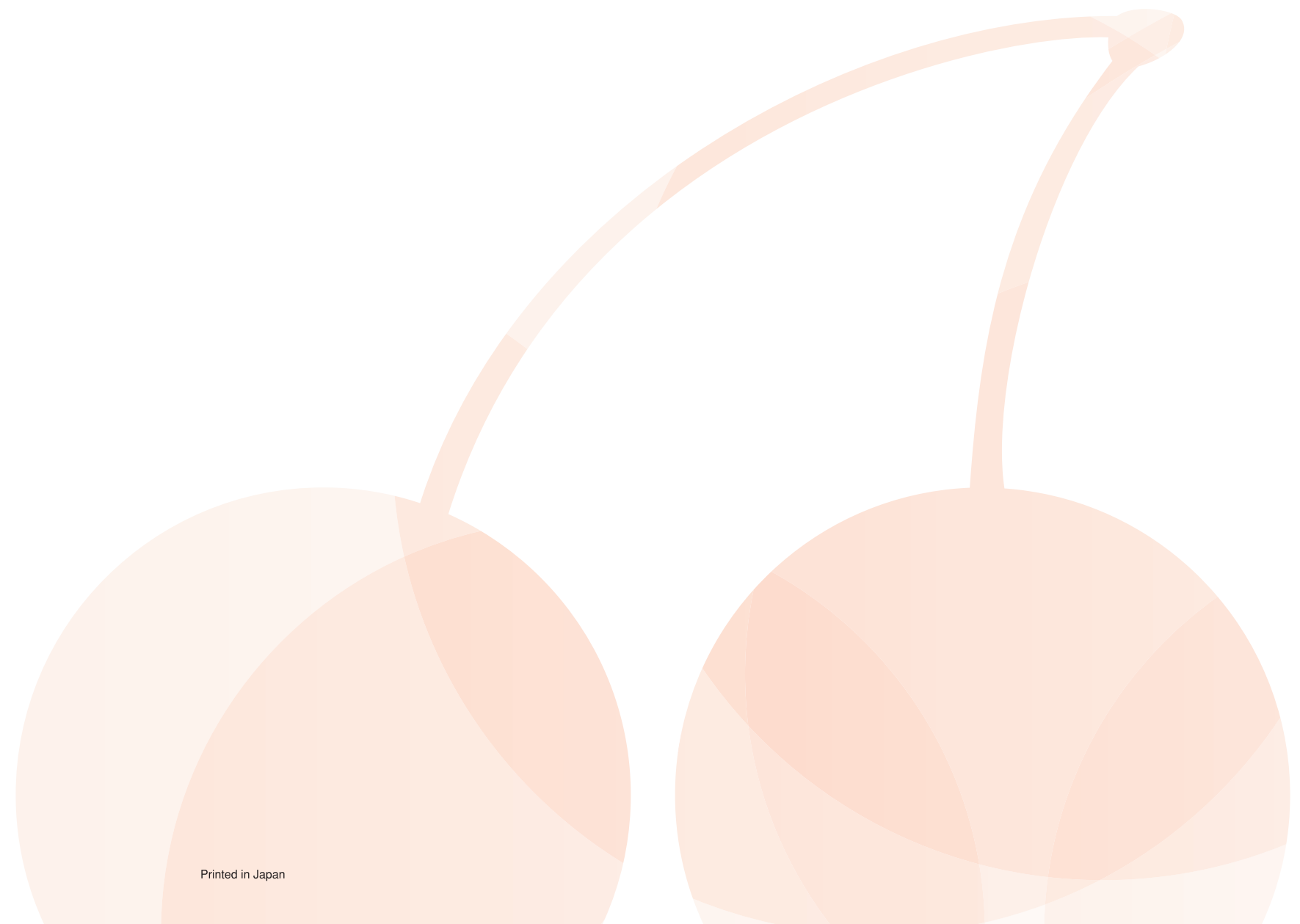


# ANNUAL REPORT 2014

Year Ended March 31, 2014



# Corporate Profile

## Together with the region

The Yamagata Bank Ltd. (the "Bank") believes that contributing to the development of the regional economy and community through diverse activities is the fulfillment of its corporate social responsibility (CSR) as a regional bank. The Bank is aiming to raise corporate value by fulfilling its CSR and to be a valuable bank for the region which is the driving force of the new era.

## Present local conditions

Yamagata Prefecture, located in the southern Tohoku, has a population of 1,140 thousands and the fifth largest economy of Tohoku region. The economy of Yamagata Prefecture is decentral-ized and of the multipolarization type, rather than a concentrated monopolar type. There are four areas of characteristic economy and culture in the Yamagata Prefecture, named the Murayama area, which is around the capital city, Yamagata City; the Okitama area in the south; the Mogami area in the north, and the Shonai area, which is the only area facing the sea.

Yamagata Prefecture is adjacent to Miyagi Prefecture, of which capital city, Sendai City, is the largest city in Tohoku region. For this reason, the brick interaction, called "Senzan Zone Interac-tion", between Yamagata City and Sendai City, contribute to their mutual development of economy and culture. After the Great East Japan Earthquake, the importance of upgrading the transportation infrastructure on the Sea of Japan side of the country was recog-nized. Consequently, in Yamagata Prefecture transportation infrastructure improvements are underway, including improving expressways and increasing the number of air routes from the airport.

Representative industries of Yamagata Prefecture are agriculture and manufacturing. The main products of agriculture are rice, cherries of top production in Japan, and "La France" pears. The key products of manufacturing are electronic components and devices, information and communication equipment. Every product made in Yamagata Prefecture is considered to be of quality, thanks to the diligent workers and constant spirit of crafts-manship since the time of traditional industrial. Moreover, the prefecture is attractive to tourists for rich natural environment, which is possesses four distinct seasons and many hot springs.

However, the aging of the population is advancing in the prefec-ture at a more rapid pace than in other prefectures, so actions to generate economic vitality are vital. Projects to establish new next-generation businesses, including the creation of the industry based on the agriculture, the use of renewable energy, and efforts to form bioclusters, are being activated.



Kichishige Hasegawa  
President

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# The Yamagata Bank, Ltd., and Consolidated Subsidiaries Financial Highlights and Ratios

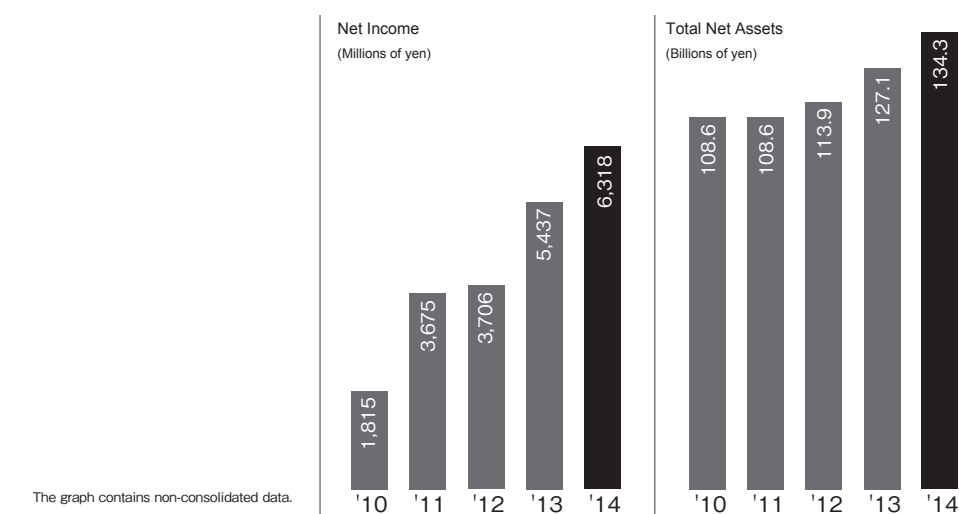
Yen:In millions except per share data and percentages

U.S.dollars:In thousands except per share data and percentages

For the years ended March 31	Consolidated			Non-Consolidated	
	2014 (Millions of yen)	2013 (Millions of yen)	2014 (Thousands of U.S.dollars)	2014 (Millions of yen)	2013 (Millions of yen)
Total income.....	¥ 45,738	¥ 47,937	\$ 444,406	¥ 39,319	¥ 41,280
Total expenses.....	34,670	38,227	336,870	29,139	32,644
Net income.....	6,331	5,452	61,522	6,318	5,437
<b>Amounts per share</b>					
Net income .....	¥ 37.14	¥ 31.98	\$ 0.36	¥ 37.06	¥ 31.90
Cash dividends declared during the year .....	—	—	—	6	6
Net assets .....	789.89	747.20	7.67	788.18	745.73
<b>As of March 31</b>					
Total assets .....	¥ 2,379,310	¥ 2,312,413	\$ 23,118,054	¥ 2,366,529	¥ 2,300,369
Loans and bills discounted .....	1,409,351	1,326,192	13,693,658	1,418,297	1,333,899
Total liabilities .....	2,237,627	2,178,564	21,741,427	2,232,173	2,173,235
Deposits .....	2,119,245	2,091,639	20,591,188	2,126,057	2,098,715
Total net assets .....	141,682	133,849	1,376,626	134,355	127,133
<b>Ratios:</b>					
Capital ratio (Note 2) .....	13.92%	13.92%		13.34%	13.40%

Note 1: U.S.dollars represent transactions, for the convenience of readers, at ¥ 102.92=U.S.\$1.00, the rate prevailing on March 31, 2014.

Note 2: Figures for 2013 and 2014 are shown according to domestic standards.



# Message from Management

## Management philosophy

To prosper together with the region  
To satisfy all of our customers  
To provide our staff with stability and opportunities

## What Yamagata Bank is aiming for

I am grateful for the continuous patronage of our customers towards Yamagata Bank from the bottom of my heart.

The economy of Japan during the fiscal year ended March 2014 generally recovered due to Abenomics, which focuses on monetary and fiscal policy and improved the economy and, in the latter half of the year, rush demand before the increase in the consumption tax rate, which significantly facilitated efforts to pull out of deflation.

Public investment increased in general due to reconstruction projects and the economic measures, and housing investment rose because of reasons such as construction of houses earlier than planned to beat the upcoming increase in the consumption tax rate. Personal consumption stopped falling and remained stable because of moderate improvements in employment and income conditions, and of last-minute purchases made before the increase in the consumption tax rate. These circumstances stimulated corporate production activities and investment in plant and equipment made a modest recovery against the background of improvement of corporate performance. Improvements in export conditions due to the depreciation of the yen helped exports to rise, but later in the year, instability in the emerging economies and other factors tended to slow this increase somewhat.

Considering the economy of Yamagata Prefecture, in which our business is based, corporate production activities were depressed in the first half of the fiscal year. But it gradually recovered.

The corporate production activities such as production in the electronics-related business, which is the major industry in the prefecture, remained low to the extent that some companies laid off staff in the first half of the fiscal year. But in the latter half of the fiscal year, the production improved with the recovery in the domestic economy. Personal consumption was strong, as the after-effects of the particularly high consumption following the Great East Japan Earthquake disaster ended and because of hurried buying before the rise in the consumption tax rate. Also, housing investment increased in general, and the public investment was much larger than that of the previous year due to an increase in orders for construction work from national and local government. Under these circumstances, the

business confidence of companies improved and investment in plant and equipment recovered at a low level. During the year, employment picture saw a strong improvement as a result of the continuous work offers in a diverse range of businesses.

Under the circumstances as stated above, Yamagata Bank carry out our 17th long-term management plan, called the "Yamagin Innovation Plan II" (fiscal 2012-2014). In accordance with this management plan and with the understanding that Yamagata Bank will not have any growth without the vitalization of the regional economy, we are endeavoring to further enhance our region-oriented banking. Based on the plan, we will make our best efforts to assist in raising regional vitality by supporting customers in creating added value and by making contributions to materialize a sustainable regional economy and society.

We would be most grateful if you could continue to extend your support and lasting patronage.

## Aiming to be a bank that is absolutely necessary for Yamagata with an overwhelming presence and trustworthiness.

The management philosophy of Yamagata Bank, which has been maintained throughout the long history of the Bank, is based on three aspects, namely the region, our customers and our employees, and has the common ideal as that of the corporate social responsibility of the modern management. Therefore, we have set the management philosophy as our corporate social responsibility charter, and we consider that meeting our corporate social responsibility is the management of the Bank.

The 17th long-term management plan, "Yamagin Innovation Plan II", which began in April 2012, is aimed at raising our corporate value through further enhancement of region-oriented banking, by considering our corporate social responsibility as a regional bank based on the three aspects. The major target of the plan is structural reform to become a bank that is absolutely necessary for Yamagata with an overwhelming presence and trustworthiness, in other words an enterprise that materializes vitalization in the region.

All of the managers and staff of Yamagata Bank will unite and strive to meet the targets in the plan.

## CSR charters

The management philosophy of Yamagata Bank, which the bank has respected throughout its long history, also applies to CSR management in the current times. Under the 17th long-term management plan, various business

problems will be solved by regarding the management philosophy as CSR charters.

## To prosper together with the region

From the aspect of the economy and social contributions (the meaning of our existence) Regional banks share a common destiny with their home region. They bear a responsibility to contribute to the growth of the economy of their region, which is permanent, regardless of the flow of the times. Today, the roles of regional banks are expanding, not only in financial aspects, but also in social aspects.

## To satisfy all of our customers

From the aspect of our customers (customer satisfaction) The lifestyles of our customers are diversifying, which means that the requirements of each customer differ. We endeavor to raise our ability each and every day to solve customers' problems so that they will use our services for a long time.

## To provide our staff with stability and opportunities

From the aspect of our employees (employee satisfaction) The satisfaction of our employees — who serve our customers — is vital to deliver good services to customers. Yamagata Bank is managed in a way whereby the employees are proud of working at the bank, are eager to complete their tasks and feel enthusiastic.

## Basic concept of the 17th long-term management plan

- 1.To swiftly meet targets to raise adaptability to the changes in conditions considering the next decade.
- 2.To contribute to sustainable growth and the development of the region and our customers on the understanding that the region and Yamagata Bank share a common destiny; and to further enhance region-oriented banking in order to maintain and expand the foundations of our earnings and to raise our corporate value.

## Basic policies in three years (fiscal 2012-2014)

- 1.We make the utmost efforts to solve the problems of our customers actively and swiftly by using the advantage of our comprehensive financial information service.
- 2.We provide financial products and services of high added-value to satisfy every customers, so that they will keep using our bank continually and permanently.
- 3.As the core of innovation of Yamagata Prefecture, we contribute to the regional sustainable development.

## Six reconstruction in progress

- 1.Procurement and investment
- 2.Operation
- 3.Profit making structure
- 4.Human resource development
- 5.Services reform
- 6.Consciousness and conduct

## Outline of major targets

- 1.To raise earnings capacity  
(1)To strengthen the foundations of our earnings by building business relationships that are sustainable and materialize development (reform of the profit-making framework)  
We aim to have business with customers that is sustainable and materializes development; in other words, life-long business for personal customers and permanent business for corporate customers. We will respond to the diverse requirements of customers by offering solutions, and contribute to the growth and development of the region and of our customers by working together to find solutions.  
(2)To improve both the quality and quantity of earnings by changing business models (reform of procurement and investment, and a profit-making framework)  
We will change the way that we operate our financing, and lend funds to foster companies and markets, by taking risks proactively.
- 2.To strengthen business foundations  
Reform of human resource development, way of thinking, deed, services and operations  
We will realize sustainable growth by strengthening business management and staff training, which are the foundations of business.
- 3.To generate the value of the region  
The Bank will make our best efforts to assist in raising regional vitality by supporting customers in creating added value and by making contributions to materialize a sustainable regional economy and society.

Kichishige Hasegawa  
President

# Review of Operations

## The Conditions of Consolidated Accounts

### The General situation of this term (from April 1, 2013 to March 31, 2014)

#### Deposits and negotiable certificates of deposit

As a result of our efforts to offer products that respond to the diverse requirements of our customers, the year-end consolidated balance of deposits and negotiable certificates of deposit rose by ¥27.6 billion during the year to ¥2,119.2 billion. Deposits by personal customers increased especially well.

#### Deposited assets

The year-end consolidated balance of deposited financial assets rose by ¥18.8 billion during the year to ¥311.1 billion, due to reasons such as a satisfactory increase in personal annuity insurance of ¥29.9 billion in the year.

#### Loans

The year-end consolidated balance of loans rose by ¥83.1 billion during the year to ¥1,409.3 billion. This was realized because the Bank proactively responded to the demand for funds by local companies and local public entities, and made constant efforts to increase loans to personal customers, mainly focusing on housing loans.

#### Securities

As a result that we invested assets by attaching importance to safety and liquidity and by paying close attention to investment conditions and market trends,

the year-end consolidated balance of securities rose by ¥82.1 billion during the year to ¥854.1 billion.

#### Profit and loss

The consolidated ordinary income declined by ¥2,189 million on the previous year to ¥45,738 million, mainly because of a decrease in fund investment earnings due to the long-lasting low interest rate environment and the decrease in the gain on the reversal of the allowance for bad debts, a large amount of which was accounted for in the first half of the year. The consolidated ordinary expenses were down by ¥3,610 million on the previous year to ¥34,534 million, mainly because of a decrease in security-related losses, such as losses on sales of shares. As a result, the consolidated ordinary profit rose by ¥1,421 million during the year to ¥11,203 million, and the consolidated net income rose by ¥879 million in the year to ¥6,331 million.

#### Results by business sector

In the banking business, the ordinary income for the consolidated fiscal year was ¥39,319 million, which was ¥1,951 million less than that for the previous fiscal year; the segment profit for the consolidated fiscal year was ¥10,316 million, which was ¥1,608 million more than that for the previous fiscal year. In the leasing business, the ordinary income for the consolidated fiscal year was ¥4,796 million, which was ¥226 million less than that for the previous fiscal year; the segment profit for the consolidated fiscal year was ¥217 million, which was ¥128 million less than that for the previous fiscal year. In other business sectors, the ordinary income for the consolidated fiscal year was ¥2,544 million, which was ¥41 million less than

that for the previous fiscal year; the segment profit for the consolidated fiscal year was ¥739 million, which was ¥96 million less than that for the previous fiscal year.

#### Cash flow

Cash flow from operating activities was positive at ¥40.2 billion, due to increases in deposits and decreases in call loans, etc.

Cash flow from investing activities was negative at ¥79.4 billion, because the outflow generated by the acquisition of securities, etc., exceeded the inflow generated by sales and redemptions of securities, etc.

Cash flow from financing activities was negative at ¥1 billion, because of payments of dividends, etc.

As a result of the above, the year-end consolidated balance of cash and cash equivalents decreased by ¥40.2 billion during the year to ¥36.5 billion.

# Corporate Data

## Management

(As of June 24, 2014)

#### President

Kichishige Hasegawa

#### Senior Managing Directors

Shinichiro Miura

Yoshihiro Ishikawa

#### Managing Directors

Hitoshi Watanabe

Masahiro Takeda

Haruhiko Tanno

#### Directors

Hiromitsu Takahashi

Yoshihiro Domon

Kosuke Suzuki

Masaki Kakizaki

Kiyohiro Naganuma

Satoshi Nagai

Kazuhiro Moriya

Gisuke Ohara

#### Corporate Auditors

Takami Konta

Tamon Nakagawa

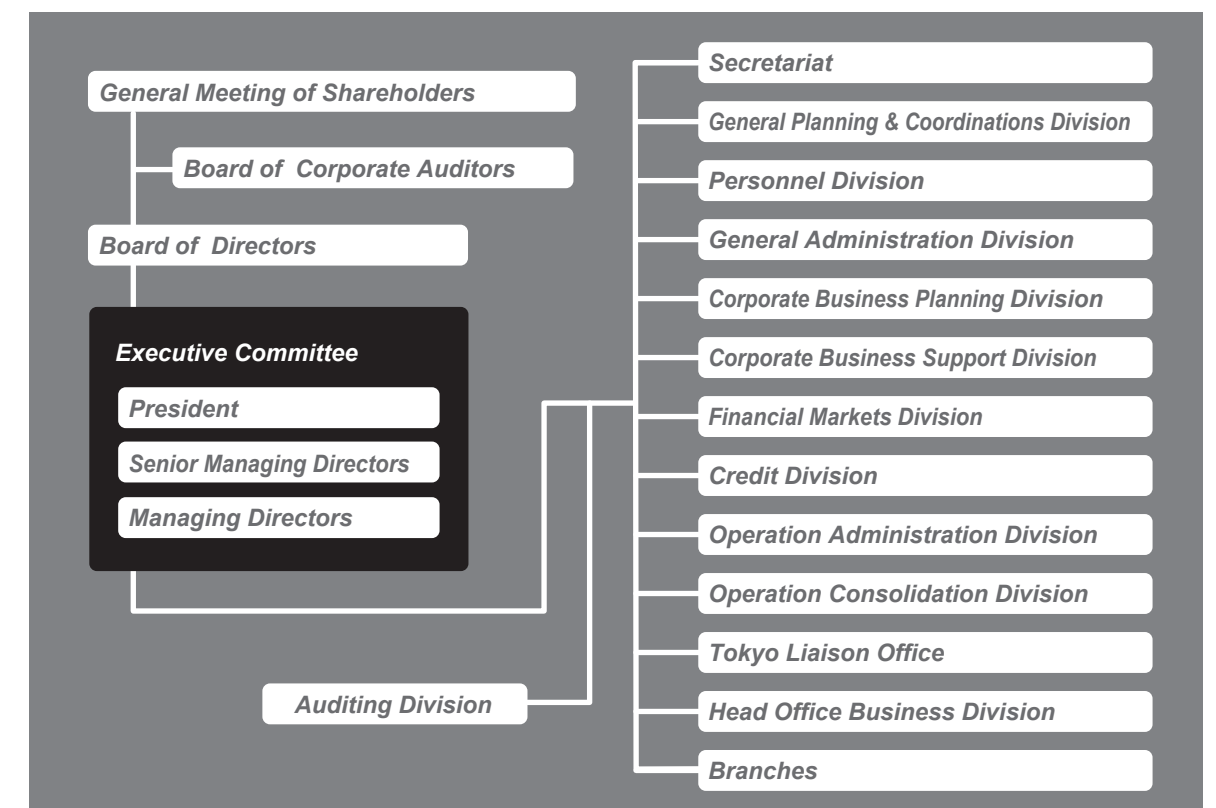
Shinichi Nakayama

Bin Hamada

Yasumasa Gomi

## Organization

(As of June 24, 2014)





# Financial Statements

## Consolidated Balance Sheet

As of March 31, 2014 and 2013

	2014 (Millions of yen)	2013 (Millions of yen)	2014 (Thousands of U.S. dollars)(Note 2)
<b>Assets</b>			
Cash and due from banks (Note 9)	¥ 37,502	¥ 87,777	\$ 364,384
Call loans and bills purchased	18,683	72,644	181,535
Trading securities (Note 5)	57	34	557
Securities (Notes 5 and 11)	854,183	771,994	8,299,494
Loans and bills discounted (Note 4)	1,409,351	1,326,192	13,693,658
Foreign exchange (Note 4)	1,510	1,029	14,677
Other assets (Note 11)	31,221	26,791	303,356
Tangible fixed assets	13,461	13,268	130,793
Buildings (Note 10)	3,021	3,139	29,354
Land (Note 6)	8,923	8,933	86,704
Construction in process	319	13	3,104
Other tangible fixed assets (Note 10)	1,197	1,181	11,630
Intangible fixed assets	1,201	1,366	11,670
Software	983	1,147	9,553
Other intangible fixed assets	217	218	2,117
Deferred tax assets (Note 16)	418	481	4,063
Customers' liabilities for acceptances and guarantees	19,764	21,232	192,035
Reserve for possible loan losses	(8,045)	(10,401)	(78,174)
Total assets	¥ 2,379,310	¥ 2,312,413	\$ 23,118,054
<b>Liabilities and Net Assets</b>			
Liabilities:			
Deposits (Note 11)	¥ 2,119,245	¥ 2,091,639	\$ 20,591,188
Call money and bills sold	—	538	—
Payables under securities lending transactions (Note 11)	21,204	15,366	206,031
Borrowed money (Note 11)	49,429	25,491	480,272
Foreign exchange	55	38	536
Other liabilities	19,113	17,236	185,715
Reserve for bonuses to directors and corporate auditors	20	20	194
Reserve for employees' retirement benefits (Note 18)	—	1,129	—
Liability for retirement benefits	684	—	6,648
Reserve for directors and corporate auditors' retirement benefits	305	276	2,966
Reserve for losses on dormant deposit repayments	158	187	1,535
Reserve for losses on contingencies	225	147	2,192
Deferred tax liabilities	5,834	3,646	56,691
Deferred tax liabilities arising from revaluation of land (Note 6)	1,586	1,612	15,417
Acceptances and guarantees	19,764	21,232	192,035
Total liabilities	¥ 2,237,627	¥ 2,178,564	\$ 21,741,427
<b>Net Assets</b>			
Shareholders' equity (Notes 7 and 12):			
Common stock, without par value:			
Authorized - 298,350,000 shares			
Issued - 172,000,000 shares	¥ 12,008	¥ 12,008	\$ 116,678
Capital surplus	4,939	4,939	47,991
Retained earnings (Note 8)	101,464	96,216	985,861
Less treasury stock, at cost	(828)	(820)	(8,053)
Total shareholders' equity	117,583	112,343	1,142,477
Accumulated other comprehensive income			
Unrealized holding gain on securities (Note 5)	18,333	17,136	178,132
Deferred loss on hedging instruments	(2,370)	(3,108)	(23,036)
Revaluation of land (Note 6)	1,073	1,012	10,426
Retirement benefits liability adjustments	28	—	276
Total accumulated other comprehensive income	17,063	15,039	165,798
Minority interests	7,034	6,465	68,351
Total net assets	¥ 141,682	¥ 133,849	\$ 1,376,626
Total liabilities and net assets	2,379,310	2,312,413	23,118,054

## Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2014 and 2013

	2014 (Millions of yen)	2013 (Millions of yen)	2014 (Thousands of U.S. dollars)(Note 2)
<b>Consolidated Statement of Income</b>			
<b>Income:</b>			
Interest on loans and discounts	¥ 19,472	¥ 20,221	\$ 189,198
Interest and dividends on securities	7,204	7,227	70,003
Other interest	147	237	1,432
Fees and commissions	7,349	7,230	71,413
Other operating income	8,201	9,200	79,692
Other income	3,361	3,817	32,665
Total income	45,738	47,937	444,406
<b>Expenses:</b>			
Interest on deposits	1,711	1,734	16,632
Interest on borrowings and rediscounts	74	120	720
Other interest	1,264	1,282	12,285
Fees and commissions	2,256	2,137	21,928
General and administrative expenses	23,341	23,540	226,797
Other expenses	6,021	9,407	58,507
Total expenses	34,670	38,227	336,870
<b>Income before income taxes and minority interests</b>	11,067	9,710	107,535
Income taxes (Note 16)			
Current	2,924	1,127	28,417
Deferred	1,241	2,308	12,060
	4,166	3,436	40,478
Income before minority interests	6,901	6,273	67,056
Minority interests	569	821	5,534
<b>Net income</b>	¥ 6,331	¥ 5,452	\$ 61,522
<b>Consolidated Statement of Comprehensive Income</b>			
Income before minority interests	¥ 6,901	¥ 6,273	\$ 67,056
Other comprehensive income (Note 14)	1,939	8,734	18,843
Unrealized holding gain on securities	1,201	9,660	11,675
Deferred loss on hedging instrument	737	(926)	7,168
Comprehensive income	8,840	15,007	85,900
Comprehensive income attributable to shareholders of the parent company			
	8,266	14,184	80,322
Comprehensive income attributable to minority interests			
	574	822	5,577

## Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2014

	Shareholders' equity					Accumulated other comprehensive income					(Millions of yen)	
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Deferred loss on hedging instruments	Revaluation of land	Retirement benefits liability adjustments	Total of accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2013	¥ 12,008	¥ 4,939	¥ 96,216	¥ (820)	¥ 112,343	¥ 17,136	¥ (3,108)	¥ 1,012	¥ -	¥ 15,039	¥ 6,465	¥ 133,849
Changes in the consolidated fiscal year												
Cash Dividends	-	-	(1,022)	-	(1,022)	-	-	-	-	-	-	(1,022)
Net income	-	-	6,331	-	6,331	-	-	-	-	-	-	6,331
Acquisition of treasury stocks	-	-	-	(7)	(7)	-	-	-	-	-	-	(7)
Disposition of treasury stocks	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of land revaluation	-	-	(60)	-	(60)	-	-	-	-	-	-	(60)
Changes in items other than shareholders' equity items in the consolidated fiscal year (net amounts)	-	-	-	-	-	1,197	737	60	28	2,024	568	2,593
Total	¥ 12,008	¥ 4,939	¥ 101,464	¥ (828)	¥ 117,583	¥ 18,333	¥ (2,370)	¥ 1,073	¥ 28	¥ 17,063	¥ 7,034	¥ 141,682

For the year ended March 31, 2013

	Shareholders' equity					Accumulated other comprehensive income					(Millions of yen)	
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Deferred loss on hedging instruments	Revaluation of land	Retirement benefits liability adjustments	Total of accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2012	¥ 12,008	¥ 4,939	¥ 91,742	¥ (818)	¥ 107,872	¥ 7,477	¥ (2,182)	¥ 1,057	¥ 6,352	¥ 5,648	¥ 119,872	
Changes in the consolidated fiscal year												
Cash Dividends	-	-	(1,022)	-	(1,022)	-	-	-	-	-	-	(1,022)
Net income	-	-	5,452	-	5,452	-	-	-	-	-	-	5,452
Acquisition of treasury stocks	-	-	-	(3)	(3)	-	-	-	-	-	-	(3)
Disposition of treasury stocks	-	(0)	-	0	0	-	-	-	-	-	-	0
Reversal of land revaluation	-	-	45	-	45	-	-	-	-	-	-	45
Changes in items other than shareholders' equity items in the consolidated fiscal year (net amounts)	-	-	-	-	-	9,658	(926)	(45)	8,687	817	9,505	
Total	¥ 12,008	¥ 4,939	¥ 96,216	¥ (820)	¥ 112,343	¥ 17,136	¥ (3,108)	¥ 1,012	¥ 15,039	¥ 6,465	¥ 133,849	

For the year ended March 31, 2014

	Shareholders' equity					Accumulated other comprehensive income (Thousands of U.S. dollars) (Note 2)						
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Deferred loss on hedging instruments	Revaluation of land	Retirement benefits liability adjustments	Total of accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2013	\$ 116,678	\$ 47,991	\$ 934,869	\$ (7,976)	\$ 1,091,562	\$ 166,499	\$ (30,204)	\$ 9,834	\$ -	\$ 146,129	\$ 62,823	\$ 1,300,515
Changes in the consolidated fiscal year												
Cash Dividends	-	-	(9,938)	-	(9,938)	-	-	-	-	-	-	(9,938)
Net income	-	-	61,522	-	61,522	-	-	-	-	-	-	61,522
Acquisition of treasury stocks	-	-	-	(77)	(77)	-	-	-	-	-	-	(77)
Disposition of treasury stocks	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of land revaluation	-	-	(591)	-	(591)	-	-	-	-	-	-	(591)
Changes in items other than shareholders' equity items in the consolidated fiscal year (net amounts)	-	-	-	-	-	11,632	7,168	591	276	19,668	5,528	25,196
Total	\$ 116,678	\$ 47,991	\$ 985,861	\$ (8,053)	\$ 1,142,477	\$ 178,132	\$ (23,036)	\$ 10,426	\$ 276	\$ 165,798	\$ 68,351	\$ 1,376,626

## Consolidated Statement of Cash Flows

For the years ended March 31, 2014 and 2013

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)(Note 2)
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 11,067	¥ 9,710	\$ 107,535
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,169	1,252	11,368
Loss on impairment of fixed assets	124	36	1,207
Reserve for possible loan losses	(2,355)	(4,026)	(22,886)
Reserve for employees' retirement benefits	(1,129)	(275)	(10,976)
Liability for retirement benefits	712	-	6,925
Reserve for directors and corporate auditors' retirement benefits	29	34	284
Reserve for losses on dormant deposits repayments	(29)	(22)	(281)
Reserve for losses on contingencies	78	(35)	759
Interest income	(26,824)	(27,688)	(260,634)
Interest expense	3,050	3,140	29,638
Loss (gain) on investment securities	(3,057)	237	(29,707)
Foreign exchange gain, net	(78)	(85)	(764)
Loss on disposal of fixed assets	11	36	112
Loans	(83,153)	(37,457)	(807,946)
Deposits	27,547	67,667	267,662
Borrowed money (excluding subordinated borrowings)	23,938	16,385	232,589
Due from banks (excluding due from Bank of Japan)	10,017	9,462	97,330
Call loans and bills purchased	50,112	8,475	486,912
Call money and bills sold	(538)	521	(5,233)
Payables under securities lending transactions	5,828	12,571	56,636
Trading securities	(22)	9	(221)
Foreign exchange assets	(397)	91	(3,865)
Foreign exchange liabilities	16	0	162
Interest received	26,988	27,816	262,225
Interest paid	(3,372)	(3,167)	(32,769)
Other	1,447	(810)	14,062
Subtotal	41,180	83,881	400,123
Income taxes paid	(1,308)	(1,556)	(12,709)
Income taxes refunded	364	184	3,540
Net cash provided by operating activities	40,237	82,509	390,955
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(536,323)	(697,972)	(5,211,068)
Proceeds from sales of investment securities	397,961	559,620	3,866,709
Proceeds from redemption of investment securities	60,231	105,045	585,224
Expenditure for acquisition of tangible fixed assets	(1,090)	(590)	(10,595)
Income from sale of tangible fixed assets	14	52	136
Expenditure for acquisitions of intangible fixed assets	(252)	(490)	(2,453)
Net cash used in investing activities	(79,459)	(34,334)	(772,047)
<b>Cash flows from financing activities:</b>			
Dividends paid	(1,022)	(1,022)	(9,938)
Dividends paid to minority shareholders	(5)	(5)	(49)
Purchases of treasury stock	(7)	(3)	(77)
Proceeds from sales of treasury stock	-	0	-
Net cash used in financing activities	(1,035)	(1,031)	(10,065)
Effect of exchange rate changes on cash and cash equivalents	(1)	(1)	(11)
Net increase (decrease) in cash and cash equivalents	(40,259)	47,142	(391,168)
Cash and cash equivalents at beginning of year	¥ 76,774	¥ 29,632	\$ 745,966
Cash and cash equivalents at end of year (Note 9)	36,515	76,774	354,798



# Notes to Consolidated Financial Statements

March 31, 2014

## 1. Basis of Presentation

The accompanying consolidated financial statements of The Yamagata Bank, Ltd. (the "Bank") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan (the "Banking Law"), and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued for domestic purposes in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

As permitted by the Financial Instruments and Exchange Act amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S.dollars) do not necessarily agree with the sums of the individual amounts.

## 2. U.S.Dollar Amounts

The Bank maintains its records and prepares its financial statements in yen. Amounts in U.S.dollars are presented solely for the convenience of readers outside Japan. The rate of 102.92=U.S.\$1.00, the rate of exchange in effect on March 31, 2014, has been used in translation. The translation should not be construed as a representation that yen could be converted into U.S. dollars at the above or any other rate.

## 3. Summary of Significant Accounting Policies

### a. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its 7 subsidiaries, except for 1 subsidiary which is not consolidated due to its immateriality.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Goodwill represents the difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition. Immaterial goodwill is charged to income when incurred.

### b. Securities

Securities are classified into three categories: trading, held-to-maturity bonds, or other securities (securities available for sale). Trading account securities, which are purchased for trading purpose, are carried at market value and held-to-maturity bonds are carried at amortized cost. Marketable securities classified as securities available for sale are carried at market value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Available-for-sale securities which do not have readily determinable fair value are carried at cost. Cost of securities sold is determined by the moving average method.

### c. Derivative financial instruments

Derivatives are stated at fair market value.

### d. Tangible fixed assets

The Bank recognizes depreciation by the decline-balance method applicable to each specific category of assets. The useful lives of buildings and equipment are summarized as follows:

Buildings : 2 to 50 years    Equipment : 2 to 15 years

Depreciation of tangible fixed assets of the consolidated subsidiaries is mainly computed using the declining-balance method over the estimated useful lives of respective assets.

### e. Intangible fixed assets

Intangible fixed assets are depreciated by the straight-line method. The Bank's software, which is used in-house, is depreciated based on the estimated period of use (mainly five years) at the Bank and at consolidated subsidiaries.

### f. Leased assets

Leased assets on finance lease transactions that do not transfer ownership are depreciated over the useful life of assets, equal to the lease term, by the straight-line method with zero residual value or, where lease agreements stipulate guarantee of residual value, the guaranteed residual value. The Bank leases certain vehicle, computer equipment and other assets.

### g. Foreign currency translation

Foreign-currency-denominated assets and liabilities are translated into yen equivalents at the exchange rates prevailing at the balance sheet date.

### h. Reserve for possible loan loss

The reserve for possible loan losses of the Bank is provided in accordance with internally established standards for write-offs and reserve provisions. The reserve for possible loan losses on loans to borrowers who are classified as substantially bankrupt or who are legally bankrupt is provided based on the amount remaining after deduction of the amounts expected to be recoverable from the disposal of collateral and amounts recoverable under guarantees. In addition, an allowance is provided for loans to borrowers who, although not legally bankrupt, are experiencing serious difficulties and whose failure is imminent. In such cases, a portion of this allowance is provided based on the amount remaining after deduction of the amounts expected to be recoverable from the disposal of collateral and the amounts recoverable under guarantees, and the balance of the allowance is provided after giving full consideration to the amount which the borrower is deemed capable of repaying. In the case of all other loans, the amount provided as an allowance is based on the Bank's historical percentage of actual defaults over a specific fixed period in the past.

The relevant departments assess the assets for all of the credit, based on self-assessment standards for assets, and an independent asset audit department audits the results of the assessments. We provide a reserve described above based on the assessment results.

The reserve for possible loan losses is calculated based on the quality of the Bank's total loan assets, applying the Bank's internally established rules for the self-assessment of its assets.

### i. Reserve for bonuses to directors and corporate auditors

A reserve for bonuses to directors and corporate auditors is provided in the amount accrued during the year, which is calculated based on the estimated amount of future bonus payment to directors and corporate auditors.

### j. Employees' retirement benefits

For the calculation of employees' retirement benefit obligation, the estimated amount of employees' retirement benefits is attributed to each period by the straight-line method.

Prior service cost is amortized as incurred, by the straight-line method over a period (5years) which falls within the average remaining years of service of the active participants in the plans.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized, by the straight-line method over a period (5years) which falls within the average remaining years of service of the active participants in the plans.

Also, certain consolidated subsidiaries calculate the net defined benefit liability and retirement benefit cost using the simplified method which assumes the retirement benefit obligation to be equal to the necessary payments of the voluntary retirement for all employees at

the fiscal year-end.

### k. Reserve for directors and corporate auditors' retirement benefits

A reserve for directors and corporate auditors retirement benefits is provided in the amount accrued during the year, which is calculated based on the estimated amount of future retirement payments to directors and corporate auditors.

### l. Reserve for losses on dormant deposit repayments

A reserve for losses on dormant deposit repayments which are derecognized as liabilities is provided for the possible losses on the future claims of repayments based on the historical repayments experience.

### m. Reserve for losses on contingencies

A reserve for losses on contingencies is provided for future estimated payments to the Credit Guarantee Corporations.

### n. Leases

As lessor

Finance lease revenue and related cost of revenue are recorded when the lease payment is received.

Investments in leased assets for finance lease transactions which do not transfer ownership of the leased property to the lessee and were entered into before April 1, 2008 was stated at the carrying value of the relevant fixed assets at March 31, 2008, pursuant to the paragraph 81 of Implementation Guidance No.16, "Implementation Guidance on Accounting Standard for Lease. If these lease transactions had been retroactively accounted for as ordinary sale transactions pursuant to paragraph 80 of the Guidance, income before income taxes and minority interests would have increased by ¥38 million (\$369 thousand) and ¥75 million for the year ended March 31, 2014 and 2013.

### o. Hedge accounting

#### 1. Interest rate risk hedges

The Bank uses deferral hedges described in "Accounting and auditing for the application of financial instrument accounting standards in banking" (Japanese Institute of Certified Public Accountants, Industry Audit Committee Report no. 24, referred to as Report no. 24 of the Industry Audit Committee) to hedge interest rate risks generated by the Bank's financial assets and liabilities. The effectiveness of hedges to offset market fluctuations is assessed for each hedged item (for example, deposits and loans) and its hedging instrument (such as interest rate swaps). Concerning hedges to fix the cash flow, the Bank identifies hedged items by grouping them based on interest rate indexes and on interest rate revision periods in accordance with Report no. 24 of the Industry Audit Committee, and specifies interest rate swaps as hedging instruments. The Bank specifies hedges in such a way that the major conditions of hedged items and hedging instruments are almost the same, so we believe that our hedges are highly effective.

The Bank applies the exceptional method for interest rate swaps to certain assets and liabilities.

#### 2. Exchange rate fluctuation risk hedges

The hedge we use against exchange rate fluctuation risks, which are generated by our financial assets and liabilities in foreign currencies, is the deferral hedge described in "Accounting and auditing for transactions in foreign currencies, etc., in banking" (Report no. 25 of the Industry Audit Committee of the Japanese Institute of Certified Public Accountants, referred to as Report no. 25 of the Industry Audit Committee). We assess the effectiveness of the hedge by regarding currency swaps and foreign exchange swaps, which are conducted to reduce or eliminate exchange rate fluctuation risks generated by monetary claims and liabilities in foreign currencies, etc., as hedging instruments and by checking whether or not we have appropriate foreign currency positions for the hedging instruments to meet the hedged items (monetary claims and liabilities in foreign currencies, etc.).

### p. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents consist of cash and due from the Bank of Japan.

### q. Consumption tax and regional consumption tax

With respect to the Bank and the domestic consolidated subsidiaries, all amounts in the accompanying consolidated balance sheet are recorded exclusive of consumption tax and regional consumption tax.

## r. Accounting Changes

The Bank adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31,2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits.

In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income.

As a result of this change, a liability for retirement benefits was recognized in the amount of ¥684 million (\$6,648 thousand) and accumulated other comprehensive income increased by ¥28 million (\$276 thousand) as of March 31,2014.

## s. Standards issued but not yet effective

### 1.Accounting standards for retirement benefits

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

#### (1)Overview

The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

#### (2)Scheduled date of adoption

Revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

#### (3)Impact of adopting revised accounting standard and guidance

As a result of this adoption, ordinary income and income before income taxes and minority interests for the fiscal year ended March 31, 2015 will decrease by ¥189 million(\$1,836 thousand).

### 2.Accounting standards for business combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations"(ASBJ Statement No. 21),"Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures"(ASBJ Statement No.7),"Revised Accounting Standard for Earnings Per Share"(ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures"(ASBJ Guidance No.10),and "Revised Guidance on Accounting Standard for Earnings Per Shares"(ASBJ Guidance No.4).

#### (1)Overview

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

(2)Scheduled date of adoption

The Bank expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

(3)Impact of adopting revised accounting standard and guidance

The Bank is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

## 4. Loans and Bills Discounted

Loans to borrowers under bankruptcy procedures and delinquent loans totaled ¥2,483 million (\$24,125 thousand) and ¥17,724 million (\$172,211 thousand), respectively, at March 31, 2014, and ¥2,545 million and ¥18,524 million, respectively, at March 31, 2013. A loan is placed on non-accrual status when substantial doubt as to the collectibility of its principal and interest is judged to exist, if payment is past due for a certain period of time, or for other reasons.

Loans to borrowers in bankruptcy represent non-accrual loans, after the charge-offs of loans deemed uncollectible, to borrowers who are legally bankrupt as defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of Enforcement Ordinance of the Corporation Income Tax Law.

Delinquent loans are non-accrual loans other than loans to borrowers in bankruptcy or loans on which interest payments have been deferred in order to assist the restructuring of the borrowers.

Loans past due for 3 months or more totaled ¥54 million (\$524 thousand) and ¥43 million at March 31, 2014 and 2013, respectively. Loans past due for 3 months or more are those whose principal or interest payments are 3 months or more past due but are not included in loans to borrower under bankruptcy procedures or delinquent loans.

Restructured loans totaled ¥2,034 million (\$19,762 thousand) and ¥3,621 million at March 31, 2014 and 2013, respectively. Restructured loans are those on which the Bank has granted certain concessions, such as a reduction of the contractual interest rate or principal amount or a deferral of interest/principal payments, in order to assist the restructuring of the borrowers. Excluded from restructured loans are loans to borrowers under bankruptcy procedures, other non-accrual loans, and loans past due for 3 months or more.

The total of loans to borrowers under bankruptcy procedures, other

non-accrual loans, loans past due for 3 months or more and restructured loans amounted to ¥22,298 million (\$216,653 thousand) and ¥24,734 million at March 31, 2014 and 2013, respectively.

Bills discounted are accounted for as financial transactions in accordance with "Treatment of Accounting and Auditing in Applying Accounting Standard for Financial Instruments in the Banking Industry" issued by the JICPA. The Bank has rights to sell or pledge accepted banker's acceptance bills, commercial bills discounted, documentary bills and foreign exchange bought without restrictions. The face value of banker's acceptance bills, commercial bills, documentary bills acquired at discount and foreign exchange bought at a discount was ¥7,967 million (\$77,409 thousand) and ¥9,108 million as of March 31, 2014 and 2013, respectively.

Overdraft protection on current accounts and contracts for loan commitments are agreements under which the Bank and the consolidated subsidiaries are bound to extend loans up to a prearranged amount, at the request of the customer, unless the customer is in breach of contract. The unutilized balance of such contracts amounted to ¥534,367 million (\$5,192,061 thousand) and ¥557,280 million as of March 31, 2014 and 2013, respectively, in which the balance of contracts that have a term of one year or less or are unconditionally cancelable at any time were ¥526,021 million (\$5,110,969 thousand) and ¥550,771 million as of March 31, 2014 and 2013, respectively. Since many of these contracts are scheduled to expire without the rights having been exercised, any unutilized balance in itself does not necessarily affect the future cash flows of the Bank or its consolidated subsidiaries. A provision is included in many of these contracts which entitles the Bank and the consolidated subsidiaries to refuse the execution of such loans, or to reduce the maximum amount loaned under such contracts when there is a change in the borrowers' financial situation, or when there is the necessity to secure a claim, or when other similar factors arise. In addition, the Bank and its consolidated subsidiaries obtain, if needed, real estate or securities as collateral at the time the contracts are entered into and they subsequently monitor the borrowers' financial condition periodically based on, and in accordance with, the procedures established. If deemed necessary, specific measures such as amendments to the contracts are undertaken in order to control the credit risk.

## 5. Securities

Trading securities, marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2014 are summarized as follows:

1.Trading securities

	Unrealized holding gain charged to current operations (Millions of yen)	Unrealized holding gain charged to current operations (Thousands of U.S.dollars)
	¥ 0	\$ 3

2. Held-to-maturity bonds (as of March 31, 2014)

(Millions of yen) (Thousands of U.S. dollars)

	Type	Carrying value	Fair value	Difference	Carrying Value	Fair value	Difference
Fair value exceeding carrying value	Japanese government bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
	Municipal bonds	—	—	—	—	—	—
	Short-term bonds	—	—	—	—	—	—
	Corporate bonds	7,005	7,133	127	68,062	69,306	1,233
	Other	—	—	—	—	—	—
	Subtotal	7,005	7,133	127	68,062	69,306	1,233
Fair value not exceeding carrying value	Japanese government bonds	—	—	—	—	—	—
	Municipal bonds	—	—	—	—	—	—
	Short-term bonds	—	—	—	—	—	—
	Corporate bonds	1,603	1,566	(37)	15,575	15,215	(359)
	Other	—	—	—	—	—	—
	Subtotal	1,603	1,566	(37)	15,575	15,215	(359)
	Total	¥ 8,609	¥ 8,699	¥ 90	\$ 83,647	\$ 84,521	\$ 874

3. Other securities (as of March 31, 2014)

(Millions of yen) (Thousands of U.S. dollars)

	Type	Carrying value	Cost	Difference	Carrying value	Cost	Difference
Carrying value exceeding cost	Stocks	¥ 31,872	¥ 19,335	¥ 12,537	\$ 309,677	\$ 187,864	\$ 121,813
	Bonds	608,988	596,740	12,248	5,917,100	5,798,095	119,005
	Japanese government bonds	411,430	405,643	5,786	3,997,570	3,941,342	56,218
	Municipal bonds	112,739	107,946	4,793	1,095,404	1,048,834	46,570
	Short-term bonds	—	—	—	—	—	—
	Corporate bonds	84,818	83,150	1,667	824,115	807,909	16,197
	Other	97,440	93,476	3,964	946,754	908,239	38,515
	Foreign bonds	73,324	72,028	1,296	712,436	699,844	12,592
	Other	24,116	21,448	2,668	234,317	208,394	25,923
		Subtotal	738,302	709,552	28,749	7,173,552	6,894,209
Carrying value not exceeding cost	Stocks	1,383	1,671	(287)	13,437	16,235	(2,798)
	Bonds	82,204	82,343	(138)	798,717	800,068	(1,350)
	Japanese government bonds	58,267	58,366	(99)	566,138	567,100	(971)
	Municipal bonds	17,406	17,427	(20)	169,121	169,325	(204)
	Short-term bonds	—	—	—	—	—	—
	Corporate bonds	6,531	6,549	(18)	63,457	63,631	(184)
	Other	24,229	24,473	(243)	235,415	237,786	(2,370)
	Foreign bonds	19,562	19,782	(219)	190,069	192,207	(2,137)
	Other	4,666	4,690	(23)	45,336	45,569	(233)
		Subtotal	107,818	108,487	(669)	1,047,590	1,054,090
	Total	¥ 846,120	¥818,040	¥ 28,080	\$ 8,221,142	\$7,948,309	\$ 272,833

4. Held-to-maturity bonds sold during the year ended March 31,2014

(Millions of yen) (Thousands of U.S. dollars)

	Cost	Proceeds from sales	Gain(loss) on sales	Cost	Proceeds from sales	Gain(loss) on sales
Corporate bonds	¥ 16	¥ 16	¥ 0	\$ 156	\$ 157	\$ 1
Total	¥ 16	¥ 16	¥ 0	\$ 156	\$ 157	\$ 1

The sales are due to redemption of securities.

5. Other securities sold during the year ended March 31, 2014

(Millions of yen) (Thousands of U.S. dollars)

	Proceeds from Sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
Stocks	¥ 3,520	¥ 1,091	¥ 54	\$ 34,201	\$ 10,600	\$ 524
Bonds	384,923	2,679	997	3,740,021	26,029	9,687
Japanese government bonds	378,542	2,442	930	3,678,021	23,727	9,036
Municipal bonds	4,681	222	—	45,481	2,157	0
Short-term bonds	—	—	—	0	0	0
Corporate bonds	1,698	13	67	16,498	126	650
Other	7,722	251	5	75,029	2,438	48
Total	¥ 396,165	¥ 4,022	¥ 1,057	\$ 3,849,251	\$ 39,078	\$ 10,270

6. Securities which have readily determinable fair value are devaluated to fair value, and the difference between cost and fair value is treated as loss for the fiscal year if fair value has significantly deteriorated compared with cost and fair value is unlikely to recover up to the acquisition cost. The amount of the impairment loss for the year ended March 31, 2013 was ¥818 million (including ¥818 million of equity securities). The amount of the impairment loss for the year ended March 31, 2014 was ¥4 million (\$38 thousand) (including ¥4 million (\$38 thousand) of equity securities). The criteria for determining whether a security's fair value has "significantly deteriorated" are: where a security whose fair value is 50% or less and where a security whose fair value exceeds 50% but is 70% or less of the acquisition cost, considering the quoted market price transition during a certain period in the past, business performance and other factors.

## 6. Revaluation of Land

Pursuant to the "Law Concerning the Revaluation of Land" (the "Law"), land used for the Bank's business operations was revalued on March 31, 2002. The excess of the revalued aggregate market value over the total book value (carrying amount) before revaluation was included in net assets at an amount net of the related tax effect at March 31, 2002. The corresponding income taxes were included in liabilities at March 31, 2002 as deferred taxes liability on revalued land.

The revaluation of the land was determined based on two method, the official prices published by the Commissioner of the National Tax Authority in accordance with Article 2, Paragraph 4 of the "Enforcement Ordinance Concerning Land Revaluation," with certain necessary adjustments, and the appraisal by Real estate appraiser.

The difference between the total fair value of land for business operation purposes, which was revalued in accordance with Article 10 of the above-mentioned law, and the total book value of the land after the revaluation was ¥4,092 million (\$39,759 thousand) at March 31, 2014.

## 7. Shares Issued

The number of shares issued and changes during the year ended March 31, 2014 and 2013 are summarized as follows:

	Thousands of shares		Thousands of shares	
	2014		2013	
	Treasury stock	Common stock issued	Treasury stock	Common stock issued
Beginning of the year	1,518	172,000	1,510	172,000
Increase during the year	18 <sup>1</sup>	—	8 <sup>2</sup>	—
Decrease during the year	—	—	1 <sup>3</sup>	—
End of the year	1,536	172,000	1,518	172,000

<sup>1</sup> 18 thousand shares were purchased for claims by the shareholders who owned less than the trade unit (1,000 shares).

<sup>2</sup> 8 thousand shares were purchased for claims by the shareholders who owned less than the trade unit (1,000 shares).

<sup>3</sup> 1 thousand shares were sold for claims by shareholders who owned less than the trade unit (1,000 shares).



## 8. Dividends

Dividends for the year ended March 31, 2014 and 2013 are summarized as follows:

	2014		2013	
	November 14, 2013	June 25, 2013	November 12, 2012	June 26, 2012
	Resolution by the board of directors	Resolution by the general shareholders' meeting	Resolution by the board of directors	Resolution by the general shareholders' meeting
Total dividends	¥ 511 million	¥ 511 million	¥ 511 million	¥ 511 million
Dividend per share	¥ 3.0	¥ 3.0	¥ 3.0	¥ 3.0
Base date	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Effective date	December 10, 2013	June 26, 2013	December 10, 2012	June 27, 2012

	2014	
	November 14, 2013	June 25, 2013
	Resolution by the board of directors	Resolution by the general shareholders' meeting
Total dividends	\$ 4,965 thousand	\$ 4,965 thousand
Dividend per share	\$ 0.03	\$ 0.03
Base date	September 30, 2013	March 31, 2013
Effective date	December 10, 2013	June 26, 2013

Dividend of which base date belonged to the year ended March 31, 2014 and 2013 is summarized as follows:

	2014		2013	
	June 24, 2014	June 25, 2013	June 25, 2013	June 26, 2013
	Resolution by the general shareholders' meeting	Resolution by the general shareholders' meeting	Resolution by the general shareholders' meeting	Resolution by the general shareholders' meeting
Total dividends	¥ 511 million	\$ 4,965 thousand	¥ 511 million	¥ 511 million
Dividend per share	¥ 3.0	\$ 0.03	¥ 3.0	¥ 3.0
Base date	March 31, 2014	March 31, 2014	March 31, 2013	March 31, 2013
Effective date	June 25, 2014	June 25, 2014	June 26, 2013	June 26, 2013

## 9. Cash Flows

Cash and cash equivalents stated in the consolidated statement of cash flows consisted of the following:

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S.dollars)
Cash and due from banks	¥ 37,502	¥ 87,777	\$ 364,384
Deposits with banks other than the Bank of Japan	(986)	(11,001)	(9,585)
Cash and cash equivalents	¥ 36,515	¥ 76,774	\$ 354,798

## 10. Accumulated Depreciation

Accumulated depreciation totaled ¥26,340 million (\$255,926 thousand) and ¥26,190 million at March 31, 2014 and 2013, respectively.

## 11. Assets Pledged

Pledged assets and liabilities related to pledged assets as of March 31, 2014 and 2013 were summarized as follows:

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S.dollars)
Pledged assets:			
Securities	¥ 185,459	¥ 155,315	\$ 1,801,972
Liabilities related to the above pledged assets:			
Deposits	¥ 9,476	¥ 9,288	\$ 92,071
Payables under securities lending transactions	¥ 21,204	¥ 15,366	\$ 206,031
Borrowed money	¥ 46,610	¥ 22,640	\$ 452,876

In addition, securities totaling ¥44,583 million (\$433,181 thousand) and ¥44,401 million were pledged as collateral for settlement of exchange and futures transactions at March 31, 2014 and 2013, respectively.

Initial margins of futures markets included in other assets as of March 31, 2014 were ¥144 million (\$1,399 thousand).

Deposits included in other assets as of March 31, 2014 and 2013 were ¥326 million (\$3,167 thousand) and ¥317 million, respectively.

## 12. Shareholders' Equity

In accordance with the Banking Law of Japan, the Bank has provided a legal reserve by appropriation of retained earnings, which is included in retained earnings. The Banking Law of Japan provides that an amount equivalent to at least 20% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and additional paid-in capital equals 100% of the common stock. The Corporation Law of Japan provides that neither additional paid-in capital nor the legal reserve had been available for dividends, but both might be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Corporation Law of Japan also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 100% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. There were no changes in the common stock and additional paid-in capital accounts for the two years ended March 31, 2014 and 2013.

## 13. Loss on Impairment

The Bank reviewed its long-lived assets by grouping into the units consisting of operating branches, idle assets, jointly used assets including head office, administrative centers, company housing and dormitories and each consolidated subsidiary for impairment and recognized loss on impairment of land in the amount of ¥124 million (\$1,204 thousand) and ¥36 million for the year ended March 31, 2014 and 2013, respectively. The recoverable amount used for measurement of loss on impairment was net selling price and computed mainly based on the real estate appraisal value.

## 14. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to other comprehensive income for the year ended March 31, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S.dollars)
Unrealized holding gain on securities:			
Amount arising during the year	¥ 4,824	¥ 14,261	\$ 46,871
Reclassification adjustments	(3,057)	253	(29,702)
Amount before tax effect	1,766	14,515	17,158
Tax effect	(565)	(4,854)	(5,489)
Unrealized holding gain on securities	1,201	9,660	11,669
Deferred loss on hedging instruments:			
Amount arising during the year	15	(2,458)	145
Reclassification adjustments	1,118	1,033	10,862
Amount before tax effect	1,134	(1,424)	11,018
Tax effect	(396)	498	(3,847)
Deferred loss on hedging instruments	737	(926)	7,160
Total other comprehensive income	¥ 1,939	¥ 8,734	\$ 18,839

## 15. Leases

Investments in leased assets at March 31, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S.dollars)
Gross lease receivables	¥ 10,502	¥ 9,926	\$ 102,040
Estimated residual values	461	420	4,479
Unearned interest income	(1,320)	(1,339)	(12,825)
Investments in leased assets	¥ 9,644	¥ 9,007	\$ 93,703

Maturities of lease receivables at March 31, 2014 are as follows:	Years ending March 31	(Millions of yen)	(Thousands of U.S.dollars)
	2015	¥	3,312
2016		2,643	25,680
2017		1,957	19,014
2018		1,355	13,165
2019		716	6,956
2020 and thereafter		517	5,023

Maturities of lease receivables at March 31, 2013 are as follows:

Years ending March 31	(Millions of yen)	
	2014	¥ 3,344
2015	2,550	
2016	1,877	
2017	1,191	
2018	612	
2019 and thereafter	350	

## 16. Income Taxes

The major components of deferred tax assets and liabilities at March 31, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S.dollars)
Deferred tax assets:			
Reserve for possible loan losses	¥ 1,283	¥ 2,096	\$ 12,465
Reserve for employees' retirement benefits	—	401	—
Liability for retirement benefits	239	—	2,322
Devaluation on securities	274	703	2,662
Depreciation and amortization	912	977	8,861
Tax loss carryforwards	467	457	4,537
Other	3,202	3,383	31,111
Subtotal: deferred tax assets	6,380	8,021	61,989
Valuation allowance	(2,051)	(2,093)	(19,928)
Total: deferred tax assets	4,329	5,927	42,061
Unrealized holding gains on securities	9,739	9,085	94,626
Other	6	7	58
Total: deferred tax liabilities	9,745	9,092	94,685
Net deferred tax assets (liabilities)	¥ (5,416)	¥ (3,164)	\$ (52,623)

Note: Net deferred tax assets (liabilities) as of March 31, 2014 and 2013 were included in the following accounts in the consolidated balance sheets.

	2014	2013	2014
	(Millions of yen)	(Millions of yen)	(Thousands of U.S.dollars)
Deferred tax assets	¥ 418	¥ 481	\$ 4,061
Deferred tax liabilities	(5,834)	(3,646)	(56,684)

For the fiscal year ended March 31, 2014, the reconciliation of the statutory tax rate of the Bank to the effective income tax rate was as follows:

	2014	2013
	(%)	(%)
Statutory tax rate	—	38.0%
Valuation allowance	—	(1.1%)
Non-taxable expenses	—	0.4%
Non-taxable income	—	(1.4%)
Per capita inhabitants' tax rate	—	0.4%
Others	—	(0.9%)
Effective tax rate	—	35.4%

Note: For the fiscal year ended March 31, 2014, the reconciliation of the statutory tax rate of the Bank to the effective income tax rate is not stated as the difference between them is less than 5% of the statutory tax rate.

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Bank is no longer subject to the Special Reconstruction Corporation Tax effective for

fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Bank's deferred tax assets and liabilities was changed from 38% to 35% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets by ¥10 million (\$97 thousand), increase deferred tax liabilities by ¥77 million (\$748 thousand), increase deferred loss on hedging instruments by 3 million (\$29 thousand) and increase deferred income taxes by ¥92 million (\$893 thousand) as of and for the year ended March 31, 2014.

## 17. Fair Value Information on Derivatives

(1) Derivative transactions to which hedge accounting is not applied

Derivative transaction to which hedge accounting was not applied are set force in the table below. These items do not reflect the market risks of the derivative transactions.

Interest rate-related transactions					(Millions of yen)					(Thousands of U.S. dollars)				
	Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)		Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)		Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)
<March 31, 2014>														
Over-the-counter:														
Swap:														
Receive-fixed/pay-floating	¥ 8,190	¥ 8,190	¥ (7)	¥ 42	Receive-fixed/pay-floating	\$ 79,576	\$ 79,576	\$ (68)	\$ 408					
Receive-floating/pay-fixed	8,190	8,190	(16)	(16)	Receive-floating/pay-fixed	79,576	79,576	(155)	(155)					
<March 31, 2013>														
Over-the-counter:														
Swap:														
Receive-fixed/pay-floating	¥ 12,364	¥ 12,364	¥ (9)	¥ 45										
Receive-floating/pay-fixed	12,364	12,364	(67)	(67)										

The above transactions are measured at fair value and the resulting gains or losses are included in the consolidated statement of income.

Currency-related transactions					(Millions of yen)					(Thousands of U.S. dollars)				
	Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)		Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)		Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)
<March 31, 2014>														
Over-the-counter transactions:														
Forward exchange contracts														
Sold	¥ 2,729	¥ —	¥ (13)	¥ (13)	Sold	\$ 26,515	\$ —	\$ (126)	\$ (126)					
Bought	15	—	0	0	Bought	145	—	0	0					
<March 31, 2013>														
Over-the-counter transactions:														
Forward exchange contracts														
Sold	¥ 1,272	¥ —	¥ 14	¥ 14										
Bought	406	—	(0)	(0)										

1. The above transactions are measured at fair value and the resulting gains or losses are included in the consolidated statement of income.

2. Fair values are obtained using the discounted cash flow, etc.

Bond-related transactions					(Millions of yen)					(Thousands of U.S. dollars)				
	Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)		Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)		Contract amounts	Contract beyond 1 year	Fair value	Unrealized gain or (loss)
<March 31, 2014>														
financial instruments exchange:														
Forward exchange contracts														
Sold	¥ —	¥ —	¥ —	¥ —	Sold	\$ —	\$ —	\$ —	\$ —					
Bought	—	—	—	—	Bought	—	—	—	—					
<March 31, 2013>														
financial instruments exchange:														
Forward exchange contracts														
Sold	¥ 7,275	¥ —	¥ 2	¥ 2										
Bought	—	—	—	—										

1. The above transactions are measured at fair value and the resulting gains or losses are included in the consolidated statement of income.

2. Fair values are obtained using the discounted cash flow, etc.

(2) Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting is applied are set force in the table below. These items below do not represent the market risks of the derivative transactions.

Interest rate-related transactions (as of March 31, 2014)								
(Millions of yen)					(Thousands of U.S. dollars)			
Hedge accounting method	Type	Major hedged item	Contract amounts	Contract amounts beyond one year	Fair value	Contract amounts	Contract amounts beyond one year	Fair value
Normal method	Interest rate swaps	Loans, deposits						
	receive-floating/pay-fixed		¥ 77,627	¥ 72,627	¥ (3,751)	\$ 754,246	\$ 705,664	\$ (36,445)
Exceptional method	Interest rate swaps	Loans						
	receive-floating/pay-fixed		10,000	10,000		97,162	97,162	
	Other	Loans						
	Bought		5,050	5,000		49,067	48,581	
Total			—	¥ —	¥ (3,751)	\$ —	\$ —	\$ (36,445)

Interest rate-related transactions (as of March 31, 2013)					
(Millions of yen)			(Thousands of U.S. dollars)		
Hedge accounting method	Type	Major hedged item	Contract amounts	Contract amounts beyond one year	Fair value
Normal method	Interest rate swaps	Loans, deposits			
	receive-floating/pay-fixed		¥ 80,927	¥ 80,927	¥ (4,792)
Exceptional method	Interest rate swaps	Loans			
	receive-floating/pay-fixed		10,000	10,000	
	Other	Loans			
Total			—	¥ —	¥ (4,792)

The above transactions apply deferral hedge accounting stipulated in JICPA Industry Audit Committee Report No. 24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking industry."

The fair value of over-the-counter transactions is calculated based on the discounted present value and option pricing models.

Currency-related transactions (as of March 31, 2014)								
(Millions of yen)					(Thousands of U.S. dollars)			
Hedge accounting method	Type	Major hedged item	Contract amounts	Contract amounts beyond one year	Fair value	Contract amounts	Contract amounts beyond one year	Fair value
Normal method	Currency swaps	Call loans in foreign currency	¥ 18,729	¥ —	¥ (17)	\$ 181,976	\$ —	\$ (165)
	Total			—	¥ —	¥ (17)	\$ —	\$ —

Currency-related transactions (as of March 31, 2013)					
(Millions of yen)			(Thousands of U.S. dollars)		
Hedge accounting method	Type	Major hedged item	Contract amounts	Contract amounts beyond one year	Fair value
Normal method	Currency swaps	Call loans in foreign currency/ Call money in foreign currencies	¥ 33,006	¥ 940	¥ 114
	Total			—	¥ —

The above transactions apply deferral hedge accounting stipulated in JICPA Industry Audit Committee Report No. 25, "Treatment for Accounting and Auditing for Transactions in foreign currencies, in Banking industry."

The fair value is calculated based on the discounted present value.

Bond-related transactions (as of March 31, 2014)								
(Millions of yen)					(Thousands of U.S. dollars)			
Hedge accounting method	Type	Major hedged item	Contract amounts	Contract amounts beyond one year	Fair value	Contract amounts	Contract amounts beyond one year	Fair value
Normal method	Bond futures	Other Securities	¥ 30,000	¥ —	¥ 105	\$ 291,488	\$ —	\$ 1,020
	Total			—	¥ —	¥ 105	\$ —	\$ —

The fair value of over-the-counter transactions is calculated based on the discounted present value and option pricing models.

## 18. Retirement Benefit Plans

The Bank and the consolidated subsidiaries have defined-benefit corporation pension funds and lump-sum retirement benefits. The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheet for the Bank's and the consolidated subsidiaries' defined retirement benefit plans:

(1) The changes on the retirement benefit obligation during the year ended March 31, 2014 are as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
Retirement benefit obligation at April 1, 2013	¥ 15,637	\$ 151,933
Service cost	487	4,731
Interest cost	171	1,661
Actuarial gain/loss	10	97
Retirement benefits paid	(958)	(9,308)
Prior service cost	—	—
Other	—	—
Retirement benefit obligation at March 31, 2014	¥ 15,348	\$ 149,125

(2) The changes in plan assets during the year ended March 31, 2014 are as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
Plan assets at April 1, 2013	¥ 12,874	\$ 125,087
Expected return on plan assets	141	1,369
Actuarial gain/loss	1,009	9,803
Contributions by employers	1,535	14,914
Contributions by employees	59	573
Retirement benefits paid	(955)	(9,279)
Other	—	—
Plan assets at March 31, 2014	¥ 14,664	\$ 142,479

(3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the bank's and the Consolidated subsidiaries' defined benefit plans:

	(Millions of yen)	(Thousands of U.S.dollars)
Funded retirement benefit obligation	¥ 15,308	\$ 148,736
Plan assets at fair value	(14,664)	(142,479)
	643	6,247
Unfunded retirement benefit obligation	40	388
Net liability for retirement benefits in the consolidated balance sheet	684	6,645
Liability for retirement benefits	684	6,645
Asset for retirement benefits	—	—
Net liability for retirement benefits in consolidated balance sheet	¥ 684	\$ 6,645

(4) The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
Service cost	¥ 427	\$ 4,148
Interest cost	171	1,661
Expected return on plan assets	(141)	(1,369)
Amortization of actuarial gain/loss cost	678	6,587
Amortization of prior service cost	—	—
Other	—	—
Retirement benefit expense	¥ 1,136	\$ 11,037

Notes

- Concerning the consolidated subsidiaries that use a simplified method, all of the retirement benefit cost is included in the service cost.
- Service cost does not include the amounts contributed by employees with respect to corporate pension fund plans.

(5) Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
Unrecognized prior service cost	¥ —	\$ —
Unrecognized actuarial gain/loss	(43)	(417)
Other	—	—
Total	¥ (43)	\$ (417)

(6) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

Bonds	35%
Stocks	40%
General account	22%
Other	3%
Total	100%

Notes

- The expected long-term return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term return on assets held in each category.

(7) The assumptions used in accounting for the above plans were as follows:

- Discount rate: 1.1%
- Expected rate of long-term return on assets: 1.1%

## 19. Segment Information

1. Outline of reportable segments

Reportable segments are components for which separate financial information is available and that are subject to periodic examination by the Board of Directors to determine the allocation of management resources and assess performances.

The Bank and its consolidated subsidiaries comprise of the Bank and 7 consolidated subsidiaries that are engaged in the financial services business that includes mainly banking services as well as leasing services.

Therefore, the reportable segments of the Bank and its consolidated subsidiaries comprise 'Banking' and 'Leasing' that are distinguished by the type of the business.

'Banking' includes deposit taking, lending, investment in securities and exchange services.

'Leasing' represents lease business by Yamagin Lease Co., Ltd., one of the consolidated subsidiaries.

2. Calculation method of ordinary income, profit or loss, assets, liabilities and other items by reportable segment

The accounting policies in Note 3, "Summary of Significant Accounting Policies", are adopted for the reportable segments.

Reportable segment profit corresponds to ordinary profits.

Ordinary income arising from intersegment transactions is based on arm's length prices.

3. Information of ordinary income, profit or loss, assets, liabilities and other items by reportable segment  
Year ended March 31, 2014

(Millions of yen)

	Reportable segment			Other	Total	Adjustments	Consolidated financial statements
	Banking	Leasing	Total				
Ordinary income							
External customers	¥ 39,175	¥ 4,684	¥ 43,859	¥ 1,948	¥ 45,807	¥ (69)	¥ 45,738
Intersegment	144	112	256	595	852	(852)	—
Total	39,319	4,796	44,116	2,544	46,660	(922)	45,738
Segment profit	10,316	217	10,533	739	11,273	(69)	11,203
Segment assets	2,367,246	12,579	2,379,826	17,335	2,397,161	(17,851)	2,379,310
Segment liabilities	2,232,173	8,857	2,241,031	13,188	2,254,219	(16,591)	2,237,627
Other items							
Depreciation	1,136	23	1,160	9	1,169	—	1,169
Interest income	26,768	3	26,771	151	26,923	(98)	26,824
Interest expense	3,021	70	3,091	52	3,144	(94)	3,050
Increase in tangible fixed assets and intangible fixed assets	1,251	89	1,341	1	1,343	—	1,343

Notes

1. Ordinary income is substituted for sales of companies in other industries. "Adjustments" is elimination of intersegment transactions.

2. "Other" represents business segments that are not the reportable segments and comprises business support service, credit guarantee service, data processing, credit card business, venture capital business, etc.

Year ended March 31, 2013

(Millions of yen)

	Reportable segment			Other	Total	Adjustments	Consolidated financial statements
	Banking	Leasing	Total				
Ordinary income							
External customers	¥ 41,120	¥ 4,903	¥ 46,023	¥ 2,008	¥ 48,031	¥ (104)	¥ 47,927
Intersegment	150	119	270	577	847	(847)	—
Total	41,270	5,022	46,293	2,585	48,879	(951)	47,927
Segment profit	8,708	346	9,054	836	9,890	(108)	9,782
Segment assets	2,301,085	12,160	2,313,246	16,171	2,329,417	(17,003)	2,312,413
Segment liabilities	2,173,235	8,569	2,181,805	12,519	2,194,325	(15,760)	2,178,564
Other items							
Depreciation	1,215	26	1,242	10	1,252	—	1,252
Interest income	27,624	3	27,627	166	27,793	(105)	27,688
Interest expense	3,109	84	3,194	46	3,241	(101)	3,140
Increase in tangible fixed assets and intangible fixed assets	1,027	50	1,077	3	1,080	—	1,080

Year ended March 31, 2014

(Thousands of U.S.dollars)

	Reportable segment			Other	Total	Adjustments	Consolidated financial statements
	Banking	Leasing	Total				
Ordinary income							
External customers	\$ 380,635	\$ 45,511	\$ 426,146	\$ 18,927	\$ 445,073	\$ (680)	\$ 444,403
Intersegment	1,399	1,088	2,487	5,781	8,278	(8,287)	—
Total	382,034	46,599	428,643	24,718	453,361	(8,968)	444,403
Segment profit	100,233	2,108	102,341	7,180	109,531	(680)	108,851
Segment assets	23,000,835	122,221	23,123,066	168,431	23,291,498	(173,455)	23,118,052
Segment liabilities	21,688,427	86,057	21,774,494	128,138	21,902,633	(161,212)	21,741,420
Other items							
Depreciation	11,037	223	11,270	87	11,358	—	11,358
Interest income	260,085	29	260,114	1,467	261,591	(961)	260,629
Interest expense	29,352	680	30,033	505	30,547	(923)	29,634
Increase in tangible fixed assets and intangible fixed assets	12,155	864	13,029	9	13,048	—	13,048

Notes

1. Ordinary income is substituted for sales of companies in other industries. "Adjustments" is elimination of intersegment transactions.

2. "Other" represents business segments that are not the reportable segments and comprises business support service, credit guarantee service, data processing, credit card business, venture capital business, etc.



4. Related information  
Information by service  
Year ended March 31, 2014

(Millions of yen)

	Loan	Security investment	Lease	Other	Total
Ordinary income from external customers	¥ 19,583	¥ 11,356	¥ 4,640	¥ 10,157	¥ 45,738

Year ended March 31, 2013

(Millions of yen)

	Loan	Security investment	Lease	Other	Total
Ordinary income from external customers	¥ 20,345	¥ 11,692	¥ 4,782	¥ 11,106	¥ 47,927

Year ended March 31, 2014

(Thousands of U.S.dollars)

	Loan	Security investment	Lease	Other	Total
Ordinary income from external customers	\$ 190,273	\$ 110,338	\$ 45,083	\$ 98,688	\$ 444,403

Information about geographical areas is omitted because the Bank and its consolidated subsidiaries conduct banking and other related activities in Japan without having foreign subsidiaries or foreign branches.

Information about major customers is not presented because there are no customers having over a 10% share of ordinary income.

5. Information concerning the impairment loss of fixed assets by reportable segment  
Year ended March 31, 2014

(Millions of yen)

	Reportable segment			Other	Total
	Banking	Leasing	Total		
Impairment loss	¥ 124	¥ —	¥ 124	¥ —	¥ 124

Year ended March 31, 2013

(Millions of yen)

	Reportable segment			Other	Total
	Banking	Leasing	Total		
Impairment loss	¥ 36	¥ —	¥ 36	¥ —	¥ 36

Year ended March 31, 2014

(Thousands of U.S.dollars)

	Reportable segment			Other	Total
	Banking	Leasing	Total		
Impairment loss	\$ 1,204	\$ —	\$ 1,204	\$ —	\$ 1,204

## 20. Amounts Per Share

Amounts per share of net income and net assets, as presented below, are based on the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at each balance sheet date, respectively.

	2014	2013	2014
	(Yen)		(U.S. dollars)
Net income	¥ 37.14	¥ 31.98	\$ 0.36
Net assets	¥ 789.89	¥ 747.20	\$ 7.67

Diluted net income per share has not been disclosed because the Bank does not issue any potentially dilutive common stock equivalents. The basis for the calculation of net income per share for the year ended March 31, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥ 6,331	¥ 5,452	\$ 61,513
Amount not attributable to common stock:	—	—	—
Net income related to common stock	6,331	5,452	61,513
Weighted average number of shares of common stock outstanding	170,473 thousand	170,487 thousand	170,473 thousand

## 21. Financial Instruments

### 1. Matters relating to the state of financial instruments

#### (1) Policy for financial instruments

The Yamagata Bank group (referred to as the "Bank" below) provides financial services mainly connected with the banking business including deposits, loans, buying and selling trading securities and security investments. In the banking business, which is the main business of the Bank, funds are raised by means such as accepting deposits and borrowing money from the call money market, and are invested by providing loans and buying securities. Financial assets and liabilities are susceptible to interest rate fluctuations, so the Bank bears market risk, which is the risk of loss caused by changes in financial market conditions (for example, interest rate risk and price fluctuation risk), and the risk of failing to raise sufficient funds.

The Bank performs comprehensive asset and liability management (ALM) to appropriately control the balance of profit and risk in a way that suits fund raising and investment policy as well as taking into consideration the state of assets and liabilities and the trends of the financial and capital markets. The Bank uses derivatives as part of such management.

#### (2) Nature and risk of financial instruments

The Bank's financial assets consist mainly of loans to domestic companies and individuals, and the Bank is exposed to the credit risks arising from customers' default on their loans. Securities mainly consist of stocks, bonds and investment trusts, some of which are held until the maturity date, others are held for purposes such as investment and business promotion. Those securities are exposed to credit risk of the relevant issuer, the risks of fluctuations in interest rates and market prices.

Deposits, call money, etc., that are financial liabilities have interest rate fluctuation risks caused by differences in interest rates and the periods between financial liabilities and financial assets. Financial liabilities also have the funding risk of loss due to inability to raise funds, because of reasons such as unexpected outflow of funds, and by raising funds at interest rates much higher than the normal rate because of unavoidable reasons; and the market liquidity risk of loss caused by the inability to raise the required funds because of disruption such as a credit crunch in the entire market and by trading at prices greatly disadvantageous compared with the normal price.

#### (3) Risk management for financial Instruments

##### i. Credit risk management

The Bank measures the risk amount through credit judgments, credit ratings and self-assessments, attaching importance to the public good, safety, growth potential and profitability, and controls the risk on the principle of elimination of concentration with specific customers, in accordance with credit policy (lending standards), which states the basic ideas about lending, the code of conduct and other matters, and with the credit risk management rules, which specify credit risk management methods.

The Bank's credit review division and sales promotion division are separated to ensure independence of each other and stringent credit risk management.

The Bank conducts rigorous self-assessment, which includes audits by the audit division, from the aspect of securing the soundness of the assets. Based on the results, the Bank appropriately writes off bad debts and sets aside reserves.

The Bank has a credit rating system for business loans to understand the true state of companies from both quantitative and qualitative aspects.

To reduce and offset credit risk, the Bank receives collateral and guarantees for lending transactions and offsets loans against deposits. The basic ideas about security are stated in the credit policy, and security assessments, management policies and procedures are set out in the operation manual.

Measurement method and procedures for credit risk amount are stipulated in the operation manual and the risk is measured monthly based on the borrowers' credit rating and other factors. The results are reported to the ALM Council (the board of managing directors).

##### ii. Market risk management

###### a. Interest rate risk management

The Bank's interest rate fluctuation risk is managed by ALM.

Risk management methodology and procedures are stated in detail in the rules and manuals related to ALM. Present conditions are checked, state of execution is checked and future actions are discussed by the ALM Council, based on the outcome of the deliberations of the ALM Committee.

Risks are monitored using methodology such as basis point value (BPV) and value at risk (VaR), and mainly with gap analyses and interest rate sensitivity analyses, and the results are reported monthly to the ALM Council. As part of ALM, derivatives such as interest rate swap transactions are conducted to hedge interest rate risks.

###### b. Price fluctuation risk management

Trading and management of investment instruments such as securities are performed in accordance with the investment policy and risk management policy as determined by the board of directors half-yearly. The Middle Section of the Financial Market Division and the Risk Control Section of the General Planning & Coordinations Division measure market risk for securities investments quantitatively and comprehensively using VaR, etc. The results are reported to the relevant directors, the ALM Council, etc., with the frequency set for each financial instrument to check the state of compliance with the rule.

###### c. Quantitative information concerning market risk

The principal financial instruments that are subject to interest rate risk and price fluctuation risk, which are the main risk variables affecting the Bank, are loans and bills discounted, securities, deposits and derivatives transactions.

The variance-covariance method (holding period: 90 days\*, confidence interval: 99%, observation period: 250 business days) was used for the calculation of VaR, the market risk volume. The volume of overall market risk (estimated loss) as of March 31, 2014 (consolidated accounts settlement date) and 2013 were ¥30,385 million (\$295,229 thousand) and ¥20,147 million.

The Bank believes that the measurement model estimates market risk with sufficient accuracy because the Bank examines the model by means such as performing backtesting to compare the VaR calculated using the model with the actual profit and loss.

However, VaR measures market risk volume with a certain probability that is calculated statistically based on historical market movements, and therefore VaR may fail to represent risk in the case of exceptionally drastic change in market conditions.

\* Holding period for shares purchased for the business relationship, which are included in the securities: 125 days.

###### iii. Liquidity risk management

Sections managing liquidity risks at the Bank are clearly stated in the liquidity risk management rule that stipulate the liquidity risk management procedures, system and so on. The Bank has a management system to secure sufficient liquidity in case of unexpected events by setting liquidity standards for various cases including times of normality, times of concern, and times of emergency.

#### (4) Supplementary explanation of fair values, of financial instruments

Fair value of financial instruments includes market price as well as reasonably determined value where market price is unavailable. The reasonably determined value could differ depending on different conditions and assumptions because calculation of such value is conducted based on certain conditions and assumptions.

### 2. Fair value of financial instruments

Carrying amount and fair value, as of March 31, 2014 and 2013, and the difference between the values are shown in the table below. Unlisted stocks and others whose fair value is deemed to be extremely difficult to determine are not listed in the table (see Note 2). Accounts considered to be immaterial are omitted.

<March 31, 2014> (Millions of yen)

	Carrying amount	Fair Value	Difference
(1) Cash and due from banks	¥ 37,502	¥ 37,502	¥ —
(2) Securities			
Held-to-maturity bonds	8,609	8,699	90
Other securities	843,527	843,527	—
(3) Loans and bills discounted	1,409,351		
Reserve for possible loan losses (*1)	(7,215)		
	1,402,135	1,422,514	20,378
Total assets	2,291,775	2,312,244	20,469
(1) Deposits	2,019,521	2,020,281	759
(2) Negotiable certificates of deposit	99,723	99,725	2
(3) Borrowed money	49,429	49,456	26
Total liabilities	2,168,674	2,169,463	788
Derivatives transactions (*2)			
To which hedge accounting is not applied	(37)	(37)	—
To which hedge accounting is applied	(3,663)	(3,663)	—
Total derivatives	¥ (3,700)	¥ (3,700)	¥ —

<March 31, 2013> (Millions of yen)

	Carrying amount	Fair Value	Difference
(1) Cash and due from banks	¥ 87,777	¥ 87,777	¥ —
(2) Call loans and bills purchased	72,644	72,644	—
(3) Securities			
Held-to-maturity bonds	8,858	8,985	126
Other securities	761,137	761,137	—
(4) Loans and bills discounted	1,326,192		
Reserve for possible loan losses (*1)	(9,466)		
	1,316,726	1,341,740	25,013
Total assets	2,247,145	2,272,285	25,139
(1) Deposits	1,977,246	1,978,314	1,068
(2) Negotiable certificates of deposit	114,393	114,393	0
(3) Borrowed money	25,491	25,521	29
Total liabilities	2,117,131	2,118,229	1,097
Derivatives transactions (*2)			
To which hedge accounting is not applied	(61)	(61)	—
To which hedge accounting is applied	(4,677)	(4,677)	—
Total derivatives	¥ (4,738)	¥ (4,738)	¥ —

<March 31, 2014> (Thousands of U.S. dollars)

	Carrying amount	Fair Value	Difference
(1) Cash and due from banks	\$ 364,380	\$ 364,380	\$ —
(2) Securities			
Held-to-maturity bonds	83,647	84,521	874
Other securities	8,195,948	8,195,948	—
(3) Loans and bills discounted	13,693,655		
Reserve for possible loan losses (*1)	(70,102)		
	13,623,542	13,821,550	197,998
Total assets	22,267,537	22,466,420	198,882
(1) Deposits	19,622,240	19,629,624	7,374
(2) Negotiable certificates of deposit	968,937	968,956	19
(3) Borrowed money	480,266	480,528	252
Total liabilities	21,071,453	21,079,119	7,656
Derivatives transactions (*2)			
To which hedge accounting is not applied	(359)	(359)	—
To which hedge accounting is applied	(35,590)	(35,590)	—
Total derivatives	\$ (35,950)	\$ (35,950)	\$ —

(\*1) General reserve and specific reserve for possible loan losses corresponding to loans and bills discounted are deducted.

(\*2) Derivative transactions recorded in other assets and other liabilities are presented on a net basis.

Note 1 Method to calculate fair values of financial instruments

**Assets**

(1) Cash and due from banks

Concerning due from banks without maturity, the carrying amount is reported as fair value because the fair value is approximately the same as the carrying amount. Concerning due from banks with maturity, the carrying amount is reported as fair value because the remaining periods are as short as less than one year, and the fair value is approximately the same as the carrying amount.

(2) Securities

Fair value of stocks is determined based on the exchange price, and that of bonds based on the exchange price or price quoted by the counter party financial institutions. Fair value of investment trusts is determined based on the price publicly available. Fair value of privately placed guaranteed bonds is calculated by discounting the total amount of principal and interest at an interest rate deemed to be applicable to similar bonds by categories based on internal ratings and terms of the bonds.

(3) Loans and bills discounted

Fair value of loans and bills discounted is calculated by categorizing the loans based on the type, internal rating, term (the remaining period or the period between interest rate renewals), and then discounting the total of the principals and interest with a rate expected of a new similar loan. For loans with short remaining periods (less than one year), the carrying amount is reported as the fair value because the fair value is approximately the same as the carrying amount.

For receivables from "legally bankrupt", "virtually bankrupt" and "possibly bankrupt" borrowers, possible loan losses are estimated based on factors such as present value of expected future cash flow and expected amounts to be collected from collateral and guarantees. Since the fair value of these items approximates the carrying amount net of the currently expected loan losses at the end of the year, such carrying amount is presented as fair value.

Concerning loans whose maturity dates were not set because they were limited to within the values of the collateral offered as security, the carrying amount is reported as fair value because the fair value is expected to be approximately the same as the carrying amount considering expected periods of repayments and the terms of interest rate.

**Liabilities**

(1) Deposits, and (2) negotiable certificates of deposit

Concerning demand deposits, the amounts to be paid if such deposits were withdrawn on the end of the year (book values) are regarded as fair value. Time deposits are separated by period, and the present value is calculated by discounting the future cash flow. The discount rate is the rate used for new deposit-taking. For those with short remaining periods (less than one year), their carrying amount is reported as the fair value because the fair value is approximately the same as the carrying amount.

(3) Borrowed money

Fair value of borrowed money is calculated by discounting the total amount of the principal and interest of such borrowed money classified by the type, internal rating and the remaining period at the interest rates considered to be applicable to new similar borrowed money. The fair value of short-term borrowed money with remaining period as of the end of the fiscal year not exceeding one year is based on the carrying amount because the fair value is approximately the same as the carrying amount.

**Derivative transactions**

Matters related to derivatives transactions are as stated in the Note 17 "Fair Value Information on Derivatives".

Note 2 Financial instruments whose fair value is deemed to be extremely difficult to determine were as follows. These were not included in the Asset, "(2) Securities" in "Fair value of financial instruments".

<March 31, 2014>

Category	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Unlisted stocks (*1)(*2)	¥ 1,538	\$ 14,943
Investment in Partnerships (*3)	508	4,935
Total	¥ 2,046	\$ 19,879

(\*1) Unlisted stocks are not subject to fair value disclosure because of the extreme difficulty in determining their fair values as they are not sold in the market.

(\*2) Impairment accounting was applied to unlisted stocks of ¥9 million in the previous consolidated fiscal year.

Impairment accounting was applied to unlisted stocks of ¥0 million (\$0 thousand) in this consolidated fiscal year.

(\*3) In the case that partnership assets consist of unlisted stocks whose fair value is deemed to be extremely difficult to determine, investment in partnerships is not subject to fair value disclosure.

<March 31, 2013>

Category	Carrying amount
	Millions of yen
Unlisted stocks (*1) (*2)	¥ 1,431
Investment in Partnerships (*3)	71
Total	¥ 1,503

Note 3 Scheduled redemption amounts of financial assets and securities with maturities

<March 31, 2014>

(Millions of yen)

	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Due from banks	¥ 37,502	¥ —	¥ —	¥ —	¥ —	¥ —
Securities	122,864	172,929	188,171	167,495	113,918	44,903
Held-to-maturity bonds	1,863	4,287	1,851	607	—	—
Corporate bonds	1,863	4,287	1,851	607	—	—
Other securities with a maturity date	121,001	168,641	186,320	166,888	113,918	44,903
Japanese government bonds	81,240	86,619	80,317	118,772	84,760	17,986
Municipal bonds	20,302	22,045	52,395	6,596	4,586	24,220
Corporate bonds	7,869	31,211	34,886	10,064	7,317	—
Other	11,589	28,765	18,720	31,454	17,253	2,695
Loans and bills discounted (*)	347,259	282,283	215,122	141,332	138,379	264,821
Total	¥ 507,626	¥ 455,212	¥ 403,293	¥ 308,828	¥ 252,297	¥ 309,724

\* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loan to "legally bankrupt" borrowers, loan to "virtually bankrupt" borrowers, loan to "possibly bankrupt" borrowers, amounting to ¥20,152 million (\$195,802 thousand) is not included in the above table.

<March 31, 2013>

(Millions of yen)

	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Due from banks	¥ 87,777	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	72,644	—	—	—	—	—
Securities	64,062	125,106	201,044	127,834	158,043	53,330
Held-to-maturity bonds	2,209	4,326	1,813	510	—	—
Corporate bonds	2,209	4,326	1,813	510	—	—
Other securities with a maturity date	61,852	120,780	199,231	127,324	158,043	53,330
Japanese government bonds	24,634	50,346	113,105	84,491	106,491	23,404
Municipal bonds	17,936	31,183	31,387	19,825	4,628	25,325
Corporate bonds	14,015	20,068	36,551	12,191	7,606	—
Other	5,265	19,181	18,187	10,815	39,316	4,600
Loans and bills discounted (*)	336,854	252,619	211,221	134,526	124,862	244,408
Total	¥ 561,338	¥ 377,726	¥ 412,265	¥ 262,361	¥ 282,905	¥ 297,738

\* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loan to "legally bankrupt" borrowers, loan to "virtually bankrupt" borrowers, loan to "possibly bankrupt" borrowers, amounting to ¥21,700 million is not included in the above table.

<March 31, 2014 >

(Thousands of U.S.dollars)

	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Due from banks	\$ 364,380	\$ —	\$ —	\$ —	\$ —	\$ —
Securities	1,193,781	1,680,227	1,828,322	1,627,429	1,106,859	436,290
Held-to-maturity bonds	18,101	41,653	17,984	5,897	—	—
Corporate bonds	18,101	41,653	17,984	5,897	—	—
Other securities with a maturity date	1,175,680	1,638,563	1,810,338	1,621,531	1,106,859	436,290
Japanese government bonds	789,350	841,614	780,382	1,154,022	823,552	174,757
Municipal bonds	197,260	214,195	509,084	64,088	44,558	235,328
Corporate bonds	76,457	303,254	338,962	97,784	71,094	—
Other	112,602	279,488	181,888	305,616	167,635	26,185
Loans and bills discounted	3,374,067	2,742,741	2,090,186	1,373,221	1,344,529	2,573,076
Total	\$ 4,932,238	\$ 4,422,969	\$ 3,918,509	\$ 3,000,660	\$ 2,451,389	\$ 3,009,366

Note 4 Scheduled repayment amounts of bonds, borrowed money and other interest bearing liabilities

<March 31, 2014>

(Millions of yen)

	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Deposits (*)	¥ 1,797,678	¥ 176,135	¥ 45,708	¥ —	¥ —	¥ —
Negotiable certificates of deposit	99,103	620	—	—	—	—
Borrowed money	47,624	1,378	426	0	—	—
Total	¥ 1,944,405	¥ 178,133	¥ 46,135	¥ 0	¥ —	¥ —

\*Demand deposits are included in "Due in 1 year or less".

<March 31, 2013>

(Millions of yen)

	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Deposits (*)	¥ 1,727,483	¥ 200,450	¥ 49,311	¥ —	¥ —	¥ —
Negotiable certificates of deposit	114,298	95	—	—	—	—
Borrowed money	23,619	1,366	505	0	—	—
Total	¥ 1,865,401	¥ 201,912	¥ 49,817	¥ 0	¥ —	¥ —

\*Demand deposits are included in "Due in 1 year or less".

<March 31, 2014>

(Thousands of U.S.dollars)

	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years through 10 years	Due after 10 years
Deposits	\$ 17,466,750	\$ 1,711,377	\$ 444,111	\$ —	\$ —	\$ —
Negotiable certificates of deposit	962,912	6,024	—	—	—	—
Borrowed money	462,728	13,389	4,139	0	—	—
Total	\$ 18,892,392	\$ 1,730,790	\$ 448,260	\$ 0	\$ —	\$ —

## 22. Subsequent events

1. Issuing of Eurodollar convertible bonds subject to call with maturity in 2019  
The issuing of Eurodollar convertible bonds subject to call with maturity in 2019 by the Bank was resolved at a meeting of the board of directors held on April 2, 2014, and payment for the convertible bonds was completed on April 22, 2014. The outline of the issue is as stated below.

(1) Name of the convertible bonds

The Yamagata Bank Ltd. Eurodollar convertible bonds subject to call with maturity in 2019

(2) Issue price

100% of the face amount of the convertible bonds (face amount of each of the convertible bonds: US\$100,000)

(3) Offer price

102.5% of the face amount of the convertible bonds

(4) Total amount of the issue value (total amount to be paid in)  
US\$100 million

(5) Interest rate of the convertible bonds

No interest is paid on the convertible bonds.

(6) Security and guarantee

The convertible bonds are neither secured nor guaranteed.

(7) Payment date and issue date of the convertible bonds

April 22, 2014

(8) Redemption date

The convertible bonds will be redeemed on April 22, 2019 (redemption date) at 100% of the face amount of the convertible bonds. There are stipulations concerning advanced redemption and retirement by purchase under predetermined conditions in the principles of the issue.

(9) Matters related to the warrants

1) Total number of the warrants : 1,000

2) Type, details and number of shares associated with the warrants

The type and details of the shares associated with the warrants are shares of common stock of the Bank (number of shares to constitute one unit: 1,000 shares) and the number of shares of common stock of the Bank to be issued by the Bank subsequent to the execution of the warrants is obtained by dividing the total face amount of the convertible bonds to be executed by the conversion price stated in 6) below. Notwithstanding the foregoing, if a fraction of less than one share is generated as a result of such execution, the fraction will be dropped and payment in cash for that fraction will not be made.

3) Allotment date of the warrants : April 22, 2014

4) Exercise period of the warrants

From May 6, 2014 to April 8, 2019 (In accordance with the time and place of the execution of the warrant)

5) Amount to be paid in when executing the warrants

When executing the warrants, the convertible bonds to which the warrants are attached will be used for financing, in which case the value of the convertible bonds will be the same as their face amount.

6) Conversion price : US\$5.09 (initial)

7) Capital and capital reserve to be increased by issuing shares subsequent to the execution of the warrants

The amount of the capital to be increased by the issuing of shares subsequent to the execution of the warrants will be the amount that is obtained by multiplying the limit of the increase in the capital, etc., that is calculated as set forth in Article 17 of the Ordinance on Company Accounting by a factor of 0.5. If, as a result of this, a fraction of less than one yen is generated, then the fraction will be rounded up. The amount of the capital reserve to be increased will be the amount that is obtained by deducting the amount of the capital to be increased from the limit of the increase in the capital, etc.

8) Issuing of warrants by a successor company, etc., in the case of organizational restructuring, etc., of the Bank  
There are stipulations in the principles of the issue.

9) Reasons why payment is not required to obtain the warrants

Payment will not be required to obtain the warrants, considering that the warrants are attached to the convertible bonds, for this reason, warrants may not be separated from the convertible bonds and transferred; and that the convertible bonds and the warrants are closely related to each other because to execute the warrants, the convertible bonds to which the warrants are attached are used for financing; and considering the financial value for the Bank based on the value of the warrants and the terms of issue of the convertible bonds, including the interest rate and the amount to be paid in.

(10) Use of the funds raised

The funds raised through the issuing of the convertible bonds are planned to be used as general working capital for loans in US dollars, investment in securities in US dollars, etc., mainly in fiscal 2014.

(11) Financial instruments exchange for listing

The convertible bonds will be listed at Singapore Exchange Limited.

2. Acquisition of treasury stocks

At the meeting of the board of directors of the Bank that was held on April 2, 2014, the following were resolved with regard to the acquisition of treasury stocks in compliance with article 165, paragraph (3) of the Companies Act applied by the reading of article 156 of the Companies Act.

(1) Type of shares to be acquired: Shares of common stock of the Bank

(2) Total number of shares to be acquired: 7 million shares (maximum)

(3) Total acquisition cost of shares: ¥3,500 million (maximum)

(4) Period of acquisition: April 3, 2014 to September 22, 2014

3. Cancellation of treasury stocks

At the meeting of the board of directors that was held on May 15, 2014, it was resolved that the Bank would cancel its treasury stocks, and the Bank did so, in compliance with Article 178 of the Companies Act.

(1) Type of shares to be canceled: Shares of common stock of the Bank

(2) Number of shares to be canceled: 2 million shares

(3) Total number of outstanding shares after cancellation: 170 million shares

(4) Date of cancellation: May 30, 2014



## Independent Auditor's Report

The Board of Directors  
The Yamagata Bank, Ltd.

We have audited the accompanying consolidated financial statements of The Yamagata Bank, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Yamagata Bank, Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 24, 2014  
Yamagata, Japan

*Ernst & Young Shinjibou LLC*

## Non-Consolidated Balance Sheet

As of March 31, 2014 and 2013

	2014 (Millions of yen)	2013 (Millions of yen)	2014 (Thousands of U.S. dollars)
<b>Assets</b>			
Cash and due from banks .....	¥ 37,493	¥ 87,769	\$ 364,301
Call loans and bills purchased .....	18,683	72,644	181,535
Trading securities .....	57	34	557
Securities .....	854,127	771,931	8,298,943
Loans and bills discounted .....	1,418,297	1,333,899	13,780,585
Foreign exchange .....	1,510	1,029	14,677
Other assets .....	12,549	10,518	121,933
Tangible fixed assets .....	13,228	13,057	128,530
Buildings .....	3,010	3,128	29,250
Land .....	8,923	8,933	86,704
Leased assets .....	64	60	626
Construction in process .....	319	13	3,104
Other tangible fixed assets .....	910	922	8,845
Intangible fixed assets .....	1,144	1,325	11,121
Software .....	929	1,109	9,033
Other intangible fixed assets .....	214	215	2,087
Customers' liabilities for acceptances and guarantees .....	15,940	16,754	154,882
Reserve for possible loan losses .....	¥ (6,504)	¥ (8,596)	\$ (63,195)
Total assets .....	<u>2,366,529</u>	<u>2,300,369</u>	<u>22,993,873</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities:</b>			
Deposits .....	¥ 2,126,057	¥ 2,098,715	\$ 20,657,379
Call money .....	—	538	—
Payables under securities lending transactions .....	21,204	15,366	206,031
Borrowed money .....	46,651	22,694	453,280
Foreign exchange .....	55	38	536
Other liabilities .....	13,703	12,370	133,145
Reserve for bonuses to directors and corporate auditors .....	20	20	194
Reserve for employees' retirement benefits .....	687	1,091	6,682
Reserve for directors and corporate auditors' retirement benefits .....	288	264	2,805
Reserve for losses on dormant deposit repayments .....	158	187	1,535
Reserve for losses on contingencies .....	225	147	2,192
Deferred tax liabilities .....	5,593	3,433	54,352
Deferred tax liabilities arising from revaluation of land .....	1,586	1,612	15,417
Acceptances and guarantees .....	¥ 15,940	¥ 16,754	\$ 154,882
Total liabilities .....	<u>2,232,173</u>	<u>2,173,235</u>	<u>21,688,436</u>
<b>Net Assets</b>			
Common stock			
Authorized - 298,350,000 shares			
Issued - 172,000,000 shares .....	¥ 12,008	¥ 12,008	\$ 116,678
Capital surplus .....	4,937	4,937	47,975
Retained earnings .....	101,203	95,968	983,321
Less treasury stock, at cost .....	(828)	(820)	(8,053)
Total Shareholder's equity .....	<u>117,320</u>	<u>112,093</u>	<u>1,139,921</u>
Unrealized holding gain on securities .....	18,332	17,135	178,125
Deferred loss on hedging instruments .....	(2,370)	(3,108)	(23,036)
Revaluation of land .....	1,073	1,012	10,426
Total of net assets .....	<u>134,355</u>	<u>127,133</u>	<u>1,305,436</u>
Total of liabilities and net assets .....	<u>¥ 2,366,529</u>	<u>¥ 2,300,369</u>	<u>\$ 22,993,873</u>

## Non-Consolidated Statement of Income

For the years ended March 31, 2014 and 2013

	<b>2014</b> (Millions of yen)	<b>2013</b> (Millions of yen)	<b>2014</b> (Thousands of U.S.dollars)
<b>Income</b>			
Interest on loans and discounts .....	¥ 19,440	¥ 20,172	\$ 188,890
Interest and dividends on securities .....	7,204	7,227	69,999
Other interest .....	123	222	1,203
Fees and commissions .....	6,086	5,964	59,140
Other income .....	6,464	7,691	62,808
<b>Total income .....</b>	<b>39,319</b>	<b>41,280</b>	<b>382,042</b>
<b>Expenses:</b>			
Interest on deposits .....	1,714	1,739	16,659
Interest on borrowings and rediscounts .....	45	88	441
Other interest .....	1,261	1,279	12,258
Fees and commissions .....	2,473	2,314	24,035
General and administrative expenses .....	22,053	22,265	214,276
Other expenses .....	1,590	4,954	15,454
<b>Total expenses .....</b>	<b>29,139</b>	<b>32,644</b>	<b>283,126</b>
<b>Income before income taxes .....</b>	<b>10,180</b>	<b>8,636</b>	<b>98,915</b>
Income taxes:			
Current .....	2,694	928	26,177
Deferred .....	1,167	2,270	11,345
	<b>3,861</b>	<b>3,198</b>	<b>37,523</b>
<b>Net income.....</b>	<b>¥ 6,318</b>	<b>¥ 5,437</b>	<b>\$ 61,392</b>
<b>Amounts per share:</b>			
	<b>2014</b> (yen)	<b>2013</b> (yen)	<b>2014</b> (U.S.dollars)
Net income	37.06	31.90	0.36
Net assets	788.18	745.73	7.65

## Directory

### Headquarters:

1-2, Nanukamachi 3-chome, Yamagata 990-8642, Japan  
Phone: +81 23 623 1221

### Financial Markets Division:

1-2, Nanukamachi 3-chome, Yamagata 990-8642, Japan  
Phone: +81 23 634 7547  
Fax: +81 23 625 7185  
S.W.I.F.T.: YAMBJPJT

### Foreign Exchange Offices:

#### Head Office

1-2, Nanukamachi 3-chome, Yamagata 990-8642, Japan  
Phone: +81 23 623 1221

#### Yonezawa Branch

1-5, Monto-machi 3-chome, Yonezawa 992-0039, Japan  
Phone: +81 238 22 2010

#### Nagai Branch

11-14, Sakae-machi, Nagai 993-0084, Japan  
Phone: +81 238 88 2105

#### Sagaechuo Branch

2-33, Chuo 1-chome, Sagae 991-0021, Japan  
Phone: +81 237 86 1141

#### Tendo Branch

9-1, Higashihoncho 1-chome, Tendo 994-0026, Japan  
Phone: +81 23 653 3355

#### Shinjo Branch

2-16, Hon-cho, Shinjo 996-0027, Japan  
Phone: +81 233 22 2461

#### Tsuruoka Branch

1-13, Hon-cho 2-chome, Tsuruoka 997-0034, Japan  
Phone: +81 235 22 5530

#### Sakata Branch

10-1, Hon-cho 3-chome, Sakata 998-0043, Japan  
Phone: +81 234 22 7222

#### Tokyo Branch

5-16, Kyobashi 2-chome, Chuo-ku, Tokyo 104-0031, Japan  
Phone: +81 3 3567 1861

### Bank Data: (As of March 31, 2014)

Date of Incorporation: 1896  
Authorized Shares: 298,350,000  
Issued Stocks: 172,000,000  
Number of Shareholders: 8,771  
Number of Employees: 1,322



The Yamagata Bank, Ltd.  
(Head Office)



(Total: Head Office and 78 branches)  
(As of June 30, 2014)



**Cherries**  
Cherries are a special product of Yamagata Prefecture.  
Stylized cherries are used as the symbol of The Yamagata Bank, Ltd.