Annual Securities Report

"Yukashoken Hokokusho"

(Excerpt)

For the fiscal years ended March 31, 2017 and 2016

FIDEA Holdings Co. Ltd.

and Subsidiaries

Message from the President and CEO

Dear Shareholders and Investors,

Thank you for your continued patronage to FIDEA Group, including the Shonai Bank, Ltd., and the Hokuto Bank, Ltd.

With an aim to "establish a lean and flexible management base to support the sustainable growth of our customers as well as regional areas" together with "continued contribution to regional revitalization as a community-based, region-wide banking group," FIDEA Group has launched its third Medium-term Management Plan, "Consulting and Innovation."

During the three years up to the fiscal year ending March 31, 2019 under the third Medium-term Management Plan, the management environment surrounding us is expected to become even more severe due to the declining population, a low birth rate and acceleration of aging populations in regional areas, continuation of monetary easing policy, growing uncertainties in the world economy and other factors.

Under such circumstances, we will focus on timely exertion of our consulting capabilities through dialogue with customers, and work on such areas as, reviewing our retail sales structure, establishing a financial-market-management structure capable of responding to changes in the financial market, training personnel who provide solutions and support integrated sales for both corporate and individual customers. We will realize transformation of the business model in order to strongly contribute to sustainable development of our customers as well as regional areas by further demonstrating the effects of Group synergy by advancing our Open Platform Strategy.

FIDEA Group carries the slogan, "Reaching out to the community and stepping into the next generation - Trust FIDEA" and is taking initiatives of various projects in renewable energy business, CCRC (Continuing Care Retirement Community) business, the field of medical and nursing care, as well as value-added sextic industrialization of agriculture and forestry, all of which can lead to fostering of new regional industries. Furthermore, serving as a provider of information and expertise to address regional issues and needs, we will actively contribute to regional revitalization by, for instance, supporting global expansion of customers' business operation mainly in Asia.

We look forward to your valuable and continued support.

June 2017
Yuichi Tao
President and CEO
FIDEA Holdings Co. Ltd.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Assets:			
Cash and due from banks (Notes 11, 19 and 23)	¥ 77,180	¥ 64,954	$ 687,878
Monetary claims bought (Note 23)	3,841	3,656	34,233
Trading account securities (Notes 5 and 23)	704	654	6,274
Money held in trust (Notes 6 and 23)	9,606	7,747	85,614
Securities (Notes 5, 6, 11, 14 and 23)	937,382	1,005,496	8,354,563
Loans and bills discounted (Notes 7, 22 and 23)	1,759,326	1,748,980	15,680,267
Foreign exchange assets (Note 23)	2,055	2,885	18,315
Tangible fixed assets (Note 8):			
Buildings	11,122	10,874	99,126
Land	11,059	11,088	98,565
Lease assets	224	117	1,996
Construction in progress	3,839	1,298	34,215
Other tangible fixed assets	2,590	2,451	23,083
Intangible fixed assets:			
Software	2,598	2,923	23,155
Goodwill	-	15	-
Other intangible fixed assets	137	138	1,221
Defined benefit asset (Note 13)	618	811	5,508
Deferred tax assets (Note 20)	1,734	718	15,454
Customers' liabilities for acceptances and guarantees (Note 22)	21,801	16,854	194,304
Other assets (Note 11)	17,344	8,457	154,581
Allowance for loan losses (Notes 7 and 23)	(16,315)	(16,186)	(145,409)
Total assets	¥ 2,846,854	¥ 2,873,939	$25,373,030

(Continued)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Liabilities:			
Deposits (Note 23)	¥ 2,392,320	¥ 2,433,322	$ 21,321,925
Negotiable certificates of deposit (Note 23)	141,595	145,464	1,261,987
Call money and bills sold (Notes 11 and 23)	-	20,000	-
Payables under securities lending transactions (Notes 11 and 23)	129,789	78,830	1,156,764
Borrowed money (Notes 10, 11 and 23)	16,400	21,000	146,167
Foreign exchange liabilities (Note 23)	36	10	320
Bonds payable (Notes 12 and 23)	5,000	5,000	44,563
Defined benefit liability (Note 13)	2,690	2,731	23,975
Provision for reimbursement of deposits	647	672	5,766
Provision for contingent loss	344	324	3,065
Other provisions	31	30	276
Deferred tax liabilities (Notes 6 and 20)	3,325	7,307	29,634
Deferred tax liabilities for land revaluation (Note 9)	536	540	4,777
Acceptances and guarantees	21,801	16,854	194,304
Other liabilities (Note 10)	20,397	21,814	181,791
Total liabilities	2,734,916	2,753,903	24,375,365
Net assets (Note 15):			
Common stock	18,000	18,000	160,427
Capital surplus	29,272	27,757	260,891
Retained earnings	45,519	42,652	405,695
Treasury stock	(9)	(4)	(80)
Total shareholders' equity	92,781	88,405	826,925
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 6)	18,808	30,064	167,629
Revaluation reserve for land (Note 9)	1,127	1,134	10,044
Remeasurements of defined benefit plans	(945)	(1,040)	(8,422)
Total accumulated other comprehensive income	18,990	30,158	169,251
Non-controlling interests	165	1,471	1,470
Total net assets	111,937	120,035	997,655
Total liabilities and net assets	¥ 2,846,854	¥ 2,873,939	$ 25,373,030

See notes to consolidated financial statements.

(Concluded)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Income:			
Interest income:			
Interest on loans and discounts	¥ 22,903	¥ 24,467	$ 204,126
Interest and dividends on securities	11,625	12,975	103,609
Other	29	52	258
Fees and commissions	8,720	9,600	77,718
Other operating income	6,151	4,345	54,821
Other income	2,758	4,561	24,581
Total income	52,188	56,003	465,133
Expenses:			
Interest expenses:			
Interest on deposits	2,126	3,110	18,948
Interest on payables under securities lending transactions	803	339	7,156
Interest on borrowings and rediscounts	76	121	677
Interest on bonds payable	134	176	1,194
Other	6	17	53
Fees and commissions	3,529	3,246	31,452
Other operating expenses	5,574	2,097	49,679
General and administrative expenses (Note 16)	29,735	29,427	265,017
Provision of allowance for loan losses	2,752	2,670	24,527
Other expenses (Note 17)	1,564	2,480	13,939
Total expenses	46,306	43,688	412,709
Income before income taxes	5,881	12,315	52,415
Income taxes (Note 20):			
Current	1,330	2,826	11,853
Deferred	(103)	489	(918)
Total income taxes	1,226	3,316	10,926
Net income	4,654	8,999	41,479
Net income attributable to non-controlling interests	27	133	240
Net income attributable to owners of parent	¥ 4,627	¥ 8,866	$ 41,238
	Yen		U.S. dollars
Per share of common stock (Note 25):			
Basic net income	¥ 25.18	¥ 52.38	$ 0.2244
Diluted net income	20.63	39.02	0.1838
Cash dividends applicable to the year	6.00	6.00	0.0534

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	¥ 4,654	¥ 8,999	$ 41,479
Other comprehensive income (Note 18):			
Unrealized gain (loss) on available-for-sale securities	(11,256)	(1,690)	(100,320)
Deferred gain on derivatives under hedge accounting	-	3	-
Revaluation reserve for land (Note 9)	-	28	-
Remeasurements of defined benefit plans	94	(538)	837
Total other comprehensive income (loss)	(11,162)	(2,197)	(99,483)
Comprehensive income (loss)	¥ (6,507)	¥ 6,802	$ (57,994)
Total comprehensive income (loss) attributable to:			
Owners of parent	¥ (6,533)	¥ 6,672	$ (58,226)
Non-controlling interests	25	129	222

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2017 and 2016

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Revaluation reserve for land	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2015	¥ 15,450	¥ 25,194	¥ 34,652	¥ (3)	¥ 75,293	¥ 31,750	¥ (3)	¥ 1,111	¥ (501)	¥ 32,357	¥ 1,378	¥ 109,029
Conversion of convertible bond-type bonds with subscription rights to shares	2,550	2,550			5,100							5,100
Cash dividends			(871)		(871)							(871)
Net income attributable to owners of parent			8,866		8,866							8,866
Acquisition of treasury stock				(1)	(1)							(1)
Sale of treasury stock		0		0	0							0
Purchase of shares of consolidated subsidiaries		12			12							12
Reversal of revaluation reserve for land			5		5							5
Net changes of items other than shareholders' equity						(1,686)	3	22	(538)	(2,198)	92	(2,106)
Balance as of March 31, 2016	18,000	27,757	42,652	(4)	88,405	30,064	-	1,134	(1,040)	30,158	1,471	120,035
Cash dividends			(1,768)		(1,768)							(1,768)
Net income attributable to owners of parent			4,627		4,627							4,627
Acquisition of treasury stock				(107)	(107)							(107)
Sale of treasury stock		93		102	195							195
Purchase of shares of consolidated subsidiaries		1,421			1,421							1,421
Reversal of revaluation reserve for land			7		7							7
Net changes of items other than shareholders' equity						(11,255)	-	(7)	94	(11,168)	(1,305)	(12,473)
Balance as of March 31, 2017	¥ 18,000	¥ 29,272	¥ 45,519	¥ (9)	¥ 92,781	¥ 18,808	¥ -	¥ 1,127	¥ (945)	¥ 18,990	¥ 165	¥ 111,937

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Revaluation reserve for land	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2016	$ 160,427	$ 247,388	$ 380,142	$ (35)	$ 787,923	$ 267,950	$ -	$ 10,106	$ (9,269)	$ 268,787	$ 13,110	$1,069,830
Cash dividends			(15,757)		(15,757)							(15,757)
Net income attributable to owners of parent			41,238		41,238							41,238
Acquisition of treasury stock				(953)	(953)							(953)
Sale of treasury stock		828		909	1,737							1,737
Purchase of shares of consolidated subsidiaries		12,664			12,664							12,664
Reversal of revaluation reserve for land			62		62							62
Net changes of items other than shareholders' equity						(100,311)	-	(62)	837	(99,536)	(11,631)	(111,167)
Balance as of March 31, 2017	$ 160,427	$ 260,891	$ 405,695	$ (80)	$ 826,925	$ 167,629	$ -	$ 10,044	$ (8,422)	$ 169,251	$ 1,470	$ 997,655

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating activities:			
Income before income taxes	¥ 5,881	¥ 12,315	$ 52,415
Adjustments for:			
Income taxes—paid	(2,558)	(3,145)	(22,798)
Depreciation and amortization	2,368	2,168	21,105
Loss on impairment—fixed assets	22	8	196
Amortization of goodwill	15	24	133
Change in allowance for loan losses	129	1,390	1,149
Change in defined benefit asset	216	125	1,925
Change in defined benefit liability	177	(101)	1,577
Change in provision for reimbursement of deposits	(25)	80	(222)
Change in provision for contingent loss	20	(152)	178
Change in other provisions	0	(4)	0
Interest income	(34,557)	(37,496)	(307,994)
Interest expenses	3,148	3,765	28,057
Gain on securities—net	(2,380)	(4,485)	(21,212)
Loss (gain) on money held in trust—net	(204)	150	(1,818)
Foreign exchange loss—net	1	7	8
Loss on sale and disposal of fixed assets—net	82	591	730
Net change in loans and bills discounted	(10,345)	(29,471)	(92,201)
Net change in deposits	(41,001)	70,619	(365,427)
Net change in negotiable certificates of deposit	(3,868)	18,649	(34,474)
Net change in trading account securities	(50)	(540)	(445)
Net change in borrowed money, excluding subordinated borrowings	(4,600)	(43,300)	(40,998)
Net change in due from banks, excluding due from Bank of Japan	1,065	(1,483)	9,491
Net change in call loans and bills bought	(185)	(110)	(1,648)
Net change in call money and bills sold	(20,000)	(33,045)	(178,253)
Net change in payables under securities lending transactions	50,959	30,306	454,180
Net change in foreign exchange assets	829	(554)	7,388
Net change in foreign exchange liabilities	26	10	231
Interest received	35,594	38,476	317,237
Interest paid	(3,623)	(3,379)	(32,290)
Other—net	(6,854)	12,654	(61,087)
Total adjustments	(35,599)	21,758	(317,281)
Net cash provided by (used in) operating activities —(Forward)	¥ (29,718)	¥ 34,073	$ (264,866)

(Continued)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net cash provided by (used in) operating activities —(Forward)	¥ (29,718)	¥ 34,073	$ (264,866)
Investing activities:			
Purchase of securities	(367,477)	(393,762)	(3,275,196)
Proceeds from sales of securities	303,069	200,269	2,701,149
Proceeds from maturity of securities	115,562	170,607	1,029,964
Increase in money held in trust	(2,500)	(3,800)	(22,281)
Decrease in money held in trust	940	1,003	8,377
Purchase of tangible fixed assets	(4,374)	(3,064)	(38,983)
Proceeds from sales of tangible fixed assets	84	106	748
Purchase of intangible fixed assets	(706)	(379)	(6,292)
Net cash provided by (used in) investing activities	44,599	(29,019)	397,495
Financing activities:			
Redemption of subordinated bonds	-	(5,000)	-
Repayment of lease obligations	(57)	(49)	(508)
Dividends paid	(1,763)	(873)	(15,713)
Dividends paid to non-controlling shareholders	(2)	(2)	(17)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(22)	-
Purchase of treasury stock	(0)	(1)	(0)
Proceeds from sales of treasury stock	236	0	2,103
Net cash used in financing activities	(1,587)	(5,948)	(14,144)
Effect of exchange rate change on cash and cash equivalents	(1)	(7)	(8)
Net increase (decrease) in cash and cash equivalents	13,292	(902)	118,467
Cash and cash equivalents at the beginning of year	58,997	59,899	525,819
Cash and cash equivalents at the end of year (Note 19)	¥ 72,289	¥ 58,997	$ 644,286

See notes to consolidated financial statements.

(Concluded)

1. Basis of Presentation
FIDEA Holdings Co. Ltd. (the "Company") is a holding company and conducts its operations through its subsidiaries and affiliates. The Company was established as a joint holding company between The Shonai Bank, Ltd. ("Shonai") and The Hokuto Bank, Ltd. ("Hokuto") on October 1, 2009 by way of a transfer of shares.

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In preparing the accompanying consolidated financial statements, Japanese yen amounts are presented in millions of yen by rounding down figures to the nearest million. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥112.20 = U.S.$1.00, the exchange rate prevailing on March 31, 2017. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

2. Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its 6 subsidiaries (collectively the "Group") as of March 31, 2017 and 2016.

Under the control of influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. The Company has 4 unconsolidated subsidiaries as of March 31, 2017 (one as of March 31, 2016).

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The excess of the acquisition cost over the underlying equity in the net assets of the consolidated subsidiaries measured at fair value at their respective dates of acquisition is presented as "goodwill" and is amortized by the straight-line method over a period of five years. Insignificant amounts of goodwill are fully charged to income in the fiscal year when it is incurred.

The balance sheet dates of all 6 subsidiaries are March 31.

Those companies over which the Company has the ability to exercise significant influence, but does not control are accounted for using the equity method. However, the Company has no affiliates to be accounted for using the equity method.

3. Significant Accounting Policies

(1) Trading account securities

Trading account securities are stated at fair value as of the balance sheet date, and cost of trading account securities sold is determined principally using the moving-average method.

(2) Securities

Non-trading securities are classified into two categories: held-to-maturity debt securities and available-for-sale securities. Held-to-maturity debt securities are carried at amortized cost being determined by the moving-average method. Available-for-sale securities are generally stated at fair value determined based on the quoted market price as of the balance sheet date, except for equity securities which are stated at fair value determined based on the average market price during one month before the balance sheet date. Cost of sales of theses available-for-sale securities is principally determined using the moving-average method. Available-for-sale securities, for which it is extremely difficult to determine the fair value, are stated at cost determined by the moving-average method.

Unrealized gain or loss on available-for-sale securities is recorded under net assets, net of income taxes.

(3) Securities held in money trusts

Securities that are part of trust assets in independently managed money trusts with the primary purpose to manage securities are stated at fair value as of the balance sheet date.

(4) Derivatives

Derivatives are stated at fair value.

(5) Tangible fixed assets

Depreciation of tangible fixed assets of the Group, except for lease assets, is calculated by the straight-line method. The principal useful lives are as follows:

Buildings	5 to 50 years
Others	4 to 20 years

The Group leases automated teller machines, etc. under finance lease arrangements as a lessee.

Lease assets under finance lease arrangements which do not transfer ownership of the lease assets to the lessee are depreciated over the respective lease contract periods using the straight-line method with salvage values defined in the lease contracts, otherwise with no residual value.

(6) Intangible fixed assets

Intangible fixed assets, except for lease assets, are amortized by the straight-line method. Amortization of the cost of software intended for internal use is calculated by the straight-line method based on a useful life (principally five years) determined by the Group.

(7) Allowance for loan losses

Allowance for loan losses is provided by the consolidated banking subsidiaries and other major consolidated subsidiaries in accordance with the prescribed standards. For claims on borrowers who have declared bankruptcy or have commenced special liquidation proceedings or similar legal proceedings (the "bankrupt borrowers"), or borrowers who are not legally or formally insolvent but are regarded as substantially in the same situation (the "virtually bankrupt borrowers"), an allowance is generally provided based on the book value of the claims, after the write-off stated below, net of the expected amount recoverable from collateral and guarantees.

For claims on borrowers who are not currently bankrupt but are likely to become bankrupt (the "potentially bankrupt borrowers"), an allowance is provided at the amount deemed necessary based on the overall solvency assessment of the borrowers and the amount of the claims, net of the expected amount recoverable from collateral and guarantees.

For other claims, an allowance is provided based on the historical loan-loss ratio calculated from past experiences during a certain period after categorizing into definite types.

All claims are assessed for the quality by the Asset Assessment Department with the cooperation by operating offices in accordance with the Standards for Asset Self-Assessment, and then the assessment results are audited by the Asset Audit Department which is independent from the Asset Assessment Department.

For collateralized or guaranteed claims on the bankrupt borrowers and virtually bankrupt borrowers of Hokuto and certain consolidated subsidiaries, the amount of the claims exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and is charged off against the total amount of the outstanding claims. These write-offs amounted to ¥10,506 million ($93,636 thousand) and ¥10,486 million for the years ended March 31, 2017 and 2016, respectively.

Allowances for loan losses of other consolidated subsidiaries are provided based on the historical loan loss ratio.

(8) Provision for reimbursement of deposits

Provision for reimbursement of deposits is provided at an estimated amount of the future payments to be made for reimbursement claims on deposits which were derecognized and credited from liability to income.

(9) Provision for contingent loss

Provision for contingent loss is provided at an estimated amount of the future payments to be made for a burden charge to the Credit Guarantee Corporations in connection with the responsibility-sharing system.

(10) Other provisions

Other provisions include provision for point service program, provision for losses on interest repayment claims and provision for losses on gift card claims of the consolidated subsidiaries.
Provision for point service program relating to credit business engaged by consolidated subsidiaries is provided for the future burdens when the service will be used at the necessary amount based on the reasonably estimated amount to be used in future. Provision for losses on interest repayment claims is provided at an amount reasonably estimated considering the historical repayment experiences to provide for repayment claims on interest on loans made by consolidated subsidiaries exceeding the maximum interest rate stipulated by the Interest Rate Restriction Act. Provision for losses on gift card claims is provided at a reasonably estimated amount for uncollected gift cards which were recognized as income after the elapse of a certain period of time to provide for future losses when they are collected in future.

(11) Retirement benefits

The benefit formula method is used as a method of attributing expected retirement benefits to each period in calculating retirement benefit obligation.

Past service costs are amortized by the straight-line method over a certain period (five years) within the average remaining years of service of the eligible employees when such past service costs occur at Shonai, a consolidated subsidiary of the Company.

Actuarial gains and losses are amortized from the year following the year in which the gains and losses occur by the straight-line method over a certain period of 10 to 15 years within the average remaining years of service of the eligible employees when such actuarial gains and losses occur.

Certain consolidated subsidiaries adopt the simplified method in calculating defined benefit liability and retirement benefit expenses. Under this method, the severance payment amount required at the year-end for voluntary termination is deemed as retirement benefit obligations.

(12) Foreign currency translation

The assets and liabilities denominated in foreign currencies of the consolidated subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date.

(13) Hedge accounting

Interest rate risk hedging

With respect to the hedge accounting for the interest rate risk arising from financial assets and liabilities of the consolidated banking subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 24 (February 13, 2002). With respect to hedging transactions to offset fluctuations of the market price, the effectiveness of hedging transactions is assessed by specifying the hedged items such as deposits and loans and bills discounted and hedging instruments such as interest rate swaps after grouping these items by definite remaining maturity. With respect to hedging transactions to fix cash flows, the effectiveness of hedging is assessed by verifying the correlation of interest floating factors of hedged items and hedging instruments.

Foreign exchange risk hedging
With respect to the hedge accounting for the foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies of the consolidated banking subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the JICPA Industry Audit Committee Report No. 25 (July 29, 2002). Hedge effectiveness is assessed by comparing the amount of monetary assets and liabilities denominated in foreign currencies as underlying hedged items with the corresponding foreign-currency amount of the respective hedging instruments such as currency swaps and foreign exchange swaps entered into in order to hedge foreign exchange risk associated with monetary assets and liabilities denominated in foreign currencies.
In addition, in order to hedge foreign exchange risk of available-for-sale securities denominated in foreign currencies except for debt securities, the fair value hedge is applied as portfolio hedging on the condition that liabilities of spot and forward foreign exchange contracts exceeding the acquisition costs of the foreign currency denominated securities on a basis of foreign currency exist, designating the issues of foreign currency denominated securities to be hedged in advance.

(14) Cash and cash equivalents
In preparing the consolidated statements of cash flows, of cash and due from banks in the consolidated balance sheets, cash and due from Bank of Japan (“BoJ”) are considered to be cash and cash equivalents.

(15) Consumption taxes
Transactions are principally stated exclusive of national and local consumption taxes.

(16) Change in accounting policies
Practical Guideline for Depreciation Method in connection with Tax Reform 2016
With the promulgation of the Japan Tax Reform 2016, the Company has applied the “Practical Guideline for Depreciation Method in connection with Tax Reform 2016” (Practical Guideline No. 32, June 17, 2016) effective from the year ended March 31, 2017. Thus, some consolidated subsidiaries have changed the method of depreciation of fixtures and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. The effect on the consolidated financial statements is immaterial.

Implementation Guidance on Recoverability of Deferred Tax Assets
Effective from the year ended March 31, 2017, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

4. Business Combination
Transaction under common control
The Company conducted a share exchange with Fidea Card Co., Ltd. (hereinafter “Fidea Card”) and FIDEA Information Systems INC (hereinafter “FIDEA Information”) whereby the Company became a wholly-owning parent company of Fidea Card and FIDEA Information.

1. Overview of the business combinations
(1) Names of the companies and descriptions of businesses
Wholly-owning parent company resulting from the share exchange:

The Company	Management and administration of commercial banks and companies which are owned by the Company as its subsidiaries under the Banking Act

Wholly-owned subsidiaries resulting from the share exchange:

Fidea Card Co., Ltd.	Credit card business, installment sales, guarantee on bank loans, etc.
FIDEA Information Systems INC	Consulting regarding computers, software development, etc.

(2) Date of business combination: June 30, 2016

(3) Legal form of business combination:
Share exchange, with the Company as a wholly-owning parent company and Fidea Card and FIDEA Information as wholly-owned subsidiaries

(4) Name of the company after the business combination
Names of the companies are not changed.

(5) Other matters concerning the outline of the transaction
The purpose of the share exchange is to enhance the Group's comprehensive strength and corporate governance system of the entire Group.

2. Overview of the accounting treatment
For the accounting purposes, the share exchange was treated as a transaction under common control in accordance with "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

3. Matters concerning acquisition of additional shares of subsidiaries
(1) Acquisition cost and consideration

Consideration for the acquisition	Common stock of the Company	¥1,235 million ($11,007 thousand)
Acquisition cost		¥1,235 million

(2) Class of shares, share exchange rate, and number of shares allotted

	The Company (wholly-owning parent company)	Fidea Card (wholly-owned subsidiary)
Share exchange rate	1	297.50
Number of shares to be allotted	Common stock of the Company: 3,501,575 shares	

	The Company (wholly-owning parent company)	FIDEA Information (wholly-owned subsidiary)
Share exchange rate	1	100.86
Number of shares to be allotted	Common stock of the Company: 5,043,000 shares	

(3) Calculation method of share exchange ratio
In order to ensure fairness and appropriateness, the share exchange ratio was determined upon negotiations and discussions between the Company, Fidea Card, and FIDEA Information based on an evaluation by a third party who has no vested interest in any of the parties. The ratio was approved at a meeting of the Board of Directors of each company.

4. Matters concerning changes in ownership interest of the Company due to transactions with non-controlling interests
(1) Major reason for changes in capital surplus
Acquisition of additional shares of subsidiaries

(2) Amount of capital surplus increased due to transactions with non-controlling interests
¥369 million ($3,288 thousand)

5. Securities

Gain and loss from revaluation of trading account securities included in the consolidated statements of income was immaterial in amount for the years ended March 31, 2017 and 2016.

Securities at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		
March 31, 2017	Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 19,275	¥ 11,157	¥ 8,117
Debt securities:	525,091	510,790	14,300
Japanese government bonds	235,681	229,515	6,165
Municipal bonds	192,733	187,206	5,527
Corporate bonds	96,675	94,068	2,607
Other	114,779	101,639	13,140
Subtotal	¥ 659,146	¥ 623,587	¥ 35,558
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 2,067	¥ 2,205	¥ (137)
Debt securities:	69,357	70,244	(887)
Japanese government bonds	10,346	10,509	(162)
Municipal bonds	42,054	42,648	(594)
Corporate bonds	16,956	17,086	(130)
Other	203,442	210,940	(7,497)
Subtotal	¥ 274,867	¥ 283,390	¥ (8,523)
Total	¥ 934,013	¥ 906,978	¥ 27,035

March 31, 2016	Millions of yen Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 16,733	¥ 10,630	¥ 6,103
Debt securities:	647,369	625,091	22,277
Japanese government bonds	282,464	273,682	8,781
Municipal bonds	237,710	228,135	9,574
Corporate bonds	127,195	123,272	3,922
Other	258,374	240,760	17,613
Subtotal	¥ 922,477	¥ 876,482	¥ 45,995
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 3,359	¥ 3,862	¥ (502)
Debt securities:	17,137	17,193	(55)
Japanese government bonds	4,012	4,032	(20)
Municipal bonds	9,331	9,348	(16)
Corporate bonds	3,794	3,813	(18)
Other	59,584	61,800	(2,215)
Subtotal	¥ 80,082	¥ 82,856	¥ (2,773)
Total	¥ 1,002,560	¥ 959,338	¥ 43,221

As of March 31, 2017 and 2016, ¥214 million ($1,907 thousand) and ¥99 million of capital investment in unconsolidated subsidiary were included in the balance of securities, respectively.

March 31, 2017	Thousands of U.S. dollars Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	$ -	$ -	$ -
Available-for-sale securities:			
Equity securities	$ 171,791	$ 99,438	$ 72,344
Debt securities:	4,679,955	4,552,495	127,450
Japanese government bonds	2,100,543	2,045,588	54,946
Municipal bonds	1,717,762	1,668,502	49,260
Corporate bonds	861,631	838,395	23,235
Other	1,022,985	905,873	117,112
Subtotal	$ 5,874,741	$ 5,557,816	$ 316,916
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	$ -	$ -	$ -
Available-for-sale securities:			
Equity securities	$ 18,422	$ 19,652	$ (1,221)
Debt securities:	618,155	626,060	(7,905)
Japanese government bonds	92,210	93,663	(1,443)
Municipal bonds	374,812	380,106	(5,294)
Corporate bonds	151,122	152,281	(1,158)
Other	1,813,208	1,880,035	(66,818)
Subtotal	$ 2,449,795	$ 2,525,757	$ (75,962)
Total	$ 8,324,536	$ 8,083,582	$ 240,953

Available-for-sale securities sold for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		
March 31, 2017	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 7,486	¥ 746	¥ 437
Debt securities:	85,201	2,357	305
Japanese government bonds	31,225	713	286
Municipal bonds	52,454	1,634	11
Corporate bonds	1,522	10	7
Other	210,926	3,295	3,231
Total	¥ 303,615	¥ 6,399	¥ 3,973

	Millions of yen		
March 31, 2016	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 14,224	¥ 2,816	¥ 726
Debt securities:	51,047	670	48
Japanese government bonds	44,569	665	48
Municipal bonds	6,478	4	0
Corporate bonds	-	-	-
Other	135,404	2,477	678
Total	¥ 200,676	¥ 5,964	¥ 1,454

	Thousands of U.S. dollars		
March 31, 2017	Sales proceeds	Realized gain	Realized loss
Equity securities	$ 66,720	$ 6,648	$ 3,894
Debt securities:	759,367	21,007	2,718
Japanese government bonds	278,297	6,354	2,549
Municipal bonds	467,504	14,563	98
Corporate bonds	13,565	89	62
Other	1,879,910	29,367	28,796
Total	$2,706,016	$ 57,032	$ 35,409

Write-down of securities

Non-trading securities, with the exception of those whose fair value is extremely difficult to determine, whose fair value significantly declined compared with their acquisition cost and is not considered to be able to recover their acquisition cost, are written down to their respective fair value which is recorded as the carrying amount on the consolidation balance sheet. The related loss on revaluation is charged to income for the year.

For the year ended March 31, 2017, ¥28 million ($249 thousand) of available-for-sale securities were written down. Of which, equity securities were ¥0 million ($0 thousand) and other securities were ¥28 million ($249 thousand). There was no write-down of the above available-for-sale securities for the year ended March 31, 2016.

The criteria for determining whether the fair value is “significantly declined” are as follows:
(1) If the fair value as of the balance sheet date declines 50% or more compared to the acquisition cost, the difference is recognized as write-down of securities.
(2) If the fair value as of the balance sheet date declines by 30% or more but less than 50% compared to the acquisition cost, write-down of securities is recognized for the securities which meets criteria of the Group after considering the financial condition of the issuer and past trend of the market value for a certain period.

6. Unrealized gain and loss on available-for-sale securities

Unrealized gain (loss) on available-for-sale securities at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain:	¥ 27,035	¥43,221	$ 240,953
Available-for-sale securities	27,035	43,221	240,953
Money held in trust	-	-	-
Deferred tax liabilities	(8,225)	(13,154)	(73,306)
Unrealized gain on available-for-sale securities before adjustments by equity interest:	18,810	30,067	167,647
Non-controlling interests	(1)	(3)	(8)
Unrealized gain on available-for-sale securities	¥ 18,808	¥30,064	$ 167,629

7. Loans and Bills Discounted and Risk Monitored Loans

Loans and bills discounted

Bills discounted are accounted for as financial transactions rather than as purchased bills in accordance with JICPA Industry Audit Committee Report No. 24 "Treatment of Accounting and Auditing concerning Application of Accounting Standard for Financial Instruments in Banking Industry" (February 13, 2002). The Group has the right to sell or pledge (repledge) such bills without any restrictions. These include commercial bills discounted and foreign exchange bills purchased, etc. The total face value of such financial transactions at March 31, 2017 and 2016 amounted to ¥5,185 million ($46,212 thousand) and ¥5,862 million, respectively.

Contracts for overdraft facilities and loan commitments are contracts under which the Group lends money to customers up to their prescribed limits at the customers' request as long as there are no violations of any of the conditions in the contracts. The aggregate unutilized balances within the limits of these contracts totaled ¥293,324 million ($2,614,295 thousand) and ¥287,915 million at March 31, 2017 and 2016, respectively, including the contracts whose contractual periods were either less than one year or revocable at any time, in the amount of ¥282,779 million ($2,520,311 thousand) and ¥282,767 million, respectively.

Since many of these commitments expire without being fully utilized, the unutilized amounts do not necessarily represent future cash commitments of the consolidated subsidiaries. Most of these contracts include provisions which stipulate that the consolidated subsidiaries can reject customers' requests or decrease the contract limits for an appropriate reason, such as a change in financial situation and preservation of claims. At the inception of the contracts, they obtain collateral in the form of real estate, securities, and so forth, if deemed necessary. Subsequently, they, based on its internal rules, perform periodic reviews of the customers' business results and may take necessary measures such as reconsidering the terms and conditions of the contracts and/or requiring additional collateral or guarantees.

Risk monitored loans

Risk monitored loans which were included in loans and bills discounted at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans to bankrupt borrowers	¥ 1,951	¥ 2,251	$ 17,388
Delinquent loans	31,689	28,705	282,433
Loans past due for 3 months or more	-	-	-
Restructured loans	4,479	8,660	39,919
Total	¥ 38,120	¥ 39,617	$ 339,750

Loans to bankrupt borrowers represent non-accrual loans to borrowers who are legally bankrupt as defined in Articles 96-1-3 and 96-1-4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965).

Delinquent loans represent non-accrual loans other than (i) loans to bankrupt borrowers and (ii) loans on which interest payments have been suspended in order to facilitate or support the reconstruction of borrowers who are experiencing financial difficulties.

Loans past due for 3 months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the day after the due date, and which are not classified as "loans to bankrupt borrowers" or "delinquent loans."

Restructured loans are loans which have been restructured to facilitate or support the reconstruction of borrowers who are experiencing financial difficulties, with the intention of ensuring the recovery of the loans by providing more flexible repayment terms for the borrowers (such as reducing the rate of interest, suspending the payment of principal/interest, forgiving debt, etc.) and loans which are not classified in any of the above categories.

The amounts presented in the table above are stated before deducting the amount of allowance for loan losses.

8. Tangible Fixed Assets

At March 31, 2017 and 2016, accumulated depreciation of tangible fixed assets was ¥32,225 million ($287,210 thousand) and ¥31,775 million, respectively.

9. Revaluation of Land

In accordance with the "Act on Revaluation of Land" (Act No. 34 of March 31, 1998), land used for business operations of Shonai was revalued as of the date indicated below. The excess of revaluation to carrying value at the time of revaluation, net of income taxes corresponding to the excess which are recognized as "Deferred tax liabilities for land revaluation," is stated as "Revaluation reserve for land" under net assets.

Date of revaluation: September 30, 1999

The method of revaluation of asset set forth in Article 3, Paragraph 3 of the "Act on Revaluation of Land":

Fair values are determined based on the land price registered in the book of taxation on land stipulated in Article 2-3 of the "Order for Enforcement of Act on Revaluation of Land" (the "Ordinance") (Cabinet Order No. 119 of March 31, 1998), with price adjustments by shape and time and the appraisal value by an independent real estate appraiser as provided by Article 2-5 of the Ordinance.

The difference between the total fair values of land used for business operations revalued pursuant to Article 10 of the "Act on Revaluation of Land" and book value after revaluation of the relevant land at March 31, 2017 and 2016 was ¥1,609 million ($14,340 thousand) and ¥1,602 million, respectively.

10. Borrowed Money and Lease Obligations

Borrowed money and lease obligations at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2017	2016	2017	(%)	Maturity
Borrowed money	¥ 16,400	¥ 21,000	$ 146,167	0.44	Apr. 2017 through Apr. 2024
Current portion of lease obligations	72	43	641	1.84	
Lease obligations, less current portion	158	81	1,408	1.08	Apr. 2018 through Aug. 2022

Note: Average interest rate is calculated based on the interests and the balances as of the balance sheet date by the weighted average method.

Annual maturities of borrowed money and lease obligations within five years at March 31, 2017 are as follows:

	Millions of yen				
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Borrowed money	¥ 2,300	¥ 2,300	¥ 5,000	¥ 1,800	¥ -
Lease obligations	72	55	45	31	22

	Thousands of U.S. dollars				
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Borrowed money	$ 20,499	$ 20,499	$ 44,563	$ 16,042	$ -
Lease obligations	641	490	401	276	196

Note: Lease obligations are included in "Other liabilities" in the accompanying consolidated balance sheet.

Subordinated borrowings of ¥5,000 million ($44,563 thousand) and ¥5,000 million were included in borrowed money at March 31, 2017 and 2016, respectively.

11. Assets Pledged

Assets pledged as collateral at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities	¥ 143,563	¥ 96,611	$ 1,279,527

The liabilities secured by the above pledged assets at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Payables under securities lending transactions	¥ 129,789	¥ 78,830	$ 1,156,764
Borrowed money	11,400	16,000	101,604

In addition to the pledged assets listed above, the following assets are pledged as collateral of domestic exchange transactions or as margins on futures contracts at March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities	¥ 180,533	¥ 203,598	$ 1,609,028
Cash and due from banks	8	8	71
Other assets	6,300	-	56,149

Note: Other assets include guarantee deposits in the amount of ¥567 million ($5,053 thousand) and ¥568 million at March 31, 2017 and 2016, respectively.

12. Bonds Payable

Bonds payable at March 31, 2017 and 2016 consisted of the following:

Issuer/description	Issued date	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017	Coupon rate (%)	Secured/ unsecured	Due
Shonai							
5th subordinated bonds	Jul. 27, 2012	¥ 5,000	¥ 5,000	$ 44,563	2.70	Unsecured	Jul. 27, 2022
Total		¥ 5,000	¥ 5,000	$ 44,563			

13. Retirement Benefit Plans

Shonai, a consolidated banking subsidiary of the Company, has a funded defined benefit corporate pension plan and an unfunded lump-sum payment plan as defined benefit plans to provide for employees' retirement benefits. Under the defined benefit corporate pension plan, a lump-sum payment or pension is provided based on the base salary used for retirement benefits calculation and service years. In addition, this plan is a type of quasi cash balance plan. Under the lump-sum payment plan, a lump-sum payment is provided as a retirement benefit based on the base salary used for retirement benefits calculation and service years.

Hokuto, a consolidated banking subsidiary of the Company, has a funded defined benefit corporate pension plan and a funded lump-sum payment plan as defined benefit plans to provide for employees' retirement benefits. Under the defined benefit corporate pension plan, pension or a lump-sum payment is provided based on service years. Hokuto maintains a cash balance plan for defined benefit corporate pension plan and a virtual individual account balance which is corresponding to each participant's funded amount and the source of pension amount is established under this plan. In this virtual individual account balance, mainly interest credits based on the trend of market interest rate and contributed credits based on the interest granted each month are accumulated.
Under the lump-sum payment plan, points are accumulated during the service based on the service years and the functional classes. Employees who terminate their employment are entitled to lump-sum payments based on the accumulated points at the time of the termination multiplied by unit price by point and additional benefits based on the functional class at the time of the termination. A retirement benefit trust is established for the lump-sum payment plan.
Each of Shonai and Hokuto has a defined contribution corporate pension plan as the defined contribution plan.
Certain consolidated subsidiaries other than consolidated banking subsidiaries have unfunded defined benefit pension plans (lump-sum payment plans only). These consolidated subsidiaries adopt the simplified method in calculating defined benefit liability and retirement benefit expenses under lump-sum payment plans.

Defined benefit pension plans

(1) Reconciliation between retirement benefit obligations at beginning of year and end of year

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations at beginning of year	¥ 14,039	¥ 14,127	$ 125,124
Service costs	477	476	4,251
Interest costs	9	66	80
Actuarial gains and losses arising during year	67	505	597
Retirement benefits paid	(774)	(1,136)	(6,898)
Retirement benefit obligations at end of year	¥ 13,819	¥ 14,039	$ 123,163

(2) Reconciliation between plan assets at beginning of year and end of year

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at beginning of year	¥ 12,119	¥ 12,697	$ 108,012
Expected return on plan assets	155	165	1,381
Actuarial gains and losses	(46)	(233)	(409)
Contribution from employer	181	540	1,613
Retirement benefits paid	(662)	(1,050)	(5,900)
Plan assets at end of year	¥ 11,748	¥ 12,119	$ 104,705

Note: Retirement benefit trust is included in plan assets.

(3) Reconciliation between retirement benefit obligations and plan assets at end of year and defined benefit liability and defined benefit asset on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 11,840	¥ 12,203	$ 105,525
Plan assets	(11,748)	(12,119)	(104,705)
	92	84	819
Unfunded retirement benefit obligation	1,978	1,836	17,629
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 2,071	¥ 1,920	$ 18,458

	Millions of yen		Thousands of U.S. dollars
Defined benefit liability	¥ 2,690	¥ 2,731	$ 23,975
Defined benefit asset	(618)	(811)	(5,508)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 2,071	¥ 1,920	$ 18,458

Note: Retirement benefit trust is included in plan assets.

(4) Retirement benefit expenses and components thereof

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service costs	¥ 477	¥ 476	$ 4,251
Interest costs	9	66	80
Expected return on plan assets	(155)	(165)	(1,381)
Amortization of actuarial gains and losses	282	249	2,513
Amortization of past service costs	(42)	(42)	(374)
Other	22	-	196
Retirement benefit expenses on defined benefit plans	¥ 593	¥ 584	$ 5,285

Note: Retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are collectively included in “Service costs.”

(5) Components of items recorded in remeasurements of defined benefit plans in other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥ (42)	¥ (42)	$ (374)
Actuarial gains and losses	168	(490)	1,497
Total	¥ 126	¥ (532)	$ 1,122

(6) Components of items recorded in remeasurements of defined benefit plans in accumulated other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized past service costs	¥ (73)	¥ (116)	$ (650)
Unrecognized actuarial gains and losses	1,339	1,508	11,934
Total	¥ 1,265	¥ 1,392	$ 11,274

(7) Components of plan assets

(a) Percentages to total plan by major category are as follows:

	2017	2016
Debt securities	43.4%	48.9%
Equity securities	31.0	28.0
Cash and deposits	14.9	8.5
Call loans	3.2	5.1
General account	6.2	5.9
Other	1.3	3.6
Total	100.0%	100.0%

Note: 30.7% and 30.4% of the total plan assets consisted of the retirement benefit trust established for the lump-sum payment plan as of March 31, 2017 and 2016, respectively.

(b) Determination of expected long-term rate of plan assets

The expected long-term rate of return on plan assets is determined considering current and expected distribution of plan assets and current and expected long-term rate of return derived from various components of plan assets.

(8) Actuarial assumptions at end of year

	2017	2016
Discount rate	0.01% - 0.24%	0.00% - 0.27%
Expected long-term rate of return on plan assets	1.00% - 1.50%	1.00% - 1.50%
Expected rate of salary increase (Note)	3.61%	3.61%

Note: Hokuto maintains a cash balance plan for the defined benefit corporate pension plan, and a point system is adopted for the lump-sum payment plan. Accordingly, the expected rate of salary increase is not included in the basis for calculation of retirement benefit obligations and others for the years ended March 31, 2017 and 2016.

Defined contribution pension plans

The amounts to be contributed to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥157 million ($1,399 thousand) and ¥153 million as of March 31, 2017 and 2016, respectively.

14. Contingent Liabilities

Guarantee liabilities for corporate bonds acquired through private offering (as defined in Article 2-3 of the Financial Instruments and Exchange Act) among those classified as corporate bonds in “Securities” amounted to ¥7,507 million ($66,907 thousand) and ¥7,463 million at March 31, 2017 and 2016, respectively.

15. Shareholders’ Equity

Japanese banks are required to comply with the Banking Act and the Companies Act. The Companies Act stipulates that neither additional paid-in capital nor the legal reserve is available for dividends, but that both may be used to reduce or eliminate a deficit. Under the Banking Act, an amount which is at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period is to be appropriated to the legal reserve until the aggregate amount of the legal reserve and the capital surplus account equals 100% of the amount of share capital. The Companies Act also provides that if the aggregate amount of additional paid-in capital and the legal reserve exceeds 100% of the amount of share capital, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

The maximum amount which the bank can distribute as dividends is calculated based on the non-consolidated financial statements of the bank and in accordance with the Companies Act.

Movements in common stock, preferred stock and treasury stock during the years ended March 31, 2017 and 2016 are summarized as follows:

	Number of shares (in thousands)				
	April 1, 2016	Increase	Decrease	March 31, 2017	Ref.
Issued shares:					
Common stock	172,876	8,544	-	181,421	Note 1
Preferred stock class B	25,000	-	-	25,000	
Total	197,876	8,544	-	206,421	
Treasury stock:					
Common stock	20	1,499	1,478	42	Note 2
Total	20	1,499	1,478	42	

Note 1: Increase in number of shares is due to issuance of new shares in connection with the share exchange whereby FIDEA Card Co., Ltd. and FIDEA Information Systems INC became wholly-owned subsidiaries of the Company.

Note 2: Increase in number of shares is due to request for purchase of less than one unit and acquisition of shares by consolidated subsidiaries in connection with the share exchange. Decrease in number of shares is due to request for sale of less than one unit and sale of the acquired shares by consolidated subsidiaries.

	Number of shares (in thousands)				
	April 1, 2015	Increase	Decrease	March 31, 2016	Ref.
Issued shares:					
Common stock	147,876	24,999	-	172,876	Note 1
Preferred stock class B	25,000	-	-	25,000	
Total	172,876	24,999	-	197,876	
Treasury stock:					
Common stock	16	4	0	20	Note 2
Total	16	4	0	20	

Note 1: Increase in number of shares is due to issuance of new shares on conversion of convertible bond-type bonds with subscription rights to shares.

Note 2: Increase in number of shares is due to request for purchase of less than one unit, and decrease in number of shares is due to request for sale of less than one unit.

16. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2017 and 2016 included the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Salaries and allowances	¥ 13,521	¥ 13,401	$ 120,508
Retirement benefit expenses	751	738	6,693

17. Other Expenses

Other expenses for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loss on sales of equity securities, etc.	¥ 476	¥ 918	$ 4,242
Loss on disposal of fixed assets	85	592	757
Impairment loss	22	8	196
Other	981	962	8,743
Total	¥ 1,564	¥ 2,480	$ 13,939

18. Other Comprehensive Income

Reclassification adjustments and income tax effect for each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gain arising during the year	¥ (13,935)	¥ 989	$ (124,197)
Reclassification adjustments	(2,250)	(4,504)	(20,053)
Before income tax effect	(16,186)	(3,515)	(144,260)
Income tax effect	4,929	1,824	43,930
Unrealized gain (loss) on available-for-sale securities	(11,256)	(1,690)	(100,320)
Deferred gain (loss) on derivatives under hedge accounting:			
Gain arising during the year	-	5	-
Reclassification adjustments	-	-	-
Before income tax effect	-	5	-
Income tax effect	-	(1)	-
Deferred gain (loss) on derivatives under hedge accounting	-	3	-
Revaluation reserve for land:			
Adjustments arising during the year	-	-	-
Reclassification adjustments	-	-	-
Before income tax effect	-	-	-
Income tax effect	-	28	-
Revaluation reserve for land	-	28	-
Remeasurements of defined benefit plans:			
Adjustments arising during the year	(113)	(739)	(1,007)
Reclassification adjustments	239	206	2,130
Before income tax effect	126	(532)	1,122
Income tax effect	(31)	(6)	(276)
Remeasurements of defined benefit plans	94	(538)	837
Total other comprehensive income	¥ (11,162)	¥ (2,197)	$ (99,483)

19. Cash and Cash Equivalents

(1) A reconciliation of cash and due from banks in the accompanying consolidated balance sheets to cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2017 and 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and due from banks	¥ 77,180	¥ 64,954	$ 687,878
Due from banks (excluding due from BoJ)	(4,891)	(5,957)	(43,591)
Cash and cash equivalents	¥ 72,289	¥ 58,997	$ 644,286

(2) Material non-cash transaction

Exercise of subscription rights to shares of convertible bond-type bonds with subscription rights to shares:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Increase in common stock by exercise of subscription rights to shares	¥ -	¥ 2,550	$ -
Increase in legal capital surplus by exercise of subscription rights to shares	-	2,550	-
Decrease in convertible bond-type bonds with subscription right to shares by exercise of subscription rights to shares	¥ -	¥ 5,100	$ -

20. Income Taxes

The tax effect of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for loan losses	¥ 7,312	¥ 7,319	$ 65,169
Tax loss carryforwards	2,019	2,412	17,994
Defined benefit liability	1,920	1,666	17,112
Depreciation	768	840	6,844
Write-down of securities	110	113	980
Other	1,037	1,141	9,242
Gross deferred tax assets	13,169	13,493	117,370
Valuation allowance	(5,937)	(6,360)	(52,914)
Total deferred tax assets	¥ 7,231	¥ 7,132	$ 64,447
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (8,225)	¥ (13,154)	$ (73,306)
Other	(597)	(567)	(5,320)
Total deferred tax liabilities	(8,822)	(13,721)	(78,627)
Net deferred tax assets (liabilities)	¥ (1,591)	¥ (6,588)	$ (14,180)

Reconciliations of the statutory tax rate to the effective tax rate for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
Normal effective statutory tax rate	30.81%	33.01%
Non-deductible expenses such as entertainment expenses	0.61	0.36
Non-taxable income such as dividend income	(7.07)	(4.39)
Per capita inhabitant tax	1.16	0.50
Valuation allowance	(9.86)	(9.20)
Consolidation adjustments	6.60	3.40
Reduction of deferred tax assets due to change in income tax rates	-	2.43
Other	(1.40)	0.81
Actual effective tax rate	20.85%	26.92%

21. Segment Information

(1) Segment information

The Group has a single segment of banking business. Accordingly, segment information by reportable segment is omitted.

(2) Related information

Information by service

	Millions of yen			
March 31, 2017	Lending	Securities investment	Other	Total
Ordinary income from external customers	¥ 23,088	¥ 18,024	¥ 11,072	¥ 52,185

	Millions of yen			
March 31, 2016	Lending	Securities investment	Other	Total
Ordinary income from external customers	¥ 24,849	¥ 18,943	¥ 12,210	¥ 56,002

	Thousands of U.S. dollars			
March 31, 2017	Lending	Securities investment	Other	Total
Ordinary income from external customers	$ 205,775	$ 160,641	$ 98,680	$ 465,106

"Ordinary income" is defined as income less certain special income included in the accompanying consolidated statements of income.

Geographic information

a. Ordinary income

Information about ordinary income by geographic area for the years ended March 31, 2017 and 2016 is omitted as ordinary income from external customers in Japan was more than 90% of ordinary income in the consolidated statements of income.

b. Tangible fixed assets

Information about tangible fixed assets by geographic area as of March 31, 2017 and 2016 is omitted as tangible fixed assets in Japan was more than 90% of "Tangible fixed assets" in the consolidated balance sheets.

Information by major customer

Information by major customer for the years ended March 31, 2017 and 2016 is omitted since there was no single external customer accounting for 10% or more of the consolidated ordinary income.

22. Related Party Transactions

Transactions between the Company's consolidated subsidiaries and their directors and major shareholders as of March 31, 2017 and 2016 and for the years then ended are as follows:

2017

Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2017
Companies, etc. whose voting rights are owned by the director of the consolidated subsidiary or his/her relatives	Akita Kubota Co., Ltd. Note (1)	Akita city, Akita Pref.	¥60	Agricultural machines distributor	0.0% directly held	Lending	¥169 million ($1,506 thousand)	Loans and bills discounted	¥109 million ($971 thousand)
						Guarantee for liabilities	¥0 million ($0 thousand)	-	-
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥703 million ($6,265 thousand)	Loans and bills discounted	¥900 million ($8,021 thousand)
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥300 million ($2,673 thousand)	Loans and bills discounted	¥300 million ($2,673 thousand)
	Ugo Setsubi Co., Ltd. Note (3)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥21 million ($187 thousand)	Loans and bills discounted	¥112 million ($998 thousand)
						Guarantee for liabilities	¥7 million ($62 thousand)	Customers' liabilities for acceptances and guarantees	¥3 million ($26 thousand)
	Ugo Densetsu Kogyo Co., Ltd. Note (4)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥26 million ($231 thousand)	-	-
						Guarantee for liabilities	¥36 million ($320 thousand)	Customers' liabilities for acceptances and guarantees	¥25 million ($222 thousand)
	Ugo Hatsuhenden Koji Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥35 million ($311 thousand)	Loans and bills discounted	¥3 million ($26 thousand)

2016

Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2016
Companies, etc. whose voting rights are owned by the director of the consolidated subsidiary or his/her relatives	Akita Kubota Co., Ltd. Note (1)	Akita city, Akita Pref.	¥60	Agricultural machines distributor	0.0% directly held	Lending	¥217 million	Loans and bills discounted	¥149 million
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥703 million	Loans and bills discounted	¥700 million
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥300 million	Loans and bills discounted	¥300 million
	Ugo Setsubi Co., Ltd. Note (3)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥99 million	Loans and bills discounted	¥126 million
						Guarantee for liabilities	¥13 million	Customers' liabilities for acceptances and guarantees	¥4 million
	Ugo Densetsu Kogyo Co., Ltd. Note (4)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥32 million	Loans and bills discounted	¥80 million
						Guarantee for liabilities	¥89 million	Customers' liabilities for acceptances and guarantees	¥34 million
	Ugo Hatsuhenden Koji Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥46 million	Loans and bills discounted	¥29 million
						Guarantee for liabilities	¥0 million	-	-

Notes: (1) Akita Kubota Co., Ltd. is a subsidiary of Ishii Shoji Co., Ltd. Tadanari Ishii, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, and his relatives own the majority of voting rights of Ishii Shoji Co., Ltd.

(2) Tadanari Ishii, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, his relatives and Ishii Shoji Co., Ltd. own the majority of voting rights of Netz Toyota Akita Co., Ltd. Toyota Renta Lease Akita Co., Ltd. is a subsidiary of Netz Toyota Akita Co., Ltd.

(3) Hiroyuki Sato, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, his relatives and Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto, own the majority of voting rights of Ugo Setsubi Co., Ltd.

(4) Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto which is a significant consolidated subsidiary of the Company, and his relatives own the majority of voting rights of Ugo Densetsu Kogyo Co., Ltd. Ugo Hatsuhenden Koji Co., Ltd. is a subsidiary of Ugo Densetsu Kogyo Co., Ltd.

(5) The transactions are with Hokuto, which is a significant consolidated subsidiary of the Company, and the trading conditions and policies are the same as those of the transactions with general parties.

(6) The transaction amount is shown by the average balance.

There is no other related party transaction to be disclosed for the years ended March 31, 2017 and 2016.

23. Financial Instruments and Related Disclosures

1. Status of Financial Instruments

(1) Policy on financial instruments

The Group is engaged in financial information services centering on banking business such as deposit-taking and lending services for domestic corporate and individual customers and management of securities such as debt and equity securities and investment trusts. The Group accepts risk as long as it remains financially healthy and intends to improve its earning power in order to continue to conduct these services.

The Group holds financial assets and liabilities exposed to the fluctuation risk of interest rates. Accordingly, the Group conducts asset and liability management (ALM) and enters into derivative transactions if necessary in order to avoid adverse effect by the interest-rate fluctuation.

(2) Contents of financial instruments and their risks

Financial assets held by the Group mainly consist of loans and bills discounted to domestic corporate and individual customers, which are exposed to credit risk arising from customers' nonperformance of contractual obligations. In addition, securities, principally consisting of equity securities, debt securities, investment trusts and investment in partnerships, are held for the purposes of net investment and strategic investment. These financial assets are exposed to credit risk of issuers and fluctuation risk of interest rates and market prices.

Major financial liabilities, consisting of deposits and negotiable certificates of deposit, are principally deposits accepted from domestic corporate and individual customers. They require attentions to liquidity risk arising from concentrated cancellation of deposits, but most of those deposits are from individual customers and accordingly, the risk is dispersed to small accounts. The liquidity risk is also controlled by limiting the ratio of large deposit accounts to a certain level.

Derivative contracts which the Group enters into consist of interest rate swaps employed as part of ALM and futures of debt securities held as available-for-sale securities, options, etc. These derivatives are not entered into for speculative purpose but mainly for hedging purposes.

(3) Risk management system for financial instruments

The Group has established the "Basic Policy on Risk Management" and various risk control rules and a system to conduct the risk management as follows:

a. Credit risk management:

In accordance with the "Credit Policy" and "Credit Risk Management Rule," for loans and bills discounted, a credit control system has been established and maintained, including credit review by individual contract, credit limit control, credit information control, internal ratings, retrospective control including self-assessment, establishment of guaranty and security, countermeasures for problem accounts, credit concentration risk management, etc. These credit controls are performed by the loan departments in addition to each operating office, being reported to and discussed at the management meetings on a regular basis. Furthermore, the status of credit control is examined by the internal audit department.

b. Market risk management:

For market transactions, front office, middle office and back office, each of which is independent of others, are mutually controlled.

Interest rate risk management:
The Group manages the fluctuation risk of interest rates by ALM. In accordance with the "Market Risk Management Rule," the Group measures the exposure of interest rate risk, monitoring by gap analysis and sensitivity analysis on a regular basis, and the monitoring results are reported to the management meetings on a regular basis. In addition, the future countermeasures based on the analysis of current status are discussed.

Foreign exchange risk management:
The Group manages foreign exchange risk, in accordance with the "Market Risk Management Rule," by establishing total positions and loss limits or entering into hedging activities.

Price fluctuation risk management:
The Group manages price fluctuation risk in accordance with "Market Risk Management Rule." Risk exposures to securities are monitored for usage against the pre-set limit by the Risk Control Department on a daily basis based on Value at Risk (VaR) and other risk indexes such as 10BVP and reported to the management meetings.

Derivative transactions:
With respect to derivative transactions, the Group segregates the duties of the departments responsible for execution of transactions, verification of hedge effectiveness, and operation administration and conducts transactions under the management and control based on the handling rules.

Quantitative information about market risk:
Financial instruments not for trading purposes
The Group identifies and manages the market risk volume using VaR on a daily basis (monthly basis with regard to interest rate risk volume of deposits, loans and bills discounted, etc.), since the Group holds many financial instruments whose fair values fluctuate on a daily basis and such fluctuation amount is greater than other risk categories. The market risk volume of the Group is controlled as the total amounts of market risk volume of Shonai and Hokuto which are the subsidiaries.
Market risk volume of the banking business of the Group at March 31, 2017 and 2016 and for the years then ended was as follows:

	Billions of yen			
	2017			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Securities:	51.0	55.0	35.1	35.1
Debt securities	13.1	16.3	8.8	8.8
Equity securities	12.8	14.9	7.7	7.7
Other	30.3	32.9	24.7	24.8

	Billions of yen			
	2016			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Securities:	41.1	50.0	29.0	49.7
Debt securities	12.9	16.2	10.6	16.1
Equity securities	9.5	13.1	1.3	13.0
Other	25.8	30.0	18.1	29.2

	Millions of U.S. dollars			
	2017			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Securities:	454.0	490.0	312.0	312.0
Debt securities	116.0	145.0	78.0	78.0
Equity securities	114.0	132.0	68.0	68.0
Other	270.0	293.0	220.0	221.0

(*1) VaR is measured in principle using the variance/co-variance method.

(*2) Holding period is assumed to be 60 business days for higher market liquidity financial instruments such as Japanese government bonds, municipal bonds, listed equity securities (excluding strategic investments), etc., 250 business days for cross-holding shares of listed equity securities, and 125 or 250 business days for less market liquidity financial instruments, due from banks, loans and bills discounted, etc.

(*3) 99 % is used for confidence interval, and 250 business days are used as extraction period of market data to measure volatility.

(*4) The total amount does not agree with the sum of the individual amounts since correlation between the risks of debt securities and equity securities is taken into account.

(*5) The current interest rate risk volume of deposits, loans and bills discounted, etc., represents decreasing interest rate risk, not increasing interest rate risk. The increasing interest rate risk is managed as internal control. Therefore, the interest rate risk volume of due from banks, loans and bills discounted and others is considered to be zero.

Within the Group, each banking subsidiary implements backtests comparing the VaR of one day holding period measured by the model and actual change in losses, in order to verify the accuracy of the measurement model of the market risk volume concerning the VaR of securities.
The measurement model currently in use is deemed to capture the market risk on the reasonably accurate basis. However, the Group will take conservative actions as necessary when VaR is expected to increase due to an increase in volatility.

In implementing the risk management using the VaR, the following particular points are paid attention to:

(i) Quantitative information such as VaR of market risk is determined based on the statistical assumptions and may result in a different value depending on the different assumptions and calculation methods.

(ii) Quantitative information such as VaR of market risk is a statistical value calculated based on the assumptions and not intended to estimate the amount of maximum losses. Profit or loss is assumed to exceed VaR on the frequency corresponding to the confidence interval.

(iii) Future market conditions may differ significantly from the past.

Financial instruments for trading purposes are excluded from the scope of disclosure, since the outstanding balance at any banking subsidiary is very insignificant and the materiality of effect on the management is quite limited.

c. Liquidity risk management:
The Group sets limits on liquidity risk management and reports to the management meetings, monitoring the results on a daily basis in accordance with the “Liquidity Risk Management Rule.”

(4) Supplementary explanation about fair value of financial instruments

The fair value of financial instruments includes, in addition to the value determined based on the market price, a valuation calculated on a reasonable basis, such as theoretical price if no market price is available. Since certain assumptions are used in calculating the value, the result of such calculation may vary if different assumptions are used.

2. Fair value of financial instruments

The carrying amount, the fair value and their difference as of March 31, 2017 and 2016 were as follows. Note that unlisted equity securities for which fair value is extremely difficult to determine are not included in the following table (See Note 2 below).

	Millions of yen		
March 31, 2017	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 77,180	¥ 77,180	¥ -
Monetary claims bought (*1)	3,821	3,821	-
Trading account securities:			
Trading securities	704	704	-
Money held in trust	9,606	9,606	-
Securities:			
Available-for-sale securities	934,013	934,013	-
Loans and bills discounted:	1,759,326		
Allowance for loan losses (*1)	(16,188)		
	1,743,137	1,779,814	36,676
Foreign exchange assets (*1)	2,054	2,054	-
Total assets	¥ 2,770,519	¥ 2,807,196	¥ 36,676
Deposits	¥ 2,392,320	¥ 2,392,621	¥ 300
Negotiable certificates of deposit	141,595	141,595	-
Call money and bills sold	-	-	-
Payables under securities lending transactions	129,789	129,789	-
Borrowed money	16,400	16,519	119
Foreign exchange liabilities	36	36	-
Bonds payable	5,000	5,063	63
Total liabilities	¥ 2,685,143	¥ 2,685,627	¥ 484
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ 1,188	¥ 1,188	¥ -
Total derivative transactions	¥ 1,188	¥ 1,188	¥ -

	Millions of yen		
March 31, 2016	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 64,954	¥ 64,954	¥ -
Monetary claims bought (*1)	3,639	3,639	-
Trading account securities:			
Trading securities	654	654	-
Money held in trust	7,747	7,747	-
Securities:			
Available-for-sale securities	1,002,560	1,002,560	-
Loans and bills discounted:	1,748,980		
Allowance for loan losses (*1)	(16,071)		
	1,732,909	1,779,445	46,536
Foreign exchange assets (*1)	2,883	2,883	-
Total assets	¥ 2,815,349	¥ 2,861,885	¥ 46,536
Deposits	¥ 2,433,322	¥ 2,434,025	¥ 702
Negotiable certificates of deposit	145,464	145,465	0
Call money and bills sold	20,000	20,000	-
Payables under securities lending transactions	78,830	78,830	-
Borrowed money	21,000	21,171	171
Foreign exchange liabilities	10	10	-
Bonds payable	5,000	5,175	175
Total liabilities	¥ 2,703,628	¥ 2,704,679	¥ 1,050
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ (44)	¥ (44)	¥ -
Total derivative transactions	¥ (44)	¥ (44)	¥ -

March 31, 2017	Thousands of U.S. dollars Carrying amount	 Fair value	 Difference
Cash and due from banks	$ 687,878	$ 687,878	$ -
Monetary claims bought (*1)	34,055	34,055	-
Trading account securities:			
Trading securities	6,274	6,274	-
Money held in trust	85,614	85,614	-
Securities:			
Available-for-sale securities	8,324,536	8,324,536	-
Loans and bills discounted:	15,680,267		
Allowance for loan losses (*1)	(144,278)		
	15,535,980	15,862,869	326,880
Foreign exchange assets (*1)	18,306	18,306	-
Total assets	$ 24,692,682	$ 25,019,572	$ 326,880
Deposits	$ 21,321,925	$ 21,324,607	$ 2,673
Negotiable certificates of deposit	1,261,987	1,261,987	-
Call money and bills sold	-	-	-
Payables under securities lending transactions	1,156,764	1,156,764	-
Borrowed money	146,167	147,228	1,060
Foreign exchange liabilities	320	320	-
Bonds payable	44,563	45,124	561
Total liabilities	$ 23,931,755	$ 23,936,069	$ 4,313
Derivative transactions (*2):			
To which hedge accounting is not applied	$ 10,588	$ 10,588	$ -
Total derivative transactions	$ 10,588	$ 10,588	$ -

(*1) General and specific allowances for loan losses corresponding to loans and bills discounted are deducted. With respect to allowance for loan losses related to monetary claims bought and foreign exchange assets, carrying amount is shown, net of allowance, since the amount is insignificant.

(*2) Assets and liabilities arising from derivative transactions are presented in net amounts, and net liabilities are shown in parenthesis.

(Note 1) Calculation method for the fair value of financial instruments

Assets:

Cash and due from banks

For due from banks without maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For due from banks with maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining maturity is mostly short (within one year).

Monetary claims bought

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining term is short (within one year).

Trading account securities

For securities such as debt securities held for dealing purpose, the fair value is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

Money held in trust

For securities that are invested as part of trust assets in an independently managed money trust with the primary purpose of managing securities, the fair value of equity securities is determined using the price at the exchange and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

Securities

The fair value of equity securities is determined using the price at the exchange (average market price during one month before the fiscal year-end) and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted. The fair value of investment trust is determined based on the published standard quotation price.

For privately placed bonds, the fair value is determined by discounting the future cash flows of bonds categorized based on the internal ratings and terms using credit risk spread by credit rating and market interest rate.

Loans and bills discounted

For the loans and bills discounted with short remaining terms (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For the loans and bills discounted without predetermined maturity because of characteristics such as the loans and bills discounted being limited within the amount of the pledged assets, the carrying amount is presented as the fair value since the fair value is considered to approximate the carrying amount considering the expected repayment term and interest rate conditions.

The fair value of the loans and bills discounted with fixed interest rates categorized by type of loans and bills discounted, internal rating and term is calculated by discounting the total of principal and interest using credit risk spread by credit rating and market interest rate. The fair value of the loans and bills discounted with floating interest rates, categorized by internal rating and term, is calculated by discounting the total of principal and interest, basically until the interest maturity date, using credit risk spread by credit rating and market interest rate. Credit risk spread is calculated by remaining term based on accumulated default rate by credit rating and loss rate by debtor classification.

For loans and bills discounted due from bankrupt, virtually bankrupt or potentially bankrupt borrowers, loan losses are estimated based on factors such as the present value of estimated future cash flows or the expected amount to be collected from collaterals and guarantees. Since the fair value of these items approximates the carrying amount net of the recoded amount of allowance for loan losses, such carrying amount is presented as the fair value.

Foreign exchange assets

Foreign exchange assets consist of foreign currency deposits with other banks (due from other foreign banks) and export bills and traveler’s checks, etc. (foreign bills bought). For these items, the carrying amount is presented as the fair value, since the fair value approximates the carrying amount because they are deposit without maturity or have short-term remaining terms (within one year).

Liabilities:

Deposits and Negotiable certificates of deposit

For demand deposits, the amount payable on demand as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. The fair value of time deposit is determined using the discounted present value of future cash flows, grouping by certain maturity length. The discount rate used is the interest rate that would be applied to newly accepted deposits. For deposits whose remaining term is short (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

Call money and bills sold and Payables under securities lending transactions

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining term is short (within one year).

Borrowed money

For borrowed money whose remaining term is short (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

For subordinated borrowed money whose remaining term is more than one year and which is subject to call option giving a right to redeem before maturity and step-up clause, the fair value is calculated by discounting the estimated cash flows after taking into consideration the possibility of redemption before maturity by the interest rate corresponding to the estimated period after taking into consideration credit risk of the consolidated subsidiaries.

Foreign exchange liabilities

The carrying amount is presented as the fair value, since the fair value of these liabilities approximates the carrying amount because they are settled within a short period of time.

Bonds payable

For subordinated bonds payable issued by the principal consolidated subsidiary of the Company and subject to call option giving a right to redeem before maturity and step-up clause, the fair value is calculated by discounting the estimated cash flows after taking into consideration the possibility of redemption before maturity by the interest rate corresponding to the estimated period after taking into consideration credit risk of the related subsidiary.

Derivative transactions:

Please see Note 24.

(Note 2) Financial instruments whose fair value is extremely difficult to determine are as follows. These financial instruments are not included in “Securities” under “Assets” of the fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities (*1) (*2)	¥ 1,548	¥ 1,605	$ 13,796
Investment in partnerships (*3)	1,820	1,330	16,221
Total	¥ 3,369	¥ 2,936	$ 30,026

(*1) The fair value of unlisted equity securities is not disclosed since no market price is available and it is extremely difficult to determine the fair value.

(*2) The Company recognized write-down of unlisted equity securities in an amount of ¥14 million ($124 thousand) and ¥23 million for the years ended March 31, 2017 and 2016, respectively.

(*3) The fair value of investment in partnerships whose assets consist of securities such as unlisted equity securities whose fair value is extremely difficult to determine is not disclosed.

(Note 3) Repayment schedule of monetary receivables and securities with contractual maturities subsequent to March 31, 2017

	Millions of yen					
March 31, 2017	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks (*1)	¥ 40,730	¥ -	¥ -	¥ -	¥ -	¥ -
Monetary claims bought	3,841	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	74,778	174,259	205,953	85,380	160,750	133,659
Japanese government bonds	23,500	87,500	73,900	25,000	8,000	20,000
Municipal bonds	21,478	35,823	50,702	28,364	45,818	46,783
Corporate bonds	22,243	26,734	10,157	6,580	4,404	40,827
Other	7,557	24,201	71,192	25,435	102,527	26,048
Loans and bills discounted (* 2)	222,753	223,066	219,280	189,784	223,815	583,277
Total	¥ 342,104	¥ 397,325	¥ 425,233	¥ 275,165	¥ 384,565	¥ 716,936

	Thousands of U.S. dollars					
March 31, 2017	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks (*1)	$ 363,012	$ -	$ -	$ -	$ -	$ -
Monetary claims bought	34,233	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	666,470	1,553,110	1,835,588	760,962	1,432,709	1,191,256
Japanese government bonds	209,447	779,857	658,645	222,816	71,301	178,253
Municipal bonds	191,426	319,278	451,889	252,798	408,360	416,960
Corporate bonds	198,244	238,270	90,525	58,645	39,251	363,877
Other	67,352	215,695	634,509	226,693	913,787	232,156
Loans and bills discounted (* 2)	1,985,320	1,988,110	1,954,367	1,691,479	1,994,786	5,198,547
Total	$3,049,055	$3,541,221	$3,789,955	$2,452,450	$3,427,495	$6,389,803

(*1) Due from banks without maturity is shown under “Due in one year or less.”

(*2) Loans and bills discounted as of March 31, 2017 do not include ¥33,626 million ($299,696 thousand) of receivables such as those due from bankrupt, virtually bankrupt or potentially bankrupt borrowers since these are not certain when they can be collected or redeemed, and ¥63,721 million ($567,923 thousand) of receivables without maturity.

(Note 4) Repayment schedule of bonds payable, borrowed money and other interest bearing liabilities subsequent to March 31, 2017

	Millions of yen					
March 31, 2017	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	¥ 2,115,912	¥ 123,775	¥ 8,629	¥ -	¥ -	¥ -
Negotiable certificates of deposit	141,595	-	-	-	-	-
Call money and bills sold	-	-	-	-	-	-
Payables under securities lending transactions	129,789	-	-	-	-	-
Borrowed money	2,300	7,300	1,800	-	5,000	-
Bonds payable	-	-	-	5,000	-	-
Total	¥ 2,389,598	¥ 131,075	¥ 10,429	¥ 5,000	¥ 5,000	¥ -

	Thousands of U.S. dollars					
March 31, 2017	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	$18,858,395	$ 1,103,163	$ 76,907	$ -	$ -	$ -
Negotiable certificates of deposit	1,261,987	-	-	-	-	-
Call money and bills sold	-	-	-	-	-	-
Payables under securities lending transactions	1,156,764	-	-	-	-	-
Borrowed money	20,499	65,062	16,042	-	44,563	-
Bonds payable	-	-	-	44,563	-	-
Total	$21,297,664	$ 1,168,226	$ 92,950	$ 44,563	$ 44,563	$ -

(*) Demand deposits are shown under "Due in one year or less" of deposits.

24. Derivatives

Derivative transactions to which hedge accounting is not applied

With respect to derivatives to which hedge accounting is not applied, contract amount or notional principal, fair value and related valuation gain or loss by transaction type at the balance sheet date and calculation method of the fair value were as follows. Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

Currency related derivatives at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	Contract amount			
March 31, 2017	Total	Over one year	Fair value	Valuation gain (loss)
OTC transactions:				
Forward foreign exchange contracts:				
Sold	¥ 139,820	¥ 497	¥ 1,165	¥ 1,165
Bought	2,532	494	22	22
Total			¥ 1,188	¥ 1,188

	Millions of yen			
	Contract amount			
March 31, 2016	Total	Over one year	Fair value	Valuation gain (loss)
OTC transactions:				
Forward foreign exchange contracts:				
Sold	¥ 120,946	¥ 243	¥ (36)	¥ (36)
Bought	896	241	(8)	(8)
Total			¥ (44)	¥ (44)

	Thousands of U.S. dollars			
	Contract amount			
March 31, 2017	Total	Over one year	Fair value	Valuation gain (loss)
OTC transactions:				
Forward foreign exchange contracts:				
Sold	$1,246,167	$ 4,429	$ 10,383	$ 10,383
Bought	22,566	4,402	196	196
Total			$ 10,588	$ 10,588

Notes: (1) Above transactions are stated at the fair value, and the related valuation gain (loss) are reported in the consolidated statements of income.
(2) The fair value is calculated using the discounted present value.

Derivative transactions to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, contract amount or notional principal and fair value at the balance sheet date by transaction type and hedge accounting method and calculation method of the fair value were as follows. Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

There was no derivative transaction to which hedge accounting is applied at March 31, 2017 and 2016.

25. Amounts per Share

Amounts per share at March 31, 2017 and 2016 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets	¥ 560.77	¥ 627.31	$ 4.9979
Net income:			
Basic	25.18	52.38	0.2244
Diluted	20.63	39.02	0.1838

Net income per share—basic and net income per share—diluted for the years ended March 31, 2017 and 2016 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income attributable to owners of parent —basic:	¥ 4,627	¥ 8,866	$ 41,238
Amounts not attributed to common stock shareholders	118	128	1,051
O/W, dividends for preferred stock based on the resolution at the Board of Directors' meeting	59	128	525
O/W, interim dividends for preferred stock	59	-	525
Net income attributable to common stock owners of parent	¥ 4,509	¥ 8,737	$ 40,187
Average outstanding number of shares of common stock (Unit: thousand shares)	179,054	166,806	
Net income attributable to owners of parent —diluted:			
Adjustments to net income attributable to owners of parent	¥ 118	¥ 128	$ 1,051
O/W, dividends for preferred stock class B	118	128	1,051
Increase in number of shares of common stock (Unit: thousand shares)	45,248	60,398	
O/W, preferred stock class B	45,248	54,347	
O/W, bonds with subscription rights to shares	-	6,051	

Net assets per share at March 31, 2017 and 2016 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	¥ 111,937	¥ 120,035	$ 997,655
Amounts deducted from total net assets:	(10,224)	(11,599)	(91,122)
O/W, payment for preferred stock	(10,000)	(10,000)	(89,126)
O/W, dividends for preferred stock	(59)	(128)	(525)
O/W, non-controlling interests	(165)	(1,471)	(1,470)
Net assets attributable to common stock as of March 31, 2017 and 2016	¥ 101,712	¥ 108,435	$ 906,524
Number of shares of common stock as of March 31, 2017 and 2016 used to calculate net assets per share (Unit: thousand shares)	181,379	172,855	

All of the FIDEA Holdings Co. Ltd.'s 1st unsecured convertible bond-type bonds with subscription rights to shares with 120% soft call provision were converted by August 24, 2015. Accordingly, dilutive shares under convertible bonds with subscription rights to shares do not exist as of March 31, 2016.

26. Subsequent Events

None to report.

27. Non-Consolidated Financial Statements of Shonai and Hokuto as of March 31, 2017 and 2016 and for the Years Then Ended

The Shonai Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Cash and due from banks	¥ 47,278	¥ 38,553	$ 421,372
Monetary claims bought	1,725	1,667	15,374
Trading account securities	43	40	383
Money held in trust	7,606	6,747	67,789
Securities	472,001	515,045	4,206,782
Loans and bills discounted	965,197	957,802	8,602,468
Foreign exchange assets	1,172	1,131	10,445
Tangible fixed assets:			
Buildings	5,397	5,467	48,101
Land	6,708	6,740	59,786
Lease assets	19	38	169
Construction in progress	3,839	1,210	34,215
Other tangible fixed assets	1,659	1,436	14,786
Intangible fixed assets:			
Software	887	536	7,905
Other intangible fixed assets	69	69	614
Customers' liabilities for acceptances and guarantees	6,606	6,714	58,877
Prepaid pension cost	17	67	151
Other assets	7,594	4,067	67,682
Allowance for loan losses	(7,067)	(6,334)	(62,985)
Total assets	¥ 1,520,756	¥ 1,541,004	$ 13,553,975

(Continued)

The Shonai Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liabilities:			
Deposits	¥ 1,213,987	¥ 1,252,815	$ 10,819,848
Negotiable certificates of deposit	111,465	113,096	993,449
Call money	-	20,000	-
Payables under securities lending transactions	88,391	37,983	787,798
Borrowed money	16,400	19,200	146,167
Foreign exchange liabilities	33	1	294
Bonds payable	5,000	5,000	44,563
Provision for retirement benefits	1,294	1,173	11,532
Provision for reimbursement of deposits	122	119	1,087
Provision for contingent loss	225	174	2,005
Deferred tax liabilities	3,639	6,478	32,433
Deferred tax liabilities for land revaluation	536	540	4,777
Acceptances and guarantees	6,606	6,714	58,877
Other liabilities	8,021	8,559	71,488
Total liabilities	¥ 1,455,723	¥ 1,471,855	$ 12,974,358
Net assets:			
Common stock	8,500	8,500	75,757
Capital surplus	20,308	20,308	180,998
Retained earnings	22,467	21,036	200,240
Total shareholders' equity	51,276	49,844	457,005
Unrealized gain on available-for-sale securities	12,629	18,169	112,557
Revaluation reserve for land	1,127	1,134	10,044
Total valuation and translation adjustments	13,756	19,303	122,602
Total net assets	65,033	69,148	579,616
Total liabilities and net assets	¥ 1,520,756	¥ 1,541,004	$ 13,553,975

(Concluded)

The Shonai Bank, Ltd.

Non-Consolidated Statements of Income
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income:			
Interest income:			
Interest on loans and discounts	¥ 12,451	¥ 13,168	$ 110,971
Interest and dividends on securities	6,325	7,022	56,372
Other	16	25	142
Fees and commissions	4,141	4,260	36,907
Other operating income	2,378	358	21,194
Other income	1,263	1,767	11,256
Total income	26,577	26,603	236,871
Expenses:			
Interest expenses:			
Interest on deposits	1,407	1,969	12,540
Interest on negotiable certificates of deposit	70	139	623
Interest on payables under securities lending transactions	293	165	2,611
Interest on borrowings and rediscounts	76	118	677
Interest on bonds payable	134	176	1,194
Other	3	13	26
Fees and commissions	2,385	2,223	21,256
Other operating expenses	2,837	640	25,285
General and administrative expenses	14,611	14,269	130,222
Other expenses	2,333	1,735	20,793
Total expenses	24,153	21,452	215,267
Income before income taxes	2,423	5,150	21,595
Income taxes:			
Current	872	1,759	7,771
Deferred	(416)	207	(3,707)
Total income taxes	455	1,966	4,055
Net income	¥ 1,968	¥ 3,183	$ 17,540

The Hokuto Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Cash and due from banks	¥ 29,947	¥ 26,441	$ 266,907
Monetary claims bought	906	795	8,074
Trading account securities	661	614	5,891
Money held in trust	2,000	999	17,825
Securities	465,346	490,390	4,147,468
Loans and bills discounted	811,103	807,904	7,229,081
Foreign exchange assets	883	1,753	7,869
Tangible fixed assets:			
Buildings	5,369	5,035	47,852
Land	8,343	8,360	74,358
Lease assets	5	9	44
Construction in progress	-	88	-
Other tangible fixed assets	802	851	7,147
Intangible fixed assets:			
Software	1,425	2,047	12,700
Other intangible fixed assets	62	63	552
Prepaid pension cost	834	1,051	7,433
Deferred tax assets	1,341	-	11,951
Customers' liabilities for acceptances and guarantees	15,213	10,158	135,588
Other assets	8,726	3,233	77,771
Allowance for loan losses	(7,054)	(7,320)	(62,869)
Total assets	¥ 1,345,920	¥ 1,352,481	$ 11,995,721

(Continued)

The Hokuto Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liabilities:			
Deposits	¥ 1,182,344	¥ 1,184,388	$10,537,825
Negotiable certificates of deposit	35,230	37,467	313,992
Payables under securities lending transactions	41,398	40,847	368,966
Borrowed money	5,000	6,800	44,563
Foreign exchange liabilities	3	9	26
Provision for reimbursement of deposits	525	553	4,679
Provision for contingent loss	119	150	1,060
Deferred tax liabilities	-	894	-
Deferred tax liabilities for land revaluation	1,217	1,227	10,846
Acceptances and guarantees	15,213	10,158	135,588
Other liabilities	7,629	8,428	67,994
Total liabilities	1,288,680	1,290,923	11,485,561
Net assets:			
Common stock	12,500	12,500	111,408
Capital surplus	19,999	19,999	178,244
Retained earnings	16,146	14,722	143,903
Total shareholders' equity	48,646	47,222	433,565
Unrealized gain on available-for-sale securities	6,065	11,784	54,055
Revaluation reserve for land	2,528	2,550	22,531
Total valuation and translation adjustments	8,594	14,334	76,595
Total net assets	57,240	61,557	510,160
Total liabilities and net assets	¥ 1,345,920	¥ 1,352,481	$11,995,721

(Concluded)

The Hokuto Bank, Ltd.

Non-Consolidated Statements of Income
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income:			
Interest income:			
Interest on loans and discounts	¥ 10,724	¥ 11,566	$ 95,579
Interest and dividends on securities	5,318	5,711	47,397
Other	10	23	89
Fees and commissions	3,854	4,596	34,349
Other operating income	2,396	2,327	21,354
Other income	1,603	2,726	14,286
Total income	23,909	26,953	213,092
Expenses:			
Interest expenses:			
Interest on deposits	622	943	5,543
Interest on negotiable certificates of deposit	27	60	240
Interest on payables under securities lending transactions	509	173	4,536
Interest on borrowings and rediscounts	104	107	926
Other	0	1	0
Fees and commissions	1,559	1,387	13,894
Other operating expenses	2,062	562	18,377
General and administrative expenses	14,462	14,485	128,894
Other expenses	1,957	3,067	17,442
Total expenses	21,305	20,788	189,884
Income before income taxes	2,603	6,164	23,199
Income taxes:			
Current	276	936	2,459
Deferred	258	212	2,299
Total income taxes	534	1,148	4,759
Net income	¥ 2,069	¥ 5,016	$ 18,440