

YMFG Business Situation

Summary of Business Results

■ The Regional Economy

In the fiscal year ended March 31, 2019, the Japanese economy was on a path of modest recovery despite flat exports, with sustained increases in production activity and capital investment. Personal consumption and employment also showed signs of recovery, prompting an economic rally.

Although our region was affected by flooding across western Japan in July 2018, the economy enjoyed a modest recovery. Bolstered by robust domestic and overseas demand, production activity was generally firm. Capital investment increased, centered on the manufacturing sector, as major chemical manufacturers invested to boost production capacity. Personal consumption was also strong, providing a firm foundation for the overall economy.

Against this backdrop, from the perspective of regional invigoration and 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).

In international operations, we signed a memorandum of business collaboration and cooperation with the Chugoku and Kyushu international centers of the Japan International Cooperation Agency (JICA). With this memorandum, through our three Group banks we aim to support efforts by our corporate business partners to expand their operations overseas, further invigorate our region and alleviate issues faced by developing countries. We are the first regional multiple financial group to sign such an agreement with multiple JICA offices in Japan. In August 2018, Yamaguchi Bank and the Japan Finance Corporation held a joint seminar in Dalian, China. Also in China, in September the Group's three banks collaborated with the Japan External Trade Organization (JETRO), the Department of Commerce of Liaoning Province and other parties for the "2018 Liaoning Province China-Japan Business Meeting" in the city of Shenyang. In February 2019, YMFG's three banks signed a memorandum of international business collaboration and cooperation with the Shoko Chukin Bank, Ltd., making us the first regional bank to enter such an agreement with Shoko Chukin Bank.

■ Financial Results

On a consolidated basis, total income rose ¥521 million year on year, to ¥162,593 million, due to higher gains on the sale of Japanese government bonds and interest on loans. Total expenses expanded ¥15,522 million, to ¥129,276 million, mainly because of losses on the redemption of Japanese government bonds and higher credit costs. As a result, income before income taxes fell ¥15,001 million, to ¥33,317 million, and net income attributable to owners of the parent decreased ¥9,768 million, to ¥23,149 million.

Deposits fell ¥125.0 billion, to ¥9,230.8 billion.

Loans and bills discounted increased ¥250.6 billion, to ¥7,408.4 billion as of March 31, 2019, 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 ¥1,398.0 billion at year-end, down ¥329.8 billion, due to decreases in Japanese bonds. This change reflected investment decisions made in consideration of market fluctuations.

Total assets amounted to ¥10,304.1 billion at fiscal year-end, down ¥62.4 billion from one year earlier. This decrease was the result of the redemption of bonds with stock acquisition rights and reduced holdings of securities.

At the end of the fiscal year, the consolidated capital adequacy ratio for the Yamaguchi Financial Group (uniform international standard) was 13.62%. Our consolidated total Tier 1 capital adequacy ratio was 13.58% and our

consolidated common equity Tier I capital adequacy ratio was 13.55%.

Net cash used in operating activities was ¥247.9 billion, ¥107.1 billion more 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 ¥339.7 billion, ¥175.8 billion more than in the previous fiscal year, owing to proceeds from sales of securities. Net cash used in financing activities came to ¥33.7 billion, ¥30.3 billion more than in the previous fiscal year, due to purchases of treasury stock and the redemption of bonds with stock acquisition rights. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥1,015.6 billion, up ¥58.2 billion.

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

	Millions of yen 2019	Millions of yen 2018	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars*1 2019
Consolidated total income	162,593	162,072	163,818	166,858	1,464,934
Consolidated net income attributable to owners of the parent	23,149	32,917	31,587	32,296	208,568
Consolidated comprehensive income	652	47,269	37,676	7,840	5,874
Consolidated total net assets	660,958	660,451	617,053	583,168	5,955,113
Consolidated total assets	10,304,140	10,366,548	10,225,782	10,438,005	92,838,454
Net assets per share	2,580.74 yen	2,653.60 yen	2,486.35 yen	2,357.89 yen	23.25 U.S. dollars
Current term net income per share	94.65 yen	133.65 yen	128.70 yen	132.43 yen	0.85 U.S. dollars
Current term net income per share (diluted)	83.27 yen	111.22 yen	106.64 yen	109.39 yen	0.75 U.S. dollars
Capital ratio*2	13.62%	13.29%	13.91%	13.37%	
Earnings on equity - increase	3.53%	5.20%	5.31%	5.62%	
Group price earnings ratio	9.91 times	9.63 times	9.37 times	7.72 times	

*1 US dollar amounts have been translated, for convenience only, at the rate of ¥110.99 = US\$1.00 as of March 31, 2019.

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