Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

Ordinary income decreased by ¥11,064 million year on year, or 9.9%, to ¥99,765 million, due primarily to decreases in interest on loans and discounts and interest and dividends on securities as a result of the interest rate cut in the U.S.

Ordinary profit increased by ¥3,570 million year on year, or 23.0%, to ¥19,045 million, due to such factors as a significant decrease in foreign currency procurement costs and a reduction of general and administrative expenses, despite an increase in credit costs.

Leasing business

Ordinary income increased by ¥415 million year on year, or 3.4%, to ¥12,453 million due to such factors as an increase in leases, while ordinary profit decreased by ¥227 million year on year, or 29.7%, to ¥537 million due to an increase in credit costs.

Securities business

Ordinary income increased by ¥358 million year on year, or 13.0%, to ¥3,111 million due to the recovery of the sales situation of stocks and investment trusts etc., as a result of market conditions turning around. Ordinary profit/loss improved by ¥345 million year on year, resulting in an ordinary profit of ¥236 million.

Other

Ordinary income decreased by ¥172 million year on year, or 3.1%, to ¥5,360 million, and ordinary profit increased by ¥90 million year on year, or 4.8%, to ¥1,929 million.

Earnings

Regarding the results for the fiscal year ended March 31, 2021, consolidated ordinary income decreased by ¥10,342 million year on year, or 8.1%, to ¥116,976 million due primarily to decreases in interest and dividends on securities and interest on loans and discounts. Consolidated ordinary expenses decreased by ¥14,130 million year or year, or 12.8%, to ¥95,724 million due to a significant impact from a decrease in fund procurement costs and a reduction of general and administrative expenses, despite an increase in credit costs.

Consolidated ordinary profit increased by ¥3,789 million year on year, or 21.6%, to ¥21,252 million, as the decrease in consolidated ordinary expenses surpassed the decrease in consolidated ordinary income.

Net income attributable to owners of parent increased by ¥2,502 million year on year, or 20.9%, to ¥14,418 million.

Cash Flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2021 increased by ¥434,141 million year on year to ¥998,813 million due primarily to a significant increase in cash flows from operating activities due to factors such as increases in deposits because of measures against COVID-19.

Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2021 increased significantly by ¥825,839 million year on year to ¥656,480 million due primarily to increases in deposits due to capital inflows because of measures against COVID-19, and increases in borrowings due to special funds-supplying operations to facilitate financing in response to COVID-19 by the Bank of Japan, despite being partially offset by decreasing factors such as an increase in the total loan balance due to focusing on financial supports to respond to the spread of COVID-19.

Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2021 increased by ¥217,622 million year on year to ¥227,992 million due to a decrease in sales of securities due to the recovery of market conditions that had deteriorated through the end of the previous fiscal year due to the spread of COVID-19.

Cash flows from financing activities

Net cash provided by financing activities increased by ¥10,611 million year on year to ¥5,642 million, due primarily to financing by the issuance of social bonds (subordinated debt) whose purpose is financing for meausres against COVID-19.

Forecast for Next Term

For the fiscal year ending March 31, 2022, the Chugoku Bank Group forecasts consolidated ordinary income of ¥111,500 million, consolidated ordinary profit of ¥21,500 million and net income attributable to owners of parent of ¥14,700 million.

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.

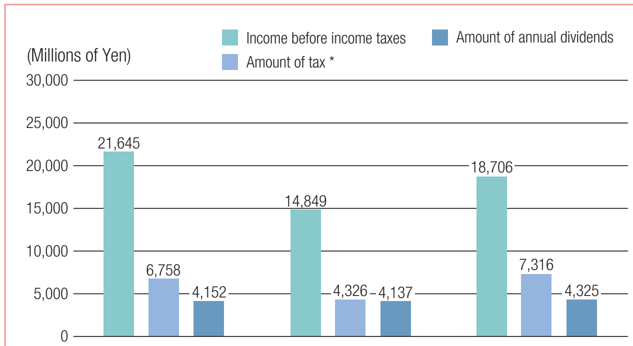
Dividend Policy

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 business 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, 2021, the Bank will pay a year-end per-share dividend of ¥12 (annual per-share dividend of ¥23), consisting of an initially scheduled year-end per-share dividend of ¥11 (annual per-share dividend of ¥22) and a 90th founding anniversary commemorative dividend of ¥1, 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, 2022, the Bank plans to pay an annual per-share dividend of ¥23 (interim dividend of ¥11.50), changing the total payout ratio to "35% or more of net income attributable to owners of parent" through dividends and share buybacks.

Under the Bank's basic policy on the number of dividend payout for a 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 12.71% as of the end of March 2021.

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.

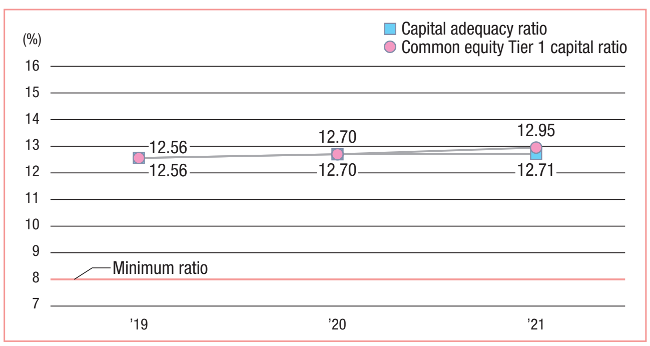
$$\text{Capital adequacy ratio (\%)} = \frac{\left(\begin{array}{c}\text{(1) Common equity Tier 1 capital} \\ + \\ \text{(2) Additional Tier 1 capital} \\ + \\ \text{(3) Tier 2 capital}\end{array}\right)}{\text{(4) Risk-weighted assets}} \times 100$$

(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 ¥18,493 million year on year, to ¥91,224 million as of the end of March 2021, as a result of the stagnation of economic activities due to the spread of COVID-19 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 0.29 percentage point year on year, to 1.77% as of the end of March 2021.

Status of impaired loans (Millions of Yen)

	End of March 2021	End of March 2020
Loans to bankrupt customers	¥ **4,447**	¥ 5,340
Loans past due six months or more	**55,600**	44,426
Loans past due three months or more	**833**	757
Restructured loans	**30,343**	22,206
Total	¥ **91,224**	¥ 72,731
The ratio of risk-managed loans (against the total loan balance) (%)	**1.77**	1.48

● 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
Investment grade	Aa1		aa1	AA+
Investment grade	Aa2		aa2	AA
Investment grade	Aa3	P-1 (PRIME-1)	aa3	AA-
Investment grade	A1		a1	**A+**
Investment grade	**A2**		a2	A
Investment grade	A3		a3	A-
Investment grade	Baa1		**baa1**	BBB+
Investment grade	Baa2		baa2	BBB
Investment grade	Baa3		baa3	BBB-
Speculative grade	Ba1		ba1	BB+
Speculative grade	Ba2		ba2	BB
Speculative grade	Ba3		ba3	BB-
Speculative grade	B1		b1	B+
Speculative grade	B2		b2	B
Speculative grade	B3		b3	B-
Speculative grade	Caa1		caa1	CCC+
Speculative grade	Caa2		caa2	CCC
Speculative grade	Caa3		caa3	CCC-
Speculative grade	Ca			CC
Speculative grade	C			D