

Review of the Year

Financial and Economic Environment

In fiscal 2017, the Japanese economy, particularly major corporate entities, improved its performance thanks to government and the Bank of Japan economic policies. At the same time, personal consumption remained steady, and the economy showed overall, gradual signs of improvement.

Thanks to robust inbound tourism consumption by overseas visitors, the approach of next year's Rugby World Cup and the G20 Summit, which will be held in Osaka, and active promotional activities supporting next year's decision on Japan's bid for World Expo 2025, Osaka's economy enjoyed a favorable outlook, with many factors likely to serve as stimuli in the future.

At the same time, the business environment for small and medium enterprises continued to be challenging, and these entities demanded effective solutions to resolve a raft of problems including structural labor shortages that accompany a shrinking population, and the need to identify management successors. Provision of high-quality services is essential to the development of Osaka's economy, including new business formation (for example, businesses responding to social issues), smooth management succession, and productivity enhancement. To this end, government and the private sector made progress in collaborating to find solutions.

Financial institutions are facing an era of significant change in their operations due to such factors as the rapid diversification of fintech-driven financial services and changes in financial settlement methods. The Bank of Japan's long-term monetary easing policies, stagnating capital demand, entry of non-financial entities into the financial industry, and other factors are contributing to intensified competition among financial institutions.

Operating Policies

Osaka City Shinkin Bank celebrated its 90th founding anniversary in fiscal 2017. This was also the initial year of our Medium-Term Management Plan. During the term, we worked quickly and energetically to expedite a range of plan measures aimed at achieving our goal of becoming our customers' number one financial partner for problem resolution.

In particular, to promote problem-solving financing, we undertook to expand transaction support for new growth areas, promoted financing based on business viability assessment, and engaged in other efforts to further strengthen our financial intermediary capabilities.

To reinforce our promotion of regional revitalization businesses, we concluded collaborative agreements with Osaka Prefecture, Osaka City, and the city of Yao. In addition, we entered into a comprehensive collaboration agreement with the city of Higashi Osaka, and collaborated with the Ministry of Land, Infrastructure, Transport and Tourism and The Organization for Promoting Urban Development to create a fund supporting small businesses that are crucial to the revitalization of neighborhood commercial areas. Through these and other efforts, we worked to achieve sustainable growth for the regional economy.

In addition, to enhance and strengthen its management control preparedness, the Bank continued its efforts to combat financial crimes, including transactions involving anti-social forces and fraud, and to strengthen its cybersecurity measures and money-laundering safeguards.

Internal Control Systems

In accordance with the following Basic Policy on Internal Control Systems adopted by the board of directors based on Article 36, Paragraph 5, Item 5 of the Shinkin Bank Act and the provisions in Article 23 of the Ordinance for Enforcement of the Shinkin Bank Act, our Bank has continued working to develop a system for internal control.

- (1) Provide a system to ensure that all directors and personnel of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
- (2) Provide a system to store and manage information with respect to the execution of the duties of each director of the Bank.
- (3) Provide rules and other systems for risk management against losses by the Bank.
- (4) Provide a system to ensure that each director of the Bank executes his/her duties efficiently.
- (5) Provide a system to ensure propriety of the following systems and other operations in the Bank group.
 - Provide a system to ensure that all directors and employees of subsidiaries of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
 - Provide a system for reporting matters relating to the execution of duties by directors of the Bank's subsidiaries.
 - Provide rules and other systems for controlling the risk of losses by Bank subsidiaries.
 - Provide systems for ensuring efficient discharge of duties by senior management of Bank subsidiaries.
- (6) Establish provisions regarding personnel when requested to be assigned to assist auditors of the Bank in performing their duties.

- (7) Establish provisions to ensure the independence from directors' influence of personnel assigned to assist auditors of the Bank and the effectiveness of auditors' instructions with respect to said personnel.
- (8) Provide a system by which directors and personnel of the Bank and directors and employees of subsidiaries, or persons who have received reports from said persons, can report to auditors, and other systems for reporting to auditors.
- (9) Provide a system to ensure that persons who make reports described in the previous item are not subject to unfair treatment as a result of making such a report.
- (10) Establish provisions for policies regarding procedures for prepayment or reimbursement of costs that arise due to the execution of duties by auditors of the Bank, and for handling other costs or financial obligations that arise due to the execution of other pertinent work.
- (11) Provide a system to otherwise ensure the effectiveness of auditors of the Bank performing an audit.

The outline of the operation status during this fiscal year with regard to the above Internal Control Systems was as follows.

- (1) Compliance Efforts
The Compliance Committee convened 14 times during the fiscal year to ascertain, manage, and quickly respond in a unified way to issues relating to compliance with laws and regulations, and to confirm the compliance status.
- (2) Risk Management Efforts
The ALM Committee convened 12 times during the fiscal year to ensure the stability of earnings and soundness of assets. Every kind of risk was comprehensively managed and addressed appropriately.
- (3) Other Major Meetings
The board of directors met 12 times during the fiscal year and the legality of the manner in which the directors carried out their duties was ensured. Auditors' meetings were held 6 times. The directors' performance of duties and compliance with laws and regulations were confirmed.
- (4) Internal Control System for the Bank Group
The Compliance Code of Conduct was applied to subsidiaries as well to put in place a system of compliance with laws and regulations. Additionally, auditors of the Bank and the auditing department conducted audits of internal controls of subsidiaries and confirmed that there were no problems in their compliance with laws and regulations, or risk management systems.

Financial Review

We have worked diligently to absorb small stable deposits, and in commemoration of our 90th anniversary, we offered a time deposit product with a lottery component. We also worked to expand the balance of liquid deposits. As a result, total deposits rose ¥48.3 billion during the term, to ¥2,479.8 billion.

At the same time, the total of loans outstanding expanded ¥17.7 billion yen over the previous term, to ¥1,318.5 billion, reflecting in part our active promotion of problem-solving financing.

Net income for core operations totaled ¥4.962 billion, ordinary income was ¥4.899 billion, and net income for the period amounted to ¥5.016 billion. In addition, our capital adequacy ratio was 8.72%.

Issues and Outlook for the Bank in Fiscal Year 2018

In fiscal 2018, government economic policy promotion should contribute to continuing improvement in the employment and wage environment. At the same time, further efforts to enhance productivity and other factors are expected to put the economy on a firm expansion path, with sustainable growth and a conclusive exit from deflation.

The Bank of Japan's ongoing monetary easing policies, which have been in effect for an unprecedented period, are expected to continue. In this environment, it will be incumbent on the Bank to further strengthen its financial functions, promote operational efficiency, and enhance productivity to build a rock-solid management foundation. It will also be necessary for us to offer further support for the growth, development, and revitalization of local small and medium enterprises.

In this environment, the Bank's business plan for fiscal 2018 includes the following four basic policies: (1) strengthening our management foundation by bolstering rapid problem-solving capabilities; (2) enhancing productivity by promoting greater operational efficiency; (3) further reinforcing risk management effectiveness; and (4) promoting the creation of rewarding workplace environments that foster personnel development.

Fiscal 2018 will be the middle year of the Medium-Term Management Plan. In pursuit of our plan goal to become our customers' number one financial partner for problem resolution, our directors and employees will work diligently as a team to further strengthen our management foundation as a financial institution serving the community.

We thank you all for your continued patronage and support.