

TOTTORI BANK REPORT **2017**
ANNUAL REPORT

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REVIEW OF OPERATIONS

Operating Environment

Looking at the Japanese economy in fiscal 2016, the economic recovery showed signs of a lull in the first half, due to falling stock prices and the yen's appreciation, against the backdrop of the slowdown of emerging economies and the U.K.'s decision to withdraw from the European Union. Thereafter, business conditions generally followed a gradual recovery path, mainly owing to sustained improvement in the income environment reflecting labor shortages, in addition to signs of a rebound in corporate exports and production activity. These trends were helped by a shift to the yen's depreciation and rising stock prices based on heightened expectations for the new U.S. administration. Going forward, economic stimulus measures by the government of Japan and an improving income environment are expected to support business conditions. Meanwhile, considering the rising geopolitical risk on the Korean peninsula, in the Middle East region and elsewhere, international developments will need to be watched closely.

In the financial sector, Japan saw the continuation of a low interest rate environment. This mainly reflected the fact that the Bank of Japan adopted a negative interest rate policy in February 2016, and subsequently revised its policy by adopting a framework for undertaking market operations so that long-term interest rates remain at around 0%.

Turning to the economy of Tottori Prefecture, corporate earnings trended firmly, and public works projects and housing investment increased from the previous fiscal year. In addition, there were continued signs of a rebound in production activity and steady improvement in employment conditions. In this environment, the tourism industry, agriculture and certain other sectors were negatively impacted by events such as the 2016 Central Tottori Earthquake and heavy snowfall at the beginning of 2017. However, the region has been making steady strides toward recovery owing to generous public assistance provided by the government of Japan and local municipalities for earthquake recovery.

Performance Review

The following is an overview of the Bank's performance in fiscal 2016 on a consolidated basis. Loans and bills discounted increased by ¥16,888 million to ¥738,433 million from the previous fiscal year-end, partly due to

an increase in commercial lending as well as a steady increase in lending to individuals. The balance of securities came in at ¥166,954 million, up ¥13,793 million from the previous fiscal year-end. This was mainly due to increases in local government bonds and other securities, despite decreases in Japanese government bonds and corporate bonds. Deposits increased ¥18,442 million to ¥926,883 million from the previous fiscal year-end, mainly as a result of increases in individual deposits and corporate deposits, which were partly offset by decreases in public-sector deposits and financial-sector deposits.

On the earnings front, ordinary income decreased ¥745 million to ¥16,192 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 mainly due to an increase in gains from the sale of Japanese government bonds and other bonds. Ordinary expenses increased ¥664 million to ¥14,242 million, primarily due to an increase in credit-related costs, as well as an increase in general and administrative expenses mainly reflecting a rise in retirement benefit expenses. As a result, ordinary profit decreased ¥1,409 million to ¥1,950 million. Net income attributable to owners of the parent declined ¥689 million to ¥1,308 million.

Outlook

In terms of consolidated performance forecasts for fiscal 2017, the Bank expects to record ordinary profit of around ¥1,500 million and net income attributable to owners of the parent of around ¥1,000 million on both a consolidated and non-consolidated basis. These forecasts reflect expectations for the prevailing ultra-low interest rate environment to persist due to the continuation of the negative interest rate policy of the Bank of Japan. This impact should be partly offset by the Bank's continuing efforts to increase lending and augment fees and commissions by boosting its market share in the region.

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 ¥112.19 to US\$1.00, the exchange rate prevailing on March 31, 2017.

CONSOLIDATED BALANCE SHEETS

March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets			
Cash and due from banks	¥ 64,547	¥ 87,884	\$ 575,336
Securities	166,954	153,161	1,488,136
Loans and bills discounted	738,433	721,545	6,581,986
Foreign exchange	426	477	3,797
Beneficiary rights on subordinated equity securities	9,458	9,740	84,303
Other assets	5,503	3,161	49,051
Tangible fixed assets	11,776	11,161	104,965
Intangible fixed assets	619	1,230	5,517
Net defined benefit asset	6,264	5,514	55,834
Deferred tax assets	1,166	—	10,393
Customers' liabilities for acceptances and guarantees	7,287	3,374	64,952
Reserve for possible loan losses	(2,935)	(3,012)	(26,161)
Reserve for possible losses on investment securities	(14)	(14)	(125)
Total assets	¥1,009,490	¥994,225	\$8,998,039
Liabilities			
Deposits	¥ 926,883	¥908,441	\$8,261,726
Call money and bills sold	58	57	517
Borrowed money	14,000	14,928	124,788
Foreign exchange	—	5	—
Bonds	—	5,000	—
Other liabilities	8,200	7,993	73,090
Reserve for bonuses	473	485	4,216
Net defined benefit liability	1,716	1,654	15,295
Reserve for contingent losses	293	245	2,612
Reserve for reimbursement of dormant deposits	45	52	401
Reserve for sales promotion	20	16	178
Deferred tax liabilities	—	59	—
Deferred tax liabilities for land revaluation	631	631	5,624
Acceptance and guarantees	7,287	3,374	64,952
Total liabilities	959,610	942,946	8,553,436
Net assets			
Common stock	9,061	9,061	80,765
Capital surplus	6,452	6,452	57,510
Retained earnings	29,231	28,485	260,549
Treasury stock	(672)	(670)	(5,990)
Total shareholders' equity	44,073	43,329	392,842
Valuation difference on available-for-sale securities	2,586	4,966	23,050
Deferred gains or losses on hedges	(0)	(0)	(0)
Revaluation reserve for land	1,058	1,058	9,430
Remeasurements of defined benefit plans	2,078	1,845	18,522
Total accumulated other comprehensive income	5,724	7,871	51,021
Non-controlling interests	82	78	731
Total net assets	49,879	51,279	444,594
Total liabilities and net assets	¥1,009,490	¥994,225	\$8,998,039

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income			
Interest on:			
Loans and discounts	¥ 9,655	¥10,346	\$ 86,059
Securities	2,260	2,592	20,144
Others	197	196	1,756
Fees and commissions	2,782	2,701	24,797
Other operating income	897	484	7,995
Other income	398	615	3,548
Total income	16,192	16,937	144,327
Expenses			
Interest on:			
Deposits	647	745	5,767
Borrowings and rediscounts	52	66	463
Others	297	333	2,647
Fees and commissions	1,467	1,435	13,076
Other operating expenses	189	129	1,685
General and administrative expenses	11,056	10,709	98,547
Other expenses	529	158	4,715
Total expenses	14,242	13,578	126,945
Extraordinary losses	9	73	80
Income before income taxes	1,941	3,285	17,301
Income taxes			
Current	912	739	8,129
Deferred	(283)	554	(2,523)
Total income taxes	629	1,293	5,607
Income before minority interests	1,311	1,992	11,686
Net income (loss) attributable to non-controlling interests	3	(5)	27
Net income attributable to owners of the parent	¥ 1,308	¥ 1,997	\$ 11,659

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income before minority interests	¥ 1,311	¥1,992	\$ 11,686
Other comprehensive income	(2,146)	(836)	(19,128)
Valuation difference on available-for-sale securities	(2,385)	(552)	(21,259)
Deferred gains or losses on hedges	(0)	(0)	(0)
Revaluation reserve for land	—	33	—
Remeasurements of defined benefit plans	233	(360)	2,077
Share of other comprehensive income of associates accounted for using equity method	5	42	45
Comprehensive income	¥ (835)	¥1,155	\$ (7,443)
Comprehensive income attributable to owners of the parent	¥ (838)	¥1,160	\$ (7,469)
Comprehensive income attributable to non-controlling interests	3	(5)	27

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2017 and 2016

	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
Balance as of April 1, 2015	¥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
Balance as of March 31, 2016	9,061	6,452	28,485	(670)	43,329	4,966	(0)	1,058	1,845	7,871	78	51,279
Changes during the year:												
Cash dividends			(561)		(561)							(561)
Net income attributable to owners of the parent			1,308		1,308							1,308
Purchase of treasury stock				(2)	(2)							(2)
Disposal of treasury stock			(0)	0	0							0
Net changes in items other than shareholders' equity						(2,380)	(0)	—	233	(2,146)	3	(2,143)
Total changes during the year	—	—	746	(2)	743	(2,380)	(0)	—	233	(2,146)	3	(1,399)
Balance as of March 31, 2017	¥9,061	¥6,452	¥29,231	¥(672)	¥44,073	¥ 2,586	¥(0)	¥1,058	¥2,078	¥ 5,724	¥82	¥49,879

	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
Balance as of March 31, 2016	\$80,765	\$57,510	\$253,900	\$(5,972)	\$386,211	\$ 44,264	\$(0)	\$9,430	\$16,445	\$ 70,158	\$695	\$457,073
Changes during the year:												
Cash dividends			(5,000)		(5,000)							(5,000)
Net income attributable to owners of the parent			11,659		11,659							11,659
Purchase of treasury stock				(18)	(18)							(18)
Disposal of treasury stock			(0)	0	0							0
Net changes in items other than shareholders' equity						(21,214)	(0)	—	2,077	(19,128)	27	(19,102)
Total changes during the year	—	—	6,649	(18)	6,623	(21,214)	(0)	—	2,077	(19,128)	27	(12,470)
Balance as of March 31, 2017	\$80,765	\$57,510	\$260,549	\$(5,990)	\$392,842	\$ 23,050	\$(0)	\$9,430	\$18,522	\$ 51,021	\$731	\$444,594

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash flows from operating activities			
Income before income taxes	¥ 1,941	¥ 3,285	\$ 17,301
Depreciation	1,347	1,345	12,006
Increase (decrease) in reserve for possible loan losses	(77)	(1,333)	(686)
Equity in earnings of affiliates	(8)	(3)	(71)
Increase (decrease) in reserve for possible losses on investment securities	(0)	0	(0)
Increase (decrease) in reserve for bonuses	(12)	(2)	(107)
Decrease (increase) in net defined benefit asset	(433)	(654)	(3,860)
Increase (decrease) in net defined benefit liability	81	81	722
Increase (decrease) in reserve for reimbursement of dormant deposits	(7)	(10)	(62)
Increase (decrease) in reserve for contingent losses	48	15	428
Interest income	(12,113)	(13,136)	(107,969)
Interest expenses	998	1,146	8,896
Losses (gains) on securities	(378)	131	(3,369)
Foreign exchange losses (gains)	0	1	0
Losses (gains) on disposal of fixed assets	5	57	45
Net decrease (increase) in loans and bills discounted	(16,888)	(17,778)	(150,530)
Net increase (decrease) in deposits	18,441	20,205	164,373
Net increase (decrease) in call money and others	(927)	(604)	(8,263)
Net decrease (increase) in foreign exchange, assets	51	(111)	455
Net increase (decrease) in foreign exchange, liabilities	(5)	4	(45)
Interest received	12,203	13,194	108,771
Interest paid	(1,084)	(1,167)	(9,662)
Other, net	(2,115)	(0)	(18,852)
Subtotal	1,066	4,665	9,502
Income taxes paid	(648)	(1,018)	(5,776)
Net cash provided by (used in) operating activities	418	3,646	3,726
Cash flows from investing activities			
Purchases of securities	(60,965)	(15,028)	(543,409)
Proceeds from sale of securities	15,097	14,147	134,566
Proceeds from maturity of securities	29,035	31,840	258,802
Purchases of tangible fixed assets	(1,232)	(925)	(10,981)
Proceeds from sales of property, plant and equipment	0	—	0
Purchases of other assets	(127)	(115)	(1,132)
Net cash provided by (used in) investing activities	(18,191)	29,919	(162,145)
Cash flows from financing activities			
Redemption of subordinated bonds	(5,000)	—	(44,567)
Purchases of treasury stock	(2)	(1)	(18)
Proceeds from sale of treasury stock	0	0	0
Cash dividends paid	(561)	(562)	(5,000)
Net cash provided by (used in) financing activities	(5,563)	(564)	(49,586)
Effect of exchange rate changes on cash and cash equivalents	(0)	(1)	(0)
Net increase (decrease) in cash and cash equivalents	(23,336)	33,000	(208,004)
Cash and cash equivalents at beginning of year	87,884	54,883	783,350
Cash and cash equivalents at end of year	¥ 64,547	¥ 87,884	\$ 575,336

CORPORATE DATA

Corporate Data (as of March 31, 2017)

Founded: December 1921

Head Office:

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

Paid-in Capital:

¥9,061 million

Total Assets:

¥1,009,490 million

Total Deposits:

¥926,883 million

Number of Branches: 66

Number of Employees: 719

Major Shareholders

	Thousands of shares	Percentage of total shares
Japan Trustee Services Bank, Ltd.	973	10.12
Meiji Yasuda Life Insurance Company	342	3.56
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	333	3.46
Sompo Japan Nipponkoa Insurance Inc.	305	3.17
The Tottori Bank Employees' Shareholding Association	249	2.59
The Chugoku Electric Power Co.,Inc.	229	2.38
Mitsui Life Insurance Company Limited	168	1.74
The Master Trust Bank of Japan, Ltd.	143	1.48
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citi bank, N.A.)	111	1.15
Tokio Marine & Nichido Fire Insurance Co., Ltd.	109	1.14

Note: The Bank conducted a 10-to-1 share consolidation of its common stock on October 1, 2016.

Board of Directors, Corporate Auditors and Executive Officers (as of July 1, 2017)

**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 *

Keiichi Takahashi *

Yukio Taniguchi

* Outside Auditor

Managing Executive Officers

Atsushi Teratani

Keigo Yamagami

Hironari Onozawa

Tomohiro Fukuta

Executive Officers

Jun Nakano

Hirohisa Katsui

Itaru Irie

Noriaki Satake

Masayuki Morita

Service Network (as of July 19, 2017)

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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