



# Chugin Group Philosophy

## Group's Corporate Principles

### Create with Our Community, Customers and Employees a Rich Future that We Can All Share

The Chugin Group aims to transition into a corporate group that creates services based on the needs of its customers and that finds resolutions to issues faced by these customers as we look to build a sustainable business model that will develop together with regional societies and customers alike.

To that end, due to the importance of raising awareness of the Group's corporate management activities, including making maximum use of the Group's management resources, as well as the importance of ensuring this thinking is fully internalized by each officer and employee of the Group, in April 2022, we established the "Group's Corporate Principles" as a set of management principles common throughout the Group.

The details of the "Group's Corporate Principles" were established in the long-term management plan that began in 2017, with the details positioned in the long-term vision set out in that management plan. However, in consideration of the transition to a holding company structure, we have decided to position them in the "Group's Corporate Principles" as a mission for the Group to permanently adhere to and in order to communicate the Group's raison d'être.

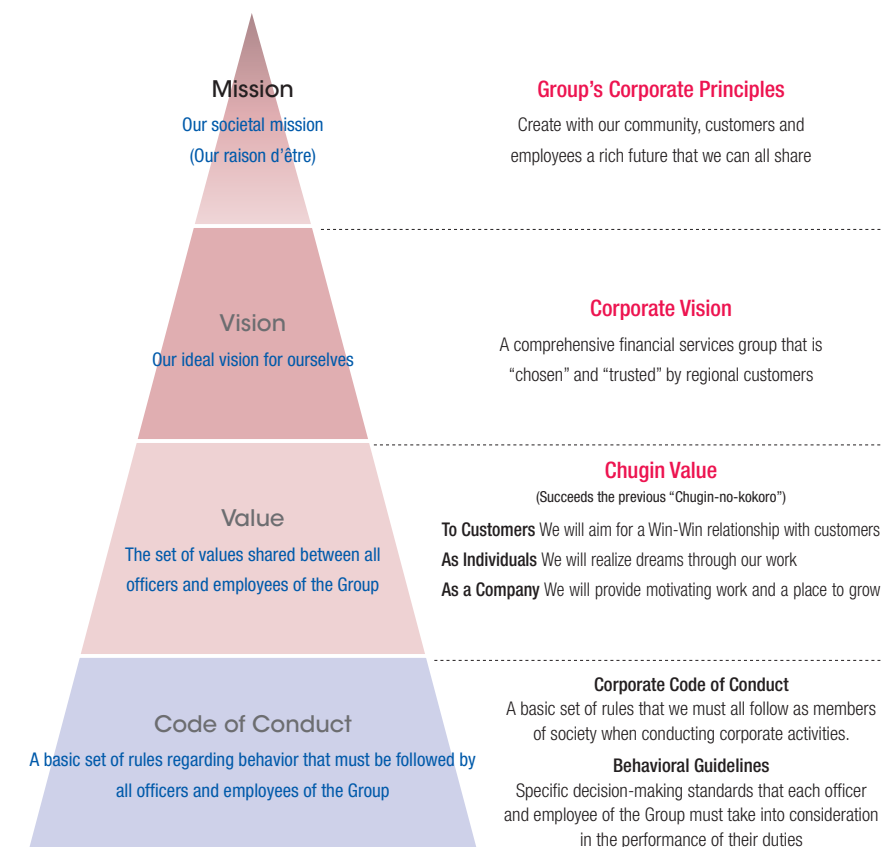
## Corporate Vision

### A comprehensive financial services group that is "chosen" and "trusted" by regional customers



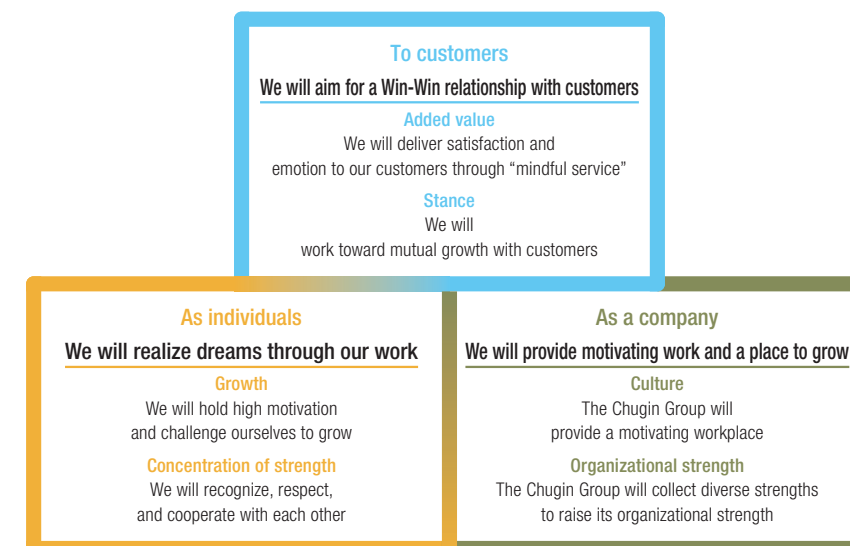
## System of Principles

The Chugin Group's System of Principles is comprised of the Group's Corporate Principles in which the Group's stated mission is set out, the Corporate Vision which is the ideal state the Group sees for itself, and the Chugin Value which are the set of values shared between all officers and employees of the Group.



## Chugin Value

The sharing of these behavior and decision-making standards and values displayed by all employees of the Chugin Group allows us to better align our vectors, improve the strengths of our organization and ensure greater satisfaction and impressions from our customers.



## Contents

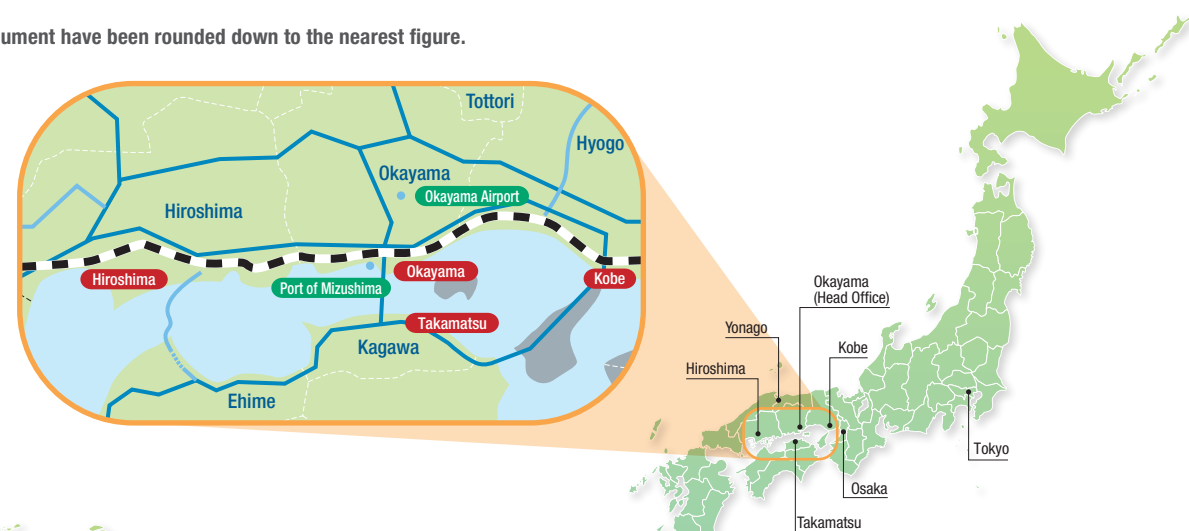
Chugin Group Philosophy / Corporate Principles.....	1
Corporate Vision.....	1
System of Principles.....	2
Chugin Value.....	2
Corporate Data.....	3
Consolidated Financial Highlights.....	4
Interview with the Management.....	5
The long-term management plan, "Vision 2027: Plan for Creating the Future Together".....	11
Medium-term management plan "Plan for Creating the Future Together: Stage III".....	13
Financial strategy.....	15
Message from an Outside Director.....	19
Message from the CHRO.....	21
Review of Operations.....	22
CSR / Compliance.....	23
Corporate Governance.....	25
Board of Directors and Audit & Supervisory Board Members.....	26
Comprehensive Risk Management System.....	27
Internal Control.....	29
Organization Chart.....	31
Principal Operations of the Chugin Financial Group / Shareholder Information.....	32
Service Networks.....	33
Financial Section.....	34
Consolidated Financial Statements.....	35
Independent Auditors' Report.....	68
Non-Consolidated Financial Statements.....	75
Disclosure Policy.....	78

## Profile

Okayama Prefecture, home to the head office of the Chugin Financial Group, is situated approximately 700 kilometers west of Tokyo. Facing the Seto Inland Sea, the prefecture is known throughout Japan as “the sunny land” due to its mild climate and consistently nice weather.

With a population of 1.86 million people, Okayama Prefecture yields a gross prefectural product of over ¥7,606 billion (U.S.\$56,964 million), or an impressive 1.41% of Japan’s GDP. Manufacturing is the core industry in Okayama, having evolved around the Mizushima Waterfront Industrial District—the world’s leading petrochemical complex—which was constructed in the 1960s. Given the prefecture’s ever-improving highways, airports, and harbors, there is further growth anticipated, with the area serving as an important economic and cultural center for the Eastern Setouchi region.

\*The amounts in this document have been rounded down to the nearest figure.



## Corporate Data

(As of March 31, 2023)

### Chugin Financial Group, Inc.

Address: 1-15-20, Marunouchi, Kita-ku, Okayama, Japan  
 Telephone: (81) 86-223-3110  
 Website: <https://www.chugin-fg.co.jp>  
 Date of Establishment: October 3, 2022  
 Stated Capital: 16,000 million yen  
 Number of Authorized Shares: 500,000,000  
 Number of Issued and Outstanding Shares of Common Stock: 184,771,461  
 Number of Shareholders: 16,495  
 Number of Employees: 3,009

Note: Number of employees does not include part-time and temporary staff or overseas local staff.

### THE CHUGOKU BANK, LTD.

Address: 1-15-20, Marunouchi, Kita-ku, Okayama, Japan  
 Telephone: (81) 86-223-3111  
 SWIFT Code: CHGKJPJZ  
 Website: <https://www.chugin.co.jp>  
 Date of Establishment: December 21, 1930  
 Stated Capital: 15,149 million yen

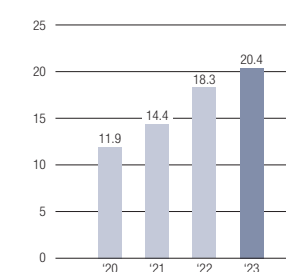
## Consolidated Financial Highlights

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
 Years ended March 31, 2023

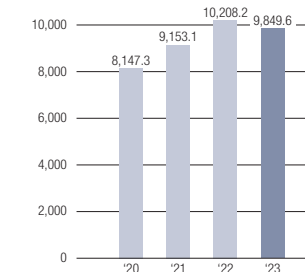
	Millions of Yen (except per share amounts)	Thousands of U.S. Dollars (Note 1)
	2023	2023
For the year:		
Total income .....	¥ 183,675	\$ 1,375,533
Total expenses .....	154,172	1,154,586
Net income attributable to owners of parent .....	20,477	153,351
Per share of common stock (yen/U.S. dollars):		
Basic net income .....	¥ 110.96	\$ 0.830
Diluted net income .....	110.80	0.829
At year-end:		
Deposits .....	¥ 8,053,522	\$ 60,312,454
Loans and bills discounted .....	5,555,795	41,607,092
Securities .....	2,324,053	17,404,725
Total assets .....	9,849,678	73,763,783
Net assets .....	527,894	3,953,373
For the year:		
Cash flows from operating activities .....	(403,482)	(3,021,658)
Cash flows from investing activities .....	164,298	1,230,420
Cash flows from financing activities .....	(7,844)	(58,743)
Cash and cash equivalents at end of year .....	1,506,361	11,281,067

Notes: 1. U.S. dollar amounts represent translations from yen, for convenience only, at the rate of ¥133.53 = US\$1 in effect on March 31, 2023.  
 2. Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding treasury stock).

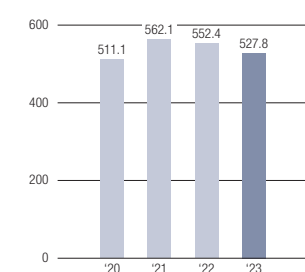
Net Income attributable to owners of parent  
Billions of Yen



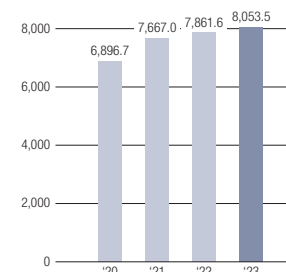
Total Assets  
Billions of Yen



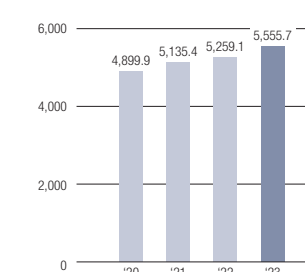
Net Assets  
Billions of Yen



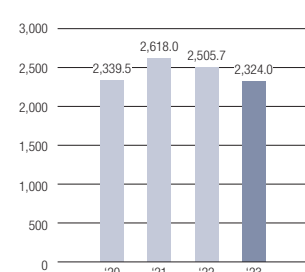
Deposits  
Billions of Yen



Loans and Bills Discounted  
Billions of Yen



Securities  
Billions of Yen



\* The figures for FY 2023 are shown on a consolidated basis of Chugin Financial Group, while the figures for FY 2022 and previous fiscal years are shown on a consolidated basis of the Chugoku Bank.



In the final stage of our while responding to social we will establish a new

We are deeply grateful to all our stakeholders including the investors and shareholders for their continued support. As voices calling for efforts to tackle the revitalization of regional economies and for promotion of the SDGs are continuing to grow, under our Group slogan, “Our challenges build our future,” the Chugin Group is working to solve issues in regional societies from a medium- to long-term perspective. We will continue to focus on building a business model for new growth and further improving our corporate value.

Director and President  
**Sadanori Kato**

long-term management plan, issues, business model.

“Stage III,” a period for steadily increasing the results of reforms

The external environment is changing at a speed that exceeds our expectations, starting with changes in social structure such as population shrinkage, a declining birthrate, and an aging population, as well as rapid digitalization, the global trend toward decarbonization, the emergence of geopolitical risks, and a sharp rise in commodity prices, etc.

In addition, the spread of COVID-19 has significantly changed individual lifestyles and business activities. In line with these changes, the roles and needs of regional banks are diversifying. In this situation, I believe that the scope of contribution we can make for our customers is also expanding. The Group is promoting various initiatives with a sense of urgency, in order to contribute to the resolution of all of the management issues that are faced by our customers.

In 2017, we formulated the long-term management plan, “Vision 2027: Plan for Creating the Future Together” looking 10 years ahead, based on the belief that it is necessary to build a sustainable business model to overcome environmental changes. This long-term management plan consists of “Stage I” from FY 2017, which focuses on structural reforms and strengthening tangible aspects, “Stage II” from FY 2020, which focuses on behavioral changes and strengthening intangible aspects, and “Stage III” from FY 2023, which is positioned as a time for demonstrating the results and taking on new challenges. In the six years of “Stage I” and “Stage II,” although there were major changes in society and unexpected situations such as the COVID-19 pandemic, the Chugin Group has always looked ahead of the times, and focused on anticipating changes and working for the development of regional societies and our customers, the sustainable growth of the Group, and the enhancement of our corporate value.

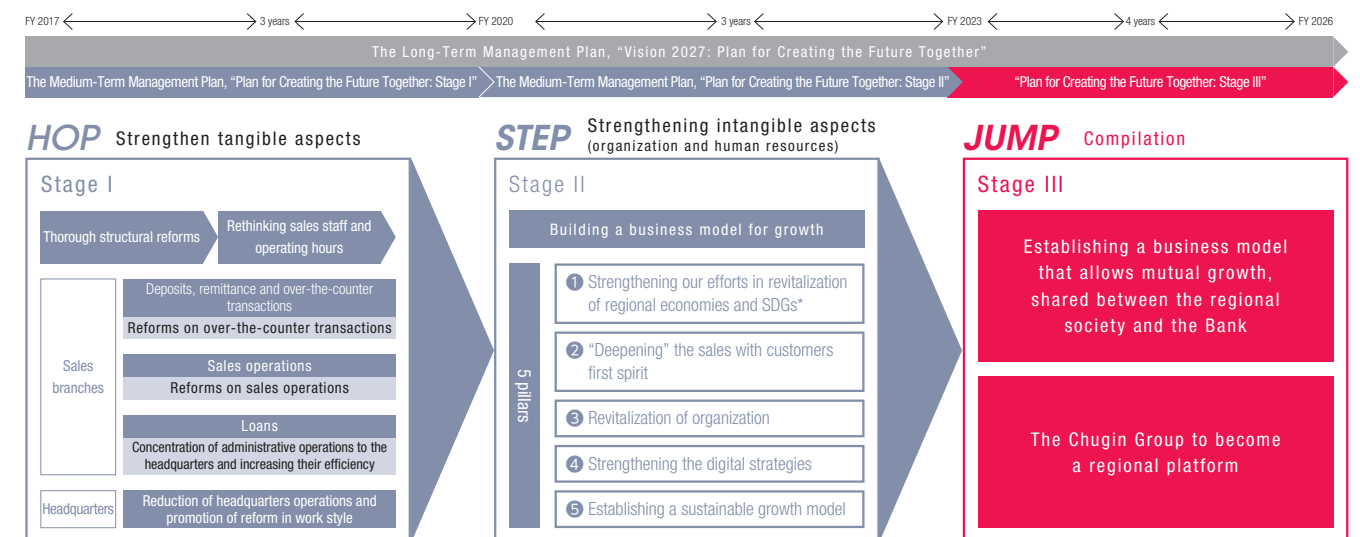
Thus far, we have been quick to grasp the trend toward deregulation due to the revision of the Banking Act, and have established subsidiaries that can provide solutions to a wide variety of customer issues, while always working to expand our business axis. These subsidiaries include SETONOWA Co., Ltd. which is a regional trading company, Chugin Capital Partners Co., Ltd. which is a company specializing in investments, Chugin Human Innovations Co., Ltd. which provides human resource services, and C Cube Consulting Co., Ltd. which provides consulting services for digital transformation (DX) and sustainability transformation (SX).

In October 2022, we established Chugin Financial Group, Inc. and transitioned to a holding company structure with Chugin Financial Group, Inc. as the parent company, in order to further enhance our service menu as a Group, implement an “appropriate allocation of management resources” to continue providing that menu, and continue to pursue the “evolution of group governance.” As an indication of the mission that the Chugin Group should fulfill, we have newly established our long-term vision to “Create with our community, customers, and employees a rich future that we can all share” as our Group’s corporate principles, and are striving to evolve into a “comprehensive services business focused on finance.”

Furthermore, in April 2023, we established the regional energy company, Chugin Energy Co., Ltd., and are aiming to contribute to the sustainable growth of regional societies by utilizing local resources and promoting local production for the local consumption of renewable energy.

I believe that pursuing synergies through alliances and partnerships is also an important strategy for continuing to create new value. The TSUBASA Alliance, which was

Positioning of “Plan for Creating the Future Together: Stage III”



\* SDGs: The acronym of “Sustainable Development Goals.” It sets forth the targets applicable to all international societies as determined by the UN Summit in September 2015.

## Interview with the Management

launched in 2015 by the Chugoku Bank, Chiba Bank, and Daishi Bank (currently Daishi Hokuetsu Bank), has grown into the largest alliance among regional banks, with ten of the top banks in each region participating. With total assets of approximately ¥94 trillion, approximately 24 million individual customers, and approximately 2.24 million companies as corporate customers, we leverage economies of scale that are comparable to those of megabanks, as well as a wide area network that spans and extends across the Japanese archipelago, and our collaboration is expanding in a wide range of fields, including top-line reinforcement, cost reduction, and operational sophistication, which would be difficult to carry out alone.

We, as the Chugin Group and the TSUBASA Alliance, aim to further improve our corporate value, by creating new business models that leverage our respective strengths and by growing together with regional societies.

### Promoting the creation of new value through the transition to a holding company structure

When we formulated our long-term management plan, the transition to a holding company structure was not factored into the plan. However, we have decided to transition to a holding company structure, based on the conviction that reforms are necessary to transform into a strong and flexible organizational structure, in order to respond to changes in the business environment and realize our long-term vision. The reason we adopted a holding company structure with the Chugoku Bank alone was that we considered it to be the best way to provide solutions to our customers with a sense of urgency, while giving due consideration to matters such as speedy management decision-making and resource allocation.

In the process of transitioning, we started by reviewing our corporate principles from its starting point and painting a new vision of what we want to be. Recognizing that it is extremely important for all officers and employees to understand and share the aim of transitioning to a holding company structure and our ideal form, our officers split up to visit all of our sales branches and Group companies, and exchanged frank opinions with those on the ground.

In this way, we aim to be an organization that can continue to create new value for our regions, as we promote the transformation of our business model. One of our efforts involves a major overhaul of the sales system. In the past, sales activities were conducted by uniformly imposing targets set by our headquarters on all branches. However, in the current situation, where issues are different for each region and are also becoming more complicated and diversified, setting uniform goals can easily lead us to conduct activities that only serve the convenience of the bank. The important point is for sales branches, which operate closer to the field, to think autonomously and provide the best possible service to our customers. Based on the idea that this is exactly what we are aiming for, namely ““deepening” the sales with customers first spirit,” in addition to introducing a voluntary target system, we have also redesigned the Regional Headquarter System to create a system in which the sales branches, regional headquarters, and headquarters work together to solve issues.

In addition, the affiliated companies that were under the umbrella of the bank will now have an equal relationship under the holding company, leading to a departure from the bank-centric way of thinking, and enabling Group companies to respond to local issues with a broader perspective, and proactiveness and autonomy. I believe that all of the officers and employees of the Group will be able to think and act autonomously from this point of view, and will be able to carry out their duties with a higher level of motivation.

### Aiming for profitability while responding to social issues through sustainability management

In the group strategy centered on Chugin Financial Group, Inc., we plan to accelerate sustainability management through measures such as revitalizing regional economies and societies from the perspective of regional revitalization SDGs and communicating the appeal of the regions.

To promote sustainability management, we will steadily conduct the appropriate allocation of management resources through portfolio management in terms of business and human resources. To that end, we will accelerate DX initiatives in business process reforms and channel strategies, and we plan to significantly increase the non-face-to-face transaction rate, while improving customer convenience by actively expanding the range of transactions that are completed online, and enhancing the functions of our app and the corporate portal website. We will deploy the human resources created by streamlining into growth fields and work to realize sustainable management. On the other hand, not everything will shift to digitalization, automation, and non-face-to-face interaction. I believe that operations that require expertise and reliability, such as the provision of comprehensive financial consulting that meets our customers' life plans and diverse needs, are an area that we should dare to strengthen by adding human resources. We will expand our contact points with customers through the best mix of real and digital, and build a sustainable sales system.

The Eastern Setouchi Economic Zone, which is the business base of the Group, is a region with great potential, as it has a mild climate, a well-developed transportation

network, and abundant forest resources. Decarbonization is an urgent issue in the area centered on the southern part of Okayama Prefecture, which has a high concentration of various manufacturing industries. While the demand for carbon neutrality applies throughout the entire supply chain, for local SMEs, responding to decarbonization is an issue that is directly linked to their survival, in terms of both risk avoidance and the acquisition of business opportunities. However, the reality is that there are still differences in the level of awareness and approach.

The Chugin Group has positioned investments and loans that help to solve social and environmental issues, or support the activities of customers who are aiming to do so, and promote the realization of a sustainable society as sustainable finance, and we have set a target of executing ¥1.5 trillion (of which ¥1 trillion is environment-related) by the end of FY 2030. We are expanding our diverse service menu, which includes advanced GX (green transformation) and SX consulting by our group company C Cube Consulting, as well as simple decarbonization support consulting that can be handled at our sales branches. The Group will take this business opportunity of supporting for transition without missing anything, and we will further strengthen our system for providing optimal solutions by combining finance and consulting according to the needs and scale of our customers.

In the northern part of Okayama Prefecture, through a joint proposal made by Nishiwakura Village and ourselves, the village was selected as a “decarbonization leading area” solicited by the Ministry of the Environment. In addition to being recognized as an advanced model for regional decarbonization through the local production and local consumption of electricity utilizing natural energy produced by abundant local resources, our unprecedented initiative on the joint proposal by a regional bank and a local government has received a great response, including many inquiries from local governments and companies. In June this year, Setouchi City was also selected as a decarbonization leading area through a joint proposal with the Company. In addition to initiatives toward decarbonization, as an initiative for regional revitalization using digital technology, Kibichuo Town in Okayama Prefecture has been designated as a “digital rural health special zone” through a collaboration with Okayama University and our company. With the Chugin Group playing a role as a regional hub, various initiatives that are directly linked to regional growth strategies and regional revitalization are being accelerated. If these initiatives in the Eastern Setouchi Economic Zone, which is our business base, become successful examples for regional revitalization and spread to other regions, I believe that it will lead to solutions to problems such as overconcentration in urban areas, and by extension, contribute to the development of the Japanese economy. We hope to bring out the potential of regions by grasping regional issues and making a “co-creation platform” through multi-faceted and multi-layered cooperation with partners. The areas in which we can contribute are expanding, and I feel a sense of anticipation and a positive response.

In June 2021, we established the “Regional Revitalization & SDGs Promotion Department” to drive the efforts of the entire Chugin Group, in order to strengthen regional revitalization and SDGs initiatives, and speed up the implementation of measures. On the other hand, each sales branch considers the different issues and needs in each region by themselves, and works to solve them in cooperation with the regional societies. For example, they are developing autonomous activities according to the actual situation in the region, such as revitalizing shopping streets and promoting tourism resources.

In the “Chugin Open Lab,” our in-house venture system started in April 2021, we have seen a series of exciting proposals for the future. Based on the themes of “solving regional issues and SDGs initiatives” and “new business and new work planning,” along with solving social issues, we are conducting activities focused on pursuing profitability as a business. The business idea for Chugin Energy Co., Ltd., which I introduced at the beginning, sprang from Open Lab. Although not all of these initiatives contribute directly to earnings, they can be regarded as important initiatives that will lead to the creation of new businesses, as we take the issues of the regional societies as our own and face them seriously. Open Lab is currently in its second phase of activity, and by fostering an organizational culture that continues to take on challenges through these initiatives, and utilizing diverse values and sensibilities in our management strategies, we hope it will serve as a driving force for innovation.

### Group-wide progress toward building a new business model

When I was working at a sales branch, it was an unforgettable experience for me as an employee to receive words of gratitude saying, “Thank you for helping,” in response to acting wholeheartedly for our customers. That single phrase gave me the energy to do more for our customers. In this way, even if the actions of each individual are small, the efforts of the entire organization will become a great force.

Until now, in the corporate sales scene, it was not uncommon for us to work from loan proposals as the starting point. However, this makes it impossible to differentiate ourselves, and we can easily fall into interest rate competition. On the other hand, it is a substantial added value to be deeply involved in customer issues from the upstream, not limited to financing aspects, and to respond with problem-solving sales that provide solutions with the comprehensive strength of the Group, and this will lead to the establishment of an unrivaled competitive advantage. This is one of the aims of our shift to a holding company structure, and we intend to leverage the strengths of the Group, which we have built up one by one, to firmly support our customers' efforts to solve social and environmental issues from the perspectives of both solutions and finance.

While steadily implementing the main growth strategies of “Stage I” and “Stage II,” we have actively expanded our business axis in response to customer needs that have materialized due to deregulation and changes in the environment. In “Stage III,” I would like to realize profitability in these new business fields.

Even greater changes await us in the next ten years, and initiatives in the next four years will be of particular importance for carbon neutrality, as we look ahead to 2030. There are many areas in which the Chugin Group can contribute, and we are already envisioning plans for the next ten years. The Chugin Group as a whole will work with a sense of urgency, while actively developing and providing platforms together with our regional partners. Working toward the next phase, I consider it our mission to steadily demonstrate results in “Stage III,” and to “create with our community, customers, and employees a rich future that we can all share,” which is the Group's corporate principles. By implementing our long-term management plan with the fiscal year ending March 31, 2027 as our goal, I intend for us to make further progress toward realizing a prosperous future.

The year 2030 is a major milestone toward achieving carbon neutrality, and it marks the 100th anniversary of the founding of the Chugoku Bank. Thinking back to 1930, when the Chugoku Bank was established through the merger of numerous banks, the economy of Japan, including Okayama was in a critical state during the so-called Showa Financial Depression. Under these circumstances, our first president, Magosaburo Ohara and other top management at the time devoted themselves wholeheartedly to the development of the regional society and economy. Even in these modern times, I believe that regional revitalization is an unchanging philosophy and mission for us. The Chugin Group will strive to look ahead of the times so that we do not shame the efforts of our predecessors.

## Interview with the Management

### Based on the results of “Stage II,” we will make further progress over the next four years

In FY 2022, as I have already mentioned, we have steadily produced results one by one through the steady implementation of our long-term management plan and medium-term management plan. Regarding the key performance indicators (KPIs) in “Stage II,” despite the difficult circumstances posed by the COVID-19 pandemic, we were able to achieve targets for the top line that generally exceeded our plans. I believe that this is the result of the ceaseless efforts made by each and every employee, as well as the results of the reforms made in “Stage I” and “Stage II.” In “Stage III,” which represents the compilation of our plans, we will strive with all our efforts to realize the future co-creation plan that we are aiming for, which we set forth in our long-term management plan.

In order to achieve these goals, I consider it essential for us to take initiatives regarding human capital, including at our Group companies, and we are indeed implementing various initiatives.

Two years ago, we overhauled our personnel system which had been our issue for many years, and we are now focused on promoting diversity, equity, and inclusion (DE&I). Ten years ago, when I was serving as General Manager of the Personnel Department, society was already demanding the active participation of women. However, our conventional personnel system suffered from many issues and restrictions, and we were not able to achieve our desired results. Accordingly, we set up an employee-led project team, and based on the proposals made by the team, we revised our personnel system for the first time in approximately 17 years, implementing a new personnel system reform that enables diverse human resources, including women, to play an active role. I feel that we are making steady progress toward revitalizing our organization by expanding fields for those who can play an active role and responding to changes in work styles. On the other hand, in order to realize DE&I, I consider reforming the mindset of officers and employees to be an urgent issue. In terms of the personnel systems of our Group companies, as we have shifted to a holding company structure, we must revise the systems of Group companies including our benefits scheme, and we will continue to work on this point. In June this year, the “Next 10 Promotion Department” was placed under the direct administration of the President, then it was promoted to the “D&I Next 10 Promotion Department.” We will accelerate our efforts to realize DE&I throughout the Group, and create an environment in which diverse human resources within the Group can demonstrate their individuality and strengths.

Working toward 2030, we will create a “co-creation platform” with our co-creation partners to address the issues faced by regions. While we are still halfway down the road, the seeds that we have sown thus far by following a policy of industry-government-academia-financial institutions-press-civil society collaboration have sprouted, and many co-creation partnerships, including our partnership with Okayama University, are bearing fruit.

As one example, the Ministry of the Environment, Okayama University, and the Chugoku Bank Secretariat established the “Okayama Consortium for Regional Decarbonization Creation,” for the purpose of vigorously promoting regional revitalization through decarbonization, with all participating parties are based in Okayama Prefecture. In addition, Okayama Prefecture is an “SDGs Advanced Prefecture,” as it is referred to by the Okayama Association of Corporate Executives, with Okayama University winning the “1st Japan SDGs Award” (sponsored by the Ministry of Foreign Affairs) in 2017. The “Land of Sunshine, Okayama” is blessed with an abundance and diversity of local resources, such as renewable energy resources, tourism resources, and agricultural and fishery resources. By making use of these resources, there is great potential for the realization of regional revitalization and a decarbonized society that is “unique to the region,” and I have high expectations for future developments.

### Creating new value for regional societies with three growth strategies

We have positioned “Stage III” of our medium-term management plan as a time for “demonstrating the results and taking on new challenges.” First, “demonstrating the results” means achieving planned targets based on past reforms, as the final stage of our long-term management plan. “Taking on new challenges” means that this stage is positioned as the beginning of new challenges for the next ten years, as Chugin Financial Group’s first medium-term management plan. In the age of VUCA, when changes are rapid and the future is difficult to predict, it is important for the Group as a whole to increase sensitivity to change, and accurately determine what is necessary for sustainable growth in order to undertake new challenges. In recognition of this, the Chugin Group has defined six materialities as key issues for growing together with regional societies, and we have formulated three growth strategies to give shape to these initiatives. By steadily executing our growth strategies, with the aim of improving not only economic value but also social and environmental value, we will promote sustainability management that creates a lasting virtuous cycle of “development of regional societies” and “improvement of corporate value.”

In addition, during the three years of “Stage II,” by transitioning to a holding company structure and establishing various Group companies, we have established a system within the Group that enables us to provide one-stop services related to people, products, and money, and are expanding the business areas in which we can make proposals to customers. For example, we are proposing human resources-related services according to the hierarchy that is in need, such as executive management and middle management, and our investment specialist company contributes actively to solving management issues and regional issues through investment and accompanied support. In addition, we provide consulting for our customers’ management issues, which are becoming more sophisticated and complex, such as DX and SX.

One of the Chugin Group’s greatest strengths is our ability to provide people, funds, and methodologies in one stop. Of course, establishing trust through the bank will continue to be our most important role. However, with these functions, we will contribute to the first of our three growth strategies, ““Deepening” the revitalization of regional economies and SDGs.”

As for our second growth strategy, “Creating innovation,” we consider it to be creating things that meet the needs of the era by combining existing technologies and systems. In banking operations, we aim for bank-style DX, which includes reforming business processes and promoting next-generation channels. Based on our past achievements and experiences with success, we currently offer consulting for customers and other financial institutions. Whether it concerns decarbonization or DX, we will move forward with a sense of urgency in collaboration with various partners, while sometimes demonstrating leadership to drive regions and customers.

To be honest, “Stage II” made me reaffirm the importance of the human resources who are responsible for our strategies. In order to take on the challenge of new business areas and deepen the sales with customers first spirit, we strengthened our human capital investment in “Stage II.” However, I believe that this is not enough. In



response, in “Stage III,” we will first accelerate DX within the Group and work to improve efficiency and productivity by reviewing our business processes, with no areas left untouched. It is my policy to invest time and funds in human resources that have been secured in this manner, and create diverse strategic human resources.

As for our third growth strategy, “Strengthening our Group management foundation,” I believe it is essential that we build a solid foundation for implementing our growth strategies. As I mentioned earlier, “promoting the active participation of diverse human resources” is a material issue, and we will continue to work on it as our most important issue. In FY 2022, the “ratio of female managers and supervisors” at the Chugoku Bank alone remained at 13.4%, so it is undeniable that management decision-making is still dominated by men. In our modern rapidly changing society, it is crucial that we reflect the opinions and ideas of women on our management strategies, in order to strengthen our management foundation. The “D&I Next 10 Promotion Department,” which I mentioned earlier plays a central role in reviewing our internal systems and structures, and with a focus on reforming awareness of female employees and those in managerial positions from a company-wide perspective, we plan to raise the percentage to 25% by FY 2026. However, our aim is not simply to match numbers. In order to adapt to an era that is so blessed with change and diversity, we intend for us to accept diverse values as an organization, and without losing sight of the original aim of creating new value and innovation, we will develop fair opportunities for growth. In the future, in order to strengthen our efforts for our growth strategies, in addition to human resource development within the Group, securing specialized human resources through active mid-career recruitment will also play an important role. Bringing together people who harmonize with the Group’s corporate principles of “creating the future together,” and developing an environment in which diverse human resources can play an active role will help to strengthen the Group’s management foundation, so that we can pursue value that only we can create for regional societies.

Even if the economy changes unexpectedly in the future, I am certain that we can find solutions to unexpected difficulties, as long as we have human resources who are cultivated inside the company. This is also the reason why we set increasing human capital investment as one of the KPIs for “Stage III.” We will focus on ensuring the achievement of the other KPIs and targets for FY 2026, and respond properly to the expectations of our stakeholders.

In transitioning to a holding company structure, Chugin Financial Group has adopted the slogan, “Our challenges build our future.” In order to survive in this era of change, our challenge is to create new businesses, services, and products, continue to deliver optimal solutions, and bring value to regions and our customers, while leveraging our strengths in finance. This expresses our determination to accompany our customers in all their challenges. Here, “Our challenges” has two meanings: “each challenge in front of us” and “challenges for individuals.” I believe that the accumulation of daily challenges will lead us to the future, and I intend for us to forge our way into the future without fear of failure. While I sometimes hear pessimistic opinions regarding the future of regions outside of major cities and regional banks, I do not share that pessimism. Our business base, the Eastern Setouchi Economic Zone, has great potential for growth and development. While there are certainly issues, the potential for growth is immense as long as we address those issues appropriately.

Following our slogan, the Chugin Financial Group will make a Group-wide effort to build a business model geared toward new growth. Our aim with such efforts is to become a trusted financial group that functions as a regional platform. We humbly ask for the continued support of all our stakeholders, including all investors and shareholders.

# The long-term management plan, "Vision 2027: Plan for Creating the Future Together"

## Create with Our Community, Customers and Employees a Rich Future that We Can All Share

In March 2017, we established our 10-year long-term management plan, "Vision 2027: Plan for Creating the Future Together." Our aim with this plan is to build a sustainable business model that can rise to meet the challenges presented by a shrinking population and other societal changes, and one that will enable everyone, not just the Chugin Financial Group, but also the entire region, our customers, and employees to share in a prosperous future.

The current four-year medium-term management plan is Stage III of this long-term management plan.

**Stage I**  
 FY 2017 to FY 2019

**Structural Reforms**  
 (Strengthen tangible aspects)

- Secure personnel and time for sales activities through thorough structural reforms (BPR Promotion Project)
- Launched Okayama Innovation Project and Okayama Tech Planter
- Concluded Okayama Co-creation Partnership
- Transitioned to TSUBASA mission-critical system and jointly developed TSUBASA Fin Tech common infrastructure
- Introduced flat meetings (invigorating internal communication)
- Introduced head office recruitment system

**Stage II**  
 FY 2020 to FY 2022

**Behavioral Change**  
 (Strengthening intangible aspects)

**Strengthening our efforts in revitalization of regional economies and SDGs**

- Establishing a dedicated department and sustainability committee
- Promoting revitalization of regional economies together with regions and customers

**"Deepening" the sales with customers first spirit**

- Introducing Regional Headquarter System and self-imposed targets
- Deepening consulting sales business and acceleration of new businesses
- Established Group companies (regional trading companies, investment specialists, staffing agencies, consulting)

**Revitalization of organization**

- "Major overhaul" to human resource system for the first time in 17-years
- Promoting diversity

**Strengthening the digital strategies**

- Accelerating digitalization of sales, administrative, and headquarters operations
- Launched Chugin App and Chugin Business Portal

**Establishing a sustainable growth model**

- Controlling expenses, reorganizing branches, reallocating staff, etc.

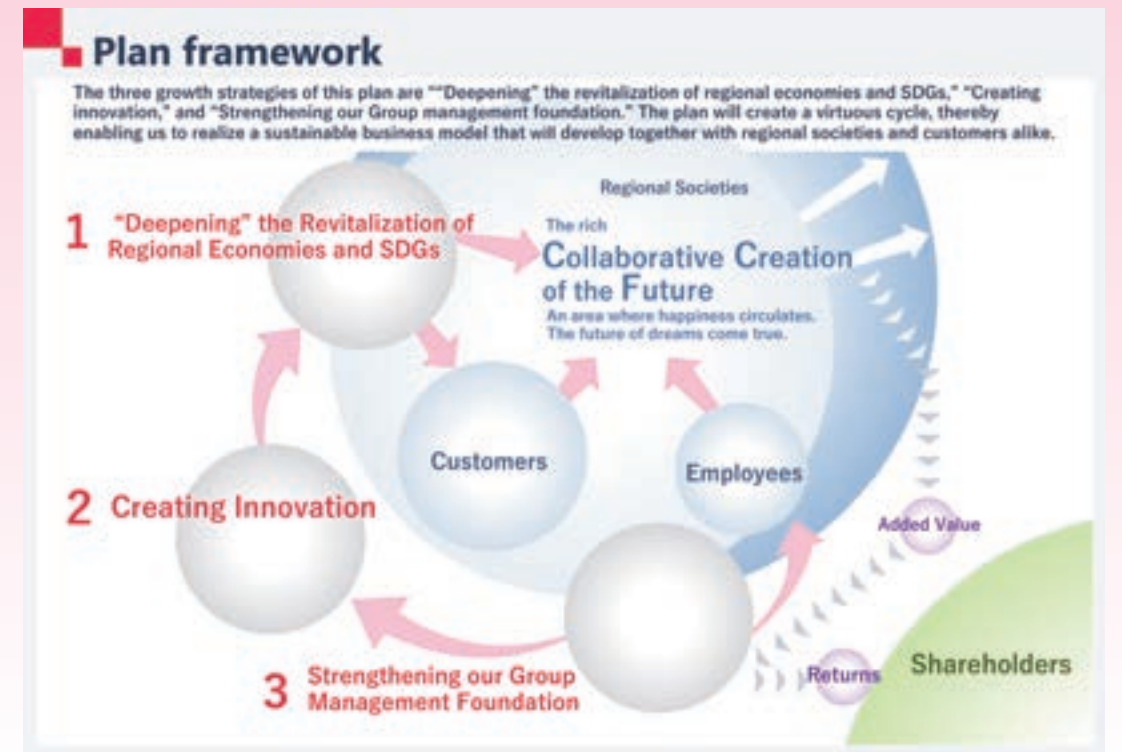
### KPI Review on Stage II

Stakeholders	KPIs	Targets for FY 2022	Results in FY 2022
Regional societies	Number of projects to address regional issues that contributed to the SDGs	Continuous improvement	Continuous improvement
	① Total of the number of start-ups for which we provided support <sup>1</sup> and the number of companies for which we provided support in business succession <sup>2</sup>	Total of three years 200 customers	Total of three years 222 customers
	② Activities contributing to the improvement of financial literacy, etc. <sup>3</sup>	Continuous improvement	Total of three years 805 events over 16,000 attendees
Customers	Customer satisfaction <sup>4</sup> (individuals and corporate)	Continuous improvement	Corporate Survey FY 2022 Customer satisfaction: 69% Individual Survey FY2021 Customer satisfaction: 65%
Employees	Labor share in core business net profit before payment of personnel expenses <sup>5</sup>	54% or higher	44%
Shareholders, etc. (all stakeholders)	Net income attributable to owners of parent	¥15.0 billion	¥20.4 billion
	Consolidated capital adequacy ratio (Basel III)	Remain stable at 12%	12.87%
	Consolidated ROE	—	3.79%

<sup>1</sup> **Number of start-ups for which we provided support:** Number of supported customers that started business through events for start-up support held by the Chugoku Bank  
<sup>2</sup> **Number of companies for which we provided support in business succession:** Number of entrusted contracts for business succession consulting services  
<sup>3</sup> **Activities contributing to the improvement of financial literacy, etc.:** Number of events and study meetings held for the improvement of financial literacy and business skills, etc.  
<sup>4</sup> **Customer satisfaction:** Number of answers indicating "Satisfied" or "Almost satisfied" in the customer questionnaires  
<sup>5</sup> **Labor share in core business net profit before payment of personnel expenses:** Personnel expenses divided by (core business net profit + personnel expenses)

**Stage III**  
 FY 2023 to FY 2026

### Demonstrating the Results and Taking on New Challenges



October 2022 - Transitioned to a holding company structure

### Stage III KPI

Reason for selection	Financial KPI	Results in FY 2022	Targets for FY 2026
Profitability	Net income attributable to owners of parent	¥20.4 billion	¥30.0 billion
Capital efficiency	ROE	3.79%	5% or higher
Soundness	Capital adequacy ratio	12.87%	11% to 13%

Materiality	Growth strategy	Sustainability KPI	Results in FY 2022	Targets for FY 2026
Environmental management promotion	"Deepening" the revitalization of regional economies and SDGs	CO2 emissions reduction	Carbon neutrality by FY 2030 <sup>1</sup>	
		Cumulative execution amount of sustainable financing <sup>2</sup>	¥641.8 billion	¥1 trillion
Revitalization of regional economy and society	"Deepening" the revitalization of regional economies and SDGs	Number of entrusted contracts for consultations <sup>3</sup>	256	460
		Number of owners of 5 products in custody and housing loans	206,000	260,000
Response to low birthrate and aging society	Creating innovation	Number of inheritance-related projects <sup>4</sup>	487	800
DX promotion		Business model transformation (operations, channels, and organizations)	—	(Qualitative assessment)
Promotion of diverse human resources	Strengthening our Group management foundation	Percentage of management/supervisory personnel that are women (bank only)	13.4%	25%
		Amount of human capital investment <sup>5</sup>	¥0.3 billion	¥0.5 billion

<sup>1</sup> Achieve net zero for Scope 1 (direct emissions from combustion consumption of gas, gasoline, light oil, etc.) and Scope 2 (indirect emissions from use of electricity, heat, etc., supplied by another company) by the end of FY 2030  
<sup>2</sup> Investment subjected is the execution amount from FY 2020 onward in social fields (medicine, nursing care, childcare, education, etc.), environmental fields (solar power, wind power, biomass power, EVs, etc.), and support for revitalization of regional economies and SDGs/ESG initiatives  
<sup>3</sup> Annual number of entrusted contracts of consulting project for business succession, environmental, and other consultation areas  
<sup>4</sup> Annual number of testamentary trusts, inheritance support, and similar projects  
<sup>5</sup> Amount of money invested in employees, such as training and education expenses, academic scholarship expenses, Chugin Open Lab activity expenses, and personnel expenses for taking training and secondment

# Medium-term management plan “Plan for Creating the Future Together: Stage III”

## Demonstrating the Results and Taking on New Challenges

The plan, which covers the four-year period from FY 2023 to FY 2026, is the final stage of our long-term management plan and the “First medium-term management plan of the Chugin Financial Group.”

Through the following “Three growth strategies,” we will demonstrate the results of the reforms implemented in Stages I and II, and seek to achieve the KPIs of our long-term management plan, while taking on new challenges for the decade to come.

### 1 “Deepening” the Revitalization of Regional Economies and SDGs

Drawing out the allure and potential of communities and contributing to “Sustainable development of the communities”

Revitalization of regional economies	▶ Reinforce measures, start-up support, and SDG activities that are rooted in DX/SX and address communities as a whole
Local support activities	▶ Provide solutions that apply to everything from upstream to downstream ▶ Reinforce sustainable finance
Life plan support activities	▶ Support the realization of customer life plans ▶ Reinforce support for stable asset building and dependable asset succession

Corresponding materialities

Revitalization of regional economy and society    Response to low birthrate and aging society    Environmental management promotion    DX promotion

### 2 Creating Innovation

Creating “New value” in order to achieve further growth

DX	▶ Promote business process reforms and develop next-generation channels and digital human resources
New businesses	▶ Create new, unique Group businesses through collaboration
Alliance	▶ Actively engage in regional alliances, community alliances, and alliances across industry lines

Corresponding materialities

DX Promotion    Promotion of diverse human resources

### 3 Strengthening our Group Management Foundation

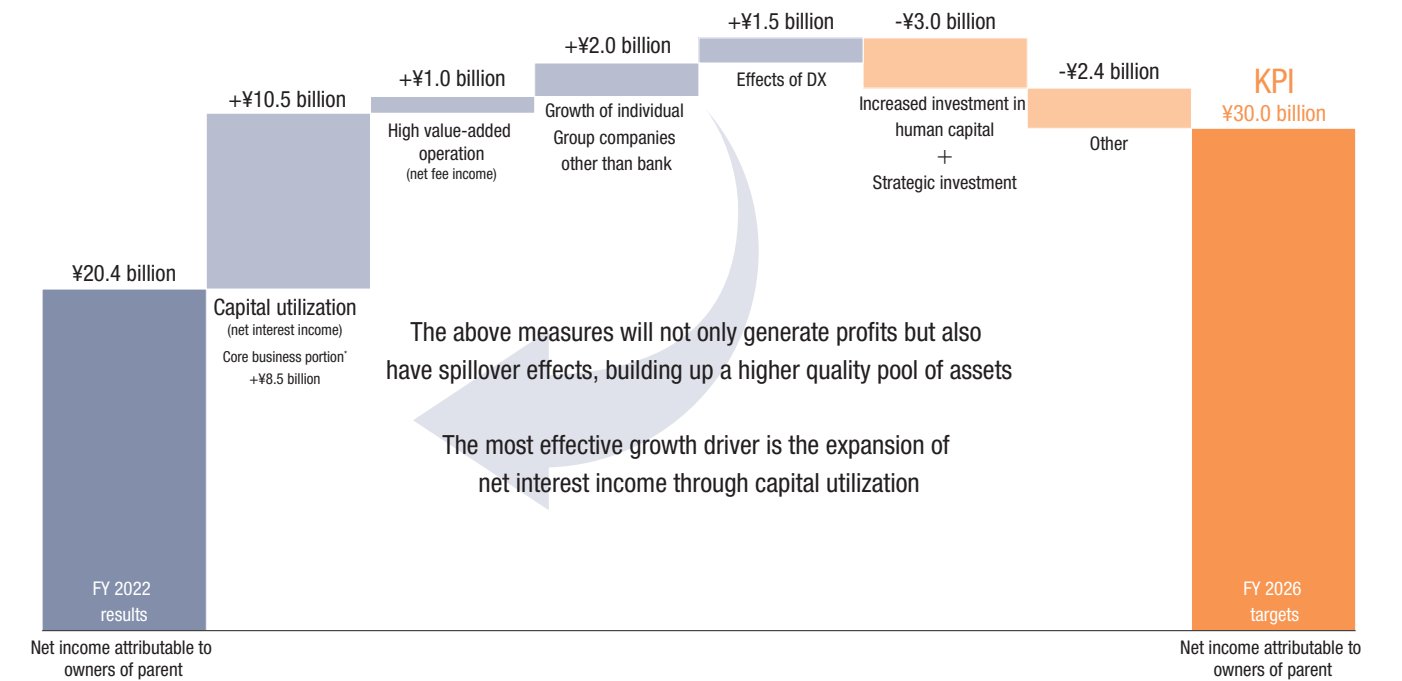
Building a “Solid foundation” for implementing our growth strategies

Portfolio	▶ Optimize our business portfolio and strategically allocate management resources
Financial capital	▶ Carry out appropriate financial operations from the perspectives of financial soundness, profitability, and shareholder returns
Human capital	▶ Significantly expand “Human capital investment” in line with business strategy
Diversity	▶ Reinforce hiring and advancement of diverse human resources
Governance	▶ Refine internal control system throughout the Group

Corresponding materialities

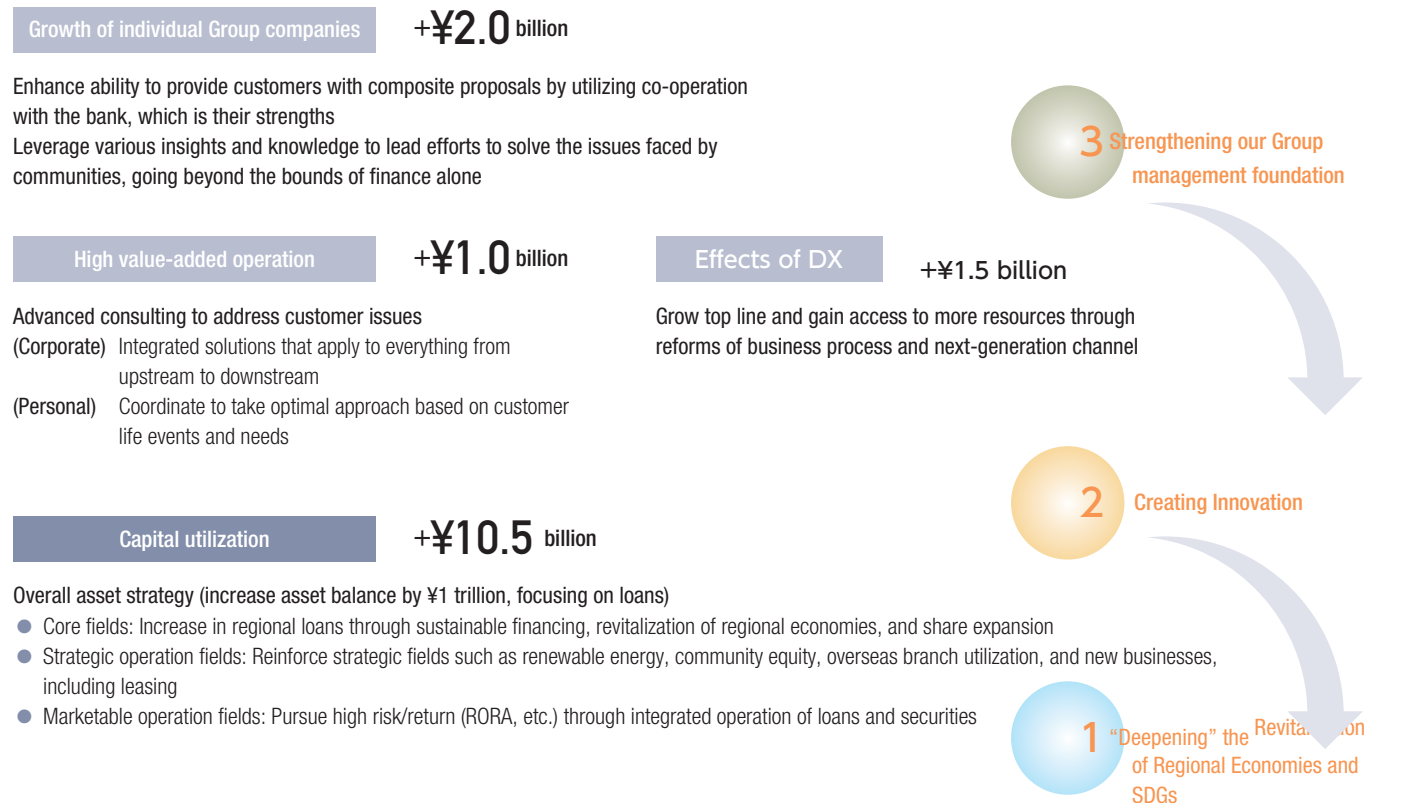
Promotion of diverse human resources    Refining of governance    DX Promotion

Conceptual Image of Profit Growth



\* Core business: Regional business loans, personal loans, etc.

We plan to build up high quality assets by taking a wide-ranging and comprehensive approach to initiatives throughout the Group, starting with upstream business, to address the issues faced by regional societies and customers.







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**

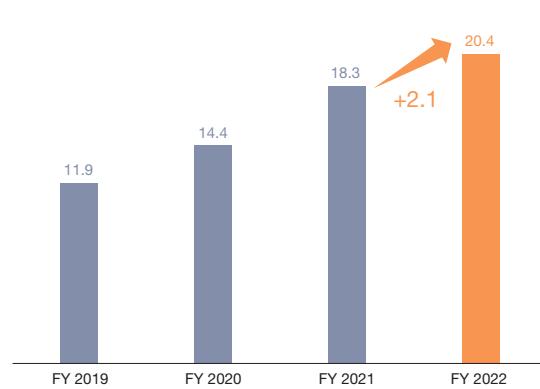
**Fiscal Year 2022**

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.

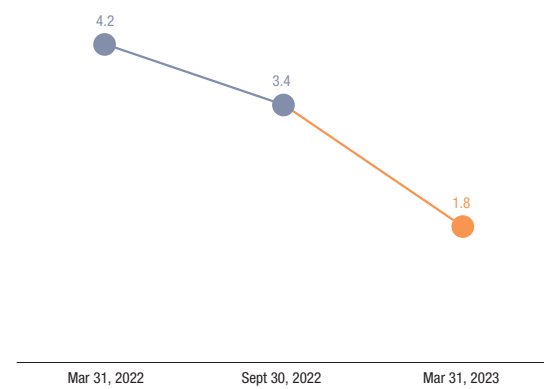
**Change in net income attributable to owners of parent**

(Unit: Billions of Yen)



**Foreign currency bond durations - after taking asset-swapping into consideration**

(Unit: Years)



**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.

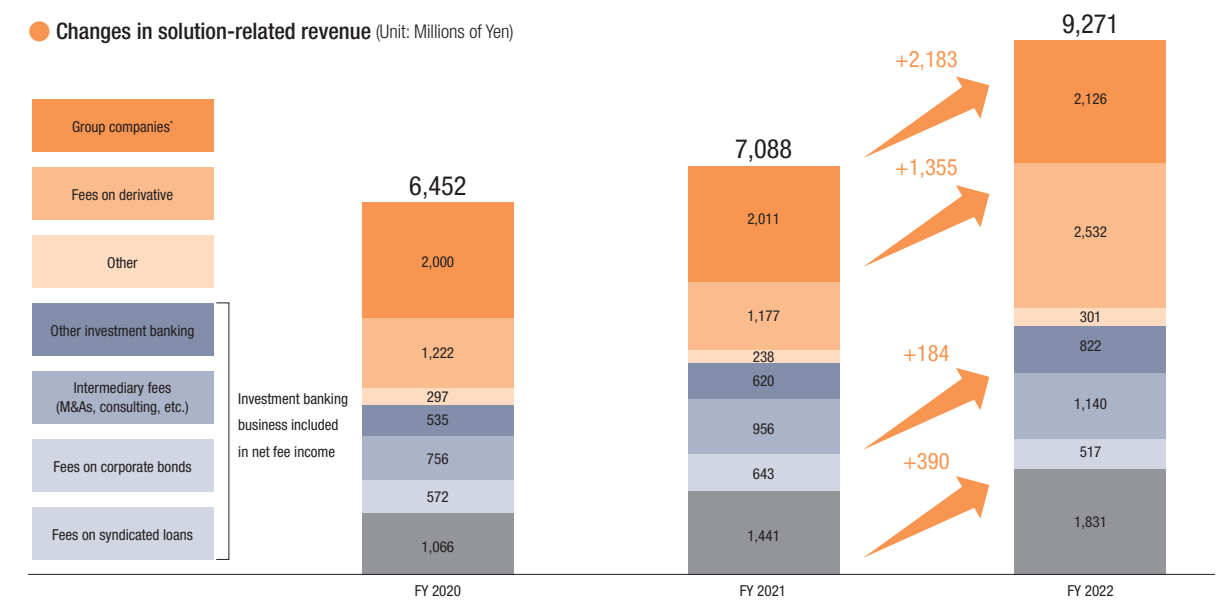
With regard to loans, one of the Group's main revenue pillars, we have provided support to local customers, primarily through regional business loans and personal loans, and our loan balance has risen steadily. We have been stepping up our sustainable financing for the environmental and social segments,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

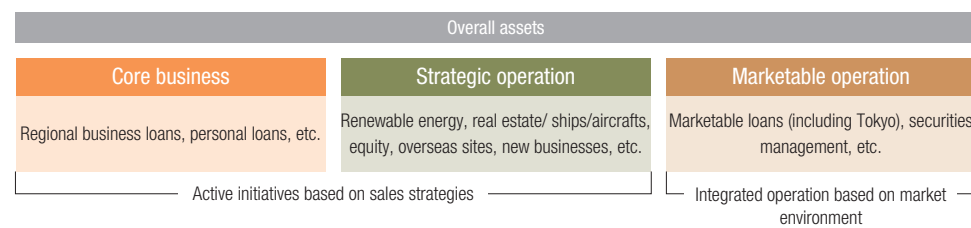
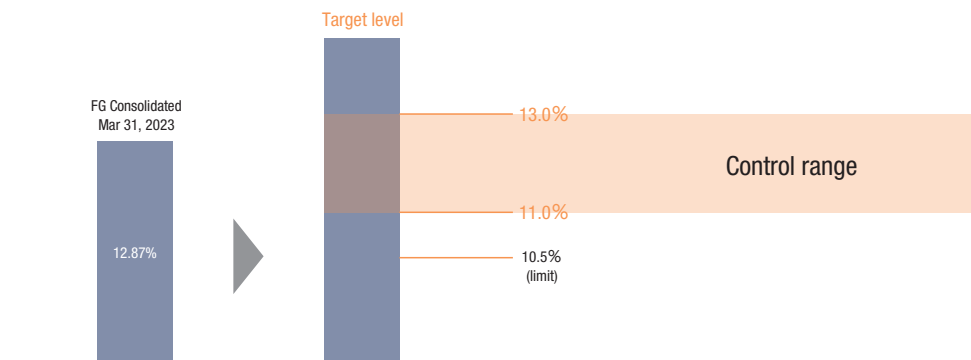
## 2 Capital Policy / Shareholder Returns

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.

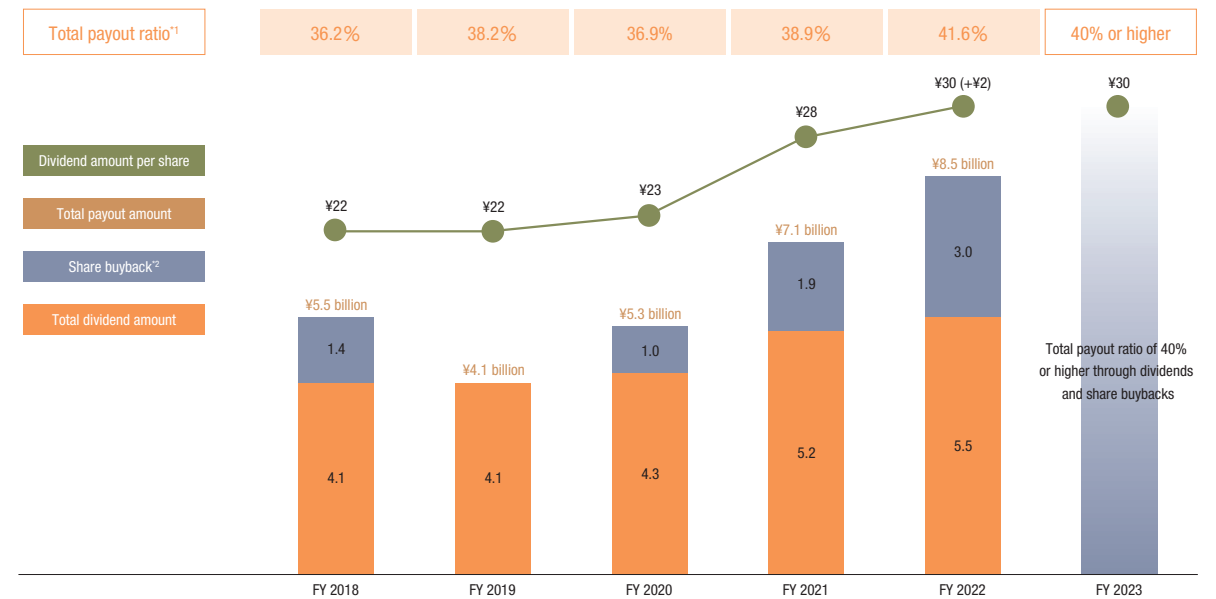
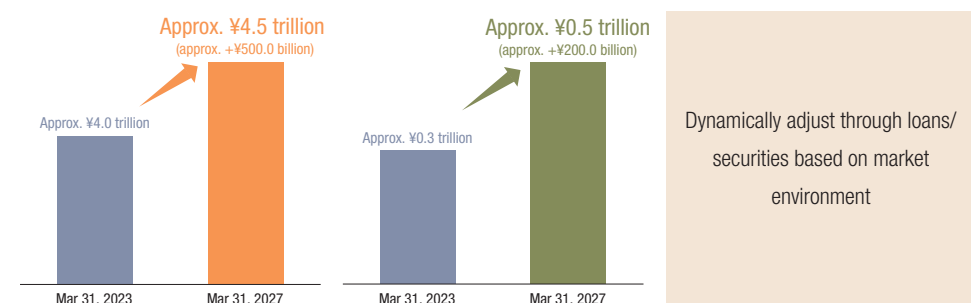
With respect to capital utilization, under the new medium-term management plan, we have set a "consolidated capital adequacy ratio of 11.0% to 13.0%" as the control range for our Group's goal. This was arrived at by starting with a limit level for distribution of profit of 10.5% and applying a "growth 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



### Balance plan



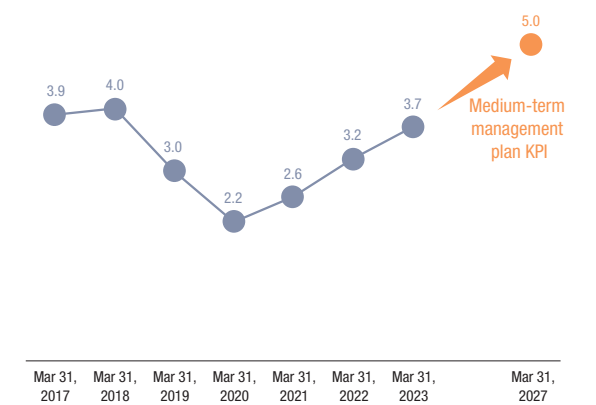
\*1 Until FY 2019: Non-consolidated income base for Chugoku Bank  
 FY 2020 to FY 2021: Consolidated income base for Chugoku Bank  
 FY 2022 and after: Consolidated income base for Chugin Financial Group  
 \*2 Carried out for one-year, starting from the general meeting of shareholders

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.

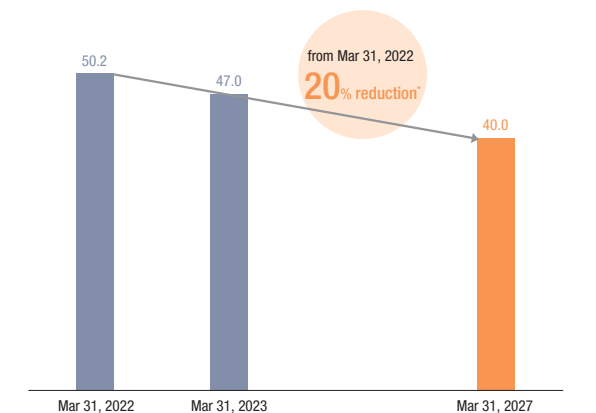
### ROE (unit: %) (based on TSE)



## 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.")

### Reduction plan (unit: Billions of Yen)



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

## Corporate Governance

### Message from an Outside Director

It is my hope that each and every individual member of every Group company takes on challenges with a sense of pride and spirit that they are creating the future of the Chugin Financial Group and of their regional society.

Outside Director and Outside Audit and Supervisory Committee Member **Yukiyo Kiyono**



Yukiyo Kiyono is an Outside Director and Outside Audit and Supervisory Committee Member who scrutinizes the governance of the Chugin Financial Group from an independent viewpoint from outside, not only from the perspective of legal compliance but also from the perspectives such as diversity & inclusion. We talked to her about her own commitment, management issues, and more.

### Please share what you see as the position of the Chugin Financial Group within the community and what kind of presence it will have in the future.

I was appointed Outside Director and Outside Audit and Supervisory Committee Member of the Chugoku Bank in June 2020. Before my appointment, my impression of the Chugoku Bank was that it was a reliable and sincere bank that was a part of the lives of the people in the community, with branches in key areas, based in Okayama, and showing commercials on television and large outdoor screens. When I became Outside Director and was able to see the inner workings of the bank, it showed that this impression was an accurate one. The Chugoku Bank works hard to resolve the issues faced by the community and customers and to contribute to their development.

The transitioning of the bank to a holding company structure in the form of the Chugin Financial Group (hereinafter "FG") in last autumn has expanded its business axis, and I believe it is becoming a financial group that will provide even more widespread support and aid for the lifestyles and economies of the people living in the community.

### Based on your career and your past experience, how are you working to improve the Group's governance?

I registered as an attorney in 1995 and joined the Okayama Bar Association. I lived in Tokyo from my student days through legal apprenticeship period, but I came back to Okayama because I wanted to work in this area where I grew up and to contribute in whatever little way I could to my community. As I do my duties at Chugoku Bank and the FG, I will never forget my roots.

After becoming an attorney, I worked on issues for gender equality even before the passing of the Basic Act for Gender Equal Society in 1999. I took part in lecture meetings and symposia on this topic and served as a member of the gender equality committees of several municipal governments. I also studied various types of harassment, including sexual, academic, abuse of power, and maternity harassment, and I had many opportunities to carry out research, perform studies, and submit opinions on request from companies, schools, and other organizations.

Based on this experience, I hope to share my views and contribute to the Group's management and corporate governance from the perspective of eliminating various forms of inequality within the company related to gender, helping achieve gender equality, and promoting diversity & inclusion, and also from the perspective of compliance, preventing and rooting out harassment in order to protect human rights and maintain a favorable working environment.

Sharing my views from a compliance perspective and contribute to the Group's management and corporate governance

To achieve business growth, our management team must be diverse, and there is an urgent need for mentality transformation and the creation of a supporting framework. I will keep a close eye on management from an outside perspective.

### What are your principal activities within the Board of Directors?

Since being appointed as an Outside Director, I have attended the Board of Directors meetings, meetings of the Audit and Supervisory Committee, opinion-sharing meetings with Representative Directors, opinion-sharing meetings with Outside Directors, and the like, but even outside these meetings, whenever I was asked to share opinions, I declared them based on my own experience as an attorney and from the aforementioned perspectives of gender and compliance.

I believe that for a company, preventing disputes is just as important as legally resolving disputes - perhaps even more important. This is why I take every opportunity to emphasize the need and the methods for internal awareness-raising activities and training.

For example, it has been over a decade since the financial ADR system (a non-judicial dispute resolution system) was adopted, and a certain amount of disputes between financial institutions and customers that have been resolved through ADR have accumulated. I issued a proposal to the Board of Directors to conduct training on protecting the rights and interests of customers and preventing disputes beforehand based on these case examples, and the training was immediately conducted. The results were reported at the next Board of Directors meeting.

We have also established a whistleblowing and consultation system within the company to address harassment issues. Although I recognize and appreciate that this system is functioning, unfortunately there are still reports of sexual harassment and abuse of power. With the aim of completely eliminate harassment, I have provided my position regarding the effectiveness of the mechanisms that have been put in place and explained the need I see for recurring training, and improvements are currently being made.

### What is your appraisal of Chugin FG's corporate governance?

The goal of corporate governance is sustainable corporate growth and the medium- to long-term increase of corporate value. This requires that corporate management ensures its transparency and that the rights and positions of stakeholders be respected. I strive to always keep these in minds as I observe the management of the bank and the FG.

Like all Outside Directors, I represent the expectations of investors and local stakeholders, in particular, and focus on respecting their rights and interests. As Outside Director, I often share my opinions from a customer-centric, shareholder-centric perspective, based on the expertise I have in my fields of specialization.

As I mentioned earlier, internal directors have also been extremely receptive to the opinions of Outside Directors, deliberating and implementing future-looking measures, and I feel that our governance is functioning effectively.

One example would be our promotion of the advancement of women. This has been one of social issues since before the enacting of the Act on Promotion of Women's Participation and Advancement in the Workplace, but this has become an increasingly pressing issue. A Cabinet Office questionnaire found that investors are placing even greater importance on the advancement of women and focusing on figures such as the percentages of executives and people in managerial positions that are women. Outside Directors have consistently pressed for the promotion of the advancement of women. I am very happy to say that because of these efforts, this fiscal year several women have been promoted to executive officer positions in the FG and the bank. Furthermore, some of the Group companies have also appointed women as directors.

However, the percentage of managers that are women remains low, and the only female director is an Outside Director in the FG. For our Group's business to grow, our management team must be a diverse one, with people of different genders and ages. Our current management recognizes the urgent need to strongly promote diversity, to actively hire and promote women, to transform mentalities regardless of gender as a prerequisite in order to make this possible, and to prepare a supporting framework. Internal policies for doing this have been announced, and I plan to keep a close eye on their application.

### Could you share some words on the future you see for Chugin FG and how it can be achieved?

In March 2017, Chugoku Bank formulated its long-term management plan, a 10-year strategy called "Vision 2027: Plan for Creating the Future Together," and aimed to build a sustainable business model that will develop in step with regional society. Chugoku Bank later became the FG, and in March 2023, we formulated a new medium-term management plan, "Plan for Creating the Future Together: Stage III," for the next four years, which will be the final stage of Vision 2027.

Under this plan, the FG will be collaborating with various partners, both inside and outside the Group, to create a shared platform for the community. It will generate new, multifaceted, multilayered value and pave the way to a future of prosperous community development. We have created the slogan "Our challenges build our future." to epitomize these efforts, and we are calling all officers and employees to work as one and for individuals to take on new challenges.

It is my hope that the FG's future vision will resonate with all of the Group companies and every individual member in the Group, and that each one will take on challenges with a sense of pride and spirit that they are creating the future of the FG and of their regional society.

## Message from the CHRO<sup>(\*)</sup>

Driven by our increased investment in human capital and our promotion of diversity & inclusion, we are creating a group of “human resources desired internally and externally,” and provide the finest comprehensive financial services to customers and members of the community.

Director and Senior Managing Executive Officer **Ikuhide Harada**



### We see potential in our changing times and are always taking on new “challenges”

When our Group transitioned to a holding company structure in October 2022, we adopted the group slogan “Our challenges build our future.” New concepts such as DX and SX are arising, and we are living in an age of tremendous change. In order to create new added value in line with our changing times and to supply that value to our customers, I believe we must constantly take on the “challenge” of evolving ourselves.

### The direction of our human capital investment

#### Monetary investment and time investment

“Vision 2027: Plan for Creating the Future Together” is our long-term management plan that sets forth our 10-year long-term strategy, and in FY 2023 we began the medium-term management plan “Plan for Creating the Future Together: Stage III,” the final stage of the management plan. In order to maximize the power of our Group’s wonderful human capital, the plan defines human capital investment from the two perspectives of “enriching the contents of human resources development itself, such as career development support, e-learning, and scholarships (monetary investment)” and “expanding the scope of the target, the time and the duration of the human resources development (time investment).”

Specifically, we are considering expanding our investment in four major directions: (1) rebuilding a group-focused training system with the aim of maximizing group synergy, (2) enhancing career support and reskilling with the aim of fostering greater employee autonomy, (3) expanding external secondment to provide “greater opportunities for learning outside the company,” such as developing digital skills, and (4) reinforcing general-purpose business skills and management skills.

### Promoting diversity & inclusion

I believe that diverse ideas that are unconstrained by conventional values will revitalize our organization, enabling us to stay abreast of our changing times. For that reason, as well, we are using a top-down approach to promote diversity & inclusion, and in our current medium-term management plan we are promoting sweeping reforms to our organizational culture, such as changing our internal promotion requirements and establishing a mentorship program for developing the leaders of the future.

Furthermore, our Group has established new business companies and striven to “expand its business axis while creating new value.” We have focused our efforts on mid-career hiring, including hiring people without prior financial industry experience, because promoting new businesses will require know-how that we have not been able to develop in-house. These initiatives fuse a wide range of careers and ways of thinking, which I believe contribute to the promotion of the diversity & inclusion of our organization.

In addition, we have also been working to establish and coordinate a network of alumni (former employees), an area that has been drawing a great deal of attention in recent years. There are a rising number of cases in which employees leave our Group for whatever reason, gain further experience in other companies while maintaining some knowledge of our Group’s business and operations, and then come to work for us again as invaluable human resources.

In order to further improve the value of our organization, we are looking towards potentially coordinating with alumni in new ways, such as through secondary or concurrent jobs, and we will further expand our Group’s circle of human resources.

### Our aim is to receive the ultimate in gratitude from our customers

According to the ES questionnaire our Group conducted in January 2023, many of our employees find being thanked by customers to be rewarding and motivating, and to work each day to earn the gratitude of customers. We are using all kinds of techniques to motivate and reward our employees to further heighten their engagement.

Needless to say, employees are at the heart of our human capital investments. When the efforts and ambitions of each and every employee combine, they provide our organization with tremendous power.

I hope that all of our employees see our changing times as opportunities, striving to earn the ultimate gratitude from our customers and constantly taking on new challenges.

\* CHRO: The abbreviation of Chief Human Resource Officer. It refers to the person who has the most authority on human resources.

## Review of Operations

### Financial Condition

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

Since the Company was established on October 3, 2022, comparative information with the previous fiscal year is not presented. The Group’s consolidated operating results, etc. are prepared by taking over the consolidated operating results, etc. of the Chugoku Bank, Limited, which became a wholly owned subsidiary of the Company through a sole share transfer.

### Overview of Results, etc.

#### Results

Regarding the results for the fiscal year ended March 31, 2023, consolidated ordinary income was ¥183,586 million, and consolidated ordinary expenses were ¥153,993 million. As a result, consolidated ordinary profit was ¥29,593 million, and net income attributable to owners of parent was ¥20,477 million.

With respect to the results by business segment, in the Banking business, ordinary income was ¥167,546 million, and ordinary profit was ¥30,360 million.

In the Leasing business, ordinary income was ¥17,461 million, and ordinary profit was ¥3,640 million.

In the Securities business, ordinary income was ¥2,973 million, and ordinary profit was ¥239 million.

In Other business, ordinary income was ¥14,769 million, and ordinary profit was ¥11,970 million.

[Outlook for FY 2023]

As for financial performance forecasts for the fiscal year ending March 31, 2024, the Group is expecting consolidated ordinary income of ¥167.2 billion, consolidated ordinary profit of ¥21.5 billion, and net income attributable to owners of parent of ¥15.0 billion.

### Cash Flows

The status of cash flows is as follows.

#### Cash flows from operating activities

Net cash used in operating activities was ¥403.4 billion, due primarily to an increase in loans and bills discounted and a decrease in borrowed money.

#### Cash flows from investing activities

Net cash provided by investing activities was ¥164.2 billion, due primarily to proceeds from sales and redemption of securities exceeding purchases of securities.

#### Cash flows from financing activities

Net cash used in financing activities was ¥7.8 billion, due primarily to 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, 2023 were ¥1,506.3 billion.

### Dividend Policy

In light of the public nature and soundness of a holding company of a bank, the Company 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.

For the fiscal year ended March 31, 2023, the Company have increased the year-end dividend by ¥2 from the initial forecast of ¥14 (¥28 for the year) to ¥16 per share (¥30 for the year).

With respect to the dividend policy for the fiscal year ending March 31, 2024, we aim to achieve the total payout ratio of 40% or more of net income attributable to owners of parent through the total of dividends and share buybacks, and we forecast an annual dividend of ¥30 (interim ¥15).

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

The balance of consolidated risk-managed loans increased by ¥12.1 billion from the end of the previous fiscal year to ¥109.1 billion.

Status of impaired loans		(Millions of Yen)
		End of March, 2023
Loans in Bankruptcy/rehabilitation or similar proceedings	¥	20,019
Loans at risk		62,106
Loans past due three months or more but less than six months		724
Restructured loans		26,295
Total	¥	109,146

### 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.

**Social Contribution through Business**

**Policy on Initiatives Related to Management Support for SMEs (Basic policy concerning promotion of regional financing)**

- ▶ As its corporate principles, the Company strives to “Remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services.” By providing superior comprehensive financial services to regional customers, the Company will work to contribute to the revitalization and continuous growth of regional society.
- ▶ To achieve this, in addition to its role as a provider of funds marked most significantly by loans, the Company recognizes as an important issue the revitalization of regional economies through consulting that corresponds to the life stage of customers, which includes start-up and new business support, growth support, management improvement and business renovation support, and business continuity.
- ▶ The following three items have been defined as the “policy on initiatives concerning promotion of regional financing,” and the Company will work to expand its activities in these areas.

**Making Full Use of Our Consulting Function According to the Life Stage of Our Customers**

- The Company’s policy is to fully comprehend customer Companies’ management challenges on business and financial terms by evaluating their commercial viability, and also to commit to fulfilling our consulting function in coordination with outside experts.
- In “supporting start-ups/new businesses, growth support such as development of sales channels and support for overseas expansion, and business continuity support,” we are strengthening our consulting functions through unified support from the start-up consideration stage until commercialization, various business meetings, and business matching, etc.
- In “management improvement and business rehabilitation supporting,” we further enhance our supporting activities for management improvement through integration among the Company’s branches and headquarters to propose the right solutions at the right time, based on comprehension of the business content of our customers. In addition, we actively employ outside expert organizations such as REVIC and the Revitalization Support Council and various funds to provide more advanced methods of assistance in the management improvement and business rehabilitation supporting field.

**Contributing to Regional Creation and Revitalization of Regional Economies**

- By setting up a “Comprehensive Town, Person, and Work Creation Strategy Structure,” the Company actively participates in each local government from the regional comprehensive strategic planning stage.
- In the strategy execution stage as well, the Company continues to work in cooperation with local governments for regional creation via initiatives such as new business proposals and participation in business operation conferences that leverage its knowledge and networks.
- The Company collects and analyzes various forms of information from the region, and actively promotes industry-academia-government-finance cooperation. In addition, the Company is strengthening efforts to support the cultivation of growth fields and efforts to promote the region.

**Actively Offering Information to the Regional Society and Our Customers**

- The Company actively offers information about specific activities and their results with regard to efforts related to community-based financial services. We will strive to improve our services even further in order to earn the trust and support of our regional customers.

**Compliance System Overview**

The Group believes that compliance means observing not only laws, regulations, and internal rules, but also meeting the expectations of local communities and customers through actions that conform to social norms.

All Group officers and employees are aware of our social responsibility and public mission as a comprehensive services group focused on finance. In order to meet the expectations of a constantly changing society in terms of revitalization of regional economies and the SDGs, we are committed to practicing proactive and autonomous compliance that goes one step beyond legal compliance to think and act independently.

Specifically, we are involved in the following compliance activities.

1. We have established a Group Compliance Committee as an organization to deliberate compliance-related matters across the Group, and we are working to improve and strengthen the Group-wide compliance framework.
2. We create a Group Compliance Program each fiscal year as a plan for the practical implementation of compliance, and through the steady implementation of such plans, we ensure proactive and autonomous compliance is practiced by officers and employees.

In addition, the Corporate Administration Department, which oversees compliance, receives reports on compliance-related matters from the management and Legal Compliance Supervisors at each Group company and provides guidance and advice based on a timely and accurate understanding of the situation, thereby promoting mutual cooperation within the Group.

3. We have enacted a Group Corporate Code of Conduct as the basis for conduct that conforms to social norms in the course of management and operations; the Group Behavioral Guidelines to be followed by officers and employees in the course of their duties and private lives; and a Compliance Manual that serves as a compliance handbook.

The Group Compliance Committee regularly monitors the progress of Group Compliance Program plans.

In addition, we have put together a Compliance Card containing a summary of the rules and manuals which form the basis for practicing proactive and autonomous compliance, and we distribute the card to all officers and employees so that they can refer to it at any time.

4. Through the implementation of various compliance-related training sessions and seminars, we are working to instill compliance practices that meets society’s expectations in all officers and employees.
5. With the objective of preventing inappropriate behavior by officers and employees and facilitating the early detection of unethical activities, we operate a Management Helpline which is an internal reporting system that enables direct reporting to top management.
6. We take a firm stance against anti-social forces that threaten social order and safety and prevent the development of a sound economy and society. We deal with inappropriate demands by such anti-social forces as an organization and we collaborate with external specialized organizations, such as the police.

**Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism**

As global threats of nuclear weapons, missiles, and terrorism continue to increase, cutting off financial sources leading to criminals and terrorists is an issue that needs to be addressed jointly by the Japanese and international communities, and measures to prevent money laundering and terrorist financing now bear greater importance.

The Financial Services Agency established and released the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism which

outlines the basic approach that financial institutions should take in implementing effective countermeasures. In such climate, the Company formulated the following policy and takes measures to prevent the flow of funds to criminal syndicates, to maintain bvsafe and convenient financial services, and to create an environment making it difficult for criminal syndicates to engage in activities.

**Policy on Anti-Money Laundering and Combating the Financing of Terrorism**

The Chugin Financial Group (hereinafter, the “Group”) recognizes that measures for anti-money laundering and combating the financing of terrorism (hereinafter, “AML/CFT”) is a priority task required not only domestically but also from the rest of the global community. Based on this recognition, the Group shall take the initiative in establishing the management system in which it shall execute agile and effective responses to ever-changing international situations and the risks facing the Group, and set forth the following policy as a basis for execution of operations.

**1. Management Policy**

In order to execute agile and effective responses to changes in international situations, the Group shall take proactive steps to establish and maintain the management system based on the concept of “risk-based approach,” in which it shall identify and assess its money laundering and the financing of terrorism (hereinafter, “ML/FT”) risks in a timely and appropriate manner and take mitigation measures that are proportionate to the risks.

**2. Organizational Structure and Officer**

The Group shall define AML/CFT as one of its critical management agenda and shall clarify the internal roles and responsibilities for that purpose. The Group shall appoint the officer in charge of the Corporate Administration Department of the Chugin Financial Group as the supervisory manager for AML/CFT. A dedicated division shall be newly established within the Corporate Administration Department of the Chugin Financial Group to provide the centralized function of ensuring the execution of measures for AML/CFT.

**3. Measures for AML/CFT under Laws and Regulations**

The Group shall establish an internal system capable of carrying out timely and appropriate measures for AML/CFT under laws and regulations, including, but not limited to, verification at the time of transaction, retention of transaction records, confirmation of sanctions including freezing of assets, and notification of suspicious transactions.

**4. Administration of Customer Information and Policy for Handling Customers**

The Group shall establish an internal system for making appropriate investigations about the basic information of customers in the course of the transactions with them and for carrying out measures that are proportionate to their attributes. Furthermore, the Group shall determine and carry out required risk mitigation measures by way of making periodic investigations and analyses on the history of transactions with customers.

**5. Transaction Monitoring and Screening**

The Group shall determine and carry out required risk mitigation measures by way of investigating and analyzing the status of transactions by the use of reports submitted by its branches or detection made by its computer systems for any unusual transactions or transactions subject to sanctions.

**6. Management of Correspondent Banks**

The Group shall endeavor to collect sufficient information about its correspondent banks, conduct an appropriate assessment on them, and carry out appropriate measures that are proportionate to the risks involved. No relationship shall be established or maintained with any shell banks without a physical presence or operations.

**7. Development Training of Directors and Employees**

The Group shall continually conduct training or other programs for all of its Directors and employees to deepen their understanding and raise their awareness of AML/CFT, in an effort to develop and retain human resources having expertise and fitness for the given roles.

**8. Verification of Status of Compliance**

The Group shall inspect the status of compliance with regard to AML/CFT, and based on the results of such inspections, shall continually make efforts to improve its risk management system against ML/FT.

Corporate Governance of the Company

Basic principles

The Company is committed to strengthening and enhancing the corporate governance based on our corporate principles and management vision, in order to achieve a sound and sustainable growth and a medium- to long-term improvement of the corporate value, while considering profits of all stakeholders related to the Company including the shareholders, customers, regional society, and employees.

1. The Company strives to establish an appropriate corporate governance framework while the Board of Directors, the Audit and Supervisory Committee, and Directors recognize the fiduciary responsibility to the shareholders.
2. The Company strives to ensure the appropriateness of the business executions and the effectiveness of audits and supervision by measures such as determining management policies and execution of important duties through adequate discussion in the Board of Directors and accurate execution of duties by Directors involved in the execution of business, alongside audits by the Board of Directors, audits by the Audit and Supervisory Committee, and appropriate maintenance and operation of the internal control system based on laws and regulations such as the Companies Act.
3. The Company is committed to establishing the environment where the rights of shareholders are respected and properly executed, constructive dialogue is made with shareholders, and active disclosure is made for corporate information including non-financial statements, etc., as well as ensuring the real equality of shareholders.

Corporate governance framework

The Company has adopted the form of a company with an Audit and Supervisory Committee as its organizational design pursuant to the Companies Act.

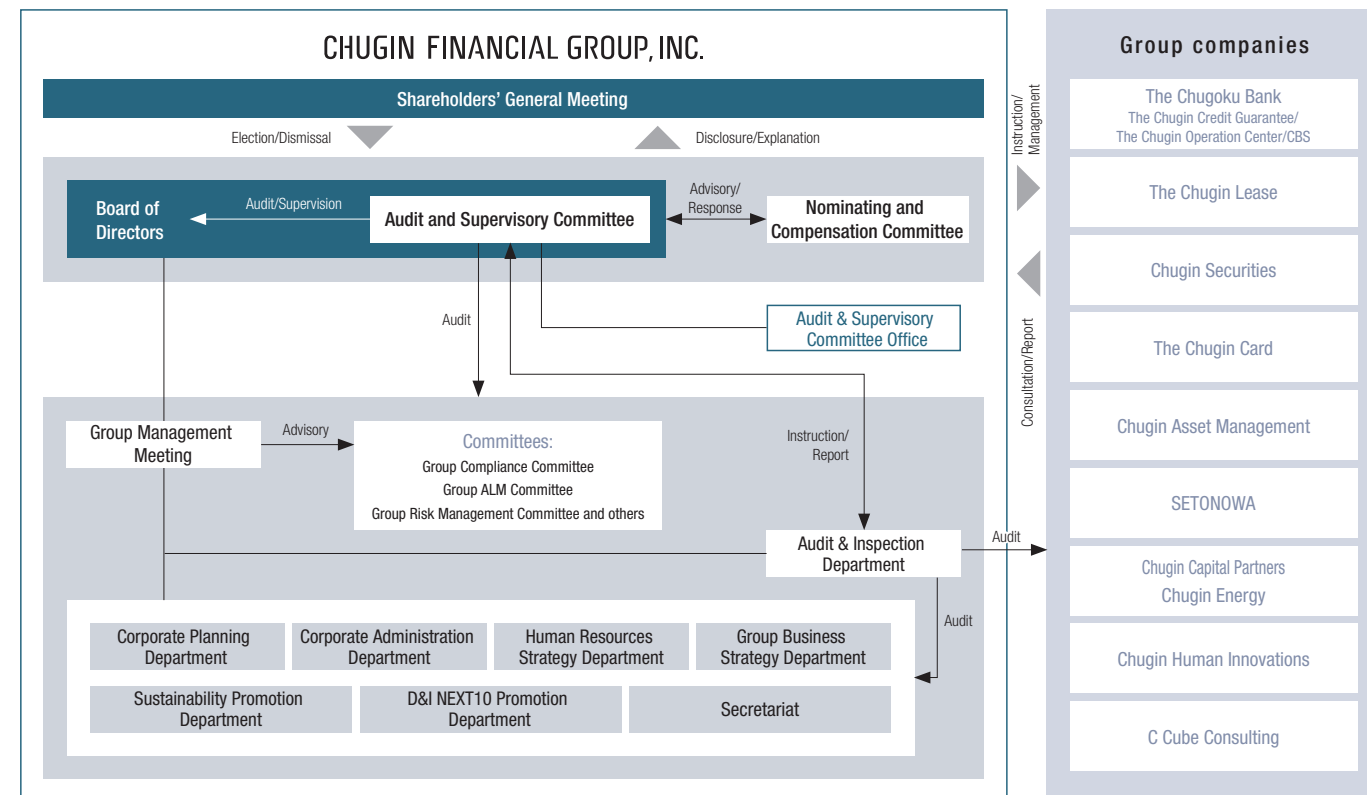
Since voting rights at the Board of Directors are granted to Directors serving as Audit and Supervisory Committee Members at a company with an Audit and Supervisory Committee, highly effective audit and supervisory system over the Board of Directors and Directors has been secured.

In addition, since companies with an audit and supervisory committee can delegate a part of the authority of the Board of Directors to directors pursuant to provisions of the Companies Act, the matters submitted to the Board of Directors are narrowed down to highly important proposals, deliberations on major proposals such as strategy at the Board of Directors are enhanced, and leading to prompt management decision-making of the Company is ensured.

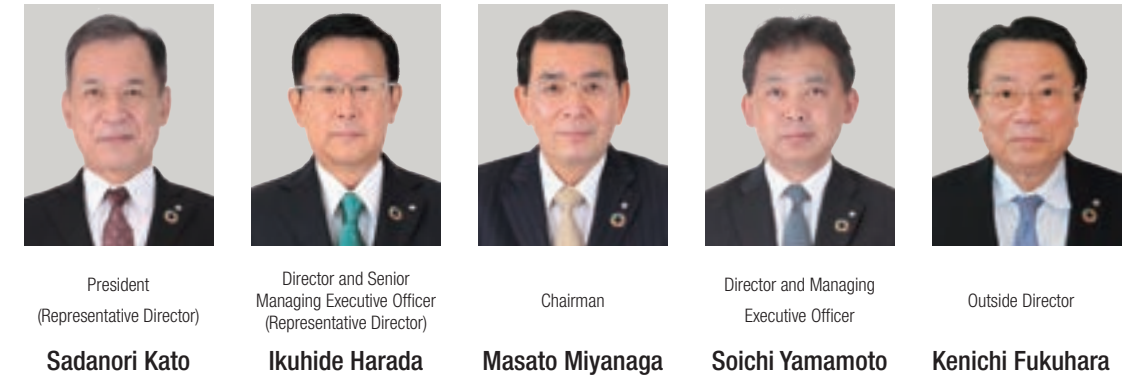
Also, to ensure mobility in management decision-making, the Company has established "Group Management Meeting," which comprises Four Executive Directors, including the President, and discusses matters delegated by the Board of Directors.

With regard to items such as risk management, which are important for conducting proper corporate activities, the Company has established various kinds of committee structures as advisory bodies of the Group Management Meeting to discuss such items flexibly.

Corporate governance framework



Directors



Directors (Audit and Supervisory Committee Members)



\*Messrs. Kenichi Fukuhara, Toshihide Saito, Kazuhiro Tanaka, and Ms. Yukiyo Kiyono are Outside Directors as stipulated in Article 2, Item 15 of the Companies Act.

# Comprehensive Risk Management System

## Comprehensive Risk Management

The Group defines risk management as one of its critical management issues and aims at well-balanced management in pursuit of enhanced profitability while maintaining operational soundness through further development of comprehensive risk management. To this end, risks are managed in accordance with the Basic Risk Management Rules which set out policies and a framework for risk management for the entire Group along with other basic matters on the subject.

Risks faced by the Group include credit risks, market risks, liquidity risks and operational risks. The Group has established a risk management system based on the "three lines of defense" concept. As the first line of defense, business divisions facing the risks engage in the responsible management of the risks. The second line of defense is to designate sections in charge of each type of risk management, and understand, analyze and evaluate the status, and manage and check each type of risk. In addition, we have established a system for comprehensively managing the various types of risks through the establishment of committees and a department in charge of risk management (Corporate Administration Department). As the third line of defense, we have established a system in which the internal audit department (Audit & Inspection Department) verifies the appropriateness and effectiveness of risk management.

The Group strives to ensure operational soundness while enhancing profitability at the same time, and has a policy to conduct appropriate risk-taking within the limits of capital. The Group sets risk limits for each risk category (credit, market, and operational risks) and calculates, monitors, and manages the amount of each risk using statistical and other methods.

In addition to comparing the total amount of risk aggregated each risk amount with capital, we also evaluate and verify the degree of capital adequacy by estimating the impact of risk events that may not be captured in each risk amount using stress tests, etc. The results of these evaluations and verifications are used to strengthen and revise business plans and risk management.

### ▶ ALM

ALM is an abbreviation for Asset and Liability Management, which is a system to comprehensively manage assets and liabilities, including various types of risk analysis, to ensure stable earnings growth.

### ▶ Three lines of defense

Line 1: Autonomous management by business divisions; Line 2: Checks and support by risk management divisions; Line 3: Verification of appropriateness and effectiveness and recommendations for improvements by the internal audit divisions.

## Credit Risk Management

Credit risk refers to the risk of losses incurred when the value of assets (including off-balance-sheet assets) declines or becomes worthless due to changes in the financial status of those to whom credit is provided.

Credit risk management aims to maintain and improve the financial soundness of the Group through appropriate management of credit operations in order to contribute to the sound development of the social economy and by extension, to develop the Group. The Group's basic credit risk management policy is to manage credit risk inherent in diverse transactions across all divisions and business sections in a comprehensive and integrated manner, and to establish and appropriately manage risk assessment and management methods that suit the characteristics of each risk.

A credit risk management system has been established so that each Group company manages credit risks based on our basic credit risk management policy, and the Corporate Administration Department, which is responsible for overseeing and managing credit risk, oversees and manages credit risks for the entire Group.

Credit risk management methods include a credit management system that establishes standards and procedures for making credit decisions and, as part of such procedures, a credit risk assessment system that stipulates standards and procedures for conducting credit risk assessments that form the basis for credit decisions has been established. These systems are properly operated to control risk by preventing the credit risk losses or suppressing losses within a certain range. Credit concentration risk is also appropriately controlled by avoiding excessive concentration of credit to specific customers or groups or specific industries. Through these efforts, we aim to control credit risk and secure stable earnings.

Regulatory capital requirements for credit risks are strictly measured in the credit risk management system given the importance of capital ratio requirements in risk management and information disclosure. We have established a framework to assess credit risk and financial conditions under stress such as economic recessions and defaults by large borrowers, to evaluate capital sufficiency and appropriateness of risk management plans, and to reflect such assessments and evaluations in our credit management, etc.

## Market Risk Management

Market risk refers to the risks of incurring losses from fluctuations in profits arising from assets and liabilities and the risks of incurring losses from fluctuations in the value of assets and liabilities (including those off balance sheet) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Group's basic risk management policy for market risks is to determine and analyze risks from the point of view of fluctuations in both current value and net interest income and to assess the risks from various angles, using stress tests and other methods.

A market risk management system has been established so that each Group company manages market risks based on our basic market risk management policy, and the Corporate Administration Department, which is responsible for overseeing and managing market risk, oversees and manages market risks for the entire Group.

In terms of the method of managing market risks, trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. These limits are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risks by taking the risk-return balance into consideration through ALM analysis, Value at Risk (VaR) analysis and other means to ensure stable profits over the medium and long term. We have also established a system for the flexible management of market risks as well as credit risks and liquidity risks related to market operations.

Market risk management, including lending and deposit services, is carried out by analyzing risks from multiple aspects, such as the calculation of interest rate risks. The Group Risk Management Committee and the Group ALM Committee discuss the overall management of assets and liabilities and consider management and lending policies.

### ▶ VaR (Value at Risk)

Value at Risk (VaR) is the maximum loss, incurred in a portfolio during a specific holding period and confidence interval, estimated using statistical methods based on historical data.

## Liquidity Risk Management

Liquidity risk refers to the risks of incurring losses (hereafter, "fund procurement risks") when it becomes difficult to secure the requisite funds or when procuring funds at a much higher than normal interest rate becomes necessary due to a mismatch between the timing of use and procurement or to an unexpected

outflow of funds, or to risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, "market liquidity risks").

The Group recognizes the importance of fund procurement management and its basic fund procurement risks policy is to ensure a stable supply of funds. Our basic policy for managing market liquidity risks is to take into consideration the special features of markets for individual products, such as market size, liquidity, and other factors, and to pay careful attention to their market liquidity.

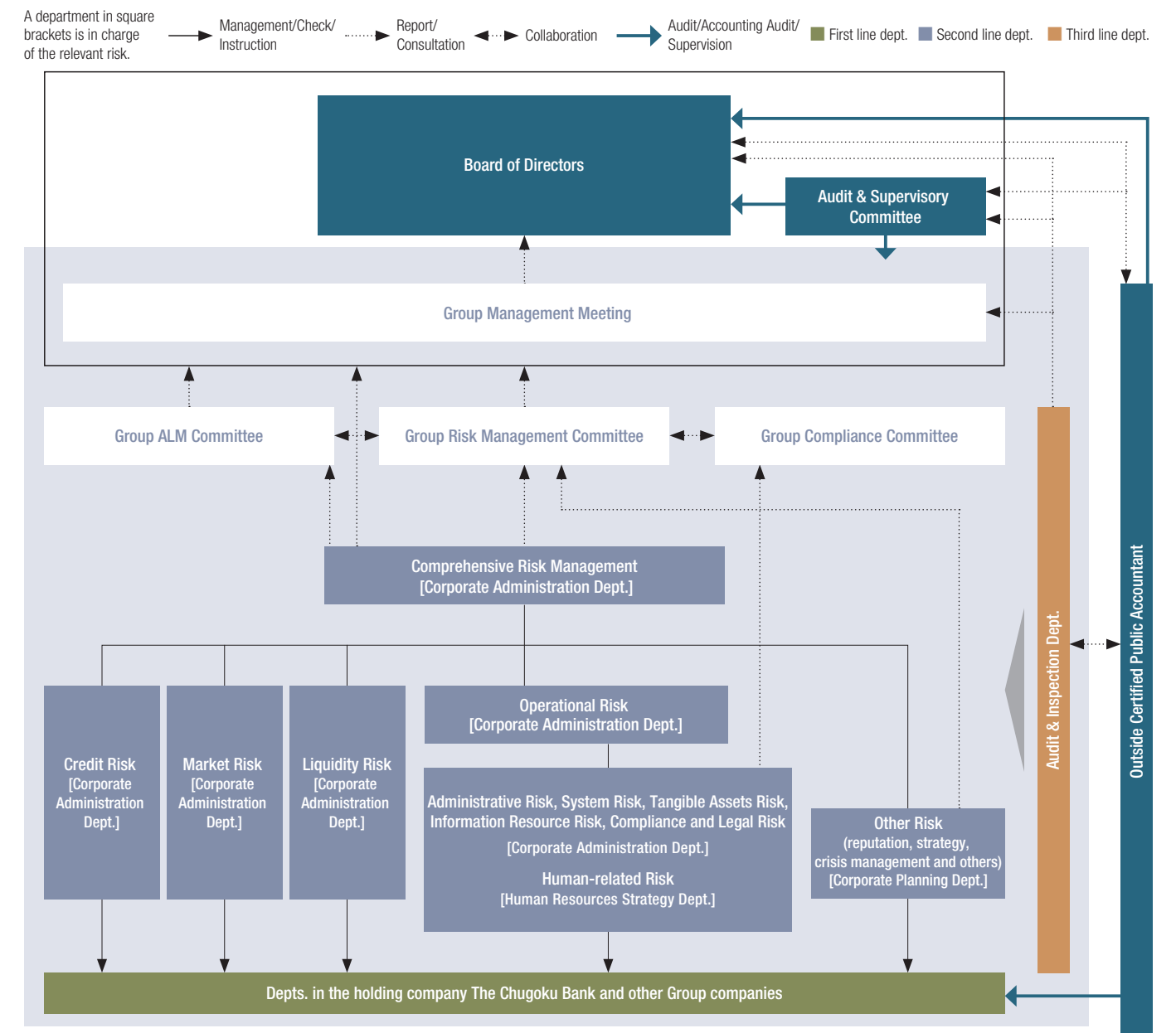
A liquidity risk management system has been established so that each Group company manages liquidity risks based on our basic liquidity risk management policy, and the Corporate Administration Department, which is responsible for overseeing and managing liquidity risk, oversees and manages liquidity risks for the entire Group.

In terms of the method of managing liquidity risks, we pay attention to the daily status of fund procurement by monitoring early warning indicators and

work to limit the fund procurement risks. In addition, we manage liquidity risks by establishing management policies for fund procurement risks, such as policies for holding highly liquid assets and setting limits on the gap between funds under management and funds procured over a certain period of time.

Deposits comprise the vast majority of procurements at particularly important subsidiary bank. While its fund procurement is stable, we are working to diversify our means of procurement to prepare for unforeseen circumstances, by procuring from the market utilizing marketable securities held by the Group. For foreign currencies, we verify that funding is feasible using stress tests that assumes that it is difficult to procure funds from markets due to deterioration in conditions of foreign currency procurement, and we work to maintain the medium to-long-term stability of our foreign currency balance sheet by measuring and managing the stable foreign currency ratio which indicates the degree of stability of foreign currency investments and procurement.

## Group Risk Management System



## Internal Control

### Fundamental Policy for Establishment of Internal Control System (Excerpt)

The Company has formulated a fundamental policy concerning the establishment of an internal control system to ensure appropriateness of operations pursuant to a resolution of the Board of Directors. An outline of the policy is as follows.

#### 1. System ensuring that the execution of duties by Directors conforms to applicable laws, regulations and the Articles of Incorporation

(1) Directors shall execute their duties based on the Group's Corporate Code of Conduct, which sets forth the Group's corporate ethics, and the Guidelines for the Conduct of Group's Clerks, which must be taken into account in the course of duties, and comply with the Rules for Directors, which codify basic considerations for directors. In principle, Board of Directors meetings shall be held once a month, and on other occasions as required, to promote communication among directors and enable mutual supervision of the execution of duties. The Board shall be operated in accordance with the Board of Directors Regulations in order to prevent violations of laws and the Articles of Incorporation by ensuring proper business activities. The Company is a company with an Audit & Supervisory Committee system, wherein each Audit & Supervisory Committee Member audits the progress of the execution of duties by directors according to the policy and the division of tasks set forth by the Audit & Supervisory Committee and, when necessary, voices opinion, prohibits action by a director and/or devises other appropriate measures.

(2) The Board of Directors shall establish systems to cut off and resolutely eliminate any and all relationships with anti-social forces.

#### 2. System for retaining and maintaining information regarding the execution of duties by Directors

With respect to information concerning the execution of duties by Directors, the Company shall retain the minutes of the Board of Directors meetings, along with other relevant materials, for a period of 10 years in accordance with the Board of Directors Regulations, and maintain them in a state that renders them accessible as needed. Other important documents shall also be maintained in an appropriate manner, depending on the storage medium, in accordance with the Information Asset Management Standards and internal regulations, and shall be maintained in a state that renders this information accessible as needed.

#### 3. Regulations and other systems concerning managing exposure to loss

(1) The Company recognizes (a) credit risks, (b) market risks, (c) liquidity risks, (d) operational risks and (e) other risks which could have a serious impact to the business as key risks involved in the execution of the Group's operations. Specific risks shall be identified and managed, and a comprehensive risk management system established. A detailed definition of each risk shall be provided in the Group's basic risk management rules.

(2) The Company shall establish an equity capital management system and an asset evaluation management system to ensure the soundness and appropriateness of the Group's operations through sufficient capital adequacy proportionate to the risks.

(3) Each type of risk shall be managed in accordance with the Group's basic risk management policy set forth in the Group's basic risk management rules and other regulations pertaining to risk management. The Corporate Administration Department shall be responsible for the comprehensive

management of the Group's risks, a responsible department shall be assigned to each type of risk and such committees as the Risk Management Committee shall be established to ensure appropriate risk management.

(4) A risk management plan shall be created when formulating strategic objectives, such as business plans or the Medium-Term Management Plan. The management status of each type of risk shall be reported to the Board of Directors on a regular basis.

(5) The Company shall establish necessary systems, including the Emergency Countermeasures Headquarters in the event of unforeseen circumstances, and respond appropriately to prevent the spread of damage in accordance with the Risk Management Manual.

#### 4. System to ensure the efficient execution of duties by directors

(1) Matters that impact the Group's operations, deemed to be significant matters requiring the resolution of the Board of Directors, shall be discussed and deliberated on in advance in the presence of the Audit & Supervisory Committee Members by the Group Management Committee, which is comprised of the chairman, vice chairman, president, vice president, senior managing director and managing directors.

(2) Business execution pursuant to a resolution of the Board of Directors shall be in accordance with the decision-making authority and procedures stipulated in the Rules Defining the Extent of Job Authority and various other rules.

#### 5. System ensuring that the execution of duties by employees conforms to applicable laws, regulations and the Articles of Incorporation

(1) The Company shall establish the Group's Corporate Code of Conduct, the Guidelines for the Conduct of Group's Clerks, the Rules on Compliance with Laws and Regulations etc., and the Compliance Manual in order to ensure a compliance framework. The contents of employment regulations and other rules, as well as guidelines for the handling of business affairs and other guidelines, shall be in compliance with all pertinent laws and the Articles of Incorporation.

(2) The Group Compliance Committee chaired by the president shall be established to foster a corporate culture that emphasizes compliance, enhancing compliance systems and monitoring the status of legal compliance. The Corporate Administration Department shall be responsible for overall compliance management and shall examine various measures related to the compliance.

(3) Various measures shall be taken in a systematic manner in order to establish a compliance framework, such as the formulation and review of the annual Compliance Program, which serves as the Group's basic compliance policy and implementation plan, as well as periodic compliance-related checks and compliance training.

(4) The Audit & Inspection Department shall be established as an internal audit department independent from the business execution departments, and shall perform audits to ensure that employee duties are in compliance with laws, regulations, the Articles of Incorporation and other obligations.

(5) Should legal violations or other compliance-related facts be detected, an appropriate response shall be taken in accordance with employee regulations via the Management Help Line and other means as an internal reporting system.

#### 6. System ensuring the appropriateness of operations throughout the Chugin Financial Group

(1) Chugin Financial Group Management Regulations shall be formulated in order to ensure appropriateness of business operations and effective business management with respect to each company of the Chugin Financial Group. Each Group company shall formulate its own rules in accordance with the Company's rules and establish systems befitting its business content and organizational structure to ensure the appropriateness of its business operations.

(2) The Company shall formulate standards related to deliberation and reporting for each company in the Chugin Financial Group and shall manage the business of the Group companies based on a system for making final decisions and receiving reports in accordance with said standards. Of the final decisions and reporting matters to the Company, those of importance shall be reported to the Company's Audit & Supervisory Committee Members. The Company shall conclude an audit agreement with each Group company and conduct internal audits.

(3) Each group company shall formulate the Group's basic risk management rules to assess and manage each type of risk as well as to establish the system of a comprehensive risk management while they deliberate and report the predetermined matters in accordance with the Chugin Financial Group Management Regulations. The Company shall respond appropriately to prevent the spread of damage in accordance with the Risk Management Manual in the event of unforeseen circumstances.

(4) Business execution pursuant to a resolution of the Board of Directors in each Chugin Financial Group company shall be in accordance with the decision-making authority and procedures stipulated in the Rules Defining the Extent of Job Authority and various other rules.

(5) The Company shall establish the Group's Corporate Code of Conduct, the Guidelines for the Conduct of Group's Clerks and the Compliance Manual to ensure a compliance framework. The contents of employment regulations and other rules shall be in compliance with laws, regulations and the Articles of Incorporation.

(6) The Chugin Financial Group shall formulate regulations concerning the Management Help Line, an internal reporting system whereby employees can report any wrongdoing directly to top management in order to maintain the sound operation thereof.

(7) Each Group company shall report any legal violations in business management or content of management guidance by the Company as well as any other compliance-related issues to the Company's Audit & Supervisory Committee Members.

(8) The Chugin Financial Group shall comply with all laws, standards and other obligations concerning accounting practices and establish an internal control system to ensure the appropriateness of the Group's financial reporting.

#### 7. Provisions for hiring assistants to the Audit & Supervisory Committee Members, if required, their independence from directors (excluding directors who are the Audit & Supervisory Committee Members) and ensuring of the effectiveness of directions to the assistants by the Committee Members

(1) The Company shall place assistants to the Audit & Supervisory Committee Members in the Secretariat as employees who are to assist the Audit &

Supervisory Committee Members with their duties.

(2) Employees who are to assist the Audit & Supervisory Committee Members shall be stipulated to perform investigation, planning, management and instruction concerning the audits of the Committee Members, which is ordered by the Members, without performing additional work related to the execution of duties by directors. The Audit & Supervisory Committee Members shall be consulted and their agreement obtained before a decision is made regarding the evaluation, appointment and reassignment of employees who are to assist the Audit & Supervisory Committee Members with their duties to ensure independence from directors (excluding directors who are the Audit & Supervisory Committee Members.)

#### 8. System for reporting to the Audit & Supervisory Committee Members

(1) In accordance with the Standards of Reporting to Audit & Supervisory Committee Members, directors and employees shall report to the Audit & Supervisory Committee Members matters that may have a significant impact on the Company's business and other matters essential to report in a timely manner. Notwithstanding the foregoing, the Audit & Supervisory Committee Members may also request reports from directors and employees as required.

(2) In accordance with the Chugin Financial Group Management Regulations, those who are reported from directors, Audit & Supervisory Board Members and the others in the subsidiaries shall report to the Audit & Supervisory Committee Members important matters which may have impact on the Company's business and other matters essential to report, to the Audit & Supervisory Committee Members in a timely manner.

(3) The Company and the subsidiaries shall not give any disadvantageous treatment such as dismissal to directors and employees who reported the matter due to the report.

#### 9. Matters for policies for procedures for advance payment or reimbursement of expense incurred from the execution of duties by the Audit & Supervisory Committee Members and for handling of the other expense or debt incurred regarding the execution of the duties

In accordance with the Auditing Standards for Audit & Supervisory Committee, the Company shall include a budget in advance for the expenses acknowledged by the Audit & Supervisory Committee to be necessary for the execution of duties. Expenses expended urgently or temporary may be claimed to the Company for reimbursement after the event.

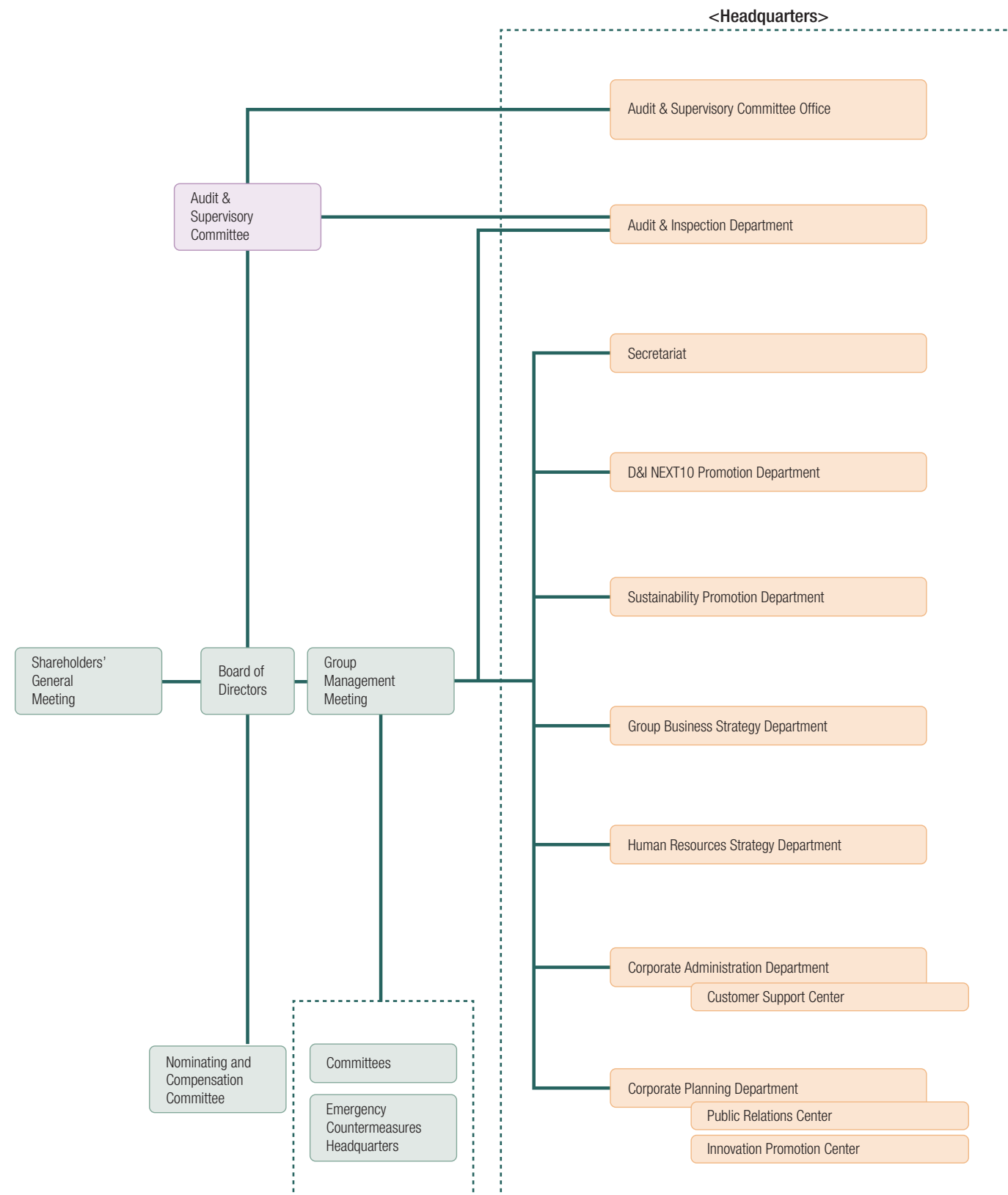
#### 10. System to ensure that audits of the Audit & Supervisory Committee Members are implemented effectively

The Company works to ensure the effectiveness of the audits performed by the Audit & Supervisory Committee Members by having them attend meetings where decisions that have a significant impact on business management are made, as well as through the circulation of important documents to them and their collaboration with the Internal Audit Department, certified public accountants and outside certified public accountants in accordance with the Audit & Supervisory Committee Regulations and the Auditing Standards for Audit & Supervisory Committee. Representative Directors shall exchange opinions with the Audit & Supervisory Committee on a regular basis, and enhance mutual awareness of such matters as to the issues to be addressed by the Company and improvement of the environment for Audit & Supervisory Committee Members.



# Organization Chart

(As of June 30, 2023)



# Principal Operations of the Chugin Financial Group

Chugin Financial Group, which comprises the Company along with thirteen subsidiaries, is positioned to offer a wealth of financial services, including corporate and personal banking, leasing and securities businesses, and more.

Consolidated subsidiaries	Business segment
---------------------------	------------------

## Organizational Chart for the Chugin Financial Group

The Chugoku Bank, Limited	Banking business
Domestic offices: Head office, 131 branch offices, 5 sub-branch offices, 21 branch-in-branch offices, 2 branch-in-branch sub-branch offices, 1 special sub-branch office, 1 representative office, 1 internet branch	
Locations with ATM installed Outside branches: 209 locations (234 ATMs)	
Overseas offices: 2 branch and 3 representative offices	
CBS Company, Limited	Consigned administrative operations for banks
The Chugin Operation Center Co., Limited	Deposits, loans, exchanges, direct debits, public money services, Business processing and document management of investment trusts
The Chugin Credit Guarantee Co., Limited	Credit guarantee business
The Chugin Lease Company, Limited	Leasing businesses
The Chugin Card Company, Limited	Credit card business
Chugin Asset Management Company, Limited	Asset management business
Chugin Securities Co., Ltd.	Securities business
SETONOWA Co., Ltd.	Regional trading business
Chugin Capital Partners Co., Ltd.	Fund operation and management business
Chugin Energy Co., Ltd. (Established in April 3, 2023)	Regional energy and decarbonization business
Chugin Human Innovations Co., Ltd.	Fee-charging employment placement business
C Cube Consulting Co., Ltd.	Consulting business

(As of March 31, 2023)

## Shareholder Information

(As of March 31, 2023)

### Breakdown of Types of Shareholders

Category	Number of shareholders	Number of shares	
		(Hundreds of shares)	Percentage
Government and local authorities	2	91	0.00
Financial institutions	40	527,883	28.60
Securities firms	30	33,726	1.83
Other corporations	511	516,147	27.96
Foreign investors			
Non-Individuals	209	249,438	13.51
Individuals	4	9	0.00
Individuals	12,803	518,768	28.10
Total	13,599	1,846,062	100.00
Number of shares held in less than trading units	—	165,261	—

### Major Shareholders

Unit: 1,000 shares

Name of Shareholders	Number of holding shares	Percentage of outstanding shares
The Master Trust Bank of Japan, Ltd.	23,436	12.75
Custody Bank of Japan, Ltd.	9,693	5.27
Okayama Tochisouko Co., Ltd.	5,358	2.91
Nippon Life Insurance Company	4,756	2.58
KURABO INDUSTRIES LTD.	4,559	2.48
CP CHEMICAL INCORPORATED	4,478	2.43
Chugin Financial Group Employee Stock Ownership Plan	4,372	2.38
Meiji Yasuda Life Insurance Company	3,804	2.07
GOVERNMENT OF NORWAY (Standing proxy: Citibank, N.A., Tokyo Branch)	2,910	1.58
Shizuka Forestry Co., Ltd.	2,370	1.29
Total	65,740	35.78

## Service Networks

(As of June 30, 2023)

### INTERNATIONAL DIVISION:

#### Head Office, Okayama

1-15-20, Marunouchi, Kita-ku,  
Okayama, Japan

#### International Department

Telephone: (81) 86-234-6539  
Facsimile: (81) 86-234-6591  
SWIFT: CHGKJPJZ

#### Funds and Securities Department

Telephone: (81) 86-234-6503  
Facsimile: (81) 86-234-6595

#### Treasury Administration Department

Telephone: (81) 86-234-6664  
Facsimile: (81) 86-227-6069  
SWIFT: CHGKJPJT

#### Tokyo Office

1-5-5, Muromachi Chibagin Mitsui Building,  
Nihonbashi-Muromachi, Chuo-ku,  
Tokyo, Japan

#### Funds and Securities Department

Telephone: (81) 3-3243-0459  
Facsimile: (81) 3-5255-7750

### OVERSEAS OFFICES:

#### Hong Kong Branch

Rooms 601 & 609-610,  
6th Floor Gloucester Tower,  
The Landmark,  
15 Queen's Road Central,  
Hong Kong,  
People's Republic of China  
Telephone: (852) 2523-0312  
Facsimile: (852) 2521-8730

#### Shingapore Branch

16 Collyer Quay, #24-01/02  
Singapore 049318  
Telephone: (65) 6536-7757  
Facsimile: (65) 6536-7767

#### Shanghai Representative Office

Room 2007, Shanghai  
International Trade Center,  
2201 Yan-an Road (West),  
Shanghai, People's Republic of China  
Telephone: (86) 21-6275-1988  
Facsimile: (86) 21-6275-1989

#### New York Representative Office

150 East 52nd Street, 17th Floor,  
New York, NY 10022, U.S.A.  
Telephone: (1) 212-371-7700  
Facsimile: (1) 212-371-7173

#### Bangkok Representative Office

689, Bhiraj Tower at EmQuartier,  
Room No. 1901, 19th Floor,  
Sukhumvit Road, Klongton-nue, Wattana,  
Bangkok, Thailand  
Telephone: (66) 2-261-2676  
Facsimile: (66) 2-261-2677

### FOREIGN EXCHANGE OFFICES:

#### Head Office Business Department

1-15-20, Marunouchi, Kita-ku, Okayama

#### Okayama-Minami Branch

1-8-11, Aoe, Kita-ku, Okayama

#### Okayama-Nishi Branch

3-101, Toiya-cho, Kita-ku, Okayama

#### Saidaiji Branch

3-7-1, Saidaiji-Naka, Higashi-ku, Okayama

#### Katakami Branch

36-1, Higashi-Katakami, Bizen, Okayama

#### Kojima Branch

2-1-33, Kojima Ajino, Kurashiki, Okayama

#### Kurashiki Branch

257-1, Bakuro-cho, Kurashiki, Okayama

#### Kurashiki Ekimae Branch

2-2-2, Achi, Kurashiki, Okayama

#### Mizushima Branch

4-32, Mizushima Nishiyayoi-cho, Kurashiki, Okayama

#### Hayashima Branch

1380, Hayashima, Hayashima-cho,  
Tsukubo-gun, Okayama

#### Soja Branch

1-4-20, Ekimae, Soja, Okayama

#### Kasaoka Branch

2-8, Rokuban-cho, Kasaoka, Okayama

#### Ibara Branch

176-5, Ibara-cho, Ibara, Okayama

#### Tsuyama Branch

30-7, Sange, Tsuyama, Okayama

#### Fukuyama Branch

1-1, Momiji-cho, Fukuyama, Hiroshima

#### Onomichi Branch

2-9, Higashi-Gosho-cho, Onomichi, Hiroshima

#### Mihara Branch

1-11-7, Minatomachi, Mihara, Hiroshima

#### Shinichi Branch

593-7, Shinichi, Shinichi-cho, Fukuyama, Hiroshima

#### Kure Branch

3-6-1, Hon-dori, Kure, Hiroshima

#### Fuchu Branch

1-3, Fukawa-cho, Fuchu, Hiroshima

#### Hiroshima Branch

15-4, Hatchobori, Naka-ku, Hiroshima

#### Hiroshima Higashi-Branch

1-5-2, Minamikanija, Minami-ku, Hiroshima

#### Takamatsu Branch

3-6, Marugamemachi, Takamatsu, Kagawa

#### Sanbonmatsu Branch

610-4, Sanbonmatsu, Higashi-Kagawa, Kagawa

#### Sakaide Branch

1-2-2, Kyomachi, Sakaide, Kagawa

#### Marugame Branch

207-6, Futaimachi, Marugame, Kagawa

#### Kawanoe Branch

4062-4, Kawanoe-cho, Shikoku-chuo, Ehime

#### Yonago Branch

1-1-1, Higashi-Fukuhara, Yonago, Tottori

#### Kobe Branch

2-6-1, Sakaemachi-dori, Chuo-ku, Kobe, Hyogo

#### Himeji Branch

108, Shirogane-cho, Himeji, Hyogo

#### Osaka Branch

3-6-1, Aioi Nissay Dowa Insurance Midosuji Building,  
Hirano-machi, Chuo-ku, Osaka

#### Tokyo Branch

1-5-5, Muromachi Chibagin Mitsui Building,  
Nihonbashi-Muromachi, Chuo-ku, Tokyo

### Foreign Remittance Offices

96 Offices

## Financial Section

(As of June 30, 2023)

Location	Number of Offices
Okayama Pref.	109
Hiroshima Pref.	26
Tottori Pref.	1
Kagawa Pref.	16
Ehime Pref.	1
Hyogo Pref.	6
Osaka Pref.	1
Tokyo	1
Liaison Offices	1
Overseas Offices	5
Internet Branch	1

## Consolidated Financial Statements Consolidated Balance Sheets

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2023	
<b>ASSETS:</b>		
Cash and due from banks (Notes 21 and 25) .....	¥ 1,510,394	\$ 11,311,270
Call loans .....	178,907	1,339,826
Other debt purchased (Notes 6 and 10) .....	22,329	167,220
Trading account securities (Notes 6, 13 and 21) .....	2,023	15,150
Money trusts (Notes 7 and 21) .....	24,600	184,228
Securities (Notes 6, 9, 13 and 21) .....	2,324,053	17,404,725
Loans and bills discounted (Notes 9, 10, 13 and 21) .....	5,555,795	41,607,092
Foreign exchange (Note 9) .....	14,742	110,402
Lease receivables and investments in leased assets .....	27,010	202,276
Other assets (Notes 9, 13, 18, 21 and 22) .....	158,076	1,183,823
Tangible fixed assets (Note 11) .....	35,631	266,838
Intangible fixed assets (Note 12) .....	1,712	12,821
Deferred tax assets (Note 14) .....	17,594	131,760
Customers' liabilities for acceptances and guarantees (Note 9) .....	31,110	232,981
Reserve for possible loan losses (Note 3) .....	(54,302)	(406,665)
Total assets .....	¥ 9,849,678	\$ 73,763,783
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Deposits (Notes 13 and 21) .....	¥ 8,053,522	\$ 60,312,454
Call money .....	1 79,987	1,347,914
Payables under repurchase agreements (Note 13) .....	9 3,913	703,310
Payables under securities lending transactions (Notes 13 and 21) .....	423,430	3,171,047
Commercial paper (Note 15) .....	46,530	348,461
Borrowed money (Notes 13, 15 and 21) .....	320,843	2,402,778
Foreign exchange .....	492	3,684
Bonds payable (Note 16) .....	10,000	74,889
Due to trust account .....	8,496	63,626
Other liabilities (Notes 15, 18, 21 and 22) .....	147,572	1,105,159
Accrued employees' bonuses .....	1,547	11,585
Accrued directors' bonuses .....	25	187
Reserve for directors' retirement benefits .....	49	366
Reserve for reimbursement of deposits .....	250	1,872
Reserve for point program .....	114	853
Net defined benefit liability (Note 17) .....	3,466	25,956
Deferred tax liabilities (Note 14) .....	423	3,167
Reserves under special laws .....	7	52
Acceptances and guarantees .....	31,110	232,981
Total liabilities .....	¥ 9,321,784	\$ 69,810,409
<b>Net assets (Note 24):</b>		
<b>Shareholders' equity</b>		
<b>Common stock</b>		
Authorized shares: 500,000,000 shares in 2023 .....		
Issued shares: 184,771,461 shares in 2023 .....	¥ 16,000	\$ 119,823
Capital surplus .....	7,302	54,684
Retained earnings .....	479,223	3,588,878
Less treasury stock, at cost		
1,071,607 shares in 2023 .....	(1,000)	(7,488)
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale securities (Note 8) .....	34,234	256,376
Net deferred losses on hedging instruments .....	(3,320)	(24,863)
Accumulated adjustments for retirement benefits (Note 17) .....	(4,818)	(36,081)
Total .....	26,096	195,431
Subscription rights to shares (Note 26) .....	272	2,036
Total net assets .....	527,894	3,953,373
Total liabilities and net assets .....	¥ 9,849,678	\$ 73,763,783

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)						
	2023							
<b>Income (Note 22):</b>								
<b>Interest and dividends on:</b>								
Loans and discounts .....	¥ 60,294	\$ 451,538						
Securities .....	29,653	222,069						
Other .....	3,208	24,024						
Fees and commissions .....	20,545	153,860						
Other operating income .....	47,440	355,275						
Bad debt recovered .....	30	224						
Other income .....	22,501	168,508						
Total income .....	183,675	1,375,533						
<b>Expenses:</b>								
<b>Interest on:</b>								
Deposits .....	4,245	31,790						
Borrowings .....	2,037	15,254						
Other .....	21,852	163,648						
Fees and commissions .....	3,427	25,664						
Other operating expenses .....	56,333	421,875						
General and administrative expenses .....	55,662	416,850						
Reserve for possible loan losses .....	5,717	42,814						
Losses on impairment of fixed assets (Note 11) .....	55	411						
Other expenses .....	4,841	36,254						
Total expenses .....	154,172	1,154,586						
Income before income taxes .....	29,503	220,946						
Income taxes (Note 14):								
Current .....	9,705	72,680						
Deferred .....	(679)	(5,084)						
	9,025	67,587						
Net income .....	20,477	153,351						
Net income attributable to non-controlling interests .....	—	—						
Net income attributable to owners of parent .....	¥ 20,477	\$ 153,351						
<table border="0"> <tr> <td></td> <td style="text-align: right;">Yen</td> <td style="text-align: right;">U.S. Dollars (Note 1)</td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;">2023</td> </tr> </table>				Yen	U.S. Dollars (Note 1)		2023	
	Yen	U.S. Dollars (Note 1)						
	2023							
<b>Per share of common stock</b>								
Basic net income .....	¥ 110.96	\$ 0.830						
Diluted net income .....	110.80	0.829						
Cash dividends applicable to the year (Note 24) .....	30.00	0.224						

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Financial Statements Consolidated Statements of Comprehensive Income

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2023	
Net income .....	¥ 20,477	\$ 153,351
<b>Other comprehensive income (Note 20):</b>		
Net unrealized losses on available-for-sale securities .....	(33,373)	(249,928)
Net deferred losses on hedging instruments .....	(2,713)	(20,317)
Adjustments for retirement benefits .....	(1,356)	(10,155)
Total other comprehensive income .....	(37,443)	(280,408)
Comprehensive income .....	¥ (16,966)	\$ (127,057)
<b>Comprehensive income attributable to:</b>		
Owners of parent .....	¥ (16,966)	\$ (127,057)
Non-controlling interests .....	—	—

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Net Assets

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen									
	2023									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	Subscription rights to shares	Total net assets
Net unrealized gains (losses) on available-for-sale securities					Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits				
Balance at beginning of year	¥ 15,149	¥ 8,153	¥ 476,938	¥ (11,623)	¥ 67,608	¥ (606)	¥ (3,461)	¥ 63,540	¥ 256	¥ 552,414
Net income attributable to owners of parent			20,477							20,477
Changes by share transfer	850	(850)								
Cash dividends			(5,651)							(5,651)
Purchases of treasury stock				(1,941)						(1,941)
Disposals of treasury stock		1		21						23
Cancellation of treasury stock		(1)	(12,540)	12,542						
Net changes in items other than shareholders' equity					(33,373)	(2,713)	(1,356)	(37,443)	15	(37,428)
Net changes during the year	850	(850)	2,285	10,622	(33,373)	(2,713)	(1,356)	(37,443)	15	(24,520)
Balance at end of year	¥ 16,000	¥ 7,302	¥ 479,223	¥ (1,000)	¥ 34,234	¥ (3,320)	¥ (4,818)	¥ 26,096	¥ 272	¥ 527,894

See accompanying Notes to Consolidated Financial Statements.

	Thousands of U.S. Dollars (Note 1)									
	2023									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income			Total	Subscription rights to shares	Total net assets
Net unrealized gains (losses) on available-for-sale securities					Net deferred losses on hedging instruments	Accumulated adjustments for retirement benefits				
Balance at beginning of year	\$ 113,450	\$ 61,057	\$ 3,571,766	\$ (87,044)	\$ 506,313	\$ (4,538)	\$ (25,919)	\$ 475,848	\$ 1,917	\$ 4,137,002
Net income attributable to owners of parent			153,351							153,351
Changes by share transfer	6,365	(6,365)								
Cash dividends			(42,320)							(42,320)
Purchases of treasury stock				(14,536)						(14,536)
Disposals of treasury stock		7		157						172
Cancellation of treasury stock		(7)	(93,911)	93,926						
Net changes in items other than shareholders' equity					(249,928)	(20,317)	(10,155)	(280,408)	112	(280,296)
Net changes during the year	6,365	(6,365)	17,112	79,547	(249,928)	(20,317)	(10,155)	(280,408)	112	(183,629)
Balance at end of year	\$ 119,823	\$ 54,684	\$ 3,588,878	\$ (7,488)	\$ 256,376	\$ (24,863)	\$ (36,081)	\$ 195,431	\$ 2,036	\$ 3,953,373

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Chugin Financial Group, Inc. and its Consolidated Subsidiaries  
For the Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2023			
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
<b>Cash flows from operating activities</b>				
Income before income taxes	¥ 29,503	\$ 220,946		
Depreciation	3,177	23,792		
Losses on impairment of fixed assets	55	411		
Share-based compensation expenses	39	292		
Provision of reserve for possible loan losses	5,717	42,814		
Increase (decrease) in reserve for point program	6	44		
Increase (decrease) in reserve for directors' retirement benefits	2	14		
Increase (decrease) in accrued employees' bonuses	67	501		
Increase (decrease) in accrued directors' bonuses	0	0		
Increase (decrease) in net defined benefit liability	(290)	(2,171)		
Increase (decrease) in reserve for reimbursement of deposits	190	1,422		
Interest and dividend income	(93,157)	(697,648)		
Interest expense	28,134	210,694		
Losses (gains) related to securities, net	1,745	13,068		
Losses (gains) on money trusts, net	297	2,224		
Foreign exchange losses (gains), net	(36,402)	(272,612)		
Losses (gains) on disposals of fixed assets, net	1	7		
Decrease (increase) in trading account securities, excluding foreign exchange contracts	811	6,073		
Decrease (increase) in call loans and other debt purchased	265,676	1,989,635		
Increase (decrease) in payables under repurchase agreements	(97,093)	(727,124)		
Decrease (increase) in due from banks, excluding the Bank of Japan	(256)	(1,917)		
Increase (decrease) in commercial paper	(8,486)	(63,551)		
Decrease (increase) in foreign exchange assets	(8,459)	(63,349)		
Decrease (increase) in loans and bills discounted	(300,191)	(2,248,116)		
Decrease (increase) in lease receivables and investments in leased assets	(1,606)	(12,027)		
Decrease (increase) in other assets	(14,065)	(105,332)		
Increase (decrease) in deposits	191,848	1,436,740		
Increase (decrease) in borrowed money	(353,291)	(2,645,779)		
Increase (decrease) in call money	69,278	518,819		
Increase (decrease) in foreign exchange liabilities	(133)	(996)		
Increase (decrease) in payables under securities lending transactions	(164,925)	(1,235,115)		
Increase (decrease) in due to trust account	1,560	11,682		
Increase (decrease) in other liabilities	21,098	158,001		
Interest and dividends received	91,567	685,741		
Interest paid	(28,113)	(210,536)		
Subtotal	(395,694)	(2,963,334)		
Income taxes paid	(7,787)	(58,316)		
Net cash used in operating activities	(403,482)	(3,021,658)		
<b>Cash flows from investing activities</b>				
Purchases of securities	(1,390,078)	(10,410,229)		
Proceeds from sales of securities	1,273,089	9,534,104		
Proceeds from redemption of securities	280,810	2,102,973		
Purchases of money trusts	(7,323)	(54,841)		
Proceeds from money trusts	10,025	75,076		
Purchases of tangible fixed assets	(2,143)	(16,048)		
Purchases of intangible fixed assets	(642)	(4,807)		
Proceeds from sales of tangible fixed assets	562	4,208		
Net cash provided by investing activities	164,298	1,230,420		
<b>Cash flows from financing activities</b>				
Cash dividends paid	(5,651)	(42,320)		
Purchases of treasury stock	(1,941)	(14,536)		
Repayments on lease obligations	(251)	(1,879)		
Proceeds from sales of treasury stock	0	0		
Proceeds from exercise of employee share options	0	0		
Net cash used in financing activities	(7,844)	(58,743)		
Effect of exchange rate changes on cash and cash equivalents				
Net decrease in cash and cash equivalents	(247,028)	(1,849,981)		
Cash and cash equivalents at beginning of year	1,753,389	13,131,049		
Cash and cash equivalents at end of year (Note 25)	¥ 1,506,361	\$ 11,281,067		

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Chugin Financial Group, Inc. and its Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Chugin Financial Group, Inc. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, the Japanese Banking Law and the Japanese Uniform Rules for Bank Accounting and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Since the Company was established on October 3, 2022, information for the previous fiscal year is not presented.

The consolidated financial statements for the year ended March 31, 2023 were prepared by succeeding to the consolidated financial statements of The Chugoku Bank, Limited, which became a wholly owned subsidiary through a sole share transfer. Therefore, the consolidated financial statements for the year ended March 31, 2023 include results of The Chugoku Bank, Limited for the six months ended September 30, 2022.

The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

As permitted by the Financial Instruments and Exchange Act, amounts of less than ¥1 million have been rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

The translations of the Japanese yen amounts into the U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate as at March 31, 2023, which was ¥133.53 for US\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into the U.S. dollars at this or any other rate of exchange.

## 2. Significant Accounting Policies

### (a) Principles of Consolidation

*Scope of Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method*

The consolidated financial statements include the accounts of the Company and its eleven significant subsidiaries after elimination of all significant intercompany transactions, balances and unrealized profits.

Following the establishment of the Company, The Chugoku Bank, Limited (hereinafter, “The Chugoku Bank”) became a wholly owned subsidiary of the Company, and the Company acquired all of the seven companies’ shares held by The Chugoku Bank, through distribution-in-kind from The Chugoku Bank. As a result, The Chugoku Bank, its consolidated subsidiaries, and the seven companies were included in the scope of consolidation for the year ended March 31, 2023.

Ten subsidiaries, of which the Company owns a majority of the voting rights, were excluded from the scope of consolidation for the year ended March 31, 2023 because the total amounts of their assets, net income and retained earnings were immaterial and their exclusion from the scope of consolidation would not hinder a rational judgment regarding the consolidated financial position or results of operations.

Investments in ten subsidiaries and one affiliated company also were not accounted for by the equity method for the year ended March 31, 2023 because their exclusion had no significant effect on the consolidated financial statements.

One company, of which the Company owns between 20% and 50% of the voting rights (execution rights), was not recognized as an affiliate accounted for using the equity method for the year ended March 31, 2023 because it is held by the Company’s unconsolidated subsidiary for the purpose of incubating investees or earning capital gains through business transactions and not for the purpose of controlling the entity.

### *Balance Sheet Date of Subsidiaries*

The balance sheet date of all consolidated subsidiaries is March 31, the same as that of the Company.

### *Goodwill*

Goodwill is amortized using the straight-line method over a period of five years. Goodwill which is immaterial in amount is fully charged as loss when incurred.

### (b) Trading Account Securities, Securities and Money Trusts

Trading account securities are stated at fair value (cost of sales is computed by the moving-average method). Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations of these securities are recognized as gains and losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost (straight-line method) using the moving average method. Investments in affiliated companies that are not accounted for by the equity method are stated at cost determined by the moving average method. Available-for-sale securities are stated at fair value. Unrealized gains and losses on these securities, net of applicable income taxes, are reported as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using the moving average method.

Available-for-sale securities without a market price are stated at cost using the moving average method.

Securities constituting trust assets of money trusts are stated in the same manner as trading account securities.

### (c) Derivatives and Hedge Accounting

Derivatives are stated at fair value.

The consolidated subsidiaries that engage in the banking business apply the deferred method of hedge accounting for transactions entered into to hedge the interest rate risks associated with various financial assets and liabilities as stipulated in “Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry” (Industry Committee Practical Guideline No. 24, March 17, 2022) issued by the Japanese Institute of Certified Public Accountants (“JICPA”). The effectiveness of the hedges is assessed for each identified group of hedged loans and securities and the corresponding group of hedging instruments, such as interest rate swaps, in the same maturity bucket.

The consolidated subsidiaries that engage in the banking business apply the deferred method of hedge accounting for transactions entered into to hedge foreign exchange risks associated with various foreign currency-denominated monetary assets and liabilities as stipulated in “Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Committee Practical Guideline No. 25, October 8, 2020). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions that hedge the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on a comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

In addition to the above methods, the consolidated subsidiary that engage in the banking business applies the fair value hedge method to portfolio hedges for foreign exchange risks associated with foreign securities, except for bonds, identified as hedged items in advance as long as the amount of foreign currency

payables of spot and forward foreign exchange contracts exceeds the acquisition cost of the hedged foreign securities in foreign currency.

### (d) Tangible Fixed Assets

Tangible fixed assets owned by the consolidated subsidiary that engage in the banking business is stated at cost less accumulated depreciation. Depreciation is computed by the declining balance method over the estimated useful life of the asset. For the consolidated subsidiary that engage in the banking business, estimated useful lives are mainly as follows:

Buildings.....	4 to 40 years
Other.....	2 to 20 years

For the Company and other consolidated subsidiaries, the useful life of an asset is mainly based on the Corporation Tax Law of Japan.

Lease assets with respect to finance leases that do not transfer ownership of the lease assets and are recorded in “Tangible fixed assets” are depreciated using the straight-line method over the term of the lease, assumed to be the useful life, with a salvage value of zero or the guaranteed amount.

### (e) Intangible Fixed Assets

Intangible fixed assets are depreciated using the straight-line method. Costs of software for the internal use are amortized based on the useable period determined by the Company and its consolidated subsidiaries (five years).

### (f) Foreign Currency Translation

The Company’s assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the end of the fiscal year.

### (g) Reserve for Possible Loan Losses

The consolidated subsidiaries that engage in the banking business write off loans and makes provisions for possible loan losses. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or who are in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion estimated to be recoverable due to security interests or guarantees.

For large borrowers who are likely to become bankrupt and borrowers with restructured loans, if the cash flows from the collection of principal and interest can be reasonably estimated, a reserve is provided based on the difference between the relevant cash flows discounted by the initial contractual interest rates and the carrying amounts of the loans.

For unsecured and unguaranteed portions of loans to customers not presently in these circumstances but who face a high probability of so becoming, the reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of the customer’s overall financial condition. For other loans such as normal loans and loans requiring special attention, the estimated loss for the average remaining term on loans and other transactions or the estimated loss over the next three years is recorded, and these estimated losses are calculated by using the loss ratio, derived from the average rate for the actual rate of loan losses of the consolidated subsidiaries that engage in the banking business for a fixed past period based on the three-year historical default rate or the past average rate with the long-term perspective such as business cycles, and adding to that the necessary corrections for future estimates. A specific reserve for loans to borrowers in certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans.

Assessment and classification are conducted by each business department and Credit Supervision Department utilizing the internal rules on self-assessment of assets and audited by the Risk Management Department (an independent department). The reserve for possible loan losses is provided based on the auditing results.

Reserves for possible loan losses of other consolidated subsidiaries are provided for general claims in the amount deemed necessary based on historical loan loss ratios and for certain doubtful claims in the amount deemed uncollectable based on individual assessments.

### (h) Accrued Employees’ Bonuses

Accrued employees’ bonuses are provided for the future payment of bonuses to employees in the amounts of the estimated bonuses attributable to the current fiscal year.

### (i) Accrued Directors’ Bonuses

Accrued directors’ bonuses are provided for the payment of bonuses to directors and corporate auditors based on an estimated amount.

### (j) Reserve for Directors’ Retirement Benefits

A reserve for directors’ retirement benefits is provided for severance and retirement benefits to directors and corporate auditors based on the required amounts determined by internal regulations.

### (k) Reserve for Reimbursement of Deposits

A reserve for reimbursement of deposits is provided for reimbursement of deposits that were derecognized from liabilities and credited to income. The amount is determined based on the historical reimbursement ratio for such accounts.

### (l) Reserve for Point Program

A reserve for the point program is provided for the accumulation of points granted to credit card holders. The amount of reserve is determined based on the past usage ratio of points by card holders.

### (m) Reserve Under Special Laws

A reserve under special laws is provided for contingent liabilities from financial instruments and exchange. This is a reserve pursuant to Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of Cabinet Office Order on the Financial Instruments Business to indemnify losses incurred in connection with the purchase and sale of securities and derivatives and other transactions.

### (n) Accounting for Employees’ Severance and Retirement Benefits

In determining projected benefit obligation for the consolidated subsidiaries that engage in the banking business, the estimated amount of retirement benefits is attributed to periods based on a benefit formula basis.

Prior service cost of the cash balance pension plans is recognized as expense using the straight-line method over 10 years, which is within the average of the estimated remaining service years, commencing with the period in which it arises.

Actuarial gains and losses are recognized as expenses using the straight-line method over 10 years, which is within the average of the estimated remaining service years, commencing with the following period.

In calculating the liability for retirement benefits and retirement benefit expenses, other consolidated subsidiaries and subsidiary corporations, etc. apply a simplified method under which the amount that would be required to be paid if all the employees voluntarily retired at the fiscal year end is regarded as projected benefit obligation.

#### **(o) Recognition of Revenue and Expenses**

##### **(1) Finance leases**

As lessor:

Income from finance leases and related leasing costs are recognized when lease payments are received.

##### **(2) Revenue from contracts with customers**

The Company and its consolidated subsidiaries recognize revenue from contracts with customers applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Company and its consolidated subsidiaries, which provide services related to a wide range of the banking business such as domestic exchange, sales of customers' assets in custody and investment banking business, recognize revenue when satisfying a performance obligation based on contracts with customers.

#### **(p) Income Taxes**

Deferred income taxes are recognized for loss carryforwards and taxable temporary differences between carrying amounts for financial reporting purposes and tax bases. In Japan, income taxes applicable to the Company and its consolidated subsidiaries consist of corporation tax (national), inhabitant taxes (local) and enterprise taxes (local).

#### **(q) Accounting Policy for Loss/Gain on Cancellation of Securities Investment Trusts**

The consolidated subsidiary that engage in the banking business records loss/gain on cancellation during the period of securities investment trusts in interest and dividends on securities. If a negative amount arises for interest and dividends on securities for a particular yen-denominated securities investment trust or foreign-currency-denominated securities investment trust, the full negative amount is recorded in loss on redemption of bonds.

#### **(r) Consumption Taxes**

Any non-deductible consumption taxes associated with asset purchases are recorded as expense during the fiscal year.

#### **(s) Per Share Information**

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the year, excluding treasury stock. Diluted net income per share reflects the potential dilution that could occur if outstanding stock options were exercised. Diluted net income per share of common stock assumes the full exercise of the outstanding stock options at the beginning of the year or at the time of the grant.

### **3. Significant Accounting Estimates**

The following describes possible significant impacts that may occur in the consolidated financial statements for the following fiscal year as a result of amounts being recorded in the consolidated financial statements for the fiscal year under review based on accounting estimates.

#### **Reserve for Possible Loan Losses**

Credit services are the largest source of revenue for the Group, and credit risk assets such as loans and bills discounted, and customers' liabilities for acceptances and guarantees constitute a high level of materiality on the consolidated balance sheet, and their impact on business results and financial position is large. Accordingly accounting estimates for such are deemed to be items of significance.

#### **(a) Amounts Recorded on the Consolidated Financial Statements for the Fiscal Year Under Review**

The reserve for possible loan losses recorded on the consolidated balance sheet as of March 31, 2023 was ¥54,302 million (\$406,665 thousand), and the details related to the accounting estimates adopted when calculating that amount are described below.

#### **(b) Information to Facilitate Understanding of the Details Related to the Significant Accounting Estimates for the Identified Items**

##### **1) Method for Calculating Amounts**

For a description of the methods used to calculate amounts, refer to Note 2 (g) "Significant Accounting Policies"- "Reserve for Possible Loan Losses."

The self-assessments of assets described in the "Reserve for Possible Loan Losses" refers to the classification of assets according to the degree of risk of collection or risk of damage to value, which is determined by examining each asset held individually. Appropriate write-offs and provisions are made according to classification of borrowers (normal borrowers, borrowers requiring caution, potentially bankrupt borrowers, effectively bankrupt borrowers, and bankrupt borrowers). Loans that are delinquent for over three months and restructured loans are classified as "substandard loans" and are written off or a provision is made for them.

The Company determines a borrower's ability to repay loans by considering the borrower's actual financial position, cash flow, profitability, etc., based on the basic rating using a rating model, etc., confirms the borrower's loan conditions and their fulfillment status, and determines the classification of borrowers by taking into consideration the characteristics of the industry, etc., the prospects for business continuity and profitability, the ability to repay the debt based on the annual repayment amount, the appropriateness of the business improvement plan, etc., and support from financial institutions, etc.

Among the borrowers whose lending conditions have been relaxed, loans and bills discounted to such borrowers are not considered to be restructured loans if the borrowers have started to restructure its business through the implementation of financial support in accordance with a drastic business restructuring plan that is highly feasible and a reasonable and highly feasible business improvement plan.

In addition, The Chugoku Bank manages loans and bills discounted managed by the Structured Finance Center and the International Department, such as structured finance including marketable loans and loans to non-Japanese entities, as Headquarters Loans and bills discounted, and the Company bases its determination of the classification of the borrowers by comprehensively taking into account all factors including not only formal aspects such as the borrower's cash flow status, whether the borrower is delinquent and the length of any delinquency, and whether the borrower is in legal liquidation or not, but also the understanding of risk factors, analyzing the degree of risk, and available information such as external ratings.

##### **2) Major Assumptions Used for Significant Accounting Estimates**

Based on the assumption that there is a certain relationship between the historical default ratio and the expected future credit loss ratio, the Company

calculates the allowance for expected credit loss on loans to normal borrowers and loans to borrowers requiring caution mainly by calculating the credit loss ratio based on the average of the historical default ratio over a certain period of time, which is based on the historical defaults for three years or the past average value with the long-term perspective such as business cycles, and then calculating the expected credit loss ratio after taking into account necessary adjustments such as the average remaining term on loans and bills discounted (The average remaining period for the fiscal year ended March 31, 2023 was 5.22 years, for normal borrowers; 3.93 years, for borrowers requiring caution). The Company calculates the allowance for expected credit loss on loans to potentially bankrupt borrowers by deducting the estimated amount receivable through the disposal of collateral and the estimated amount that can be collected through guarantees from the amount of the credit loss, and multiplying the remaining amount by the expected credit loss ratio based on the historical default ratio.

As stated in 1) Method for Calculating Amounts, in cases where a borrower whose loan conditions have been relaxed has started to restructure its business through the implementation of financial support in accordance with drastic management restructuring plan that is highly feasible and a reasonable and feasible business improvement plan, the loans and bills discounted to such borrowers are not considered to be restructured loans.

As of March 31, 2023, although the impact of COVID-19 was easing, there were concerns regarding the impact of the yen's depreciation and soaring resource and energy prices on corporate earnings. A reserve for possible loan losses was recorded after determining the classification of the borrowers, giving consideration to the results of examination based on information currently available to the Company, such as forecasts for the business recovery of individual borrowers that are impacted, and expected achievement of business improvement plans etc., created by the borrowers.

##### **3) Impact on Consolidated Financial Statements in the Following Fiscal Year**

The major assumptions used when determining the classification of the borrowers and calculating the reserve for possible loan losses such as assumptions on the correlating relationship between the historical default rate and the expected loss rate, the average remaining term on loans and bills discounted, the feasibility of business improvement plan created by the borrowers and future trends in the business environment, include uncertainties, and if there is an unexpected increase in the default rate due to deteriorated business conditions for major borrowers, extensions on the remaining term on loans and bills discounted, sharp changes to the business environment that form the basis of assumption for figures in business improvement plans created by the borrowers, the amount of loss may increase due to the need to increase the reserve for possible loan losses.

### **4. Changes in Accounting Policies**

#### **Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement, etc.**

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Implementation Guidance") from the beginning of the year ended March 31, 2023. The Company has prospectively adopted the new accounting policies stipulated by the Fair Value Measurement Implementation Guidance in accordance with the transitional treatment provided for in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance.

As a result, for investment trusts whose assets are real assets, in cases in which there are no transaction prices in the market and there are material restrictions on cancellation, etc., such that market participants demand compensation for the risk, the Company has changed its method of valuation

from using the acquisition cost as the balance sheet amount to using the most recently available reference price as the fair value. The effect on the consolidated financial statements was immaterial.

### **5. New Accounting Standards to Be Applied**

- "Accounting Standard for Current Income Taxes" (Revised ASBJ Statement No. 27, October 28, 2022)
- "Accounting Standard for Presentation of Comprehensive Income" (Revised ASBJ Statement No. 25, October 28, 2022)
- "Guidance on Accounting Standard for Tax Effect Accounting" (Revised ASBJ Guidance No. 28, October 28, 2022)

#### **(a) Overview**

The classification of income taxes in cases in which other comprehensive income is subject to taxation and the tax effect treatment of sales of shares of subsidiaries in cases in which Group Taxation Regime is applied.

#### **b) Scheduled Date of Application**

These ASBJ statements and guidance will be applied from the start of the fiscal year ending March 31, 2025.

#### **c) Effects of Application of the Accounting Standard**

The effects of the application of the Accounting Standard for Current Income Taxes on the consolidated financial statements are currently being evaluated.

### **6. Securities**

Securities include investments in interests and equity securities of unconsolidated subsidiaries and affiliates in the amounts of ¥4,021 million (\$30,113 thousand) and ¥108 million (\$808 thousand) as at March 31, 2023.

Securities received under repurchase agreements, etc., that are permitted to be disposed of through sale or pledge (re-pledge) were held in the amount of ¥3,328 million (\$24,923 thousand) as at March 31, 2023 without such disposal.

The amounts shown in the following tables include trust certificates classified as "Other debt purchased" and "Trading account securities" in addition to "Securities" stated in the consolidated balance sheet.

The amount of liabilities for guarantees on corporate bonds included in securities issued by private placement (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act) was ¥96,884 million (\$725,559 thousand) as at March 31, 2023.

## (1) Trading account securities

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Amount of net unrealized gains (losses) included in the consolidated statements of income.....	¥ (21)	\$ (157)

## (2) The following tables summarize acquisition costs and carrying amounts (fair value) of available-for-sale securities with available fair values as of March 31, 2023:

Type	Millions of Yen		
	2023	2023	2023
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	¥ 92,347	¥ 47,898	¥ 44,449
Bonds .....	726,150	717,231	8,919
Japanese government bonds.....	383,905	376,867	7,038
Japanese municipal bonds.....	203,626	202,689	937
Japanese corporate bonds.....	138,618	137,674	943
Other .....	209,209	175,015	34,193
Foreign bonds .....	116,979	115,281	1,698
Other .....	92,229	59,734	32,495
Subtotal .....	¥ 1,027,707	¥ 940,144	¥ 87,562

## Available-for-sale securities whose fair value does not exceed acquisition cost:

Equity securities.....	¥ 21,132	¥ 23,196	¥ (2,064)
Bonds .....	916,562	932,094	(15,532)
Japanese government bonds.....	169,607	171,694	(2,086)
Japanese municipal bonds.....	561,457	572,353	(10,896)
Japanese corporate bonds.....	185,498	188,047	(2,549)
Other .....	325,402	345,863	(20,460)
Foreign bonds .....	253,379	267,321	(13,942)
Other .....	72,023	78,542	(6,518)
Subtotal .....	¥ 1,263,098	¥ 1,301,155	¥ (38,056)
Total .....	¥ 2,290,805	¥ 2,241,299	¥ 49,505

Type	Thousands of U.S. Dollars		
	2023	2023	2023
	Carrying amount	Acquisition cost	Difference
Available-for-sale securities whose fair value exceeds acquisition cost:			
Equity securities.....	\$ 691,582	\$ 358,705	\$ 332,876
Bonds .....	5,438,103	5,371,309	66,793
Japanese government bonds.....	2,875,046	2,822,339	52,707
Japanese municipal bonds.....	1,524,945	1,517,928	7,017
Japanese corporate bonds.....	1,038,103	1,031,034	7,062
Other .....	1,566,756	1,310,679	256,069
Foreign bonds .....	876,050	863,334	12,716
Other .....	690,698	447,345	243,353
Subtotal .....	\$ 7,696,450	\$ 7,040,694	\$ 655,747

## Available-for-sale securities whose fair value does not exceed acquisition cost:

Equity securities.....	\$ 158,256	\$ 173,713	\$ (15,457)
Bonds .....	6,864,090	6,980,408	(116,318)
Japanese government bonds.....	1,270,178	1,285,808	(15,621)
Japanese municipal bonds.....	4,204,725	4,286,325	(81,599)
Japanese corporate bonds.....	1,389,185	1,408,275	(19,089)
Other .....	2,436,920	2,590,152	(153,223)
Foreign bonds .....	1,897,543	2,001,954	(104,410)
Other .....	539,376	588,197	(48,813)
Subtotal .....	\$ 9,459,282	\$ 9,744,289	\$ (284,999)
Total .....	\$ 17,155,732	\$ 16,784,984	\$ 370,740

## (3) The following tables summarize carrying amounts and fair values of held-to-maturity debt securities with available fair values as of March 31, 2023:

## Held-to-maturity debt securities

Type	Millions of Yen		
	2023	2023	2023
	Carrying amount	Fair value	Difference
Held-to-maturity debt securities whose fair value exceeds carrying amount:			
Japanese government bonds.....	¥ 11,398	¥ 11,485	¥ 86
Japanese municipal bonds.....	1,900	1,919	19
Subtotal .....	¥ 13,298	¥ 13,404	¥ 105
Total .....	¥ 13,298	¥ 13,404	¥ 105

Type	Thousands of U.S. Dollars		
	2023	2023	2023
	Carrying amount	Fair value	Difference
Held-to-maturity debt securities whose fair value exceeds carrying amount:			
Japanese government bonds.....	\$ 85,359	\$ 86,010	\$ 644
Japanese municipal bonds.....	14,229	14,371	142
Subtotal .....	\$ 99,588	\$ 100,381	\$ 786
Total .....	\$ 99,588	\$ 100,381	\$ 786

## (4) The Company recognized impairment loss on equity securities and Japanese corporate bonds in the amounts of ¥532 million (\$3,984 thousand) and ¥12 million (\$89 thousand), respectively, in the year ended March 31, 2023.

Impairment loss on securities other than trading account securities, excluding equity securities, etc., without a market price and investments in partnerships, is recognized for the full amount of loss when the loss is 50% or more of the acquisition cost. For loss between 30% and 50% of the acquisition cost, impairment is determined by the possibility of recovery, with consideration for the trends in market values during the past year.

## (5) Total sales of available-for-sale securities for the year ended March 31, 2023 were as follows:

Type	Millions of Yen		
	2023	2023	2023
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	¥ 59,752	¥ 15,373	¥ 1,001
Bonds .....	812,384	21,189	19,158
Japanese government bonds.....	753,490	21,095	18,366
Japanese municipal bonds.....	53,937	92	755
Japanese corporate bonds.....	4,956	0	36
Other .....	305,371	7,558	25,253
Foreign bonds .....	266,349	582	24,953
Other .....	39,022	6,975	300
Total .....	¥ 1,177,508	¥ 44,121	¥ 45,413

Type	Thousands of U.S. Dollars		
	2023	2023	2023
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities.....	\$ 447,479	\$ 115,127	\$ 7,496
Bonds .....	6,083,906	158,683	143,473
Japanese government bonds.....	5,642,851	157,979	137,542
Japanese municipal bonds.....	403,931	688	5,654
Japanese corporate bonds.....	37,115	0	269
Other .....	2,286,909	56,601	189,118
Foreign bonds .....	1,994,675	4,358	186,871
Other .....	292,233	52,235	2,246
Total .....	\$ 8,818,303	\$ 330,420	\$ 340,095

## 7. Money Trusts

(1) Money trusts as a type of trading account securities as at March 31, 2023 were as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Carrying amount (fair value).....	¥ 20,000	\$ 149,779
Amount of net unrealized gains (losses) included in the consolidated statements of income.....	—	—

(2) Money trusts, other than for investment purposes or held-to-maturity purposes as at March 31, 2023 were as follows:

	Millions of Yen				
	2023				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust .....	¥ 4,600	¥ 4,600	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars				
	2023				
	Carrying amount	Acquisition cost	Difference	Difference when carrying amount exceeds acquisition cost	Difference when carrying amount does not exceed acquisition cost
Money trust .....	\$ 34,449	\$ 34,449	\$ —	\$ —	\$ —

## 8. Net Unrealized Gains and Losses on Available-for-sale Securities

Net unrealized gains on available-for-sale securities as at March 31, 2023 were as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Net unrealized gains on available-for-sale securities.....	¥ 49,010	\$ 367,033
Deferred tax liabilities.....	(14,775)	(110,649)
Net unrealized gains on available-for-sale securities before adjustment for non-controlling interests, net of taxes .....	34,234	256,376
Non-controlling interests .....	—	—
Net unrealized gains on available-for-sale securities, net of taxes.....	¥ 34,234	\$ 256,376

## 9. Loans and Bills Discounted, Other Assets

Loans based on the Banking Act and the Law concerning Emergency Measures for the Revitalization of the Financial Functions are as follows:

Loans are defined as corporate bonds included in “Securities” in the consolidated balance sheet (the whole or part of the redemption of the principal and payment of interest are guaranteed and limited to the corporate bonds issued through private placement of the securities (as provided for by Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)), loans, foreign exchange, those which are included in the accounts of accrued interest and temporary payments under other assets and customers’ liabilities for acceptances and guarantees and lent securities (limited to loan contract for use or lease contracts).

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Loans in Bankruptcy/rehabilitation or similar proceedings .....	¥ 20,019	\$ 149,921
Loans at risk.....	62,106	465,108
Loans past due three months or more but less than six months .....	724	5,422
Restructured loans.....	26,295	196,922
Total.....	¥ 109,146	\$ 817,389

Loans under bankruptcy/rehabilitation or similar proceedings are loans to borrowers under bankruptcy or similar proceedings due to the commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, petition for rehabilitation proceedings, etc.

Loans at risk are loans whose principal and interest are not likely to be collected pursuant to the contract due to the deteriorated financial positions and operating performances of the debtors, although they have not gone bankrupt, and do not fall in the category of loans under bankruptcy/rehabilitation or similar proceedings.

Loans past due three months or more but less than six months are loans whose payment of principal and/or interest is past due for three months or more from the due date, and which do not fall in the category of loans under bankruptcy/rehabilitation or similar proceedings, or loans at risk.

Restructured loans are loans whose terms and conditions have been amended in favor of borrowers, in order to facilitate or assist the borrowers’ restructuring by reducing the rate of interest, by providing a grace period for the payment of principal or interest, or by loan forgiveness, and are not classified in any of the above categories.

The amounts of above loans are before deducting reserve for possible loan losses.

Bills discounted such as commercial bills discounted and foreign exchanges bought are accounted for as financial transactions in accordance with the

“Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry” (JICPA Industry Committee Practical Guideline No. 24, March 17, 2022). The Company has the right to sell or pledge (re-pledge) commercial bills discounted and foreign exchange bought without restriction. The total face amount of such instruments as at March 31, 2023 was ¥14,800 million (\$110,836 thousand).

The amount of loan participation recorded in the consolidated balance sheet and included in participated principals that were accounted for as loans to original debtors in accordance with “Accounting Treatment and Representation of Loan Participation” (JICPA Accounting System Committee Report No. 3, November 28, 2014), was ¥1,363 million (\$10,207 thousand) as at March 31, 2023.

## 10. Commitment Lines

Commitment line agreements are loan agreements that oblige the Company and its consolidated subsidiaries to lend funds up to certain limits agreed to in advance. The Company and its consolidated subsidiaries make loans upon the request of an obligor to draw down funds as long as there is no breach in the various terms and conditions stipulated in the relevant agreement. The total unused commitment line balance related to these agreements as at March 31, 2023 amounted to ¥1,564,786 million (\$11,718,610 thousand). Of this amount, ¥1,450,085 million (\$10,859,619 thousand) was related to loans in which the term of the agreement was one year or less or for which the unconditional cancellation of the agreement was allowed at any time.

With many of these commitment line agreements, the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment does not necessarily affect future cash flows. In certain loan agreements, conditions are included that allow consolidated subsidiaries and subsidiary corporations, etc. either to decline the request to drawdown the loan or to reduce the agreed limit when there is cause to do so, such as when there is a change in financial condition or when it is necessary to protect credit of the consolidated subsidiaries and subsidiary corporations, etc. The consolidated subsidiaries and subsidiary corporations, etc. take various measures to protect their credit, including having the obligor pledge collateral such as real estate or securities when signing a loan agreement or confirming the obligor’s financial condition at regular intervals in accordance with the established internal procedures of the consolidated subsidiaries and subsidiary corporations, etc.

## 11. Tangible Fixed Assets

Tangible fixed assets as at March 31, 2023 were as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Land .....	¥ 18,827	\$ 140,994
Buildings .....	10,043	75,211
Lease assets .....	1,595	11,944
Other tangible fixed assets .....	5,101	38,201
Construction in progress.....	62	464
Total.....	¥ 35,631	\$ 266,838

Accumulated depreciation as at March 31, 2023 was ¥82,030 million (\$614,318 thousand). The amount that was directly offset against acquisition costs as at March 31, 2023 was ¥4,909 million (\$36,763 thousand).

The differences between the recoverable amount and the book value of the assets below were recognized as “Losses on impairment of fixed assets” for the year ended March 31, 2023 as follows:

	2023			Losses on impairment of fixed assets
	Purpose of Use		Type	
Okayama Prefecture	Branches	4 branches	Land and buildings	¥54
	Idle assets	1 item		
Prefectures other than Okayama	Idle assets	2 items	Land	¥0

	2023			Losses on impairment of fixed assets
	Purpose of Use		Type	
Okayama Prefecture	Branches	4 branches	Land and buildings	\$404
	Idle assets	1 item		
Prefectures other than Okayama	Idle assets	2 items	Land	\$0

Within the consolidated subsidiary that engage in the banking business, the Group office or branch manages and determines income and expenses, and it is the Group office or branch that is the smallest unit of an asset group for recognition and measurement of impairment loss. Fixed assets that do not have identifiable cash flows, such as the corporate headquarters’ facilities, the computer center and recreational facilities, are grouped with other assets. As for idle assets and assets to be disposed of, impairment loss on each asset is measured individually.

With regard to the Company and other consolidated subsidiaries, each company is considered as the smallest grouping unit.

For assets in which investments were not expected to be recovered following the decision of branch consolidation, etc. made by The Chugoku Bank, Limited, a consolidated subsidiary of the Company, the Company reduced the carrying amount for branches to the recoverable amount (the net realizable value for all assets) and recognized a corresponding loss of ¥55 million (\$411 thousand) as “Losses on impairment of fixed assets” for the year ended March 31, 2023.

The recoverable amount for branches was the net realizable value. The net realizable value was based on the appraisal value in accordance with Real Estate Appraisal Standards.

## 12. Intangible Fixed Assets

Intangible fixed assets as at March 31, 2023 were as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Software.....	¥ 1,251	\$ 9,368
Software in progress.....	367	2,748
Other intangible fixed assets.....	93	696
Total.....	¥ 1,712	\$ 12,821

## 13. Pledged Assets

Pledged assets as at March 31, 2023 were as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Securities .....	¥ 802,802	\$ 6,012,147
Loans and bills discounted .....	479,785	3,593,087
Other assets .....	73	546
Total.....	¥ 1,282,662	\$ 9,605,796



Liabilities secured by pledged assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Payables under securities lending transactions ....	¥ 423,430	\$ 3,171,047
Borrowed money.....	305,599	2,288,616
Payables under repurchase agreements.....	93,913	703,310
Deposits.....	24,071	180,266
Total.....	¥ 847,014	\$ 6,343,248

In addition, the following assets were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes as at March 31, 2023:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Securities.....	¥ 57,981	\$ 434,217
Trading account securities.....	98	733
Other assets.....	25	187

Other assets included the following items as at March 31, 2023:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Initial margins for central counterparty.....	¥ 52,569	\$ 393,686
Cash collateral paid for financial instruments.....	46,309	346,805
Initial margins for futures markets.....	1,902	14,243
Guarantee deposits.....	808	6,051

#### 14. Deferred Tax Assets (Liabilities)

Significant components of deferred tax assets and liabilities as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Deferred tax assets:		
Reserve for possible loan losses.....	¥ 15,830	\$ 118,550
Unrealized losses on available-for-sale securities...	11,592	86,811
Net defined benefit liability.....	8,497	63,633
Depreciation.....	3,896	29,176
Deferred losses on hedging instruments.....	2,207	16,528
Losses on impairment of fixed assets.....	1,246	9,331
Accrued employees' bonuses.....	534	3,999
Write-down of securities.....	532	3,984
Software.....	463	3,467
Other.....	1,621	12,139
Subtotal.....	46,422	347,652
Valuation allowance.....	(1,908)	(14,288)
Total deferred tax assets.....	44,513	333,355

Deferred tax liabilities:

Unrealized gains on available-for-sale securities..	(26,357)	(197,386)
Deferred gains on hedges.....	(750)	(5,616)
Reserve for advanced depreciation of tangible fixed assets.....	(235)	(1,759)
Other.....	(0)	(0)
Total deferred tax liabilities.....	(27,343)	(204,770)
Net deferred tax assets (liabilities).....	¥ 17,170	\$ 128,585

Figures for reconciliation between the statutory tax rate and the effective tax rate of the Company for the year ended March 31, 2023 have been omitted as the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

#### 15. Borrowed Money, Commercial Paper and Other Liabilities

Borrowed money, commercial paper and other liabilities as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Borrowed money.....	¥ 320,843	\$ 2,402,778
Commercial paper.....	46,530	348,461
Lease liabilities (due within one year).....	220	1,647
Lease liabilities (due after one year).....	1,153	8,634

The weighted average interest rates on the outstanding balances as at March 31, 2023 were as follows:

	2023
Borrowed money.....	1.146%
Commercial paper.....	4.978%
Lease liabilities (due within one year).....	—
Lease liabilities (due after one year).....	—

Note: The weighted average interest rate is not shown for lease liabilities because the Company uses a method that includes amounts equal to the interest in the total capital lease liabilities and that spreads the total amount equal to interest equally over each fiscal year of the lease period.

Borrowed money classified by maturity as at March 31, 2023 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Less than one year.....	¥ 310,338	\$ 2,324,106
From one to two years.....	3,735	27,971
From two to three years.....	2,886	21,613
From three to four years.....	1,628	12,192
From four to five years.....	730	5,466
Over five years.....	1,524	11,413
Total borrowed money.....	¥ 320,843	\$ 2,402,778

Commercial paper classified by maturity as at March 31, 2023 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Less than one year.....	¥ 46,530	\$ 348,461
Total commercial paper.....	¥ 46,530	\$ 348,461

Lease liabilities classified by maturity as at March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Less than one year.....	¥ 220	\$ 1,647
From one to two years.....	218	1,632
From two to three years.....	217	1,625
From three to four years.....	215	1,610
From four to five years.....	215	1,610
Over five years.....	286	2,141
Total lease liabilities.....	¥ 1,374	\$ 10,289

#### 16. Bonds Payable

	Millions of Yen	Thousands of U.S. Dollars
2023		
Subordinated bond.....	¥ 10,000	\$ 74,889

#### 17. Liability for Employees' Severance and Retirement Benefits (1) Outline of retirement benefit plans

The consolidated subsidiary that engage in the banking business has defined retirement benefit plans and contribution retirement benefit plans. As for defined retirement benefit plans, the consolidated subsidiary that engage in the banking business has a corporate pension fund plan and a lump-sum payment plan.

Other consolidated subsidiaries mostly provide unfunded lump-sum payment plans. In determining projected benefit obligation, a simplified method has been adopted, and the consolidated subsidiary that engage in the banking business has set up an employees' retirement benefit trust.

#### (2) Defined benefit plans

(a) Changes in projected benefit obligation for the year ended March 31, 2023, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Beginning balance of projected benefit obligation....	¥ 61,490	\$ 460,495
Service cost.....	1,757	13,158
Interest cost.....	122	913
Actuarial differences.....	65	486
Retirement benefits paid.....	(1,690)	(12,656)
Prior service cost.....	—	—
Other.....	—	—
Ending balance of projected benefit obligation.....	¥ 61,745	\$ 462,405

(b) Changes in plan assets for the year ended March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Beginning balance of plan assets.....	¥ 59,685	\$ 446,978
Expected return on plan assets.....	1,376	10,304
Actuarial differences.....	(2,875)	(21,530)
Contribution from the employer.....	1,449	10,851
Retirement benefits paid.....	(1,358)	(10,169)
Other.....	—	—
Ending balance of plan assets.....	¥ 58,279	\$ 436,448

(c) Reconciliation between the ending balances of projected benefit obligation and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet was as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Funded defined benefit obligation.....	¥ 61,342	\$ 459,387
Plan assets.....	(58,279)	(436,448)
	3,063	22,938
Unfunded defined benefit obligation.....	402	3,010
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 3,466	\$ 25,956

	Millions of Yen	Thousands of U.S. Dollars
2023		
Net defined benefit liability.....	¥ 3,466	\$ 25,956
Net defined benefit asset.....	—	—
Net liability (asset) recorded in the consolidated balance sheet.....	¥ 3,466	\$ 25,956

(d) The components of retirement benefit expenses for the year ended March 31, 2023 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Service cost.....	¥ 1,757	\$ 13,158
Interest cost.....	122	913
Expected return on plan assets.....	(1,376)	(10,304)
Amortization of actuarial differences.....	1,406	10,529
Amortization of prior service cost.....	(418)	(3,130)
Other.....	(7)	(52)
Retirement benefit expenses on defined benefit plans.....	¥ 1,483	\$ 11,106

Note: Retirement benefit expenses of consolidated subsidiaries that adopted the simplified method are included in "Service cost."

(e) The components of adjustments for retirement benefits (before tax effect) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Prior service cost.....	¥ (418)	\$ (3,130)
Actuarial differences.....	(1,534)	(11,488)
Total.....	¥ (1,952)	\$ (14,618)

(f) The components of accumulated adjustments for retirement benefits (before tax effect) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2023		
Unrecognized prior service cost.....	¥ 3,694	\$ 27,664
Unrecognized actuarial differences.....	(10,627)	(79,585)
Other.....	—	—
Total.....	¥ (6,932)	\$ (51,913)

(g) Plan assets

1) Components of plan assets

Plan assets consisted of the following:

	2023
Investment trusts.....	23.5%
Equity securities.....	18.2%
Cash and deposits.....	20.7%
Bonds.....	10.0%
General account.....	7.7%
Other.....	19.9%
Total.....	100%

Note: Total plan assets as at March 31, 2023 included an employees' retirement benefit trust established for corporate welfare pension plans that represented 42.0% of the total plan assets.

2) Method used to determine the long-term expected rate of return on plan assets  
The long-term expected rate of return on plan assets is determined by considering the allocation of plan assets and the long-term rates of return, which are expected currently and in the future from the various components of the plan assets.

**(h) Assumptions used for the year ended March 31, 2023 were as follows:**

	2023
Discount rate	<b>0.200%</b>
Long-term expected rate of return	<b>2.100% - 2.622%</b>

Note: Since the Company has applied the benefit formula basis for calculating retirement benefit obligation, the expected rate of salary increase is not taken into consideration.

**(3) Amount of retirement benefit expenses for defined contribution plans**

The amount of required contribution to the defined contribution plan of the consolidated subsidiaries for the year ended March 31, 2023 was ¥200 million (\$1,497 thousand).

**18. Derivative Transactions**

Derivative transactions as at March 31, 2023 were as follows:

**(1) Derivative transactions to which hedge accounting is not applied**

For derivative transactions to which hedge accounting is not applied, the contract amount or corresponding principal amount stipulated by the contract, the fair value, recognized gains (losses) and the method used to calculate fair value by type of transaction as of the consolidated balance sheet date are set forth in the tables below. The actual contract amounts do not indicate the market risk for the derivative transactions themselves.

Interest Rate Derivatives:

Type	Millions of Yen			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating .....	¥ 62,723	¥ 59,377	¥ 1,263	¥ 1,263
Pay floating/ receive fixed.....	59,165	56,419	(805)	(805)
Total.....			¥ 457	¥ 457

Type	Thousands of U.S. Dollars			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Interest rate swaps				
Pay fixed/ receive floating .....	\$ 469,729	\$ 444,671	\$ 9,458	\$ 9,458
Pay floating/ receive fixed.....	443,083	422,519	(6,028)	(6,028)
Total.....			\$ 3,422	\$ 3,422

Note: The above transactions were stated at fair value, and gains and losses were recognized in the consolidated statements of income.

Currency-related Derivatives:

Type	Millions of Yen			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps.....	¥1,014,530	¥ 967,776	¥ (7)	¥ (7)
Forward foreign exchange				
Sold.....	90,391	70,931	(1,691)	(1,691)
Bought.....	86,927	68,246	3,238	3,238
Currency options				
Sold.....	4,600	2,014	(82)	73
Bought.....	4,600	2,014	82	(50)
Total.....			¥ 1,539	¥ 1,562

Type	Thousands of U.S. Dollars			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Over-the-counter transactions				
Currency swaps.....	\$7,597,768	\$7,247,629	\$ (52)	\$ (52)
Forward foreign exchange				
Sold.....	676,934	531,198	(12,663)	(12,663)
Bought.....	650,992	511,091	24,249	24,249
Currency options				
Sold.....	34,449	15,082	(614)	546
Bought.....	34,449	15,082	614	(374)
Total.....			\$ 11,525	\$ 11,697

Note: The above transactions were stated at fair value, and gains and losses were recognized in the consolidated statements of income.

Bond-related Derivatives:

Type	Millions of Yen			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold.....	¥ 1,600	¥ —	¥ (29)	¥ (29)
Total.....			¥ (29)	¥ (29)

Type	Thousands of U.S. Dollars			
	2023			
	Contract amount	Over 1 year	Fair value	Recognized gains (losses)
Financial products exchange transactions				
Bond futures				
Sold.....	\$ 11,982	\$ —	\$ (217)	\$ (217)
Total.....			\$ (217)	\$ (217)

Note: The above transactions were stated at fair value, and gains and losses were recognized in the consolidated statements of income.

**(2) Derivative transactions to which hedge accounting is applied**

For derivative transactions to which hedge accounting is applied, the contract amounts or corresponding principal amounts stipulated by the contract, the fair value, the method used to calculate fair value by type of transaction and the hedge accounting method as of the consolidated balance sheet date are set forth in the tables below. The actual contract amounts do not indicate the market risk for the derivative transactions themselves.

Interest Rate Derivatives:

Type	Hedged items	Millions of Yen		
		2023		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Loans and bills discounted and available-for-sale securities (bonds)	¥ 431,106	¥ 421,130	¥ (4,573)
Interest rate swaps				
Pay fixed/ receive floating .....				
Total.....				¥ (4,573)

Type	Hedged items	Thousands of U.S. Dollars		
		2023		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Loans and bills discounted and available-for-sale securities (bonds)	\$3,228,532	\$3,153,823	\$(34,246)
Interest rate swaps				
Pay fixed/ receive floating .....				
Total.....				\$(34,246)

Note: The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 24, March 17, 2022).

Currency-related Derivatives:

Type	Hedged items	Millions of Yen		
		2023		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Fund-related swaps .....	¥ 22,566	¥ —	¥ 106
Currency swaps.....	Loans	405,763	256,432	(309)
Total.....				¥ (203)

Type	Hedged items	Thousands of U.S. Dollars		
		2023		
		Contract amount	Over 1 year	Fair value
The deferral method of hedge accounting	Fund-related swaps .....	\$ 168,995	\$ —	\$ 793
Currency swaps.....	Loans	3,038,740	1,920,407	(2,314)
Total.....				\$ (1,520)

Note: The deferral method of hedge accounting was applied to the above transactions in accordance with the "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 25, October 8, 2020).

**19. Lease Transactions**

Information about operating leases as at March 31, 2023 was as follows:

As lessee:

Obligations under operating leases that were not cancellable as at March 31, 2023 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2023			
Due within one year .....	¥ 112	\$ 838		
Due after one year .....	465	3,482		
Total.....	¥ 578	\$ 4,328		

**20. Other Comprehensive Income**

The components of other comprehensive income for the year ended March 31, 2023 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2023			
Net unrealized losses on available-for-sale securities:				
Decrease during the year	¥ (64,206)	\$ (480,835)		
Reclassification adjustments	16,128	120,781		
Subtotal, before tax	(48,078)	(360,053)		
Tax benefit	14,704	110,117		
Subtotal, net of tax	(33,373)	(249,928)		
Net deferred losses on hedging instruments:				
Decrease during the year	(3,006)	(22,511)		
Reclassification adjustments	(897)	(6,717)		
Subtotal, before tax	(3,904)	(29,236)		
Tax benefit	1,190	8,911		
Subtotal, net of tax	(2,713)	(20,317)		
Adjustments for retirement benefits:				
Decrease during the year	(2,940)	(22,017)		
Reclassification adjustments	988	7,399		
Subtotal, before tax	(1,952)	(14,618)		
Tax benefit	595	4,455		
Subtotal, net of tax	(1,356)	(10,155)		
Total other comprehensive income	¥ (37,443)	\$ (280,408)		

Net deferred losses on hedging instruments:

Decrease during the year	(3,006)	(22,511)
Reclassification adjustments	(897)	(6,717)
Subtotal, before tax	(3,904)	(29,236)
Tax benefit	1,190	8,911
Subtotal, net of tax	(2,713)	(20,317)

Adjustments for retirement benefits:

Decrease during the year	(2,940)	(22,017)
Reclassification adjustments	988	7,399
Subtotal, before tax	(1,952)	(14,618)
Tax benefit	595	4,455
Subtotal, net of tax	(1,356)	(10,155)

Total other comprehensive income

**21. Financial Instruments**

**(1) Information about Status of Financial Instruments**

**(a) Policies for using financial instruments**

The Group is engaged in financial services, primarily the banking business. The Group's core business of banking is mainly financing through deposit-taking operations and investing funds through its loan and securities investment operations.

The Group engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest and exchange rates related to assets and liabilities held by the Group as well as the risk of fluctuation in the market prices of bonds, stocks and other investment instruments held by the Group. In addition, the Group provides hedging services to customers in accordance with their needs.

**(b) Details of financial instruments used and the exposure to risks and how they arise**

The financial assets held by the Group consist primarily of loans to corporations, local public organizations, local public corporations and individuals in Japan. The Group's loans are categorized into bills discounted,

loans on bills, loans on deeds and overdrafts. These loans are subject to the “credit risk” of decline in value or loss due to changes in the financial status of those to whom credit is provided and to the “interest rate risk” of decline in value due to changes in interest rates.

Among other financial assets, the Group holds securities, trading account securities and other debt purchased, which mainly comprise Japanese stocks and bonds and foreign bonds and trust certificates. The purpose of these instruments include holding to maturity, investment and business development. As financial assets, they are subject to various types of risk. These include the credit risk of the issuer, interest rate risk, which is the risk that the value of the assets may decline due to changes in the prices of securities or other assets (“price fluctuation risk”) and the risk of loss incurred if exchange rates differ from original expectations (“exchange rate risk”). Moreover, the Group’s financial assets are subject to the risk that the Group might not be able to make trades due to turmoil, etc., in the marketplace or be unable to avoid making trades at prices that are more notably disadvantageous than usual (“liquidity risk”). Note that interest rate, price fluctuation and exchange rate risks are collectively known as “market risk.”

The Group also holds financial liabilities in the form of deposits and negotiable certificates of deposit, which are chiefly deposits held in yen or a foreign currency by corporations, local public organizations, local public corporations and individuals in Japan. These deposits are categorized into current deposits, ordinary deposits, saving deposits, deposits at notice, time deposits, installment time deposits, deposits for tax payment, non-resident yen deposits, foreign currency deposits and deposits for offshore accounts. The deposits are subject to the interest rate risk as well as the risk of loss arising from the Group having difficulty in raising necessary funds or being forced to raise funds at significantly higher interest rates than usual in the event of a shortage of capital due to a mismatch in the terms of the Group’s deposits and its investment portfolio of loans and securities or an unexpected run on the Group’s deposits (“funding risk”).

Derivative transactions include interest rate-related transactions (swaps and caps), currency-related transactions (swaps, options, forward exchange contracts and non-deliverable forwards), bond-related transactions (bond futures and bond options), stock-related transactions (stock futures and stock options) and credit derivative transactions (credit default swaps). The Group engages in derivative transactions principally to stabilize its earnings by hedging the risk of future fluctuations in interest or exchange rates related to assets and liabilities held by the Group and fluctuations in the market prices of bonds, stocks and other investment instruments held by the Group. The Group also provides hedging services to customers in accordance with their needs. Although the Group uses derivative transactions to capture short-term gains in assets for trading purposes, any possible loss on these derivative transactions is limited by maintaining a fixed position quota and capping allowed losses.

Of the above-mentioned derivative transactions, used for hedging purposes are carried out in accordance with the hedging policies (reduction of interest risk, etc.) stipulated in the Company’s internal operating regulations and include interest rate swaps for loans and securities and currency swaps for foreign-currency-denominated securities and deposits. In evaluating the effectiveness of hedges, the Group groups together the loans and interest rate swaps used for market value hedges by the specific term (remaining) of the positions to determine performance. In some cases, the Group also assesses the effectiveness of market value hedging instruments on an individual basis. The Group uses currency swaps and other methods to hedge exchange rate risks and evaluates the effectiveness of the hedges by confirming that a foreign currency hedge position exists in an amount equivalent to the foreign-currency-denominated monetary assets or liabilities being hedged.

**(c) Policies and processes for managing risk**

1) Credit Risk Management

Credit risk refers to loss incurred when the value of assets (including off-balance-sheet assets) declines or becomes worthless due to changes in the financial status of those to whom credit is provided.

The Group’s objective of credit risk management is to maintain and improve its financial soundness by appropriately managing credit operations in order to contribute to the sound development of society and the economy, and through this, the development of the Group itself. In addition, the basic credit risk management policy is to appropriately manage the credit risks of the diverse transactions of each of its divisions and business sections in a comprehensive and integrated manner, using credit risk assessment and management methods that suit the special characteristics of each transaction.

Based on this framework, the Group companies manage credit risks pursuant to the basic credit risk management policy, and the Management Administration Department, which is the credit risk management control department, supervises and manages the credit risks of the entire Group.

Credit risk management entails a credit management system that establishes standards and procedures for making credit decisions, and a credit risk assessment system that is part of those procedures and establishes standards and procedures for assessing credit risks as a basis for making credit decisions. These systems are appropriately operated to control risks by preventing the occurrence of credit risk losses or keeping them within a certain range. Credit concentration risks are also managed appropriately by avoiding excessive concentration of credit to specific customers, groups, or industries. Through these efforts, the Group strives to ensure the control of credit risks and its ability to earn stable income.

In light of the importance of capital adequacy requirements in terms of risk management and information disclosure, the Group strictly measures regulatory capital requirements for credit risks under the credit risk management framework. The Group has a scheme in place to assess credit risks and financial conditions under stress conditions such as economic downturns and defaults of large borrowers, to evaluate capital adequacy and the appropriateness of risk management plans, and to reflect the results in credit management and other activities.

2) Market Risk Management

Market risk refers to the risk of incurring loss from fluctuations in profits arising from assets and liabilities and the risk of incurring loss from fluctuations in the value of assets and liabilities (including off-balance-sheet assets and liabilities) due to fluctuations in market risk factors such as interest rates, exchange rates and share prices.

The Group’s basic risk management policy for market risk is to determine and analyze the risk from the point of view of fluctuations in both present value and net interest income and to assess the risk from various angles using stress tests and other methods.

Based on this framework, the Group companies manage market risks pursuant to the basic market risk management policy, and the Management Administration Department, which is the market risk management control department, supervises and manages the market risks of the entire Group.

Trading limits and loss limits have been set for trading operations, the goal of which is to earn trading profit from buying and selling securities in market operations. The limits are managed to ensure that losses in excess of a certain amount do not occur. Banking operations (investment securities) are managed for risk by taking the risk-return balance into consideration through ALM analysis, Value at Risk (VaR) analysis and other means to ensure stable profits over the medium- to long-term. The Group has also

established a system for the flexible management of market risk as well as credit risk and liquidity risk related to market operations.

Market risk management, including lending and deposit services, is carried out by analyzing risk from multiple aspects such as the calculation of interest rate risk. The Group Risk Management Committee and the Group ALM Committee discuss the overall management of assets and liabilities and evaluate management and lending policies.

*Quantitative Information about Market Risk*

(Financial instruments to which quantitative analysis of market risk is applied for the purpose of risk management)

The Group measures market risk volume using VaR and monitors, analyzes, evaluates and controls risks from various aspects, implementing limit controls and stress tests.

The Group has adopted a variance-covariance model assuming that fluctuations in prices and interest rates will follow a normal distribution and uses a five-year observation period, a 99.9% confidence interval, a 125-business-day holding period for banking business and a 10-business-day holding period for trading activities. Among financial instruments, market price fluctuation risk is measured for equity securities (excluding unlisted equity securities), investment trusts and other assets. Interest rate risk is measured for debt securities, deposits and loans, taking into consideration the correlation between price fluctuation risk and interest rate risk.

Under normal circumstances, interest rates will generally rise when stock prices rise (prices of debt securities will decline) and decline when the stock prices decline (prices of debt securities will rise). Thus, stock prices and interest rates are mutually related, and stock prices and prices of debt securities are inversely related. The Company maintains a market risk volume smaller than the total price fluctuation risk and interest rate risk taking the correlation into account. At a time of stress, such as in times of a drastic change in the market environment, there is a possibility that the above correlation would not work and another complementary system would be established by different stress tests and capital allocation.

Market risk volume as of March 31, 2023 was as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Market risk volume .....	¥ 144,120	\$ 1,079,308
Banking business.....	144,104	1,079,188
[Price fluctuation risk] .....	[94,720]	[709,353]
[Interest rate risk] .....	[60,904]	[456,107]
[Considering correlation] .....	[(11,520)]	[(86,272)]
Trading activities.....	16	119

The Group conducts back testing, which compares VaR and profit and loss on a regular basis to verify the effectiveness of its measurement of market risk. The profit or loss expected at the time the measurement of VaR is fixed is used for comparison. As a result of back testing, the Group has determined that there is no problem with its market risk measurement model and measurement methods.

However, since VaR is statistically computed under certain assumptions based on historical market fluctuations, certain risks beyond the assumptions may not be fully captured. Accordingly, a complementary system is established by different stress tests and other considerations.

(Financial instruments to which quantitative analysis of market risk is not applied for the purpose of risk management)

The Group does not apply market risk measurement to unlisted equity securities, which are measured by credit risk.

3) Liquidity Risk Management

Liquidity risk refers to the risk of incurring losses when it becomes difficult to secure the requisite funds or when funds at a much higher than normal interest rate become necessary due to a mismatch between the timing of procurement and use, an unexpected outflow of funds (hereafter, “funds procurement risks”) or risks incurred when transactions cannot be conducted or must be conducted at prices that are much more disadvantageous than normal due to market disruptions or other factors (hereafter, “market liquidity risk”).

The Group recognizes funds procurement as an important management issue, and its basic funds procurement risk policy is to ensure a stable supply of funds. The Group’s basic policy for managing market liquidity risk is to take into consideration the special features of markets such as market size, liquidity and other factors and pay careful attention to market liquidity.

Based on this framework, the Group companies manage liquidity risks pursuant to the basic liquidity risk management policy, and the Management Administration Department, which is the liquidity risk management control department, supervises and manages the liquidity risks of the entire Group.

Liquidity risk management entails careful monitoring of the daily status of funds procurement, including monitoring of early warning indicators, striving to limit the risks involved in the procurement of funds. In addition, liquidity risks are managed by establishing the management policies for risks of procuring funds such as policies on holding highly liquid assets and setting limits on financing gap between investments and procurement for a certain period.

Deposits comprise the vast majority of procurement for The Chugoku Bank, Limited, which is a consolidated subsidiary of particular importance. Although the procurement of funds is stable, the Group is working to diversify the means of procurement to prepare for unforeseen circumstances such as procurement from the market utilizing marketable securities held by The Chugoku Bank, Limited. In addition, the Group verifies that funding is available for foreign currencies through stress tests that assume a market funding environment that deteriorates and makes it difficult to procure funds in the market. The Group also measures and manages the foreign currency stability ratio, which indicates the degree of stability of foreign currency investments and funding, to maintain the medium- to long-term stability of the foreign currency balance sheet. Furthermore, the Group monitors various indicators related to the yen and foreign currency funding environment, and has a scheme in place to consider and implement countermeasures in response to changes in the environment.

**(d) Supplementary information on fair values**

In calculating fair value of financial instruments, certain assumptions are adopted and other factors considered, and the values may differ when adopting different assumptions and when considering other factors.

## (2) Fair Values of Financial Instruments

The following are the consolidated balance sheet amounts and fair values and any differences between them as of March 31, 2023. Equity securities, etc., without market prices and investments in partnerships are not included in the table below (see Note 1). In addition, the notes on cash and due from banks and payables under securities lending transactions are omitted because they are matured or settled in a short period of time and their fair values approximate the book values.

	Millions of Yen		
	2023		
	Book value	Fair value	Difference
<b>Assets</b>			
(1) Trading account securities .....	¥ 2,023	¥ 2,023	—
(2) Money trusts.....	24,600	24,600	—
(3) Securities			
Held-to-maturity debt securities .....	13,298	13,404	¥ 105
Available-for-sale securities(*1) .....	2,286,318	2,286,318	—
(4) Loans and bills discounted.....	5,555,795		
Reserve for possible loan losses (*2).....	(52,963)		
	5,502,832	5,538,125	35,293
<b>Total assets</b> .....	<b>¥ 7,829,072</b>	<b>¥ 7,864,470</b>	<b>¥ 35,398</b>
<b>Liabilities</b>			
(1) Deposits .....	¥ 7,898,033	¥ 7,897,592	¥ (440)
(2) Negotiable certificates of deposit.....	155,489	155,493	4
(3) Borrowed money.....	320,843	320,865	21
<b>Total liabilities</b> .....	<b>¥ 8,374,365</b>	<b>¥ 8,373,951</b>	<b>¥ (414)</b>
<b>Derivative transactions (*3)</b>			
Derivative transactions to which hedge accounting is not applied .....	¥ (45,905)	¥ (45,905)	—
Derivative transactions to which hedge accounting is applied (*4).....	(4,777)	(4,777)	—
<b>Total derivative transactions</b> .....	<b>¥ (50,682)</b>	<b>¥ (50,682)</b>	<b>¥ —</b>

	Thousands of U.S. Dollars		
	2023		
	Book value	Fair value	Difference
<b>Assets</b>			
(1) Trading account securities .....	\$ 15,150	\$ 15,150	—
(2) Money trusts.....	184,228	184,228	—
(3) Securities			
Held-to-maturity debt securities .....	99,588	100,381	\$ 786
Available-for-sale securities (*1) .....	17,122,129	17,122,129	—
(4) Loans and bills discounted.....	41,607,092		
Reserve for possible loan losses (*2).....	(396,637)		
	41,210,454	41,474,762	264,307
<b>Total assets</b> .....	<b>\$ 58,631,558</b>	<b>\$ 58,896,652</b>	<b>\$ 265,093</b>
<b>Liabilities</b>			
(1) Deposits .....	\$ 59,148,004	\$ 59,144,701	\$ (3,295)
(2) Negotiable certificates of deposit.....	1,164,449	1,164,479	29
(3) Borrowed money.....	2,402,778	2,402,943	157
<b>Total liabilities</b> .....	<b>\$ 62,715,232</b>	<b>\$ 62,712,132</b>	<b>\$ (3,100)</b>
<b>Derivative transactions (*3)</b>			
Derivative transactions to which hedge accounting is not applied .....	\$ (343,780)	\$ (343,780)	—
Derivative transactions to which hedge accounting is applied (*4).....	(35,774)	(35,774)	—
<b>Total derivative transactions</b> .....	<b>\$ (379,555)</b>	<b>\$ (379,555)</b>	<b>\$ —</b>

Items that did not have a material impact on the consolidated balance sheets were omitted.

(\*1) Available-for-sale securities include investment trusts to which the treatment in Paragraph 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) is applied, where the standard price is deemed to be the fair value.

(\*2) Included are the general reserve for possible loan losses and the specific reserve for possible loan losses.

(\*3) The net claims and obligations on derivative transactions were shown on a net basis, with obligations shown on a net basis indicated by parentheses.

(\*4) These are derivative transactions such as interest rate swaps designated as hedging instruments to fix cash flows of hedged items such as loans, and the deferral method of hedge accounting is primarily adopted. In addition, "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ PITF No. 40, March 17, 2022) is applied to these hedging relationships.

**(Note 1) Equity securities, etc. without market prices and investments in partnerships are indicated below and are not included in "Available-for-sale securities" in the fair value information on financial instruments in the tables above.**

	Thousands of U.S. Dollars	
	Millions of Yen	2023
Unlisted equity securities (*1) (*2).....	¥ 4,116	\$ 30,824
Investments in partnerships (*3).....	20,319	152,168
Foreign stocks in foreign currency (*1) .....	0	0

(\*1) Unlisted equity securities are exempted from fair value disclosures in accordance with Paragraph 5 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020).

(\*2) Impairment losses on unlisted equity securities were not recognized.

(\*3) Investments in partnerships, etc., are exempted from fair value disclosures in accordance with Paragraph 24-16 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021).

## (Note 2) Maturities of monetary assets and securities with contractual maturities subsequent to the balance sheet date

	Millions of Yen					
	2023					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	¥ 1,458,299	—	—	—	—	—
Securities .....	157,611	¥ 272,627	¥ 353,254	¥ 166,209	¥ 218,791	¥ 881,413
Held-to-maturity debt securities.....	5,099	6,299	200	—	1,700	—
Japanese government bonds.....	5,099	6,299	—	—	—	—
Japanese municipal bonds.....	—	—	200	—	1,700	—
Available-for-sale securities with maturities .....	152,512	266,328	353,054	166,209	217,091	881,413
Japanese government bonds.....	51,260	36,447	93,204	56,670	90,028	225,902
Japanese municipal bonds.....	21,063	14,038	73,425	85,708	103,591	467,256
Japanese corporate bonds .....	37,091	97,813	91,745	10,405	16,912	70,148
Other .....	43,096	118,029	94,678	13,425	6,560	118,105
Loans and bills discounted (*2) .....	1,448,814	1,094,208	782,294	509,090	524,754	1,085,678
<b>Total</b> .....	<b>¥ 3,064,725</b>	<b>¥ 1,366,836</b>	<b>¥ 1,135,548</b>	<b>¥ 675,299</b>	<b>¥ 743,546</b>	<b>¥ 1,967,091</b>

	Thousands of U.S. Dollars					
	2023					
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Due from banks (*1).....	\$ 10,921,133	—	—	—	—	—
Securities .....	1,180,341	\$ 2,041,691	\$ 2,645,502	\$ 1,244,731	\$ 1,638,515	\$ 6,600,861
Held-to-maturity debt securities.....	38,186	47,172	1,497	—	12,731	—
Japanese government bonds.....	38,186	47,172	—	—	—	—
Japanese municipal bonds.....	—	—	1,497	—	12,731	—
Available-for-sale securities with maturities .....	1,142,155	1,994,518	2,644,005	1,244,731	1,625,784	6,600,861
Japanese government bonds .....	383,883	272,949	698,000	424,399	674,215	1,691,769
Japanese municipal bonds.....	157,739	105,129	549,876	641,863	775,788	3,499,258
Japanese corporate bonds .....	277,772	732,517	687,074	77,922	126,653	525,335
Other .....	322,743	883,913	709,039	100,539	49,127	884,482
Loans and bills discounted (*2) .....	10,850,101	8,194,473	5,858,563	3,812,551	3,929,858	8,130,592
<b>Total</b> .....	<b>\$ 22,951,583</b>	<b>\$ 10,236,171</b>	<b>\$ 8,504,066</b>	<b>\$ 5,057,283</b>	<b>\$ 5,568,381</b>	<b>\$ 14,731,453</b>

(\*1) Amounts due from banks with no maturity date are included in "Within 1 year."

(\*2) Loans due from bankrupt borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers in the amount of ¥82,042 million (\$614,408 thousand) and loans without contract due dates in the amount of ¥28,911 million (\$216,513 thousand) are not included in the above tables as at March 31, 2023.

**(Note 3) Repayment schedule of deposits, negotiable certificates of deposit, payables under securities lending transactions and borrowed money subsequent to the balance sheet date**

Millions of Yen						
2023						
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	¥ 7,674,200	¥ 179,727	¥ 42,919	¥ 308	¥ 877	—
Negotiable certificates of deposit.....	154,339	1,150	—	—	—	—
Payables under securities lending transactions .....	423,430	—	—	—	—	—
Borrowed money.....	310,338	6,621	2,358	559	471	¥ 492
<b>Total.....</b>	<b>¥ 8,562,308</b>	<b>¥ 187,498</b>	<b>¥ 45,278</b>	<b>¥ 868</b>	<b>¥ 1,349</b>	<b>¥ 492</b>

Thousands of U.S. Dollars						
2023						
	Within 1 year	More than 1 year within 3 years	More than 3 years within 5 years	More than 5 years within 7 years	More than 7 years within 10 years	More than 10 years
Deposits (*).....	\$ 57,471,729	\$ 1,345,967	\$ 321,418	\$ 2,306	\$ 6,567	—
Negotiable certificates of deposit.....	1,155,837	8,612	—	—	—	—
Payables under securities lending transactions .....	3,171,047	—	—	—	—	—
Borrowed money.....	2,324,106	49,584	17,658	4,186	3,527	\$ 3,684
<b>Total.....</b>	<b>\$ 64,122,728</b>	<b>\$ 1,404,163</b>	<b>\$ 339,084</b>	<b>\$ 6,500</b>	<b>\$ 10,102</b>	<b>\$ 3,684</b>

(\*) Demand deposits are included in "Within 1 year."

**(3) Fair Value Information by Level Within the Fair Value Hierarchy**

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

1) Financial instruments measured at fair values

Millions of Yen						
2023						
Fair value						
	Level 1	Level 2	Level 3	Total		
Money trusts .....	—	¥ 20,000	—	¥ 20,000		
Trading account securities and securities						
Trading securities						
Japanese government bonds and Japanese municipal bonds, etc.....	¥ 256	1,766	—	2,023		
Available-for-sale securities (*1)						
Equity securities .....	113,479	—	—	113,479		
Japanese government bonds .....	552,442	1,071	—	553,513		
Japanese municipal bonds.....	—	765,083	—	765,083		
Japanese corporate bonds .....	—	224,601	¥ 99,515	324,116		
Other .....	177,606	344,484	6,911	529,002		
<b>Total assets .....</b>	<b>¥ 843,785</b>	<b>¥ 1,357,006</b>	<b>¥ 106,426</b>	<b>¥ 2,307,218</b>		
Derivative transactions (*2)						
Interest rate-related derivatives.....	—	¥ (4,116)	—	¥ (4,116)		
Currency-related derivatives .....	—	(46,537)	—	(46,537)		
Bond-related derivatives.....	¥ (29)	—	—	(29)		
<b>Total derivative transactions.....</b>	<b>¥ (29)</b>	<b>¥ (50,653)</b>	<b>¥ —</b>	<b>¥ (50,682)</b>		

Thousands of U.S. Dollars				
2023				
Fair value				
	Level 1	Level 2	Level 3	Total
Money trusts .....	—	\$ 149,779	—	\$ 149,779
Trading account securities and securities				
Trading securities				
Japanese government bonds and Japanese municipal bonds, etc.....	\$ 1,917	13,225	—	15,150
Available-for-sale securities (*1)				
Equity securities .....	849,838	—	—	849,838
Japanese government bonds.....	4,137,212	8,020	—	4,145,233
Japanese municipal bonds.....	—	5,729,671	—	5,729,671
Japanese corporate bonds .....	—	1,682,026	\$ 745,263	2,427,289
Other .....	1,330,083	2,579,824	51,756	3,961,671
<b>Total assets .....</b>	<b>\$ 6,319,066</b>	<b>\$ 10,162,555</b>	<b>\$ 797,019</b>	<b>\$ 17,278,648</b>

Derivative transactions (*2)				
Interest rate-related derivatives.....	—	\$ (30,824)	—	\$ (30,824)
Currency-related derivatives .....	—	(348,513)	—	(348,513)
Bond-related derivatives.....	\$ (217)	—	—	(217)
<b>Total derivative transactions.....</b>	<b>\$ (217)</b>	<b>\$ (379,337)</b>	<b>\$ —</b>	<b>\$ (379,555)</b>

(\*1) Available-for-sale securities do not include investment trusts to which the treatment in Paragraph 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) is applied and according to which the standard price is deemed to be the fair value. The carrying amount of the investment trusts to which the treatment in Paragraph 24-9 is applied was ¥1,122 million (\$8,402 thousand).

A reconciliation from the beginning balances to the ending balances of the investment trusts to which the treatment in Paragraph 24-9 is applied

Millions of Yen							
	Profit (loss) or other comprehensive income in the fiscal year		Net amount of purchases, sales, issuances and settlements	Amount where the net asset value of investment trusts is deemed to be the fair value	Amount where the net asset value of investment trusts is not deemed to be the fair value	Ending balance	Recognized gains (losses) on investment trusts held at the fiscal year-end included in profit (loss) for the fiscal year
Beginning balance	Recorded in profit (loss)	Recorded in other compre-hensive income (*a)					
¥ 877	—	¥ 57	¥ 186	—	—	¥ 1,122	—

Thousands of U.S. Dollars							
	Profit (loss) or other comprehensive income in the fiscal year		Net amount of purchases, sales, issuances and settlements	Amount where the net asset value of investment trusts is deemed to be the fair value	Amount where the net asset value of investment trusts is not deemed to be the fair value	Ending balance	Recognized gains (losses) on investment trusts held at the fiscal year-end included in profit (loss) for the fiscal year
Beginning balance	Recorded in profit (loss)	Recorded in other compre-hensive income (*a)					
\$ 6,567	—	\$ 426	\$ 1,392	—	—	\$ 8,402	—

(\*a) Included in "Net unrealized gains (losses) on available-for-sale securities" under "Other comprehensive income" in the consolidated statements of comprehensive income.

(\*2) The net claims and obligations on derivative transactions were shown on a net basis, with obligations shown on a net basis indicated in parentheses.

2) Financial instruments other than those measured at fair value

	Millions of Yen				
	2023				
	Fair value				
	Level 1	Level 2	Level 3	Total	
Money trusts .....	—	—	¥ 4,600	¥	4,600
Securities					
Held-to-maturity debt securities					
Japanese government bonds .....	¥ 11,485	—	—		11,485
Japanese municipal bonds .....	—	¥ 1,919	—		1,919
Loans and bills discounted .....	—	—	5,538,125		5,538,125
<b>Total assets .....</b>	<b>¥ 11,485</b>	<b>¥ 1,919</b>	<b>¥ 5,542,725</b>	<b>¥</b>	<b>5,556,129</b>
Deposits .....	—	¥ 7,897,592	—	¥	7,897,592
Negotiable certificates of deposit.....	—	155,493	—		155,493
Borrowed money.....	—	305,599	¥ 15,266		320,865
<b>Total liabilities .....</b>	<b>¥ —</b>	<b>¥ 8,358,685</b>	<b>¥ 15,266</b>	<b>¥</b>	<b>8,373,951</b>

	Thousands of U.S. Dollars				
	2023				
	Fair value				
	Level 1	Level 2	Level 3	Total	
Money trusts .....	—	—	\$ 34,449	\$	34,449
Securities					
Held-to-maturity debt securities					
Japanese government bonds .....	\$ 86,010	—	—		86,010
Japanese municipal bonds .....	—	\$ 14,371	—		14,371
Loans and bills discounted .....	—	—	41,474,762		41,474,762
<b>Total assets .....</b>	<b>\$ 86,010</b>	<b>\$ 14,371</b>	<b>\$ 41,509,211</b>	<b>\$</b>	<b>41,609,593</b>
Deposits .....	—	\$ 59,144,701	—	\$	59,144,701
Negotiable certificates of deposit.....	—	1,164,479	—		1,164,479
Borrowed money.....	—	2,288,616	\$ 114,326		2,402,943
<b>Total liabilities .....</b>	<b>\$ —</b>	<b>\$ 62,597,805</b>	<b>\$ 114,326</b>	<b>\$</b>	<b>62,712,132</b>

**(Note 1) Description of valuation methods and inputs used in the fair value measurement**

**Assets**

**Money trusts**

In principle, the fair value of money trusts for which trust asset components are securities is based on the price measured in the same method as securities, and is classified as Level 2.

The notes to Money Trusts based on holding purposes are stated in Note 7, "Money Trusts."

**Trading account securities and securities**

The fair value of trading account securities and securities is classified as Level 1 for those whose unadjusted quoted prices in active markets are available, such as for listed equity securities, ETF, listed REIT and Japanese government bonds.

For those using publicly released quoted prices in inactive markets, their fair values are classified as Level 2, such as for Japanese municipal bonds and Japanese corporate bonds. In addition, for investment trusts in cases where there is no transaction price in the market and there are no material restrictions on cancellation or repurchase request such that market participants demand compensation for the risk, the standard price is their fair value and classified as Level 2.

The fair value of private placement bonds is measured by discounting total future cash flows at the risk-free rate plus a premium, which is a credit risk spread of individuals calculated by classification based on in-house rating, and is classified as Level 3.

In cases in which there are no available quoted prices, the fair value is determined using valuation techniques such as the present value method based on future cash flows. Observable inputs, such as swap rates, credit spread and default rates, are made the best of use in the fair value measurement. The fair value measured using significant unobservable inputs is classified as Level 3.

**Loans and bills discounted**

Since the terms of loans on bills, commercial bills discounted and overdrafts are short, the fair value of these items approximates the book value. Therefore, the fair value is deemed to be the book value.

The fair value for loans on deeds is determined by estimating future cash flows for individual transactions and calculating the present value. The discount rate used for commercial businesses, local public organizations and local public corporations is the risk-free rate plus a premium for each in-house credit risk rating factor. For loans to individuals, the interest rate on new loans at the end of the fiscal year under review is used. In estimating future cash flows, since cash flows based on variable interest rates reflect market rates in the short term, their terms are deemed to be the period up to the date of the next interest rate change.

In addition, as to claims against bankrupt borrowers, virtually bankrupt borrowers and likely to become bankrupt borrowers, since the estimated amount of bad debt is calculated based on estimated amounts that could be collected from collateral and guarantees, the fair value approximates the consolidated balance sheet amount as of the consolidated balance sheet date minus the present estimated amount of bad debt. Therefore, the fair value is deemed to be this amount.

In measuring these fair values, since the effect of unobservable inputs is significant, these fair values are classified as Level 3.

**Liabilities**

**Deposits and negotiable certificates of deposit**

For demand deposits, including current deposits and ordinary deposits, the fair value is deemed to be the payment amount required on the consolidated balance sheet date (i.e., book value).

In addition, we calculate the fair values of fixed deposits and others and negotiable certificates of deposit by grouping the deposits based on future cash flows and discounting to present value using the interest rate on new deposits as at March 31, 2023. The fair value is classified as Level 2.

**Borrowed money**

For borrowed money with floating interest rates, the fair value approximates the book value since it follows market interest rates in the short term and the credit standing of the consolidated subsidiaries and subsidiary corporations, etc. has not changed significantly after the transaction. Therefore, the book value serves as fair value.

For borrowed money with fixed interest rates, the fair value is determined based on the present value calculated by discounting the total amount of principal and interest of the borrowed money classified by a certain period, at an interest rate assumed for a new borrowing under the same terms and conditions. For borrowed money whose contract period is short (within a year), the fair value approximates the book value, which is therefore used as fair value.

In measuring these fair values, the fair value is classified as Level 3 if the effect of unobservable inputs is significant. Otherwise, the fair value is classified as Level 2.

**Derivative transactions**

The fair value of derivative transactions is classified as Level 1 for those whose unadjusted quoted prices in active markets are available, such as for bond futures and interest rate futures.

However, as most of the derivative transactions are over-the-counter transactions and there is no publicly released quoted prices, valuation techniques such as the present value method and the Black-Scholes model are used to measure fair value depending on the type of transaction and the period to maturity. The main inputs used in these techniques are interest rates, foreign exchange rates and volatility. In addition, price adjustments are made based on counterparties' credit risk and the Company's own credit risk. In cases in which unobservable inputs are not used or their effect is immaterial, the fair value of derivative transactions is classified as Level 2, such as for plain vanilla interest rate swaps and forward foreign exchange.

**(Note 2) Information about Level 3 fair value of financial instruments measured at fair value**

1) Quantitative information on significant unobservable inputs

	2023			
	Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Japanese corporate bonds				
Private placement bonds	Present value method	Credit risk spread	0.028%-4.688%	0.220%

2) A reconciliation from the beginning balances to the ending balances and recognized gains (losses) included in profit (loss) for the fiscal year

	Millions of Yen							
	2023							
	Beginning balance	Recorded in profit (loss) (*1)	Recorded in other comprehensive income (*2)	Net amount of purchases, sales, issuances and settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance	Recognized gains (losses) on financial assets and financial liabilities held at the fiscal year-end included in profit (loss) for the fiscal year
Trading account securities and securities								
Available-for-sale securities								
Japanese corporate bonds	¥ 103,581	¥ (12)	¥ 131	¥ (4,186)	—	—	¥ 99,515	—
Other	9,267	—	30	(2,387)	—	—	6,911	—

	Thousands of U.S. Dollars							
	2023							
	Beginning balance	Recorded in profit (loss) (*1)	Recorded in other comprehensive income (*2)	Net amount of purchases, sales, issuances and settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance	Recognized gains (losses) on financial assets and financial liabilities held at the fiscal year-end included in profit (loss) for the fiscal year
Trading account securities and securities								
Available-for-sale securities								
Japanese corporate bonds	\$ 775,713	\$ (89)	\$ 981	\$ (31,348)	—	—	\$ 745,263	—
Other	69,400	—	224	(17,876)	—	—	51,756	—

(\*1) Included in "Other operating expenses" in the consolidated statements of income.

(\*2) Included in "Net unrealized gains (losses) on available-for-sale securities" under "Other comprehensive income" in the consolidated statements of comprehensive income.

3) Description of valuation processes used for fair value measurement

The back division has established policies and procedures for measuring fair value while the middle division verifies whether inputs used in the fair value measurement and fair value as a result of the measurement are in accordance with the said policies and procedures. In addition, the back division determines the classification of levels of the fair value hierarchy based on the result of such verification. In addition, when using quoted prices obtained from third parties, the Group verifies whether the prices are valid using appropriate methods, such as confirming the valuation techniques and inputs used and comparing them with the fair value of similar financial instruments.

4) Description of sensitivity of the fair value measurement to changes in significant unobservable inputs

**Credit risk spread**

A credit risk spread is an estimated value calculated by classification based on in-house rating. A significant increase or decrease in the credit risk spread will lead to a significant increase or decrease in fair value.

**22. Revenue Recognition**

**(1) Disaggregation of revenue from contracts with customers**

Disaggregation of revenue from contracts with customers for the year ended March 31, 2023 was as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Ordinary income (Note 1)	¥ 183,586	\$ 1,374,867
Of which, fee and commissions (Note 2)	20,545	153,860
Deposit-taking and lending business	7,887	59,065
Domestic or Foreign exchange business	4,803	35,969
Security-related business	1,850	13,854
Agency business	2,731	20,452
Custody and safe deposit business	147	1,100
Guarantee business	439	3,287
Other business	2,685	20,107
Of which, trust fees	0	0
Ordinary income from contracts with customers	¥ 20,097	\$ 150,505
Ordinary income other than the above (Note 1)	163,488	1,224,354
Total ordinary income (Note 1)	¥ 183,586	\$ 1,374,867

Notes: 1. Includes revenue based on "Accounting Standard for Financial Instruments" (ASBJ Statement No.10) and "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13).

2. Includes revenue based on "Accounting Standard for Financial Instruments" (ASBJ Statement No.10).

**(2) Balances of receivables and contract liabilities**

Disaggregation of receivables from contracts with customers and contract liabilities as of March 31, 2023 were as follows:

	2023	
	Millions of Yen	Thousands of U.S. Dollars
Receivables from contracts with customers included in other assets	¥ 911	\$ 6,822
Contract liabilities included in other liabilities	9	67

**23. Segment Information**

**(1) Description of reportable segments**

The Group's reportable segments are components of the Group for which separate information is available and evaluated regularly by the Board of Directors in deciding how to allocate management resources and evaluating operating segment performance. Each operating segment is controlled by each consolidated subsidiary since each company provides different services.

Accordingly, the Group consists of operating segments differentiated by the services each company provides, and the reportable segments are mainly "Banking," "Leasing," and "Securities."

The "Banking" segment provides diversified financial services such as deposit-taking and lending. The "Leasing" segment is engaged in leasing services and installment sales of properties and goods. The "Securities" segment provides brokerage services for financial instruments.

**(2) Changes in reportable segments**

Following the establishment of the Company and the reorganization within the Group, the classification of business segments was revised for the fiscal year ended March 31, 2023. As a result, CBS Company, Limited, The Chugin Operation Center Co., Limited, and The Chugin Credit Guarantee Co., Limited, which were previously included in "Other," are now included in the "Banking" segment.

**(3) Methods of measurement for the amounts of ordinary income, profit or loss, assets, liabilities and other items for each reportable segment**

The accounting policies for each reportable segment are consistent to those disclosed in Note 2, "Significant Accounting Policies." Intersegment income is based on arm's length prices.

**(4) Information about ordinary income, profit or loss, assets, liabilities and other items is as follows:**

	Millions of Yen							
	2023							
	Reportable segments						Adjustments	Consolidated financial statements
Banking	Leasing	Securities	Total	Other	Total			
Ordinary income:								
External customers .....	¥ 164,419	¥ 14,019	¥ 2,903	¥ 181,343	¥ 2,242	¥ 183,586	—	¥ 183,586
Intersegment income .....	3,126	3,441	69	6,637	12,526	19,164	¥ (19,164)	—
Total .....	¥ 167,546	¥ 17,461	¥ 2,973	¥ 187,981	¥ 14,769	¥ 202,750	¥ (19,164)	¥ 183,586
Segment profit .....	30,360	3,640	239	34,241	11,970	46,211	(16,618)	29,593
Segment assets .....	9,802,088	45,629	9,581	9,857,299	493,865	10,351,164	(501,485)	9,849,678
Segment liabilities .....	9,314,344	24,561	4,821	9,343,727	5,515	9,349,243	(27,459)	9,321,784
Other items:								
Depreciation .....	2,588	496	7	3,092	5	3,098	78	3,177
Interest income .....	93,465	148	1	93,616	9,149	102,765	(9,608)	93,157
Interest expense .....	28,103	102	1	28,206	0	28,207	(73)	28,134

	Thousands of U.S. Dollars							
	2023							
	Reportable segments						Adjustments	Consolidated financial statements
Banking	Leasing	Securities	Total	Other	Total			
Ordinary income:								
External customers .....	\$ 1,231,326	\$ 104,987	\$ 21,740	\$ 1,358,069	\$ 16,790	\$ 1,374,867	—	\$ 1,374,867
Intersegment income .....	23,410	25,769	516	49,704	93,806	143,518	\$ (143,518)	—
Total .....	\$ 1,254,744	\$ 130,764	\$ 22,264	\$ 1,407,781	\$ 110,604	\$ 1,518,385	\$ (143,518)	\$ 1,374,867
Segment profit .....	227,364	27,259	1,789	256,429	89,642	346,072	(124,451)	221,620
Segment assets .....	73,407,384	341,713	71,751	73,820,856	3,698,532	77,519,388	(3,755,597)	73,763,783
Segment liabilities .....	69,754,691	183,936	36,104	69,974,739	41,301	70,016,048	(205,639)	69,810,409
Other items:								
Depreciation .....	19,381	3,714	52	23,155	37	23,200	584	23,792
Interest income .....	699,955	1,108	7	701,085	68,516	769,602	(71,953)	697,648
Interest expense .....	210,462	763	7	211,233	0	211,240	(546)	210,694

- Notes: 1. Ordinary income and ordinary profit (segment profit) are presented in place of net sales and operating profit of non-financial industries. Ordinary income and ordinary profit are calculated by deducting non-recurring items from total income or income before income taxes and non-controlling interests.
2. "Other" represents business segments that are not included in the reportable segments and includes the credit card business and investment management and advisory services in accordance with the Financial Instruments and Exchange Act, etc.
3. Adjustments mainly comprise elimination of intersegment transactions.
4. Chugin Capital Partners Co., Ltd. (newly established on April 1, 2022), Chugin Human Innovations Co., Ltd. (newly established on May 30, 2022), C Cube Consulting Co., Ltd. (newly established on September 1, 2022) and Chugin Financial Group, Inc. (newly established on October 3, 2022) are included in "Other" as their business is the operation of funds, personnel placement business, consulting services, and management, respectively.

Related Information:  
Information about services

	Millions of Yen				
	2023				
	Lending	Securities investment	Services	Other	Total
Ordinary income from external customers .....	¥ 60,325	¥ 73,858	¥ 20,545	¥ 28,855	¥ 183,586

	Millions of U.S. Dollars				
	2023				
	Lending	Securities investment	Services	Other	Total
Ordinary income from external customers .....	\$ 451,771	\$ 553,119	\$ 153,860	\$ 216,093	\$ 1,374,867

Note: Ordinary income is presented in place of net sales of non-financial industries.

Information about losses on impairment of fixed assets by reportable segments

	Millions of Yen				
	2023				
	Reportable segments				Total
Banking	Leasing	Securities	Total	Other	
Losses on impairment of fixed assets .....	¥ 55	¥ —	¥ —	¥ 55	¥ —

	Millions of U.S. Dollars				
	2023				
	Reportable segments				Total
Banking	Leasing	Securities	Total	Other	
Losses on impairment of fixed assets .....	\$ 411	\$ —	\$ —	\$ 411	\$ —



## 24. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve was included in retained earnings in the accompanying consolidated balance sheets.

The Japanese Banking Law provides that an amount equivalent to at least 20% of cash dividends and other cash appropriations of retained earnings must

### (a) Number of outstanding shares and treasury stock

For the year ended March 31, 2023

(Thousands of shares)					
Type of shares	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year	Remarks
Issued stock:					
Common stock .....	195,272	—	10,500	184,771	Note 1
Treasury stock:					
Common stock .....	9,520	2,071	10,521	1,071	Note 2

Notes: 1. The decrease in issued stock of 10,500 thousand shares was due to the cancellation pursuant to the resolution made at the Board of Directors' meeting.

2. The increase in treasury stock of 2,071 thousand shares was due to the public bidding of 2,071 thousand shares pursuant to the resolution made at the Board of Directors' meeting, and due to purchases of 0 thousand shares of less than one unit.

In addition, the decrease in treasury stock of 10,521 thousand shares was due to the cancellation of 10,500 thousand shares pursuant to the resolution made at the Board of Directors' meeting, the exercise of subscription rights to shares of 20 thousand shares, and due to the sale of 0 thousand shares of less than one unit.

### (b) Dividends paid to the shareholders during the year:

For the year ended March 31, 2023

The Company is a holding company established on October 3, 2022, through a sole share transfer. Accordingly, dividends paid represent the amounts of the wholly owned subsidiary pursuant to a resolution of the general meeting of shareholders or the Board of Directors' meeting.

Date of resolution	Resolution by	Type of shares	Aggregate amount	Amount per share	Date of record	Effective date
Jun. 24, 2022	General meeting of shareholders	Common stock of The Chugoku Bank, Limited	¥3,064 million (\$22,946 thousand)	¥16.50 (\$0.123)	Mar. 31, 2022	Jun. 27, 2022
Nov. 11, 2022	Board of Directors	Common stock of The Chugoku Bank, Limited	¥2,586 million (\$19,366 thousand)	¥14.00 (\$0.104)	Sep. 30, 2022	Dec. 6, 2022

Dividends were applicable to the year ended March 31, 2023 but were not recorded in the accompanying consolidated financial statements since the effective date is subsequent to the current fiscal year:

Date of resolution	Resolution by	Type of shares	Aggregate amount	Amount per share	Date of record	Effective date
Jun. 23, 2023	General meeting of shareholders	Common stock	¥2,939 million (\$22,010 thousand)	¥16.00 (\$0.119)	Mar. 31, 2023	Jun. 26, 2023

The above cash dividends are distributed from retained earnings.

be appropriated to a legal reserve until the total amount of legal earnings reserve and additional paid-in capital equals the amount of the Company's stated capital.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or be capitalized. These appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The movement of outstanding shares and cash dividends during the year ended March 31, 2023 was as follows:

## 25. Cash and Cash Equivalents

The reconciliation between "cash and cash equivalents" in the consolidated statements of cash flows and "cash and due from banks" in the consolidated balance sheets was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2023	
Cash and due from banks.....	¥1,510,394	\$11,311,270
Due from banks, excluding the Bank of Japan.....	(4,033)	(30,202)
Cash and cash equivalents .....	¥1,506,361	\$11,281,067

### (2) Stock options outstanding as of March 31, 2023 were as follows:

Stock Options	Persons granted	Number of options granted (Note 3)	Date of grant	Exercise period
Chugin Financial Group, Inc. 1st Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	3,800	Jul. 31, 2009 (Note 4)	From Oct. 3, 2022 to Jul. 31, 2039
Chugin Financial Group, Inc. 2nd Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	4,700	Aug. 2, 2010 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2040
Chugin Financial Group, Inc. 3rd Subscription Rights to Shares (Note 1)	14 directors of The Chugoku Bank, Limited (Note 2)	7,600	Aug. 1, 2011 (Note 4)	From Oct. 3, 2022 to Aug. 1, 2041
Chugin Financial Group, Inc. 4th Subscription Rights to Shares (Note 1)	14 directors of The Chugoku Bank, Limited (Note 2)	7,400	Aug. 3, 2012 (Note 4)	From Oct. 3, 2022 to Aug. 3, 2042
Chugin Financial Group, Inc. 5th Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	10,300	Aug. 2, 2013 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2043
Chugin Financial Group, Inc. 6th Subscription Rights to Shares (Note 1)	15 directors of The Chugoku Bank, Limited (Note 2)	10,600	Aug. 4, 2014 (Note 4)	From Oct. 3, 2022 to Aug. 4, 2044
Chugin Financial Group, Inc. 7th Subscription Rights to Shares (Note 1)	12 directors of The Chugoku Bank, Limited (Note 2)	8,200	Jul. 30, 2015 (Note 4)	From Oct. 3, 2022 to Jul. 30, 2045
Chugin Financial Group, Inc. 8th Subscription Rights to Shares (Note 1)	12 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	13,500	Aug. 2, 2016 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2046
Chugin Financial Group, Inc. 9th Subscription Rights to Shares (Note 1)	9 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	17,400	Aug. 2, 2017 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2047
Chugin Financial Group, Inc. 10th Subscription Rights to Shares (Note 1)	9 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	21,800	Aug. 3, 2018 (Note 4)	From Oct. 3, 2022 to Aug. 3, 2048
Chugin Financial Group, Inc. 11th Subscription Rights to Shares (Note 1)	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	45,300	Aug. 2, 2019 (Note 4)	From Oct. 3, 2022 to Aug. 2, 2049
Chugin Financial Group, Inc. 12th Subscription Rights to Shares (Note 1)	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	48,000	Jul. 30, 2020 (Note 4)	From Oct. 3, 2022 to Jul. 30, 2050
Chugin Financial Group, Inc. 13th Subscription Rights to Shares (Note 1)	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members) (Note 2)	54,000	Jul. 29, 2021 (Note 4)	From Oct. 3, 2022 to Jul. 29, 2051
Chugin Financial Group, Inc. 14th Subscription Rights to Shares	8 directors of The Chugoku Bank, Limited (excluding outside directors and directors serving as audit and supervisory committee members)	50,900	Feb. 2, 2023	From Feb. 3, 2023 to Feb. 2, 2053

Vesting conditions and applicable service periods have not been determined.

Notes: 1. Following the establishment of the Company through a sole share transfer of The Chugoku Bank, Limited, subscription rights to shares of the Company were delivered to the holders of the subscription rights to shares issued by The Chugoku Bank, Limited.

2. Persons granted represent the classification and number of persons granted on the original date of grant at The Chugoku Bank, Limited.

3. Number of options is converted to number of shares.

4. The date of grant represents the original date of grant at The Chugoku Bank, Limited.

## 26. Stock Options

### (1) Line item where stock option expense is presented and the amount

	Millions of Yen	Thousands of U.S. Dollars
	2023	
General and administrative expenses .....	¥ 39	\$ 292

The following table describes changes in the number of stock options that existed during the year ended March 31, 2023. Number of stock options is converted to number of shares.

	Number of shares							
	Chugin Financial Group, Inc. 1st Subscription Rights to Shares	Chugin Financial Group, Inc. 2nd Subscription Rights to Shares	Chugin Financial Group, Inc. 3rd Subscription Rights to Shares	Chugin Financial Group, Inc. 4th Subscription Rights to Shares	Chugin Financial Group, Inc. 5th Subscription Rights to Shares	Chugin Financial Group, Inc. 6th Subscription Rights to Shares	Chugin Financial Group, Inc. 7th Subscription Rights to Shares	Chugin Financial Group, Inc. 8th Subscription Rights to Shares
Non-vested:								
April 1, 2022 – Outstanding .....								
Granted .....	3,800	4,700	7,600	7,400	10,300	10,600	8,200	13,500
Forfeited .....	—	—	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	3,800	4,700	7,600	7,400	10,300	10,600	8,200	13,500
Vested:								
April 1, 2022 – Outstanding .....	—	—	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—	—	—
Exercised .....	—	—	—	—	—	—	—	—
Forfeited .....	—	—	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	—	—	—	—	—	—	—	—

	Number of shares					
	Chugin Financial Group, Inc. 9th Subscription Rights to Shares	Chugin Financial Group, Inc. 10th Subscription Rights to Shares	Chugin Financial Group, Inc. 11th Subscription Rights to Shares	Chugin Financial Group, Inc. 12th Subscription Rights to Shares	Chugin Financial Group, Inc. 13th Subscription Rights to Shares	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Non-vested:						
April 1, 2022 – Outstanding .....						
Granted .....	17,400	21,800	45,300	48,000	54,000	50,900
Forfeited .....	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	17,400	21,800	45,300	48,000	54,000	50,900
Vested:						
April 1, 2022 – Outstanding .....	—	—	—	—	—	—
Vested .....	—	—	—	—	—	—
Exercised .....	—	—	—	—	—	—
Forfeited .....	—	—	—	—	—	—
March 31, 2023 – Outstanding .....	—	—	—	—	—	—

Price information for 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th and 14th subscription rights to shares is as follows:

	Yen							
	Chugin Financial Group, Inc. 1st Subscription Rights to Shares	Chugin Financial Group, Inc. 2nd Subscription Rights to Shares	Chugin Financial Group, Inc. 3rd Subscription Rights to Shares	Chugin Financial Group, Inc. 4th Subscription Rights to Shares	Chugin Financial Group, Inc. 5th Subscription Rights to Shares	Chugin Financial Group, Inc. 6th Subscription Rights to Shares	Chugin Financial Group, Inc. 7th Subscription Rights to Shares	Chugin Financial Group, Inc. 8th Subscription Rights to Shares
Exercise price .....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise .....	—	—	—	—	—	—	—	—
Fair appraisal price at date of grant .....	1,197	935	917	926	1,281	1,483	1,815	1,022

	Yen					
	Chugin Financial Group, Inc. 9th Subscription Rights to Shares	Chugin Financial Group, Inc. 10th Subscription Rights to Shares	Chugin Financial Group, Inc. 11th Subscription Rights to Shares	Chugin Financial Group, Inc. 12th Subscription Rights to Shares	Chugin Financial Group, Inc. 13th Subscription Rights to Shares	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Exercise price .....	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average share price at time of exercise .....	—	—	—	—	—	—
Fair appraisal price at date of grant .....	1,508	1,099	753	800	728	777

	U.S. Dollars							
	Chugin Financial Group, Inc. 1st Subscription Rights to Shares	Chugin Financial Group, Inc. 2nd Subscription Rights to Shares	Chugin Financial Group, Inc. 3rd Subscription Rights to Shares	Chugin Financial Group, Inc. 4th Subscription Rights to Shares	Chugin Financial Group, Inc. 5th Subscription Rights to Shares	Chugin Financial Group, Inc. 6th Subscription Rights to Shares	Chugin Financial Group, Inc. 7th Subscription Rights to Shares	Chugin Financial Group, Inc. 8th Subscription Rights to Shares
Exercise price .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average share price at time of exercise .....	—	—	—	—	—	—	—	—
Fair appraisal price at date of grant .....	8.96	7.00	6.86	6.93	9.59	11.10	13.59	7.65

	U.S. Dollars					
	Chugin Financial Group, Inc. 9th Subscription Rights to Shares	Chugin Financial Group, Inc. 10th Subscription Rights to Shares	Chugin Financial Group, Inc. 11th Subscription Rights to Shares	Chugin Financial Group, Inc. 12th Subscription Rights to Shares	Chugin Financial Group, Inc. 13th Subscription Rights to Shares	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Exercise price .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Average share price at time of exercise .....	—	—	—	—	—	—
Fair appraisal price at date of grant .....	11.29	8.23	5.63	5.99	5.45	5.81

### (3) Method for estimating the fair value of stock options

The Black-Scholes option pricing model was used to determine fair value.

The assumptions and methods used to estimate the fair value of Chugin Financial Group, Inc. 14th subscription rights to shares were as follows:

	Chugin Financial Group, Inc. 14th Subscription Rights to Shares
Volatility of stock prices (Note 1)	27.815%
Estimated remaining outstanding period (Note 2)	5 years and 11 months
Estimated dividend (Note 3)	¥28.00 per share (\$0.209 per share)
Risk-free interest rate (Note 4)	0.279%

Notes: 1. The volatility of stock prices was computed based on the actual stock prices from March 2017 to February 2023, corresponding to the estimated remaining outstanding period.

2. The remaining outstanding period was estimated based on historical data of The Chugoku Bank, Limited.

3. The estimated dividend was based on actual dividends for the year ended March 31, 2023.

4. The risk-free interest rate is equal to the yield on Japanese government bonds corresponding to the estimated remaining outstanding period.

### (4) Method for estimating the number of stock options

The Company adopted a method to reflect only the actual number of forfeited stock options since it is difficult to reasonably estimate the number to be forfeited in the future.

## 27. Business Combinations

### Transactions under common control, etc.

#### 1. Outline of the transaction

- (1) Name and business of the combined company  
The wholly owned subsidiary resulting from the share transfer: The Chugoku Bank, Limited (Banking business)
- (2) Date of the business combination  
October 3, 2022
- (3) Legal form of the business combination  
Establishment of a holding company through a sole share transfer
- (4) Name of the company after the business combination  
The sole parent company established in the share transfer: Chugin Financial Group, Inc.
- (5) Other matters related to the outline of the transaction  
The Company was established for the purpose of contributing to the sustainable development of local communities and enhancing the corporate value of the entire Chugin Group by evolving into a comprehensive service provider with a focus on finance.  
The Company acquired all the shares of The Chugin Lease Company, Limited, Chugin Securities Co., Ltd., The Chugin Card Company, Limited, Chugin Asset Management Company, Limited, Chugin Capital Partners, Limited, Chugin Human Innovations Co., Ltd., and C Cube Consulting Co., Ltd., which are held by The Chugoku Bank, Limited, a wholly owned subsidiary of the Company, and SETONOWA Co., Ltd., a non-consolidated subsidiary of the Company, by the method of receiving distribution-in-kind from The Chugoku Bank, Limited on October 3, 2022.

#### 2. Outline of accounting treatments of the share transfer

The share transfer was accounted for as a common control transaction in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).



# Independent auditor's report

To the Board of Directors of Chugin Financial Group, Inc.:

## Opinion

We have audited the accompanying consolidated financial statements of Chugin Financial Group, Inc. and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2023, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In performing the audit of the consolidated financial statements for the current fiscal year, we communicated with the audit and supervisory committee regarding our significant judgments related to the areas where a significant risk or a risk of material misstatement, determined through our understanding of the entity and its environment, was assessed to be high and the areas of consolidated financial statements with significant management judgments, as well as the impact of significant events or transactions for the current fiscal year on our audit, and paid particular attention to the following items:

	Item	Significant risk (*1)	Significant management judgment (*2)	KAM for the previous fiscal year (*3)
A	Appropriateness of the classification of borrowers who are small and medium-size	◎	Applicable	Applicable

## 28. Asset Retirement Obligations

The consolidated subsidiaries that engage in the banking business have future obligations pertaining to the restitution of the facilities at the data center in Haga. However, the period of use of the lease assets related to the obligations cannot be determined because no termination, transfer, etc., has been planned. Therefore, the consolidated subsidiaries that engage in the banking business cannot reasonably estimate the asset retirement obligations and no asset retirement obligation has been recorded.

## 29. Subsequent Events

### Establishment of a subsidiary

The Company passed a resolution to establish a wholly owned subsidiary of Chugin Capital Partners Co., Ltd., a subsidiary of the Company, at the Board of Directors' meeting held on December 23, 2022, and the subsidiary was established on April 3, 2023.

#### (1) Objectives of the establishment

While expanding the Group's business, the Group established the subsidiary to proactively find solutions to management issues of customers and support their core business with the realization of Sustainability Transformation (SX) through the promotion of local decarbonization such as with the solar PPA business.

#### (2) Overview of the subsidiary

- 1) Name: Chugin Energy Co., Ltd.
- 2) Location of headquarters: 1-15-20 Marunouchi, Kita-ku, Okayama-city (9th floor in the Chugin Head Office Building)
- 3) Business description: Renewable energy generation business centered on the solar PPA business  
Environmental energy business utilizing storage batteries, EVs, etc.  
Investment and financing business related to the above, de-carbonization consulting and carbon offsetting business
- 4) Date of establishment: April 3, 2023
- 5) Stated capital: ¥100 million (\$748 thousand)
- 6) Shareholders: Chugin Capital Partners Co., Ltd.  
(a wholly owned subsidiary of the Company)

### Purchases of treasury stock

On May 12, 2023, the Board of Directors of the Company passed a resolution to purchase up to 2,400 thousand shares of the Company's common stock from the market at a price not exceeding ¥2,000 million (\$14,977 thousand) during the purchase period from July 24, 2023 to November 10, 2023. The purpose of this purchase was to return profit to shareholders through improvement in its capital efficiency. In accordance with the resolution, the Company acquired 931 thousand shares for ¥857 million (\$6,418 thousand) by August 31, 2023.

	enterprises at Chugoku Bank, a consolidated subsidiary			
B	Appropriateness of the classification of borrowers who are managed by the headquarters operation (*4) at Chugoku Bank, a consolidated subsidiary	○	Applicable	—
C	Risk of management override of controls	◎	—	—

- \*1 Areas where a significant risk (◎) or a risk of misstatement (○) was assessed to be high
- \*2 Areas of consolidated financial statements with a significant management judgment
- \*3 The key audit matters (hereinafter, "KAM") included in the consolidated financial statements of The Chugoku Bank, Limited (hereinafter, "Chugoku Bank") for the previous fiscal year
- \*4 Management of loans and bills discounted, such as structured finance including marketable loans and loans to non-Japanese entities, by headquarters operation of the bank

The loans and bills discounted to borrowers who are managed by the headquarters operation (hereinafter, "Headquarters Loans") in "B. Appropriateness of the classification of borrowers who are managed by the headquarters operation at Chugoku Bank, a consolidated subsidiary" amounted to ¥798,217 million, representing 14% of the total loans and bills discounted at March 31, 2023. Headquarters Loans include loan facilities, such as loans with underlying loans or other underlying assets, loans combined with specific derivative transactions such as credit linked loans, project finance for specific projects, and object finance for acquisition of specific assets including marine vessels, real estate, and aircraft. Compared to the loans to general corporate customers, these loans have the following characteristics:

- The amount of loan per project is relatively large; and
- The repayment source, in principle, is limited to cash flows generated from the specific projects and assets subject to the finance. There are risk factors of an increasing variety and complexity that affect these cash flows, and accordingly, the risk analysis involves significant management's expert judgment.

Chugoku Bank continually monitors the Headquarters Loans at its primary assessment department, based on the results of the risk analysis taking into account the characteristics described above and available information such as external ratings. At the same time, Chugoku Bank classifies borrowers by taking into account the results of the monitoring, status of repayments, conditions of the related market environment and other factors comprehensively.

We inquired of management and personnel in the primary and secondary assessment departments regarding the impact on the recoverability of the Headquarters Loans of the severe economic environment for the current fiscal year, such as the rapid interest rate hikes and monetary tightening on a global basis, soaring raw material prices due to rising resource and energy prices, the prolonged adverse impacts of COVID-19 infections and the bankruptcy of overseas financial institutions, and inspected the monitoring management materials. As a result, we determined that it was unlikely that a large amount of credit cost would arise if Chugoku Bank made a wrong classification of borrowers due to insufficient identification and management of related risks. Accordingly, we determined that "B. Appropriateness of the classification of borrowers who are managed by the headquarters operation at Chugoku Bank, a consolidated subsidiary" was not a key audit matter in our audit of the consolidated financial statements for the current fiscal year.

As for "C. Risk of management override of controls," we determined that the relative materiality of this matter was low as a result of the audit procedures that we performed. Accordingly, we determined that this matter was not a key audit matter in our audit of the consolidated financial statements for the current fiscal year.

As for "A. Appropriateness of the classification of borrowers who are small and medium-size enterprises at Chugoku Bank, a consolidated subsidiary," we determined that this matter was a key audit matter in our audit of the consolidated financial statements for the current fiscal year for the reasons described below:

Appropriateness of the classification of borrowers who are small and medium-size enterprises at Chugoku Bank, a consolidated subsidiary	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of Chugin Financial Group, Inc. and its consolidated subsidiaries (hereinafter, the "Group"), loans and bills discounted of ¥5,555,795 million were recognized, representing a significant proportion (approximately 56%) of the total assets of ¥9,849,678 million. For those loans and bills discounted, reserve for possible loan losses of ¥54,302 million was recognized. This was mainly recognized for The Chugoku Bank, Limited (hereinafter, "Chugoku Bank"), a consolidated subsidiary engaged in banking businesses.</p> <p>As described in Notes 2, "Significant Accounting Policies (g) Reserve for Possible Loan Losses" and Notes 3, "Significant Accounting Estimates" to the consolidated financial statements, Chugoku Bank classified borrowers based on assessment results utilizing the internal rules on self-assessment of assets, and measured the amount of the reserve for possible loan losses for each borrower category.</p> <p>As a regional financial institution, Chugoku Bank provides comprehensive financial services to contribute to the development of regional society in the Eastern Setouchi region centering on Okayama prefecture. As a characteristic of such a regional financial institution, Chugoku Bank provides loans to a relatively large number of small and medium-size enterprises (hereinafter, "SMEs"). As a result, the balance of those loans amounted to ¥3,008,423 million, representing 54% of the total loans and bills discounted.</p>	<p>The primary procedures we performed to assess the appropriateness of the classification of borrowers who are SMEs at Chugoku Bank included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We assessed the design and operating effectiveness of relevant internal controls over the classification of borrowers in the self-assessment of loan quality.</p> <p>In this assessment, we focused our testing on the following:</p> <ul style="list-style-type: none"> <li>● controls to validate whether the internal rules on self-assessment criteria was set out in compliance with relevant accounting standards;</li> <li>● application controls provided by IT systems over the classification of borrowers on a quantitative basis; and</li> <li>● controls to ensure the effectiveness of the secondary assessment department's verification in the classification of borrowers.</li> </ul> <p><b>(2) Assessment of the appropriateness of the classification of borrowers</b></p> <p>In order to assess the appropriateness of the classification of borrowers who are SMEs, we:</p> <ul style="list-style-type: none"> <li>● evaluated whether the borrowers' information, including financial data as the basis for classifying the borrowers, was sufficient and most recent information by inspecting supporting documents and comparing the information with relevant documents;</li> <li>● inquired of relevant personnel in the secondary assessment department in order to assess the timeliness and appropriateness of judgments regarding qualitative factors, and inspected relevant documents that contributed to the judgments of the actual conditions of the borrowers' business. Particularly for the borrowers</li> </ul>

For a number of SMEs that support the development of the regional society, the Group, as an entire group including Chugoku Bank, provides not only loans but also consulting activities in different life stages. Through these activities, Chugoku Bank is able to identify borrowers' management challenges and technical and sales capabilities.

On the other hand, in classifying borrowers who are SMEs into borrower categories, Chugoku Bank considers the borrower's current financial position, as well as the feasibility of the profit plan prepared by the borrower. However, the plan is prepared based on various assumptions. For the current fiscal year, some borrowers were still in lower performance due to the prolonged adverse impacts of COVID-19 infections, as well as failures to pass the increased material prices caused by further depreciation of the yen and rising resource and energy prices onto their selling prices in a timely manner. The profit plans prepared by these borrowers involve highly uncertain assumptions, such as expected timing when the deteriorated performance would recover from the adverse impacts of COVID-19 infections, future forecasts of exchange rates and other market developments, and projection of effectiveness of business improvement measures incorporated in the profit plans prepared.

We, therefore, determined that our assessment of the appropriateness of the classification of borrowers who are SMEs at the Chugoku Bank was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

who were still in lower performance and whose financial position had deteriorated, we examined their business conditions and future projections, as well as their cash flow conditions; and

for SME borrowers who were still in lower performance due to failures to revise their selling prices in a timely manner despite the significant adverse impacts from the prolonged impacts of COVID-19 infections and rapid changes in exchange rates and other management environment, and whose profit plans served as a key factor for classifying the borrowers, examined the feasibility of those plans in light of the current regional economic conditions, industry trends, historical business performance and information obtained by Chugoku Bank in relation to the borrowers, among others.

## Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

#### Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Kuroki Kenichiro  
Designated Engagement Partner  
Certified Public Accountant

Suzuki Shigehisa  
Designated Engagement Partner  
Certified Public Accountant

Saito Koji  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
September 22, 2023

## Non-consolidated Financial Statements Non-consolidated Balance Sheets

Chugin Financial Group, Inc.  
March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2023	
<b>ASSETS:</b>		
Cash and deposits .....	¥ 6,264	\$ 46,910
Income taxes refund receivable .....	1,802	13,495
Other .....	0	0
Tangible fixed assets .....	8	59
Intangible fixed assets .....	0	0
Investments and other assets .....	474,062	3,550,228
<b>Total assets .....</b>	<b>¥ 482,138</b>	<b>\$ 3,610,709</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable - other .....	¥ 12	\$ 89
Accrued expenses .....	11	82
Income taxes payable .....	19	142
Accrued consumption taxes .....	60	449
Accrued employees' bonuses .....	49	366
Other .....	1	7
<b>Total liabilities .....</b>	<b>¥ 155</b>	<b>\$ 1,160</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock .....	¥ 16,000	\$ 119,823
Capital surplus .....	457,696	3,427,664
Retained earnings .....	9,015	67,512
Less treasury stock, at cost .....	(1,000)	(7,488)
Subscription rights to shares .....	272	2,036
<b>Total net assets .....</b>	<b>481,983</b>	<b>3,609,548</b>
<b>Total liabilities and net assets .....</b>	<b>¥ 482,138</b>	<b>\$ 3,610,709</b>

## Non-consolidated Statements of Income

Chugin Financial Group, Inc.  
For the Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2023	
<b>Income:</b>		
<b>Operating revenue:</b>		
Dividends from subsidiaries and associates .....	¥ 9,000	\$ 67,400
Commissions from subsidiaries and associates .....	833	6,238
<b>Other income:</b>		
Interest income .....	0	0
Miscellaneous income .....	2	14
<b>Total income .....</b>	<b>9,836</b>	<b>73,611</b>
<b>Expenses:</b>		
<b>Operating expenses:</b>		
Selling, general and administrative expenses .....	739	5,534
<b>Other expenses:</b>		
Organization expenses .....	58	434
Other .....	0	0
<b>Total expenses .....</b>	<b>798</b>	<b>5,976</b>
<b>Income before income taxes .....</b>	<b>9,037</b>	<b>67,677</b>
<b>Income taxes:</b>		
Current .....	50	374
Deferred .....	(27)	(202)
	22	164
<b>Net income .....</b>	<b>¥ 9,015</b>	<b>\$ 67,512</b>

## Non-consolidated Statements of Changes in Net Assets

Chugin Financial Group, Inc.  
For the Year Ended March 31, 2023

	Millions of Yen					
	2023					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Subscription rights to shares	Total net assets
Balance at beginning of year.....	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Net income.....			9,015			9,015
Changes by share transfer.....	16,000	457,696				473,696
Purchases of treasury stock.....				(1,000)		(1,000)
Net changes in items other than shareholders' equity .....					272	272
Net changes during the year.....	16,000	457,696	9,015	(1,000)	272	481,983
Balance at end of year.....	¥ 16,000	¥ 457,696	¥ 9,015	¥ (1,000)	¥ 272	¥ 481,983

	Thousands of U.S. Dollars (Note 1)					
	2023					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Subscription rights to shares	Total net assets
Balance at beginning of year.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net income.....			67,512			67,512
Changes by share transfer.....	119,823	3,427,664				3,547,487
Purchases of treasury stock.....				(7,488)		(7,488)
Net changes in items other than shareholders' equity .....					2,036	2,036
Net changes during the year.....	119,823	3,427,664	67,512	(7,488)	2,036	3,609,548
Balance at end of year.....	\$ 119,823	\$ 3,427,664	\$ 67,512	\$ (7,488)	\$ 2,036	\$ 3,609,548

## Disclosure Policy

The Chugin Financial Group proactively undertakes the disclosure of information in order that customers, investors, business partners and other parties can more accurately understand matters concerning the Company as a result of conducting timely and appropriate information disclosure.

This includes disclosing information in a timely manner by producing disclosure pamphlets, business reports, annual reports and financial reports as well as via our website and other mediums.

The Chugin Financial Group will continue to endeavor to disclose information in an appropriate and timely manner.



### Forward-looking Statements

This annual report contains forward-looking statements regarding the future results and performance of Chugin Financial Group. Such forward-looking statements are based on current information and assumptions. Please be advised that actual results could differ materially from those anticipated by the forward-looking statements due to a variety of factors.