

Notes to Consolidated Financial Statements

Years ended March 31, 2016 and 2015

1. BASIS OF PRESENTATION

Yamaguchi Financial Group, Inc. (“YMFG”) is a holding company for The Yamaguchi Bank, Ltd. (“Yamaguchi Bank”), Momiji Bank, Ltd. (“Momiji Bank”), The Kitakyushu Bank, Ltd. (“Kitakyushu Bank”) and other subsidiaries.

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, 2016, which was ¥112.68 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) 14 consolidated subsidiaries at March 31, 2016 and 13 at March 31, 2015.

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

The scope of consolidation includes YMFG Zone Planning Co., Ltd., and YM Asset Management Co., Ltd., due to their establishment in the fiscal year ended March 31, 2016.

In addition, due to a merger between consolidated subsidiaries Yamagin Card Holdings Co., Ltd., and Yamagin Credit Guarantee Co., Ltd. (an absorption-type merger with Yamagin Credit Guarantee Co., Ltd., as the surviving company), Yamagin Card Holdings Co., Ltd., was excluded from the scope of consolidation from the fiscal year ended March 31, 2016. Following the merger, the name of the surviving company was changed to YM Guarantee Co., Ltd.

YM Lease Co., Ltd., formerly accounted for by the equity method, was excluded from the scope of application of equity-method affiliates and included in the scope of consolidation from the fiscal year ended March 31, 2015, as YMFG acquired additional shares in YM Lease, increasing its percentage of voting rights.

- (ii) Five unconsolidated subsidiaries at March 31, 2016 and 2015.

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 when excluded from the scope of consolidation.

(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, 2016 and 2015.

(ii) As at March 31, 2016 and 2015, three affiliates accounted for by the equity method, and these affiliates at March 31, 2016 were as follows:

YM Saison Co., Ltd.

Yamaguchi Capital Co., Ltd.

Momiji Card Co., Ltd.

YM Lease Co., Ltd., formerly accounted for by the equity method, was included in the scope of consolidation and excluded from the scope of application of equity-method affiliates from the fiscal year ended March 31, 2015, as YMFG acquired additional shares in YM Lease, increasing its percentage of voting rights.

(iii) As at March 31, 2016 and 2015, five unconsolidated subsidiaries were not accounted for by the equity method.

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 when excluded from the scope of equity method.

(iv) There were no affiliates that were not accounted for by the equity method as at March 31, 2016 and 2015.

(3) The balance sheet dates of consolidated subsidiaries

The balance sheet date of consolidated subsidiaries is as follows:

March 31 14 companies

(4) 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" in the consolidated statement 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, February 13, 2002). 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.

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, July 29, 2002). 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.

The Banks apply an exceptional treatment, as permitted if certain conditions are met, for certain interest rate swaps utilized as hedging instrument. In that treatment, the interest swap contracts are not recorded at fair values but the net interest to be paid or received under the contracts is added or deducted to the interest arising from their related hedged assets or liabilities.

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 Banks 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.

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 (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.

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

Foreign currency assets and liabilities and the accounts of overseas branches of YMFG and 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 benefit formula method is used for attributing expected retirement benefits to periods through the year-end. 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
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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

Some consolidated subsidiaries employ the simplified method for calculating retirement benefit obligations and periodic benefit costs, stating retirement benefit obligations at the amounts required as if all employees voluntarily terminate their employment as of the year-end.

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 provision 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 future eventual 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.

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

Amortization of goodwill

Goodwill is 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

For the year ended March 31, 2016

(Adoption of the "Accounting Standard for Business Combinations")

YMFG has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), and other

related standards from the fiscal year ended March 31, 2016. As a result, the accounting method has been changed to record the difference caused by changes in equity in subsidiaries YMFG continues to control as capital surplus, and to record acquisition-related costs for the fiscal year in which the costs were incurred. Furthermore, for business combinations carried out on or after the beginning of the current fiscal year, the accounting method was changed to reflect the revised acquisition cost allocation resulting from the finalization of the provisional accounting treatment in the consolidated financial statements of the year in which the business combination occurs. In addition, YMFG has changed its presentation of net income and related items, and renamed "minority interests" as "non-controlling interests." The consolidated financial statements for the fiscal year ended March 31, 2015, have been reclassified to reflect this change.

In the consolidated statements of cash flows for the fiscal year under review, cash flows for the purchase or sale of shares in subsidiaries without changing the scope of consolidation are listed under "cash flows from financing activities." Cash flows for expenses related to the purchase of shares in subsidiaries resulting in changes in the scope of consolidation and expenses related to the purchase or sale of shares in subsidiaries without changing the scope of consolidation are listed under "Cash flows from operating activities."

Adoption of the "Accounting Standard for Business Combinations" and other related standards is in accordance with the transitional measures provided for in Article 58-2 (4) of the "Accounting Standard for Business Combinations," Article 44-5 (4) of the "Accounting Standard for Consolidated Financial Statements," and Article 57-4 (4) of the "Accounting Standard for Business Divestitures." YMFG has applied the standards prospectively from the beginning of the fiscal year ended March 31, 2016.

As a result, income before income taxes for the fiscal year ended March 31, 2016 decreased by ¥1,086 million (\$10 million). In addition, capital surplus as of March 31, 2016 increased by ¥1,084 million (\$10 million).

The ending balance of capital surplus in the consolidated statements of changes in net assets for the fiscal year ended March 31, 2016 increased by ¥1,084 million (\$10 million).

Information on the impact per share is provided in the relevant sections.

For the year ended March 31, 2015

(Adoption of the "Accounting Standard for Retirement Benefits")

YMFG 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, March 26, 2015), applying the provisions as stated 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 from the fiscal year ended March 31, 2015.

Accordingly, YMFG reviewed the method for calculating retirement benefit obligations and current service costs, and changed a method of attributing expected benefit to periods from the straight-line method to the benefit formula method. In addition, YMFG has changed its method of determining discount rates from a method of using a single discount rate based on the average remaining service period and average benefit period to a method of using multiple discount rates for each expected retirement benefit period.

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, from the beginning of the fiscal year ended March 31, 2015, changes in amounts resulting from the method of calculating retirement benefit obligations and past services costs were recorded in retained earnings.

As a result, at the beginning of the fiscal year ended March 31, 2015, retirement benefit liabilities increased ¥3,086 million, and retained earnings decreased ¥1,994 million. Also, the income before income taxes for the fiscal year ended March 31, 2015 increased by ¥368 million. (Adoption of the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts")

YMFG adopted the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issues Task Force No. 30, issued March 26, 2015) from the fiscal year ended March 31, 2015. Accordingly, YMFG recognized at the time of disposal the difference arising from the disposal of treasury shares by YMFG to the trust, and posts as liabilities the differences arising from the net amount of gain or loss from sales of shares sold by the trust to the employee stock ownership plan (ESOP), dividends paid by YMFG for the

shares held by the trust and miscellaneous expenses related to the trust.

These accounting policies have been applied retroactively, and the consolidated financial statements for the fiscal year ended March 31, 2014, reflect this retroactive application.

Compared with the figures before retroactive application, as of March 31, 2014, other liabilities increased ¥92 million, and treasury stock, capital surplus and retained earnings decreased by ¥301 million, ¥351 million and ¥42 million, respectively.

Due to the reflection of the cumulative effect on net assets as of April 1, 2013, after retroactive adjustment to the consolidated statements of changes in net assets, treasury stock, capital surplus and retained earnings decreased by ¥398 million, ¥367 million and ¥27 million, respectively.

Accounting Standards Not Yet Applied

For the year ended March 31, 2016

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

(i) Overview

This guidance principally retains, with certain revisions, the basic content of guidelines on the recoverability of deferred tax assets provided in the Japanese Institute of Certified Public Accountants Auditing Committee Report No. 66, "Audit Treatment for Judgment of Recoverability of Deferred Assets."

(ii) Effective Dates

The implementation guidance will be applied to the Group's consolidated financial statements from the beginning of the fiscal year commencing April 1, 2016.

(iii) Effects of Adoption of the Accounting Standard

The Group is currently evaluating the effects.

For the year ended March 31, 2015

"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.

Additional Information

(ESOP Trust)

To enhance its welfare benefits, YMFG has introduced the ESOP Trust for Group employees (hereinafter, "Employees")

(1) Overview of Transactions

Of those Employees enrolled in the Yamaguchi Financial Group Employee Stock Ownership Plan (hereinafter, the "YMFG's ESOP"), YMFG has established the trust for those beneficiaries satisfying certain conditions. This trust acquired as a lump sum a number of shares in YMFG corresponding to the number expected to be acquired by the YMFG's ESOP over the five-year period beginning in September 2011. Thereafter, the trust has sold YMFG's shares to the YMFG's ESOP each month on a specific date.

(2) Company Shares Residing in the Trust

Company shares residing in the trust are recorded in treasury stock in the net assets section based on the book value of the trust (excluding ancillary expenses). The book value and the number of shares of this treasury stock amounted to ¥785 million and 1,047 thousand shares on March 31, 2015, and ¥586 million (\$5 million) and 781 thousand shares on March 31, 2016.

(3) Book Value of Borrowings Recorded by Applying the Gross Price Method

The book value of borrowings recorded by applying the gross price method was ¥630 million on March 31, 2015, and ¥210 million (\$2 million) on March 31, 2016.

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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and due from banks	¥1,174,642	¥965,275	\$10,424,583
Time deposits in other banks	(7,066)	(13,393)	(62,709)
Other	(8,869)	(8,900)	(78,709)
Cash and cash equivalents	¥1,158,707	¥942,982	\$10,283,165

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, 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 or 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 employs the portfolio hedge where certain group of assets with similar risk is identified and such risk is hedged comprehensively. In addition, for certain interest swap contracts, exceptional treatments are applied.

(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 enhanced 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. The Group performs write-off and provisions based on the results of its self assessments. The Group's authentication departments verify the content of such self assessments. 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 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, 2016, the market risk (estimated loss amount) of Yamaguchi Bank was ¥69,017 million (\$613 million), the market risk (estimated loss amount) of Momiji Bank was ¥17,205 million (\$153 million) and the market risk (estimated loss amount) of Kitakyushu Bank was ¥14,574 million (\$129 million). Also, as of March 31, 2015, the market risk (estimated loss amount) of Yamaguchi Bank was ¥73,513 million, the market risk (estimated loss amount) of Momiji Bank was ¥21,416 million and the market risk (estimated loss amount) of Kitakyushu Bank was ¥12,536 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. However, because of relatively large fluctuations in Japanese stock market prices this year, instances arose in which they were unable to

capture the risk on Japanese stocks. Consequently, the method for determining the amount of risk on Japanese stocks was revised beginning in fiscal 2016. Specifically, VaR is measured for observation periods of both one year and five years, with the larger number taken as the risk amount. However, as the practice of measuring market risk amount with a set risk probability calculated statistically on the basis of historical market fluctuations remains unchanged even after revising the measurement method, in some cases it is not possible to capture market risk in the event of sudden changes in the market environment outside the normally expected scope.

As for the year ended March 31, 2015, based on the results, 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 the management of financial balances using short-term financial markets.

For cash flow management, the Group strives to manage the liquidity risk by 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		
	2016		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥ 1,174,642	¥1,174,642	¥ —
(2) Call loans and bills purchased	356,719	356,719	—
(3) Money held in trust	47,655	47,655	—
(4) Securities			
Held-to-maturity debt securities	5,129	5,291	162
Available-for-sale securities	2,104,752	2,104,752	—
(5) Loans and bills discounted	6,448,887		
Allowance for loan losses (* 1)	(64,931)		
	6,383,956	6,492,550	108,595
Total assets	¥10,072,853	¥10,181,609	¥108,757
(1) Deposits	¥ 8,703,691	¥ 8,705,754	¥ 2,063
(2) Negotiable certificates of deposit	806,399	806,399	0
Total liabilities	¥ 9,510,090	¥ 9,512,153	¥ 2,063
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 6,605	¥ 6,605	¥ —
Hedge accounting applied	983	983	—
Total derivative transactions	¥ 7,588	¥ 7,588	¥ —

	Millions of yen		
	2015		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥ 965,275	¥ 965,275	¥ —
(2) Call loans and bills purchased	283,251	283,251	—
(3) Money held in trust	48,096	48,096	—
(4) Securities			
Held-to-maturity debt securities	4,447	4,519	72
Available-for-sale securities	2,310,718	2,310,718	—
(5) Loans and bills discounted	6,228,014		
Allowance for loan losses (* 1)	(71,801)		
	6,156,213	6,210,677	54,464
Total assets	¥9,768,000	¥9,822,536	¥54,536
(1) Deposits	¥8,441,552	¥8,443,962	¥ 2,410
(2) Negotiable certificates of deposit	767,528	767,528	—
Total liabilities	¥9,209,080	¥9,211,490	¥ 2,410
Derivative transactions (* 2)			
Hedge accounting not applied	¥ (8,761)	¥ (8,761)	¥ —
Hedge accounting applied	(1,326)	(1,326)	—
Total derivative transactions	¥ (10,087)	¥ (10,087)	¥ —

	Thousands of U.S. dollars		
	2016		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	\$10,424,583	\$10,424,583	\$ —
(2) Call loans and bills purchased	3,165,770	3,165,770	—
(3) Money held in trust	422,923	422,923	—
(4) Securities			
Held-to-maturity debt securities	45,518	46,956	1,438
Available-for-sale securities	18,679,020	18,679,020	—
(5) Loans and bills discounted	57,231,869		
Allowance for loan losses (* 1)	(576,250)		
	<u>56,655,619</u>	<u>57,619,365</u>	<u>963,747</u>
Total assets	<u>\$89,393,433</u>	<u>\$90,358,617</u>	<u>\$965,185</u>
(1) Deposits	\$77,242,554	\$77,260,862	\$ 18,308
(2) Negotiable certificates of deposit	7,156,541	7,156,541	0
Total liabilities	<u>\$84,399,095</u>	<u>\$84,417,403</u>	<u>\$ 18,308</u>
Derivative transactions (* 2)			
Hedge accounting not applied	\$ 58,617	\$ 58,617	\$ —
Hedge accounting applied	8,724	8,724	—
Total derivative transactions	<u>\$ 67,341</u>	<u>\$ 67,341</u>	<u>\$ —</u>

(* 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 prices received from information vendors. Fair values of investment trusts are determined by exchange prices or 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.

(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.

(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
	2016	2015	2016
	Consolidated balance sheet amount		
(1) Unlisted equity securities (*1, *2)	¥ 6,832	¥6,057	\$60,632
(2) Investments in partnerships, etc. (*3)	3,939	2,762	34,957
Total	¥10,771	¥8,819	\$95,589

(*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, 2015 and 2016, impairment losses of ¥15 million and ¥15 million (\$133 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				
	2016				
	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	¥1,079,667	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	356,719	—	—	—	—
(3) Securities	278,134	549,979	328,786	171,503	551,170
Held-to-maturity debt securities	476	772	289	230	3,362
Local government bond	—	—	—	—	1,400
Corporate bond	190	772	289	230	1,962
Others	286	—	—	—	—
Available-for-sale securities with maturities	277,658	549,207	328,497	171,273	547,808
Japanese government bond	58,209	169,310	114,541	33,081	239,983
Local government bond	2,731	3,362	6,856	7,300	10,411
Corporate bond	202,719	315,843	176,263	100,993	258,165
Others	13,999	60,692	30,837	29,899	39,249
(4) Loans and bills discounted	2,230,165	1,099,315	818,895	553,191	1,747,321
(*)					
Total	¥3,944,685	¥1,649,294	¥1,147,681	¥724,694	¥2,298,491

	Millions of yen				
	2015				
	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	¥869,860	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	283,251	—	—	—	—
(3) Securities Held-to-maturity debt securities	242,598	564,180	531,630	338,247	376,982
Local government bond	546	885	723	30	2,263
Corporate bond	—	—	—	—	900
Others	110	570	723	30	1,363
Available-for-sale securities with maturities	242,052	563,295	530,907	338,217	374,719
Japanese government bond	80,170	151,197	237,361	170,809	96,770
Local government bond	16,418	4,163	4,273	9,676	4,961
Corporate bond	131,735	353,197	253,978	135,888	226,843
Others	13,729	54,738	35,295	21,844	46,145
(4) Loans and bills discounted (*)	2,146,945	1,126,783	808,102	555,296	1,590,889
Total	¥3,542,654	¥1,690,963	¥1,339,732	¥893,543	¥1,967,871

	Thousands of U.S. dollars				
	2016				
	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	\$ 9,581,709	\$ —	\$ —	\$ —	\$ —
(2) Call loans and bills purchased	3,165,770	—	—	—	—
(3) Securities Held-to-maturity debt securities	2,468,353	4,880,893	2,917,874	1,522,036	4,891,463
Local government bond	4,224	6,851	2,565	2,041	29,837
Corporate bond	—	—	—	—	12,425
Others	1,686	6,851	2,565	2,041	17,412
Available-for-sale securities with maturities	2,464,129	4,874,042	2,915,309	1,519,995	4,861,626
Japanese government bond	516,587	1,502,574	1,016,516	293,584	2,129,775
Local government bond	24,237	29,837	60,845	64,785	92,394
Corporate bond	1,799,068	2,803,008	1,564,279	896,282	2,291,134
Others	124,237	538,623	273,669	265,344	348,323
(4) Loans and bills discounted (*)	19,792,022	9,756,079	7,267,438	4,909,398	15,506,931
Total	\$35,007,854	\$14,636,972	\$10,185,312	\$6,431,434	\$20,398,394

(*) 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			
	2016			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥7,783,476	¥690,244	¥192,698	¥37,273
Negotiable certificates of deposit	806,119	280	—	—
Total	¥8,589,595	¥690,524	¥192,698	¥37,273

	Millions of yen			
	2015			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥7,359,032	¥563,053	¥484,617	¥34,850
Negotiable certificates of deposit	766,740	788	—	—
Total	¥8,125,772	¥563,841	¥484,617	¥34,850

	Thousands of U.S. dollars			
	2016			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	\$69,075,932	\$6,125,701	\$1,710,135	\$330,786
Negotiable certificates of deposit	7,154,056	2,485	—	—
Total	\$76,229,988	\$6,128,186	\$1,710,135	\$330,786

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

5. SECURITIES

Securities held at March 31, 2016 include shares of unconsolidated subsidiaries and affiliates amounting to ¥90 million (\$1 million) and investments of ¥1,078 million (\$10 million). Corresponding figures at March 31, 2015, were ¥86 million and ¥853 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 ¥6,180 million (\$55 million) and ¥4,785 million as of March 31, 2016 and March 31, 2015 respectively.

Bonds included in securities also include securities lent through unsecured loan agreements (bond lending transactions) of ¥5,065 million (\$45 million) and ¥18,561 million, at March 31, 2016 and 2015 respectively.

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, 2016 and 2015:

(a) Trading securities

Amount of unrealized gain (loss) on trading securities included in the consolidated statement of income — ¥17 million (\$151 thousand) and ¥14 million as at March 31, 2016 and 2015, respectively.

(b) Held-to-maturity debt securities:

	Type	Millions of yen		
		2016		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥1,400	¥1,455	¥ 55
	Corporate bonds	3,337	3,441	104
	Others	286	289	3
	Subtotal	5,023	5,185	162
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	106	106	(0)
	Others	—	—	—
	Subtotal	106	106	(0)
Total		¥5,129	¥5,291	¥162

	Type	Millions of yen		
		2015		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥ 900	¥ 915	¥15
	Corporate bonds	2,686	2,727	41
	Others	751	767	16
	Subtotal	4,337	4,409	72
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	110	110	(0)
	Others	—	—	—
	Subtotal	110	110	(0)
Total		¥4,447	¥4,519	¥72

	Type	Thousands of U.S. dollars		
		2016		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	\$12,425	\$12,913	\$ 488
	Corporate bonds	29,615	30,538	923
	Others	2,538	2,565	27
	Subtotal	44,578	46,016	1,438
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	940	940	(0)
	Others	—	—	—
	Subtotal	940	940	(0)
Total		\$45,518	\$46,956	\$1,438

(c) Available-for-sale securities

		Millions of yen		
		2016		
Type	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	¥ 108,872	¥49,024	¥ 59,848
	Japanese government bonds	600,562	588,705	11,857
	Local government bonds	29,371	28,405	966
	Corporate bonds	1,031,214	1,011,984	19,230
	Others	117,964	116,084	1,880
	Subtotal	1,887,983	1,794,202	93,781
Securities with book value not exceeding acquisition cost	Shares	12,514	13,899	(1,385)
	Japanese government bonds	14,562	14,630	(68)
	Local government bonds	1,288	1,290	(2)
	Corporate bonds	22,760	22,853	(93)
	Others	165,645	180,808	(15,163)
	Subtotal	216,769	233,480	(16,711)
	Total	¥2,104,752	¥2,027,682	¥ 77,070

		Millions of yen		
		2015		
Type	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	¥ 133,436	¥ 56,513	¥ 76,923
	Japanese government bonds	678,753	674,788	3,965
	Local government bonds	35,752	35,088	664
	Corporate bonds	1,054,576	1,041,975	12,601
	Others	223,373	210,685	12,688
	Subtotal	2,125,890	2,019,049	106,841
Securities with book value not exceeding acquisition cost	Shares	5,695	6,355	(660)
	Japanese government bonds	57,556	57,858	(302)
	Local government bonds	3,739	3,759	(20)
	Corporate bonds	47,056	47,346	(290)
	Others	70,782	72,682	(1,900)
	Subtotal	184,828	188,000	(3,172)
	Total	¥2,310,718	¥2,207,049	¥103,669

		Thousands of U.S. dollars		
		2016		
Type	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	\$ 966,205	\$ 435,073	\$ 531,132
	Japanese government bonds	5,329,801	5,224,574	105,227
	Local government bonds	260,659	252,086	8,573
	Corporate bonds	9,151,704	8,981,044	170,660
	Others	1,046,893	1,030,208	16,685
	Subtotal	16,755,262	15,922,985	832,277
Securities with book value not exceeding acquisition cost	Shares	111,058	123,349	(12,291)
	Japanese government bonds	129,233	129,837	(604)
	Local government bonds	11,431	11,448	(17)
	Corporate bonds	201,988	202,813	(825)
	Others	1,470,048	1,604,616	(134,568)
	Subtotal	1,923,758	2,072,063	(148,305)
	Total	\$18,679,020	\$17,995,048	\$ 683,972

(d) Held-to-maturity debt securities sold during the fiscal year
There were no held-to-maturity securities sold during the fiscal year ended March 31, 2016 and 2015.

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

		Millions of yen		
		2016		
	Sale amount	Total gain on sale	Total loss on sale	
Shares	¥ 6,724	¥ 3,575	¥ 115	
Japanese government bonds	1,050,859	8,774	582	
Local government bonds	—	—	—	
Corporate bonds	161,673	2,074	4	
Others	359,283	9,395	2,227	
Total	¥1,578,539	¥23,818	¥2,928	

		Millions of yen		
		2015		
	Sale amount	Total gain on sale	Total loss on sale	
Shares	¥ 4,677	¥ 760	¥ 92	
Japanese government bonds	1,759,555	6,757	913	
Local government bonds	4,477	23	—	
Corporate bonds	358,538	1,641	42	
Others	330,695	6,482	846	
Total	¥2,457,942	¥15,663	¥1,893	

	Thousands of U.S. dollars		
	2016		
	Sale amount	Total gain on sale	Total loss on sale
Shares	\$ 59,673	\$ 31,727	\$ 1,021
Japanese government bonds	9,326,047	77,867	5,165
Local government bonds	—	—	—
Corporate bonds	1,434,798	18,406	35
Others	3,188,525	83,377	19,764
Total	\$14,009,043	\$211,377	\$25,985

(f) Securities for which purpose of holding changed

There were no securities for which the purpose of holding changed at March 31, 2016 and 2015.

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, 2016, impairment losses were ¥682 million (\$6,053 thousand) on equity securities and during the fiscal year ended March 31, 2015, impairment losses totaled ¥16 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, 2016 and 2015 is as follows:

(a) Money held in trust classified as trading purposes

There are no corresponding amounts as at March 31, 2016 and 2015.

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

There are no corresponding transactions as at March 31, 2016 and 2015.

(c) Available-for-sale money held in trust

	Millions of yen		
	2016		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	¥47,655	¥47,642	¥13

	Millions of yen		
	2015		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	¥48,096	¥48,273	¥(177)

	Thousands of U.S. dollars		
	2016		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	\$422,923	\$422,808	\$115

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

Information on unrealized gains (losses) on available-for-sale securities and available-for-sale money held in trust is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized gains	¥77,132	¥103,611	\$684,522
Available-for-sale securities	77,119	103,788	684,407
Available-for-sale money held in trust	13	(177)	115
Deferred tax liabilities	23,112	32,455	205,121
Unrealized gains on available-for-sale securities before following adjustment	54,020	71,156	479,401
Equivalent to non-controlling interests	(0)	10	(9)
YMFG's interest in net unrealized gains on valuation of available-for-sale securities held by affiliates accounted for by the equity method	0	0	0
Unrealized gains on available-for-sale securities	¥ 54,020	¥ 71,146	\$479,411

Valuation differences on investments in partnerships, etc., of ¥49 million (\$435 thousand) at March 31, 2016 and ¥120 million at March 31, 2015, for which market values are extremely difficult to determine, are recorded in available-for-sale securities of net unrealized gains in the list above.

Derivatives

(1) Derivative transactions at March 31, 2016 and 2015, to which hedge accounting is not applied

(a) Interest-rate-related:

Type	Millions of yen			
	2016			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥36,160	¥28,512	¥ 760	¥ 760
Receivable floating, payable fixed	36,219	28,571	(650)	(650)
Interest rate cap				
Sold	64	64	(0)	4
Total	¥ —	¥ —	¥ 110	¥ 114

Type	Millions of yen			
	2015			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥50,546	¥37,556	¥ 582	¥ 582
Receivable floating, payable fixed	50,637	37,648	(466)	(466)
Interest rate cap				
Sold	96	96	(0)	4
Total	¥ —	¥ —	¥ 116	¥ 120

Type	Thousands of U.S. dollars			
	2016			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	\$320,909	\$253,035	\$ 6,745	\$ 6,745
Receivable floating, payable fixed	321,431	253,559	(5,769)	(5,769)
Interest rate cap				
Sold	568	568	(0)	36
Total	\$ —	\$ —	\$ 976	\$ 1,012

(b) Currency-related:

Type	Millions of yen			
	2016			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	¥327,634	¥132,655	¥ 3,163	¥(1,319)
Foreign exchange forward contracts:				
Sold	148,196	1,292	2,621	2,621
Bought	36,781	860	(65)	(65)
Currency options				
Sold	158,874	114,263	(5,626)	4,138
Bought	158,874	114,263	6,583	(1,279)
Total	¥ —	¥ —	¥ 6,676	¥ 4,096

Type	Millions of yen			
	2015			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	¥261,656	¥141,121	¥(10,093)	¥ (1,732)
Foreign exchange forward contracts:				
Sold	158,367	7,268	(929)	(929)
Bought	25,690	3,059	774	774
Currency options				
Sold	174,828	130,634	(4,767)	6,847
Bought	174,828	130,634	6,413	(3,169)
Total	¥ —	¥ —	¥(8,602)	¥ 1,791

Type	Thousands of U.S. dollars			
	2016			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	\$2,907,650	\$1,177,272	\$ 28,071	\$(11,706)
Foreign exchange forward contracts:				
Sold	1,315,193	11,466	23,260	23,260
Bought	326,420	7,632	(577)	(577)
Currency options				
Sold	1,409,957	1,014,049	(49,929)	36,723
Bought	1,409,957	1,014,049	58,422	(11,350)
Total	\$ —	\$ —	\$ 59,247	\$ 36,350

(c) Stock-related:

There were no stock-related transactions as at March 31, 2016 and 2015.

(d) Bond-related:

Type	Millions of yen			
	2016			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥136,594	¥—	¥(182)	¥(182)
Total	¥ —	¥—	¥(182)	¥(182)

Type	Millions of yen			
	2015			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥111,318	¥—	¥(275)	¥(275)
Total	¥ —	¥—	¥(275)	¥(275)

Type	Thousands of U.S. dollars			
	2016			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	\$1,212,229	\$—	\$(1,615)	\$(1,615)
Total	\$ —	\$—	\$(1,615)	\$(1,615)

(e) Commodity-related:

There were no commodity-related transactions as at March 31, 2016 and 2015.

(f) Credit-derivatives:

There were no credit related transactions as at March 31, 2016 and 2015.

(2) Derivative transactions as at March 31, 2016 and 2015, to which hedge accounting is applied

(a) Interest-rate-related:

Type	Millions of yen		
	2016		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	¥12,074	¥12,074	¥(460)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, payable fixed	1,655	1,608	*
Total	¥ —	¥ —	¥(460)

Type	Millions of yen		
	2015		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	¥13,710	¥13,710	¥(499)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, payable fixed	275	242	*
Total	¥ —	¥ —	¥(499)

Type	Thousands of U.S. dollars		
	2016		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	\$107,153	\$107,153	\$(4,082)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, payable fixed	14,688	14,271	*
Total	\$ —	\$ —	\$(4,082)

(*) Of interest rate swaps employing exceptional accounting, as these instruments are accounted for together with the hedged loans and bills discounted and borrowings, 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		
	2016		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	¥29,891	¥96	¥1,443
Total	¥ —	¥—	¥1,443

Type	Millions of yen		
	2015		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	¥32,730	¥—	¥(828)
Total	¥ —	¥—	¥(828)

Type	Thousands of U.S. dollars		
	2016		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	\$265,273	\$852	\$12,806
Total	\$ —	\$ —	\$12,806

(c) Stock-related:

There were no stock-related transactions at March 31, 2016 and 2015.

(d) Bond-related:

There were no bond-related transactions at March 31, 2016 and 2015.

7. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2016 and 2015 include “Risk-Managed Loan Amounts” as follows:

- (1) Loans to borrowers in bankruptcy amounting to ¥18,738 million (\$166 million) and ¥21,398 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 ¥73,782 million (\$655 million) and ¥80,077 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 ¥552 million (\$5 million) and ¥692 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 ¥12,286 million (\$109 million) and ¥15,260 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 ¥105,358 million (\$935 million) and ¥117,427 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, February 13, 2002, 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 ¥41,223 million (\$366 million) at March 31, 2016 and ¥45,680 million at March 31, 2015.

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 ¥923,165 million (\$8,193 million) at March 31, 2016 and ¥898,025 million at March 31, 2015. Of this amount, ¥847,805 million (\$7,524 million) at March 31, 2016, and ¥831,960 million at March 31, 2015, 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., at entering into 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, 2016 and 2015, the following assets were pledged as collateral for certain liabilities of the Banks.

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
Cash and due from banks	¥ 18	¥ 18	\$ 160
Securities	235,549	231,785	2,090,424
Lease receivables and investment assets	—	1,955	—

The collateral was pledged to secure the following:

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
Deposits	¥38,656	¥40,055	\$343,060
Payables under securities lending transactions	32,001	24,028	283,999
Borrowed money	901	5,580	7,996

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 ¥104,750 million (\$930 million), cash and due from banks ¥3 million (\$27 thousand) and net other assets ¥1,243 million (\$11 million) including security deposits of ¥4,180 million (\$37 million) at March 31, 2016. The corresponding figures at March 31, 2015, were ¥107,910 million, ¥3 million and ¥1,197 million, including security deposits of ¥3,229 million.

10. ACCUMULATED DEPRECIATION

Accumulated depreciation of tangible assets was ¥73,571 million (\$653 million) at March 31, 2016, and ¥74,452 million at March 31, 2015.

11. ADVANCED DEPRECIATION AMOUNT OF TANGIBLE FIXED ASSETS

At March 31, 2016 and 2015, advanced depreciation amount of tangible fixed assets were ¥8,154 million (\$72 million) and ¥8,157 million, and there were no corresponding amount depreciated from certain tangible fixed assets in fiscal year ended March 31, 2016 and 2015.

12. IMPAIRMENT LOSSES

During the fiscal year ended March 31, 2016 and 2015, impairment losses were recorded on the following assets.

Location	Primary use	Type	Impairment loss		
			Millions of yen		Thousands of
			2016	2015	U.S. dollars
Within Hiroshima Prefecture	Idle assets for sale	Land, buildings	¥ 17	¥ 20	\$ 151
Within Yamaguchi Prefecture	Business-use assets	Land, buildings	¥ 59	¥ —	\$ 523
Within Fukuoka Prefecture	Business-use assets, idle assete	Land, buildings	¥ 42	¥112	\$ 373
Total			¥118	¥132	\$1,047

YMFG 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.

In the fiscal year ended March 31, 2016 and 2015, the book values of the business-use and idle assets, which have problem in operating cash flow, and assets that are scheduled for sale are reduced to their recoverable values, and recognized the reduction of ¥118 million (\$1,047 thousand) and ¥132 million as impairment losses. This amount includes land of ¥92 million (\$816 thousand) and buildings of ¥26 million (\$231 thousand) in fiscal year ended March 31, 2016, and land of ¥67 million and buildings of ¥65 million in fiscal year ended March 31, 2015.

The recoverable amount used to estimate the impairment loss for the fiscal year ended March 31, 2016 and 2015, is the net selling price, which is calculated by deducting the expected disposal cost from the expected disposal value.

13. BORROWED MONEY

Payment schedule of borrowed money as of March 31, 2016 is as follows:

	Millions of yen	Thousands of U.S. dollars
2016	¥15,139	\$134,354
2017	5,594	49,645
2018	4,202	37,291
2019	2,713	24,077
2020	1,640	14,554
Thereafter	5,265	46,726
Total	¥34,553	\$306,647

14. BONDS PAYABLE

Bonds payable include subordinated bonds. There were no subordinated bonds as of March 31, 2016 and ¥25,000 million as of March 31, 2015.

15. PROVISION FOR EMPLOYEE RETIREMENT BENEFITS

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 simplified 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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligations at the beginning of the fiscal year	¥60,381	¥57,979	\$535,863
Cumulative effects of changes in accounting policies	—	3,086	—
Restated balance	60,381	61,065	535,863
Service cost	1,707	1,555	15,149
Interest cost	344	634	3,053
Actuarial differences	5,200	627	46,148
Retirement benefit payments	(3,447)	(3,742)	(30,591)
Past service cost	(1,139)	—	(10,108)
Others	(8)	242	(71)
Retirement benefit obligations at the end of the fiscal year	¥63,038	¥60,381	\$559,443

(2) Reconciliation of plan asset balances at the beginning and the end of the fiscal year ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance of plan assets at the beginning of the fiscal year	¥90,390	¥76,382	\$802,183
Expected return on plan assets	2,903	2,805	25,763
Actuarial differences	(7,497)	11,714	(66,534)
Contribution from employer	1,620	1,629	14,377
Retirement benefit payments	(2,220)	(2,368)	(19,702)
Partial returns of retirement benefit trust	(2,746)	—	(24,369)
Others	225	228	1,997
Balance of plan assets at the end of the fiscal year	¥82,675	¥90,390	\$733,715

(3) Reconciliation of the balances of retirement benefit obligations and plan assets at the end of the fiscal year ended March 31, 2016 and 2015, and the carrying amounts of net defined benefit liability and net defined benefit asset

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligations of funded plans	¥ 62,979	¥ 60,328	\$ 558,919
Plan assets	(82,675)	(90,390)	(733,715)
	(19,696)	(30,062)	(174,796)
Retirement benefit obligations of unfunded plans	59	53	524
Net carrying amount of obligations and assets	¥(19,637)	¥(30,009)	\$(174,272)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net retirement benefit liability	¥ 2,057	¥ 3,467	\$ 18,255
Net retirement benefit asset	(21,694)	(33,476)	(192,527)
Net carrying amount of obligations and assets	¥(19,637)	¥(30,009)	\$(174,272)

(4) Retirement benefit costs and their breakdowns

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost*	¥ 1,707	¥ 1,555	\$ 15,149
Interest cost	344	634	3,053
Expected return on plan assets	(2,903)	(2,805)	(25,763)
Recognized actuarial loss	571	1,637	5,067
Amortization of past service cost	(142)	0	(1,260)
Others	30	57	266
Retirement benefit costs on defined benefit plans	¥ (393)	¥ 1,078	\$ (3,488)

* 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
	2016	2015	2016
Past service cost	¥ 997	¥ 0	\$ 8,848
Actuarial gain (loss)	(13,093)	12,723	(116,196)
Total	¥(12,096)	¥12,723	\$(107,348)

(6) Cumulative remeasurements of defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized past service cost	¥ (997)	¥ —	\$ (8,848)
Unrecognized actuarial gain (loss)	5,732	(7,361)	50,870
Total	¥4,735	¥(7,361)	\$42,022

(7) Plan assets

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

	2016	2015
Bonds	21%	20%
Shares	65%	64%
Others	14%	16%
Total	100%	100%

(Note) Plan assets include 25% of corporate pension plans established as retirement benefit trusts at the end of the fiscal year ended March 31, 2016, and 30% at March 31, 2015.

(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.

(8) Basis of actuarial calculation

The basis of actuarial calculations as of March 31, 2016 and 2015

	2016	2015
Discount rate	0.00%—0.63%	0.03%—1.64%
Expected long-term rate of return on plan assets	1.20%—3.00%	1.50%—6.20%
Expected rate of salary increase	0.80%—4.65%	0.80%—4.65%

Defined contribution plans

The required contribution to the consolidated subsidiaries' defined contribution plans at the end of the fiscal year ended March 31, 2016 and 2015 were ¥153 million (\$1,358 million) and ¥153 million, respectively.

16. 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, 2016 and 2015 were ¥23,245 million (\$206 million) and ¥23,409 million, respectively.

17. 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.

18. OTHER INCOME

Other income for the fiscal year ended March 31, 2016 and 2015 included the gains on sale of stock of ¥10,392 million (\$92 million) and ¥5,150 million, respectively.

19. GENERAL AND ADMINISTRATIVE EXPENSES

Items included operating expenses for the year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Millions of U.S. dollars
	2016	2015	2016
Salary and allowance	¥31,417	¥30,988	\$279
Depreciation	7,093	10,518	63

20. OTHER EXPENSES

Other expenses included ¥1,779 million (\$15,788 thousand) in loss on sale of stock, ¥697 million (\$6,186 thousand) in devaluation of stock for the year ended March 31, 2016. For the year ended March 31, 2015, other expenses included ¥616 million in loss on sale of stock, ¥31 million in devaluation of stock and ¥1,199 million in loss on investment of money held in trust.

21. 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equivalent amount:			
Acquisition cost	¥—	¥11	\$—
Accumulated depreciation	—	11	—
Net book value	¥—	¥—	\$—

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease payments	¥—	¥2	\$—
Equivalent depreciation expense	—	2	—
Equivalent interest expense	¥—	¥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.

There are no future minimum lease payments under non-cancelable finance leases having remaining terms in excess of one year at March 31, 2016 and 2015.

2. Operating leases

Future minimum lease payments at March 31, 2016 and 2015 were as follows:

At March 31, 2016

	Millions of yen	Thousands of U.S. dollars
2017	¥ 94	\$ 834
2018 and thereafter	1,003	8,902
Total minimum lease payments	¥1,097	\$9,736

At March 31, 2015

	Millions of yen
2016	¥ 84
2017 and thereafter	1,097
Total minimum lease payments	¥1,181

22. INCOME TAXES

1. Significant components of the deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Allowance for loan losses	¥ 17,314	¥ 19,703	\$ 153,656
Provision for bonuses	1,118	1,035	9,922
Net defined benefit liability	5,312	4,357	47,142
Depreciation	752	941	6,674
Losses on devaluation of securities	1,523	2,775	13,517
Net operating losses carryforwards	304	406	2,698
Other	3,820	4,374	33,901
Deferred tax assets	30,143	33,591	267,510
Valuation allowance	(2,377)	(3,873)	(21,095)
Total deferred tax assets	27,766	29,718	246,415
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(23,167)	(32,447)	(205,600)
Securities contributed to retirement benefit trusts	(4,243)	(4,676)	(37,655)
Other	(2,077)	(2,706)	(18,433)
Total deferred tax liabilities	(29,487)	(39,829)	(261,688)
Net deferred tax assets (liabilities)	¥ 1,721	¥(10,111)	\$ 15,273

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, 2016 and 2015 were as follows:

	%	
	2016	2015
Effective statutory tax rate	32.83	—
(Adjustments)		
Revision of valuation allowances	(2.61)	—
Items permanently exempted from income such as dividend income	(0.42)	—
Non-deductible goodwill amortization	3.15	—
Inhabitant tax on per capita basis	0.26	—
Items permanently excluded from expense such as entertainment expenses	0.27	—
Downward revision in deferred tax assets at the end of the fiscal year due to changes in tax rate	1.83	—
Consolidation adjustment	0.07	—
Others	0.35	—
Actual tax rate after application of deferred income tax accounting	35.73	—

(Note) Information for the year ended March 31, 2015 was 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 of the effective statutory tax rate.

3. Revisions in amounts of deferred taxes assets and liabilities due to changes in the corporate tax rate
For the year ended March 31, 2016

The "Act on Partial revision of Income Tax Act" (Law No. 15 of 2016) and the "Act on Partial Revision of the Local Tax Act" (Law No. 13 of 2016) were passed on March 29, 2016, lowering the corporate tax rate from the fiscal years beginning on or after April 1, 2016. Accordingly, the statutory effective tax rate used for calculating deferred tax assets and liabilities was reduced from 32.38% to 30.69% applied for temporary differences that are expected to be deductible in the fiscal year beginning April 1, 2016 and 2017, and further to 30.46% applied for temporary differences that are expected to be deductible in the fiscal year beginning April 1, 2018.

This change in the tax rate had the effect of reducing deferred tax liabilities by ¥210 million (\$2 million), increasing unrealized gains on available-for-sale securities by ¥1,222 million (\$11 million), reducing deferred gains or losses on hedges by ¥7 million (\$62 thousand), decreasing remeasurements of defined benefit plans by ¥72 million (\$1 million) and increasing deferred income taxes by ¥933 million (\$8 million). Deferred tax liabilities for land revaluation decreased by ¥571 million (\$5 million), and revaluation reserve for land increased by the same amount.

For the year ended March 31, 2015

The "Act on Partial revision of Income Tax Act" (Law No. 9 of 2015) and the "Act on Partial Revision of the Local Tax Act" (Law No. 2 of 2015) were promulgated on March 31, 2015, lowering the corporate tax rate from the fiscal years beginning on or after April 1, 2015. Accordingly, the statutory effective tax rate used for calculating deferred tax assets and liabilities was reduced from 35.38% to 32.38% applied for temporary differences that are expected to be deductible in the fiscal year beginning April 1, 2015, and further to 32.06% applied for temporary differences that are expected to be deductible in the fiscal year beginning April 1, 2016.

This change in the tax rate had the effect of reducing deferred tax liabilities by ¥1,358 million, increasing unrealized gains on available-for-sale securities by ¥3,364 million, reducing deferred gains or losses on hedges by ¥16 million, increasing remeasurements of defined benefit plans by ¥273 million and raising deferred income taxes by ¥2,263 million. Deferred tax liabilities for land revaluation decreased by ¥1,187 million, and revaluation reserve for land increased by the same amount.

23. NET ASSETS

Under the Companies Act of Japan ("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 YMFG in accordance with the Act.

At the annual shareholders' meeting, held on June 29, 2016, the shareholders approved cash dividends amounting to ¥1,970 million (\$17 million). Such appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2016 and to be recognized in the period in which they are approved by the shareholders.

At the annual shareholders' meeting, held on June 26, 2015, the shareholders approved cash dividends amounting to ¥1,712 million. Such appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2015 and to be recognized in the period in which they are approved by the shareholders.

24. CHANGES IN NET ASSETS

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

	Number of shares (in thousand)			
	March 31, 2015	Increase	Decrease	March 31, 2016
Shares issued				
Common stock	264,353	—	—	264,353
Total	264,353	—	—	264,353
Treasury stock				
Common stock*1, *2	20,857	27	1,412	19,472
Total	20,857	27	1,412	19,472

*1 The increase in the number of shares is due to purchases of shares constituting less than one trading unit.

Of the decreases in the number of shares, 1,037 thousand shares were due to a share exchange between YMFG and an affiliated company, 266 thousand shares were due to the sale of shares to the Group's employee stock ownership program, 103 thousand shares were due to the exercise of stock options, 3 thousand shares were due to the changes in ownership of YMFG's subsidiaries, and 1 thousand shares were in response to demand for the purchase of fractional shares.

*2 Treasury stock as of beginning and ending of fiscal year ended March 31, 2016 include 1,047 thousand shares and 781 thousand shares held by the ESOP Trust for Employee Shareholders.

	Number of shares (in thousand)			
	March 31, 2014	Increase	Decrease	March 31, 2015
Shares issued				
Common stock	264,353	—	—	264,353
Total	264,353			264,353
Treasury stock				
Common stock*1, *2	11,299	10,062	504	20,857
Total	11,299	10,062	504	20,857

*1 Of the increase in the number of shares, 10,000 thousand shares were acquired in the market, 35 thousand shares were due to the acquisition of fractional shares and 27 thousand shares were due to the transition of a company from an equity-method affiliate to a consolidated subsidiary. Of the decrease in the number of shares, 353 thousand shares were due to the sale of shares to the Group's employee stock ownership program ESOP Trust for Employee Shareholders, 150 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.

*2 Treasury stock as of beginning and ending of fiscal year ended March 31, 2015 include 1,400 thousand shares and 1,047 thousand shares held by the ESOP Trust for Employee Shareholders.

2. Stock options

Stock options at March 31, 2016 and 2015 were ¥601 million (\$5 million) and ¥512 million, respectively.

3. Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2016 and 2015.

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 8, 2015				
Common stock	¥1,712* ¹	¥ 7.00	Mar. 31, 2015	Jun. 29, 2015

Resolved at the board of directors meeting on November 6, 2015				
Common stock	¥1,713* ²	¥ 7.00	Sep. 30, 2015	Dec. 10, 2015

*1 The total amount of dividend on common stock includes ¥7 million in dividends to ESOP Trust for employee shareholders.

*2 The total amount of dividend on common stock includes ¥6 million in dividends to ESOP Trust for employee shareholders.

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 9, 2014				
Common stock	¥1,781* ¹	¥ 7.00	Mar. 31, 2014	Jun. 27, 2014
Resolved at the board of directors meeting on November 7, 2014				
Common stock	¥1,782* ²	¥ 7.00	Sep. 30, 2014	Dec. 10, 2014

*1 The total amount of dividend on common stock includes ¥10 million in dividends to ESOP Trust for employee shareholders.

*2 The total amount of dividend on common stock includes ¥8 million in dividends to ESOP Trust for employee shareholders.

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 8, 2015				
Common stock	\$15,193* ¹	\$0.06	Mar. 31, 2015	Jun. 29, 2015
Resolved at the board of directors meeting on November 6, 2015				
Common stock	\$15,202* ²	\$0.06	Sep. 30, 2015	Dec. 10, 2015

*1 The total amount of dividend on common stock includes \$62 thousand in dividends to ESOP Trust for employee shareholders.

*2 The total amount of dividend on common stock includes \$53 thousand in dividends to ESOP Trust for employee shareholders.

(b) Dividends to be paid in the fiscal year ending March 31, 2017 and 2016 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 13, 2016					
Common stock	¥1,970*	Retained earnings	¥ 8.00	Mar. 31, 2016	Jun. 30, 2016

* The total amount of dividend on common stock includes ¥6 million in dividends to ESOP Trust for employee shareholders.

(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 8, 2015					
Common stock	¥1,712*	Retained earnings	¥ 7.00	Mar. 31, 2015	Jun. 29, 2015

* The total amount of dividend on common stock includes ¥7 million in dividends to ESOP Trust for employee shareholders.

(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 13, 2016					
Common stock	\$17,483*	Retained earnings	\$0.07	Mar. 31, 2016	Jun. 30, 2016

* The total amount of dividend on common stock includes \$53 thousand in dividends to ESOP Trust for employee shareholders.

25. 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
	2016	2015	2016
General and administrative expenses	¥172	¥194	\$1,526

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

2016	
Category and number of persons to be granted stock options	27 directors (excluding directors member of Audit and Supervisory Committee, part-time director and outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.
Number of stock options by class of stock*	122,000 shares of YMFG's common stock
Grant date	August 25, 2015
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	August 26, 2015—August 25, 2045

2015	
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*	182,900 shares of YMFG's common stock
Grant date	July 29, 2014
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	July 30, 2014—July 29, 2044

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

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

	2016	2015	2014	2013	2012
Prior to vesting					
As of the end of the previous consolidated fiscal year	—	182,900	—	—	—
Granted	122,000	—	—	—	—
Expired	—	—	—	—	—
Vested	—	182,900	—	—	—
Rights not yet determined	122,000	—	—	—	—
After vesting					
As of the end of the previous consolidated fiscal year	—	—	170,900	205,400	119,700
Rights determined	—	182,900	—	—	—
Rights exercised	—	22,500	26,500	34,600	20,300
Expiry	—	—	—	—	—
Amount unexercised	—	160,400	144,400	170,800	99,400

(b) Price information

	Yen					U.S. dollars
	2016	2015	2014	2013	2012	2016
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	\$ 0.01
Average share price at time of exercise	—	1,532	1,532	1,532	1,532	—
Fair value on date granted	1,377	1,015	973	619	660	12.22

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, 2016 and 2015 are as follows:

(a) Valuation method employed: Black-Scholes method

(b) Main base figures and estimation method

	2016
Volatility of stock price* ¹	27.87%
Expected number of years remaining* ²	3.40 years
Forecast dividend* ³	¥14/share
Risk-free interest rate* ⁴	0.015%

*1 Calculated on the basis of stock price performance during a period (March 2012 to August 2015) corresponding to the expected number of years remaining (3.40 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, 2015.

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

	2015
Volatility of stock price* ¹	24.89%
Expected number of years remaining* ²	3.69 years
Forecast dividend* ³	¥13/share
Risk-free interest rate* ⁴	0.101%

*1 Calculated on the basis of stock price performance during a period (November 2010 to July 2014) corresponding to the expected number of years remaining (3.69 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, 2014.

*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.

26. INVESTMENT AND RENTAL PROPERTY

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

27. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts of reclassification adjustments and tax effect amounts related to other comprehensive income in the consolidated fiscal year ended March 31, 2016 and 2015 were as follows.

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gains (losses) on available-for-sale securities			
Amount generated during the year	¥ (7,920)	¥61,429	\$ (70,288)
Reclassification adjustments	(18,371)	(12,951)	(163,037)
Before tax effect adjustment	(26,291)	48,478	(233,325)
Tax effect amount	9,155	(14,024)	81,249
Unrealized gains (losses) on available-for-sale securities	(17,136)	34,454	(152,076)
Deferred gains (losses) on hedges			
Amount generated during the year	(352)	(170)	(3,124)
Reclassification adjustments	376	250	3,337
Before tax effect adjustment	24	80	213
Tax effect amount	(15)	(44)	(133)
Deferred gains (losses) on hedges	9	36	80
Revaluation reserve for land			
Amount generated during the year	—	—	—
Reclassification adjustment	—	—	—
Before adjustment for tax effects	—	—	—
Tax effect amount	571	1,187	5,067
Revaluation reserve for land	571	1,187	5,067
Remeasurements of defined benefit plans			
Amount generated during the year	(11,558)	11,086	(102,574)
Reclassification adjustment	(539)	1,637	(4,783)
Before adjustment for tax effects	(12,097)	12,723	(107,357)
Tax effect amount	3,805	(4,255)	33,768
Remeasurements of defined benefit plans	(8,292)	8,468	(73,589)
Share of other comprehensive income in affiliated companies accounted for using the equity method			
Amount generated during the year	(0)	(13)	(0)
Reclassification adjustments	—	—	—
Before tax effect adjustment	(0)	(13)	(0)
Tax effect amount	—	—	—
Share of other comprehensive income in affiliated companies accounted for using the equity method	(0)	(13)	(0)
Total other comprehensive income	(24,848)	44,132	(220,518)

28. 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.

29. RELATED PARTY TRANSACTIONS

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

30. PER SHARE DATA

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥2,357.89	¥2,346.56	\$20.93
Net income per share	132.43	120.88	1.18
Net income per share (diluted)	¥ 109.39	¥ 108.24	\$ 0.97

Net assets per share are calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2016	2015	2016
Net assets	¥583,168	¥578,388	\$5,175,435
Amounts excluded from net assets	¥ 5,765	¥ 7,008	\$ 51,163
stock options	601	512	5,334
non-controlling interests	5,164	6,496	45,829
Net assets attributable to common stock at the fiscal year-end	577,403	571,380	5,124,272
Number of common stock at the fiscal year-end used for the calculation of net assets per share (in thousands)*	244,881	243,497	

* Shares of YMFG held by the ESOP trust are shown on the balance sheets as treasury stock, so are not included in the above number of common stock at the fiscal year-end used for the calculation of net assets per share. This number of shares held by the ESOP was 1,047 thousand as of March 31, 2015, and 781 thousand as of March 31, 2016.

Net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2016	2015	2016
Net income attributable to owners of the parent	¥32,296	¥30,523	\$286,617
Amount not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent for common stock	32,296	30,523	286,617
Average shares of common stock during the year* (in thousands)	243,872	252,514	

Diluted net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2016	2015	2016
Net income attributable to owners of the parent adjustment	¥ 6	¥ —	\$53
Interest expenses (excluding tax amount)	6	—	53
Increase of shares of common stock	51,427	29,486	—
Bonds with warrant	50,728	28,801	—
Warrant	698	684	—
Dilutive shares not including calculation due to no dilutive effect	—	—	—

* Shares of YMFG held by the ESOP trust are shown on the balance sheets as treasury stock, so are not included in the above average shares of common stock during the year. The average number of shares was 1,193 thousand in the fiscal year ended March 31, 2015, and 907 thousand in the fiscal year ended March 31, 2016.

(Note) As previously described in Changes in Accounting Principles, YMFG's adoption of the "Accounting Standard for Business Combinations" and other standards is in accordance with the transitional measures provided for in Article 58-2 (4) of the "Accounting Standard for Business Combinations," Article 44-5 (4) of the "Accounting Standard for Consolidated Financial Statements," and Article 57-4 (4) of the "Accounting Standard for Business Divestitures."

As a result, net income per share and diluted net income per share decreased ¥4.44 (\$0.04) and ¥3.65 (\$0.03) respectively in the fiscal year ended March 31 2016. The impact on net assets per share was slight.

As previously described in Changes in Accounting Principles, YMFG 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, March 26, 2015), applying 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 from the fiscal year ended March 31, 2015, and in accordance with the transitional treatment stipulated in Paragraph 37 of the Accounting Standard for Retirement Benefits.

As a result, at the beginning of the fiscal year ended March 31, 2015, net assets per share decreased ¥7.88, and net income per share and diluted net income per share increased ¥0.94 and ¥0.84 respectively.

31. SUBSEQUENT EVENTS

There were no significant subsequent events. Dividends were made in June 2016 and 2015. Please refer to "23. NET ASSETS."

32. BUSINESS COMBINATIONS

For the year ended March 31, 2016

Transaction under common control

Acquisition of additional shares in subsidiary

1 Overview of the transaction

(1) Name and business of combined company

Name: YM Guarantee Co., Ltd.

(hereinafter, "YM Guarantee")

Business: Credit guarantee business

(2) Date of the business combination

February 1, 2016

(3) Legal form of the business combination

Share exchange in which YMFG is the wholly owning parent company and YM Guarantee is the wholly owned subsidiary company

(4) Company name following the combination

No change

(5) Overview of other matters related to the transaction

The objective is to strengthen YMFG's internal control function of the Group.

2 Overview of accounting standards employed

The transaction is handled under common control transactions, based on the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)."

3 Matters related to acquisition of additional shares in subsidiary

(1) Acquisition cost and breakdown

Acquisition consideration	Treasury stock
	¥603 million (\$5,351 thousand)
Acquisition cost	¥603 million (\$5,351 thousand)

The above-mentioned transaction is a transaction with non-controlling owners, and total amount being eliminated as transactions between consolidated companies.

Expenses directly required for the transaction were ¥2 million (\$18 thousand).

(2) Exchange ratio by type of shares, calculation method and number of shares delivered

1) Exchange ratio by type of shares 1,237 shares of YMFG's common stock: 1 share of YM Guarantee's common stock

2) Exchange ratio calculation method

To ensure the fairness and appropriateness of the share exchange ratio, YMFG selected Daiwa Institute of Research Ltd. as an independent calculation agent to calculate the share exchange ratio. Based on prudent negotiations and deliberations between YMFG and YM Guarantee of the share exchange ratio, referring to these calculation results, the above-stated share exchange ratio was judged to be appropriate, agreed and determined.

3) Number of shares delivered 466 thousand shares

4 Changes in YMFG's equity related to transaction with non-controlling owners

(1) Principal reason for changes in capital surplus

Acquisition of additional shares in subsidiary

(2) Amount of increase in capital surplus due to transaction with non-controlling owners

¥1,194 million (\$10,596 thousand)

For the year ended March 31, 2015

Business combinations due to acquisition

1. Overview of business combination

(1) Name and business of acquired company

Name of acquired company YM Lease Co., Ltd.

Business Leasing

(2) Principal reasons for business combination

YM Lease Co., Ltd. has been operating as a leasing company, and the business combination was executed to further enhance the financial services of the financial group including three banks; Yamaguchi Bank, Momiji Bank and Kitakyushu Bank

(3) Date of the business combination

December 5, 2014

(4) Legal form of the business combination

YM Lease Co., Ltd. became a subsidiary of the Group through the acquisition of shares in YM Lease Co., Ltd.

(5) Company name following the combination

The company's name remains unchanged following the combination.

(6) Percentage of voting rights acquired

Percentage of voting rights immediately prior to acquisition 21.1% (Note)

Percentage of voting rights acquired on the date of the business combination 28.9%

Total percentage of voting rights following the acquisition 50.0%

(Note) This figure includes shares owned by YMFG subsidiaries The Yamaguchi Bank Co., Ltd., and Yamagin Card Co., Ltd.

(7) Key factors leading to the corporate acquisition decision

Owning 40% or more of the shares in YM Lease Co., Ltd., enables YMFG to convert the company to a subsidiary on the basis of a controlling interest.

2. Period for which acquired company's operating

performance is included in the consolidated statements of income for the period under review

April 1, 2014 to March 31, 2015

As the acquisition date is deemed to have been December 31, 2014, income of the acquired company for the period from April 1, 2014, through December 31, 2014, is recorded as equity method investment income.

3. Acquisition cost for the acquired company and its breakdown

Fair value of common stock in YM Lease Co., Ltd., owned immediately prior to the business combination	¥104 million
Fair value of additional common stock in YM Lease Co., Ltd., acquired on the date of the business combination	¥94 million
Acquisition cost	¥198 million

4. Difference between the acquisition cost of the acquired company and total acquisition cost for individual transactions leading up to the transaction Loss related to staged acquisition

	¥200 million
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5. Negative goodwill generated and reason for generation

(1) Amount of negative goodwill generated

	¥2,331 million
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(2) Reason for generation

The fair value of net assets exceeded the acquisition cost at the time of acquisition.

6. Amount and general breakdown of assets acquired and obligations assumed on the date of the corporate combination

(1) Assets

Current assets	¥21,692 million
Noncurrent assets	¥644 million
Total assets	¥22,336 million

(2) Liabilities

Current liabilities	¥5,968 million
Long-term liabilities	¥12,591 million
Total liabilities	¥18,559 million

7. Impact on the consolidated statements of income for the fiscal year under review based on the assumption that the corporate combination was concluded on the starting day of the fiscal year under review

This information has been omitted, as its impact is negligible.