Financial strategy

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

Director and Managing Executive Officer, **Soichi Yamamoto**

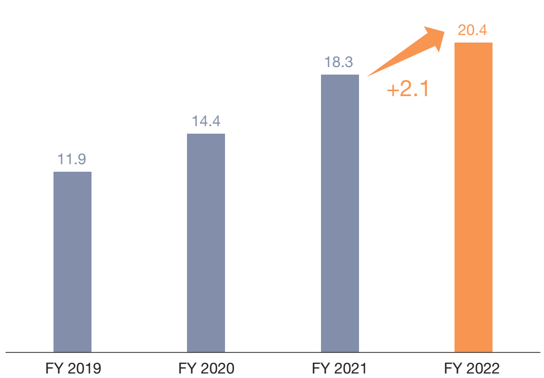
1 Performance

Fiscal Year 2022

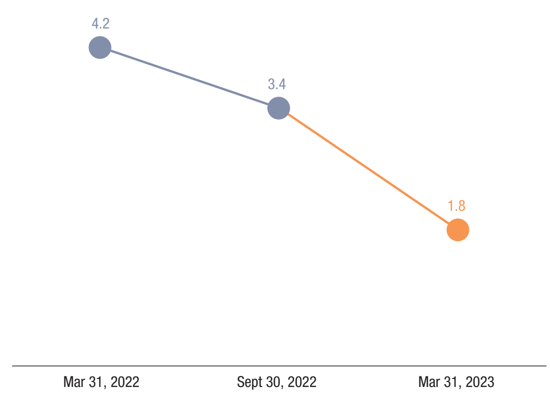
In FY 2022, consolidated ordinary profit increased by ¥3.7 billion year on year to ¥29.5 billion and net income attributable to owners of parent increased by ¥2.1 billion year on year to ¥20.4 billion. We achieved our publicly announced forecast and increased profits year on year for the third consecutive year. I believe that we have thus been able to show positive results to all of our stakeholders. This fiscal year was the year we were influenced tremendously by changes in the external environment.

The central banks of the U.S. and other countries rapidly raised their interest rates, which affected the Group's securities management. Unrealized loss grew for some foreign currency bonds, and the Group recorded losses on sales. However, we had created enough unrealized gains on other assets (stocks, investment trusts, REITs, etc.) to cover these losses. Because we made changes to our portfolio at the beginning of the rapid rise in interest rates, we have also recently been able to make major improvements to the durations of our foreign currency bonds.

Change in net income attributable to owners of parent
(Unit: Billions of Yen)



Foreign currency bond durations - after taking asset-swapping into consideration
(Unit: Years)



	Mar 31, 2022	Sept 30, 2022	Mar 31, 2023
10BPV (Unit: Billions of Yen)	-1.6	-1.0	-0.6

*BPV: Changes in current value when the interest rate rises one basis point (0.01%)

Cumulative financing (Unit: Billions of Yen)

	FY 2021	FY 2022		FY 2030 targets
			YOY change	
Sustainable financing	444.6	641.8	197.2	1,500.0
Environmentally-related	105.6	215.3	109.7	1,000.0

* Includes some figures other than loans (security purchases, etc.)

Turning our attention to our internal environment, I feel that the measures that we have been implementing have begun to bear fruit.

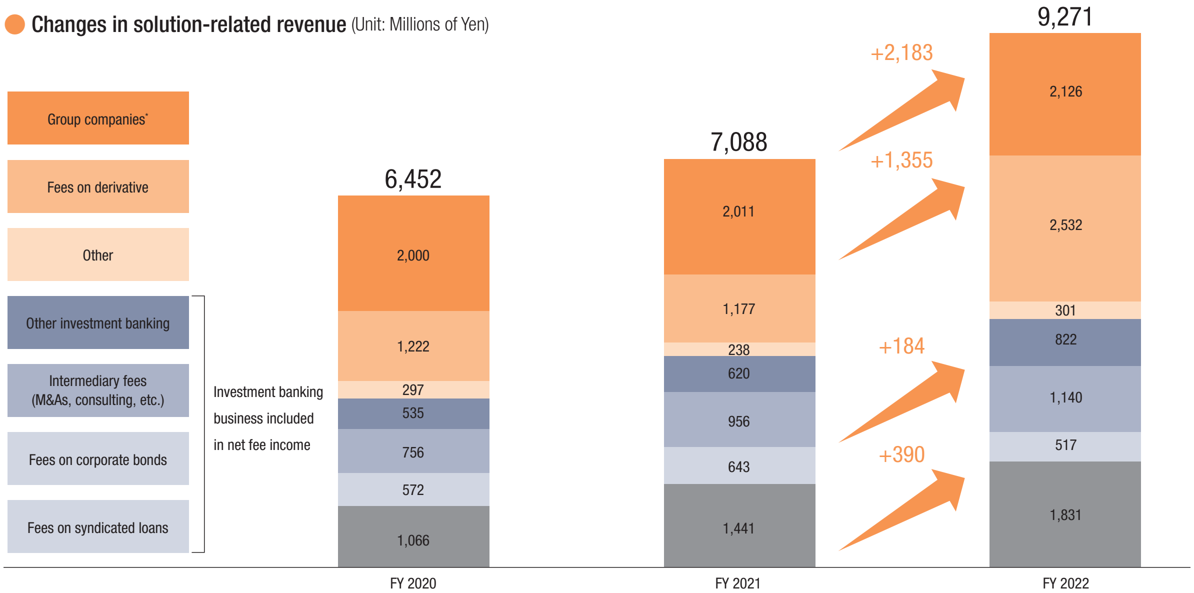
With regard to loans, one of the Group's main revenue pillars, we have provided support to local customers, primarily through regional business loans and personal loans, and our loan balance has risen steadily. We have been stepping up our sustainable financing for the environmental and social segments, increasing our cumulative financing by ¥197.2 billion year on year to roughly ¥641.8 billion.

In our consulting sales, we are deeply involved in the solving of the issues our customers face, thus revenue from structured financing, M&As, business matching, and the like is growing year by year. In FY 2022, we proposed solutions that addressed changes in the foreign currency exchange market, significantly increasing our derivative fee revenue.

Furthermore, we established four new Group companies*. We hope that these companies will become new growth drivers for the Chugin Group.

* Four companies: Chugin Capital Partners, Chugin Human Innovations, C Cube Consulting, and Chugin Energy

Changes in solution-related revenue (Unit: Millions of Yen)



* Total of lease gross profit and operating revenue from Chugin Card, Human Innovations, and C Cube Consulting (after excluding internal transactions)

Management Plan

In FY 2017, the 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%; and Consolidated ROE of 5%. The previous medium-term management plan was positioned as "Plan for Creating the Future Together: Stage II (FY 2020 to FY 2022)," a three-year plan based on the long-term management plan, and this three-year plan came to an end in FY 2022. Looking back at the plan's financial KPI, in FY 2022 we recorded ¥20.4 billion in net income attributable to owners of parent, greatly surpassing the KPI of ¥15.0 billion. We also achieved our consolidated capital adequacy ratio KPI target of remaining stable at 12%, reaching 12.87% as of the end of FY 2022 (for Chugin Financial Group, consolidated).

Financial KPI	FY 2022		FY 2026 targets
	Plan	Results	
Net income attributable to owners of parent	¥15.0 billion	¥20.4 billion	¥30.0 billion
ROE	—	3.70%	5% or higher
Capital adequacy ratio	Remain stable at 12%	12.87%	11% to 13%

Financial strategy

Given the above, we believe that we performed well overall during the preceding medium-term management plan period. However, our PBR was low, at roughly 0.3, and there remain issues that we must tackle in order to increase our corporate value.

We recognize that enhancing our earning power will be essential to improving our corporate value, and we have set as a KPI target the achievement of ¥30.0 billion in “net income attributable to owners of parent” in FY 2026, the final year of our long-term management plan. As I mentioned earlier, profit rose steadily through the previous medium-term management plan, but ¥30.0 billion is still a high KPI target. We must further enhance our consulting sales and accelerate our efforts towards revitalization of regional economies while also leveraging group synergy, including synergy with newly established companies. From the perspective of capital efficiency, we also recognize the need to deepen our internal discussions of indicators such as our consolidated capital adequacy ratio and consolidated ROE. Banks have always been called on to exercise “sound, solid” management, and this, of course, remains unchanged. However, in the future, banks and comprehensive financial services groups like our own will also need to focus on growth potential and capital efficiency in addition to the elements mentioned above. Unfortunately, I believe that our Group has yet to achieve the level sufficiently. Through the new medium-term management plan period, as well, we will continue to work on while addressing changes in the external environment, including the demands placed on us by society.

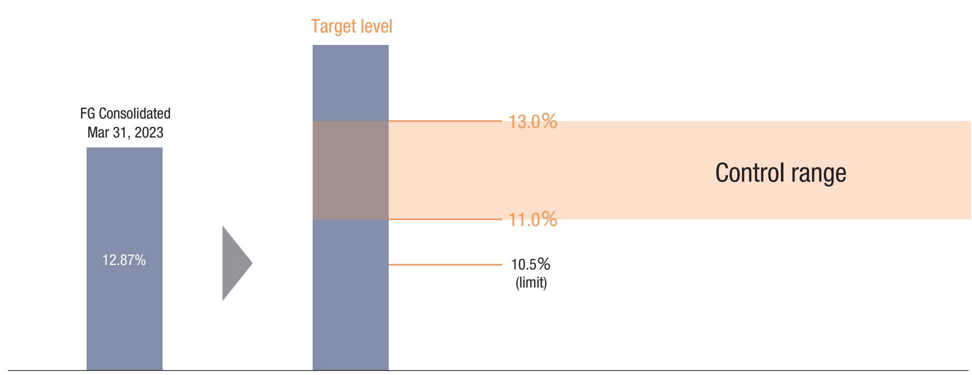
2 Capital Policy / Shareholder Returns

Before we establish the holding company, the Chugoku Bank was often praised for being a “solid bank.” This “soundness” is a strength that we established through the relationships we have built with our customers through the years. Now, having become a holding company, the Chugin Financial Group will leverage this strength to actively utilize capital to contribute to the development of the community.

With respect to capital utilization, under the new medium-term management plan, we have set a “consolidated capital adequacy ratio of 11.0% to 13.0%” as the control range for our Group’s goal. This was arrived at by starting with a limit level for distribution of profit of 10.5% and applying a “growth investment buffer” and a “risk buffer” from the perspectives of management soundness and profitability (capital efficiency). We will control our capital levels while investing capital in assets, primarily focused on core businesses and strategic operation.

When transitioning to a holding company structure, we established a “Management Resource Committee” as a deliberative organization that appropriately allocates management resources related to human resources, costs, and the like for the Group as a whole. We will use this Management Resource Committee effectively to elevate

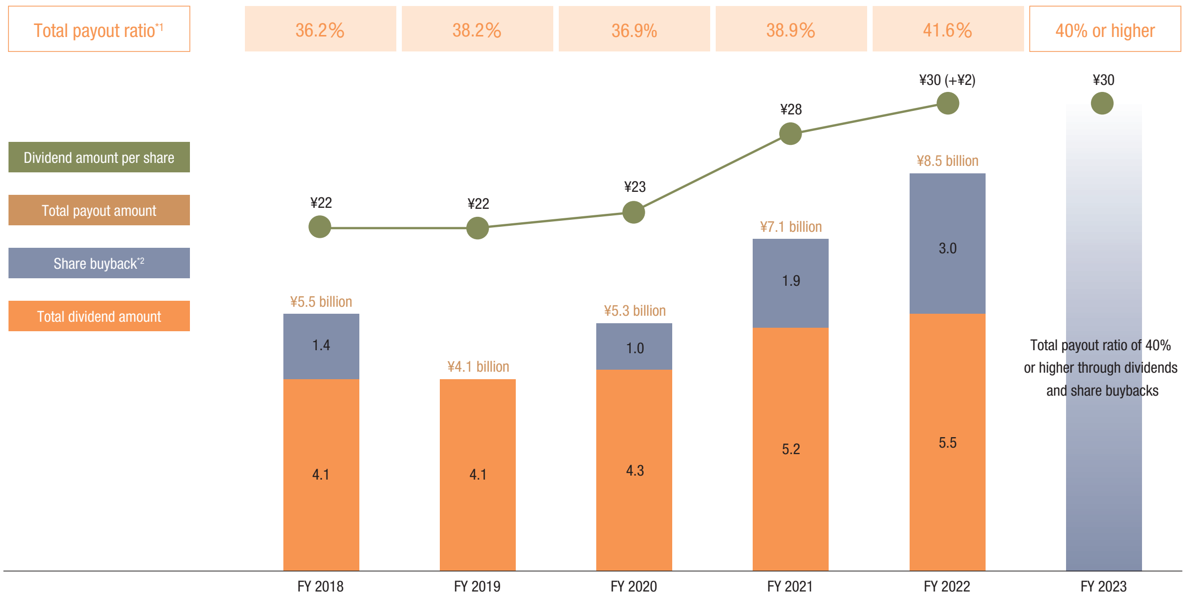
Consolidated capital adequacy ratio



Overall assets

Core business	Strategic operation	Marketable operation
Regional business loans, personal loans, etc.	Renewable energy, real estate/ ships/aircrafts, equity, overseas sites, new businesses, etc.	Marketable loans (including Tokyo), securities management, etc.
Active initiatives based on sales strategies		Integrated operation based on market environment

Balance plan



*1 Until FY 2019: Non-consolidated income base for Chugoku Bank
FY 2020 to FY 2021: Consolidated income base for Chugoku Bank
FY 2022 and after: Consolidated income base for Chugin Financial Group
*2 Carried out for one-year, starting from the general meeting of shareholders

our business portfolio management throughout the Group.

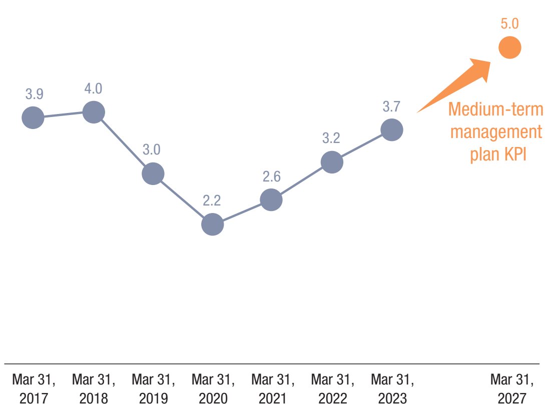
With regard to our shareholder return policy, we also set the goal to raise our total payout ratio from 35% or higher to 40% or higher through dividends and share buybacks in the new medium-term management plan. We will continue to engage in capital management that balances soundness, profitability, and shareholder returns.

Through measures such as these (increasing our earning power and improving our capital efficiency), we will aim to achieve our KPI target of ROE of 5% or more and we will seek to increase our ROE above capital costs, increasing our Group's corporate and shareholder value and raising our PBR.

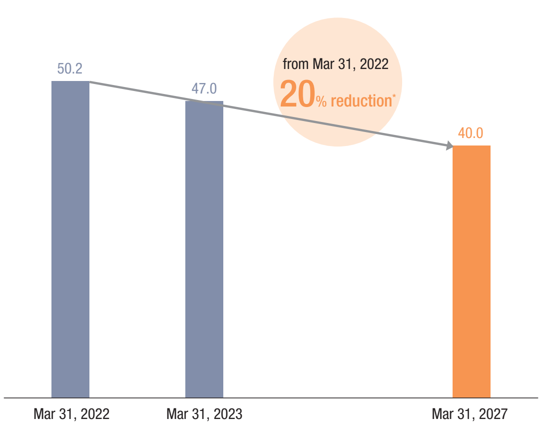
3 Cross Shareholdings

Our basic approach is for cross shareholdings to be held only when deemed necessary for achieving sustainable growth of the holding party and the 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. By March 31, 2027, we plan to reduce the cross shareholdings by 20% in book value base in comparison to March 31, 2022. (We will perform regular and stringent evaluations of all stocks from the perspectives of "profitability in light of capital costs," "relationship with the regional economy," and "management strategy viewpoints.")

ROE (unit: %) (based on TSE)



Reduction plan (unit: Billions of Yen)



* Book value. Includes listed shares, unlisted shares, and deemed holding shares.