

# Annual Report 2016

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Year Ended 31st March, 2016

## A Leading Regional Bank

Since its establishment in 1932, The Gunma Bank, Ltd. has played the role of a leading regional financial institution in Gunma Prefecture and neighboring areas. Under its basic philosophy of “Dedication to Sound Development of Local Communities,” the Bank has given top priority to the growth of regional society.

## Solid Operational Base

As of 31st March, 2016, the Bank and consolidated subsidiaries had assets totaling ¥7,631.5 billion (US\$67.7 billion) and net assets of ¥507.7 billion (US\$4.5 billion). The Bank's consolidated capital adequacy ratio according to the BIS standards was 12.62%. Today, the Bank is one of the most distinguished regional banks in Japan.

### 1) Non-Japanese Rating Agencies

	Long-term	Short-term
Moody's	A2	P-1
S & P	A-	A-2

### 2) Japanese Rating Agencies

R & I (Rating and Investment Information, Inc.)	A+
JCR (Japan Credit Rating Agency, Ltd.)	AA

(As of 30th June, 2016)

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# Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2016	2016
<i>Fiscal Years Ended 31st March, 2015 and 2016</i>			
<b>For the Fiscal Year</b>			
Total Income .....	¥ 132,652	¥ 136,224	\$ 1,208,949
Total Expenses .....	91,652	92,945	824,866
Profit .....	40,999	43,278	384,083
Profit attributable to owners of parent .....	25,910	28,616	253,964
<b>At Year-End</b>			
Total Assets .....	¥7,550,949	¥7,631,510	\$ 67,727,285
Deposits (including Negotiable CDs) .....	6,255,357	6,421,045	56,984,783
Loans and Bills Discounted .....	4,806,908	5,010,417	44,465,902
Securities .....	2,320,706	2,133,238	18,931,829
Capital Stock .....	48,652	48,652	431,774
Total Net Assets .....	523,535	507,727	4,505,925
<b>Ratios</b>			
Net Assets per Share (Yen) .....	¥ 1,146.98	¥ 1,126.44	
Net Income per Share (Yen) .....	56.37	63.78	
Return on Equity .....	5.33%	5.61%	
Price Earnings Ratio .....	14.40(times)	7.29(times)	
Capital Adequacy Ratio (BIS Standards) .....	13.37%	12.62%	
Tier I .....	11.76%	11.81%	

(US\$1 = ¥112.68) See Note 5 of Notes to Consolidated Financial Statements

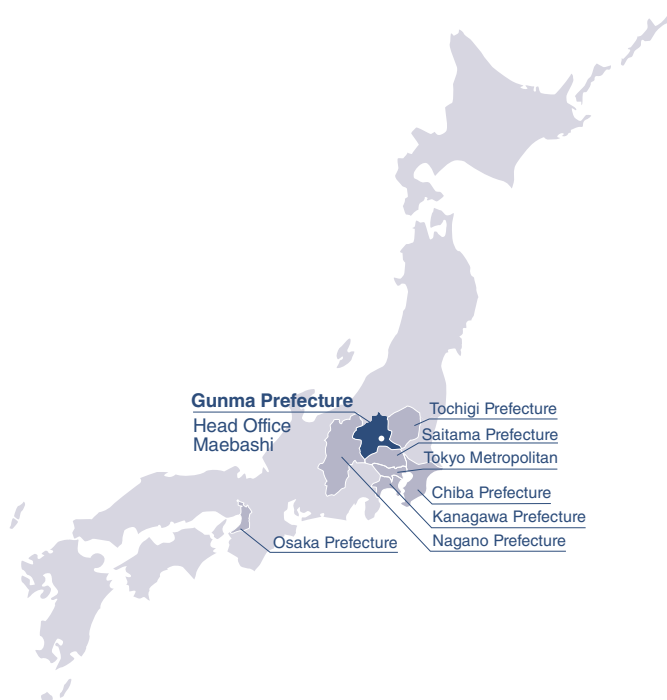
## Corporate Philosophy

**Dedication to Sound Development of Local Communities**  
This is our main business activity.

■  
**Establishment of Creative Relations with Customers**  
This is the foundation of our activities.

■  
**Good Citizenship Yields Good Businesspersons**  
This is the basis of our operations.

■  
**Liberal Organization Allowing Our Staff to Develop Creative Ideas and Activities**  
This is the kind of corporate culture we believe in.



## Message from the Management



I would like to express our sincere appreciation for your continuing patronage of the Gunma Bank. Since its establishment in 1932, the Bank has, throughout the many intervening social and economic changes, played the role of a leading regional bank, always giving consideration to the development of local communities through its activities, while strengthening its management culture and creating the foundation the Bank has today. This has been entirely thanks to the warm understanding and support of all of our clients and customers, to whom we offer our deepest gratitude.

With regard to the economic situation in Japan, while there are uncertainties in the global economy, a moderate recovery is continuing. Meanwhile, the environment surrounding the management of financial institutions is becoming even more severe following the adoption of a negative interest rate policy in response to price trends. On the other hand, faced with the issues of the advancement in the declining birthrate and aging of the population, even more is becoming expected in the role of the regional financial institutions towards regional revitalization.

In this business environment, we started the “2016 Mid-term Business Plan ‘Value for Tomorrow,’ or value-added proposals for tomorrow,” whose plan period is the three years from April 2016 to March 2019. In this Plan, “a regional financial group that supports the regional

community and customers into the future and that grows together with them” is what we aspire to be, and we will put into practice initiatives to realize it.

As part of initiatives aimed at regional revitalization, we are implementing various measures to contribute to regional economy reactivation, including participation in regional revitalization through measures to promote and support regional comprehensive strategies, helping start-ups and second start-ups through the “Gungin Business Support Grand Award,” and enhanced support for companies based on evaluation of customers business potentials (\*1).

\*1. Evaluation of customers business potentials refers to utilizing the results of analysis conducted on factors such as regional economy and industry trends to appropriately assess the business and growth potential of customer companies.

As initiatives to reinforce consulting-based sales, we will carry on and strive to improve “value-added proposal actions” that we have conducted up until now and utilize Fin-tech (\*2) to enhance and improve the convenience of solutions offered to customers.

\*2. Fin-tech is a combination of the words finance (fin) and technology (tech), and refers to innovative financial services that mainly utilize IT.

As part of our initiatives towards our corporate customers, we have created a one-stop support structure through the new establishment of the “team to promote corporate customer consulting,” and we will actively provide funds using the “Gunma Bank Business Support Fund” and the “Gunma Medical-Industry Collaboration Revitalization Fund,” and even further expand our overseas support network.

As for our individual customers, we are working to improve asset management proposal capabilities in partnership with Gungin Securities Co., Ltd., enhance inheritance-related consultation services, strengthen marketing functions through the further use of EBM systems (\*3), and strengthen proposal capabilities for housing loans and unsecured consumer loans.

\*3. Refers to event based marketing, which consists of monitoring changes in the status of customer transactions and offering the optimal products and services at the optimal timing using the optimal channel.

Through these measures we will work to reinforce loan management and even more enhance our fee business through sales of deposit financial assets and corporate service transactions. At the same time, as initiatives aimed at improving profitability, we will strive to open and expand branches in growth markets.

Furthermore, we will pursue productivity improvements through measures for operation streamlining by reviewing business processing systems while also working on reinforcement of the compliance system and enhancement of the customer protection management system, as well as upgrading the risk management system.

In order to implement these new initiatives, in June 2016, we partially revised our organization in headquarters-related divisions including sales departments, compliance and risk management departments, and administrative departments. Under this new organizational structure, we will work to improve competitiveness by “further development” and “new endeavors.”

We will continue to face squarely the diverse needs of the regional community and customers and provide truly helpful financial solutions, and be worthy of the trust and live up to the expectations of all of our stakeholders as a regional financial group. We humbly ask for your continuing support in the years ahead.

July 2016

A handwritten signature in dark ink, reading "K. Saito". The signature is fluid and cursive, with the first letter of the last name being a large, stylized 'S'.

Kazuo Saito  
President

# 2016 Mid-Term Business Plan

## 2016 Mid-term Business Plan “Value for Tomorrow,” or value-added proposals for tomorrow

### Internal name: VT-Plan

Inheriting “value-added proposals,” which is the basic concept of 2013 Mid-term Business Plan “V-Plan,” we are aiming to construct a sustainable business model for tomorrow by creating new revenue opportunities, and have named the plan “Value for Tomorrow.” Taking the first letters, the plan will be internally called the “VT-Plan.”

### Plan period

April 2016 to March 2019 (three years)

### What we aspire to be

“A regional financial group that supports the regional community and customers into the future and that grows together with them”  
We will face squarely the diverse needs of the regional community and customers and provide truly helpful financial solutions, thereby aiming to become a regional financial group that takes a step forward together with them to the next stage.

### ● Basic Policies

#### Proactive measures for regional revitalization

We look to live up to community expectations through active participation in regional revitalization by the implementation of a regional comprehensive strategy and measures for regional economy reactivation by way of enhanced support for companies.

#### Pursuit of value-added proposals and bolstering of profitability

We will implement customer-centered, consulting-based sales based on customer relations. We will also bolster the content and convenience of financial solutions through strengthening key organizations and using fin-tech, with a view to reinforcing loan management and the fee-based business.

#### Strengthening the management foundation and deployment of group capabilities

We will strengthen the management foundation toward providing a broad range of financial services while streamlining operations and enhancing internal control such as governance. We will also aim to increase the corporate value as a group by working together to enable each company to demonstrate their capabilities.

#### Innovation in work styles and support for each individual employee

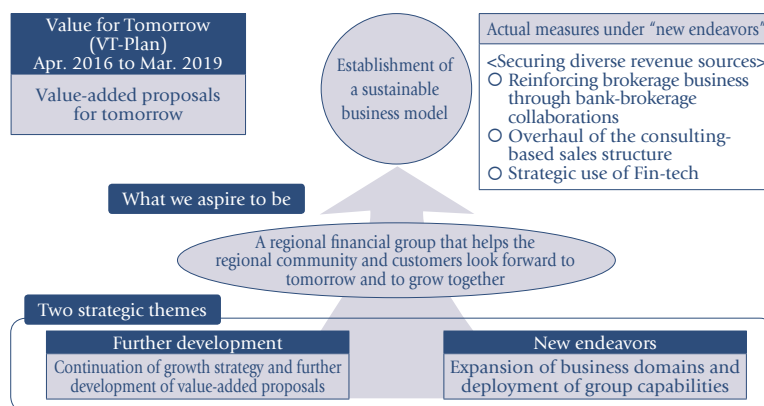
We will endeavor to foster an active corporate culture where each employee thinks independently and works proactively through innovation of work styles for a better work-life balance and the development and deployment of personnel with expert knowledge.

### ● Numerical targets for the plan’s final year (FY 2018)

Growth potential index	Retail loans outstanding at year-end	4,350.0 billion yen
Profitability indices	Non-interest business profit (consolidated)	18.0 billion yen
	Net income (consolidated)	28.0 billion yen
	ROE (consolidated)	5 % level

### Direction of Strategies

<With an eye toward 10 years from today>



### ● To become the group of companies that we aspire to be

#### What we aspire to be

A regional financial group that helps the regional community and customers look forward to tomorrow and to grow together

#### Two Strategic themes

Further development

New endeavors

#### Four basic policies

Proactive measures for regional revitalization	Pursuit of value-added proposals and bolstering of profitability	Strengthening the management foundation and deployment of group capabilities	Innovation in work styles and support for each individual employee
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#### Ten basic strategies

Sales strategies	Management foundation strategies
Regional revitalization strategy	IT/Operations strategy
Strategies for corporate customers	Risk management strategy
Strategies for individual customers	Management/capital strategy
Regional/channel strategy	Organization/HR strategy
Market investment strategy	Contribution to regional community

Efficiency index	OHR (consolidated)	65 % level
Status of soundness index	Common equity Tier 1 ratio (consolidated)	12 % level

### Sales Strategy

We will work toward the enhancement of business support by strengthening our consulting function adapted to life stages of client companies, through efforts including responding to growth support and needs for overseas development and enhancing support for corporate rehabilitation.

#### Holding Overseas Development Support Seminars

Overseas Development Support Seminars are held as needed to support overseas development by customers.

A “Field Report Meeting and Individual Consultation Meeting” was held in April 2015 by managers and dispatched employees of the Bank’s overseas location to provide customers with the latest local information.

In addition, “the 2nd Seminar on Dealing with Halal” on the current situation regarding the acquisition of Halal certification was held in November 2015. In December 2015 and January 2016, seminars for “ASEAN Latest Economic Trends” and “Vietnamese Investment Environment and Market Entry Case Studies” were held as preparatory studies for the Vietnamese Investment Environment Observation Team. Going forward, we will continue to offer information related to overseas development in a timely manner to support clients with overseas business opportunities.

#### Holding Business Conferences Overseas

We actively hold business conferences overseas in order to support the needs of customers to expand overseas sales destinations.

In China, we held the “Corporate Business Exchange Meeting in Shanghai” organized jointly with Gunma Prefecture, the “China Business Seminar and Exchange Meeting” organized by three Kanto-region banks (the Bank, The Bank of Yokohama, and The Jyo Bank), and the “Business Exchange Meeting for Japanese Companies in Hong Kong and South China Area” and “Regional Bank Joint Business Conference @ Guangzhou 2015” organized jointly with regional banks that have overseas bases.

Moreover, in Thailand, in addition to the “Mfair Bangkok 2016 Business Matching Platform for Manufactures’ Network in Asia,” as a first effort to directly attract overseas companies as buyers, we held an individual business conference with the Thai Summit Group (TSG), which holds Thailand’s leading automobile-related companies.

#### Dispatch of Vietnamese Investment Environment Observation Team

Continuing from the “Philippine Investment Environment Observation Team” in January 2015, the “Vietnamese Investment Environment Observation Team” was dispatched as the second overseas observation team from February 15 to 18, 2016, composed of members of the Gunma Bank Management Club.

The team participated in plant visits of business partners that have expanded into the region and conducted investment seminars through local partner banks. We received feedback from one business partner that participated, “it was a valuable experience that allowed me to get a real sense for the potential and attractiveness of the market.”

#### Overseas Development Support Network Utilizing Overseas Offices and Business Partners

We have developed a system for providing direct support to our customers’ overseas business locally through the collaboration of overseas offices (New York Branch, Gunma Finance (Hong Kong) Limited, and Shanghai Representative Office), the overseas dispatched employees, and our business partners.

In Asia, where there are high needs for overseas development, we have ten partnering banks in seven countries (as of March 2016), and we have dispatched one employee each to KASIKORNBANK in Thailand and Bank Negara Indonesia in Indonesia, both countries in which a particularly large number of our customers operates. Also, a representative office was established in Bangkok, Thailand in August 2016.

## Organization and Human Resource Strategies

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We are making efforts to foster an active corporate culture where each employee thinks independently and works proactively through the development and deployment of personnel with expert knowledge, promotion of the active participation of diverse human resources, and innovation of work styles for a better work-life balance.

### **Acquisition of Certification as a Qualified General Business Owner Under the Act of Promotion of Women's Participation and Advancement in the Workplace**

The Bank was certified as a Qualified General Business Owner under the Act of Promotion of Women's Participation and Advancement in the Workplace in May 2016, and became the first company in Gunma Prefecture to acquire the Eruboshi certification mark.

This certification is given to companies that formulate and submit a general business owner action plan and are recognized as excellent companies in terms of the implementation of initiatives related to promoting the active participation of women. Going forward, we will continue to work towards providing better services to customers by developing workplace environments that allow for the active participation of women and making work more rewarding.

### **Development and Deployment of Personnel with Expert Knowledge**

Through the Gunma Bank Finance Academy, which was established with the goal of enhancing our employee education system, we are supporting our employees to acquire operational skills for the development of specialized human resources equipped with proposal capabilities. The Gunma Bank Finance Academy provides training curriculums for each field of operations in order for each person in charge to acquire the necessary operational skills in a systematic manner. In addition, the Bank also conducts night classes and weekend classes on a voluntary participation basis. In conjunction with this, we also actively dispatch employees to external organizations and trainings in order to acquire specialized knowledge and skills including international business and appraisal capabilities.

### **Promotion of Diversified Personnel Promoting Active Roles for Female Employees**

We are working to develop a workplace environment where female employees can fully bring out their capabilities through systematic training programs to cultivate female managers, the establishment of a consistent follow-up structure for employees that have acquired maternity or child-rearing leave that assumes career advancement, and bank-wide awareness transformation efforts that also incorporate male executives.

Furthermore, we have set up the "Committee to Promote Active Roles for Female Employees" and are carrying out bank-wide efforts in order to promote the active participation of female employees. In addition, we are working to solve issues, such as support to continue working over various life stages, support for career development and awareness reform, from the female perspective, by launching the "Female Employees Team," an activity organization led by female employees.



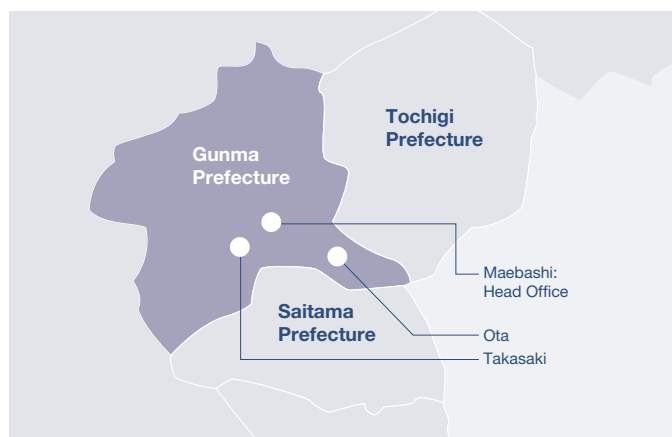
## Our Base of Operations—Gunma Prefecture

Our main business area: Gunma, Tochigi, and Saitama Pref.

Position in the market of Gunma Pref.: Top market share in terms of both loans and deposits in Gunma

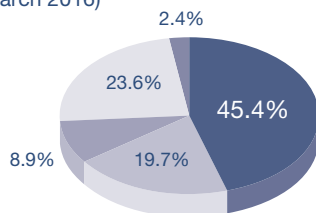
### Attractive Market—Gunma Prefecture

Gunma Prefecture is located 100km from Tokyo and is renowned as an inland region abundant in nature. Industries have thrived in Gunma, notably transportation machinery and electronic equipment. Gunma has made a mark for itself as an industry-based area with a transportation network that includes highways and the Shinkansen. In addition to industry, the prefecture plays an important role in supplying the Tokyo Metropolitan Area with agricultural produce.



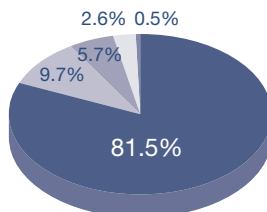
### Regional breakdown of gross loans

(at March 2016)



### Regional breakdown of gross deposits

(at March 2016)

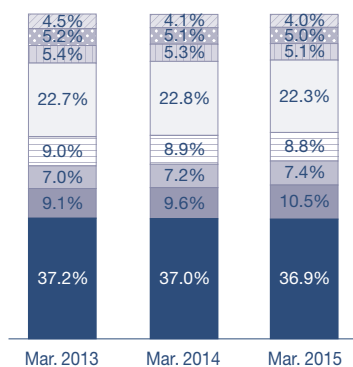


■ Gunma Prefecture ■ Saitama Prefecture  
■ Tochigi Prefecture ■ Tokyo, Yokohama and Osaka area  
■ Head Office and others

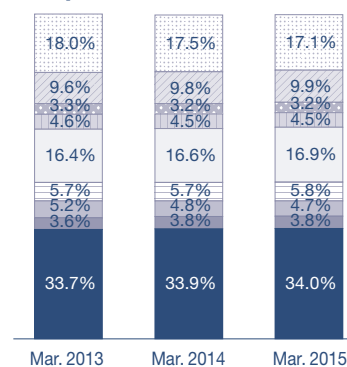
Note: Overseas balances, offshore accounts, and central government loans are excluded.

### Changes in Gunma Bank's Shares in Loans and Deposits in Gunma Prefecture

#### Loans



#### Deposits



■ Gunma Bank ■ Other regional banks ■ Major banks  
■ Second-tier regional banks ■ Shinkin banks ■ Credit associations  
■ Labour banks ■ Agricultural cooperatives ■ Japan Post Bank

Note: Comparison on the basis of ending balances

Source: "Map of Financial Market" from Kinyu Journal Extra Issue



### Environmental Conservation Activities

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#### Environmental Financial Instruments

We handle an investment trust in which the Bank, as well as the delegated companies, contribute a portion of management fees (custodial fees) to the Oze Preservation Foundation.

Through sales and management of this investment fund, the objective of which is the preservation of the natural environment of Oze for future generations, we contribute to the development of regional communities and support lovers of Oze's nature across the country.

#### "Gungin no Mori (Gungin Forest)" Upkeep Activities

As part of our environmental conservation activities, we have named the forest designated by the "Partnership Agreement for Prefectural Forest Maintenance" concluded with Gunma Prefecture "Gungin no Mori (Gungin Forest)," and have been engaged in upkeep activities since last year.

On April, 2016, 119 employees newly hired this year worked on thinning and trimming the trees. We will continue to carry out forest upkeep and environmental education activities at "Gungin no Mori (Gungin Forest)."

### Upgrading Risk Management

#### Basic Risk Management Stance

In today's environment, characterized by ongoing liberalization and internationalization of financial services and development of financial and information technology, the risks confronting banks are growing more varied and complex.

Against this backdrop, it is crucial for banks to appropriately manage and control risks according to the attributes of specific business tasks and risks, in order to enhance corporate value while maintaining soundness and reliability of management.

We have positioned the appropriate management of risk as a top management priority, and the Board of Directors has formulated "Basic Policy of Risk Management." Based on this policy, we engage in management of risks and work to establish and reinforce a risk management framework.

In addition to controlling specific types of risks, such as credit risk, market risk, and liquidity risk, we also need to comprehensively identify risks confronting the entire bank, and control them in gross by means such as comparing the magnitude of risks with the Bank's management strength. To this end, we established the Risk Management Department. As the entity in charge of controlling risks concerning the entire bank in gross, this department is developing frameworks to allow integrated risk management. In these ways, we are working to reinforce management of various risks and undertake integrated risk management at more advanced level.

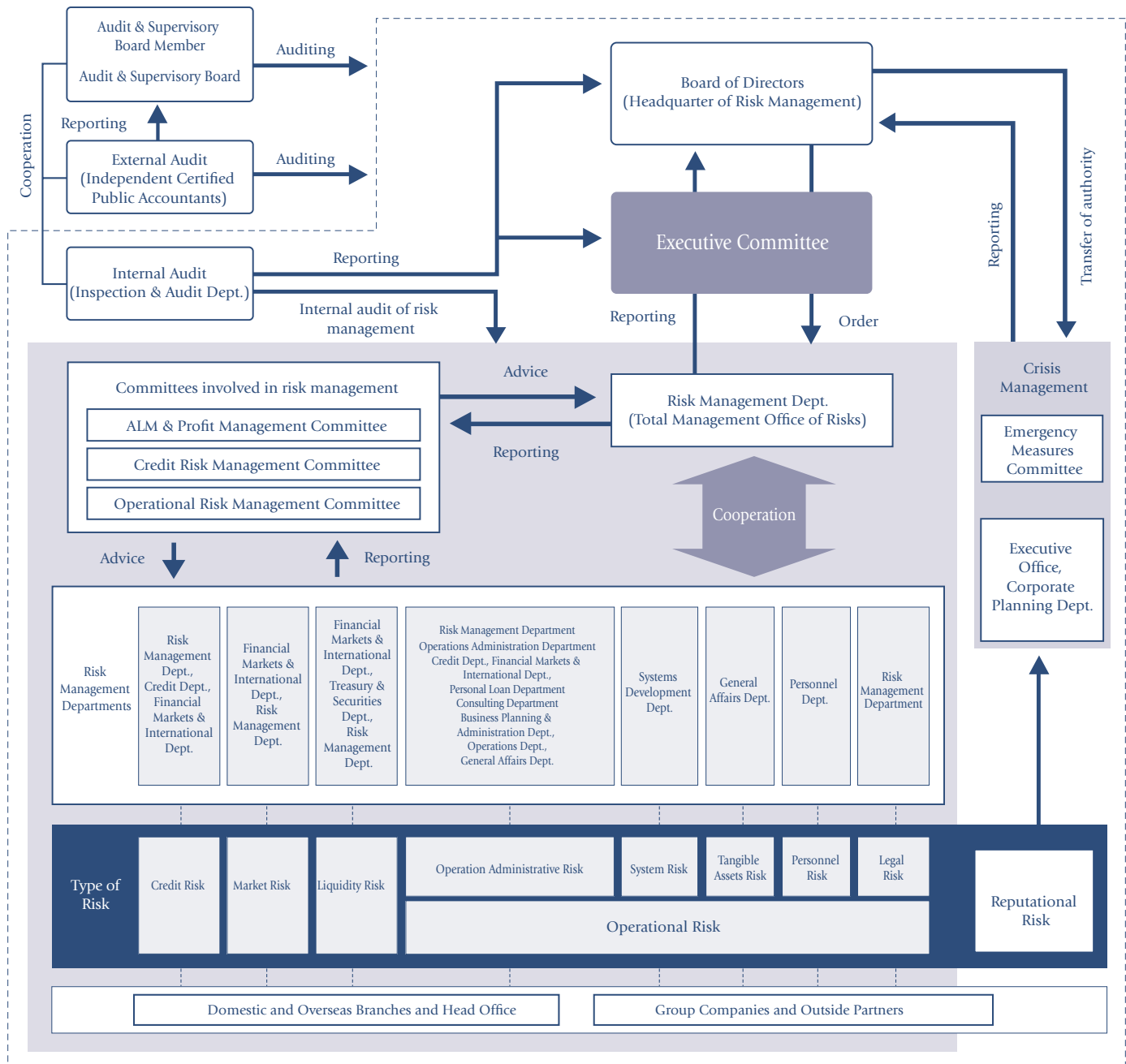
Further, Inspection & Audit Department conducts internal audit to evaluate the appropriateness of development of the risk management framework and the functional effectiveness thereof.

#### Integrated Risk Management

The Bank has adopted an "integrated risk management system" that measures risk exposure of risks such as credit risk, market risk, and other risks confronting the Bank by categories using unified framework (such as VaR), and compare them in gross with the management strength (equity capital).

In specific, we control risks by determining in the Board of Directors held in every half fiscal year the risk capital allocation by each risk category utilizing the amount calculated by deducting valuation and translation adjustments from Common Equity Tier 1 capital as the capital allocation resource.

With regard to the status of the risk exposure, the risk management departments monitor and check periodically whether the risk exposure is within the allocated risk capital. Current risk conditions are reported to top management on a monthly basis through the ALM & Profit Management Committee and Executive Committee.



### **Credit Risk Management**

Credit risk refers to the risk of the Bank incurring a loss as a result of default on the payment of interest or return/redemption of the principal as agreed upon by a client or issuer of securities due to such factors as deterioration in business performance.

At the Bank, loan assets account for the majority of credit risk, so ensuring the soundness of loan assets into the future is a critical objective for credit risk management.

#### *Credit Risk Management Stance*

Strict credit risk management requires mutual-checking among departments exposed to credit risk. The Bank is structured in a manner that makes checking functions work all the time: the Risk Management Department—which is independent of the business promotion division and the screening division—plans and verifies management systems that are vital to credit risk management, including systems for credit rating, self-assessment of the Bank's assets and write-off/reserve provisioning.

The Bank has also established the Credit Risk Management Committee, consisting of directors in charge of the Risk Management Department and general managers in charge of relevant departments. The Committee discusses and examines the status of bank-wide credit risks and important issues cutting across organizational boundaries to develop a common awareness of credit risks.

#### *Individual Credit Screening and Management Stance*

Having established the basic policy for its lending business in the form of "Credit Policy," the Bank is striving to accumulate sound loan assets and prevent non-performing loans from arising while existing harmoniously with local communities and complying with laws and regulations, etc.

When providing a loan, the Bank endeavors to facilitate the supply of funds to meet the sound demand for finance by making accurate and strict judgments on the purpose of use of funds, the financial sources for repayment, etc. in the loan application based on a comprehensive evaluation of quantitative aspects such as the financial position of clients, as well as qualitative aspects such as industry trends and growth potential. We are also developing a screening system and an education and training framework, in addition to enhancing system support.

After providing a loan, we strive to prevent loan assets from deteriorating by enhancing our stance to monitoring and managing business performance throughout the fiscal year so that changes in the business climate, etc. can be identified quickly and prompt responses can be taken, while deepening our relationship with clients. Furthermore,

we have established the "Judgment Office" in the Credit Department, which is staffed by professionals with extensive experience in assessing the fiscal health of businesses, who provide finely-tuned support to clients in making managerial and financial improvements.

#### *Credit Rating System and Self-assessment System*

The Bank's "Credit Rating System" is an intra-bank system designed to determine credit risk in an objective manner, and consists of the "Borrower Rating System," "Retail Pool Management System," etc.

On the basis of the internal criterion, the "Borrower Rating System" rates the creditworthiness of clients based on an internal rating scale of 1 to 15. The ratings framework is consistent with borrower classification used in the self-assessment of assets, and is used in loan classification tasks that serve as the basis for calculating Reserves for Possible Loan Losses. It is also widely used in credit risk management operations in general, as a benchmark for management in the lending business as well as an indicator for the measurement of credit risk exposure, risk-return management, etc.

"Self-assessment" is conducted for the purpose of examining assets held by the Bank on an individual basis, and accurately identifying the Bank's actual asset position. It is an important means of managing credit risks. Self-assessment involves dividing borrowers into five borrower categories according to the internal borrower rating, and rating their assets on a scale of 1 to 4 according to their recoverability and the extent of risk of loss of value. The amount of future loss is estimated according to the rating, and accounted for as Reserves for Possible Loan Losses.

#### *Measurement of Credit Risk Exposure and Loan Portfolio Management*

The Risk Management Department conducts statistical analyses of default rates and loan coverage to measure credit risk exposure. Credit risk exposure quantifies losses that might arise in the future from the loan portfolio exposed to credit risks such as loan assets, and is utilized in the management of loan portfolios and the allocation of risk capital.

In managing loan portfolios, we analyze credit risk exposure, in addition to analyzing trends in loan portfolios and identifying issues based on monitoring aimed at preventing the concentration of credit in particular sectors and the simulation of risks being realized, in pursuit of more advanced credit risk management.

### **Market Risk Management**

Market risk refers to the risk of the Bank incurring losses due to fluctuations in interest rates, foreign exchange rates, share prices, and other market factors. The Bank manages such market risk together with market liquidity risk.

The organization of departments in charge of market transactions is structured in such a way that they check each other: the Treasury & Securities Department serves as the front office department in charge of transactions, whereas the Financial Markets & International Department serves as the middle-office and back-office department in charge of risk management and administrative processing.

The Bank's basic policy is to appropriately control risks by recognizing the significance of the effect of market fluctuations on its management. Investments especially in bonds, shares, etc. are exposed to risks of price fluctuations, so these transactions are performed within appropriate bounds in terms of scale subject to adequate risk management.

At present, the Bank mainly uses VaR as an indicator tool for measuring and analyzing market risk. In addition, it controls and analyzes the market risk through monitoring valuation gain or loss, utilizing risk indicators such as BPV and outlier standard, and by observing the degree to which market factor fluctuations affect profit and gain for the period and on the capital adequacy ratio, etc. These analysis results are reported to the ALM & Profit Management Committee and Executive Committee.

Evaluations of interest rate risk may significantly differ depending on the recognition of maturity for floating deposit that consists of demand deposit and saving deposit, etc. The Bank uses the Core Deposit Internal Model for the estimation of material maturity regarding liquid deposit.

### **Liquidity Risk Management**

Liquidity risk consists of cash flow risk and market liquidity risk.

Cash flow risk refers to the risk of the Bank incurring a loss due to difficulties in securing necessary funds or as a result of raising funds at high interest rates because of discrepancies between the timings of investment and funding, the unexpected outflow of funds and other such reasons.

With respect to cash flow risk, the Bank determines the department in charge of cash flow management, which rigorously manages cash flow periodically (e.g., daily, weekly, monthly) including its overseas bases. In addition, the ALM & Profit Management Committee, which is convened each month, takes every precaution to facilitate cash flow by identifying and analyzing the cash flow status, the balance between investing and funding, interest rate movements and other factors.

Moreover, the Bank conducts a stress test based on a scenario with the certain amount of deposit cancellation and confirms that the Bank has sufficient assets with high liquidity such as national government bonds to cope with those transactions every half fiscal year, and reports the result to the ALM & Profit Management Committee and Executive Committee.

We have also prepared a "Contingency Plan" to prepare against emergencies, and are taking every precaution including developing systems that enable us to respond appropriately to a wide range of scenarios.

Market liquidity risk refers to the risk of incurring a loss due to not being able to perform transactions because of market turmoil, etc. or as a result of being forced to trade at severely unfavorable prices compared to normal circumstances when selling assets, etc.

Market liquidity risk is managed together with market risk management.

### Operational Risk Management

Operational risk refers to the risk of the Bank incurring a loss as a result of inadequate banking operation processes, inadequate activities conducted by executives, employees, temporary staff or other workers or inadequate systems, or due to an external event. In order to effectively manage such risk according to the organizational structure and the nature of operations, the Bank divides operational risk into five categories: (1) administrative risk, (2) system risk, (3) tangible asset risk, (4) human risk, and (5) legal risk.

The “Basic Policy of Risk Management” and the “Basic Rules for Operational Risk Management,” both of which were formulated by the Board of Directors and prescribe the basics of operational risk management, stipulate that the director in charge of the Risk Management Department be responsible for overseeing operational risk management in general, and that the Risk Management Department be the department in charge of integrated operational risk management. Under the instructions and supervision of the director in charge, the Risk Management Department plans and oversees operational risk management overall, while each risk-management-related department manages its own risks from a more technical perspective.

In addition, the Bank has established the Operational Risk Management Committee as an organization for deliberating important matters pertaining to operational risk.

As the specific method for managing operational risk, the Bank has introduced the structure of Risk Control Self Assessment (RCSA) and manages operational risk in a comprehensive manner accordingly. The Bank also manages administrative risk, system risk, and other types of risks individually.

Administrative risk refers to the risk of incurring a loss due to an executive, employee, etc. failing to perform administrative processes accurately, causing an accident, engaging in misconduct, etc.

At the Bank, each and every employee is striving to execute administrative processes more rigorously based on his/her commitment to executing them with precision at all times according to the basic principles, in order to maintain and improve the level of trust placed in us by our customers. We are also working to prevent administrative mishaps and improve overall administrative quality based on internal checking efforts, by such means as the departments of the head office in charge of administration visiting the branches and giving administrative guidance to them, the Inspection & Audit Department conducting on-site audits in the head office’s departments as well as the branches, and the branches conducting self-inspection.

System risk refers to the risk of customers and the Bank incurring a loss due to inadequacies in the system such as the failure and malfunctioning of a computer system, or the unauthorized use of computers.

We take various safety measures against foreseeable risks: we conduct quality control of software based on thorough testing, and take measures against unauthorized access and computer virus intrusion to prevent information leakage, in addition to taking safety measures at the facility level, including owing a computer center equipped with seismic-isolated floors, uninterrupted power supplies and other disaster-proofing facilities as well as securing a backup center. To prepare against accidents, we have devised a “Contingency Plan” and are taking every precaution.

With respect to tangible asset risk, human risk, and legal risk, the Bank has assigned the departments in charge of playing a central role in managing these respective risks.

### Crisis Management

The Bank has prepared a “Contingency Plan” aimed at ensuring uninterrupted operations in times of unprecedented events, such as natural disasters, criminal activities, computer system breakdown, the spread of rumors, and the outbreak of new-type influenza. This plan is designed to help the Bank respond appropriately to such events and minimize their impact on its operations.

To address the occurrence of major large-scale events, the Bank will convene its “Emergency Measures Committee” to gather information and issue guidance and instructions in a unified manner. In addition, the Bank is working to strengthen its crisis management system, including by holding regular training drills based on its “Contingency Plan,” and by periodically reviewing that plan.

## Upgrading Compliance

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To become a bank that is highly evaluated from customers and shareholders, the Bank needs to establish “compliance system” that serves as the foundation for the sound business operations.

In strong recognition of the social responsibility and public mission that financial institutions need to perform, the Bank regards the enhancement of compliance as one of the most important management issues and strives for the strict observance of laws, regulations, rules and social norms and the enforcement of corporate ethics through day-to-day operations.

### Compliance System

Under the Board of Directors, which serves as the supreme body responsible for compliance, the Bank has established the Compliance Committee, which is entrusted by the Board of Directors to deliberate important matters related to compliance. In addition, we have assigned Compliance Supervisors and Compliance Officers in all of our departments and branches, who are working to strictly enforce compliance by fostering compliance awareness and providing educational guidance.

Risk Management Department, as the compliance oversight department, centralizes the management of compliance-related matters and thereby strives to develop and establish a compliance system and a customer protection management system.

### Compliance put into Practice

In order to fulfill our “Corporate Philosophy,” we have stipulated the “Corporate Ethics” as our basic policy for compliance, and the “Code of Conduct” as our compliance standard.

Having distributed the “Corporate Ethics,” the “Code of Conduct” and the “Compliance Guidelines” (a one-stop summary of matters deemed necessary for putting compliance into practice) to all executives and employees, we are working to strictly enforce compliance in practice.

Our efforts to further enhance and reinforce compliance in practice include implementing the “Compliance Program,” which is a practical plan for the enriching of compliance systems and established every year by the Board of Directors, to take concrete compliance measures based on the plan, holding training sessions in each department and branch, inspecting and monitoring the compliance status by using special “Checklists,” and giving advice and guidance by visiting branches.

## Details of Corporate Ethics and Code of Conduct

### *Corporate Ethics*

1. Awareness of social responsibility and public mission
2. Strict compliance with laws, regulations and rules
3. Transparent management that is open to the public
4. Confrontation with antisocial forces

### *Code of Conduct*

1. Understand and comply with laws, regulations and rules
2. Maintain and improve credibility
3. Report, contact and consult
4. Distinguish between business and personal affairs
5. Deal with customers in good faith
6. Take a resolute stance against antisocial forces
7. Strictly manage customer information
8. Prevent money laundering

### Customer Protection Efforts

We have published the “Policy for Managing Customer Protection, etc.” as our policy for improving customer protection and convenience. Additionally, in an effort to improve and establish our management systems, we have appointed persons at each department and branch to make sure that thorough explanations are given to customers and that inquiries, requests, complaints, etc., from customers are appropriately handled.

The Bank has concluded an agreement concerning complaint handling and dispute resolution procedures with the Japanese Bankers Association, a certified alternative dispute resolution body under the Banking Act. The Japanese Bankers Association, from a fair and neutral standpoint, takes initiatives to resolve complaints filed and requests for dispute resolutions received from customers regarding bank operations.

### Managing Information on Customers

With respect to personal information, we have published the “Privacy Policy” as our policy for efforts to properly protect and use personal information. We have also appointed officers, etc., responsible for managing and overseeing customer information including personal information in the entire Bank, to seek to strictly enforce security management measures, and to develop and establish management frameworks including those for the supervision of contractors.



### **Policy for Managing Customer Protection**

The Bank will make the following efforts in good faith, and endeavor to ensure business operations from the viewpoint of customers in order to protect customers and improve convenience.

In this Policy, “customers” shall refer to “people who are already performing transactions with the Bank and people who are thinking about performing transactions with the Bank in the future,” “transactions” shall refer to “lending transactions (loan agreements and associated collateral/guarantee agreements), acceptance of deposits, etc., product sale, brokering, solicitation and other transactions performed between customers and the Bank,” and “operations” shall refer to “various operations concerning transactions.”

1. The Bank will make its executives and officers gain sufficient knowledge of operations and provide appropriate and sufficient information to customers. The Bank will also provide a proper and adequate explanation of transactions or products according to laws and regulations, etc.
2. The Bank will properly deal with inquiries, comments, etc. from customers in a sincere manner, and will examine

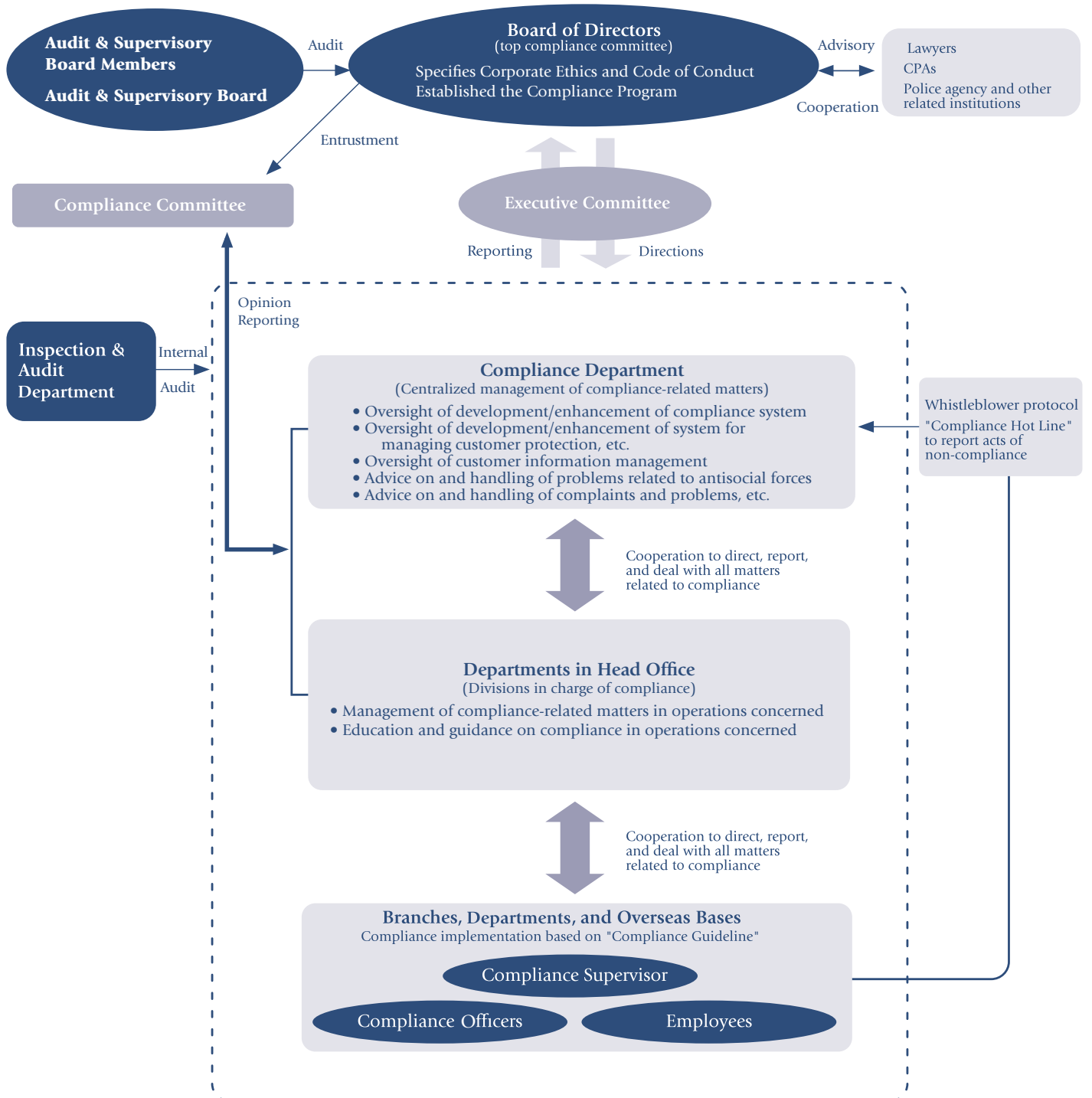
the approach of operations and make improvements from the viewpoint of customers in order to satisfy customers.

In addition, the Bank will properly deal with disputes arising from our customers.

3. The Bank will properly obtain information on customers in compliance with laws and regulations, etc., and will properly manage such information by taking measures to prevent unauthorized access, information leakage, etc.
4. If the Bank outsources its operations, the Bank will select a contractor with the ability to execute such operations with precision so that information on customers will be protected and customers will be treated properly, and will properly manage outsourced operations by such means as conducting monitoring periodically or whenever necessary.
5. The Bank will appropriately manage customer transactions and prevent unfair impairment of customer interests by such means as identifying in advance transactions that may result in a conflict of interests between the Bank and its customers or among the customers of the Bank, and establishing and implementing a management method.
6. In addition to the above, the Bank will properly manage operations deemed necessary for the purpose of protecting customers and improving convenience.

October 2010

## Compliance System



## Consolidated Financial Review

### Performance

Gunma Bank conducts consolidated accounting for its four consolidated subsidiaries and its two equity-method subsidiaries. These consolidated results for the fiscal year in review are as follows:

The balance of deposits at fiscal year-end stood at ¥6,421.0 billion, an increase of ¥165.6 billion. Loans and bills discounted stood at ¥5,010.4 billion, an increase of ¥203.5 billion, and securities stood at ¥2,133.2 billion, an decrease of ¥187.4 billion. Total assets came to ¥7,631.5 billion, and Total shareholder's equity came to ¥386.6 billion.

In the year under review, total income amounted to ¥136.2 billion, up ¥3.5 billion from the previous year, mainly due to recording of gain on sales of shares and other securities and gain on reversal of allowance for loan losses.

Further, total expenses increased ¥1.2 billion from the previous year to ¥92.9 billion due to such factors as increases in financing expenses and other operating expenses.

As a result, the bank reported pre-tax income (income before income taxes) in the period in review of ¥43.3 billion, a increase of ¥2.2 billion, and Profit attributable to owners of profit of ¥28.6 billion, an increased ¥2.7 billion.

Consolidated total capital ratio based on Basel III reached as high as 12.62%, while both consolidated Tier 1 ratio and consolidated Common Equity Tier 1 ratio reached as high as 11.81%.

### Consolidated Capital Adequacy Ratio (BIS Standards)

	As at March 31, 2015	As at March 31, 2016
1. Consolidated total capital ratio (4/7)	13.37%	12.62%
2. Consolidated Tier 1 ratio (5/7)	11.76%	11.81%
3. Consolidated Common Equity Tier 1 ratio (6/7)	11.76%	11.81%
4. Total capital (consolidated)	474.6	467.0
5. Tier 1 capital (consolidated)	417.3	436.7
6. Common Equity Tier 1 capital (consolidated)	417.3	436.7
7. Risk weighted assets	3,548.5	3,698.3
8. Total required capital (consolidated)	283.8	295.8

Billions of yen

## Consolidated Balance Sheets

As at March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2016	2016
<b>Assets</b>			
Cash and due from banks (Note 18) .....	¥ 164,918	¥ 335,643	\$ 2,978,735
Call loans and bills bought .....	114,604	—	—
Monetary claims bought .....	13,491	11,564	102,631
Trading account securities .....	1,074	1,039	9,223
Money held in trust (Note 10) .....	5,000	4,967	44,087
Securities (Note 9 and 15) .....	2,320,706	2,133,238	18,931,829
Loans and bills discounted (Note 6) .....	4,806,908	5,010,417	44,465,902
Foreign exchanges .....	4,539	3,196	28,371
Lease receivables and investment assets .....	41,498	43,898	389,586
Other assets .....	29,006	32,852	291,559
Property, plant and equipment (Note 14) .....	67,545	67,732	601,101
Intangible assets .....	9,007	8,623	76,531
Net defined benefit asset .....	3	—	—
Deferred tax assets (Note 21) .....	1,672	1,416	12,568
Customers' liabilities for acceptances and guarantees .....	15,561	15,870	140,847
Allowance for loan losses .....	(44,591)	(38,951)	(345,685)
Total assets .....	<u>¥ 7,550,949</u>	<u>¥ 7,631,510</u>	<u>\$ 67,727,285</u>
<b>Liabilities</b>			
Deposits (Note 15) .....	¥ 6,255,357	¥ 6,421,045	\$ 56,984,783
Call money and bills sold .....	170,265	29,296	260,000
Payable under securities lending transactions (Note 15) .....	262,906	270,574	2,401,267
Borrowed money .....	187,647	257,764	2,287,578
Foreign exchanges .....	241	292	2,594
Bonds with subscription rights to shares .....	24,034	22,536	200,000
Other liabilities .....	47,893	45,002	399,382
Provision for directors' bonuses .....	67	62	550
Net defined benefit liability .....	1,297	17,890	158,770
Provision for directors' retirement benefits .....	640	571	5,076
Provision for reimbursement of deposits .....	1,057	1,070	9,496
Provision for point card certificates .....	152	151	1,344
Provision for contingent loss .....	1,133	1,008	8,953
Deferred tax liabilities .....	50,606	32,564	288,998
Deferred tax liabilities by land revaluation (Note 16) .....	8,551	8,081	71,721
Acceptances and guarantees .....	15,561	15,870	140,848
Total liabilities .....	<u>7,027,413</u>	<u>7,123,782</u>	<u>63,221,360</u>
<b>Net assets</b>			
Capital stock .....	48,652	48,652	431,774
Capital surplus .....	29,140	29,140	258,616
Retained earnings .....	302,852	326,122	2,894,239
Treasury shares .....	(12,251)	(17,296)	(153,497)
Total shareholders' equity .....	<u>368,394</u>	<u>386,619</u>	<u>3,431,132</u>
Valuation difference on available-for-sale securities .....	136,783	112,745	1,000,580
Deferred gains or losses on hedges .....	(9)	(134)	(1,192)
Revaluation reserve for land (Note 16) .....	13,960	14,287	126,797
Foreign currency translation adjustment .....	461	463	4,117
Remeasurements of defined benefit plans .....	(1,429)	(12,196)	(108,241)
Total accumulated other comprehensive income .....	<u>149,766</u>	<u>115,165</u>	<u>1,022,061</u>
Subscription rights to shares .....	316	377	3,349
Non-controlling interests .....	5,058	5,564	49,383
Total net assets .....	<u>523,535</u>	<u>507,727</u>	<u>4,505,925</u>
Total liabilities and net assets .....	<u>¥ 7,550,949</u>	<u>¥ 7,631,510</u>	<u>\$ 67,727,285</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2016	2016
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥ 59,774	¥ 58,786	\$ 521,711
Interest and dividends on securities .....	24,324	26,007	230,811
Other interest income .....	1,288	1,031	9,157
Fees and commissions .....	18,910	18,996	168,590
Other ordinary income .....	21,819	23,753	210,802
Other income .....	6,535	7,648	67,878
Total income .....	132,652	136,224	1,208,949
<b>Expenses</b>			
Interest expense:			
Interest on deposits .....	2,261	2,435	21,619
Interest on call money and bills sold .....	419	669	5,942
Other interest expenses .....	1,033	1,407	12,494
Fees and commissions payments .....	6,632	7,202	63,921
Other ordinary expenses .....	18,263	19,974	177,264
General and administrative expenses .....	59,079	57,472	510,050
Other expenses (Note 19 and 22) .....	3,962	3,783	33,576
Total expenses .....	91,652	92,945	824,866
Profit before income taxes .....	40,999	43,278	384,083
Income taxes:			
Current .....	11,581	12,096	107,355
Deferred .....	2,088	2,039	18,096
Profit .....	27,329	29,142	258,632
Profit attributable to non-controlling interests .....	1,418	526	4,668
Profit attributable to owners of parent .....	¥ 25,910	¥ 28,616	\$ 253,964
	Yen		U.S. dollars
<b>Per share amounts</b>			
Profit – primary .....	¥ 56.37	¥ 63.78	\$ 0.57
Profit – fully diluted .....	56.30	63.68	0.57

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Comprehensive Income

Years ended March 31,	millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2016	2016
Profit	¥ 27,329	¥ 29,142	\$ 258,632
Other comprehensive income ( Note 13)			
Valuation difference on available-for-sale securities .....	47,763	(24,096)	(213,851)
Deferred gains or losses on hedges .....	60	(125)	(1,111)
Revaluation reserve for land .....	879	423	3,762
Foreign currency translation adjustment .....	587	2	21
Remeasurements of defined benefit plans, net of tax .....	2,631	(10,766)	(95,551)
Share of other comprehensive income of entities accounted for using the equity method .....	133	49	435
Total other comprehensive income .....	52,056	(34,513)	(306,295)
Comprehensive income	79,386	(5,370)	(47,663)
(Details)			
Comprehensive income attributable to owners of parent .....	77,937	(5,887)	(52,246)
Comprehensive income attributable to non-controlling interests .....	¥ 1,448	¥ 516	\$ 4,583

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Equity

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2014 .....	¥48,652	¥29,140	¥289,102	¥ (5,312)	¥361,583
Cumulative effects of changes in accounting policies .....			(5,672)		(5,672)
Restated balance .....	48,652	29,140	283,429	(5,312)	355,910
Changes of items during period .....					
Dividends of surplus .....	—	—	(4,416)	—	(4,416)
Profit attributable to owners of parent .....	—	—	25,910	—	25,910
Purchase of treasury shares .....	—	—	—	(9,567)	(9,567)
Disposal of treasury shares .....	—	—	(8)	515	507
Retirement of treasury shares .....	—	(0)	(2,112)	2,112	—
Reversal of revaluation reserve for land .....	—	—	49	—	49
Net changes of items other than shareholders' equity .....	—	—	—	—	—
Total changes of items during period .....	—	(0)	19,422	(6,939)	12,483
Balance as of March 31, 2015 .....	¥48,652	¥29,140	¥302,852	¥(12,251)	¥368,394

	Accumulated other comprehensive income								Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	
Balance as of March 31, 2014 .....	¥ 88,916	¥(70)	¥13,130	¥(126)	¥(4,061)	¥97,789	¥243	¥8,183	¥467,798
Cumulative effects of changes in accounting policies .....									(5,672)
Restated balance .....	88,916	(70)	13,130	(126)	(4,061)	97,789	243	8,183	462,125
Changes of items during period .....									
Dividends of surplus .....	—	—	—	—	—	—	—	—	(4,416)
Profit attributable to owners of parent .....	—	—	—	—	—	—	—	—	25,910
Purchase of treasury shares .....	—	—	—	—	—	—	—	—	(9,567)
Disposal of treasury shares .....	—	—	—	—	—	—	—	—	507
Retirement of treasury shares .....	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land .....	—	—	—	—	—	—	—	—	49
Net changes of items other than shareholders' equity .....	47,867	60	830	587	2,631	51,977	73	(3,124)	48,926
Total changes of items during period .....	47,867	60	830	587	2,631	51,977	73	(3,124)	61,409
Balance as of March 31, 2015 .....	¥136,783	¥ (9)	¥13,960	¥ 461	¥(1,429)	¥149,766	¥316	¥5,058	¥523,535

The accompanying notes are an integral part of these statements.

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2015 .....	¥48,652	¥29,140	¥302,852	¥(12,251)	¥368,394
Changes of items during period .....					
Dividends of surplus .....	—	—	(5,407)	—	(5,407)
Profit attributable to owners of parent .....	—	—	28,616	—	28,616
Purchase of treasury shares .....	—	—	—	(5,532)	(5,532)
Disposal of treasury shares .....	—	—	(35)	487	452
Reversal of revaluation reserve for land .....	—	—	97	—	97
Net changes of items other than shareholders' equity .....	—	—	—	—	—
Total changes of items during period .....	—	—	23,270	(5,044)	18,225
Balance as of March 31, 2016 .....	¥48,652	¥29,140	¥326,122	¥(17,296)	¥386,619

Accumulated other comprehensive income

	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of March 31, 2015 .....	¥136,783	¥ (9)	¥13,960	¥461	¥ (1,429)	¥149,766	¥316	¥5,058	¥523,535
Changes of items during period .....									
Dividends of surplus .....	—	—	—	—	—	—	—	—	(5,407)
Profit attributable to owners of parent .....	—	—	—	—	—	—	—	—	28,616
Purchase of treasury shares .....	—	—	—	—	—	—	—	—	(5,532)
Disposal of treasury shares .....	—	—	—	—	—	—	—	—	452
Reversal of revaluation reserve for land .....	—	—	—	—	—	—	—	—	97
Net changes of items other than shareholders' equity .....	(24,038)	(125)	326	2	(10,766)	(34,600)	60	505	(34,033)
Total changes of items during period .....	(24,038)	(125)	326	2	(10,766)	(34,600)	60	505	(15,808)
Balance as of March 31, 2016 .....	¥112,745	¥(134)	¥14,287	¥463	¥(12,196)	¥115,165	¥377	¥5,564	¥507,727

The accompanying notes are an integral part of these statements.



Thousands of U.S. dollars

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2015 .....	\$431,774	\$258,616	\$2,687,722	\$(108,729)	\$3,269,383
Changes of items during period .....					
Dividends of surplus .....	—	—	(47,993)	—	(47,993)
Profit attributable to owners of parent .....	—	—	253,964	—	253,964
Purchase of treasury shares .....	—	—	—	(49,097)	(49,097)
Disposal of treasury shares .....	—	—	(316)	4,329	4,013
Reversal of revaluation reserve for land .....	—	—	862	—	862
Net changes of items other than shareholders' equity .....	—	—	—	—	—
Total changes of items during period .....	—	—	206,517	(44,768)	161,749
Balance as of March 31, 2016 .....	\$431,774	\$258,616	\$2,894,239	\$(153,497)	\$3,431,132

Accumulated other comprehensive income

	Valuation difference On available- for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non- controlling interests	Total net assets
Balance as of March 31, 2015 .....	\$1,213,911	\$ (81)	\$123,897	\$4,096	\$(12,690)	\$1,329,133	\$2,808	\$44,893	\$4,646,217
Changes of items during period .....									
Dividends of surplus .....	—	—	—	—	—	—	—	—	(47,993)
Profit attributable to owners of parent .....	—	—	—	—	—	—	—	—	253,964
Purchase of treasury shares .....	—	—	—	—	—	—	—	—	(49,097)
Disposal of treasury shares .....	—	—	—	—	—	—	—	—	4,013
Reversal of revaluation reserve for land .....	—	—	—	—	—	—	—	—	862
Net changes of items other than shareholders' equity .....	(213,331)	(1,111)	2,900	21	(95,551)	(307,072)	541	4,490	(302,041)
Total changes of items during period .....	(213,331)	(1,111)	2,900	21	(95,551)	(307,072)	541	4,490	(140,292)
Balance as of March 31, 2016 .....	\$1,000,580	\$(1,192)	\$126,797	\$4,117	\$(108,241)	\$1,022,061	\$3,349	\$49,383	\$4,505,925

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2016	2016
<b>Cash flows from operating activities</b>			
Profit before income taxes .....	¥ 40,999	¥ 43,278	\$ 384,083
Depreciation .....	5,467	5,943	52,745
Impairment loss .....	32	91	814
Gain on bargain purchase .....	(2,385)	—	—
Share of (profit) loss of entities accounted for using equity method .....	(86)	(100)	(891)
Increase (decrease) in allowance for loan losses .....	(7,405)	(5,639)	(50,048)
Increase (decrease) in provision for directors' bonuses .....	9	(5)	(44)
Increase (decrease) in net defined benefit asset .....	6,801	3	32
Increase (decrease) in net defined benefit liability .....	(1,218)	16,592	147,255
Increase (decrease) in provision for directors' retirement benefits .....	(69)	(68)	(607)
Increase (decrease) in provision for reimbursement of deposits .....	27	12	108
Increase (decrease) in provision for point card certificates .....	11	(0)	(5)
Increase (decrease) in provision for contingent loss .....	(63)	(124)	(1,102)
Gain on fund management .....	(85,387)	(85,825)	(761,679)
Financing expenses .....	3,714	4,513	40,055
Loss (gain) related to securities .....	(2,160)	(2,744)	(24,353)
Loss (gain) on money held in trust .....	(395)	15	135
Foreign exchange losses (gains) .....	46	(305)	(2,715)
Loss (gain) on disposal of non-current assets .....	425	255	2,269
Net decrease (increase) in trading account securities .....	1,674	35	314
Net decrease (increase) in loans and bills discounted .....	(254,505)	(203,509)	(1,806,080)
Net increase (decrease) in deposit .....	134,621	172,433	1,530,296
Net increase (decrease) in negotiable certificates of deposit .....	28,706	(6,746)	(59,869)
Net increase (decrease) in borrowed money (excluding subordinated borrowings) .....	7,529	70,116	622,261
Net decrease (increase) in deposit (excluding deposit paid to Bank of Japan) .....	12,869	(8,381)	(74,379)
Net decrease (increase) in call loans .....	(19,213)	115,707	1,026,869
Net increase (decrease) in call money .....	109,772	(140,968)	(1,251,053)
Net increase (decrease) in payables under securities lending transactions .....	38,161	7,667	68,051
Net decrease (increase) in foreign exchanges - assets .....	(455)	1,342	11,916
Net increase (decrease) in foreign exchanges - liabilities .....	(12)	51	453
Net decrease (increase) in lease receivables and investment assets .....	(2,108)	(2,400)	(21,303)
Proceeds from fund management .....	84,920	85,368	757,622
Payments for finance .....	(3,882)	(4,393)	(38,993)
Other, net .....	(48,618)	(1,135)	(10,074)
Subtotal .....	47,824	61,081	542,083
Income taxes paid .....	(13,058)	(11,261)	(99,943)
Net cash provided by (used in) operating activities .....	34,765	49,820	442,140
<b>Cash flows from investing activities</b>			
Purchases of securities .....	(296,575)	(251,243)	(2,229,710)
Proceeds from sales of securities .....	140,903	126,928	1,126,454
Proceeds from redemption of securities .....	171,108	253,258	2,247,593
Purchase of property, plant and equipment .....	(3,544)	(3,582)	(31,792)
Purchase of intangible assets .....	(2,507)	(2,462)	(21,850)
Proceeds from sales of property, plant and equipment .....	—	124	1,109
Net cash provided by (used in) investing activities .....	9,386	123,024	1,091,804
<b>Cash flows from financing activities</b>			
Proceeds from issuance of bonds with subscription rights to shares .....	21,416	—	—
Purchase of treasury shares .....	(9,567)	(5,532)	(49,097)
Proceeds from sales of treasury shares .....	507	452	4,013
Cash dividends paid .....	(4,416)	(5,403)	(47,954)
Dividends paid to non-controlling interests .....	(10)	(10)	(93)
Net cash provided by (used in) financing activities .....	7,928	(10,493)	(93,131)
Effect of exchange rate change on cash and cash equivalents .....	609	(6)	(61)
Net increase (decrease) in cash and cash equivalents .....	52,689	162,343	1,440,752
Cash and cash equivalents at beginning of period .....	109,118	161,807	1,435,995
Cash and cash equivalents at end of period .....	¥ 161,807	¥ 324,151	\$ 2,876,747

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

### a. Basis of Presentation

The accompanying consolidated financial statements of The Gunma Bank, Ltd. (the "Bank") and consolidated subsidiaries (the "Group") have been prepared from the accounts maintained by the Bank in accordance with the provisions set forth in the Banking Law, the Financial Instruments and Exchange Act of Japan and other applicable rules and regulations 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 addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain items have been reclassified from the original consolidated financial statements filed with the Prime Minister as required by the Financial Instruments and Exchange Act for the convenience of readers outside Japan. Certain prior year amounts have been reclassified to comply with the current year presentation.

### b. Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its significant subsidiaries. The number of consolidated subsidiaries as of March 31, 2015 and 2016 was 4 and 5, respectively.

Gungin Securities Co., Ltd. has been included in the scope of consolidation from there of fiscal year ended March 31, 2016 due to the establishment.

The remaining unconsolidated subsidiaries have been excluded from the scope of consolidation because, judging from their assets, ordinary profit, profit or loss (amounts corresponding to the Bank's equity interest), retained earnings (amounts corresponding to the Bank's equity interest) and accumulated other comprehensive income (amounts corresponding to the Bank's equity interest), they do not have a material effect on the accompanying consolidated financial statements.

As of March 31, 2015 and 2016, the Bank had 2 unconsolidated subsidiaries, which were accounted for using the equity method.

Gunma Bank Business Support Investment Business Limited Partnership has been included in the scope of unconsolidated subsidiary not accounted for using the equity method from the fiscal year ended March 31, 2016 due to its establishment.

Gunma Capital No.2 Investment Business Limited Partnership which was an unconsolidated subsidiary not accounted for using the equity method for the fiscal year ended March 31, 2015 was liquidated during the fiscal year ended March 31, 2016.

In reference to the consolidated subsidiaries' closing dates, one company closes accounts at the end of December, while four others close at the end of March.

Consolidation is based on each subsidiary's respective financial statement on the respective closing dates.

For any significant transactions taking place between the consolidated closing date and each subsidiary's closing date, necessary adjustments are made.

### c. Trading Account Securities

Trading securities purchased for trading purpose are stated at market value at the fiscal year end with its related cost of sales being determined mainly by the moving average method.

### d. Securities

Securities are classified into four categories: trading, held-to-maturity bonds, equity of subsidiaries and affiliates or securities available for sale. Trading securities are carried at market value and held-to-maturity bonds are carried at

amortized cost. Equity of subsidiaries and affiliates are stated at cost and accounted for by the equity method, respectively. Marketable securities classified as securities available for sale are carried at market value with changes in unrealized holding gain or loss, net of the applicable income taxes, recorded as a component of net assets. Securities whose fair value is not readily determinable are stated at cost determined by the moving average method or amortized cost.

Securities comprising the trust asset in money held in trust which is solely managed primarily for the purpose of securities operations are stated at market value.

### e. Derivatives

Derivatives are stated at market value.

### f. Non-current assets

#### (1) Property, plant and equipment

Depreciation of Property, plant and equipment of the Bank are computed by the straight line method.

The estimated useful lives principally applied are as follows.

Buildings	6 to 50 years
Equipment and furniture	3 to 20 years

Depreciation of Property, plant and equipment of the consolidated subsidiaries are principally computed by the straight line method based on the estimated useful lives of the respective assets.

#### (2) Intangible assets

Intangible assets are depreciated using the straight line method. Software used internally is depreciated over its estimated useful life (mainly five years).

#### (3) Leased assets

Leased assets in "Property, plant and equipment" subject to finance lease transactions other than those under which the title of the leased equipment is transferred to the lessee are depreciated using the straight line method assuming that the lease period is equal to the useful life. If a guarantee for residual value is prescribed by the lease contract, the residual value is equal to such guaranteed residual value; otherwise, the residual value is zero.

### g. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

### h. Allowance for loan losses

The reserve for possible loan losses is provided in accordance with the internal policies regarding write-offs and allowance for loan losses.

For credit extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation under the Commercial Code or other similar laws, and to obligors that are effectively in similar conditions, reserves are maintained at 100% of amounts of claims net of expected amounts recoverable from the disposal of collateral and/or the amounts recoverable under guarantees.

For credit extended to obligors that are not yet legally or formally bankrupt but who are likely to be bankrupt, reserves are maintained at the amount deemed necessary based on overall solvency analyses of the amount of claims less expected amounts recoverable under guarantees.

For credit extended to obligors with Restructured Loan as defined in Note 5 below, reserves are maintained using Discounted Cash Flow Method ("the DCF Method") if i) the exposure to the obligor exceeds a certain threshold and ii) the future cash flow from the repayment of principal and interest can be reasonably estimated. Under the DCF Method, the reserve is determined as the difference between the book value of the loan and its present value of future cash flows discounted using the contractual interest rate before the loan was classified as a Restructured Loan.

For credit extended to all other obligors, reserves are maintained at rates derived from default experiences for a certain period in the past, etc.

The reserve for possible loan losses is provided based on the result of self assessment on quality of assets which is performed in accordance with the Bank's internal guidelines and is independently reviewed by the internal audit unit.

Other consolidated subsidiaries record a general reserve for possible loan losses by applying the historical loan-loss ratio observed over specific periods, and the specific reserve for certain loans at the estimated uncollectible amount based on an assessment of each borrower's ability to repay.

**i. Provision for directors' bonuses**

A provision is provided for the payments of bonuses to directors and Audit & Supervisory Board Member at the amount of the estimated bonus payments corresponding to the end of the fiscal year.

**j. Accounting method for retirement benefits**

In calculating retirement benefit obligation, the Bank uses the benefit formula basis for the purpose of attributing expected retirement benefit payment to the period up to the end of the fiscal year. In addition, the accounting method for actuarial gain and loss is as follows:

Actuarial gain and loss

Actuarial gain and loss are amortized from the year following the occurrence primarily by the straight line method over a fixed period (mainly 10 years) that is shorter than the average remaining service years of the eligible employees.

Meanwhile, certain consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expenses by the simplified method, using the amount of retirement benefit required for voluntary resignations at the end of the fiscal year as retirement benefit obligation.

**k. Provision for directors' retirement benefits**

To prepare for the payment of retirement benefits to directors and Audit & Supervisory Board Member, a reserve is provided at the amount deemed to have accrued at the end of the fiscal year (the estimated amount payable on the balance sheet date based on the bylaws) out of the estimated amount payable as retirement benefits to directors and Audit & Supervisory Board Member.

**l. Provision for reimbursement of deposits**

Provision for reimbursement of deposits accounts is provided for the repayment of dormant deposits which are no longer recorded as liabilities, based on the estimated reimbursement losses that may be incurred should the deposits be withdrawn.

**m. Provision for point card certificates**

Provision for point card certificates is provided for the future usage of points granted to credit card members at the amount estimated to be used in the future periods.

**n. Provision for Contingent Loss**

The provision for contingent loss is provided for the payment of charges related to the responsibility-sharing system to Credit Guarantee Corporations at the amount expected to be paid based on the past payment experience.

**o. Income Taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed.

**p. Earnings Per Share**

Earnings per share was computed based on the profit available for distribution to stockholders and the number of shares of common stock outstanding during the fiscal year.

**q. Hedge Accounting**

**Hedge Accounting for Interest Rate Risks**

The Bank adopted the standard treatment of the Industry Audit Committee Report No. 24, "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" ("Report No. 24") issued by the JICPA on February 13, 2002. Under the standard treatment of the Report No. 24, the Bank applies the deferred method of hedge accounting for qualifying derivative instruments to mitigate the interest rate risks arising from various financial assets and liabilities. Hedge effectiveness is assessed for each designated group of hedged items (such as deposits) and the corresponding group of hedging instruments (such as interest rate swaps). Both of the hedged items and hedging instruments are grouped based on their durations and compared for the testing of effectiveness.

In addition to the above, the Bank applies exceptional treatment for certain interest swap contracts that meet the criteria for the exceptional treatment, under which eligible interest rate swap contracts are accounted for on an accrual basis.

**Hedge Accounting for Foreign Exchange Risks**

For foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies, the Bank adopted the standard treatment prescribed in the Report No. 25 issued by the JICPA on July 29, 2002. Under that treatment, the Bank applies the deferred method of hedge accounting. The Bank enters into currency-swaps and foreign exchange swaps to mitigate the foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies and assesses, both at the hedge's inception and on an ongoing basis, whether these derivatives are highly effective in offsetting changes in cash flows of hedged items (financial assets and liabilities). Hedge effectiveness is assessed by ensuring that the foreign currency position of the hedging instruments that are designated to hedge foreign exchange risk of the foreign currency-denominated receivables and payables exceeds that of the hedged foreign currency-denominated receivables and payables.

**r. Recognition for Income and Expenses**

Income and expenses associated with finance lease transactions are recognized when lease fees are received.

**s. Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statements of cash flows consist of cash and deposit with the Bank of Japan which are included in "Cash and due from banks" on the consolidated balance sheets.

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## 2. Changes in Accounting Policies

(Application of "Accounting Standards for Business Combinations," etc.)

Effective from the fiscal year ended March 31, 2016, The Bank adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013; hereinafter the "Accounting Standard for Business Combinations"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013; hereinafter the "Accounting Standard for Consolidation"), and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013; hereinafter the "Accounting Standard for Business Divestitures") and other related standards. Accordingly,



difference arising from changes in the Bank's ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus and acquisition-related costs are recognized as expenses in the fiscal year in which they arise. Regarding business combination taking place on or after the beginning of the fiscal year ended March 31, 2016, an adjustment to the provisional amount arising from the finalization of the tentative accounting treatment relating to the purchase price allocation is retrospectively recognized in the consolidated financial statements for the accounting period in which the business combination occurs. In addition, presentation of profit and other items has been revised, and the term "minority interests" has been renamed as "non-controlling interests". For consistency with these changes, the consolidated financial statements for the year ended March 31, 2015 have been reclassified.

In the consolidated statement of cash flows for the year fiscal year ended March 31, 2016, cash flows from purchase or sales of equity of subsidiaries not resulting in change in the scope of consolidation are recognized under "Cash flows from financing activities" whereas cash flows concerning any costs associated with the purchase of equity of subsidiaries resulting in change in the scope of consolidation or any costs incurred associated with purchase or sales of equity of subsidiaries not resulting in change in the scope of consolidation are recognized under "Cash flows from operating activities."

The Bank has adopted the Accounting Standards for Business Combinations, etc. from the beginning of the fiscal year ended March 31, 2016 prospectively, in accordance with the transitional accounting treatments set forth in Paragraph 58-2(4) of the Accounting Standard for Business Combinations, Paragraph 44-5(4) of the Accounting Standard for Consolidation and Paragraph 57-4(4) of the Accounting Standard for Business Divestitures.

There is no effect of these changes on the consolidated financial statements.

### 3. Accounting Standards, etc. Not Yet Adopted

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016; hereinafter the "Implementation Guidance")

#### (1) Outline

The Implementation Guidance has been partially revised basically following the guidelines regarding recoverability of deferred tax assets prescribed in the JICPA Audit Committee Report No.66, "Auditing Treatment for Determining the Recoverability of Deferred Tax Assets."

#### (2) Planned date of adoption

The Bank plans to adopt the Implementation Guidance from the beginning of the fiscal year commencing on April 1, 2016.

#### (3) Impact of the adoption of the above accounting standards, etc.

The impact of the adoption of the Implementation Guidance is not yet determined.

### 4. Additional Information

(Application of "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts")

The Bank enters into transactions of delivering its own shares to the employees' stockholding association through trusts for the purpose of employee welfare.

#### 1. Outline of transactions

Based on the resolution at the Board of Directors meeting held on February 8, 2013, the Bank introduced the "Employee Stock Ownership Plan Trust" (hereinafter, the

"ESOP Trust") for the purpose of enhancing employee welfare in line with the Bank's 80th anniversary.

This is an incentive plan that covers all the employees participating in the employees' stock holding association.

Under the plan, the Bank sets up the ESOP Trust account in a trust bank, where the ESOP Trust preliminarily acquires from the market the number of shares of the Bank the employee's stockholding association is expected to acquire during four years and eight months following the setting up of the trust. Subsequent to this, the ESOP Trust will sell the shares of the Bank to the employee's stockholding association on an ongoing basis. If the amount equivalent to gain on sale of shares is accumulated in the ESOP Trust at the time the shares are sold out, the amount will be treated as residual assets and distributed to eligible beneficiaries. As the Bank provides a guarantee of debt for the ESOP Trust to acquire the shares of the Bank, if the amount equivalent to loss on sale of shares is accumulated in the ESOP Trust due to a fall in the share price of the Bank, and debt in an amount equivalent to that loss is remaining in the Trust at the time the Trust expires, the Bank is obliged to repay the remaining debt in accordance with the guarantee agreement.

2. While the Bank has applied the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015), it is accounted for using the same method the Bank has previously adopted.

3. Matters relating to the shares of the Bank held by the trust

(1) Carrying amount of shares held by the trust:

As of March 31, 2015	¥1,993 million
As of March 31, 2016	¥1,598 million

(2) The shares of the Bank held by the trust are recorded as treasury shares under shareholders' equity.

(3) The number of shares at the fiscal year end and the number of weighted average shares during the fiscal year

The number of shares:	
As of March 31, 2015	3,995 thousand shares
As of March 31, 2016	3,203 thousand shares
The weighted average number of shares:	
During the fiscal year ended March 31, 2015	4,411 thousand shares
During the fiscal year ended March 31, 2016	3,636 thousand shares

The number of shares at the fiscal year end and the weighted average number of shares during the fiscal year are included in the number of treasury shares that are excluded from the calculation of per share data.

### 5. Yen and U.S. Dollar Amounts

The Bank maintains its accounting records in yen. The yen amounts included in the accompanying consolidated financial statements are stated in millions of yen, truncating amounts of less than one million yen. Therefore, the totals or subtotals presented in the accompanying consolidated financial statements may not always add up to the sum of the respective account balances. "—" is used to denote nil and "0" is used to denote rounding down to zero.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥112.68 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2016, has been used. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

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## 6. Loans and Bills Discounted

- (1) Loans and bills discounted at March 31, 2015 and 2016 included the following items:  
Balance of loans to borrowers under bankruptcy procedures as of March 31, 2015 and 2016 were ¥5,778 million and ¥5,509 million (U.S.\$48,898 thousand), respectively.  
Balance of delinquent loans as of March 31, 2015 and 2016 were ¥61,260 million and ¥56,992 million (U.S.\$505,791 thousand), respectively.  
Loans to borrowers under bankruptcy procedures consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower (excluding the written-down portion of the loan). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).  
Delinquent loans are non-accrual loans, which do not fall under the classifications of loans to bankrupt borrowers or financial assistance loans where interest has been suspended for the purpose of business rehabilitation or debtor assistance.
- (2) Balance of loans past due for 3 months or more as of March 31, 2015 and 2016 were ¥784 million and ¥1,070 million (U.S.\$9,501 thousand), respectively.  
Loans past due for 3 months or more are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to borrowers under bankruptcy procedures and the balance of delinquent loans are not included in this category.
- (3) Balance of restructured loans as of March 31, 2015 and 2016 were ¥43,436 million and ¥44,012 million (U.S.\$390,596 thousand), respectively.  
Restructured loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to borrowers under bankruptcy procedures, the balance of delinquent loans and the balance of loans past due for 3 months or more.
- (4) The total balance of loans to borrowers under bankruptcy procedures, delinquent loans, loans past due for 3 months or more and restructured loans as of March 31, 2015 and 2016 were ¥111,259 million and ¥107,585 million (U.S.\$954,786 thousand), respectively.
- (5) Bills discounted are accounted for as financial transactions in accordance with JICPA industry Audit Committee Report No.24. The Bank has rights to sell or pledge bank acceptances bought, commercial bills discounted, documentary bills and foreign exchange bought without restrictions. Their total face value as of March 31, 2015 and 2016 were ¥39,796 million and ¥38,744 million (U.S.\$343,845 thousand), respectively.

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## 7. Loan Commitments

Contracts of overdraft facilities and loan commitment limits are contracts that require the Bank to extend credit to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount relating to these contracts within the limits was ¥1,275,169 million, ¥1,311,247 million (U.S.\$11,636,911 thousand),

respectively at March 31, 2015 and 2016. ¥1,222,112 million, ¥1,262,580 million (U.S.\$11,205,009 thousand), respectively, at March 31, 2015 and 2016 out of these unused balances were for the contracts of which original contractual term are one year or less, or unconditionally cancelable at any time.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank can refuse customers' loan application or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank obtains real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank performs periodic review of the customers' business results based on internal rules, and takes necessary measures to reconsider conditions in contracts and/or require additional collateral and guarantees.

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## 8. Financial Instruments

- (1) The financial instruments and related disclosures
- a. Policy for financial instruments*  
The Group provides mainly banking services and other financial services including leasing. The Bank engages in fund management including investment in securities and funding in the call market, in addition to the business of accepting deposits and negotiable certificates of deposit as well as provision of loans. With its financial assets and liabilities exposed to interest rate risk, the Bank adopts asset liability management (ALM) to avoid incurring unexpected loss due to fluctuations in interest rates. Thus, the Bank's derivative transactions are not only intended to provide solutions to customers' financial needs, but also to conduct ALM within the Bank.  
There are the Bank's consolidated subsidiaries that engage in securities business or banking business.  
Also leasing operation is conducted by a consolidated subsidiary.
- b. Nature and extent of risks arising from financial instruments*  
Financial assets held by the Group comprise mainly loans to clients, which are exposed to credit risk. The Group's financial assets also include securities such as stocks and bonds, which are exposed to credit risk of the issuing entities as well as the risk of market price fluctuations.  
Assets and liabilities in the forms of loans, bonds and deposits are exposed to interest rate risk, which is partially hedged by interest rate swap transactions. Likewise foreign currency denominated loans and bonds involve foreign currency exchange fluctuation risk, which is mitigated by making it a rule to match the currency of investment and financing, or hedged by the use of currency swap transactions.  
Call money and borrowed money, etc. are exposed to cash flow risk, involving inability to settle payments on due dates as a result of the unavailability of market under certain circumstances.  
The Bank conducts derivative transactions including interest rate swaps and currency-swaps in an effort to accommodate clients' financial needs, and as part of the Bank's ALM effort. Besides, the Bank engages in proprietary derivative trading with the purpose to earn short-term spread, subject to risk management including the setting of certain position limits and maximum allowable losses, in an effort to prevent losses in excess of certain threshold.  
The Bank applies hedge accounting. The Bank confirms that for hedges of interest rate to which exceptional treatment of interest rate swap is applied, the conditions for exceptional treatment are met and that for hedges of the

foreign currency exchange fluctuation risk, foreign currency position exceeds the hedged instruments.

*c. Risk management for financial instruments*

The Bank has formulated Basic Policies of Risk Management and ancillary rules concerning risks, along with the following structure to enforce adequate risk management.

*1) Credit risk management*

The Bank has established its credit management structure based on the internal rules concerning credit risks, including the Credit Policy and the Basic Rules for Credit Risk Management.

Provision of loans and other credit facilities involves credit risk management such as individual credit review, post-origination credit control including the utilization of Borrower Rating System and self assessment, handling of problem loans and monitoring of the credit concentration in particular sectors in loan portfolios.

Credit risks associated with securities investment and market transactions are managed by capturing fair value and credit rating.

Primary credit risk management tools such as credit rating system, self-assessment of the Bank's asset, write-off /reserve provisioning, are developed and examined by Risk Management Department which is independent of the business promotion division and the screening division, and checked by Inspection & Audit Department, for the purpose of proper check and balance. Executive Committee and the Board of Directors are updated on the latest risk situation regularly and as appropriate.

*2) Market risk management*

Risk management structure is in place, based on the internal rules concerning market risks including the Basic Rules of Market Risk Management.

For market transactions, the department in charge of market transactions is structured in such a way that they check each other: the Treasury & Securities Department serves as the front office department in charge of transactions, whereas the Financial Markets & International Department serves as the middle-office and back-office department in charge of risk management and administrative processing.

In addition, the Bank establishes the risk tolerance and the risk management criteria, conducts monitoring, and reports the monitored information to the ALM & Profit Management Committee via the Risk Management Department.

The principal financial instruments that expose the Bank to market risk include loans, deposits, securities and derivative transactions. In order to monitor the degree of market risk exposure of these financial instruments and financial obligations, the Bank employs the VaR technique as a uniform indicator tool.

It applies the historical-simulation method to the computation of VaR. Its VaR model uses a 99.9% confidence level and a 5-year observation period, with various holding periods depending on the holding purposes.

The total amount of value at risk (VaR) for the Bank as of March 31, 2016 was ¥77,500 million (The total amount of value at risk (VaR) for the Bank as of March 31, 2015 was ¥78,900 million).

The Bank conducts back tests by comparing the VaR derived from its measuring model and actual gains or losses, in order to confirm that its measuring model captures the market risk with sufficient adequacy. It should be noted that the VaR represents the amount of market risk under the condition of a certain event probability which was statistically calculated based on historical market fluctuations; therefore the model may not be able to capture sufficiently the risk associated with financial instruments in

market turmoil that exceeds historical levels of market fluctuations.

*3) Cash flow risk management*

Risk management structure is in place, based on the internal rules concerning cash flow risks including the Basic Rules of Cash Flow Risk Management.

With respect to cash flow risk, the Bank determines the department in charge of cash flow management, which rigorously manages cash flow periodically (e.g., daily, weekly, monthly) including its overseas bases. In addition, the ALM & Profit Management Committee, which is convened each month, takes every precaution to facilitate cash flow by identifying and analyzing the cash flow status, the balance between investing and funding, interest rate movements and other factors.

We have also prepared a Contingency Plan to prepare against emergencies, and are taking every precaution including developing systems that enable us to respond appropriately to a wide range of scenarios.

*d. Supplementary explanations on fair value of financial instruments*

Fair value of financial instruments are measured based on the quoted market price, if a quoted market price is available, or are measured based on the reasonably estimated value if a quoted market price is not available. Fair value of financial instruments whose quoted market price is not available is calculated based on certain assumptions, and the value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions does not represent the market risk of the derivative transactions.

*(2) Fair value of financial instruments*

The carrying value on the consolidated balance sheet and fair value of financial instruments as of March 31, 2015 and 2016 as well as the differences between these values are described below. Financial instruments such as non-listed shares whose fair value is not readily determinable are not included in the table.



Millions of yen			
2015			
	Carrying Value	Market Value	Differences
1. Due from Banks .....	¥ 164,918	¥ 164,918	¥ —
2. Securities			
Held-to-maturity bonds .....	22,863	23,042	178
Available for sale .....	2,292,520	2,292,520	—
3. Loans and bills discounted .....	4,806,908		
Allowance for loan losses .....	(42,158)		
	4,764,750	4,810,193	45,443
Total asset .....	¥7,245,053	¥7,290,675	¥45,622
1. Deposits .....	¥6,112,402	¥6,112,666	¥ 264
2. Negotiable certificate of deposit .....	142,955	142,955	(0)
3. Payable under securities lending transaction .....	262,906	262,906	—
4. Borrowed money .....	187,647	187,647	—
Total liability .....	¥6,705,912	¥6,706,176	¥ 264
Derivative transaction			
derivatives to which hedge accounting is not applied .....	¥ 287	¥ 287	¥ —
derivatives to which hedge accounting is applied .....	(4,790)	(4,790)	—
Total derivatives .....	¥ (4,503)	¥ (4,503)	¥ —

Millions of yen			
2016			
	Carrying Value	Market Value	Differences
1. Due from Banks .....	¥ 335,643	¥ 335,643	¥ —
2. Securities			
Held-to-maturity bonds .....	12,238	12,386	148
Available for sale .....	2,115,445	2,115,445	—
3. Loans and bills discounted .....	5,010,417		
Allowance for loan losses .....	(37,068)		
	4,973,349	5,023,233	49,884
Total asset .....	¥7,436,677	¥7,486,709	¥50,032
1. Deposits .....	¥6,284,836	¥6,285,135	¥ 299
2. Negotiable certificate of deposit .....	136,209	136,209	—
3. Payable under securities lending transaction .....	270,574	270,574	—
4. Borrowed money .....	257,764	257,764	—
Total liability .....	¥6,949,384	¥6,949,684	¥ 299
Derivative transaction			
derivatives to which hedge accounting is not applied .....	¥ 334	¥ 334	¥ —
derivatives to which hedge accounting is applied .....	3,097	3,097	—
Total derivatives .....	¥ 3,431	¥ 3,431	¥ —

Thousands of U.S. dollars			
2016			
	Carrying Value	Market Value	Differences
1. Due from Banks .....	\$ 2,978,735	\$ 2,978,735	—
2. Securities			
Held-to-maturity bonds .....	108,610	109,924	1,314
Available for sale .....	18,773,926	18,773,926	—
3. Loans and bills discounted .....	44,465,901		
Allowance for loan losses .....	(328,972)		
	44,136,929	44,579,639	442,710
Total asset .....	\$65,998,200	\$66,442,224	\$444,024
1. Deposits .....	\$55,775,968	\$55,778,627	\$ 2,660
2. Negotiable certificate of deposit .....	1,208,815	1,208,815	—
3. Payable under securities lending transaction .....	2,401,267	2,401,267	—
4. Borrowed money .....	2,287,578	2,287,578	—
Total liability .....	\$61,673,628	\$61,676,287	\$ 2,661
Derivative transaction			
derivatives to which hedge accounting is not applied .....	\$2,964	\$2,964	—
derivatives to which hedge accounting is applied .....	\$27,486	\$27,486	—
Total derivatives .....	\$30,450	\$30,450	—

(Note 1)

Method of estimating fair value

#### Assets

##### 1) Cash and due from banks

For due from banks without maturity, book value is reported as their fair value. Due from banks with maturity has short-term maturity (1 year or less), and thus book value is recorded as its fair value because of the proximity between the two.

##### 2) Securities

Shares are stated at prices quoted on stock exchanges, while bonds are stated at the reference prices for over-the-counter bond transactions (average) published by Japan Securities Dealers Association. Investment trusts are stated at the official reference price.

Privately-placed bonds with the Bank's guarantee are stated at the fair value, calculated by discounting the expected cash flows estimated to reflect the issuing entity's credit risk as of the closing date, using the market interest rate. Notes to securities by holding purpose are stated in "Securities."

##### 3) Loans and bills discounted

Interest rates of variable interest rate loans reflect market interest rate at short intervals, and thus their fair values are stated at book value because of their proximity to fair value, unless there are significant changes of the borrowers' credit conditions. Fixed interest rate loans are stated at their fair value as calculated by discounting their cash flows, of which those with OTC interest rate are stated at fair value as calculated by discounting their scheduled cash flow using the interest rate that would be applicable to similar new loans, and are determined by category and by term. Loans not with OTC interest rate are stated at fair value as calculated for each credit rating group, by discounting their future cash flow estimated to reflect the credit risk of each such group, using market interest rate. For loans with short-term maturity (1 year or less), book value is recorded as its fair value because of the proximity between the two.

In addition, receivables to borrowers that are Bankrupt borrowers, virtually bankrupt borrowers, or at Borrowers threatened with bankruptcy are stated at book value which are deemed to approximate their fair values on the consolidated balance sheets as of the consolidated closing date, minus the current amount of estimated loan losses, which are estimated based upon the current values of estimated future cash flows, collateral, guarantees, or estimated collectible amounts.

Loans undated due to their specific attributes such as loan amount being limited within the value of collateral assets, are stated at book value which are deemed to approximate their fair value in consideration of factors including estimated payment periods and interest rates conditions.

#### Liabilities

##### 1) Deposits and 2) Negotiable certificate of deposits

For demand deposit, fair value is deemed to be the amount payable on demand at year end date (book value). For time deposits and negotiable certificates of deposit, fair value is calculated by discounting future cash flows, using interest rates applicable to new deposits and market interest rate, respectively. For loans with short-term maturity (1 year or less), book value is recorded as its fair value because of the proximity between the two.

##### 3) Payable under securities lending transactions

As collateral related to securities lending has short-term contractual maturity (1 year or less), book value is recorded as its fair value because of the proximity between the two.

##### 4) Borrowed Money

The carrying amount of borrowed money with floating interest rates approximates fair value because the market rates are promptly reflected in the floating interest rate and the credit risks of the Bank and its consolidated subsidiaries have not changed significantly after borrowing. The fair value of borrowed money with fixed interest rates is determined by discounting future cash flows at the rate that

would be applied for similar new contracts. The carrying amount of borrowed money with maturity of less than one year approximates fair value because of its short maturity period.

#### Derivative Transaction

Derivative transactions are described in "Derivative Financial Instruments Transactions."

(Note 2)

Financial instruments whose fair value is not readily determinable are as follows: These are not included in "Assets 2) Securities" of the information on the fair values of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Non-listed stocks .....	¥2,615	¥2,563	\$22,749
Equity of subsidiaries and affiliates .....	¥2,706	¥2,990	\$26,544
Total .....	¥5,321	¥5,554	\$49,293

(Note 3)

Redemption schedules for monetary claims and securities with maturity after the fiscal year-end

	Millions of yen					
	2015					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 year to 5 years	Due from 5 year to 7 years	Due from 7 year to 10 years	Due after 10 years
Due from banks .....	¥ 109,535	¥ —	¥ —	¥ —	¥ —	¥ —
Securities .....	255,143	713,526	482,608	287,380	183,825	25,048
Held-to-maturity securities .....	11,637	5,349	4,472	366	1,084	—
National government bonds .....	10,700	4,100	3,200	—	—	—
Local government bonds .....	188	32	—	—	—	—
Corporate bonds .....	387	735	308	4	—	—
Others .....	361	482	964	361	1,084	—
Available for sale securities with maturity .....	243,505	708,177	478,135	287,014	182,740	25,048
National government bonds .....	104,500	251,500	132,100	142,900	38,000	—
Local government bonds .....	50,778	118,202	123,774	129,969	124,754	—
Corporate bonds .....	47,303	153,199	68,243	8,136	9,657	—
Others .....	40,923	185,274	154,017	6,008	10,328	25,048
Loans and bills discounted .....	¥1,317,206	¥ 897,836	¥ 615,854	¥334,901	¥366,308	¥1,175,191
Total .....	¥1,681,884	¥1,611,363	¥1,098,463	¥622,282	¥550,133	¥1,200,240

	Millions of yen					
	2016					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 year to 5 years	Due from 5 year to 7 years	Due from 7 year to 10 years	Due after 10 years
Due from banks .....	¥ 276,715	¥ —	¥ —	¥ —	¥ —	¥ —
Securities .....	277,939	437,124	334,631	212,126	138,616	2,000
Held-to-maturity securities .....	5,106	2,657	2,952	361	1,206	—
National government bonds .....	4,100	1,500	1,700	—	—	—
Local government bonds .....	32	—	—	—	—	—
Corporate bonds .....	612	675	287	—	—	—
Others .....	361	482	964	361	1,206	—
Available for sale securities with maturity .....	272,832	434,467	331,678	211,764	137,410	2,000
National government bonds .....	163,500	130,000	149,500	103,500	2,000	2,000
Local government bonds .....	59,379	141,729	136,142	98,039	119,731	—
Corporate bonds .....	48,070	149,204	43,778	8,608	15,352	—
Others .....	1,882	13,532	2,257	1,615	326	—
Loans and bills discounted .....	¥1,338,961	¥ 914,303	¥584,334	¥359,714	¥395,065	¥1,321,231
Total .....	¥1,893,615	¥1,351,428	¥918,965	¥571,840	¥533,682	¥1,323,231

Thousands of U.S. dollars						
2016						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 year to 5 years	Due from 5 year to 7 years	Due from 7 year to 10 years	Due after 10 years
Due from banks .....	\$ 2,455,760	—	—	—	—	—
Securities .....	\$ 2,466,622	\$ 3,879,346	\$2,969,748	\$1,882,556	\$1,230,180	\$ 17,749
Held-to-maturity securities .....	45,321	23,586	26,202	3,211	10,704	—
National government bonds .....	36,386	13,312	15,087	—	—	—
Local government bonds .....	289	0	—	—	—	—
Corporate bonds .....	5,435	5,992	2,552	—	—	—
Others .....	3,211	4,282	8,563	3,211	10,704	—
Available for sale securities with maturity .....	2,421,301	3,855,760	2,943,546	1,879,345	1,219,476	17,749
National government bonds .....	1,451,012	1,153,710	1,326,766	918,530	17,749	17,749
Local government bonds .....	526,975	1,257,804	1,208,226	870,074	1,062,584	—
Corporate bonds .....	426,607	1,324,145	388,516	76,400	136,246	—
Others .....	16,707	120,101	20,038	14,341	2,897	—
Loans and bills discounted .....	\$11,882,866	\$ 8,114,158	\$5,185,787	\$3,192,351	\$3,506,086	\$11,725,516
Total .....	\$16,805,248	\$11,993,504	\$8,155,535	\$5,074,907	\$4,736,266	\$11,743,265

(Note 4)

Repayment schedules for deposits and other interest-bearing debt after the fiscal year-end

Millions of yen						
2015						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 year to 5 years	Due from 5 year to 7 years	Due from 7 year to 10 years	Due after 10 years
Deposit .....	¥5,594,465	¥460,223	¥44,198	¥5,675	¥7,840	¥—
Negotiable certificate of deposit .....	142,855	100	—	—	—	—
Payable under securities lending transaction .....	262,906	—	—	—	—	—
Borrowed money .....	182,518	3,444	1,578	106	—	—
Total .....	¥6,182,745	¥463,767	¥45,776	¥5,781	¥7,840	¥—

Millions of yen						
2016						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 year to 5 years	Due from 5 year to 7 years	Due from 7 year to 10 years	Due after 10 years
Deposit .....	¥5,756,005	¥475,972	¥38,630	¥5,915	¥8,312	¥—
Negotiable certificate of deposit .....	136,209	—	—	—	—	—
Payable under securities lending transaction .....	270,574	—	—	—	—	—
Borrowed money .....	253,543	3,359	847	14	—	—
Total .....	¥6,416,332	¥479,332	¥39,477	¥5,929	¥8,312	¥—

Thousands of U.S. dollars						
2016						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 year to 5 years	Due from 5 year to 7 years	Due from 7 year to 10 years	Due after 10 years
Deposit .....	\$51,082,761	\$4,224,106	\$342,831	\$52,502	\$73,768	—
Negotiable certificate of deposit .....	1,208,815	—	—	—	—	—
Payable under securities lending transaction .....	2,401,267	—	—	—	—	—
Borrowed money .....	2,250,117	29,817	7,520	124	—	—
Total .....	\$56,942,960	\$4,253,923	\$350,351	\$52,626	\$73,768	—

## 9. Securities

### (1) Market Value of Securities

Market value and valuation differences of securities as of March 31, 2015 and 2016 and other related information were as follows. Securities below include trading securities classified as trading account securities, negotiable certificates of deposits classified as Cash and due from banks. The same definition was applied in the following tables (a) to (g).

#### (a) Trading account securities

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Valuation gain included in income for the year .....	(¥2)	¥7	\$69

#### (b) Held-to-maturity bonds

The Bank's and its consolidated subsidiaries' investments in held-to-maturity bonds as of March 31, 2015 and 2016 were summarized as follows.

		Millions of yen		
		2015		
		Carrying Value	Market Value	Differences
Securities of which market value exceed carrying value	National government bonds .....	¥18,010	¥18,030	¥ 20
	Local government bonds .....	184	186	2
	Corporate bonds .....	1,395	1,411	16
	Other securities .....	2,888	3,032	143
	sub total .....	¥22,478	¥22,661	¥182
Securities of which market value does not exceed carrying value	National government bonds .....	¥ —	¥ —	¥ —
	Local government bonds .....	37	37	—
	Corporate bonds .....	0	0	—
	Other securities .....	6,228	6,225	(3)
	sub total .....	¥ 6,265	¥ 6,262	(¥3)
	total .....	¥28,744	¥28,923	¥179

		Millions of yen		
		2016		
		Carrying Value	Market Value	Differences
Securities of which market value exceed carrying value	National government bonds .....	¥ 6,504	¥ 6,538	¥ 33
	Local government bonds .....	20	21	0
	Corporate bonds .....	1,456	1,476	19
	Other securities .....	2,671	2,779	107
	sub total .....	¥10,653	¥10,815	¥161
Securities of which market value does not exceed carrying value	National government bonds .....	¥ 800	¥ 800	¥ (0)
	Local government bonds .....	11	11	—
	Corporate bonds .....	80	79	(0)
	Other securities .....	5,858	5,845	(12)
	sub total .....	¥ 6,750	¥ 6,737	(¥12)
	total .....	¥17,403	¥17,552	¥148

		Thousands of U.S. dollars		
		2016		
		Carrying Value	Market Value	Differences
Securities of which market value exceed carrying value	National government bonds .....	\$ 57,725	\$ 58,024	\$ 299
	Local government bonds .....	184	187	3
	Corporate bonds .....	12,930	13,100	170
	Other securities .....	23,711	24,669	958
	sub total .....	\$ 94,550	\$ 95,980	\$1,430
Securities of which market value does not exceed carrying value	National government bonds .....	\$ 7,100	\$ 7,100	(\$△0)
	Local government bonds .....	105	105	—
	Corporate bonds .....	709	708	(1)
	Other securities .....	51,990	51,881	(109)
	sub total .....	\$ 59,904	\$ 59,794	(\$110)
	total .....	\$154,454	\$155,774	\$1,320

(c) Available for sale securities

		Millions of yen		
		2015		
		Carrying Value	Cost	Differences
Securities of which market value exceed cost	Stocks .....	¥ 208,367	¥ 85,587	¥122,779
	Bonds .....	1,502,218	1,464,164	38,054
	National government bonds .....	677,165	659,420	17,744
	Local government bonds .....	563,239	545,674	17,564
	Corporate bonds .....	261,814	259,069	2,745
	Other securities .....	527,641	487,331	40,310
	Foreign bonds .....	397,574	391,071	6,502
	Other securities .....	130,067	96,259	33,807
	sub total .....	¥2,238,228	¥2,037,083	¥201,144
Securities of which market value does not exceed cost	Stocks .....	¥3,695	¥ 3,849	(¥154)
	Bonds .....	38,156	38,277	(121)
	National government bonds .....	9,062	9,069	(6)
	Local government bonds .....	1,792	1,800	(7)
	Corporate bonds .....	27,301	27,408	(106)
	Other securities .....	13,280	13,304	(23)
	Foreign bonds .....	11,169	11,178	(8)
	Other securities .....	2,111	2,126	(14)
	sub total .....	¥ 55,132	¥ 55,431	(¥298)
total .....		¥2,293,360	¥2,092,515	¥200,845

		Millions of yen		
		2016		
		Carrying Value	Cost	Differences
Securities of which market value exceed cost	Stocks .....	¥ 168,880	¥ 72,442	¥ 96,438
	Bonds .....	1,398,709	1,360,773	37,936
	National government bonds .....	567,265	550,285	16,979
	Local government bonds .....	572,177	554,220	17,956
	Corporate bonds .....	259,267	256,267	3,000
	Other securities .....	497,901	468,686	29,215
	Foreign bonds .....	383,189	376,561	6,627
	Other securities .....	114,712	92,124	22,587
	sub total .....	¥2,065,492	¥1,901,901	¥163,590
Securities of which market value does not exceed cost	Stocks .....	¥ 10,504	¥ 12,056	(¥1,551)
	Bonds .....	9,422	9,488	(65)
	National government bonds .....	—	—	—
	Local government bonds .....	799	800	(1)
	Corporate bonds .....	8,623	8,688	(64)
	Other securities .....	30,721	31,080	(359)
	Foreign bonds .....	26,556	26,728	(172)
	Other securities .....	4,165	4,351	(186)
	sub total .....	¥ 50,648	¥ 52,625	(¥1,976)
total .....		¥2,116,141	¥1,954,527	¥161,613

		Thousands of U.S. dollars		
		2016		
		Carrying Value	Cost	Differences
Securities of which market value exceed cost	Stocks .....	\$ 1,498,764	\$ 642,905	\$ 855,859
	Bonds .....	12,413,115	12,076,437	336,678
	National government bonds .....	5,034,303	4,883,615	150,688
	Local government bonds .....	5,077,893	4,918,532	159,361
	Corporate bonds .....	2,300,919	2,274,290	26,629
	Other securities .....	4,418,721	4,159,444	259,277
	Foreign bonds .....	3,400,684	3,341,869	58,815
	Other securities .....	1,018,037	817,575	200,462
	sub total .....	\$18,330,600	\$16,878,786	\$1,451,814
Securities of which market value does not exceed cost	Stocks .....	\$ 93,225	\$ 106,998	(\$13,773)
	Bonds .....	83,625	84,205	(580)
	National government bonds .....	—	—	—
	Local government bonds .....	7,091	7,100	(9)
	Corporate bonds .....	76,534	77,105	(571)
	Other securities .....	272,644	275,833	(3,189)
	Foreign bonds .....	235,678	237,211	(1,533)
	Other securities .....	36,966	38,622	(1,656)
	sub total .....	\$ 449,494	\$ 467,036	(\$17,542)
total .....		\$18,780,094	\$17,345,822	\$1,434,272

(d) Held-to-maturity bonds sold ..... Nil

(e) Available for sale securities sold

		Millions of yen		
		2015		
		Proceeds from sales	Gains	Losses
Stocks .....		¥ 2,980	¥1,487	¥140
Bonds .....		99,176	592	0
National government bonds .....		86,838	505	0
Local government bonds .....		3,125	25	—
Corporate bonds .....		9,213	62	—
Other securities .....		35,021	395	126
Foreign bonds .....		33,864	53	126
Other securities .....		1,157	341	—
total .....		¥137,179	¥2,475	¥268

		Millions of yen		
		2016		
		Proceeds from sales	Gains	Losses
Stocks .....		¥ 8,457	¥3,397	¥109
Bonds .....		51,968	296	0
National government bonds .....		46,263	290	—
Local government bonds .....		400	0	—
Corporate bonds .....		5,304	6	0
Other securities .....		57,603	739	136
Foreign bonds .....		56,432	311	136
Other securities .....		1,171	427	0
total .....		¥118,029	¥4,434	¥246



Thousands of U.S. dollars			
2016			
	Proceeds from sales	Gains	Losses
Stocks .....	\$ 75,055	\$30,155	\$ 974
Bonds .....	461,203	2,632	5
National government bonds .....	410,578	2,574	—
Local government bonds .....	3,551	1	—
Corporate bonds .....	47,074	57	5
Other securities .....	511,217	6,563	1,209
Foreign bonds .....	500,819	2,767	1,208
Other securities .....	10,398	3,796	1
total .....	<u>\$1,047,475</u>	<u>\$39,350</u>	<u>\$2,188</u>

(f) *Securities whose holding purpose was reclassified* ..... Nil

**(g) Securities written down for the purpose of impairment adjustment**

When fair values of other securities for which fair values are determinable have reduced significantly from, and are unlikely to restore to the level of their acquisition costs, their carrying values are reduced to fair values, with valuation differences treated as losses for the period (hereinafter referred to as "Impairment Adjustment").

There was no Impairment Adjustment during the year ended March 31, 2015.

The amount of write-down during the year ended March 31, 2016 for the purpose of Impairment Adjustment was ¥1,440 million, including ¥1,440 million in stocks.

The criteria to determine whether there was "a significant reduction" in fair values are included in self-assessment criteria. Impairment Adjustment is applied to all stocks with fair values having reduced 50% or more from their acquisition costs, while for stocks with fair values having reduced 30% or more but less than 50% from their acquisition costs, Impairment Adjustment is subject to case-by-case judgment of the likelihood of recovery in fair values, based on the share price trend for certain period before the benchmark date as well as financial conditions of the issuing entity.

**(2) Investments in non-consolidated subsidiaries and affiliates**

Securities included investments in non-consolidated subsidiaries and affiliates of ¥2,706 million and ¥2,990 million at March 31, 2015 and 2016, respectively.

**(3) Guarantee obligations for bonds in private placement**

Guarantee obligations for bonds in private placement (defined in Article 2 (3) of Financial Instruments and Exchange Act) included in Japanese Corporate Bonds were ¥24,466 million and ¥32,136 million (U.S.\$285,205 thousand) as of March 31, 2015 and 2016, respectively.

## 10. Money Held in Trust

### Money Held in Trust for Trading Purposes

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Consolidated Balance Sheet Amount .....	5,000	4,967	44,087
Unrealized Gains Included in the Consolidated Statements of Income .....	62	(86)	(769)

Money Held in Trust for Holding Purposes..... Nil (as of March, 2015 and 2016)

Money Held in Trust for Other Purposes..... Nil (as of March, 2015 and 2016)

## 11. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale Securities as of March 31, 2015 and 2016 consisted of the following

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Valuation Difference .....	200,845	161,613	1,434,271
Securities Available-for-Sale .....	200,845	161,613	1,434,271
Deferred Tax Liabilities .....	64,241	49,106	435,802
Valuation Difference, Net of Taxes .....	136,604	112,507	998,469
Amount Attributable to Non-controlling interests .....	17	7	68
Net Unrealized Gains on Securities Available-for-Sale Owned by Affiliates, which is Attributable to the Parent .....	196	245	2,179
Valuation Difference on Available-for-sale Securities .....	136,783	112,745	1,000,580

## 12. Derivative Financial Instruments Transactions

### (1) Derivatives to which hedge accounting is not applied

With respects to the derivatives to which hedge accounting is not applied, contract amount or notional amount set out in the contract, fair value, valuation gain or loss and calculation method of such fair value, by class of underlying asset at the end of the year are as described below. The whole contract amounts and other amounts shown here are not indicative of the market risks associated with these derivative transactions.

#### (a) Interest Rate Related Transactions

As of March 31,	Millions of yen							
	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Interest rate futures:								
Written .....	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Purchased .....	—	—	—	—	—	—	—	—
	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

As of March 31,	Thousands of U.S. dollars			
	2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Interest rate futures:				
Written .....	\$ —	\$ —	\$ —	\$ —
Purchased .....	—	—	—	—
	\$ —	\$ —	\$ —	\$ —

Millions of yen								
As of March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Interest rate swaps:								
Receipt fixed								
payments floating ..	¥48,103	¥42,303	¥ 288	¥333	¥ 50,337	¥47,560	¥ 618	¥ 636
Receipt floating								
payments fixed .....	48,103	42,303	(130)	(130)	50,337	47,560	(402)	(402)
	<u>¥96,206</u>	<u>¥84,606</u>	<u>¥ 158</u>	<u>¥202</u>	<u>¥100,674</u>	<u>¥95,120</u>	<u>¥ 216</u>	<u>¥ 233</u>

					Thousands of U.S. dollars			
As of March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Interest rate swaps:								
Receipt fixed								
payments floating .....					\$446,727	\$422,082	\$ 5,493	\$ 5,645
Receipt floating								
payments fixed .....					446,727	422,082	(3,576)	(3,576)
					<u>\$893,454</u>	<u>\$844,164</u>	<u>\$ 1,917</u>	<u>\$ 2,069</u>

Millions of yen								
For the years ended March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Interest cap trading:								
Written .....	—	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Purchased .....	—	—	—	—	—	—	—	—
	<u>—</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>

					Thousands of U.S. dollars			
For the year ended March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Interest cap trading:								
Written .....					\$ —	\$ —	\$ —	\$ —
Purchased .....					—	—	—	—
					<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

1. Transactions above are stated at the fair value and the related valuation gain or loss is reported in the consolidated statements of incomes.

2. Calculation of fair value

The fair values of transactions listed on exchanges are based on the last quoted market price at the Tokyo Financial Exchange Inc. or others.

The fair values of over-the-counter transactions are based on the discounted present value, option pricing models or others.

**(b) Foreign Exchange Related Transactions**

Millions of yen								
As of March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Currency swaps .....	¥66,073	¥59,798	¥122	¥122	¥81,235	¥61,439	¥97	¥153
					Thousands of U.S. dollars			
As of March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Currency swaps .....					\$720,939	\$545,252	\$864	\$1,363

Millions of yen								
For the years ended March 31,	2015				2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Forward exchange contracts:								
Written .....	¥ 6,033	¥ —	¥(48)	¥(48)	¥ 6,583	¥ —	¥ 225	¥ 225
Purchased .....	5,357	—	55	55	5,613	—	(205)	(205)
	<u>¥11,391</u>	<u>¥ —</u>	<u>¥ 6</u>	<u>¥ 6</u>	<u>¥12,196</u>	<u>¥ —</u>	<u>¥ 20</u>	<u>¥ 20</u>
Currency options:								
Written .....	¥29,347	¥22,638	¥(2,050)	¥ 528	¥ 50,621	¥41,374	¥(2,946)	¥ 865
Purchased .....	29,347	22,638	2,050	(194)	50,621	41,374	2,946	(392)
	<u>¥58,695</u>	<u>¥45,277</u>	<u>¥ —</u>	<u>¥ 334</u>	<u>¥101,242</u>	<u>¥82,749</u>	<u>¥ —</u>	<u>¥ 472</u>

Thousands of U.S. dollars				
For the year ended March 31,	2016			
	Contract amounts	Due after 1 year	Fair Value	Valuation profit
Forward exchange contracts:				
Written .....	\$ 58,423	\$ —	\$ 2,004	\$ 2,004
Purchased .....	49,821	—	(1,821)	(1,821)
	<u>\$720,939</u>	<u>\$ —</u>	<u>\$ 183</u>	<u>\$ 183</u>
Currency options:				
Written .....	\$449,250	\$367,190	\$(26,150)	\$ 7,682
Purchased .....	449,250	367,190	26,150	(3,485)
	<u>\$898,500</u>	<u>\$734,380</u>	<u>\$ —</u>	<u>\$ 4,197</u>

1. Transactions above are stated at the fair value and the related valuation gain or loss is reported in the consolidated statements of incomes.

2. Calculations of fair value

The fair values are based on factors such as the discounted present value.

(c) Equity Related Transactions ..... Nil

(d) Bond Related Transactions ..... Nil

(e) Commodity Related Transactions . Nil

(f) Credit Derivatives ..... Nil .

(2) Derivatives to which hedge accounting is applied

With respects to the derivatives to which hedge accounting is applied, contract amount or notional amount set out in the contract and the fair value at the end of the year along with the calculation method of such fair value, by class of underlying asset and by method of hedge accounting, are as follows. The whole contract amounts and other amounts shown here are not indicative of the market risks associated with these derivative transactions.

(a) Interest Rate Related Transactions

Millions of yen								
As of March 31,	Hedged items	2015			2016			Fair Value
		Contract amounts	Due after 1 year	Fair Value	Contract amounts	Due after 1 year	Fair Value	
Standard treatment: Interest rate swaps: .....	—	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Interest rate futures: .....	—	—	—	—	—	—	—	—
Interest rate options: ....	—	—	—	—	—	—	—	—
Others .....	—	—	—	—	—	—	—	—
		<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>

Thousands of U.S. dollars				
As of March 31,	Hedged items	2016		
		Contract amounts	Due after 1 year	Fair Value
Standard treatment: Interest rate swaps: .....	—	\$ —	\$ —	\$ —
Interest rate futures: .....	—	—	—	—
Interest rate options: ....	—	—	—	—
Others .....	—	—	—	—
		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

		Millions of yen						
		Hedged items	2015			2016		
As of March 31,			Contract amounts	Due after 1 year	Fair Value	Contract amounts	Due after 1 year	Fair Value
Exceptional treatment:	Interest rate swaps:	Loan	¥23,043	¥18,847		¥22,868	¥20,410	
	Receipt fixed							
	payments floating .....		—	—	*note	—	—	*note
	Receipt floating							
	payments fixed .....		23,043	18,847		22,868	20,410	
	Total .....		—	—	—	—	—	—

(Note) As the swaps that qualify for exceptional treatment for interest rate swaps are treated as one combined with hedged loans, fair value of the former is included in that of the latter in the "Financial Instruments".

		Thousands of U.S. dollars		
		2016		
As of March 31,		Contract amounts	Due after 1 year	Fair Value
Exceptional treatment:	Interest rate swaps:	\$202,954	\$181,137	
	Receipt fixed payments floating .....	—	—	—
	Receipt floating payments fixed .....	202,954	181,137	—
	Total .....	\$202,954	\$181,137	—

1. The Bank adopted mainly the standard treatment of the "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24 issued by the JICPA on February 13, 2002.). Under the standard treatment of the Report No. 24, the Bank applies the deferred method of hedge accounting.

2. Calculation of fair value

The fair values of transactions listed on exchanges are based on the last quoted market price at the Tokyo Financial Exchange Inc. or others.

The fair values of over-the-counter transactions are based on the discounted present value, option pricing models or others.

(b) Foreign Exchange Related Transactions

			Millions of yen					
			2015			2016		
As of March 31,		Hedged items	Contract amounts	Due after 1 year	Fair Value	Contract amounts	Due after 1 year	Fair Value
Standard treatment:	Currency swaps: .....	Call loans, Loans, Bonds and Foreign exchange	¥ 32,648	¥ —	(¥3,887)	¥70,162	¥28,170	¥3,068
	Forward exchange contracts: .....		¥126,769	—	(¥903)	¥ 2,074	¥ —	¥ 28
Deferred method:	Currency swap: .....	—	—	—	—	—	—	—
	Forward exchange contracts: .....	—	—	—	—	—	—	—
	Total .....		—	—	(¥4,790)	—	—	¥3,097

		Thousands of U.S. dollars		
		2016		
As of March 31,		Contract amounts	Due after 1 year	Fair Value
Standard treatment:	Currency swaps: .....	\$622,666	\$250,000	\$27,234
	Forward exchange contracts: .....	\$ 18,408	—	\$ 252
Deferred method:	Currency swap: .....	—	—	—
	Forward exchange contracts: .....	—	—	—
	Total .....	\$ —	\$ —	\$27,486

1. The Bank adopted mainly the standard treatment of the "Treatment of Accounting and Auditing Relating to the Accounting of Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25 issued by the JICPA on July 29, 2002.). Under the standard treatment of the Report No. 25, the Bank applies the deferred method of hedge accounting.

2. Calculation of fair value

The fair values are based on the discounted present value or others.

- (c) Equity Related Transactions ..... Nil  
(d) Bond Related Transactions ..... Nil  
(e) Equity Related Transactions ..... Nil (as of March 31, 2016)  
(f) Bond Related Transactions ..... Nil (as of March 31, 2016)

### 13. Comprehensive income

Amounts of recycling and tax effects on other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net unrealized gains (losses) on securities, net of tax:			
Items recognized during the year	67,045	(¥32,692)	(\$290,132)
Amounts of recycling	(3,573)	(6,539)	(58,038)
Before tax effect adjustment	63,472	(39,231)	(348,170)
Tax effects	(15,708)	15,135	134,319
Net unrealized gains (losses) on securities, net of tax	47,763	(24,096)	(213,851)
Deferred hedge gains (losses):			
Items recognized during the year	(504)	(651)	(5,780)
Amounts of recycling	599	466	4,143
Before tax effect adjustment	95	(184)	(1,637)
Tax effects	(34)	59	525
Deferred hedge gains (losses)	60	(125)	(1,112)
Revaluation reserve for land			
Items recognized during the year	—	—	—
Amounts of recycling	—	—	—
Before tax effect adjustment	—	—	—
Tax effects	879	423	3,762
Revaluation reserve for land	879	423	3,762
Foreign currency translation adjustments:			
Items recognized during the year	587	2	20
Amounts of recycling	—	—	—
Before tax effect adjustment	587	2	20
Tax effects	—	—	—
Foreign currency translation adjustments	587	2	20
Remeasurements of defined benefit plans			
Items recognized during the year	3,541	(15,872)	(140,862)
Amounts of recycling	640	429	3,809
Before tax effect adjustment	4,181	(15,443)	(137,053)
Tax effects	(1,549)	4,676	41,502
Remeasurements of defined benefit plans	2,631	(10,766)	(95,551)
Share of other comprehensive income of entities and affiliates accounted for using the equity method			
Items recognized during the year	133	49	435
Amounts of recycling	—	—	—
Before tax effect adjustment	133	49	435
Tax effects	—	—	—
Share of other comprehensive income of entities and affiliates accounted for using the equity method	133	49	435
Total other comprehensive income	¥52,056	(¥34,513)	(\$306,295)

### 14. Property, plant and equipment

Depreciation was computed using the declining-balance method. Property, plant and equipment as of March 31, 2015 and 2016 were expressed net of the following accumulated depreciation.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
	¥64,670	¥65,194	\$578,577

Deferred gain on real estate deductible for tax purposes amounted to ¥3,937 million and ¥3,937 million on March 31, 2015 and 2016, respectively.



## 15. Assets Pledged

Assets pledged as collateral as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Securities	¥665,596	¥699,978	\$6,212,093

Liabilities related to the above pledged assets as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deposits	¥133,148	¥ 36,994	\$ 328,317
Payables under securities lending transactions	262,906	270,574	2,401,267
Borrowed money	180,352	251,436	2,231,424
Other	221	119	1,064

In addition, the following was pledged as collateral for settlements of exchange or margins for futures transactions as of March, 2015 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Securities	¥82,201	¥36,785	\$326,462
Other	49	229	2,034

Guarantee deposits of ¥1,580 million were included in Other Assets as of March 31, 2016.

## 16. Revaluation Reserve for Land

Pursuant to the Law concerning Revaluation of Premises, premises used for business operations have been revalued as of March 31, 1998. Premises revaluation gain was included in Net Assets, net of income taxes.

Date of the revaluation: March 31, 1998

Revaluation method stipulated in paragraph 3, Article 3 of the Law concerning Revaluation of Premises Calculated by applying reasonable adjustments to the roadside values such as adjustments for the shape of the land, based on Item 4, Article 2 of the Enforcement Ordinance of the Law Concerning Land Revaluation (Enforcement Ordinance No. 119, effective March 31 1998).

The difference between the revalued carrying amount and the fair value of premises revalued pursuant to Article 10 of the Law was ¥20,638 million and ¥20,430 million (U.S.\$181,311 thousand) as of March 31, 2015 and 2016, respectively.

## 17. Retirements benefits

Retirement benefit plans

Retirement benefit plans adopted by the Bank and its consolidated subsidiaries

The Bank and its domestic consolidated subsidiaries have established defined benefit plans comprising a retirement lump-sum payment plan and defined benefit welfare pension plan (funded type), as well as defined contribution plan namely defined contribution pension plan. In addition, premium retirement benefits may be payable in certain circumstance at an employees' retirement. The Bank has a retirement benefit trust in place.

The changes in the retirement benefit obligation during the year ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year .....	¥65,281	¥78,472	\$696,415
Cumulative effect of changes in accounting policies .....	8,781	—	—
Restated balance .....	74,062	78,472	696,415
Service cost .....	1,702	1,863	16,539
Interest cost .....	1,074	892	7,923
Actuarial loss .....	4,650	11,348	100,714
Retirement benefits paid .....	(3,018)	(2,800)	(24,853)
Prior service cost .....	—	—	—
Other .....	—	—	—
Balance at the end of the year .....	¥78,472	¥89,776	\$796,738

(Note)

Consolidated subsidiaries use the simplified method in calculating retirement benefit obligations.

The changes in plan assets during the year ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year .....	¥69,570	¥77,178	\$684,933
Expected return on plan assets .....	1,193	1,067	9,472
Actuarial loss .....	8,191	(4,523)	(40,147)
Contributions by the Bank .....	—	—	—
Retirement benefits paid .....	(1,777)	(1,835)	(16,290)
Other .....	—	—	—
Balance at the end of the year .....	¥77,178	¥71,886	\$637,968

(Note)

The Bank's contributions are funded by the retirement benefit trust.

Reconciliation of ending balances of retirement benefit obligations and plan assets, and net defined liability and net defined asset recorded on the consolidated balance sheets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligation .....	¥78,472	¥89,776	\$ 796,738
Plan assets at fair value .....	(77,178)	(71,886)	(637,968)
	1,293	17,890	158,770
Unfunded retirement benefit obligation .....	—	—	—
Net liability (asset) for retirement benefits in the balance sheets .....	¥ 1,293	¥17,890	\$ 158,770
Net defined liability .....	¥ 1,297	¥17,890	\$ 158,770
Net defined asset .....	(3)	—	—
Net liability (asset) for retirement benefits in the balance sheets .....	¥ 1,293	¥17,890	\$ 158,770

Components of retirement benefit expense for the year ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost .....	¥ 1,702	¥ 1,863	\$16,539
Interest cost .....	1,074	892	7,923
Expected return on plan assets .....	(1,193)	(1,067)	(9,472)
Amortization of actuarial loss .....	640	429	3,809
Amortization of prior service costs .....	—	—	—
Other (extra payment of premium retirement benefits, etc.) .....	23	20	181
Retirement benefit expense associated with defined benefit plans .....	¥ 2,247	¥ 2,138	\$18,980

(Note)

Retirement benefit expense at consolidated subsidiaries using simplified method is collectively included in "Service cost."

Remeasurements of defined benefit plans on other comprehensive income (before tax effect adjustment) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Prior service cost .....	¥ —	¥ —	\$ —
Actuarial gain .....	(4,181)	15,443	137,053
Other .....	—	—	—
Total .....	¥(4,181)	¥15,443	\$137,053

Remeasurements of defined benefit plans were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized prior service cost .....	¥ —	¥ —	\$ —
Unrecognized actuarial loss .....	2,105	17,549	155,743
Other .....	—	—	—
Total .....	¥2,105	¥17,549	\$155,743

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2016 were as follows:

	2015	2016
Bonds .....	30.2%	30.5%
Stock .....	49.3%	44.4%
Life insurance company general accounts .....	17.4%	22.6%
Cash and due from banks .....	0.1%	0.1%
Other .....	3.0%	2.4%
Total .....	100.0%	100.0%

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

	2015	2016
Discount rates		
Welfare pension plan .....	1.5%	0.5%
Retirement lump-sum payment plan .....	1.0%	0.2%
Expected long-term return on plan assets		
Welfare pension fund .....	1.5%	1.2%
Retirement benefit trust .....	2.1%	1.7%
Other assumptions		
Expected rate of salary raises .....	4.2%	4.2%

Defined contribution plan

Amount of contributions required for defined contribution plans at consolidated subsidiaries as of March 31, 2015 and 2016 is ¥11 million and ¥11 million (U.S.\$101 thousand), respectively.

## 18. Cash and Cash Equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets to the cash and cash equivalents as of March 31 2015 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and Due from Banks .....	¥164,918	¥335,643	\$2,978,735
Interest-bearing Deposits included in Due from Banks (excluding Due from BOJ) .....	(3,110)	(11,492)	(101,988)
Cash and Cash Equivalents .....	¥161,807	¥324,151	\$2,876,747

## 19. Other Expenses

Other expenses for the years ended March 31, 2015 and 2016 include ¥187 million and ¥408 million (U.S.\$3,628 thousand), respectively, of write-down of loans, ¥140 million and ¥108 million (U.S.\$960 thousand), respectively, of losses on sales of stocks and other securities, ¥46 million and ¥1,444 million (U.S.\$12,824 thousand), respectively, of losses on impairment of stocks and other securities and ¥355 million and ¥409 million (U.S.\$3,630 thousand), respectively, of losses on loans sold.

## 20. Lease Transactions

### a. Lessee

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2015 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
With one year	¥ 103	¥ 77	\$ 691
Over one year	126	61	546
Total	¥ 229	¥ 139	\$ 1,237

### b. Lessor

Leased investment asset at March 31, 2015 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease receivables .....	¥38,264	¥38,556	\$342,174
estimated residual value .....	4,463	4,785	42,472
Interest income .....	(4,672)	(4,692)	(41,641)
Total .....	¥38,055	¥38,649	\$343,005

The lease receivable amount at March 31, 2015 and 2016, and the amount of lease fees receivable on investment assets, which is scheduled to be collected after the fiscal year-end, were summarized as follows:

	Lease receivables Millions of yen	Lease investment assets Millions of yen
	2015	2015
within 1 year	¥846	¥11,456
over 1 year and within 2 years .....	802	9,372
over 2 years and within 3 years .....	722	7,200
over 3 years and within 4 years .....	547	4,942
over 4 years and within 5 years .....	273	2,759
over 5 years .....	265	2,531

	Lease receivables		Lease investment assets	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
	2016	2016	2016	2016
within 1 year	¥1,327	\$11,780	¥11,580	\$102,771
over 1 year and within 2 years .....	1,241	11,015	9,439	83,771
over 2 years and within 3 years .....	1,067	9,477	7,173	63,662
over 3 years and within 4 years .....	787	6,986	4,954	43,968
over 4 years and within 5 years .....	387	3,443	2,740	24,320
over 5 years .....	479	4,254	2,668	23,683

## 21. Income Taxes

Income taxes applicable to the Bank and consolidated subsidiaries include corporation tax, inhabitants' tax and enterprise tax.

Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

Deferred tax assets and liabilities as of March 31, 2015 and 2016 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Allowance for loan losses .....	¥ 11,347	¥ 8,920	\$ 79,164
Provision for retirement benefits .....	4,890	4,720	41,897
Devaluation loss on securities .....	727	621	5,517
Depreciation .....	637	528	4,689
Provision for point card certificates .....	341	327	2,904
Other .....	4,741	9,422	83,621
Subtotal .....	22,686	24,540	217,792
Valuation allowance .....	(4,984)	(4,159)	(36,913)
Total: Deferred tax assets .....	17,701	20,381	180,879
Deferred tax liabilities:			
Net unrealized gains on securities available for sale .....	(64,241)	(49,106)	(435,802)
Retirement benefit trust .....	(1,927)	(1,956)	(17,364)
Other .....	(467)	(466)	(4,142)
Total: Deferred tax liabilities .....	(66,635)	(51,529)	(457,308)
Net: Deferred tax assets (liabilities) .....	¥ (48,933)	¥ (31,148)	\$ (276,429)

The reconciliation between the Japanese statutory tax rate and the Bank's effective tax rate for the year ended March 31, 2015 and 2016

Notes are omitted since the difference between the Japanese statutory tax rate and the actual effective tax rate after applying tax effect accounting is equal to or less than 5% of the Japanese statutory tax rate.

Revisions to the amount of deferred tax assets and deferred tax liabilities due to changes in income tax rates

The "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted at the Diet on March 29, 2016, and as a result, corporation tax rates, etc. has been reduced from the fiscal year commencing on or after April 1, 2016.

Following this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from 32.8% for the year ended March 31, 2015 to 30.7% for the temporary differences expected to be settled in the fiscal years commencing on April 1, 2016 and 2017, and to 30.5% for the temporary differences expected to be settled in the fiscal year commencing on April 1, 2018, respectively. As a result, deferred tax assets decreased by ¥717 million (U.S.\$ 6,364 thousand), deferred tax liabilities decreased by ¥2,437 million (U.S.\$ 21,635 thousand), valuation difference on available-for-sale securities increased by ¥2,586 million (U.S.\$ 22,953 thousand) and income taxes-deferred increased by ¥584 million (U.S.\$ 5,190 thousand), respectively. Deferred tax liabilities by land revaluation decreased by ¥423 million (U.S.\$ 3,762 thousand) and revaluation reserve for land increased by the same amount.

## 22. Impairment loss of fixed assets

Area	Principal purpose of use	Millions of yen		Thousands of U.S. dollars
		2015	2016	2016
Gunma Prefecture	Branch Premises .....	¥ 6	¥91	\$814
	Idle Assets .....	—	—	—
Others	Branch Premises .....	¥24	¥—	\$ —
	Idle Assets .....	0	—	—
		¥32	¥91	\$814

## 23. Segment Information

### a. Segment information by category of business

Segment information by category of business for the years ended or as of March 31, 2015 and 2016 is summarized as follows:

Year ended or as of March 31, 2015	Millions of yen				
	Banking	Lease	Sub total	Others	Total
Total income generated from businesses with					
External customers .....	¥ 106,901	¥ 19,892	¥ 126,793	¥ 3,473	¥ 130,267
Internal units .....	351	475	826	1,129	1,956
	¥ 107,252	¥ 20,367	¥ 127,620	¥ 4,603	¥ 132,224
Segment profit .....	¥ 34,299	¥ 1,187	¥ 35,486	¥ 3,598	¥ 39,084
Segment assets .....	¥ 7,525,785	¥ 60,448	¥ 7,586,233	¥ 23,786	¥ 7,610,019
Segment liabilities .....	¥ 7,015,027	¥ 50,035	¥ 7,065,063	¥ 14,739	¥ 7,079,802
Others					
Depreciation	¥ 4,628	¥ 612	¥ 5,240	¥ 41	¥ 5,282
Interest and dividend income	¥ 85,627	¥ 25	¥ 85,653	¥ 48	¥ 85,701
Interest expenses	¥ 3,690	¥ 326	¥ 4,017	¥ 0	¥ 4,017
Equity in earnings of unconsolidated subsidiaries and associated companies	¥ 86	¥ —	¥ 86	¥ —	¥ 86
Extraordinary profit	¥ —	¥ —	¥ —	¥ 2,385	¥ 2,385
(Gain on negative goodwill)	¥ (—)	¥ (—)	¥ (—)	¥ (2,385)	¥ (2,385)
Extraordinary loss	¥ 456	¥ —	¥ 456	¥ 1	¥ 457
(Loss on disposal of noncurrent assets)	¥ (424)	¥ (—)	¥ (424)	¥ (1)	¥ (425)
(Impairment loss of fixed assets)	¥ (32)	¥ (—)	¥ (32)	¥ (—)	¥ (32)
Tax	¥ 12,096	¥ 447	¥ 12,543	¥ 1,126	¥ 13,670
Investment of unconsolidated subsidiaries and associated companies	¥ 1,394	¥ —	¥ 1,394	¥ —	¥ 1,394
Increase of property, plant and equipment and intangible assets	¥ 5,113	¥ 832	¥ 5,945	¥ 52	¥ 5,998

Year ended or as of March 31, 2016	Millions of yen				
	Banking	Lease	Sub total	Others	Total
Total income generated from businesses with					
External customers .....	¥ 112,418	¥ 21,899	¥ 134,317	¥ 1,902	¥ 136,220
Internal units .....	366	439	806	1,183	1,989
	¥ 112,785	¥ 22,338	¥ 135,124	¥ 3,085	¥ 138,209
Segment profit .....	¥ 39,896	¥ 1,646	¥ 41,543	¥ 2,094	¥ 43,637
Segment assets .....	¥ 7,616,644	¥ 65,968	¥ 7,682,613	¥ 27,845	¥ 7,710,459
Segment liabilities .....	¥ 7,115,108	¥ 54,515	¥ 7,169,624	¥ 14,466	¥ 7,184,091
Others					
Depreciation	¥ 5,074	¥ 635	¥ 5,709	¥ 51	¥ 5,760
Interest and dividend income	¥ 86,085	¥ 12	¥ 86,097	¥ 36	¥ 86,133
Interest expenses	¥ 4,489	¥ 322	¥ 4,811	¥ —	¥ 4,811
Equity in earnings of unconsolidated subsidiaries and associated companies	¥ 101	¥ —	¥ 101	¥ —	¥ 101
Extraordinary profit	¥ 3	¥ —	¥ 3	¥ —	¥ 3
(Gain on disposal of noncurrent assets)	¥ (3)	¥ (—)	¥ (3)	¥ (—)	¥ (3)
Extraordinary loss	¥ 350	¥ —	¥ 350	¥ —	¥ 351
(Loss on disposal of noncurrent assets)	¥ (258)	¥ (—)	¥ (258)	¥ (—)	¥ (259)
(Impairment loss of fixed assets)	¥ (91)	¥ (—)	¥ (91)	¥ (—)	¥ (91)
Tax	¥ 12,809	¥ 564	¥ 13,374	¥ 760	¥ 14,135
Investment of unconsolidated subsidiaries and associated companies	¥ 1,542	¥ —	¥ 1,542	¥ —	¥ 1,542
Increase of property, plant and equipment and intangible assets	¥ 5,042	¥ 846	¥ 5,889	¥ 67	¥ 5,957

Year ended or as of March 31, 2016	Thousands of U.S. dollars				
	Banking	Lease	Sub total	Others	Total
Total income generated from businesses with					
External customers	\$ 997,680	\$ 194,350	\$ 1,192,030	\$ 16,885	\$ 1,208,915
Internal units	\$ 3,254	\$ 3,900	\$ 7,154	\$ 10,499	\$ 17,653
	\$ 1,000,934	\$ 198,250	\$ 1,199,184	\$ 27,384	\$ 1,226,568
Segment profit	\$ 354,070	\$ 14,615	\$ 368,684	\$ 18,587	\$ 387,271
Segment assets	\$ 67,595,356	\$ 585,454	\$ 68,180,810	\$ 247,122	\$ 68,427,932
Segment liabilities	\$ 63,144,380	\$ 483,809	\$ 63,628,189	\$ 128,388	\$ 63,756,578
Others					
Depreciation	\$ 45,031	\$ 5,640	\$ 50,671	\$ 453	\$ 51,124
Interest and dividend income	\$ 763,978	\$ 109	\$ 764,087	\$ 320	\$ 764,407
Interest expenses	\$ 39,846	\$ 2,858	\$ 42,704	\$ —	\$ 42,704
Equity in earnings of unconsolidated subsidiaries and associated companies	\$ 903	\$ —	\$ 903	\$ —	\$ 903
Extraordinary profit	\$ 34	\$ —	\$ 34	\$ —	\$ 34
(Gain on disposal of noncurrent assets)	\$ (34)	\$ (—)	\$ (34)	\$ (—)	\$ (34)
Extraordinary loss	\$ 3,110	\$ —	\$ 3,110	\$ 6	\$ 3,116
(Losses on disposal of noncurrent assets)	\$ (2,296)	\$ (—)	\$ (2,296)	\$ (6)	\$ (2,302)
(Impairment loss of fixed assets)	\$ (814)	\$ (—)	\$ (814)	\$ (—)	\$ (814)
Tax	\$ 113,684	\$ 5,013	\$ 118,697	\$ 6,754	\$ 125,451
Investment of unconsolidated subsidiaries and associated companies	\$ 13,688	\$ —	\$ 13,688	\$ —	\$ 13,688
Increase of property, plant and equipment and intangible assets	\$ 44,755	\$ 7,516	\$ 52,271	\$ 597	\$ 52,868

**b. Segment information by geographical area**

Segment information by geographical area has not been disclosed because the income and total assets of Japan area constituted more than 90% of the consolidated total.

**c. Operating income from foreign operations**

Operating income from foreign operations has not been disclosed because it constituted less than 10% of the consolidated income.

## 24. Earnings per Share

	Yen		U.S. Dollars
	2015	2016	2016
Net Assets per Share of Capital Stock	¥1,146.98	¥1,126.44	\$10.00
Earnings per Share of Capital Stock	56.37	63.78	0.57
Diluted Earnings per Share of Capital Stock	56.3	63.68	0.57

**1. Basis on calculating Net Assets per share was follows:**

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Consolidated Net Assets	¥523,535	¥507,727	\$4,505,925.00
Deduction from nets assets	¥ 5,374	¥ 5,941	\$ 52,732.00
Less: Subscription Rights to Shares	316	377	3,350
Less: Non-controlling Interests	5,058	5,564	49,383
Consolidated Net Assets Attributable to Capital Shareholders	518,160	501,785	4,453,192
	Thousands of Stocks		
	2015	2016	
Number of Shares of Capital Shares. Used for Calculating Net Assets per Share	451,760	445,461	



2. Basis on calculating Earnings per share was follows:

	Millions of yen	Thousands of Stocks	Yen	U.S. Dollars
For the year ended March 31, 2016	Net income	Weighted average stocks	EPS	
Basic EPS				
Earnings available to Common shareholders	¥28,616	448,682	¥63.78	\$0.57
Effect of dilutive warrants		672		
Diluted EPS	¥28,616		¥63.68	\$0.57

	Millions of yen	Thousands of Stocks	Yen	U.S. Dollars
For the year ended March 31, 2015	Net income	Weighted average stocks	EPS	
Basic EPS				
Earnings available to Common shareholders	¥25,910	459,624	¥56.37	\$0.50
Effect of Dilutive warrants		633		
Diluted EPS	¥25,910		¥56.37	\$0.50

## 25. Consumption tax

Consumption tax is excluded from transactions reported by Bank and its consolidated subsidiaries.

## 26. Changes in Net Assets

a. Information on type and number of shares issued and treasury shares

Type and number of shares issued and treasury shares in the year ended March 31, 2016 were as follows:

	in thousands			
	Number of shares as of the previous fiscal year-end	Number of shares increased during the accounting period	Number of shares decreased during the accounting period	Number of shares as of the fiscal year-end
Shares issued				
Common shares .....	470,888	—	—	470,888
Total .....	470,888	—	—	470,888
Treasury shares				
Common shares .....	19,127	7,222	922	25,427
Total .....	19,127	7,222	922	25,427

Type and number of shares issued and treasury shares in the year ended March 31, 2015 were as follows:

	in thousands			
	Number of shares as of the previous fiscal year-end	Number of shares increased during the accounting period	Number of shares decreased during the accounting period	Number of shares as of the fiscal year-end
Shares issued				
Common shares .....	474,888	—	4,000	470,888
Total .....	474,888	—	4,000	470,888
Treasury shares				
Common shares .....	10,330	13,823	5,026	19,127
Total .....	10,330	13,823	5,026	19,127

**b. Information on dividends**

The following dividends were paid in the year ended March 31, 2016:

Date of resolution	Type of shares	Amount of dividends		Cash dividends per share		Record date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual meeting of shareholders held on June 24, 2015	Common shares	¥2,962	\$26,291	¥6.5	\$0.06	March 31, 2015	June 25, 2015
Directors' meeting held on November 6, 2015	Common shares	¥2,491	\$22,112	¥5.5	\$0.05	September 30, 2015	December 4, 2015

The following dividends were paid in the year ended March 31, 2015:

Date of resolution	Type of shares	Amount of dividends		Cash dividends per share		Record date	Effective date
		Millions of yen		Yen			
Annual meeting of shareholders held on June 25, 2014	Common shares	¥2,347		¥5.0		March 31, 2014	June 26, 2014
Directors' meeting held on November 7, 2014	Common shares	¥2,113		¥4.5		September 30, 2014	December 5, 2014

Dividends whose record date is attributable to the year ended March 31, 2015 but which are effective after March 31, 2016

Date of resolution	Type of shares	Amount of dividends		Source of dividends	Cash dividends per share		Record date	Effective date
		Millions of yen	Thousands of U.S. dollars		Yen	U.S. dollars		
Annual meeting of shareholders held on June 24, 2016	Common shares	¥2,916	\$25,881	Retained earnings	¥6.5	\$0.06	March 31, 2016	June 27, 2016

Dividends whose record date is attributable to the year ended March 31, 2015 but which are effective after March 31, 2015

Date of resolution	Type of shares	Amount of dividends		Source of dividends	Cash dividends per share		Record date	Effective date
		Millions of yen			Yen			
Annual meeting of shareholders held on June 24, 2015	Common shares	¥2,962		Retained earnings	¥6.5		March 31, 2015	June 25, 2015

## 27. Stock Options

### 1. Line Item where Stock Options is Presented and the Amount

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
General and administrative expenses .....	¥126	¥117	\$1,040

### 2. Details of Stock Option

#### (1) Outline of the Stock Option

	1st equity warrant	
Title and numbers of grantees	Directors (Exclude outside directors)	11
Number of stock options	Common shares	290,900
Date of grant		July 26, 2012
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 27, 2012 to July 26, 2042

2nd equity warrant		
Title and numbers of grantees	Directors (Exclude outside directors)	12
Number of stock options	Common shares	217,000
Date of grant		July 25, 2013
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 26, 2013 to July 25, 2043

3rd equity warrant		
Title and numbers of grantees	Directors	11
Number of stock options	Common shares	59,900
Date of grant		July 25, 2013
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 26, 2013 to July 25, 2043

4rd equity warrant		
Title and numbers of grantees	Directors	12
Number of stock options	Common shares	189,400
Date of grant		July 28, 2014
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 29, 2014 to July 28, 2044

5rd equity warrant		
Title and numbers of grantees	Directors	9
Number of stock options	Common shares	38,700
Date of grant		July 28, 2014
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 29, 2014 to July 28, 2044

6rd equity warrant		
Title and numbers of grantees	Directors	11
Number of stock options	Common shares	109,400
Date of grant		July 29, 2015
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 30, 2015 to July 29, 2045

7st equity warrant		
Title and numbers of grantees	Directors	10
Number of stock options	Common shares	27,000
Date of grant		July 29, 2015
Vesting condition		Not fixed
Service period		Not fixed
Exercise period		From July 30, 2015 to July 29, 2045

(2) Size and situation of the Stock Option

(a) The number of the stock option

	Number of Shares						
	1st equity warrant	2nd equity warrant	3rd equity warrant	4th equity warrant	5nd equity warrant	6nd equity warrant	7st equity warrant
Non-vested							
As of March 31, 2015	239,800	180,600	30,600	189,400	38,700	—	—
Granted	—	—	—	—	—	109,400	27,000
Forfeited	—	—	—	—	—	—	—
Vested	62,900	43,400	5,100	14,000	4,300	—	—
Outstanding	176,900	137,200	25,500	175,400	34,400	109,400	27,000
vested							
As of March 31, 2015	—	—	—	—	—	—	—
Vested	62,900	43,400	5,100	14,000	4,300	—	—
Exercise	62,900	43,400	5,100	14,000	4,300	—	—
Forfeited	—	—	—	—	—	—	—
Outstanding	—	—	—	—	—	—	—

(b) Price Information

	Yen						
	1st equity warrant	2nd equity warrant	3rd equity warrant	4th equity warrant	5nd equity warrant	6nd equity warrant	7st equity warrant
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average price at exercise	¥913	¥913	¥913	¥913	¥913	—	—
Fair value at grant date	¥311	¥542	¥585	¥545	¥591	¥851	¥893

	U.S. dollars						
	1st equity warrant	2nd equity warrant	3rd equity warrant	4th equity warrant	5nd equity warrant	6nd equity warrant	7st equity warrant
Exercise price	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Average price at exercise	\$8.10	\$8.10	\$8.10	\$8.10	\$8.10	—	—
Fair value at grant date	\$2.76	\$4.81	\$5.19	\$4.84	\$5.24	\$7.55	\$7.93

3. The Estimations Used to Measure Fair Value of Stock Option

(1) Valuation method

The Black-Scholes option pricing model

(2) Main figures and the way of estimation

	6nd equity warrant	7st equity warrant
volatility of stock price (*1)	25.397%	28.073%
Estimated remaining outstanding Period (*2)	5.6 years	1.6 years
Estimated dividend (*3)	¥11.00 per share	¥11.0 per share
Risk-free interest rate (*4)	0.112%	0.003%

\*1. Volatility of Stock Price is calculated based on the actual stock prices of Estimated Remaining Outstanding Period.

\*2. Estimated Remaining Outstanding Period is calculated based on the average term in office of resigned directors (Exclude Non executive director.)

\*3. Estimated Dividend is based on the actual results of the fiscal year ended March 31, 2015.

\*4. Risk-free Interest Rate is based on bonds' yields of the Estimated Remaining Outstanding Period.

4. Estimated Number of Stock Options to be Vested

The actual number of forfeited stock options alone is reflected because the number of stock options that will be forfeited in the future cannot be readily estimated.



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## Independent Auditor's Report

The Board of Directors  
The Gunma Bank, Ltd.

We have audited the accompanying consolidated financial statements of The Gunma Bank, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Gunma Bank, Ltd. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

*Ernst & Young ShinNihon LLC*

June 24, 2016

# Non-Consolidated Financial Review

## Five-Year Summary

Millions of yen

Year ended 31st March,	2012	2013	2014	2015	2016
<b>Assets, liabilities and stockholders' equity</b>					
Deposits (including Negotiable CDs)	5,790,853	5,943,714	6,099,602	6,265,057	6,421,045
Loans and bills discounted	4,111,013	4,382,661	4,582,222	4,838,847	5,047,364
Securities	1,990,235	2,138,844	2,207,441	2,304,034	2,130,024
Total assets	6,433,687	6,819,090	7,115,017	7,521,135	7,612,122
Capital stock	48,652	48,652	48,652	48,652	48,652
Number of shares issued and outstanding (thousand)	(478,888)	(474,888)	(474,888)	(470,888)	(470,888)
Total net assets	386,121	432,036	454,853	506,074	498,489
<b>Earnings</b>					
Gross business profit	95,740	95,288	91,629	93,141	92,491
Net business profit	34,656	35,211	36,812	34,554	35,778
Profit (loss)	18,192	18,911	18,223	21,653	26,620
<b>Per share amounts (¥)</b>					
Stockholders' equity	806.95	921.93	978.59	1,119.53	1,118.19
Profit (loss)	37.75	39.80	39.00	47.11	59.33
Dividend	9.50	10.50	9.50	11.00	12.00
(interim dividend)	(4.50)	(4.00)	(4.50)	(4.50)	(5.50)
Payout ratio	25.17	26.38	24.36	23.35	20.23
Number of employees	3,325	3,336	3,342	3,264	3,225

## Interest Income and Expenses

Millions of yen, %

Year ended 31st March,	2015			2016		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>Earning assets (A)</b>	<b>6,942,639</b>	<b>85,484</b>	<b>1.23%</b>	<b>7,137,948</b>	<b>85,954</b>	<b>1.20%</b>
Loans and bills discounted	4,667,738	60,002	1.28	4,905,627	59,003	1.20
Trading securities	2,239	5	0.26	1,480	6	0.44
Securities	2,119,167	24,162	1.14	2,053,699	25,871	1.25
Call loans	105,980	494	0.46	21,826	117	0.53
Bills bought	—	—	—	—	—	—
Due from banks	28,928	72	0.25	139,934	177	0.12
<b>Funds (B)</b>	<b>6,682,491</b>	<b>3,690</b>	<b>0.05</b>	<b>6,894,101</b>	<b>4,490</b>	<b>0.06</b>
Deposits	5,972,048	2,160	0.03	6,089,844	2,258	0.03
Negotiable CDs	177,751	104	0.05	237,612	182	0.07
Call money	95,106	184	0.19	66,178	387	0.58
Bills sold	—	—	—	—	—	—
Borrowed money	179,376	209	0.11	219,658	255	0.11
<b>Net interest (A)–(B)</b>	<b>—</b>	<b>—</b>	<b>1.18</b>	<b>—</b>	<b>—</b>	<b>1.14</b>

Notes:

1. Earning assets do not include the non-earning deposits (averaging ¥50,889 million in 2015 ¥62,728 million in 2016). Funds do not include equivalents to money in trust (average balance of ¥5,000 million in 2015 ¥4,999 million in 2016) and interest thereon (¥1 million in 2015 ¥1 million in 2016).
2. The average balance and interest of lending between domestic and overseas operations has been offset.

## Loans Outstanding by Type of Industry

As at 31st March,		Millions of yen, %	
2015		2016	
<b>Domestic branches (excluding JOM accounts)</b>		<b>Domestic branches (excluding JOM accounts)</b>	
¥4,781,991 (100.00)		¥4,994,084 (100.00)	
Manufacturing	727,538 ( 15.21)	Manufacturing	711,101 ( 14.24)
Agriculture & forestry	7,232 ( 0.15)	Agriculture & forestry	7,980 ( 0.16)
Fisheries	2,610 ( 0.06)	Fisheries	1,910 ( 0.04)
Mining & stone - quarrying	3,699 ( 0.08)	Mining & stone - quarrying	3,614 ( 0.07)
Construction	171,851 ( 3.59)	Construction	174,644 ( 3.50)
Public utilities	31,899 ( 0.67)	Public utilities	41,948 ( 0.84)
Information & Telecommunications	29,844 ( 0.62)	Information & Telecommunications	24,552 ( 0.49)
Transport	147,193 ( 3.08)	Transport	148,283 ( 2.97)
Wholesaling and retailing	457,295 ( 9.56)	Wholesaling and retailing	454,081 ( 9.09)
Finance & insurance	191,054 ( 4.00)	Finance & insurance	179,135 ( 3.59)
Real estate & lease industry	522,182 ( 10.92)	Real estate & lease industry	575,832 ( 11.53)
Medical & welfare services	223,955 ( 4.68)	Medical & welfare services	242,706 ( 4.86)
Miscellaneous services	199,956 ( 4.18)	Miscellaneous services	218,809 ( 4.38)
Local governments	105,706 ( 2.21)	Local governments	106,525 ( 2.13)
Others	1,959,965 ( 40.99)	Others	2,102,956 ( 42.11)
<b>Overseas branches and JOM accounts</b>		<b>Overseas branches and JOM accounts</b>	
56,856 (100.00)		53,280 (100.00)	
The governments of other countries	— ( —)	The governments of other countries	— ( —)
Financial institutions	— ( —)	Financial institutions	— ( —)
Others	56,856 (100.00)	Others	53,280 (100.00)
Total	¥4,838,847 ( —)	Total	¥5,047,364 ( —)

## Term-End Balances of Allowance for Loan Losses

As at 31st March,		Millions of yen
	2015	2016
Categories		
General allowance for loan losses	¥19,345	¥14,646
Specific allowance for loan losses	20,444	19,988
Allowance for losses on overseas investments	—	—
Total	¥39,790	¥34,634



## Board of Directors, Executive Officers and Audit & Supervisory Board Members

*Chairman:*  
Kazuo Kibe

*President:*  
Kazuo Saito

*Senior Managing Directors:*  
Hisao Tsunoda

*Managing Directors:*  
Hiroshi Kurihara  
Nobuyuki Horie  
Akihiko Fukai  
Shigeyoshi Minami  
Yoichi Hirasawa  
Yuji Kanai

*Directors:*  
Eiji Muto  
Jun Kondo

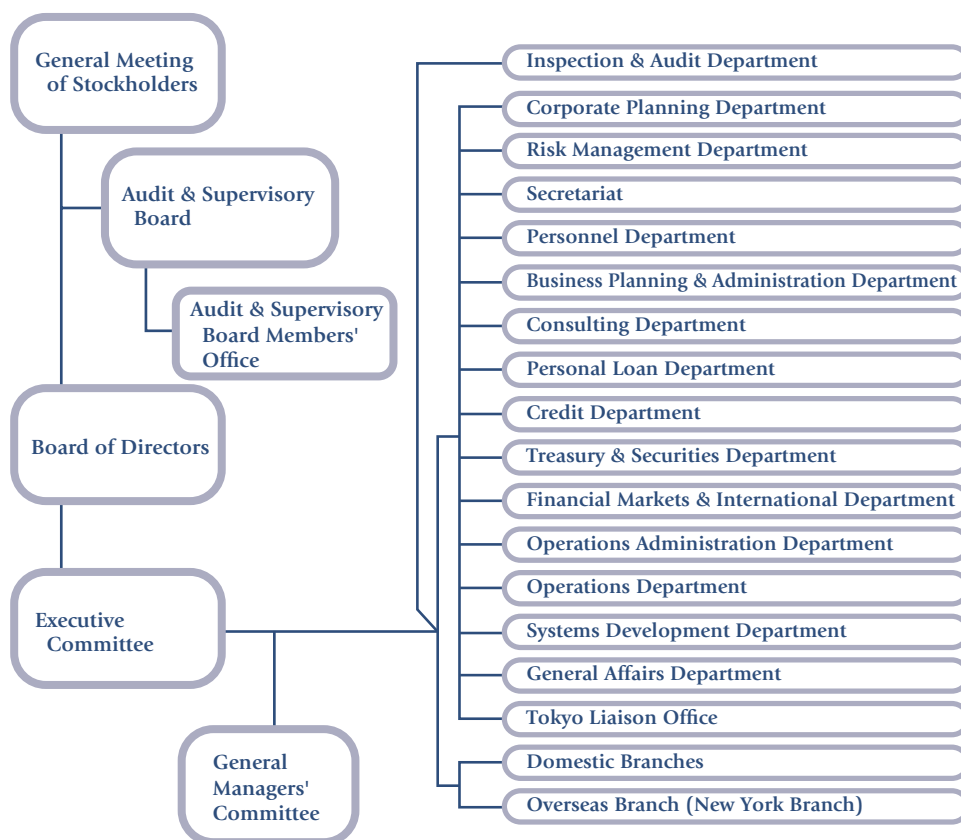
*Standing Audit &  
Supervisory Board Members:*  
Yoshihiro Hagiwara  
Shusuke Nakamura

*Audit & Supervisory Board  
Members:*  
Hirosuke Kobayashi  
Kaneo Fukushima  
Makoto Tanaka

*Executive Officers:*  
Katsunori Yokoyama  
Satoshi Kobayashi  
Satoshi Hanasaki  
Toshio Osawa  
Satoshi Inoue  
Takashi Kemi  
Noriyuki Watanabe  
Hiroyuki Irisawa  
Shinsuke Kuwabara  
Akihiko Horie

(As of 30th June, 2016)

## Organization Chart



(As of 30th June, 2016)

## Business Activities and Organizations of the Gunma Bank Group

The Group is composed of the Bank, consolidated subsidiaries, and unconsolidated subsidiaries accounted for by the equity method, and it provides a broad range of financial products and services including leases with a focus on the banking business. Including Gungin Securities Co., Ltd., which was established during the previous fiscal year, we will work to maximize the functions of each Group company through collaboration and work together as an entire Group in order to enhance corporate value.

(As of 30th June, 2016)

### Banking Operations

#### The Gunma Bank, Ltd.

Number of branches and sub-branches in Japan: 150  
 Number of overseas branches: 1 (New York Branch)  
 Number of overseas consolidated subsidiaries: 1  
**Gunma Finance (Hong Kong) Limited**

### Leasing Operations

Number of consolidated subsidiaries: 1  
**Gungin Lease Company Limited**

### Other Operations

Number of consolidated subsidiaries: 3  
**Gunma Chuo Kogyo Co., Ltd.**  
 (ATM maintenance and others)  
**Gungin Securities Co., Ltd.**  
 (Securities business)  
**Gunma Shinyo Hosho Co., Ltd.**  
 (Guarantee business)  
 Number of equity-method subsidiaries: 2  
**The Gungin Card Co., Ltd.**  
 (Credit card business)  
**Gungin System Service Co., Ltd.**  
 (System development and sales)

\*Gungin Securities Co., Ltd. became a consolidated subsidiary during the previous fiscal year due to its establishment.

# Corporate Data and Service Network

## Data of The Gunma Bank, Ltd.

**Date of Establishment:** September 14, 1932  
**Head Office:** 194, Motosojamachi, Maebashi, Gunma 371-8611, Japan  
**Capital Stock:** ¥48,652 million  
**Number of Branches:** In Japan: 149 Branches (including 17 sub-branches)  
 Overseas: 1 Branch 1 Subsidiary  
 In addition to the Branches above,  
 the Bank has one Representative Office in Shanghai, China.  
**Number of Employees:** 3,225

(As of 31st March, 2016)

## Major Shareholders

(As of 31st March, 2016)

	Number of shares held (in thousands)	%
Japan Trustee Services Bank, Ltd. (Trust Account)	17,307	3.67
Sumitomo Mitsui Banking Corporation	12,148	2.57
The Gunma Bank Employees' Stockholdings Association	11,988	2.54
Meiji Yasuda Life Insurance Company	11,056	2.34
Sumitomo Life Insurance Company	10,657	2.26
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,451	2.21
Tokio Marine & Nichido Fire Insurance Co., Ltd.	7,977	1.69
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,803	1.65
Japan Trustee Services Bank, Ltd. (Trust Account 9)	7,708	1.63
Nippon Life Insurance Company	7,608	1.61
Total	104,706	22.23

Note:

- Other than the shares stated above, 22,224 thousand shares of treasury stock are held by the Bank in the name of The Gunma Bank, Ltd. (ratio of number of shares held against total number of shares issued and outstanding is 4.71%).
- Among the shares held by trust banks stated above, the following are related to their trust management business:
 

Japan Trustee Service Bank, Ltd. (Trust Account)	17,307 thousand shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,451 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 9)	7,708 thousand shares

## Consolidated Subsidiaries

(As of 30th June, 2016)

	Line of Business	Established	Capital
Gunma Chuo Kogyo Co., Ltd.	ATM maintenance and others	February 1971	¥10 million
Gungin Securities Co., Ltd.	Securities business	February 2016	¥3000 million
Gunma Finance (Hong Kong) Limited	Loans, investment in securities and deposit-taking	February 1991	US\$30 million
Gungin Lease Company Limited	Lease	October 1973	¥180 million
Gunma Shinyo Hosho Co., Ltd.	Guarantee business	September 1983	¥30 million

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