

YMfg

YMfg



CEO Message

Putting thoughts into action to solve the many issues facing the region

“Be Active”

Under YMFG’s long-standing belief in “co-creation,” we will work together, believing in the “unlimited potential of the region” and taking on challenges together with the region.

Yamaguchi Financial Group, Inc.
President, Representative Director and CEO

Keisuke Mukunashi



Philosophy of “Kori zai kyodo (興利在共同)” connected to purpose

In last year’s Integrated Report, I talked about the formulation of “co-creating a bountiful future for our region,” purpose (mission and the meaning of its existence) of Yamaguchi Financial Group, Inc. (“YMFG” or the “Company”) and how this purpose is based on three thoughts that have been inherited and cherished throughout our long history. The three thoughts are as follows: “future-oriented,” which means that we exist to create a future, for the future; “coexistence-oriented,” which means that we cannot survive alone, we must always co-exist and work together with our stakeholders; and “region-oriented,” which means that we always exist for our region. To put these three thoughts into practice, we have been committed to the management policy since our foundation, “a sound and proactive enterprising spirit,” which is our basic approach. I hope that you can see that the purpose, a YMFG’s new banner, is not something unrelated to our past history. “A sound and proactive enterprising spirit,” our management policy inherited from the foundation, means “a sound attitude is one in which you tackle everything proactively, boldly, and with an enterprising spirit. In addition, sound management content, management system and management attitude will naturally result in a constitution and strength that allows for the aggressive and resolute taking in of risks.” In other words, soundness and proactive action are not mutually exclusive concepts, but rather are a harmonious and integrated idea. To harmonize these two philosophies, which are apt to be seen as mutually exclusive concepts, and to realize “a sound and proactive enterprising spirit,” it is essential that each YMFG’s employee engages in friendly competition and devotes themselves to their daily work. It is only when one does not seek the easy way out in everything, confronts their work with a strict attitude, and genuinely cooperates with others, that a true trusting relationship born out of mutual prosperity and mutual interest can arise.

At the head office of YMFG, which is also the head office of The Yamaguchi Bank, Ltd., there is a piece of calligraphy that reads “Kori zai kyodo (興利在共同).” This calligraphy was



Calligraphy of “Kori zai kyodo (興利在共同)” at YMFG head office

written by Mr. Korekiyo Takahashi, a politician of the Taisho and Showa eras who served as Prime Minister, Minister of Finance, and Governor of the Bank of Japan, and had been carefully preserved for many years in the “Yamagin Museum,” where used to be the former head office of The Yamaguchi Bank, Ltd. I strongly felt that the phrase of this calligraphy was a reflection of the philosophy that has been passed down to us from generation to generation, and so I requested that the work be displayed at our head office. The phrase “To make a profit is to make it in cooperation” expresses the very origin of YMFG’s purpose of “co-creation.” It teaches us that if the region and our customers are satisfied, so too does YMFG grow, and it leads to development of new business fields and collaboration with a diverse range of external partners at the same time. This will be passed down for generations with our history. Whenever I see the phrase “Kori zai kyodo (興利在共同),” I can feel a deep connection to the long history and emotions tied to YMFG’s purpose, and it serves as a constant reminder of the important responsibility that has been passed down to me.

Has there ever been an era without change. Life is about adapting to the unique changes of each era, and a company, as a collection of people, can only enhance its sustainable corporate value by flexibly taking on the challenge of changing times. When I was in charge of new business areas, I was constantly challenged by change. This attitude remains unchanged even now as I serve as the President and CEO, and I intend to accelerate even further going forward. However, to change and take on challenges correctly as an organization, we need unwavering guidance, and this is where YMFG’s purpose, representing our long-held beliefs that have been passed down, comes in.

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Our new brand slogan, “This world. This town. And me.”

This YMFG’s purpose cannot be achieved by YMFG’s one-way thoughts alone, as the word “co-creation” suggests. To achieve this purpose, it is important for all of YMFG’s stakeholders to empathize with and understand the philosophy of this purpose. From that perspective, in order to ensure that stakeholders make the philosophy of our purpose their own and easily understand it, we established a new brand slogan for YMFG, “This world. This town. And me.” in November 2022. “Region” meaning staying in a “region” is a discussion of the past. In the current time, which is based on digital nature, the “region” can connect with the “world” instantly and has limitless possibilities, which are related to the future of our stakeholders. This idea is deeply infused in our brand slogan.

With this brand slogan as our foundation, we have developed new brand communication initiatives. As part of these initiatives, we have introduced a brand communication book, an area magazine themed around the three main areas of YMFG: Yamaguchi, Hiroshima and Kitakyushu. From the unique perspective of YMFG, which operates its business in these three areas, we introduce engaging content and attractions that many people may not yet be aware of, and present the future that YMFG aims for in an easy-to-understand and easy-to-image manner. Through this brand

communication book, we hope to help people discover and communicate the new attractions of these three areas. “This world. This town. And me.” Each and every YMFG’s employee will consider the purpose their own matter, connect it to their own individual purpose, seriously think about what they can do, and act towards realizing the YMFG’s vision (what the Group should become in the future), “a regional value-up corporate group that is chosen by our region and responds to the trust of our region.” We intend to take on the challenge of realizing our purpose together with the region, with the perspective of the infinite possibilities in the region and the challenges of connecting globally.



Brand communication book

Review of the fiscal year ended March 31, 2023

The previous fiscal year was the first year of the “YMFG Medium-Term Management Plan 2022,” which was formulated based on our purpose. The plan was achieved for both ordinary profits and net income, and we steadily advanced initiatives aimed at enhancing our structure and foundation to further contribute to the revitalization of the regional economy and improve YMFG’s corporate value. As part of our efforts to build a sales structure to provide high-quality solutions to customers in the region, we introduced a “block sales system” in October 2022. Additionally, during the establishment of

this system, to further demonstrate YMFG’s group synergy and contribute to our regional customers, we completed the “wholly-owned acquisition of group companies,” including YAMAGUCHI CAPITAL Co., Ltd. and YM Lease Co., Ltd., which has enabled us to capture 100% of the profits that were previously flowing outside the Company and its subsidiaries (the “Group”).

From the perspective of regional co-creation, we have consistently advanced various initiatives that involve the region, such as launching and hosting the “SIB (Social Impact Bond) Research Group” by YMFG

ZONE PLANNING CO., LTD., the Group’s regional revitalization consulting company, co-hosting the “Shimonoseki Add-venture Summit (SAS),” a regional revitalization summit, with Shimonoseki City in a genuine effort to revitalize local industries by the community and startups, and entering “comprehensive partnership agreements with Shimonoseki City University and Shunan University” to develop human assets in digital and other fields together with the local community.

To strengthen supervisory function of risk management, we established the “Risk Committee” in July 2022, primarily comprised

of outside Directors and third parties (external experts). We have begun operations focusing on the market department, where immediate action is urgently needed, and are proceeding with efforts to build a securities portfolio, reflecting objective opinions from the Risk Committee. In this manner, although steady progress has been made in implementing the policies set out in the first fiscal year and we do feel a sense of accomplishment, from the current fiscal year onwards, we will further accelerate measures that contribute to the enhancement of the value of the region and YMFG.

Management policy for the fiscal year ending March 31, 2024

In the current fiscal year, the second year of the medium-term management plan, we will aim for a trade-on between “resolving regional issues” and “corporate profits.” We have set outcomes which affect society and environment, and have identified six priority regional issues (social and environmental issues) based on the materiality. Under the policy of actively working to resolve these regional issues, we will strive together towards realizing our purpose and further enhancing corporate value. The current fiscal year, under the structure and foundation built in the previous fiscal year, is truly “a year of implementation” aiming for a leap towards the final fiscal year of the medium-term management plan, and the mindset and attitude required for this is “Be Active.” This is a message I communicated to all employees in

my New Year’s greeting, and I constantly communicate to employees the need to approach challenges with this mindset and attitude. Based on the keyword “Be Active,” which I keep reminding myself of, we have set forth important themes such as “revitalization and growth support for regional companies” and “personnel system reform and human asset development” as foundations to promote YMFG’s transformation and growth, and our policy is to thoroughly pursue these initiatives. Reviving regional companies that have been significantly affected by the COVID-19 pandemic for over three years is a responsibility of YMFG, which supports regional companies, and we believe that the growth and success of YMFG employees will undoubtedly contribute to the growth and development of the regional economy.

Promotion of the active participation of the Group’s human assets

The driving force of YMFG and source of our initiatives, based on our purpose and brand slogan, are entirely our “people” and “employees.” It is important for employees who embody the philosophy of our purpose to demonstrate their creativity in a highly motivated state and to engage in continuous value creation. Based on the concept of human capital management, we have identified “promotion of the active participation of the Group’s human assets” as one of our priority

items in our medium-term management plan, and are actively pursuing it. We have implemented initiatives for the active participation of diverse human assets, including the enhancement of the hiring of experienced individuals, the promotion of the active participation of women, and the implementation of year-round hiring for new graduates. In addition, from the perspective of human asset development, we have doubled our investment in training compared to the

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fiscal year ended March 31, 2022, and we are steadily advancing initiatives such as reskilling support for employees. Through the implementation of these initiatives, we have seen gradual changes, such as positive developments in “loyalty to the company” in employee awareness survey results. However, reforming the corporate culture is not something that can be achieved overnight, and we intend to address it with a long-term perspective.

In order for YMFG to become an organization that can flexibly respond to an increasingly diverse and complex society, one issue I highlighted in our previous Integrated Report was the active participation of women as we promote the active participation of diverse human assets. As a result of our participation in the “Human Capital Management Consortium,” our membership in the “30% Club Japan” to share advanced case studies, efforts to improve the environment

through unconscious bias training and the Female Corporate Sales Job Trial, and the active promotion of female managers, the ratio of females in management positions increased from 1.2% at the end of March 2022 to 4.5% at the end of March 2023, an improvement of 3.3%, but it is still at a low level. However, in the past year, the appointment rate of females to leadership positions of section chief and above has significantly increased to 37.6%, up 20.9% from 16.7% in the previous fiscal year. We will continue to build a pool of female candidates for manager to achieve a long-term, consistent increase in the ratio of females in management positions.



30% Club Japan

Provision of opportunities for employees to play an active role and introduction of an incentive plan

In January 2023, we implemented a major revision to the personnel system by the “revision of the promotion requirements” for employees. This revision reviewed the traditional “seniority-based” promotion requirements, aiming to enable employees to play active roles by fully utilizing their unique characteristics and abilities, regardless of their age, etc. At YMFG’s group companies, employees in their 30s and 40s are already taking on leadership roles, such as the 37-year-old president of YM Career Inc., operating a personnel recruitment business, and we intend to expand this trend to the entire group. As a stepping stone toward creating opportunities for the active involvement of diverse human assets, in April 2023, we appointed four employees in their 40s to the position of general manager at Yamaguchi Financial Group, Inc., the holding company. As a result, the average age of general managers of Yamaguchi Financial Group, Inc. is now in the 40s, and with the addition of the strong driving force and creativity of young, capable division heads, I strongly feel the potential for further growth of YMFG. To further accelerate the

driving force of the Group’s growth, we plan to build and cultivate a pool of talented young employees and continue to promote the active involvement of diverse human assets. To ensure that these system reforms function properly and promote the active participation of our human assets, it is important to introduce a personnel evaluation system that everyone in the organization can agree upon. In addressing this issue, discussions on the personnel evaluation system, including with outside Directors, were held at a Group Officer Retreat in February 2023, and we are currently discussing within the organization toward the introduction of a better system.

Furthermore, to enhance employees’ enthusiasm and morale towards improving stock price and business performance by further strengthening the link between YMFG’s stock price, business performance and employee compensation, and sharing economic effects with our shareholders, in May 2023, we introduced an incentive plan, the “Employee Stock Ownership Plan (J-ESOP),” which grants the Company’s shares to employees. This incentive aims to improve

employee motivation, and we believe it is an effective method for employees to manage their business operations from a shareholder perspective. By actively offering share-based remuneration not only to officers but also to employees, we hope to narrow the gap between employees and the management

team, striving for a stakeholder structure where customers, management team, and employees are unified. Moreover, the introduction of this J-ESOP is the first among regional banks in western Japan. We intend to further accelerate such efforts to enhance human capital management.

Towards the improvement of corporate value

I have always stated at financial results briefings that we “aim to be a growing regional financial group and focus on enhancing corporate value.” This is my role as the President of the holding company, Yamaguchi Financial Group, Inc., who does not serve concurrently as President at any banks within the Group, and I see it as a commitment to our stakeholders, including our shareholders. Regarding the current situation, while we recognize that our capital cost is about 7%, our recent ROE is below this level and our PBR is well below 1 fold. In response, we first aim to achieve the 5% ROE target set out in our medium-term management plan, but strongly recognize that in the medium to long term, we need to aim for an ROE level that exceeds our capital cost. Our approach to enhance ROE over the medium to long term is to break ROE down into two major components, aiming to increase Return on Risk-Weighted Assets (RORA) and apply appropriate financial leverage. In terms of specific initiatives, strengthening profitability and allocating management resources to growth areas are essential to boost RORA. To this end, we will work to review our business portfolio and

asset allocation, and improve service income.

In addition, to apply appropriate financial leverage, we will implement capital allocation while considering the total equity ratio. In the fiscal year ended March 31, 2023, we executed initiatives such as subordinated bond issuance, acquisition of treasury shares, and improvement of dividend payout ratio, and in the fiscal years ending March 31, 2024 and 2025, we will allocate capital to return to shareholders, organic areas such as loans and securities, and inorganic areas such as strategic investments, while considering the Group’s strategy and external environment, and strive to enhance profitability. In terms of return to shareholders, we have set targets of a dividend payout ratio of around 40% and flexible acquisition of treasury shares in our medium-term management plan. In the fiscal year ended March 31, 2023, we realized the promised dividend payout ratio of 40%, and the total return amount exceeded ¥17.0 billion, which is an increase from the previous fiscal year. In addition, we have announced the acquisition of ¥10.0 billion of treasury shares in the current fiscal year as well.



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Reduction of cross-shareholdings

To improve capital efficiency, we are also working on reducing cross-shareholdings. Since previous fiscal year, we have been discussing the approach to accelerating reduction of cross-shareholdings at the “Meeting for the Reduction of Cross-Shareholdings” composed of members including myself and the Presidents of the banks, and conducting negotiations towards the reduction. Along with this, we started an award system for sales staff who contributed to the reduction of cross-

shareholdings in the previous fiscal year, providing incentives for reduction. In the previous fiscal, we reduced by ¥11.3 billion on both market and book value bases compared to the end of the previous fiscal year, and achieved a 16% reduction compared to the book value at the end of the fiscal year ended March 31, 2022, and I feel a significant sense of accomplishment. During the current fiscal year, we continue to accelerate our reduction efforts, aiming to improve capital efficiency.

Strengthening of the governance and internal control system

The foundation for all the efforts I have mentioned is “governance and internal control.” We formulated improvement measures for a total of 35 items in November 2021 in order to work on strengthening of the governance and internal control. These governance and internal control initiatives in the improvement measures are also reflected in our medium-term management plan, and the entire Group is taking action to address these initiatives. As of June 30, 2023, we have already implemented 32 out of 35 items, but we recognize that the implementation of these improvement measures is not the end of the process, and that it is important for the Board of Directors, the management team, and the execution departments to work together to properly implement the PDCA cycle to further improve governance and enhance corporate value. We will continue to implement initiatives appropriately.

In our effort to strengthen the governance and internal control system, we underwent a significant organizational restructuring in April 2022, and based on trust and delegation of authority, we changed the system so that the President of each of the three banks in the Group executes all business execution. As the President of the holding company, I am positioned to oversee the entire Group and establish the system to focus on formulating the Group’s strategy from a medium- to long-term perspective, such as capital policies aimed at “enhancing corporate value,” and I

actively create opportunities for dialogue with all our stakeholders, incorporating their opinions that contribute to the enhancement of YMFG’s corporate value into the Group’s strategy. This is the intention behind concentrating on the holding company’s President and one of the strengths of the growth-oriented YMFG. Of course, this dialogue includes dialogue with YMFG’s employees. Regarding the “YMFG Medium-Term Management Plan 2022” in the previous fiscal year and “Management Plan for FY2024” in the current fiscal year, we held town hall meetings attended by me and the Presidents of the three banks to deepen employees’ understanding and promote the plan’s permeation internally. All questions and opinions raised at these meetings are shared internally, and we are steadily promoting permeation of the management plan.



Town hall meeting

At the Annual General Meeting of Shareholders in June 2023, Directors Tsukuda and Kunimasa, who had long contributed to the development of YMFG, resigned as outside Directors, and Directors Ogi and Shikichi joined, leaving YMFG’s Board of Directors with a new structure. Director Ogi possesses expertise in maintaining and improving corporate governance as well as insights in the field of corporate revitalization, and we believe

that he will provide precise advice on one of the key themes of the current fiscal year, “revitalization and growth support for regional companies.” In addition, Director Shikichi, has his abundant experience as a lawyer and tax accountant and specialized knowledge, and we will continue to use this new board structure as a strength to ensure YMFG’s sustainable growth.

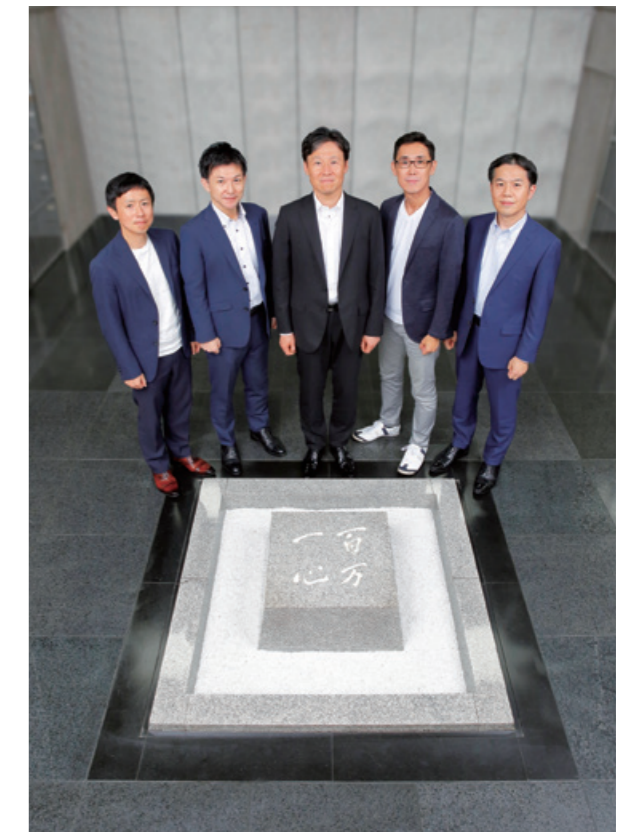
In the spirit of “Hyakuman isshin (百万一心)”

I began by explaining the phrase “*Kori zai kyodo* (興利在共同),” and lastly, I would like to speak about another phrase that exists at YMFG’s head office. “*Hyakuman isshin* (百万一心)” is a phrase which was engraved on the cornerstone set in the center of the large vault on the second basement floor by order of Shinsaku Fuura, who was the President of The Yamaguchi Bank, Ltd. when the head office was completed. The phrase was inscribed on a stone monument praying for a successful work as a substitute for a human sacrifice by order of feudal lord Mori Motonari, who preached the “teachings of the Three Arrows,” when Yoshida-Koriyama Castle was built. The phrase can be interpreted as “one day, one power, one heart,” and conveys that “if time, power, and heart are unified, anything can be achieved,” embodying “unity” and the “spirit of cooperation.” This phrase is imbued with the philosophy of “co-creation,” a purpose that has been handed down to us through our long history. Toward the achievement of our purpose, in order to meet the expectations of

all stakeholders surrounding YMFG, it is a given that all YMFG’s employees, under the brand slogan that conveys “This is me,” must take initiatives with a sense of ownership, and I believe that by facing the same direction and working in “unity,” we can create powerful momentum and achieve anything. During the current fiscal year, based on the spirit of “*Hyakuman isshin* (百万一心),” YMFG intends to act with a “Be Active” attitude to meet the expectations of our stakeholders.

At the cornerstone “*Hyakuman isshin* (百万一心)” set in the vault of the YMFG’s head office

From left
Hiroshi Matsuura, Representative Director of YM Career Inc.
Hiroyuki Harada, General Manager of the IT Administration Dept.
Keisuke Mukunashi, President, Representative Director and CEO
Tatsuya Furudo, General Manager of the Corporate Planning Dept.
Hajime Nishino, General Manager of the Risk Administration Dept.



A Tripartite Discussion among the Outside Directors and the Expert

While exercising an appropriate monitoring function, the Board of Directors also works as one to encourage “Be Active” by increasing effectiveness

We invited Yuzuru Yamamoto, Chair of YMFG’s Nomination Committee, Yumiko Nagasawa, Chair of the YMFG’s Compensation Committee (resigned as Chair in June 2023), and Professor Shoichi Tsumuraya from Hitotsubashi University, who specializes in corporate governance and information disclosure, for a tripartite discussion on the effectiveness of YMFG’s corporate governance.



Yuzuru Yamamoto
Outside Director

Chairman of the Board of Directors & Director of UBE Corporation, appointed as Director of The Yamaguchi Bank, Ltd. in 2020 (retired in 2021), and as Director of the Company in 2021.

Yumiko Nagasawa
Outside Director

Facilitator of Foster Forum (Forum for Fostering High-quality Financial Instruments), Director of Yakult Honsha Co., Ltd. (outside director), Director of GL Sciences Inc. (Audit and Supervisory Committee Member) (outside director), appointed as Director of The Yamaguchi Bank, Ltd. in 2018 (retired in 2020), and as a Director of the Company in 2020.

Shoichi Tsumuraya
Professor at the Graduate School of Business Administration, Hitotsubashi University

He specializes in information disclosure and corporate governance. He has been a visiting researcher at the Japan Investor Relations Association since 2007. He has been a member of the “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” of the Financial Services Agency since 2020.

Fostering an open organizational climate by ensuring the “diversity and objectivity” of the Board of Directors

Tsumuraya: First, Director Yamamoto and Director Nagasawa, as outside Directors, how do you perceive the characteristics and challenges in YMFG’s management?

Yamamoto: Our Board of Directors is comprised of a majority of independent outside Directors, and includes three females, so in terms of diversity and objectivity, I believe it is structured very well. I also believe that it is diverse and well-balanced in terms of skills. YMFG submitted an improvement report in response to a governance issue two years ago. The improvement report has been taken seriously and based on its improvement plans, the executive side, including the President, has provided information and taken responsive measures

to various opinions presented at the Board of Directors, and I believe that we are on the way to making further progress in a better direction.

Nagasawa: While the governance issue two years ago indeed caused concerns among shareholders and other stakeholders, I think it was really significant that we were able to recognize and confront the issue objectively. I personally feel that the executive side has listened more to voices through the bottom-up approach, and I think our governance structure has elevated to the next level. Nonetheless, I recognize that there are still issues to be addressed and that we are not at the end of the process.

Tsumuraya: To what extent do both of you feel that progress has been made towards the point of completion?

Nagasawa: I feel that we have just started our ascent. Numbers are not everything, but we receive reports from the employees on how they work towards achieving the

medium-term management plan, and I feel that the Board of Directors is getting a better understanding of and is able to discuss specific initiatives more effectively.

Yamamoto: I agree. As outside Directors, we also need to check the progress of the medium-term management plan and express our opinions at the Board of Directors about areas that need improvement, pushing for higher-level measures. Furthermore, changing culture, climate, or mindset takes a considerable amount of time, so the Board of Directors will continue to voice its opinions properly to ensure our stance does not become mere formality.

Tsumuraya: Is the Board of Directors of YMFG currently having thorough discussions about the progress of the medium-term management plan and commitment to numerical targets?

Nagasawa: Yes, it is. We must hear from the executive team and employees “why things are the way they are,” confirm them,

and adjust the direction accordingly. The diversity on the Board of Directors is enough ensured, so we can have meaningful interactions with Directors expressing their opinions from a variety of perspectives.

Yamamoto: I feel that the environment has become more open for discussion. This applies to the executive side’s officers as well as general managers. I feel they are clearly expressing their thoughts.

Transitioning to a system where the opinions of outside Directors are quickly materialized

Tsumuraya: Are there any notable instances where the executive side incorporated the opinions of outside Directors?

Yamamoto: The suggestion that “should be implemented” from all outside Directors was to include the Presidents of the three

A Tripartite Discussion among the Outside Directors and the Expert

subsidiary banks as internal Directors. It was agreed upon as something that we should do.

Nagasawa: Yes, that is right. Because the situations of the three banks are different and each President has different experience, being able to directly hear their views has proven extremely beneficial for management decisions by the Board of Directors.

Yamamoto: To make the Presidents of the three banks Directors of YMFG, we needed to increase the number of Directors in the Articles of Incorporation, and I proposed that they should be included as Directors even if the Articles of Incorporation would have to be changed. I believe that the Presidents of the three banks should clearly explain their execution status and operation as the Presidents of the subsidiary banks, and, on the other hand, as Directors of the Group, they should contemplate how to position and act upon their mission within YMFG. Despite potential contradictions between these roles, it is preferable for them to join as YMFG's Directors and deliberate from both perspectives. In addition, we transitioned to a company with audit and supervisory committee in 2015. While the general aim is to shift from a management board to a monitoring board, if our aspiration as a Board of Directors is to lean towards a monitoring role, we decided to delegate what we can to the executive side, and retain other matters to be resolved by the Board of Directors. This is precisely where the discretion of a company with audit and

supervisory committee lies, so when matters are brought up for discussion by the Board of Directors, we assess them, determine those which "should be left to the executive side," and consider as needed and on a case-by-case basis the appropriate deliberating body to make changes. From the perspective of the Board of Directors, we want to discuss how to manage the company and improve corporate value in the medium to long term rather than focusing on short-term issues, and take adequate time to discuss these issues. Therefore, we seek the provision of information and ways of reporting that support these discussions.

Nagasawa: That was also the case with the establishment of the Risk Committee. Securities investment plays a very important role for regional banks. Regarding the securities investment of YMFG, I had requested the executive team to explain the policy and associated risks in a way that we, the outside Directors, can understand, and that led to the establishment of the Risk Committee. At the meeting of the Risk Committee, after receiving reports from the asset managers of The Yamaguchi Bank, Ltd. and Momiji Bank, Ltd., committee members ask questions, and the results are then reported to YMFG's Board of Directors. We see this as a significant advancement from a risk management perspective.



A high-quality and vigorous discussion in the committee leads to appropriate monitoring

Tsumuraya: Both of you serve as Chairs of the Nomination Committee and the Compensation Committee, respectively. What are the roles expected of each committee?

Yamamoto: We have the Nomination Committee, the Compensation Committee, and the Risk Committee, all of which are advisory bodies to the Board of Directors. The Nomination Committee discusses the nomination of officers, and because it would be very time-consuming for the entire Board of Directors to discuss the nomination of officers one at a time, discussions should be limited to a smaller group and focus on specific matters. The Nomination Committee has the role of reporting the results of the discussion to the Board of Directors and determining officer candidates based on that. Another important role is discussing succession plans. Simply put, it is a forum for discussing the succession plan for the Chief Executive Officer. At the recent general meeting of shareholders, shareholders praised the current President, saying, "The President is doing a great job," and Directors shares this view. Although our current President is only in his third year, it is becoming important to determine how to secure and develop his successor. Within the Nomination Committee, we listen to the specifics of development efforts and ensure that proper training is taking place. Moreover, as we, the outside Directors, need to be replaced eventually, so we believe that we have two roles: to discuss what kind of experts we will need in the future and what kind of candidates we should secure in preparation for the changeover, using a skills matrix.

Tsumuraya: How about the Compensation Committee?

Nagasawa: At the meeting of the

Compensation Committee, we try to ask "why a given evaluation is being made." As outside Directors, we cannot interview and evaluate each individual being evaluated, so we value the perspective of looking at the whole, ensuring the overall assessment is fair and impartial. The situations at the three banks are different, so naturally, the numbers differ. This is why committee members continuously ask why this number is higher or lower compared to others. If we receive a reasonable explanation, we judged that there is no problem, but we continue to ask questions until satisfied, feeling that we are fulfilling our monitoring function.

Yamamoto: In the Nomination Committee, there are things we do not know about internal candidates, so we sometimes ask the executive side at the committee meetings why a particular person has been nominated. We check whether the reasoning is logical and objective.

Tsumuraya: The committees seem to be very active based on what you said.

Nagasawa: I think they have become considerably more active. Each outside Director expresses their opinions, and the briefings before meetings of the Board of Directors have improved both in quantity and quality, facilitating deeper discussions. In fact, as outside Directors, we have specifically requested the way of reporting, which may have been cumbersome for the executive team, but it has responded to our requests. The same applies to committee activities. I feel that communication with the executive team, including the President, has become easier. Sometimes we are asked for our opinions individually, and sometimes we also provide opinions from us. At the meeting of the Board of Directors, the President mentions the opinions he has received, and we outside Directors can properly inquire about the reasons. I feel the system is becoming conducive to fulfilling our responsibilities as outside Directors.

A Tripartite Discussion among the Outside Directors and the Expert

Yamamoto: As Ms. Nagasawa mentioned, I also feel there is good mutual communication and engagement between the executive side and Directors. Mutual understanding is deepening, and discussions are becoming more lively in this environment.

Tsumuraya: That is important. Despite the time and effort spent on committee activities, it is clear the two of you find them very rewarding.

Shifting our focus from a “cost” to an “investment” and making long-term investments to realize our desired state

Tsumuraya: In the medium-term management plan, the Company has announced a target for ROE, while simultaneously advancing three objectives, including various initiatives centered on human asset development and addressing global challenges such as greenhouse gas emission reduction, and these objectives operate on different time frames. What kind of discussions are you having in the Board of Directors about priorities, balance, and what should be focused on first?



Yamamoto: Everything announced in the medium-term management plan is important, and we start from the standpoint that it must be done. Although the duration of the medium-term management plan is three years, to achieve our desired state, the lead-up time should ideally be longer. I believe that the medium-term management

plan serves as a milestone, formed by imagining how we want to be in the long term and backcasting from there for taking actions. In this way, there is no trade-off between the ROE target of the medium-term management plan, human asset development and investments over the long term and carbon neutrality investments. Human asset development is an investment. Conventionally, labor costs are seen as costs, which would mean they are opposite to ROE. However, I believe it is important to think that we develop and invest in human asset over the long term in order to further improve ROE. Carbon neutrality might seem like a distant goal, but its value is universally recognized. However, when you try to achieve it immediately, it incurs costs. There is an apparent contradiction here, but by taking a long-term view and discerning when, what, and how to invest, I think we should move forward with the idea that it is an “investment.”

Nagasawa: I also do not think these three objectives are a trade-off. As a listed company, it is essential for us to aim for a higher ROE. In the financial industry, especially for regional banks that coexist with the regional economy, it might be challenging to raise this figure over the short term. However, from the medium-term perspective, we must think about the strategies to improve ROE and I believe that we also need to invest. I also believe that a company is people, and that the development of human assets should be seen as an investment. I think companies that can address social issues such as aging society, digitalization, and climate change can grow their profits. However, companies need employees who can not only generate ideas for solving these social issues, but also take action, and providing opportunities for skill development to employees is an investment in my view.

Regarding the transition to carbon neutrality, the region of Kitakyushu and Hiroshima, centered around Yamaguchi, was a pivotal area in Japan’s industrialization after the Meiji Restoration, and this possesses the potential to initiate a new industrial revolution in terms of human assets. Furthermore, I also think that

one of the keys is achieving rapid success in addressing global challenges. This region has a history of prospering through industries emitting carbon dioxide during the 20th century, and that is why the region’s experience, in overcoming this problem, will help lead the new industrial revolution. YMFG is expected to play a leading role in these efforts, and if we can demonstrate our ability to do so to shareholders and the region, it is inevitable that both income and stock market valuation will increase. Therefore, I believe it is more of a sequence than a trade-off.



Steadily implementing the management plan to be recognized as YMFG, a company that drives the Japanese economy through “regional co-creation”

Tsumuraya: Finally, could you give a message to everyone, including shareholders and investors?

Nagasawa: Due to my background as a former securities analyst, I have always valued the perspective of investors, especially institutional investors, in evaluating the management decisions and I participate in every meeting of the Board of Directors with this viewpoint in mind. I

would like to emphasize that, over the course of attending five general meetings of shareholders, I have strongly felt that YMFG is supported not only by institutional investors but also by individual shareholders and business partners in the region. To all stakeholders supporting YMFG, we will demonstrate our management policies and achievements to ensure they are confident that YMFG is the leading company driving this region forward and to be supported by them. Accordingly, both the executive team and the outside Directors will work together, and we would like shareholders to see the process.

Yamamoto: I believe that the first step in returning profits to our stakeholders will be to achieve the policies and targets set forth in the medium-term management plan. I consider it my personal duty to work with the management and the executive side to make this happen. I strongly believe that this will ultimately benefit our shareholders, so I will work hard to achieve this.



Tsumuraya: It was evident from what you said how both of you approach meetings of the Board of Directors with a strong sense of responsibility and actively participate in committee activities. In addition, I believe we were able to get a clearer picture of the effectiveness of YMFG’s Board of Directors. Thank you. I also look forward to further advancements in YMFG’s governance.

Purpose and vision



Management policy

“A sound and proactive enterprising spirit”

The thoughts that we cherish

Yamaguchi Financial Group, Inc., has formulated the “Mission and meaning of existence (Purpose)” and “What the Group should become in the future (Vision)” in order to combine the abilities of the Group’s executives and employees, and to increase corporate value. We have incorporated the concepts of the conventional group vision and the thoughts that we cherish through our business activities, etc.

Future-oriented

We exist to create a future, for the future

Coexistence-oriented

We cannot survive alone,
we must always co-exist and work together
with our stakeholders

Region-oriented

We always exist for our region

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Editorial Policy

Yamaguchi Financial Group, Inc., has created the “YMFG Integrated Report 2023” in order to help our stakeholders gain an understanding of our efforts towards sustainable value creation. In the compilation of this report, we have referred to the “International Integrated Reporting Framework” managed by the IFRS Foundation, the “Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation” published by the Ministry of Economy, Trade and Industry, etc.

It should be noted that although this report does contain statements concerning future performance, these descriptions do not represent guarantees for future performance, and actual performance may be different to these statements due to changes in the business environment, etc.




History of YMFG

We are striving every day for the region and for the creation of a future, based on “a sound and proactive enterprising spirit” that has been passed down over the course of our long history of over 140 years.

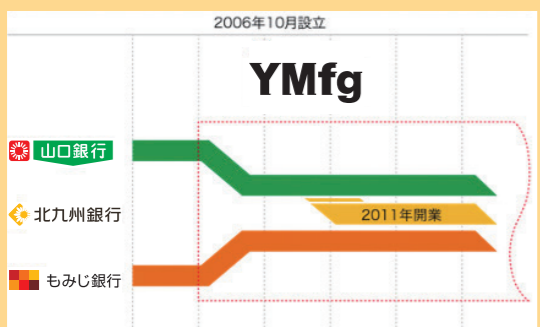
We are supporting the development of the region from a variety of perspectives by connecting Yamaguchi, Hiroshima and Northern Kyushu with the wide area network and using the Group’s comprehensive strengths, and we are jointly creating a sustainable future for our customers and region.

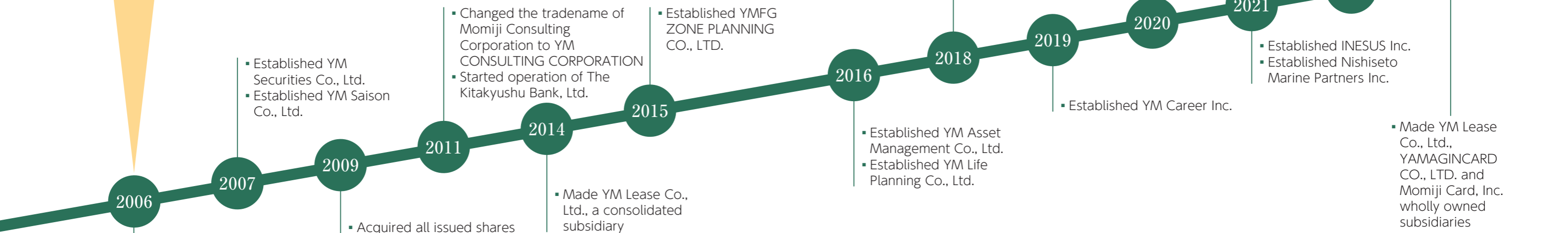
2006年10月設立



Realizing management integration ahead of industry

In recent years, while there have been a large number of management integrations at regional banks, in 2006, The Yamaguchi Bank, Ltd. and Momiji Holdings, Inc. (the holding company of Momiji Bank, Ltd.) completed a management integration ahead of the industry, resulting in the establishment of YMFG. Furthermore, The Kitakyushu Bank, Ltd. was established in 2011, resulting in the construction of the current three-bank system. We are always at the forefront of the industry.





Yamaguchi Financial Group, Inc.
(current head office of The Yamaguchi Bank, Ltd.)

YMFG Medium-Term Management Plan 2022

Aim to “improve the sustainability of our region” and to “build a sustainable business model for YMFG”

- Made YAMAGUCHI CAPITAL Co., Ltd., Regional Trading Company Yamaguchi Co., LTD., KAIKA Corporation and Bankers Farm Inc. subsidiaries

もみじ銀行



Head office of Momiji Bank, Ltd.

- 1923 Established Hiroshima Mujin, Ltd.
- 1951 Converted to a sogo bank, and changed the trade name to Hiroshima Sogo Bank, Limited.
- 1989 Converted to a commercial bank, and changed the trade name to Hiroshima-Sogo Bank, Ltd.
- 2001 Established a holding company, Momiji Holdings, Inc., through stock transfer
- 2004 Merged with Setouchi Bank Ltd., and changed the trade name to Momiji Bank, Ltd.

北九州銀行



Head office of The Kitakyushu Bank, Ltd.

- 2010 Established Kitakyushu Financial Project Co., Ltd.
- 2011 Changed the trade name to The Kitakyushu Bank, Ltd., and started its operation

山口銀行

1878 Founded The Hyakujū National Bank, Ltd. The Hyakujū National Bank, Ltd., the predecessor of The Yamaguchi Bank, Ltd. which is the origin of Yamaguchi Financial Group, Inc., was founded in 1878.

1944 Founded The Yamaguchi Bank, Ltd.

(The merger of five banks: The Hyakujū Bank, Ltd., Kaho Bank, Ltd., Senjo Bank, Ltd., Oshima Bank, Ltd., and Ube Bank, Ltd.)



Former head office of The Yamaguchi Bank, Ltd.

YMFG Overview

YMFG has established a system for responding to the broad needs of the region and customers through the unification of various group companies, including the three core banks.



Yamaguchi Financial Group, Inc.

Head Office Address 2-36, 4-chome Takezaki-cho, Shimonoseki
 Date of Establishment October 2, 2006
 Capital ¥50.0 billion

(As of July 1, 2023)

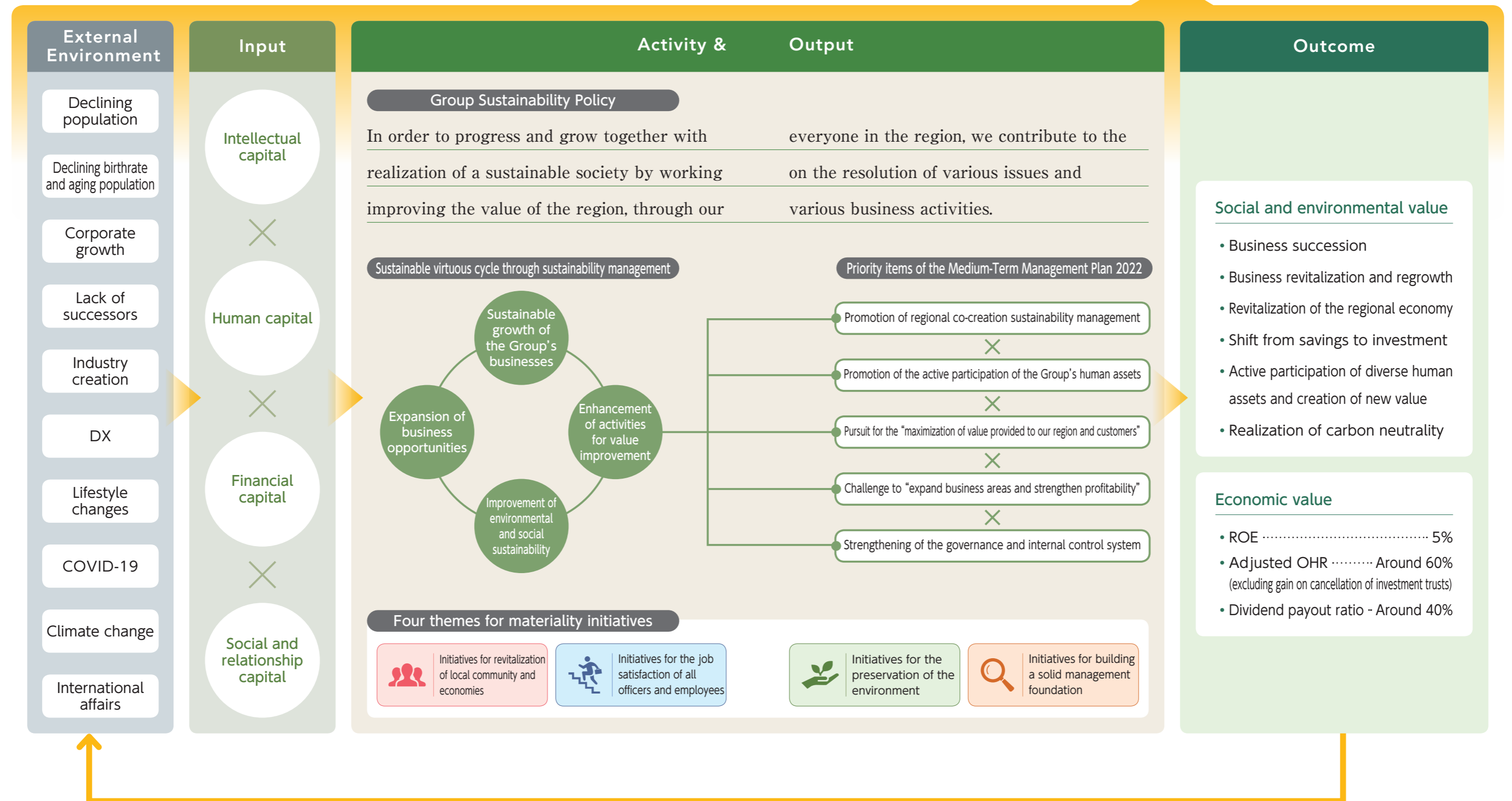


Value Creation Process

Purpose
Co-creating a bountiful future for our region

Vision

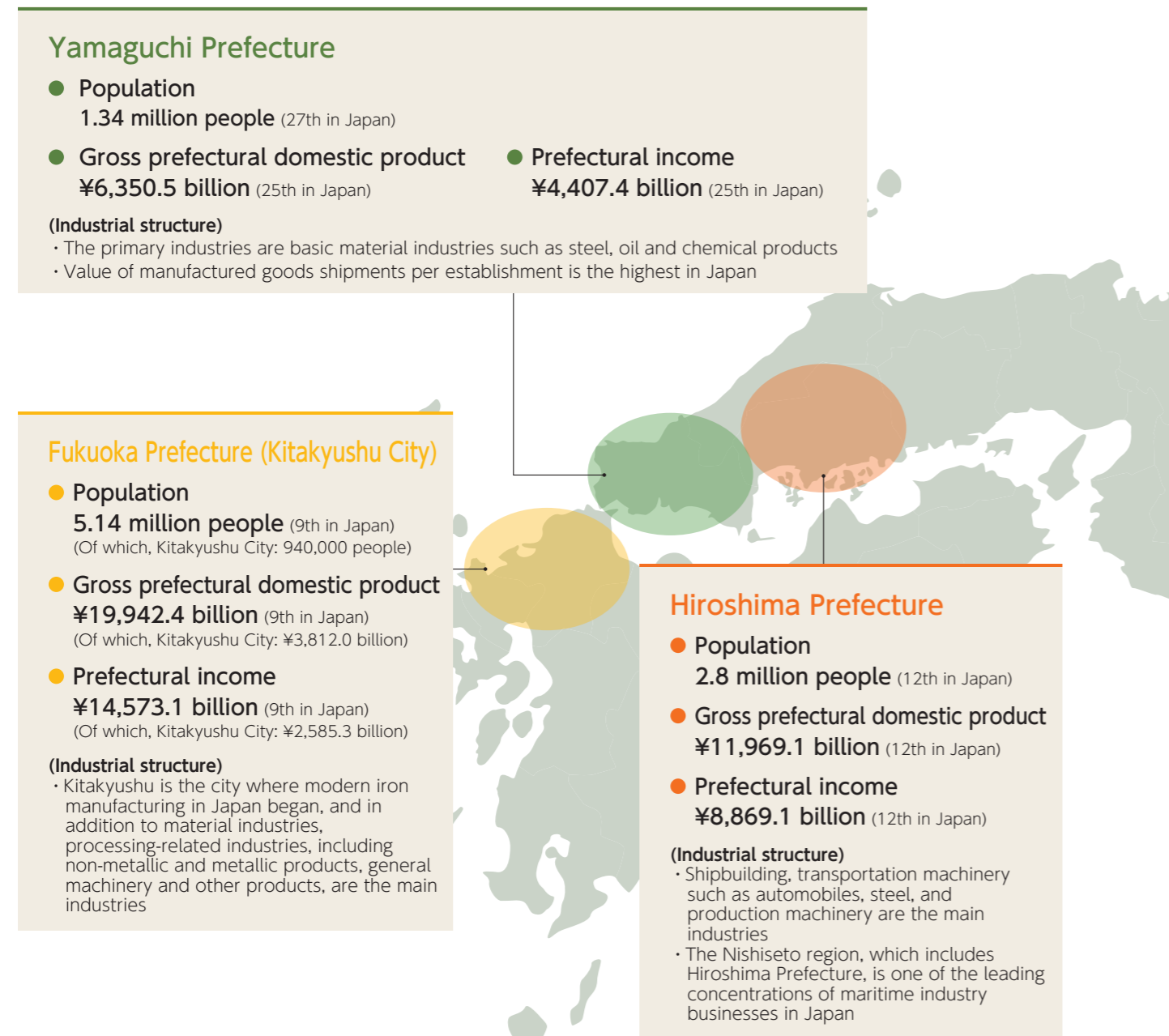
A regional value-up corporate group that is chosen by our region and responds to the trust of our region



Characteristics of the Sales Area - Yamaguchi, Hiroshima, and Northern Kyushu -

Yamaguchi Prefecture, Hiroshima Prefecture and Northern Kyushu, YMFG's sales areas, have developed industrial infrastructure and are blessed with an abundance of tourism resources. Geographically, they are located close to China and Korea, and have potential to become industrial zones that have an eye towards the future.

On the other hand, one of the issues is the aging of the population progressing at a level above the national average. In addition, there is also an issue of high CO₂ emissions due to the industrial structure where the manufacturing industry is concentrated. We contribute to the sustainable development of the region by earnestly facing these regional issues and aiming to resolve them.



(Population: according to "2020 Population Census" by the Ministry of Internal Affairs and Communications. Gross prefectural domestic product and prefectural income: according to "Prefectural Accounts 2019" by the Cabinet Office *at current prices)

Yamaguchi Prefecture

Location and infrastructure

- Convenient transportation with urban areas to both the east and west**
Located between the cities of Hakata in the west and Hiroshima in the east, both can be accessed in about 30 minutes by Shinkansen (bullet train) from the center of the prefecture
- Well-developed shipping infrastructure**
Surrounded by the sea on three sides, it has among the best shipping infrastructure in Japan, including the international hub ports of Shimonoseki Port and Tokuyama-Kudamatsu Port, and four other important ports
- Community school introduction 100%**
All schools in the prefecture have introduced community schools that reflect the voices of the region in school management, enabling the creation of unique schools in collaboration with the region

Regional issues

- Successor absence rate**
65.3% (8th in Japan / national average 57.2%)
(2022/"Successor Absence Rate Trends Survey" by TEIKOKU DATABANK, Ltd. (TDB))
- CO₂ emissions / CO₂ emissions per population**
26,624,000 t-CO₂ (13th in Japan) / 19,605,000 t-CO₂ (3rd in Japan)
(Estimates by the Company based on "Estimates of CO₂ Emissions by Sector" by the Ministry of the Environment and "Statistics of Japan 2019" by the Ministry of Internal Affairs and Communications)
- Average annual growth rate of gross prefectural domestic product**
(2011 to 2019)
+1.0% (31st in Japan / national average: +1.3%)
(*Prefectural Accounts 2011 to 2019 (current prices)" by the Cabinet Office)
- Average annual growth rate of population (2005 to 2021)**
-0.7% (38th in Japan / national average: -0.1%)
(Prepared by the Company based on "Population Estimates" on e-Stat)

Hiroshima Prefecture

Location and infrastructure

- Hiroshima City, the core city of Chugoku and Shikoku**
With a population of 1.2 million people, it is the largest city in Chugoku and Shikoku, and it is a core city with many major companies based in Hiroshima Prefecture
- Abundant tourist resources**
It boasts two World Heritage sites, the Hiroshima Peace Memorial (Genbaku Dome) and Itsukushima Shinto Shrine, making it rich in tourism and inbound resources.

Regional issues

- CO₂ emissions / CO₂ emissions per population**
44,031,000 t-CO₂ (7th in Japan) / 15,703,000 t-CO₂ (5th in Japan)
(Estimates by the Company based on "Estimates of CO₂ Emissions by Sector" by the Ministry of the Environment and "Statistics of Japan 2019" by the Ministry of Internal Affairs and Communications)
- Average annual growth rate of gross prefectural domestic product**
(2011 to 2019)
+0.7% (42nd in Japan / national average: +1.3%)
(*Prefectural Accounts 2011 to 2019 (current prices)" by the Cabinet Office)
- Percentage of businesses closed or dissolved**
3.0% (31st in Japan / national average: 3.7%)
(2021/"Business Closing and Dissolution Trends" by TDB)
- The proportion of securities in the financial asset balance per household**
9.8% (35th in Japan / national average: 16.0%)
(2019/"National Survey of Family Income, Consumption and Wealth" by the Ministry of Internal Affairs and Communications)

Fukuoka Prefecture (Kitakyushu City)

Location and infrastructure

- Kitakyushu City, the "Gateway to Kyushu"**
As one of the cities designated by ordinance, it plays a role as the "gateway to Kyushu" with its well-developed land, sea and air transportation infrastructure
- Became the first city in Asia to be designated a "global model city for promoting SDGs" in 2018**

Regional issues

- CO₂ emissions / CO₂ emissions per population**
38,075,000 t-CO₂ (11th in Japan) / 7,460,000 t-CO₂ (22nd in Japan)
(Estimates by the Company based on "Estimates of CO₂ Emissions by Sector" by the Ministry of the Environment and "Statistics of Japan 2019" by the Ministry of Internal Affairs and Communications)
(Of which, Kitakyushu City: 14,466,000 t-CO₂) (according to website of the Kitakyushu City office)
- Successor absence rate**
60.2% (17th in Japan / national average: 57.2%)
(2022/"Successor Absence Rate Trends Survey" by TDB)
- Percentage of businesses closed or dissolved**
3.1% (28th in Japan / national average: 3.7%)
(2021/"Business Closing and Dissolution Trends" by TDB)

Source of Competitive Advantage

Strengths of YMFG

Intellectual capital

この世界で。
この街で。
このじぶん。

YMfg

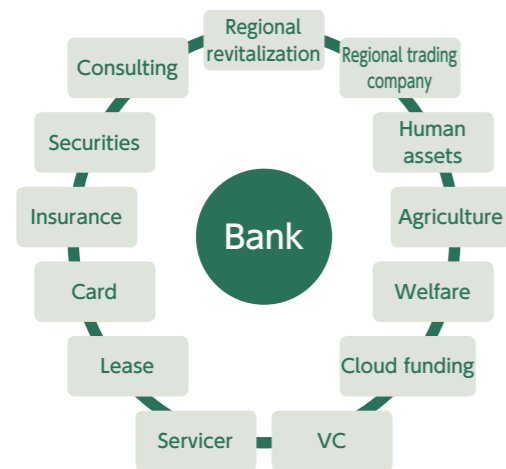


<New brand communication>

We are communicating more actively than ever before to share with all our stakeholders the aim of the Group and uniqueness of YMFG, based on our brand slogan. As part of these efforts, through the brand communication book, we introduce the “bountiful future for our region” that YMFG envisions by discovering and conveying the infinite possibilities and new attractions of the region.

<Comprehensive strength of the Group>

The Group is a comprehensive financial group centered on banks. In order to respond to the broad needs of the region and customers, we have established a system that enables us to provide solutions that go beyond the framework of finance by leveraging the know-how of our more than 20 subsidiaries and associates, including non-financial businesses.



Human capital

<Diverse human assets>

The Group’s diverse human assets who embody our cherished values, which are “future-oriented,” “coexistence-oriented,” and “region-oriented,” support our regional and customer-oriented business activities. In October 2022, we shifted to a block sales system, and by strengthening collaboration and sharing information and know-how within blocks, we demonstrate specialized proposal and issue-resolving abilities, enabling our human assets to perform at their best, and provide swift and high-quality solutions.

Number of employees	Professional human assets*1	Hiring of experienced personnel	Diverse human assets*2 Ratio of employees in management positions
3,797 people	212 people	31 people (1.6 times compared to the previous year)	9.0% (1.5 times compared to the previous year)

(As of March 31, 2023)

*1 SME Consultants, 1st-grade Certified Skilled Professionals of Financial Planning
*2 Females, foreigners, experienced hires, alumni, staff with side jobs, and people with experience of external secondments

Financial capital

Total equity ratio

14.35%

Total assets

¥12,211.6 billion

Non-performing loan ratio

1.54%

(As of March 31, 2023)

<Sufficient equity capital and sound assets>

With the stable funding structure based on its top class level of assets among regional banks and a robust financial foundation, the Group responds to the financial needs of its customers as a regional financial infrastructure. In addition, it aims to grow with the region through the strategic use of capital such as the expansion of business domains supporting the growth of regional companies and investments and loans in areas that contribute to improved profitability.

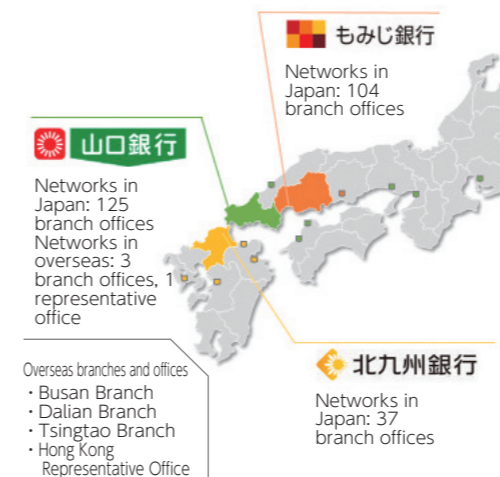
Social and relationship capital

	Loan share	Deposit share
Yamaguchi Prefecture	42%	46%
Hiroshima Prefecture	22%	22%
Kitakyushu City	14%	10%

(As of March 31, 2023) (Created based on clearinghouse exchange figures)

<Solid customer base>

The Group has built a solid customer base, as it holds the top share in Yamaguchi Prefecture and the second-largest share in Hiroshima Prefecture, and is the only regional bank with its head office in Kitakyushu City.



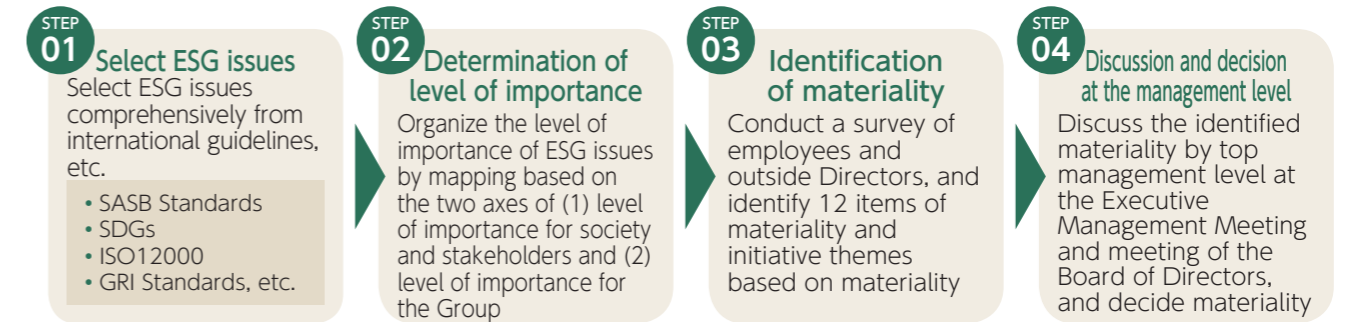
<Three regions with different characteristics>

The Group has a wide-area network based on Yamaguchi Prefecture, Hiroshima Prefecture and Northern Kyushu, each with different characteristics, and conducts businesses centered on three banks in each region. In addition to the horizontal deployment of the experience and know-how gained in each region, by leveraging the hub function within the wide-area network, it plays a role in co-creating new value with the regions.





Materiality

Materiality identification process

YMFG has identified the ESG issues, “materiality,” as issues that should be particularly focused on, in order to contribute to the realization of a sustainable society. Through our business activities, we will actively work on the resolution of the following 12 items of materiality.

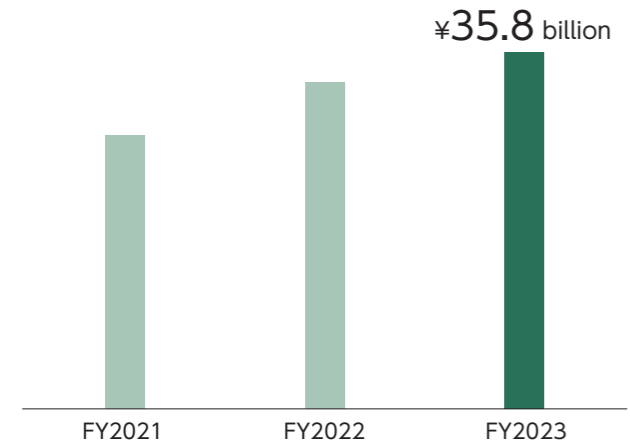


Materiality

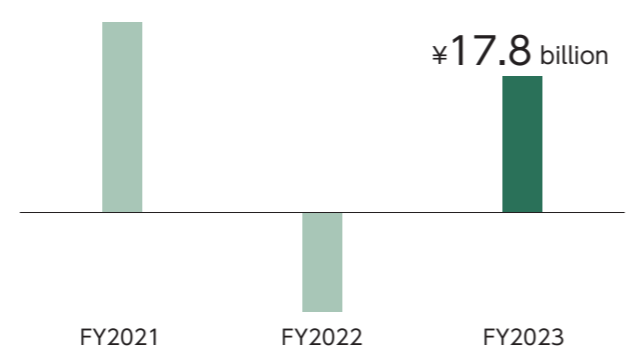
Materiality	Reasons for materiality selection	Priority items	Outcomes (figures are cumulative for FY2024/2025)
 <p>Initiatives for the preservation of the environment</p> <ul style="list-style-type: none"> (1) Respond to the conservation of resources, and energy saving and creation (2) Respond to air pollution and climate change (3) Develop environmentally friendly products and services 	<p>Environmental conservation efforts such as resource conservation and the utilization of new energy, responding to climate change, and realizing carbon neutrality are global issues, and are also critical in the Company's main areas where secondary industry bases are concentrated. As a leading company in the region, we need to take the initiative and involve our customers in these efforts.</p>	<p><Priority Item I></p> <p>Promotion of regional co-creation sustainability management</p> <p>▶ P.39</p>	<p>Realization of carbon neutrality</p> <ul style="list-style-type: none"> • The Group's CO₂ emission reduction for Scope 1 and Scope 2: Decreased by 2,324 t-CO₂ (compared to FY2022) • Customers that have advanced their decarbonization efforts: at least 315 customers
 <p>Initiatives for the job satisfaction of all officers and employees</p> <ul style="list-style-type: none"> (4) Cultivate human resources and create training opportunities (5) Create a safe and secure work environment (6) Active participation of diverse human resources (diversity and inclusion) 	<p>The driving force and source of efforts of the Company are all “people” and “employees,” and creating an environment and opportunities where employees can actively participate is essential for the “maximization of value provided to our region and customers” and “creation of new value.” It is necessary to develop employees and improve the environment to promote the active participation of diverse human assets regardless of gender, age, background, etc.</p>	<p><Priority Item II></p> <p>Promotion of the active participation of the Group's human assets</p> <p>▶ P.51</p>	<p>Active participation of diverse human assets and creation of new value</p> <ul style="list-style-type: none"> • Overall employee satisfaction: 3.70 points or higher • Satisfaction with supervisors: 3.80 points or higher • Employee interest (in creativity): 25.0% or higher • Employee interest (in diversity): 50.0% or higher • Ratio of diverse human assets in management positions: 13.0% or higher • Ratio of females in management positions: 7.0% or higher • Male childcare leave acquisition rate: 100%
 <p>Initiatives for revitalization of local community and economies</p> <ul style="list-style-type: none"> (7) Respond to the declining population, declining birthrate, and aging population (8) Create innovation in the region and support the growth of local industries (9) Strengthen cooperation with the local community (10) Improve the safety and quality of products and services 	<p>Solving various regional issues is one of the roles required of a leading regional company. In order to respond to the declining population, declining birthrate and aging population, and to revitalize the regional economy through the growth of regional industries, it is necessary to innovate within the region, utilize the Company's network as a hub function among regional communities, and work towards enhancing regional value.</p>	<p><Priority Item III></p> <p>Pursuit for the “maximization of value provided to our region and customers”</p> <p>▶ P.61</p> <p><Priority Item IV></p> <p>Challenge to “expand business areas and strengthen profitability”</p> <p>▶ P.67</p>	<p>Business succession</p> <ul style="list-style-type: none"> • Customers that started addressing the “successor absence issue”: at least 427 companies <p>Business revitalization and regrowth</p> <ul style="list-style-type: none"> • Customers that embarked on “business revitalization and regrowth”: at least 72 companies <p>Revitalization of the regional economy</p> <ul style="list-style-type: none"> • Contribution to the regional economy by businesses created through regional revitalization consulting activities: at least ¥6.0 billion • Population inflow to the region through the regional co-creation business: at least 736 people • Customers that used the affiliated stores of the welfare services provided by YMFG / the number of times: at least 15,000 people / at least 110,000 times • Amount of funds returned to the region due to the expansion of regional product sales channels: at least ¥1.2 billion <p>Shift from savings to investment</p> <ul style="list-style-type: none"> • Net increase in customers' assets under custody (investment trusts): at least ¥83.7 billion
 <p>Initiatives for building a solid management foundation</p> <ul style="list-style-type: none"> (11) Strengthen the governance and internal control system (12) Improve transparency and accountability of management 	<p>Based on “a sound and proactive enterprising spirit” as the management policy, in order to achieve sustainable growth and improve the medium- to long-term corporate value through transparent, fair, swift and decisive decision-making in management, it is necessary to continuously work on enhancing corporate governance, such as establishing an effective corporate governance system.</p>	<p><Priority Item V></p> <p>Strengthening of the governance and internal control system</p> <p>▶ P.73</p>	<p>Efforts towards enhancing corporate governance</p> <ul style="list-style-type: none"> • Efforts to secure the substantive rights of shareholders, create an environment where shareholders can exercise their rights appropriately, and secure the substantive equality of shareholders • Appropriate cooperation with our principal stakeholders, including customers, the local community, shareholders and employees • Appropriate disclosure of important management-related information to principal stakeholders • Efforts to ensure the effectiveness of the supervisory and auditing functions of the business execution through the establishment of various bodies, including the Board of Directors • Creation of systems that promote constructive dialogue aimed at building a long-term relationship with shareholders

Financial Highlights

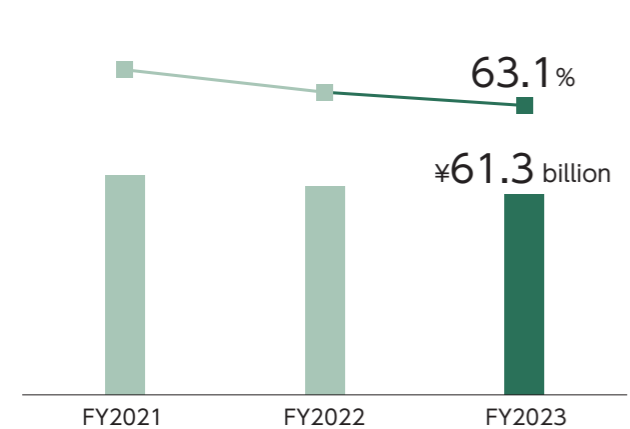
Business profit from core operations
(excluding gain on cancellation of investment trusts)



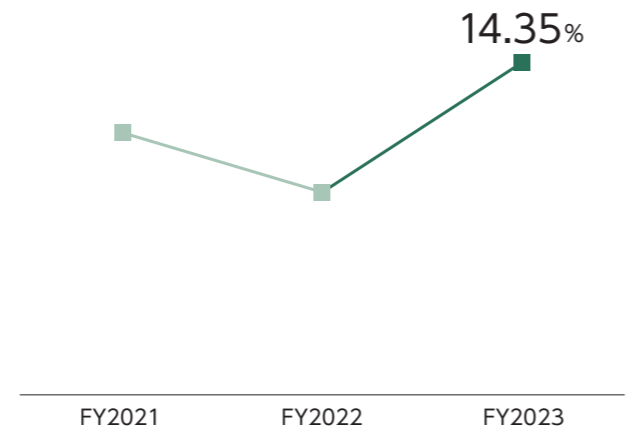
Net income attributable to owners of the parent



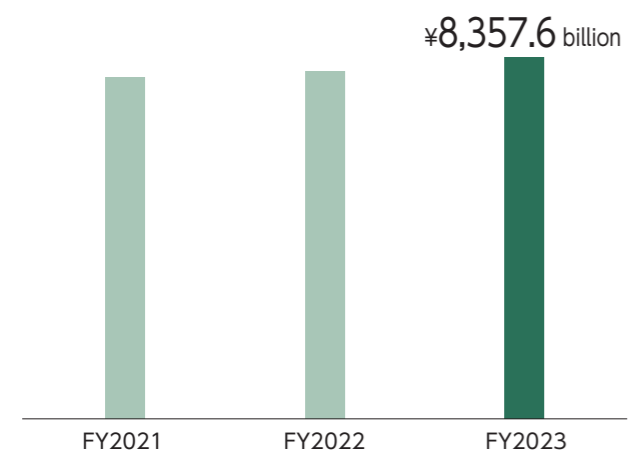
Expenses / OHR



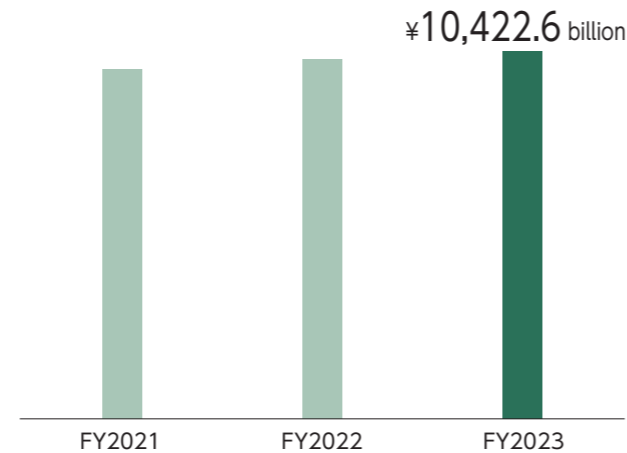
Total equity ratio



Average loan balance



Average deposit balance



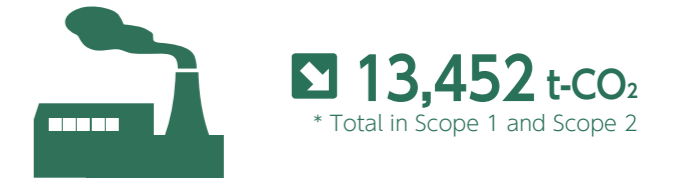
Non-financial Highlights

*As of March 31, 2023

Sustainable finance execution amount



CO₂ Emissions



Promotion of the active participation of diverse human assets



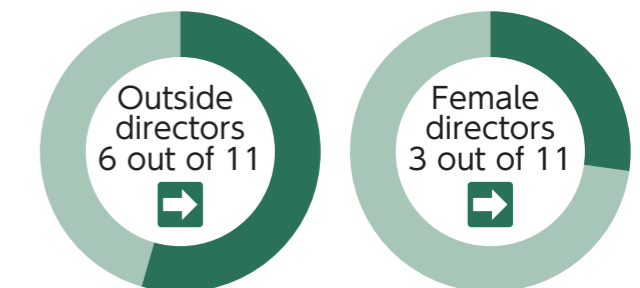
Male childcare leave acquisition rate



Employee engagement



Composition of the Board of Directors



External assessments

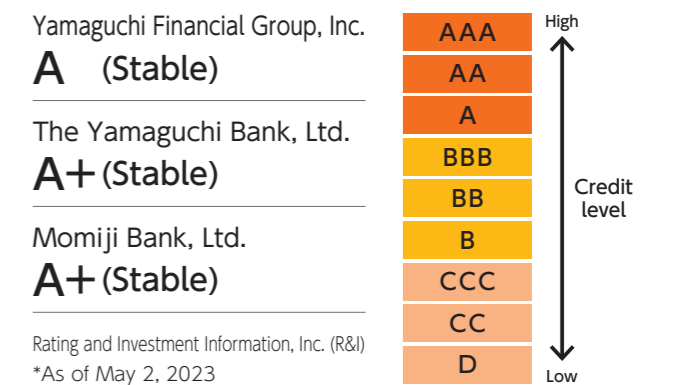
2023 Certified Health & Productivity Management Outstanding Organization



DX Certification



Rating information



Message from General Manager of the Corporate Administration Group



Executive Officer
General Manager of the Corporate
Administration Group

Kenichiro Okuda

We will appropriate financial and capital operations that can respond to changes in the business environment for the sustainable growth of YMFG.

Performance review for the fiscal year ended March 31, 2023

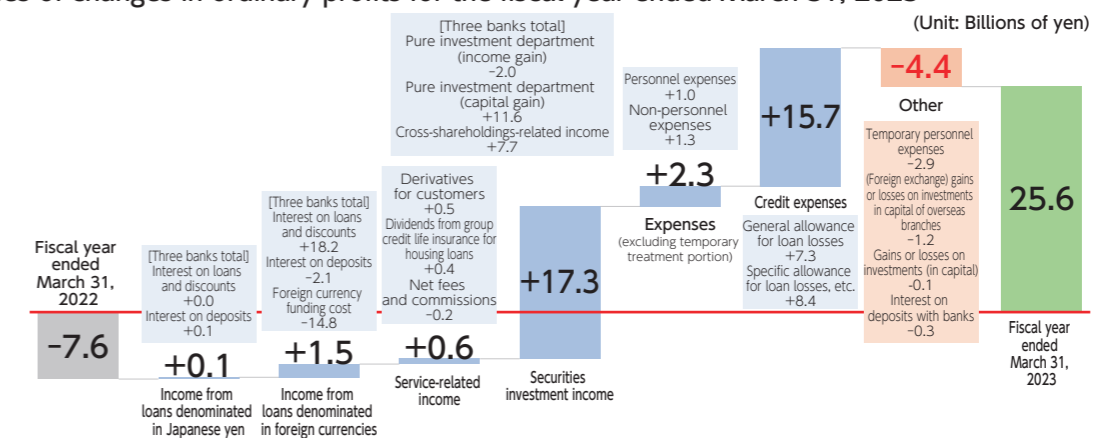
We have positioned the “YMFG Medium-Term Management Plan 2022,” which the entire YMFG Group is currently working on, as a “three year period to push forward with regional and customer-oriented business activities as ‘Team YMFG,’ towards the improved sustainability of our region and YMFG.” In addition, as we work towards “improving the sustainability of our region” and “building a sustainable business model for YMFG,” we have decided the five priority items of the “promotion of regional co-creation sustainability management,” “promotion of the active participation of the Group’s human assets,” “pursuit for the ‘maximization of value provided to our region and customers,’” “challenge to ‘expand business areas and strengthen profitability,’” and the “strengthening of the governance and internal control system,” and are engaged in these items.

In the fiscal year ended March 31, 2023, the first year of the “YMFG Medium-Term Management Plan 2022,” in addition to the impact of COVID-19, we faced operational challenges such as the deteriorating situation between Russia and Ukraine, rising raw material prices, and fluctuations in interest rates and exchange rates. However, as a Group, we implemented the measures set out in our medium-term management plan. As a result, as for the consolidated financial results, “business profit from core operations (excluding gain on cancellation of investment trusts),” which indicates the profitability of our core business, increased by ¥30 billion year on year to ¥358 billion, mainly due to increased interest on loans and discounts denominated in foreign currencies and cost reductions. Ordinary profits were ¥25.6 billion, and net income attributable to owners of the parent was ¥17.8 billion. Both achieved the first-year plan set out in the medium-term management plan, enabling a strong start.

Results for the fiscal year ended March 31, 2023 (consolidated)

	(Billions of yen)	
	Fiscal year ended March 31, 2023	Year-on-year
Core gross business profits	100.7	(8.0)
Net interest income	87.6	0.8
Of which interest on deposits, and loans and discounts	82.1	16.2
Of which interest and dividends on securities	16.7	(5.8)
Of which gain on cancellation of investment trusts	3.4	(8.7)
Net fees and commissions	16.7	(0.2)
Expenses (excluding temporary treatment portion)	61.3	(2.3)
Business profit from core operations	39.3	(5.7)
Excluding gain on cancellation of investment trusts	35.8	3.0
Ordinary profits	25.6	33.3
Extraordinary income or loss	0.9	(1.1)
Net income attributable to owners of the parent	17.8	30.8
Credit-related expenses	6.4	(15.7)
Expenses (including temporary treatment portion)	61.1	0.5
Securities investment income	3.1	17.3
Total equity ratio (%)	14.35	1.7

Causes of changes in ordinary profits for the fiscal year ended March 31, 2023



Management Plan for FY2024

In the “Management Plan for FY2024,” as a mid-fiscal year of the “three year period to push forward with regional and customer-oriented business activities as ‘Team YMFG,’ towards the improved sustainability of our region and YMFG,” we will focus on the impacts on society and environment (outcomes) and aim for a trade-on between “resolving regional issues (social and environmental issues)” and “corporate profits.” We have selected six regional issues (social and environmental issues) that need to be resolved: (1) “sustainable growth of corporate customers facing the ‘successor absence issue,’” (2) “re-growth of corporate customers ‘toward the post-

coronavirus era,” (3) “decline in economic vitality in the region due to market contraction and reduction of management resources,” (4) “promotion of a shift from savings to investment and improvement of financial literacy,” (5) “active participation of diverse human assets and creation of new value without being bound by precedent or customary practices,” and (6) “realization of carbon neutrality in the region at an early stage,” and we will work in unison to address these issues.

For the fiscal year ending March 31, 2024, we forecast ordinary profits of ¥35.0 billion, up ¥9.3 billion year on year, and net income attributable to owners of the parent of ¥24.0 billion, up ¥6.1 billion year on year. The main reasons for the increase in profits year on year were the “securities

Message from General Manager of the Corporate Administration Group

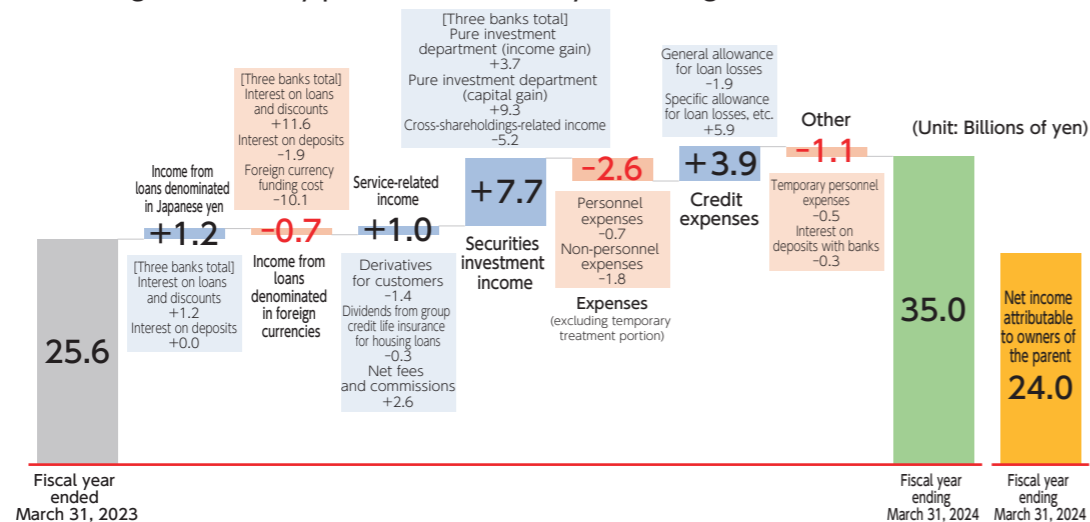
investment business” and “credit expenses.” In the securities investment business, we sold ¥385.0 billion in securities in the fiscal year ended March 31, 2022, mainly foreign bonds and stock investment trusts, which have unrealized losses. In addition, considering the market environment in the fiscal year ended March 31, 2023, we adopted a risk-averse approach to investment, leaving us with ample risk-taking capacity, and for the current fiscal year, we aim to actively take on risks, focusing on Japanese yen interest rates, to secure stable income gain. Regarding credit expenses, in the fiscal year ended March 31, 2022, we set aside provisions in advance, including a total of ¥17.6 billion

for an additional allowance for business partners requiring special attention for future development and a precautionary allowance for the portfolio affected by COVID-19. In the fiscal year ended March 31, 2023, we also recorded credit expenses of ¥6.4 billion. Accordingly, we have already recorded ample allowances, with the expectation of these amounts remaining low in the future. However, given the uncertainties in the future economic climate, we intend to focus as a Group on one of the current fiscal year’s key themes, “revitalization and growth support for regional companies,” to prevent the deterioration of our business partners’ performance.

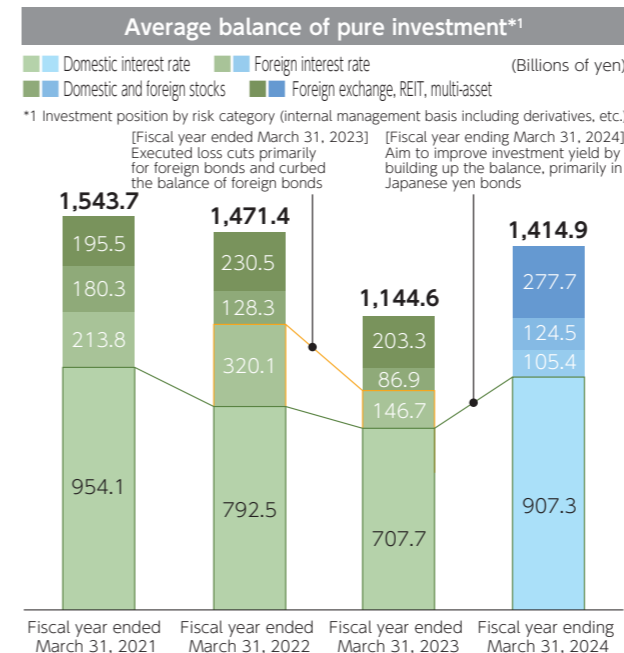
Performance forecast for the fiscal year ending March 31, 2024 (consolidated)

(Billions of yen)	FG Consolidated	
	Year-on-year	Year-on-year
Core gross business profits	99.8	(0.8)
Net interest income	79.9	(7.7)
Of which interest on deposits, and loans and discounts	92.9	10.7
Of which interest and dividends on securities	18.2	1.4
Of which gain on cancellation of investment trusts	0.0	(3.4)
Net fees and commissions	19.3	2.5
Expenses (excluding temporary treatment portion)	64.0	2.6
Business profit from core operations	35.8	(3.4)
Excluding gain on cancellation of investment trusts	35.8	0.0
Ordinary profits	35.0	9.3
Net income attributable to owners of the parent	24.0	6.1
Credit-related expenses	2.5	(3.9)
General and administrative expenses (including temporary treatment portion)	64.2	3.1
Securities investment income	10.8	7.7

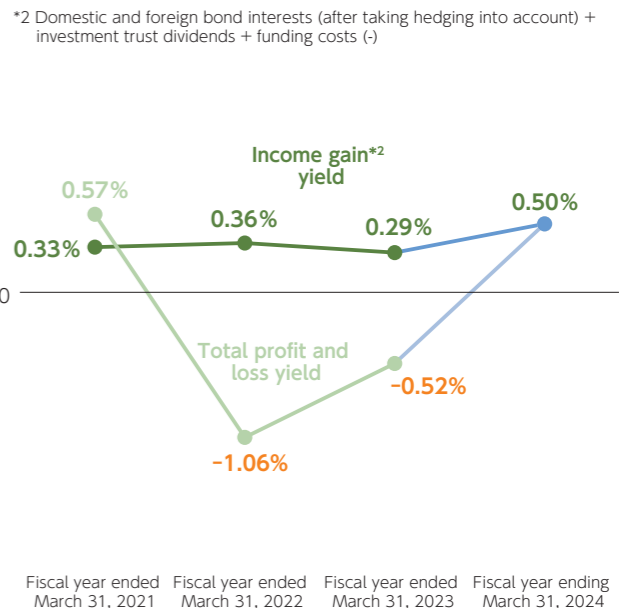
Causes of changes in ordinary profits for the fiscal year ending March 31, 2024



Securities investment business (pure investment)



Securities investment business (pure investment) yield



Towards the improvement of ROE

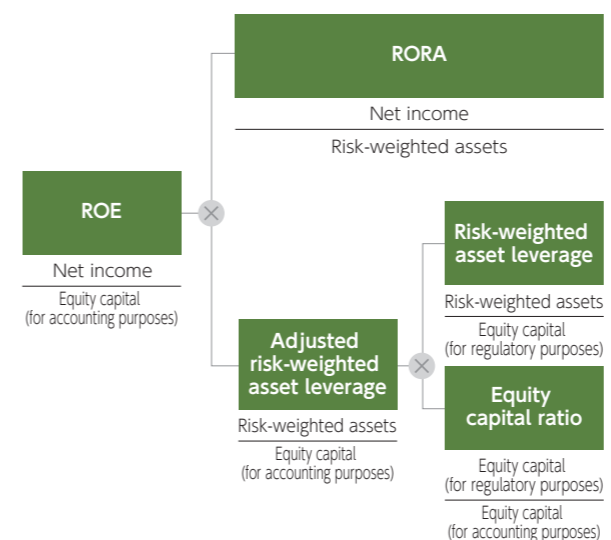
I would like to share YMFG’s approach and specific examples of efforts to increase ROE over the medium to long term.

To increase the ROE over the medium to long term, we break down ROE into “Return

on Risk-Weighted Assets (RORA)” and “adjusted risk-weighted asset leverage,” and we aim to enhance RORA and apply appropriate financial leverage.

To increase RORA, it is necessary to strengthen profitability and allocate management resources in growth areas, and we are working on efforts such as review of business portfolio and asset

Approach to improvement of ROE



Examples of specific efforts

Strengthen profitability/allocate resources in growth areas
Aim to improve RORA based on net income

Review of business portfolio	Allocation of human resources
Asset allocation	Improvement of service income

Capital policies/capital allocation
Apply appropriate leverage while considering the total equity ratio target

Strategic capital utilization	Dividends
Tier 2 capital utilization	Flexible acquisition of treasury shares

Message from General Manager of the Corporate Administration Group

allocation, and improvement of service income. In June 2023, we established the “Structured Finance Office” in Tokyo to strengthen the highly profitable field of structured finance. With regard to the appropriate application of financial leverage, we are implementing capital allocation (organic growth, inorganic growth and return to shareholders) while considering the total equity ratio target. In the fiscal year ended March 31, 2023, four subsidiaries, YAMAGUCHI CAPITAL Co., Ltd., YM Lease Co., Ltd., YAMAGINCARD CO., LTD., and Momiji Card, Inc., were made wholly owned subsidiaries, ensuring that 100% of the profits that were previously flowing outside the Group are now captured within the Group. Additionally, we issued ¥22.4 billion of Basel III-compliant Tier 2 subordinated bonds to improve capital efficiency.

In regard to return to shareholders, in the “YMFG Medium-Term Management Plan 2022,” we aim for a dividend payout ratio of around 40% and flexible acquisitions of treasury shares. In the fiscal year ended March 31, 2023, we realized the promised dividend payout ratio of 40%, and the total return amount exceeded ¥17.0 billion, an increase from the previous fiscal year. We have announced the acquisition of ¥10.0

billion of treasury shares in the current fiscal year as well. We will continue to provide returns based on our policy on return to shareholders while considering capital allocation.

Despite such risk-taking and return to shareholders in the fiscal year ended March 31, 2023, the total capital ratio increased to 14.35% from 12.65% at the end of the fiscal year ended March 31, 2022 due to the effects of the early adoption of Basel III finalization. For the fiscal years ending March 31, 2024 and 2025, we will allocate capital to return to shareholders, organic areas such as loans and securities, and inorganic areas such as strategic investments, while striving to improve profitability, taking into account total equity ratio of around 12% in the medium-term management plan as the target management indicator, our corporate strategies, external environment, etc.

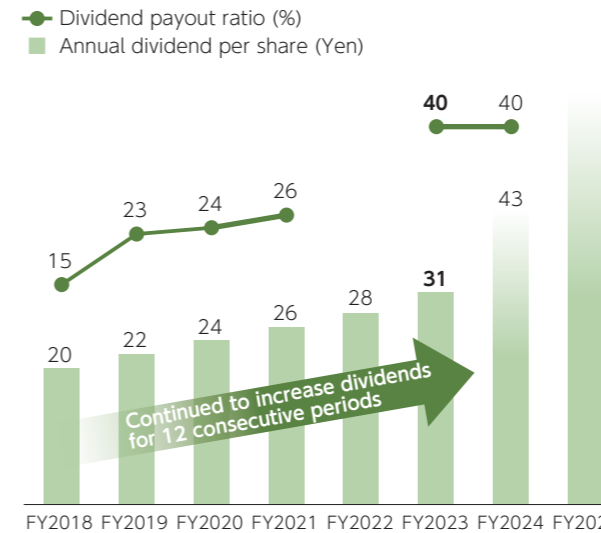
Reduction of cross-shareholdings

In regard to cross-shareholdings, we will not take out new holdings unless there is a valid reason for such holding from the perspective of the appropriateness of the

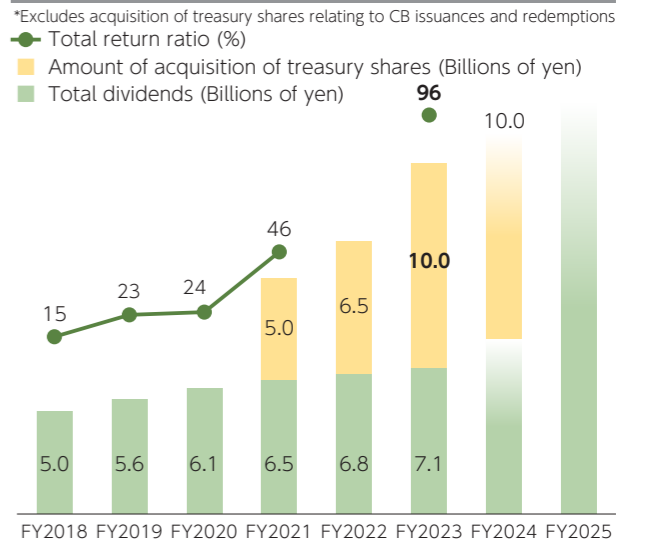
Policy on return to shareholders

- Dividend payout ratio of around **40%**
- Flexible and prompt acquisition of treasury shares, considering market trends, earnings forecasts, etc.

Annual dividend / share and dividend payout ratio



Total return amount* and total return ratio*

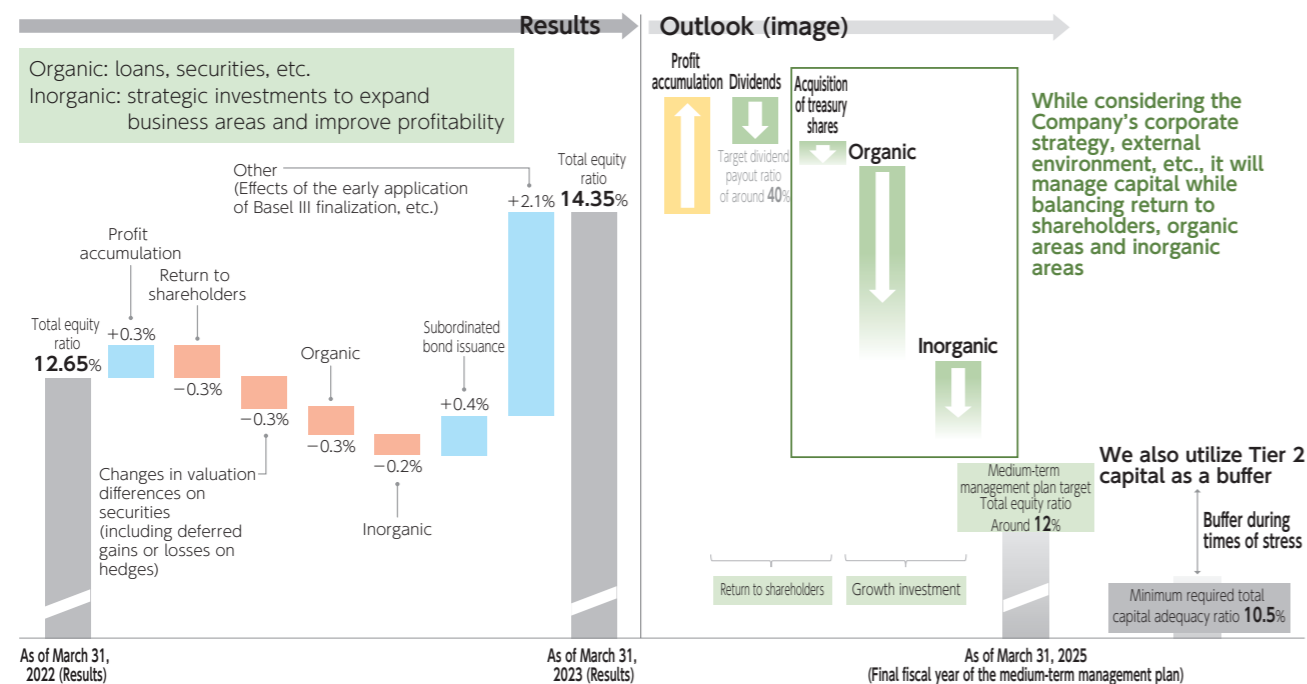


holding purpose and whether the benefits and risks associated with the holding are worth compared to our capital cost. In addition, in regard to existing cross-shareholdings, we periodically verify the rationale for holding and will reduce them if a valid reason for holding them is no longer recognized.

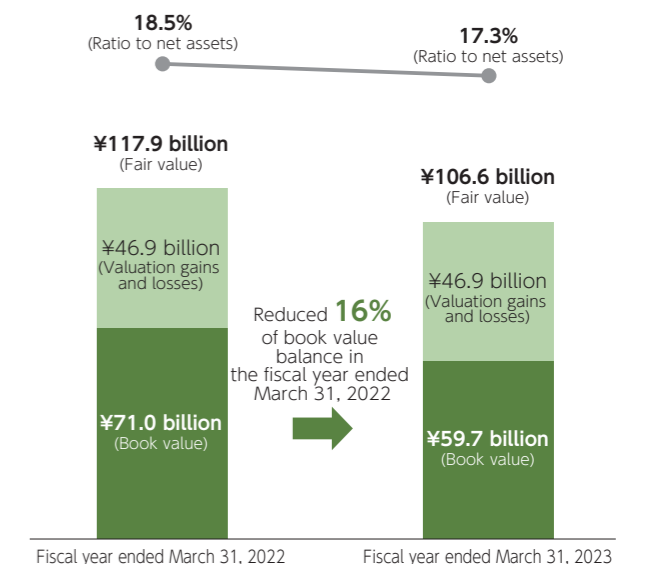
From the fiscal year ended March 31, 2023, at the “Meeting for the Reduction of Cross-Shareholdings” consisted of the Company’s CEO and the Presidents of the banks in the Group, we have discussed the reduction policy and conducted negotiations toward the reduction. As a result, a 16% reduction was realized on a book value basis in the fiscal year ended March 31, 2023. We intend to accelerate our efforts toward reduction in the current fiscal year and beyond.

In this manner, considering factors such as the changes in the business environment, the progress of business strategies, and profitability, we will focus on the steady achievement of various target management indicators set out in the “YMFG Medium-Term Management Plan 2022,” the enhancement of sustainable regional value, and the growth of the Group, while reviewing the business portfolio, optimizing

the allocation of management resources, and effectively utilizing capital.



Balance of cross-shareholdings and ratio to net assets



Overview of the YMFG Medium-Term Management Plan 2022

Title

**YMFG Medium-Term Management Plan 2022
- Co-Creating a Bountiful Future for Our Region**

Plan period

**Three years from the fiscal year ended March 31,
2023 to the fiscal year ending March 31, 2025**

Medium-term management plan policy

In the “YMFG Medium-Term Management Plan 2022 - Co-Creating a Bountiful Future for Our Region,” with the cornerstone of management being based on the Group’s mission and the meaning of its existence (Purpose) of the Group, “Co-Creating a Bountiful Future for Our Region,” we have positioned the plan period (from the fiscal year ended March 31, 2023 to the fiscal year ending March 31, 2025) as a “three year period to push forward with regional and customer-oriented business activities as ‘Team YMFG,’ towards the improved sustainability of our region and YMFG.”

Based on the purpose, we will implement the five priority items, promote “improving the sustainability of our region” and “building a sustainable business model for YMFG,” aim to realize “a regional value-up corporate group that is chosen by our region and responds to the trust of our region,” which is what the Group should become in the future (Vision), and meet the expectations of our stakeholders.

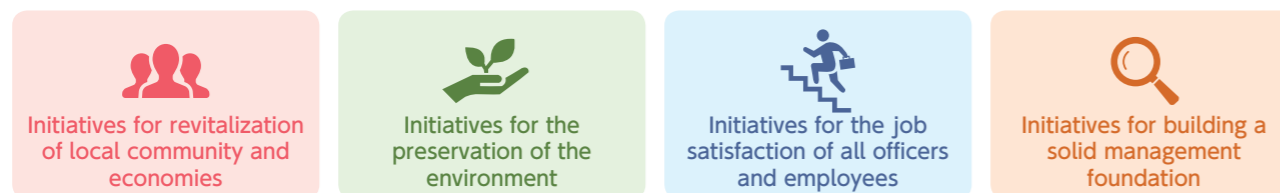
Positioning of the medium-term management plan

Towards realizing “a regional value-up corporate group that is chosen by our region and responds to the trust of our region”

Group Sustainability Policy

In order to progress and grow together with everyone in the region, we contribute to the realization of a sustainable society by working on the resolution of various issues and improving the value of the region, through our various business activities.

Materiality specified by the Company (four themes for our initiatives)



Positioning of this medium-term management plan

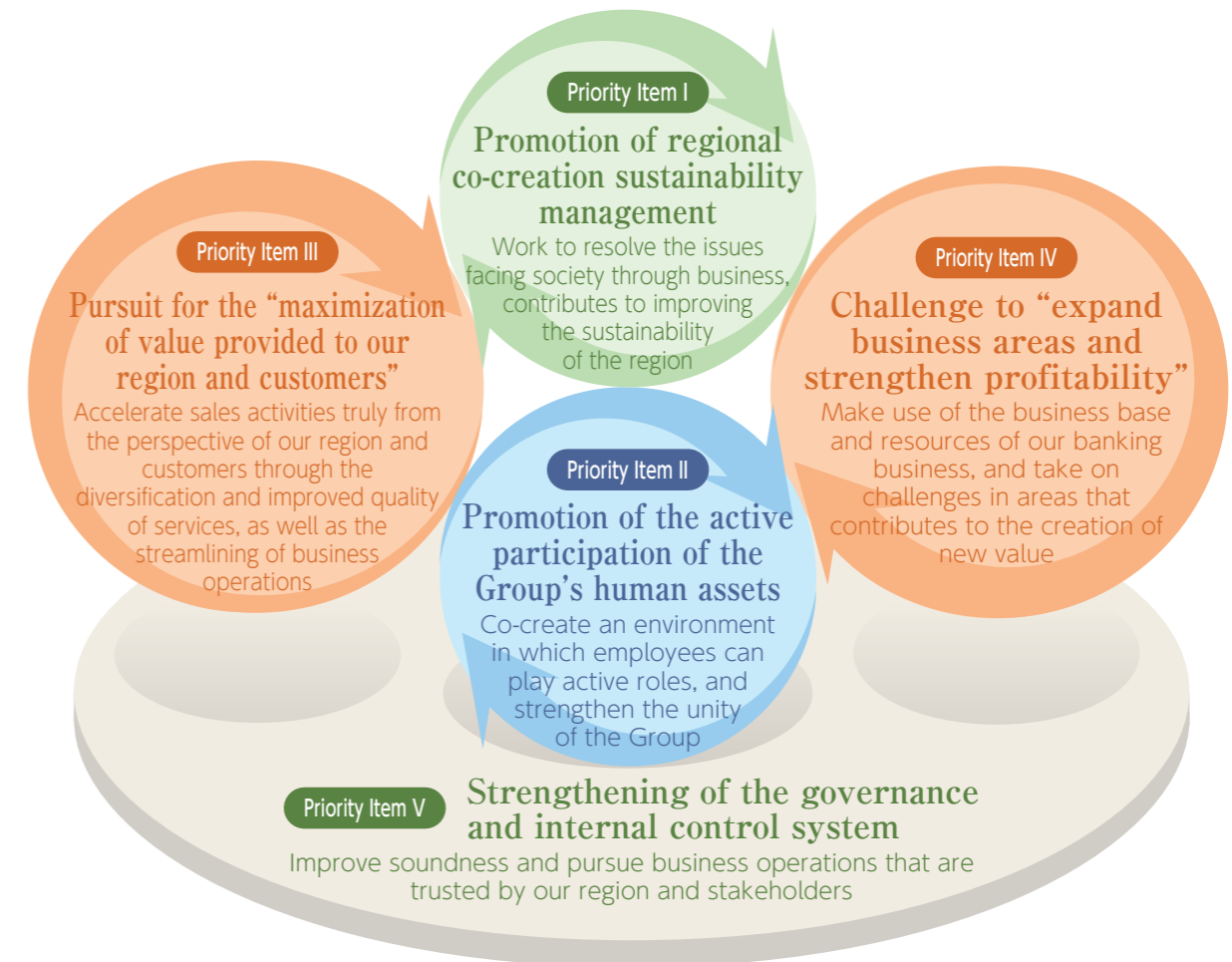
A three year period to push forward with regional and customer-oriented business activities as “Team YMFG,” towards the improved sustainability of the region and YMFG

Targeted direction

**Aim to “improve the sustainability of our region”
and to “build a sustainable business model for YMFG”**

Five priority measures

Based on the trust of our stakeholders, think and act from the perspective of our region and customers as the driving force for growth through the regional co-creation sustainability management and the active participation of the Group’s human assets.



Target management indicators

In the final fiscal year of the medium-term management plan (the fiscal year ending March 31, 2025), we aim for an ROE of around 5.0% and net income of ¥33.0 billion, which will be our highest ever.

	Fiscal year ended March 31, 2022 (results)	Fiscal year ended March 31, 2023 (results)	Fiscal year ending March 31, 2024	Fiscal year ending March 31, 2025
Ordinary profits	¥(7.6) billion	¥25.6 billion	¥35.0 billion	¥47.5 billion
Net income	¥(13.0) billion	¥17.8 billion	¥24.0 billion	¥33.0 billion
ROE	—	2.88%	3.9%	Around 5%
Adjusted OHR (excluding gain on cancellation of investment trusts)	66%	63.1%	64%	Around 60%
Total equity ratio	12.65%		Around 12%	
Dividend payout ratio	—		Around 40%	

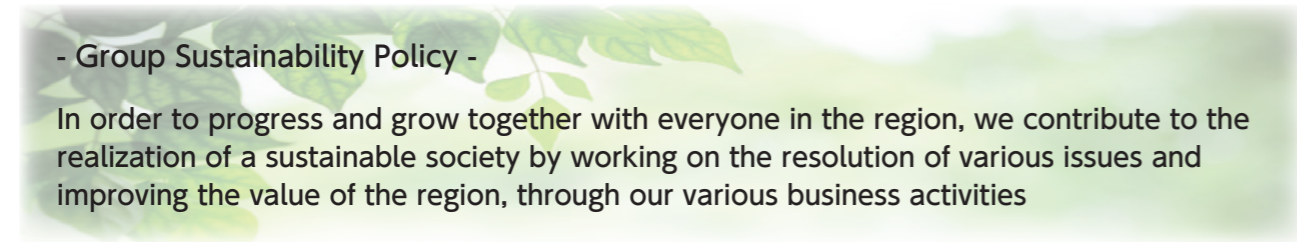
Priority Item I Promotion of Regional Co-creation Sustainability Management

Group Sustainability Policy

YMFG has formulated the "Group Sustainability Policy" with the objective of being a corporate group that contributes to the "enhancement of regional value," and as a policy that allows for intent to be shared across the whole group.

We will endeavor to develop the region and to create a future through the conducting of business activities based on this policy.

In addition, by promoting sustainability management, we will improve the link between the sustainable growth of the Group and the enhancement of regional value, and furthermore, by enhancing the disclosure of information, we will build a long-term relationship of trust with stakeholders.



Establishment of YMFG Human Rights Policy

YMFG and its group companies have established the YMFG Human Rights Policy in June 2023 in order to promote efforts to respect the human rights of all stakeholders, including customers, the local community, and officers and employees, aiming to realize "a regional value-up corporate group that is chosen by our region and responds to the trust of our region," based on the Group's purpose of "co-creating a bountiful future for our region." For more details on this policy, please visit our website (<https://www.ymfg.co.jp/sustainability/human-rights.html>) (in Japanese).

Sustainability promotion system



• **Objective**
By contributing to the improved sustainability of the environment and society, which is the foundation for the business, we will accelerate the promotion of sustainability management which aims for the sustainable growth of the Group's businesses.

• **Overview**
The Committee examines the annual plan and measures, etc., with the objective of promoting sustainability management, conducts monitoring in order to comprehensively ascertain the sustainability management promotion activities, and also builds a system for supervision by the Board of Directors.

Countermeasures to global warming and climate change (Initiatives for the TCFD Recommendations)

The Group has identified "respond to air pollution and climate change" as one of its "materiality," regards responding to climate change as an important management issue, and endorsed the TCFD recommendations for a climate change information disclosure framework in December 2021. We will strengthen our response to climate change and actively disclose information based on the TCFD recommendations.

► Governance

The Group holds regular meetings of the "Sustainability Promotion Committee" that is chaired by the President, Representative Director and CEO (10 meetings in the fiscal year ended March 31, 2023), and coordinates deliberation and progress management centrally for matters relating to sustainability, including climate change. Working groups for each field have been established under the Committee, and a cross-organizational promotion system has been constructed.

In addition, the contents of deliberations at the Sustainability Promotion Committee are submitted to the Board of Directors as appropriate, upon discussion at the Group Executive Management Meeting, establishing a system where the Board of Directors supervises sustainability initiatives, including those related to climate change.

Risks and opportunities, etc. related to climate change based on reporting and decision outcomes are reflected in the management plan.

- Matters submitted to the Board of Directors (Fiscal year ended March 31, 2023) -

- 1. Initiatives towards carbon neutrality**
 - CO₂ emissions (Scopes 1 and 2) results and target setting for the Group
 - Development of solutions for regional customers towards carbon neutrality
 - Endorsement of the GX League Basic Concept
- 2. Status of sustainability initiatives**
 - Status of response to the TCFD recommendations
 - Results of analysis regarding transition risks and physical risks
- 3. Acceleration of sustainability promotion**
 - Future direction of sustainability promotion

► Strategy

1. Climate change risks

Considering the CO₂ emissions in Yamaguchi, Hiroshima and Fukuoka prefectures, the Group's main areas, are among the highest in Japan, we regard addressing climate change as one of the significant challenges for the region and recognize the risks of climate change as follows.

	Main evaluation items		Main risks to the Group	Time frame	
Transition risks	Government policy Law	<ul style="list-style-type: none"> Carbon tax and carbon pricing Respond to GHG emissions regulations and other items 	The risk of deterioration in the financial condition by increased operating costs, decreased operating rate, large capital investments, etc.	<ul style="list-style-type: none"> The risk of increases in credit costs due to deterioration in the financial condition of customers by increased operating costs and manufacturing/construction costs, decreased asset values, brand value damage, etc. 	<ul style="list-style-type: none"> Medium to long term
	Market Technology	<ul style="list-style-type: none"> Change in consumer and other customer behavior Energy prices Energy mix and other items 	The risk of brand value damage due to inadequate measures towards realizing carbon neutrality	<ul style="list-style-type: none"> The risk of deterioration of the Group's reputation due to inappropriate responses to climate change or inadequate information disclosure 	<ul style="list-style-type: none"> Short to long term
Physical risks	Intensification of abnormal weather		The risk of deterioration in business continuity and financial condition due to the occurrence of property damage and business interruptions	<ul style="list-style-type: none"> The risk of increases in credit costs due to an impact on businesses and financial condition of customers by the stagnation of business activities and property damage caused by the occurrence of natural disasters such as floods and storms The risk that make business continuity difficult due to the Group's head offices and branch offices affected by the occurrence of natural disasters such as floods and storms 	<ul style="list-style-type: none"> Short to long term

Short term: less than 3 years, medium term: less than 10 years, long term: over 10 years

2. Scenario analysis

The Group conducted a scenario analysis on transition risks and physical risks based on the TCFD recommendations using multiple scenarios. For transition risks, considering the large GHG emissions and the vulnerability to the effects of climate change, and taking into account its lending portfolio, the Group has targeted the power and automotive sectors for analysis. For physical risks, given the location in the region prone to weather conditions such as typhoons and heavy rains, the Group has targeted flood damage for analysis.

Considering that the effects of transition risks will manifest over the long term, the results of its scenario analysis suggest that both transition risks and physical risks have a limited impact on its credit portfolio. However, the current scenario analysis contains many high uncertainties and is based on certain assumptions. The Group will continue to expand its target sectors and work on advanced scenario analysis, etc.

- Transition risks -

Risks analyzed	<ul style="list-style-type: none"> Deterioration of the financial condition of borrowers due to increased costs associated with the introduction of carbon tax Deterioration in the financial condition of borrowers due to increased capital investments, etc. associated with transitioning to a decarbonized society
Subject of analysis Portfolio	<ul style="list-style-type: none"> Power sector Automotive sector
Period	<ul style="list-style-type: none"> Until 2050
Scenario	<ul style="list-style-type: none"> IEA 1.5°C (NZE) IEA 2.0°C (STEPS)
Analysis method	<ul style="list-style-type: none"> Based on the IEA scenarios and public information, etc., financial statements of sample companies up to 2050 were prepared to understand the impact on their financial condition The degree of the impact on sample companies was applied to the entire target sector to calculate the increase in credit-related expenses
Results of analysis	<ul style="list-style-type: none"> Increase in credit-related expenses: approximately ¥1.5 billion to ¥27.0 billion

- Physical risks -

Risks analyzed	<ul style="list-style-type: none"> Damage to collateral property due to flood damage Deterioration of financial condition of borrowers due to suspension of business caused by flood damage
Subject of analysis Portfolio	<ul style="list-style-type: none"> Borrowers of business loans in Japan
Period	<ul style="list-style-type: none"> Until 2050
Scenario	<ul style="list-style-type: none"> IPCC RCP 2.6 (2°C scenario) IPCC RCP 8.5 (4°C scenario)
Analysis method	<ul style="list-style-type: none"> After the impact on collateral property at the time of occurrence of floods and the financial impact on business partners were calculated based on hazard map data, the increase in credit-related expenses was calculated
Results of analysis	<ul style="list-style-type: none"> Increase in credit-related expenses: up to approximately ¥7.0 billion

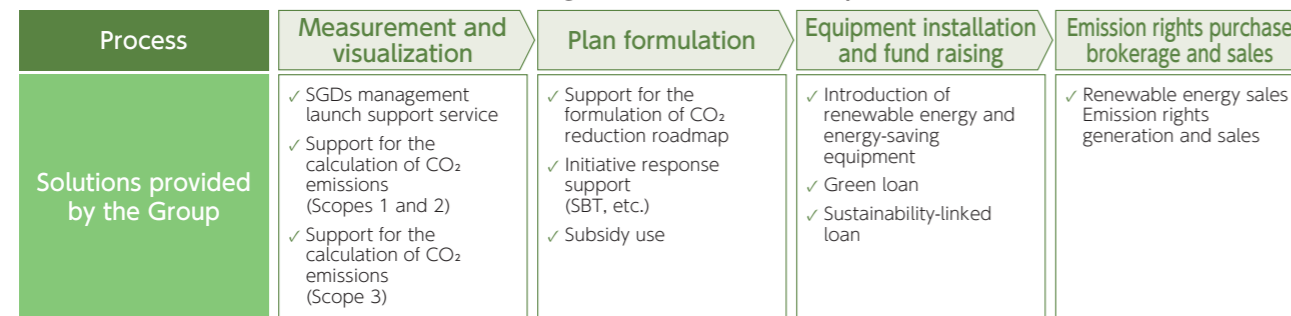
3. Opportunities

The Group views social responses to climate change as an opportunity and supports its customers' efforts towards carbon neutrality by offering not only sustainable finance but also various non-financial solutions aimed at GHG emission reduction.

In sustainable finance, the Group has introduced a new package product*1 of green loan and sustainability-linked loan, making financing methods more accessible to not only large enterprises but also small and medium-sized enterprises. In addition, it has begun offering "support for the formulation of CO₂ reduction roadmap" to contribute to its customers' selection of carbon-neutral initiatives and investment decision-making. To further accelerate regional carbon neutrality, the Group will further strengthen its efforts with local governments and other organizations such as a joint proposal with Yamaguchi City for the "Decarbonization Leading Areas (Second Round)" and its selection.

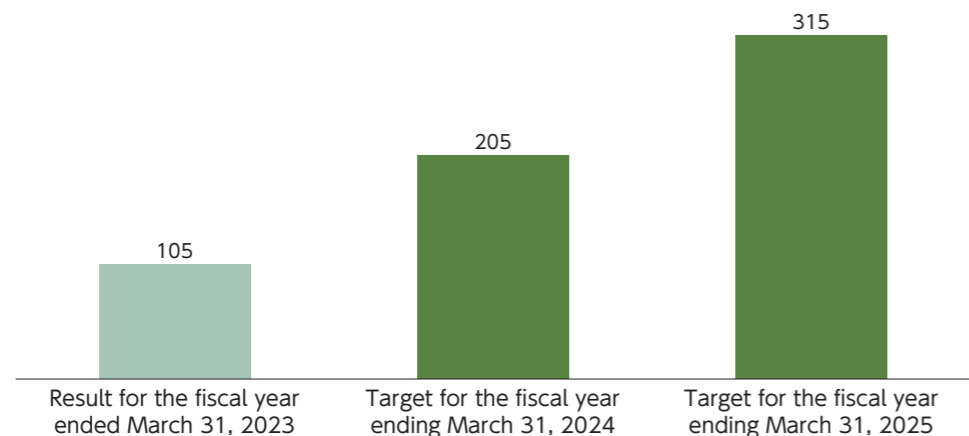
*1 A package product that includes an external evaluation certification concerning the alignment with various loan principles and guidelines

- Financial and non-financial solutions for regional carbon neutrality -



- Metrics and targets for regional carbon neutrality -

Cumulative number of customers who have advanced their efforts towards carbon neutrality



- Risk management -

Considering the characteristic that risks associated with climate change spread to various risk categories such as credit risk, market risk, liquidity risk, operational risk, and reputational risk, and manifest as risks in those categories, the Group has incorporated climate-related risks into its integrated risk management framework and is establishing a management system for each risk category according to the manifested risks.

In addition, the Group has established an "Investment and Loan Policy Considering Environment and Society" for investments and loans to specific sectors that may have a negative impact on the environment and society, and it strives to reduce and avoid impacts on the environment and society. (For more details on the policy, please visit our website <<https://www.ymfg.co.jp/sustainability/tcf.html>> (in Japanese).) Since the establishment of the investment and loan policy in May 2022, the Group has not made any investments or loans that violate the policy.

- Spread of risks associated with climate change -

Risk category	Description of transition risks	Time frame	Description of physical risks	Time frame
Credit risk	The risk of increases in credit costs due to deterioration in the business performance of business partners resulting from changes in the business environment accompanying the transition to a decarbonized society	Medium to long term	The risk of increases in credit costs due to the degradation of collateral value and deterioration in the business performance of business partners caused by the occurrence of natural disasters such as floods and storms	Short to long term
Market risk	The risk of a decline in the market value of securities held by the Group due to the deterioration in the business performance of business partners and others resulting from changes in the business environment accompanying the transition to a decarbonized society	Short to long term	The risk of a decline in the market value of securities held by the Group due to the deterioration in the business performance of business partners and others caused by the occurrence of natural disasters such as floods and storms	Short to long term
Liquidity risk	The risks of a worsening fundraising environment and deposit outflows due to the deterioration in the Company's performance and reputation resulting from changes in the business environment accompanying the transition to a decarbonized society	Short to long term	The risk of deposit outflows due to increased funding demands from business partners caused by the occurrence of natural disasters such as floods and storms The risk of a worsening fundraising environment due to financial market disruptions caused by the occurrence of natural disasters such as floods and storms	Short to long term
Operational risk	The risk of increases in response costs and potential losses from fines and litigation, etc. due to regulatory changes accompanying the transition to a decarbonized society	Short to long term	The risk that makes business continuity difficult due to the head offices and branch offices affected by the occurrence of natural disasters such as floods and storms, and the risk that incurs recovery costs	Short to long term
Reputational risk	The risk of deterioration of the reputation due to inappropriate responses to climate change or inadequate information disclosure	Short to long term	The risk of deterioration of the reputation due to inadequate recovery efforts from natural disasters such as floods and storms or insufficient support to affected business partners	Short to long term

Short term: less than 3 years, medium term: less than 10 years, long term: over 10 years

- Investment and Loan Policy Considering Environment and Society -

The Group has formulated a "Sustainability Policy" and "Materiality," and actively supports customers that are engaged in initiatives to resolve various issues, such as initiatives for revitalization of local community and economies, and initiatives towards the preservation of the environment.

On the other hand, for investment and loan that carries significant risks on or which is highly likely to have a negative impact on the environment and society, the Group takes initiatives towards the reduction and avoidance of an impact on the environment and society by responding appropriately based on this policy.

» Businesses that provide active support across sectors

We actively support the following businesses towards the realization of a sustainable environment and society.

1. Businesses that contribute to the initiatives for revitalization of local community and economies
2. Businesses that contribute to the mitigation of climate change towards the realization of carbon neutrality
3. Businesses that contribute to the preservation of cultural properties such as World Heritage sites as well as tangible and intangible cultural properties
4. Businesses that contribute to disaster prevention and disaster mitigation

» Businesses that prohibit investment and loan across sectors

We will not engage in investment and loan for the following businesses if we recognize that there will be risks or a negative impact on the environment and society.

1. Businesses that violate the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention)
* Sufficient care will be paid to the reservations of each country
2. Businesses that have a negative impact on the Ramsar Convention on Wetlands
3. Businesses that have a negative impact on UNESCO World Heritage Sites
4. Businesses involving child labor and forced labor

» Policy on initiatives for specified sectors

We make appropriate investment and loan decisions based on the following policies for sectors that have the potential of having a significant impact on the environment and society.

1. Coal-fired thermal power generation
It is said that coal-fired thermal power generation produces higher emissions of greenhouse gases and air pollutants than other forms of power generation, and it may increase concerns over climate change and air pollution.
We will not provide investments and loans that involve the new construction of coal-fired thermal power plants or the expansion of existing such power plants.
However, in the case of transitioning to high efficiency coal-fired thermal power generation through the use of new technologies such as CCUS (technology that makes use of separated and stored carbon dioxide), we will consider this on a case by case basis.
2. Development and manufacture of inhuman weapons such as nuclear weapons, cluster bombs, etc.
The international society recognizes nuclear weapons, cluster bombs, biological and chemical weapons, and anti-personnel landmines as being of great humanitarian concern. In consideration of the inhumane nature of these weapons, we will not invest or provide loans for businesses for which the purpose of funds is the manufacture of such inhumane weapons.
3. Development of palm oil plantations
Although palm oil is a vital raw material for daily life, the development of palm oil plantations may have a major negative effect on the environment and society because of the impact it has on biodiversity and climate change due to the logging of natural forests and the burning of peatlands, as well as issues of child labor, human rights violations, etc.
In the event of considering financing initiatives for palm oil businesses, we carefully check the implementation status of the customer's environmental and social considerations, as well as participation in international certifications such as RSPO^(*).
4. Large scale deforestation
Large scale deforestation has a negative impact on biodiversity and ecosystems, and may cause various issues, including a negative impact on climate change due to a decline in the carbon dioxide absorption and storage functions.
When considering investment and loan for businesses involving large scale deforestation, we carefully check the acquisition status of international certifications such as FSC, PEFC, etc.^(**), as well as the status of their consideration of the environment.

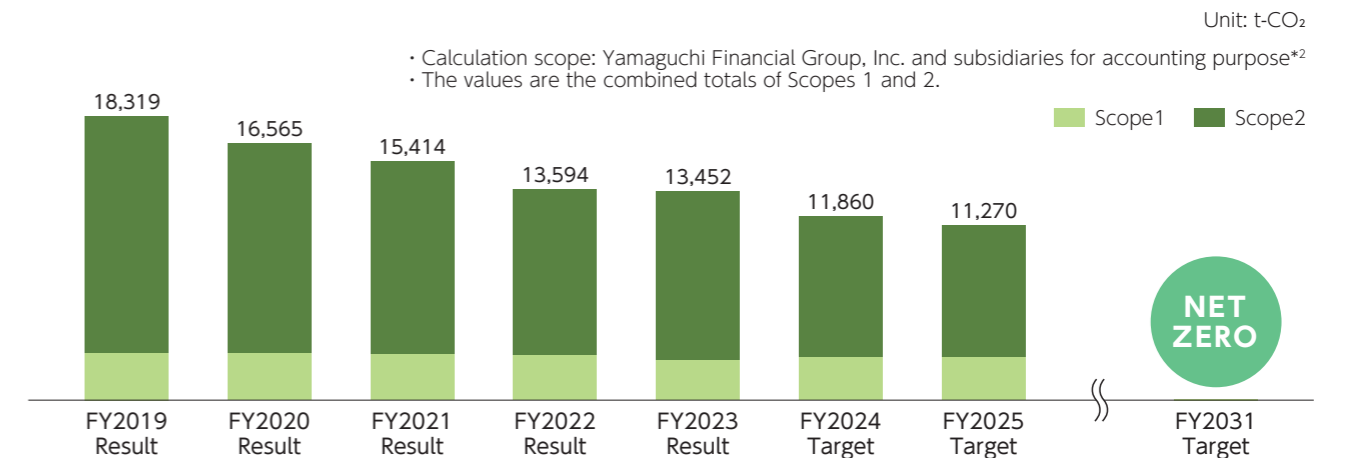
*1 RSPO certification: the "Roundtable on Sustainable Palm Oil (RSPO)," an international certification system that has the objective of the sustainable production and use of palm oil, as well as addressing issues surrounding palm oil

*2 PEFC certification: the Programme for the Endorsement of Forest Certification Scheme (PEFC) is one of the international forest certification systems.
Characteristics: a framework for the mutual recognition of the forest certification systems in each country.

► Metrics and targets

- CO₂ emissions results and targets -

Aiming for the achievement of carbon neutrality for the Group, it have newly set a medium- to-long-term target of net-zero CO₂ emissions (Scopes 1 and 2) by the fiscal year ending March 31, 2031. Going forward, the Group will enhance its efforts to achieve the target through measures such as switching company vehicles to environmentally friendly vehicles (EV, PHEV, etc.), utilizing renewable energy-derived electricity, and converting to LED lighting.



*2 Regarding the above CO₂ emission results, from the results for the fiscal year ended March 31, 2023, we revised the calculation standard and expanded the calculation target to all subsidiaries for accounting purpose of the Group. For the results for the fiscal years ended March 31, 2019 to 2021 already published, we have recalculated according to the same standard.

► Metrics and targets - Sustainable finance -

Cumulative amount of sustainable finance execution (results and targets)

The Group has set a long-term target for the cumulative amount of sustainable finance execution from the fiscal years ended March 31, 2023 to 2032 at ¥1,500.0 billion (of which, ¥500.0 billion is sustainable finance that contributes to the environmental sector or the response to climate change), and the execution amount in the fiscal year ended March 31, 2023 was ¥232.8 billion (¥151.4 billion). Moreover, for the achievement of carbon neutrality in the region, the Group will newly set metrics and targets for sustainable finance, as well as non-financial solutions that contribute to the reduction of GHG emissions, and it will enhance such efforts.

- Definition of sustainable finance -

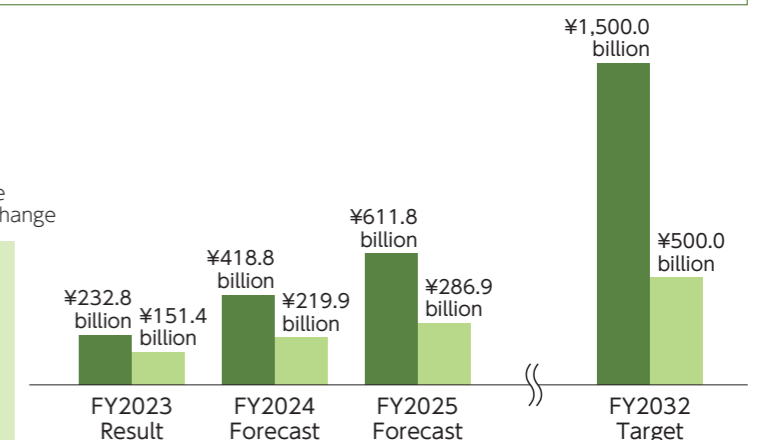
The Group defines sustainable finance as investment and loan that will contribute to the resolution of environmental issues and social issues, and investment and loan that will support efforts towards improved sustainability of customers. Specifically, if any one of the following conditions applies, it is target for this finance.

- Products: private placement bond (donation type, with BCP formulation support service, etc.), sustainability-linked loan, green loan, social loan, etc.
- Use of funds: renewable energy introduction, start-up related, business succession funds, etc.
- Industry: medical care, nursing care and welfare, education related

YMfg

- Sustainable finance results/targets
- Of which, sustainable finance that contributes to the environmental sector and the response to climate change

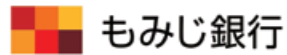
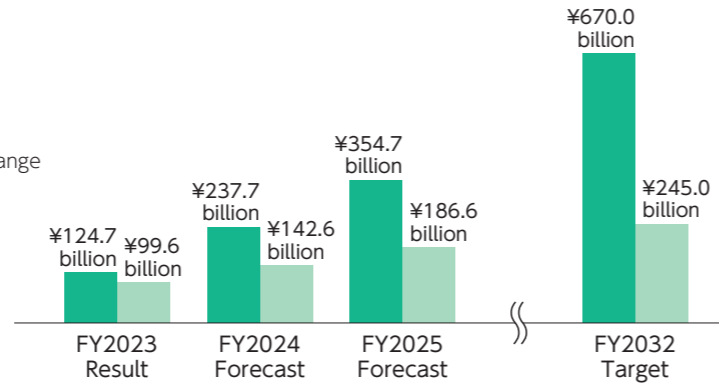
Medium-term sustainability targets (by the end of March 2025)
Target for the cumulative amount of sustainable finance execution: ¥400.0 billion or more
Of which, sustainable finance that contributes to the environmental sector and climate change: ¥135.0 billion or more





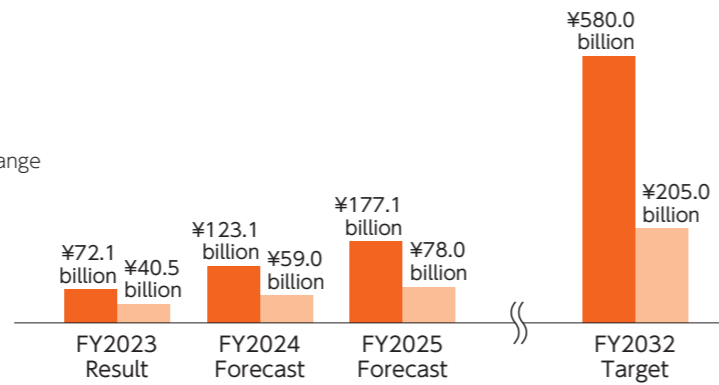
■ Sustainable finance results/targets
■ Of which, sustainable finance that contributes to the environmental sector and the response to climate change

Medium-term sustainability targets (by the end of March 2025)
Target for the cumulative amount of sustainable finance execution: ¥180.0 billion or more
Of which, sustainable finance that contributes to the environmental sector and climate change: ¥70.0 billion or more



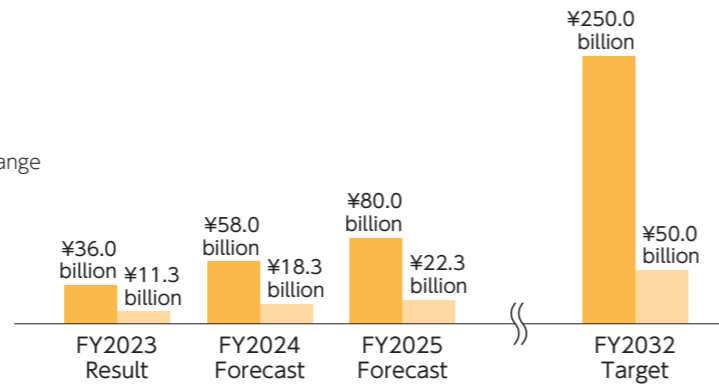
■ Sustainable finance results/targets
■ Of which, sustainable finance that contributes to the environmental sector and the response to climate change

Medium-term sustainability targets (by the end of March 2025)
Target for the cumulative amount of sustainable finance execution: ¥155.0 billion or more
Of which, sustainable finance that contributes to the environmental sector and climate change: ¥55.0 billion or more



■ Sustainable finance results/targets
■ Of which, sustainable finance that contributes to the environmental sector and the response to climate change

Medium-term sustainability targets (by the end of March 2025)
Target for the cumulative amount of sustainable finance execution: ¥65.0 billion or more
Of which, sustainable finance that contributes to the environmental sector and climate change: ¥10.0 billion or more



- Carbon-related assets -

The proportion of carbon-related assets*3 in the Group's loans, etc. is as shown on the right.

*3 The total amount of loans, payment approvals, foreign exchange, and private placement bonds, etc. "Electricity" included in "energy" excludes renewable energy business operators such as solar power generation, biomass power generation, and wind power generation. (Reference) For renewable energy business operators: ¥155.3 billion

Sector	Balance of receivables	Ratio
Energy	¥496.0 billion	5.9%
Transportation	¥1,059.0 billion	12.5%
Materials and buildings	¥1,780.1 billion	21.0%
Agriculture, food and forestry products	¥167.7 billion	2.0%
Total carbon-related assets	¥3,502.7 billion	41.4%
Total for all sectors	¥8,460.5 billion	100.0%

▶ Initiatives

The Group strives to promote initiatives towards carbon neutrality and enhance information disclosure through its endorsement of the following initiatives.



Sustainability initiatives

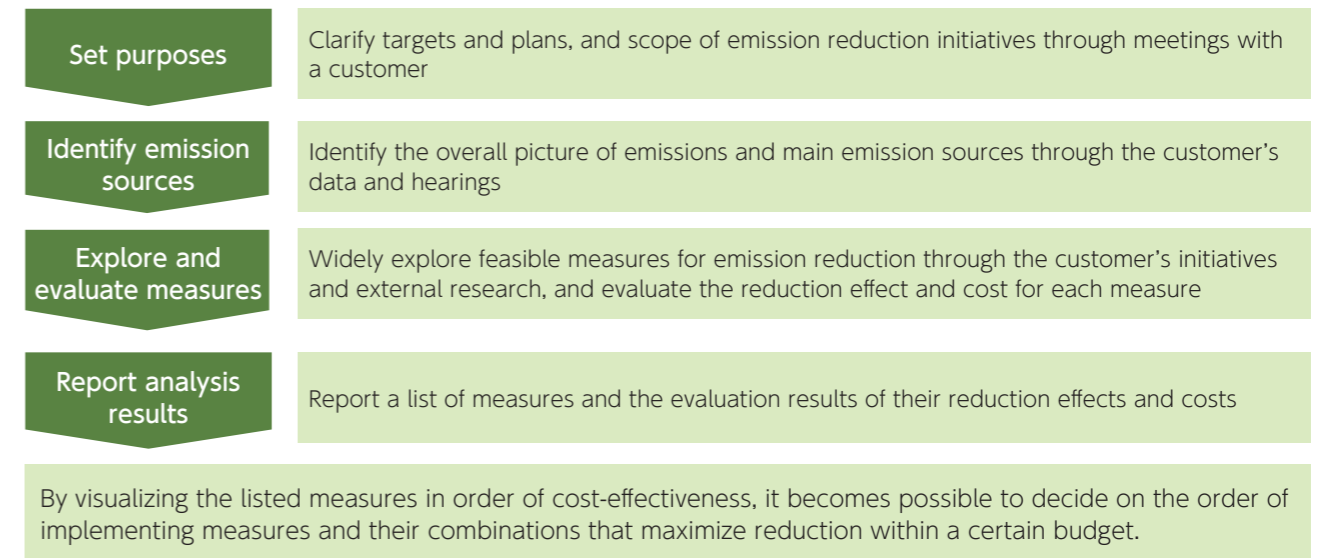
▶ Support service for the formulation of CO₂ reduction roadmap

While efforts towards carbon neutrality advance globally and rapidly, and spread throughout the entire supply chain, the importance of CO₂ reduction initiatives becomes more important even among regional small and medium-sized enterprises.

YMFG offers the "support service for the formulation of CO₂ reduction roadmap" to assist customers aiming for carbon neutrality in their transition to a decarbonization management.

This service helps customers set customized targets and formulate a roadmap that contributes to choosing the measures for CO₂ reduction and making investment decisions.

Service flow (start from April 2023)



▶ Holding a carbon neutrality seminar

YMFG held a carbon neutrality seminar targeting key companies mainly in the manufacturing industry as part of our efforts towards realizing a regional sustainable society. External speakers gave lectures on efforts towards realizing carbon neutrality and global trends, and a reception was also held for information exchange among participating companies, with 116 persons from 85 companies attending.

We received feedback from attendees such as "It was easy to understand and very informative" and "It was an extremely interesting lecture, and I wish it had been longer," and we will continue holding the seminar occasionally.

Additionally, an online seminar on the theme on "decarbonization management required for small and medium-sized enterprises" was held.



▶ **Joint proposal with Yamaguchi City for the Ministry of the Environment’s “Decarbonization Leading Areas (Second Round)” and its selection**

The Yamaguchi Bank, Ltd. and YMFG ZONE PLANNING CO., LTD., in collaboration with Yamaguchi City, jointly made a proposal for the “Decarbonization Leading Areas (Second Round)” led by the Ministry of the Environment, and the Group was selected as a “Decarbonized Leading Area” for the first time through collaboration with the local government.

Within Yamaguchi Prefecture, Yamaguchi City is the first to be selected as a “Decarbonized Leading Area,” and in the future, it aims to achieve urban decarbonization in areas around its central urban district through co-creation among shopping districts, residents, businesses, and the city.



Decarbonized Leading Areas

Decarbonization Leading Areas aim to achieve net-zero CO₂ emissions from electricity consumption in households and business sectors by FY2030. In addition, they make efforts to achieve reductions in other greenhouse gas emissions such as from the transportation sector and heat use by utilizing local characteristics, which is consistent with Japan’s FY 2030 target.

Overall picture of the initiatives

“Zero carbon central urban district”

- Achievement of urban decarbonization through the co-creation of shopping districts, residents, companies, and the city -

- ▶ In the central urban district where “people live and work closely,” targeting areas around shopping streets, achieve decarbonization through the introduction of solar power generation, including solar rooftop of arcades, and the utilization of waste-to-energy generation
- ▶ Visualize the overall power consumption and CO₂ emissions of shopping districts, and encourage behavioral changes in citizens and tourists through the use of an eco-point system linked to the citizens’ fund, as well as nudges
- ▶ Convert official vehicles to EVs and use them for EV car-sharing during off-hours, and electrify the buses that connect tourist destinations like the neighboring Yuda-onsen with the central urban district

YMFG promotion system (assumed main roles)

<p>The Yamaguchi Bank, Ltd.</p>	<ul style="list-style-type: none"> • Start-up support for environment-related companies • Financial support for the study of a citizen’s fund, etc. for renewable energy power development • Consider financing for the establishment of a regional new power company through public-private investment and other roles
<p>YMFG ZONE PLANNING CO., LTD.</p>	<ul style="list-style-type: none"> • Attract business operators to the region • Support for leading regional decarbonization • Consider auxiliary functions of a regional new power company and other roles

▶ **Awarded at the “2022 Sustainable Finance Awards” hosted by the Research Institute for Environmental Finance**

In October 2022, in response to the growing environmental conservation awareness of individual investors and aiming to contribute to environmental conservation by YMFG, we issued a green bond* of ¥20.0 billion for individual investors for the first time as a regional financial institution.

For this initiative, we received the “Regional Finance Award” in the “2022 Sustainable Finance Awards” hosted by the Research Institute for Environmental Finance.

* Green bonds issued by the Company are limited to loans which are used for renewable energy and green building that meet the eligibility criteria.



“Sustainable Finance Awards”

The Sustainable Finance Awards are an awards system where the Research Institute for Environmental Finance, which promotes and raises awareness on “environmental finance” to financially solve environmental problems, awards financial institutions, companies, and other organizations that provide environmental financial products, services, and initiatives in the Japanese financial market.

▶ **“Club Activity MaaS” demonstration project for regional transition of junior high school club activities**

YMFG ZONE PLANNING CO., LTD. is working on the “Club Activity MaaS*” demonstration project utilizing the services and knowledge of Yamaguchi Daiichi Co., Ltd. in collaboration with Mine City, Yamaguchi Prefecture, to address the challenges related to the regional transition of junior high school club activities, following its selection for the Ministry of Economy, Trade and Industry’s “2022 ‘Future Classrooms’ demonstration project.”



* MaaS: Abbreviation for Mobility as a Service. A service that handles the search, reservation, transportation, and payment of the optimal means of transportation in an integrated manner according to the mobility needs of each user.

Background of initiatives

Due to the decrease in the number of students caused by a declining birthrate and the excessive workload of teachers, there are regions where it is difficult to sustain junior high school club activities at the school level, and a shift to community-based club activities is being promoted. Especially in hilly and mountainous areas with a significant decrease in the number of students, although combined club activities involving multiple schools are considered one solution for implementing team sports, solutions for the issue of traveling between distant schools also need to be explored.

Demonstration project

- (1) Implementation of joint club activities
For club activities in sports where maintaining a team at a single school is difficult, joint club activities led by instructors other than teachers are implemented, and we are identifying issues anticipated when transitioning to community-based club activities.
- (2) Holding sports events

A sports event “Sports Festival in Mine” was held in Mine City on February 25, 2023.

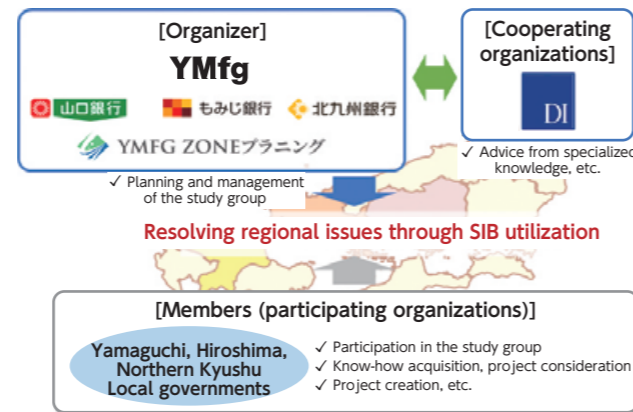
In cooperation with the United Sports Foundation and local organizations that could potentially accommodate regional club activities, we verified the feasibility of transitioning club activities to the community while investigating transportation demands and price acceptance for events.

▶ Revitalizing the region through regional revitalization consulting

Social Impact Bond (SIB)

The Group established the “SIB Study Group” on October 31, 2022, to further accelerate the promotion of “social impact bond” (hereinafter, “SIB”) utilization, which is attracting attention as a new method of a public-private partnership. The purpose is to contribute to the formation of specific projects through SIB business know-how acquisition and information exchange with local governments gathering, as well as conducting study sessions with case studies, etc.

The initial members were 10 local governments at the time of establishment. As of April 2023, the number doubled to 20, indicating a high level of interest from local governments.

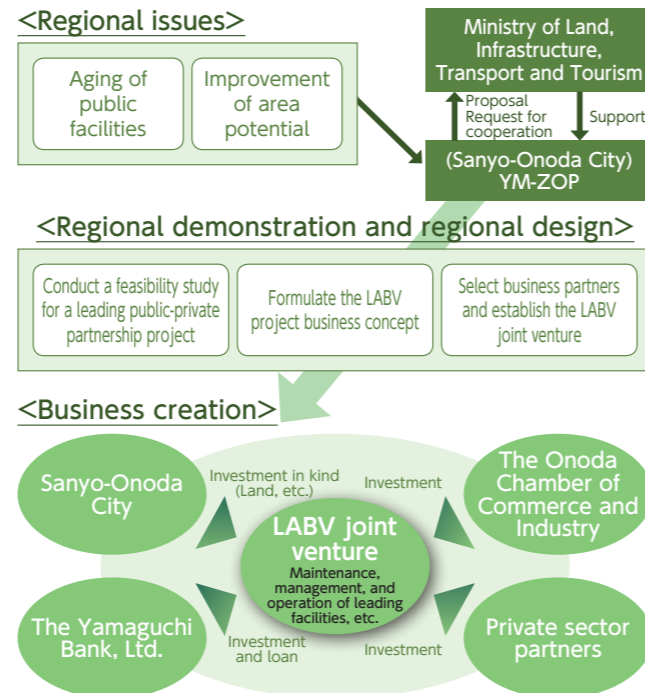
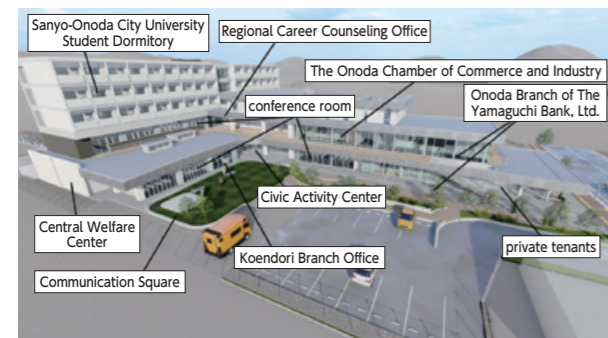


Local Asset Backed Vehicle: a public-private cooperative development entity (LABV)

LABV is a method of public-private collaboration implemented by the LABV joint venture formed by combining the in-kind investment of land owned by local governments and the investment from the private business operators, etc. Currently, a town development project, in which the Group is taking the lead, is in progress in Sanyo-Onoda City, Yamaguchi Prefecture, including the use of LABV to redevelop the commercial and industrial center and utilize the site of a former bank branch, developing multiple pieces of municipal land in a chain.

Using the LABV, this project is the first of its kind in Japan, and in February 2023, it received the “Award from Secretary General of Secretariat for Promotion of Regional Revitalization, Cabinet Office” the highest award in the “2022 Public-Private Partnership Initiative Cases Aimed at Achieving Regional Revitalization SDGs.” In March 2023, it received recognition from the Minister of State for Regional Revitalization of the Cabinet Office in the “Distinctive Initiative Cases’ of financial institutions, etc. contributing to regional revitalization.”

Going forward, we aim to spread such initiatives to local governments throughout Japan, contributing to the broader revitalization of regions.



▶ The Yamaguchi Bank, Ltd. women’s handball team, “YMGUTS”

In April 2018, YMGUTS was formed with the wish to revitalize the region through sports while working in the region, making use of the regional characteristics of eastern Yamaguchi Prefecture, where handball has traditionally been popular. All team members are employees of The Yamaguchi Bank, Ltd., work full-time, and train hard after work. In August 2022, they won the “Japan Open Tournament” for the first time, a competition determining the best club team in Japan which had been their goal since the team’s formation, and in June 2023, they ranked 6th in the Amateur Championship, surpassing teams in the top Japanese league, indicating their steadily improving competitive level.

Aim of YMGUTS

- Establish a team that is loved by the local community, and serve as a model for achieving a balance between sports and work and the ways in which women work.
- Build a local community through handball, and develop the multi-generational interactions and the younger generation
- Contribute to improved competitiveness in handball and the promotion of regional sports, and to the establishment of healthy lifestyles with “YMGUTSxα.”

Main initiatives

- Contribute to the promotion of sports through the management of a team
- Develop activities that will convey to children and students awareness of working hard towards their dreams, while having a professional awareness of both handball and work
 - ・ Visiting GUTS (visiting classes at local elementary and junior high schools)
- Participate in regional events and develop activities that bring prosperity together with the region
 - ・ Appointed as tourism ambassador for Yuno-onsen and engaged in initiatives in partnership with regional business operators in order to conduct PR for the onsen

YMGUTS performance

- August 2022: Winner of the 27th Japan Open Handball Tournament National Championship
- August 2022: Runner-up in the 77th National Sports Festival, Chugoku Block Tournament
- October 2022: Participated in the 77th National Sports Festival
- January 2023: Best 16 in the 74th Japan Handball Championship
- June 2023: Best 6 in the Takamatsunomiya Memorial Trophy 11th All Japan Amateur Championship



Japan Open Tournament (August 2022)



Handball instruction (November 2022)



Visiting GUTS (November 2022)



Event speaker at Yuno-onsen Festival (November 2022)

Priority Item II Promotion of the Active Participation of the Group's Human Assets



We aim to support the growth of each employee towards their aspirations for the desired state and promote a transformation in organizational culture that encourages the creation of new value.

General Manager, Human Capital Management & General Affairs Dept.
Ryoichi Sakamoto

In an era of rapid environmental changes, where we must respond to issues for which there are no right answers and entirely new ideas are required, we believe that to achieve our YMFG's purpose of "co-creating a bountiful future for our region," we must prioritize the "maximization of value provided to our region and customers" and the "creation of new value."

Our employees are the driving force and "assets" of YMFG. Our mission in the Human Capital Management & General Affairs Dept. is to support the growth of these "human assets" by addressing the aspirations for the desired state of each and every one of our employees in order to realize our purpose, and we are implementing initiatives based on the following three perspectives.

The first is the "promotion of the active participation of diverse human assets." While actively and continually recruiting and appointing diverse human assets, including females, experienced hires, alumni and people with experience of external secondments, we are also advancing the development of a work environment where everyone can shine by making maximum use of their characteristics and abilities. Specifically, for promoting the active participation of women, we are implementing measures such as conducting the Female Corporate Sales Job Trial and unconscious bias training, and hosting Femtech events, while also actively promoting women to management positions. Moreover, mainly focusing on younger employees, we have revised the traditionally "seniority-based" promotion requirements to enable diverse range of employees to play active roles by fully utilizing their unique characteristics and abilities, regardless of their age.

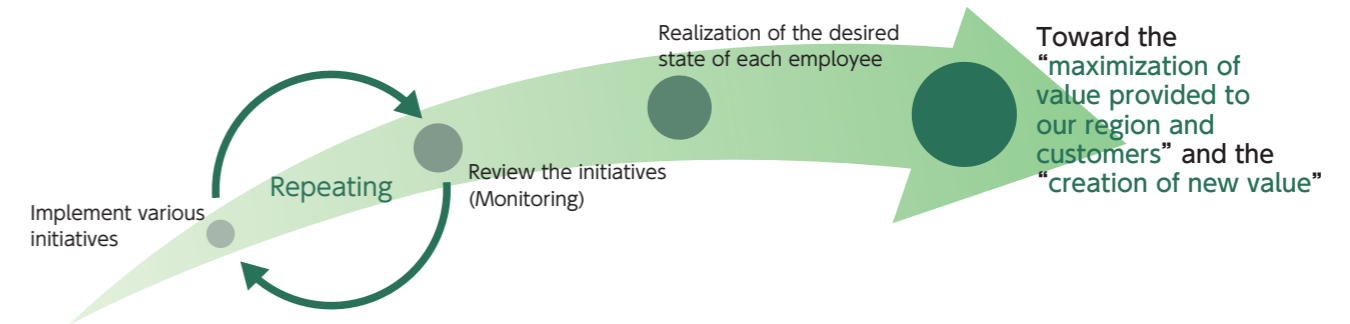
The second is the "active participation of

human assets embodying regional co-creation." We are actively investing in employee growth support and launching human assets development and various training programs to develop human assets capable of "co-creation" with the region.

The third is the establishment of the "system in which every employee is properly rewarded." In order to motivate employees and support diverse career paths and working styles, we are introducing systems such as an incentive plan "Employee Stock Ownership Plan (J-ESOP)," which grants the Company's shares to employees, and establishing on-site childcare facilities, etc. to develop working environment.

In conjunction with the implementation of various measures based on these three perspectives, we conduct "employee awareness surveys" to gain an understanding on employee awareness and the state of organizational culture within the Group, and by understanding the gap between the Group's desired state and the current situation, we will continue to review the personnel systems and policies. As one example, we have made revisions to the promotion requirements in our personnel system, and to further promote the active participation of our human assets leveraging these revised requirements, it is crucial to introduce a personnel evaluation system that brings out employees' sense of satisfaction and motivation, and we are committed to strongly advancing this approach.

By rotating the cycle of various personnel initiatives and surveys measuring the state of employees and the organization, we aim to transform our organizational culture to promote the "maximization of value provided to our region and customers" and the "creation of new value."



Promotion of the active participation of diverse human asset

Acceleration of diversity and inclusion through the proactive hiring and promotion of diverse human assets, and individual career development of all employees

Active participation of human assets embodying regional co-creation

Development of human assets that can realize co-creation with the region, and implementation of human assets development and various training programs aimed at realizing the desired state of each employee

System in which every employee is properly rewarded

Establishment of an internal environment to enhance employee motivation and achieve diverse career paths and working styles

Key indicators

Key indicators	
Diversity and inclusion	Ratio of management positions of diverse backgrounds 25% or more (by the end of December 2031)
Promotion of active participation of women	Ratio of females in management positions 15% or more (by the end of December 2031)
Development of human assets for realization of the purpose	Investment in education 2 times (compared to FY2022)
Establishment of an internal environment aimed at realizing diverse career paths and working styles	Male childcare leave acquisition rate 16.3% (actual results for FY2023)
Measurement of employee engagement	Employee awareness survey results (overall satisfaction)* 3.57 points (+0.01 points from FY2022)

* "How employees feel about the current organizational culture of YMFG and their current job and workplace environment" is the subject of the survey and analysis. A change in satisfaction is recognized by a change of ±0.10 points or more in this survey.

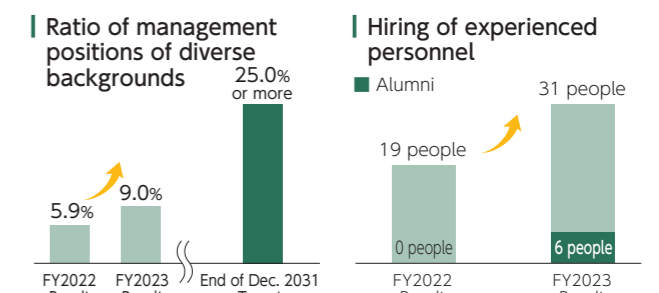
Diversity and inclusion initiatives

To become an organization that can always create business with speed, the Group is actively and continuously hiring and promoting diverse human assets*1, and at the same time, by advancing their development, we aim to achieve a ratio of management positions of diverse backgrounds of at least 25% by December 2031, and as of the end of March 2023, it stands at 9.0%.

In addition, recognizing the need for cultivating an organizational culture to secure diverse human assets, we have implemented unconscious bias training primarily at the management level to eradicate unintentional preconceptions and prejudices. Moreover, with the purpose of "the creation of an organization that values opportunities for the growth and self-realization of all employees" as well as an "organization that values dialog," we have been implementing initiatives since December 2021 for all employees to engage in one-on-one meetings

at least once a month, ensuring that employees have high motivation and are working towards realizing diverse career paths and working styles.

*1 Diverse human assets is a collective term for the Company's employees who have diverse backgrounds, including females, foreigners, experienced hires, alumni, staff with side jobs, and people with experience of external secondments

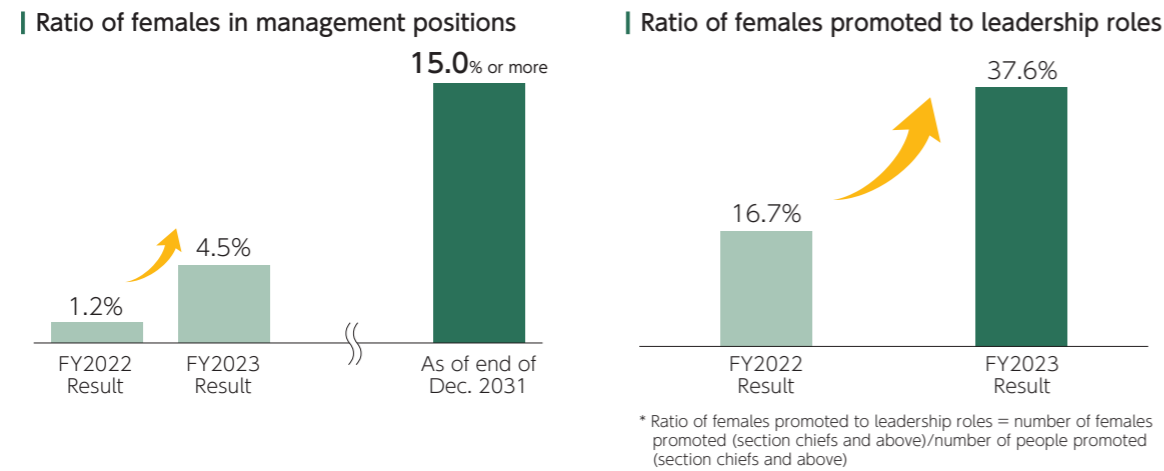


* Females, foreigners, experienced hires, alumni, staff with side jobs, and people with experience of external secondments

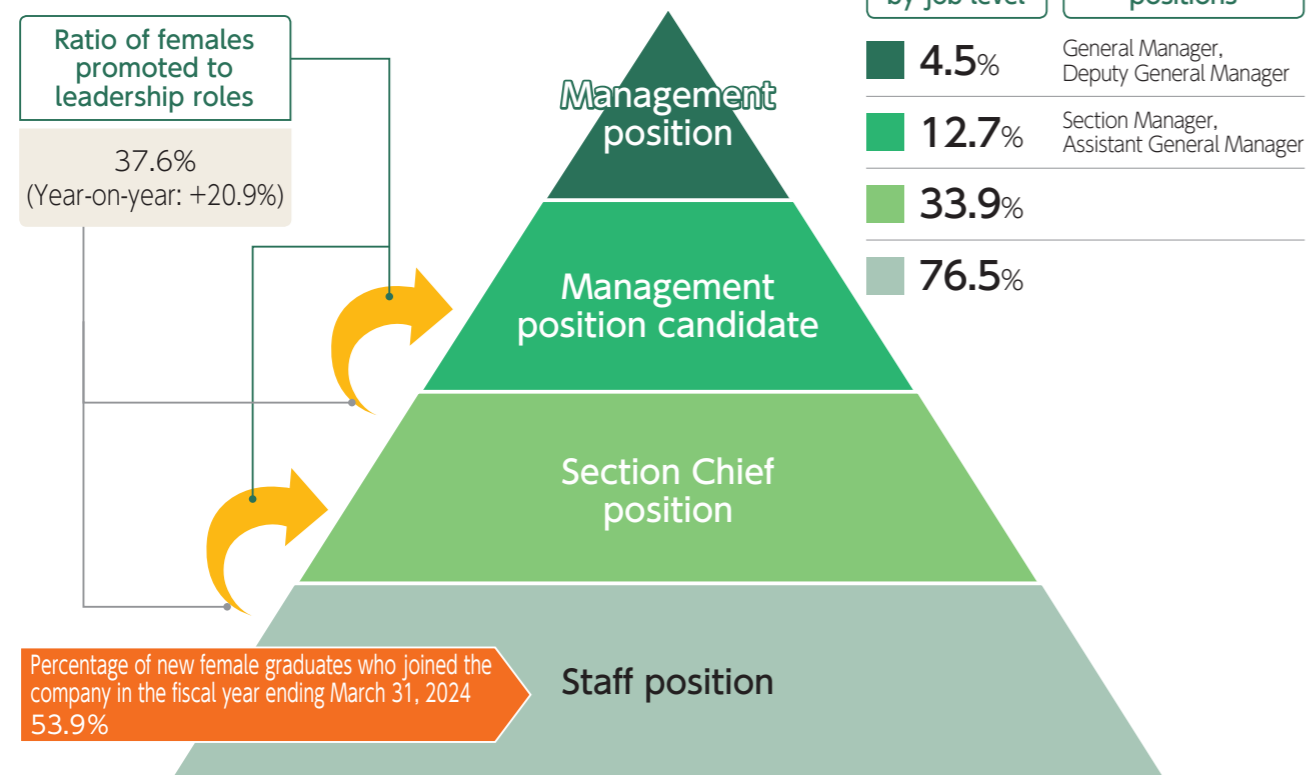
* Alumni hiring began in December 2021

Initiatives to promote the active participation of women

At the Group, over 40% of the core employees are females, and although many are already active in various business areas, we believe that there is a need to further expand the fields in which women are active. Therefore, in addition to initiatives like the Female Corporate Sales Job Trial, we have set a medium- to long-term goal of having a ratio of females in management positions of 15% or more by the end of December 2031 and are focusing on measures related to the career development of women, such as female leader training and Femtech events. The ratio of females in management positions at the end of March 2023 was 4.5%.



The current state of active participation of women at the Group



- Management position:** "managerial personnel and supervisors" under the Labor Standards Act and those with equivalent authority.
- Management position candidate:** Subordinate personnel by one level to management position
- Section Chief position:** Subordinate personnel by one level to management position candidate

Interview with the Female Corporate Sales Job Trial participant



Hofu Branch
Akiko Okamura,
Section Chief

— What made you apply for the Job Trial Program?

I worked at the headquarters for a long time, and after taking maternity and childcare leave, I switched my career course and started working at a sales branch following a long absence. At that time, I felt a sense of fulfillment when I could make proposals in retail (individual) sales that pleased both customers and their

families, which led me to think that "I would like to expand the range of my proposals" and "I would like to be of service to more customers." The aspiration I had towards a corporate sales position from my early days as a new employee was always at the core of my feelings.

— How do you find your role in corporate sales?

I have been in this position for a year now, and it is truly rewarding when I am able to make proposals such as for business succession and business matching, refining projects together with colleagues from the workplace and other Group employees. Every day, as I share various challenges with our customers and support them, I find it highly stimulating, full of discoveries and learning, and I truly feel fulfilled in my challenge of working in the corporate sales position.

Initially, as I just returned from maternity and childcare leave, I faced some challenges such as time management. However, thanks to the strong and comprehensive support from my

workplace and the headquarters' person in charge, I was able to achieve a balance between work and personal life by consulting and trying out different approaches. In particular, I remember how reassuring it was when the General Manager accompanied me on my first visits to all my clients. Even now, I am in communication with the General Manager, my superiors, and colleagues on a daily basis, and I consult with them before any problems arise.

Given that I might be absent at any time, such as when taking care of my sick child, I make it a point to keep a record of the progress of my projects and share it with my superiors and colleagues.

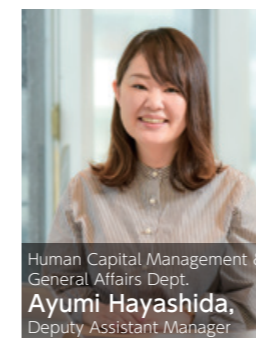
— Can you tell us about your future goals?

I want to grow personally by taking on new challenges regardless of my age. I also want to become a reliable supporter that my colleagues and subordinates can depend on by absorbing the good qualities of the people I meet through my work.

Female Corporate Sales Job Trial Program

Since February 2022, we have been implementing the "Female Corporate Sales Job Trial" to support the career development of female employees and to have them play an active role in corporate sales. We seek female employees who would like to work in corporate sales, and while they actually work for customers, they obtain knowledge on business feasibility evaluations, financial analysis, credit ratings, etc., and are given on-site OJT guidance.

Interview with Femtech seminar organizer



Human Capital Management & General Affairs Dept.
Ayumi Hayashida,
Deputy Assistant Manager

— Can you tell us the background of the seminar?

With the aim of promoting the active participation of women, we wanted to achieve a state where women can work vibrantly and healthily both mentally and physically, alleviate the resistance to "active participation of women" and involve more employees as stakeholders, so we organized the Femtech seminar.

— How was the seminar and the feedback from the participants?

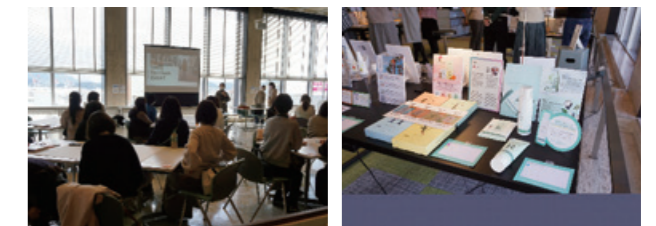
About 160 employees from a wide age range of 20s to 50s participated in the event. We invited Ms. Nakamura, a leading expert in the Femtech field and the director of fermata Inc., which operates the world's first Femtech-specific online store, to provide an overview of Femtech and deepen understanding on products addressing individual issues, as well as share concerns and anxieties by age group.

Through the event, there were many comments about gaining insights into company changes, the importance of health literacy, and the significance of mutual understanding, and I believe it provided an opportunity to shift from unconsciously viewing women-specific health issues as taboo

and enduring them, to a mindset where these issues can be improved and resolved through enhanced literacy and mutual understanding, leading to inner branding.

— What are your plans for the future?

We plan to continue organizing seminars by each health issue and considering introducing Femtech services. We also want to promote participation by male employees and initiate activities to promote wellness for both men and women.



What is Femtech?

Femtech is a term coined from the words "female" and "technology." It refers to products, services, and initiatives aimed at addressing women's health issues. The term is also used in Japan to refer to the entire movement of this kind. As women's societal advancement progresses, the related markets are expanding worldwide.

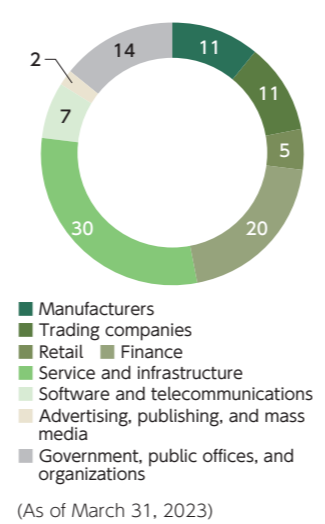
Development of human assets for realization of the purpose

At the Group, we believe that working together to create opportunities that will allow for each employee to play an active role and providing support for growth in a manner that gives him/her satisfaction is essential to our business activities, which are centered around the purpose of “co-creating a bountiful future for our region.”

Therefore, in the fiscal year ended March 31, 2023, we invested ¥141 million in human assets development, approximately double the amount invested in education compared to the previous fiscal year, implemented reskilling training to strengthen the expertise of traditional banking business and learn know-how in non-financial areas, and also expanded internal postings to strengthen our commitment to realizing each employee’s aspirations for the desired state.

Furthermore, in order to build a new organizational culture, we have been implementing a system of secondment to companies and organizations in different industries since the fiscal year ended March 31, 2017, with the aim of returning the know-how and insights of other companies to the Group, and as of March 31, 2023, a cumulative total of 81 employees have been seconded.

Breakdown of industries for secondment (%)



Curriculum (excerpts)	
• DX seminar (For management level / for sales branches)	• Female employee leadership training
• Career design training	• Business diagnosis skills courses by field
• Management skill improvement training	• Onboarding training (Training for experienced hires)
• One-on-one coaching skill training	• Unconscious bias training

Return on investment in education

	FY2022	FY2023	Year-on-year
Investment in education	¥70 million	¥141 million	+¥71 million
Total annual training hours	35,905 hours	36,860 hours	+955 hours
Total number of trainees	4,218 people	5,531 people	+1,313 people

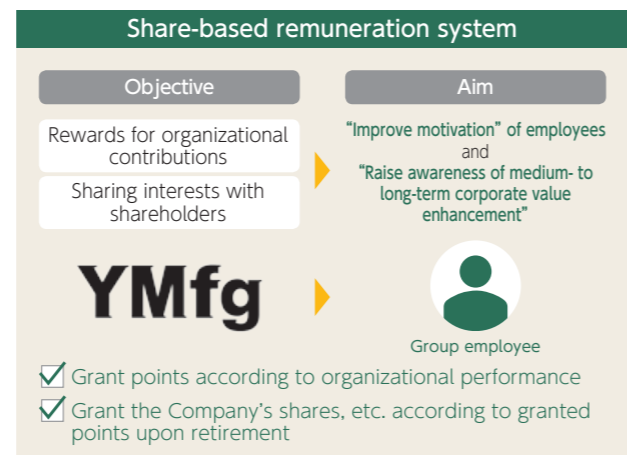
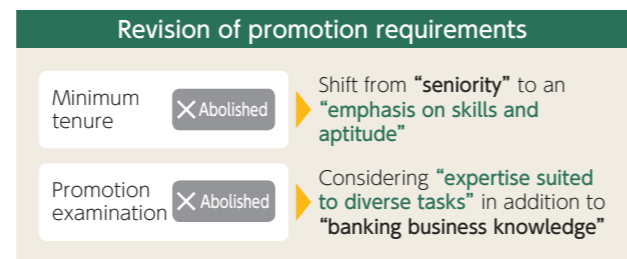
Establishment of an internal environment aimed at realizing diverse career paths and working styles

The Group is continuously working to improve corporate value over the medium to long term and create a work environment where employees can shine by leveraging their individuality.

Specifically, we revised promotion standards (promotion requirements) that greatly influence employee career development, responded appropriately to contributions (achievements) to organizational performance, and introduced the “Employee Stock Ownership Plan (J-ESOP)” aimed at raising awareness of medium- to long-term corporate value enhancement among employees.

Moreover, in order for employees to actively engage in various reforms, we have established systems such as My Voice*1 (a direct channel with the CEO), My Improvement (business improvement proposal system), and YMFG Growth (new business proposal system) to stimulate communication between employees in the field and the management and the headquarters. In addition to initiatives related to working styles such as a return to work system, short-time work system, opening of

on-site childcare centers, introduction of side job and flextime systems, and implementation of teleworking, based on employee feedback and analysis of the current situation and



challenges, we newly introduced a special leave (effective from April 2023) to promote childcare leave acquisition among male employees. During the fiscal year ended March 31, 2023, the acquisition rate of childcare leave and other leave for childcare purposes for male employees was 16.3%, and we aim for a 100% childcare leave acquisition rate through various system designs and awareness activities.

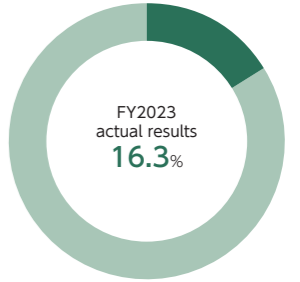
*1 A system that encourages each employee to think independently and to express opinions casually without holding back. Opinions and requests about organizational structure and various systems are conveyed, and measures are discussed and addressed at each Group.

Support systems (excerpted)	
• Special childcare leave system	• Side job system
• Return to work system	• Introduction of flextime system
• Short-time work system	• Implementation of teleworking
• Opening of on-site childcare centers	

Achievements in promoting system leave acquisition



Male childcare leave acquisition rate



* Promoting the use of a total of 15 days of paid leave consisting of consecutive leave (5 days), split consecutive leave (5 days), and refresh leave (5 days)

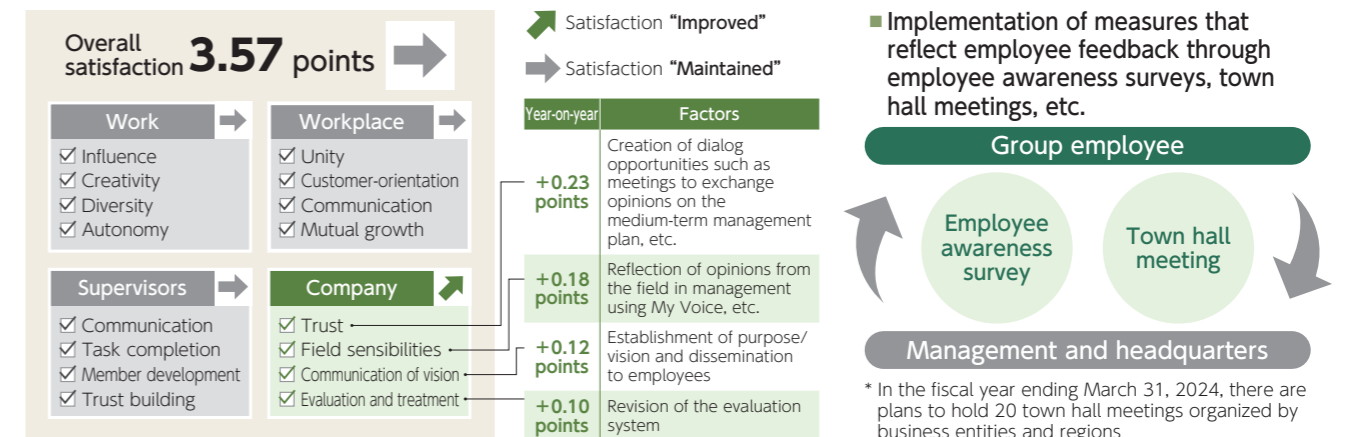
Measurement of employee engagement

In the Group’s sustainability and the improvement of social sustainability, human capital is positioned as a crucial component, and we conduct employee awareness surveys with the objective of understanding employees’ awareness and the state of organizational culture. In this survey, we investigate and analyze “how employees feel about the current organizational culture of YMFG and their current job and workplace environment,” and by understanding the gap between the Company’s desired state and the current situation, we utilize the insights for a comprehensive and continuous review of the personnel systems and policies.

In the fiscal year ended March 31, 2023, about 4,700 employees of the Group as a whole (including contract and temporary hires) responded, and the overall satisfaction level was 3.57 points and deemed “maintained.” Among the element categories, the primary category “loyalty to the company” that makes up overall satisfaction showed a positive change at 3.32 points (+0.10 points year-on-year)*1, and within this category, we confirmed an improvement in satisfaction levels for elements such as “trust” in management, “field sensibilities,” and “communication of vision.”

Based on the analysis of the survey results, etc., we believe it is crucial for transforming the Group’s organizational culture to enhance satisfaction levels concerning “supervisors” as well as “creativity*2” and “diversity*3” in work, and we have set KPIs for these items and will continue to develop various measures.

*1 This survey is evaluated up to a maximum of 5.00 points, and a change is recognized by a change of ±0.10 points or more
 *2 Producing new things and know-how without being bound by existing frameworks
 *3 Availability of opportunities to acquire or demonstrate diverse capabilities and a broad range of skills



* In the fiscal year ending March 31, 2024, there are plans to hold 20 town hall meetings organized by business entities and regions

Round-table Discussion with Employees



Yuzo Higashi

Joined in 2020
The Yamaguchi Bank, Ltd.
Customers' Business
Potentials Evaluation Dept.
Section Chief

Saki Yoshiyama

Joined in 2017
The Yamaguchi Bank, Ltd.
Head Office Sales
Department

Akiko Narimitsu

Joined in 2002
Momiji Bank, Ltd.
Fukuyama Block
Area Manager

Noritaka Shiga

Joined in 2007
The Kitakyushu Bank, Ltd.
Tobata Branch Assistant
General Manager

Tomohiro Amita

Joined in 2008
YMFG ZONE PLANNING
CO., LTD.
Section Manager

At YMFG, each and every employee formulates their own “My Purpose” as the purpose of life and meaning of work, and by viewing YMFG’s purpose as a personal concern, employees can deepen their understanding and empathy and feel a sense of fulfillment in their daily work.

We believe that each employee’s active participation and growth, living out their My Purpose, will ultimately lead to the realization of YMFG’s purpose.

Incorporating individual’s “own” aspirations into My Purpose

Five employees discussed their own My Purpose and the reasons for setting them, and shared their visions for YMFG’s future, all aimed at realizing the purpose of YMFG, “co-creating a bountiful future for our region.”

— Please tell us about your “My Purpose” and the reason for setting it.

Shiga: My Purpose for me is to “become a professional generalist.” I wanted to be the “ultimate jack-of-all-trades” ever since I was young. To this end, I believe that it is essential not only to acquire knowledge and skills for oneself but also to establish a network of experts, and I have always been actively involved in collaboration work with external parties. As The Kitakyushu Bank, Ltd., to which I belong, is not a large bank, in order to gain the trust of our customers, we must provide thorough answers to each and every consultation. When I have a problem that I cannot solve on my own, I utilize the YMFG network to find a solution and strive to address any concern.

Narimitsu: My Purpose for me is “a chain of smiles.” While we of course strive for consulting proposals and problem-solving that bring smiles to our customers, employees also collaborate as a team, sharing opinions, producing synergies, and aiming for successes as a result to make everyone smile. As a matter of course, in order to achieve results as a manager, I make sure not to be satisfied with just the sense of unity but to act with clear goals in mind.

Yoshiyama: My Purpose for me is to “bring smiles to the people I meet through finance.” For me, the joy and fulfillment in my job come from the smiles and trust of our customers. I believe this will lead to “co-creating a bountiful future for our region.” I am in my seventh year with the bank, and from the end of my second year, I have been in charge of asset management.

Rather than just selling financial products, I am constantly refining my information gathering and conversation skills to give customers positive feelings when they meet me. Now, customers feel free to consult me about anything, which gives me a sense of meaning to my existence and motivates me.

Higashi: My Purpose for me is “regional revitalization through sports and business evaluation activities.” I am the coach of The Yamaguchi Bank, Ltd. women’s handball team, “YMGUTS,” and I am engaged in both promoting regional sports and providing solutions of the Customers’ Business Potentials Evaluation Dept. I was a handball player for a company outside of Yamaguchi Prefecture before joining YMFG in 2020. I feel that I was nurtured by the region through the sport I love, so then I wanted to give back to the region, prompting me to change jobs and return to Yamaguchi Prefecture. I think that the appeal of the Company is the opportunity to meet people from various industries through the financial business and work together to revitalize the region. I believe that a center or nucleus for



Round-table Discussion with Employees

the region is important, and I want the regional children to feel a sense of unity through sports.

Amita: My Purpose for me is the “realization of HYGGE.” This word HYGGE is a Danish word that means “a cozy space” and “enjoyable time.” This was a word taught to me by a customer I used to work for, and I feel it is crucial in the fields and tasks I currently handle. I am currently involved in work related to regional revitalization, especially urban development projects. In urban development, I aim not just to replace buildings but to offer a cozy environment for the current and new residents, which is why I have adopted the realization of HYGGE as My Purpose.



— **What initiatives are you taking for the formulation and realization of My Purpose by employees?**

Narimitsu: In one-on-one meetings with subordinates, while some employees have a clear purpose, I also meet employees who find it challenging to formulate one. In such cases, I convey the strengths and weaknesses I see in them as a superior and provide advice on defining their purpose.

Shiga: For example, for employees who are unable to formulate a clear vision for the future, we hold one-on-one meetings to convey our thoughts on “how we want them to grow in the future.”

Amita: I believe it is essential to thoroughly evaluate the process of subordinates, even



for work that does not produce immediate results. One thing I take care of during one-on-one meetings is to broaden my perspective, closely observe and understand the current state and circumstances of my subordinates. I tell my subordinates that they should not stop thinking, which of course applies to me as well. If they stop thinking, they would completely rely on others, for this reason, I believe that continuously pondering matters is vital to act proactively.

Yoshiyama: Having one-on-one meetings with superiors allows me to receive many pieces of advice, and I feel that it generally has many benefits.

Higashi: At the Tokuyama Branch of The Yamaguchi Bank, Ltd. where I work, we had a routine of announcing My Purpose during the morning assembly. This sharing gave us insights into “each other’s thoughts on work,” leading to more conversations within the branch. Even in the short 15 minutes in the morning, I believe that just sharing thoughts can gradually change the workplace atmosphere.

— **How do you perceive YMFG’s organizational culture reform for the realization of My Purpose? What are your thoughts on the “desired state” for the future?**

Amita: I believe that the “abolition of the minimum tenure” is a very significant initiative. I think it can create a positive

cycle for the entire company by fairly evaluating motivated people regardless of their tenure.

Yoshiyama: Because the longer one’s current job experience, the more discouraged to take on other new tasks, I believe mechanisms such as the Female Corporate Sales Job Trial where one can experience various jobs are also meaningful. I myself have been utilizing this system, and until now, I have only had experience in asset management operations and had the desire to broaden the scope of my operations. Honestly, I was hesitant to participate, but I applied because I wanted to try out my potential. I feel that this challenge has broadened my perspective, and such experiences might lead to opportunities to envision a broader future career without being constrained to one way of thinking or one type of task.

Amita: I utilized the secondment system, and seeing YMFG from the outside was a valuable opportunity to change my values and perspectives. When everyone in the same organization looks in the same direction, their way of thinking can become entrenched, but I feel that being able to see things differently and building new networks has been extremely beneficial to my current work. I think such opportunities should be increased in the future, especially for younger employees.



Narimitsu: I feel that the way time is used has become more flexible than before with the introduction of the flextime system. This system is particularly helpful when my child becomes sick. Also, when I feel unwell, it is easier to go to the hospital and manage my health thanks to flextime. Although there are concerns about taking sudden days off and causing inconvenience at work, but with flexible workstyle options, I feel it has become easier to achieve a balance between work and family life.



Higashi: The onboarding training for experienced hires, which I also participated in, was a great opportunity to learn about the Company’s stance and management policies that have been passed down through its long history. Although I feel that the financial industry does not hire many experienced people, I think there will be more opportunities to hire professionals as our business expands. It is essential for experienced hires to understand YMFG’s corporate culture, purpose, and system through training. After joining YMFG myself, what I felt strongly was that everyone approaches their work with professionalism and a sense of responsibility. I feel this as a significant strength of YMFG. Always being a trusted company in the region while carrying on tradition is what I believe is most important. As a member of YMFG, I will strive to realize our purpose of “co-creating a bountiful future for our region.”

Priority Item III Pursuit for the “Maximization of Value Provided to Our Region and Customers”

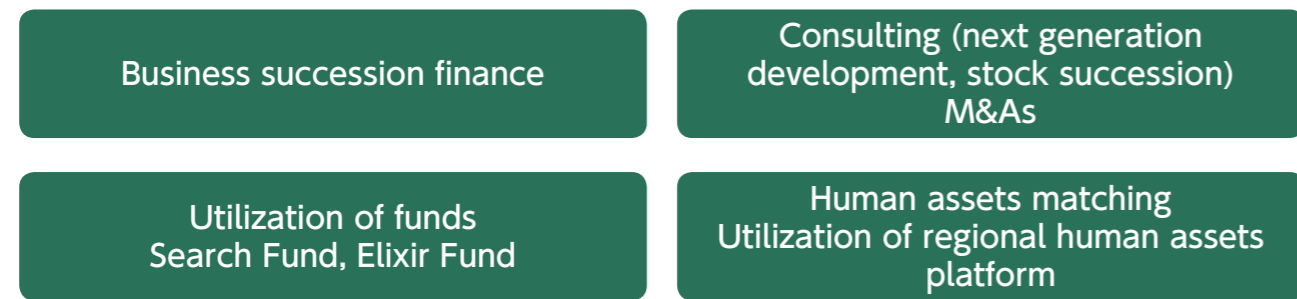
Corporate strategy

Recognizing the high rate of successor absence, a characteristic of the YMFG sales area, and the revitalization of the regional economy affected by the COVID-19 pandemic, etc. as significant regional issues, YMFG offers solutions based on business evaluation activities leveraging the Group’s comprehensive strengths.

Moreover, by enhancing financial businesses such as ship finance and structured finance, we also aim to boost the profitability of our corporate strategy.

Initiatives to help solve the “successor absence issue”

We approach the absence of successor issue from various perspectives, utilizing the diverse knowledge that YMFG possesses to the fullest.

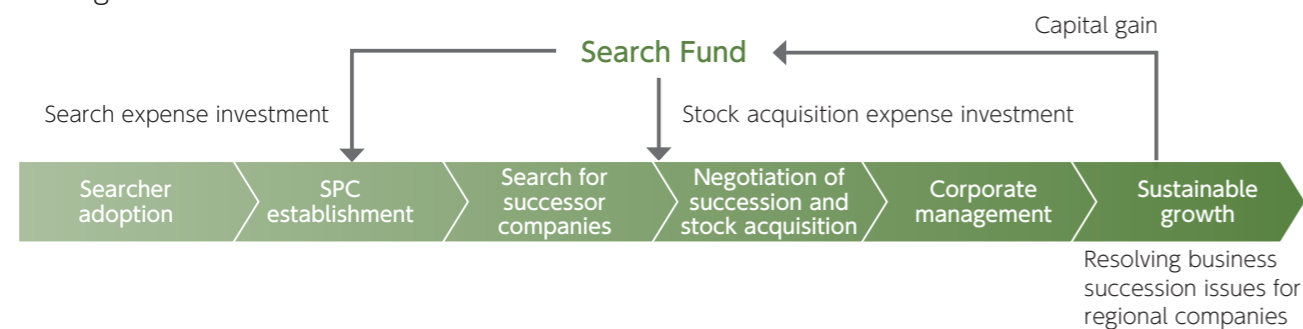


Business succession through the Search Fund

The Search Fund has the objectives of inviting searchers (talented young managers) to the region, solving business succession issues for regional companies, as well as diverse social issues, including the depopulation of the region and the lack of young human assets, and realizing corporate growth and transformation.

Since 2019, YMFG has pioneered the Search Fund business in Japan, investing in 11 searchers and achieving business succession for seven companies.

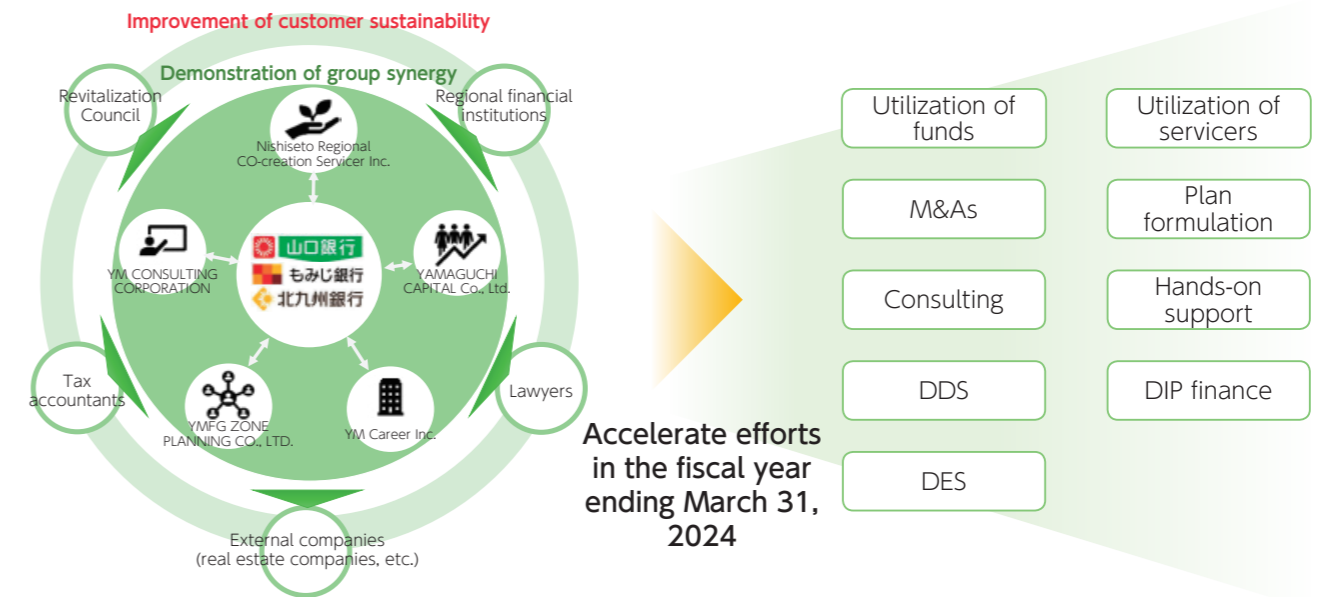
In February 2022, the Fund No.2 was established with investments from various regional financial institutions, etc. In February 2023, the first business succession of a core regional company in Yamaguchi Prefecture was achieved.



Establishment of a foundation to support “business revitalization and regrowth”

Establishment and effective utilization of a Business Revitalization Review Committee (consultative body)

Since July 2022, the banks and group companies have collaborated to establish the Business Revitalization Review Committee (a consultative body) as a cross-group organizational entity, preparing a foundation in the fiscal year ended March 31, 2023, to focus on business revitalization and regrowth. Starting from the fiscal year ending March 31, 2024, we will effectively utilize this structure to accelerate support for regional business operators facing challenges and tackle the resolution of these issues.



Providing support to companies aiming for “business revitalization and regrowth”

Utilization of Nishiseto Servicer

Utilizing the “receivables purchase function” of Nishiseto Regional CO-creation Servicer Inc. (hereinafter, “Nishiseto Servicer”), we provide support for business revitalization and regrowth of customers struggling with issues such as excessive debt. Furthermore, as part of our banking business, we have been advancing our business revitalization support services and, in collaboration with group companies, we have established a system providing comprehensive management consulting functions.

In February 2023, the “Chiiki Mirai Revitalization Fund” (General Partner: MIRAI Consulting Investment Co., Ltd.) was established as the first wide area fund in which Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (hereinafter, “SME Support, JAPAN”) invested a majority, targeting western Japan. By laying out a comprehensive support structure including the financial support provided by the fund, and the receivables management and collection business as a servicer, we will lead to fundamental business revitalization and regrowth.

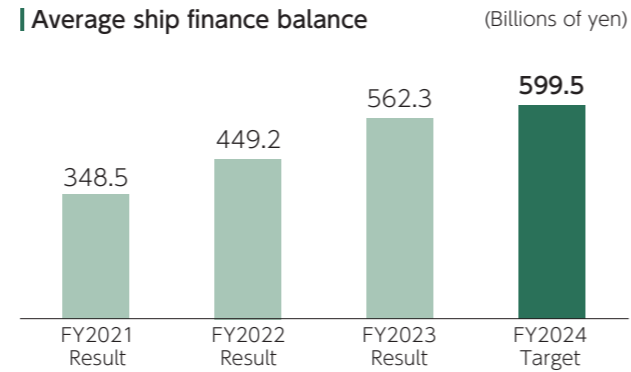


TOPICS

Development of ship finance

YMFG regards the maritime industry including shipbuilding business as the key industry in Setouchi and Northern Kyushu, and aims to contribute to the maritime industry development by enhancing our commitment to ship finance (hereinafter, "SF").

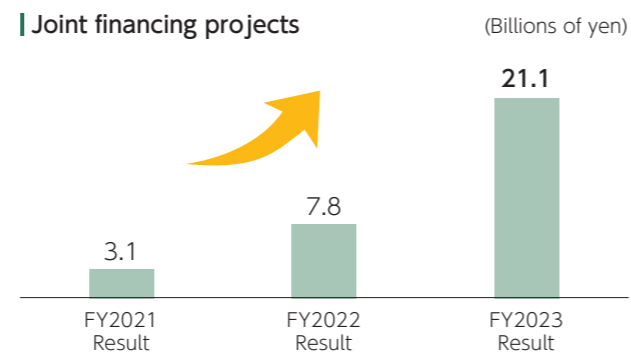
In March 2022, the Ship Finance Office specializing in SF was relocated to Imabari City, Ehime Prefecture, where shipbuilding and marine transportation businesses are thriving. Since then, the balance of loans has constantly increased and the accumulation of finance business know-how is progressing steadily.



Strengthening the Nishiseto partnership agreement

YMFG entered the Nishiseto partnership agreement with The Ehime Bank, Ltd. in January 2020 to share know-how in ship financing and regional revitalization with the aim of promoting regional development of the Nishiseto area.

Since entering the partnership agreement, we have strengthened our collaboration in the Nishiseto area, such as by jointly establishing Nishiseto Regional CO-creation Servicer Inc. and Nishiseto Marine Partners Inc. with The Ehime Bank, Ltd. Joint financing projects with The Ehime Bank, Ltd. in the fiscal year ended March 31, 2023 increased about sevenfold compared to the fiscal year ended March 31, 2021, the first year after entering the partnership agreement, steadily achieving synergies through cooperation.



Holding the Maritime Industry Exchange Meeting

In November 2022, as part of the Nishiseto partnership agreement initiatives, YMFG held the "Maritime Industry Exchange Meeting 2022" in Imabari City, Ehime Prefecture, in collaboration with The Ehime Bank, Ltd.

Approximately 280 people from about 170 maritime-related companies were invited, primarily international shipowners widely from Tokyo to Northern Kyushu, and in addition to a lecture on the theme of "the outlook on the maritime market" by analysts from a major overseas research firm, the networking event greatly deepened the relationships among the business operators involved in the maritime industry.

YMFG will continue efforts to contribute to the development of the domestic maritime industry.



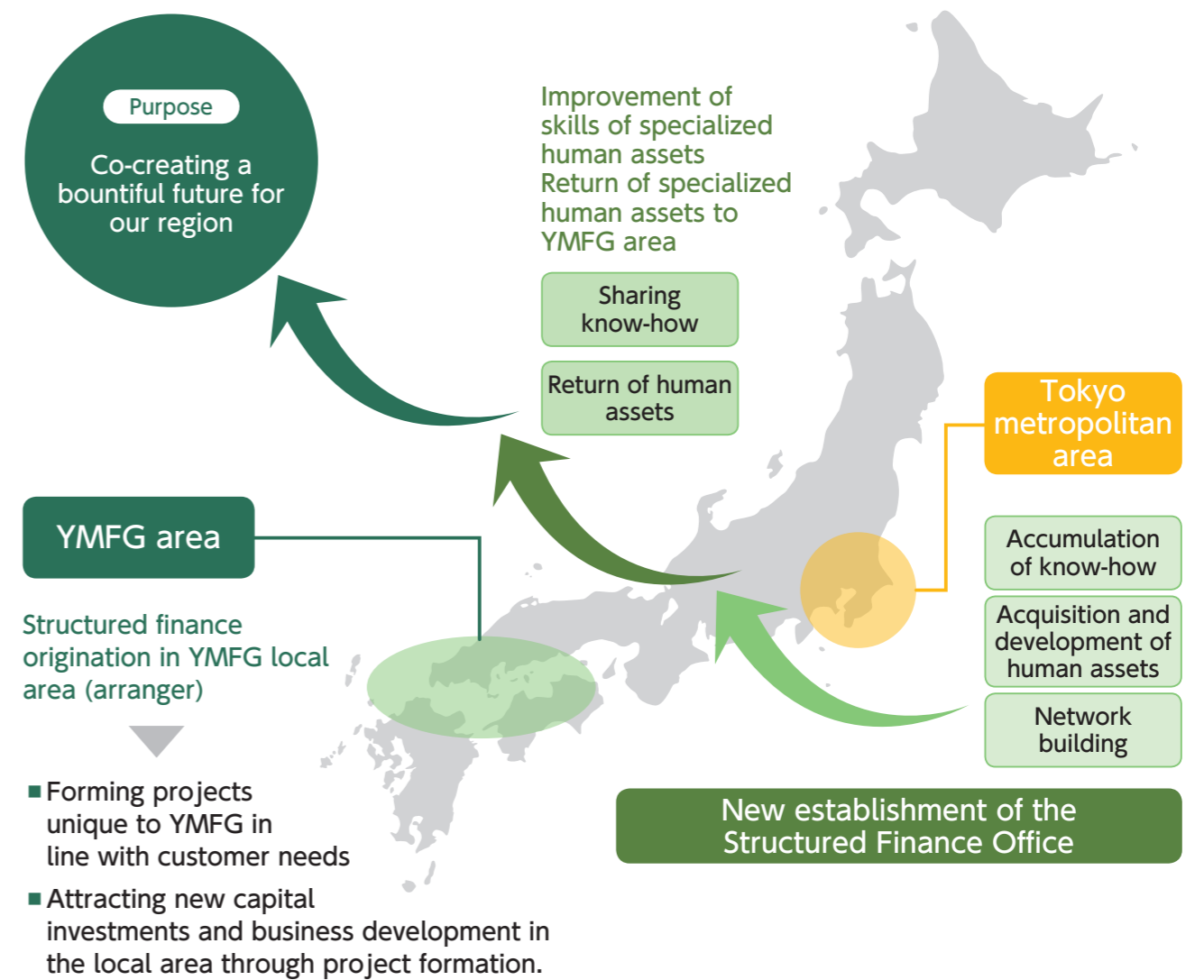
TOPICS

New establishment of the Structured Finance Office

For YMFG, it is an urgent need to establish a new pillar of revenue during this medium-term management plan period, and from the perspective of enhancing profitability as a part of "strategic capital utilization," we have newly established the Structured Finance Office to bolster our efforts in the structured finance domain, including the development of specialized human assets.

Until now, the Structured Finance Office has centralized the management of projects that the three group banks had been working on individually, aiming to consolidate knowledge and accumulate know-how, with the goal of growing the structured finance loan balance and profits towards the last fiscal year of the medium-term management plan.

* Structured finance
Structured finance refers to a financing method that is not based on corporate creditworthiness or collateral value, including project finance and LBO loans (leveraged buyout: finance that uses the cash flow from the acquired M&A target as a repayment source). For customers who need financing, this financing method focuses on the cash flow generated from the targeted project or asset, making it possible to achieve large-scale financing and risk control.

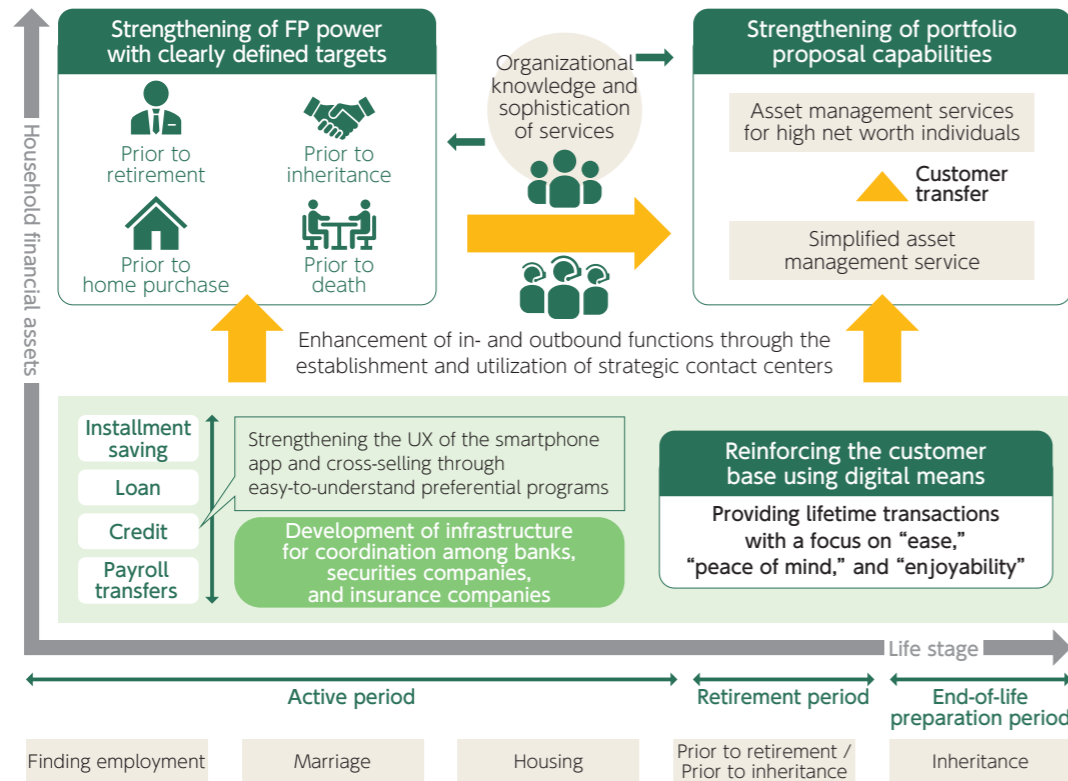


Medium- to long-term initiatives linked to YMFG's purpose

Retail strategy

Proposal of appropriate financial products according to life stages

Under the background of the diversification of lifestyles, such as in terms of people's perceptions of life and working styles, customer needs as well as thoughts and methods for selecting financial services are also changing. YMFG supports abundant lives by helping form customers' assets and alleviate their concerns about financial uncertainty, through mainly a digital approach for younger and asset-forming customers, and face-to-face consulting for middle-aged and (semi) high net worth customers.

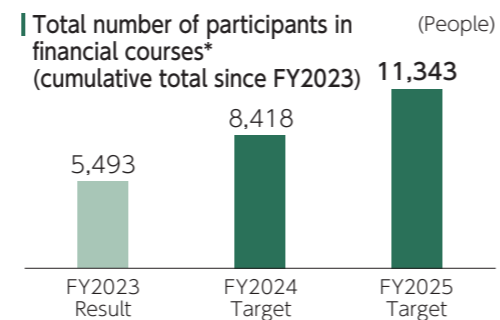


Approach towards the younger and active generations

Improving financial literacy through holding financial education classes and seminars

YMFG will promote financial literacy by conducting "financial seminars" for employees of companies, as well as "financial education classes" for students from elementary to high schools and university.

The importance of students having correct financial knowledge has increased, especially since the legal age of adulthood has been lowered to 18. By improving financial literacy in the region, we aim to promote a shift from savings to investment, and to provide support to protect valuable assets.



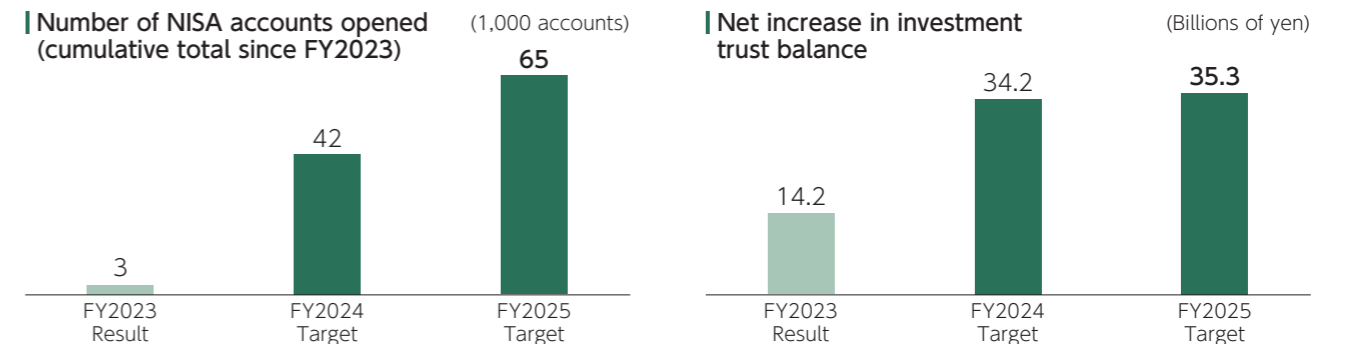
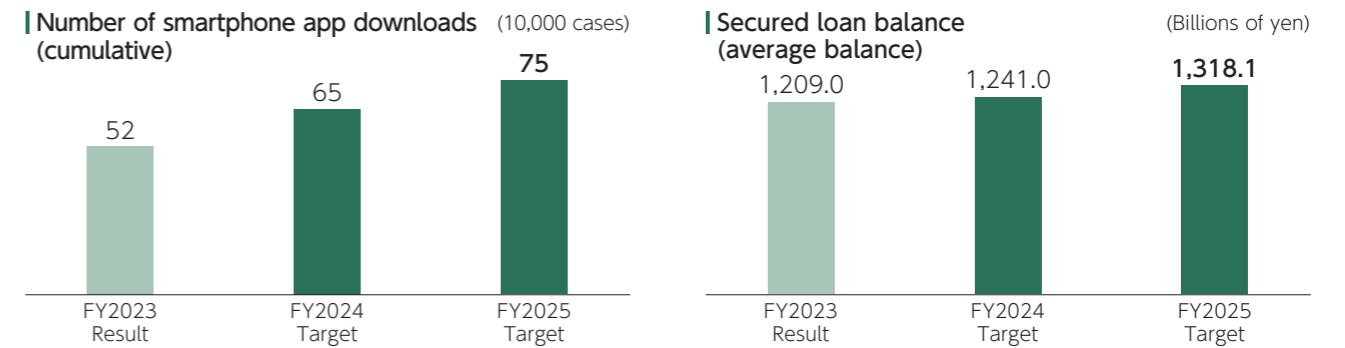
* Combined total of "financial education classes" and "financial seminars"



Omni-channel adoption through the expansion of smartphone app and call centers

In addition to approaches through enhancing smartphone app functions, by increasing call center staff, we aim to strengthen contact points with customers and promote omni-channel adoption.

By dividing the center into two departments, the loan department and the asset management department, we aim to enhance the specialization of call center work, implement efficient customer transfer to apps and sales branches using the call center as a starting point, and increase the balances of housing loans and investment trusts.



Asset management and smooth succession measures from the retirement period to the end-of-life preparation period

In the era of a 100-year life span, we support customers to lead an abundant second life by proposing the management of retirement savings and smooth inheritance measures during their end-of-life preparations.

Creation of a long-term money plan for retirement savings

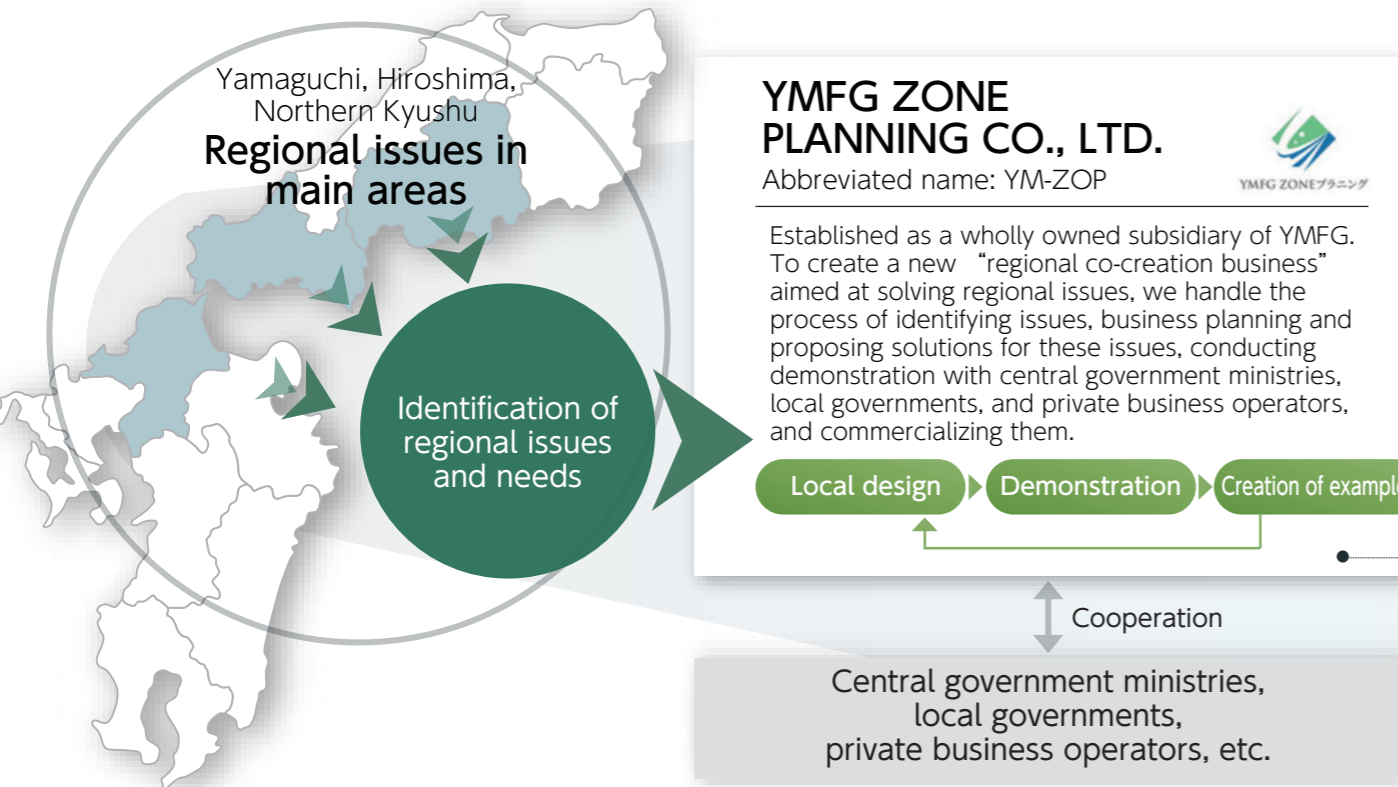
For pre-senior customers around their retirement age (aged 50 to 69 years), we conduct detailed consulting tailored to the customer's life plan and asset status, and practice long-term asset management and back up support.

Expansion of trust products and services

YMFG has long been focusing on promoting and educating the public about private trusts, and holds "family trust seminars" two to three times a month. Going forward, we will expand trust products and services to build a lineup to meet a wide range of inheritance needs.

Priority Item IV Challenge to “Expand Business Areas and Strengthen Profitability”
Regional co-creation strategy

<Regional co-creation business model diagram>



The Group aims to create new value in the region by actively arranging “regional ecosystems” that resolve regional social issues, creating many ecosystems, and implementing them.

The growth of existing business and the creation of new business in the regional co-creation field will accelerate the resolution of regional issues, and realize the creation of new industries for the further growth of regional co-creation businesses in major areas.

Creation of next generation businesses that drive the region

- Wholesale and retail of regional products**
地域商社やまぐち株式会社
Support for the development of sales channels for regional products (Established in 2017)
●Refer to next page
- Welfare agency business**
INESUS
Connecting affiliated stores in the region and local business operators through welfare (Established in 2021)
●Refer to next page
- Paid employment referral business**
YM CAREER
Connecting local companies and management human assets (Established in 2019)

Resolution of regional issues

Further regional revitalization

Expansion outside of main areas

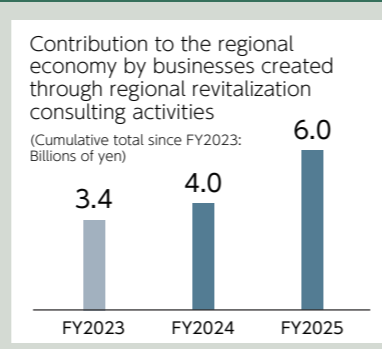
YMFG ZONE PLANNING CO., LTD.

Creation of new value with a future-oriented approach
- Creation of businesses that produce a virtuous cycle of regional co-creation -

The business concept of YMFG ZONE PLANNING CO., LTD. (hereinafter, “YM-ZOP”) is “designing the future with the region.” As a regional revitalization consulting company, we envision the ideal future of the region, involve the region, and engage in various businesses with an attitude of creating that future of our initiative.

In particular, we are strengthening our efforts in five areas of public-private partnerships (PPP/PFI, SIB) and urban development, entrepreneurship and venture development, tourism, green, and human assets and education.

We provide consulting and execution support from a perspective of “aspects,” such as the regional economy and business environment, aiming to achieve steady results through new initiatives to solve social and regional issues.



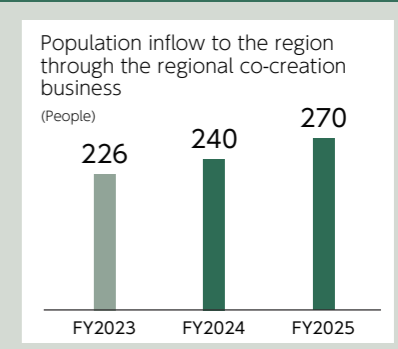
YM Career Inc.

Connecting people and companies, solving business challenges
- Contributing to the revitalization of the region from the aspect of “human assets” -

As a subsidiary of a regional financial group, we support the resolution of challenges faced by regional companies from the aspect of “human assets.” We aim not only to introduce human assets but also to contribute to the growth and development of regional companies.

A chronic shortage of labor is cited as a regional issue in the YMFG sales area. Population decline and aging are serious issues for both companies and the region. On the other hand, Yamaguchi Prefecture, Hiroshima Prefecture, and northern Kyushu have many attractive regional companies. We consider it our mission to attract excellent human assets from outside the region and contribute to the revitalization of the region by disseminating such real information.

People are the most valuable resources for both the region and companies, and we hope to open the door to new possibilities while also improving the quality of the businesses we are currently developing.



Representative Director
Yoshinobu Kurashige

Joined The Yamaguchi Bank, Ltd. in 2002. After working at a sales branch, he was involved in project finance, etc. at the headquarters. Since 2015, he has been seconded to YMFG ZONE PLANNING CO., LTD. and has been in charge of PPP/PFI and urban development. He was appointed as YM-ZOP's Representative Director in January 2021.

TOPIC New establishment of YM-ZOP's Tokyo office

In March 2023, YM-ZOP opened its Tokyo office in Kasumigaseki, Tokyo. In addition to gathering information on government policies, etc., we also strengthen relationships with organizations such as start-ups and major companies that engage in groundbreaking initiatives contributing to regional issue resolutions within the region.

By utilizing new business site, we will strive to pioneer initiatives and create businesses in the YMFG sales area (Yamaguchi, Hiroshima, and northern Kyushu) with a sense of speed.

Representative Director
Hiroshi Matsuura

Joined The Yamaguchi Bank, Ltd. in 2009. He then worked in the bank's sales branch and the planning department of YMFG. Since October 2019, he was assigned to YM Career Inc. and YM-ZOP (concurrently), and was mainly in charge of sales planning and business planning for YM Career Inc. He was appointed as Representative Director of YM Career Inc. in June 2020.

Regional Trading Company “Yamaguchi Prefecture products” Yamaguchi Co., LTD.

Mission is to promote
“Yamaguchi Prefecture products”
- Aiming to be a regional general trading
company supporting the regional economy-

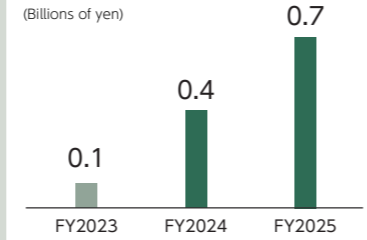
We aim to sell Yamaguchi Prefecture products outside the prefecture and make Yamaguchi Prefecture a “profitable region.”

Surrounded by abundant nature, Yamaguchi Prefecture is a treasure trove of food, including seafood and mountain delicacies, as well as nationally renowned Japanese sake, and our mission is to spread awareness of these attractive products to people outside the prefecture.

Yamaguchi Prefecture as a whole is facing the major challenge of a declining population. As the regional economy continues to shrink, it is urgent to promote attractive prefectural products outside the prefecture and develop new markets.

As a regional general trading company supporting the regional economy, we aim to further develop the brand for Yamaguchi Prefecture products and enhance added value.

Funds returned to the region due to the expansion of regional product sales channels
(Billions of yen)



Representative Director
Yuta Nakamura

Joined The Yamaguchi Bank, Ltd. in 2006. After working at the bank's sales branch for approximately eight years, he was engaged in businesses such as support for business partners' solutions and consulting related to regional revitalization. He was appointed as Representative Director of Regional Trading Company Yamaguchi Co., LTD. in June 2021.



Existing business areas

- Domestic distribution business
 - Support for sales channel expansion
 - Support for product development (branding)
 - Support for improved productivity
- EC business
 - Domestic EC website sales (B to C)
 - EC website operation support
- Overseas distribution business
 - Export of domestic products Japanese sake and livestock products, etc.
 - Import of food ingredients

New business areas

- Alliance business*
 - Investment in partner companies
 - Work with companies that lack a successor
- * Work with business operators including investment



INESUS Inc. Realizing town revitalization through “locally produced, locally consumed welfare”

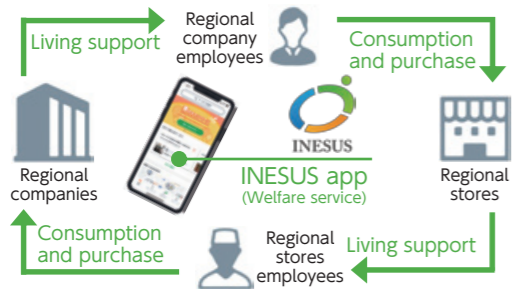
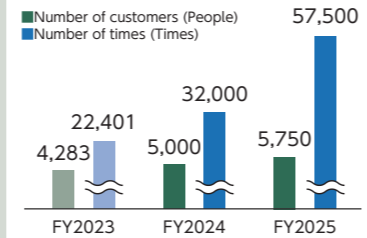
The business of INESUS Inc. is “welfare agency services.” In simple terms, employees and their families of companies that have introduced our welfare services can receive various benefits at local INESUS affiliated stores.

While there are several similar services on a national scale, we focus on the theme of “locally produced, locally consumed welfare,” enlisting the participation of familiar stores and companies rooted in the region.

In the YMFG sales area, we provide coupons for approximately 4,500 stores (as of March 31, 2023), and we pride ourselves on the advantage of being able to approach not only chain stores but also individual shops because our parent company is a regional bank.

Our vision is to “unite the community, foster affection, and create a local community where people can live in peace.” We will work with a sense of mission towards realizing a local community where the companies that have introduced our service, their employees, and local affiliated stores can live in peace and achieve happiness for all three parties.

Number of customers that used the affiliated stores of the welfare services and the number of times



Representative Director
Tatsuro Ono

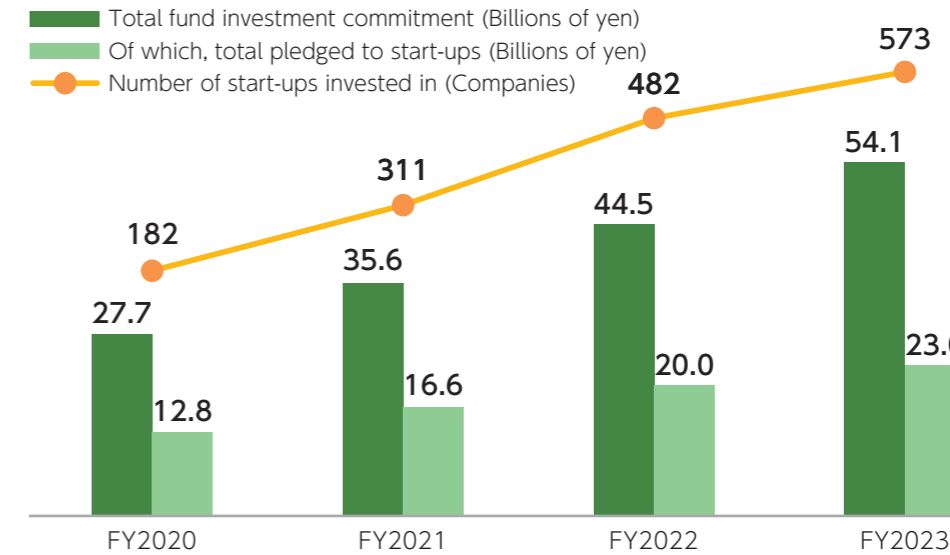
Joined The Yamaguchi Bank, Ltd. in 2008. After working at the bank's sales branch, he worked in the bank's screening department, where he was engaged in rehabilitation support for business partners. After being seconded to a major telecommunications operator and gaining two years of experience in service development, upon return he was engaged in new business development, and initiated and established INESUS Inc. He was appointed as Representative Director of INESUS Inc. in April 2023.

Initiatives to improve regional value through investment

► YAMAGUCHI CAPITAL Co., Ltd.

YAMAGUCHI CAPITAL Co., Ltd., as a venture capital company rooted in the region, supports the growth and nurturing of small and medium-sized enterprises in the research, development, and founding phases, and works to revitalize them that play a major role in the economic vitality and employment of the region.

Including YAMAGUCHI CAPITAL Co., Ltd., the overall investment performance of YMFG has been improving annually, and through support to regional companies by investment, we aim to enhance the regional value.



► Holding of the Shimonoseki Add-venture Summit

In partnership with DOGAN beta, Inc. (Fukuoka City), as well as YAMAGUCHI CAPITAL Co., Ltd. and YMFG ZONE PLANNING CO., LTD., YMFG and Shimonoseki City co-hosted “Shimonoseki Add-venture Summit” (commonly called “SAS”), a regional revitalization summit, aimed at creation of innovation by the region and start-ups, for the first time on January 20, 2023.

“SAS” is a regional revitalization summit where the region and start-ups seriously consider and act for the revitalization of local industries.

On the day of the event, 16 start-up companies aiming for regional revitalization gave presentations connecting their products and services with regional revitalization, and discussions were held from various perspectives on the theme of “the region and start-ups” to promote the revitalization of regional industries, including panel discussions aligned with six themes related to regional revitalization.

By hosting such events going forward, YMFG aims to promote creation of innovation in the region by taking the lead in creating contact points between the region and start-ups, striving to enhance the value of the region.

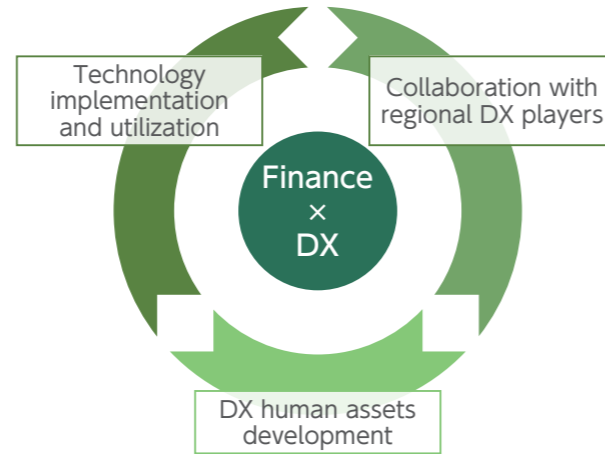


Panel discussion

DX strategy

Starting with AI and IoT, and recently represented by Web3, the evolution of technology is advancing rapidly. As a result, there are substantial changes in our lifestyles and business styles, and “transformation through DX” will be the important key for companies to survive in the future. We believe that promoting DX will also have a significant impact on the sustainable growth of the region.

The Group, as a leading company in the region, is implementing measures to solve the DX issues faced by regional companies based on a DX strategy that focuses on “DX human assets development,” “technology implementation and utilization,” and “collaboration with regional DX players,” with the aim of promoting the DX of the region together with the region and customers.



DX human assets development

To develop human assets capable of creating new value digitally, we gain an understanding of and analyze the current status of digital skills of all employees through a DX skill assessment. In addition, to boost company-wide DX literacy, we have defined roles expected based on skill levels, set personnel development targets for each level, and are working on improving the skills of all employees through training tailored to each level, etc.

In addition, in the fiscal year ended March 31, 2023, we conducted training for management level to change their awareness and behavior in the DX field.

Image of DX human assets			Current status	Target	Target
Type of human assets	Expected role	FY2023	FY2024	FY2025	
Lv. 4	Digital leader	Leading the company-wide DX strategy with high expertise	0.2%	0.3%	0.5%
Lv. 3	Digital core human assets	Planning, proposal, and implementation of new business, etc. using digital data	0.2%	0.3%	0.5%
Lv. 2	Human assets utilizing digital data (advanced)	Utilizing digital and data in daily operations (sales using digital data, etc.)	0.3%	7.3%	11%
Lv. 1	Human assets utilizing digital data (basic)		23.8%	52%	78%
Lv. 0	Digital novice		75.4%	40% or less	10% or less

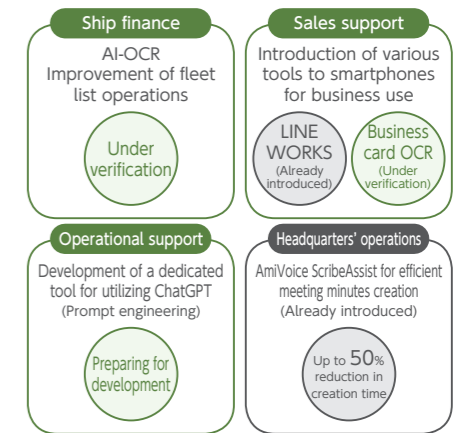
Conducting knowledge and skills education (excerpted)

All employees	DX literacy education (external expert seminar)	Digital reskilling	DX active learning
	<ul style="list-style-type: none"> Cultivating a mindset towards DX Field-oriented data analysis basics New sales tactics using customer data 	<ul style="list-style-type: none"> Lv. 0: Excel, PowerPoint, and Word skills Lv. 1: Utilizing digital tools (Teams) Lv. 2 or higher: DX basics (related to recognition and understanding) 	<ul style="list-style-type: none"> Lv. 2 or higher: Ideathon/hackathon Data analysis and utilization (Python) BPR planning/new business creation

Accumulating know-how on technology utilization through demonstration experiments, etc.

Parallel to advancing the digitalization of our services, we are accumulating know-how through demonstration experiments for implementing various technologies into the Group's operations.

We will make use of the successful experiences and know-how (BPR, training programs, etc.) accumulated within the Group, and will solve the issues that are faced by regional companies and other financial institutions.



Improvement of UI/UX and functions of the smartphone app

In our modern times, where lifestyles and business styles are undergoing significant changes, we believe that advancing the digitalization of financial services is essential for the sustainable growth of the region. In the Group, not only do we advance digitalization, but to further enhance convenience, we gather feedback from actual users, work on simplifying the operability of the smartphone app, aim to improve its visibility through UI/UX enhancements, and are advancing the sophistication of our digital services.

Going forward, we strive to allow a broader range of users to experience the Group's digital services and diversify our customer contact points.

Exploration of diverse customer contact points using digital technologies



Work with regional universities

Working with various players in the region is essential to solve regional issues, and we are particularly strengthening our collaboration with universities in the DX field.

In the fiscal year ended March 31, 2023, we newly entered comprehensive partnership agreements with Shimonoseki City University and Shunan University, and by bringing together academic insights and business insights for joint research to address regional issues, and offering learning programs for students and working adults, we will continue our efforts to develop and retain regional DX human assets.



October 2022: Entered into a comprehensive partnership agreement
April 2024: Faculty of Data Science (tentative name) to be newly established



January 2023: Entered into a comprehensive partnership agreement
April 2024: Faculty of Information Science to be newly established

Priority Item V Strengthening of the Governance and Internal Control System

Initiatives toward the sound operation of business in the Group (improvement measure response status)

The Company sincerely accepted the facts recognized in the "investigation reports" by the Investigative Committee that was established in May 2021 in response to a whistle-blowing made against the former CEO, and the Internal Investigation Group that was established in August 2021 with the objective of investigating how to proceed with a project for the establishment of a new bank, etc., as well as the indicated issues and recommendations for improvement. Therefore, we identified the issues and analyzed the causes of such issues in four items in total, consisting of three items of "governance," "internal control" and "corporate culture," which form the management foundation for the sound operation of businesses by the Group, adding perspective of "regional revitalization," which is one of our major roles as a regional financial institution, and formulated improvement measures for 35 items in total on November 30, 2021.

To achieve sound business operations, which are the foundation of unwavering trust from all stakeholders, including our shareholders and customers, and to contribute to the revitalization of the local community and economies, as well as the growth of the Group, we are working company-wide to implement improvement measures.

Main improvement measure response status (as of the end of June 2023): 32 items out of 35 items in total was completed

Approximately one and a half years have passed since the formulation and implementation of the improvement measures, and the followings are the main initiatives that have made progress toward strengthening the Group's governance and internal control and that are recognized as effective at this time.

Name of measure	Response status		Overview
	June 30, 2023	June 30, 2022	
Governance			
Review of evaluation method towards improving the effectiveness of the Board of Directors	Implemented	Implemented	In order to further deepen and substantiate discussions at the Board of Directors, we held the effectiveness evaluation meeting whose discussions are to be based on the survey for evaluation of the effectiveness of the Board of Directors and individual interviews, conducted once a year. We are implementing the PDCA cycle to improve the effectiveness of the Board of Directors throughout the year.
Internal control			
Review of succession plan	Work in progress	Work in progress	We formulated the "Group Officer Personnel Guidelines," which serves as the policy for the development of managerial human assets at the Group and the appointment of officers of the Group. Individual measures such as the Junior Board Program and the human assets development project for next generation management are underway for the purpose of developing young human assets. In the future, we plan to integrate and comprehensively operate the development plans and schedules for managerial human assets and candidates for key management personnel.
Enhancement of human resource development in specialized fields	Implemented	Work in progress	We established internal standards for specialized human assets development and started full-scale implementation from June 2023. We plan to check the progress on a quarterly basis to confirm the status of skill improvement and succession of specialized human assets.
Implementation of audits focused on the achievement of the management plan	Implemented	Work in progress	We conducted theme audits for the purpose of verifying the PDCA of business plan execution and monitoring of the progress status of measures for each Group and Dept. using an original check sheet.
Corporate culture			
Integrated review of personnel system and operation system	Work in progress	Work in progress	While taking some individual measures ahead of others such as the introduction of a re-employment system for retirees and the review of promotion criteria, we will align them with the personnel strategic policy for realizing human capital management in the Group and decide on an organizational policy in the future.
Development of an environment that secures and makes use of diversity	Implemented	Implemented	We are gradually implementing the formation of the project for promoting active participation of women, the enhancement of the hiring of experienced individuals, and introduction of special leave for childcare purposes. Going forward, the Sustainability Promotion Committee will monitor the progress of the annual plan for promotion of D&I*.
Implementation of measures that leads to awareness reform and organizational culture reform (inner communication)	Work in progress	Work in progress	We plan to launch a Leader's Session for newly appointed department heads and General Managers to provide them with opportunities to disseminate management strategies, after finalizing the details.
Implementation of regular employee awareness surveys	Implemented	Implemented	We conducted the regular employee awareness surveys (My Check), analyzed issues based on the results of the surveys, and planned and implemented various training programs, etc. based on the analysis results.
Promotion of "dialog" within the Group	Implemented	Implemented	We created continuous communication opportunities through one-on-one meetings at each department and direct channels to the top management. We also focused on introducing level-specific seminars, video content, etc.

* D&I: diversity and inclusion

Corporate Governance

Basic concepts on corporate governance

The Group has formulated the "Mission and the meaning of its existence (Purpose)," which is the basis of all business activities of the Group, and "What the Group should become in the future (Vision)," as what the Group should become when pursuing the mission and the meaning of its existence, in order to combine the abilities of the Group's officers and employees and to increase corporate value.

[Mission and the meaning of its existence (Purpose)]

Co-creating a bountiful future for our region

[What the Group should become in the future (Vision)]

A regional value-up corporate group that is chosen by our region and responds to the trust of our region

Based on "a sound and proactive enterprising spirit" as the basic stance (management policy) for the engagement in business activities with the mission and meaning of its existence (Purpose) as basis, the Group aims for management transparency and fair, swift and bold decision-making that will lead to sustainable growth and increases in corporate value over the medium to long term. To this end, positioning that creating an effective corporate governance system is an important management priority, and we continue to pursue the initiatives described below to enhance our corporate governance.

- (1) The Company strives to substantially secure the shareholder rights, to create an environment that shareholders can exercise their rights appropriately, and to secure effective equal treatment of shareholders.
- (2) The Company appropriately cooperates with our principal stakeholders, including customers, the local community, shareholders and employees.
- (3) The Company appropriately discloses important management information to principal stakeholders.
- (4) The Company endeavors to ensure the effectiveness of the supervisory and auditing functions of the business execution through the establishment of various bodies, including the Board of Directors.
- (5) The Company creates systems to promote construction dialog in order to build long-term relationships with shareholders.

Corporate governance system

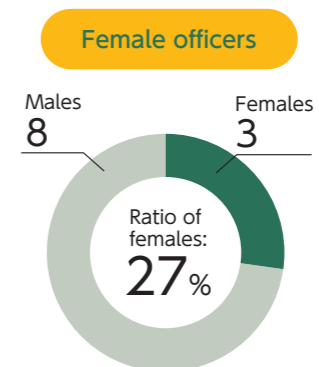
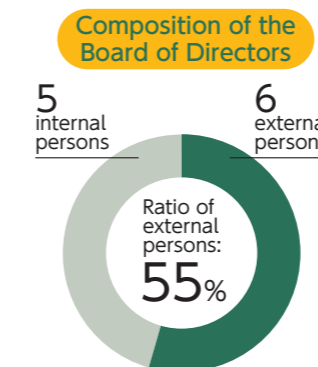
An overview of the corporate governance system at the Company is provided below.

Supervision

- (1) Board of Directors and Directors

The main role of the Board of Directors is to make decisions on important matters relating to the operation of the Group, such as matters relating to management planning and governance and the basic policy on the internal control system, and in addition, to supervise the execution of the duties of Directors and Executive Officers. In principle, meetings are held once a month, and are chaired by the President and CEO.

The Board of Directors is composed of 11 Directors with a fine balance of knowledge, experience and abilities for the effective performance of their roles and responsibilities. In particular, outside Directors, who make up the majority of the Board of Directors, have been arranged with a focus on diversity, based on the perspectives of gender, career history, and age, etc., in order to activate multifaceted and objective discussions (three out of the six outside Directors are females).



Board of Directors

Name	Current position in the Company, etc.		
Keisuke Mukunashi	President, Representative Director and CEO		
Narumasa Soga	Director (President and Director of The Yamaguchi Bank, Ltd.)		
Koji Oda	Director (President and Director of Momiji Bank, Ltd.)		
Mitsuru Kato	Director (President and Director of The Kitakyushu Bank, Ltd.)		
Minako Suematsu	Director	Outside	Independent
Yuzuru Yamamoto	Director	Outside	Independent
Tomoko Mikami	Director	Outside	Independent
Takehiko Ogi	Director	Outside	Independent
Susumu Fukuda	Director, Audit and Supervisory Committee Member		
Yumiko Nagasawa	Director, Audit and Supervisory Committee Member	Outside	Independent
Kenko Shikichi	Director, Audit and Supervisory Committee Member	Outside	Independent

(2) Committees

In addition to the "Audit and Supervisory Committee" prescribed in the Companies Act, the "Nomination Committee," "Compensation Committee" and "Risk Committee" have been established as described below.

(i) Audit and Supervisory Committee and Audit and Supervisory Committee Members

The Audit and Supervisory Committee is composed of three Directors who are Audit and Supervisory Committee Members (including two outside Directors), holds meetings once a month, in principle. It audits the execution of duties of the Directors, builds the internal control system of the Company and the Group, supervises and examines the operation status of the system, and prepares audit reports.

In addition, through the exercising of voting rights at meetings of the Board of Directors by Audit and Supervisory Committee Members, who are mainly outside Directors, it is aimed to enhance the function of auditing and supervising the Board of Directors, and to improve the transparency and speed of the decision making process.

In order to prepare for cases where there is a shortage of Directors who are Audit and Supervisory Committee Members as prescribed by law, one substitute Director who is an Audit and Supervisory Committee Member has been elected.

Audit and Supervisory Committee

Name	Current position in the Company, etc.		
Susumu Fukuda	Director, Audit and Supervisory Committee Member		
Yumiko Nagasawa	Director, Audit and Supervisory Committee Member	Outside	Independent
Kenko Shikichi	Director, Audit and Supervisory Committee Member	Outside	Independent

(ii) Nomination Committee and Compensation Committee

The Company has established the Nomination Committee and the Compensation Committee as voluntary advisory bodies to the Board of Directors in order to ensure the validity of the proposals relating to the appointment and dismissal of Directors and Executive Officers and their remuneration, as well as the objectivity and transparency of the decision making process, and has put a system in place to make decisions at the Board of Directors based on the details reported from the respective committee regarding the proposal.

Based on the objective of its establishment, it is prescribed in the internal rules that each committee is composed of three or more committee members, and the majority of members is independent outside Directors, in order to ensure independence.

Nomination Committee

(◎ : Chair)

Name	Current position in the Company, etc.		
Minako Suematsu	Director	Outside	Independent
Yuzuru Yamamoto	◎ Director	Outside	Independent
Tomoko Mikami	Director	Outside	Independent
Takehiko Ogi	Director	Outside	Independent

Compensation Committee

(◎ : Chair)

Name	Current position in the Company, etc.		
Minako Suematsu	◎ Director	Outside	Independent
Yuzuru Yamamoto	Director	Outside	Independent
Tomoko Mikami	Director	Outside	Independent
Takehiko Ogi	Director	Outside	Independent

(iii) Risk Committee

From the perspective of strengthening the supervisory function of the Board of Directors for risk management, in July 2022, the "Risk Committee" was established under the Board of Directors to strengthen the risk management system by reflecting the objective opinions of outside Directors and third party (an external expert) in risk management.

The Risk Committee deliberates on various matters relating to the risk management of the market department and reports to the Board of Directors. It will consider reviewing matters subject to deliberation, as necessary.

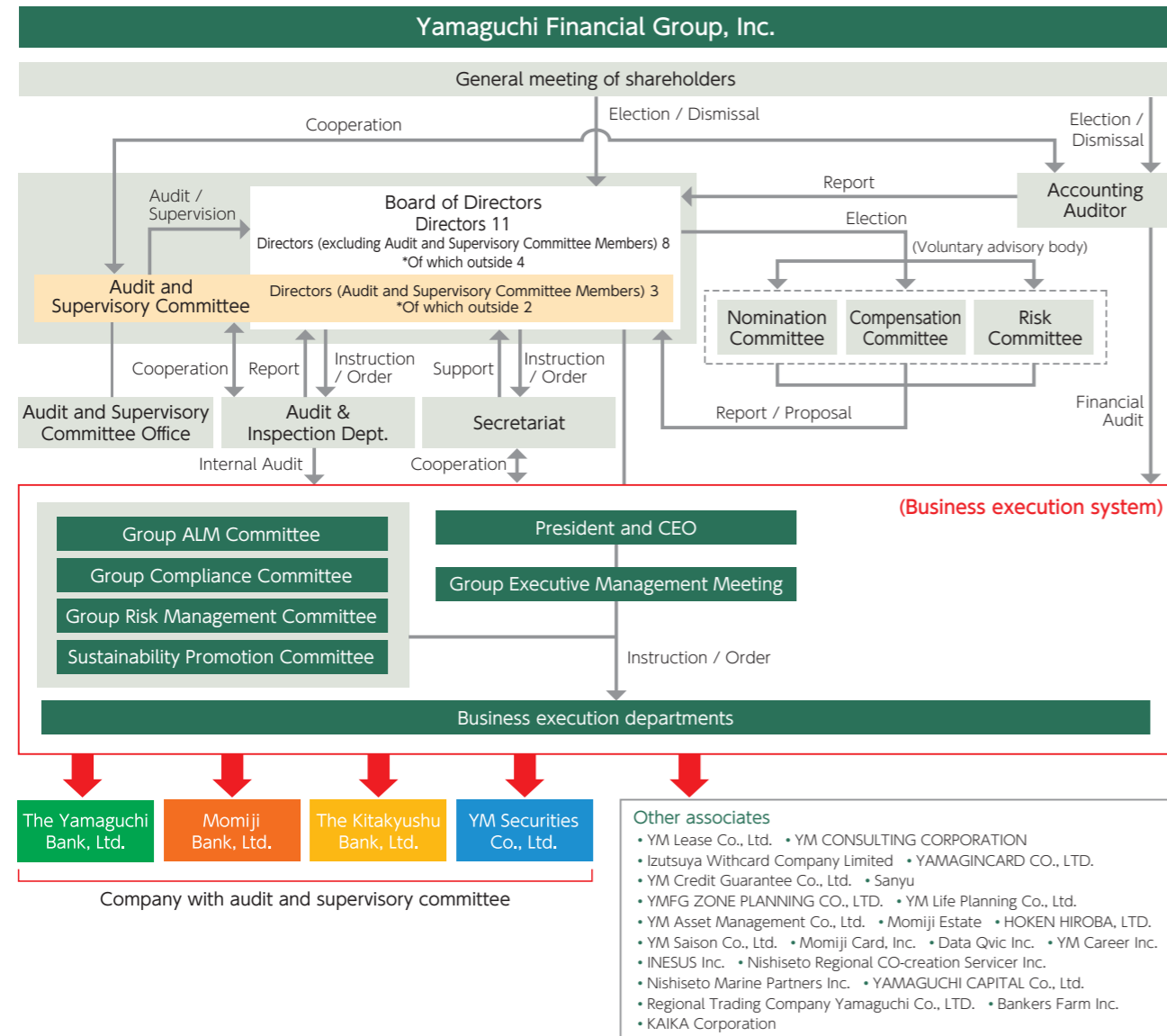
Risk Committee

(◎ : Chair)

Name	Current position in the Company, etc.
Ichinari Koda	◎ Chairman and Director of The Yamaguchi Bank, Ltd.
Masao Aratani	Director, Audit and Supervisory Committee Member of The Yamaguchi Bank, Ltd. (Outside)
Yumiko Nagasawa	Director, Audit and Supervisory Committee Member of Yamaguchi Financial Group, Inc. (Outside)
Kyoji Hironaka	External expert

Corporate governance system structure

(As of June 30, 2023)



► Execution of business

(1) Group Executive Management Meeting / various committees

The Group Executive Management Meeting has been established as a decision making body for business execution departments. The Group Executive Management Meeting is composed of Directors (excluding outside Directors and Audit and Supervisory Committee Members), Executive Officers (excluding the General Manager of the Audit & Inspection Dept.) and the Presidents of the banks in the Group, and discusses and makes decisions on important matters relating to the management of the Group based on the basic policy, etc., determined by the Board of Directors.

In addition, various committees (Group Compliance Committee, Group ALM Committee, Group Risk Management Committee, Sustainability Promotion Committee) have been established for each management themes as bodies for the deliberation of important matters relating to the execution of business.

(2) Executive Officers

The Group has introduced the executive officer system, under which the executive officers appointed by resolution of the Board of Directors are assigned the positions of heads of the respective departments (General Managers of the Business Groups, General Managers of the Administration Groups and General Manager of the Audit & Inspection Dept.), and engage in the execution of the designated business.

Policy and process relating to appointment at the Board of Directors

The Board of Directors of the Company ensures balance of the knowledge, experience and ability as required as the Board of Directors as a whole, and diversity in order to effectively fulfill its role and responsibilities, and maintains an appropriate number of members so that the functions of the Board of Directors may be demonstrated most effectively and efficiently in terms of promptness of decision making.

Based on this basic concept, the Board of Directors nominates those who are familiar with the Company's businesses and have exceptional ability and an abundance of experience as candidates for internal Director, nominates those who have diverse knowledge and backgrounds as candidates for outside Director in order to ensure the independence and objectivity of the Board of Directors, and maintains a number of members of the Board of Directors within 13 members.

Please refer to the skills matrix for skills (experience and expertise) of the Board of Directors as a whole. It should be noted that "Skill items" are reviewed from time to time based on the elements required by governance and society.

The Nomination Committee has been established as a voluntary advisory body of the Board of Directors for the nomination of candidates for Director, and a system has been put in place in which decisions are made by the Board of Directors based on the details reported from the Nomination Committee.

Qualifications and criteria for determining the independence of independent outside Directors

The Company designates as independent officer all outside officers who meet the qualifications for independent officers. The criteria for determining independence determined by the Company is as shown below.

<Criteria for determining independence>

In principle, outside Directors of the Company are persons who at present or in the recent past*1 have not fallen under any of the following requirements.

- (1) A person whose major business partner is the Company and its subsidiaries, or in the case of such a person being a corporation, etc., a person who executes business
- (2) A person who is a major business partner of the Company and its subsidiaries, or in the case of such a person being a corporation, etc., a person who executes business
- (3) A consultant, an accounting professional, or legal professional, etc., who receives a large sum*2 of money or other property from the Company and its subsidiaries other than remuneration for officers (in the case of the person receiving such property being a body such as a corporation or organization, etc., a person affiliated with such a body)
- (4) A major shareholder of the Company, or in the case of such a person being a corporation, etc., a person who executes business

- (5) A close relative*3 of the following person (excluding those who are not important*4)
 A. A person who falls under (1) to (4) above
 B. A Director, an Audit and Supervisory Board Member, or an important employee, etc., of the Company and its subsidiaries
 *1 Definition of "recent past" : refers to cases that may be regarded as being substantially identical to the present, for example, this includes such cases as when the candidate fell under the condition at the time the content was determined for the proposal for the General Meeting of Shareholders electing him or her as outside Director
 *2 Definition of "large sum" : an amount of ¥10 million or more per year on average over the last three years
 *3 Definition of "close relative" : a relative within the second degree of kinship
 *4 Definition of "important" : an important person refers to the officer and general manager in the case of a person who execute business, and to certified public accountants and lawyers in the case of a person affiliated with an accounting firm or law firm

Evaluation of the effectiveness of the Board of Directors

In order to further deepen and substantiate discussions at the Board of Directors, at the effectiveness evaluation meetings whose discussions are to be based on the survey for evaluation of the effectiveness of the Board of Directors and individual interviews conducted once a year, we clarify the matters that the Board of Directors should focus particularly on, and throughout the year, we implement a PDCA cycle to improve the effectiveness of the Board of Directors.

In the effectiveness evaluation meetings, we confirm the improvement on issues that have been identified in the past, and Directors share their awareness of themes that require to be particularly focused on in the future.

Going forward, we will maintain a Board of Directors system and operation that can maximize the supervisory function as monitoring board towards realizing the Company's purpose and vision, and continue to examine the improvement status of the Company's governance through regular surveys, informal individual interviews, the effectiveness evaluation meetings and other activities, leading to the sustainable improvement of the effectiveness of the Board of Directors.

Summary of evaluation of the effectiveness for the fiscal year ended March 31, 2023

Overall evaluation	<ul style="list-style-type: none"> The Board of Directors' effectiveness was generally secured in light of its purpose and expected functions. However, the following four points were recognized as issues to further enhance the effectiveness of the Board of Directors.
Recognition of issues to further improve effectiveness	<ol style="list-style-type: none"> Enhancement of discussions on medium- to long-term management strategies Strengthening the internal control of group companies Expanded delegation to the management team Utilization of the knowledge of outside Directors
Improvement on previously recognized issues	<ul style="list-style-type: none"> Provision of information to the Board of Directors and enhancement of opportunities for communication and gaining knowledge Improvement on quality of deliberations through promotion of information sharing and disclosure by holding briefings before meetings of the Board of Directors

Themes to focus particularly on in the future

Recognition of the issues	Future initiatives
Enhancement of discussions on medium- to long-term management strategies	<ul style="list-style-type: none"> We will focus on our purpose, our discussions at a Group Officer Retreat and the meetings for the regional ID realization project, and by leveraging the knowledge of outside Directors and others, we will refine our medium- to long-term strategies.
Strengthening the internal control of group companies	<ul style="list-style-type: none"> We will examine internal control and risk management of group companies at meetings of the Board of Directors, etc.
Expanded delegation to the management team	<ul style="list-style-type: none"> We will narrow down the matters to be discussed at the Board of Directors based on the deliberation status of past meetings of the Board of Directors
Utilization of the knowledge of outside Directors	<ul style="list-style-type: none"> Observer participation in meeting bodies of the execution departments besides the Board of Directors and regular holding of a Group Officer Retreat including outside Directors

Skills Matrix

This does not represent all of the knowledge and experience possessed by each Director, but indicates up to three priority areas where expertise is expected based on his or her experience, etc.

Classification	Internal Directors					Outside Directors							
	Name	Keisuke Mukunashi	Narumasa Soga	Koji Oda	Mitsuru Kato	Susumu Fukuda	Name	Minako Suematsu	Yuzuru Yamamoto	Tomoko Mikami	Takehiko Ogi	Yumiko Nagasawa	Kenko Shikichi
Position	President, Representative Director	Director	Director	Director	Director, Audit and Supervisory Committee Member (Full-time)	Position	Director (Independent)	Director (Independent)	Director (Independent)	Director (Independent)	Director, Audit and Supervisory Committee Member (Part-time)	Director, Audit and Supervisory Committee Member (Part-time)	
Expected priority areas of expertise	Corporate Governance	○	○	○	○	○	Corporate Governance	○	○	○	○	○	○
	Corporate Strategy	○					Sustainability		○			○	
	Business Strategy / Regional Revitalization	○	○	○	○		Regional Economy / Administration	○	○	○	○		
	Market Investment		○			○	Macroeconomics				○		
	Human Resource Development			○	○		Finance					○	
	DX / Systems						DX	○		○			
Compliance / Risk Management					○	Corporate Legal Affairs						○	

Regarding “expected priority areas of expertise”

Categories for internal Directors have been selected based on priority measures for the YMFG Medium-Term Management Plan 2022, etc. And, categories for outside Directors have been selected with a focus on diverse knowledge, experience, and expertise.

Category	Priority Measures for the YMFG Medium-Term Management Plan 2022, etc.
Corporate Governance	<ul style="list-style-type: none"> Establish a Group management structure with a system where the banks proactively engage in business execution by expanding the executive authority and responsibilities of the banks, and enable them to demonstrate front-line initiatives.
Corporate Strategy	<ul style="list-style-type: none"> Strengthen the link between the Group’s sustainable growth and increase in regional value by promoting sustainable management. Effectively utilize capital as a new growth driver, including by investing in areas that contribute to the expansion of areas of business and improve profitability for the Group.
Business Strategy / Regional Revitalization	<ul style="list-style-type: none"> Strengthen support for corporate rehabilitation and business succession with equity, hands-on and corporate business succession support to assist the local economy in recovering and returning to growth following the COVID-19 pandemic and to improve sustainability. Clearly identify life events that require consulting, and provide sincere financial planning and asset management services to each customer leveraging on skills assimilated throughout the organization. Review the customer touchpoints and provide “easy” and “convenient” services. Achieve both higher quality solutions for customers and efficient branch operation through the slimming of sales branches by expanding centralized processing at the headquarters, making changes to the sales systems, etc. Deepen the understanding of customers by using data analysis, and improve the quality of feasibility studies and financial planning activities. Support business reform by building digital hubs available for use by regional corporations, etc.
Market Investment	<ul style="list-style-type: none"> Rebuild the securities portfolio with appropriate risk-taking and risk management and convert to a stable profit structure.
DX / Systems	<ul style="list-style-type: none"> Promote DX across the Group through the development of next-generation financial businesses using the latest technology, the formation of alliances with DX players, etc.
Human Resource Development	<ul style="list-style-type: none"> Jointly create an environment and opportunities for each employee to thrive and grow with good job satisfaction, thereby transforming the organizational culture (behavior). The Group as a whole is to engage in the “maximization of value provided to our region and customers” and the “creation of new value.”
Compliance / Risk Management	<ul style="list-style-type: none"> Build a compliance system that covers risks of damage to the interests and expectations of customers and local communities. Strengthen the establishment and operation of the RAF management structure using stress tests and scenario analysis. Build a forward-looking credit risk management framework and strengthen the risk management framework of each group company.

Reason for selection as outside officer

Name of outside Director	Reason for selection as outside Director
Minako Suematsu	She has offered information on the present conditions of Japan and global trends on a daily basis as Representative Director, Chairman, and President of The Japan Times, Ltd. She also has advanced insights into online business development, evidenced by matters such as her establishment of an internet-related business, and is actively working to increase the brand value of her hometown, the Setouchi area. We expect that she will continue to provide pertinent recommendations on the Company’s current initiatives to increase the value of regional communities, and thus we have selected her as an outside Director.
Yuzuru Yamamoto	We expect that he will provide pertinent recommendations toward overall management taking into account local economic conditions, etc., based on his advanced insight and wealth of experience as a corporate manager, having served as President & Representative Director of UBE Corporation and in other executive positions, and thus we have selected him as an outside Director.
Tomoko Mikami	She has been engaged in the promotion of digital transformation (DX) utilizing IT as Managing Executive Officer of Microsoft Japan Co., Ltd., particularly in the DX promotion of local enterprises. We expect that she will provide pertinent recommendations on the Company’s current initiatives to provide DX support to client corporations as well as DX within the Company, and thus we have selected her as an outside Director.
Takehiko Ogi	He has served as Representative Director of Kanebo Ltd., Maruzen CHI Holdings Co., Ltd., and Japan Human Resource Network following his retirement from the Ministry of International Trade and Industry (currently the Ministry of Economy, Trade and Industry), and currently specializes in organizational theory and corporate governance as Professor in the Department of Industrial Management, Faculty of Economics, Kyushu University. We expect that he will provide pertinent recommendations on management, including the maintenance and improvement of corporate governance, his strength, as well as support for the banks in the Group using his knowledge of corporate revitalization, and thus we have selected him as an outside Director.

Name of outside Director	Reason for selection as outside Director
Yumiko Nagasawa (Audit and Supervisory Committee Member)	She possesses a wealth of experience regarding financial instruments such as establishing a citizen group “Foster Forum (Forum for Fostering High-quality Financial Instruments)” after serving at financial institutions. We expect that she will continue to provide pertinent recommendations toward overall management based on her professional insight as well as the perspective of a citizen, and thus we have selected her as an outside Director.
Kenko Shikichi (Audit and Supervisory Committee Member)	He has conducted mainly community-based attorney activities in Fukuoka City as partner of Kitahama Law Office, and is registered as a certified tax accountant with the Kyushu-hokubu Certified Public Tax Accountants’ Association. We expect that he will provide pertinent recommendations based on his wealth of experience and professional knowledge as a legal expert, and thus we have selected him as an outside Director.

Support for outside Directors

The Secretariat, which is the administrative office of the Board of Directors, and the Audit and Supervisory Committee Office, which is the secretarial office of the Audit and Supervisory Committee, provide support as appropriate for the execution of duties of outside Directors (including the Audit and Supervisory Committee Members), and endeavor to activate and facilitate cooperation with the execution departments.

In addition to making efforts to secure sufficient explanations to outside Directors and sufficient preparation time for these through the early issuance of notice of convocation of a meeting of the Board of Directors, discussion materials (including regular execution report materials), and the annual schedule for various meeting bodies, and the enhancement of prior briefing meetings, we regularly provide study sessions on the financial business and management environment of regional banks, etc., which are necessary areas for Directors of the Company.

Succession plan

The “Group Officer Personnel Guidelines” prescribes the following in regard to the Group’s development process for candidates for the Group officers and the monitoring system for development status.

► Development of candidates for the Group officers

Individual development plans are formulated by the human resource department for candidates for key management personnel that are selected internally, and they are promoted to important positions (General Manager of branch of banks in the Group, General Manager of the division, etc.) at the appropriate time, based on the activity status and performance of each candidate.

A group of human assets holding important positions is designated as the pool of candidates for officer. The President and CEO selects candidates for the Group officers from human assets in the pool of candidates for officer based on each candidate’s activity status and performance, recommendation of the Group officer, etc., and then submits the list of candidates to the Nomination Committee.

Promotion to an important positions is determined and executed upon deliberation at internal meetings (personnel promotion meetings), comprising of internal Directors and the human resource department, and the system ensures the objectivity and validity of the promotion.

► Monitoring system for development status

The activity status and performance of human assets who are candidates for key management personnel and who are in important positions are regularly monitored by the President and CEO, and the human resource department.

The Nomination Committee also considers the development status of candidates for the Group officer to be an important monitoring matter, and has adopted a system to monitor whether the development of candidates for the Group officer is conducted as planned through reporting from the President and CEO as appropriate about the development status to the Nomination Committee and the Board of Directors.

Specific initiatives for development of candidates for officer include the Junior Board Program aimed at developing young human assets, external secondments to different industries, the human assets development project for next generation management targeting those in the pool of candidates for officer, and dispatch to external training.

In addition to the above initiatives, we are currently working on the establishment of the internal recommendation process for candidates for key management personnel as prescribed in the Guidelines, and will continue to strive to enhance the effectiveness of development of candidates for officer in the Group.

Compensation for Officers

Compensation decision making process

In regard to the policy for determining the amount of compensation, etc., for Directors (excluding those who are Audit and Supervisory Committee Members) and the calculation method, this is determined by the Board of Directors upon deliberation by the Compensation Committee, which is chaired by an outside Director, within the compensation limits resolved at the General Meeting of Shareholders.

In addition, the Compensation Committee deliberates on the decision making policy relating to the content of the remuneration, etc., for the Directors of the Company and the banks in the Group, and the content of the remuneration, reports the details to the Board of Directors, and aims to improve the objectivity and transparency of the decision making process.

The allocation amount of performance-linked compensation for each individual (including individual evaluations) is decided by a resolution of the Board of Directors, and the Board of Directors consults and obtains a report from the Compensation Committee on the compensation limit and allocation amount. The amount of performance-linked compensation for Directors is determined within the range of the amount calculated based on the distribution ratio by position for performance-linked compensation and the evaluation rate as set forth in the report from the Compensation Committee. Basic compensation is determined for each Director by the Board of Directors based on the report from the Compensation Committee. In addition, in regard to the share-based compensation, the number of points to be granted to each Director is calculated based on the Officer Share Delivery Rules that have been prescribed by the Board of Directors based on the report from the Compensation Committee.

The policies for determining the amount of compensation, etc., for Directors who are Audit and Supervisory Committee Members, and the calculation method are determined upon consultation by the Audit and Supervisory Committee Members, including outside Directors, within the compensation limits resolved at the General Meeting of Shareholders.

Compensation determination policy

The Company and the banks in the Group have established the compensation plan for officers with the objective of increasing the transparency of the compensation plan for officers, raising motivation towards contributing to improved performance and increased corporate value, and raising awareness of shareholder-oriented management. In terms of the specific officer compensation plan, the composition of officer compensation, etc., comprises of fixed-amount compensation, performance-linked compensation and share-based compensation (Board Benefit Trust: BBT).

Fixed-amount compensation

By the resolution of the General Meeting of Shareholders held on June 26, 2015, the maximum amount of the compensation for Directors (excluding those who are Audit & Supervisory Committee Members) has been set as up to ¥25 million per month (of which, up to ¥2.5 million per month for outside Directors) and up to ¥5 million per month for Directors who are Audit and Supervisory Committee Members.

Performance-linked compensation

By the resolution of the General Meeting of Shareholders held on June 27, 2017, the maximum limit of the performance-linked bonus compensation for Directors (excluding Directors who are Audit and Supervisory Committee Members, part-time Directors and outside Directors) has been set as up to ¥70 million per year. There are seven Directors (including one outside Director) subject to this plan as of the end of the said General Meeting of Shareholders. The total amount of compensation is determined in consideration of the level of business performance, and the compensation has a function as a short-term performance-linked compensation plan.

Board Benefit Trust (BBT)

By the resolution of the General Meeting of Shareholder held on June 27, 2017, the total number of points per fiscal year to be granted to Directors (excluding Directors who are Audit and Supervisory Committee Members, part-time Directors and outside Directors) has been set at up to 80,000 points (one point equals one share of the Yamaguchi Financial Group, Inc.). There are seven Directors (including one outside Director) subject to this plan as of the end of the said General Meeting of Shareholders. By granting points that vary each fiscal year depending on the level of achievement of the medium-term management plan that has been formulated by the Company, the trust has a function as a medium- to long-term performance-linked compensation plan with the objective to align interests with shareholders, to increase incentives for the improvement of business performance and corporate value over the medium to long term.

Total amount of compensation, etc. for each officer category, total amount, etc. by type of compensation and number of eligible officers

In the fiscal year ended March 31, 2023

Category of officer	Number of officers	Total amount of compensation, etc. (Millions of yen)	Fixed-amount compensation	Performance-linked compensation	Non-monetary compensation, etc.
Director (excluding Audit and Supervisory Committee Member) (excluding outside Director)	2	74	43	18	12
Director (Audit and Supervisory Committee Member) (excluding outside Director)	1	28	28	—	—
Outside officer	7	39	39	—	—

Notes 1. The above includes one outside Director who is not an Audit and Supervisory Committee Member and retired at the conclusion of the Annual General Meeting of Shareholders held on June 24, 2022.

2. "Non-monetary compensation, etc." refers to the amount recorded as expenses during the current fiscal year for the Board Benefit Trust (BBT).

List of Officers

Officers of Yamaguchi Financial Group, Inc. (as of July 1, 2023)

President, Representative Director and CEO Keisuke Mukunashi 	Director Narumasa Soga 
Director Koji Oda 	Director Mitsuru Kato 
Director Minako Suematsu 	Director Yuzuru Yamamoto 
Director Tomoko Mikami 	Director Takehiko Ogi 
Director, Audit and Supervisory Committee Member (Full-time) Susumu Fukuda 	Director, Audit and Supervisory Committee Member (Part-time) Yumiko Nagasawa 
Director, Audit and Supervisory Committee Member (Part-time) Kenko Shikichi 	

Senior Managing Executive Officer and General Manager of the Audit & Inspection Dept.
Managing Executive Officer and General Manager of the Regional Co-Creation Business Group
Managing Executive Officer and General Manager of the Financial Business Group

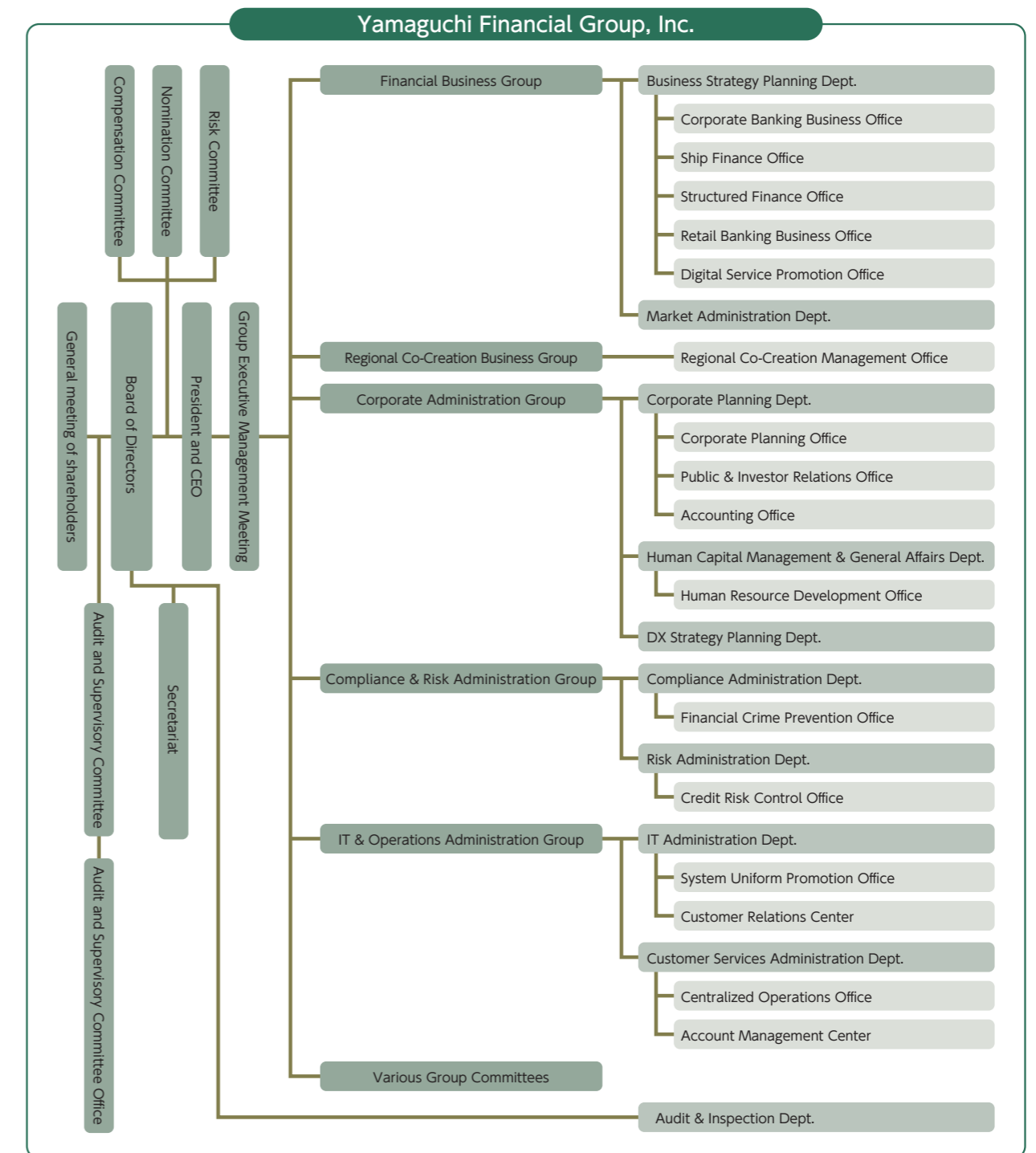
Shuji Tanabe
Kazuhito Yagi
Hirofumi Hiranaka

Executive Officer and General Manager of the Compliance & Risk Administration Group
Executive Officer and General Manager of the IT & Operations Administration Group
Executive Officer and General Manager of the Corporate Administration Group

Takeki Kaneko
Yasuhiro Kijima
Kenichiro Okuda

* Minako Suematsu, Yuzuru Yamamoto, Tomoko Mikami, Takehiko Ogi, Yumiko Nagasawa and Kenko Shikichi are outside Directors as prescribed in Article 2, item (xv) of the Companies Act.

Organizational chart of Yamaguchi Financial Group, Inc. (As of July 1, 2023)



The Yamaguchi Bank, Ltd. **Momiji Bank, Ltd.** **The Kitakyushu Bank, Ltd.** **YM Securities Co., Ltd.**

Company with audit and supervisory committee

YM Lease Co., Ltd. YM CONSULTING CORPORATION
Izutsuya Withcard Company Limited YAMAGINCARD CO., LTD.
YM Credit Guarantee Co., Ltd. Sanyu
YMFG ZONE PLANNING CO., LTD.
YM Asset Management Co., Ltd. Momiji Estate
YM Life Planning Co., Ltd. HOKEN HIROBA, LTD.
YM Saison Co., Ltd. Momiji Card, Inc. Data Qvic Inc.
YM Career Inc. Nishiseto Regional CO-creation Servicer Inc.
INESUS Inc. Nishiseto Marine Partners Inc.
YAMAGUCHI CAPITAL Co., Ltd.
Regional Trading Company Yamaguchi Co., LTD.
Bankers Farm Inc. KAIKA Corporation

Officers of The Yamaguchi Bank, Ltd. (as of July 1, 2023)

Director and President Representative Director Narumasa Soga 	Chairman and Director Ichinari Koda 
Director and Senior Managing Executive Officer Hideyuki Taga 	Director, Executive Officer and General Manager of Head Office Sales Department Yasuhiro Watanabe 
Director Masao Kusunoki 	Director Kuniko Usagawa 
Director, Audit and Supervisory Committee Member (Full-time) Shinji Yoshidomi 	Director, Audit and Supervisory Committee Member (Part-time) Munefusa Saito 
Director, Audit and Supervisory Committee Member (Part-time) Masao Aratani 	

Senior Managing Executive Officer and General Manager of Yamaguchi Branch
 Managing Executive Officer and General Manager of Tokyo Branch
 Managing Executive Officer, General Manager of Tokuyama Branch, General Manager of Shunan Danchi Branch and General Manager of Kushigahama Branch
 Executive Officer and General Manager of Ube Branch

Satoshi Ono
Noritsugu Hanaeki
Hiroaki Kaita
Yoji Nakashima

Executive Officer and General Manager of Iwakuni Branch
 Executive Officer and General Manager of Hagi Branch
 Executive Officer and General Manager of Hiroshima Branch

Makoto Murakami
Rie Omoto
Katsuhiro Sogi

* Masao Kusunoki, Kuniko Usagawa, Munefusa Saito and Masao Aratani are outside Directors as prescribed in Article 2, item (xv) of the Companies Act.

Officers of Momiji Bank, Ltd. (as of July 1, 2023)

Director and President Representative Director Koji Oda 	Director and Senior Managing Executive Officer Hirofumi Hiranaka 
Director and Executive Officer Hideyuki Fujimura 	Director and Executive Officer Yoshiro Yasudomi 
Director, Executive Officer and General Manager of Head Office Sales Department Koji Kanayama 	Director, Audit and Supervisory Committee Member (Full-time) Satoshi Inoue 
Director, Audit and Supervisory Committee Member (Part-time) Masao Nagano 	Director, Audit and Supervisory Committee Member (Part-time) Yoji Ohshimo 
Managing Executive Officer and General Manager of Fukuyama Branch Executive Officer and General Manager of Kure Sales Department Hajime Ohshimo Shogo Katsusaka	Executive Officer and General Manager of Kaita Branch Yuko Ogawa

* Masao Nagano and Yoji Ohshimo are outside Directors as prescribed in Article 2, item (xv) of the Companies Act.

Officers of The Kitakyushu Bank, Ltd. (as of July 1, 2023)

Director and President
Representative Director

Mitsuru Kato



Director, Senior Managing Executive
Officer and General Manager of
Head Office Sales Department

Hiroyuki Nakano



Director and Executive Officer

Masahiko Nagamo



Director, Audit and Supervisory
Committee Member (Full-time)

Akihisa Uchida



Director, Audit and Supervisory
Committee Member (Part-time)

Noriaki Ayukawa



Director, Audit and Supervisory
Committee Member (Part-time)

Hayato Morita



Executive Officer and General Manager of
Yahata Branch

Takafumi Uno

Executive Officer and General Manager of
Fukuoka Branch

Hisao Tsubouchi

* Noriaki Ayukawa and Hayato Morita are outside Directors as prescribed in Article 2, item (xv) of the Companies Act.

Internal audits

Basic policy of internal audits

The Group defines an internal audit as a series of processes for verifying the appropriateness and effectiveness of internal controls, including risk management, objectively and fairly and making recommendations for necessary improvements.

Based on this definition, the Company has established “Internal Audit Rules” as the Group’s basic audit policy, and the internal audit departments of the Company and each group company conduct internal audits in accordance with this basic policy.

In addition, the medium-term internal audit plan based on the management policy and internal and external conditions as a uniform plan for the Group. The internal audit departments of the Company and each group company endeavor to ensure the effectiveness of internal audits through the conduct of internal audits based on this plan.

Internal audit operation system

The Audit & Inspection Dept., the internal audit department of the Company, leads the planning and drafting of group-wide internal audits, and in addition to conducting internal audits, ascertains and manages the implementation status of internal audits at each group company.

Specifically, it formulates the various rules concerning the internal audits of the Group and the medium-term internal audit plan mentioned earlier, conducts internal audits on the compliance administration departments, the risk management departments, etc., of the Group, and conducts internal audits on the accuracy of financial reports, including the accuracy of the Group’s capital adequacy ratio.

Internal audits of front-line sales sites, outlets are conducted with a focus on verifying the status of functions of compliance and risk management and the effectiveness of the mutual checks.

In addition, it monitors the internal audit department of each group company based on the reporting on the internal audit results and improvement status, etc., received from each group company, gives necessary guidance and advice to each group company, and reports the status of internal audits of the Group to the Board of Directors and the Audit and Supervisory Committee.

Furthermore, exchanges of information and opinions are conducted by the Presidents, Directors who are Audit and Supervisory Committee Members, and the General Manager of the Audit & Inspection Dept., and it receives instructions and advice on improvement activities of the responsible departments, as well as management needs related to audit themes, reflecting them on audits.

Timely information disclosure system

The Company has established “Internal Control Rules,” and endeavors to develop a system for the timely information disclosure for the building of an internal control system.

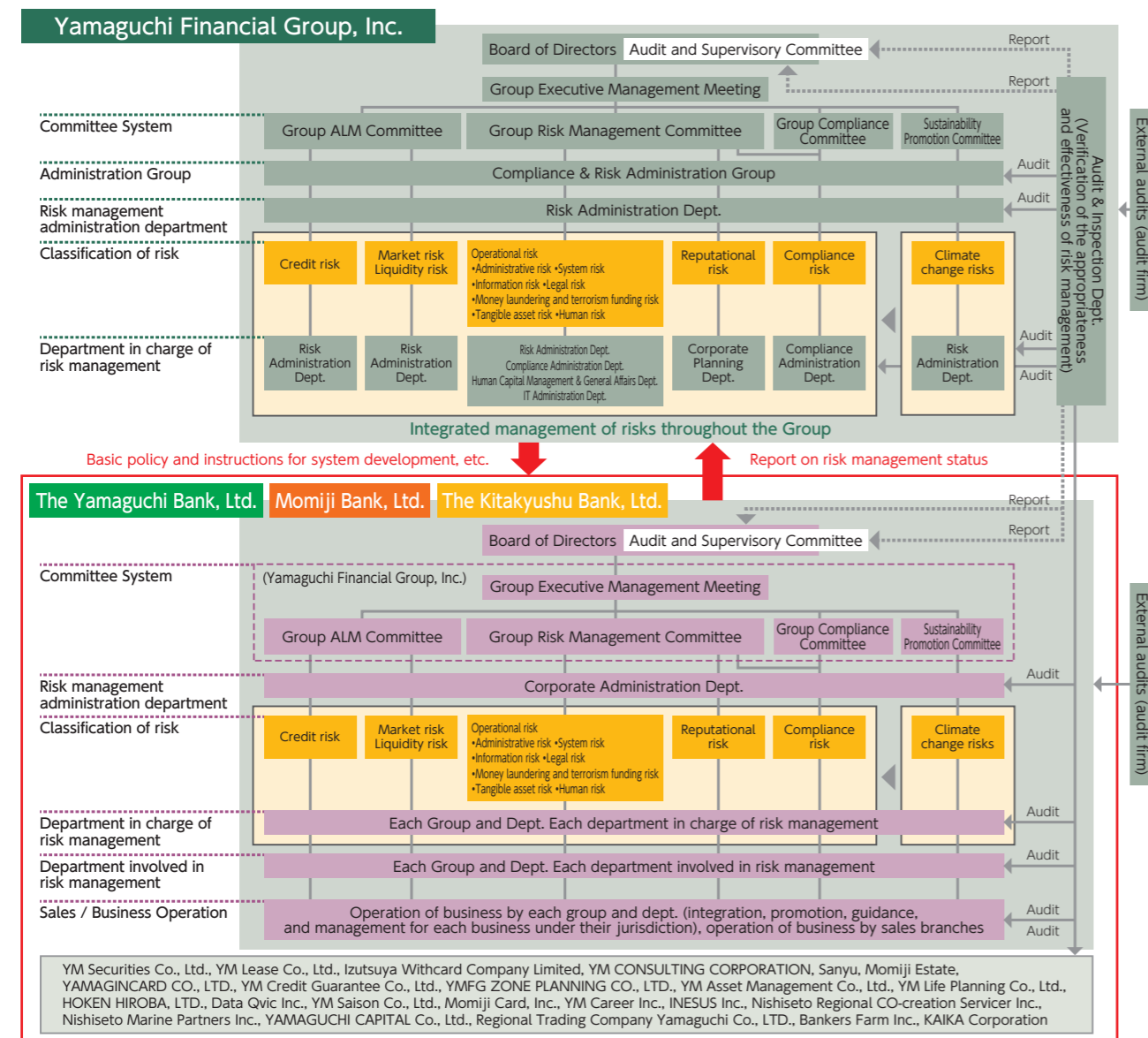
In the “Timely Information Disclosure Standards” based on the “Internal Control Rules,” the following basic policy is prescribed, and pursuant to this policy, in regard to the disclosure of important corporate information and investment information, the Company aims to address timely and appropriate in accordance with the Banking Act, the Financial Instruments and Exchange Act, the rules of financial instruments exchange, other relevant laws and regulations, etc., after reporting to and consulting with the management team.

Basic policy

- (1) The Group shall disclose important corporate information so that customers, shareholders, investors, etc., are able to accurately ascertain and determine the actual situation of the Group.
- (2) The Group discloses important investment information so that investors, etc., are able to accurately ascertain and determine the investment status of the Group.
- (3) The disclosure of important corporate information and investment information is made in a timely and appropriate manner, in accordance with the Banking Act, the Financial Instruments and Exchange Act, the rules of financial instruments exchange, other relevant laws and regulations, etc.
- (4) In order to disclose important corporate information and investment information in a timely and appropriate manner, the Group develops and enhances the systems of the Company and subsidiaries that have entered into business outsourcing agreements with the Company.

Risk Management System

The Group's risk management system (as of July 1, 2023)



The Group operates its businesses while facing various risks, including credit risk, market risk, liquidity risk, etc., and these risks become more diversified and complex along with changes in the economy, society and financial environment. Based on such circumstances, the Group regards the enhancement of the risk management system as one of its important issues, and endeavor to maintain and improve soundness.

The Group has established the "Risk Management Rules," which clarify the basic policy for risk management. The Group has established an organizational structure in which there is departments in charge of risk management administration for each risk, a risk management control department, and the "Group ALM Committee," the "Group Risk Management Committee" and the "Group Executive Management Meeting" that conduct management level deliberations, and promote the sophistication and strengthening of risk management by measuring risk amount with a uniform method and allocating and managing capital depending on risk amounts (integrated risk management), etc.

In addition, the Group applies the system that each department in charge of risk management of the Company ascertains risk management conditions in the whole Group and manage comprehensively in preparation for a ripple effect of risk within the Group.

The Audit & Inspection Dept., which is independent of the operation departments, conducts internal audits to verify the appropriateness and effectiveness of each risk management condition in the Group, and promotes the improvements.

Credit risk management

Credit risk is the risk of a decline or the destruction in the value of assets held as a result of a deterioration in the financial condition of customers granted credit, etc. In the case of a credit risk occurring, as this may have a significant impact on the soundness of bank management, particularly strict risk management is conducted on loans that has most of the credit risk.

The Group endeavors to ascertain the actual status of the customers and to conduct accurate credit risk assessments through the appropriate operation of the credit rating system, and improves the accuracy of creditworthiness evaluations by reviewing credit ratings appropriately from time to time upon the issuance of financial statements and the occurrence of changes in the credit standing of the customers.

Self-assessment is strictly conducted by the banks in the Group based on unified standards, write-offs and provision of allowance are performed appropriately based on the results of the self-assessment. In regard to its validity, the content is verified by the department in charge of verification, the internal audit is conducted by the department in charge of audit with maintaining its independence, and the external audit is also conducted by an auditing firm.

In addition, for the screening of individual cases, the Group has introduced a screening system that corresponds to the size and characteristics of the banks in the Group, provides detailed support and optimal solutions that take into consideration the business characteristics, etc., of the customers. In terms of portfolio management, based on credit risk quantification, the Group conducts risk status analysis for each credit rating, industry and district, and endeavors to make risk management more sophisticated.

In regard to the response to the new BIS regulations that were introduced at the end of March 2007 (new regulations for capital adequacy requirements), the Company, The Yamaguchi Bank, Ltd. and Momiji Bank, Ltd. have applied the basic internal rating measures from the six months ended September 30, 2012, and The Kitakyushu Bank, Ltd. has applied such measures from the fiscal year ended March 31, 2017.

For companies with management issues, the Customers' Business Potentials Evaluation Dept., which has been established in the banks in the Group, takes the leading role in responding to this, where it examines management improvement measures, and provides support for the preparation and execution of reconstruction plans, in partnership with sales branches and external specialist organizations, and endeavors to work on initiatives to improve rating and to prevent downgrades.

Market risk management

Market risk is the risk of incurring loss due to fluctuations in asset and liability values caused by changes in various market risk factors, including interest, the price of securities, etc., and foreign exchange rates.

The Group constructs a management process for market risk, identifies inherent market risk, and conducts quantitative measurements. In addition, in order to control market risk to tolerable levels, the Group has taken measures such as introducing the Asset and Liability Management (ALM) system and holding regular meetings of the Group ALM Committee in accordance with the situation.

In addition, in regard to the status of market risk, the Group conducts regular evaluations, and conduct verifications of the appropriateness, etc., of risk control.

Liquidity risk management

Liquidity risk is the risk, etc., of incurring loss due to being forced to raise funds at a much higher interest rate than normal to secure funds in the case that, due to a deterioration in a bank's financial condition, etc., the necessary funds may not be secured, and the bank runs out of cash to run its operations.

As the majority of the Group's fund raising is performed through deposits, fund management is conducted based on precise forecasts under the stable funding base, and the Group mainly manages funds through fund controls in the financial markets.

In the fund management, the Group takes all possible measures to manage liquidity risk, including the suppression of liquidity risk, the securing of stability, and the preparation of highly liquid assets in case of unpredictable events, etc.

Operational risk management

Operational risks are defined as risks that the Group suffers loss due to the occurrence of problematic events in business operations. They include internal fraud, external fraud, inappropriate responses in the working environment (acts that conflict with laws and regulations, etc.), inappropriate responses in transactions with customers (violations of obligations, problems in product design, etc.), natural disasters, accidents, system failures, relationships with business partners, inappropriate transaction processing, and inadequate process management, etc. The Group manages the operational risks by classifying into seven types: (1) administrative risk, (2) system risk, (3) information risk, (4) legal risk, (5) money laundering and terrorist financing risk, (6) tangible asset risk and (7) human risk, and manage them.

The Group has established the "Operation Risk Management Standards," which prescribe the basic matters concerning operational risk management, based on the "Risk Management Rules" that prescribe the basic policy for risk management in general, in order to appropriately manage operational risks. The department in charge of overseeing operational risk management centrally ascertains and manages operational risks, and each department in charge of risk management manages each risk from a technical standpoint.

"Administrative risk" is the risk of incurring loss as a result of negligence in the performance of accurate administrative work, or due to the occurrence of an accident or fraud. The Group has prescribed its basic policy for administrative risk management in the "Risk Management Rules," and conducts appropriate risk management towards the reduction of administrative risk.

"System risk" is the risk of incurring loss due to system failures, including a computer system outage or malfunction, a cyber security incident, or the unauthorized use of computers, etc. The Group has prescribed its basic policy for system risk management in the "Risk Management Rules," and has established the "Information Asset Management Rules," which prescribe the basic matters, etc., relating to the protection and use of information systems, and the Group conducts appropriate system risk management.

"Information risk" is the risk of incurring loss due to the leaking, loss, tampering, or inappropriate handling, etc., of information. The Group has prescribed its basic policy for information management in the "Risk Management Rules," and has established the "Information Asset Management Rules," which prescribe the basic matters, etc., relating to the protection and use of information systems, and the Group conducts appropriate information management.

"Legal risk" is the risk of incurring loss due to an incomplete legal relationship in a transaction, etc., or due to an inadequate response to an amendment, etc., of a law and regulations. The Group has prescribed its basic policy for legal risk management in the "Risk Management Rules," performs legal checks and works with specialists towards the mitigation of legal risk, and conducts appropriate risk management.

"Money laundering and terrorism financing risk" is the risk that the Group suffer loss, including risks deteriorating the Group's credibility domestically and internationally by damaging society, in addition to risks negatively affecting business operation due to imposition of the immense amount of financial penalty, cancellation of correspondent contract, etc., when there are insufficient countermeasures against money laundering and the provision of funds for terrorist activities. The Group has prescribed its basic policy for money laundering and terrorism funding risk management in the "Risk Management Rules," has established the "Money Laundering, etc., Prevention Standards," and conducts appropriate money laundering and terrorism funding risk management with a risk-based approach.

"Tangible asset risk" is the risk of incurring loss due to damage to tangible assets or a deterioration in the quality of the work environment, etc., that occurs as a result of fire, crime, or defect in asset management, etc. The Group has clarified the department in charge of management in the "Operational Risk Management Standards" based on the "Risk Management Rules," and conducts appropriate risk management in response to the wide ranging risks that surround tangible assets.

"Human risk" is the risk of incurring tangible and intangible loss due to an inappropriate employment, workplace, or safety environment, the insufficient development of human assets, or traffic accident, etc. The Group has clarified the department in charge of management in the "Operational Risk Management Standards" based on the "Risk Management Rules," and conducts appropriate risk management in accordance with the characteristics of the risk.

Towards preventing the occurrence of a risk and minimizing the impact in the case of a risk occurring, the Group ascertains the distribution of the operational risks that are inherent to its products, businesses, processes

and systems, internal department evaluations are conducted by each department in charge of management, and efforts are made towards risk and control self-assessment (CSA), which involves the improvement of risk management independently, and furthermore, the Group endeavors to establish a PDCA cycle to improve the effectiveness of risk management.

Furthermore, as a means for identifying risks and taking countermeasures, the Group establishes a reporting system for operational risk information, collects information and reports to the management level, and endeavors to make risk management more sophisticated, such as control, transfer and avoidance of risks through countermeasures to prevent recurrence based on factor analysis.

Compliance risk management

Compliance risk is the risk of the Group's reputation being damaged and corporate value being impaired due to actions that go against laws, regulations, various internal rules, as well as corporate ethics and management philosophies.

The Group shares a common understanding of its responsibilities to fulfill its public mission and corporate social responsibilities as a financial group and accords topmost management priority to thorough compliance.

To maintain and improve the compliance system, strengthen ongoing efforts and response, thoroughly prevent illegal activities, integrally manage management plans, etc. and compliance, and implement measures based on risk, we formulate our compliance program as a concrete action plan every fiscal year and put it into practice.

Reputational risk management

Reputational risk is the risk of incurring loss due to the occurrence of reputation about the Group's management in the market, etc.

The Group constructs a system for the early ascertaining of information relating to reputation, and endeavors to minimize risk by prescribing prevention measures in the case of occurrence of reputation, including information disclosure, and emergency backup measures in the case of a concern of risk occurrence.

Compliance System

Policy for compliance initiatives

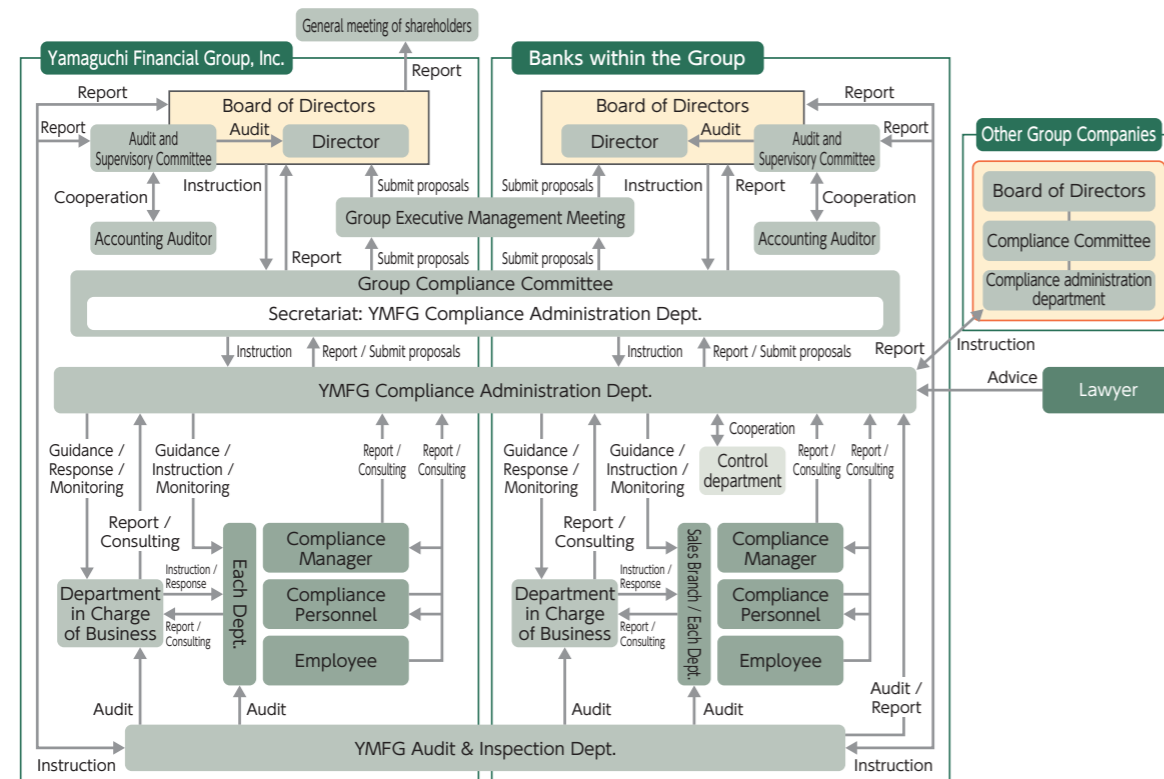
The Group shares a common understanding of its responsibilities to fulfill its public mission and corporate social responsibilities as a financial group. Accordingly, we accord topmost management priority to thorough compliance, take the seriousness of effective compliance and consider earning the trust of a broad-based society as the basic policy.

Compliance system

To ensure appropriate compliance, the Group has established the compliance administration department, and conducts the development of compliance-related system and training for officers and employees. The Compliance Administration Dept. liaises with the compliance administration department of each group company, and centrally manages compliance matters throughout the Group.

In addition, the Group has established the Group Compliance Committee. It also formulates compliance programs for each fiscal year, which equate to specific execution plans, and monitors the status of program implementation.

Group compliance structure (as of July 1, 2023)



Whistleblowing system

In order to prevent scandals caused by compliance violations and harassment, etc., to detect risks at an early stage, and to strengthen the self-cleaning function as a company, The Group has established a Group-wide whistleblowing help desk.

In addition, for cases of compliance-related concerns and issues including acts that may be connected to a violation of internal rules and social rules, harassment, etc., we have established the “Any Compliance Issue Help Desk,” which receive a broad range of consultations and questions, and have developed a system to receive reports and consultations broadly.

Basic policy on responding to antisocial forces

The Group fully recognizes the importance of social responsibility and public mission, and in order to ensure the sound performance of business operations, based on the following basic policy, promotes efforts to cut off all relationships with antisocial forces.

- (1) We respond as an organization to unreasonable demands that are made by antisocial forces, and resolutely reject such demands. In addition, we take legal measures from both civil and criminal perspectives.
- (2) In preparation for unreasonable demands from antisocial forces, we always work to strengthen our close cooperation with the police, the Center for the Elimination of Violence, the Corporate Defense Council, and Lawyer, etc.
- (3) We do not provide funds to antisocial forces.

“Financial Instruments Solicitation Policy”

Financial Instruments Solicitation Policy

The banks in the Group comply with the following matters, and solicit financial instruments for customers appropriately.

- (1) We recommend financial instruments that are appropriate in consideration of the customer’s investment objective, knowledge, experience and asset standing.
- (2) In order to ensure that customers select and buy financial instruments at their own judgment, we endeavor to explain important matters, including the product content and risks.
- (3) We always pay close attention to soliciting in a sincere and fair manner, and in the case of anything that is uncertain, we do not provide fragmentary judgments, intentionally misrepresent the facts, or conduct misleading solicitation.
- (4) In the case of solicitation made by telephone or in person, we always take care to ensure that the time and location do not cause inconvenience for the customer.
- (5) We always endeavor to gain extensive product knowledge so that we can meet the trust and expectations of customers.

* We also comply with the solicitation policy described above in relation to the “Operational Management of Corporate Pensions in Relation to Investment Method Selection and Presentation to Members, Etc.,” and the “Designation or Changing of Investment Management Organization for Personal Pensions” under the Defined Contribution Pension Act.

Handling of personal information

The Group complies with relevant laws and regulations, including the Act on the Protection of Personal Information and the Act on the Use of Numbers to Identify a Specific Individual in Administrative Procedures, and in order to ensure the accuracy and confidentiality of information, as well as safety, the Group has established a department in charge of information management, provides education for officers and employees on an ongoing basis, and endeavors to improve its effectiveness.

In addition, we have formulated and published the “Personal Information Protection Policy” concerning the appropriate protection and use of personal information.

Financial alternative dispute resolution (ADR) system

In order to resolve complaints and disputes that are filed by customers in a fair and neutral manner, the banks in the Group have entered into a master agreement on the performance of procedures with the following designated dispute resolution organization for banking services.

Contracted designated dispute resolution organization for banking services under the Banking Act

Japanese Bankers Association
Contact Information: JBA Customer Relations Center
Telephone: 0570-017109 or 03-5252-3772

Communication with Our Shareholders and Investors

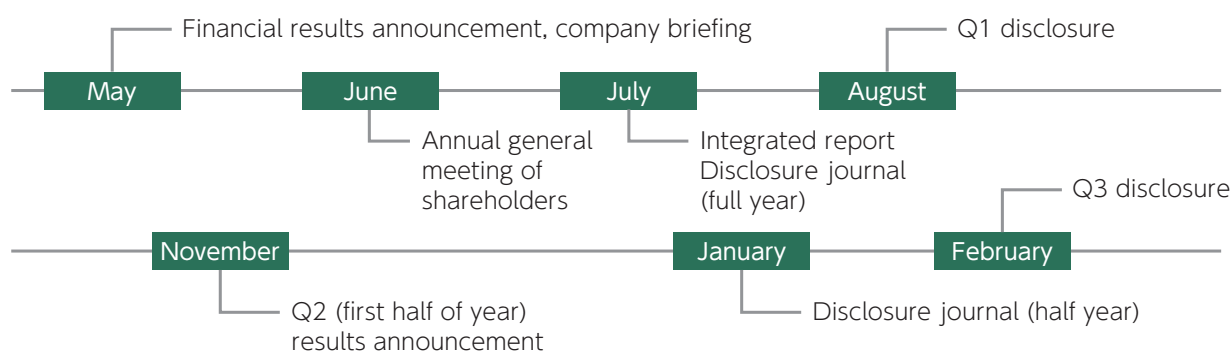
The Yamaguchi Financial Group, Inc. endeavor to enhance information disclosures in order to improve the soundness and transparency of management and to increase the trust and reputation from all stakeholders, including customers, shareholders and the local community. We focus on opportunities for dialog with our shareholders and institutional investors, and will actively reflect the opinions of our stakeholders in management policies and improvements through promotion of the constructive dialog.

General meetings of shareholders and financial results briefings (Investor Relation: IR)

We actively disseminate information about financial results and the Group's initiatives through IR tools, including the regular corporate briefings, briefings for investors and integrated reports.

In addition, at the annual general meeting of shareholders, which is held in June of each year, we provide courteous explanations from the perspective of shareholders, with a focus on the disclosure of information held by the Group, and with the interest of all shareholders being treated as the highest priority.

▶ IR calendar



▶ Meetings with our investors

Briefings for analysts and institutional investors	Two times (May and November) in the Tokyo venue, a total of 146 participants Held in a hybrid manner in November with live webcast on the Internet
Individual briefings for institutional investors	35 companies, for 66 times Including participation by the President and CEO (13 companies, for 25 times)
Corporate briefings for individual investors	Once Streamed a video with 838 participants (viewers), posted on the Company's website after the broadcast

* Implementation period: April 2022 to March 2023

▶ Main dialog items

- Matters related to the status of human capital management initiatives
- Matters related to the disclosure policy through the integrated report, etc.
- Matters related to the status of cross-shareholding reduction initiatives
- Matters related to the status of strategic capital utilization initiatives