

THE OKAZAKI SHINKIN BANK ANNUAL REPORT 2022

Year ended March 31, 2022





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, 2022, The Bank's network – covering the whole of Aichi Prefecture – comprised 100 branches. The network was staffed by 1,737 employees serving 128,155 members. The total balance of deposits stood at ¥3,568,926 million (US\$29,160 million), and loans and bills discounted totaled ¥1,706,289 million (US\$13,941 million).

(exchanging ¥122.39, end of March 2022)



Profile of The Okazaki Shinkin Bank

(As of March 31, 2022)

- Established: July 1924
- Head Office: 41 Motosuga, Sugo-cho, Okazaki
- Members: 128,155
- Capital: 3,049.6 million yen
- Deposits: 3,568.9 billion yen
- Loans: 1,706.2 billion yen
- Full-time employees: 1,737
- 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.

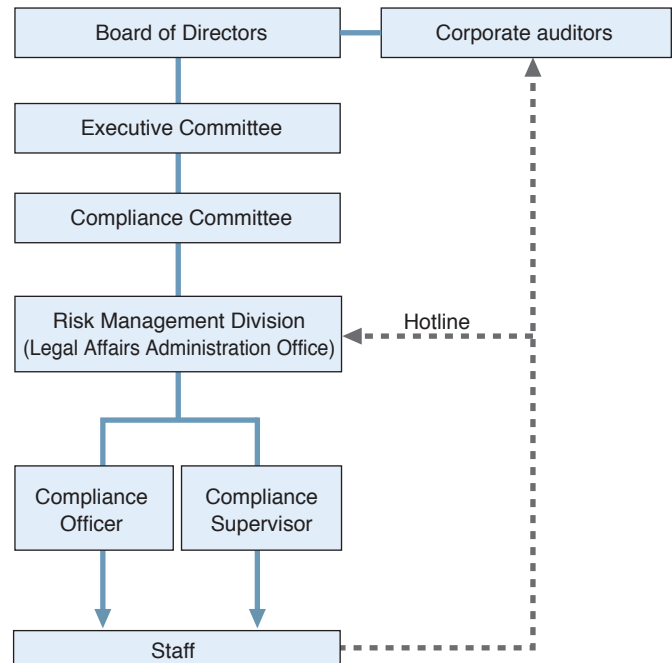
Compliance Management System

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, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Assets:			
Cash	¥ 28,581	¥ 26,062	\$ 233,524
Due from banks	1,098,764	1,037,652	8,977,571
Call loans	500	592	4,085
Monetary receivables purchased	1,970	1,963	16,102
Money held in trust	973	978	7,953
Investment securities	1,367,283	1,259,586	11,171,532
Loans and bills discounted	1,706,289	1,713,078	13,941,415
Foreign exchange assets	2,843	1,310	23,233
Other assets	27,593	21,176	225,452
Tangible fixed assets	38,530	39,445	314,820
Intangible fixed assets	194	212	1,592
Deferred tax assets	8,341	2,008	68,155
Prepaid pension cost	6,612	4,253	54,031
Customers' liabilities for acceptances and guarantees	2,232	2,564	18,243
Reserve for possible loan losses	(6,990)	(5,730)	(57,118)
Total assets	¥ 4,283,722	¥ 4,105,157	\$ 35,000,590
Liabilities:			
Deposits	¥ 3,568,926	¥ 3,406,582	\$ 29,160,279
Borrowed money	242,300	210,300	1,979,737
Call money	91,925	90,364	751,086
Payables under securities lending transactions	158,847	169,197	1,297,881
Foreign exchange liabilities	174	237	1,424
Other liabilities	14,127	7,929	115,428
Reserve for employee bonuses	269	276	2,203
Reserve for severance indemnities for directors and corporate auditors	424	430	3,468
Reserve for reimbursement of deposits	329	427	2,695
Reserve for contingent losses	347	363	2,838
Deferred tax liabilities for land revaluation	2,413	2,413	19,722
Acceptances and guarantees	2,232	2,564	18,243
Total liabilities	4,082,318	3,891,087	33,355,004
Net assets:			
Paid-in members' capital	3,049	3,064	24,917
Retained earnings:			
Legal reserve	3,064	3,097	25,039
Special reserve	183,984	183,824	1,503,264
Unappropriated retained earnings	23,745	18,823	194,016
Total retained earnings	210,794	205,746	1,722,319
Total members' equity	213,844	208,810	1,747,236
Net unrealized gains on available-for-sale securities	(18,152)	(452)	(148,318)
Land revaluation excess	5,711	5,711	46,668
Total valuation and translation adjustments	(12,440)	5,259	(101,650)
Total net assets	201,403	214,069	1,645,586
Total liabilities and net assets	¥ 4,283,722	¥ 4,105,157	\$ 35,000,590
	Yen		U.S. dollars
Net assets per member common share	¥ 33,021.22	¥ 34,926.59	\$ 269.80

The Okazaki Shinkin Bank
Nonconsolidated Statements of Income
For the Years Ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Income:			
Interest income:			
Interest on loans and discounts	¥ 16,252	¥ 16,195	\$ 132,794
Interest and dividends on securities	14,513	14,814	118,585
Other interest income	1,336	1,152	10,921
Total interest income	32,102	32,161	262,300
Fees and commissions	5,907	6,284	48,265
Other operating income	1,321	9,059	10,794
Other income	8,982	7,379	73,389
Total income	48,313	54,884	394,748
Expenses:			
Interest expense:			
Interest on deposits	572	896	4,677
Other interest expense	180	236	1,471
Total interest expense	752	1,132	6,148
Fees and commissions	2,673	2,708	21,843
Other operating expenses	10,897	7,350	89,042
General and administrative expenses	22,444	23,560	183,382
Write-off of loans	188	663	1,538
Impairment loss on fixed assets	93	6	768
Other expenses	4,137	14,711	33,807
Total expenses	41,187	50,134	336,528
Income before income taxes	7,125	4,750	58,220
Income taxes: current	1,603	465	13,100
Income taxes: deferred	381	483	3,120
Total income taxes	1,985	948	16,221
Net income	5,140	3,801	41,999
Unappropriated retained earnings:			
At beginning of year	18,823	15,070	153,803
Changes during the year:			
Transfer to legal reserve	32	35	268
Cash dividends for member common shares	(91)	(92)	(750)
Reversal of land revaluation excess	-	6	-
Transfer to special reserve	(168)	-	(1,373)
Transfer from special reserve	8	2	69
At end of year	¥ 23,745	¥ 18,823	\$ 194,016
		Yen	U.S. dollars
Net income per member common share	¥ 842.26	¥ 615.45	\$ 6.88

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, 2022, which was ¥122.39 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, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Assets:			
Cash and due from banks	¥ 1,127,346	¥ 1,063,715	\$ 9,211,102
Call loans	500	592	4,085
Monetary receivables purchased	1,970	1,963	16,102
Money held in trust	973	978	7,953
Investment securities	1,367,257	1,259,561	11,171,318
Loans and bills discounted	1,700,694	1,706,772	13,895,700
Foreign exchange assets	2,843	1,310	23,233
Other assets	33,983	28,053	277,663
Tangible fixed assets	38,182	39,022	311,974
Intangible fixed assets	216	244	1,771
Net defined benefit asset	6,612	4,253	54,031
Deferred tax assets	8,611	2,243	70,363
Customers' liabilities for acceptances and guarantees	2,232	2,564	18,243
Reserve for possible loan losses	(7,296)	(5,963)	(59,613)
Total assets	¥ 4,284,130	¥ 4,105,312	\$ 35,003,925
Liabilities:			
Deposits	¥ 3,561,337	¥ 3,398,924	\$ 29,098,270
Borrowed money	242,300	210,300	1,979,737
Call money	91,925	90,364	751,086
Payables under securities lending transactions	158,847	169,197	1,297,881
Foreign exchange liabilities	174	237	1,424
Other liabilities	15,429	9,183	126,072
Reserve for employee bonuses	269	276	2,203
Net defined benefit liability	0	0	8
Reserve for severance indemnities for directors and corporate auditors	424	430	3,468
Reserve for reimbursement of deposits	329	427	2,695
Reserve for contingent losses	347	363	2,837
Deferred tax liabilities for land revaluation	2,413	2,413	19,722
Acceptances and guarantees	2,232	2,564	18,243
Total liabilities	4,076,033	3,884,684	33,303,646
Net assets:			
Paid-in members' capital	3,049	3,064	24,917
Retained earnings	217,488	212,304	1,777,012
Undisposed equity	(0)	(0)	(0)
Total members' equity	220,538	215,368	1,801,929
Net unrealized gains on available-for-sale securities	(18,152)	(452)	(148,318)
Land revaluation excess	5,711	5,711	46,668
Total valuation and translation adjustments	(12,440)	5,259	(101,650)
Total net assets	208,097	220,627	1,700,279
Total liabilities and net assets	¥ 4,284,130	¥ 4,105,312	\$ 35,003,925

The Okazaki Shinkin Bank and Consolidated Subsidiaries
Consolidated Statements of Operations
For the Years Ended March 31, 2022 and 2021

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
Income:			
Interest income:			
Interest on loans and discounts	¥ 16,213	¥ 16,154	\$ 132,471
Interest and dividends on securities	14,513	14,814	118,585
Other interest income	1,336	1,152	10,921
Total interest income	32,063	32,120	261,977
Fees and commissions	6,260	6,673	51,150
Other operating income	3,870	11,609	31,626
Other income	8,982	7,777	73,393
Total income	51,176	58,180	418,146
Expenses:			
Interest expenses:			
Interest on deposits	571	895	4,673
Other interest expenses	180	236	1,471
Total interest expenses	752	1,132	6,144
Fees and commissions	2,673	2,708	21,844
Other operating expenses	13,261	9,731	108,355
General and administrative expenses	22,623	23,842	184,845
Other expenses	4,503	15,677	36,796
Total expenses	43,813	53,092	357,984
Income before income taxes	7,363	5,088	60,162
Income taxes: current	1,743	592	14,247
Income taxes: deferred	346	473	2,828
Total income taxes	2,089	1,066	17,075
Net income	5,273	4,022	43,087
Retained earnings:			
At beginning of year	212,304	208,367	1,734,653
Changes during the year:			
Cash dividends for member common shares	(91)	(92)	(750)
Reversal of land revaluation excess	-	6	-
Other retained earnings	2	-	22
At end of year	¥ 212,488	¥ 212,304	\$ 1,777,012
		Yen	U.S. dollars
Net income per member common share	¥ 864.10	¥ 651.22	\$ 7.06

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, 2022, which was ¥122.39 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, 2022 and 2021, respectively, nine 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.