Review of Operations

Financial Condition

Results by business segment are as follows.

Banking business

Ordinary income increased by ¥11,247 million year on year, or 11.3%, to ¥110,337 million due to an increase in gains from sales of securities following the replacement of our portfolio of securities in response to the rise in U.S. interest rates at the end of last year. Ordinary profit increased by ¥4,363 million year on year, or 22.9%, to ¥23,408 million due to factors such as, in addition to a steady increase in fees and commissions, decreases in foreign currency procurement costs and general and administrative expenses.

Leasing business

Ordinary income increased by ¥886 million year on year, or 7.1%, to ¥13,339 million due to such factors as an increase in leases, while ordinary profit decreased by ¥289 million year on year, or 53.8%, to ¥248 million due to a rise in the lease cost rate and an increase in credit costs.

Securities business

Ordinary income increased by ¥313 million year on year, or 10.0%, to ¥3,424 million due to a steady increase in sales of stocks and investment trusts, etc., as a result of efforts to strengthen sales through revisions made to the bank-securities cooperation system. Ordinary profit increased by ¥305 million year on year to ¥541 million.

Other

Ordinary income decreased by ¥36 million year on year, or 0.6%, to ¥5,324 million, while ordinary profit increased by ¥265 million year on year, or 13.7%, to ¥2,194 million.

Earnings

Regarding the results for the fiscal year ended March 31, 2022, consolidated ordinary income increased by ¥12,264 million year on year, or 10.5%, to ¥128,565 million, due primarily to increases in gains from sales of securities, including government bonds and stocks. Consolidated ordinary expenses increased by ¥7,712 million year on year, or 8.1%, to ¥102,761 million due to increased losses from sales of securities such as foreign bonds in response to the increase in U.S. interest rates despite decreases in credit costs, fund procurement costs, and general and administrative expenses. Consolidated ordinary profit increased by ¥4,552 million year on year, or 21.4%, to ¥25,804 million due to a significant impact from an increase in fees and commissions and decreases in fund procurement costs and general and administrative expenses. Net income attributable to owners of parent increased by ¥3,956 million year on year, or 27.4%, to ¥18,374 million. Starting from the beginning of the fiscal year under review, we have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020). This standard has been retroactively applied to the figures from the previous fiscal year so as to enable an effective comparison and analysis between the current and previous fiscal years.

Cash Flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2022 increased by ¥754.5 billion year on year to ¥1,753.3 billion, due primarily to sales of securities following the replacement of our portfolio of securities in response to the rise in U.S. interest rates.

Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2022 decreased by ¥6.6 billion year on year to ¥649.8 billion in response to the rebound from the sharp increase in deposits that accompanied measures against COVID-19, such as the cash payments received in the previous fiscal year.

Cash flows from investing activities

Net cash provided in investing activities for the fiscal year ended March 31, 2022 increased by ¥339.2 billion year on year to ¥111.3 billion due to an increase in the sales of securities following the improvements made to our portfolio of securities in response to the rise in U.S. interest rates.

Cash flows from financing activities

Net cash used by financing activities for the fiscal year ended March 31, 2022 decreased by ¥12.2 billion year on year to ¥6.6 billion due to factors such as the issuance of bonds in the previous fiscal year and the acquisition of treasury stock in the current fiscal year.

Forecast for Next Term

For the fiscal year ending March 31, 2023, the Chugoku Bank Group forecasts consolidated ordinary income of ¥119,300 million, consolidated ordinary profit of ¥27,100 million and net income attributable to owners of parent of ¥18,600 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

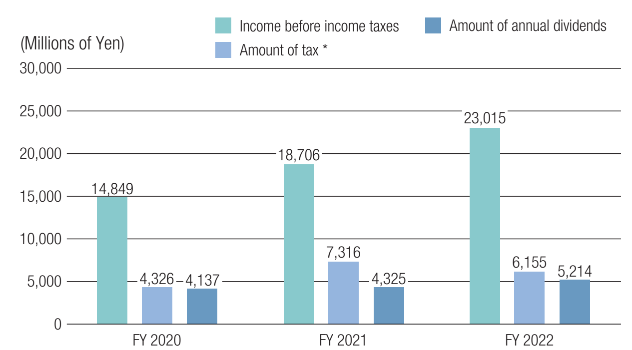
In light of the public nature and soundness of our banking business, the Bank makes it a basic policy to secure sufficient retained earnings while maintaining shareholder returns in order to maintain a firm financial standing capable of withstanding any challenging business environment.

Specifically, we aim to achieve a total payout ratio of 35%, which includes dividends and share buybacks. For the fiscal year ended March 31, 2022, the Bank will pay a year-end per-share dividend of ¥16.5 (annual per-share dividend of ¥28), 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 ¥28 (interim dividend of ¥14), changing the total payout ratio to "35% or more of net income attributable to owners of parent" through dividends and share buybacks.

Moreover, in the process of formulating the next medium-term management plan starting in FY 2023, we plan to review the return policy, and if there are any changes, we will announce them as soon as they are decided.

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 13.23% as of the end of March 2022.

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.

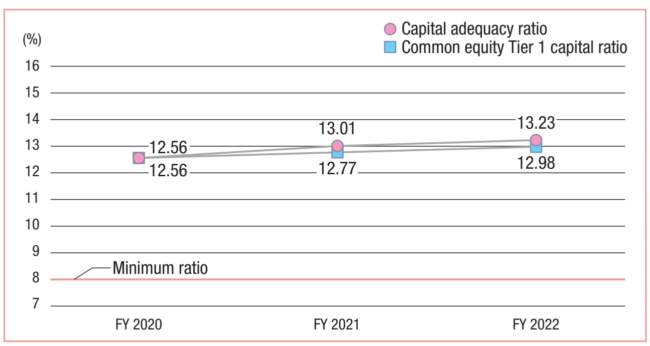
$$\text{Capital adequacy ratio (\%)} = \frac{\left(\begin{array}{c}\text{(1) Common equity Tier 1 capital} \\ + \\ \text{(2) Additional Tier 1 capital} \\ + \\ \text{(3) Tier 2 capital}\end{array}\right)}{\text{(4) Risk-weighted assets}} \times 100$$

(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 (balances of loans disclosed under the Financial Revitalization Act) increased by ¥4.1 billion year on year to ¥95.7 billion as of the end of March 2022 despite efforts to upgrade borrowers' status through business rehabilitation activities and reduction efforts including direct write-offs and elimination from balance sheet by debt sales.

In addition, the ratio of risk-managed loans (loans disclosed under the Financial Revitalization Act) (against the total credit balance) increased by 0.04 percentage points year on year to 1.77% as of the end of March 2022.

Further, while the Bank does not perform partial direct write-offs, if we were to perform partial direct write-offs, the ratio of risk-managed loans (loans disclosed under the Financial Revitalization Act) would have increased by 0.03 percentage points year on year to 1.53%.

Status of impaired loans (Millions of Yen)

	End of March, 2022	End of March, 2021
Loans to bankrupt customers	¥ **20,918**	¥ 22,058
Doubtful loans	**46,492**	38,375
Loans past due three months or more	**650**	833
Restructured loans	**27,659**	30,343
Total	¥ **95,721**	¥ 91,611
The ratio of risk-managed loans (against the total loan balance) (%)	**1.77**	1.73

● Loans to Bankrupt Customers

Loans to borrowers that have been found or are likely to be found legally bankrupt through fillings for the commencement of bankruptcy, corporate reorganization or civil rehabilitation proceedings, and loans to borrowers of similar status.

● Loans past due six months or more

Loans with a high probability of failure in the receipt of principal or interest under terms of the loan agreement due to the borrower's deteriorated financial status and/or business performance even though the borrower has yet to be in the state of bankruptcy. These loans do not include bankrupt and quasi-bankrupt loans.

● 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	P-1 (PRIME-1)	aaa	AAA
Investment grade	Aa1	P-1 (PRIME-1)	aa1	AA+
Investment grade	Aa2	P-1 (PRIME-1)	aa2	AA
Investment grade	Aa3	P-1 (PRIME-1)	aa3	AA-
Investment grade	A1	P-1 (PRIME-1)	a1	A+
Investment grade	A2	P-1 (PRIME-1)	a2	A
Investment grade	A3	P-1 (PRIME-1)	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