



Annual Report

2014

# Profile

Musashino Bank is the only regional bank whose operational base consists of Saitama Prefecture. The prefecture lies immediately to the north of Tokyo, and many of its residents commute to work in the capital. Currently, 7.22 million (estimated) people live in Saitama, making it the country's fifth most populous prefecture after Tokyo, Kanagawa, Osaka,

and Aichi, and the population is still climbing.

Since its establishment in 1952, Musashino Bank has been one of Saitama Prefecture's core financial institutions, and has played a major role in supporting the development of the regional economy and local industries for six decades.

## Corporate Philosophy

### “Working in harmony with the local community it serves”

To contribute to the prosperity of the local community and to secure growth and development in partnership with the region.

### “Maintaining a deep respect toward customers”

To engage in bold management that anticipates change while providing the highest quality services throughout the organization as a whole.

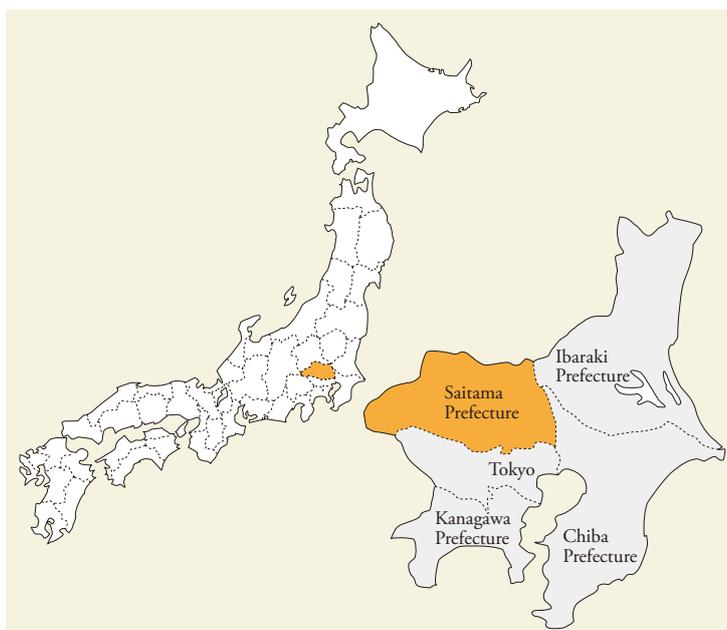
#### Bank Data (nonconsolidated basis, as of March 31, 2014)

Head office:	10-8, Sakuragi-cho 1-chome, Omiya-ku, Saitama
Home page:	<a href="http://www.musashinobank.co.jp/">http://www.musashinobank.co.jp/</a> (Japanese only)
Security code:	8336 (First section of the Tokyo Stock Exchange)
Established:	March 6, 1952
Networks:	Number of branches: 95 (Saitama Prefecture: 92 [of which 1 is a sub-branch], outside Saitama Prefecture: 3)
(As of September 30, 2014)	Number of mortgage loan centers: 9 Number of office: 1
Employees:	2,263
Total assets:	¥4,063.1 billion
Deposits:	¥3,788.7 billion
Loans:	¥3,078.6 billion
Common stock:	¥45.7 billion
Number of correspondent arrangements:	198
Issued common stock:	33,805 thousand shares

#### Subsidiaries and Affiliated Companies

Name	Line of Business
The Bugin General Lease Co., Ltd.	Leasing services
The Bugin Guarantee Co., Ltd.	Loan guarantees for individuals
The Musashino Card Co., Ltd.	Credit card business (JCB, VISA), loans and loan guarantees related to card services
The Bugin System Service Co., Ltd.	Development, sale and maintenance of computer systems
The Bugin Economic Research Institute Co., Ltd.	Research into the regional economy, consultation, information services, and holding of seminars
The Bugin Capital Co., Ltd.	Management support for venture businesses

Head Office



#### Contents

1 Consolidated Financial Highlights	8 Compliance	17 Consolidated Statements of Income and Comprehensive Income
2 Message from the President	9 Appealing Business Foundation (Saitama Prefecture)	18 Consolidated Statements of Changes in Net Assets
5 Long-term Vision/Medium-Term Management Plan	10 Corporate Social Responsibility (Main Initiatives)	20 Consolidated Statements of Cash Flows
6 Corporate Governance	16 Consolidated Balance Sheets	21 Directory
7 Risk Management		

# Consolidated Financial Highlights

The Musashino Bank, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2014 and 2013

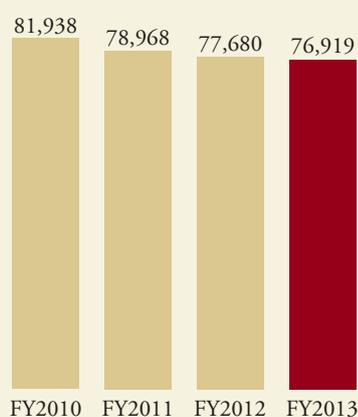
	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Notes 1 and 2)
	2014	2013	2014
<b>At Year-end</b>			
Total Assets .....	¥4,079,797	¥3,929,343	\$39,640,477
Deposits including negotiable deposit .....	3,780,337	3,649,510	36,730,835
Loans and Bills Discounted .....	3,066,023	2,950,897	29,790,352
Trading Account Securities and Investment Securities .....	772,397	722,478	7,504,838
Total Net Assets .....	202,766	194,654	1,970,132
Capital Ratio (based on domestic standards) (%) .....	11.22	10.76	
<b>For the Year</b>			
Total Income .....	¥ 76,919	¥ 77,680	\$ 747,373
Total Expenses .....	58,155	59,067	565,057
Income before Income Taxes .....	18,763	18,612	182,315
Net Income .....	10,315	11,142	100,228

Notes 1. In this annual report, Japanese yen (in millions) and U.S. dollars (in thousands) are indicated with fractions omitted.

2. U.S. dollar figures have been translated at the rate ¥102.92 to U.S.\$1, the prevailing market rate as of March 31, 2014.

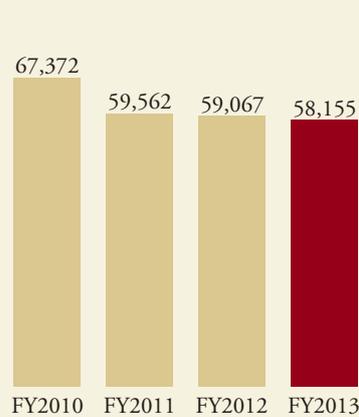
## Total income

(¥ million)



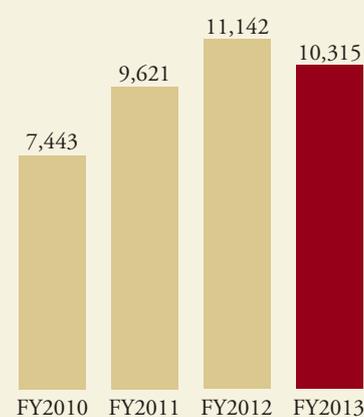
## Total expenses

(¥ million)



## Net income

(¥ million)



Forward-Looking Statements: This annual report contains forward-looking statements regarding the Bank's financial condition and results of operations. These forward-looking statements, which include the Bank's views and assumptions with respect to future events, involve certain risks and uncertainties. Actual results may differ from forecasts due to changes in economic conditions and other factors.

## Message from the President



### Economic Trends

Looking back over fiscal 2013, the fiscal year ended March 31, 2013, in the first half, exports recovered as the Japanese economy witnessed the correction in the yen's high value and rising stock prices stemming from financial and economic stimulus measures. In the second half, the economy continued on a modest recovery track buoyed by the psychological support of last-minute demand before the consumption tax increase and the decision to host the Tokyo Olympics and Paralympics, as well as increased consumer spending and home investment.

The economy of Saitama Prefecture, just like Japan's economy, saw consumer spending and home investment recover and the prefecture's corporate earnings rebound. At the same time, demand for capital investment is expected to expand.

Saitama Prefecture is centrally located to the massive Tokyo metropolitan area market and a variety of industries are gathered here. The Metropolitan Inter-City Expressway is scheduled to be open to traffic through the entire prefecture in 2014, thus assuring an even better transportation network.

Further, Tokyo was selected for the first time in 56 years as the city to host the Summer Olympics

of 2020. With Olympic events scheduled to be held at three venues in Saitama, the prefecture is facing a bright future that holds much promise.

### Initiatives in First Year of Medium-Term Management Plan

Under these circumstances, the Bank formulated its long-term vision for turning it into "the region's number one bank" (a Value-making Bank) that creates new value in Saitama.

The Bank has divided the period for achieving this vision into three phases and started the medium-term management plan "MVP (Musashino Value-making Plan) 1/3," the first phase, in April 2013. Under this plan, we have taken various measures focused on growth and creation strategies in order to build the number one bank in the region.

Initiatives for fiscal 2013, the first year of the plan, for growth strategies we established the "Hoken Plaza/Saitama Shintoshin (Insurance Plaza/Saitama New Urban Center)," the Bank's first new type of branch. Also, in April 2014, we enhanced our branch network by establishing our 95th branch in Higashimurayama City, which shares a border with the southern part of Saitama, and to which we have a deep geographic and economic connection.

For individual customers, we began offering the "Musashino Support Loan for residences for elderly people with service" that can be used to finance the construction of Elderly housing with supportive services, the Reverse Mortgage Loan, which helps seniors achieve a fulfilling second life, *Kirarie*, the Musashino Free Loan for Women, and the NISA tax-free small investment account. For corporate customers, we meet their financing needs and have expanded our consulting functions by setting up an Information Center that provides valuable information to them. In growth fields, we have aggressively promoted activities for relevant businesses through our dedicated team of experts. To further strengthen our support for entry into overseas markets, we formed a business alliance with Nippon Export and

Investment Insurance (NEXI) and local banks, joined the Fastpass System that provides integrated support for overseas business expansion by introducing customers to domestic and overseas aid organizations.

As for our creation strategies, we concluded the Agreement on Comprehensive Partnership with Saitama Prefecture in 16 fields that includes the promotion of industry and small- and medium-size enterprises. This marked the first time that a private-sector enterprise had participated in joint research of policy issues with prefectural and municipal officials as a partner business based on this agreement. We conducted joint public- and private-sector research and we plan to make efforts to commercialize our research results.

### Year ended March 31, 2014

#### Deposits and assets in custody

As a result of efforts to expand our community-based business foundation and promote comprehensive transactions, deposits, etc.\* in fiscal 2013 increased ¥128.3 billion compared with the previous fiscal year to ¥3,788.7 billion. Assets in custody rose ¥34.1 billion year on year to ¥637.8 billion due to favorable sales of investment trusts.

\* Deposits, etc. means deposits including CDs.

### Loans

Loans outstanding increased ¥116.0 billion to ¥3,786.0 billion owing mainly to active efforts to respond to the needs of small- and medium-sized enterprises (SMEs) within the prefecture. This marks the first time since the Bank's founding that loans outstanding exceeded the ¥3 trillion figures. In addition, the number of companies that have received loans from the Bank returned to the 20,000 mark, the number prior to Lehman Brothers' collapse.

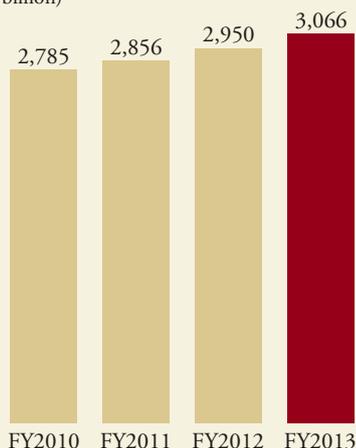
### Earnings

The Bank's capital profits, which shows its earning capacity in the banking business decreased by ¥2.8 billion to ¥15.9 billion due to a decrease in net interest income amid low interest rates, despite an increase in fees and commissions mainly attributable to higher assets in custody fees. Recurring income decreased by ¥400 million to ¥16.7 billion, despite an improvement in stock-related losses (balance of stocks in three accounts). Net income declined by ¥700 million to ¥9.7 billion.

On a consolidated basis, recurring income decreased by ¥100 million to ¥18.8 billion, while net income declined by ¥800 million to ¥10.3 billion.

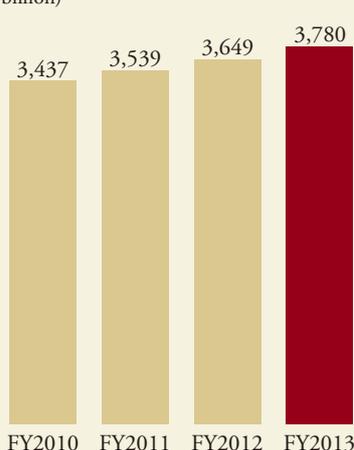
Loans and bills discounted

(¥ billion)



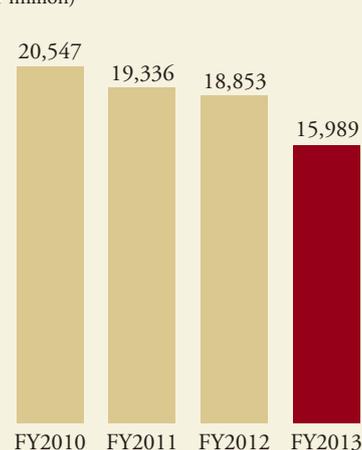
Deposits including negotiable deposit

(¥ billion)



Net business income (Non-consolidated)

(¥ million)



## Capital ratio

The Bank's capital ratio (Basel III, domestic standard) for fiscal 2013 rose 0.46 of a percentage point year on year to 10.91% on a nonconsolidated basis due to the issue of subordinated bonds in December 2013. The Bank continued to maintain highly sound financial health with a capital ratio of 11.22% on a consolidated basis.

## Return of profits to shareholders

Over the 44 years since its listing on the Tokyo Stock Exchange in 1969, the Bank has continuously paid out stable dividends, despite major changes in all aspects of the surrounding environment. In the fiscal year ended March 31, 2014, we decided to pay an year-end dividend of ¥40 per share (an annual dividend of ¥75 per share) in order to repay the constant support we receive from all of our shareholders.

The shareholders return ratio in fiscal 2013 was 25.7%.

## For the Future of Saitama Prefecture

Amid major changes in the business environment surrounding the Bank, competition with other banks and businesses is expected to intensify. However, fiscal 2014 is an important year for achieving the goals of the medium-term management plan and we will implement measures that precisely and swiftly meet the needs of customers including for the facilitation of financing.

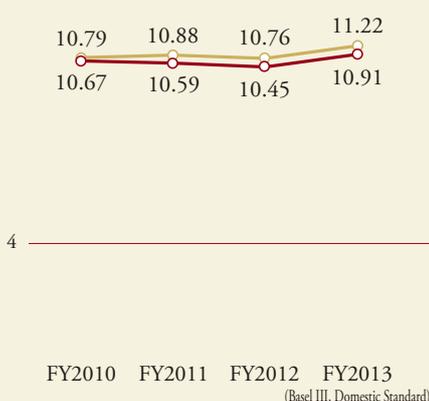
Through these efforts, we will establish a competitive business structure and all officer and employees will continue to work to the utmost to become "the region's number one bank" (a Value-making Bank) that creates new value in Saitama. As we work toward achieving our established goals, we kindly request your continued support and understanding.

Kikuo Kato  
President



### Capital ratio

(%)



### Dividend payout ratio

(¥ million)



	FY2010	FY2011	FY2012	FY2013
Dividend payout ratio (%)	27.74	25.27	22.46	25.79
An annual dividend (Yen)	60	70	70	75

—○— Capital ratio (Non-consolidated)  
—○— Capital ratio (Consolidated)  
Minimum level required for banks operating in Japan: 4

—○— Shareholder return ratio  
■ Dividend amount  
■ Amount of purchased treasury stock

## Long-term Vision/Medium-term Management Plan

The Bank formulated a long-term vision aiming 10 years into the future of becoming the region's number one bank that creates new value in Saitama. To achieve this vision, the Bank started the medium-term management plan "MVP 1/3," in April 2013, built a stable operating base and branch network, and strengthened its management structure.

### Long-term Vision "MVP (Musashino Value-making Plan)"

#### The region's number one bank that creates new value in Saitama ~ Value-making Bank ~

Playing a leading role in Saitama's development by producing new value in Saitama and growing on its own initiative by meeting customer expectations

**Reason for Existence** ▶ To contribute to Saitama's growth and to support its future, not only in its role as a leader of community-based finance, but by also playing a leading role in the creation of new local initiatives

**Basic Policy:** Build the Bank to be number one in the region in two business domains that lead to Saitama's growth

**Growth Domain**

Improve financial intermediary functions and support local growth as a local financial institution

**Creation Domain**

Create new local industries and business models by ourselves and stimulate local growth

### Medium-term management plan "MVP 1/3": April 2013 – March 2016

**Three-Year Goal**

Completion of phase one (period for enhancing readiness) to become the number one bank in the region that contributes to the growth of Saitama Prefecture

**Growth Domain**

As a local financial institution, build a foundation capable of sustaining our growth strategy into the future by reinforcing sales channels and human resources, and allocating business resources

**Creation Domain**

Maintain readiness so that we can plan and achieve by ourselves a framework for commercialization including new local industries and business models

**Overall Target**

Shift in employee awareness and performance and use of business resources

#### Three pillars for achieving our growth strategy

##### Sales strategy

- Intensify sales coverage with focus on branches and expand area
- Increase contact with customers with focus on people and strengthen problem resolution capabilities
- Carry out measures focusing on non-face-to-face banking channels

##### Human resource strategy

- Build and put into effect human resource portfolio plan
- Restructure human resource training

##### Build infrastructure

- Review business processes
- Focus investments on systems that generate revenue

#### Initiate creation strategy

Conceive and promote commercialization including local industries, business models, etc.

#### Strengthen business management readiness

Strengthen management readiness in such areas as compliance and customer protection

#### Strengthen Group strategy

Provide a variety of solutions and services that leverage the Group's collective strength

Widely promote the Musashino brand

#### ● Target figures

Item	Fiscal 2015 target
Balance of deposits (year-end) *Includes balance of assets in custody	¥5,000.0 billion
Balance of loans (year-end)	¥3,500.0 billion
Net income	¥10.0 billion
Core OHR	Less than 68%
Capital ratio (Basel II Standard at the time of announcement for Management Plan)	10% or more

# Corporate Governance

## Basic Stance

Musashino Bank recognizes that upgrading and expanding its corporate governance capabilities are key priorities of management. In addition to adhering strictly to a policy of compliance with statutory and regulatory requirements as well as in-house rules and regulations, every effort is made to ensure that the Board of Directors and the Board of Corporate Auditors stringently monitor directors in the execution of their duties.

One outside director (elected June 2013) and three outside auditors who pose no threat of conflicts of interest with shareholders monitor and audit directors in the execution of their duties. They also take part in meetings of the Board of Directors where they are able to voice their opinions and offer advice on management proactively from a broad, independent and neutral perspective. This ensures that the management monitoring function is both objective and impartial.

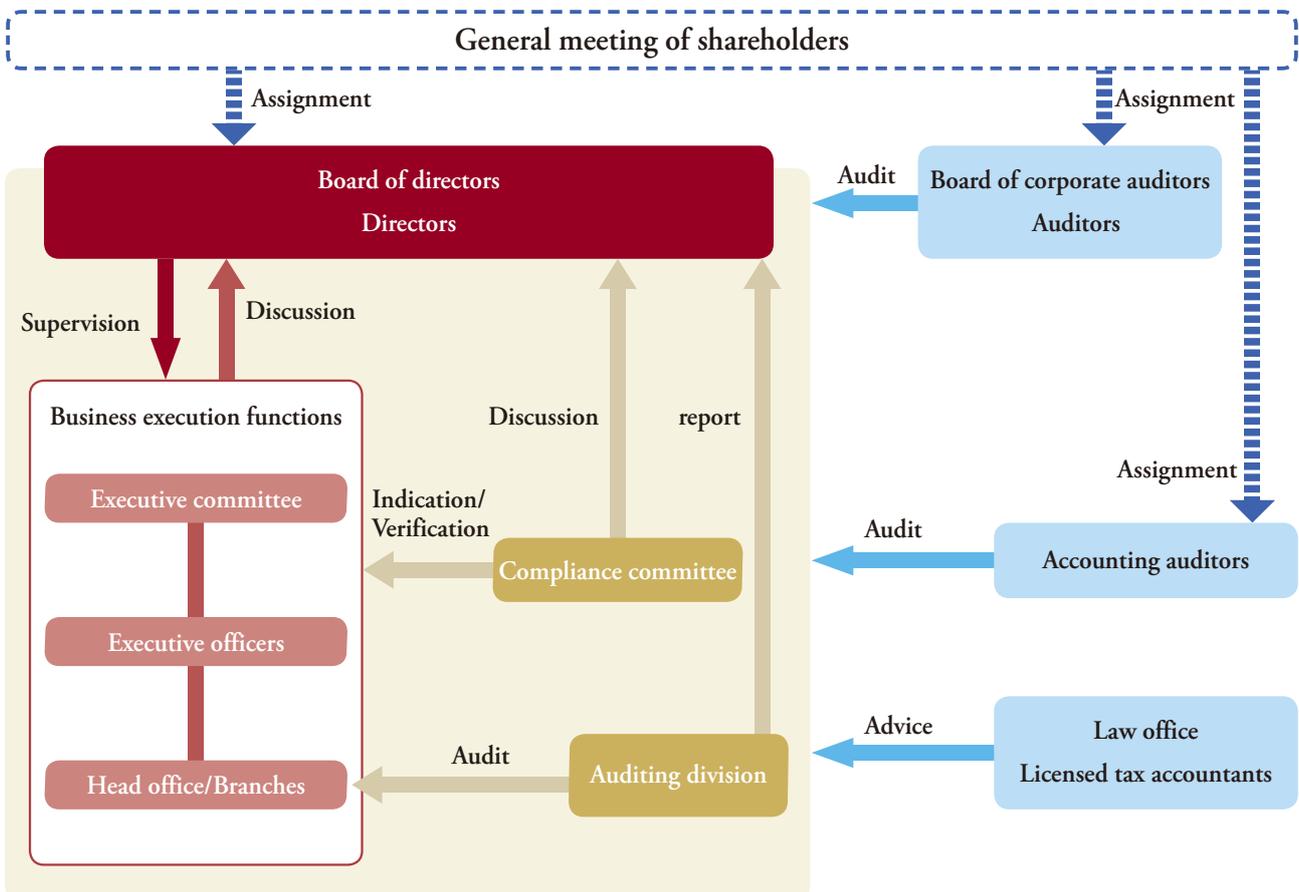
Also, the Bank has adopted an executive officer system in order to reduce the number of directors and to ensure a speedier decision-making process. Directors delegate authority to executive officers, who are charged with the responsibility of swiftly and efficiently carrying out their duties as leaders of the Bank's mainstay divisions.

## Corporate Governance Structure

The Board of Directors is positioned as the ultimate decision-making body of the Bank. While strictly adhering to the Bank's variety of in-house rules and regulations, the introduction of an executive officer system allows the Bank to separate and clarify the management and business execution functions. A structure has therefore been put in place to allow directors and executive officers to go about their assigned duties and responsibilities.

Musashino Bank's management decision-making, business execution and oversight structure is presented as follows.

Corporate Governance Structure



# Risk Management

## Risk Management Policy

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The risks associated with banking operations are becoming increasingly varied and complex. In order to ensure that the manner in which it manages its business is both sound and pertinent, Musashino Bank has formulated a set of internal management policies that take into consideration the Bank's strategic targets. Guided by these policies, the Bank works diligently to manage risk.

In specific terms, the Bank classifies all pertinent risks according to their nature and attributes. Classifications comprise (1) comprehensive risks; (2) credit risks; (3) market risks; (4) liquidity risks; and (5) operational risks (including administrative and system risks). These individual risks are then managed according to their particular characteristics and requirements.

## Management Structure by Type of Risk

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### (1) Comprehensive Risk Management

In order to appropriately manage the wide variety of risks on a comprehensive basis, the Bank has established the Comprehensive Risk Management Department and is working to develop and improve its management structure. The Comprehensive Risk Management Department puts in place rules and criteria for determining the scope of comprehensive risk management, management methods, evaluation of new products and operations as well as the level of acceptable risk after taking into consideration management strategies, management capacity as well as business scale and characteristics. Based on these rules and criteria the ALM (Asset Liability Management) and other appropriate committees monitor and control risks. The results of these activities are reported to the Board of Directors and other relevant bodies on a regular basis.

### (2) Credit Risk Management

Musashino Bank has historically taken steps to maintain the independence of the Credit Screening Division and to build a stringent screening and management structure in order to maintain and strengthen the soundness of its assets. At the same time, the Bank has adopted a ranking system and endeavored to upgrade and expand its credit risk management capabilities as a part of efforts to establish objective decisions and lending policies on an individual transaction counterparty basis.

### (3) Market Risk Management

Musashino Bank has established the Market Risk Management Department in order to appropriately manage market risks. Relevant steps are taken to ensure the independence of the Department from the Market Management Department and Business Promotion Division and to establish and develop a structure that is capable of harnessing the checks-and-balances function.

At the same time, the ALM and Credit Portfolio Management committees deliberate as and when required.

### (4) Liquidity Risk Management

Musashino Bank has established the Liquidity Risk Management and Cash Management departments in order to appropriately manage liquidity risk. While ensuring the independence of the Liquidity Risk Management Department from the Cash Management Department, Market Management Department and Business Promotion Division, every effort is made to establish and develop a structure that is capable of harnessing the checks-and-balances function. At the same time, the ALM Committee deliberates as and when required.

### (5) Operational Risk Management

Musashino Bank confronts broad and varied operational risks. In addition to classifying risks as (i) administrative risk, (ii) systems risk, and (iii) other operational risks (a. legal risk, b. human risk, c. tangible asset risk, and d. reputation risk), putting in place rules on an individual risk basis and promoting the management of each risk by the appropriate management department, the Bank has established the Operational Risk Management Department to undertake the management of operational risks on a comprehensive basis. The Bank also pushes forward measures aimed at establishing and developing a management structure that is capable of harnessing the checks-and-balances function with respect to each business division. Moreover, the Operational Risk Management Committee deliberates on issues as and when required.

## Crisis Management / BCP Structure

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Because bank services such as deposits and foreign exchange are services that are highly beneficial to society and the public, banks are strongly called on to ensure business continuity as a social responsibility they must fulfill, and this is recognized as an important management issue. As a regional financial institution with its operational base in Saitama Prefecture, Musashino Bank has established a Business Continuity Plan (BCP) as part of its contingency planning to ensure operations will continue in the case of events that are likely to have a major impact on business, such as large-scale earthquakes, system faults and pandemic influenza. The Bank has compiled manuals that establish concrete codes of behavior and countermeasures, and is working to ensure that all employees are thoroughly familiar with business continuity management measures to apply during emergencies. During the fiscal 2013 (year ended March 2014), the Bank carried out drills to train its employees in how to deal with emergencies such as large-scale earthquakes and damage to account-related systems. Systematic training like this enables it to improve its BCP by enhancing its effectiveness and rectifying problems that emerge during drills.

# Compliance

## Compliance Frame Work

The social and public mission of the banking business makes high demands for operations based on fair and transparent corporate activities in compliance with laws, regulations, and social norms and in accordance with the principles of self-discipline and self-responsibility. Accordingly, the Bank considers the thorough compliance of its directors and employees in business operations to be a top priority, and to this end management is actively involved in the fulfillment of the Bank's social and public mission as the Bank works to strengthen its compliance framework through steps such as system improvements and the establishment of teaching methods.

In the future the Bank will further strengthen its corporate activities based on a strong sense of ethics and integrity and its management approach in accordance with principles of self-responsibility as it further strengthens the compliance framework so that the Bank's daily business activities and actions ensure compliance with laws, regulations, and social norms.

### Basic compliance policy

Musashino Bank's basic compliance policy entails that officers and employees go about their daily duties in accordance with the Bank's two fundamental management guidelines, namely its corporate philosophy and Code of Behavior.

Under its unwavering corporate philosophy, the Bank strives to work in harmony with the local community it serves while maintaining a deep respect toward customers. As a local bank in Saitama Prefecture, we continue contribute to the local community and society. Furthermore, the Code of Behavior is founded on "the public mission of the bank" and stipulates "provision of high quality financial services," "compliance with laws, regulations, rules, etc.," "open business management through communication with society," "respecting the personalities of the employees," "tackling environmental problems," "tackling social contribution activities," and "resolute responses to anti-social forces" and directors and employees go about their daily duties guided by these basic policies.

### Compliance management structure

The Legal Affairs Office of the Risk Management Division serves as the compliance management department for the Bank. This Office undertakes the uniform management of all legal issues relating to compliance while providing instructions based on investigation and research. At the same time, the Office coordinates with officers responsible for legal compliance appointed to all branches while working to strengthen the compliance structure.

Regular meetings are held with the officers

responsible for legal compliance appointed to each branch in order to improve the level of compliance through the sharing of information and training and also, meetings are held each month with the officers responsible for legal compliance in the head office and each department. These meetings serve as a forum to deliberate on compliance issues and to share information.

In addition to the aforementioned, periodic compliance checks are undertaken at each branch by the officers responsible for legal compliance. In this manner, the Bank has put in place a mechanism that is capable of grasping the status of daily compliance management. Furthermore, Musashino Bank has established the Compliance Committee with the president of the bank serving as the chairperson, which serves as the organization that checks the status of compliance on a Bank-wide basis while considering any and all other important matters through regularly held meetings.

In addition, the committee evaluates and checks on the progress and implementation status of the "Compliance Program" approved by the Board of Directors.

### Compliance manual

To ensure the compliance of its officers and employees, the Bank has distributed a compliance manual that has been approved by the board of directors to all of its officers and employees and is working to ensure that all staff members are fully aware of its contents.

The compliance manual contains sections on the Bank's corporate philosophy, code of behavior, and basic policies. It contains a section on compliance standards that stipulates the matters officers and employees should comply with, a section on the compliance framework that provides an explanation on various structures at the Bank including education and verification structures, a section on laws and regulations that require directors' and employees' compliance which contains an explanation on the laws and regulations that bank employees are required to be knowledgeable of, and a pick-up compliance section that provides a more detailed explanation on matters that should be prioritized in the conduct of daily work. The compliance manual serves as a standard for making decisions and taking actions in everyday business activities.

### Elimination of anti-social forces

The Bank has stipulated the elimination of anti-social forces as a basic policy and is working toward blocking all relationships with anti-social forces. Furthermore, in accordance with the basic policy we have established a manual which stipulates our specific initiatives for blocking relationships with anti-social forces, and we are endeavoring to educate the bank employees about this issue through training and other measures.

# Appealing Business Foundation (Saitama Prefecture)

## 1. Favorable Climate and Topography

Saitama Prefecture covers 3,798 square kilometers and accounts for around 1% of Japan's land area, ranking 39th out of 47 prefectures in size. The area of prefectural land covered by mountains is less than the national average, while the area of lowlands and tableland is greater. Rivers account for 3.90% of the prefecture's area, the highest figure in the country.

Although summers are hot and humid, and dry winds often blow in winter, it is very comfortable to live in because it has more clear days annually than anywhere else in Japan, and has few natural disasters.

### Dimensions

103km from east to west, 52km from north to south

### Prefectural land area (October 2010)

3,798 square meters

### Total population (May 2010)

7,231,975 people

### Total number of households (May 2010)

2,929,749 households

### Average age (May 2010)

43.6 years old

### Nominal prefectural aggregate production (FY2010)

¥20,108.3 billion

### Per capita income of prefectural residents (FY2010)

¥2.78 million

### Climate (Kumagaya Meteorological Office averages for FY2012)

Average temperature: 15.1°C

Average precipitation: 1,079.0 mm

## 2. The Huge Tokyo Area Market and Continuing Population Growth

Saitama Prefecture, which is Musashino Bank's main area of operations, borders Tokyo and six prefectures. The Prefecture is located in the heart of the huge market comprising the Tokyo metropolitan area, in which lives one-third of the population of Japan (approximately 40 million people). While urbanization and industrialization are progressing in Saitama Prefecture due to the great convenience gained from being next to Tokyo, the population has grown consistently thanks to an abundance of nature and a comfortable living environment. (An estimated population of 7.22 million people as of April 2014)

## 3. Advanced Traffic Network

### 1) Advanced Road Traffic Network

Saitama is also well-positioned as a transportation hub, with the Kan'etsu, Tohoku, and Joban expressways traversing north to south and the Tokyo Gaikan Expressway and the Metropolitan Inter-City (Ken-O) Expressway traversing east to west.

### 2) A High-Quality Railway Network

With our head office based in Omiya, the Bank is directly connected to major cities via the Tohoku, Akita, Yamagata, Joetsu, and Nagano Shinkansen (bullet train) network. Note that the Hokuriku Shinkansen is scheduled to commence operations in 2015.

## 4. Collection of diverse manufacturing industries

### 1) Diverse Manufacturing Industries

Saitama has a diversity of local industries with the automotive-related industry at its core. (e.g., molds and castings in Kawaguchi City, optical equipment in Saitama City, etc.)

### 2) Aggressive Development by Attracting Companies to Saitama Prefecture

Saitama is aggressively encouraging companies to establish operations within the prefecture as part of its efforts to promote industry there. From the fiscal 2013 we have been promoting the "Chancemaker Saitama Strategy III" and with respect to the goal of attracting 150 additional companies to Saitama we have attracted an additional 82 companies in one year.

## 5. Concentration of Universities and Research Institutes

More than 250 research institutes and 61 college campuses are located in Saitama Prefecture. The Bank has formed alliances with seven universities as part of its commitment to meeting customer needs in areas such as research and development and management issue resolution through cooperation with industry and academia.

# Corporate Social Responsibility (Main Initiatives)

## Contributing to the Local Economy

### Deposits\* from region

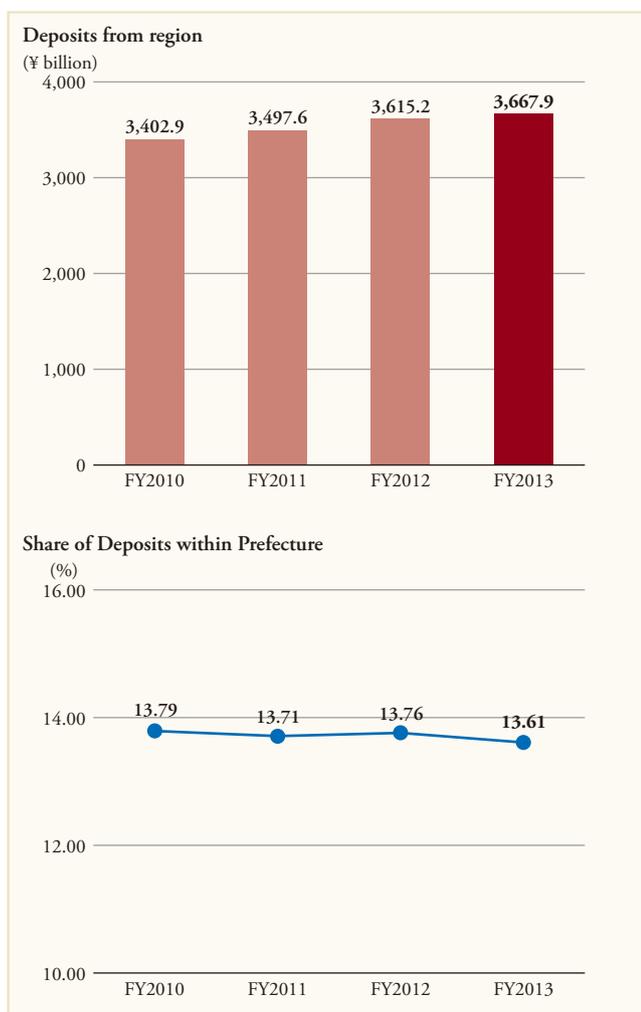
In response to the lifestyles of our regions' customers, the Bank is enhancing its products and services so that customers can use them with peace of mind. As a result of these efforts, the total balance of deposits (including negotiable deposit) as of March 31, 2014 increased ¥128.3 billion, or 3.5%, year on year, to ¥3,788.7 billion. Deposits\* from region increased ¥52.7 billion to ¥3,667.9 billion yen. The ratio of deposits\* from region continued to be high, at 99.26%.

Accordingly, the Bank's share of deposits\* within the prefecture as of March 31, 2014, declined 0.15 of a percentage point to 13.61%.

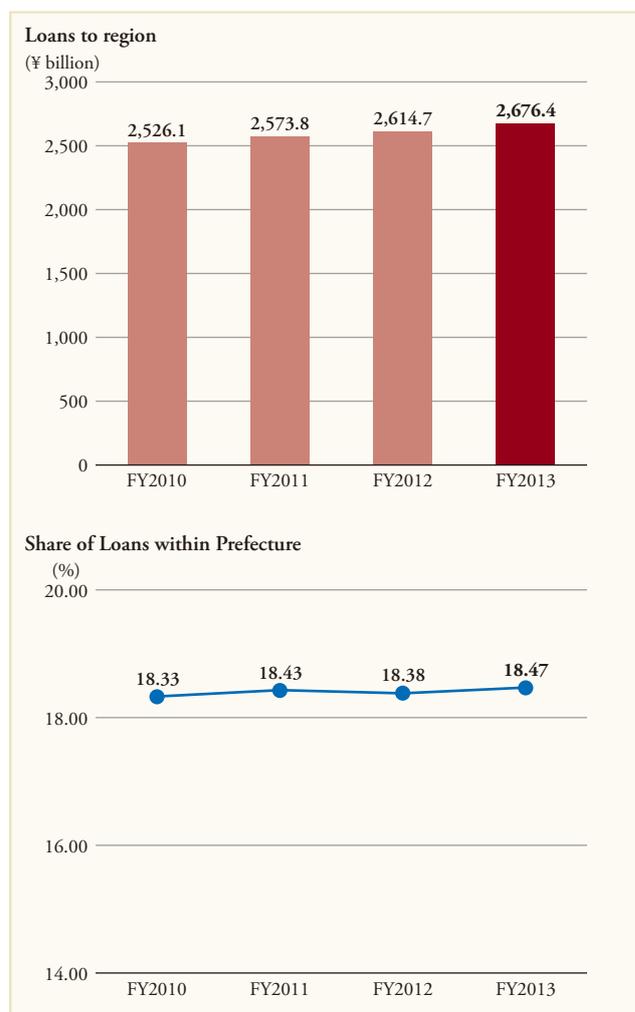
\*Deposits exclude negotiable deposit.

### Loans to region

In addition, total balance of loans as of March 31, 2014 climbed ¥116.0 billion, or 3.9%, year on year to ¥3,078.6 billion. Loans to region rose ¥61.7 billion to ¥2,676.4 billion, maintain a high loan to region ratio of 86.94%. The Bank's share of loans in the prefecture improved 0.09 of a percentage point to 18.47%.



Source: Research and Statistics Department, Bank of Japan

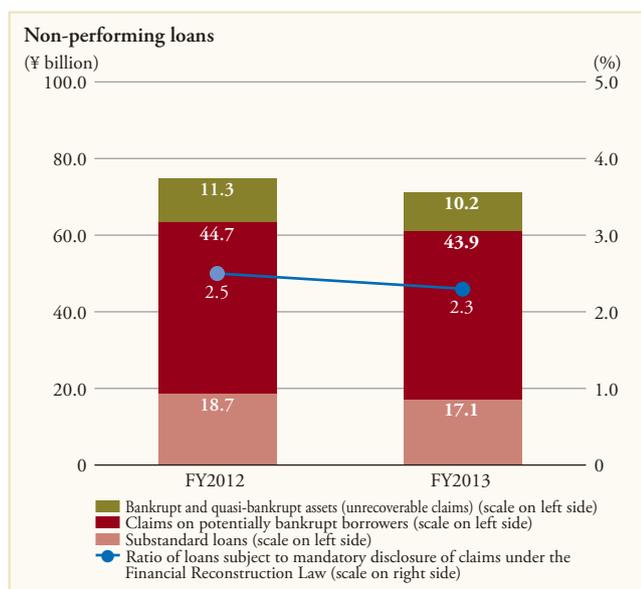


Source: Research and Statistics Department, Bank of Japan

## Towards a sounder financial position

The pursuit of a sounder financial position is ranked as one of the Bank's key priorities. Therefore, we are strengthening our capital adequacy and reducing non-performing loans (NPL).

Moreover the Bank has maintained a consolidated and non-consolidated capital adequacy ratio (Basel III domestic standard) of 11.22% and 10.91% respectively, so we have continued to maintain a very sound financial position. The Bank's non-performing loan ratio based on standards, established by the Financial Reconstruction Act, declined by 0.20 of a percentage point to 2.30%.

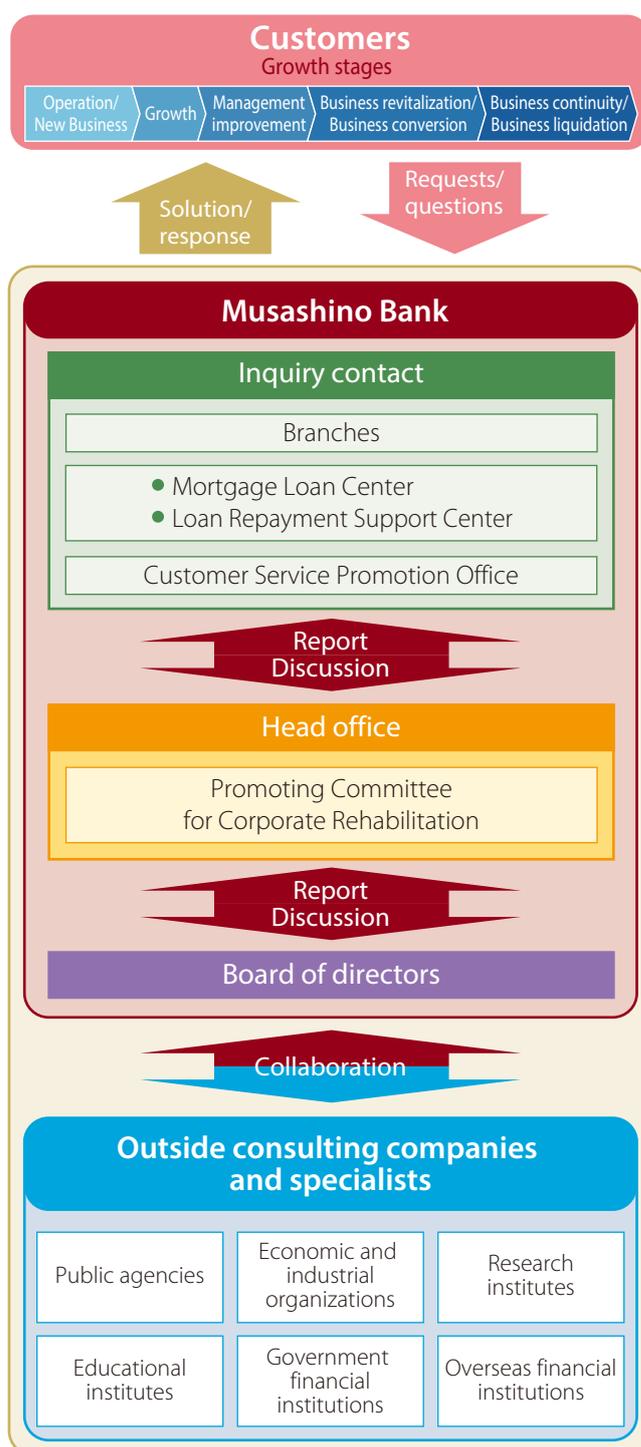


## Providing SME Management Assistance

### Status of Development of Assistance Systems

The Bank provides solutions for general management issues that customers face during growth stages, undertaking finely tuned responses by leveraging its consulting functions and collaborating with outside institutions as needed.

### Management Assistance System



## Initiative related to SME Management Assistance

The Bank provides a wide array of solutions regarding the various business stages of client companies while maintaining systems that meet the needs of clients.

### • Diversify Financing Methods

In collaboration with Saitama Prefecture, various municipalities and credit guarantee companies, the Bank diversifies its financing methods by enhancing government-directed credit service lineups to meet the needs of client companies and by handling private placement bonds.

### • Financing Methods That Ascertain Corporate Value

The Bank of Japan established a new financing system in August 2011 in order to strengthen financing methods that suit different types of businesses. In response, the Bank has established and is aggressively promoting the ABL Fund, which is worth a total of ¥10.0 billion.

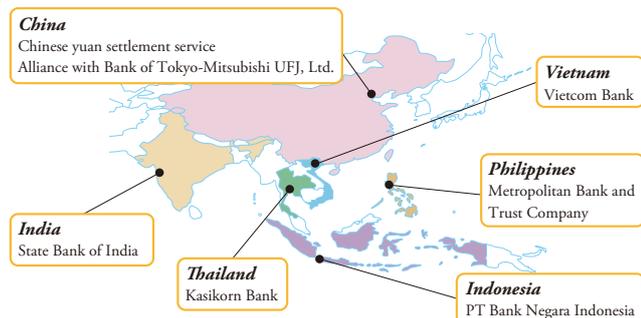
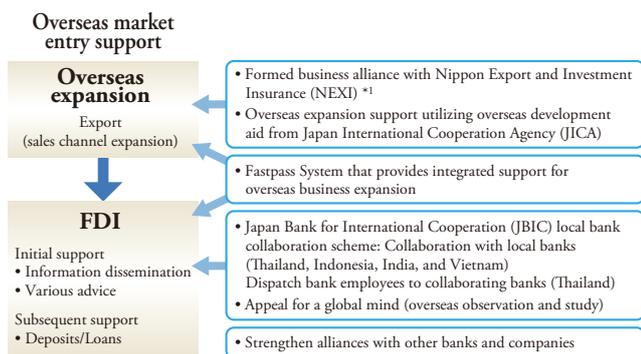
### • Strengthen Business Matching and Other Measures

The Bank maintains systems to meet a variety of needs in areas including market channel expansion and technology partnerships by aggressively promoting large-scale business conferences and business matching activities.

### • Assisting Companies with Foreign Direct Investment (FDI)

The Bank established the Global Business Advisory Office within the International and Treasury Division in an effort to bolster its support for the overseas expansion of its client companies. The bank is currently assisting approximately 50 FDI projects, primarily in ASEAN countries such as Thailand, Vietnam, and Indonesia.

Furthermore, in April 2014 we sent one trainee to KasikornBank in Thailand to locally and directly handle consultations from companies that have already entered Thailand. In addition to Thailand, we have formed business alliances with leading regional banks in Indonesia, India, the Philippines, and Vietnam, and we are providing various forms of assistance including opening accounts and providing local information. In addition, we are utilizing government measures to actively help our clients enter overseas markets and develop their businesses overseas.



### • Business Assistance Involving Collaboration with Outside Organizations

We actively support SMEs' efforts to develop new products and create new markets by utilizing "Assistance subsidies for prototype development, etc. by manufacturing SMEs and small-scale enterprises" and other programs administered by the Ministry of Economy, Trade and Industry and other government agencies.

### • Support for Management Improvement and Corporate Rehabilitation

To provide specialized support to client companies that are further strengthening efforts to facilitate financing with the aim of management improvement and corporate rehabilitation, we established the Corporate Management Support Office in the Credit Division. In conjunction with individual bank branches, this new division offers help with advice on management analytics and improvement policies and support for compiling business improvement plans. Further, we assist in corporate rehabilitation and management improvement based on the circumstances of each individual client company in collaboration with outside consulting companies and specialists.

In addition, the Bank meets various needs that include business succession and changes in business activities as well as providing solutions that include M&As and developing support for changes in business activities when necessary. Based on its across-the-board assistance systems, including Group companies, the Bank provides optimal support in such areas as management improvement, corporate rehabilitation and changes in business activities.

## Initiative related to Revitalization of the Region

### Initiatives for Growth Fields

The Bank addresses financing needs related to growth fields in a timely manner. The government-directed credit service, Musashino Growth Platform Strengthening Fund, commenced in September 2010 and as of March 31, 2014 has reached 849 loans worth ¥45.5 billion.

### Initiatives for New Growth Fields

Musashino Bank is strengthening its initiatives for the new growth fields which are sometimes called the New 3Ks: *Kenko* (health including medical and nursing care), *Kankyo* (the environment), and *Kanko* (tourism).

### • Activities in the Kenko (Health including Medical and Nursing Care) Field

In light of Saitama Prefecture's rapidly aging population, large-scale development of medical and nursing facilities is taking place, so the Bank meets a variety of needs that go beyond financing needs to include providing matching services for medical institutions and nursing facilities.

• **Activities in the *Kankyō* (Environment) Field**

In 2012, the Bank began handling the Musashino Solar Power Generation Business Assistance Loan to support businesses entering the solar power field by utilizing renewable energy feed-in tariffs. In addition, we held solar power generation seminars in concert with Bugin\* Economic Research Institute, Ltd. (a Group company think tank) in order to help improve knowledge and knowhow regarding power generation businesses.

\*Bugin is a short way of reading the characters for Musashino Bank

• **Activities in the *Kankō* (Tourism) Field**

We are working on revitalizing tourism in Saitama through industry-academia collaboration with Rikkyo University and other measures.

**Activities in the Agricultural Field**

The Bugin Agricultural Management Course has been held five times to date, with over 700 farmers participating. We also actively engage in business matching initiatives in order to expand sales channels. In November 2013, we held the Saitama Origin! Delicious Food Fair, which attracted over 18,000 visitors.



Saitama Origin! Delicious Food Fair

**Activities to Further Revitalize the Region**

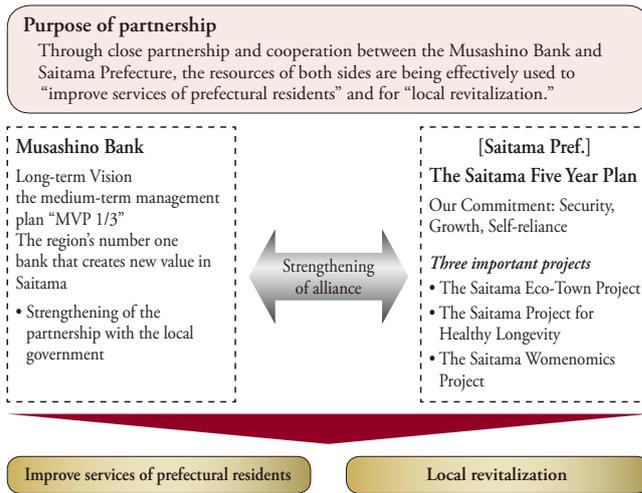
**Establishment of the Community Value Creation Office**

In April 2013 we newly established the Community Value Creation Office in the Local Community Support Division. The Community Value Creation Office launches a variety of businesses together with people in the regional community with the aim of contributing to the further revitalization of this region.

**Conclusion of a Comprehensive Partnership Agreement with Saitama Prefecture**

In October 2013 we became the first financial institution in the prefecture to conclude a Comprehensive Partnership Agreement with Saitama Prefecture. The agreement has the objectives of collaborating and working together to improve services to the people of the prefecture and revitalize the region. There are 16 areas of collaboration, for example including promotion of industry and tourism, employment promotion, assistance for childcare, communicating the attractiveness of Saitama, next-generation human resources development, and environmental protection.

**Partnership between Saitama Prefecture and the Musashino Bank**



**Expansion of our Product Lineup Tailored to the Life Stages of Individual Customers**

Regarding new products and services for individual customers, in June 2013 we commenced handling the For Your Future dedicated account that makes lump-sum donations to education funds. Thanks to your support we have received many inquiries about this product and have opened approximately 400 of these accounts worth a total of ¥2.9 billion to date.

Furthermore, in June 2014 we commenced handling the Musashino Inheritance Fixed-Term Deposit which manages assets received through inheritance with a special interest rate. We have received many consultations and inquiries from our customers about this product as well and the number of these accounts is currently increasing.

The Reverse Mortgage supports the second life of seniors and in September 2013 we commenced handling it in financial institutions within the prefecture for the first time. In addition, we are differentiating ourselves from other banks, for example by selling the product called Kirarie, the Musashino Free Loan for Women in response to the needs such as beauty treatments and childbirth.



Musashino Reverse Mortgage

**Contributing to the Local Community**

**Building People-friendly Branches**

We are enhancing our branch facilities and making them barrier-free so that our customers can use the branches with greater peace of mind and greater comfort. We are also offering hearing devices, simple writing devices, communication boards and other tools at our counters so that our customers can conduct their transactions and procedures in the branches with peace of mind.



Communication Board in Chinese

## Contributing to Local Social Welfare

Our initiatives include the training of “Dementia Supporters”\* in cooperation with the Saitama Prefecture government and local community-building by assisting people with dementia and their families.

In May 2012, we established the Musashino Volunteer Club as part of a project to commemorate the 60th anniversary of the Bank’s founding. Volunteer activities have been carried out in the areas of social welfare, environmental protection, and financial education. We are also actively installing social contribution-type vending machines in the branches, and donating some of the sales revenue from the machines to organizations that are engaged in social contribution activities.

## Support for Financial Education

To support the financial education of the next generation who are the bearers of the future, the Bank actively conducts study tours of the Bank and onsite learning for children. Moreover, the Bank has taken steps to foster awareness about banking work by endowing a university chair, offering internships aimed at university students and high school students in Saitama Prefecture, and through other initiatives. The Bank actively supports the cultivation of their view of occupation.



Financial education volunteer at “Child☆Dream☆Future Festival”

## Promoting Local Arts and Sports

To promote local culture and the arts, the Musashino Bank has been holding concerts by professional violinists in music rooms and other locations at elementary schools since fiscal 2009. By June 2014 approximately 2,200 children from 20 schools had attended these concerts.

To promote sports, Musashino Bank executed a top partner agreement with J-League (a Japanese soccer league) club OMIYA ARDIJA and sponsored the Musashino Bank Presents Match and also organized a soccer class for local elementary school students in cooperation with the coaches of OMIYA ARDIJA. Furthermore, we have held Baseball Classes for which we invite former players from the Seibu Lions to be the coaches and invite the local boys’ baseball teams to attend.



## Measures to Protect our Irreplaceable Natural Environment

### Concern for the Environment

In order to pass on the irreplaceable lush green natural beauty of Saitama Prefecture to the next generation, the Bank has offered environment-related products and been actively involved in programs to protect and create environments. We are engaged in environmentally-friendly construction of new branches and renovations of existing branches, for example by introducing LED lighting and wall greening. The New Operations Center obtained the banking industry’s first Japan Habitat Evaluation and Certification Program (JHEP) certification (certification rank: A), a certification program that evaluates businesses that have enhanced their biodiversity, from the Ecosystem Conservation Society-Japan.

In addition, the entire bank is implementing power-saving measures including implementing Cool Biz and Warm Biz, setting the temperatures in the workspaces, reducing the number of times lights are turned on, restricting the use of copiers, and other measures.



Greening of the Musashi-Urawa Branch

### Cooperating in Saitama Prefecture Greening Projects

Every year, Musashino Bank donates to the Saitama Green Trust Fund, which was established to appropriate funds to bankroll expense required to protect the prefecture’s rich natural and precious historic environment. Donations thus far have totaled ¥104.55 million.

Furthermore, The Musashino Green Fund, a charitable trust, has donated a total of ¥3 million to 21 organizations in fiscal 2014 and thus, has been actively involved in programs to protect and create natural environments of Saitama Prefecture.

### Environmental Education for Employees (the only environmental program of a regional bank)

With the support of the Ecosystem Conservation Society – Saitama, Musashino Bank opened a College in fiscal 2008.

The College provides an educational forum that strives to enhance natural environment conservation and ecosystem protection knowledge.

If employees complete the courses at this college they can obtain the qualification “Ecosystem Protection Grade 2 Instructor” and 80 people from the Bank held this qualification as of April 30, 2014.



Disinfecting of alien plants at the Mitsumata-numa Biotope

## Measures to Train Human Resources who Can Contribute to the Development of the Region

### Focusing on Human Resources Development

The Musashino Bank understands its “human resources strategy” to be one of its important measures, so it is actively working on human resources development. Through the MVP Academy seminar course for bank employee development, the Bugin Business School for the career formation of the bank employees, e-Learning, and other measures, we are enhancing human resources development and human resources utilization. Furthermore, we are building a workplace in which diverse human resources can be successful. For example, we are actively promoting women to management positions, and through the introduction of the Senior Staff System, we actively promoting everyone from young bank employees to veteran bank employees, regardless of their gender, to a variety of posts.

### Building a Workplace in which Diverse Human Resources can be Successful

We are building a workplace in which diverse human resources can be successful. For example, we are actively promoting everyone from young bank employees to veteran bank employees, regardless of their gender, to a variety of posts.

Specifically, Musashino Bank is actively promoting initiatives aimed at creating workplaces in which women can play a major role, and in June 2013 a woman officer took up a position as an outside director.

We are also designing career visions and career paths for women and actively promoting women to account executive positions and specialized operations. The number of women in management posts and junior management posts is steadily increasing and we intend to further increase this number by 50% during the three years of the current medium-term management plan.

In addition, for bank employees that have reached retirement age we have introduced the Career Master Staff System that reemploys them up until the age of 65. They utilize their valuable experience and knowledge as veteran

bank employees to participate in areas such as responding to consultations from customers. We have established the Bank Employees Promotion System so that employees with a specified contract period such as temporary employees can be promoted to regular salaried bank employees if they satisfy certain conditions. We are taking the approach of promoting temporary employees working in the bank to regular salaried bank employees in order to fairly evaluate the motivation and ability of not only the regular salaried bank employees but also the temporary employees.

In addition we are hiring outside human resources and encouraging their promotion to a variety of fields in which they can utilize the specialized knowledge and skills that they acquired in their previous jobs.



### Helping Employees to Achieve a Balance between Work and Family Life

The Bank is working to enhance systems to enable all employees to balance their work and family life (work-life balance), with the goal of building a workplace where they can actively work for many years.

One of these initiatives is the establishment of the Bugin Return System that allows former company employees who had left due to family circumstances to be reemployed. Regarding childbirth and childcare, we have established a Childcare Leave System and a Short-term Work System that both exceed the requirements under the law. In addition, we have introduced a system under which an employee can go home without working overtime upon their request in advance. We also implement the Return-to-Work Assistance Program which provides information to employees during their childcare leave period to help their personal development and conducts interviews with the employees before their return to the workplace to facilitate a smooth return.

The other systems we have introduced to assist employees to maintain a balance between work and family life include the Nursing Leave System and Nursing Short-term Work System that assist employees to care for their families.

# Consolidated Balance Sheets

The Musashino Bank, Ltd. and Consolidated Subsidiaries As of March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars*
	2014	2013	2014
<b>Assets</b>			
Cash and due from banks.....	¥ 150,996	¥ 178,775	\$ 1,467,121
Call loans .....	10,000	—	97,162
Commercial paper and other debt purchased .....	5,959	1,545	57,907
Trading account securities.....	32	282	312
Money held in trust.....	1,500	1,495	14,574
Investment securities .....	772,365	722,195	7,504,525
Loans and bills discounted .....	3,066,023	2,950,897	29,790,352
Foreign exchanges .....	3,320	2,545	32,262
Lease receivables and lease investment assets.....	16,319	15,231	158,564
Other assets.....	19,917	23,442	193,524
Tangible fixed assets.....	37,049	36,329	359,987
Intangible fixed assets.....	2,902	3,300	28,198
Net defined benefit asset .....	1,164	—	11,316
Deferred income taxes assets.....	1,658	3,588	16,110
Customers' liabilities for acceptances and guarantees .....	8,566	9,294	83,230
Reserve for possible loan losses .....	(17,977)	(19,582)	(174,675)
<b>Total assets.....</b>	<b>¥4,079,797</b>	<b>¥3,929,343</b>	<b>\$39,640,477</b>
<b>Liabilities</b>			
Deposits.....	¥3,780,337	¥3,649,510	\$36,730,835
Call money and bills sold .....	926	940	9,000
Borrowed money.....	24,954	25,796	242,461
Foreign exchanges .....	177	114	1,722
Bonds.....	25,000	10,000	242,907
Other liabilities .....	24,026	26,148	233,450
Reserve for employees' bonuses .....	1,218	1,228	11,840
Reserve for directors' bonuses.....	10	13	104
Reserve for employees' retirement benefits .....	—	5,545	—
Net defined benefit liability.....	5,211	—	50,639
Reserve for loss on interest refunded.....	89	108	865
Reserve for reimbursement of dormant deposits .....	384	278	3,731
Reserve for point loyalty programs .....	63	60	617
Reserve for contingent losses .....	612	709	5,947
Deferred income taxes liabilities .....	543	—	5,277
Deferred income taxes liability on land revaluation .....	4,910	4,937	47,713
Acceptances and guarantees.....	8,566	9,294	83,230
<b>Total liabilities.....</b>	<b>¥3,877,031</b>	<b>¥3,734,688</b>	<b>\$37,670,345</b>
<b>Net assets</b>			
Common stock .....	¥ 45,743	¥ 45,743	\$ 444,461
Capital surplus .....	38,351	38,351	372,631
Retained earnings.....	89,584	81,735	870,424
Treasury stock.....	(819)	(816)	(7,960)
<b>Total shareholders' equity.....</b>	<b>172,859</b>	<b>165,013</b>	<b>1,679,555</b>
Unrealized gain on available-for-sale securities.....	18,460	18,202	179,362
Deferred loss under hedge accounting .....	(999)	(1,423)	(9,707)
Land revaluation excess .....	7,603	7,653	73,875
Remeasurements of defined benefit plans .....	(924)	—	(8,979)
<b>Total accumulated other comprehensive income .....</b>	<b>24,140</b>	<b>24,431</b>	<b>234,551</b>
Share warrant .....	57	37	559
Minority interests.....	5,708	5,172	55,465
<b>Total net assets .....</b>	<b>202,766</b>	<b>194,654</b>	<b>1,970,132</b>
<b>Total liabilities and net assets .....</b>	<b>¥4,079,797</b>	<b>¥3,929,343</b>	<b>\$39,640,477</b>

\* U.S. dollar figures have been translated at the rate ¥102.92 to U.S.\$1, the prevailing market rate as of March 31, 2014.

# Consolidated Statements of Income and Comprehensive Income

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2014 and 2013

Consolidated Statements of Income	Millions of Yen		Thousands of U.S. Dollars*
	2014	2013	2014
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥42,215	¥45,454	\$410,180
Interest and dividends on securities.....	7,724	7,175	75,048
Other interest income.....	258	228	2,509
Fees and commissions .....	10,765	9,940	104,600
Other operating income.....	3,246	4,159	31,544
Other income.....	12,709	10,722	123,489
<b>Total income.....</b>	<b>76,919</b>	<b>77,680</b>	<b>747,373</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits.....	1,997	2,337	19,405
Interest on borrowings and rediscounts.....	256	321	2,494
Other interest expenses .....	1,027	1,167	9,978
Fees and commissions .....	4,482	4,411	43,555
Other operating expenses .....	1,536	1,253	14,928
General and administrative expenses .....	38,445	38,065	373,552
Other expenses.....	10,409	11,510	101,141
<b>Total expenses.....</b>	<b>58,155</b>	<b>59,067</b>	<b>565,057</b>
Income before income taxes .....	18,763	18,612	182,315
<b>Income taxes</b>			
Current .....	5,529	6,463	53,724
Deferred.....	2,416	719	23,481
	7,946	7,182	77,206
Minority interests .....	502	287	4,880
<b>Net income for year.....</b>	<b>¥10,315</b>	<b>¥11,142</b>	<b>\$100,228</b>
Net income per share (yen and dollars) .....	¥307.66	¥330.11	\$2.98

\* U.S. dollar figures have been translated at the rate ¥102.92 to U.S.\$1, the prevailing market rate as of March 31, 2014.

Consolidated Statements of Comprehensive Income	Millions of Yen		Thousands of U.S. Dollars*
	2014	2013	2014
Income before minority interests .....	¥10,817	¥11,430	\$105,109
Other comprehensive income:			
Net unrealized losses on securities.....	295	8,556	2,869
Unrealized gains on hedging derivatives.....	424	(14)	4,124
Total other comprehensive income .....	719	8,541	6,994
Comprehensive income.....	¥11,537	¥19,971	\$112,103
Comprehensive income attributable to:			
Shareholders of the Company.....	¥10,997	¥19,646	\$106,859
Minority interests .....	539	325	5,244

\* U.S. dollar figures have been translated at the rate ¥102.92 to U.S.\$1, the prevailing market rate as of March 31, 2014.

# Consolidated Statements of Changes in Net Assets

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2014 and 2013

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2012 .....	¥45,743	¥38,351	¥73,996	¥ (905)	¥157,186
Changes during the accounting period:					
Cash dividends.....			(2,371)		(2,371)
Net income.....			11,142		11,142
Purchases of treasury stock.....				(950)	(950)
Disposition of treasury stock.....		(1)		9	7
Cancellation of shares .....		(1,030)		1,030	—
Write-off from land revaluation excess .....			—		—
Transfer to capital surplus from retained earnings.....		1,031	(1,031)		—
Net changes in items other than shareholders' equity ...					
Total changes during the accounting period.....	—	—	7,738	88	7,827
Balance as of March 31, 2013 .....	45,743	38,351	81,735	(816)	165,013
Changes during the accounting period:					
Cash dividends.....			(2,514)		(2,514)
Net income.....			10,315		10,315
Purchases of treasury stock.....				(11)	(11)
Disposition of treasury stock.....		(2)		8	6
Cancellation of shares .....		—		—	—
Write-off from land revaluation excess .....			49		49
Transfer to capital surplus from retained earnings.....		2	(2)		—
Net changes in items other than shareholders' equity ...					
Total changes during the accounting period.....	—	—	7,848	(2)	7,846
Balance as of March 31, 2014 .....	¥45,743	¥38,351	¥89,584	¥ (819)	¥172,859

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred loss under hedge accounting	Land revaluation excess	Remeasurements of defined benefit plans	Accumulated other comprehensive income	Share warrant	Minority interests	Total net assets
Balance as of March 31, 2012 .....	¥ 9,683	¥(1,408)	¥7,653	¥ —	¥15,927	¥19	¥4,850	¥177,984
Changes during the accounting period:								
Cash dividends.....								(2,371)
Net income.....								11,142
Purchases of treasury stock.....								(950)
Disposition of treasury stock.....								7
Cancellation of shares .....								—
Write-off from land revaluation excess .....								—
Transfer to capital surplus from retained earnings.....								—
Net changes in items other than shareholders' equity ...	8,518	(14)	—	—	8,503	17	322	8,843
Total changes during the accounting period.....	8,518	(14)	—	—	8,503	17	322	16,670
Balance as of March 31, 2013 .....	18,202	(1,423)	7,653	—	24,431	37	5,172	194,654
Changes during the accounting period:								
Cash dividends.....								(2,514)
Net income.....								10,315
Purchases of treasury stock.....								(11)
Disposition of treasury stock.....								6
Cancellation of shares .....								—
Write-off from land revaluation excess .....								49
Transfer to capital surplus from retained earnings.....								—
Net changes in items other than shareholders' equity ...	257	424	(49)	(924)	(291)	20	536	264
Total changes during the accounting period.....	257	424	(49)	(924)	(291)	20	536	8,111
Balance as of March 31, 2014 .....	¥18,460	¥ (999)	¥7,603	¥(924)	¥24,140	¥57	¥5,708	¥202,766

	Thousands of U.S. Dollars*				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2013 .....	\$444,461	\$372,631	\$794,165	\$(7,937)	\$1,603,319
Changes during the accounting period:					
Cash dividends.....			(24,432)		(24,432)
Net income .....			100,228		100,228
Purchases of treasury stock.....				(109)	(109)
Disposition of treasury stock.....		(20)		86	66
Cancellation of shares .....		—		—	—
Write-off from land revaluation excess .....			483		483
Transfer to capital surplus from retained earnings .....		20	(20)		—
Net changes in items other than shareholders' equity ...					
Total changes during the accounting period.....	—	—	76,258	(23)	76,235
Balance as of March 31, 2014 .....	\$444,461	\$372,631	\$870,424	\$(7,960)	\$1,679,555

	Thousands of U.S. Dollars*							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred loss under hedge accounting	Land revaluation excess	Remeasurements of defined benefit plans	Accumulated other comprehensive income	Share warrant	Minority interests	Total net assets
Balance as of March 31, 2013 .....	\$176,856	\$(13,832)	\$74,358	\$ —	\$237,383	\$361	\$50,257	\$1,891,322
Changes during the accounting period:								
Cash dividends.....								(24,432)
Net income .....								100,228
Purchases of treasury stock.....								(109)
Disposition of treasury stock.....								66
Cancellation of shares .....								
Write-off from land revaluation excess .....								483
Transfer to capital surplus from retained earnings .....								
Net changes in items other than shareholders' equity ...	2,506	4,124	(483)	(8,979)	(2,831)	197	5,208	2,574
Total changes during the accounting period.....	2,506	4,124	(483)	(8,979)	(2,831)	197	5,208	78,809
Balance as of March 31, 2014 .....	\$179,362	\$ (9,707)	\$73,875	\$(8,979)	\$234,551	\$559	\$55,465	\$1,970,132

\* U.S. dollar figures have been translated at the rate ¥102.92 to U.S.\$1, the prevailing market rate as of March 31, 2014.

# Consolidated Statements of Cash Flows

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars*
	2014	2013	2014
<b>Cash flows from operating activities</b>			
Income before income taxes .....	¥ 18,763	¥ 18,612	\$ 182,315
Depreciation .....	2,674	2,608	25,985
Impairment losses.....	58	239	567
Amortization of goodwill .....	18	18	175
Decrease in reserve for possible loan losses.....	(1,605)	(1,009)	(15,596)
Increase (decrease) in reserve for employees' bonuses.....	(9)	1	(95)
Decrease in reserve for directors' bonuses .....	(2)	(1)	(24)
Decrease in reserve for employees' retirement benefits.....	—	(3)	—
Decrease (increase) in net defined benefit asset.....	345	—	3,353
Increase (decrease) in net defined benefit liability.....	102	—	993
Increase (decrease) in reserve for loss on interest refunded.....	(19)	27	(190)
Increase (decrease) in reserve for reimbursement of dormant deposits....	105	42	1,024
Increase (decrease) in reserve for point loyalty programs.....	2	(10)	28
Increase (decrease) in reserve for contingent losses.....	(97)	(81)	(946)
Interest income .....	(50,198)	(52,858)	(487,739)
Interest expenses.....	3,280	3,826	31,878
Loss (gain) on investment securities.....	(1,453)	(954)	(14,126)
Loss (gain) on money held in trust .....	(13)	0	(132)
Foreign exchanges gain.....	(312)	(420)	(3,035)
Loss (gain) on disposition of fixed assets.....	35	57	346
Net (increase) decrease in trading account securities.....	250	(79)	2,436
Net decrease (increase) in loans and bills discounted .....	(115,125)	(94,598)	(1,118,591)
Net increase (decrease) in deposits.....	62,996	114,824	612,094
Net increase (decrease) in negotiable certificate of deposits.....	67,830	(4,848)	659,055
Net increase (decrease) in borrowed money (excluding subordinated loans) ...	(842)	(623)	(8,183)
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)...	15,054	(40,080)	146,273
Net decrease (increase) in call loans and others.....	(14,414)	30,781	(140,056)
Net increase (decrease) in call money .....	(14)	(1,712)	(138)
Net decrease (increase) in foreign exchange, assets.....	(774)	(252)	(7,526)
Net increase (decrease) in foreign exchange, liabilities .....	62	(20)	609
Interest received .....	52,448	54,682	509,599
Interest paid .....	(3,787)	(4,464)	(36,799)
Other, net .....	(3,191)	(2,653)	(31,008)
Subtotal.....	32,167	21,048	312,548
Income taxes paid.....	(7,420)	(5,320)	(72,095)
Net cash provided by (used in) operating activities .....	24,747	15,728	240,452
<b>Cash flows from investing activities</b>			
Purchases of securities .....	(319,008)	(316,265)	(3,099,575)
Proceeds from sales of securities.....	193,026	263,541	1,875,497
Proceeds from maturities of securities.....	79,001	80,273	767,599
Increase in money held in trust.....	(4)	—	(43)
Decrease in money held in trust .....	—	0	—
Purchases of tangible fixed assets .....	(2,402)	(2,798)	(23,338)
Proceeds from tangible fixed assets .....	115	5	1,117
Purchases of intangible fixed assets .....	(656)	(1,237)	(6,380)
Payments for execution of asset retirement obligations .....	(20)	(3)	(202)
Net cash provided by (used in) investing activities .....	(49,949)	23,515	(485,325)
<b>Cash flows from financing activities</b>			
Borrowing of subordinated loans.....	—	2,500	—
Repayment of subordinated loans.....	—	(5,000)	—
Issuance of subordinated bonds.....	15,000	—	145,744
Cash dividends paid .....	(2,514)	(2,371)	(24,432)
Cash dividends paid to minority shareholders .....	(3)	(3)	(35)
Purchase of treasury stock.....	(11)	(950)	(109)
Proceeds from sales of treasury stock .....	6	7	66
Net cash provided by (used in) financing activities.....	12,477	(5,818)	121,232
Net increase (decrease) in cash and cash equivalents .....	(12,725)	33,425	(123,640)
Cash and cash equivalents at beginning of year.....	138,187	104,762	1,342,666
Cash and cash equivalents at end of year.....	¥125,462	¥138,187	\$1,219,026

\* U.S. dollar figures have been translated at the rate ¥102.92 to U.S.\$1, the prevailing market rate as of March 31, 2014.





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