Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

Ordinary income decreased by ¥2,632 million year on year, or 2.3%, to ¥110,829 million, due primarily to a decrease in interest and dividends on securities as a result of reduction of securities investment balance in light of the interest rate trend, and a decrease in gain on sales of securities.

Ordinary profit decreased by ¥6,444 million year on year, or 29.3%, to ¥15,475 million, in addition to the decrease in ordinary income, due to an increase in credit costs and losses on securities with the slump in the stock market caused by the spread of the novel coronavirus disease (COVID-19).

Leasing business

Ordinary income increased by ¥726 million year on year, or 6.4%, to ¥12,038 million due to such factors as an increase in leases, while ordinary profit decreased by ¥109 million year on year, or 12.4%, to ¥764 million due to an increase in credit costs.

Due to the impact of the spread of COVID-19, the Bank restricted some business activities and implemented other measures toward the end of the fiscal year ended March 31, 2020, but there was no significant impact during the fiscal year.

Securities business

Ordinary income increased by ¥22 million year on year, or 0.8%, to ¥2,753 million, and ordinary profit, however, decreased by ¥9 million year on year, resulting in an ordinary loss of ¥109 million.

Due to the impact of the spread of COVID-19, the Bank restricted some business activities and implemented other measures toward the end of the fiscal year ended March 31, 2020, but there was no significant impact during the fiscal year.

Other

Ordinary income increased by ¥107 million year on year, or 1.9%, to ¥5,532 million, and ordinary profit increased by ¥24 million year on year, or 1.3%, to ¥1,839 million.

Credit card companies were affected by the slump in economic activities due to the spread of COVID-19, and the amount of credit card purchases, etc. decreased toward the end of the fiscal year ended March 31, 2020, but there was no significant impact.

Earnings

Regarding the results for the fiscal year ended March 31, 2020, consolidated ordinary income decreased by ¥1,303 million year on year, or 1.0%, to ¥127,318 million due primarily to a decrease in interest and dividends on securities and a decrease in gains on sales of securities. Consolidated ordinary expenses increased by ¥4,929 million year or year, or 4.6%, to ¥109,854 million due to a significant impact from losses on securities and an increase in credit costs, despite a decrease in general and administrative expenses.

Consolidated ordinary profit decreased by ¥6,233 million year on year, or 26.3%, to ¥17,463 million, due to a decrease in the consolidated ordinary income and an increase in the consolidated ordinary expenses, as mentioned above.

Net income attributable to owners of parent decreased by ¥4,283 million year on year, or 26.4%, to ¥11,916 million.

Cash Flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2020 decreased by ¥184,710 million year on year to ¥564,672 million due primarily to cash flows from operating activities being negative due to a decrease in payables under securities lending transactions caused by controls over securities investment balances.

Cash flows from operating activities

Net cash used in operating activities for the fiscal year ended March 31, 2020 increased by ¥71,440 million year on year to ¥169,359 million due to such factors as an increase in cash flows from payables under securities lending transactions. This was due to a smaller decrease in payables under securities lending transactions in the fiscal year ended March 31, 2020 compared to the significant decrease in the fiscal year ended March 31, 2019 accompanying the reduction in the short-term investment balance.

Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2020 decreased by ¥246,110 million year on year to ¥10,370 million due to a decrease in cash flows from sales of securities. This was due primarily to sales in order to substantially reduce the investment balance of government bonds from the perspective of risk management due to the rise in foreign interest rates in the fiscal year ended March 31, 2019.

Cash flows from financing activities

Net cash used in financing activities decreased by ¥1,045 million year on year to ¥4,969 million, due to a decrease in purchases of treasury stock.

This is due to a decrease in the amount of share buybacks year on year based on our policy of distributing returns to shareholders.

Forecast for Next Term

For the fiscal year ending March 31, 2021, the Chugoku Bank Group forecasts consolidated ordinary income of ¥113,400 million, consolidated ordinary profit of ¥16,700 million and net income attributable to owners of parent of ¥11,100 million.

The above forecasts reflect a certain amount of the impact that the downturn in economic activities caused by the spread of COVID-19 is expected to have on market conditions and the financial conditions of our customers.

However, although the effects that the Bank has deemed difficult to reasonably estimate at this time have not been included, the Bank will promptly announce them once their impact on the forecasts becomes clear.

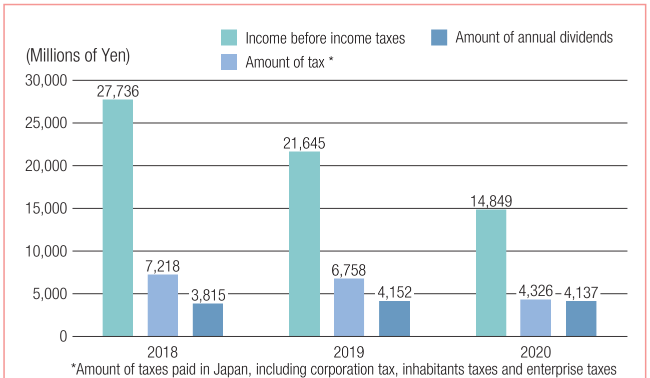
Dividend Policy

In light of the public nature and soundness of our banking business, the Bank makes it a basic policy to secure sufficient retained earnings while maintaining shareholder returns in order to maintain a firm financial standing capable of withstanding any challenging environment.

Specifically, we aim to achieve a total payout ratio of 35%, which includes dividends and share buybacks. For the fiscal year ended March 31, 2020, the Bank will pay an annual per-share dividend of ¥22 (interim dividend of ¥11) based on the shareholder return ratio of 35% in our return policy. With respect to the expected dividends for the fiscal year ending March 31, 2021, the Bank plans to pay an annual per-share dividend of ¥22 (interim dividend of ¥11) with the goal of a shareholder return ratio of 35% of the total of dividends plus own shares acquired. From the fiscal year ending March 31, 2021, profits, which are the basis for the calculation of the shareholder return ratio, changed from “standalone profits” to “net income attributable to owners of parent” in the consolidated financial results.

Under the Bank’s basic policy on the number of dividend payout for each fiscal year, the Bank distributes a dividend twice a year (an interim dividend and a year-end dividend). The decision-making bodies for these dividends are the Board of Directors for the interim dividend and a general meeting of shareholders for the year-end dividend. The Bank has also included a provision in its Articles of Incorporation, which stipulates that it may distribute an interim dividend as permitted in Article 454, paragraph (5) of the Companies Act.

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



*Amount of taxes paid in Japan, including corporation tax, inhabitants taxes and enterprise taxes

Capital Adequacy Ratios

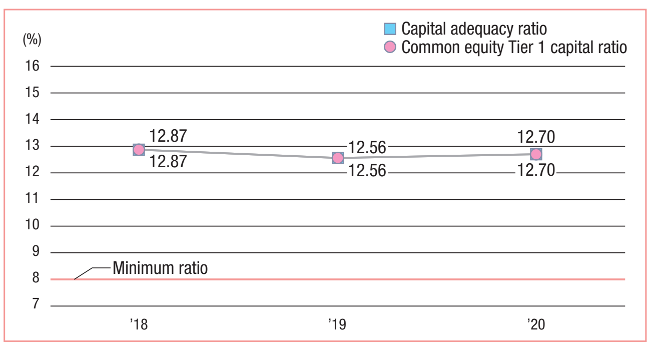
The Bank's capital adequacy ratio was 12.70% as of the end of March 2020.

The Bank calculates its capital adequacy ratio on the basis of the international BIS standards*.

*The international BIS standards call for at least 8% of capital adequacy ratio, at least 6% of Tier 1 capital ratio, and at least 4.5% of common equity Tier 1 capital ratio.

$$\text{Capital adequacy ratio (\%)} = \frac{\left(\begin{array}{c}\text{(1) Common equity Tier 1 capital} \\ + \\ \text{(2) Additional Tier 1 capital} \\ + \\ \text{(3) Tier 2 capital}\end{array}\right)}{\text{(4) Risk-weighted assets}} \times 100$$

(1) The amount of common equity Tier 1 capital represents the capital with the highest quality, comprising common stock, retained earnings and others.
(2) The amount of additional Tier 1 capital comprises preference shares, equity instruments with high loss-absorbing capacity and others.
(3) The amount of Tier 2 capital comprises subordinated bond, subordinated loans (limited to those which are assured to absorb loss, subordinated to savers and unsecured creditors) and others.
(4) The amount of risk-weighted assets is derived by integrating the values of various categories of asset commensurate with the degree of their risk.



Risk-managed Loans (Non-consolidated)

The balance of risk-managed loans increased by ¥3,929 million year on year, to ¥72,731 million as of the end of March 2020, despite efforts to upgrade borrowers' status through business rehabilitation activities and reduction efforts including direct write-offs and elimination from balance sheet by debt disposal.

In addition, the ratio of risk-managed loans (against the total loan balance) increased by 0.05 percentage point year on year, to 1.48% as of the end of March 2020.

Status of impaired loans (Millions of Yen)

	End of March 2020	End of March 2019
Loans to bankrupt customers	¥ 5,340	¥ 3,578
Loans past due six months or more	44,426	45,158
Loans past due three months or more	757	876
Restructured loans	22,206	19,189
Total	¥ 72,731	¥ 68,802
The ratio of risk-managed loans (against the total loan balance) (%)	1.48	1.43

● Loans to Bankrupt Customers

Of the loans whose accrued interest is not recognized as revenue, loans to customers who have been bound by legal procedures under the Corporate Reorganization Act, Bankruptcy Act, or the rehabilitation procedures, as well as loans to customers whose transactions have been suspended by the Clearinghouse.

● Loans past due six months or more

Loans whose accrued interest is not recognized as revenue, excluding loans to bankrupt customers as well as those for which payment of the interest has been postponed to ensure the borrowers' business rehabilitation or to assist their management to carry on.

● Loans Past Due Three Months or More

Loans for which repayment of the principal or the interest has been overdue three months or more from the day following the due date, but not classified as either loans to bankrupt customers or loans in default defined above.

● Restructured Loans

Loans for which arrangements have been reached in the borrowers' favor to ensure their business rehabilitation or to assist their management to carry on, including reductions in or exemption of the interest rate, postponed payment of the interest, a grace period for repayment of the principal, and debt forgiveness, but not classified as either loans to bankrupt customers, loans in default or loans past due three months or more defined above.

Ratings

Ratings is a ranking in terms of its certainty in performing obligations (creditworthiness) to indicate whether it is reliable enough to repay the principal and interest of savings deposited by its customers, as well as its financial soundness, based on the examination of its financial position along with its external business environment by a rating agency operating as a fair third party. The Chugoku Bank has obtained ratings from Moody's as well as Rating and Investment, Inc. (R&I), and is ranked as one of the best among the Japanese banks.

Rating symbols and gradations

	Moody's			R&I
	* Long-term deposit rating	* Short-term deposit rating	* Baseline Credit Assessment (BCA)	* Long-term credit rating
Investment grade	Aaa		aaa	AAA
	Aa1		aa1	AA+
	Aa2		aa2	AA
	Aa3	P-1 (PRIME-1)	aa3	AA-
	A1		a1	A+
	A2		a2	A
	A3		a3	A-
	Baa1		baa1	BBB+
	Baa2		baa2	BBB
	Baa3		baa3	BBB-
Speculative grade	Ba1		ba1	BB+
	Ba2		ba2	BB
	Ba3		ba3	BB-
	B1		b1	B+
	B2		b2	B
	B3		b3	B-
	Caa1		caa1	CCC+
	Caa2		caa2	CCC
	Caa3		caa3	CCC-
	Ca			CC
	C			D