

YMFG Business Situation

Summary of Business Results

■ Performance

During the fiscal year ended March 31, 2014, the Japanese economy remained in a state of gradual recovery. Manufacturing activity continued to pick up, thanks to the correction to the high yen exchange rate, which bolstered exports, and robust internal demand. Stock prices benefited from improved consumer sentiment, corporate earnings recovered, personal consumption turned upward—due in part to a spike in demand prior to the consumption tax hike, housing investment rose, and capital expenditure showed signs of an upturn.

Against this backdrop, the regional economy also enjoyed a gradual recovery. Overall production activity was solid, with robust performance in the mainstay automotive and chemicals sectors. Public-sector construction grew substantially year on year; employment and income conditions trended positively, with the ratio of jobs to applicants rebounding to a level exceeding one-to-one; and personal consumption levels were upbeat.

Meanwhile, the financial industry faces the issue of conforming to substantial changes in the rules and regulations that govern it, including new capital adequacy requirements and the adoption of international accounting standards. 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 and bolster operating performance.

Based on the YMFG Medium-Term Management Plan 2013, which commenced during the year under review, the Group worked to deepen its community involvement in

the regions where it operates, pulling together as a unified financial group, "One YMFG," comprising three banks—Yamaguchi Bank, Momiji Bank and Kitakyushu Bank—and leveraging its comprehensive strengths. YMFG will also put forth every effort toward developing mutually beneficial relationships with local communities and customers, aiming to provide 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 line with the introduction of a government measure that exempts lump-sum donations toward education from gift tax, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank set up and began offering the Kimi no Mirai-e ("for your future") ordinary deposit accounts for the lump-sum provision of educational funds.

We also introduced Kasumin Teiki term deposits, which provide customers a sense of closeness with YMFG's brand ambassador, the table tennis player Kasumi Ishikawa.

YMFG has begun employing an environmental rating finance system for providing financial support to clients' efforts toward environmentally friendly management.

As part of our international operations to provide support for clients making business inroads overseas, in July 2013 we entered into an affiliate relationship with the Metropolitan Bank and Trust Company of the Philippines. This move added the Philippines to the Yamaguchi Financial Group's Asian network, which also includes relationships with banks in China, South Korea, India, Thailand and Indonesia. In December 2013, we issued \$300 million in US-dollar-denominated convertible bonds to meet the dollar funding needs of clients conducting business overseas. We plan to continue striving to become recognized for having strong operations in Asia by providing overseas business opportunities to our customers and strengthening our funding support and other consulting functions.

■ Financial Results

YMFG's consolidated operating performance for the year ended March 31, 2014, is outlined below.

Total income amounted to ¥161,082 million, up ¥2,630 million from the preceding fiscal year. The main reasons for this increase were higher fees and commissions and a reversal of bad debt reserves. Total expenses, meanwhile fell ¥2,995 million, to ¥111,497 million, mainly as a result of lower operating expenses and amortization of shares. As a result, income before income taxes grew ¥5,625 million, to ¥49,585 million, and net income rose ¥4,003 million, to ¥31,236 million.

Although interest rates remained low, due to the expansion of products and services to meet increasingly diverse customer needs and steady sales efforts based on solid community relationships, the Group succeeded in boosting deposits ¥311.9 billion year on year, to ¥8,765.0 billion as of March 31, 2014, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥152.2 billion, to ¥5,964.1 billion as of March 31, 2014, 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 ¥2,072.0 billion

at year-end, down ¥72.4 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥9,635.0 billion at fiscal year-end, up ¥307.8 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 12.69%. Our consolidated total Tier 1 capital adequacy ratio was 11.10%, and our consolidated common equity Tier I capital adequacy ratio was 11.10%.

Net cash provided by operating activities was ¥526.1 billion, ¥403.2 billion higher than in the preceding year, due mainly to the net change in call loans and bills purchased. Net cash provided by investing activities came to ¥54.9 billion, a ¥71.6 billion change from the ¥16.7 billion used in these activities in the previous term. Changes in the amounts of purchases of securities and proceeds from sales of securities were the primary factors. Net cash used in financing activities amounted to ¥20.0 billion, up ¥17.1 billion, due chiefly to purchases of treasury stock. As a result of these cash flows, cash and cash equivalents at the end of the year came to ¥874.2 billion, up ¥561.0 billion.

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

	Millions of yen 2014	Millions of yen 2013	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars*1 2014
Consolidated total income	161,082	158,452	156,095	164,323	1,565,119
Consolidated net income	31,236	27,233	17,919	19,156	303,498
Consolidated comprehensive income	34,316	51,743	29,120	7,752	333,424
Consolidated total net assets	521,562	521,423	472,405	446,290	5,067,645
Consolidated total assets	9,635,044	9,327,236	9,115,427	8,758,187	93,616,829
Net assets per share	2,040.39 yen	1,901.30 yen	1,720.56 yen	1,624.33 yen	19.83 U.S. dollars
Current term net income per share (current term net loss per share)	120.66 yen	102.48 yen	66.99 yen	71.18 yen	1.17 U.S. dollars
Current term net income per share after stock adjustment	116.55 yen	102.18 yen	66.88 yen	71.15 yen	1.13 U.S. dollars
Capital ratio*2	12.69%	13.34%	11.75%	11.36%	
Earnings on equity - increase	6.04%	5.52%	3.92%	4.23%	
Group price earnings ratio	7.70 times	9.28 times	11.22 times	10.81 times	

*1 US dollar amounts have been translated, for convenience only, at the rate of ¥102.92 = US\$1.00 as of March 31, 2014.

*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).