

**2018**  
**(April 2017~March 2018)**  
**Annual Report**



This document is a partial translation of TCSB's Japanese Disclosure Report that has been prepared in accordance with the provisions of Article 21 of the Banking Law of Japan.

***Note: This translation is provided for reference purposes only, and the Japanese original supercedes it in case of any discrepancy.***

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## Message from Management

### **TCSB's Challenge: To Become Japan's Leading Player in the Area of Asset Administration Services**

I would like to start by once again thanking our shareholders and customers for constantly supporting Trust & Custody Services Bank, Ltd. (TCSB).

Since TCSB's founding in 2001, we have adhered to the principle of growing our asset administration services into competitive products, then developing further into a company that provides comprehensive services associated with asset administration. Using this as a base, we have consistently worked on developing new services, reinforced our operational and IT infrastructure, reformed our internal control structure, and developed human resources who would become professionals in asset management.

With our customers' support and understanding of our initiatives, we have continued to further expand the size of our business platform.

In today's severe investment environment, customers' investment styles are becoming much more diverse and sophisticated at a faster pace. For example, investment targets and regions are more globalized and alternative/derivative investment is generalized. Asset management institutions that support these moves are also expected to become more diverse and sophisticated to meet the needs of customers.

While making sure to respond to such changes in customer needs, we shall not only take initiatives to provide high-quality administration services and make tireless efforts to improve, but also respond to the new styles and needs of customers with new administration services, thereby offering high added value. Furthermore, in an environment where digital innovation is advancing at an accelerating pace, we will actively take initiatives to promote "smart operation" that makes full use of IT, and pursue high quality, high efficiency, speed and expertise that are one rank higher.

Our consideration regarding management integration with the Japan Trustee Services Bank, Ltd., aimed at becoming the country's top trust bank specializing in asset management, has now entered what we could call a stage of "second founding".

All of us at TCSB are committed to refining our operational services more than ever to provide our customers with truly satisfying services as "the best asset administration partner, helping customers to increase their level of sophistication in asset management as the Most Trusted Partner Chosen by Customers."

We would greatly appreciate your continued support for and patronage of our company.

Nobumitsu Watanabe, President & CEO

## Corporate Data

### ■Profile (as of July 1, 2018)

Established: January 22, 2001

Address: Tower Z, Harumi Triton Square, Harumi 1-8-12, Chuo-ku, Tokyo 104-6228

TEL +81-3-6220-4000

Capital: ¥50,000,000,000

Shareholders:	Mizuho Financial Group, Inc.	540,000 shares (54%)
(equity position in %)	The Dai-ichi Life Insurance Company, Limited	160,000 shares (16%)
	Asahi Mutual Life Insurance Company	100,000 shares (10%)
	Meiji Yasuda Life Insurance Company	90,000 shares (9%)
	JAPAN POST INSURANCE Co., Ltd.	70,000 shares (7%)
	Fukoku Mutual Life Insurance Company	40,000 shares (4%)

Employees: 671 (as of March 31, 2018)

\* Number of employees includes persons on secondment from outside organizations. It does not include executive officers and temporary employees.

Main Activities

1. Asset Administration Services
  - Trust Services
  - Domestic Custody Services
  - Overseas Custody Services
  - Asset Administration Services for Defined Contribution Pensions
  - Master Trust Services (Master Trust Record-keeping Services)
2. Other Value-Added Asset Administration Services
  - Securities Lending Services
  - Comprehensive Securities Management Outsourcing Services
  - Collateral Management and Administration Services for OTC Derivative Transactions
  - Administration Services for middle- and back-office operations of asset management companies

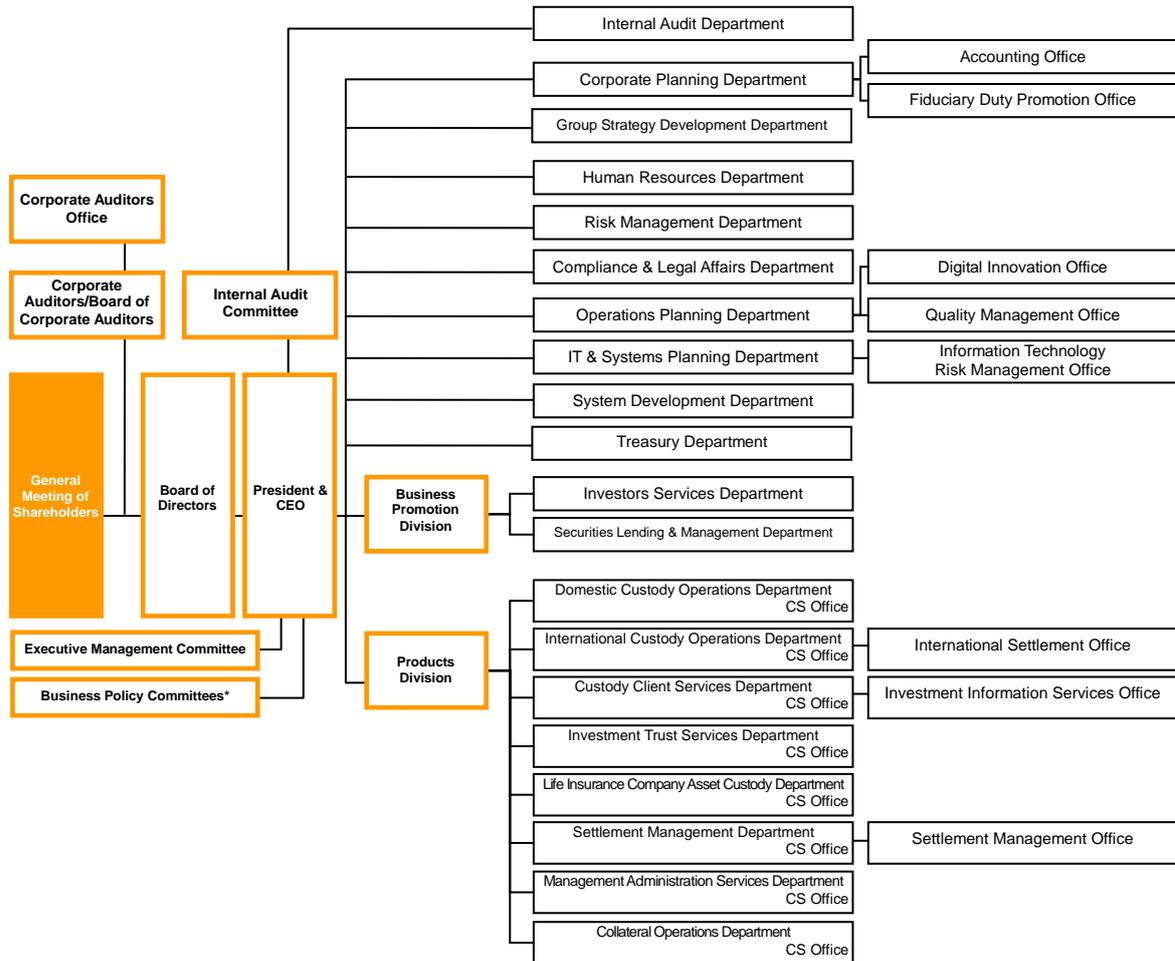
URL: <http://www.tcsb.co.jp/>

### ■Credit Ratings

	Long-term	Short-term
S&P	A-	A-2
Moody's	A1	Prime-1
R&I	AA-	a-1+

\* Bank financial strength rating

■ Organization Chart (as of July 1, 2018)



(CS Office: Customer Services Office)

\* Business Policy Committees consist of eight committees including the Compliance Committee and others

■ Corporate Officers (as of July 1, 2018)

President & CEO **Nobumitsu Watanabe**

Deputy President **Akira Noguchi**

Managing Director **Hiroyuki Obata**

Managing Director **Yasushi Makino**

Director **Masao Kanamaru**

Director **Goji Fujishiro**

Director **Yukihiro Fujioka**

Director **Tomohiro Nishio**

Director **Shigeaki Asai**

Corporate Auditor **Noboru Senni**

Corporate Auditor **Hiroto Uchino**

Corporate Auditor **Masato Monguchi**

Corporate Auditor **Takehiko Watabe**

Senior Managing Executive Officer, Head of Products Division and General Manager, Custody Client Services Department **Makoto Saito**

Managing Executive Officer **Masafumi Yoshida**

Executive Officer and General Manager, Group Strategy Development Department **Minoru Mochizuki**

Executive Officer and General Manager, Business Promotion Division **Kenji Yoshikawa**

## Financial Data

### Results of Operations

#### Overview of Business in Fiscal 2017

##### The Financial and Economic Environment

During the period under review (fiscal 2017), the world economy continued to recover at a moderate pace overall on the backdrop of recovery of the Chinese economy, improvement in the IT cycle, improvement in the corporate sentiment primarily in developed countries, and other factors.

Meanwhile, the Japanese economy continued to recover moderately due to expanding overseas economies and strong domestic demand. Factors contributing to the favorable domestic demand included inventory cycle improvements, growth in capital investments related to the Tokyo Olympic Games and productivity enhancement, and execution of public investment associated with economic measures. In addition, consumer spending turned for the better due to the positive effects from consumer needs to replace durable goods while small-and-medium-sized businesses increased wages.

##### Business Developments and Results

TCSB has steadily pushed forward with operations with particular emphases on (a) establishing a competitive advantage in existing business areas, (b) creating new markets and businesses, (c) pursuing structural reforms to achieve good balance between cost competitiveness and service quality, and (d) reinforcing the management structure to support business strategies.

In the area of income and expenditures during the fiscal year, ordinary income increased ¥421 million from the year before to ¥23,884 million mainly due to countering a decline in interest income associated with funds investment caused primarily by the impact of negative interest rates with an increase in revenue from service transactions. Key components were revenue from service transactions of ¥14,311 million and trust transactions of ¥11,425 million.

Meanwhile, ordinary expenses increased ¥555 million from a year earlier to ¥23,027 million due primarily to higher systems expenses. Major components were general and administrative expenses of ¥21,064 million and expenses from service transactions of ¥1,950 million.

As a result, ordinary income was ¥857 million (a decrease of ¥133 million year on year) and net income for the fiscal year came to ¥507 million (a decrease of ¥167 million year on year).

At the end of the fiscal year under review, assets under custody and administration – based on entrusted trust assets and assets managed under custody agreements – amounted to ¥382 trillion.

## Financial Statement

### ■ Balance Sheets

	(UNITS: Millions of yen)		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	As of 31.Mar.2016	As of 31.Mar.2017	As of 31.Mar.2018
<b>Assets</b>			
Cash and Due from Banks	4,105,296	5,976,756	6,639,229
Call Loans	694,000	620,000	420,000
Securities	292,596	188,945	263,932
Loans and Bills Discounted	210,496	4,508,796	6,209,728
Foreign Exchanges	1,383	2,103	329
Other Assets	154,962	110,773	104,143
Tangible Fixed Assets	580	872	1,202
Intangible Fixed Assets	13,762	16,219	18,388
Deferred Tax Assets	154	235	299
<b>Total Assets</b>	<b>5,473,232</b>	<b>11,424,703</b>	<b>13,657,253</b>
<b>Liabilities</b>			
Deposits	558,411	7,199,573	9,375,034
Negotiable Certificates of Deposit	500,000	500,000	500,000
Call Money	292,375	131,900	95,500
Due to Trust Accounts	4,047,935	3,511,928	3,598,948
Other Liabilities	13,885	20,219	26,380
Provision for Bonus Payments	86	99	103
Provision for Retirement Benefits	97	140	188
Provision for Directors' Retirement Benefits	54	69	72
<b>Total Liabilities</b>	<b>5,412,846</b>	<b>11,363,931</b>	<b>13,596,228</b>
<b>Net Assets</b>			
Capital Stock	50,000	50,000	50,000
Retained Earnings	10,309	10,753	11,125
Shareholders' Equity	60,309	60,753	61,125
Valuation Difference on Available-for-Sale Securities	76	18	(101)
Valuation and Translation Adjustments	76	18	(101)
<b>Total Net Assets</b>	<b>60,385</b>	<b>60,771</b>	<b>61,024</b>
<b>Total Liabilities and Net Assets</b>	<b>5,473,232</b>	<b>11,424,703</b>	<b>13,657,253</b>

(NOTE 1) Amounts less than one million yen are rounded down.

## ■ Statements of Income

(UNITS: Millions of yen)

	<b>2015</b>	<b>2016</b>	<b>2017</b>
	From 1.Apr.2015 To 31.Mar.2016	From 1.Apr.2016 To 31.Mar.2017	From 1.Apr.2017 To 31.Mar.2018
<b>Ordinary Income</b>			
Fiduciary Fees	10,520	11,165	11,425
Interest Income	2,249	(152)	(1,869)
Fees and Commissions	11,683	12,442	14,311
Other Operating Income	33	6	10
Other Ordinary Income	12	0	7
<b>Total Ordinary Income</b>	<b>24,500</b>	<b>23,462</b>	<b>23,884</b>
<b>Ordinary Expenses</b>			
Interest Expenses	1,051	32	(5)
Fees and Commissions Payments	1,678	1,749	1,950
Other Operating Expenses	0	1	—
General and Administrative Expenses	20,045	20,682	21,064
Other Ordinary Expenses	3	6	18
<b>Total Ordinary Expenses</b>	<b>22,779</b>	<b>22,472</b>	<b>23,027</b>
<b>Ordinary Profit</b>	<b>1,721</b>	<b>990</b>	<b>857</b>
<b>Extraordinary Loss</b>			
Loss on Disposal of Noncurrent Assets	4	1	12
Management Integration-related Expenses	—	—	96
<b>Total Extraordinary Losses</b>	<b>4</b>	<b>1</b>	<b>109</b>
<b>Income Before Income Taxes</b>	<b>1,716</b>	<b>988</b>	<b>747</b>
<b>Income Taxes-Current</b>	<b>590</b>	<b>369</b>	<b>251</b>
<b>Income Taxes-Deferred</b>	<b>(3)</b>	<b>(54)</b>	<b>(11)</b>
<b>Total Income Taxes</b>	<b>587</b>	<b>314</b>	<b>240</b>
<b>Net Income</b>	<b>1,129</b>	<b>674</b>	<b>507</b>

(NOTE 1) Amounts less than one million yen are rounded down.

## ■ Statements of Changes in Net Assets

(UNITS: Millions of yen)

	2015	2016	2017
	From 1.Apr.2015 To 31.Mar.2016	From 1.Apr.2016 To 31.Mar.2017	From 1.Apr.2017 To 31.Mar.2018
<b>Shareholder's Equity</b>			
Capital Stock			
Balance at the Beginning of the Current Period	50,000	50,000	50,000
Balance at the End of the Current Period	50,000	50,000	50,000
Retained Earnings			
Balance at the Beginning of the Current Period	9,409	10,309	10,753
Changes of Items During the Period			
Dividends from Surplus	(230)	(230)	(135)
Net Income	1,129	674	507
Total Changes of Items During the Period	899	444	372
Balance at the End of the Current Period	10,309	10,753	11,125
Shareholders' Equity			
Balance at the Beginning of the Current Period	59,409	60,309	60,753
Changes of Items During the Period			
Dividends from Surplus	(230)	(230)	(135)
Net Income	1,129	674	507
Total Changes of Items During the Period	899	444	372
Balance at the End of the Current Period	60,309	60,753	61,125
<b>Valuation and Translation Adjustments</b>			
Balance at the Beginning of the Current Period	9	76	18
Changes of Items During the Period			
Net Changes of Items Other than Shareholders' Equity	66	(58)	(119)
Total Changes of Items During the Period	66	(58)	(119)
Balance at the End of the Current Period	76	18	(101)
<b>Total Net Assets</b>			
Balance at the Beginning of the Current Period	59,419	60,385	60,771
Changes of Items During the Period			
Dividends from Surplus	(230)	(230)	(135)
Net Income	1,129	674	507
Net Changes of Items Other than Shareholders' Equity	66	(58)	(119)
Total Changes of Items During the Period	966	386	252
Balance at the End of the Current Period	60,385	60,771	61,024

(NOTE 1) Amounts less than one million yen are rounded down.

## Notes (Fiscal 2017)

### Significant Accounting Policies

1. Evaluation Standards and Methods for Investment Securities  
In regard to evaluation of securities, Other Securities are stated, in principle, at fair value based on the market price, etc., on the settlement day (cost of sale primarily calculated using the moving average method), except for those whose fair value it is deemed extremely difficult to measure. These are stated on a cost basis using the moving average method. Valuation differences on Other Securities are treated as comprehensive income.
2. Evaluation Standards and Methods for Derivative Transactions  
Derivatives transactions are valued at fair value.
3. Methods for Depreciating Fixed Assets
  - (1) Tangible Fixed Assets  
Tangible fixed assets are depreciated using the declining balance method (except for buildings (excluding equipment accessory to buildings) and equipment accessory to buildings and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method). Depreciation is mainly computed using the following ranges of useful life:  
Buildings 6 years to 50 years  
Equipment 3 years to 20 years
  - (2) Intangible Fixed Assets  
Intangible fixed assets are depreciated using the straight-line method. Internally used software items are amortized over their useful lives within the company (primarily five years).
4. Standards for Translating Foreign Currency-Denominated Assets and Liabilities into Yen  
Foreign currency-denominated assets and liabilities are primarily translated into yen at the exchange rates prevailing on the balance sheet date.
5. Standards for Recording Reserves
  - (1) Allowance for Loan Losses  
Allowance for loan losses are stated as follows in accordance with standards for write-offs and provisions stipulated in advance.  
Claims equivalent to “normal credits” and “credits to need attention borrowers” as provided for in “Self-assessments of the Assets of Banks and other Financial Institutions, and Operating Guidelines Concerning Audits of Loan-Loss Write-Offs and Provisioning against Possible Loan Losses” (Report No. 4 of the Special Committee on Banking, etc., Supervision of the Japanese Institute of Certified Public Accountants, July 4, 2012) are classified into the corresponding categories and posted on the basis of loan-loss ratios calculated according to individual historical credit loss experiences.  
Based on these asset self-assessment standards, asset assessment departments assess all claims in cooperation with the business promoting divisions concerned.  
At the end of the year, however, there is no balance of the allowance for loan losses.
  - (2) Provision for Bonus Payments  
To provide for employees’ bonus, that portion of estimated bonuses payable to employees that can be attributed to the current fiscal year has been posted in the accounts under Provision for Bonus Payments.
  - (3) Provision for Retirement Benefits  
To provide for retirement benefits to employees (including executive officers), that portion of estimated retirement benefit obligations payable to employees that can be attributed to the current fiscal year has been posted in the accounts under Provision for Retirement Benefits.
  - (4) Provision for Directors’ Retirement Benefits  
To provide for retirement benefits to directors, that portion of estimated directors’ retirement benefits attributable to the current fiscal year has been recorded.
6. Accounting for Consumption Taxes, etc.  
Consumption taxes and local consumption taxes are excluded from transaction amounts.

## Notes

### (Balance Sheets)

- Loans and bills discounted are for the Japanese Government or are for Japanese Government-related organizations.
  - The following assets have been pledged as collateral:
    - Assets pledged as collateral
      - Securities: ¥3,000 million
      - Loans and Bills Discounted: ¥714,071 million
    - Liabilities collateralized by the above assets
      - There are no outstanding liabilities as of the end of the fiscal year under review.

In addition to the above, securities to the value of ¥22,445 million have been pledged as collateral for exchange settlement transactions.

Other Assets include "Margin for CCP" of ¥64,604 million, "Guarantee deposits for CCP" of ¥33,200 million and guarantee money in the amount of ¥659 million.
- Current account overdraft contracts are contracts by which the company is bound to extend loans up to the prearranged amount at the customer's request unless the customer is in breach of contract conditions. The unutilized balance of these contracts amounts to ¥2,332,400 million, and the original contractual terms for the total amount are one year or less.

Since many of these contracts expire without the rights being exercised, the unutilized balance itself does not necessarily affect TCSB's future cash flows. A provision is included in many of these contracts that entitles TCSB to refuse applications for the execution of loans, or reduce the maximum contracted amount when there is a change in the financial situation, necessity to preserve a claim, or other similar reasons. Where necessary, TCSB also obtains real estate or securities as collateral at the time the contracts are concluded and regularly monitors customer's business conditions thereafter under in-house procedures established in advance, amending contracts and taking other steps to control credit risks if needed.
  - Accumulated depreciation of Tangible Fixed Assets ¥1,621 million
  - The principal amount promised to be indemnified for Money Trusts is ¥639,533 million.
  - Total monetary claims due to Related companies ¥332 million
  - TCSB is subject to the restriction on dividends from surplus in accordance with the provisions of Article 18 of the Banking Law of Japan.

If TCSB intends to distribute dividends from surplus, regardless of the provision of Article 445, Paragraph 4, of the Banking Law of Japan, "Amounts of Capital and Reserves," TCSB records an amount that corresponds to a decrease in the surplus by distributing the dividends from surplus, multiplied by one-fifth (1/5) as the legal reserve.

The legal reserve recorded for the fiscal year under review related to the dividends from surplus is ¥27 million.

### (Statements of Income)

- Negative figures for interest on loans and bills discounted and interest on call loans which are included in interest income and for interest on call money included in interest expenses are the results of netting in conjunction with the conclusion of contracts with negative interest rates.
- Income related to transactions with Related companies
  - Total revenue from trust transactions ¥41 million
  - Total revenue from service transactions ¥2,557 millionExpenses related to transactions with Related companies
  - Total expenses related to other ordinary transactions ¥62 million

## (Statement of Changes in Net Assets)

- Types and number of shares issued and outstanding are as shown below.

(UNITS: Thousands of shares)

	As of April 1, 2017	Increase during the fiscal year	Decrease during the fiscal year	As of March 31, 2018	Remarks
Shares Issued and Outstanding					
Common Stock	1,000	—	—	1,000	
Total	1,000	—	—	1,000	

- Dividend

### (1) Dividends paid during the year ended March 31, 2018

	Type of shares	Total dividend amount	Dividend per share	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 13, 2017	Common stock	¥135 million	¥135	March 31, 2017	June 14, 2017

(2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2018, those for which the effective date of the dividends will be after March 31, 2018.

	Type of shares	Total dividend amount	Source of funds for dividends	Dividend per share	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 14, 2018	Common stock	¥100 million	Retained earnings	¥100	March 31, 2018	June 15, 2018

## (Financial Instruments)

- Status of Financial Instruments

### (1) Policies on financial instruments

TCSB specializes in the asset management business and maintains a basic policy of risk-restrictive business administration. TCSB holds financial assets mainly consisting of “loans and bills discounted” to the Japanese Government, bonds such as “government-guaranteed bonds” and “call loans” on the asset investment side, as well as financial liabilities such as “liquid deposits” and “due to trust account” on the financing side.

TCSB is committed to the financing and asset investment of these financial instruments by taking into account various risk factors while paying attention to appropriate management in response to each risk by financial instrument.

### (2) Description of financial instruments and related risks

The major financial assets held by TCSB are loans and bills discounted to the Japanese government, securities held to be deposited as collateral for settlement such as bonds and call loans to financial institutions. These financial assets are exposed to the risk (credit risk) that the value of the financial instruments could be reduced or lost due to the deterioration of financial conditions at any borrower or issuer and the risk (market risk) that the value of the financial instruments could be reduced due to the fluctuation of interest rates.

Financial liabilities mainly refer to financing that uses liquid deposits and due to a trust account. These financing methods could face cash flow problems due to the deterioration of TCSB's financial conditions or TCSB could be exposed to the risk of incurring losses due to reluctant financing because of significantly higher interest rates (liquidity risk).

Given the ongoing financial liberalization and internationalization, the financial assets and liabilities held by TCSB are becoming diversified and increasingly complicated, exposing TCSB to various risks including the credit, market and liquidity risks detailed above.

### (3) Risk management structure for financial instruments

#### 1) Commitment to risk management

As a dedicated banking and trust company specializing in the asset management business, TCSB maintains a basic policy of risk-restrictive business administration.

To raise its corporate value while ensuring sound and stable management, TCSB is proactively improving its risk management structure based on the recognition that appropriately managing and controlling risks according to the characteristics of its operations and risks is a critical managerial task.

At TCSB, the Board of Directors has stipulated basic policies on risk management. The policies set forth diverse related matters: specific definitions of various risks, improvement of the structure for appropriate risk management and human resource development, and implementation of audits to verify the appropriateness and effectiveness of the risk management structure. TCSB endeavors to strengthen its risk management by drawing on a variety of techniques compliant with its basic policies to ensure increasingly sophisticated risk management.

#### 2) Comprehensive risk management

At TCSB, we classify the risks to which our various financial assets and liabilities are exposed by factor into credit risk, market risk, liquidity risk, operational risk and so on, and manage them according to their respective characteristics.

TCSB manages each type of risk individually. It has also established a comprehensive risk management structure to identify and evaluate overall risk and, where necessary, to devise appropriate responses to keep risk within manageable limits in both qualitative and quantitative terms.

#### 3) Credit risk management

Credit risk management is carried out by the credit administration, which manages the processes from granting credit to collection, in order to control the losses that TCSB could incur due to the emerging credit risk by transaction category based on the credit investigation of customers.

At TCSB, the Board of Directors determines important credit risk related matters in accordance with the Basic Policies on Credit Risk Management. Meanwhile, the ALM Committee deliberates on and coordinates basic policies and administration-related matters specific to credit risk and credit risk monitoring. The Risk Management Department, which is led by the officer responsible for the Department, draws up and executes plans and promotes the basic matters concerning credit risk management.

Credit risk management is carried out in accordance with our internal credit rating system, and individual credit lines, as a general rule, are set and controlled by the final decisions of our credit assessment department every half year. The individual credit lines are set in accordance with the credit business policies and determined through the screening of ceiling limits compared with the total amounts of on-balance transactions and derivative transactions (credit amounts are calculated with the current exposure method). Moreover, from the viewpoint of enhancing the check-and-balance function, the Internal Audit Department is established as an internal auditing organ independent from the operating departments.

#### 4) Market risk management

At TCSB, the Board of Directors determines important market risk related matters in accordance with the Basic Policies on Market Risk Management. Meanwhile, the ALM Committee deliberates on and coordinates ALM-related basic policies, risk plans, market risk administration related matters and countermeasures in case of emergencies such as a sudden change in the market.

The officer responsible for the Risk Management Department holds jurisdiction over general matters concerning the planning and administration of market risk management. The Risk Management Department assumes practical operations such as monitoring, reporting and analysis of and proposals on market risk, and setting limits thereon, as well as drawing up and executing plans and promoting matters concerning market risk management. The Risk Management Department also works to identify and evaluate TCSB's risk situation, reports to the President on a daily basis and periodically reports to the Board of Directors and other relevant entities.

As a market risk management method, various limits are set and controlled. Although TCSB does not engage in trading operations, ceiling limits are set on the losses that it could

incur with regard to the banking operations and position boundaries are set using the interest-rate sensitivity analysis, as required.

Moreover, as for market operations, a middle office (Risk Management Department) is established as an internal entity independent from the front office (market departments) and the back office so that the check-and-balance function can effectively operate. The middle office manages market risk in detail with diverse measures: managing risk indicators such as BPV (basis point value), conducting stress tests and applying the loss limits.

5) Status of market risk

TCSB has determined in the Basic Policies on Market Risk Management that its operations be conducted in a restrictive manner to minimize market risk exposure for its deals with customers and endeavors to ensure safe and reliable investments.

Major financial instruments at TCSB include bonds such as government-guaranteed bonds, call loans, etc. and they are mainly influenced by interest rate risk, which is a primary market risk. The Risk Management Department computes the BPV on the financial instruments on a daily basis and monitors whether the prearranged amounts (i.e., the upper limit) thereof are observed. As of March 31, 2018, the BPV for the financial instruments held by TCSB was set to ¥269 million.

6) Financing-specific liquidity risk management

TCSB's liquidity risk management structure is basically the same as the market risk management structure described in the preceding item 4) "Market risk management." In addition, the Treasury Department assumes practical operations such as cash flow management and draws up and executes plans and promotes matters concerning cash flow management. The cash flow situation is reported to the ALM Committee and the President.

Liquidity risk is measured using cash flow related indicators such as the ceiling limits concerning financing from the markets. The ALM Committee deliberates on and coordinates the limits specific to liquidity risk and so forth. Furthermore, the Committee determines the liquidity risk categories of "Ordinary," "Concerned" and "Critical" in response to the cash flow situation, as well as responsive actions to cope with the "Concerned" and "Critical" situations. The Committee has also established an emergency structure that allows us to take swift action in case of an "emergency" that could have a negative effect on TCSB's cash flow situation.

(4) Supplemental explanation on fair value of financial instruments, etc.

The fair values of financial instruments include not only the amounts based on the market value but also certain amounts reasonably calculated if no market value exists. As the calculation of such amounts adopts certain preconditions, the resulting values may differ depending on the preconditions used for calculation.

2. Fair value of financial instruments, etc.

The following table indicates the amount on the balance sheet, the fair value and the unrealized gain (loss) as of March 31, 2018, related to financial instruments. Unlisted stocks and the like, for which it is deemed extremely difficult to measure the fair value, are not included in the table below. (Refer to (NOTE 2.))

(UNITS: Millions of yen)

	Amount shown in Balance sheet	Fair value	Difference
(1) Cash and Due from Banks	6,639,229	6,639,229	—
(2) Call Loans	420,000	420,000	—
(3) Securities			
Other Securities	263,487	263,487	—
(4) Loans and Bills Discounted	6,209,728	6,208,340	(1,388)
Total Assets	13,532,446	13,531,057	(1,388)
(1) Deposits	9,375,034	9,375,034	—
(2) Negotiable Certificates of Deposit	500,000	500,000	—
(3) Call Money	95,500	95,500	—
(4) Due to Trust Accounts	3,598,948	3,598,948	—
Total Liabilities	13,569,483	13,569,483	—
Derivative Transactions (*1)			
(1) Those to which Hedge Accounting is not applied	—	—	—
Total Derivative Transactions	—	—	—

(\*1) The derivative transactions recorded in “Other Assets” and “Other Liabilities” are collectively indicated above. Net receivables and payables, which were derived from derivative transactions, are presented in net amounts.

(NOTE 1) Calculation method of the fair value of financial instruments

Assets

(1) Cash and Due from Banks

As the fair value of the amounts of “due from banks” without maturity approximates the book value, the book value concerned is recorded as the fair value.

For “due from banks” with maturity, since maturity periods are short (within six months) and the fair value approximates the book value, the book value concerned is recorded as the fair value.

(2) Call Loans

Since maturity periods are short (within six months) and the fair value approximates the book value, the book value concerned is recorded as the fair value.

(3) Securities

The fair value of bonds is based on the prices traded at the stock exchange. The notes on securities by holding purpose are stated in (Securities) below.

(4) Loans and Bills Discounted

For loans and bills discounted, the present value is calculated by discounting the future cash flows for each of the certain fixed periods set. The full amount of loans and bills discounted is for the Japanese government or Japanese government-related organizations and the market interest rate is used as the discount rate. Note that for those with short maturity periods (within six months), since the fair value approximates the book value, the book value concerned is recorded as the fair value.

## Liabilities

### (1) Deposits

For the demand deposits, the amount paid (book value) when requested at the end of the year under review is deemed the fair value.

### (2) Negotiable Certificates of Deposit

The maturity period of negotiable certificates of deposit is short (within six months) and the fair value approximates the book value, therefore the book value concerned is recorded as the fair value.

### (3) Call Money

As the current maturity is short (within six months) and the fair value approximates the book value, the book value concerned is recorded as the fair value.

### (4) Due to Trust Account

The amount paid (book value) when requested at the end of the year under review is deemed the fair value.

## Derivative Transactions

Derivative transactions are currency-related transactions (exchange contracts) and use prices which are calculated based on exchange prices, forward foreign exchange rates and discounted present values.

(NOTE 2) Financial instruments for which it is deemed extremely difficult to measure the fair value are as shown below, and they are not included in Other Securities in (3) Securities of "Fair value of financial instruments, etc."

(UNITS: Millions of yen)

Category	Amount shown in Balance sheet
Unlisted stocks (*1)	445
Total	445

(\*1) As unlisted stocks have no market value and it is deemed extremely difficult to measure the fair value thereof, they are not subject to the disclosure of fair value information.

(NOTE 3) Redemption schedule of monetary claims and securities with maturity dates for years subsequent to the closing date (March 31, 2018)

(UNITS: Millions of yen)

	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Cash and Due from Banks	6,629,167	—	—	—	—	—
Call Loans	420,000	—	—	—	—	—
Securities						
Securities with Maturity Dates included in “Other Securities”	53,570	209,917	—	—	—	—
Loans and Bills Discounted	6,209,728	—	—	—	—	—
Total	13,312,466	209,917	—	—	—	—

(NOTE 4) Redemption schedule of borrowings and other interest-bearing debt for years subsequent to the closing date (March 31, 2018)

(UNITS: Millions of yen)

	Within 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*1)	9,375,034	—	—	—	—	—
Negotiable Certificates of Deposit	500,000	—	—	—	—	—
Call Money	95,500	—	—	—	—	—
Due to Trust Accounts	3,598,948	—	—	—	—	—
Total	13,569,483	—	—	—	—	—

(\*1) Of the deposits in the banking business, demand deposits are disclosed under “Within 1 year.”

**(Securities)**

Other than government bonds, corporate bonds, stocks and other securities on the balance sheets, negotiable certificates of deposit in “Cash and Due from Banks” are included.

Other securities (As of March 31, 2018)

(UNITS: Millions of yen)

	Type	Amount shown in Balance sheet	Acquisition cost	Difference
Those of which the amount on the balance sheet does not exceed the acquisition cost	Japanese Bonds			
	Government Bonds	2,601	2,601	(0)
	Corporate Bonds	260,886	261,031	(145)
	Other	100,000	100,000	—
	Subtotal	363,487	363,633	(145)
Total		363,487	363,633	(145)

(NOTE) Other securities for which it is deemed extremely difficult to measure the fair value

(UNITS: Millions of yen)

	Amount shown in Balance sheet
Stocks	442
Other	3
Total	445

As these securities have no market value, they are not included in “Other securities” in the list above.

**(Retirement benefits)**

Retirement benefit system adopted

TCSB adopts the defined contribution pension plan for part of its lump-sum retirement allowance system. The amount of contribution required for the defined contribution pension plan is ¥18 million.

**(Tax-Effect Accounting)**

1. Principal deferred tax assets and liabilities, broken down by cause, are shown below.

Deferred tax assets		
Asset retirement obligations		¥101 million
Provision for retirement benefits and provision for directors' retirement benefits		80
Accrued business and business facility taxes		60
Valuation difference on Available-for-Sale Securities		44
Provision for bonus payments		31
Tangible Fixed Assets		0
Other		48
Total deferred tax assets		<u>367</u>
Deferred tax liabilities		
Tangible Fixed Assets		68
Valuation difference on Available-for-Sale Securities		0
Total deferred tax liabilities		<u>68</u>
Net deferred tax assets		<u>299</u> million

**(Related party transactions)**

(1) Transactions with the parent company and principal corporate shareholders, etc.

(UNITS: Millions of yen)

Category	Name of company, etc.	Percentage of voting rights (or ownership)	Relationship with related party	Details of transactions	Transaction amounts (Note 2)	Account classification	Balance at term end
Other related companies	The Dai-ichi Life Insurance Company, Limited	Direct ownership 16%	Entrustment of securities administration operations	Entrustment of securities administration operations (Note 1)	2,341	Accrued income	293

Transaction terms and determination thereof

(NOTE 1) Fees for the performance of outsourced securities administration operations are set according to the company's fee rates table.

(NOTE 2) Transaction amounts do not include consumption tax. Balance at term end includes consumption tax.

## (2) Sister companies, etc.

(UNITS: Millions of yen)

Category	Name of company, etc.	Percentage of voting rights (or ownership)	Relationship with related party	Details of transactions	Transaction amounts (Note 3)	Account classification	Balance at term end
Subsidiary of Parent Company	Mizuho Trust & Banking Company, Limited	None	Performance of trust services for trust bank Sharing of directors	Performance of trust services for trust bank (Note 1)	9,989	Suspense receipt	10,689
Subsidiary of Parent Company	Mizuho Trust Systems Company, Limited	None	Performance of outsourced system operation and software development services	Outsourcing of system operation Outsourcing of software development (Note 2)	3,964 4,809	— Suspense payments for software	— 4,139

Transaction terms and determination thereof

(NOTE 1) Fees for the performance of outsourced trust services are determined through negotiations based on fee amounts calculated by the company.

(NOTE 2) Fees for the performance of outsourced system operation and software development services are determined through negotiations based on fee amounts calculated by MHTS Co., Ltd.

(NOTE 3) Transaction amounts do not include consumption tax. Balance at term end include consumption tax.

**(Per share information)**

Net assets per share ¥61,024.87

Net income per share ¥507.26

**(Business combination/business divestiture-related)**

## 1. Business combination

The Company and Japan Trustee Services Bank, Ltd. (hereinafter, "JTSB") entered into an agreement on management integration by way of joint share transfer on March 28, 2018 as outlined below.

## (1) Names of parties concerned in the business combination and business description

JTSB Trust banking business

the Company Trust banking business

## (2) Reasons for the business combination

This management integration is executed with the purpose of contributing to the further development of the domestic securities market and to increasing sophistication of Japan's investment chain. This can be achieved by combining the management resources and know-how of the Company engaging in the asset management business and JTSB and gaining the benefit of scale to realize stable and high-quality operations and reinforce systems development capabilities.

## (3) Scheduled date of business combination

October 1, 2018

## (4) Legal format of business combination

Establishment of a holding company through a joint share transfer

## (5) Name of company after combination

JTC Holdings, Ltd.

## 2. Business divestiture

Looking ahead to the above management integration with JTSB and other related matters, the Company and Mizuho Trust & Banking Co., Ltd. entered into an agreement on business transfer by way of company split on February 28, 2018 as outlined below.

(1) Name of successor company

Mizuho Trust & Banking Co., Ltd.

(2) Description of business to be separated

Trust service business (excluding business activities related to re-entrustment by another firm and those related to defined contribution plan);

Custody service business (excluding foreign bank agency services);

Securities lending service business (excluding business activities related to the trust service business); and

Collateral management administration services business for OTC derivative transactions.

(3) Reason for the business divestiture

This business transfer by way of company split is executed with the purpose of concentrating the function of providing asset management solutions by Mizuho at Mizuho Trust & Banking Co., Ltd.

(4) Scheduled date of business divestiture

July 1, 2018

(5) Legal format of business divestiture

Absorption-type split with the Company as the splitting company and Mizuho Trust & Banking Co., Ltd. as the successor company

## Results of Trust Banking Business

### ■ Statements of Trust Assets and Liabilities

(UNITS: Millions of yen)

	<b>2015</b>	<b>2016</b>	<b>2017</b>
	As of 31.Mar.2016	As of 31.Mar.2017	As of 31.Mar.2018
<b>Assets</b>			
Securities	88,539,659	84,565,099	81,754,495
Beneficiary Rights to the Trusts	18,472,080	18,697,165	18,335,132
Securities Held in Custody Accounts	6,189,068	5,728,389	5,766,986
Money Claims	652,457	731,203	765,826
Call Loans	688,338	663,774	851,857
Due from Banking Account	4,047,935	3,511,928	3,598,948
Cash and Due from Banks	6,244,065	12,737,497	15,310,485
Other Assets	16,252,935	19,431,352	16,983,137
<b>Total Assets</b>	<b>141,086,540</b>	<b>146,066,410</b>	<b>143,366,870</b>
<b>Liabilities</b>			
Money Trusts	63,129,346	65,557,811	61,517,159
Investment Trusts	13,772	—	—
Money Entrusted Other than Money Trusts	65,424	316,855	592,615
Securities Trusts	9,913,311	10,242,335	9,813,003
Composite Trusts	67,964,685	69,949,406	71,444,091
<b>Total Liabilities</b>	<b>141,086,540</b>	<b>146,066,410</b>	<b>143,366,870</b>

(NOTE 1) Amounts less than one million yen are rounded down.

### Capital Adequacy Ratio (Basel III)

		<b>2016</b>	<b>2017</b>
		As of 31.Mar.2017	As of 31.Mar.2018
Core capital: instruments and reserves	(A)	60,618	<u>61,025</u>
Core capital: regulatory adjustments	(B)	9,731	<u>14,710</u>
Capital (A) – (B)	(C)	50,887	<u>46,315</u>
Risk-Weighted Assets	(D)	230,957	<u>204,298</u>
Capital Adequacy Ratio (C)÷(D)×100		22.03%	<u>22.67%</u>

(NOTE 1) Amounts less than one million yen are rounded down.