

# **1H FY2020 Earnings Results Briefing**

**November 30, 2020**



**CHUGOKU BANK**

## Earnings Results for the 1H of FY2020 and the Numerical Targets for FY2020

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# **Section I**

**Earnings Results for 1H FY2020**

**And**

**Numerical Targets for FY2020**

## Responses to COVID-19

- Feb. 5      • The Emergency Response Headquarters was established.
- Feb. 10     • "Consultation Counter" (at all sales branches) was established.
- Feb. 12     • Handling of "Emergency Special Loans" was commenced.
- Mar. 2      • Split operation was commenced (at the Head Office).
- Mar. 16     • "Countermeasures and Support Center concerning COVID-19" was established.
- After April
  - The condition change fee is exempted for customers who are affected by the impact of COVID-19.
  - Split operation was commenced (at all sales branches). A lunch break was introduced.
  - Obligation for all employees to wear a mask.
  - Enhancement of new sales systems amid the COVID-19 calamity (Acceleration of DX).
- After May
  - Handling of no-interest loans was commenced. The Holiday Counter was established.
  - The special counter for "Okayama Co-creation Partnerships" was established.
- After June
  - Recommendation for employees to use the contact confirmation app "COCOA"
- July 27
  - Installation of partitions in the offices, guest spaces, etc.
- October 15
  - Handling of "equity loans" was commenced.
  - Issuance of social bonds (Corona Bonds) for commitment to support local communities.

## Challenges of and direction for post-COVID-19

### [Recognition of the challenges]

#### (External)

- Continue strong financial support.
- Support for customers' new challenges
- Sustainability of regional economy amid the COVID-19 calamity



#### (Internal)

- Enhancement of organized BCP
- Establishment of sales systems not relying on "face-to-face" operations
- Enhancement of our financial foundation to support customers



### [What society will demand of us amid the post-COVID-19 environment]

• Contribution to local communities beyond the borders of finance	I. 地方創生・SDGsの取組み強化
• Proposal of solutions to customers' new management issues that have emerged due to the COVID-19 calamity	II. お客さま本位の営業の「深化」
• Acceleration of workstyle reforms and active participation of diversified human resources.	III. 組織の活性化
• Further development of digitalization	IV. デジタル戦略の強化
• Strengthening of management foundation by improving profitability and cost reduction	V. 持続可能な成長モデルの確立

**Accelerate the promotion of the "Five Pillars" of the Medium-term Management Plan**

# 1H FY2020 Earnings Results – Summary –

	(Billion yen)					
[Consolidated]	1H FY2017	1H FY2018	1H FY2019	1H FY2020	YoY (%)	vs. Plan* (%)
Consolidated recurring profit	153	140	129	119	-10	33
Net income attributable to owners of parent	105	97	86	82	-4	25

## [Non-consolidated]

Core business gross profit	401	396	377	389	12	20
Interest income	338	329	300	303	3	17
Fees and commissions	71	75	75	75	0	-3
Other operating income	-7	-8	1	9	8	5
Expenses (-)	287	272	273	264	-9	-14
OHR (%)	71.4	68.6	72.6	67.7	-4.9	-7.6

Core business net profit	114	124	103	125	22	34
Excluding investment trust redemption g	107	120	102	122	20	33

Credit expense (- is reversal (profit))	-26	2	10	32	22	7
Bond sales gains/redemption	-3	-3	10	8	-2	7
Equity sales gains/redemption	4	3	4	9	5	4
Other	-2	9	13	0	-13	-6

Recurring profit	140	132	122	111	-11	33
Extraordinary gain/loss	-1	-1	-2	-1	1	1
Net income attributable to owners of parent	98	94	84	77	-7	24

\* Forecast published on May 14, 2020

- Core business net profit Increased by 2.2 billion yen on a year-on-year basis due to growth of interest income arising from an increase in loan interest and a decrease in foreign currency procurement cost along with a cost reduction reflecting the improvement of operational efficiency in response to the "New Normal."
- Recurring profit Decreased by 1.1 billion yen year on year mainly due to the increase in credit expenses, whereas there was an increase of 3.3 billion yen compared with the published forecast.

# 1H FY2020 Earnings Results – Change in Interest Income –

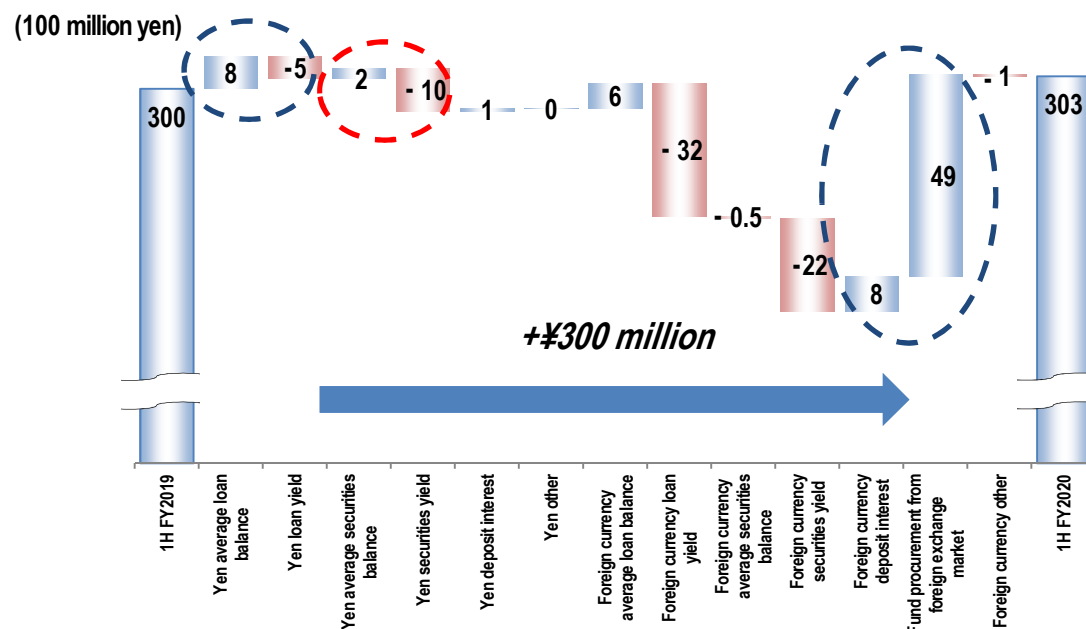
## [Factors behind changes in interest income]

■ Yen-based: ¥26,300 million (–¥500 million YoY)

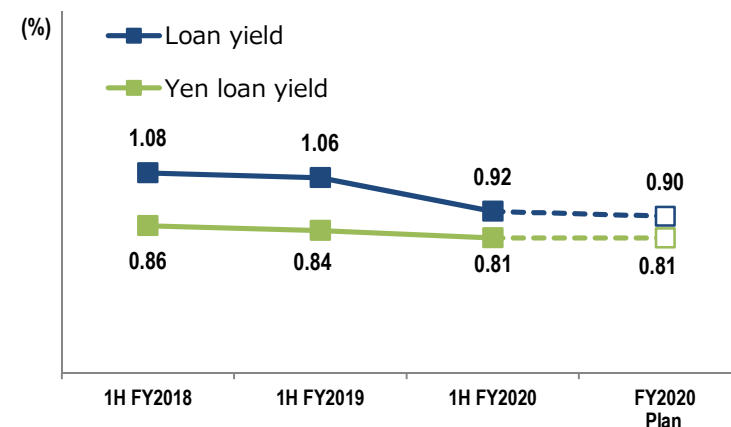
- Loan interest : +¥300 million YoY
- Securities interest: –¥800 million YoY
- Decrease in deposit interest: +¥60 million YoY

■ Foreign currency-based: ¥4,000 million (+¥800 million YoY)

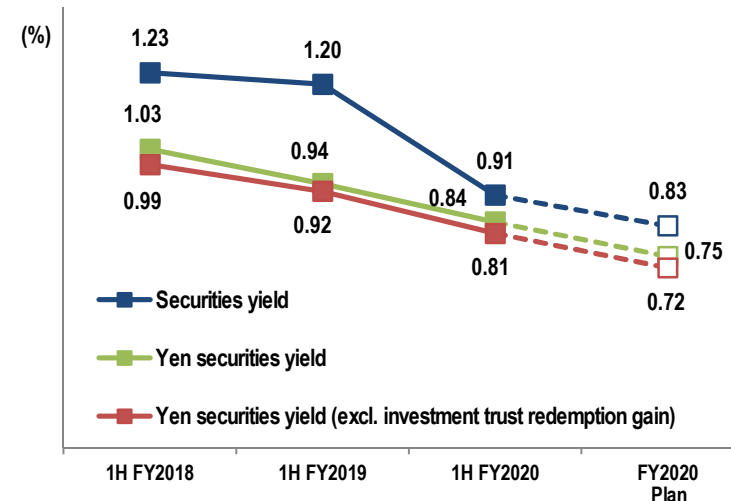
- Loan interest: –¥2,600 million YoY
- Securities interest: –¥2,300 million YoY
- Decrease in deposit interest: +¥800 million YoY
- Increase in foreign currency procurement: +¥4,900 million YoY



## [Loan yield]



## [Securities yield]



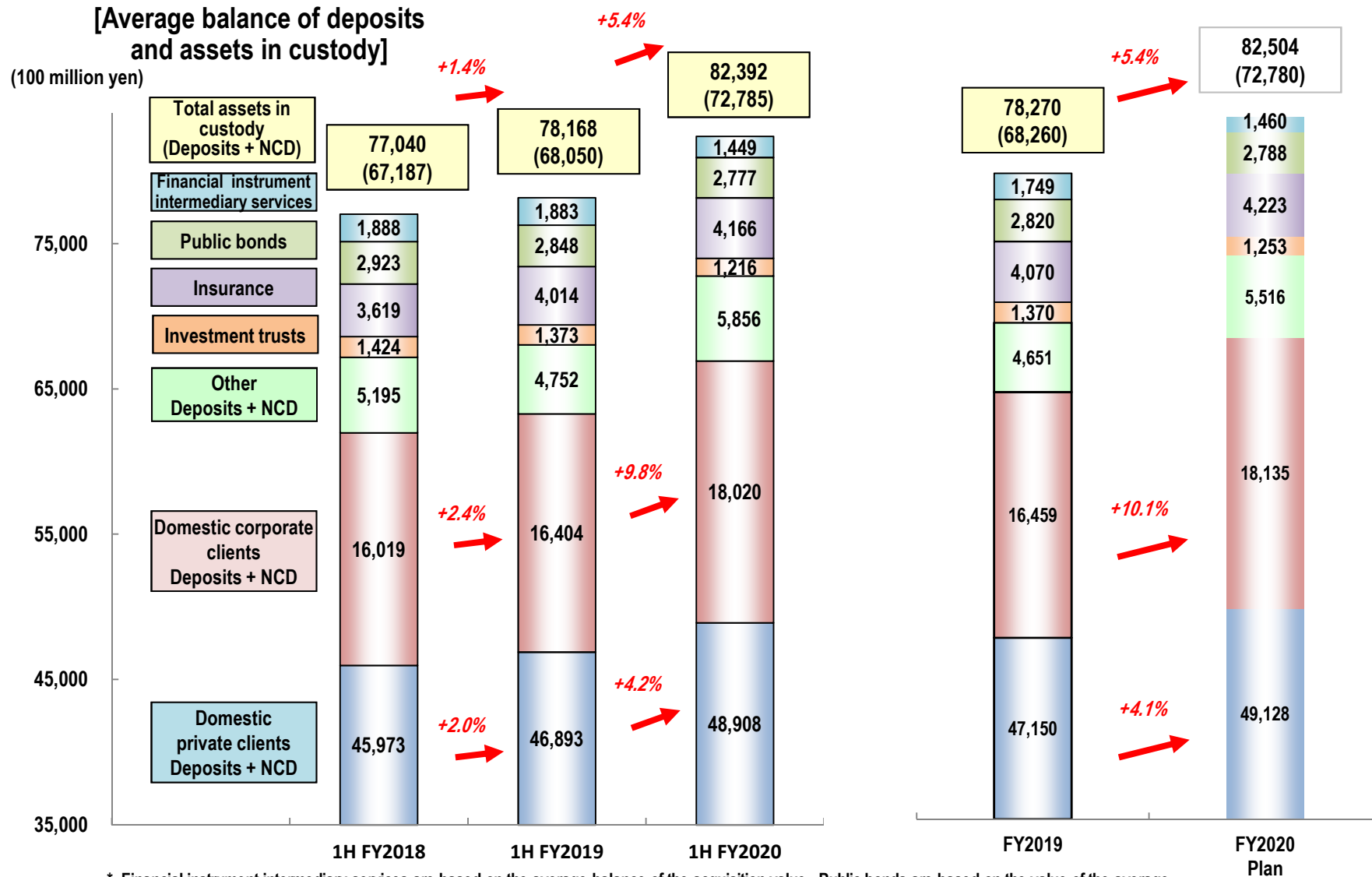
### • Yen interest income

Decreased by 500 million yen year on year mainly due to a decline in securities interest on the back of continued negative interest rates. (Loan interest turned to positive year on year due to an increase in loans for countermeasures against COVID-19.)

### • Foreign currency interest income

Increased by 800 million yen year on year mainly due to a decrease in foreign currency procurement cost reflecting the interest cut in the United States.

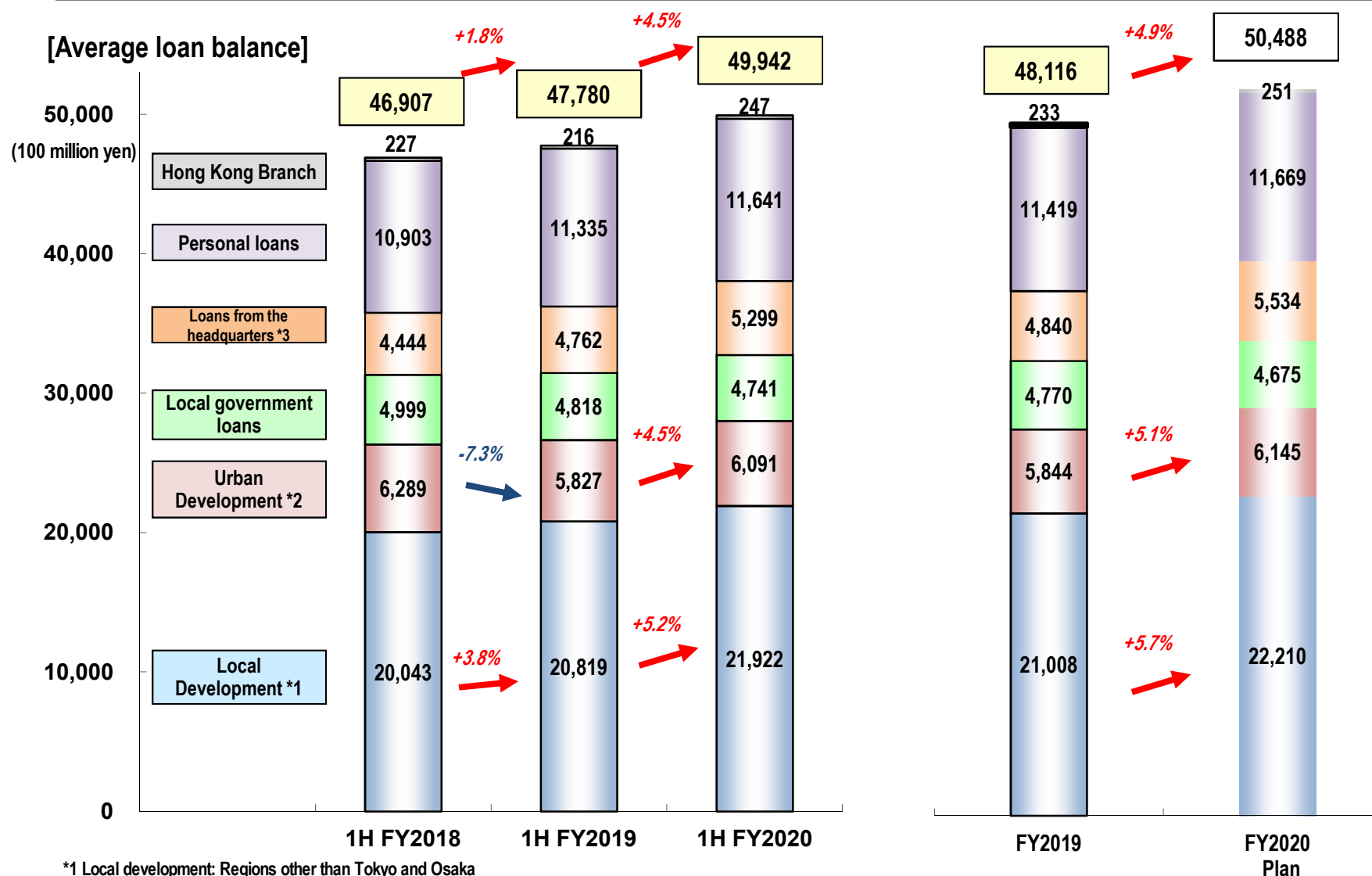
# 1H FY2020 Earnings Results – Major Accounts (1) Deposits & Assets in Custody – CHUGOKU BANK



\* Financial instrument intermediary services are based on the average balance of the acquisition value. Public bonds are based on the value of the average balance. Insurance is based on the average balance taking into account cancellations. Investment trusts are based on the average balance of net assets.

- The average balance of deposits + NCD increased significantly among both private and corporate clients due to payment of various types of benefits, securing funds in hand, controlling spending, etc.

# 1H FY2020 Earnings Results – Major Accounts (2) Loans –

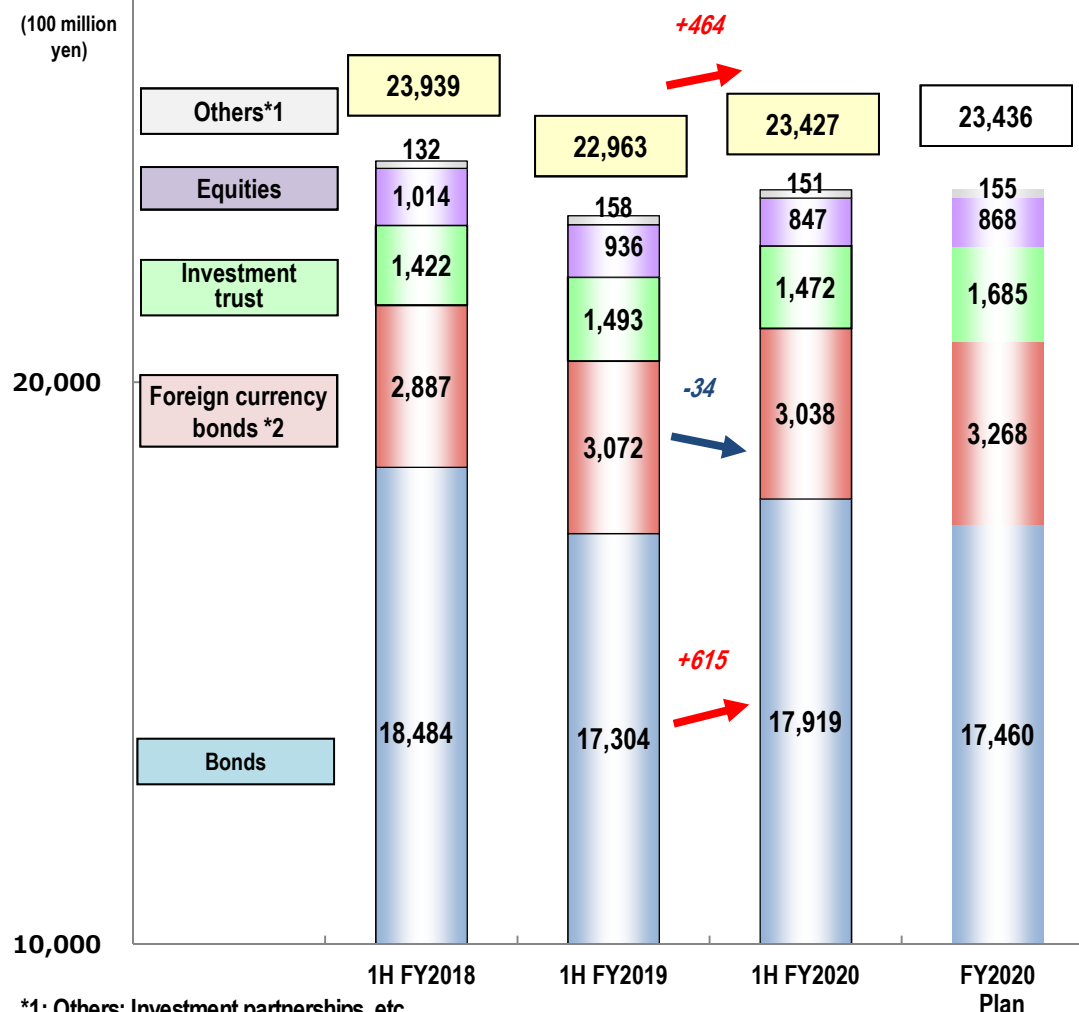


- In 1H FY2020, the total loans grew 4.5% year on year due to positive efforts to provide financial support mainly through local development and urban development loans.
- Going forward, we will continue financial support and strengthen efforts to create fund demand and attract clients in the local communities through consulting services.



# 1H FY2020 Earnings Results – Major Accounts (3) Securities –

[Average balance of securities]



\*1: Others: Investment partnerships, etc.

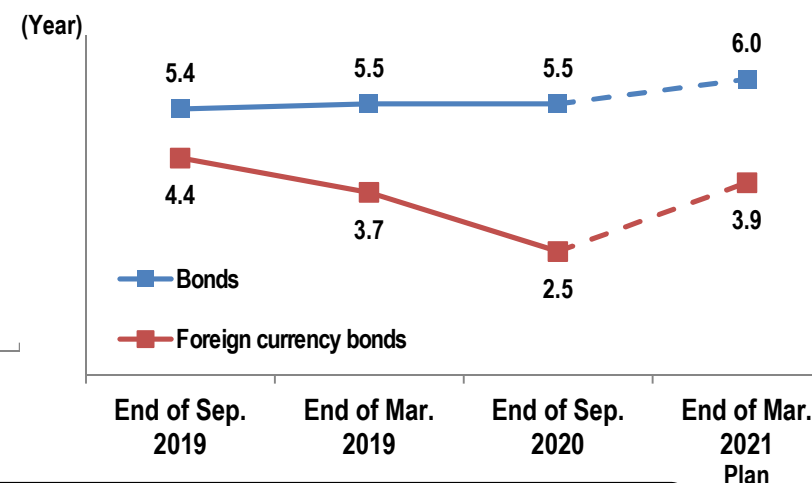
\*2: Foreign currency bonds: Foreign currency investment trusts are included.

[Appraisal profit and loss]

(100 million yen)

	End of Sep. 2019	End of Mar. 2020	End of Sep. 2020	Change from previous fiscal year end
<b>Total</b>	<b>1,473</b>	<b>898</b>	<b>1,160</b>	<b>262</b>
Held to maturity	4	3	2	- 1
Other securities	1,468	895	1,157	262
Of which, stock	503	364	475	111
Of which, investment trusts	455	216	339	123
Of which, foreign-currency denominated bonds	39	23	60	37
Of which, bonds	463	304	271	- 33

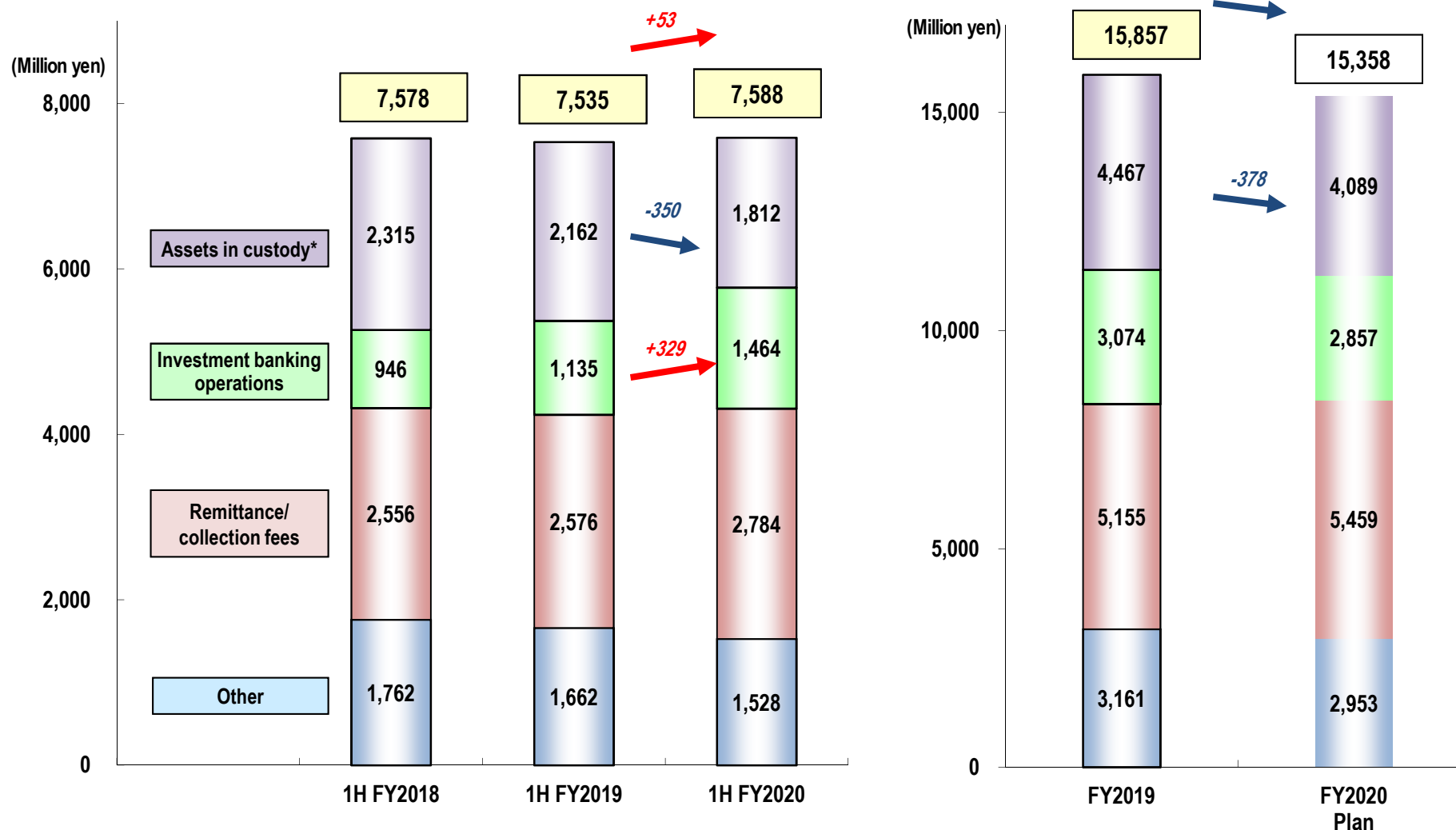
[Duration of bonds]



- In 1H FY2020, the total balance remained almost flat on a year-on-year basis, although yen-denominated bonds increased on the back of growth of deposit/loan balance.
- In the FY2020 plan, we will increase the percentage of bonds and investment trusts in foreign currencies by focusing on risk and return while maintaining the total balance.

# 1H FY2020 Earnings Results – Change in Fees and Commissions –

[Fee and commission (revenue) trends]

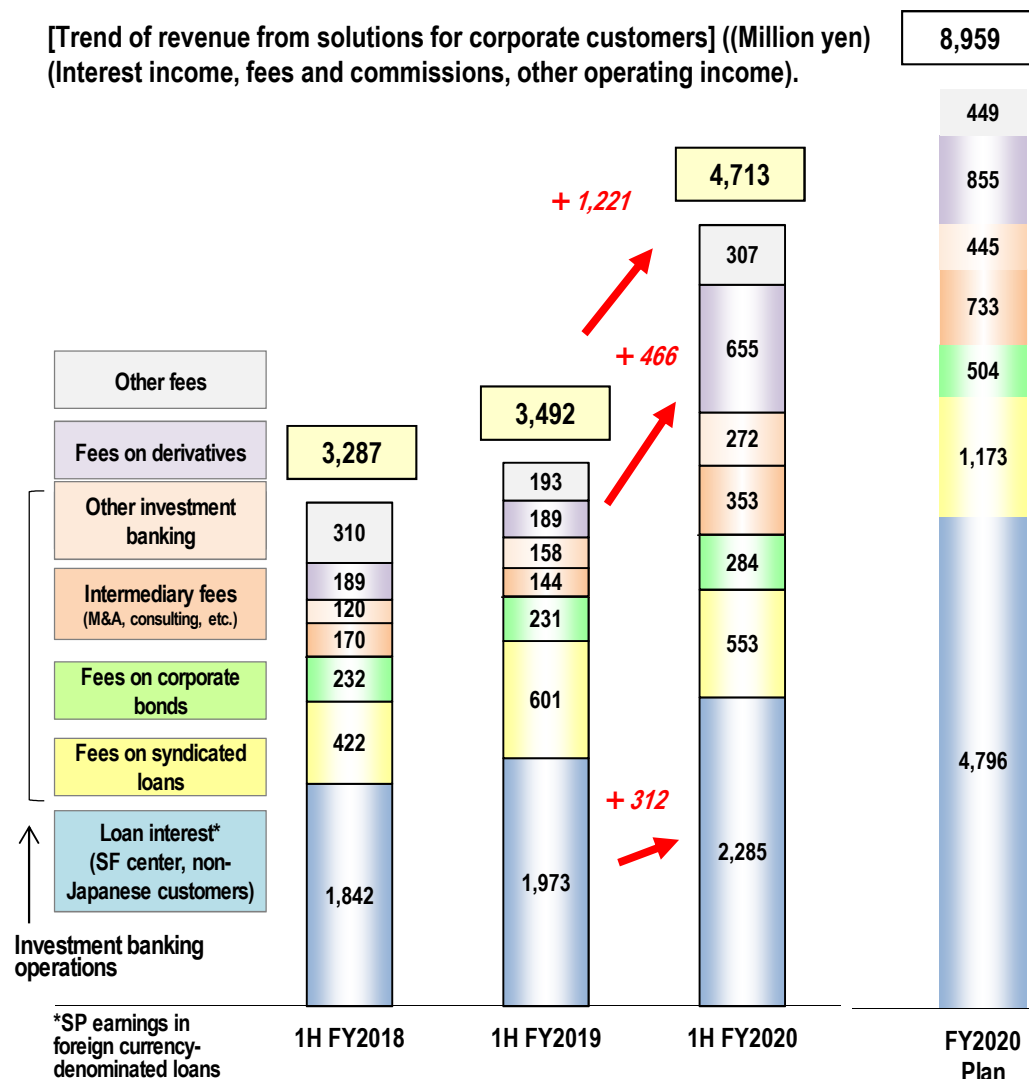


\* Four products in custody (investment trusts, insurance, municipal bonds and financial instrument intermediary services) + inheritance-related business

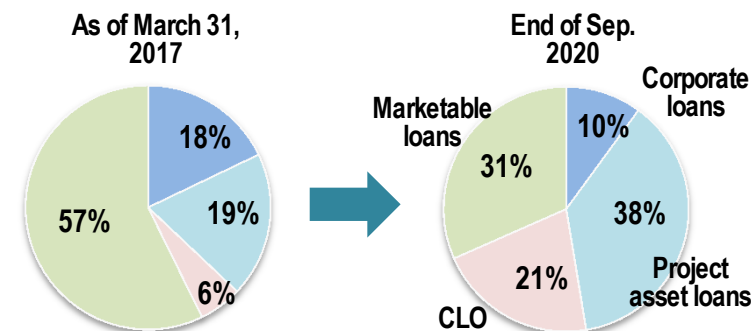
- In 1H FY2020, while assets in custody decreased because we refrained from conducting face-to-face sales activities, this was offset by robust performance in investment banking operations.
- Going forward, we will endeavor to increase fees and commissions mainly from investment banking operations and assets in custody (including inheritance-related business) through consulting services.

# 1H FY2020 Earnings Results – Corporate Solution-related Earnings –

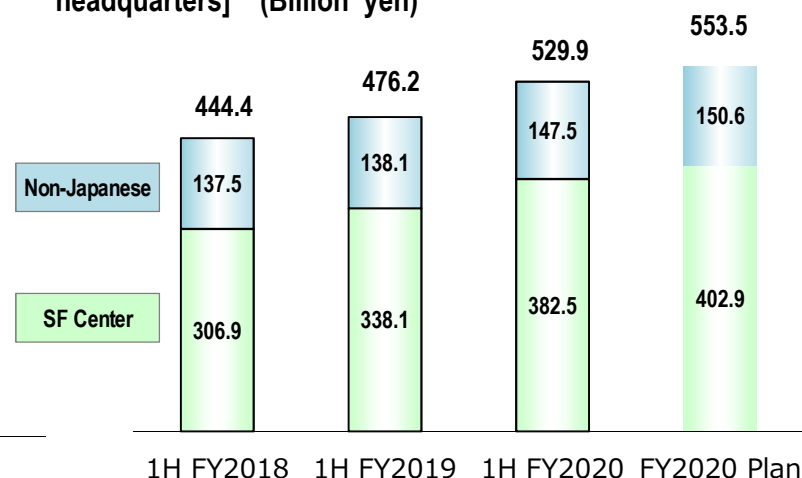
[Trend of revenue from solutions for corporate customers] ((Million yen)  
(Interest income, fees and commissions, other operating income).



[Breakdown of lending from the headquarters]  
(Trend of the actual results)



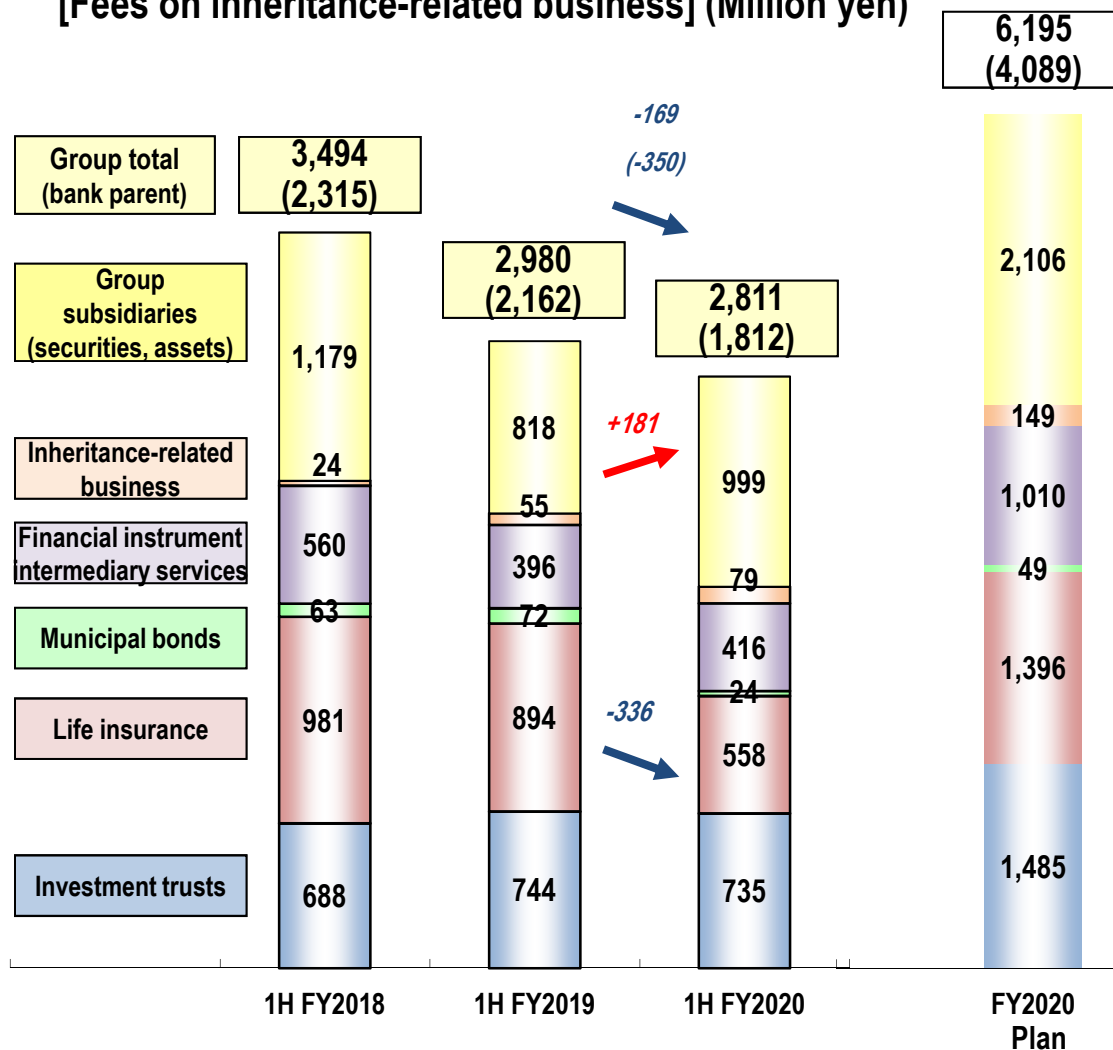
[Trend of average balance of lending from the headquarters] (Billion yen)



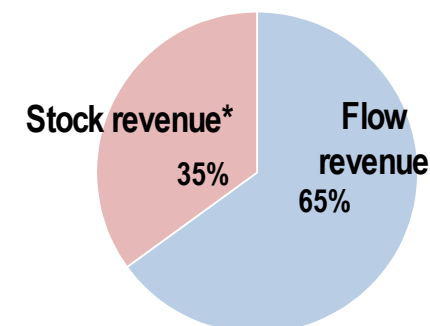
- In 1H FY2020, corporate solution-related earnings increased significantly, reflecting the increase in loan interest and the execution of large-volume derivatives transactions.
- In the FY2020 plan, we will expand the provision of solutions in response to diversified customer needs and further take risks into consideration in loans from the headquarters by paying close attention to the changes in the market environment.

# 1H FY2020 Earnings Results – Revenues Related to Assets in Custody – CHUGOKU BANK

[Fees on inheritance-related business] (Million yen)

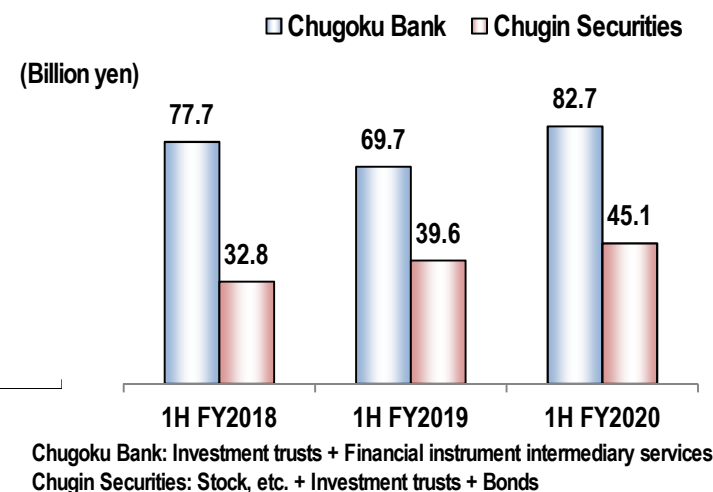


Composition of revenues (FY2020)



\*Stock revenue/Investment trusts + Life insurance + Public bonds + Financial instrument intermediary services

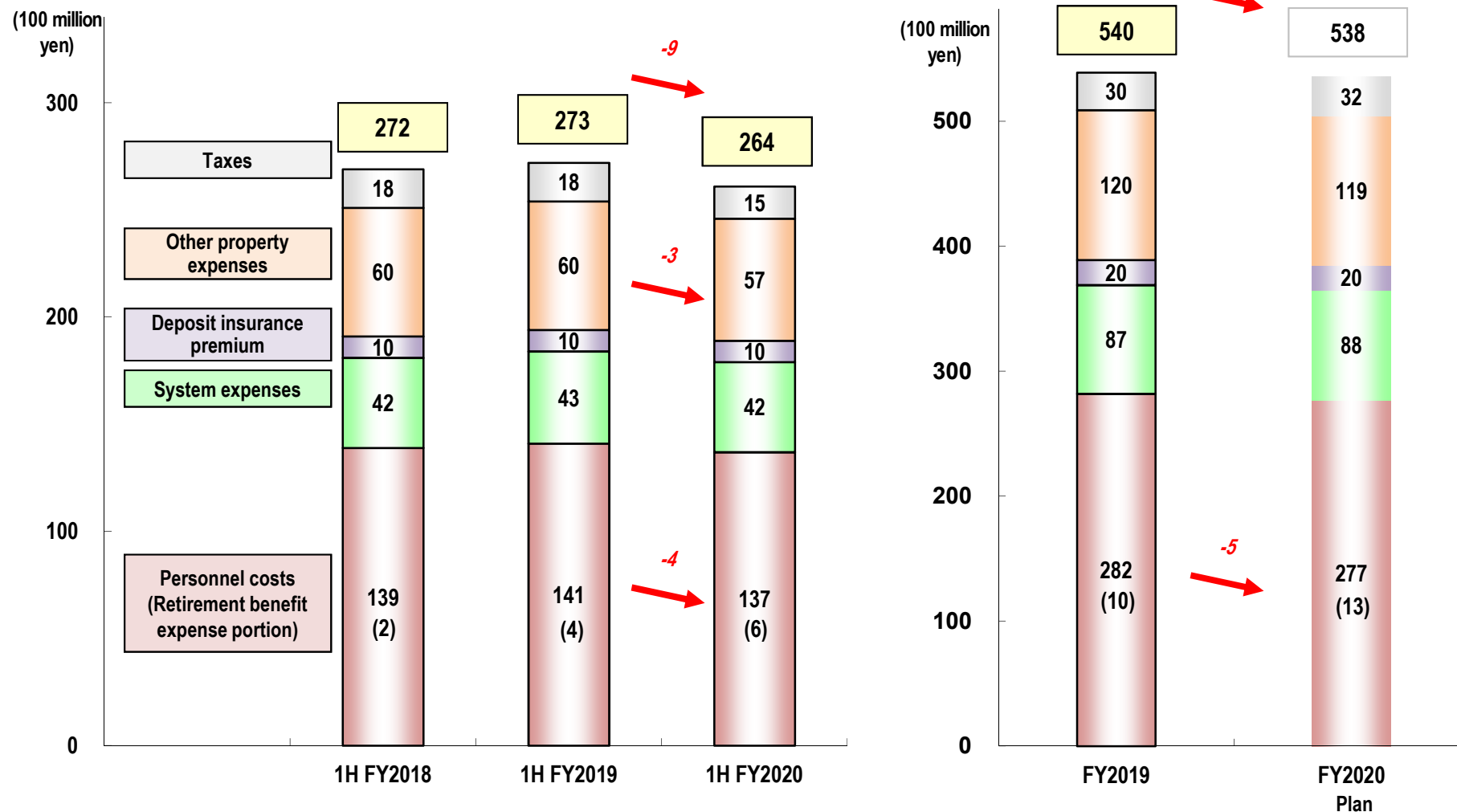
Sales turnover by channel



- In 1H FY2020, revenue decreased because we refrained from conducting face-to-face sales activities.
- In the FY2020 plan, we will enhance customers' asset formation and proposals for inheritance and business succession also by using non-face-to-face channels.

# 1H FY2020 Earnings Results – Change in Expenses –

## [Expense trends]

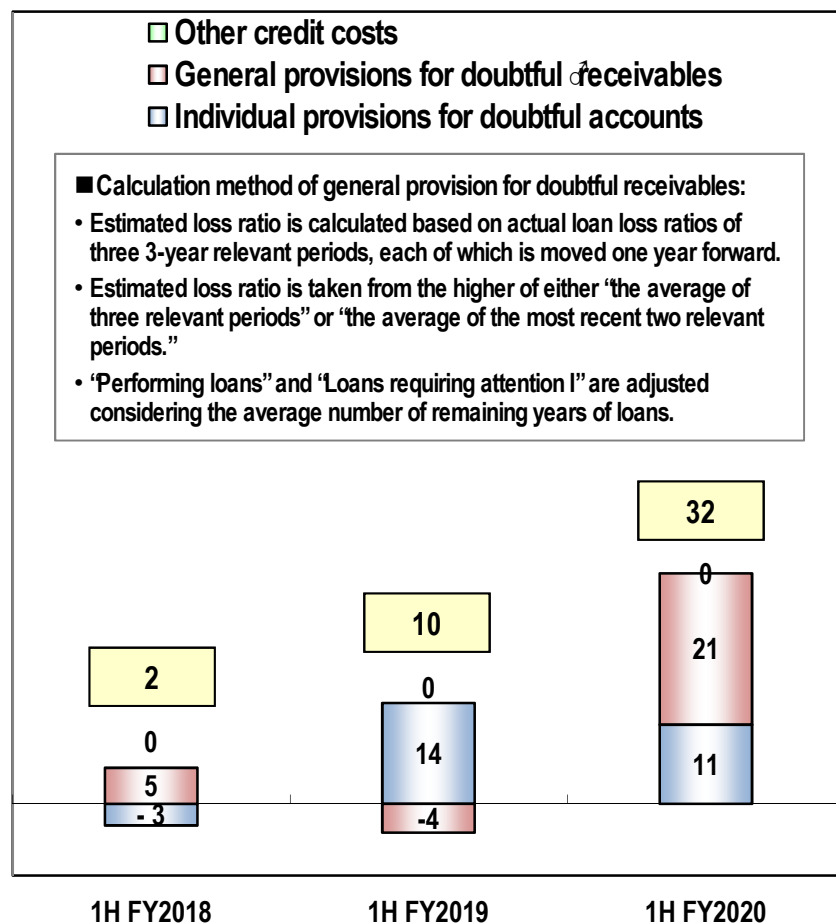


- In 1H FY2020, expenses, as a whole, were significantly reduced mainly for expenses associated with overtime work and business trips by enhancing online non-face-to-face sales activities and promoting teleworking.
- In FY2020, we will make efforts to reduce expenses by continuing to improve productivity.

# 1H FY2020 Earnings Results – Credit Cost Trends/Non-performing Loans – CHUGOKU BANK

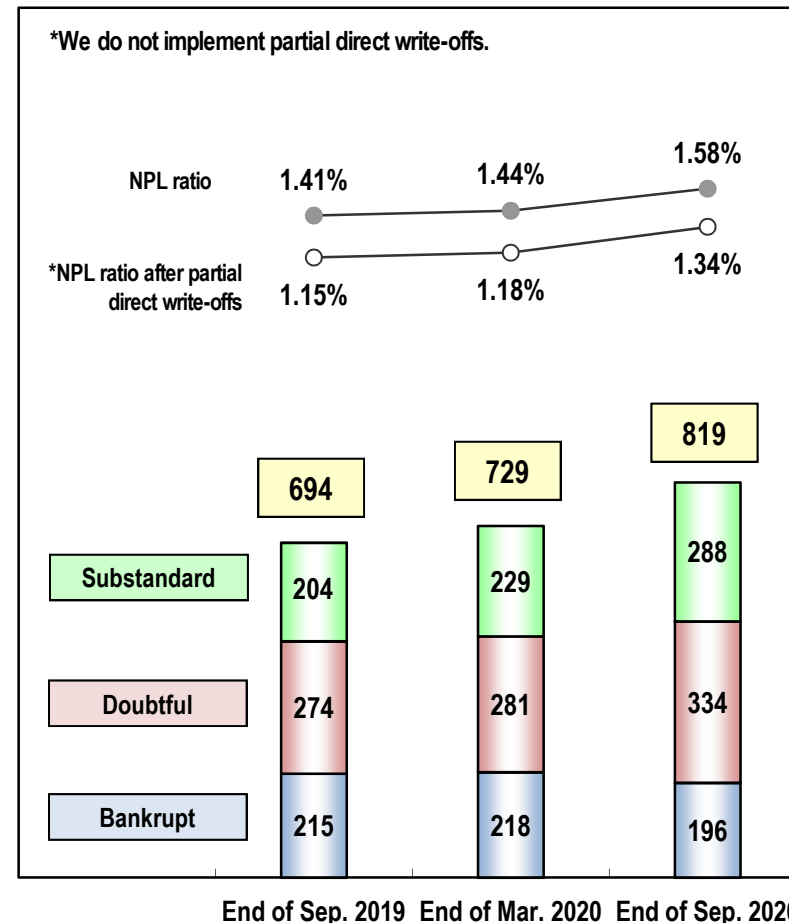
## [Credit cost trends]

(100 million yen)



## [Non-performing loan (NPL) trends]

(100 million yen)



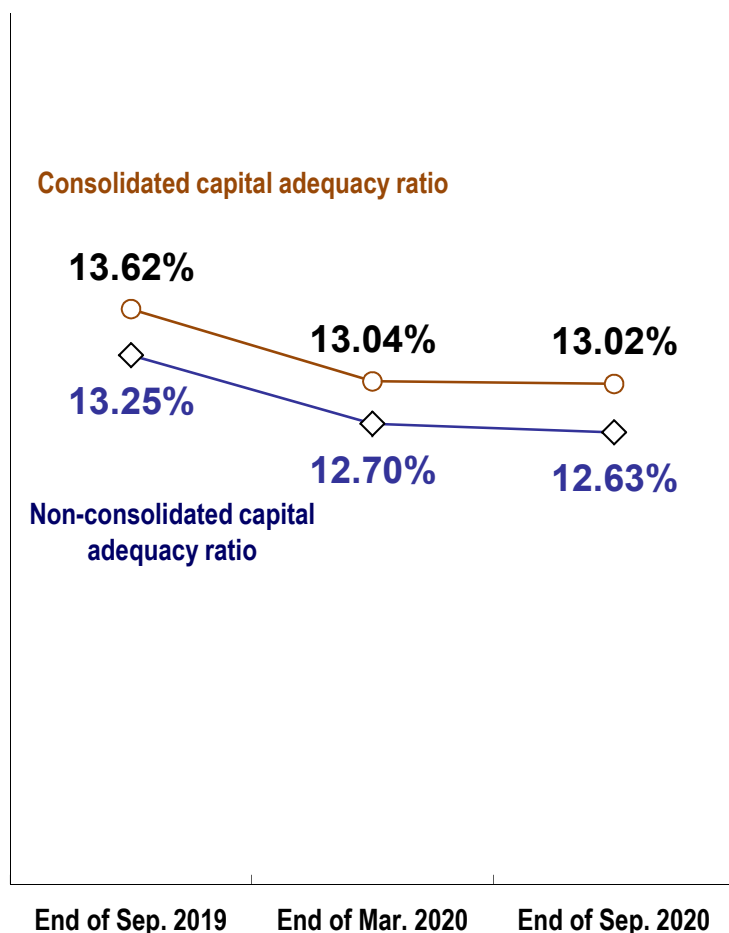
Credit cost = General provisions for doubtful receivables + Individual provisions for doubtful accounts + Loan write-offs + Provisions for specific foreign debt + Provisions for loss on sales of claim + Loss on sales of claim - Gain on reversal to loan loss account

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

- General provision for doubtful receivables increased mainly due to an increase in loans. Recently, the impact of COVID-19 has been limited in the individual provision for doubtful receivables.
- With the NPL ratio remaining at a low level despite a slightly increased NPL, the excellent quality of assets was maintained.

# 1H FY2020 Earnings Results – Capital Adequacy Ratio –

## [Capital adequacy ratio (Basel III) trends]



## [Capital adequacy (consolidated)]

(100 million yen)	FY2019	1H FY2020	YoY
Total equity	5,021	5,265	244
Of which, Tier 1, including common shares	5,019	5,262	243
Risk weighted assets, etc.	38,485	40,418	1,933
Credit risks	36,937	38,875	1,938
Operational risks	1,547	1,542	-5

## [Other Basel regulations]

	FY2019	1H FY2020	<Regulatory standards>
Consolidated leverage ratio	5.99%	6.40%	3% or more
Consolidated liquidity coverage ratio (LCR)	165.3%	186.1%	100% or more
Consolidated stress test (IRRBB)	3.6%	3.4%	15% or less

- The total capital adequacy ratio remained almost flat on the back of an increase in total shareholders' equity due to an increase in valuation difference on securities, while risk assets increased due to an increase in loans.

# Earnings Forecasts

## [Earnings Forecasts]

(Billion yen)		FY2019	FY2020		
		Actual	Plan	YoY	Vs. published forecast at beginning of term
Consolidated	Consolidated recurring profit	174	175	1	8
	Consolidated net income	119	120	1	9

Non-consolidated	Core business gross profit	747	752	5	20
	Interest income	582	584	2	18
	Fees and commissions	158	153	- 5	- 4
	Other operating income	6	13	7	5
	Expenses (-)	540	538	- 2	- 10
	Core business net profit	207	213	6	30
	Credit expense (-)	56	89	33	26
	Of which, general provision for doubtful receivables	23	39	16	8
	Of which, individual provision for doubtful accounts	32	49	17	17
	Securities-related gains	- 5	36	41	13
	Other	7	- 5	- 12	- 8
	Recurring profit	154	155	1	8
	Net income	108	110	2	10

## [Impacts of the spread of COVID-19]

### <Interest income>

- In 1H FY2020, loans relating to countermeasures against COVID-19 increased significantly.
- Since a certain level of demand for cash is expected to continue, although the trend has slowed down recently, we anticipate an annual growth of 4.9% in total loans and a year-on-year increase of 500 million yen in Japanese-yen loan interest for FY2020.

### <Fees and commissions>

- In 1H FY2020, sales in assets in custody remained subdued because we refrained from conducting face-to-face sales activities from April to May.
- Since June, we have established sales systems in response to the COVID-19 calamity and the sales activities have recovered to the planned level. Therefore, we do not expect major impacts on performance in 2H FY2020.

### <Expenses>

- With the recovery of sales activities and business activities, we expect that necessary expenses and strategic investment will increase to the initially planned level. However, total expenses will decrease as we will accelerate the measures to improve operational efficiency which we implemented amid the COVID-19 calamity.

### <Credit cost>

- An impact of increasing loans is expected on general provision for doubtful receivables.
- Currently, there is no major impact on individual provisions for doubtful accounts.
- However, a total of about 3.5 billion yen for general provision and individual provision for doubtful accounts is included in the plan as a preventive measure in preparation for an occurrence of contingency.

- The impact of COVID-19 has been included in the FY2020 plan based on information currently available.
- In the FY2020 plan, our target for profits (core business net profit, recurring profit, and net income attributable to owners of parent) is to achieve year-on-year positive levels.



## [Shareholder return policy for FY2020]

We will return profits at a total payout ratio of approximately 35%, calculated by the sum of dividends and share repurchases.

**The calculation method of net income has been changed from a non-consolidated basis to a consolidated basis.**

**Annual dividend: 22 yen (11 yen as interim dividend)**  
(22 yen per share, including stable dividend of 18 yen)

## [Status of shareholder returns] ← Non-consolidated basis Consolidated basis →

(Billion yen)	FY2016	FY2017	FY2018	FY2019	FY2020 (plan)
Dividend per share (interim dividend)	20 yen (10 yen)	20 yen (10 yen)	22 yen (10 yen)	22 yen (11 yen)	22 yen (11 yen)
Net income ①	19.0	19.4	15.3	10.8	12.0
Total dividends ②	3.8	3.8	4.1	4.1	4.1
Payout ratio ②÷①	20.2%	19.7%	27.1%	38.2%	34.5%
Share buybacks ③	2.9	2.9	1.4	-	Total payout ratio on a consolidated basis: Estimated at 35%
Total amount of profit return ② + ③	6.7	6.8	5.5	4.1	
Total payout ratio (② + ③)÷①	35.5%	35.1%	36.2%	38.2%	

\*Share buyback as a factor in calculating payout ratio: Calculated based on buybacks during one year from time of general meeting of shareholders.

- We will set our target shareholder return at 35% of consolidated net income (attributable to owners of parent).
- Annual dividend will be 22 yen per share as planned at the beginning of the term.

## **Section II**

### **Major Initiatives**

# Long-term Management Plan ‘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



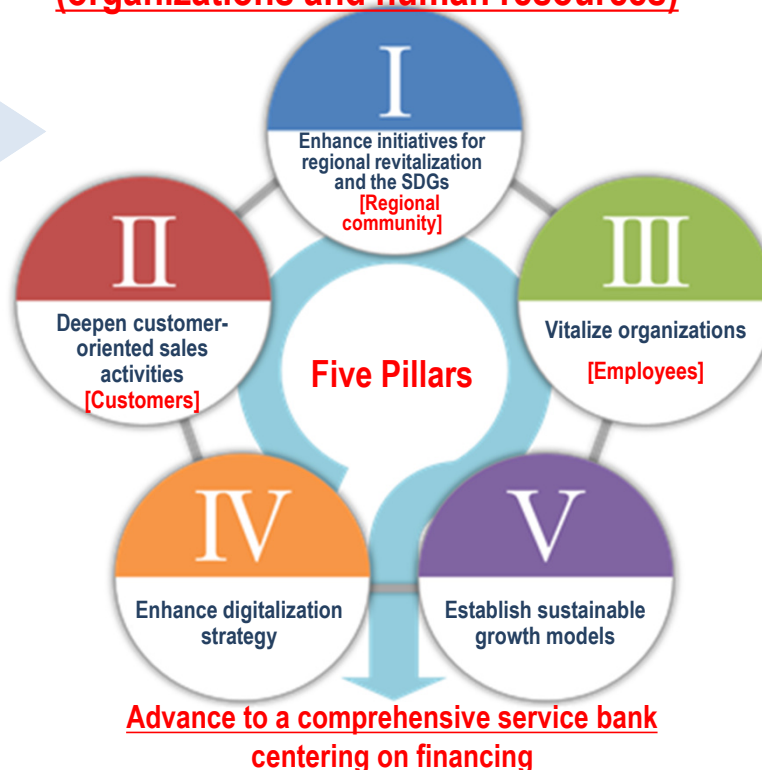
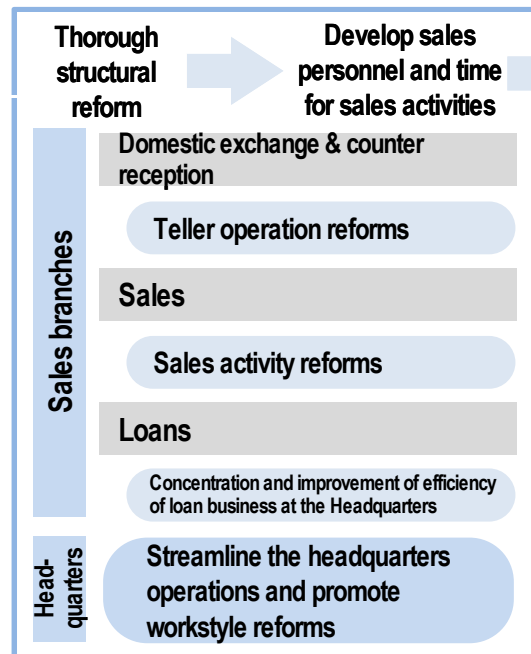
### Initiatives to create the foundation of management

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

# 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.



Establish business models that grow together with local community

The Chugoku Bank Group will become the regional platform

SDGs: The term stands for Sustainable Development Goals which were adopted by the United Nations member states in September 2015 as the common goals of the international community.

# Key Performance Indicator (KPI) for the Medium-term Management Plan

- The value we will be able to offer to each stakeholder is set as KPI of the Medium-term Management Plan “Plan for Creating the Future Together: Stage II.”
- Through the achievement of KPI for each stakeholder, we aim to increase the population and improvement of GDP within the region (East Setouchi Economic Zone\*) in the long run.

Stakeholder	KPI	Results in FY2019	Final year of the Medium-term Plan (FY2022)	Final year of the Long-term Management Plan (FY2026)
Regional community	Number of projects to address regional issues that contributed to the SDGs	—	Sustainable 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	—	Sustainable improvement	—
Customers	Customer satisfaction *5 (Individual and corporate)	Sustainable improvement	Sustainable improvement	Sustainable improvement
Employees	Labor share in core business net profit before payment of personnel cost*6	57.6%	54% or more	—
Stakeholders, etc. (All stakeholders)	Net income attributable to owners of parent	11.9 billion yen	15.0 billion yen	30.0 billion yen
	Consolidated total capital adequacy ratio (Basel III)	13.04%	Maintained stably at 12%	Maintained stably at 12%
	Consolidated ROE	2.27%	—	5% or higher (on a single-year basis)

\*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 a little satisfied” in the customer questionnaires.

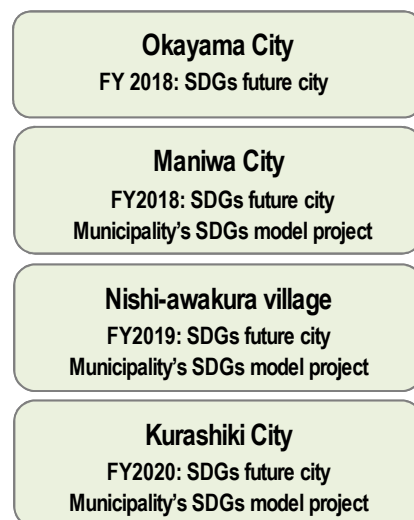
\*6: Labor share in core business net profit before payment of personnel cost is calculated by dividing personnel cost by (Core business net profit + Personnel cost).

# I. Enhance Initiatives for Regional Revitalization and the SDGs

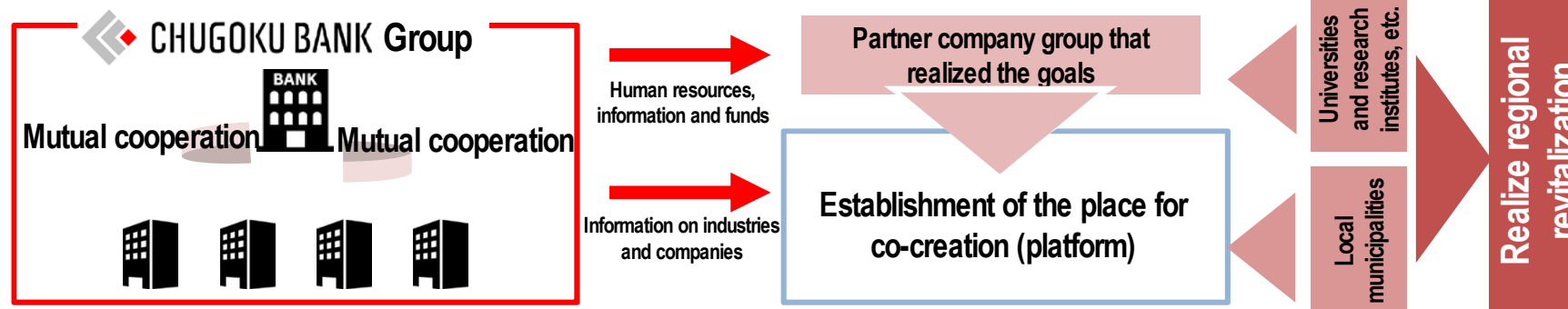
## – Towards the creation of future cities

- The SDGs initiative will be accelerated from Okayama by enhancing cooperation between local municipalities, universities and educational research institutes, local companies, and media.
- We will proactively support the realization of regional revitalization through provision of “human resources,” “information,” “funds” and “know-how.”

### Spread of SDGs within Okayama Prefecture



### The role of the Chugoku Bank Group in Regional Revitalization

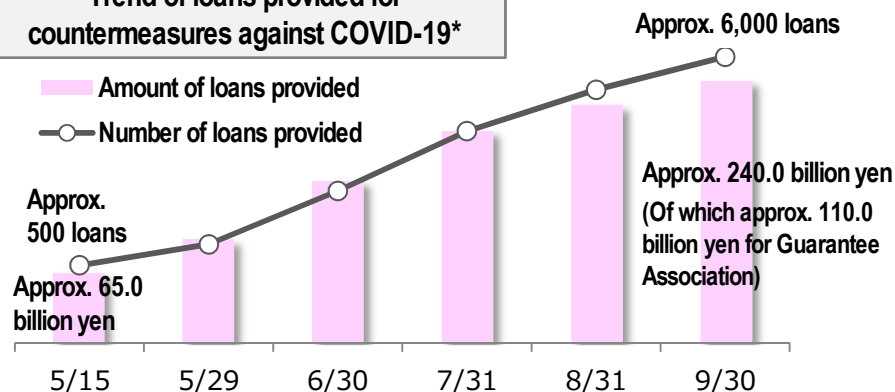


# I. Enhance Initiatives for Regional Revitalization and the SDGs

## – Responses to COVID-19

- The provision of support to our customers affected by COVID-19 is the top priority issue of “Regional revitalization and SDGs.”
- We issued social bonds (Corona Bonds), the first-ever bonds issued by a regional bank. We will continue to proactively provide financial assistance to local customers.

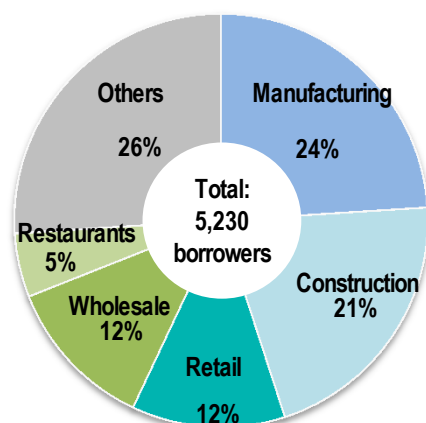
Trend of loans provided for countermeasures against COVID-19\*



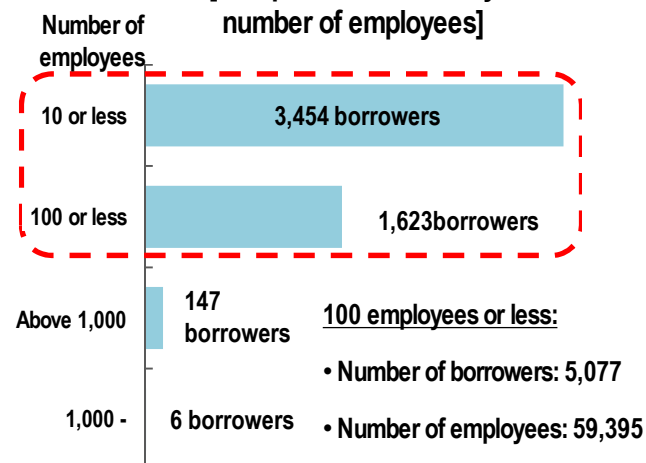
\*Total number of loans and amounts of policy-based directed credit and loans of which the use of application of the proceeds relates to COVID-19 (including commitment lines).

Of which, analysis of policy-based directed credit relating to COVID-19

[Composition of loans by industry]



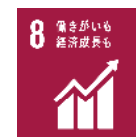
[Composition of loans by number of employees]



Outline of social bonds (Corona bonds)

[Purpose of issuance]

- ✓ To give a message to local customers (to maintain local economic activities and employment through financial assistance)
- ✓ To maintain sound operations and generate additional risk-taking capacity, and to improve capital efficiency.



Name of issue	The Chugoku Bank, Limited #1 Callable unsecured corporate bonds (subordinated bonds subject to exemption in case of substantial bankruptcy) (Social bonds)
Amount of issue	10 billion yen
Terms of maturity	10 years (subject to early redemption)
Date of issue	October 15, 2020
Outline of the use of proceeds and conformity with SDGs	The proceeds will be applied to the provision of loans to customers whose businesses are affected directly or indirectly by the spread of COVID-19.
External evaluation:	We have established a social bond framework in accordance with the Social Bond Principles 2020 of the International Capital Market Association (ICMA). We received a second opinion from Rating and Investment Information, Inc. (R&I) to the effect that the relevant framework is in conformity with the Social Bond Principle 2020.
Rating	A (R&I)



# I. Enhance Initiatives for Regional Revitalization and the SDGs

## – Local Trading Company

- Establish a business model for development together with local communities by using know-how, information and networks of the Group
- By establishing a local trading company, we will accelerate support for our customers' main businesses and contribute to the development of local communities.



### Local trading company "Setonowa"

Name of company: Setonowa Co., Ltd.  
 Head Office : Chugin Ekimae Building 607,2-5 Honmachi, Kita-ku, Okayama City, Okayama Prefecture  
 Established : November 25, 2020  
 Shareholders : The Chugoku Bank, Limited 70%  
 The Sanyo Shimbun Co., Ltd. 15%  
 Tenmaya Co., Ltd. 15%  
 \* A company designated as a banking business sophistication company.



The first banking business  
 sophistication company in Japan  
 established jointly with general  
 business corporations



#### ✓ Purposes of the local trading company

- Create economic value within the region through transmitting information to inside and outside the region and through assistance to increase sales by identifying regional resources that customers have.  
 (\*Regional resources: Agricultural and marine products, traditional handicrafts, various technologies and products, etc.)

#### ✓ Strengths of the local trading company "Setonowa"

- Established jointly with companies representing the region in order to complement knowledge such as product distribution, promotion, design and marketing, which a bank does not have sufficiently.
- As a banking business sophistication company, it will disseminate the uniqueness of the region by making the most of the bank's managerial resources together with the know-how and networks of the five participating companies.

#### ✓ Synergy effects to the banking business

- A broad range of synergy effects is expected through the local trading business, such as consulting, personnel recruitment, business matching and an increase in loans.

#### Assistance for planning of marketing strategy

- Analysis of environment, including markets, customers and competitions.
- Planning of sales methods and pricing

#### Assistance for planning and development

- Provide assistance, from planning to execution, in the planning of concept of new products, effective use of technologies, and establishment of development and production systems.

#### Assistance for developing sales channels

- Provide sales channels suitable for the characteristics and needs of the products and services.
- Sales agency operation



# I. Enhance Initiatives for Regional Revitalization and the SDGs

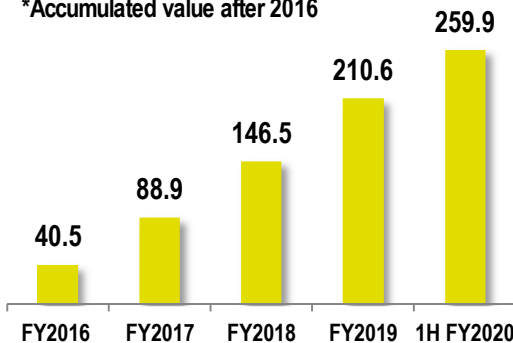
## – SDGs accelerated through main business

- As a leading bank of the region, we will contribute to the solution of “environmental and social issues” and support customers’ SDGs initiatives.
- We pursue the improvement of long-term and sustainable corporate value by accelerating SDGs through our main business.

### Initiatives for “environmental and social issues” through financing

#### Loans relating to the environment and energy (Billion yen)

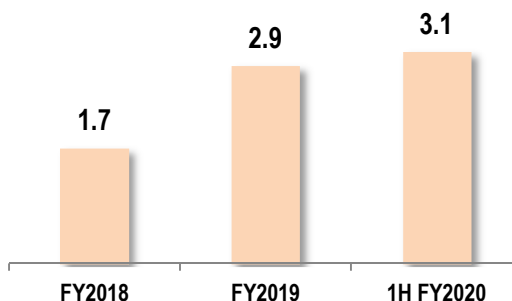
\*Accumulated value after 2016



- ✓ Support customers’ business in cooperation with external experts.
- ✓ The Headquarters SF Center will also proactively endeavor to work on this as project finance.

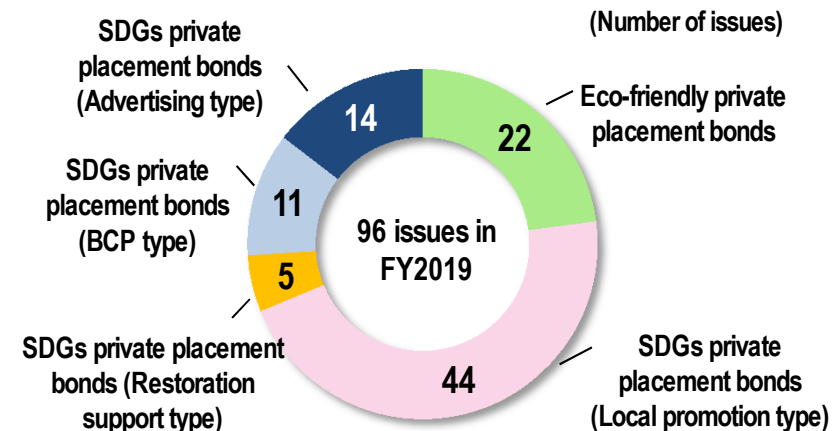
#### Childcare-related loan (Billion yen)

\* Accumulated value after 2018



- ✓ Given the issue of children on waiting lists for nursery schools, we have strengthened support as a local financial institution.
- ✓ We have assigned staff in charge at the Headquarters to provide support for the formulation of business plans and investigation of the external environment, etc.

### Promote private placement bonds for social contribution



**Eco-friendly private placement bonds:**  
Preferential cost of issuance is offered to customers who implement environment-friendly management.

**SDGs private placement bonds:** Part of the proceeds are used for the relevant purposes of the SDGs.

**Local promotion type:** • Donation and gift to public organizations, etc.

**Restoration support type:** • Contribution to relief money for disaster victims

**BCP type:** • BCP consulting is conducted.

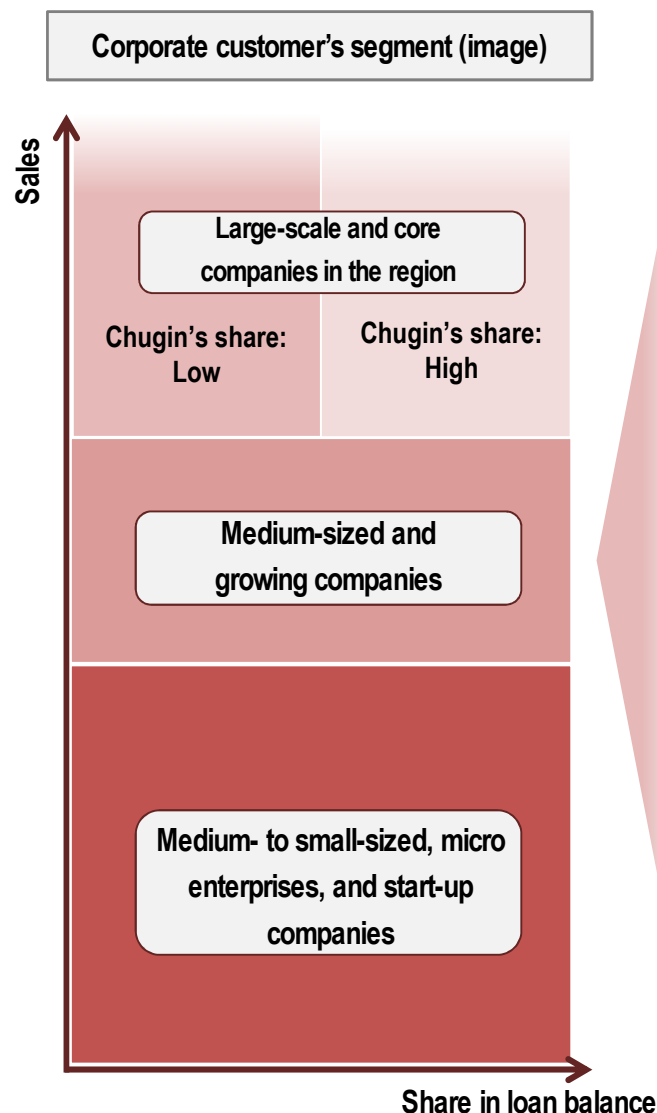
**Advertising type:** • The initiatives for the SDGs are published in newspapers.

**New**  
In April 2020 and thereafter: The workstyle reform type was added.  
• The improvement of welfare is implemented.

## II. Deepen customer-oriented sales activities

### Deepening local support activity (corporate solution)

- Sales offices and the Headquarters unite to propose optimal solutions depending on the customer's segment and stage.



### Introduction of Relationship Management (RM)

#### Subject customers

- Companies whose impact on local economy is significant and who have a large volume of transactions with us were selected.
- \* Such large companies representing the region's industry, and the companies who support local employment

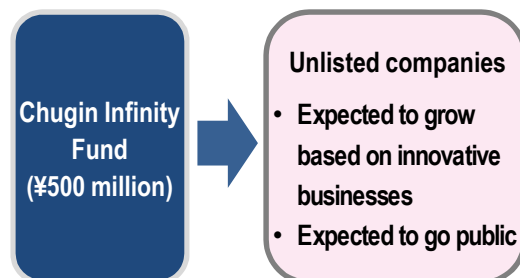
#### Activities

- Personnel in charge of RM assigned at the Headquarters work together with sales branches offer comprehensive solutions to customers.
- Analyses of the trends of the customer's industry and competitors, and communication with customers
- Sharing managerial challenges, and preparing milestones for improvement
- Proposing various solutions

### Enhancing support for start-ups

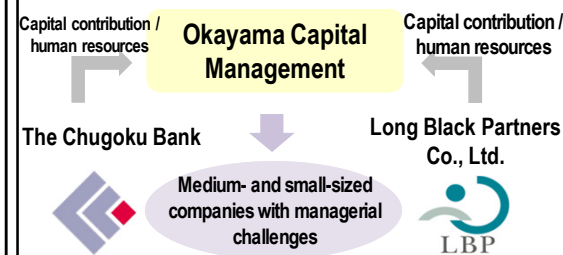
#### Establishment of "Chugin Infinity Fund"

- Enhance support for equity capital in order to cultivate companies that will play important roles in the region.



### Enhance consulting services for companies having managerial challenges

- ① "Legal liquidation-type M&A advisory services"
  - Search for a sponsor of the rehabilitation debtor
- ② Okayama Capital Management Co., Ltd.
  - Provide consultation services to customers with managerial challenges



## II. Deepen customer-oriented sales activities

### Deepen life plan support activities (solutions for individual customers)

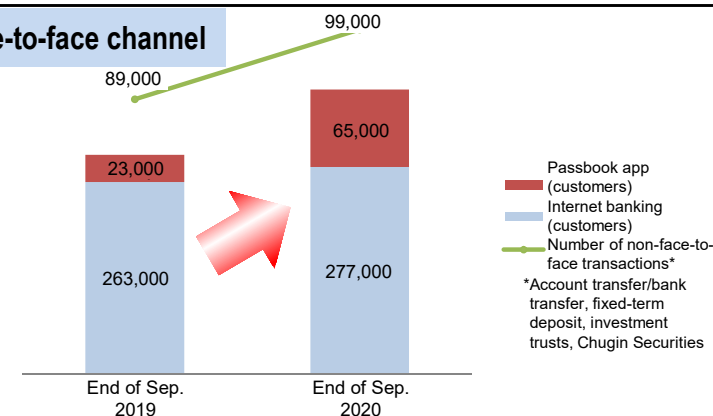
- Life plan support is provided throughout a lifetime from both financial and non-financial aspects depending on customer segments and channels

(Life stage)		Young age	Asset formation	Pre-senior	Senior	Asset succession
Channel	Face-to-face	Life Plan Center Loan Center Sales office / Headquarters (Customers visit stores / Staff visit customers)			Sales office / Headquarters (Customers visit stores / Staff visit customers)	
	Non-face-to-face	Smartphone / website / call center				
Financial	Function	Opening of account   Credit card Account transfer				
	Asset management	Fixed-term deposit   iDeCo Salary deposit Installment investment trust   Insurance NISA				Succession / inheritance of assets
	Loan	Automobile loan Housing loan Educational loan				
Non-financial		Business matching for individuals				

### Face-to-face channel

- The existing “Loan center” will be sequentially shifted to the “Life Plan Center,” where insurance and installment-type products are available.  
(Three centers as of Mar. 2020 ⇒ Five centers as of Sep. 2020)  
Enhance the functions of channel by providing insurance and installment-type products.
- Enhance the approach to working generations by conducting business on holidays at sales offices.

### Non-face-to-face channel



- The opportunities to use non-face-to-face channels are increasing due to development of digitalization.
- The customer base for non-face-to-face tools is also expanding.

### Non-financial

The service menu will be increased further.

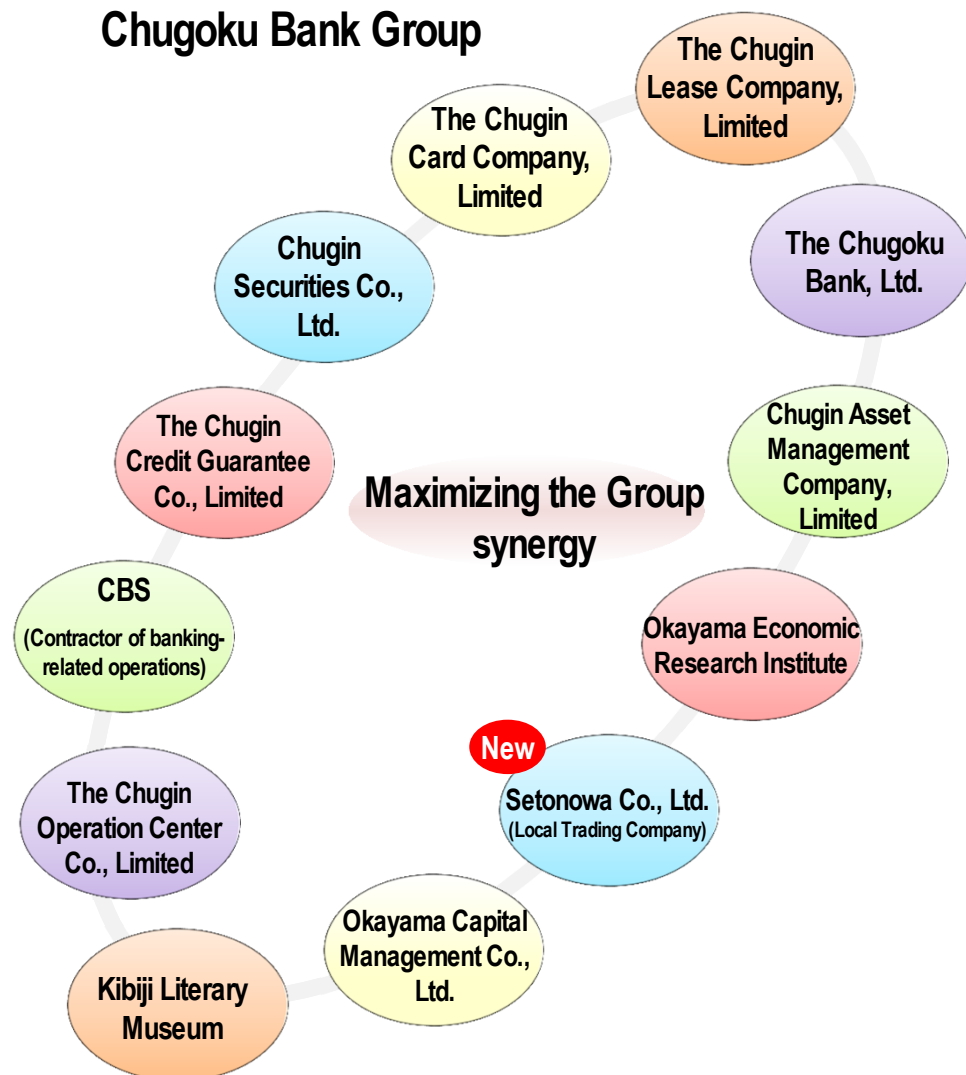


## II. Deepen customer-oriented sales activities

### Maximizing the Group synergy

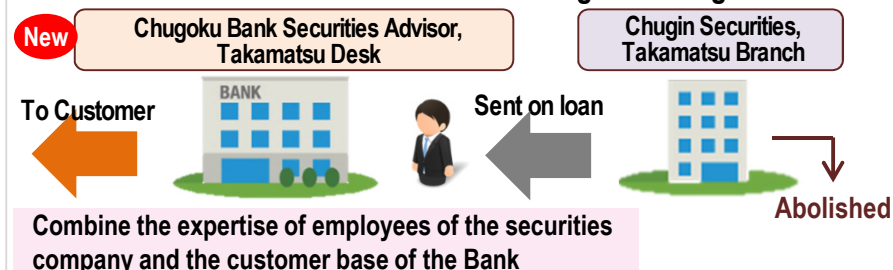
- Implement measures for maximizing the Group synergy by working as a Group as a comprehensive service business

### Chugoku Bank Group



### Expanding the Group synergy

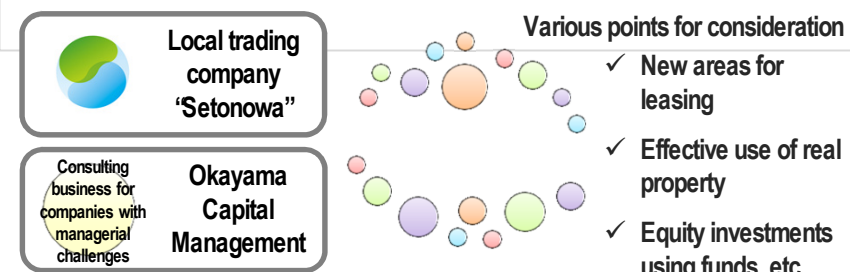
- Enhance cooperation between the bank and the securities company
- Review of the sales offices in the Shikoku region of Chugin Securities



### Strategic personnel assignment

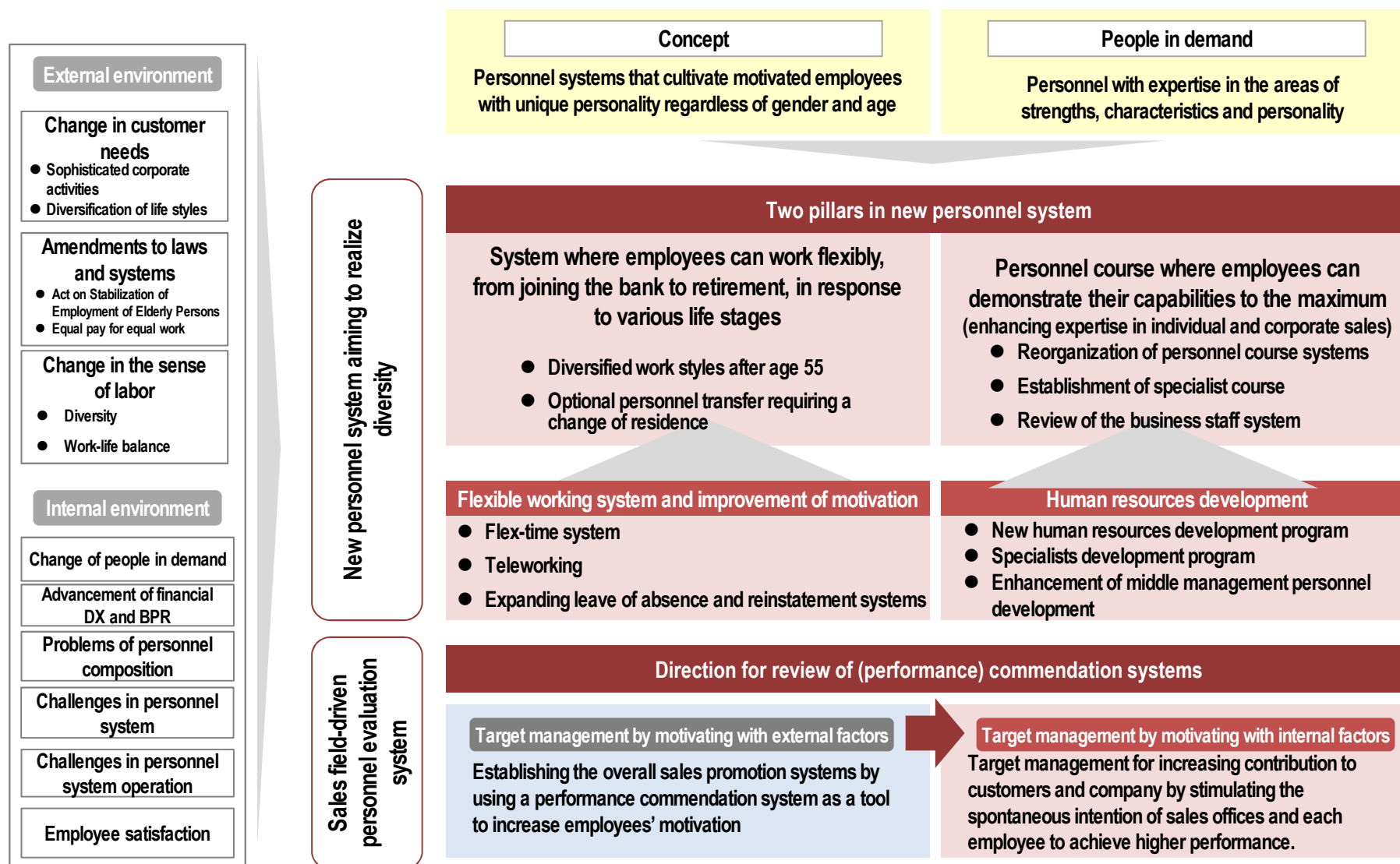
- Assignment to Group companies, such as card, lease and consulting companies, started under the "Career Challenge System" of the Bank.
- The Group synergy will be expanded by strategically assigning promising bank employees.

### New business development



### III. Revitalization of the Organization

- We will endeavor to establish personnel systems where employees can work depending on their personality and life stage.
- Further participation is encouraged to employees by establishing a personnel evaluation system which recommends activities that contribute to solving customers' challenges.



## IV. Enhance Digitalization Strategy

- Digital strategy vision of Chugoku Bank: "Pursue comprehensive services business to serve every aspect of customers' life and businesses"
- We will strongly proceed with digitalization by effectively using our strengths: "People (sales), products (sales offices) and information"

**Step 1. (This Medium-term Plan)**  
Improve the existing services and convenience

**Step 2. (Next Medium-term Plan)**  
New financial services

**Step 3. (2030)**  
Comprehensive services,  
including non-financial

Individuals

- ✓ Digitalization of sales offices (Responses from back office and manager operations) (Completion of transaction using a tablet at sales office)
- ✓ Improvement of individual applications
- ✓ Proposal for asset management by AI



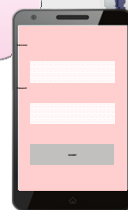
Sales office tablet  
"TSUBASA Smile"

Combination of real and digital business

Highly convenient smartphone app

- Used all the time
- Optimum proposal
- Liaison with real transactions

Next-generation-type sales office (such as a tenant)



Provide services for every aspect of life

Introduce and provide various real / digital services not limited to financial services on a daily basis



July 2, 2020  
"Digital Innovation Promotion Center"  
was established.

Corporate

- ✓ Provide corporate portal services
- ✓ Computerization of non-face-to-face loan application and contract
- ✓ Presentation of the financing limit amount by transactional lending
- ✓ Enhancement of online communication tools

Deepening of digital channels and being armed with digitalization



Partner for business / management consulting

Network of experts

In-house knowledge database

AI

Quick provision of appropriate data from a large amount of data according to proposal

Bank's customer base network

Industry / region information

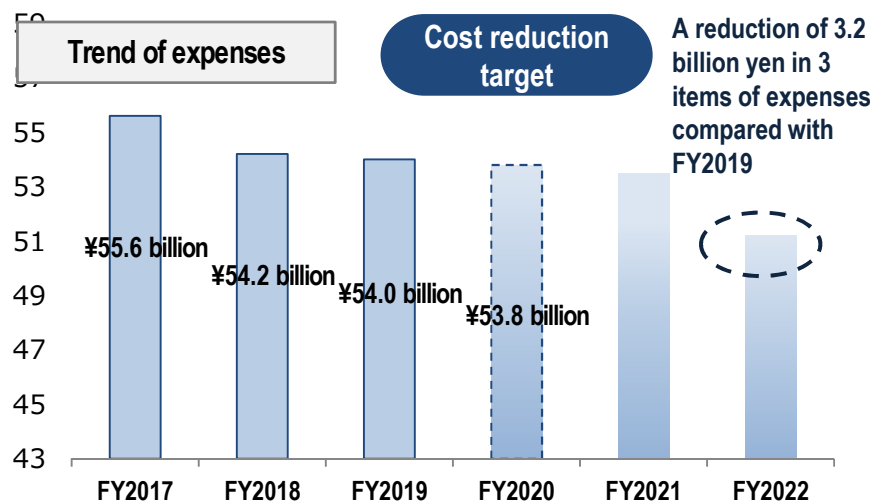
Company manager

External sales consultant

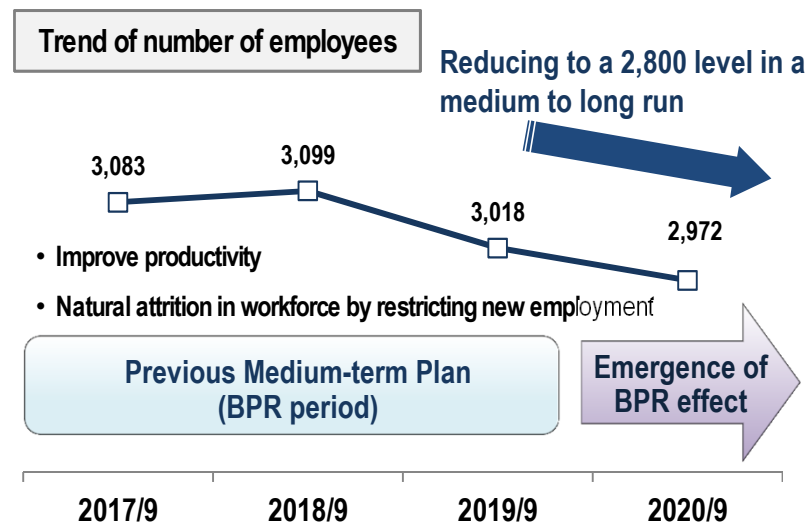


## V. Establish sustainable growth models

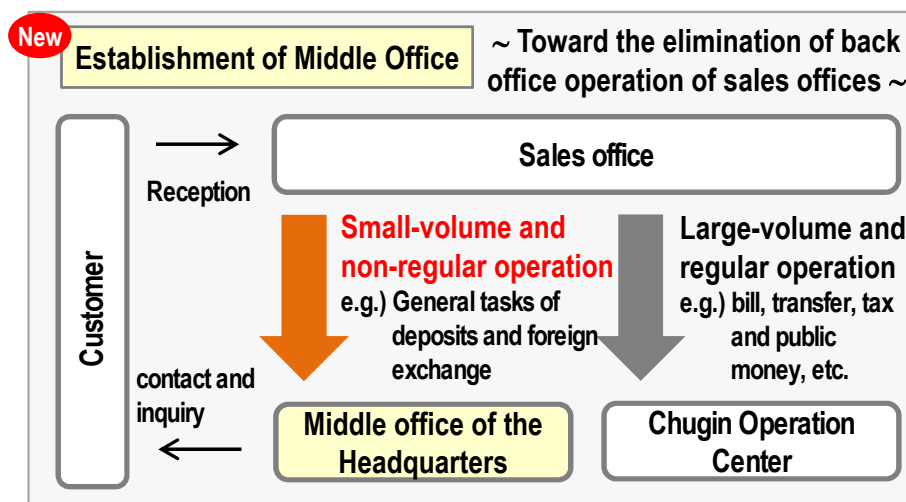
- Further reduce the back office operations at sales offices by establishing a middle office at the Headquarters
- Drastic cost reduction will be conducted towards a sustainable growth model while maintaining and improving customer convenience.



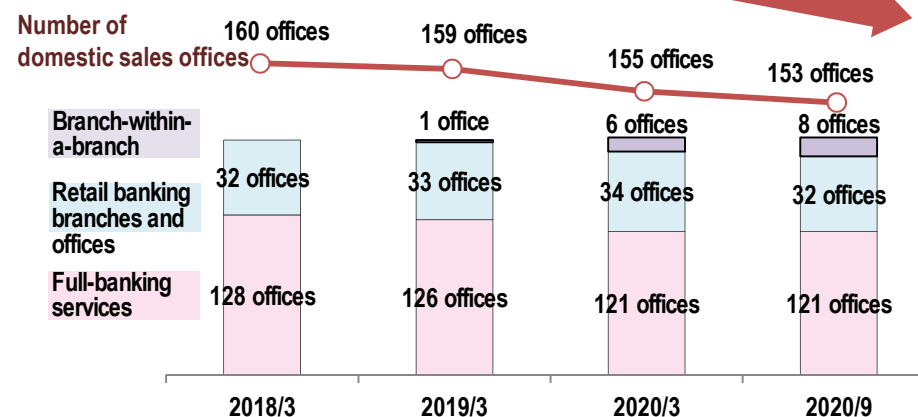
\*3 items of expenses: System, other cost of materials, labor cost



\*Nonconsolidated number of employees (excluding part-timers and short-time contract employees)



### Status of sales office reorganization

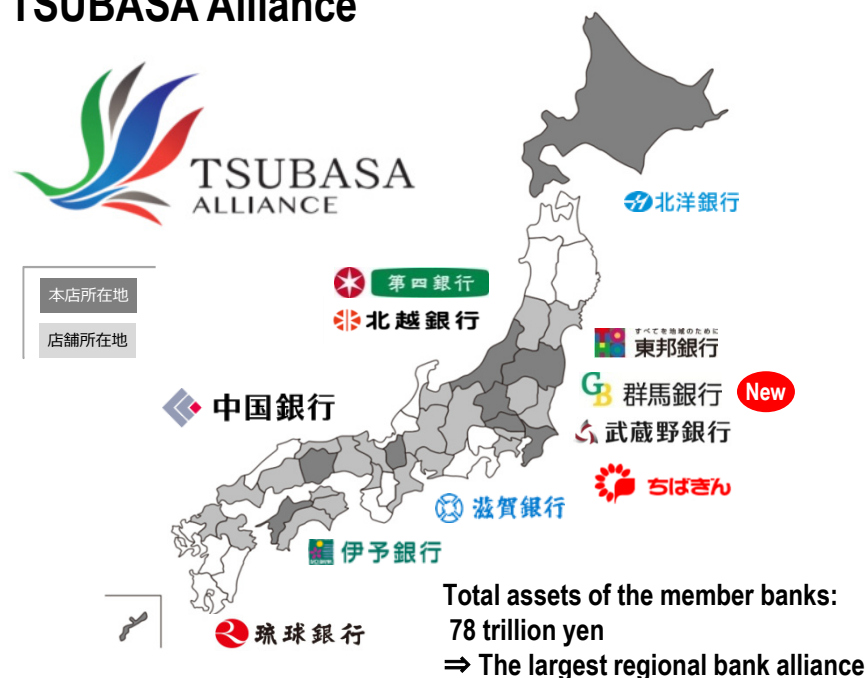


\* Excluding overseas branches and internet branches

# Alliance Partnership Strategy

- Under the TSUBASA Alliance, we pursue scale advantage and synergies in the broad and large-scale alliance.
- The Okayama Co-creation Partnership Local Businesses contributes to further development of the local economy by sharing the knowledge of the member financial institutions.

## TSUBASA Alliance



### ➤ Cost reduction / Improvement of efficiency

Sharing the mission-critical system	Sharing operation departments	Foundation of TSUBASA FinTech
Sharing the sub-systems	Sophisticating the AML business	TSUBASA Smile

### ➤ Enhancing the top line

Coordinated finance	Effective use of the Group companies	M&A business platform
Inheritance-related business	Exchange of human resources	

For further cost reduction and improvement of services by establishing TSUBASA Alliance Co., Ltd.

## Okayama Co-creation Partnership



### ➤ Cooperative measures

Joint business meetings	Joint seminars	COVID-19 consultation desk
Co-financing	Establishing business / venture business	Business succession / M&A
Joint training for employees	Exchange of human resources	

Contribute to further development of the local economy.

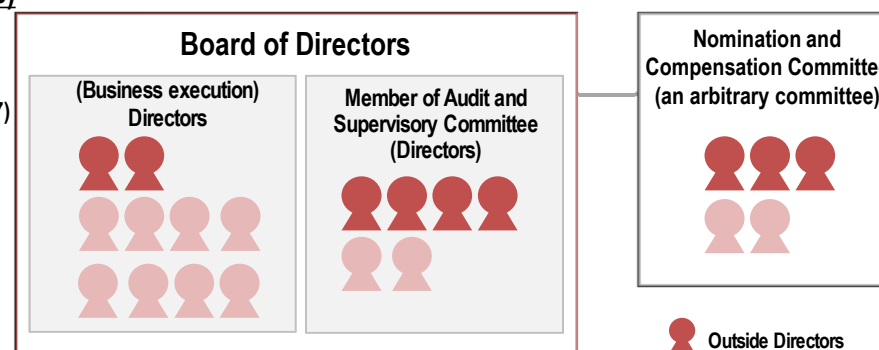


- We pursue sound and sustainable growth concurrently with medium- to long-term improvement of corporate value by enhancing and enriching corporate governance.
- We pursue improvement of capital efficiency by constantly reducing cross-held shares.

## Strengthening of governance

New

- Percentage of independent outside directors: 37.5% (six out of 16 directors)
  - All of the six outside directors are independent officers after the general meeting of shareholders held in June 2020.
- A nomination and compensation committee was established. (December 22, 2017)
  - Chaired by an outside director, the committee carries out appropriate deliberations.
- Continued to perform assessment of effectiveness of the Board of Directors
- Formulated the 'Plan for a Successor to the Representative Director and the Basic Policy concerning the Nurturing Plan'
- Grasping appropriate cost of capital ⇒ To be used for the revision of cross-shareholding



## Initiative for reduction of cross-held shares

- The relevant shares are held only when it is considered as necessary for sustainable growth of the issuers of the shares and the Group as well as for the improvement of corporate value.
- From the perspectives of capital efficiency and the reduction of shareholding risks, we will reduce the shares through communication with the issuers.

[Judging whether or not the shares should be held]

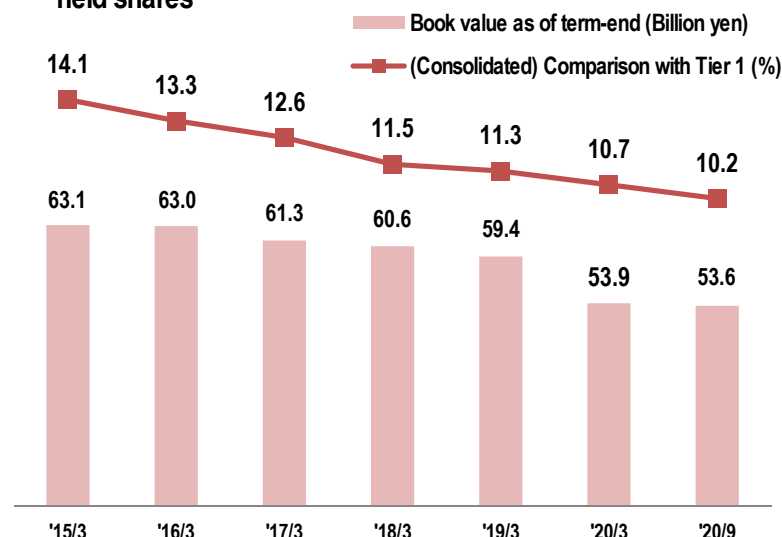
- Profitability, taking cost of capital into account
- Relationship with local economy
- Viewpoint on managerial strategy

[Shares not satisfying the shareholding criteria]

- Negotiations for improvement of profitability in transactions
- Negotiations for reducing the number of shares held

The Board of Directors will verify the status on a regular basis.

Trend of balance of cross-held shares





**This material contains forward-looking statements. These statements do not guarantee our future business performance and includes 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.**