

Co-Creating a Bountiful Future for Our Region

YMFG Integrated Report 2022

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

M. Yamane
.....
Authorized Signature



Yamaguchi Financial Group, Inc.

Purpose and vision

Basic approach to working
on business activities with
a focus on purpose

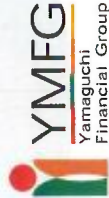
The Group's mission and
the meaning of its existence
(Purpose)

Co-creating a bountiful future for our region

Emphasized concepts

What the Group should become in the future
(Vision)

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



Management policy

“A sound and proactive enterprising spirit”

The thoughts that we cherish

Yamaguchi Financial Group, Inc., has formulated the “Mission and the meaning of its existence (Purpose)” and “What the Group should become in the future (Vision)” in order to combine the abilities of the Group’s executives and employees, and to increase corporate value.

We have incorporated the concepts of the conventional group vision and the thoughts that we cherish through our business activities, etc.

Future-oriented

We exist to create a future, for the future

Coexistence-oriented

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

Region-oriented

We always exist for our region

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Editorial Policy

Yamaguchi Financial Group, Inc., has created the “YMFG Integrated Report 2022” in order to help our stakeholders gain an understanding of our efforts towards sustainable value creation. In the completion of this report, we have referred to the “International Integrated Reporting Framework” advocated by the International Integrated Reporting Council (IIRC), the “Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation” published by the Ministry of Economy, Trade and Industry, etc.

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



History of YMFG

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

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



Realizing management integration ahead of industry

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

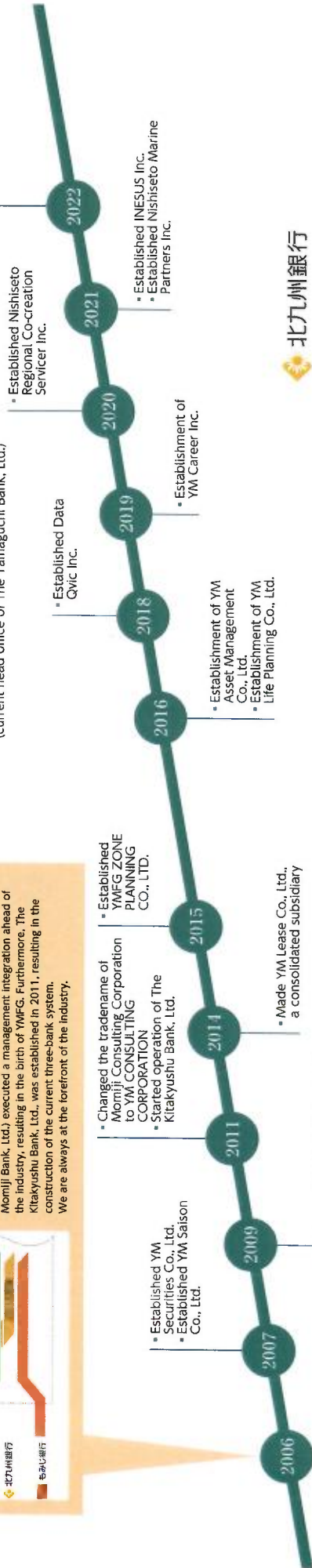


Yamaguchi Financial Group, Inc.
(current head office of The Yamaguchi Bank, Ltd.)

YMFG Medium-Term Management Plan 2022

Aiming to "improve the sustainability of our region" and to "build a sustainable business model for YMFG"

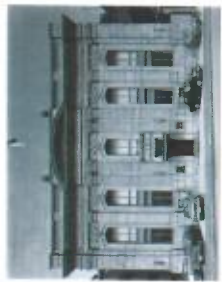
- Made YAMAGUCHI CAPITAL Co., Ltd., Regional Trading Company Yamaguchi Co., LTD., KAIKA Corporation and Bankers Farm Inc. subsidiaries



Head office of The Kitakyushu Bank, Ltd.



Head office of Momiji Bank, Ltd.



Former head office of The Yamaguchi Bank, Ltd.



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

1944 Founded The Yamaguchi Bank, Ltd.
(The merger of five banks: The Hyakuju Bank, Ltd., Kaho Bank, Ltd., Senjo Bank, Ltd., Oshima Bank, Ltd., and Ube Bank, Ltd.; capital of ¥13.45 million)



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

• Established Nishiseto Regional Co-creation Servicer Inc.

• Established INESUS Inc.
• Established Nishiseto Marine Partners Inc.

• Establishment of YM Career Inc.

• Established Data Qvic Inc.

• Establishment of YM Asset Management Co., Ltd.
• Establishment of YM Life Planning Co., Ltd.

• Established YMFEG ZONE PLANNING CO., LTD.

• Changed the tradename of Momiji Consulting Corporation to YM CONSULTING CORPORATION
• Started operation of The Kitakyushu Bank, Ltd.

• Made YM Lease Co., Ltd., a consolidated subsidiary

• Acquired all issued shares of Izutsuya Withcard Company Limited

• Established YM Securities Co., Ltd.
• Established YM Saison Co., Ltd.

• Established Yamaguchi Financial Group, Inc.
• Listed on the First Section of the Tokyo Stock Exchange

Message from the President

Co-Creating a Bountiful Future for Our Region

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

Keisuke
Mukunashi



Together with the region, we will continue to battle through these changing times towards the future.

To evolving YMGF

Formulation of purpose
YMGF, in order to contribute to our customers and region more than ever before, and to raise corporate value, formulated the “YMGF Medium-Term Management Plan 2022” to cover the three years from the fiscal year ending March 31, 2023, and has made this the starting point for the new YMGF. While maintaining our conventional direction of aiming to improve regional value, we listen carefully to the opinions of our customers and region, devise strategies that meet the front-line situation, and steadily implement them.

While the rapid progression of technology and globalization, and impact of COVID-19 and international affairs, etc., make it difficult to forecast the future, in a society in which the behavioral patterns and values of people are undergoing major changes, YMGF must return to the reason for its existence, and work together as an organization to make the right changes for the future. What should we fulfill as a regional financial group, and what is the purpose of our being? Because it is the era of VUCA*, we reconfirm the axis of our management, and strongly feel that all YMGF employees hold the same basic concepts and move in the same direction. Therefore, we have formulated the purpose (mission and reason for existence) as a guideline. The purpose is the banner that unites YMGF as one, and is a pledge that we have made to our stakeholders.

* VUCA, an acronym of Volatility, Uncertainty, Complexity, and Ambiguity

The thoughts that we cherish (Future-oriented, coexistence-oriented and region-oriented)
Our purpose, which we formulated upon reviewing our own orientation and meaning of existence, is “co-creating a bountiful future for our region.” At the root of this purpose there are three thoughts that we cherish. The first is “future-oriented”: We exist to create a future, for the future. The second is “coexistence-oriented”: We cannot survive alone,

we must always co-exist and work together with our stakeholders. The third is “region-oriented”: We always exist for our region. These three thoughts have been passed down throughout our history.

A stance passed down throughout our long history (sound and proactive enterprising spirit)
The Yamaguchi Bank, Ltd. has a history of over 140 years, courting back from its predecessor, The Hyakujū National Bank, Ltd., which was founded in 1878. We have overcome numerous financial crises together with the region since our founding. In addition, Momiji Bank, Ltd. has a long history of over 80 years with its parent banks, Hiroshima-Sogo Bank, Ltd. and Setouchi Bank Ltd. Momiji Bank, Ltd. also has the background of having been a *sogo bank* in the past, and has continued to operate closely with regional small and medium-sized enterprises and individual customers. The Kitakyushu Bank, Ltd. was established in 2011 as the only regional bank with a head office in Kitakyushu-shi, in response to strong demand from local residents.

YMGF s made up of these three banks at its core. We are now the largest financial group in the Chugoku and Shikoku regions, with 23 group companies in addition to the three banks in the Group. The presidents of our group companies include people in their 30s and early 40s, and who are still active. We are a group that is continuing to take on various challenges in accordance with the needs of the region.

In this way, we have inherited the values that have been passed down through our long history, and we have continued to tackle various challenges in order to create a future for the region, always in partnership with our stakeholders, and have treated our region and customers with sincerity. The basic approach that we have adhered to in order to put this into practice is “sound and proactive enterprising spirit,” which has been our management policy since our foundation.

“Sound and proactive enterprising spirit” means “a sound attitude is one in which you tackle everything proactively, boldly, and with an

Message from the President

enterprising spirit. In addition, sound management content.

management system and management attitude will naturally result in a constitution and strength that allows for the aggressive and resolute taking of risks. In other words, soundness and proactive action are not mutually exclusive concepts, but rather are a harmonious and integrated idea. YMFG has maintained a sincere attitude towards the development of the local community based on "sound and proactive enterprising spirit," as well as management based on the principles of sound management, to earn the trust of our customers and the local community. Moving forward as well, for "co-creating a bountiful future for our region," we will continue to inherit and put into practice a stance of "sound and proactive enterprising spirit."

I think that "region" meaning staying in a "region" is a discussion of the past. In the modern day era, which is based on digital nature, going beyond "region," "Japan," and then the "world" are our stakeholders. Having each and every YMFG employee hold such a perspective and realize the purpose will result in the creation of a new era for YMFG and the region.

About the new medium-term management plan

New medium-term management plan formulation process
 The new medium-term management plan is firstly characterized by its formulation process. The previous medium-term management plan was formulated through the use of a top-down approach, and gave us points to reflect upon, such as a lack of progress in strategy planning based on regional characteristics and strategy correction in response to environmental changes, as well as some mismatches with customer needs. Based on these points of reflection, we started considering plans through the use of a bottom-up approach in October 2021 for the new medium-term management plan.

On this occasion, I have also included my wish for YMFG employees to be more actively involved in the formulation of the plan. In particular, we

established a project team that included full-time members selected from the three banks in the Group, which account for the majority of the Group's revenue, in order to sufficiently reflect the opinions of each bank and to consider the various characteristics and positions, etc., of the region. First of all, we prescribed a purpose to serve as the basis for management, and then proceeded with the formulation of a plan towards the realization of "a regional value-up corporate group that is chosen by our region and responds to the trust of our region," which is our vision (what the Group should become in the future).

Furthermore, through the advance recording of expenses for the purposes of "restructuring our securities portfolio" and "promoting drastic business revitalization for customers," as well as the execution of organizational restructuring such as the appointment of the residents of the three banks as Directors of the Company, we have established a system that will enable the steady implementation of the new medium-term management plan.

In the fiscal year ending March 31, 2025, which is the final fiscal year of the plan, we forecast a net income of ¥33.0 billion, which will be our highest ever, as well as a ROE of 5%. We believe that the new medium-term management plan has a high probability of being achieved as we have adopted a formulation method that allows for all YMFG employees to work towards it with a shared awareness and initiative, and because we have established a solid foundation for its realization.

Towards the realization of a sustainable society
 We have positioned the new medium-term management plan as a "three year period to push forward with regional and customer-oriented business activities" as "Team YMFG," towards the improved sustainability of our region and YMFG. In addition, as we work towards improving the sustainability of the region and building a sustainable business model for YMFG, we have prescribed the five priority items of the "promotion of regional co-creation sustainability management," "promotion of the active participation of the Group's human assets," "pursuit for the maximization of value provided to the region and customers," "challenging to expand business areas

<Formulation process for the new medium-term management plan>



and strengthen profitability," as well as the "strengthening of the governance and internal control system," as the areas that are particularly important to promote.

The momentum for efforts towards a sustainable society has been increasing year after year, and a response to this has been strongly sought from a large number of companies. In order

<Target management indicators of the new medium-term management plan>

Final fiscal year (fiscal year ending March 31, 2025)	¥47.5 billion
Ordinary profits	¥33.0 billion
Net income	Around 5%
ROE	Around 40%
Dividend payout ratio	

to put into practice management that improves regional sustainability, towards a better future for the region, we have set the target, in the form of the Group Sustainability Policy, of "in order to progress and grow together with everyone in the region, we will contribute to the realization of a sustainable society by working on the resolution of various issues and improving the value of the region, through our various business activities." In addition, in regard to the ESG issue of "materiality," which is something that we should particularly focus on, we have prescribed four themes for initiatives, namely the "revitalization of local community and economies," "environmental conservation," "job satisfaction for all executives and employees," and "building a solid management foundation." By working to resolve the issues facing society through business, we aim to be a group that contributes to the improved sustainability of the region, while at the same time repeating a virtuous cycle that leads to expanded business opportunities for YMFG, as well as growth together with the region.

It should be noted that in the period of the medium-term management plan as well, we are constantly monitoring the progress of the plan, regularly reviewing the plan and adding new measures in response to changes in the

Message from the President

management environment, and working towards further growth.

Cultivating "human assets" to establish an organization that is strongly adaptable to changes
We use the term "human assets" rather than "human resources," as "human assets" are valuable assets and capital for the Company, and are the source of our competitiveness. Japan is far behind Europe and the United States in relation to investment in human capital, and this has been a major factor in the decline of the competitiveness of Japanese companies. Since assuming the position of President, I have emphasized the necessity of organizational reform alongside the need to change the behavior of each employee of YMFG in order to achieve this. I ask that all employees keep in mind the concepts that "people who can make active changes will take the initiative" and "organizations that can actively change will change society," and take action while thinking about what kind of skills they can hone for our customers'.

In the future, in order to respond to changes in the environment and to improve the sustainability of the company, YMFG will aggressively invest in human capital, will push all employees to become the people that they want to be, and will enhance the competitiveness of YMFG as a whole. In the promotion of the active participation of human assets, the first issue that we have identified is the active participation of women. Approximately 2,400 of our roughly 5,000 employees are female employees, which accounts for 40% or more of employees, but the percentage of female employees in management positions remains at an incredibly low level. By focusing on the promotion of the active participation of women, we will incorporate female perspectives into management and the workplace, and will quickly progress with the creation of an organization that can flexibly respond to an increasingly diverse and complex society. In particular, nearly 90% of female employees have remained in retail positions such as bank deposits and asset management, however, going forward, we will appoint the right person to the right position regardless of their gender, and through this, will operate an organization that allows for the individuality of each person to be

demonstrated to the maximum extent possible. We agree with the purport and have joined the "30% Club Japan," a campaign which aims to increase the proportion of women in important corporate decision-making organizations. We will further accelerate the promotion of diversity and inclusion, with the empowerment of women as the starting point.

In addition, with the objective of further increasing the awareness of employees about participation in management, as well as aligning the direction of our shareholders and employees towards the improvement of corporate value, we are considering the introduction of stock price-linked remuneration system for employees, and have started the design and introduction of the system in the fiscal year ending March 31, 2023.

Furthermore, in addition to the diversification of human assets, we are actively engaged in the fostering of an entrepreneurial spirit among employees. In the previous fiscal year, we launched the internal new business proposal system "YMFG Growth" in order to broadly solicit new business ideas from YMFG employees. By encouraging free thinking and bold challenges that are not bound by the framework of finance, we aim to cultivate highly creative employees and to foster an organizational culture that continues to seek new value. The business proposal that won the Grand Prize in this project last year is currently being brushed up with the objective of it actually entering into service. I have great expectations for the business that can be born by this project, as well as in terms of what kind of value can be provided by our human assets for society.

Seeking to maximize the value provided and taking on the challenge of change

The regional economic environment continues to change moment by moment. In conjunction with this, the issues and needs of customers has become more varied and diversified, and this trend has been accelerated even further by the COVID-19 pandemic. YMFG has the strength of an organizational structure that can respond widely to such environmental changes, something which cannot be seen at other companies.

For corporate customers, in order to revitalize



Internal new business proposal system "YMFG Growth" AWARD



the regional economy which has been damaged by the COVID-19 pandemic, we have established a council that brings together the resources of the YMFG Group and specializes in corporate revitalization and regrowth, and we are constructing a system that provides full-fledged rehabilitation support activities for individual companies. In addition, for individual customers, we are providing long term support that takes advantage of the comprehensive strengths of the YMFG Group through detailed life planning that is in keeping with the life plans of each individual customer.

However, we have a strong sense of urgency with the understanding that we will not be able to grow as a group with just our existing bank-centric business model alone. Up until now, we have developed a variety of new business, not just within the finance sphere. YMFG will utilize our strengths in "regional co-creation business," which we have promoted as time has passed, to involve regional stakeholders and drive innovation, with the objective of creating new industries that will solve regional issues.

There are diverse voices saying that the current time is an era of change. However, if we look back at the past, we can see that every era has had its own changes. Changes to people, companies, and society are inevitable. We are always in an era of change and change makes us become stronger and better. That is how I think it should be. It has been said that the maintenance of the status quo is the beginning of decline, and that is certainly the case. We will continue to take on challenges, and will not be satisfied with keeping the status quo.

Strengthening of the governance and internal control system

YMFG has formulated improvement measures for all 35 items, as was announced on November 30, 2021, in order to work on the enhancement of governance and internal control. We have examined how we can improve our governance system, as well as what kind of changes to make to management to bring about an even better organizational system, and have quickly responded to areas for which improvements can be made

Message from the President

immediately. As of the end of June 2022, we had already implemented improvement measures for 30 items of all 35 items, and we are currently making preparations for the implementation of measures for the remaining five items, and have been making steady progress.

Main examples of the measures we have put in place include the reviewing of the Nomination Committee's system, reviewing the Group's internal control system, and promoting dialog within the Group. Things do not end with the performance of these measures, rather we will promote the making of further improvements based on an ongoing PDCA cycle.

In addition, on July 1, 2022, we established the Risk Committee with the objective of strengthening our management system for market risk. This, in regard to the "restructuring our securities portfolio" mentioned as a key measure in the new medium-term management plan, based on the accelerated normalization of monetary policy through increasing geopolitical risk and global inflation, is a part of our efforts to prepare a system that reduces the focus on foreign bonds and stock investment trusts in securities investment, which have unrealized losses, and to shift towards a stable earnings structure. By incorporating the knowledge of outside Directors and external specialists, we will reflect objective opinion in our market risk management.

Strategic capital policy and shareholder returns

As an internationally active bank, YMF&G is required to maintain a capital adequacy ratio of 10.5%. However, during the previous medium-term management plan, YMF&G's consolidated capital adequacy ratio remained in the range of the high 12% and low 13%, a relatively high level, and we believe that we need to make more effective use of this relatively large amount of capital in the new medium-term management plan. Specifically, we will reduce the Tier 1 ratio, which is currently at around 12%, to around 10%, and will allocate the ¥100.0 billion that will be generated through this as strategic capital to investment towards expanding business areas and the strengthening of shareholder returns, etc. By covering the reduced Tier 1 capital

with Tier 2 capital, which has low procurement costs, we will achieve both improve capital efficiency and sound capital adequacy.

In addition, we will accelerate the reduction of cross-shareholdings. Up until now we have promoted the reduction of cross-shareholdings, however, as it cannot be denied that the decision making criteria for this contained some ambiguities and unfortunately there have been cases we have not been able to sell at the best possible timing, we have reviewed our cross-shareholding investment criteria. We have established the "Meeting for the Reduction of Cross-Shareholdings" to discuss policies for responding to cross-shareholdings. This committee consists of the Presidents of the three banks in the Group and myself. Through this, by promptly considering the sale in the case of conflict with our investment criteria, we will accelerate reduction, which will also lead to improved capital efficiency. In addition, we would like for the implementation of these capital policies to result in enhanced shareholder return, and although in the past we aimed for a dividend payout ratio of around 30%, for the period of the new medium-term management plan, we are aiming for a dividend payout ratio of around 40%.

Our stock price is inferior to the stock price performance of the leading regional banks, and we have a very strong sense of crisis. Through the steady execution of the new medium-term management plan, we will build a sustainable and stable earnings structure, and through strategic investment involving the use of capital with an awareness of capital costs, reviewing business areas without any exception, and providing steady return to shareholders, we aim to improve ROE and also raise PBR to the level of the top regional banks.

Towards the improvement of corporate value

"Dialog" with our stakeholders

In order for YMF&G to focus on improving corporate value across the Group, I place the greatest emphasis on "dialog" in terms of organizational management. We will provide appropriate and fair information disclosure concerning YMF&G's current status, efforts and objectives, will increase



opportunities for constructive dialog with our stakeholders, including shareholders, the local community, business partners, and employees, etc., will promptly reflect the opinions and evaluations, etc., obtained through such dialog in the Group's strategy, and in addition, will execute these steadily.

Embodiment of the purpose

Things do not end with the formulation of the purpose. The most important thing is for the purpose of "co-creating a bountiful future for our region" to permeate among every single YMF&G employee, and for them to make it their own so that they can speak it in their own words, and to put this into practice. If we build relationships of trust with customers based on the concepts of

mutual prosperity and mutual interest, and push forward on a day to day basis while asking ourselves whether the business we conduct, our response to customers, and our interactions with the region are "whether keeping with our purpose," I believe that the purpose will be embodied as a matter of course, and that the future of our customers and region, and naturally YMF&G, will expand without limitation.

We will place our utmost efforts towards improving our corporate value so that we can meet the expectations of all stakeholders, including YMF&G employees.