

# **1H FY2015 Earnings Results Briefing**

**February, 2016**



## Summary of 1H FY2015 Earnings Results

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# **Section I**

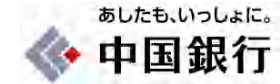
## **Summary of 1H FY2015 Earnings Results**

# 1H FY2015 Earnings Results —Summary—

(100 million yen)	1H FY2012	1H FY2013	1H FY2014	1H FY2015		
					YoY	Vs. plan
Core business gross profit	438	446	439	436	-3	12
Interest income	367	369	362	358	-4	8
Fees and commissions	69	69	74	74	0	0
Other operating income	2	7	2	3	1	3
Expenses (-)	-296	-287	-289	-277	12	7
Core business net income	142	159	150	158	8	19
OHR (%)	67.5	64.2	65.8	63.6	-2.2	-3.5
Credit expense (-)	-17	43	18	26	8	8
Bond sales gains/redemption	7	-21	2	4	2	9
Equity sales gains/redemption	-24	19	15	26	11	5
Other	4	10	10	12	2	1
Ordinary income	112	211	196	229	33	44
Extraordinary gain/loss	-0	-0	-2	-1	1	2
Net income	71	134	129	155	26	33
Consolidated ordinary income	130	231	213	242	29	45
Consolidated net income	77	143	135	160	25	33

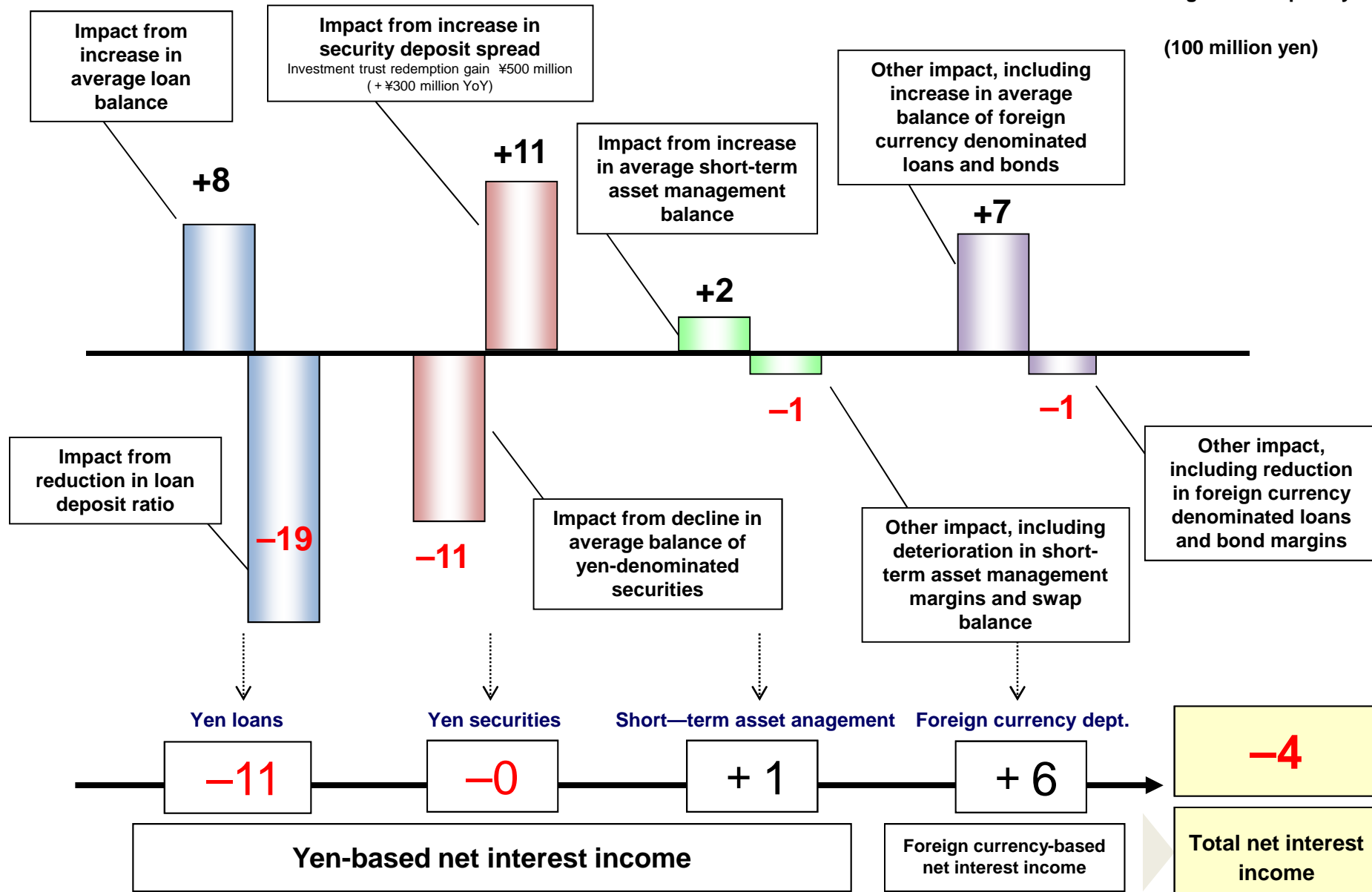
- Core business net income rose ¥800 million YoY, primarily attributable to a decrease in expenses, including a decline in deposit insurance premiums.
- Credit costs are trending at a low level. We posted a reversal of ¥2.6 billion. Gains on bond and equity sales rose YoY.
- Ordinary income and net income reached an all-time record high for a 1H.

# 1H FY2015 Earnings Results — Change in net interest income —



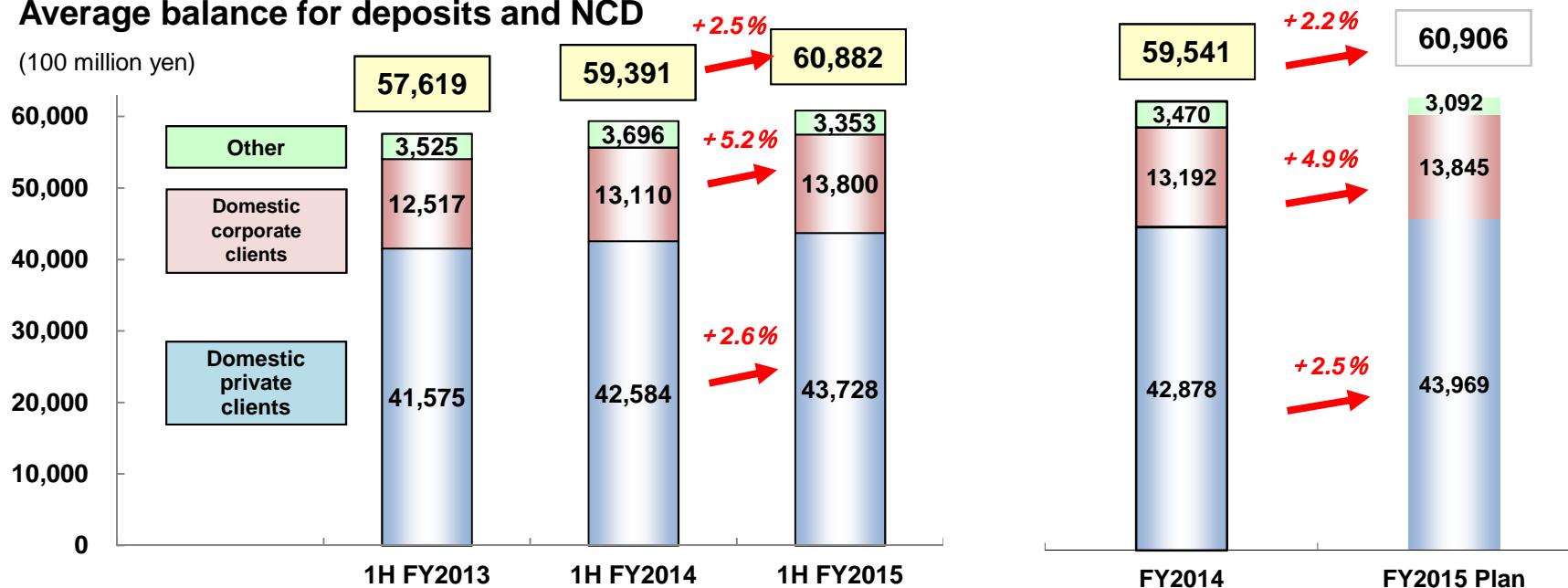
Note: Calculated based on margin with deposit yield

(100 million yen)



### Average balance for deposits and NCD

(100 million yen)



Ref: Balance of assets in custody

(100 million yen)	1H FY2013	1H FY2014	Change	1H FY2015	Change
	Public bonds	4,138		3,638	
Investment trusts (1)	2,243	1,985	-258	1,878	-107
Financial instrument intermediary services	1,376	1,698	322	1,821	123
Investment trust portion (2)	398	610	212	761	151
Insurance	3,348	3,425	77	3,358	-67
Bank parent	11,105	10,746	-359	10,069	-677
Total investment trusts (1) + (2)	2,641	2,595	-46	2,639	44
Chugin Securities	617	776	159	851	75

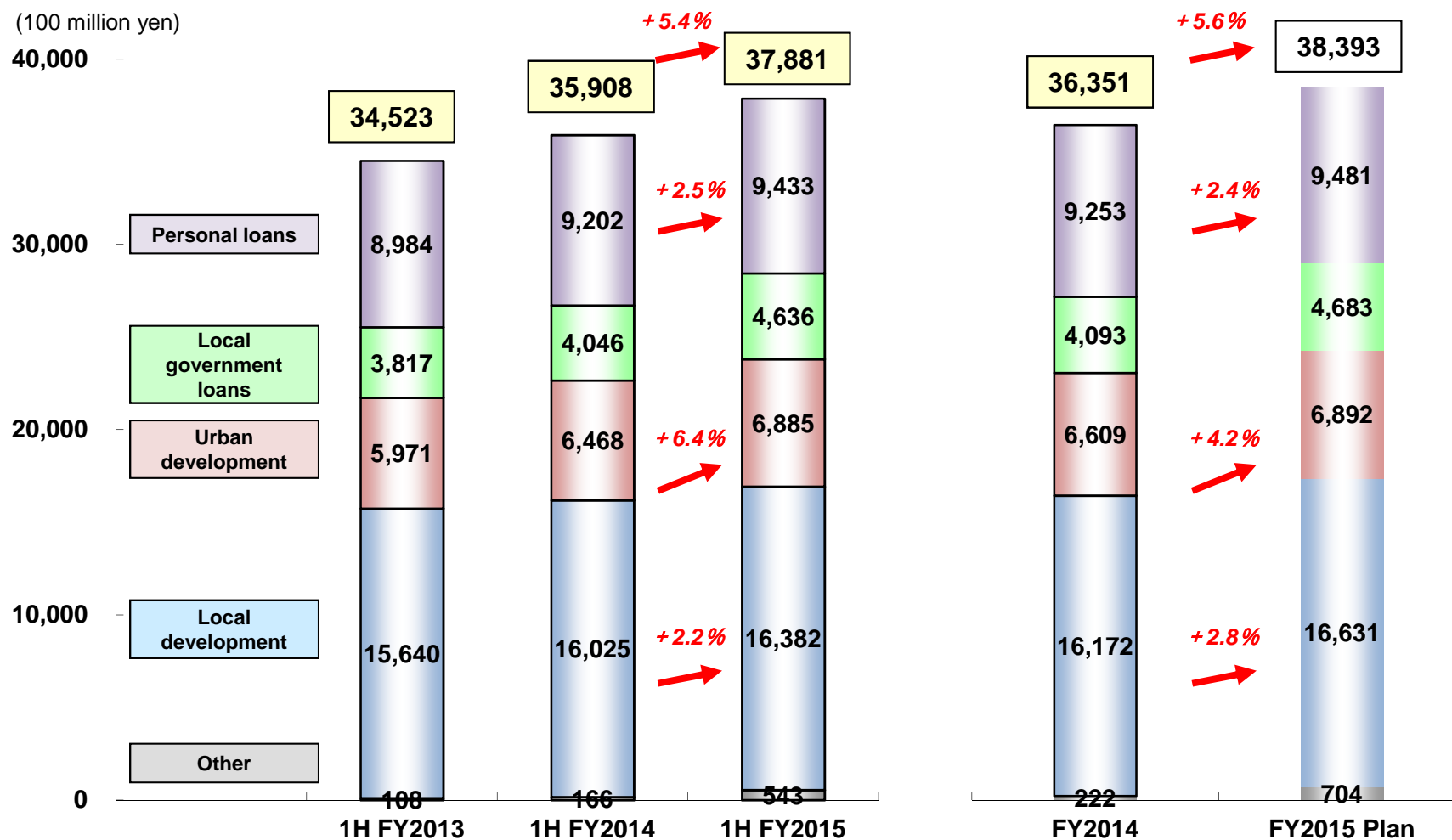
FY2014	FY2015 Plan	Change
3,486	2,986	-500
1,968	1,894	-74
1,734	1,906	172
652	801	149
3,423	-	-
10,611	-	-
2,620	2,695	75
931	-	-

\* Public bonds are based on the value of the average balance. Investment trusts are based on the average balance for net assets. Financial product intermediary services are based on the average balance for the acquisition value. Insurance is based on the average balance taking into account cancellations. Chugin securities are based on the ending balance for bonds, equities and investment trusts.

• Deposits for private and corporate clients trended steadily and continued to grow at a high level.

## Average loan balance

(100 million yen)



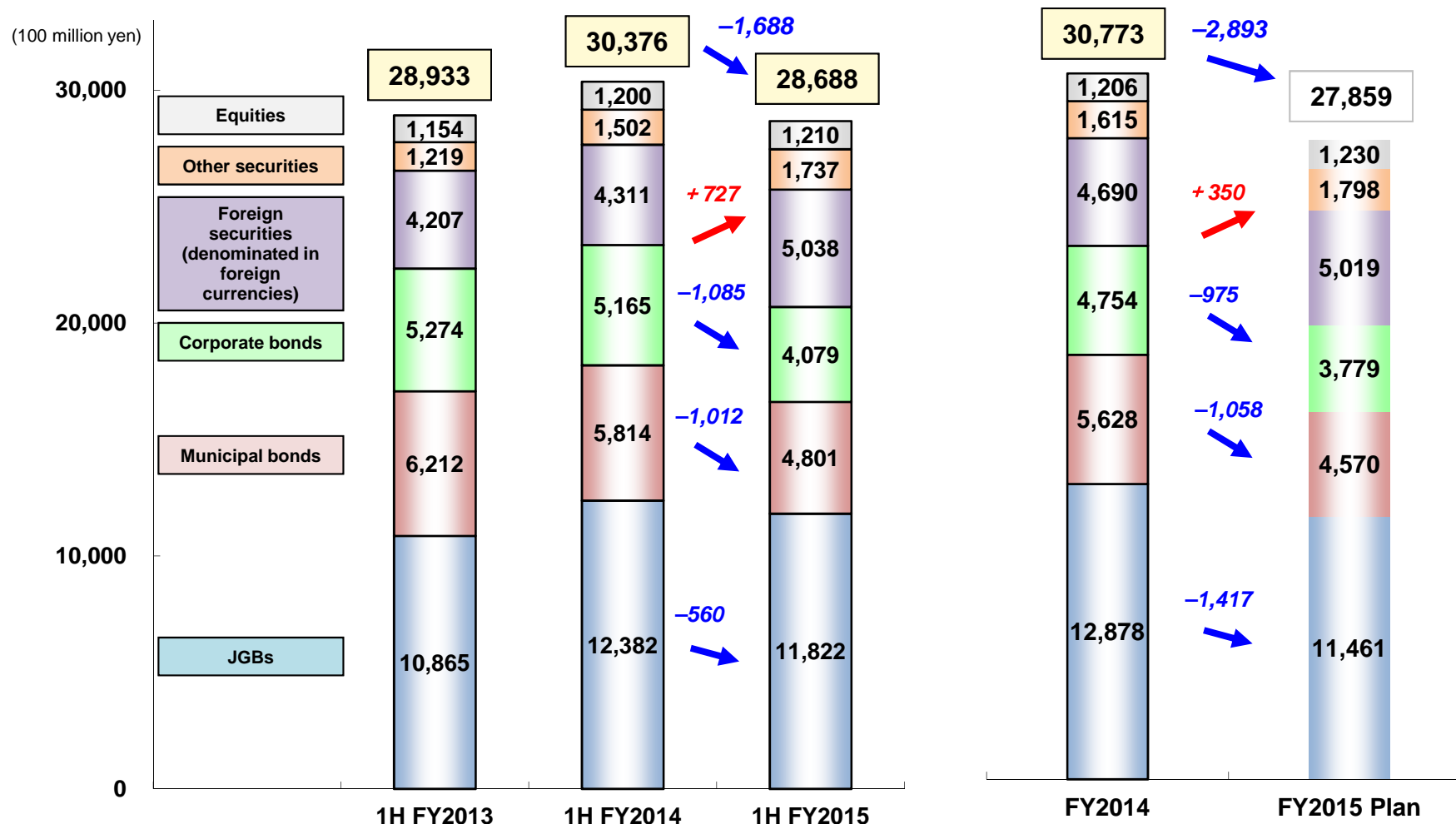
\*1 Other: Hong Kong branch, non-Japanese, structured finance center, credit cashing

\*2 Local development: Regions other than Tokyo and Osaka

\*3 Urban development: Tokyo and Osaka

- Total annual loan growth was high, exceeding 5%, owing to aggressive initiatives to increase loans.
- Local development capital rose an annual 2% owing to measures to capture demand for capital.

### Average balance for securities

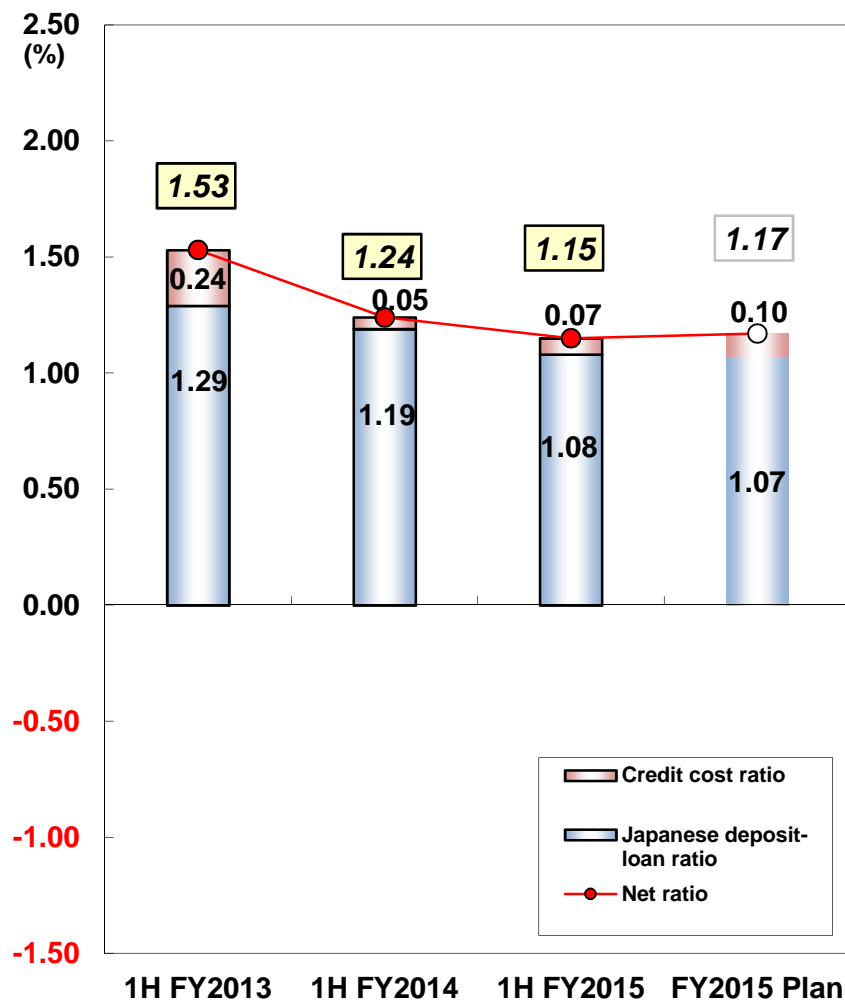


- The balance for securities declined reflected a shift in a portion of capital from JGBs to short-term asset management (including BOJ current account balance) given the low interest rate environment.
- Focusing on asset allocation management, built up foreign bonds, investment trust, equities, and other balances.
- Aim to continue to strengthen the diversification of investments by flexibly adjusting portfolio in line with changes in the market environment.

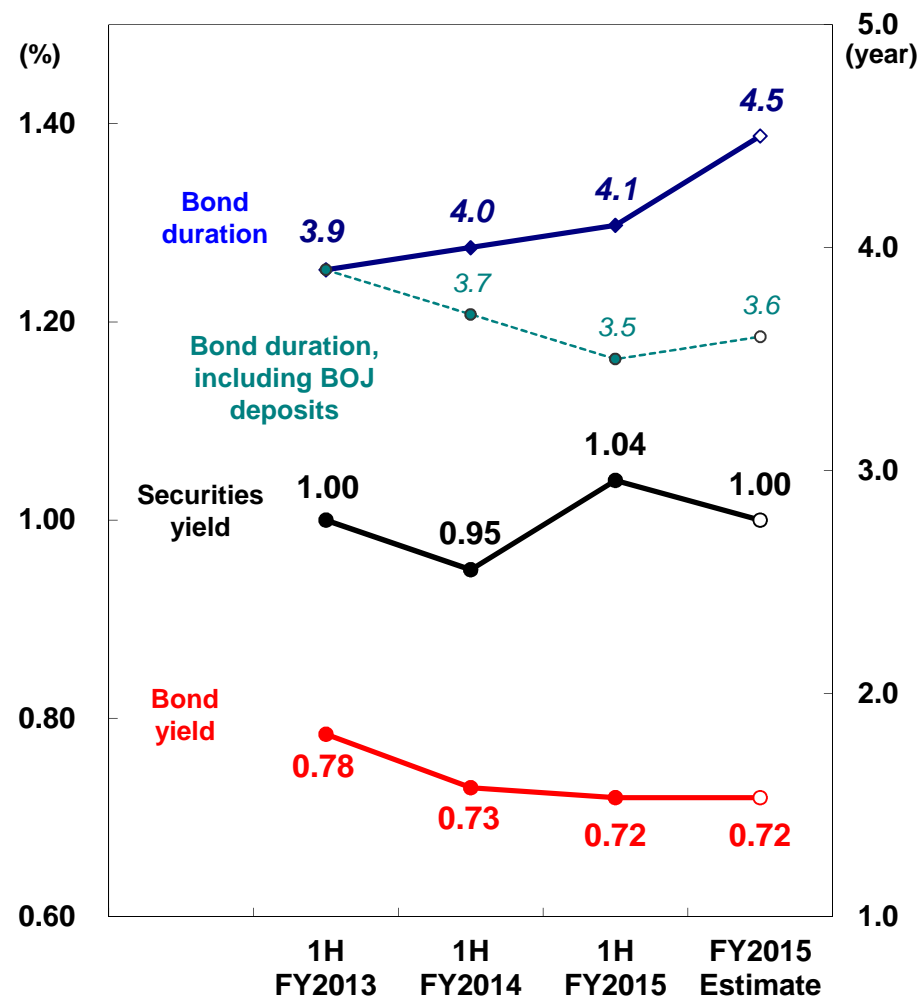


# 1H FY2015 Earnings Results —Major yields & margins—

Loan/deposit ratio, credit cost ratio, net margin

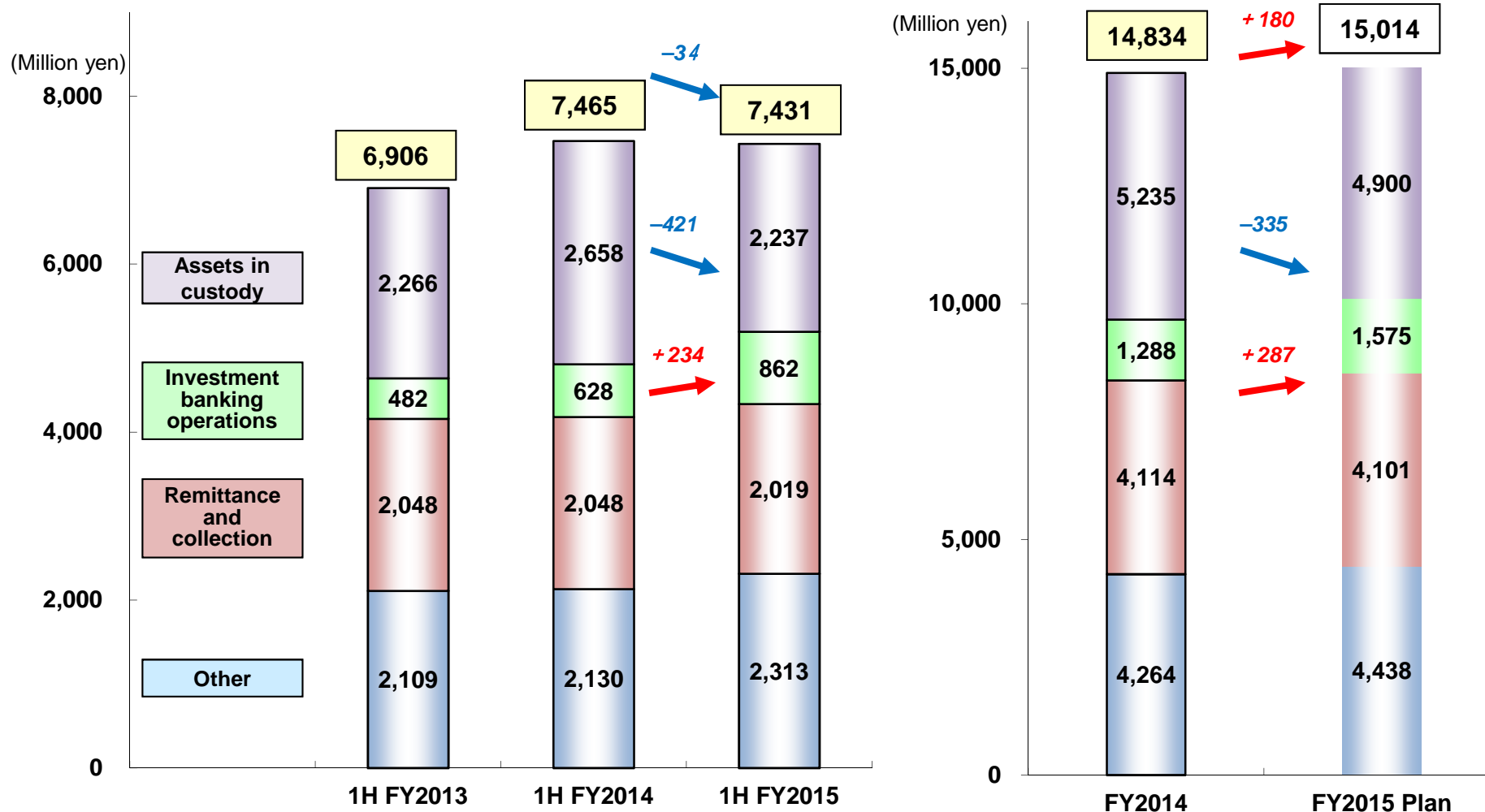


Securities yield and duration



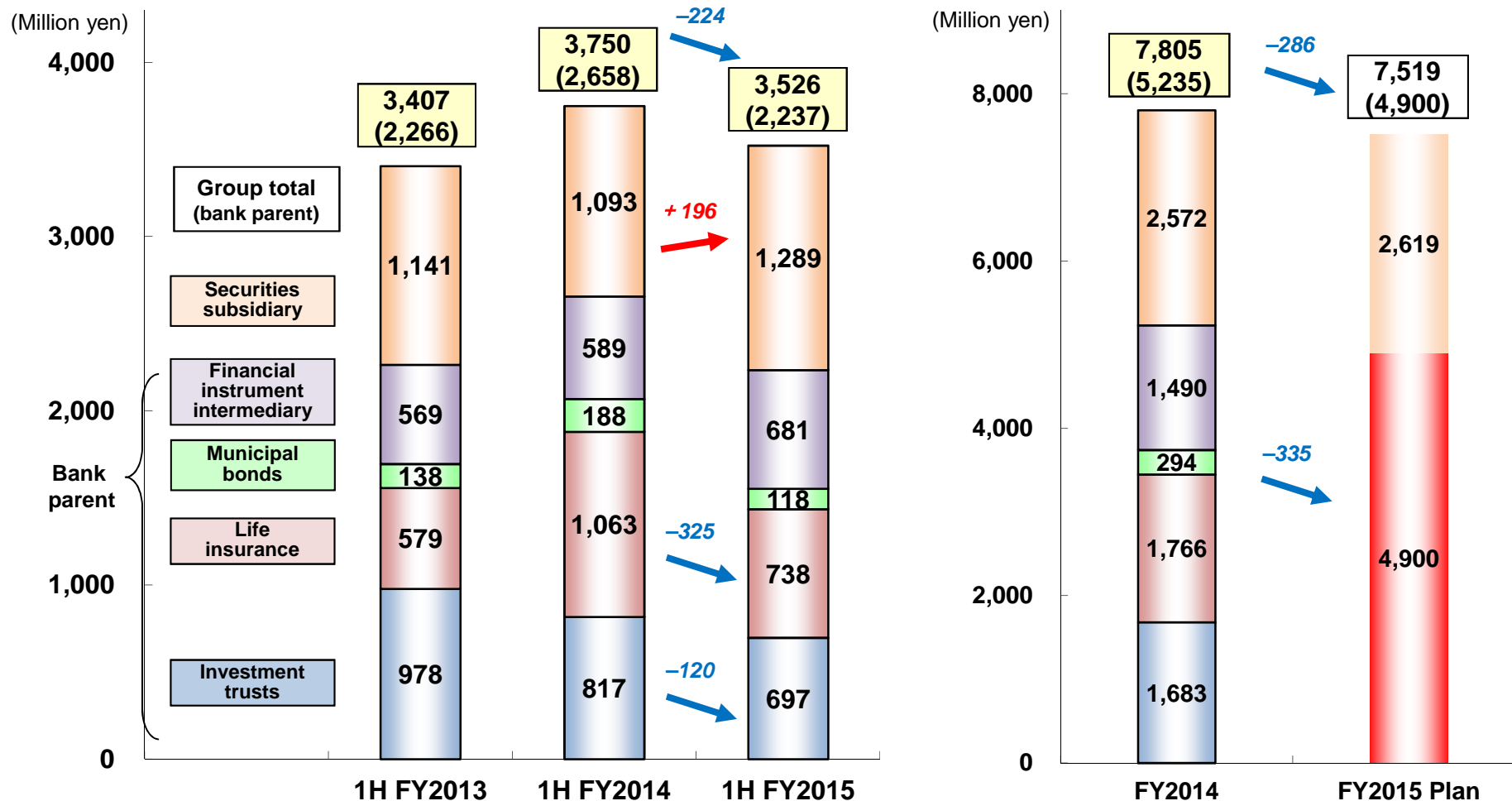
- Loan/deposit ratio continues to contract at the same pace as in the previous year.
- Despite the ongoing low interest rate environment, maintained a yield of around 1% on securities, including equities and investment trusts.

Fee and commission (revenue) trends



- Revenue related to assets in custody declined but fees and commissions were nearly flat YoY owing to an increase in revenue from investment banking operations and other fees and commissions.
- Investment banking operation fees and commissions increased ¥200 million YoY owing in part to an increase in structured finance-related fees.

Revenues related to assets in custody

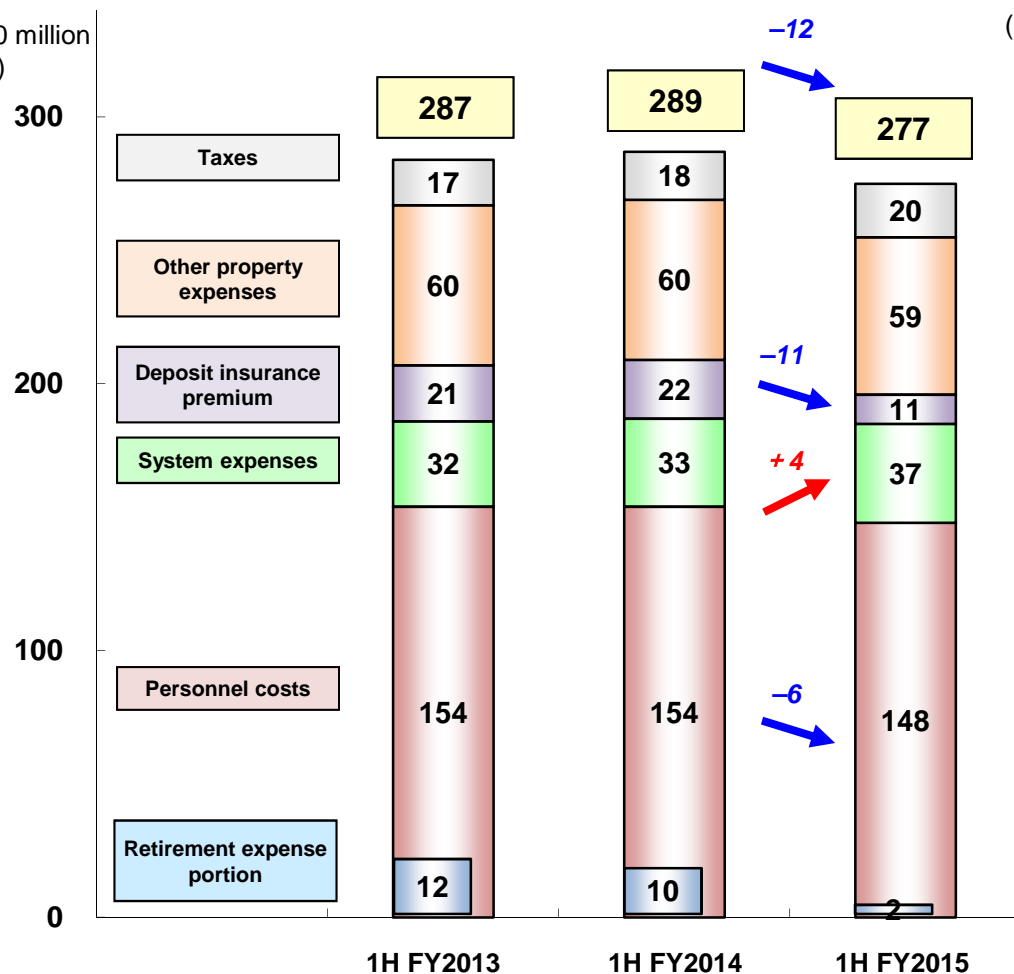


· Revenue related to assets in custody declined ¥400 million YoY due to a decrease in life insurance-related revenue.

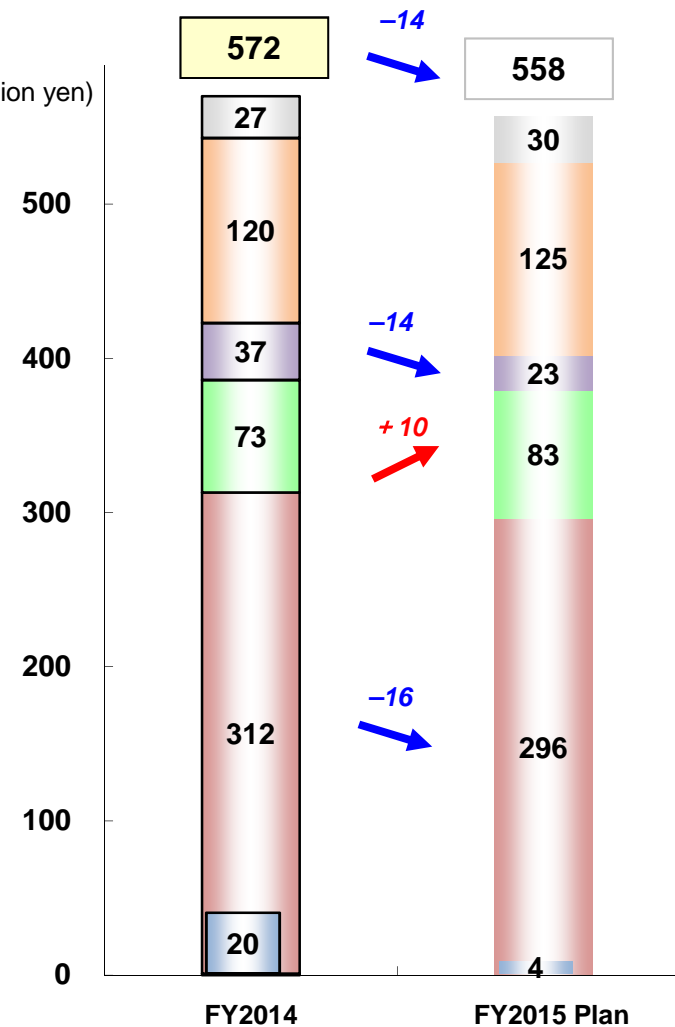
# 1H FY2015 Earnings Results — Change in expenses —

## Expense trends

(100 million yen)

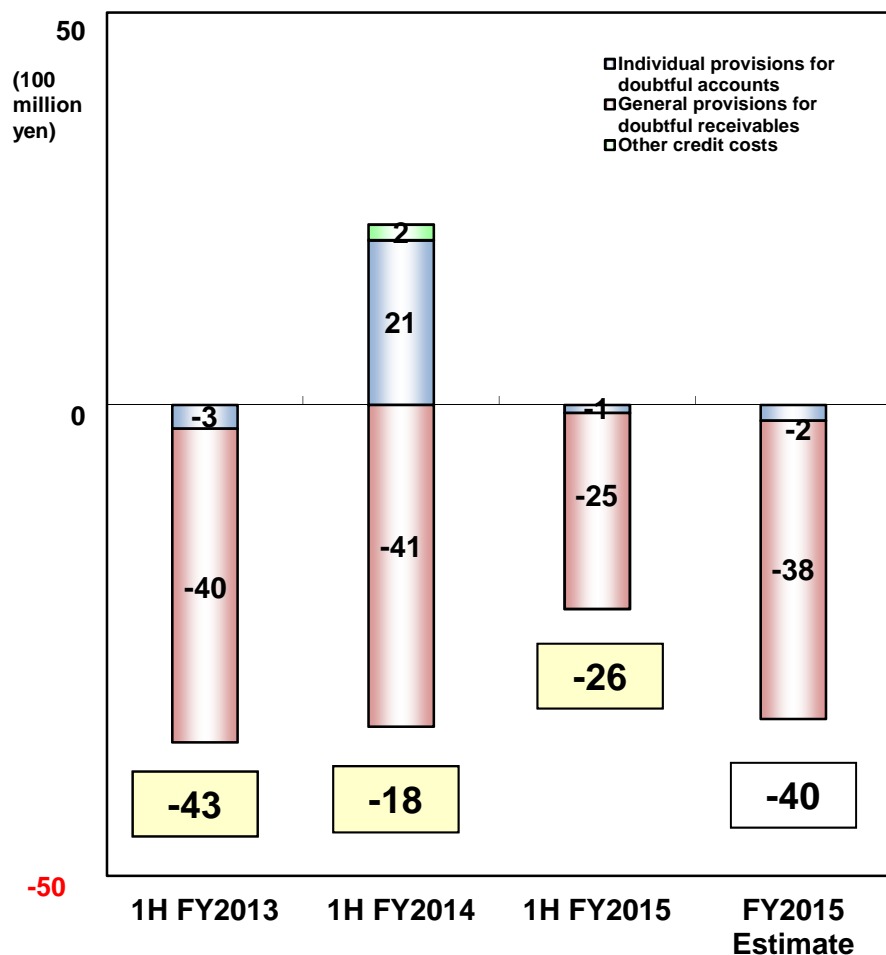


(100 million yen)

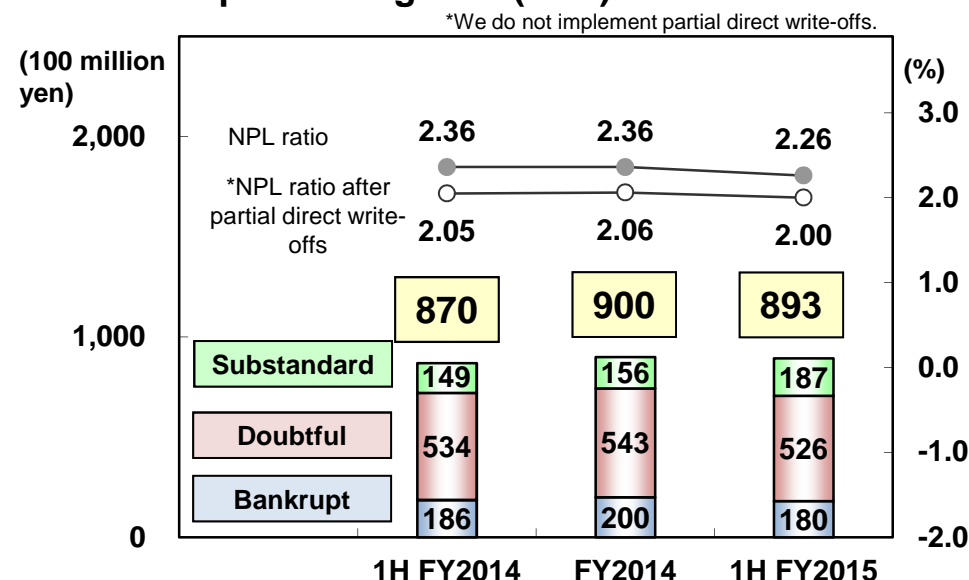


- Expenses overall declined ¥1.2 billion YOY reflecting a decline in the deposit insurance premium rate and a decline in retirement benefit costs.
- System costs increased substantially YoY as the costs for TSUBASA system development reached a peak.

### Credit cost trends



### Non-performing loan (NPL) trends



### Outstanding balance by debtor (self-assessment)

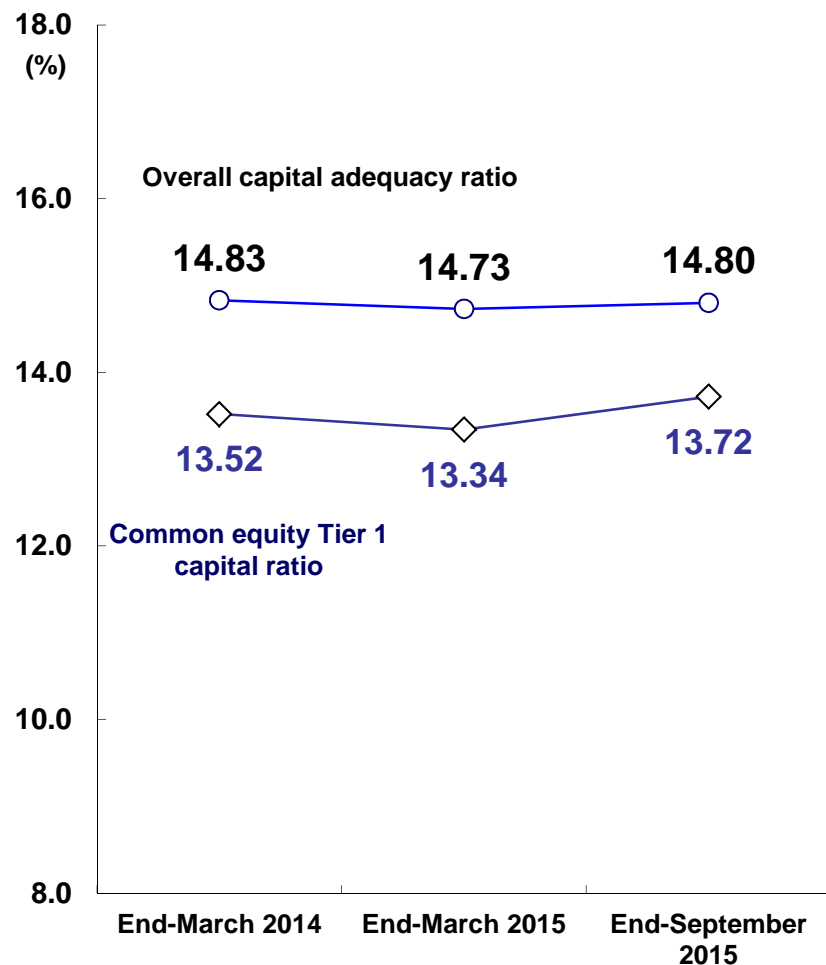
(100 million yen)	FY2014		1H FY2015	
		Ratio		Ratio
Healthy accounts	34,888	91.5%	36,417	92.3%
Substandard	2,478	6.5%	2,350	6.0%
Doubtful	543	1.4%	526	1.3%
Virtually bankrupt	147	0.4%	139	0.4%
Legally bankrupt	53	0.1%	41	0.1%
<b>Total</b>	<b>38,111</b>	<b>100.0%</b>	<b>39,474</b>	<b>100.0%</b>

Credit cost = general provisions for doubtful receivables + individual provisions for doubtful accounts + loan write-offs + specific foreign borrowers + provisions for loss on claim sales + loss on claim sales — gain on reversal to loan loss account

Other credit costs = Loan loss write-offs, specific foreign borrowers, provisions for loss on claim sales, loss on claim sales

- Reversal of ¥2.6 billion for overall credit costs owing to a reversal to general provisions for doubtful receivables reflecting a decline in the loan loss ratio forecast.
- NPL ratio trended at a steady, low level.

Capital adequacy ratio (Basel III) trends



Capital adequacy ratio at parent

(100 million yen)

	FY2014	1H FY2015	Comparison
<b>Overall net worth</b>	4,722	4,603	-119
Common equity Tier I capital	4,275	4,269	-6
Tier II	446	334	-112
<b>Risk assets, etc.</b>	32,038	31,094	-944
Credit risks	30,399	29,454	-945
Operational risks	1,639	1,640	1

Other Basel regulations

	1H FY2015	<Regulatory standards>
Consolidated leverage ratio	5.84%	Trial period 3% and over
Parent liquidity coverage ratio (LCR)	164.7%	60% and over

Overall capital adequacy ratio and common equity Tier I capital ratio rose reflecting a reduction in risk assets following a decline in the stock market.

**Section II**

**FY2015 Forecasts and Major  
Initiatives**

# FY2015 Forecast —Earnings forecasts—

(100 million yen)	FY2014	FY2015 (plan)		
			YoY	Vs. initial plan
<b>Core business gross profit</b>	<b>882</b>	<b>851</b>	<b>-31</b>	<b>17</b>
Interest income	724	701	-23	13
Fees and commissions	148	150	2	2
Other operating income	10	-0	-10	2
<b>Expenses (-)</b>	<b>-572</b>	<b>-558</b>	<b>14</b>	<b>1</b>
<b>Core business net income</b>	<b>309</b>	<b>292</b>	<b>-17</b>	<b>17</b>
<b>OHR (%)</b>	<b>64.9</b>	<b>65.5</b>	<b>0.6</b>	<b>-1.5</b>
Credit expense (-)	-2	40	42	21
Bond sales gains/redemption	0	-10	-10	0
Equity sales gains/redemption	37	38	1	-5
Other	12	15	3	2
<b>Ordinary income</b>	<b>(Con. 391) 357</b>	<b>(Con. 403) 376</b>	<b>(+12) 19</b>	<b>(+37) 36</b>
Extraordinary gain/loss	-3	-3	0	2
<b>Net income</b>	<b>(Con. 247) 209</b>	<b>(Con. 263) 251</b>	<b>(+16) 42</b>	<b>(+26) 26</b>
[ROE forecast]	FY2014 (single year)	FY2015		
		Single year	3-yr avg.	5-yr avg.
Consolidated ROE (%)	5.0	4.9	5.4	5.1

Ordinary and net income expected to outperform YoY and versus initial plans

## YoY catalysts

(Positive catalysts)

- Decline in expenses
- Decline in credit costs (increase in reversals)

(Negative catalysts)

- Decline in net interest income due to narrower margins

## Catalysts versus initial plan

(Positive catalysts)

- Increase in net interest income
- Increase in fees and commissions
- Decline in credit costs (increase in reversals)

(Negative catalysts)

- Decrease in gains on equity transactions



# Measures to Strengthen Corporate Sales: Profitability

**Strengthen sales in various fields owing to an increase in earnings opportunities.**  
**Local development capital demand trending at an annual growth rate of 2%-2.9% owing to strengthening of sales in Hyogo and Hiroshima Prefecture.**

## Initiatives to increase earnings opportunities

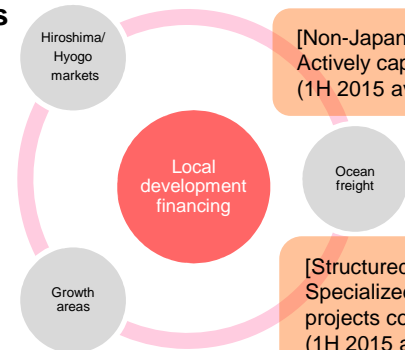
**Former initiatives**



- [Local development] Strengthen activities targeting small businesses
- [Hiroshima / Hyogo markets] Increasing comprehensive sales by expanding branch network
- [Growth areas] Capture demand for capital with aggressive initiatives
- [Ocean freight] Capture projects by strengthening sales activities in both Hiroshima and Hyogo



**Fortification initiatives**



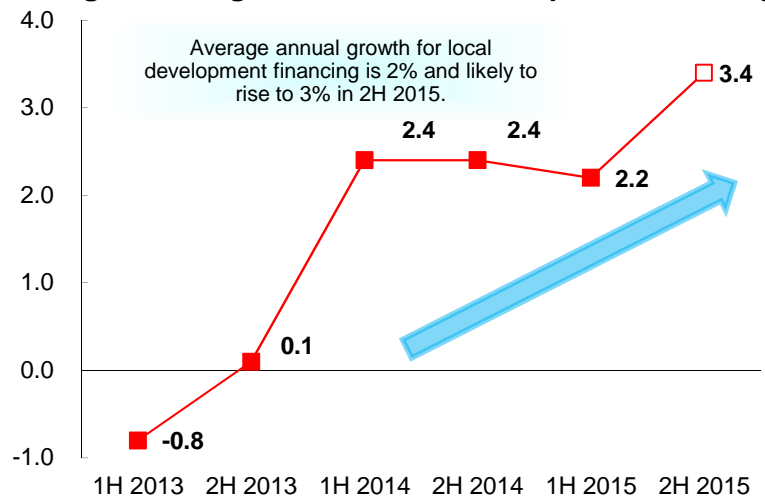
Further strengthen existing initiatives



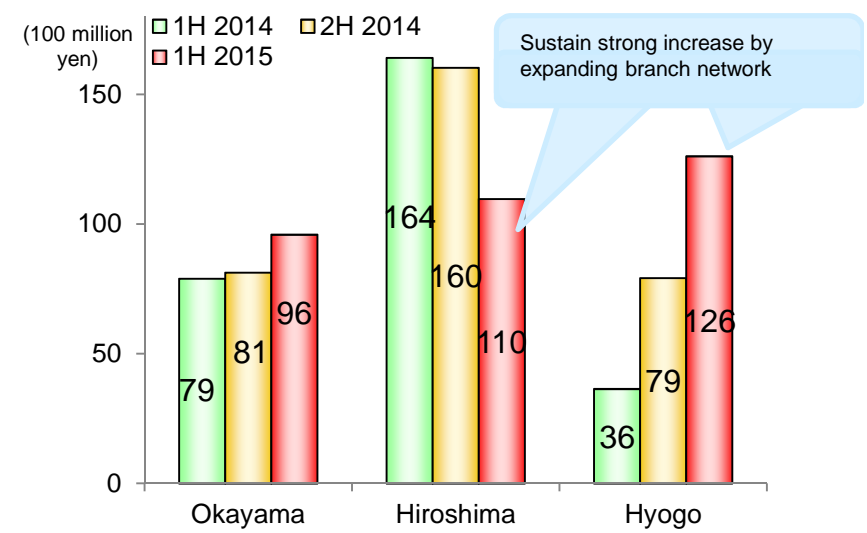
- [Non-Japanese companies] Actively capture projects for Asia (1H 2015 average: ¥25.6 billion)
- [Structured finance center] Specialized department to quickly respond to projects covering wide areas (1H 2015 average: ¥11.7 billion)

## Local development financing initiatives

**Average annual growth for local development financing (%)**



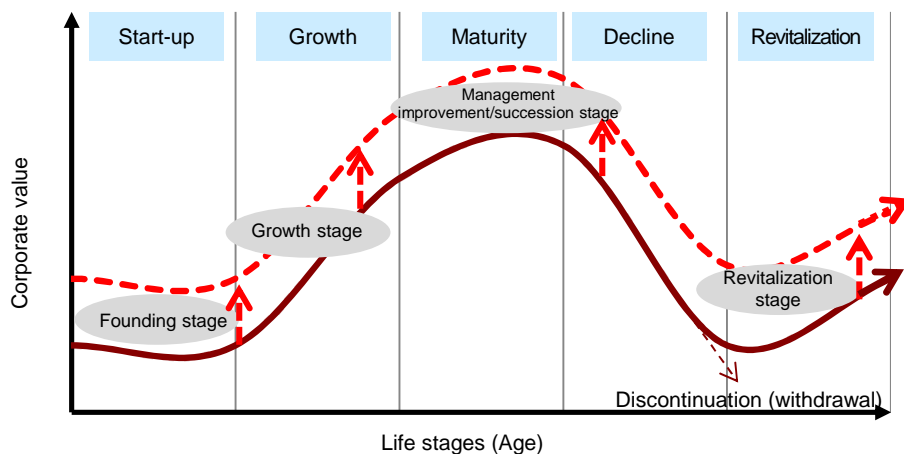
**Change in average balance for local developmental financing (YoY)**



**Launch Chugin local support project as an initiative to further promote community-oriented finance.**  
**Establish Research & Consulting Center. Contribute to the development of the local economy by expanding consulting functions.**

## Chugin local support project

Goal	In addition to activities to improve the corporate value of existing clients, promote the expansion of community-oriented finance through a connection with activities to energize the local community.	
Activities	Individual activities	Adequately evaluate (feasibility assessment) the business profile and growth potential of clients for various life stages and improve their corporate value by proposing and assisting in implementing solutions.
	Comprehensive activities	Revitalize the overall local industry by improving the corporate value of each individual corporate client in tandem with local development activities.



Proposals/ assistance	<ul style="list-style-type: none"> <li>· Assist in founding</li> <li>· Support cloud funding, etc.</li> </ul>
	<ul style="list-style-type: none"> <li>· Business matching</li> <li>· Support entry into overseas markets</li> <li>· Use external professional institutions</li> <li>· Introduce professionals (HR)</li> <li>· Support business continuation, M&amp;A, etc.</li> </ul>
	<ul style="list-style-type: none"> <li>· Assist in formulating plans to improve management</li> <li>· Use funds to revitalize local core companies or funds to revitalize Okayama</li> </ul>

## Major project measures

- Establish Research & Consulting Center**
  - On October 1, 2015, established the Research & Consulting Center.
  - Center will handle research and consulting operations.
- Propose feasibility assessments and solutions**
  - Strengthen feasibility assessment system. Establish feasibility assessment sheet for use as a tool nationwide.
  - Propose solutions to clients by sharing in issues and grasping needs.
- Strengthen employee training**
  - Strengthen assessment, consulting, and communication capabilities.
- Introduce adequate earnings evaluations**
  - To deal with each life stage of the client, introduce an assessment system that focuses on processes for solution activities that contribute to improving corporate value and enhancing the local economy in the medium and long term.

## Establish Research & Consulting Center

Goal	Strengthen functions for understanding local economies and companies. Provide financial services and consulting that will contribute to the development of the local economy.
Operations	Research: Gather information, research and analyze data, including information on local economies. Consulting: Research, analysis and proposals for corporate business operations.



**Strengthen system to support local development to undertake revitalization of local economy.**  
**Continue to implement aggressive measures in growth areas to capture demand for capital.**

### Regional revitalization

Actively participate in local comprehensive strategies promoted by local municipalities and implement measures to realize local development.

#### Support business start-up

- From June 2015, launch Yuki, a new start-up financing system that aims to provide financial support to entrepreneurs.
- In September 2015, held the 2<sup>nd</sup> Chugin start-up support seminar on cloud funding.

#### Cooperate with local municipalities

- Okayama Prefecture Yorozu Support Site workers hold free consultations five times a month in accordance with the collaboration agreement with the Okayama Prefecture Industrial Promotion Foundation on support for small companies in Okayama Prefecture. Ranked No. 1 nationwide for the number of consultations in 2014.
- Okayama PPP Exchange Plaza is a local platform for Okayama City that was designated as a model project by the Cabinet Office. We conducted all four seminars.

#### Tourism

- To promote the Setouchi brand, local banks, including ourselves, are cooperating to revitalize tourism in the Setouchi area.
- Cooperate with JTB Chugoku-Shikoku, a comprehensive partner, to develop local tourist products.

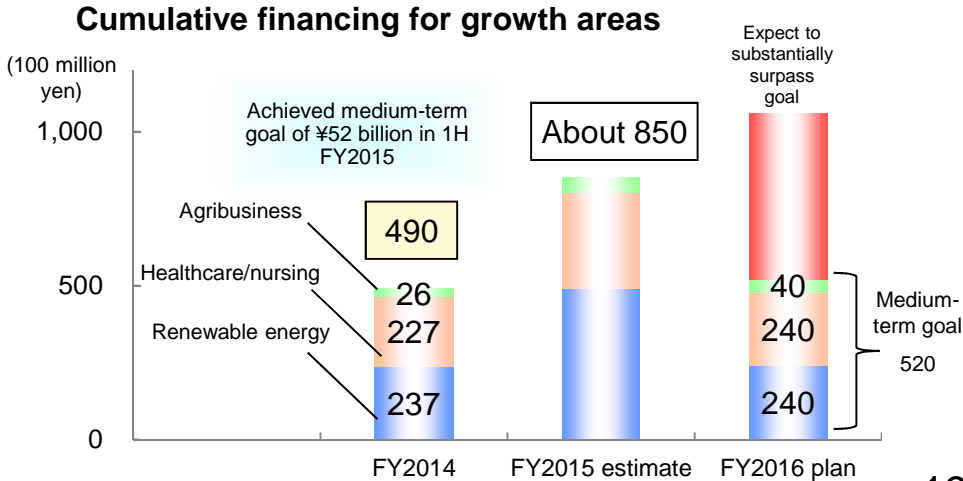
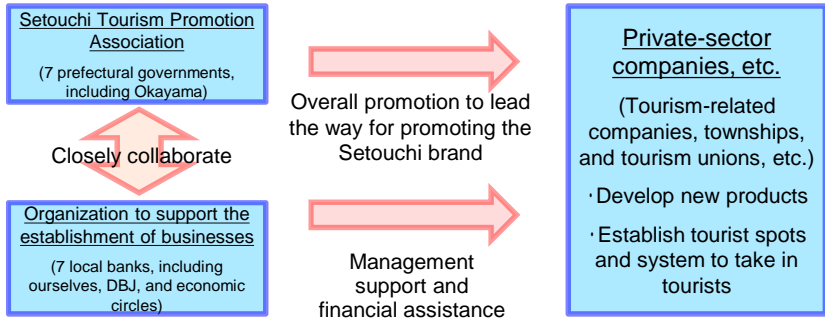
#### Personal loan measures

- Launched Chugin vacant house dismantling loans in October 2015 to contribute to local revitalization and support local municipal projects to deal with vacant homes.
- Participated in project to financially support people preparing to enter the workforce in Okayama, with the goal of local development. From January 2016, launched a personal unsecured loan product.

### Initiatives to boost tourism in Setouchi area

### Financing for growth areas

In July 2015, seven local banks in the Setouchi area, including ourselves, and the DBJ entered into an agreements with the Setouchi Brand Promotion Association (7 prefectures). The goal is to establish an organization to support the establishment of businesses by working with the Setouchi Tourism Promotion Association, which was established by the government.

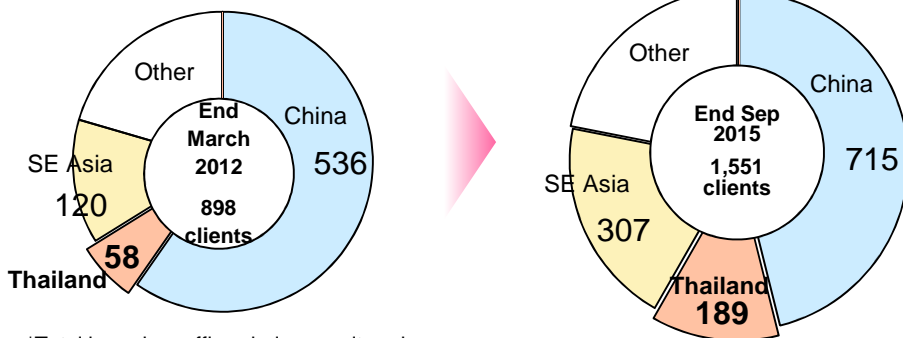


**Strengthen support system by setting up branch office in Southeast Asia, a market that an increasing number of clients are entering into.**  
**Increase in financing for non-Japanese companies, mainly in Asia.**

**Strengthen overseas business support system**

**Establish Bangkok office**

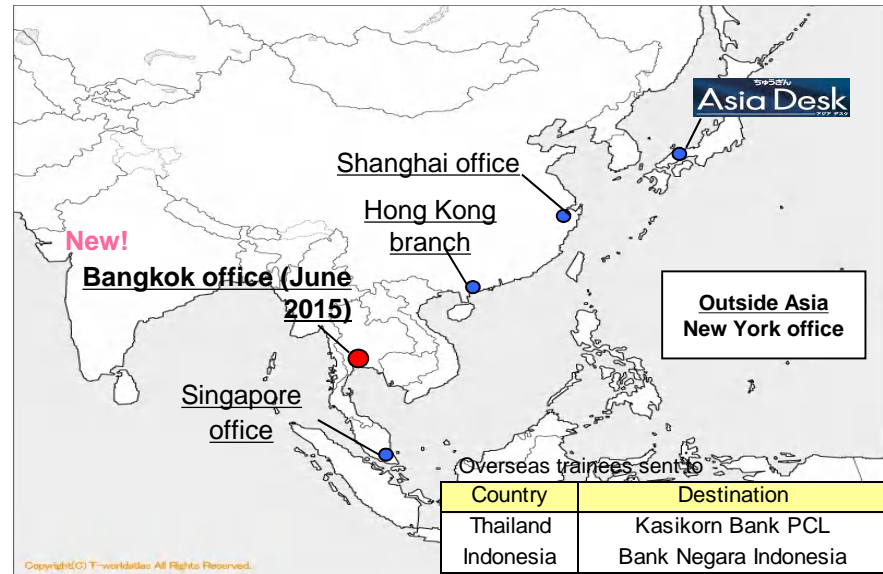
Established office in Thailand, which is second to China in terms of the number of clients.  
 Providing local information and detailed services.



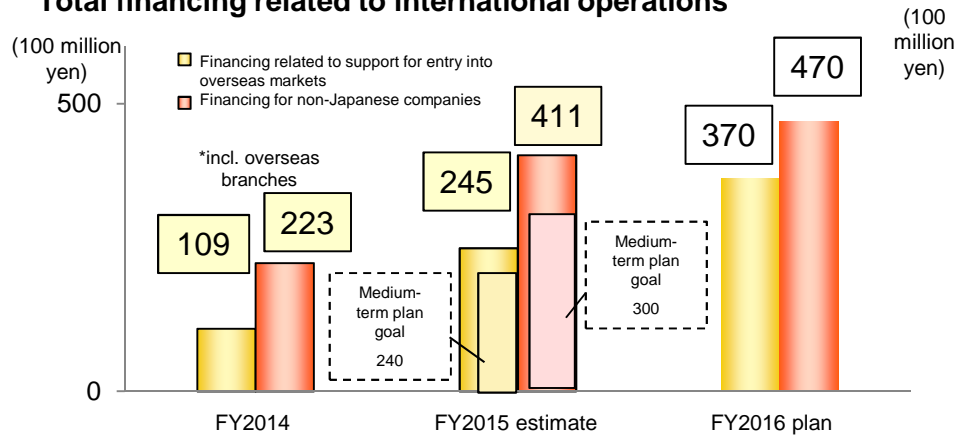
\*Total based on offices being monitored.

\*Southeast Asia: Vietnam, Singapore, the Philippines, Indonesia, Malaysia

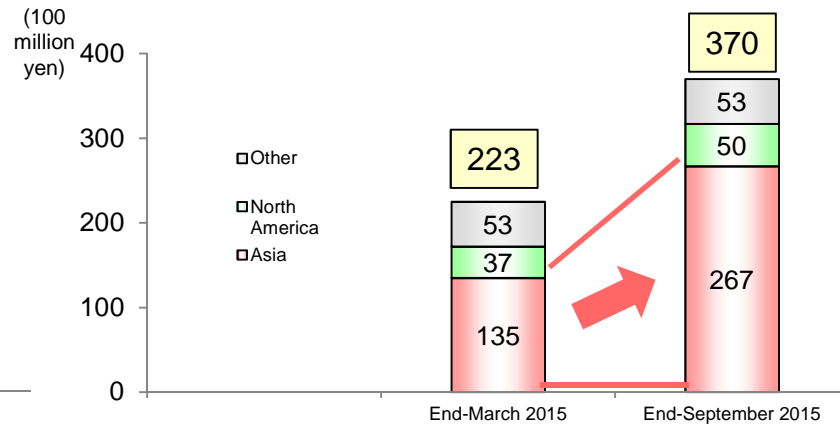
**Chugin's overseas network**



**Total financing related to international operations**



**Financing for non-Japanese companies by country**



# Measures to Strengthen Sales to Private Individuals

**Increase personal loans, mainly housing and apartment loans.**  
**Smooth boost growth rate for balance of unsecured loans by strengthening promotions.**

## Private individual sales initiatives

### Housing & apartment loans

#### Housing loans

- Strengthen competitiveness by introducing group credit life insurance that covers 11 major diseases to diversify group credit life insurance
- Establish speedy sales system by simplifying document screening process

#### Apartment loans

- Increase acquisition of healthy borrowers by revising screening standards and establishing a speeding sales system
- Uncover borrowers and strengthen ties by holding seminars with partners

### Unsecured loans

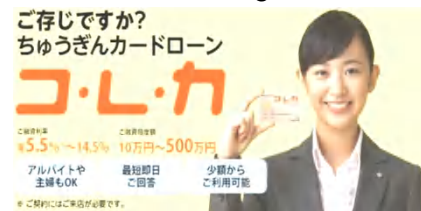
#### Review HP and ad strategies to strengthen promotions

##### Homepage contents

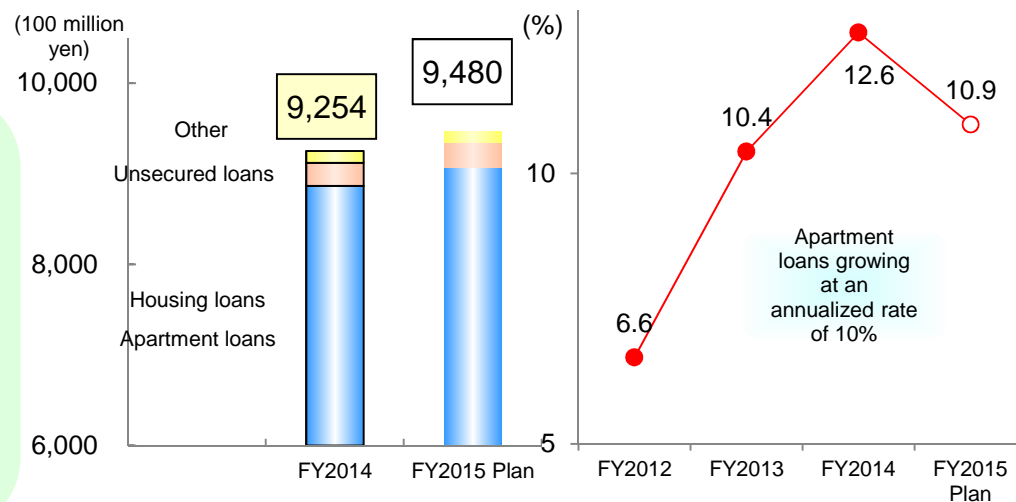
- Use external consultants
- Analyze user behavior on HP

Renew HP based on results

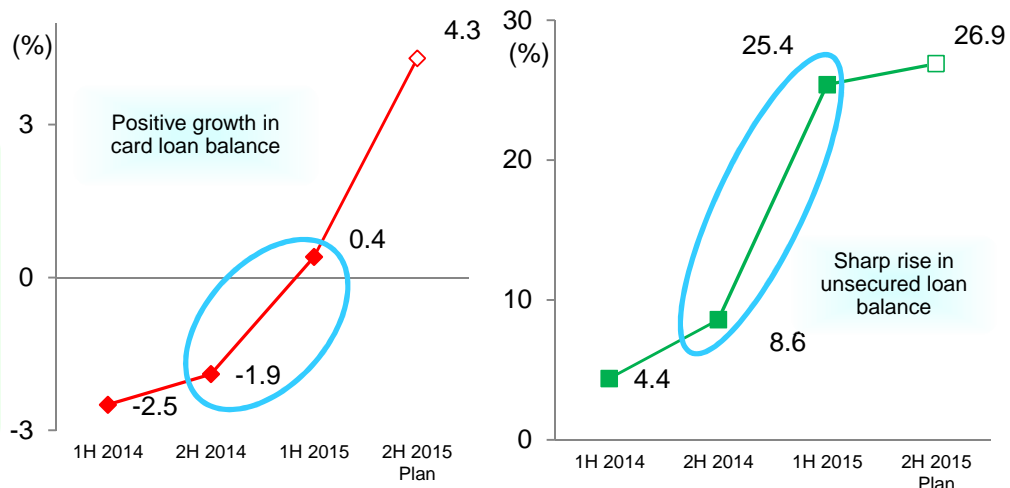
##### Ad strategies



**Average balance for personal loans**    **Annual growth for apartment loans**



**Annual growth for card loans**    **Annual growth for unsecured loan balance**

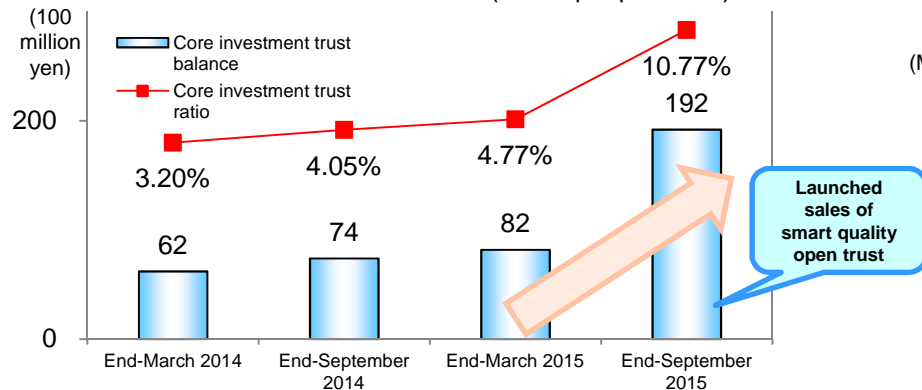


**Strengthen profitability of stock-based business by fortifying core satellite strategies.**  
**Respond to needs by implementing light consulting and reviewing insurance for middle aged clients and seniors. Secure a stable source of revenue.**

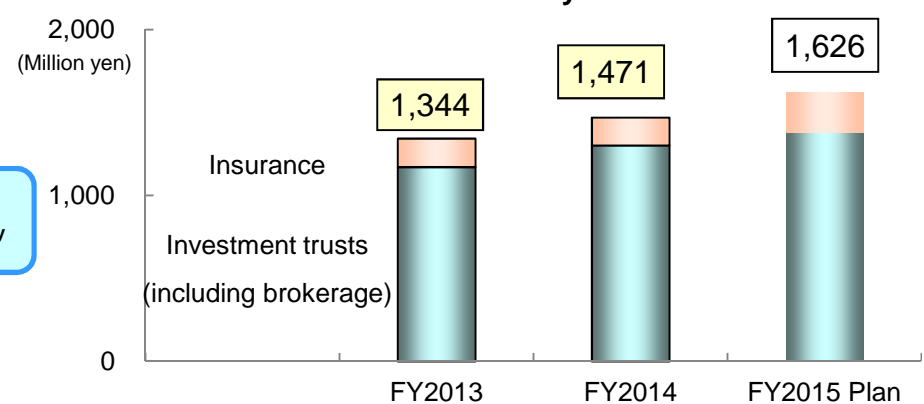
## Summary of core satellite strategy

- Aim to fortify stock-based earnings by promoting long-term investments and expanding horizon for investment trust clients by using stable core assets.
- Aim to fortify fee and commission income by actively promoting investment in satellite assets, to pursue profitability during market upticks.

**Balance of core investment trusts** (individual principal standards)



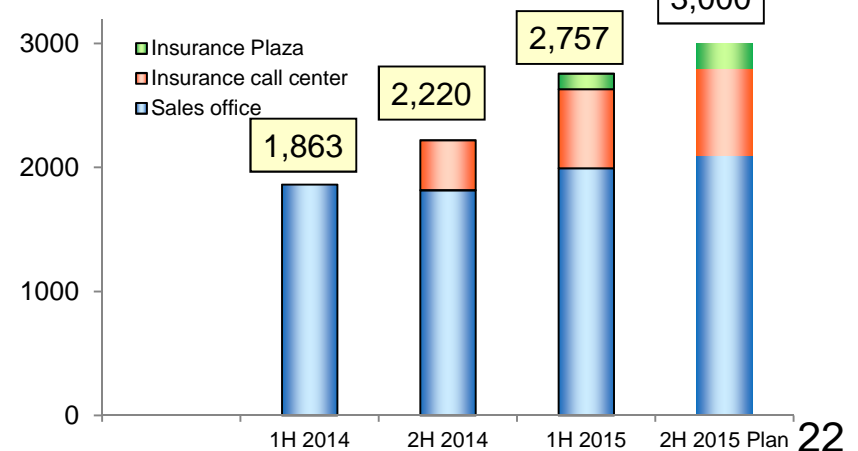
**Commissions on assets in custody**



## Light consulting

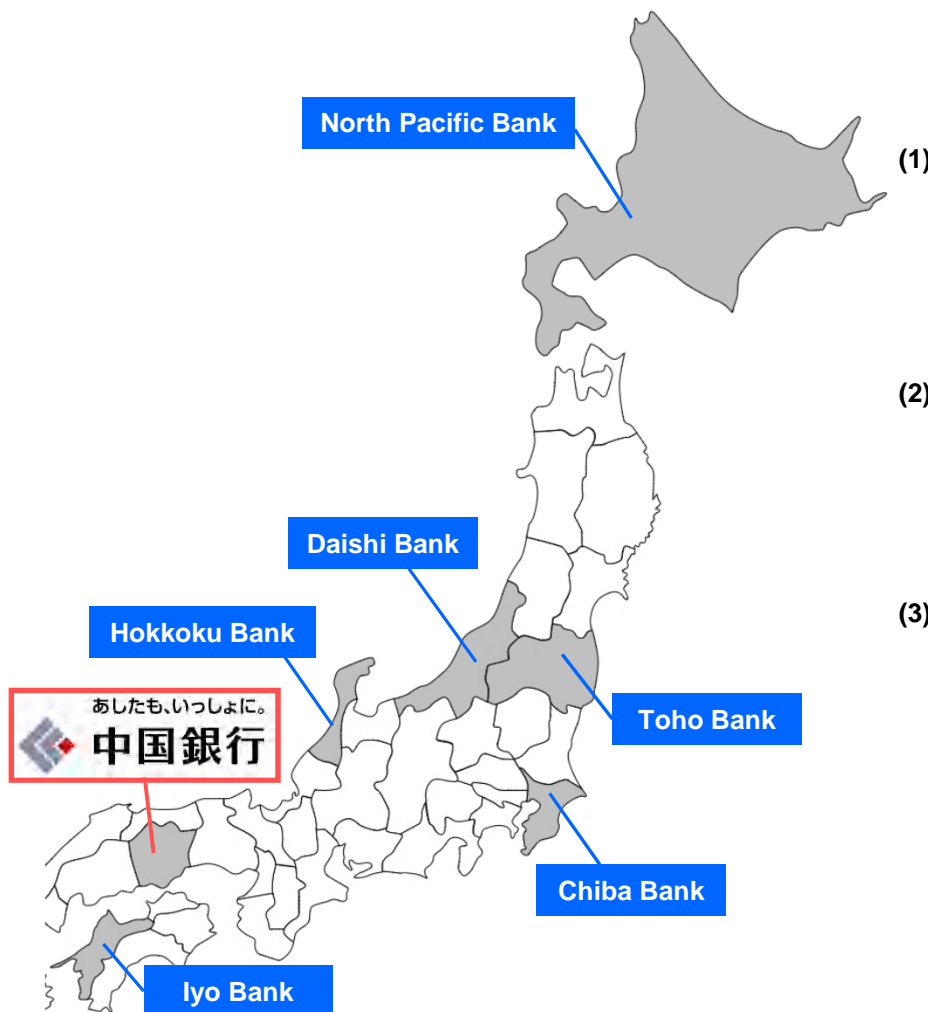
Policies	Taking into account family makeup and household budget based on life plans, obtain a wide range of information on needs, and provide light consulting focusing on key points
Initiatives	1. Strengthen HQ support functions Establish phone line at "insurance plaza" for consultations on net level insurance premiums
	2. Introduce new products (from October 1, 2015) Introduce lax underwriting standard products and review insurance for middle-aged individuals and seniors to meet needs
	3. Promote cross sales In addition to products being handled, promote cross sales of a wide range of products, including card loans and housing loans

**Net level insurance sales**



**In addition to using a joint core system, form full-fledged alliances in a wide range of areas.**

**Allow for a high level of freedom, for the option to select own system strategies. In addition, broad competitive alliances in areas other than systems.**



## Main initiatives

2008.3	Launch TSUBASA project
(1) 2012.10	Basic agreement to share core system
2014.4	Agreement on mutual cooperation during disasters
2014.9	Agreement on strengthening ties in market and international operations
(2) 2015.6	Joint development of marketable instruments
2015.6	Co-campaign to support promotion of tourist sites
2015.7	Tie-up for intellectual business support
(3) 2015.10	Form alliance to enhance TSUBASA financial system
2015.11	Joint plan among 5 TSUBASA project banks for shareholder preferential treatment and perks

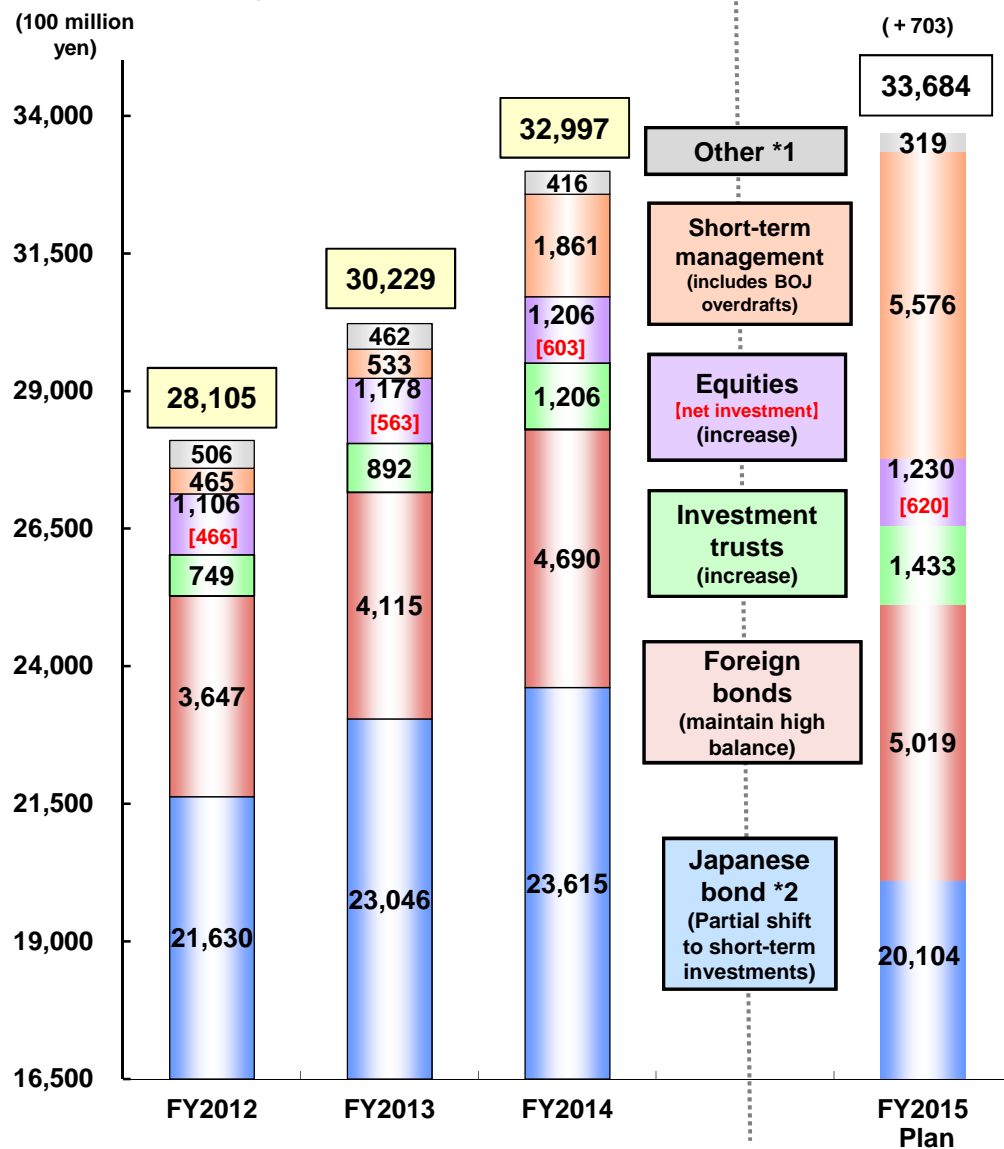
### Alliance benefits

1. Reduction in annual IT cost of around ¥300 million owing to joint system maintenance
2. Share management knowhow and reduce investment cost via joint investments
3. Joint research to create new services by integrating IT technologies



# Securities Management Strategies — Asset allocation —

## Market management plan



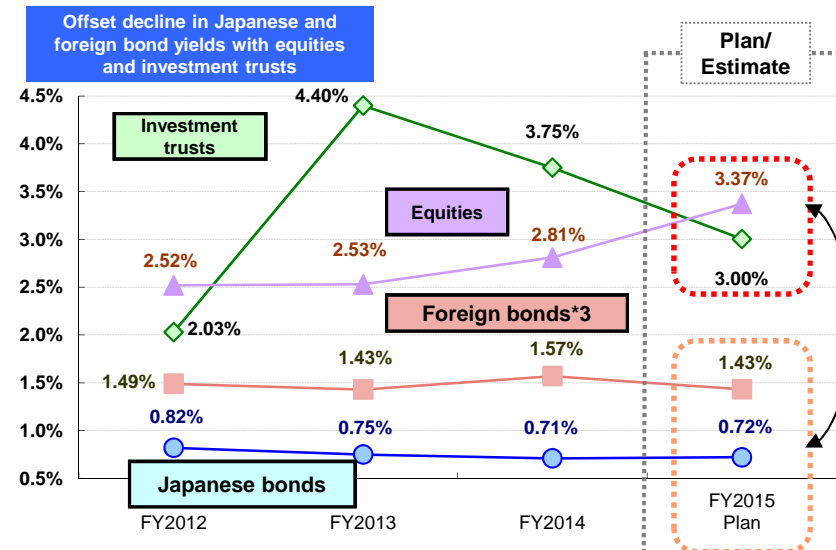
### Basic management policy to improve department revenues

- Flexible asset allocation by improving forecasting and management capabilities
- Expand asset management categories by improving product analysis and assessment capabilities

### Allocation policy in light of low interest rates

- Stick with barbell approach for shift in investment funds in Japanese bonds to ultra long-term zone and short-term asset management. Maintain high balance of foreign-current denominated bonds and improve yields by implementing bond switching.
- Maximum income gains, capital gains, and valuation gains on risk assets by improving quality, expanding investment universe, and controlling balances.
- Compensate for decline in net interest income in low interest environment by securing gains on sales, mainly of risk assets, in response to market trends.

### Yields by investment asset



\*1: Other = cash trust, fixed-term derivatives, long-term beneficiary rights, investment association, etc.

\*2: Includes foreign bonds denominated in yen.

\*3: Spread between procurement and management for foreign securities

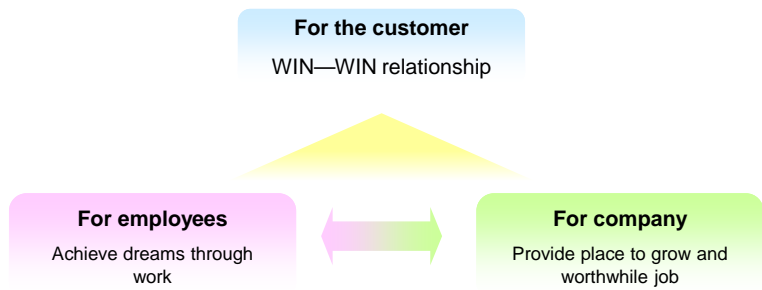


**Establish specialized departments to create a system that leverages organizational, creative capabilities.**

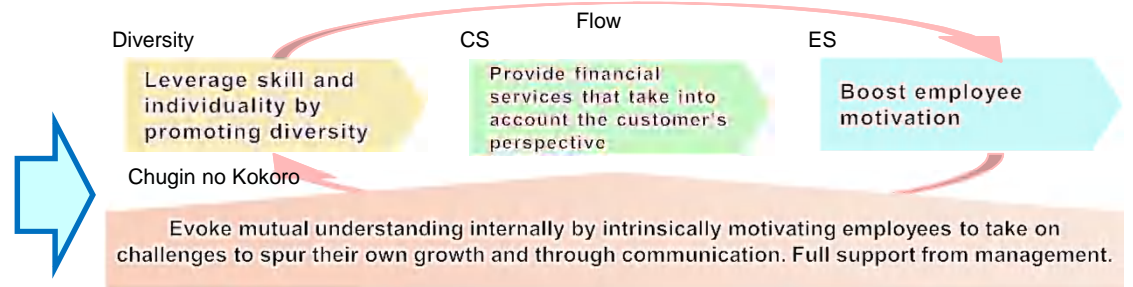
## Organization revitalization initiatives

### Establish “Chugin no Kokoro” (April 1, 2014)

Foundation for the behavior and decision-making of Chugin Group employees



### Establish “NEXT 10 Promotion Department” (June 24, 2015)



Goal	Fortify initiatives for Chugin no Kokoro, CS, ES, and diversity.
Activities	Propose and promote various plans related to CS, ES, and diversity based on Chugin no Kokoro. Carry out plans working with business execution departments.

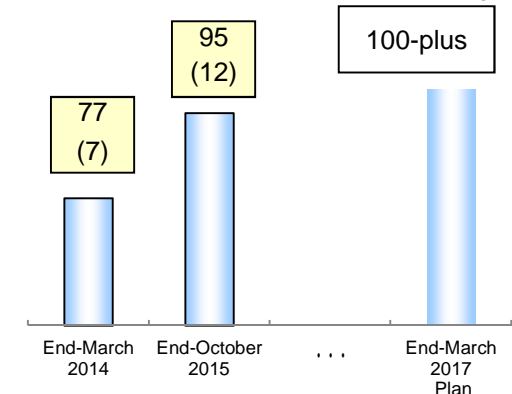
### Diversity initiatives (for time being focus on women’s roles)

- Diversity is a key management strategy. Formulate a basic policy on diversity.
  - Basic policy: Promote diversity within the organization, link this skill and individuality to corporate management to spur growth.
- Implement based mainly on proposals espoused by the Rainbow-colored Heart Project.



### No. of female managers

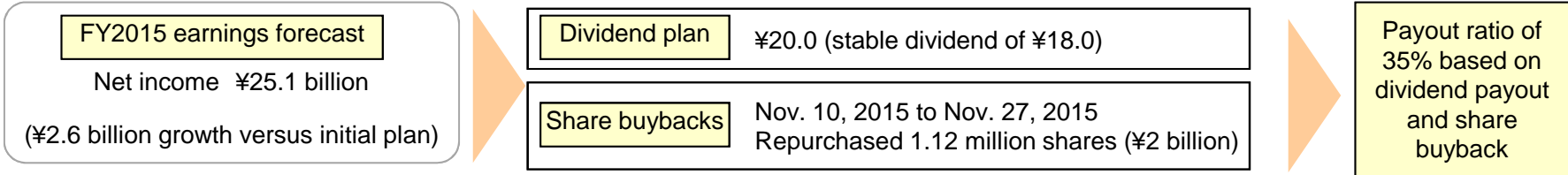
\*No. in parentheses is the number of managers



# Dividends and Shareholder Hospitality Program

From FY2015, we plan to boost our dividends. We aim to pay a stable dividend of ¥18 per share and raise our payout ratio to 35%.  
 Reflecting our earnings performance in 1H FY2015, we plan to raise our per-share dividend by ¥2 (annual dividend of ¥20 per share).  
 Introduce a shareholder hospitality program.

## FY2015 dividend payout plan



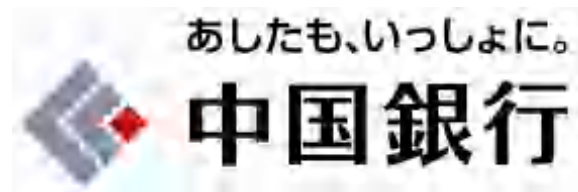
### Dividends

	Net income (1)	Total dividend payout (2)		Payout ratio (2)÷(1)	Share buyback (3)	Accrued dividends (4)	Total payout ratio ((2)+(3)+(4))÷(1)
		Per-share dividend (interim)					
FY2015 est.	251	39.2	¥20.00 (¥10.00)	15.6%	Disclosed amount ¥2.0 billion	About ¥2.9 billion	35%
FY 2014	209	35.6	¥18.00 (¥8.00)	17.0%	33	0	32.8%
FY 2013	270	32.3	¥16.00 (¥7.50)	12.0%	49	0	30.3%

\* Share buybacks that are factored into the calculation of the total payout ratio are those buybacks implemented within a one-year period starting from the general shareholders meeting.

## Shareholder hospitality program

Goal	· Increase appeal of shares, increase long-term holdings and small-lot shareholders.
TSUBASA project (joint project between 5 banks)	· Chugoku Bank, Chiba Bank, Daishi Bank, Iyo Bank, and Toho Bank. Mutually list locally-sourced products. · Aim to improve name value of locally-produced products
Details	· Special products from Okayama, Chiba, Niigata, Ehime, and Fukushima · Donations to organizations that contribute to society



This document includes forward-looking statements. All statements are not a guarantee of future performance, and involve risks and uncertainties. Note that future performance could possible differ from the goals and targets in this document owing to factors, including changes in the business environment.