

Notes to Consolidated Financial Statements

Years ended March 31, 2018 and 2017

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, 2018, which was ¥106.24 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, 2018 and 2017.

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 fiscal year ended March 31, 2017.

- (ii) One unconsolidated subsidiary at March 31, 2018 and five at March 31, 2017.

Name of major subsidiary:
Maple Funding Corporation

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, 2018 and 2017.
- (ii) As at March 31, 2018, two affiliates were accounted for by the equity method (three as at March 31, 2017).

Affiliates as at March 31, 2018 were as follows:

YM Saison Co., Ltd.

Momiji Card Co., Ltd.

As at March 31, 2017, three affiliates were accounted for by the equity method. Affiliates as at March 31, 2017 were as follows:

YM Saison Co., Ltd.

Yamaguchi Capital Co., Ltd.

Momiji Card Co., Ltd.

Due to the sale of some shares in Yamaguchi Capital Co., Ltd., YMFG's percentage of ownership decreased. Consequently, the company was removed from the scope of application of the equity method.

- (iii) As at March 31, 2018, one unconsolidated subsidiary was not accounted for by the equity method (five as at March 31, 2017).

Name of major subsidiary:

Maple Funding Corporation

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, 2018 and 2017.

(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

Trust assets within money held in trust are valued using the market value method.

Derivatives

Derivatives other than those for trading purpose or those for which 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 accounting 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 Corporation 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 YMFG and 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 YMFG and 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.

Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

- Step1: Identify contract(s) with customers.
- Step2: Identify the performance obligations in the contract.
- Step3: Determine the transaction price.
- Step4: Allocate the transaction price to the performance obligation in the contract.
- Step5; Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

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 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 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 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 ¥1,703 million (\$16 million) and 1,323 thousand shares on March 31, 2018 and ¥2,084 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 ¥1,715 million (\$16million) on March 31, 2018 and ¥2,099 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 according to Subject Directors' positions, and the level of achievement of operating performance in accordance with directors' stock benefit regulations established by YMFG and 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 ¥609 million (\$6 million) and 631 thousand shares on March 31, 2018 and ¥610 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and due from banks	¥985,503	¥960,386	\$9,276,195
Time deposits in other banks	(16,645)	(11,565)	(156,674)
Other	(11,513)	(11,255)	(108,367)
Cash and cash equivalents	¥957,345	¥937,566	\$9,011,154

HOKEN HIROBA Co., Ltd., was first 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
	2017
Current assets	¥ 749
Fixed assets	687
Goodwill	3,393
Current liabilities	(391)
Non-current liabilities	(638)
Share acquisition cost	3,800
Cash and cash equivalents	(0)
Less: Expenditure for the acquisition	¥3,800

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, 2018, the market risk (estimated loss amount) of Yamaguchi Bank was ¥79,408 million (\$747 million), the market risk (estimated loss amount) of Momiji Bank was ¥20,766 million (\$195million) and the market risk (estimated loss amount) of Kitakyushu Bank was ¥27,258 million (\$257 million). Also, as of March 31, 2017, the market risk (estimated loss amount) of Yamaguchi Bank was ¥80,793 million, the market risk (estimated loss amount) of Momiji Bank was ¥25,142 million and the market risk (estimated loss amount) of Kitakyushu Bank was ¥17,293 million.

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

Yamaguchi Bank, Momiji Bank and Kitakyushu Bank conduct back-testing to compare the VaR calculated by the model with the actual losses. However, because of relatively large fluctuations in Japanese stock and foreign exchange market prices, instances arose in which they were unable to capture the risk on Japanese stocks and foreign bond funds. Consequently, from fiscal 2016, to determine the amount of risk on Japanese stocks and foreign bond funds, VaR is measured for observation periods of both one year and five years, and the larger number is taken as the risk amount. As of March 31, 2018, the VaR observation period was five years for both Japanese stocks and foreign bond funds.

However, as the practice of measuring market risk amount with a set risk probability calculated 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		
	2018		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	¥ 985,503	¥ 985,503	¥ —
(2) Call loans and bills purchased	77,437	77,437	—
(3) Money held in trust	40,924	40,924	—
(4) Securities			
Held-to-maturity debt securities	7,789	7,918	129
Available-for-sale securities	1,707,440	1,707,440	—
(5) Loans and bills discounted	7,157,837		
Allowance for loan losses (* 1)	(49,572)		
	7,108,265	7,177,960	69,695
Total assets	¥9,927,358	¥9,997,182	¥69,824
(1) Deposits	¥8,739,092	¥8,739,610	¥ 518
(2) Negotiable certificates of deposit	616,658	616,658	0
Total liabilities	¥9,355,750	¥9,356,268	¥ 518
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 8,352	¥ 8,352	¥ —
Hedge accounting applied	565	565	—
Total derivative transactions	¥ 8,917	¥ 8,917	¥ —

	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)		
	6,699,448	6,772,806	73,358
Total assets	¥9,873,919	¥9,947,409	¥73,490
(1) Deposits	¥8,453,837	¥8,454,828	¥ 991
(2) Negotiable certificates of deposit	775,958	775,958	0
Total liabilities	¥9,229,795	¥9,230,786	¥991
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 469	¥ 469	¥ —
Hedge accounting applied	(693)	(693)	—
Total derivative transactions	¥ (224)	¥ (224)	¥ —

	Thousands of U.S. dollars		
	2018		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and due from banks	\$ 9,276,195	\$ 9,276,195	\$ —
(2) Call loans and bills purchased	728,887	728,887	—
(3) Money held in trust	385,203	385,203	—
(4) Securities			
Held-to-maturity debt securities	73,315	74,529	1,214
Available-for-sale securities	16,071,537	16,071,537	—
(5) Loans and bills discounted	67,374,219		
Allowance for loan losses (* 1)	(466,604)		
	66,907,615	67,563,630	656,015
Total assets	\$93,442,752	\$94,099,981	\$ 657,229
(1) Deposits	\$82,258,020	\$82,262,895	\$ 4,875
(2) Negotiable certificates of deposit	5,804,386	5,804,386	0
Total liabilities	\$88,062,406	\$88,067,281	\$ 4,875
Derivative transactions (* 2)			
Hedge accounting not applied	\$ 78,614	\$ 78,614	\$ —
Hedge accounting applied	5,319	5,319	—
Total derivative transactions	\$ 83,933	\$ 83,933	\$ —

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

With regard to loans to legally bankrupt obligors, substantially bankrupt obligors or obligors who are in danger of bankruptcy, the estimated collectible amount is based on either the present value of estimated future cash flows or the expected amounts recoverable from the disposal of collateral and/or under guarantees. As the fair value is essentially equivalent to the amount after deducting the allowance for possible loan losses from the book value as of the consolidated balance sheet date, this amount is taken as fair value.

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

(2) Liabilities

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

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

(3) Derivative transactions

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

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

(Note 2) The consolidated balance sheet amounts of financial instruments for which market prices are not readily available

Financial instruments for which market prices are not readily available are not included in "Assets (4) Available-for-sale securities."

Category	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Consolidated balance sheet amount			
(1) Unlisted equity securities (*1, *2)	¥ 6,918	¥ 7,650	\$ 65,117
(2) Investments in partnerships, etc. (*3)	5,689	4,221	53,548
Total	¥12,607	¥11,871	\$118,665

(*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, 2018 and 2017, impairment losses of ¥0 million (\$0 thousand) and ¥21 million 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				
	2018				
	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	¥ 884,642	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	77,437	—	—	—	—
(3) Securities Held-to-maturity debt securities	201,488	231,704	142,849	238,604	602,068
Local government bond	724	708	1,142	2,316	2,899
Corporate bond	—	—	200	900	1,400
Available-for-sale securities with maturities	200,764	230,996	141,707	236,288	599,170
Japanese government bond	49,134	74,813	6,256	43,865	255,307
Local government bond	1,396	5,741	4,626	3,130	5,746
Corporate bond	117,400	107,824	98,906	127,507	246,771
Others	32,834	42,618	31,919	61,786	91,346
(4) Loans and bills discounted (*)	1,704,363	975,550	926,260	772,149	2,779,515
Total	¥2,867,930	¥1,207,254	¥1,069,109	¥1,010,753	¥3,381,584

	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 Held-to-maturity debt securities	263,661	384,169	178,659	157,397	651,511
Local government bond	416	894	610	1,380	2,781
Corporate bond	—	—	100	500	1,200
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
Total	¥3,481,927	¥1,302,682	¥1,020,196	¥756,564	¥2,966,665

	Thousands of U.S. dollars				
	2018				
	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	\$ 8,326,826	\$ —	\$ —	\$ —	\$ —
(2) Call loans and bills purchased	728,887	—	—	—	—
(3) Securities	1,896,536	2,180,949	1,344,587	2,245,896	5,667,055
Held-to-maturity debt securities	6,815	6,664	10,749	21,800	27,287
Local government bond	—	—	1,882	8,472	13,178
Corporate bond	6,815	6,664	8,867	13,328	14,109
Available-for-sale securities with maturities	1,889,721	2,174,285	1,333,838	2,224,096	5,639,777
Japanese government bond	462,481	704,189	58,886	412,886	2,403,116
Local government bond	13,140	54,038	43,543	29,462	54,085
Corporate bond	1,105,045	1,014,910	930,968	1,200,179	2,322,769
Others	309,055	401,148	300,441	581,569	859,807
(4) Loans and bills discounted (*)	16,042,573	9,182,511	8,718,562	7,267,969	26,162,604
Total	\$26,994,822	\$11,363,460	\$10,063,149	\$9,513,865	\$31,829,668

(*) 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			
	2018			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥8,027,989	¥357,889	¥322,988	¥30,226
Negotiable certificates of deposit	616,118	540	—	—
Total	¥8,644,107	¥358,429	¥322,988	¥30,226

	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

	Thousands of U.S. dollars			
	2018			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	\$75,564,656	\$3,368,684	\$3,040,173	\$284,507
Negotiable certificates of deposit	5,799,303	5,083	—	—
Total	\$81,363,959	\$3,373,767	\$3,040,173	\$284,507

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

5. SECURITIES

Securities held at March 31, 2018 include shares of unconsolidated subsidiaries and affiliates amounting to ¥27 million (\$0 million) and investments of ¥1 million (\$9 thousand). Corresponding figures at March 31, 2017, were ¥92 million and ¥1,107 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 ¥9,643 million (\$91 million) and ¥7,907 million as of March 31, 2018 and March 31, 2017 respectively.

Bonds included in securities also include securities lent through unsecured loan agreements (bond lending transactions) of ¥5,010 million (\$47 million) and ¥5,040 million, at March 31, 2018 and 2017 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, 2018 and 2017:

(a) Trading securities

Amount of unrealized gain (loss) on trading securities included in the consolidated statement of income

— ¥(4) million (\$38 thousand) and ¥(31) million as at March 31, 2018 and 2017, respectively.

(b) Held-to-maturity debt securities:

		Millions of yen		
		2018		
	Type	Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥2,300	¥2,345	¥ 45
	Corporate bonds	4,769	4,855	86
	Subtotal	7,069	7,200	131
Securities with fair value not exceeding book value	Local government bonds	200	200	(0)
	Corporate bonds	520	518	(2)
	Subtotal	720	718	(2)
Total		¥7,789	¥7,918	¥129

		Millions of yen		
		2017		
	Type	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
	Subtotal	5,372	5,508	136
Securities with fair value not exceeding book value	Local government bonds	400	399	(1)
	Corporate bonds	309	306	(3)
	Subtotal	709	705	(4)
Total		¥6,081	¥6,213	¥132

		Thousands of U.S. dollars		
		2018		
	Type	Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	\$21,649	\$22,073	\$ 424
	Corporate bonds	44,889	45,698	809
	Subtotal	66,538	67,771	1,233
Securities with fair value not exceeding book value	Local government bonds	1,882	1,882	(0)
	Corporate bonds	4,895	4,876	(19)
	Subtotal	6,777	6,758	(19)
Total		\$73,315	\$74,529	\$1,214

(c) Available-for-sale securities

		Millions of yen		
		2018		
	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	Shares	¥ 143,485	¥ 44,723	¥ 98,762
	Japanese government bonds	203,630	202,432	1,198
	Local government bonds	13,079	12,900	179
	Corporate bonds	584,279	573,387	10,892
	Others	30,309	30,099	210
Subtotal		974,782	863,541	111,241
Securities with book value not exceeding acquisition cost	Shares	10,168	11,255	(1,087)
	Japanese government bonds	225,744	228,774	(3,030)
	Local government bonds	7,560	7,580	(20)
	Corporate bonds	114,129	114,868	(739)
	Others	375,057	395,964	(20,907)
Subtotal		732,658	758,441	(25,783)
Total		¥1,707,440	¥1,621,982	¥ 85,458

		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	(1,327)
	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

		Thousands of U.S. dollars		
		2018		
Type	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	\$ 1,350,574	\$ 420,962	\$ 929,612
	Japanese government bonds	1,916,698	1,905,422	11,276
	Local government bonds	123,108	121,423	1,685
	Corporate bonds	5,499,614	5,397,091	102,523
	Others	285,289	283,312	1,977
	Subtotal	9,175,283	8,128,210	1,047,073
Securities with book value not exceeding acquisition cost	Shares	95,708	105,939	(10,231)
	Japanese government bonds	2,124,849	2,153,370	(28,521)
	Local government bonds	71,160	71,348	(188)
	Corporate bonds	1,074,256	1,081,212	(6,956)
	Others	3,530,281	3,727,071	(196,790)
	Subtotal	6,896,254	7,138,940	(242,686)
	Total	\$16,071,537	\$15,267,150	\$ 804,396

(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, 2018 and 2017.

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

		Millions of yen		
		2018		
	Sale amount	Total gain on sale	Total loss on sale	
Shares	¥ 12,754	¥ 6,840	¥ 4	
Japanese government bonds	932,178	2,564	155	
Local government bonds	21,803	483	13	
Corporate bonds	107,010	549	19	
Others	494,422	5,429	3,025	
Total	¥1,568,167	¥15,865	¥3,216	

		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	

		Thousands of U.S. dollars		
		2018		
	Sale amount	Total gain on sale	Total loss on sale	
Shares	\$ 120,049	\$ 64,383	\$ 38	
Japanese government bonds	8,774,266	24,134	1,459	
Local government bonds	205,224	4,546	122	
Corporate bonds	1,007,248	5,168	179	
Others	4,653,821	51,101	28,473	
Total	\$14,760,608	\$149,332	\$30,271	

(f) Securities for which purpose of holding changed

There were no securities for which the purpose of holding changed at March 31, 2018 and 2017.

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 as the consolidated balance sheet amounts. 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, 2018, impairment losses were ¥463 million (\$4,358 thousand) on equity securities and during the fiscal year ended March 31, 2017, impairment losses totaled ¥103 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, 2018 and 2017 was as follows:

(a) Money held in trust classified as trading purposes

	Millions of yen	
	2018	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	¥4,732	¥—

	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	¥—

	Thousands of U.S. dollars	
	2018	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	\$44,540	\$—

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

There are no corresponding transactions as at March 31, 2018 and 2017.

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

	Millions of yen		
	2018		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	¥36,192	¥36,316	¥(124)

	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)

	Thousands of U.S. dollars		
	2018		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	\$340,663	\$341,830	\$(1,167)

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 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized gains	¥85,371	¥78,956	\$803,568
Available-for-sale securities	85,495	79,435	804,735
Available-for-sale money held in trust	(124)	(479)	(1,167)
Deferred tax liabilities	25,430	23,426	239,364
Unrealized gains on available-for-sale securities before following adjustment	59,941	55,530	564,204
Equivalent to non-controlling interests	14	6	132
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
Unrealized gains on available-for-sale securities	¥59,927	¥55,524	\$564,072

Valuation differences on investments in partnerships, etc., of ¥36 million (\$339 thousand) at March 31, 2018 and ¥69 million at March 31, 2017, 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, 2018 and 2017, to which hedge accounting is not applied

(a) Interest-rate-related:

Type	Millions of yen			
	2018			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥24,978	¥21,911	¥ 370	¥ 370
Receivable floating, payable fixed	24,985	21,912	(225)	(225)
Interest rate cap				
Sold	—	—	—	—
Total	¥ —	¥ —	¥ 145	¥ 145

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	Thousands of U.S. dollars			
	2018			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	\$235,109	\$206,241	\$ 3,483	\$ 3,483
Receivable floating, payable fixed	235,175	206,250	(2,118)	(2,118)
Interest rate cap				
Sold	—	—	—	—
Total	\$ —	\$ —	\$ 1,365	\$ 1,365

(b) Currency-related:

Type	Millions of yen			
	2018			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	¥366,190	¥111,614	¥ 7,546	¥ (528)
Foreign exchange forward contracts:				
Sold	76,995	3,929	1,026	1,026
Bought	34,332	3,347	(465)	(465)
Currency options				
Sold	132,001	94,802	(5,773)	1,060
Bought	132,001	94,802	5,909	592
Total	¥ —	¥ —	¥ 8,243	¥1,685

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	Thousands of U.S. dollars			
	2018			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	\$3,446,819	\$1,050,584	\$ 71,028	\$ (4,970)
Foreign exchange forward contracts:				
Sold	724,727	36,982	9,657	9,657
Bought	323,155	31,504	(4,377)	(4,377)
Currency options				
Sold	1,242,479	892,338	(54,339)	9,978
Bought	1,242,479	892,338	55,619	5,572
Total	\$ —	\$ —	\$ 77,588	\$15,860

(c) Stock-related:

There were no stock-related transactions as at March 31, 2018 and 2017.

(d) Bond-related:

Type	Millions of yen			
	2018			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥76,253	¥—	¥(36)	¥(36)
Total	¥ —	¥—	¥(36)	¥(36)

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	Thousands of U.S. dollars			
	2018			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	\$717,743	\$—	\$(339)	\$(339)
Total	\$ —	\$—	\$(339)	\$(339)

(e) Commodity-related:

There were no commodity-related transactions as at March 31, 2018 and 2017.

(f) Credit-derivatives:

There were no credit related transactions as at March 31, 2018 and 2017.

(2) Derivative transactions as at March 31, 2018 and 2017, to which hedge accounting is applied

(a) Interest-rate-related:

Type	Millions of yen			
	2018			
	Contract amounts	Over one year	Fair value	
Principal accounting procedure:				
Interest rate swaps				
Receive floating, payable fixed	¥128,802	¥128,802	¥(300)	
Interest rate swaps employing exceptional accounting:				
Interest rate swaps				
Receive floating, payable fixed	700	622	*	
Total	¥ —	¥ —	¥(300)	

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	Thousands of U.S. dollars		
	2018		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	\$1,212,368	\$1,212,368	\$(2,824)
Interest rate swaps employing exceptional accounting:			
Interest rate swaps			
Receive floating, payable fixed	6,589	5,855	*
Total	\$ —	\$ —	\$(2,824)

(*) 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		
	2018		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	¥27,960	¥2,918	¥865
Total	¥ —	¥ —	¥865

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	Thousands of U.S. dollars		
	2018		
	Contract amounts	Over one year	Fair value
Principal accounting procedure:			
Currency swaps	\$263,178	\$27,466	\$8,142
Total	\$ —	\$ —	\$8,142

(c) Stock-related:

There were no stock-related transactions at March 31, 2018 and 2017.

(d) Bond-related:

There were no bond-related transactions at March 31, 2018 and 2017.

7. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2018 and 2017 include "Risk-Managed Loan Amounts" as follows:

- (1) Loans to borrowers in bankruptcy amounting to ¥13,712 million (\$129million) and ¥14,652 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 ¥62,612 million (\$590 million) and ¥65,203 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 ¥986 million (\$9 million) and ¥471 million denote loans where payment of interest or principal has been delayed for three months or more excluding loans to borrowers in bankruptcy and other delinquent loans.
- (4) Restructured loans amounting to ¥12,105 million (\$114 million) and ¥10,039 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 ¥89,415 million (\$842 million) and ¥90,365 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 ¥47,022 million (\$443 million) at March 31, 2018 and ¥40,304 million at March 31, 2017.

Loan Participation

Based on "Accounting Treatment and Presentation of Loan Participation," (Japanese Institute of Certified Public Accountants Accounting System Committee Report No. 3, November 28, 2014), the consolidated balance sheet amount of loan participation agreements in which the Banks have acquired the economic benefits and risks of the underlying loans from the original lender was ¥4,454 million (\$42 million) as of March 31, 2018 and there was no such item as of March 31, 2017.

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 ¥925,546 million (\$8,712 million) at March 31, 2018 and ¥917,600 million at March 31, 2017. Of this amount, ¥808,080 million (\$7,606 million) at March 31, 2018, and ¥834,969 million at March 31, 2017, 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, 2018 and 2017, the following assets were pledged as collateral for certain liabilities of the Banks.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and due from banks	¥ 14	¥ 18	\$ 132
Securities	279,594	247,444	2,631,720

The collateral was pledged to secure the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deposits	¥26,832	¥36,332	\$252,560
Call money	26,560	11,219	250,000
Payables under securities lending transactions	46,884	32,861	441,303

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 ¥72,627 million (\$684 million) at March 31, 2018 and securities amounted to ¥104,578 million and cash and due from banks ¥3 million at March 31, 2017.

Also, other assets included security deposits, collateral pledged for transactions involving public funds, collateral pledged for financial instruments, collateral pledged for exchange settlements and the financial futures margin, as indicated below.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deposits	¥3,212	¥2,728	\$30,233
Collateral pledged for transactions involving public funds	1,189	1,189	11,192
Collateral pledged for financial instruments	7,693	2,335	72,412
Collateral pledged for exchange settlements	68,410	9,595	643,919
Financial futures margin	10	—	94

10. ACCUMULATED DEPRECIATION

Accumulated depreciation of tangible assets was ¥72,359 million (\$681 million) at March 31, 2018, and ¥72,422 million at March 31, 2017.

11. ADVANCED DEPRECIATION AMOUNT OF TANGIBLE FIXED ASSETS

At March 31, 2018 and 2017, advanced depreciation amount of tangible fixed assets were ¥7,780 million (\$73 million) and ¥7,813 million. Corresponding amount depreciated from certain tangible fixed assets in fiscal year ended March 31, 2017 were ¥108 million and there were no amount in fiscal year ended March 31, 2018.

12. IMPAIRMENT LOSSES

During the fiscal year ended March 31, 2018 and 2017, impairment losses were recorded on the following assets.

Location	Primary use	Type	Impairment loss		
			Millions of yen		Thousands of U.S. dollars
			2018	2017	2018
Within Yamaguchi Prefecture	Business-use assets	Buildings, movable property, software	¥ 13	¥—	\$ 122
Within Hiroshima Prefecture	Business-use and Idle assets for sale	Land, buildings, software	¥210	¥50	\$1,977
Other	Business-use assets	Buildings, movable property	¥ 2	¥19	\$ 19
Total			¥225	¥69	\$2,118

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, 2018 and 2017, the book values of the business-use and idle assets, which have problem in operating cash flow are reduced to their recoverable values, and recognized the reduction of ¥225 million (\$2,118 thousand) and ¥69 million as impairment losses. This amount includes land of ¥81 million (\$762 thousand), buildings of ¥47 million (\$443 thousand), movable property of ¥1 million (\$9 thousand) and software of ¥96 million (\$904 thousand) in fiscal year ended March 31, 2018, and land of ¥31 million and buildings of ¥38 million in fiscal year ended March 31, 2017.

The recoverable amount used to estimate the impairment loss for the fiscal year ended March 31, 2018 and 2017, 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, 2018 is as follows:

	Millions of yen	Thousands of U.S. dollars
2018	¥11,114	\$104,612
2019	5,283	49,727
2020	4,228	39,797
2021	3,145	29,603
2022	1,533	14,430
Thereafter	4,496	42,319
Total	¥29,799	\$280,488

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations at the beginning of the fiscal year	¥61,709	¥63,038	\$580,845
Service cost	1,763	1,851	16,595
Interest cost	165	119	1,553
Actuarial differences	(176)	22	(1,657)
Retirement benefit payments	(3,626)	(3,323)	(34,130)
Others	(16)	2	(151)
Retirement benefit obligations at the end of the fiscal year	¥59,819	¥61,709	\$563,055

(2) Reconciliation of plan asset balances at the beginning and the end of the fiscal year ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance of plan assets at the beginning of the fiscal year	¥ 89,426	¥82,675	\$841,736
Expected return on plan assets	2,545	2,051	23,955
Actuarial differences	12,012	4,533	113,065
Contribution from employer	2,136	1,999	20,105
Retirement benefit payments	(2,319)	(2,126)	(21,828)
Partial returns of retirement benefit trust	(1,380)	—	(12,989)
Others	306	294	2,880
Balance of plan assets at the end of the fiscal year	¥102,726	¥89,426	\$966,924

(3) Reconciliation of the balances of retirement benefit obligations and plan assets at the end of the fiscal year ended March 31, 2018 and 2017, and the carrying amounts of net defined benefit liability and net defined benefit asset

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations of funded plans	¥ 59,738	¥ 61,638	\$ 562,293
Plan assets	(102,726)	(89,426)	(966,924)
	(42,988)	(27,788)	(404,631)
Retirement benefit obligations of unfunded plans	80	71	753
Net carrying amount of obligations and assets	¥ (42,908)	¥(27,717)	\$(403,878)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net retirement benefit liability	¥ 1,797	¥ 1,879	\$ 16,915
Net retirement benefit asset	(44,705)	(29,596)	(420,793)
Net carrying amount of obligations and assets	¥(42,908)	¥(27,717)	\$(403,878)

(4) Retirement benefit costs and their breakdowns

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost*	¥ 1,763	¥1,851	\$ 16,595
Interest cost	165	119	1,553
Expected return on plan assets	(2,545)	(2,051)	(23,955)
Recognized actuarial loss	1,712	2,200	16,114
Amortization of past service cost	(427)	(570)	(4,019)
Others	404	233	3,802
Retirement benefit costs on defined benefit plans	¥ 1,072	¥1,782	\$ 10,090

* 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
	2018	2017	2018
Past service cost	¥ (427)	¥ (570)	\$ (4,019)
Actuarial gain (loss)	13,900	6,711	130,836
Total	¥13,473	¥6,141	\$ 126,817

(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
	2018	2017	2018
Unrecognized past service cost	¥ —	¥ (427)	\$ —
Unrecognized actuarial gain (loss)	(14,878)	(978)	(140,041)
Total	¥(14,878)	¥(1,405)	\$(140,041)

(7) Plan assets

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

	2018	2017
Bonds	20%	19%
Shares	65%	66%
Others	15%	15%
Total	100%	100%

(Note) Plan assets include 50% of corporate pension plans established as retirement benefit trusts at the end of the fiscal year ended March 31, 2018, and 46% at March 31, 2017.

(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 term 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, 2018 and 2017

	2018	2017
Discount rate	0.00%—1.16%	0.00%—1.21%
Expected long-term rate of return on plan assets	1.70%—3.70%	1.60%—3.10%
Expected rate of salary increase	0.65%—4.26%	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, 2018 and 2017 were ¥284 million (\$3 million) and ¥263 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, 2018 and 2017 were ¥21,391 million (\$201 million) and ¥22,589 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, 2018 and 2017 included the gains on sale of stock of ¥11,251 million (\$106 million) and ¥11,802 million, respectively.

18. GENERAL AND ADMINISTRATIVE EXPENSES

Items included operating expenses for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salary and allowance	¥31,894	¥31,944	\$300,207
Depreciation	¥ 4,889	¥ 5,675	\$ 46,018

19. OTHER EXPENSES

Items included other expenses for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loss on derivative financial instruments	¥ 631	¥ 778	\$ 5,939
Loss on sale of stock	¥1,116	¥ 921	\$10,505
Devaluation of stock	¥ 463	¥ 124	\$ 4,358
Loss on investment in money held in trust	¥1,230	¥1,119	\$11,578

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, 2018 and 2017 were as follows:

At March 31, 2018

	Millions of yen	Thousands of U.S. dollars
2019	¥ 110	\$1,035
2020 and thereafter	929	8,745
Total minimum lease payments	¥1,039	\$9,780

At March 31, 2017

	Millions of yen
2018	¥ 98
2019 and thereafter	930
Total minimum lease payments	¥1,028

21. INCOME TAXES

1. Significant components of the deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Allowance for loan losses	¥ 13,069	¥ 14,360	\$ 123,014
Provision for bonuses	1,126	1,100	10,599
Losses on devaluation of securities	816	1,575	7,681
Depreciation	589	636	5,544
Net defined benefit liability	300	2,639	2,824
Net operating losses carryforwards	192	269	1,807
Unrealized gains on available-for-sale securities	76	—	715
Other	2,780	2,595	26,167
Deferred tax assets	18,948	23,174	178,351
Valuation allowance	(1,546)	(2,387)	(14,552)
Total deferred tax assets	17,402	20,787	163,799
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(25,506)	(23,426)	(240,079)
Securities contributed to retirement benefit trusts	(3,964)	(4,243)	(37,312)
Net defined benefit asset	(2,444)	—	(23,005)
Other	(1,367)	(1,350)	(12,867)
Total deferred tax liabilities	(33,281)	(29,019)	(313,263)
Net deferred tax assets (liabilities)	¥(15,879)	¥ (8,232)	\$(149,464)

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, 2018 and 2017 were omitted, as the difference between the effective statutory tax rate and the actual tax rate after application of deferred income tax accounting were 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.

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 26, 2018, the shareholders approved cash dividends amounting to ¥2,488 million (\$23 million). Such appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2018 and to be recognized in the period in which they are approved by the shareholders.

At the annual shareholders’ meeting, held on June 28, 2017, the shareholders approved cash dividends amounting to ¥1,989 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.

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, 2017	Increase	Decrease	March 31, 2018
Shares issued				
Common stock	264,353	—	—	264,353
Total	264,353	—	—	264,353
Treasury stock				
Common stock*1, *2, *3	18,554	22	3,202	17,853
Total	18,554	22	3,202	17,853

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

In addition, the decrease of treasury stock included the sale of 250 thousand shares to the parent company of a consolidated subsidiary, the sale of 296 thousand shares from the ESOP Trust for Group employees to the YMFG stock ownership plan, the 175 thousand shares for the exercise of stock acquisition rights, and 2 thousand shares due to the exercise of rights of the Board Benefit Trust (BBT).

*2 Treasury stock as of beginning and ending of fiscal year ended March 31, 2018 include 1,619 thousand shares and 1,323 thousand shares held by the ESOP Trust for employee shareholders.

*3 Treasury stock as of beginning and ending of fiscal year ended March 31, 2018 include 633 thousand shares and 631 thousand shares held by the Board Benefit Trust (BBT).

	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	1,412	18,554
Total	19,472	2,284	1,412	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 employee shareholders, 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 employee shareholders, 793 thousand shares were due to the sale of shares to the YMFG stock ownership plan, 663 thousand shares were due to allocation to the Board Benefit Trust (BBT), 144 thousand shares were due to the exercise of stock acquisition rights, 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.

2. Stock options

Stock options at March 31, 2018 and 2017 were ¥359 million (\$3 million) and ¥513 million, respectively.

3. Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2018 and 2017.

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 12, 2017				
Common stock	¥1,989*1	¥8.00	Mar. 31, 2017	Jun. 28, 2017
Resolved at the board of directors meeting on November 10, 2017				
Common stock	¥2,488*2	¥10.00	Sep. 30, 2017	Dec. 8, 2017

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

*2 The total amount of dividend on common stock includes ¥21 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 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 (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 12, 2017				
Common stock	\$18,722*1	\$0.08	Mar. 31, 2017	Jun. 28, 2017
Resolved at the board of directors meeting on November 10, 2017				
Common stock	\$23,419*2	\$0.09	Sep. 30, 2017	Dec. 8, 2017

*1 The total amount of dividend on common stock includes \$169 thousand in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

*2 The total amount of dividend on common stock includes \$198 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, 2019 and 2018 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 11, 2018					
Common stock	¥2,488*	Retained earnings	¥10.00	Mar. 31, 2018	Jun. 27, 2018

* The total amount of dividend on common stock includes ¥20 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 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).

(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 11, 2018					
Common stock	\$23,419*	Retained earnings	\$0.09	Mar. 31, 2017	Jun. 28, 2017

* The total amount of dividend on common stock includes \$188 thousand in dividends to ESOP Trust and 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
	2018	2017	2018
General and administrative expenses	¥—	¥42	\$—

2. The contents of the stock options are outlined as 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	—	—	—	—	—
Granted	—	—	—	—	—
Expired	—	—	—	—	—
Vested	—	—	—	—	—
Rights not yet determined	—	—	—	—	—
After vesting					
As of the end of the previous consolidated fiscal year	100,300	128,100	115,800	133,600	74,900
Rights determined	—	—	—	—	—
Rights exercised	22,300	33,000	39,900	51,900	28,600
Expiry	—	—	—	—	—
Amount unexercised	78,000	95,100	75,900	81,700	46,300

(b) Price information

	Yen				
	2016	2015	2014	2013	2012
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise	1,324	1,324	1,322	1,322	1,315
Fair value on date granted	1,377	1,015	973	619	660

4. 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, 2018 and 2017 were as follows.

	Millions of Yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gains (losses) on available-for-sale securities			
Amount generated during the year	¥17,087	¥13,692	\$160,834
Reclassification adjustments	(11,027)	(11,381)	(103,793)
Before tax effect adjustment	6,060	2,311	57,041
Tax effect amount	(1,649)	(801)	(15,521)
Unrealized gains (losses) on available-for-sale securities	4,411	1,510	41,520
Deferred gains on hedges			
Amount generated during the year	(681)	(503)	(6,410)
Reclassification adjustments	752	631	7,078
Before tax effect adjustment	71	128	668
Tax effect amount	(22)	(38)	(207)
Deferred gains on hedges	49	90	461
Remeasurements of defined benefit plans			
Amount generated during the year	12,188	4,511	114,721
Reclassification adjustment	1,285	1,630	12,095
Before adjustment for tax effects	13,473	6,141	126,816
Tax effect amount	(4,104)	(1,871)	(38,629)
Remeasurements of defined benefit plans	9,369	4,270	88,187
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	13,829	5,870	130,168

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, 2018

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:	¥223 million (\$2 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, 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.

29. PER SHARE DATA

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥2,653.60	¥2,486.35	\$24.98
Net income per share	133.65	128.70	1.26
Net income per share (diluted)	¥ 111.22	¥ 106.64	\$ 1.05

Net assets per share are calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2018	2017	2018
Net assets	¥660,451	¥617,053	\$6,216,604
Amounts excluded from net assets	¥ 6,337	¥ 5,910	\$ 59,657
Stock options	359	513	3,379
Non-controlling interests	5,978	5,397	56,278
Net assets attributable to common stock at the fiscal year-end	654,114	611,143	6,156,947
Number of common stock at the fiscal year-end used for the calculation of net assets per share (in thousands)*	246,501	245,800	—

* 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 2,252 thousand as of March 31, 2017, and 1,954 thousand as of March 31, 2018.

Net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2018	2017	2018
Net income attributable to owners of the parent	¥ 32,917	¥ 31,587	\$309,836
Amount not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent for common stock	32,917	31,587	309,836
Average shares of common stock during the year* (in thousands)	246,290	245,428	—

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

	Millions of yen except number of shares		Thousands of U.S. dollars
	2018	2017	2018
Net income adjustment attributable to owners of the parent	¥ 205	¥ 68	\$1,930
Interest expenses (excluding tax amount)	205	68	1,930
Increase of shares of common stock	51,503	51,423	—
Bonds with warrant	51,029	50,826	—
Warrant	473	597	—
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 2,086 thousand in the fiscal year ended March 31, 2018 and 893 thousand in the fiscal year ended March 31, 2017.

30. SUBSEQUENT EVENTS

For the year ended March 31, 2018

Dividends were made in June 2018 and 2017. Please refer to "23. NET ASSETS."

At a Board of Directors meeting on May 11, 2018, YMFG resolved and enacted the resolution to acquire treasury stock pursuant to Article 156 of the Companies Act, as applied by replacing terms pursuant to provisions of Article 165-3 of the Companies Act.

1 Reason for the acquisition of treasury stock
In response to the desire of multiple shareholders holding YMFG's shares for business relationships to sell those shares in line with the introduction of the Corporate Governance Code, and to allow future capital flexibility

2 Details of items related to the acquisition

(1) Type of shares acquired

Common stock of YMFG

(2) Total number of shares acquired

15,000,000 shares (maximum) (6.02% of the number of shares outstanding (excluding treasury stock))

(3) Total acquisition price of the shares

¥22,500,000,000 (maximum) (\$211,785 thousand)

(4) Acquisition period

May 14, 2018 to June 29, 2018

(5) Acquisition method

Market purchases, including through off-auction own-share repurchase trading (ToSTNeT-3)

3 Results of acquisition

(1) Type of shares acquired

Common stock of YMFG

(2) Total number of shares acquired

14,644,500 shares

(3) Total acquisition price of the shares

¥20,603,996,006 (\$193,938 thousand)

(4) Acquisition period

May 14, 2018 to June 11, 2018 (contract based)

(5) Acquisition method

Market purchases, including through off-auction own-share repurchase trading (ToSTNeT-3)

For the year ended March 31, 2017

There were no significant 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.