

TOTTORI BANK REPORT  
ANNUAL REPORT

2016

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Trust and Smile  
Grateful to the Region

# REVIEW OF OPERATIONS

## Operating Environment

Looking at the Japanese economy in fiscal 2015, capital investment showed signs of continuing improvement against the backdrop of firm corporate earnings, with business conditions underpinned by an increase in the number of foreign tourists visiting Japan, spurred by the yen's depreciation. Meanwhile, the pace of economic recovery was generally slow amid largely flat consumer sentiment, as exports and production activity softened owing to the deceleration of overseas economies, primarily China and other newly emerging countries. Under these conditions, the Bank of Japan introduced "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" in early 2016, causing long-term interest rates to decrease sharply. Although the lower interest rates are expected to boost capital investment, concerns about downward pressures on corporate earnings and business sentiment owing to the deceleration of overseas economies, the yen's further appreciation and other factors are shaping an increasingly uncertain economic outlook.

Turning to the economy of Tottori Prefecture, consumer spending activity softened in areas such as automobile sales due to the impact of a consumption tax increase. However, the prefectural economy staged a gradual recovery on the whole, underpinned by a continuation of steady improvement in employment conditions, in addition to steady growth in corporate earnings and signs of a rebound in capital investment and production activity. Going forward, a number of developments offer strong prospects for supporting regional economic revitalization. Notably, the number of foreign tourists visiting Tottori Prefecture is projected to increase as cruise ships make port calls at Sakaiminato and regularly scheduled international flights between Yonago and Hong Kong begin service. Initiatives to realize the comprehensive regional strategies formulated by each municipality are also expected to assist regional economic revitalization.

## Performance Review

The following is an overview of the Bank's performance in fiscal 2015 on a consolidated basis. Loans and bills discounted increased by ¥17,779 million to ¥721,545 million from the previous fiscal year-end, primarily due to an increase in lending to the public sector as well as a steady increase in lending to individuals. The balance of securities came in at ¥153,161 million, down ¥32,126 million from the previous fiscal year-end. This was

mainly due to decreases in Japanese government bonds, corporate bonds, foreign securities and other securities, despite an increase in local government bonds. Deposits increased ¥22,206 million to ¥908,441 million from the previous fiscal year-end, mainly as a result of increases in individual deposits and public-sector deposits, which were partly offset by a decrease in corporate deposits.

On the earnings front, ordinary income decreased ¥377 million year on year to ¥16,937 million. This was mainly due to a decrease in interest income reflecting declines in interest on loans and discounts and interest on securities, which were partly offset by an increase in other operating income due to an increase in gains from the sale of Japanese government bonds and other bonds. Ordinary expenses decreased by ¥369 million year on year to ¥13,578 million, primarily due to a decline in credit-related costs, as well as a drop in general and administrative expenses mainly reflecting declines in property costs and retirement benefit expenses. As a result, ordinary profit decreased ¥8 million year on year to ¥3,359 million. Net income attributable to owners of the parent declined ¥140 million to ¥1,997 million, mainly due to the absence of extraordinary income related to the transition of retirement benefit plans recorded in the previous fiscal year.

## Outlook

In terms of consolidated performance forecasts for fiscal 2016, the Bank expects to record ordinary profit of ¥2,000 million and net income attributable to owners of the parent of ¥1,300 million. These forecasts reflect a projected decrease in interest income based on a decline in market interest rates in connection with the introduction of "QQE with a Negative Interest Rate" by the Bank of Japan, and a temporary increase in expenses accompanying the relocation and rebuilding of a core branch. These factors should be partly offset by efforts to increase lending and augment fees and commissions by continuing to boost the Bank's market share in the region.

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### Note:

The Japanese yen amounts are rounded down to the nearest million yen. Solely for the convenience of the reader, US dollar amounts represent a translation of Japanese yen at ¥112.68 to US\$1.00, the exchange rate prevailing on March 31, 2016.

**CONSOLIDATED BALANCE SHEETS**

March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Assets</b>			
Cash and due from banks	¥ 87,884	¥ 54,883	\$ 779,943
Securities	153,161	185,287	1,359,256
Loans and bills discounted	721,545	703,766	6,403,488
Foreign exchange	477	366	4,233
Beneficiary rights on subordinated equity securities	9,740	10,021	86,439
Other assets	3,161	3,163	28,053
Tangible fixed assets	11,161	10,836	99,050
Intangible fixed assets	1,230	1,926	10,916
Net defined benefit asset	5,514	5,490	48,935
Customers' liabilities for acceptances and guarantees	3,374	3,586	29,943
Reserve for possible loan losses	(3,012)	(4,345)	(26,731)
Reserve for possible losses on investment securities	(14)	(14)	(124)
Total assets	¥994,225	¥974,969	\$8,823,438
<b>Liabilities</b>			
Deposits	¥908,441	¥886,235	\$8,062,132
Negotiable certificates of deposit	—	2,000	—
Call money and bills sold	57	61	506
Borrowed money	14,928	15,528	132,481
Foreign exchange	5	0	44
Bonds	5,000	5,000	44,373
Other liabilities	7,993	8,634	70,935
Reserve for bonuses	485	488	4,304
Net defined benefit liability	1,654	1,609	14,679
Reserve for contingent losses	245	229	2,174
Reserve for reimbursement of dormant deposits	52	62	461
Reserve for sales promotion	16	14	142
Deferred tax liabilities	59	165	524
Deferred tax liabilities for land revaluation	631	664	5,600
Acceptance and guarantees	3,374	3,586	29,943
Total liabilities	942,946	924,282	8,368,353
<b>Net assets</b>			
Common stock	9,061	9,061	80,414
Capital surplus	6,452	6,452	57,259
Retained earnings	28,485	27,049	252,796
Treasury stock	(670)	(669)	(5,946)
Total shareholders' equity	43,329	41,895	384,531
Valuation difference on available-for-sale securities	4,966	5,476	44,072
Deferred gains or losses on hedges	(0)	0	(0)
Revaluation reserve for land	1,058	1,025	9,389
Remeasurements of defined benefit plans	1,845	2,205	16,374
Total accumulated other comprehensive income	7,871	8,707	69,853
Non-controlling interests	78	84	692
Total net assets	51,279	50,687	455,085
Total liabilities and net assets	¥994,225	¥974,969	\$8,823,438

**CONSOLIDATED STATEMENTS OF INCOME**

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Income</b>			
Interest on:			
Loans and discounts	<b>¥10,346</b>	¥10,591	<b>\$ 91,818</b>
Securities	<b>2,592</b>	3,138	<b>23,003</b>
Others	<b>196</b>	187	<b>1,739</b>
Fees and commissions	<b>2,701</b>	2,713	<b>23,971</b>
Other operating income	<b>484</b>	148	<b>4,295</b>
Other income	<b>615</b>	536	<b>5,458</b>
Total income	<b>16,937</b>	17,314	<b>150,311</b>
<b>Expenses</b>			
Interest on:			
Deposits	<b>745</b>	750	<b>6,612</b>
Borrowings and rediscounts	<b>66</b>	101	<b>586</b>
Others	<b>333</b>	343	<b>2,955</b>
Fees and commissions	<b>1,435</b>	1,393	<b>12,735</b>
Other operating expenses	<b>129</b>	132	<b>1,145</b>
General and administrative expenses	<b>10,709</b>	10,983	<b>95,039</b>
Other expenses	<b>158</b>	240	<b>1,402</b>
Total expenses	<b>13,578</b>	13,947	<b>120,501</b>
Extraordinary income	—	382	—
Extraordinary losses	<b>73</b>	33	<b>648</b>
<b>Income before income taxes</b>	<b>3,285</b>	3,716	<b>29,153</b>
<b>Income taxes</b>			
Current	<b>739</b>	864	<b>6,558</b>
Deferred	<b>554</b>	717	<b>4,917</b>
Total income taxes	<b>1,293</b>	1,581	<b>11,475</b>
<b>Net income</b>	<b>1,992</b>	2,134	<b>17,678</b>
<b>Net loss attributable to non-controlling interests</b>	<b>(5)</b>	(2)	<b>(44)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 1,997</b>	¥ 2,137	<b>\$ 17,723</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Net income</b>	<b>¥1,992</b>	¥2,134	<b>\$17,678</b>
Other comprehensive income:			
Valuation difference on available-for-sale securities	<b>(836)</b>	5,329	<b>(7,419)</b>
Deferred gains or losses on hedges	<b>(552)</b>	4,254	<b>(4,899)</b>
Revaluation reserve for land	<b>(0)</b>	0	<b>(0)</b>
Remeasurements of defined benefit plans	<b>33</b>	68	<b>293</b>
Share of other comprehensive income of associates accounted for using equity method	<b>(360)</b>	1,001	<b>(3,195)</b>
	<b>42</b>	5	<b>373</b>
<b>Comprehensive income</b>	<b>¥1,155</b>	¥7,464	<b>\$10,250</b>
Comprehensive income attributable to owners of the parent	<b>¥1,160</b>	¥7,466	<b>\$10,295</b>
Comprehensive loss attributable to non-controlling interests	<b>(5)</b>	(2)	<b>(44)</b>

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2016 and 2015

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
<b>Balance as of April 1, 2014</b>	¥9,061	¥6,452	¥25,545	¥(525)	¥40,533	¥1,216	¥ 0	¥ 963	¥1,204	¥3,384	¥87	¥44,005
Cumulative effects of changes in accounting policies			(73)		(73)						(0)	(74)
Restated balance	9,061	6,452	25,471	(525)	40,459	1,216	0	963	1,204	3,384	86	43,931
Changes during the year:												
Cash dividends			(565)		(565)							(565)
Net income attributable to owners of the parent			2,137		2,137							2,137
Purchase of treasury stock				(143)	(143)							(143)
Disposal of treasury stock			(0)	0	0							0
Transfer from land revaluation reserve			6		6							6
Net changes in items other than shareholders' equity						4,259	0	62	1,001	5,322	(2)	5,320
Total changes during the year	—	—	1,578	(143)	1,435	4,259	0	62	1,001	5,322	(2)	6,755
<b>Balance as of March 31, 2015</b>	9,061	6,452	27,049	(669)	41,895	5,476	0	1,025	2,205	8,707	84	50,687
Changes during the year:												
Cash dividends			(562)		(562)							(562)
Net income attributable to owners of the parent			1,997		1,997							1,997
Purchase of treasury stock				(1)	(1)							(1)
Disposal of treasury stock			(0)	0	0							0
Net changes in items other than shareholders' equity						(509)	(0)	33	(360)	(836)	(5)	(842)
Total changes during the year	—	—	1,435	(1)	1,434	(509)	(0)	33	(360)	(836)	(5)	592
<b>Balance as of March 31, 2016</b>	<b>¥9,061</b>	<b>¥6,452</b>	<b>¥28,485</b>	<b>¥(670)</b>	<b>¥43,329</b>	<b>¥4,966</b>	<b>¥(0)</b>	<b>¥1,058</b>	<b>¥1,845</b>	<b>¥7,871</b>	<b>¥78</b>	<b>¥51,279</b>

	Thousands of U.S. dollars											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
<b>Balance as of March 31, 2015</b>	\$80,414	\$57,259	\$240,051	\$(5,937)	\$371,805	\$48,598	\$0	\$9,097	\$19,569	\$77,272	\$745	\$449,831
Changes during the year:												
Cash dividends			(4,988)		(4,988)							(4,988)
Net income attributable to owners of the parent			17,723		17,723							17,723
Purchase of treasury stock				(9)	(9)							(9)
Disposal of treasury stock			(0)	0	0							0
Net changes in items other than shareholders' equity						(4,517)	0	293	(3,195)	(7,419)	(44)	(7,472)
Total changes during the year	—	—	12,735	(9)	12,726	(4,517)	0	293	(3,195)	(7,419)	(44)	5,254
<b>Balance as of March 31, 2016</b>	<b>\$80,414</b>	<b>\$57,259</b>	<b>\$252,796</b>	<b>\$(5,946)</b>	<b>\$384,531</b>	<b>\$44,072</b>	<b>\$0</b>	<b>\$9,389</b>	<b>\$16,374</b>	<b>\$69,853</b>	<b>\$692</b>	<b>\$455,085</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 3,285	¥ 3,716	\$ 29,153
Depreciation	1,345	1,368	11,936
Increase (decrease) in reserve for possible loan losses	(1,333)	(862)	(11,830)
Equity in earnings of affiliates	(3)	(50)	(27)
Increase (decrease) in reserve for possible losses on investment securities	0	1	0
Increase (decrease) in reserve for bonuses	(2)	(22)	(18)
Decrease (increase) in net defined benefit asset	(654)	(1,444)	(5,804)
Increase (decrease) in net defined benefit liability	81	65	719
Increase (decrease) in reserve for reimbursement of dormant deposits	(10)	27	(89)
Increase (decrease) in reserve for contingent losses	15	(20)	133
Interest income	(13,136)	(13,917)	(116,578)
Interest expenses	1,146	1,196	10,170
Losses (gains) on securities	131	(74)	1,163
Foreign exchange losses (gains)	1	(2)	9
Losses (gains) on disposal of fixed assets	57	14	506
Net decrease (increase) in loans and bills discounted	(17,778)	(29,695)	(157,774)
Net increase (decrease) in deposits	20,205	3,231	179,313
Net increase (decrease) in call money and others	(604)	2,432	(5,360)
Net decrease (increase) in foreign exchange, assets	(111)	95	(985)
Net increase (decrease) in foreign exchange, liabilities	4	0	35
Interest received	13,194	13,910	117,093
Interest paid	(1,167)	(1,228)	(10,357)
Other, net	(0)	589	(0)
Subtotal	4,665	(20,667)	41,400
Income taxes paid	(1,018)	(478)	(9,034)
Net cash provided by (used in) operating activities	3,646	(21,145)	32,357
<b>Cash flows from investing activities</b>			
Purchases of securities	(15,028)	(67,160)	(133,369)
Proceeds from sale of securities	14,147	61,890	125,550
Proceeds from maturity of securities	31,840	21,393	282,570
Purchases of tangible fixed assets	(925)	(426)	(8,209)
Purchases of other assets	(115)	(85)	(1,021)
Sales of other assets	—	0	—
Net cash provided by (used in) investing activities	29,919	15,610	265,522
<b>Cash flow from financing activities</b>			
Purchases of treasury stock	(1)	(143)	(9)
Proceeds from sale of treasury stock	0	0	0
Cash dividends paid	(562)	(565)	(4,988)
Net cash provided by (used in) financing activities	(564)	(708)	(5,005)
Effect of exchange rate changes on cash and cash equivalents	(1)	2	(9)
Net increase (decrease) in cash and cash equivalents	33,000	(6,241)	292,865
Cash and cash equivalents at beginning of year	54,883	61,125	487,070
Cash and cash equivalents at end of year	¥ 87,884	¥ 54,883	\$ 779,943



# CORPORATE DATA

## *Corporate Data* (as of March 31, 2016)

**Founded:** December 1921

**Head Office:**

171, Eirakuonsen-cho,  
Tottori 680-8686, Japan

**Paid-in Capital:**

¥9,061 million

**Total Assets:**

¥994,225 million

**Total Deposits:**

¥908,441 million

**Number of Branches:** 67

**Number of Employees:** 703

### *Major Shareholders*

	Thousands of shares	Percentage of total shares
Japan Trustee Services Bank, Ltd.	9,392	9.76
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,704	3.85
Meiji Yasuda Life Insurance Company	3,426	3.56
Sompo Japan Nipponkoa Insurance Inc.	3,051	3.17
The Tottori Bank Employees' Shareholding Association	2,448	2.54
The Chugoku Electric Power Co., Inc.	2,294	2.38
Mitsui Life Insurance Company Limited	1,681	1.74
Shinsei Bank, Limited	1,173	1.21
The Master Trust Bank of Japan, Ltd.	1,158	1.20
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,127	1.17

## *Board of Directors, Corporate Auditors and Executive Officers* (as of July 1, 2016)

### *Representative Director and Chairman*

Masahiko Miyazaki

### *Representative Director and President (Executive Officer)*

Kouji Hirai

### *Directors and Senior Managing Executive Officers*

Makoto Akiyama  
Hideo Adachi

### *Director and Managing Executive Officer*

Kazunori Yoshida

### *Directors*

Akiko Yamawaki \*  
Takeshi Ashizaki \*  
Kazuhiko Nishikawa \*

\* Outside Director

### *Corporate Auditors*

Yasuhiro Yoshida (standing)  
Kazumasa Kuboi \*  
Shiro Sawa \*  
Yukio Taniguchi

\* Outside Auditor

### *Managing Executive Officers*

Atsushi Teratani  
Keigo Yamagami  
Hironari Onozawa  
Tomohiro Fukuta

### *Executive Officers*

Mutsumi Morita  
Jun Nakano  
Hirohisa Katsui  
Itaru Irie  
Noriaki Satake

## *Service Network* (as of July 19, 2016)

### *Money Exchange Offices*

Head Office	Yonago Main Office	Okayama Branch
Tottori Ekinan Branch	Yonago Chuo Branch	Tsuyama Branch
Tottori Nishi Branch	Hatagasaki Branch	Hiroshima Branch
Koyama Branch	Sakaiminato Branch	Osaka Branch
Kurayoshi Branch	Matsue Branch	
Kurayoshi Chuo Branch	Izumo Branch	



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