Analysis of Financial Condition, Operating Results, and Status of Cash Flows

Overview of Results, etc.

Results

Regarding the results for the fiscal year ended March 31, 2024, consolidated ordinary income increased by ¥4,801 million (2.6%) year on year to ¥184,661 million due to an increase in interest income, despite a decrease in gain on sales of securities. On the other hand, consolidated ordinary expenses increased by ¥3,218 million (2.1%) year on year to ¥153,469 million, largely affected by an increase in foreign currency procurement costs, despite a decrease in loss on sales of securities. As a result, consolidated ordinary profit increased by ¥1,583 million (5.3%) year on year to ¥31,191 million, and net income attributable to owners of parent increased by ¥903 million (4.4%) year on year to ¥21,389 million.

The results by business segment are as follows.

Banking business

Ordinary income increased by ¥535 million (0.3%) year on year to ¥168,081 million due to an increase in interest income.

Ordinary profit decreased by ¥1,611 million (5.3%) year on year to ¥28,749 million, largely affected by an increase in foreign currency procurement costs.

Leasing business

Ordinary income decreased by ¥1,655 million (12.0%) year on year to ¥12,080 million and ordinary profit decreased by ¥2,834 million (77.5%) year on year to ¥821 million due to the absence of gain on sales of shares within the Group resulting from reorganization that were recorded in the previous fiscal year.

Securities business

Ordinary income increased by ¥1,002 million (33.7%) year on year to ¥3,975 million and ordinary profit increased by ¥570 million (238.4%) year on year to ¥809 million due to steady sales of equity securities, investment trusts and other assets.

Other business

Ordinary income decreased by ¥3,192 million (21.6%) year on year to ¥11,577 million and ordinary profit decreased by ¥4,221 million (35.2%) year on year to ¥7,749 million due to the absence of gain on sales of shares within the Group resulting from reorganization that were recorded in the previous fiscal year.

Cash Flows

The status of cash flows is as follows.

Cash flows from operating activities

Net cash provided by operating activities increased by ¥518.9 billion year on year to ¥115.5 billion due primarily to an increase in borrowed money.

Cash flows from investing activities

Net cash used in investing activities decreased by ¥362.5 billion year on year to ¥198.3 billion due to a decrease in sales of securities.

Cash flows from financing activities

Net cash used in financing activities decreased by ¥0.1 billion year on year to ¥7.9 billion due to increases in cash dividends paid and purchases of treasury stock.

As a result of the above, cash and cash equivalents as of the end of the fiscal year ended March 31, 2024 were ¥1,415.6 billion, down ¥90.7 billion year on year.

Dividend Policy

We engage in capital management with a view to balancing soundness, profitability (capital efficiency), and enhanced shareholder returns.

Recently, we set out to lock in ongoing ROE improvement and enhance shareholder returns so as to boost corporate value. We did so by shifting from a shareholder return policy based on a total payout ratio that was the sum of the original dividend and share buybacks to one whereby returns are boosted through share buybacks based on capital control and expansion of dividends via profit growth based on the dividend payout ratio. Specifically, we will increase dividends through profit growth, aiming for a dividend payout ratio of around 40%, while carrying out share buybacks flexibly through capital control.

Dividends

· Aiming for a dividend payout ratio of around 40% of net income attributable to owners of parent, increase dividends through profit growth

Share buybacks

· Carry out share buybacks flexibly through capital control, using a ratio of common equity Tier 1 (excluding valuation difference on available-for-sale securities, etc.) of 11% to 12% as an indicator

For the fiscal year ended March 31, 2024, the Company have increased ordinary dividend by ¥17 from the initially planned year-end dividend of ¥15 (¥30 for the year) announced on May 12, 2023, to ¥32 (¥47 for the year), in light of the above change in shareholder return policy. With respect to the dividend policy for the fiscal year ending March 31, 2025, we aim to achieve a dividend payout ratio of around 40%, and we forecast an annual dividend of ¥53 (interim ¥26.50).

Regarding the number of dividend payments to be made each fiscal year, the Company's basic policy is to pay dividends twice a year – an interim dividend and a year-end dividend. The organs that decide on these dividends are the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend.

In addition, the Company's Articles of Incorporation provide that, pursuant to provisions of Article 459, Paragraph 1 of the Companies Act, cash dividends may be paid by a resolution of the Board of Directors' meeting instead of a resolution of the General Meeting of Shareholders, and that interim dividends may be paid by a resolution of the Board of Directors' meeting provided for in Article 454, Paragraph 5 of the Companies Act.

Consolidated Risk-managed Loans (Loans Disclosed under the Financial Revitalization Act)

The balance of consolidated risk-managed loans increased by ¥6.4 billion from the end of the previous fiscal year to ¥115.5 billion.

Status of impaired loans (Milions of Yen)

	End of March, 2024
Loans in Bankruptcy/rehabilitation or similar proceedings	¥ 17,804
Loans at risk	66,346
Loans past due three months or more but less than six months	1,386
Restructured loans	29,942
Total	¥ 115,479

Ratings

The Company has obtained the A+ credit rating from Rating and Investment, Inc. (R&I). In addition, the Chugoku Bank, its subsidiary, has obtained the A2 credit rating from Moody's as well as the A+ credit rating from R&I.