	(4)
Bonds	6,676	187	(6)
Japanese Government Bonds	6,623	187	(5)
Municipal Government Bonds	52	—	(0)
Short-Term Corporate Bonds	—	—	—
Corporate Bonds	—	—	—
Others	9,863	52	(97)
Total	16,910	286	(107)

For the Fiscal Year Ended March 31, 2018

	Millions of Yen		
	Amounts of Securities Sold	Aggregate Gains on Sale	Aggregate Losses on Sale
Stocks	64,941	10,321	(752)
Bonds	748,860	7,620	(379)
Japanese Government Bonds	744,686	7,620	(284)
Municipal Government Bonds	—	—	—
Short-Term Corporate Bonds	—	—	—
Corporate Bonds	4,173	0	(94)
Others	965,759	6,522	(12,930)
Total	1,779,561	24,465	(14,062)

**(6) Impaired Securities**

Of Securities other than Trading Securities (excluding those where there is significant difficulty in determining fair value), if the fair value falls by 30% or more compared with the acquisition price and it is not expected to recover up to the acquisition price in view of the rate of decline over past periods, the securities are devalued and the fair value is recorded as the carrying amount on the consolidated balance sheet. In addition, the difference between the fair value and the acquisition price is recognized as impairment losses in the fiscal year.

In the case where the issuer is in bankruptcy, de facto bankruptcy, or has a likelihood of falling into bankruptcy, impairment loss is recognized for securities when the market price is below the acquisition price.

In the fiscal year ended March 31, 2019, the amount of impairment losses on securities was ¥1 million (\$0 million) (all impairment losses were incurred on stocks).

In the fiscal year ended March 31, 2018, there were no impairment losses.

## 2. Money Held in Trust

### (1) Money Held in Trust for Trading Purposes

As of March 31, 2019

	Millions of Yen	
	Carrying Value	Unrealized Gains (Losses) Recognized as Income
Money Held in Trust for Trading Purposes	99,778	—

	Millions of U.S. Dollars	
	Carrying Value	Unrealized Gains (Losses) Recognized as Income
Money Held in Trust for Trading Purposes	899	—

As of March 31, 2018

	Millions of Yen	
	Carrying Value	Unrealized Gains (Losses) Recognized as Income
Money Held in Trust for Trading Purposes	99,789	—

### (2) Held-to-Maturity Money Held in Trust

Not applicable.

### (3) Other Money Held in Trusts (Money Held in Trust other than Held for Trading Purposes or Held-to-Maturity)

As of March 31, 2019

	Millions of Yen				
	Carrying Value	Acquisition Cost	Unrealized Gains (Losses)	Items with Carrying Value Exceeding Acquisition Cost	Items with Carrying Value not Exceeding Acquisition Cost
Other Money Held in Trusts	50,538	50,000	538	538	—

	Millions of U.S. Dollars				
	Carrying Value	Acquisition Cost	Unrealized Gains (Losses)	Items with Carrying Value Exceeding Acquisition Cost	Items with Carrying Value not Exceeding Acquisition Cost
Other Money Held in Trusts	455	450	4	4	—

Note:

Components of “Unrealized Gains (Losses)” are shown in “Items with Carrying Value Exceeding Acquisition Cost” and “Items with Carrying Value not Exceeding Acquisition Cost”.

As of March 31, 2018

Not applicable.

### 3. Net Unrealized Gains on Other Securities and Other Money Held in Trust

Components of Net Unrealized Gains on Other Securities in the consolidated balance sheet are as follows:

As of March 31, 2019

	Millions of Yen	Millions of U.S. Dollars
Other Securities	447,958	4,037
Other Money Held in Trust	538	4
Net Unrealized Gains	448,497	4,041
Deferred Tax Liabilities	124,814	1,124
Net Unrealized Gains (Prior to Equity Method Adjustment)	323,683	2,917
Non-Controlling Interests' Portion	—	—
Parent Company's Portion of Valuation Differential for Other Securities Held by Equity-Method-Applicable Companies	—	—
Net Unrealized Gains	323,683	2,917

Note:

Unrealized Gains on foreign currency translations of foreign currency-denominated other securities where there is significant difficulty in determining fair value are included in "Other Securities" under "Net Unrealized Gains".

As of March 31, 2018

	Millions of Yen
Other Securities	415,080
Other Money Held in Trust	—
Net Unrealized Gains	415,080
Deferred Tax Liabilities	115,271
Net Unrealized Gains (Prior to Equity Method Adjustment)	299,808
Non-Controlling Interests' Portion	—
Parent Company's Portion of Valuation Differential for Other Securities Held by Equity-Method-Applicable Companies	—
Net Unrealized Gains	299,808

Note:

Unrealized Gains on foreign currency translations of foreign currency-denominated other securities where there is significant difficulty in determining fair value are included in "Other Securities" under "Net Unrealized Gains".

## 28. Derivatives:

### 1. Derivative transactions to which hedge accounting is not applied

The following summarizes the notional amount or the contracted principal equivalents, fair values, net unrealized gains (losses) and the valuation methods of the fair values of the Bank's derivative transactions that do not qualify for hedge accounting as of the consolidated balance sheet date, which are classified by types of financial instruments. Please note that the notional amount in themselves do not reflect the market risk associated with the Bank's derivative transactions.

#### (1) Interest-Rate-Related Transactions

As of March 31, 2019

	Millions of Yen			
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Interest Rate Futures:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest Rate Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over the Counter Transactions				
Interest Rate Forwards:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest Rate Swaps:				
Fixed Rate Receivable/Floating Rate Payable	7,133,635	5,713,507	136,122	136,122
Floating Rate Receivable/Fixed Rate Payable	7,116,808	5,269,272	(118,498)	(118,498)
Floating Rate Receivable/Floating Rate Payable	204,130	130,130	(122)	(122)
Fixed Rate Receivable/Fixed Rate Payable	—	—	—	—
Interest Rate Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	1,149,740	541,140	(17,036)	(6,433)
Bought	1,335,100	655,000	(3,151)	(12,576)
Total			(2,686)	(1,508)

Millions of U.S. Dollars				
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Interest Rate Futures:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest Rate Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over the Counter Transactions				
Interest Rate Forwards:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest Rate Swaps:				
Fixed Rate Receivable/Floating Rate Payable	64,290	51,491	1,226	1,226
Floating Rate Receivable/Fixed Rate Payable	64,138	47,488	(1,067)	(1,067)
Floating Rate Receivable/Floating Rate Payable	1,839	1,172	(1)	(1)
Fixed Rate Receivable/Fixed Rate Payable	—	—	—	—
Interest Rate Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	10,361	4,876	(153)	(57)
Bought	12,032	5,903	(28)	(113)
Total			(24)	(13)

Notes:

1. Transactions mentioned above are valued at fair value, and Net Unrealized Gains (Losses) are accounted for in the consolidated statement of income.
2. Fair value calculation: Exchange-Traded Transactions are valued on the basis of closing prices, mainly on the Tokyo Financial Exchange Inc. Over the counter transactions are valued using discounted present value or calculation models for option prices, etc.

As of March 31, 2018

	Millions of Yen			
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Interest Rate Futures:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest Rate Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over the Counter Transactions				
Interest Rate Forwards:				
Sold	—	—	—	—
Bought	—	—	—	—
Interest Rate Swaps:				
Fixed Rate Receivable/Floating Rate Payable	7,343,328	6,496,389	117,569	117,569
Floating Rate Receivable/Fixed Rate Payable	7,266,359	5,850,172	(92,013)	(92,013)
Floating Rate Receivable/Floating Rate Payable	190,630	190,630	(17)	(17)
Fixed Rate Receivable/Fixed Rate Payable	—	—	—	—
Interest Rate Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	1,808,600	1,020,600	(24,532)	(4,185)
Bought	1,919,200	1,092,300	(6,361)	(21,418)
Total			(5,354)	(65)

Notes:

1. Transactions mentioned above are valued at fair value, and Net Unrealized Gains (Losses) are accounted for in the consolidated statement of income.
2. Fair value calculation: Exchange-Traded Transactions are valued on the basis of closing prices, mainly on the Tokyo Financial Exchange Inc. Over the counter transactions are valued using discounted present value or calculation models for option prices, etc.

(2) Currency-Related Transactions  
As of March 31, 2019

Millions of Yen				
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Currency Futures:				
Sold	—	—	—	—
Bought	—	—	—	—
Currency Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over the Counter Transactions				
Currency Swaps:	6,652	6,120	67	67
Forward Foreign Exchange Contracts:				
Sold	278,790	1,804	501	501
Bought	292,020	1,851	(494)	(494)
Currency Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			73	73

Millions of U.S. Dollars				
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Currency Futures:				
Sold	—	—	—	—
Bought	—	—	—	—
Currency Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over the Counter Transactions				
Currency Swaps:	59	55	0	0
Forward Foreign Exchange Contracts:				
Sold	2,512	16	4	4
Bought	2,631	16	(4)	(4)
Currency Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			0	0

Notes:

1. Transactions mentioned above are valued at fair value, and Net Unrealized Gains (Losses) are accounted for in the consolidated statement of income.
2. Fair value calculation: Transactions are valued using discounted present value, etc. (for currency swaps, fair value is calculated after deduction of principal.)

As of March 31, 2018

Millions of Yen				
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Currency Futures:				
Sold	—	—	—	—
Bought	—	—	—	—
Currency Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Over the Counter Transactions				
Currency Swaps:	7,195	6,770	94	94
Forward Foreign Exchange Contracts:				
Sold	199,188	215	1,090	1,090
Bought	236,733	—	(828)	(828)
Currency Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			355	355

Notes:

1. Transactions mentioned above are valued at fair value, and Net Unrealized Gains (Losses) are accounted for in the consolidated statement of income.
2. Fair value calculation: Transactions are valued using discounted present value, etc. (for currency swaps, fair value is calculated after deduction of principal.)

(3) Stock-Related Transactions

Not applicable.

(4) Bond-Related Transactions  
As of March 31, 2019

Millions of Yen				
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Bond Futures:				
Sold	8,876	—	(13)	(13)
Bought	3,059	—	6	6
Bond Futures Options:				
Sold	—	—	—	—
Bought	7,000	—	10	1
Over the Counter Transactions				
Bond Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			2	(6)

Millions of U.S. Dollars				
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Bond Futures:				
Sold	79	—	(0)	(0)
Bought	27	—	0	0
Bond Futures Options:				
Sold	—	—	—	—
Bought	63	—	0	0
Over the Counter Transactions				
Bond Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			0	(0)

Notes:

1. Transactions mentioned above are valued at fair value, and Net Unrealized Gains (Losses) are accounted for in the consolidated statement of income.
2. Fair value calculation: Exchange-Traded Transactions are valued on the basis of closing prices, mainly on the Osaka Exchange, Inc.  
Over the counter transactions are valued using calculation models for option prices, etc.

As of March 31, 2018

	Millions of Yen			
	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value	Net Unrealized Gains (Losses)
Exchange-Traded Transactions				
Bond Futures:				
Sold	30,764	—	7	7
Bought	—	—	—	—
Bond Futures Options:				
Sold	—	—	—	—
Bought	6,500	—	5	(0)
Over the Counter Transactions				
Bond Options:				
Sold	—	—	—	—
Bought	—	—	—	—
Others:				
Sold	—	—	—	—
Bought	—	—	—	—
Total			13	6

Notes:

1. Transactions mentioned above are valued at fair value, and Net Unrealized Gains (Losses) are accounted for in the consolidated statement of income.
2. Fair value calculation: Exchange-Traded Transactions are valued on the basis of closing prices, mainly on the Osaka Exchange, Inc.  
Over the counter transactions are valued using calculation models for option prices, etc.

(5) Commodity-Related Derivative Transactions

Not applicable.

(6) Credit Derivative Transactions

Not applicable.

## 2. Derivative transactions to which hedge accounting is applied

The following summarizes the notional amount or the contracted principal equivalents, fair values and the valuation methods of the fair values of the Bank's derivative transactions that qualify for hedge accounting as of the consolidated balance sheet date, which are classified by types of financial instruments and methods for hedge accounting. Please note that the notional amount in themselves do not reflect the market risk associated with the Bank's derivative transactions.

### (1) Interest-Rate-Related Transactions

As of March 31, 2019

		Millions of Yen		
Method for Hedge Accounting	Items	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value
Basic Treatment	Interest Rate Swaps			
	Fixed Rate Receivable/Floating Rate Payable	—	—	—
	Floating Rate Receivable/Fixed Rate Payable	4,004,924	3,606,831	(96,756)
Exceptional Treatments for Interest Rate Swaps	Interest Rate Swaps			
	Fixed Rate Receivable/Floating Rate Payable	—	—	—
	Floating Rate Receivable/Fixed Rate Payable	1,144,962	1,020,889	(74,433)
Total				(171,189)

		Millions of U.S. Dollars		
Method for Hedge Accounting	Items	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value
Basic Treatment	Interest Rate Swaps			
	Fixed Rate Receivable/Floating Rate Payable	—	—	—
	Floating Rate Receivable/Fixed Rate Payable	36,093	32,505	(871)
Exceptional Treatments for Interest Rate Swaps	Interest Rate Swaps			
	Fixed Rate Receivable/Floating Rate Payable	—	—	—
	Floating Rate Receivable/Fixed Rate Payable	10,318	9,200	(670)
Total				(1,542)

#### Notes:

1. Most of hedged items with respect to Basic Treatment are Interest-bearing assets and liabilities such as Loans and Bills Discounted, Other Securities (Bonds) and Deposits.
2. Hedged items with respect to Exceptional Treatments for Interest Rate Swaps are Loans and Bills Discounted, Held-to-Maturity Debt Securities and Debentures.
3. The deferred method of hedge accounting is primarily applied to the transactions mentioned above based on the JICPA Industry Audit Committee Report No. 24, February 13, 2002 "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry".
4. Fair value calculation: Exchange-Traded Transactions are valued on the basis of closing prices, mainly on the Tokyo Financial Exchange Inc. Over the counter transactions are valued using discounted present value or calculation models for option prices, etc.

As of March 31, 2018

		Millions of Yen		
Method for Hedge Accounting	Items	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value
Basic Treatment	Interest Rate Swaps			
	Fixed Rate Receivable/Floating Rate Payable	80,000	—	676
	Floating Rate Receivable/Fixed Rate Payable	4,460,428	3,714,664	(76,433)
Exceptional Treatments for Interest Rate Swaps	Interest Rate Swaps			
	Fixed Rate Receivable/Floating Rate Payable	—	—	—
	Floating Rate Receivable/Fixed Rate Payable	1,201,286	963,556	(68,479)
Total				(144,236)

Notes:

1. Most of hedged items with respect to Basic Treatment are Interest-bearing assets and liabilities such as Loans and Bills Discounted, Other Securities (Bonds) and Deposits.
2. Hedged items with respect to Exceptional Treatments for Interest Rate Swaps are Loans and Bills Discounted, Held-to-Maturity Debt Securities and Debentures.
3. The deferred method of hedge accounting is primarily applied to the transactions mentioned above based on the JICPA Industry Audit Committee Report No. 24, February 13, 2002 “Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry”.
4. Fair value calculation: Exchange-Traded Transactions are valued on the basis of closing prices, mainly on the Tokyo Financial Exchange Inc. Over the counter transactions are valued using discounted present value or calculation models for option prices, etc.

## (2) Currency-Related Transactions

As of March 31, 2019

		Millions of Yen		
Method for Hedge Accounting	Items	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value
Basic Treatment	Currency Swaps	463,786	399,287	(4,504)
	Forward Foreign Exchange Contracts:			
	Sold	57,408	—	(74)
	Bought	—	—	—
Total				(4,579)

		Millions of U.S. Dollars		
Method for Hedge Accounting	Items	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value
Basic Treatment	Currency Swaps	4,179	3,598	(40)
	Forward Foreign Exchange Contracts:			
	Sold	517	—	(0)
	Bought	—	—	—
Total				(41)

Notes:

1. Most of hedged items are foreign currency-denominated securities, Due from Banks, etc.
2. The deferred method of hedge accounting is primarily applied to the transactions mentioned above based on the JICPA Industry Audit Committee Report No. 25, July 29, 2002 “Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry”.
3. Fair value calculation: Transactions are valued using discounted present value, etc. (for currency swaps, fair value is calculated after deduction of principal.)

As of March 31, 2018

Millions of Yen				
Method for Hedge Accounting	Items	Total Notional Amount	Notional Amount (Over 1 Year until Settlement or Expiry)	Fair Value
Basic Treatment	Currency Swaps	412,096	260,654	(3,266)
	Forward Foreign Exchange Contracts:			
	Sold	150,018	—	2,394
	Bought	—	—	—
	Total			(871)

Notes:

1. Most of hedged items are foreign currency-denominated securities, Due from Banks, etc.
2. The deferred method of hedge accounting is primarily applied to the transactions mentioned above based on the JICPA Industry Audit Committee Report No. 25, July 29, 2002 “Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry”.
3. Fair value calculation: Transactions are valued using discounted present value, etc. (for currency swaps, fair value is calculated after deduction of principal.)

(3) Stock-Related Transactions

Not applicable.

(4) Bond-Related Transactions

Not applicable.

**29. Related Party Transactions:**

**For the Fiscal Year Ended March 31, 2019**

There were no significant related-party transactions.

**For the Fiscal Year Ended March 31, 2018**

There were no significant related-party transactions.

**30. Segment Information:**

(1) Description of Reportable Segments

The Group classifies the businesses of the Bank and its consolidated subsidiaries as individual business segments. Among those business segments, the business of the Bank is deemed as the reportable segment.

The Bank, as an individual financial institution, provides such services as deposits, debentures, lending, market fund management, trading operations, clearing and trust business. As the central financial institution for Shinkin Banks, the Bank complements the functions of the Shinkin Banks and operates the shinkin bank industry’s own safety net, including the Shinkin Bank Management Reinforcement System. By doing so, the Bank strives to maintain an orderly financial system within the shinkin bank industry.

(2) Method of Calculating Amounts by Reportable Segment

The accounting methods of the reportable segment are the same as those described in the “Significant Accounting Policies”. Reportable segment profit is based on profit attributable to owners of parent.

(3) Amounts by Reportable Segment  
For the Fiscal Year Ended March 31, 2019

(Millions of Yen)

	Reportable segment	Other	Total	Adjustment	Amount presented in the consolidated financial statements
	Shinkin Central Bank business				
Income					
External customers	255,816	38,027	293,843	(35)	293,808
Inter-segment	2,951	1,679	4,630	(4,630)	—
Total	258,767	39,707	298,474	(4,665)	293,808
Segment profit	42,286	3,849	46,135	(1,354)	44,781
Segment assets	39,432,740	336,552	39,769,293	(75,917)	39,693,375
Segment liabilities	37,799,235	254,239	38,053,474	(20,565)	38,032,909
Other items					
Depreciation	5,178	5,082	10,261	(0)	10,260
Interest Income	193,711	143	193,855	(100)	193,754
Interest Expenses	119,523	49	119,573	(38)	119,534
Income Taxes	14,760	1,702	16,463	(185)	16,278
Increase in Tangible and Intangible Fixed Assets	6,075	20,420	26,496	—	26,496

(Millions of U.S. Dollars)

	Reportable segment	Other	Total	Adjustment	Amount presented in the consolidated financial statements
	Shinkin Central Bank business				
Income					
External customers	2,305	342	2,648	(0)	2,647
Inter-segment	26	15	41	(41)	—
Total	2,332	357	2,689	(42)	2,647
Segment profit	381	34	415	(12)	403
Segment assets	355,377	3,033	358,411	(684)	357,726
Segment liabilities	340,656	2,291	342,947	(185)	342,762
Other items					
Depreciation	46	45	92	(0)	92
Interest Income	1,745	1	1,747	(0)	1,746
Interest Expenses	1,077	0	1,077	(0)	1,077
Income Taxes	133	15	148	(1)	146
Increase in Tangible and Intangible Fixed Assets	54	184	238	—	238

Notes:

- The “Other” is outside of business segments in our segment information and includes businesses performed by consolidated subsidiaries. The Bank’s consolidated subsidiaries provide such financial services as brokerage & dealing, asset management, consumer credit guarantees, investment, M&A advisory operations, and data processing services.
- Adjustment comprises the following.
  - Within adjustment of segment profit, reduction of ¥1,354 million (\$12 million) comprises reduction of ¥875 million (\$7 million) on profit attributable to non-controlling interests and ¥478 million (\$4 million) on inter-segment eliminations, etc.
  - Within adjustment of segment assets, reduction of ¥75,917 million (\$684 million) comprises reduction of ¥43,114 million (\$388 million) on eliminations relating to capital consolidation and ¥32,802 million (\$295 million) on inter-segment eliminations, etc.
  - The adjustment for other items including reduction of ¥20,565 million (\$185 million) on the adjustment of segment liabilities comprises inter-segment eliminations, etc.
- Segment profit has been adjusted from profit attributable to owners of parent presented in the consolidated statement of income.

(Millions of Yen)

	Reportable segment	Other	Total	Adjustment	Amount presented in the consolidated financial statements
	Shinkin Central Bank business				
Income					
External customers	269,734	37,176	306,911	(19)	306,892
Inter-segment	6,058	1,705	7,764	(7,764)	—
Total	275,792	38,882	314,675	(7,783)	306,892
Segment profit	46,498	2,278	48,777	(4,311)	44,466
Segment assets	38,552,702	316,665	38,869,368	(78,919)	38,790,449
Segment liabilities	36,949,667	237,304	37,186,971	(23,128)	37,163,843
Other items					
Depreciation	4,515	5,176	9,691	(0)	9,691
Interest Income	223,718	171	223,889	(3,361)	220,528
Interest Expenses	121,536	34	121,571	(11)	121,559
Income Taxes	16,157	1,941	18,098	(218)	17,880
Increase in Tangible and Intangible Fixed Assets	2,465	2,726	5,191	—	5,191

## Notes:

- The “Other” is outside of business segments in our segment information and includes businesses performed by consolidated subsidiaries. The Bank’s consolidated subsidiaries provide such financial services as brokerage & dealing, asset management, consumer credit guarantees, investment, M&A advisory operations, and data processing services. Shinkin Trust Bank, Ltd., which had performed trust and banking businesses, has been excluded from the scope of consolidation from the second quarter of the previous fiscal year since it was taken over by Mitsubishi UFJ Trust and Banking Corporation on September 19, 2017.
- Adjustment comprises the following.
  - Within adjustment of segment profit, reduction of ¥4,311 million comprises reduction of ¥526 million on profit attributable to non-controlling interests and ¥3,784 million on inter-segment eliminations, etc.
  - Within adjustment of segment assets, reduction of ¥78,919 million comprises reduction of ¥43,114 million on eliminations relating to capital consolidation and ¥35,804 million on inter-segment eliminations, etc.
  - The adjustment for other items including reduction of ¥23,128 million on the adjustment of segment liabilities comprises inter-segment eliminations, etc.
- Segment profit has been adjusted from profit attributable to owners of parent presented in the consolidated statement of income.

## (Related Information)

For the Fiscal Year Ended March 31, 2019

## 1. Information by service

(Millions of Yen)

	Securities investment operations	Lending operations	Other	Total
Income from external customers	197,358	19,546	76,904	293,808

(Millions of U.S. Dollars)

	Securities investment operations	Lending operations	Other	Total
Income from external customers	1,778	176	693	2,647

## 2. Information by geographic region

### (1) Income

(Millions of Yen)

Japan	United States	Europe	Other	Total
161,201	32,833	15,926	83,846	293,808

(Millions of U.S. Dollars)

Japan	United States	Europe	Other	Total
1,452	295	143	755	2,647

Note: Income from derivative transactions and Trading income are included in Other.

### (2) Tangible fixed assets

The Group's tangible fixed assets located in Japan account for over 90% of the tangible fixed assets presented in the consolidated balance sheet. Consequently, this information is omitted.

## 3. Information by principal customer

(Millions of Yen)

Name of customer	Income	Related segment
The Government of Japan	47,090	Shinkin Central Bank business

(Millions of U.S. Dollars)

Name of customer	Income	Related segment
The Government of Japan	424	Shinkin Central Bank business

For the Fiscal Year Ended March 31, 2018

### 1. Information by service

(Millions of Yen)

	Securities investment operations	Lending operations	Other	Total
Income from external customers	227,630	17,597	61,663	306,892

## 2. Information by geographic region

### (1) Income

(Millions of Yen)

Japan	United States	Europe	Other	Total
168,458	33,387	15,195	89,850	306,892

Note: Income from derivative transactions and Trading income are included in Other.

### (2) Tangible fixed assets

The Group's tangible fixed assets located in Japan account for over 90% of the tangible fixed assets presented in the consolidated balance sheet. Consequently, this information is omitted.

## 3. Information by principal customer

(Millions of Yen)

Name of customer	Income	Related segment
The Government of Japan	56,603	Shinkin Central Bank business

(Information related to Impairment losses of Fixed Assets by Reportable Segment)  
For the Fiscal Year Ended March 31, 2019

(Millions of Yen)

	Reportable segment	Other	Total
	Shinkin Central Bank business		
Impairment losses	1,567	—	1,567

(Millions of U.S. Dollars)

	Reportable segment	Other	Total
	Shinkin Central Bank business		
Impairment losses	14	—	14

Note: The “Other” is outside of business segments in our segment information and includes businesses performed by consolidated subsidiaries.

The Bank’s consolidated subsidiaries provide such financial services as brokerage & dealing, asset management, consumer credit guarantees, investment, M&A advisory operations, and data processing services.

For the Fiscal Year Ended March 31, 2018

(Millions of Yen)

	Reportable segment	Other	Total
	Shinkin Central Bank business		
Impairment losses	60	—	60

Note: The “Other” is outside of business segments in our segment information and includes businesses performed by consolidated subsidiaries.

The Bank’s consolidated subsidiaries provide such financial services as brokerage & dealing, asset management, consumer credit guarantees, investment, M&A advisory operations, and data processing services.

(Information related to Amortization of Goodwill and Balance of Unamortized Goodwill by Reportable Segment)  
Not applicable.

(Information related to Accrual of Income from Negative Goodwill by Reportable Segment)  
Not applicable.

### 31. Amounts per Share:

	Yen		U.S. Dollars
	2019	2018	2019
Net Assets per Share	306,594.84	299,587.63	2,763.11
Net Income per Share	6,358.89	6,311.86	57.30
Net Income per Share after Adjustment for Common Share equivalents	—	—	—

Notes:

1. The basis for calculation of net assets per share is as follows:

		2019	2018	2019	
Total Net Assets	Millions of Yen	1,660,465	1,626,605	Millions of U.S. Dollars	14,964
Amount Deducted from Total Net Assets	Millions of Yen	216,949	216,080	Millions of U.S. Dollars	1,955
Non-Controlling Interests	Millions of Yen	11,824	10,956	Millions of U.S. Dollars	106
Preferred Dividends	Millions of Yen	2,124	2,124	Millions of U.S. Dollars	19
Dividend Attributable to Specific Common Shares	Millions of Yen	3,000	3,000	Millions of U.S. Dollars	27
Distribution of Residual Assets Attributable to Specific Common Shares	Millions of Yen	200,000	200,000	Millions of U.S. Dollars	1,802
Net Assets at Fiscal Year-end Used to Calculate Net Assets per Share	Millions of Yen	1,443,516	1,410,525	Millions of U.S. Dollars	13,009
Number of Share Units at Fiscal Year-end Used to Calculate Net Assets per Share	Unit	4,708,222	4,708,222	—	—
Number of General Common Share Units	Unit	4,000,000	4,000,000	—	—
Number of Preferred Share Units	Unit	708,222	708,222	—	—

\* When calculating net assets per share, of dividend attributable to preferred shares, preferred dividends are deducted from total net assets whereas participating dividends are not deducted from total net assets.

Dividend attributable to specific common shares and distribution of residual assets attributable to specific common shares are deducted from total net assets, and the number of specific common shares is not included within the number of shares.

2. The basis for calculation of net income per share is as follows:

		2019	2018	2019	
Profit Attributable to Owners of Parent	Millions of Yen	44,781	44,466	Millions of U.S. Dollars	403
Amount Deducted from Profit Attributable to Owners of Parent	Millions of Yen	2,124	2,124	Millions of U.S. Dollars	19
Preferred Dividend	Millions of Yen	2,124	2,124	Millions of U.S. Dollars	19
Profit Attributable to Owners of Parent Used to Calculate Net Income per Share	Millions of Yen	42,656	42,341	Millions of U.S. Dollars	384
Average Number of Share Units for the Fiscal Year	Unit	6,708,222	6,708,222	—	—
Average Number of General Common Share Units	Unit	4,000,000	4,000,000	—	—
Average Number of Specific Common Share Units	Unit	2,000,000	2,000,000	—	—
Average Number of Preferred Share Units	Unit	708,222	708,222	—	—

\* When calculating net income per share, of dividends attributable to preferred securities, dividends attributable to preferred shares are deducted from profit attributable to owners of parent whereas participating dividends are not deducted from profit attributable to owners of parent.

3. Net income per share after adjustment for common share equivalents is not listed as there are no dilutive securities.

### 32. Subsequent Events:

Not applicable.

## Independent Auditor's Report

The Board of Directors  
Shinkin Central Bank

We have audited the accompanying consolidated financial statements of Shinkin Central Bank and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shinkin Central Bank and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

*Ernst & Young ShinNihon LLC*

June 20, 2019  
Tokyo, Japan

# Non-Consolidated Balance Sheet

Shinkin Central Bank As of March 31,	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
<b>Assets</b>			
Cash and Due from Banks	13,338,309	12,378,801	120,208
Call Loans	765,887	413,259	6,902
Receivables under Resale Agreements	39,999	89,999	360
Monetary Debts Purchased	221,732	177,359	1,998
Trading Assets	205,854	217,220	1,855
Money Held in Trust	150,317	99,789	1,354
Securities	16,613,593	17,137,785	149,725
Loans and Bills Discounted	7,045,582	6,952,659	63,496
Foreign Exchanges Assets	21,130	20,460	190
Other Assets	930,347	961,269	8,384
Tangible Fixed Assets	67,233	68,994	605
Intangible Fixed Assets	7,695	7,179	69
Customers' Liabilities for Acceptances and Guarantees	54,879	70,653	494
Reserve for Possible Loan Losses	(29,822)	(42,730)	(268)
<b>Total Assets</b>	<b>39,432,740</b>	<b>38,552,702</b>	<b>355,377</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Deposits	30,966,816	30,260,341	279,080
Debentures	2,486,710	2,714,890	22,410
Trading Liabilities	48,554	53,882	437
Borrowed Money	1,967,180	1,637,770	17,728
Call Money	22,878	25,313	206
Payables under Repurchase Agreements	152,777	98,373	1,376
Payables under Securities Lending Transactions	1,776,263	1,776,158	16,008
Foreign Exchanges Liabilities	1,397	447	12
Borrowed Money from Trust Account	14,025	5,375	126
Other Liabilities	190,350	196,352	1,715
Reserve for Employee Bonuses	1,329	1,334	11
Reserve for Directors' Bonuses	86	89	0
Reserve for Employee Retirement Benefits	23,461	22,023	211
Reserve for Directors' Retirement Allowances	435	456	3
Deferred Tax Liabilities	86,009	80,105	775
Deferred Tax Liabilities for Land Revaluation	6,081	6,100	54
Acceptances and Guarantees	54,879	70,653	494
<b>Total Liabilities</b>	<b>37,799,235</b>	<b>36,949,667</b>	<b>340,656</b>
<b>Total Net Assets</b>	<b>1,633,504</b>	<b>1,603,035</b>	<b>14,721</b>
<b>Total Liabilities and Net Assets</b>	<b>39,432,740</b>	<b>38,552,702</b>	<b>355,377</b>

# Non-Consolidated Statement of Income

Shinkin Central Bank For the year ended March 31,	Millions of Yen		Millions of U.S. Dollars
	2019	2018	2019
<b>Income</b>			
Interest Income:	193,711	223,718	1,745
Interest on Loans and Discounts	19,546	17,597	176
Interest on Due from Banks	8,454	8,407	76
Interest on Call Loans	946	706	8
Interest on Receivables under Resale Agreements	(336)	0	(3)
Interest on Receivables under Securities Borrowing Transactions	4	115	0
Interest and Dividends on Securities	164,286	196,249	1,480
Others	809	642	7
Trust Fees	399	117	3
Fees and Commissions	8,289	8,295	74
Trading Income	3,727	3,600	33
Other Operating Income	34,547	25,162	311
Other Income	18,092	14,897	163
<b>Total Income</b>	<b>258,767</b>	<b>275,792</b>	<b>2,332</b>
<b>Expenses</b>			
Interest Expenses:	119,523	121,536	1,077
Interest on Deposits	40,219	37,841	362
Interest on Debentures	4,499	5,930	40
Interest on Borrowed Money	3,571	7,040	32
Interest on Call Money	541	463	4
Interest on Payables under Repurchase Agreement	1,258	1,920	11
Interest on Payables under Securities Lending Transactions	23,686	15,872	213
Interest Payable on Interest Rate Swaps	44,790	50,964	403
Others	956	1,502	8
Fees and Commissions	6,743	6,520	60
Trading Losses	317	136	2
Other Operating Expenses	42,075	54,389	379
General and Administrative Expenses	30,867	29,500	278
Other Expenses	2,192	1,052	19
<b>Total Expenses</b>	<b>201,720</b>	<b>213,136</b>	<b>1,817</b>
<b>Income before Income Taxes</b>	<b>57,047</b>	<b>62,656</b>	<b>514</b>
<b>Income Taxes</b>			
Current	12,189	14,389	109
Deferred	2,570	1,768	23
<b>Total Income Taxes</b>	<b>14,760</b>	<b>16,157</b>	<b>133</b>
<b>Net Income</b>	<b>42,286</b>	<b>46,498</b>	<b>381</b>

		Yen	U.S. Dollars
	2019	2018	2019
Net Income Per Share	5,987.00	6,614.86	53.95
Dividend Declared per Share (General Common Shares)	3,000.00	3,000.00	27.03
Dividend Declared per Share (Specific Common Shares)	1,500.00	1,500.00	13.51
Dividend Declared per Share (Preferred Shares)	6,500.00	6,500.00	58.57

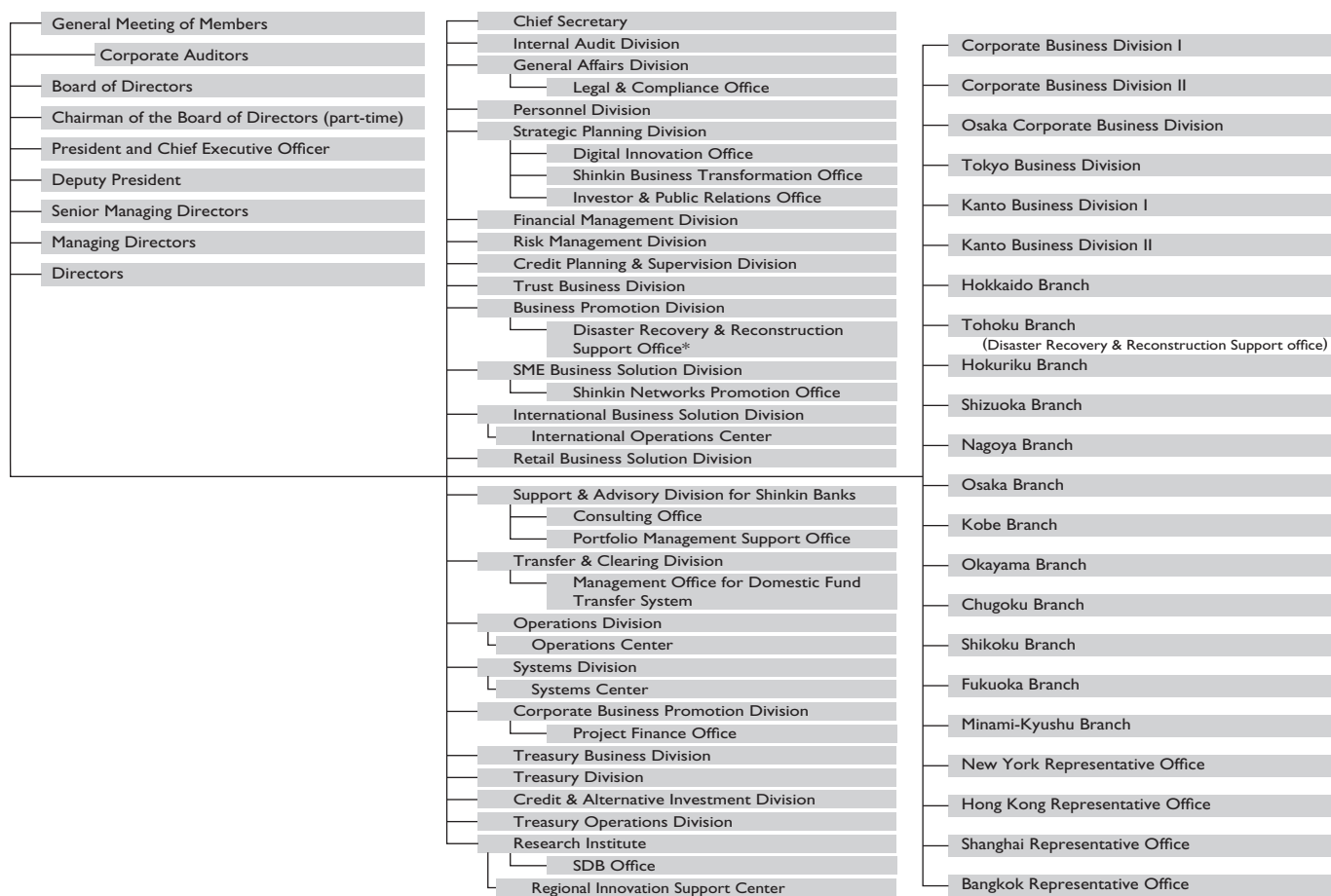
# Statement of Trust Account (Consolidated)

Shinkin Central Bank	As of March 31,	Millions of Yen		Millions of
		2019	2018	U.S. Dollars
		2019		
<b>Assets</b>				
Securities		6,000	6,000	54
Beneficiary Rights		617,068	381,740	5,561
Securities Held in Custody Accounts		63,000	63,000	567
Monetary Claims		106,191	60,392	957
Other Claims		2	4	0
Due from Banking Account		14,025	5,375	126
Cash and Due from Banks		913	8,932	8
<b>Total Assets</b>		<b>807,201</b>	<b>525,445</b>	<b>7,274</b>
<b>Liabilities</b>				
Money Trust		24,866	35,879	224
Investment Trusts		15,532	-	139
Money Held in Trust Other than Money Trust		16,077	23,814	144
Securities Trusts		102,700	111,000	925
Monetary Claims Trusts		107,190	61,415	966
Composite Trusts		540,835	293,335	4,874
<b>Total Liabilities</b>		<b>807,201</b>	<b>525,445</b>	<b>7,274</b>

(Note 1) Consolidated companies conducting trust business pursuant to the “Act on Engagement in Trust Business Activities by Financial Institutions” comprised only the Bank in the fiscal years ended March 31, 2019 and 2018.

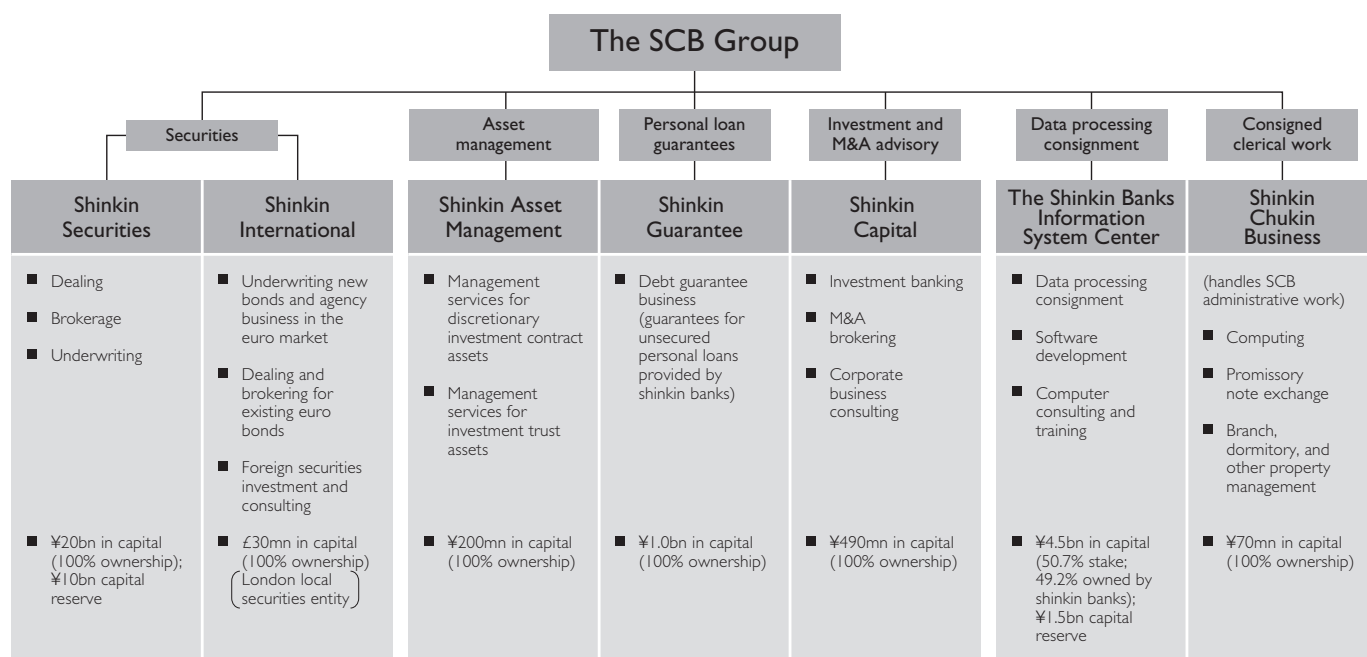
(Note 2) No trust assets were entrusted to other trust banks for asset administration as of March 31, 2019 and 2018.

# Organization (As of July 31, 2019)



\* Located in the Tohoku Branch.

## The SCB Group (As of July 31, 2019)



# International Directory (As of July 31, 2019)

**Senior Managing Director**  
(in charge of Corporate Business Promotion/  
Treasury Operations/Research Institute)  
Hiroshi Nakahara

**Senior Managing Director**  
(in charge of Strategic Planning/  
International Business Solution/  
Credit & Alternative Investment/  
Overseas Offices)  
Hiroshi Sudo

**Senior Managing Director**  
(in charge of Treasury Business)  
Norihiro Takano

**Managing Director**  
(in charge of Treasury)  
Keisuke Izutsu

**Strategic Planning Division**  
(including International Planning)  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7624  
Facsimile: +81-3-3278-7033  
General Manager: Yoshinori Jinno

**International Business Solution Division**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7703  
Facsimile: +81-3-3278-7035  
General Manager: Koichi Kawashima

**International Operations Center**  
(including Correspondent Banking)  
Address: 8-1, Kyoubashi 3-chome,  
Chuo-ku, Tokyo 104-0031  
Telephone: +81-3-5250-1700  
Facsimile: +81-3-5250-1780  
SWIFT: ZENB JPJT  
General Manager: Hideo Okada

**Corporate Business Promotion Division**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7679  
Facsimile: +81-3-3278-7045  
General Manager: Atsushi Toyoshima

**Treasury Business Division**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7642  
Facsimile: +81-3-3278-7040  
SWIFT: ZENB JPJT  
General Manager: Masao Ino

**Treasury Division**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7660  
Facsimile: +81-3-3278-7043  
SWIFT: ZENB JPJT  
General Manager: Hiroyuki Tanaka

**Credit & Alternative Investment Division**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7664  
Facsimile: +81-3-3278-7044  
General Manager: Norihisa Kawamura

**Treasury Operations Division**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7666  
Facsimile: +81-3-3278-7046  
SWIFT: ZENB JPJT  
General Manager: Minoru Suzuki

**Research Institute**  
Address: 3-7, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028  
Telephone: +81-3-5202-7671  
Facsimile: +81-3-3278-7048  
General Manager: Eiichi Matsuzaki

## Overseas Offices

**New York**  
**New York Representative Office**  
Address: 655 Third Avenue, Suite 2620,  
New York, NY 10017, U.S.A.  
Telephone: +1-212-642-4700  
Facsimile: +1-212-730-6000  
Chief Representative: Kentaro Sone

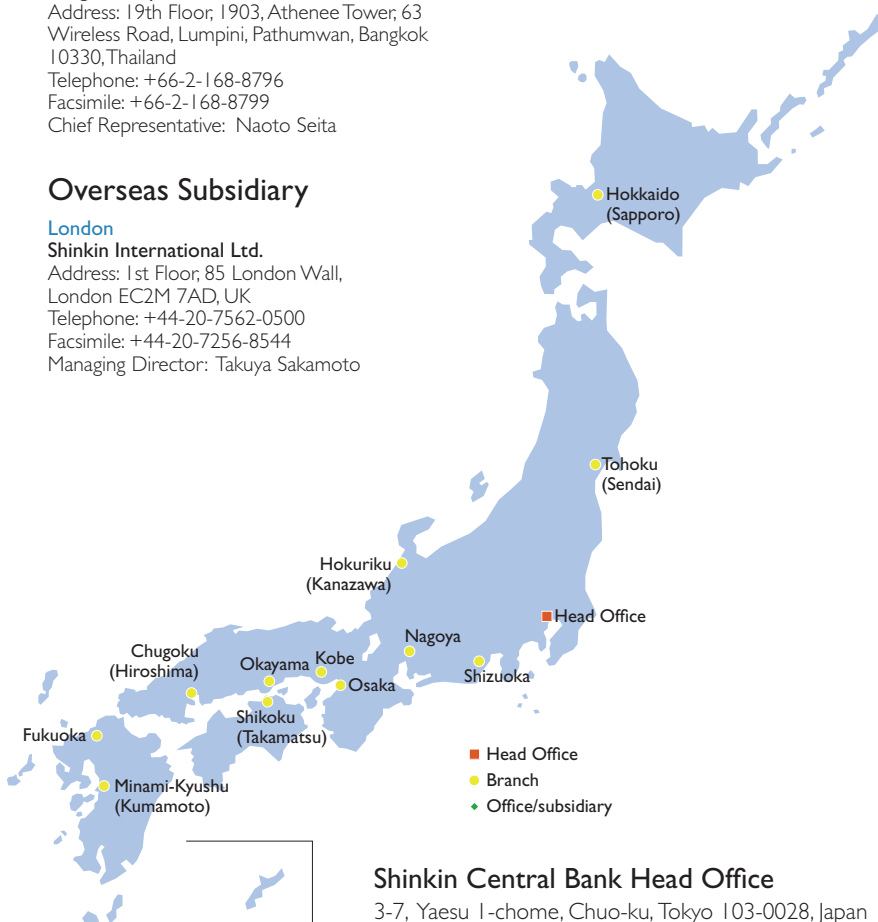
**Hong Kong**  
**Hong Kong Representative Office**  
Address: Suite 4008, 40/F, Central Plaza, 18  
Harbour Road, Wan Chai, Hong Kong, P.R. of China  
Telephone: +852-2537-3777  
Facsimile: +852-2537-4002  
Chief Representative: Masao Yamaguchi

**Shanghai**  
**Shanghai Representative Office**  
Address: Room 508, Shanghai International Trade  
Center, 2201 Yan-An Xi Road  
Shanghai, P.R. of China  
Telephone: +86-21-6270-3091  
Facsimile: +86-21-6270-3095  
Chief Representative: Yosuke Abe

**Bangkok**  
**Bangkok Representative Office**  
Address: 19th Floor, 1903, Athenee Tower, 63  
Wireless Road, Lumpini, Pathumwan, Bangkok  
10330, Thailand  
Telephone: +66-2-168-8796  
Facsimile: +66-2-168-8799  
Chief Representative: Naoto Seita

## Overseas Subsidiary

**London**  
**Shinkin International Ltd.**  
Address: 1st Floor, 85 London Wall,  
London EC2M 7AD, UK  
Telephone: +44-20-7562-0500  
Facsimile: +44-20-7256-8544  
Managing Director: Takuya Sakamoto



### Shinkin Central Bank Head Office

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<https://www.shinkin-central-bank.jp/>



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