

YMFG Business Situation

Summary of Business Results

■ Performance

During the fiscal year ended March 31, 2016, the Japanese economy pursued a course of modest recovery, due in part to the impact of various government measures. Production activity showed signs of weakness in some areas, stemming from an economic slowdown in China and other areas of the overseas economy, but remained strong overall. At the same time, in February 2016 the Bank of Japan introduced a negative interest rate policy in an attempt to stave off deflation through further monetary easing.

Meanwhile, the region continued to enjoy a modest recovery. Overall production activity was solid, with strong performance centering on the automotive sector. Personal consumption began to make a compact, amid improvements in the employment and income environment.

Against this backdrop, in line with their mission of contributing to regional economic development, regional financial institutions face 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.

In the final year of the "YMFG Medium-Term Management Plan 2013," which commenced in the fiscal year ended March 31, 2014, we strengthened regional relations as a group centered on three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—and worked together with YM Securities, YM Consulting and other Group companies to pursue comprehensive Group capabilities as "One YMFG."

In January 2016, we established YM Asset Management Co., Ltd., in cooperation with the Daiwa Securities Group in an effort to reinforce our asset investment business.

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 deposit products, we offered time deposits with special interest rates under the "Campaign to deposit your money in YMFG, receive it, and rebuild your hometown" and the "YMFG three arrows lucky campaign."

In loan products, we began handling the "loan to combat unoccupied houses" and the "home loan for UJI turners."

In July 2015, we established YMFG Zone Planning Co., Ltd., as a wholly owned consulting company specializing in regional revitalization. Putting all its efforts into initiatives to address the issues facing the Group's hometown area of Yamaguchi, Hiroshima and Kitakyushu, the new company provides comprehensive business support themed on regional revitalization and aimed at boosting the productivity of the region and the companies located there.

In international operations, Yamaguchi Bank cosponsored the "Seventh Hong Kong and South China Business Networking Event for Japanese Companies" as one of the 17 regional banks with offices in Hong Kong. We also cosponsored the "Vietnam Business Networking Event 2015" in Hanoi in June 2015 and in Ho Chi Minh City in December in collaboration with Joyo Bank, Hyakujushi Bank, Juroku Bank and Nanto Bank, which also use our shared regional bank computer system. Furthermore, to support customers' overseas transactions we concluded a trade insurance business agency agreement with Nippon Export and Investment Insurance. YMFG is reinforcing the Asian network it has constructed in order to facilitate overseas business efforts and will continue to support customers' Asian business developments going forward.

■ Financial Results

YMFG's consolidated operating performance for the year ended March 31, 2016, is outlined below.

Total income amounted to ¥166,858 million, up ¥5,421 million from the preceding fiscal year. The main reasons for this increase were higher other ordinary income, including income on sales of government and other bonds, and an increase in gains on sale of stock.

Total expenses, meanwhile, rose ¥3,877 million, to ¥115,999 million, due to such factors as an increase in other operating expenses. As a result, income before income taxes increased ¥1,544 million, to ¥50,859 million, and net income attributable to owners of the parent rose ¥1,773 million, to ¥32,296 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 ¥301 billion year on year, to ¥9,510 billion, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥221 billion, to ¥6,449 billion as of March 31, 2016, 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 ¥2,121

billion at year-end, down ¥203 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,438 billion at fiscal yearend, up ¥243 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 13.37%. Our consolidated total Tier 1 capital adequacy ratio was 12.72%, and our consolidated common equity Tier I capital adequacy ratio was 12.72%.

Net cash provided by operating activities was ¥22 billion, ¥205 billion lower than in the preceding fiscal year, mainly due to change in call loans and negotiable certificates of deposit. Net cash provided by investing activities was ¥222 billion, a ¥399 billion change from cash used in these activities in the previous year, principally because of decreased purchases of securities. Net cash used in financing activities amounted to ¥28 billion, a change of ¥47 billion from the cash provided by these activities in the fiscal year ended March 31, 2015. Principal factors were the absence of proceeds from issuance of bonds with warrants and payments for the redemption of subordinated bonds payable. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥1,159 billion, up ¥216 billion.

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

	Millions of yen 2016	Millions of yen 2015	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars*1 2016
Consolidated total income	166,858	161,437	161,180	158,452	1,480,813
Consolidated net income attributable to owners of the parent	32,296	30,523	31,242	27,233	286,617
Consolidated comprehensive income	7,840	75,211	34,322	51,743	69,578
Consolidated total net assets	583,168	578,388	521,470	521,423	5,175,435
Consolidated total assets	10,438,005	10,195,184	9,635,044	9,327,236	92,634,052
Net assets per share	2,357.89 yen	2,346.56 yen	2,040.02 yen	1,901.30 yen	20.93 U.S. dollars
Current term net income per share	132.43 yen	120.88 yen	120.68 yen	102.48 yen	1.18 U.S. dollars
Current term net income per share (diluted)	109.39 yen	108.24 yen	116.57 yen	102.18 yen	0.97 U.S. dollars
Capital ratio*2	13.37%	13.43%	12.69%	13.34%	
Earnings on equity - increase	5.62%	5.61%	6.04%	5.52%	
Group price earnings ratio	7.72 times	11.44 times	7.70 times	9.28 times	

*1 US dollar amounts have been translated, for convenience only, at the rate of ¥112.68 = US\$1.00 as of March 31, 2016.

*2 YMFG calculated its capital ratio according to the uniform international standard (Basel 3).