



We will reassess the value long-term perspective as that will help us achieve

We are deeply grateful to all our stakeholders including the investors and shareholders for their continued support. Voices calling for efforts to tackle the revitalization of regional economies and for the promotion of SDGs continue to grow on the back of the COVID-19 pandemic. The Chugoku Bank Group is making concerted efforts toward the formation of a business model geared toward new forms of growth. It will do this by engaging in initiatives designed around finding medium to long-term solutions to societal issues based on its long-term management plan and medium-term management plan. I would therefore like to take this opportunity to talk in more detail about our plans for future initiatives based on our business results for the previous fiscal year.

Director and President
Sadanori Kato

of the Chugoku Bank Group provides from a medium to we move to accelerate the formation of a business model sustainability

Using our response to the newly emerging issues faced by our customers during the COVID-19 pandemic as an opportunity for new forms of business

Let us first address the current business environment. The COVID-19 pandemic has been with us now for roughly two years, and against this backdrop, we have seen the business environment faced by our customers evolve at a rapid pace and its demands become ever more diverse in the process. It is therefore our belief that, as a regional bank, it is more necessary than ever that we build a business model that allows us to function beyond the standard framework of a financial intermediary, and therefore enable us to better address the specific issues faced by our customers. The environment surrounding regional banks is becoming increasingly severe owing to the effects of negative interest rates and other such factors, and yet, by building services that are able to respond to the diversifying issues faced by our corporate and individual customers, we remain firmly committed to pushing for further growth of our business as we enter this new era.

If we look at our corporate customers in particular, we can see that it is management issues that present the most obvious area of concern, with COVID-19 having quite an impact on management structures. We believe it is essential that more businesses and regional governments urgently respond to the challenges of decarbonization and digital transformation (DX)*. The roles that society expects banks to play are changing, with it now expected that banks not just fund projects designed at resolving these issues, but that they also propose highly specialized solutions and other such responses. With this, new opportunities for business formation are presenting themselves.

In order that we may take advantage of these new business trends, we are increasing the scope of our service menu through an expansion of our business axis and an improvement in our corporate value. We are working together with our customers through the making of proposals of comprehensive solutions based on business evaluations to tackle the diverse and complex issues facing their management systems, thereby helping in the push to revitalize regional economies.

*DX: The use of digital technologies to bring about transformative changes to businesses.

A holding company is scheduled to be established in October so that we may respond to the varied issues faced by our customers

In order that we may respond with speed and accuracy to these rapidly changing times, the Bank plans to establish a holding company called “Chugin Financial Group” in October of this year. The establishment of this holding company will maximize group synergy by strengthening integrated Group management based on the growth drivers of “business axis expansion,” “efficient allocation of management resources,” and “advancement of Group governance.” Through this, we hope to respond to the diverse challenges faced by our customers. Ahead of the establishment of the holding company, in April of this year, the Group established “Chugin Capital Partners, Limited” as a 100% wholly owned subsidiary specializing in investment activities. Through this subsidiary, we hope to contribute to the revitalization of regional economies through the proactive support and nurturing of business succession type companies, start-ups, and regional revitalization companies. For example, in the future, we plan to establish a “Hands-on Support Type Business Succession Fund” as part of efforts to provide more involved management support to customers facing management issues. In addition, we plan to proactively offer funding-type support for regional revitalization companies, including support for urban renaissance initiatives that contribute to regional revitalization and renewable energy businesses; a vital area of business in the push toward decarbonization.

Furthermore, in addition to responding to customer demands for funding through the provision of loans and investments, the Bank also established “Chugin Human Innovations Co., Ltd.,” a wholly owned subsidiary, in May of this year with the intention of focusing efforts toward the provision of solutions to human-resource related issues, something we are seeing high demand for from our customers who see it as an important management issue.

In doing this, we hope to offer specialized support in helping resolve customer management issues and in responding to the needs for specialized human resources, something essential for finding solutions to issues, and also to create and grow initiatives aimed at guiding and supporting regional businesses as part of a new profitable business venture for the Bank.

Interview with the Management



In April of this year, we also resolved to establish a wholly owned subsidiary of the Bank that will operate a consulting business. The subsidiary will be a specialized company that will proactively provide consulting services for issues around digital transformation (DX) and sustainability transformation (SX)*, for which there is increasing demand. We plan to staff the company with external consultancy specialists through which the company will provide advanced consultancy services. In addition to this, we will also form a business model that will enable us to provide one-stop solutions, covering everything from support for human resource nurturing, loans, leasing, and equity. This business is scheduled to begin operations in September and will be part of efforts to help find solutions to customer management issues and proactively support their main businesses.

*SX: The pursuit of sustainable management through the seeking of a balance between economic value and ESG (environment, social, corporate governance) matters.

Have customers trust in the earnest ambitions of the Chugoku Bank Group, and expand the range of solutions we offer

The year 2022 serves as the halfway point of our company's ten-year long-term management plan "Vision 2027," which commenced in 2017, and is also the final year of our medium-term management plan "Plan for Creating the Future Together: Stage II." After implementing the thorough structural reforms that comprised Stage I of the medium-term management plan, we moved on to the new challenge of establishing a holding company based on the outcome of our efforts to strengthen our organization and human resources as set forth in Stage II. We are steadily moving forward with the goals set out in the initial plan, but are also committed to finding new initiatives based on our firm resolve to constantly evolve and keep up with the ever-changing circumstances presented by this new era.

Of course, there are some areas among these that we, as a bank, do not have extensive experience in, and therefore we cannot expect that things will always be completely plain sailing from the get-go. However, by taking on new challenges free from the fear of failure, and by steadily building up results through these endeavors, we believe it should be possible to expand the range of solutions we can offer our customers. If we look at support for business succession, for example, the number of consultations proffered for the fiscal year ended March 31, 2022 had broken 1,000 relatives to a figure of 680 consultations for the previous year.

In Stage II of the medium-term management plan, we established 5 pillars around which our main growth strategy will revolve. The first of these pillars is "strengthening our efforts in revitalization of regional economies and SDGs." The second is "'deepening' the sales with customers first spirit." It is our belief that by actually backing up these initiatives with action rather than just words, more and more customers will come to see that Chugoku Bank is serious about achieving its goals.

For example, as part of our efforts toward the revitalization of regional economies, this year we once again offered our support to the 6th OKAYAMA INNOVATION SCHOOL with the aim of supporting the creation of new businesses. In fact, we are already seeing these efforts pay off, with some of the attending students actually going on to create or develop their own new businesses.

We have also launched another new initiative in the form of a course targeted at junior and senior high school students, and in terms of the long view, we are hoping to accelerate our support for entrepreneurs; something seen as indispensable for the revitalization of regional economies.

The Chugoku Bank Group is also developing an in-house venture system called “Chugin Open Lab” aimed at creating new business and finding resolutions to regional issues. This is a program for employees to use part of their work hours to work on projects to resolve issues they come across in their daily lives or realize new business ideas. We host a regular results briefing as part of this program, at which a range of interesting ideas is often put forward. Our policy is to promote those initiatives geared toward full-scale commercialization of plans that are particularly innovative or those with the potential for development.

The Open Lab initiative is also becoming increasingly more prominent among Chugoku Bank Group companies. We believe that such challenges within the Group are indispensable for achieving the revitalization of regional economies.

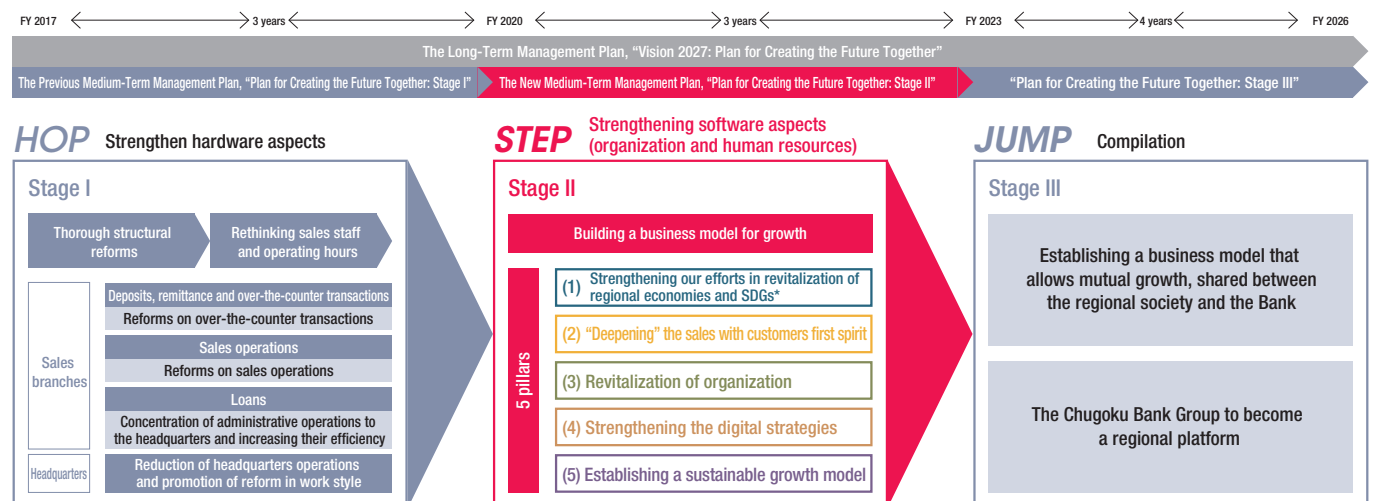
Leading the way in the fight against climate change presents a major business opportunity for our company

In terms of regional banks, it seems like the focus is almost entirely on the increasing uncertainty in the business environment as regional economies continue to suffer. However, it is for this very reason that I believe it is our mission as a regional bank to raise up the fortunes of regional economies. When our bank was established just over 90 years ago, the management team was deeply passionate about using the bank to help support the creation of new industries and to revitalize regional economies. To this day, we still find great satisfaction in tackling the issues facing local regions as part of efforts to help revitalize their economies. We feel that devoting ourselves to such regional revitalization efforts will also contribute to the Chugoku Bank Group’s sustainable growth.

Okayama Prefecture has one of the highest proportions of manufacturing industries in all of Japan, including being home to the Mizushima Industrial Complex. For this reason alone, the region can be said to be facing some serious challenges when it comes to the move toward decarbonization and carbon neutrality. The region must work as a whole, including in the financing of industry-government-academia led projects, if it is to find solutions to these challenges. We believe that finding a way to allow Okayama Prefecture to succeed in meeting these difficult challenges will help us build a future business model geared toward the realization of carbon neutrality, and thereby help us achieve sustainability. Our aim in tackling these issues is to look at them from a medium to long-term perspective, and we will do this through the implementation of our medium-term and long-term management plans.

In May of last year, the Bank announced its support for the Task Force on Climate-related Financial Disclosures (TCFD). As well as supporting our region and customers in their move toward decarbonization, we also see our responsibility as a regional bank to be proactively involved in tackling climate change as both an important part of the Chugoku Bank Group’s future growth strategy and a major business opportunity.

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.

Interview with the Management

The Bank has also set itself an investment and loan target of roughly ¥1.5 trillion to be achieved by 2030 as part of the “Sustainable Finance” program targeted at customers working toward various SDGs. In the future, it is expected that an increase in financial support will be accompanied by an increase in demand.

Introduction of a Regional Headquarter System as a means toward “deepening” sales with a customer first spirit

The third of the 5 pillars of Stage II is “revitalization of organization.” By introducing the new Regional Headquarter System and delegating certain authorities to these new regional headquarters, we have been successful in reforming our systems in such a way that enables sales operations to be developed according to the characteristics of the respective regions. In the past, the Bank would centrally decide upon measures at the Bank’s headquarters and then assign sales targets to each branch. However, this system has since undergone significant reform, with regional headquarters now able to set their own sales targets and decide upon which issues they would like to tackle.

There is a view that, in the short term, the results may not be so immediately apparent in terms of business performance when compared to having measures or uniform targets issued directly from headquarters; however, we believe that, over the medium to long term, by ensuring sales operations are focused around responding to regional and customer issues, it should be possible for us to make sales proposals centered around the customer first spirit, and thereby allow us to build an original business model that will grow and develop alongside these same regional societies.

During the transitional period while we reform our sales operations system, we will provide each region with a basic sales model that will help ensure the regional offices do not become lost with all the changes being made. We will then focus our efforts on building a business model aligned with the circumstances and characteristics of the respective regions. We are also aiming to hold monthly regional headquarter meetings where management teams and the heads of the various regional headquarters can come together and share their thoughts on the future direction of the Bank. In doing this, we hope to achieve a situation whereby the Bank can develop and grow together with these various regional societies while also delivering profitable results.

Back when I used to work in a sales branch, I sometimes had to really struggle to meet the targets issued by the Bank headquarters. On those occasions when I was struggling to meet these targets, I sometimes felt like I had no choice but to ask some of our more familiar customers for help. And, the thing that kept going through my mind in doing so was, “This is not something that a financial professional does.”

As we move forward into this new era, it is vital that we not only continue to develop products, services, and solutions that tackle the issues being faced by our customers, but also that we form greater connections between ourselves and the customers who actually are facing those very issues.

If we are to connect with these customers, we believe that it is essential that we reform our old legwork-heavy ways of doing things and start better utilizing IT technology.

In order for the Regional Headquarter System to take root and for us to switch to a new model for growth, it is vital that we also reform the mindset of our sales branches. To that end, directors visit each of the sales branches in turn whereby they will carefully convey the current thinking of the headquarters regarding new measures to be taken. Through this, we are working to improve engagement by encouraging honest exchanges of opinions with the staff working at these sales branches. We are currently in the process of expanding this initiative to other Group companies, where our focus is on sharing with these companies our values on the importance of sales from the perspective of the revitalization of regional economies and SDGs and of “deepening” sales with a customer first spirit.

With regard to the revitalization of our organization, our reforms are not limited solely to Chugoku Bank, but also are being aimed at the leading human resources in our Group companies. In the past, the usual plan of action was to employ experienced bank directors; however, we have since undergone a radical transformation in our thinking on this matter, and, since last year, have decided to appoint current executive officers of the Bank as presidents of our securities and leasing businesses. We also hope that the transferring of employees between the Bank and its Group companies will result in a greater penetration of our medium-term management plan and sales strategies, which should then help bring about a revitalization of our organization and subsequently lead to a further improvement in the Chugoku Bank Group’s business performance. In fact, the so-called bank-securities cooperation between banks and securities firms is expected to not only create synergy between the two entities, but also, as part of the shift away from savings to investments, resulting in an evolution of performance aligned with demands from regional customers for asset formation.

Accelerating the formation of a business model focused on sustainability

As a regional bank whose mission is to focus on regional sustainability, we believe that it is going to become increasingly important in this coming era that we form strong links with regional societies. As part of these more frank exchanges of opinion with our sales branches, we are seeing increased discussion over social issues such as what we can do for regional shopping districts and schools. We really feel that, by becoming more proactively involved in areas that are not directly connected to our primary business, we are seeing all of our employees act in a way that is conscious of how the Bank can contribute to the resolution of social issues. Recently, after a number of brass band clubs from high schools in Okayama prefecture had lost venues to perform during COVID-19, we worked in collaboration with local parties from the



prefecture to hold a concert where these bands could perform. Such initiatives as these do not directly contribute to the Bank's income. However, we feel that our sincere efforts to help regional societies will encourage a range of people to look more proactively to tackle the issues facing their local area. On the business side of things, as the interest of our customers in SDGs increases, so too does customer interest in the handling of "SDGs private placement bonds" and "Chugin SDGs Support." We believe that engaging in actions such as those mentioned here will lead to a revitalization of the entire region, including of our Bank.

Our aim is to be a trusted financial group that functions as a regional platform

And, thanks to these actions, we are seeing positive performance in terms of business results, with increases in income and profit for the fiscal year ended March 31, 2022. However, there is still work to be done when it comes to resolving the issues directly faced by the Bank, including those related to the 5 pillars of the medium-term management plan. Through our efforts and initiatives thus far, while we have seen steady results in terms of making reductions to expenses and improving productivity, there is no denying that income is, on occasion, subject to external environmental factors. The Bank's ability to secure proceeds from fee income and consulting is dependent on the types of challenges that lie ahead. Also, although net interest income has not decreased, this has been propped up by external factors such as trends in overseas interest rates. The increase in housing loans too has been impacted by external factors such as favorable winds from low interest rates and government subsidies. Going forward, we will continue to implement the main growth strategies listed in Stage II of our medium-term management plan toward the production of results that will lead to Stage III, Compilation. And there will be no change regarding the continued importance of financial intermediation as the Bank's primary mission. However, for us, financial support through loans is not the end of the road. We believe that, from the perspective of the revitalization of regional economies, it is vital that our sales operations be cognizant of providing the necessary management resources to our customers in such a way that they can grow sustainably. The issues that may need addressing in terms of sales operations tend to differ by region. For example, the customer may be slow to decarbonize their business, or perhaps they are looking for human resources to enable a business succession. Therefore, sales with a customer first spirit are more important than ever. We must develop a unique business model that grows together with regional societies by helping customers resolve their issues, whether that customer is a corporate entity or an individual.

From here on out, the entire Group will focus on the building of 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. Thank you very much.