

# YMFG Business Situation

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## Summary of Business Results

### ■ Performance

During the fiscal year ended March 31, 2018, the Japanese economy was characterized by modest recovery. With exports showing signs of a rebound, production activity and capital investment increased. Personal consumption also sustained a modest recovery, amid ongoing improvements in the employment and income environments.

In this environment, the regional economy was marked by moderate ongoing recovery. Bolstered by growing exports, production activity was generally firm, with the automotive and chemical sectors showing particularly high levels of growth. Personal consumption was also strong, amid improvements in the employment and income environments.

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.

During the year, we pushed forward with measures outlined in the YMFG Medium-Term Management Plan 2016, which launched in the fiscal year ended March 31, 2017. This plan set core objectives to "escape from interest rate competition" (establish a system for the thorough evaluation of business viability and provide solutions to potential management issues) and "escape from a 'product-out' mentality" (shift to an approach based on the perspective of what customers want) and established "consulting first" as a behavioral guideline.

In international operations, in May 2017 the three Group banks formed business alliances with the Ho Chi Minh City Development Joint Stock Commercial Bank, which is headquartered in Ho Chi Minh City, in the Socialist Republic of Vietnam. In June 2017, Yamaguchi Bank entered a business tie-up with Japan Finance Corporation related to financing via a standby credit system. Furthermore, in July 2017, the three Group banks joined other banks in the same consortium (the Regional Bank Integrated System), Juyo Bank, Hyakujushi Bank, Juroku Bank and Nanto Bank to jointly hold the Indonesia Business Gathering in Jakarta 2017. Following this meeting, the YMFG Vietnam Seminar was held in December 2017 and the YMFG Business Gathering in Thailand 2018 in February 2018.

Regarding our overseas support system, we are steadily reinforcing our Asian network. Going forward, we will continue to support customers' efforts to develop their businesses in Asia.

### ■ Financial Results

YMFG's consolidated operating performance for the year ended March 31, 2018, is outlined below.

Total income fell ¥1,746 million year on year, to ¥162,072 million, due to a decrease in gains on the sale of Japanese government bonds and the change from a reversal to a provision of the allowance for loan losses. Total expenses declined ¥3,265 million, to ¥113,754 million, mainly because of a decrease in operating expenses. As a result, income before income taxes rose ¥1,519 million, to ¥48,318 million, and net income attributable to owners of the parent increased ¥1,330 million, to ¥32,917 million.

Deposits expanded ¥126.0 billion, to ¥9,355.8 billion. This rise stemmed from our expansion of products and services to meet increasingly diverse customer needs, as well as steady marketing efforts based on solid community relationships.

Loans and bills discounted increased ¥406.5 billion, to ¥7,157.8 billion as of March 31, 2018, 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 ¥1,727.8 billion at year-end, down ¥172.4 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,366.5 billion at fiscal year-end, up ¥140.8 billion from one year earlier. This growth was the result of a rise in loans, against the backdrop of higher deposits.

At the end of the fiscal year, the consolidated capital adequacy ratio for the Yamaguchi Financial Group (uniform international standard) was 13.29%. Our consolidated total Tier 1 capital adequacy ratio and consolidated common equity Tier I capital adequacy ratio were 13.29%.

Net cash used in operating activities was ¥140.8 billion, ¥330.9 billion less than was used in these activities in the previous fiscal year, mainly due to the rise in deposits. Net cash provided by investing activities was ¥163.9 billion, ¥90.1 billion less than in the previous fiscal year, owing to purchase of securities. Net cash used in financing activities came to ¥3.4 billion, ¥0.1 billion less than in the previous fiscal year. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥957.3 billion, up ¥19.8 billion.

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

|  | Millions of yen<br>2018 | Millions of yen<br>2017 | Millions of yen<br>2016 | Millions of yen<br>2015 | Thousands of<br>U.S. dollars*1<br>2018 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|--|
| Consolidated total income                                    | 162,072                 | 163,818                 | 166,858                 | 161,437                 | 1,525,527                              |
| Consolidated net income attributable to owners of the parent | 32,917                  | 31,587                  | 32,296                  | 30,523                  | 309,836                                |
| Consolidated comprehensive income                            | 47,269                  | 37,676                  | 7,840                   | 75,211                  | 444,927                                |
| Consolidated total net assets                                | 660,451                 | 617,053                 | 583,168                 | 578,388                 | 6,216,604                              |
| Consolidated total assets                                    | 10,366,548              | 10,225,782              | 10,438,005              | 10,195,184              | 97,576,694                             |
| Net assets per share   | 2,653.60<br>yen         | 2,486.35<br>yen         | 2,357.89<br>yen         | 2,346.56<br>yen         | 24.98<br>U.S. dollars                  |
| Current term net income per share                            | 133.65<br>yen           | 128.70<br>yen           | 132.43<br>yen           | 120.88<br>yen           | 1.26<br>U.S. dollars                   |
| Current term net income per share (diluted)                  | 111.22<br>yen           | 106.64<br>yen           | 109.39<br>yen           | 108.24<br>yen           | 1.05<br>U.S. dollars                   |
| Capital ratio*2  | 13.29%                  | 13.91%                  | 13.37%                  | 13.43%                  |  |
| Earnings on equity - increase                                | 5.20%                   | 5.31%                   | 5.62%                   | 5.61%                   |  |
| Group price earnings ratio                                   | 9.63 times              | 9.37 times              | 7.72 times              | 11.44 times             |  |

\*1 US dollar amounts have been translated, for convenience only, at the rate of ¥106.24 = US\$1.00 as of March 31, 2018.

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