We implement financial management based on soundness, profitability, and shareholder returns as part of efforts to enable regional development and improve corporate value.

Senior Managing Director, Ikuhide Harada

1 Performance

Fiscal Year 2021

The current medium-term management plan, which began in April 2020, has had to contend with the difficulties presented by the spread of COVID-19. However, if we look at the Bank's performance in FY 2021, which was very much impacted by such environmental factors, consolidated ordinary profit increased by ¥4.6 billion year on year to ¥25.8 billion, while net income attributable to owners of parent increased by ¥3.9 billion year on year to ¥18.3 billion. In both cases, we were able to deliver a significant increase year on year that greatly exceeded the publicly announced figures. The fact that we were able to achieve two consecutive periods of growth is a major achievement in my opinion.

The penetration of consulting sales has meant that there has been a steady increase in items such as investment banking and income from assets under custody, exceeding the levels seen prior to the COVID-19 pandemic.

In the investment banking business, we are seeing steady increases in M&A, consulting services, and business matching.

For income from assets under custody, in addition to growth in investment trusts and financial products intermediary services driven by improved collaboration between the various banking, securities, and asset management Group companies, inheritance-related businesses, an area which we have been focusing on for a while now, has also seen increases in terms of the number of consultations and income, and is an area we hope to see more form in future.

However, the rate of growth from interest on loans, the Chugoku Bank Group's most important pillar when it comes to income, is slowing down primarily down to a halting of COVID-19 related financial support. We recognize that this is a major issue for the Group.

(Unit: Billions of Yen)

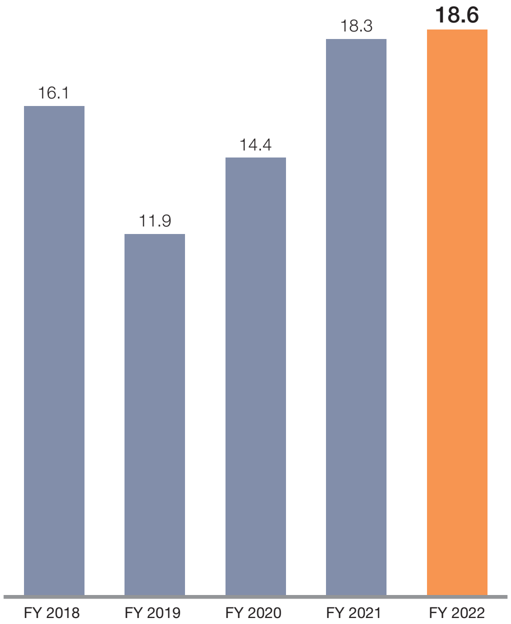
		Results in FY 2021	FY 2022	
			Forecast	Increase (Decrease)
Consolidated	Consolidated ordinary profit	25.8	27.1	1.3
	Consolidated net income	18.3	18.6	0.3
Non-consolidated	Core business gross profit	80.2	79.5	(0.7)
	Net interest income	61.6	61.8	0.2
	Net fee income	17.1	16.7	(0.4)
	Net other operating profits	1.5	0.9	(0.6)
	Expenses (decrease)	51.9	51.1	(0.8)
	Core business net profit	28.3	28.4	0.1
	Credit costs (decrease)	7.6	6.7	(0.9)
	of which, general loans	5.0	2.3	(2.7)
	of which, individual loans	2.3	4.4	2.1
	Losses (gains) on sales of securities	3.0	3.0	0
	Other	(0.2)	0.2	0.4
	Ordinary profit	23.4	24.9	1.5
	Net income	16.9	17.3	0.4

Forecasts for FY 2022

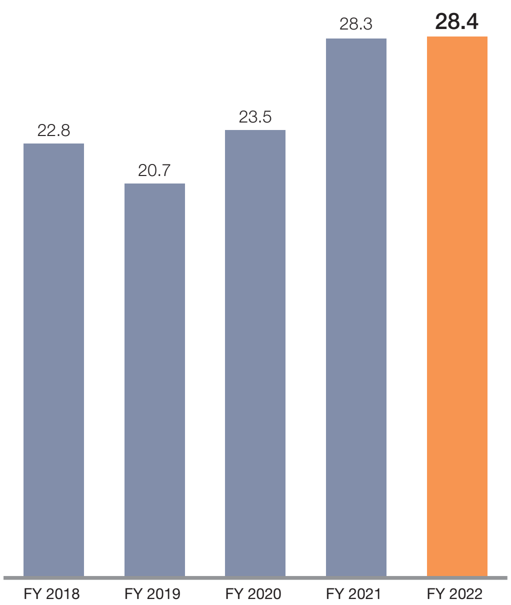
As for financial performance forecasts for FY 2022, we are expecting consolidated ordinary profit to increase by ¥1.3 billion year on year to ¥27.1 billion and net income attributable to owners of parent to increase by ¥0.3 billion year on year to ¥18.6 billion.

In addition to still being in the process of recovering from the COVID-19 pandemic, there are now new concerns stemming from other external factors including the heightened geopolitical risk triggered by the situation in Ukraine, fluctuations in financial markets, and soaring prices in raw materials and resources. However, with this year being the final year of our medium-term management plan, we are keen to generate financial results that clearly demonstrate the effects of our various efforts and initiatives thus far, and are thus aiming for a third consecutive period of growth.

Changes in consolidated net income (Billions of Yen)



Changes in core business net profit (Billions of Yen)



2 Progress of management plan

In FY 2017, the Chugoku Bank Group launched its 10-year long-term management plan, "Vision 2027: Plan for Creating the Future Together." As part of this long-term management plan, we have set out the following as KPIs for the final year of the plan (FY 2026): Net income attributable to owners of parent of ¥30.0 billion; Consolidated capital adequacy ratio to remain stable at 12%; Consolidated ROE of 5%. The current medium-term management plan is positioned as "Plan for Creating the Future Together: Stage II (FY 2020 to FY 2022)."

Under the current medium-term management plan, we have seen an increase in net interest income and net fee income in spite of the prolonged low interest environment, with the reasons for this being the effects of the BPR pushed in the previous medium-term management plan and an improvement in consulting sales operations. Further, we have also seen a steady improvement in our income levels due to reductions in expenses brought about by cost management practices and other factors.

The Chugoku Bank Group intends to transition to a holding company structure in October of this year. What this means is that we will be more active than ever before in tackling the increasingly complex and diverse sets of issues facing regions. Our approach is to not just proactively provide funds to tackle these regional issues, but to also aim to realize the KPIs set out in our long-term management plan by contributing to the development of regional economies through a strengthening of new businesses and by growing income in line with this regional development.

Stakeholders	KPIs	Results in FY 2021	Final year of medium-term management plan (FY 2022)	Final year of long-term management plan (FY 2026)
Shareholders, etc. (all stakeholders)	Net income attributable to owners of parent	Level exceeding the final year of medium-term management plan ¥18.3 billion	¥15.0 billion	¥30.0 billion
	Consolidated capital adequacy ratio (Basel III)	13.83%	Remain stable at 12%	Remain stable at 12%
	Consolidated ROE	3.29%	–	(Single year) 5% or higher

3 Capital policy / Shareholder returns

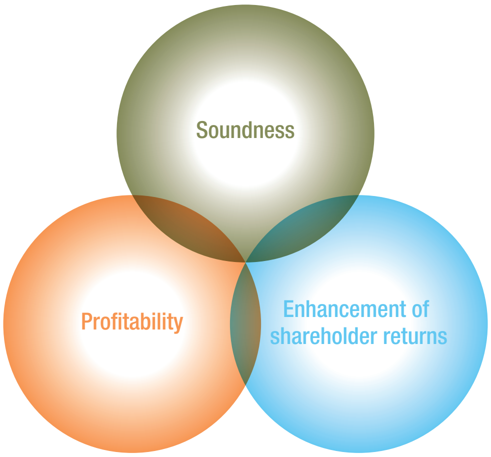
With regard to its capital policy, the Bank's approach is to find the correct balance between achieving "soundness," "profitability," and "enhancement of shareholder returns." Our aim is to deliver improvements in profitability and an increase in shareholder returns while also maintaining soundness as a regional bank that is responsible for regional financing.

We have set a KPI for soundness in our medium-term management plan of maintaining a stable consolidated capital adequacy ratio of 12%. This figure is the 10.5% limit for distribution of profit (minimum required level + regulatory capital buffer) plus an additional buffer in assumption of a certain level of stress. As we operate under such an uncertain environment, the members of the Chugoku Bank Group's Board of Directors are in constant discussion regarding the Bank's intended direction in terms of its business model and regarding the level of capital required to achieve that.

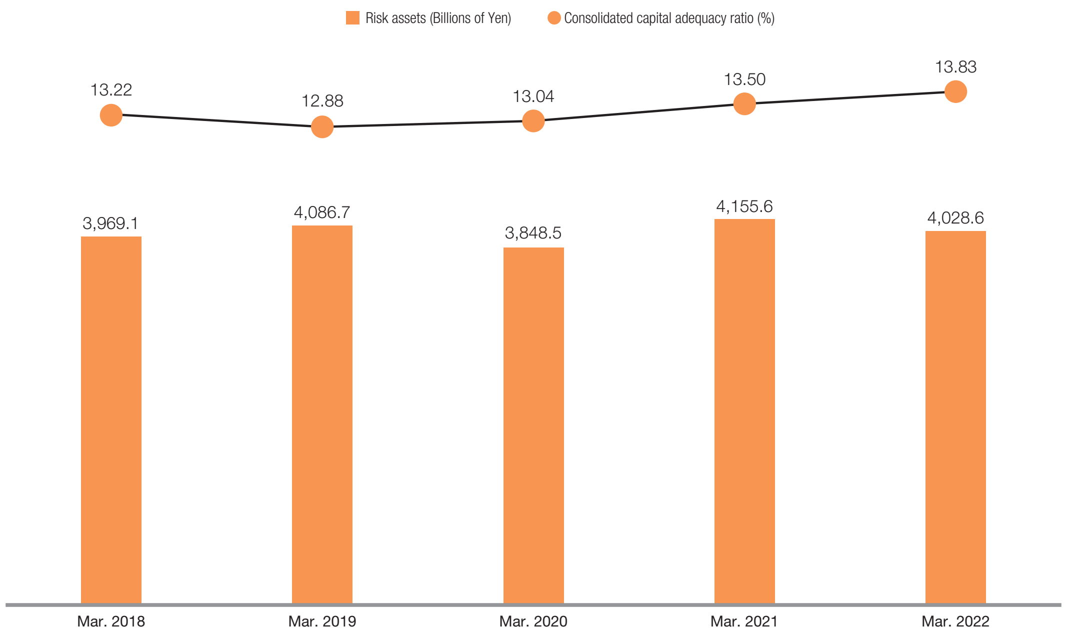
In terms of profitability, we will continue to assume risk, primarily in the form of regional business loans, but we are also aiming to make improvements by accelerating proactive growth investments in fields such as sustainability finance, new businesses, and digital sectors. Through this, we aim to achieve the KPIs set out in our long-term management plan. We are also aiming to improve capital efficiency by increasing the RORA (Return on Risk-Weighted Assets) level and by procuring low-cost regulatory capital through the issuing of subordinated bonds.

With regard to the enhancement of shareholder returns, our aim is to implement stable and continuous increases in dividends through improvements to our earning capacity and to implement flexible share buybacks, thereby achieving a figure of 35% or more for the total payout ratio. Based on this aim, we increased the dividend per share for FY 2021 by ¥5 to ¥28.

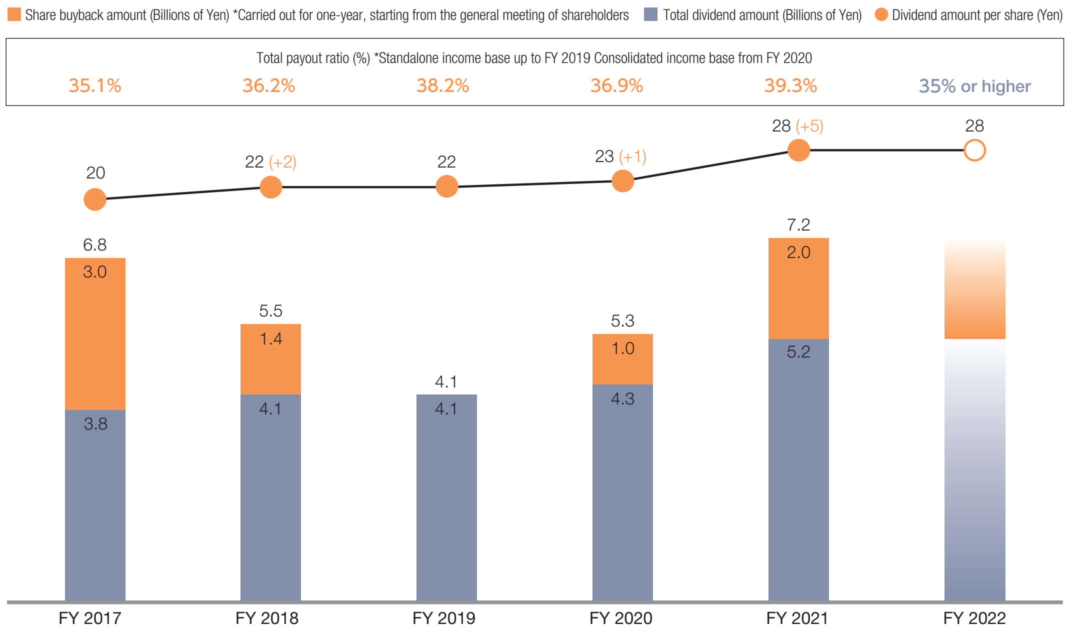
We will continue to enhance shareholder returns by making improvements to capital efficiency and increasing profitability based on the required capital level.



Consolidated capital adequacy status



Total payout amount



4 Cross shareholdings

Our basic approach is for cross shareholdings to be held only when deemed necessary for achieving sustainable growth of the holding party and the Chugoku Bank Group or for increasing corporate value. Looking at it from the perspective of capital efficiency and managing shareholding risk, we intend to promote a reduction of cross shareholdings upon dialogue with the holding parties.

In the event of cross shareholdings, we will perform regular and stringent evaluations of all stocks from the perspective of “profitability in light of capital costs,” “relationship with the regional economy,” and “management strategy viewpoints.” During the course of the current medium-term management plan (March 31, 2020 to March 31, 2022), we have reduced the book value base by approximately ¥4.9 billion. Moving forward, we believe that even more extensive reductions are required, and will thusly continue evaluations of our targets for the medium to long term.

Changes in balance of cross shareholdings over time