

We will anticipate changes by backcasting from what we want to become in the future and establish our original business model with SDGs built in

First, I would like to express my heartfelt sympathy to those affected by COVID-19. Further, I extend my deepest gratitude to the healthcare professionals and all others who are working to prevent the spread of the disease.

We are deeply grateful to all our stakeholders including the shareholders for their continued support. While the COVID-19 pandemic is having serious impacts on the local economy, we are exerting all possible efforts as an entire organization to advance structural reforms to respond to social changes and strengthening our contributions to the regional customers. Accordingly, I would like to explain our future growth strategies based on our medium-term management plan, “Plan for Creating the Future Together: Stage II.”

Strengthening our efforts in revitalization of regional economies and for the SDGs amid the COVID-19 pandemic

In the fiscal year ended March 31, 2021, the COVID-19 pandemic made large impacts on the Eastern Setouchi region, the service area of the Chugoku Bank (hereinafter, the “Bank”). Due to measures to prevent the spread of the disease, various industries from restaurants and tourism to transportation have been immensely impacted. Under these circumstances, the Bank’s mission as a regional financial institution is called into question, and we strongly feel the importance of the role we must play for regional customers in balancing both social and economic value.

“Strengthening our efforts in revitalization of regional economies and SDGs” is the first of the 5 pillars of the medium-term management plan, “Plan for Creating the Future Together: Stage II” (hereinafter, “Stage II”) which we have been pursuing since April of last year. We believe that engaging deeply with the regional society on a medium- to long-term basis with focus on SDGs and resolving respective issues will enable us to provide social value, and at the same time, it will become a source from which the Bank can create new economic value.

During the previous fiscal year, we have focused our efforts as an entire organization to instill the perspectives of SDGs among the sales force. With a sudden increase in opportunities to listen to the challenges that regional customers are facing due to the COVID-19 pandemic, we are making significant progress in our initiatives toward building our own original business model under Stage II.

For example, the Bank has been handling SDGs private placement bonds since August 2019. These private placement bonds allow companies to contribute to the local community and organizations related to SDGs. During the previous fiscal year, a total of 97 bonds were issued. Also, in response to the spread of COVID-19, in October 2020, we were the first regional bank in Japan to issue “Corona Bonds,” social bonds aiming to fund the efforts of customers to maintain their employment and to be used for the stable recovery of the local economy. For these Corona Bonds, the Bank received the Regional Finance Award in the 6th (2020) Sustainable Finance Awards hosted by Research Institute for Environmental Finance.

Other initiatives include the launch of Chugin SDGs Support, a service to support customers’ efforts toward the SDGs, which is already being used by



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many customers. Through the use of this service, companies can not only enhance their corporate image, but also gain advantages such as greater opportunity to enter a new supply chain. By pursuing initiatives for SDGs within our service area, activities toward sustainable growth are increasing. Motivation within the Bank is rising as we develop this track record, and going forward, we plan to further enhance our initiatives for SDGs as we move toward the final fiscal year of Stage II.

Streamlining and reforming our operations to increase profitability

Looking back at the initiative in the previous fiscal year, despite the various limitations on our operation due to the COVID-19 pandemic, we were strongly determined not to stop our services as a financial institution at any time. We carried out our BCP (Business Continuity Plan) based mainly on a split operation approach where we split the operations between two or more teams. In addition, we set up our sales force to operate remotely and responded flexibly to phone calls and email inquiries about financing needs from customers.

At the same time, we exerted our efforts as an entire organization to streamline our operations. In particular, aggressive reform of operations through BPR (Business Process Re-engineering) led to cost reductions, which was a contributing factor to the 20% increase in net income year on year. Streamlining of operations not only brought about financial results, but also led to reform in work style of employees. Specifically, in addition to reducing overtime duties, we achieved appropriate placement of personnel and labor-saving as a result. Moreover, as a result of reform in work style, the retention rate of younger employees has improved.

One of the reasons why the Bank was able to transit quickly to split operation amid the COVID-19 pandemic and to provide remote, non-contact financial services while streamlining its business operations through BPR was that it had been focusing on reforming its operational systems from an early stage. We take pride in our conventional approach of listening sincerely to the voices of each division and honing our systems to optimum shape. Such system reform has led us to pursue the reform of the actual operations, which merged with the streamlining initiatives over the past year.



Also, the TSUBASA Alliance, one of the broadest and largest collaborations among the top regional banks in Japan, which we have been actively engaged in since 2015, also contributes significantly to the streamlining and sophistication of our operations. In fact, when I was General Manager of Computer System Department, three banks including us, The Chiba Bank, Ltd., and The Daishi Bank, Ltd. (currently Daishi Hokuetsu Bank, Ltd.) started a joint system development project, which became the original form of the Alliance.

Last year, the member banks jointly funded and established TSUBASA Alliance Co., Ltd., which was followed by the opening of the AML (Anti-Money Laundering) Center in an aim to prevent money laundering and terrorism financing within the company.

Currently, TSUBASA Alliance has expanded to a scale of having ¥78 trillion in total assets and ¥150 billion in net income, growing into a financial network that covers the islands of Japan cross-sectionally and longitudinally, from Hokkaido to Okinawa, connecting the areas facing both the Sea of Japan and the Pacific. Going forward, the Alliance plans to collaborate in a wide range of areas such as FinTech, sharing of operation departments and systems, inheritance-related businesses, international businesses, and effective use of group companies. The Bank also has high expectations of it as a network that can bring about growth opportunities, as well as promote the streamlining of operations of the Bank.

Rediscovering the importance of contributing to regional society

Amid the COVID-19 pandemic, it is needless to say we keep firmly in mind that our mission as a regional financial institution is to provide support to the people of our region. We reaffirm the importance of the value to society of branches operating in each region and strive to respond sincerely to each and every request and challenge, so that our customers also become aware of their value.

As a regional financial institution, the Bank's *raison d'être* is to grow and develop in step with regional society. To this end, we have always believed that we must adhere to our corporate principle of "self-driven sound management" and respond to the changing times with agility. Despite the various challenges we encountered later, such as the burst of the bubble economy and global financial crisis, we have, to date, maintained an unwavering management insusceptible to the ups and downs of the times based on the trust of many customers and sound capital. Building upon such business foundation, we will continue to provide new services that will support the growth of our customers' business, while steadily meeting the funding needs of the region.

Last year, the Bank celebrated its 90th anniversary and defined “strengthening our efforts in revitalization of regional economies and SDGs” as the first pillar of its medium-term management plan. Accordingly, from the perspective of contributing to the regional society, we held extensive discussions internally to determine what could be done amid this COVID-19 pandemic. And based on the strong belief that we mustn’t allow young people to give up their dreams while their social activities are greatly restricted by the pandemic, we were able to hold several events as our 90th anniversary projects with the cooperation of people in the region and with strict measures to prevent infections, including The Chugoku Bank Cup: Okayama Prefecture Baseball League Tournament for the 3rd year students of junior high school and Full Effort Brass Band Clubs Memorial Concert. We wish to continue delivering activities for the people of the region as part of our contribution to society.

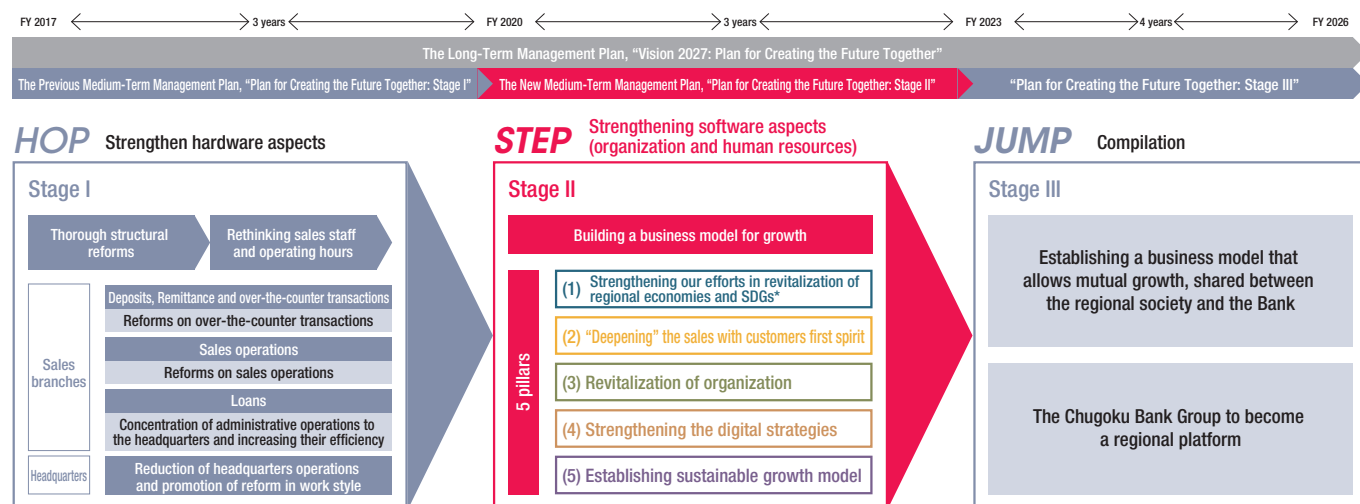
Progress in providing highly specialized services through integrated sales activities

As changes in the times are accelerated in the age of the COVID-19 pandemic today, initiatives with an eye toward the future are becoming increasingly important, and the Bank will steadily execute its 5 pillars of Stage II. In particular, for the first pillar, “strengthening our efforts in revitalization of regional economies and SDGs” and the second pillar, “‘deepening’ the sales with customers first spirit,” we launched the Regional Revitalization & SDGs Project and the New Business Development Project at the headquarters last August and defined the objectives and established a cross-divisional framework at the same time. Also in June this year, in order to develop and enhance both projects and to accelerate the speed in which the measures are executed, we established the Regional Revitalization & SDGs Promotion Department and the New Business Development Center, respectively, and restructured our headquarters organization.

With respect to “‘deepening’ the sales with customers first spirit,” the Bank’s Solution Business, Credit Supervision, and International Departments, among others, are collaborating and working to provide highly specialized services for corporate customers through integrated sales activities. One of the achievements is that the number of contracts won increased by 50% year on year to 75, as we focused our efforts in providing support in business succession. Through such activities, we believe we can continue to protect the business of our customers and also contribute to upholding the regional economy.

Meanwhile, for individual customers, we began discussion in May this year on the establishment of a new joint venture to provide remote finance consulting service in collaboration with the member banks of the TSUBASA Alliance and Nomura Holdings, Inc. The service is a fee-based consultation service that features specialized consultation and advice provided remotely by neutral, dedicated advisors who are not affiliated with any particular financial institution. We will leverage the expertise of the banks and securities firm to assume the building and management of our customers’ assets from a long-term perspective and develop it as a new service.

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.

Aiming to create new businesses outside the box of finance

In creating new businesses for the purpose of “‘deepening’ the sales with customers first spirit,” we launched the Chugin Open Lab in March this year. This is a program for employees to use part of their work hours to work on projects to resolve routine issues or realize new business ideas. We aim to call for initiatives from a broad perspective beyond financial businesses.

We have already received many ideas from within the Bank, and the bottom-up activities by each individual employee are in progress. As the financial industry will continue to see relaxation of regulations, we will create comprehensive services including non-financial services by encouraging the launch of new businesses from within the Bank to pave a growth path from Stage II to Stage III.

In addition, to create new businesses, starting from the fiscal year ended March 31, 2018, the Bank has been hosting the Okayama Innovation Project (OIP), a project to support startups and new business creation in the Okayama and Bingo regions. Furthermore, we have been hosting the Okayama Tech Planter in collaboration with a science and technology venture company since the fiscal year ended March 31, 2019, and also supporting the Kagawa Tech Planter since the fiscal year ended March 31, 2020. We aim to create new industries that utilize the science technologies and local resources of the regions to generate innovation. Through these initiatives, the Bank hopes to serve as a bridge between entrepreneurs and investors as well as support the development of innovative technologies and manufacturing within its service area.

Meanwhile, for our fourth pillar, “strengthening the digital strategies,” we are also accelerating our efforts in an aim to “pursue comprehensive services business to serve every aspect of customers’ lives and businesses.” In February this year, we signed an “agreement on future co-creation toward regional revitalization and the achievement of the SDGs (Okayama Future Co-creation Alliance)” with Okayama University. Through this industry-academia partnership, we will match up customer needs with the technological seeds that are held by the University’s Engineering Department. We will serve as the hub of the wheels and create new services through matching in various areas.

Achieving steady growth in core business and also in fee income areas

As for the quantitative targets in Stage II, we will continue to secure net interest income through our core businesses as a mainstay of revenue. In addition, in establishing a new business model as our growth strategy, we are seeing steady growth in income from the area of consulting, such as through the provision of advice on business succession and asset management, and anticipate further growth through the various initiatives described above.

As for business risks, the Bank conducts comprehensive monitoring and information sharing in ordinary times and also maintains a system to respond accurately to sudden fluctuations in the market that are to be expected. As one of the challenges of the Bank is that the loan-to-deposit ratio is not high enough and is susceptible to the influence of the market, we have been striving to further strengthen our risk management. Also, amid the ongoing COVID-19 pandemic, some customers are at risk of facing funding difficulties. We will provide greater support through our consulting services and business succession assistance.

Accelerating the Stage II initiatives through revitalization of organization

In Stage II for the fiscal year ending March 31, 2024, we consider the third pillar, “revitalization of organization” to be critical in ensuring that each measure is executed soundly. We have been working to this end, but from the perspective of establishing our own original business model, we will be designing a new model, not by considering the revitalization of organization as a mere extension of the past, but by backcasting from what kind of organization we ought to be in the future as well as drastically re-examining the organization from a future-oriented standpoint. The results of “revitalization of organization” cannot be achieved simply in a short period of time. We will take on the challenges of trial and error and begin establishing a new foundation of human resources.

In formulating a new personnel system, we have conducted advance internal research using a questionnaire to identify the awareness of issues among employees, and in April this year, implemented a fully revised personnel system for the first time in approximately 17 years. We are still in the process of reforming our organization. Also, we have transitioned to a new Regional Headquarter System starting in June, which will be a major challenge for us. This system delegates certain authorities with respect to targets, assessments, and personnel to General Managers of each Regional Headquarters, thereby enabling more agile responses that meet the local situation. We will face each individual issue of our local customers with greater sincerity than ever before, and as an entire organization, give power to the regional society battered by the pandemic and strive to revitalize the local communities. Moreover, I also believe that by realizing that they are offering valuable service to customers, each of our employees in the field will find greater satisfaction in their work and become the source of building a stronger organization.



“Human resource system reform” was one of the agendas that I was determined to achieve when I assumed presidency in 2019. I am pleased to take up this project with the cooperation of the entire organization. Although the ratio of female platform officers continues to increase each year, the Bank has only one female director and there is still more room for the Bank to improve its diversity. We will continue to restructure the organization including the promotion of female employees as well as aim to instill the new human resource system. This will become a major driving force for the revitalization of regional societies and creation of new businesses, and the key to bring Stage II to success.

We also recognize that strengthening of human resources and enhancement of corporate governance are important issues that need to be addressed on an ongoing basis. The ratio of outside directors already exceeds the standards defined in the Corporate Governance Code, and the effectiveness of our compliance system has further improved since the establishment of the Nominating and Compensation Committee. Also, with respect to the revitalization of the Board of Directors which has been the focus of investors, the Directors and Audit and Supervisory Committee Members are engaging in active discussion on each agenda item including risk-related matters. Of course, we shall not be content with the current status, and will strive to improve corporate value by continuing to enhance our corporate governance.

When we think of the financial industry five years or ten years from now, there is no doubt that services and businesses will be very different from what they are today. We imagine that our services will be much more focused on consulting business in a broad sense, including consulting for customers, business matching and investment banking, and provision of business expertise to other banks and companies.

In Stage II, we will adapt to these changes and work toward the new growth stage through forward-thinking initiatives. The Bank is working steadily on building its own original business model using the pillars of “strengthening our efforts in revitalization of regional economies and SDGs” and “‘deepening’ the sales with customers first spirit” to tackle the aging society, shrinking population, and various other changes in the external environment and issues of the regional society. We will expedite these initiatives and focus our efforts in leading the Bank toward the goal of Stage II in the fiscal year ending March 31, 2024 in order to meet the expectations of our shareholders and investors. In closing, I would sincerely ask you all for your continued support.