

# ANNUAL REPORT

2018

## FINANCIAL REVIEW

### Profile

Throughout its 91 years, the Osaka City Shinkin Bank has grown together with Osaka, Japan's second largest city and a community the Bank is proud to serve. The Bank boasts a network of 90 office locations throughout Osaka Prefecture, making it one of the largest membership-based cooperative banks (shinkin banks) in Japan. Through this network, the Bank also provides a comprehensive range of international operations that Osaka requires as a city with an exciting future and ambitions that span the globe.



The Osaka City Shinkin Bank

## Message from the Management



Masao Kawamura  
Chairman



Satoshi Takahashi  
President

In fiscal 2017, personal consumption levels held firm and the economy showed signs of moderate recovery as the Bank of Japan maintained its policy of monetary easing.

The economic tone in our home region of Osaka was also upbeat, with healthy inbound tourism consumption by foreign visitors and active promotion of the 2019 Rugby World Cup, as well as Osaka's bid for the World Expo 2025. Additional promising signs of economic vigor were evident that promise to contribute to Osaka's economic development, including business creation, such as of social businesses; the smooth growth of existing businesses; support for enhanced productivity; and further collaboration between government and the private sector.

Also during the term, there was a pressing need for financial institutions to institute operational reforms in view of the rapid diversification of fintech-driven financial services and changing financial settlement methods. In addition, competition between financial institutions intensified as the Bank of Japan's monetary easing became a long-term policy, capital demand stagnated, and non-financial entities entered the financial industry.

In this operating environment, the Bank celebrated its 90th founding anniversary and worked with a sense of urgency to realize its aim of becoming our customers' number one financial partner for problem resolution, as set forth in our new Medium-Term Management Plan. We undertook to further strengthen our financial intermediary functions, particularly by expanding transaction support for growth businesses and promoting growth outlook-based business financing.

To further promote businesses for regional revitalization, we entered into a comprehensive collaboration agreement with the city of Higashi Osaka; and worked with the Ministry of Land, Infrastructure, Transport and Tourism and The Organization for Promoting Urban Development to establish the City Shinkin PLUS Fund to Build a Better Osaka. Through these and other initiatives, we invested effort into providing financial support to small businesses that can stimulate local neighborhoods, and into the sustainable development of the regional economy. At the same time, we worked to enhance and strengthen our management controls, including cybersecurity and anti-money-laundering measures.

As a result, we extended our record of stable performance in the final accounts for fiscal 2017, and maintained a high degree of soundness. We have established four basic policies for fiscal 2018: strengthening our management foundation by bolstering rapid problem-solving capabilities; enhancing our productivity by promoting greater operational efficiency; further reinforcing the effectiveness of our risk management; and promoting the creation of rewarding workplace environments that foster personnel development. Based on these policies, management and employees will work as a team to fulfill our mission as a regional financial institution.

This report outlines the management policies and current condition of the Osaka City Shinkin Bank in an easy-to-understand format. We hope this will enhance your understanding of our activities at the Bank, and that we will be able to rely on your continued support and patronage.

July 2018

*M. Kawamura*

Masao Kawamura  
Chairman

*S. Takahashi*

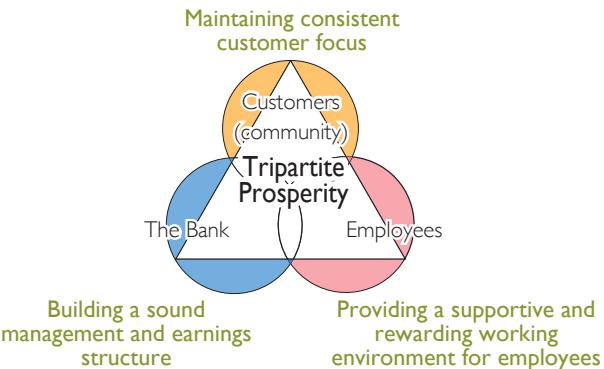
Satoshi Takahashi  
President

# Management Principles

## Management Philosophy: Tripartite Prosperity

"Tripartite prosperity" is a concept in which Osaka City Shinkin Bank, its customers and its employees are regarded as a single, tripartite entity. The Bank nurtures mutual growth and happiness based on mutually supportive relationships.

We always consider what we do within this conceptual framework, and strive in our business activities to balance the interests of each element.



## Basic Management Policies for Fiscal 2018

The Bank celebrated its 90th founding anniversary in fiscal 2017. Fiscal 2018 will be important as we continue toward our centennial by leveraging the firm management foundation we have built.

This year will also be the midpoint of our Best Partner 2019 Medium-Term Management Plan, during which we will be challenged to achieve important results in pursuit of plan goals.

Amid rapid, short-term changes in the financial and economic environment, we will undertake to enhance our headquarters support structure and conduct our operations with a thorough focus on the customer, toward fulfillment of the Medium-Term Management Plan goal of becoming our customers' number one financial partner for problem resolution. Furthermore, we will enhance our corporate value by developing financial products for every life cycle stage; offering highly convenient services; and building a structure to provide rapid solutions for the problems facing small and medium enterprises, from establishing the business to ensuring smooth transitions to the next generation of management.

To achieve these objectives, we will cultivate personnel with broad, diversified capabilities and a capacity for independent action by offering practical training to enhance employees' capacity to address our customers' challenges, and by creating rewarding workplace environments. We will also promote thoroughgoing operational efficiency and enhance productivity through a variety of measures, including operational centralization and the application of advanced IT solutions. In addition, the Bank will work to enhance its crisis management capabilities by bolstering its defenses against cyber-attacks, and by reinforcing its internal controls.

To build a management foundation that will support the Bank's sustainable growth, our directors and employees will work as a team to share information regarding management challenges. We will position fiscal 2018 as a year of breaking new ground in flexible response to changes and rapid and innovative deployment of solutions. We will also undertake to become our customers' number one financial partner for problem resolution—one of the goals of our Medium-Term Management Plan—by promoting customer-centered operations, enhancing productivity through greater operational efficiency, boosting the effectiveness of our risk management, and nurturing diverse human resources.

In light of the above, we have established the following Basic Management Policies for fiscal 2018.

### Basic Management Policies

Steady implementation of the goal of the Medium-Term Management Plan, in order to become our customers' number one financial partner for problem resolution

1. Strengthen our management foundation, expand and bolster our customer base, and boost our earnings capability by strengthening our capabilities for rapid response to the challenges facing customers
2. Enhance productivity through promotion of greater operational efficiency
3. Further reinforce the effectiveness of our risk management
4. Cultivate personnel capable of independent action, and promote the creation of rewarding workplace environments

### Key Measures

1. Strengthen our management foundation, expand and bolster our customer base and boost our earnings capability by strengthening our capabilities for rapid response to the challenges facing customers

- (1) Undertake to further enhance business viability assessment and management upgrade support; expand and bolster financing by strengthening non-price competitiveness
- (2) Reinforce the support structure for business launch, M&A, and management transition as well as for inheritance and asset formation
- (3) Expand new transaction channels leveraging fintech

2. Enhance productivity through promotion of greater operational efficiency

- (1) Bolster operational efficiency through business process review, introduction of Robotic Process Automation\* (RPA), headquarter centralization of administrative functions, and other measures, thereby enhancing overall service convenience
- (2) Promote efficiency through branch network review and optimized personnel deployment
- (3) Implement more efficient marketing through the construction of a customer database

\*Robotic Process Automation: Use of software robots utilizing machine learning, AI, and other capabilities to automate PC operation for greater operational efficiency

3. Further enhance the effectiveness of our risk management

- (1) Strengthen systemic and operational risk control structures and ensure the effectiveness of our crisis management structure for rapid response to emergencies
- (2) Bolster client protection management structures and prevent impropriety; thoroughly implement compliance and strengthen FATF response
- (3) Strengthen market risk management structures relating to diversifying market operations and interest rate risk

4. Cultivate personnel capable of independent action, and promote the creation of rewarding workplace environments

- (1) Reinforce training programs to enhance problem-solving and business viability assessment capacity
- (2) Implement measures to expand participation by female employees; enhance support structures for diversified employee workstyles to facilitate raising children and family care
- (3) Facilitate work-life balance through enhanced productivity; promote the creation of rewarding workplace environments

## 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.

# Establishment of a Framework for Compliance

The Osaka City Shinkin Bank works hard to establish a compliance framework of the highest thoroughness and efficacy, based on the Osaka City Shinkin Bank Action Guidelines.

## What Is Compliance?

"Compliance" refers to compliance with applicable laws, regulations and guidelines. In the case of the Bank, it refers to strict observance of all laws applicable to its operations, the Bank's own internal regulations and principles, and rules of conduct generally accepted in society.

## The Compliance Environment for Financial Institutions in Japan

In recent years, as the social responsibilities and corporate ethics of financial institutions have come under close scrutiny, the establishment of a robust compliance framework has emerged as an issue of the utmost importance in corporate governance.

Meanwhile, the increased diversity of customer needs and the advance of financial liberalization have broadened these institutions' scope for operation. As a result, in 2001 the Japanese government passed the Act on Sales, etc. of Financial Products. This law stipulates financial institutions' duty of disclosure of risks and other important issues associated with financial products, and obliges these institutions to prepare and publish a solicitation policy, to ensure the propriety of solicitation activities.

In 2005, the Act on the Protection of Personal Information came into effect to ensure appropriate handling of personal information. This law mandates companies that collect personal information to circulate and publish the purpose for which it is used, and to prepare and publish a privacy policy. In addition, strict obligations regarding the acquisition, management and other use of individual numbers and personal information containing individual numbers (referred to below as "specific personal information") were established when the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure came into effect in 2015.

Also, in September 2007 the Financial Instruments and Exchange Act came into effect, establishing numerous regulations on the activities of financial institutions and requiring strict compliance with rules for the protection of users.

## The Bank's Compliance Framework

To achieve our social mission and establish a robust compliance framework, in March 1999 the Bank established the Compliance Committee and the Compliance Office (currently the Compliance Dept.). At the same time, in order to foster a corporate climate stressing compliance and establish a compliance framework, we formulated our *Compliance—Code of Conduct* for matters that must be observed by directors and employees, including basic policy for compliance with laws and regulations, a framework for compliance with laws and regulations, and guidelines for the conduct of directors and employees. This is distributed to all directors and employees and is subject to review when appropriate to ensure thorough understanding and implementation of compliance measures.

The Bank has also taken a series of steps to tackle money laundering and the funding of terrorism. Pursuant to the revised Act on the Prevention of Transfer of Criminal Proceeds enacted in October 2016, we updated our procedural document entitled the *Administrative Procedures for Confirming User Identities*, and clarified the management framework governing these tasks. We also established rules for confirming identities and reporting suspicious transactions at the time transactions are performed to prevent the acceptance of unlawful funds.

## Basic Policy on Compliance

The Osaka City Shinkin Bank Action Guidelines are the Bank's explicit statement of its basic policy toward compliance. These guidelines require all Bank employees and directors to comply strictly with all laws, cabinet orders and other regulations, support the achievement of the Bank's public mission and social responsibilities, and work diligently for the benefit of customers, as stipulated below:

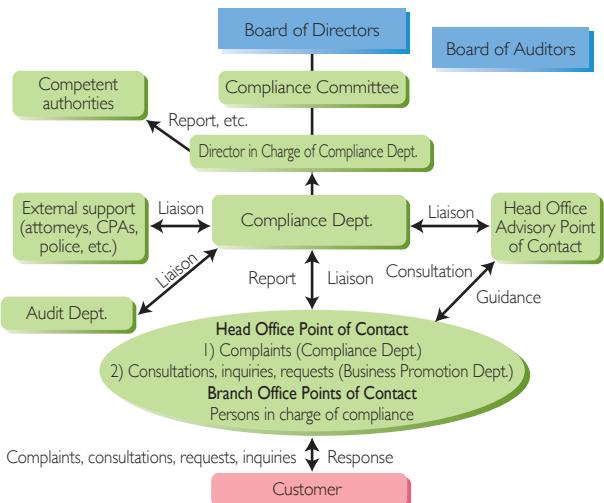
- 1) We strictly comply with the law, the rules of the financial industry and the regulations governing cooperative banks as we strive to fulfill our public mission and social responsibilities.
- 2) Aiming to put the Bank's management principles, basic concept and code of conduct into practice, we place importance on listening sincerely to the expectations of our customers and the desires of the regional community, and taking proactive action to meet and exceed them.
- 3) We construct a robust system of internal controls, striving to prevent violations of laws and regulations.
- 4) We recognize that thoroughgoing compliance is the most important policy for the Bank's management, and are working Bank-wide to be number one in customer trust and preference.
- 5) In strict compliance with all applicable regulations, the Bank rigorously controls customer information to prevent leaks and other incidents that can compromise customer privacy.
- 6) We aim to be a soundly managed Bank that actively discloses management information and takes sincere and effective measures against potential risks.
- 7) We take care never to conduct business dealings that are unreasonable or contrary to the social good, in order to build relationships of trust with our customers based on fair business dealings.
- 8) We decisively exclude and ban all relations with anti-social forces which threaten social order and safety.

## Compliance Framework

To establish a robust framework for compliance, the Osaka City Shinkin Bank has constructed the management framework shown in the chart below, headed by a Board of Directors.

### Compliance Framework

As of July, 2018



### **Basic Policy on Criminal Organizations**

In order to block relationships with criminal organizations that threaten social order and safety, and interfere with the sound development of the economy and society, the Bank has established, and will abide by, the following Basic Policy on Criminal Organizations.

1. The Bank shall block relationships, including transactions, with criminal organizations, and resolutely refuse illegal demands.
2. In response to illegal demands by criminal organizations, the Bank shall work to quickly resolve the problem by responding as an organization, while ensuring the safety of employees.

3. The Bank will not provide funds, engage in improper or exceptional transactions, or provide logistical assistance to criminal organizations.
4. To prepare for the possibility of illegal demands by criminal organizations, the Bank shall establish close and ongoing collaborative relationships with expert outside organizations such as the police, the National Center for the Removal of Criminal Organizations, and the Bar Association.
5. If there are any illegal demands by criminal organizations, the Bank shall respond with a resolute stance, taking action such as legal countermeasures based on both civil and criminal law.

## **Building Internal Controls**

### **Steps Toward Building Robust Internal Controls**

In order to establish a sound, robust business administration system, we will put in place systems based on the Basic Policy for Building Internal Control Systems set forth by our board of directors, and in this way we will provide a higher level of security and trust to all of our valued stakeholders, including all members who support the Bank, business partners, and people in the local region.

### **Basic Policy for Building Internal Control Systems (Overview)**

(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.

- Position compliance with laws and regulations as the top-priority policy for Bank management, and establish a Compliance Code of Conduct to be followed by all directors and employees, and a Compliance Program as a concrete, implementation plan.
- Establish a Compliance Committee, review and discuss important matters for management relating to compliance with laws and regulations, and evaluate the compliance implementation situation.
- To facilitate early discovery and rectification of any wrongdoing, establish Whistleblower Protection Management Rules clearly setting forth matters such as the system for directors and employees to report on conduct violating laws and regulations, and establish a liaison for consultation and reporting.
- Resolutely block criminal organizations which threaten social order and safety.
- The Internal Audit Department shall examine and evaluate the propriety and effectiveness of the compliance framework, and shall report the results to the President, board of directors, and auditors.

(2) Provide a system to store and manage information with respect to the execution of the duties of each director of the Bank.

- Information with respect to the execution of the duties of each director of the Bank shall be properly stored and managed based on in-house rules prescribing procedures such as document filing/storage (including electromagnetic records), storage periods, and disposal rules.

(3) Provide rules and other systems for risk management against losses by the Bank.

- The board of directors shall position risk management as the top-priority issue for management, develop a system for accurately ascertaining risks and carrying out proper management/operations, and strive to improve the soundness of assets and stability of earnings.

- Establish an ALM Committee, Operational Risk Management Committee, and other groups as organizations for cross-departmental discussion and decision-making relating to various risks, and discuss and evaluate important matters relating to risk.

- To minimize the damage and impact in an emergency situation, such as a large-scale natural disaster or a major system failure, establish an Emergency Response Manual (Contingency Plan), and put in place a crisis management system during ordinary times.

(4) Provide a system to ensure that each director of the Bank executes his/her duties efficiently.

- The board of directors shall decide important matters relating to management of the Bank and execution of duties, and shall supervise proper and efficient execution of duties by directors.
- The board of directors shall establish rules on matters such as management organization, office organization, division of duties, and responsibilities/authority, clarify the chain of command of the Bank, establish a system for taking responsibility, and efficiently carry out duties.

(5) Provide a system to ensure propriety of the following systems and other operations in the Bank group.

1. 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.
2. Provide a system for reporting matters relating to the execution of duties by directors of the Bank's subsidiaries.
3. Provide a system for risk management against losses by subsidiaries of the Bank.
4. Provide a system to ensure that all directors of subsidiaries of the Bank execute their duties efficiently.
  - The Compliance Code of Conduct established by the Bank shall be the basis for the approach to compliance of the Bank's entire group, and shall be made known to all directors and employees of subsidiaries of the Bank.
  - The Bank shall receive from subsidiaries reports on certain matters relating to the execution of duties prescribed by in-house rules.
  - Auditors and the Internal Audit Department shall audit the compliance and risk management situation at subsidiaries, within the scope that does not contravene laws and regulations, and shall verify the effectiveness and propriety of work.
  - The supervising department for work at subsidiaries shall be the General Affairs Department, and the director in charge of the General Affairs Department shall provide overall management, while striving for information sharing and collaboration within the scope that does not contravene laws and regulations.

- (6) Establish provisions regarding personnel when requested to be assigned to assist auditors of the Bank in performing their duties, and provisions to ensure the independence from directors' influence of said personnel and the effectiveness of auditors' instructions with respect to said personnel.
- To ensure the effectiveness of auditing work, auditors can request assignment of assisting employees. Also, independence from directors shall be ensured for employees assisting auditors in performing their duties.
- Employees assisting auditors in performing their duties shall follow the instructions of auditors relating to their work, and shall not receive instructions from directors.
- (7) 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.
- Directors and employees of the Bank and subsidiaries shall be able to report directly to auditors if a matter has been recognized to have a major impact on management, and the Internal Audit Department shall promptly report the results of internal auditing to auditors.
- (8) 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.
  - If a person has made such a report and for that reason been treated unfairly, there shall be strict punishment in accordance with in-house rules.
- (9) 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.
  - If auditors make a request for prepayment or reimbursement of auditing expenses, the costs or financial obligations shall be handled promptly, unless the costs or financial obligations involved in the request are deemed to be unnecessary for execution of the duties.
- (10) Provide a system to otherwise ensure the effectiveness of auditors of the Bank performing an audit.
  - Auditors shall attend the board of directors and other important meetings, and shall conduct a proper and effective audit through collaboration with directors, accounting auditors, the Internal Audit Department, and other relevant personnel.

## Privacy Policy Declaration

### Privacy Policy

At the Osaka City Shinkin Bank, the trust of our customers is our first priority. Therefore, we manage our customers' personal information with the most rigorous care and a strict commitment to privacy. We take every precaution to ensure that the personal information we maintain is kept accurate and held in the strictest confidence.

#### 1. Personal information

"Personal information" in this privacy policy is any information that could be used to identify a specific individual, such as name, address, date of birth or telephone number.

#### 2. Compliance

The Bank strictly complies with the Act on the Protection of Personal Information (Act No. 57 of May 30, 2003), the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure (Act No. 27 of May 31, 2013), Guidelines for the Protection of Personal Information in the Financial Sector and other related laws and regulations pertaining to the protection of personal information. The Bank is also committed to the constant improvement of its privacy policy, to better protect its customers' personal information.

#### 3. Privacy policy

The Bank shall handle customers' personal information in accordance with the following guidelines.

- (1) Customers' personal information shall only be used for the purposes stated in (3) of 4. below, and shall never be used for any other purpose. Individual numbers ("my number") shall only be used within the scope established by laws and regulations. The Bank shall specifically set forth the purpose of use so it is clear to the customer and strive to limit the purpose of use according to the situation in which the information was obtained.
- (2) Unless required by law, customers' personal information shall not be divulged to any third party without the express prior permission of the customer.
- (3) The Bank shall take appropriate measures to ensure that its customers' personal information is accurate and up-to-date at all times, and shall take appropriate security measures to prevent loss, destruction, tampering, leaking and illegal access.
- (4) The Bank shall establish appropriate internal control systems for the safe management of personal information, and conduct necessary and appropriate monitoring of its personnel.
- (5) The Bank contracts handling of personal data to other parties. In the event that management of personal information is entrusted to an outside contractor, the Bank shall conduct appropriate monitoring of the contractor to ensure that customers' information is safely managed. The following operations are contracted to outside contractors: duties related to administering issuance and shipping of cash cards, duties related to sending direct mail, duties related to the operation and maintenance of information systems, and duties related to receipt of account transfer data.
- (6) The Bank shall respond in good faith to customers' complaints and disclosure requests.

#### **4. Collection and use of personal information**

To ensure the smooth and appropriate execution of transactions with customers, the Bank collects, holds and uses personal information in an appropriate manner in order to verify an individual's identity in the course of a transaction, to sell financial products and to accept orders for various services, and to conduct credit checks and perform appropriate management after credit checks are completed. Prior to collecting such personal data, the Bank shall clearly explain to the customer the purpose for which the customer's personal information is to be used and held.

(1) Main personal information collected

- (a) The main personal information the Bank shall collect from customers consists of name, address, date of birth, sex, telephone number (including work telephone number) and place of work (or occupation).
- (b) When customers apply for or request financial services, the Bank may request other information in addition to that listed in (a) above. Such information may include number of dependents if any, family composition, assets, annual income, number of years of service at present employer (or number of years in current business), status of outstanding loans at other financial institutions and the debtor's relationship with the guarantor.
- (c) When customers order mutual funds or other financial products, the Bank may collect other information in addition to the above, including investment knowledge and experience, assets and annual income.

(2) Method of collection of information

Customers' personal information shall be collected by the following methods.

- (a) The customer may be requested to supply the information on the various application forms and agreement forms required for services such as opening of new savings accounts.
- (b) The customer may be asked to supply information verbally or in writing to a Bank teller or liaison clerk.
- (c) The customer may be asked to enter the information on the Bank's website, when requesting a product, service, information or advice.
- (d) The customer may be asked to supply information from third parties, such as joint users of bill clearing houses and personal-credit rating agencies.
- (e) Other information available from ordinary, public sources.

(3) Purposes for which the personal information may be used

The Bank will use customers' personal information for the following purposes and shall not use it for any other purpose. Individual numbers shall only be used within the scope established in laws and regulations. The purpose of use shall be specifically set forth so it is clear to the customer and efforts shall be made to limit the purpose of use according to the situation in which the information was obtained.

With the exception of situations where the customer consents, or where disclosure is required by laws or regulations, personal information shall not be disclosed to third parties.

A. Personal information (except for when it includes individual numbers)

(A) Purpose of use

- (a) To process applications for financial products, including opening a bank account.
- (b) The customer may be asked to supply proof of identity based on legal requirements, or proof of qualification to use certain financial instruments and services.
- (c) For daily management or ongoing processing of credit transactions, such as deposit taking and lending.
- (d) To assess applications for or ongoing use of lending and other credit transactions.

(e) To assess the appropriateness of providing financial products and services, including judgments based on the Bank's conformance principles.

(f) To supply information to third parties for the strict purposes of executing appropriate banking operations, such as providing information to personal credit rating organizations of which the Bank is a member, for credit rating purposes.

(g) To ensure the appropriate processing of personal information, in whole or in part, when outside operators contract the Bank to process such personal information.

(h) To execute the Bank's rights or duties with respect to the law or an agreement with the customer.

(i) To conduct market research, data analysis or surveys, as part of research or development regarding financial products.

(j) To inform the customer of financial products or services, as part of a direct-mail campaign or other marketing program.

(k) To inform customers of financial products or services provided by Bank partner companies.

(l) To cancel a transaction with a customer, or conduct the processing required after such cancellation.

(m) For other purposes necessary for the smooth and appropriate execution of transactions with the customer.

(B) Restrictions on scope of use

(a) In accordance with Article 110 of the Ordinance for Enforcement of the Shinkin Bank Act, information provided by personal-credit rating agencies on the ability of persons requesting loans to repay said loans shall be used for the sole purpose of appraising said ability, and shall not be used or divulged to third parties for any other reason.

(b) In accordance with Article 111 of the Ordinance for Enforcement of the Shinkin Bank Act, special confidential information such as information regarding race, religious belief, lineage, domicile of origin, insured health/medical record or criminal record, shall not be used or divulged to third parties for any other reason for any purpose other than as necessary to perform appropriate banking operations or as otherwise deemed necessary.

B. Individual numbers

(a) For the purpose of preparing and submitting legal documentation related to the payment of investment dividends.

(b) For the purpose of applying for and reporting opening of accounts related to financial product transactions.

(c) For the purpose of preparing and submitting legal documentation related to financial product transactions.

(d) For the purpose of preparing and submitting legal documentation related to gold bullion transactions.

(e) For the purpose of preparing and submitting legal documentation related to transactions such as international remittances.

(f) For the purpose of administrative work related to applying financial legal systems such as the tax-exempt savings system.

(g) For the purpose of preparing and submitting legal documentation related to financial legal systems such as the tax exemption system for educational and other funds.

(h) For the purpose of administrative work related to the numbering of savings accounts.

(4) Cancellation of direct marketing

The Bank may use customers' personal information for the purpose of direct marketing, contacting the individual by mail or telephone to offer products and services. If the Bank receives from a customer a request to cancel such direct-marketing approaches, the Bank shall stop using said personal information for this purpose.

## **5. Disclosure, correction and suspension of use of personal information**

- (1) If a customer requests disclosure of the personal information the Bank holds regarding that same customer, the Bank shall disclose said information upon verification of the customer's identification unless specific reasons exist for refraining from doing so.
- (2) If a customer requests that the personal information on that customer be corrected, added to, edited or deleted, or that the use of said personal information be suspended, because said personal information is incorrect in whole or in part, the Bank shall examine the personal information without delay and correct or suspend use of the personal information as required. If, as a result of said examination, the Bank decides not to

correct the personal information, the Bank shall explain to the customer the reasons for said decision.

- (3) Customers may request disclosure of their personal information by presenting identification and their personal seal at any Bank branch. A fee is payable for this service.

## **International Operations**

### **Osaka City Shinkin Bank: International Operations Support Partner for Small and Medium Enterprises**

The Bank will continue to respond quickly to the global expansion needs of small and medium enterprises, offering trusted, reliable and direct international settlement services and worldwide support through our network of specialized external institutions. If you are looking to engage in international (import/export) transactions, or expand your foreign sales channels; if you are considering entering international markets, or already have an overseas presence but are facing management challenges with a local subsidiary; or if you need advice regarding any other aspect of international business, turn to Osaka City Shinkin Bank—your international operations bank of choice.

# Risk Management

In tandem with changes in business environments and advancements in financial technologies, both the scale and diversity of the risks financial institutions face today are expanding rapidly. In such an environment it is crucial to maintain sound management by assessing when and to what degree specific risks may surface and by developing appropriate responses to those risks.

The Osaka City Shinkin Bank recognizes risk management to be its most important management issue. To assess and manage latent risks more precisely, the Bank is implementing centralized management of risk, including the monitoring of its capital adequacy ratio. Each type of risk is to be managed in an appropriate and timely manner. These initiatives are intended for the construction of a solid management base.

## Basic Policy on Risk Management

The Osaka City Shinkin Bank's general approach to risk management is described in the Bank's Basic Risk Management Policy. Our organization for risk management is similarly described in a document called The Osaka City Shinkin Bank Risk Management System.

Within this framework, the Bank assigns teams of specialists to manage the wide spectrum of risks it faces, according to the characteristics of each type of risk. The Risk Generalization Department provides centralized appraisal of risks facing the Bank as a whole, keeping risk within an acceptable scope. The Department accomplishes this daunting task by promoting overall risk management through careful risk quantification.

The Bank is determined to strengthen its internal control mechanisms, giving them the effectiveness to handle risks of varying types and degrees. For this reason, an organizationally independent auditing sector carefully examines and monitors the actual status of risk management at the Bank.

## General Risk Management

The Bank manages risk to ensure that it does not accept levels of risk exceeding its capacity to absorb them. The Bank does this by making a capital provision for each category of risk within the basic tier of capital adequacy, i.e. market risk, credit risk and operational risk, and controlling the quantity of risk through measurement.

The Bank furthermore maintains a surplus-owned capital buffer to prepare for unforeseen risks.

The Bank is working to quantify value at risk (VaR)<sup>\*1</sup> in market risk and credit risk. To manage operational risk<sup>\*2</sup>, the Bank selects a basic approach and calculates the amount of risk.

To manage market risk, the Bank measures on a daily basis the amount of interest risk within the range of the market risk framework, valuation risk, and exchange rate risk. The Bank also measures the interest risk of profit margin moneys (loans, deposits, and the like) based on the VaR and keeps the amount of risk it takes on within the range of its risk capital.

For credit risk, the Bank uses a system for quantifying credit risk to calculate VaR in credit risk.

Notes:

\*1 Value at Risk (VaR)

VaR is the maximum possible future loss at a specified range of probability. It is used to manage risk through statistical measurement. The Bank deals and measures market risk and credit risk using a 99% confidence level, a data observation period of one year and a holding period that varies by type of asset from 21 operating days (one month) to 250 operating days (one year).

\*2 Operational risk

Operational risk is the risk of loss caused by administrative accidents, system failure, illegal acts, and the like.

## Credit Risk Management

Credit risk is the risk that principal and/or interest of loans to enterprises and individuals may not be recovered.

The Bank recognizes credit risk as the most important of all the risks to be managed in its operations. The Credit Risk Management Regulations we have established clearly stipulate our credit policy in lending operations. We strive to maximize our control of credit risk by managing loans so they are not concentrated in certain corporations or corporate groups, and by grasping how loans are distributed among different business sectors.

The Bank ascertains factors such as business conditions and quantifies credit risk of borrowers using a credit risk quantification system, and properly manages changes in the risk of loan assets.

To ensure the soundness of its loan portfolio, the Bank separates its loan examination sector from its financial promotion sector, installing a system of checks and balances.

Furthermore, the Management Improvement Support Team of the Audit Dept. actively provides assistance with management improvements to business partners experiencing poor performance.

## Liquidity Risk Management

Liquidity risk is the potential that market conditions may change to impede fundraising. To respond to this sort of risk, the Osaka City Shinkin Bank categorizes the stringency of prevailing cash flow as "normal," "difficult" or "critical." Appropriate management methods are devised for each, so that effective action can be taken quickly.

Specifically, at the beginning of each fiscal year the ALM Committee determines the "liquidity risk amount" as a standard for the amount of highly liquid current assets the Bank must secure. The Bank then uses this figure to secure a sufficient reserve.

## Market Risk Management

Market risk is the potential of uncertainty of profit due to market fluctuations, including variations in interest rates, bond prices and yields, share prices and exchange rates.

Recognizing the impact that market risk can have on operations, the Bank is working hard to implement an appropriate market risk management structure. One of its approaches is to introduce absorption assets to its general risk management system, which effectively caps market risk.

To measure market risk, the Bank introduced value-at-risk (VaR) measurement and is now striving to assess risk on this basis.

To provide a system of market checks and balances, the Bank is separating the sector tasked with executing market transactions (the "front office") from the sector responsible for managing the general administration of those market transactions (the "back office"). We also instituted a "middle office," consisting of risk management functions.

To control market risk, the ALM Committee examines the Bank's asset portfolio from the viewpoint of market risk and sets limits on interest rate risk, price fluctuation risk, and exchange rate risk within the range for that risk capital. Management of these risk limits is performed on a daily basis.

Based on these risk parameters, each Bank department handles market transactions flexibly and efficiently. Moreover, a comparison of these limits with the risk volumes calculated by the middle office is monitored by managers on a frequent basis via the Bank's intranet, providing valuable feedback for management decision-making.

### **Operational Risk Management**

Operations, products, and services are becoming increasingly sophisticated and complex as they diversify. The Osaka City Shinkin Bank's system for management of operational risk and its risk management policy for management methods are stipulated in the Operational Risk Management Policy and Operational Risk Management Regulations.

The Bank has created a Risk Generalization Department which comprehensively manages operational risk along with other departments for overseeing specific types of risk including business risk, and controls risk based on a system in which mutual constraints operate.

A number of committees, including the Operational Risk Management Committee, confer regularly to debate these various risks. Moreover, we are developing a system in which these committees report their findings to the management team at a managerial meeting.

### **Business Risk Management**

Business risk is the risk of incurring losses as a result of the employees who perform administrative tasks neglecting to do their work correctly, or due to the occurrence of accidents or misconduct.

At the Osaka City Shinkin Bank, in order to manage business risk appropriately and insure the properness of operations, we have built a system in which mutual constraints and checking functions work fully and systematically, based on internal audits by in-house auditors and the Audit Department and external audits by an audit corporation. In addition, the Bank also develops regulations and manuals and has constructed a system through which employees can easily share information through an in-house computer system called the Shishin Information Network System (SINS).

In order that our customers will feel confident and comfortable in doing business with us, the Bank is working to enhance its training systems. These include joint training programs, OJT, and a range of telecourses through which employees can acquire operational knowledge and improve

their business capabilities. The levels of employee awareness and behavior are also improved through prior confirmation and back-checking of the details regarding the execution of business, as well as enhancing self-inspections and the functioning of mutual constraints.

Additionally, the Bank is focused on increasing the sophistication of its IT application controls through system checks that use Bank-designed supplementary systems and through the construction of a system for monitoring the processing of business.

Because business risk is diversifying in keeping with changes to the external environment, the Bank is constantly collecting and analyzing data on potential and actual business risks. We are working to enhance our business risk controls based on the PDCA cycle, for example, by adding and changing controls in the course of application control as needed when it comes to the sources of risk that will have an effect on the operational process.

### **System Risk Management**

System risk is the potential of loss from damage to or the malfunctioning of computer systems, system defects, misuse, and the like.

At Osaka City Shinkin Bank, we have established System Risk Management Regulations whose purpose is to maintain the safety and reliability of our systems and to protect our data assets while avoiding system risk. Specifically, the Bank has seismically reinforced and isolated the computer room, and installed in-house generators and fire-extinguishing equipment. In addition, the Bank is working to add redundancy to crucial infrastructure and has implemented policies to keep damage to a minimum even in the unlikely event of a major disaster.

Entry and exit on the independent computer floor is rigorously restricted and controlled. Operationally, by clearly separating the System Development Department from the Operations Department, the Bank has guaranteed the functioning of mutual constraints and prevents system risks due to the unlikely event of misuse.

In order to protect customers' valuable assets and critical information from the recent surge in cybercrime, the Bank has established a Basic Policy for Information Asset Protection (Information Security Policy) and strengthened its control mechanisms relating to information security based on relevant regulations. The Bank is also making efforts to improve security by blocking unauthorized access from external connections such as the Internet, preventing information leaks via computer viruses, and promoting timely information sharing with external institutions regarding increasingly high-level, sophisticated cyber-attacks.

### **Business Continuity Systems**

In view of the public nature of the Bank's operations, the Bank has worked to provide the necessary financial services to support social and economic activities in the community even in the event of natural disasters such as earthquakes, system failures, or outbreaks of new strains of influenza virus. It also created a Basic Business Continuity Plan for rapid recovery and is working to upgrade its business continuity systems.

## Non-Consolidated Balance Sheets

Years ended March 31

### Assets

	2018	2017	Thousands of U.S. dollars (Note 1)
Cash . . . . .	¥ 28,175	¥ 30,715	\$ 265,181
Due from banks . . . . .	<b>808,939</b>	711,256	<b>7,613,551</b>
Monetary claims purchased (Note 5) . . . . .	8,660	7,293	81,513
Securities (Note 4, 5 & 6) . . . . .	<b>398,346</b>	466,647	<b>3,749,146</b>
Loans and bills discounted (Note 7) . . . . .	<b>1,318,594</b>	1,300,859	<b>12,410,297</b>
Foreign exchange (Note 8) . . . . .	1,300	1,115	12,237
Other assets (Note 9) . . . . .	14,220	14,350	133,836
Tangible fixed assets . . . . .	26,014	25,311	244,840
Intangible fixed assets . . . . .	446	512	4,204
Deferred tax assets . . . . .	7,375	7,200	69,419
Customers' liabilities for acceptances and guarantees . . . . .	5,973	3,835	56,223
Reserve for possible loan losses . . . . .	(16,744)	(18,781)	(157,594)
<b>Total Assets</b> . . . . .	<b>¥ 2,601,303</b>	<b>¥ 2,550,317</b>	<b>\$24,482,858</b>

### Liabilities and Net Assets

#### Liabilities

	2018	2017	Thousands of U.S. dollars (Note 1)
Deposits (Note 10) . . . . .	<b>¥ 2,479,861</b>	¥ 2,431,559	<b>\$23,339,875</b>
Borrowed money . . . . .	12,650	9,500	119,058
Foreign exchange . . . . .	2	—	19
Other liabilities (Note 11) . . . . .	7,625	6,515	71,766
Reserve for bonuses . . . . .	1,081	1,078	10,174
Reserve for directors' bonuses . . . . .	45	45	423
Reserve for retirement allowances . . . . .	1,206	4,119	11,351
Reserve for directors' retirement bonuses . . . . .	437	387	4,114
Reserve for point losses . . . . .	63	58	601
Reserve for repayment of dormant accounts . . . . .	267	248	2,517
Reserve for contingency losses . . . . .	278	312	2,617
Deferred tax liabilities related to land revaluation . . . . .	1,492	1,492	14,043
Acceptances and guarantees . . . . .	5,973	3,835	56,223
<b>Total Liabilities</b> . . . . .	<b>¥ 2,510,983</b>	<b>¥ 2,459,154</b>	<b>\$23,632,789</b>

#### Net Assets

	2018	2017	Thousands of U.S. dollars (Note 1)
Paid-in capital . . . . .	<b>27,231</b>	27,371	<b>256,297</b>
Common shares . . . . .	14,481	14,621	136,297
Preferred shares . . . . .	4,362	6,372	41,058
Other shares . . . . .	8,387	6,377	78,941
Capital surplus . . . . .	<b>1,317</b>	1,317	<b>12,402</b>
Capital surplus reserve . . . . .	1,317	1,317	12,402
Retained earnings . . . . .	<b>58,559</b>	58,289	<b>551,151</b>
Legal reserve . . . . .	10,004	9,204	94,156
Other retained earnings . . . . .	48,555	49,085	456,995
Special reserve . . . . .	43,201	41,024	406,599
[Reserve for management stabilization] . . . . .	[5,050]	[5,050]	[47,529]
[Reserve for accelerated depreciation of land] . . . . .	[737]	[520]	[6,937]
Unappropriated retained earnings . . . . .	5,354	8,060	50,395
Unsettled equity . . . . .	(1)	(2)	(14)
<b>Total Members' Equity</b> . . . . .	<b>¥ 87,107</b>	<b>¥ 86,976</b>	<b>\$ 819,837</b>
Valuation differences of available-for-sale securities . . . . .	<b>2,388</b>	3,361	<b>22,481</b>
Deferred hedge income (loss) . . . . .	—	1	—
Excess of land revaluation . . . . .	<b>823</b>	823	<b>7,750</b>
<b>Total Differences in Evaluation and Conversion</b> . . . . .	<b>3,212</b>	4,187	<b>30,232</b>
<b>Total Net Assets</b> . . . . .	<b>90,319</b>	91,163	<b>850,069</b>
<b>Total Liabilities and Net Assets</b> . . . . .	<b>¥ 2,601,303</b>	<b>¥ 2,550,317</b>	<b>\$24,482,858</b>

## Non-Consolidated Statements of Income and Retained Earnings

Years ended March 31

### **Income**

	2018	2017	2018
	Millions of yen	Thousands of U.S. dollars (Note 1)	
Interest and dividend income .....	¥ 24,423	¥ 26,233	\$ 229,870
Interest on loans and discounts .....	19,183	20,269	180,550
Interest on deposits .....	1,082	957	10,189
Interest on call loans .....	6	7	63
Dividends on securities .....	3,826	4,670	36,016
Other .....	324	328	3,050
Fees and commissions .....	<b>3,265</b>	3,239	<b>30,730</b>
Other operating income .....	<b>3,532</b>	4,175	<b>33,244</b>
Other income (Note 12) .....	<b>2,050</b>	4,133	<b>19,299</b>
<b>Total Income</b> .....	<b>¥ 33,271</b>	<b>¥ 37,783</b>	<b>\$ 313,145</b>

### **Expenses**

Interest expenses .....	¥ 3,151	¥ 3,601	\$ 29,662
Interest on deposits .....	3,065	3,486	28,852
Transferred supplementary reserve for installment savings .....	50	67	474
Interest on borrowings .....	6	9	63
Interest on payables under securities lending transactions .....	1	—	9
Interest paid on interest swaps .....	27	35	262
Other .....	0	2	0
Fees and commissions .....	<b>1,248</b>	1,252	<b>11,750</b>
Other operating expenses .....	<b>1,284</b>	1,078	<b>12,091</b>
General and administrative expenses .....	<b>21,608</b>	22,115	<b>203,375</b>
Other expenses (Note 13) .....	<b>718</b>	1,698	<b>6,764</b>
<b>Total Expenses</b> .....	<b>¥ 28,012</b>	<b>¥ 29,747</b>	<b>\$ 263,644</b>
Income before income taxes .....	<b>5,259</b>	8,035	<b>49,500</b>
Income taxes: current .....	41	37	392
Income taxes: deferred .....	201	503	1,896
<b>Net Income</b> .....	<b>¥ 5,016</b>	<b>¥ 7,494</b>	<b>\$ 47,212</b>

### **Statements of Retained Earnings**

Balance at beginning of year .....	¥ 338	¥ 402	\$ 3,183
Additions:			
Net income .....	<b>5,016</b>	7,494	<b>47,212</b>
Reversal of revaluation reserve .....	—	164	—
<b>Unappropriated retained earnings</b> .....	<b>5,354</b>	8,060	<b>50,395</b>
Appropriations:			
Transfer to legal reserve .....	600	800	5,647
Dividends .....	<b>434</b>	438	<b>4,088</b>
Commemorative dividend .....	—	146	—
Dividends paid to preferred shares (issued March 2004) .....	22	62	211
Dividends paid to preferred shares (issued March 2006) .....	<b>58</b>	58	<b>548</b>
Reserve for accelerated depreciation of land .....	—	216	—
Special reserve .....	<b>4,000</b>	6,000	<b>37,647</b>
<b>Amount carried forward (balance at end of year)</b> .....	<b>¥ 239</b>	<b>¥ 338</b>	<b>\$ 2,252</b>

# Notes to Non-consolidated Financial Statements

## I. Basis of Presentation

Amounts denominated in U.S. dollars are converted into yen on the basis of this Bank's posted median market rate of ¥106.25 to US\$1.00, the rate prevailing on March 30, 2018.

Amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

## 2. Significant Accounting Policies

a) Depending on the type, securities are stated using the following methods. Held-to-maturity bonds are stated at moving average amortized cost (straight-line method). Shares in subsidiaries are stated at moving average cost. Available-for-sale securities with market value are stated at market value based on their price at the year end (sale cost is generally calculated as moving average cost), while those with no market value are stated at moving average cost. Valuation differences of available-for-sale securities are directly charged or credited to the shareholders' equity.

b) The depreciation of tangible fixed assets is stated using the declining balance method. However, buildings acquired after April 1, 1998 (except appurtenant facilities and equipment) and appurtenant facilities/equipment and structures acquired after April 1, 2016 are accounted for under the straight-line method. The service life for these items is as follows:

Buildings: 15-50 years

Other: 5-20 years

c) The Reserve for Possible Loan Losses of the Bank is provided based on the predetermined rules for write-offs and provisioning.

The reserve for possible loan losses for legally/substantially bankrupt borrowers is provided based on the amount after deductions of the expected collectable amount through the disposal of collateral or through the execution of guarantees.

The reserve for possible loans losses for borrowers who are not currently legally bankrupt but are likely to become bankrupt is provided based on the amount considered to be necessary, based on the overall solvency assessment of the amounts after deductions of the expected collectable amount through the disposal of collateral or through the execution of guarantees.

The reserve for possible loan losses on loans to other than the above is provided based on the actual loan loss rates observed in a certain period in the past.

All loans are assessed by branches and business departments based on internal rules for the self-assessment of assets. The Audit Department, independent of the branches and business departments, audits the results of the self-assessment of assets.

In the case of loans extended by the Bank to borrowers who are classified as legally/substantially bankrupt, the amount remaining after deductions of the amount of collateral considered to be disposable and the amount recoverable under guarantees is set off from the original outstanding loan balance. The amount of such write-offs totaled ¥35,397 million in the year ended March 31, 2018.

d) The reserve for retirement allowances is calculated based on the projected benefit obligation and the estimated amount of pension assets at the end of the current business year. In calculating the projected benefit obligation, the method of

attributing the estimated value of retirement benefits to the period up to the current business year conforms to standards for a periodic fixed-amount benefit. The methods of recognizing past service cost and actuarial gain or loss are as follows:

Past service cost: Recognized by the straight-line method over 10 years, which is the estimated average remaining years of service of the employees at the time cost is incurred.

Actuarial gain or loss: Amount distributed by the straight-line method over 10 years, which is the estimated average remaining years of service of the employees at the time the gain or loss is incurred in each business year, is recognized from the following business year after each gain or loss is incurred.

e) Based on the Act on Revaluation of Land (Act No. 34 of March 31, 1998), the Bank revalued its land used for business operations. The difference in taxes based on the resulting difference in valuation was appropriated under liabilities as a "deferred tax liability related to land revaluation." The revalued amount with the aforementioned difference in taxes subtracted was appropriated under net assets as "excess of land revaluation."

Date of revaluation: March 31, 1999.

Method of revaluation, as stipulated in Article 3, Section 3 of the Act on Revaluation of Land: a reasonable value is determined using the official method stipulated by the Director-General of the National Tax Administration Agency for the calculation of the value of land that forms the basis of calculation of land taxes under Article 16 of the Land Prices Act.

Difference between the total current value at end of the fiscal year under review of land used for operations and the total book value of said land used for operations, after revaluation as stipulated in Article 10 of the Land Prices Act: ¥5,370 million.

f) The breakdown of the principal sources of deferred tax assets is as follows.

### Deferred tax assets

Reserve for possible loan losses:	¥11,437 million
Reserve for retirement allowances:	¥336 million
Other:	¥2,785 million
Deferred tax assets – Subtotal:	¥14,558 million
Valuation reserve:	(¥5,853 million)
Deferred tax assets – Total:	¥8,705 million

### Deferred tax liabilities

Land appraisal profit:	¥121 million
Valuation differences of available-for-sale securities:	¥ 923 million
Reserve for accelerated depreciation of land:	¥ 284 million
Deferred tax liabilities – Total:	¥1,329 million
Deferred tax assets – Net:	¥7,375 million

g) Net income per share is ¥16.95.

### 3. Trading Securities

No applicable transactions

### 4. Held-to-Maturity Bonds with Market Value

	Millions of yen	Thousands of U.S. dollars
As of March 31	2018	2018
Bonds whose current value exceeds balance-sheet value		
National government bonds		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Municipal government bonds		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Corporate bonds		
Balance-sheet value	¥ 3,500	\$ 32,941
Current value	3,503	32,969
Difference	3	28
Other		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Subtotal		
Balance-sheet value	¥ 3,500	\$ 32,941
Current value	3,503	32,969
Difference	3	28
Bonds whose current value does not exceed balance-sheet value		
National government bonds		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Municipal government bonds		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Corporate bonds		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Other		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Subtotal		
Balance-sheet value	¥ —	\$ —
Current value	—	—
Difference	—	—
Total		
Balance-sheet value	¥ 3,500	\$ 32,941
Current value	3,503	32,969
Difference	3	28

- Notes: 1. Current value is based on year-end market value, etc.  
 2. This table does not include securities whose current value is extremely difficult to assess.

### 5. Other Securities with Market Value

	Millions of yen	Thousands of U.S. dollars
As of March 31	2018	2018
Securities whose balance-sheet value exceeds acquisition cost		
Stocks		
Balance-sheet value	¥ 962	\$ 9,054
Acquisition cost	640	6,023
Difference	322	3,030
Bonds		
Balance-sheet value	¥225,308	\$2,120,545
Acquisition cost	219,541	2,066,268
Difference	5,766	54,268
National government bonds		
Balance-sheet value	¥ 35,235	\$ 331,623
Acquisition cost	32,985	310,447
Difference	2,249	21,167
Municipal government bonds		
Balance-sheet value	¥ 11,021	\$ 103,727
Acquisition cost	10,312	97,054
Difference	708	6,663
Corporate bonds		
Balance-sheet value	¥179,051	\$1,685,185
Acquisition cost	176,242	1,658,748
Difference	2,808	26,428
Other		
Balance-sheet value	¥ 45,459	\$ 427,849
Acquisition cost	44,958	423,134
Difference	501	4,715
Subtotal		
Balance-sheet value	¥271,730	\$2,557,458
Acquisition cost	265,140	2,495,435
Difference	6,590	62,023
Securities whose balance-sheet value does not exceed acquisition cost		
Stocks		
Balance-sheet value	¥ 136	\$ 1,280
Acquisition cost	141	1,327
Difference	(4)	(37)
Bonds		
Balance-sheet value	¥ 70,425	\$ 662,823
Acquisition cost	71,199	670,108
Difference	(774)	(7,284)
National government bonds		
Balance-sheet value	¥ 5,042	\$ 47,454
Acquisition cost	5,046	47,491
Difference	(3)	(28)
Municipal government bonds		
Balance-sheet value	¥ 13,946	\$ 131,256
Acquisition cost	14,277	134,371
Difference	(331)	(3,115)
Corporate bonds		
Balance-sheet value	¥ 51,436	\$ 484,103
Acquisition cost	51,875	488,235
Difference	(438)	(4,122)
Other		
Balance-sheet value	¥ 60,754	\$ 571,802
Acquisition cost	63,253	595,322
Difference	(2,499)	(23,520)
Subtotal		
Balance-sheet value	¥131,316	\$1,235,915
Acquisition cost	134,594	1,266,767
Difference	(3,278)	(30,851)
Total		
Balance-sheet value	¥403,046	\$3,793,374
Acquisition cost	399,734	3,762,202
Difference	3,312	31,171

- Notes: 1. Balance-sheet value is based on year-end market value, etc.  
 2. "Other" in this table includes foreign securities, mutual funds and monetary claims purchased.  
 3. This table does not include securities whose current value is extremely difficult to assess.

## 6. Financial Instruments Whose Current Value Is Extremely Difficult To Assess

	Millions of yen	Thousands of U.S. dollars
	2018	2018
As of March 31		
Stocks of subsidiaries (Note 1)		
Balance-sheet value	¥ 50	\$ 470
Unlisted stocks (Note 1)		
Balance-sheet value	401	3,774
Investments in partnerships (Note 2)		
Balance-sheet value	9	84
Total	¥ 460	\$ 4,329

Notes: 1. Stocks of subsidiaries and unlisted stocks are excluded from market value based disclosure since exchange quoted market prices do not exist and determination of market prices is therefore judged impracticable.  
 2. Investments in partnerships are excluded from market value based disclosure to the extent that the relevant association assets consist of unlisted stocks and other assets whose market values are judged impracticable to determine.

## 7. Loans and Bills Discounted

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Bills discounted	¥ 54,899	¥ 51,796	\$ 516,705
Loans on notes	23,958	24,447	225,488
Loans on deeds	1,216,721	1,203,438	11,451,500
Overdrafts	23,014	21,177	216,602
Total	¥1,318,594	¥1,300,859	\$12,410,297

## 8. Foreign Exchange (Assets)

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Due from foreign banks	¥1,114	¥ 899	\$10,489
Foreign bills of exchange bought	3	14	37
Foreign bills of exchange receivable	181	201	1,710
Total	¥1,300	¥1,115	\$12,237

## 9. Other Assets

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Domestic exchange settlement account, debit	¥ 470	¥ 399	\$ 4,428
Investment in Shinkin Central Bank	10,269	10,269	96,654
Prepaid expenses	31	29	293
Accrued income	1,692	1,515	15,928
Financial derivatives	13	209	123
Other	1,743	1,927	16,407
Total	¥14,220	¥14,350	\$133,836

## 10. Deposits

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Current deposits	¥ 136,744	¥ 131,299	\$ 1,287,002
Ordinary deposits	638,863	590,671	6,012,829
Savings deposits	8,509	8,334	80,087
Deposits at notice	11,344	10,973	106,771
Time deposits	1,612,330	1,581,905	15,174,872
Installment savings	64,420	67,347	606,311
Other deposits	7,649	41,027	71,999
Total	¥2,479,861	¥2,431,559	\$23,339,875

## 11. Other Liabilities

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Domestic exchange settlement account, credit	¥ 746	¥ 560	\$ 7,022
Accrued expenses	3,057	3,621	28,779
Reserve for replenishing benefits	77	100	728
Accrued income taxes	43	43	405
Unearned income	537	912	5,059
Unsettled equity refunds	79	69	751
Equity to be redeemed	7	1	69
Asset retirement obligations	665	650	6,262
Other	2,410	555	22,686
Total	¥7,625	¥6,515	\$71,766

## 12. Other Income

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Gains on reversal of allowance for doubtful accounts	¥ —	¥1,980	\$ —
Gains on recovery of written-off claims	895	1,442	8,427
Gains on sale of stocks and other securities	4	15	37
Gain on money held in trust	218	98	2,060
Gains on disposal of fixed assets	—	204	—
Other extraordinary income (Note)	585	—	5,513
Other	346	392	3,259
Total	¥2,050	¥4,133	\$19,299

Note: In January 2018, the Bank converted a portion of its defined benefit pension system to a defined contribution pension system. As a result of this conversion, the Bank recognized an extraordinary gain for the fiscal year of ¥585 million.

## 13. Other Expenses

	Millions of yen	Thousands of U.S. dollars	
	2018	2017	2018
As of March 31			
Transfer to reserve for possible loan losses	¥ 187	¥ —	\$ 1,765
Write-off of loans	64	425	608
Losses on sales of stocks and other securities	2	5	23
Losses on devaluation of stocks and other securities	0	—	1
Losses on disposal of fixed assets	144	273	1,362
Impairment losses	81	615	765
Other	237	379	2,237
Total	¥ 718	¥1,698	\$ 6,764

## Auditor's Report

The Osaka City Shinkin Bank

HIBIKI AUDIT CORPORATION audited the Osaka City Shinkin Bank's balance sheets, statements of income and plans for surplus appropriations for the years 2017 and 2018. Auditing was carried out under the provisions of Article 38-2-3 of the Shinkin Bank Act.

## Risk-Monitored Loans

	Millions of yen		Millions of U.S. dollars
	Mar 31, 2018	Mar 31, 2017	Mar 31, 2018
Loans to bankrupt entities	¥ 1,363	¥ 2,874	\$ 12
Loans in arrears	105,585	104,655	993
Loans in arrears 3 months or more	—	—	—
Loans whose conditions have been eased	3,289	3,975	30
Risk-monitored loans total (A)	110,238	111,505	1,037
Collateral and guarantees (B)	90,450	89,972	851
Reserve (C)	13,944	15,496	131
Protection ratio (B+C) / (A)	94.70%	94.59%	

Notes:

I. "Loans to bankrupt entities"

Loan assets for which interest receivable is not appropriated because the Bank does not expect payment of the interest or repayment of the capital, due to long delays in repayment of principal and interest on the part of the borrower, in which the borrower is any of the following:

(1) A borrower who is alleged to have started procedures for reorganization under the stipulations of the Corporate Reorganization Act or the Act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions

(2) A borrower who is alleged to have started procedures for reorganization under the stipulations of the Civil Rehabilitation Act

(3) A borrower who is alleged to have started bankruptcy procedures under the stipulations of the Bankruptcy Act

(4) A borrower who is alleged to have started special accounting under the stipulations of the Companies Act

(5) A borrower whose check clearing privileges have been suspended by a clearing house

2. "Loans in arrears"

Loans in arrears are made up of those loans recognized as bearing unrecovered interest, with the following exceptions:

- Loans classified under "Loans to bankrupt entities" above

- Loans for which interest is unrecoverable as "suspended interest"

3. "Loans in arrears 3 months or more"

Loans for which repayment of the principal or interest is past the stipulated due date by three months or more (except those in 1 and 2 above).

4. "Loans whose conditions have been eased"

Loans for which special conditions have been negotiated to encourage repayment and to businesses in financial difficulty or in the process of restructuring (except those in 1, 2, and 3 above).

5. This balance is the amount before deducting amounts for collateral and guarantees. It should not be inferred that the entire balance is unrecoverable.

6. "Collateral and guarantees" is the total of collateral expected to be available for disposition, plus the amount of funds expected to be recoverable from guarantees, calculated based on self-assessment.

7. "Reserve" is a reserve provided against "risk-monitored loans." It is smaller than the figure appearing on the balance sheet.

8. "Protection ratio" is the ratio of collateral, guarantees and reserves to all risk-monitored loans.

## Items to Be Disclosed Relating to Structure of Equity Capital

Item	Millions of yen		Millions of U.S. dollars	
	March 31, 2018	Exclusions due to interim measures	March 31, 2018	Exclusions due to interim measures
Basic items relating to core capital				
Members' equity relating to common shares or non-cumulative permanent preferred shares	¥ 86,592	¥ —	\$ 814	\$ —
Paid-in capital and capital surplus	28,549	—	268	—
Retained earnings	58,559	—	551	—
Estimated outflow	515	—	4	—
Other	(1)	—	0	—
Total reserves included in basic items relating to core capital	3,210	—	30	—
General reserve for possible loan losses included in core capital	3,210	—	30	—
Of amount equivalent to 45% of the difference between the value of the revalued land and its book value prior to revaluation, amount included in basic items relating to core capital	625	—	5	—
Basic items relating to core capital (A)	90,428	—	851	—
Adjustment items relating to core capital				
Total amount of intangible fixed assets (excluding those relating to mortgage servicing rights)	257	64	2	0
Amount not relating to goodwill and mortgage servicing rights	257	64	2	0
Deferred tax assets (excluding those relating to temporary differences)	77	19	0	0
Amount of adjustment items relating to core capital (B)	334	—	3	—
Equity capital (A - B) (C)	90,093	—	847	—
Risk assets, etc.				
Total credit risk assets	985,708	—	9,277	—
Asset (on balance sheet) items	978,470	—	9,209	—
Total included in risk assets due to interim measures	(5,097)	—	(47)	—
Intangible fixed assets (excluding those relating to goodwill and mortgage servicing rights)	64	—	0	—
Deferred tax assets	19	—	0	—
Exposure for other financial institutions, etc.	(7,496)	—	(70)	—
Other	2,315	—	21	—
Off balance sheet transactions and similar items	6,656	—	62	—
Amount of CVA risk equivalent divided by 8%	572	—	5	—
Amount of credit risk assets connected with central clearing house related exposure	8	—	0	—
Total amount of operational risk equivalent divided by 8%	46,849	—	440	—
Total amount of risk assets, etc. (D)	¥1,032,557		\$9,718	
Capital adequacy ratio (C / D)		8.72%		

# Organizational Data

As of July 31, 2018

## Board of Directors

**Chairman**  
Masao Kawamura

**President**  
Satoshi Takahashi

**Vice President**  
Hiroshi Fukuoka

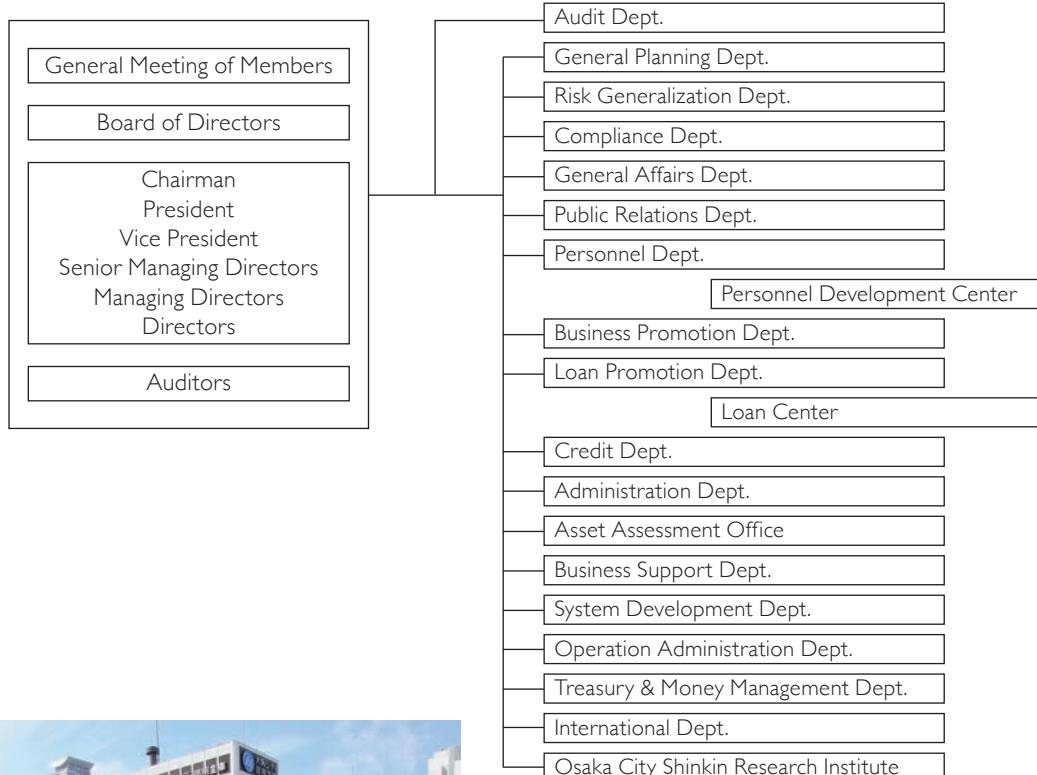
**Senior Managing Director**  
Kazuki Hatanaka

**Managing Directors**  
Jinkazu Takegawa  
Yoshinori Tsumura  
Masumi Shingu  
Toshiaki Aono

**Directors**  
Minoru Kitano  
Yasuo Okuda  
Takashi Kubo

**Auditors**  
Hitoshi Ogawa  
Shigeru Katsuraoka

## Organization



▲ Head Office

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