



# THE SHIMIZU BANK,LTD.

Annual Report 2017

## Profile

The Shimizu Bank, Ltd. was established in 1928 with the merger of six banks and has always been a valuable partner of the local community. The Bank has its headquarters in Shizuoka City, which has the Shimizu Port, the largest in the prefecture. Shimizu Port, located halfway between Tokyo and Osaka, plays a significant role in international trade and economic development. We will provide customers with a wide range of financial services, seek further business expansion as a customer-friendly bank and contribute to the development of the local community.



### Bank Data

As of March 31, 2017

Head Office 2-1 Fujimicho, Shimizu-ku, Shizuoka-shi,  
Shizuoka 424-0941 Japan

Date of Incorporation: July 1, 1928  
Paid-up Capital: ¥8,670,500,000  
Number of Branches: 78  
Number of Sub-branches: 1  
Number of Employees: 951  
Consolidated Capital Adequacy Ratio  
(based on domestic standards): 10.60%  
Non-Consolidated Capital Adequacy Ratio  
(based on domestic standards): 10.30%



### Consolidated Subsidiaries

As of June 30, 2017

Name of Company	Capital (Millions of Yen)	Ratio of Voting Right	Ratio of Voting Right [ Other Group Companies ]	Established	Line of Business
The Shimizu Business Service Co., Ltd.	10	100.00%	–	December 10, 1981	Calculating cash
The Shimizugin Career Up Co., Ltd.	30	100.00%	–	October 22, 1990	Delegation of personnel
The Shimizu General Maintenance Co., Ltd.	30	100.00%	–	December 24, 1991	Management of real estate
The Shimizu Regional Economy Research Center, INC	12	100.00%	–	October 28, 1965	Financial and economic research services, Training
The Shimizu Credit Guarantee Co., Ltd.	50	100.00%	–	November 1, 1978	Credit guaranteeing
The Shimizu Lease and Card Co., Ltd.	60	15.13%	48.32%	April 14, 1999	Leasing, Credit card
The Shimizu General Computer Service Co., Ltd.	30	5.00%	50.00%	July 1, 1989	Calculation operations

# Message

We want to thank all of our customers for your continued patronage at the Shimizu Bank and our group partners. We have put together a packet of Disclosure Materials the 2017 fiscal year to share the financial highlights and our efforts of the 2016 fiscal year. We invite you to read these materials to further your understanding of the Shimizu Bank and our group partners.

During the fiscal year under review, the Japanese economy continued to show a moderate recovery trend in general as consumer spending remained solid thanks to an increasingly better job and income climate and capital spending rebounded on the back of robust corporate earnings. Meanwhile, effects from a labor shortage came about mainly in non-manufacturing industries, which faced the challenge of securing a sufficient workforce. The outlook on foreign economies remained highly uncertain due to the UK's decision to leave the European Union and the inception of the new U.S. administration.

The economy of Shizuoka Prefecture, on which our bank is mainly founded, also continued to show a moderate recovery trend during the year. This took place amid rising capital investment conducted mainly by large and medium-sized manufacturing corporations for the purpose of improving productivity and research and development. Exports stopped declining for the year, supported by a global economic recovery as evidenced by strong exports to China and growing Europe-bound exports of chiefly cars and motorcycles. Consumer spending rebounded moderately as sales of foods and consumer electronics goods were solid amid improving employment and income conditions.

This was the context in which we strove to bolster marketing through improving financial intermediary functionality toward demonstrating the significance of our existence. This is a goal set under the 26th medium-term business plan "Advance As One – Toward the realization of sustainable growth together with our community and customers."

The Bank launched initiatives for corporate customers in the fiscal year under review. These included a customer-oriented strategy-based reinforcement of corporate sales as well as Shimizu Business Loan, Shimizu Regional Revitalization Loan, Shimizu Trade Receivables-Backed Loan and Shimizu Regional Revitalization Private Placement Bond, a set of products intended to offer a greater variety of financing vehicles.

Our initiatives for individual customers during the year consisted of a market-oriented strategy-based reinforcement of individual customer sales as well as the inception in April 2016 of the Shimizu Minato Internet Branch, the Bank's inaugural online branch, which was aimed to broaden our customer interface in the non-face-to-face channel. Moreover, we began to deliver products comprising Shimizu PIA Card Loan and SHIMIZU With Card, a credit card-cum-cash card equipped with Ponta loyalty points function. In March 2017, the Bank entered into alliance with SBI Securities Co., Ltd. on a financial product intermediary service, thus enhancing products and services for individual customers.

As for branches, we relocated the Yui Branch to a newly constructed building in March 2017. This branch was equipped with a spacious lobby, parking lot of a sufficient size and fully automatic safe-deposit box in operation on holidays, among other customer convenience features offered. The interior was made with materials from Japanese cypress trees logged on forest land owned by the Bank in the city of Shizuoka. Fitted with an evacuation staircase and stockpile warehouse, it became Shimizu Bank's first-ever building to be awarded the tsunami evacuation building certification by the Shizuoka City Government, showing that the branch is one cherishing the bond with the local community.

In July 2016, five regional banks comprising Shimizu Bank, Shikoku Bank, Tsukuba Bank, Hokuto Bank and the Bank of Toyama launched a wide-area cooperation scheme. This involved conducting a farm product test marketing program in Malaysia as the inaugural cooperation step. The purpose is to actively disseminate information to overseas on attractive product offerings from different areas. Many Shizuoka-based companies, mainly manufacturers, have expanded into foreign countries. In an effort to provide greater local assistance to customers already serving foreign countries and those aiming to do so in future, the Bank launched in July 2017 the Bangkok Representative Office as its first-ever overseas outpost. In addition to the Japan-based assistance service delivered to date, the Bank will expand corporate transactions in Japan and provide solutions for Japanese-owned local subsidiaries in an increasingly active manner through utilizing the representative office's network and information delivery.

Through the above-mentioned endeavors, we will deliver service solutions meeting customer needs while striving to raise governance toward a higher enterprise value with a constant eye on compliance.

In an effort to keep growing hand in hand with local communities and customers in future, all Shimizu Bank Group personnel will work as one team to demonstrate the significance of our existence. Your continued help and support would be greatly appreciated.

July 2017



*K. Toyoshima*

Katsuichiro Toyoshima  
President

## ADVANCE AS ONE

**Toward the realization of sustainable growth together  
with our community and customers**

- Amid the many changes taking place around us, we will achieve our vision of demonstrate the significance of our existence and remain a bank that is needed by the community, by honing our close relationships with the community and our customers and bringing all members of the Shimizu Bank Group together to Advance As One.
- This 26th medium-term business plan covers an important four-year period ahead of the 90th and 100th anniversaries of our foundation, during which time we will implement priority measures based on our basic policies of "improving financial intermediary functionality," "increasing productivity," "securing our business base," and "creating more dynamic human resources" in order to realize a benevolent cycle toward a future that gives each and every employee a sense of satisfaction.

Vision	Demonstrate the significance of our existence			
Period of plan	April 1, 2016 to March 31, 2020 (4 years)			
Basic policies	Improving financial intermediary functionality	Increasing productivity	Securing our business base	Creating more dynamic human resources
Target figures	① Core operational net profit ¥ <b>4</b> billion or more ② Core OHR <b>70%</b> level Cost as a proportion of core operational gross profit			
	③ Total loans to small to medium-sized companies ¥ <b>880</b> billion or more ④ Total personal deposits ¥ <b>1</b> trillion or more			





## Reinforce assistance for overseas expansion

In July 2017, the Bank opened the Bangkok Representative Office in Bangkok, Thailand as our first-ever overseas outpost.

Many companies in Shizuoka, mainly manufacturers, have expanded into foreign countries, continuing to set up shop in South East Asian nations, in particular, with over 70 customers of ours serving Thailand.

To date, the Bank has been upgrading its assistance in Japan for overseas expansion by allying with foreign financial institutions, providing co-financing with the Japan Bank for International Cooperation (JBIC) and increasing solution officers at the headquarters.

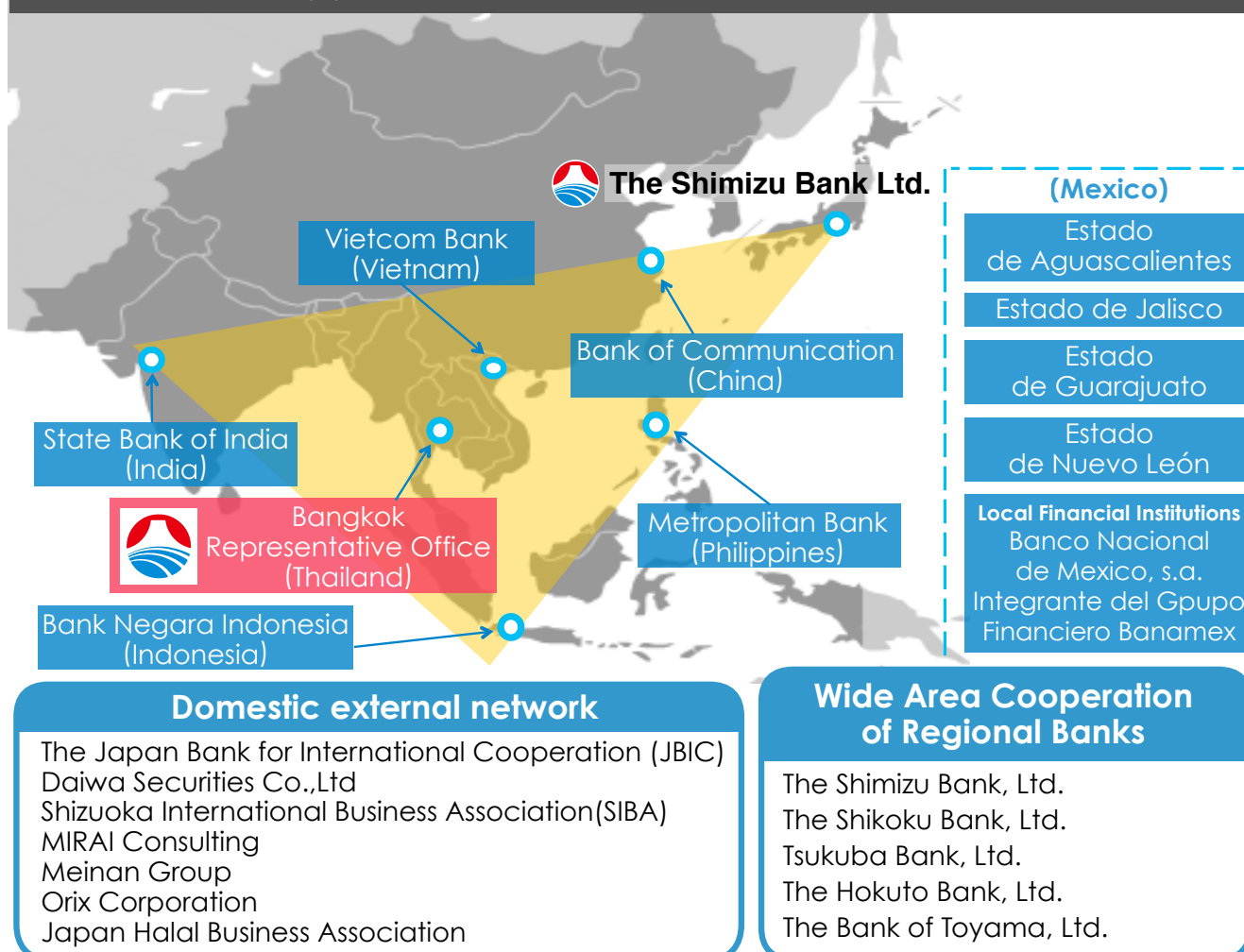
To locally assist customers already operating overseas and those aiming to expand into a foreign country, the Bangkok Representative Office will make greater support efforts. It will do this in the form of delivering information on economic conditions in Thailand, providing an accompaniment service for local inspections, introducing external institutions and giving a customer-matching service.

### Profile of the Bangkok Representative Office

<b>Name</b>	The Shimizu Bank, Ltd. Bangkok Representative Office
<b>Date of opening</b>	July 3, 2017
<b>Staff</b>	2 persons (comprising 1 banker posted from Japan and 1 local staff member)
<b>Principal business activities</b>	(1) Support service for overseas expansion and trading transactions by Japan-based customers (2) Gathering and dissemination of information on economic developments, market trends and investment climate (3) Bolstering of relations with partners such as local financial institutions



### Network of support for overseas business







## Mt. Fuji and The Shimizu Bank

Mt. Fuji is the highest mountain in Japan, located on the border of Shizuoka prefecture, and is widely known as a symbol of Japan, at home and abroad, for its elegant appearance.

We have published a calendar about Mt. Fuji every year since 1969 and have been using a corporate logo since 1974 whose design includes images of Mt. Fuji and Gulf of Suruga.

In June of 2013, Mt. Fuji was registered as a World Heritage Site.

In line with the growing recognition of Mt. Fuji across the world, we intend to further strengthen "demonstrate the significance of our existence" for individual customers.



# Summary of Business

## Consolidated Results

Ordinary revenue decreased year-on-year by JPY779 million to JPY28.760 billion due to factors such as reduced investment revenue. Meanwhile, ordinary expenses increased over the same period by JPY261 million to JPY24.811 billion because of increased expenses for other services and so on.

The result of this was a JPY1.04 billion year-on-year decline in ordinary profit to JPY3.948 billion.

Deposits increased by JPY19.7 billion year-on-year to JPY1,369.1 billion as a result of trying to improve our community-linked business base.

Personal deposit assets rose JPY21.9 billion over the same period to JPY1,099.2 billion resulting from increases in personal deposits and personal pension insurance as we met increasingly more diverse customer needs.

Loans increased JPY2.5 billion over the previous year to JPY1,067.7 billion as a result of our aggressively responding to customers' funding needs as a regional bank.

Securities fell JPY200 million year-on-year to JPY253.7 billion due to our agile management and focus on market trends.

(Millions of Yen)

Consolidated Five-years Summary	2013	2014	2015	2016	2017
Ordinary Income	¥29,636	¥30,265	¥29,070	¥29,539	<b>¥28,760</b>
Ordinary Profit	3,518	3,660	4,615	4,989	<b>3,948</b>
Profit Attributable to Owners of Parent	2,430	2,077	3,400	3,299	<b>2,978</b>
Comprehensive Income	5,868	668	7,463	372	<b>1,684</b>
Total Net Assets	74,432	74,250	80,717	80,528	<b>81,659</b>
Total Assets	1,488,023	1,494,830	1,591,910	1,483,918	<b>1,590,062</b>
Net Assets per Share in Yen	7,571.05	7,552.19	8,329.77	8,302.98	<b>8,408.00</b>
Net Income per Share in Yen	254.72	217.78	356.45	345.92	<b>312.29</b>
Consolidated Capital Adequacy Ratio (based on domestic standards)	10.51%	11.93%	10.82%	10.75%	<b>10.60%</b>
Number of Employees	1,106	1,109	1,103	1,071	<b>1,044</b>

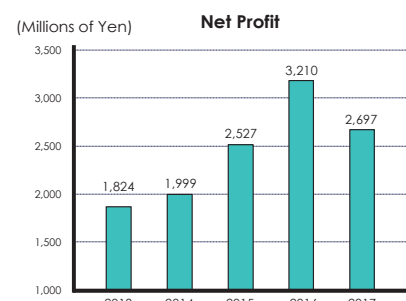
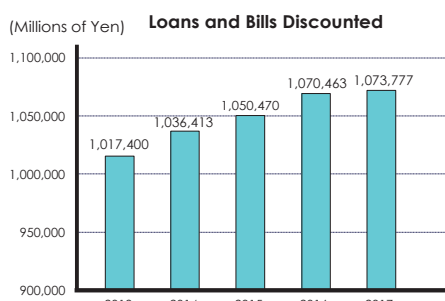
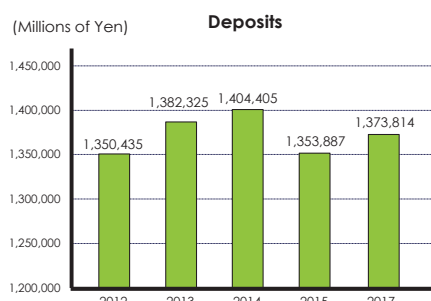
## Non-Consolidated Results

Ordinary revenue declined JPY1.017 billion from the same period a year before to JPY23.632 billion due to a decrease in investment revenue and other factors. Ordinary expenses rose over the same period by JPY172 million to JPY20.160 billion because of increasing expenses for other services and so on.

The result of this was a JPY1.190 billion year-on-year decrease in ordinary profit to JPY3.472 billion, and a JPY513 million decrease in net profit over the same period to JPY2.697 billion.

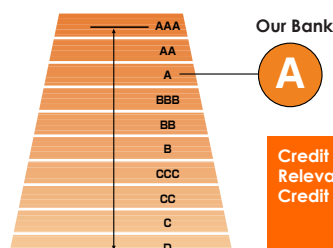
(Millions of Yen)

Non-Consolidated Five-years Summary	2013	2014	2015	2016	2017
Ordinary Income	¥24,905	¥25,520	¥24,459	¥24,650	<b>¥23,632</b>
Ordinary Profit	3,238	3,505	4,464	4,662	<b>3,472</b>
Net Profit	1,824	1,999	2,527	3,210	<b>2,697</b>
Capital Stock	8,670	8,670	8,670	8,670	<b>8,670</b>
Number of Shares Issued in Thousand Yen	9,600	9,600	9,600	9,600	<b>9,600</b>
Total Net Assets	71,060	70,974	77,161	77,857	<b>78,289</b>
Total Assets	1,482,692	1,487,974	1,584,920	1,477,336	<b>1,581,427</b>
Deposits	1,350,435	1,382,325	1,404,405	1,353,887	<b>1,373,814</b>
Loans and Bills Discounted	1,017,400	1,036,413	1,050,470	1,070,463	<b>1,073,777</b>
Securities	285,174	301,501	318,442	254,296	<b>253,973</b>
Net Assets Per Share in Yen	7,448.37	7,440.33	8,089.85	8,161.97	<b>8,205.68</b>
Dividends per Share in Yen	60	60	60	60	<b>60</b>
Dividends per Share at mid-term in Yen	30	30	30	30	<b>30</b>
Net Income per Share in Yen	191.24	209.55	264.99	336.65	<b>282.87</b>
Dividends Payment ratio	31.37%	28.63%	22.64%	17.82%	<b>21.21%</b>
Non-Consolidated Capital Adequacy Ratio (based on domestic standards)	10.10%	11.57%	10.49%	10.43%	<b>10.30%</b>
Number of Employees	1,007	1,002	999	974	<b>951</b>



## Credit Rating

Credit rating is assigned to debts as follows: Concerning the relevant debt, a credit rating agency, which is a fair and disinterested third party, rates the certainty of payment of its principals and interest on a contractual basis, and such rating is represented using a simple code.



Credit Rating : A  
Relevant Debt : long-term Preferred Debt  
Credit Rating Agency :  
Japan Credit Rating Agency, Ltd.  
(As of March, 2017)



# Corporate Governance Structure

## Fundamental approach to corporate governance

At a time when companies are required to enhance corporate governance, the Shimizu Bank believes its mission is to perform business management fairly through delivering increased transparency to shareholders and customers.

To this end, it is necessary for us to bolster the functions of the Board of Directors, realize swift decision-making and develop a framework to strictly monitor the business management execution.

### 1) Outline of our corporate governance system

The Shimizu Bank, using the corporate auditor system, has in place the Board of Auditors comprising four Corporate Auditors (including two Outside Corporate Auditors). The Board of Auditors appropriately audits the business execution by Directors and provides an enhanced function to check our business administration.

The Board of Directors, being composed of 11 Directors including three Outside Directors (part-time), determines significant operational strategies in light of our business philosophy. We elected Outside Directors in order to fully utilize the function for external professionals to supervise business execution by Directors.

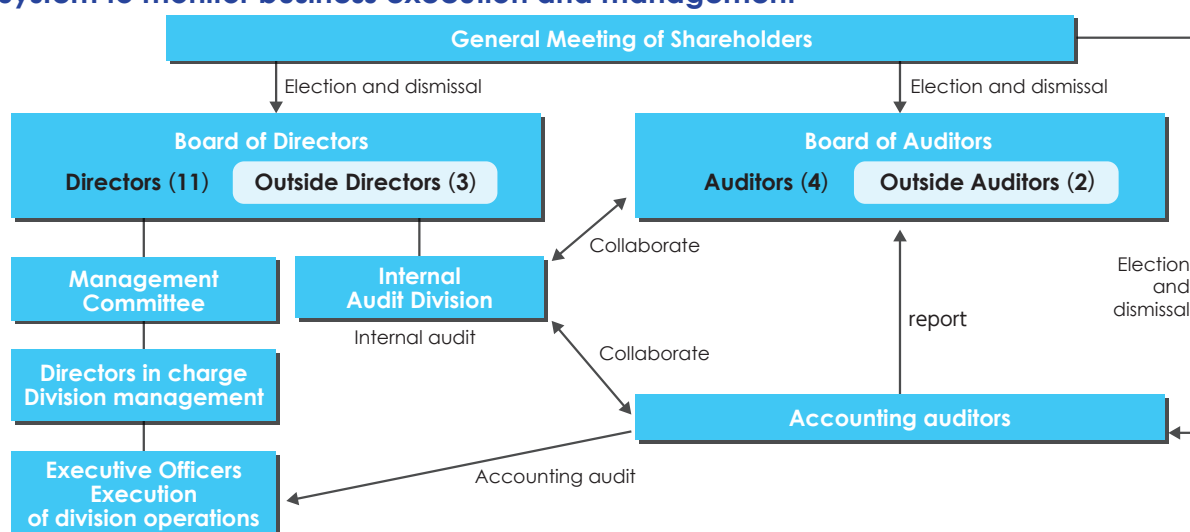
The Board of Auditors consists of four Corporate Auditors, including two Outside Corporate Auditors (part-time). To enhance the functions of Corporate Auditors, we elected fair and highly specialized Outside Corporate Auditors.

We designated three Outside Directors (part-time) and two Outside Corporate Auditors (part-time) as "Independent Directors" under the Securities Listing Regulations of the Tokyo Stock Exchange (Outside Directors and Outside Corporate Auditors who are unlikely to experience any conflict of interest with ordinary shareholders).

The Shimizu Bank has in place three categories of management meeting, namely, Ordinary Management Meeting, Expanded Management Meeting and Project Meeting. These serve as consultation bodies designed to have operations executed nimbly and with a mutual restraint function. An Ordinary Management Meeting is held daily, in principle, to bolster governance and expedite decision-making. To deliberate and resolve more rigorously, an Expanded Management Meeting is held twice-monthly, in principle, under specified themes such as: 1) loan screening aimed at reinforcing credit risk control; 2) revenue management for controlling revenue and examining revenue improvement measures; 3) risk management intended to oversee various risks comprehensively; 4) compliance control designed to ensure strict compliance with laws and regulations and check and give guidance on such compliance; 5) system strategies to deliberate on system strategies for operations; 6) financial reporting to determine a financial closing policy; and 7) financial facilitation in which to identify, analyze, assess and verify the status of financial facilitation control targeting small- to medium-sized enterprises. A Project Meeting is allowed to be held any time as a meeting to resolve (deliberate) on a specific subject continuously for a limited period of time, and an Ordinary Management Meeting is supposed to resolve on the subjects and operation for such meeting each time. An Ordinary Management Meeting is chaired by the President and its other members are determined by the Board of Directors, based on a proposal by the Chair. The Chairman attends such meeting as an observer according to the agenda. An Expanded Management Meeting is attended by officers comprising members of an Ordinary Management Meeting as well as employees who are designated separately in subsidiary rules on a subject-by-subject basis. Such meeting is attended by full-time Corporate Auditors as observers. A Project Meeting is attended by officers more or less identical to attendees of an Ordinary Management Meeting. Each Management Meeting is regarded as a body designed to resolve and deliberate at the commission of the Board of Directors, so minutes are created on the resolutions before being reported to the Board.

The ALM Earnings Management Committee, established as a body to comprehensively manage assets and liabilities and be involved in the formulation of strategic goals, seeks to bolster the framework for earnings management and asset liability management (ALM).

### System to monitor business execution and management



## 2) State of development of internal control system

In addition to prescribing the following Basic Policy on Internal Control System, the Bank strives to develop its internal control system.

- a. System to ensure that duty execution by Directors and employees adheres to laws and regulations as well as the Articles of Incorporation
  - Establish the Compliance Manual to specify laws, regulations and rules that directors and employees must observe
  - Install a business unit charged with supervising compliance and strive to develop the compliance framework of the Bank and the Shimizu Bank Group as a whole and ascertain compliance issues. Hold an Expanded Management Meeting monthly on the theme of compliance as a meeting chaired by the President and attended by our corporate lawyer
  - Install compliance managers and administrators at the headquarters and branches; they are to verify the conformity of routine operations to laws. Establish the Compliance Reporting Scheme to prevent any violation from occurring with respect to the user of this reporting scheme, management will not take any action detrimental to the reporting officer such as a disciplinary action and employee evaluation downgrade on account of the reporting.
  - The Awards and Discipline Committee takes a penalty action against an employee for a violation of laws, regulations or the Articles of Incorporation. As for a violation by a Director of laws, regulations or the Articles of Incorporation, the Management Committee investigates the violation pursuant to the Director Compliance Rules, following which a Board of Directors meeting resolves to take specific action.
  - The Bank will battle determinedly against what are generally referred to in Japan as "anti-social forces" and anti-community groups that threaten order and security in local communities, and will not provide any benefit to such entities.
- b. System for the storage and management of information on duty execution by Directors
  - We store and manage information on duty execution by Directors such as minutes of Board of Directors meetings and ringi approval letters in an appropriate manner pursuant to internal rules
- c. Regulations and other systems for management of risk of loss
  - To perform risk management appropriately, we establish the Integrated Risk Management Provisions before designating departments in charge on a category-by-category basis, thereby building a system to manage various types of risks.
  - We also install a department charged with performing risk supervision for the entire Bank. This department is to report on the state of various risks to the Board of Directors and the Management Committee, as required.
  - In addition to establishing the Business Continuity Regulations for us to continue operations appropriately in an emergency, we will respond swiftly and adequately, thus developing a system capable of minimizing effects on our business activities.
- d. System to ensure that Directors execute their duties efficiently
  - Directors are to execute their duties according to the Organization Regulations and the Job Authority Regulations. The Bank has the Management Committee in place as a body to deliberate and resolve within the scope assigned to it by the Board of Directors, and this committee is to expedite decision-making for business execution.
  - The personnel are to report to the Board of Directors on the state of progress for any matter resolved by the Board of Directors every three months, thereby managing and ascertaining the progress until completion.
- e. System to secure the appropriateness of operations at the corporate group comprising the Bank and its subsidiaries
  - We strive to secure the appropriateness of our operations with respect to compliance at the Shimizu Bank Group companies and adequate reporting to the Bank, as well as the efficiency of our risk management and duty execution. To this end, we install a supervision department to be charged with operating and managing the Shimizu Bank Group companies. Moreover, we establish the Shimizu Bank Group Operation and Management Regulations. Our group companies are to submit reports to the Bank and consult with it according to the List of Matters for Consultation and Reporting by Group Companies.
  - The Bank's personnel are to visit our group companies and audit them, as required.
  - The Bank and its group companies are to comply with accounting standards and other relevant laws and regulations, and develop a system to secure the trustworthiness of their financial reporting.
- f. Matters on the employees required by Corporate Auditors to be installed as assistant for the Corporate Auditors' duties
  - The Bank installs at least one employee in the charge of the Board of Auditors as an assistant for their duties.
- g. Matters on the independence of the employees set forth in the preceding item from Directors and on the securement of effectiveness of Corporate Auditor's instructions to the employees
  - The opinion of the Board of Auditors is to be respected for a personnel change and evaluation involving an employee in the charge of the Board of Auditors.
- h. System for Directors and employees to report to Corporate Auditors and other system for reporting to Corporate Auditors
  - The Directors of the Bank and its group companies are to report without delay to Corporate Auditors on any significant matter that affects, or may affect, the Bank's operations or financial results. The employees of the Bank and its group companies are to report on such matter through a control department and by way of a Director in charge and a group company Director. The Directors and employees of the Bank and its group companies must provide cooperation if asked by a Corporate Auditor to report on operations.
  - Management must not take any action detrimental to the reporting officer such as a disciplinary action and employee evaluation downgrade on account of the above-mentioned reporting.
- i. Other system to ensure that Corporate Auditors' audit is conducted effectively
  - The President strives to foster mutual awareness by exchanging opinions regularly on challenges the Bank must address and the state of environmental development for audits by Corporate Auditors as well as significant audit-related issues.
- j. Matters on the policy to process expenses or liabilities to be incurred due to the execution of Corporate Auditor duties such as the procedure to make an advance payment for, or refund of, expenses to be incurred due to the performance of Corporate Auditor duties, among others
  - If requested by a Corporate Auditor for an advance payment or a refund of expenses required due to the execution of his/her duties, the Bank will promptly process such expenses or liability.



# Compliance System

At the Shimizu Bank group, our awareness of our social responsibility and public duties has led us to make compliance a top priority, building an effective compliance system that will help us earn the trust of our customers and the local communities we share.

Our management in particular is actively engaged in compliance issues and is working with executives and employees of all of the companies in our group to foster awareness on these issue and create a corporate culture in which "compliance is the foundation for everything."

## Establishing a framework for compliance

For through compliance, the Shimizu Bank has created a "Legal and Regulatory Compliance Policy" as our basic policy for compliance in keeping with our management policy. This Compliance Policy is widely disseminated across the Shimizu Bank group.

At monthly expanded management meetings, members of bank management including the president meet with outside corporate lawyers to discuss matters concerning compliance.

In addition, we have established the Legal Office within the Corporate Administration Division to supervise compliance and entrusted that office with centralized control of information pertaining to compliance issues and providing guidance on the laws and regulations officers and employees must observe.

Furthermore, we have assigned individuals to be in charge of compliance at each division and branch to facilitate coordination with the office that oversees compliance (the Legal Office) and exhaustively enforce observance of laws and regulations. The Shimizu Bank also assigns regional compliance supervisor and the like in order to properly address compliance issues in relevant divisions.

## Corporate culture attaching importance to compliance

The Bank formulated the Compliance Manual which illustrates the Ethics Charter and laws and regulations required to be observed and which specifically outlines how to deal with any illegal act discovered. Each time laws or regulations are amended, the provisions of the Compliance Manual are revised with the approval of the Board of Directors. We ensure that the Compliance Manual is adhered to in the Bank by organizing training and in-branch learning programs.

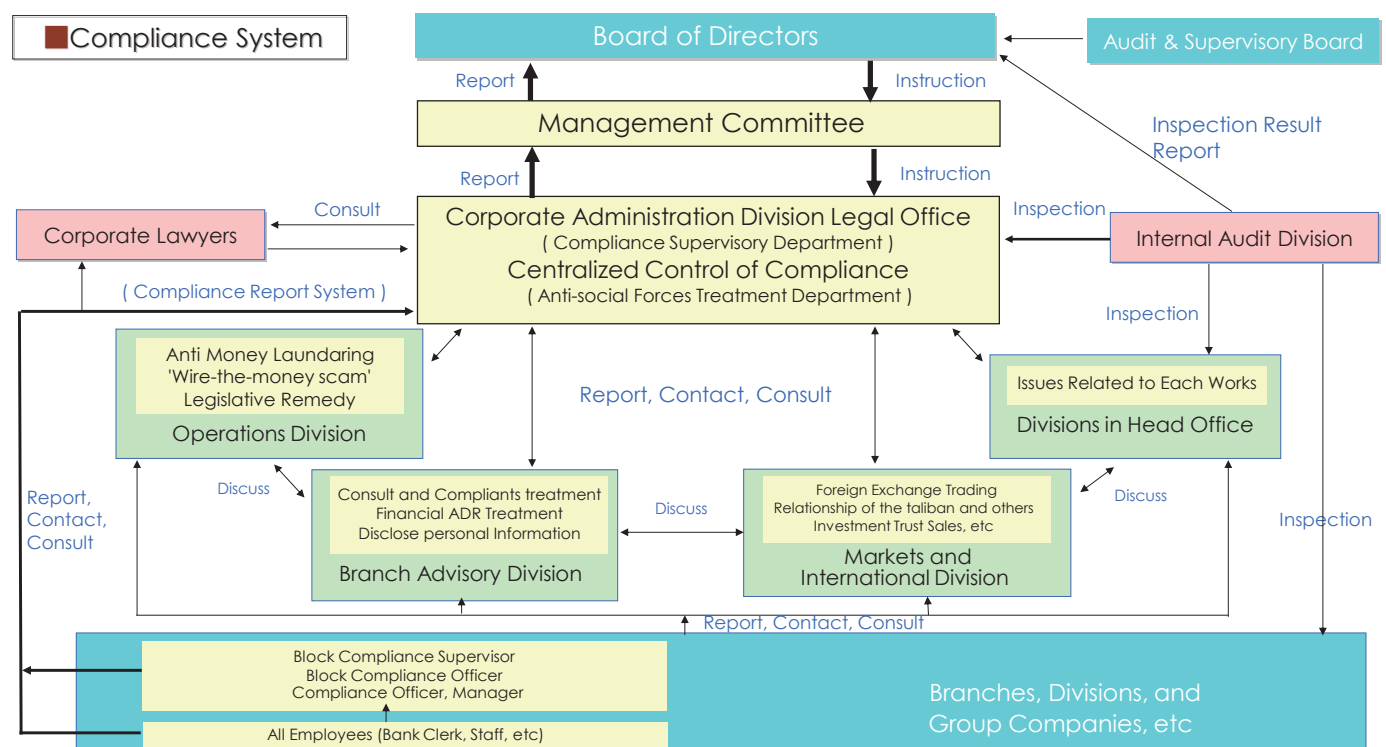
This manual, in electronic format, is allowed to be viewed by any employee via a PC at all times. Thus, we seek to foster compliance awareness in the organization while striving to cause specific actions to be taken.

Each fiscal year, we formulate the Compliance Program, a specific action plan aimed at securing the state of compliance in the Bank. Thus, we engage in effective monitoring activities while developing a compliance framework.

Specifically, based on our training programs, all Shimizu Bank employees take e-learning-based compliance study and testing courses, among other efforts to grasp rules including various laws and regulations.

The results of such courses are analyzed by the Compliance Supervisory Department before being reported to the Expanded Management Meeting. Then, the personnel discuss measures such as those for preventing any violation of laws and regulations and stopping their recurrence before reflecting such measures in our business execution, in a move to further bolster our compliance system.

The Shimizu Bank Group has in place the Compliance Reporting Scheme, a system in which to report any issue or problem detected. We secured neutrality for the system by arranging for the General Manager of the Legal Office at the Corporate Administration Division and our corporate lawyers to serve as reporting desks. Moreover, we built a platform to prevent any user of this reporting scheme from being subjected to detrimental treatment on account of the reporting, thereby striving to avert misconduct and fraud.



## ● Legal and Regulatory Compliance Policy

### **Bolster Readiness for Legal and Regulatory Compliance**

Regarding the observance of laws and regulations, which the Shimizu Bank and its group companies have already recognized as a top priority, we will continue to foster awareness of compliance and instill it in all executives and employees at all of our group companies to make sure that they all understand it and get into the habit of applying it.

### **Preventing Legal and Regulatory Violations**

We have taken action to prevent legal and regulatory violations by forming a corporate culture which allows us to detect weaknesses and problem areas in our efforts toward legal and regulatory compliance, reflect on past conduct, and make improvements in those areas promptly.

## **Systems Targeting Anti-social Forces**

Due to their public nature and critical economic function, banks are required to exclude anti-social forces from financial transactions. For this reason, the Shimizu Bank has created a basic policy that we will stand firmly against anti-social forces which pose a threat to the order and safety of civic life, and will not provide any favors to such forces.

In addition, at the Shimizu Bank we have given the Corporate Administration Division the task of collecting, analyzing, and centrally managing information pertaining to anti-social forces, and have established a system whereby the bank systematically addresses such issues and excludes anti-social forces from business transactions in cooperation with external special agencies including law enforcement and the national and prefectural centers for the elimination of boryokudan (violent crime syndicates).

Furthermore, in order to make it clear that we exclude anti-social forces from our business, we have also introduced clauses regarding the exclusion of "boryokudan" crime syndicates in basic loan agreements and in our rules concerning deposits and other services. We require all customers to comply with an agreement by which they express and affirm that they are not associated with any anti-social forces.

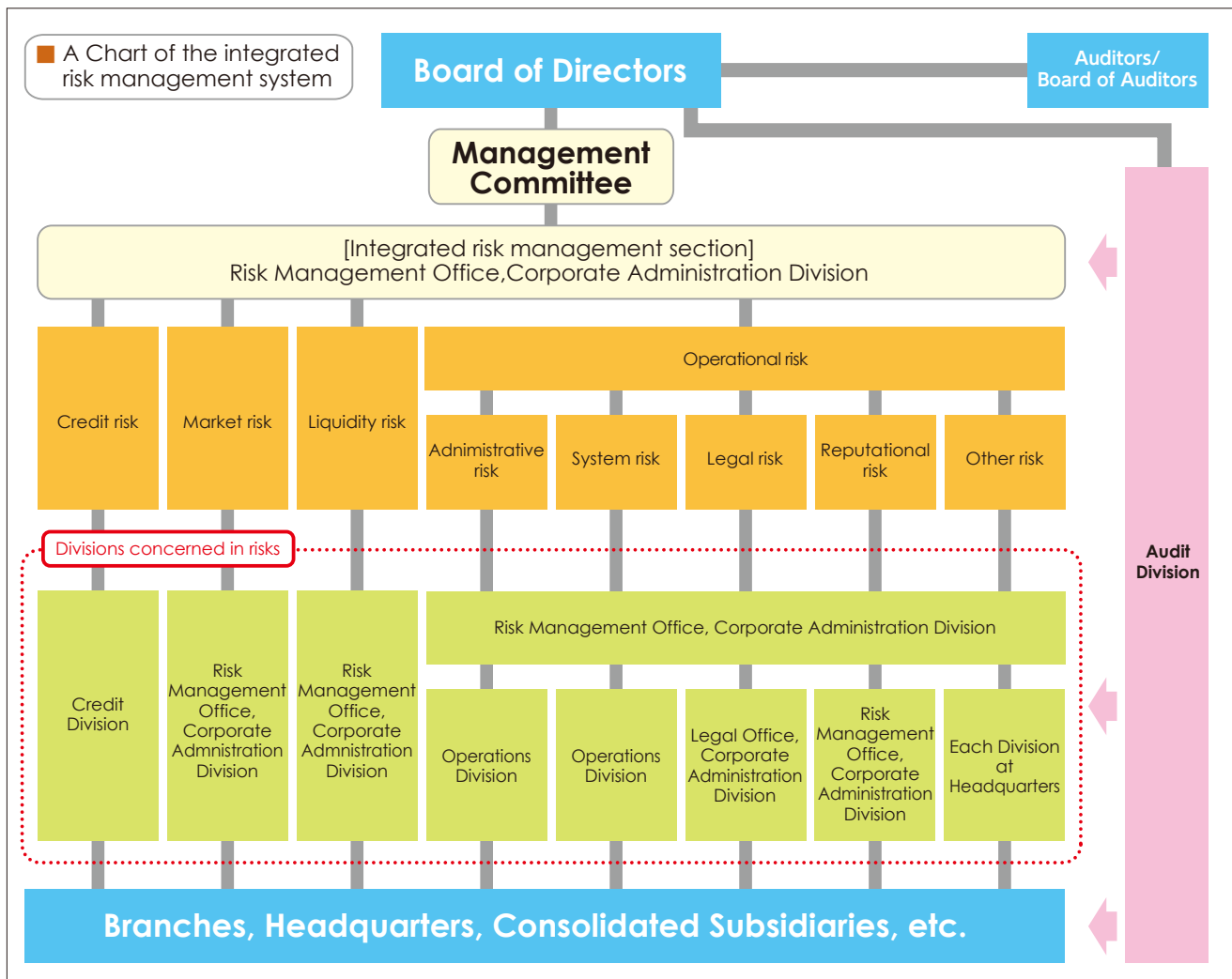
# Risk Management System

Because of changes in the surrounding environment of the financial institutions, the risks banks face are increasingly diverse and have become complex. As financial institutions have the responsibility to safely and effectively manage the deposits they receive from customers, it is increasingly important to upgrade the risk control system, which is used to properly control various risks according to their characteristics.

The Shimizu Bank is fully aware of the significance of risk management and endeavors to strengthen our risk management system.

## Risk Management System

The Shimizu Bank stipulated the "Integrated risk management provisions" as basic provisions on risk management, and established a risk management system, in which the Board of Directors plays the central role. Based on the provisions, the Shimizu Bank draws up "Risk Management Regulations" and "Risk Management Procedures" according to various risk categories which prescribe the specific management methods, etc., as well as reporting to the Board of Directors and the Management Committee. The Shimizu Bank formulates its risk management plan every fiscal year to control risks effectively, and identifies, analyzes and assesses risks based on these plans.



## Integrated Risk Management

From the perspective of enhancing soundness in management, the Shimizu Bank comprehensively identifies major risks that the bank faces, compares them with our corporate strength (equity capital), then establishes a self-controlling type risk management environment, as well as addressing the tasks of enhancing risk management so as to maintain a proper risk management environment.



## Credit risk management

The Shimizu Bank collectively administers loans and bills discounted, assets with a credit risk, and off-balance sheet assets, managing credit risk of the Bank itself and its consolidated subsidiaries.

Our screening system is composed of two sections, Sales Promotion and Screening, in order to maintain and improve the soundness of loan assets. In addition, the Bank strictly manages credits above a certain level by screening and passing a resolution for financing policy at the Management Meeting, which consists of the Executives.

Moreover, the Bank defined its credit policy (the basic code of conduct for financing) to clarify the bank's basic action guidance in the loan business, and thoroughly enforces it among our bank clerks, so as to maintain and improve the level of our bank clerks' observation of the financing rules.

A credit rating system was introduced to measure the credit risk of borrowers with a unified standard, and it is utilized to set lending rate guidelines according to creditworthiness. Furthermore, in terms of credit management, the Bank endeavors to manage appropriate portfolios, to disperse risks, and to ensure stable profits by measuring risk quantities with the credit rating system, etc. and acknowledging the status of loan concentration in specific business types, etc.

## Market risk management

The Shimizu Bank manages market risk to securely earn stable profits through market transactions. The Bank has installed both a front office and back office in the Markets and International Division, as well as a middle office in the Risk Management Office of the Corporate Administration Division, which is the Department concerned with risk, thus establishing a system of mutual checks and balances.

The status of measured risks is reported at the Board of Directors and Management Meeting so that the Executives can accurately acknowledge and appropriately make decisions on the market risks.

## Liquidity risk management

The Shimizu Bank manages funds daily, weekly, and monthly at the Markets and International Division, which is a fund raising management section, while the Risk Management Office of the Corporate Administration Division, which is the department concerned with risk, manages the risks.

In addition, as a preparation for contingencies, the Bank set two phases of emergencies and prepares to secure financing methods according to respective situations.

## Operational risk management

The Shimizu Bank recognizes administrative risk, system risk, legal risk, reputational risk, and other risks as operational risk; endeavors to prevent such risks from becoming tangible; and minimizes the impacts caused by such risks when they become apparent.

Regarding administrative risk, for the purpose of establishing a routine of impartial and swift office work, the Bank has been improving the quality of office work through the creation of various rules on office work, implementation of training programs, and centralization at the headquarters of the branch office work.

In relation to system risk management, the Bank uses as its core banking system "PROBANK-R2" created by Fujitsu Ltd. We established a backup center for "PROBANK-R2", reinforcing security against disasters (like the Tokai earthquake), whose occurrence is a concern. Moreover, the Internal Audit Division audits the computing systems and programs regularly, auditing system development and the administrative status of system operations, and verifying the effectiveness of risk management.

The legal risk is the risk in which the Bank suffers losses by violating laws and regulations, etc. The Shimizu Bank places the observance of laws and regulations, etc. as its priority issue in management to avoid the occurrence of the legal risk, and vigorously addresses actions to strengthen our preparedness to further observe laws and regulations.

Reputational risk is the risk suffered from unexpected damages by media coverage, etc. about the entire financial industry and our bank. The Bank takes measures, such as establishing rules and manuals which prescribe our actions, to prevent circulation of unfounded rumors and to respond to them.

The Bank has also established internal control systems to appropriately manage other operational risk, respectively.

In order to be ready for emergency events such as natural disasters, and to continue or swiftly restore our essential business in order to provide stable financial function to our customers, the Shimizu Bank established an action plan that assumes the outbreak of a state of emergency, and has built a business continuity management based on this plan.

## ALM System

The Shimizu Bank regularly holds Management Meetings, which mainly consist of Executives, and the ALM Earnings Management Committee which in turn consists of General Managers, to examine proper assets and liability structures, etc. based on the financial and economic environment and forecasts of future interest rates, etc., so that the bank can fully exert the functions of ALM, with the goal to maximize profits while managing assets and liabilities in an integral manner balanced with adequate risks.

# Corporate Data

## Consolidated Balance Sheet

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S.Dollars)
	March 31,2016	March 31,2017	March 31,2017
<b>Assets</b>			
Cash and Due from Banks	¥131,417	¥216,802	\$1,932,458
Trading Account Securities	388	449	4,002
Money Held in Trust	1,200	1,201	10,705
Securities	253,983	253,703	2,261,375
Loans and Bills Discounted	1,065,150	1,067,716	9,517,035
Foreign Exchanges	609	619	5,520
Lease Receivables and Investment Assets	9,787	9,989	89,042
Other Assets	5,316	22,164	197,560
Tangible Fixed Assets	19,729	19,571	174,447
Buildings, Net	8,871	8,737	77,883
Land	9,320	9,393	83,730
Leased Assets, Net	17	19	175
Construction in Progress	0	-	-
Other Tangible Fixed Assets	1,519	1,420	12,657
Intangible Fixed Assets	1,256	1,112	9,914
Software	1,013	786	7,008
Lease Assets	5	92	822
Other Intangible Fixed Assets	237	233	2,083
Deferred Tax Assets	1,258	1,797	16,024
Customers' Liabilities for Acceptances and Guarantees	2,769	2,693	24,012
Allowance for Loan Losses	(8,951)	(7,758)	(69,157)
<b>Total Assets</b>	<b>¥1,483,918</b>	<b>¥1,590,062</b>	<b>\$14,172,944</b>

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S.Dollars)
	March 31,2016	March 31,2017	March 31,2017
<b>Liabilities</b>			
Deposits	¥1,349,389	¥1,369,182	\$12,204,144
Negotiable Certificates of Deposit	5,000	59,710	532,222
Call Money	-	11,219	100,000
Borrowed Money	25,999	47,529	423,653
Foreign Exchanges	5	1	12
Bonds Payable	10,000	10,000	89,134
Other Liabilities	6,439	6,347	56,577
Provision for Bonuses	506	496	4,428
Net Defined Benefit Liability	3,142	1,071	9,550
Provision for Directors' Retirement Benefits	93	85	762
Provision for Reimbursement of Deposits	43	40	360
Deferred Tax Liabilities	-	24	219
Acceptances and Guarantees	2,769	2,693	24,012
<b>Total Liabilities</b>	<b>1,403,389</b>	<b>1,508,403</b>	<b>13,445,078</b>
<b>Net Assets</b>			
Capital Stock	8,670	8,670	77,284
Capital Surplus	5,272	5,272	46,995
Retained Earnings	61,202	63,608	566,972
Treasury Shares	(298)	(300)	(2,680)
Total Shareholders' Equity	74,847	77,250	688,572
Valuation Difference on Available-for-Sale Securities	5,218	3,496	31,163
Deferred Gains or Losses on Hedges	0	28	256
Remeasurements of Defined Benefit Plans	(882)	(598)	(5,335)
Total Accumulated Other Comprehensive Income	4,335	2,926	26,084
Subscription Rights to Shares	18	41	369
Non-Controlling Interests	1,327	1,440	12,839
<b>Total Net Assets</b>	<b>80,528</b>	<b>81,659</b>	<b>727,865</b>
<b>Total Liabilities and Net Assets</b>	<b>¥1,483,918</b>	<b>¥1,590,062</b>	<b>\$14,172,944</b>

## Notes

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2. Figures stated in U.S.dollars are translated solely for convenience at the rate of ¥112.19 per U.S.\$1, the approximate rate of exchange prevailing on March 31,2017.

## Consolidated Statement of Income

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S.Dollars)
	Years ended March 31, 2016	Years ended March 31, 2017	Years ended March 31, 2017
<b>Ordinary Income</b>	<b>¥29,539</b>	<b>¥28,760</b>	<b>\$256,353</b>
Interest Income	17,348	16,444	146,579
Interest on Loans and Discounts	13,426	12,445	110,933
Interest and Dividends on Securities	3,842	3,905	34,808
Interest on Call Loans	1	2	20
Interest on Deposits with Banks	77	84	750
Other Interest Income	0	7	66
Fees and Commissions	8,430	8,655	77,148
Other Ordinary Income	2,459	1,822	16,248
Other Income	1,301	1,837	16,377
<b>Ordinary Expenses</b>	<b>24,550</b>	<b>24,811</b>	<b>221,155</b>
Interest Expenses	1,062	824	7,352
Interest on Deposits	846	494	4,411
Interest on Negotiable Certificates of Deposit	43	4	35
Interest on Call Money	10	162	1,446
Interest on Borrowings and Rediscounts	68	52	467
Interest on Bonds	88	88	784
Other Interest Expenses	5	23	206
Fees and Commissions Payments	4,751	5,031	44,848
Other Ordinary Expenses	894	2,032	18,118
General and Administrative Expenses	16,457	16,409	146,262
Other Expenses	1,384	513	4,574
Provision of Allowance for Loan Losses	943	147	1,317
Others	440	365	3,256
<b>Ordinary Profit</b>	<b>4,989</b>	<b>3,948</b>	<b>35,197</b>
<b>Extraordinary Income</b>	<b>-</b>	<b>141</b>	<b>1,258</b>
Gain on Disposal of Non-Current Assets	-	141	1,258
<b>Extraordinary Losses</b>	<b>50</b>	<b>46</b>	<b>414</b>
Loss on Disposal of Non-Current Assets	2	31	281
Impairment Loss	47	14	132
Profit Before Income Taxes	4,939	4,043	36,042
Income Taxes - Current	1,465	752	6,704
Income Taxes - Deferred	111	206	1,838
Total Income Taxes	1,577	958	8,543
Profit	3,362	3,085	27,499
Profit Attributable to Non-Controlling Interests	63	106	953
<b>Profit Attributable to Owners of Parent</b>	<b>¥3,299</b>	<b>¥2,978</b>	<b>\$26,545</b>

## Consolidated Statement of Comprehensive Income

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S.Dollars)
	Years ended March 31, 2016	Years ended March 31, 2017	Years ended March 31, 2017
<b>Profit</b>	<b>¥3,362</b>	<b>¥3,085</b>	<b>\$27,499</b>
<b>Other Comprehensive Income</b>	<b>(2,990)</b>	<b>(1,400)</b>	<b>(12,485)</b>
Valuation Difference on Available-for-Sale Securities	(1,959)	(1,713)	(15,272)
Deferred Gains or Losses on Hedges	(0)	28	256
Remeasurements of Defined Benefit Plans	(1,030)	283	2,529
<b>Comprehensive Income</b>	<b>372</b>	<b>1,684</b>	<b>15,013</b>
Comprehensive Income Attributable to Owners of the Parent	¥309	¥1,568	\$13,983
Comprehensive Income Attributable to Non-Controlling Interests	62	115	1,029

## Notes

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# Consolidated Statement of Changes in Equity

Years ended March 31, 2016

(Millions of Yen)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at April 1, 2015	¥8,670	¥5,272	¥58,475	(¥294)	¥72,125
Changes of Items During Period					
Dividends of Surplus			(572)		(572)
Profit Attributable to Owners of Parent			3,299		3,299
Purchase of Treasury Shares				(4)	(4)
Disposal of Treasury Shares		-		-	-
Net Changes of Items Other Than Shareholders' Equity					
Total Changes of Items During Period	-	-	2,726	(4)	2,722
Balance at March 31, 2016	¥8,670	¥5,272	¥61,202	(¥298)	¥74,847

	Accumulated Other Comprehensive Income				Subscription Rights to Shares	Non-Controlling Interests	Total Net Equity
	Valuation Difference on Available-for-Sale Securities	Deferred Gains Or Losses on Hedges	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income			
Balance at April 1, 2015	¥7,177	¥0	¥147	¥7,325	-	¥1,266	¥80,717
Changes of Items During Period							
Dividends of Surplus							(572)
Profit Attributable to Owners of Parent							3,299
Purchase of Treasury Shares							(4)
Disposal of Treasury Shares							-
Net Changes of Items Other Than Shareholders' Equity	(1,959)	(0)	(1,030)	(2,989)	18	60	(2,910)
Total Changes of Items During Period	(1,959)	(0)	(1,030)	(2,989)	18	60	(188)
Balance at March 31, 2016	¥5,218	¥0	(¥882)	¥4,335	¥18	¥1,327	¥80,528

Years ended March 31, 2017

(Millions of Yen)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at April 1, 2016	¥8,670	¥5,272	¥61,202	(¥298)	74,847
Changes of Items During Period					
Dividends of Surplus			(572)		(572)
Profit Attributable to Owners of Parent			2,978		2,978
Purchase of Treasury Shares				(2)	(2)
Disposal of Treasury Shares		(0)		0	0
Net Changes of Items Other Than Shareholders' Equity					
Total Changes of Items During Period	-	(0)	2,405	(2)	2,403
Balance at March 31, 2017	¥8,670	¥5,272	¥63,608	(¥300)	¥77,250

	Accumulated Other Comprehensive Income				Subscription Rights to Shares	Non-Controlling Interests	Total Net Equity
	Valuation Difference on Available-for-Sale Securities	Deferred Gains Or Losses on Hedges	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income			
Balance at April 1, 2016	¥5,218	¥0	(¥882)	¥4,335	¥18	¥1,327	¥80,528
Changes of Items During Period							
Dividends of Surplus							(572)
Profit Attributable to Owners of Parent							2,978
Purchase of Treasury Shares							(2)
Disposal of Treasury Shares							0
Net Changes of Items Other Than Shareholders' Equity	(1,721)	28	283	(1,409)	22	113	(1,273)
Total Changes of Items During Period	(1,721)	28	283	(1,409)	22	113	1,130
Balance at March 31, 2017	¥3,496	¥28	(¥598)	¥2,926	¥41	¥1,440	¥81,659

## Notes

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# Consolidated Statement of Changes in Equity

Years ended March 31, 2017

(Thousands of U.S.Dollars)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at April 1, 2016	\$77,284	\$46,998	\$545,527	(\$2,659)	\$667,150
Changes of Items During Period					
Dividends of Surplus			(5,100)		(5,100)
Profit Attributable to Owners of Parent			26,545		26,545
Purchase of Treasury Shares				(25)	(25)
Disposal of Treasury Shares		(2)		4	2
Net Changes of Items Other Than Shareholders' Equity					
Total Changes of Items During Period	-	(2)	21,445	(20)	21,422
Balance at March 31, 2017	\$77,284	\$46,995	\$566,972	(\$2,680)	\$688,572

	Accumulated Other Comprehensive Income				Subscription Rights to Shares	Non-Controlling Interests	Total Net Equity
	Valuation Difference on Available-for-Sale Securities	Deferred Gains Or Losses on Hedges	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income			
Balance at April 1, 2016	\$46,511	\$0	(\$7,865)	\$38,646	\$165	\$11,828	\$717,790
Changes of Items During Period							
Dividends of Surplus							(5,100)
Profit Attributable to Owners of Parent							26,545
Purchase of Treasury Shares							(25)
Disposal of Treasury Shares							2
Net Changes of Items Other Than Shareholders' Equity	(15,347)	256	2,529	(12,561)	203	1,010	(11,347)
Total Changes of Items During Period	(15,347)	256	2,529	(12,561)	203	1,010	10,074
Balance at March 31, 2017	\$31,163	\$256	(\$5,335)	\$26,084	\$369	\$12,839	\$727,865

## Notes

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# Consolidated Statement of Cash Flows

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S.Dollars)
	Years ended March 31,2016	Years ended March 31,2017	Years ended March 31,2017
<b>Cash Flows from Operating Activities</b>			
Profit Before Income Taxes	¥4,939	¥4,043	\$36,042
Depreciation	1,256	1,213	10,818
Impairment Loss	47	14	132
Increase (Decrease) in Allowance for Loan Losses	(939)	(1,192)	(10,632)
Increase (Decrease) in Reserve for Employees' Bonuses	(15)	(9)	(83)
Decrease (Increase) in Net Defined Benefit Assets	477	-	-
Increase (Decrease) in Net Defined Benefit Liability	780	(2,071)	(18,460)
Increase (Decrease) in Reserve for Directors' Retirement Benefits	(13)	(7)	(67)
Increase (Decrease) in Provision for Reimbursement of Deposits	(1)	(2)	(23)
Gain on Fund Management	(17,348)	(16,444)	(146,579)
Financing Expenses	1,062	824	7,352
Loss (Gain) Related to Securities	(2,730)	(1,673)	(14,919)
Loss (Gain) on Money Held in Trust	(12)	(12)	(115)
Loss (Gain) on Disposal of Non-Current Assets	2	(109)	(976)
Net Decrease (Increase) in Trading Account Securities	(167)	(60)	(538)
Net Decrease (Increase) in Loans and Bills Discounted	(19,519)	(2,565)	(22,868)
Net Increase (Decrease) in Deposit	(50,349)	19,793	176,425
Net Increase (Decrease) in Negotiable Certificates of Deposit	(63,215)	54,710	487,654
Net Increase (Decrease) in Borrowed Money (Excluding Subordinated Borrowings)	6,211	21,529	191,905
Net Decrease (Increase) in Deposit (Excluding Deposit Paid to Bank of Japan)	(25)	(214)	(1,909)
Net Decrease (Increase) in Call Money	-	11,219	100,000
Net Decrease (Increase) in Foreign Exchanges Assets	(87)	(9)	(85)
Net Increase (Decrease) in Foreign Exchanges Liabilities	(21)	(4)	(36)
Net Decrease (Increase) in Lease Receivables and Investment Assets	(543)	(64)	(572)
Proceeds from Fund Management	17,699	16,728	149,110
Payments for Finance	(1,086)	(895)	(7,982)
Other, net	758	(15,852)	(141,298)
<b>Subtotal</b>	(122,841)	88,887	792,290
Income Taxes Paid	(1,553)	(1,444)	(12,877)
<b>Net Cash Provided by (Used in) Operating Activities</b>	(124,395)	87,442	779,413
<b>Cash Flows from Investing Activities</b>			
Purchase of Securities	(320,066)	(274,114)	(2,443,307)
Proceeds from Sales of Securities	332,100	244,457	2,178,959
Proceeds from Redemption of Securities	51,976	28,609	255,006
Decrease in Money Held in Trust	12	12	114
Purchase of Tangible Fixed Assets	(1,099)	(912)	(8,135)
Purchase of Intangible Fixed Assets	(693)	(107)	(953)
Proceeds from Sales of Tangible Fixed Assets	109	363	3,244
<b>Net Cash Provided by (Used in) Investing Activities</b>	62,340	(1,690)	(15,072)
<b>Cash Flows from Financing Activities</b>			
Repayments of Lease Liabilities	(70)	(11)	(101)
Purchase of Treasury Shares	(4)	(2)	(25)
Proceeds from Sales of Treasury Shares	-	0	2
Cash Dividends Paid	(570)	(570)	(5,081)
Dividends Paid to Non-Controlling Interests	(2)	(2)	(18)
<b>Net Cash Provided by (Used in) Financing Activities</b>	(647)	(586)	(5,224)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	(0)	5	52
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(62,703)	85,171	759,169
<b>Cash and Cash Equivalents at Beginning of Period</b>	192,500	129,797	1,156,942
<b>Cash and Cash Equivalents at End of Period</b>	¥129,797	¥214,968	\$1,916,111

## Notes

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# Board of Directors, Corporate Auditors and Executive Officers

As of June 30, 2017

● **President**  
(Representative Director)  
Katsuichiro Toyoshima

● **Senior Managing Director**  
(Representative Director)  
Akihiro Mochizuki

● **Managing Directors**  
Shigeru Nonoyama  
Ayato Mochizuki  
Yasuhiro Iwayama

● **Directors**  
Fujio Kaneda  
Keiko Higashi  
Takashi Aizawa  
Syunji Usami  
Fumitoshi Yabuzaki  
Yosuke Wakabayashi

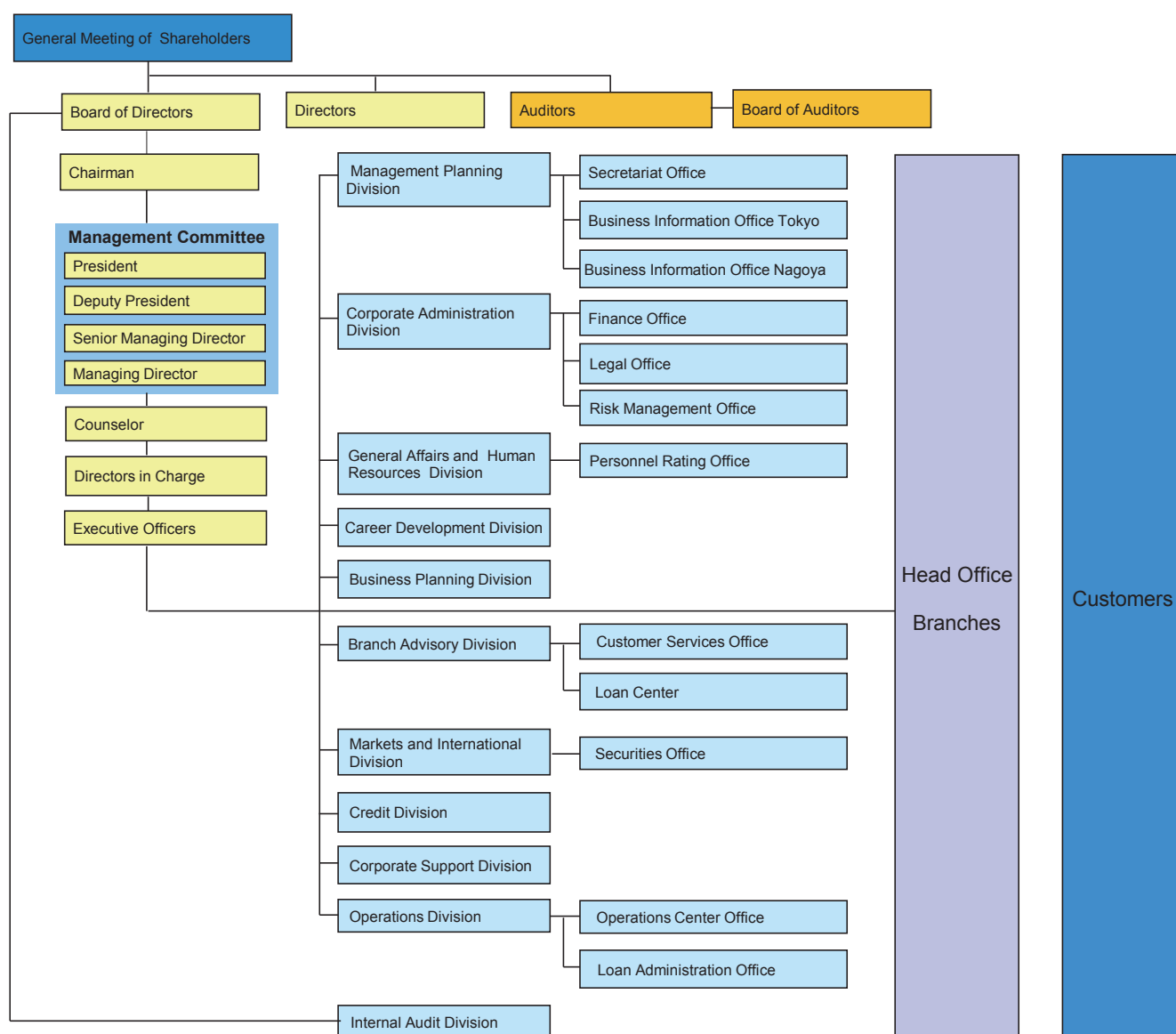
● **Corporate Auditors**  
Naoki Tobayama  
Akihiro Sei  
Youichiro Ito  
Kazuaki Isobe

● **Managing Executive Officers**  
Syuji Sano  
Masashi Harada

● **Executive Officers**  
Toru Isonishi  
Kiminori Sugiyama  
Tetsuya Sugiyama  
Masahiro Koyanagi  
Satoshi Kobayashi

## Organization Chart

As of March 31, 2017



**THE SHIMIZU BANK, LTD.**

MARKETS AND INTERNATIONAL DIVISION

TEL 81-54-353-5164 SWIFT : SMZGJPJT

<http://www.shimizubank.co.jp/>

