



To be a financial group that nurtures and  
grows with our region

# YMFG

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## ANNUAL REPORT

# 2014

For the year ended March 31, 2014





# Achieve mutual prosperity with the region by transforming into “One YMFG”

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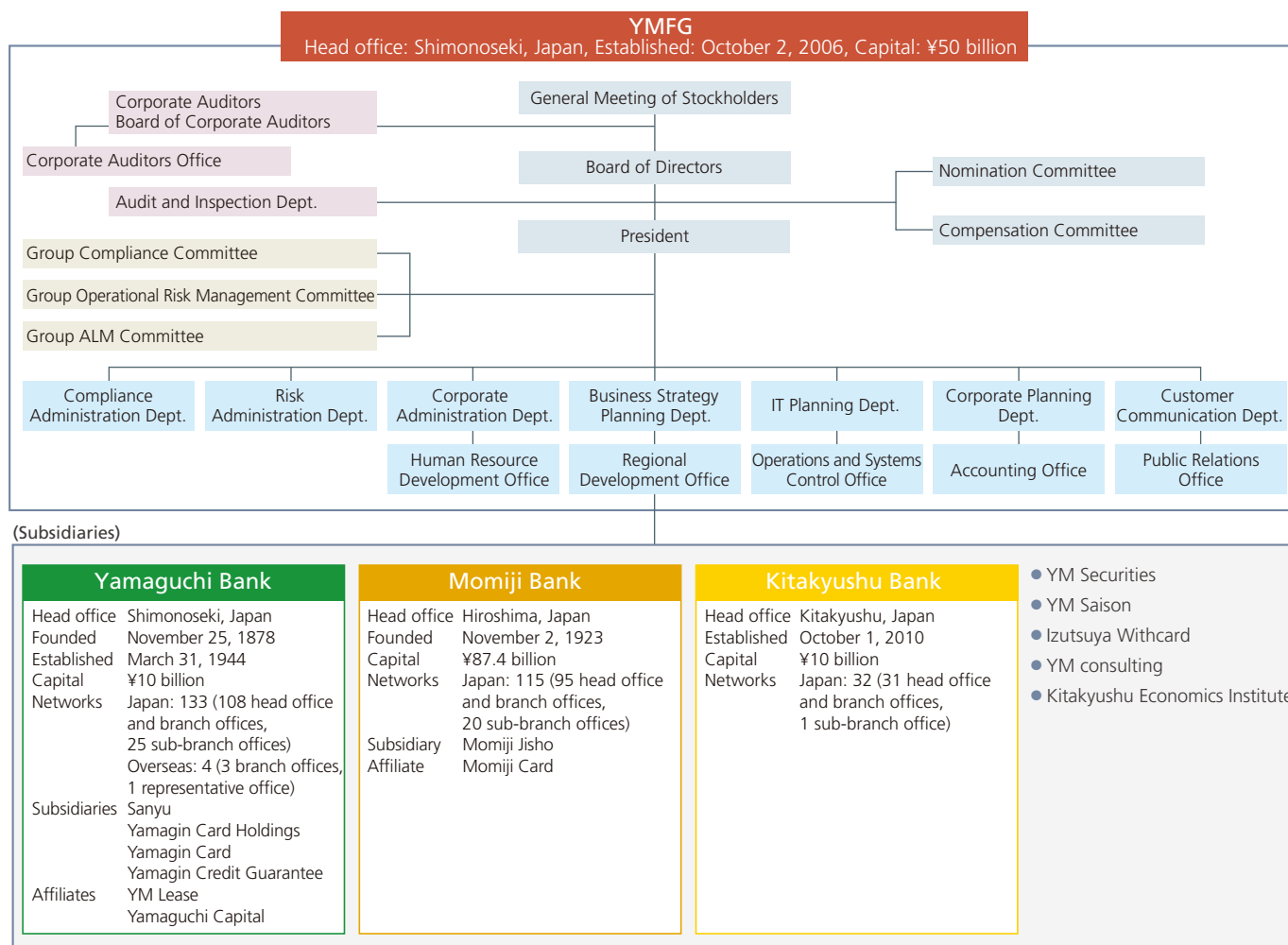
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### Disclaimer Regarding Forward-Looking Statements

The forward-looking statements in this Annual Report are based on management's assumptions and beliefs in light of information available as of the date of publication, and involve both known and unknown risks and uncertainties. Actual financial results may differ materially from those presented in this document, being dependent on a number of factors.

## Organization Chart



## History

- |           |   |           |   |
|-----------|---|-----------|---|
| Mar. 2005 | The Yamaguchi Bank, Momiji Holdings, Inc., and its subsidiary, Momiji Bank, concluded a basic agreement on business and capital participation.  | Jul. 2007 | YM Securities was established.  |
| Dec. 2005 | The Yamaguchi Bank and Momiji Holdings concluded a basic agreement on business merger.  | Aug. 2007 | YM Saison was established.  |
| Oct. 2006 | The Yamaguchi Bank and Momiji Holdings established Yamaguchi Financial Group (YMFG) by means of a joint share transfer. YMFG was listed on the First Section of the Tokyo Stock Exchange. | Oct. 2007 | YM Securities commenced operations.   |
| Apr. 2007 | Momiji Holdings was merged into the surviving corporation, Momiji Bank.   | Apr. 2009 | Acquired all outstanding shares in Izutsuya Withcard Co., Ltd.              |
|           |   | Oct. 2010 | Kitakyushu Financial Project was established.                               |
|           |   | Mar. 2011 | Acquired all issued shares of Momiji Consulting.                            |
|           |   | Apr. 2011 | Momiji Consulting changed name to YM Consulting.                            |
|           |   | Aug. 2011 | Acquired all outstanding shares in The Kitakyushu Economics Institute, Ltd. |
|           |   | Oct. 2011 | The Kitakyushu Bank was established.  |

### **Reinforcing our management foundations to be adaptable to various changes in our working environment**

**T**hank you for your continued support of the Yamaguchi Financial Group (“YMFG”).

This annual report provides an overview of the Group and its business results for the fiscal year ended March 31, 2014, and is designed to help you understand more about YMFG.

Based on the YMFG Medium-Term Management Plan 2013, which commenced during the year under review, the Group worked to deepen its community involvement in the regions where it operates, pulling together as a unified financial group, “One YMFG,” comprising three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—and leveraging its comprehensive strengths. YMFG will also put forth every effort toward developing mutually beneficial relationships with local communities and customers, aiming to provide financial services that invigorate our region.

As part of our international operations to provide support for clients making business inroads overseas, in July 2013 we entered into an affiliate relationship with the Metropolitan Bank and Trust Company of the Philippines. This move added the Philippines to the Yamaguchi Financial Group's Asian network, which also includes relationships with banks in China, South Korea and Indonesia.

In December 2013, we issued \$300 million in US-dollar-denominated convertible bonds to meet the dollar funding needs of clients conducting business overseas.

We plan to continue striving to become recognized for having strong operations in Asia by providing overseas business opportunities to our customers and strengthening our funding support and other consulting functions.

In the fiscal year ended March 31, 2014, the Group launched the new "YMFG Medium-Term Management Plan 2013." During the first year of this plan, under a basic policy of "transforming YMFG" we sought to work together toward the prosperity of the region by transforming our existing "awareness," "actions" and "framework." We also undertook initiatives to invigorate the region by leveraging our Group network and information.

By consolidating Group planning and administrative departments, we will continue working toward a structure that achieves at a high level both finance that is closely attuned to the region and an efficient management function. In this manner, we are reinforcing our management foundations to be adaptable to various changes in our working environment.

We look forward to your continued patronage and support.

August 2014

A handwritten signature in black ink, reading "K. Fukuda", with a horizontal line underneath.

**Koichi Fukuda**  
President  
Yamaguchi Financial Group, Inc.

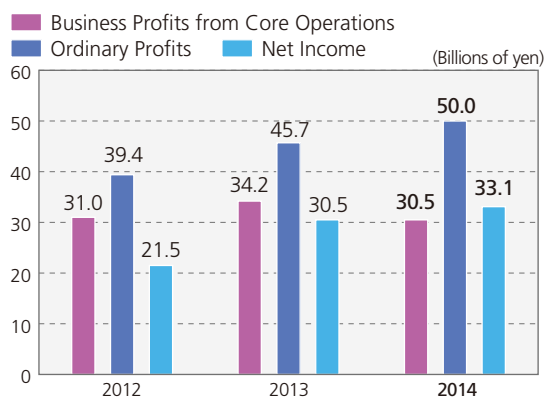
# Performance Highlights (YMFG)

## Performance during the fiscal year ended March 31, 2014

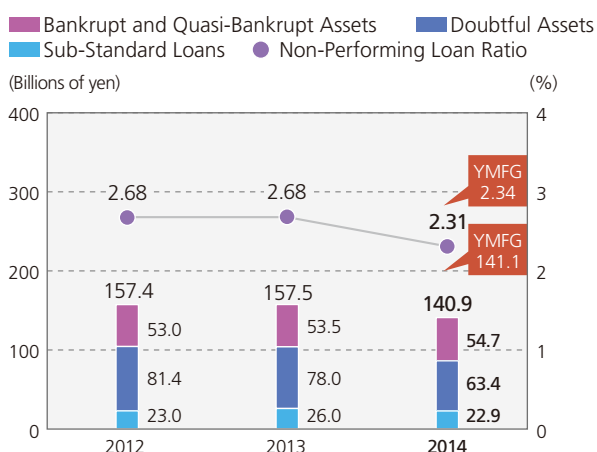
### Business Profits from Core Operations/ Ordinary Profits/Net Income (Three Banks)

Business profits from core operations were down ¥3.7 billion year on year, to ¥30.5 billion. This outcome stemmed from a decrease in other ordinary income in comparison with the previous fiscal year's gain on transfer in line with the securitization of loans.

Ordinary profits rose ¥4.3 billion, to ¥50.0 billion, and net income amounted to ¥33.1 billion.

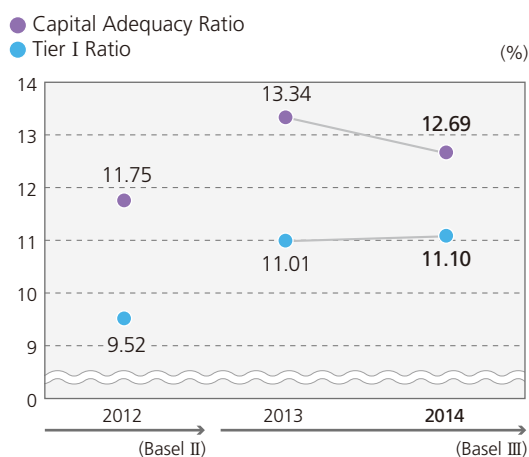


### Non-Performing Assets Based on the Financial Revitalization Law (Three Banks)



### Capital Adequacy Ratio (YMFG)

YMFG's consolidated capital adequacy ratio (uniform international standard) under Basel III was 12.69%. The total Tier 1 capital adequacy ratio was 11.10%, and consolidated common equity Tier I capital adequacy ratio was 11.10%.



### Capital Strategy (Euro-dollar convertible bonds issued and Repurchase own shares)

Euro-dollar convertible bonds issued (Dec. 2013)

- Amount \$300 million
- Maturity 5 years
- Coupon 0% (zero cost)
- Objective

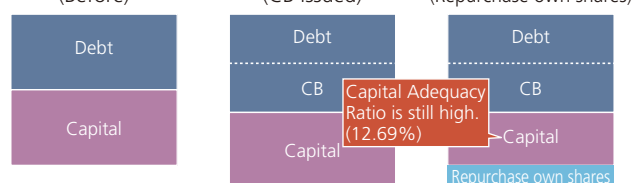
As the Group having strong operations in Asia, to respond to rising demand for foreign currency loans which corporate customers spend on the development of their overseas operations, to lower funding cost of U.S.\$ with contingent convertible clause and clause determining face value cash settlement intended to minimize dilution shareholder value.

Repurchase own shares (Dec. 2013)

- Amount 9 million shares
- Objective

To offset the impact of dilution by raising capital efficiency.

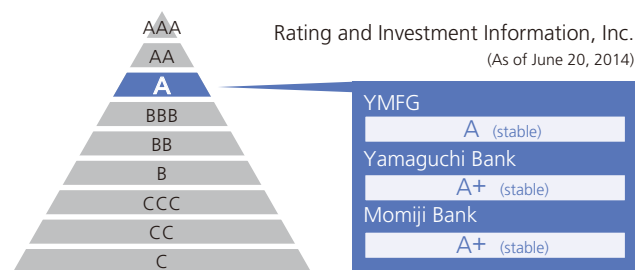
Diagram of scheme (Before)



Lowering funding cost of U.S.\$ with minimizing dilution shareholder value

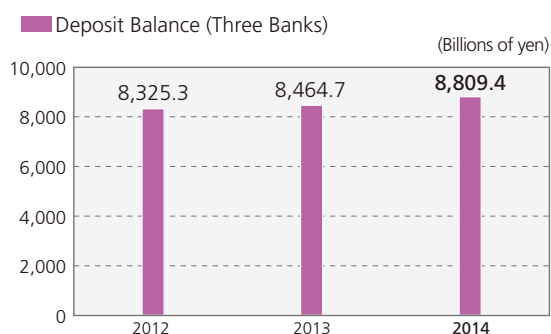
## Ratings for YMFG, Yamaguchi Bank and Momiji Bank

Ratings for the Group companies were A (stable) for YMFG, A+ (stable) for Yamaguchi Bank and Momiji Bank.



## Deposit Balance (Three Banks)

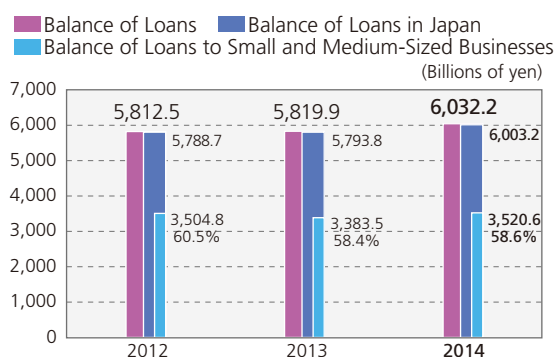
The total deposit balance at term-end was ¥8,187.2 billion, or ¥8,809.4 billion including Negotiable Certificates of Deposit (NCDs). This came about because of the expansion of products and services and steady marketing efforts based on solid community relationships.



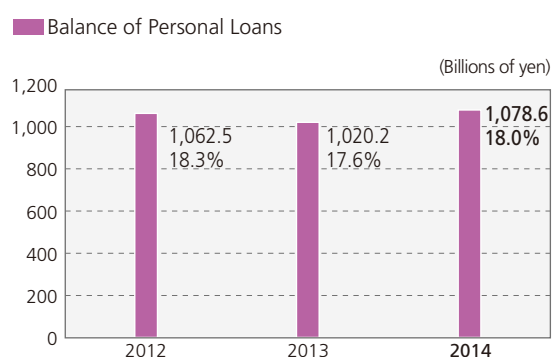
Note: The deposit balance includes the NCD balance.

## Balance of Loans/Balance of Personal Loans (Three Banks)

The balance of loans at term-end was ¥6,032.2 billion, as a result of active efforts to live up to the trust placed in us by our customers by meeting healthy demand for funds.



Note: The percentages of loans to small and medium-sized businesses and personal loans are calculated on the basis of the balance of loans in Japan.



## Dividend Policy (YMFG)

We have continued to provide stable dividends to our shareholders while securing profits and reinforcing financial health to maintain our credit strength.

In the year ended March 31, 2014, the dividend per share at term-end was ¥7. Combined with the interim dividend of ¥6 per share, the full-year dividend amounted to ¥13 per share.

	FY2011	FY2012	FY2013	FY2014 (Forecast)
Annual dividend per share	11.0	12.0	13.0	14.0
(Interim dividend)	(5.0)	(6.0)	(6.0)	(7.0)

## Expected Performance for the Fiscal Year Ending March 31, 2015 (YMFG)

YMFG aims to achieve its consolidated ordinary profits of ¥41.5 billion and net income of ¥24.0 billion.

# YMFG Medium-Term Management Plan 2013

## Our Goal

**To be a financial group that nurtures and grows with our region**

**Road to “YMFG Zone”**  
Zone of Over-regional Network Economy

(Going beyond individual regions to forge links among the regions, creating a growing economic zone)

## Core Objective

**Achieve mutual prosperity with the region by transforming into “One YMFG”**

As a financial group comprising three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—we will build relationships deeply rooted in these regions. At the same time, we will forge connections between the regions, nurture them, and deliver collective Group strength through our transformation into “One YMFG.” Through these efforts, we aim to invigorate the regions and ensure YMFG’s growth.

## Priority Measures for Achieving the Core Objective

### **Transforming into “One YMFG”**

#### ● **Becoming one, going to the “regions” — From “company” to “regions”**

We will work to bring together companies and employees, strengthen points of contact between regions and customers, and leverage the strengths of each bank’s brand to build deep relationships with the regions.

#### ● **As one “YMFG” —From “company” to “YMFG”**

We will enhance Group controls and connections, cultivating a sense of togetherness as the Group, and augmenting the collective power of the Group as one “YMFG.”

### **Achieving Mutual Prosperity between the Region and YMFG**

#### ● **Generating regional vigor —As the leading company in the region**

By leveraging the network of our Group, including its bases in Asia, we will strive to strengthen points of contact between individual regions, between regions and customers, and among customers, thereby invigorating the region.

#### ● **Increasing the number of YMFG fans —As the best company in the region**

As the best company in the region, we will take advantage of our strengths as a comprehensive financial group to provide consulting-based sales and unique products and services, increasing the number of YMFG fans.

### **Reinforcing the Management Foundation to Support “One YMFG”**

To transform ourselves into “One YMFG,” we will build a robust management foundation that can adapt to all manner of changes in the environment.

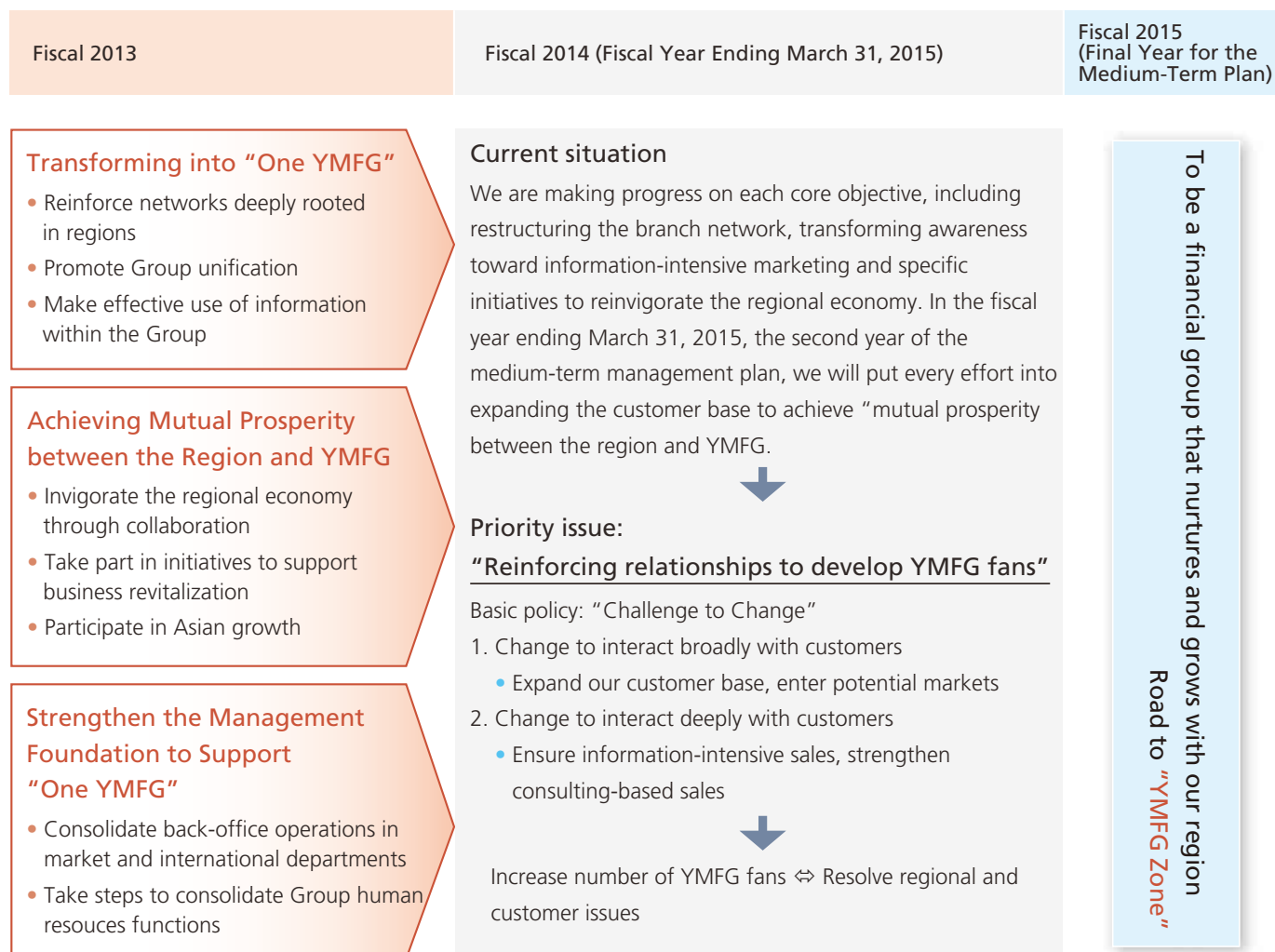


## ■ Targets (to be achieved by fiscal year ending March 31, 2016)

	YMFG	Yamaguchi Bank	Momiji Bank	Kitakyushu Bank
Business Profits from Core Operations	¥125 billion or more	¥65 billion or more	¥40 billion or more	¥13 billion or more
Ordinary Profits	¥40 billion or more	¥30 billion or more	¥11 billion or more	¥3 billion or more
Net Income	¥25 billion or more	¥20 billion or more	¥7 billion or more	¥2 billion or more
Adjusted OHR	Less than 67%	Less than 60%	Less than 74%	Less than 75%

## ■ Progress of Measures under the YMFG Medium-Term Management Plan 2013

- Through success on each core objective, steadily make progress toward creating the “YMFG Zone.”
- In the interest of “reinforcing relationships to develop YMFG fans,” boldly take on the challenge of expanding the base of customers who will grow in tandem with YMFG.



## ■ Mutual Prosperity between the Region and YMFG: Community Reinvigoration through Cooperation

Leverage a broad financial network to enhance effective use of information within the Group, strive to invigorate a Group trading sphere. Assist company startups, and aggressively support growth fields, such as environmental, medical and agricultural.

### Leverage Broad Financial Network

#### Joint business matching fairs

- The theme for the eighth fair, in February 2014, was “agriculture, food and health.”

#### Promote collaboration with local government bodies, universities and other public-sector institutions

- Participate proactively in local government bodies’ regional invigoration projects.

#### The Yamagin Regional Enterprise Support Foundation

- Encourages business start-ups and entry to new business fields among small and medium-sized companies and universities in the three-prefecture region.
- Fiscal 2013 projects: 19 projects/¥19 million (14 small/medium company, 5 university R&D projects)
- Since establishment: 416 projects/¥416 million

#### Results of fiscal 2013 initiatives

	Business Matching (Successful Projects)	Industry – Government – Academia Collaboration (Projects)	Business Startup Support (Number of Applications for Aid to Support Company Startups)
Yamaguchi Bank	40	20	17
Momiji Bank	182	22	35
Kitakyushu Bank	70	15	6

### Provide Support via Funds

#### Yamaguchi Dream Creation Industry Support Fund

- A fund established in cooperation with Yamaguchi Prefecture to reinforce overall industry, centering on commerce and industry including agriculture, forestry and fisheries, in our region.
- Total fund amount: ¥1.0 billion (of which, ¥0.67 billion provided by YMFG)
- Duration: 10 years
- Investment history: 6 projects/¥258.5 million (as of April 2014)

#### Hiroshima Innovation Network, Inc.

- Investment fund established with financial institutions, centered on Hiroshima Prefecture. Momiji Bank is also an investor.
- In May 2013, invested in Momiji Bank customer (1 project/¥540 million).

### Initiatives in Growth Fields

#### Initiatives targeting environmental, medical and agricultural sectors

- Assign personnel who specialize in growth fields to collaborate on the initiatives with sales offices, including YM Consulting.
- YM Growth Support Fund and other entities develop specialized financial products in response to funding needs in growth fields.

## ■ Mutual Prosperity between the Region and YMFG: Business Turnaround Support Initiatives

- After the conclusion of the Financing Facilitation Act, continue to take part in initiatives to support business revitalization.
- Make use of revitalization support funds to review current state of business and support transformation to new, profitable businesses.



### ◆ Yamaguchi Business Restoration Fund (Yamaguchi Bank, Kitakyushu Bank)

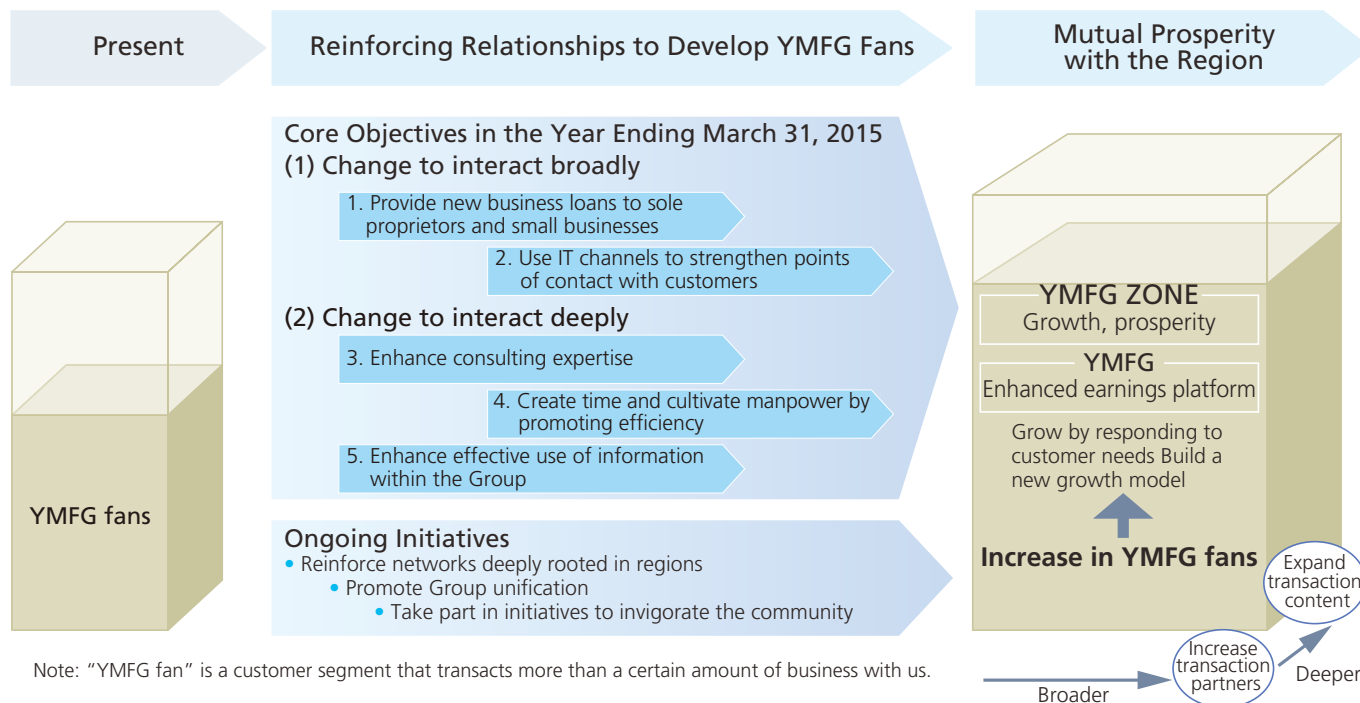
- Established: September 30, 2013
- Total fund amount: ¥3.0 billion
- Duration: 8 years (may be extended)

### ◆ Seto Mirai Fund for revitalization of small and medium-sized companies (Momiji Bank)

- Established: December 1, 2012
- Total fund amount: ¥3.2 billion (of which, ¥0.5 billion provided by Momiji Bank)
- Duration: 5 years (may be extended)

## ■ Reinforcing Relationships to Develop YMFG Fans

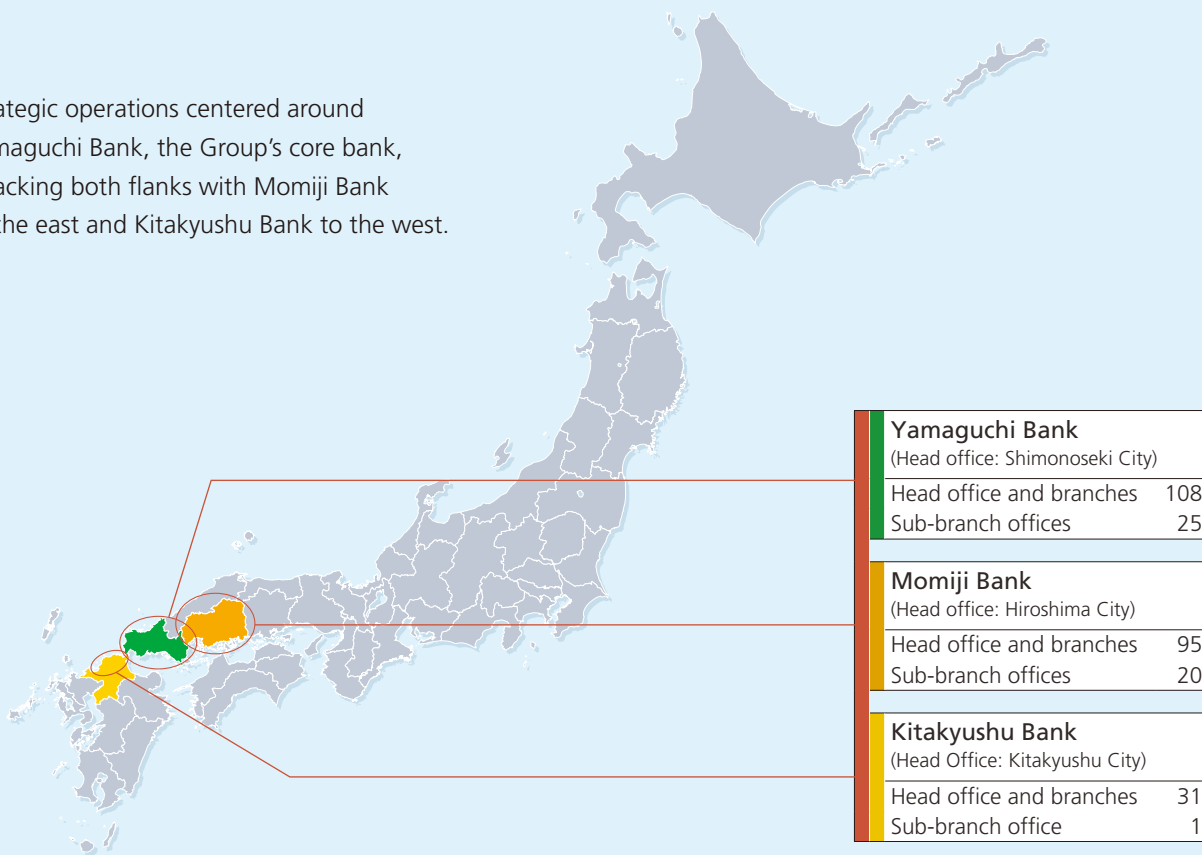
We will further accelerate our initiatives of the fiscal year ended March 31, 2014. At the same time, through five core objectives we will reinforce relationships to increase the number of YMFG fans even more. We will promote initiatives aimed at a "YMFG Zone" of prosperity with the region.



Note: "YMFG fan" is a customer segment that transacts more than a certain amount of business with us.

## ■ To Be the Largest and Most Respected Financial Group in the Chugoku and Shikoku Regions

Strategic operations centered around Yamaguchi Bank, the Group's core bank, attacking both flanks with Momiji Bank to the east and Kitakyushu Bank to the west.



The Group ranks No. 6 among 64 regional banks in Japan in terms of total assets.

The total population and nominal gross prefectural product of the region in which the Group operates (Yamaguchi Prefecture, Hiroshima Prefecture, Kitakyushu City) are approximately 5 million and ¥20 trillion, respectively, both of which account for approximately 4% of the national total.

Bank	Total Assets (T Yen)	Head Office Location	Area	Population (M people)	Gross Prefectural Product (T Yen)
<b>YMFG</b>	<b>9.6 (6th)</b>	<b>Yamaguchi Pref.</b>	<b>Chugoku</b>	<b>5.2 (4.1%)</b>	<b>20.0 (4.0%)</b>
Yamaguchi Bank	5.6 (—)	Yamaguchi Pref.	Chugoku	1.4 (1.1%)	5.6 (1.1%)
Momiji Bank	3.1 (—)	Hiroshima Pref.	Chugoku	2.8 (2.2%)	11.0 (2.2%)
Kitakyushu Bank	0.9 (—)	Kitakyushu City	Kyushu	0.9 (0.7%)	3.3 (0.7%)

\* Total assets data are taken from kessan tanshin reports of each bank for the fiscal year ended March 2014. Numbers in parentheses ( ) indicate the ranking among 64 regional banks in Japan

\* The population data are estimates as of October 1, 2013. Numbers in parentheses ( ) indicate the percentage in the total population in Japan.

\* Gross prefectural product (nominal) data are taken from the 2011 statistics. Numbers in parentheses ( ) indicate the percentage in the GDP in Japan.

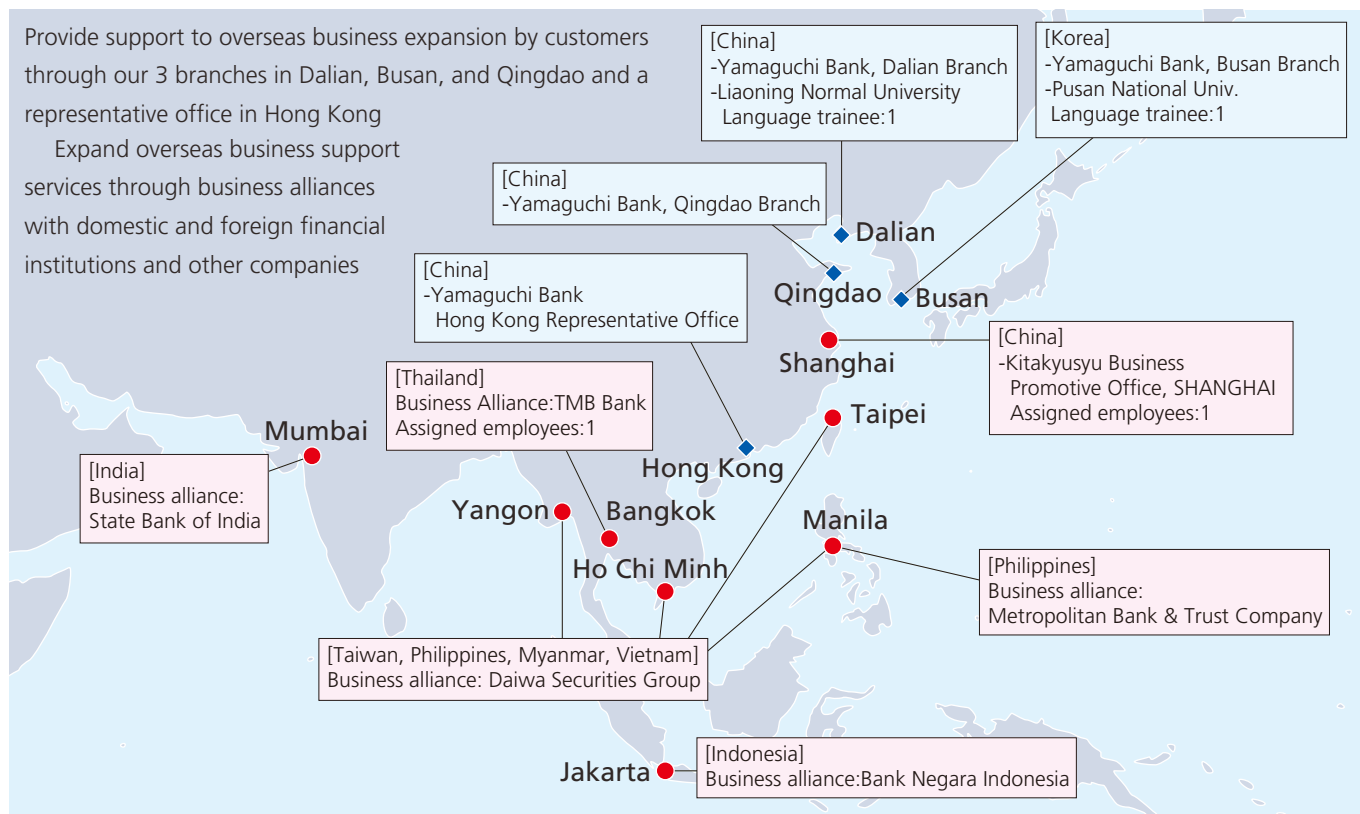
## ■ Economies and Industries of Yamaguchi and Hiroshima Prefecture, and Kitakyushu City (Reference)

Yamaguchi Prefecture		
<p><b>Excellent industrial concentration</b></p> <ul style="list-style-type: none"> <li>• Many plants of major corporations located owing to the excellent transportation network</li> <li>• Concentration of primary material industries such as cement and chemicals owing to the rich mineral resources</li> <li>• Increasing entries of processing and assembly industries such as transportation machinery and more recently the pharmaceutical industry</li> </ul>	<p><b>Gateway to exchanges with Asia</b></p> <ul style="list-style-type: none"> <li>• Excellent harbor conditions with 2 international harbors and 4 major harbors in the prefecture</li> <li>• The largest export and import center in the Chugoku region such as auto parts and chemicals</li> <li>• Serves as the production center in western Japan for many global enterprises</li> </ul>	<p><b>Rich industrial human resources</b></p> <ul style="list-style-type: none"> <li>• Excellent historical background that has traditionally nurtured the social climate encouraging study and education</li> <li>• Excellent support system under the industry-academic coordination such as joint research between a university and a private-sector company, R&amp;D to develop next generation industries, etc.</li> </ul>

Hiroshima Prefecture		
<p><b>The largest industrial prefecture in the Chugoku and Shikoku regions</b></p> <ul style="list-style-type: none"> <li>• Growth of heavy industries, particularly transportation machinery such as automobiles and shipbuilding, leveraging the technological strength developed through military manufacturing</li> <li>• Ranks No.11 in Japan in terms of nominal gross prefectural product with a share of 2.2% in Japan and 40% in the Chugoku region</li> </ul>	<p><b>Manufacturing industry centered around Mazda Motor Corporation</b></p> <ul style="list-style-type: none"> <li>• The formation of a group of broad-based automobile-related companies with Mazda Motor Corporation on top of the hierarchy</li> <li>• The shipbuilding industry encompassing middle-ranking and small and medium-sized shipbuilding companies and related manufacturers such as pumps and turbines, which holds the No. 1 share in Japan</li> <li>• Additional concentration of traditional industries such as the fiber industry and the manufacturing of furniture for newlywed couples</li> </ul>	<p><b>Home of many No. 1 enterprises</b></p> <ul style="list-style-type: none"> <li>• Many local enterprises in a variety of industries with nationwide reputation and a large domestic market share through leveraging excellent technologies (Refer to the right section)</li> </ul>

Kitakyushu City		
<p><b>Concentration of a variety of industries</b></p> <ul style="list-style-type: none"> <li>• Kitakyushu City was born in 1963 through a merger of 5 cities.</li> <li>• Mainly heavy and chemical industries (steel in the main)</li> <li>• New concentration of increasingly diverse industries such as auto-related industries due to the proximity to Asia and the highly developed logistics infrastructure</li> </ul>	<p><b>City of manufacturing</b></p> <ul style="list-style-type: none"> <li>• Steel accounts for approximately 40% of the total manufacturing industry</li> <li>• Concentration of auto assembly plants including Nissan Motor Kyushu Co., Ltd., Toyota Motor Kyushu, Inc., and Daihatsu Motor Kyushu Co., Ltd.</li> <li>• Recent concentration of semiconductor design companies owing to the development of Kitakyushu Science and Research Park</li> </ul>	<p><b>Environmental and energy industries</b></p> <ul style="list-style-type: none"> <li>• A forerunner of the eco-town business leveraging the concentration of industrial technology with broad manufacturing bases</li> <li>• Research and development is conducted on new energy sources such as the technology to reduce the oxygen content under the promotion system developed through the industry-academic-public coordination</li> </ul>

# Overseas Networks



## International Department

2-36, 4-chome Takezaki-cho, Shimonoseki, P.O. Box 24,  
Shimonoseki 750-8603, Japan SWIFT Address: YMBKJPJT

## Overseas Offices

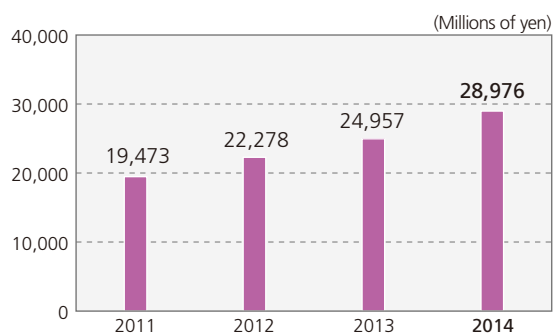
**BUSAN BRANCH**  
4F, Postal Insurance Busan Bldg., Jungang-Dong 3-Ga, 63,  
Jungang-Daero, Jung-Gu, Busan, Republic of Korea  
SWIFT Address: YMBKKR2P

**QINGDAO BRANCH**  
2F, Crowne Plaza Hotel Qingdao, 76 Hong Kong Central  
Road, Qingdao, Shandong Province, The People's Republic of  
China  
SWIFT Address: YMBKCNBQ

**DALIAN BRANCH**  
14F Senmao Building No. 147, Zhongshan Road Xigang  
District, Dalian, Liaoning Province, The People's Republic  
of China  
SWIFT Address: YMBKCNBD

**HONG KONG**  
403, 4/F, Far East Finance Centre, 16 Harcourt Road,  
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REPRESENTATIVE OFFICE Fax: +852-28104902

## Loans of overseas branches (As of March 31)



Yamaguchi Bank: The first local bank that can deal with RMB in China

# Yamaguchi Bank Summary

## Organization Chart (As of July 31, 2014)

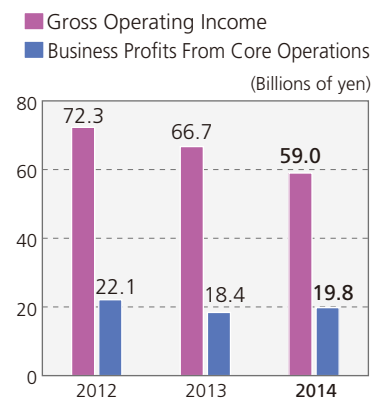


## History

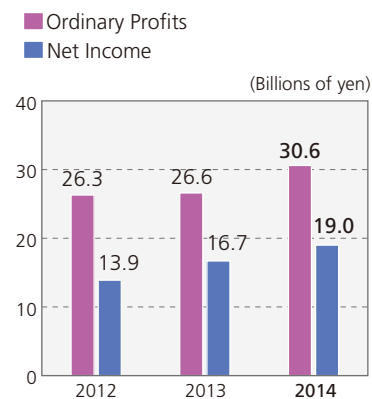
- Nov. 1878 Inaugurated Hyakuju National Bank.
- Apr. 1891 Established Kaho Bank as Yamaguchi Prefecture's first private bank.
- May 1897 Established Senjo Bank.
- Nov. 1898 Reorganized Hyakuju National Bank into Hyakuju Bank at the expiration of Hyakuju's period of operations as a national bank.
- Sep. 1900 Established Oshima Bank.
- Jun. 1912 Established Ube Bank.
- Mar. 1944 Founded The Yamaguchi Bank (a merger of Hyakuju Bank, Kaho Bank, Senjo Bank, Oshima Bank and Ube Bank, with capital of ¥13.45 million).
- Oct. 2011 Performed absorption-type company split of business in the Kyushu region, succeeded by Kitakyushu Bank.

## Performance During the Fiscal Year Ended March 31, 2014 (Yamaguchi Bank, Non-consolidated)

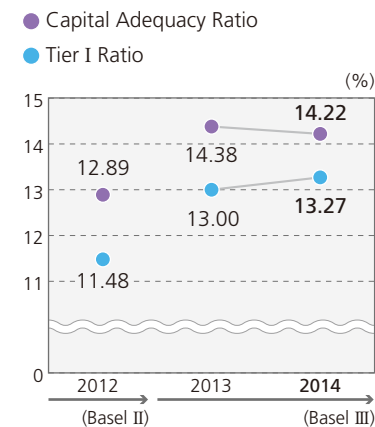
### Gross Operating Income/Business Profits From Core Operations



### Ordinary Profits/Net Income

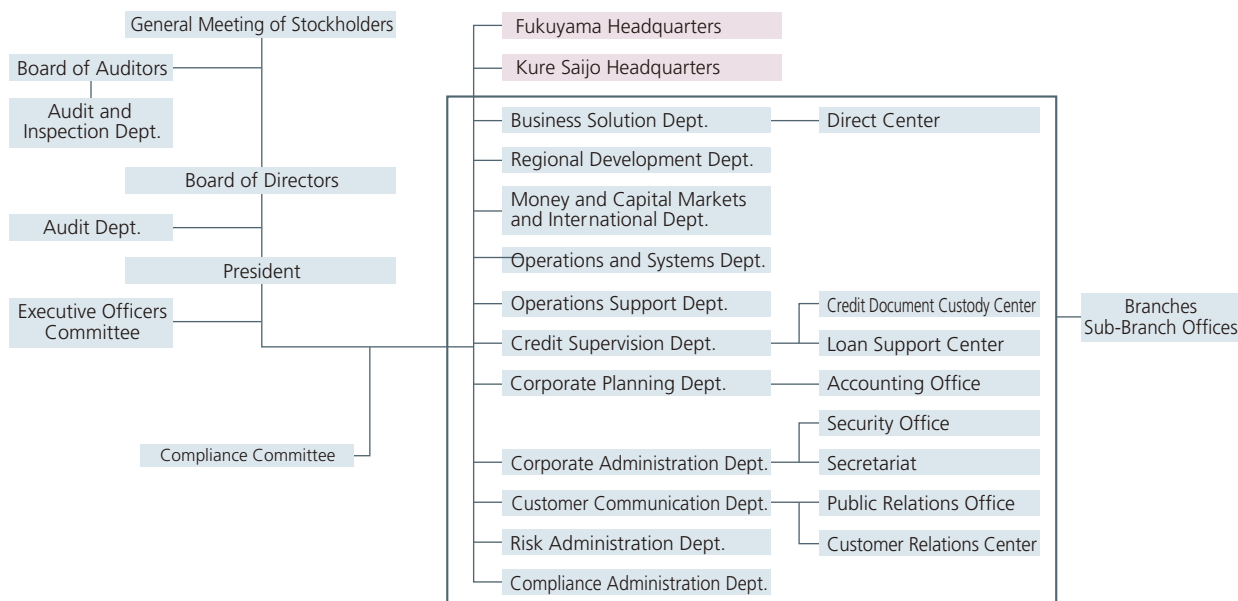


### Capital Adequacy Ratio



# Momiji Bank Summary

## Organization Chart (As of July 31, 2014)

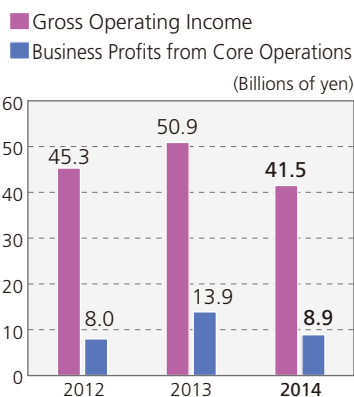


## History

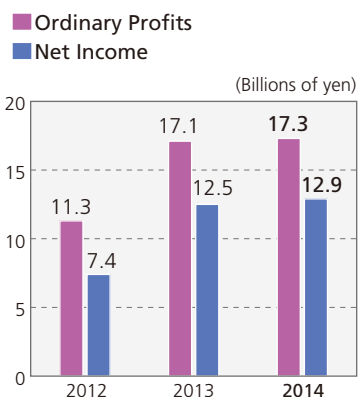
- Nov. 1923 Established Hiroshima Mujin.
- Apr. 1941 Merged the four Mujin banks of Hiroshima, Geibi, Soeki and Sanyo into Hiroshima Mujin.
- Oct. 1951 Converted to a mutual savings bank and changed name to Hiroshima Sogo Bank.
- Feb. 1989 Converted to a commercial bank and changed name to Hiroshima-Sogo Bank.
- Sep. 2001 Established holding company Momiji Holdings by stock transfer.
- May 2004 Merged with Setouchi Bank and changed name to Momiji Bank.
- Apr. 2007 Momiji Holdings was merged into the surviving corporation, Momiji Bank.

## Performance during the Fiscal Year Ended March 31, 2014 (Momiji Bank, Non-Consolidated)

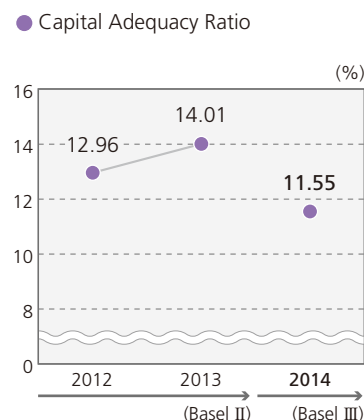
### Gross Operating Income/Business Profits From Core Operations



### Ordinary Profits/Net Income



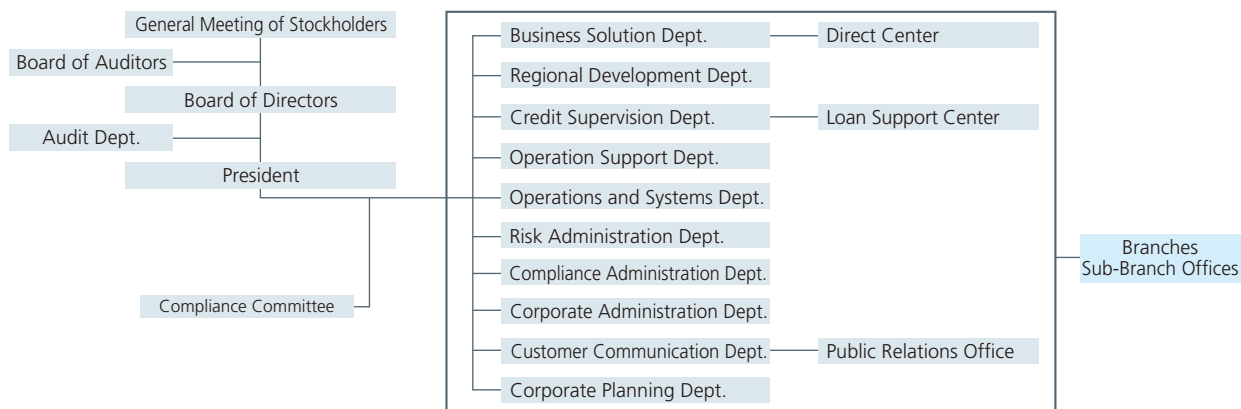
### Capital Adequacy Ratio





# Kitakyushu Bank Summary

## Organization Chart (As of July 31, 2014)

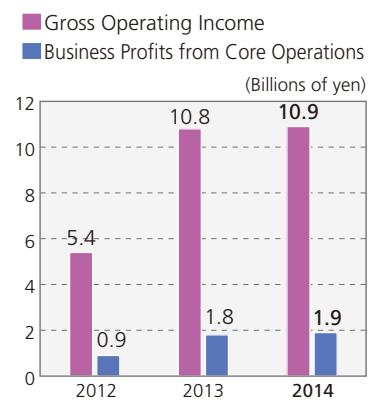


## History

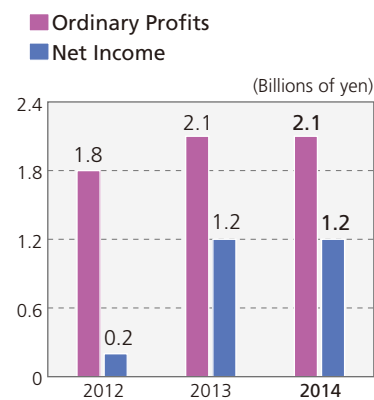
- Oct. 2010 Established Kitakyushu Financial Project Co., Ltd.
- Sep. 2011 Changed name to The Kitakyushu Bank, Ltd.
- Oct. 2011 Took over Yamaguchi Bank's business in the Kyushu region by absorption-type company split and commenced operations.

## Performance during the Fiscal Year Ended March 31, 2014 (Kitakyushu Bank, Non-Consolidated)

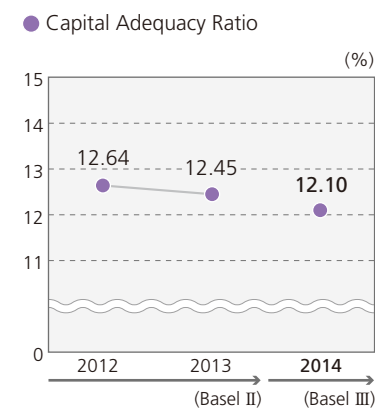
### Gross Operating Income/Business Profits From Core Operations



### Ordinary Profits/Net Income



### Capital Adequacy Ratio



# Board of Directors and Corporate Auditors (As of July 31, 2014)

## YMFG



President  
**Koichi Fukuda**

Director  
**Hirohide Umemoto**

Director  
**Takeshi Yoshimura**

Director  
**Hiroaki Tamura\***



Chairman  
**Hiromichi Morimoto**

Auditor  
**Mitsuhiro Hirozane**

Auditor  
**Toshio Fujiyoshi**



Senior Managing Director  
**Fumio Nosaka**

Auditor  
**Kazuo Tsukuda\*\***

Auditor  
**Michiaki Kunimasa\*\***



Senior Managing Director  
**Toshio Kato**

\* Hiroaki Tamura is an external director under Article 15 of Section 2 of the Companies Act.

\*\* Kazuo Tsukuda and Michiaki Kunimasa are external auditors under Article 16 of Section 2 of the Companies Act.

## Yamaguchi Bank

President  
**Koichi Fukuda**  
Senior Managing Director  
**Hiroshi Zaima**  
Senior Managing Director  
**Mitsuhiro Fujita**

Managing Director  
**Toru Tokunaga**  
Managing Director  
**Hirohide Umemoto**  
Managing Director  
**Takeshi Yoshimura**  
Managing Director  
**Tsutomu Harada**

Director  
**Katsumasa Fujii**  
Director  
**Hiroaki Yamamoto**  
Director  
**Satoaki Nagai**  
Director  
**Norio Haramoto**  
Director  
**Tsuyoshi Amata**  
Director  
**Koichiro Kuno**

Auditor  
**Toshihiko Murata**  
Auditor  
**Mitsuhiro Hirozane**  
Auditor  
**Munefusa Saito\***  
Auditor  
**Toshihiko Yamashita\***

\* Munefusa Saito and Toshihiko Yamashita are external auditors under Article 16 of Section 2 of the Companies Act.

## Momiji Bank

President  
**Fumio Nosaka**  
Chairman  
**Koichi Fukuda**  
Senior Managing Director  
**Yoshimi Hinouchi**

Managing Director  
**Hironobu Sasaki**  
Managing Director  
**Koji Oda**  
Managing Director  
**Ichinari Koda**

Director  
**Kazunori Takayama**  
Director  
**Mamoru Konishi**  
Director  
**Shigeo Watanabe**  
Director  
**Naoto Tada**  
Director  
**Shigeyuki Amano**

Auditor  
**Toshio Fujiyoshi**  
Auditor  
**Hirofumi Kato**  
Auditor  
**Yukio Inoue\***  
Auditor  
**Tetsuo Yamashita\***

\* Yukio Inoue and Tetsuo Yamashita are external auditors under Article 16 of Section 2 of the Companies Act.

## Kitakyushu Bank

President  
**Toshio Kato**  
Chairman  
**Koichi Fukuda**  
Managing Director  
**Michiya Yamamoto**

Director  
**Satoshi Ono**  
Director  
**Shinji Yoshidomi**  
Director  
**Masatoshi Okano\***

Auditor  
**Nobuaki Ueno**  
Auditor  
**Koji Toshima\*\***  
Auditor  
**Kazumasa Tatsumi\*\***

\* Masatoshi Okano is an external director under Article 15 of Section 2 of the Companies Act.

\*\* Koji Toshima and Kazumasa Tatsumi are external auditors under Article 16 of Section 2 of the Companies Act.

# Corporate Governance

In conducting our business activities, we recognize that fair practices in compliance with laws and corporate ethics are our corporate social responsibility, and we recognize corporate governance as an important management priority. Based on this understanding, we endeavor to raise our level of soundness, enhance corporate value, boost transparency and reinforce our corporate governance structure.

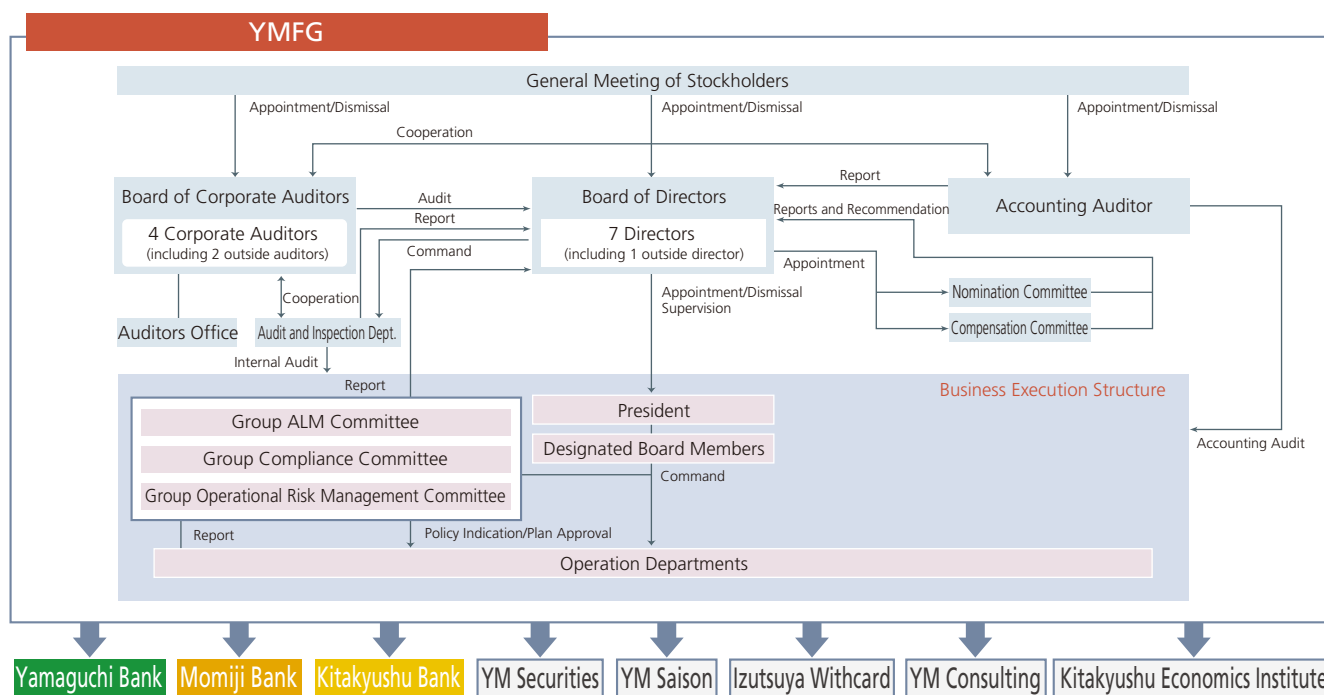
The Board of Directors, consisting of seven directors (including one outside director), makes decisions about important matters related to the Group's management and supervises the directors. The Board of Directors meeting is held once a month in principle and is presided over by the president. Materials for discussion are sent to the outside director beforehand so the director can gain a comprehensive understanding of the subjects up for discussion and can state his/her opinions from a neutral standpoint.

The Nomination Committee discusses matters related to the appointment and dismissal of directors, and the Compensation Committee discusses matters related to the compensation of the directors. Both guarantee the objectivity and transparency of decision-making processes.

The Board of Corporate Auditors, consisting of four auditors (including two external auditors), holds a meeting once a month in principle. It receives reports about important matters related to auditing and makes relevant decisions based on these. The auditors check the directors' performance of their duties by attending Board of Directors and other important meetings and by inspecting the Company's operations and assets.

The Group Asset and Liability Management Committee, the Group Compliance Committee and Group Operational Risk Management Committee discuss important management issues.

## YMFG Corporate Governance Structure



## Internal Audits

### Principles of Internal Audits

We define an internal audit as a series of processes for objective verification of the appropriateness and effectiveness of internal controls (including risk management) and as making suggestions for necessary improvements.

YMFG has devised standard internal audit rules for the whole Group. On the basis of these rules, the internal audit departments of each Group company verify the appropriateness and effectiveness of internal controls and make suggestions for necessary improvements.

Further, YMFG creates the Group's medium- to long-term internal audit plan on the basis of its management policy and conditions. Internal audits by the auditing bodies of each Group company are conducted on the basis of this plan to ensure their effectiveness and efficiency.

### Implementation of Internal Audits

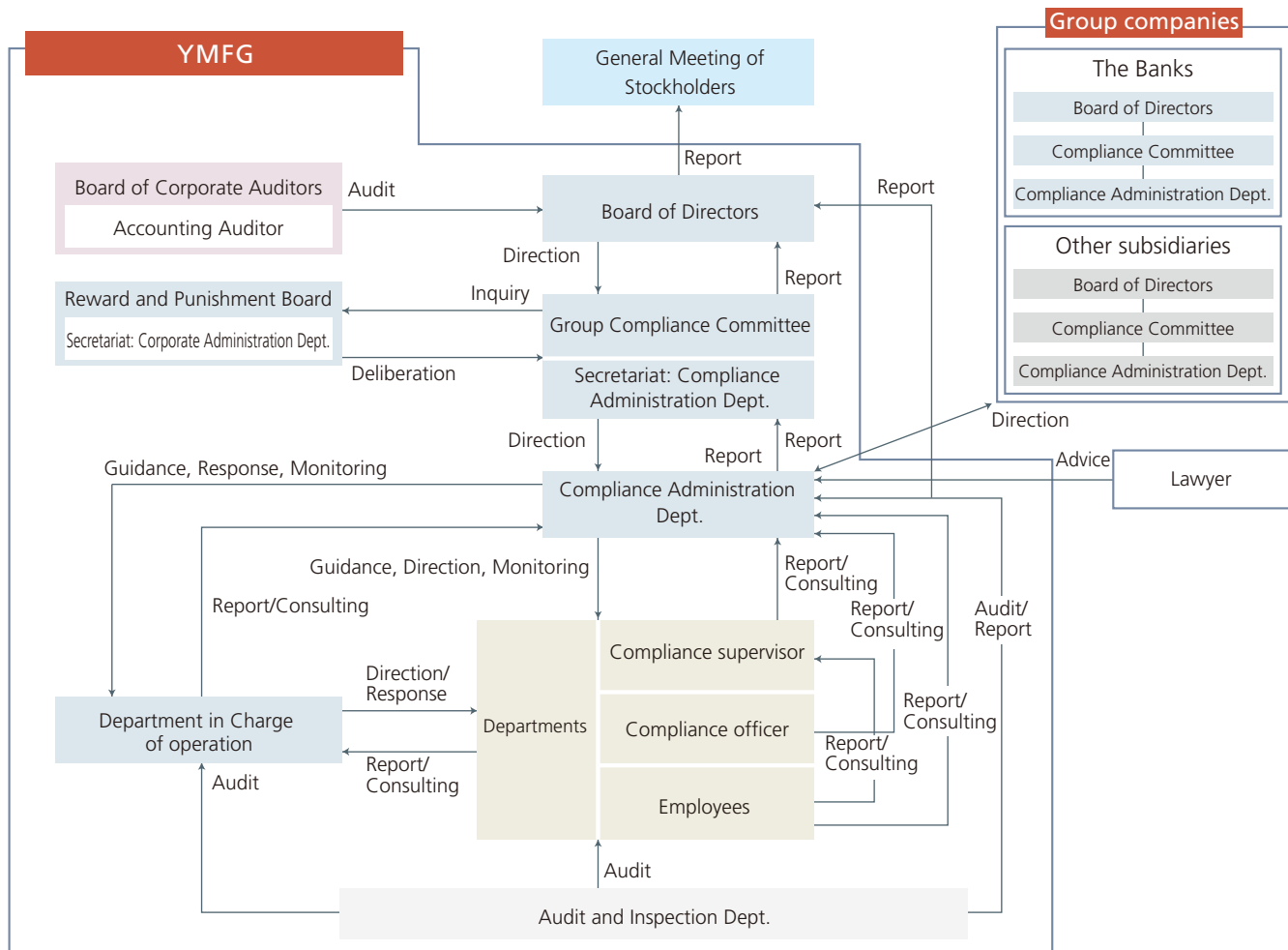
YMFG's Audit and Inspection Dept. plans audit processes for the whole Group, implements audits and supervises each Group company's internal audits.

The YMFG Audit and Inspection Dept. devises the rules and medium- to long-term plans for the Group's internal audits, implements audits of the Group companies' compliance/risk management departments and checks the accuracy of the financial statements of the Group companies. The department monitors and gives guidance and advice to the Group companies' audit and inspection departments. On the basis of their audit reports, the department reports on the internal audits of the Group to the Board of Directors.

The banks' audit and inspection departments implement internal audits of branches in Japan and overseas, and reports to YMFG and to the Board of Directors. In particular, internal audits of front-line sales outlets are performed to verify the status of compliance and risk management functions and ensure their mutual effectiveness.

# Compliance System

## YMFG Compliance System



## YMFG's Attitude toward Compliance

YMFG and its Group companies share a common understanding of their responsibilities to fulfill their public mission and corporate social responsibilities. Accordingly, we accord topmost management priority to thorough compliance, take the seriousness of compliance seriously and consider earning the trust of a broad-based society our fundamental policy.

compliance programs for each fiscal year and monitors the status of program implementation. The committee discusses ways to create and reinforce compliance systems, reports the results of these deliberations to the Board of Directors and reflects these results in Group operations.

YMFG's Compliance Administration Department communicates with compliance personnel at each Group company and, in accordance with the deliberations of the Group Compliance Committee, ensures the appropriateness of compliance systems for the entire Group.

## Compliance System

We have established a compliance administration department to take overall charge of ensuring appropriate compliance for YMFG and its Group companies. Individual companies' compliance departments handle the centralized management of compliance-related activities, including the creation of compliance structures and the training of executives and general employees. Compliance supervisors and officers at all departments and branches foster an enhanced awareness of appropriate compliance in daily operations.

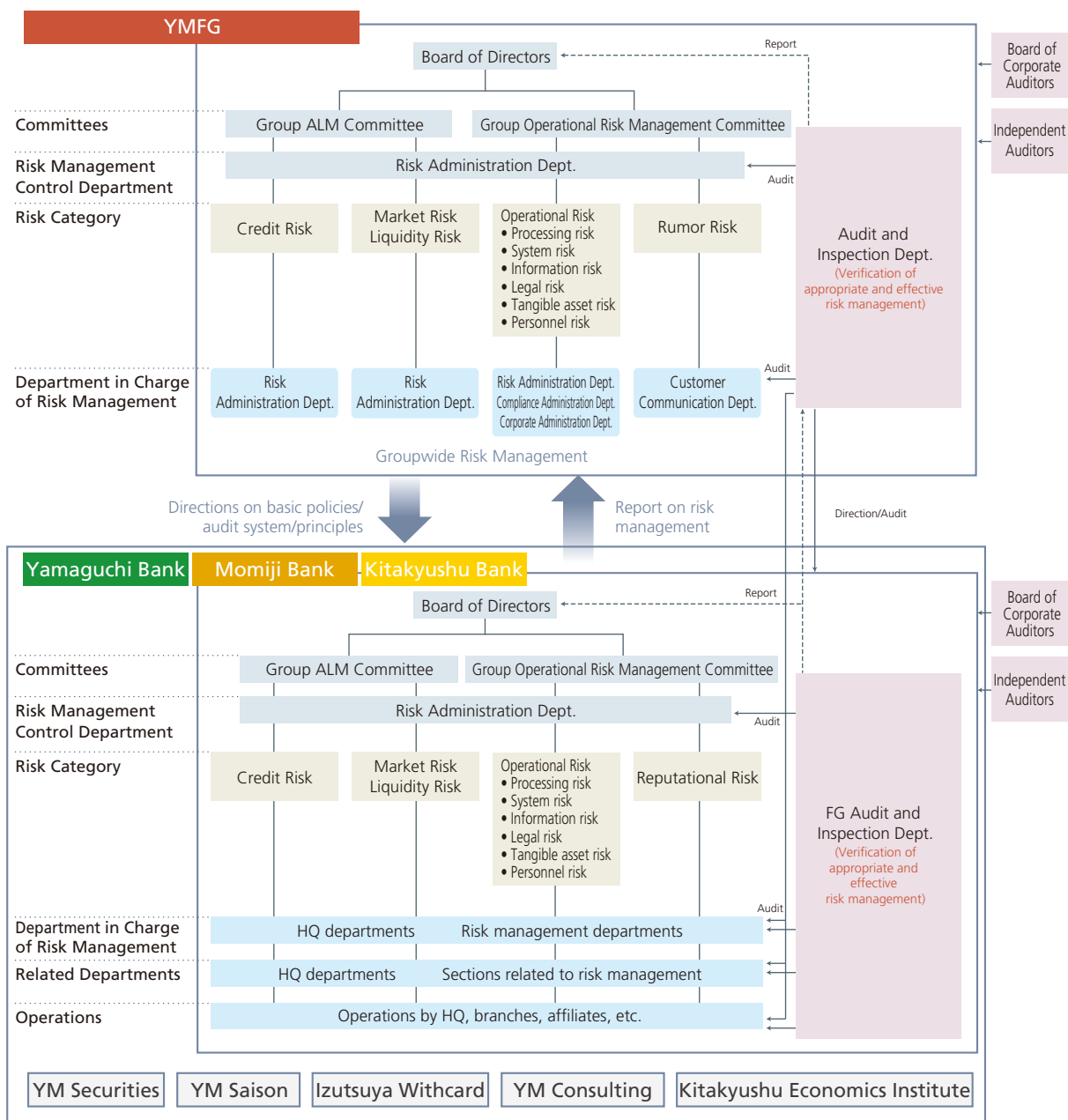
The Group Compliance Committee, chaired by the president, acts as a deliberative body. This committee formulates Group

## Efforts to Prevent Money Laundering

The Act on Punishment of Organized Crimes and Control of Crime Proceeds and the Law for Prevention of Transfer of Criminal Proceeds prescribes heightened measures to prevent money laundering. The Group's efforts are appropriate and in conformance with these regulations, in keeping with our aim of maintaining society's trust in us as a financial institution. Specifically, we have formulated a policy of controls and procedures reasonably designed to prevent and detect money laundering/terrorist financing activities. We have appointed a senior officer to take charge of this policy and established training programs on this topic for all management and staff.

# Risk Management System

## YMFG Risk Management System



YMFG faces all kinds of risks that have become more diversified and complex along with changes in the economy and in society. Risk management is one of the most important issues facing the Group.

As part of our basic risk management policy, we have devised standard risk management rules that apply to YMFG and its subsidiaries.

The subsidiaries have organized risk management sections, risk management departments and Group Operational Risk Management committee to cope with risks. Risk amounts are measured by a uniform method, capital is allocated on the

basis of these methods, and risks are collectively managed.

YMFG's risk management sections cooperates with its counterparts in the subsidiaries to check risk management conditions in the whole Group.

The Audit and Inspection Department, which is independent of the operation departments, implements internal audits to ascertain the appropriateness and effectiveness of risk management. This system applies both to YMFG and to its subsidiaries.

# Contributions to the Community and the Environment

## Invitation of Foreign Students to Attend Shimonoseki City University

### Supporting young human resources from Asia, who are expected to flourish after returning to their countries

Since 1986, The Yamaguchi Bank has invited students from China, Thailand and Turkey to attend Shimonoseki City University. The bank has invited a total of 151 students, offering them housing and financial and lifestyle support to ensure a comfortable study environment.



Foreign students to Shimonoseki City University in fiscal 2014

## Japan–China Elementary School Exchanges

### Inviting school children to Japan every year from Qingdao and Dalian, China

The Yamaguchi Bank invites school children from Qingdao and Dalian to Japan to spread the “Small Kindness” movement. The children visit elementary schools and interact with Japanese children, fostering relations between the two countries.

## Yamaguchi Bank Cup Japanese Speech Contest

### Advancing grassroots international exchange through Japanese language education

Since 1992, we have regularly held the Yamaguchi Bank Cup Japanese Language Speech Contest in Qingdao, China. The contest has earned praise from the city government for its extensive contributions to Japanese-language education, and has long driven cultural exchange at the grassroots level.

## Efforts on Environmental Issues

### Implementing Groupwide Initiatives for the Environment

As part of its efforts to contribute to the creation of a sustainable society, YMFG is working on a number of initiatives to prevent global warming.

Since 2008, the Group has participated in the Cool Biz campaign for lighter clothing during summer and an early lights-out campaign, and participates in the Warm Biz campaign for heavier clothing in winter. We are also giving out eco-goods to customers visiting Group banks on the anniversaries of bank branch openings, and we remain committed to further environmental contribution activities.

#### Early Lights-Out Campaign Implementation

Period: From June 2009  
Actions: One day each month is designated for early lights out at 6 p.m.

#### Distributing Eco-Goods

The Yamaguchi Bank and Momiji Bank are holding campaigns to curb global warming, such as by giving out environmentally friendly eco-goods on the anniversaries of the opening of each branch.

#### Cool Biz Implementation

Period: From June 1 to September 30, 2014  
Participants: All Group companies  
Actions: As a general rule, indoor temperatures are set to 28°C and suit jackets and neckties are not worn.

#### Warm Biz Implementation

Period: From December 1, 2013 to March 31, 2014  
Participants: All Group companies  
Actions: As a general rule, indoor temperatures are set to 20°C.

# Financial Section

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# YMFG Business Situation

## Summary of Business Results

### ■ Performance

During the fiscal year ended March 31, 2014, the Japanese economy remained in a state of gradual recovery. Manufacturing activity continued to pick up, thanks to the correction to the high yen exchange rate, which bolstered exports, and robust internal demand. Stock prices benefited from improved consumer sentiment, corporate earnings recovered, personal consumption turned upward—due in part to a spike in demand prior to the consumption tax hike, housing investment rose, and capital expenditure showed signs of an upturn.

Against this backdrop, the regional economy also enjoyed a gradual recovery. Overall production activity was solid, with robust performance in the mainstay automotive and chemicals sectors. Public-sector construction grew substantially year on year; employment and income conditions trended positively, with the ratio of jobs to applicants rebounding to a level exceeding one-to-one; and personal consumption levels were upbeat.

Meanwhile, the financial industry faces the issue of conforming to substantial changes in the rules and regulations that govern it, including new capital adequacy requirements and the adoption of international accounting standards. Under these circumstances, in line with their mission of contributing to regional economic development, regional financial institutions face vigorous requests to deliver stronger financial soundness and profitability, supply funding more flexibly and further enhance their financial services.

### ■ YMFG Performance

Amid these financial and economic conditions, supported by its shareholders and business partners all YMFG's officers and employees were united in their efforts to strengthen the Group's management base and bolster operating performance.

Based on the YMFG Medium-Term Management Plan 2013, which commenced during the year under review, the Group worked to deepen its community involvement in

the regions where it operates, pulling together as a unified financial group, "One YMFG," comprising three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—and leveraging its comprehensive strengths. YMFG will also put forth every effort toward developing mutually beneficial relationships with local communities and customers, aiming to provide financial services that invigorate our region.

Banking operations, which are the core of YMFG's business, are conducted through the efforts of its banks to meet the varied financial needs of customers in the regions where they conduct business via a wide range of financial products through their deposit and loan operations.

In line with the introduction of a government measure that exempts lump-sum donations toward education from gift tax, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank set up and began offering the Kimi no Mirai-e ("for your future") ordinary deposit accounts for the lump-sum provision of educational funds.

We also introduced Kasumin Teiki term deposits, which provide customers a sense of closeness with YMFG's brand ambassador, the table tennis player Kasumi Ishikawa.

YMFG has begun employing an environmental rating finance system for providing financial support to clients' efforts toward environmentally friendly management.

As part of our international operations to provide support for clients making business inroads overseas, in July 2013 we entered into an affiliate relationship with the Metropolitan Bank and Trust Company of the Philippines. This move added the Philippines to the Yamaguchi Financial Group's Asian network, which also includes relationships with banks in China, South Korea, India, Thailand and Indonesia. In December 2013, we issued \$300 million in US-dollar-denominated convertible bonds to meet the dollar funding needs of clients conducting business overseas. We plan to continue striving to become recognized for having strong operations in Asia by providing overseas business opportunities to our customers and strengthening our funding support and other consulting functions.



## ■ Financial Results

YMFG's consolidated operating performance for the year ended March 31, 2014, is outlined below.

Total income amounted to ¥161,082 million, up ¥2,630 million from the preceding fiscal year. The main reasons for this increase were higher fees and commissions and a reversal of bad debt reserves. Total expenses, meanwhile fell ¥2,995 million, to ¥111,497 million, mainly as a result of lower operating expenses and amortization of shares. As a result, income before income taxes grew ¥5,625 million, to ¥49,585 million, and net income rose ¥4,003 million, to ¥31,236 million.

Although interest rates remained low, due to the expansion of products and services to meet increasingly diverse customer needs and steady sales efforts based on solid community relationships, the Group succeeded in boosting deposits ¥311.9 billion year on year, to ¥8,765.0 billion as of March 31, 2014, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥152.2 billion, to ¥5,964.1 billion as of March 31, 2014, due to the Group's efforts to fulfill its role as a regional financial institution through its function as a financial intermediary and aggressive efforts to meet demand from business partners with whom the Group has developed trust-based relationships.

The Group's holdings of securities came to ¥2,072.0 billion

at year-end, down ¥72.4 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥9,635.0 billion at fiscal year-end, up ¥307.8 billion from one year earlier. This rise was attributable to growth in loans and bills discounted, based on the increase in deposits, including NCDs.

At the end of the fiscal year, the consolidated capital adequacy ratio for the Yamaguchi Financial Group (uniform international standard) was 12.69%. Our consolidated total Tier 1 capital adequacy ratio was 11.10%, and our consolidated common equity Tier I capital adequacy ratio was 11.10%.

Net cash provided by operating activities was ¥526.1 billion, ¥403.2 billion higher than in the preceding year, due mainly to the net change in call loans and bills purchased. Net cash provided by investing activities came to ¥54.9 billion, a ¥71.6 billion change from the ¥16.7 billion used in these activities in the previous term. Changes in the amounts of purchases of securities and proceeds from sales of securities were the primary factors. Net cash used in financing activities amounted to ¥20.0 billion, up ¥17.1 billion, due chiefly to purchases of treasury stock. As a result of these cash flows, cash and cash equivalents at the end of the year came to ¥874.2 billion, up ¥561.0 billion.

## Yamaguchi Financial Group, Inc., Management Indices (Consolidated)

	Millions of yen 2014	Millions of yen 2013	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars*1 2014
Consolidated total income	161,082	158,452	156,095	164,323	1,565,119
Consolidated net income	31,236	27,233	17,919	19,156	303,498
Consolidated comprehensive income	34,316	51,743	29,120	7,752	333,424
Consolidated total net assets	521,562	521,423	472,405	446,290	5,067,645
Consolidated total assets	9,635,044	9,327,236	9,115,427	8,758,187	93,616,829
Net assets per share	2,040.39 yen	1,901.30 yen	1,720.56 yen	1,624.33 yen	19.83 U.S. dollars
Current term net income per share (current term net loss per share)	120.66 yen	102.48 yen	66.99 yen	71.18 yen	1.17 U.S. dollars
Current term net income per share after stock adjustment	116.55 yen	102.18 yen	66.88 yen	71.15 yen	1.13 U.S. dollars
Capital ratio*2	12.69%	13.34%	11.75%	11.36%	
Earnings on equity - increase	6.04%	5.52%	3.92%	4.23%	
Group price earnings ratio	7.70 times	9.28 times	11.22 times	10.81 times	

\*1 US dollar amounts have been translated, for convenience only, at the rate of ¥102.92 = US\$1.00 as of March 31, 2014.

\*2 YMFG calculated its capital ratio according to the first standard through the fiscal year ended March 31, 2012. From the fiscal year ended March 31, 2013, this ratio is calculated according to the uniform international standard (Basel 3).

# YMFG Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS

March 31, 2014 and 2013

ASSETS		Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1)
		2014	2013	2014
Assets	Cash and due from banks (Notes 3, 4 and 9)	¥ 915,056	¥ 347,076	\$ 8,890,944
	Call loans and bills purchased (Note 4)	315,198	649,843	3,062,553
	Monetary claims bought	8,869	7,663	86,174
	Trading assets (Notes 4 and 6)	5,753	9,232	55,898
	Money held in trust (Notes 4 and 6)	49,996	55,489	485,775
	Securities (Notes 4, 5, 6 and 9)	2,071,990	2,144,382	20,132,044
	Loans and bills discounted (Notes 4 and 7)	5,964,133	5,811,966	57,949,213
	Foreign exchanges	15,497	12,739	150,573
	Other assets	171,199	191,081	1,663,420
	Tangible fixed assets (Notes 10, 15 and 18)	89,348	90,009	868,131
	Intangible fixed assets (Note 18)	28,098	38,932	273,008
	Net defined benefit asset	22,882	—	222,328
	Deferred tax assets (Note 19)	15,639	22,371	151,953
	Customers' liabilities for acceptances and guarantees (Note 16)	48,079	44,605	467,149
	Allowance for loan losses	(86,693)	(98,152)	(842,334)
	<b>Total assets</b>	<b>¥ 9,635,044</b>	<b>¥ 9,327,236</b>	<b>\$ 93,616,829</b>

## LIABILITIES AND NET ASSETS

Liabilities	Deposits (Notes 4 and 9)	¥ 8,764,966	¥ 8,453,058	\$ 85,162,903	
	Call money and bills sold (Note 9)	78,897	42,990	766,586	
	Payables under securities lending transactions (Note 9)	13,269	4,330	128,925	
	Trading liabilities (Notes 4 and 6)	3,188	2,962	30,976	
	Borrowed money (Notes 9 and 12)	29,769	29,236	289,244	
	Foreign exchanges	287	469	2,789	
	Bonds payable (Notes 4 and 13)	45,000	95,000	437,233	
	Bonds with warrants	30,876	—	300,000	
	Other liabilities	75,720	113,995	735,718	
	Provision for bonuses	3,093	2,912	30,052	
	Provision for retirement benefits (Note 14)	—	1,114	—	
	Net defined benefit liability	4,479	—	43,519	
	Provision for directors' retirement benefits	28	22	272	
	Provision for loss on interest repayments	62	85	602	
	Provision for reimbursement of deposits	1,108	1,086	10,766	
	Provision for customers point services	67	75	651	
	Reserves under special laws	7	4	68	
	Deferred tax liabilities (Note 19)	1,917	932	18,626	
	Deferred tax liabilities for land revaluation (Notes 15 and 19)	12,670	12,938	123,105	
	Acceptances and guarantees (Note 16)	48,079	44,605	467,149	
	<b>Total liabilities</b>	<b>9,113,482</b>	<b>8,805,813</b>	<b>88,549,184</b>	
	Net Assets (Notes 20 and 21)	Capital stock	50,000	50,000	485,814
		Capital surplus	60,064	79,628	583,599
Retained earnings		361,226	332,868	3,509,775	
Treasury stock		(10,694)	(2,731)	(103,906)	
<b>Total shareholders' equity</b>		<b>460,596</b>	<b>459,765</b>	<b>4,475,282</b>	
Unrealized gains on available-for-sale securities		36,706	34,498	356,646	
Deferred losses on hedges		(352)	(446)	(3,420)	
Revaluation reserve for land (Note 15)		22,845	23,333	221,969	
Remeasurements of defined benefit plans		(3,465)	—	(33,667)	
<b>Total accumulated other comprehensive income</b>		<b>55,734</b>	<b>57,385</b>	<b>541,528</b>	
Stock options		431	249	4,188	
Minority interests		4,801	4,024	46,647	
<b>Total net assets</b>	<b>521,562</b>	<b>521,423</b>	<b>5,067,645</b>		
<b>Total liabilities and net assets</b>	<b>¥ 9,635,044</b>	<b>¥ 9,327,236</b>	<b>\$ 93,616,829</b>		

See accompanying notes.

**CONSOLIDATED STATEMENTS OF INCOME**
**Years ended March 31, 2014 and 2013**

	Millions of yen		Thousands of
	2014	2013	U.S. dollars (Note 1) 2014
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 80,457	¥ 84,402	\$ 781,743
Interest and dividends on securities	21,324	17,473	207,190
Other interest income	1,191	1,621	11,572
Trust fees	1	1	10
Fees and commissions	24,684	22,411	239,837
Trading income	2,330	1,572	22,639
Other ordinary income	11,461	26,516	111,359
Recoveries of written-off claims	21	21	204
Other income	19,613	4,435	190,565
<b>Total income</b>	<b>161,082</b>	<b>158,452</b>	<b>1,565,119</b>
<b>Expenses</b>			
Interest expense:			
Interest on deposits	7,606	7,891	73,902
Interest on borrowings and rediscounts	525	447	5,101
Interest on bonds payable	581	777	5,645
Other interest expense	287	294	2,789
Fees and commissions payments	7,331	7,552	71,230
Trading expenses	—	4	—
Other operating expenses	5,321	2,546	51,700
General and administrative expenses	87,288	89,693	848,115
Impairment losses (Note 11)	46	179	447
Other expenses (Note 17)	2,512	5,109	24,408
<b>Total expenses</b>	<b>111,497</b>	<b>114,492</b>	<b>1,083,337</b>
<b>Income before income taxes</b>	<b>49,585</b>	<b>43,960</b>	<b>481,782</b>
Income taxes (Note 19):			
Current	9,908	8,068	96,269
Deferred	7,663	8,151	74,456
<b>Income before minority interests</b>	<b>32,014</b>	<b>27,741</b>	<b>311,057</b>
<b>Minority interests in income</b>	<b>778</b>	<b>508</b>	<b>7,559</b>
<b>Net income</b>	<b>¥ 31,236</b>	<b>¥ 27,233</b>	<b>\$ 303,498</b>

Amounts per share of common stock:	Yen		U.S. dollars (Note 1)
	2014	2013	2014
Net income (Note 27)	¥ 120.66	¥ 102.48	\$ 1.17

See accompanying notes.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**Years ended March 31, 2014 and 2013**

	Millions of yen		Thousands of
	2014	2013	U.S. dollars (Note 1) 2014
<b>Income before minority interests</b>	<b>¥ 32,014</b>	<b>¥ 27,741</b>	<b>\$ 311,057</b>
<b>Other comprehensive income (Note 24)</b>	<b>2,302</b>	<b>24,002</b>	<b>22,367</b>
Unrealized gains (losses) on available-for-sale securities	2,204	24,057	21,415
Deferred gains (losses) on hedges	94	(62)	913
Share of other comprehensive income in affiliated companies accounted for using equity method	4	7	39
<b>Comprehensive income (Note 24)</b>	<b>34,316</b>	<b>51,743</b>	<b>333,424</b>
Total comprehensive income attributable to owners of the parent	33,538	51,235	325,865
Total comprehensive income attributable to minority interests	778	508	7,559

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS Years ended March 31, 2014 and 2013

	Millions of yen												
	Shareholders' Equity					Accumulated other comprehensive income					Stock options	Minority Interests	Total Net Assets
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized gains on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at 31st March 2012</b>	¥50,000	¥ 79,796	¥308,835	¥ (3,333)	¥435,298	¥10,436	¥(385)	¥23,454	¥ —	¥33,505	¥ 85	¥3,517	¥472,405
Changes of items during the year													
Dividend paid			(3,321)		(3,321)								(3,321)
Net income			27,233		27,233								27,233
Purchase of treasury stock				(19)	(19)								(19)
Disposal of treasury stock		(168)		621	453								453
Reversal of revaluation reserve for land			121		121								121
Net changes in terms other than shareholders' equity						24,062	(61)	(121)	—	23,880	164	507	24,551
Total changes of items during the year	—	(168)	24,033	602	24,467	24,062	(61)	(121)	—	23,880	164	507	49,018
<b>Balance at 31st March 2013</b>	50,000	79,628	332,868	(2,731)	459,765	34,498	(446)	23,333	—	57,385	249	4,024	521,423
Changes of items during the year													
Dividend paid			(3,366)		(3,366)								(3,366)
Net income			31,236		31,236								31,236
Purchase of treasury stock				(27,972)	(27,972)								(27,972)
Disposal of treasury stock		(29)		474	445								445
Retirement of treasury stock		(19,535)		19,535	—								—
Reversal of revaluation reserve for land			488		488								488
Net changes in terms other than shareholders' equity						2,208	94	(488)	(3,465)	(1,651)	182	777	(692)
Total changes of items during the year	—	(19,564)	28,358	(7,963)	831	2,208	94	(488)	(3,465)	(1,651)	182	777	139
<b>Balance at 31st March 2014</b>	¥50,000	¥ 60,064	¥361,226	¥(10,694)	¥460,596	¥36,706	¥(352)	¥22,845	¥(3,465)	¥55,734	¥431	¥4,801	¥521,562

	Thousands of U.S. dollars (Note 1)												
	Shareholders' Equity					Accumulated other comprehensive income					Stock options	Minority Interests	Total Net Assets
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized gains on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at 31st March 2013</b>	\$485,814	\$773,688	\$3,234,241	\$ (26,535)	\$4,467,208	\$335,192	\$(4,333)	\$226,710	\$ —	\$557,569	\$2,420	\$39,098	\$5,066,295
Changes of items during the year													
Dividend paid			(32,705)		(32,705)								(32,705)
Net income			303,498		303,498								303,498
Purchase of treasury stock				(271,784)	(271,784)								(271,784)
Disposal of treasury stock		(282)		4,606	4,324								4,324
Retirement of treasury stock		(189,807)		189,807	—								—
Reversal of revaluation reserve for land			4,741		4,741								4,741
Net changes in terms other than shareholders' equity						21,454	913	(4,741)	(33,667)	(16,041)	1,768	7,549	(6,724)
Total changes of items during the year	—	(190,089)	275,534	(77,371)	8,074	21,454	913	(4,741)	(33,667)	(16,041)	1,768	7,549	1,350
<b>Balance at 31st March 2014</b>	\$485,814	\$583,599	\$3,509,775	\$(103,906)	\$4,475,282	\$356,646	\$(3,420)	\$221,969	\$(33,667)	\$541,528	\$4,188	\$46,647	\$5,067,645

See accompanying notes.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years ended March 31, 2014 and 2013**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2013	2014	2013
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥ 49,585	¥ 43,960	\$ 481,782	
Depreciation	10,786	10,913	104,800	
Impairment losses	46	179	447	
Amortization of goodwill	4,950	4,950	48,096	
Equity in earnings of affiliates	(31)	(16)	(301)	
Net change in allowance for loan losses	(11,459)	(3,901)	(111,339)	
Net change in provision for bonuses	181	13	1,759	
Net change in provision for retirement benefits	—	25	—	
Net change in defined benefit asset	(11,476)	—	(111,504)	
Net change in defined benefit liability	1,899	—	18,451	
Net change in provision for directors' retirement benefits	6	3	58	
Net change in provision for loss on interest repayments	(24)	(16)	(233)	
Net change in provision for reimbursement of deposits	22	(179)	214	
Net change in provision for customers point services	(8)	(2)	(78)	
Net change in reserves under special laws	3	1	29	
Interest income	(102,971)	(103,496)	(1,000,496)	
Interest expenses	8,998	9,409	87,427	
Net gains related to securities transactions	(13,646)	(13,046)	(132,588)	
Net gains from money held in trust	(677)	(522)	(6,578)	
Net exchange gains	(8,479)	(7,600)	(82,384)	
Net losses from disposition of fixed assets	203	110	1,972	
Net change in trading assets	3,479	(2,597)	33,803	
Net change in trading liabilities	227	890	2,206	
Net change in loans and bills discounted	(152,167)	(10,301)	(1,478,498)	
Net change in deposits	278,468	265,470	2,705,674	
Net change in negotiable certificates of deposits	33,440	(127,365)	324,913	
Net change in borrowed money excluding subordinated loans	532	(762)	5,169	
Net change in deposits with bank	(7,002)	(1,171)	(68,033)	
Net change in call loans and bills purchased	333,440	(50,194)	3,239,798	
Net change in call money and bills sold	35,906	23,717	348,873	
Net change in payables under securities lending transactions	8,939	2,684	86,854	
Net change in foreign exchanges (asset account)	(2,758)	(790)	(26,798)	
Net change in foreign exchanges (liability account)	(182)	233	(1,768)	
Net change in issuance and redemption of unsubordinated bonds payable	(30,000)	—	(291,489)	
Interest received	101,712	106,616	988,263	
Interest paid	(8,124)	(8,748)	(78,935)	
Other, net	13,295	(9,897)	129,177	
<b>Subtotal</b>	<b>537,113</b>	<b>128,570</b>	<b>5,218,743</b>	
Income taxes paid	(11,027)	(8,736)	(107,142)	
Income taxes refunds	18	3,066	175	
<b>Net cash provided by operating activities</b>	<b>526,104</b>	<b>122,900</b>	<b>5,111,776</b>	
<b>Cash flows from investing activities:</b>				
Purchases of securities	(2,758,575)	(5,300,955)	(26,803,099)	
Proceeds from sales of securities	2,723,138	5,165,197	26,458,784	
Proceeds from maturity of securities	88,616	104,581	861,018	
Purchases of money held in trust	(9,480)	(6,810)	(92,110)	
Proceeds from sales of money held in trust	15,638	24,879	151,943	
Purchases of tangible fixed assets	(2,897)	(2,046)	(28,149)	
Proceeds from sales of tangible fixed assets	141	266	1,370	
Purchases of intangible fixed assets	(1,716)	(1,835)	(16,673)	
<b>Net cash provided by (used in) investing activities</b>	<b>54,865</b>	<b>(16,723)</b>	<b>533,084</b>	
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of bonds with warrants	30,876	—	300,000	
Decrease in subordinated bonds payable	(20,000)	—	(194,326)	
Dividends paid	(3,366)	(3,321)	(32,705)	
Dividends paid to minority shareholders	(1)	(1)	(10)	
Purchases of treasury stock	(27,972)	(19)	(271,784)	
Proceeds from disposal of treasury stock	445	453	4,324	
<b>Net cash used in financing activities</b>	<b>(20,018)</b>	<b>(2,888)</b>	<b>(194,501)</b>	
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>28</b>	<b>33</b>	<b>272</b>	
Net change in cash and cash equivalents	560,979	103,322	5,450,631	
Cash and cash equivalents at beginning of year	313,226	209,906	3,043,393	
<b>Cash and cash equivalents at end of year (Note 3)</b>	<b>¥ 874,205</b>	<b>¥ 313,228</b>	<b>\$ 8,494,024</b>	

See accompanying notes.

# YMFG Notes to Consolidated Financial Statements

Years ended March 31, 2014 and 2013

## 1. BASIS OF PRESENTATION

Yamaguchi Financial Group, Inc. (“YMFG”) was established on October 2, 2006 as a holding company for The Yamaguchi Bank, Ltd. (“Yamaguchi Bank”) and Momiji Holdings, Inc. (“Momiji Holdings”) through a statutory share transfer (kabushiki iten). Upon formation of YMFG and completion of the statutory share transfer, Yamaguchi Bank and Momiji Holdings became wholly owned subsidiaries of YMFG.

Furthermore, in September 2011 Kitakyushu Financial Project Co., Ltd., received a transfer of approval to handle business split off from the Yamaguchi Bank in the Kyushu region and commenced operations on October 3, 2011.

YMFG and its consolidated subsidiaries (“the Group”) maintain their accounts and records in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulation and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). Japanese GAAP are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of YMFG which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law.

In preparing the accompanying consolidated financial statements, certain restructuring and reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S.\$1.00. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Consolidation and equity method

#### (1) Scope of consolidation

Japanese accounting standards on consolidated financial statements require a company to consolidate any subsidiaries of which the company substantially controls the operations, even if it is not a majority owned subsidiary. Control is defined as the power to govern the decision making body of an enterprise.

- (i) 12 consolidated subsidiaries at March 31, 2014 and 2013.

The names of the consolidated subsidiaries are listed on page 1.

- (ii) Six unconsolidated subsidiaries at March 31, 2014, and four at March 31, 2013.

Name of major subsidiary:

Yamaguchi Capital 2nd Investment Business Limited Liability Association

The unconsolidated subsidiaries are excluded from the scope of consolidation because their total assets, ordinary income, net income (in proportion to ownership), retained earnings (in proportion to ownership) and accumulated other comprehensive income are so immaterial that they do not hinder a rational judgment of YMFG’s consolidated financial position and results of operations.

#### (2) Application of the equity method

Japanese accounting standards also require any unconsolidated subsidiaries and affiliates with financial and operating policies over which YMFG is able to exercise material influence to be accounted for by the equity method.

- (i) No unconsolidated subsidiaries were accounted for by the equity method at March 31, 2014 and 2013.
- (ii) As at March 31, 2014 and 2013, the four affiliates accounted for by the equity method were as follows:  
YM Saison Co., Ltd.  
Yamaguchi Lease Co., Ltd.  
Yamaguchi Capital Co., Ltd.  
Momiji Card Co., Ltd.
- (iii) As at March 31, 2014, six unconsolidated subsidiaries were not accounted for by the equity method, and four at March 31, 2013.

Name of major subsidiary:

Yamaguchi Capital 2nd Investment Business Limited Liability Association

The unconsolidated subsidiaries that are not accounted for by the equity method are also excluded from the scope of application of equity method because their net income (in proportion to ownership), retained earnings (in proportion to ownership) and accumulated other comprehensive income (in proportion to ownership) are so immaterial that they do not hinder a rational judgment of YMFG's consolidated financial position and results of operations.

(iv) There were no affiliates that were not accounted for by the equity method as at March 31, 2014 and 2013.

### (3) The balance sheet dates of consolidated subsidiaries

The balance sheet date of consolidated subsidiaries is as follows:

March 31     12 companies

### (4) Matters related to special purpose companies outside the scope of disclosure

One special-purpose company was excluded from the scope of consolidation, as it was determined not to be a subsidiary of the investor as stipulated in Paragraph 7, Article 8, of the Financial Statement Regulations as of March 31, 2013.

In addition, eliminating the above-stated special-purpose company from the scope of consolidation was determined to have no material effect on the financial conditions and operating performance of the Group, judged from their total amounts in terms of total assets, ordinary profit, net income (in proportion to ownership) and retained earnings (in proportion to ownership), as described in Paragraph 3 of the "Implementation Guidance on Disclosures about Certain Special Purpose Entities" (Accounting Standards Board of Japan ("ASBJ") Statement No. 15, March 29, 2007). Therefore, notes regarding this company have been omitted.

### (5) Accounting Policies

#### Trading assets, trading liabilities and transactions for trading purposes

The valuation method of "Trading assets" and "Trading liabilities" is as follows:

Balances incurred by transactions of which the purpose is to earn a profit by taking advantage of short-term fluctuations in a market or discrepancies in different markets of interest rates, currency exchange rates, share prices or other indices (hereinafter referred to as "trading purposes") are included in "Trading assets" or "Trading liabilities" in the consolidated balance sheets as of the date on which the transactions have been contracted. The income or losses on these transactions

are recorded as "Trading income" and "Trading expenses" on the consolidated statements of income.

Trading assets and trading liabilities are valued, in the case of securities and commercial paper, at the market value as of the date of the balance sheet and, in the case of derivatives, including swaps, futures and options, at the amount due if the transactions were to be settled as of the date of the balance sheet. "Trading income" and "Trading expenses" include interest income and interest expense, respectively, and gains and losses, respectively, resulting from the valuation of securities, commercial paper, derivatives, etc., which are included in "Trading assets" or "Trading liabilities."

#### Securities

With regard to the valuation of securities, held-to-maturity debt securities are stated at amortized cost (straight-line method) using the moving-average method. Investments in unconsolidated subsidiaries that are not accounted for by the equity method are stated at cost determined by the moving-average method. Available-for-sale securities are in general stated at fair value (cost of sale calculated primarily according to the moving-average method) indicated according to market price at the consolidated balance sheet date (for equity securities, the average market price during the one-month period ending on the consolidated balance sheet date). Available-for-sale securities having no readily available market value are valued at cost using the moving-average method.

Unrealized gains (losses) on available-for-sale securities are reported as a component of net assets.

Securities constituting trust assets within money held in trust are valued using the same methods as those for the above-mentioned trading assets, liabilities and securities.

#### Derivatives

Derivatives other than those for specific trading purpose or those for which certain exceptional accounting treatment is applied are stated at fair value.

#### Method of hedge accounting

The subsidiaries that conduct banking business ("the Banks") apply deferred hedge accounting in accordance with "Treatments of Accounting and Audit on Application of Accounting Standard for Financial Instruments in Banking Industry" (The Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No.24). As for the hedge to offset market fluctuation, the Banks assess the effectiveness of the hedge by grouping the

hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by their maturity. The Banks apply exceptional treatments permitted for interest rate swaps to certain assets and liabilities.

Also, the Banks apply deferred hedge accounting to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 25). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

#### **Allowance for loan losses**

The Banks provide allowance for loan losses according to the following write-off and provisioning standards.

For loans to borrowers who are legally bankrupt (due to bankruptcy, composition, suspension of transactions with banks by the rules of clearinghouses, etc.) or substantially bankrupt, an allowance is provided in the amount of loans, net of amounts expected to be collected through disposition of collateral or through execution of guarantees.

For loans to borrowers in danger of bankruptcy, an allowance is provided in the amount considered uncollectible based on the amount of loans net of amounts expected to be collected through disposition of collateral or through execution of guarantees, and other sources.

Loans to normal borrowers and borrowers requiring caution are classified into certain groups, and an allowance is provided for each group using the rate of loan losses experienced for the Group during certain reference periods in the past.

Each branch as well as the credit supervision department evaluates all loans in accordance with the self-assessment rule.

Other consolidated subsidiaries provide an allowance for an amount calculated using the rate of collection losses in the past for loans of normal borrowers in addition to amounts estimated based on collectibility analysis for borrowers in danger of bankruptcy and certain other borrowers.

#### **Tangible fixed assets (excluding lease assets)**

Tangible fixed assets are stated at cost less accumulated depreciation, except for certain revalued land.

Depreciation of tangible fixed assets of the Banks is computed by using the declining-balance method except for buildings (excluding fixtures) acquired after March 31, 1998, which are depreciated using the straight-line method.

The estimated useful lives of the assets are primarily as follows:

Buildings: 7 to 50 years

Others: 3 to 15 years

Other consolidated subsidiaries depreciate their tangible fixed assets using mainly the declining-balance method over the useful lives of the respective assets provided by the tax act in Japan.

(Changes in accounting policies that are not distinguishable from changes in accounting estimates)

Due to revisions in the Japanese corporation tax act, YMFG has revised its method of accounting for depreciation and amortization in accordance with the post-revision tax act for property, plant and equipment acquired on or after April 1, 2012.

This change had the effect of increasing income before income taxes by ¥23 million during the fiscal year ended March 31, 2013, compared with the amount under the previous method.

#### **Intangible fixed assets (excluding lease assets)**

Amortization of intangible fixed assets is computed by using the straight-line method. Software costs for internal uses are amortized over the estimated useful life (mainly 5 years).

#### **Lease assets**

Lease assets included within tangible and intangible fixed assets related to finance lease transactions that do not transfer ownership are depreciated over the lease term using the straight-line method. For lease assets with a guaranteed residual value stated in their lease agreements, the residual value is set at the guaranteed amount. Otherwise, the residual value is assumed to be zero.

#### **Accounting for certain lease transactions**

Consolidated subsidiaries' finance lease transactions that do not transfer ownership belonging to accounting periods that commenced prior to April 1, 2008, are treated as operating lease transactions.

#### **Income taxes**

Income taxes comprise corporate, enterprise and inhabitant taxes. The Group recognizes tax effects of temporary differences between the financial statement basis and the tax



basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

### Foreign currency translation

YMFG and foreign currency assets and liabilities and the accounts of overseas branches of consolidated subsidiaries are translated into yen at the rates prevailing at the consolidated balance sheet date.

### Provision for bonuses

Provision for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses that are attributable to the fiscal year.

### Method of accounting for retirement benefits

When calculating retirement benefit obligations, the straight-line method is used for attributing expected retirement benefits to periods through March 31, 2014. The methods for recognizing past service cost and actuarial gains or losses are as follows:

Past service cost:	Recognition of past service cost is apportioned by the straight-line method over a fixed number of years (2 years) within the employees' average remaining service period from the time of their occurrence
Actuarial gains or losses:	Recognition of actuarial gains or losses are apportioned by the straight-line method over a fixed number of years (Mainly 10 to 11 years) within the employees' average remaining service period at the time of their occurrence in each fiscal year, starting from the following fiscal year

### Provision for directors' retirement benefits

The provision for directors' retirement benefits for consolidated subsidiaries outside the banking business is provided for the estimated amount corresponding to accrued retirement benefit payments to directors as of the end of the fiscal year.

### Provision for loss on interest repayment

Provision for loss on interest repayment is provided for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at

interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Law.

In accordance with "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments," issued by JICPA in 2006, the amount of such provision is rationally estimated and booked based on actual historical repayment claims by debtors.

### Provision for reimbursement of deposits

Provision for reimbursement of deposits is provided for in order to meet depositor requests for reimbursement on deposits already derecognized as liabilities, in an amount deemed necessary by estimating the losses corresponding to the expected requests for reimbursements in the future.

### Provision for customer point services

Provision for customer point services is provided in conjunction with a point system to promote credit card use. The reserve is recorded for the expected cost to be incurred when credit card members use points they have received as of the balance sheet date.

### Reserves under special laws

Reserves under special laws consist of the financial instruments transaction responsibility reserve posted by YM Securities Co., Ltd., which were calculated according to the specifications of Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Order Related to the Financial Instruments Business, to prepare for losses originating from incidents relating to the purchase and sale of securities or other transactions.

### Amounts per share of common stock

Computations of net income per share of common stock are based on the weighted-average number of shares outstanding during each year.

YMFG has issued potential shares, but "current term net income per share after stock adjustment" is not shown because these shares have no dilutive effect.

Cash dividends per share represent the cash dividends declared as applicable to each year.

### Amortization of goodwill

Goodwill is mainly amortized over a 10-year period using the straight-line method.

### Consumption tax

YMFG and its consolidated subsidiaries in Japan employ the tax exclusion method for consumption tax and local consumption taxes, meaning that transaction amounts and consumption tax amounts are treated separately for accounting purposes.

However, non-deductible consumption taxes for purchase of property, plant and equipment are recognized as expenses for the year of the purchase.

### Adoption of Consolidated Tax Payment System

YMFG and certain of its consolidated subsidiaries adopted the consolidated tax payment system as provided under the Corporation Tax Act.

### Changes in Accounting Principles

(Changes in accounting principles due to revisions in accounting standards)

(Adoption of the “Accounting Standard for Consolidated Financial Statements”)

YMFG adopted the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) from the fiscal year ended March 31, 2014.

This adoption had no impact on the consolidated financial statements.

(Adoption of the “Accounting Standard for Retirement Benefits”)

From the year ended March 31, 2014, YMFG has adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Implementation Guidance for the Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012) (excluding the provisions found in the body of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Implementation Guidance for the Accounting Standard for Retirement Benefits). Accordingly, from March 31, 2014, YMFG has recorded the difference between retirement benefit obligations and plan assets as net defined benefit asset or net defined benefit liability.

With regard to the application of the Accounting Standard for Retirement Benefits, in accordance with the transitional treatment stipulated in Paragraph 37 of the Accounting Standard for Retirement Benefits, the impact of these changes is included in remeasurements of defined benefit plans within accumulated other comprehensive income as of March 31, 2014.

As a result, as of March 31, 2014, YMFG recorded net defined benefit asset of ¥22,882 million (\$222 million) and net defined benefit liability of ¥4,479 million (\$44 million). Furthermore, deferred tax assets increased by ¥1,897 million (\$18 million) and accumulated other comprehensive income decreased by ¥3,465 million (\$34 million).

### Accounting Standards Not Applied

“Accounting Standard for Retirement Benefits” (ASBJ Statement, May 17, 2012)

(i) Overview

With the view of financial reporting improvements and trends in international convergence, this accounting standard mainly focuses on, how unrealized actuarial gains and losses and past service costs should be accounted for and how retirement benefit obligations and current service costs should be determined for the enhancement of disclosures.

(ii) Effective Dates

The revised method of calculation of retirement benefit obligations and current service costs will be effective on the Banks’ consolidated financial statements at the beginning of the fiscal year commencing April 1, 2014.

(iii) Effects of Adoption of the Accounting Standard

The expected effect of adopting this accounting standard is to reduce retained earnings by ¥1,994 million (\$19 million) in the fiscal year beginning on April 1, 2014.

“Accounting Standard for Business Combinations” (ASBJ Statement, Sep. 13, 2013)

(i) Overview

This accounting standard revises primarily the following areas of the current standard: (1) the treatment of changes in the parent company’s ownership interest in a subsidiary in case where additional shares of the subsidiary are acquired and the controlling ownership remains in the parent company, (2) the treatment of acquisition-related expenses, (3) the treatment of the transitional accounting and (4) the presentation of net income and changes from minority interest to noncontrolling shareholder interest.

(ii) Effective Dates

The accounting standard will be applied to the Group’s consolidated financial statements from the beginning of the fiscal year commencing April 1, 2015.

(iii) Effects of Adoption of the Accounting Standard

The Group is currently evaluating the effects.

“Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts”  
 (Dec. 25, 2013)

(i) Overview

This standard clarifies the practical treatment of transactions of delivering the company stock to employees or employee stock ownership plans through trusts.

(ii) Effective Dates

The accounting standard will be applied to the Group’s consolidated financial statements from the beginning of the fiscal year commencing April 1, 2014.

(iii) Effects of Adoption of the Accounting Standard

The Group is currently evaluating the effects.

### 3. CONSOLIDATED STATEMENTS OF CASH FLOWS AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, the Group considers cash and due from THE BANK OF JAPAN as cash and cash equivalents.

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and due from banks	¥915,056	¥347,076	\$8,890,944
Time deposits in other banks	(7,497)	(7,387)	(72,843)
Other	(33,354)	(26,461)	(324,077)
Cash and cash equivalents	¥874,205	¥313,228	\$8,494,024

### 4. FINANCIAL INSTRUMENTS

#### Items pertaining to the status of financial instruments

##### (1) Policies on financial instruments

YMFG provides community-based integrated financial services centered on the banking business and including the securities and credit card businesses. Accordingly, the Group is subject to a variety of risks, including credit risk, market risk and liquidity risk. Due to changes in economic, social and financial conditions, these risks have grown more diverse and complex. Under these conditions, the Group considers strengthening its risk management structure as a priority issue. To maintain and enhance the soundness of its operations, YMFG has created groupwide risk management

regulations, which clarify the Group’s fundamental stance on risk management.

##### (2) Content and risks of financial instruments

Of financial assets held by the Group, principally loans and bills discounted extended to business partners are subject to the credit risk of breach of contract. The Group holds securities, principally debt securities, equity securities and investment trusts, for trading purposes, for holding to maturity, for purely investment purposes and to promote positive business relations. These securities are subject to issuer credit risk, interest rate fluctuation risk and market price fluctuation risk.

The Group’s financial liabilities center on deposits and negotiable certificates of deposit, and call money that it raises in the market. However, the Group is subject to the liquidity risk of becoming unable to secure necessary funding. The Group is also subject to interest rate risk arising from fluctuations in financial and economic conditions.

The Group employs derivative transactions to hedge underlying market risks on its assets and liabilities. The Group also provides derivatives as financial products to meet customers’ needs. Interest-related and securities-related derivative transactions are employed to limit the impact on income of future interest rate fluctuations and price fluctuations for loans and bills discounted, deposits, securities and other instruments bearing long-term interest at fixed rates. Currency-related derivative transactions are used primarily to avoid fluctuations in income stemming from future exchange rate fluctuations, stabilize funding denominated in foreign currencies, as well as offered as products to clients. With regard to transactions to secure income through changes in market rates, which are conducted on a limited basis, the Group has established stringent standards that include risk limits and loss limits.

As market risk factors, interest rate related and securities-related derivative transactions are subject to the risk of fluctuations in interest rates and prices, and currency-related derivative transactions are subject to exchange rate fluctuations. For transactions that are not conducted on exchanges, the Group is subject to credit risk, the risk of loss in the event a counterparty becomes unable to fulfill its contractual obligations due to deteriorating financial conditions.

With regard to use of hedge accounting, the Group applies deferred hedge accounting after it ensured in advance that the established conditions are satisfied. As for hedging methods, the Group employees portfolio hedge where certain group of assets with similar risk is identified and such risk is

hedged comprehensively. In addition, for certain individual hedge and interest swap contracts, exceptional treatments are applied as permitted under Japanese generally accepted accounting principles. Under the exceptional treatment, hedging instruments are treated as off-balance items and not re-measured at fair value. Net receipts or payments related to the swap contracts are recognized and included in interest expense or income.

### (3) Risk management structure related to financial instruments

#### (i) Management of credit risk

Through the appropriate operation of a credit rating system, the Group endeavors to determine the financial conditions of business partners and accurately evaluate their credit risk. The Group has raised the precision of its credit evaluations, reviewing business partner credit ratings swiftly and appropriately for each financial period and each time their credit conditions change.

The Group conducts self assessments according to stringent standards that are consistent throughout the Group. YMFG performs write-off and provisions based on the results of its self assessments. The Group's authentication departments verify the content of such inspections. Independence is maintained through internal audits conducted by audit departments. In addition, the Group undergoes external audits conducted by its independent external auditors.

With regard to the screening of individual transactions, the Group employs a screening system suited to each subsidiary bank's size of the business and characteristics to conduct detailed screenings that take individual sector and regional characteristics into consideration. In terms of portfolio management, the Group strives to enhance its risk management by first measuring credit risk, and then managing risk by category, sector and geographic area.

Risk management departments periodically obtain credit information and fair value as a part of managing credit risks on securities issuers and counterparty risks on derivative transactions.

#### (ii) Management of market risk

##### *Qualitative information on the management of market risk*

The Group has formulated a market risk management process that identifies and quantitatively measures inherent market risks. An asset-liability management (ALM) system is employed to control market risk within allowable limits, and the Group ALM Committee is periodically held to respond to such risks.

YMFG periodically evaluates market risk conditions and verifies the appropriateness of risk controls.

##### *Quantitative information on the management of market risk*

The market risk (estimated loss amount) of the loans, securities, deposits and derivatives transactions of Yamaguchi Bank, Momiji Bank and Kitakyushu Bank of the Group are calculated according to value at risk (VaR). Furthermore, the covariance method is used to calculate VaR.

As of March 31, 2014, the market risk (estimated loss amount) of Yamaguchi Bank was ¥63,526 million (\$617 million), the market risk (estimated loss amount) of Momiji Bank was ¥18,079 million (\$176 million) and the market risk (estimated loss amount) of Kitakyushu Bank was ¥11,439 million (\$111 million). Also, as of March 31, 2013, the market risk (estimated loss amount) of Yamaguchi Bank was ¥62,592 million, the market risk (estimated loss amount) of Momiji Bank was ¥22,930 million and the market risk (estimated loss amount) of Kitakyushu Bank was ¥9,445 million.

Assumptions used in calculating VaR include a holding period of three months (however, one year for a holding period for shares held for the purpose of strategic investment), a confidence interval of 99.9% and an observation period of five years.

Yamaguchi Bank, Momiji Bank and Kitakyushu Bank conduct back-testing to compare the VaR calculated by the model with the actual losses. Based on the results for the year ended March 31, 2014, the measurement model is considered to have captured market risk to an acceptable degree of accuracy. However, as measurements of market risk employ certain probabilities of occurrence which is statistically calculated on the basis of historical market fluctuations, it is possible that this method may not adequately capture market risk in the event of sudden changes in the market environment outside the normally expected scope.

#### (iii) Management of liquidity risk related to fundraising

The majority of funds is raised through deposits, which constitute a stable base for procuring funds. The Group manages funds on the basis of elaborate forecasts, confirming cash flows primarily through cash controls in financial markets.

For cash flow management, the Group strives to maintain the liquidity risk by reducing liquidity risk, ensuring stability, preparing for unexpected events, and maintaining highly liquid assets.

#### (4) Supplementary explanation of items pertaining to the fair value of financial instruments

The fair values of some financial instruments are based on market prices. The fair values of other instruments, for which market prices are not readily available, are based on rational

calculation. However, as assumptions are used in these calculations, different assumptions can yield different values.

### Items pertaining to the fair value of financial instruments

The table below indicates the consolidated balance sheet amounts of financial instruments, as well as their fair values and the differences between the two. Line items with little significance to balance sheet amounts have been omitted. Unlisted equity securities and other instruments for which fair value is not easily determinable are not included in the table below. (Refer to (Note 2).)

	Millions of yen		
	2014		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥ 915,056	¥ 915,056	¥ —
(2) Call loans and bills purchased	315,198	315,198	—
(3) Money held in trust	49,996	49,996	—
(4) Securities			
Held-to-maturity debt securities	3,171	3,187	16
Available-for-sale securities	2,061,118	2,061,118	—
(5) Loans and bills discounted	5,964,133		
Allowance for loan losses (* 1)	(85,152)		
	5,878,981	5,910,384	31,403
Total assets	¥9,223,520	¥9,254,939	¥31,419
(1) Deposits	¥8,147,033	¥8,149,311	¥ 2,278
(2) Negotiable certificates of deposit	617,933	617,933	—
(3) Bonds payable	45,000	45,251	251
Total liabilities	¥8,809,966	¥8,812,495	¥ 2,529
Derivative transactions (* 2)			
Hedge accounting not applied	¥ (2,145)	¥ (2,145)	¥ —
Hedge accounting applied	(974)	(974)	—
Total derivative transactions	¥ (3,119)	¥ (3,119)	¥ —

	Millions of yen		
	2013		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥ 347,076	¥ 347,076	¥ —
(2) Call loans and bills purchased	649,843	649,843	—
(3) Money held in trust	55,489	55,489	—
(4) Securities			
Held-to-maturity debt securities	1,187	1,209	22
Available-for-sale securities	2,136,029	2,136,029	—
(5) Loans and bills discounted	5,811,966		
Allowance for loan losses (* 1)	(96,043)		
	5,715,923	5,782,149	66,226
Total assets	¥8,905,547	¥8,971,795	¥66,248
(1) Deposits	¥7,868,565	¥7,873,257	¥ 4,692
(2) Negotiable certificates of deposit	584,493	584,493	—
(3) Bonds payable	95,000	95,261	261
Total liabilities	¥8,548,058	¥8,553,011	¥ 4,953
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 607	¥ 607	¥ —
Hedge accounting applied	(2,941)	(2,941)	—
Total derivative transactions	¥ (2,334)	¥ (2,334)	¥ —

	Thousands of U.S. dollars		
	2014		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	\$ 8,890,944	\$ 8,890,944	\$ —
(2) Call loans and bills purchased	3,062,553	3,062,553	—
(3) Money held in trust	485,775	485,775	—
(4) Securities			
Held-to-maturity debt securities	30,810	30,966	156
Available-for-sale securities	20,026,410	20,026,410	—
(5) Loans and bills discounted	57,949,213		
Allowance for loan losses (* 1)	(827,361)		
	57,121,852	57,426,972	305,120
Total assets	\$89,618,344	\$89,923,620	\$305,276
(1) Deposits	\$79,158,890	\$79,181,024	\$ 22,134
(2) Negotiable certificates of deposit	6,004,013	6,004,013	—
(3) Bonds payable	437,233	439,672	2,439
Total liabilities	\$85,600,136	\$85,624,709	\$24,573
Derivative transactions (* 2)			
Hedge accounting not applied	\$ (20,841)	\$ (20,841)	\$ —
Hedge accounting applied	(9,464)	(9,464)	—
Total derivative transactions	\$ (30,305)	\$ (30,305)	\$ —

(\* 1) The general allowance for loan losses and specific allowance for loan losses are deducted.

(\* 2) The amount collectively represents derivative transactions that are recorded as trading assets and liabilities, and other trading assets and liabilities.

This indicates the net amount of rights and obligations under derivative transactions. Parentheses, ( ), indicate that the net amount is negative.

(Note 1) Methods of calculating the fair value of financial instruments

(1) Assets

(i) Cash and due from banks

As the settlement term of these instruments is short (within one year) and their fair values and book values are approximately the same, their book values are taken as their fair values.

(ii) Call loans and bills purchased

As the settlement term of these instruments is short (within one year) and their fair values and book values are approximately the same, their book values are taken as their fair values.

(iii) Money held in trust

As for the securities held as trusted assets in money held in trust established independently for the purpose of investing mainly in the securities of the Group, the value on stock exchanges is taken as fair value for the equity securities, and either the value on exchanges or a price indicated by other financial institutions dealing with the specific instruments is taken as fair value.

Notes pertaining to money held in trust exchanges for the purpose of holding are indicated within “Money held in trust.”

(iv) Securities

For equity securities, fair value is determined by stock exchange prices; the fair value of debt securities is determined by exchange prices or from prices received from information vendors. Fair values of investment trusts are determined by exchange prices or according to standard prices disclosed by investment trust management companies.

The fair value of private placement bonds guaranteed by Yamaguchi Bank and Momiji Bank is determined for each internal rating category and period by discounting to present value the total amount of interest and principal, using as the discount rate the risk-free rate plus the credit cost determined for each internal rating category. However, fair value of bonds of legally bankrupt debtors, substantially bankrupt debtors and debtors in danger of bankruptcy is determined by deducting the expected amount of loss on the bond by using the same method applied to loans from the bond’s face value.

As of March 31, 2013, the fair value of floating-rate Japanese government bonds was determined after taking market conditions into consideration. If the Group continuously determined that conditions were such that market prices of floating-rate Japanese government bonds were not fair value, the fair values of securities in question

were determined in accordance with the “Practical Solution on Measurement of Fair Value for Financial Assets” (ASBJ PITF No. 25, October 28, 2008), calculated on a rational basis and recorded on the consolidated balance sheet at the end of the fiscal year. Consequently, on the consolidated balance sheet as of March 31, 2013, securities had increased by ¥1,373 million, deferred tax assets had decreased by ¥356 million, deferred tax liabilities had increased by ¥130 million and the unrealized gains on available-for-sale securities had increased by ¥887 million compared with the market prices indicated by their consolidated balance sheet amounts.

Although rationally determined value was provided by a third-party information provider, the fair value of floating-rate Japanese government bonds held by the Group was calculated by discounting the principal and the future expected coupon to present value at the interest rate of the referenced government bonds. The Group determined the amount of the future expected coupon by taking into consideration the product characteristics of floating-rate Japanese government bonds and adjusting the shape of the yield curve, volatility, and the timing of interest payments.

(v) Loans and bills discounted

For loans and bills discounted with floating interest rates, as in the short term their values reflect market interest rates, unless the credit status of the obligor has changed significantly since the loans were extended, their fair value is similar to their book value, so their book value is taken as their fair value.

For loans and bills discounted bearing fixed interest rates, fair value is determined for each internal rating category and period by discounting to present value the total amount of interest and principal, using as the discount rate the risk-free rate for operating loans and bills discounted plus the credit cost for each internal rating category. For consumer loans and bills discounted, fair value is determined by discounting the total amount of interest and principal to their present value using the assumed interest rate on new loans of the same type. For instruments having a short settlement period (within one year), as their fair values and book values are approximately the same, their book value is taken as their fair value.

With regard to loans to legally bankrupt obligors, substantially bankrupt obligors or obligors who are in danger of bankruptcy, the estimated collectible amount is based on either the present value of estimated future cash flows or the expected amounts recoverable from the disposal of collateral and/or under guarantees. As the fair value is essentially equivalent to the

amount after deducting the allowance for possible loan losses from the book value as of the consolidated balance sheet date, this amount is taken as fair value.

For loans that have no specific repayment period, as the fair value is assumed to be equivalent with the book value according to the expected payment dates and interest rates, book value is taken as the fair value.

## (2) Liabilities

### (i) Deposits and (ii) Negotiable certificates of deposit

The fair value of demand deposits is determined as the payment amount if payment were required on the consolidated balance sheet date (book value). The fair value of time deposits is determined by discounting future cash flows to their present value by certain time periods. The discount rate employed is the interest rate required for newly accepted deposits. For deposits having a short period (within one year), as their fair values and book values are approximately the same, their book value is taken as their fair value.

### (iii) Bonds payable

The fair value of bonds issued by the Group is determined by using prices publicly quoted by third-party institutions.

## (3) Derivative transactions

The fair value of derivative transactions, comprising interest-rate-related transactions (such as interest rate futures, interest rate options and interest rate swaps) currency-related transactions (such as currency futures, currency options and currency swaps), bond-related transactions (such as bond futures and bond options) is taken as their value on exchanges, discounted present value or price as calculated using option pricing models.

Interest rates swaps that employ exceptional accounting treatment are accounted for as part of the loans and bills discounted that are hedged. Therefore, their fair value is included in the fair value of loans and bills discounted.

(Note 2) The consolidated balance sheet amounts of financial instruments for which market prices are not readily available Financial instruments for which market prices are not readily available are not included in “Assets (4) Available-for-sale securities.”

Category	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Consolidated balance sheet amount			
(1) Unlisted equity securities (*1, *2)	¥6,090	¥6,102	\$59,172
(2) Investments in partnerships, etc. (*3)	1,611	1,063	15,653
Total	¥7,701	¥7,165	\$74,825

(\*1) As unlisted equity securities have no market prices and their fair value is not readily available, they are not included in the scope of fair value disclosures.

(\*2) During the fiscal year ended March 31, 2013 and 2014, impairment losses of ¥10 million and ¥22 million (\$214 thousand) were recorded on unlisted equity securities.

(\*3) Of investments in partnerships, those partnership assets comprising unlisted equity securities, which have no readily available fair value, are not included in the scope of fair value disclosure.

(Note 3) Expected maturity amount of monetary claims and securities with maturities after the consolidated balance sheet date

	Millions of yen				
	2014				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	¥819,863	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	315,198	—	—	—	—
(3) Securities Held-to-maturity debt securities	102,685	522,639	644,212	189,964	411,702
Japanese government bond	260	1,139	692	—	1,080
Corporate bond	—	—	—	—	—
Others	260	470	692	—	580
Available-for-sale securities with maturities	102,425	521,500	643,520	189,964	410,622
Japanese government bond	26,716	139,128	216,876	64,575	126,004
Local government bond	7,976	19,262	3,345	3,631	10,157
Corporate bond	58,230	335,503	328,065	100,976	260,711
Others	9,503	27,607	95,234	20,782	13,750
(4) Loans and bills discounted	2,040,816	1,148,253	819,357	502,276	1,453,431
(*) Total	¥3,278,562	¥1,670,892	¥1,463,569	¥692,240	¥1,865,133

	Millions of yen				
	2013				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	¥261,184	—	—	—	—
(2) Call loans and bills purchased	649,843	—	—	—	—
(3) Securities Held-to-maturity debt securities	108,204	324,605	632,638	400,692	520,900
	290	572	325	—	—
Japanese government bond	—	—	—	—	—
Corporate bond	290	230	80	—	—
Others	—	342	245	—	—
Available-for-sale securities with maturities	107,914	324,033	632,313	400,692	520,900
Japanese government bond	74,141	97,951	214,963	194,980	270,972
Local government bond	6,483	25,147	4,835	2,390	15,485
Corporate bond	24,452	170,910	353,886	187,517	228,159
Others	2,838	30,025	58,629	15,805	6,284
(4) Loans and bills discounted (*)	2,149,019	1,134,306	827,163	460,511	1,240,968
<b>Total</b>	<b>¥3,168,250</b>	<b>¥1,458,911</b>	<b>¥1,459,801</b>	<b>¥861,203</b>	<b>¥1,761,868</b>

	Thousands of U.S. dollars				
	2014				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	\$7,966,022	—	—	—	—
(2) Call loans and bills purchased	3,062,553	—	—	—	—
(3) Securities Held-to-maturity debt securities	997,716	5,078,109	6,259,347	1,845,744	4,000,214
	2,526	11,067	6,724	—	10,494
Japanese government bond	—	—	—	—	—
Corporate bond	2,526	4,567	6,724	—	5,636
Others	—	6,500	—	—	4,858
Available-for-sale securities with maturities	995,190	5,067,042	6,252,623	1,845,744	3,989,720
Japanese government bond	259,580	1,351,807	2,107,228	627,428	1,224,291
Local government bond	77,497	187,155	32,501	35,280	98,688
Corporate bond	565,779	3,259,843	3,187,573	981,112	2,533,142
Others	92,334	268,237	925,321	201,924	133,599
(4) Loans and bills discounted (*)	19,829,149	11,156,753	7,961,106	4,880,257	14,121,949
<b>Total</b>	<b>\$31,855,440</b>	<b>\$16,234,862</b>	<b>\$14,220,453</b>	<b>\$6,726,001</b>	<b>\$18,122,163</b>

(\*) Loans and bills discounted for which no period is specified are included in "within one year."

(Note 4) Estimated repayment amounts of deposits, negotiable certificates of deposit and other interest-bearing liabilities to be repaid after the consolidated balance sheet date

	Millions of yen			
	2014			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥7,476,391	¥464,376	¥165,186	¥41,080
Negotiable certificates of deposit	617,582	350	—	—
Bonds payable	20,000	—	—	25,000
<b>Total</b>	<b>¥8,113,973</b>	<b>¥464,726</b>	<b>¥165,186</b>	<b>¥66,080</b>

	Millions of yen			
	2013			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥6,622,616	¥1,022,462	¥180,277	¥43,210
Negotiable certificates of deposit	583,523	970	—	—
Bonds payable	30,000	20,000	—	45,000
<b>Total</b>	<b>¥7,236,139</b>	<b>¥1,043,432</b>	<b>¥180,277</b>	<b>¥88,210</b>



	Thousands of U.S. dollars			
	2014			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	\$72,642,742	\$4,512,009	\$1,604,994	\$399,145
Negotiable certificates of deposit	6,000,602	3,401	—	—
Bonds payable	194,326	—	—	242,907
Total	\$78,837,670	\$4,515,410	\$1,604,994	\$642,052

(\*) Within deposits, demand deposits are included in "within one year."

## 5. SECURITIES

Securities held at March 31, 2014 include shares of unconsolidated subsidiaries and affiliates amounting to ¥355 million (\$3 million) and investments of ¥700 million (\$7 million). Corresponding figures at March 31, 2013, were ¥327 million and ¥567 million.

The amount of guarantee obligations for private placement bonds (Financial Instruments and Exchange Law, Article 2, Item 3), out of bonds included in securities, amounted to ¥3,301 million (\$32 million) and ¥4,123 million as of March 31, 2014 and March 31, 2013 respectively.

Bonds included in securities as of March 31, 2014, also include securities lent through unsecured loan agreements (bond lending transactions) of ¥15,015 million (\$146 million).

## 6. FAIR VALUE INFORMATION

### Securities

The following tables summarize book values, fair value and acquisition cost of securities with available fair values as of March 31, 2014 and 2013:

#### (a) Trading securities

Amount of unrealized gain (loss) on trading securities included in the consolidated statement of income — ¥(73) million (\$709 thousand) and ¥6 million as at March 31, 2014 and 2013, respectively.

#### (b) Held-to-maturity debt securities:

	Type	Millions of yen		
		2014		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥ 500	¥ 502	¥ 2
	Corporate bonds	1,713	1,717	4
	Others	670	680	10
	Subtotal	2,883	2,899	16
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	288	288	—
	Others	—	—	—
	Subtotal	288	288	—
Total		¥3,171	¥3,187	¥16

	Type	Millions of yen		
		2013		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥ —	¥ —	¥—
	Corporate bonds	600	603	3
	Others	587	606	19
	Subtotal	1,187	1,209	22
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	—	—	—
	Others	—	—	—
	Subtotal	—	—	—
Total		¥1,187	¥1,209	¥22

	Type	Thousands of U.S. dollars		
		2014		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	\$ 4,859	\$ 4,878	\$ 19
	Corporate bonds	16,644	16,683	39
	Others	6,509	6,607	98
	Subtotal	28,012	28,168	156
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	2,798	2,798	—
	Others	—	—	—
	Subtotal	2,798	2,798	—
Total		\$30,810	\$30,966	\$156

(c) Available-for-sale securities

		Millions of yen		
		2014		
Type	Book value	Acquisition cost	Difference	
Securities with fair value exceeding book value	Shares	¥ 106,333	¥ 54,479	¥51,854
	Japanese government bonds	438,638	436,586	2,052
	Local government bonds	40,687	39,909	778
	Corporate bonds	931,557	922,097	9,460
	Others	68,976	68,197	779
	Subtotal	1,586,191	1,521,268	64,923
Securities with fair value not exceeding book value	Shares	8,996	10,506	(1,510)
	Japanese government bonds	134,662	135,042	(380)
	Local government bonds	3,685	3,693	(8)
	Corporate bonds	151,919	152,730	(811)
	Others	175,664	182,847	(7,183)
	Subtotal	474,926	484,818	(9,892)
Total	¥2,061,117	¥2,006,086	¥55,031	

		Millions of yen		
		2013		
Type	Book value	Acquisition cost	Difference	
Securities with fair value exceeding book value	Shares	¥ 78,119	¥ 41,245	¥ 36,874
	Japanese government bonds	744,311	736,185	8,126
	Local government bonds	54,268	52,911	1,357
	Corporate bonds	885,528	872,395	13,133
	Others	102,212	99,195	3,017
	Subtotal	1,864,438	1,801,931	62,507
Securities with fair value not exceeding book value	Shares	18,238	22,426	(4,188)
	Japanese government bonds	108,696	109,050	(354)
	Local government bonds	73	73	(0)
	Corporate bonds	79,387	80,319	(932)
	Others	65,197	70,801	(5,604)
	Subtotal	271,591	282,669	(11,078)
Total	¥2,136,029	¥2,084,600	¥ 51,429	

		Thousands of U.S. dollars		
		2014		
Type	Book value	Acquisition cost	Difference	
Securities with fair value exceeding book value	Shares	\$ 1,033,162	\$ 529,334	\$503,828
	Japanese government bonds	4,261,932	4,241,994	19,938
	Local government bonds	395,326	387,767	7,559
	Corporate bonds	9,051,273	8,959,357	91,916
	Others	670,190	662,620	7,570
	Subtotal	15,411,883	14,781,072	630,811
Securities with fair value not exceeding book value	Shares	87,408	102,079	(14,671)
	Japanese government bonds	1,308,414	1,312,106	(3,692)
	Local government bonds	35,805	35,882	(77)
	Corporate bonds	1,476,088	1,483,968	(7,880)
	Others	1,706,801	1,776,595	(69,794)
	Subtotal	4,614,516	4,710,630	(96,114)
Total	\$20,026,399	19,491,702	\$534,697	

(d) Held-to-maturity debt securities sold during the fiscal year

		Millions of yen		
		2014		
	Cost of securities sold	Sale amount	Gain (loss) on sale	
Japanese government bond	¥—	¥—	¥—	

		Millions of yen		
		2013		
	Cost of securities sold	Sale amount	Gain (loss) on sale	
Japanese government bond	¥4,005	¥4,023	¥18	

		Thousands of U.S. dollars		
		2014		
	Cost of securities sold	Sale amount	Gain (loss) on sale	
Japanese government bond	\$—	\$—	\$—	

(Reason for sale)

During the fiscal year ended March 31, 2013, a consolidated subsidiary, Yamagin Credit Guarantee Co., Ltd., sold these securities to avoid the risk of future interest rate increases.

As the subsidiary sold all its holdings of held-to-maturity securities during the fiscal year ended March 31, 2013, there was no change in the purpose of holding securities, as is indicated in “(f). Securities for which purpose of holding changed.”

(e) Available-for-sale securities sold during the fiscal year

	Millions of yen		
	2014		
	Sale amount	Total gain on sale	Total loss on sale
Shares	¥ 5,273	¥ 1,998	¥ 31
Japanese government bond	1,725,598	5,972	1,941
Local government bond	10,179	242	—
Corporate bond	533,328	2,449	159
Others	288,129	7,731	1,376
Total	¥2,562,507	¥18,392	¥3,507

	Millions of yen		
	2013		
	Sale amount	Total gain on sale	Total loss on sale
Shares	¥ 1,159	¥ 170	¥ 346
Japanese government bond	3,904,726	11,248	182
Local government bond	10,485	170	—
Corporate bond	1,029,929	4,568	51
Others	130,204	1,890	492
Total	¥5,076,503	¥18,046	¥1,071

	Thousands of U.S. dollars		
	2014		
	Sale amount	Total gain on sale	Total loss on sale
Shares	\$ 51,234	\$ 19,413	\$ 301
Japanese government bond	16,766,401	58,026	18,859
Local government bond	98,902	2,351	—
Corporate bond	5,181,967	23,795	1,545
Others	2,799,543	75,117	13,370
Total	\$24,898,047	\$178,702	\$34,075

(f) Securities for which purpose of holding changed

There were no securities for which the purpose of holding changed at March 31, 2014 and 2013.

**Impairment losses on securities**

Regarding securities (excluding those for which market prices are not readily available) other than trading securities, if their market values have fallen substantially below their acquisition price and are not expected to recover to the acquisition price, such market values are recorded in the consolidated balance sheets. The valuation difference is recorded as a loss for the fiscal year in which such difference is realized (hereinafter, “impairment losses”).

During the fiscal year ended March 31, 2014, impairment losses totaled ¥113 million (\$1 million) (of which, ¥113 million (\$1 million) on equity securities) and during the fiscal year ended March 31, 2013, impairment losses totaled ¥3,225 million (of which, ¥3,225 million on equity securities). The

basis for determining whether the market value has fallen significantly is as follows.

If the market value of the securities in general has fallen by 30% or more compared with the acquisition cost, the value of the securities is determined to have “fallen significantly.” However in the case of shares and equivalent securities, if their market value has fallen by 30% or more but less than 50% of the acquisition cost, the determination of whether the value has “fallen significantly” takes into consideration other factors such as the issuing company’s credit risk (independent debtor classification, external ratings, etc.) and previous percentage decreases over a specific period of time in the past.

**Money held in trust**

Information on money held in trust as of March 31, 2014 and 2013 is as follows:

(a) Money held in trust classified as trading purposes

There are no corresponding amounts as at March 31, 2014 and 2013

(b) Money held in trust classified as held-to-maturity

There are no corresponding transactions as at March 31, 2014 and 2013.

(c) Other money held in trust

	Millions of yen		
	2014		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Other money held in trust	¥49,996	¥50,013	¥(17)

	Millions of yen		
	2013		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Other money held in trust	¥55,489	¥55,498	¥(9)

	Thousands of U.S. dollars		
	2014		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Other money held in trust	\$485,775	\$485,941	\$(166)

## Unrealized gains (losses) on available-for-sale securities

Information on unrealized gains (losses) on other securities and other money held in trust is as follows:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Net unrealized gains	¥55,338	¥51,502	\$537,680
Other securities	55,355	51,511	537,845
Other money held in trust	(17)	(9)	(165)
Deferred tax liabilities	(18,646)	(17,013)	(181,170)
Unrealized gain on available-for-sale securities before following adjustment	36,692	34,489	356,510
YMFG's interest in net unrealized gain on valuation of available-for-sale securities held by affiliates accounted for by the equity method	14	9	136
Unrealized gains on available-for-sale securities	¥36,706	¥34,498	\$356,646

Valuation differences on investments in partnerships, etc., of ¥324 million (\$3,148 thousand) at March 31, 2014 and ¥82 million at March 31, 2013, for which market values are extremely difficult to determine, are recorded in other securities, within net unrealized gain.

## Derivatives

(1) Derivative transactions at March 31, 2014 and 2013, to which hedge accounting is not applied

(a) Interest-rate-related:

Type	Millions of yen			
	2014			Realized gains (losses)
	Contract amounts	Over one year	Fair value	
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥59,080	¥55,080	¥ 763	¥ 762
Receivable floating, payable fixed	59,204	55,204	(622)	(622)
Other				
Sold	128	128	(0)	4
Total	¥ —	¥ —	¥ 141	¥ 144

Type	Millions of yen			
	2013			Realized gains (losses)
	Contract amounts	Over one year	Fair value	
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥64,526	¥50,210	¥ 936	¥ 936
Receivable floating, payable fixed	64,816	50,388	(766)	(766)
Other				
Sold	383	168	(0)	9
Total	¥ —	¥ —	¥ 170	¥ 179

Type	Thousands of U.S. dollars			
	2014			Realized gains (losses)
	Contract amounts	Over one year	Fair value	
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	\$574,038	\$535,173	\$ 7,414	\$ 7,404
Receivable floating, payable fixed	575,243	536,378	(6,044)	(6,044)
Other				
Sold	1,244	1,244	(0)	39
Total	\$ —	\$ —	\$ 1,370	\$ 1,399

(b) Currency-related:

Type	Millions of yen			
	2014			Realized gains (losses)
	Contract amounts	Over one year	Fair value	
Over-the-counter:				
Currency swaps	¥145,534	¥83,213	¥(3,022)	¥ (1,295)
Foreign exchange forward contracts:				
Sold	119,873	615	(694)	(694)
Bought	14,229	—	83	83
Currency options				
Sold	203,186	146,722	(5,833)	10,551
Bought	203,186	146,722	7,120	(6,706)
Total	¥ —	¥ —	¥(2,346)	¥ 1,939

Type	Millions of yen			
	2013			Realized gains (losses)
	Contract amounts	Over one year	Fair value	
Over-the-counter:				
Currency swaps	¥146,365	¥94,080	¥ 387	¥(1,075)
Foreign exchange forward contracts:				
Sold	64,584	800	(1,095)	(1,095)
Bought	18,598	—	204	204
Currency options				
Sold	251,129	182,040	(10,741)	11,228
Bought	251,129	182,040	11,767	(6,599)
Total	¥ —	¥ —	¥ 522	¥2,663

Type	Thousands of U.S. dollars			
	2014			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	\$1,414,050	\$808,521	\$(29,363)	\$(12,583)
Foreign exchange forward contracts:				
Sold	1,164,720	5,976	(6,743)	(6,743)
Bought	138,253	—	806	806
Currency options				
Sold	1,974,213	1,425,593	(56,675)	102,517
Bought	1,974,213	1,425,593	69,181	(65,157)
Total	\$ —	\$ —	\$(22,794)	\$ 18,840

(c) Stock-related:

There were no stock-related transactions as at March 31, 2014 and 2013.

(d) Bond-related:

Type	Millions of yen			
	2014			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥62,247	¥—	¥60	¥60
Total	¥ —	¥—	¥60	¥60

Type	Millions of yen			
	2013			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥21,734	¥—	¥(85)	¥(85)
Total	¥ —	¥—	¥(85)	¥(85)

Type	Thousands of U.S. dollars			
	2014			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	\$604,810	\$—	\$583	\$583
Total	\$ —	\$—	\$583	\$583

(e) Commodity-related:

There were no commodity-related transactions as at March 31, 2014 and 2013.

(f) Credit-derivatives:

There were no credit related transactions as at March 31, 2014 and 2013.

(2) Derivative transactions as at March 31, 2014 and 2013, to which hedge accounting is applied

(a) Interest-rate-related:

Type	Millions of yen		
	2014		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, pay fixed	¥16,054	¥15,346	¥(615)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, pay fixed	308	275	*
Total	¥ —	¥ —	¥(615)

Type	Millions of yen		
	2013		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, pay fixed	¥17,586	¥17,586	¥(756)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, pay fixed	342	308	*
Total	¥ —	¥ —	¥(756)

Type	Thousands of U.S. dollars		
	2014		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, pay fixed	\$155,985	\$149,106	\$(5,976)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, pay fixed	2,993	2,672	*
Total	\$ —	\$ —	\$(5,976)

(\*) Of interest rate swaps employing exceptional accounting, as these instruments are accounted for together with the hedged loans and bills discounted, their fair value is included in the fair value of said loans and bills discounted within "Financial instruments."

(b) Currency-related:

Type	Millions of yen		
	2014		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps			
Total	¥29,267	¥—	¥(360)
	¥ —	¥—	¥(360)

Type	Millions of yen		
	2013		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	¥24,946	¥—	¥(2,185)
Total	¥ —	¥—	¥(2,185)

Type	Thousands of U.S. dollars		
	2014		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	\$284,366	\$—	\$(3,498)
Total	\$ —	\$—	\$(3,498)

(c) Stock-related:

There were no stock-related transactions at March 31, 2014 and 2013.

(d) Bond-related:

There were no bond-related transactions at March 31, 2014 and 2013.

## 7. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2014 and 2013 include “Risk-Managed Loan Amounts” as follows:

- (1) Loans to borrowers in bankruptcy amounting to ¥25,936 million (\$252 million) and ¥27,087 million denote loans subject to Article 96-1-3 and 96-1-4 of “Order for Enforcement of the Corporation Tax Act” (Cabinet Order No. 97 of 1965) on which interest accrual has stopped as there is doubt about the collectability of either principal or interest because they have been contractually past due for a considerable period of time or for other reasons.
- (2) Other delinquent loans amounting to ¥91,479 million (\$889 million) and ¥103,588 million denote loans on which the Banks have stopped accruing interest excluding loans to borrowers in bankruptcy and loans on which interest payments are deferred in order to promote recovery of borrowers in economic difficulty.
- (3) Loans past due for three months or more amounting to ¥448 million (\$4 million) and ¥1,174 million denote loans where payment of interest or principal has been delayed for three months or more excluding loans to borrowers in bankruptcy and other delinquent loans.

(4) Restructured loans amounting to ¥22,435 million (\$218 million) and ¥24,837 million denote loans to borrowers for which the repayment terms have been modified to more favorable terms including reduction of interest rate, deferral of interest payments, extension of principal payments and debt forgiveness with the objective of promoting recovery of borrowers in economic difficulty excluding loans to borrowers in bankruptcy, other delinquent loans, and past-due loans.

(5) The total of loans to borrowers in bankruptcy, other delinquent loans, past-due loans, and restructured loans amounted to ¥140,298 million (\$1,363 million) and ¥156,686 million.

The loan amounts disclosed from (1) to (5) above are amounts before deducting an allowance for loan losses.

### Commercial bills

Bills discounted are accounted for as financing transactions in accordance with the Industry Audit Committee Report No. 24 of the JICPA, although the Banks have the right to sell or pledge them without restrictions. The total face value of commercial bills and purchased foreign exchange bills obtained as a result of discounting was ¥47,896 million (\$465 million) at March 31, 2014 and ¥50,502 million at March 31, 2013.

### Loan participation

Loan participation agreements in which the Banks have acquired the economic benefits and risks of the underlying loans from the original lender under the JICPA Laws and Regulations Committee Report No. 3 was ¥1,000 million as of March 31, 2013 and there was no such item as of March 31, 2014.

## 8. COMMITMENT LINES

Loan agreements and commitment line agreements relating to loans are agreements that oblige the consolidated subsidiaries to lend funds up to a certain limit agreed in advance. The consolidated subsidiaries make the loans upon the request of an obligor to draw down funds under such loan agreements as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused commitment balance relating to these loan agreements amounted to ¥860,659 million (\$8,362 million) at March

31, 2014 and came to ¥816,213 million at March 31, 2013. Of this amount, ¥802,427 million (\$7,797 million) at March 31, 2014, and ¥766,161 million at March 31, 2013, relates to loans for which the term of the agreement is one year or less, or unconditional cancellation of the agreement is allowed at any time.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flows. Conditions are included in certain loan agreements that allow the consolidated subsidiaries either to decline the request for a loan draw-down or to reduce the agreed limit amount when there is due cause to do so, such as when there is a change in financial condition or when it is necessary to protect the consolidated subsidiaries' credit. Consolidated subsidiaries take various measures to protect their credit. Such measures include having the obligor pledge collateral to the consolidated subsidiaries in the form of real estate, securities, etc., on signing a loan agreement or in accordance with the consolidated subsidiaries' established internal procedures for confirming the obligor's financial condition, etc., at regular intervals.

## 9. PLEDGED ASSETS

At March 31, 2014 and 2013, the following assets were pledged as collateral for certain liabilities of the Banks.

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Cash and due from banks	¥ 18	¥ 18	\$ 175
Securities	222,558	216,632	2,162,437

The collateral was pledged to secure the following:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Deposits	¥27,600	¥19,149	\$268,169
Payables under securities lending transactions	13,269	4,330	128,925
Borrowed money	3,823	4,052	37,145

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as foreign exchange contracts and forward exchange contracts. These securities amounted to ¥106,203 million (\$1,032 million), cash and due from banks ¥3 million (\$29 thousand) and net other assets ¥1,201 million (\$12 million) including security deposits of ¥2,997 million (\$29 million) at March 31, 2014. The corresponding figures at March 31, 2013, were ¥111,629 million, ¥3 million and ¥1,191 million, including security deposits of ¥2,579 million.

## 10. ACCUMULATED DEPRECIATION

Accumulated depreciation of tangible assets was ¥72,993 million (\$709 million) at March 31, 2014, and ¥71,883 million at March 31, 2013.

## 11. IMPAIRMENT LOSSES

During the fiscal year ended March 31, 2014 and 2013, impairment losses were recorded on the following assets.

Location	Primary use	Type	Impairment loss		
			Millions of yen		Thousands of
			2014	2013	U.S. dollars
Within Yamaguchi Prefecture	Asset scheduled for sale	Land, buildings	¥46	¥ —	\$447
Within Fukuoka Prefecture	Idle assets	Land	¥—	¥161	\$ —
Other	Asset scheduled for sale	Land, buildings	—	18	—
<b>Total</b>			<b>¥46</b>	<b>¥179</b>	<b>\$447</b>

The Bank and its consolidated subsidiaries that engage in the banking and securities business group their business-use assets into the smallest units possible from the standpoint of management accounting, which is the branch. Idle assets are, in principle, grouped as units of individual assets. In addition, corporate headquarters, administrative centers, training facilities, company housing and dormitories are considered corporate assets, as these are related to all the consolidated subsidiaries which are engaged in the banking businesses.

Consolidated subsidiaries that do not engage in the banking and securities business group their assets, in principle, on an individual company basis.

The book values of the idle assets and assets that are scheduled for sale are reduced to their recoverable values, and recognized the reduction of ¥46 million (\$447 thousand) as impairment losses. This amount includes land of ¥34 million (\$330 thousand) and buildings of ¥12 million (\$117 thousand).

The recoverable amount used to estimate the impairment loss for the fiscal year ended March 31, 2014, is the net selling price, which is calculated by deducting the expected disposal cost from the expected disposal value.

## 12. BORROWED MONEY

Payment schedule of borrowed money as of March 31, 2014 is as follows:

	Millions of yen	Thousands of U.S. dollars
2014	¥13,105	\$127,332
2015	4,872	47,338
2016	3,939	38,272
2017	2,871	27,895
2018	1,754	17,042
Thereafter	3,228	31,364
Total	¥29,769	\$289,243

## 13. BONDS PAYABLE

Bonds payable include subordinated bonds of ¥25,000 million (\$243 million) as of March 31, 2014 and ¥45,000 million as of March 31, 2013.

## 14. PROVISION FOR EMPLOYEE RETIREMENT BENEFITS

### For the year ended March 31, 2014

Overview of severance payments and pension plans  
Some consolidated subsidiaries employ funded and unfunded defined benefit and defined contribution plans as employee retirement benefits.

Defined benefit plans include defined benefit corporate pension plans and lump-sum retirement plans. Also, some are established as retirement benefit trusts.

Some consolidated subsidiaries employ the compendium method for calculating retirement benefit obligations.

## Defined benefit plans

### (1) Reconciliation of retirement benefit obligation balances at the beginning and the end of the fiscal year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations at the beginning of the fiscal year	58,375	567,188
Service cost	1,556	15,119
Interest cost	1,042	10,124
Actuarial differences	645	6,267
Retirement benefit payments	(3,878)	(37,680)
Others	239	2,322
Retirement benefit obligations at the end of the fiscal year	57,979	563,340

### (2) Reconciliation of plan asset balances at the beginning and the end of the fiscal year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars
Balance of plan assets at the beginning of the fiscal year	67,200	652,934
Expected return on plan assets	1,919	18,646
Actuarial differences	7,480	72,678
Contribution from employer	1,941	18,859
Retirement benefit payments	(2,396)	(23,280)
Others	238	2,312
Balance of plan assets at the end of the fiscal year	76,382	742,149

### (3) Reconciliation of the balances of retirement benefit obligations and plan assets at the end of the fiscal year ended March 31, 2014 and the carrying amount of net defined benefit liability and net defined benefit asset

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations of funded plans	57,935	562,913
Plan assets	(76,382)	(742,149)
	(18,447)	(179,236)
Retirement benefit obligations of unfunded plans	44	427
Net carrying amount of obligations and assets	(18,403)	(178,809)

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations	4,479	43,519
Retirement benefit assets	22,882	222,328
Net carrying amount of obligations and assets	(18,403)	(178,809)



#### (4) Retirement benefit costs and their breakdowns

	Millions of yen	Thousands of U.S. dollars
Service cost*	1,556	15,119
Interest cost	1,042	10,124
Expected return on plan assets	(1,919)	(18,646)
Recognized actuarial loss	1,840	17,878
Amortization of past service cost	1	10
Others	64	622
Retirement benefit costs on defined benefit plans	2,584	25,107

\* Excludes employee contribution portion of defined benefit corporate pensions

#### (5) Remeasurements of defined benefit plans

Items posted as remeasurements of defined benefit plans (before tax-effect exclusions) break down as follows.

	Millions of yen	Thousands of U.S. dollars
Unrecognized past service cost	0	0
Unrecognized actuarial gain (loss)	5,362	52,099
Total	5,362	52,099

#### (6) Plan assets

(i) Percentages of major asset categories to total plan assets are as follows.

Bonds	25%
Shares	59%
Others	16%
Total	100%

(Note) Plan assets include 28% of corporate pension plans established as retirement benefit trusts.

(ii) Method of establishing expected long-term return on plan assets

(Corporate pensions)

Based on the expected rate of return for individual investment fiduciary institutions, deducting investment cost from the weighted average rate for the policy asset mix (medium- to long-term portfolio)

(Retirement benefit trusts)

Past dividend performance is converted to yield.

#### (7) Basis of actuarial calculation

The basis of actuarial calculations as of March 31, 2014

(i) Discount rate: 1.5%–2.0%

(ii) Expected long-term rate of return on plan assets: 1.6%–3.8%

#### Defined contribution plans

The required contribution to the consolidated subsidiaries' defined contribution plans is ¥157 million (\$1,525 million).

#### For the year ended March 31, 2013

Until the fiscal year ended March 31, 2013, the Banks and other subsidiaries had contributory funded defined benefit pension plans such as employee pension plans, tax qualified pension plans and lump-sum severance indemnity plans. The Banks also had retirement benefit trusts.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2013 were as follows:

	Millions of yen
	2013
Projected benefit obligation	¥(58,375)
Plan assets	67,200
Unrecognized actuarial differences	14,037
Unrecognized past service cost	1
Prepaid pension costs	(23,977)
Provision for retirement benefits	¥ (1,114)

(Note 1) Excludes premium retirement benefits paid in extraordinary circumstances.

(Note 2) Certain consolidated subsidiaries employ a simplified method of calculating retirement benefit obligations.

Retirement benefit expenses included in the consolidated statements of income for the year ended March 31, 2013 were comprised of the following:

	Millions of yen
	2013
Service costs—benefits earned during the year	¥1,571
Interest cost on projected benefit obligation	1,152
Expected return on plan assets	(1,547)
Past service cost	1
Amortization of actuarial differences	2,786
Other	81
Retirement benefit expenses	¥4,044

(Note) Retirement benefit obligations of consolidated subsidiaries employing the simplified method are included as a lump sum in "past service cost."

The summary of assumptions is as follows:

Year ended March 31, 2013	
Discount rate	1.5%—2.0%
Expected rate of return on plan assets	1.5%—3.7%
Allocation of estimated amount of retirement benefits	Allocated to each period by the straight-line method
Period to amortize the past service cost	2 years. (using the straight-line method within the employees' average remaining service period)
Period to amortize unrecognized net actuarial cost	Mainly 10—11 years (using the straight-line method within the employees' average remaining service period, commencing from the next fiscal year of incurrence)

## 15. REVALUATION RESERVE FOR LAND

Pursuant to the Law concerning Revaluation of Land (Law No. 34, promulgated March 31, 1998, the “Law”), YMFG revalued certain land used for banking operations by consolidated subsidiaries. The tax-equivalent portion of this revaluation amount was recorded in liabilities under “deferred tax liabilities for revaluation reserve for land,” and the remainder under net assets as “revaluation reserve for land.”

Revaluation date: March 31, 1998

Item 3, Article 3, of the Law establishes the evaluation method as that prescribed by Article 2-4 of the Order for Enforcement of Law on Revaluation of Land (Enforcement Order No. 119, promulgated March 31, 1998), and the amount of land tax is calculated on the basis of the land tax amount specified under Article 16 of the Land-holding Tax Act, adjusted rationally in accordance with the basis of calculation announced officially by the Director General of the National Tax Administration Agency.

Total difference between market value of land for business use revalued in accordance with Article 10 of the Law and the total post-revaluation book value of land at March 31, 2014 and 2013 were ¥23,419 million (\$228 million) and ¥23,459 million, respectively.

## 16. CONTINGENT LIABILITIES — ACCEPTANCES AND GUARANTEES

All contingent liabilities, including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers’ liabilities for acceptances and guarantees are shown on the asset side, which represent the Banks’ right of indemnity from customers.

## 17. OTHER EXPENSES

Other expenses included ¥928 million (\$9,017 thousand) in loss on sale of stock and ¥135 million (\$1,312 thousand) in devaluation of stock for the year ended March 31, 2014. For the year ended March 31, 2013, other expenses included ¥653 million in loss on sale of stock, and ¥3,235 million in devaluation of stock.

## 18. LEASE TRANSACTIONS

### 1. Finance lease transactions

#### (1) Finance lease transactions that do not transfer ownership

##### (i) Content of lease assets

Tangible fixed assets

Mainly office equipment

Intangible fixed assets

Software

##### (ii) Depreciation method for lease assets

As described in “Lease assets under” (5) Accounting Policies, in “2. SIGNIFICANT ACCOUNTING POLICIES.”

(2) The Banks and other consolidated subsidiaries lease certain equipment under noncancelable finance leases. Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Equivalent amount:			
Acquisition cost	¥69	¥1,003	\$670
Accumulated depreciation	67	(982)	651
Net book value	¥ 2	¥ 21	\$ 19

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Lease payments	¥21	¥219	\$214
Equivalent depreciation expense	19	188	185
Equivalent interest expense	¥ 0	¥ 6	\$ 0

Equivalent depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent interest expense is computed using the interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Future minimum lease payments under non-cancelable finance leases having remaining terms in excess of one year at March 31, 2014 and 2013 were as follows:

At March 31, 2014

	Millions of yen	Thousands of U.S. dollars
2015	¥ 2	\$19
2016 and thereafter	—	—
Total minimum lease payments	¥ 2	\$19

At March 31, 2013

	Millions of yen
2014	¥21
2015 and thereafter	2
Total minimum lease payments	¥23

## 2. Operating leases

Future minimum lease payments at March 31, 2014 and 2013 were as follows:

At March 31, 2014

	Millions of yen	Thousands of U.S. dollars
2015	¥ 52	\$ 505
2016 and thereafter	747	7,258
Total minimum lease payments	¥799	\$7,763

At March 31, 2013

	Millions of yen
2014	¥ 52
2015 and thereafter	799
Total minimum lease payments	¥851

## 19. INCOME TAXES

1. Significant components of the deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Allowance for loan losses	¥ 24,891	¥ 28,832	\$ 241,848
Provision for bonuses	1,148	1,146	11,154
Provision for retirement benefits	—	6,159	—
Net defined benefit liability	7,252	—	70,462
Depreciation	951	1,025	9,240
Losses on devaluation of securities	3,542	3,574	34,415
Net operating losses carryforwards	2,555	10,868	24,825
Other	4,605	4,320	44,745
Deferred tax assets	44,944	55,924	436,689
Valuation allowance	(5,995)	(11,147)	(58,249)
Total deferred tax assets	38,949	44,777	378,440
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(18,646)	(17,014)	(181,170)
Securities contributed to retirement benefit trusts	(5,160)	(5,160)	(50,136)
Other	(1,421)	(1,164)	(13,807)
Total deferred tax liabilities	(25,227)	(23,338)	(245,113)
Net deferred tax assets	¥ 13,722	¥ 21,439	\$ 133,327

2. Significant differences between the statutory effective tax rate and the actual income tax rate after application of deferred income tax accounting for the year ended March 31, 2014 and 2013 were as follows:

	%	
	2014	2013
Effective statutory tax rate	37.75	—
(Adjustments)		
Revision of valuation allowances	(10.39)	—
Items permanently exempted from income such as dividend income	(1.60)	—
Non-deductible goodwill amortization	3.73	—
Inhabitant tax on per capita basis	0.27	—
Items permanently excluded from expense such as entertainment expenses	0.31	—
Stated difference of tax rates on special reconstruction surtax	1.46	—
Expiration of losses carried forward	5.69	—
Consolidation adjustment	(1.40)	—
Others	(0.39)	—
Actual tax rate after application of deferred income tax accounting	35.43	—

(Note) Information for the year ended March 31, 2013 is omitted, as the difference between the effective statutory tax rate and the actual tax rate after application of deferred income tax accounting is 5% or less.

3. Revisions in amounts of deferred taxes assets and liabilities due to changes in the corporate tax rate  
The “Act on Partial Revision of the Income Tax Act” (Act No. 10 of 2014) was promulgated on March 31, 2014, repealing the special reconstruction surtax from fiscal years beginning on or after April 1, 2014. Accordingly, the statutory effective tax rate used for calculating deferred tax assets and liabilities was reduced from 37.75% to 35.38%, resulting in a temporary difference in assets or liabilities reversed in the fiscal year beginning April 1, 2014. This change in the tax rate had the effect of reducing deferred tax assets by ¥547 million (\$5 million) and increasing income tax adjustments by ¥547 million (\$5 million).

## 20. NET ASSETS

The Companies Act of Japan (the “Act”) became effective on May 1, 2006, replacing the Japanese Commercial Code (the “Code”). The Act is generally applicable to events and transactions occurring after April 30, 2006 and for the fiscal years ending after that date.

Under the Act, the entire amount paid for new shares is in principle required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Act, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying Consolidated Balance Sheets.

Under the Act, legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit, or may be capitalized, by a resolution of the shareholders’ meeting.

Under the Act, additional paid-in capital and legal earnings reserve may not be distributed as dividends, however all of these may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that YMFG can distribute as dividends is calculated based on the Non-Consolidated Financial Statements of the Company in accordance with the Act.

At the annual shareholders’ meeting, held on June 26, 2014, the shareholders approved cash dividends amounting to ¥1,772 million (\$17 million). Such appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2014 and to be recognized in the period in which they are approved by the shareholders.

## 21. CHANGES IN NET ASSETS

1. Type and number of shares issued and treasury shares were as follows:

	Number of shares (in thousand)			
	March 31, 2013	Increase	Decrease	March 31, 2014
<b>Shares issued</b>				
Common stock	264,353	—	—	264,353
Preferred stock (Type 3)*1	11	—	11	—
Preferred stock (Type 4)*1	9	—	9	—
<b>Total</b>	<b>264,373</b>	<b>—</b>	<b>20</b>	<b>264,353</b>
<b>Treasury stock</b>				
Common stock*2,*3	2,749	9,042	492	11,299
Preferred stock (Type 3)*1	—	11	11	—
Preferred stock (Type 4)*1	—	9	9	—
<b>Total</b>	<b>2,749</b>	<b>9,062</b>	<b>512</b>	<b>11,299</b>

\*1 Increases and decreases in the number of shares are due to acquisitions and extinguishments of Type 3 and Type 4 preferred stock.

\*2 Of the increase in the number of shares, 9,000 thousand shares were acquired in the market, and 42 thousand shares were due to the acquisition of fractional shares. Of the decrease in the number of shares, 449 thousand shares were due to the sale of shares to the Group’s employee stock ownership program, 41 thousand shares were due to the exercise of stock options, and 1 thousand shares were in response to demand for the purchase of fractional shares.

\*3 Treasury stock as of March 31, 2014 includes 1,400 thousand shares held by the ESOP Trust for Employee Shareholders.

	Number of shares (in thousand)			
	March 31, 2012	Increase	Decrease	March 31, 2013
<b>Shares issued</b>				
Common stock	264,353	—	—	264,353
Preferred stock (Type 3)	11	—	—	11
Preferred stock (Type 4)	9	—	—	9
<b>Total</b>	<b>264,373</b>	<b>—</b>	<b>—</b>	<b>264,373</b>
<b>Treasury stock</b>				
Common stock*1,*2	3,366	25	642	2,749
Preferred stock (Type 3)	—	—	—	—
Preferred stock (Type 4)	—	—	—	—
<b>Total</b>	<b>3,366</b>	<b>25</b>	<b>642</b>	<b>2,749</b>

\*1 The increase in the number of shares is a result of the acquisition of shares of less than a single trading unit.

The decrease in the number of shares is due to the sale of 622 thousand shares to the Group employees’ shareholding plan, 19 thousand shares due to the exercise of stock options, and the transfer through the sale of 2 thousand shares in response to demand for the purchase of fractional shares.

\*2 Treasury stock as of March 31, 2013 includes 1,849 thousand shares held by the ESOP Trust for Employee Shareholders.

2. Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2014 and 2013.

Type of shares	Aggregate amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Resolved at the board of directors meeting on May 10, 2013				
Common stock	¥1,570* <sup>1</sup>	¥ 6.00	Mar. 31, 2013	Jun. 27, 2013
Preferred stock (Type 3)	¥ 127	¥11,500	Mar. 31, 2013	Jun. 27, 2013
Preferred stock (Type 4)	¥ 98	¥11,500	Mar. 31, 2013	Jun. 27, 2013
Resolved at the board of directors meeting on November 8, 2013				
Common stock	¥1,571* <sup>2</sup>	¥ 6.00	Sep. 30, 2013	Dec. 10, 2013

Type of shares	Aggregate amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Resolved at the board of directors meeting on May 11, 2012				
Common stock	¥1,305*	¥ 5.00	Mar. 31, 2012	Jun. 29, 2012
Preferred stock (Type 3)	¥ 127	¥11,500	Mar. 31, 2012	Jun. 29, 2012
Preferred stock (Type 4)	¥ 98	¥11,500	Mar. 31, 2012	Jun. 29, 2012
Resolved at the board of directors meeting on November 9, 2012				
Common stock	¥1,568*	¥ 6.00	Sep. 30, 2012	Dec. 10, 2012
Preferred stock (Type 3)	¥ 127	¥11,500	Sep. 30, 2012	Dec. 10, 2012
Preferred stock (Type 4)	¥ 98	¥11,500	Sep. 30, 2012	Dec. 10, 2012

\* The total dividend amount on common stock does not include ¥13 million in dividends to ESOP Trust for employee shareholders. This is because shares held by ESOP trust are treated as treasury stock.

Type of shares	Aggregate amount of dividends (Thousands of U.S. dollars)	Cash dividends per share (U.S. dollars)	Record date	Effective date
Resolved at the board of directors meeting on May 10, 2013				
Common stock	\$15,255* <sup>1</sup>	\$ 0.06	Mar. 31, 2013	Jun. 27, 2013
Preferred stock (Type 3)	\$ 1,234	\$111.74	Mar. 31, 2013	Jun. 27, 2013
Preferred stock (Type 4)	\$ 952	\$111.74	Mar. 31, 2013	Jun. 27, 2013
Resolved at the board of directors meeting on November 8, 2013				
Common stock	\$15,264* <sup>2</sup>	\$ 0.06	Sep. 30, 2013	Dec. 10, 2013

\*<sup>1</sup> The total dividend amount on common stock does not include ¥11 million (\$107 thousand) in dividends to ESOP Trust for employee shareholders. This is because shares held by ESOP trust are treated as treasury stock.

\*<sup>2</sup> The total dividend amount on common stock does not include ¥10 million (\$97 thousand) in dividends to ESOP Trust for employee shareholders. This is because shares held by ESOP trust are treated as treasury stock.

(b) Dividends to be paid in the fiscal year ending March 31, 2015 and fiscal year ended March 31, 2014 are as follows:  
(Millions of yen, except per share amount)

Type of shares	Aggregate amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (Yen)	Record date	Effective date
Resolved at the board of directors meeting on May 9, 2014					
Common stock	¥1,772	Retained earnings	¥ 7.00	Mar. 31, 2014	Jun. 27, 2014

(Thousands of U.S. dollars, except per share amount)

Type of shares	Aggregate amount of dividends (Thousands of U.S. dollars)	Source of dividends	Cash dividends per share (U.S. dollars)	Record date	Effective date
Resolved at the board of directors meeting on May 9, 2014					
Common stock	\$17,217	Retained earnings	\$ 0.07	Mar. 31, 2014	Jun. 27, 2014

(Note) The total dividend amount on common stock does not include ¥10 million (\$97 thousand) in dividends to ESOP Trust for employee shareholders. This is because shares held by ESOP trust are treated as treasury stock.

## 22. STOCK OPTIONS

At a Board of Directors meeting on September 22, 2011, a resolution was passed with regard to subscription requirements for the allotment of stock options as compensation to directors of YMFG's banking subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank. The details of this resolution are described below.

### 1. Recording of expenses related to stock options and the name of line items

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
General and administrative expenses	¥208	¥177	\$2,021

### 2. The content of the stock options is as outlined below.

		2014
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.	
Number of stock options by class of stock*	225,100 shares of YMFG's common stock	
Grant date	July 23, 2013	
Vesting conditions	No vesting conditions set	
Target length of service period	No target length of service period set	
Period for exercise of rights	July 24, 2013—July 23, 2043	

		2013
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.	
Number of stock options by class of stock*	294,900 shares of YMFG's common stock	
Grant date	July 30, 2012	
Vesting conditions	No vesting conditions set	
Target length of service period	No target length of service period set	
Period for exercise of rights	July 31, 2012—July 30, 2042	

Note: Stated as the equivalent number of shares.

		2012
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.	
Number of stock options by class of stock*	192,600 shares of YMFG's common stock	
Grant date	October 31, 2011	
Vesting conditions	No vesting conditions set	
Target length of service period	No target length of service period set	
Period for exercise of rights	November 1, 2011—October 31, 2041	

Note: Stated as the equivalent number of shares.

### 3. The summary of stock option activity is as indicated below.

#### (a) Number of stock options

	2014	2013	2012
Prior to vesting			
As of the end of the previous consolidated fiscal year	—	294,900	—
Granted	225,100	—	—
Expired	—	2,600	—
Vested	—	292,300	—
Rights not yet determined	225,100	—	—
After vesting			
As of the end of the previous consolidated fiscal year	—	—	170,100
Rights determined	—	292,300	—
Rights exercised	—	24,800	16,700
Expiry	—	—	—
Amount unexercised		267,500	153,400

#### (b) Price information

	Yen			U.S. dollars
	2014	2013	2012	2014
Exercise price	¥ 1	¥ 1	¥ 1	\$0.01
Average share price at time of exercise	—	930	931	—
Fair value on date granted	973	619	660	9.45

### 4. Method of estimating the fair value of stock options

The method employed to estimate the fair value of stock options granted during the consolidated fiscal year ended March 31, 2014 is as follows:

#### (a) Valuation method employed: Black-Scholes method

#### (b) Main base figures and estimation method

Volatility of stock price* <sup>1</sup>	24.78%
Expected number of years remaining* <sup>2</sup>	3.92 years
Forecast dividend* <sup>3</sup>	¥12/share
Risk-free interest rate* <sup>4</sup>	0.197%

\*1 Calculated on the basis of stock price performance during a period (August 2009 to July 2013) corresponding to the expected number of years remaining (3.92 years).

\*2 The number of remaining years in service of current directors is estimated on the basis of the average number of years of service of directors retiring, excluding the current service period.

\*3 Based on the actual dividend for the fiscal year ended March 31, 2013.

\*4 Japanese government bond yields for the expected number of years remaining.

### 5. Method for estimating the number of rights determined for stock options

Due to the difficulty of rationally estimating the future number of rights that will expire, in general a method is employed that reflects only the number of rights that have actually expired.

## 23. INVESTMENT AND RENTAL PROPERTY

This note is omitted, as the total amount of investment and rental property is immaterial.

## 24. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts of reclassification adjustments and tax effect amounts related to other comprehensive income in the consolidated fiscal year ended March 31, 2014 and 2013 were as follows.

	Millions of Yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gain (loss) on available-for-sale securities			
Amount generated during the year	17,249	50,303	167,596
Reclassification adjustments	(13,413)	(13,055)	(130,324)
Before tax effect adjustment	3,836	37,248	37,272
Tax effect amount	(1,632)	(13,191)	(15,857)
Unrealized gain (loss) on available-for-sale securities	2,204	24,057	21,415
Deferred gain (loss) on hedges:			
Amount generated during the year	(89)	(324)	(865)
Reclassification adjustments	235	228	2,283
Before tax effect adjustment	146	(96)	1,418
Tax effect amount	(52)	34	(505)
Deferred gain (loss) on hedges	94	(62)	913
Share of other comprehensive income in affiliated companies accounted for using the equity method			
Amount generated during the year	4	7	39
Reclassification adjustments	—	—	—
Before tax effect adjustment	4	7	39
Tax effect amount	—	—	—
Share of other comprehensive income in affiliated companies accounted for using the equity method	4	7	39
Total other comprehensive income	2,302	24,002	22,367

## 25. SEGMENT INFORMATION

Business segment information is not presented, as the Bank and consolidated subsidiaries operate in one segment.

Geographic segment information is not presented, as domestic income of the Bank and consolidated subsidiaries and their consolidated assets located substantially in Japan represent more than 90% of the Group's consolidated income and assets.

Overseas sales information is not presented, as overseas sales are less than 10% of the Group's consolidated income.

## 26. RELATED PARTY TRANSACTIONS

There are no significant transactions that should indicate dealings with related parties.

## 27. PER SHARE DATA

	Yen		U.S. dollars
	2014	2013	2014
Net assets per share	¥2,040.39	¥1,901.30	\$19.83
Net income per share	120.66	102.48	1.17
Net income per share (diluted)	¥ 116.55	¥ 102.18	\$ 1.13

Net assets per share are calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2014	2013	2014
Net assets	¥521,562	¥521,423	\$5,067,645
Amounts excluded from net assets	¥ 5,232	¥ 24,033	\$ 50,846
preferred stock issue price	—	19,535	—
dividends on preferred stock	—	225	—
stock options	431	249	4,188
minority interests	4,801	4,024	46,658
Net assets attributable to common stock at the fiscal year-end	516,330	497,390	5,016,799
Number of common stock at the fiscal year-end used for the calculation of net assets per share (in thousands)	253,055	261,605	

Net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2014	2013	2014
Net income	¥31,236	¥27,233	\$303,498
Amount not attributable to common shareholders	—	450	—
Preferred stock dividends	—	225	—
Interim preference stock dividends	—	225	—
Net income attributable to common stock	31,236	26,783	303,498
Average shares of common stock during the year (in thousands)	258,870	261,356	

- (3) Early redemption price  
¥100 for each ¥100 of face value
- (4) Scheduled date for early redemption  
August 5, 2013
- (5) Method of providing redemption funds  
Borrowings from Momiji Bank
- (6) Annual reduction in interest expense due to redemption  
¥226 million

## 28. SUBSEQUENT EVENTS

### For the year ended March 31, 2014

There were no significant subsequent events. Dividends were made in June 2014. Please refer to “20. NET ASSETS.”

### For the year ended March 31, 2013

#### 1. Acquisition and Cancellation of Preferred Stock

At a Board of Directors meeting on February 22, 2013, YMFG resolved to acquire all its issued Type 3 preferred stock and Type 4 preferred stock as provided in Article 16-1 of YMFG’s Articles of Incorporation and Articles 1-1 and 1-2 of the Supplementary Provisions to the Articles of Incorporation and cancel this stock in accordance with the acquisition conditions provided in Article 178 of the Companies Act, as described below, effective April 2, 2013. This cancellation was reflected in the consolidated financial statements as of the effective date by reducing additional paid-in capital.

Type of stock acquired or canceled	Type 3 preferred stock	Type 4 preferred stock
Total number of shares acquired or cancelled	11,000 shares	8,535 shares
Total acquisition price	¥11,000,000,000	¥8,535,000,000

#### 2. Redemption of Callable Unsecured Debt Prior to Maturity

At a Board of Directors meeting on May 10, 2013, YMFG resolved to redeem on August 5, 2013, prior to maturity, all its No. 3 Redemption of Callable Unsecured Debt Prior to Maturity (Subordinated), which was issued on August 5, 2010.

##### (1) Name of issue for early redemption

Yamaguchi Financial Group Inc. No. 3 Redemption of  
Callable Unsecured Debt Prior to Maturity (Subordinated)

##### (2) Early redemption amount

¥20,000 million





## Independent Auditor's Report

To the Board of Directors of Yamaguchi Financial Group, Inc.:

We have audited the accompanying consolidated financial statements of Yamaguchi Financial Group, Inc. ("YMFG") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of YMFG and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 28 to the consolidated financial statements, which describes significant subsequent events. Effective April 2, 2013, the Company acquired and cancelled all of its issued Type 3 and Type 4 preferred stock, as resolved at the board of directors' meeting on February 22, 2013.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

July 31, 2014  
Tokyo, Japan

## Yamaguchi Bank Financial Statements

## ■ NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2014 and 2013

ASSETS		Millions of yen	Millions of yen	Thousands of U.S. dollars
		2014	2013	2014
Assets	Cash and due from banks	¥ 503,708	¥ 118,607	\$ 4,894,170
	Call loans and bills purchased	288,125	503,996	2,799,504
	Monetary claims bought	8,296	6,949	80,606
	Trading assets	5,208	8,124	50,603
	Money held in trust	48,016	53,689	466,537
	Securities	1,358,088	1,368,835	13,195,569
	Loans and bills discounted	3,299,187	3,225,302	32,055,839
	Foreign exchanges	10,269	7,457	99,777
	Other assets	81,675	91,881	793,577
	Tangible fixed assets	46,497	47,431	451,779
	Intangible fixed assets	6,976	10,661	67,781
	Prepaid pension cost	17,986	—	174,757
	Customers' liabilities for acceptances and guarantees	27,680	26,573	268,947
	Allowance for loan losses	(31,488)	(37,864)	(305,946)
	<b>Total assets</b>	<b>¥ 5,670,223</b>	<b>¥ 5,431,641</b>	<b>\$ 55,093,500</b>

## LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 5,134,128	¥ 4,917,287	\$ 49,884,648
	Call money and bills sold	83,173	53,378	808,133
	Payables under securities lending transactions	4,566	3,083	44,365
	Trading liabilities	3,405	3,188	33,084
	Borrowed money	9,622	9,927	93,490
	Foreign exchanges	1,559	2,158	15,148
	Other liabilities	54,001	88,603	524,688
	Provision for bonuses	1,519	1,480	14,759
	Provision for retirement benefits	85	74	826
	Provision for reimbursement of deposits	765	806	7,433
	Reserve for frequent users services	40	50	389
	Deferred tax liabilities	7,366	2,845	71,570
	Deferred tax liabilities for land revaluation	8,632	8,883	83,871
	Acceptances and guarantees	27,680	26,573	268,947
	<b>Total liabilities</b>	<b>5,336,541</b>	<b>5,118,335</b>	<b>51,851,351</b>
Net assets:	Capital stock	10,006	10,006	97,221
	Capital surplus	380	380	3,692
	Retained earnings	277,885	260,866	2,700,010
	<b>Total shareholders' equity</b>	<b>288,271</b>	<b>271,252</b>	<b>2,800,923</b>
	Net unrealized gains on securities	30,167	26,444	293,111
	Deferred gains or losses on hedges	(353)	(445)	(3,430)
	Revaluation reserve for land	15,597	16,055	151,545
	<b>Total valuation and translation adjustments</b>	<b>45,411</b>	<b>42,054</b>	<b>441,226</b>
<b>Total net assets</b>	<b>333,682</b>	<b>313,306</b>	<b>3,242,149</b>	
<b>Total liabilities, and net assets</b>	<b>¥ 5,670,223</b>	<b>¥ 5,431,641</b>	<b>\$ 55,093,500</b>	

**NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**      Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of
	2014	2013	U.S. dollars 2014
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 42,144	¥ 44,107	\$ 409,483
Interest and dividends on securities	12,582	11,444	122,250
Other interest income	940	1,028	9,133
Fees and commissions	11,618	10,391	112,884
Trading income	98	42	952
Other ordinary income	4,666	10,545	45,336
Other income	11,660	4,256	113,293
<b>Total income</b>	<b>83,708</b>	<b>81,813</b>	<b>813,331</b>

<b>Expenses</b>			
Interest expense:			
Interest on deposits	4,528	4,855	43,995
Interest on borrowings and rediscounts	487	475	4,732
Other interest expense	182	182	1,768
Fees and commissions payments	3,973	3,886	38,603
Trading expenses	—	23	—
Other operating expenses	3,960	1,519	38,476
General and administrative expenses	39,005	41,267	378,984
Impairment losses	447	—	4,343
Other expenses	1,095	3,104	10,640
<b>Total expenses</b>	<b>53,677</b>	<b>55,311</b>	<b>521,541</b>
<b>Income before income taxes and minority interests</b>	<b>30,031</b>	<b>26,502</b>	<b>291,790</b>
Income taxes:			
Current	8,387	7,877	81,490
Deferred	2,687	1,912	26,108
<b>Net income</b>	<b>¥ 18,957</b>	<b>¥ 16,713</b>	<b>\$ 184,192</b>

Amounts per share of common stock:	Yen		U.S. dollars
	2014	2013	2014
Net income	¥ 94.79	¥ 83.56	\$ 0.92
Cash dividends applicable to the year	13.00	11.98	0.13

# Momiji Bank Financial Statements

## ■ NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2014 and 2013

ASSETS		Millions of yen	Millions of yen	Thousands of U.S. dollars
		2014	2013	2014
Assets	Cash and due from banks	¥ 332,781	¥ 205,235	\$ 3,233,395
	Call loans and bills purchased	27,144	162,650	263,739
	Monetary claims bought	573	714	5,567
	Trading assets	554	1,117	5,383
	Securities	691,112	756,790	6,715,041
	Loans and bills discounted	1,928,364	1,829,087	18,736,533
	Foreign exchanges	3,353	3,661	32,579
	Other assets	80,521	91,737	782,365
	Tangible fixed assets	34,424	34,975	334,473
	Intangible fixed assets	8,083	10,437	78,537
	Prepaid pension cost	6,827	—	66,333
	Deferred tax assets	17,770	20,463	172,658
	Customers' liabilities for acceptances and guarantees	12,329	12,487	119,792
	Allowance for loan losses	(37,569)	(42,120)	(365,031)
<b>Total assets</b>	<b>¥ 3,106,266</b>	<b>¥ 3,087,233</b>	<b>\$ 30,181,364</b>	

## LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 2,845,348	¥ 2,820,253	\$ 27,646,211	
	Call money and bills sold	875	1,007	8,502	
	Payables under securities lending transactions	8,703	1,247	84,561	
	Borrowed money	16,911	17,205	164,312	
	Foreign exchanges	105	51	1,020	
	Other liabilities	15,104	23,937	146,754	
	Provision for bonuses	1,050	873	10,202	
	Provision for retirement benefits	1,621	—	15,750	
	Provision for reimbursement of deposits	301	250	2,925	
	Deferred tax liabilities for land revaluation	5,204	5,228	50,564	
	Acceptances and guarantees	12,329	12,487	119,792	
	<b>Total liabilities</b>	<b>2,907,551</b>	<b>2,882,538</b>	<b>28,250,593</b>	
	Net assets:	Capital stock	87,466	87,466	849,844
		Capital surplus	42,067	42,067	408,735
Retained earnings		60,036	63,925	583,327	
<b>Total shareholders' equity</b>		<b>189,569</b>	<b>193,458</b>	<b>1,841,906</b>	
Net unrealized gains on securities		1,404	3,493	13,642	
Deferred gains or losses on hedges		(8)	(10)	(78)	
Revaluation reserve for land		7,750	7,754	75,301	
<b>Total valuation and translation adjustments</b>		<b>9,146</b>	<b>11,237</b>	<b>88,865</b>	
<b>Total net assets</b>		<b>198,715</b>	<b>204,695</b>	<b>1,930,771</b>	
<b>Total liabilities, and net assets</b>	<b>¥ 3,106,266</b>	<b>¥ 3,087,233</b>	<b>\$ 30,181,364</b>		

■ NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of
	2014	2013	U.S. dollars 2014
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 28,115	¥ 29,796	\$ 273,173
Interest and dividends on securities	8,583	5,316	83,395
Other interest income	214	599	2,079
Fees and commissions	7,025	6,450	68,257
Other ordinary income	4,463	15,297	43,364
Other income	7,762	1,063	75,418
<b>Total income</b>	<b>56,162</b>	<b>58,521</b>	<b>545,686</b>

<b>Expenses</b>			
Interest expense:			
Interest on deposits	2,120	2,107	20,599
Interest on borrowings and rediscounts	46	40	447
Other interest expense	86	94	836
Fees and commissions payments	3,175	3,222	30,849
Other operating expenses	1,444	1,075	14,030
General and administrative expenses	30,780	31,339	299,067
Impairment losses	95	21	923
Other expenses	1,264	3,594	12,281
<b>Total expenses</b>	<b>39,010</b>	<b>41,492</b>	<b>379,032</b>
<b>Income before income taxes and minority interests</b>	<b>17,152</b>	<b>17,029</b>	<b>166,654</b>
Income taxes:			
Current	251	325	2,439
Deferred	3,969	4,159	38,564
<b>Net income</b>	<b>¥ 12,932</b>	<b>¥ 12,545</b>	<b>\$ 125,651</b>

Amounts per share of common stock:	Yen		U.S. dollars
	2014	2013	2014
Net income	¥ 21.76	¥ 21.11	\$ 0.21
Cash dividends applicable to the year	27.84	20.32	0.27

# Kitakyushu Bank Financial Statements

## ■ NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2014 and 2013

ASSETS		Millions of yen	Millions of yen	Thousands of U.S. dollars
		2014	2013	2014
Assets	Cash and due from banks	¥ 78,810	¥ 23,489	\$ 765,740
	Call loans and bills purchased	5,151	11,395	50,049
	Securities	22,694	18,689	220,501
	Loans and bills discounted	804,664	765,524	7,818,344
	Foreign exchanges	3,338	3,383	32,433
	Other assets	18,113	21,762	175,992
	Tangible fixed assets	18,128	17,813	176,137
	Intangible fixed assets	1,796	2,111	17,450
	Prepaid pension cost	890	—	8,647
	Deferred tax assets	1,865	3,953	18,121
	Customers' liabilities for acceptances and guarantees	8,070	5,745	78,410
	Allowance for loan losses	(16,868)	(17,346)	(163,894)
	<b>Total assets</b>	<b>¥ 946,651</b>	<b>¥ 856,518</b>	<b>\$ 9,197,930</b>

## LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 829,939	¥ 727,200	\$ 8,063,923
	Call money and bills sold	71	16,803	690
	Borrowed money	316	379	3,070
	Foreign exchanges	86	23	836
	Other liabilities	18,140	19,956	176,253
	Provision for bonuses	340	316	3,304
	Provision for retirement benefits	988	1,001	9,600
	Provision for reimbursement of deposits	42	30	408
	Deferred tax liabilities for land revaluation	4,038	4,054	39,234
	Acceptances and guarantees	8,070	5,745	78,410
	<b>Total liabilities</b>	<b>862,030</b>	<b>775,507</b>	<b>8,375,728</b>
	Net assets:	Capital stock	10,000	10,000
Retained earnings		62,133	60,933	603,702
<b>Total shareholders' equity</b>		<b>72,133</b>	<b>70,933</b>	<b>700,865</b>
Net unrealized gains on securities		5,240	2,801	50,913
Revaluation reserve for land		7,248	7,277	70,424
<b>Total valuation and translation adjustments</b>		<b>12,488</b>	<b>10,078</b>	<b>121,337</b>
<b>Total net assets</b>		<b>84,621</b>	<b>81,011</b>	<b>822,202</b>
<b>Total liabilities, and net assets</b>	<b>¥ 946,651</b>	<b>¥ 856,518</b>	<b>\$ 9,197,930</b>	

**NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**      Years ended March 31, 2014 and 2013

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2014	2013	2014
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 10,406	¥ 10,520	\$ 101,108
Interest and dividends on securities	273	290	2,653
Other interest income	67	106	651
Fees and commissions	1,421	1,232	13,807
Other ordinary income	274	173	2,662
Other income	377	460	3,662
<b>Total income</b>	<b>12,818</b>	<b>12,781</b>	<b>124,543</b>

<b>Expenses</b>			
Interest expense:			
Interest on deposits	963	930	9,357
Interest on borrowings and rediscounts	4	36	39
Other interest expense	15	16	146
Fees and commissions payments	569	515	5,529
Other operating expenses	1	1	10
General and administrative expenses	9,133	9,157	88,739
Impairment losses	—	161	—
Other expenses	54	46	523
<b>Total expenses</b>	<b>10,739</b>	<b>10,862</b>	<b>104,343</b>
<b>Income before income taxes and minority interests</b>	<b>2,079</b>	<b>1,919</b>	<b>20,200</b>
Income taxes:			
Current	237	(102)	2,303
Deferred	671	803	6,519
<b>Net income</b>	<b>¥ 1,171</b>	<b>¥ 1,218</b>	<b>\$ 11,378</b>

Amounts per share of common stock:	Yen	Yen	U.S. dollars
	2014	2013	2014
Net income	¥1,170,940.85	¥1,218,074.95	\$ 11,377.19



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