

The background of the entire page is a deep blue. It features several large, overlapping, curved bands of lighter blue and white, creating a sense of motion and depth. These bands sweep across the lower half of the image, partially obscuring the text.

# HIROSHIMA BANK

**ANNUAL REPORT 2017**

# Profile

Founded in November 1878, The Hiroshima Bank, Ltd. (the “Bank”) is a regional financial institution headquartered in Hiroshima Prefecture, operating primarily in Hiroshima and the three neighboring prefectures of Okayama, Yamaguchi and Ehime. In addition to Branches and Offices in Japan, the Bank has representative offices in Shanghai, Bangkok and Singapore covering the entire area of East and Southeast Asia. Taking advantage of its extensive network, the Bank is providing comprehensive financial services including deposit taking, lending, money transfers, foreign currency exchange, and trustee services, along with investment trust sales and life insurance policies and other commercial banking activities.



Hiroshima Bank Head Office

## ■ Management Policy

### Management Vision

Building a reliable Hiroshima Bank Group united through trusting relations with the regional community

### Code of Conduct

The Hiroshima Bank Group shall rigorously implement sound management based on the following code of conduct:

1. Work in step with regional communities to actively contribute to their development
2. Strive to enhance customer satisfaction and peace of mind
3. Continuously enhance the Bank's corporate value
4. Create a cheerful, rewarding workplace
5. Exercise a high level of compliance

## ■ Financial Results

(As of March 31, 2017, non-consolidated)

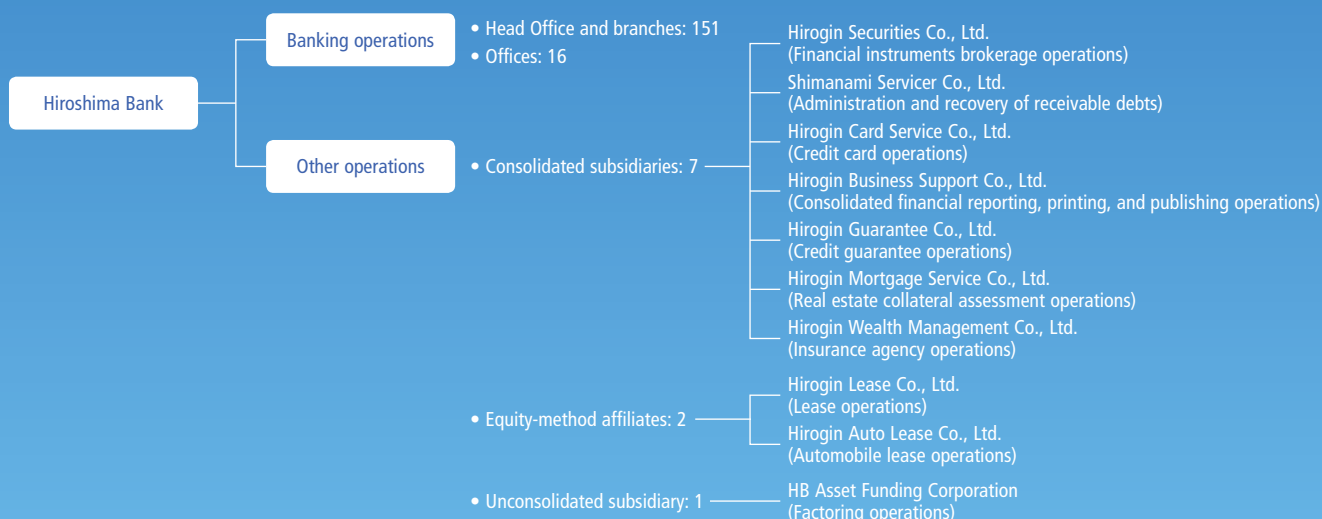
Balance of deposits + NCD	¥7,308.5 billion
Balance of loans	¥5,605.1 billion
Net income	¥29.9 billion
Profit attributable to owners of the parent	¥31.2 billion
Capital adequacy ratio	(Consolidated) 11.10% (Non-consolidated) 10.82%

## ■ Corporate Data (As of March 31, 2017, non-consolidated)

Established	November 1878
Common Stock	¥54,573 million
Employees	3,381

Head Office	3-8, Kamiya-cho 1-chome, Naka-ku, Hiroshima 730-0031, Japan
Branches and Offices	151 domestic branches, 16 offices, and 3 overseas representative offices (Shanghai, Bangkok, Singapore)

## ■ Business Operations (As of June 1, 2017)



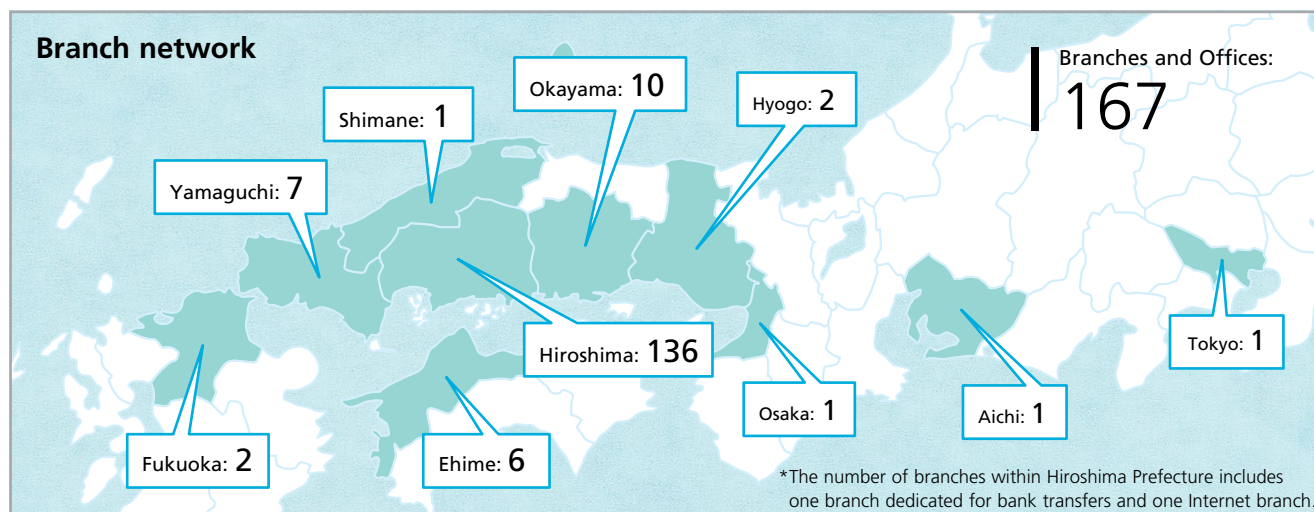
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# Hiroshima Bank's Network (As of March 31, 2017)

## JAPAN

The leading regional financial institution in the Chugoku and Shikoku regions



## OVERSEAS

Covering the entire area of East Asia and Southeast Asia

### Representative Offices

#### Shanghai Representative Office

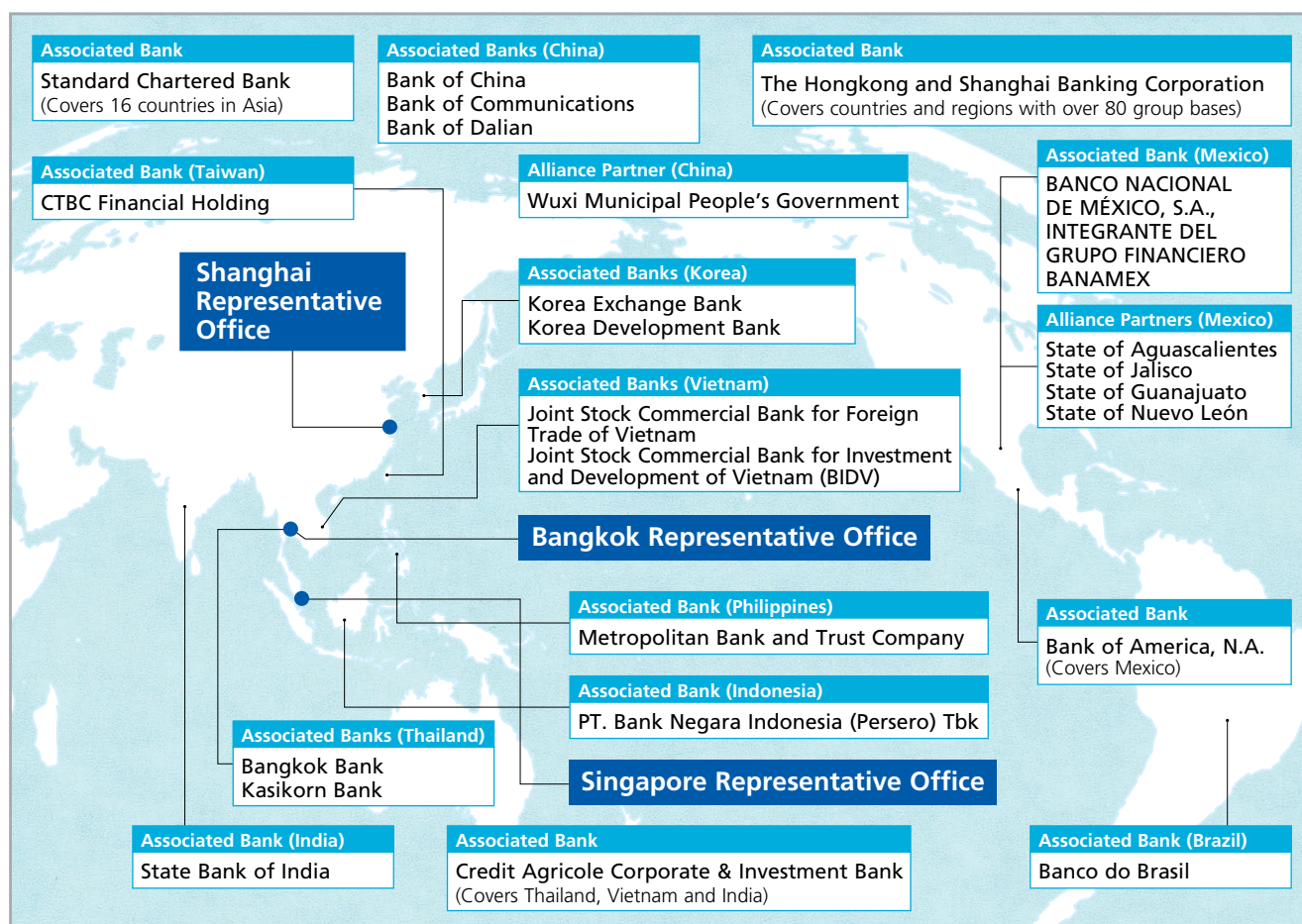
Room 1713, Shanghai International Trade Centre 2201, Yan An West Road, Shanghai 200336, China  
Tel: +86-(0)21-62752755

#### Bangkok Representative Office

14th Fl, Nantawan Building, 161 Ratchadamri Road, Pathumwan, Bangkok 10330, Thailand  
Tel: +66-(0)2-650-5099

#### Singapore Representative Office

65 Chulia Street, #27-03 OCBC Centre, Singapore 049513  
Tel: +65-6438-5882



# Profile of Hiroshima Prefecture

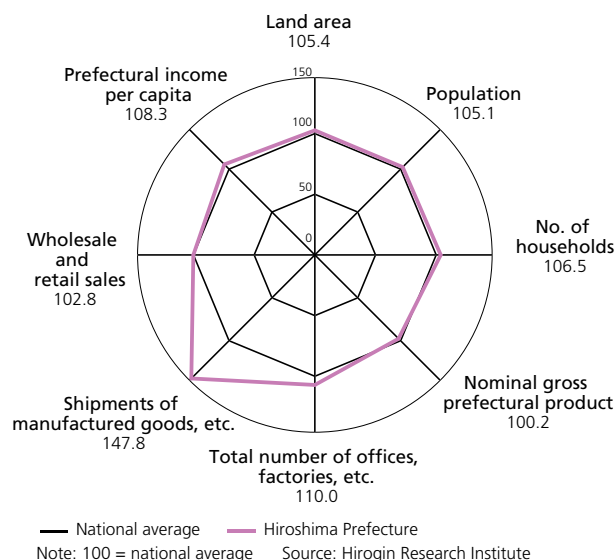
## ■ Characteristics of Hiroshima Prefecture

Hiroshima Prefecture, where the Bank's operations are based, has an outstanding economic advantage within the Chugoku-Shikoku region of Japan, about 2.3% share on most major national economic indicators, and ranks roughly 11th among the 47 prefectures. Hiroshima Prefecture is a market with high growth potential.

### National ranking and share

		Actual figure	National ranking	National share	As of
Regional	Land area	8,479 km <sup>2</sup>	11/47	2.2	2016/10
	Population	2,863 thousand	12/47	2.2	2016/1
	No. of households	1,291 thousand	11/47	2.3	2016/1
Economic	Nominal gross prefectural product	10.8 trillion yen	12/47	2.1	FY2013
	Total number of offices, factories, etc.	139 thousand	11/47	2.3	2014
	Shipments of manufactured goods, etc.	9.5 trillion yen	10/47	3.1	2014
	Wholesale and retail sales	10.2 trillion yen	9/47	2.3	2012
	Prefectural income per capita	3,060 thousand yen	10/47	—	FY2013
Financial	Balance of deposits	12.4 trillion yen	11/47	1.7	2016/12
	Balance of loans	9.0 trillion yen	11/47	1.9	2016/12

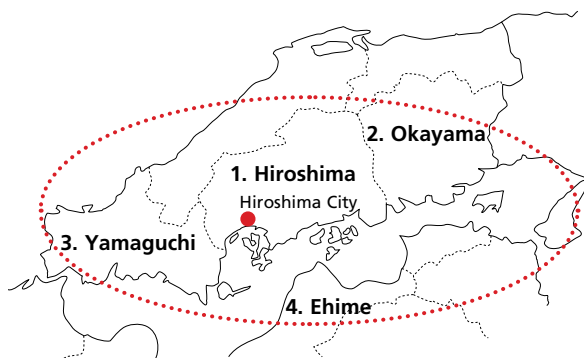
### Hiroshima Prefecture compared with national averages



## ■ Hiroshima Prefecture's Economic Scale

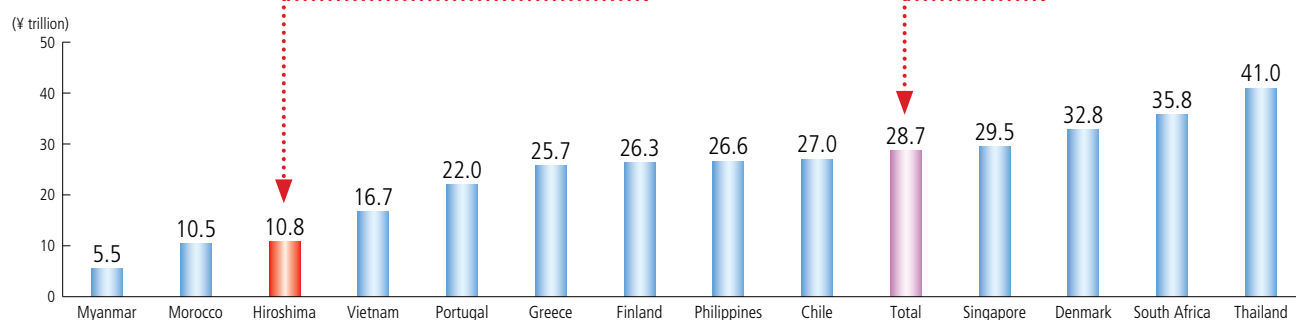
The four local prefectures (Hiroshima, Okayama, Yamaguchi, and Ehime) served by Hiroshima Bank make up an economic base that rivals Japan's three metropolitan areas in terms of population and number of business establishments. Even by international comparison, the GDP of this economic base is nearly the same as Singapore.

### Hiroshima Bank's operating base



### Nominal GDP of the four local prefectures

Ranking	Prefecture Name	Nominal GDP (Trillions of yen)	Share in Japan (%)	Relative GDP (Hiroshima = 100)
	Total	28.7	5.6	—
1	Hiroshima	10.8	2.1	100.0
2	Okayama	7.3	1.4	67.1
3	Yamaguchi	5.8	1.1	53.3
4	Ehime	4.8	0.9	44.1



# Message from the President



The management environment encompassing regional financial institutions is one of unprecedented harshness as the population and number of branches both decrease in addition to the prolonged low interest environment.

Even under such circumstances, Hiroshima Bank has practiced even greater customer-oriented operations as we believe that contributing to customers' growth and development is the duty of a regional financial institution.

However, to fulfill that duty and grow together with customers, merely continuing along existing lines is not sufficient. For that reason, the previous mid-term management plan, which was intended to continue through fiscal 2017, was ended one year early and the new Mid-Term Management Plan 2017 started in April this year.

This Mid-term Management Plan has the three pillars of reforming the earnings structure based on implementing value-added sales focused on customer needs, nurturing a corporate culture that promotes workstyle reform and a desire to take on challenges, and active commitment to regional revitalization. The Hiroshima Bank Group will gather its collective capabilities and grow together with customers while aiming to become a comprehensive financial services group. In particular, the Bank will move ahead on asset management operations for customers' asset formation by strengthening collaboration with the Group's securities company.

Moreover, in addition to advancing diversity by strengthening initiatives to provide greater opportunities for women and by recruiting specialized personnel, the Bank will provide one-stop services by collaborating with other businesses in areas that it cannot provide service alone.

In addition, we are striving to protect our customers through such initiatives as the strengthening of cybersecurity and prevention of billing fraud, as well as further enhancing value in the region through active involvement in various CSR-related areas such as contributing to society and preserving the environment.

Through these efforts, we will make the Hiroshima Bank Group a high-value, reliable banking group that is trusted by all of its stakeholders.



# Summary of Business Performance in FY2016

In FY2016, core banking profit declined ¥5.4 billion year on year to ¥34.4 billion, owing mainly to a decrease in net interest income as spreads narrowed under negative interest rates. However, net income was unchanged at ¥29.9 billion, thanks to a considerable increase in gains on securities.

On a consolidated basis, profit attributable to owners of the parent declined slightly by ¥0.2 billion to ¥31.2 billion, keeping profits near the record-high level set last fiscal year.

## [Non-Consolidated]

(¥ billion)

	Result for FY2016	YoY change (Change rate)
<b>Operating income</b>	<b>134.7</b>	<b>3.9 ( 3.0 %)</b>
Net interest income	71.4	(3.3)
Net fees and commissions income	17.7	(1.1)
<b>Core gross banking profit</b>	<b>89.1</b>	<b>(4.4) ( (4.6)%)</b>
Expenses	54.7	1.0
<b>Core banking profit</b>	<b>34.4</b>	<b>(5.4) ((13.4)%)</b>
Gains/Losses on securities	11.5	6.5
Credit costs	2.7	1.0
<b>Ordinary profit</b>	<b>43.2</b>	<b>(1.9) ( (4.2)%)</b>
<b>Net income</b>	<b>29.9</b>	<b>(0.1) ( (0.0)%)</b>

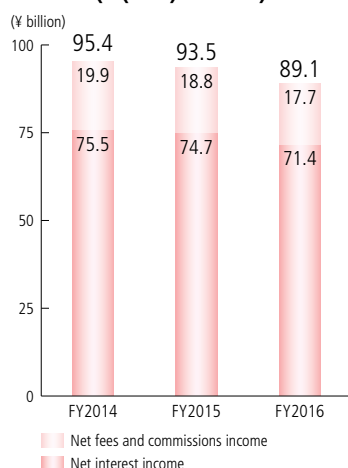
## [Consolidated]

<b>Operating income</b>	<b>138.2</b>	<b>3.8 ( 2.9 %)</b>
<b>Ordinary profit</b>	<b>45.0</b>	<b>(2.2) ( (4.5)%)</b>
<b>Profit attributable to owners of the parent</b>	<b>31.2</b>	<b>(0.2) ( (0.5)%)</b>

## Earnings

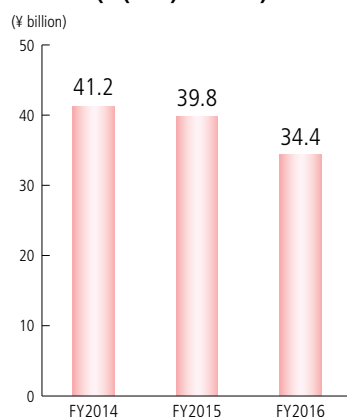
### Core gross banking profit

**¥89.1 billion**  
(¥(4.4) billion)



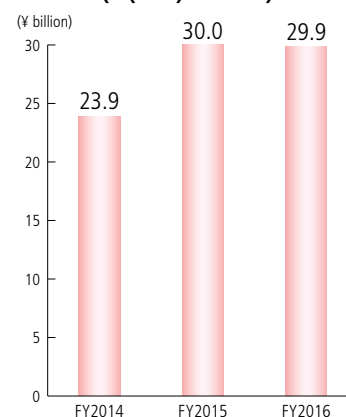
### Core banking profit

**¥34.4 billion**  
(¥(5.4) billion)



### Net income

**¥29.9 billion**  
(¥(0.1) billion)



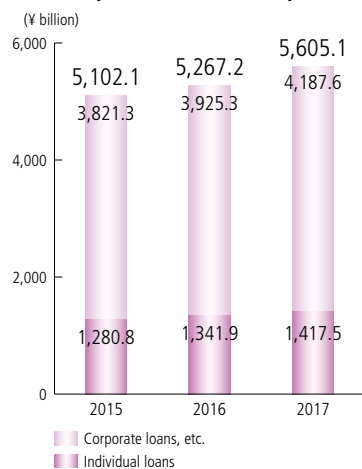
(As of March 31)

## Loans

Compared with the end of FY2015, the loan balance expanded ¥337.9 billion (+6.4%) to ¥5,605.1 billion on growth in both corporate loans and individual loans. The balance of corporate loans stood at ¥4,187.6 billion, an increase of ¥262.3 billion (+6.7%) from the end of FY2015, as a result of promoting loans based on feasibility studies and efforts to unearth needs for financing through consulting-based financial products. Of this, the balance of loans to SMEs was ¥2,293.5 billion, an increase of ¥99.4 billion (+4.5%). The balance of individual loans expanded ¥75.6 billion (+5.6%) to ¥1,417.5 billion compared with the end of FY2015, owing to a broader selection of new products and services and efforts to promote housing and consumer loans through promotion campaigns targeting each life stage.

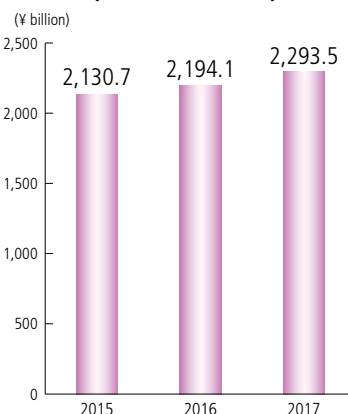
### Loan balance

**¥5,605.1 billion**  
(+¥337.9 billion)



### Loans to SMEs

**¥2,293.5 billion**  
(+¥99.4 billion)



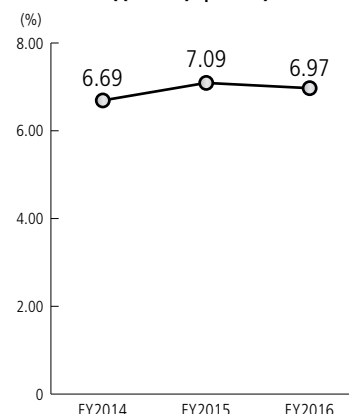
(As of March 31)

## ROE (Consolidated)

As an indicator of business efficiency, Hiroshima Bank's return on equity (ROE) remained at a high level of 6.97%.

### ROE

**6.97 %**  
((0.12) point)



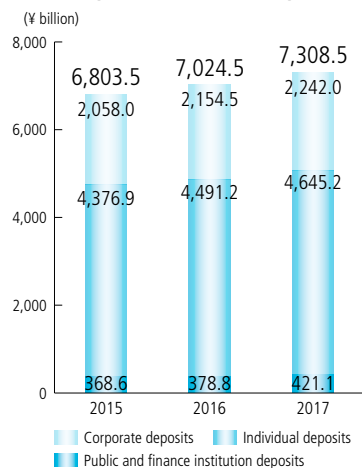
(As of March 31)

## Deposits

The Bank's balance of deposits and NCD stood at ¥7,308.5 billion, an increase of ¥284.0 billion (+4.0%) from the end of FY2015, thanks to marketing activities tied to local communities. Of this, corporate deposits grew ¥87.5 billion (+4.1%) to ¥2,242.0 billion, and individual deposits rose ¥154.0 billion (+3.4%) to ¥4,645.2 billion. Individual custody assets totaled ¥5,482.5 billion, an increase of ¥134.6 billion (+2.5%) compared with the end of FY2015, resulting from consulting-based marketing tailored to customer needs amid efforts to enhance customer-oriented operations (fiduciary duty).

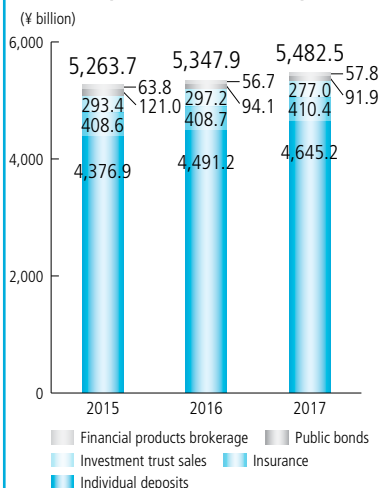
### Deposits and NCD

**¥7,308.5 billion**  
(+¥284.0 billion)



### Individual custody assets

**¥5,482.5 billion**  
(+¥134.6 billion)



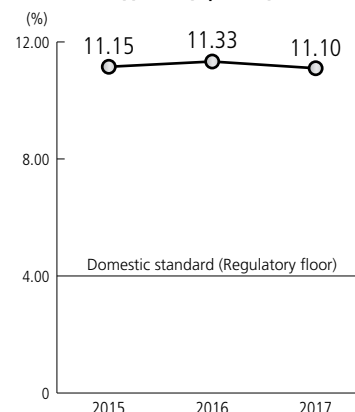
(As of March 31)

## Capital adequacy ratio

Hiroshima Bank's consolidated capital adequacy ratio was 11.10%, a decline of 0.23 of a percentage point from the end of FY2015, reflecting an increase in risk assets accompanying growth in the balance of loans. Nonetheless, the ratio remains well above Japan's domestic standard of 4%.

### Consolidated capital adequacy ratio

**11.10 %**  
((0.23) point)



# Mid-Term Management Plan 2017 (FY2017–FY2021)

The business environment continues to be challenging with the declining birthrate and aging population, ongoing low interest rates, and enhanced Basel regulations. Recognizing that following the same trajectory would not bring us closer to creating a better cycle in the local economy, we decided to revise our mid-term management plan one year before it was due to finish, and embark on the new Mid-Term Management Plan 2017. We are designating the next five years as a period for establishing new growth drivers by bringing together the comprehensive capabilities of the Hiroshima Bank Group and promoting customer-oriented business operations.

## Slogan

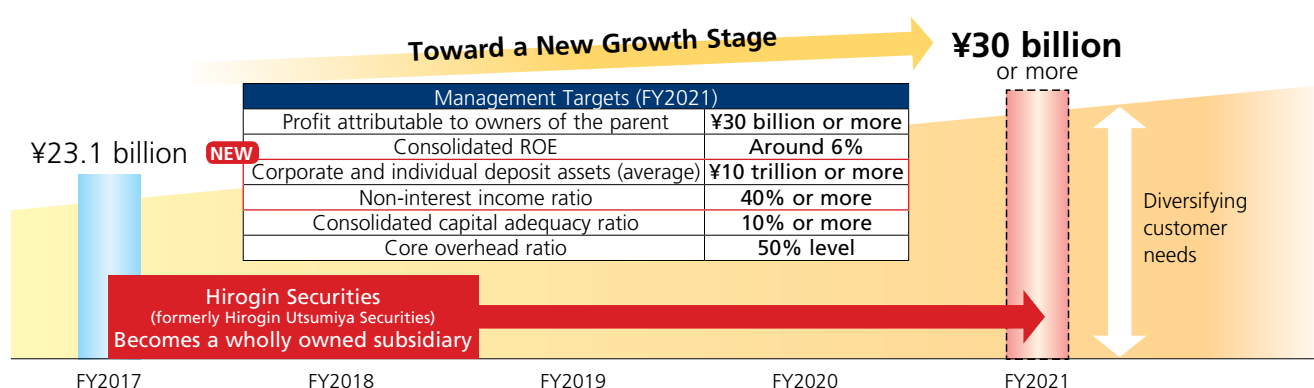
“Aiming to be a comprehensive financial services group that continues to grow with local customers”  
— A “True First Call Bank Group” —

## Basic Policy of the Mid-Term Management Plan

### Basic Policies

#### Three Pillars of the Mid-Term Management Plan

1. Reform the earnings structure based on implementing value-added sales focused on customer needs
2. Nurturing a corporate culture that promotes workstyle reform and a desire to take on challenges
3. Active commitment to regional revitalization



## Strategies in the Mid-Term Management Plan

### Key initiatives

- I. Further development of measures toward high value-added banking business
- II. Promotion of measures for asset management business that meet the asset formation needs of customers
- III. Enhancement of the profit base

Major strategies	1. Marketing strategy	(1) Enhance value-added marketing based on customer needs i. Enhance consulting sales (such as feasibility studies) and provide comprehensive solutions ii. Expand asset management business based on long-term relationships, including the next generation iii. Promote efforts for regional development, tourism promotion, and local medical support
	2. Securities strategy	(1) Ensure stable income with proper risk-taking based on market conditions
	3. Workstyle reform	(1) Promote a thorough reduction of labor burden (2) Improve labor productivity using Tomorrow Navi
	4. Human resource strategy	(1) Foster human resources able to quickly respond to changes and create value for local communities (2) Conduct human resource development measures that fit the banking and asset management business framework and establish career paths (3) Promote diversity i. Employ professional people with various values and skills ii. Implement measures to help advance the careers of women
	5. Enhance new service development	(1) Focus on ICT*, especially FinTech (2) Improve development of new services by collaborating with other non-financial companies

\*ICT means Information and Communication Technology.



# Enhancement of High Value-Added Banking Business

## — Promotion of Feasibility Studies —

The Bank will enhance high-value-added banking operations that meet the needs of customers and provide comprehensive solutions for corporate customers. We will also aim to increase the balance of loans to SMEs and income from investment banking operations by promoting our own consulting-based financial products, offering mid-term planning support services, and enhancing personnel training by augmenting training programs related to feasibility studies.

Main target in corporate loan strategy	Classification by scale of net sales (sales)	Percentage of corporate loans Top: Borrowers Bottom: Balance	Points for promotion
	Large-scale listed companies (over ¥3 billion)	About 5% (about 65%)	
	Upper-middle scale (¥1–3 billion)	About 6% (about 16%)	Specific measures
	Low-middle scale (¥0.2–1 billion)	About 18% (about 11%)	
	Small scale (less than ¥0.2 billion)	About 71% (about 8%)	
	Of which, sales under ¥10 million	About 16% (—)	

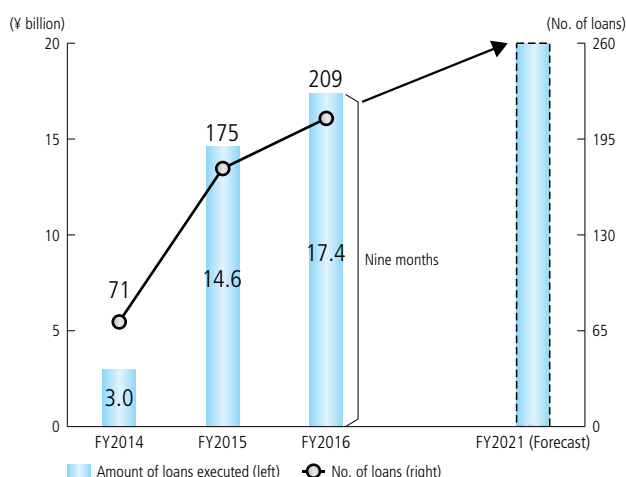
Expand volume and income by providing comprehensive solutions based on stronger efforts in feasibility studies

- Specific measures**
- ☑ Leverage the Bank's unique consulting-type loans
  - First in Japan**
    - Loans with principal exemption in case of earthquake
    - Loans for supporting cyber security measures, etc.
  - ☑ Promote mid-term planning support services
  - ☑ Foster HR development by increasing training courses for feasibility studies

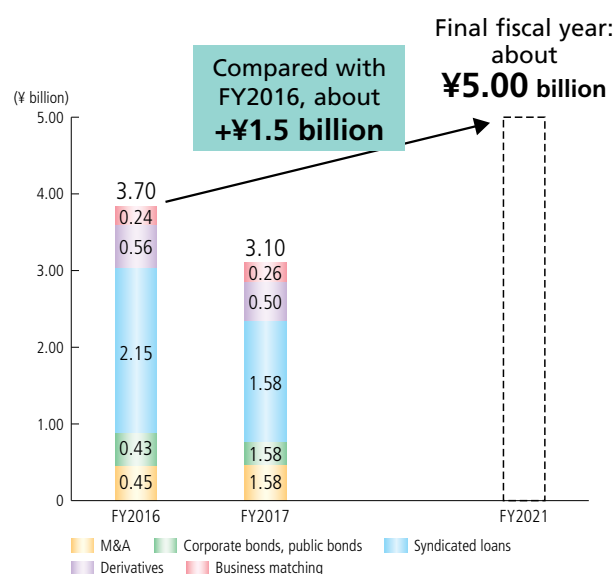
### Results of feasibility studies based on qualitative analysis

Interest on loans to borrowers subject to feasibility studies

Compared with average interest on loans to all borrowers, about +0.2%



### Accumulate investment banking income by capturing needs through feasibility studies



# Enhancement of High Value-Added Banking Business

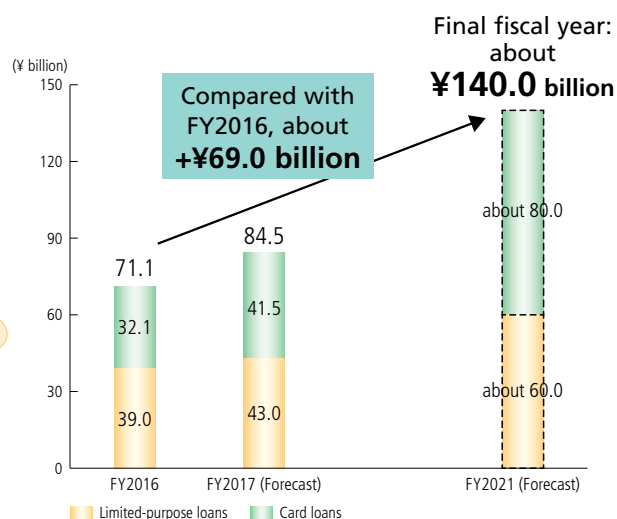
## — Promotion of Personal Loans —

The Bank aims to expand housing loans by providing attractive products and services, such as housing loans with enhanced coverage and riders, and promoting Flat 35. For consumer loans, we will establish a promotion structure with the headquarters functions including telemarketing, and improve efficiency by going paperless and concentrating the administrative functions at the headquarters.

### Offer housing loans with enhanced coverage and riders

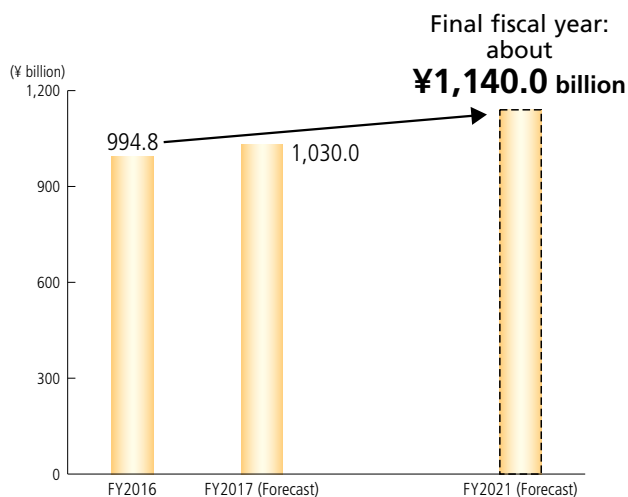
Insured	Conditions	Coverage
Debtor	<ul style="list-style-type: none"> <li>Death or serious disability</li> <li>Diagnosis of one of three major diseases</li> </ul>	Loan balance reduced to zero (fully repaid by insurance)
	<ul style="list-style-type: none"> <li>Hospitalization</li> </ul>	One-time benefit of ¥100,000 and repayment forgiven during hospitalization
	<ul style="list-style-type: none"> <li>Diagnosis of cancer in situ/skin cancer</li> </ul>	One-time benefit of ¥300,000
	<ul style="list-style-type: none"> <li>Advanced medical care for cancer</li> </ul>	<b>Technical fee for advanced medical care: up to ¥10 million in total</b> <i>First in Japan (females insured)</i>
Spouse (female)	<ul style="list-style-type: none"> <li>Diagnosis of female-specific cancer</li> </ul>	One-time benefit of ¥1 million

### Accumulation of average balance of consumer loans



### Accumulation of average balance of housing loans (including Flat 35)

Hiroshima Bank's share of new housing loans in Hiroshima Prefecture  
**29% (FY2015) → about 40% (FY2021)**



### Improve administrative efficiency for personal loans

Accept Review Execute Implement

- ☑ Shorten review periods
- ☑ Paperless and no need for personal seal
- ☑ Everything done by the headquarters

# Enhancement of Asset Management Business

Amid growing inheritance/donation needs, we are focusing more on services for elderly customers and business owners. We aim to pivot from a flow-type to a stock-type business model through measures that contribute to stable asset formation for customers by promoting sales of level premium insurance. By advancing these measures, we aim to expand the balance of corporate/personal deposit assets, including at Hirogin Securities, to more than ¥10 trillion by the final fiscal year of the mid-term management plan. We also aim for a non-interest income ratio of at least 40% through the accumulation of asset management business income.

## Enhancement of inheritance-related services

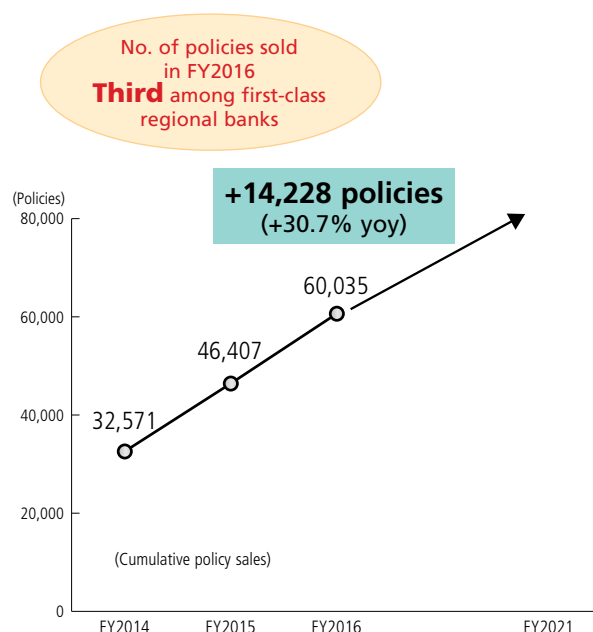
Increasing needs for inheritance-related services	
(In Hiroshima Prefecture)	
Inheritance tax exemption amount	No. of taxable heirs (ratio to the total)
<Up until December 2014> ¥50 million + ¥10 million × No. of legal heirs	<2014> <b>2,839</b> (3.3%)
<From January 2015> <b>¥30 million + ¥6 million × No. of legal heirs</b>	<b>Double</b> <2015> <b>5,724</b> (6.6%)

(Source: Hiroshima Regional Taxation Bureau)

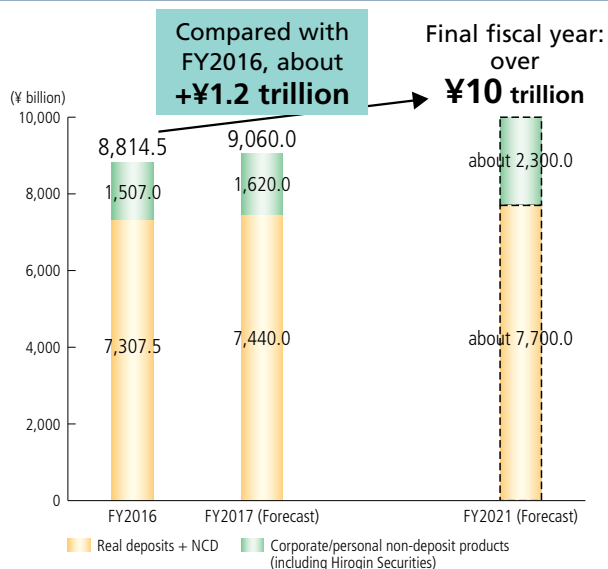
## Providing services that meet needs

What	By whom
<ul style="list-style-type: none"> <li>Private trusts</li> <li>Living trusts</li> <li>Testamentary trusts</li> <li>Calendar year gift trusts, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Private bankers (Headquarters)</li> <li>Salespersons in branches</li> </ul> <p><b>No. 1 among regional banks</b></p> <p>No. of employees with the 1st grade financial planner qualification (asset consultation business) About <b>280</b> (as of April 2017)</p>

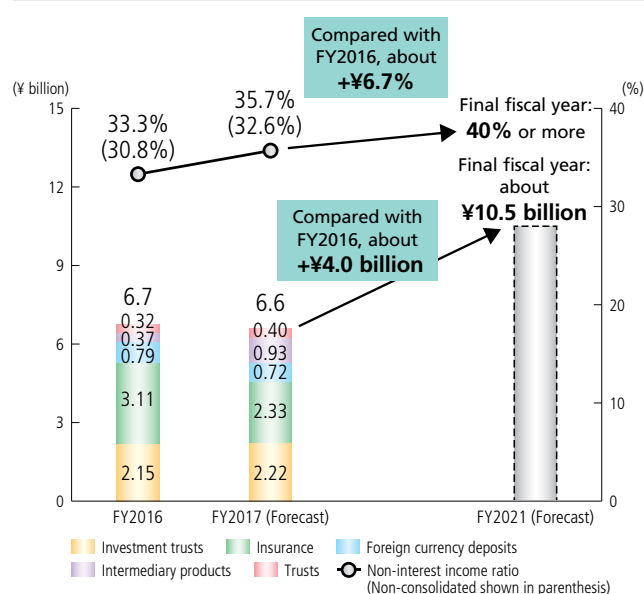
## Acquire level premium insurance policyholders to strengthen stock-type business income



## Increase in average balance of corporate/personal deposit assets (including Hirogin Securities)



## Improvement of non-interest income ratio through expansion in asset management business income (deposit assets)



# Enhancement of Asset Management Business

## — Collaboration between Banking and Securities Businesses —

On June 1, 2017, Hirogin Utsumiya Securities became a wholly owned subsidiary, and changed its name to Hirogin Securities Co., Ltd. The Hirogin Group will provide products and services in line with the needs and true interests of customers while emphasizing customer-oriented business operations (fiduciary duty). Specifically, we will promote collaboration between banking and securities businesses with a focus on expanding the product lineup, enhancing inheritance-related business, and increasing the number of joint branches.

### Promotion framework for collaboration between banking and securities businesses

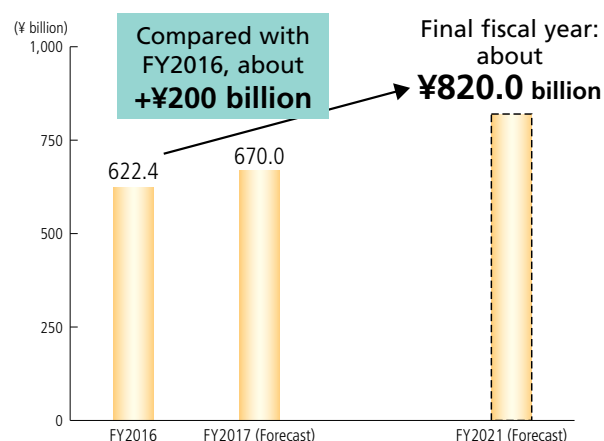
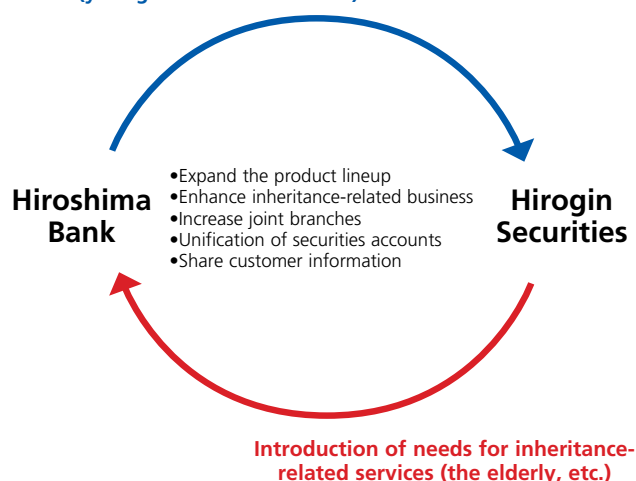
Customer classification (by balance of deposit assets)	% Upper: Number Lower: Balance		Promotion framework	
	Hiroshima Bank	Hirogin Securities	Hiroshima Bank	Hirogin Securities
Wealthy investors (¥30 million or more)	0.8% (21.8%)	3.8% (38.6%)		<b>Actively managed products</b> <ul style="list-style-type: none"> <li>•Stocks</li> <li>•Structured bonds</li> <li>•Foreign bonds</li> <li>•Theme-type funds</li> <li>Etc.</li> </ul>
Middle-class asset management customers (¥10–30 million)	5.5% (36.4%)	11.4% (30.4%)	<b>Stably managed products</b> <ul style="list-style-type: none"> <li>•Deposits</li> <li>•Public bonds</li> <li>•Foreign currency deposits</li> </ul>	<b>Expand product lineup</b>
Mass-class asset formation customers (less than ¥10 million)	93.7% (41.8%)	84.8% (31.0%)	<ul style="list-style-type: none"> <li>•Core funds (active trusts)</li> <li>•Insurance</li> <li>Etc.</li> </ul>	

Realize stable asset formation for customers by providing high-quality customer-oriented financial products and services via a unified group

### Promotion of unified management of banking and securities businesses

### Build up average balance of assets under management (Hirogin Securities)

Introduction of needs for securities  
(young and new customers)



# Enhancement of Efforts for Regional Development

We aim to secure earnings opportunities by strengthening collaboration with government agencies and becoming a core player in regional revitalization by being actively engaged in regional development, tourism promotion, and local medical support ahead of other banks. We will continue to focus efforts on start-up support to boost job creation by promoting start-up support loans and holding start-up support seminars.

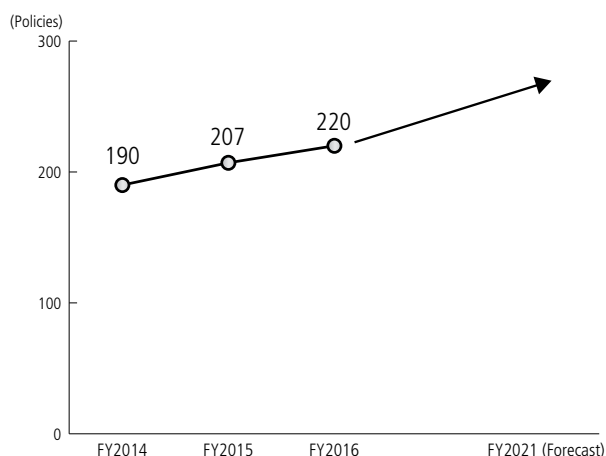
## Strengthen initiatives for "regional development," "tourism promotion," and "local medical support"

	Initiative	Business development/expected return
<b>Regional development</b>	<ul style="list-style-type: none"> <li>Prepare the Town Creation Plan (for the Kamiya-cho/Hatchobori areas) in line with the Central Urban Revitalization Plan*</li> </ul>	<ul style="list-style-type: none"> <li>Use loans and funds for development</li> <li>Support development of water infrastructure</li> <li>Facilitate participation by local companies in regional development plan, etc.</li> </ul> <p>Expected return (five-year total) <b>About ¥0.4 billion</b></p>
<b>Tourism promotion</b>	<ul style="list-style-type: none"> <li>Upgrade tourism infrastructure</li> <li>Support establishment of DMO</li> <li>Establish loan system for tourism operators</li> </ul>	<ul style="list-style-type: none"> <li>Support establishment/growth of tourism operators</li> <li>Support infrastructure development for airport privatization</li> <li>Facilitate participation by local companies in tourism infrastructure development projects, etc.</li> </ul> <p>Expected return (five-year total) <b>About ¥0.5 billion</b></p>
<b>Local medical support</b>	<ul style="list-style-type: none"> <li>Collaborate more with government agencies through regular communication</li> <li>Identify problems facing medical institutions and provide solutions</li> </ul>	<ul style="list-style-type: none"> <li>Business succession due to aging of business owners</li> <li>Support capital investment, etc.</li> </ul> <p>Expected return (five-year total) <b>About ¥0.1 billion</b></p>

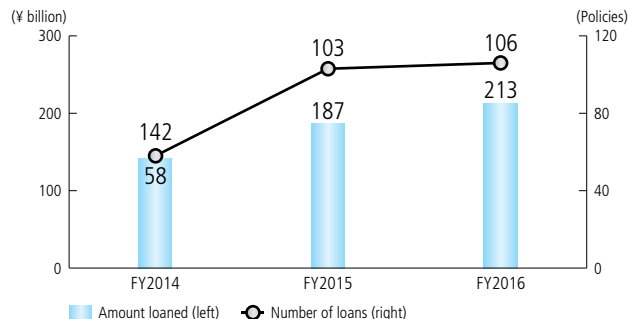
\* A central urban development plan created by Hiroshima City and Hiroshima Prefecture for revitalizing the center of the city.

## Strengthen start-up support to boost job creation

### ■ No. of start-ups supported



### ■ Promotion through start-up support loans



### ■ Establishment of card loans for quick start-up (March 2017)

- Existing bank customers are eligible
- Start-ups can use loaned money if capital suddenly deteriorates after starting business

### ■ Start-up support seminar for women (March 2017)

- Jointly held with Hiroshima Industrial Promotion Organization
- Provide forum for creating a future vision

## Strategies for Securities

We aim to secure stable earnings via appropriate risk-taking depending on market conditions, while paying due consideration to the Basel Accords (new regulations on interest rate risk and capital adequacy ratios), avoiding negative interest rates on current account deposits held at the Bank of Japan, and monitoring liquidity, profitability and stability. We also aim to create new earnings opportunities by reinforcing the equity business, including subsidiary funds.

### Points to watch

#### (1) Uncertain market environment

- Signs to exit include low inflation, low interest rates, and low growth
- Policies under the new US administration

#### (2) Basel Accords








- New interest rate risk regulations (introduction of IRRBB)
- Capital adequacy regulations

#### (3) Cash position

- Avoid negative interest rates on current account deposits at the Bank of Japan

#### (4) Liquidity, profitability, and stability of individual investments

### Strategy for managing marketable securities

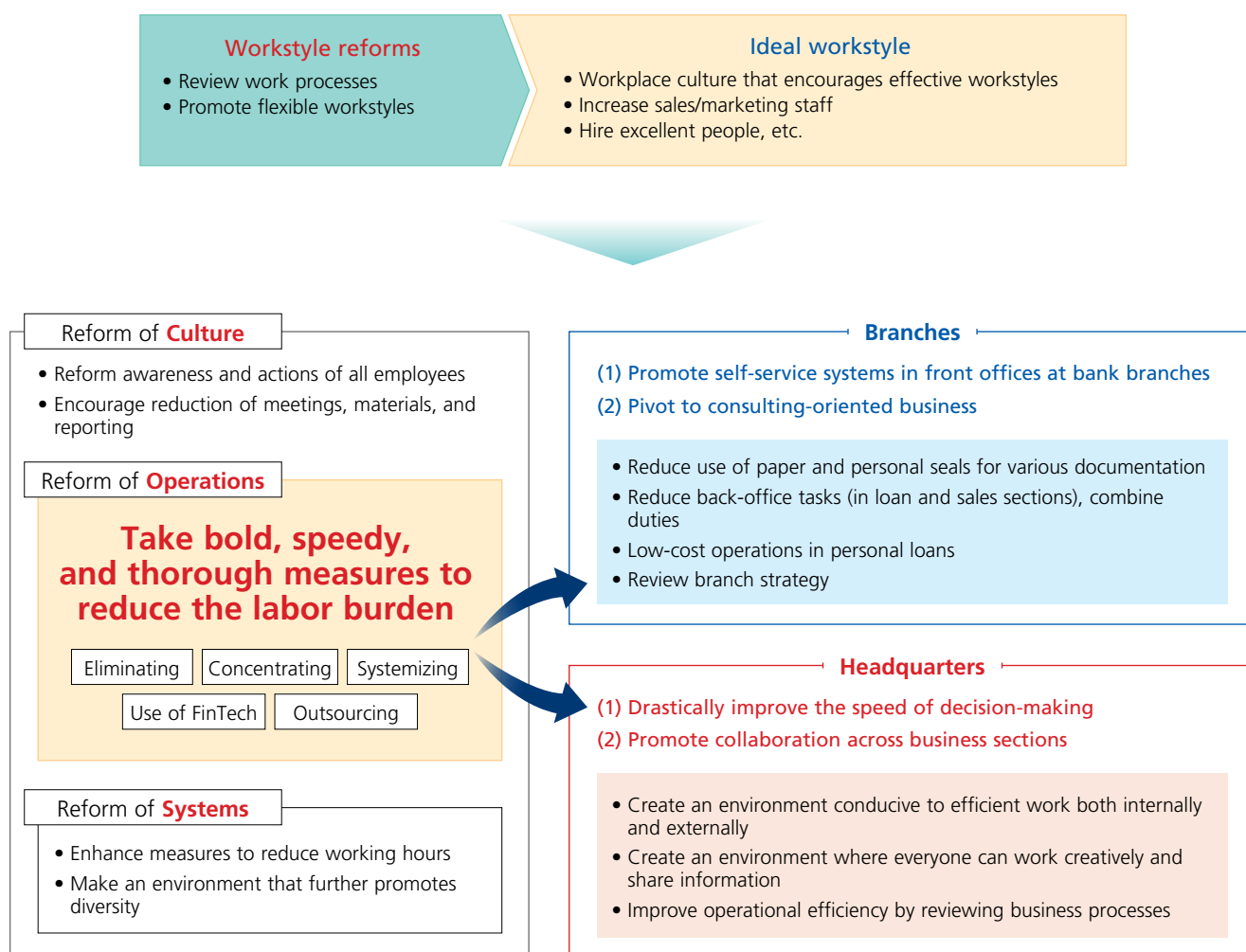
		Balance trend	Management policy
Interest rate	Yen bonds		• Gradually reduce Japanese government bond holdings and actively trade bonds with an eye on market conditions
	Foreign bonds		• Gradually reduce US Treasury Bond holdings and actively trade bonds with an eye on market conditions
Credit			• Purchase highly liquid and safe products, such as Government Housing Loan Corporation mortgage-backed securities
Stocks, J-REITs, etc. (including cross-held shares)			• Increase holdings of highly liquid assets able to provide a stable and high dividend
Equity business			• Increase balance by structuring and contributing to subsidiary funds (under consideration)
Investment trusts, etc.			• Increase holdings of multi asset-type investment funds with the aim of securing stable income
Total			• Balance of securities declines due to reducing holdings of yen bonds and foreign bonds



# Workstyle Reform

## — Emphasis on Reducing the Labor Burden —

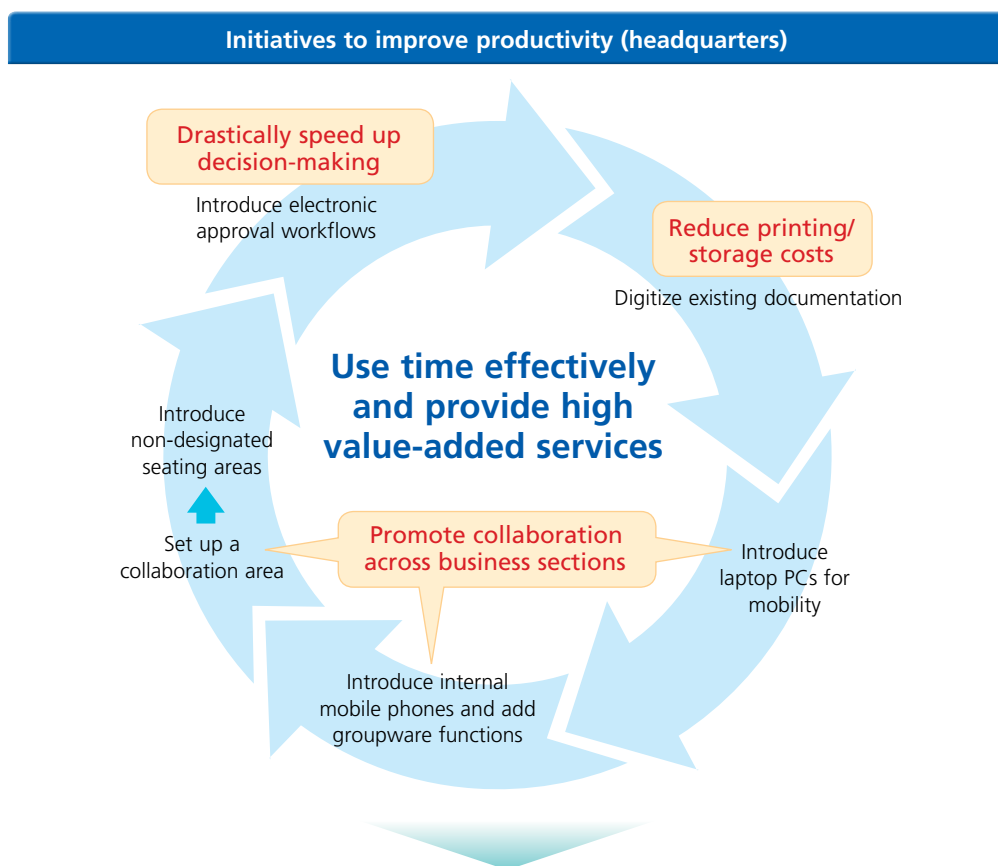
We believe we must promote workstyle reforms in order to provide high-value-added services. We seek to foster a workplace culture that values efficient workstyles while increasing the number of marketing personnel. We will take bold, speedy, and thorough measures to reduce the labor burden by utilizing FinTech and outsourcing, while eliminating, centralizing, and systemizing work processes. We will promote self-service systems in the front offices of bank branches, as well as paperless and personal seal-less processes in a pivot toward consulting-oriented operations, and review our branch strategy.



# Workstyle Reform

## — Initiatives to Improve Productivity —

Taking advantage of the temporary relocation of the Head Office for rebuilding, we are using this time effectively to introduce electronic approval workflows, digitize existing documentation, and start non-designated seating in the office and advancing initiatives to provide high value-added services. We are considering initiatives to improve productivity at branches based on the outcome of advanced implementation at headquarters.



### Using the opportunity of the Head Office rebuild (temporary relocation)

Image of the new Head Office building



Basic concepts of the new Head Office building

**Deepen regional development and CSR**  
(Contribute to the local community)

**Provide cutting-edge financial services**  
(Improve customer satisfaction)

**Enhance BCP**  
(Improve safety for customers)

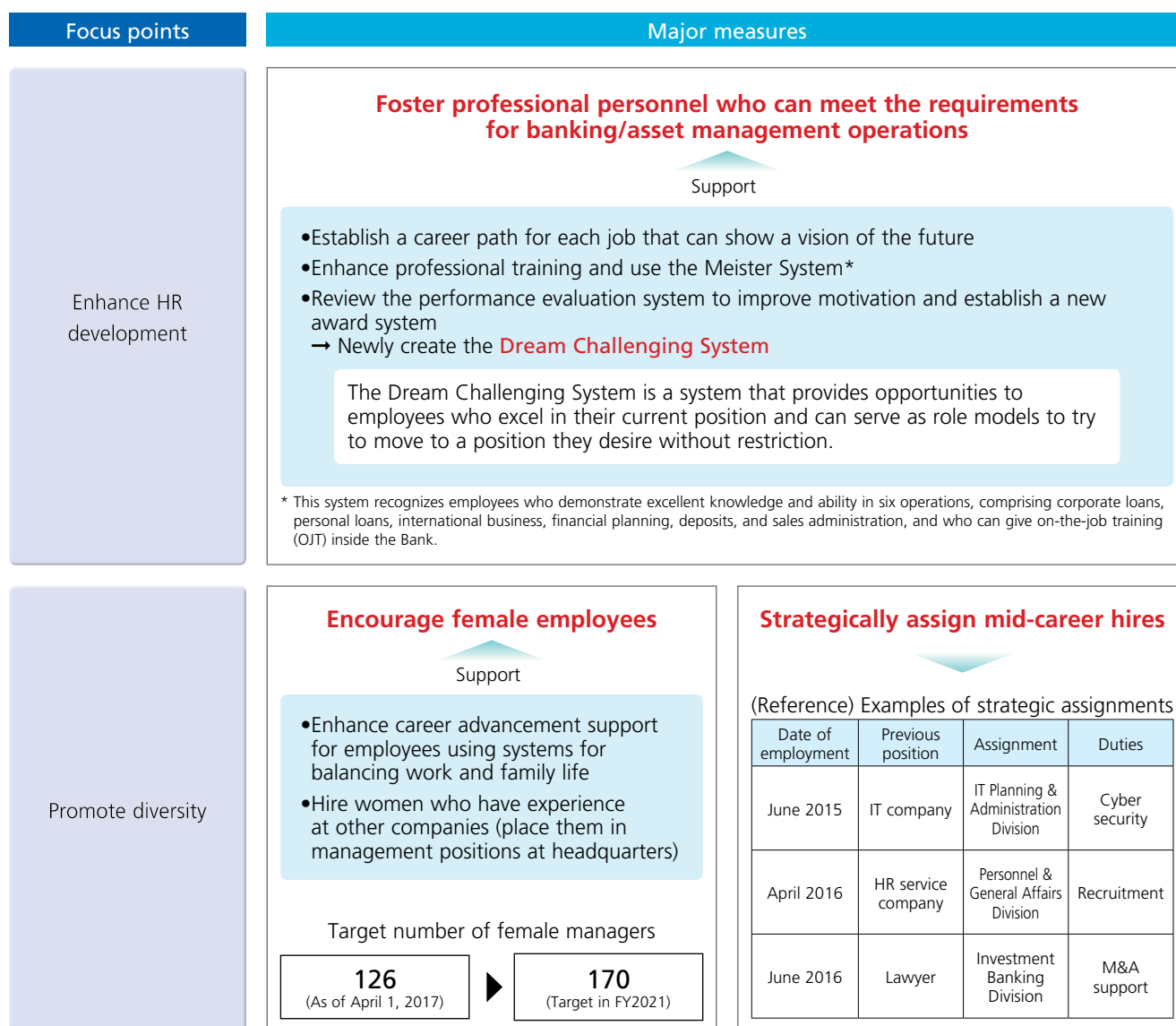
**Generate group synergies**  
(Sustain improvement in corporate value)

**Improve productivity and efficiency**  
(Provide better working environments)

**Improve productivity through Company-wide efforts**

# Human Resource Strategies

We will move ahead with various measures to enhance human resource development and promote diversity to improving employee job satisfaction. Regarding enhancing human resource development, we aim to augment specialized training to nurture professionals who can meet requirements for the banking and asset management business. To this end, we are promoting the use of the Meister System to certify professionals with exceptional knowledge, abilities and leadership skills. We have reviewed the performance evaluation system to improve motivation and newly established an award system resulting in the creation of the Dream Challenging System. Regarding promoting diversity, we are encouraging female employees and enhancing support for their career advancement, while also strategically placing mid-career hires.



## Enhance New Service Development

We aim to provide services that enhance convenience and offer apps that utilize cloud-computing and mobile devices. We also strive to increase efficiency, save labor, and enhance the sophistication of operations by using AI and robotics. Leveraging the information and creditworthiness of the Group as management resources, we are seeking partnerships with companies in other sectors, including non-financial companies, in order to offer customers value we would not be able to provide on our own in an integrated format. In this way, we are creating new earnings opportunities.

ICT initiatives centered on FinTech	
FinTech technology element	Projects under consideration
Cloud/Mobile	<ul style="list-style-type: none"> <li>Continuously develop and provide new services such as apps for family budgeting and asset management and making branch visit appointments</li> <li>Consider constructing a platform for business customers with loan application and business support functions</li> <li>Use cloud-based systems, especially for distributed and internal operations</li> </ul>
AI/Robotics	<ul style="list-style-type: none"> <li>Create an app with advanced AI functionality that offers dialogue-style consultation and recommendations</li> <li>Improve efficiency of loan reviews by building an AI-based loan review model, and enhance earning power in the banking business</li> <li>Implement measures to improve operational efficiency at branches and centers               <ul style="list-style-type: none"> <li>Improve operational efficiency by introducing RPA (Robotic Process Automation)</li> <li>Use an AI-based FAQ system to support the Direct Marketing Center and branches</li> <li>Save labor and improve the customer/internal referral system using speech recognition and text mining</li> </ul> </li> </ul>
API	<ul style="list-style-type: none"> <li>Provide accounting and household budgeting services by collaborating with cloud-based accounting service companies and personal financial management service companies</li> <li>Consider small-amount loan products with simplified (automatic) reviews offered via cloud-based accounting services</li> <li>Spur innovative services by continuing to hold hackathon/ideathon events</li> </ul>
Blockchain technology	<ul style="list-style-type: none"> <li>Consider and specify a low-cost, convenient small-amount payment service that could replace Zengin System/SWIFT</li> </ul>

New services in collaboration with other sectors
<ul style="list-style-type: none"> <li>Forge partnerships with other sectors (non-financial) and provide valuable one-stop services we would not be able to provide on our own</li> </ul>
Utilize the management resources (information and creditworthiness) of the Group

# Corporate Governance

## Basic Approach to Corporate Governance

The Bank's management policy is to improve management efficiency and transparency to receive high evaluation from and build unshakable bonds of trust with our stakeholders, including both customers and shareholders. To attain this goal, we have positioned more stringent corporate governance as a top management priority, and are working to raise standards through a range of measures.

### 1. Outline of corporate governance structure

The Bank has adopted an Audit & Supervisory Board system as part of its efforts to strengthen corporate governance for the following reasons and purposes:

- For responding promptly and accurately to changes in the management environment and ensuring the appropriateness of the Bank's business operations, it is important to have a system in which internal Bank directors, who have a wealth of expert knowledge and experience in the banking business and bank management and a deep understanding of the operation and execution of the Bank's business, oversee as members of the Board of Directors the management's decision-making and the execution of duties by the other directors;
- Having the Audit & Supervisory Board whose members, including external Audit & Supervisory Board members, audit the execution of duties by the directors is effective and serves as a management monitoring function; and
- The highly independent external directors and external Audit & Supervisory Board members provide their supervising and auditing functions in a fair and objective manner from a neutral perspective and give appropriate suggestions and advice on the execution of the duties by the directors and on the status of the operation of internal controls, thereby ensuring an adequate management supervisory system.

The Bank's Board of Directors consists of 10 members, including 3 external directors, as of June 29, 2017.

The board convenes once a month, in principle, and is responsible for making management decisions and overseeing business execution. The Bank has established the Management Board under the Board of Directors as a body for discussing and determining important matters relating to overall management based on the basic policy determined

by the Board of Directors. The members of the committee are the Chairman, President and directors in charge of the respective divisions, and the committee convenes once a week, in principle. In addition, the Bank has established the Directors' Loan Evaluation Board as a body to discuss and determine important loan projects based on the basic policy formulated by the Board of Directors. The members of the committee are the Chairman, President, Senior Managing Directors, and directors in charge of the respective divisions, and the committee convenes once a week, in principle. The Articles of Incorporation of the Bank prescribe that the number of directors of the Bank does not exceed 15 and that terms of office are for one year, to clarify management responsibility and build a management framework to respond rapidly to changes in the management environment.

The Bank has also introduced an executive officer system. Under the supervision of the Board of Directors, the system has duties executed by the President and Chief Division Officers, as well as Chief Area Officers. The decision-making functions related to important management items that directors should carry out and duties that directors and executive officers conduct in each role are divided, thereby appropriately ensuring operations and enhancing sustainable corporate value.

The external directors receive reports on the results of internal audits, Audit & Supervisory Board members' audits, and accounting audits as well as reports on the state of internal control from the division in charge of internal control during meetings of the Board of Directors as part of their roles of providing management supervisory functions in a fair and objective manner from a neutral and external perspective. In particular, the external directors receive detailed explanations of the agendas for the meetings of the Board of Directors and reporting materials in advance from the divisions in charge of internal audit and internal control, respectively, and provide appropriate suggestions and advice during such advanced explanation or meetings of the Board of Directors, thereby endeavoring to raise the effectiveness of their management supervisory functions.

In addition, for the purpose of conducting investigations, research, or discussions and coordination about specific matters, the Bank has established various other committees, including the Long-Term Management Planning Committee, the Sales Strategy Committee, the ALM Strategy Committee, the IT Strategy Committee, the Comprehensive Risk Management Committee, the Strategic Equity Holdings Verification Committee, the Compliance Committee, the Award Reprimand Committee and the

Pleasant Workplaces Promotion Committee, whose members consist mainly of the directors and general managers in charge of the respective divisions. These committees convene periodically or as required and make efforts to address major management issues and review cross-sectional measures and issues. Matters agreed or discussed by the committees are submitted for deliberation or reported at the meetings of the Board of Directors, Management Board, etc., thereby contributing to strengthening the Bank's corporate governance and enhancing the soundness and appropriateness of its business operations.

The Audit & Supervisory Board consists of five members, including three external Audit & Supervisory Board members, as of June 29, 2017. It convenes once a month and as required. The Audit & Supervisory Board members participate in meetings of the Board of Directors and provide appropriate suggestions and advice on management decision-making. The Audit & Supervisory Board members, including external Audit & Supervisory Board members, are striving to implement efficient audits by maintaining close coordination with the division in charge of internal audits and accounting auditors through the active exchange of opinions and information and by attending audits of branches by the division in charge of internal audits and on-site audits by accounting auditors. In addition, the Audit & Supervisory Board members receive reports on the progress of the tasks of developing sub-systems in the internal control system and important matters that affect the effectiveness of the sub-systems from the division in charge of internal control, including the status of the response to such matters, periodically or as required. The Audit & Supervisory Board members are endeavoring to develop and strengthen the internal control system from their standpoint as Audit & Supervisory Board members by requesting explanations and providing suggestions and advice as required on such occasions.

One of the Bank's external directors has been a Bank of Japan branch manager and worked as an executive manager of a regional financial institution. The director is expected to use that abundant experience, broad knowledge and perceptive insight to offer objective opinions and the like, fulfilling the responsibilities of an external director from a neutral standpoint and with fairness in places including Board of Directors meetings. The other two external directors have abundant experience in academia and as a company manager. They are expected to use that abundant experience, broad knowledge and perceptive insight to offer objective opinions and the like, fulfilling the responsibilities

of an external director from a neutral standpoint and with fairness in places including Board of Directors meetings. One of the Company's external Audit & Supervisory Board members uses their abundant experience as a lawyer, broad knowledge and perceptive insight to offer objective opinions and the like, fulfilling the responsibilities of an external Audit & Supervisory Board member from a neutral standpoint and with fairness in places including Board of Directors meetings. The Bank appointed the other two external Audit & Supervisory Board members as it was judged that they could be expected to use their abundant experience as a certified public accountant and a company executive, and their broad knowledge and perceptive insight to offer fair and objective opinions from a neutral standpoint in places including Board of Directors meetings and the like, fulfilling the responsibilities of external Audit & Supervisory Board members.

The Bank has not stipulated original standards regarding the appointment of external directors and external Audit & Supervisory Board members, but moves ahead with appointing external directors and Audit & Supervisory Board members with the objective of strengthening supervisory and monitoring functions of management and has the policy of using as a reference for the appointment of external directors and external Audit & Supervisory Board members the guidelines laid out for independent officers as stipulated by the Tokyo Stock Exchange, Inc. The Bank has notified the Tokyo Stock Exchange that there is no risk of a conflict of interest between the three external directors and two of the three external Audit & Supervisory Board members and general shareholders and judged their appointments to be appropriate.

## **2. Status of internal audits, Audit & Supervisory Board members' audits and accounting audits**

With respect to internal auditing, the Board of Directors is engaged in building an effective internal audit framework according to types and degree of each risk in order to realize compliance. Based on internal audit regulations—which were formulated with the aim of contributing to sound and appropriate operations of the business—the internal audit department (61 staff members as of the end of the fiscal year under review), which is independent from the audited departments, conducts internal audits on items related to compliance, risk management and internal control associated with financial reporting, among other areas, for each department and branch, subsidiary, and affiliated company,



as well as outsourced contractors. Specifically, these audits are conducted by conforming to the basic internal audit plan established by the Board of Directors every half fiscal year. The results of the audits are reported every month to the Board of Directors. Also, the internal audit department notifies the audited departments of the internal audit results in writing, requests improvement or recommends correction regarding items necessary to be improved or corrected, and reports the status of these actions on a regular basis to the Board of Directors.

Regarding Audit & Supervisory Board members' audits, each Audit & Supervisory Board member conducts audits on the status of duties executed by directors. Specific means include verifying attendance at the meetings of the Board of Directors and other important meetings, listening to directors regarding the status of their performance in executing their duties, accessing important approval documents and other documents, investigating the status of operations and assets of each department and branch, and monitoring and verifying the status of the internal control system. These audits are implemented based on Audit & Supervisory Board members' audit standards established by the Audit & Supervisory Board, auditing standards associated with the internal control system, the Audit & Supervisory Board members' audit plan, which is formulated every fiscal year, and division of duties. The results of these audits are reported to the Board of Directors every month, and in addition, Audit & Supervisory Board members exchange views with the President on a regular basis to provide appropriate suggestions, advice or requests, thereby implementing effective audits.

One of the external Audit & Supervisory Board members has qualifications as a certified public accountant and is highly knowledgeable about financial affairs and accounting.

Regarding accounting audits, KPMG AZSA LLC conducts audits on financial statements as well as internal control audits associated with financial reporting. As for accounting audits, they are executed in a reciprocal manner with the internal audit department which is in charge of audit administration, such as by exchanging information and opinions at meetings held regularly or as necessary or conducting branch audits in the presence of the internal audit department.

### **3. Status of the internal control system and the risk management framework**

The Bank, based on a management vision of building a reliable Hiroshima Bank Group united by trusting relations with the regional community and the five acts comprising the Corporate Philosophy, aims at sound and transparent management to secure the sincere trust of all its stakeholders, including customers, the regional community, shareholders, the market and its employees.

In addition, the Bank is continuously working on strengthening its corporate governance and the internal control system, such as by appointing external directors who meet the standards of independent officers stipulated by Tokyo Stock Exchange, Inc.

#### **(1) System for ensuring that actions taken by directors and/or their agents are in keeping with laws and regulations and the Articles of Incorporation**

The Bank has formulated Ethics Regulations, Service Regulations and Compliance Regulations to clarify the code of conduct and other standards expected of its employees. At the same time, the Bank has positioned rigorous compliance as one of its utmost management priorities, and strives to ensure that its business activities are sincere and in strict compliance with all relevant laws, regulations and rules. In addition to legal compliance, the Bank has established Customer Protection Management Regulations to serve as a guideline to secure a structure aimed at protecting and enhancing convenience for customers. The Bank strives to execute its business—such as providing information to customers or responding to their requests for advice or customers lodging a complaint—in a sincere and fair manner from the customers' perspective, with all employees being fully aware of the Bank's social responsibility and public mission. To this end, as a rigorous and specific action plan for compliance with laws and regulations and the protection of customers, the Board of Directors approves an updated Compliance Program every six months. In addition, for problems that may arise in our efforts to comply with the law, cases where circumstances prevent decisions from being reached at the department level, or where reports or consultations are not properly carried out, we have established a hotline system, allowing employees to report or consult directly with the Compliance Management Division and/or outside legal counsel.

Furthermore, through Ethics Regulations, the Bank has built a structure that blocks all relations with anti-social

elements. The basic policy of Ethics Regulations states that the Bank will prevent any and all connections to anti-social elements that might threaten the order and safety of civil society, including transactions that involve offering financial services via other companies (such as consumer credit companies). In the unlikely event the Bank becomes a target of extortion, it will contact and coordinate with police authorities, and employ all necessary legal measures to resolutely fight such demands.

Moreover, as part of Ethics Regulations, the Bank makes every effort to disclose business information fully and fairly and to ensure the transparency of its business operations, so that management can reflect the opinions of a broad range of concerned parties. We have also established accounting regulations and internal regulations on financial reports to ensure that we report financial information in a timely and appropriate manner.

As for the Bank's response to facilitating seamless financial operations or responding to Guidelines on Management Guarantees, it has formulated Basic Principles and Regulations on Credit and Basic Policies on the Management of Facilitating Seamless Financial Activities. By such means, the Bank has a structure in place that enables an appropriate response, such as offering funds to customers in a seamless manner in addition to providing support for management consultations and improvements.

#### **Status of implementation**

The Board of Directors receives various reports, such as the compliance program execution report, to confirm that business operations are adhering closely and appropriately to all management policy guidelines and regulations. Where improvement is needed, we take the necessary steps including improvements and corrections. To ensure rigorous compliance with laws and regulations and uphold corporate ethics, we have also established a Compliance Committee to deliberate and review compliance-related matters and prevent the occurrence of legal violations.

All employees have received a copy of the Compliance Manual, which gives simple descriptions of Ethics Regulations and other regulations mentioned above, as well as the Compliance Committee and the hotline system. We also conduct study sessions to discuss this manual, to ensure that all employees are familiar with its contents.

#### **(2) System for the preservation and management of information used by members of the Board of Directors in the execution of their duties**

The Bank's rules for the Board of Directors stipulate that minutes of board meetings be preserved for 10 years.

In addition, important information, such as minutes of the Management Board and the Directors' Loan Evaluation Board, is also preserved and managed appropriately in accordance with the Bank's internal regulations.

#### **Status of implementation**

Minutes of Board of Directors meetings have been preserved and managed appropriately as important information concerning the directors and the execution of their duties.

Other important pieces of information have also been preserved and managed appropriately by the relevant departments and branches.

#### **(3) System for managing the danger of losses and other systems**

To respond appropriately to various risks that surround its operations, the Bank has formulated the Comprehensive Risk Management Regulations and analyzes and accurately gauges the overall magnitude of each risk it faces. In doing so, the Bank strives to prevent the emergence or escalation of losses that could have a severe impact on its management. Every six months, the Bank approves an updated Comprehensive Risk Management Policy and strives to exercise a suitable level of balanced risk management to maintain its financial health and profitability.

The Bank is also appropriately managing its capital, including its adherence to capital adequacy regulations as set by Basel III, by establishing the Capital Management Regulations with an aim of securing an adequate level of capital that is in line with the Bank's risks and maintaining sound management.

In addition, in the Emergency Management Regulations, the Bank has set forth a Business Continuity Plan (BCP) prioritizing the continuity of important operations to ensure that it is able to respond appropriately to earthquakes or other natural disasters that might disrupt its continuous operation.

#### **Status of implementation**

By receiving various reports including the comprehensive risk management report, the Board of Directors has confirmed that risks have been managed appropriately and that the Bank has adequate capital for responding to risks.

At the same time, meetings of the Comprehensive Risk Management Committee have been held as required to monitor the risks as well as discuss and examine the Bank's responses.

Furthermore, the Bank has built an appropriate crisis response framework by holding regular drills in preparation for disasters.

#### **(4) Ensuring efficiency in performance of duties by directors**

The Bank has established a Management Board and Directors' Loan Evaluation Board. The Board of Directors decides the Bank's basic management policy and, based on this, delegates important decisions regarding the Bank's management in general to the Management Board. Likewise, important loan assessments are delegated to the Directors' Loan Evaluation Board.

To streamline the execution of business duties approved by the Board of Directors, regulations have also been developed to clarify the separation of duties and the delegation of duties and authorities within the Bank.

##### **Status of implementation**

The Management Board has made important decisions on management in general and the Directors' Loan Evaluation Board has made important loan assessments. In addition, reports have been submitted to the Management Board and Directors' Loan Evaluation Board according to internal regulations. In these ways, the Bank conducts efficient operational management.

Business duties have been separated to ensure that effective checks and balances are in place, with the Bank's divisions executing their respective duties in coordination with one another.

At the same time, the Bank has established a system of Chief Division Officers, as well as a system of Chief Area Officers. Under these systems, the Board of Directors appoints directors and executive officers in charge of planning and supervising the business operations of respective divisions, and also executive officers who devote themselves to specializing in managing the operation of branches in certain geographical areas. By clearly separating the roles and responsibilities of the executive officers, the systems enhance the sound and appropriate management of business operations and strengthen the earnings capability of the Bank.

#### **(5) Ensuring appropriate business operation by the Bank and the Hiroshima Bank Group**

To promote sound and smooth Group management in an integrated way, the Bank has formulated the Group Company Operations and Management Regulations, clarifying Group firm operations and management policy as well as the organizational structure of management and internal control divisions.

a. System for reporting the execution of business duties by the directors and officers of subsidiaries to the Bank  
Group companies are reporting to and consulting with the Bank on a regular basis, and as the need arises, in accordance with the Group Company Operations and Management Regulations, enabling the Bank to respond in an appropriate and timely manner.

b. Regulations and other systems for managing risks of losses at subsidiaries

The Bank's guidance and management of risk management and crisis management activities at Group companies are conducted in accordance with the Comprehensive Risk Management Regulations and Crisis Management Regulations.

c. System for ensuring the efficient execution of duties by the directors and officers of subsidiaries

The Bank's guidance and management of business operations at Group companies are conducted as a coordinated operation between the administration departments and business departments of all Group companies.

d. System for ensuring that the business duties executed by the directors, officers, and employees of subsidiaries comply with laws and regulations and the Articles of Incorporation

The Bank's guidance and administration regarding compliance with laws and regulations at Group companies are conducted in accordance with the Compliance Regulations.

##### **Status of implementation**

The Board of Directors has established a Group Company Summit Meeting for discussion and reporting on important items related to the overall management of Group companies, receiving a report every six months on the state of operations at Group companies and confirming the results

and status of each of these companies.

Divisions engaged in operational duties of Group companies conduct operations for those Group companies efficiently and provide guidance and management, while the Bank also monitors and supervises operations and execution of operations of Group companies by dispatching directors, department heads, or others who are in charge of divisions overseeing respective Group companies, to serve as the directors and auditors of those Group companies.

In addition, the Bank has built an appropriate framework for operating and managing the Group companies. As a part of this framework, the Bank's internal audit department conducts audits of the Group companies and reports the findings to the Bank's Board of Directors.

**(6) Matters related to personnel when an Audit & Supervisory Board member requests assigning personnel to assist their duties and matters related to the independence of the personnel from corporate directors, and matters concerning ensuring the validity of instructions given to the personnel by the Audit & Supervisory Board member**

The Bank set up the Audit & Supervisory Board Office in April 2006 as an organization aimed at assisting Audit & Supervisory Board members and to be supervised directly by the Audit & Supervisory Board.

**Status of implementation**

Under the Bank's Employment Regulations, the manager of the Audit & Supervisory Board Office follows the orders of the Audit & Supervisory Board members to assist them in their duties. Moreover, the Bank's Personnel & General Affairs Division must consult the Audit & Supervisory Board members on personnel matters regarding the manager of the Audit & Supervisory Board Office, including transfer, compensation and disciplinary action.

**(7) System for reporting to Audit & Supervisory Board members**

- a. System enabling the Bank's director and employees to report to the Audit & Supervisory Board members and other systems relating to reports to the Audit & Supervisory Board members

The Bank has established rules for reporting to the Audit & Supervisory Board members in its Service Employment Regulations and Compliance Regulations. These rules stipulate that in the event of activities in violation of laws or regulations, the Bank has built a system where the head of

the Compliance Management Division reports promptly to the Audit & Supervisory Board members.

- b. System enabling the directors, Audit & Supervisory Board members, executive officers and employees of Group subsidiaries, as well as those receiving reports therefrom, to report to the Audit & Supervisory Board members

The Bank has established a Group-wide hotline system, along with the rules for reporting acts in violation of laws and regulations to the Audit & Supervisory Board members, in its Group Company Operation and Management Regulations. This system enables the Bank's directors, officers and employees involved with Group companies to directly report and consult with the Bank's Compliance Management Division and/or outside legal counsel in the event of problems that may arise in the Group company's efforts to comply with the law, cases where circumstances prevent decisions from being reached at the Group company level, or where reports or consultations are not properly carried out. Furthermore, when such a situation is indeed found to be in violation of laws and regulations, the head of the Compliance Management Division is held responsible for reporting it promptly to the Bank's Audit & Supervisory Board members.

**Status of implementation**

Rules for reporting to the Audit & Supervisory Board members have been established in the Bank's internal regulations. Furthermore, each branch and department provides necessary reports or explanations on the status of operations based on requests or demands by the Audit & Supervisory Board members.

**(8) System for ensuring that people making reports as described above are not subjected to disadvantageous treatment for having done so**

The Bank has established rules for protecting people reporting (or requesting consultation) on compliance and other issues in its Service Employment Regulations, Compliance Regulations and Group Company Operation and Management Regulations.

**Status of implementation**

The Bank has set forth the necessary provisions for protecting the anonymity of people making reports or requesting consultations and preventing their disadvantageous treatment, along with making the provisions public to all employees.

### (9) Policy on the reimbursement of expenses and other financial obligations incurred by the Audit & Supervisory Board members in executing their duties

The Bank's policies on budgets submitted and expenses incurred by the Audit & Supervisory Board members in executing their duties are set out in the Head Office Settlement Authorization Regulations.

#### Status of implementation

In compliance with the Companies Act of Japan, each fiscal year the Board of Directors hold discussions with the Audit & Supervisory Board members to form a budget for covering the projected expenses for their activities. The Bank also promptly reimburses the Audit & Supervisory Board members for the expenses and other financial obligations they incur, or the prepayment invoices they submit, in executing their duties.

### (10) Other systems for assuring that audits are performed effectively by the Audit & Supervisory Board members

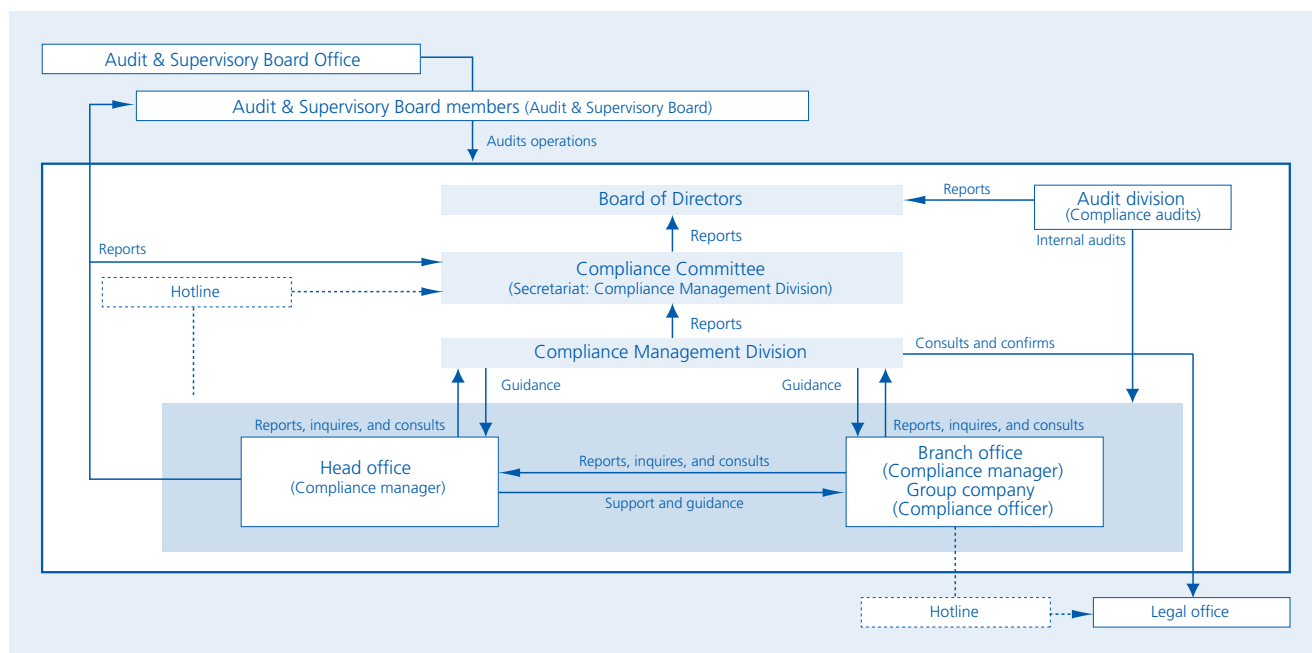
The Bank's Board of Directors Regulations and other internal rules stipulate that the Board of Directors must request the attendance of Audit & Supervisory Board members when they convene a meeting, and that the Audit & Supervisory Board members are also entitled to attend the meetings of the Management Board and Directors' Loan Evaluation Board.

#### Status of implementation

The Audit & Supervisory Board members have attended important meetings such as those of the Board of Directors, Management Board, and Directors' Loan Evaluation Board. They also have attended important meetings of committees such as the Comprehensive Risk Management Committee. Furthermore, the Audit & Supervisory Board members have met regularly with the President to exchange information and opinions related to key audit issues, and have actively exchanged information with the accounting auditor at regular meetings. The Audit & Supervisory Board members have also maintained a sound auditing environment by holding regular meetings with other directors and employees.

In addition, the Audit & Supervisory Board members strive to conduct efficient audits and improve the effectiveness of audits by coordinating closely with the internal Audit Division by regularly exchanging opinions and information with the division, while also attending audits of branches by the internal Audit Division as needed and requesting audit results.

### Compliance system



# Risk Management System

In order to fully justify the trust of customers and shareholders, the Bank must be able to ensure appropriate levels of earnings and stable operations, by dealing appropriately with various kinds of risk its operations are subject to, while remaining a soundly managed institution.

Based on our Comprehensive Risk Management Regulations laid down by the Board of Directors, the Bank decides on a detailed risk management policy for each fiscal year, and manages all categories of risk on an integrated basis.

For management of major categories of risk—credit, market, liquidity and operational risk—we have dedicated offices. The Risk Management Division manages risk centrally and comprehensively. To position us to deal appropriately with the increasing diversification and complexity of risk, we have established a Comprehensive Risk Management Committee and carry out regular audits through the Audit Division into the appropriateness and effectiveness of our risk management systems.

Under this risk management regime, we aim to ensure sound, profitable banking operations, while striking an ideal balance between capital adequacy, risk management and earnings imperatives.

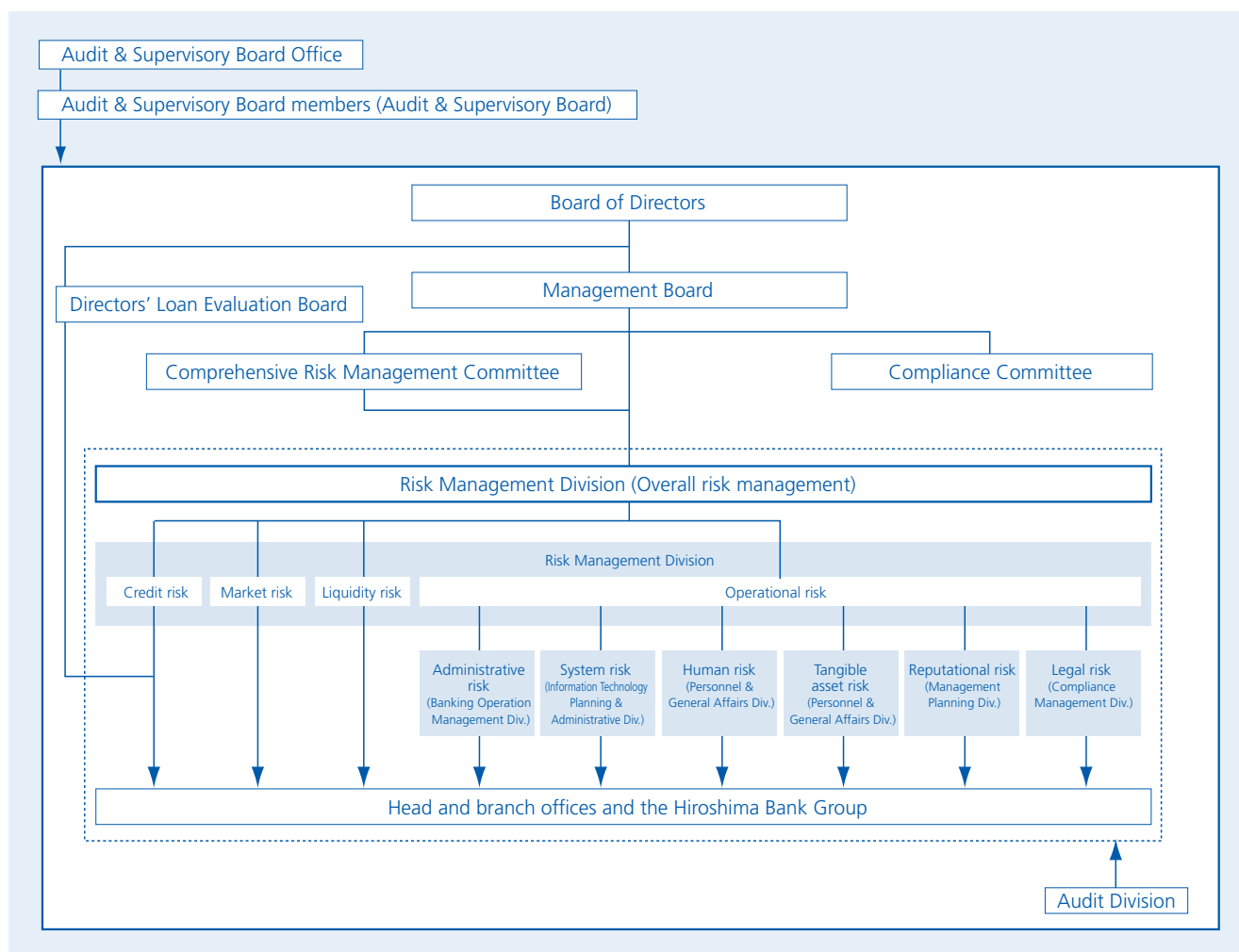
## Comprehensive Risk Management

Comprehensive risk management is undertaken by measuring the various risks faced by the Bank using uniform benchmarks such as value at risk (VaR) and then measuring such risk against the Bank's corporate strength.

We set ceilings (risk capital allocations) for risk-monitored assets in the categories of credit risk, market risk, and operational risk, with dedicated offices controlling risk-monitored assets. Centralized appraisal of risk-monitored assets as a proportion of Bank capital is undertaken by the Risk Management Division. We have also created a system for risk management reports to be submitted regularly to the Board of Directors, with implementation of appropriate countermeasures.

In addition, we evaluate and review the adequacy of our capital ratio through periodic stress tests, which clarify the possible impact on capital and earnings of losses arising from risk that could not be evaluated using statistical methods.

### Risk management framework (as of April 1, 2017)





## Risk Management System

### ■ Credit risk

Credit risk is the risk of sustaining losses due to reduction or loss in value of assets due to deteriorating credit circumstances at a borrower.

#### *Credit screening structure*

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For all major loans made by our branches, the Bank has in place a system of rigorous credit-screening carried out by a credit-screening department, which is independent of the marketing department. In addition to establishing teams for each sector, the credit-screening department has established dedicated teams to ensure sounder borrower finances and effective corporate rehabilitation, and also offers support to management trying to improve operations.

In approving a loan, the Bank not only follows the basic principles and rules for credit extension laid down by the Board of Directors, turning down any application that runs counter to the law or public morals, but also takes careful account of profitability and public benefit, in addition to fund use, repayment source, and guarantee and collateral arrangements.

In cases where customers apply for a review of borrowing terms, the Bank will give a considered response accounting for actual circumstances faced by the customer, in line with the Board of Directors' basic policy for management of funding facilitation. Appropriate and prompt credit screening is carried out after joint appraisal of a customer's needs and concerns—and is not just based on a mechanical, uniform judgment informed only by financial statements and other superficial statistics and industry-specific guidelines.

To strengthen and expand the credit screening system, the Bank seeks to appraise the creditworthiness of a given company through case-by-case credit management and takes continuous measures to improve the credit-screening skills of employees such as various kinds of training programs.

#### *Risk-management using the borrower category system*

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We have introduced the borrower category system to clearly identify objective credit risk on loans we extend. Based on financial and other data indicating the level of creditworthiness of the borrower, we have divided borrowers into 12 grades, and continuously monitor changes in credit risk. We then carry out credit risk quantification based on these grades to assess credit risk on loan assets and management risk capital allocations.

We also accumulate and organize the data necessary for quantification of credit risks, such as the default rate within each grade and progress in asset recovery from customers in default, combined with our highly sophisticated quantification technologies, to obtain a still more detailed picture of risk-monitored assets.

#### *Bank's own assessment*

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In parallel with the borrower category system, we conduct strict checks into the soundness of loan assets through annual assessment carried out by ourselves. Screening is carried out by particular Bank branches in light of the financial situation

faced by the borrower, and the results are checked by the credit-screening department of the Head Office. In addition, the Risk Management Division extracts important information and conducts a rigorous review of screening due process and accuracy, and the Audit Division carries out the process audit. Based on this in-house assessment, in cases where there is no realistic prospect of asset recovery, provisions are made to the reserve for possible loan losses to cover the entire value of the sum at risk. This provision is then recorded as a loss for the fiscal year under review. In this way, we ensure asset soundness.

### ■ Market risk

Market risk is the risk of incurring losses due to fluctuation in interest rates, stock and bond prices and foreign exchange rates, leading to changes in the market value of assets we hold.

The Bank seeks to stabilize earnings by controlling interest rate and other market risk by expanding and strengthening asset-liability management (ALM), including not only securities holdings but also deposits and loans. Findings of ALM analysis and simulations are incorporated into annual management policy as a significant element in management planning judgments.

In addition, we have created frameworks to ensure stable earnings through rigorous management of market risk, enabling us to respond swiftly and appropriately to market movements. We set limits on risk-monitored assets and lay down hedging policy and reporting and consulting rules for when asset value falls. We monitor compliance with ceilings and other limits through major measures such as total value of positions, amount of risk-monitored assets and earnings performance, as well as management on a daily basis.

In addition, accounting is rigorously based on a holding-purpose category, using mark-to-market accounting principles, that enables us to reflect changing market prices appropriately and accurately in financial data.

#### *Trading account risk*

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With regard to our trading accounts (for securities and off-balance-sheet transactions that involve short-term gains on sales or purchases and trading at the behest of customers), we have special management mechanisms in place, since these transactions differ qualitatively from banking account transactions (involving deposits and loans, investment securities, and related transactions). The Bank has set up designated trading accounts, and is strengthening their management using transparent accounting procedures based on mark-to-market principles.

For proprietary position dealing, we limit our position by complying with strict rules in terms of position limits and loss-cutting measures. For positions and transactions on behalf of customers, we follow a policy of square positions by fully covering them through the interbank market.

### ■ Liquidity risk

Liquidity risk is the risk of losses arising from unforeseen fund outflows leading to a drying up of cash flow, and the necessity of raising funds at higher rates than normal.

The Bank prepares for capital outflow under short-term stress conditions by holding highly liquid assets such as

government bonds. Furthermore, to alleviate long-term fund procurement risk, the Bank manages the gap between loans with low liquidity and stable procurement.

Furthermore, we monitor liquidity risk, cash flow, and matters that could affect cash flow, and have in place measures to ensure a swift and appropriate response to unexpected events.

## ■ Operational risk

Operational risk is the risk of losses arising due to failures in work processes and employee activities, computer system irregularities and the impact of external events.

To comprehensively and accurately manage operational risk, the Bank has divided such risk into a number of subcategories: administrative risk, system risk, human risk, legal risk, tangible asset risk, and reputational risk. Such risk is managed comprehensively.

### *Administrative risk*

Administrative risk is the possibility of losses arising from negligent processing by employees, accidents, or unauthorized activities.

Through various training programs, the Bank ensures rigorous performance of administrative duties to high standards of accuracy, speed, propriety and courtesy. It has also compiled a procedure for administrative duties based on the five principles of making a record of everything, keeping a hard copy, self-responsibility, checking and confirming.

The Bank has a reporting system for relaying complaints and opinions from customers and details of major clerical errors and incidents. To better meet in-house regulations and ensure deeper staff commitment, we analyze factors and trends in matters raised in this feedback, and, where necessary, take effective countermeasures. In addition to proactively using underlying data to prevent recurrence of clerical errors, incidents and the like, we also identify and analyze potential administrative risk and take preventative measures.

### *System risk*

System risk is the possibility of a loss arising from the failure, malfunction, or unauthorized use of computer systems.

The Bank has established a basic security policy for due protection of information assets and specific operating rules. Their management is geared to the degree of importance of information systems and of data.

Depending on their importance, IT systems use duplicated computers, communication lines, power supplies and other items. For core systems, we have backup centers located in both Hiroshima and Fukuoka, operated jointly with the Fukuoka Financial Group. We have taken measures to ensure that we can stay in business even in cases of major disasters.

For critical customer information (data), we use strict security controls, such as encryption and other measures, to prevent unauthorized external access and information leaks.

Moreover, in response to increasingly sophisticated and serious cyber attacks, the Bank has made the issue a management priority and conducts constant information collection and analysis regarding attack trends. The Bank has also established Hiroshima Bank CSIRT\* as an organization

to respond rapidly in the event of a cyber attack, thereby strengthening its security management stance.

Furthermore, to prepare for unexpected situations, cyber security incidents, and other events that can jeopardize the stable operation of computer systems, the Bank has formulated contingency plans and conducts regular drills.

\* Computer Security Incident Response Team

### *Human risk*

Human risk is the risk of losses arising from a fall in employee productivity or employee resignations, and employee acts leading to a loss of public confidence in the Bank.

We seek to optimize personnel management through employee education, training and work guidance, by ensuring appropriate personnel management based on job description and personnel policy. We also have in place preparations for dealing with pandemic influenza and other major disasters that could interrupt operations, with measures in place for each stage in the development of a possible pandemic. By increasing key staff at our Head Office, we aim to create a framework for continuing operations.

### *Legal risk*

Legal risk is the risk of sustaining losses due to penalties or legal liabilities arising from legal violations or a breach of contract.

In addition to daily awareness-raising and training in compliance, we ensure appropriate management through steady implementation of legal checks and establishment of a legal consultation framework.

### *Tangible asset risk*

Tangible asset risk is the risk of losses arising due to damage to tangible assets caused by disasters, illegal acts or inappropriate asset management.

We keep full records on locations and status of movable assets and real estate that we own, borrow or lend out, and have in place management mechanisms for anticipated damage caused by disaster, illegal behavior, etc.

### *Reputational risk*

Reputational risk is the risk of losses arising due to a loss of confidence in the Bank on the part of customers and markets, as a result of the spreading of false information.

In addition to ensuring the highest standards of transparency in disclosure, we seek to prevent reputational risk from arising by monitoring the Bank's reputation.

## Crisis Management System

In addition to the above risk management measures, we have compiled a business continuity plan (BCP), a plan to continue major operations on a priority basis in our Emergency Management Regulations to deal properly with risk in cases where earthquakes and other large-scale natural disasters disrupt our services. In this way, we have established our crisis management framework appropriately.

# Financial Section

## Consolidated Balance Sheets

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES  
As of March 31, 2016 and 2017

For more details about the financial information contained in this annual report, please refer to the financial information that has been made public on the Hiroshima Bank website.

 [http://www.hirogin.co.jp/eng/financial\\_info.html#FY2016](http://www.hirogin.co.jp/eng/financial_info.html#FY2016)

	Millions of yen		Millions of U.S. dollars (Note 1)
	2016	2017	2017
<b>ASSETS</b>			
Cash and due from banks (Notes 3, 4, 12 and 19)	¥ 712,514	¥1,253,275	\$11,171
Call loans and bills purchased (Note 19)	10,766	17,396	155
Financial receivables purchased (Notes 4 and 19)	6,824	7,091	63
Trading assets (Notes 3, 4 and 19)	12,284	9,145	82
Money held in trust (Notes 5 and 19)	189	156	1
Securities (Notes 3, 4, 7, 10 and 19)	1,995,792	1,761,462	15,701
Loans and bills discounted (Notes 6, 8 and 19)	5,267,812	5,605,677	49,966
Foreign exchanges	7,315	7,890	70
Other assets (Note 7)	35,951	57,766	515
Tangible fixed assets (Note 3)	88,689	92,305	823
Intangible fixed assets (Note 3)	9,689	10,249	91
Net defined benefit assets	41,663	46,078	411
Deferred tax assets (Notes 3 and 16)	683	699	6
Customers' liabilities for acceptances and guarantees (Note 10)	46,746	42,001	374
Reserve for possible loan losses (Note 3)	(35,997)	(37,933)	(338)
<b>Total assets</b>	<b>¥8,200,925</b>	<b>¥8,873,264</b>	<b>\$79,091</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Deposits (Notes 7 and 19)	¥7,013,719	¥7,296,113	\$65,034
Call money and bills sold (Note 19)	25,288	3,365	30
Payables under repurchase agreements	129,184	137,187	1,223
Deposits received for bonds lending/borrowing transactions (Notes 7 and 19)	268,079	401,641	3,580
Trading liabilities (Note 3)	10,232	7,183	64
Borrowed money (Notes 7, 9 and 19)	161,128	453,379	4,041
Foreign exchanges	185	163	1
Bonds (Note 19)	20,000	20,000	178
Due to trust account	42	22	0
Other liabilities	44,758	42,914	383
Net defined benefit liabilities	41	38	0
Reserve for retirement benefits of directors and corporate auditors (Note 3)	42	27	0
Reserve for reimbursement of deposits (Note 3)	1,495	1,461	13
Reserve for point loyalty programs (Note 3)	111	125	1
Reserve for loss related to Head Office rebuilding (Note 3)	—	1,095	10
Deferred tax liabilities (Note 16)	18,328	5,790	52
Deferred tax liabilities for land revaluation reserve (Note 3)	13,622	13,613	121
Acceptances and guarantees	46,746	42,001	374
<b>Total liabilities</b>	<b>7,753,006</b>	<b>8,426,125</b>	<b>75,105</b>
<b>Net Assets (Notes 3 and 11):</b>			
Common stock:			
Authorized – 2,000,000,000 shares	54,573	54,573	486
Issued – 625,266,342 shares			
Capital surplus	30,817	30,743	274
Retained earnings	265,811	290,180	2,587
Common stock in treasury	(982)	(437)	(4)
<b>Total stockholders' equity</b>	<b>350,220</b>	<b>375,060</b>	<b>3,343</b>
Net unrealized holding gains on securities available for sale	65,797	39,492	352
Net deferred gains (losses) on hedging instruments, net of tax	(764)	(512)	(5)
Land revaluation and translation adjustments, net of tax (Note 3)	27,784	27,763	248
Remeasurements of defined benefit plans	4,548	5,011	45
<b>Total accumulated other comprehensive income</b>	<b>97,365</b>	<b>71,755</b>	<b>640</b>
Stock acquisition rights (Note 20)	334	322	3
<b>Total net assets</b>	<b>447,919</b>	<b>447,138</b>	<b>3,986</b>
<b>Total liabilities and net assets</b>	<b>¥8,200,925</b>	<b>¥8,873,264</b>	<b>\$79,091</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars (Note 1)
	2016	2017	2017
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 64,207	¥ 61,190	\$ 545
Interest and dividends on securities	15,110	18,253	163
Other interest income	2,738	1,135	10
Fees and commissions	28,836	28,907	258
Other operating income	15,862	10,817	96
Other income	7,614	17,967	160
Total income	134,368	138,270	1,232
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	3,763	3,056	27
Interest on borrowings and rediscounts	2,310	3,805	34
Other interest expenses	1,377	2,555	23
Fees and commissions	8,270	9,323	83
Other operating expenses	10,004	11,809	105
General and administrative expenses (Note 20)	54,630	57,379	511
Other expenses	6,997	6,489	58
Total expenses	87,355	94,419	841
<b>Income before income taxes and others</b>	<b>47,013</b>	<b>43,850</b>	<b>391</b>
<b>Income taxes (Notes 3 and 16):</b>			
Provision for income taxes and others	13,476	13,704	122
Deferred income taxes	2,181	(1,061)	(9)
<b>Net income</b>	<b>31,355</b>	<b>31,207</b>	<b>278</b>
<b>Profit attributable to owners of the parent</b>	<b>¥ 31,355</b>	<b>¥ 31,207</b>	<b>\$ 278</b>

	Yen		U.S. dollars (Note 1)
<b>Amounts per share of common stock (Note 12):</b>			
Net assets	¥718.59	¥715.83	\$6.38
Net income	50.37	50.02	0.45
Diluted net income	50.30	49.96	0.45
Cash dividends applicable to the year	11.00	11.00	0.10

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars (Note 1)
	2016	2017	2017
<b>Net income</b>	<b>¥ 31,355</b>	<b>¥ 31,207</b>	<b>\$ 278</b>
<b>Other comprehensive income (loss) (Note 21):</b>			
Net unrealized holding gains on securities available for sale	137	(26,309)	(234)
Net deferred gains (losses) on hedging instruments, net of tax	360	252	2
Land revaluation and translation adjustments, net of tax	439	—	—
Remeasurements of defined benefit plans	(14,532)	463	4
Share of other comprehensive income of affiliated companies accounted for by equity method	(1)	4	0
<b>Comprehensive income (Note 21)</b>	<b>¥ 17,759</b>	<b>¥ 5,618</b>	<b>\$ 50</b>
<b>Attributable to (Note 21):</b>			
Comprehensive income attributable to owners of the parent	¥ 17,759	¥ 5,618	\$ 50

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2016 and 2017

Item	Millions of yen				
	2016				
	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,704	¥240,990	¥(1,416)	¥324,851
Changes of items during the period					
Dividends from surplus			(6,533)		(6,533)
Profit attributable to owners of the parent			31,355		31,355
Purchase of common stock in treasury				(15)	(15)
Disposal of common stock in treasury		113		449	562
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	113	24,821	433	25,368
Balance at the end of current period	¥54,573	¥30,817	¥265,811	¥ (982)	¥350,220

Item	Millions of yen						
	2016						
	Accumulated other comprehensive income						
	Net unrealized holding gains on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	¥65,661	¥(1,125)	¥27,344	¥ 19,080	¥110,960	¥383	¥436,195
Changes of items during the period							
Dividends from surplus							(6,533)
Profit attributable to owners of the parent							31,355
Purchase of common stock in treasury							(15)
Disposal of common stock in treasury							562
Net changes of items other than stockholders' equity	136	360	439	(14,532)	(13,595)	(49)	(13,644)
Total changes of items during the period	136	360	439	(14,532)	(13,595)	(49)	11,724
Balance at the end of current period	¥65,797	¥ (764)	¥27,784	¥ 4,548	¥ 97,365	¥334	¥447,919

Millions of yen					
2017					
Stockholders' equity					
Item	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,817	¥265,811	¥(982)	¥350,220
Changes of items during the period					
Dividends from surplus			(6,859)		(6,859)
Profit attributable to owners of the parent			31,207		31,207
Purchase of common stock in treasury				(7)	(7)
Disposal of common stock in treasury		(73)		552	478
Reversal of land revaluation reserve			20		20
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	(73)	24,369	545	24,840
Balance at the end of current period	¥54,573	¥30,743	¥290,180	¥(437)	¥375,060

Millions of yen							
2017							
Accumulated other comprehensive income							
Item	Net unrealized holding gains on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	¥ 65,797	¥(764)	¥27,784	¥4,548	¥ 97,365	¥334	¥447,919
Changes of items during the period							
Dividends from surplus							(6,859)
Profit attributable to owners of the parent							31,207
Purchase of common stock in treasury							(7)
Disposal of common stock in treasury							478
Reversal of land revaluation reserve							20
Net changes of items other than stockholders' equity	(26,304)	252	(20)	463	(25,609)	(11)	(25,621)
Total changes of items during the period	(26,304)	252	(20)	463	(25,609)	(11)	(780)
Balance at the end of current period	¥ 39,492	¥(512)	¥27,763	¥5,011	¥ 71,755	¥322	¥447,138



Millions of U.S. dollars					
2017					
Stockholders' equity					
Item	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	\$486	\$275	\$2,370	\$(9)	\$3,122
Changes of items during the period					
Dividends from surplus			(61)		(61)
Profit attributable to owners of the parent			278		278
Purchase of common stock in treasury				(0)	(0)
Disposal of common stock in treasury		(1)		5	4
Reversal of land revaluation reserve			0		0
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	(1)	217	5	221
Balance at the end of current period	\$486	\$274	\$2,587	\$(4)	\$3,343

Millions of U.S. dollars							
2017							
Accumulated other comprehensive income							
Item	Net unrealized holding gains on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	\$ 586	\$(7)	\$248	\$41	\$ 868	\$ 3	\$3,993
Changes of items during the period							
Dividends from surplus							(61)
Profit attributable to owners of the parent							278
Purchase of common stock in treasury							(0)
Disposal of common stock in treasury							4
Reversal of land revaluation reserve							0
Net changes of items other than stockholders' equity	(234)	2	(0)	4	(228)	(0)	(228)
Total changes of items during the period	(234)	2	(0)	4	(228)	(0)	(7)
Balance at the end of current period	\$ 352	\$(5)	\$248	\$45	\$ 640	\$ 3	\$3,986

# Consolidated Statements of Cash Flows

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars (Note 1)
	2016	2017	2017
<b>Cash flows from operating activities:</b>			
Income before income taxes and others	¥ 47,013	¥ 43,850	\$ 391
Depreciation of premises, equipment and others	3,879	4,501	40
Impairment losses of fixed assets	13	40	0
Equity in earnings of affiliates	(333)	(225)	(2)
Net change in reserve for possible loan losses	189	1,936	17
Decrease (increase) in net defined benefit asset	15,790	(4,414)	(39)
Increase (decrease) in net defined benefit liability	2	(2)	(0)
Net change in reserve for retirement benefits of directors and corporate auditors	6	(14)	(0)
Net change in reserve for reimbursement of deposits	81	(34)	(0)
Net change in reserve for point loyalty programs	10	14	0
Net change in reserve for loss related to Head Office rebuilding	—	1,095	10
Interest income	(82,056)	(80,579)	(718)
Interest expense	7,452	9,417	84
Net losses on securities transactions	(5,024)	(11,583)	(103)
Net losses on dispositions of fixed assets	183	99	1
Net change in trading assets	6,273	3,138	28
Net change in trading liabilities	(6,052)	(3,049)	(27)
Net change in loans	(164,956)	(337,865)	(3,012)
Net change in deposits	271,538	193,345	1,723
Net change in negotiable certificates of deposit	(51,481)	89,048	794
Net change in borrowed money excluding subordinated loans	11,168	302,251	2,694
Net change in due from banks other than from the Bank of Japan	(987)	(3,895)	(35)
Net change in call loans and bills bought	9,696	(6,897)	(61)
Net change in call money and bills sold	37,204	(13,918)	(124)
Net change in deposits received for bonds lending/borrowing transactions	17,115	133,561	1,190
Net change in foreign exchanges (assets)	(1,029)	(575)	(5)
Net change in foreign exchanges (liabilities)	49	(21)	(0)
Interest received	91,542	88,307	787
Interest paid	(7,554)	(9,590)	(86)
Other – net	(15,210)	(16,089)	(143)
Subtotal	137,510	337,998	3,013
Income taxes paid	(6,713)	(16,108)	(144)
Total adjustments	130,797	321,890	2,869
Net cash provided by (used in) operating activities	177,810	365,741	3,260
<b>Cash flows from investing activities:</b>			
Purchases of securities	(1,106,527)	(786,813)	(7,013)
Proceeds from sales of securities	1,021,065	800,076	7,131
Proceeds from maturity of securities	208,075	183,499	1,636
Increase in money held in trust	(34)	(0)	(0)
Decrease in money held in trust	1	33	0
Purchases of tangible fixed assets	(5,878)	(5,964)	(53)
Purchases of intangible fixed assets	(3,472)	(3,247)	(29)
Proceeds from sales of tangible fixed assets	13	52	1
Net cash provided by (used in) investing activities	113,242	187,634	1,673
<b>Cash flows from financing activities:</b>			
Repayments of subordinated loans	(1,000)	(10,000)	(89)
Dividends paid	(6,531)	(6,857)	(61)
Purchases of treasury stock	(15)	(7)	(0)
Proceeds from sales of treasury stock	394	377	3
Payments of lease liabilities	(72)	(69)	(1)
Net cash provided by (used in) financing activities	(7,225)	(16,557)	(148)
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	(70)	46	0
<b>Net change in cash and cash equivalents</b>	283,756	536,865	4,785
<b>Cash and cash equivalents at the beginning of year</b>	424,537	708,294	6,314
<b>Cash and cash equivalents at the end of year (Note 12)</b>	¥ 708,294	¥1,245,160	\$11,099

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2016 and 2017

## 1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Hiroshima Bank, Ltd. (the "Bank") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The Bank maintains its accounting records in Japanese yen, the currency in which the Bank is incorporated and operates. In preparing the accompanying consolidated financial statements and notes thereto, Japanese yen figures less than one million yen have been rounded down to the nearest million yen, except for per share data, in accordance with the Financial Instruments and Exchange Law and Enforcement Regulation concerning Banking Law of Japan. Therefore, total or subtotal amounts shown in the accompanying consolidated financial statements and notes thereto do not necessarily agree with the sums of individual amounts. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2 Principles of consolidation

The consolidated financial statements include the accounts of the Bank and 6 subsidiaries. The Bank includes the accounts of several companies which are less than 50% owned in the accompanying consolidated financial statements in the case that the Bank has control over these companies through cross-shareholdings, transfer of management, and provision of debt guarantees and loans. All significant intercompany balances and transactions have been eliminated.

Investments in 20% to 50% owned companies are carried at cost adjusted for equity in undistributed earnings or losses since acquisition (the equity method). The Bank also applies the equity method for investments in certain companies which are less than 20% owned in the case that the Bank is able to exercise significant influence over these companies.

The consolidated financial statements do not include the accounts of a subsidiary because the total assets, total income, net income, retained earnings and total accumulated other comprehensive income of the subsidiary would not have had a material effect on the consolidated financial statements.

Investment in the unconsolidated subsidiary was stated at cost. If the equity method of accounting had been applied to the investments in the subsidiary, the effect on the accompanying consolidated financial statements would not be material.

Consequently, the consolidated financial statements include the account of the Bank and its subsidiaries and affiliated companies (six subsidiaries and three affiliated companies).

As of March 31, 2017, the fiscal year ending dates are March 31 for 6 subsidiaries.

## 3 Significant accounting policies

### Trading assets and trading liabilities

The Bank adopted mark-to-market accounting for trading assets and trading liabilities including securities, financial receivables and financial derivatives for trading purpose. Trading assets and trading liabilities are recorded on a trade date basis, and revenues and expenses related to trading securities transactions are also recorded on a trade date basis. Securities and financial receivables for trading purposes are stated at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are stated at a deemed settlement amount at the balance sheet date. Unrealized gains or losses incurred by the mark-to-market method are charged to income.

## Securities

All companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, “trading securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Securities available-for-sale for which fair value cannot be reliably determined are carried at cost determined by the moving average method.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for by the equity method, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

When market values of available-for-sale securities with fair market values decline by 50% or more of the acquisition

cost at the balance sheet date, the Bank writes down such securities to the fair market values and records the related write-downs as loss in its consolidated statements of income. When market values of available-for-sale securities with fair market value decline by 30% or more but less than 50% of the acquisition cost, write-downs to the fair market values may be recognized for certain issuers based on evaluation of issuers’ debtor classification. The Bank devaluated the securities other than securities held for trading purposes and recognized a loss of ¥143 million (¥143 million for equity securities) as for the year ended March 31, 2016.

## Derivatives and hedge accounting

Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

### (1) Hedging against interest rate fluctuations

The Bank applies deferred hedge accounting pursuant to the treatment regulated by “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No. 24) to hedge transactions such as interest rate swaps entered into to mitigate interest rate risk arising from financial assets and liabilities. The Bank assessed the hedge effectiveness by considering the adequacy of offsetting movement of the fair value by the changes in interest rates through classifying the hedged items such as loans and borrowed money and the hedging transactions such as interest rate swaps by their maturity.

With respect to hedging transactions to fix the cash flows, hedging instruments (e.g. interest rate swaps) are designated to hedged items collectively by interest rate indices and tenors in accordance with JICPA Industry Audit Committee Report No. 24. Since material terms related to hedged items and hedging instruments are substantially identical, and such hedging transactions are deemed highly effective, the assessment of effectiveness is based on the similarity of the terms.

### (2) Hedging against foreign currency fluctuations

The Bank applies deferred hedge accounting to hedge transactions such as currency swaps and foreign exchange swaps entered into to mitigate foreign exchange risk arising from foreign-currency-denominated financial assets and liabilities.

The Bank applies the hedge accounting pursuant to “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking

Industry" (JICPA Industry Audit Committee Report No. 25) to currency swap transactions and foreign exchange swap transactions for the purpose of funds lending and borrowing in different currencies. The Bank assesses the hedge effectiveness by confirming that the positions of hedge instruments (currency swap and foreign exchange swap transactions) do not exceed the corresponding foreign-currency-denominated financial receivables and debts as hedged items.

### (3) Exceptional treatment

For some assets and liabilities, the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

#### Tangible fixed assets (except for lease assets)

Tangible fixed assets except for land utilized for business operations are stated at cost less accumulated depreciation. Accumulated impairment losses are deducted from acquisition costs.

The Bank and its consolidated subsidiaries depreciate their tangible fixed assets under the straight-line method over their estimated useful lives. Estimated useful lives of major items are as follows:

Buildings:	22–50 years
Others:	3–20 years

The Bank had depreciated buildings and structures associated with the current Head Office over 3–50 years. Because the Bank decided to construct a new Head Office and demolish the current Head Office in March 2017, the useful lives of tangible fixed assets associated with the current Head Office have been reduced and will be applied prospectively.

As a result of this change, compared with the previous method, income before income taxes and others decreased ¥207 million (\$2 million).

Accumulated depreciation for tangible assets, recognized for the fiscal years ended March 31, 2016 and 2017, amounted to ¥47,105 million and ¥48,238 million (\$430 million), respectively.

#### Intangible fixed assets (except for lease assets)

Intangible fixed assets are amortized using the straight-line method. Software utilized by the Bank is amortized over the period in which it is expected to be utilized (mainly 5–10 years).

#### Lease assets

Lease assets in "Tangible fixed assets" of the finance leases other than those that transfer the ownership of leased property to the lessees are computed under the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

#### Reserve for possible loan losses

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to available security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after evaluating the customer's overall financial conditions.

For other loans, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

Consolidated subsidiaries provide the reserve for possible loan losses mainly based on the actual rate of loan losses in the past.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and the credit supervision department, and the evaluations are revised as required based on the audits.

Secured and guaranteed loans which are for insolvent borrowers or in a similar financial condition are disclosed based on the amount of loans net of amounts estimated not to be collected through disposition of collateral or through execution of guarantees. Such amounts directly set off against those loans at March 31, 2016 and 2017 were ¥14,960 million and ¥15,289 million (\$136 million), respectively.

### **Employees' severance and retirement benefits**

The liabilities and expenses for severance and retirement benefits were determined based on the amounts actuarially calculated using certain assumptions.

The Bank and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2016 and 2017 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates. Actuarial gains and losses were recognized in expenses using the straight-line method over 14 years, which was not longer than the average of the estimated remaining service lives, commencing with the following period.

In calculating the projected benefit obligation, the straight-line method is used to attribute the expected benefit attributable to the respective fiscal year. Prior service costs were recognized in the consolidated statements of income as incurred.

Certain consolidated subsidiaries adopt the simplified method for the calculation of net defined benefit liability and expenses for severance and retirement benefits.

### **Reserve for retirement benefits of directors and Audit & Supervisory Board members**

Reserve for retirement benefits of directors and Audit & Supervisory Board members is provided for in payment of retirement benefits to directors, corporate auditors and other executive officers, in the amount deemed accrued at the fiscal year-end based on our internal regulations.

### **Reserve for retirement of deposits**

Reserve for retirement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal.

### **Reserve for point loyalty programs**

Reserve for point loyalty program is provided for the estimated expenses based on an estimate of the future usage of points. Points are granted to credit card holders through card usage under the point loyalty program which is designed to promote card usage.

### **Reserve for loss related to Head Office rebuilding**

Reserve for loss related to Head Office rebuilding is provided to cover estimated losses arising from the rebuilding of the Head Office of the Bank.

### **Foreign currency translation**

The consolidated financial statements of the Bank are maintained in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates, etc.

### **Income taxes**

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of the Bank and each of its consolidated subsidiaries with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Valuation allowances are recorded to reduce deferred tax assets based on the assessment of the realizability of the tax benefits.

### **Consumption tax**

National and local consumption taxes of the Bank and its consolidated domestic subsidiaries are accounted for using the tax-excluded method.

### **Consolidated statements of cash flows and cash equivalents**

In preparing the consolidated statements of cash flows, cash and due from the BANK OF JAPAN are considered to be cash and cash equivalents.

### **Amounts per share**

Net assets per share is calculated by dividing net assets by the number of common stocks outstanding at the year-end (excluding "treasury stock").

Net income per share is calculated by dividing profit attributable to owners of the parent by the average number of shares of common stock outstanding during the year (excluding "treasury stock").

Cash dividends per share represent the actual amounts declared as applicable to the respective years.

### **Reclassifications**

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform with the 2017 presentation.

### Accounting change

Pursuant to an amendment to the Corporate Tax Act, the Bank has applied Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 32 "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or After April 1, 2016.

### Additional information

#### *Implementation Guidance on Recoverability of Deferred Tax Assets*

The Bank has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

#### *Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts* **(1) Outline**

The Bank introduced "ESOP Trust," on June 1, 2011, utilizing an employee stock ownership association as an incentive plan for employees.

The Bank has established a trust account with employees enrolled in the Bank Employees' Shareholdings Association (hereinafter, "the Association") who also satisfy certain conditions as the beneficiaries. The trust account will acquire the amount of stock the Association is expected to obtain over the next five years, and then apportion the stocks for sale to the Association on a certain date each month. In the event the trust account has accrued a gain as a result of the stock price rising when it is dissolved, the employees who are the beneficiaries will receive a monetary dividend prorated according to the ratio they contributed to the Association. In the event the trust account has incurred a loss on transfer of shares as a result of the stock price falling and is dissolved with a net overdraft, the Bank will reimburse the overdraft owed to the trust bank in accordance with a guarantee clause in the monetary overdraft loan agreement, at no extra cost to the employees.

On June 2016, the Bank terminated the trust.

(2) The Bank has applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts" (Practical Issues Task Force No. 30, March 26, 2015) but continues to apply the accounting procedures that were applied previously.

#### **(3) Information on the Company's own stock held by the trust**

1. Book value held by the trust was ¥388 million as of March 31, 2016. As of March 31, 2017, the trust held none of the Company's own stock as all shares of such stock had been sold.
2. The Company's own stock held by the trust is recorded as common stock in treasury in net assets.
3. The number of the Company's own stock held by the trust was 1,094 thousand as of March 31, 2016 and the average number of shares of the Company's own stock held by the trust was 1,409 thousand and 254 thousand for the years ended March 31, 2016 and 2017, respectively.
4. The number of shares of the Company's own stock at the end of the fiscal year and the average number of shares during the fiscal year are included in treasury shares when calculating per-share data.

## **4 Securities**

- (1) Trading account securities included in "Trading assets," certificates of deposit with banks included in "Cash and due from banks," and trust beneficiary rights included in "Financial receivables purchased," which are separately reported from "Securities" in the consolidated balance sheets, are included in this section.
- (2) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2016 and 2017:

#### a) Trading securities:

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Amount of net unrealized gains included in the consolidated statements of income	¥2	¥(4)	\$ (0)



b) Available-for-sale securities:

At March 31, 2016

	Millions of yen		
	Book value	Acquisition cost	Gross unrealized gain
<b>Fair value exceeding cost:</b>			
Equity securities	¥ 78,820	¥ 36,043	¥ 42,776
Bonds:	1,336,699	1,316,669	20,030
National government bonds	1,040,116	1,027,209	12,907
Local government bonds	126,717	123,915	2,801
Bonds	169,866	165,544	4,321
Others	412,741	373,385	39,355
Subtotal	1,828,261	1,726,099	102,161
<b>Fair value not exceeding cost:</b>			
Equity securities	26,822	30,989	(4,167)
Bonds:	21,308	21,335	(27)
National government bonds	12,707	12,722	(14)
Local government bonds	2,420	2,424	(3)
Bonds	6,180	6,189	(9)
Others	108,616	112,242	(3,626)
Subtotal	156,747	164,567	(7,820)
<b>Total</b>	<b>¥1,985,008</b>	<b>¥1,890,666</b>	<b>¥ 94,341</b>

At March 31, 2017

	Millions of yen		
	Book value	Acquisition cost	Gross unrealized gain
<b>Fair value exceeding cost:</b>			
Equity securities	¥ 94,579	¥ 42,217	¥ 52,362
Bonds:	1,007,469	997,200	10,268
National government bonds	736,618	731,170	5,448
Local government bonds	115,510	113,567	1,943
Bonds	155,339	152,462	2,876
Others	95,449	86,003	9,445
Subtotal	1,197,498	1,125,422	72,076
<b>Fair value not exceeding cost:</b>			
Equity securities	18,919	22,568	(3,648)
Bonds:	132,850	134,160	(1,310)
National government bonds	49,859	50,491	(631)
Local government bonds	23,945	24,075	(130)
Bonds	59,045	59,593	(547)
Others	399,774	410,683	(10,909)
Subtotal	551,544	567,412	(15,867)
<b>Total</b>	<b>¥1,749,043</b>	<b>¥1,692,834</b>	<b>¥ 56,208</b>

	Millions of U.S. dollars		
	Book value	Acquisition cost	Gross unrealized gain
<b>Fair value exceeding cost:</b>			
Equity securities	\$ 843	\$ 376	\$ 467
Bonds:	8,980	8,888	92
National government bonds	6,566	6,517	49
Local government bonds	1,029	1,012	17
Bonds	1,385	1,359	26
Others	851	767	84
Subtotal	10,674	10,031	643
<b>Fair value not exceeding cost:</b>			
Equity securities	169	201	(32)
Bonds:	1,184	1,196	(12)
National government bonds	444	450	(6)
Local government bonds	214	215	(1)
Bonds	526	531	(5)
Others	3,563	3,661	(98)
Subtotal	4,916	5,058	(142)
<b>Total</b>	<b>\$15,590</b>	<b>\$15,089</b>	<b>\$ 501</b>

(3) Total sales of available-for-sale securities sold at March 31, 2016 and 2017 were as follows:

At March 31, 2016

Type	Millions of yen		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	¥ 5,285	¥ 634	¥ 307
Bonds:	428,280	4,279	1,911
National government bonds	417,853	4,264	1,910
Local government bonds	6,960	13	—
Bonds	3,467	1	1
Others	581,828	12,584	10,095
<b>Total</b>	<b>¥1,015,394</b>	<b>¥17,498</b>	<b>¥12,314</b>

At March 31, 2017

Type	Millions of yen		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	¥ 5,773	¥ 4,400	¥ 236
Bonds:	380,924	3,760	3,460
National government bonds	378,061	3,758	3,459
Local government bonds	—	—	—
Bonds	2,863	2	1
Others	398,878	15,965	8,836
<b>Total</b>	<b>¥785,576</b>	<b>¥24,126</b>	<b>¥12,532</b>

Type	Millions of U.S. dollars		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	\$ 52	\$ 39	\$ 2
Bonds:	3,395	34	31
National government bonds	3,370	34	31
Local government bonds	—	—	—
Bonds	25	0	0
Others	3,555	142	79
<b>Total</b>	<b>\$7,002</b>	<b>\$215</b>	<b>\$112</b>

## 5 Money held in trust

### (1) Money held in trust classified as trading purpose

There was no money held in trust classified as trading purpose for the years ended March 31, 2016 and 2017.

### (2) Money held in trust classified as held-to-maturity

	Millions of yen				
	Year ended March 31, 2016				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Money held in trust classified as held-to-maturity	¥33	¥33	¥—	¥—	¥—

Notes: 1. Consolidated balance sheet amount is calculated using market prices at the fiscal year-end.

2. "Unrealized gain" and "Unrealized loss" are breakdowns of "Net unrealized gain (loss)."

There was no money held in trust classified as held-to-maturity for the year ended March 31, 2017.

### (3) Other money held in trust

	Millions of yen				
	Year ended March 31, 2016				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	¥156	¥156	¥—	¥—	¥—

	Millions of yen				
	Year ended March 31, 2017				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	¥156	¥156	¥—	¥—	¥—

	Millions of U.S. dollars				
	Year ended March 31, 2017				
	Carrying amount	Fair value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	\$1	\$1	\$—	\$—	\$—

Notes: 1. Consolidated balance sheet amount is calculated using market prices at the fiscal year-end.

2. "Unrealized gain" and "Unrealized loss" are breakdowns of "Net unrealized gain (loss)."

## 6 Loans and bills discounted

### (1) Doubtful loans of loans and bills discounted at March 31, 2016 and 2017 were as follows:

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥ 1,461	¥ 1,313	\$ 12
Other delinquent loans	45,095	53,917	481
Accrual loans past due three months or more	2,784	2,027	18
Restructured loans, including loans to supported companies	22,276	12,626	113

The Bank does not accrue interest on loans to borrowers under bankruptcy proceedings and other delinquent loans, which are classified based on the results of self-assessment.

(2) Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank and its consolidated banking subsidiaries have rights to sell or pledge commercial bills discounted and foreign bills of exchange purchased without restrictions, and their total face amounts were ¥26,186 million and ¥25,671 million (\$229 million) at March 31, 2016 and 2017, respectively.

## 7 Assets pledged

At March 31, 2016 and 2017, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Securities	¥669,020	¥999,484	\$8,909
Other assets	19	18	0

The collateral was pledged to secure:

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Deposits	¥ 1,506	¥ 1,505	\$ 13
Payables under repurchase agreements	129,184	137,187	1,222
Deposits received for bonds lending/borrowing transactions	268,079	401,641	3,580
Borrowed money	120,117	422,684	3,768

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as exchange settlements. These securities amounted to ¥61,136 million and ¥42,301 million (\$377 million) at March 31, 2016 and 2017, respectively, and others amounted to ¥11,994 million (\$107 million) at March 31, 2017.

Security deposits, included in other assets, amounted to ¥2,365 million and ¥2,323 million (\$21 million) at March 31, 2016 and 2017, respectively, deposits for financial instruments amounted to ¥3,509 million and ¥5,427 million (\$48 million) at March 31, 2016 and 2017, respectively, and deposits for futures trading amounted to ¥1,113 million (\$10 million) at March 31, 2017.

Of the securities received as collateral under transactions with repurchase agreement, those which the Bank holds rights to dispose of by sale or provision of collateral at its discretion amounted to ¥2,807 million and ¥938 million (\$8 million) at March 31, 2016 and 2017, respectively.

Bills rediscounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24), and the total face amount of commercial bills discounted and foreign exchanges purchased that have been pledged were ¥4 million and ¥4 million (\$0 million) at March 31, 2016 and 2017, respectively.

## 8 Commitment line

Commitment line contracts on overdrafts and loans are the contracts, under which the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits totaled ¥1,631,519 million and ¥1,679,803 million (\$14,973 million) relating to these contracts at March 31, 2016 and 2017, respectively. Among them, the amounts of unused commitment of which term of contracts is less than one year or revocable at any time totaled ¥1,564,987 million and ¥1,608,558 million (\$14,338 million) as of March 31, 2016 and 2017, respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank and its consolidated subsidiaries can refuse customers' applications for loans or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank and its consolidated subsidiaries obtain real estate, securities, etc., as collateral if considered to be necessary. Subsequently, the Bank and its consolidated subsidiaries perform periodic review of the customers' business results based on internal rules, and take necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

## 9 Borrowed money

Borrowed money including subordinated loans totaled ¥25,000 million and ¥15,000 million (\$134 million) at March 31, 2016 and 2017, respectively.

## 10 Privately placed bonds

The amount guaranteed by banking subsidiaries to privately placed bonds (stipulated by Article 2-3 of the Financial Instruments and Exchange Law) in "Securities" was ¥37,358 million and ¥42,675 million (\$380 million) at March 31, 2016 and 2017, respectively.

## 11 Net assets

Under the Company Law of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the resolution of the stockholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Bank can distribute as dividends is calculated based on the unconsolidated financial statements of the Bank in accordance with the Company Law of Japan.

In accordance with the customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period in which the stockholders' approval has been obtained. Retained earnings at March 31, 2017 include the amount representing the year-end cash dividend of ¥3,433 million (\$31 million), ¥5.50 (\$0.05) per share, which was approved at the stockholders' meeting held on June 28, 2017.

## 14 Derivative transactions

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

Contracted amount (including notional principal amount), fair value and unrealized gains or losses of financial derivatives at March 31, 2016 and 2017 were as follows:

#### Interest related:

Year ended March 31, 2016

Type	Millions of yen			
	Contracted amount		Fair value	Unrealized gains (losses)
	Over one year			
Items not traded on exchanges				
Interest rate swaps*:				
Receive fixed, pay variable	¥187,243	¥131,917	¥ 4,598	¥ 4,598
Receive variable, pay fixed	186,845	131,901	(3,689)	(3,689)
Receive variable, pay variable	1,800	—	1	1
Interest rate options*:				
Sell	3,066	3,066	(22)	(1)
Buy	3,066	3,066	22	4
Other contracts*:				
Sell	72,329	—	—	137
Buy	72,334	—	—	(3)
Total	¥ —	¥ —	¥ 911	¥ 1,048

## 12 Cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2016 and 2017, was as follows:

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Cash and due from banks	¥712,514	¥1,253,275	\$11,171
Foreign currency deposits with banks	(4,219)	(8,115)	(72)
Cash and cash equivalents	¥708,294	¥1,245,160	\$11,099

## 13 Lease transactions

### Finance Leases

Tangible fixed assets in lease assets mainly consisted of branches. The depreciation method of lease assets is shown in "3. Significant accounting policies."

Finance leases other than those that transfer the ownership of the leased property to the lessees which commenced in fiscal years beginning prior to April 1, 2008 are accounted for in a similar way to operating leases.

## Year ended March 31, 2017

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Interest rate swaps*:				
	Receive fixed, pay variable	¥132,456	¥100,095	¥ 3,549	¥ 3,549
	Receive variable, pay fixed	132,420	100,085	(2,670)	(2,670)
	Receive variable, pay variable	—	—	—	—
	Interest rate options*:				
	Sell	2,800	2,800	(8)	8
	Buy	2,800	2,800	8	(5)
	Other contracts*:				
	Sell	—	—	—	—
Buy	—	—	—	—	
	Total	¥ —	¥ —	¥ 878	¥ 880

		Millions of U.S. dollars			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Interest rate swaps*:				
	Receive fixed, pay variable	\$ 1,181	\$ 892	\$ 32	\$ 32
	Receive variable, pay fixed	1,180	892	(24)	(24)
	Receive variable, pay variable	—	—	—	—
	Interest rate options*:				
	Sell	25	25	(0)	0
	Buy	25	25	0	(0)
	Other contracts*:				
	Sell	—	—	—	—
	Buy	—	—	—	—
	Total	\$ —	\$ —	\$ 8	\$ 8

\* The unrealized gains or losses on interest rate swaps, interest rate options and other contracts are recognized in the consolidated statements of income.

## Currency related:

### Year ended March 31, 2016

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Currency swaps*	¥817,322	¥616,591	¥ 221	¥ 2,175
	Forward foreign exchange contracts*:				
	Sell	88,151	17,756	4,794	4,794
	Buy	82,841	17,576	(4,219)	(4,219)
	Currency options*:				
	Sell	133,014	65,135	(3,591)	2,276
	Buy	133,014	65,135	3,591	(1,374)
	Total	¥ —	¥ —	¥ 796	¥ 3,652

## Year ended March 31, 2017

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Currency swaps*	¥672,338	¥357,692	¥ 164	¥1,072
	Forward foreign exchange contracts*:				
	Sell	62,054	8,902	596	596
	Buy	59,674	8,868	(384)	(384)
	Currency options*:				
	Sell	169,862	56,422	(4,439)	904
	Buy	169,862	56,422	4,439	(383)
	Total	¥ —	¥ —	¥ 377	¥1,805

		Millions of U.S. dollars			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Currency swaps*	\$5,993	\$3,188	\$ 1	\$ 9
	Forward foreign exchange contracts*:				
	Sell	553	79	5	5
	Buy	532	79	(3)	(3)
	Currency options*:				
	Sell	1,514	503	(40)	8
	Buy	1,514	503	40	(3)
	Total	\$ —	\$ —	\$ 3	\$16

\* The unrealized gains or losses on currency swaps, forward foreign exchange contracts and currency options are recognized in the consolidated statements of income.

#### Bond related:

Year ended March 31, 2016

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items traded on exchanges	Bond futures*:				
	Sell	¥7,565	¥—	¥—	¥—
	Buy	—	—	—	—
	Total	¥ —	¥—	¥—	¥—

\* The unrealized gains or losses on bond futures are recognized in the consolidated statements of income.

There were no bond related transactions for the year ended March 31, 2017.

#### Others:

There were no other transactions for the year ended March 31, 2016.

#### Year ended March 31, 2017

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Earthquake derivative*:				
	Sell	¥900	¥—	¥(10)	¥—
	Buy	900	—	10	—
	Total	¥ —	¥—	¥ —	¥—

		Millions of U.S. dollars			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Earthquake derivative*:				
	Sell	\$ 8	\$—	\$ (0)	\$—
	Buy	8	—	0	—
	Total	\$—	\$—	\$—	\$—

\* Transactions above that fair value are not readily determinable are stated at cost.

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

The notional principal amount and fair value of financial derivatives at March 31, 2016 and 2017 were as follows:

#### Interest related:

Year ended March 31, 2016

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted			
	Receive fixed, pay variable		¥ 20,000	¥ 20,000	¥ 64
	Receive variable, pay fixed		51,692	39,614	(892)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		103,080	87,030	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	1,000	Note 3
	Total		¥ —	¥ —	¥(827)

## Year ended March 31, 2017

			Millions of yen		
			Contracted amount		
Method of hedge accounting	Type	Main hedge items	Over one year		Fair value
Deferral method	Interest rate swaps:	Loans and bills discounted			
	Receive fixed, pay variable		¥120,000	¥120,000	¥(113)
	Receive variable, pay fixed		58,444	43,916	(268)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		99,647	93,187	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	1,000	Note 3
	Total		¥ —	¥ —	¥(381)

			Millions of U.S. dollars		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted			
	Receive fixed, pay variable		\$1,070	\$1,070	\$(1)
	Receive variable, pay fixed		521	391	(2)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		888	831	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		9	9	Note 3
	Total		\$ —	\$ —	\$(3)

Notes: 1. As for interest rate swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 24.  
2. Calculation or quotation of fair value of the above derivatives are based on observable market prices, present value method, option pricing models, etc.  
3. Interest rate swaps which meet specific matching criteria are accounted for as a component of hedged loans and bills discounted. Therefore, the fair value of those interest rate swaps is included in the fair value of loans and bills discounted in fair value information shown in "19. Financial instruments and related disclosures."

## Currency related:

### Year ended March 31, 2016

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted in foreign currencies, securities	¥58,921	¥58,921	¥1,829
	Forward foreign exchange contracts		94,269	—	(12)
	Total		¥ —	¥ —	¥1,816

### Year ended March 31, 2017

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted in foreign currencies, securities	¥ 69,812	¥69,747	¥ 544
	Forward foreign exchange contracts		123,350	—	1,124
	Total		¥ —	¥ —	¥1,669

			Millions of U.S. dollars		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted in foreign currencies, securities	\$ 622	\$622	\$ 5
	Forward foreign exchange contracts		1,099	—	10
	Total		\$ —	\$ —	\$15

Notes: 1. As for currency swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 25.  
2. The fair values are calculated primarily by using the discounted cash flow method.



## 15 Employees' severance and retirement benefits

For the years ended March 31, 2016 and 2017

### Change in projected benefit obligation

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Projected benefit obligation, beginning of the year	¥43,867	¥46,434	\$414
Service costs—benefits earned during the year	1,024	1,187	11
Interest cost on projected benefit obligation	294	22	0
Actuarial differences incurred	4,542	1,129	10
Benefits paid	(3,406)	(2,968)	(27)
Other	110	110	1
Projected benefit obligation at the end of the year	¥46,434	¥45,916	\$409

### Change in plan assets

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Plan assets, beginning of the year	¥101,283	¥88,056	\$785
Expected return on plan assets	4,051	3,522	31
Actuarial differences incurred	(15,654)	1,805	16
Contribution by the business owner	736	737	7
Benefits paid	(2,467)	(2,272)	(20)
Other	107	107	1
Plan assets at the end of the year	¥ 88,056	¥91,956	\$820

### The adjustment of the ending balances of projected benefit obligation and plan assets to net defined benefit liability and net defined benefit assets

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Funded projected benefit obligation	¥ 46,393	¥ 45,877	\$ 409
Plan assets	(88,056)	(91,956)	(820)
	(41,663)	(46,078)	(411)
Unfunded projected benefit obligation	41	38	1
Net on consolidated balance sheets	¥(41,622)	¥(46,039)	\$(410)

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Net defined benefit liability	¥ 41	¥ 38	\$ 0
Net defined benefit asset	(41,663)	(46,078)	(411)
Net on consolidated balance sheets	¥(41,622)	¥(46,039)	\$(410)

### Severance and retirement benefit expenses

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Service costs—benefits earned during the year	¥ 1,024	¥ 1,187	\$ 10
Interest cost on projected benefit obligation	294	22	0
Expected return on plan assets	(4,051)	(3,522)	(31)
Amortization of actuarial differences	(1,270)	(3)	(0)
Severance and retirement benefit expenses calculated by simplified method	3	3	0
Severance and retirement benefit expenses	¥(3,999)	¥(2,312)	\$(21)

### Remeasurements of accumulated defined benefit plans

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Actuarial differences	¥(21,467)	¥671	\$6

### Remeasurements of defined benefit plans

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Unrecognized actuarial differences	¥(6,591)	¥(7,263)	\$(65)

### Classification of plan assets

	2016	2017
Bonds	32.2%	17.1%
Securities	63.7	67.9
Cash and due from banks	0.1	0.1
Other	4.0	14.9
Plan assets at the end of the year	100%	100%

### Assumptions

	2016	2017
Discount rate	0.2%	0.2%
Rates of expected return on plan assets	4.0%	4.0%
Expected increase rate in salary	2.9%	2.9%

### Defined contribution pension plan

The amount required to be contributed by the Bank is ¥294 million and ¥295 million (\$3 million) for the years ended March 31, 2016 and 2017, respectively.

## 16 Income taxes

Income taxes in the consolidated statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The statutory tax rate was approximately 32% and 31% as of March 31, 2016 and 2017, respectively.

Significant components of deferred tax assets as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Reserve for possible loan losses	¥ 14,214	¥ 15,237	\$ 136
Write-down of securities	741	733	6
Depreciation	969	1,322	12
Other	3,777	3,677	33
Subtotal deferred tax assets	19,703	20,971	187
Valuation allowance	(1,662)	(970)	(9)
Total deferred tax assets	18,040	20,001	178
Deferred tax liabilities:			
Net defined benefit assets	(6,449)	(7,678)	(68)
Gain on securities contributed to employee retirement benefit trust	(691)	(691)	(6)
Net unrealized holding gains on securities available for sale	(28,545)	(16,721)	(149)
Total deferred tax liabilities	(35,685)	(25,092)	(223)
Net deferred tax assets	¥(17,645)	¥ (5,090)	\$ (45)

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal year ended March 31, 2017 was as follows:

	2017
Normal effective statutory tax rate	31.0%
Reconciliation:	
Change in valuation allowance	(1.5)
Permanently tax-exempt income	(0.7)
Other	0.1
Actual effective tax rate	28.8%

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2016 was not presented as the difference between the actual effective tax rate and the normal effective statutory tax rate was less than 5% of the statutory tax rate.

## 17 Segment information

Operations of the Bank and its consolidated subsidiaries include appraisal of collateral premises and land, servicing businesses and other businesses, in addition to banking business. As such operations are immaterial, separate segment information is not required to be disclosed for the years ended March 31, 2016 and 2017.

### Income by service

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Lending	¥ 63,953	¥ 60,995	\$ 544
Investment in securities	32,681	42,464	378
Fees and commissions	28,836	28,907	258
Other	8,895	5,897	52
Total	¥134,366	¥138,263	\$1,232

## 18 Related party transactions

Not disclosed as immaterial

## 19 Financial instruments and related disclosures

### (1) Policy for financial instruments

The Bank and its consolidated subsidiaries conduct financial services such as financial instruments transactions, credit guarantees, leasing and credit card services, with banking as their core activity. Among these businesses, core banking operations include fund procurement through deposit-taking and fund management through loans and investment security portfolios. The financial assets and liabilities of the Bank are subject to Asset Liability Management ("ALM," comprehensive management of assets and liabilities) in such a way as to prevent adverse impact from interest-rate, foreign-exchange and market-value fluctuation.

### (2) Nature and extent of risk arising from financial instruments

Loans and bills discounted are primarily provided to domestic institutional and individual customers, in which the Bank is exposed to customers' credit risk. Securities primarily consist of stocks, bonds and investment trusts held by the Bank for the purposes of building and maintaining good relationships with customers, sole investment objective and held-to-maturity investment objective.

They are exposed to risk of fluctuation in interest rates and prices in the bond/stock markets and in addition, credit risk arising from downgrading of the issuer's credit rating. Borrowed money, bonds and commercial papers are exposed to liquidity risk, the risk that the Bank is unable to meet its obligations as they fall due.

The Bank enters into the following derivative transactions, such as currency swaps and forward foreign exchange contracts to meet the financial needs of customers and interest rate swaps for the purpose of optimizing ALM. As part of optimizing ALM, the Bank uses hedge accounting, specifying derivatives such as interest rate swaps as hedging instruments, and loans as hedged items.

### **(3) Risk management for financial instruments**

#### **Credit risk management**

Credit risk is the risk of sustaining losses due to reduction or loss of value of assets due to deteriorating credit circumstances at a borrower.

#### **(Credit screening system)**

For all major loans made by branches, the Bank has in place a system of rigorous credit-screening carried out by a credit-screening department, which is independent of the sales departments. In addition to establishing teams for each sector, the credit-screening department has established a dedicated team to ensure sounder borrower finances and effective corporate rehabilitation, and also offers support to management trying to improve operational management.

In evaluating a customer application for a loan, the Bank will give a considered response, in line with "The Basic Principles Prescribing Credit" set up by the Board of Directors, turning down any application that runs counter to the law or public morality and taking careful account of profitability and public benefit, in addition to fund use, repayment source, and guarantee and collateral arrangements.

In cases where customers apply for a review of borrowing terms, the Bank will give a considered response taking account of actual circumstances faced by the customer, in line with "The Basic Principles for Facilitation of Finance" set up by the Board of Directors. Appropriate and prompt credit screening is carried out after joint appraisal of a customer's needs and concerns—and not just based on a mechanical, uniform judgment informed only by financial statements and other superficial statistics and industry-specific guidelines.

To strengthen and expand the credit-screening system, the Bank seeks to duly appraise the creditworthiness of a given company through case-by-case credit management and takes continuous measures to improve the credit-screening skills of employees by various kinds of training program.

#### **(Risk management using the credit rating system)**

The Bank has introduced the credit rating system to give an objective overview of credit risk on loans. Based on financial and other data indicating the level of creditworthiness of the borrower, the Bank has divided borrowers into 12 grades, and continuously monitors changes in credit risk. The Bank then carries out credit risk quantification based on these grades, to assess credit risk on loan assets and set baseline interest rates on loans.

The Bank also accumulates and organizes the data necessary for quantification of credit risks, such as the default rate within each grade and extent of asset recovery from customers in default, and uses a highly sophisticated quantification technique to obtain a still more detailed picture of risk-monitored assets.

#### **(Self-assessment of assets)**

In parallel with the credit rating system, the Bank conducts strict checks into the soundness of loans and other assets through annual assessment. Screening is carried out by particular Bank branches in light of the financial situation faced by the borrower, and the results are checked by the credit-screening department of the Head Office. In addition, the Risk Management Division extracts important information and conducts a rigorous review of screening due process and accuracy, and the Audit Division carries out the process audit. Based on this self-assessment of assets, in cases where there is no realistic prospect of asset recovery, provisions are made to reserve for possible loan losses to cover the entire value of the sum at risk. This provision is then recorded as a loss for the fiscal year under review. In this way the Bank ensures asset soundness on a continuous basis.

## Market risk management

### (i) Market risk management system

Market risk which is associated with change in the value of financial instruments from fluctuations in interest rates, securities prices, foreign exchange rates, and other market-related indices, has an effect on our financial performance. The Bank controls market risk to stabilize earnings by endeavoring to improve and strengthen ALM.

### Management of trading account risk

With regard to the trading accounts (for securities and off-balance-sheet transactions that target short-term gains on sales or purchases, and trading at the behest of customers), the Bank has special management mechanisms in place to guard against risk, since these transactions differ qualitatively from banking account transactions (involving deposits and loans, investment securities, and related transactions). The Bank has set up designated trading accounts, and is strengthening their management using transparent accounting procedures based on fair value.

For proprietary position dealing, the Bank limits the position by complying with strict rules in terms of position limits and loss-cutting measures. For positions and transactions on behalf of customers, the Bank follows a policy of square positions by fully covering them through the interbank market.

### (ii) Quantitative information relating to market risk

#### (a) Financial products for trading purposes

The Bank holds securities and derivative transactions including interest-rate and currency swaps as trading purpose.

To measure the amount of market risk, the Bank adopts VaR (Value at Risk) using the variance-covariance method (observation period: one year; confidence interval: 99.9%; holding period: one day).

As of March 31, 2017, the entire VaR of the Bank was ¥3 million (\$0 million).

#### (b) Financial products held for other than trading purpose

The Bank holds various products such as loans, securities, deposits, corporate bonds, and derivatives for other than trading purpose.

To measure the amount of market risk associated with these products, the Bank uses the VaR method using the variance-covariance method (observation period: one year; confidence interval: 99.9%; holding period: six months for strategic equity investments, three months for securities other than strategic equity investments, and one year for others).

The total VaR as of March 31, 2017 was ¥87,732 million (\$782 million). Within liquid deposits, the Bank recognizes interest risks related to deposits left in the Bank for long periods without withdrawal, which are allocated each fiscal period as core deposits.

#### (c) VaR adequacy

The relationship between the VaR calculated with the model and actual gains and losses data is back-tested. The Bank has confirmed that the calculating model used for these measurements captures market risk with the necessary degree of accuracy.

However, because VaR is a method of measuring the amount of market risk in terms of the probability of a certain event happening based on past statistical variation, it cannot be used for assessing risk in a market environment characterized by abnormal change.

## Management of liquidity risks related to fund procurement

Liquidity risk is the risk of incurring losses due to a decline in cash flow or being obliged to procure funds at interest rates that are markedly higher than usual due to an unexpected outflow of cash.

The Bank has secured highly liquid assets such as government bonds to prepare for cash outflows in times of short-term stress. Moreover, to mitigate long-term fund procurement risks, the Bank manages the gap between low-liquidity loans and stable procurement.

The Bank has a structure to conduct liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

### (4) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used.

Since the calculations of the reasonably calculated prices are implemented under certain conditions and assumptions, the result of calculations would differ if such calculations are made under different conditions and assumptions.

Fair values of financial instruments as of March 31, 2016 and 2017 were as follows:

	Millions of yen		
	Year ended March 31, 2016		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	¥ 712,514	¥ 712,514	¥ —
(2) Call loans and bills purchased	10,766	10,766	—
(3) Financial receivables purchased	6,824	6,824	—
(4) Trading assets* <sup>2</sup>			
Securities held for trading purpose	918	918	—
(5) Money held in trust	189	189	—
(6) Securities:			
Securities held-to-maturity	—	—	—
Securities available-for-sale	1,980,828	1,980,828	—
(7) Loans and bills discounted	5,267,812		
Reserve for possible loan losses* <sup>1</sup>	(33,250)		
Net	5,234,562	5,404,934	170,372
Total assets	¥7,946,603	¥8,116,975	¥170,372
(1) Deposits	¥6,792,193	¥6,792,916	¥ 722
(2) Negotiable certificates of deposit	221,525	221,539	13
(3) Call money and bills sold	25,288	25,288	—
(4) Payables under repurchase agreements	129,184	129,184	—
(5) Deposits received for bonds lending/borrowing transactions	268,079	268,079	—
(6) Borrowed money	161,128	162,230	1,102
(7) Bonds	20,000	20,522	522
Total liabilities	¥7,617,399	¥7,619,760	¥ 2,360
Derivative instruments* <sup>1, 3</sup> :			
Hedge accounting is not applied	¥ 1,702	¥ 1,702	¥ —
Hedge accounting is applied	988	988	—
Derivative instruments total	¥ 2,690	¥ 2,690	¥ —

	Millions of yen		
	Year ended March 31, 2017		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	¥1,253,275	¥1,253,275	¥ —
(2) Call loans and bills purchased	17,396	17,396	—
(3) Financial receivables purchased	7,091	7,091	—
(4) Trading assets* <sup>2</sup>			
Securities held for trading purpose	919	919	—
(5) Money held in trust	156	156	—
(6) Securities:			
Securities held-to-maturity	—	—	—
Securities available-for-sale	1,745,883	1,745,883	—
(7) Loans and bills discounted	5,605,677		
Reserve for possible loan losses* <sup>1</sup>	(34,915)		
Net	5,570,762	5,708,736	137,973
Total assets	¥8,595,484	¥8,733,458	¥137,973
(1) Deposits	¥6,985,538	¥6,986,113	¥ 574
(2) Negotiable certificates of deposit	310,574	310,572	(1)
(3) Call money and bills sold	3,365	3,365	—
(4) Payables under repurchase agreements	137,187	137,187	—
(5) Deposits received for bonds lending/borrowing transactions	401,641	401,641	—
(6) Borrowed money	453,379	454,281	902
(7) Bonds	20,000	20,174	174
Total liabilities	¥8,311,687	¥8,313,336	¥ 1,649
Derivative instruments* <sup>1, 3</sup> :			
Hedge accounting is not applied	¥ 1,187	¥ 1,187	¥ —
Hedge accounting is applied	1,287	1,287	—
Derivative instruments total	¥ 2,475	¥ 2,475	¥ —

	Millions of U.S. dollars		
	Year ended March 31, 2017		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	\$11,171	\$11,171	\$ —
(2) Call loans and bills purchased	155	155	—
(3) Financial receivables purchased	63	63	—
(4) Trading assets* <sup>2</sup>			
Securities held for trading purpose	8	8	—
(5) Money held in trust	1	1	—
(6) Securities:			
Securities held-to-maturity	—	—	—
Securities available-for-sale	15,562	15,562	—
(7) Loans and bills discounted	49,966		
Reserve for possible loan losses* <sup>1</sup>	(311)		
Net	49,655	50,885	1,230
Total assets	\$76,615	\$77,845	\$1,230
(1) Deposits	\$62,265	\$62,270	\$ 5
(2) Negotiable certificates of deposit	2,769	2,769	(0)
(3) Call money and bills sold	30	30	—
(4) Payables under repurchase agreements	1,223	1,223	—
(5) Deposits received for bonds lending/borrowing transactions	3,580	3,580	—
(6) Borrowed money	4,041	4,049	8
(7) Bonds	178	180	2
Total liabilities	\$74,086	\$74,101	\$ 15
Derivative instruments* <sup>1, 3</sup> :			
Hedge accounting is not applied	\$ 11	\$ 11	\$ —
Hedge accounting is applied	11	11	—
Derivative instruments total	\$ 22	\$ 22	\$ —

\*1. The amounts only include the general reserve for possible loan losses and the specific reserve for possible loan losses provided to "Loans and bills discounted." Reserve for possible loan losses provided in "Derivative instruments" is directly deducted from the carrying amounts due to immateriality.

\*2. Derivative instruments are not included in trading assets.

\*3. Derivative instruments recorded in "Trading assets," "Liabilities," "Other assets" and "Other liabilities" are aggregated and shown herein. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets.

(Note 1) Valuation methodology for financial instruments

## Assets

### (1) Cash and due from banks

The carrying amounts of due from banks with no maturities approximate fair values because they have no maturity. For due from banks with maturities, the carrying amounts approximate fair value because most of them have short maturities.

### (2) Call loans and bills purchased

The carrying amounts of call loans and bills purchased approximate fair values because most of these instruments have short maturities.

### (3) Financial receivables purchased

Financial receivables purchased which have been divided by priority such as subordinated and preferred interest and which have multiple owners are measured at the quoted price from a third party. The carrying amounts of other financial receivables purchased approximate fair values because most of these instruments have short maturities.

### (4) Trading assets

The fair values of securities held for trading purposes are measured at observable market prices or quoted price from a third party.

### (5) Money held in trust

The fair values of money held in trust, which have an external rating, are determined using the discounted cash flow method. The fair values of other money held in trust approximate fair values because most consists of deposits with no maturities.

### (6) Securities

The fair values of marketable equity securities are measured at market prices. The fair values of bonds are measured at market prices or quoted price from a third party.

The fair values of investment trusts are measured at the published benchmark price or quoted price from a third party.

The value reasonably estimated for such bonds was calculated by discounting the estimated future cash flows at the rate derived from yields of Japanese government bonds. The yields of Japanese government bonds and volatility are major variables in pricing.

### (7) Loans and bills discounted

The fair values of loans and bills discounted are determined by discounting expected cash flows at the rates that would be applied for the new same contract for each type of loan product, interest, period of time and internal ratings-based classification.

For loans to obligors "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," since the reserve is provided based on amounts expected to be collected through the disposal of collateral or execution of guarantees, the net carrying amount as of the consolidated balance sheet date is the reasonable estimate of the fair value of those loans.

Loans with no maturities approximate fair values because most are without concern of collectability.

## Liabilities

### (1) Deposits, (2) Negotiable certificates of deposit

The fair values of demand deposits are recognized as the payment at the date of the consolidated balance sheets. The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for the same, new contracts.

### (3) Call money and bills sold, (4) Payables under repurchase agreements, (5) Deposits received for bonds lending/borrowing transactions

The carrying amounts of call money and bills sold, deposits received for bonds lending/borrowing transactions approximate fair values, because these instruments have short maturities.

### (6) Borrowed money

The fair values of borrowed money are determined by discounting the contractual cash flows at the rate that would be applied for the same, new contracts. The carrying amounts of borrowed money with short maturities approximate fair values.

### (7) Bonds

The fair values of bonds are measured at quoted price from a third party.

### Derivative instruments

The fair values of derivative instruments are measured at the market prices or determined using the discounted cash flow method or option pricing models.

(Note 2) Financial instruments whose fair value cannot be reliably determined

	Carrying amount		
	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Equity securities without readily available market price*1, 2	¥13,967	¥13,881	\$124
Other	997	1,697	15
Total	¥14,964	¥15,579	\$139

\*1. Equity securities without readily available market prices are out of the scope of fair value disclosure because their fair value cannot be reliably determined.

\*2. Impairment loss on equity securities without readily available market prices was ¥5 million and ¥9 million (\$0 million) for the years ended March 31, 2016 and 2017, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

As of March 31, 2016

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	¥ 635,007	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	10,766	—	—	—	—	—
Financial receivables purchased	6,824	—	—	—	—	—
Money held in trust	189	—	—	—	—	—
Securities	257,820	738,713	216,100	95,781	130,694	285,346
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	257,820	738,713	216,100	95,781	130,694	285,346
National government bonds	93,400	592,500	107,100	45,000	10,000	150,500
Local government bonds	13,411	45,899	36,812	—	29,120	—
Bonds	13,609	50,573	21,574	1,660	2,611	80,079
Others	137,399	49,740	50,613	49,121	88,963	54,766
Loans and bills discounted*	482,718	584,106	711,559	437,184	653,423	1,738,378
Total	¥1,393,326	¥1,322,819	¥927,659	¥532,966	¥784,118	¥2,023,724



## As of March 31, 2017

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	¥1,172,672	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	17,396	—	—	—	—	—
Financial receivables purchased	7,091	—	—	—	—	—
Money held in trust	156	—	—	—	—	—
Securities	417,455	455,551	126,254	147,177	94,272	319,935
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	417,455	455,551	126,254	147,177	94,272	319,935
National government bonds	347,500	307,100	45,000	25,000	—	42,500
Local government bonds	27,420	51,391	9,490	—	48,660	—
Bonds	11,776	49,885	18,893	13,028	3,647	111,737
Others	30,758	47,173	52,870	109,149	41,964	165,697
Loans and bills discounted*	622,789	580,022	730,208	483,383	676,365	1,823,741
Total	¥2,237,561	¥1,035,573	¥856,463	¥630,561	¥770,637	¥2,143,676

	Millions of U.S. dollars					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	\$10,453	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills purchased	155	—	—	—	—	—
Financial receivables purchased	63	—	—	—	—	—
Money held in trust	1	—	—	—	—	—
Securities	3,721	4,061	1,125	1,312	840	2,852
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	3,721	4,061	1,125	1,312	840	2,852
National government bonds	3,098	2,737	401	223	—	379
Local government bonds	244	458	85	—	434	—
Bonds	105	445	168	116	32	996
Others	274	421	471	973	374	1,477
Loans and bills discounted*	5,551	5,170	6,509	4,308	6,029	16,256
Total	\$19,944	\$9,231	\$7,634	\$5,620	\$6,869	\$19,108

\* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to "legally bankrupt" borrowers, loans to "virtually bankrupt" borrowers and loans to "possibly bankrupt" borrowers amounting to ¥46,556 million and ¥55,231 million (\$492 million), is not included in the above table as of March 31, 2016 and 2017, respectively. Loans that do not have contractual maturity, amounting to ¥613,885 million and ¥633,936 million (\$5,651 million), are not included either.

## (Note 4) Maturity analysis for interest-bearing liabilities as of March 31, 2016 and 2017

### As of March 31, 2016

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	¥6,464,753	¥220,936	¥101,736	¥ 3,179	¥1,587	¥ —
Negotiable certificates of deposit	221,385	140	—	—	—	—
Call money and bills sold	25,288	—	—	—	—	—
Payables under repurchase agreements	129,184	—	—	—	—	—
Deposits received for bonds lending/ borrowing transactions	268,079	—	—	—	—	—
Borrowed money	8,011	104,851	17,596	12,153	1,410	17,105
Bonds	—	20,000	—	—	—	—
Total	¥7,116,701	¥345,927	¥119,332	¥15,333	¥2,997	¥17,105

## As of March 31, 2017

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	¥6,743,967	¥220,313	¥ 18,603	¥1,035	¥ 1,618	¥ —
Negotiable certificates of deposit	307,939	2,635	—	—	—	—
Call money and bills sold	3,365	—	—	—	—	—
Payables under repurchase agreements	137,187	—	—	—	—	—
Deposits received for bonds lending/ borrowing transactions	401,641	—	—	—	—	—
Borrowed money	17,257	112,810	303,588	1,977	16,168	1,577
Bonds	20,000	—	—	—	—	—
Total	¥7,631,358	¥335,759	¥322,191	¥3,013	¥17,786	¥1,577

	Millions of U.S. dollars					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	\$60,112	\$1,964	\$ 166	\$ 9	\$ 14	\$—
Negotiable certificates of deposit	2,745	24	—	—	—	—
Call money and bills sold	30	—	—	—	—	—
Payables under repurchase agreements	1,223	—	—	—	—	—
Deposits received for bonds lending/ borrowing transactions	3,580	—	—	—	—	—
Borrowed money	154	1,005	2,706	18	144	14
Bonds	178	—	—	—	—	—
Total	\$68,022	\$2,993	\$2,872	\$27	\$158	\$14

\* Deposits on demand are included in "Less than 1 year."

## 20 Stock options

A) The Bank recorded stock option expenses in "General and administrative expenses" of ¥118 million and ¥89 million (\$1 million) for the years ended March 31, 2016 and 2017, respectively

B) Outline of stock options, size and changes in the year ended March 31, 2017

### (1) Outline of stock options

	Stock options 2010	Stock options 2011	Stock options 2012
Persons to whom stock options are granted	Directors of the Bank: 12	Directors of the Bank: 11	Directors of the Bank: 10
Type and number of shares*	Common stock: 383,200	Common stock: 358,300	Common stock: 450,100
Date of rights granted	July 28, 2010	July 27, 2011	July 27, 2012
Condition for vesting	Not applicable	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable	Not applicable
Period for exercise of stock options	From July 29, 2010 to July 28, 2040	From July 28, 2011 to July 27, 2041	From July 28, 2012 to July 27, 2042

	Stock options 2013	Stock options 2014	Stock options 2015
Persons to whom stock options are granted	Directors of the Bank: 10	Directors of the Bank: 10	Directors of the Bank: 8
Type and number of shares*	Common stock: 267,400	Common stock: 309,400	Common stock: 165,000
Date of rights granted	July 25, 2013	July 30, 2014	July 31, 2015
Condition for vesting	Not applicable	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable	Not applicable
Period for exercise of stock options	From July 26, 2013 to July 25, 2043	From July 31, 2014 to July 30, 2044	From August 1, 2015 to July 31, 2045

	Stock options 2016
Persons to whom stock options are granted	Directors of the Bank: 7
Type and number of shares*	Common stock: 250,700
Date of rights granted	July 29, 2016
Condition for vesting	Not applicable
Eligible service period	Not applicable
Period for exercise of stock options	From July 30, 2016 to July 29, 2046

\* The table above presents the number of common stock converted from the stock options.

## (2) Size and changes of stock options

### a. Number of stock options for the year ended March 31, 2017

	Stock options 2010	Stock options 2011	Stock options 2012	Stock options 2013	Stock options 2014	Stock options 2015	Stock options 2016
Non-vested:							
Previous fiscal year-end outstanding	—	—	—	—	—	165,000	—
Granted	—	—	—	—	—	—	250,700
Forfeited	—	—	—	—	—	—	—
Vested	—	—	—	—	—	165,000	—
Outstanding on March 31, 2017	—	—	—	—	—	—	250,700
Vested:							
Previous fiscal year-end outstanding	89,900	95,200	155,900	140,300	216,100	—	—
Vested	—	—	—	—	—	165,000	—
Exercised	29,300	31,000	41,600	47,600	59,100	37,900	—
Forfeited	—	—	—	—	—	—	—
Exercisable	60,600	64,200	114,300	92,700	157,000	127,100	—

### b. Price information for the year ended March 31, 2017

	Yen	U.S. dollars
Stock options 2010		
Exercise price	¥ 1	\$ 0
Average exercise price	345	3
Fair value at the granted date	326	3
Stock options 2011		
Exercise price	¥ 1	\$ 0
Average exercise price	345	3
Fair value at the granted date	322	3
Stock options 2012		
Exercise price	¥ 1	\$ 0
Average exercise price	345	3
Fair value at the granted date	223	2
Stock options 2013		
Exercise price	¥ 1	\$ 0
Average exercise price	345	3
Fair value at the granted date	410	4
Stock options 2014		
Exercise price	¥ 1	\$ 0
Average exercise price	345	3
Fair value at the granted date	457	4
Stock options 2015		
Exercise price	¥ 1	\$ 0
Average exercise price	345	3
Fair value at the granted date	673	6
Stock options 2016		
Exercise price	¥ 1	\$ 0
Average exercise price	—	—
Fair value at the granted date	327	3

### (3) Valuation technique for fair value of stock options

Stock options granted in the fiscal year ended March 31, 2017 were valued using the Black-Scholes option pricing model and the following principal parameters:

	Stock options 2016
Expected volatility* <sup>1</sup>	33.708%
Average expected life* <sup>2</sup>	4.77 years
Expected dividends* <sup>3</sup>	¥11 (\$0.10) per share
Risk-free interest rate* <sup>4</sup>	(0.356%)

\*1. Expected volatility is calculated based on the actual stock prices in the period (from October 2011 to July 2016) corresponding to the average expected life (4.77 years).

\*2. The average tenure of the directors who retired in the past is used as the average expected life in the above table.

\*3. Actual dividends on common stock for the year ended March 31, 2016.

\*4. Japanese government bond yield corresponding to the average expected life.

### (4) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of stock options that will be forfeited in the future.

## 21 Comprehensive income

Reclassification adjustments and the related tax effects concerning other comprehensive income for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Net unrealized holding gains on securities available for sale:			
The amount arising during the period	¥ 3,645	¥(29,804)	\$(266)
Reclassification adjustments	(4,785)	(8,328)	(74)
Before adjustments for tax effect	(1,140)	(38,132)	(340)
The amount of tax effect	1,278	11,823	106
Net unrealized holding gains on securities available for sale	137	(26,309)	(234)
Net deferred gains (losses) on hedging instruments, net of tax:			
The amount arising during the period	(421)	(925)	(8)
Reclassification adjustments	969	1,290	11
Before adjustments for tax effect	548	365	3
The amount of tax effect	(187)	(113)	(1)
Net deferred gains (losses) on hedging instruments, net of tax	360	252	2
Land revaluation and translation adjustments, net of tax:			
The amount arising during the period	—	—	—
Reclassification adjustments	—	—	—
Before adjustments for tax effect	—	—	—
The amount of tax effect	439	—	—
Land revaluation and translation adjustments, net of tax	439	—	—
Remeasurements of defined benefit plans:			
The amount arising during the period	(20,196)	675	6
Reclassification adjustments	(1,270)	(3)	(0)
Before adjustments for tax effect	(21,467)	671	6
The amount of tax effect	6,935	(208)	(2)
Remeasurements of defined benefit plans	(14,532)	463	4
Share of other comprehensive income of associates accounted for using equity method:			
The amount arising during the period	(1)	4	0
Reclassification adjustments	—	—	—
Share of other comprehensive income of associates accounted for using equity method	(1)	4	0
Total other comprehensive income	¥(13,595)	¥(25,589)	\$(228)

## 22 Significant subsequent events

### Change of an affiliated company accounted for by the equity method into a wholly owned subsidiary

Hirogin Utsumiya Securities Co., Ltd., an affiliated company accounted for by the equity method, acquired common stock in treasury on June 1, 2017 and became a wholly owned subsidiary.

#### A) Outline of business combination

##### (1) Name of the acquired company and its business

Hirogin Utsumiya Securities Co., Ltd., (Financial instruments business)

##### (2) Main reason for business combination

The Bank aims to strengthen cooperation with Hirogin Utsumiya Securities Co., Ltd. and contribute valuable financial instruments and services with consideration for protection of customers' interests and improve customers' convenience, content and peace the of mind.

##### (3) Date of business combination

June 1, 2017 (April 1, 2017 deemed the acquisition date)

##### (4) Legal form of business combination

Acquisition of common stock in treasury by the affiliated company accounted for by the equity method

##### (5) Name of the company after business combination

Hirogin Securities Co., Ltd.

##### (6) Percentage of voting rights acquired

Before acquisition: 50%

Acquisition percentage: 50%

After acquisition: 100%

##### (7) Main reason for decision to acquire the company

Bank aims to acquire majority of voting rights of the acquired company.

#### B) Acquisition cost of the acquired company

##### (1) Acquisition cost of the acquired company

Fair value of Hirogin Utsumiya Securities Co., Ltd., as of the acquisition date: ¥5,000 million (\$45 million)

##### (2) Difference between the acquisition cost and the total amount of the acquisition cost

Loss on step acquisition ¥2,123 million (\$19 million)

#### C) Allocation of the acquisition cost

##### (1) The amount of assets and liabilities assumed on the acceptance date of business combination

	Millions of yen	Millions of U.S. dollars
Current assets	¥24,236	\$216
Non-current assets	611	5
Total assets	¥24,847	\$221
Current liabilities	¥15,607	\$139
Non-current liabilities	43	0
Total liabilities	¥15,650	\$139

##### (2) The amount and cause of negative goodwill

a. Negative goodwill

¥4,196 million (\$37 million)

b. The reason of negative goodwill

Negative goodwill was incurred as net asset value in current value exceeded the acquisition cost.

#### Change in the Bank's share-trading unit, consolidation of shares and amendment in the Articles of Incorporation

At the Board of Directors meeting held on May 10, 2017, the Bank resolved to change its share-trading unit and amend the Articles of Incorporation and resolved to submit a proposal on a consolidation of shares to the 106th Ordinary General Meeting of Shareholders held on June 28, 2017. The proposal was approved by resolution of the General Meeting of Shareholders.

The change in the Bank's share-trading unit, consolidation of shares and amendment in the Articles of Incorporation are summarized below.

#### A) Change in the Bank's share-trading unit

##### (1) Reason for change

The Japanese stock exchanges are making efforts to unify share trading units of common shares of domestic listed companies into units of 100 shares to improve investors' convenience. The deadline for transferring to a 100-share unit has been set for October 1, 2018.

Taking such efforts into consideration, the Bank has resolved to change its share-trading unit.

##### (2) Details of change

The Bank's share-trading unit will be changed from a 1,000-share unit to a 100-share unit.

##### (3) Schedule

Effective October 1, 2017, the Bank's share-trading unit will be changed from a 1,000-share unit to a 100-share unit.

## B) Consolidation of shares

### (1) Purpose of consolidation of shares

As stated in "A) Change in the Bank's share-trading unit" above, the Bank has decided to change its number of shares constituting one share unit to 100 common shares and will implement a consolidation of shares at the level considered to be desirable by the Japanese stock exchanges, namely, ¥50,000 or more but less than ¥500,000.

### (2) Details of consolidation of shares

#### a. Class of share

Common stock

#### b. Consolidation ratio

On October 1, 2017, 2 common shares will be consolidated into 1 common share based on the number of shares held by shareholders of record as of September 30, 2017.

#### c. Changes in number of shares as a result of consolidation

Total number of outstanding shares before consolidation (As of March 31, 2017)	625,266,342 shares
Number of shares decreased due to consolidation	312,633,171 shares
Total number of outstanding shares after consolidation	312,633,171 shares

### (3) Treatment when there is less than one share

If fractional shares of less than one share arise as a result of the share consolidation, the Bank shall sell them in accordance with the Companies Act. The proceeds from the sale shall then be distributed to the shareholders in proportion to their respective ownership interests.

### (4) Total number of authorized shares as of the effective date

In conjunction with the reduction of the total number of outstanding shares of the Bank as a result of the consolidation of shares and in order to adjust the total number of authorized shares to an appropriate level, the total number of authorized shares shall be amended from 2 billion shares to 1 billion shares in accordance with the consolidation of shares ratio.

## C) Amendment in the Articles of Incorporation

### (1) Reason for change

The Bank amended the Articles of Incorporation associated with "A) Change in the Bank's share-trading unit" and "B) Consolidation of shares" above.

### (2) Detail of change

The Bank will implement a consolidation of shares on October 1, 2017, decrease the total number of authorized shares from 2 billion shares to 1 billion shares in proportion to the consolidation of shares ratio and change the Bank's share-trading unit from a 1,000-share unit to a 100-share unit.

## D) Impact on per share information

Assuming that the share consolidation had taken place at the start of the previous period, per share information for the years ended March 31, 2016 and 2017 would be as follows:

	Yen		U.S. dollars
	2016	2017	2017
Amounts per share of common stock:			
Net assets	¥1,437.19	¥1,431.67	\$12.76
Net income	100.75	100.04	0.89
Diluted net income	100.61	99.92	0.89

# Non-Consolidated Balance Sheets

THE HIROSHIMA BANK, LTD.  
As of March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
<b>ASSETS</b>			
Cash and due from banks	¥ 711,894	¥1,252,600	\$11,165
Call loans and bills purchased	10,766	17,396	155
Financial receivables purchased	5,193	5,536	49
Trading assets	12,284	9,145	82
Money held in trust	156	156	2
Securities	1,999,381	1,765,068	15,733
Loans and bills discounted	5,267,228	5,605,192	49,962
Foreign exchanges	7,315	7,890	70
Other assets	32,240	54,292	484
Tangible fixed assets	88,357	91,974	820
Intangible fixed assets	9,673	10,235	91
Prepaid pension cost	35,072	38,814	346
Customers' liabilities for acceptances and guarantees	44,331	39,950	356
Reserve for possible loan losses	(33,888)	(35,775)	(319)
Reserve for investment losses	(4,730)	(4,901)	(44)
Total assets	¥8,185,278	¥8,857,577	\$78,952
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Deposits	¥7,024,566	¥7,308,542	\$65,144
Call money and bills sold	25,288	3,365	30
Payables under repurchase agreements	129,184	137,187	1,223
Deposits received for bonds lending/borrowing transactions	268,079	401,641	3,580
Trading liabilities	10,232	7,183	64
Borrowed money	161,128	453,379	4,041
Foreign exchanges	185	163	2
Bonds	20,000	20,000	178
Due to trust account	42	22	0
Other liabilities	36,810	34,882	311
Reserve for reimbursement of deposits	1,495	1,461	13
Reserve for point loyalty programs	72	86	1
Reserve for loss related to Head Office rebuilding	—	1,095	10
Deferred tax liabilities	15,660	2,891	26
Deferred tax liabilities for land revaluation reserve	13,622	13,613	121
Acceptances and guarantees	44,331	39,950	356
Total liabilities	7,750,700	8,425,466	75,100
<b>Net Assets:</b>			
Common stock:			
Authorized – 2,000,000,000 shares			
Issued – 625,266,342 shares	54,573	54,573	487
Capital surplus	30,816	30,742	274
Retained earnings	257,006	280,157	2,497
Common stock in treasury	(969)	(423)	(4)
Total stockholders' equity	341,427	365,050	3,254
Net unrealized holding gains on securities available for sale	65,796	39,486	352
Net deferred losses on hedging instruments, net of tax	(764)	(512)	(5)
Land revaluation reserve, net of tax	27,784	27,763	248
Total valuation and translation adjustments	92,815	66,738	595
Stock acquisition rights	334	322	3
Total net assets	434,577	432,110	3,852
Total liabilities and net assets	¥8,185,278	¥8,857,577	\$78,952



# Non-Consolidated Statements of Income

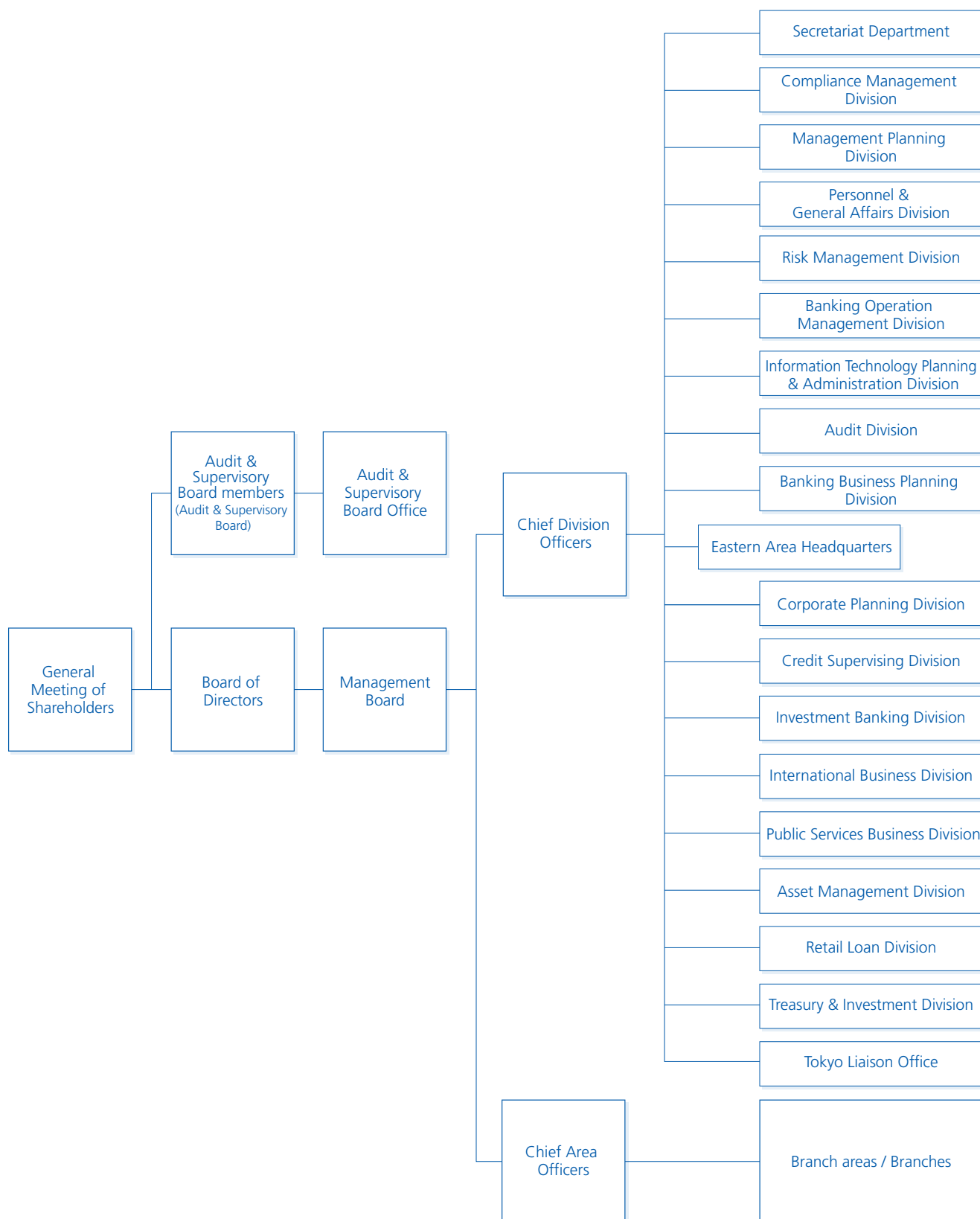
THE HIROSHIMA BANK, LTD.  
Years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 64,120	¥ 61,120	\$ 545
Interest and dividends on securities	15,345	18,625	166
Other interest income	2,702	1,106	10
Fees and commissions	25,401	25,337	226
Other operating income	15,862	10,817	96
Other income	7,411	17,778	158
Total income	130,843	134,785	1,201
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	3,767	3,058	27
Interest on borrowings and rediscounts	2,310	3,805	34
Other interest expenses	1,373	2,551	23
Fees and commissions	8,794	9,717	87
Other operating expenses	10,004	11,809	105
General and administrative expenses	52,809	55,629	496
Other expenses	6,843	6,217	55
Total expenses	85,902	92,788	827
<b>Income before income taxes and others</b>	<b>44,940</b>	<b>41,996</b>	<b>374</b>
<b>Income taxes:</b>			
Provision for income taxes and others	12,873	13,074	117
Deferred income taxes	2,064	(1,067)	(10)
<b>Net income</b>	<b>¥ 30,002</b>	<b>¥ 29,989</b>	<b>\$ 267</b>
	Yen		U.S. dollars
<b>Amounts per share of common stock:</b>			
Net assets	¥697.11	¥691.70	\$6.17
Net income	48.19	48.06	0.43
Diluted net income	48.13	48.00	0.43
Cash dividends applicable to the year	11.00	11.00	0.10

# Corporate Information

## Organization

(As of April 1, 2017)



## Board of Directors, Executive Officers and Audit & Supervisory Board Members

(As of June 28, 2017)

### Directors

Chairman	Isao Sumihiro
President	Koji Ikeda
Director & Senior Managing Executive Officers	Tohru Hirota
	Kichisou Miyoshi
	Yuji Yoshino
Director & Managing Executive Officers	Toshio Heya
	Yusou Araki
External Directors	Masahiro Sumikawa
	Kaori Maeda
	Satoshi Miura

### Executive Officers

Senior Managing Executive Officer	Satoru Noguchi
Managing Executive Officers	Minoru Ogawa
	Hirofumi Tsumasaki
	Hiroshi Honkawa
	Yasushi Kojiri
Executive Officers	Hiroshi Iwamoto
	Ikuo Kojiri
	Masataka Hatate
	Katsuhiko Nakama
	Akira Maeda
	Masahiro Koike
	Atsuhiko Kunitura
	Akira Ogi
	Kimio Okano

### Audit & Supervisory Board Members

Audit & Supervisory Board Members	Hirofumi Mizutani
	Hitoshi Katayama
External Audit & Supervisory Board Members	Yasutoshi Takei
	Yoshinori Takahashi
	Masako Yoshida

## Stock Information

(As of March 31, 2017)

Number of Shares Authorized	2,000,000 thousand
Number of Shares Issued	625,266 thousand
Number of Shareholders	17,116

## Major Shareholders

(As of March 31, 2017)

Shareholders	Number of shares (thousand)	Percentage of shares issued (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	27,000	4.31
Meiji Yasuda Life Insurance Company	19,009	3.04
Sompo Japan Nipponkoa Insurance Inc.	16,687	2.66
CP Chemical Incorporated	14,927	2.38
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,908	2.38
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,088	2.09
Nippon Life Insurance Company	12,085	1.93
Sumitomo Life Insurance Company	12,076	1.93
The Chugoku Electric Power Co., Inc.	12,008	1.92
Mizuho Bank, Ltd.	11,500	1.83

Notes: 1. Numbers of shares less than one thousand have been omitted.

2. Percentage of shares issued is rounded down at the second decimal place.

## Shareholder Incentive Plan

We have established time deposits for shareholders and provide invitation tickets to the Hiroshima Museum of Art to improve shareholder satisfaction.

### ◆ Time deposits held by shareholders

Date of record for deciding on participating shareholders	March 31 every year		
Participating shareholders	Shareholders listed in the stockholders list who hold at least 1,000 shares at the date of record		
Plan period	Early July in the year of the date of record to late June the following year		
Number of shares held	1,000 shares or more Less than 5,000 shares	5,000 shares or more Less than 10,000 shares	10,000 shares or more
Maximum deposit	¥3 million	¥4 million	¥5 million
Offered rates	Over-the-counter interest rate on Super Teiki Yokin time deposit or Super Teiki Yokin time deposit 300, + <b>0.3%</b>	Over-the-counter interest rate on Super Teiki Yokin time deposit or Super Teiki Yokin time deposit 300, + <b>0.4%</b>	Over-the-counter interest rate on Super Teiki Yokin time deposit or Super Teiki Yokin time deposit 300, + <b>0.5%</b>
Deposit term	1 year		

### ◆ Tickets to the Hiroshima Museum of Art

We present tickets to the Hiroshima Museum of Art, a nonprofit organization, to our shareholders who make use of the Hirogin time deposits we have established as shareholder incentives.

#### ■ Overview

The Hiroshima Museum of Art was established in November 1978 by Hiroshima Bank in commemoration of the 100th anniversary of its foundation, as we move through history together with the region. We hope that the museum can offer spiritual repose to the people of Hiroshima, the city reduced to ruins by the atomic bomb on August 6, 1945. To this end, we have created a sanctuary of fragrant beauty around the themes of love and healing. We pray that it will also bring repose to the victims of the bomb that has led to today's Hiroshima, and peace to Hiroshima City.

#### ■ The collection

The approximately 300 paintings in the possession of the museum comprise modern European works centered on the French impressionists from the mid-nineteenth century, Romantics up to the Paris School, and modern Japanese works from the Meiji Period onward, including traditional-style Japanese paintings. The modern European works are permanently exhibited in the Main Hall.

**Address:** 3-2 Motomachi, Naka-ku,  
Hiroshima City 730-0011, Japan  
**Opening Hours:** 9:00 a.m.–5:00 p.m. (Last entry 4:30 p.m.)  
**Closed:** Mondays except during special exhibitions (or the following day if a public holiday falls on Monday) and December 29–January 2  
Note: The museum is sometimes closed temporarily to change exhibitions.



The background is a deep blue gradient. In the upper left, there is a bright, out-of-focus light source, possibly a sun or moon, which creates a lens flare effect. Several thin, curved lines in varying shades of blue flow from the top left towards the right side of the frame, giving a sense of motion and depth.

THE HIROSHIMA BANK, LTD.