

FY2019 Earnings Results Briefing

June 1, 2020



CHUGOKU BANK

Summary of FY2019 Earnings Results and Numerical Plan for FY2020

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Summary of FY2019 Earnings Results
and
Numerical Plan for FY2020

The ongoing novel coronavirus pandemic has had devastating effects on domestic and regional economies and we are also likely to suffer serious impact on the future financial results of the Chugoku Bank Group.

At present, all possible impacts are not taken into consideration in the numerical plan for FY2020 due to difficulties of reasonably estimating all such impacts. However, we have disclosed the matters calculated on certain assumptions.

Matters currently included in the numerical plan for FY2020

Part of credit expenses

The Chugoku Bank Group, as a whole, has been supporting its customers who are suffering under the impact of the novel coronavirus infectious disease. With a policy of proactively meeting customers' funding needs, we expect that outstanding lending at the end of the current fiscal year will significantly exceed the planned value set at the beginning of the fiscal year. Therefore, we have included the increase in the general provisions for doubtful receivables arising from the increase in outstanding lending in the numerical plan for FY2020.

We have not included some matters in the numerical plan due to the difficulties of reasonably estimating the degree of the impacts, the period of the impacts and potential countermeasures and for other reasons. However, we have identified the risks and impacts listed below, and we will make disclosures of other matters as soon as reasonable estimates become possible or we can accurately determine the scale of the impacts.

Principal matters currently not included in the numerical plan for FY2020

- Negative impacts on net interest income and fees and commissions due to reduction of our operations and the decreased economic activities of our business partners, etc.
- Positive impacts on net interest income resulting from the increase in funding needs of our business partners
- Decreases in expenses (personnel costs and property expenses) and investments due to reduction of our operations, etc.
- Increases mainly in provisions for doubtful receivables due to economic deterioration and worsening of the business performance of our business partners

FY2019 Earnings Results – Summary –

(100 million yen)	FY2016	FY2017	FY2018	FY2019		
					YoY (%)	vs. Plan* (%)
[Consolidated]						
Consolidated recurring profit	316	309	236	174	-62	-26
Net income attributable to owners of parent	203	212	161	119	-42	-13

[Non-consolidated]

Core business gross profit	820	795	770	747	-23	1
Interest income	677	662	630	582	-48	-6
Fees and commissions	152	146	148	158	10	4
Other operating income	-9	-12	-8	6	14	3
Expenses (-)	548	556	542	540	-2	-9
OHR (%)	66.9	69.9	70.3	72.2	1.9	-1.4

Core business net profit	271	239	228	207	-21	10
Excluding profit/loss on cancellation of investment trusts	265	222	217	206	-11	13

Credit expense (- is reversal (profit))	-2	-17	41	56	15	-1
Bond sales gains/redemption	-20	-24	11	-5	-16	-18
Equity sales gains/redemption	43	44	14	0	-14	-16
Other	-7	2	6	7	1	-3

Recurring profit	289	279	219	154	-65	-26
Extraordinary gain/loss	-4	-1	-2	-6	-4	-2
Net income	190	194	153	108	-45	-13

* Forecast published on Nov. 8, 2019

- Core business net profit decreased by 2.1 billion yen year on year due to the decline in net interest income mainly resulting from the decrease in interest on Japanese yen-denominated securities. It was 1 billion yen more than the previously released profit forecast principally reflecting a decrease in fees and commissions and a reduction in expenses.
- Recurring profit decreased by 6.5 billion yen year on year due to the increase in credit expenses and the decrease in securities-related profits as a result of weaker market conditions.

FY2019 Earnings Results – Change in Interest Income –

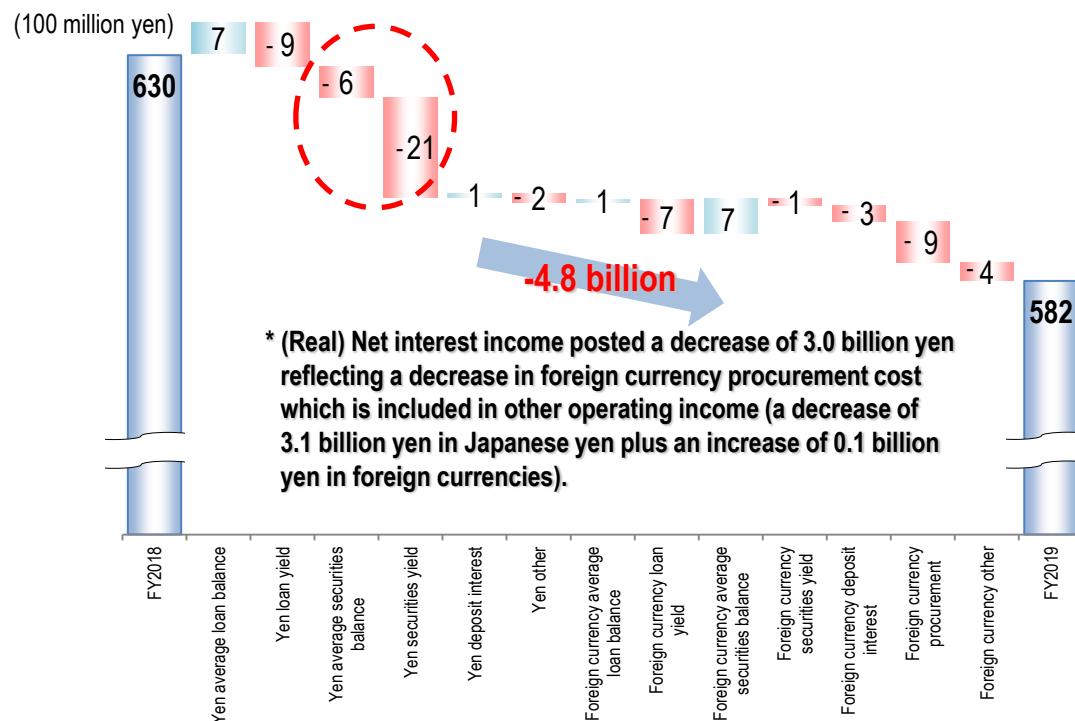
[Factors behind changes in interest income]

■ Yen-based (-3,100 million yen year on year)

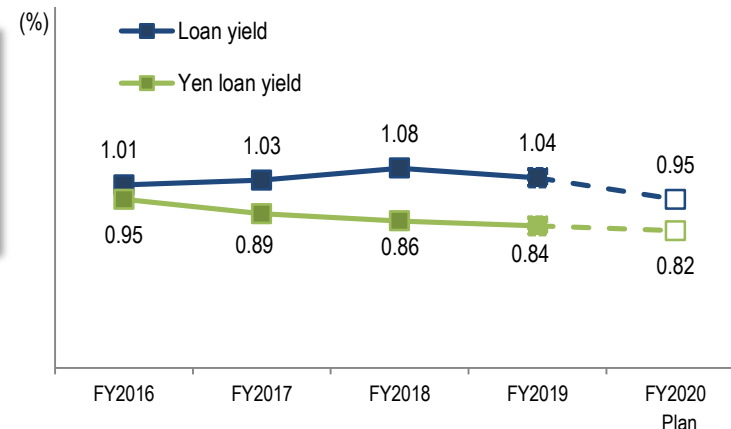
- Loan interest: -200 million yen yoy
- Securities interest: -2,700 million yen yoy
- Decrease in deposit interest: +100 million yen yoy

■ Foreign currency-based (-1,700 million yen year on year)

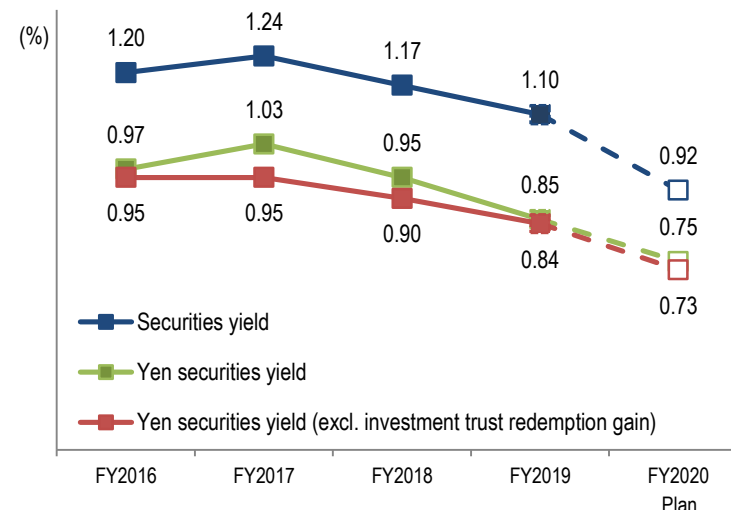
- Loan interest: -600 million yen yoy
- Securities interest: +600 million yen yoy
- Increase in foreign currency procurement: +1,200 million yen yoy



[Loan yield]



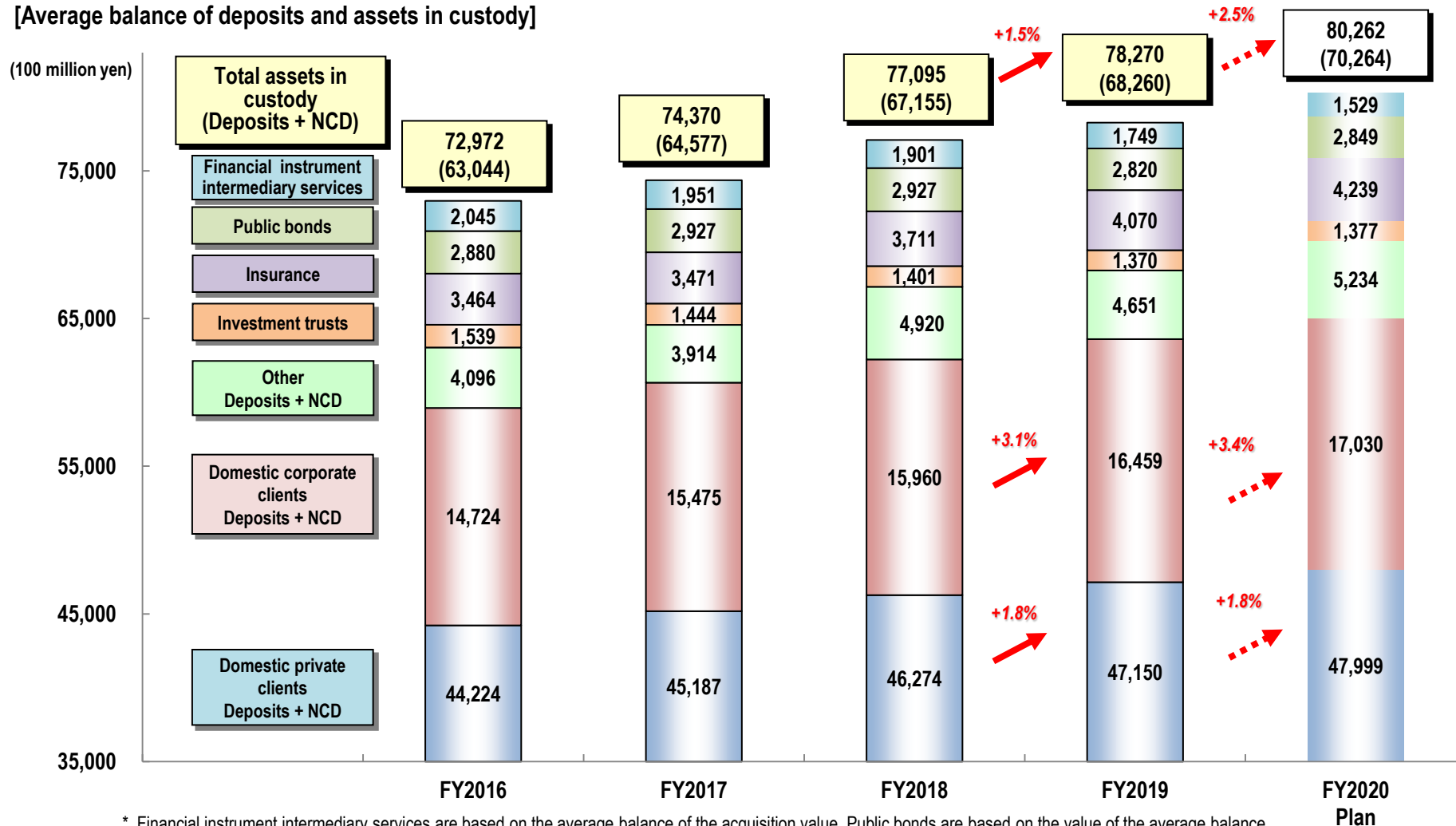
[Securities yield]



- Yen interest income Decreased by 3.1 billion yen year on year mainly due to the decrease in interest on securities arising from the prolonged negative interest-period.
 - Foreign currency interest income Decreased by 1.7 billion yen year on year mainly due to the decline in investment yields.
- * (Real) Net interest income posted a year-on-year decrease of 3.0 billion yen considering a decrease in foreign currency procurement cost which is included in other operating income.

Major Accounts (1) – Deposits & Assets in Custody –

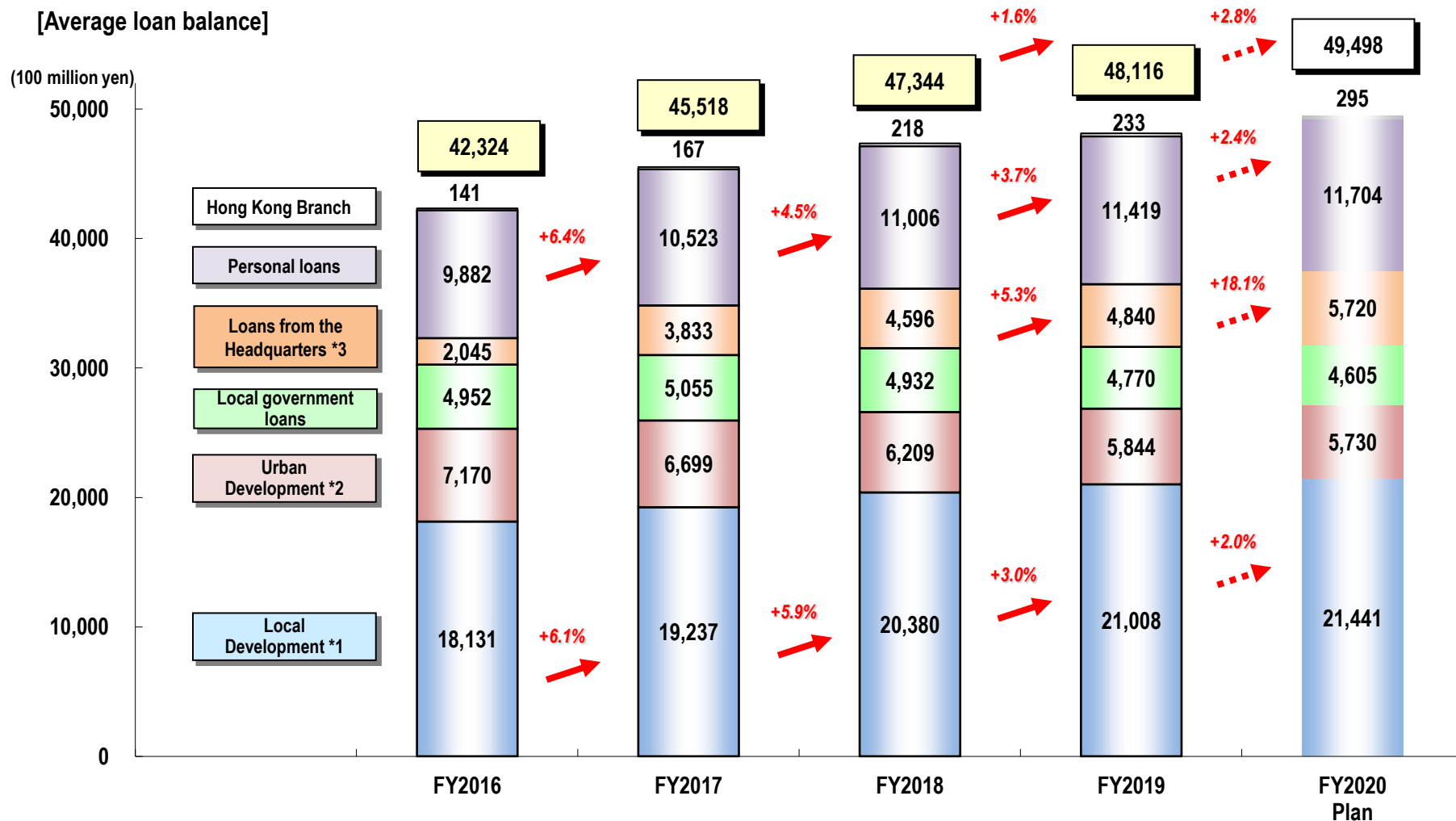
[Average balance of deposits and assets in custody]



- Both private and corporate client deposits and NCD are growing steadily due to the stable payment pipes (e.g. salary payment, pensions) and robust corporate earnings.
- In assets in custody, insurance has grown significantly due to the enhanced sales activities based on consulting services centering on life plan support activities.

Major Accounts (2) – Loans –

[Average loan balance]

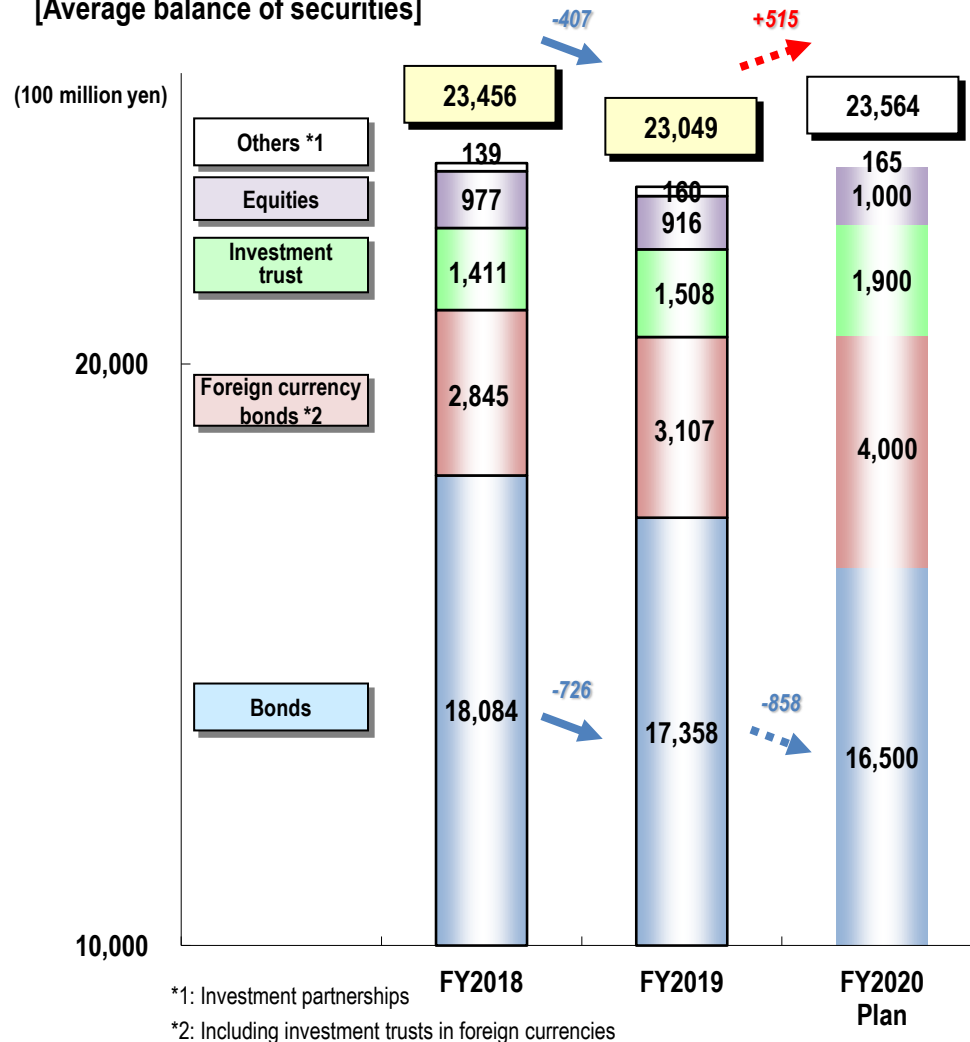


*1 Local development: Regions other than Tokyo and Osaka *2 Urban development: Tokyo and Osaka *3 Loans from the Headquarters: Non-Japanese customers and SF centers

- In FY2019, the annual growth rate of total loans was +1.6%, due to well-balanced efforts to increase loans, mainly local development and personal loans.
 - In FY2020, we will endeavor to compensate for the decrease in interest on securities by loans from the Headquarters while continuing to focus on local development loans, etc.
- We will proactively respond to the funding needs of customers who have been impacted by the corona disaster.

Major Accounts (3) – Securities –

[Average balance of securities]

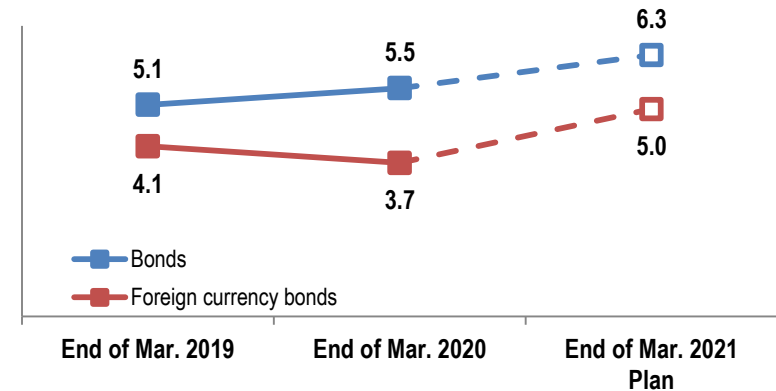


[Appraisal profit and loss]

(100 million yen)

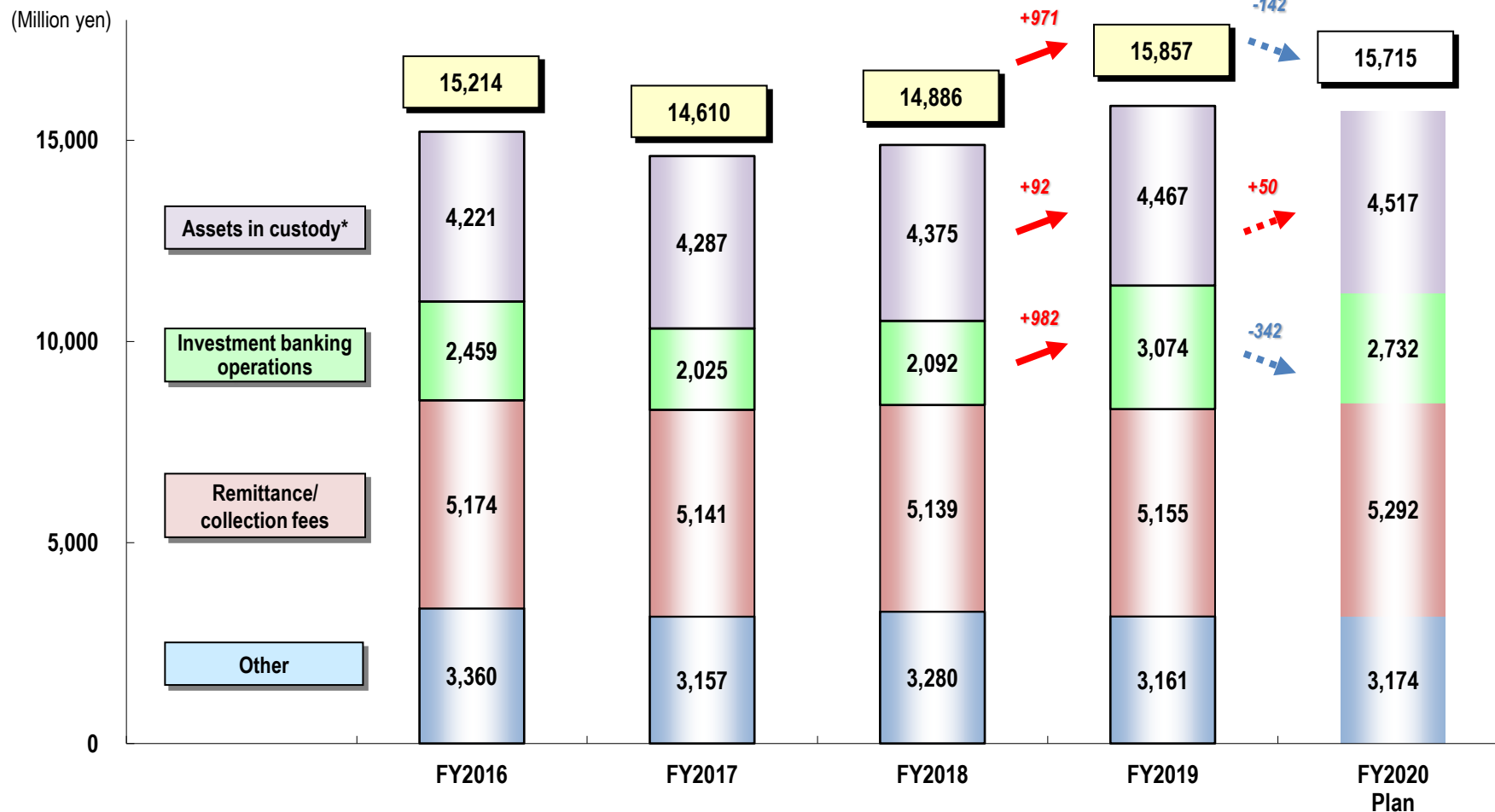
	End of Mar. 2019	End of Mar. 2020	Year on year
Total	1,341	898	- 443
Held to maturity	4	3	- 1
Other securities	1,337	895	- 442
Of which, stock	532	364	- 168
Of which, investment trusts	353	216	- 137
Of which, foreign currency-denominated bonds	22	23	1
Of which, bonds	423	304	- 119

[Duration of bonds]



- In FY2019, the balance decreased due to suppressed reinvestments of redeemed Japanese yen-denominated bonds.
- In FY2020, we plan to consider investment timings for equity-type assets and foreign currency-denominated bonds by focusing on the market environment and risk/return outlook.

[Fee and commission (revenue) trends]

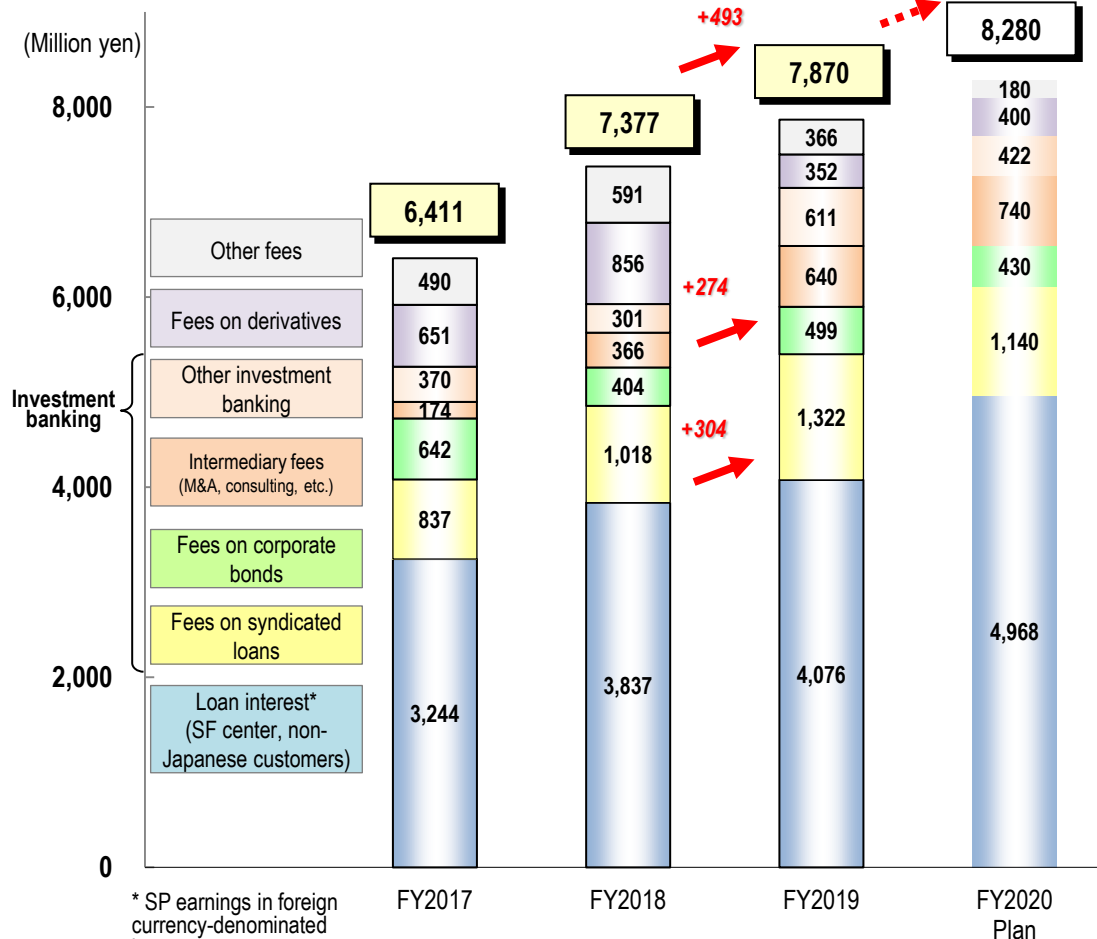


* Four products in custody (investment trusts, insurance, public bonds and financial instrument intermediary services) + inheritance-related business

- In FY2019, fees and commissions increased by 971 million yen year on year mainly due to the increases in revenues from assets in custody and investment banking operations.
- In FY2020, we will continue to enhance our proposal capability for customers centering on assets in custody and investment banking operations.

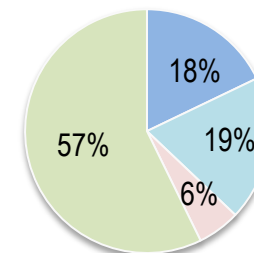
[Trend of revenue from solutions for corporate customers]

(Interest income, fees and commissions, other operating income) +410

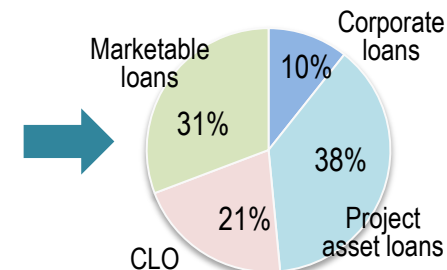


[Breakdown of loans from the Headquarters] (Trend of the actual results)

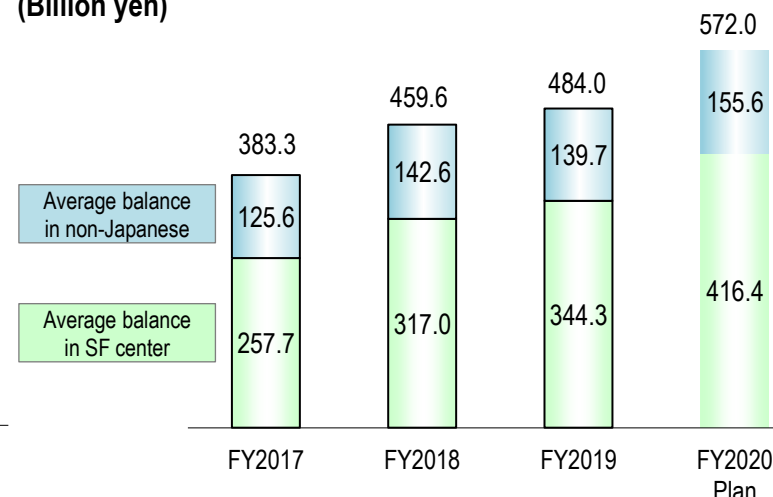
As of March 31, 2017



As of March 31, 2020

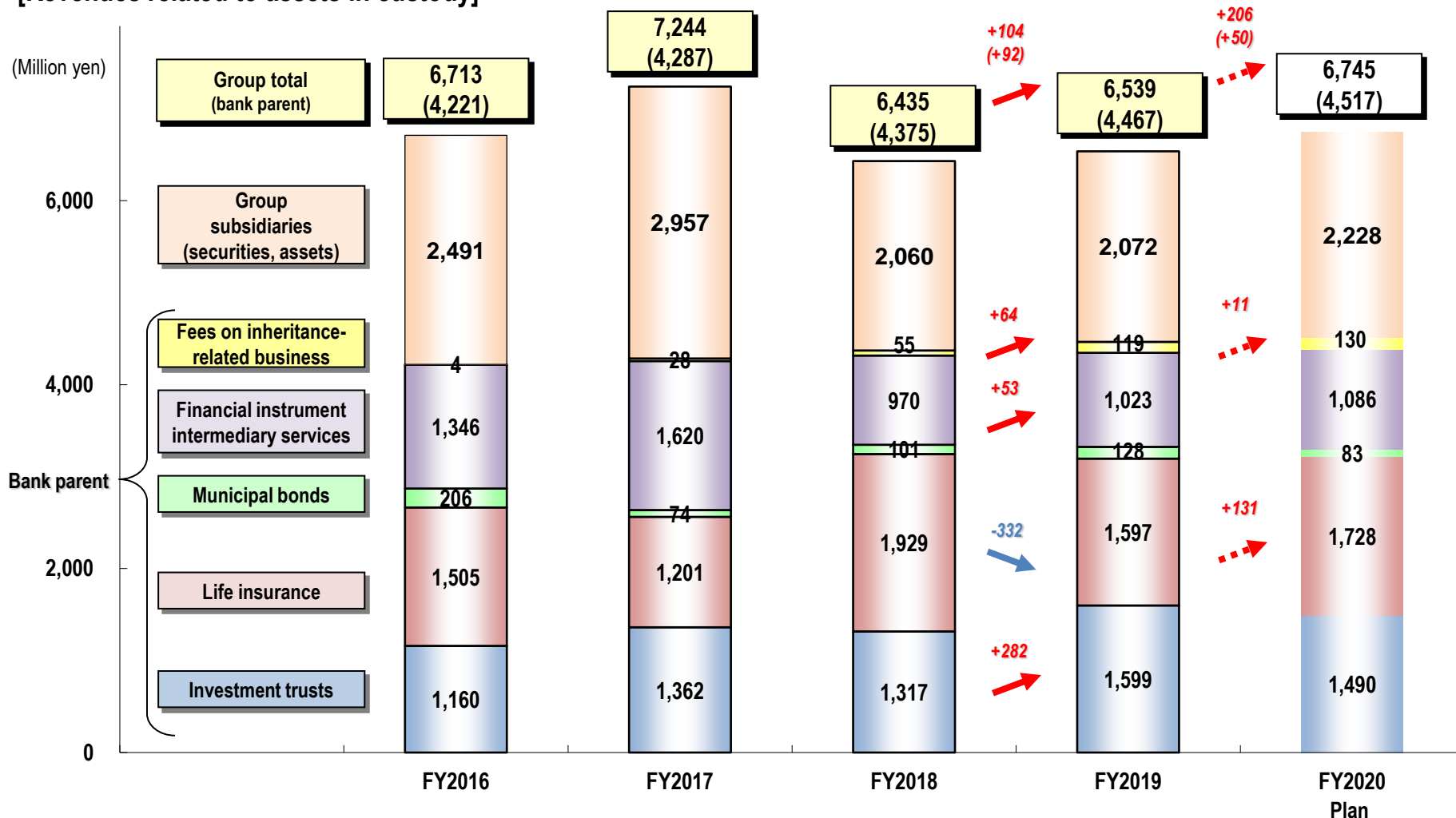


[Trend of average balance of loans from the Headquarters] (Billion yen)



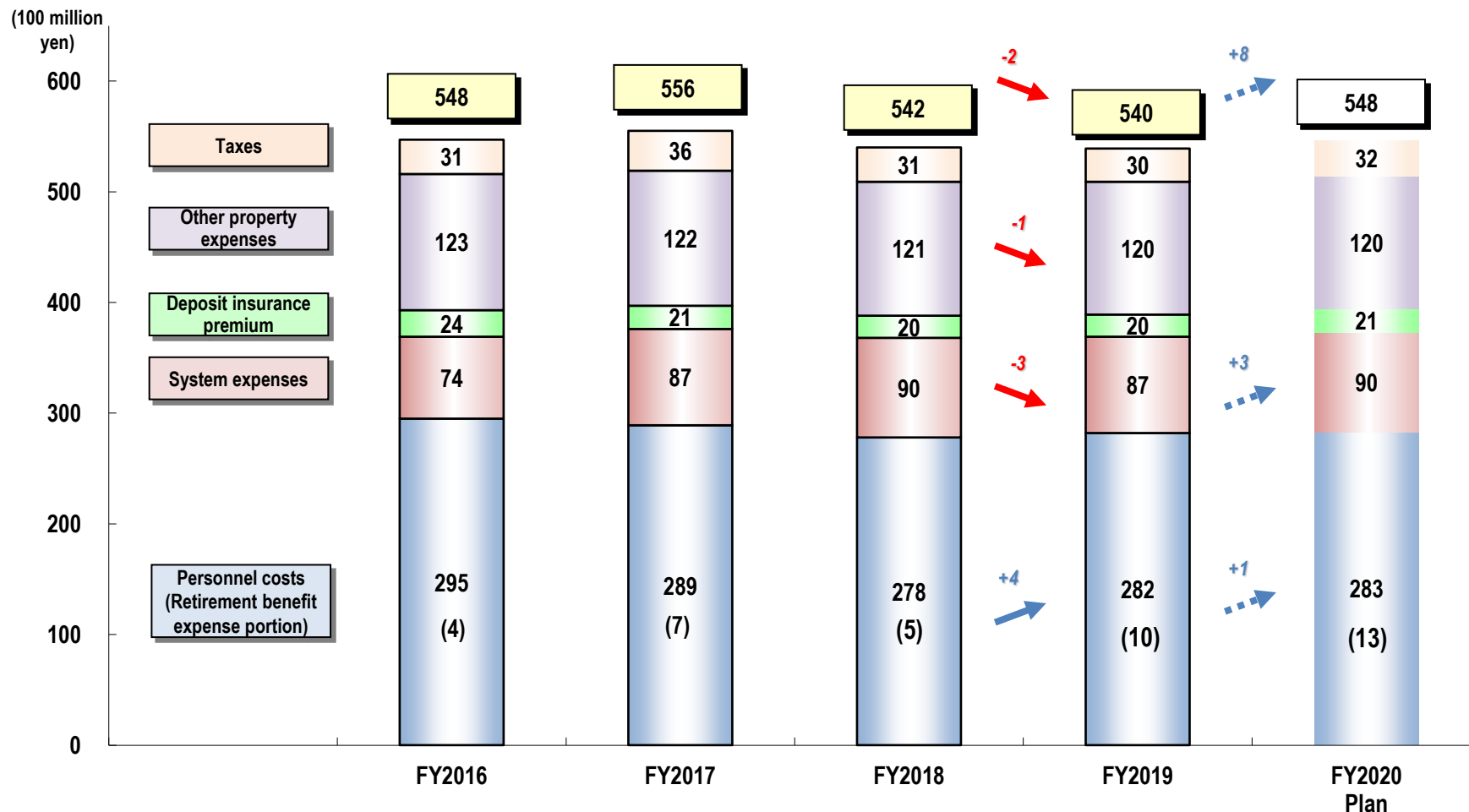
- In FY2019, corporate solution-related earnings increased steadily to which robust growth mainly in intermediary fees and fees on syndicated loans contributed.
- In FY2020, we will provide optimum solutions that fit customers' needs, and conduct lending from the Headquarters while limiting excessive risk taking by paying attention to changes of the market environment.

[Revenues related to assets in custody]



- In FY2019, revenues related to assets in custody grew year on year reflecting robust sales of investment trusts and fees on inheritance-related business on which we have focused.
- In FY2020, considering the uncertainties of the market environment, we will endeavor to provide careful follow-up services to customers, and enhance customer-oriented sales activities based on consulting services.

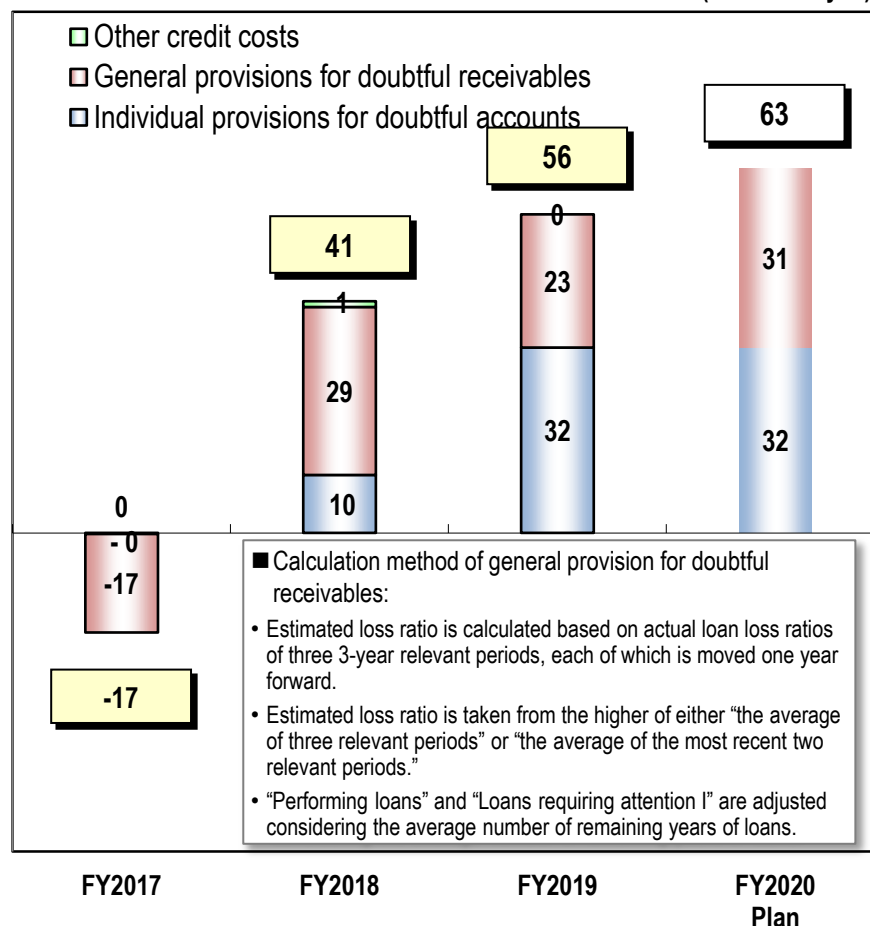
[Expense trends]



- In FY2019, while personnel costs increased mainly due to the increase in retirement benefit expense, total expenses decreased on a year-on-year basis reflecting the reduction in system expenses.
- In FY2020, we will further enhance cost management although it is expected that system improvement projects will increase and that retirement benefit expense will also grow.

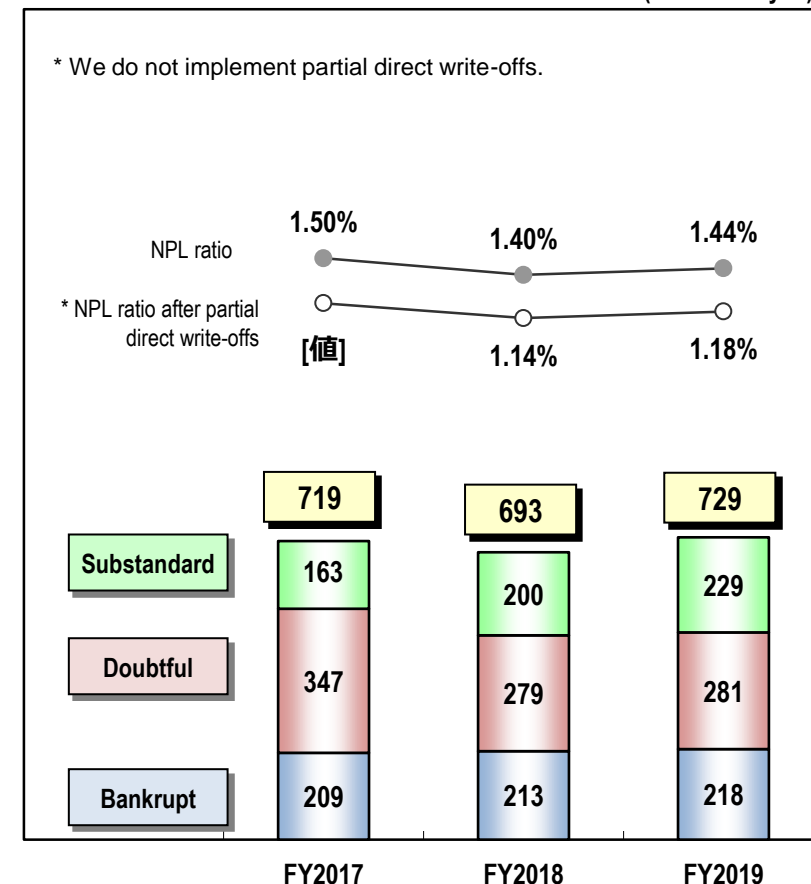
[Credit cost trends]

(100 million yen)



[Non-performing loan (NPL) trends]

(100 million yen)

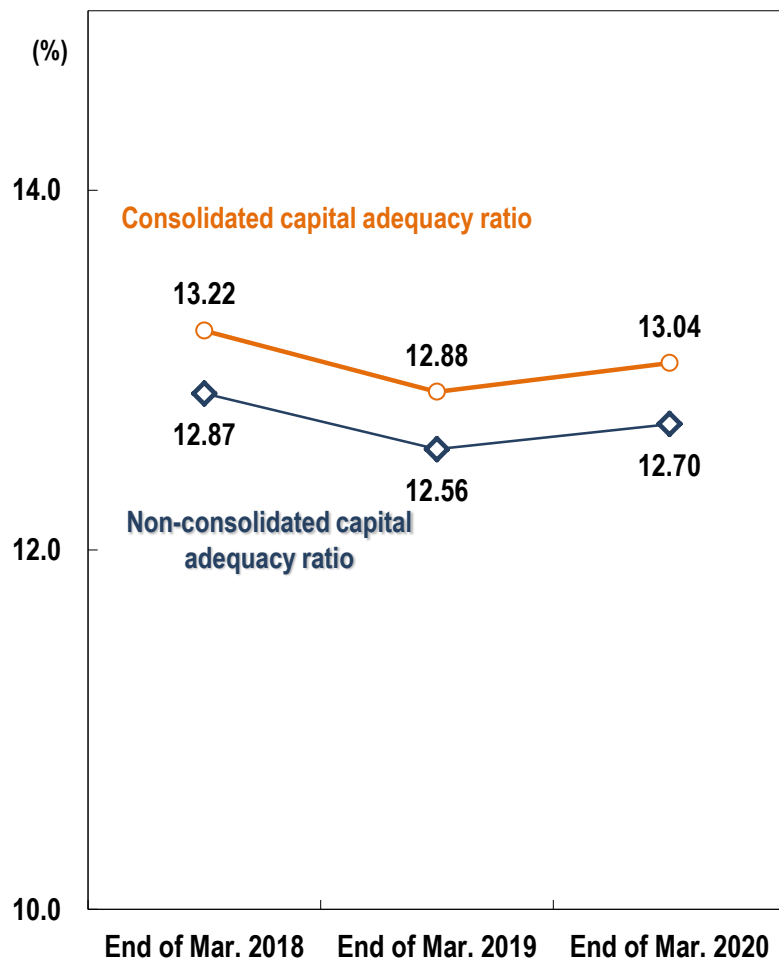


* Other credit costs = Loan loss write-offs, specific foreign borrowers, provisions for loss on claim sales, loss on claim sales

- In FY2019, credit cost increased on a year-on-year basis mainly due to individual provisions for doubtful accounts.
- In FY2020, we assume that general provisions for doubtful receivables will increase on the back of the impact of the novel coronavirus infectious disease.

While the impact of the novel coronavirus is not included in the individual provisions for doubtful accounts, the plan for FY2020 has been designed conservatively based on the recent upward trend.

[Capital adequacy ratio trends]



[Capital adequacy (consolidated)]

(100 million yen)	FY2018	FY2019	YoY
Total equity	5,267	5,021	-246
Of which, Tier 1, including common shares	5,265	5,019	-246
Risk weighted assets, etc.	40,867	38,485	-2,382
Credit risks	39,280	36,937	-2,343
Operational risks	1,586	1,547	-39

[Other Basel regulations]

	FY2018	FY2019	<Regulatory standards>
Consolidated leverage ratio	6.20%	5.99%	3% or more
Consolidated liquidity coverage ratio (LCR)	151.7%	165.3%	100% or more
Consolidated stress test (IRRBB)	4.5%	3.6%	15% or less

- The total capital adequacy ratio improved to 13% on a consolidated basis mainly due to a decrease in risk weighted assets of securities despite a decline in total equity resulting from the decrease in valuation difference on available-for-sale securities.

[Earnings forecast]

* Only some matters (an increase in credit expenses on the assumption of an increase of loans) are included in the impact of the COVID-19.

(Billion yen)		FY2019	FY2020	
		Actual	Plan	YoY
Consolidated	Consolidated recurring profit	17.4	16.7	-0.7
	Consolidated net income	11.9	11.1	-0.8
Non-consolidated	Core business gross profit	74.7	73.2	-1.5
	Interest income	58.2	56.6	-1.6
	Fees and commissions	15.8	15.7	-0.1
	Other operating income	0.6	0.8	0.2
	Expenses	54.0	54.8	0.8
	Core business net profit	20.7	18.3	-2.4
	Credit expense	5.6	6.3	0.7
	Securities-related gains	-0.5	2.3	2.8
	Other	0.7	0.3	-0.4
	Recurring profit	15.4	14.7	-0.7
	Net income	10.8	10.0	-0.8

[Planned dividend payment for FY2019]

Year-end dividend: 11 yen per share (Annual dividend: 22 yen per share)
(as initially planned)

[Shareholder return policy for FY2020]

The planned total payout ratio calculated by the sum of dividends and share buybacks will be around 35%.

The shareholder return based on net income will be changed from a non-consolidated basis to a **consolidated** basis effective FY2020.

The annual dividend will be 22 yen per share. (Of which, the interim dividend will be 11 yen per share.)
(Of which, stable dividend will be 18 yen per share.)

		Non-consolidated basis		Consolidated basis
(Billion yen)		FY2018	FY2019	FY2020
Dividend per share		22 yen	22 yen	22 yen
(Interim dividend per share)		(10 yen)	(11 yen)	(11 yen)
Net income*	(1)	15.3	10.8	11.1
Total dividends	(2)	4.1	4.1	4.1
Payout ratio	(2)/(1)	27.1%	38.2%	37.2%
Share buybacks	(3)	1.4	-	Consolidated total payout ratio: Estimated at approx. 35%.
Total amount of profit return	(2)+(3)	5.5	4.1	
Total payout ratio	((2)+(3))/(1)	36.2%	38.2%	

* Share buyback as a factor in calculating payout ratio is based on buybacks during one year from the general meeting of shareholders.

- We will return profit to shareholders at a rate of 35% of consolidated net income (net income attributable to owners of parent).

New Medium-term Management Plan

Plan for Creating the Future Together: Stage II

(April 2020 to March 2023)

- In March 2017, we formulated a Long-term Management Plan (Vision 2027: Plan for Creating the Future Together), launching a Medium-term Management Plan (Plan for Creating the Future Together: Stage I). Subsequently, we promoted **structural reforms** centering on hardware aspects with the aim of expanding the opportunities to visit customers and improving the convenience of services. Concurrently, we endeavored to improve our services in fields other than the financial sector such as enhancement of consulting functions, entry into personnel recruitment service, and testamentary trust business.
- In April 2020, the Medium-term Management Plan (Plan for Creating the Future Together: Stage II) will start. We are in a critical stage at **the halfway point** of the Long-term Management Plan. In formulating the plan, we carefully considered, **getting back to basics**, asking to ourselves what is the ideal image of a future regional bank, what we should do for the regional community, and what we should do to be selected by, and win trust of, customers. We believe that it is our mission as the leading regional bank to enhance “**the initiatives for regional revitalization and the SDGs**” toward the realization of a sustainable regional community. We are aware that a severe economic environment is expected for the future. We will get even closer to regional customers expecting that our **domestic and overseas networks** that the Group has built to date will be fully utilized and that **a wide scope of services beyond the border of financing** will be also used by many people.
- In Stage II, we will endeavor to **enhance the human resources and organizational capability of the Group** in order to improve the capability of solving regional and customers’ issues. We will also implement **many reforms** ranging from strategies, organizations, systems to structures. For corporate customers, we will build a system under which solutions can be developed by one-stop and speedy measures. Concurrently, for retail customers, we will establish a system under which customers may experience comprehensive lifelong services including non-financial services through a wide scope of services and channels. In order to realize this sales system, we will conduct a drastic review of the “**Human resource system, Training system, and Performance award system, etc.**” In the next three years, we expect to establish **business models that will enable us to develop together with regional community**, which will lead to further growth at the next final stage.
- The Chugoku Bank Group will continue its efforts to become “**A bank group to create new value together, addressing various issues of regions and customers beyond the border of finance.**” We will evolve into a bank group that grows by taking changes in the environment as opportunities, responding to such changes flexibly, and with no fear of constant change.

Sadanori Kato
President

“Vision 2027: Plan for Creating the Future Together” as the Assumption

- In March 2017, we formulated and announced our 10-year Long-term Management Plan “Vision 2027: Plan for Creating the Future Together” based on our long-term vision to **“Create with Our Community, Customers and Employees a Rich Future that We Can All Share”** with the aim of establishing sustainable business models by overcoming the decrease in population and lower profitability.

Corporate Principles

Remain firm in self-driven sound management to develop in step with regional society by winning unwavering trust and providing superior comprehensive financial services

Corporate Vision

A bank that is “chosen” and “trusted” by regional customers

Long-term Vision

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

[Framework for achieving the long-term vision]



Initiatives for creating a rich future

- Improve the quality of the services we provide
- Increase opportunities to provide services



Initiatives to create the foundation of management

- Enhance our capabilities to provide services
- Reform the mindsets of individuals and corporate and organizational culture

- While the results of the process items in sales activities such as overall points of the Life Plan Support activities and of the Local Promotion Project, as well as volume items such as the average balance of local development loans and the balance of personal loans almost achieved the goals, the profit items fell short of the plan due to the deteriorated external environment such as prolonged period of negative interest rates and the increase in credit expenses.

KPIs as indicated in the previous Medium-term Management Plan		FY ended March 2017 Results	FY ended March 2020 Targets (at the announcement of the previous Medium-term Management Plan)	FY ended March 2020 Results	Plan for Creating the Future Together (Targets for FY ending March 2027)
Net income attributable to owners of parent (Consolidated net income)		¥20.3 billion	¥16.0 billion	¥11.9 billion	¥30.0 billion
Consolidated total capital adequacy ratio (Basel III disclosures)		13.38%	12% remaining stable	13.04%	12% remaining stable
Consolidated ROE (Return on Equity)		3.9%	–	2.2%	5% or more
Individual KPIs	Overall points of the Life Plan Support	–	Sustainable improvement	Achieve internal goals	Sustainable improvement
	Average balance of the five products in custody	¥992.8 billion	¥1,100.0 billion	¥1,045.3 billion	–
	Balance of personal loans (Results and plan show the average balance)	¥987.3 billion	¥1,100.0 billion	¥1,141.9 billion	¥1,400.0 billion
	Customer satisfaction ^{*1}	–	Sustainable improvement	Sustainable improvement	Sustainable improvement
Corporate KPIs	Overall points of the Local Promotion Project	Approx. 10,000 points	15,000 points	25,381 points	20,000 points
	Average balance of local development loans	¥1,813.1 billion	¥2,000.0 billion	¥2,100.8 billion	¥2,400.0 billion
	Customer satisfaction ^{*1}	–	Sustainable improvement	Sustainable improvement	Sustainable improvement

*1: Total of the answers “Satisfied” and “Almost satisfied” in the customer questionnaire

Positioning of the New Medium-term Management Plan

“Plan for Creating the Future Together: Stage II”

- Based on the achievements of the structural reforms (strategic investments and improvement of efficiency and enhancement of sales capabilities through BPR measures) under the previous Medium-term Management Plan, we will establish **“our proprietary business models”** which can quickly respond to changes of the external environment and **can develop together with local community**.
- To that end, we will strengthen our **organizational power and human resources development** under the new Medium-term Management Plan.



The Chugoku Bank Group will create new value by addressing various challenges of customers from the regional community.

<Prerequisites>

Development together with the regional community

Act on *Chugin-no-kokoro*

...(I)

Practice customer-oriented sales activities

(Philosophy of Chugoku Bank)

...(II)

<Changes in internal environment>

Foster a stronger sense of unity in the organization

...(III)

Develop specialist staff members

<Changes in external environment>

Further digitalization

...(IV)

Decrease in net interest income

...(V)

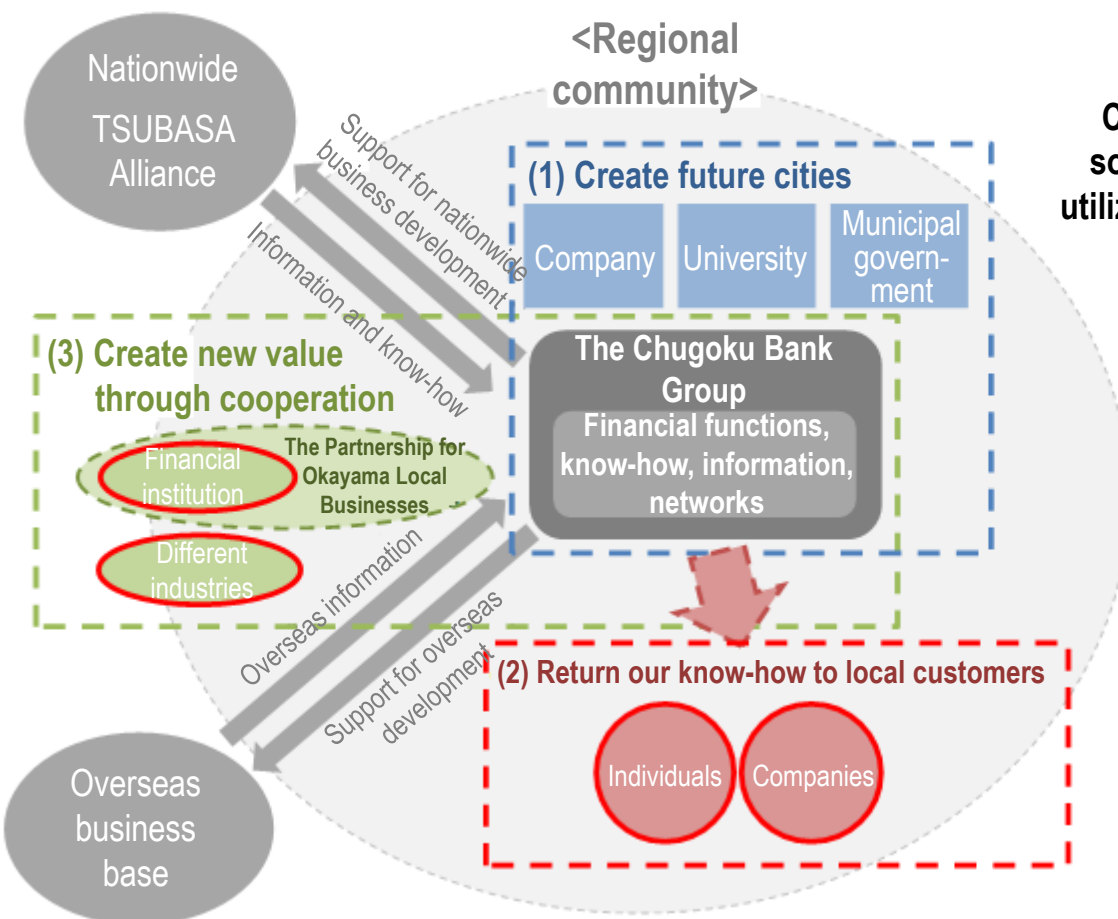
Card loans and apartment loans facing headwinds



		Strategy	What	How
Message to the regional community Message to customers (individual and corporate) Message to employees	I	Enhance initiatives for regional revitalization and the SDGs	Provide solutions to regional issues Create new businesses Contribute to achieving the SDGs	(1) Create opportunities for joint works of creation – Provide regional platforms – Return our know-how – Collaborate with different industries (2) Implement “Chugin’s Declaration of Support for the SDGs” – Solve social and environmental issues through business (3) Countermeasures against major disasters and new infectious diseases
	II	Deepen customer-oriented sales activities	Solve issues Provide new value Support for realizing dreams	(1) Enhance unified sales activities of sales branches and the Headquarters (2) Expand services (3) Enter new business domains (4) Maximize Group synergy
	III	Vitalize organizations	Improve fulfillment in work Help achieve self-fulfillment and growth Enhance the sense of unity in the organization	(1) Reform the human resource system (2) Review the training system (from product sales to problem solving) (3) Review the performance award system (change to goal setting by the individual) (4) Establish a block sales system (delegation of authority) (5) Improve the career challenge system (6) Enhance the functions of the planning section (management and sales) (7) Increase joint projects of sales branches and the Headquarters
Strategies considering the external environment Response to digitalization Response to changes in the market environment	IV	Enhance digitalization strategy	By leveraging digitalization, – Improve efficiency – Increase contact points with customers – Create new customer experience	(1) Improve personal applications (2) Open a portal site for corporate customers (3) Digitalize the Headquarters operations
	V	Establish sustainable growth models	Increase fees and commissions Reduction of OHR → Realize the growth scenario	(1) Secure stable revenues from the main business (2) Fundamental review of costs (3) Appropriate Headquarters operation according to the external environment (4) Enhance the ALM function

Enhance Initiatives for Regional Revitalization and the SDGs

- We will establish business models that develop together with regional community by using know-how, information and networks cultivated in the Group and the TSUBASA Alliance, etc.



Issues of the local community

Create value and solve problems by utilizing our resources

Decrease in population

Decrease in companies

Responses to novel infectious diseases and major disasters

Intense concentration in the Tokyo Metropolitan area

(1) Create future cities

- Create opportunities for joint works of creation
- Differentiation as the core place for starting a new enterprise
- Regional trading companies, Setouchi DMO
- Contribute to achievement of the SDGs

(2) Return our know-how to local customers























- Digitalization and consulting on BPR
- External sales of the indirect functions of the Headquarters

(3) Create new value through cooperation

- TSUBASA Alliance
- The Partnership for Okayama Local Businesses
- Cooperation with different industries

Chugin's Declaration of Support for the SDGs

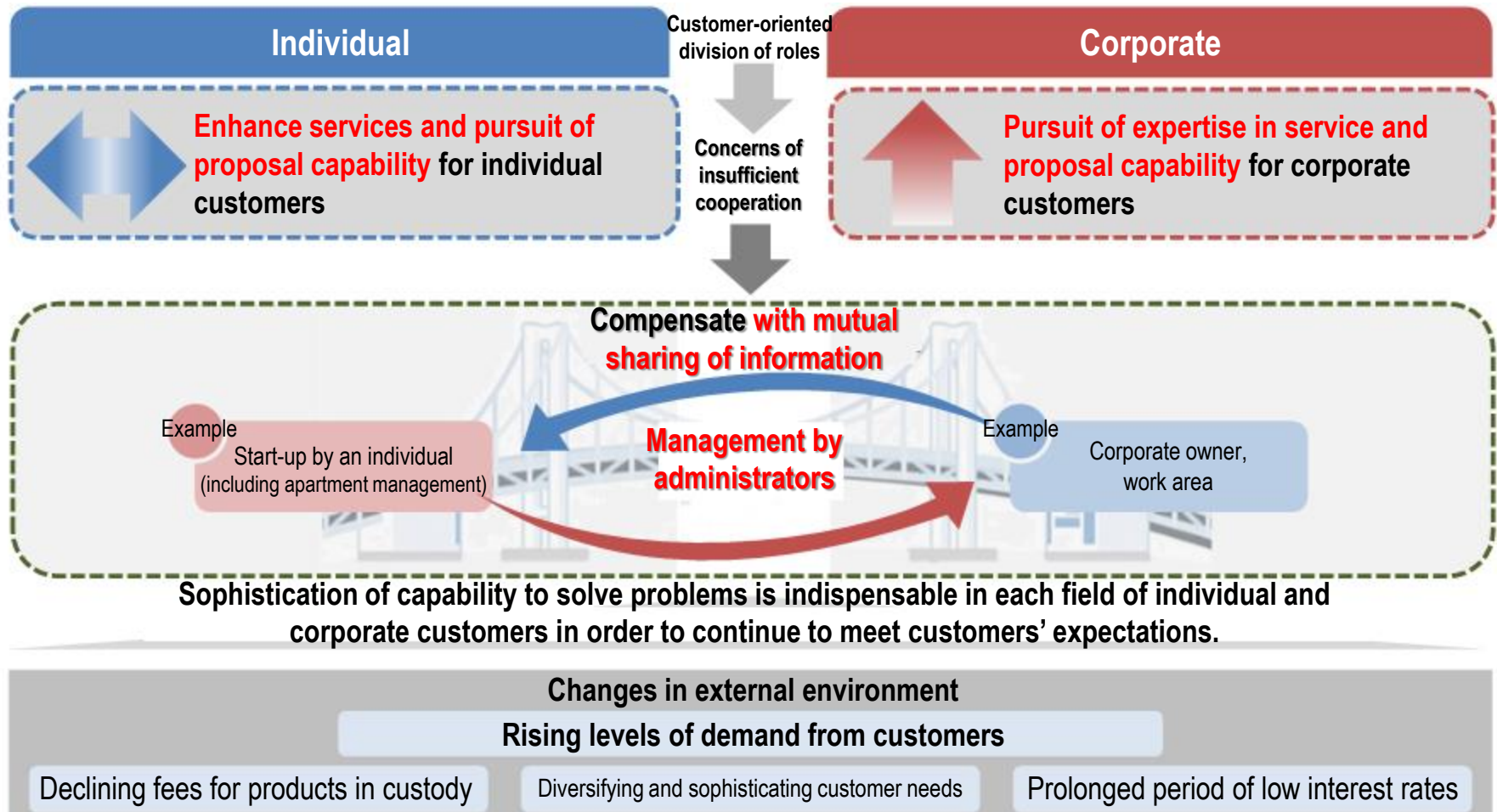
- Under the long-term vision of the Long-term Management Plan “Create with Our Community, Customers and Employees a Rich Future that We Can All Share,” the Chugoku Bank Group hereby declares that it will take initiatives for the social and environmental issues of the regional community as shown below, with the aim of contributing to the achievement of the SDGs through its business activities and realizing sustainable growth together with regional communities.

Priority issues		Principal initiatives (including plans)	Corresponding goals
Regional economy and society	Contribute to vitalizing the regional economy and community	<ul style="list-style-type: none"> Advance local promotion activities Increase solutions Support start-ups Attract more foreign tourists, promote migration and settlement 	   
Aging society	Support a secure and safe life for the elderly	<ul style="list-style-type: none"> Respond to needs for lifetime asset management and administration Provide support for asset succession Provide support for medical/nursing care providers 	   
Financial services	Provide financial services for a better life	<ul style="list-style-type: none"> Promote systematic asset formation using NISA, etc. Provide support for a wide range of people qualified for student loans, senior loans, etc. Implement financial literacy education 	  
Diversity	Promote diversity and work style reforms	<ul style="list-style-type: none"> Improve motivation of female workers and career formation on a long-term basis Vitalization through expanding the working fields for diversified human resources Promote work style reforms Chugin's nursery project 	  
Environmental preservation	Contribute to preserving a sustainable environment	<ul style="list-style-type: none"> Promote initiatives for the renewable energy business Provide support for environment-related businesses Reduce environmental burden (by limiting the use of paper, etc.) “We want to protect Setonaikai” project 	       

II. Deepen customer-oriented sales activities

Shift from “Asset Management/Loan Business” to “Consulting Services for Individual and Corporate Customers”

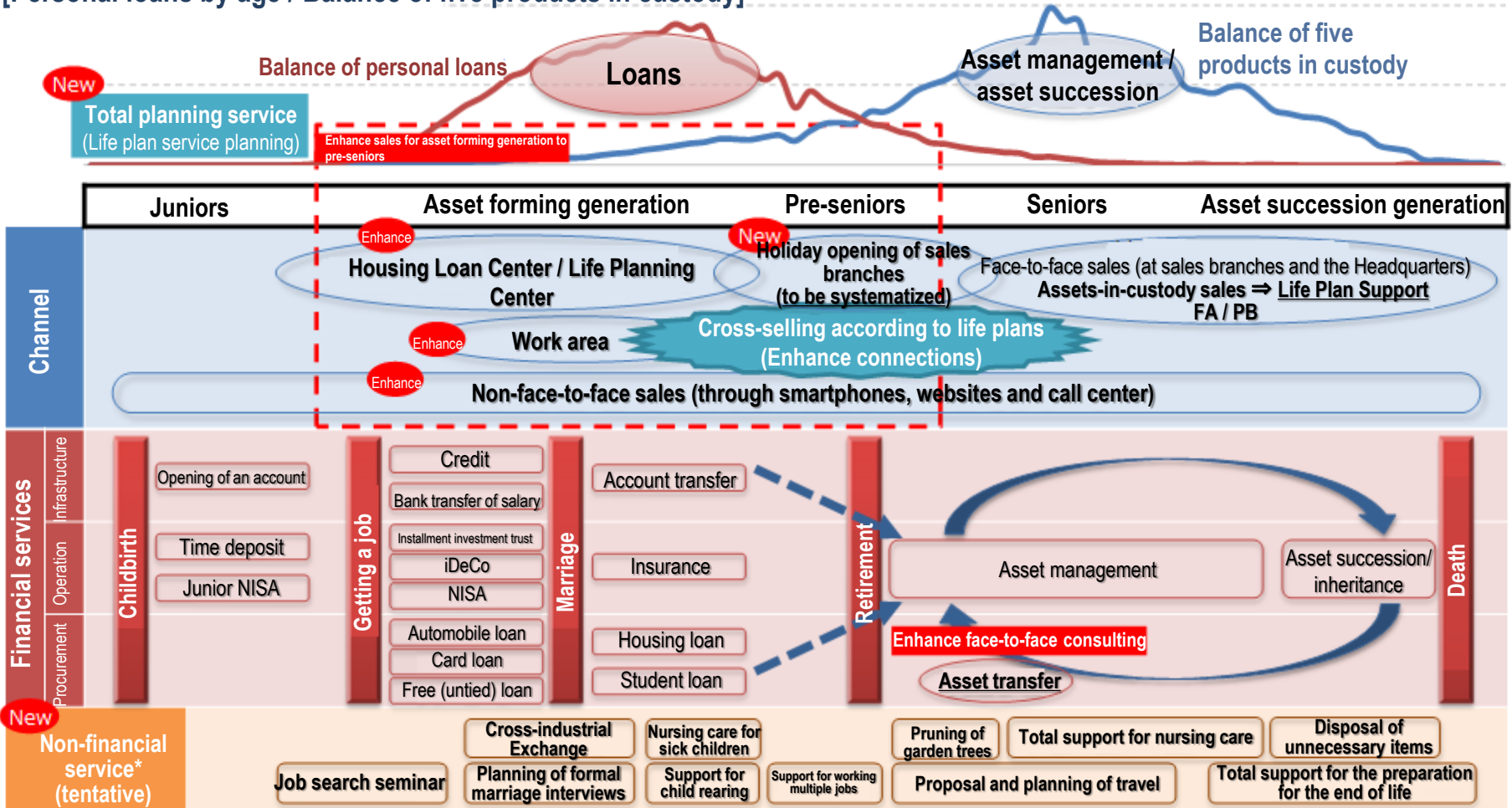
- To date, the division of roles has been implemented by function between asset management and loan business. During the current period of the new plan, we will shift such role-sharing to customer-oriented role-sharing for individual and corporate customers with the aim of demonstrating our advanced capability for solution of a wide range of issues of our customers.
- We will address any possible issues associated with internal cooperation arising from the change of division of roles to ones dedicated to individual and corporate customers under the management of administrators by proactively conducting bidirectional sharing of information.



Deepen Life Plan Support Activities (Solutions for Individual Customers)

Major strategy Lifelong life plan support + Enhance service menu + Enhance approaches to asset forming generation

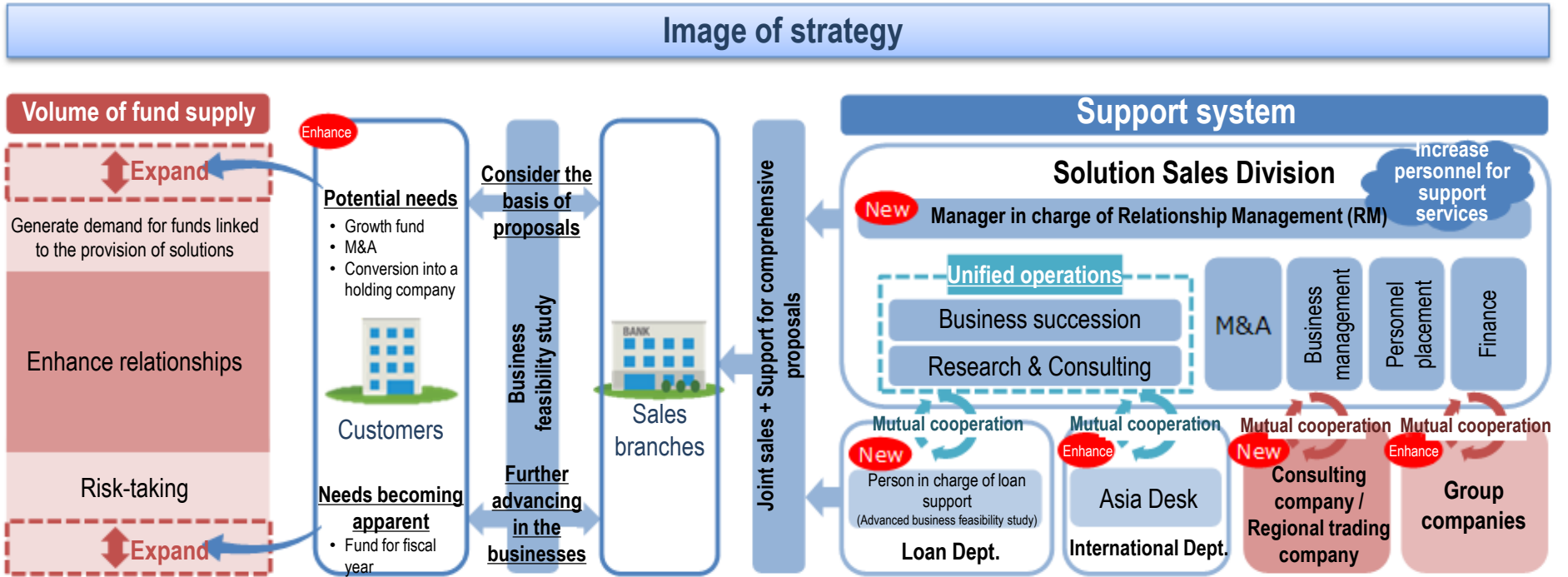
[Personal loans by age / Balance of five products in custody]



* Provision of non-financial services including business matching is under consideration.

Deepen Local Promotion Activities (Solutions for Corporate Customers)

Major strategy Realize speedy solutions and provide a wide range of services through the unified sales activities of the Headquarters and sales branches

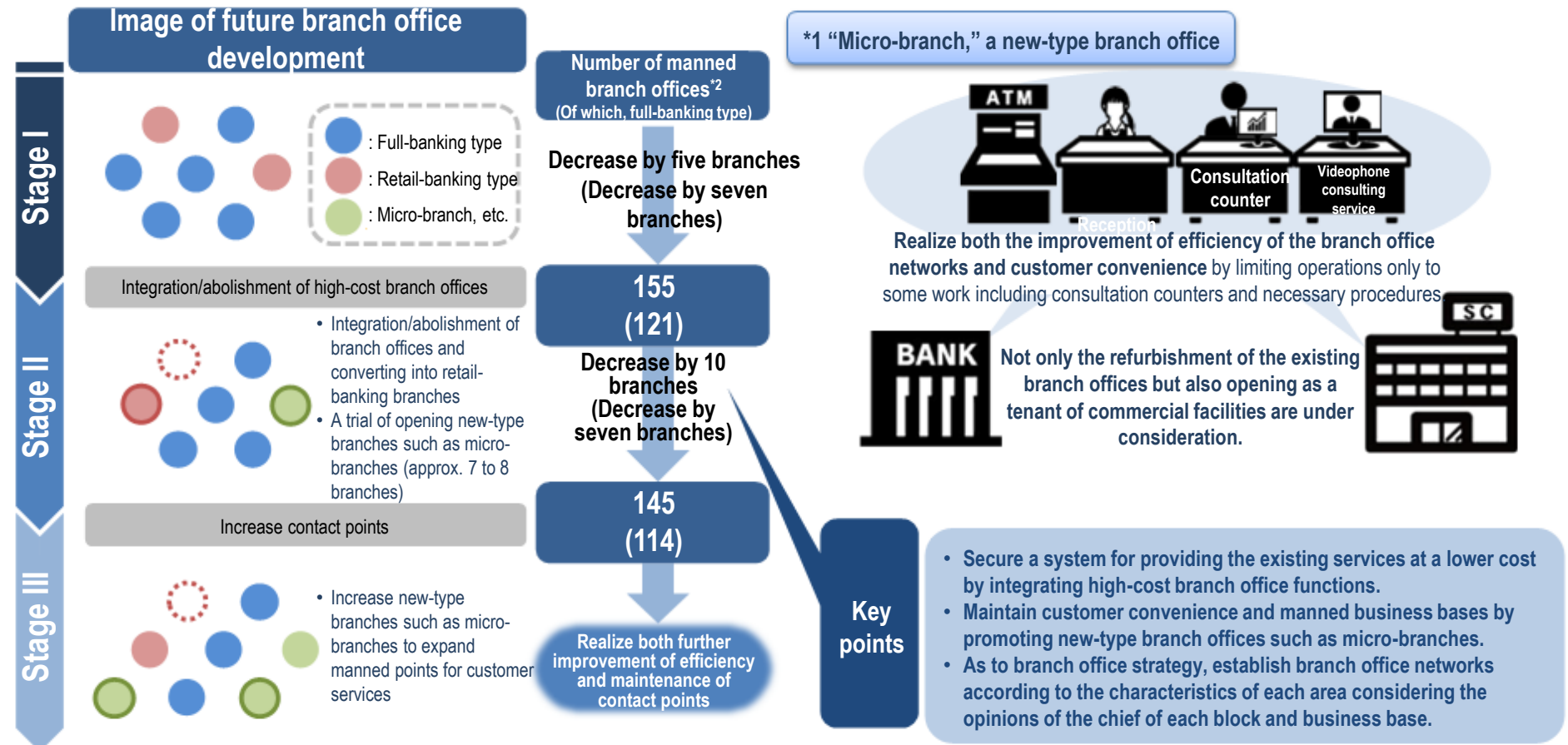


New business domains under consideration

I. Launch a personnel placement business	IV. Expand business consulting services	VII. Real estate redevelopment contributing to regional revitalization
II. Establish a consulting company	V. M&A as legal liquidation procedures	VIII. Enhance the use of funds
III. Establish a regional trading company	VI. Overseas M&A	

Branch Office Strategy: Towards Both the Improvement of Efficiency and Customer Convenience

- Customer convenience and manned branches in which customer services are provided will be maintained, and cost reduction will be pursued in all branch operations by operating new types of branches such as micro-branch*1 while further aggregating the conventional-type branches such as full-banking branches.
- In considering branch office strategy, we will establish optimum branch office networks based on the current status of our bank as a whole and the branch office network in each area as well as the opinions of the chief of each block and business base, also paying attention to the characteristics of each area and the relationships with the regions and customers.

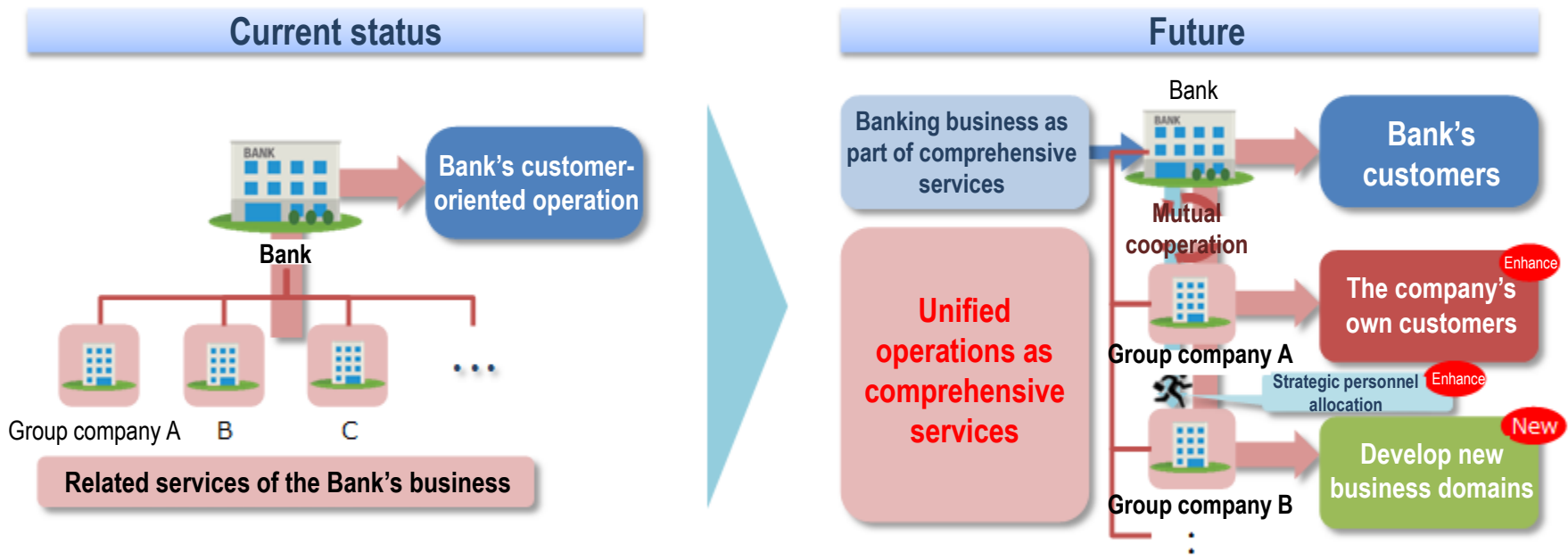


*2 The above-mentioned number of manned branch offices include special offices and excludes overseas offices and overlapped number of branch-within-a-branch offices. Therefore, the number of offices differs from the number filed with the relevant authorities.

Maximize Group Synergy

Major strategy → Maximize Group revenues by providing comprehensive services + Strategic personnel allocation

- Maximize Group synergy by redefining the Group companies from the Bank's related work to part of the lineup of the Bank's comprehensive services.
- We will proactively utilize our management resources for the enhancement of sales power, planning function and new business fields by reallocating current employees of the Bank.



Challenges

- Low profitability
- The personnel of the organization are getting older. (Most of them are reemployed after retirement.)
- The Bank-Group company strategy is decentralized.

Purposes

- Improve profitability
- Rejuvenate the organizations
- Enhance governance
- Group strategy with uniformity
- Unified operation of human resource management

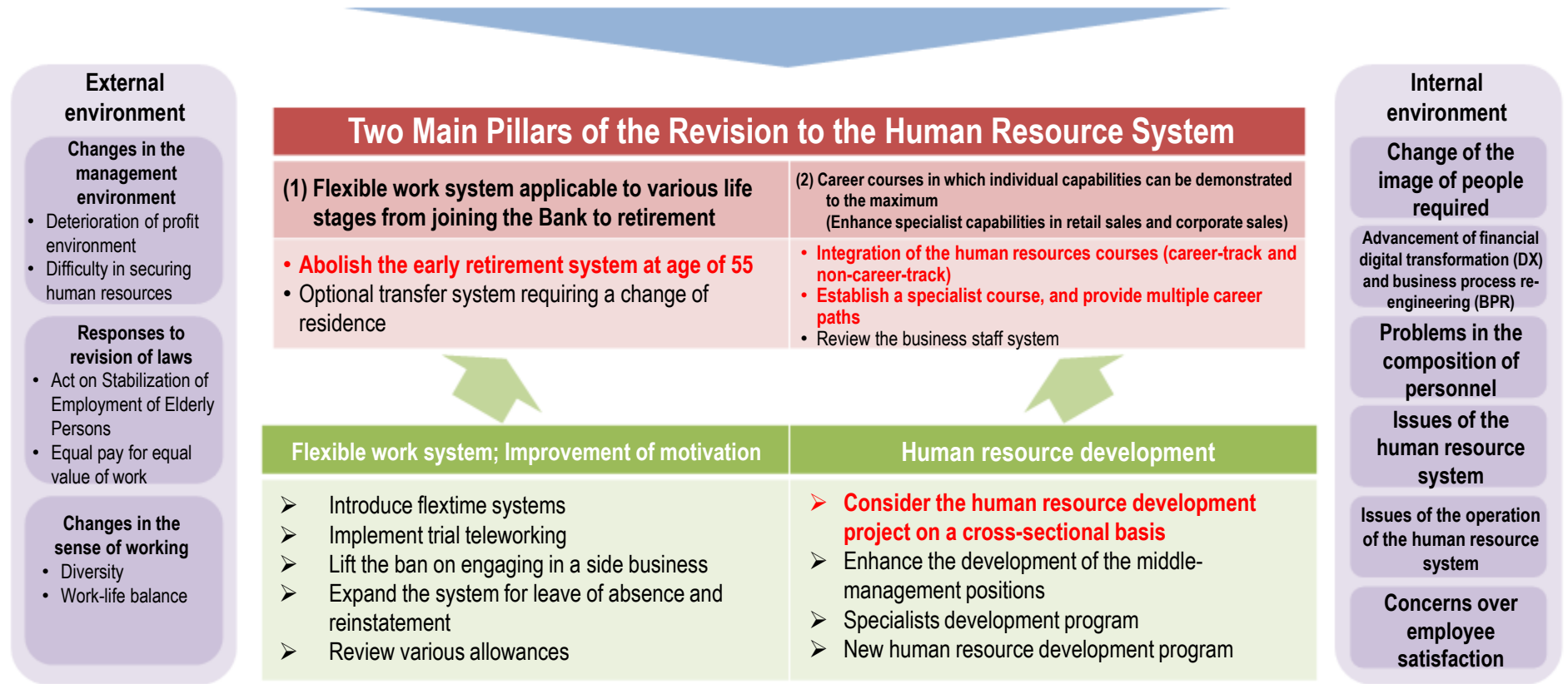
Measures

- Enhance planning functions; Develop new business domains
- Proactive and strategic personnel allocation (on loan) from the Bank
- Verify the effect of investing in human resources
- Formulate the unified Group management strategy of the Bank and the subsidiaries; and implement a fundamental review of the organizational system

Human Resource System Reform: A System Aimed to Realize Diversity

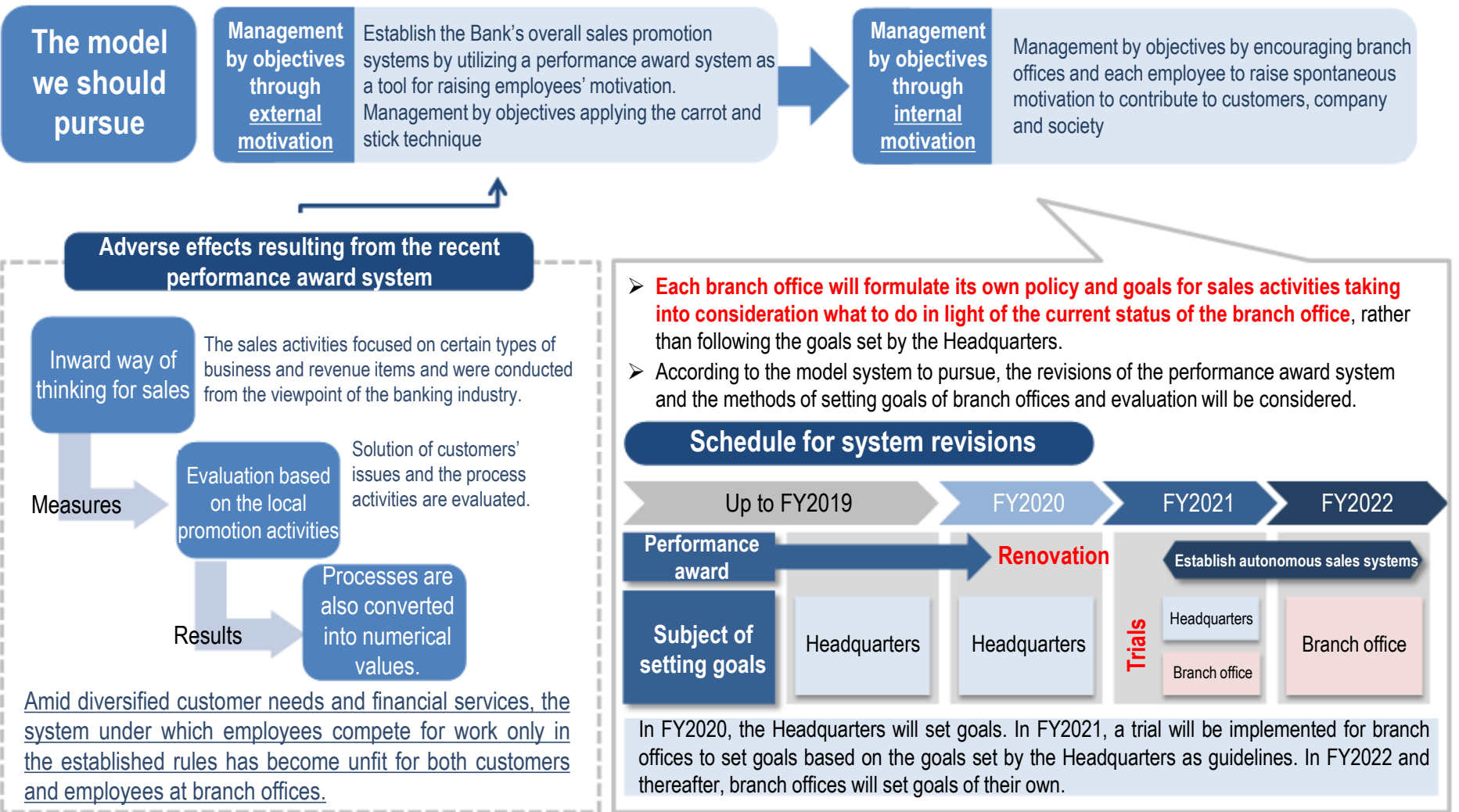
- Pursue a comfortable workplace, respect voluntary efforts of individuals, and realize clear treatment according to the achievements and duties by steadily implementing human resource system reforms including the integration of career-track and non-career-track courses, and the establishment of a specialist course.

Concept	Image of people required
Human resource system to develop unique and highly motivated employees who can play active roles regardless of gender and age	Human resources who can demonstrate their strengths and character in the work domain with specialist capabilities



Review of Evaluation System (Performance Award System)

- We will renew the conventional performance award system, and revise the system under which each branch office will voluntarily formulate goals in FY2022 and thereafter.



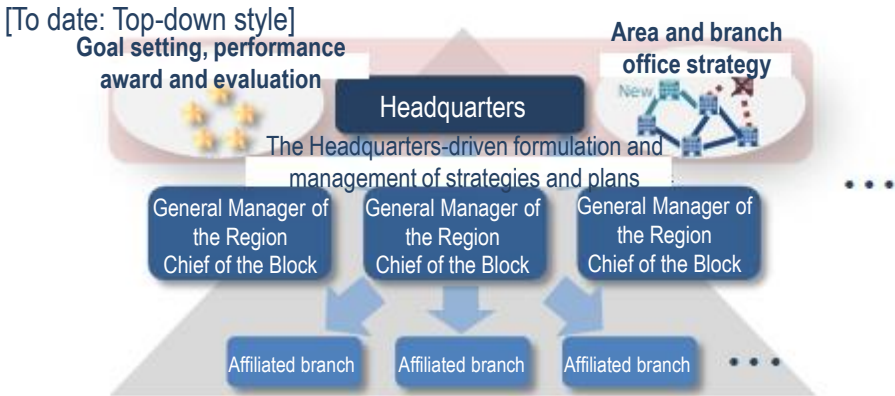
New Measures for the Activation of Organizations

Transfer of authority to the Chief of the Block

We pursue the establishment of more community-based sales systems by increasing the authority of the General Manager of the Region and the Chief of the Block (Chief of area) in formulating the area strategies, etc.

Enhance the career challenge systems

We encourage motivated employees to pursue a challenge under career challenge systems such as the in-house recruitment system for Branch Manager positions and the in-house venture system.



In-house recruitment system for Branch Manager positions

➤ We will select employees who are willing to contribute to the regional community through management of a branch, and provide opportunities to play an active role while encouraging their challenging spirit.



Review the Headquarter-driven system of goal setting, formulation of strategies and planning



In-house venture system

➤ We will call for ideas of new businesses and encourage a creative corporate culture.
➤ We will provide growth and self-fulfillment opportunities to an employee who has ideas for a promising new business by appointing him/her as the person responsible for the business.



Enhance Digitalization Strategy

Vision of Digitalization Strategy

We pursue “A comprehensive services business that is closely related to various aspects of customers’ lives and businesses” which provides the most powerful energy to the region in Japan.

Concept of retail DX*

Create a rich daily life and life with various types of customers together by expanding the scope beyond financing.

Overall policy



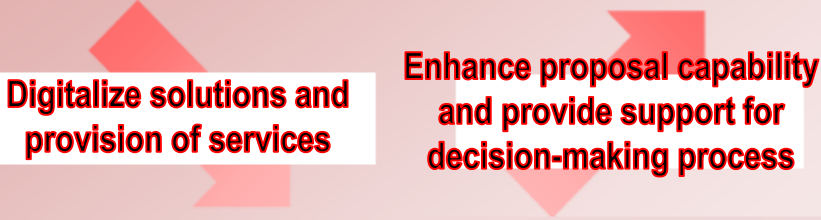
- Digitalization service
- Minimize the existing branch offices and ATMs
- Digitalize and centralize clerical work
- Promote digital technologies to employees

- Provide joint platforms for creation
- Expand the contact points of real and digital
- Establish joint operation schemes
- Create new roles for employees

Concept of corporate DX*

Become a true business/management partner to support growth and reconstruction of customer’s business through our support with funds, human resources, materials and information.

Overall policy



- One-stop digitalized service
- Improve the platforms
- Digitalize inspections, etc.
- Promote professionalism for supporting digitalization

- Expand support for decision-making
- Deepen the consulting business
- Improve simulation tools
- Establish a specialist group dedicated to consultation

Overall policy of the Headquarters DX*

Automatize the Headquarters’ functions

- Automatize data aggregation operations
- Automatize various operations

Realize multi-dimensional functions in analysis

- Multi-dimensional analyses based on multi-purpose data
- Realtime information provision

External use of accumulated know-how

- Provide our know-how to customers
- Provide our know-how to other banks to share

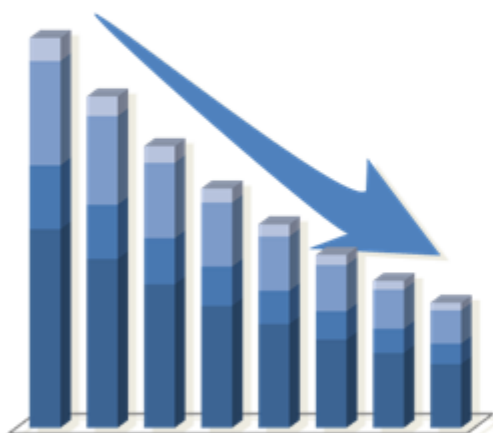
* DX stands for digital transformation which is a concept to fundamentally change the scope of business and services provided to customers by using IT.

Establish Sustainable Growth Models: Cost Reduction Goals

- In the new Medium-term Management Plan, we endeavor to establish sustainable growth models by not only enhancing profitability but also reviewing the fundamental cost structure.
- The reduction of expenses will be achieved on a medium- to long-term basis** through the improvement of productivity and efficiency of personnel (work) and organizations while securing the framework for strategic investments.

Cost reduction goals

Total of three items:
Decrease of ¥3.2 billion



System expenses

FY2019

¥8.7 billion

FY2022

¥6.7 billion

Reduction policy during the Medium-term Management Plan period

The cycle of BPR investments came to an end, and the amortization relating to TSUBASA is completed, resulting in a decrease of ¥2.0 billion.

Other property expenses

FY2019

¥14.0 billion

FY2022

¥14.0 billion

Reduction policy during the Medium-term Management Plan period

The level of property expenses will be maintained while increasing strategic investments.

Personnel costs

FY2019

¥28.2 billion

FY2022

¥27.0 billion

Reduction policy during the Medium-term Management Plan period

Personnel cost will decrease by ¥1.2 billion reflecting natural decrease in personnel due to higher productivity and reduction of new employment.

The Headquarters' Asset Management

- In the first half of the plan, **fees and commissions and non-financial revenues, etc. in the nurturing period will be covered** by expanding the balance of the Headquarters' asset management such as structured finance (SF) including marketable loans and non-Japanese loans applying the margin in our fund procurement.
- We plan to decrease the balance of marketable loans in the second half of the new Medium-term Management Plan according to the expansion of fees and commissions and non-financial revenues, etc.
- Capital adequacy ratio will **be maintained at a stable level of 12%, balancing between profitability and soundness.**

Clarify the positioning of strategies in the Medium-term Plan

[Top priority issue is to secure stable revenue by means of (1) to (3) below.]

(1) Realize high-value added sales activities based on the issues of regional customers

(2) Develop and enhance new business domains

(3) Reduce costs at the Headquarters and branch offices

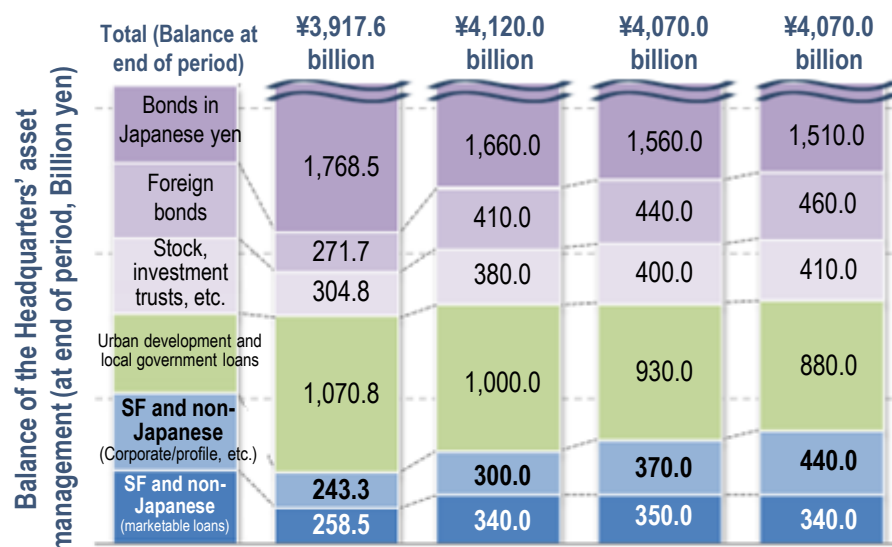
[The shortfall of revenue will be covered by SF and non-Japanese.]

* The reduction of balance will come into view if the above-mentioned measures (1) to (3) contribute to revenues at an early stage.

Increase in the balance of the Headquarters' asset management



Also implement the enhancement of the ALM function



	FY2022 (the final year of the Medium-term Plan)			
Net interest income*	FY2019	FY2020	FY2021	
Securities	¥17.8 billion	¥15.8 billion	¥14.7 billion	¥13.9 billion
Urban development and local government loans	¥3.6 billion	¥3.4 billion	¥3.1 billion	¥2.8 billion
SF and non-Japanese	¥4.0 billion	¥5.0 billion	¥5.9 billion	¥6.3 billion
Total	¥25.4 billion	¥24.1 billion	¥23.6 billion	¥23.0 billion
Total capital adequacy ratio	13.04%	Maintained at a stable level of 12%		

* Calculated on an interest income basis for the Japanese currency-denominated loans while on an SP basis for foreign currency-denominated loans.

Key Performance Indicator (KPI) for the Plan

- The value we can provide to each stakeholder is set as a new KPI.
- The improvement of population in the region (Eastern Setouchi Economic Zone^{*1}) and GDP is targeted on a long-term basis through the achievement of KPIs for each stakeholder.

Stakeholder	New KPI	Results in FY2019	Final year of the Medium-term Plan (FY2022)
Regional community	Number of projects to address regional issues that contributed to the SDGs	—	Continuous improvement
	(1) Total of the number of startups for which we provided support ^{*2} and the number of companies for which we provided support in business succession ^{*3}	—	Total of 3 years: 200 customers
	(2) Activities contributing to the improvement of financial literacy ^{*4}	—	Continuous improvement
Customers	Customer satisfaction ^{*5} (individuals)	Continuous improvement	Continuous improvement
	Customer satisfaction ^{*5} (corporate)	Continuous improvement	Continuous improvement
Employees	Labor share in core business net profit before payment of personnel cost ^{*6}	57.6%	54% or more
Shareholders, etc. (All stakeholders)	Net income attributable to owners of parent	¥11.9 billion	¥15.0 billion
	Consolidated total capital adequacy ratio (Basel III disclosures)	13.04%	Maintained stably at 12%

^{*1}: Eastern Setouchi Economic Zone includes Okayama Prefecture, Kagawa Prefecture, the eastern part of Hiroshima Prefecture (Bingo region), and the western part of Hyogo Prefecture (Harima region).

^{*2}: Number of startups for which we provided support means the number of supported customers that started business through our events for startup support.

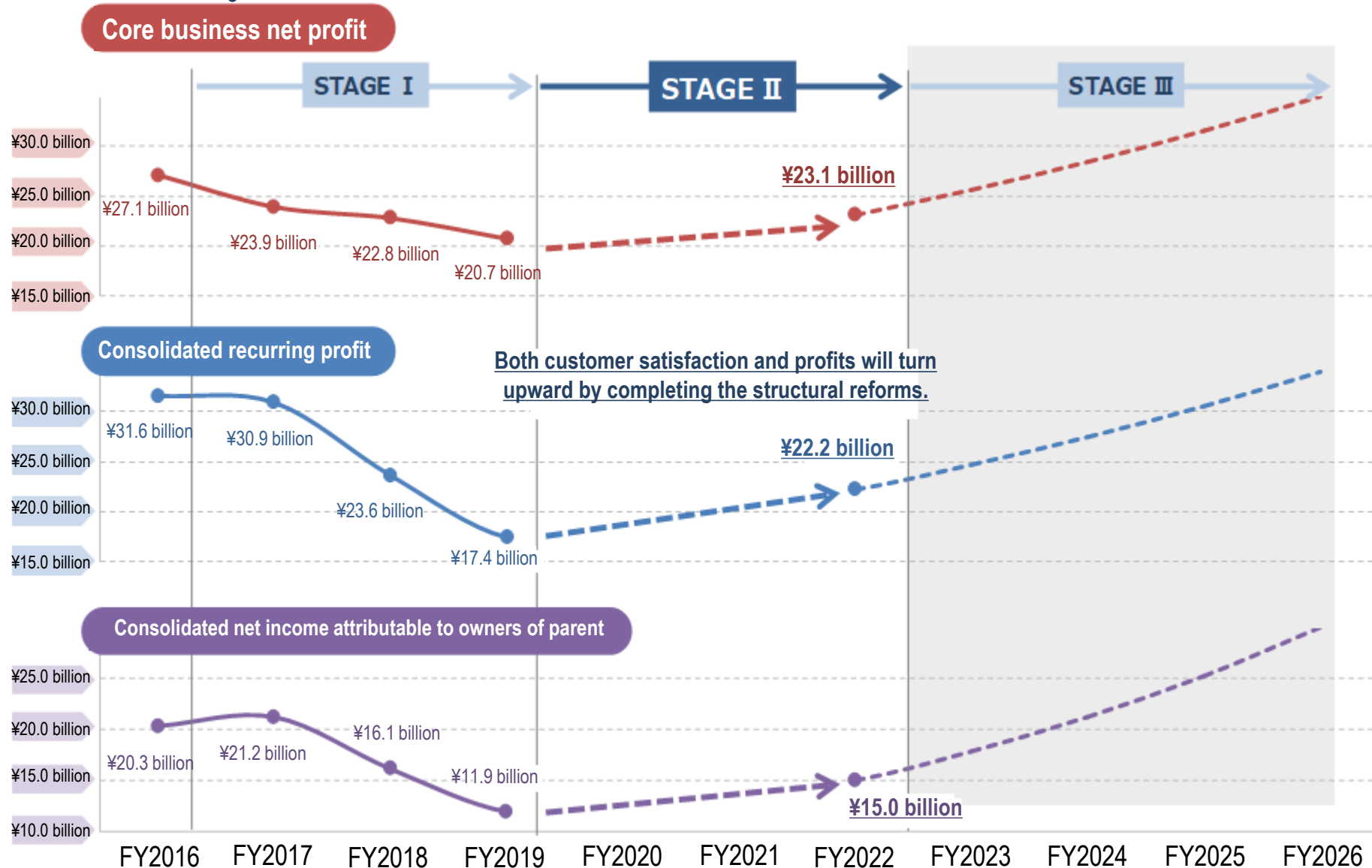
^{*3}: Number of companies for which we provided support in business succession means the number of entrusted contracts for business succession consulting services.

^{*4}: Activities contributing to the improvement of financial literacy means the number of events and study meetings held for the improvement of financial literacy and business skills, etc.

^{*5}: Customer satisfaction represents the number of answers indicating "Satisfied" or "Almost satisfied" in the customer questionnaires.

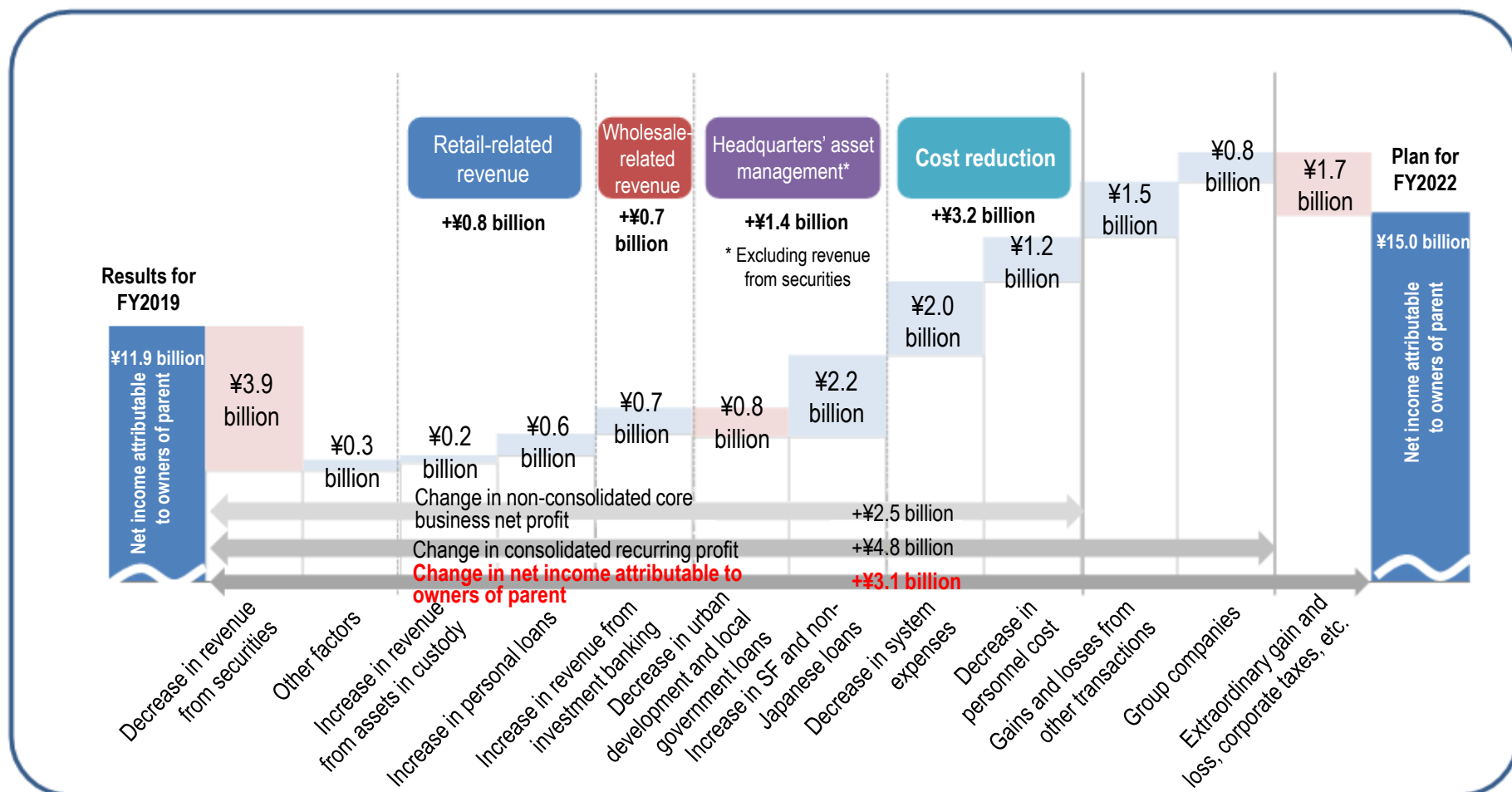
^{*6}: Labor share in core business net profit before payment of personnel cost is calculated by dividing personnel cost by (Core business net profit + Personnel cost).

- We expect that sustainable growth will be achieved by realizing each strategy and reversing the trend of declining profit during the period of the Medium-term Management Plan.



(Reference) Image of Profit Growth in Three Years

- As to the decrease in net interest income from securities on the back of the prolonged period of negative interest rates, we will cover the revenues by improving the asset management of the Headquarters on structured finance (SF) and non-Japanese loans as well as the addition of fees and commissions and non-financial revenues, etc. At the same time, we will implement thorough cost reductions in property expenses and personnel cost, etc.
- We plan to increase net income attributable to owners of parent by 3.1 billion yen in the final year due to the contribution by growth of the Group companies.





This material contains forward-looking statements. These statements do not guarantee our future business performance and include risks and uncertainties. It should be noted that future performance may differ from the targets mentioned herein due to changes in the management environment and other factors.