



Director and President  
**Sadanori Kato**

**As a regional financial institution striving to provide solutions to social issues that may occur in future, we aim to create even more business opportunities by providing our new services.**

We are deeply grateful to all our stakeholders including the shareholders for their continued support.

While the business environment of regional banks has increased its severity, since early spring of this year the spread of the novel coronavirus disease (COVID-19) has made a great impact on regional economies.

Under these circumstances, we are exerting all possible efforts as an entire organization to advance structural reforms to respond to social changes, as well as further strengthening our contributions to the regional customers whom we have valued since our foundation.

Accordingly, I would like to explain our future growth strategies based on our medium-term management plan.

## Long-term management plan has been formulated based on our corporate principles cultivated over the long history of ours

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The Chugoku Bank (hereinafter, the “Bank”) originates in the establishment of The 86th National Bank in 1878 which later became Daiichi Godo Bank and then merged with Sanyo Bank in 1930 to establish KK Chugoku Bank (which changed its trade name to the Chugoku Bank in 1990). The year 1930 was in the midst of the Showa Depression in Japan. As Magosaburo Ohara, the first president of the Bank, was a prominent figure in economic circles in the Okayama region, we have been told that he had experienced a lot of hardship in bringing forth the build-up of the regional economies.

Also, Hisashi Moriwake, who became the third president of the Bank in 1946 (immediately after the end of the Pacific War), had endeavored in rebuilding the Bank amid the turmoil after the war. In such endeavor, he had, with a vision of “self-driven sound management” and with over 30 years of being president of the Bank, contributed to the development of the Bank and the regional economies. For the Bank, “self-driven sound management” means to “protect with our lives the money entrusted to us by our customers,” in other words, the Bank can provide added value to customers only after building unwavering trust and continuing to grow, and this reflects the strong commitment upon which our management principles are based. This vision is intended that, under any business environment, the Bank will aim to maintain and ensure sound management, seeking no quick gains but maintaining steady growth of its business. Also, our basic principle is to establish trust by maintaining and strengthening a solid business foundation through the enhancement of capital adequacy with thorough cost saving and implementation of a personnel policy that values small numbers with superior talent, which constitutes the source of our business strength. These philosophies have been inherited without any interruption to all members of the Bank in the past through lessons learned by our predecessors since its foundation and through the post-war turmoil period. Still today, these philosophies are engraved in the minds of each and every one of the members of our workforce in performing their duties.

Over 90 years of our history, the Bank has been pursuing contribution to local customers as a financial institution that supports regional economies and people’s livelihood, with the belief in “following a path of co-existence and co-prosperity with our customers.” Our corporate principles of “remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services,” will transcend the ages as unchanging values.

In addition, based on our corporate principles cultivated over many years, we have established “Chugin-no-kokoro (Philosophy of Chugoku Bank)” in 2014 to look ahead to the new age and strengthen our management fundamentals. This philosophy provides the standard and common values to be the basis for members of the workforce of the Chugoku Bank Group in performing their duties for their actions and judgments. By sharing this, we aim to strengthen our organization, and provide our customers with satisfaction and excitement, as well as creating a positive growth cycle of capacity development of our staff members and their job satisfaction.

Moreover, we have formulated our ten-year long-term management plan “Vision 2027: Plan for Creating the Future Together” in 2017 based on our corporate principles and “Chugin-no-kokoro.” With our long-term vision of “Create with Our Community, Customers and Employees a Rich Future that We Can All Share,” we shall overcome any adverse external environment such as population decline and continuing ultra-low interest rates, and steadily move forward to build a sustainable business model.

## During the period of the previous medium-term management plan, “Plan for Creating the Future Together: Stage I ,” we have steadily produced results in the structural reforms

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We formulate medium-term management plans in line with our long-term management plan that covers until year 2027, and strive to steadily carry out and operate the medium-term management plans. The previous medium-term management plan “Stage I” was designed as the period to implement structural reforms. As such, we have endeavored during the three-year period ended March 2020 to achieve these objectives.

To be specific, we have endeavored to eliminate redundant work and pursued efficiency by undertaking a fundamental review of our work system, as well as introducing BPR (Business Process Re-engineering/operational reforms) such as utilizing ICT (Information and Communication Technology) tools. As a result, as for the KPI (Key Performance Indicator) in the plan, most of the performance indicators ranging from the consolidated capital adequacy ratio (Basel III) to each figure for individual and corporate customers have exceeded the target. Net income attributable to owners of parent did not reach the target against the

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Overview of the long-term management plan, “Vision 2027: Plan for Creating the Future Together”

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The previous medium-term management plan, which focused on strengthening hardware aspects (Stage I)

backdrop of the deteriorating external environment and increased credit costs. Since a severe revenue environment is expected to continue, building a new business model toward growth is vital under the new medium-term management plan “Stage II.”

As for the structural reforms made during “Stage I,” strategic investment has been made especially to strengthen hardware, which resulted in the reduction of clerical work, and an increase in the number of sales staff. In fact, 326 members have been secured and engaged in core business such as sales sectors.

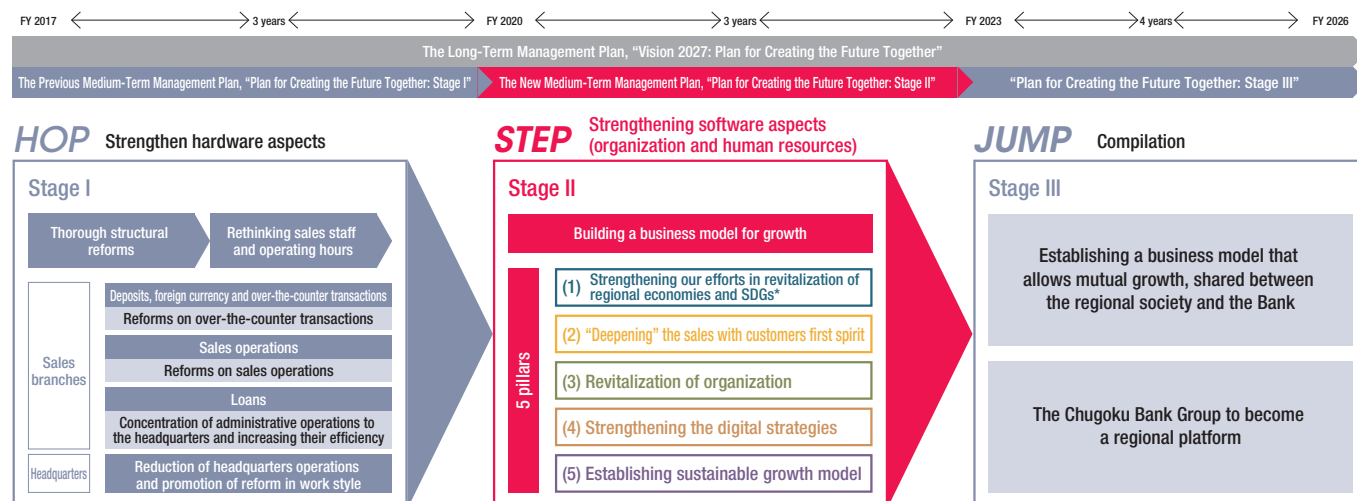
Also, in order to achieve changes in individual ways of thinking and reforms of organizational culture, we are continuing “a dialogue session to discuss the present and the future of the Bank” with our staff members of our sales branches. Specifically, executive officers (including myself) and general managers of each department in the headquarters visit all sales branches one by one to exchange candid opinions with the staff members. This session started in the fiscal year ended March 31, 2017 to instill “Chugin-no-kokoro” and is intended to encourage information sharing and activate communication between executive officers and headquarters, and the sales branches, by implementing the “Chugin-no-kokoro” philosophy. We believe all these efforts of holding face to face exchanges of opinions between the management and the sales branches will help create a sense of unity toward making a bright future. We will reflect these opinions in our future initiatives and accelerate the reforms. These initiatives are the ones based on “Chugin-no-kokoro” that I referred to in the beginning, and are intended to have all the executive and staff members of the Chugoku Bank Group working together toward the common goal to strengthen the power of our organization and to provide satisfaction and excitement to our customers.

With the result of the structural reforms in “Stage I” as a basis, and mobilizing increased number of sales staff from this fiscal year, we are willing to increase contact points with our customers and offer further service.

As for the improvement of quality of our service, we embarked on strengthening partnerships in addition to in-house initiatives. We are one of the 10 regional banks who have formed “TSUBASA Alliance,” the largest of its kind by regional banks in Japan, and under this alliance, the parties are enhancing their collaborative efforts such as sharing of their mission-critical system. Also, we have other forward-looking collaborations under way, such as sharing the operations of the same FinTech platform using ICT or introduction of bankbook applications. Instead of going through mergers or capital tie-ups, we will use this new framework of alliance by regional banks to create a large synergy (multiple effect) such as making possible further cost saving and improving our services. We will seek to achieve the maximum performance out of this alliance, which is something that a single bank cannot achieve without it.



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



\*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.

In our home ground of Chugoku area, we have entered into the “Alliance Agreement Pertaining to Regional Revitalization/Okayama Revitalization Partnership” with TOMATO BANK, LTD., Japan Finance Corporation and Okayama Credit Guarantee Corporation. This Agreement is intended to have parties under the Agreement to coordinate and cooperate among them to strengthen their efforts toward revitalization of the regional economies.

The parties are sharing their know-how and knowledge, and holding consultation meetings for company founders and various seminars to help further regional development.

Also, during “Stage I,” we have strengthened our efforts in open innovation by aligning with industries, educational institutions, administrative bodies, financial institutions and press media in order to support fostering the local industry and start-ups. As concerns over extreme economic concentration in metropolitan areas are growing against the backdrop of the spread of COVID-19, we are of the opinion that now is the time to focus on the potential of rural areas, and we (together with industries, educational institutions, administrative bodies, financial institutions and press media) will apply financial services to contribute to the regional development.

### The new medium-term management plan “Stage II” places the first priority on “strengthening our efforts in revitalization of regional economies and SDGs”

The new medium-term management plan “Stage II” that started in April 2020, incorporates the results of the structural reforms carried out during the preceding medium-term management plan “Stage I.” In this new plan “Stage II,” we will strive to exert even more efforts in “building a business model that allows mutual growth, shared between the regional society and the Bank.” While pondering over what kind of organization we ought to be in future, the Chugoku Bank Group will strive to build its own original business model that allows mutual growth with the regional society.

“Stage II” provides for strategies that consist of “5 Pillars” as the outlines of the plan. By steadily achieving these pillars, we intend to reverse the trend of declining profit during “Stage I,” and to establish sustainable growth.

Our net interest income on securities are decreasing against the backdrop of prolonged negative interest rates. To reverse the trend, we will secure revenues by strengthening the headquarters operation for Structured Finance (SF) and non-Japanese loans, and by building up service and non-financial revenues, all the while carrying out stringent reduction of non-personnel expenses and personnel expenses. Also, reflecting contributions attributable to the growth of each company of our Chugoku Bank Group, we aim to achieve an additional ¥3,100 million of net income attributable to owners of parent for the last fiscal year of “Stage II.”

As for the context of the “5 Pillars,” “strengthening our efforts in revitalization of regional economies and Sustainable Development Goals (SDGs)” is presented as “Strategy I.” The Chugoku Bank Group formulated in March 2020 “the Declaration of

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The new medium-term management plan, which focuses on strengthening software aspects (Stage II)



Chugin Pertaining to SDGs” which incorporates our policy and initiatives in making contributions to achieve SDGs through our business activities, and in achieving sustainable growth with the local society. SDGs were determined by the UN Summit in 2015 and their goals are shared by the entire international communities. As such, we are presenting our initiatives for SDGs on top of our pillars with an eye toward the future, and we will strive to establish a business model that allows mutual growth with regional society. And these are the main initiatives that we intend to accomplish during “Stage II.”

As referred to in the beginning, Magosaburo Ohara, the first president of the Bank, greatly devoted himself to the startup of financial institutions in the strong hope of development of a regional society. His behavior was something literally similar to the spirit of SDGs. During my stay in the U.S. as a student, I was surprised to find in a local newspaper the name of Magosaburo Ohara appearing in the list of individuals who had made contributions to industries along with Henry Ford, a person who had started and built an automobile industry. His behavior of aggressively advancing corporate management with a spirit of high ideal toward vitalization of local communities, had been highly regarded in the U.S. In recent days, we can see the local economy stagnating against the backdrop of low birthrate and aging population. We believe that now is the time to bring out his founding spirit, and that this spirit will certainly go in line with the Bank’s aspiration and idealism during “Stage II.”

While the fundamental mission of a financial institution is to provide sufficient funds to its individual and corporate customers, the institution has another important role of providing various proposals to the diversified customers for their needs, and assisting the customers in bringing about the solutions. “Strategy II,” one of the 5 pillars, posts a mission of “‘deepening’ the sales with customers first spirit.” With the “deepening” process, we are willing to face sincerely various issues held by individual and corporate customers, and to contribute to bringing about the solutions.

In the past, the Bank’s business has been classified by functions, such as by asset management function and loan function. We will renew this practice. Our business will be classified by individual customers and corporate customers, with the spirit of customers first, and with the expectation that we will advance the sophistication of our problem-solving capacity. Also, we believe that our mission is to adapt to diversified and highly sophisticated needs held by our customers. Accordingly, we are endeavoring to develop professionals in each area of individual and corporate customers.

From now on, we will make stronger ties between our sales branches and headquarters and have them work as one in an integrated manner. We will also expand our services, participate in new business domains and maximize our group synergy. By carrying out all these new actions, we will provide new value to our customers. We believe these actions will ultimately increase profitability of our Group.

## We will endeavor to “revitalize our organization” through efforts such as implementation of human resource system reforms

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One of the important things in advancing the initiatives of the new medium-term management plan “Stage II” is the motivation of the staff members who are supposed to provide new value. It is important that every staff member gets actively involved in the making of the future of the region, and that our organization as a whole feels rewarded for being of service to our customers. “Strategy III” under the “5 Pillars” posts a mission of “revitalization of organization.” Under this mission, we will carry out human resource system reforms, and rethink our internal training system to increase job satisfaction, and help realize self-fulfillment and growth of our staff members. Also, adaptation to diversified values in our society (so-called “diversity and inclusion”) is essential to achieve “revitalization of organization.”

What is required of a bank employee in the coming days is to become sensible to the change of time and for each to provide solutions to problems held by customers, making full use of one’s expertise. We believe that every bank employee should own their own expertise and enlarge such expertise. Also, we believe that such employee will be able to play a greater role as a talented person who can address problems held by customers and further to cope with challenges pertaining to SDGs. In order to achieve all this, during “Stage II” we will strive to implement “revitalization of organization” including human resource system reforms with all our might to achieve substantial results.

In addition, “Strategy IV” under the “5 Pillars” posts the mission of “strengthening the digital strategies,” and “Strategy V” posts “establishing sustainable growth model.” All these strategies are based on a change of market conditions. Strangely enough, triggered by the emergence of problems arising out from COVID-19, society is now required to cope with the fact that it has entered into a new stage, literally “a new norm.” Our society is now facing with new social problems one after another, such as how to mitigate extreme economic concentration in metropolitan areas, how to cope with a new work style including remote



Director and President Career of Sadanori Kato

- 1957 Born in Kurashiki City, Okayama Prefecture
- 1981 Entered KK Chugoku Bank (Currently the Chugoku Bank)
- 1988 Assigned to Tokyo Branch Office, International Department  
Engaged in international financial business
- 1993 Graduated master's course at The University of Chicago  
Booth School of Business (Received MBA)
- 2003 Branch Manager of Kamogata Branch
- 2005 Branch Manager of Kounan Branch
- 2008 Manager of Computer System Department
- 2013 Director and Manager of Personnel Department
- 2015 Managing Director
- 2017 Senior Managing Director
- 2019 Director and President (current position)

work and the need to build BCP (Business Continuity Plan) for an emergency. All these issues are related to the SDGs, and the Bank will strive to solve them through the period of "Stage II."

**We aim to carry out sustainable growth of the Chugoku Bank Group, while driving the development of the regional economies.**

Time is rapidly changing. It is essential for us as a regional financial institution to respond swiftly to those changes. We have cultivated since our founding the corporate principles: "remain firm in self-driven sound management to develop in step with regional society by providing unwavering trust and superior comprehensive financial services." Bearing this principle in our mind, we will always answer to the challenges facing our customers, which I believe is the way that will lead us to sustainable growth of the Bank. While from now on driving the development of regional economies from long-term perspectives, I am determined to push forward sustainable growth of the Chugoku Bank Group and shall precisely meet the expectations of our shareholders and investors.

Although the financial institutions are facing a severe management environment, we have the assets and knowledge cultivated by our predecessors over 90 years of our history. We, also, have employees who value customers' viewpoints and faithfully carry out any duties. Moreover, we have a geographical advantage of favorable climate (Okayama as its center) and wide-ranging industrial clusters. By making use of these strength and characteristics of ours in the coming era, we shall move forward to create a business model that allows development hand in hand with our local communities. In closing, I would sincerely ask you all for your continued support.