

# YMFG Business Situation

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## Summary of Business Results

### ■ Performance

During the fiscal year ended March 31, 2015, despite some signs of weakness the Japanese economy remained in a state of gradual recovery. Manufacturing activity was lackluster in some areas, affected by a backlash in demand following the consumption tax hike, but began to rebound in the second half of the year thanks to the impact of overseas economic recovery, particularly in the United States. The employment situation also continued to improve steadily, leading to firm personal consumption.

Meanwhile, the region continued to enjoy a modest recovery. Overall production activity was solid, with strong performance centering on the automotive sector, and employment and income conditions improved. Affected by the consumption tax hike, however, personal consumption was sluggish, as demonstrated by home electronics sales and unit sales of new passenger cars.

Under these circumstances, in line with their mission of contributing to regional economic development, regional financial institutions face vigorous requests to deliver stronger financial soundness and profitability, supply funding more flexibly and further enhance their financial services.

### ■ YMFG Performance

Amid these financial and economic conditions, supported by its shareholders and business partners all YMFG's officers and employees were united in their efforts to strengthen the Group's management base, bolster operating performance and contribute to the region.

Based on the "YMFG Medium-Term Management Plan 2013," which commenced in the fiscal year ended March 31, 2014, as a financial Group with three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—we worked to strengthen ties with the banks' regions. Furthermore, in collaboration with YM Securities, YM Consulting and other Group companies, we are working

together to leverage our comprehensive Group strengths as "One YMFG."

YMFG will also put forth every effort toward developing mutually beneficial relationships with local communities and customers, aiming to provide a variety of financial services that invigorate our region.

Banking operations, which are the core of YMFG's business, are conducted through the efforts of its banks to meet the varied financial needs of customers in the regions where they conduct business via a wide range of financial products through their deposit and loan operations.

In deposits, we ran an integrated three-bank campaign under the name of "YMFG Thanksgiving," stressing our appreciation for customer support of our operations to date.

In June 2014, we set up the Information Strategy Group within YMFG's Business Strategy Planning Department and established Solution Operating Departments at each of our three Group banks. These organizations are designed to share and make use of information throughout the Group in order to offer the best possible solutions to the issues customers face. These departments will step up efforts to provide information in a timely manner and support the expansion of our networks.

In May 2014, we set up a regional invigoration fund through the collaboration of our three banks, Nishi-Chugoku Shinkin Bank, Daiwa Securities Group's headquarters, Yamaguchi Capital and REVIC Capital, a fund-operating subsidiary of the Regional Economy Vitalization Corporation of Japan (REVIC). By supporting our business partners, this fund is intended to have economic effects for the entire region and help increase employment.

In international operations, in March 2015 we signed a memorandum of understanding involving a business tie-up with Vietcombank, a leading bank in Vietnam. This move was aimed at strengthening our Asian network.

In March 2015, we issued \$300 million in US dollar-denominated convertible bonds to meet the dollar funding needs of clients conducting business overseas.

## ■ Financial Results

YMFG's consolidated operating performance for the year ended March 31, 2015, is outlined below.

Total income amounted to ¥161,437 million, up ¥257 million from the preceding fiscal year. The main reasons for this increase were higher interest and dividends on securities.

Total expenses, meanwhile, rose ¥533 million, to ¥112,122 million, due to such factors as an increase in other operating expenses. As a result, income before income taxes decreased ¥276 million, to ¥49,315 million, and net income fell ¥719 million, to ¥30,523 million.

Although interest rates remained low, due to the expansion of products and services to meet increasingly diverse customer needs and steady marketing efforts based on solid community relationships, the Group succeeded in boosting deposits ¥444 billion year on year, to ¥9,209 billion, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥264 billion, to ¥6,228 billion as of March 31, 2015, due to the Group's efforts to fulfill its role as a regional financial institution through its function as a financial intermediary and aggressive efforts to meet demand from business partners with whom the Group has developed trust-based relationships.

The Group's holdings of securities came to ¥2,324 billion at year-end, up ¥252 billion, due to increases in Japanese

bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,195 billion at fiscal year-end, up ¥560 billion from one year earlier. This rise was attributable to growth in loans and bills discounted, based on the increase in deposits, including NCDs.

At the end of the fiscal year, the consolidated capital adequacy ratio for the Yamaguchi Financial Group (uniform international standard) was 13.43%. Our consolidated total Tier 1 capital adequacy ratio was 11.73%, and our consolidated common equity Tier I capital adequacy ratio was 11.73%.

Net cash provided by operating activities was ¥227 billion, ¥299 billion lower than in the preceding fiscal year, mainly due to the net change in loans and bills discounted. Net cash used in investing activities was ¥177 billion, a ¥232 billion change from cash provided by these activities in the previous year, principally because of increased purchases of securities. Net cash provided by financing activities amounted to ¥19 billion, a change of ¥39 billion from the cash used in these activities in the fiscal year ended March 31, 2014. The main changes were in the categories of subordinated bonds payable and purchases of treasury stock. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥943 billion, up ¥69 billion.

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

	Millions of yen 2015	Millions of yen 2014	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars*1 2015
Consolidated total income	161,437	161,180	158,452	156,095	1,343,405
Consolidated net income	30,523	31,242	27,233	17,919	253,999
Consolidated comprehensive income	75,211	34,322	51,743	29,120	625,872
Consolidated total net assets	578,388	521,470	521,423	472,405	4,813,081
Consolidated total assets	10,195,184	9,635,044	9,327,236	9,115,427	84,839,677
Net assets per share	2,346.56 yen	2,040.02 yen	1,901.30 yen	1,720.56 yen	19.53 U.S. dollars
Current term net income per share (current term net loss per share)	120.88 yen	120.68 yen	102.48 yen	66.99 yen	1.01 U.S. dollars
Current term net income per share after stock adjustment	108.24 yen	116.57 yen	102.18 yen	66.88 yen	0.90 U.S. dollars
Capital ratio*2	13.43%	12.69%	13.34%	11.75%	
Earnings on equity - increase	5.61%	6.04%	5.52%	3.92%	
Group price earnings ratio	11.44 times	7.70 times	9.28 times	11.22 times	

\*1 US dollar amounts have been translated, for convenience only, at the rate of ¥120.17 = US\$1.00 as of March 31, 2015.

\*2 YMFG calculated its capital ratio according to the first standard through the fiscal year ended March 31, 2012. From the fiscal year ended March 31, 2013, this ratio is calculated according to the uniform international standard (Basel 3).