Toward Enhancement of Corporate Value

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

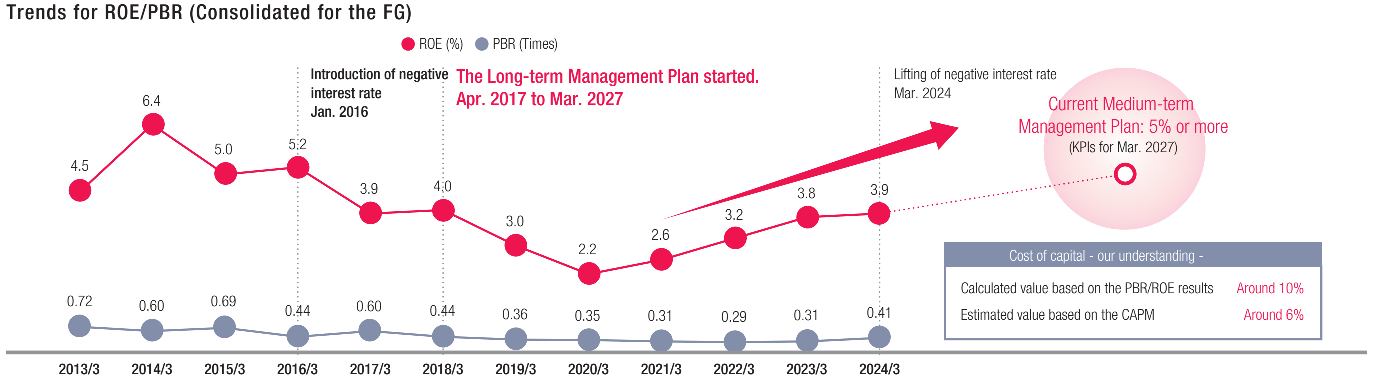
Director and Managing Executive Officer, Soichi Yamamoto

Implementing Medium- and Long-Term Strategies toward Corporate Value Enhancement

● Current Status of Corporate Value

While our PBR has been improving recently, it remains somewhat low at around 0.4 times (as of the end of March 2024). Our ROE likewise is improving but remains far from a satisfactory level. The KPI for ROE in our current medium-term management plan (April 2023–March 2027) is 5% or higher, but we should be aiming beyond this. We recognize that, given the calculated value based on the PBR/ROE results and the estimated value based on the CAPM, our cost of capital is around the 6–10% level. In light of that level too, our Group ROE is low, and we believe that improving ROE will be particularly important in enhancing our PBR.

Trends for ROE/PBR (Consolidated for the FG)



* ROE (based on the TSE) Including valuation difference on available-for-sale securities

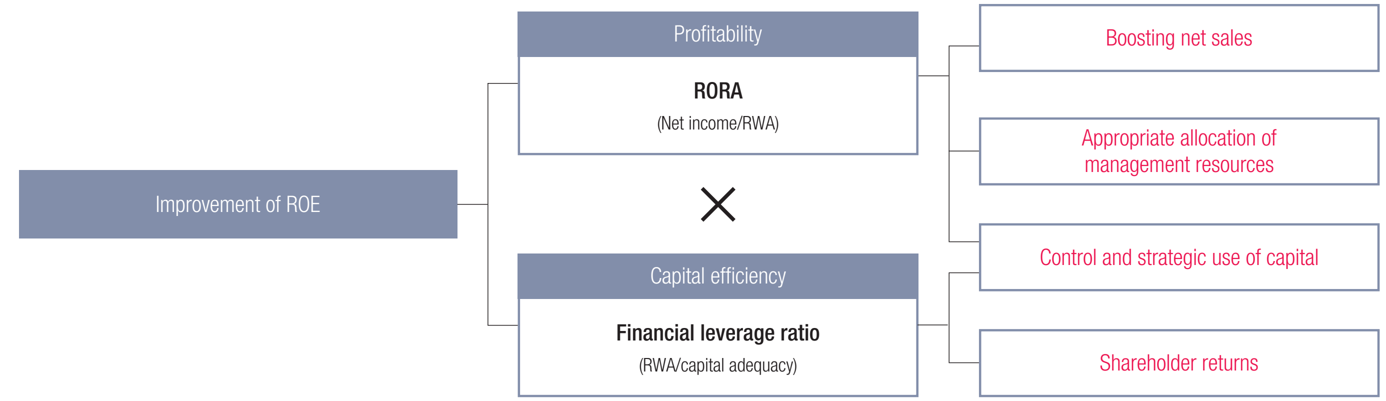
● Enhancing Corporate Value through the Medium-Term Management Plan

In FY 2017, we launched the 10-year long-term management plan "Vision 2027: Plan for Creating the Future Together." In Stage I (April 2017–March 2020), we engaged in structural reforms, including overhauling sales personnel and business hours, while in Stage II (April 2020–March 2023), we instituted action reforms, such as transitioning to a holding company system. In the Stage III medium-term management plan, which is the final stage, we will further improve and enhance ROE and improve PER through three growth strategies— "deepening" the revitalization of regional economies and SDGs, creating innovation, and strengthening our Group management foundation—so as to boost PBR. Initiatives toward ROE improvement which are explained on the next page.

Stage I 2017.4～2020.3	Structural reforms (Strengthening of hardware aspects)	● BPR investments (A shift from administrative affairs to sales activities)
Stage II 2020.4～2023.3	Action reforms (Strengthening of software aspects)	● Autonomous sales system and personnel system ● Acceleration of the development of new businesses ● Transition to a holding company system
Stage III 2023.4～2027.3		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 (reducing cost of capital)** Sustainable growth of profits through regional revitalization SDGs, and others

Initiatives toward Improvement of ROE

To improve ROE, we are addressing the four elements of boosting net sales, appropriate allocation of management resources, control and strategic use of capital, and shareholder returns from a profitability (RORA) and capital efficiency (financial leverage) perspectives.



* RORA = Return On Risk weighted Asset
* RWA = Risk Weighted Asset

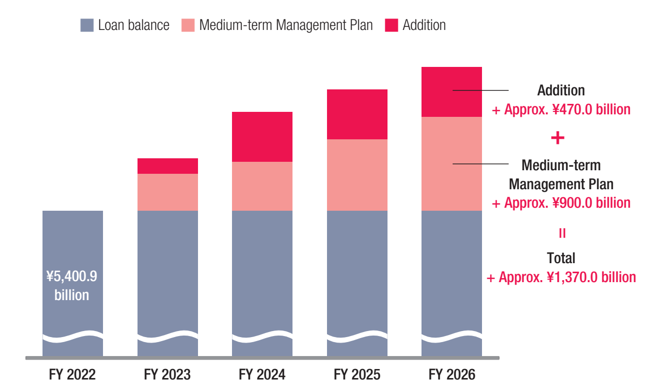
● Boosting Net Sales

— An Increase in Net Interest Income through Accumulation of High-Quality Assets —

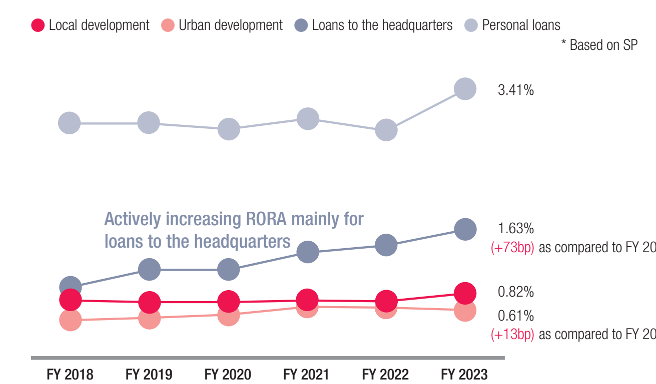
The net interest income generated by high-quality assets that we have built up through long relationships with our business partners is our Group's greatest strength, and we will continue to amplify that strength still further. Based on factors such as our expected capital adequacy ratio given changes in the internal and external environment, we determined that we have sufficient risk-taking capacity, and since the second half of FY 2023, we have been engaged in strategic asset accumulation. We have accumulated assets across the company with top priority given to financing for regional business partners, increasing the balance by approx. ¥470.0 billion compared to the current medium-term management plan.

With loans to the headquarters, we are proactively addressing areas expected to have a high RORA. We moved earlier than many regional banks to accumulate structured finance know-how, and we will exploit that advantage to continue aiming for high earnings after assessing an appropriate risk-return.

Average balance of total loans (non-consolidated for the Chugoku Bank)



RORA on loans (non-consolidated for the Chugoku Bank)



— Expansion of Consulting Revenues of the Entire Group —

We will leverage the strengths of our holding company system to make wide-ranging solution proposals that respond to business partners' increasingly diverse and sophisticated needs.

Group partnership is also deepening, with the number of toss-ups from the Chugoku Bank to Group companies increasing 1.8 times year-on-year in FY 2023 and the Chugoku Bank referring regional business partners to an investment fund developed by Chugin Asset Management that includes regional listed companies.

● Appropriate allocation of management resources

The Group has developed an operational process using a committee to engage in integrated management of our business and human resource portfolios and pursue selection and concentration toward realizing optimal portfolios. Directors and other members of the Management Resource Committee examine and discuss the relative benefits and disadvantages of business and resource allocation toward realizing portfolios based on management policy while also ensuring a balance between management and business divisions.

Toward Enhancement of Corporate Value

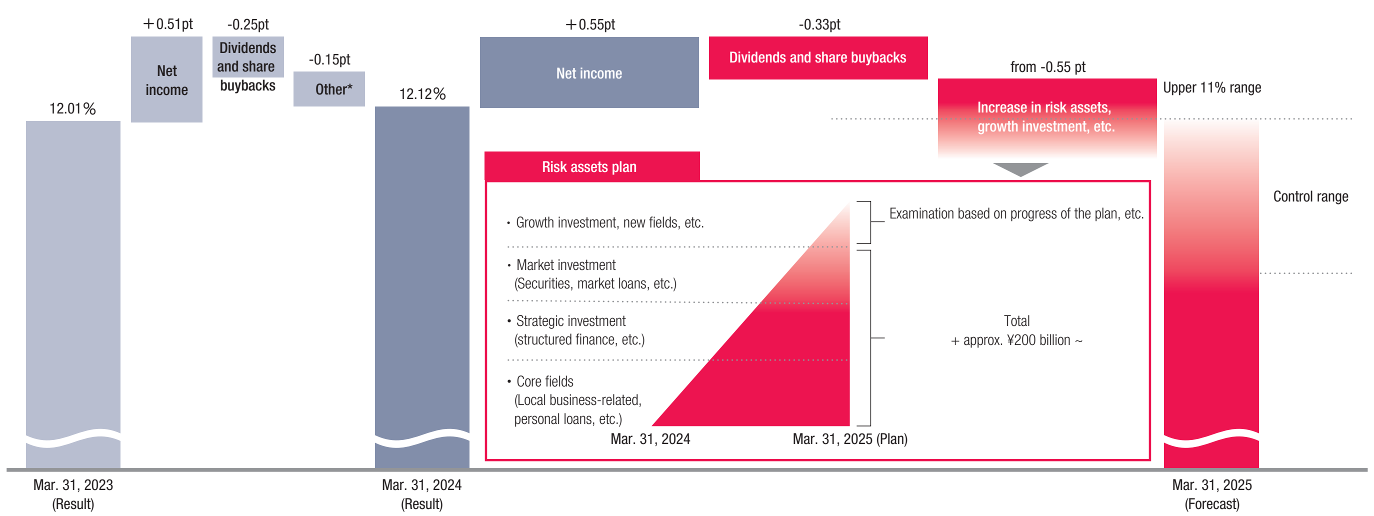
● Control and strategic use of capital

This year we changed our capital control indicator from a consolidated capital adequacy ratio of 11–13% to a common equity Tier 1 ratio (FG consolidated; excluding valuation difference on available-for-sale securities, etc.) of 11–12% toward more effective capital utilization that will enhance ROE.

We decided that using the ratio of common equity Tier 1 (FG consolidated; excluding valuation difference on available-for-sale securities, etc.) as our capital control indicator would enable us to further accelerate an asset strategy that is not affected by market fluctuations. In FY 2024, we plan to accumulate approx. ¥200.0 billion in risk assets. While placing top priority on the regional business loans and personal loans which we regard as our core business, we will also engage in proactive risk-taking in other areas, paying attention to product characteristics and the market environment. According to progress with the plan, etc., we will also consider further growth investment and the allocation of assets to new areas.

At the same time, we obviously recognize that we must maintain sound foundations as a regional financial group. We will continue to manage soundness through our consolidated capital adequacy ratio and, where necessary to prepare against risk, we will arrange coverage using subordinated loans, etc.

Capital allocation [Consolidated for the FG] Ratio of common equity Tier 1 (excluding the valuation difference on available-for-sale securities, etc.)

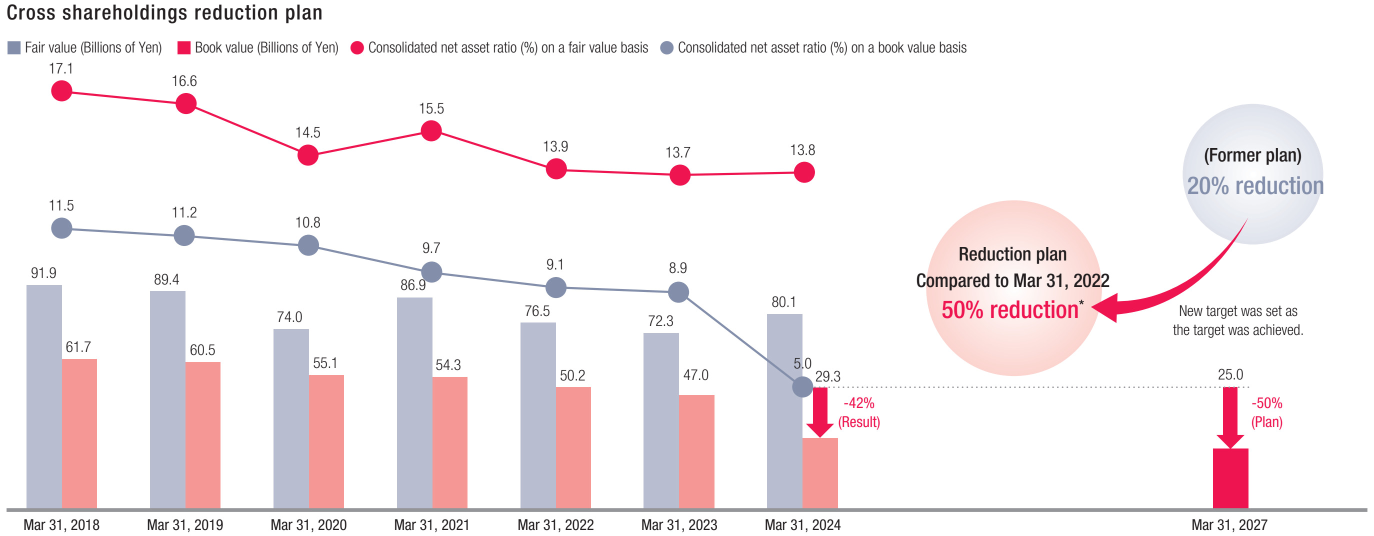


* Including the impact of Basel III

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. (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.").

We achieved the targets of our original reduction plan in FY 2023, and we have created a new plan. We will continue to reduce our cross shareholdings pursuant to our basic approach and work to improve our capital efficiency.

Cross shareholdings reduction plan



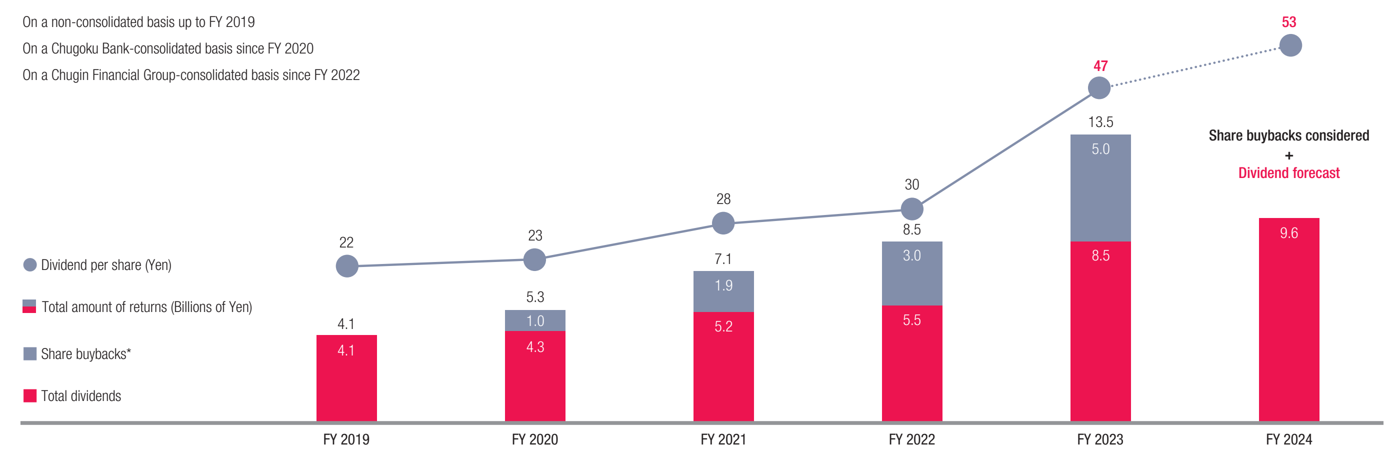
* Book value. Including listed shares, unlisted shares, and deemed holding shares.

● Shareholder Returns

We changed the goal of our shareholder return policy from raising our total payout ratio to 40% or higher through dividends and share buybacks to a dividend payout ratio of approximately 40%. We will increase dividends through profit growth.

We will carry out share buybacks flexibly through capital control (In FY 2023, we purchased ¥5.0 billion of treasury shares).

Total payout ratio	38.2%	36.9%	38.9%	41.6%	63.4%	Not yet determined
Dividend payout ratio	38.2%	29.8%	28.4%	26.9%	40.0%	約40%



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

Conclusion

In addition to the initiatives noted above, we will be undertaking two new initiatives from FY 2024. The first pertains to the Chugin DX Strategy, and entails shifting operations from administrative work to sales and growth areas through operational process reform. We will reduce operation volume and reallocate human resources. The second comprises enhancing the functions of the holding company (FG). We will set in place a structure for the steady pursuit of the Chugin DX strategy and of consistent risk-taking that is not affected by market fluctuations, providing organizational support.

By advancing our current medium-term management plan through these measures, we believe that we can achieve more growth than originally planned. With regard to the ROE target of 5% or more in the current medium-term management plan, we will aim for 7% or more, and in the medium to long term, a PBR over 1.0x.