

# YMFG Business Situation

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## Summary of Business Results

### ■ Performance

During the fiscal year ended March 31, 2017, the Japanese economy was characterized by modest recovery, despite weaknesses in some areas. In addition to signs of a rebound in production activity and capital expenditure, public-sector investment remained robust. Personal consumption was also favorable, amid ongoing improvements in the employment and income environments.

In February 2016, the Bank of Japan introduced a negative interest rate policy, aiming to stave off deflation through further monetary easing. As a result, bank lending yields continued to fall.

In this environment, the regional economy was marked by moderate ongoing recovery. Production activity was generally firm, although weakness was apparent in some sectors. 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.

Fiscal year ended March 31, 2017 marked YMFG's 10th anniversary of establishment and the start of the "YMFG Medium-Term Management Plan 2016." Based on this plan, 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 June 2016, YMFG established YM Life Planning in

collaboration with the Sumitomo Life Insurance Company, which has a high level of specialization in life planning and the insurance business. Through YM Life Planning, in October 2016 we acquired all shares in Hoken Hiroba and converted the company to a subsidiary. As a member of YMFG, Hoken Hiroba will serve as a one-stop provider of a wide range of financial products, including insurance, investment trusts, deposits and loans, providing life planning support for our customers.

In international operations, Yamaguchi Bank cosponsored the "Eighth Hong Kong and South China Business Networking Event for Japanese Companies" as one of the 18 regional banks with offices in Hong Kong.

In addition, in July 2016 Yamaguchi Bank, Momiji Bank and Kitakyushu Bank held the "Business Networking Event 2016 in Qindao" in collaboration with Joyo Bank, Hyakujushi Bank, Juroku Bank and Nanto Bank, which also use our shared regional bank computer system. 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, 2017, is outlined below.

Total income amounted to ¥163,818 million, decreased ¥3,040 million from the preceding fiscal year. The main reasons for this decrease were declines in interest on loans and a reversal of the allowance for loan losses.

Total expenses, meanwhile, rose ¥1,020 million, to ¥117,019 million, due to such factors as an increase in other operating expenses. As a result, income before income taxes decreased ¥4,060 million, to ¥46,799 million, and net income attributable to owners of the parent decreased ¥709 million, to ¥31,587 million.

Although the expansion of products and services to meet increasingly diverse customer needs and steady marketing efforts based on solid community relationships, due to interest rates remained low, the Group decreased

deposits ¥280 billion year on year, to ¥9,230 billion, including negotiable certificates of deposit (NCDs).

Loans and bills discounted increased ¥302 billion, to ¥6,751 billion as of March 31, 2017, 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 ¥1,900 billion at year-end, down ¥220 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,226 billion at fiscal yearend, decreased ¥212 billion from one year earlier. This decrease was attributable to decline in loans and bills discounted, based on the decrease 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 13.91%. Our consolidated total Tier 1 capital adequacy ratio was 13.64%, and our consolidated common equity Tier I capital adequacy ratio was 13.64%.

Net cash used in operating activities was ¥472 billion, a ¥494 billion difference from the cash provided by these activities in the previous fiscal year. The main reasons for this change were an increase in loans and bills discounted and decrease in deposit and negotiable certificates of deposit. Net cash provided by investing activities was ¥254 billion, up ¥32 billion, owing to investments in securities, taking market movements into consideration. Net cash used in financing activities came to ¥3 billion, ¥25 billion less than was used in the previous year. The main factor was the absence of redemption of subordinated bonds payable, which was present 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 ¥938 billion, down ¥221 billion.

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

	Millions of yen 2017	Millions of yen 2016	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars*1 2017
Consolidated total income	163,818	166,858	161,437	161,180	1,460,184
Consolidated net income attributable to owners of the parent	31,587	32,296	30,523	31,242	281,549
Consolidated comprehensive income	37,676	7,840	75,211	34,322	335,823
Consolidated total net assets	617,053	583,168	578,388	521,470	5,500,071
Consolidated total assets	10,225,782	10,438,005	10,195,184	9,635,044	91,147,001
Net assets per share	2,486.35 yen	2,357.89 yen	2,346.56 yen	2,040.02 yen	22.16 U.S. dollars
Current term net income per share	128.70 yen	132.43 yen	120.88 yen	120.68 yen	1.15 U.S. dollars
Current term net income per share (diluted)	106.64 yen	109.39 yen	108.24 yen	116.57 yen	0.95 U.S. dollars
Capital ratio*2	13.91%	13.37%	13.43%	12.69%	
Earnings on equity - increase	5.31%	5.62%	5.61%	6.04%	
Group price earnings ratio	9.37 times	7.72 times	11.44 times	7.70 times	

\*1 US dollar amounts have been translated, for convenience only, at the rate of ¥112.19 = US\$1.00 as of March 31, 2017.

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