

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



Momiji Bank



Kitakyushu Bank



Yamaguchi Bank



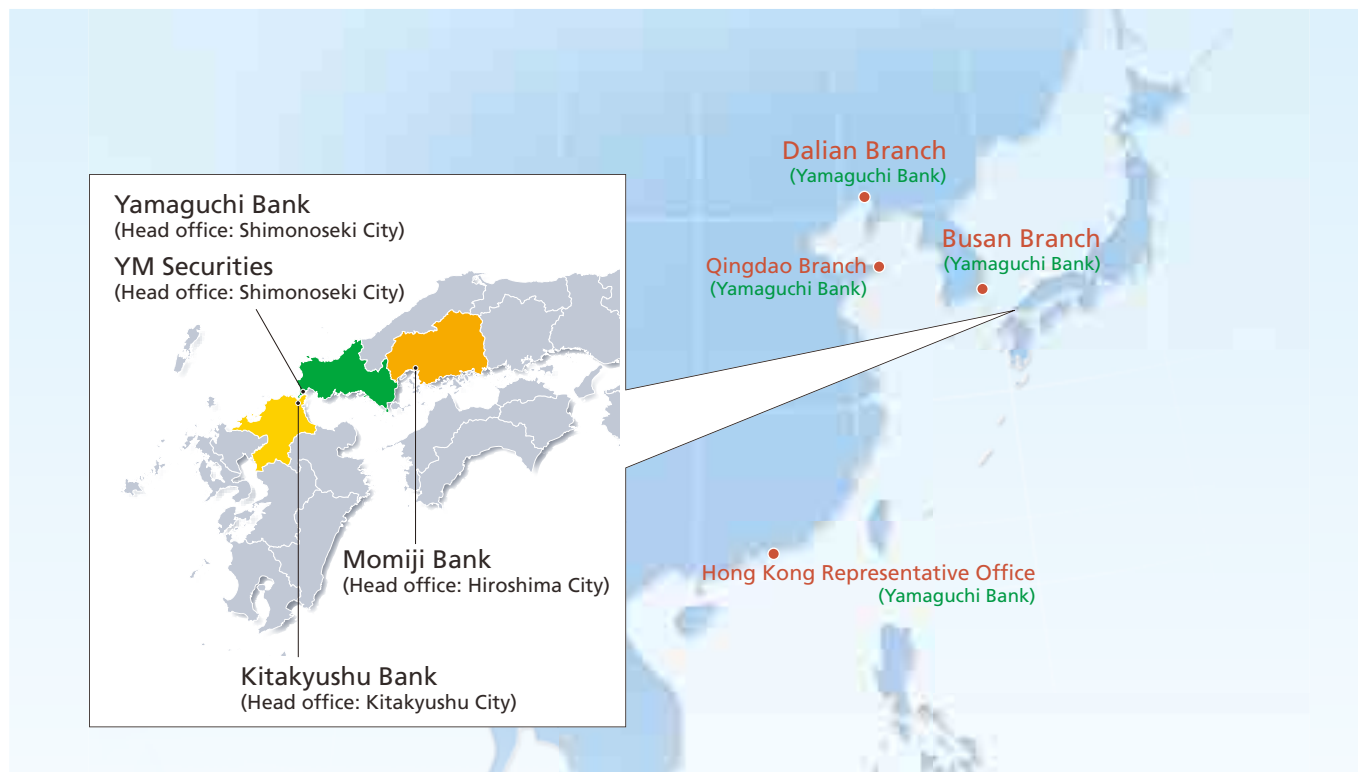
YMFG



ANNUAL REPORT 2016

For the year ended March 31, 2016

YMFG Networks



- Yamaguchi Bank
Networks in Japan: 133 (109 head office and branch offices, 24 sub-branch offices)
Networks in overseas: 4 (3 branch offices, 1 representative office)



- Momiji Bank
Networks in Japan: 114 (96 head office and branch offices, 18 sub-branch offices)



- Kitakyushu Bank
Networks in Japan: 36 (35 head office and branch offices, 1 sub-branch office)



- YM Securities
Networks in Japan: 19 offices

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Disclaimer Regarding Forward-Looking Statements

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

YMFG Financial Highlights (For the fiscal year ended March 31, 2016)

¥10.4
trillion

Total Assets (Consolidated)

Total assets on a consolidated Group basis amounted to ¥10 trillion.

¥32.2
billion

Net Income (Consolidated)

Net income rose ¥1.7 billion year on year, to ¥32.2 billion.

¥9.5
trillion

Deposit Balance (Three Banks)

Liquid deposits and time and savings deposits both rose favorably.

¥6.4
trillion

Balance of Loans (Three Banks)

Principal contributors to the increase were rises in housing loans and loans to regional government bodies.

13.37
%

Capital Ratio (Basel 3) (Consolidated)

This represented a year-on-year decrease of 0.06 percentage point.

12.72
%

Tier 1 Ratio (Basel 3) (Consolidated)

This ratio was up 0.99 percentage point.

1.62
%

Non-Performing Loan Ratio (Three Banks)

Our non-performing loan ratio improved, dropping by 0.22 percentage point.

A
(Stable)
R & I

Credit Rating (YMFG)

Date of rating announcement: August 10, 2015

Message from the President



Strengthening the Group's management base, bolster operating performance and contribute to the region

Thank you for your continued support of the Yamaguchi Financial Group ("YMFG").

This annual report provides an overview of the Group and its business results for the fiscal year ended March 31, 2016, and is designed to help you understand more about YMFG.

With the Bank of Japan's introduction of a negative interest rate policy in February 2016, the environment in which financial institutions operate entered a difficult phase that goes beyond all past experience. Against this backdrop, we will fulfill our mission of contributing to economic development from the standpoint of regional revitalization by striving to reinforce our financial strength and profitability. We are aware of the need to further facilitate the provision of funds and expand our financial services. Under these economic conditions, supported by its shareholders and business partners all YMFG's officers and employees were united in their efforts to strengthen the Group's management base, bolster operating performance and contribute to the region.

During the fiscal year ended March 31, 2016, we established YMFG Zone Planning Co., Ltd., as a wholly owned consulting company specializing in regional revitalization in July 2015. In January 2016, we established YM Asset Management Co., Ltd., to augment our asset management business. Through

these companies, we worked to provide even better services to customers in the region.

In June 2015, we transitioned to a "company with an audit and supervisory committee," along with Yamaguchi Bank, Momiji Bank, Kitakyushu Bank and YM Securities. The new structure is expected to step up the management and supervisory functions and further bolster the Group's corporate governance structure, further enhancing our corporate value.

The fiscal year ending March 31, 2017, will mark the start of a new medium-term management plan, the "YMFG Medium-Term Management Plan 2016." With all employees operating in accordance with its "consulting first" guidelines, we will endeavor to contribute to the growth of our customers through the combined power of the Group.

We look forward to your continued patronage and support.

August 2016

A handwritten signature in black ink that reads "T. Yoshimura". The signature is written in a cursive, flowing style.

Takeshi Yoshimura
President
Yamaguchi Financial Group, Inc.

YMFG Medium-Term Management Plan (FY2016–FY2018)

Our Goals

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

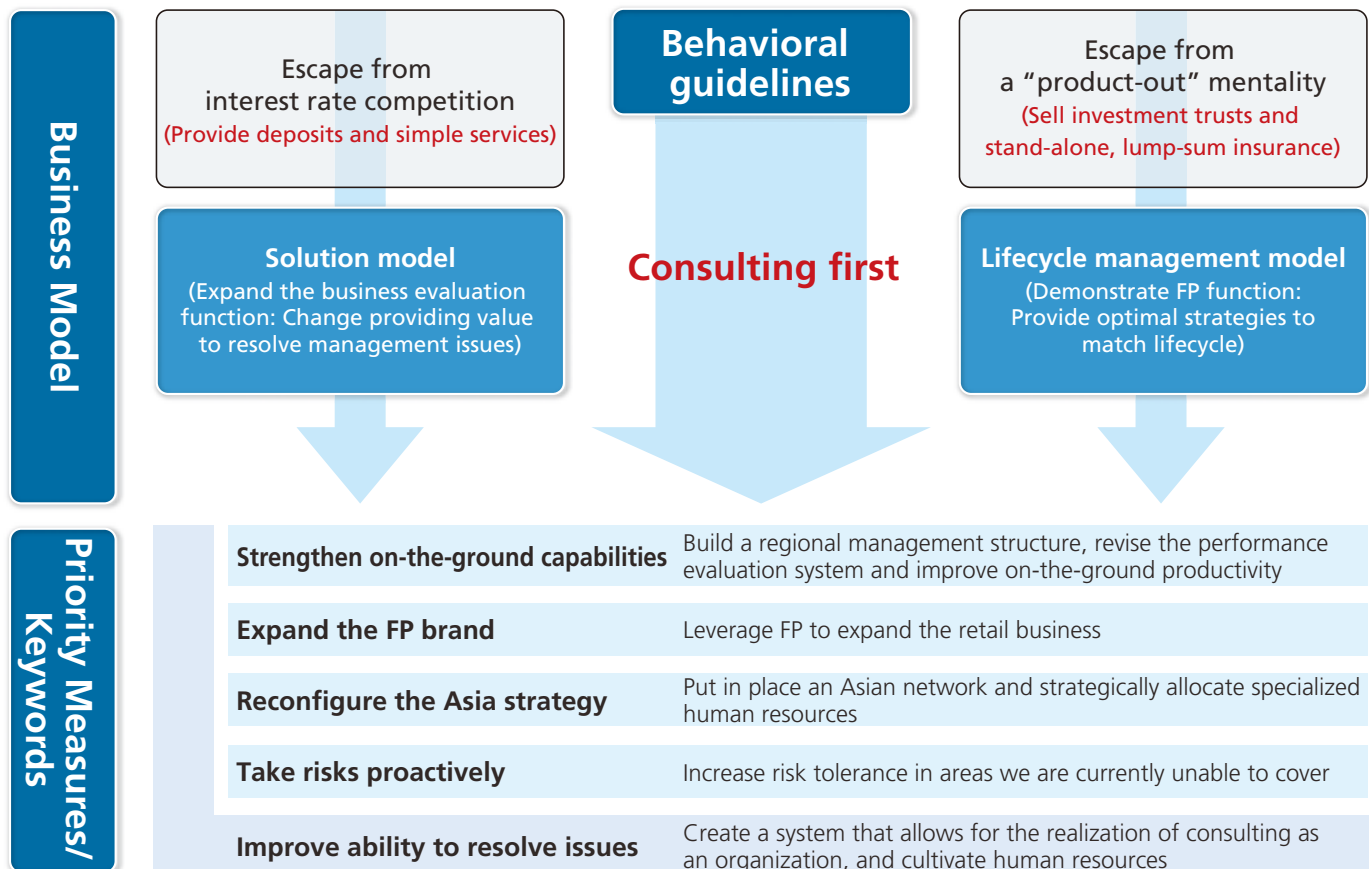
Road to “YMFG Zone”
Zone of **O**ver-regional **N**etwork **E**conomy

To be a financial group that exceeds customer expectations through overwhelming quality

Amazing “YMFG Quality”

Core Objective

Change the way, Refine the quality, Design the future.



Solution Model (Expand the Business Evaluation Function)

Business evaluation function:

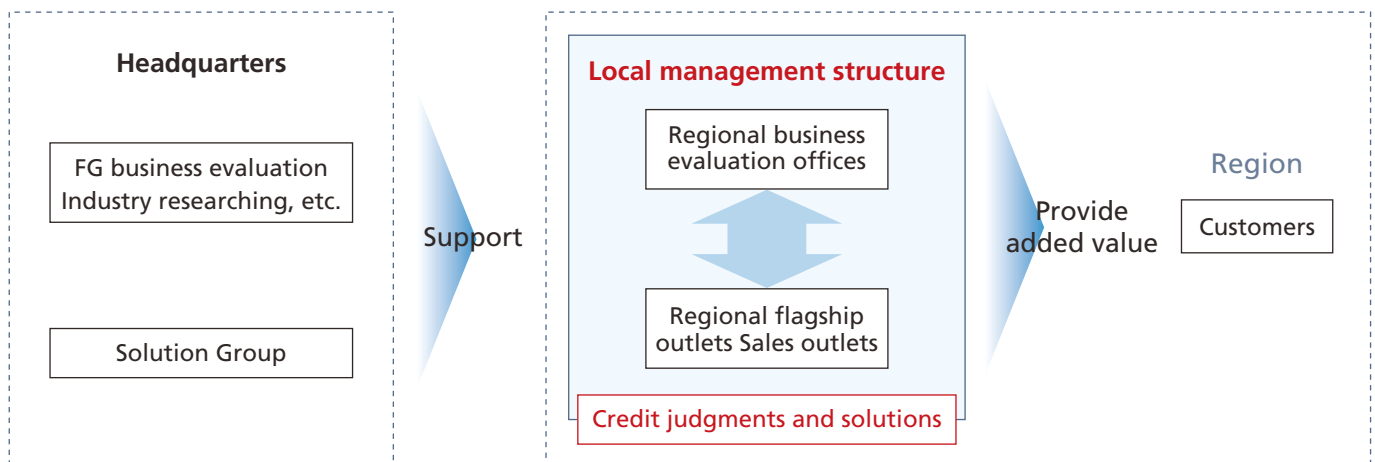
Grow nearer to customers through the credit function and solution function

Customer needs

- Consider our future when evaluating us
- Resolve our management issues
- Response swiftly

Specific measures

- Dismantle credit supervision departments, shift business evaluation function to regions (Qualitative information, region-specific evaluations and proposals)
- Establish a regional management structure (Clarify authority and responsibility)
- Augment the function for researching industry trends (Conduct at FG)



Differentiate ourselves from other banks
through compensation in line with added value

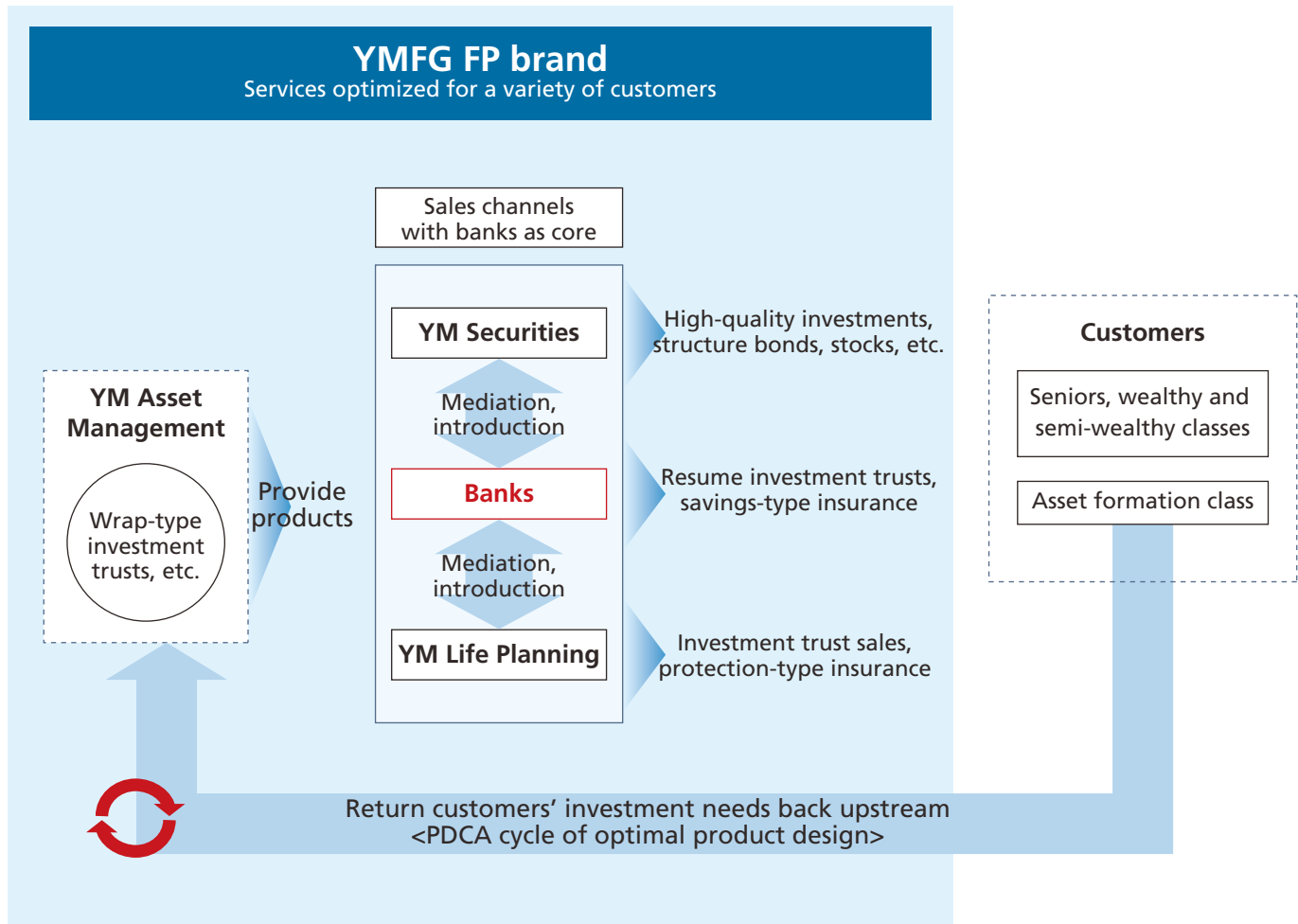
Increase share of
transactions

Discover demand
for funding

Escape from interest
rate competition

Lifecycle Management Model (Demonstrate FP Function)

A structure for providing optimal products and services to match lifecycle and asset scale



Compensation in line with added value
Differentiate ourselves from other banks

The three banks
Receive insurance sales commissions

Increase Group
investment trust balance

Improve Ability to Resolve Issues

Provide “consulting as an organization” in order to resolve the issues customers face. Promote human resource development and increase the number of salespeople, as well as developing services through alliances with Fintech companies.

Variety of issues experienced by customers and the region

Small and medium-sized companies

Succession problems
Management improvement, expansion in scale of business

Regional and local governments

Overall design of the regional economy

Individuals

Future design
Asset investment

YMFG Initiatives

Augment personnel

- Consolidate headquarters functions at sales location BPR and FG to increase number of solution personnel (aim for 50% personnel increase)

Develop human resources

- Develop practical skills (behaviors leading to success)
- Increase number sent overseas and into different sectors

Promote human resources

- Reinforce mid-career hires, etc.

Leverage companies specializing in consulting

- YM Consulting (corporate, FP)
- YMFG ZONE Planning (regional invigoration)

Make use of IT

- Pursue highly convenient services through leading-edge technologies

Issue resolved

YMFG Forecast for the Fiscal Year Ending March 31, 2017

Although the operating environment remain adverse, we expect income and profit categories to increase during the fiscal year ending March 31, 2017.

In the first year of our medium-term management plan (2016–2018), we expect consolidated ordinary profits for the YMFG Group to amount to ¥50.0 billion, up ¥0.2 billion year on year. We also anticipate net income attributable to owners of the parent of ¥33.0 billion, up ¥0.7 billion.

(Billions of yen)

YMFG (Consolidated)		
	Fiscal Year Ending March 31, 2017	Year-on-Year Change
Total income	156.0	(9.5)
Ordinary profits	50.0	0.2
Net income attributable to owners of the parent	33.0	0.7

Yamaguchi Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2017	Year-on-Year Change
Total income	78.0	(9.3)
Ordinary profits	32.0	(2.7)
Net income attributable to owners of the parent	22.0	(2.7)

Momiji Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2017	Year-on-Year Change
Total income	46.0	(4.8)
Ordinary profits	14.0	(1.4)
Net income attributable to owners of the parent	9.5	(0.9)

Kitakyushu Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2017	Year-on-Year Change
Total income	14.0	(0.4)
Ordinary profits	3.0	(0.1)
Net income attributable to owners of the parent	2.0	0.1

Note: Figures have been rounded off below the stated amounts.

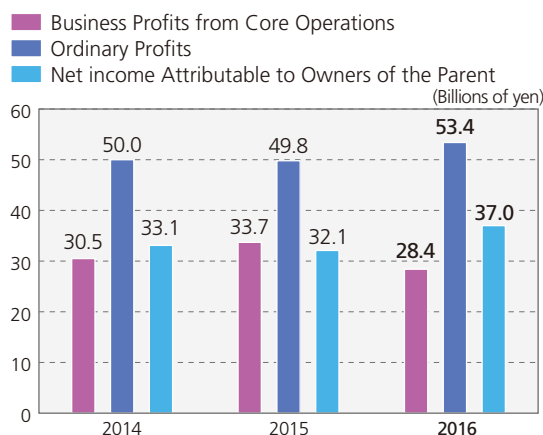
Performance Highlights (YMFG)

Performance during the fiscal year ended March 31, 2016

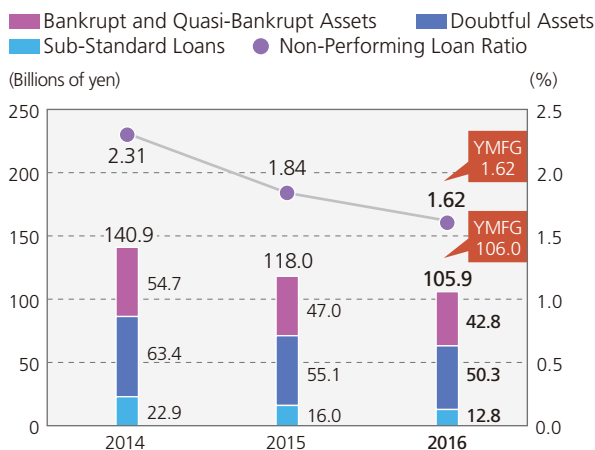
Business Profits from Core Operations/ Ordinary Profits/Net Income (Three Banks)

Business profits from core operations decreased ¥5.3 billion year on year, to ¥28.4 billion. This outcome stemmed from lower interest income compared with the previous fiscal year.

Ordinary profits increased ¥3.6 billion, to ¥53.4 billion, and net income attributable to owners of the parent amounted to ¥37.0 billion.

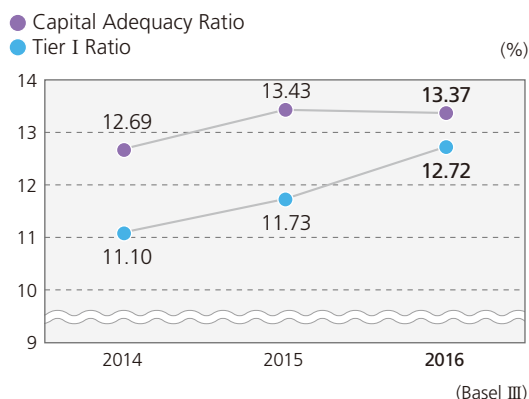


Non-Performing Assets Based on the Financial Revitalization Law (Three Banks)



Capital Adequacy Ratio (YMFG)

YMFG's consolidated capital adequacy ratio (uniform international standard) under Basel III was 13.37%. The total Tier 1 capital adequacy ratio was 12.72%, and consolidated common equity Tier I capital adequacy ratio was 12.72%.



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

Euro-dollar convertible bonds issued (Mar. 2015)

- Amount \$300 million
- Maturity 5 years
- Coupon Three-month U.S. dollar LIBOR -0.5% (however, with 0% as minimum)

Objective

To meet the growing needs of the Group's corporate customers as they move into overseas markets and expand their businesses and transactions overseas, YMFG aims to augment its foreign-denominated lending. We have issued these convertible bonds to facilitate stable U.S. dollar fundraising.

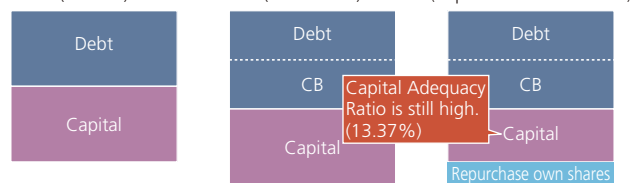
By attaching contingent conversion and call conditions, we aim to restrain convertibility to common stock, thereby providing a debt product that gives ample consideration to existing shareholders. Rather than being zero-coupon, the bonds have a variable interest rate to further restrain potential dilution.

Purchase of treasury stock (Mar. 2015)

- Amount 10 million shares
- Objective

To offset the impact of dilution by raising capital efficiency.

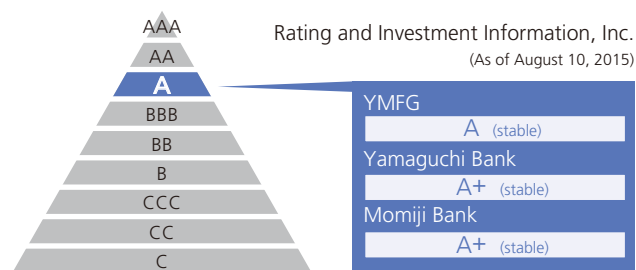
Diagram of scheme (Before)



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

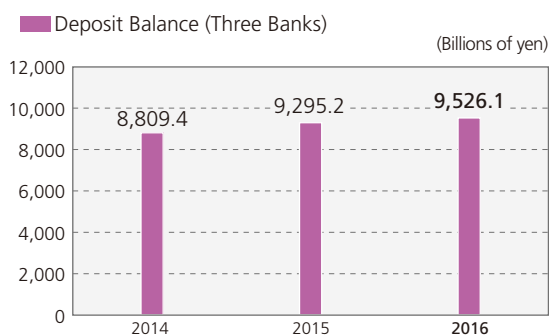
Ratings for YMFG, Yamaguchi Bank and Momiji Bank

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



Deposit Balance (Three Banks)

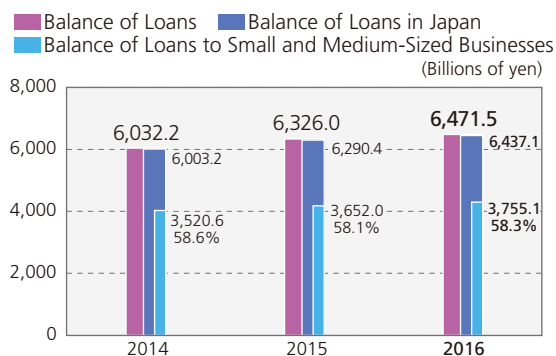
The total deposit balance at term-end was ¥8,714.4 billion, or ¥9,526.1 billion including Negotiable Certificates of Deposit (NCDs). This came about because of the expansion of products and services and steady marketing efforts based on solid community relationships.



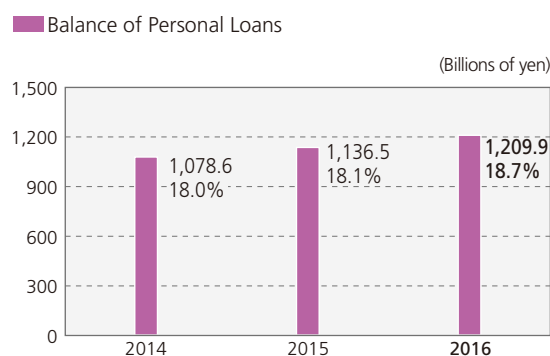
Note: The deposit balance includes the NCD balance.

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

The balance of loans at term-end was ¥6,471.5 billion, as a result of active efforts to live up to the trust placed in us by our customers by meeting healthy demand for funds.



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



Dividend Policy (YMFG)

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

In the year ended March 31, 2016, the dividend per share at term-end was ¥8. Combined with the interim dividend of ¥7 per share, the full-year dividend amounted to ¥15 per share.

	FY2013	FY2014	FY2015	FY2016 (Forecast)
Annual dividend per share (Interim dividend)	13.0 (6.0)	14.0 (7.0)	15.0 (7.0)	18.0 (10.0)

(Yen)

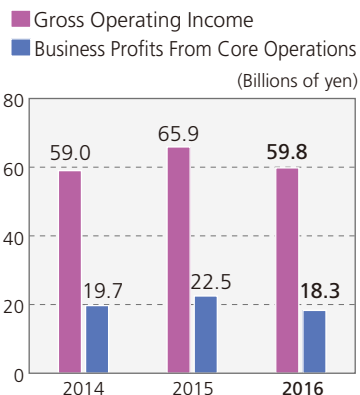
Expected Performance for the Fiscal Year Ending March 31, 2017 (YMFG)

YMFG aims to achieve its consolidated ordinary profits of ¥50.0 billion and net income attributable to owners of the parent of ¥33.0 billion.

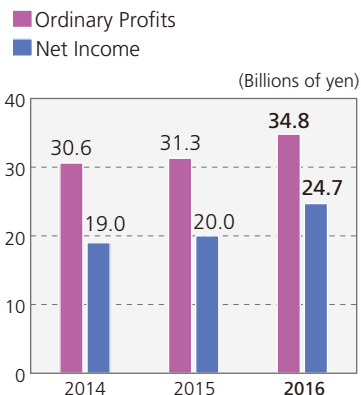
Performance Highlights (Three Banks)

Yamaguchi Bank (Non-consolidated)

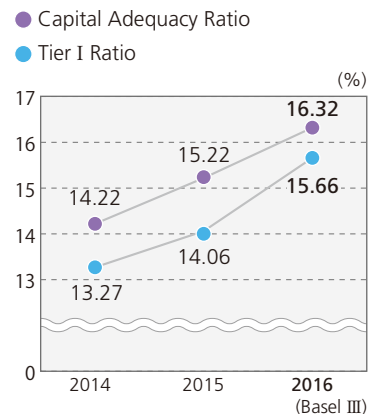
Gross Operating Income/Business Profits From Core Operations



Ordinary Profits/Net Income

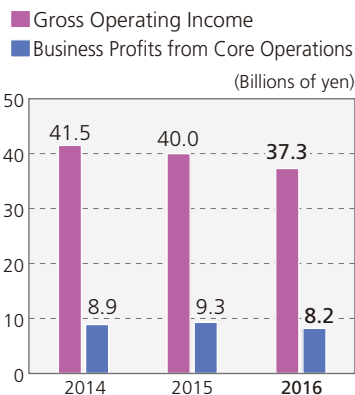


Capital Adequacy Ratio

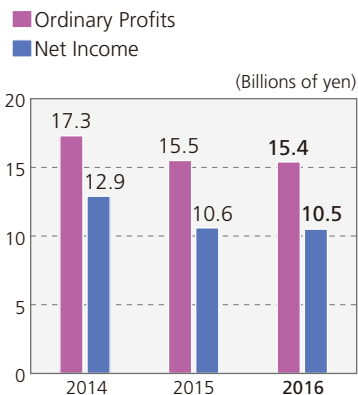


Momiji Bank (Non-Consolidated)

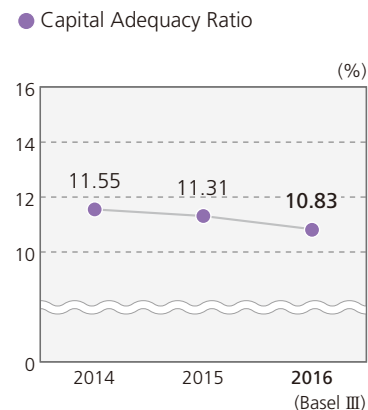
Gross Operating Income/Business Profits From Core Operations



Ordinary Profits/Net Income

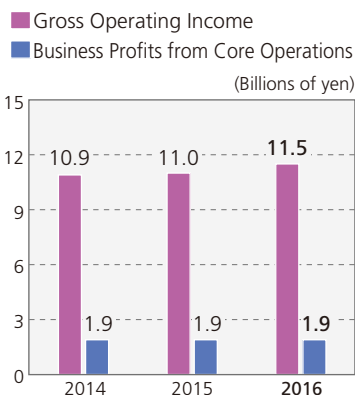


Capital Adequacy Ratio

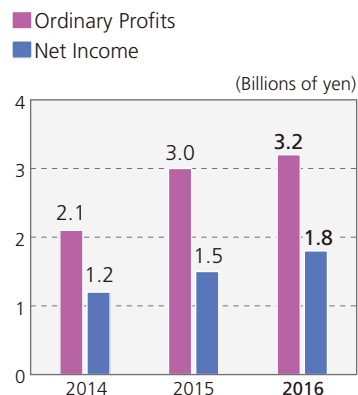


Kitakyushu Bank (Non-Consolidated)

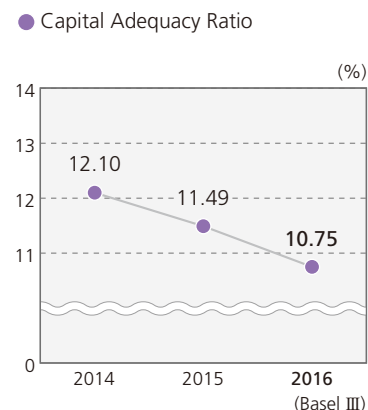
Gross Operating Income/Business Profits From Core Operations



Ordinary Profits/Net Income



Capital Adequacy Ratio



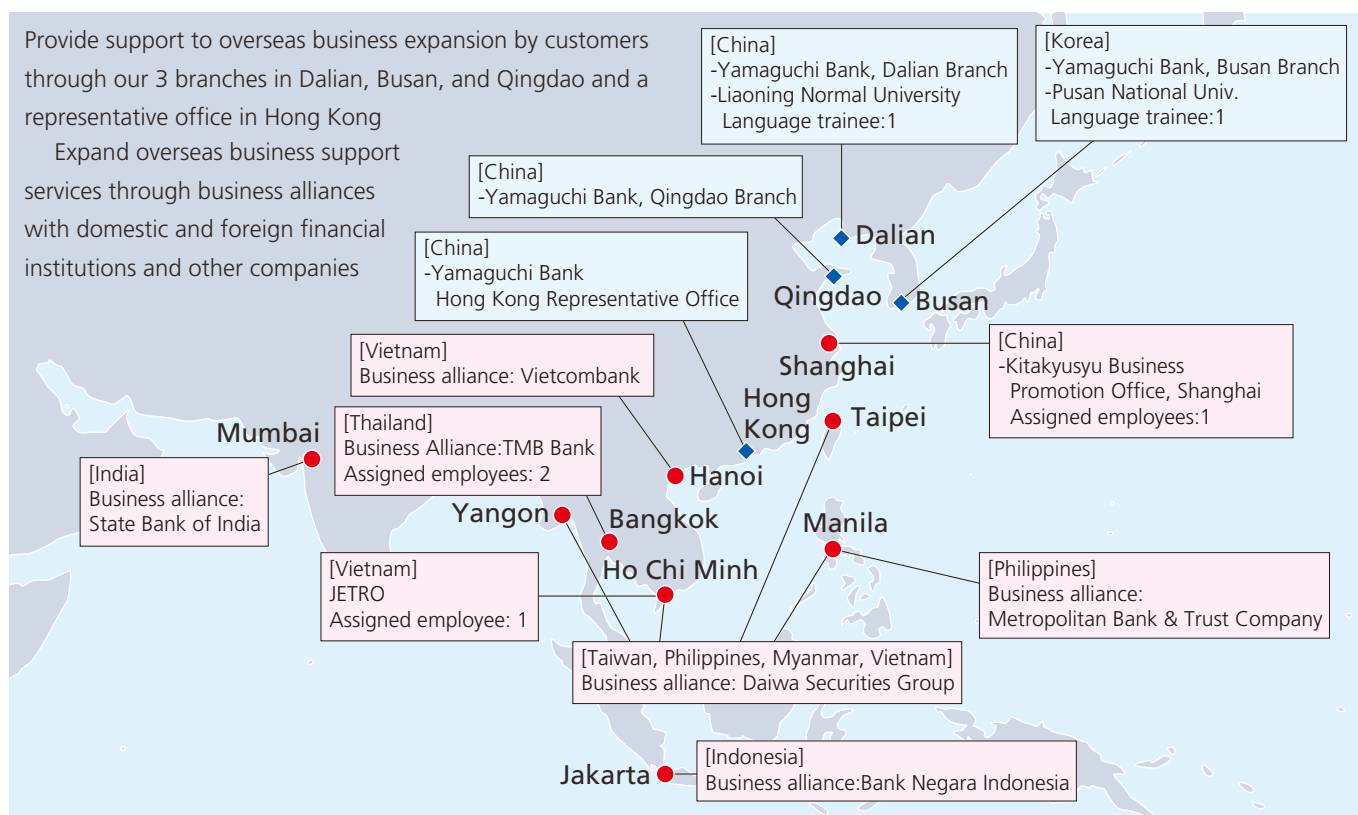
Economies and Industries of Yamaguchi Prefecture, Hiroshima Prefecture, and Kitakyushu City (Reference)

Yamaguchi Prefecture			
<p>Excellent industrial concentration</p> <ul style="list-style-type: none"> • Many plants of major corporations located owing to the excellent transportation network • Concentration of primary material industries such as cement and chemicals owing to the rich mineral resources • Increasing entries of processing and assembly industries such as transportation machinery and more recently the pharmaceutical industry 	<p>Gateway to exchanges with Asia</p> <ul style="list-style-type: none"> • Excellent harbor conditions with 2 international harbors and 4 major harbors in the prefecture • The largest export and import center in the Chugoku region such as auto parts and chemicals • Serves as the production center in western Japan for many global enterprises 	<p>Rich industrial human resources</p> <ul style="list-style-type: none"> • Excellent historical background that has traditionally nurtured the social climate encouraging study and education • Excellent support system under the industry-academic coordination such as joint research between a university and a private-sector company, R&D to develop next generation industries, etc. 	<p>Major companies and plants in Yamaguchi Prefecture</p> <ul style="list-style-type: none"> • Ube Industries Ltd. (cement, chemicals) • Tokuyama Corporation (cement, chemicals) • Chofu Seisakusho Co., Ltd. (metal products) • Mitsubishi Heavy Industries, Ltd. (shipbuilding) • Bridgestone Corporation (rubber) • Nippon Steel & Sumikin Stainless Steel Corporation (steel pipes) • Tosoh Corporation (chemicals)

Hiroshima Prefecture			
<p>The largest industrial prefecture in the Chugoku and Shikoku regions</p> <ul style="list-style-type: none"> • Growth of heavy industries, particularly transportation machinery such as automobiles and shipbuilding, leveraging the technological strength developed through military manufacturing • Ranks No. 12 in Japan in terms of nominal gross prefectural product with a share of 2.3% in Japan. 	<p>Manufacturing industry centered around Mazda Motor Corporation</p> <ul style="list-style-type: none"> • The formation of a group of broad-based automobile-related companies with Mazda Motor Corporation on top of the hierarchy • The shipbuilding industry encompassing middle-ranking and small and medium-sized shipbuilding companies and related manufacturers such as pumps and turbines, which holds the No. 1 share in Japan • Additional concentration of traditional industries such as the fiber industry and the manufacturing of furniture for newlywed couples 	<p>Home of many No. 1 enterprises</p> <ul style="list-style-type: none"> • Many local enterprises in a variety of industries with nationwide reputation and a large domestic market share through leveraging excellent technologies (Refer to the right section) 	<p>Major companies and plants in Hiroshima Prefecture</p> <ul style="list-style-type: none"> • Mazda Motor Corporation (automobile) • Tsuneishi Holdings Corporation (shipbuilding) • Ryobi Limited (non-ferrous metal) • JMS Co., Ltd. (medical equipment) • Molten Corporation (athletic balls) • Aoyama Trading Co., Ltd. (menswear)

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

Overseas Networks



International Department

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

Overseas Offices

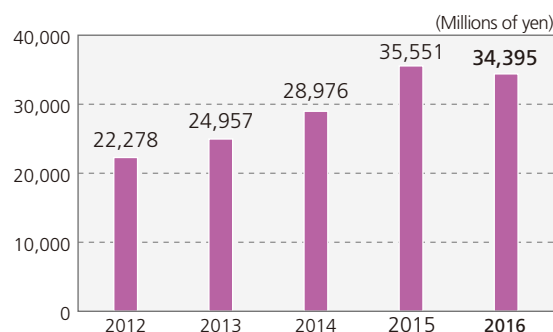
BUSAN BRANCH
4F, Postal Insurance Busan Bldg., Jungang-Dong 3-Ga, 63,
Jungang-Daero, Jung-Gu, Busan, Republic of Korea
SWIFT Address: YMBKCR2P

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

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

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

Loans of overseas branches (As of March 31)



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

Corporate Governance

Based on its management policy of maintaining a sound and proactive enterprising spirit, YMFG aims for management transparency and fair, swift and bold decision-making that will lead to sustainable growth and increases in corporate value over the medium to long term. To this end and recognizing that creating an effective corporate governance system is an important management priority, on an ongoing basis we are pursuing the initiatives described below to enhance our corporate governance.

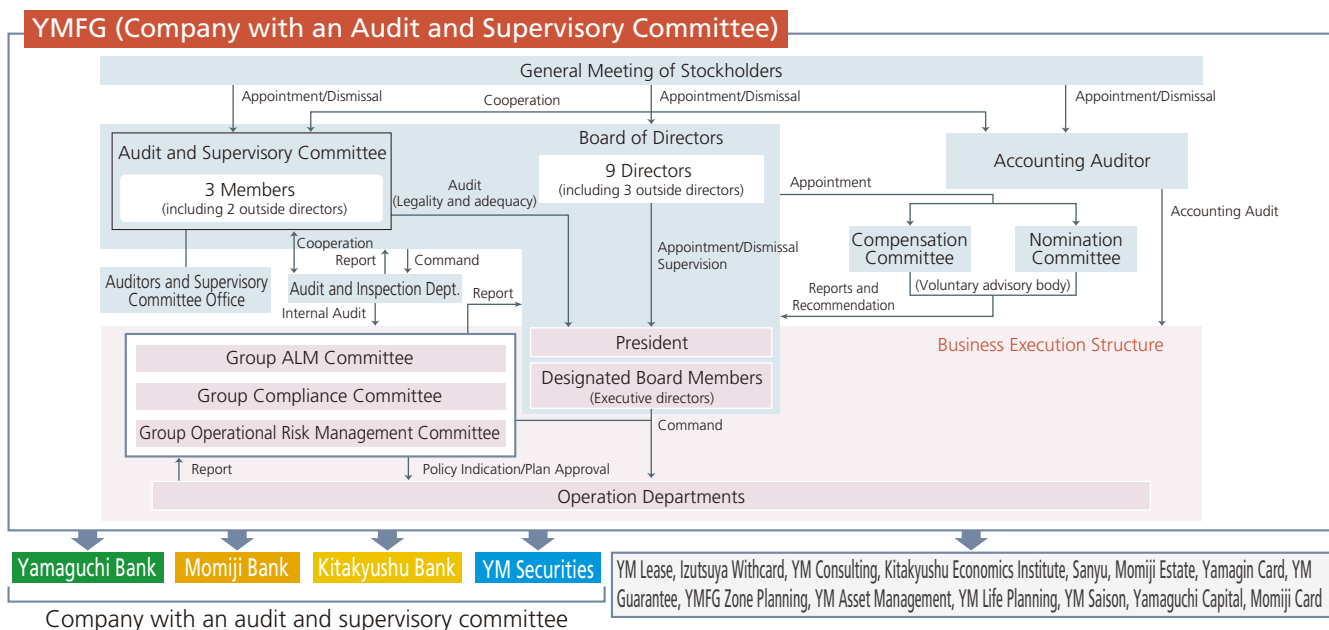
- i. We strive to ensure the rights of shareholders and create an environment that facilitates the appropriate exercise of shareholders' rights and substantive shareholder equality.
- ii. We cooperate closely with our principal stakeholders, including customers, the local community, shareholders and employees.
- iii. We diligently disclose important management-related information to our principal stakeholders.
- iv. We endeavor to ensure the effectiveness of the business execution supervisory and auditing function through the establishment of various institutions, including the Board of Directors.
- v. We create systems to promote constructive dialogue in order to build long-term relationships with shareholders.

The Board of Directors, consisting of nine directors (including three outside directors), makes decisions about important matters related to the Group's management and supervises the directors. The Nomination Committee discusses matters related to the appointment and dismissal of directors, and the Compensation Committee discusses matters related to the compensation of the directors. Both guarantee the objectivity and transparency of decision-making processes.

YMFG has adopted an audit and supervisory committee system. The Audit and Supervisory Committee comprises three directors, of whom two are outside directors. The committee audit the execution of operations by directors, configure, audit and verify the operation of internal control systems at YMFG and its subsidiaries, and prepare audit reports. By having the Audit and Supervisory Committee, which chiefly comprises outside directors, exercise its voting rights at Board of Directors meetings, we endeavor to reinforce its auditing and supervisory function with respect to the Board of Directors and enhance the transparency and speed of the decision-making process.

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

YMFG Corporate Governance Structure



YMFG Board of Directors and Corporate Auditors (As of July 1, 2016)

President
Takeshi Yoshimura

Chairman
Koichi Fukuda

Senior Managing Director
Hirohide Umemoto

Director
Ichinari Koda

Director
Mitsuru Kato

Director
Hiroaki Tamura*

Director
Audit and Supervisory Committee Member
Susumu Fukuda

Director
Audit and Supervisory Committee Member
Kazuo Tsukuda*

Director
Audit and Supervisory Committee Member
Michiaki Kunimasa*

* Hiroaki Tamura, Kazuo Tsukuda and Michiaki Kunimasa are outside directors under Article 15 of Section 2 of the Companies Act.

Internal Audits and Compliance System

Internal Audits

Principles of Internal Audits

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

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

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

Implementation of Internal Audits

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

Group company's internal audits.

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

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

Compliance System

YMFG's Attitude toward Compliance

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

Compliance System

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

The Group Compliance Committee, chaired by the president, acts as a deliberative body. This committee formulates Group compliance programs for each fiscal year and monitors the status of program implementation. The

committee discusses ways to create and reinforce compliance systems, reports the results of these deliberations to the Board of Directors and reflects these results in Group operations.

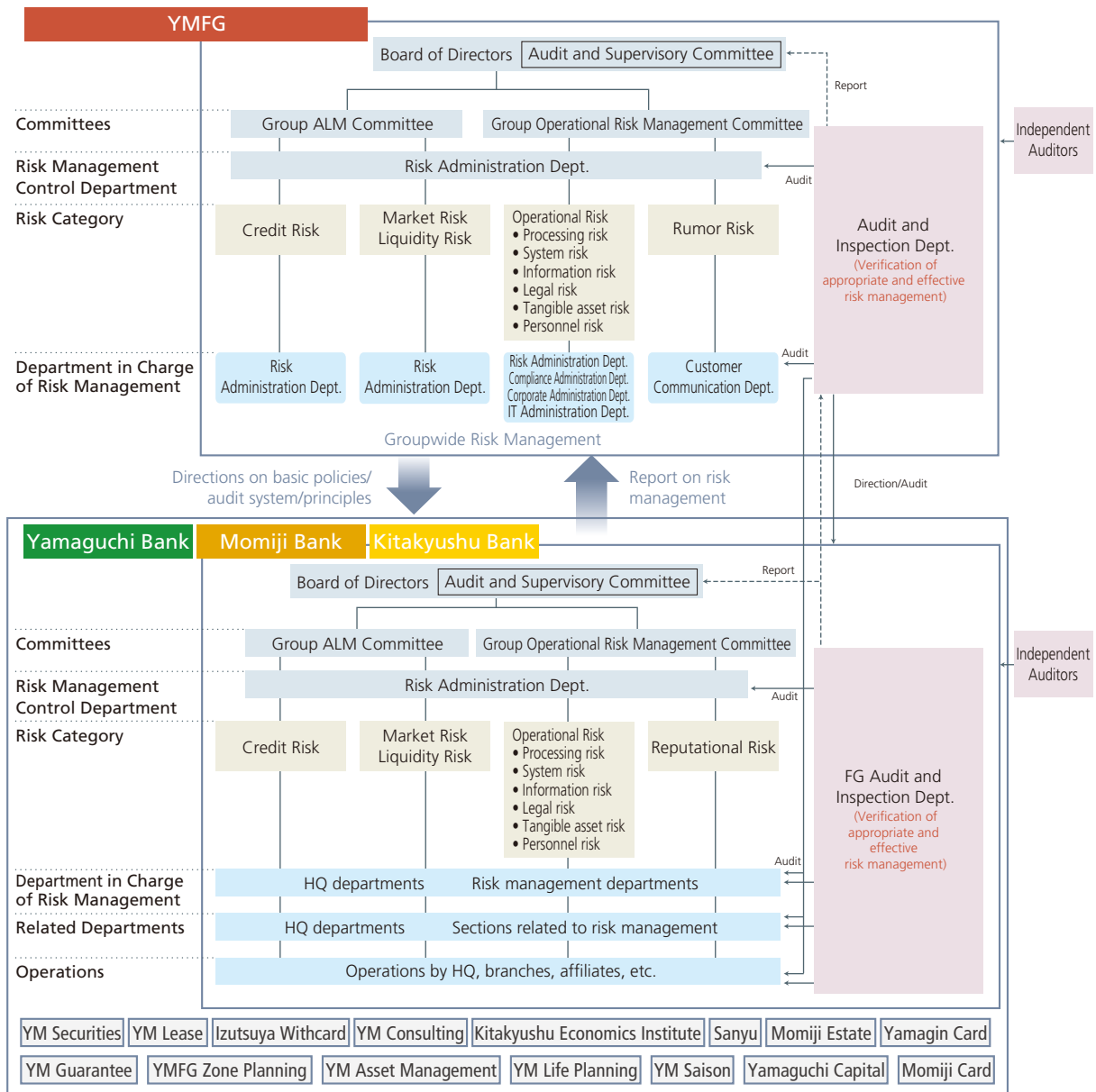
YMFG's Compliance Administration Department communicates with compliance personnel at each Group company and, in accordance with the deliberations of the Group Compliance Committee, ensures the appropriateness of compliance systems for the entire Group.

Efforts to Prevent Money Laundering

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

Risk Management System

YMFG Risk Management System



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

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

The subsidiaries have organized risk management sections, risk management departments and Group Operational Risk Management committee to cope with risks. Risk amounts are

measured by a uniform method, capital is allocated on the basis of these methods, and risks are collectively managed.

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

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

Contributions to the Community and the Environment

Invitation of Foreign Students to Attend Shimonoseki City University

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

Since 1986, The Yamaguchi Bank has invited students from China, Thailand and Turkey to attend Shimonoseki City University. The bank has invited a total of 160 students, offering them housing and financial and lifestyle support to ensure a comfortable study environment.



Foreign students to Shimonoseki City University in fiscal 2016

Japan–China Elementary School Exchanges

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

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

Yamaguchi Bank Cup Japanese Speech Contest

Advancing grassroots international exchange through Japanese language education

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

Efforts on Environmental Issues

Implementing Groupwide Initiatives for the Environment

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

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

Early Lights-Out Campaign Implementation

Period: From June 2009

Actions: Three days each month are designated for early lights out at 6 p.m.

Distributing Eco-Goods

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

Cool Biz Implementation

Period: From June 1 to September 30, 2016

Participants: All Group companies

Actions: As a general rule, indoor temperatures are set to 28°C and suit jackets and neckties are not worn.

Warm Biz Implementation

Period: From December 1, 2015 to March 31, 2016

Participants: All Group companies

Actions: As a general rule, indoor temperatures are set to 20°C.

Financial Section

Financial Section

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YMFG Business Situation

Summary of Business Results

■ Performance

During the fiscal year ended March 31, 2016, the Japanese economy pursued a course of modest recovery, due in part to the impact of various government measures. Production activity showed signs of weakness in some areas, stemming from an economic slowdown in China and other areas of the overseas economy, but remained strong overall. At the same time, in February 2016 the Bank of Japan introduced a negative interest rate policy in an attempt to stave off deflation through further monetary easing.

Meanwhile, the region continued to enjoy a modest recovery. Overall production activity was solid, with strong performance centering on the automotive sector. Personal consumption began to make a compact, amid improvements in the employment and income environment.

Against this backdrop, in line with their mission of contributing to regional economic development, regional financial institutions face requests to deliver stronger financial soundness and profitability, supply funding more flexibly and further enhance their financial services.

■ YMFG Performance

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

In the final year of the "YMFG Medium-Term Management Plan 2013," which commenced in the fiscal year ended March 31, 2014, we strengthened regional relations as a group centered on three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—and worked together with YM Securities, YM Consulting and other Group companies to pursue comprehensive Group capabilities as "One YMFG."

In January 2016, we established YM Asset Management Co., Ltd., in cooperation with the Daiwa Securities Group in an effort to reinforce our asset investment business.

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

In deposit products, we offered time deposits with special interest rates under the "Campaign to deposit your money in YMFG, receive it, and rebuild your hometown" and the "YMFG three arrows lucky campaign."

In loan products, we began handling the "loan to combat unoccupied houses" and the "home loan for UJI turners."

In July 2015, we established YMFG Zone Planning Co., Ltd., as a wholly owned consulting company specializing in regional revitalization. Putting all its efforts into initiatives to address the issues facing the Group's hometown area of Yamaguchi, Hiroshima and Kitakyushu, the new company provides comprehensive business support themed on regional revitalization and aimed at boosting the productivity of the region and the companies located there.

In international operations, Yamaguchi Bank cosponsored the "Seventh Hong Kong and South China Business Networking Event for Japanese Companies" as one of the 17 regional banks with offices in Hong Kong. We also cosponsored the "Vietnam Business Networking Event 2015" in Hanoi in June 2015 and in Ho Chi Minh City in December in collaboration with Joyo Bank, Hyakujushi Bank, Juroku Bank and Nanto Bank, which also use our shared regional bank computer system. Furthermore, to support customers' overseas transactions we concluded a trade insurance business agency agreement with Nippon Export and Investment Insurance. YMFG is reinforcing the Asian network it has constructed in order to facilitate overseas business efforts and will continue to support customers' Asian business developments going forward.

■ Financial Results

YMFG's consolidated operating performance for the year ended March 31, 2016, is outlined below.

Total income amounted to ¥166,858 million, up ¥5,421 million from the preceding fiscal year. The main reasons for this increase were higher other ordinary income, including income on sales of government and other bonds, and an increase in gains on sale of stock.

Total expenses, meanwhile, rose ¥3,877 million, to ¥115,999 million, due to such factors as an increase in other operating expenses. As a result, income before income taxes increased ¥1,544 million, to ¥50,859 million, and net income attributable to owners of the parent rose ¥1,773 million, to ¥32,296 million.

Although interest rates remained low, due to the expansion of products and services to meet increasingly diverse customer needs and steady marketing efforts based on solid community relationships, the Group succeeded in boosting deposits ¥301 billion year on year, to ¥9,510 billion, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥221 billion, to ¥6,449 billion as of March 31, 2016, due to the Group's efforts to fulfill its role as a regional financial institution through its function as a financial intermediary and aggressive efforts to meet demand from business partners with whom the Group has developed trust-based relationships.

The Group's holdings of securities came to ¥2,121

billion at year-end, down ¥203 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,438 billion at fiscal yearend, up ¥243 billion from one year earlier. This rise was attributable to growth in loans and bills discounted, based on the increase in deposits, including NCDs.

At the end of the fiscal year, the consolidated capital adequacy ratio for the Yamaguchi Financial Group (uniform international standard) was 13.37%. Our consolidated total Tier 1 capital adequacy ratio was 12.72%, and our consolidated common equity Tier I capital adequacy ratio was 12.72%.

Net cash provided by operating activities was ¥22 billion, ¥205 billion lower than in the preceding fiscal year, mainly due to change in call loans and negotiable certificates of deposit. Net cash provided by investing activities was ¥222 billion, a ¥399 billion change from cash used in these activities in the previous year, principally because of decreased purchases of securities. Net cash used in financing activities amounted to ¥28 billion, a change of ¥47 billion from the cash provided by these activities in the fiscal year ended March 31, 2015. Principal factors were the absence of proceeds from issuance of bonds with warrants and payments for the redemption of subordinated bonds payable. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥1,159 billion, up ¥216 billion.

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

	Millions of yen 2016	Millions of yen 2015	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars*1 2016
Consolidated total income	166,858	161,437	161,180	158,452	1,480,813
Consolidated net income attributable to owners of the parent	32,296	30,523	31,242	27,233	286,617
Consolidated comprehensive income	7,840	75,211	34,322	51,743	69,578
Consolidated total net assets	583,168	578,388	521,470	521,423	5,175,435
Consolidated total assets	10,438,005	10,195,184	9,635,044	9,327,236	92,634,052
Net assets per share	2,357.89 yen	2,346.56 yen	2,040.02 yen	1,901.30 yen	20.93 U.S. dollars
Current term net income per share	132.43 yen	120.88 yen	120.68 yen	102.48 yen	1.18 U.S. dollars
Current term net income per share (diluted)	109.39 yen	108.24 yen	116.57 yen	102.18 yen	0.97 U.S. dollars
Capital ratio*2	13.37%	13.43%	12.69%	13.34%	
Earnings on equity - increase	5.62%	5.61%	6.04%	5.52%	
Group price earnings ratio	7.72 times	11.44 times	7.70 times	9.28 times	

*1 US dollar amounts have been translated, for convenience only, at the rate of ¥112.68 = US\$1.00 as of March 31, 2016.

*2 YMFG calculated its capital ratio according to the uniform international standard (Basel 3).

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

March 31, 2016 and 2015

ASSETS		Millions of yen	Millions of yen	Thousands of
		2016	2015	U.S. dollars (Note 1)
		2016		
Assets	Cash and due from banks (Notes 3, 4 and 9)	¥ 1,174,642	¥ 965,275	\$ 10,424,583
	Call loans and bills purchased (Note 4)	356,719	283,251	3,165,770
	Monetary claims bought	7,909	8,362	70,190
	Trading assets (Notes 4 and 6)	4,250	6,244	37,717
	Money held in trust (Notes 4 and 6)	47,655	48,096	422,923
	Securities (Notes 4, 5, 6 and 9)	2,120,651	2,323,985	18,820,119
	Loans and bills discounted (Notes 4 and 7)	6,448,887	6,228,014	57,231,869
	Foreign exchanges	14,991	14,281	133,040
	Lease receivables and investment assets	13,785	13,349	122,338
	Other assets	146,530	185,284	1,300,408
	Tangible fixed assets (Notes 10, 11, 16 and 21)	88,666	87,999	786,883
	Intangible fixed assets (Note 21)	9,173	16,886	81,408
	Net defined benefit asset	21,694	33,476	192,528
	Deferred tax assets (Note 22)	2,212	2,880	19,631
	Customers' liabilities for acceptances and guarantees (Note 17)	47,719	52,293	423,491
	Allowance for loan losses	(67,478)	(74,491)	(598,846)
	Total assets	¥ 10,438,005	¥ 10,195,184	\$ 92,634,052

LIABILITIES AND NET ASSETS

Liabilities	Deposits (Notes 4 and 9)	¥ 9,510,090	¥ 9,209,080	\$ 84,399,095
	Call money and bills sold (Note 9)	73,343	75,071	650,896
	Payables under securities lending transactions (Note 9)	32,001	24,028	283,999
	Trading liabilities (Notes 4 and 6)	3,525	5,424	31,283
	Borrowed money (Notes 9 and 13)	34,553	39,822	306,647
	Foreign exchanges	375	309	3,328
	Bonds payable (Notes 4 and 14)	—	25,000	—
	Bonds with warrants	67,608	72,102	600,000
	Other liabilities	63,755	81,218	565,806
	Provision for bonuses	3,439	3,015	30,520
	Net defined benefit liability	2,057	3,467	18,255
	Provision for directors' retirement benefits	40	36	355
	Provision for loss on interest repayments	30	37	266
	Provision for reimbursement of deposits	1,405	1,357	12,469
	Provision for customers point services	75	71	666
	Reserves under special laws	18	12	160
	Deferred tax liabilities (Note 22)	3,932	12,991	34,895
	Deferred tax liabilities for land revaluation (Notes 16 and 22)	10,872	11,463	96,486
	Acceptances and guarantees (Note 17)	47,719	52,293	423,491
	Total liabilities	9,854,837	9,616,796	87,458,617
Net Assets (Notes 21 and 22)	Capital stock	50,000	50,000	443,734
	Capital surplus	60,781	59,686	539,412
	Retained earnings	415,101	386,187	3,683,893
	Treasury stock	(23,426)	(24,320)	(207,898)
	Total shareholders' equity	502,456	471,553	4,459,141
	Unrealized gains on available-for-sale securities	54,020	71,146	479,411
	Deferred losses on hedges	(307)	(316)	(2,725)
	Revaluation reserve for land (Note 16)	24,523	23,994	217,634
	Remeasurements of defined benefit plans	(3,289)	5,003	(29,189)
	Total accumulated other comprehensive income	74,947	99,827	665,131
	Stock options	601	512	5,334
Non-controlling interests	5,164	6,496	45,829	
Total net assets	583,168	578,388	5,175,435	
Total liabilities and net assets	¥ 10,438,005	¥ 10,195,184	\$ 92,634,052	

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2016 and 2015

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Income			
Interest income:			
Interest on loans and discounts	¥ 76,625	¥ 78,181	\$ 680,023
Interest and dividends on securities	20,377	25,326	180,840
Other interest income	2,021	1,289	17,936
Trust fees	1	1	9
Fees and commissions	24,304	24,348	215,690
Trading income	1,816	2,574	16,116
Other operating income	22,009	14,580	195,323
Recoveries of written-off claims	15	321	133
Negative goodwill generated	—	2,391	—
Gain on returns of retirement benefit trust	1,339	—	11,883
Other income (Note 18)	18,351	12,426	162,860
Total income	166,858	161,437	1,480,813
Expenses			
Interest expense:			
Interest on deposits	6,574	6,859	58,342
Interest on borrowings and rediscounts	833	684	7,393
Interest on bonds payable	107	418	950
Other interest expense	378	283	3,355
Fees and commissions payments	7,871	7,465	69,853
Trading expenses	25	—	222
Other operating expenses	17,035	7,318	151,180
General and administrative expenses (Note 19)	79,101	85,423	701,997
Impairment losses (Note 12)	118	132	1,047
Losses related to staged acquisition	—	200	—
Other expenses (Note 20)	3,957	3,340	35,116
Total expenses	115,999	112,122	1,029,455
Income before income taxes	50,859	49,315	451,358
Income taxes (Note 22):			
Current	13,450	11,244	119,365
Deferred	4,721	6,992	41,897
Net income	32,688	31,079	290,096
Net income attributable to non-controlling interests	392	556	3,479
Net income attributable to owners of the parent	¥ 32,296	¥ 30,523	\$ 286,617

	Yen 2016	Yen 2015	U.S. dollars (Note 1) 2016
Amounts per share of common stock:			
Net income attributable to owners of the parent (Note 30)	¥ 132.43	¥ 120.88	\$ 1.18

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended March 31, 2016 and 2015

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Net income	¥ 32,688	¥ 31,079	\$ 290,096
Other comprehensive income (Note 27)	(24,848)	44,132	(220,518)
Unrealized gains (losses) on available-for-sale securities	(17,136)	34,454	(152,076)
Deferred gains (losses) on hedges	9	36	80
Revaluation reserve for land	571	1,187	5,067
Remeasurements of defined benefit plans	(8,292)	8,468	(73,589)
Share of other comprehensive income in affiliated companies accounted for using equity method	(0)	(13)	(0)
Comprehensive income (Note 27)	7,840	75,211	69,578
Comprehensive income attributable to owners of the parent	7,459	74,645	66,197
Comprehensive income attributable to non-controlling interests	381	566	3,381

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2016 and 2015

	Millions of yen												
	Shareholders' Equity					Accumulated other comprehensive income					Stock options	Non-controlling interests	Total Net Assets
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized gains on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at 31st March 2014	¥50,000	¥59,713	¥361,184	¥(10,393)	¥460,504	¥ 36,706	¥(352)	¥22,845	¥(3,465)	¥ 55,734	¥431	¥ 4,801	¥521,470
Cumulative effects of changes in accounting policies			(1,994)		(1,994)								(1,994)
Restated balance	50,000	59,713	359,190	(10,393)	458,510	36,706	(352)	22,845	(3,465)	55,734	431	4,801	519,476
Changes of items during the year													
Dividend paid			(3,564)		(3,564)								(3,564)
Net income attributable to owners of the parent			30,523		30,523								30,523
Purchase of treasury stock				(14,320)	(14,320)								(14,320)
Disposal of treasury stock		(27)		407	380								380
Increase in treasury stock associated with an increase in consolidated subsidiaries				(29)	(29)								(29)
Decrease in treasury stock associated with a decrease in affiliates accounted for under the equity method				15	15								15
Reversal of revaluation reserve for land			38		38								38
Net changes of items other than shareholders' equity						34,440	36	1,149	8,468	44,093	81	1,695	45,869
Total changes of items during the year	—	(27)	26,997	(13,927)	13,043	34,440	36	1,149	8,468	44,093	81	1,695	58,912
Balance at 31st March 2015	¥50,000	¥59,686	¥386,187	¥(24,320)	¥471,553	¥ 71,146	¥(316)	¥23,994	¥ 5,003	¥ 99,827	¥512	¥ 6,496	¥578,388
Changes of items during the year													
Dividend paid			(3,424)		(3,424)								(3,424)
Net income attributable to owners of the parent			32,296		32,296								32,296
Purchase of treasury stock				(40)	(40)								(40)
Disposal of treasury stock		10		877	887								887
Reversal of revaluation reserve for land			42		42								42
Changes of consolidated subsidiaries		1,085		57	1,142								1,142
Net changes of items other than shareholders' equity						(17,126)	9	529	(8,292)	(24,880)	89	(1,332)	(26,123)
Total changes of items during the year	—	1,095	28,914	894	30,903	(17,126)	9	529	(8,292)	(24,880)	89	(1,332)	4,780
Balance at 31st March 2016	¥50,000	¥60,781	¥415,101	¥(23,426)	¥502,456	¥ 54,020	¥(307)	¥24,523	¥(3,289)	¥ 74,947	¥601	¥ 5,164	¥583,168

	Thousands of U.S. dollars (Note 1)												
	Shareholders' Equity					Accumulated other comprehensive income					Stock options	Non-controlling interests	Total Net Assets
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized gains on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at 31st March 2015	\$443,734	\$529,695	\$3,427,290	\$(215,832)	\$4,184,887	\$ 631,399	\$(2,804)	\$212,939	\$ 44,400	\$ 885,934	\$4,544	\$ 57,650	\$5,133,015
Changes of items during the year													
Dividend paid			(30,387)		(30,387)								(30,387)
Net income attributable to owners of the parent			286,617		286,617								286,617
Purchase of treasury stock				(355)	(355)								(355)
Disposal of treasury stock		89		7,783	7,872								7,872
Reversal of revaluation reserve for land			373		373								373
Changes of consolidated subsidiaries		9,628		506	10,134								10,134
Net changes of items other than shareholders' equity						(151,988)	79	4,695	(73,589)	(220,803)	790	(11,821)	(231,834)
Total changes of items during the year	—	9,717	256,603	7,934	274,254	(151,988)	79	4,695	(73,589)	(220,803)	790	(11,821)	42,420
Balance at 31st March 2016	\$443,734	\$539,412	\$3,683,893	\$(207,898)	\$4,459,141	\$ 479,411	\$(2,725)	\$217,634	\$(29,189)	\$ 665,131	\$5,334	\$ 45,829	\$5,175,435

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2016 and 2015

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 50,859	¥ 49,315	\$ 451,358
Depreciation	7,093	10,518	62,948
Impairment losses	118	132	1,047
Amortization of goodwill	4,931	4,935	43,761
Negative goodwill generated	—	(2,391)	—
Losses related to staged acquisition	—	200	—
Equity in earnings of affiliates	(4)	(44)	(35)
Net change in allowance for loan losses	(7,012)	(12,203)	(62,229)
Net change in provision for bonuses	424	(78)	3,763
Net change in defined benefit asset	11,783	(10,594)	104,570
Net change in defined benefit liability	(1,411)	(1,012)	(12,522)
Net change in provision for directors' retirement benefits	3	9	27
Net change in provision for loss on interest repayments	(7)	(25)	(62)
Net change in provision for reimbursement of deposits	47	250	417
Net change in provision for customers point services	4	3	35
Net change in reserves under special laws	6	5	53
Interest income	(99,022)	(104,797)	(878,789)
Interest expenses	7,893	8,244	70,048
Net gains related to securities transactions	(18,751)	(12,936)	(166,409)
Net losses (gains) from money held in trust	(639)	1,162	(5,671)
Net exchange gains	2,329	(13,554)	20,669
Net losses from disposition of fixed assets	74	70	657
Gain on returns of retirement benefit trust	(1,339)	—	(11,883)
Net change in trading assets	1,994	(492)	17,696
Net change in trading liabilities	(1,899)	2,236	(16,853)
Net change in loans and bills discounted	(220,873)	(263,881)	(1,960,179)
Net change in deposits	262,139	294,519	2,326,402
Net change in negotiable certificates of deposits	38,871	149,596	344,968
Net change in borrowed money excluding subordinated loans	(5,269)	10,053	(46,761)
Net change in deposits with bank	6,358	18,559	56,425
Net change in call loans and bills purchased	(73,015)	32,454	(647,985)
Net change in call money and bills sold	(1,727)	(3,826)	(15,327)
Net change in payables under securities lending transactions	7,973	10,759	70,758
Net change in foreign exchanges (asset account)	(710)	1,216	(6,301)
Net change in foreign exchanges (liability account)	66	22	586
Net change in lease receivables and investment assets	(436)	(13,349)	(3,869)
Net change in issuance and redemption of unsecured bonds payable	—	(20,000)	—
Interest received	95,775	97,621	849,973
Interest paid	(7,620)	(11,091)	(67,625)
Other, net	(25,765)	15,000	(228,657)
Subtotal	33,241	236,605	295,004
Income taxes paid	(11,432)	(10,385)	(101,456)
Income taxes refunds	2	994	18
Net cash provided by operating activities	21,811	227,214	193,566
Cash flows from investing activities:			
Purchases of securities	(1,800,773)	(3,063,268)	(15,981,302)
Proceeds from sales of securities	1,782,358	2,775,634	15,817,874
Proceeds from maturity of securities	243,846	113,275	2,164,058
Purchases of money held in trust	(8,499)	(11,000)	(75,426)
Proceeds from sales of money held in trust	9,768	11,574	86,688
Purchases of tangible fixed assets	(2,737)	(1,936)	(24,290)
Proceeds from sales of tangible fixed assets	16	37	142
Purchases of intangible fixed assets	(2,061)	(1,367)	(18,291)
Purchases of shares in subsidiaries associated with changes in the scope of consolidation	—	(94)	—
Net cash provided by (used in) investing activities	221,918	(177,145)	1,969,453
Cash flows from financing activities:			
Proceeds from issuance of bonds with warrants	—	36,051	—
Decrease in subordinated bonds payable	(25,000)	—	(221,867)
Dividends paid	(3,424)	(3,564)	(30,387)
Dividends paid to non-controlling shareholders	(2)	(1)	(18)
Purchases of treasury stock	(40)	(14,319)	(355)
Proceeds from disposal of treasury stock	462	508	4,100
Proceeds from sales of shares in subsidiaries that are not associated with changes in the scope of consolidation	18	—	160
Net cash provided by (used in) financing activities	(27,986)	18,675	(248,367)
Effect of exchange rate changes on cash and cash equivalents	(18)	33	(159)
Net change in cash and cash equivalents	215,725	68,777	1,914,493
Cash and cash equivalents at the beginning of fiscal year	942,982	874,205	8,368,672
Cash and cash equivalents at the end of fiscal year (Note 3)	¥ 1,158,707	¥ 942,982	\$ 10,283,165

See accompanying notes.

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

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.

- 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

- 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.



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Yamaguchi Financial Group, Inc. ("YMFG") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of YMFG and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 1, 2016
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Yamaguchi Bank Financial Statements

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2016 and 2015

ASSETS		Millions of yen	Millions of yen	Thousands of
		2016	2015	U.S. dollars
				2016
Assets	Cash and due from banks	¥ 758,297	¥ 531,489	\$ 6,729,650
	Call loans and bills purchased	322,664	263,224	2,863,543
	Monetary claims bought	7,160	7,769	63,543
	Trading assets	3,584	5,563	31,807
	Money held in trust	45,095	44,306	400,204
	Securities	1,413,070	1,584,517	12,540,557
	Loans and bills discounted	3,481,850	3,450,436	30,900,337
	Foreign exchanges	7,711	8,272	68,433
	Other assets	53,394	91,574	473,857
	Tangible fixed assets	44,358	45,337	393,663
	Intangible fixed assets	2,670	3,269	23,695
	Prepaid pension cost	17,553	17,382	155,777
	Customers' liabilities for acceptances and guarantees	25,098	30,541	222,737
	Allowance for loan losses	(25,707)	(29,067)	(228,142)
	Total assets	¥ 6,156,797	¥ 6,054,612	\$ 54,639,661

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 5,568,117	¥ 5,454,733	\$ 49,415,309
	Call money and bills sold	72,537	76,790	643,743
	Payables under securities lending transactions	32,001	12,329	283,999
	Trading liabilities	3,619	5,631	32,118
	Borrowed money	8,482	9,765	75,275
	Foreign exchanges	1,343	3,052	11,919
	Other liabilities	38,321	57,855	340,086
	Provision for bonuses	1,440	1,554	12,780
	Provision for retirement benefits	106	106	941
	Provision for reimbursement of deposits	946	933	8,395
	Reserve for frequent users services	45	43	399
	Deferred tax liabilities	12,752	18,099	113,170
	Deferred tax liabilities for land revaluation	7,414	7,820	65,797
	Acceptances and guarantees	25,098	30,541	222,737
	Total liabilities	5,772,221	5,679,251	51,226,668
Net assets:	Capital stock	10,006	10,006	88,800
	Capital surplus	380	380	3,372
	Retained earnings	315,458	293,793	2,799,593
	Total shareholders' equity	325,844	304,179	2,891,765
	Net unrealized gains on securities	42,262	55,083	375,062
	Deferred gains or losses on hedges	(286)	(303)	(2,538)
	Revaluation reserve for land	16,756	16,402	148,704
	Total valuation and translation adjustments	58,732	71,182	521,228
	Total net assets	384,576	375,361	3,412,993
	Total liabilities, and net assets	¥ 6,156,797	¥ 6,054,612	\$ 54,639,661

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2016 and 2015

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Income			
Interest income:			
Interest on loans and discounts	¥ 40,638	¥ 41,408	\$ 360,650
Interest and dividends on securities	13,272	16,014	117,785
Other interest income	1,500	1,002	13,312
Fees and commissions	11,519	11,833	102,228
Trading income	30	54	266
Other ordinary income	10,183	8,962	90,371
Other income	11,595	5,789	102,901
Total income	88,737	85,062	787,513

Expenses			
Interest expense:			
Interest on deposits	4,201	4,171	37,283
Interest on borrowings and rediscounts	684	586	6,070
Other interest expense	146	165	1,296
Fees and commissions payments	4,116	4,045	36,528
Other operating expenses	8,212	4,481	72,879
General and administrative expenses	32,853	37,990	291,560
Impairment losses	59	0	524
Other expenses	2,420	2,296	21,476
Total expenses	52,691	53,734	467,616
Income before income taxes and minority interests	36,046	31,328	319,897
Income taxes:			
Current	9,423	9,764	83,626
Deferred	1,916	1,557	17,004
Net income	¥ 24,707	¥ 20,007	\$ 219,267

Amounts per share of common stock:	Yen 2016	Yen 2015	U.S. dollars 2016
	Net income	¥ 123.53	¥ 100.03
Cash dividends applicable to the year	15.00	14.00	0.13

Momiji Bank Financial Statements

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2016 and 2015

ASSETS		Millions of yen	Millions of yen	Thousands of
		2016	2015	U.S. dollars
		2016	2015	2016
Assets	Cash and due from banks	¥ 330,510	¥ 355,974	\$ 2,933,174
	Call loans and bills purchased	40,069	20,092	355,600
	Monetary claims bought	749	593	6,647
	Trading assets	698	696	6,195
	Securities	675,817	708,923	5,997,666
	Loans and bills discounted	2,034,562	2,006,372	18,056,106
	Foreign exchanges	4,928	3,366	43,734
	Other assets	78,617	76,365	697,702
	Tangible fixed assets	34,536	33,738	306,496
	Intangible fixed assets	3,358	5,612	29,801
	Prepaid pension cost	8,704	7,337	77,245
	Deferred tax assets	9,763	10,271	86,644
	Customers' liabilities for acceptances and guarantees	12,574	12,816	111,590
	Allowance for loan losses	(25,753)	(28,126)	(228,550)
	Total assets	¥ 3,209,132	¥ 3,214,029	\$ 28,480,050

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 2,980,638	¥ 2,945,565	\$ 26,452,236
	Call money and bills sold	947	1,122	8,404
	Payables under securities lending transactions	—	11,699	—
	Borrowed money	13,944	17,291	123,749
	Foreign exchanges	57	61	506
	Other liabilities	13,940	12,470	123,714
	Provision for bonuses	1,278	942	11,342
	Provision for retirement benefits	1,620	2,096	14,377
	Provision for reimbursement of deposits	380	353	3,372
	Deferred tax liabilities for land revaluation	4,470	4,709	39,670
	Acceptances and guarantees	12,574	12,816	111,590
	Total liabilities	3,029,848	3,009,124	26,888,960
Net assets:	Capital stock	10,000	87,466	88,747
	Capital surplus	89,533	42,067	794,577
	Retained earnings	67,579	58,538	599,743
	Total shareholders' equity	167,112	188,071	1,483,067
	Net unrealized gains on securities	3,751	8,632	33,289
	Deferred gains or losses on hedges	(29)	(21)	(257)
	Revaluation reserve for land	8,450	8,223	74,991
	Total valuation and translation adjustments	12,172	16,834	108,023
	Total net assets	179,284	204,905	1,591,090
	Total liabilities, and net assets	¥ 3,209,132	¥ 3,214,029	\$ 28,480,050

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2016 and 2015

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Income			
Interest income:			
Interest on loans and discounts	¥ 25,819	¥ 26,721	\$ 229,136
Interest and dividends on securities	7,694	9,027	68,282
Other interest income	237	241	2,103
Fees and commissions	7,035	7,134	62,433
Other ordinary income	3,260	2,778	28,931
Other income	6,849	5,737	60,783
Total income	50,894	51,638	451,668

Expenses			
Interest expense:			
Interest on deposits	1,492	1,791	13,241
Interest on borrowings and rediscounts	50	55	444
Other interest expense	231	111	2,050
Fees and commissions payments	3,438	3,251	30,511
Other operating expenses	1,577	678	13,995
General and administrative expenses	27,374	29,449	242,936
Impairment losses	16	28	151
Other expenses	1,310	892	11,626
Total expenses	35,489	36,255	314,954
Income before income taxes and minority interests	15,405	15,383	136,714
Income taxes:			
Current	2,371	195	21,042
Deferred	2,547	4,557	22,604
Net income	¥ 10,487	¥ 10,631	\$ 93,068

Amounts per share of common stock:	Yen 2016	Yen 2015	U.S. dollars 2016
	Net income	¥ 17.85	¥ 17.89
Cash dividends applicable to the year	1.91	2.65	0.02

Kitakyushu Bank Financial Statements

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2016 and 2015

ASSETS		Millions of yen	Millions of yen	Thousands of
		2016	2015	U.S. dollars
Assets	Cash and due from banks	¥ 85,263	¥ 76,871	\$ 756,683
	Call loans and bills purchased	140	2,841	1,242
	Securities	30,943	30,306	274,610
	Loans and bills discounted	955,100	869,186	8,476,216
	Foreign exchanges	3,536	5,494	31,381
	Other assets	9,240	13,350	82,002
	Tangible fixed assets	19,477	18,677	172,852
	Intangible fixed assets	964	1,349	8,555
	Prepaid pension cost	925	864	8,209
	Deferred tax assets	—	316	—
	Customers' liabilities for acceptances and guarantees	10,047	8,936	89,164
	Allowance for loan losses	(14,116)	(15,369)	(125,275)
	Total assets	¥ 1,101,519	¥ 1,012,821	\$ 9,775,639

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 977,420	¥ 894,880	\$ 8,674,299	
	Call money and bills sold	6,014	65	53,372	
	Borrowed money	1,061	1,154	9,416	
	Foreign exchanges	159	47	1,411	
	Other liabilities	10,184	13,578	90,379	
	Provision for bonuses	377	356	3,346	
	Provision for retirement benefits	1,161	1,145	10,304	
	Provision for reimbursement of deposits	78	71	692	
	Deferred tax liabilities for land revaluation	3,458	3,643	30,689	
	Acceptances and guarantees	10,047	8,936	89,164	
	Total liabilities	1,009,999	923,875	8,963,427	
	Net assets:	Capital stock	10,000	10,000	88,747
		Retained earnings	65,382	63,539	580,245
Total shareholders' equity		75,382	73,539	668,992	
Net unrealized gains on securities		8,371	7,816	74,290	
Revaluation reserve for land		7,767	7,591	68,930	
Total valuation and translation adjustments		16,138	15,407	143,220	
Total net assets		91,520	88,946	812,212	
Total liabilities, and net assets	¥ 1,101,519	¥ 1,012,821	\$ 9,775,639		

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2016 and 2015

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Income			
Interest income:			
Interest on loans and discounts	¥ 10,639	¥ 10,384	\$ 94,418
Interest and dividends on securities	418	355	3,710
Other interest income	52	63	461
Fees and commissions	1,575	1,496	13,978
Other ordinary income	417	257	3,701
Other income	1,315	1,361	11,670
Total income	14,416	13,916	127,938

Expenses			
Interest expense:			
Interest on deposits	892	907	7,916
Other interest expense	11	12	97
Fees and commissions payments	715	627	6,345
General and administrative expenses	9,486	9,255	84,185
Impairment losses	42	112	373
Other expenses	201	136	1,785
Total expenses	11,347	11,049	100,701
Income before income taxes and minority interests	3,069	2,867	27,237
Income taxes:			
Current	880	476	7,810
Deferred	352	884	3,124
Net income	¥ 1,837	¥ 1,507	\$ 16,303

	Yen 2016	Yen 2015	U.S. dollars 2016
Amounts per share of common stock:			
Net income	¥ 1,837,055	¥ 1,506,950	\$ 16,303.29



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