

# 1H FY2023 Earnings Results Briefing

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December 4, 2023



**Our challenges build our future.**

**Chugin Financial Group, Inc.**

## 1. 1H FY2023 earnings results were favorable and the new Medium-term Management Plan has made a successful start

- Interim profit attributable to owners of parent was 10.4 billion yen (+ 2.2 billion yen as compared to the plan, -3.5 billion yen as compared to the previous fiscal year)
- The performance has been favorable, accounting for 69% of the full-year earnings **(The new Medium-term Management Plan has made a successful start.)**

## 2. The full-year earnings forecast remained unchanged (“preparation” for the next fiscal year and beyond)

- Consideration of prior implementation of strategic investments (mainly in the digital and innovation-related fields)
- Enhancement of assets through the use of capital reserves (accumulation of general allowance for loan losses)
- Agile handling of securities, etc.

**Actions to increase profits in FY2024 and beyond**

## 3. Toward improvement of corporate value

- Through the measures in the Medium-term Management Plan, we will:
  - “ROE” ... Improve RORA and financial leverage (capital adequacy control)**
  - “PER” ... Realize “sustainable growth of profits” centered on the “deepening of regional revitalization SDGs”**

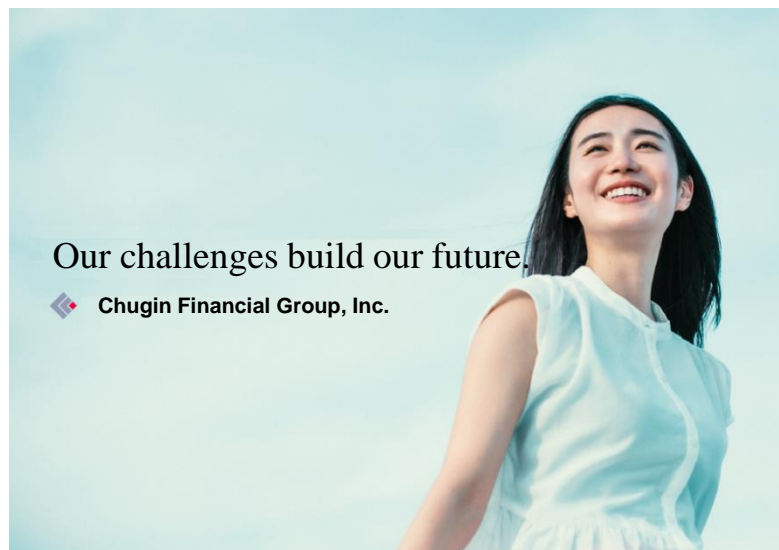
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# Section I

Earnings Results for 1H FY2023

and

Forecasts for FY2023

# Earnings Results –Summary (Consolidated for the FG)–

\*Forecast published on May 12, 2023

the Chugin Financial Group (billion yen)	1H FY2020	1H FY2021	1H FY2022	1H FY2023		
					YoY	vs. Plan*
Consolidated gross profit	42.5	43.0	33.5	44.8	11.3	–
(excluding profits and losses related to bonds)	41.7	43.4	48.9	46.1	- 2.8	–
Net interest income	30.0	30.9	34.0	31.0	- 3.0	–
Fees and commissions income	7.0	8.1	8.5	9.1	0.5	–
Net other operating profits	5.4	3.9	- 9.0	4.7	13.7	–
Of which, profits and losses related to bonds	0.8	- 0.4	- 15.3	- 1.2	14.1	–
Expenses (-)	28.5	27.9	27.4	28.4	0.9	–
Credit cost (-)	3.5	2.0	1.6	3.8	2.2	–
Profits and losses related to securities	0.9	1.5	15.7	1.6	- 14.1	–
Other	0.6	0.6	- 0.2	0.8	1.0	–
Ordinary profit	11.9	15.2	19.9	15.0	- 4.9	3.2
Extraordinary profits and losses	- 0.1	- 0.4	- 0	- 0	- 0	–
Interim profit attributable to owners of parent	8.2	10.1	13.9	10.4	- 3.5	2.2

## Interim profit attributable to owners of parent was 10.4 billion yen

- Profits decreased as compared to the previous fiscal year due mainly to increases in foreign-currency procurement costs at The Chugoku Bank and credit costs associated with an increase in the loan balance.
- Meanwhile, revenues of the Group companies (other than the Bank) remained robust, and The Chugoku Bank pushed forward with the improvement of the securities portfolio ahead of the plan. Consequently, the interim profit attributable to owners of parent remained favorable, recording 2.2 billion yen more than the announced forecast.

Non-consolidated for The Chugoku Bank  (billion yen)	1H FY2023		
		YoY	Percentage of progress in fiscal year
Core business gross profit	42.1	- 3.9	54%
Net interest income	31.0	- 3.5	53%
Net fee income	9.9	0.7	55%
Net other operating profits	1.1	- 1.0	85%
Expenses (-)	26.0	0.7	48%
OHR	61.9%	6.9pt	—
Core business net profit	16.0	- 4.7	69%
Excl. gains or losses on cancellation of investment trusts	16.0	- 2.7	69%
Credit cost (-)	3.6	2.3	52%
Profits and losses related to securities	0.3	- 0.1	13%
Other	0.1	0.8	—
Ordinary profit	12.9	- 6.2	70%
Net income	9.0	- 4.6	70%

### Core business net profit

- Compared to the previous fiscal year, core business net profit decreased by 4.7 billion yen (a decrease of 2.7 billion yen excluding cancellation of investment trusts), due mainly to an increase in foreign-currency procurement costs and a decrease in net interest income due to the absence of the recording of gains on cancellation of investment trusts, which had been recorded in the previous fiscal year.
- **The percentage of progress in the fiscal year remained high at 69%**, due in part to an increase in the loan balance, an increase in net interest income thanks to the improvement of the securities portfolio, and robust growth of the net fee income.

### Credit costs

- Credit costs increased by 2.3 billion yen as compared to the previous fiscal year as the general allowance for loan losses increased due mainly to the accumulation of the loan balance.

### Securities-related income and loss

- We will continue to improve the portfolio.  
(As of the end of Sep. 2023)  
The duration of yen bonds was 4.8 years (1.0 year shorter than the previous fiscal year)  
The duration of foreign currency bonds was 1.6 years (1.8 years shorter than the previous fiscal year)

\* The details of the major numerical figures are indicated in III. Appendix (p. 31 onward).

## 1H FY2023

Group companies (billion yen)	Ordinary profit	YoY	Net income	YoY
Lease	0.18	0.09	0.17	0.11
Card	0.14	-0	0.08	-0.01
Human Innovations (Employment placement)	0	0.01	0	0.01
Capital Partners (Fund management and administration)	0.02	0.01	0.01	0.01
C Cube Consulting (DX, SX and other consulting service)	0	0.1	0	0.1
Energy (Decarbonization support such as renewable energy power generation) <i>Commenced in April 2023</i>	-0.01	—	-0.01	—
Securities	0.41	0.19	0.31	0.16
Asset management	0.08	0	0.05	0
Chugin Operation Center	0.01	0	0.01	0
CBS (Contracted administrative work related to banks)	0.08	0	0.05	0
Guarantee	0.95	0.18	0.62	0.12
<b>Total</b>	<b>1.89</b>	<b>0.59</b>	<b>1.32</b>	<b>0.50</b>

\* Until the previous year (before the transition to FG), each company had recorded intra-group dividends. Therefore, the YoY figures are indicated excluding the intra-group dividends.

## Consolidated for the Chugin Financial Group

(billion yen)

	FY2023		
	forecasts	YoY	Interim percentage of progress in fiscal year
Consolidated ordinary profit	21.5	- 8.0	70%
Profit attributable to owners of parent	15.0	- 5.4	69%

<Reference: Non-consolidated for The Chugoku Bank>

Core business gross profit	77.4	- 9.3	54%
Expenses (-)	54.2	2.9	48%
Core business net profit	23.2	- 12.2	69%
Of which, credit cost (-)	6.9	1.9	52%
Of which, profits and losses related to securities	2.3	4.0	13%
Ordinary profit	18.4	- 9.1	70%
Net income	12.8	- 6.5	70%

## Earnings Forecasts

Although the earnings remain high mainly for **The Chugoku Bank**, **the full-year earnings forecasts remain unchanged from the figures planned at the beginning of the period.**

### ■ Further acceleration of strategic investments related to innovation

- ✓ Development of digital technology-oriented human resources
- ✓ Operational reforms by accelerating DX
- ✓ Expansion of investments toward the use of data (sophistication of marketing), and other initiatives

### ■ Accumulation of loans toward increasing net interest income in the future and an increase in the general allowance for loan losses associated therewith

- ✓ An increase of about 400.0 billion yen (locally and at the headquarters) compared to the Medium-term Management Plan Enhancement of assets through the use of capital reserves

### ■ Agile improvement of the securities portfolio based on market trends and others

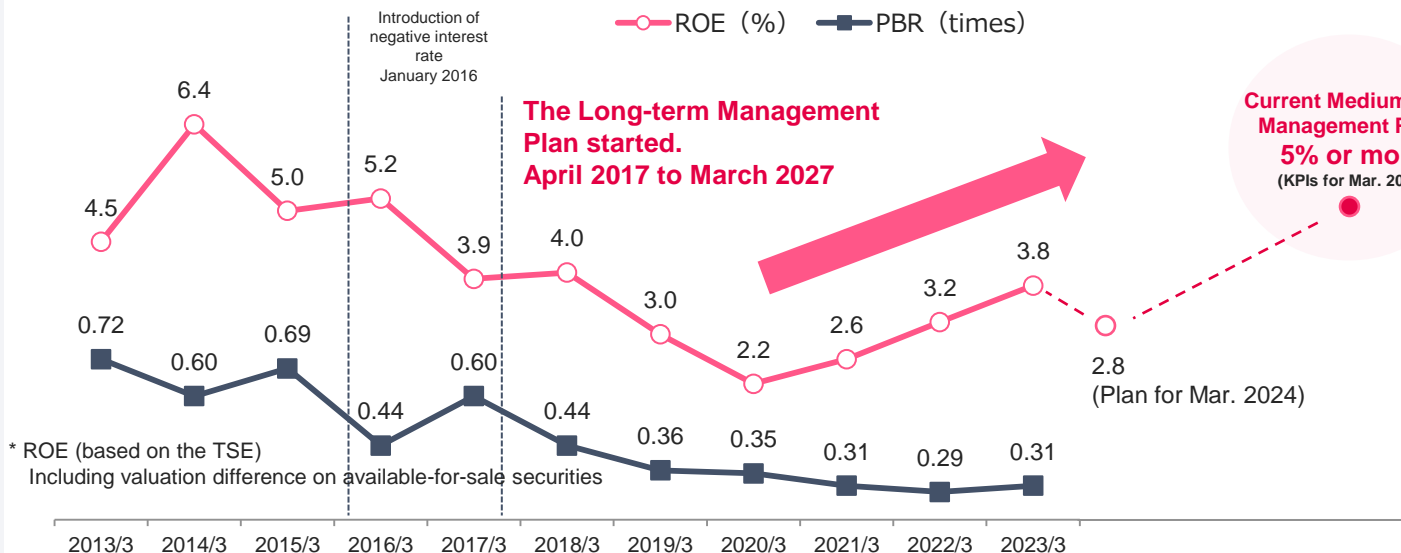


## Section II

# Initiatives toward Enhancement of Corporate Value

# Awareness of the Current Situation and Enhancement of Corporate Value through the Medium-term Management Plan

## Trends and targets for ROE/PBR



### Capital costs

Calculated value based on the PBR/ROE results: **Around 10%**

Estimated value based on the CAPM: **Around 6%**

## Toward improvement of PBR

The ROE has declined since the introduction of the negative interest rate. Recently, the ROE has steadily improved thanks to the structural and action reforms based on the Long-term Management Plan. However, the PBR has remained low.

- |  |  |   |
|--|--|---|
| <p><b>Stage I</b></p> <p>April 2017 to March 2020</p>  | <p><b>Structural reforms</b><br/>(Strengthening of hard aspects)</p> | <ul style="list-style-type: none"> <li>● BPR investments (A shift from administrative affairs to sales activities)</li> </ul>   |
| <p><b>Stage II</b></p> <p>April 2020 to March 2023</p> | <p><b>Action reforms</b><br/>(Strengthening of soft aspects)</p>     | <ul style="list-style-type: none"> <li>● Autonomous sales system and personnel system</li> <li>● Acceleration of the development of new businesses</li> <li>● Transition to a holding company system</li> </ul> |

### Stage III



April 2023 to March 2027

Through the three growth strategies toward the improvement of PBR:

### Further improvement and enhancement of ROE

Accumulation of high-quality assets, expansion of business pillars, etc.

### Improvement of PER (lowering of capital costs)

Sustainable growth of profits through regional revitalization SDGs, and others

# Overview of the Medium-term Management Plan: Three Growth Strategies

## 1 “Deepening” of regional revitalization SDGs

We will contribute to the “**sustainable development of communities**” by drawing out its appeal and potential.

Regional revitalization	▶ Strengthen initiatives, startup support, and activities for SDGs that use DX and SX as a starting point and capture communities from a wide perspective.
Community support activities	▶ Provide one-stop solutions from upstream to downstream. ▶ Strengthen sustainable finance.
Life planning support activities	▶ Support the realization of customers’ life plans. ▶ Strengthen support for stable asset formation and reliable asset succession.

Corresponding materiality (priority issues)

Revitalization of local economy and society

Response to society with a declining birthrate and an aging population

Promotion of environmental management

Promotion of DX

## 2 Creation of innovations

We will create “**new value**” toward the next phase of growth.

DX	▶ Promote operational process reforms and the development of next generation channels and digital technology-oriented human resources.
New businesses	▶ Create new businesses unique to the Group through alliances.
Alliances	▶ Actively implement wide-area collaborations, collaborations with communities, and collaborations with different industry players.

Corresponding materiality (priority issues)

Promotion of DX

Active participation by diverse human resources

## 3 Strengthening of the Group business base

We will build a “**solid foundation**” to implement growth strategies.

Portfolios	▶ Optimize business portfolios and strategically allocate management resources.
Financial capital	▶ Implement appropriate financial management from the viewpoints of soundness, profitability, and shareholder returns.
Human capital	▶ Significantly increase “investment in human capital” in line with the business strategies.
Diversity	▶ Strengthen the recruitment of and active participation by diverse human resources.
Governance	▶ Sophisticate the internal control system of the Group as a whole.

Corresponding materiality (priority issues)

Active participation by diverse human resources

Sophistication of governance

Promotion of DX

# Overview of the Medium-term Management Plan: KPI

(On a consolidated basis for the FG, unless indicated otherwise)

Aims of the selection	Financial KPI	FY2022 result	1H FY2023 result	FY2026 target
Profitability	Profit attributable to owners of parent	20.4 billion yen	10.4 billion yen	30.0 billion yen
Capital efficiency	ROE	3.79%	2.8% (Planned figure for Mar. 2024)	5% or more
Soundness	Total capital adequacy ratio	12.87%	12.20%	11% through 13%

The ROE is based on the TSE standards (which include valuation differences on available-for-sale securities).

Materiality (priority issues)	Growth strategy	KPI	FY2022 result	1H FY2023 result	FY2026 target
Promotion of environmental management	“Deepening” of regional revitalization SDGs	Reduction of CO2 emissions	[Already announced] Carbon neutrality in FY2030*1		
Revitalization of local economy and society		Cumulative amount of sustainable finance executed *2	641.8 billion yen	761.8 billion yen	1 trillion yen
Response to society with a declining birthrate and an aging population		Number of contracted consultation cases *3	256	161	460
		Number of customers of five products in custody and number of customers of housing loans	206,000	210,000	260,000
Promotion of DX	Creation of innovations	Inheritance-related business cases handled *4	487	220	800
		Operational model reforms (operations, channels, and organizations)	—	—	(Qualitative assessment)
Active participation by diverse human resources	Strengthening of the Group business base	Ratio of female managers and supervisors (non-consolidated for the BK)	13.4%	14.1%	25%
		Amount of investment in human capital *5	0.3 billion yen	0.19 billion yen	0.5 billion yen

**Assumed interest rate scenarios**

**[Domestic interest rates]**

- FY2023  
The long-term interest rate (10 years) is assumed to be around 0.75% due in part to the lowered YCC.
- From 1H FY2024 onward  
Lifting of the negative interest rate (short-term interest rate +10 bp)  
\* An additional interest-rate hike and a rise in the short-term prime rate are not taken into consideration.  
The long-term interest rate (10 years) is assumed to remain at around 1%.

**[Overseas interest rates]**

- The FF interest rate for FY2023 is around 5%.  
Phased policy rate cuts are anticipated starting from FY2024.

\*1 Achieve net zero of Scope 1 (direct emissions from consumption of fuels such as gas, gasoline, and diesel oil) and Scope 2 (indirect emissions from the use of electricity and heat supplied by other companies) by the end of FY2030.

\*2 The amount of investments and loans from FY2020 included here includes financing for social sectors (healthcare, nursing care, childcare, education, etc.) and environmental sectors (solar, wind, biomass, EV, etc.), as well as support for regional revitalization and SDG/ESG initiatives.

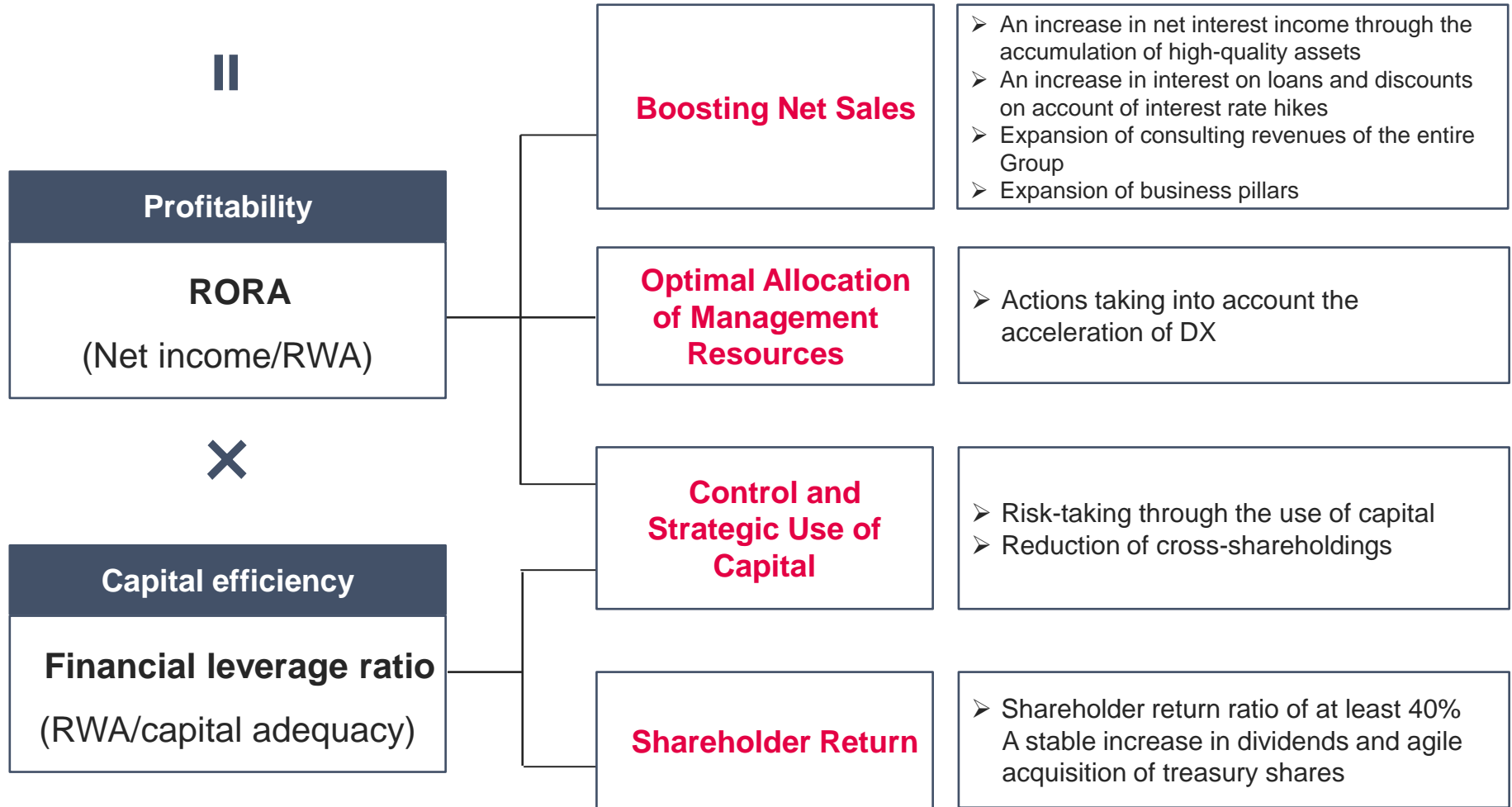
\*3 Annual number of contracted consultation cases related to business succession, the environment, etc.

\*4 Annual number of cases handled in relation to testamentary trusts, inheritance support services, etc.

\*5 Amount invested in employees, such as training- and education-related expenses, study incentives, Chugin Open Lab activity expenses, and personnel expenses for training and secondment

# Initiatives toward Improvement of ROE

## Measures to Improve ROE (Net Income/Capital Adequacy)



\* RORA = Return On Risk Weighted Asset

\* RWA = Risk Weighted Asset

# Boosting Net Sales – An Increase in Net Interest Income through Accumulation of High-Quality Assets –

Improvement of ROE			
Net sales	Management resources	Capital	Return

## Sustainable Finance

### Consulting service menu

#### Support for realization of carbon neutrality of local communities

- Support for the planning and development of community decarbonization initiatives
- Support for the formulation of plans to introduce renewable energy for public facilities, etc.
- Support for the use of renewable energy to solve local issues
- Project support, grant application support, and so forth

C Cube Consulting Chugin Energy

#### Support for realization of SX of customers

- Support for the calculation and reduction of greenhouse gas emissions
- Support for the development of SX strategies and the roadmap
- Support for business portfolio reforms and so forth

#### Promote and support customers' initiatives toward SDGs and decarbonization

##### Chugin SDGs Support

- Identification of issues, support for preparation and public announcement of the SDG declaration, and so forth

##### Chugin Decarbonization Consulting

- Calculation of greenhouse gas emissions /support for achieving emissions reduction targets, and so forth

##### Business matching

- Monitoring and managing CO<sub>2</sub> emissions
- Energy saving and renewable energy business operators, and so forth

Promote improvement of the sustainability of the entire community

Municipal governments

Large enterprises, etc.

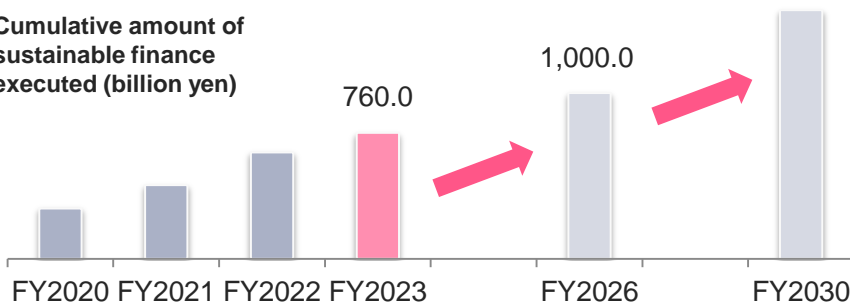
Medium-standing companies

Small and medium enterprises, etc.

Being involved in local issues from upstream, capturing them from a wide perspective

Toward the accumulation of high-quality assets 1,500.0

Cumulative amount of sustainable finance executed (billion yen)

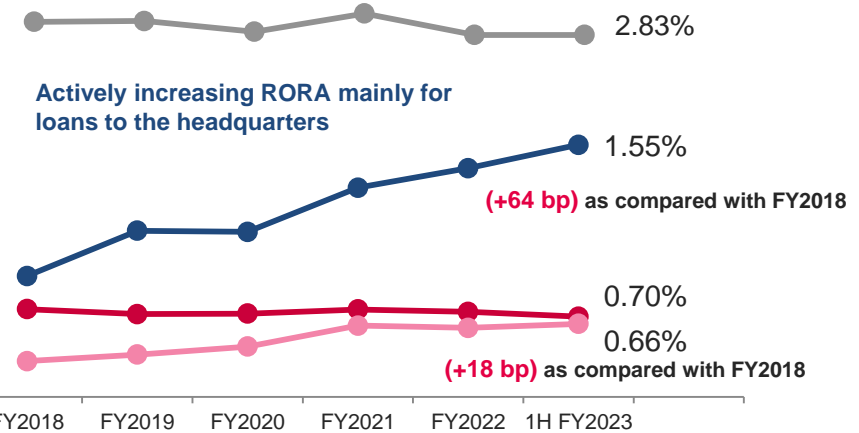


## Improvement of RORA

### RORA on loans

\* Based on SP

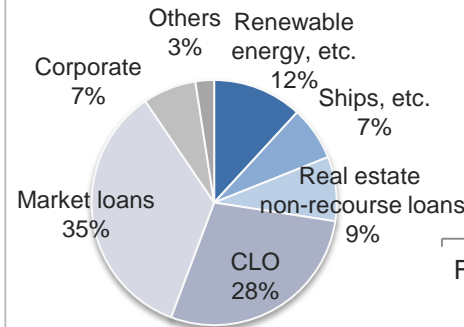
- Local development
- Urban development
- Loans to the headquarters
- Personal loans



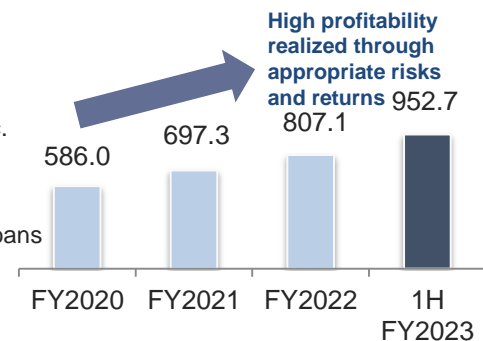
### Initiatives for structured finance (loans to the headquarters)

#### Composition ratio (as of the end of Sept. 2023)

\* Japanese yen : foreign currency = 5 : 5



#### Structured finance trends (average balance, billion yen)



# Boosting Net Sales – An Increase in Net Interest Income Through Accumulation of High-Quality Assets –

Improvement of ROE

Net sales	Management resources	Capital	Return
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## Opening of the Singapore Branch and Strengthening of Ship Finance

### Purpose

#### Opening of the Singapore Branch (June 2023)

- Support for **finance-related services (deposits, loans, and payment functions)**, which are the most needed by customers' overseas subsidiaries
- Expand trade with not only local companies but also overseas subsidiaries of listed companies, etc.
- Strengthen **finance for the maritime industry** in the region  
Accumulate high-quality projects and enhance our presence in the ship sector  
Expand business in fields such as decarbonization and SX

High profitability (SP rate and RORA)

Development of specialized human resources (accumulation of know-how, etc.)

Taking on challenges and pursuing new business opportunities overseas

### Strengthening of profitability

#### Objectives of the Singapore Branch

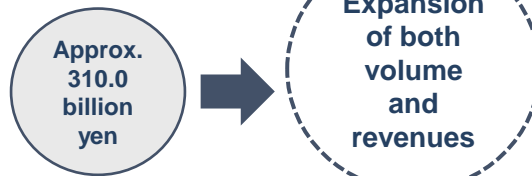
Aim for the total asset balance of 100.0 billion yen (strengthening of ship finance)

Open

Three years later

#### Strengthening of ship finance

As of the end of Sep. 2023



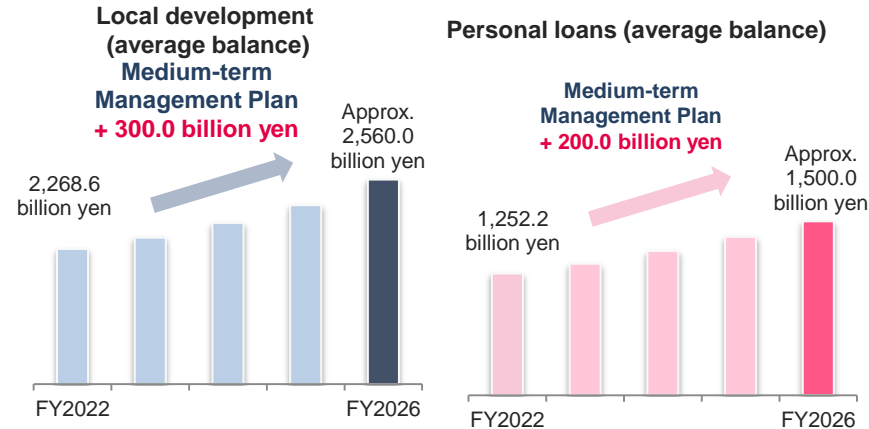
RORA by sector 0.83% (as of the end of Mar. 2023)

\* Reference Local development 0.72%

- Strengthening of the **Singapore Branch**
- Strengthening of **domestic offices (Setouchi)**
- **Sustainable finance** and others

## Accumulation of Loans

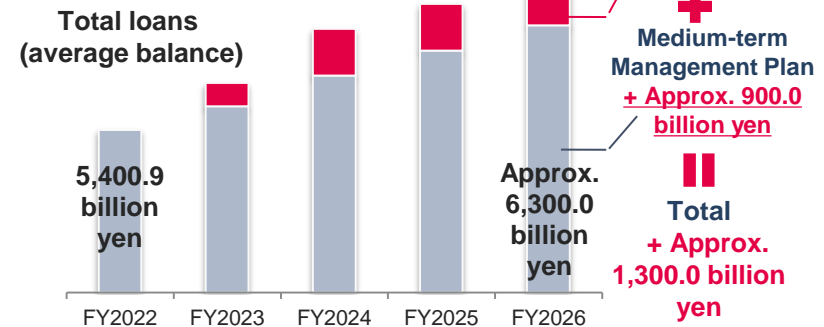
### Capturing local demand for funds (Medium-term Management Plan)



### Addition based on the extra capacity for risk taking (beyond the Medium-term Management Plan)

#### Further increase in assets starting from H1 of FY2023

- Local development, structured finance, etc.



# Boosting Net Sales – An Increase in Interest on Loans and Discounts on Account of Interest Rate Hikes –

## Status of Yen Deposits and Loans

**Stable BS structure** supported by a wealth of very low-liquid **core deposits**

Composition ratio by interest rate system  
(Based on the average balance as of 1H FY2023)

\* Reference

- Yen securities: 1.8 trillion yen
- Of which, yen bonds: 1.6 trillion yen

**Yen loans: 5 trillion yen**

Others  
1%

Floating  
51%

- Floating interest rate: 2.5 trillion yen**
- Of which, short-term prime rate-based: 0.3 trillion yen
  - Of which, market floating: 1.3 trillion yen
  - Of which, mortgage floating: 0.6 trillion yen

Fixed  
48%

- Fixed interest rate: 2.4 trillion yen**
- Of which, market fixed: 1.2 trillion yen
  - Of which, mortgage fixed: 0.3 trillion yen
  - Of which, apartment fixed: 0.2 trillion yen
  - Of which, municipal governments: 0.4 trillion yen

Yen loans

**Yen deposits + NCD:  
8 trillion yen**

Negotiable  
3%

Liquid  
74%

**Liquid  
5.9 trillion yen**

**Of which, core deposits:  
4.0 trillion yen  
(Duration: 3.64 years)**

**Core deposits 50%**

Term  
23%

**Term  
1.8 trillion yen**

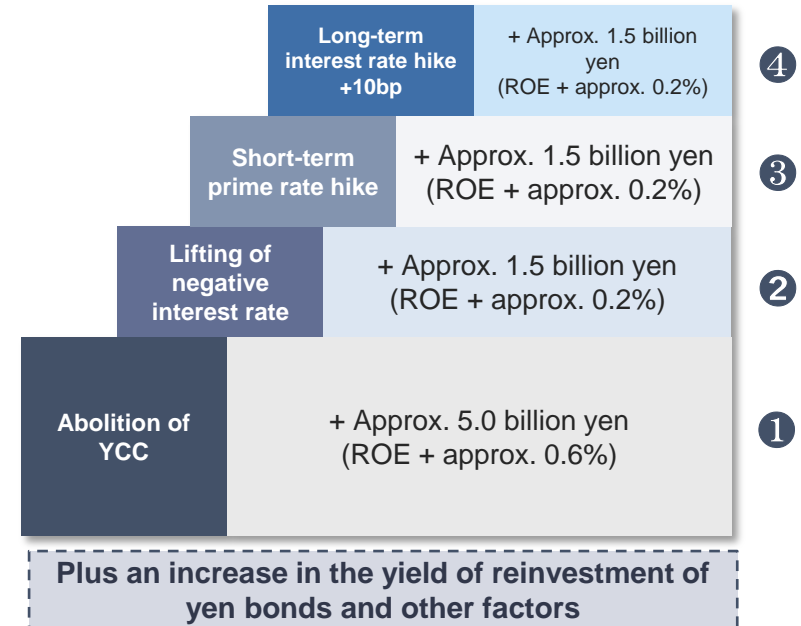
Yen deposits

## Impact on Interest on Loans and Discounts Caused by Interest Rate Hikes

**Loan interest is expected to significantly increase** due to future revisions to the monetary policy

Impact on yen loan interest in the final fiscal year of the Medium-term Management Plan (FY2026)

- Abolition of YCC and lifting of negative interest rate: **+ approx. 6.5 billion yen**
- Short-term prime rate hike and further hike in long-term interest rate: **+ approx. 3.0 billion yen**



(Preconditions) \* Factors for balance increases and decreases are not taken into consideration. \* Roughly estimated with a pass-through of 80%

- Abolition of YCC: The long-term interest rate (10 years) 1% level continues
- Lifting of the negative interest rate: Policy interest rate 0%, TIBOR increases by 10 bp
- Short-term prime rate: Policy interest rate 0.1%, short-term prime rate increased by 20 bp
- TIBOR swap rates for each maturity period increase by 10 bp

① and ② have been incorporated in the interest rate scenarios in the Medium-term Management Plan



# Boosting Net Sales — Expansion of Consulting

## Revenues of the Entire Group —

Improvement of ROE

Net sales

Management resources

Capital

Return

### An Increase in Consulting Revenues through Collaboration within the Chugin Group

**People**

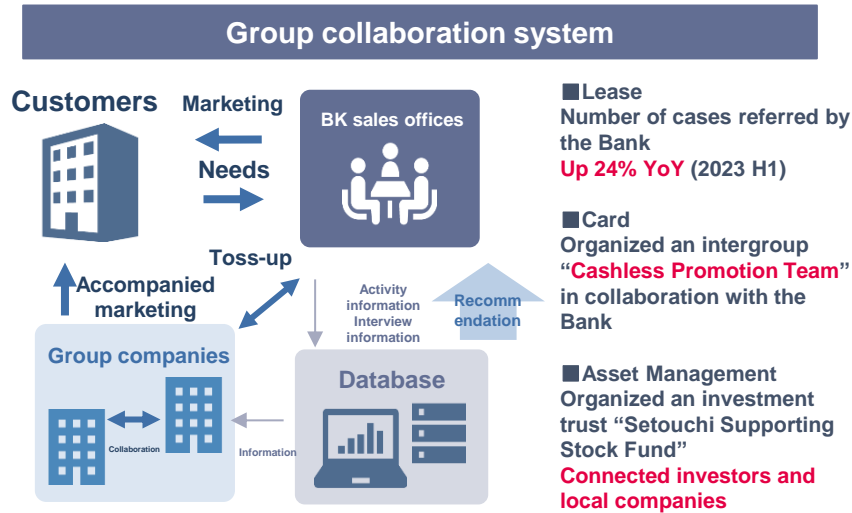
- Chugin Human Innovations

**Products**

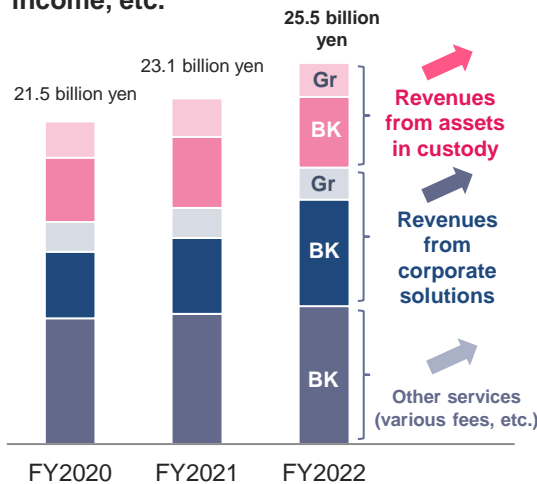
- SETONOWA
- Chugin Energy
- C Cube Consulting

**Money**

- Chugin Capital Partners
- The Chugin Card
- The Chugin Lease
- Chugin Asset Management
- Chugin Securities
- The Chugoku Bank
  - The Chugin Operation Center
  - The Chugin Credit Guarantee
  - CBS

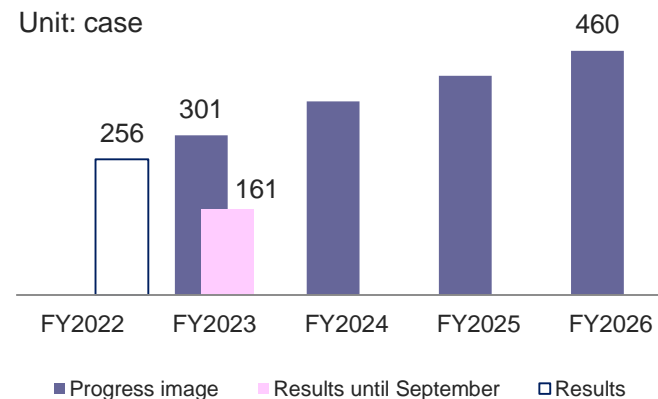


Trends in net fee income, etc.



#### Number of contracted consultation cases (KPI)

\* Annual number of contracted consultation cases related to business succession, the environment, etc. (for the entire Chugin Group)



# Boosting Net Sales – Expansion of Business Pillars –

Improvement of ROE

Net sales	Management resources	Capital	Return
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Designing DX and SX in the region

## C Cube Consulting

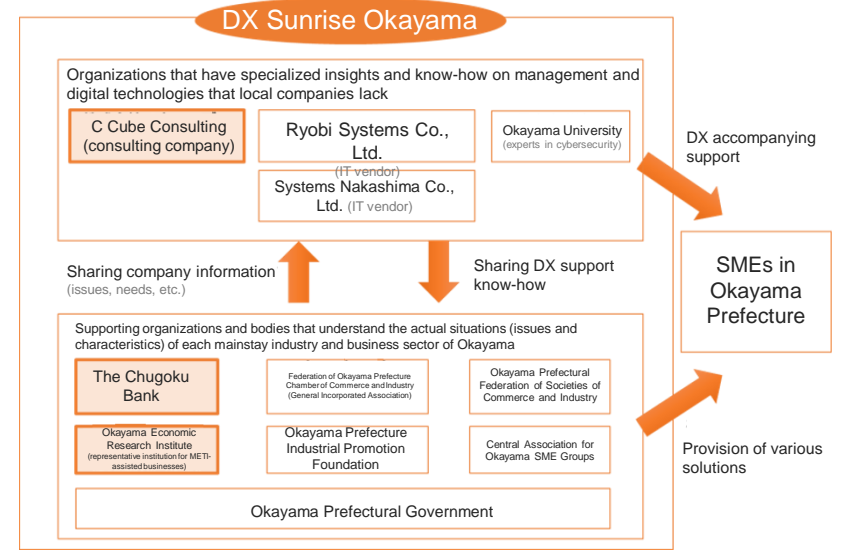
- The company was newly founded in September 2022 as a company that offers advanced consulting services centered on DX and SX.
- It executed agreements on services to support the promotion of DX and applications to be certified as Decarbonization Leading Areas with municipal governments.
- In addition, it participated in “DX Sunrise Okayama,” which is a community to support collaboration among industries, academic institutions, governments, and financial institutions in July 2023. It will support the DX of local SMEs in the region through collaboration with Okayama University and companies within the Prefecture.

\* DX (digital transformation)

Using digital technology to bring about innovative changes in business

\* SX (sustainability transformation)

Corporate management balancing sustainability and ESG (environmental, social and governance) issues



## Chugin Energy

- The company was newly founded in April 2023 as a local energy company that promotes decarbonization.

1. Photovoltaic power PPA business

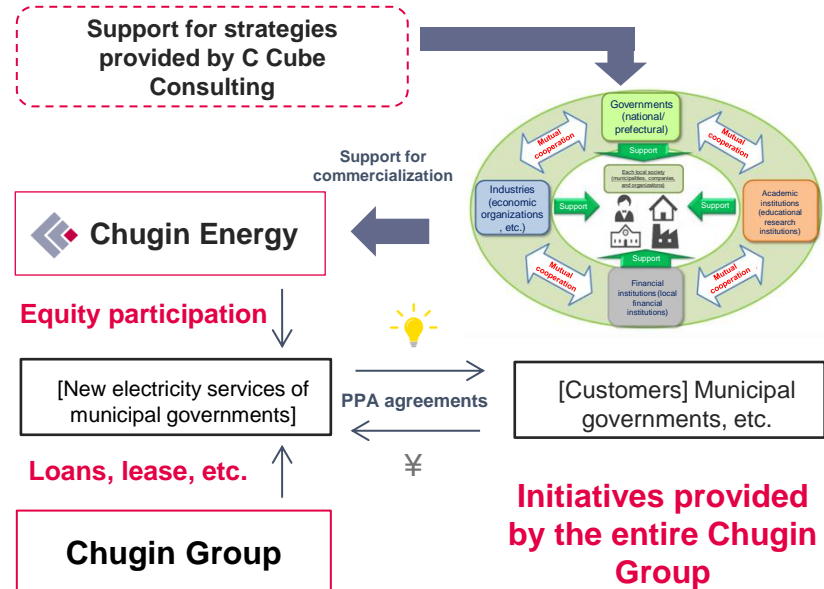
Three agreements concluded within six months after the foundation of the company

2. Businesses of acquisition of renewable energy power stations and electricity sales

3. Businesses of supporting municipal governments to launch new electricity services, etc. and investments and loans *Examples shown on right*

4. Environmental energy business utilizing batteries, etc.

In the future



## Alliance Strategy

We aim to co-create new value through **active collaboration** with various stakeholders, including different industry players.

### Basic stance

- Co-creation and promotion of measures that contribute to the enhancement of corporate value of the Group
- Co-creation and promotion of measures that contribute to the sustainable growth of communities



### Wide-area collaboration

- TSUBASA Alliance



Aim to maximize synergies in both net sales and costs generated by leveraging the largest economies of scale as a regional bank

### Community collaboration

- Okayama Co-creation Partnership



Further promote a system of collaboration with diverse partners in the community to solve local issues and promote regional revitalization

### Collaboration among different industry players

- Agreement for collaboration concerning regional revitalization (PwC Consulting)



- Investments in ventures by Chugin Capital Partners

Chugin Infinity Fund



Build a local ecosystem with startups

# Optimal Allocation of Management Resources

## — Actions Taking into Account the Acceleration of DX —

Improvement of ROE

Net sales

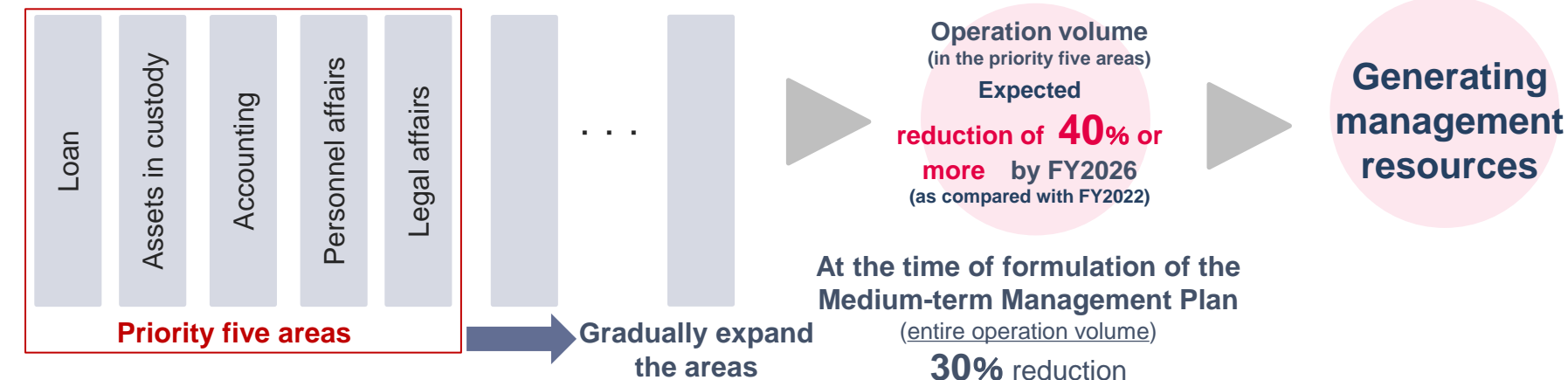
Management resources

Capital

Return

Implement Operational Reforms in All Areas, without Any Exceptions

Group-wide



### Optimal Allocation Utilizing the Management Resource Committee(\*)

(\*) Management Resource Committee ... A committee for cross-organizational examination and deliberation on optimal allocation of management resources

Allocation to revenue departments, etc.

Realization of optimal management of business and human resource portfolios

### Effect of Acceleration of DX

In addition to operational reforms, we will aim for greater effects than initially expected by accelerating DX measures including business model reforms and the creation of new businesses.

Formulation of the “DX strategy” under way

1.5 billion yen  
(At the time of the formulation of the Medium-term Management Plan)

Greater effects

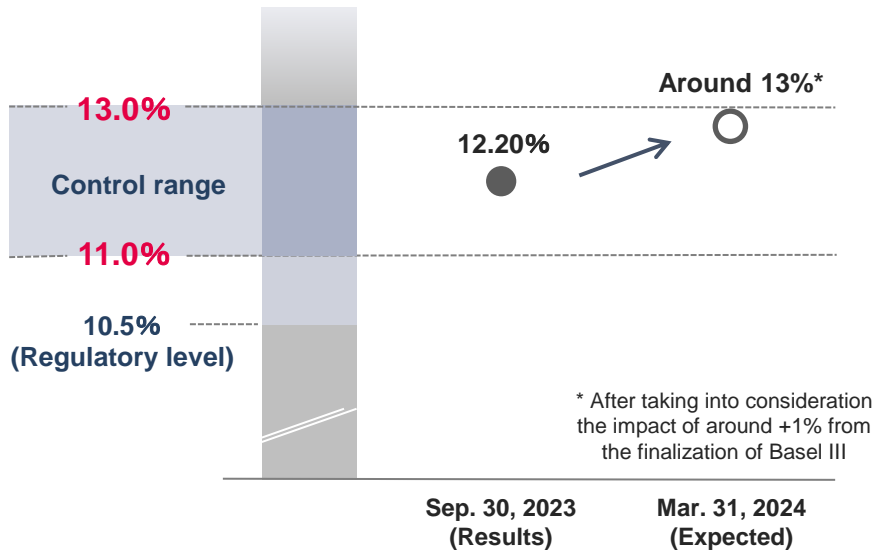
# Control and Strategic Use of Capital – Risk-taking through the Use of Capital –

Improvement of ROE

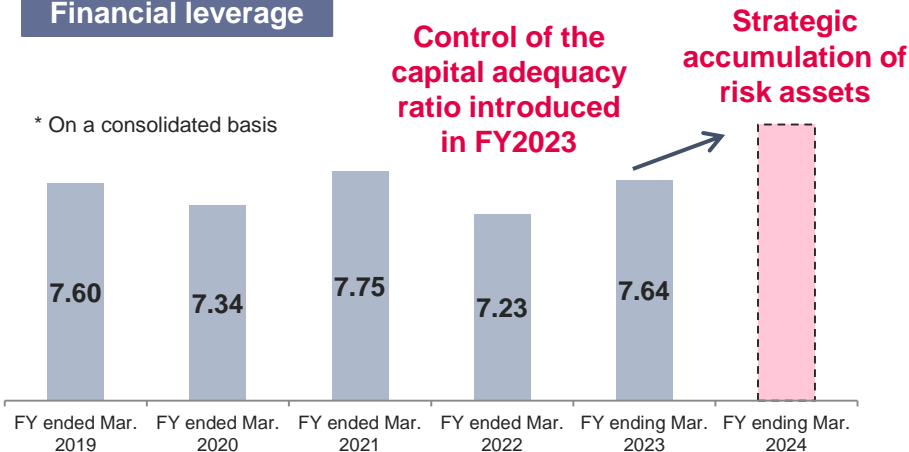
Net sales Management resources Capital Return

## Control of Consolidated Total Capital Adequacy Ratio

Consolidated for the FG



## Financial leverage



## Expansion of Equity Investments

### Chugin Capital Partners

Invested amount by 9 funds totaled 5.0 billion yen or more

- ✓ Startups
- ✓ Business succession
- ✓ Regional revitalization, etc.

(Examples of funds operated)

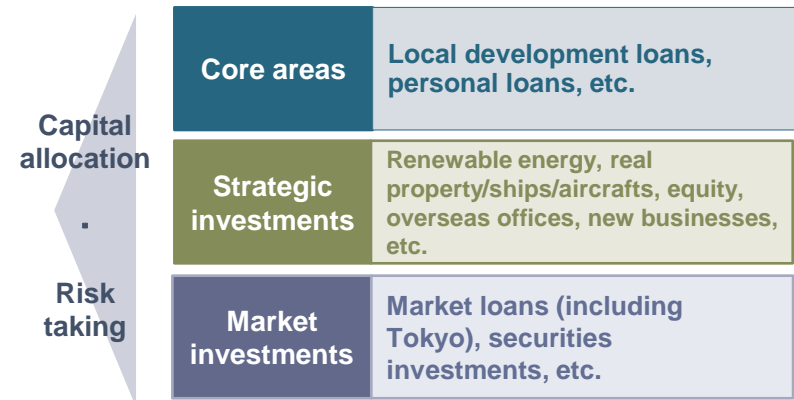
#### Infinity Fund

Startups: 36 companies, about 0.8 billion yen  
Of which, 15 companies are related to the region.  
\*Inquiries for projects came from over 400 companies.  
(Investments were made with the theme of “companies which solve local issues.”)

#### Impact Fund

Environment/society: 9 companies, about 1.6 billion yen  
(decarbonization/energy, social infrastructure)

## Chugin Group’s “Overall Asset Strategies”

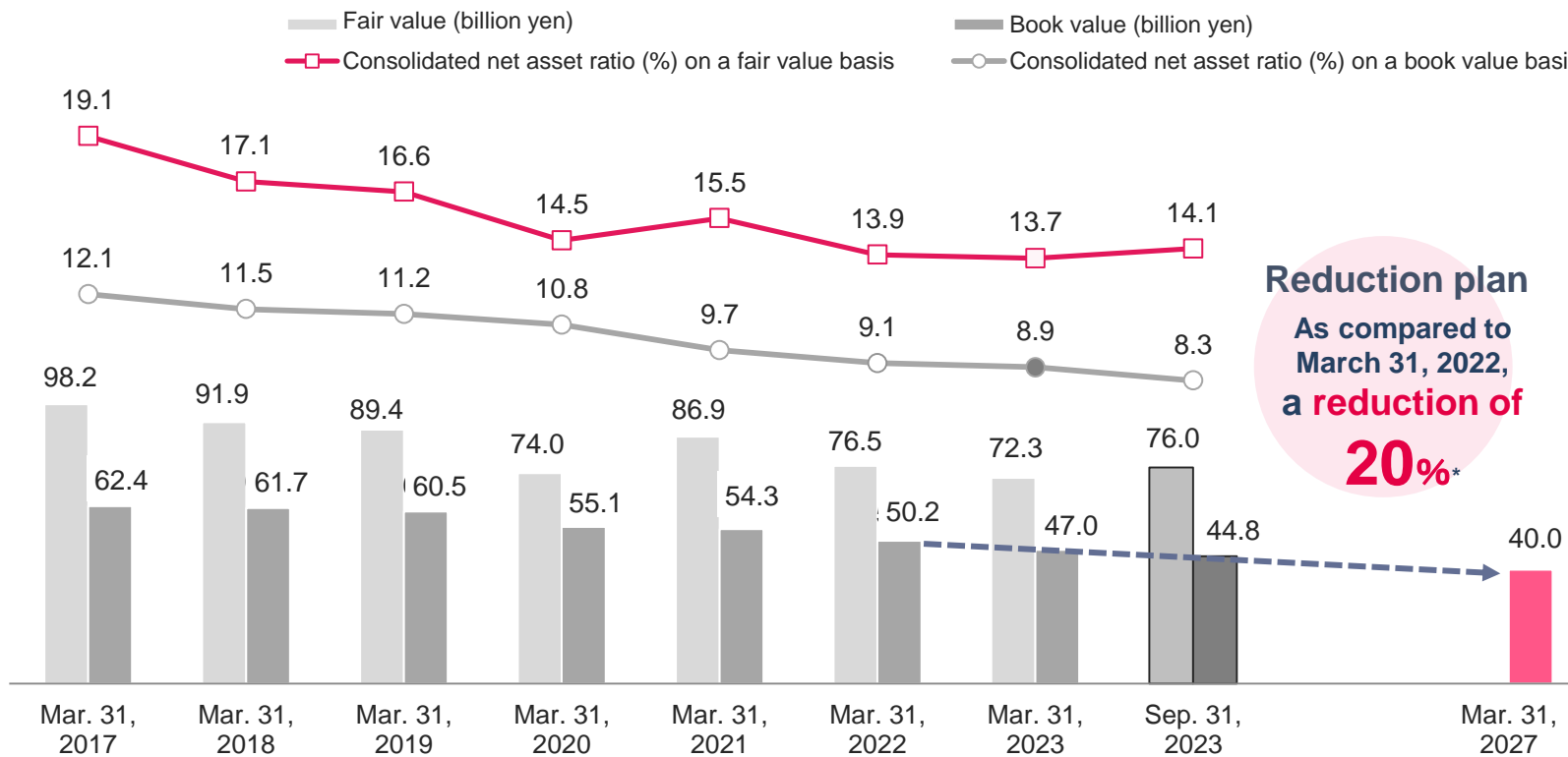


# Control and Strategic Use of Capital – Reduction of Cross-shareholdings –

## Basic Policy

We will limit cross-holdings to cases where it is determined necessary for the sustainable growth and enhancement of the corporate value of the Group and the issuers, and reduce them through dialogues with the issuers from the perspectives of capital efficiency and reduction of the risk of holding the shares.

- ✓ The appropriateness of cross-shareholdings is determined strictly based on the basic policy.
- ✓ The reduction rate as of September 30, 2023 was minus 11% compared to the reduction plan by March 31, 2027 (minus 20% compared to March 31, 2022, based on book value).



Reduction plan  
As compared to March 31, 2022, a reduction of **20%\***

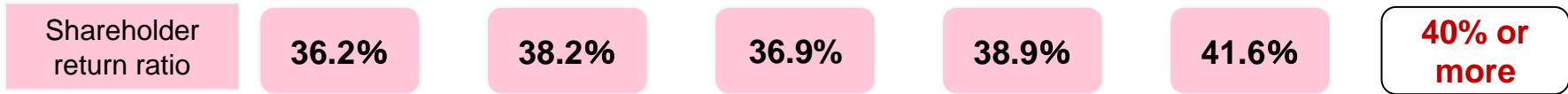
\* Book value: Including listed shares, unlisted shares, and deemed holding shares

# Shareholder Returns

## FY2023 Shareholder Return Policy

Shareholder return ratio of at least **40%** through dividends and share buybacks (consolidated)

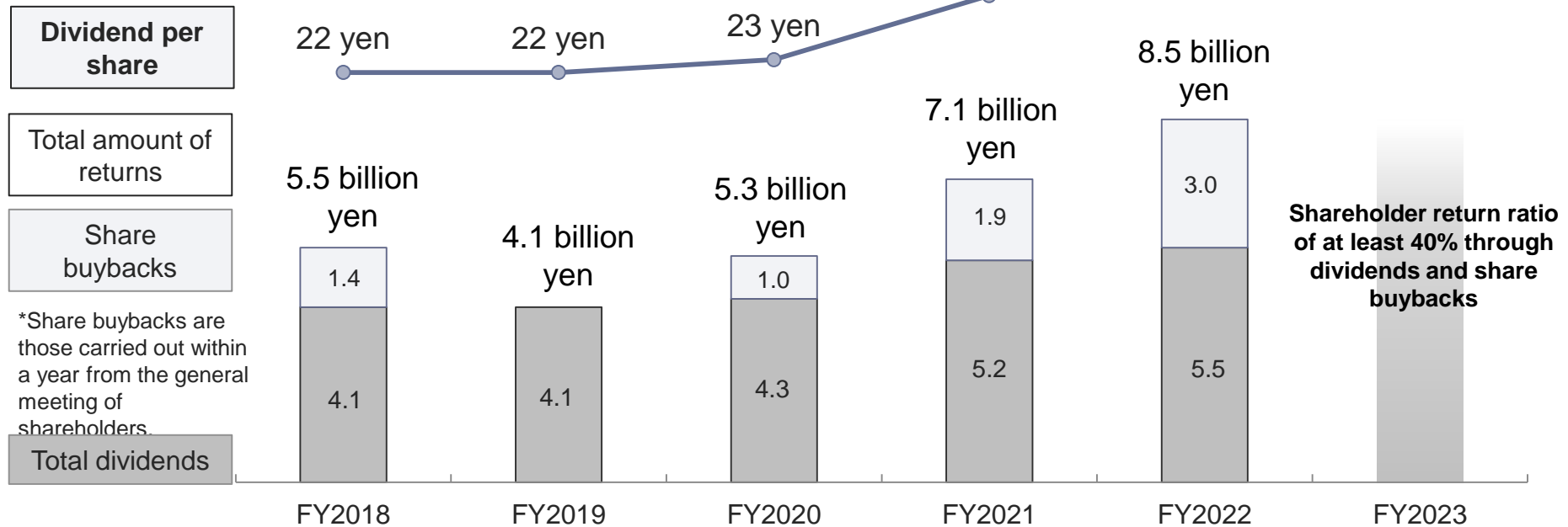
- ✓ The dividend for FY2023 is planned to be 30 yen (interim dividend and year-end dividend of 15 yen, respectively).
- ✓ We will enhance shareholder returns by increasing stable and continuous dividends and flexibly implementing share buybacks through capital control.



\* On a non-consolidated basis up to FY2019

On a Chugoku Bank-consolidated basis since FY2020

On a Chugin Financial Group-consolidated basis since FY2022



\*Share buybacks are those carried out within a year from the general meeting of shareholders.

Total dividends

# Initiatives toward Improvement of PER

## Measures to Improve PER (Aggregate Market Value (Stock Price)/Net Income)

II

Expectations for continuous growth

Decrease in costs of shareholders' equity

Implementation of corporate philosophy

Co-creation of a prosperous future

- Communities
- Customers
- Employees

- Initiatives that capture the community from a wide perspective (collaboration with municipal governments)
- Startup ecosystem
- Overseas consulting
- Asset formation
- Transformation into next-generation channels through DX
- Human capital investments
- Re-skilling
- Engagement
- Diversity and inclusion
- Organizational culture

Engagement improvement (IR, SR, etc.)

Improved external ratings

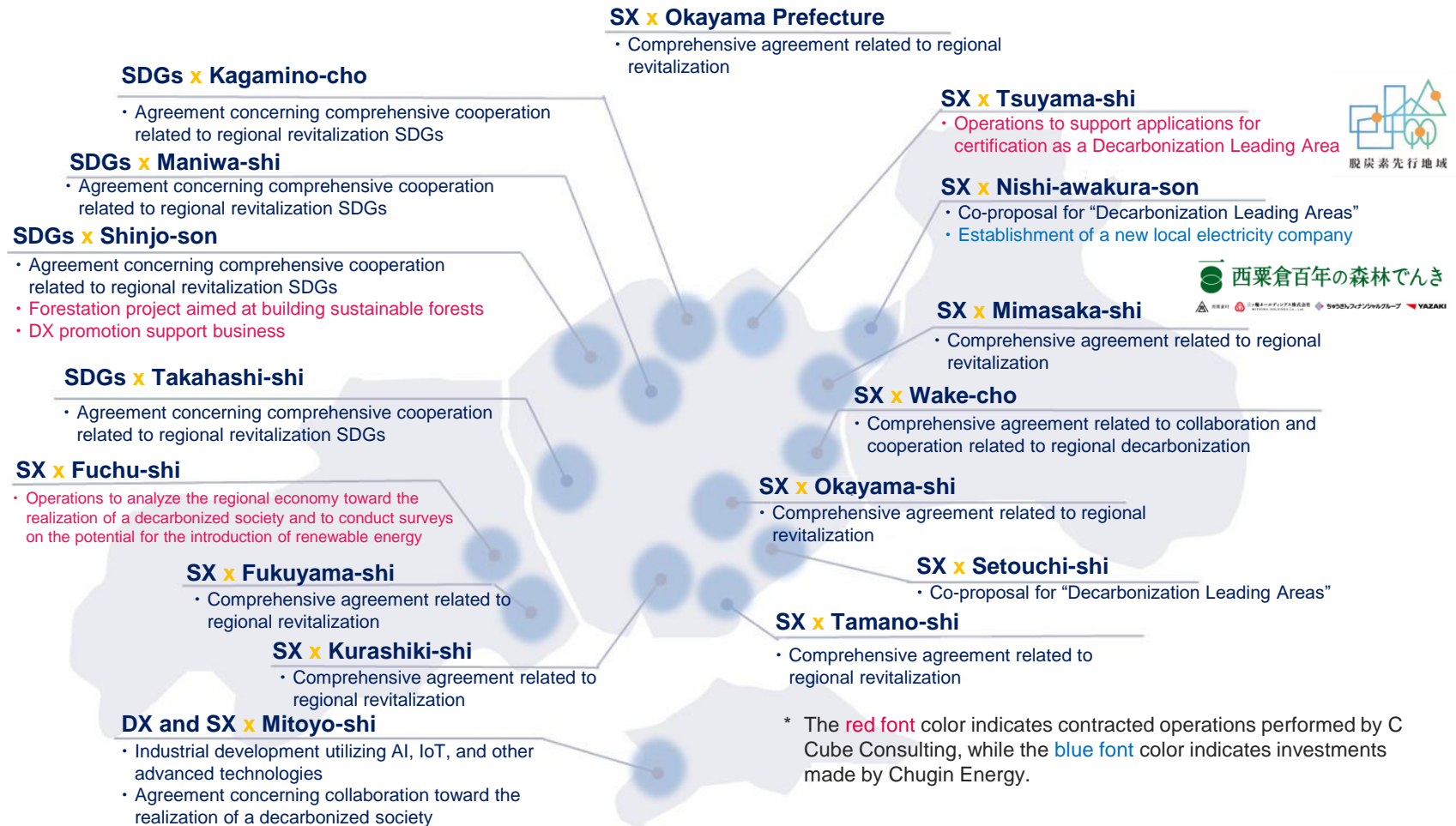


# Co-creation of a Prosperous Future – Communities and Customers –

## Initiatives that capture the community from a wide perspective (collaboration with municipal governments)



**Community collaboration has made further progress, as exemplified by contracted operations performed by C Cube Consulting and investments made by Chugin Energy in new electricity services for the communities.**



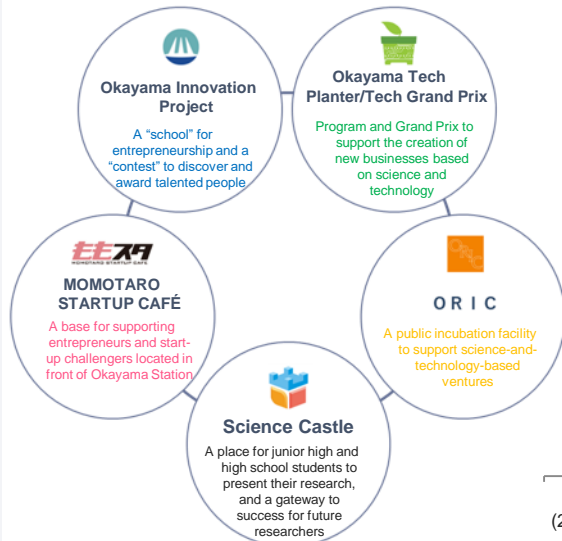
# Co-creation of a Prosperous Future — Communities and Customers—

Improvement of PER

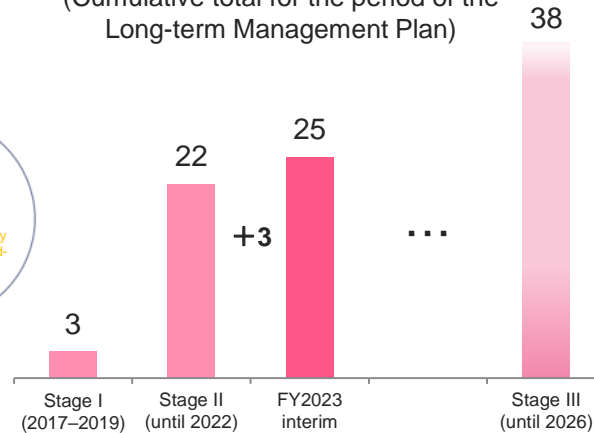
Communities Customers Employees

## Startup ecosystem

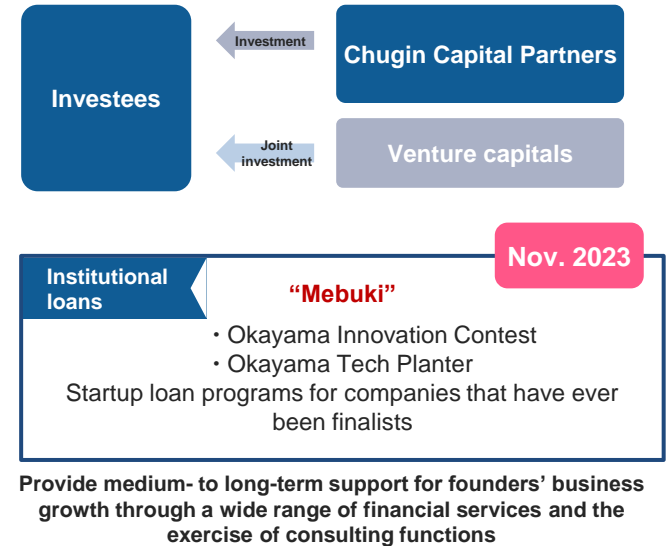
- Support for startups aiming to create companies that represent the communities



Number of newly established companies under the startup ecosystem  
(Cumulative total for the period of the Long-term Management Plan)



- Financial support toward growth



## Overseas consulting

Singapore Branch

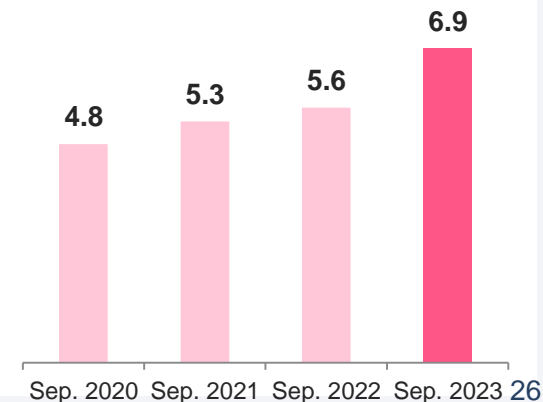
Opened in Jun. 2023



## Asset formation

Number of NISA accounts (unit: 10,000)

Encourage "a shift from savings to investments" by also utilizing the new NISA system



# Co-creation of a Prosperous Future – Communities and Customers –

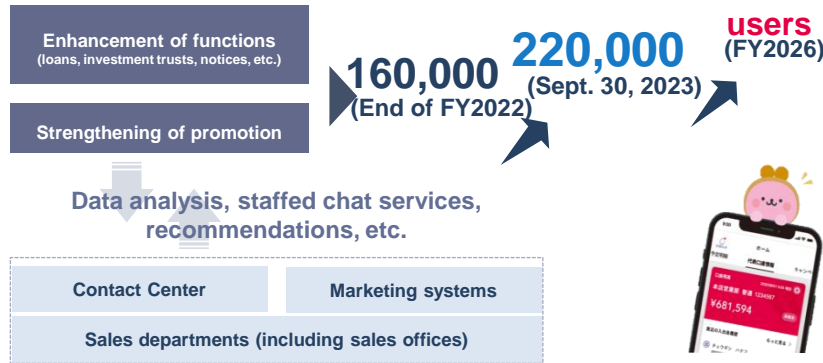
Improvement of PER

Communities Customers Employees

## Transformation into next-generation channels through DX

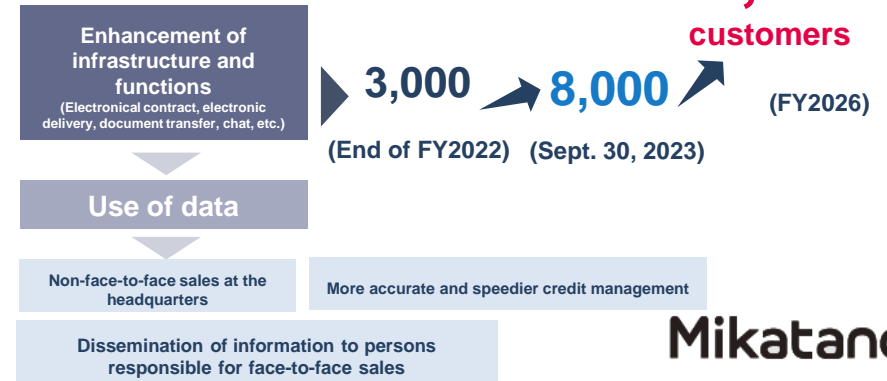
### • Chugin App

**0.5 million**



### • Chugin Business Portal

Introduction to **20,000** customers

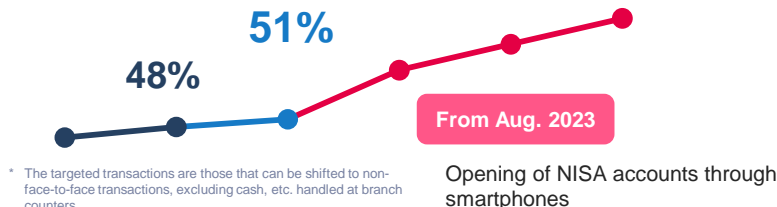


Mikatano

### • Expansion of web-based transactions

Rate of transactions that can be completed on a non-face-to-face basis (BK) \*

**Aiming for 90%**

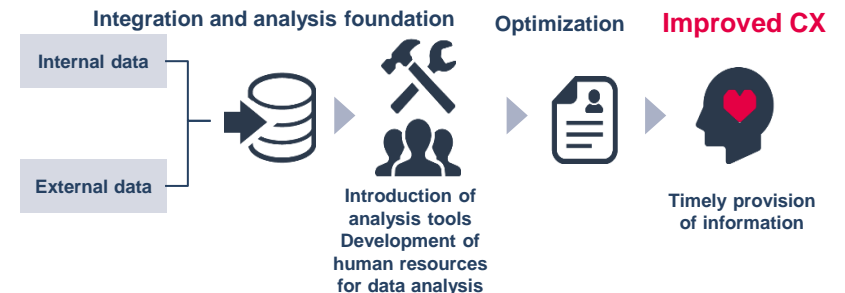


\* The targeted transactions are those that can be shifted to non-face-to-face transactions, excluding cash, etc. handled at branch counters.

End of FY2021    End of FY2022    Sep. 30, 2023    End of FY2024    End of FY2025    End of FY2026

### • Strengthening of database marketing

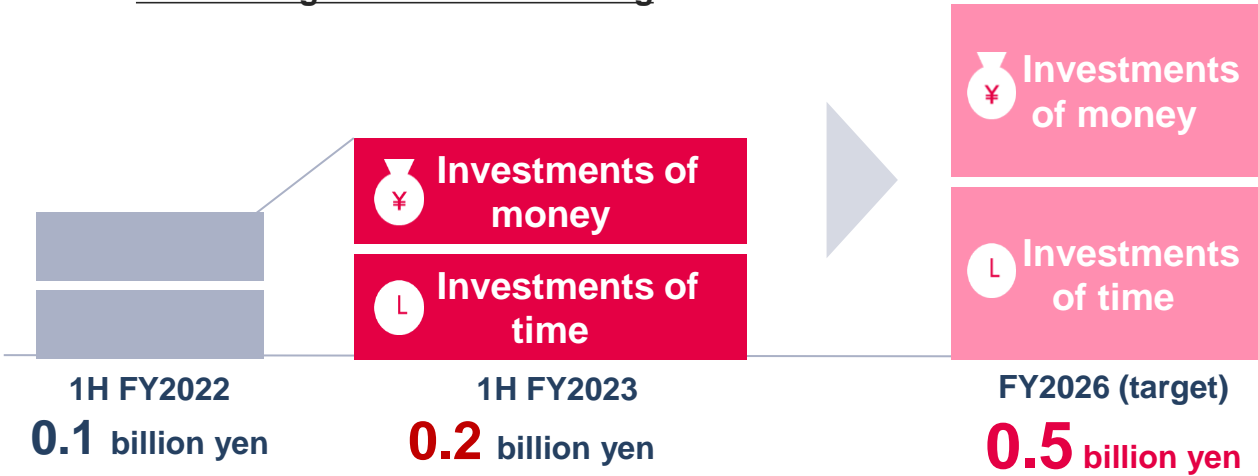
Realization of “personalization” and “timeliness”



# Co-creation of a Prosperous Future — Employees —

## Human capital investments

- Expand human capital investments in line with our business strategy, such as secondment to external organizations for training

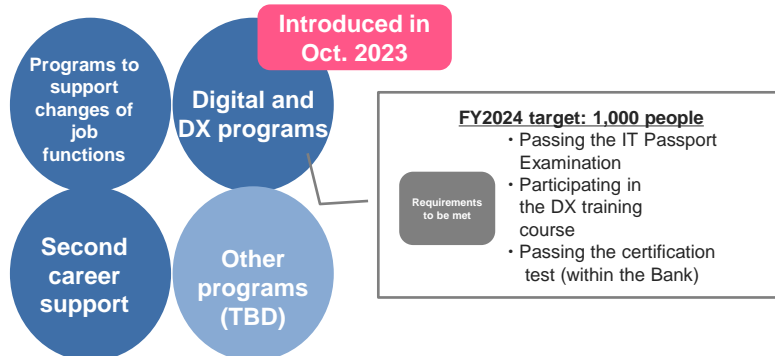


## 1H FY2023

In addition to the items on the left,

- Wage raise by 4% (including regular pay raise)
- Starting operation of the talent management system, etc.

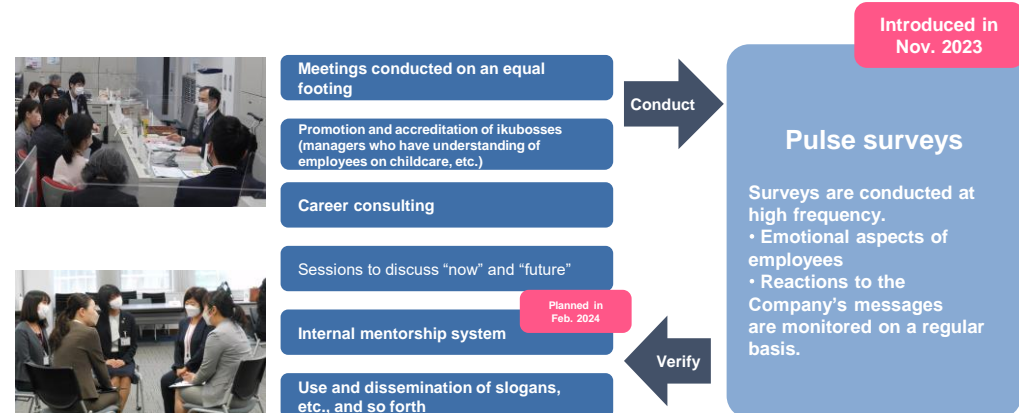
## Re-skilling



\*Program to support changes of job functions (changes of job functions to corporate sales): To be expanded (currently being implemented)

\*Second career support: Systemized in FY2023

## Engagement



# Co-creation of Prosperous Future – Employees –

## Diversity and inclusion

- **Newly established D&I NEXT10 Promotion Department**

NEXT10 Promotion Office (from Jun. 2015)

Plans and promotes various measures, always with an eye on the next 10 years (CS/ES, diversity, and “Chugin Values”)

**Acceleration of group-wide initiatives**

D&I NEXT10 Promotion Department (from Jun. 2023)

- Expansion of D&I promotion areas
- Planning new initiatives with an eye on the next 10 years

- **Promotion of active participation by women**

### Ratio of female managers and supervisors



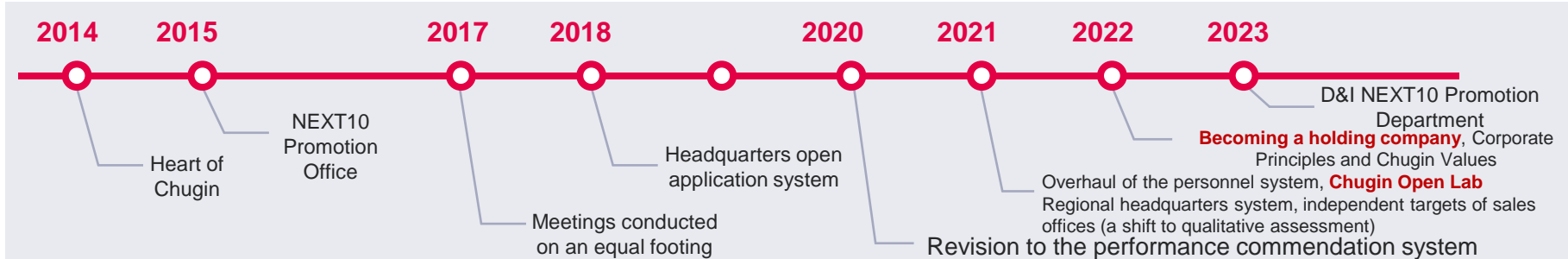
- **Mid-career recruitment and specialized course**

### Number of mid-career recruits



Recruitment policy  
**[New graduates : Mid-career hires]**  
 2 / 1

## Organizational culture



- **Chugin Open Lab**

An internal venture system that started in 2021  
 Cumulative total of 49 teams and 205 participants so far  
 [Examples of commercialization] Establishment of Chugin Energy and broadcast of PR videos for customers at sales offices, etc.

- **Brand slogan**

**Our challenges build our future.**

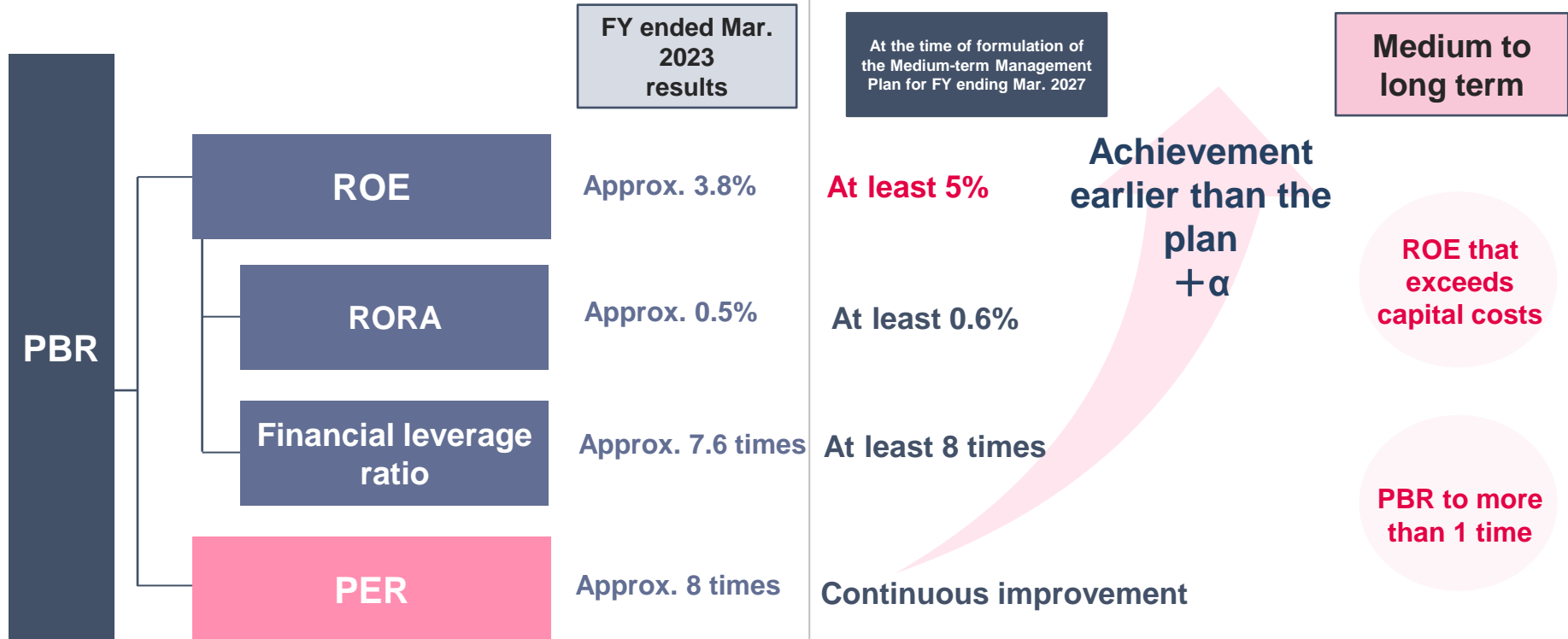
# Conclusion

## Accelerating measures under the Medium-term Management Plan

- ✓ Expanding the use of capital (addition of assets)
- ✓ Yielding results of measures for DX and innovations
- ✓ Responding to change in the financial environment
- ✓ Accelerating initiatives for regional revitalization SDGs, and others



**Improvement of  
ROE and PER**



## III. Appendix

### Major Numerical Figures

## [Factors behind change in net interest income]

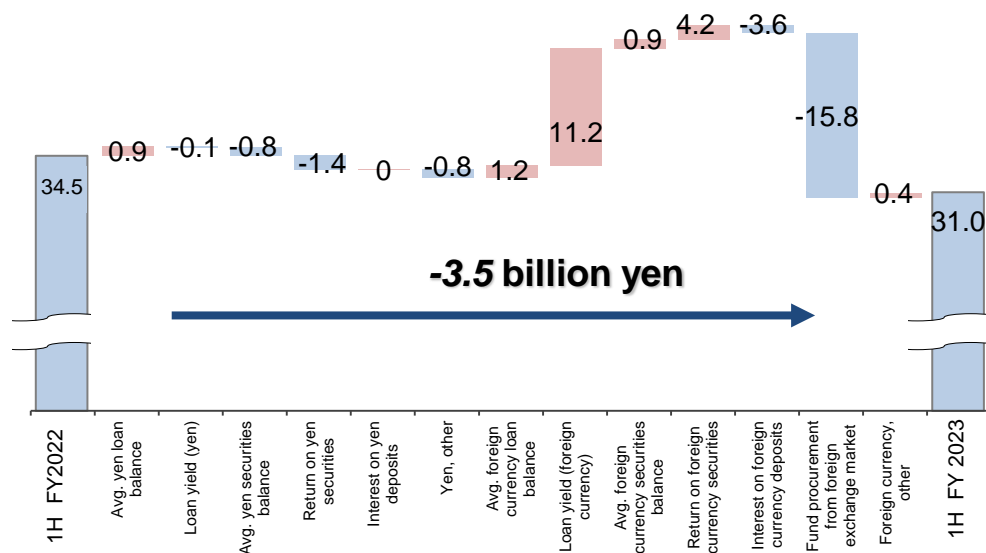
### ■ Yen based: 27.3 billion yen (-¥2.1 billion YoY)

- Interest on loans and discounts: +¥0.8 billion YoY
- Interest on securities: -¥2.1 billion YoY (Of which, gains on cancellation of investment trusts: -¥1.9 billion)
- Yen, other: -¥0.8 billion YoY (Short-term investment revenues, swap costs, etc.)

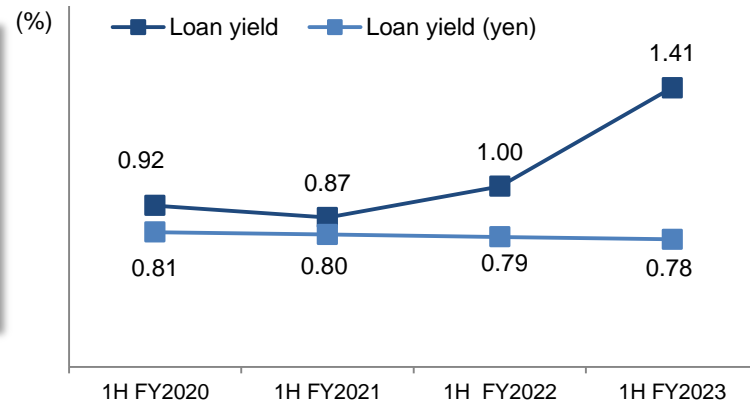
### ■ Foreign currency-based: ¥3.6 billion (-¥1.5 billion YoY)

- Interest on loans and discounts: +¥12.4 billion YoY
- Interest on securities: +¥5.1 billion YoY
- Foreign fund procurement cost: +¥19.4 billion YoY (Foreign currency-based deposits, market procurement)

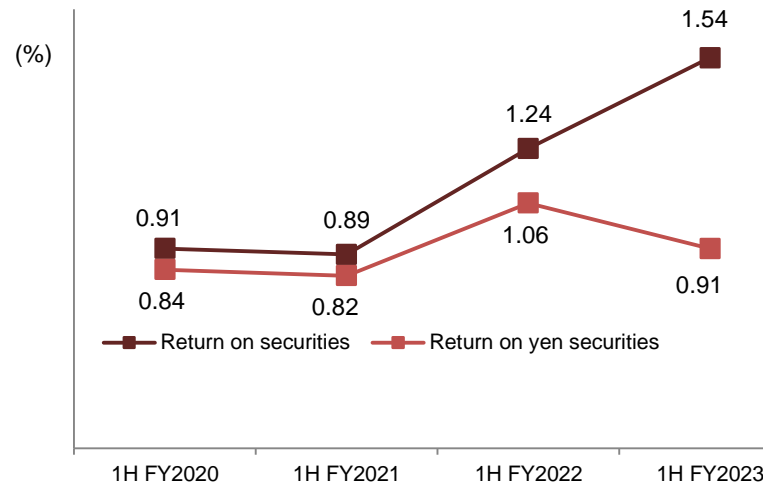
(billion yen)



## [Loan yield]



## [Return on securities]



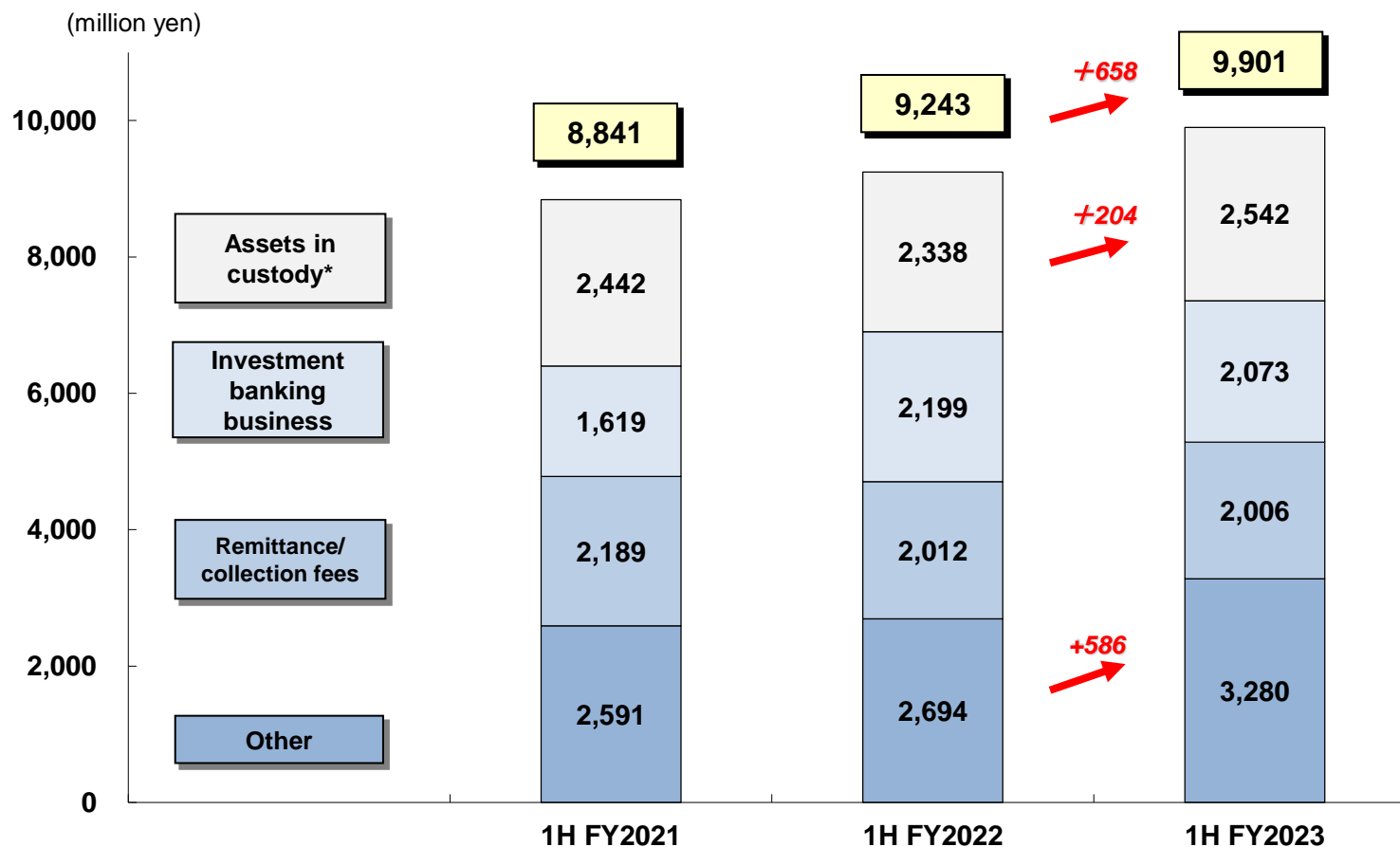
•Yen net interest income: Loan interest increased 0.8 billion yen as compared to the previous fiscal year due to a robust increase in the balance. Securities interest decreased by 2.1 billion yen as compared to the previous fiscal year due mainly to the absence of gains on cancellation of investment trusts (1.9 billion yen) recorded in the previous fiscal year.

•Foreign currency net interest income: The income decreased 1.5 billion yen as compared to the previous fiscal year due to a hike in procurement costs following a surge in overseas interest rates.



# Net Fee Income –Non-consolidated for the Bank–

## [Net fee income]



\*: Four products in custody (investment trusts, insurance, municipal bonds, and financial instrument brokerage) + inheritance-related business

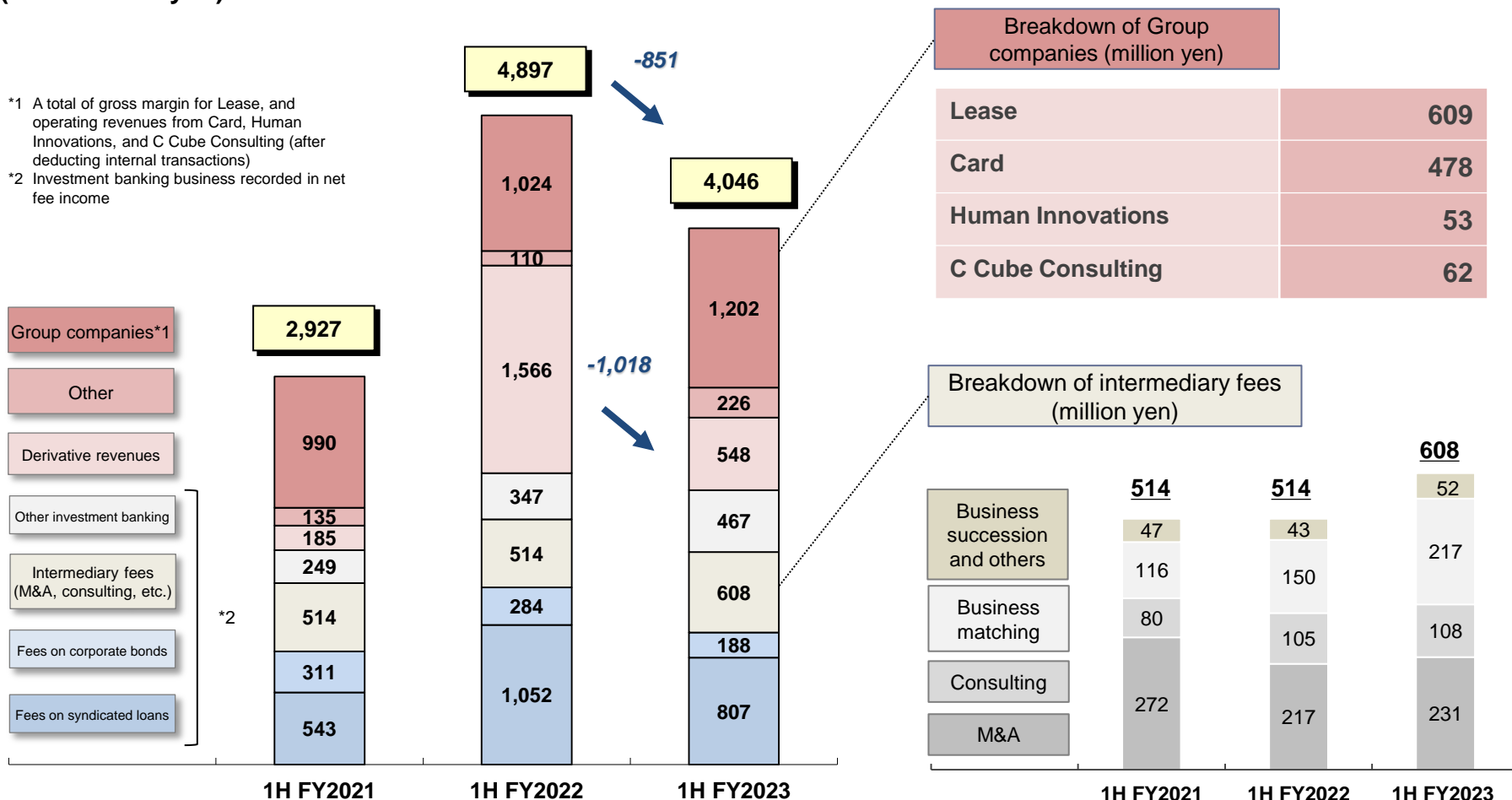
- Net fee income increased by 658 million yen as compared to the previous fiscal year, to 9,901 million yen.
- Revenues related to assets in custody remained favorable, and, in “Other,” there were contribution form factors such as an increase in the housing loan handling fees.



## [Corporate solution-related revenues]

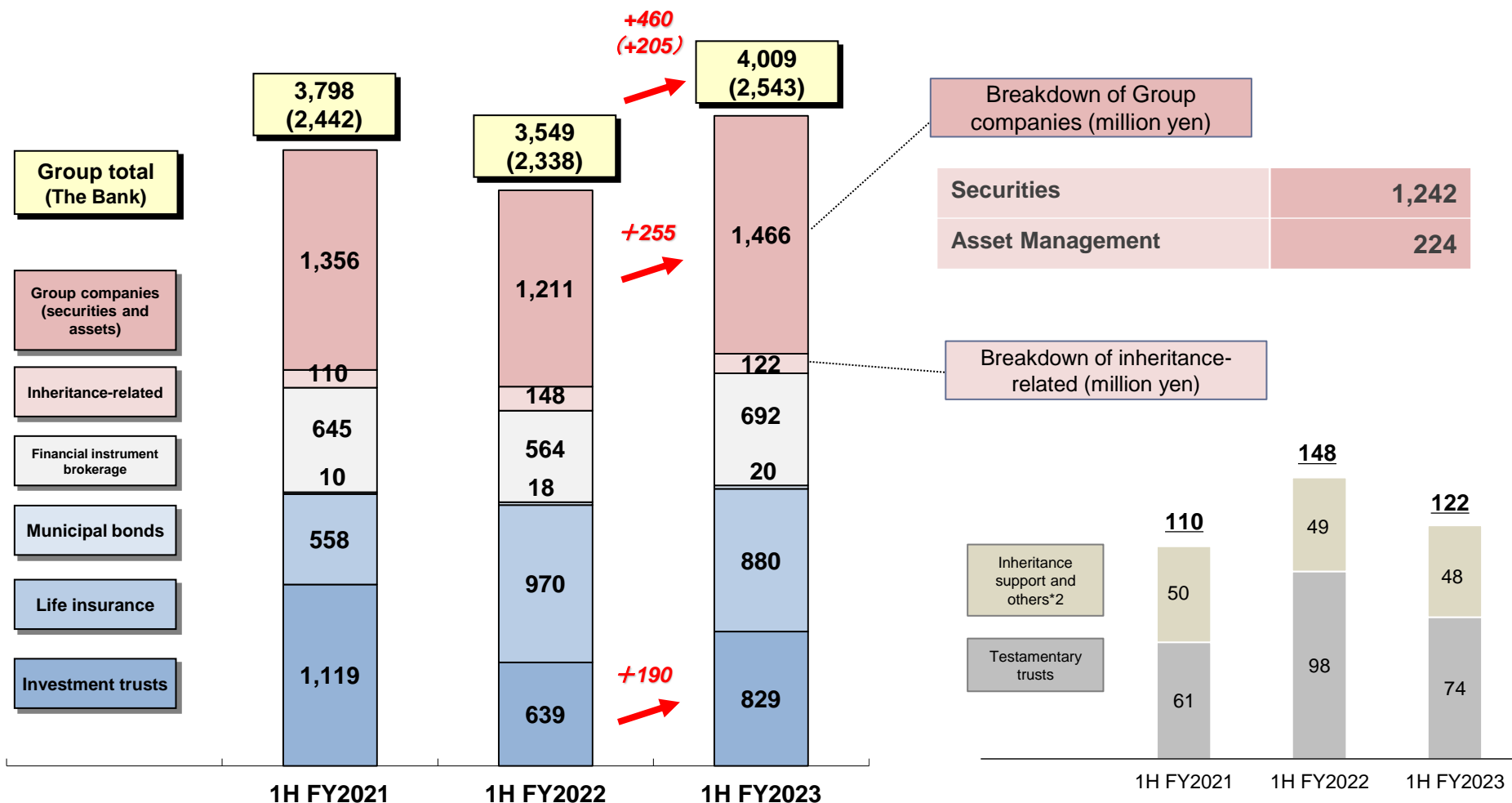
(unit: million yen)

\*1 A total of gross margin for Lease, and operating revenues from Card, Human Innovations, and C Cube Consulting (after deducting internal transactions)  
\*2 Investment banking business recorded in net fee income



- Revenues in 1H FY2023 decreased year on year due to a fallback after a significant growth of derivative revenues from customers recorded in the previous fiscal year.
- It is our policy to continue to strengthen consulting sales activities in accordance with management issues relating to customers.

## [Breakdown of revenues related to assets in custody] (million yen)



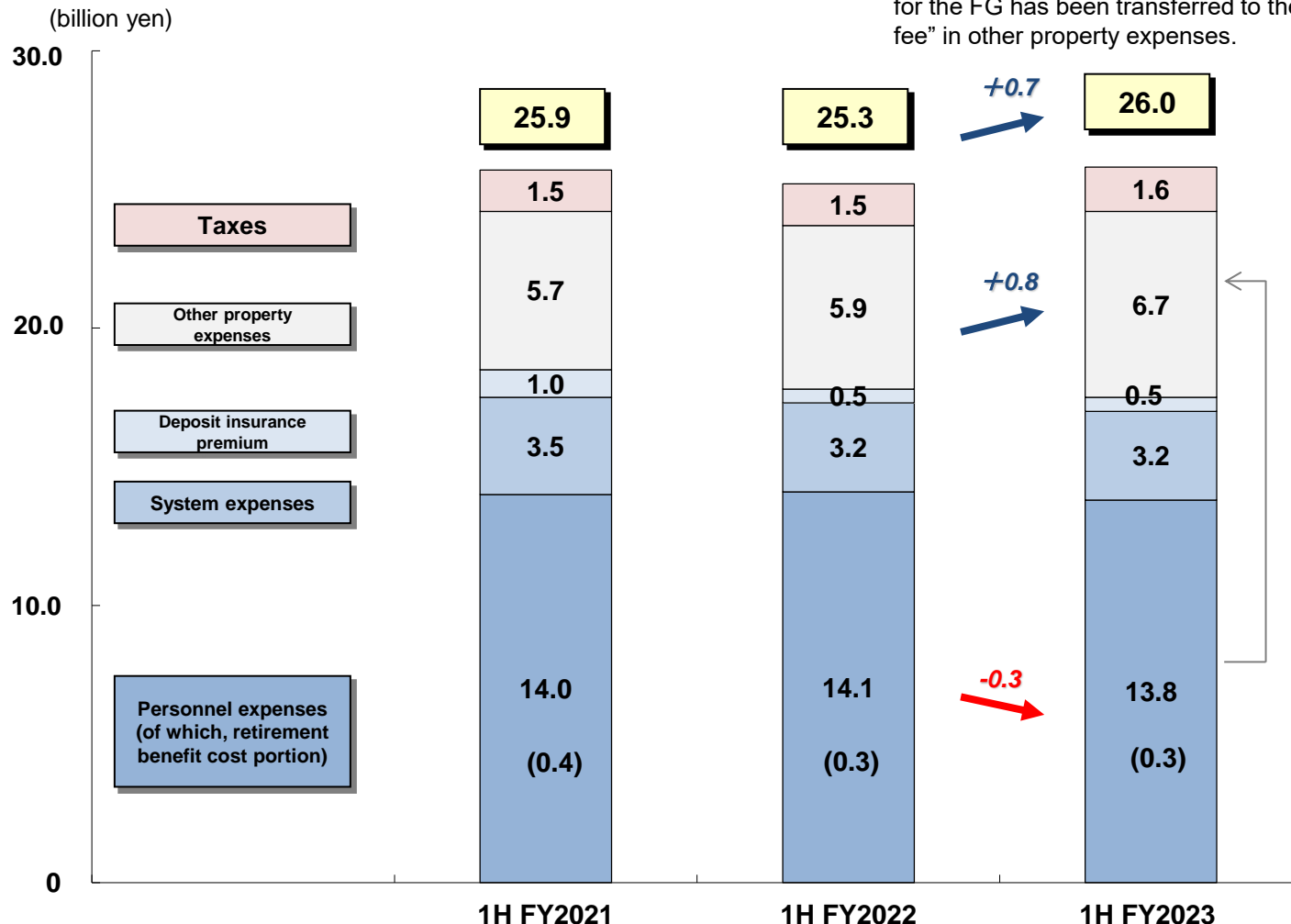
\*1: A total of operating revenues for Securities and Asset Management (after deducting internal transactions)

\*2: Including money trusts, etc.

- Revenues related to assets in custody increased robustly in 1H FY2023 due to the favorable market environment and expansion of group-wide collaboration.
- Revenues of the entire FG increased by 460 million yen year on year.

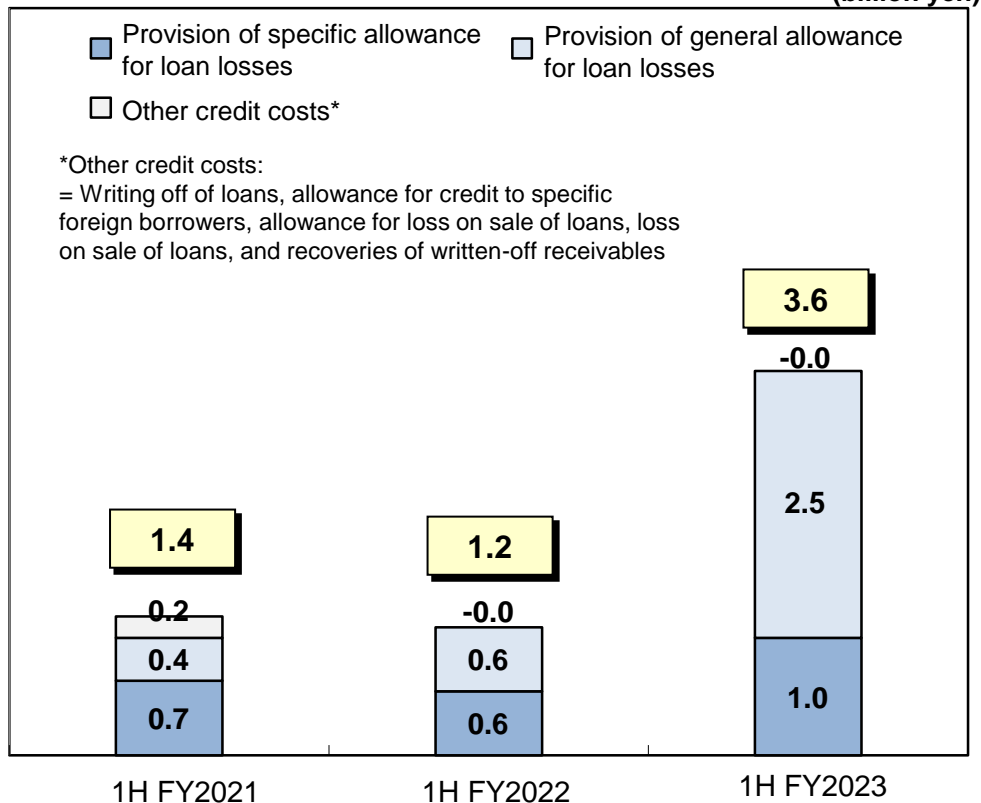
# Expenses –Non-consolidated for the Bank–

## [Expenses]



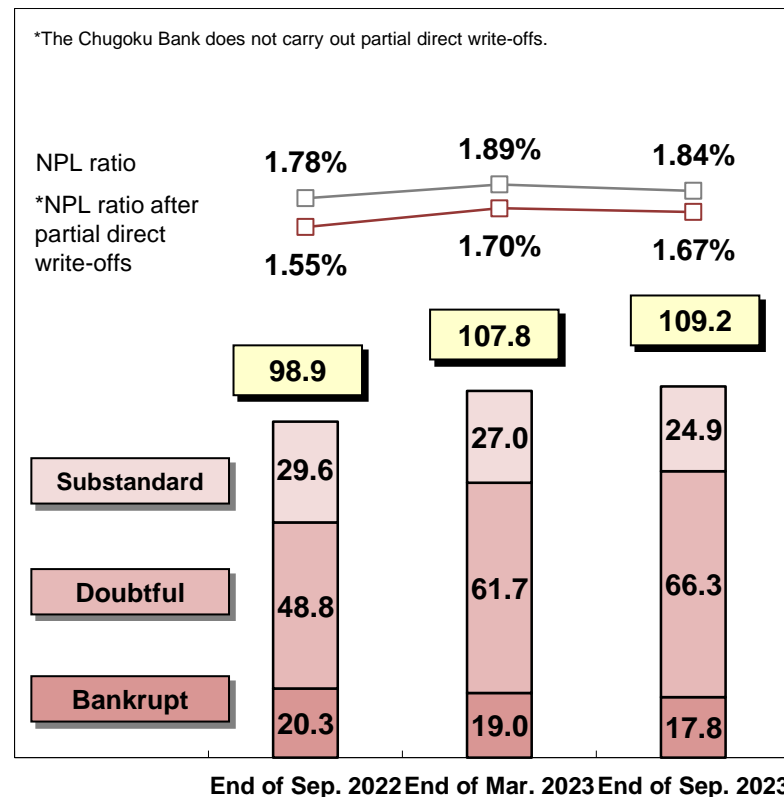
- Expenses totaled 26.0 billion yen, up 0.7 billion year on year. The main reason for the increase in “other property expenses” was the business management fee paid to the FG (which is offset for consolidated expenses for the FG).
- The entire expenses are controlled by reducing recurring costs while making personnel investments (bonuses, wage raise, etc.) and DX investments.

## [Credit costs]



## [Non-performing loans (NPL) (Loans disclosed under the Financial Revitalization Act)]

(billion yen)

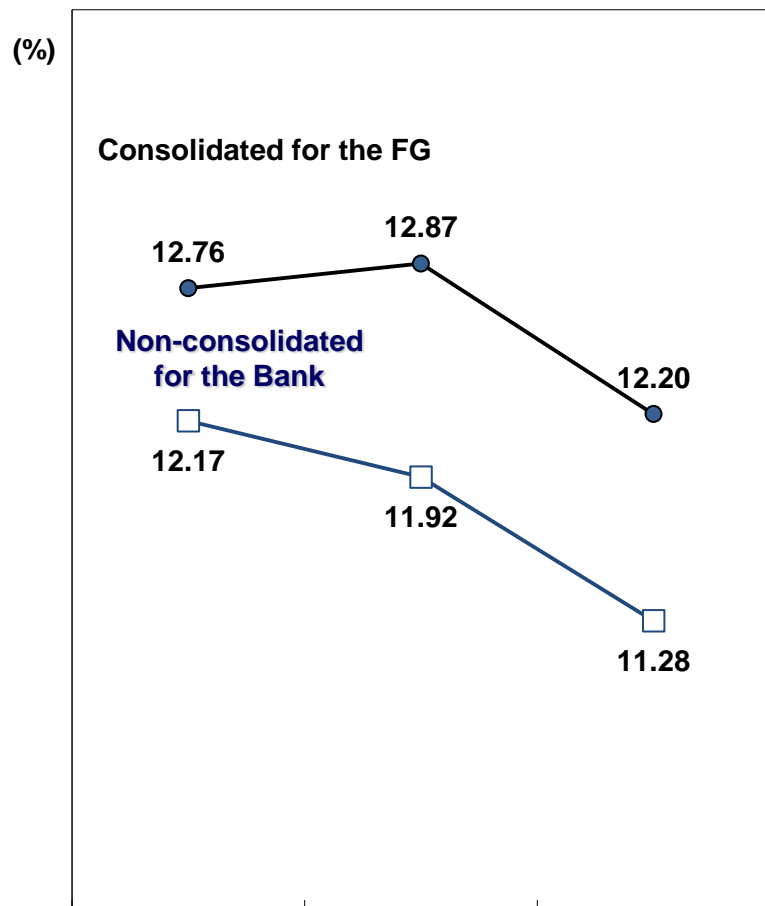


### ■ Calculation method of general allowance for loan losses

- The expected loss rate is calculated based on the actual loan loss rates for three consecutive calculation periods, with one period being three years. (Each calculation period is moved a half year forward.)
- The expected loss rate shall be either the “most recent three-period average” or the “most recent five-period average,” or the “long-term average starting from the fiscal year ended in September 2008,” whichever is larger (changed from the fiscal year ended September 2022).
- Loans to healthy accounts and substandard accounts are adjusted by taking into consideration the average remaining period of the receivables.

- Credit costs totaled 3.6 billion yen, up 2.3 billion yen from the previous fiscal year. The main cause for this was an increase in general allowance for loan losses associated with accumulation of the loan balance.
- The NPL ratio remained low (1% level).

## [Capital adequacy ratio]



End of Sep. 2022    End of Mar. 2023    End of Sep. 2023

## [Status of capital adequacy (consolidated for the FG)]

(billion yen)	FY ended Mar. 2023	1H ended Sep. 2023	Change
Total capital adequacy	530.7	540.5	9.8
Of which, common equity Tier 1	521.4	530.7	9.3
Of which, valuation difference on available-for-sale securities, etc.	26.0	30.0	4.0
Risk assets, etc.	4,123.1	4,428.1	305.0
Credit risk	3,959.8	4,262.5	302.7
Operational risk	163.2	165.5	2.3

## [Other Basel regulations]

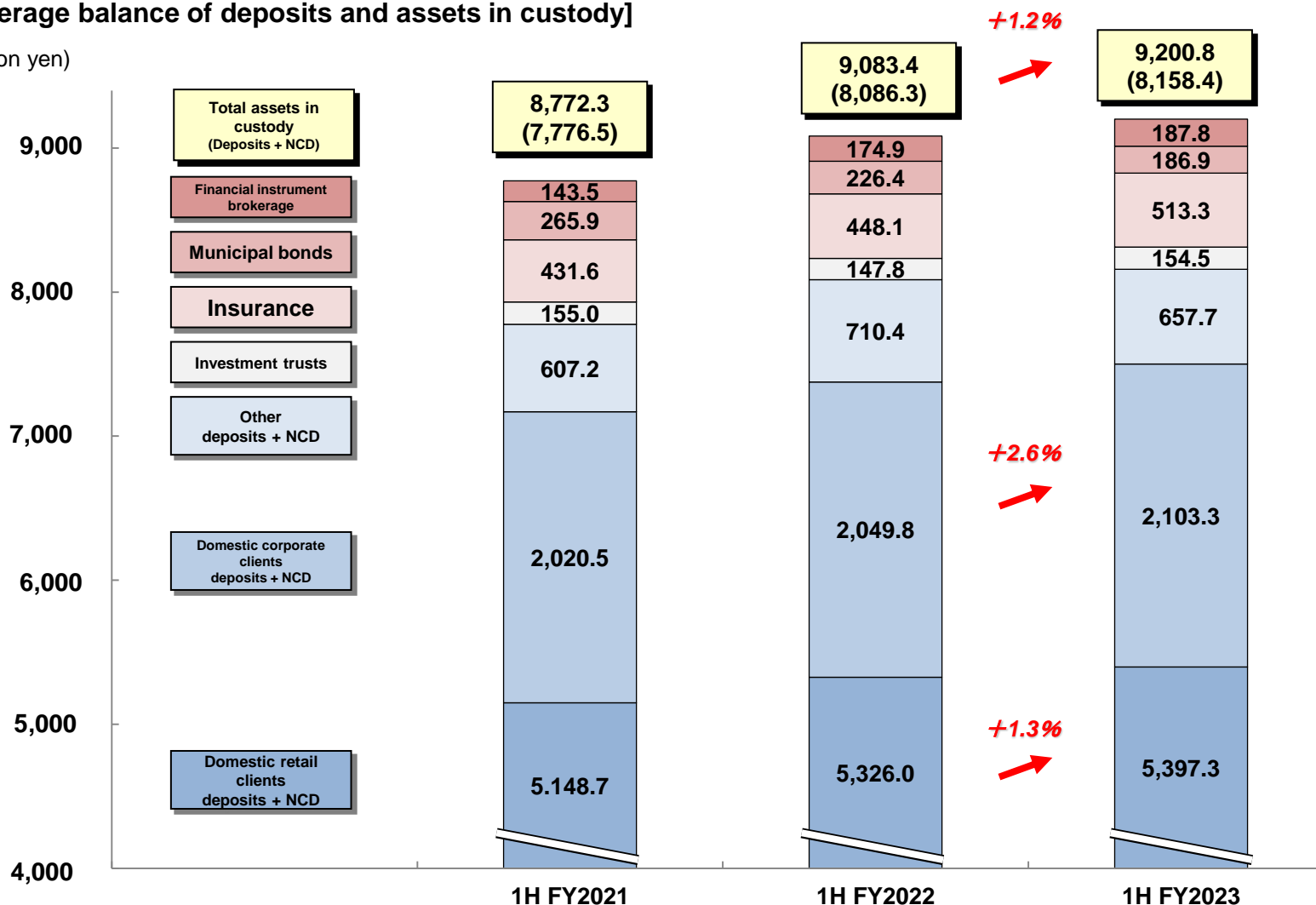
	FY ended Mar. 2023	1H ended Sep. 2023	Regulatory level
Consolidated leverage ratio	6.03%	5.88%	At least 3%
Consolidated liquidity coverage ratio (LCR)	209.0%	174.7%	At least 100%

- The total capital adequacy increased by 9.8 billion yen from the end of the previous fiscal year due in part to steady increase in profits.
- Risk assets increased by 305.0 billion yen from the end of the previous fiscal year due to an increase in loans to local businesses, personal loans, etc., resulting in a decline in the total capital adequacy ratio.

# Deposits & Assets in Custody – Non-consolidated for the Bank–

## [Average balance of deposits and assets in custody]

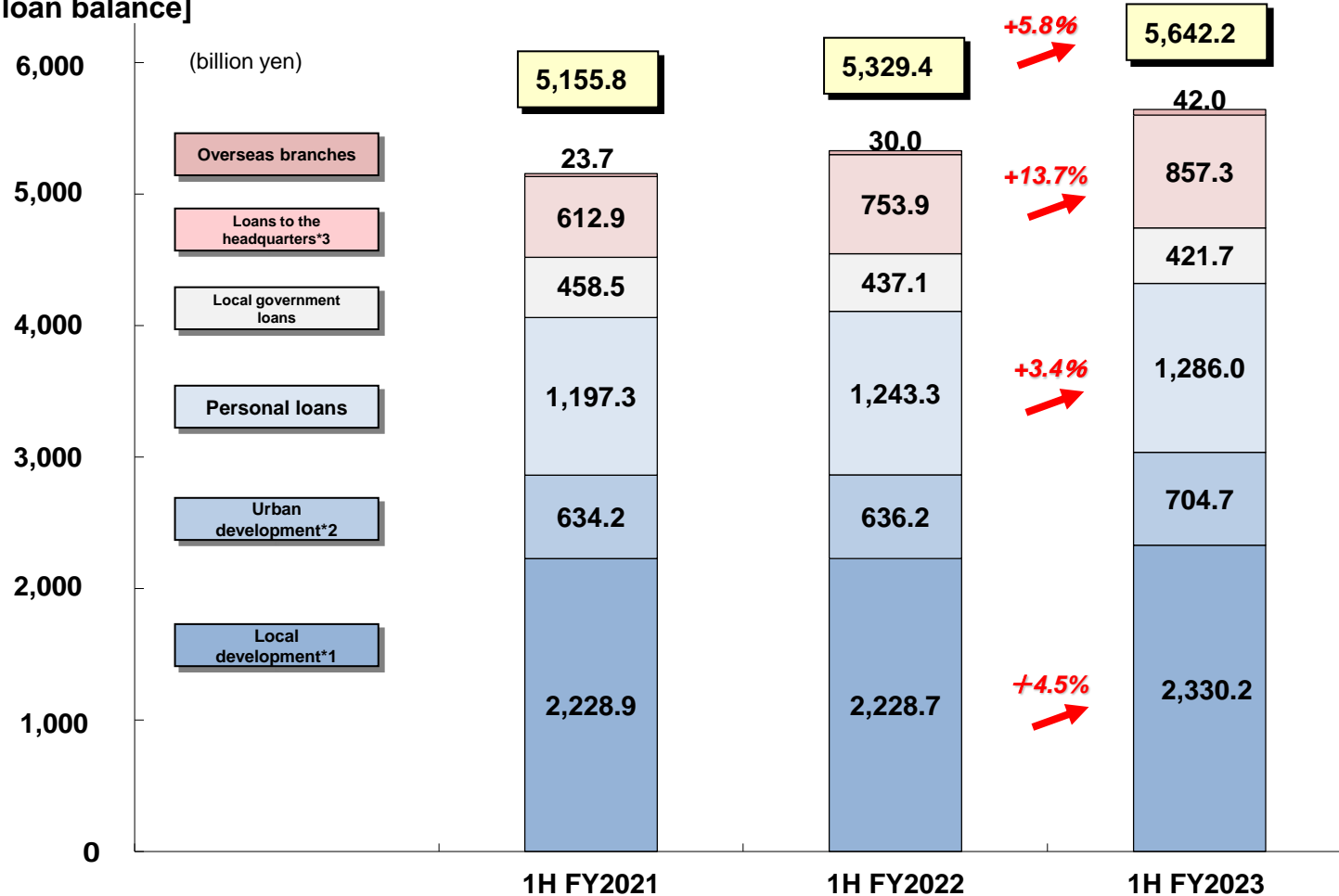
(billion yen)



\* Financial instrument brokerage is based on the acquisition price. Municipal bonds are based on the face value. Insurance takes into account cancellations. Investment trusts are based on net assets (including defined contribution pensions).

- Deposits + NCD have been increasing steadily for both retail and corporate clients, while the trends in securement of on-hand liquidity, spending restraints, etc. due to the COVID-19 pandemic have been subsiding.

## [Average loan balance]



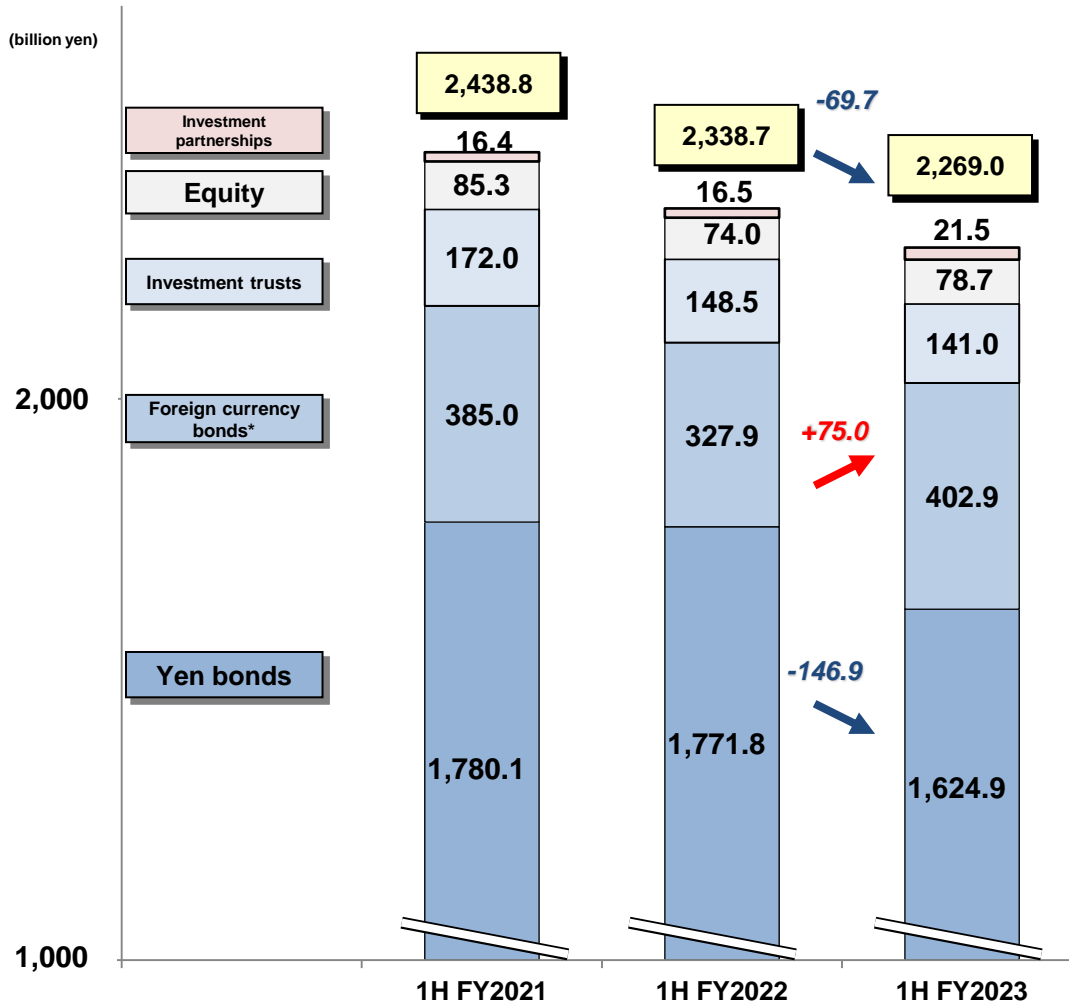
\*1 Local: Regions other than Tokyo and Osaka \*2 Urban: Tokyo and Osaka \*3 Loans to the headquarters: Non-Japanese loans and SF centers

- Total loans increased by 5.8% per annum.
- Local development loans increased by 4.5% per annum due to strengthened sales activities to expand the regional share. Active efforts toward sustainable finance have also been made.
- Personal loans, mainly housing loans, performed robustly as well.



# Securities –Non-consolidated for the Bank–

## [Average balance of securities]



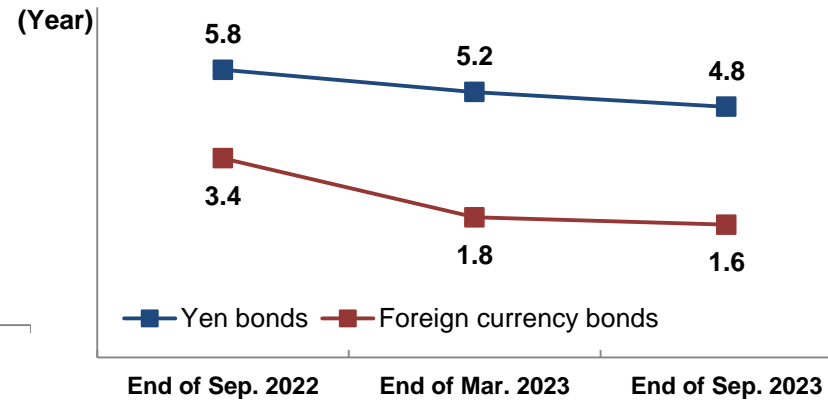
\* Foreign currency bonds:  
Includes foreign currency  
investment trusts

## [Unrealized gains/losses]

(billion yen)

	End of Sep. 2022	End of Mar. 2023	End of Sep. 2023	Term-end comparison
<b>Total</b>	<b>44.3</b>	<b>42.4</b>	<b>45.5</b>	<b>3.1</b>
Securities	41.3	46.2	23.1	- 23.1
Held to maturity	0.1	0.1	- 0.2	- 0.3
Other securities	41.1	46.1	23.3	- 22.8
Equity	36.2	39.2	52.4	13.2
Investment trusts	32.8	25.9	34.1	8.2
Foreign currency bonds	- 19.5	- 11.7	- 25.9	- 14.2
Yen bonds	- 7.7	- 6.6	- 36.8	- 30.2
Asset swap	3.0	- 3.8	22.4	26.2
Foreign currency interest swap	-	- 1.2	10.5	11.7
Yen interest swap	3.0	- 2.6	11.9	14.5

## [Duration of bonds]



- The average securities balance decreased by 69.7 billion yen year on year due mainly to a decrease in yen bonds.
- With an eye on the normalization of the financial policy, the yen- and foreign-currency durations are shortened by reducing the interest rate risk amount for the time being.



**Our challenges build our future.**

# **Chugin Financial Group, Inc.**

This material contains forward-looking statements. These statements do not guarantee our future business performance and include risks and uncertainties. It should be noted that future performance may differ from the targets mentioned herein due to changes in the management environment and other factors.

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