



# Annual Report 2013

# 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, 7.21 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.

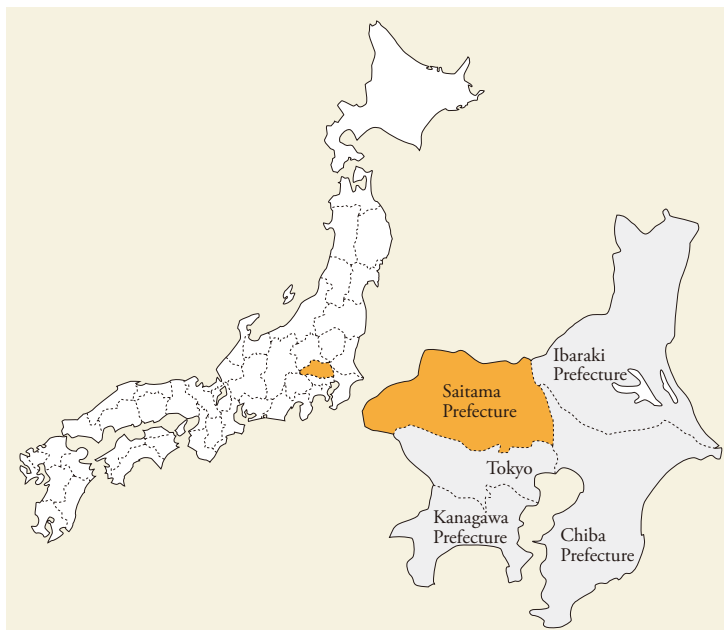
#### Bank Data (nonconsolidated basis, as of March 31, 2013)

|                                       |                                                                                                                                                                                                                                                                                          |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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)                                                                                                                                                                                            |
| Established:                          | March 6, 1952                                                                                                                                                                                                                                                                            |
| Networks:                             | Number of branches: 94 (Saitama Prefecture: 92 [of which 1 is a sub-branch], outside Saitama Prefecture: 2)<br>Number of mortgage loan centers: 9<br>Number of corporate office: 1<br>Number of ATMs outside of branches: 117<br>Number of ATMs and cash dispensers (CDs) installed: 479 |
| Employees:                            | 2,139                                                                                                                                                                                                                                                                                    |
| Total assets:                         | ¥3,914.7 billion                                                                                                                                                                                                                                                                         |
| Deposits:                             | ¥3,660.3 billion                                                                                                                                                                                                                                                                         |
| Loans:                                | ¥2,962.6 billion                                                                                                                                                                                                                                                                         |
| Common stock:                         | ¥45.7 billion                                                                                                                                                                                                                                                                            |
| Number of correspondent arrangements: | 220                                                                                                                                                                                                                                                                                      |
| Issued common stock:                  | 33,805 thousand                                                                                                                                                                                                                                                                          |

#### Subsidiaries and Affiliated Companies

| Name                                            | Line of Business                                                                                |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------|
| The Bugin General Lease Co., Ltd.               | General leasing, deferred payment transactions and auto 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                                     |
| The Bugin Business Service Co., Ltd.            | Clerical work for Musashino Bank                                                                |
| 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



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# Consolidated Financial Highlights

The Musashino Bank, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2013 and 2012

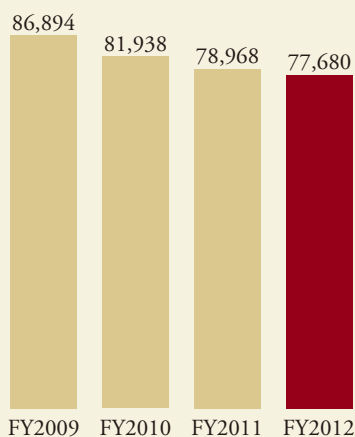
|                                                            | Millions of Yen (Note 1) |            | Thousands of<br>U.S. Dollars<br>(Notes 1 and 2) |
|------------------------------------------------------------|--------------------------|------------|-------------------------------------------------|
|                                                            | 2013                     | 2012       | 2013                                            |
| <b>At Year-end</b>                                         |                          |            |                                                 |
| Total Assets .....                                         | <b>¥3,929,343</b>        | ¥3,806,355 | <b>\$41,779,299</b>                             |
| Deposits .....                                             | <b>3,649,510</b>         | 3,539,534  | <b>38,803,943</b>                               |
| Loans and Bills Discounted .....                           | <b>2,950,897</b>         | 2,856,298  | <b>31,375,838</b>                               |
| Trading Account Securities and Investment Securities ..... | <b>722,478</b>           | 735,057    | <b>7,681,856</b>                                |
| Total Net Assets .....                                     | <b>194,654</b>           | 177,984    | <b>2,069,695</b>                                |
| Capital Ratio (based on domestic standards) (%) .....      | <b>10.76</b>             | 10.88      |                                                 |
| <b>For the Year</b>                                        |                          |            |                                                 |
| Total Income .....                                         | <b>¥ 77,680</b>          | ¥ 78,968   | <b>\$ 825,944</b>                               |
| Total Expenses .....                                       | <b>59,067</b>            | 59,562     | <b>628,044</b>                                  |
| Income before Income Taxes .....                           | <b>18,612</b>            | 19,406     | <b>197,900</b>                                  |
| Net Income .....                                           | <b>11,142</b>            | 9,621      | <b>118,471</b>                                  |

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 ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013.

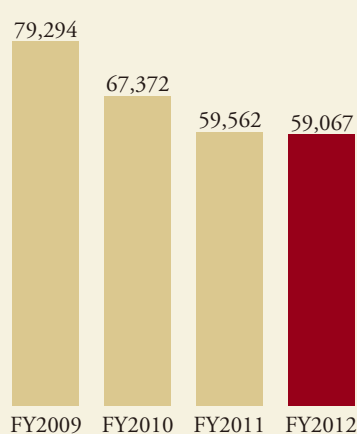
## Total income

(¥ million)



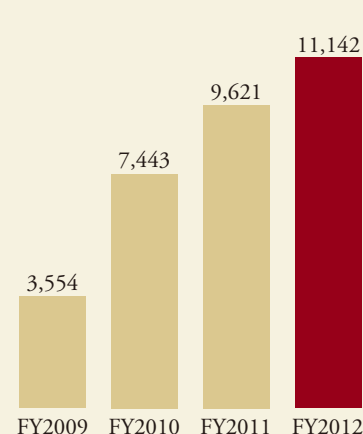
## Total expenses

(¥ 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



Kikuo Kato  
*President*

### Economic Trends

Looking back over fiscal 2012, the fiscal year ended March 31, 2013, the Japanese economy was modestly recovering due to the effects of government stimulus measures including eco-car subsidies and other factors. Nevertheless, by mid-year the recovery had weakened as exports and mining and manufacturing production decreased owing to delayed economic recovery overseas, friction with neighboring countries, and other factors. However, after the start of the new administration, consumer confidence improved thanks to a correction in the yen's high value, the wealth effect of rising stock prices, and last-minute demand before consumption tax increases. In addition, export-related industries picked up due to the economic upswing in the United States, while the Japanese economy showed signs of recovery.

Amid an export rally driven by overseas economic recovery, the economy of Saitama Prefecture, just

like Japan's economy, saw production activities gradually rebound as a result of economic stimulus measures including monetary easing.

### Year ended March 31, 2013

#### 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 2012 grew ¥110.8 billion compared with the previous fiscal year to ¥3,660.3 billion. Assets in custody increased ¥38.2 billion year on year to ¥603.7 billion, due to favorable sales of investment trusts.

\* Deposits, etc. means deposits including CDs.

#### Loans

Loans outstanding climbed ¥95.3 billion to ¥2,962.6 billion owing mainly to active efforts to respond to the needs of small- and medium-sized enterprises (SMEs) within the Prefecture and to

individual customers.

### Earnings

Amid continuing market interest rate declines, the Bank's capital profits, which shows its earning capacity in the banking business, decreased by ¥400 million to ¥18.8 billion, despite successful efforts to more efficiently manage loaned money and securities investments. Recurring income decreased by ¥800 million to ¥17.1 billion, but net income came to ¥10.5 billion, the fourth consecutive year of increase. On a consolidated basis, recurring income came to ¥18.9 billion thanks to higher subsidiary earnings, and net income increased ¥1.5 billion to ¥11.1 billion, the second highest level it has ever achieved.

### Capital ratio

The Bank's capital ratios for fiscal 2012 were 10.45% and 10.76% on a non-consolidated and consolidated basis, respectively. From an overall Group perspective, the Bank continued to maintain highly sound financial health.

### Medium-Term Management Plan

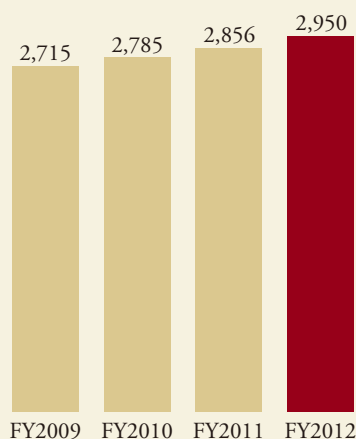
Fiscal 2012, the year we celebrated our 60th anniversary, marks the final year of our previous medium-term management plan, NEW PROJECT 60. Under a basic policy of practicing community-based finance, thanks to our customers, we largely achieved our sought-after targets as a result of all directors and employees working together to build stronger relationships with customers and create more appealing products.

However, looking 10 years into the future, the business environment in Saitama Prefecture will undergo various changes such as a decline in birth rates and an aging population as well as economic globalization. Moreover, the environment surrounding financial institutions is also expected to have long-term low interest rates and intensifying competition with other banks and institutions.

To flexibly and appropriately respond to these changes and sustainably develop with the local community, all directors and employees need to share the path the Bank needs to take into the

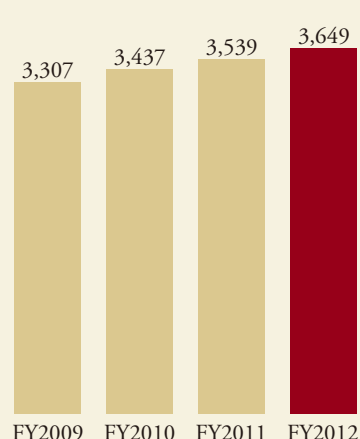
#### Loans and bills discounted

(¥ billion)



#### Deposits including negotiable deposit

(¥ billion)



future. Therefore, the Bank formulated “MVP (Musashino Value-Making Plan),” 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 basic strategy of the long-term vision focuses on the vast potential of Saitama Prefecture and building the Bank to be number one in the two business domains of “growth” and “creation,” leading to the growth of Saitama. To turn this long-term vision into reality, the Bank started its three-year medium-term management plan “MVP 1/3,” which begins from April 2013.

The medium-term management plan seeks to enhance the awareness and behavior of all Bank employees and to more effectively use business resources to achieve our growth strategy and initiate our creation strategy. Specifically, we will build infrastructure with a focus on branches, develop human resources including new employees and female employees, augment our sales and marketing staff, implement policy measures regarding

non-face-to-face banking channels, and gear up to become the number one bank in the region.

### Together with the people of Saitama

Musashino Bank will carry out community-based sales and marketing activities, provide products and services that match the needs of customers, and offer appropriate and swift support.

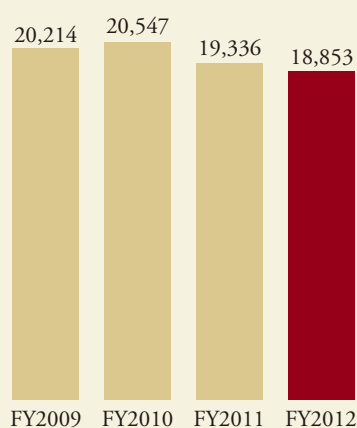
Through these efforts, we will establish competitive management practices and all directors and employees will work together and continue to maximize their efforts with the goal of becoming the number one bank in the region.

As we work toward achieving our established goals, we kindly request your continued support and understanding.

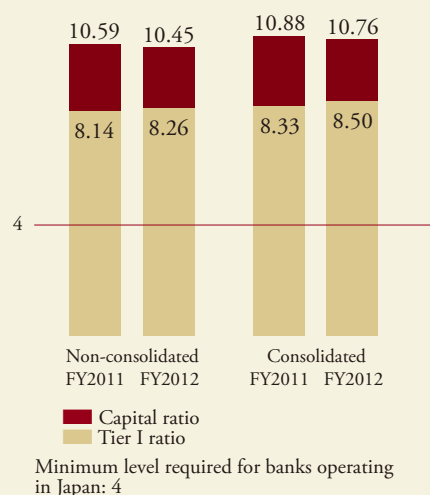
Kikuo Kato  
President



**Net business income** (Non-consolidated)  
(¥ million)



**Capital ratio**  
(%)





# 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," which divides the next 10 years into three phases and positions the first three years as a period for enhancing readiness. Under this plan, we will take various measures, focusing on growth and creation strategies, and establish a new growth engine in order to build the number one bank in the region.

## 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 the person 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 2012      | Fiscal 2015 target |
|----------------------------------------|------------------|--------------------|
| Balance of deposits (year-end)         |                  |                    |
| *Includes balance of assets in custody | ¥4,264.0 billion | ¥5,000.0 billion   |
| Balance of loans (year-end)            | ¥2,962.6 billion | ¥3,500.0 billion   |
| Net income                             | ¥10.5 billion    | ¥10.0 billion      |
| Core OHR                               | 67.20%           | Less than 68%      |
| Capital ratio (current standard)       | 10.45%           | 10% or more        |

## 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.

Moreover, the Bank has elected one outside director and three outside auditors who pose no threat of conflicts of interest with shareholders to 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

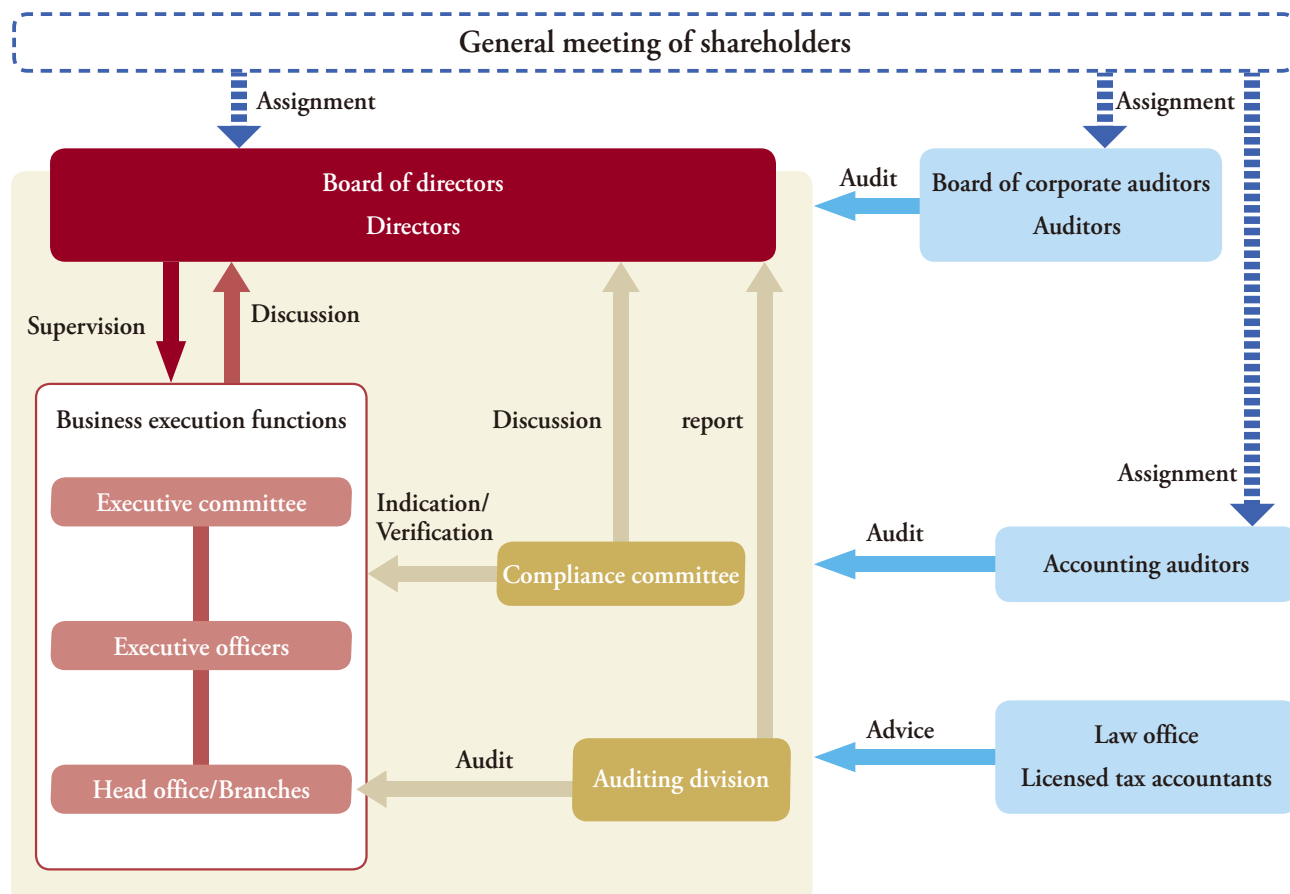
to ensure a speedier decision-making process. Directors delegate authority to executive officers, who are charged with the responsibility of swiftly and efficiently carrying out their duties as leaders of the Bank's mainstay divisions.

## 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







Emergency  
response  
training

## Risk Management Policy

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 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

### (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 put in place objective determination 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-balance function.

At the same time, deliberations are undertaken by the ALM and Credit Portfolio Management committees 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-balance function. At the same time, deliberations are undertaken by the ALM Committee as and when required.

### (5) Operational Risk Management

Musashino Bank confronts broad and varied operational risks. In addition to classifying each 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-balance function with respect to each business division. Moreover, issues are deliberated by the Operational Risk Management Committee as and when required.

## Crisis Management / BCP Structure

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 2012 (year ended March 2013), the Bank carried out drills to train its employees in how to behave during emergencies such as large-scale earthquakes and damage caused by harmful rumors and misinformation. Systematic training like this enables it to improve its BCP by enhancing its effectiveness and rectifying problems that emerge during drills.

## Compliance Frame Work

The social and public mission for banking work makes high demands for operations based on fair and transparent corporate activities in compliance with laws, regulations, and social norms and in accordance the principals 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.

However, with the liberalization, globalization, and deregulation of finance accompanying financial system reform, society expects Banks to be even more publicly and socially responsible. With a full awareness of these issues, 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 directors 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. This corporate philosophy is complemented by the Code of Behavior which emphasizes the Bank's sense of public mission toward society. Aspiring to address a variety of needs including the provision of high-quality financial services and strict compliance with statutory and regulatory requirements, 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. 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, 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.

## Compliance manual

To ensure the compliance of its directors and employees, the Bank has distributed a compliance manual that has been approved by the board of directors to all of its directors 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 directors 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.

## 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 (ranking number one in six out of the past ten years), and has few natural disasters.

## 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 7.21 million as of April 2013)

## 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.

## 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. The prefecture first launched the "Chancemaker Saitama Strategy" in the fiscal 2007 (year ended March 2008), and successfully persuaded 201 companies to set up operations there in the three fiscal years from the fiscal 2010 (year ended March 2011) through the fiscal 2012 (year ended March 2013).

## 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.

### Economic and financial position of Saitama Prefecture

- Number of companies (2009)  
262,000 companies (5th among the 47 prefectures)
- Total prefecture production (nominal) (2010)  
¥20,108.3 billion (5th among the 47 prefectures)
- Value of product shipments (2010)  
¥12,853.1 billion (6th among the 47 prefectures)

# Corporate Social Responsibility (Main Initiatives)

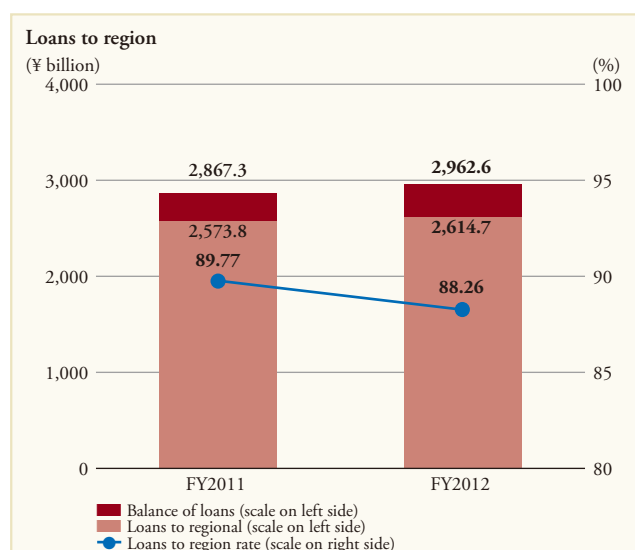
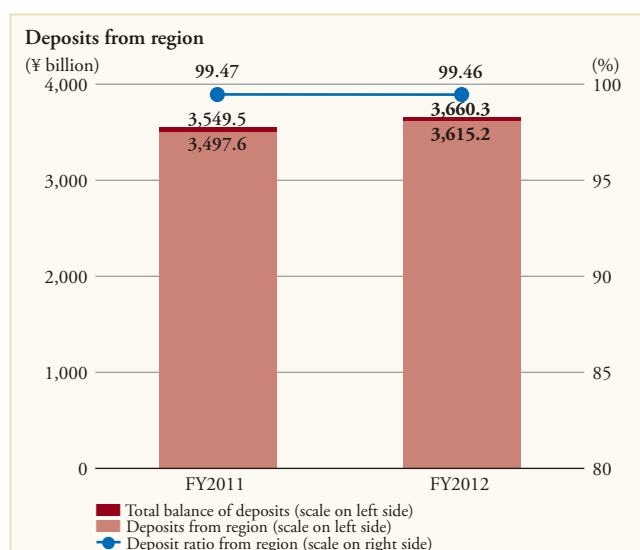
## Contributing to the Local Economy

### Deposits from region

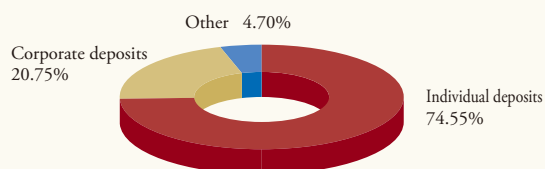
In response to the lifestyles of our regions' customers, the Bank is enhancing its products and services so that customers can use them with peace of mind. As a result of these efforts, total balance of deposits as of March 31, 2013 increased ¥1,108 billion, or 3.1%, to ¥3,660.3 billion. Deposits from region steadily increased, up ¥117.6 billion to ¥3,615.2 billion. Accordingly, the Bank's share of deposits within the prefecture as of March 31, 2013, improved 0.05 of a percentage point to 13.76%.

### Loans to region

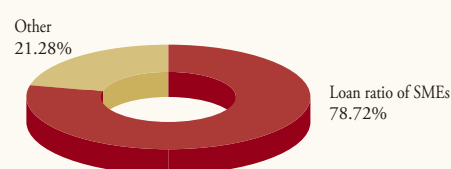
In addition, total balance of loans climbed ¥95.3 billion, or 3.3%, year on year to ¥2,962.6 billion due mainly to maintaining increases in both business and non-business loans. Loans to region rose ¥40.9 billion to ¥2,614.7 billion for a loan to region ratio of 88.26%. The Bank's share of loans in the prefecture improved to 18.38%.



### Balance ratio by depositors



### Loan ratio of SMEs

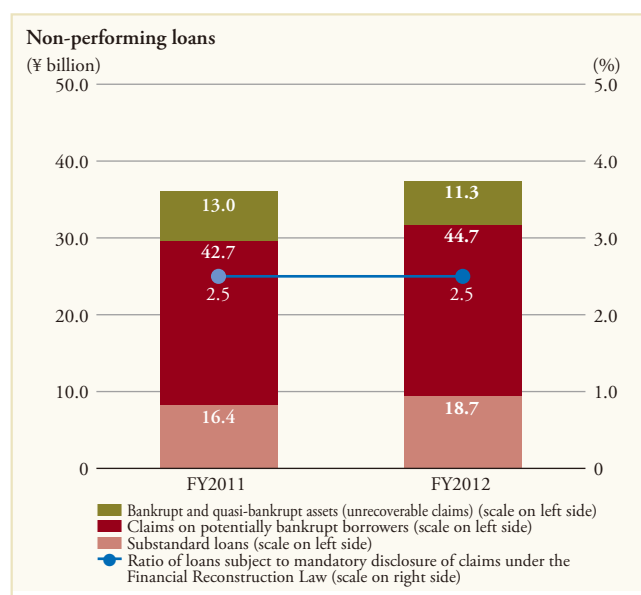


## Towards a sounder financial position

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).

Consolidated and non-consolidated capital ratios were 10.76% and 10.45%, respectively, significantly exceeding the domestic standard of 4%. (See page 4.)

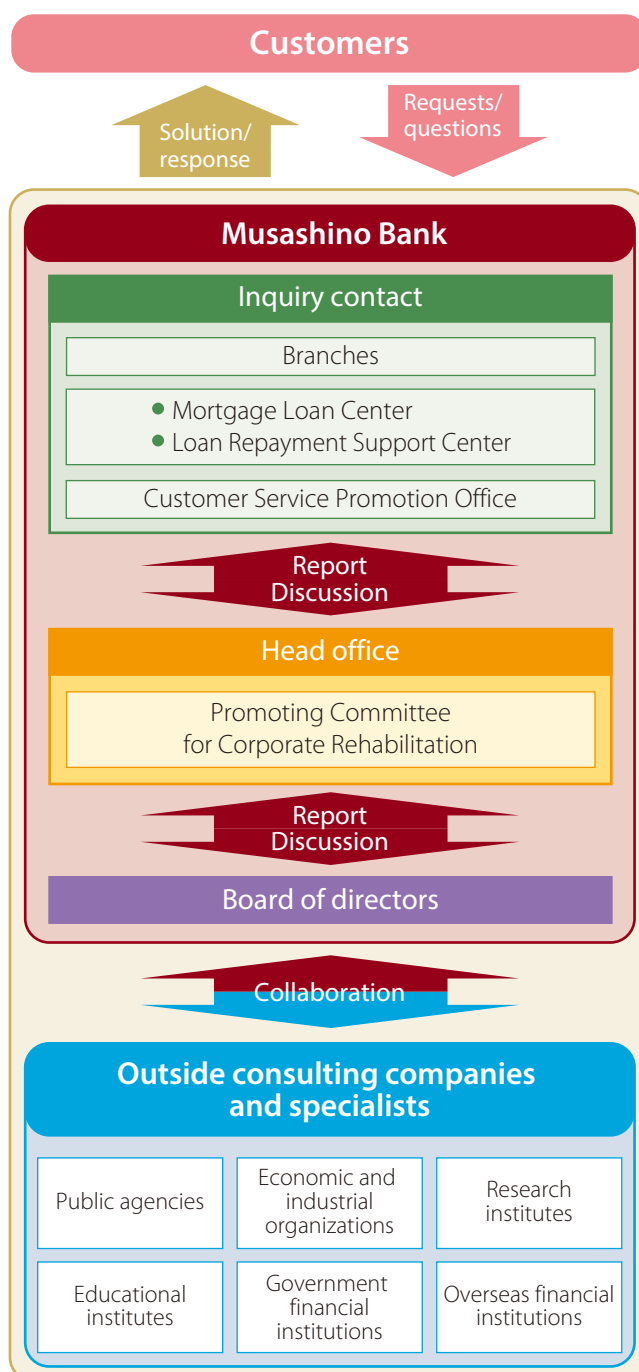
The Bank also continued to maintain a very healthy 2.50% non-performing loan ratio based on standards established by the Financial Reconstruction Act.



## Establish Systems for Providing SME Management Assistance

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





## Business Creation/New Business 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 ¥5 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.



Business Arena 2013

## Assisting Companies Enter Overseas Markets

The Bank established the International Investment Supporting Office within its head office in an effort to bolster its support for the overseas expansion of its client companies. This support involves offering Chinese yuan-denominated payment services, forming alliances with local banks in Asia, and offering business matching opportunities and overseas information to companies expanding abroad. In addition to Thailand and China, the Bank assists client companies expanding into Vietnam, the Philippines, Indonesia and other ASEAN nations.

## Business Assistance Involving Collaboration with Outside Organizations

We actively support SMEs' efforts to develop new products and create new markets. In addition to government agencies, we have formed partnerships with seven universities located in Saitama Prefecture to help solve the management issues of client companies, particularly R&D and management innovation. Beyond assisting individual customers, our measures based on governmental, industrial and academic partnerships contribute to regional development, including the revitalization of tourism.

## Support for Corporate Rehabilitation

To provide specialized support to client companies that seek 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&A 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.

### Management Improvement Plan Formulation Assistance

Number recipients 290

### Number of customers whose operations improved

|             |    |
|-------------|----|
| Fiscal 2010 | 26 |
| Fiscal 2011 | 23 |
| Fiscal 2012 | 22 |
| Total       | 71 |



### Initiatives for New 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, 2013 has reached 670 loans worth ¥37.9 billion centered on the environmental, R&D and medical fields.

- **Activities in the Medical and Welfare Fields**

In light of Saitama Prefecture's rapidly aging population, the Bank meets a variety of needs that go beyond financing medical and nursing facilities to include providing matching services for medical institutions and nursing facilities as well as helping to solve labor shortages in these fields.

- **Activities in the Agricultural Field**

The Bugin Agricultural Management Course (Bugin is a short way of reading the characters for Musashino Bank) 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 2012, we held the Delicious Food Fair, which attracted over 16,000 visitors.



- **Renewable Energy and Environmental Measures**

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.

### Contributing to the Local Community

#### For Customers' Worry-free Banking

The Musashino Bank is taking various initiatives to further raise customer satisfaction, build stronger trust, and better relations with local customers.

- Branches are being made barrier-free with automated external defibrillators AEDs installed in all branches
- For customers with impaired vision, we offer ATMs with phone handsets



ATMs with audio assistance using phone handsets

- Braille printing service provided for bank passbooks and CDs
- To improve communication with customers with hearing impairment, we provide sign language courses to employees
- Musashino Bank has prepared and uses communication boards developed by the Japanese Bankers Association that use pictographs based on the principles of universal design to communicate with hearing impaired customers
- The Bank has put in place a communication board in the English, Chinese and Korean languages to assist foreign nationals
- The Bank offers financing to companies certified by Saitama Prefecture's certification system for leading businesses that hire handicapped people

## Contributing to Local Social Welfare

For the safety and security of local residents, the Bank is cooperating with the government of Saitama Prefecture and local police in crime and accident prevention. Other 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.



Musashino Volunteer Club activities:  
Regeneration of agricultural land affected by  
Great East Japan Earthquake disaster

## Aiming for Sound Growth for the Next Generation

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 development of global human resources through a number of initiatives including by offering loans to students and non-student adults from Saitama Prefecture who are going overseas to study and by donating to the “Saitama Prefecture Global Human Resources Development Fund.”

## Promoting Local Arts and Sports

To promote local culture and the arts, the Musashino Bank held a concert at the Sai-no-Kuni Saitama Arts Theater to celebrate its 60th anniversary in March 2012. Many disabled people and students from elementary school and above attended the concert. Since 2009, the Bank held violin concerts



at elementary school music classes and other locations. 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.



## Leveraging Diverse Human Resources

The Musashino Bank seeks diverse human resources by actively recruiting new, mid-career, and female employees for a wide range of positions based on their experience and competency. The Bank has introduced the Senior Staff System whereby employees who have reached the mandatory retirement age are rehired as well as the Bugin Return System that allows employees who have taken temporary leave due to marriage, pregnancy, child-rearing, and other reasons to be reemployed. The Bank proactively pursues a wide range of policies that 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. Having proactively sought to create a bank where women can play an important role, in June 2013, we recruited a female officer as an outside director.

- The Bank obtained the “Next-Generation Certification Mark” (also known as “Kurumin”) that recognizes companies for taking positive steps to support child-rearing and other employee needs.



- The Bank achieved “Platinum” certification from Saitama Prefecture, the highest level of recognition given to “companies that practice diverse ways of working.”



- The Musashino Bank was awarded the 8th Saitama Brilliance Ogino Ginko Prize by Saitama Prefecture for its highly acclaimed efforts to institute a system of work-life balance for employees and to hire women and expand their field of occupation.

### 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. In 2011, the Bank signed the Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century) and will continue its efforts to promote a sustainable society as a local financial institution.

### 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 ¥104.05 million. The Bank is also involved in the greening of the region through tree-planting, and forest preservation.



### Supporting the Environmental Protection Activities of Prefectural Residents

The Musashino Green Fund, a charitable trust, has donated a total of ¥3.41 million to 16 organizations in fiscal 2013, and over its entire history has donated approximately ¥55 million to 167 organizations. In March 2013, the fund commemorated its 20th anniversary and published the commemorative magazine *Hikobae*\* (4th Series), which outlines the activities of donation recipients.

\**Hikobae* means the young buds that sprout from the stumps and roots of trees.

### JHEP Certification Obtained — A First for a Banking Institution!

The construction project for the New Operations Center opened in October 2012 was acclaimed for its biodiversity-friendly tree planting and greening activities. As a result, the Bank 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.



JHEP certification ceremony

### 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.





# Consolidated Balance Sheets

The Musashino Bank, Ltd. and Consolidated Subsidiaries As of March 31, 2013 and 2012

|                                                             | Millions of Yen   |                   | Thousands of<br>U.S. Dollars* |
|-------------------------------------------------------------|-------------------|-------------------|-------------------------------|
|                                                             | 2013              | 2012              | 2013                          |
| <b>Assets</b>                                               |                   |                   |                               |
| Cash and due from banks.....                                | ¥ 178,775         | ¥ 105,269         | \$ 1,900,858                  |
| Call loans .....                                            | —                 | 30,000            | —                             |
| Commercial paper and other debt purchased .....             | 1,545             | 2,327             | 16,430                        |
| Trading account securities.....                             | 282               | 203               | 3,008                         |
| Money held in trust.....                                    | 1,495             | 1,500             | 15,901                        |
| Investment securities .....                                 | 722,195           | 734,854           | 7,678,848                     |
| Loans and bills discounted .....                            | 2,950,897         | 2,856,298         | 31,375,838                    |
| Foreign exchanges .....                                     | 2,545             | 2,292             | 27,068                        |
| Lease receivables and lease investment assets.....          | 15,231            | 14,940            | 161,952                       |
| Other assets .....                                          | 23,442            | 22,126            | 249,255                       |
| Tangible fixed assets.....                                  | 36,329            | 35,680            | 386,279                       |
| Intangible fixed assets.....                                | 3,300             | 2,967             | 35,091                        |
| Deferred income taxes assets.....                           | 3,588             | 8,812             | 38,154                        |
| Customers' liabilities for acceptances and guarantees ..... | 9,294             | 9,674             | 98,827                        |
| Reserve for possible loan losses .....                      | (19,582)          | (20,592)          | (208,216)                     |
| <b>Total assets.....</b>                                    | <b>¥3,929,343</b> | <b>¥3,806,355</b> | <b>\$41,779,299</b>           |
| <b>Liabilities</b>                                          |                   |                   |                               |
| Deposits .....                                              | ¥3,649,510        | ¥3,539,534        | \$38,803,943                  |
| Call money and bills sold .....                             | 940               | 2,652             | 10,000                        |
| Borrowed money.....                                         | 25,796            | 28,919            | 274,282                       |
| Foreign exchanges .....                                     | 114               | 134               | 1,217                         |
| Bonds.....                                                  | 10,000            | 10,000            | 106,326                       |
| Other liabilities .....                                     | 26,148            | 24,545            | 278,028                       |
| Reserve for employees' bonuses .....                        | 1,228             | 1,226             | 13,061                        |
| Reserve for directors' bonuses.....                         | 13                | 15                | 141                           |
| Reserve for employees' retirement benefits .....            | 5,545             | 5,549             | 58,966                        |
| Reserve for loss on interest refunded.....                  | 108               | 81                | 1,155                         |
| Reserve for reimbursement of dormant deposits .....         | 278               | 236               | 2,961                         |
| Reserve for point loyalty programs .....                    | 60                | 70                | 644                           |
| Reserve for contingent losses .....                         | 709               | 791               | 7,544                         |
| Deferred income taxes liability on land revaluation .....   | 4,937             | 4,937             | 52,502                        |
| Acceptances and guarantees.....                             | 9,294             | 9,674             | 98,827                        |
| <b>Total liabilities.....</b>                               | <b>¥3,734,688</b> | <b>¥3,628,370</b> | <b>\$39,709,603</b>           |
| <b>Net assets</b>                                           |                   |                   |                               |
| Common stock .....                                          | ¥ 45,743          | ¥ 45,743          | \$ 486,378                    |
| Capital surplus .....                                       | 38,351            | 38,351            | 407,774                       |
| Retained earnings.....                                      | 81,735            | 73,996            | 869,064                       |
| Treasury stock.....                                         | (816)             | (905)             | (8,686)                       |
| <b>Total shareholders' equity.....</b>                      | <b>165,013</b>    | <b>157,186</b>    | <b>1,754,531</b>              |
| Unrealized gain on available-for-sale securities.....       | 18,202            | 9,683             | 193,536                       |
| Deferred loss under hedge accounting .....                  | (1,423)           | (1,408)           | (15,137)                      |
| Land revaluation excess .....                               | 7,653             | 7,653             | 81,371                        |
| <b>Total accumulated other comprehensive income .....</b>   | <b>24,431</b>     | <b>15,927</b>     | <b>259,771</b>                |
| Share warrant .....                                         | 37                | 19                | 396                           |
| Minority interests.....                                     | 5,172             | 4,850             | 54,997                        |
| <b>Total net assets .....</b>                               | <b>194,654</b>    | <b>177,984</b>    | <b>2,069,695</b>              |
| <b>Total liabilities and net assets .....</b>               | <b>¥3,929,343</b> | <b>¥3,806,355</b> | <b>\$41,779,299</b>           |

\* U.S. dollar figures have been translated at the rate ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013.

# Consolidated Statements of Income and Comprehensive Income

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2013 and 2012

| Consolidated Statements of Income            | Millions of Yen |                | Thousands of U.S. Dollars* |
|----------------------------------------------|-----------------|----------------|----------------------------|
|                                              | 2013            | 2012           | 2013                       |
| <b>Income</b>                                |                 |                |                            |
| Interest income:                             |                 |                |                            |
| Interest on loans and discounts .....        | ¥45,454         | ¥48,516        | \$483,298                  |
| Interest and dividends on securities.....    | 7,175           | 7,724          | 76,291                     |
| Other interest income.....                   | 228             | 153            | 2,432                      |
| Fees and commissions .....                   | 9,940           | 9,676          | 105,693                    |
| Other operating income .....                 | 4,159           | 1,780          | 44,222                     |
| Other income.....                            | 10,722          | 11,117         | 114,007                    |
| <b>Total income.....</b>                     | <b>77,680</b>   | <b>78,968</b>  | <b>825,944</b>             |
| <b>Expenses</b>                              |                 |                |                            |
| Interest expenses:                           |                 |                |                            |
| Interest on deposits.....                    | 2,337           | 2,692          | 24,858                     |
| Interest on borrowings and rediscounts.....  | 321             | 347            | 3,421                      |
| Other interest expenses .....                | 1,167           | 1,685          | 12,408                     |
| Fees and commissions .....                   | 4,411           | 4,276          | 46,905                     |
| Other operating expenses .....               | 1,253           | 1,412          | 13,325                     |
| General and administrative expenses .....    | 38,065          | 37,392         | 404,739                    |
| Other expenses .....                         | 11,510          | 11,755         | 122,385                    |
| <b>Total expenses.....</b>                   | <b>59,067</b>   | <b>59,562</b>  | <b>628,044</b>             |
| Income before income taxes .....             | <b>18,612</b>   | <b>19,406</b>  | <b>197,900</b>             |
| <b>Income taxes</b>                          |                 |                |                            |
| Current .....                                | 6,463           | 4,510          | 68,721                     |
| Deferred.....                                | 719             | 4,701          | 7,645                      |
|                                              | <b>7,182</b>    | <b>9,212</b>   | <b>76,366</b>              |
| <b>Minority interests .....</b>              | <b>287</b>      | <b>571</b>     | <b>3,062</b>               |
| <b>Net income for year .....</b>             | <b>¥11,142</b>  | <b>¥ 9,621</b> | <b>\$118,471</b>           |
| Net income per share (yen and dollars) ..... | <b>¥330.11</b>  | <b>¥284.01</b> | <b>\$ 3.51</b>             |

\* U.S. dollar figures have been translated at the rate ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013.

| Consolidated Statements of Comprehensive Income | Millions of Yen |                | Thousands of U.S. Dollars* |
|-------------------------------------------------|-----------------|----------------|----------------------------|
|                                                 | 2013            | 2012           | 2013                       |
| Income before minority interests .....          | ¥11,430         | ¥10,193        | \$121,533                  |
| Other comprehensive income:                     |                 |                |                            |
| Net unrealized losses on securities.....        | 8,556           | 8,323          | 90,979                     |
| Unrealized gains on hedging derivatives.....    | (14)            | 69             | (159)                      |
| Reversal of revaluation reserve for land .....  | —               | 701            | —                          |
| <b>Total other comprehensive income .....</b>   | <b>8,541</b>    | <b>9,094</b>   | <b>90,820</b>              |
| <b>Comprehensive income.....</b>                | <b>¥19,971</b>  | <b>¥19,287</b> | <b>\$212,354</b>           |
| Comprehensive income attributable to:           |                 |                |                            |
| Shareholders of the Company.....                | ¥19,646         | ¥18,693        | \$208,891                  |
| Minority interests .....                        | 325             | 594            | 3,463                      |

\* U.S. dollar figures have been translated at the rate ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013

# Consolidated Statements of Changes in Net Assets

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2013 and 2012

|                                                         | Millions of Yen |          | Thousands of<br>U.S. Dollars* |
|---------------------------------------------------------|-----------------|----------|-------------------------------|
|                                                         | 2013            | 2012     | 2013                          |
| <b>Shareholders' equity</b>                             |                 |          |                               |
| <b>Common stock</b>                                     |                 |          |                               |
| Balance at end of previous year.....                    | ¥ 45,743        | ¥ 45,743 | \$ 486,378                    |
| Changes during the accounting period .....              | —               | —        | —                             |
| Balance at end of year.....                             | ¥ 45,743        | ¥ 45,743 | \$ 486,378                    |
| <b>Capital surplus</b>                                  |                 |          |                               |
| Balance at end of previous year.....                    | ¥ 38,351        | ¥ 38,351 | \$ 407,774                    |
| Changes during the accounting period:                   |                 |          |                               |
| Disposition of treasury stock.....                      | (1)             | —        | (19)                          |
| Cancellation of shares .....                            | (1,030)         | —        | (10,951)                      |
| Transfer to capital surplus from retained earnings..... | 1,031           | —        | 10,971                        |
| Total changes during the accounting period .....        | —               | —        | —                             |
| Balance at end of year.....                             | ¥ 38,351        | ¥ 38,351 | \$ 407,774                    |
| <b>Retained earnings</b>                                |                 |          |                               |
| Balance at end of previous year.....                    | ¥ 73,996        | ¥ 66,407 | \$ 786,779                    |
| Changes during the accounting period:                   |                 |          |                               |
| Cash dividends .....                                    | (2,371)         | (2,032)  | (25,214)                      |
| Net income.....                                         | 11,142          | 9,621    | 118,471                       |
| Transfer to capital surplus from retained earnings..... | (1,031)         | —        | (10,971)                      |
| Total changes during the accounting period .....        | 7,738           | 7,588    | 82,285                        |
| Balance at end of year.....                             | ¥ 81,735        | ¥ 73,996 | \$ 869,064                    |
| <b>Treasury stock</b>                                   |                 |          |                               |
| Balance at end of previous year.....                    | ¥ (905)         | ¥ (900)  | \$ (9,623)                    |
| Changes during the accounting period:                   |                 |          |                               |
| Purchase of treasury stock .....                        | (950)           | (4)      | (10,111)                      |
| Disposition of treasury stock.....                      | 9               | —        | 97                            |
| Cancellation of shares .....                            | 1,030           | —        | 10,951                        |
| Total changes during the accounting period .....        | 88              | (4)      | 937                           |
| Balance at end of year.....                             | ¥ (816)         | ¥ (905)  | \$ (8,686)                    |
| <b>Total shareholders' equity</b>                       |                 |          |                               |
| Balance at end of previous year.....                    | ¥157,186        | ¥149,602 | \$1,671,308                   |
| Changes during the accounting period:                   |                 |          |                               |
| Cash dividends .....                                    | (2,371)         | (2,032)  | (25,214)                      |
| Net income.....                                         | 11,142          | 9,621    | 118,471                       |
| Purchase of treasury stock.....                         | (950)           | (4)      | (10,111)                      |
| Disposition of treasury stock.....                      | 7               | —        | 77                            |
| Cancellation of shares .....                            | —               | —        | —                             |
| Transfer to capital surplus from retained earnings..... | —               | —        | —                             |
| Total changes during the accounting period .....        | 7,827           | 7,584    | 83,222                        |
| Balance at end of year.....                             | ¥165,013        | ¥157,186 | \$1,754,531                   |

\* U.S. dollar figures have been translated at the rate ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013.



|                                                           | Millions of Yen |           | Thousands of<br>U.S. Dollars* |
|-----------------------------------------------------------|-----------------|-----------|-------------------------------|
|                                                           | 2013            | 2012      | 2013                          |
| <b>Accumulated other comprehensive income</b>             |                 |           |                               |
| <b>Unrealized gain on available-for-sale securities</b>   |                 |           |                               |
| Balance at end of previous year.....                      | ¥ 9,683         | ¥ 1,381   | \$ 102,957                    |
| Changes during the accounting period:                     |                 |           |                               |
| Net change in items other than shareholders' equity ..... | 8,518           | 8,301     | 90,578                        |
| Total changes during the accounting period .....          | 8,518           | 8,301     | 90,578                        |
| Balance at end of year.....                               | ¥ 18,202        | ¥ 9,683   | \$ 193,536                    |
| <b>Deferred loss under hedge accounting</b>               |                 |           |                               |
| Balance at end of previous year.....                      | ¥ (1,408)       | ¥ (1,477) | \$ (14,978)                   |
| Changes during the accounting period:                     |                 |           |                               |
| Net change in items other than shareholders' equity ..... | (14)            | 69        | (159)                         |
| Total changes during the accounting period .....          | (14)            | 69        | (159)                         |
| Balance at end of year.....                               | ¥ (1,423)       | ¥ (1,408) | \$ (15,137)                   |
| <b>Land revaluation excess</b>                            |                 |           |                               |
| Balance at end of previous year.....                      | ¥ 7,653         | ¥6,951    | \$ 81,371                     |
| Changes during the accounting period:                     |                 |           |                               |
| Net change in items other than shareholders' equity ..... | —               | 701       | —                             |
| Total changes during the accounting period .....          | —               | 701       | —                             |
| Balance at end of year.....                               | ¥ 7,653         | ¥7,653    | \$ 81,371                     |
| <b>Accumulated other comprehensive income</b>             |                 |           |                               |
| Balance at end of previous year.....                      | ¥ 15,927        | ¥ 6,855   | \$ 169,351                    |
| Changes during the accounting period:                     |                 |           |                               |
| Net change in items other than shareholders' equity ..... | 8,503           | 9,071     | 90,419                        |
| Total changes during the accounting period .....          | 8,503           | 9,071     | 90,419                        |
| Balance at end of year.....                               | ¥ 24,431        | ¥ 15,927  | \$ 259,771                    |
| <b>Share warrant</b>                                      |                 |           |                               |
| Balance at end of previous year.....                      | ¥ 19            | ¥ —       | \$ 210                        |
| Changes during the accounting period:                     |                 |           |                               |
| Net change in items other than shareholders' equity ..... | 17              | 19        | 185                           |
| Total changes during the accounting period .....          | 17              | 19        | 185                           |
| Balance at end of year.....                               | ¥ 37            | ¥ 19      | \$ 396                        |
| <b>Minority interests</b>                                 |                 |           |                               |
| Balance at end of previous year.....                      | ¥ 4,850         | ¥ 4,260   | \$ 51,573                     |
| Changes during the accounting period:                     |                 |           |                               |
| Net change in items other than shareholders' equity ..... | 322             | 590       | 3,423                         |
| Total changes during the accounting period .....          | 322             | 590       | 3,423                         |
| Balance at end of year.....                               | ¥ 5,172         | ¥ 4,850   | \$ 54,997                     |
| <b>Total net assets</b>                                   |                 |           |                               |
| Balance at end of previous year.....                      | ¥177,984        | ¥160,718  | \$1,892,443                   |
| Changes during the accounting period:                     |                 |           |                               |
| Cash dividends .....                                      | (2,371)         | (2,032)   | (25,214)                      |
| Net income.....                                           | 11,142          | 9,621     | 118,471                       |
| Purchase of treasury stock.....                           | (950)           | (4)       | (10,111)                      |
| Disposition of treasury stock.....                        | 7               | —         | 77                            |
| Net change in items other than shareholders' equity ..... | 8,843           | 9,682     | 94,029                        |
| Total changes during the accounting period .....          | 16,670          | 17,266    | 177,252                       |
| Balance at end of year.....                               | ¥194,654        | ¥177,984  | \$2,069,695                   |

\* U.S. dollar figures have been translated at the rate ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013.

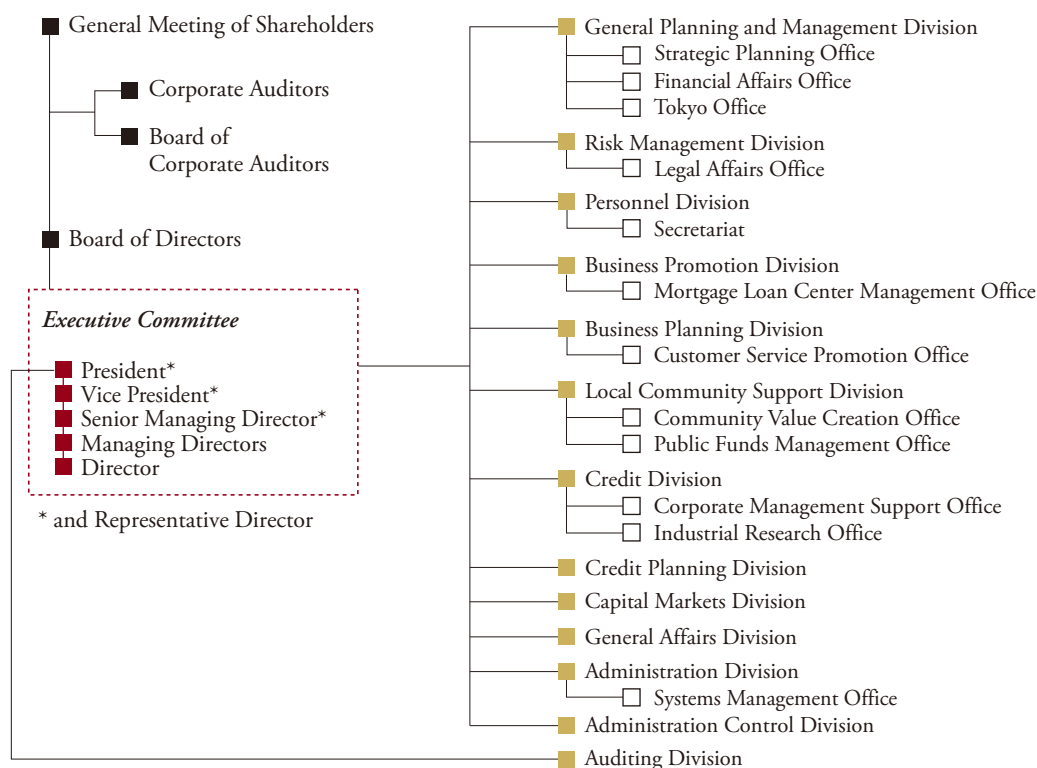
# Consolidated Statements of Cash Flows

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2013 and 2012

|                                                                                      | Millions of Yen |           | Thousands of<br>U.S. Dollars* |
|--------------------------------------------------------------------------------------|-----------------|-----------|-------------------------------|
|                                                                                      | 2013            | 2012      | 2013                          |
| <b>Cash flows from operating activities</b>                                          |                 |           |                               |
| Income before income taxes .....                                                     | ¥ 18,612        | ¥ 19,406  | \$ 197,900                    |
| Depreciation .....                                                                   | 2,608           | 2,376     | 27,738                        |
| Impairment losses.....                                                               | 239             | 106       | 2,550                         |
| Amortization of goodwill .....                                                       | 18              | 18        | 191                           |
| Decrease in reserve for possible loan losses.....                                    | (1,009)         | (3,733)   | (10,735)                      |
| Increase (decrease) in reserve for employees' bonuses.....                           | 1               | (49)      | 15                            |
| Decrease in reserve for directors' bonuses .....                                     | (1)             | (0)       | (19)                          |
| Decrease in reserve for employees' retirement benefits.....                          | (3)             | (138)     | (41)                          |
| Decrease in reserve for directors' retirement benefits .....                         | —               | (281)     | —                             |
| Increase (decrease) in reserve for loss on interest refunded .....                   | 27              | (18)      | 287                           |
| Increase (decrease) in reserve for reimbursement of dormant deposits....             | 42              | (93)      | 450                           |
| Decrease (increase) in reserve for point loyalty programs .....                      | (10)            | 12        | (108)                         |
| Decrease in reserve for contingent losses.....                                       | (81)            | (117)     | (865)                         |
| Interest income .....                                                                | (52,858)        | (56,394)  | (562,021)                     |
| Interest expenses.....                                                               | 3,826           | 4,725     | 40,688                        |
| Loss (gain) on investment securities.....                                            | (954)           | 4,614     | (10,148)                      |
| Loss (gain) on money held in trust .....                                             | 0               | (6)       | 9                             |
| Foreign exchanges gain.....                                                          | (420)           | (339)     | (4,474)                       |
| Loss on disposition of fixed assets .....                                            | 57              | 31        | 612                           |
| Net (increase) decrease in trading account securities.....                           | (79)            | 298       | (844)                         |
| Net increase in loans and bills discounted .....                                     | (94,598)        | (71,003)  | (1,005,836)                   |
| Net increase in deposits.....                                                        | 114,824         | 87,949    | 1,220,889                     |
| Net (decrease) increase in negotiable certificate of deposits.....                   | (4,848)         | 13,838    | (51,547)                      |
| Net decrease in borrowed money (excluding subordinated loans) .....                  | (623)           | (2,806)   | (6,626)                       |
| Net (increase) decrease in due from banks (excluding due from the Bank of Japan) ... | (40,080)        | 615       | (426,165)                     |
| Net decrease in call loans and others.....                                           | 30,781          | 18,979    | 327,291                       |
| Net (decrease) increase in call money .....                                          | (1,712)         | 2,652     | (18,207)                      |
| Net (increase) decrease in foreign exchange, assets .....                            | (252)           | 114       | (2,689)                       |
| Net (decrease) increase in foreign exchange, liabilities .....                       | (20)            | 53        | (217)                         |
| Interest received .....                                                              | 54,682          | 57,478    | 581,416                       |
| Interest paid .....                                                                  | (4,464)         | (5,558)   | (47,467)                      |
| Other, net .....                                                                     | (2,653)         | (4,335)   | (28,218)                      |
| Subtotal.....                                                                        | 21,048          | 68,391    | 223,805                       |
| Income taxes paid.....                                                               | (5,320)         | (1,566)   | (56,570)                      |
| Net cash provided by operating activities .....                                      | 15,728          | 66,825    | 167,235                       |
| <b>Cash flows from investing activities</b>                                          |                 |           |                               |
| Purchases of securities .....                                                        | (316,265)       | (258,923) | (3,362,737)                   |
| Proceeds from sales of securities.....                                               | 263,541         | 119,914   | 2,802,141                     |
| Proceeds from maturities of securities.....                                          | 80,273          | 54,520    | 853,524                       |
| Increase in money held in trust.....                                                 | —               | (10)      | —                             |
| Decrease in money held in trust .....                                                | 0               | —         | 0                             |
| Purchases of tangible fixed assets .....                                             | (2,798)         | (2,495)   | (29,760)                      |
| Proceeds from tangible fixed assets .....                                            | 5               | 0         | 59                            |
| Purchases of intangible fixed assets .....                                           | (1,237)         | (941)     | (13,159)                      |
| Payments for execution of asset retirement obligations .....                         | (3)             | (9)       | (33)                          |
| Net cash provided by (used in) investing activities .....                            | 23,515          | (87,946)  | 250,033                       |
| <b>Cash flows from financing activities</b>                                          |                 |           |                               |
| Borrowing of subordinated loans.....                                                 | 2,500           | 14,000    | 26,581                        |
| Repayment of subordinated loans.....                                                 | (5,000)         | (9,000)   | (53,163)                      |
| Issuance of subordinated bonds.....                                                  | —               | 10,000    | —                             |
| Redemption of subordinated bonds.....                                                | —               | (18,000)  | —                             |
| Cash dividends paid .....                                                            | (2,371)         | (2,032)   | (25,214)                      |
| Cash dividends paid to minority shareholders .....                                   | (3)             | (3)       | (39)                          |
| Purchase of treasury stock.....                                                      | (950)           | (4)       | (10,111)                      |
| Proceeds from sales of treasury stock .....                                          | 7               | —         | 77                            |
| Net cash used in financing activities.....                                           | (5,818)         | (5,041)   | (61,869)                      |
| Net increase (decrease) in cash and cash equivalents .....                           | 33,425          | (26,161)  | 355,399                       |
| Cash and cash equivalents at beginning of year .....                                 | 104,762         | 130,923   | 1,113,896                     |
| Cash and cash equivalents at end of year .....                                       | ¥138,187        | ¥104,762  | \$1,469,295                   |

\* U.S. dollar figures have been translated at the rate ¥94.05 to U.S.\$1, the prevailing market rate as of March 31, 2013.

## Organization Chart (as of July 1, 2013)



## Board of Directors, Corporate Auditors and Executive Officers (as of July 1, 2013)

|                                 |                           |                              |                                   |                   |
|---------------------------------|---------------------------|------------------------------|-----------------------------------|-------------------|
| <b>President</b>                | <b>Managing Directors</b> | <b>Corporate Auditors</b>    | <b>Managing Executive Officer</b> | Yoshiro Kenmochi  |
| Kikuo Kato                      | Motonobu Nakamura         | Nobuhiro Fukazawa (standing) | Minoru Watanabe                   | Kazumasa Nagahori |
| <b>Vice President</b>           | Kenichiro Inaba           | Hidemi Shimizu (standing)    | <b>Executive Officers</b>         | Hiroshi Akimoto   |
| Masami Kurihara                 | Koichi Akagi              | Shozo Nishijima (outside)    | Takeshi Sekiya                    | Masahiro Saito    |
| <b>Senior Managing Director</b> | Kazuya Koyama             | Atsumu Kuroishi (outside)    | Hiromasa Miyazaki                 | Takafumi Hoshina  |
| Makoto Ishikawa                 | <b>Director</b>           | Tomio Kezuka (outside)       | Yuichi Tanaka                     | Toshiyuki Shirai  |
|                                 | Emi Ishida (outside)      |                              |                                   |                   |

## Investor Information (as of March 31, 2013)

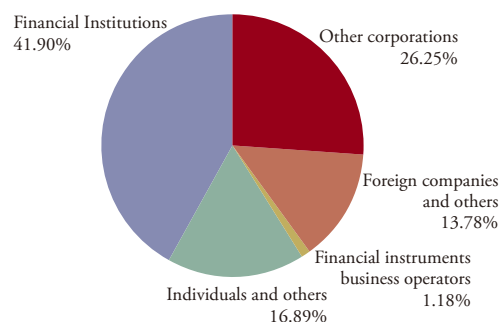
### Common Stock

|                         |                        |
|-------------------------|------------------------|
| Authorized:             | 80,000 thousand shares |
| Issued:                 | 33,805 thousand shares |
| Number of shareholders: | 13,382                 |

### Major Shareholders

| Name                                                                                                                                   | Number of shares | Shares held as a percentage of total outstanding shares (%) |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------------------------------------------|
| Japan Trustee Services Bank, Ltd. (trust account)                                                                                      | 2,743,300        | 8.11                                                        |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd.                                                                                                 | 1,218,987        | 3.60                                                        |
| Japan Trustee Services Bank, Ltd. (trust account 4)                                                                                    | 1,204,600        | 3.56                                                        |
| Musashino Bank Industries Employees' Stockholding Association                                                                          | 849,238          | 2.51                                                        |
| Meiji Yasuda Life Insurance Company                                                                                                    | 735,858          | 2.17                                                        |
| The Master Trust Bank of Japan, Ltd. (trust account)                                                                                   | 719,200          | 2.12                                                        |
| Sumitomo Life Insurance Company                                                                                                        | 702,900          | 2.07                                                        |
| The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account (Standing proxy: Mizuho Corporate Bank, Ltd. Custody & Proxy Dept.) | 585,710          | 1.73                                                        |
| Nippon Life Insurance Company                                                                                                          | 540,222          | 1.59                                                        |
| MAEDA GLASS CO., LTD.                                                                                                                  | 509,100          | 1.50                                                        |

### Number of Shares Held by Type of Shareholders



Notes: 1. Some treasury stock is contained in "Individuals and others."  
2. "Other corporations" includes a unit of 14 shares under the name of Japan Securities Depository Center, Inc.

\*The above figures have been rounded to the second decimal place.



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