

Review of Operations

Financial Condition

Results by business segment are as follows.

Please note that as a result of the adoption of "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" from the current fiscal year, any year-on-year comparison is calculated using the data of the previous fiscal year but based on the revised segment classification following this adoption.

Banking business

In the banking business, recurring income increased by ¥513 million year on year, or 0.4%, to ¥120,045 million, while recurring profit decreased by ¥10,682 million year on year, or 65.7%, to ¥5,569 million due to a significant increase in credit costs.

Leasing business

Looking at the leasing business, recurring income decreased by ¥522 million year on year, or 3.7%, to ¥13,370 million, while recurring profit decreased by ¥256 million year-on-year, or 30.8%, to ¥575 million.

Securities business

In the securities business, thanks to the expanded operation of Chugin Securities Co., Ltd. which became a consolidated subsidiary in the previous fiscal year, recurring income increased by ¥1,619 million, or 301.4% year on year, to ¥2,156 million, while recurring profit increased by ¥282 million, or 1,484.2% year on year, to ¥301 million.

Other

And for other businesses, recurring income increased by ¥44 million year on year, or 0.9%, to ¥4,621 million, while recurring profit increased by ¥563 million year-on-year, or 55.4%, to ¥1,578 million.

Earnings

For the fiscal year ended March 31, 2011, consolidated recurring income increased by ¥764 million year on year, or 0.5%, to ¥136,273 million, while consolidated recurring profit decreased by ¥10,237 million year on year, or 55.7%, to ¥8,119 million due to a significant increase in credit costs. As a result, consolidated net income decreased by ¥5,894 million year on year, or 57.4%, to ¥4,361 million.

Loss on Devaluation and Reserves

The Bank conventionally writes off loans and makes provisions for possible loan losses based on rigorous asset assessment with a view to maintaining and enhancing its asset soundness. In the current fiscal year, following the aforementioned failure of a large borrower, provision of general reserve for possible loan losses increased by ¥2,862 million year on year to ¥5,383 million, while provision of specific reserve for possible loan losses registered a significant increase of ¥12,345 million year on year to ¥25,323 million. As a result, total credit costs including write-offs and losses on sales of nonperforming loans increased by ¥14,506 million year on year to ¥30,895 million.

Cash Flows

Cash and cash equivalents as of the end of the current fiscal year decreased by ¥13,122 million year on year to ¥74,415 million.

Cash flows provided by operating activities

Net cash provided by operating activities amounted to ¥237,872 million, decreasing ¥19,387 million year on year, due primarily to an increase in due from banks.

Cash flows used in investing activities

Net cash used in investing activities increased by ¥7,385 million year on year to ¥247,000 million, due primarily to an increase in purchases of securities.

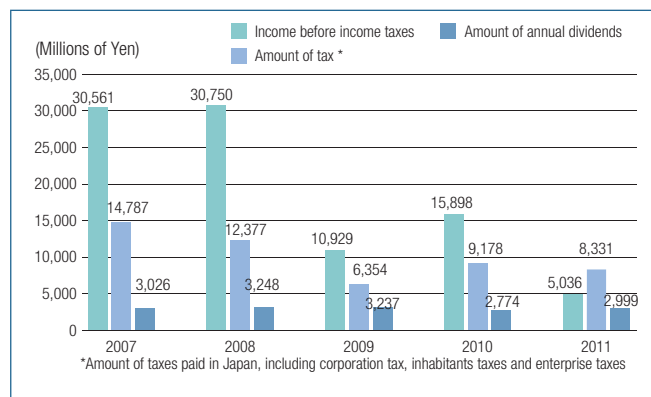
Cash flows used in financing activities

Net cash used in financing activities increased by ¥977 million year on year to ¥4,020 million due in part to an increase in purchases of treasury stock.

Forecast for Next Term

Based on the assumption that the current financial and economic environment will remain relatively unchanged, the Chugoku Bank Group forecasts consolidated recurring income of ¥124,000 million, recurring profit of ¥31,500 million, and net income of ¥19,000 million for the fiscal year ending March 2011.

Income before Income Taxes, Amount of Tax, Amount of Annual Dividends

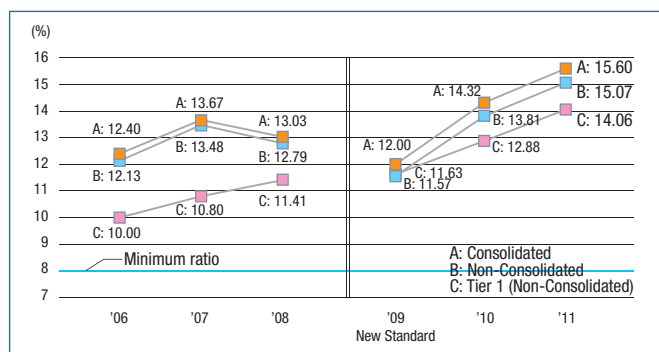


Capital Adequacy Ratios

The Chugoku Bank has business outlets overseas, so we are subject to the international BIS standards for capital adequacy ratios which call for a minimum ratio of 8%.

Our capital adequacy ratios as of the end of the year under review stood at 15.07% on a non-consolidated basis and 15.60% on a consolidated basis; both ratios far exceeded the minimum standards. The ratio as of year-end in the basic Tier 1 capital category of capital, reserves, and surplus, omitting the difference in security valuation affected by stock price volatility at the end of the business year, was a high 14.06% on a non-consolidated basis and 14.52% on a consolidated basis.

The Chugoku Bank uses the FIRB approach for calculation of the capital adequacy ratio.



Risk-managed Loans (Consolidated)

The balance of risk managed loans increased by ¥41,601 million year on year to ¥156,297 million as of the end of March 2011 due primarily to a failure of a large borrower, despite efforts to reduce the amount through direct write-off and elimination from balance sheet by debt disposal.

Consequently, the ratio of risk managed loans (against the total loan balance) increased by 1.28% year on year to reach 4.71% as of the end of March 2011.

	End of March 2011	End of March 2010
Loans to bankrupt customers	¥ 66,748	¥ 23,767
Loans past due six months or more	80,439	82,754
Loans past due three months or more	2,339	780
Restructured loans	6,769	7,395
Total	¥ 156,297	¥ 114,696
Total loan balance (ending balance)	¥ 3,318,275	¥ 3,339,708

Loans to Bankrupt Customers

These are loans that have been designated as non-accrual loans according to tax laws. Particularly, they are for companies that have applied for bankruptcy under the procedures of the Stock Company Reorganization and Rehabilitation Act, the Bankruptcy Act or the Composition Act, or companies whose activities have been suspended by the Clearinghouse.

Loans in Default (Past Due Six Months or More)

These are loans that have been designated as non-accrual loans according to tax laws, but not included in loans to bankrupt customers. These loans are past due six months or more.

Loans Past Due Three Months or More

These comprise loans for which neither principal nor interest has been paid for three months or more after the day following the contracted date, and which do not fall into either of the two categories defined above.

Restructured Loans

These comprise loans on which terms have been renegotiated to the benefit of the customer (e.g., interest has been waived, interest or principal payments have been postponed, or a portion of the debt has been forgiven) in order to support the restructuring of customers in economic difficulties and thus secure some return on the obligation.

Ratings

The Chugoku Bank has obtained one of the best ratings among Japanese banks by Moody's, a world-renowned rating agency, and Rating and Investment, Inc. (R&I). This is proof that the Bank firmly maintains an excellent operating position and sound financial constitution.

