

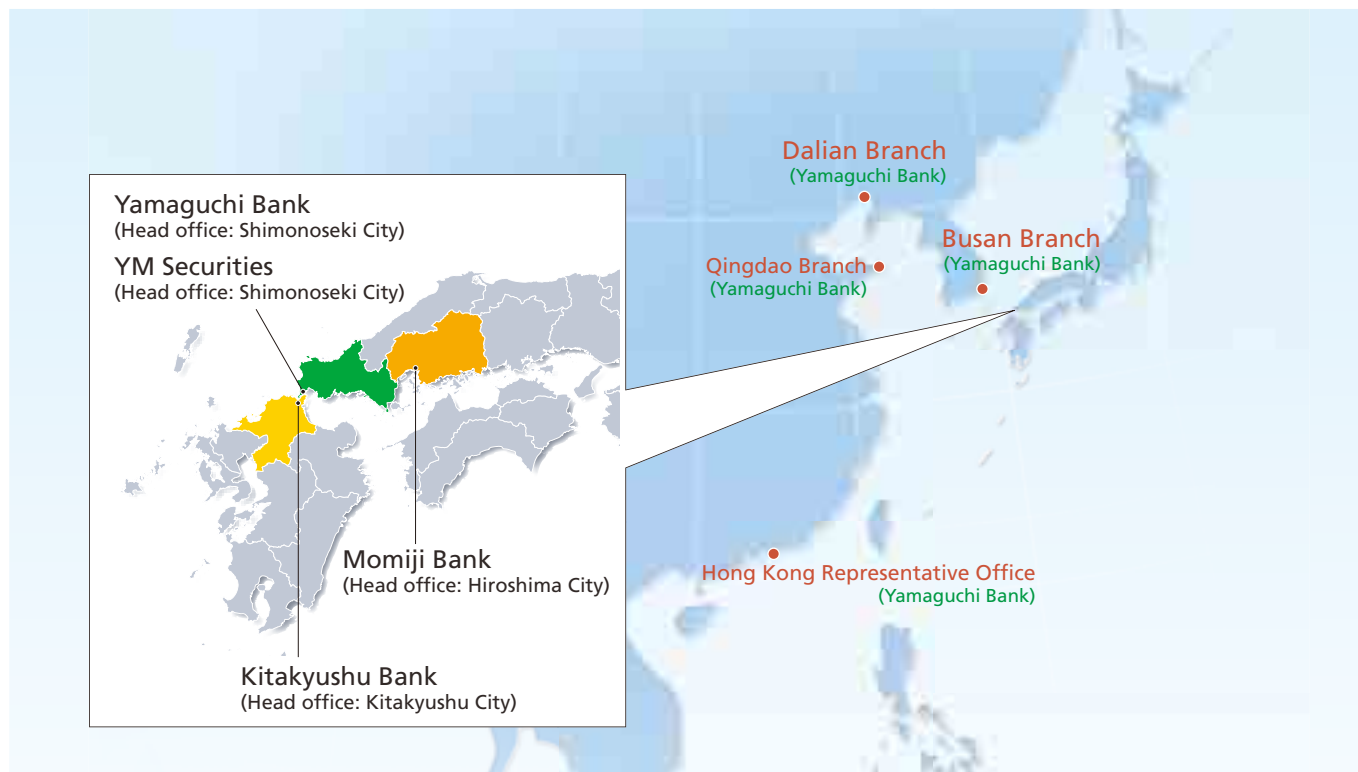
To be a financial group that nurtures and grows with our region



**ANNUAL REPORT 2017**

For the year ended March 31, 2017

## YMFG Networks



### ● Yamaguchi Bank

Networks in Japan: 132 (109 head office and branch offices, 23 sub-branch offices)  
Networks in overseas: 4 (3 branch offices, 1 representative office)



### ● Momiji Bank

Networks in Japan: 114 (98 head office and branch offices, 16 sub-branch offices)



### ● Kitakyushu Bank

Networks in Japan: 36 (36 head office and branch offices)



### ● 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, 2017)

**¥10.2**  
trillion

### Total Assets (Consolidated)

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

**¥31.6**  
billion

### Net Income (Consolidated)

Net income decreased ¥0.7 billion year on year, to ¥31.6 billion.

**¥9.3**  
trillion

### Deposit Balance (Three Banks)

Liquid deposits and time and savings deposits were robust.

**¥6.8**  
trillion

### Balance of Loans (Three Banks)

Principal contributors to the increase were rises in housing loans and loans to small and medium-sized enterprises.

**13.91**  
%

### Capital Ratio (Basel 3) (Consolidated)

This represented a year-on-year increase of 0.54 percentage point.

**13.64**  
%

### Tier 1 Ratio (Basel 3) (Consolidated)

This ratio was up 0.92 percentage point.

**1.33**  
%

### Non-Performing Loan Ratio (Three Banks)

Our non-performing loan ratio improved, dropping by 0.29 percentage point.

**A**  
(Negative)  
R & I

### Credit Rating (YMFG)

Date of rating announcement: August 26, 2016



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

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

This annual report provides an overview of the Group and its business results for the fiscal year ended March 31, 2017, and is designed to help you understand more about YMFG.

October 2016 marked YMFG’s 10th anniversary. During this period, we have established such subsidiaries as YM Securities and YM Consulting and reinforced our functions, bolstering the Group’s comprehensive financial capabilities. We have also engaged in unique initiatives closely attuned to our region, such as establishing Kitakyushu Bank and YMFG Zone Planning, a consulting company targeting regional revitalization. In these ways, we are working to grow in tandem with our region.

The YMFG Medium-Term Management Plan 2016, which commenced in April 2016, defines “consulting first” as a behavioral guidelines for all employees. Under this plan, we will work to enhance the service quality of all employees in order to increase our

ability to respond to customers’ asset investment and management consultation needs.

Going forward, we will strive to enhance corporate value, contribute to the development of the regional economy, and provide the best possible services for the people in our region. As a corporate group, we are working to build a stable and highly effective corporate governance system to increase the transparency of Group management and meet our duty of accountability to stakeholders.

We look forward to your continued patronage and support.

August 2017



**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

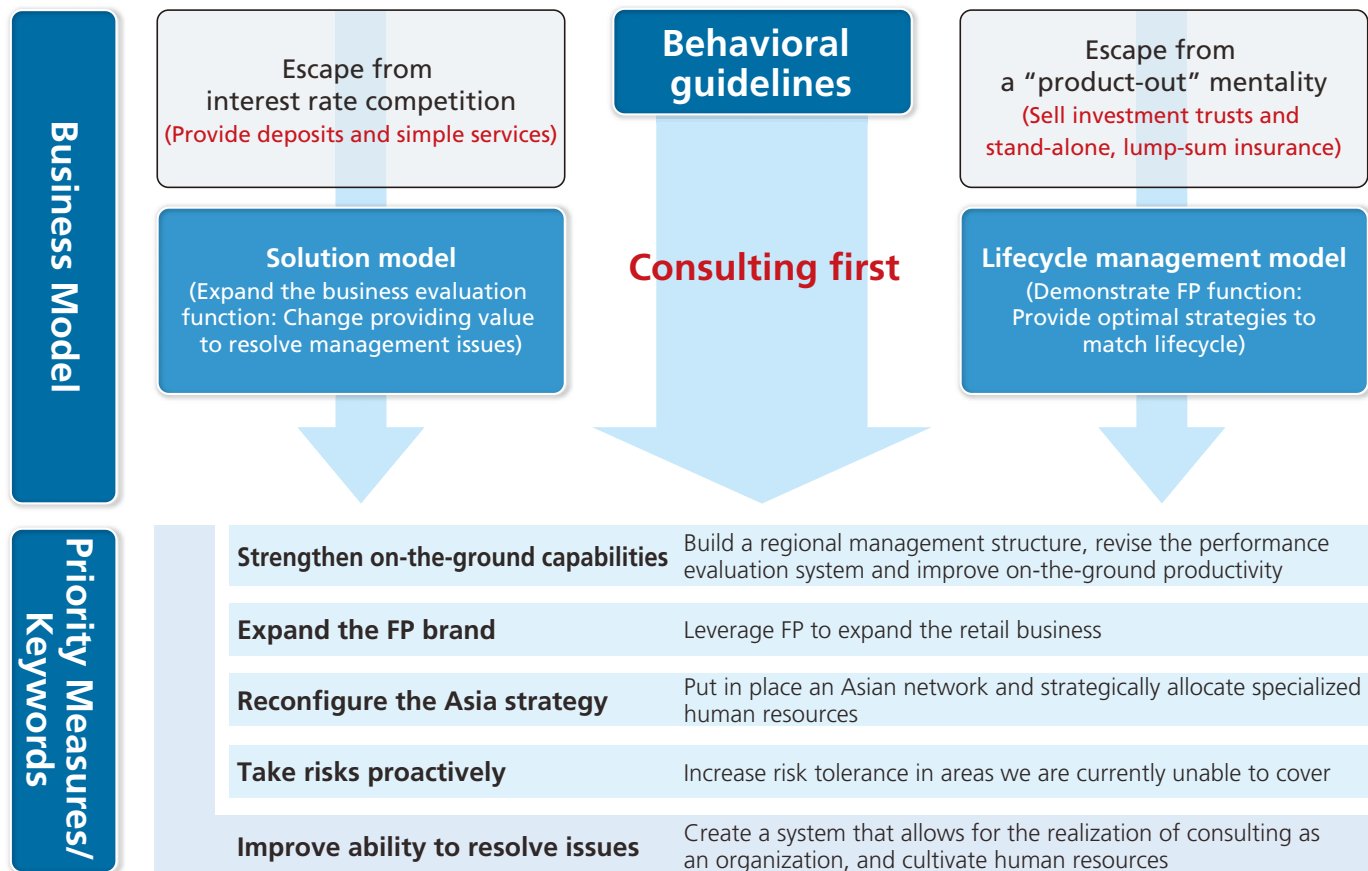
**Road to “YMFG Zone”**  
Zone of Over-regional Network Economy

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.



# Benchmarks for Realizing the Financial Intermediary Function (Overview of Results and Plans)

	Fiscal year ended March 31, 2017 (Actual)	Fiscal year ending March 31, 2018 (Plan)	
<b>Shared</b>	Potential financing recipients evaluated for business viability and amount of financing	Note: In FY03/17, defined number of potential investees evaluated for business viability as one per company	Increase by 10% (year on year) the amount of financing provided to around 2,100 potential recipients
	Recipients setting up first or second companies	1,937	2,500
	State of progress on management improvement plans for recipients whose conditions have changed	Business failures (with plans): 264	Of the 264 business failures (with plans), move 10% to favorable status
<b>Selective</b>	Increase number of main business partners	142	800
	Number of recipients of dialogue on evaluating business viability or enhancing productivity	2,936	10,000
	Number of main recipients to whom management improvement proposals have been made	787	1,500
	Number undergoing training, participating, and receiving certifications related to core business support	Undergoing training: 6; participating: 125; receiving certifications: 97	Undergoing training: 7; participating: 1,000; receiving certifications: 110
	Number of recipients making use of SME support measures related to core business support	374	500
<b>YMFG</b>	Solution proposals making use of broad business foundations, overseas locations, the Group	—	<b>New</b> 2,000

# Shift to a Life Planning Approach (Strategy Targeting Individuals)

## <<Fundamental policy>>

Contribute to the sustainable growth of the region's economy by creating a truly customer-oriented operating structure and improving the quality of life for customers in the region.

### Pursuit of optimal profits for the customer

#### Improve the operating process

- Thorough life planning approach to sales
- Provide tablets to people making external rounds to improve their proposal-making capabilities

#### Create a consultation-type channel

- Expand branches offering life planning
- Create direct channels

#### Enhance products and services

- Introduce products that can be customized according to needs
- Introduce a paperless marketing support system
- Launch Internet-based investment trusts

#### Cultivate human resources, recruit specialized personnel

- Introduce human resource training program specializing in financial planning

#### Reform personnel system and evaluation methods

- Set up career courses specializing in financial planning
- Use process evaluation to evaluate performance



HOKEN HIROBA



HOKEN HIROBA+

#### Set up locations within commercial facilities to approach customers with whom we have limited contact

Expand branch network and leverage the characteristics of the HOKEN HIROBA + banking agency business approach to meet banking needs that emerge during discussions about insurance

#### YM Securities

#### Provide asset planning for wealthy customers, strengthen corporate sales

Increase number of salespeople and strengthen the framework for proposing a wide variety of risk products (investment trusts, shares, structured bonds)

### Set up cross-selling system within the Group

Attract customers by setting up locations within commercial facilities

#### Yamaguchi, Momiji, Kitakyushu Banks

#### Take a groupwide approach to leverage the customer base

Make use of bank customer data and strengthen points of customer contact via occupational sales

Visitation-type sales at branches based within a bank



# YMFG Forecast for the Fiscal Year Ending March 31, 2018

Although the operating environment remain adverse, we expect profit categories to increase during the fiscal year ending March 31, 2018.

In the second year of our medium-term management plan (2016–2018), we expect consolidated ordinary profits for the YMFG Group to amount to ¥48.0 billion, up ¥1.2 billion year on year. We also anticipate net income attributable to owners of the parent of ¥32.5 billion, up ¥0.9 billion.

(Billions of yen)

YMFG (Consolidated)		
	Fiscal Year Ending March 31, 2018	Year-on-Year Change
Total income	155.0	(8.6)
Ordinary profits	48.0	1.2
Net income attributable to owners of the parent	32.5	0.9

Yamaguchi Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2018	Year-on-Year Change
Total income	79.0	(0.2)
Ordinary profits	28.0	1.1
Net income attributable to owners of the parent	19.5	0.9

Momiji Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2018	Year-on-Year Change
Total income	43.0	(11.6)
Ordinary profits	12.5	(3.3)
Net income attributable to owners of the parent	8.5	(2.5)

Kitakyushu Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2018	Year-on-Year Change
Total income	14.0	(0.2)
Ordinary profits	3.0	(0.3)
Net income attributable to owners of the parent	2.0	(0.2)

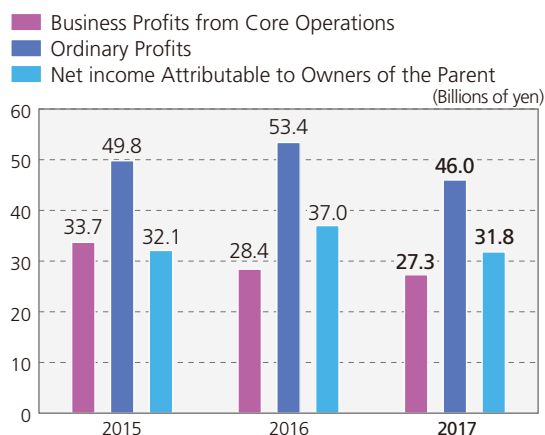
Note: Figures have been rounded off below the stated amounts.

# Performance Highlights (YMFG)

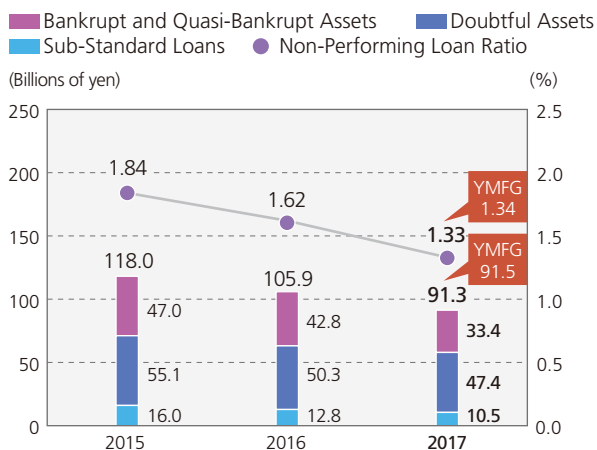
## Performance during the fiscal year ended March 31, 2017

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

Business profits from core operations decreased ¥1.1 billion year on year, to ¥27.3 billion. This outcome stemmed from lower interest income compared with the previous fiscal year. Ordinary profits decreased ¥7.4 billion, to ¥46.0 billion, and net income attributable to owners of the parent amounted to ¥31.8 billion.

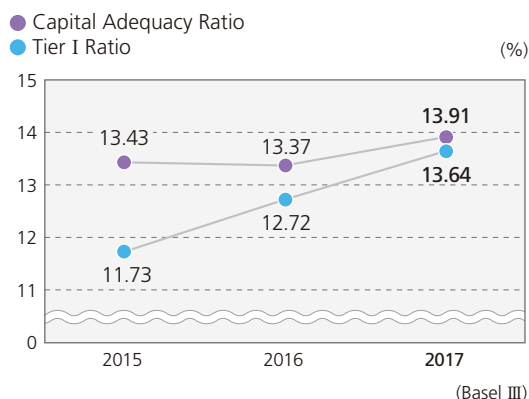


### Non-Performing Assets Based on the Financial Revitalization Law (Three Banks)



### Capital Adequacy Ratio (YMFG)

YMFG's consolidated capital adequacy ratio (uniform international standard) under Basel III was 13.91%. The total Tier 1 capital adequacy ratio was 13.64%, and consolidated common equity Tier 1 capital adequacy ratio was 13.64%.



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

Euro-dollar convertible bonds issued (Mar. 2015)

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

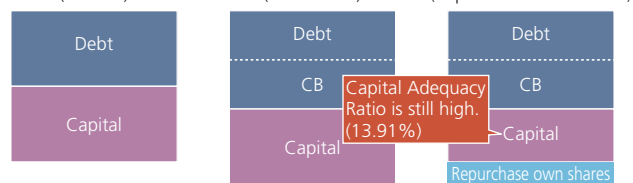
By attaching contingent conversion and call conditions, we aim to restrain convertibility to common stock, thereby providing a debt product that gives ample consideration to existing shareholders. Rather than being zero-coupon, the bonds have a variable interest rate to further restrain potential dilution.

Purchase of treasury stock (Mar. 2015)

- Amount 10 million shares
- Objective

To offset the impact of dilution by raising capital efficiency.

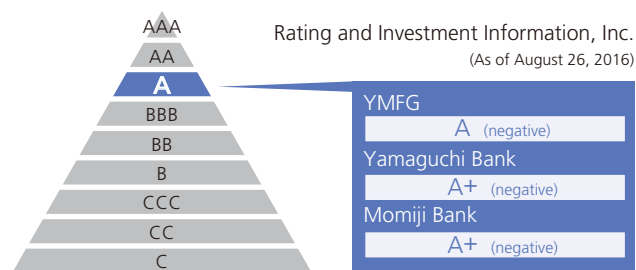
Diagram of scheme (Before)



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

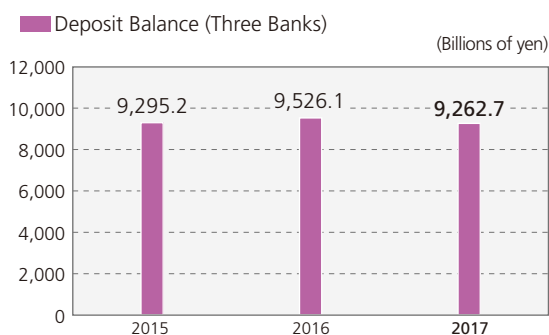
## Ratings for YMFG, Yamaguchi Bank and Momiji Bank

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



## Deposit Balance (Three Banks)

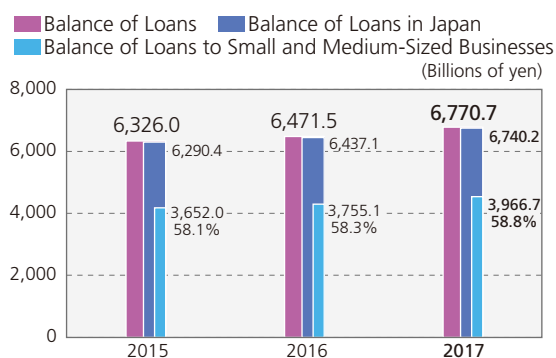
The total deposit balance at term-end was ¥8,481.4 billion, or ¥9,262.7 billion including Negotiable Certificates of Deposit (NCDs). This came about because of the expansion of products and services and steady marketing efforts based on solid community relationships.



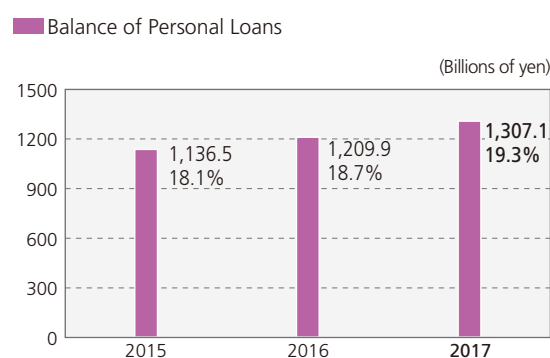
Note: The deposit balance includes the NCD balance.

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

The balance of loans at term-end was ¥6,770.7 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, 2017, the dividend per share at term-end was ¥8. Combined with the interim dividend of ¥10 per share, the full-year dividend amounted to ¥18 per share.

	FY2014	FY2015	FY2016	FY2017 (Forecast)
Annual dividend per share	14.0	15.0	18.0	20.0
(Interim dividend)	(7.0)	(7.0)	(10.0)	(10.0)

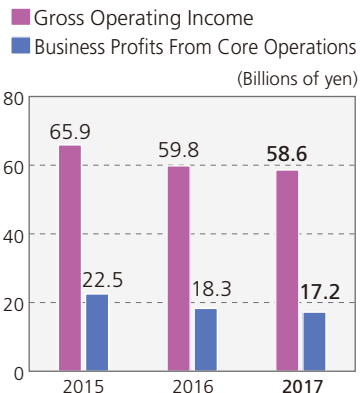
## Expected Performance for the Fiscal Year Ending March 31, 2018 (YMFG)

YMFG aims to achieve its consolidated ordinary profits of ¥48.0 billion and net income attributable to owners of the parent of ¥32.5 billion.

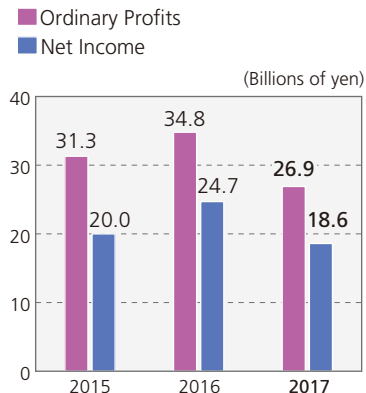
# Performance Highlights (Three Banks)

## Yamaguchi Bank (Non-consolidated)

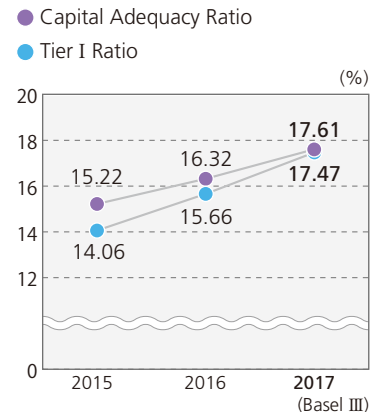
### Gross Operating Income/Business Profits From Core Operations



### Ordinary Profits/Net Income

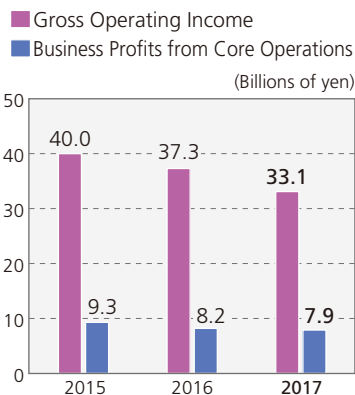


### Capital Adequacy Ratio

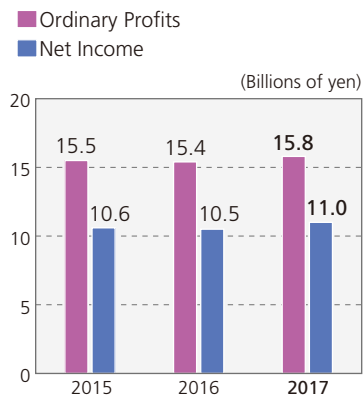


## Momiji Bank (Non-Consolidated)

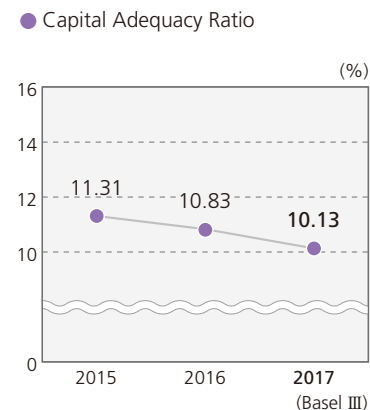
### Gross Operating Income/Business Profits From Core Operations



### Ordinary Profits/Net Income

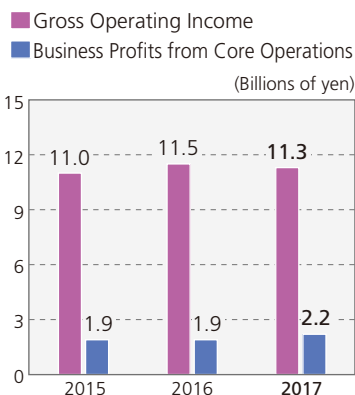


### Capital Adequacy Ratio

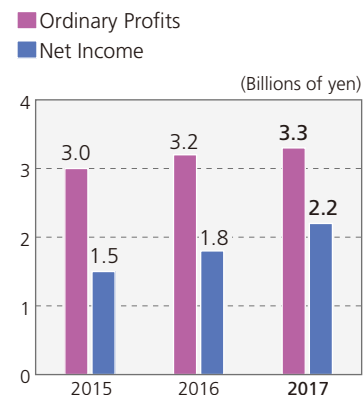


## Kitakyushu Bank (Non-Consolidated)

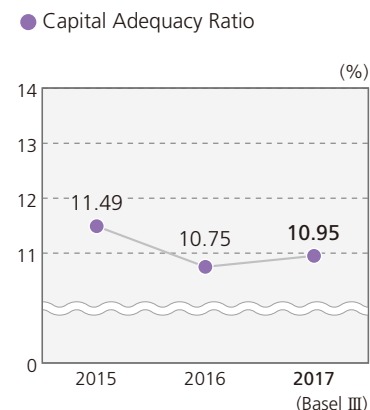
### Gross Operating Income/Business Profits From Core Operations



### Ordinary Profits/Net Income



### Capital Adequacy Ratio



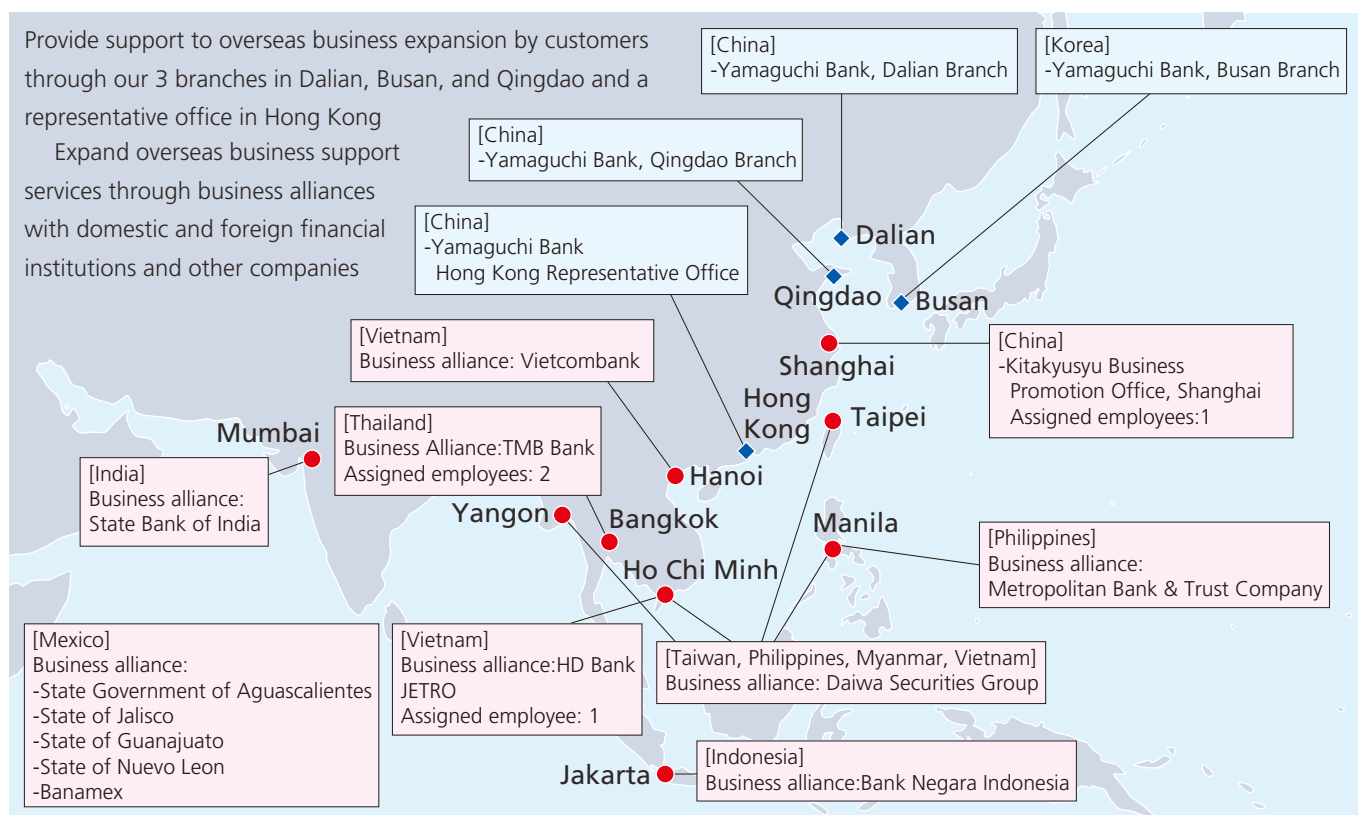
# Economies and Industries of Yamaguchi Prefecture, Hiroshima Prefecture, and Kitakyushu City (Reference)

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

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

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

# Overseas Networks (As of July 1, 2017)



## International Department

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

## Overseas Offices

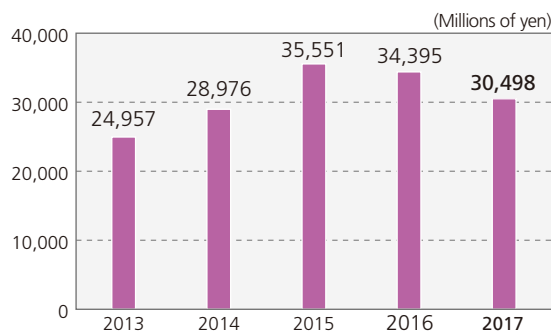
**BUSAN BRANCH**  
4F, Postal Insurance Busan Bldg., Jungang-Dong 3-Ga, 63, Jungang-Daero, Jung-Gu, Busan, Republic of Korea  
SWIFT Address: YMBKCR2P

**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.

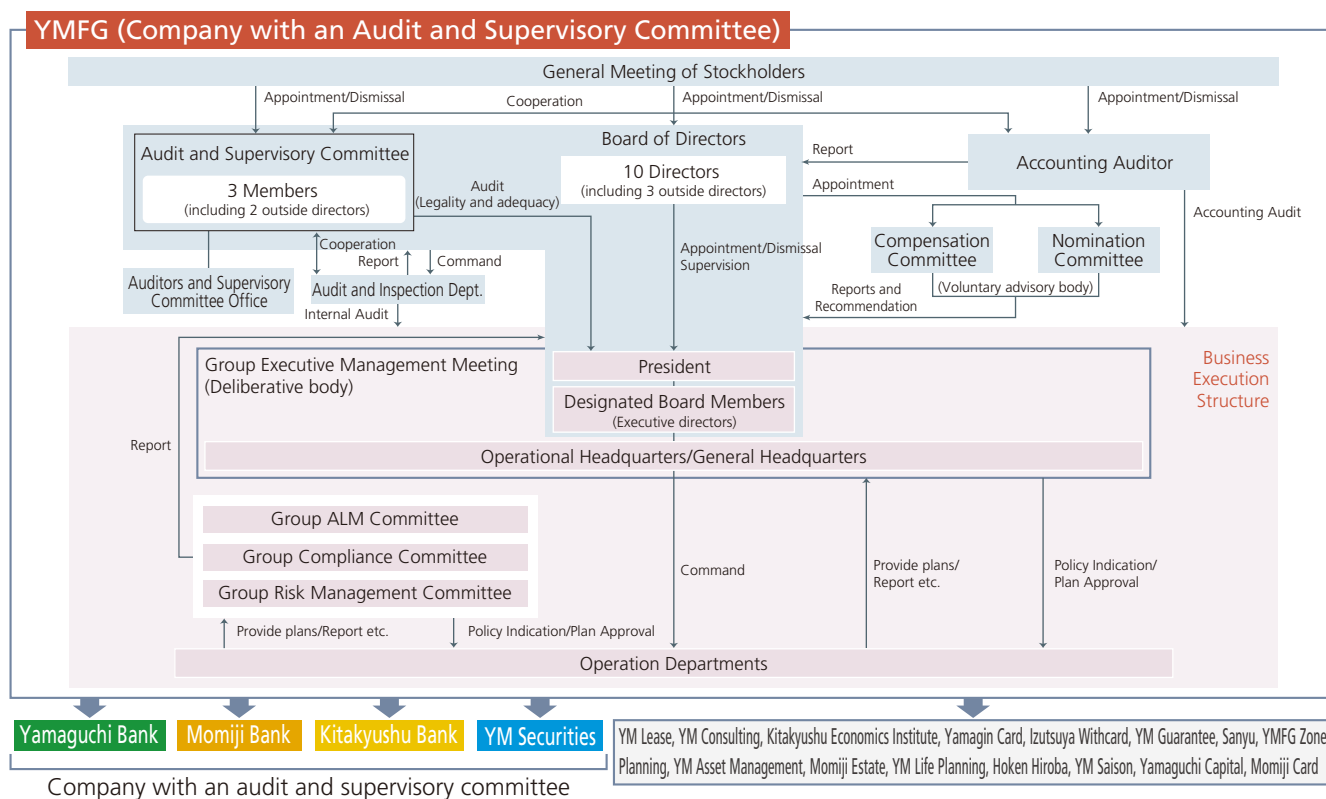
- i. We strive to ensure the rights of shareholders and create an environment that facilitates the appropriate exercise of shareholders' rights and substantive shareholder equality.
- ii. We cooperate closely with our principal stakeholders, including customers, the local community, shareholders and 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 10 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 Executive Management Meeting, the Group Asset and Liability Management Committee, the Group Compliance Committee and the Group Risk Management Committee discuss important management issues.

## YMFG Corporate Governance Structure (As of July 1, 2017)



## YMFG Board of Directors and Corporate Auditors (As of July 1, 2017)

President  
**Takeshi Yoshimura**

Senior Managing Director  
**Hirohide Umemoto**

Managing Director  
**Koji Oda**

Managing Director  
**Mitsuhiro Fujita**

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

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## 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.

Internal audits of front-line sales outlets are performed to verify the status of compliance and risk management functions and ensure their mutual effectiveness.

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.

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## 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 acts as a deliberative body of YMFG and its Group banks and the Compliance Committee act for other Group companies. 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.

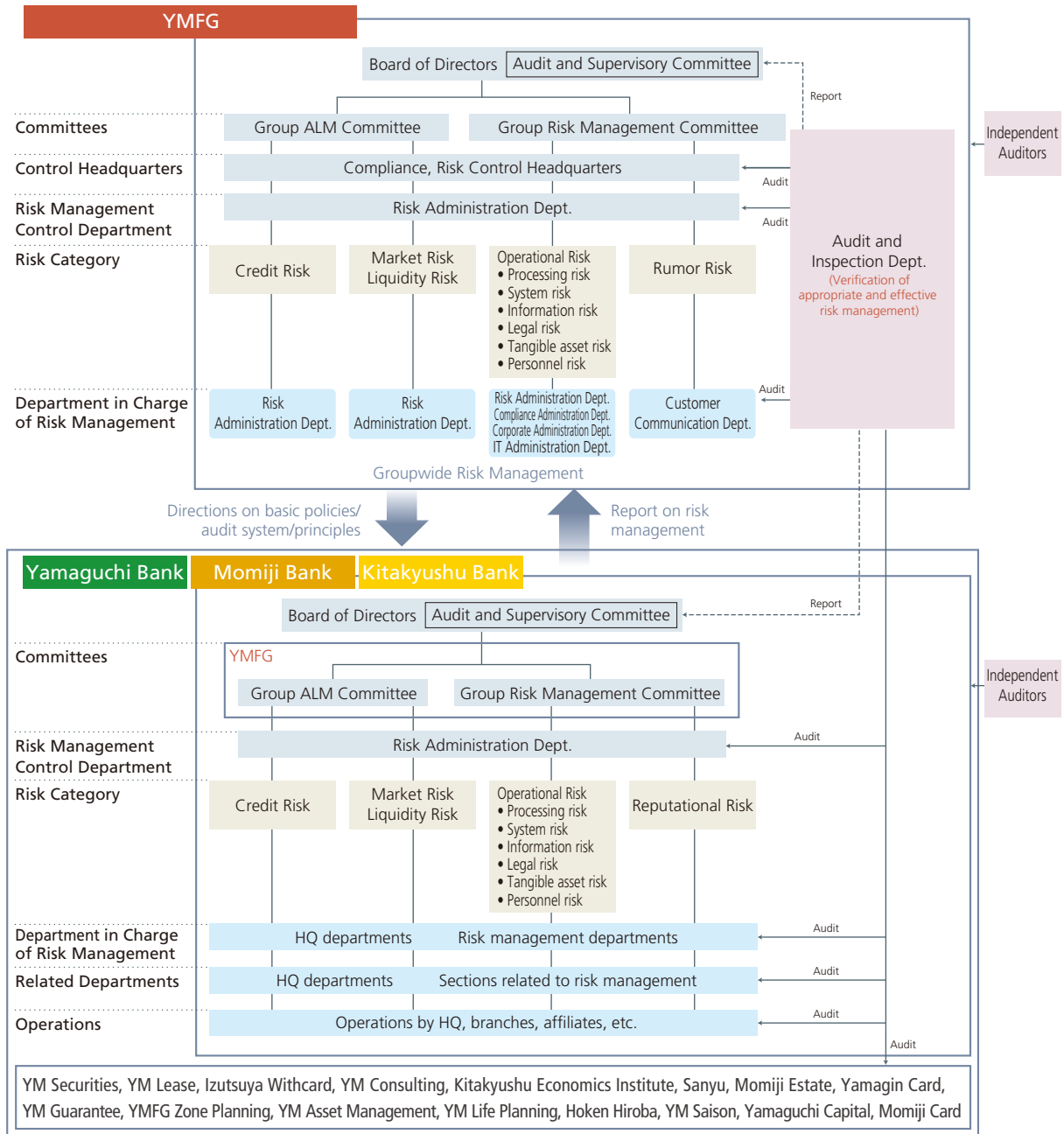
### Efforts to Prevent Money Laundering

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 (AS of July 1, 2017)



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 the Group.

The Group has organized risk management sections, risk management departments, Group 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 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 the Group.

# 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 163 students, offering them housing and financial and lifestyle support to ensure a comfortable study environment.



Foreign students to Shimonoseki City University in fiscal 2017

## 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, 2017

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, 2016 to March 31, 2017

Participants: All Group companies

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

# Financial Section

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## Financial Section

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# YMFG Business Situation

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## Summary of Business Results

### ■ Performance

During the fiscal year ended March 31, 2017, the Japanese economy was characterized by modest recovery, despite weaknesses in some areas. In addition to signs of a rebound in production activity and capital expenditure, public-sector investment remained robust. Personal consumption was also favorable, amid ongoing improvements in the employment and income environments.

In February 2016, the Bank of Japan introduced a negative interest rate policy, aiming to stave off deflation through further monetary easing. As a result, bank lending yields continued to fall.

In this environment, the regional economy was marked by moderate ongoing recovery. Production activity was generally firm, although weakness was apparent in some sectors. Personal consumption was also strong, amid improvements in the employment and income environments.

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.

Fiscal year ended March 31, 2017 marked YMFG's 10th anniversary of establishment and the start of the "YMFG Medium-Term Management Plan 2016." Based on this plan, 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 June 2016, YMFG established YM Life Planning in

collaboration with the Sumitomo Life Insurance Company, which has a high level of specialization in life planning and the insurance business. Through YM Life Planning, in October 2016 we acquired all shares in Hoken Hiroba and converted the company to a subsidiary. As a member of YMFG, Hoken Hiroba will serve as a one-stop provider of a wide range of financial products, including insurance, investment trusts, deposits and loans, providing life planning support for our customers.

In international operations, Yamaguchi Bank cosponsored the "Eighth Hong Kong and South China Business Networking Event for Japanese Companies" as one of the 18 regional banks with offices in Hong Kong.

In addition, in July 2016 Yamaguchi Bank, Momiji Bank and Kitakyushu Bank held the "Business Networking Event 2016 in Qindao" in collaboration with Joyo Bank, Hyakujushi Bank, Juroku Bank and Nanto Bank, which also use our shared regional bank computer system. 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, 2017, is outlined below.

Total income amounted to ¥163,818 million, decreased ¥3,040 million from the preceding fiscal year. The main reasons for this decrease were declines in interest on loans and a reversal of the allowance for loan losses.

Total expenses, meanwhile, rose ¥1,020 million, to ¥117,019 million, due to such factors as an increase in other operating expenses. As a result, income before income taxes decreased ¥4,060 million, to ¥46,799 million, and net income attributable to owners of the parent decreased ¥709 million, to ¥31,587 million.

Although the expansion of products and services to meet increasingly diverse customer needs and steady marketing efforts based on solid community relationships, due to interest rates remained low, the Group decreased

deposits ¥280 billion year on year, to ¥9,230 billion, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥302 billion, to ¥6,751 billion as of March 31, 2017, 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 ¥1,900 billion at year-end, down ¥220 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,226 billion at fiscal yearend, decreased ¥212 billion from one year earlier. This decrease was attributable to decline in loans and bills discounted, based on the decrease 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 13.91%. Our consolidated total Tier 1 capital adequacy ratio was 13.64%, and our consolidated common equity Tier I capital adequacy ratio was 13.64%.

Net cash used in operating activities was ¥472 billion, a ¥494 billion difference from the cash provided by these activities in the previous fiscal year. The main reasons for this change were an increase in loans and bills discounted and decrease in deposit and negotiable certificates of deposit. Net cash provided by investing activities was ¥254 billion, up ¥32 billion, owing to investments in securities, taking market movements into consideration. Net cash used in financing activities came to ¥3 billion, ¥25 billion less than was used in the previous year. The main factor was the absence of redemption of subordinated bonds payable, which was present in the previous fiscal year. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥938 billion, down ¥221 billion.

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

	Millions of yen 2017	Millions of yen 2016	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars*1 2017
Consolidated total income	163,818	166,858	161,437	161,180	1,460,184
Consolidated net income attributable to owners of the parent	31,587	32,296	30,523	31,242	281,549
Consolidated comprehensive income	37,676	7,840	75,211	34,322	335,823
Consolidated total net assets	617,053	583,168	578,388	521,470	5,500,071
Consolidated total assets	10,225,782	10,438,005	10,195,184	9,635,044	91,147,001
Net assets per share	2,486.35 yen	2,357.89 yen	2,346.56 yen	2,040.02 yen	22.16 U.S. dollars
Current term net income per share	128.70 yen	132.43 yen	120.88 yen	120.68 yen	1.15 U.S. dollars
Current term net income per share (diluted)	106.64 yen	109.39 yen	108.24 yen	116.57 yen	0.95 U.S. dollars
Capital ratio*2	13.91%	13.37%	13.43%	12.69%	
Earnings on equity - increase	5.31%	5.62%	5.61%	6.04%	
Group price earnings ratio	9.37 times	7.72 times	11.44 times	7.70 times	

\*1 US dollar amounts have been translated, for convenience only, at the rate of ¥112.19 = US\$1.00 as of March 31, 2017.

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

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS

March 31, 2017 and 2016

ASSETS		Millions of yen	Millions of yen	Thousands of
		2017	2016	U.S. dollars (Note 1) 2017
<b>Assets</b>	Cash and due from banks (Notes 3, 4 and 9)	¥ 960,386	¥ 1,174,642	\$ 8,560,353
	Call loans and bills purchased (Note 4)	278,732	356,719	2,484,464
	Monetary claims bought	8,882	7,909	79,169
	Trading assets (Notes 4 and 6)	2,800	4,250	24,958
	Money held in trust (Notes 4 and 6)	46,953	47,655	418,513
	Securities (Notes 4, 5, 6 and 9)	1,900,271	2,120,651	16,937,971
	Loans and bills discounted (Notes 4, 7 and 8)	6,751,378	6,448,887	60,178,073
	Foreign exchanges	16,053	14,991	143,088
	Lease receivables and investment assets	14,285	13,785	127,329
	Other assets (Notes 4, 6 and 9)	125,829	146,530	1,121,570
	Tangible fixed assets (Notes 10, 11, 15 and 20)	91,502	88,666	815,599
	Intangible fixed assets (Note 20)	8,729	9,173	77,806
	Net defined benefit asset (Notes 14)	29,596	21,694	263,802
	Deferred tax assets (Note 21)	1,711	2,212	15,251
	Customers' liabilities for acceptances and guarantees (Note 16)	43,068	47,719	383,884
	Allowance for loan losses	(54,393)	(67,478)	(484,829)
	<b>Total assets</b>	<b>¥ 10,225,782</b>	<b>¥ 10,438,005</b>	<b>\$ 91,147,001</b>

## LIABILITIES AND NET ASSETS

<b>Liabilities</b>	Deposits (Notes 4 and 9)	¥ 9,229,795	¥ 9,510,090	\$ 82,269,320
	Call money and bills sold (Note 9)	82,667	73,343	736,848
	Payables under securities lending transactions (Note 9)	32,861	32,001	292,905
	Trading liabilities (Notes 4 and 6)	2,174	3,525	19,378
	Borrowed money (Notes 9 and 13)	31,395	34,553	279,838
	Foreign exchanges	476	375	4,243
	Bonds with warrants	67,314	67,608	600,000
	Other liabilities (Notes 4 and 6)	91,107	63,755	812,078
	Provision for bonuses	3,154	3,439	28,113
	Net defined benefit liability (Note 14)	1,879	2,057	16,748
	Provision for directors' retirement benefits	259	40	2,309
	Provision for loss on interest repayments	15	30	134
	Provision for reimbursement of deposits	1,541	1,405	13,736
	Provision for customers point services	77	75	686
	Provision for directors' stock benefits	108	—	963
	Reserves under special laws	24	18	214
	Deferred tax liabilities (Note 21)	9,943	3,932	88,626
	Deferred tax liabilities for land revaluation (Notes 15 and 21)	10,872	10,872	96,907
	Acceptances and guarantees (Note 16)	43,068	47,719	383,884
	<b>Total liabilities</b>	<b>9,608,729</b>	<b>9,854,837</b>	<b>85,646,930</b>
<b>Net Assets</b> (Notes 22 and 23)	Capital stock	50,000	50,000	445,673
	Capital surplus	60,765	60,781	541,626
	Retained earnings	442,259	415,101	3,942,053
	Treasury stock	(22,702)	(23,426)	(202,353)
	<b>Total shareholders' equity</b>	<b>530,322</b>	<b>502,456</b>	<b>4,726,999</b>
	Unrealized gains on available-for-sale securities (Note 6)	55,524	54,020	494,910
	Deferred losses on hedges	(217)	(307)	(1,934)
	Revaluation reserve for land (Note 15)	24,533	24,523	218,674
	Remeasurements of defined benefit plans	981	(3,289)	8,744
	<b>Total accumulated other comprehensive income</b>	<b>80,821</b>	<b>74,947</b>	<b>720,394</b>
	Stock options (Note 24)	513	601	4,573
	Non-controlling interests	5,397	5,164	48,105
<b>Total net assets</b>	<b>617,053</b>	<b>583,168</b>	<b>5,500,071</b>	
<b>Total liabilities and net assets</b>	<b>¥ 10,225,782</b>	<b>¥ 10,438,005</b>	<b>\$ 91,147,001</b>	

See accompanying notes.

## CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 73,887	¥ 76,625	\$ 658,588
Interest and dividends on securities	21,437	20,377	191,078
Other interest income	995	2,021	8,869
Trust fees	1	1	9
Fees and commissions	25,442	24,304	226,776
Trading income	2,360	1,816	21,036
Other operating income	21,962	22,009	195,757
Recoveries of written-off claims	57	15	508
Gain on returns of retirement benefit trust	—	1,339	—
Other income (Note 17)	17,677	18,351	157,563
<b>Total income</b>	<b>163,818</b>	<b>166,858</b>	<b>1,460,184</b>
<b>Expenses</b>			
Interest expense:			
Interest on deposits	5,125	6,574	45,681
Interest on borrowings and rediscounts	1,758	833	15,670
Interest on bonds payable	98	107	874
Other interest expense	649	378	5,785
Fees and commissions payments	8,424	7,871	75,087
Trading expenses	—	25	—
Other operating expenses	18,337	17,035	163,446
General and administrative expenses (Notes 18 and 24)	77,867	79,101	694,064
Impairment losses (Note 12)	69	118	615
Other expenses (Note 19)	4,692	3,957	41,821
<b>Total expenses</b>	<b>117,019</b>	<b>115,999</b>	<b>1,043,043</b>
<b>Income before income taxes</b>	<b>46,799</b>	<b>50,859</b>	<b>417,141</b>
Income taxes (Note 21):			
Current	10,596	13,450	94,448
Deferred	4,397	4,721	39,192
<b>Net income</b>	<b>31,806</b>	<b>32,688</b>	<b>283,501</b>
<b>Net income attributable to non-controlling interests</b>	<b>219</b>	<b>392</b>	<b>1,952</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 31,587</b>	<b>¥ 32,296</b>	<b>\$ 281,549</b>

	Yen 2017	Yen 2016	U.S. dollars (Note 1) 2017
<b>Amounts per share of common stock:</b>			
Net income attributable to owners of the parent (Note 29)	¥ 128.70	¥ 132.43	\$ 1.15

See accompanying notes.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
<b>Net income</b>	<b>¥ 31,806</b>	<b>¥ 32,688</b>	<b>\$ 283,501</b>
<b>Other comprehensive income (Note 26)</b>	<b>5,870</b>	<b>(24,848)</b>	<b>52,322</b>
Unrealized gains (losses) on available-for-sale securities	1,510	(17,136)	13,460
Deferred gains (losses) on hedges	90	9	802
Revaluation reserve for land	—	571	—
Remeasurements of defined benefit plans	4,270	(8,292)	38,060
Share of other comprehensive income in affiliated companies accounted for using equity method	0	(0)	0
<b>Comprehensive income (Note 26)</b>	<b>¥ 37,676</b>	<b>¥ 7,840</b>	<b>\$ 335,823</b>
Comprehensive income attributable to owners of the parent	37,451	7,459	333,818
Comprehensive income attributable to non-controlling interests	225	381	2,005

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2017 and 2016

	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			
<b>Balance at 31st March 2015</b>	¥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
<b>Balance at 31st March 2016</b>	¥50,000	¥60,781	¥415,101	¥(23,426)	¥502,456	¥ 54,020	¥(307)	¥24,523	¥(3,289)	¥ 74,947	¥601	¥ 5,164	¥583,168
Changes of items during the year													
Dividend paid			(4,419)		(4,419)								(4,419)
Net income attributable to owners of the parent			31,587		31,587								31,587
Purchase of treasury stock				(2,733)	(2,733)								(2,733)
Disposal of treasury stock		(16)		3,457	3,441								3,441
Reversal of revaluation reserve for land			(10)		(10)								(10)
Net changes of items other than shareholders' equity						1,504	90	10	4,270	5,874	(88)	233	6,019
Total changes of items during the year	—	(16)	27,158	724	27,866	1,504	90	10	4,270	5,874	(88)	233	33,885
<b>Balance at 31st March 2016</b>	¥50,000	¥60,765	¥442,259	¥(22,702)	¥530,322	¥ 55,524	¥(217)	¥24,533	¥ 981	¥ 80,821	¥513	¥ 5,397	¥617,053

	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			
<b>Balance at 31st March 2016</b>	\$445,673	\$541,768	\$3,699,982	\$(208,806)	\$4,478,617	\$481,504	\$(2,736)	\$218,585	\$(29,316)	\$668,037	\$5,357	\$46,028	\$5,198,039
Changes of items during the year													
Dividend paid			(39,389)		(39,389)								(39,389)
Net income attributable to owners of the parent			281,549		281,549								281,549
Purchase of treasury stock				(24,360)	(24,360)								(24,360)
Disposal of treasury stock		(142)		30,813	30,671								30,671
Reversal of revaluation reserve for land			(89)		(89)								(89)
Net changes of items other than shareholders' equity						13,406	802	89	38,060	52,357	(784)	2,077	53,650
Total changes of items during the year	—	(142)	242,071	6,453	248,382	13,406	802	89	38,060	52,357	(784)	2,077	302,032
<b>Balance at 31st March 2017</b>	\$445,673	\$541,626	\$3,942,053	\$(202,353)	\$4,726,999	\$494,910	\$(1,934)	\$218,674	\$ 8,744	\$720,394	\$4,573	\$48,105	\$5,500,071

See accompanying notes.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2017 and 2016

	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 46,799	¥ 50,859	\$ 417,141
Depreciation	5,675	7,093	50,584
Impairment losses	69	118	615
Amortization of goodwill	2,661	4,931	23,719
Equity in earnings of affiliates	(5)	(4)	(45)
Net change in allowance for loan losses	(13,085)	(7,012)	(116,632)
Net change in provision for bonuses	(285)	424	(2,540)
Net change in defined benefit asset	(7,902)	11,783	(70,434)
Net change in defined benefit liability	(178)	(1,411)	(1,587)
Net change in provision for directors' retirement benefits	219	3	1,952
Net change in provision for directors' stock benefits	108	—	963
Net change in provision for loss on interest repayments	(15)	(7)	(134)
Net change in provision for reimbursement of deposits	137	47	1,221
Net change in provision for customers point services	2	4	18
Net change in reserves under special laws	6	6	53
Interest income	(96,319)	(99,022)	(858,535)
Interest expenses	7,631	7,893	68,019
Net gains related to securities transactions	(18,384)	(18,751)	(163,865)
Net losses (gains) from money held in trust	1,107	(639)	9,867
Net exchange losses (gains)	(2,278)	2,329	(20,305)
Net losses (gains) from disposition of fixed assets	(84)	74	(749)
Gain on returns of retirement benefit trust	—	(1,339)	—
Net change in trading assets	1,451	1,994	12,933
Net change in trading liabilities	(1,352)	(1,899)	(12,051)
Net change in loans and bills discounted	(302,490)	(220,873)	(2,696,230)
Net change in deposits	(249,853)	262,139	(2,227,052)
Net change in negotiable certificates of deposits	(30,441)	38,871	(271,334)
Net change in borrowed money excluding subordinated loans	(3,158)	(5,269)	(28,149)
Net change in deposits with bank	(6,886)	6,358	(61,378)
Net change in call loans and bills purchased	77,014	(73,015)	686,460
Net change in call money and bills sold	9,324	(1,727)	83,109
Net change in payables under securities lending transactions	860	7,973	7,666
Net change in foreign exchanges (asset account)	(1,062)	(710)	(9,466)
Net change in foreign exchanges (liability account)	101	66	900
Net change in lease receivables and investment assets	(501)	(436)	(4,466)
Interest received	90,630	95,775	807,826
Interest paid	(7,486)	(7,620)	(66,726)
Other, net	42,641	(25,765)	380,080
<b>Subtotal</b>	<b>(455,329)</b>	<b>33,241</b>	<b>(4,058,552)</b>
Income taxes paid	(16,380)	(11,432)	(146,003)
Income taxes refunds	—	2	—
<b>Net cash provided by (used in) operating activities</b>	<b>(471,709)</b>	<b>21,811</b>	<b>(4,204,555)</b>
<b>Cash flows from investing activities:</b>			
Purchases of securities	(1,686,047)	(1,800,773)	(15,028,496)
Proceeds from sales of securities	1,676,873	1,782,358	14,946,724
Proceeds from maturity of securities	274,617	243,846	2,447,785
Purchases of money held in trust	(16,970)	(8,499)	(151,261)
Proceeds from sales of money held in trust	16,068	9,768	143,221
Purchases of tangible fixed assets	(4,576)	(2,737)	(40,788)
Proceeds from sales of tangible fixed assets	259	16	2,309
Purchases of intangible fixed assets	(2,391)	(2,061)	(21,312)
Purchases of shares in subsidiaries associated with changes in the scope of consolidation (Note 3)	(3,800)	—	(33,871)
<b>Net cash provided by investing activities</b>	<b>254,033</b>	<b>221,918</b>	<b>2,264,311</b>
<b>Cash flows from financing activities:</b>			
Decrease in subordinated bonds payable	—	(25,000)	—
Dividends paid	(4,419)	(3,424)	(39,389)
Dividends paid to non-controlling shareholders	(2)	(2)	(18)
Purchases of treasury stock	(2,733)	(40)	(24,360)
Proceeds from disposal of treasury stock	3,690	462	32,891
Proceeds from sales of shares in subsidiaries that are not associated with changes in the scope of consolidation	—	18	—
<b>Net cash used in financing activities</b>	<b>(3,464)</b>	<b>(27,986)</b>	<b>(30,876)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1)</b>	<b>(18)</b>	<b>(9)</b>
Net change in cash and cash equivalents	(221,141)	215,725	(1,971,129)
Cash and cash equivalents at the beginning of fiscal year	1,158,707	942,982	10,328,077
<b>Cash and cash equivalents at the end of fiscal year (Note 3)</b>	<b>¥ 937,566</b>	<b>¥ 1,158,707</b>	<b>\$ 8,356,948</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

Years ended March 31, 2017 and 2016

## 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, 2017, which was ¥112.19 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) 16 consolidated subsidiaries at March 31, 2017 and 14 at March 31, 2016.

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

The scope of consolidation includes YM Life Planning Co., Ltd., due to its establishment in the fiscal year ended March 31, 2017. In addition, the newly established YM Life Planning Co., Ltd. acquired all shares in HOKEN HIROBA Co., Ltd. Accordingly, HOKEN HIROBA is included in YMFG’s scope of consolidation from the current fiscal year.

- (ii) Five unconsolidated subsidiaries at March 31, 2017 and 2016.

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, 2017 and 2016.
- (ii) As at March 31, 2017 and 2016, three affiliates accounted for by the equity method, and these affiliates at March 31, 2017 and 2016 were as follows:

YM Saison Co., Ltd.  
Yamaguchi Capital Co., Ltd.  
Momiji Card Co., Ltd.

- (iii) As at March 31, 2017 and 2016, 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, 2017 and 2016.

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

The balance sheet date of consolidated subsidiaries is as follows:

March 31                      16 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.

### **Money in trust**

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 collectability analysis for borrowers in danger of bankruptcy and certain other borrowers.

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

Depreciation of tangible fixed assets of YMFG and its consolidated subsidiaries that conduct banking business are computed by using the declining-balance method except for buildings (excluding fixtures) acquired after April 1, 1998 and fixtures and buildings acquired after April 1, 2016, 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.

### **Standards for recording provision for directors' stock benefits**

To prepare for the provision of YMFG's shares distributed to directors of the Banks (excluding directors who are also Audit and Supervisory Committee members, part-time directors and outside directors; hereinafter, "Subject Directors"), the provision for directors' stock benefits is recorded based on the expected value of stock benefit obligations as of the balance sheet date, in accordance with directors' stock benefit regulations formulated by the Banks.

### **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 2012, 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 specified formula 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 mainly over a 10-year period using the straight-line method.

## Consumption taxes

YMFG and its consolidated subsidiaries 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, 2017*

(Adoption of the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016")

In line with revisions to the Corporation Tax Act, from the current fiscal year YMFG has adopted the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016), changing the method for the depreciation of fixtures and buildings acquired on or after April 1, 2016, from the declining-

balance method to the straight-line method.

As a result, ordinary income and income before income taxes for the year ended March 31, 2017, each increased by ¥18 million.

*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. In addition, capital surplus as of March 31, 2016 increased by ¥1,084 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.

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

### Additional Information

(Adoption of the "Guidance on Recoverability of Deferred Tax Assets")

YMFG adopted the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year ended March 31, 2017.

(ESOP Trust)

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

1. ESOP Trust for Employees introduced in September 2011

(1) Overview of Transactions

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

(2) Company Shares Residing in the Trust

YMFG's 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). During the current fiscal year, the trust sold all its holdings of YMFG's shares, so the trust held no shares as of March 31, 2017.

(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 ¥210 million on March 31, 2016, and zero on March 31, 2017.

2. ESOP Trust for Employees introduced in March 2017

(1) Overview of Transactions

Of those Employees enrolled in YMFG's ESOP, YMFG has established a trust for those beneficiaries satisfying certain conditions. This trust acquired as a lump sum certain number of shares of YMFG corresponding to the number expected to be acquired by YMFG's ESOP over the five-year period beginning in March 2017. Thereafter, the trust will sell YMFG's shares to YMFG's ESOP each month on a specific date.

(2) Company Shares Residing in the Trust

YMFG's 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 ¥2,084 million (\$19 million) and 1,619 thousand shares on March 31, 2017.

(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 ¥2,099 million (\$19 million) on March 31, 2017.

(Board Benefit Trust (BBT))

YMFG has introduced a Board Benefit Trust ("BBT") to raise awareness among Subject Directors of Banks within YMFG toward raising operating performance at YMFG over the medium to long term and contributing to increases in corporate value.

(1) Overview of Transactions

Via the trust, YMFG acquires YMFG's common shares using funds provided by YMFG. YMFG's share and cash equivalent to fair value of YMFG's stock measured at the time of retirement are granted to be distributed via the trust to Subject Directors of Banks within YMFG according to Subject Directors' positions, and the level of achievement of operating performance in accordance with directors' stock benefit regulations established by Banks within YMFG.

(2) Company Shares Residing in the Trust

YMFG's shares residing in the trust are recorded as 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 ¥610 million (\$5 million) and 633 thousand shares on March 31, 2017.

### 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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and due from banks	¥960,386	¥1,174,642	\$8,560,353
Time deposits in other banks	(11,565)	(7,066)	(103,084)
Other	(11,255)	(8,869)	(100,321)
Cash and cash equivalents	¥937,566	¥1,158,707	\$8,356,948

HOKEN HIROBA Co., Ltd., was newly consolidated due to the acquisition of shares during the fiscal year ended March 31, 2017. A breakdown of assets and liabilities at the start of the consolidation is provided below, along with the acquiring cost of shares in HOKEN HIROBA Co., Ltd., and the (net) expenditure for the acquisition.

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Current assets	¥749	\$6,676
Fixed assets	687	6,124
Goodwill	3,393	30,243
Current liabilities	(391)	(3,485)
Non-current liabilities	(638)	(5,687)
Share acquisition cost	3,800	33,871
Cash and cash equivalents	(0)	(0)
Less: Expenditure for the acquisition	¥3,800	\$33,871

### 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, 2017, the market risk (estimated loss amount) of Yamaguchi Bank was ¥80,793 million (\$720 million), the market risk (estimated loss amount) of Momiji Bank was ¥25,142 million (\$224 million) and the market risk (estimated loss amount) of Kitakyushu Bank was ¥17,293 million (\$154 million). Also, as of March 31, 2016, the market risk (estimated loss amount) of Yamaguchi Bank was ¥69,017 million, the market risk (estimated loss amount) of Momiji Bank was ¥17,205 million and the market risk (estimated loss amount) of Kitakyushu Bank was ¥14,574 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. However, the observation period for foreign bond funds is one year.

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 and foreign exchange market prices this year, instances arose in which they were unable to capture the risk on Japanese stocks and foreign bond funds. Consequently, the method for determining the amount of risk on Japanese stocks and foreign bond funds 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. Based on this revision, the observation period on VaR for foreign bond funds as of the end of fiscal 2016 was one year. 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 to appropriately capture the market risk amount, 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.

(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		
	2017		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥ 960,386	¥ 960,386	¥ —
(2) Call loans and bills purchased	278,732	278,732	—
(3) Money held in trust	46,953	46,953	—
(4) Securities			
Held-to-maturity debt securities	6,081	6,213	132
Available-for-sale securities	1,882,319	1,882,319	—
(5) Loans and bills discounted	6,751,378		
Allowance for loan losses (* 1)	(51,930)		
	<b>6,699,448</b>	<b>6,772,806</b>	<b>73,358</b>
Total assets	<b>¥9,873,919</b>	<b>¥9,947,409</b>	<b>¥73,490</b>
(1) Deposits	<b>¥8,453,837</b>	<b>¥8,454,828</b>	<b>¥ 991</b>
(2) Negotiable certificates of deposit	775,958	775,958	0
Total liabilities	<b>¥9,229,795</b>	<b>¥9,230,786</b>	<b>¥991</b>
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 469	¥ 469	¥ —
Hedge accounting applied	(693)	(693)	—
Total derivative transactions	<b>¥ (224)</b>	<b>¥ (224)</b>	<b>¥ —</b>

	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)		
	<b>6,383,956</b>	<b>6,492,550</b>	<b>108,594</b>
Total assets	<b>¥10,072,853</b>	<b>¥10,181,609</b>	<b>¥108,756</b>
(1) Deposits	<b>¥ 8,703,691</b>	<b>¥ 8,705,754</b>	<b>¥ 2,063</b>
(2) Negotiable certificates of deposit	806,399	806,399	0
Total liabilities	<b>¥ 9,510,090</b>	<b>¥ 9,512,153</b>	<b>¥ 2,063</b>
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 6,605	¥ 6,605	¥ —
Hedge accounting applied	983	983	—
Total derivative transactions	<b>¥ 7,588</b>	<b>¥ 7,588</b>	<b>¥ —</b>

	Thousands of U.S. dollars		
	2017		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	\$ 8,560,353	\$ 8,560,353	\$ —
(2) Call loans and bills purchased	2,484,464	2,484,464	—
(3) Money held in trust	418,513	418,513	—
(4) Securities			
Held-to-maturity debt securities	54,203	55,379	1,176
Available-for-sale securities	16,777,957	16,777,957	—
(5) Loans and bills discounted	60,178,073		
Allowance for loan losses (* 1)	(462,876)		
	<b>59,715,197</b>	<b>60,369,071</b>	<b>653,874</b>
Total assets	<b>\$88,010,687</b>	<b>\$88,665,737</b>	<b>\$655,050</b>
(1) Deposits	<b>\$75,352,857</b>	<b>\$75,361,690</b>	<b>\$ 8,833</b>
(2) Negotiable certificates of deposit	6,916,463	6,916,463	—
Total liabilities	<b>\$82,269,320</b>	<b>\$82,278,153</b>	<b>\$ 8,833</b>
Derivative transactions (* 2)			
Hedge accounting not applied	\$ 4,180	\$ 4,180	\$ —
Hedge accounting applied	(6,177)	(6,177)	—
Total derivative transactions	<b>\$ (1,997)</b>	<b>\$ (1,997)</b>	<b>\$ —</b>

(\* 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 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
	2017	2016	U.S. dollars
	Consolidated balance sheet amount		
(1) Unlisted equity securities (*1, *2)	¥ 7,650	¥ 6,832	\$ 68,188
(2) Investments in partnerships, etc. (*3)	4,221	3,939	37,623
<b>Total</b>	<b>¥11,871</b>	<b>¥10,771</b>	<b>\$105,811</b>

(\*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, 2016 and 2017, impairment losses of ¥15 million and ¥21 million (\$187 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				
	2017				
	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	¥ 862,527	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	278,732	—	—	—	—
(3) Securities	263,661	384,169	178,659	157,397	651,511
Held-to-maturity debt securities	416	894	610	1,380	2,781
Local government bond	—	—	100	500	1,200
Corporate bond	416	894	510	880	1,581
Others	—	—	—	—	—
Available-for-sale securities with maturities	263,245	383,275	178,049	156,017	648,730
Japanese government bond	68,224	120,931	13,174	9,433	301,624
Local government bond	1,420	4,511	13,834	156	17,042
Corporate bond	157,124	213,034	130,612	111,533	238,315
Others	36,477	44,799	20,429	34,895	91,749
(4) Loans and bills discounted (*)	2,077,007	918,513	841,537	599,167	2,315,154
<b>Total</b>	<b>¥3,481,927</b>	<b>¥1,302,682</b>	<b>¥1,020,196</b>	<b>¥756,564</b>	<b>¥2,966,665</b>

	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

	Thousands of U.S. dollars				
	2017				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	\$ 7,688,092	\$ —	\$ —	\$ —	\$ —
(2) Call loans and bills purchased	2,484,464	—	—	—	—
(3) Securities	2,350,129	3,424,271	1,592,468	1,402,951	5,807,211
Held-to-maturity debt securities	3,708	7,969	5,437	12,301	24,788
Local government bond	—	—	891	4,457	10,696
Corporate bond	3,708	7,969	4,546	7,844	14,092
Others	—	—	—	—	—
Available-for-sale securities with maturities	2,346,421	3,416,302	1,587,031	1,390,650	5,782,423
Japanese government bond	608,111	1,077,912	117,426	84,081	2,688,511
Local government bond	12,657	40,209	123,309	1,390	151,903
Corporate bond	1,400,517	1,898,868	1,164,204	994,144	2,124,209
Others	325,136	399,313	182,092	311,035	817,800
(4) Loans and bills discounted (*)	18,513,299	8,187,120	7,500,988	5,340,645	20,636,021
Total	\$31,035,984	\$11,611,391	\$9,093,466	\$6,743,596	\$26,443,232

(\*) 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			
	2017			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥7,815,897	¥464,555	¥140,370	¥33,015
Negotiable certificates of deposit	775,278	680	—	—
Total	¥8,591,175	¥465,235	¥140,370	¥33,015

	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

	Thousands of U.S. dollars			
	2017			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	\$69,666,610	\$4,140,788	\$1,251,181	\$294,278
Negotiable certificates of deposit	6,910,402	6,061	—	—
<b>Total</b>	<b>\$76,577,012</b>	<b>\$4,146,849</b>	<b>\$1,251,181</b>	<b>\$294,278</b>

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

## 5. SECURITIES

Securities held at March 31, 2017 include shares of unconsolidated subsidiaries and affiliates amounting to ¥92 million (\$1 million) and investments of ¥1,107 million (\$10 million). Corresponding figures at March 31, 2016, were ¥90 million and ¥1,078 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 ¥7,907 million (\$70 million) and ¥6,180 million as of March 31, 2017 and March 31, 2016 respectively.

Bonds included in securities also include securities lent through unsecured loan agreements (bond lending transactions) of ¥5,040 million (\$45 million) and ¥5,065 million, at March 31, 2017 and 2016 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, 2017 and 2016:

#### (a) Trading securities

Amount of unrealized gain (loss) on trading securities included in the consolidated statement of income — ¥(31) million (\$276 thousand) and ¥17 million as at March 31, 2017 and 2016, respectively.

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

	Type	Millions of yen		
		2017		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥1,400	¥1,446	¥ 46
	Corporate bonds	3,972	4,062	90
	Others	—	—	—
	<b>Subtotal</b>	<b>5,372</b>	<b>5,508</b>	<b>136</b>
Securities with fair value not exceeding book value	Local government bonds	400	399	(1)
	Corporate bonds	309	306	(3)
	Others	—	—	—
	<b>Subtotal</b>	<b>709</b>	<b>705</b>	<b>(4)</b>
<b>Total</b>	<b>¥6,081</b>	<b>¥6,213</b>	<b>¥132</b>	

	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
	<b>Subtotal</b>	<b>5,023</b>	<b>5,185</b>	<b>162</b>
Securities with fair value not exceeding book value	Local government bonds	—	—	—
	Corporate bonds	106	106	(0)
	Others	—	—	—
	<b>Subtotal</b>	<b>106</b>	<b>106</b>	<b>(0)</b>
<b>Total</b>	<b>¥5,129</b>	<b>¥5,291</b>	<b>¥162</b>	

	Type	Thousands of U.S. dollars		
		2017		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	\$12,479	\$12,898	\$ 419
	Corporate bonds	35,404	36,197	793
	Others	—	—	—
	<b>Subtotal</b>	<b>47,883</b>	<b>49,095</b>	<b>1,212</b>
Securities with fair value not exceeding book value	Local government bonds	3,565	3,556	(9)
	Corporate bonds	2,755	2,728	(27)
	Others	—	—	—
	<b>Subtotal</b>	<b>6,320</b>	<b>6,284</b>	<b>(36)</b>
<b>Total</b>	<b>\$54,203</b>	<b>\$55,379</b>	<b>\$1,176</b>	

(c) Available-for-sale securities

		Millions of yen		
		2017		
Type	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	¥ 129,583	¥ 47,106	¥ 82,477
	Japanese government bonds	284,413	281,698	2,715
	Local government bonds	28,340	27,641	699
	Corporate bonds	740,235	726,320	13,915
	Others	50,534	49,522	1,012
	Subtotal	1,233,105	1,132,287	100,818
	Securities with book value not exceeding acquisition cost	Shares	10,549	11,876
Japanese government bonds		228,973	234,852	(5,879)
Local government bonds		8,623	8,675	(52)
Corporate bonds		110,385	111,832	(1,447)
Others		290,684	303,431	(12,747)
Subtotal		649,214	670,666	(21,452)
Total		¥1,882,319	¥1,802,953	¥ 79,366

		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	

		Thousands of U.S. dollars		
		2017		
Type	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	\$ 1,155,032	\$ 419,877	\$ 735,155
	Japanese government bonds	2,535,101	2,510,901	24,200
	Local government bonds	252,607	246,377	6,230
	Corporate bonds	6,598,048	6,474,017	124,031
	Others	450,432	441,412	9,020
	Subtotal	10,991,220	10,092,584	898,636
Securities with book value not exceeding acquisition cost	Shares	94,028	105,856	(11,828)
	Japanese government bonds	2,040,939	2,093,342	(52,403)
	Local government bonds	76,861	77,324	(463)
	Corporate bonds	983,911	996,809	(12,898)
	Others	2,590,998	2,704,617	(113,619)
	Subtotal	5,786,737	5,977,948	(191,211)
Total	\$16,777,957	\$16,070,532	\$ 707,425	

(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, 2017 and 2016.

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

		Millions of yen		
		2017		
	Sale amount	Total gain on sale	Total loss on sale	
Shares	¥ 15,719	¥10,191	¥ 68	
Japanese government bonds	917,543	9,255	2,608	
Local government bonds	—	—	—	
Corporate bonds	103,890	1,668	—	
Others	289,024	3,624	1,691	
Total	¥1,326,176	¥24,738	¥4,367	

		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	

	Thousands of U.S. dollars		
	2017		
	Sale amount	Total gain on sale	Total loss on sale
Shares	\$ 140,111	\$ 90,837	\$ 606
Japanese government bonds	8,178,474	82,494	23,246
Local government bonds	—	—	—
Corporate bonds	926,018	14,868	—
Others	2,576,201	32,302	15,073
<b>Total</b>	<b>\$11,820,804</b>	<b>\$220,501</b>	<b>\$38,925</b>

(f) Securities for which purpose of holding changed

There were no securities for which the purpose of holding changed at March 31, 2017 and 2016.

### 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, 2017, impairment losses were ¥103 million (\$918 thousand) on equity securities and during the fiscal year ended March 31, 2016, impairment losses totaled ¥682 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, 2017 and 2016 is as follows:

(a) Money held in trust classified as trading purposes

	Millions of yen	
	2017	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	¥9,873	¥—

	Millions of yen	
	2016	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	¥—	¥—

	Thousands of U.S. dollars	
	2017	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	\$88,002	\$—

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

There are no corresponding transactions as at March 31, 2017 and 2016.

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

	Millions of yen		
	2017		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	¥37,080	¥37,559	¥(479)

	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



	Thousands of U.S. dollars		
	2017		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	\$330,511	\$334,780	\$(4,269)

## 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
	2017	2016	2017
Net unrealized gains	¥78,956	¥77,132	\$703,770
Available-for-sale securities	79,435	77,119	708,040
Available-for-sale money held in trust	(479)	13	(4,270)
Deferred tax liabilities	23,426	23,112	208,806
Unrealized gains on available- for-sale securities before following adjustment	55,530	54,020	494,964
Equivalent to non-controlling interests	6	(0)	54
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	¥55,524	¥54,020	\$494,910

Valuation differences on investments in partnerships, etc., of ¥69 million (\$615 thousand) at March 31, 2017 and ¥49 million at March 31, 2016, 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, 2017 and 2016, to which hedge accounting is not applied

(a) Interest-rate-related:

Type	Millions of yen			
	2017			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥28,493	¥24,261	¥539	¥539
Receivable floating, payable fixed	28,519	24,255	(375)	(375)
Interest rate cap Sold	32	—	(0)	4
Total	¥ —	¥ —	¥164	¥168

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	Thousands of U.S. dollars			
	2017			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	\$253,971	\$216,249	\$4,804	\$4,804
Receivable floating, payable fixed	254,203	216,196	(3,342)	(3,342)
Interest rate cap Sold	285	—	(0)	35
Total	\$ —	\$ —	\$1,462	\$1,497

**(b) Currency-related:**

Type	Millions of yen			
	2017			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	¥357,796	¥131,744	¥ (466)	¥(1,500)
Foreign exchange forward contracts:				
Sold	113,673	839	492	492
Bought	23,712	152	(106)	(106)
Currency options				
Sold	142,252	99,320	(4,993)	3,091
Bought	142,252	99,320	5,520	(843)
Total	¥ —	¥ —	¥ 447	¥ 1,134

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	Thousands of U.S. dollars			
	2017			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	\$3,189,197	\$1,174,294	\$ (4,154)	\$(13,370)
Foreign exchange forward contracts:				
Sold	1,013,219	7,478	4,385	4,385
Bought	211,356	1,355	(945)	(945)
Currency options				
Sold	1,267,956	885,284	(44,504)	27,552
Bought	1,267,956	885,284	49,202	(7,514)
Total	\$ —	\$ —	\$ 3,984	\$ 10,108

**(c) Stock-related:**

There were no stock-related transactions as at March 31, 2017 and 2016.

**(d) Bond-related:**

Type	Millions of yen			
	2017			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥126,996	¥—	¥(142)	¥(142)
Total	¥ —	¥—	¥(142)	¥(142)

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	Thousands of U.S. dollars			
	2017			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	\$1,131,973	\$—	\$(1,266)	\$(1,266)
Total	\$ —	\$—	\$(1,266)	\$(1,266)

**(e) Commodity-related:**

There were no commodity-related transactions as at March 31, 2017 and 2016.

**(f) Credit-derivatives:**

There were no credit related transactions as at March 31, 2017 and 2016.

(2) Derivative transactions as at March 31, 2017 and 2016, to which hedge accounting is applied

(a) Interest-rate-related:

Type	Millions of yen		
	2017		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	¥10,438	¥10,438	¥(274)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, payable fixed	1,108	1,000	*
Total	¥ —	¥ —	¥(274)

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	Thousands of U.S. dollars		
	2017		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	\$93,039	\$93,039	\$(2,442)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, payable fixed	9,876	8,913	*
Total	\$ —	\$ —	\$(2,442)

(\*) 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		
	2017		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	¥34,607	¥2,060	¥(419)
Total	¥ —	¥ —	¥(419)

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	Thousands of U.S. dollars		
	2017		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	\$308,468	\$18,362	\$(3,735)
Total	\$ —	\$ —	\$(3,735)

(c) Stock-related:

There were no stock-related transactions at March 31, 2017 and 2016.

(d) Bond-related:

There were no bond-related transactions at March 31, 2017 and 2016.

## 7. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2017 and 2016 include "Risk-Managed Loan Amounts" as follows:

- (1) Loans to borrowers in bankruptcy amounting to ¥14,652 million (\$131 million) and ¥18,738 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 ¥65,203 million (\$581 million) and ¥73,782 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 ¥471 million (\$4 million) and ¥552 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 ¥10,039 million (\$89 million) and ¥12,286 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 ¥90,365 million (\$805 million) and ¥105,358 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 ¥40,304 million (\$359 million) at March 31, 2017 and ¥41,223 million at March 31, 2016.

## 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 ¥917,600 million (\$8,179 million) at March 31, 2017 and ¥923,165 million at March 31, 2016. Of this amount, ¥834,969 million (\$7,442 million) at March 31, 2017, and ¥847,805 million at March 31, 2016, 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, 2017 and 2016, the following assets were pledged as collateral for certain liabilities of the Banks.

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Cash and due from banks	¥ 18	¥ 18	\$ 160
Securities	247,444	235,549	2,205,580

The collateral was pledged to secure the following:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Deposits	¥36,332	¥38,656	\$323,843
Call money	11,219	—	100,000
Payables under securities lending transactions	32,861	32,001	292,905
Borrowed money	—	901	—

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 ¥104,578 million (\$932 million) and cash and due from banks ¥3 million (\$27 thousand) at March 31, 2017. The corresponding figures at March 31, 2016, were ¥104,750 million and ¥3 million.

Also, other assets included security deposits, collateral pledged for transactions involving public funds, collateral pledged for financial instruments and collateral pledged for

exchange settlements, as indicated below.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deposits	¥2,728	¥4,180	\$24,316
Collateral pledged for transactions involving public funds	1,189	1,199	10,598
Collateral pledged for financial instruments	2,335	43	20,813
Collateral pledged for exchange settlements	9,595	—	85,525

## 10. ACCUMULATED DEPRECIATION

Accumulated depreciation of tangible assets was ¥72,422 million (\$646 million) at March 31, 2017, and ¥73,571 million at March 31, 2016.

## 11. ADVANCED DEPRECIATION AMOUNT OF TANGIBLE FIXED ASSETS

At March 31, 2017 and 2016, advanced depreciation amount of tangible fixed assets were ¥7,813 million (\$70 million) and ¥8,154 million. Corresponding amount depreciated from certain tangible fixed assets in fiscal year ended March 31, 2017 were ¥108 million (\$1 million) and there were no amount in fiscal year ended March 31, 2016.

## 12. IMPAIRMENT LOSSES

During the fiscal year ended March 31, 2017 and 2016, impairment losses were recorded on the following assets.

Location	Primary use	Type	Impairment loss		
			Millions of yen		Thousands of U.S. dollars
			2017	2016	2017
Within Hiroshima Prefecture	Business-use and idle assets for sale	Land, buildings	¥50	¥ 17	\$446
Within Yamaguchi Prefecture	Business-use assets	Land, buildings	¥—	¥ 59	\$ —
Within Fukuoka Prefecture	Business-use assets	Land, buildings	¥—	¥ 42	\$ —
Other	Business-use assets	Buildings	¥19	¥ —	\$169
<b>Total</b>			<b>¥69</b>	<b>¥118</b>	<b>\$615</b>

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, 2017 and 2016, 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 ¥69 million (\$615 thousand) and ¥118 million as impairment losses. This amount includes land of ¥31 million (\$276 thousand) and buildings of ¥38 million (\$339 thousand) in fiscal year ended March 31, 2017, and land of ¥92 million and buildings of ¥26 million in fiscal year ended March 31, 2016.

The recoverable amount used to estimate the impairment loss for the fiscal year ended March 31, 2017 and 2016, 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, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
2017	¥12,036	\$107,282
2018	5,568	49,630
2019	4,101	36,554
2020	2,952	26,313
2021	1,841	16,410
Thereafter	4,897	43,649
<b>Total</b>	<b>¥31,395</b>	<b>\$279,838</b>

## 14. PROVISION FOR EMPLOYEE RETIREMENT BENEFITS

Overview of severance payments and pension plans  
 YMFG and 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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations at the beginning of the fiscal year	¥63,038	¥60,381	\$561,886
Service cost	1,851	1,707	16,499
Interest cost	119	344	1,061
Actuarial differences	22	5,200	196
Retirement benefit payments	(3,323)	(3,447)	(29,620)
Past service cost	—	(1,139)	—
Others	2	(8)	18
Retirement benefit obligations at the end of the fiscal year	¥61,709	¥63,038	\$550,040

#### (2) Reconciliation of plan asset balances at the beginning and the end of the fiscal year ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance of plan assets at the beginning of the fiscal year	¥82,675	¥90,390	\$736,920
Expected return on plan assets	2,051	2,903	18,281
Actuarial differences	4,533	(7,497)	40,405
Contribution from employer	1,999	1,620	17,818
Retirement benefit payments	(2,126)	(2,220)	(18,951)
Partial returns of retirement benefit trust	—	(2,746)	—
Others	294	225	2,621
Balance of plan assets at the end of the fiscal year	¥89,426	¥82,675	\$797,094

#### (3) Reconciliation of the balances of retirement benefit obligations and plan assets at the end of the fiscal year ended March 31, 2017 and 2016, and the carrying amounts of net defined benefit liability and net defined benefit asset

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations of funded plans	¥ 61,638	¥ 62,979	\$ 549,407
Plan assets	(89,426)	(82,675)	(797,094)
	(27,788)	(19,696)	(247,687)
Retirement benefit obligations of unfunded plans	71	59	633
Net carrying amount of obligations and assets	¥(27,717)	¥(19,637)	\$(247,054)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net retirement benefit liability	¥ 1,879	¥ 2,057	\$ 16,748
Net retirement benefit asset	(29,596)	(21,694)	(263,802)
Net carrying amount of obligations and assets	¥(27,717)	¥(19,637)	\$(247,054)

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost*	¥1,851	¥1,707	\$16,499
Interest cost	119	344	1,061
Expected return on plan assets	(2,051)	(2,903)	(18,281)
Recognized actuarial loss	2,200	571	19,610
Amortization of past service cost	(570)	(142)	(5,081)
Others	233	30	2,076
Retirement benefit costs on defined benefit plans	¥1,782	¥ (393)	\$15,884

\* 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
	2017	2016	2017
Past service cost	¥ (570)	¥ 996	\$ (5,080)
Actuarial gain (loss)	6,711	(13,093)	59,818
Total	¥6,141	¥(12,097)	\$54,738

## (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
	2017	2016	2017
Unrecognized past service cost	¥ (427)	¥ (997)	\$ (3,806)
Unrecognized actuarial gain (loss)	(978)	5,732	(8,717)
Total	¥(1,405)	¥4,735	\$(12,523)

## (7) Plan assets

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

	2017	2016
Bonds	19%	21%
Shares	66%	65%
Others	15%	14%
Total	100%	100%

(Note) Plan assets include 46% of corporate pension plans established as retirement benefit trusts at the end of the fiscal year ended March 31, 2017, and 25% at March 31, 2016.

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

(Corporate pensions)

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

(Retirement benefit trusts)

Past dividend performance is converted to yield.

## (8) Basis of actuarial calculation

The basis of actuarial calculations as of March 31, 2017 and 2016

	2017	2016
Discount rate	0.00%—1.21%	0.00%—0.63%
Expected long-term rate of return on plan assets	1.60%—3.10%	1.20%—3.00%
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, 2017 and 2016 were ¥263 million (\$2 million) and ¥153 million, respectively.

## 15. REVALUATION RESERVE FOR LAND

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

Revaluation date: March 31, 1998

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

Total difference between market value of land for business use revalued in accordance with Article 10 of the Law and the total post-revaluation book value of land at March 31, 2017 and 2016 were ¥22,589 million (\$201 million) and ¥23,245 million, respectively.

## 16. CONTINGENT LIABILITIES — ACCEPTANCES AND GUARANTEES

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

## 17. OTHER INCOME

Other income for the fiscal year ended March 31, 2017 and 2016 included the gains on sale of stock of ¥11,802 million (\$105 million) and ¥10,392 million, respectively.

## 18. GENERAL AND ADMINISTRATIVE EXPENSES

Items included operating expenses for the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Salary and allowance	¥31,944	¥31,417	\$284,731
Depreciation	5,675	7,093	50,584

## 19. OTHER EXPENSES

Other expenses included ¥921 million (\$8,209 thousand) in loss on sale of stock, ¥124 million (\$1,105 thousand) devaluation of stock and ¥1,119 million (\$9,974 thousand) loss on investment in money held in trust for the year ended March 31, 2017. For the year ended March 31, 2016, other expenses included ¥1,779 million loss on sale of stock, ¥697 million devaluation of stock.

## 20. LEASE TRANSACTIONS

### 1. Finance lease transactions

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. Operating leases

Future minimum lease payments at March 31, 2017 and 2016 were as follows:

At March 31, 2017

	Millions of yen	Thousands of U.S. dollars
2018	¥ 98	\$ 874
2019 and thereafter	930	8,289
Total minimum lease payments	¥1,028	\$9,163

At March 31, 2016

	Millions of yen
2017	¥ 94
2018 and thereafter	1,003
Total minimum lease payments	¥1,097

## 21. INCOME TAXES

1. Significant components of the deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for loan losses	¥ 14,360	¥ 17,314	\$ 127,997
Net defined benefit liability	2,639	5,312	23,523
Losses on devaluation of securities	1,575	1,523	14,039
Provision for bonuses	1,100	1,118	9,805
Depreciation	636	752	5,669
Net operating losses carryforwards	269	304	2,407
Other	2,595	3,820	23,129
Deferred tax assets	23,174	30,143	206,569
Valuation allowance	(2,387)	(2,377)	(21,276)
Total deferred tax assets	20,787	27,766	185,293
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(23,426)	(23,166)	(208,806)
Securities contributed to retirement benefit trusts	(4,243)	(4,243)	(37,820)
Other	(1,350)	(2,077)	(12,042)
Total deferred tax liabilities	(29,019)	(29,486)	(258,668)
Net deferred tax assets (liabilities)	¥ (8,232)	¥ (1,720)	\$ (73,375)



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, 2017 and 2016 were as follows:

	%	
	2017	2016
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, 2017 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 tax assets and liabilities due to changes in the corporate tax rate

*For the year ended March 31, 2017*

The “Act for Partial Revision of Acts, Including Partial Revision of the Consumption Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security” and the “Act for Partial Revision of Acts, Including Partial Revision of the Local Tax Act and the Local Allocation Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security” were enacted by the Japanese government on November 18, 2016. In conjunction with these acts, the effective statutory rate used in calculating deferred tax assets and liabilities for the fiscal year ended March 31, 2017, has changed from that used for the fiscal year ended March 31, 2016.

As a result, deferred tax assets increased by ¥37 million and deferred income taxes decreased by the same amount.

*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, increasing unrealized gains on available-for-sale securities by ¥1,222 million, reducing deferred gains or losses on hedges by ¥7 million, decreasing remeasurements of defined benefit plans by ¥72 million and increasing deferred income taxes by ¥933 million. Deferred tax liabilities for land revaluation decreased by ¥571 million, and revaluation reserve for land increased by the same amount.

## 22. 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 28, 2017, the shareholders approved cash dividends amounting to ¥1,989 million (\$18 million). Such appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2017 and to be recognized in the period in which they are approved by the shareholders.

At the annual shareholders' meeting, held on June 29, 2016, the shareholders approved cash dividends amounting to ¥1,970 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.

## 23. CHANGES IN NET ASSETS

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

	Number of shares (in thousand)			
	March 31, 2016	Increase	Decrease	March 31, 2017
Shares issued				
Common stock	264,353	—	—	264,353
Total	264,353	—	—	264,353
Treasury stock				
Common stock*1, *2, *3	19,472	2,284	3,202	18,554
Total	19,472	2,284	3,202	18,554

\*1 The increase in the number of shares is due to the acquisition of 1,631 thousand of YMFG's shares by the ESOP Trust for Employees, the acquisition of 633 thousand of YMFG's shares by the Board Benefit Trust (BBT), and 19 thousand shares were due to purchases of shares constituting less than one trading unit.

Of the decreases in the number of shares, 1,631 thousand shares were due to allocation to the ESOP Trust for Employees, 793 thousand shares were due to the sale of shares to the Group's employee stock ownership program, 663 thousand shares were due to allocation to the Board Benefit Trust (BBT), 144 thousand shares were due to the exercise of stock options, and 0 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, 2017 include 781 thousand shares and 1,619 thousand shares held by the ESOP Trust for Employee Shareholders.

\*3 Treasury stock held by the Board Benefit Trust (BBT) includes 633 thousand shares held as of March 31, 2017.

	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.

### 2. Stock options

Stock options at March 31, 2017 and 2016 were ¥513 million (\$5 million) and ¥601 million, respectively.

### 3. Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2017 and 2016.

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 13, 2016				
Common stock	¥1,970*1	¥8.00	Mar. 31, 2016	Jun. 30, 2016
Resolved at the board of directors meeting on November 11, 2016				
Common stock	¥2,471*2	¥10.00	Sep. 30, 2016	Dec. 9, 2016

\*1 The total amount of dividend on common stock includes ¥6 million in dividends to ESOP Trust for employee shareholders.

\*2 The total amount of dividend on common stock includes ¥12 million in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

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 (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 13, 2016				
Common stock	\$17,559* <sup>1</sup>	\$0.07	Mar. 31, 2016	Jun. 30, 2016
Resolved at the board of directors meeting on November 11, 2016				
Common stock	\$22,025* <sup>2</sup>	\$0.09	Sep. 30, 2016	Dec. 9, 2016

\*1 The total amount of dividend on common stock includes \$53 thousand in dividends to ESOP Trust for employee shareholders.

\*2 The total amount of dividend on common stock includes \$107 thousand in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

(b) Dividends to be paid in the fiscal year ending March 31, 2018 and 2017 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 12, 2017					
Common stock	¥1,989*	Retained earnings	¥8.00	Mar. 31, 2017	Jun. 28, 2017

\* The total amount of dividend on common stock includes ¥18 million in dividends to ESOP Trust and for employee shareholders and Board Benefit Trust (BBT).

(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.

(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 12, 2017					
Common stock	\$17,729*	Retained earnings	\$0.07	Mar. 31, 2017	Jun. 28, 2017

\* The total amount of dividend on common stock includes \$160 thousand in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

## 24. STOCK OPTIONS

At a Board of Directors meeting, resolutions were 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 these resolutions are described below.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
General and administrative expenses	¥42	¥172	\$374

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

2016	
Category and number of persons to be granted stock options	27 directors (excluding directors who are members of the Audit and Supervisory Committee, part-time directors 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.

From the fiscal year ended March 31, 2016, the issuance of stock options to directors of the YMFG subsidiaries Yamaguchi Bank, Momiji Bank and Kitakyushu Bank (excluding directors who are Audit and Supervisory Committee members, part-time directors and outside directors) was discontinued.

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	122,000	—	—	—	—
Granted	—	—	—	—	—
Expired	—	—	—	—	—
Vested	122,000	—	—	—	—
Rights not yet determined	—	—	—	—	—
After vesting					
As of the end of the previous consolidated fiscal year	—	160,400	144,400	170,800	99,400
Rights determined	122,000	—	—	—	—
Rights exercised	21,700	32,300	28,600	37,200	24,500
Expiry	—	—	—	—	—
Amount unexercised	100,300	128,100	115,800	133,600	74,900

(b) Price information

	Yen				
	2016	2015	2014	2013	2012
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise	964	964	964	964	964
Fair value on date granted	1,377	1,015	973	619	660

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 is as follows:

- (a) Valuation method employed: Black-Scholes method  
(b) Main base figures and estimation method

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

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.

## 25. INVESTMENT AND RENTAL PROPERTY

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

## 26. 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, 2017 and 2016 were as follows.

	Millions of Yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gains (losses) on available- for-sale securities			
Amount generated during the year	¥13,692	¥(7,920)	\$122,043
Reclassification adjustments	(11,381)	(18,371)	(101,444)
Before tax effect adjustment	2,311	(26,291)	20,599
Tax effect amount	(801)	9,155	(7,139)
Unrealized gains (losses) on available-for-sale securities	1,510	(17,136)	13,460
Deferred gains on hedges			
Amount generated during the year	(503)	(352)	(4,483)
Reclassification adjustments	631	376	5,624
Before tax effect adjustment	128	24	1,141
Tax effect amount	(38)	(15)	(339)
Deferred gains on hedges	90	9	802
Revaluation reserve for land			
Amount generated during the year	—	—	—
Reclassification adjustment	—	—	—
Before adjustment for tax effects	—	—	—
Tax effect amount	—	571	—
Revaluation reserve for land	—	571	—
Remeasurements of defined benefit plans			
Amount generated during the year	4,511	(11,558)	40,209
Reclassification adjustment	1,630	(539)	14,529
Before adjustment for tax effects	6,141	(12,097)	54,738
Tax effect amount	(1,871)	3,805	(16,678)
Remeasurements of defined benefit plans	4,270	(8,292)	38,060
Share of other comprehensive income in affiliated companies accounted for using the equity method			
Amount generated during the year	0	(0)	0
Reclassification adjustments	—	—	—
Before tax effect adjustment	0	(0)	0
Tax effect amount	—	—	—
Share of other comprehensive income in affiliated companies accounted for using the equity method	0	(0)	0
Total other comprehensive income	5,870	(24,848)	52,322

## 27. SEGMENT INFORMATION

Business segment information is not presented, as the Group's business is predominantly consisted of the banking business, and the securities brokerage, credit card, leasing and other businesses conducted by the Group collectively is limited.

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.

## 28. RELATED PARTY TRANSACTIONS

Details of the transactions between the consolidated subsidiaries of YMFG submitting the consolidated financial statements and related parties are as follows:

Executives and major shareholders of YMFG submitting the consolidated financial statements (only for individuals), etc.

*For the year ended March 31, 2017*

Category:	Executive
Name:	Kazuo Tsukuda
Occupation or title:	Director and Audit and Supervisory Committee Member of YMFG
Relationship with related party:	Lender of funds
Content of transaction:	Lending of funds*
Transaction amount:	¥86 million (average balance)
Account name:	Loan
Year-end balance:	¥223 million

\* Conditions for this transaction and for method of deciding this transaction conditions were the same as general transactions.

*For the year ended March 31, 2016*

Nothing to report.

## 29. PER SHARE DATA

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥2,486.35	¥2,357.89	\$22.16
Net income per share	128.70	132.43	1.15
Net income per share (diluted)	¥ 106.64	¥ 109.39	\$ 0.95

Net assets per share are calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2017	2016	2017
Net assets	¥617,053	¥583,168	\$5,500,071
Amounts excluded from net assets	¥ 5,910	¥ 5,765	\$ 52,678
Stock options	513	601	4,573
Non-controlling interests	5,397	5,164	48,105
Net assets attributable to common stock at the fiscal year-end	611,143	577,403	5,447,393
Number of common stock at the fiscal year-end used for the calculation of net assets per share (in thousands)*	245,800	244,881	

\* Shares of YMFG held by the ESOP trust and the Board Benefit Trust (BBT) 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 and the Board Benefit Trust (BBT) was 781 thousand as of March 31, 2016, and 2,252 thousand as of March 31, 2017.

(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.

Net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2017	2016	2017
Net income attributable to owners of the parent	¥ 31,587	¥ 32,296	\$281,549
Amount not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent for common stock	31,587	32,296	281,549
Average shares of common stock during the year* (in thousands)	245,428	243,872	—

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

	Millions of yen except number of shares		Thousands of U.S. dollars
	2017	2016	2017
Net income adjustment attributable to owners of the parent	¥ 68	¥ 6	\$606
Interest expenses (excluding tax amount)	68	6	606
Increase of shares of common stock	51,423	51,427	—
Bonds with warrant	50,826	50,728	—
Warrant	597	698	—
Dilutive shares not including calculation due to no dilutive effect	—	—	—

\* Shares of YMFG held by the ESOP trust and the Board Benefit Trust (BBT) 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 907 thousand in the fiscal year ended March 31, 2016, and 893 thousand in the fiscal year ended March 31, 2017.

### 30. SUBSEQUENT EVENTS

There were no significant subsequent events. Dividends were made in June 2017 and 2016. Please refer to "23. NET ASSETS."

### 31. BUSINESS COMBINATIONS

*For the year ended March 31, 2017*

Business Combination due to Acquisition

1 Overview of the business combination

(1) Name and businesses of the acquired company

Name: HOKEN HIROBA Co., Ltd.

Business: Life insurance solicitation, non-life insurance agency business

(2) Principal reason for conducting the business combination

In order to provide one-stop financial services based on life planning

(3) Date of the business combination

October 3, 2016

(4) Legal form of the business combination

Conversion to subsidiary through the acquisition of shares

(5) Name of the company following the combination  
The name of the company is unchanged following the combination.

(6) Percentage of voting rights acquired  
100%

(7) Main reasons for deciding to acquire the company  
YMFG's consolidated subsidiary, YM Life Planning Co., Ltd., acquired all shares of HOKEN HIROBA Co., Ltd., for cash consideration.

2 Period of the financial results of the acquired company included in the consolidated financial statements  
From October 3, 2016, to March 31, 2017

3 Acquisition cost of the acquired company and breakdown thereof

Acquisition price	Cash	¥3,800 million
Acquisition cost		¥3,800 million

4 Content and amounts of principal acquisition-related expenses

Due diligence expenses of ¥8 million

5 Amount of goodwill, reasons for the goodwill and period of amortization

(1) Amount of goodwill

¥3,393 million

(2) Reasons for the goodwill

Mainly because of anticipation of excess earning power to be generated through future business development

(3) Method and period of amortization

Amortization over 10 years using the straight-line method

6 Amounts of assets received and liabilities assumed on the day of the business combination and breakdown thereof

Current assets	¥749 million
Fixed assets	¥687 million
Total assets	¥1,436 million
Current liabilities	¥391 million
Non-current liabilities	¥638 million
Total liabilities	¥1,029 million

7 Estimated impact on the consolidated financial statements in the fiscal year ended March 31, 2017, if the business combination had been concluded at the beginning of the fiscal year and method of calculation

Total income	¥2,159 million
Ordinary profit	¥347 million

(Method of calculating the estimated impact)

Calculated using information on ordinary income and profit and loss as if the business combination had been concluded at the beginning of the fiscal year

This note has not received an audit certification from KMPG AZCA LLC.

*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 Divestures (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
Acquisition cost	¥603 million

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.

(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





## **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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 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, 2017  
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, 2017 and 2016

ASSETS		Millions of yen	Millions of yen	Thousands of
		2017	2016	U.S. dollars
				2017
<b>Assets</b>	Cash and due from banks	¥ 647,945	¥ 758,297	\$ 5,775,426
	Call loans and bills purchased	259,341	322,664	2,311,623
	Monetary claims bought	8,262	7,160	73,643
	Trading assets	2,153	3,584	19,191
	Money held in trust	33,710	45,095	300,472
	Securities	1,137,780	1,413,070	10,141,546
	Loans and bills discounted	3,620,283	3,481,850	32,269,213
	Foreign exchanges	6,581	7,711	58,659
	Other assets	48,834	53,394	435,280
	Tangible fixed assets	44,307	44,358	394,928
	Intangible fixed assets	2,321	2,670	20,688
	Prepaid pension cost	17,445	17,553	155,495
	Customers' liabilities for acceptances and guarantees	21,596	25,098	192,495
	Allowance for loan losses	(23,864)	(25,707)	(212,711)
	<b>Total assets</b>	<b>¥ 5,826,694</b>	<b>¥ 6,156,797</b>	<b>\$ 51,935,948</b>

## LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

<b>Liabilities:</b>	Deposits	¥ 5,202,916	¥ 5,568,117	\$ 46,375,934
	Call money and bills sold	83,142	72,537	741,082
	Payables under securities lending transactions	32,861	32,001	292,905
	Trading liabilities	2,199	3,619	19,601
	Borrowed money	6,748	8,482	60,148
	Foreign exchanges	2,859	1,343	25,484
	Other liabilities	50,484	38,321	449,985
	Provision for bonuses	10	1,440	89
	Provision for retirement benefits	107	106	954
	Provision for directors' stock benefits	44	—	392
	Provision for reimbursement of deposits	973	946	8,673
	Provision for customers point services	46	45	410
	Deferred tax liabilities	13,626	12,752	121,455
	Deferred tax liabilities for land revaluation	7,414	7,414	66,084
	Acceptances and guarantees	21,596	25,098	192,495
	<b>Total liabilities</b>	<b>5,425,025</b>	<b>5,772,221</b>	<b>48,355,691</b>
<b>Net assets:</b>	Capital stock	10,006	10,006	89,188
	Capital surplus	380	380	3,387
	Retained earnings	330,445	315,458	2,945,405
	<b>Total shareholders' equity</b>	<b>340,831</b>	<b>325,844</b>	<b>3,037,980</b>
	Net unrealized gains on securities	44,231	42,262	394,251
	Deferred gains or losses on hedges	(159)	(286)	(1,417)
	Revaluation reserve for land	16,766	16,756	149,443
	<b>Total valuation and translation adjustments</b>	<b>60,838</b>	<b>58,732</b>	<b>542,277</b>
	<b>Total net assets</b>	<b>401,669</b>	<b>384,576</b>	<b>3,580,257</b>
	<b>Total liabilities, and net assets</b>	<b>¥ 5,826,694</b>	<b>¥ 6,156,797</b>	<b>\$ 51,935,948</b>

## NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 38,981	¥ 40,638	\$ 347,455
Interest and dividends on securities	12,136	13,272	108,174
Other interest income	782	1,500	6,970
Fees and commissions	11,686	11,519	104,163
Trading income	42	30	374
Other ordinary income	10,272	10,183	91,559
Other income	5,267	11,595	46,947
<b>Total income</b>	<b>79,166</b>	<b>88,737</b>	<b>705,642</b>

<b>Expenses</b>			
Interest expense:			
Interest on deposits	3,049	4,201	27,177
Interest on borrowings and rediscounts	1,638	684	14,600
Other interest expense	151	146	1,346
Fees and commissions payments	4,398	4,116	39,201
Other operating expenses	6,072	8,212	54,122
General and administrative expenses	34,373	32,853	306,382
Impairment losses	130	59	1,159
Other expenses	2,554	2,420	22,766
<b>Total expenses</b>	<b>52,365</b>	<b>52,691</b>	<b>466,753</b>
<b>Income before income taxes and minority interests</b>	<b>26,801</b>	<b>36,046</b>	<b>238,889</b>
Income taxes:			
Current	8,123	9,423	72,404
Deferred	81	1,916	722
<b>Net income</b>	<b>¥ 18,597</b>	<b>¥ 24,707</b>	<b>\$ 165,763</b>

Amounts per share of common stock:	Yen 2017	Yen 2016	U.S. dollars 2017
Net income	¥ 92.99	¥ 123.53	\$ 0.83
Cash dividends applicable to the year	10.00	15.00	0.09

## Momiji Bank Financial Statements

### NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2017 and 2016

ASSETS		Millions of yen	Millions of yen	Thousands of
		2017	2016	U.S. dollars
Assets	Cash and due from banks	¥ 221,641	¥ 330,510	\$ 1,975,586
	Call loans and bills purchased	25,000	40,069	222,836
	Monetary claims bought	620	749	5,526
	Trading assets	662	698	5,901
	Money held in trust	9,873	—	88,002
	Securities	725,730	675,817	6,468,758
	Loans and bills discounted	2,111,001	2,034,562	18,816,303
	Foreign exchanges	5,571	4,928	49,657
	Other assets	59,831	78,617	533,302
	Tangible fixed assets	35,490	34,536	316,338
	Intangible fixed assets	1,502	3,358	13,388
	Prepaid pension cost	10,169	8,704	90,641
	Deferred tax assets	7,713	9,763	68,749
	Customers' liabilities for acceptances and guarantees	9,950	12,574	88,689
	Allowance for loan losses	(18,767)	(25,753)	(167,279)
	<b>Total assets</b>	<b>¥ 3,205,986</b>	<b>¥ 3,209,132</b>	<b>\$ 28,576,397</b>

### LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 2,986,664	¥ 2,980,638	\$ 26,621,481
	Call money and bills sold	561	947	5,000
	Borrowed money	11,149	13,944	99,376
	Foreign exchanges	80	57	713
	Other liabilities	36,283	13,940	323,407
	Provision for bonuses	—	1,278	—
	Provision for retirement benefits	556	1,620	4,956
	Provision for directors' stock benefits	39	—	348
	Provision for reimbursement of deposits	482	380	4,296
	Deferred tax liabilities for land revaluation	4,425	4,470	39,442
	Acceptances and guarantees	9,950	12,574	88,689
	<b>Total liabilities</b>	<b>3,050,189</b>	<b>3,029,848</b>	<b>27,187,708</b>
	Net assets:	Capital stock	10,000	10,000
Capital surplus		59,533	89,533	530,644
Retained earnings		77,458	67,579	690,418
<b>Total shareholders' equity</b>		<b>146,991</b>	<b>167,112</b>	<b>1,310,197</b>
Net unrealized gains on securities		509	3,751	4,537
Deferred gains or losses on hedges		(67)	(29)	(597)
Revaluation reserve for land		8,364	8,450	74,552
<b>Total valuation and translation adjustments</b>		<b>8,806</b>	<b>12,172</b>	<b>78,492</b>
<b>Total net assets</b>		<b>155,797</b>	<b>179,284</b>	<b>1,388,689</b>
<b>Total liabilities, and net assets</b>	<b>¥ 3,205,986</b>	<b>¥ 3,209,132</b>	<b>\$ 28,576,397</b>	

## NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 24,450	¥ 25,819	\$ 217,934
Interest and dividends on securities	8,835	7,694	78,750
Other interest income	169	237	1,506
Fees and commissions	7,512	7,035	66,958
Other ordinary income	2,755	3,260	24,557
Other income	10,932	6,849	97,442
<b>Total income</b>	<b>54,653</b>	<b>50,894</b>	<b>487,147</b>

<b>Expenses</b>			
Interest expense:			
Interest on deposits	1,408	1,492	12,550
Interest on borrowings and rediscounts	30	50	267
Other interest expense	498	231	4,439
Fees and commissions payments	3,684	3,438	32,837
Other operating expenses	5,044	1,577	44,959
General and administrative expenses	26,245	27,374	233,934
Impairment losses	179	16	1,596
Other expenses	2,076	1,310	18,504
<b>Total expenses</b>	<b>39,164</b>	<b>35,489</b>	<b>349,086</b>
<b>Income before income taxes and minority interests</b>	<b>15,489</b>	<b>15,405</b>	<b>138,061</b>
Income taxes:			
Current	908	2,371	8,093
Deferred	3,621	2,547	32,277
<b>Net income</b>	<b>¥ 10,960</b>	<b>¥ 10,487</b>	<b>\$ 97,691</b>

Amounts per share of common stock:	Yen		U.S. dollars
	2017	2016	2017
Net income	¥ 21.60	¥ 17.85	\$ 0.19
Cash dividends applicable to the year	1.26	1.91	0.01

## Kitakyushu Bank Financial Statements

### NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2017 and 2016

ASSETS		Millions of yen	Millions of yen	Thousands of
		2017	2016	U.S. dollars
Assets	Cash and due from banks	¥ 90,029	¥ 85,263	\$ 802,469
	Call loans and bills purchased	1,036	140	9,234
	Securities	35,895	30,943	319,948
	Loans and bills discounted	1,039,473	955,100	9,265,291
	Foreign exchanges	6,467	3,536	57,643
	Other assets	7,116	9,240	63,429
	Tangible fixed assets	19,545	19,477	174,213
	Intangible fixed assets	684	964	6,097
	Prepaid pension cost	843	925	7,514
	Customers' liabilities for acceptances and guarantees	11,522	10,047	102,701
	Allowance for loan losses	(9,842)	(14,116)	(87,726)
	<b>Total assets</b>	<b>¥ 1,202,768</b>	<b>¥ 1,101,519</b>	<b>\$ 10,720,813</b>

### LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 1,073,128	¥ 977,420	\$ 9,565,273	
	Call money and bills sold	5,610	6,014	50,004	
	Borrowed money	971	1,061	8,655	
	Foreign exchanges	102	159	909	
	Other liabilities	8,309	10,184	74,061	
	Provision for bonuses	2	377	18	
	Provision for retirement benefits	1,155	1,161	10,295	
	Provision for directors' stock benefits	25	—	223	
	Provision for reimbursement of deposits	86	78	767	
	Deferred tax liabilities	1,888	39	16,829	
	Deferred tax liabilities for land revaluation	3,458	3,458	30,823	
	Acceptances and guarantees	11,522	10,047	102,701	
	<b>Total liabilities</b>	<b>1,106,256</b>	<b>1,009,999</b>	<b>9,860,558</b>	
	Net assets:	Capital stock	10,000	10,000	89,135
		Retained earnings	67,602	65,382	602,567
<b>Total shareholders' equity</b>		<b>77,602</b>	<b>75,382</b>	<b>691,702</b>	
Net unrealized gains on securities		11,143	8,371	99,322	
Revaluation reserve for land		7,767	7,767	69,231	
<b>Total valuation and translation adjustments</b>		<b>18,910</b>	<b>16,138</b>	<b>168,553</b>	
<b>Total net assets</b>		<b>96,512</b>	<b>91,520</b>	<b>860,255</b>	
<b>Total liabilities, and net assets</b>	<b>¥ 1,202,768</b>	<b>¥ 1,101,519</b>	<b>\$ 10,720,813</b>		

## NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2017 and 2016

	Millions of yen	Millions of yen	Thousands of
	2017	2016	U.S. dollars
			2017
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 10,764	¥ 10,639	\$ 95,944
Interest and dividends on securities	450	418	4,011
Other interest income	48	52	428
Fees and commissions	1,551	1,575	13,825
Other ordinary income	0	417	0
Other income	1,372	1,315	12,229
<b>Total income</b>	<b>14,185</b>	<b>14,416</b>	<b>126,437</b>

<b>Expenses</b>			
Interest expense:			
Interest on deposits	670	892	5,972
Other interest expense	19	11	169
Fees and commissions payments	826	715	7,363
Other operating expenses	12	—	107
General and administrative expenses	9,321	9,486	83,082
Impairment losses	—	42	—
Other expenses	115	201	1,025
<b>Total expenses</b>	<b>10,963</b>	<b>11,347</b>	<b>97,718</b>
<b>Income before income taxes and minority interests</b>	<b>3,222</b>	<b>3,069</b>	<b>28,719</b>
Income taxes:			
Current	320	880	2,852
Deferred	682	352	6,079
<b>Net income</b>	<b>¥ 2,220</b>	<b>¥ 1,837</b>	<b>\$ 19,788</b>

Amounts per share of common stock:	Yen	Yen	U.S. dollars
	2017	2016	2017
Net income	¥ 2,220,377	¥ 1,837,056	\$ 19,791.22



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