

THE OKAZAKI SHINKIN BANK  
**ANNUAL REPORT 2021**

Year ended March 31, 2021





The Okazaki Shinkin Bank was established in 1924 in Okazaki City, Aichi Prefecture to serve small and medium-sized companies and their employees. Under its corporate mission of sincerely striving for the prosperity of society and the development of regional industry, the Bank continues to maintain sound operations, and is steadily widening its business scope. The Bank currently enjoys an overwhelming share of deposits and loans in Okazaki City, and is one of the top-ranked shinkin banks in Japan.

Amid the present dramatic changes in the financial sector, the Bank reaffirms its customer-focused business stance. We are continuing to improve our services and lineup of financial products, streamline our corporate organization, raise operational efficiency, and further reinforce our risk management capability and earning power.

As March 31, 2021, The Bank's network – covering the whole of Aichi Prefecture – comprised 100 branches. The network was staffed by 1,789 employees serving 129,424 members. The total balance of deposits stood at ¥3,406,582 million (US\$30,770 million), and loans and bills discounted totaled ¥1,713,078 million (US\$15,473 million).

(exchanging ¥110.71, end of March 2021)



## Profile of The Okazaki Shinkin Bank

(As of March 31, 2021)

- Established: July 1924
- Head Office: 41 Motosuga, Sugo-cho, Okazaki
- Members: 129,424
- Capital: 3,064.5 million yen
- Deposits: 3,406.5 billion yen
- Loans: 1,713.0 billion yen
- Full-time employees: 1,789
- Location: 100 locations

Number of Offices by Area

Okazaki Area	30
Nagoya Area	19
Owari Area	5
West-Mikawa Area	30
East-Mikawa Area	16

## About the Representative System

Shinkin banks are the Japanese equivalent of a credit union, and are a form of financial institution with a cooperative structure based on the fundamental principles of "mutual trust" and "reciprocity" between members, and that maximizes the value of the opinions of each and every member. Each member of a shinkin bank therefore has a single voting right regardless of the number of asset accounts, and participates in the operation of the bank through the general meetings. However, because of the large number of members of the Okazaki Shinkin Bank, it is not possible in practice to actually hold general meetings. In order to maintain member consensus while ensuring the completeness of deliberations, a representative system is therefore used instead of general meetings.

The representatives committee is the highest-level decision-making body for deciding important issues such as approval of accounts or change to statutes of the bank, and appointment of the board of directors and auditors. The representatives committee therefore conducts business through representatives that are selected by some appropriate procedure from among the members, and the opinions of each and every member are therefore reflected in the running of the bank in the same way as a general meeting.

Furthermore, communication with representatives and members that occurs not only in the representative meetings, but also in everyday operations is treated as important, and is incorporated into various improvements in the running of the bank.

# Efforts towards Compliance (Adhering to Laws)

## Fundamental Compliance Policy

The Okazaki Shinkin Bank has established a fundamental policy of prioritizing compliance as our most important management issue, and all of our executives and employees are active in efforts to comply with laws and regulations, etc.

A set of "in-house rules for supervising compliance" have been established based on the compliance policy, and these rules determine the basic items related to preparations for complying with laws, etc. A strong management system has also been built with the board of directors at the top.

In terms of actions, the "compliance program" that details specific implementation plans is decided every year. Through this program, all of our executives and employees strive to be active in each of the areas for improving employee awareness and building systems for complying with laws, etc.

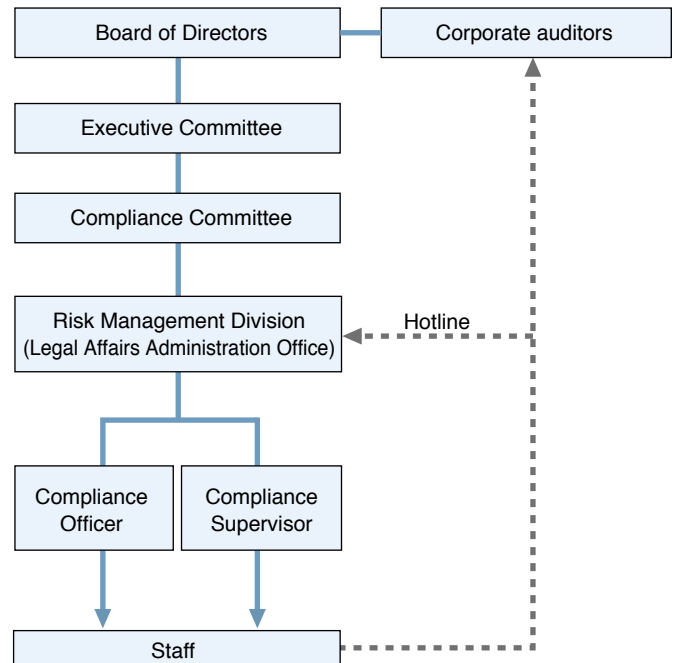
## Compliance Management System

The final decision-making body in relation to compliance is the board of directors. In addition to deciding on our fundamental policies and compliance standards, the board of directors appropriately evaluates the range of compliance measures in addition to the state of compliance. The compliance committee was established in accordance with our compliance policy and is involved in investigating, planning, and evaluating from the standpoint of comprehensive business management.

Furthermore, the risk management division (legal affairs administration office) has been established as the supervising office, and in addition to performing business and planning related to compliance measures, also undertakes guidance and training, and responds to questions and consultations.

Regarding the organization of each position, a "compliance officer" is stationed in the primary work supervision role, and a "compliance supervisor" is stationed in each branch. They provide instruction, guidance, and verification related to the work within their branch and to the staff within their branch.

In order to respond swiftly and appropriately in the rare event that a violation of the law occurs, there is a system in place to facilitate a prompt response, so that when a staff member becomes aware of a compliance violation or that there is a risk of a compliance violation, the staff member is to notify a compliance officer or compliance supervisor, and in addition, there is a hotline through which the risk management division (legal affairs administration office), corporate auditors or advising lawyers can be notified directly.



## Compliance-Related Activities

Through the annual compliance program, in addition to training workshops being held, efforts are progressing towards appropriate work management, such as holding periodic study seminars that utilize tools such as the compliance manual.

# Efforts to Strengthen the Risk Management System

## Credit Risk

Credit risk is the risk of loss to a financial institution if the value of assets held by the financial institution is reduced or destroyed by worsening financial conditions, bankruptcy, etc. of borrowers.

At the Okazaki Shinkin Bank, the basic attitude that executives and staff take part in our credit business is established by our "Credit Policy," and we strive to maintain a suitable screening and management system based on it.

Furthermore, for all borrowers, a calculation of the credit risk is carried out by a VaR through the applicable credit rating based on the business conditions by considering quantitative information such as financial information, and qualitative information such as the strength of the business, and a rigorous asset assessment is carried out based on the "rules related to self-assessment" in order to ensure the soundness of loan assets. In addition to this, monitoring is performed periodically to ensure that there is no bias of credit to particular borrowers or industries (credit concentration risk) and the risk is dispersed.

The Okazaki Shinkin Bank endeavors to appropriately manage the credit risk associated with market transactions by internal regulations decided by the bank.

## Market Risk

Market risk is the risk of loss to a financial institution if the value of assets or debts held by the financial institution, such as cash deposits and securities, fluctuates due to changes in interest rates or variations in the market. Specific examples of market risk include the interest risk that occurs when interest rates change, value variation risk that occurs when the value of securities, etc. change, and exchange risk due to variations in exchange rates.

At the Okazaki Shinkin Bank, a cross-checking system has been established where the investment department that performs the market transactions (front office), and business administration department that performs the business processing (back office) are separate, and the risk management department (middle office) is organizationally separate from these market departments. Furthermore, the bank adheres to the appropriate risk limit (the limiting value on the amount of risk) that suits the equity capital approved by the board of directors, and the position limits (the limits on the amount invested and the amount retained).

Furthermore, for the market risk, which varies daily due to market trends, rigorous management is performed by periodically monitoring the amount of risk as calculated by a VaR.

## Liquidity Risk

Liquidity risk is the risk of loss out of the necessity to obtain funds at much higher interest rates than are normally used to procure funds in the event that the required funds become difficult to secure and there is a shortfall in cash as a result of unexpected losses in liquid funds due to market turmoil or worsening of the financial conditions of the bank.

In addition to taking care to hold securities that have a highly liquid market, such as national and municipal bonds, in order that sudden demands for cash can be handled adequately, strict management is made to ensure that surplus funding reserves are held, and that the liquidity risk is not actualized.



## Operational Risk

Operational risk is a collective term for risks that have a major impact on operations and where losses are caused by errors in business process, the activities of managers and employees, computer system processing, etc. or from changes in external conditions.

In response to operational risk, the Okazaki Shinkin Bank decides the basic policies for risk management each year for system risks and administrative risks and proceeds with preparations and maintenance, and also the relevant departments take efforts to prevent the occurrence of other risks, including legal risks, personal risks, tangible asset risks, and reputation risks.

### ●System Risk

System risk is the risk of loss due to damage, incorrect operation due to malfunctions, illicit usage, information leaks, cyber-attacks, etc. involving our computer system.

The Okazaki Shinkin Bank endeavors to ensure the stability and reliability of hardware and software based on the "Computer System Safety Guidelines for Financial Institutions" in order to provide stable, high quality, and appropriate system functionality.

Furthermore, as measures for dealing with disasters such as large-scale earthquakes, the Okazaki Shinkin Bank has duplicated the system circuitry, and strives to ensure the effectiveness of emergency response by carrying out system failure training.

### ●Administrative Risk

Administrative risk is the risk of loss due to any executive or employee neglecting to properly carry out their duties, or due to accidents or illegal activities.

At the Okazaki Shinkin Bank, the Operations Management Division periodically updates the "Administrative Procedure Guidelines", and also strives to maintain an internal environment in which administrative work is carried out correctly and where employee knowledge of administrative procedures is acquired and improved through education, training, and in-branch lecture.

Furthermore, when an administrative error occurs, the cause of the error is investigated, and all employees are notified of how to handle the situation in the future in order to prevent the mistake from occurring again. In addition, an internal control structure has been setup to prevent mistakes whereby each branch conducts a monthly internal inspection, and internal audits are carried out periodically by the Audit Division.

### ●Other Risk

Efforts are made to maintain the appropriate administrative readiness and reduce risks during normal business operations.

#### Legal Risk

This is the risk of loss due to an executive or employee violating the law or behaving inappropriately while performing their duties.

#### Personal Risk

This is the risk of loss due to employment problems with executives and employees or occupational injuries in the workplace.

#### Tangible Asset Risk

This is the risk of loss due to the tangible assets being held by the Okazaki Shinkin Bank being destroyed by natural disasters, etc.

#### Reputation Risk

This is the risk of loss due to a dramatic drop in the level of trust in the Okazaki Shinkin Bank due to rumors of poor financial conditions or due to the words and actions of executives and employees.



## Initiatives regarding Measures against Money Laundering and Financing of Terrorism

### Actions against money laundering, etc.

The Bank has prioritized measures against money laundering and the financing of terrorism as issues that are important to management, and works to maintain effective risk management systems regarding money laundering and the financing of terrorism grounded on a risk-based approach. Moreover, the Bank regularly verifies the effectiveness of policies related to measures against money laundering and the financing of terrorism, and continuously enhances and strengthens relevant management systems, and this includes making improvements as necessary.

### Actions against antisocial forces

In order to sever relations with antisocial forces, which threaten the public order and the public safety and hinder sound economic and social development, the Bank rejects unreasonable demands with a resolute attitude, based on taking both civil and criminal legal countermeasures, etc., and does not associate with such antisocial forces with regard to funding, inappropriate or unusual transactions, or the provision of benefits. The Bank has set forth these and other matters in a "Basic Policy regarding Antisocial Forces," and upholds this policy.

**The Okazaki Shinkin Bank**  
**Nonconsolidated Balance Sheets**  
March 31, 2021 and 2020

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
<b>Assets:</b>			2021
Cash	¥ 26,062	¥ 32,618	\$ 235,416
Due from banks	1,037,652	729,290	9,372,710
Call loans	592	637	5,354
Monetary receivables purchased	1,963	2,222	17,735
Money held in trust	978	987	8,836
Investment securities	1,259,586	1,217,333	11,377,349
Loans and bills discounted	1,713,078	1,601,546	15,473,563
Foreign exchange assets	1,310	1,406	11,837
Other assets	21,176	18,919	191,281
Tangible fixed assets	39,445	39,914	356,299
Intangible fixed assets	212	219	1,924
Deferred tax assets	2,008	710	18,144
Prepaid pension cost	4,253	2,076	38,420
Customers' liabilities for acceptances and guarantees	2,564	2,499	23,163
Reserve for possible loan losses	(5,730)	(4,876)	(51,758)
<b>Total assets</b>	<b>¥ 4,105,157</b>	<b>¥ 3,645,506</b>	<b>\$ 37,080,273</b>
<b>Liabilities:</b>			
Deposits	¥ 3,406,582	¥ 3,148,710	\$ 30,770,321
Certificates of deposit	-	5,000	-
Borrowed money	210,300	80,400	1,899,557
Call money	90,364	91,065	816,228
Payables under securities lending transactions	169,197	88,521	1,528,297
Foreign exchange liabilities	237	119	2,142
Other liabilities	7,929	9,271	71,623
Reserve for employee bonuses	276	284	2,497
Reserve for severance indemnities for directors and corporate auditors	430	425	3,888
Reserve for reimbursement of deposits	427	446	3,859
Reserve for contingent losses	363	323	3,285
Deferred tax liabilities for land revaluation	2,413	2,416	21,803
Acceptances and guarantees	2,564	2,499	23,163
<b>Total liabilities</b>	<b>3,891,087</b>	<b>3,429,485</b>	<b>35,146,663</b>
<b>Net assets:</b>			
Paid-in members' capital	3,064	3,097	27,680
Retained earnings:			
Legal reserve	3,097	3,132	27,978
Special reserve	183,824	183,827	1,660,417
Unappropriated retained earnings	18,823	15,070	170,030
Total retained earnings	<u>205,746</u>	<u>202,030</u>	<u>1,858,425</u>
Total members' equity	<u>208,810</u>	<u>205,128</u>	<u>1,886,105</u>
Net unrealized gains on available-for-sale securities	(452)	5,174	(4,087)
Land revaluation excess	5,711	5,718	51,592
Total valuation and translation adjustments	<u>5,259</u>	<u>10,892</u>	<u>47,505</u>
Total net assets	<u>214,069</u>	<u>216,020</u>	<u>1,933,610</u>
Total liabilities and net assets	<u>¥ 4,105,157</u>	<u>¥ 3,645,506</u>	<u>\$ 37,080,273</u>
		Yen	U.S. dollars
<b>Net assets per member common share</b>	¥ 34,926.59	¥ 34,871.36	\$ 315.48

**The Okazaki Shinkin Bank**  
**Nonconsolidated Statements of Income**  
For the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 16,195	¥ 15,570	\$ 146,285
Interest and dividends on securities	14,814	14,055	133,815
Other interest income	1,152	1,059	10,406
Total interest income	32,161	30,685	290,506
Fees and commissions	6,284	6,665	56,762
Other operating income	9,059	5,255	81,831
Other income	7,379	5,738	66,654
Total income	54,884	48,345	495,753
<b>Expenses:</b>			
Interest expense:			
Interest on deposits	896	1,214	8,096
Other interest expense	236	1,013	2,137
Total interest expense	1,132	2,227	10,233
Fees and commissions	2,708	2,662	24,463
Other operating expenses	7,350	7,591	66,396
General and administrative expenses	23,560	23,809	212,809
Write-off of loans	663	530	5,994
Impairment loss on fixed assets	6	947	62
Other expenses	14,711	6,205	132,888
Total expenses	50,134	43,973	452,845
Income before income taxes	4,750	4,372	42,908
<b>Income taxes:</b>			
Current	465	345	4,203
Deferred	483	767	4,367
Total income taxes	948	1,113	8,570
Net income	3,801	3,259	34,338
<b>Unappropriated retained earnings:</b>			
At beginning of year	15,070	11,758	136,127
Changes during the year:			
Transfer to legal reserve	35	34	320
Cash dividends for member common shares	(92)	(93)	(839)
Reversal of land revaluation excess	6	109	62
Transfer from special reserve	2	2	22
At end of year	¥ 18,823	¥ 15,070	\$ 170,030
		Yen	U.S. dollars
<b>Net income per member common share</b>	¥ 615.45	¥ 522.29	\$ 5.56

**Notes to Nonconsolidated Financial Statements**

The amounts shown in millions of Japanese yen in the accompanying nonconsolidated financial statements have been rounded down to the nearest million yen in accordance with the disclosure regulations. Accordingly, the sum of each yen amount appearing in the accompanying nonconsolidated financial statements and these notes may not equal the sum of the individual account balances.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2021, which was ¥110.71 to U.S. \$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

**The Okazaki Shinkin Bank and Consolidated Subsidiaries**  
**Consolidated Balance Sheets**  
March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Cash and due from banks	¥ 1,063,715	¥ 761,909	\$ 9,608,126
Call loans	592	637	5,354
Monetary receivables purchased	1,963	2,222	17,735
Money held in trust	978	987	8,836
Investment securities	1,259,561	1,217,308	11,377,122
Loans and bills discounted	1,706,772	1,595,473	15,416,603
Foreign exchange assets	1,310	1,406	11,837
Other assets	28,053	26,269	253,397
Tangible fixed assets	39,022	39,789	352,473
Intangible fixed assets	244	220	2,212
Net defined benefit asset	4,253	2,076	38,420
Deferred tax assets	2,243	934	20,264
Customers' liabilities for acceptances and guarantees	2,564	2,499	23,163
Reserve for possible loan losses	(5,963)	(5,270)	(53,865)
Total assets	<u>¥ 4,105,312</u>	<u>¥ 3,646,464</u>	<u>\$ 37,081,677</u>
<b>Liabilities:</b>			
Deposits	¥ 3,398,924	¥ 3,141,163	\$ 30,701,154
Certificate of deposit	-	5,000	-
Borrowed money	210,300	80,400	1,899,557
Call money	90,364	91,065	816,228
Payables under securities lending transactions	169,197	88,521	1,528,297
Foreign exchange liabilities	237	119	2,143
Other liabilities	9,183	11,439	82,951
Reserve for employee bonuses	276	284	2,496
Net defined benefit liability	0	0	8
Reserve for severance indemnities for directors and corporate auditors	430	425	3,888
Reserve for reimbursement of deposits	427	446	3,859
Reserve for contingent losses	363	323	3,285
Deferred tax liabilities for land revaluation	2,413	2,416	21,803
Acceptances and guarantees	2,564	2,499	23,163
Total liabilities	<u>3,884,684</u>	<u>3,424,107</u>	<u>35,088,832</u>
<b>Net assets:</b>			
Paid-in members' capital	3,064	3,097	27,681
Retained earnings	212,304	208,367	1,917,660
Undisposed equity	(0)	(0)	(1)
Total members' equity	<u>215,368</u>	<u>211,465</u>	<u>1,945,340</u>
Net unrealized gains on available-for-sale securities	(452)	5,174	(4,087)
Land revaluation excess	5,711	5,718	51,592
Total valuation and translation adjustments	<u>5,259</u>	<u>10,892</u>	<u>47,505</u>
Total net assets	<u>220,627</u>	<u>222,357</u>	<u>1,992,845</u>
Total liabilities and net assets	<u>¥ 4,105,312</u>	<u>¥ 3,646,464</u>	<u>\$ 37,081,677</u>



**The Okazaki Shinkin Bank and Consolidated Subsidiaries**  
**Consolidated Statements of Operations**  
For the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 16,154	¥ 15,536	\$ 145,914
Interest and dividends on securities	14,814	14,055	133,815
Other interest income	1,152	1,059	10,406
Total interest income	32,120	30,652	290,135
Fees and commissions	6,673	7,092	60,278
Other operating income	11,609	7,769	104,860
Other income	7,777	5,710	70,252
Total income	58,180	51,225	525,525
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	895	1,213	8,090
Other interest expenses	236	1,013	2,136
Total interest expenses	1,132	2,226	10,226
Fees and commissions	2,708	2,662	24,463
Other operating expenses	9,731	9,917	87,902
General and administrative expenses	23,842	24,001	215,363
Other expenses	15,677	7,683	141,609
Total expenses	53,092	46,491	479,563
Income before income taxes	5,088	4,733	45,962
<b>Income taxes:</b>			
Current	592	469	5,352
Deferred	473	731	4,277
Total income taxes	1,066	1,201	9,629
Net income	4,022	3,532	36,333
<b>Retained earnings:</b>			
At beginning of year	208,367	204,819	1,882,104
Changes during the year:			
Cash dividends for member common shares	(92)	(93)	(839)
Reversal of land revaluation excess	6	109	62
At end of year	¥ 212,304	¥ 208,367	\$ 1,917,660
		Yen	U.S. dollars
<b>Net income per member common share</b>	¥ 651.22	¥ 566.16	\$ 5.88

**Notes to Consolidated Balance Sheets and Consolidated Statements of Operations**

The amounts shown in millions of Japanese yen in the accompanying consolidated balance sheets and the consolidated statements of operations are stated by omitting amounts less than one million yen. Accordingly, the sum of each yen amount appearing in the accompanying consolidated balance sheets and consolidated statements of operations may not be equal to the sum of the individual account balances.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at amounts March 31, 2021, which was ¥110.71 to U.S. \$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

The accompanying consolidated balance sheets and consolidated statements of operations of The Okazaki Shinkin Bank include the accounts of the Bank and its subsidiaries, which are engaged primarily in the business of providing a wide range of financial services. At March 31, 2021 and 2020, respectively, eight subsidiaries were consolidated based on the Bank's ability to exert control over the enterprises rather than the Bank's holding a majority voting interest.