



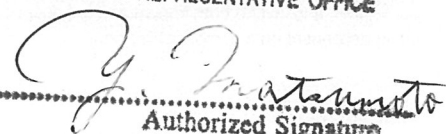
*Co-Creating a Bountiful Future
for Our Region*

ANNUAL REPORT **2020**

For the year ended March 31, 2020



For and on behalf of
THE YAMAGUCHI BANK, LTD
HONG KONG REPRESENTATIVE OFFICE


Authorized Signature

YMFG Profile (As of July 1, 2020)

Group Companies



Yamaguchi Financial Group
Holding Company



Yamaguchi Bank

Banking business

Networks in Japan:

131 (109 head office and branch offices,
22 sub-branch offices)

Networks in overseas:

4 (3 branch offices, 1 representative office)

YM Securities

Securities business

YM Asset Management

Investment management business

YM Consulting

Consulting business

Data Qvic

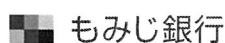
Data consulting and media businesses

Sanyu

Real estate leasing business

Momiji Card

Credit-card business



Momiji Bank

Banking business

Networks in Japan:

111 (98 head office and branch offices,
13 sub-branch offices)

HOKEN HIROBA

Insurance and banking agency businesses

Yamagin Card

Credit-card business

YMFG Zone Planning

Research study of the region/
Consulting business

YM Guarantee

Credit guarantee business

Momiji Estate

Real estate leasing business



Kitakyushu Bank

Banking business

Networks in Japan:

37 (37 head office and branch offices)

YM Life Planning

Insurance and banking agency businesses

Izutsuya Withcard

Credit-card business

YM Career

Job placement business

YM Lease

Leasing business

YM Saison

Credit-card and other product planning and
developing business

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Disclaimer Regarding Forward-Looking Statements

The forward-looking statements in this Annual Report are based on management's assumptions and beliefs in light of information available as of the date of publication, and involve both known and unknown risks and uncertainties. Actual financial results may differ materially from those presented in this document, being dependent on a number of factors.

YMFG Financial Highlights (For the fiscal year ended March 31, 2020)

¥10.6
trillion

Total Assets (Consolidated)

Total assets on a consolidated Group basis amounted to ¥10.6 trillion.

¥25.4
billion

Net Income (Consolidated)

Net income increased ¥2.2 billion year on year, to ¥25.4 billion.

¥9.6
trillion

Deposit Balance (Three Banks)

Liquid deposits and time and savings deposits were robust.

¥7.7
trillion

Balance of Loans (Three Banks)

Principal contributors to the increase were rises in housing loans and loans to small and medium-sized enterprises.

12.62
%

Capital Ratio (Basel 3) (Consolidated)

This represented a year-on-year decrease of 1.00 percentage point.

12.44
%

Tier 1 Ratio (Basel 3) (Consolidated)

This ratio was down 1.14 percentage point.

1.28
%

Non-Performing Loan Ratio (Three Banks)

Our non-performing loan ratio up 0.03 percentage point.

A
(Stable)
R & I

Credit Rating (YMFG)

Date of rating announcement: October 24, 2019

Message from the Management

Co-Creating a Bountiful Future for Our Region

Takeshi Yoshimura
Chairman and
Group CEO



Keisuke Mukunashi
President and
Group COO



Thank you for your continued support of the Yamaguchi Financial group ("YMFG").

The regional economy is affected by declining childbirth and aging populations, the outflow of young people into urban areas and a shortage of workers to shoulder operations, as well as the growing novel coronavirus disease (COVID-19) pandemic. Amid these circumstances, expectations are mounting and regional financial institutions are being called upon to play an even greater role in regional economic development by helping to invigorate local companies and industries, ensure employment and bolster the sustainability of the regional economy.

Furthermore, the environment in which we operate as a regional financial institution is characterized by growing demand for new financial services. At the same time, we are exposed to risks in a host of areas that go beyond industry boundaries. These include the emergence of fintech, further advances in AI and other new technologies, and an ongoing move away from the use of cash.

In this environment, in the fiscal year ended March 31, 2019 we formulated YMFG's 2019 medium-term management plan, which we launched in the aim

of further growth. Under the mission of "working with intention to co-create a bountiful future for our region," we aim to go beyond the boundaries of finance to address the social issues facing our region, maintaining an awareness closely attuned to businesses. To convert into a company that adds value to the region, our basic goals are to "establish a regional co-creation model" and "achieve 'shinka' of the financial model."

Going forward, we will continue striving to provide customers in the region we serve with the best possible value-added services. By fostering the development of the regional economy, we aim to enhance our corporate value. We will create a stable and highly effective corporate governance structure for the Group and augment the transparency of Group management to ensure accountability to our stakeholders. We remain unyielding in our aim to be a company that truly benefits and adds value to the region. We look forward to your continued patronage and support.

August 2020

YMFG Medium-Term Management Plan 2019

Social trends <ul style="list-style-type: none"> » ESG » SDGs/Society 5.0 	Regional environment <ul style="list-style-type: none"> » Declining population and other social issues 	YMFG's strengths <ul style="list-style-type: none"> » Trust and trustworthiness » Networks » Specialization 	External environment <ul style="list-style-type: none"> » Alternative methods for financial functions (Fintech, etc.)
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Further accelerate our initiatives to date,
taking the regional environment and social trends into consideration

Through our business activities, we aim to address regional social issues.
In the process we aim for management focused on **creating shared value (CSV)**,
which refers to both social value and economic value.

Goals
We aim to go beyond the boundaries of finance to address the social issues facing our region, maintaining an awareness closely attuned to businesses. We strive to be a company that adds value to the region.
Mission
Working with intention to co-create a bountiful future for our region

Basic Goals

By achieving the three basic goals below, realize a CSV management model for YMFG.

Basic Goal 1 Establish a regional co-creation model <ul style="list-style-type: none"> » We will produce a regional ecosystem for addressing regional social issues, steadily generating solutions. » We will configure an ecosystem platform to create new value by realizing numerous ecosystems. 	Basic Goal 2 Achieve "shinka" of the financial model <ul style="list-style-type: none"> » From the perspectives of acting on behalf of our customers and achieving customer optimization, we will develop the business model on two fronts: deepening the model and extending it. (Both are pronounced "shinka" in Japanese.) » Meanwhile, to extend the model we will pursue thorough digitization, and expand and increase our sales area and scale of operation. As a result, we will make our existing functions more productive. 	Basic Goal 3 Combine banking culture and an entrepreneurial spirit <ul style="list-style-type: none"> » To create value—both economic and social—we must achieve fundamental changes in the way our employees think and act. » We will retain the best aspects of the banking culture and combine that with an entrepreneurial spirit, establishing a regional co-creation model and a financial model.
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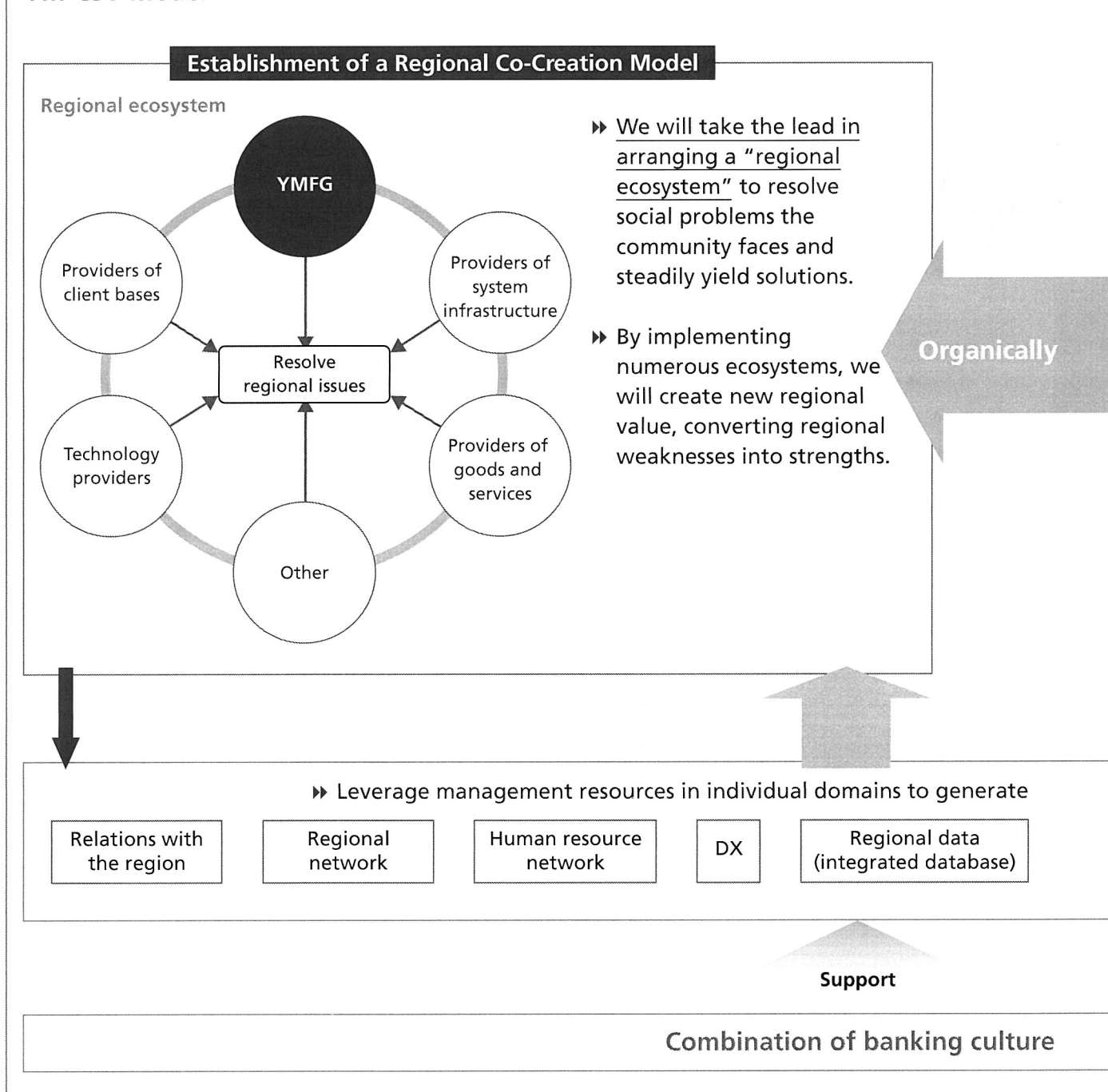
Financial Targets

Category (consolidated)	Fiscal Year Ended March 31, 2020 (Results)	Fiscal Year Ending March 31, 2022 (Final Year of the Plan)
ROE	3.97%	5.0% or more
Dividend payout ratio	24.0%	30% or more
Total capital ratio	12.62%	12% or more

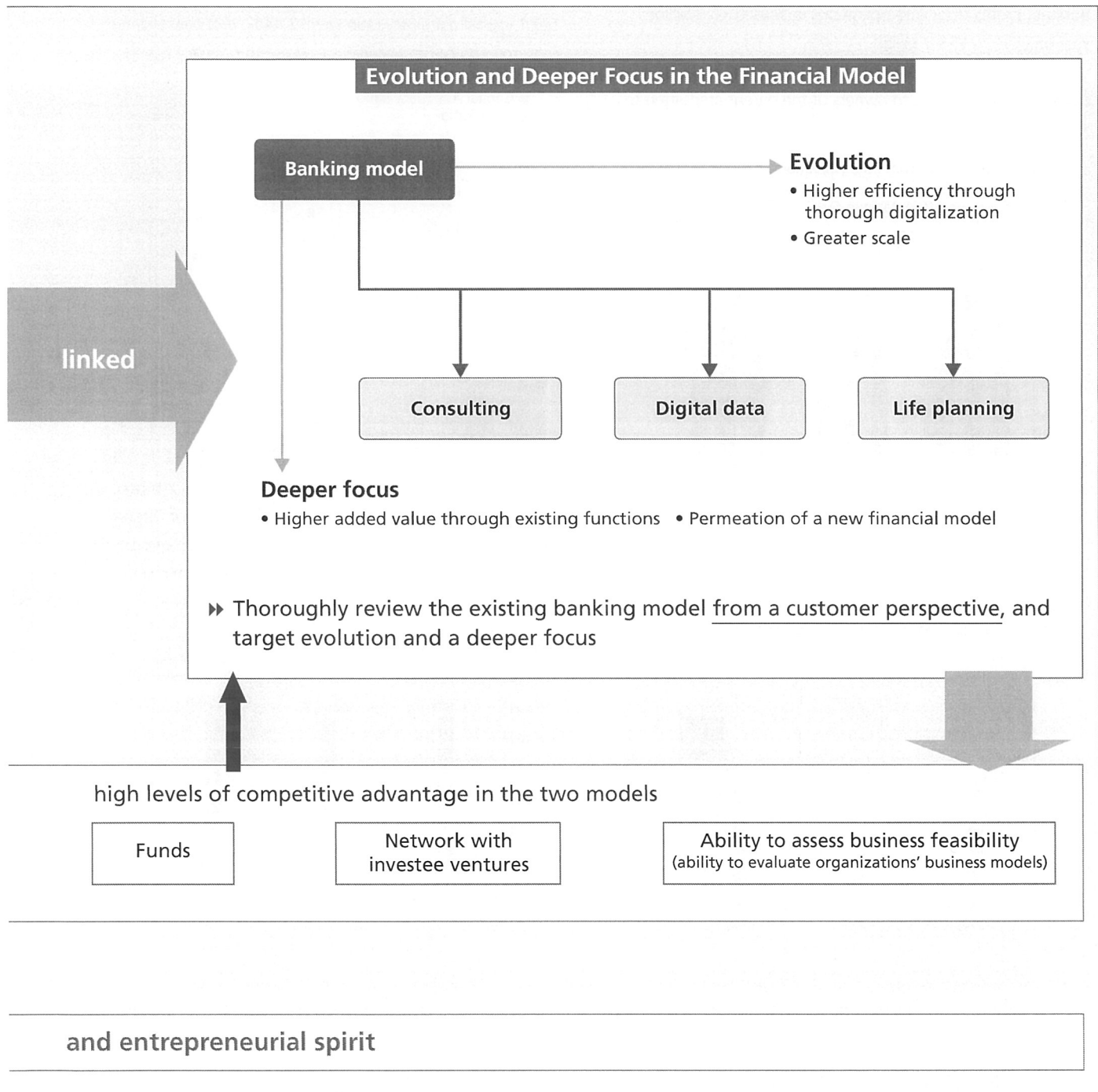
Business Model of the Medium-Term Management Plan

- ▶ Establish an original management model for creating shared value (CSV*) [the “YM-CSV Model”], and work to simultaneously enhance regional social value and YMFG’s economic value.

YM-CSV Model



*Creating shared value: A management strategy framework. By creating shared value, targets both the economic profit-seeking activities of corporations and the generation of social value.



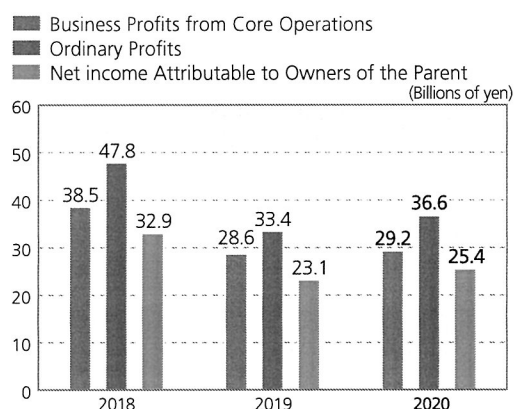
Performance Highlights (YMFG)

Performance during the fiscal year ended March 31, 2020

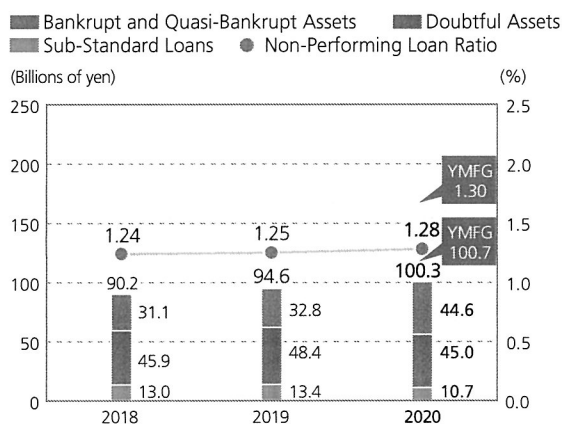
Business Profits from Core Operations/ Ordinary Profits/Net Income Attributable to Owners of the Parent

Business profits from core operations increased ¥0.6 billion year on year, to ¥29.2 billion.

Ordinary profits increased ¥3.2 billion, to ¥36.6 billion, and net income attributable to owners of the parent amounted to ¥25.4 billion.

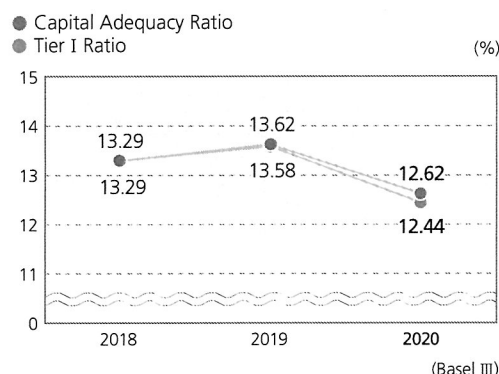


Non-Performing Assets Based on the Financial Revitalization Law (Three Banks)



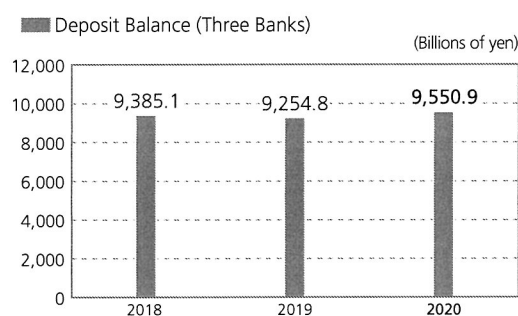
Capital Adequacy Ratio (YMFG)

YMFG's consolidated capital adequacy ratio (uniform international standard) under Basel III was 12.62%. The total Tier 1 capital adequacy ratio was 12.44%, and consolidated common equity Tier I capital adequacy ratio were 12.41%.



Deposit Balance (Three Banks)

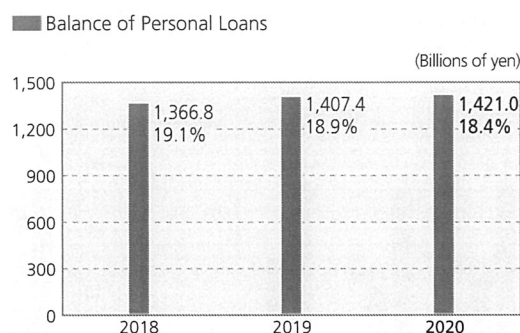
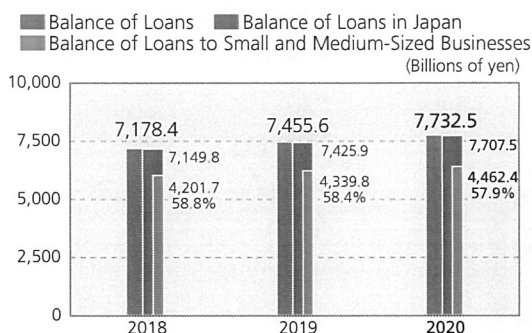
The total deposit balance at term-end was ¥9,026.2 billion, or ¥9,550.9 billion including Negotiable Certificates of Deposit (NCDs). This came about because of the expansion of products and services and steady marketing efforts based on solid community relationships.



Note: The deposit balance includes the NCD balance.

Balance of Loans/Balance of Personal Loans (Three Banks)

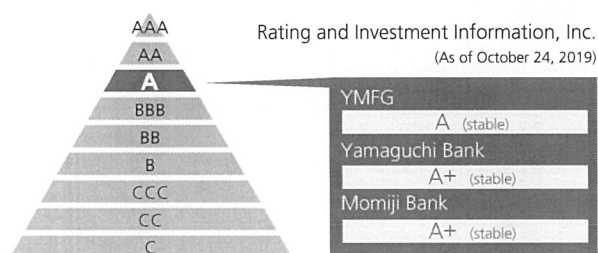
The balance of loans at term-end was ¥7,732.5 billion, as a result of active efforts to live up to the trust placed in us by our customers by meeting healthy demand for funds.



Note: The percentages of loans to small and medium-sized businesses and personal loans are calculated on the basis of the balance of loans in Japan.

Ratings for YMFG, Yamaguchi Bank and Momiji Bank

Ratings for the Group companies were A (stable) for YMFG, A+ (stable) for Yamaguchi Bank and Momiji Bank.



Dividend Policy (YMFG)

We have continued to provide stable dividends to our shareholders while securing profits and reinforcing financial health to maintain our credit strength.

In the year ended March 31, 2020, the dividend per share at term-end was ¥12. Combined with the interim dividend of ¥12 per share, the full-year dividend amounted to ¥24 per share.

	2018	2019	2020	2021 (Forecast)
Annual dividend per share (Interim dividend)	20.0 (10.0)	22.0 (11.0)	24.0 (12.0)	26.0 (13.0)

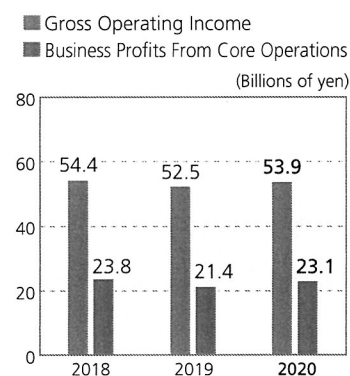
Expected Performance for the Fiscal Year Ending March 31, 2021 (YMFG)

YMFG aims to achieve its consolidated ordinary profits of ¥35.0 billion and net income attributable to owners of the parent of ¥23.0 billion.

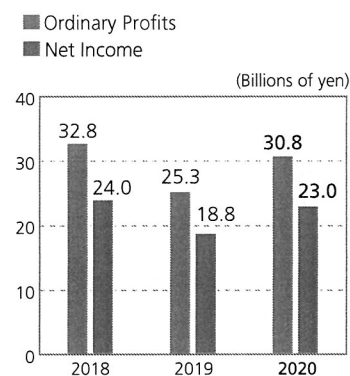
Performance Highlights (Three Banks)

Yamaguchi Bank (Non-consolidated)

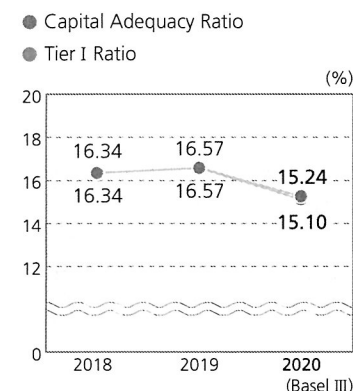
Gross Operating Income/Business Profits From Core Operations



Ordinary Profits/Net Income

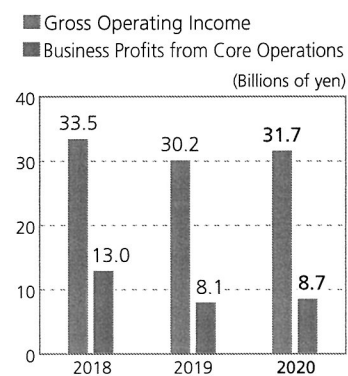


Capital Adequacy Ratio

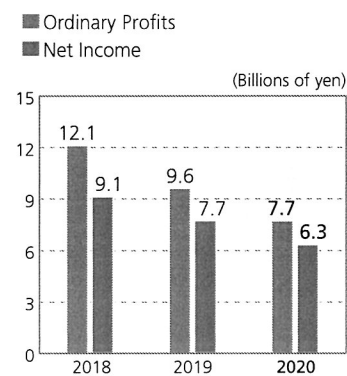


Momiji Bank (Non-Consolidated)

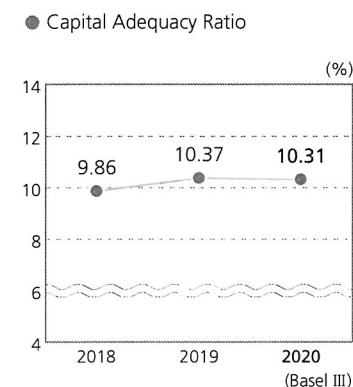
Gross Operating Income/Business Profits From Core Operations



Ordinary Profits/Net Income

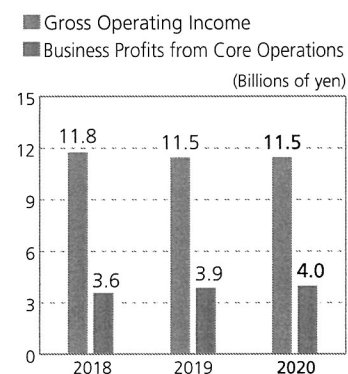


Capital Adequacy Ratio

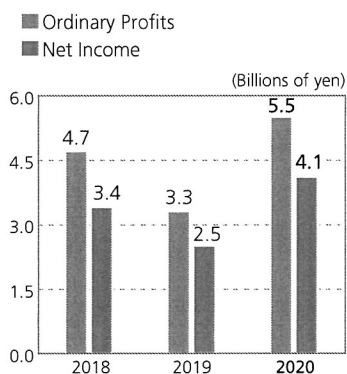


Kitakyushu Bank (Non-Consolidated)

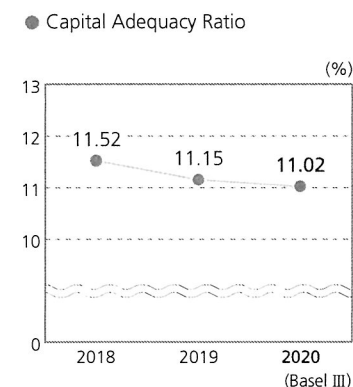
Gross Operating Income/Business Profits From Core Operations



Ordinary Profits/Net Income



Capital Adequacy Ratio



YMFG Forecast for the Fiscal Year Ending March 31, 2021

As the operating environment remain adverse, we expect profit categories to decrease during the fiscal year ending March 31, 2021.

In the second year of our Medium-Term Management Plan 2019, we expect consolidated ordinary profits for the YMFG Group to amount to ¥35.0 billion, down 4.4% year on year. We also anticipate net income attributable to owners of the parent of ¥23.0 billion, down 9.4%.

(Billions of yen)

YMFG (Consolidated)		
	Fiscal Year Ending March 31, 2021	Year-on-Year Change
Ordinary profits	35.0	(1.6)
Net income attributable to owners of the parent	23.0	(2.4)

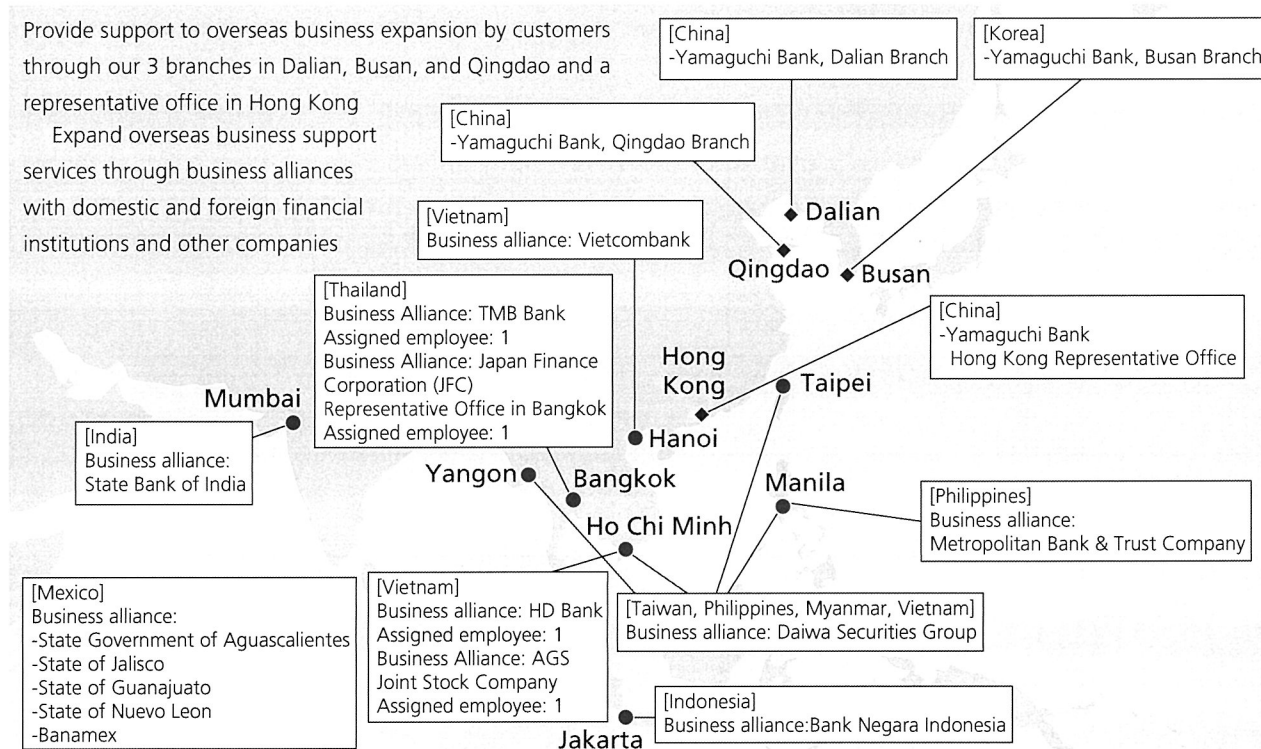
Yamaguchi Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2021	Year-on-Year Change
Ordinary profits	24.5	(6.3)
Net income attributable to owners of the parent	17.5	(5.5)

Momiji Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2021	Year-on-Year Change
Ordinary profits	7.0	(0.7)
Net income attributable to owners of the parent	5.7	(0.6)

Kitakyushu Bank (Non-Consolidated)		
	Fiscal Year Ending March 31, 2021	Year-on-Year Change
Ordinary profits	4.5	(1.0)
Net income attributable to owners of the parent	3.4	(0.7)

Note: Figures have been rounded off below the stated amounts.

Overseas Networks (As of July 1, 2020)



International Department

2-36, 4-chome Takezaki-cho, Shimonoseki, P.O. Box 24,
Shimonoseki 750-8603, Japan SWIFT Address: YMBKJPJT

Overseas Offices

BUSAN BRANCH

4F, Postal Insurance Busan Bldg., Jungang-Dong 3-Ga, 63,
Jungang-Daero, Jung-Gu, Busan, Republic of Korea
SWIFT Address: YMBKRR2P

QINGDAO BRANCH

2F, Crowne Plaza Hotel Qingdao, 76 Hong Kong Central
Road, Qingdao, Shandong Province, The People's Republic of
China
SWIFT Address: YMBKCNBQ

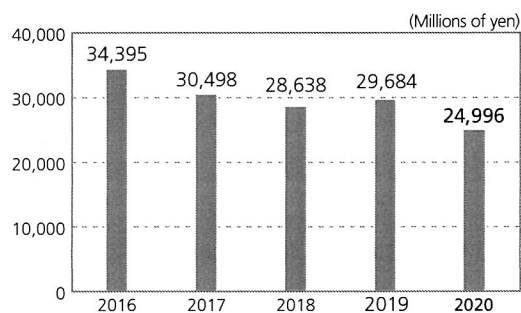
DALIAN BRANCH

14F Senmao Building No. 147, Zhongshan Road Xigang
District, Dalian, Liaoning Province, The People's Republic
of China
SWIFT Address: YMBKCNBD

HONG KONG REPRESENTATIVE OFFICE

403, 4/F, Far East Finance Centre, 16 Harcourt Road,
Hong Kong
Fax: +852-28104902

Loans of overseas branches (As of March 31)



Yamaguchi Bank: The first local bank that can deal with RMB in China

Corporate Governance

Based on its management policy of maintaining a sound and proactive enterprising spirit, YMFG 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 and recognizing that creating an effective corporate governance system is an important management priority, on an ongoing basis we are pursuing the initiatives described below to enhance our corporate governance.

- i. We strive to ensure the rights of shareholders and create an environment that facilitates the appropriate exercise of shareholders' rights and substantive shareholder equality.
- ii. We cooperate closely with our principal stakeholders, including customers, the local community, shareholders and employees.
- iii. We diligently disclose important management-related information to our principal stakeholders.
- iv. We endeavor to ensure the effectiveness of the business execution supervisory and auditing function through the establishment of various institutions, including the Board of Directors.
- v. We create systems to promote constructive dialogue in order to build long-term relationships with shareholders.

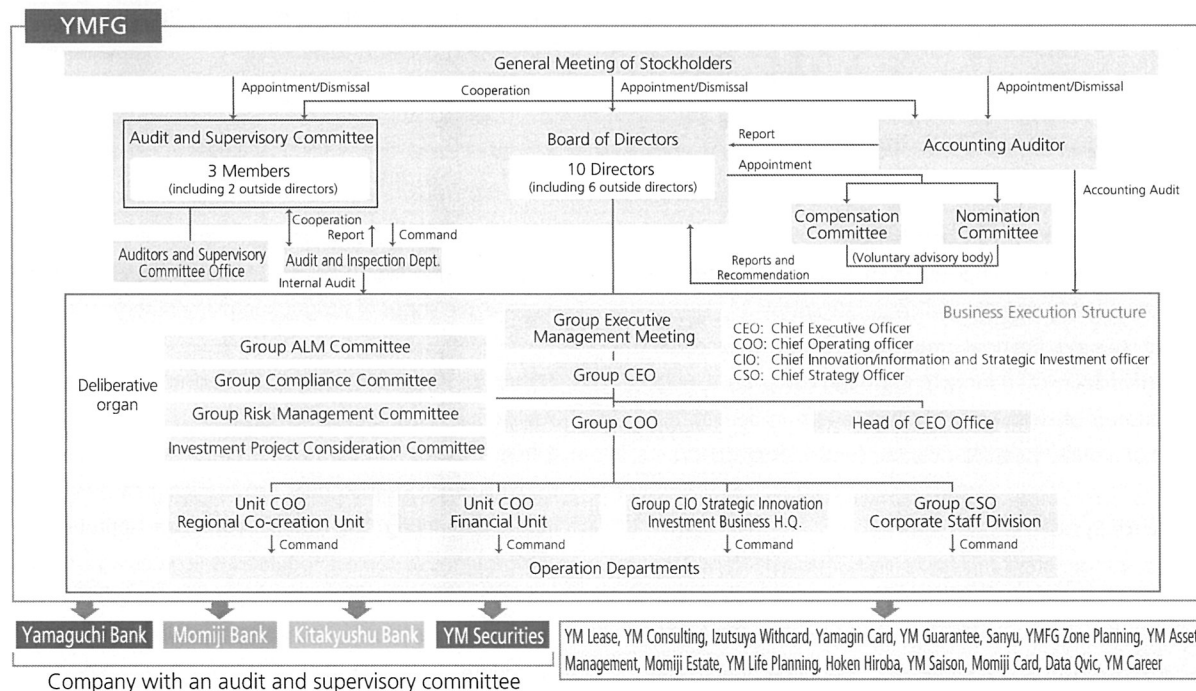
The Board of Directors, consisting of 10 directors (including six outside

directors), makes decisions about important matters related to the Group's management and supervises the directors. Furthermore, we have adopted the chief officer (CXO) system and the executive officer system to fortify the Board of Directors' supervisory function and enhance the business execution function. The Nomination Committee discusses matters related to the appointment and dismissal of directors, and the Compensation Committee discusses matters related to the compensation of the directors. Both guarantee the objectivity and transparency of decision-making processes.

YMFGE has adopted an audit and supervisory committee system. The Audit and Supervisory Committee comprises three directors, of whom two are outside directors. The committee audit the execution of operations by directors, configure, audit and verify the operation of internal control systems at YMFGE and its subsidiaries, and prepare audit reports. By having the Audit and Supervisory Committee, which chiefly comprises outside directors, exercise its voting rights at Board of Directors meetings, we endeavor to reinforce its auditing and supervisory function with respect to the Board of Directors and enhance the transparency and speed of the decision-making process.

The Group Executive Management Meeting, the Group Asset and Liability Management Committee, the Group Compliance Committee and the Group Risk Management Committee discuss important management issues.

YMFG Corporate Governance Structure (As of July 1, 2020)



YMFG Board of Directors and Corporate Auditors (As of July 1, 2020)

Chairman and Group CEO
Takeshi Yoshimura
President and Group COO
Keisuke Mukunashi
Vice President and Unit COO
Koichiro Kuno

Director
Masao Kusunoki*

Director
Yumiko Nagasawa*

Director
Noriyuki Yanagawa*

Director
Minako Suematsu*

Director
Audit and Supervisory Committee Member
Susumu Fukuda

Director
Audit and Supervisory Committee Member
Kazuo Tsukuda*

Director
Audit and Supervisory Committee Member
Michiaki Kunimasa*

* Masao Kusunoki, Yumiko Nagasawa, Noriyuki Yanagawa, Minako Suematsu, Kazuo Tsukuda and Michiaki Kunimasa are outside directors under Article 15 of Section 2 of the Companies Act.

Internal Audits and Compliance System

Internal Audits

Principles of Internal Audits

We define an internal audit as a series of processes for objective verification of the appropriateness and effectiveness of internal controls (including risk management) and as making suggestions for necessary improvements.

YMFG has devised standard internal audit rules for the whole Group. On the basis of these rules, the internal audit departments of each Group company implement audits.

Further, YMFG creates the Group's medium-term internal audit plan on the basis of its management policy and conditions. Internal audits by the auditing bodies of each Group company are conducted on the basis of this plan to ensure their effectiveness and efficiency.

Implementation of Internal Audits

YMFG's Audit and Inspection Dept. plans audit processes for the whole Group, implements audits and supervises each Group company's internal audits.

The YMFG Audit and Inspection Dept. devises the rules and medium-term plans for the Group's internal audits, implements audits of the Group companies' compliance/risk management departments and checks the accuracy of the financial statements of the Group companies.

Internal audits of front-line sales outlets are performed to verify the status of compliance and risk management functions and ensure their mutual effectiveness.

The department monitors and gives guidance and advice to the Group companies' audit and inspection departments. On the basis of their audit reports, the department reports on the internal audits of the Group to the Board of Directors and audit and supervisory committee.

Compliance System

YMFG's Attitude toward Compliance

YMFG shares a common understanding of their responsibilities to fulfill their public mission and corporate social responsibilities as a financial group. Accordingly, we accord topmost management priority to thorough compliance, take the seriousness of compliance seriously and consider earning the trust of a broad-based society our fundamental policy.

Compliance System

To ensure appropriate compliance, YMFG has established the Compliance Management Department. In addition to ensuring the status of compliance, this department conducts related training for executives and employees. This department liaises with the compliance management department of YMFG's subsidiaries as part of its efforts to centralize compliance matters throughout the Group.

The Group Compliance Committee acts as a deliberative

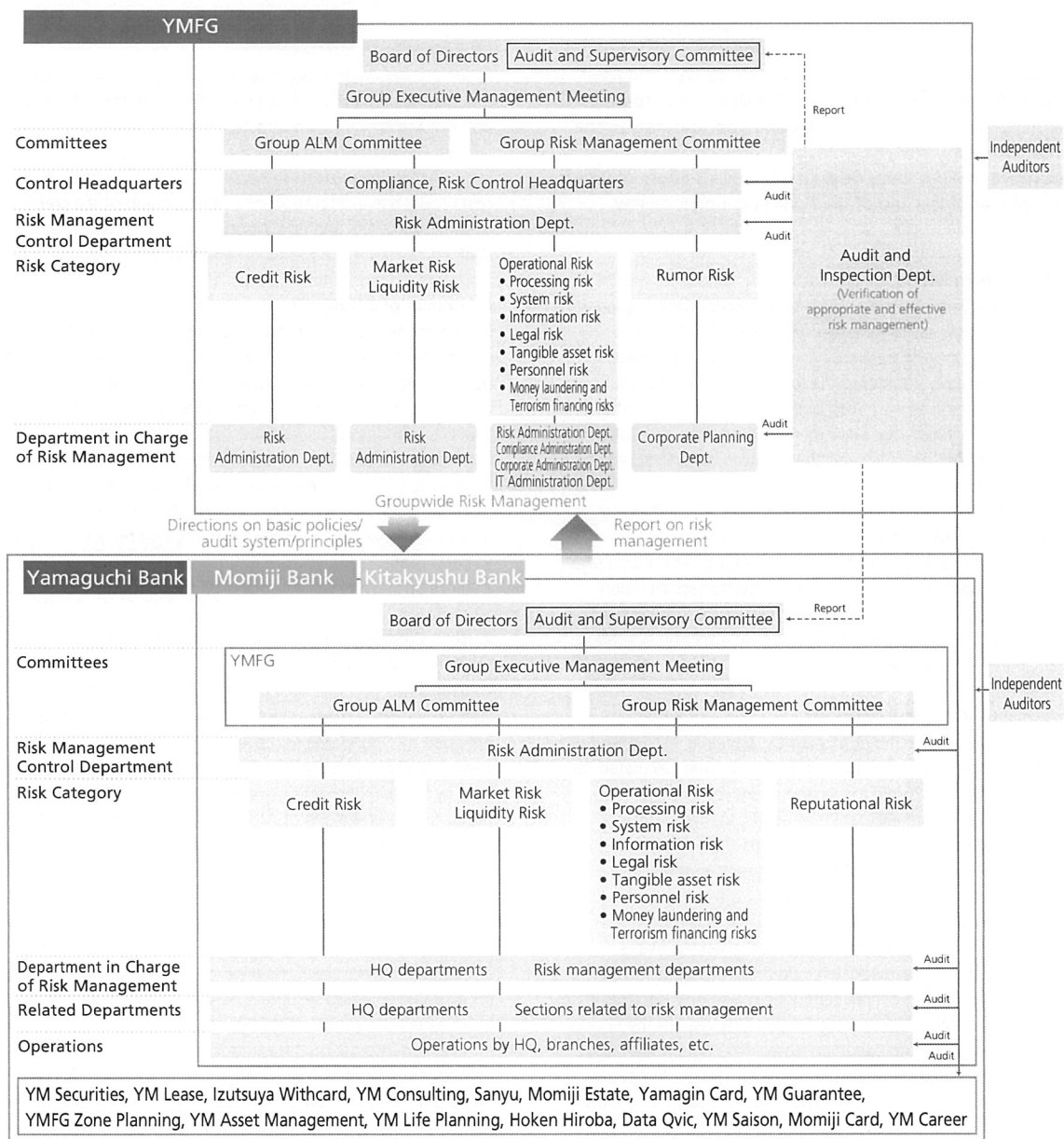
body of YMFG. We also formulate compliance programs for each fiscal year, which equate to specific execution plans, and monitor the status of program implementation.

Efforts to Prevent Money Laundering

The Act on Punishment of Organized Crimes and Control of Crime Proceeds and the Law for Prevention of Transfer of Criminal Proceeds prescribes heightened measures to prevent money laundering. The Group's efforts are appropriate and in conformance with these regulations, in keeping with our aim of maintaining society's trust in us as a financial institution. Specifically, we have formulated a policy of controls and procedures reasonably designed to prevent and detect money laundering/terrorist financing activities. We have appointed a senior officer to take charge of this policy and established training programs on this topic for all management and staff.

Risk Management System

YMFG Risk Management System (AS of July 1, 2020)



YMFG faces all kinds of risks that have become more diversified and complex along with changes in the economy and in society. Risk management is one of the most important issues facing the Group.

As part of our basic risk management policy, we have devised standard risk management rules that apply to the Group.

The Group has organized risk management sections, risk management departments, Group Risk Management Committee and Group Executive Management Meeting to

cope with risks. Risk amounts are measured by a uniform method, capital is allocated on the basis of these methods, and risks are collectively managed.

YMFG's risk management sections check risk management conditions in the whole Group.

The Audit and Inspection Department, which is independent of the operation departments, implements internal audits to ascertain the appropriateness and effectiveness of risk management. This system applies both to the Group.

Business and Other Risks

Of the matters related to business and economic conditions outlined in the annual securities report, below are the major risks management recognizes as having the potential to materially affect the financial condition, operating performance and cash flows status of YMFG (the Bank and its consolidated subsidiaries). Recognizing this potential, YMFG strives to prevent such risk from manifesting and to respond appropriately in the event they do occur.

The forward-looking items described below are those of which YMFG is aware as of the end of the fiscal year under review.

1. Credit Risk

(1) Non-Performing Loans

YMFG maintains sufficient allowances against non-performing loans to maintain the soundness of its assets. However, YMFG's non-performing loans and credit expenses could increase as the result of economic movements in Japan and the local community, fluctuations in real estate values and share prices, and the management status of recipients of YMFG's financing. Such factors could have a negative effect on operating performance and the financial condition, reducing equity capital.

To date, YMFG has worked diligently to move non-performing loans off the balance sheet, to write off non-performing loans appropriately, and to post sufficient allowances for doubtful accounts. However, the Group could face larger-than-expected losses when disposing of non-performing loans or incur higher-than-expected amortization. Such factors could have a negative effect on operating performance and the financial condition.

(2) Allowance for Doubtful Accounts

In accordance with predetermined standards, primarily, estimated loss amounts for the next one year and next three years are calculated for assets corresponding to normal assets and assets requiring caution. For assets classed as potentially bankrupt assets, loss amounts are stated by subtracting from lending amounts the amount of recoverable collateral or the expected amount recoverable from guaranties. However, actual losses may differ from the amounts expected when the allowance for doubtful accounts is posted. As a result, actual losses could significantly exceed expected losses, resulting in an insufficient allowance for doubtful accounts.

Furthermore, worsening overall economic conditions, declines in collateral values and other unexpected factors may require the Group to revise its set standards and expected losses, resulting in the need to increase the allowance for doubtful accounts. This could have a negative effect on operating performance and the financial condition.

(3) Loans by Business Category, Geographic Region and Other Factors

From a risk management perspective, YMFG conducts credit management of its portfolio by rating level, business category, scale, region and other factors.

However, large amounts of non-performing loans could be generated in a specific business category and, if poor business conditions in that business sector are prolonged, new corporate bankruptcies could arise. In such circumstances, YMFG's credit expenses could increase, having a negative impact on YMFG's operating performance and financial condition.

Furthermore, as YMFG's main bases of operation are in Yamaguchi Prefecture, Hiroshima Prefecture and the city of Kitakyushu, the Group's operations tend to be particularly affected by regional economies. Conditions in those regional economies could therefore

have a negative impact on YMFG's operating performance and financial condition.

(4) Response to Borrowers

In some cases, YMFG may not exercise its legal rights even when a borrower defaults on their financial obligations, after taking into account the efficient and effective recovery of loans, among other factors. Furthermore, YMFG may support or cooperate with such borrowers in their efforts to secure additional loans. YMFG's credit costs could rise as the result of a deterioration of the creditworthiness of such borrowers and its support, having a negative impact on YMFG's operating performance and financial condition.

(5) Impact of COVID-19

To prevent the spread of the novel coronavirus disease (COVID-19), companies are being asked to suspend operations, and people are being asked to refrain from going outdoors. This situation is affecting our region to an unprecedented degree. Given these circumstances, YMFG is working to understand the conditions of individual borrowers in a timely and appropriate manner and provide various types of support to help customers with cash flow and other aspects of business continuity, including through the application various types of support measures. However, if the operating environment were to deteriorate, credit costs could rise, having a negative impact on YMFG's operating performance and financial condition.

2. Risks Related to the Capital Adequacy Ratio

(1) Capital Adequacy Ratio

As YMFG has overseas bases, it calculates a consolidated capital adequacy ratio according to uniform international standards as provided by "standards for determining whether a bank holding company's equity capital is sufficient, after taking into account assets held by the bank holding company and its subsidiary companies, based on the provisions of Article 52-25 of the Banking Act" (Financial Services Agency Notification No. 20 of 2016).

Accordingly, the consolidated capital adequacy ratio must be maintained at 8% or higher, the Tier 1 ratio at 6% or higher and the Tier 1 ratio on common shares at 4.5% or higher. YMFG's capital adequacy ratio currently exceeds these levels. However, changes in amounts of capital stock, retained earnings and valuation differences on available-for-sales securities, as well as fluctuations in risk assets, could affect the capital adequacy ratio.

Uniform international standards call for the setting of a capital conservation buffer (2.5% above individual minimums). Currently, YMFG exceeds these buffer levels. However, if it were to fall below these levels, YMFG might limit dividends and other outflows, having a negative impact on YMFG's operating performance and financial condition.

Among consolidated banking subsidiaries of YMFG, Yamaguchi Bank calculates its non-consolidated capital adequacy ratio according to uniform international standards based on "standards for determining whether a bank's equity capital is sufficient, after taking into account assets held by the bank, based on the provisions of Article 14-2 of the Banking Act" (Financial Services Agency Notification No. 19 of 2016). Momiji Bank and Kitakyushu Bank calculate their non-consolidated capital adequacy ratios according to domestic standards, based on Financial Services Agency Notification No. 19 of 2016.

(2) Deferred Tax Assets

As of the end of the consolidated fiscal year under review, Japanese

accounting standards allow companies to record deferred tax assets as expected tax benefits to be realized in the future.

Uniform international standards allow deferred tax assets related to temporary differences to be included in equity capital, up to a certain limited amount, and YMFG includes in equity capital an amount calculated in accordance with Financial Services Agency Notification No. 28 of 2012.

As the balance sheet amount of deferred tax assets is based on various forecasts and assumptions, including those related to future taxable income, YMFG may reduce deferred tax assets if it decides that all or part of these deferred tax assets cannot be recovered. Such a reduction would have a negative impact on YMFG's operating performance and financial condition and cause the capital adequacy ratio to decrease.

3. Market Risks

(1) Interest Rate Risk

YMFG, which engages mainly in banking operations, is affected by fluctuations in market interest rates through interest on loans—an asset investment method, yields on bond and other investments, and interest rates on deposits—a funding method. Mismatches between the amount and timing of asset investments and funding, as well as unforeseen interest rate fluctuations, may have a negative effect on YMFG's operating performance and financial condition.

(2) Risk of Price Fluctuations on Holdings of Available-for-Sale Securities

YMFG has substantial holdings of marketable, available-for-sale securities for investment purposes. Broad-based and large-scale price declines may engender impairments or valuation losses on holdings of available-for-sale securities, which could have a negative effect on YMFG's operating performance and financial condition and lower the capital adequacy ratio.

(3) Exchange transactions

YMFG's operations are affected by exchange rate fluctuations. Ongoing yen appreciation reduces the value of foreign currency transactions when converted to yen. Also, certain assets and liabilities are presented in foreign currencies. If it is not possible to offset assets and liabilities denominated in foreign currencies by the same amount or hedge such differences effectively, YMFG's operating performance and the financial condition may be negatively affected.

(4) Impact of COVID-19

YMFG has in place a system to appropriately manage its holdings of available-for-sale securities. However, if financial markets deteriorate, the value of these holdings of available-for-sale securities could decrease, having a negative impact on YMFG's operating performance and financial condition.

4. Liquidity Risks

(1) Cash Flow Risk

YMFG raises the majority of its funds through deposits and is therefore able to manage funds provided through a stable source of funding. However, inconsistencies between investment and funding or unexpected outflows of funds could hinder funding, rendering YMFG unable to fulfill its payment obligations on their settlement dates. Alternatively, YMFG may be compelled to raise funds at substantially higher interest rates than usual, thereby generating losses.

(2) Market Liquidity Risk

Market confusion may make it impossible for YMFG to buy and sell available-for-sale securities or it may have no alternative but to conduct such transactions at prices less favorable than usual, thereby generating losses.

(3) Risk Related to Liquidity Regulations

Uniform international standards require the liquidity coverage ratio to be maintained at 100% or higher. YMFG's liquidity coverage ratio currently exceeds this level. However, YMFG's ratio could fall below this level due to changes in the amount of eligible liquid assets or cash outflows, having a negative impact on YMFG's operating performance and financial condition.

5. Operational Risks

(1) Administrative Risk

Although its operations center on banking, YMFG also conducts comprehensive, regionally focused financial services including securities and credit card operations. If executives or employees were to perform operations inaccurately or if accidents or instances of fraud were to occur, in addition to direct losses YMFG could suffer a loss among customers of the trust it has cultivated over many years, consequently having a negative impact on YMFG's operating performance and financial condition.

(2) Risk of Information Leaks

YMFG retains significant information about customer deposits and loans that should not be leaked outside. The Group has in place measures to prevent outside incursions of its online and other systems. However, unexpected circumstances could result in outflows of such information. The Group stringently manages information printed on paper or stored in electronic media in accordance with information asset management regulations, but such information could be leaked outside the Group by people with malicious intent or as the result of the mishandling of information. Such situations could call into question the Group's social responsibility and result in claims of compensation for damages. In addition, such situations could have a negative effect on operating performance and the financial condition.

(3) System Risk

YMFG has measures in place to address system risk, such as computer systems going down or malfunctioning, as well as against fraudulent use and external cyberattacks. YMFG also has thorough security measures in place and manages information stringently in line with its security policy. However, the manifestation of system risk due to a disaster, the failure of equipment or telecommunication circuits or program failure could result damage or outflows of information. This situation could cause the suspension of payment functions and service operations, as well as a loss in the trust of society, negatively affecting YMFG's operating performance and financial condition.

(4) Legal Risk

YMFG strives to ensure thorough compliance and is reinforcing its systems to prevent legal violations. Nevertheless, YMFG could conduct legal violations within its various business operations, resulting in lawsuits and negatively affecting YMFG's operating performance and financial condition.

(5) Human Risk

YMFG endeavors to recruit and train competent human resources.

However, the failure to recruit or train sufficient human resources could result in a decrease in competitiveness and efficiency, negatively affecting YMFG's operating performance and financial condition.

(6) Reputational Risk

Negative news reports and rumors about YMFG and the financial industry, whether true or not, could negatively affect YMFG's operating performance, financial condition and share price.

6. Business-Related Risk

(1) Risk of Competition

The competitive environment within the financial sector has changed substantially in recent years, due to extensive deregulation of financial systems, the restructuring of regional financial institutions and entry into the financial sector of companies from other industries. YMFG's sales base could lose its competitive advantage against other financial institutions as a result, negatively affecting YMFG's operating performance and financial condition.

(2) Risk of Unsuccessful Business Strategies

Although its operations center on banking, YMFG also conducts comprehensive, regionally focused financial services including securities and credit card operations and enacts business strategies aimed to enhance corporate value. However, greater-than-expected changes in the operating environment could prevent YMFG from generating the level of earnings it anticipates, or costs could be higher than anticipated, negatively affecting YMFG's operating performance and financial condition.

Furthermore, YMFG could fall short of its expected results if it is unsuccessful in enacting management strategies for development outlined in the YMFG Medium-Term Plan 2019, which commenced in the fiscal year ended March 31, 2020.

(3) Holding Company Risk

Being a bank holding company, the majority of YMFG's earnings come from the dividends paid by its wholly owned subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank. Under certain conditions, the Banking Act or the Companies Act may restrict the amounts that Yamaguchi Bank, Momiji Bank and Kitakyushu Bank can pay as dividends to YMFG. In addition, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank may become unable to pay dividends to YMFG due to the insufficient posting of earnings. Their inability to pay dividends to YMFG could render YMFG unable to pay dividends.

(4) Risk of an Expanding Scale of Operations

In line with legislative changes and deregulation, YMFG has expanded its scope of operations to take advantage of new earning opportunities. This greater scale of operations exposes YMFG to new risks. Also, these businesses may not progress as expected. As a result, YMFG's operating performance and financial condition could be negatively affected.

7. Other Risks

(1) Risk Related to Pension Obligations

Decreases in the market value or investment yield of YMFG's pension assets or changes in the base rate used for calculating retirement benefit obligations can result in losses. Also, changes in pension plans can incur amortization expenses on past service obligations. In addition, changes in the interest rate environment and other factors can have a negative impact on the unfunded portion of retirement benefit obligations.

(2) Risk Related to Impairment of Fixed Assets

YMFG applies the "Accounting Standard for Impairment of Fixed Assets" to the fixed assets it owns. Changes in the purpose of use of these fixed assets, or decreases in profitability or asset values could lead to valuation losses, having a negative impact on YMFG's operating performance and financial condition.

(3) Risk of Financial Crimes

In the face of rampant crimes targeting financial institutions, such as the forgery or theft of cash cards and remittance fraud, YMFG is strengthening its security measures to prevent damages due to financial crimes. However, the advent of sophisticated financial crimes could render YMFG unable to stop illegal or inappropriate transactions, leading to unexpected losses and credit losses, having a negative impact on YMFG's operating performance and financial condition.

(4) Risk of Regulatory Change

As a bank holding company, YMFG is subject to restrictions and supervision under the Banking Act and is bound to operate within the restrictions in place as of the end of the consolidated fiscal year under review (including laws, regulations, policies and conventional practices). Consequently, future regulatory changes could negatively affect YMFG's execution of operations, operating performance, financial condition and capital adequacy ratio.

(5) Risk of Credit Rating Being Lowered

If rating agencies were to lower their ratings, YMFG could be required to engage in transactions under unfavorable conditions or become unable to engage in certain transactions. This situation could have a negative impact on YMFG's operating performance and financial condition.

(6) Compliance Risk

To encourage all executives and employees to reinforce the compliance system, each year YMFG formulates compliance program practice items and undertakes a variety of initiatives. However, if a compliance-related problem were to arise, it could cause direct losses as well as resulting in the loss of trust among customers cultivated over many years. As a result, YMFG's operating performance and financial condition could be negatively affected.

(7) Risks Related to External Factors

External factors such as natural disasters (including earthquakes, storm and flood damage, and contagious diseases), man-made disasters (including terrorism and cybercrime) and technological disasters (including electrical outages and computer trouble), could result in damage to YMFG's head office, branches and other locations, threatening YMFG's ability to continue all or part of its operations and significantly affecting YMFG's operations.

In addition, to help prevent the recent COVID-19 pandemic from spreading, YMFG has decentralized operations at headquarters and sales branches, introduced teleworking, and adopted a time-shifted working schedule as part of its health maintenance and disease-prevention efforts. However, if the pandemic fails to subside, continues for a protracted period or increases in intensity, or if YMFG employees were to become infected, ensuring business continuity could become problematic. As a result, YMFG's operations and financial condition could be negatively affected.

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YMFG Business Situation

Summary of Business Results

■ The Regional Economy

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

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

Against this backdrop, from the perspective of regional invigoration and in line with their mission of contributing to regional economic development, regional financial institutions face requests to deliver stronger financial soundness and profitability, supply funding more flexibly and further enhance their financial services.

■ YMFG Performance

Amid these financial and economic conditions, supported by its shareholders and business partners all YMFG's officers and employees were united in their efforts to strengthen the Group's management base, bolster operating performance and contribute to the region.

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

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

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

■ Financial Results

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

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

Loans and bills discounted increased ¥244.2 billion, to ¥7,652.6 billion as of March 31, 2020, due to the Group's efforts to fulfill its role as a regional financial institution through its function as a financial intermediary and aggressive efforts to meet demand from business partners with whom the Group has developed trust-based relationships.

The Group's holdings of securities came to ¥1,512.7 billion at year-end, up ¥114.7 billion, due to increases in

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

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

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

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

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

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

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

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

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

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

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

March 31, 2020 and 2019

ASSETS		Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 1)
		2020	2019	2020
Assets	Cash and due from banks (Notes 3, 4 and 9)	¥ 971,777	¥ 1,043,994	\$ 8,929,312
	Call loans and bills purchased (Note 4)	1,088	39,042	9,997
	Monetary claims bought	5,487	7,055	50,418
	Trading assets (Notes 4 and 6)	1,542	1,465	14,169
	Money held in trust (Notes 4 and 6)	48,412	30,565	444,841
	Securities (Notes 4, 5, 6 and 9)	1,512,748	1,398,014	13,900,101
	Loans and bills discounted (Notes 4, 7 and 8)	7,652,626	7,408,387	70,317,247
	Foreign exchanges	20,693	18,550	190,141
	Lease receivables and investment assets	19,763	18,109	181,595
	Other assets (Notes 4, 6 and 9)	234,539	205,258	2,155,094
	Tangible fixed assets (Notes 10, 11, 15 and 20)	92,300	93,233	848,112
	Intangible fixed assets (Note 20)	10,679	10,927	98,126
	Net defined benefit asset (Note 14)	35,042	38,675	321,988
	Deferred tax assets (Note 21)	18,425	1,367	169,301
	Customers' liabilities for acceptances and guarantees (Note 16)	46,098	46,547	423,578
	Allowance for loan losses	(65,803)	(57,048)	(604,640)
	Total assets	¥ 10,605,416	¥ 10,304,140	\$ 97,449,380

LIABILITIES AND NET ASSETS

Liabilities	Deposits (Notes 4 and 9)	¥ 9,525,935	¥ 9,230,773	\$ 87,530,414
	Call money and bills sold (Note 9)	91,992	133,466	845,282
	Payables under securities lending transactions (Note 9)	161,466	67,711	1,483,653
	Trading liabilities (Notes 4 and 6)	742	568	6,818
	Borrowed money (Notes 9 and 13)	27,999	29,553	257,273
	Foreign exchanges	197	295	1,810
	Bonds with warrants	—	33,297	—
	Other liabilities (Notes 4 and 6)	101,336	75,448	931,142
	Provision for bonuses	2,765	2,590	25,407
	Net defined benefit liability (Note 14)	3,930	2,906	36,111
	Provision for directors' retirement benefits	294	293	2,701
	Provision for loss on interest repayments	10	15	92
	Provision for reimbursement of deposits	1,029	1,281	9,455
	Provision for customers point services	70	71	643
	Provision for directors' stock benefits	389	300	3,574
	Reserves under special laws	28	28	257
	Deferred tax liabilities (Note 21)	53	7,171	487
	Deferred tax liabilities for land revaluation (Notes 15 and 21)	10,838	10,869	99,587
	Acceptances and guarantees (Note 16)	46,098	46,547	423,578
	Total liabilities	9,975,171	9,643,182	91,658,284
Net Assets (Notes 22 and 23)	Capital stock	50,000	50,000	459,432
	Capital surplus	58,656	58,685	538,969
	Retained earnings	508,212	488,620	4,669,779
	Treasury stock	(14,321)	(14,795)	(131,591)
	Total shareholders' equity	602,547	582,510	5,536,589
	Unrealized gains on available-for-sale securities (Note 6)	9,689	45,710	89,029
	Deferred losses on hedges	(10,657)	(1,270)	(97,923)
	Revaluation reserve for land (Note 15)	24,455	24,526	224,707
	Remeasurements of defined benefit plans	(2,022)	3,009	(18,579)
	Total accumulated other comprehensive income	21,465	71,975	197,234
	Stock options (Note 24)	127	209	1,167
	Non-controlling interests	6,106	6,264	56,106
	Total net assets	630,245	660,958	5,791,096
Total liabilities and net assets		¥ 10,605,416	¥ 10,304,140	\$ 97,449,380

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2020 and 2019

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2020
Income			
Interest income:			
Interest on loans and discounts	¥ 75,941	¥ 77,264	\$ 697,795
Interest and dividends on securities	21,527	19,995	197,804
Other interest income	899	1,340	8,261
Trust fees	1	1	9
Fees and commissions	23,029	23,898	211,605
Trading income	1,304	2,316	11,982
Other operating income	34,146	24,584	313,755
Recoveries of written-off claims	15	25	138
Compensation for branch relocation	4	—	37
Other income (Note 17)	18,557	13,170	170,513
Total income	175,423	162,593	1,611,899
Expenses			
Interest expense:			
Interest on deposits	5,110	6,544	46,954
Interest on borrowings and rediscounts	3,042	2,381	27,952
Interest on bonds payable	572	664	5,256
Other interest expense	1,487	997	13,664
Fees and commissions	9,282	9,057	85,289
Other operating expenses	31,639	25,909	290,719
General and administrative expenses (Notes 18 and 24)	69,272	71,325	636,516
Impairment losses (Note 12)	144	14	1,323
Other expenses (Note 19)	18,517	12,385	170,146
Total expenses	139,065	129,276	1,277,819
Income before income taxes	36,358	33,317	334,080
Income taxes (Note 21):			
Current	13,250	10,637	121,750
Deferred	(2,137)	(646)	(19,636)
Net income	25,245	23,326	231,966
Net income attributable to non-controlling interests	(146)	177	(1,342)
Net income attributable to owners of the parent	¥ 25,391	¥ 23,149	\$ 233,308

	Yen 2020	Yen 2019	U.S. dollars (Note 1) 2020
Amounts per share of common stock:			
Net income attributable to owners of the parent (Note 29)	¥ 100.07	¥ 94.65	\$ 0.92

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended March 31, 2020 and 2019

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2020
Net income	¥ 25,245	¥ 23,326	\$ 231,966
Other comprehensive income (Note 26)	(50,449)	(22,674)	(463,557)
Unrealized gains (losses) on available-for-sale securities	(36,031)	(14,232)	(331,075)
Deferred gains (losses) on hedges	(9,387)	(1,102)	(86,254)
Remeasurements of defined benefit plans	(5,031)	(7,340)	(46,228)
Comprehensive income (Note 26)	¥ (25,204)	¥ 652	\$ (231,591)
Comprehensive income attributable to owners of the parent	(25,049)	489	(230,166)
Comprehensive income attributable to non-controlling interests	(155)	163	(1,425)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2020 and 2019

	Millions of yen												
	Shareholders' Equity					Accumulated other comprehensive income					Stock options	Non-controlling Interests	Total Net Assets
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized gains on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2018	¥50,000	¥60,882	¥470,697	¥(22,107)	¥559,472	¥ 59,927	¥ (168)	¥24,533	¥10,350	¥ 94,642	¥ 359	¥5,978	¥660,451
Changes of items during the year													
Dividend paid			(5,232)		(5,232)								(5,232)
Net income attributable to owners of the parent			23,149		23,149								23,149
Purchase of treasury stock				(20,161)	(20,161)								(20,161)
Disposal of treasury stock		(2,468)		27,473	25,005								25,005
Reversal of revaluation reserve for land			6		6								6
Effect to capital surplus resulting from changes in ownership interest in a subsidiary		271			271								271
Net changes of items other than shareholders' equity						(14,217)	(1,102)	(7)	(7,341)	(22,667)	(150)	286	(22,531)
Total changes of items during the year	—	(2,197)	17,923	7,312	23,038	(14,217)	(1,102)	(7)	(7,341)	(22,667)	(150)	286	507
Balance at March 31, 2019	¥50,000	¥58,685	¥488,620	¥(14,795)	¥582,510	¥ 45,710	¥ (1,270)	¥24,526	¥ 3,009	¥ 71,975	¥ 209	¥6,264	¥660,958
Changes of items during the year													
Dividend paid			(5,870)		(5,870)								(5,870)
Net income attributable to owners of the parent			25,391		25,391								25,391
Purchase of treasury stock				(339)	(339)								(339)
Disposal of treasury stock		(29)		813	784								784
Reversal of revaluation reserve for land			71		71								71
Effect to capital surplus resulting from changes in ownership interest in a subsidiary													—
Net changes of items other than shareholders' equity						(36,021)	(9,387)	(71)	(5,031)	(50,510)	(82)	(158)	(50,750)
Total changes of items during the year	—	(29)	19,592	474	20,037	(36,021)	(9,387)	(71)	(5,031)	(50,510)	(82)	(158)	(30,713)
Balance at March 31, 2020	¥50,000	¥58,656	¥508,212	¥(14,321)	¥602,547	¥ 9,689	¥(10,657)	¥24,455	¥ (2,022)	¥ 21,465	¥ 127	¥6,106	¥630,245

	Thousands of U.S. dollars (Note 1)												
	Shareholders' Equity					Accumulated other comprehensive income					Stock options	Non-controlling Interests	Total Net Assets
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized gains on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2019	\$459,432	\$539,235	\$4,489,765	\$(135,946)	\$5,352,486	\$ 420,114	\$(11,669)	\$225,360	\$ 27,649	\$ 661,454	\$1,920	\$57,549	\$6,073,409
Changes of items during the year													
Dividend paid			(53,937)		(53,937)								(53,937)
Net income attributable to owners of the parent			233,308		233,308								233,308
Purchase of treasury stock				(3,115)	(3,115)								(3,115)
Disposal of treasury stock		(266)		7,470	7,204								7,204
Reversal of revaluation reserve for land			643		643								643
Effect to capital surplus resulting from changes in ownership interest in a subsidiary													0
Net changes of items other than shareholders' equity						(331,085)	(86,254)	(653)	(46,228)	(464,220)	(753)	(1,443)	(466,416)
Total changes of items during the year		(266)	180,014	4,355	184,103	(331,085)	(86,254)	(653)	(46,228)	(464,220)	(753)	(1,443)	(282,313)
Balance at March 31, 2020	\$459,432	\$538,969	\$4,669,779	\$(131,591)	\$5,536,589	\$ 89,029	\$(97,923)	\$224,707	\$(18,579)	\$ 197,234	\$1,167	\$56,106	\$5,791,096

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2020 and 2019

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2020
Cash flows from operating activities:			
Income before income taxes	¥ 36,358	¥ 33,318	\$ 334,081
Depreciation	6,142	6,472	56,437
Impairment losses	144	14	1,323
Amortization of goodwill	355	353	3,262
Equity in earnings of affiliates	(3)	(10)	(28)
Net change in allowance for loan losses	8,754	5,358	80,437
Net change in provision for bonuses	175	(642)	1,608
Net change in defined benefit asset	3,633	6,029	33,382
Net change in defined benefit liability	1,024	1,109	9,409
Net change in provision for directors' retirement benefits	1	14	9
Net change in provision for directors' stock benefits	89	48	818
Net change in provision for loss on interest repayments	(5)	(8)	(46)
Net change in provision for reimbursement of deposits	(252)	(391)	(2,316)
Net change in provision for customers point services	(1)	(1)	(9)
Interest income	(98,367)	(98,599)	(903,859)
Interest expenses	10,211	10,586	93,825
Net gains related to securities transactions	(15,667)	(11,485)	(143,958)
Net losses (gains) from money held in trust	(969)	816	(8,904)
Net exchange losses (gains)	5,869	(676)	53,928
Net losses (gains) from disposition of fixed assets	105	99	965
Net change in trading assets	(77)	49	(708)
Net change in trading liabilities	174	75	1,599
Net change in loans and bills discounted	(244,239)	(250,551)	(2,244,225)
Net change in deposits	128,682	138,786	1,182,413
Net change in negotiable certificates of deposits	166,480	(263,763)	1,529,725
Net change in borrowed money excluding subordinated loans	(1,554)	(246)	(14,279)
Net change in deposits with bank	1,444	(279)	13,268
Net change in call loans and bills purchased	39,522	39,744	363,154
Net change in call money and bills sold	(41,474)	71,178	(381,090)
Net change in payables under securities lending transactions	93,755	20,827	861,481
Net change in foreign exchanges (asset account)	(2,143)	(699)	(19,691)
Net change in foreign exchanges (liability account)	(98)	168	(900)
Net change in lease receivables and investment assets	(1,654)	(2,075)	(15,198)
Interest received	92,591	93,106	850,786
Interest paid	(10,785)	(10,769)	(99,100)
Other, net	(35,671)	(17,623)	(327,767)
Subtotal	142,549	(229,668)	1,309,832
Income taxes paid	(9,857)	(18,200)	(90,572)
Income taxes refunds	1,359	—	12,487
Net cash used in operating activities	134,051	(247,868)	1,231,747
Cash flows from investing activities:			
Purchases of securities	(3,489,606)	(2,610,787)	(32,064,743)
Proceeds from sales of securities	3,221,245	2,779,979	29,598,870
Proceeds from maturity of securities	126,090	166,812	1,158,596
Purchases of money held in trust	(64,810)	(10,260)	(595,516)
Proceeds from sales of money held in trust	46,914	19,936	431,076
Purchases of tangible fixed assets	(2,899)	(3,106)	(26,638)
Proceeds from sales of tangible fixed assets	28	8	257
Purchases of intangible fixed assets	(2,720)	(2,849)	(24,993)
Net cash provided by investing activities	(165,758)	339,733	(1,523,091)
Cash flows from financing activities:			
Payments for redemption of bonds with subscription rights to shares	(33,246)	(9,034)	(305,486)
Dividends paid	(5,870)	(5,232)	(53,937)
Dividends paid to non-controlling shareholders	(3)	(3)	(28)
Purchases of treasury stock	(339)	(20,114)	(3,115)
Proceeds from disposal of treasury stock	393	395	3,612
Proceeds from sales of shares of parent held by subsidiaries	—	1	—
Payments for acquiring additional shares of a subsidiary that do not result in change in scope of consolidation	—	(53)	—
Proceeds from selling shares of a subsidiary that do not result in change in scope of consolidation	—	381	—
Net cash used in financing activities	(39,065)	(33,659)	(358,954)
Effect of exchange rate changes on cash and cash equivalents	(2)	7	(19)
Net change in cash and cash equivalents	(70,774)	58,213	(650,317)
Cash and cash equivalents at the beginning of fiscal year	1,015,558	957,345	9,331,600
Cash and cash equivalents at the end of fiscal year (Note 3)	¥ 944,784	¥ 1,015,558	\$ 8,681,283

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 2020 and 2019

1. BASIS OF PRESENTATION

Yamaguchi Financial Group, Inc. ("YMFG") is a holding company for The Yamaguchi Bank, Ltd. ("Yamaguchi Bank"), Momiji Bank, Ltd. ("Momiji Bank"), The Kitakyushu Bank, Ltd. ("Kitakyushu Bank") and other subsidiaries.

YMFG and its consolidated subsidiaries ("the Group") maintain their accounts and records in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulation and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Japanese GAAP are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of YMFG which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law.

In preparing the accompanying consolidated financial statements, certain restructuring and reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 to U.S.\$1.00. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation and equity method

(1) Scope of consolidation

Japanese accounting standards on consolidated financial statements require a company to consolidate any subsidiaries of which the company substantially controls the operations, even if it is not a majority owned subsidiary. Control is defined as the power to govern the decision-making body of an enterprise.

- (i) 17 consolidated subsidiaries at March 31, 2020 and 2019.

The names of the main consolidated subsidiaries are listed on page 1.

The scope of consolidation includes YM Career Inc. due to its establishment in the fiscal year ended March 31, 2020.

In addition, Kitakyushu Economics Institute, Inc., formerly a consolidated subsidiary, was excluded from the scope of consolidation in the fiscal year ended March 31, 2020 due to the merger between Kitakyushu Economics Institute, Inc. and YMFG Zone Planning Co., Ltd. (an absorption-type merger in which YMFG Zone Planning Co., Ltd. was the surviving company).

The scope of consolidation includes DATA QVIC Inc. due to its establishment in the fiscal year ended March 31, 2019.

- (ii) One unconsolidated subsidiary at March 31, 2020 and 2019.

Name of major subsidiary:

Maple Funding Corporation

The unconsolidated subsidiary is excluded from the scope of consolidation because its total assets, ordinary income, net income (in proportion to ownership), retained earnings (in proportion to ownership) and accumulated other comprehensive income are so immaterial that they do not hinder a rational judgment of YMFG's consolidated financial position and results of operations when excluded from the scope of consolidation.

(2) Application of the equity method

Japanese accounting standards also require any unconsolidated subsidiaries and affiliates with financial and operating policies over which YMFG is able to

exercise material influence to be accounted for by the equity method.

- (i) No unconsolidated subsidiary was accounted for by the equity method at March 31, 2020 and 2019.
- (ii) As at March 31, 2020 and 2019, two affiliates were accounted for by the equity method.

Affiliates as at March 31, 2020 and 2019 were as follows:

YM Saison Co., Ltd.

Momiji Card Co., Ltd.

- (iii) As at March 31, 2020 and 2019, one unconsolidated subsidiary was not accounted for by the equity method.

Name of major subsidiary:

Maple Funding Corporation

The unconsolidated subsidiary is also excluded from the scope of application of equity method because its net income (in proportion to ownership), retained earnings (in proportion to ownership) and accumulated other comprehensive income (in proportion to ownership) are so immaterial that they do not hinder a rational judgment of YMFG's consolidated financial position and results of operations when excluded from the scope of equity method.

- (iv) There were no affiliates that were not accounted for by the equity method as at March 31, 2020 and 2019.

(3) The balance sheet dates of consolidated subsidiaries

The balance sheet date of all of the consolidated subsidiaries is March 31 every year.

(4) Accounting Policies

Trading assets, trading liabilities and transactions for trading purposes

The valuation method of "Trading assets" and "Trading liabilities" is as follows:

Balances incurred by transactions of which the purpose is to earn a profit by taking advantage of short-term fluctuations in a market or discrepancies in different markets of interest rates, currency exchange rates, share prices or other indices (hereinafter referred to as "trading purposes") are included in "Trading assets" or "Trading liabilities" in the consolidated balance sheets as of the date on which the transactions have been contracted.

The income or losses on these transactions are recorded as "Trading income" and "Trading expenses" in the consolidated statement of income.

Trading assets and trading liabilities are valued, in the case of securities and commercial paper, at the market value as of the date of the balance sheet and, in the case of derivatives, including swaps, futures and options, at the amount due if the transactions were to be settled as of the date of the balance sheet. "Trading income" and "Trading expenses" include interest income and interest expense, respectively, and gains and losses, respectively, resulting from the valuation of securities, commercial paper, derivatives, etc., which are included in "Trading assets" or "Trading liabilities."

Securities

With regard to the valuation of securities, held-to-maturity debt securities are stated at amortized cost (straight-line method) using the moving-average method. Investments in unconsolidated subsidiaries that are not accounted for by the equity method are stated at cost determined by the moving-average method. Available-for-sale securities are in general stated at fair value (cost of sale calculated primarily according to the moving-average method) indicated according to market price at the consolidated balance sheet date (for equity securities, the average market price during the one-month period ending on the consolidated balance sheet date). Available-for-sale securities having no readily available market value are valued at cost using the moving-average method.

Unrealized gains (losses) on available-for-sale securities are reported as a component of net assets.

Impairment loss is recognized if the value of securities is declined significantly and such decline is considered other than temporal.

Money in trust

Trust assets within money held in trust are valued using the market value method.

Derivatives

Derivatives other than those for which exceptional accounting treatment is applied are stated at fair value.

Method of hedge accounting

The subsidiaries that conduct banking business ("the Banks") apply deferred hedge accounting in accordance with "Treatments of Accounting and Audit on Application of Accounting Standard for Financial Instruments in Banking Industry" (The Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 24, February 13, 2002). As for the hedge to offset market fluctuation, the Banks assess the effectiveness of the hedge by grouping the hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by their maturity.

Also, the Banks apply deferred hedge accounting to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

The Banks apply an exceptional accounting treatment, as permitted if certain conditions are met, for certain interest rate swaps utilized as hedging instrument. In that treatment, the interest swap contracts are not recorded at fair values but the net interest to be paid or received under the contracts is added or deducted to the interest arising from their related hedged assets or liabilities.

Allowance for loan losses

The Banks provide allowance for loan losses according to the following write-off and provisioning standards.

For loans to borrowers who are legally bankrupt (due to bankruptcy, composition, suspension of transactions with banks by the rules of clearinghouses, etc.) or substantially bankrupt, an allowance is provided in the amount of loans, net of amounts expected to be collected through disposition of collateral or through execution of guarantees.

For loans to borrowers in danger of bankruptcy, an allowance is provided in the amount considered uncollectible based on the amount of loans, net of amounts expected to be collected through disposition of collateral or through execution of guarantees, and other sources.

Loans to normal borrowers and borrowers requiring caution are classified into certain groups, and expected losses are estimated for the upcoming one or three-year periods. Expected loss amounts are calculated by using average values for actual rates of losses from bad debts and default probabilities during a specific period in the past, based on actual amounts of bad debt or bankruptcy over a one or three-year period, and adjusted as necessary for future forecasts.

Each branch as well as the credit supervision department evaluates all loans in accordance with the self-assessment rule.

Other consolidated subsidiaries provide an allowance for an amount calculated using the rate of collection losses in the past for loans of normal borrowers in addition to amounts estimated based on collectability analysis for borrowers in danger of bankruptcy and certain other borrowers.

Tangible fixed assets (excluding lease assets)

Depreciation of tangible fixed assets of YMFG and its consolidated subsidiaries that conduct banking business are computed by using the declining-balance method except for buildings (excluding fixtures) acquired after April 1, 1998 and fixtures and buildings acquired after April 1, 2016, which are depreciated using the straight-line method.

The estimated useful lives of the assets are primarily as follows:

Buildings: 7 to 50 years

Others: 2 to 15 years

Other consolidated subsidiaries depreciate their tangible fixed assets using mainly the declining-balance method over the useful lives of the respective assets provided by the Corporation Tax Act in Japan.

Intangible fixed assets (excluding lease assets)

Amortization of intangible fixed assets is computed by using the straight-line method. Software costs for internal uses are amortized over the estimated useful life (5 years).

Lease assets

Lease assets included within tangible and intangible fixed assets related to finance lease transactions that do not transfer ownership are depreciated over the lease term using the straight-line method. For lease assets with a guaranteed residual value stated in their lease agreements, the residual value is set at the guaranteed amount. Otherwise, the residual value is assumed to be zero.

Income taxes

Income taxes comprise corporate, enterprise and inhabitant taxes. The Group recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Foreign currency translation

Foreign currency assets and liabilities and the accounts of overseas branches of YMFG and consolidated subsidiaries are translated into yen at the rates prevailing at the consolidated balance sheet date.

Provision for bonuses

Provision for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses that are attributable to the fiscal year.

Method of accounting for retirement benefits

When calculating retirement benefit obligations, the benefit formula method is used for attributing expected retirement benefits to the year-end. Actuarial gains or losses are amortized on a straight-line basis over certain years (10-11 years) within the employees' average remaining service period commencing from the next fiscal year of incurrence.

Some consolidated subsidiaries employ the simplified method for calculating retirement benefit obligations and periodic benefit costs, stating retirement benefit obligations at the amounts required as if all employees voluntarily terminate their employment as of the year-end.

Provision for directors' retirement benefits

The provision for directors' retirement benefits for consolidated subsidiaries outside the banking business is provided for the estimated amount corresponding to accrued retirement benefit payments to directors as of the end of the fiscal year.

Provision for directors' stock benefits

The provision for directors' stock benefits is determined according to the directors' stock benefit regulations for YMFG and its subsidiaries (banks within YMFG (Yamaguchi Bank, Momiji Bank and Kitakyushu Bank) and YM Securities; the same shall apply hereafter) in preparation for the payment of stock benefits to directors (excluding directors who are members of the Audit and Supervisory Committee, part-time directors and outside directors) and executive officers (hereinafter, "Subject Directors, etc.") based on expected stock benefit obligations as of March 31, 2020.

Provision for loss on interest repayment

Provision for loss on interest repayment is provided for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Law.

In accordance with "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments," issued by JICPA in 2012, the amount of such provision is rationally estimated and booked based on actual historical repayment claims by debtors.

Provision for reimbursement of deposits

Provision for reimbursement of deposits is provided for in order to meet depositor requests for reimbursement on deposits already derecognized as liabilities, in an amount deemed necessary by estimating the losses corresponding to the expected requests for reimbursements in the future.

Provision for customer point services

Provision for customer point services is provided in conjunction with a point system to promote credit card use. The provision is recorded for the expected cost to be incurred when credit card members use points they have received as of the balance sheet date.

Reserves under special laws

Reserves under special laws consist of the financial instruments transaction responsibility reserve posted by YM Securities Co., Ltd., which were calculated according to the specified formula of Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Order Related to the Financial Instruments Business, to prepare for future eventual losses originating from incidents relating to the purchase and sale of securities or other transactions.

Amounts per share of common stock

Computations of net income per share of common stock are based on the weighted-average number of shares outstanding during each year.

Cash dividends per share represent the cash dividends declared as applicable to each year.

Amortization of goodwill

Goodwill is amortized mainly over a 10-year period using the straight-line method.

Consumption taxes

YMFG and its consolidated subsidiaries employ the tax exclusion method for consumption tax and local consumption taxes, meaning that transaction amounts and consumption tax amounts are treated separately for accounting purposes.

However, non-deductible consumption taxes for purchase of property, plant and equipment are recognized as expenses for the year of the purchase.

Adoption of consolidated tax payment system

YMFG and certain of its consolidated subsidiaries adopted the consolidated tax payment system as provided under the Corporation Tax Act.

Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

- Step 1: Identify contract(s) with customers.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligation in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- "Accounting Standard for Management of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in "Accounting Standard for Financial Instruments"; and
- Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories." and, under the "revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments," with notes outlining details of fair value of financial instruments for each level.

(2) Effective date

Fair Value Accounting Standards and guidance will be effective from the beginning of the consolidated fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

The objective is to provide an overview of principles for accounting treatment and procedures in the event these subjects are not clearly determined under related accounting standards.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2021.

- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The objective is to disclose information that will contribute to the understanding by users of financial statements with regard to amounts stated in the financial statements for the current fiscal year that involve accounting estimates whose details present the risk of materially affecting financial statements for the following fiscal year.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2021.

Additional Information

(ESOP Trust)

To enhance its welfare benefits, YMFG has introduced the ESOP Trust for Group employees (hereinafter, "Employees")

1. ESOP Trust for Employees introduced in March 2017

(1) Overview of Transactions

Of those Employees enrolled in YMFG's ESOP, YMFG has established the trust for those beneficiaries satisfying certain conditions. This trust acquired as a lump sum certain number of shares of YMFG corresponding to the number expected to be acquired by YMFG's ESOP over the five-year period beginning in March 2017. Thereafter, the trust will sell YMFG's shares to YMFG's ESOP each month on a specific date.

(2) Company Shares Residing in the Trust

YMFG's shares residing in the trust are recorded in treasury stock in the net assets section based on the book value of the trust (excluding ancillary expenses).

The book value and the number of shares of this treasury stock amounted to ¥588 million (\$5 million) and 456 thousand shares on March 31, 2020 and ¥1,274 million and 990 thousand shares on March 31, 2019.

(3) Book Value of Borrowings Recorded by Applying the Gross Price Method

The book value of borrowings recorded by applying the gross price method was ¥929 million (\$9 million) on March 31, 2020 and ¥1,321 million on March 31, 2019.

(Board Benefit Trust (BBT))

YMFG has introduced a Board Benefit Trust ("BBT") to raise awareness among Subject Directors, etc. of YMFG and its subsidiaries (banks within the Group (Yamaguchi Bank, Momiji Bank and Kitakyushu Bank) and YM Securities; the following shall apply hereinafter) toward raising operating performance at YMFG over the medium to long term and contributing to increases in corporate value.

(1) Overview of Transactions

Via the trust, YMFG acquires YMFG's common shares using funds provided by YMFG. YMFG's share and cash equivalent to fair value of YMFG's stock measured at the time of retirement are granted to be distributed via the trust to Subject Directors, etc. according to Subject Directors, etc.' positions, and the level of achievement of operating performance in accordance with directors' stock benefit

regulations established by YMFG and its subsidiaries.

(2) Company Shares Residing in the Trust

YMFG's shares residing in the trust are recorded as treasury stock in the net assets section based on the book value of the trust (excluding ancillary expenses).

The book value and the number of shares of this treasury stock amounted to ¥878 million (\$8 million) and 1,005 thousand shares on March 31, 2020 and ¥558 million and 578 thousand shares on March 31, 2019.

(Treatment Related to the Application of Tax Effect

Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

With regard to matters related to the transition to the group tax sharing system established by the "Act for the Partial Amendment of the Income Tax Act" (Act No. 8 of 2020) and the revision of the single tax payment system to coincide with the transition to the group tax sharing system, YMFG and certain consolidated subsidiaries base their amounts of deferred tax assets and deferred tax liabilities on tax law prior to revision without applying No. 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018), in accordance with treatment under Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020).

(Impact of the COVID-19 Pandemic)

The spread of the novel coronavirus disease (COVID-19) is expected to continue affecting the economy for some time. The Group is working to understand the conditions of individual borrowers in a timely and appropriate manner and provide various types of support to help customers with cash flow and other aspects of business continuity. Based on such situations, calculations of allowance for doubtful accounts assumed that the impact on loans and other credit costs would be limited.

However, these assumptions include uncertainties. If the COVID-19 pandemic were to continue for a prolonged period of time or to grow more serious rather than subsiding, the operating environment could deteriorate further. As a result, allowance for doubtful accounts could be materially affected in upcoming fiscal years.

3. CONSOLIDATED STATEMENTS OF CASH FLOWS AND CASH EQUIVALENTS

1. In preparing the consolidated statements of cash flows, the Group considers cash and due from THE BANK OF JAPAN as cash and cash equivalents.

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and due from banks	¥971,777	¥1,043,994	\$8,929,312
Time deposits in other banks	(15,873)	(16,602)	(145,851)
Other	(11,120)	(11,834)	(102,178)
Cash and cash equivalents	¥944,784	¥1,015,558	\$8,681,283

2. Details of important non-funding transactions

Details of important non-funding transactions through the exercise of share options to shares that took place during the fiscal year ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Decrease in capital surplus by exercise of share options to shares	¥—	¥(2,625)	\$—
Decrease in treasury shares by exercise of share options to shares	—	27,421	—
Decrease in bonds with subscription rights to shares by exercise of share options to shares	¥—	¥24,796	—

4. FINANCIAL INSTRUMENTS

Items pertaining to the status of financial instruments

(1) Policies on financial instruments

YMFG provides community-based integrated financial services centered on the banking, securities and credit card businesses. Accordingly, the Group is subject to a variety of risks, including credit risk, market risk and liquidity risk. Due to changes in economic, social and financial conditions, these risks have grown more diverse and complex. Under these conditions, the Group considers strengthening its risk management structure as a priority issue. To maintain and enhance the soundness of its operations, YMFG has created groupwide risk management

regulations, which clarify the Group's fundamental stance on risk management.

(2) Content and risks of financial instruments

Of financial assets held by the Group, principally loans and bills discounted extended to business partners are subject to the credit risk from breach of contract. The Group holds securities, principally debt securities, equity securities and investment trusts, for trading purposes, for holding to maturity, for purely investment purposes or to promote positive business relations. These securities are subject to issuer credit risk, interest rate fluctuation risk and market price fluctuation risk.

The Group's financial liabilities center on deposits and negotiable certificates of deposit, and call money that it raises in the market. However, the Group is subject to the liquidity risk of becoming unable to secure necessary funding. The Group is also subject to interest rate risk arising from fluctuations in financial and economic conditions.

The Group employs derivative transactions to hedge underlying market risks on its assets and liabilities. The Group also provides derivatives as financial products to meet customers' needs. Interest-related and securities-related derivative transactions are employed to limit the impact on income of future interest rate fluctuations and price fluctuations for loans and bills discounted, deposits, securities and other instruments bearing long-term interest at fixed rates. Currency-related derivative transactions are used primarily to avoid fluctuations in income stemming from future exchange rate fluctuations, stabilize funding denominated in foreign currencies, as well as offered as products to clients. With regard to transactions to secure income through changes in market rates, which are conducted on a limited basis, the Group has established stringent standards that include risk limits and loss limits.

As market risk factors, interest rate related and securities-related derivative transactions are subject to the risk of fluctuations in interest rates and prices, and currency-related derivative transactions are subject to exchange rate fluctuations. For transactions that are not conducted on exchanges, the Group is subject to credit risk, the risk of loss in the event a counterparty becomes unable to fulfill its contractual obligations due to deteriorating financial conditions.

With regard to use of hedge accounting, the Group applies deferred hedge accounting after it ensured in advance that the established conditions are satisfied. As for

hedging methods, the Group employs the portfolio hedge where certain group of assets with similar risk is identified and such risk is hedged comprehensively. In addition, for certain interest swap contracts, exceptional accounting treatment are applied.

(3) Risk management structure related to financial instruments

(i) Management of credit risk

Through the appropriate operation of a credit rating system, the Group endeavors to determine the financial conditions of business partners and accurately evaluate their credit risk. The Group has enhanced the precision of its credit evaluations, reviewing business partner credit ratings swiftly and appropriately for each financial period and each time their credit conditions change.

The Group conducts self assessments according to stringent standards that are consistent throughout the Group. The Group performs write-off and provisions based on the results of its self assessments. The Group's authentication departments verify the content of such self assessments. Independence is maintained through internal audits conducted by audit departments. In addition, the Group undergoes external audits conducted by its independent external auditors.

With regard to the screening of individual transactions, the Group employs a screening system suited to each subsidiary bank's size of the business and characteristics to conduct detailed screenings that take individual sector and regional characteristics into consideration. In terms of portfolio management, the Group strives to enhance its risk management by first measuring credit risk, and then managing risk by category, sector and geographic area.

Risk management departments periodically obtain credit information and fair value as a part of managing credit risks on securities issuers and counterparty risks on derivative transactions.

(ii) Management of market risk

Qualitative information on the management of market risk

The Group has formulated a market risk management process that identifies and quantitatively measures market risks. An asset-liability management (ALM) system is employed to control market risk within allowable limits, and the Group ALM Committee is periodically held to respond to such risks.

YMFG periodically evaluates market risk conditions and verifies the appropriateness of risk controls.

Quantitative information on the management of market risk
The market risk (estimated loss amount) of the loans, securities, deposits and derivatives transactions of Yamaguchi Bank, Momiji Bank and Kitakyushu Bank of the Group are calculated according to value at risk (VaR). Furthermore, the covariance method is used to calculate VaR.

As of March 31, 2020, the market risk (estimated loss amount) of Yamaguchi Bank was ¥41,387 million (\$380 million), the market risk (estimated loss amount) of Momiji Bank was ¥14,658 million (\$135 million) and the market risk (estimated loss amount) of Kitakyushu Bank was ¥17,198 million (\$158 million). Also, as of March 31, 2019, the market risk (estimated loss amount) of Yamaguchi Bank was ¥62,679 million, the market risk (estimated loss amount) of Momiji Bank was ¥15,373 million and the market risk (estimated loss amount) of Kitakyushu Bank was ¥21,883 million.

Assumptions used in calculating VaR include a holding period of three months (however, one year for a holding period for shares held for the purpose of strategic investment), a confidence interval of 99.9% and an observation period of five years.

Yamaguchi Bank, Momiji Bank and Kitakyushu Bank conduct back-testing to compare the VaR calculated by the model with the actual losses. However, because of relatively large fluctuations in Japanese stock and foreign exchange market prices, instances arose in which they were unable to capture the risk on Japanese stocks and foreign bond funds. Consequently, from fiscal 2016, to determine the amount of risk on Japanese stocks and foreign bond funds, VaR is measured for observation periods of both one year and five years, and the larger number is taken as the risk amount. As of March 31, 2020, the VaR observation period was five years for both Japanese stocks and foreign bond funds.

However, as the practice of measuring market risk amount with a set risk probability calculated on the basis of historical market fluctuations remains unchanged even after revising the measurement method to appropriately capture the market risk amount, in some cases it is not possible to capture market risk in the event of sudden changes in the market environment outside the normally expected scope.

(iii) Management of liquidity risk related to fundraising
The majority of funds is raised through deposits, which constitute a stable base for procuring funds. The Group manages funds on the basis of elaborate forecasts,

confirming cash flows primarily through the management of financial balances using short-term financial markets.

For cash flow management, the Group strives to manage the liquidity risk by ensuring stability, preparing for unexpected events, and maintaining highly liquid assets.

(4) Supplementary explanation of items pertaining to the fair value of financial instruments

The fair values of some financial instruments are based on market prices. The fair values of other instruments, for which market prices are not readily available, are based on rational calculation. However, as assumptions are used in these calculations, different assumptions can yield different values.

Items pertaining to the fair value of financial instruments

The table below indicates the consolidated balance sheet amounts of financial instruments, as well as their fair values and the differences between the two. Line items with little significance to balance sheet amounts have been omitted. Unlisted equity securities and other instruments for which fair value is not easily determinable are not included in the table below. (Refer to (Note 2).)

	Millions of yen		
	2020		
	Consolidated balance sheet amount	Fair value	Difference
(i) Cash and due from banks	¥ 971,777	¥ 971,777	¥ —
(ii) Call loans and bills purchased	1,088	1,088	—
(iii) Money held in trust	48,412	48,412	—
(iv) Securities			
Held-to-maturity debt securities	13,360	13,528	168
Available-for-sale securities	1,482,995	1,482,995	—
(v) Loans and bills discounted	7,652,626		
Allowance for loan losses (* 1)	(62,316)		
	7,590,310	7,705,683	115,373
Total assets	¥10,107,942	¥10,223,483	¥115,541
(i) Deposits	¥ 9,525,935	¥ 9,526,272	¥ 337
(ii) Payables under securities lending transactions	161,466	161,466	—
Total liabilities	¥ 9,687,401	¥ 9,687,738	¥ 337
Derivative transactions (* 2)			
Hedge accounting not applied	¥ (31)	¥ (31)	¥ —
Hedge accounting applied	(16,330)	(16,330)	—
Total derivative transactions	¥ (16,361)	¥ (16,361)	¥ —

Millions of yen			
2019			
	Consolidated balance sheet amount	Fair value	Difference
(i) Cash and due from banks	¥1,043,994	¥1,043,994	¥ —
(ii) Call loans and bills purchased	39,042	39,042	—
(iii) Money held in trust	30,565	30,565	—
(iv) Securities			
Held-to-maturity debt securities	8,273	8,438	165
Available-for-sale securities	1,374,849	1,374,849	—
(v) Loans and bills discounted	7,408,387		
Allowance for loan losses (* 1)	(53,983)		
	7,354,404	7,450,478	96,074
Total assets	¥9,851,127	¥9,947,366	¥96,239
(i) Deposits	¥9,230,773	¥9,231,171	¥ 398
(iii) Call money and bills sold	133,466	133,466	—
Total liabilities	¥9,364,239	¥9,364,637	¥ 398
Derivative transactions (* 2)			
Hedge accounting not applied	¥ 1,577	¥ 1,577	¥ —
Hedge accounting applied	(2,115)	(2,115)	—
Total derivative transactions	¥ (538)	¥ (538)	¥ —

Thousands of U.S. dollars			
2020			
	Consolidated balance sheet amount	Fair value	Difference
(i) Cash and due from banks	\$ 8,929,312	\$ 8,929,312	\$ —
(ii) Call loans and bills purchased	9,997	9,997	—
(iii) Money held in trust	444,841	444,841	—
(iv) Securities			
Held-to-maturity debt securities	122,760	124,304	1,544
Available-for-sale securities	13,626,711	13,626,711	—
(v) Loans and bills discounted	70,317,247		
Allowance for loan losses (* 1)	(572,599)		
	69,744,648	70,804,769	1,060,121
Total assets	\$92,878,269	\$93,939,934	\$1,061,665
(i) Deposits	\$87,530,414	\$87,533,511	\$ 3,097
(ii) Payables under securities lending transactions	1,483,653	1,483,653	—
Total liabilities	\$89,014,067	\$89,017,164	\$ 3,097
Derivative transactions (* 2)			
Hedge accounting not applied	\$ (285)	\$ (285)	\$ —
Hedge accounting applied	(150,051)	(150,051)	—
Total derivative transactions	\$ (150,336)	\$ (150,336)	\$ —

(* 1) The general allowance for loan losses and specific allowance for loan losses are deducted.

(* 2) The amount collectively represents derivative transactions that are recorded as trading assets and liabilities, and other assets and liabilities. This indicates the net amount of rights and obligations under derivative transactions. Parentheses, (), indicate that the net amount is negative.

(Note 1) Methods of calculating the fair value of financial instruments

(1) Assets

(i) Cash and due from banks

As the settlement term of these instruments is short (within one year) and their fair values and book values are

approximately the same, their book values are taken as their fair values.

(ii) Call loans and bills purchased

As the settlement term of these instruments is short (within one year) and their fair values and book values are approximately the same, their book values are taken as their fair values.

(iii) Money held in trust

As for the securities held as trusted assets in money held in trust established independently for the purpose of investing mainly in the securities, the value on stock exchanges is taken as fair value for the equity securities, and either the value on exchanges or a price indicated by other financial institutions dealing with the specific instruments is taken as fair value.

Additional information related to money held in trust by the purpose of holding are described in the note entitled "Money held in trust."

(iv) Securities

For equity securities, fair value is determined by stock exchange prices; the fair value of debt securities is determined by exchange prices or prices received from information vendors. Fair values of investment trusts are determined by exchange prices or standard prices disclosed by investment trust management companies.

The fair value of private placement bonds guaranteed by Yamaguchi Bank and Momiji Bank is determined for each internal rating category and period by discounting the total amount of interest and principal to their present value, using as the discount rate the risk-free rate plus the credit cost determined for each internal rating category. However, fair value of bonds of legally bankrupt debtors, substantially bankrupt debtors and debtors in danger of bankruptcy is determined by deducting the expected amount of loss on the bond by using the same method applied to loans from the bond's face value.

(v) Loans and bills discounted

For loans and bills discounted with floating interest rates, as in the short term their values reflect market interest rates, unless the credit status of the obligor has changed significantly since the loans were extended, their fair value is similar to their book value, so their book value is taken as their fair value.

For loans and bills discounted bearing fixed interest rates, fair value is determined for each internal rating category and period by discounting the total amount of interest and principal to their present value, using as

the discount rate the risk-free rate for operating loans and bills discounted plus the credit cost for each internal rating category. For consumer loans and bills discounted, fair value is determined by discounting the total amount of interest and principal to their present value using the assumed interest rate on new loans of the same type. For instruments having a short settlement period (within one year), as their fair values and book values are approximately the same, their book value is taken as their fair value.

With regard to loans to legally bankrupt obligors, substantially bankrupt obligors or obligors who are in danger of bankruptcy, the estimated collectible amount is based on either the present value of estimated future cash flows or the expected amounts recoverable from the disposal of collateral and/or under guarantees. As the fair value is essentially equivalent to the amount after deducting the allowance for possible loan losses from the book value as of the consolidated balance sheet date, this amount is taken as fair value.

For loans that have no specific repayment period, as the fair value is assumed to be equivalent with the book value according to the expected payment dates and interest rates, book value is taken as the fair value.

(2) Liabilities

(i) Deposits

The fair value of demand deposits is determined as the payment amount if payment were required on the consolidated balance sheet date (book value). The fair value of time deposits is determined by discounting future cash flows to their present value by certain time periods. The discount rate employed is the interest rate required for newly accepted deposits. For deposits having a short period (within one year), as their fair values and book values are approximately the same, their book value is taken as their fair value.

(ii) Payables under security lending transactions and (iii) Call money and bills sold

As the contract period is short (within one year) and the market value is similar to the book value, the book value is taken as the market value.

(3) Derivative transactions

The fair value of derivative transactions, comprising interest-rate-related transactions (such as interest rate futures, interest rate options and interest rate swaps) currency-related transactions (such as currency futures, currency options and currency swaps), bond-related transactions (such as bond futures and bond options) is taken as their value on exchanges, discounted present value or price as calculated using option pricing models.

Interest rates swaps that employ exceptional accounting treatment are accounted for as part of the loans and bills discounted that are hedged. Therefore, their fair value is included in the fair value of loans and bills discounted.

(Note 2) The consolidated balance sheet amounts of financial instruments for which market prices are not readily available

Financial instruments for which market prices are not readily available are not included in "Assets (4) Available-for-sale securities."

Category	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Consolidated balance sheet amount			
(1) Unlisted equity securities (*1, *2)	¥ 6,933	¥ 6,918	\$ 63,705
(2) Investments in partnerships, etc. (*3)	9,459	7,974	86,925
Total	¥16,392	¥14,892	\$150,630

(*1) As unlisted equity securities have no market prices and their fair value is not readily available, they are not included in the scope of fair value disclosures.

(*2) During the fiscal year ended March 31, 2020 and 2019, impairment losses of ¥47 million (\$432 thousand) and ¥7 million were recorded on unlisted equity securities.

(*3) Of investments in partnerships, those partnership assets comprising unlisted equity securities, which have no readily available fair value, are not included in the scope of fair value disclosure.

(Note 3) Expected maturity amount of monetary claims and securities with maturities after the consolidated balance sheet date

	Millions of yen				
	2019				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	¥ 875,998	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	1,088	—	—	—	—
(3) Money held in trust	48,412	—	—	—	—
(4) Securities Held-to-maturity debt securities	65,968	161,330	166,133	174,273	627,818
Local government bond	700	1,763	5,751	1,749	3,400
Corporate bond	—	200	1,700	800	2,200
Available-for-sale securities with maturities	700	1,563	4,051	949	1,200
Japanese government bond	65,268	159,567	160,382	172,524	624,418
Local government bond	9,000	42,000	23,100	21,500	234,600
Corporate bond	6,725	22,158	22,057	26,974	131,548
Others	35,385	73,290	59,273	86,136	80,112
(5) Loans and bills discounted (*)	14,158	22,119	55,952	37,914	178,158
Total	1,693,152	1,047,647	1,065,149	856,915	2,989,763
Total	¥2,684,618	¥1,208,977	¥1,231,282	¥1,031,188	¥3,617,581

	Millions of yen				
	2019				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	¥ 942,716	¥ —	¥ —	¥ —	¥ —
(2) Call loans and bills purchased	39,042	—	—	—	—
(3) Securities Held-to-maturity debt securities	144,598	224,574	134,442	187,809	411,065
Local government bond	326	909	2,158	2,283	2,600
Corporate bond	—	100	700	900	1,400
Available-for-sale securities with maturities	326	809	1,458	1,383	1,200
Japanese government bond	144,272	223,665	132,284	185,526	408,465
Local government bond	57,000	88,000	6,500	39,600	58,250
Corporate bond	15,508	9,826	9,424	10,965	70,775
Others	56,489	94,963	47,462	65,793	160,390
(4) Loans and bills discounted (*)	15,275	30,876	68,898	69,168	119,050
Total	1,721,944	991,035	962,930	809,990	2,922,490
Total	¥2,848,300	¥1,215,609	¥1,097,371	¥997,799	¥3,333,555

	Thousands of U.S. dollars				
	2020				
	Within one year	More than one year and within three years	More than three years and within five years	More than five years and within seven years	More than seven years
(1) Due from banks	\$ 8,049,233	\$ —	\$ —	\$ —	\$ —
(2) Call loans and bills purchased	9,997	—	—	—	—
(3) Money held in trust	444,841	—	—	—	—
(4) Securities	606,157	1,482,405	1,526,537	1,601,341	5,768,815
Held-to-maturity debt securities	6,432	16,200	52,844	16,071	31,241
Local government bond	—	1,838	15,621	7,351	20,215
Corporate bond	6,432	14,362	37,223	8,720	11,026
Available-for-sale securities with maturities	599,725	1,466,205	1,473,693	1,585,270	5,737,574
Japanese government bond	82,698	385,923	212,258	197,556	2,155,656
Local government bond	61,794	203,602	202,674	247,854	1,208,748
Corporate bond	325,140	673,436	544,638	791,473	736,121
Others	130,093	203,244	514,123	348,387	1,637,049
(5) Loans and bills discounted (*)	15,557,769	9,626,454	9,787,274	7,873,886	27,471,855
Total	\$24,667,997	\$11,108,859	\$11,313,811	\$9,475,227	\$33,240,670

(*) Loans and bills discounted for which no period is specified are included in "within one year."

(Note 4) Estimated repayment amounts of deposits, negotiable certificates of deposit and other interest-bearing liabilities to be repaid after the consolidated balance sheet date

	Millions of yen			
	2020			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥8,410,285	¥438,092	¥129,083	¥29,100
Negotiable certificates of deposit	510,864	8,481	30	—
Payables under securities lending transactions	161,466	—	—	—
Total	¥9,082,615	¥446,573	¥129,113	¥29,100

	Millions of yen			
	2019			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	¥8,076,897	¥614,162	¥158,059	¥28,760
Negotiable certificates of deposit	352,360	535	—	—
Call money and bills sold	133,466	—	—	—
Total	¥8,562,723	¥614,697	¥158,059	¥28,760

	Thousands of U.S. dollars			
	2020			
	Within one year	More than one year and within two years	More than two years and within three years	Three years or more
Deposits (*)	\$77,279,105	\$4,025,471	\$1,186,098	\$267,388
Negotiable certificates of deposit	4,694,147	77,929	276	—
Payables under securities lending transactions	1,483,653	—	—	—
Total	\$83,456,905	\$4,103,400	\$1,186,374	\$267,388

(*) Within deposits, demand deposits are included in "within one year."

5. SECURITIES

Securities held at March 31, 2020 include shares of unconsolidated subsidiaries and affiliates amounting to ¥27 million (\$248 thousand) and investments of ¥1 million (\$ 9 thousand). Corresponding figures at March 31, 2019, were ¥27 million and ¥1 million.

The amount of guarantee obligations for private placement bonds (Financial Instruments and Exchange Law, Article 2, Item 3), out of bonds included in securities, amounted to ¥11,376 million (\$105 million) and ¥8,751 million as of March 31, 2020 and March 31, 2019 respectively.

Bonds included in securities also include securities lent through unsecured loan agreements (bond lending transactions) of ¥5,010 million, at March 31, 2019.

6. FAIR VALUE INFORMATION

Securities

The following tables summarize book values, fair value and acquisition cost of securities with available fair values as of March 31, 2020 and 2019:

(a) Trading securities

Amount of unrealized gain (loss) on trading securities included in the consolidated statement of income — ¥(3) million (\$28 thousand) and ¥2 million as at March 31, 2020 and 2019, respectively.

(b) Held-to-maturity debt securities:

Millions of yen				
	Type	2020		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥ 2,900	¥ 2,947	¥ 47
	Corporate bonds	8,225	8,349	124
	Subtotal	11,125	11,296	171
Securities with fair value not exceeding book value	Local government bonds	2,000	1,997	(3)
	Corporate bonds	235	235	(0)
	Subtotal	2,235	2,232	(3)
	Total	¥13,360	¥13,528	¥168

Millions of yen				
	Type	2019		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	¥3,000	¥3,061	¥ 61
	Corporate bonds	5,144	5,248	104
	Subtotal	8,144	8,309	165
Securities with fair value not exceeding book value	Local government bonds	100	100	—
	Corporate bonds	29	29	(0)
	Subtotal	129	129	(0)
	Total	¥8,273	¥8,438	¥165

Thousands of U.S. dollars				
	Type	2020		
		Book value	Fair value	Difference
Securities with fair value exceeding book value	Local government bonds	\$ 26,647	\$ 27,079	\$ 432
	Corporate bonds	75,577	76,716	1,139
	Subtotal	102,224	103,795	1,571
Securities with fair value not exceeding book value	Local government bonds	18,377	18,350	(27)
	Corporate bonds	2,159	2,159	(0)
	Subtotal	20,536	20,509	(27)
	Total	\$122,760	\$124,304	\$1,544

(c) Available-for-sale securities

Millions of yen					
	Type	2020			
		Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	¥ 75,378	¥ 34,954	¥ 40,424	
	Japanese government bonds	43,457	43,031	426	
	Local government bonds	94,338	94,077	261	
	Corporate bonds	242,770	240,383	2,387	
	Others	213,118	198,674	14,444	
	Subtotal	669,061	611,119	57,942	
Securities with book value not exceeding acquisition cost	Shares	11,832	15,250	(3,418)	
	Japanese government bonds	293,589	300,872	(7,283)	
	Local government bonds	115,538	116,161	(623)	
	Corporate bonds	94,339	94,726	(387)	
	Others	298,636	330,612	(31,976)	
	Subtotal	813,934	857,621	(43,687)	
	Total	¥1,482,995	¥1,468,740	¥ 14,255	

Millions of yen					
	Type	2019			
		Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost	Shares	¥ 121,610	¥ 48,812	¥ 72,798	
	Japanese government bonds	194,549	193,355	1,194	
	Local government bonds	112,188	111,315	873	
	Corporate bonds	415,824	410,561	5,263	
	Others	143,228	141,486	1,742	
	Subtotal	987,399	905,529	81,870	
Securities with book value not exceeding acquisition cost	Shares	5,688	6,450	(762)	
	Japanese government bonds	60,845	61,525	(680)	
	Local government bonds	5,628	5,629	(1)	
	Corporate bonds	16,145	16,179	(34)	
	Others	299,143	314,311	(15,168)	
	Subtotal	387,449	404,094	(16,645)	
	Total	¥1,374,848	¥1,309,623	¥ 65,225	

		Thousands of U.S. dollars		
		2020		
	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	Shares	\$ 692,622	\$ 321,180	\$ 371,442
	Japanese government bonds	399,311	395,396	3,915
	Local government bonds	866,838	864,440	2,398
	Corporate bonds	2,230,727	2,208,794	21,933
	Others	1,958,256	1,825,554	132,702
	Subtotal	6,147,754	5,615,364	532,390
Securities with book value not exceeding acquisition cost	Shares	108,720	140,127	(31,407)
	Japanese government bonds	2,697,684	2,764,605	(66,921)
	Local government bonds	1,061,637	1,067,362	(5,725)
	Corporate bonds	866,847	870,403	(3,556)
	Others	2,744,050	3,037,876	(293,826)
	Subtotal	7,478,938	7,880,373	(401,435)
Total		\$13,626,692	\$13,495,737	\$ 130,955

(d) Held-to-maturity debt securities sold during the fiscal year
There were no held-to-maturity securities sold during the fiscal year ended March 31, 2020 and 2019.

(e) Available-for-sale securities sold during the fiscal year

		Millions of yen		
		2020		
		Sale amount	Total gain on sale	Total loss on sale
Shares	¥	14,689	¥10,229	¥ 64
Japanese government bonds		1,253,003	6,494	1,453
Local government bonds		6,840	59	—
Corporate bonds		92,810	1,263	10
Others		1,256,723	16,392	6,260
Total		¥2,624,065	¥34,437	¥7,787

		Millions of yen		
		2019		
		Sale amount	Total gain on sale	Total loss on sale
Shares	¥	9,519	¥ 6,543	¥ 367
Japanese government bonds		1,233,253	2,763	1,368
Local government bonds		1,656	—	2
Corporate bonds		282,929	6,018	166
Others		808,359	7,320	4,063
Total		¥2,335,716	¥22,644	¥5,966

		Thousands of U.S. dollars		
		2020		
		Sale amount	Total gain on sale	Total loss on sale
Shares		\$ 134,972	\$ 93,991	\$ 588
Japanese government bonds		11,513,397	59,671	13,351
Local government bonds		62,850	542	—
Corporate bonds		852,798	11,605	92
Others		11,547,579	150,620	57,521
Total		\$24,111,596	\$316,429	\$71,552

(f) Securities for which purpose of holding changed

There were no securities for which the purpose of holding changed at March 31, 2020 and 2019.

Impairment losses on securities

Regarding securities (excluding those for which market prices are not readily available) other than trading securities, if their market values have fallen substantially below their acquisition price and are not expected to recover to the acquisition price, such market values are recorded as the consolidated balance sheet amounts. The valuation difference is recorded as a loss for the fiscal year in which such difference is realized (hereinafter, "impairment losses").

During the fiscal year ended March 31, 2020, impairment losses were ¥771 million (\$7,084 thousand) on equity securities and during the fiscal year ended March 31, 2019, impairment losses totaled ¥27 million on equity securities. The basis for determining whether the market value has fallen significantly is as follows.

If the market value of the securities in general has fallen by 30% or more compared with the acquisition cost, the value of the securities is determined to have "fallen significantly." However in the case of shares and equivalent securities, if their market value has fallen by 30% or more but less than 50% of the acquisition cost, the determination of whether the value has "fallen significantly" takes into consideration other factors such as the issuing company's credit risk (independent debtor classification, external ratings, etc.) and previous percentage decreases over a specific period of time in the past.

Money held in trust

Information on money held in trust as of March 31, 2020 and 2019 was as follows:

(a) Money held in trust classified as trading purposes

	Millions of yen	
	2020	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	¥4,714	¥—

	Millions of yen	
	2019	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	¥4,730	¥—

	Thousands of U.S. dollars	
	2020	
	Consolidated balance sheet amount	Unrealized gains (losses) included in profit (loss) for the fiscal year
Money held in trust classified as trading purposes	\$43,315	\$—

(b) Money held in trust classified as held-to-maturity

There are no corresponding transactions as at March 31, 2020 and 2019.

(c) Available-for-sale money held in trust

	Millions of yen		
	2020		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	¥43,698	¥44,695	¥(997)

	Millions of yen		
	2019		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	¥25,835	¥25,821	¥14

	Thousands of U.S. dollars		
	2020		
	Consolidated balance sheet amount	Acquisition cost	Unrealized gains (losses)
Available-for-sale money held in trust	\$401,526	\$410,686	\$(9,160)

Unrealized gains (losses) on available-for-sale securities

Information on unrealized gains (losses) on available-for-sale securities and available-for-sale money held in trust was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized gains	¥13,501	¥65,286	\$124,056
Available-for-sale securities	14,498	65,271	133,217
Available-for-sale money held in trust	(997)	15	(9,161)
Deferred tax liabilities	3,821	19,576	35,110
Unrealized gains on available-for-sale securities before following adjustment	9,680	45,710	88,946
Equivalent to non-controlling interests	(9)	(0)	(83)
YMFG's interest in net unrealized gains on valuation of available-for-sale securities held by affiliates accounted for by the equity method	—	—	—
Unrealized gains on available-for-sale securities	¥ 9,689	¥45,710	\$ 89,029

Valuation differences on investments in partnerships, etc., of ¥244 million (\$2,242 thousand) at March 31, 2020 and ¥44 million at March 31, 2019, for which market values are extremely difficult to determine, are recorded in available-for-sale securities of net unrealized gains in the list above.

Derivatives

(1) Derivative transactions at March 31, 2020 and 2019, to which hedge accounting is not applied

(a) Interest-rate-related:

	Millions of yen			
	2020			
Type	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥22,108	¥20,751	¥ 561	¥ 561
Receivable floating, payable fixed	22,109	20,752	(352)	(352)
Total	¥ —	¥ —	¥ 209	¥ 209

Type	Millions of yen			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	¥21,570	¥18,642	¥ 454	¥ 454
Receivable floating, payable fixed	21,570	18,643	(308)	(308)
Total	¥ —	¥ —	¥ 146	¥ 146

Type	Thousands of U.S. dollars			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Interest rate swaps:				
Receivable fixed, payable floating	\$203,143	\$190,674	\$ 5,155	\$ 5,155
Receivable floating, payable fixed	203,152	190,683	(3,234)	(3,234)
Total	\$ —	\$ —	\$ 1,921	\$ 1,921

(b) Currency-related:

Type	Millions of yen			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	¥282,308	¥103,826	¥(1,583)	¥ (393)
Foreign exchange forward contracts:				
Sold	128,295	39,158	(2,384)	(2,384)
Bought	136,993	36,153	3,714	3,714
Currency options				
Sold	133,467	98,561	(5,020)	606
Bought	133,467	98,561	5,034	744
Total	¥ —	¥ —	¥ (239)	¥ 2,287

Type	Millions of yen			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	¥379,563	¥104,863	¥ 239	¥ (945)
Foreign exchange forward contracts:				
Sold	92,353	14,919	1,014	1,014
Bought	160,858	14,373	177	177
Currency options				
Sold	122,012	85,952	(4,316)	1,246
Bought	122,012	85,952	4,319	54
Total	¥ —	¥ —	¥ 1,433	¥1,546

Type	Thousands of U.S. dollars			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Over-the-counter:				
Currency swaps	\$2,594,027	\$954,020	\$(14,546)	\$ (3,611)
Foreign exchange forward contracts:				
Sold	1,178,857	359,809	(21,906)	(21,906)
Bought	1,258,780	332,197	34,127	34,127
Currency options				
Sold	1,226,381	905,642	(27,015)	5,568
Bought	1,226,381	905,642	27,134	6,836
Total	\$ —	\$ —	\$ (2,206)	\$ 21,014

(c) Stock-related:

There were no stock-related transactions as at March 31, 2020 and 2019.

(d) Bond-related:

There were no bond-related transactions as at March 31, 2020.

Type	Millions of yen			
	Contract amounts	Over one year	Fair value	Realized gains (losses)
Listed:				
Bond futures				
Sold	¥765	¥—	¥(1)	¥(1)
Total	¥ —	¥—	¥(1)	¥(1)

(e) Commodity-related:

There were no commodity-related transactions as at March 31, 2020 and 2019.

(f) Credit-derivatives:

There were no credit related transactions as at March 31, 2020 and 2019.

(2) Derivative transactions as at March 31, 2020 and 2019,
to which hedge accounting is applied

(a) Interest-rate-related:

Type	Millions of yen		
	Contract amounts	Over one year	Fair value
2020			
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	¥225,994	¥225,994	¥(14,933)
Interest rate swaps employing exceptional accounting treatment:			
Interest rate swaps			
Receive floating, payable fixed	168	108	*
Total	¥ —	¥ —	¥(14,933)

Type	Millions of yen		
	Contract amounts	Over one year	Fair value
2019			
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	¥127,166	¥120,000	¥(1,910)
Interest rate swaps employing exceptional accounting treatment:			
Interest rate swaps			
Receive floating, payable fixed	382	288	*
Total	¥ —	¥ —	¥(1,910)

Type	Thousands of U.S. dollars		
	Contract amounts	Over one year	Fair value
2020			
Principal accounting procedure:			
Interest rate swaps			
Receive floating, payable fixed	\$2,076,578	\$2,076,578	\$(137,214)
Interest rate swaps employing exceptional accounting treatment:			
Interest rate swaps			
Receive floating, payable fixed	1,544	992	*
Total	\$ —	\$ —	\$(137,214)

(*) Of interest rate swaps employing exceptional accounting treatment, as these instruments are accounted for together with the hedged loans and bills discounted and borrowings, their fair value is included in the fair value of said loans and bills discounted within "Financial instruments."

(b) Currency-related:

Type	Millions of yen		
	Contract amounts	Over one year	Fair value
2020			
Principal accounting procedure:			
Currency swaps	¥133,852	¥22,602	¥(1,397)
Total	¥ —	¥ —	¥(1,397)

Type	Millions of yen		
	Contract amounts	Over one year	Fair value
2019			
Principal accounting procedure:			
Currency swaps	¥20,994	¥4,900	¥(205)
Total	¥ —	¥ —	¥(205)

Type	Thousands of U.S. dollars		
	Contract amounts	Over one year	Fair value
2020			
Principal accounting procedure:			
Currency swaps	\$1,229,918	\$207,682	\$(12,837)
Total	\$ —	\$ —	\$(12,837)

(c) Stock-related:

There were no stock-related transactions at March 31, 2020 and 2019.

(d) Bond-related:

There were no bond-related transactions at March 31, 2020 and 2019.

7. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2020 and 2019 include "Risk-Managed Loan Amounts" as follows:

(1) Loans to borrowers in bankruptcy amounting to ¥16,372 million (\$150 million) and ¥14,168 million denote loans subject to Article 96-1-3 and 96-1-4 of "Order for Enforcement of the Corporation Tax Act" (Cabinet Order No. 97 of 1965) on which interest accrual has stopped as there is doubt about the collectability of either principal or interest because they have been contractually past due for a considerable period of time or for other reasons.

- (2) Other delinquent loans amounting to ¥71,435 million (\$656 million) and ¥65,253 million denote loans on which the Banks have stopped accruing interest excluding loans to borrowers in bankruptcy and loans on which interest payments are deferred in order to promote recovery of borrowers in economic difficulty.
- (3) Loans past due for three months or more amounting to ¥767 million (\$7 million) and ¥1,192 million denote loans where payment of interest or principal has been delayed for three months or more excluding loans to borrowers in bankruptcy and other delinquent loans.
- (4) Restructured loans amounting to ¥9,931 million (\$92 million) and ¥12,203 million denote loans to borrowers for which the repayment terms have been modified to more favorable terms including reduction of interest rate, deferral of interest payments, extension of principal payments and debt forgiveness with the objective of promoting recovery of borrowers in economic difficulty excluding loans to borrowers in bankruptcy, other delinquent loans, and past-due loans.
- (5) The total of loans to borrowers in bankruptcy, other delinquent loans, past-due loans, and restructured loans amounted to ¥98,505 million (\$905 million) and ¥92,816 million.

The loan amounts disclosed from (1) to (5) above are amounts before deducting an allowance for loan losses.

Commercial bills

Bills discounted are accounted for as financing transactions in accordance with the Industry Audit Committee Report No. 24, February 13, 2002, of the JICPA, although the Banks have the right to sell or pledge them without restrictions. The total face value of commercial bills and purchased foreign exchange bills obtained as a result of discounting was ¥32,049 million (\$294 million) at March 31, 2020 and ¥41,462 million at March 31, 2019.

Loan Participation

Based on "Accounting Treatment and Presentation of Loan Participation," (Japanese Institute of Certified Public Accountants Accounting System Committee Report No. 3, November 28, 2014), the consolidated balance sheet amount of loan participation agreements in which the Banks have acquired the economic benefits and risks of the underlying loans from the original lender was ¥2,694 million (\$25 million) at March 31, 2020 and ¥7,015 million at March 31, 2019.

8. COMMITMENT LINES

Loan agreements and commitment line agreements relating to loans are agreements that oblige the consolidated subsidiaries to lend funds up to a certain limit agreed in advance. The consolidated subsidiaries make the loans upon the request of an obligor to draw down funds under such loan agreements as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused commitment balance relating to these loan agreements amounted to ¥907,251 million (\$8,336 million) at March 31, 2020 and ¥920,674 million at March 31, 2019. Of this amount, ¥751,011 million (\$6,901 million) at March 31, 2020, and ¥776,530 million at March 31, 2019, relates to loans for which the term of the agreement is one year or less, or unconditional cancellation of the agreement is allowed at any time.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flows. Conditions are included in certain loan agreements that allow the consolidated subsidiaries either to decline the request for a loan draw-down or to reduce the agreed limit amount when there is due cause to do so, such as when there is a change in financial condition or when it is necessary to protect the consolidated subsidiaries' credit. Consolidated subsidiaries take various measures to protect their credit. Such measures include having the obligor pledge collateral to the consolidated subsidiaries in the form of real estate, securities, etc., at entering into a loan agreement or in accordance with the consolidated subsidiaries' established internal procedures for confirming the obligor's financial condition, etc., at regular intervals.

9. PLEDGED ASSETS

At March 31, 2020 and 2019, the following assets were pledged as collateral for certain liabilities of the Banks.

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	
Cash and due from banks	¥ 14	¥ 14	\$ 129	
Securities	373,158	272,155	3,428,816	

The collateral was pledged to secure the following:

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	
Deposits	¥ 42,258	¥28,693	\$ 388,294	
Call money	21,222	—	195,001	
Payables under securities lending transactions	161,466	67,711	1,483,653	

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as foreign exchange contracts and forward exchange contracts. These securities amounted to ¥6,223 million (\$57 million) at March 31, 2020 and securities amounted to ¥9,045 million at March 31, 2019.

Also, other assets included security deposits, collateral pledged for transactions involving public funds, collateral pledged for financial instruments, collateral pledged for exchange settlements, the financial futures margin and margin on bond futures transactions, as indicated below.

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	
Deposits	¥ 2,552	¥ 2,858	\$ 23,449	
Collateral pledged for transactions involving public funds	1,199	1,188	11,017	
Collateral pledged for financial instruments	30,587	6,267	281,053	
Collateral pledged for exchange settlements	75,600	70,000	694,661	
Financial futures margin	10	10	92	
Margin on bond futures transactions	1,000	—	9,189	

10. ACCUMULATED DEPRECIATION

Accumulated depreciation of tangible assets was ¥78,245 million (\$719 million) at March 31, 2020, and ¥76,231 million at March 31, 2019.

11. ADVANCED DEPRECIATION AMOUNT OF TANGIBLE FIXED ASSETS

At March 31, 2020 and 2019, accumulated advanced depreciation amount of tangible fixed assets were ¥8,175 million (\$75 million) and ¥8,178 million. There were no such advance depreciation expenses in fiscal year ended March 31, 2020 and 2019.

12. IMPAIRMENT LOSSES

During the fiscal year ended March 31, 2020 and 2019, impairment losses were recorded on the following assets.

Location	Primary use	Type	Impairment loss		
			Millions of yen		Thousands of U.S. dollars
			2020	2019	2020
Within Yamaguchi Prefecture	Assets for lease	Land, buildings, movable property	¥ —	¥11	\$ —
Within Hiroshima Prefecture	Business-use assets	Movable property	¥ —	¥0	\$ —
Within Fukuoka Prefecture	Business-use assets	Buildings, movable property	¥ 12	¥2	\$ 110
Within Ehime Prefecture	Idle assets for sale	Land, buildings	¥ 93	¥—	\$ 864
Within Tokyo Metropolitan	Business-use assets	Buildings, movable property	¥ 28	¥—	\$ 257
Other	Business-use assets	Buildings, movable property	¥ 11	¥—	\$ 92
Total			¥144	¥14	\$1,323

YMFG and its consolidated subsidiaries that engage in the banking and securities business group their business-use assets into the smallest units possible from the standpoint of management accounting, which is the branch. Idle assets are, in principle, grouped as units of individual assets. In addition, corporate headquarters, administrative centers, training facilities, company housing and dormitories are considered corporate assets, as these are related to all the consolidated subsidiaries which are engaged in the banking businesses.

Consolidated subsidiaries that do not engage in the banking and securities business group their assets, in principle, on an individual company basis.

In the fiscal year ended March 31, 2020 and 2019, the book values of the business-use and idle assets, which were

determined not to create sufficient operating cash flow are reduced to their recoverable values, and recognized the reduction of ¥144 million (\$1,323 thousand) and ¥14 million as impairment losses. This amount includes land of ¥88 million (\$817 thousand), buildings of ¥46 million (\$414 thousand) and movable property of ¥10 million (\$92 thousand) in fiscal year ended March 31, 2020, and land of ¥6 million, buildings of ¥5 million and movable property of ¥3 million in fiscal year ended March 31, 2019.

The recoverable amount used to estimate the impairment loss for the fiscal year ended March 31, 2020 and 2019, is the net selling price, which is calculated by deducting the expected disposal cost from the expected disposal value.

13. BORROWED MONEY

Payment schedule of borrowed money as of March 31, 2020 is as follows:

	Millions of yen	Thousands of U.S. dollars
2020	¥ 9,232	\$ 84,830
2021	5,917	54,369
2022	4,215	38,730
2023	2,890	26,555
2024	1,457	13,388
Thereafter	4,288	39,401
Total	¥27,999	\$257,273

14. PROVISION FOR EMPLOYEE RETIREMENT BENEFITS

Overview of severance payments and pension plans
YMFG and some consolidated subsidiaries employ funded and unfunded defined benefit and defined contribution plans as employee retirement benefits.

Defined benefit plans include defined benefit corporate pension plans and lump-sum retirement plans. Also, some are established as retirement benefit trusts.

Some consolidated subsidiaries employ the simplified method for calculating retirement benefit obligations.

Defined benefit plans

(1) Reconciliation of retirement benefit obligation balances at the beginning and the end of the fiscal year ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligations at the beginning of the fiscal year	¥60,535	¥59,819	\$556,225
Service cost	1,784	1,728	16,393
Interest cost	99	152	910
Actuarial differences	2,257	1,895	20,739
Retirement benefit payments	(2,995)	(3,061)	(27,520)
Others	(4)	2	(28)
Retirement benefit obligations at the end of the fiscal year	¥61,676	¥60,535	\$566,719

(2) Reconciliation of plan asset balances at the beginning and the end of the fiscal year ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance of plan assets at the beginning of the fiscal year	¥96,302	¥102,726	\$884,894
Expected return on plan assets	2,137	2,033	19,636
Actuarial differences	(4,561)	(8,680)	(41,909)
Contribution from employer	759	2,125	6,974
Retirement benefit payments	(2,150)	(2,203)	(19,756)
Others	301	301	2,757
Balance of plan assets at the end of the fiscal year	¥92,788	¥ 96,302	\$852,596

(3) Reconciliation of the balances of retirement benefit obligations and plan assets at the end of the fiscal year ended March 31, 2020 and 2019, and the carrying amounts of net defined benefit liability and net defined benefit asset

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligations of funded plans	¥ 61,588	¥ 60,449	\$ 565,910
Plan assets	(92,788)	(96,303)	(852,596)
	(31,200)	(35,854)	(286,686)
Retirement benefit obligations of unfunded plans	88	85	809
Net carrying amount of obligations and assets	¥(31,112)	¥(35,769)	\$(285,877)

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net retirement benefit liability	¥ 3,930	¥ 2,906	\$ 36,111
Net retirement benefit asset	(35,042)	(38,675)	(321,988)
Net carrying amount of obligations and assets	¥(31,112)	¥(35,769)	\$(285,877)

(4) Retirement benefit costs and their breakdowns

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost*	¥ 1,784	¥ 1,728	\$ 16,393
Interest cost	99	152	910
Expected return on plan assets	(2,137)	(2,033)	(19,636)
Recognized actuarial loss	(418)	25	(3,841)
Others	71	80	643
Retirement benefit costs on defined benefit plans	¥ (601)	¥ (48)	\$ (5,531)

* Excludes employee contribution portion of defined benefit corporate pensions

(5) Remeasurements of defined benefit plans

Items posted as remeasurements of defined benefit plans (before tax-effect exclusions) break down as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gain (loss)	¥(7,235)	¥(10,550)	\$(26,721)
Total	¥(7,235)	¥(10,550)	\$(26,721)

(6) Cumulative remeasurements of defined benefit plans

Items posted as cumulative remeasurements of defined benefit plans (before tax-effect exclusions) break down as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gain (loss)	¥2,908	¥(4,328)	\$(26,721)
Total	¥2,908	¥(4,328)	\$(26,721)

(7) Plan assets

(i) Percentages of major asset categories to total plan assets are as follows.

	2020	2019
Bonds	30%	29%
Shares	47%	49%
Others	23%	22%
Total	100%	100%

(Note) Plan assets include 45% of corporate pension plans established as retirement benefit trusts at the end of the fiscal year ended March 31, 2020, and 45% at March 31, 2019.

(ii) Method of establishing expected long-term return on plan assets

(Corporate pensions)

Based on the weighted average rate according to the policy asset mix (medium- to long term portfolio) of the expected rate of return for individual investment fiduciary institutions, net of investment cost

(Retirement benefit trusts)

Past dividend performance is converted to yield.

(8) Basis of actuarial calculation

The basis of actuarial calculations as of March 31, 2020 and 2019

	2020	2019
Discount rate	0.00%—0.51%	0.00%—0.77%
Expected long-term rate of return on plan assets	1.50%—2.60%	1.20%—2.60%
Expected rate of salary increase	0.63%—3.84%	0.65%—4.26%

Defined contribution plans

The required contribution to the consolidated subsidiaries' defined contribution plans at the end of the fiscal year ended March 31, 2020 and 2019 were ¥279 million (\$3 million) and ¥282 million, respectively.

15. REVALUATION RESERVE FOR LAND

Pursuant to the Law concerning Revaluation of Land (Law No. 34, promulgated March 31, 1998, the "Law"), YMFG revalued certain land used for banking operations by consolidated subsidiaries. The tax-equivalent portion of this revaluation amount was recorded in liabilities under "deferred tax liabilities for revaluation reserve for land," and the remainder under net assets as "revaluation reserve for land."

Revaluation date: March 31, 1998

Item 3, Article 3, of the Law establishes the evaluation method as that prescribed by Article 2-4 of the Order for Enforcement of Law on Revaluation of Land (Enforcement Order No. 119, promulgated March 31, 1998), and the amount of land tax is calculated on the basis of the land tax amount specified under Article 16 of the Land-holding Tax Act, adjusted rationally in accordance with the basis of calculation announced officially by the Director General of the National Tax Administration Agency.

Total difference between market value of land for business use revalued in accordance with Article 10 of the Law and the total post-revaluation book value of land at March 31, 2020 and 2019 were ¥18,369 million (\$169 million) and ¥20,113 million, respectively.

16. CONTINGENT LIABILITIES — ACCEPTANCES AND GUARANTEES

All contingent liabilities, including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Banks' right of indemnity from customers.

17. OTHER INCOME

Other income included the gains on sale of stock of ¥13,840 million (\$127 million), income from investment partnership of ¥1,574 million (\$14 million) and gains on

investment in money held in trust of ¥984 million (\$9 million) for the fiscal year ended March 31, 2020 and the gains on sale of stock of ¥9,684 million, income from investment partnership of ¥922 million and gains on investment in money held in trust of ¥4 million for the fiscal year ended March 31, 2019.

18. GENERAL AND ADMINISTRATIVE EXPENSES

Items included operating expenses for the year ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salary and allowance	¥31,328	¥31,302	\$287,862
Depreciation	¥ 6,142	¥ 6,472	\$ 56,437

19. OTHER EXPENSES

Items included other expenses for the year ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loss on sale of stock	¥4,408	¥2,408	\$40,504
Losses on devaluation of stocks and other securities	¥ 818	¥ 33	\$ 7,516
Loss on investment in money held in trust	¥ 16	¥ 821	\$ 147

20. LEASE TRANSACTIONS

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

(i) Content of lease assets

Tangible fixed assets

Mainly vehicles and office equipment

Intangible fixed assets

Software

(ii) Depreciation method for lease assets

As described in "Lease assets under" (5) Accounting Policies, in "2. SIGNIFICANT ACCOUNTING POLICIES."

2. Operating leases

Future minimum lease payments at March 31, 2020 and 2019 were as follows:

Borrower

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Within one year	¥123	¥111	\$1,130
More than one year	726	827	6,671
Total minimum lease payments	¥849	¥938	\$7,801

Lender

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Within one year	¥1	¥—	\$ 9
More than one year	7	—	64
Total minimum lease payments	¥8	¥—	\$73

21. INCOME TAXES

1. Significant components of the deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for loan losses	¥17,174	¥14,639	\$157,806
Deferred gains or losses on hedges	4,672	560	42,929
Net defined benefit liability	1,474	433	13,544
Provision for bonuses	867	844	7,967
Unrealized gains on available-for-sale securities	664	—	6,101
Depreciation	642	699	5,899
Net operating losses carryforwards	511	296	4,695
Losses on devaluation of securities	505	668	4,640
Other	2,376	2,306	21,832
Deferred tax assets	28,885	20,445	265,413
Valuation allowance	(1,501)	(1,479)	(13,792)
Total deferred tax assets	27,384	18,966	251,621
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(4,486)	(19,576)	(41,220)
Securities contributed to retirement benefit trusts	(3,045)	(3,067)	(1,185)
Net defined benefit asset	(129)	(766)	(27,979)
Other	(1,352)	(1,361)	(12,414)
Total deferred tax liabilities	(9,012)	(24,770)	(82,798)
Net deferred tax assets (liabilities)	¥18,372	¥ (5,804)	\$168,823

2. Significant differences between the statutory effective tax rate and the actual income tax rate after application of deferred income tax accounting for the year ended March 31, 2020 and 2019 were omitted, as the difference between the effective statutory tax rate and the actual tax rate after application of deferred income tax accounting were 5% or less of the effective statutory tax rate.

22. NET ASSETS

Under the Companies Act of Japan ("the Act"), the entire amount paid for new shares is in principle required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Act, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying Consolidated Balance Sheets.

Under the Act, legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit, or may be capitalized, by a resolution of the shareholders' meeting.

Under the Act, additional paid-in capital and legal earnings reserve may not be distributed as dividends, however all of these may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that YMFG can distribute as dividends is calculated based on the Non-Consolidated Financial Statements of YMFG in accordance with the Act.

At the annual shareholders' meeting, held on June 25, 2020, the shareholders approved cash dividends amounting to ¥3,063 million (\$28 million). Such appropriations have not been accrued in the Consolidated Financial Statements

as of March 31, 2020 and to be recognized in the period in which they are approved by the shareholders.

At the annual shareholders' meeting, held on June 25, 2019, the shareholders approved cash dividends amounting to ¥2,807 million. Such appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2019 and to be recognized in the period in which they are approved by the shareholders.

23. CHANGES IN NET ASSETS

1. Type and number of shares issued and treasury shares were as follows:

	Number of shares (in thousand)			
	March 31, 2019	Increase	Decrease	March 31, 2020
Shares issued				
Common stock	264,353	—	—	264,353
Total	264,353	—	—	264,353
Treasury stock				
Common stock*1, *2, *3	10,749	445	635	10,559
Total	10,749	445	635	10,559

*1 The increase in the number of treasury stock is due to additional increase of Board Benefit Trust (BBT) of 443 thousand shares, and purchases of shares constituting less than one trading unit, totaling 1 thousand shares.

The decrease of treasury stock included the sale of 533 thousand shares from the ESOP Trust for Group employees to the YMFG stock ownership plan, the 85 thousand shares for the exercise of share options, 16 thousand shares due to the exercise of rights of the Board Benefit Trust (BBT) and purchases of shares constituting less than one trading unit, which amounted to 0 thousand shares.

*2 Treasury stock as of beginning and ending of fiscal year ended March 31, 2020 include 990 thousand shares and 456 thousand shares held by the ESOP Trust for employee shareholders.

*3 Treasury stock as of beginning and ending of fiscal year ended March 31, 2020 include 578 thousand shares and 1,005 thousand shares held by the Board Benefit Trust (BBT).

	Number of shares (in thousand)			
	March 31, 2018	Increase	Decrease	March 31, 2019
Shares issued				
Common stock	264,353	—	—	264,353
Total	264,353	—	—	264,353
Treasury stock				
Common stock*1, *2, *3	17,853	14,653	21,756	10,750
Total	17,853	14,653	21,756	10,750

*1 The increase in the number of treasury stock is due to market purchases of 14,644 thousand shares, and purchases of shares constituting less than one trading unit, totaling 8 thousand shares.

The decrease of treasury stock included 21,184 thousand shares stemming from the exercise of convertible bond-type share options to shares denominated in euros and US dollars that matured in 2018, the sale of 332 thousand shares from the ESOP Trust for Group employees to the YMFG stock ownership plan, the 167 thousand shares for the exercise of share options, 52 thousand shares due to the exercise of rights of the Board Benefit Trust (BBT), the sale of 17 thousand shares to the parent company of a consolidated subsidiary and an equity-method affiliate and purchases of shares constituting less than one trading unit, which amounted to 0 thousand shares.

*2 Treasury stock as of beginning and ending of fiscal year ended March 31, 2019 include 1,323 thousand shares and 990 thousand shares held by the ESOP Trust for employee shareholders.

*3 Treasury stock as of beginning and ending of fiscal year ended March 31, 2019 include 631 thousand shares and 578 thousand shares held by the Board Benefit Trust (BBT).

2. Stock options

Stock options at March 31, 2020 and 2019 were ¥127 million (\$1 million) and ¥209 million, respectively.

3. Information on dividends is as follows:

(a) Dividends paid in the fiscal year ended March 31, 2020 and 2019.

Type of shares	Aggregate amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Resolved at the board of directors meeting on May 11, 2019				
Common stock	¥2,807*1	¥11.00	Mar. 31, 2019	Jun. 26, 2019

Resolved at the board of directors meeting on November 7, 2019				
Common stock	¥3,063*2	¥12.00	Sep. 30, 2019	Dec. 10, 2019

*1 The total amount of dividend on common stock includes ¥17 million in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

*2 The total amount of dividend on common stock includes ¥15 million in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

Type of shares	Aggregate amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Resolved at the board of directors meeting on May 11, 2018				
Common stock	¥2,488*1	¥10.00	Mar. 31, 2018	Jun. 27, 2018
Resolved at the board of directors meeting on November 9, 2018				
Common stock	¥2,751*2	¥11.00	Sep. 30, 2018	Dec. 10, 2018

*1 The total amount of dividend on common stock includes ¥20 million in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

*2 The total amount of dividend on common stock includes ¥19 million in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

Type of shares	Aggregate amount of dividends (Thousands of U.S. dollars)	Cash dividends per share (U.S. dollars)	Record date	Effective date
Resolved at the board of directors meeting on May 11, 2019				
Common stock	\$25,792*1	\$0.10	Mar. 31, 2019	Jun. 26, 2019
Resolved at the board of directors meeting on November 7, 2019				
Common stock	\$28,145*2	\$0.11	Sep. 30, 2019	Dec. 10, 2019

*1 The total amount of dividend on common stock includes \$156 thousand in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

*2 The total amount of dividend on common stock includes \$138 thousand in dividends to ESOP Trust for employee shareholders and Board Benefit Trust (BBT).

(b) Dividends to be paid in the fiscal year ending March 31, 2020 and 2019 are as follows:

(Millions of yen, except per share amount)					
Type of shares	Aggregate amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (Yen)	Record date	Effective date
Common stock	¥3,063*	Retained earnings	¥12.00	Mar. 31, 2020	Jun. 26, 2020

* The total amount of dividend on common stock includes ¥18 million in dividends to ESOP Trust and for employee shareholders and Board Benefit Trust (BBT).

(Millions of yen, except per share amount)					
Type of shares	Aggregate amount of dividends (Millions of yen)	Source of dividends	Cash dividends per share (Yen)	Record date	Effective date
Resolved at the board of directors meeting on May 10, 2019					
Common stock	¥2,807*	Retained earnings	¥11.00	Mar. 31, 2019	Jun. 26, 2019

* The total amount of dividend on common stock includes ¥17 million in dividends to ESOP Trust and for employee shareholders and Board Benefit Trust (BBT).

(Thousands of U.S. dollars, except per share amount)					
Type of shares	Aggregate amount of dividends (Thousands of U.S. dollars)	Source of dividends	Cash dividends per share (U.S. dollars)	Record date	Effective date
Resolved at the board of directors meeting on May 15, 2020					
Common stock	\$28,145*	Retained earnings	\$0.11	Mar. 31, 2020	Jun. 26, 2020

* The total amount of dividend on common stock includes \$165 thousand in dividends to ESOP Trust and for employee shareholders and Board Benefit Trust (BBT).

24. STOCK OPTIONS

At a Board of Directors meeting, resolutions were passed with regard to subscription requirements for the allotment of stock options as compensation to directors of YMFG's banking subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank. The details of these resolutions are described below.

1. Recording of expenses related to stock options and the name of line items.

There were no expenses in the fiscal year ended March 31, 2020 and 2019.

2. The contents of the stock options are outlined as below.

2016	
Category and number of persons to be granted stock options	27 directors (excluding directors who are members of the Audit and Supervisory Committee, part-time directors and outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.
Number of stock options by class of stock*	122,000 shares of YMFG's common stock
Grant date	August 25, 2015
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	August 26, 2015—August 25, 2045
2015	
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.
Number of stock options by class of stock*	182,900 shares of YMFG's common stock
Grant date	July 29, 2014
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	July 30, 2014—July 29, 2044

2014	
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.
Number of stock options by class of stock*	225,100 shares of YMFG's common stock
Grant date	July 23, 2013
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	July 24, 2013—July 23, 2043
2013	
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.
Number of stock options by class of stock*	294,900 shares of YMFG's common stock
Grant date	July 30, 2012
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	July 31, 2012—July 30, 2042
2012	
Category and number of persons to be granted stock options	27 directors (excluding outside directors) of YMFG's subsidiaries, Yamaguchi Bank, Momiji Bank and Kitakyushu Bank.
Number of stock options by class of stock*	192,600 shares of YMFG's common stock
Grant date	October 31, 2011
Vesting conditions	No vesting conditions set
Target length of service period	No target length of service period set
Period for exercise of rights	November 1, 2011—October 31, 2041

Note: Stated as the equivalent number of shares.

From the fiscal year ended March 31, 2016, the issuance of stock options to directors of the YMFG subsidiaries Yamaguchi Bank, Momiji Bank and Kitakyushu Bank (excluding directors who are Audit and Supervisory Committee members, part-time directors and outside directors) was discontinued.

3. The summary of stock option activity is as indicated below.

(a) Number of stock options

	2016	2015	2014	2013	2012
Prior to vesting					
As of the end of the previous consolidated fiscal year	—	—	—	—	—
Granted	—	—	—	—	—
Expired	—	—	—	—	—
Vested	—	—	—	—	—
Rights not yet determined	—	—	—	—	—
After vesting					
As of the end of the previous consolidated fiscal year	52,600	60,000	41,300	36,700	18,700
Rights determined	—	—	—	—	—
Rights exercised	17,600	20,700	19,400	16,500	10,900
Expiry	—	—	—	—	—
Amount unexercised	35,000	39,300	21,900	20,200	7,800

(b) Price information

	Yen				
	2016	2015	2014	2013	2012
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise	759	759	759	759	759
Fair value on date granted	1,377	1,015	973	619	660

4. Method for estimating the number of rights determined for stock options

Due to the difficulty of rationally estimating the future number of rights that will expire, in general a method is employed that reflects only the number of rights that have actually expired.

25. INVESTMENT AND RENTAL PROPERTY

This note is omitted, as the total amount of investment and rental property is immaterial.

26. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts of reclassification adjustments and tax effect amounts related to other comprehensive income in the consolidated fiscal year ended March 31, 2020 and 2019 were as follows.

	Millions of Yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized gains (losses) on available-for-sale securities			
Amount generated during the year	¥(25,811)	¥ (3,090)	\$(237,168)
Reclassification adjustments	(25,959)	(17,133)	(238,528)
Before tax effect adjustment	(51,770)	(20,224)	(475,696)
Tax effect amount	15,739	5,992	144,629
Unrealized gains (losses) on available-for-sale securities	(36,031)	(14,232)	(331,067)
Deferred gains (losses) on hedges			
Amount generated during the year	(14,259)	(2,547)	(131,021)
Reclassification adjustments	760	963	6,983
Before tax effect adjustment	(13,499)	(1,584)	(124,038)
Tax effect amount	4,112	482	37,784
Deferred gains (losses) on hedges	(9,387)	(1,102)	(86,254)
Remeasurements of defined benefit plans			
Amount generated during the year	(6,818)	(10,575)	(62,648)
Reclassification adjustments	(418)	25	(3,841)
Before adjustment for tax effects	(7,236)	(10,550)	(66,489)
Tax effect amount	2,205	3,210	20,253
Remeasurements of defined benefit plans	(5,031)	(7,340)	(46,236)
Total other comprehensive income	¥(50,449)	¥(22,674)	\$(463,557)

27. SEGMENT INFORMATION

Business segment information is not presented, as the Group's business is predominantly consisted of the banking business, and the securities brokerage, credit card, leasing, consulting and other businesses conducted by the Group collectively is limited.

Geographic segment information is not presented, as domestic income of the Bank and consolidated subsidiaries and their consolidated assets located substantially in Japan represent more than 90% of the Group's consolidated income and assets.

Overseas sales information is not presented, as overseas sales are less than 10% of the Group's consolidated income.

28. RELATED PARTY TRANSACTIONS

Details of the transactions between the consolidated subsidiaries of YMFG submitting the consolidated financial statements and related parties are as follows:

Executives and major shareholders of YMFG submitting the consolidated financial statements (only for individuals), etc.

For the year ended March 31, 2020

Category:	Executive
Name:	Kazuo Tsukuda
Occupation or title:	Director and Audit and Supervisory Committee Member of YMFG
Relationship with related party:	Lender of funds
Content of transaction:	Lending of funds*
Transaction amount:	¥223 million (\$2 million) (average balance)
Account name:	Loan
Year-end balance:	¥223 million (\$2 million)

* Conditions for this transaction and for method of deciding this transaction conditions were the same as general transactions.

For the year ended March 31, 2019

Category:	Executive
Name:	Kazuo Tsukuda
Occupation or title:	Director and Audit and Supervisory Committee Member of YMFG
Relationship with related party:	Lender of funds
Content of transaction:	Lending of funds*
Transaction amount:	¥223 million (average balance)
Account name:	Loan
Year-end balance:	¥223 million

* Conditions for this transaction and for method of deciding this transaction conditions were the same as general transactions.

29. PER SHARE DATA

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥2,458.73	¥2,580.74	\$22.59
Net income per share	100.07	94.65	0.92
Net income per share (diluted)	¥ 93.86	¥ 83.27	\$ 0.86

Net assets per share are calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2020	2019	2020
Net assets	¥630,245	¥660,958	\$5,791,096
Amounts excluded from net assets	¥ 6,233	¥ 6,473	\$ 57,273
Stock options	127	209	1,167
Non-controlling interests	6,106	6,264	56,106
Net assets attributable to common stock at the fiscal year-end	624,012	654,485	5,733,823
Number of common stock at the fiscal year-end used for the calculation of net assets per share (in thousands)*	253,794	253,603	—

* Shares of YMFG held by the ESOP trust and the Board Benefit Trust (BBT) are shown on the balance sheets as treasury stock, so are not included in the above number of common stock at the fiscal year-end used for the calculation of net assets per share. This number of shares held by the ESOP and the Board Benefit Trust (BBT) was 1,568 thousand as of March 31, 2019, and 1,461 thousand as of March 31, 2020.

Net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2020	2019	2020
Net income attributable to owners of the parent	¥ 25,391	¥ 23,149	\$233,309
Amount not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent for common stock	25,391	23,149	233,309
Average shares of common stock during the year* (in thousands)	253,747	244,575	—

Diluted net income per share is calculated based on the following:

	Millions of yen except number of shares		Thousands of U.S. dollars
	2020	2019	2020
Net income adjustment attributable to owners of the parent	¥ 398	¥ 462	\$3,657
Interest expenses (excluding tax amount)	398	462	3,657
Increase of shares of common stock	21,003	38,980	—
Bonds with warrant	20,852	38,719	—
Warrant	150	260	—
Dilutive shares not including calculation due to no dilutive effect	—	—	—

* Shares of YMFG held by the ESOP trust and the Board Benefit Trust (BBT) are shown on the balance sheets as treasury stock, so are not included in the above average shares of common stock during the year. The average number of shares was 1,487 thousand in the fiscal year ended March 31, 2020 and 1,734 thousand in the fiscal year ended March 31, 2019.

30. SUBSEQUENT EVENTS

For the year ended March 31, 2020

There were no significant subsequent events. Dividends were made in June 2020. Please refer to "22. NET ASSETS."

For the year ended March 31, 2019

There were no significant subsequent events. Dividends were made in June 2019. Please refer to "22. NET ASSETS."



Independent auditor's report

To the Board of Directors of Yamaguchi Financial Group, Inc.:

Opinion

We have audited the accompanying consolidated financial statements of Yamaguchi Financial Group, Inc. and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Hideyuki Hayashi
Designated Engagement Partner
Certified Public Accountant

Yoshinao Abe
Designated Engagement Partner
Certified Public Accountant

Noriyuki Akiyama
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
August 5, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Yamaguchi Bank Financial Statements

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2020 and 2019

ASSETS		Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Assets	Cash and due from banks	¥ 616,575	¥ 608,108	\$ 5,665,487
	Call loans and bills purchased	33,168	83,137	304,769
	Monetary claims bought	5,487	6,941	50,418
	Trading assets	990	886	9,097
	Money held in trust	40,738	23,275	374,327
	Securities	945,873	896,686	8,691,289
	Loans and bills discounted	4,234,787	4,043,045	38,911,945
	Foreign exchanges	10,367	9,726	95,259
	Other assets	118,689	109,267	1,090,592
	Tangible fixed assets	44,273	44,554	406,809
	Intangible fixed assets	3,570	3,771	32,803
	Prepaid pension cost	19,038	17,626	174,933
	Deferred tax assets	6,917	—	63,558
	Customers' liabilities for acceptances and guarantees	25,438	23,788	233,741
	Allowance for loan losses	(30,420)	(26,801)	(279,519)
	Total assets	¥ 6,075,490	¥ 5,844,009	\$ 55,825,508

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 5,358,972	¥ 5,135,626	\$ 49,241,680
	Call money and bills sold	85,701	133,617	787,476
	Payables under securities lending transactions	115,421	50,173	1,060,562
	Trading liabilities	742	570	6,818
	Borrowed money	4,844	5,584	44,510
	Foreign exchanges	4,082	2,119	37,508
	Other liabilities	65,437	53,902	601,277
	Provision for bonuses	41	8	377
	Provision for retirement benefits	106	113	974
	Provision for directors' stock benefits	137	104	1,259
	Provision for reimbursement of deposits	622	796	5,715
	Provision for customers point services	43	41	395
	Deferred tax liabilities	—	7,210	—
	Deferred tax liabilities for land revaluation	7,380	7,410	67,812
	Acceptances and guarantees	25,438	23,788	233,741
	Total liabilities	5,668,966	5,421,061	52,090,104
Net assets:	Capital stock	10,006	10,006	91,942
	Capital surplus	380	380	3,492
	Retained earnings	379,841	364,850	3,490,223
	Total shareholders' equity	390,227	375,236	3,585,657
	Net unrealized gains on securities	8,891	32,208	81,696
	Deferred gains or losses on hedges	(9,283)	(1,255)	(85,298)
	Revaluation reserve for land	16,689	16,759	153,349
	Total valuation and translation adjustments	16,297	47,712	149,747
	Total net assets	406,524	422,948	3,735,404
Total liabilities, and net assets		¥ 6,075,490	¥ 5,844,009	\$ 55,825,508

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2020 and 2019

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Income			
Interest income:			
Interest on loans and discounts	¥ 42,199	¥ 43,039	\$ 387,752
Interest and dividends on securities	15,704	13,459	144,298
Other interest income	1,039	1,486	9,547
Fees and commissions	9,889	10,565	90,866
Trading income	63	24	579
Other ordinary income	15,955	10,376	146,605
Other income	13,026	8,916	119,691
Total income	97,875	87,865	899,338

Expenses			
Interest expense:			
Interest on deposits	4,006	5,078	36,810
Interest on borrowings and rediscounts	2,596	1,842	23,854
Other interest expense	1,008	324	9,262
Fees and commissions payments	4,815	4,719	44,243
Other operating expenses	18,579	14,525	170,716
General and administrative expenses	26,952	28,137	247,652
Impairment losses	121	11	1,112
Other expenses	9,231	8,010	84,820
Total expenses	67,308	62,646	618,469
Income before income taxes and minority interests	30,567	25,219	280,869
Income taxes:			
Current	8,154	7,387	74,924
Deferred	(588)	(956)	(5,403)
Net income	¥ 23,001	¥ 18,788	\$ 211,348

Amounts per share of common stock:	Yen 2020	Yen 2019	U.S. dollars 2020
Net income	¥ 115.01	¥ 93.94	\$ 1.06
Cash dividends applicable to the year	43.14	37.44	0.40

Momiji Bank Financial Statements

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2020 and 2019

ASSETS		Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Assets	Cash and due from banks	¥ 273,147	¥ 358,475	\$ 2,509,850
	Call loans and bills purchased	1,088	1,110	9,997
	Monetary claims bought	—	114	—
	Trading assets	590	579	5,421
	Money held in trust	4,714	4,730	43,315
	Securities	527,742	458,733	4,849,233
	Loans and bills discounted	2,316,966	2,253,369	21,289,773
	Foreign exchanges	7,983	5,286	73,353
	Other assets	87,927	70,298	807,930
	Tangible fixed assets	35,174	35,662	323,201
	Intangible fixed assets	2,258	2,368	20,748
	Prepaid pension cost	15,949	14,672	146,550
	Deferred tax assets	11,191	5,557	102,830
	Customers' liabilities for acceptances and guarantees	7,515	8,453	69,053
	Allowance for loan losses	(23,688)	(18,933)	(217,661)
	Total assets	¥ 3,268,556	¥ 3,200,473	\$ 30,033,593

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 3,010,767	¥ 2,982,359	\$ 27,664,863
	Call money and bills sold	6,530	—	60,002
	Payables under securities lending transactions	46,045	17,538	423,091
	Borrowed money	7,624	7,638	70,054
	Foreign exchanges	31	25	285
	Other liabilities	23,796	10,798	218,653
	Provision for bonuses	7	1	64
	Provision for directors' stock benefits	80	84	735
	Provision for reimbursement of deposits	352	415	3,234
	Deferred tax liabilities for land revaluation	4,419	4,419	40,605
	Acceptances and guarantees	7,515	8,453	69,053
	Total liabilities	3,107,166	3,031,730	28,550,639
Net assets:	Capital stock	10,000	10,000	91,886
	Capital surplus	59,533	59,533	547,027
	Retained earnings	92,317	90,012	848,268
	Total shareholders' equity	161,850	159,545	1,487,181
	Net unrealized gains on securities	(7,481)	816	(68,741)
	Deferred gains or losses on hedges	(1,384)	(23)	(12,717)
	Revaluation reserve for land	8,405	8,405	77,231
	Total valuation and translation adjustments	(460)	9,198	(4,227)
	Total net assets	161,390	168,743	1,482,954
Total liabilities, and net assets		¥ 3,268,556	¥ 3,200,473	\$ 30,033,593

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2020 and 2019

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Income			
Interest income:			
Interest on loans and discounts	¥ 22,862	¥ 23,310	\$ 210,071
Interest and dividends on securities	5,167	5,901	47,478
Other interest income	177	217	1,626
Fees and commissions	5,697	5,983	52,348
Other ordinary income	6,391	3,182	58,725
Other income	3,378	3,335	31,038
Total income	43,672	41,928	401,286

Expenses			
Interest expense:			
Interest on deposits	651	1,030	5,982
Interest on borrowings and rediscounts	338	459	3,106
Other interest expense	478	672	4,392
Fees and commissions payments	3,918	3,835	36,001
Other operating expenses	3,231	2,353	29,689
General and administrative expenses	19,287	20,905	177,221
Other expenses	8,135	3,085	74,749
Total expenses	36,038	32,339	331,140
Income before income taxes and minority interests	7,634	9,589	70,146
Income taxes:			
Current	2,632	1,065	24,185
Deferred	(1,285)	817	(11,808)
Net income	¥ 6,287	¥ 7,707	\$ 57,769

Amounts per share of common stock:	Yen 2020	Yen 2019	U.S. dollars 2020
Net income	¥ 14.43	¥ 17.69	\$ 0.13
Cash dividends applicable to the year	9.83	8.39	0.09

Kitakyushu Bank Financial Statements

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

March 31, 2020 and 2019

ASSETS		Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Assets	Cash and due from banks	¥ 81,689	¥ 76,160	\$ 750,611
	Call loans and bills purchased	238	151	2,187
	Securities	36,484	41,191	335,238
	Loans and bills discounted	1,180,763	1,159,186	10,849,609
	Foreign exchanges	6,310	5,442	57,980
	Other assets	8,576	3,725	78,803
	Tangible fixed assets	19,355	19,530	177,846
	Intangible fixed assets	960	977	8,821
	Prepaid pension cost	847	831	7,783
	Customers' liabilities for acceptances and guarantees	13,145	14,307	120,785
	Allowance for loan losses	(9,437)	(9,393)	(86,713)
	Total assets	¥ 1,338,930	¥ 1,312,107	\$ 12,302,950

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)

Liabilities:	Deposits	¥ 1,181,146	¥ 1,136,787	\$ 10,853,129
	Call money and bills sold	33,168	45,206	304,769
	Borrowed money	700	790	6,432
	Foreign exchanges	50	55	459
	Other liabilities	4,897	4,763	44,997
	Provision for bonuses	15	1	138
	Provision for retirement benefits	1,199	1,161	11,017
	Provision for directors' stock benefits	95	70	873
	Provision for reimbursement of deposits	56	71	515
	Deferred tax liabilities	1,071	3,102	9,841
	Deferred tax liabilities for land revaluation	3,458	3,458	31,774
	Acceptances and guarantees	13,145	14,307	120,785
	Total liabilities	1,239,000	1,209,771	11,384,729
Net assets:	Capital stock	10,000	10,000	91,886
	Retained earnings	73,675	71,578	676,973
	Total shareholders' equity	83,675	81,578	768,859
	Net unrealized gains on securities	8,488	12,991	77,994
	Revaluation reserve for land	7,767	7,767	71,368
	Total valuation and translation adjustments	16,255	20,758	149,362
	Total net assets	99,930	102,336	918,221
Total liabilities, and net assets		¥ 1,338,930	¥ 1,312,107	\$ 12,302,950

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Years ended March 31, 2020 and 2019

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Income			
Interest income:			
Interest on loans and discounts	¥ 11,228	¥ 11,329	\$ 103,170
Interest and dividends on securities	627	609	5,761
Other interest income	46	52	423
Fees and commissions	1,535	1,444	14,105
Other ordinary income	171	119	1,571
Other income	2,123	418	19,507
Total income	15,730	13,971	144,537

Expenses			
Interest expense:			
Interest on deposits	456	471	4,190
Interest on borrowings and rediscounts	365	413	3,354
Other interest expense	6	8	55
Fees and commissions payments	1,247	1,116	11,458
General and administrative expenses	7,591	7,794	69,751
Other expenses	608	890	5,587
Total expenses	10,273	10,692	94,395
Income before income taxes and minority interests	5,457	3,279	50,142
Income taxes:			
Current	1,423	836	13,075
Deferred	(77)	(92)	(708)
Net income	¥ 4,111	¥ 2,535	\$ 37,775

Amounts per share of common stock:	Yen 2020	Yen 2019	U.S. dollars 2020
Net income	¥ 4,110,771.21	¥ 2,534,656.75	\$ 37,772.41
Cash dividends applicable to the year	¥ 2,148,141.73	¥ 1,869,750.48	\$ 19,738.51



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