

1H FY2016 Earnings Results Briefing

December 2, 2016



Summary of 1H FY2016 Earnings Results

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For inquiries regarding this document, please contact:

Management Planning Department, The Chugoku Bank, Ltd.

Mr. Ohara / Mr. Umakoshi

TEL: +081-86-234-6519; FAX: +081-86-234-6587 Email: fvbs2960@mb.infoweb.ne.jp

Section I

Summary of 1H FY2016 Earnings Results

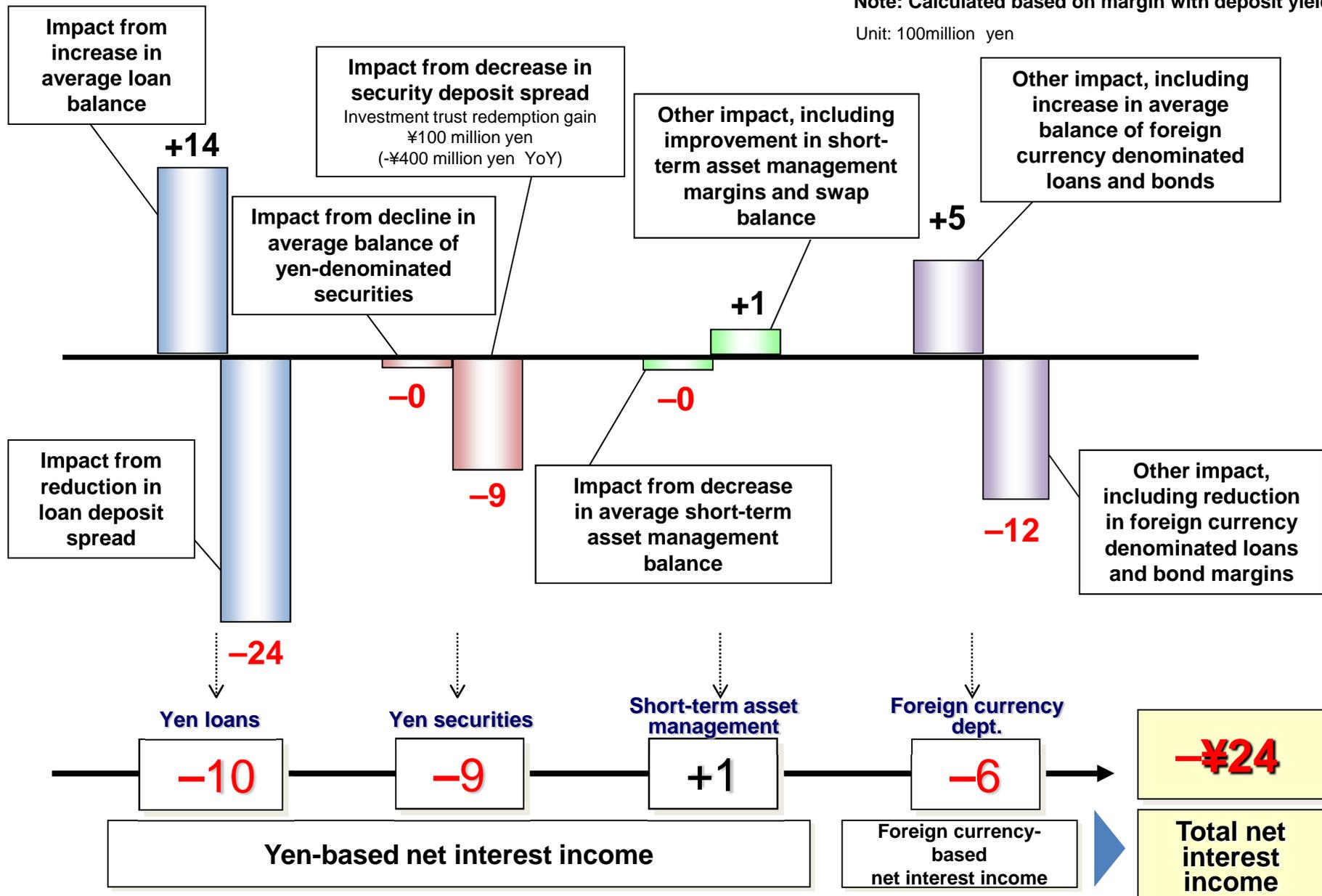
1H FY2016 Earnings Results –Summary–

(100 million yen)	1H FY2013	1H FY2014	1H FY2015	1H FY2016	YoY	Vs. plan
	Core business gross profit	446	439	436	409	-27
Interest income	369	362	358	334	-24	-3
Fees and commissions	69	74	74	76	2	0
Other operating income	7	2	3	-1	-4	4
Expenses (-)	-287	-289	-277	-281	-4	6
Core business net profit	159	150	158	127	-31	7
OHR (%)	64.2	65.8	63.6	68.8	5.2	-1.7
Credit expense (-)	43	18	26	27	1	26
Bond sales gains/redemption	-21	2	4	7	3	7
Equity sales gains/redemption	19	15	26	9	-17	-9
Other	10	10	12	2	-10	1
Recurring profit	211	196	229	173	-56	32
Extraordinary gain/loss	-0	-2	-1	-1	0	1
Net income	134	129	155	121	-34	25
Consolidated recurring profit	231	213	242	184	-58	36
Net income attributable to owners of parent	143	135	160	125	-35	27

- Core business net profit decreased ¥3.1 billion YoY, due to the large negative impact of the continued ultra-low interest rates (negative interest rates) in Japan and the rise in foreign currency financing costs.

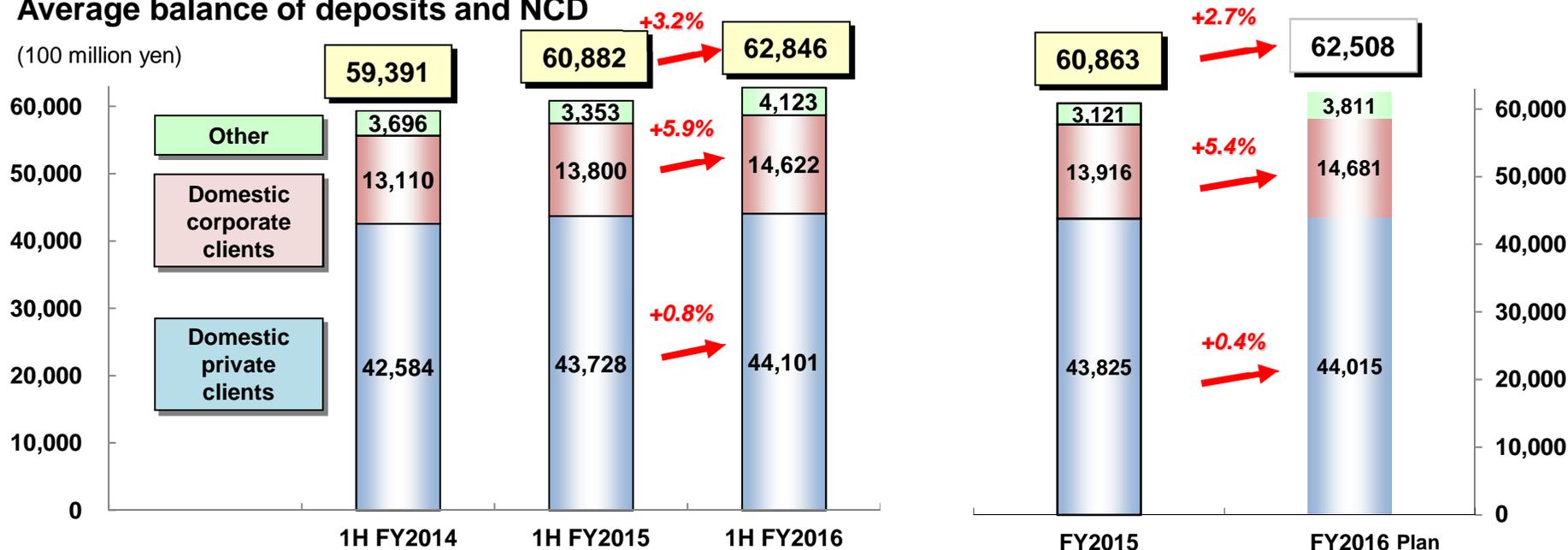
Note: Calculated based on margin with deposit yield

Unit: 100million yen



Average balance of deposits and NCD

(100 million yen)



Ref: Balance of assets in custody

(100 million yen)

	1H FY2014	1H FY2015	1H FY2016	
			Change	Change
Public bonds	3,638	3,012	-626	-148
Investment trusts (1)	1,985	1,878	-107	-304
Financial instrument intermediary services	1,698	1,821	123	240
Investment trust portion (2)	610	761	151	101
Insurance	3,425	3,358	-67	89
Bank parent	10,746	10,069	-677	-123
Total investment trusts (1)+(2)	2,595	2,639	44	-203
Chugin Securities	776	851	75	-21

	FY2015	FY2016 Plan	Change
Public bonds	2,965	2,852	-113
Investment trusts (1)	1,814	1,651	-163
Financial instrument intermediary services	1,867	2,075	208
Investment trust portion (2)	806	871	65
Insurance	3,402	-	-
Bank parent	10,048	-	-
Total investment trusts (1)+(2)	2,620	2,522	-98
Chugin Securities	795	855	60

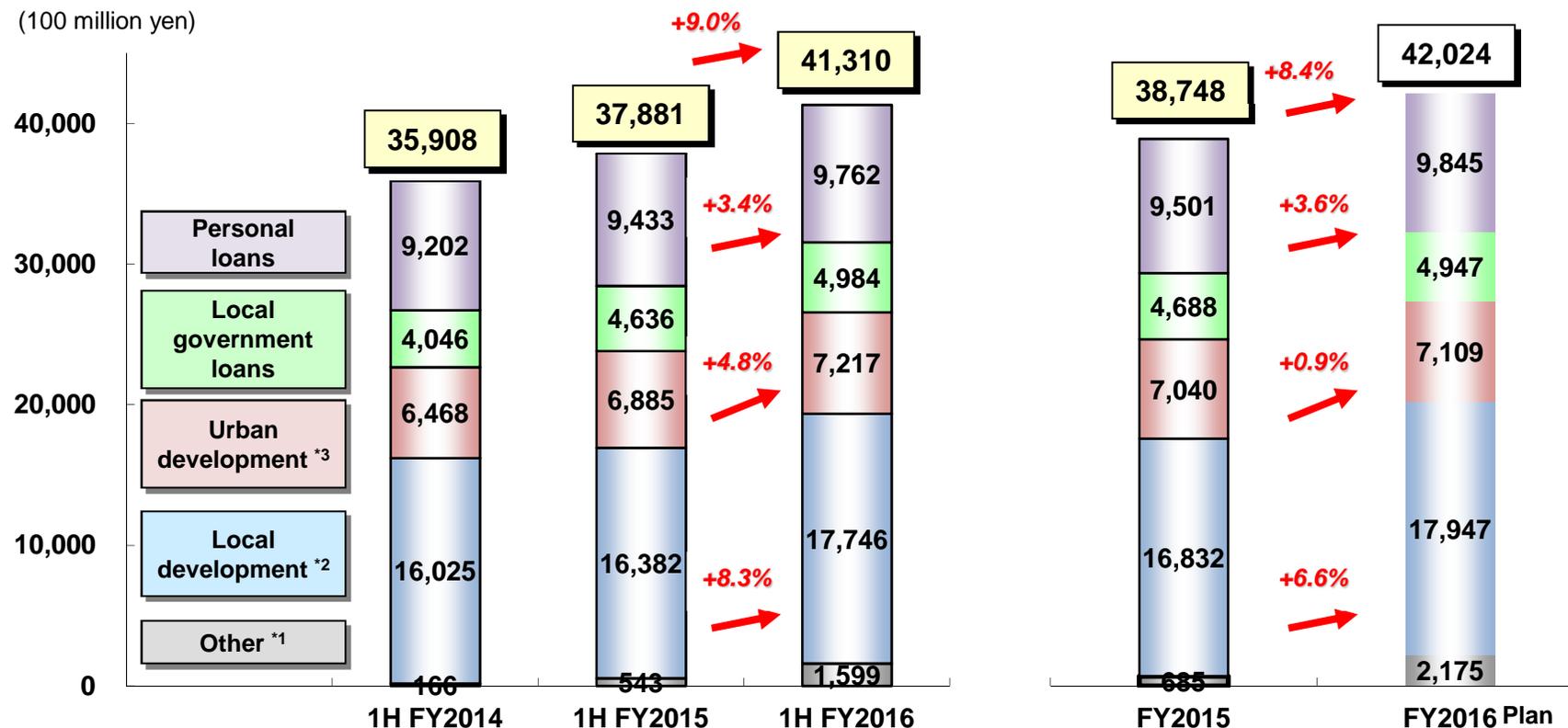
* Public bonds are based on the value of the average balance. Investment trusts are based on the average balance of net assets. Financial product intermediary services are based on the average balance of the acquisition value. Insurance is based on the average balance taking into account cancellations.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

• Annual growth of private client deposits weakened. Corporate client deposits are growing robustly.

1H FY2016 Earnings Results –Major accounts (2) Loans–

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

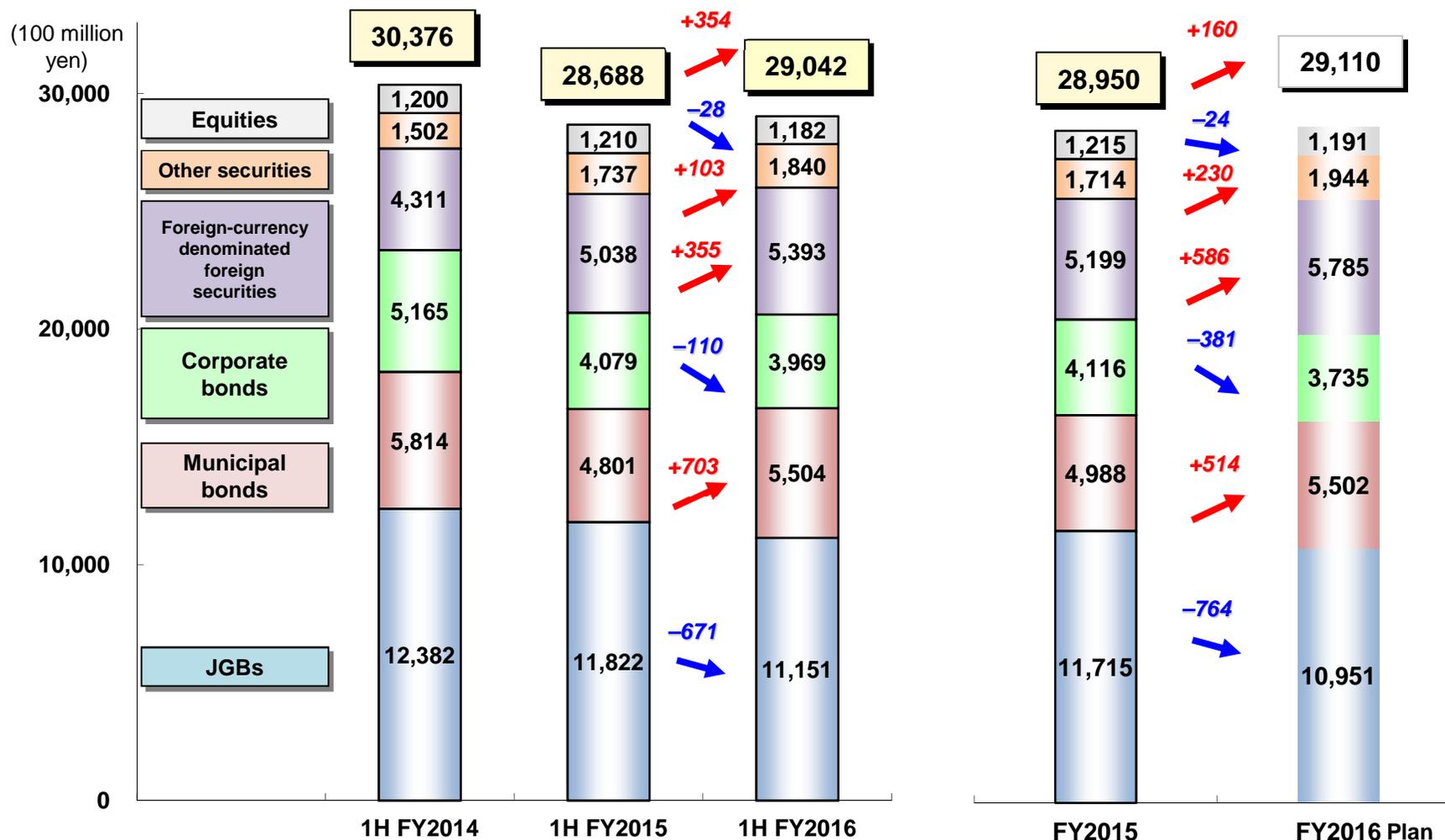
*3 Urban: Tokyo and Osaka

(100 million yen)	1H FY2014		1H FY2015		1H FY2016	
				YoY		YoY
Non-Japanese	40	256	216	569	313	
SF center	-	117	117	885	768	
Total	40	373	333	1,454	1,081	

	FY2015		FY2016 Plan	
				YoY
	317	760	443	
	206	1,264	1,058	
Total	523	2,024	1,501	

- Total annual loan growth was 9.0%, owing to aggressive initiatives to strengthen lending.
- Local development capital rose an annual 8.3% owing to measures to capture demand for capital.

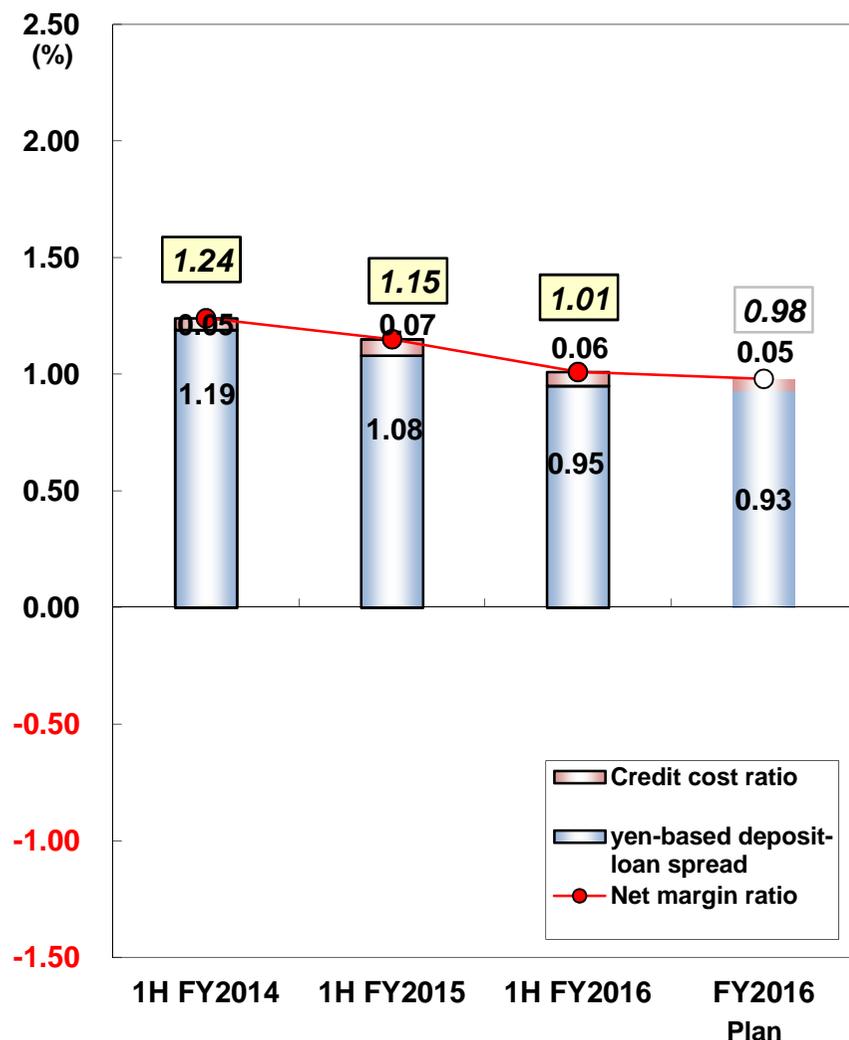
Average balance of securities



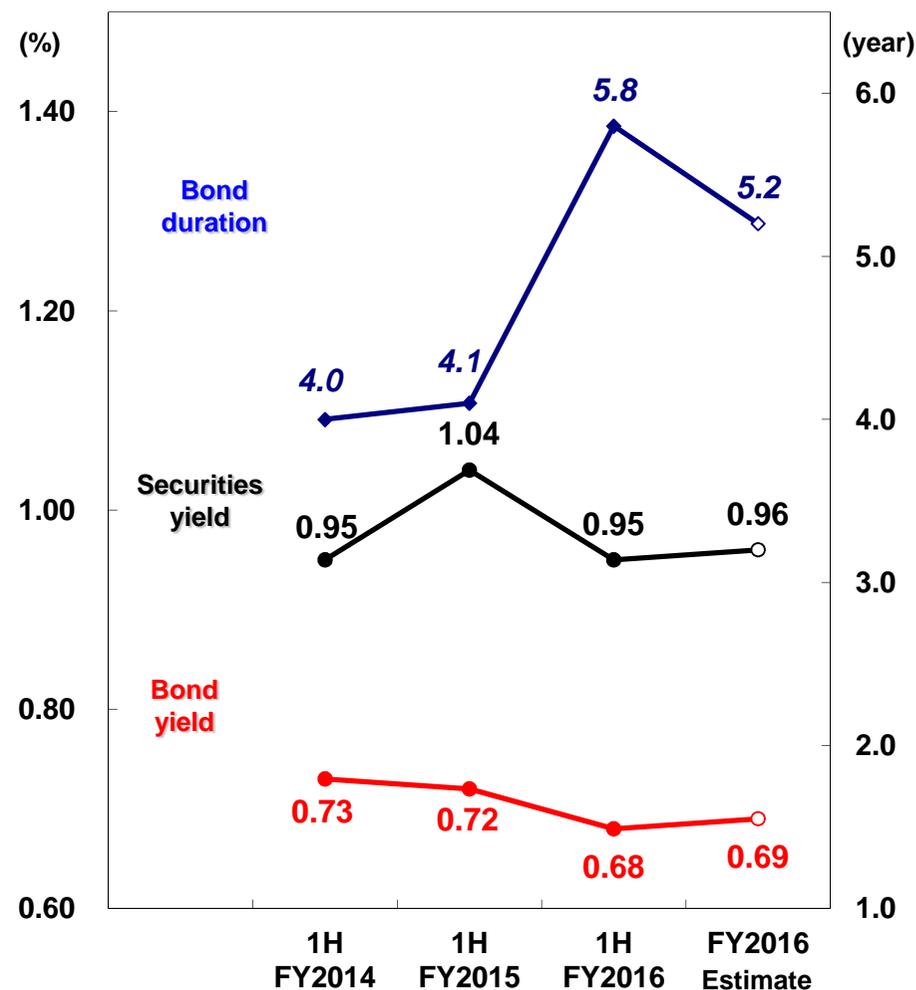
- During 1H FY2016, the balance of securities increased by building up municipal bonds, foreign bonds, and investment trusts, although the JGB balance shrank due to redemption.
- Amid the low-interest rate environment that is expected to continue, we plan to continue building up our balance of municipal bonds with attractive spreads, foreign bonds, and investment trusts.
- We plan to continue to shuffle our portfolio to address fluctuations in the market environment and avoid excessive building-up of risks.

1H FY2016 Earnings Results –Major yields & margins–

Loan/deposit spread, credit cost ratio, net margin



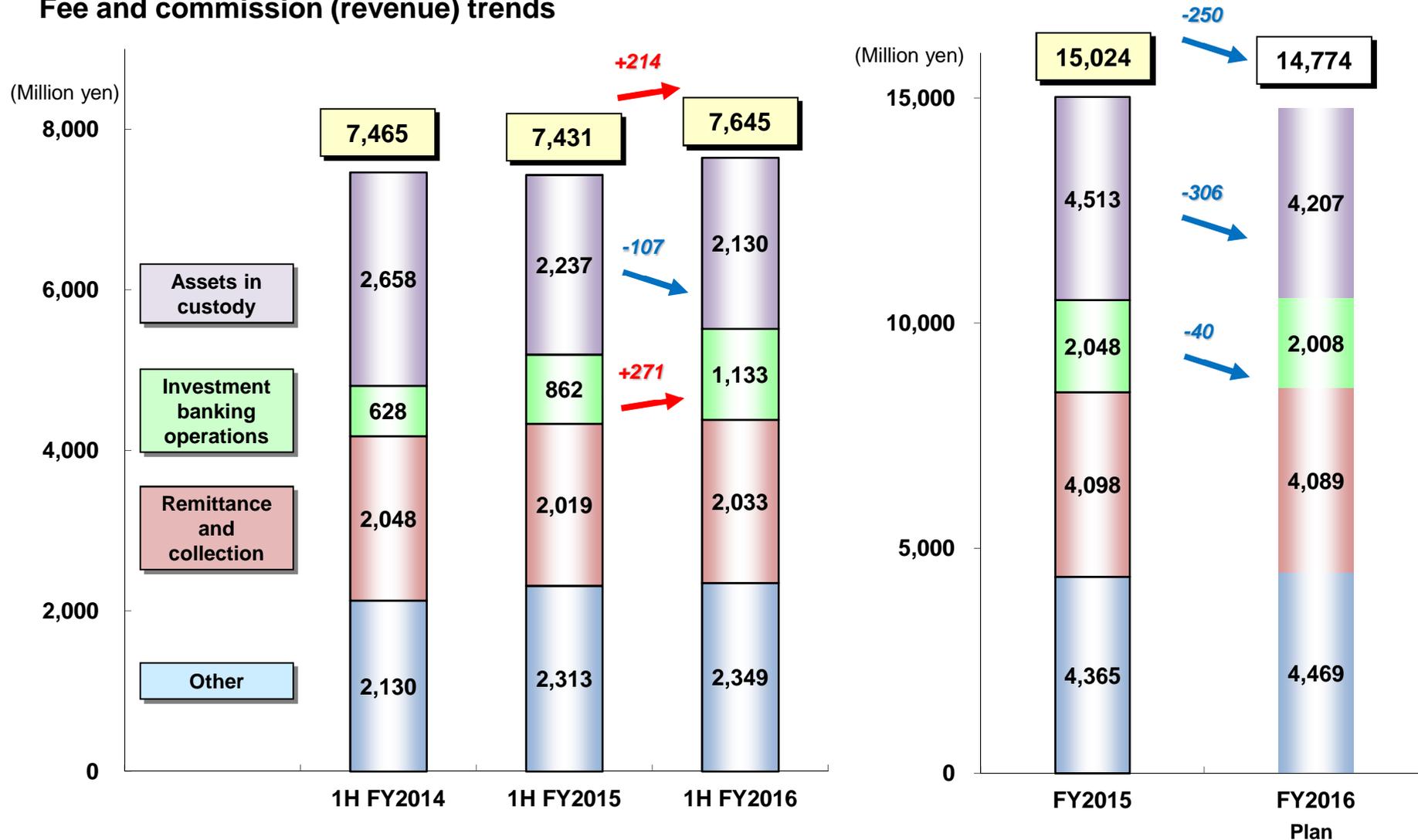
Securities yield and duration



- Loan/deposit spread fell more than the previous year due to negative interest rates.
- Maintained a yield of around 1% on securities, including equities and investment trusts. Although bond duration lengthened, we intend to gradually shorten it going forward.

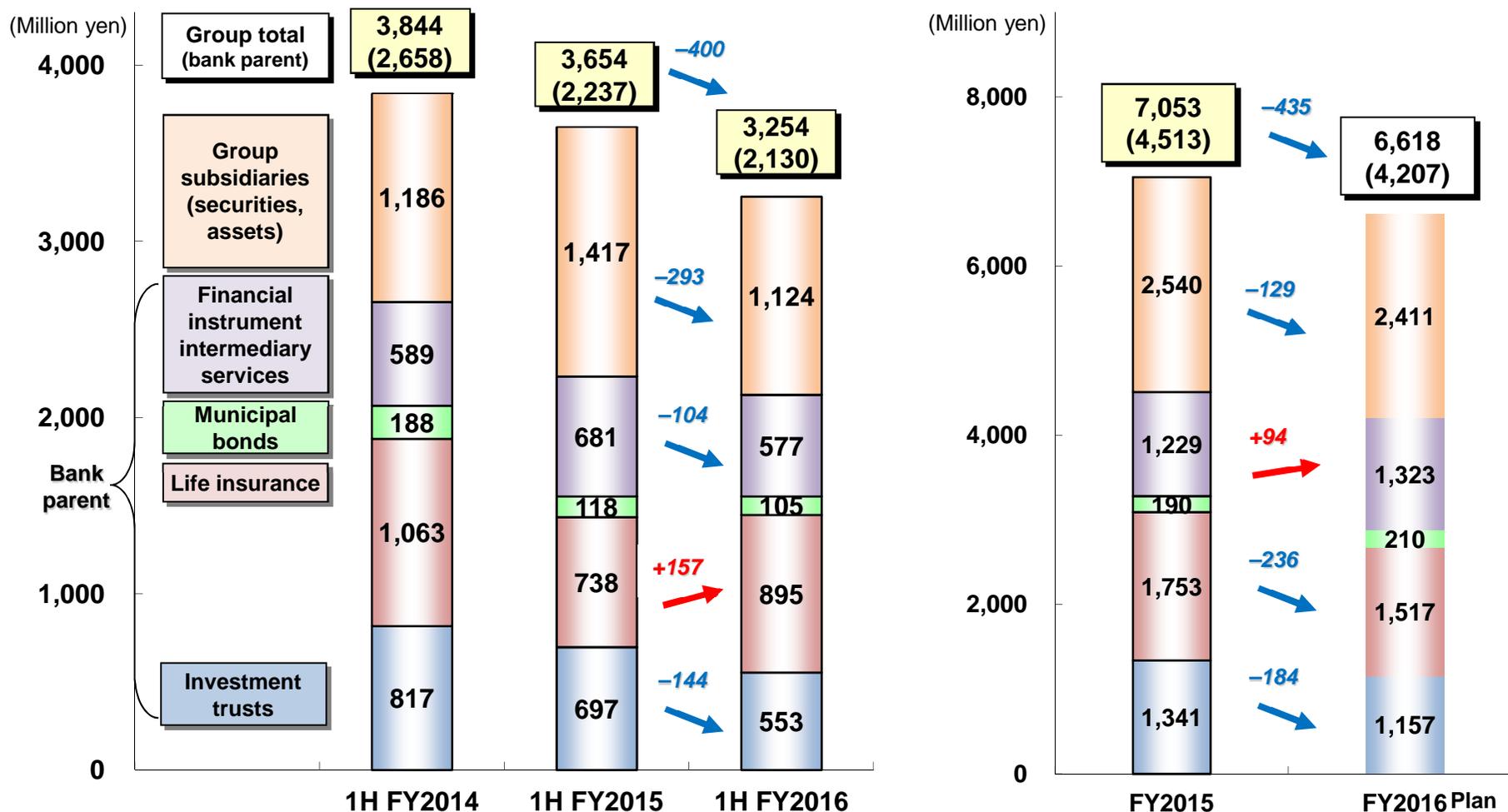
1H FY2016 Earnings Results –Change in fees and commissions–

Fee and commission (revenue) trends



- Revenue related to assets in custody declined but fees and commissions increased ¥200 million YoY owing to an increase in revenue from investment banking operations and other fees and commissions.

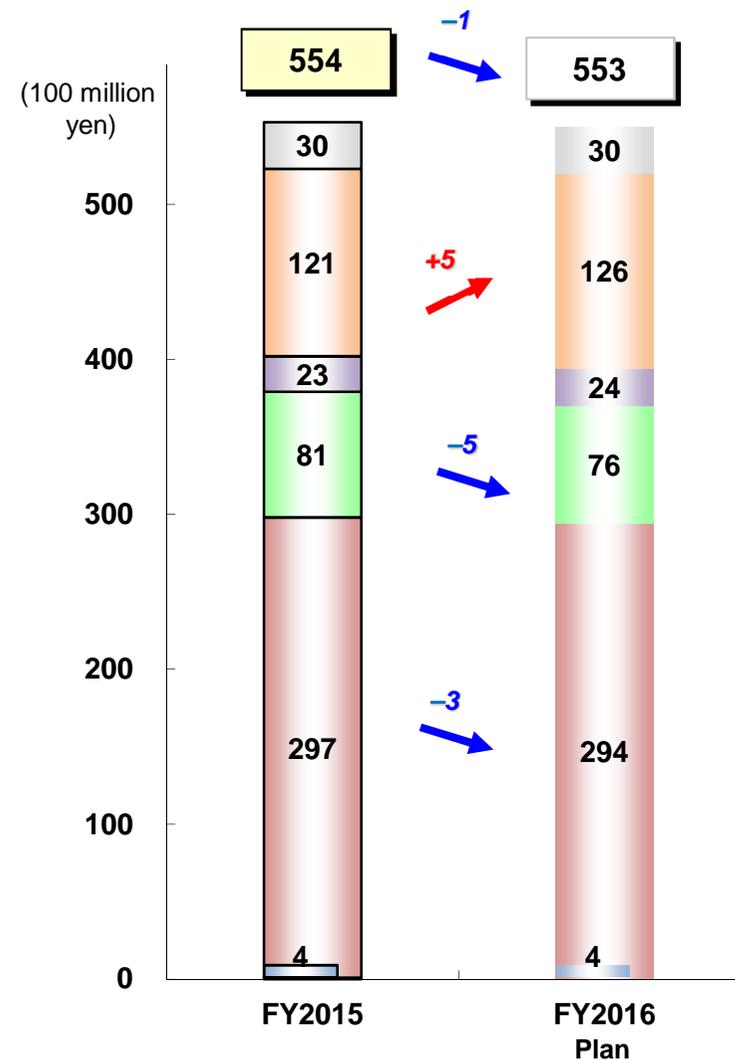
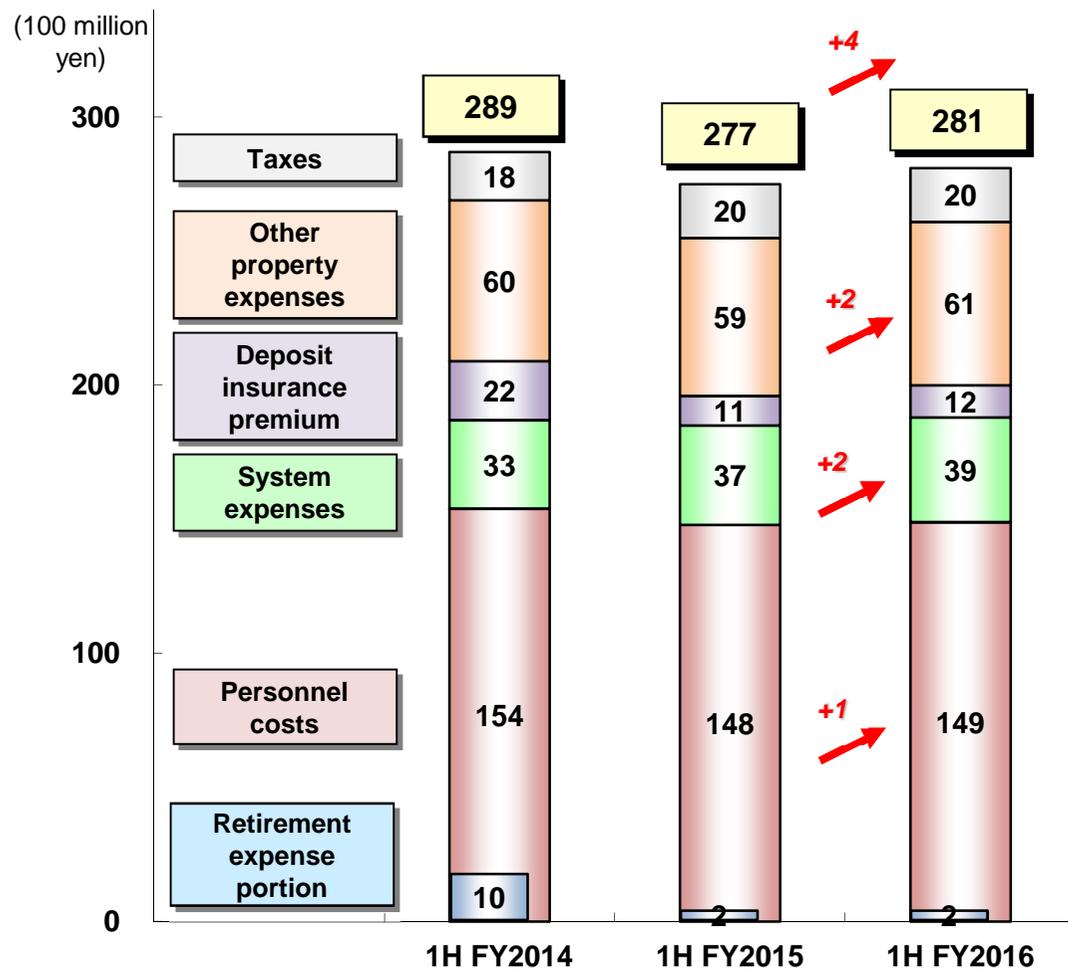
Revenues related to assets in custody



- Total group revenue related to assets in custody declined ¥400 million YoY due to a decrease in sales of investment trusts and financial instrument intermediary services.

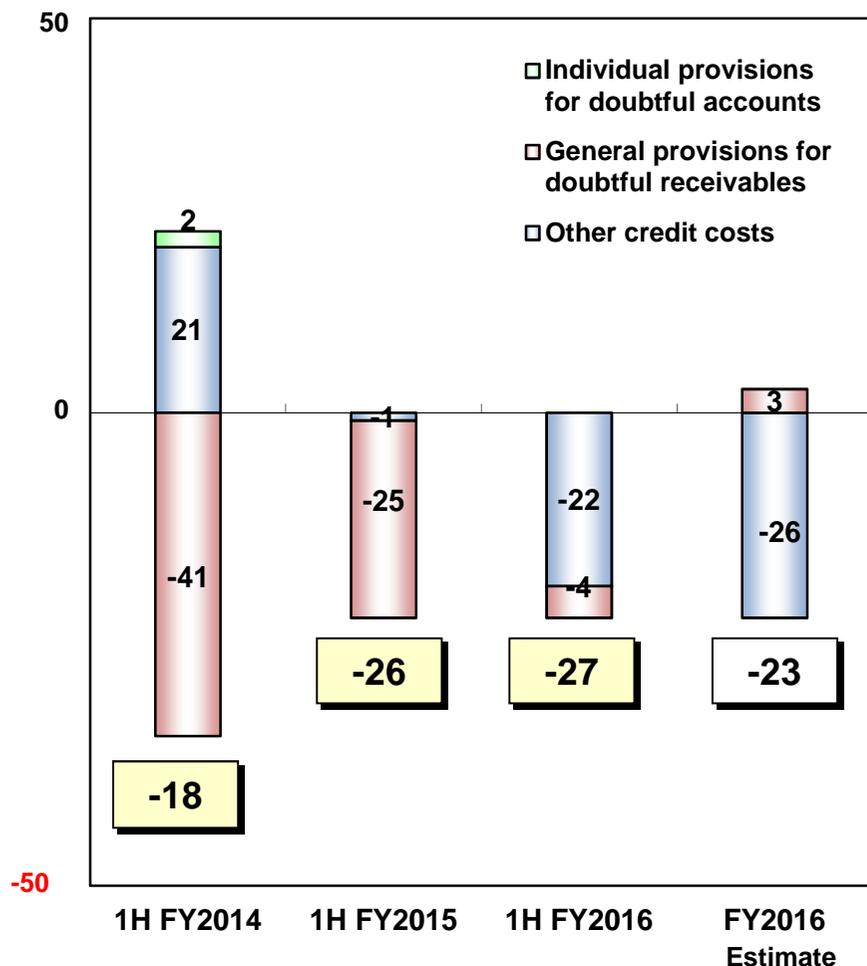
1H FY2016 Earnings Results –Change in expenses–

Expense trends



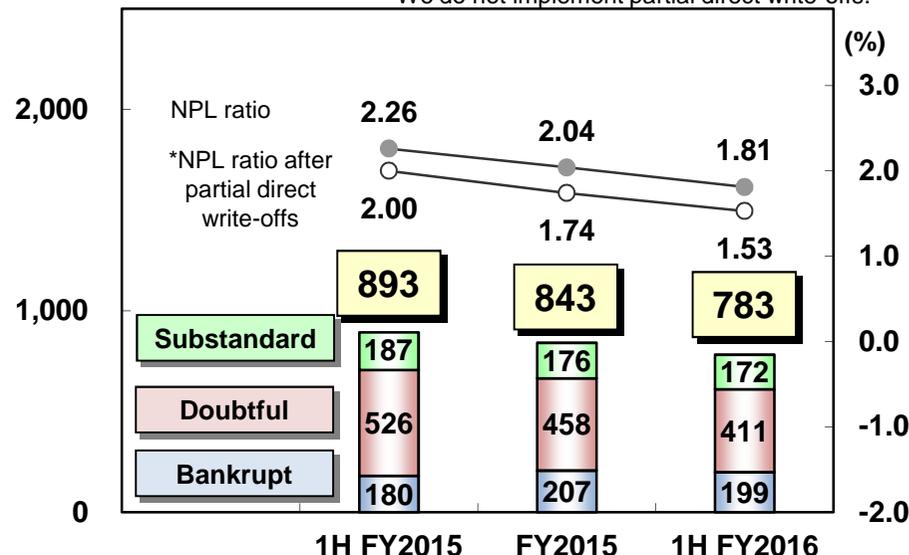
- Expenses overall increased ¥400 million YoY reflecting an increase in depreciation costs of systems equipment and costs for various measures.

Credit cost trends (100 million yen)



Non-performing loan (NPL) trends (100 million yen)

*We do not implement partial direct write-offs.



Outstanding balance by debtor (self-assessment)

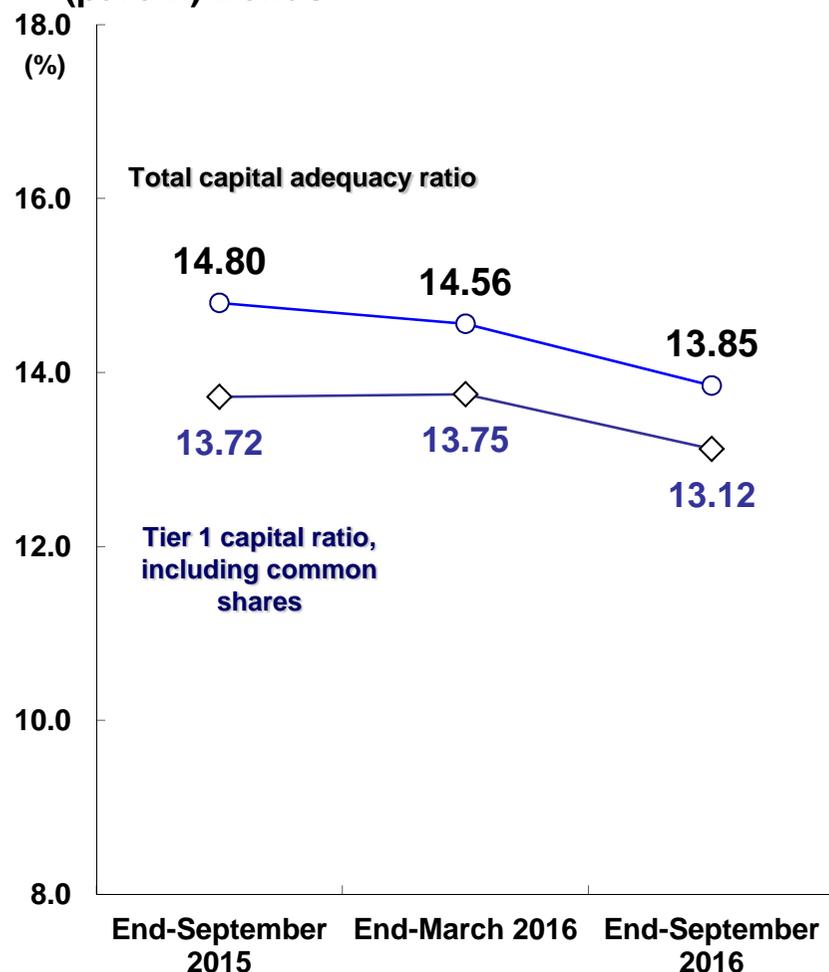
(100 million yen)	1H FY2015		1H FY2016	
	Amount	Ratio	Amount	Ratio
Healthy accounts	36,417	92.3%	40,386	93.4%
Substandard	2,350	6.0%	2,220	5.1%
Doubtful	526	1.3%	412	1.0%
Virtually bankrupt	139	0.4%	152	0.4%
Legally bankrupt	41	0.1%	47	0.1%
Total	39,474	100.0%	43,218	100.0%

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

- There was a ¥2.7 billion reversal to total credit cost owing to a reversal of individual provisions for doubtful accounts reflecting an improvement in customers' earnings.

Capital adequacy ratio (Basel III) (parent) trends



Capital adequacy ratio (parent)

(100 million yen)

	FY2015	1H FY2016	YoY
Total equity	4,864	4,902	38
Tier 1, including common shares	4,595	4,645	50
Tier II	269	257	-12
Risk weighted assets, etc.	33,407	35,397	1,990
Credit risks	31,765	33,778	2,013
Operational risks	1,641	1,619	-22

Other Basel regulations

	FY2015	1H FY2016
Consolidated leverage ratio	5.91%	5.65%
Parent liquidity coverage ratio (LCR)	143.9%	126.6%

- Total capital adequacy ratio and Tier I capital ratio (including common shares) dropped reflecting a rise in risk weighted assets due to an increase in loans.

Section II

FY2016 Forecasts and Major Initiatives

FY2016 Forecast –Earnings forecasts–

(100 million yen)	FY2015	FY2016		
		Plan	YoY	Vs. Initial plan
Core business gross profit	855	805	-50	-6
Interest income	700	673	-28	2
Fees and commissions	150	148	-3	-4
Other operating income	5	-15	-21	-3
Expenses (-)	-554	-553	1	-0
Core business net profit	301	251	-50	-7
OHR (%)	64.8	68.7	3.9	0.5
Credit expense (+ is reversal (profit))	37	23	-14	35
Bond sales gains/redemption	17	17	-0	17
Equity sales gains/redemption	33	6	-27	-27
Other	16	-1	-17	1
Recurring profit	406	297	-109	20
Extraordinary gain/loss	-3	-3	0	1
Net income*	259	203	-56	14
[ROE forecast]	FY2015	FY2016		
	1-year	1-year	3-yr avg.	5-yr avg.
Consolidated ROE (%)	5.2	4.1	4.8	5.0

Recurring profit and net income expected to underperform YoY but outperform initial plans

YoY factors

(Negative factors)

- Decline in net interest income due to narrower margins
- Increase in foreign currency financing costs
- Decrease in reversal of credit costs
- Increase in write-off of retirement expense

Factors versus initial plan

(Positive factors)

- Decline in credit expenses (increase in reversal of provisions)
- Improvement in gains on bonds

(Negative factors)

- Decrease in fees and commissions
- Decrease in capital gains

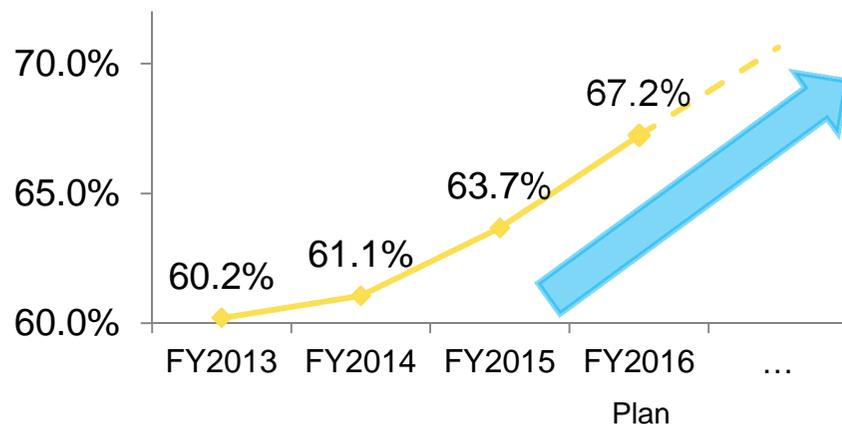
*Consolidated net income is net income attributable to owners of parent.

Initiatives to strengthen lending –Business capital–

- Average annual growth of total loans trending at 9% under a policy to improve loan/deposit ratio.
- Local development capital demand increased mainly in Okayama Prefecture, with average annual growth rising to 8%.

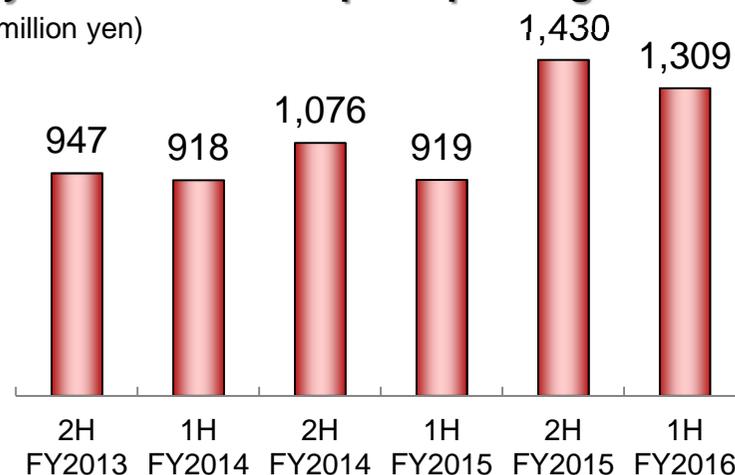
Loan-to-deposit ratio trend

(Average balance basis)

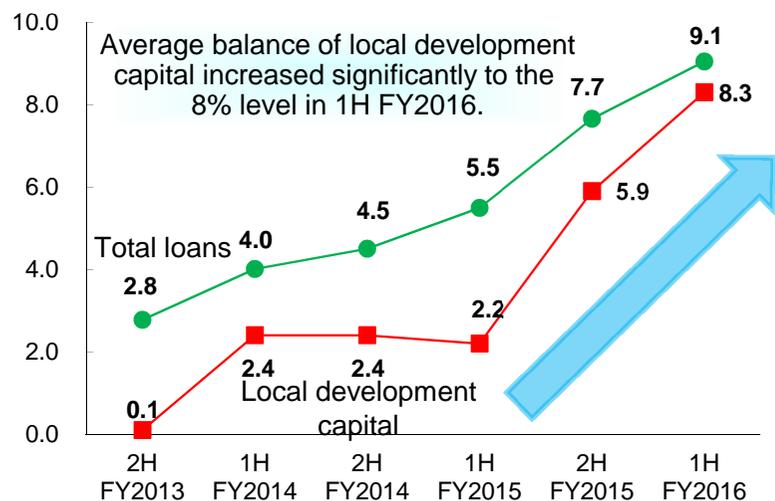


Newly executed local capital spending

(100 million yen)

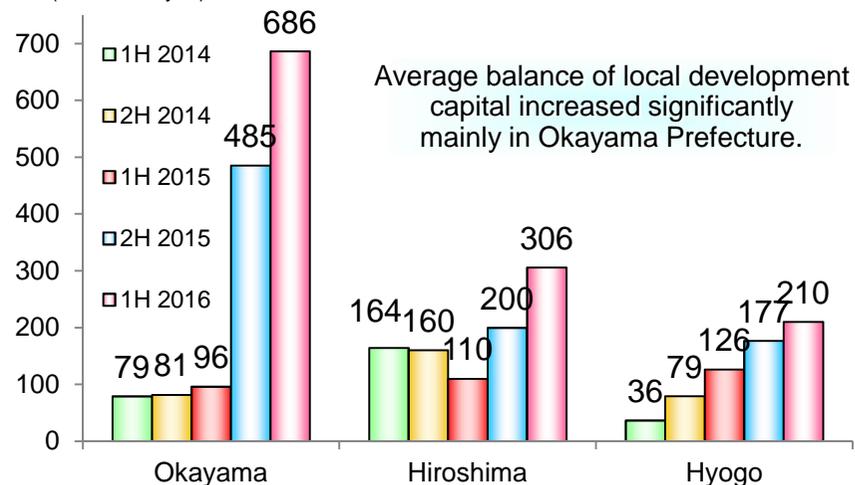


Average annual growth of local development capital (%)



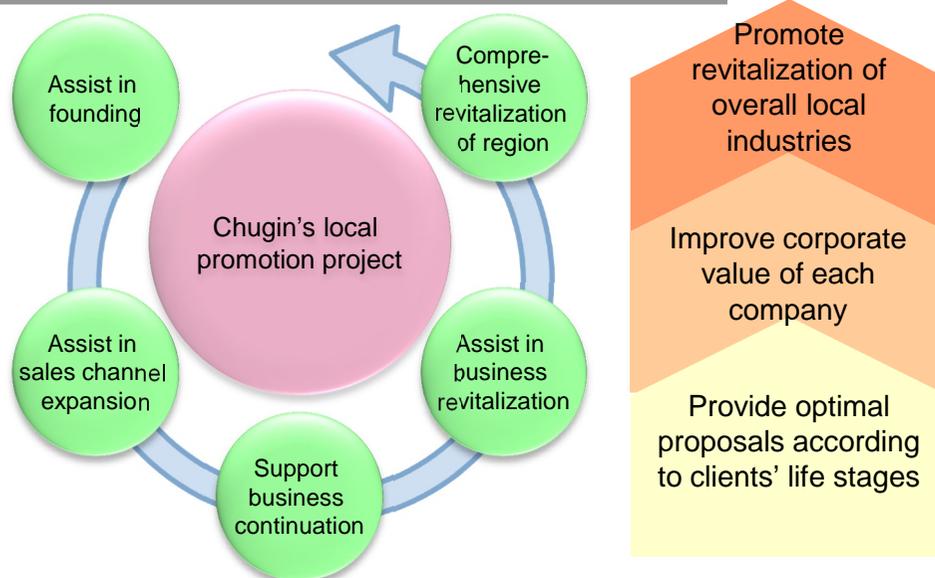
Change in average balance of business capital (YoY)

(100 million yen)



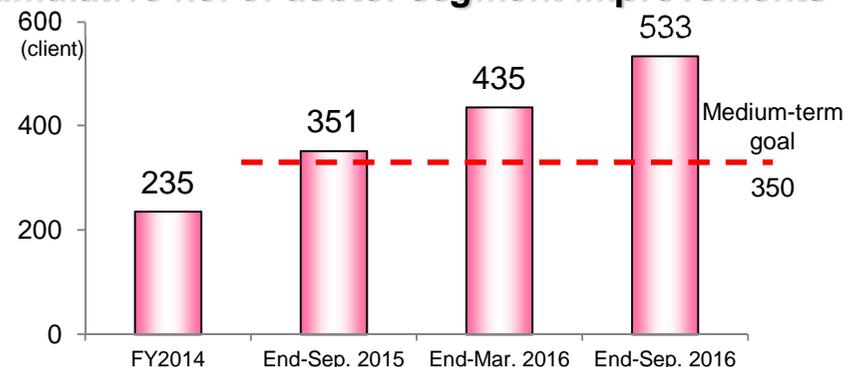
- Further cultivate our community-based financial institution business model through Chugin’s local promotion project that focuses on business assessment.
- Provide optimal solutions to the needs and issues in line with clients’ life stages.

Chugin’s local promotion project



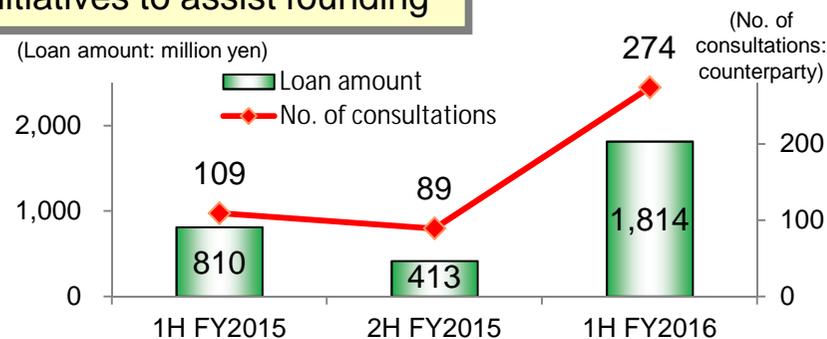
Initiatives for Chugin’s revitalization promotion project

Cumulative no. of debtor segment improvements



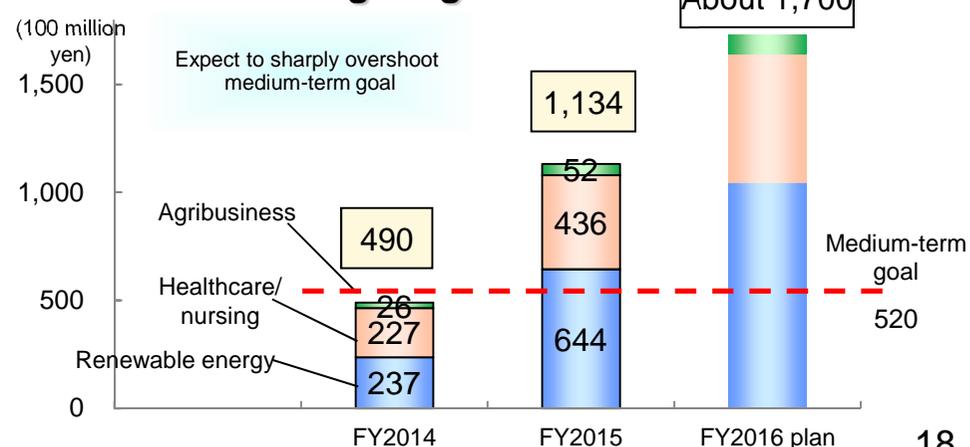
Financing for growth areas

Initiatives to assist founding



- Measures for assisting founding**
- Launch the Okayama innovation project (from FY2017)

Cumulative financing for growth areas



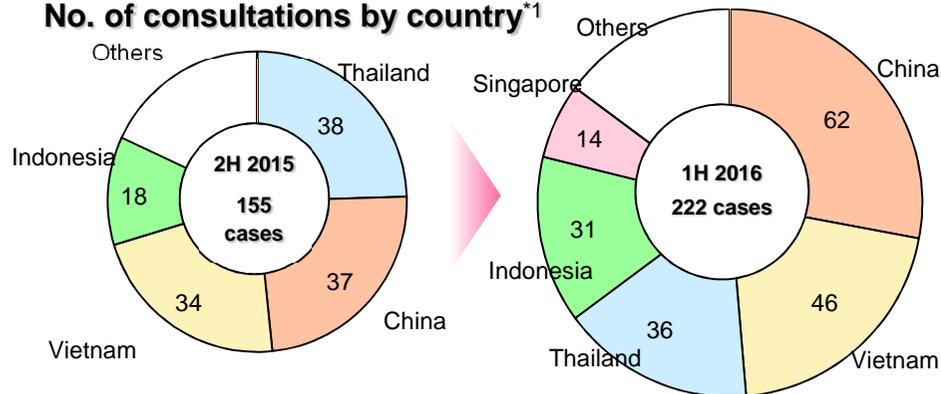
Initiatives to strengthen lending –International operations–

- Support bank clients' entry into overseas markets by expanding network in Asia and strengthening HQ support.
- Steady increase in financing to support entry into overseas markets and financing for non-Japanese companies.

Strengthen overseas business support system

Strengthen information provision ability by the Asia Desks at five overseas bases. Number of consultations increased due to provision of local information and finely-tuned services.

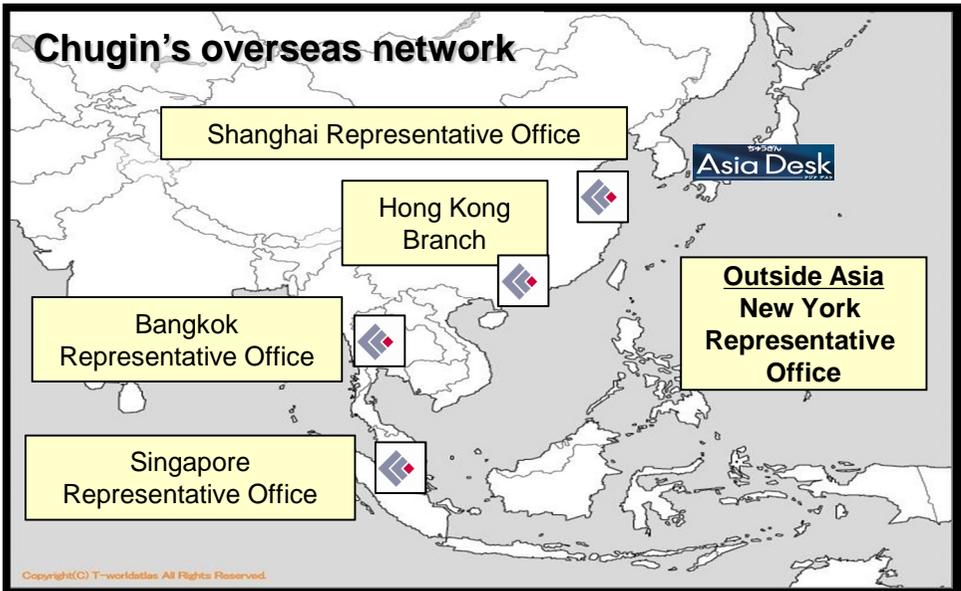
No. of consultations by country*1



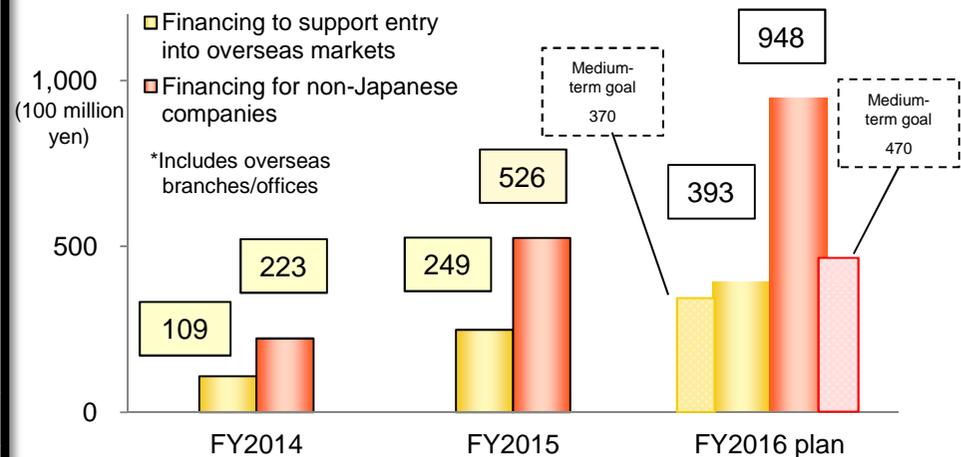
*1 Countries names are of countries that are the target of consultation (includes consultation on expansion)

Measures of the overseas business support system

- Strengthen the Asia Desk system and involvement in sales offices
- Strengthen functions to collect further information from overseas bases
- Effective use of external specialists such as business partnerships
- Strengthen the uncovering of projects by overseas bases and relationships with sales offices



Total international financing



Initiatives to strengthen lending –Personal loans–

- Increase personal loans, mainly housing and apartment loans.
- Annual growth rate of unsecured loans trending steadily due to various promotion measures.

Measures for personal loans

Housing & apartment loans

Measures for housing & apartment loans

- Strengthen relationships with partners
- Establish speedy sales system by transferring approval authority

Measures for profitability improvement

- Establish “insurance plaza” in the housing loan center and conduct sales activities by offering loans that suit the individual’s life plans

Unsecured loans

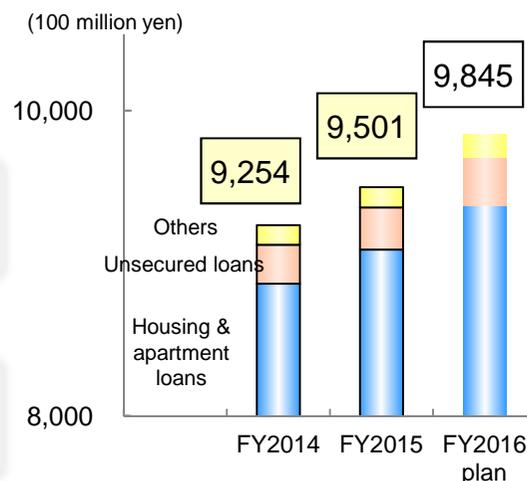
Measures for card loans

- Conclusion of contracts by postal mail
- Expand eligibility for ATM card loans and implement outbound calls
- Proactively increase of credit line for existing customers
- Cash-back campaign

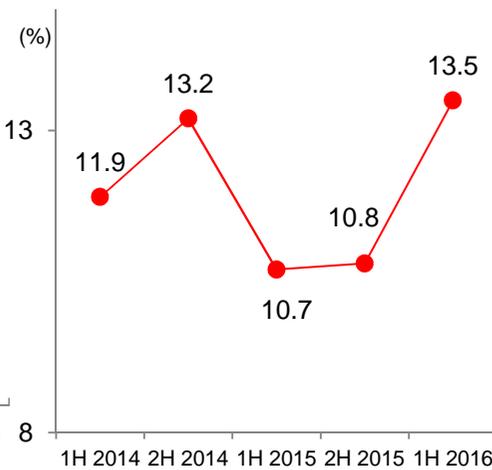
Measures for unsecured loans

- Implement long-term campaigns for loans by purpose
- Increase online ads
- Establish new “Bundled Multi-Purpose Loans”

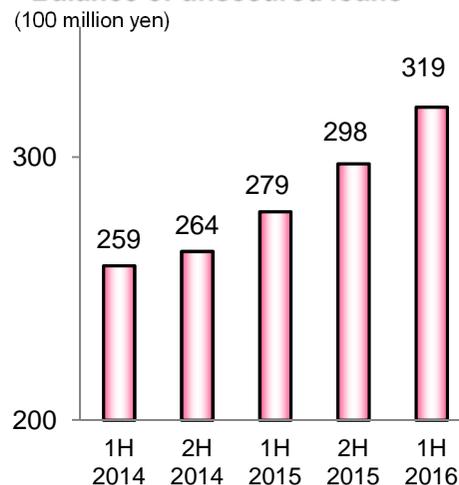
Average balance of personal loans



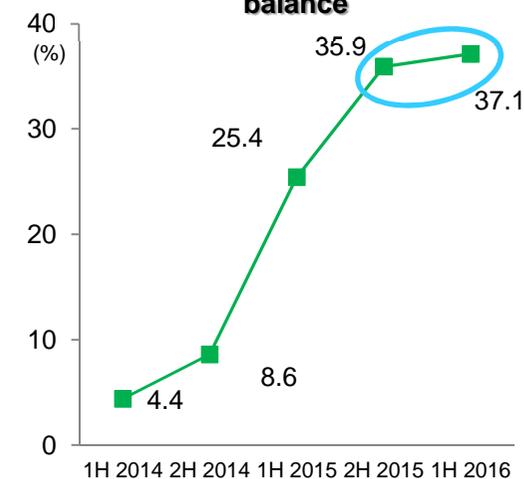
Annual growth of apartment loans



Balance of unsecured loans



Annual growth of unsecured loan balance



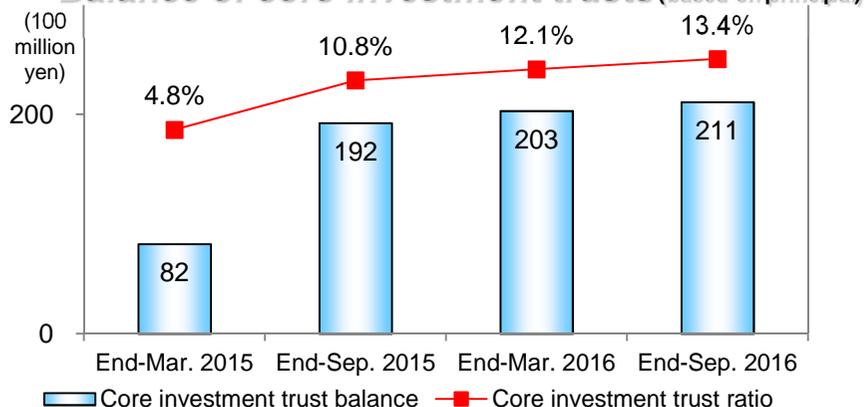
Initiatives to strengthen fee and commission income –Assets in custody income, investment banking income–

- Strengthen profitability of stock-based earnings of assets in custody by continuing the core satellite strategy.
- Enhance the fee business by offering various loans to companies subject to business assessment and comprehensive loans through the collaboration of corporate and private client sales.

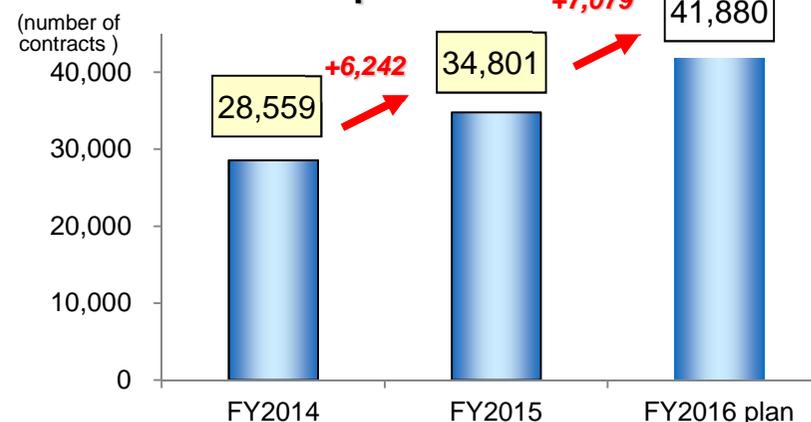
Initiatives for assets in custody business

- Continue to build up core assets under unstable market environment and enhance long-term earning power.

Balance of core investment trusts (based on principal)



Cumulative net premiums



Initiatives in investment banking business

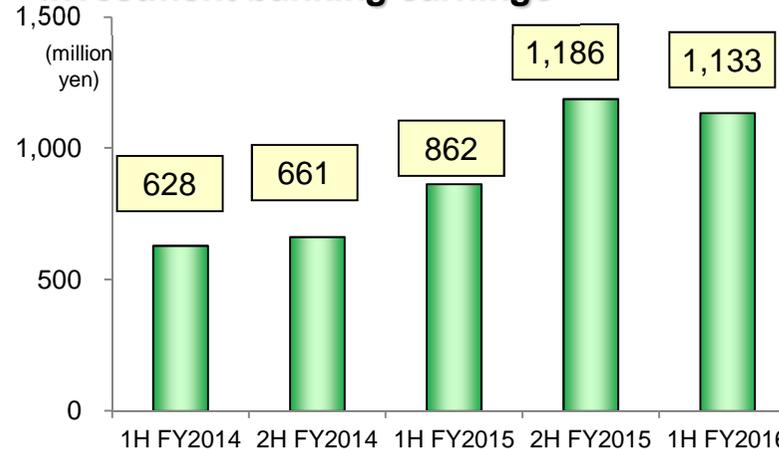
Measures for the investment banking business

- Strengthen the offering of various loans to companies subject to business assessment
- Start testamentary trust and inheritance sorting business
- Strengthen the promotion of inheritance and business continuation business through collaboration among sections of corporate and the private clients' businesses.

Measures for the structured finance center

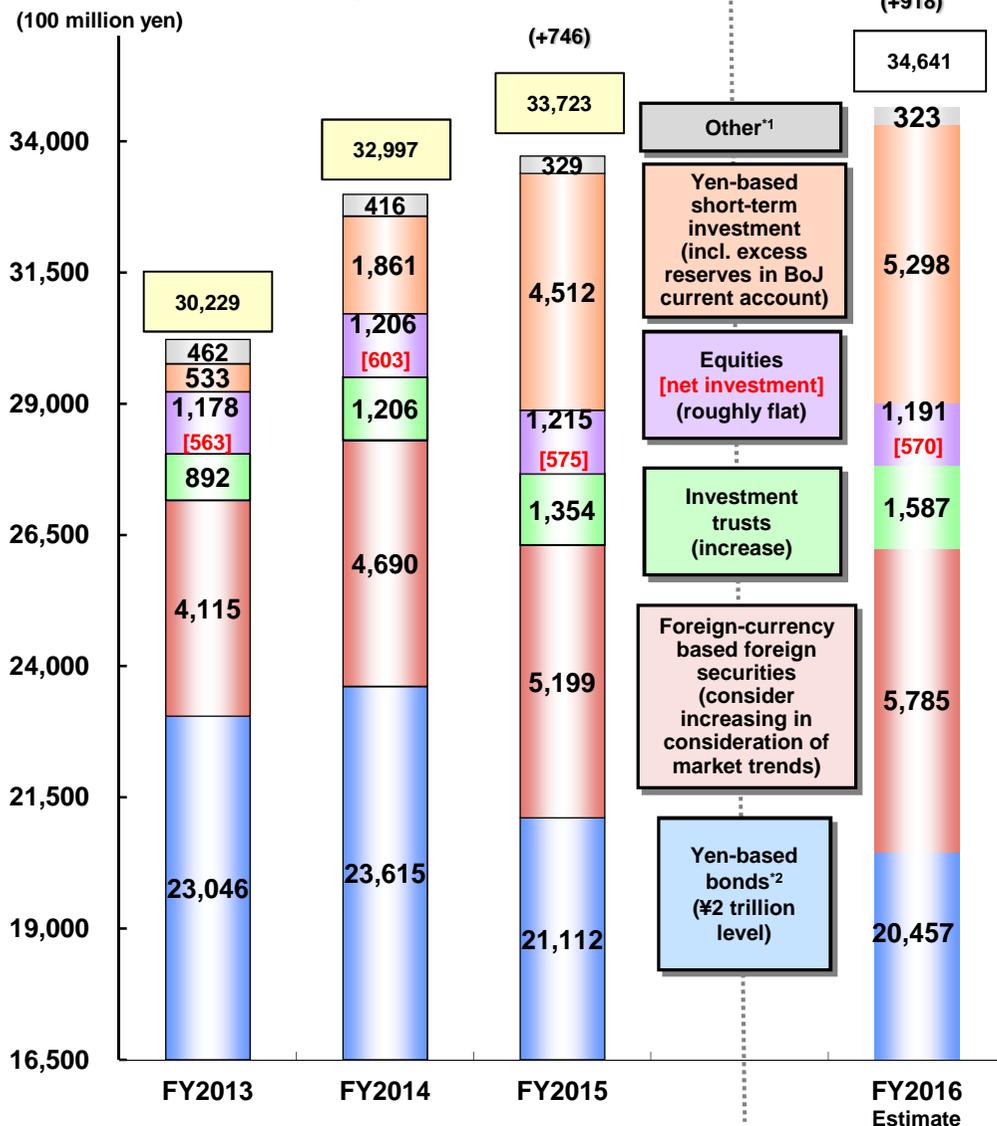
- Strengthen initiatives for various loans including project finance

Investment banking earnings



Securities management strategies –Asset allocation trends–

Premise: plans for average balance of market operations



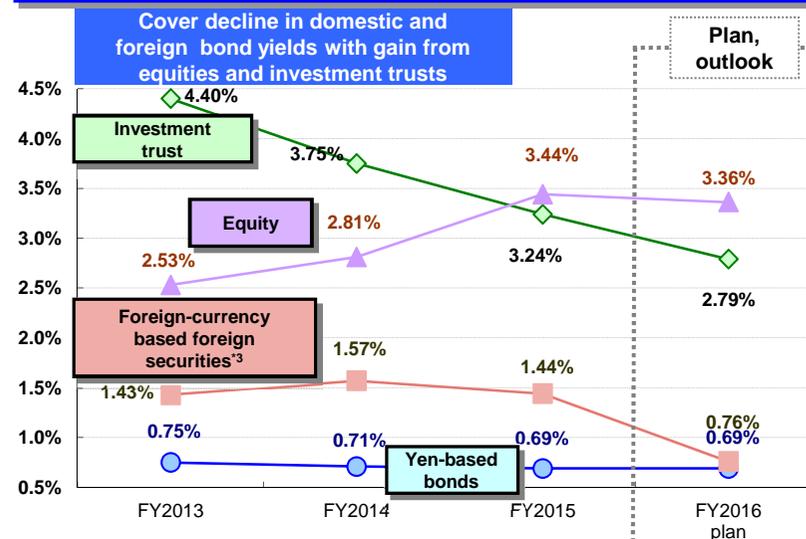
Basic management policy to improve department earnings

- Implement flexible asset allocation by improving forecasting capabilities.
- Expand asset management categories by enhancing analysis of investment products.

Management policy for 2H FY2016

- ◇ In yen-based bonds, maintain a ¥2 trillion balance in consideration of interest rate risks. In foreign bonds, consider building up balance in consideration of market trends, in addition to diversifying procurement methods. However, manage interest rate risks for yen-based and foreign-currency-based together, and implement flexible bond switching to avoid excessive build-up of interest rate risks.
- ◇ Control balances based on market trends for each asset type to fully optimize the balance between earnings and capital gains.

Yields by type of investment asset

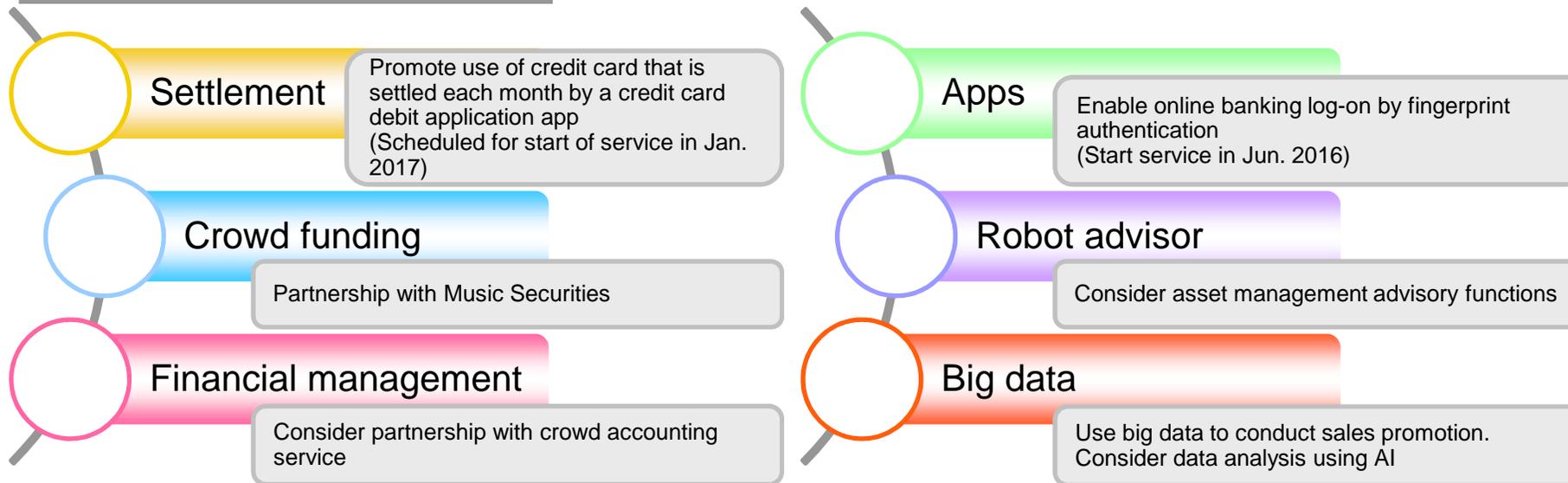


*1: Other: Money held in trust, derivative time deposits, long-term beneficiary rights, investment partnerships, etc.

*2: Includes yen-denominated foreign bonds.

*3: Management-procurement spread for foreign currency-based foreign securities

Initiatives at Chugin



Initiatives at the T&I Innovation Center



July 1, 2016 Established joint venture company **T&I Innovation Center Co., Ltd.**

Currently conducting examinations between the six participating banks toward the provision of more convenient products and services.

[Priority examination themes]

Short-term measures:	Medium-term measures:
1. Host FinTech contest	1. Establish TSUBASA API
2. AI utilization service	2. Establish big data platform
3. New settlement service	3. Provide loan service through data analysis
4. Banking app	4. Analysis data provision service

Long-term vision (overview and direction of strategies)

In the 10-year strategic project, clarify long-term vision and formulate strategies to achieve this vision

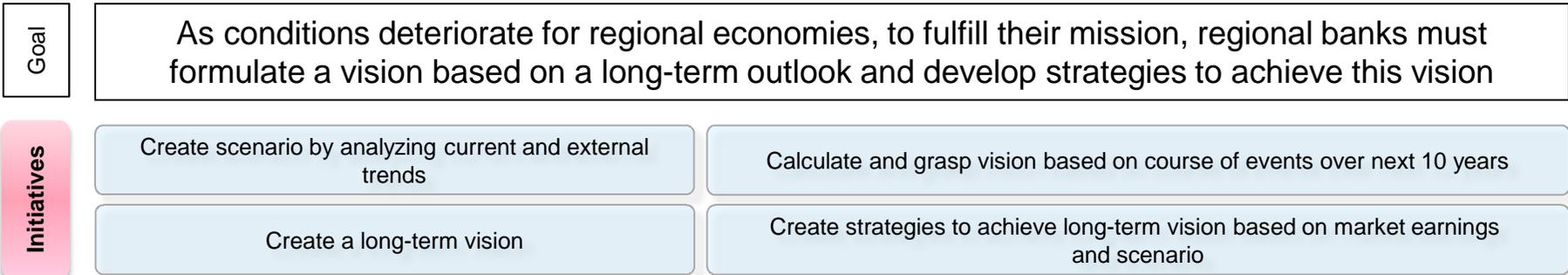
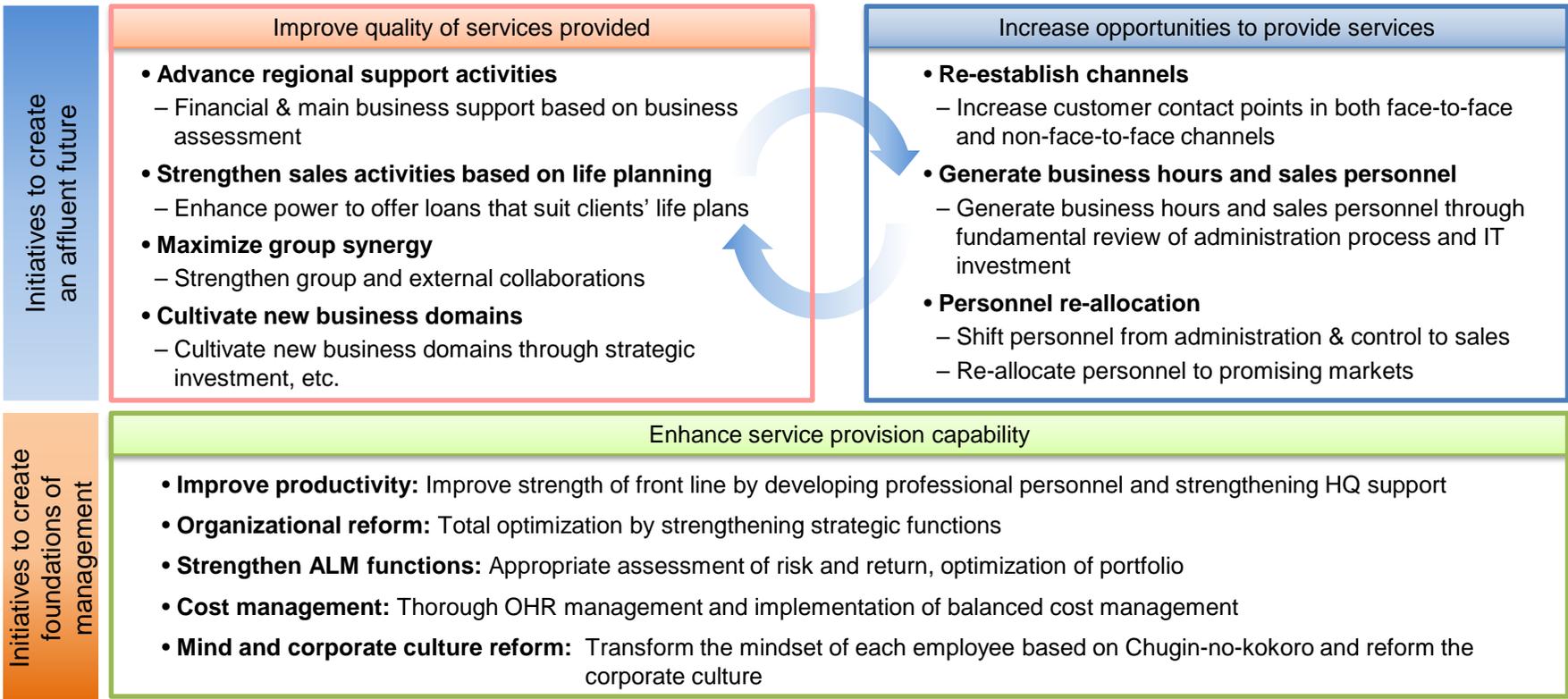


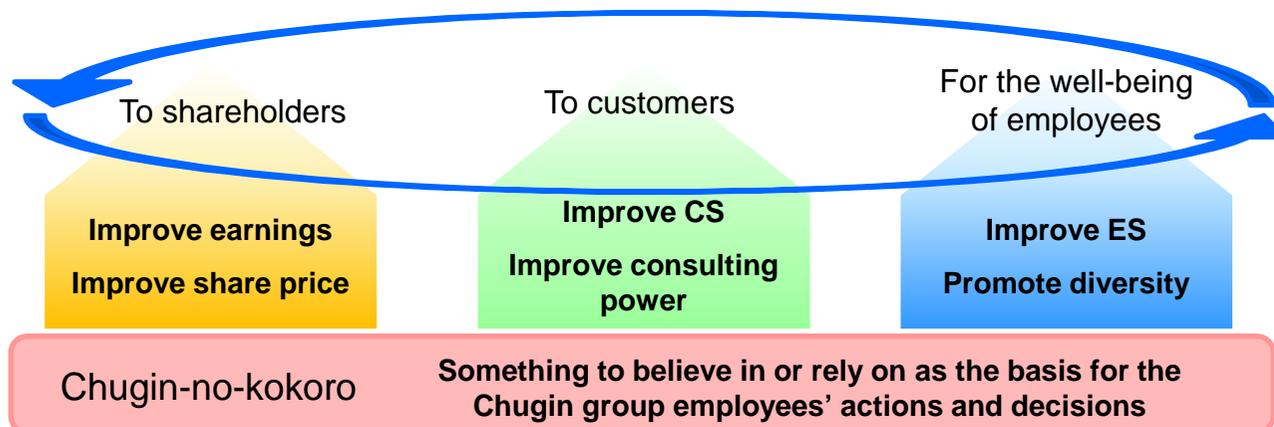
Image of overall strategy



Initiatives for organization revitalization

■ Improve organizational strength through team work and become a bank that is relied on and supported through corporate culture reforms and work style reforms.

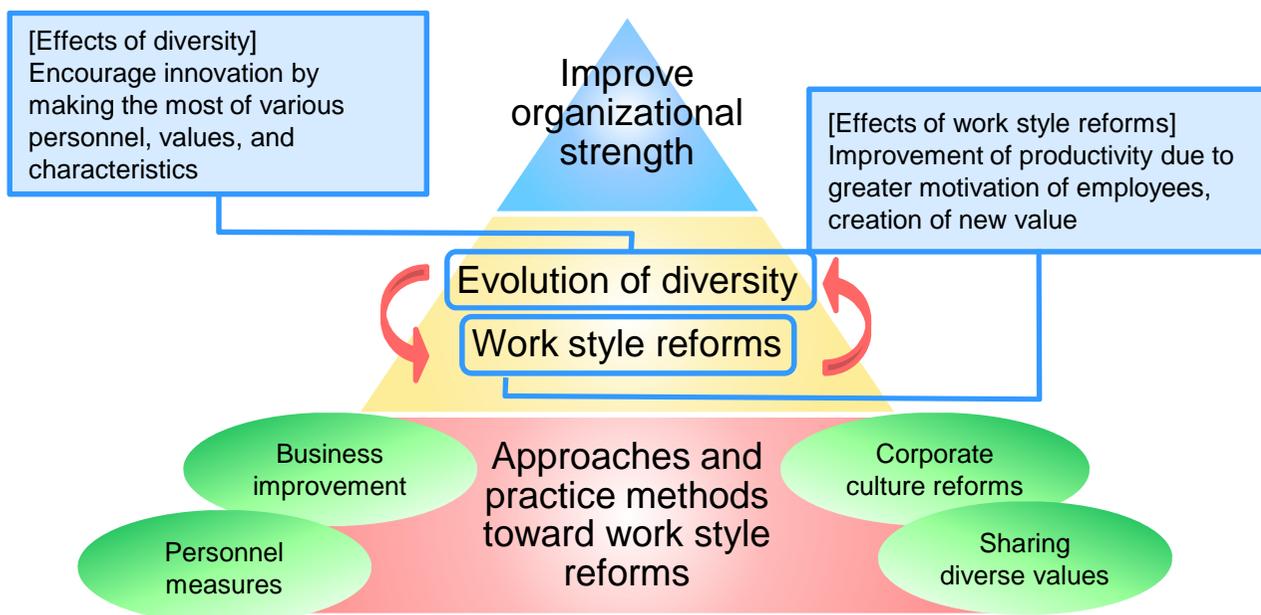
Initiatives in corporate culture reforms



Initiatives

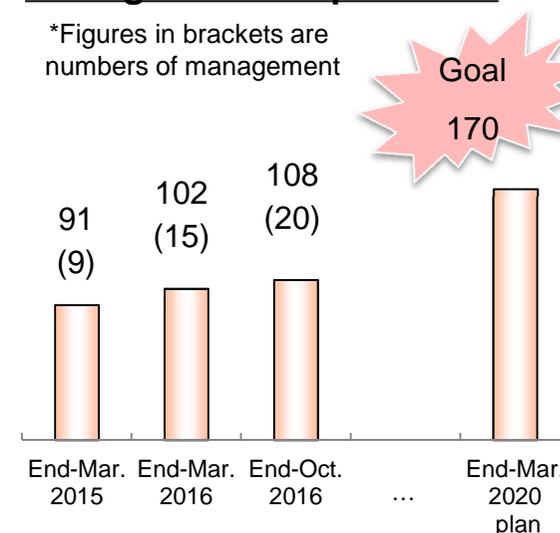
- Reforming the mindset of each individual
 - Formulation and penetration of Chugin-no-kokoro
- Improving communication
 - Meetings between senior management and employees
- Developing management
 - Foster a culture that encourages the taking on of challenges

Initiatives in work style reforms



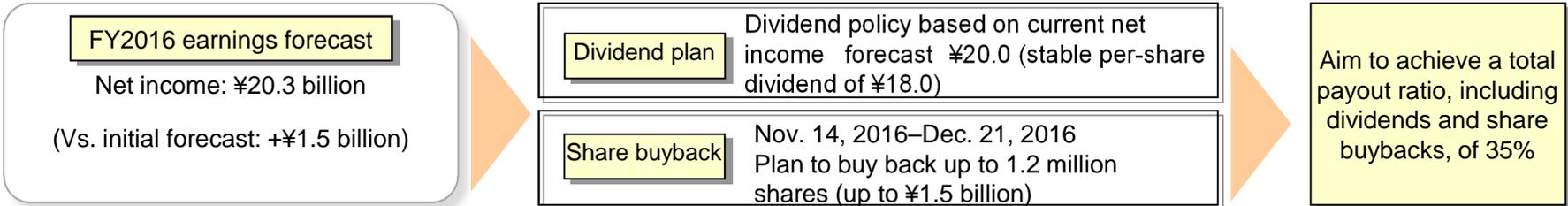
Trend of number female managers and supervisors

*Figures in brackets are numbers of management



■ Annual per-share dividend of ¥20 and total payout ratio of 35%.

Dividend plan for FY2016



Shareholder hospitality Offer regional products as perks via the five TSUBASA banks

Shareholder returns

	Net income [1]	Total dividends [2]		Payout ratio [2] ÷ [1]	Share buybacks [3]	Unreturned portion [4]	Total payout ratio ([2] + [3] + [4]) ÷ [1]
			Per-share dividend (interim)				
End-Mar 2017 Est	20.3	3.86	¥20.00 (¥10.00)	19.0%	Announced amount ¥1.5 billion	¥1.7 billion	about 35%
End-Mar 2016	25.9	3.92	¥20.00 (¥10.00)	15.1%	5.2	0	35.2%
End-Mar 2015	20.9	3.56	¥18.00 (¥8.00)	17.0%	3.3	0	32.8%
End-Mar 2014	27.0	3.23	¥16.00 (¥7.50)	12.0%	4.9	0	30.3%
End-Mar 2013	16.9	2.84	¥14.00 (¥6.75)	16.8%	2.3	0	30.3%

*Share buyback as a factor in calculating payout ratio: Calculated based on buybacks during one year from time of shareholders meeting.



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