MINATO BANK

ANNUAL REPORT 2017

For the year ended March 31, 2017

TO OUR STAKEHOLDERS

We sincerely thank you for your continued support of Minato Bank.

The 2017 Annual Report has been prepared to assist you to gain a deeper understanding of Minato Bank.

In this 2017 Annual Report, we seek to present such topics as Minato Bank's management policy, business overview, earnings results for fiscal 2016 (the fiscal year ended March 31, 2017), and regional activities as clearly as possible. We hope that you will find it a useful reference.

Minato Bank will continue to address its clients' wide-ranging needs by expanding its products and services, and as a regional-based financial institution that has its Head Office located in Kobe City and utilizes its branch network throughout Hyogo Prefecture, the Bank will seek to continue being a useful and helpful bank by providing financial and information services.

We look forward to your continued patronage and support.

July 2017

Hiroaki Hattori
President

CONTENTS

This annual report includes descriptions of future business performance. These forecasts do not guarantee future business performance and contain risks and uncertainties. Please note future business performance will differ from the forecasts in accordance with changes in the operational environment.

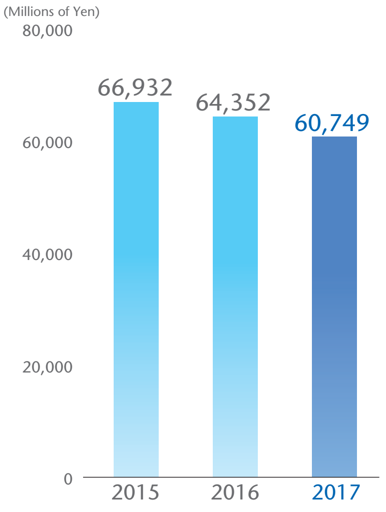
CONSOLIDATED FINANCIAL HIGHLIGHTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2017, 2016 and 2015

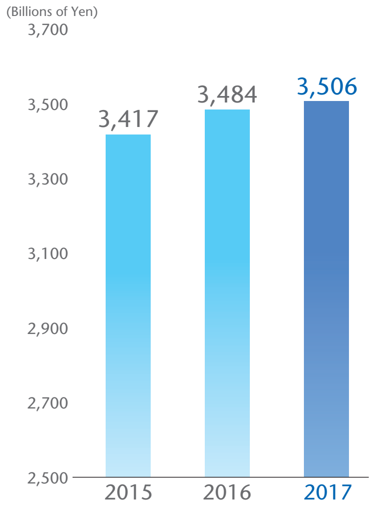
	Millions of Yen			Thousands of U.S. Dollars (Note)
	2017	2016	2015	2017
FOR THE YEAR:				
Total income	¥ 60,749	¥ 64,352	¥ 66,932	$ 541,429
Total expenses	50,052	52,975	52,891	446,094
Income before income taxes	10,697	11,377	14,041	95,335
Profit attributable to owners of parent	7,119	7,360	7,478	63,452
AT YEAR-END:				
Total assets	¥3,506,644	¥3,484,662	¥3,417,209	$31,253,514
Deposits	3,140,309	3,093,368	3,079,100	27,988,495
Loans and bills discounted	2,497,810	2,495,377	2,407,835	22,262,125
Securities	494,832	506,956	533,506	4,410,264
Non-controlling interests	1,205	1,068	1,014	10,738
Common stock	27,485	27,485	27,485	244,963
Total net assets	138,588	136,020	137,180	1,235,190
Capital ratio	7.14%	8.17%	8.74%	

Note: U.S. dollar amounts represent translation of Japanese yen at the rate of ¥112.2 to US$1.00 on March 31, 2017, the final business day of the term.

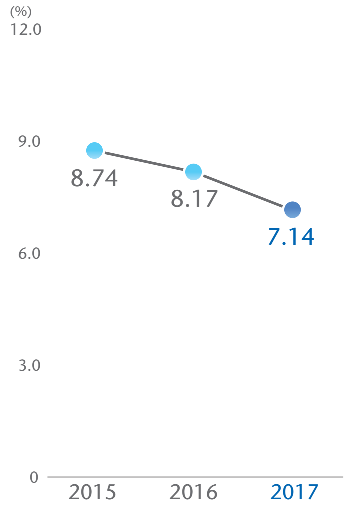
Total Income



Total Assets



Capital Ratio



In the above table, the capital ratio is calculated on a consolidated basis based on the domestic standard and formula prescribed in the Notification of the Financial Services Agency of Japan No. 19, 2006 in compliance with the provisions of Article 14-2 of the Banking Law.

MESSAGE FROM THE PRESIDENT

Hiroaki Hattori
President

New Mid-Term Management Plan "Minato 3 First Plan"

Regional financial institutions are increasingly expected to play a leading role in the local economy. Amid changes in the fabric of society and a weak earnings environment, regional financial institutions are being called upon to proactively contribute to regional revitalization and move rapidly to improve customer convenience through FinTech and the latest information technologies.

In this environment, in April 2017, the Group launched a new mid-term management plan called "Minato 3 First Plan" (fiscal 2017 – fiscal 2019). Under the new plan, Minato Bank aims to be the "First Call Bank" in Hyogo Prefecture by advancing the three "firsts," namely, "community first," where the community is put first, "customers first," where the customers' point of view is taken, and "quality first," the finest in quality.

Referred to as "the region of five fertile lands," Hyogo Prefecture, the Bank's base of operations, is a region with bountiful resources for growth and a concentration of industry with growth potential, including healthcare, energy, agriculture and tourism. The Minato Bank Group contributes to the invigoration of the regional economy by engaging in finely detailed marketing activities through its branch network, the largest in Hyogo Prefecture.

Earnings for Fiscal 2016

In fiscal 2016, the Japanese economy modestly expanded on a turnaround in corporate production and exports, while Abenomics became the third-longest stretch of growth since 1945. However, a convincing recovery in the local economy was not to be found against a backdrop of declining birthrates, increasing numbers of elderly people and a shrinking population. Regional financial institutions, the underpinnings of local economies, were buffeted by headwinds throughout the year, including the adverse impact of negative interest rates.

Under these conditions, Minato Bank was able to more than achieve the cumulative target of ¥20.0 billion or more in net income laid out in "MINATO Innovation 3"—Challenge Toward Further Progress, its mid-term management plan which has been in effect since fiscal 2014. This achievement would not have been possible without the support of our customers, shareholders and local communities.

A Bank That Grows with Its Community

In March 2017, Minato Bank signed a basic agreement to examine and negotiate management integration with Kansai Urban Banking Corporation and Kinki Osaka Bank, Limited. With the intention of reaching a final agreement around the end of September, the Bank is examining the creation of a new retail finance service model that aligns with the future of the Kansai region.

The Bank's management philosophy is "we contribute to our region through the provision of financial and information services." From this basis, we aim to help local residents as their prefectural bank, deepening the roots of our business model in local communities from our base of operations in Hyogo Prefecture.

We would sincerely appreciate your further support and cooperation in these efforts.

July 2017

Hiroaki Hattori
President

Mid-Term Management Plan

Slogan

"MINATO 3 First Plan"

Basic Policy

1. Constantly contribute to regional revitalization *(Community First)*

2. Provide consulting services from the customer's standpoint *(Customers First)*

3. Establish a robust management base *(Quality First)*

Implement "Five Cs" to Realize Policy

- Contribute to the region, be a bank that grows along with communities ....(Regional Contribution)
- Always take the customers view ....(Customers First)
- Help solve issues by consistently providing high-quality services ....(Consulting)
- Leverage collective Group strengths as "Team Minato" ....(Collaboration)
- Train talented personnel able to take on challenges and make things happen ....(Career developing)

Concept

Three years to improve information capabilities, ability to provide solutions, and the management foundation with the aim of contributing to regional growth and development through the implementation of the "Five Cs"

Period

April 2017 through March 2020 (three years)

Key Indicators

	Indicator	Target (fiscal year ending March 31, 2020)
Profitability	Consolidated net income	**¥7** billion or more
Efficiency	OHR(*1)	Under **70**%
Soundness	Core capital ratio (consolidated)	**7**% or more
Growth potential	Balance of loans to SMEs	**¥1,200** billion or more
	Balance of loans to individuals	**¥50** billion or more
	Deposits + balance of assets in custody(*2)	**¥3,600** billion or more

(*1) Expenses / (gross business profits + gains/losses on sale of shares, etc.)
(*2) Book value basis

Major Initiatives

1. Constantly contribute to regional revitalization
   - Support growth at companies that drive local economies: initiatives to improve corporate value through business viability assessments
   - Reinforce initiatives for regional revitalization

2. Provide consulting services from the customer's standpoint
   - Improve ability to provide information and create solutions for customers tailored to their life stage
   - Enhance customer contact points
   - IT strategy

3. Establish a robust management base
   - Strengthen and diversify earnings capabilities and the transaction base: increase productivity of each employee
   - Reinforce collective Group strengths: "Team Minato"
   - Foster a corporate culture that values employee training and empowerment
   - Strengthen corporate governance and compliance
   - Improve effectiveness of risk management, ALM, and equity management

INITIATIVES AT THE BANK

Corporate Governance

Basic Concept for Corporate Governance

Reinforcing and enhancing corporate governance is defined as a critical management issue at our Bank and each group company. We adhere to the Management Philosophy and Principles of Conduct described below, and strive to sustain sound operations and contribute to the sound development of regional communities.

Management Philosophy

The Bank Exists and Prospers Together with the People in the Region.

We contribute to our region through the provision of financial and information services.

Principles of Conduct (Corporate Ethics)

Awareness of the public nature and social responsibility of the Bank

A bank should be aware of its public role, execute sound operations according to principles of self-responsibility, and contribute to the steady development of the regional economy and society through the fulfillment of its social commitments.

Fully customer-focused

We are always conscious of our "customer-first" policy, and attend to our customers with an honest, faithful and kind spirit, listening to customer requests with a sincere attitude and providing precise, prompt and customer-satisfying financial services.

Sincere and fair conduct

We abide by laws, regulations and their spirit, and always behave in a fair and faithful manner so as to not deviate from social norms.

Contributing to and harmony with regional communities

To express the Bank's management philosophy, "We contribute to our region," we make it one of our primary policies to contribute to and progress together with our region and its communities. The Bank's principles of conduct serve not only to contribute to our region, but to call for removing anti-social and anti-ethical conduct from the course of our operations with the aim of becoming closer to being an ideal "bona fide corporate citizen." To realize this, we endeavor to hold close communication with society and ensure the Bank executes corporate activities in line with social common sense and expectations.

Respect for humanity

We are committed to developing a corporate culture which ensures respect for the open and rich spirit of our employees, brimming with vitality and feelings of value for their employment at the Bank.

Formulation of Minato Bank's Corporate Governance Guidelines

In November 2015, we announced our standards of conduct as regards corporate governance by posting the Minato Bank's Corporate Governance Guidelines on our website.

Corporate Governance Structure

We have a basic policy for internal control systems and the following structure designed to strengthen and improve our corporate governance so that directors, employees and corporate auditors will be able to cope with their responsibilities in an appropriate and efficient manner.

Board of Directors

Board of Directors meetings are in principle held once a month to make important decisions for the Bank's management issues and oversee the execution of the directors' responsibilities.

To supplement the functions of the Board of Directors, we have established a Personnel Committee and a Compensation Committee to act as advisory committees to the board.

Board of Corporate Auditors

The Bank has adopted a corporate auditor system, and Board of Corporate Auditors meetings are in principle held once a month. Based on the audit policy and audit plan made by the Board of Corporate Auditors, the corporate auditors have performed their audit procedures appropriately by attending Board of Director and other important meetings, examining business operations and assets, etc.

The Office of Corporate Auditors was established to support the corporate auditors in carrying out their audit procedures.

Management Committee

The Management Committee in principle meets once a week and makes decisions on important issues related to execution of the Bank's business, based on Board of Director decisions and Management Committee policies.

Significant items related to risk management are determined by the Corporate Risk Management Committee, which is part of the Management Committee.

Committees

● Compliance Committee

The Compliance Committee in principle meets once every three months to check and confirm the progress and implementation of the initiatives and compliance programs designed to build corporate ethics focused on legal compliance, and discuss and consider preventative measures for misconduct.

● CS (Customer Satisfaction) Committee

To win solid support from the local community and continuously raise customer satisfaction standards, members of the CS Committee formulate improvement policies, set targets for the whole Bank, and discuss and review measures to improve customer satisfaction. The CS Committee meets once every three months as a rule.

● Financial Facilitation Committee

The Financial Facilitation Committee was set up as a cross-sectional body to discuss how to facilitate financing for small- and medium-sized companies. Committee members discuss measures, study actual issues faced by each department, and coordinate action across departments. The committee meets once every three months as a rule.

● Regional Strategy Committee

The Regional Strategy Committee meets once every three months in principle to discuss policies and measures to promote regional-oriented financing, formulate action plans for CSR initiatives, and help create comprehensive strategies at the regional level.

● IT Systems Committee

The IT Systems Committee meets as a general rule once every three months with the objectives of reporting information about the status of the IT systems to the management and deliberating and determining the measures, etc., that must be taken.

● Credit Risk Management Committee

The Credit Risk Management Committee in principle meets once every three months to identify, review and communicate the credit risk status, consider and determine policies or countermeasures for credit risks, manage credit portfolios and big customer concentrated risks, and discuss and consider operating policies.

● Asset and Liability Management (ALM) Committee

The ALM Committee in principle meets once a month to discuss and consider how to maintain a healthy balance sheet and improve profitability, establish strategies for proper fund operations, and unify management of market risks (interest risk, foreign exchange risk, share price risk, etc.) and liquidity risks (cash flow risk, market liquidity risk, etc.) related to assets and liabilities.

● Operational Risk Management Committee

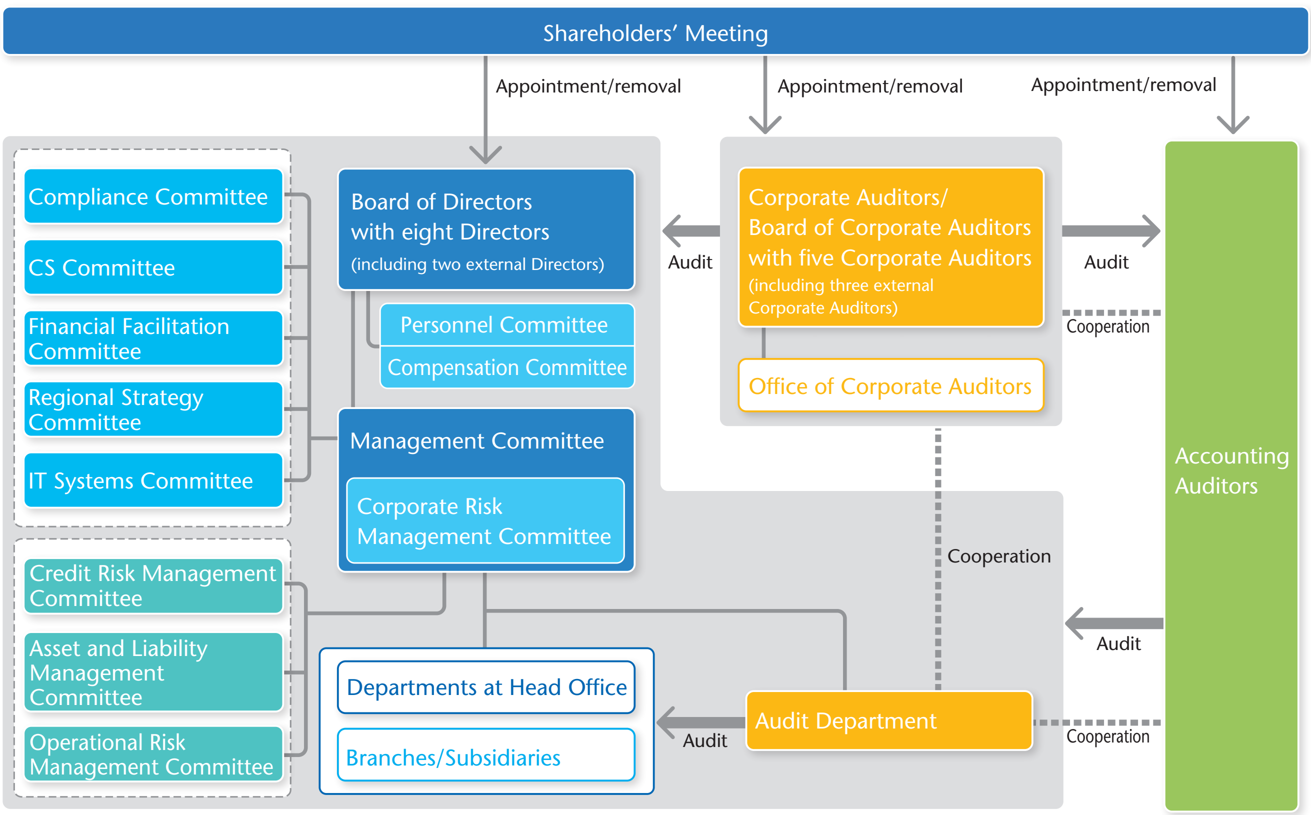
The Operational Risk Management Committee in principle meets once a month, and analyzes and communicates operational risk related information (improper or non-functioning internal processes, staff or systems or risk of losses related to external occurrences), discusses and considers various measures required to reduce operational risks, analyzes the causes of operational risk exposure incidents, and discusses and considers measures to prevent the recurrences of such incidents and potential risk exposure.

Internal Audit

The Audit Department, an internal audit organization which is independent from other departments, engages in monitoring the status of business operations and risk management at the Head Office, branches and subsidiaries and issues instructions and proposals for improvement. The department's monitoring results are reported to the Board of Directors and Board of Corporate Auditors.

There is a cooperative system among the Audit Department, corporate auditors and accounting auditors for exchanging information.

Corporate Governance Structure



Corporate Social Responsibility (CSR)

Basic Policy for CSR

The Bank's management philosophy is "we contribute to our region through the provision of financial and information services." We endeavor to provide financial and information services with the aim of contributing to the development of regional communities.

The Bank and its group companies define CSR as contributing to the sustainable development of regional communities through providing higher value to (i) our customers, (ii) our shareholders and markets, (iii) society and the environment and (iv) our employees in the course of our business operations.

Principles of Conduct at the Bank consisting of five items, "awareness of the public nature and social responsibility of the Bank," "fully customer-focused," "sincere and fair conduct," "contributing to and harmony with regional communities" and "respect for humanity," are established as the common philosophy for the Bank and its group companies.

Focal Point for CSR Initiatives

We will reinforce the management system to a greater extent by enhancing the corporate governance structure, internal audit structure, compliance structure and risk management structure. We will also accurately identify each stakeholder's expectations and provide higher value to them.

- We will provide our customers with products and services of higher value and develop together with our customers.
- We will endeavor to sustain sound operations and increase shareholder value, through appropriate information disclosure and organized internal controls.
- We will be continuously and proactively involved in social contribution and environmental activities which contribute to regional communities and restore the global environment.
- We will pay respect to people and grow a corporate culture which allows our employees to fully utilize their own skills and talents.

Through these activities, we will support the sustained development of our regional communities.

Compliance System

Based on its management policy, the Bank's basic legal compliance-related policy is for the Bank's officers and employees to recognize the significance of the Bank's social responsibilities and public commitments, and strictly comply with laws and rules with an emphasis on corporate ethics, thereby contributing to the region.

All officers and employees are required to recognize the importance of legal compliance and behave in the most appropriate manner with constant awareness in the execution of day-to-day operations.

1. Establishment of the Legal Compliance Department

The Legal Compliance Department was established to manage and control overall compliance-related issues.

The Legal Compliance Department is responsible for educating and encouraging officers and employees to comply with laws, regulations and social norms, placing its highest priority on the prevention of illegal conduct.

2. Appointment of Administrative Compliance Officer

General managers of the Head Office and each branch, who are in charge of compliance, are fully responsible to manage and execute assigned operations in conformity with compliance policies.

A compliance officer has been appointed for each of the above locations, and is required to prevent anti-compliance conduct and detect the occurrence of such conduct in its early stages. In addition, compliance officers in business branches, supervisory departments and elsewhere have been appointed compliance and supervisory officers, and they are responsible for organizing the compliance activities at the constituent business branches.

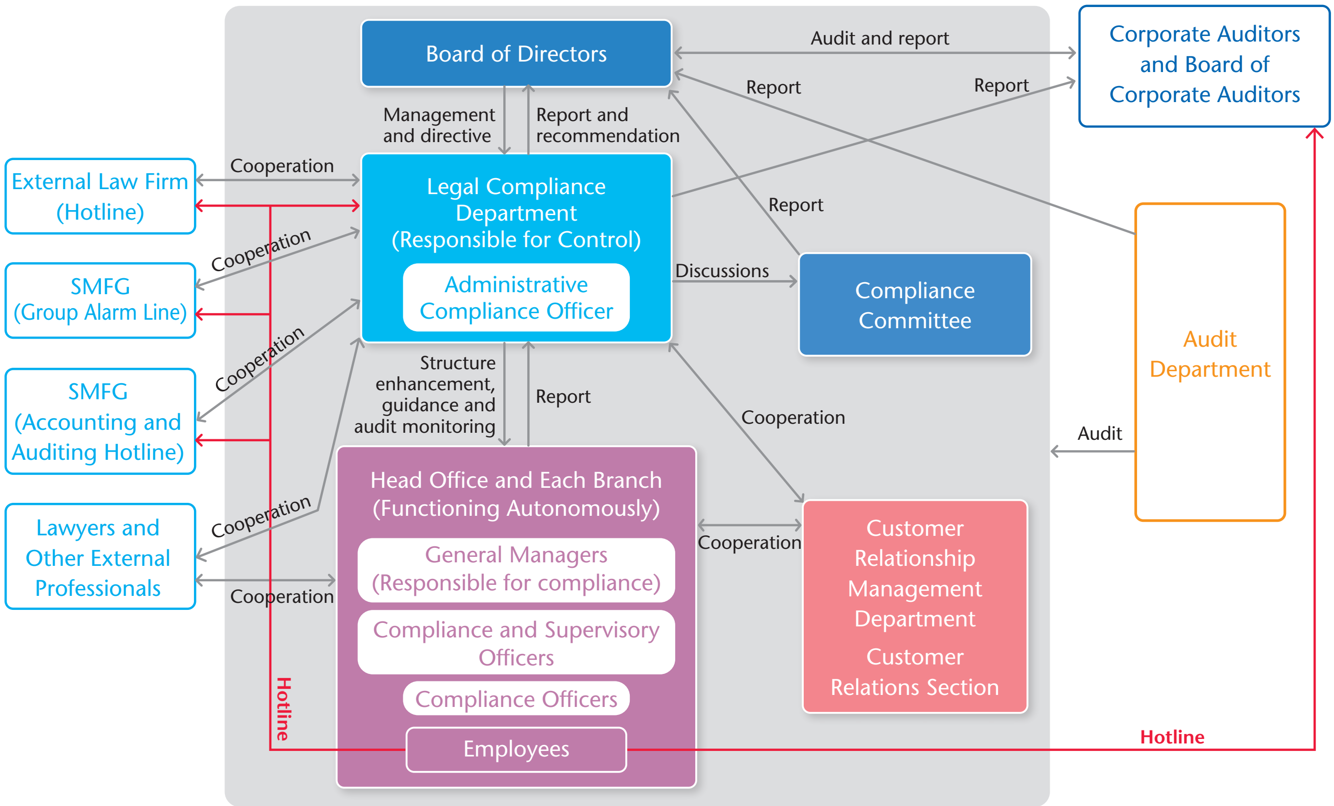
In addition, an administrative compliance officer is assigned to the Legal Compliance Department to direct and supervise the compliance officers and responsible individuals of the above locations, investigate compliance conditions at each location, and provide education and guidance.

3. Establishment of the Compliance Committee

The Compliance Committee was established to strengthen the legal compliance system and incident-preventing measures.

This committee deliberates upon various measures necessary to build corporate ethics focused on legal compliance and the implementation status of compliance programs.

The Bank's Compliance System



Implementing Compliance

The Bank requires all officers and employees to recognize the public mission and social responsibilities to be fulfilled by the Bank and to act in line with the highest moral standards.

Accordingly, we must comply with social norms as well as laws and regulations and behave fairly with a determined sense of ethics.

The Bank has created a Compliance Manual providing specific explanations about the laws and regulations that the officers and employees must observe to put the above matters into practice.

The Compliance Manual mainly consists of the following regulations to achieve complete compliance by each of the officers and employees: the Compliance Policy comprehensively describing overall compliance-related matters (structure, system, roles, procedures, etc.) in a way that is easy to understand; the Code of Conduct providing principles and guidance for all officers and employees to comply with; and the Detailed Operating Policies for Conduct Management compiled in the form of a case study guidebook.

Principles of Conduct at the Bank

1. Awareness of the public nature and social responsibility of the Bank
2. Fully customer-focused
3. Sincere and fair conduct
4. Contributing to and harmony with regional communities
5. Respect for humanity

Guidance of Conduct for Officers and Employees

- Compliance with laws, regulations and rules
- Prohibition of unfair competition
- Duty of confidentiality
- Prohibition of illegal use of information
- Obligation to explain products and services
- Internal reporting requirements, etc.

Risk Management Structure

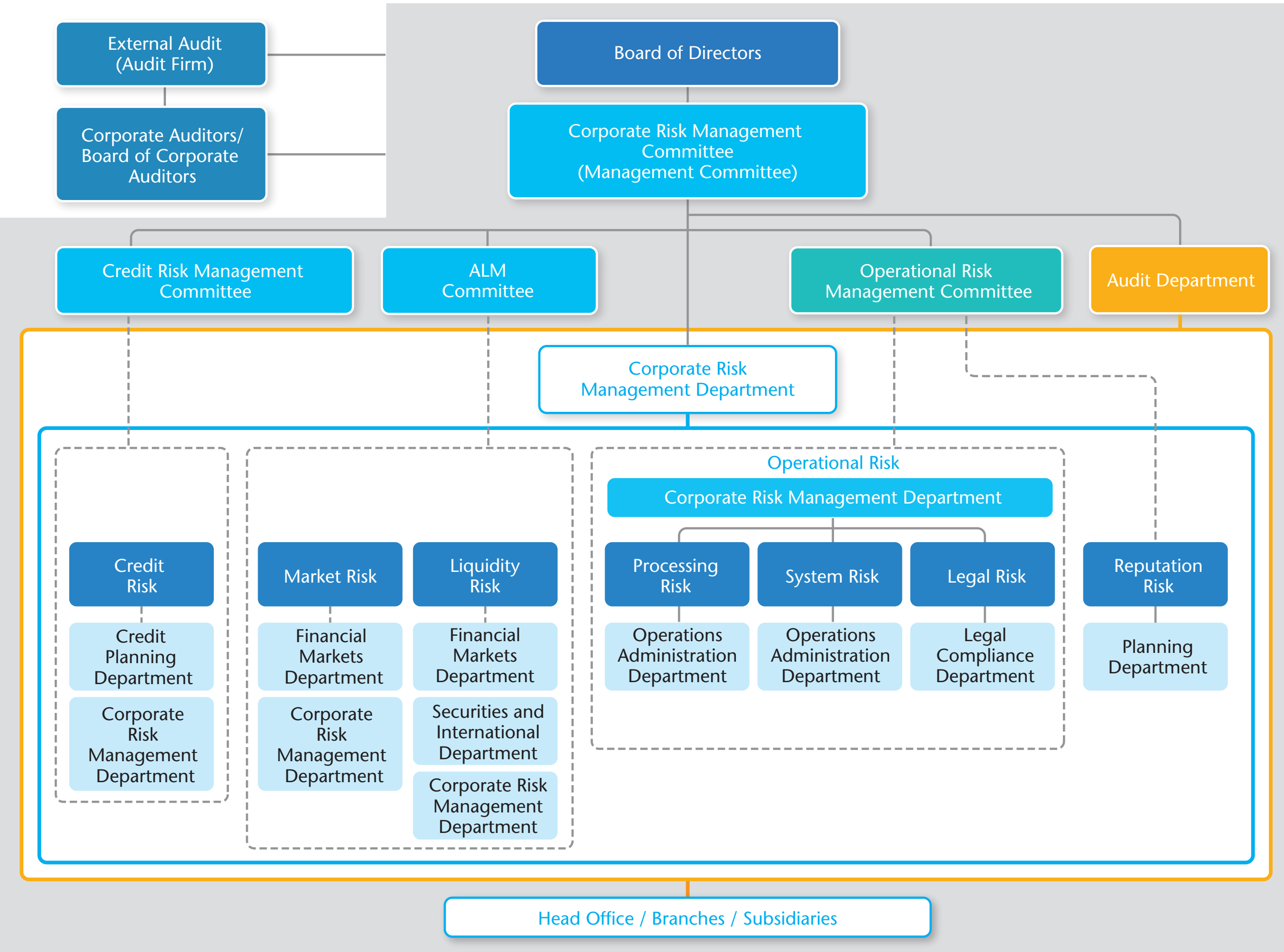
Banks are facing increasingly diversified and complicated risks due to their expanding scope of operations and financial technology innovations. It is therefore important to accurately monitor each individual risk, monitor the risks in an integrated manner, and control them within a scope that is tolerable for the overall bank, in order to maintain and improve sound banking management.

The establishment of a risk management structure is positioned as one of the most critical management issues at our Bank. We have established departments and sections in charge of risk management by risk type and monitor a range of risks in a precise manner. We also established the Corporate Risk Management Department which is responsible for monitoring and managing different risks in an integrated manner with the aim of reinforcing our structure to comprehensively manage and control various risks.

As organs to deliberate and determine matters related to risk management, we established the Corporate Risk Management Committee and its three committees: the Credit Risk Management Committee, the Asset and Liability Management (ALM) Committee and the Operational Risk Management Committee. The Corporate Risk Management Committee identifies and assesses the condition of bank-wide risks and deliberates and determines countermeasures and policies, while each committee identifies and assesses each risk on a cross-sectional and uniform basis and deliberates and determines countermeasures and policies.

As an internal audit organization operating independently from other departments, the Audit Department reviews and checks the status of business operations and risk management of the Head Office, branches and subsidiaries. We also have an external audit system led by an independent audit firm.

Risk Management System



1. Credit Risk Management

Credit risk is the possibility of loss arising from financial deterioration, changes in a customer's financial condition, which causes the asset value of loans receivables, etc., to become impaired or worthless.

The Bank strictly complies with the Credit Policy that explicitly prescribes our lending operation rules to achieve sound and proper business operations. We work to maintain and improve the soundness of assets and profitability through proper controls over credit risks and effective credit review operations according to degrees of credit risk based on the Credit Risk Management Policy which prescribes basic policies for credit risk management.

As a basis of such risk management, we have adopted a credit rating system. A credit rating is a borrower classification ranked according to the probability of loan performance, and is used as an objective indicator to measure the degree of risk pertaining to a borrower. Classifying borrowers according to the degree of risk promotes effective credit review operations.

In concrete terms, we established a credit approval policy for lending contracts based on credit ratings as well as lending approval authorizing standards, etc., to perform focused (efficient) credit screenings according to degrees of risk. At the same time, we monitor credit status on a constant basis to detect early signs of credit issues, and adjust the depth and efficiency of management based on the extent of such issues.

In addition, we perform self-assessments of our assets to maintain soundness of assets, prepare financial statements properly reflecting asset conditions, and account for appropriate levels of write-offs and reserves. Self-assessments are designed to classify assets held by the Bank according to degrees of risk pertaining to collectibility or value deterioration, and play a significant role as a means of managing credit risks. Based on the results of self-assessments, we provide accurate and timely estimation of future potential losses of loans, etc., in consideration of bad debt conditions, and account for write-offs and reserves based on estimates to maintain asset soundness.

We utilize credit ratings and self-assessments to quantitatively grasp and manage credit risks to maintain control over the degree of credit risk for our overall credit portfolio and any risk concentration on specific industries and large accounts, and report findings to management. As appropriate, we establish and implement remedial measures for our credit portfolio including proper risk controls, risk diversification and reduction of troubled credit, etc.

As for concrete measures to enforce our monitoring system, we have set up a section in the monitoring department, which deals with corporate rehabilitation support, manages doubtful receivables, etc.

In our effort to maintain soundness of assets, the Audit Department, which operates independently from the credit-related departments, checks the accuracy of the credit ratings and self-assessments as well as the condition of credit review operations.

For loan arrangements, the Bank may require collateral or guarantees to mitigate credit risks with comprehensive determination of matters related to the financial position of the borrower, intended purpose of financing, loan collectibility, etc. We properly handle collateral and guarantees in accordance with Internal Operational Policies of Collateral and Guarantees and Operational Procedures that prescribe classifications according to types of collateral or qualifications of guarantors as well as methods for their management, valuation, etc. Particularly, we have detailed rules for mortgage collateral, comprising the majority of collateral, to perform impartial collateral valuations in a timely and proper manner.

2. Operational Risk Management

Operational risk is the possibility of losses arising from inadequate or failed internal processes, personnel and systems or external events.

The fundamental policy of the Bank is to establish the Operational Risk Management Policy prescribing basic matters concerning operational risk management and maintenance of an effective framework for identification, valuation, control and monitoring procedures according to characteristics of operations and risks. We manage operational risks on an individual basis classified into processing risks, system risks and legal risks, and have established a department responsible for overall management of operational risks in an integrated and centralized manner. To increase the effectiveness of risk management, operational risk officers are appointed for each department and section and are required to cooperate with the section in charge of corporate operational risk management so individual operational risks can be managed in an integrated fashion within a common framework. Also, the Operational Risk Management Committee, a cross-sectional in-house organization, is in place as a highly effective system to oversee and examine various risk conditions from a companywide viewpoint and deliberate and determine policies and measures on a regular basis.

We compile a database of internal loss data incurred by each department and section and analyze this data on a regular basis for use in risk management. All departments and sections are required to provide all possible risk scenarios. A risk and control assessment (self-assessment of risk and effectiveness of controls) is performed for such risk scenarios to estimate the frequency and amount of losses attributable to each scenario.

Such risk scenarios, being important data to recognize risk conditions, are compiled as a database and constantly updated based on collected internal and external loss data and objective information such as operating environment and internal control factors. We strive to reflect various information to the database appropriately and ensure those scenarios are comprehensive and appropriate for conducting risk and control assessments on a regular basis.

In this way, we compile a database of the scenarios reflecting the Bank's risk profile. Each scenario is assessed for the degree of risk impact. For scenarios with a high degree of risk impact, each department and section considers and implements a risk reduction plan. Using this risk quantification system, we are able to manage operational risks efficiently and effectively.

Processing and Systems Risk Management

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

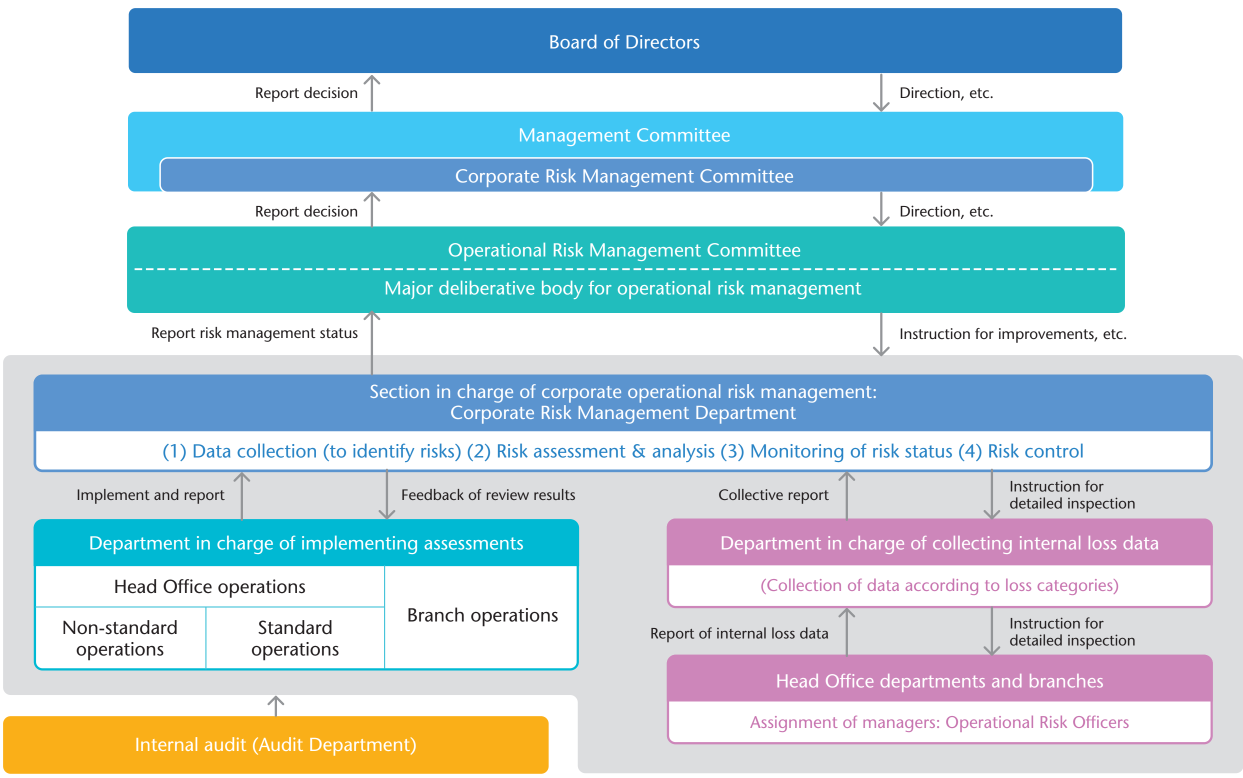
We promote streamlining and Head Office-centralized processing operations, and provide group training and on-site guidance offered by the Operations Administration Department to reduce processing risks and improve the level of processing ability. Moreover, the Audit Department periodically conducts branch field audits while the Head Office and branches perform self-inspections to prevent accidents and fraud from occurring.

Systems risk is the possibility of losses arising from the failure, malfunction, unauthorized use of or data leakage from computer systems.

Due to the significance of potential impact, we recognize our social responsibility to maintain stable computer system operations and proper management for customer information. We established systems risk management policies and practical management standards, including the Security Policy, and strictly adhere to these policies in operating and managing our systems. To prepare for unforeseeable circumstances, we developed contingency plans and provide simulation training on a regular basis.

We provide internal and external audits for periodic system evaluation and upgrades, and strive for more secure computer system operations and strict data controls.

Operational Risk Management Structure



3. Market and Liquidity Risk Management

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, or stock prices will change the value of financial assets and liabilities, leading to losses.

Liquidity risk is the possibility of encountering cash-flow problems due to differing fund sources and usage periods or unexpected fund outflows, or losses caused by being forced to raise funds at interest rates markedly higher than ordinary interest rates.

We segregated front, middle and back office operations systematically to secure mutual check and balance functions, and established a system for the Audit Department to examine the appropriateness of risk management processes, etc.

With respect to market risk, we review market forecasts, operational policies for ALM and marketable securities as well as financial strength on a biannual basis to determine allowable ranges of market risk exposure and set risk capital limits (*1), loss limits, VaR limits (*2) and position limits. Based on these procedures, we work to maintain management and operations within predetermined ranges of risk exposure (risk limits). Each department handling transactions (the front office sections) works to improve profitability within these limits. The middle office monitors and manages the results on a daily basis.

With respect to liquidity risk, we place the highest priority on cash-flow security, and periodically set and manage funding gap limits (*3). We developed the Contingency Plan for Liquidity Emergency prescribing an emergency action plan, and take all possible measures for maintaining a system that ensures our operating transactions are not hindered in the event of market confusion, by holding sufficient assets easily convertible to cash, such as government bonds.

We hold ALM Committee meetings every month to discuss forecasted economic, interest rate, stock price, and foreign exchange rate trends and report profit conditions. The committee also prepares reports and analyses of the status of compliance with market and liquidity risk limits, and discusses and considers market risk controls, fund sourcing and fund operations to develop an asset and liability structure that ensures stable profitability.

(*1) Risk capital limit
A portion of the Bank's capital allocated to provide for the Bank's ability to cover within the scope of its resources, probable future maximum loss estimates, valuation losses that increased in the period, and losses realized in the period.

(*2) Value at Risk (VaR)
The probable future maximum loss statistically calculated using existing assets and liabilities and historical market fluctuation data.

(*3) Funding gap
The estimated amount of future financing requirements arising from the mismatch of periods between fund sourcing and fund operations.

4. Reputation Risk Management

Reputation risk is the possibility of tangible and intangible losses due to damage to the Bank's reputation attributable to rumors about various risk incidents related to our operating activities or the dissemination of false rumors or slander.

We endeavor to disclose information to our stakeholders such as customers, regional communities, shareholders, investors and employees in a timely and appropriate manner through constant and active promotion of public and investor relations activities and increased management transparency to minimize reputation risk exposure.

We also monitor and assess rumors on a regular basis, and have prepared a system to take countermeasures promptly when reputation risk exposure becomes apparent.

The Status of Initiatives for the Management Improvement of SME Clients and Regional Revitalization

1. Policies for Initiatives Related to Regional-Oriented Financing

Regarding initiatives to assist management at SME clients, our highest priority is promoting regional-oriented financing. Under the new mid-term management plan "Minato 3 First Plan" that began in fiscal 2017, Minato Bank is moving forward aggressively on its basic policy to constantly contribute to regional revitalization.

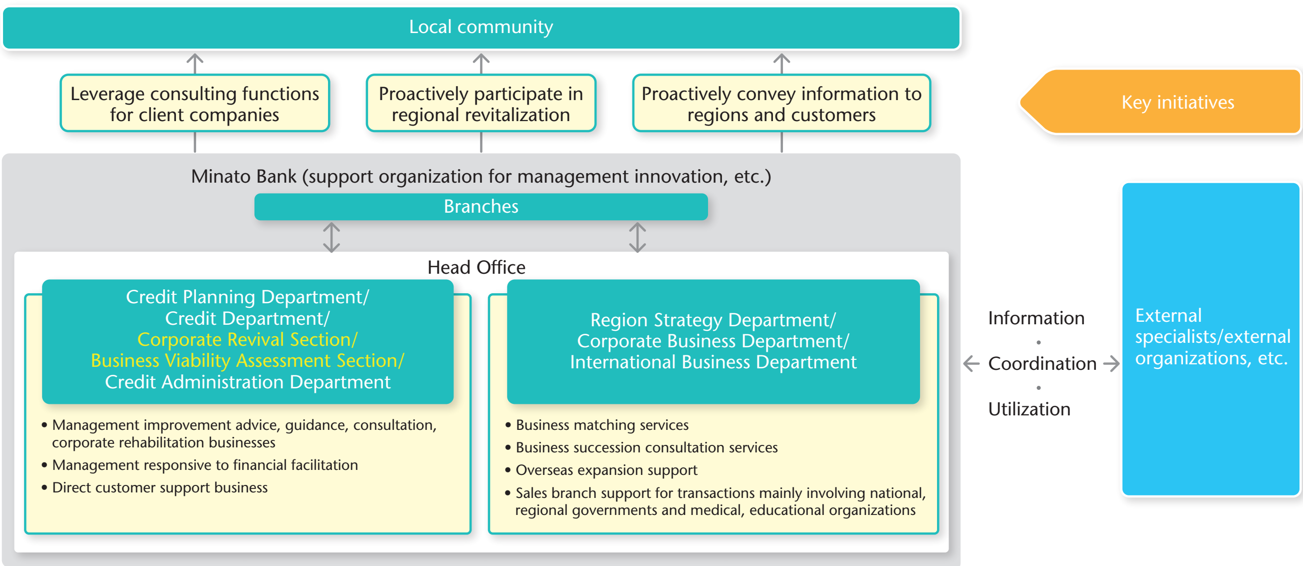
2. Status of the Development of Structures for Regional-Oriented Financing

The Bank has established the Regional Strategy Department for the purpose of formulating and assisting with comprehensive strategies at the regional level being carried out by local public organizations, with the ultimate aim of revitalizing regional economies.

In fiscal 2016, the Bank created the Corporate Revival Section within the Credit Department to assist with corporate rehabilitation, as well as the Business Viability Assessment Department to assess the operations and growth potential of clients, thereby strengthening the organization and functions for supporting productivity and management improvements for customers.

In April 2017, the Bank set up the Hanshin Region Headquarters at the Amagasaki Branch and the Himeji Region Headquarters at the Himeji Branch, putting in place a structure that is able to more quickly gather information in each region.

Structure for Promoting Regional-oriented Financing



FINANCIAL REVIEW (CONSOLIDATED BASIS)

Consolidated Balance Sheets

The Minato Bank, Ltd. and Subsidiaries
As of March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ASSETS:			
Cash and due from banks (Notes 3, 10 and 30)	¥ 420,823	¥ 392,684	$ 3,750,648
Call loans and bills bought (Note 30)	1,965	1,380	17,510
Monetary claims bought	1,917	1,922	17,085
Trading account securities (Notes 26 and 30)	613	528	5,468
Securities (Notes 4, 10, 26 and 30)	494,832	506,956	4,410,264
Loans and bills discounted (Notes 5, 11 and 30)	2,497,810	2,495,377	22,262,125
Foreign exchanges (Note 6)	6,967	11,504	62,098
Lease receivables and investment assets	8,383	8,827	74,711
Other assets (Notes 7 and 10)	34,526	29,527	307,718
Tangible fixed assets (Note 8)	33,588	32,933	299,362
Intangible fixed assets	4,774	5,118	42,549
Asset for retirement benefits (Note 23)	3,727	2,714	33,218
Deferred tax assets (Note 25)	4,642	3,999	41,371
Customers' liabilities for acceptances and guarantees (Note 16)	11,443	11,316	101,985
Allowance for loan losses (Note 30)	(19,366)	(20,123)	(172,598)
Total assets	¥3,506,644	¥3,484,662	$31,253,514
LIABILITIES:			
Deposits (Notes 10, 12 and 30)	¥3,140,309	¥3,093,368	$27,988,495
Negotiable certificates of deposit (Notes 12 and 30)	9,562	5,571	85,222
Payables under securities lending transactions (Notes 10 and 30)	113,195	87,825	1,008,872
Borrowed money (Notes 10, 13 and 30)	66,877	106,261	596,049
Foreign exchanges (Note 6)	76	40	674
Bonds payable (Notes 14 and 30)	—	18,300	—
Other liabilities (Notes 10 and 15)	22,979	21,299	204,801
Provision for bonuses	1,072	1,084	9,556
Liability for retirement benefits (Note 23)	1,532	2,628	13,651
Provision for directors' retirement benefits	74	66	665
Provision for reimbursement of deposits	635	656	5,660
Deferred tax liabilities (Note 25)	302	228	2,694
Acceptances and guarantees (Note 16)	11,443	11,316	101,985
Total liabilities	3,368,056	3,348,642	30,018,324
EQUITY (Note 17)**:**			
Capital stock, authorized, 90,000,000 shares; issued, 41,095,197 shares and 410,951,977 shares as March of 31, 2017 and 2016	27,485	27,485	244,963
Capital surplus	49,693	49,648	442,898
Retained earnings	53,052	47,973	472,835
Treasury stock—at cost, 57,072 shares and 2,993,159 shares as of March 31,2017 and 2016, respectively	(85)	(429)	(754)
Total shareholders' equity	130,145	124,677	1,159,942
Valuation difference on available-for-sale securities	6,060	10,476	54,013
Accumulated other comprehensive income on defined retirement benefit plans	931	(402)	8,296
Total accumulated other comprehensive income	6,991	10,074	62,309
Equity warrant	247	201	2,201
Non-controlling interests	1,205	1,068	10,738
Total net assets	138,588	136,020	1,235,190
Total liabilities and net assets	¥3,506,644	¥3,484,662	$31,253,514

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ORDINARY INCOME:			
Interest income:			
Interest on loans and discounts	¥29,812	¥31,825	$265,702
Interest and dividends on securities	4,354	4,725	38,802
Other interest income	937	984	8,353
Fees and commissions	13,289	13,835	118,441
Other ordinary income (Note 18)	10,285	8,813	91,669
Other income (Note 19)	2,072	4,170	18,462
Total income	60,749	64,352	541,429
ORDINARY EXPENSES:			
Financing expenses:			
Interest on deposits	1,095	1,583	9,757
Interest on borrowings and rediscounts	158	238	1,407
Other financing expenses	563	756	5,020
Fees and commissions payments	3,530	3,779	31,464
Other ordinary expenses (Note 20)	6,030	5,448	53,742
General and administrative expenses	36,063	35,466	321,415
Other expenses (Notes 9 and 21)	2,613	5,705	23,289
Total expenses	50,052	52,975	446,094
INCOME BEFORE INCOME TAXES	10,697	11,377	95,335
INCOME TAXES (Note 25)**:**			
Current	2,634	2,370	23,475
Deferred	850	1,557	7,573
PROFIT	7,213	7,450	64,287
Profit attributable to non-controlling interests	94	90	835
Profit attributable to owners of parent	¥ 7,119	¥ 7,360	$ 63,452

	Yen		U.S. Dollars
	2017	2016	2017
PER SHARE INFORMATION (Note 29)**:**			
Basic net income	¥173.81	¥180.58	$1.55
Diluted net income	173.19	180.09	1.54
Cash dividends applicable to the year	50.00	5.00	0.45

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
PROFIT:	¥ 7,213	¥ 7,450	$ 64,287
Unrealized (losses) gains on available-for-sale securities	(4,387)	(5,738)	(39,101)
Other comprehensive income on defined retirement benefit plans	1,333	(1,020)	11,877
COMPREHENSIVE INCOME	4,159	692	37,063
(Attributable to)			
Shareholders of parent	4,037	602	35,978
Non-controlling interests	122	90	1,085

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2017 and 2016

	Thousands	Millions of Yen										
	Outstanding Number of Shares of Capital stock	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Accumulated Other Comprehensive Income on Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income	Equity Warrant	Non-controlling Interests	Total Net Assets
Balance as of March 31, 2015	407,286	¥27,485	¥49,581	¥42,648	¥(523)	¥119,191	¥16,213	¥ 619	¥16,832	¥143	¥1,014	¥137,180
Profit attributable to owners of parent	—	—	—	7,360	—	7,360	—	—	—	—	—	7,360
Dividends from surplus	—	—	—	(2,035)	—	(2,035)	—	—	—	—	—	(2,035)
Purchase of treasury stock	(5)	—	—	—	(1)	(1)	—	—	—	—	—	(1)
Disposal of treasury stock	677	—	67	—	95	162	—	—	—	—	—	162
Total changes of items other than shareholders' equity during the period	—	—	—	—	—	—	(5,737)	(1,021)	(6,758)	58	54	(6,646)
Balance as of March 31, 2016	407,959	27,485	49,648	47,973	(429)	124,677	10,476	(402)	10,074	201	1,068	136,020
Profit attributable to owners of parent	—	—	—	7,119	—	7,119	—	—	—	—	—	7,119
Dividends from surplus	—	—	—	(2,040)	—	(2,040)	—	—	—	—	—	(2,040)
Purchase of treasury stock	(4)	—	—	—	(1)	(1)	—	—	—	—	—	(1)
Disposal of treasury stock	2,939	—	45	—	345	390	—	—	—	—	—	390
Share consolidation	(369,856)	—	—	—	—	—	—	—	—	—	—	—
Total changes of items other than shareholders' equity during the period	—	—	—	—	—	—	(4,416)	1,333	(3,083)	46	137	(2,900)
Balance as of March 31, 2017	41,038	¥27,485	¥49,693	¥53,052	¥ (85)	¥130,145	¥ 6,060	¥ 931	¥ 6,991	¥247	¥1,205	¥138,588

	Thousands of U.S. Dollars (Note 1)										
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Accumulated Other Comprehensive Income on Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income	Equity Warrant	Non-controlling Interests	Total Net Assets
Balance as of March 31, 2016	$244,963	$442,493	$427,563	$(3,819)	$1,111,200	$ 93,363	$ (3,580)	$ 89,783	$1,792	$ 9,521	$1,212,296
Profit attributable to owners of parent	—	—	63,452	—	63,452	—	—	—	—	—	63,452
Dividends from surplus	—	—	(18,180)	—	(18,180)	—	—	—	—	—	(18,180)
Purchase of treasury stock	—	—	—	(7)	(7)	—	—	—	—	—	(7)
Disposal of treasury stock	—	405	—	3,072	3,477	—	—	—	—	—	3,477
Total changes of items other than shareholders' equity during the period	—	—	—	—	—	(39,350)	11,876	(27,474)	409	1,217	(25,848)
Balance as of March 31, 2017	$244,963	$442,898	$472,835	$ (754)	$1,159,942	$ 54,013	$ 8,296	$ 62,309	$2,201	$10,738	$1,235,190

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 10,697	¥ 11,377	$ 95,335
Depreciation and amortization	3,103	3,441	27,654
Impairment loss	6	379	54
Increase (decrease) in allowance for loan losses	1,531	4,149	13,648
Increase (decrease) in provision for bonuses	(12)	50	(105)
Increase (decrease) in liability for retirement benefits	49	(230)	433
Decrease (increase) in asset for retirement benefits	(238)	(562)	(2,123)
Increase (decrease) in provision for directors' retirement benefits	9	1	80
Increase (decrease) in provision for reimbursement of deposits	(21)	(16)	(187)
Interest income	(35,103)	(37,535)	(312,857)
Interest expense	1,816	2,578	16,184
Loss (gain) related to securities	(4,126)	(3,837)	(36,775)
Foreign exchange (gain) losses	(933)	3,553	(8,318)
Loss (gain) on disposal of noncurrent assets	303	98	2,702
Net decrease (increase) in trading account securities	(89)	5	(793)
Net decrease (increase) in loans and bills discounted	(4,417)	(93,305)	(39,367)
Net increase (decrease) in deposit	47,333	28,441	421,862
Net increase (decrease) in negotiable certificates of deposit	3,991	(8,191)	35,566
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	(36,385)	13,615	(324,285)
Net decrease (increase) in interest-bearing due from banks	150	507	1,339
Net decrease (increase) in call loans	(579)	(653)	(5,162)
Net increase (decrease) in payables under securities lending transactions	25,371	48,345	226,123
Net decrease (increase) in foreign exchanges—assets	4,537	(2,814)	40,434
Net increase (decrease) in foreign exchanges—liabilities	35	(48)	314
Net decrease (increase) in lease receivables and investment assets	445	769	3,963
Interest received	36,002	38,892	320,872
Interest paid	(1,998)	(2,689)	(17,806)
Other, net	(8,265)	(2,763)	(73,660)
Subtotal	43,212	3,557	385,125
Income taxes paid	(2,167)	(2,026)	(19,309)
Income taxes refund	0	2	3
Net cash provided by (used in) operating activities	41,045	1,533	365,819
INVESTING ACTIVITIES:			
Purchases of securities	(308,344)	(342,430)	(2,748,164)
Proceeds from sales of securities	209,954	244,668	1,871,251
Proceeds from redemptions of securities	112,144	106,338	999,500
Purchases of tangible fixed assets	(2,312)	(1,790)	(20,604)
Proceeds from sales of tangible fixed assets	1	1,400	10
Purchase of intangible fixed assets	(1,138)	(1,530)	(10,142)
Other	(27)	(5)	(243)
Net cash provided by (used in) investing activities	10,278	6,651	91,608
FINANCING ACTIVITIES:			
Repayment of subordinated loans	(3,000)	—	(26,738)
Repayment of subordinated bonds	(18,300)	(9,700)	(163,101)
Proceeds from contributions paid by non-controlling interests	15	2	132
Repayments to non-controlling interests	—	(38)	—
Cash dividends paid	(2,039)	(2,033)	(18,172)
Repayment of lease obligations	(96)	(193)	(858)
Purchase of treasury stock	(1)	(1)	(7)
Proceeds from sales of treasury stock	379	163	3,374
Net cash used in financing activities	(23,042)	(11,800)	(205,370)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	8	(1)	71
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,289	(3,617)	252,128
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	391,464	395,081	3,488,983
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 3)	¥ 419,753	¥ 391,464	$ 3,741,111

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2017 and 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Minato Bank, Ltd. (the "Bank") and its subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and the Enforcement Regulation for the Banking Act and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.2 to $1, the approximate rate of exchange at March 31, 2017, the final business day of the term. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Bank and all (14 subsidiaries in 2017 and 2016) of its subsidiaries (together, the "Group"). Under the control concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Assets and liabilities of consolidated subsidiaries including the portion attributable to the non-controlling shareholders are valuated for consolidation at fair value when the Bank acquired control.

b. Consolidated subsidiaries' fiscal year-end

Fiscal years of 8 consolidated subsidiaries ended on March 31, 2017 and 2016, while 6 others ended on December 31, 2017 and 2016. Significant transactions between December 31 and March 31 are adjusted in consolidation.

c. Cash equivalents

For purposes of the consolidated statements of cash flows, the Group considers non-interest-bearing deposits included in "Cash and due from banks" in the consolidated balance sheets to be cash equivalents.

d. Trading account securities

Trading account securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in the consolidated statements of income.

e. Securities

Securities with readily obtainable fair values are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Available-for-sale securities, the fair values of which are extremely difficult to calculate are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, Securities are reduced to net realizable value by a charge to income.

f. Derivative transactions

In accordance with the Industry Audit Committee Report No.24, February 13, 2002, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." Issued by the Japanese Institute of Certified Public Accountants ("JICPA"), the Bank applies hedge accounting to manage its exposures to fluctuations in interest rates associated with certain assets and liabilities. The Bank enters into derivative financial instruments, such as interest rate swaps, currency options and foreign exchange contracts. Subsidiaries do not perform any derivative transactions.

The Bank enters into derivatives principally as a means of managing its interest rate and foreign exchange rate exposures on certain assets. In addition, the Bank uses derivatives actively to meet its customers' needs for new financial instruments.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. Net unrealized losses related to hedging are classified as deferred unrealized losses on hedges in equity.

g. Bills discounted

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24, February 13, 2002, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." The Bank has rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face values at March 31, 2017 and 2016 were ¥17,852 million ($159,109 thousand) and ¥22,363 million, respectively.

h. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of tangible fixed assets and equipment of the Bank is computed using the declining-balance method while the straight-line method is applied to buildings at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 8 to 50 years for buildings and from 2 to 20 years for equipment. Depreciation of tangible fixed assets owned by subsidiaries is computed principally using the straight-line method over the estimated useful lives of the assets. Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing special reserve in the equity section. The Bank adopted the former treatment and reduced the cost of the assets acquired by ¥81 million ($723 thousand) as of March 31, 2017 and 2016.

i. Long-lived assets
The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. Accumulated impairment loss is directly deducted from the respective tangible fixed assets.

j. Software
Software costs for internal use are capitalized (included in other assets) and amortized by the straight-line method over the estimated useful life of 5 years.

k. Allowance for loan losses
The amount of the allowance for loan losses is determined based on management's judgment and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators. The Bank implemented the self-assessment system for asset quality. The quality of all loans is assessed by branches and the Credit Administration Division with a subsequent audit by the Credit Review and Audit Division in accordance with the Bank's policy and rules for self-assessment of asset quality. The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy." For claims to debtors classified as legal bankruptcy or virtual bankruptcy, an allowance is provided for the remaining amount of claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees. For claims to debtors classified as possible bankruptcy, who are currently neither legally nor virtually bankrupt but are likely to become bankrupt, an allowance is provided at the amounts deemed necessary based on an overall solvency assessment performed for remaining claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees. For other claims, an allowance is provided based on historical loan loss experience. Subsidiaries provide an allowance for general claims based on historical loan loss experience and for specific claims at the amounts individually estimated to be uncollectible.

l. Provision for bonuses
The provision for bonuses is provided for the payment of employees' bonuses based on estimated amounts of the future payments attributed to the current fiscal year.

m. Provision for retirement benefits
In calculating the projected benefit obligation, a benefit formula basis is used to attribute the expected benefit attributable to the respective fiscal year.

Prior service cost is deferred and amortized using the straight-line method over certain years (9 years) within the average remaining service period of the eligible employees.

Unrealized actuarial losses are deferred and amortized using the straight-line method over certain years (9 years) commencing with the following year, which is shorter than the average remaining service period of the eligible employees.

Subsidiaries provide for the liability for employees' severance payments based on amounts which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

In July 2008, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)." The Group applied the revised accounting standard effective April 1, 2009. This accounting change had no material impact on consolidated financial statements.

n. Provision for reimbursement of deposits
Provision for reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal based on the historical reimbursement experience.

o. Foreign currency transactions
Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

p. Leases
In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee should be recognized as lease investment assets. Income for finance leases is recognized by allocating interest equivalents to applicable fiscal years instead of recording sale of lease assets. And income for finance leases is measured at total of interest equivalents, instead of the amount of lease transactions. Leased properties on finance lease transactions that do not transfer ownership are depreciated over the useful life of assets, equal to the lease term, by the straight-line method to a residual value of zero or residual value on the lease contract.

q. Income taxes
The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

r. Appropriations of retained earnings
Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

s. Per share information
Basic net income per share is computed by dividing net income available to Capital shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

t. Additional information

The Bank has applied Accounting Standard and Others Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year ended March 31, 2017.

The Bank conducted transactions whereby it issues shares of treasury stock through a trust to the employee shareholding association, to secure the welfare of employees. The Bank terminated the transactions for the fiscal year ended March 31, 2017.

(1) Outline of the transaction

Under this system, a trust (the "Trust") that holds and disposes of the Banks shares is established, and the trustee of the Trust, SMBC Trust Bank Ltd. (the "Trustee") takes steps to assist the continuous and stable acquisition of the Bank's shares by the Bank's employee shareholding association, the Minato Bank Employee Shareholding Association (the "Bank's Shareholding Association") as follows: (i) using funds procured through borrowings, the Trustee acquires the Bank's shares that are treasury stocks to be disposed of by the Bank, and sells the Bank's shares that are trust assets of the Trust; (ii) the Trustee exercises voting rights of the Banks shares that are trust assets of the Trust in a manner that reflects the will of the members of the Bank's Shareholding Association (the "Members"); and (iii) in the case where a surplus arises after repaying the borrowings by selling the Bank's shares that are trust assets of the Trust, the Trustee disburses the money to the Members.

The Bank guarantees the borrowings of the Trustee, so if a shortfall were to occur in the repayment of borrowings by sale of the Bank's shares by the termination of the Trust, the Bank would be obliged to perform the guarantee. As all the borrowings of the Trustee were repaid in the fiscal year ended March 31, 2017, fulfillment of the guarantee obligations will not occur.

(2) The company has adopted Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ PITF No. 30, March 26, 2015); however trust agreements have been accounted for using the same method as before.

(3) Matters relating to treasury stocks held in the trust

1) Carrying amount within the Trust

Fiscal year ended March 31, 2016: ¥346 million

Fiscal year ended March 31, 2017: ¥— million ($—thousand)

2) Recording of the Bank's own issued shares as treasury stock within shareholders' equity

The banks shares held by the Trust are recorded as treasury stock within shareholders' equity.

3) Number of shares at fiscal year-end and average number of shares during the fiscal year

Number of shares at fiscal year-end

Fiscal year ended March 31, 2016: 2,354 thousand

Fiscal year ended March 31, 2017: — thousand

Average number of shares during the fiscal year

Fiscal year ended March 31, 2016: 2,726 thousand

Fiscal year ended March 31, 2017: 732 thousand

4) Inclusion of deducted treasury shares in calculation of the per-share data using the number of shares in 3)

The number of shares at the end of the fiscal year and the average number of shares during the fiscal year include deducted treasury stocks when calculating per-share data.

3. CASH AND CASH EQUIVALENTS

The reconciliation of "Cash and cash equivalents" and "Cash and due from banks" in the consolidated balance sheets at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash and due from banks	¥420,823	¥392,684	$3,750,648
Interest-bearing due from banks included in due from banks	(1,070)	(1,220)	(9,537)
Cash and cash equivalents	¥419,753	¥391,464	$3,741,111

4. SECURITIES

Securities at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Japanese government bonds	¥150,338	¥171,507	$1,339,910
Japanese local government bonds	16,157	42,360	144,002
Japanese corporate bonds	124,512	124,344	1,109,731
Corporate stocks	29,492	26,368	262,854
Other securities	174,333	142,377	1,553,767
Total	¥494,832	¥506,956	$4,410,264

5. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Bills discounted	¥ 16,510	¥ 21,112	$ 147,147
Loans on bills	50,317	50,830	448,460
Loans on deeds	2,240,141	2,225,694	19,965,604
Overdrafts	190,842	197,741	1,700,914
Total	¥2,497,810	¥2,495,377	$22,262,125

Loans in legal bankruptcy totaled ¥941 million ($8,386 thousand) and ¥1,885 million as of March 31, 2017 and 2016, respectively. Nonaccrual loans totaled ¥47,983 million ($427,660 thousand) and ¥48,036 million as of March 31, 2017 and 2016, respectively. Loans in legal bankruptcy are loans for which the interest accrual has been discontinued (excluding the portion recognized as bad debts), based on management's judgment as to the collectability of principal or interest resulting from the delay in payments of interest or principal for a considerable period of time and other factors. Nonaccrual loans are loans in which the interest accrual is discontinued, other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery. Accruing loans contractually past due three months or more as to principal or interest payments totaled ¥36 million ($317 thousand) and ¥5 million as of March 31, 2017 and 2016, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded. Restructured loans totaled ¥2,753 million ($24,536 thousand) and ¥5,120 million as of March 31, 2017 and 2016, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive measures) to the debtors to assist them to recover from their financial difficulties and eventually be able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing contractually past due three months or more are excluded from these restructured loans.

6. FOREIGN EXCHANGES

Foreign exchange assets and liabilities at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Assets:			
Due from foreign correspondents	¥3,087	¥ 7,843	$27,513
Foreign bills of exchange receivable	2,538	2,411	22,622
Foreign bills of exchange purchased	1,342	1,250	11,963
Total	¥6,967	¥11,504	$62,098
Liabilities:			
Due to foreign correspondents	¥ 1	¥ 1	$ 11
Foreign bills of exchange sold	39	11	346
Accrued foreign bills of exchange	36	28	317
Total	¥ 76	¥ 40	$ 674

7. OTHER ASSETS

Other assets at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prepaid expenses	¥ 37	¥ 45	$ 332
Accrued income	2,508	2,497	22,352
Derivatives	3,957	4,648	35,268
Other	28,024	22,337	249,766
Total	¥34,526	¥29,527	$307,718

8. TANGIBLE FIXED ASSETS

Accumulated depreciation on tangible fixed assets at March 31, 2017 and 2016 amounted to ¥23,966 million ($213,600 thousand) and ¥23,135 million, respectively.

9. LONG-LIVED ASSETS

The Group recognized impairment losses for the years ended March 31, 2017 and 2016 as follows:

			Millions of Yen	Thousands of U.S. Dollars
			2017	2017
Location	Description	Classification	Impairment Losses	Impairment Losses
Hyogo prefecture	Idle assets	Buildings	¥4	$38
Hyogo prefecture	Idle assets	Buildings	2	16
Total			¥6	$54

			Millions of Yen
			2016
Location	Description	Classification	Impairment Losses
Hyogo prefecture	Idle assets	Land and buildings	¥256
Hyogo prefecture	Idle assets	Buildings	98
Hyogo prefecture	Idle assets	Buildings	25
Total			¥379

The Bank groups operating retail premises by operating block (a group of operation branches in close relationship). Each of the subsidiaries is grouped as a single unit.

The Bank treats the head office, the computer center, the business concentration center, company condominiums and dormitories, and other, which do not generate independent cash flows, as assets in common use. Idle assets of the Group are treated as an independent unit. The Group wrote down the carrying amounts to the recoverable amounts and recognized impairment losses of ¥6 million ($54 thousand) and ¥379 million for the years ended March 31, 2017 and 2016, respectively as other expenses, since the carrying amounts of the assets held by the above branches and other exceeded the sum of the undiscounted future cash flows. The recoverable amounts of such assets were measured at their net realizable selling prices determined by quotations from real estate appraisal information less estimated costs to dispose.

10. ASSETS PLEDGED

Assets pledged as collateral and related liabilities at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Securities	¥183,329	¥213,370	$1,633,949
Loans and bills discounted	39,761	—	354,379
Other assets	91	91	807

Related liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deposits	¥ 3,603	¥ 3,698	$ 32,112
Borrowed money	61,250	97,199	545,904
Payables under securities lending transactions	113,195	87,825	1,008,872

In addition, Securities totaling ¥29,294 million ($261,090 thousand) and ¥38,836 million at March 31, 2017 and 2016, respectively, deposits for financial instruments ¥490 million ($4,367 thousand) at March 31, 2017 and other assets totaling ¥7,157 million ($63,788 thousand) and ¥57 million at March 31, 2017 and 2016, respectively, were pledged as collateral for settlement of exchange, fund settlement for joint systems of the industry and derivative transactions. Other assets include guarantee deposits of ¥3,112 million ($27,732 thousand) and ¥2,969 million at March 31, 2017 and 2016, respectively.

11. COMMITMENT LINE

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, to the prescribed amount as long as there is no violation of any condition established in the contracts. At March 31, 2017 and 2016, the amount of unused commitments amounts to ¥507,860 million ($4,526,381 thousand) and ¥471,765 million, respectively, of which commitments aggregating ¥495,413 million ($4,415,443 thousand) and ¥464,257 million, respectively, have original contract terms that expire within one year or are unconditionally cancelable at any time. Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. Many of these commitments have clauses that allow the Bank to reject the application from customers or reduce the contract amounts in some cases, such as change in economic conditions, the Bank need to secure their credit, or other events occur. In addition, the Bank requests customers to pledge collateral such as premises and securities at execution of the contracts, and takes necessary measures such as understanding customers' financial positions, revising contracts when the need arises and securing claims after execution of the contracts.

12. DEPOSITS

Deposits at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current deposits	¥ 147,628	¥ 157,935	$ 1,315,757
Ordinary deposits	1,825,515	1,722,831	16,270,183
Savings deposits	19,018	19,660	169,504
Deposits at notice	7,921	9,065	70,598
Time deposits	1,096,128	1,139,918	9,769,414
Other deposits	44,099	43,959	393,039
Sub-total	3,140,309	3,093,368	27,988,495
Negotiable certificates of deposit	9,562	5,571	85,222
Total	¥3,149,871	¥3,098,939	$28,073,717

13. BORROWED MONEY

At March 31, 2017 and 2016, the weighted average interest rates applicable to the borrowed money were 0.16% and 0.19%, respectively and at March 31, 2017 and 2016, the weighted average interest rate applicable to the lease obligation was 4.16% and 4.29% respectively. Borrowed money at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Borrowed money:	¥66,877	¥106,261	$596,049
Subordinated borrowings	5,200	8,200	46,346
Borrowings from banks and other	61,677	98,061	549,703
Short-term lease obligation	44	94	394
Lease obligation (other than short-term)	174	103	1,554

Annual maturities of borrowed money and lease obligation at March 31, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2017		2017	
Year Ending March 31	Borrowed Money	Lease Obligation	Borrowed Money	Lease Obligation
2018	¥ 4,090	¥ 44	$ 36,456	$ 394
2019	26,122	44	232,819	389
2020	17,950	44	159,977	392
2021	18,715	36	166,797	323
2022	—	31	—	277
2023 and thereafter	—	20	—	173
Total	¥66,877	¥219	$596,049	$1,948

14. BONDS PAYABLE

Bonds payable at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars		
Description	2017	2016	2017	Interest Rate	Due
Subordinated bonds	¥—	¥18,300	$—	—	—

15. OTHER LIABILITIES

Other liabilities at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Domestic exchange settlement	¥ 384	¥ 329	$ 3,421
Accrued income taxes	1,143	615	10,184
Accrued expenses	1,601	1,818	14,270
Unearned income	6,775	6,902	60,384
Derivatives	2,773	3,110	24,717
Other	10,303	8,525	91,825
Total	¥22,979	¥21,299	$204,801

16. ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in “Acceptances and guarantees.” As a contra account, “Customers’ liabilities for acceptances and guarantees,” is shown as an asset representing the Bank’s right of indemnity from the applicants. At March 31, 2017 and 2016, the amounts of “Acceptances and guarantees” and “Customers’ liabilities for acceptances and guarantees,” which were set off were ¥39,371 million ($350,904 thousand) and ¥29,892 million, which were relevant to corporate bonds, and the guaranteed bonds were held by the Bank itself.

17. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant changes in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having accounting auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Bank cannot do so because it does not meet all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/decreases and transfer of capital stock, reserve and surplus

The Companies Act requires that an amount equal to 10% (20% for banks pursuant to the Banking Law) of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Law) of the capital stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights. At the Shareholders' Extraordinary Meeting held on December 22, 1998, the Bank's shareholders approved amendment of the Bank's Articles of Incorporation to authorize the Bank to issue preferred stock of 10,000,000 shares. No preferred stocks have been issued.

18. OTHER ORDINARY INCOME

Other ordinary income for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Gains on foreign exchange transactions—net	¥ 19	¥ 272	$ 168
Gains on sales of bonds	3,978	2,305	35,455
Other	6,288	6,235	56,046
Total	¥10,285	¥8,813	$91,669

19. OTHER INCOME

Other income for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Gains on sales of stocks and other securities	¥ 930	¥1,892	$ 8,287
Recovery of claims previously charged-off	10	5	92
Other	1,132	2,273	10,083
Total	¥2,072	¥4,170	$18,462

20. OTHER ORDINARY EXPENSES

Other ordinary expenses for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Losses on sales of bonds	¥ 748	¥ 324	$ 6,670
Other	5,282	5,124	47,072
Total	¥6,030	¥5,448	$53,742

21. OTHER EXPENSES

Other expenses for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Provision for possible loan losses	¥1,532	¥4,149	$13,648
Losses on sales of stocks and other securities	33	24	296
Losses on devaluation of stocks and other securities	—	12	—
Loss on disposal of noncurrent assets	303	98	2,702
Impairment loss	6	379	54
Other	739	1,043	6,589
Total	¥2,613	¥5,705	$23,289

22. OTHER COMPREHENSIVE INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Valuation difference on available-for-sale securities			
The amount arising during the period	¥(1,396)	¥(3,912)	$(12,441)
Reclassification adjustments	(4,996)	(4,828)	(44,532)
Before adjustments to tax effect	(6,392)	(8,740)	(56,973)
The amount of tax effect	2,005	3,003	17,872
Valuation difference on available-for-sale securities	(4,387)	(5,738)	(39,101)
Other comprehensive income on defined retirement benefit plans			
The amount arising during the period	1,333	(1,858)	11,883
Reclassification adjustments	586	367	5,225
Before adjustments to tax effect	1,919	(1,491)	17,108
The amount of tax effect	(587)	471	(5,231)
Other comprehensive income on defined retirement benefit plans	1,332	(1,020)	11,877
Total other comprehensive income	¥(3,055)	¥(6,758)	$(27,224)

23. RETIREMENT BENEFITS

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. Subsidiaries have unfunded lump-sum severance payment plans and calculate liability for retirement benefits and retirement benefit cost using simplified method. The Bank transferred part of the defined benefit plan to the defined contribution plan on October 1, 2013.

For the year ended March 31, 2017 and 2016

Reconciliation of the projected benefit obligation for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥18,986	¥19,250	$169,213
Service cost	477	491	4,250
Interest cost	141	144	1,260
Actuarial net loss incurred	44	158	387
Payment of retirement benefit	(1,115)	(1,057)	(9,936)
Recognized prior service cost	—	—	—
Balance at end of year	¥18,533	¥18,986	$165,174

Reconciliation of the plan assets for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥19,072	¥20,036	$169,982
Expected return on plan assets	179	167	1,593
Actuarial net loss incurred	1,376	(1,699)	12,270
Contribution by the employer	776	1,088	6,916
Payment of retirement benefit	(675)	(520)	(6,020)
Balance at end of year	¥20,728	¥19,072	$184,741

Reconciliation of the projected benefit obligation and plan assets between net defined benefit liability and net defined benefit asset is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Retirement benefit obligation of the funded pension plan	¥ 18,533	¥ 18,986	$ 165,174
Plan assets	(20,728)	(19,072)	(184,741)
	(2,195)	(86)	(19,567)
Retirement benefit obligation of the unfunded pension plan	—	—	—
Net defined benefit liability and asset on the consolidated balance sheet	¥ (2,195)	¥ (86)	$ (19,567)

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥ 1,532	¥ 2,628	$ 13,651
Asset for retirement benefits	(3,727)	(2,714)	(33,218)
Net liability and asset for defined benefits on the consolidated balance sheet	¥(2,195)	¥ (86)	$(19,567)

Components of retirement benefit expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 477	¥ 491	$ 4,250
Interest cost	141	143	1,260
Expected return on plan assets	(179)	(167)	(1,593)
Amortization of prior service cost	595	375	5,300
Recognized actuarial net loss	(8)	(8)	(74)
Other	48	81	431
Retirement benefit expenses in defined benefit pension plan	¥1,074	¥ 915	$ 9,574

Components of other comprehensive income of defined benefit plans are as follows (Before deferred tax assets deduction):

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 8	¥ 8	$ 74
Unrecognized actuarial net loss	(1,928)	1,483	(17,182)
Total	¥(1,920)	¥1,491	$(17,108)

Components of accumulated other comprehensive income of defined benefit plans are as follows (Before deferred tax assets deduction):

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (46)	¥ (54)	$ (408)
Unrecognized actuarial net loss	(1,295)	633	(11,543)
Total	¥(1,341)	¥579	$(11,951)

Proportions of major components of plan assets are as follows:

	2017	2016
Bonds	2.6%	2.8%
Equities	38.0%	34.9%
General account	57.0%	59.5%
Others	2.2%	2.6%
Total	100.0%	100.0%

Note: Total plan assets include 37.5% of retirement benefit trust for the year ended March 31, 2016 and 40.1% for the year ended March 31, 2017.

Expected rate of return on pension plan assets is determined considering current and future portfolio of pension assets and current and future long term expected rate of return on various assets.

Assumptions used for the years ended March 31, 2017 and 2016:

	2017	2016
Discount rate	0.75%	0.75%
Expected rate of return on plan assets	0–1.5%	0–1.5%
Expected increase rate in salary	7.78%	7.78%

Defined contribution pension plan
The amount required to be contributed by the Bank is ¥228 million ($2,013 thousand) and ¥227 million for the years ended March 31, 2017 and 2016.

24. STOCK OPTIONS

Information on stock acquisition rights for the years ended March 31, 2017 and 2016 were as follows:

1. Share-based compensation expenses which were accounted for as general and administrative expenses

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Share-based compensation expenses	¥58	¥57	$513

2. Outline of stock options and changes
(1) Outline of stock options

	5th Stock Option	4th Stock Option	3rd Stock Option	2nd Stock Option	1st Stock Option
Title and number of grantees	7 directors of the Bank and 17 executive officers of the Bank	7 directors of the Bank and 17 executive officers of the Bank	7 directors of the Bank and 16 executive officers of the Bank	7 directors of the Bank and 12 executive officers of the Bank	7 directors of the Bank and 12 executive officers of the Bank
Number of stock options	Common shares: 38,000	Common shares: 20,000	Common shares: 32,000	Common shares: 33,400	Common shares: 36,800
Grant date	July 21, 2016	July 17, 2015	July 18, 2014	July 19, 2013	July 20, 2012
Condition for vesting	Loss of director or executive officer position	Loss of director or executive officer position	Loss of director or executive officer position	Loss of director or executive officer position	N.A.
Requisite service period	June 29, 2016 to June 29, 2017	June 26, 2015 to June 29, 2016	June 27, 2014 to June 26, 2015	June 27, 2013 to June 27, 2014	N.A.
Exercise period	July 22, 2016 to July 21, 2046	July 18, 2015 to July 17, 2045	July 19, 2014 to July 18, 2044	July 20, 2013 to July 19, 2043	July 21, 2012 to July 20, 2042

(2) Stock options granted and changes

Number of stock options

	5th Stock Option	4th Stock Option	3rd Stock Option	2nd Stock Option	1st Stock Option
Before vested:					
Previous fiscal year end	—	17,600	18,600	14,200	13,100
Granted	38,000	—	—	—	—
Forfeited	1,000	—	—	—	—
Vested	3,600	600	1,200	—	—
Outstanding	33,400	17,000	17,400	14,200	13,100
After vested:					
Previous fiscal year end	—	1,900	11,600	18,600	21,400
Vested	3,600	600	1,200	—	—
Exercised	—	—	1,900	2,900	2,500
Forfeited	—	—	—	—	—
Exercisable	3,600	2,500	10,900	15,700	18,900

Price information

	Yen	U.S. Dollars
	1st Stock Option	1st Stock Option
Exercise price	¥ 1	$ 0
Average exercise price	2,343	21
Fair value at the grant date	1,320	12

	Yen	U.S. Dollars
	2nd Stock Option	2nd Stock Option
Exercise price	¥ 1	$ 0
Average exercise price	2,343	21
Fair value at the grant date	1,660	15

	Yen	U.S. Dollars
	3rd Stock Option	3rd Stock Option
Exercise price	¥ 1	$ 0
Average exercise price	2,343	21
Fair value at the grant date	1,810	16

	Yen	U.S. Dollars
	4th Stock Option	4th Stock Option
Exercise price	¥ 1	$ 0
Average exercise price	—	—
Fair value at the grant date	3,090	28

	Yen	U.S. Dollars
	5th Stock Option	5th Stock Option
Exercise price	¥ 1	$ 0
Average exercise price	—	—
Fair value at the grant date	1,530	14

(3) Valuation technique used for valuating fair value of stock options

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

	5th Stock Option
Expected volatility (Note 1)	33.31%
Average expected life (Note 2)	2 years
Expected dividends (Note 3)	¥5 per share
Risk-free interest rate (Note 4)	(0.33)%

Notes: 1. Calculated based on actual stock priced from July 22, 2014 to July 21, 2016.
2. The average tenure of the directors and executive officers who retired in the past.
3. The actual dividends on common stock for the year ended March 31, 2016.
4. Japanese government bond yield corresponding to the average expected life.

(4) Method of estimating number of stock options vested

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

25. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for loan losses	¥ 6,768	¥ 7,269	$ 60,321
Liability for retirement benefits	2,732	2,719	24,354
Provision for bonuses	333	336	2,965
Accrued enterprise tax	206	131	1,835
Depreciation	101	139	899
Devaluation of stocks and other securities	676	677	6,024
Tax loss carryforwards	55	45	491
Other	1,130	1,417	10,073
Less valuation allowance	(2,478)	(2,252)	(22,090)
Total	9,523	10,481	84,872
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	(2,644)	(4,649)	(23,562)
Gains on securities contributed to employee retirement benefit trust	(993)	(922)	(8,854)
Asset for retirement benefits	(1,094)	(1,093)	(9,746)
Other	(452)	(46)	(4,033)
Total	(5,183)	(6,710)	(46,195)
Net deferred tax assets	¥ 4,340	¥ 3,771	$ 38,677

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income of the years ended March 31, 2017 are as follows. The corresponding reconciliation for the year ended March 31, 2016 has been omitted since the difference between normal effective statutory tax rate and actual effective tax rate is less than 5% of the normal effective statutory tax rate.

	2017
Normal effective statutory tax rate	30.8%
Permanent differences—expenses	0.3
Permanent differences—income	(0.4)
Corporate inhabitant tax per capita	0.6
Valuation allowance	2.1
Other	(0.9)
Actual effective tax rate	32.5%

26. FAIR VALUE AND OTHER INFORMATION ON SECURITIES

Fair value and other information on securities as of March 31, 2017 and 2016 were as follows:

Securities

(1) Bonds classified as trading

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
	Gains (Losses) Included in Profit/Loss during the Fiscal Year	Gains (Losses) Included in Profit/Loss during the Fiscal Year	Gains (Losses) Included in Profit/Loss during the Fiscal Year
Bonds classified as trading	¥4	¥7	$33

(2) Bonds classified as held-to-maturity securities that have fair value as of March 31, 2017 and 2016

		Millions of Yen			Thousands of U.S. Dollars		
		2017			2017		
		Consolidated Balance Sheet Amount	Fair Value	Difference	Consolidated Balance Sheet Amount	Fair Value	Difference
Unrealized Gains	Japanese local government bonds	¥ 7,464	¥ 7,475	¥11	$ 66,519	$ 66,621	$102
	Japanese corporate bonds	5,205	5,227	22	46,393	46,591	198
	Sub-total	12,669	12,702	33	112,912	113,212	300
Unrealized Losses	Japanese local government bonds	—	—	—	—	—	—
	Japanese corporate bonds	—	—	—	—	—	—
	Sub-total	—	—	—	—	—	—
Total		¥12,669	¥12,702	¥33	$112,912	$113,212	$300

		Millions of Yen		
		2016		
		Consolidated Balance Sheet Amount	Fair Value	Difference
Unrealized Gains	Japanese local government bonds	¥16,460	¥16,486	¥26
	Japanese corporate bonds	5,202	5,230	28
	Sub-total	21,662	21,716	54
Unrealized Losses	Japanese local government bonds	4,390	4,386	(4)
	Japanese corporate bonds	—	—	—
	Sub-total	4,390	4,386	(4)
Total		¥26,052	¥26,102	¥50

(3) Available-for-sale securities that have fair value

		Millions of Yen			Thousands of U.S. Dollars		
		2017			2017		
		Consolidated Balance Sheet Amount	Cost	Difference	Consolidated Balance Sheet Amount	Cost	Difference
Unrealized Gains	Stocks	¥ 25,660	¥ 12,335	¥13,325	$ 228,704	$ 109,937	$118,767
	Bonds:	247,214	245,181	2,033	2,203,332	2,185,210	18,122
	Japanese government bonds	142,761	141,545	1,216	1,272,380	1,261,543	10,837
	Japanese local government bonds	8,379	8,359	20	74,679	74,498	181
	Short-term Japanese corporate bonds	—	—	—	—	—	—
	Japanese corporate bonds	96,074	95,277	797	856,273	849,169	7,104
	Other	13,500	12,338	1,162	120,323	109,964	10,359
	Sub-total	286,374	269,854	16,520	2,552,359	2,405,111	147,248
Unrealized Losses	Stocks	721	794	(73)	6,427	7,079	(652)
	Bonds:	31,124	31,559	(435)	277,399	281,271	(3,872)
	Japanese government bonds	7,577	7,828	(251)	67,530	69,764	(2,234)
	Japanese local government bonds	315	315	(0)	2,804	2,805	(1)
	Short-term Japanese corporate bonds	—	—	—	—	—	—
	Japanese corporate bonds	23,233	23,416	(184)	207,065	208,702	(1,637)
	Other	157,322	164,492	(7,170)	1,402,152	1,466,063	(63,911)
	Sub-total	189,167	196,845	(7,678)	1,685,978	1,754,413	(68,435)
Total		¥475,541	¥466,699	¥ 8,843	$4,238,337	$4,159,524	$ 78,813

		Millions of Yen		
		2016		
		Consolidated Balance Sheet Amount	Cost	Difference
Unrealized Gains	Stocks	¥ 21,063	¥ 10,340	¥10,723
	Bonds:	305,446	302,057	3,389
	Japanese government bonds	171,507	169,388	2,119
	Japanese local government bonds	20,279	20,211	68
	Short-term Japanese corporate bonds	—	—	—
	Japanese corporate bonds	113,660	112,458	1,202
	Other	105,154	100,955	4,199
	Sub-total	431,663	413,352	18,311
Unrealized Losses	Stocks	2,399	2,831	(432)
	Bonds:	6,713	6,758	(45)
	Japanese government bonds	—	—	—
	Japanese local government bonds	1,231	1,233	(2)
	Short-term Japanese corporate bonds	—	—	—
	Japanese corporate bonds	5,482	5,525	(43)
	Other	34,459	37,058	(2,599)
	Sub-total	43,571	46,647	(3,076)
Total		¥475,234	¥459,999	¥15,235

(4) Bonds classified as held-to-maturity have not been sold.

(5) Available-for-sale securities sold

	Millions of Yen			Thousands of U.S. Dollars		
	2017			2017		
	Sales Amount	Gains on Sales	Losses on Sales	Sales Amount	Gains on Sales	Losses on Sales
Stocks	¥ 106	¥ 28	¥ —	$ 947	$ 249	$ —
Bonds:	11,413	30	16	101,723	264	140
Japanese government bonds	9,196	14	16	81,960	126	140
Japanese local government bonds	—	—	—	—	—	—
Short-term Japanese corporate bonds	—	—	—	—	—	—
Japanese corporate bonds	2,217	16	—	19,763	138	—
Other	195,442	4,850	766	1,741,902	43,228	6,826
Total	¥206,961	¥4,908	¥782	$1,844,572	$43,741	$6,966

	Millions of Yen		
	2016		
	Sales Amount	Gains on Sales	Losses on Sales
Stocks	¥ 157	¥ 68	¥ 5
Bonds:	31,569	144	—
Japanese government bonds	29,964	139	—
Japanese local government bonds	—	—	—
Short-term Japanese corporate bonds	—	—	—
Japanese corporate bonds	1,605	5	—
Other	217,993	3,985	343
Total	¥249,719	¥4,197	¥348

(6) The classification of securities has not been changed.

Net unrealized gains on available-for-sale securities

Available-for-sale securities were valued at market and net unrealized gains on valuation were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount
Net unrealized gains on securities	¥8,843	¥15,235	$78,813
Deferred tax liabilities (assets)	2,644	4,649	23,562
Net unrealized gains on valuation (before adjustment)	6,199	10,586	55,251
(Non-controlling interests)	139	111	1,238
Net unrealized gains on valuation	6,060	10,475	54,013

Securities subject to impairment charges

Fair values of securities other than trading securities for the years ended March 31, 2017 and 2016 that have fair value have decreased significantly from the original acquisition cost.

Securities deemed to have no chance of recovering their value up to their original acquisition cost are listed on the balance sheet (consolidated basis) at their market price, and the valuation difference is booked as a loss ("impairment loss") for the consolidated fiscal year under review.

The total amount of such impairment charges for the consolidated fiscal years ended March 31, 2017 and 2016 under review were ¥- million ($-thousand) and ¥10 million.

Standards used to determine when a security has "decreased significantly" in value under the Bank's self-assessment system for asset quality are as follows, classified by creditworthiness category.

Issuer is in "legal bankruptcy," "virtual bankruptcy" or "possible bankruptcy:"	Fair value is below acquisition cost
Issuer requires "caution:"	Fair value is 30% or more below acquisition cost
Issuer has "normal" status:	Fair value is 50% or more below acquisition cost

Among issuers with "normal" status under the above-mentioned self-assessment asset screening, for those whose securities' fair value is between 30% and 50% below the original acquisition cost, a decision on the likelihood of recoverability up to acquisition cost is made on a case-by-case basis. Impairment charges are booked in all cases if acquisition cost is not deemed fully recoverable.

Legally bankrupt issuing companies include those that are bankrupt, and those whose businesses have legally failed and that have effectively gone in to special liquidation proceedings, under law. Virtually bankrupt companies are those facing the same circumstances as legally bankrupt companies. Companies in possible bankruptcy are companies that, though currently going concerns, are recognized as having a high probability of failure in the future. Companies requiring caution are those whose management will need monitoring.

Companies performing normally are those which fall into none of the above categories.

27. FAIR VALUE INFORMATION ON DERIVATIVE TRANSACTIONS

Derivatives are subject to market risk, which is the possibility that a loss may result from fluctuations in market conditions, and credit risk, which is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Since most of the Bank's derivative transactions are conducted to hedge underlying business exposures, market gain or risk in the derivative instruments is expected to be offset by an opposite movement in the value of hedged assets or liabilities. These figures are the measures used in the calculation of risk-based capital ratios under the Japanese capital ratio guidelines. The Bank adopts the current exposure method stipulated by the guidelines in calculating the amount. As a risk control system for derivatives, the Bank has established a risk management division that operates independently from divisions executing derivative transactions. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate the authorization and credit limit amounts. In addition, positions and related gains or losses from derivatives are reported to management on a daily basis for monitoring and evaluation purposes. The contract amounts of forward exchange contracts and option agreements do not necessarily measure the Bank's exposure to credit or market risk.

Derivative transactions to which the deferred hedge accounting method is not applied

Contractual value, fair value, unrealized gains or losses, and computation method for fair value by types of transactions as of March 2017 and 2016 were as follows. The contract amounts do not necessarily measure the Bank's exposure to market risk:

(1) Interest-rate-related transactions

	Millions of Yen				Thousands of U.S. Dollars			
	2017				2017			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:								
Interest rate swaps:								
Receive fixed and pay floating	¥93,516	¥83,535	¥ 2,446	¥ 2,446	$833,477	$744,516	$ 21,803	$ 21,803
Receive floating and pay fixed	75,115	73,549	(1,149)	(1,149)	669,477	655,516	(10,238)	(10,238)
Others:								
Sold	5,827	5,727	86	95	51,935	51,043	767	848
Bought	5,827	5,727	(14)	(19)	51,935	51,043	(127)	(178)
Total	¥ —	¥ —	¥ 1,369	¥ 1,373	$ —	$ —	$ 12,205	$ 12,235

	Millions of Yen			
	2016			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:				
Interest rate swaps:				
Receive fixed and pay floating	¥62,664	¥59,419	¥ 2,714	¥ 2,714
Receive floating and pay fixed	58,156	56,038	(1,595)	(1,595)
Others:				
Sold	3,664	3,556	35	50
Bought	3,664	3,556	(20)	(30)
Total	¥ —	¥ —	¥ 1,134	¥ 1,139

Notes: 1. The above transactions were revalued at the end of the year and the related gain and loss were reflected in the accompanying consolidated statements of income.
2. The fair values were mainly calculated using the discounted present values.

(2) Currency-related transactions

	Millions of Yen				Thousands of U.S. Dollars			
	2017				2017			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:								
Currency swaps:	¥141,650	¥117,095	¥ 133	¥ 133	$1,262,478	$1,043,630	$ 1,188	$ 1,188
Forward exchange contracts:								
Sold	49,374	9,986	(406)	(406)	440,049	89,000	(3,617)	(3,617)
Bought	7,243	—	67	67	64,552	—	601	601
Currency options:								
Sold	1,778	1,431	(90)	46	15,850	12,750	(809)	403
Bought	1,778	1,431	110	(26)	15,850	12,750	982	(230)
Total	¥ —	¥ —	¥(186)	¥(186)	$ —	$ —	$(1,655)	$(1,655)

	Millions of Yen			
	2016			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:				
Currency swaps:	¥140,204	¥130,286	¥ 153	¥ 153
Forward exchange contracts:				
Sold	27,204	4,511	488	488
Bought	13,722	—	(258)	(258)
Currency options:				
Sold	1,781	1,448	(128)	3
Bought	1,781	1,448	148	17
Total	¥ —	¥ —	¥ 403	¥ 403

Notes: 1. The above transactions were revalued at the end of the year and the related gain and loss were reflected in the accompanying consolidated statements of income.
2. The fair values were mainly calculated using the discounted present values.

(3) Stock-related transactions are not performed.

(4) Bond-related transactions are not performed.

(5) Financial product-related transactions are not performed.

(6) Credit derivative transactions are not performed.

Derivative transactions to which the deferred hedge accounting method is applied
There were no derivative transactions to which the deferred hedge accounting method is applied for the years ended March 31, 2017 and 2016.

28. RELATED PARTY TRANSACTIONS

At March 31, 2017 and 2016, Sumitomo Mitsui Financial Group and Sumitomo Mitsui Banking Corporation are the parent companies of the Bank.

There were no material transactions between related parties for the year ended March 31, 2017 and 2016.

29. PROFIT PER SHARE

Reconciliation of profit per share ("EPS") for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Profit Attributable to Owners of Parent	Average Shares	EPS	EPS
For the year ended March 31, 2017				
Basic EPS				
Profit available to capital shareholders	¥7,119	40,958	¥173.81	$1.55
For the year ended March 31, 2016				
Basic EPS				
Profit available to capital shareholders	¥7,360	40,758	¥180.58	

	Thousands of Shares	Yen	U.S. Dollars
	Increased Shares	Diluted EPS	Diluted EPS
For the year ended March 31, 2017			
Diluted EPS			
Profit available to capital shareholders	146	¥173.19	$1.54
For the year ended March 31, 2016			
Diluted EPS			
Profit available to capital shareholders	109	¥180.09	

The Bank implemented a share consolidation on October 1, 2016. The Bank calculated the EPS assuming that the share consolidation had taken place at the beginning of the fiscal year ended March 31, 2016.

30. FINANCIAL INSTRUMENTS

1. Financial instruments

(1) Financial instrument management plan

The Group operates primarily banking and other financial service businesses related to credit cards, credit guarantees, and leasing. To operate these businesses, the Group raises funds by accepting customer deposits while regulating the balance between market conditions and the long and short terms, by indirect financing through borrowings, and by issuing treasury bonds. Because the Group mainly holds financial assets and liabilities with fluctuating interest rates, the Bank operates its business using Asset Liability Management (ALM) to prevent an unfavorable impact caused by interest rate changes. As part of ALM, the Bank conducts derivative transactions.

Some of the consolidated subsidiaries of the Bank hold marketable securities.

(2) Financial instrument attributes and risks

The financial assets held by the Group are primarily commercial loans made to businesses and individuals in Japan. These assets are subject to credit risk arising from client default on loan contracts. There is the possibility that these debts may not be fulfilled in accordance with the contract terms and conditions due to changes in the borrowers' financial conditions and particular conditions in various industries; economic and financial environmental changes in interest rates, share prices, and real estate values. Furthermore, marketable securities and trading account securities held by the Bank are mainly comprised of stocks and bonds, held-to-maturity for net investment and business promotion purposes. These securities are subject to the issuer's credit risk, interest rate fluctuation risk, and market value change risk.

The Group is subject to liquidity risk in its borrowings and bonds, and should it be unable to access the markets under certain conditions, this may prevent the Bank from making payments by contractual due dates. Further, the Group makes loans with variable interest rates and is therefore subject to the risk of fluctuating interest rates.

The Bank engages in interest rate swap transactions as part of ALM. The Bank applies hedge accounting to interest rate swaps as a hedging instrument against the risk of fluctuating interest rates arising from hedged financial assets and liabilities. To evaluate hedge effectiveness, deposits and loans (hedged items) and interest rate swap derivatives (hedging instruments) are grouped for each specified period of time, and hedges for offsetting market price fluctuations are identified from the group and assessed.

Further, the Bank also trades bond futures to offset market price fluctuations of bonds held as available-for-sale securities.

Some consolidated subsidiaries hold marketable securities, and these financial instruments are exposed to interest rate risk, market price fluctuation risk, and credit risk.

(3) Financial instrument risk management system

1. Credit risk management

The Group has established and operates a credit management system for commercial loans. The system performs credit reviews, manages credit limits and credit data, establishes internal ratings, guarantees and collateral, and deals with problem debt in accordance with the Bank's financing rules and other credit risk management rules and regulations. These credit management procedures are conducted by the relevant credit review and sales departments. In addition, the credit management status is reported at regularly-held management meetings and board of directors' meetings for deliberation, and is also subject to corporate auditor reviews.

The Corporate Risk Management Department oversees the credit risk of issuers of the marketable securities and counterparty risk of derivative transactions by periodically collecting credit information and market values.

2. Market risk management

(i) Interest risk management

The Bank conducts Asset Liability Management (ALM) to manage interest rate risk. The risk management methods and procedures are described in detail in ALM regulations and the status of their implementation is checked and verified and future actions are discussed in general risk meetings (management meetings), based on ALM policies reviewed in the ALM Committee. In practice, the Corporate Risk Management Department primarily oversees overall interest rates and terms of financial assets and liabilities and monitors them using gap and interest rate sensitivity analysis, reporting to the ALM Committee monthly. The Bank trades interest rate swaps and other derivative transactions to hedge interest rate risk.

(ii) Exchange risk management

The Group manages exchange risk on individual transactions and oversees exchange positions.

(iii) Price fluctuation risk management

The decision to hold investment instruments including marketable securities is made at general risk meetings based on the policies of the ALM Committee, and carried out following rules and regulations on market risk management. The Financial Markets Department purchases investment instruments from outside sources and mitigates price fluctuation risk by conducting preliminary reviews and setting investment limits, and through consistent monitoring. Shares managed by the Operations Planning Department are held for the purposes of promoting business, including business and capital tie-ups, thereby allowing it to monitor the market environments and financial conditions of its business partners. This information is reported periodically to the ALM Committee and the Management Committee.

Some consolidated subsidiaries hold marketable securities, and these are managed in accordance with the subsidiaries' market and liquidity risk management rules and monitored by the Bank.

(iv) Derivative transactions

For derivative transactions, the Group has created separate divisions for derivative trading, evaluation of hedge effectiveness and business administration, thereby establishing a system of checks and balances. These divisions operate based on market risk management rules and regulations.

(v) Quantitative information related to market risk

In the Bank, financial instruments influenced by interest risk which is a main risk variable number are loans and bills discounted, bonds classified in securities and deposits and financial instruments influenced by stocks price fluctuation risk are stocks and investment trust in securities. The Bank uses the variance-covariance method for the measurement of VaR (a holding period of 60 days (cross-shareholdings 120 days), an observation period of one year and a confidence interval of 99%).

As of March 31, 2017, the market risk amount (estimated value of latent loss) of the main financial instruments in banking account was ¥14,951 million ($133,259 thousand).

The Bank considers that the measurement model used captures market risks with sufficient accuracy. However, VaR measures the amount of market risk by certain occurrence probabilities which are statistically calculated based on past market movements. Therefore, there are cases in which VaR cannot capture risk under sudden and dramatic changes in market beyond normal circumstances.

3. Fund procurement liquidity risk management

The Group manages liquidity risk through timely fund management, diversified fund procurement sources and regulating the balance between long and short term funding in light of market conditions.

(4) Additional information on the fair value of financial instruments, etc.

The fair values of financial instruments include values based on fair values and reasonably calculated values when the fair value is not available. As said values are calculated using certain assumptions, these values may vary when different assumptions are used.

2. Financial instruments' fair values

Consolidated balance sheet amount, fair value, and unrealized gains or losses as of March 31, 2017 and 2016 were as follows. Unlisted securities, the fair values of which were extremely difficult to calculate were excluded from the table below:

	Millions of Yen			Thousands of U.S. Dollars		
	2017			2017		
	Consolidated Balance Sheet Amount	Fair Value	Difference	Consolidated Balance Sheet Amount	Fair Value	Difference
Cash and due from banks	¥ 420,823	¥ 420,823	¥ —	$ 3,750,648	$ 3,750,648	$ —
Call loans and bills bought	1,965	1,965	—	17,510	17,510	—
Trading account securities:						
Trading securities	613	613	—	5,468	5,468	—
Securities:						
Held-to-maturity securities	12,669	12,702	33	112,912	113,211	299
Available-for-sale securities	475,541	475,541	—	4,238,337	4,238,337	—
Loans and bills discounted:	2,497,810			22,262,125		
Allowance for possible loan losses	(18,641)			(166,141)		
	2,479,169	2,486,629	7,460	22,095,984	22,162,467	66,483
Assets total	¥3,390,780	¥3,398,273	¥7,493	$30,220,859	$30,287,641	$66,782
Deposits	¥3,140,309	¥3,140,667	¥ (358)	$27,988,495	$27,991,686	$ (3,191)
Negotiable certificate of deposits	9,562	9,562	0	85,222	85,222	0
Payables under securities lending transactions	113,195	113,195	—	1,008,872	1,008,872	—
Borrowed money	66,877	64,582	2,295	596,049	575,593	20,456
Bonds payable	—	—	—	—	—	—
Liabilities total	¥3,329,943	¥3,328,006	¥1,937	$29,678,638	$29,661,373	$17,265
Derivative transactions:						
Deferred hedge accounting is applied	¥ 1,184	¥ 1,184	¥ —	$ 10,550	$ 10,550	$ —
Deferred hedge accounting is not applied	—	—	—	—	—	—
Derivative transactions total	¥ 1,184	¥ 1,184	¥ —	$ 10,550	$ 10,550	$ —

	Millions of Yen		
	2016		
	Consolidated Balance Sheet Amount	Fair Value	Difference
Cash and due from banks	¥ 392,684	¥ 392,684	¥ —
Call loans and bills bought	1,380	1,380	—
Trading account securities:			
Trading securities	528	528	—
Securities:			
Held-to-maturity securities	26,052	26,102	50
Available-for-sale securities	475,234	475,234	—
Loans and bills discounted:	2,495,377		
Allowance for possible loan losses	(19,113)		
	2,476,264	2,489,307	13,043
Assets total	¥3,372,142	¥3,385,235	¥13,093
Deposits	¥3,093,368	¥3,093,791	¥ (423)
Negotiable certificate of deposits	5,571	5,571	—
Payables under securities lending transactions	87,825	87,825	—
Borrowed money	106,262	103,086	3,176
Bonds payable	18,300	18,327	(27)
Liabilities total	¥3,311,326	¥3,308,600	¥ 2,726
Derivative transactions:			
Deferred hedge accounting is applied	¥ 1,538	¥ 1,538	¥ —
Deferred hedge accounting is not applied	—	—	—
Derivative transactions total	¥ 1,538	¥ 1,538	¥ —

Notes: 1. Allowance for possible loan losses to loans and bills discounted are excluded.
2. Derivative transactions recorded in Other assets and Other liabilities are presented as a lump sum. Net claims and debts that arose from derivative transactions are presented on a net basis.

(Note 1) Calculation method for the fair values of financial instruments was as follows:

Assets

(1) Cash and due from banks

The fair values of non-term deposits approximate the book values, therefore said book values shall be the fair values. For term deposits, present values are calculated for each category based on the deposit term, discounting by the applicable interest rate assumed for any new deposit transaction.

(2) Call loans and bills bought

These transactions have short remaining contract terms (six months or less), and as their fair values approximate the book values, said book values shall be the fair values.

(3) Trading account securities

Values of marketable securities such as bonds held for dealing are based on their securities exchange prices.

(4) Securities

Stock prices are based on their stock exchange prices, while bond prices are based either on their stock exchange prices or on the prices provided by the correspondent financial institutions. Investment trust prices are based on the standard prices publicly released. The fair values of each privately placed bond group, categorized by internal rating and term period, are calculated by discounting the total principal and interest at an interest rate that reflects the risk free rate, estimated default probability based on the internal ratings of the bond issuer, and the estimated uncollectibility rate at default based on guarantees.

Comments regarding available-for-sale securities for each holding category are noted in the "Securities" section.

(5) Loans and bills discounted

Fair values of loans categorized by internal rating and term are calculated by discounting the total principal and interest at an interest rate that reflects the risk free rate, estimated default probability based on the internal ratings of the borrower, and the estimated uncollectibility rate at default based on collateral and guarantees.

Further, loans to borrowers in legal bankruptcy, virtual bankruptcy and possible bankruptcy are calculated based upon the estimated loan losses using the probable recoverable amount based upon collateral and guarantee amounts. Thus, the fair value is approximately the amount on the consolidated balance sheet as of the consolidated settlement date, minus the current loan loss estimate. This figure is used as the market price.

Note that where the repayment period has not been stipulated, like some overdraft facilities, the market price is assumed to approximate the book value from the probable repayment period or the interest rate terms. Therefore, the book value shall be the market price.

Liabilities

(1) Deposits, and (2) Negotiable certificates of deposits

The fair value of demand deposits is considered to be the payment amount (book value) sought on the consolidated settlement date. Time deposits and negotiable certificates of deposit are categorized by given term periods, and their present values are calculated discounting their future cash flow. This discount rate is based upon the rate used when new deposits are accepted.

(3) Payables under securities lending transactions

Book values are used for fair values because these products have short remaining contract terms (six months or less) and the market prices approximate the book values.

(4) Borrowed money

The present value is calculated by discounting the total principal and interest of said borrowings, which have been categorized by specific term periods, at an assumed interest rate for similar borrowings.

(5) Bonds payable

The present value is calculated by discounting the total principal and interest of said bonds payable, which have been categorized by specific time periods, at an assumed interest rate when similar bonds payable are issued.

(Note 2) Financial Instruments, the fair values of which were extremely difficult to calculate were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount
Unlisted stocks	¥3,111	¥2,906	$27,724
Limited partnership for investment	3,511	2,764	31,292
Total	¥6,622	¥5,670	$59,016

Notes: 1. Unlisted stocks are excluded as there are no market prices and it is extremely difficult to calculate fair values.
2. For the year ended March 31, 2017 and 2016, impairment losses for unlisted stocks amounted to ¥— million ($— thousand) and ¥1 million.
3. Limited partnership for investment made up of unlisted securities, the fair values of which are extremely difficult to calculate are excluded from the table.

(Note 3) Maturities of monetary claims and securities that have maturities were as follows:

	Millions of Yen					
	2017					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Due from banks	¥ 1,000	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	1,965	—	—	—	—	—
Securities:	118,861	111,729	60,116	8,549	127,966	8,000
Held-to-maturity securities:	2,301	6,425	3,910	—	—	—
Japanese government bonds	—	—	—	—	—	—
Japanese local government bonds	1,800	1,716	3,910	—	—	—
Japanese corporate bonds	501	4,709	—	—	—	—
Available-for-sale securities:	116,560	105,304	56,206	8,549	127,966	8,000
Japanese government bonds	50,000	60,000	30,000	—	—	8,000
Japanese local government bonds	4,583	2,754	1,270	—	—	—
Japanese corporate bonds	55,317	36,337	17,081	4,859	5,090	—
Others	6,660	6,213	7,855	3,690	122,876	—
Loans and bills discounted	563,108	474,148	333,291	215,942	253,538	593,853
Total	¥684,934	¥585,877	¥393,407	¥224,491	¥381,504	¥601,853

	Thousands of U.S. Dollars					
	2017					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Due from banks	$ 8,913	$ —	$ —	$ —	$ —	$ —
Call loans and bills bought	17,510	—	—	—	—	—
Securities:	1,059,372	995,805	535,789	76,194	1,140,516	71,301
Held-to-maturity securities:	20,512	57,269	34,848	—	—	—
Japanese government bonds	—	—	—	—	—	—
Japanese local government bonds	16,046	15,294	34,848	—	—	—
Japanese corporate bonds	4,466	41,975	—	—	—	—
Available-for-sale securities:	1,038,860	938,536	500,941	76,194	1,140,516	71,301
Japanese government bonds	445,633	534,759	267,379	—	—	71,301
Japanese local government bonds	40,844	24,549	11,323	—	—	—
Japanese corporate bonds	493,021	323,856	152,232	43,308	45,365	—
Others	59,362	55,372	70,007	32,886	1,095,151	—
Loans and bills discounted	5,018,782	4,225,916	2,970,514	1,924,614	2,259,695	5,292,808
Total	$6,104,577	$5,221,721	$3,506,303	$2,000,808	$3,400,211	$5,364,109

	Millions of Yen					
	2016					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Due from banks	¥ 1,000	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	1,380	—	—	—	—	—
Securities:	75,746	212,369	52,199	14,504	80,997	8,937
Held-to-maturity securities:	13,341	8,227	4,410	—	—	—
Japanese government bonds	—	—	—	—	—	—
Japanese local government bonds	13,341	3,016	4,410	—	—	—
Japanese corporate bonds	—	5,211	—	—	—	—
Available-for-sale securities:	62,405	204,142	47,789	14,504	80,997	8,937
Japanese government bonds	22,000	115,000	20,000	10,000	—	—
Japanese local government bonds	12,699	5,584	2,247	760	—	—
Japanese corporate bonds	20,846	73,886	14,479	2,218	6,520	—
Others	6,860	9,672	11,063	1,526	74,477	8,937
Loans and bills discounted	587,787	490,133	336,276	208,006	229,434	578,911
Total	¥665,913	¥702,502	¥388,475	¥222,510	¥310,431	¥587,848

Note: Loans in legal bankruptcy, virtual bankruptcy and potential bankruptcy amounting to ¥49,334 million ($439,702 thousand) and ¥50,461 million and loans and bills discounted without maturities amounting to ¥14,596 million ($130,094 thousand) and ¥14,368 million were excluded from the table above as of March 31, 2017 and 2016.

(Note 4) Maturities of borrowed money and others were as follows:

	Millions of Yen					
	2017					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits	¥3,050,450	¥ 79,949	¥ 9,910	¥—	¥—	¥—
Negotiable certificate of deposits	9,562	—	—	—	—	—
Payables under securities lending transactions	113,196	—	—	—	—	—
Borrowed money	4,090	44,072	18,715	—	—	—
Corporate bonds	—	—	—	—	—	—
Total	¥3,177,298	¥124,021	¥28,625	¥—	¥—	¥—

	Thousands of U.S. Dollars					
	2017					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits	$27,187,612	$ 712,558	$ 88,324	$—	$—	$—
Negotiable certificate of deposits	85,222	—	—	—	—	—
Payables under securities lending transactions	1,008,873	—	—	—	—	—
Borrowed money	36,456	392,796	166,797	—	—	—
Corporate bonds	—	—	—	—	—	—
Total	$28,318,163	$1,105,354	$255,121	$—	$—	$—

	Millions of Yen					
	2016					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits	¥2,999,953	¥ 82,499	¥10,917	¥ —	¥—	¥—
Negotiable certificate of deposits	5,371	200	—	—	—	—
Payables under securities lending transactions	87,825	—	—	—	—	—
Borrowed money	38,439	41,521	23,301	3,000	—	—
Corporate bonds	—	—	—	18,300	—	—
Total	¥3,131,588	¥124,220	¥34,218	¥21,300	¥—	¥—

Note: Demand deposits were included in “1 Year or Less.”

31. SEGMENT INFORMATION

Segment information

(1) Outline of the reported segments

The reported segments of the Company are those units for which separate financial statements can be obtained and which are regularly examined by the management meeting for decisions on the allocation of management resources and for assessing business performance.

The Group engages in financial services such as credit card operations, credit guarantee operations, lease operations, agent for office functions, management consulting business centering on banking operations.

As the banking operations accounts for the large portion of the Group, the reported segment of the Group is only “Banking Operations Segment” conducted by the Bank and other operations conducted by the consolidated subsidiaries are included in “Other.”

(2) Calculation method of the amount of ordinary income, segment profit or loss, assets and other items by the reported segment

Accounting method of the reported segment is almost the same to the mention in “Significant Accounting Policies.” Business conditions of the transactions between the reported segment and “Other” and transactions in “Other” are same as general trade.

Differences between total of the segment profit and other and the profit on the consolidated statement of income and the segment asset and “Other” asset and asset on the consolidated balance sheet are described in (3).

(3) Information related to operating income, segment profit or loss, assets and other items by the reported segment

For the year ended March 31, 2017

	Millions of Yen 2017				
	Reported Segment Banking	Other	Total	Adjustments	Consolidated
Operating income:					
Outside customers	¥ 52,439	¥ 8,310	¥ 60,749	¥ —	¥ 60,749
Intersegment income	533	2,947	3,480	(3,480)	—
Total	52,972	11,257	64,229	(3,480)	60,749
Segment profit	9,996	1,297	11,293	(287)	11,006
Segment assets	3,499,235	680,965	4,180,200	(673,556)	3,506,644
Other items:					
Depreciation	2,996	87	3,083	0	3,083
Interest income	35,007	597	35,604	(501)	35,103
Financing expenses	1,842	104	1,946	(130)	1,816
Increase in tangible and intangible fixed assets	3,521	62	3,583	—	3,583

	Thousands of U.S. dollars 2017				
	Reported Segment Banking	Other	Total	Adjustments	Consolidated
Operating income:					
Outside customers	$ 467,368	$ 74,063	$ 541,431	$ —	$ 541,431
Intersegment income	4,750	26,268	31,018	(31,018)	—
Total	472,118	100,331	572,449	(31,018)	541,431
Segment profit	89,091	11,556	100,647	(2,557)	98,090
Segment assets	31,187,475	6,069,210	37,256,685	(6,003,171)	31,253,514
Other items:					
Depreciation	26,699	778	27,477	4	27,481
Interest income	312,008	5,317	317,325	(4,468)	312,857
Financing expenses	16,417	931	17,348	(1,164)	16,184
Increase in tangible and intangible fixed assets	31,383	549	31,932	—	31,932

Notes: 1. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of income.
2. "Other" consists of other banking related activities such as credit card operations, credit guarantee, leasing operations, entrusted account and venture capital.
3. Adjustments include items below.
a. Segment profit adjustments –¥287 million (–$2,557 thousand) are adjustment in consolidation accounting.
b. Segment assets adjustments –¥673,556 million (–$6,003,171 thousand) are adjustment in consolidation accounting.
c. Depreciation adjustments ¥0 million ($3 thousand), interest income adjustments –¥501 million (–$4,468 thousand), financing expenses –¥131 million (–$1,165 thousand) are adjustment in consolidation accounting.
4. Segment profit is adjusted to ordinary income on the consolidated statements of income.

For the year ended March 31, 2016

	Millions of Yen 2016				
	Reported Segment Banking	Other	Total	Adjustments	Consolidated
Operating income:					
Outside customers	¥ 56,273	¥ 8,079	¥ 64,352	¥ —	¥ 64,352
Intersegment income	568	2,989	3,557	(3,557)	—
Total	56,841	11,068	67,909	(3,557)	64,352
Segment profit	10,953	1,188	12,141	(287)	11,854
Segment assets	3,478,585	679,854	4,158,439	(673,777)	3,484,662
Other items:					
Depreciation	3,322	88	3,410	11	3,421
Interest income	37,400	638	38,038	(503)	37,535
Financing expenses	2,615	120	2,735	(157)	2,578
Increase in tangible and intangible fixed assets	3,146	278	3,423	—	3,423

Notes: 1. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of income.
2. "Other" consists of other banking related activities such as credit card operations, credit guarantee, leasing operations, entrusted account and venture capital.
3. Adjustments include items below.
a. Segment profit adjustments –¥287 million are adjustment in consolidation accounting.
b. Segment assets adjustments –¥673,777 million are adjustment in consolidation accounting.
c. Depreciation adjustments ¥11 million, interest income adjustments –¥503 million, financing expenses –¥157 million are adjustment in consolidation accounting.
4. Segment profit is adjusted to ordinary income on the consolidated statements of income.

CORPORATE INFORMATION

Corporate Organization (As of April 1, 2017)

[Section, etc. under Department]

- Shareholders' Meeting
  - Board of Corporate Auditors / Corporate Auditors
    - Office of Corporate Auditors
  - Board of Directors
    - Management Committee
      - Audit Department
      - Legal Compliance Department
        - Money Laundering Management Section
      - Corporate Risk Management Department
      - Planning Department
        - Tokyo Office
        - Public Relations Section
        - Subsidiaries and Affiliates Section
        - Financial Department
      - Personnel Department
        - Secretariat
        - Training Section
        - Diversity Promotion Section
      - General Affairs Department
        - Property Administration Section
      - Customers Relationship Management Department
        - Customer Relations Section
      - Sales Management Department
        - Financial Instruments Transaction Management Section
        - Channel Planning Section
        - Branch Support Department
      - Corporate Business Department
        - Business Support Department
        - Securities Marketing Section
      - Individual Business Department
        - Loan Promotion Department
      - Region Strategy Department
        - Regional Development Project Promotion Section
      - International Business Department
        - Asia Business Promotion Section
        - Shanghai Representative Office
      - Direct Banking Department
        - Inheritance Consulting Center
      - Credit Planning Department
      - Credit Department
        - Corporate Revival Section
        - Business Viability Assessment Section
      - Credit Administration Department
      - Financial Markets Department
      - Securities and International Department
        - International Operations Center
      - Operations Administration Department
      - Operations Department

Corporate Officers (As of June 29, 2017)

Directors, Corporate Auditors and Executive Officers

Chairman *(Representative Director)*
Shunji Ono

President *(Representative Director)*
Hiroaki Hattori*

Senior Managing Directors
Shinya Kimura* *(Representative Director)*
Toshikazu Takeichi*

Managing Directors
Hisashi Yasukuni*
Tomohiko Kondo*

Directors
Tadaharu Ohashi *(external)*
Wataru Takahashi *(external)*

Corporate Auditors
Takeshi Morimoto *(full-time)*
Masahiko Nishikawa *(full-time)*
Nobuya Amabe *(external)*
Mitsutoshi Kimura *(external)*
Junichi Yoshitake *(external)*

* Executive Officers

Managing Executive Officers
Toru Nakajima
Kenjiro Oda
Kaoru Aso

Executive Officers
Katsushi Yamashita
Katsuaki Maruyama
Takao Ogasawara
Ikuya Fujii
Koichi Kato
Koji Yamazaki
Yoshiki Iba
Ichiro Sakamoto
Shinji Okabe
Masanao Nishioka
Tsuyoshi Fujimoto
Koji Nakajima
Shigetoshi Morita
Masaki Yoshida
Yukio Chikashige
Hiroumi Itaba

Corporate Data (As of March 31, 2017)

Company Name:	The Minato Bank, Ltd.
Head Office:	1-1, Sannomiya-cho 2-chome, Chuo-ku, Kobe, Hyogo, 651-0193, Japan Phone: 078-331-8141 URL: http://www.minatobk.co.jp
Authorized Shares:	100 million shares
Outstanding Shares:	41,095 thousand shares
Stated Capital:	27.4 billion yen
Number of Shareholders:	6,712
Date of Incorporation:	September 1949 (Company name was changed to The Minato Bank, Ltd. in April 1999.)
Domestic Network:	106 locations (Hyogo: 101, Osaka: 4, Tokyo: 1)
Number of Employees:	2,237
Stock Listings:	The 1st Section of the Tokyo Stock Exchange
Credit Rating:	Long-term senior debt rating: A (Japan Credit Rating Agency, Ltd.) Moody's long-term deposit rating: A2 (Moody's (JAPAN) K.K)

Group Structure (As of March 31, 2017)

- Sumitomo Mitsui Financial Group, Inc.
  - Sumitomo Mitsui Banking Corporation
- The Minato Bank, Ltd.
  - Banking business
    - Head Office, 103 branches and 2 sub-branches
  - Other business
    - Minato Business Service Co., Ltd. (Centralized processing of administrative operations for the Bank, etc.)
    - Minato Asset Research Co., Ltd. (Real estate/movables research business)
    - Minato Guarantee Co., Ltd. (Credit guarantee business)
    - Minato Lease Co., Ltd. (Leasing business, Factoring business, etc.)
    - Minato Card Co., Ltd. (Credit card business, etc.)
    - Minato System Co., Ltd. (Computer related business, etc.)
    - Minato Capital Co., Ltd. (Investment business, Management consulting business, etc.)
    - Minato Consulting Co., Ltd. (Operation of seminar/training sessions, Management consulting business, etc.)
    - Six investment limited partnerships

Major Shareholders (As of March 31, 2017)

Name	Number of Shares (Thousands)	Percentage (%)
Sumitomo Mitsui Banking Corporation	18,483	45.03
Minato Bank Kyoueikai	3,420	8.33
Nippon Life Insurance Company	1,130	2.75
Minato Bank Employees' Shareholding Association	932	2.27
Japan Trustee Services Bank, Ltd. (Trust Account)	908	2.21
Aioi Nissay Dowa Insurance Co., Ltd.	566	1.37
Mitsui Sumitomo Insurance Co., Ltd.	522	1.27
Sumitomo Life Insurance Company	520	1.26
Japan Trustee Services Bank, Ltd. (Trust Account 9)	477	1.16
The Master Trust Bank of Japan, Ltd. (Trust Account)	372	0.90

MINATO BANK

The Minato Bank, Ltd.
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