

MESSAGE FROM THE MANAGEMENT

Business and Financial Conditions

Looking back at Japan's economy during the year ended March 31, 2016, in the first half of the year, although the overall economy maintained a moderate tone of recovery backed by the continued improvement in the employment and income environment, which reflected solid corporate results, there are starting to be signs of a downside risk for the economy due to the impact of an unstable financial market, such as the ongoing rapid appreciation of the yen in and after January.

Regarding our business base, which is centered in Aichi Prefecture, in the automobile industry, one of the prefecture's primary industries, the economy is steadily continuing to recover due to various elements such as an increase in exports and manufacturing, backed by the strong U.S. economy; a continued trend toward improvement in business conditions; in addition to an increase in capital investment, an upturn in housing investment and personal consumption, and others.

Looking forward, although there are causes for uncertainty such as the economic conditions overseas and financial market trends, the economy is expected to follow a modest recovery track following increases in capital investment and ongoing improvement in the employment and income environment.

In the financial sector, the Bank of Japan has been conveying strong determination with respect to its ongoing aims of economic recovery, despite the postponement of the achievement period for the 2% year-on-year increase in the consumer price index from "approx. the second half of fiscal year 2016" to "approx. the first half of fiscal year 2017," which was mainly a result of the drop in crude oil prices. This determination is exemplified by their decision in January to introduce negative interest rates while beginning to include further added monetary easing into their outlooks.

As a result of these factors, there was firm price fluctuation in the first half of the fiscal year such as the Nikkei Stock Average marking an 18.5-year high of 20,868 points on June 24 of last year. However, the economy stagnated in the second half of the fiscal year following increased uncertainty regarding the global economy's future prospects. The Nikkei Stock Average subsequently ended the fiscal year at 16,758 points, a drop of 2,448 points from the previous fiscal year-end.



Shinichi Koide, *Chairman* & Katsuyuki Yazawa, *President*

Earnings

Our business results on a consolidated basis for the year ended March 31, 2016 are as follows.

Total income increased ¥245 million year on year to ¥49,553 million (US\$439 million) due to gain on refund from retirement benefit trusts in the amount of ¥856 million being recorded under “Other income,” and despite a decrease in return of credit expenses among others. Total expenses increased ¥995 million year on year to ¥40,892 million (US\$362 million) mainly due to an increase in loss on the disposal of investment securities. As a result, profit attributable to owners of parent decreased ¥565 million year on year to ¥5,257 million (US\$46 million).

By segment, ordinary income of the banking segment decreased ¥733 million year on year to ¥42,896 million (US\$380 million) and its segment profit decreased ¥1,486 million to ¥7,807 million (US\$69 million). Ordinary income of the leasing segment increased ¥291 million to ¥5,431 million (US\$48 million), and its segment profit decreased ¥27 million to ¥238 million (US\$2 million).

Cash Flows

For the year ended March 31, 2016, net cash used in operating activities amounted to ¥31,382 million (US\$278 million), an increase in cash used of ¥68,723 million year on year. This was mainly attributable to a decrease in security deposits received related to securities lending transactions and an increase in loans and bills discounted. Net cash used in investing activities amounted to ¥2,178 million (US\$19 million), a decrease in cash used of ¥33,199 million. This is mainly attributable to purchases of tangible fixed assets. Net cash used in financing activities amounted to ¥940 million (US\$8 million), an increase in cash used of ¥103 million. This is mainly due to dividends paid.

As a result, cash and cash equivalents at the end of the year stood at ¥104,000 million (US\$922 million), a decrease of ¥34,501 million from the previous year-end.

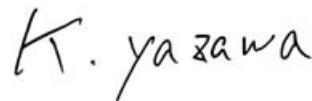
Medium-term Strategy

In our tenth medium-term management plan we describe what we aim to be in ten years as “The leading bank in Aichi that puts serious effort into regional procurement and regional operation, and contributes to the development of regional communities and the betterment of our customer’s lives.”

Contributing to the development of regional communities has been a major theme for us, with efforts such as increasing staff at sales branches by primarily establishing the new business structure, started in October of last year, and streamlining head office organizations, which has led to increased opportunities to visit our customers in small and medium sized enterprises.



Shinichi Koide
Chairman



Katsuyuki Yazawa
President