

# YMFG Business Situation

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## Summary of Business Results

### ■ The Regional Economy

In the fiscal year ended March 31, 2020, the Japanese economy was on a path of modest recovery. Toward the end of the fiscal year, however, conditions worsened significantly due to the impact of the novel coronavirus disease (COVID-19) pandemic. Exports and production weakened. The employment situation, which had been improving, was also affected, which in turn led to weaker personal consumption.

The regional economy enjoyed a slight recovery, but growing uncertainty toward the end of the fiscal year brought the economy to a standstill. Bolstered by robust domestic and overseas demand, production activity was generally firm. In the second half, however, production levels for export machinery and other items fell off as a result of the COVID-19 pandemic. Personal consumption weakened in the second half of the year, as demand fell back following a surge ahead of the consumption tax hike. Meanwhile, the manufacturing sector continued to drive increases in capital investment, as major chemical manufacturers invested to boost production capacity.

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 launched the YMFG Medium-Term Management Plan 2019. We strove to realize the goals of this plan, namely: "We aim to go beyond the boundaries of finance to address the social issues facing

our region, maintaining an awareness closely attuned to businesses. We strive to be a company that adds value to the region."

In international operations, in May 2019 the three Group banks held the YMFG Overseas Business Seminar, introducing the topics of "exchange rate market trends" and "effective overseas development to address issues facing corporate management." Furthermore, in September 2019 the three Group banks held the 2019 Liaoning Province China-Japan Business Meeting in Dalian, in China's Liaoning Province. The meeting was held in conjunction with the Hokuohoku Financial Group (Hokuriku Bank and Hokkaido Bank) and the Department of Commerce of Liaoning Province. To promote overseas expansion, we will continue to support business development in Asia by reinforcing our Asian network.

### ■ Financial Results

On a consolidated basis, total income rose ¥12,830 million year on year, to ¥175,423 million, due to higher gains on the sale of Japanese government bonds and gains on the sale of shares. Total expenses expanded ¥9,789 million, to ¥139,065 million, mainly because of losses on the redemption of Japanese government bonds and higher credit costs. As a result, income before income taxes rose ¥3,041 million, to ¥36,358 million, and net income attributable to owners of the parent grew ¥2,242 million, to ¥25,391 million.

Deposit amounted to ¥9,525.9 billion, up ¥295.1 billion, due to efforts to enhance products and services to meet increasingly diverse customer needs.

Loans and bills discounted increased ¥244.2 billion, to ¥7,652.6 billion as of March 31, 2020, due to 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 ¥1,512.7 billion at year-end, up ¥114.7 billion, due to increases in

Japanese national and regional government bonds. This change reflected investment decisions based on a policy of enhancing profitability for each fiscal year and across the overall portfolio.

Total assets amounted to ¥10,605.4 billion at fiscal year-end, up ¥301.3 billion from one year earlier. This increase was the result of growth in loans and greater holdings of securities.

Net assets came to ¥630.2 billion, down ¥30.7 billion from a year earlier. The decline was due to a ¥36.0 billion drop in unrealized gains on available-for-sale securities, despite a ¥19.6 billion contribution due to higher profit.

At the end of the fiscal year, the consolidated capital adequacy ratio for the Yamaguchi Financial Group (uniform international standard) was 12.62%. Our consolidated total Tier 1 capital adequacy ratio was 12.44% and our

consolidated common equity Tier I capital adequacy ratio was 12.41%.

Net cash provided by operating activities was ¥134.1 billion, a ¥381.9 billion difference from the previous year, mainly due to the rise in negotiable certificates of deposit. Net cash used in investing activities was ¥165.8 billion, a ¥505.5 billion difference from the previous year, and the result of purchases of securities. Net cash used in financing activities was ¥39.1 billion, ¥5.4 billion more than in the previous fiscal year, due to the redemption of bonds with subscription rights to shares. As a result of these cash flows, cash and cash equivalents at the end of the fiscal year came to ¥944.8 billion, down ¥70.8 billion.

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

	Millions of yen 2020	Millions of yen 2019	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars*1 2020
Consolidated total income	175,423	162,593	162,072	163,818	1,611,899
Consolidated net income attributable to owners of the parent	25,391	23,149	32,917	31,587	233,308
Consolidated comprehensive income	(25,204)	652	47,269	37,676	(231,591)
Consolidated total net assets	630,245	660,958	660,451	617,053	5,791,096
Consolidated total assets	10,605,416	10,304,140	10,366,548	10,225,782	97,449,380
Net assets per share	2,458.73 yen	2,580.74 yen	2,653.60 yen	2,486.35 yen	22.59 U.S. dollars
Current term net income per share	100.07 yen	94.65 yen	133.65 yen	128.70 yen	0.92 U.S. dollars
Current term net income per share (diluted)	93.86 yen	83.27 yen	111.22 yen	106.64 yen	0.86 U.S. dollars
Capital ratio*2	12.62%	13.62%	13.29%	13.91%	
Earnings on equity - increase	3.97%	3.53%	5.20%	5.31%	
Group price earnings ratio	6.11 times	9.91 times	9.63 times	9.37 times	

\*1 US dollar amounts have been translated, for convenience only, at the rate of ¥108.83 = US\$1.00 as of March 31, 2020.

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