

# FY2022 Earnings Results Briefing

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June 5, 2023



Our challenges build our future.

**Chugin Financial Group, Inc.**

## 1. FY2022 earnings results and FY2023 plan

- FY2022 earnings results: Profit attributable to owners of parent was 20.4 billion yen (plus 2.1 billion yen as compared with the previous fiscal year).  
**We achieved the plan that has been announced and an increase in the profit for the third consecutive year** even under the unstable environment.
- FY2023 plan: Profit attributable to owners of parent is expected to be 15.0 billion yen. We will actively make strategic investments for the future, while paying attention to the persistently high overseas interest rates and other factors.

## 2. New Medium-term Management Plan - Plan for Creating the Future Together: Stage III – (from April 2023 to March 2027)

- Our goal: **“An organization capable of continuing to create new value for the region”**
- Three growth strategies: (i) **“Deepening”** of regional revitalization SDGs  
(ii) Creation of **innovations**  
(iii) Strengthening of the **Group business base**
- KPI **Profit attributable to owners of parent of 30.0 billion yen**  
(The growth driver will be **accumulation of high-quality assets** through Group wide efforts)  
We aim for **ROE of at least 5%**, and over the medium to long term, **the level exceeding the capital costs.**  
(Enhancement of corporate value through improvement of ROE)

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# Section I

## Earnings Results for FY2022 and Forecasts for FY2023

**Consolidated financial  
 results for the Chugin  
 Financial Group**

(billion yen)	FY2019	FY2020	FY2021	FY2022		
					YoY	vs. Plan*
Consolidated gross profit	80.2	81.9	83.7	73.2	- 10.5	–
(excluding profits and losses related to bonds)	80.7	82.4	86.6	92.9	6.3	–
Net interest income	57.9	58.5	61.1	65.0	3.9	–
Fees and commissions income	14.6	14.3	15.7	17.1	1.4	–
Net other operating profits	7.6	9.0	6.8	- 8.8	- 15.6	–
Of which, profits and losses related to bonds	- 0.5	- 0.5	- 2.9	- 19.7	- 16.8	–
Expenses (-)	58.2	57.2	56.1	55.6	- 0.5	–
Credit cost (-)	6.2	8.7	8.4	5.7	- 2.7	–
Profits and losses related to securities	0.0	5.5	6.0	18.0	12.0	–
Other	1.5	- 0.2	0.6	- 0.3	- 0.9	–
Ordinary profit	17.4	21.2	25.8	29.5	3.7	2.4
Extraordinary profits and losses	- 0.6	- 0.3	- 0.3	- 0.0	0.3	–
Profit attributable to owners of parent	11.9	14.4	18.3	20.4	2.1	1.8

\*Forecast published on Nov. 11, 2022

**Profit attributable to owners of parent was 20.4 billion yen (an increase for the third consecutive year)**

- Net interest income and net fee income from our core businesses remained strong through our Group-wide sales activities.
- In securities investments, portfolios were replaced ahead of schedule in response to rising interest rates in Japan and overseas countries.

**Non-consolidated for The Chugoku Bank**

(billion yen)

FY2022

		YoY	vs. Plan*
Core business gross profit	86.7	6.5	3.3
Net interest income	65.5	3.9	2.5
Net fee income	18.2	1.1	0.5
Net other operating profits	2.9	1.4	0.2
Expenses (-)	51.3	- 0.6	0.2
OHR	59.1%	- 5.5 pt	- 2.1 pt
Core business net profit	35.4	7.1	3.2
Excl. gains or losses on cancellation of investment trusts	31.9	3.6	1.6
Credit cost (-)	5.0	- 2.6	- 0.8
Profits and losses related to securities	- 1.7	- 4.7	- 0.7
Other	- 1.0	- 0.8	- 0.5
Ordinary profit	27.5	4.1	2.6
Profit	19.3	2.4	2.0

\*Forecast published on Nov. 11, 2022

**Core business net profit**

- As for net interest income, interest on loans and securities steadily increased.

\*We recorded gains on cancellation of investment trusts of 3.5 billion yen to improve our securities portfolios

- Net fee income and derivatives income (net other operating profits) mainly from corporations significantly increased due to our efforts to strengthen consulting sales activities.
- We controlled overall expenses while expanding investments in employees and various measures.

As a result of the foregoing, core business net profit **increased by 7.1 billion yen as compared with the previous fiscal year.**

(Excluding gains on cancellation of investment trusts, **an increase of 3.6 billion yen as compared with the previous fiscal year**)

**Credit cost**

- Credit costs remained low through our efforts such as active financial aids and provision of support for customers in their business improvement.

**Profits and losses related to securities**

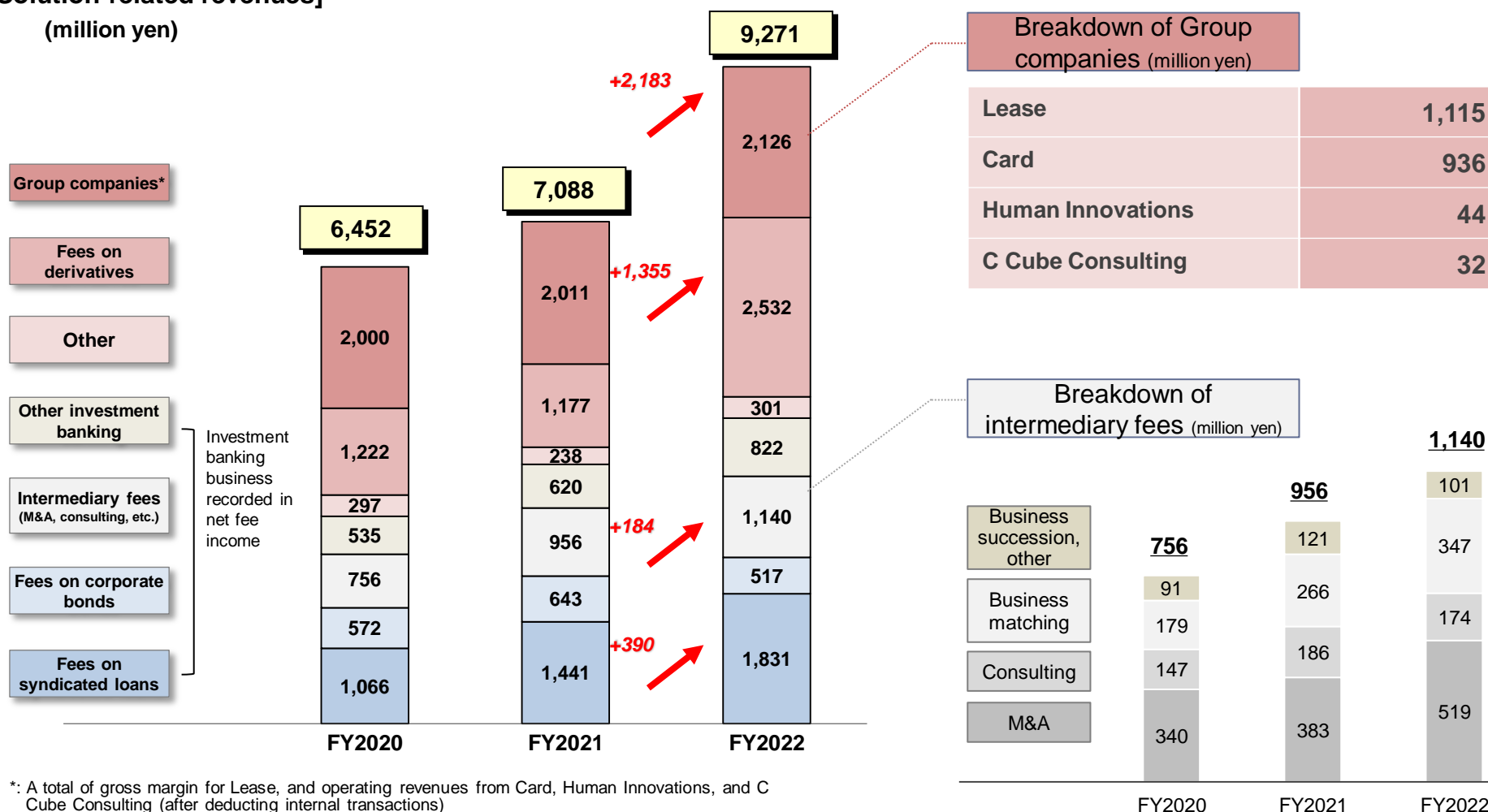
- We improved our portfolios mainly of foreign currency bonds.  
(The duration of foreign currency bonds was shortened from 4.2 years to 1.8 years.)

<b>Group companies</b> (billion yen)	<b>Ordinary profit</b>	YoY	<b>Net income</b>	YoY
* Lease	<b>0.4</b>	0.2	<b>0.3</b>	0.1
* Card	<b>0.4</b>	0.06	<b>0.3</b>	0.04
Human Innovations (Employment placement)	<b>0.01</b>	—	<b>0.01</b>	—
Capital Partners (Fund management and administration)	<b>0.02</b>	—	<b>0.01</b>	—
C Cube Consulting (DX, SX and other consulting service)	<b>-0.2</b>	—	<b>-0.2</b>	—
Energy (Decarbonization support such as renewable energy power generation) <span style="color: red;">Commenced in April 2023</span>	—	—	—	—
Securities	<b>0.2</b>	-0.3	<b>0.1</b>	-0.2
* Asset management	<b>0.1</b>	-0.03	<b>0.1</b>	-0.02
Chugin Operation Center	<b>0.02</b>	-0	<b>0.01</b>	-0
CBS (Contracted administrative work related to banks)	<b>0.1</b>	0.02	<b>0.09</b>	0.01
* Guarantee	<b>1.5</b>	-0.04	<b>1.0</b>	-0.04

\*The figures indicated for the four companies with the \* mark (Lease, Card, Asset Management, and Guarantee) are those excluding gains on sale of shares among Group companies associated with the transition to the holding company system.

# Solution-related Revenues – Consolidated for the FG –

## [Solution-related revenues] (million yen)



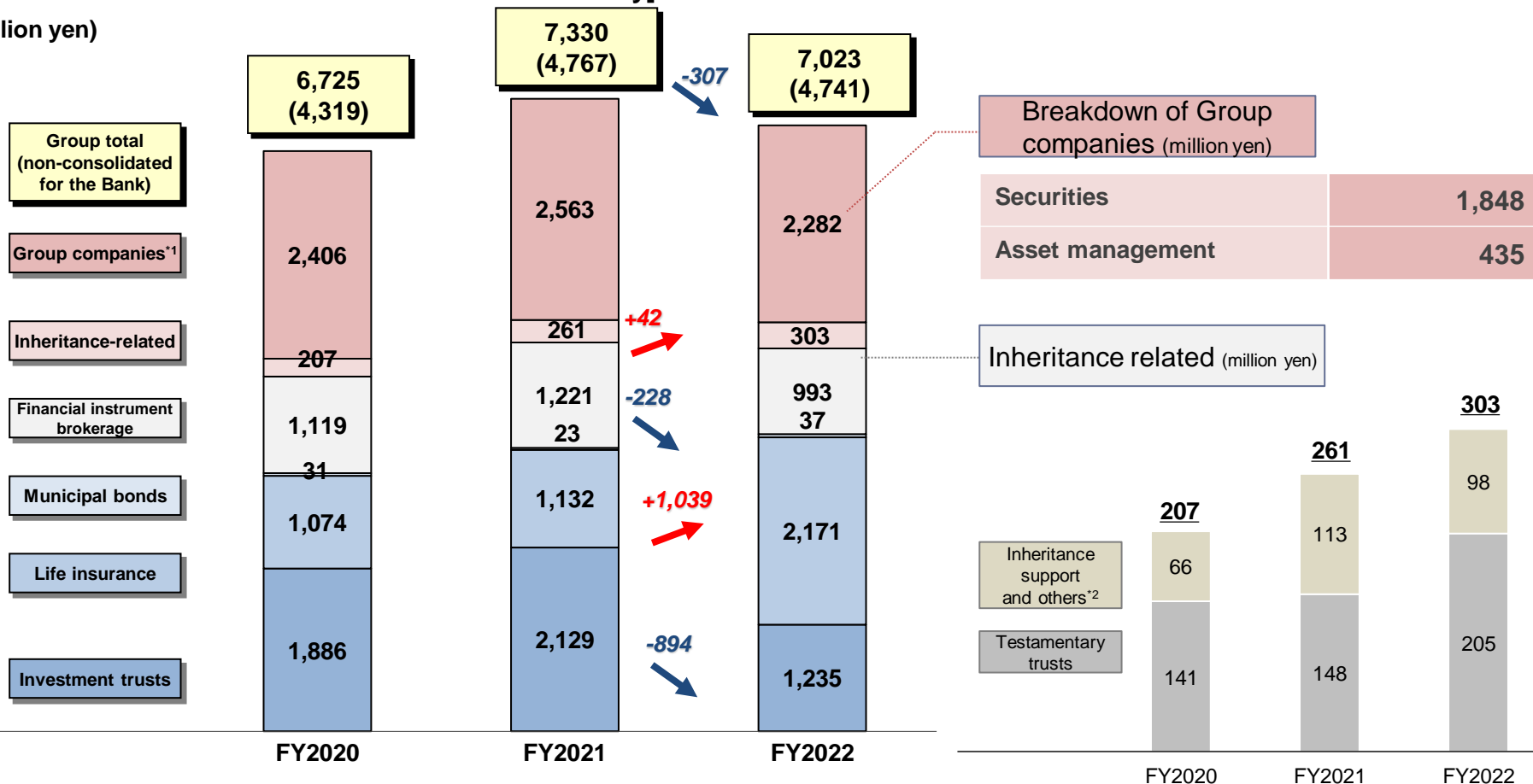
\*: A total of gross margin for Lease, and operating revenues from Card, Human Innovations, and C Cube Consulting (after deducting internal transactions)

- Our consulting proposals for management issues have resulted in an increase in fees on syndicated loans and intermediary fees (M&A, business matching, etc.)  
In addition, revenues from derivatives also increased significantly as we have identified needs of business partners by capturing exchange rate fluctuations.
- Solution-related revenues of the Group as a whole, including newly established companies, increased 2,183 million yen as compared with the previous fiscal year.



## [Breakdown of revenues related to assets in custody]

(million yen)



\*1: A total of operating revenues for Securities and Asset Management (after deducting internal transactions)

\*2: Including money trusts, etc.

- Revenues from investment funds and financial instrument intermediaries declined due to unstable market conditions, but life insurance revenues increased significantly, driven by rising interest rates. Inheritance-related revenues, on which we are focusing, also increased steadily due to such factors as the identification of asset succession needs of customers.
- Including Group companies, revenues related to assets in custody of the Group as a whole decreased 307 million yen as compared with the previous fiscal year due to a decline in revenues from investment trusts.

# Net Interest Income – Non-consolidated for the Bank –

## [Factors behind change in net interest income]

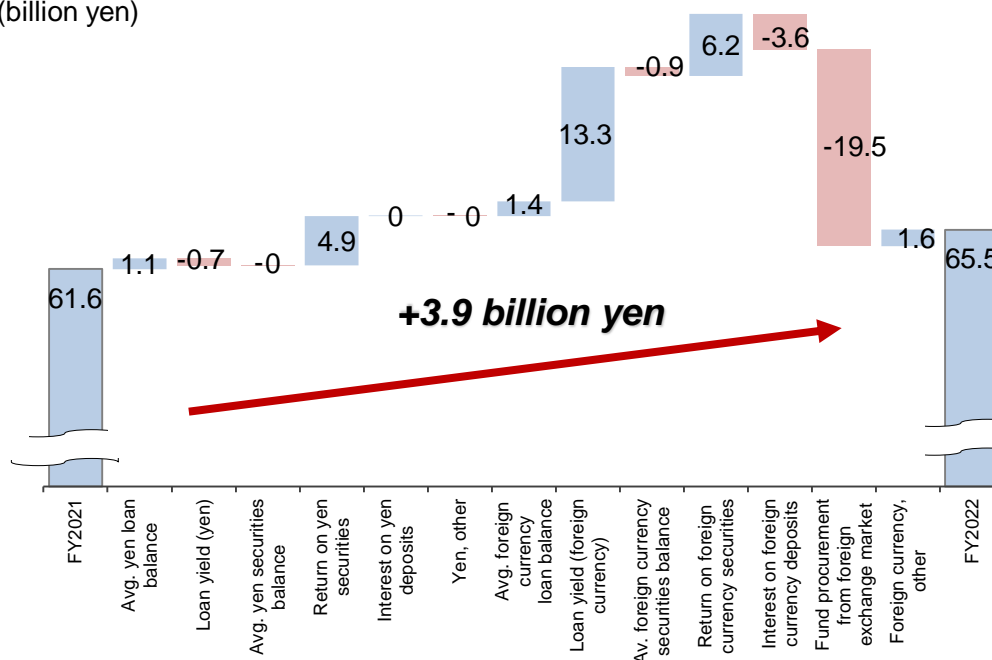
### ■ Yen based: 56.8 billion yen (+¥5.3 billion YoY)

- Interest on loans and discounts: +¥0.4 billion YoY
- Interest on securities: +¥4.9 billion YoY
- Yen, other: -¥0.1 billion YoY

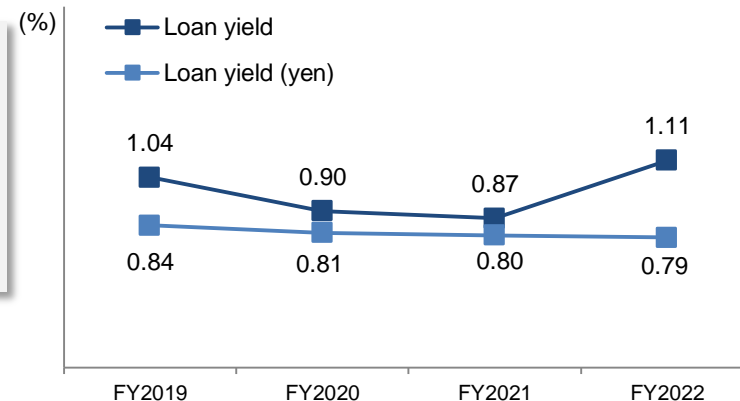
### ■ Foreign currency-based: ¥8.7 billion (-¥1.3 billion YoY)

- Interest on loans and discounts: +¥14.7 billion YoY
- Interest on securities: +¥5.2 billion YoY
- Foreign fund procurement cost: +¥23.1 billion YoY

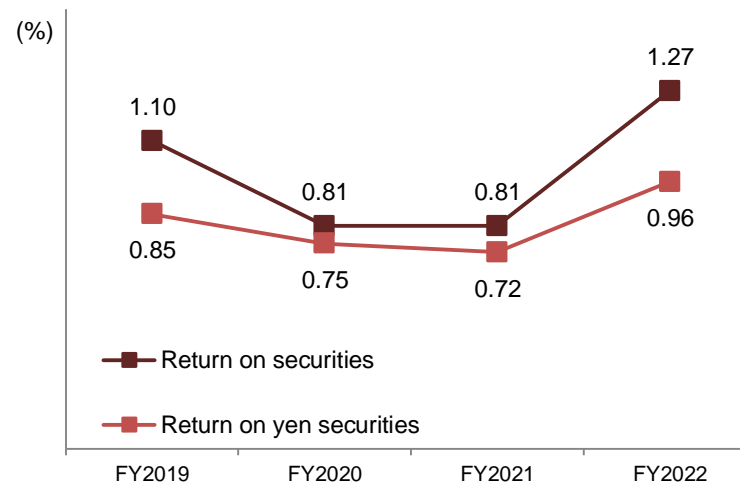
(billion yen)



## [Loan yield]

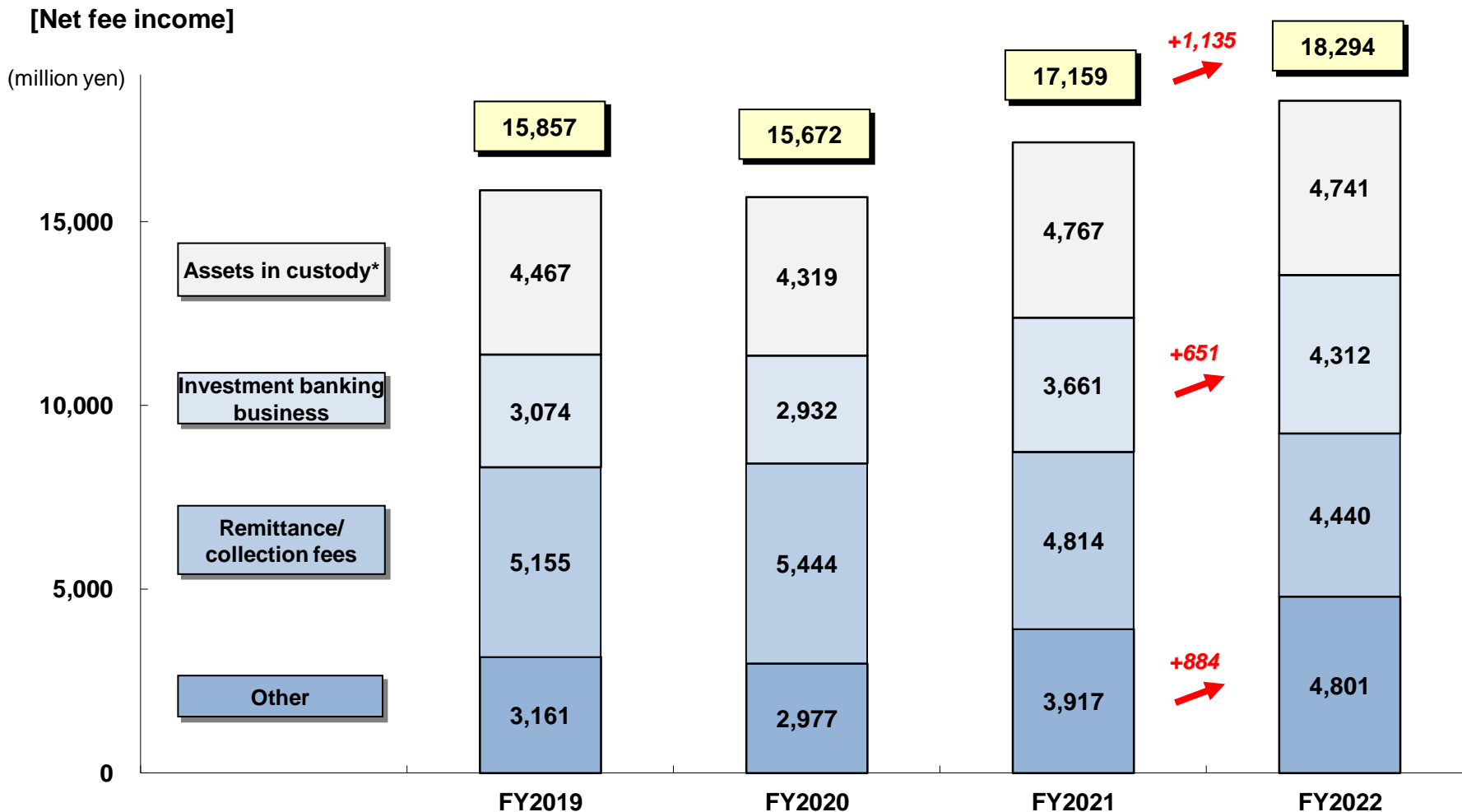


## [Return on securities]



- Yen net interest income: Loans increased 0.4 billion yen as compared with the previous fiscal year, reflecting the robust increase in the average balance. Securities increased 4.9 billion yen as compared with the previous fiscal year due in part to the gain on cancellation of investment trusts (3.5 billion yen) and an increase in the bond yield.
- Foreign currency net interest income: The income decreased 1.3 billion yen as compared with the previous fiscal year due to a rise in the procurement costs following the surge in overseas interest rates.

# Net Fee Income – Non-consolidated for the Bank –

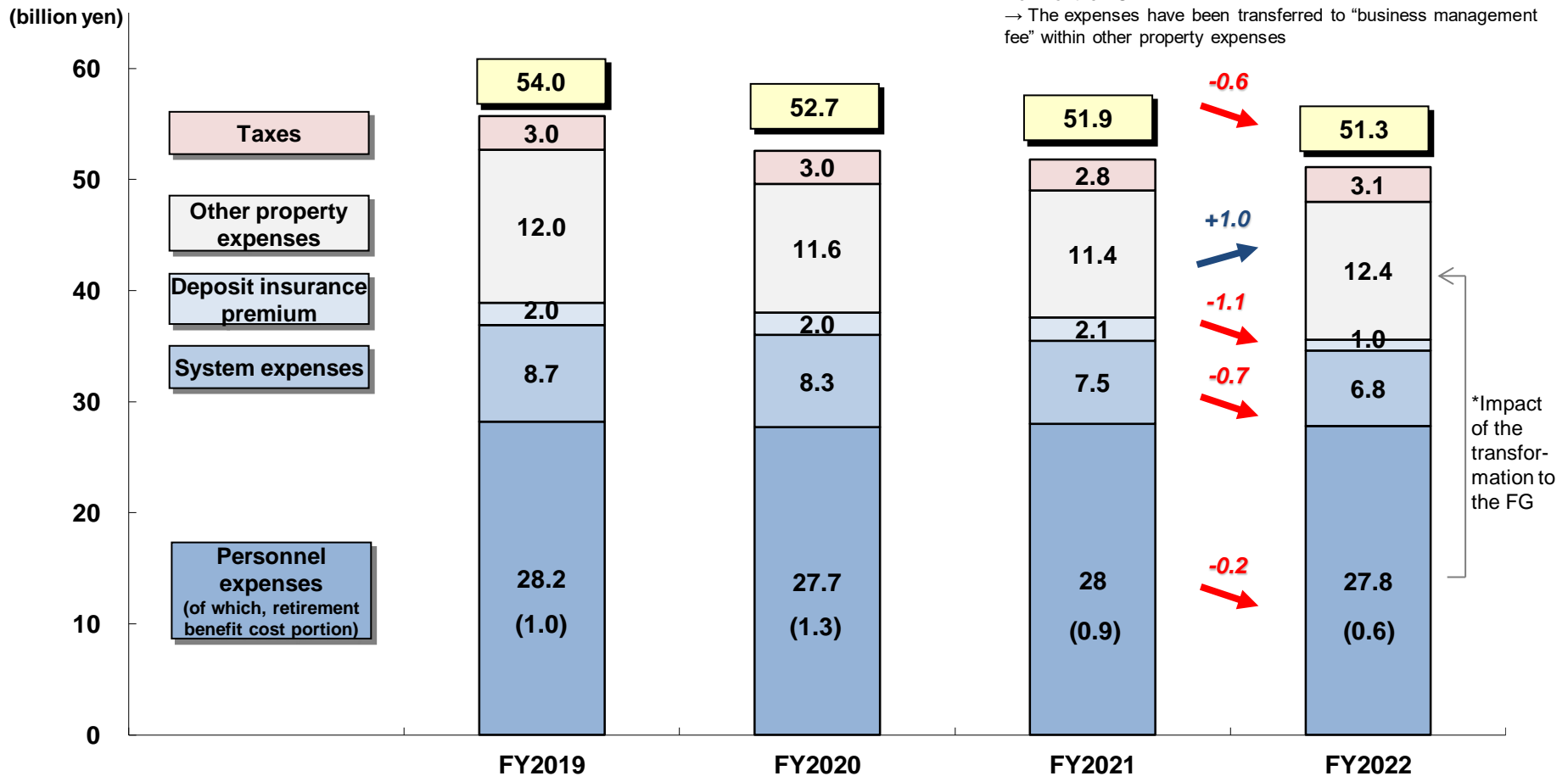


\*: Four products in custody (investment trusts, insurance, municipal bonds, financial instrument brokerage) + inheritance-related business

- Investment banking business increased 651 million yen as compared with the previous fiscal year due to various consulting sales activities such as syndicated loans, M&A, and business matching.
- Revenues in “Other” increased 884 million yen as compared with the previous fiscal year, contributed by an increase in the housing loan handling fees and other factors.

# Expenses – Non-consolidated for the Bank –

## [Expenses]



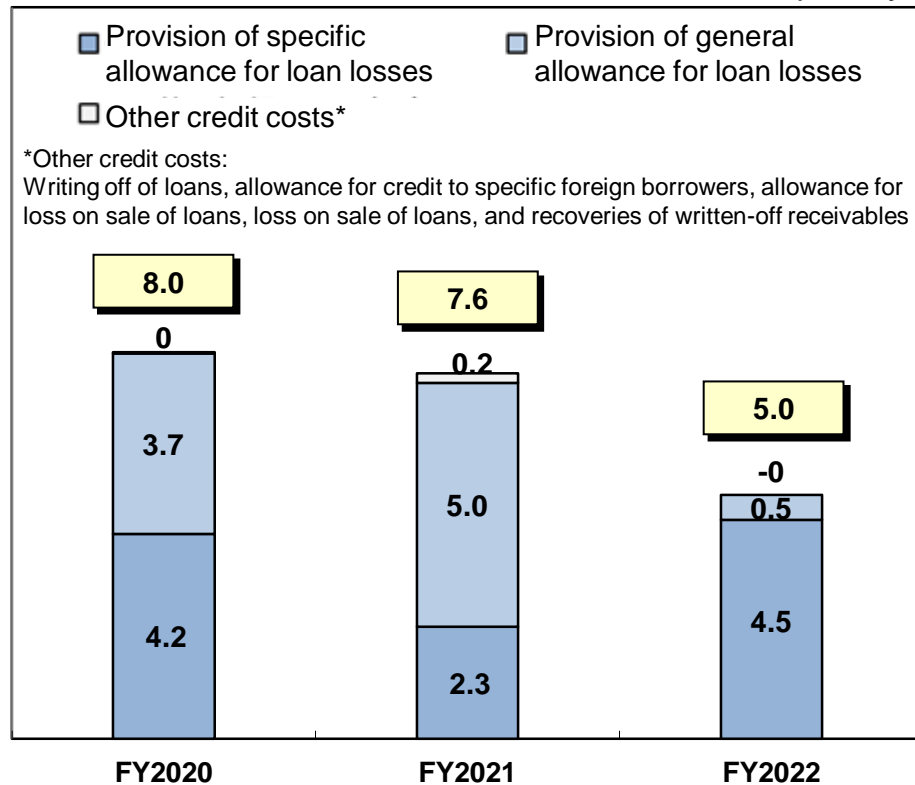
- In FY2022, total expenses decreased 0.6 billion yen as compared with the previous fiscal year due to decreases in deposit insurance premiums and system expenses, although there were an increase in the amount of bonuses and expenditures related to human capital investment (payment of allowances for purposes such as re-skilling) and innovation-related strategies.

# Credit Costs and Non-performing Loans

– Non-consolidated for the Bank –

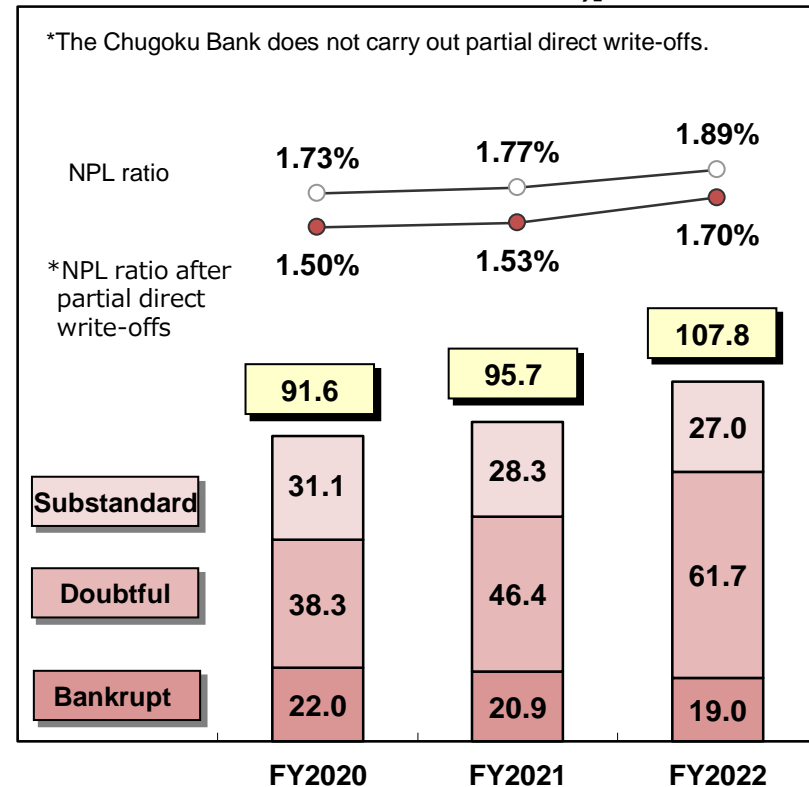
## [Credit costs]

(billion yen)



## [Non-performing loans (NPL) (Loans disclosed under the Financial Revitalization Act)]

(billion yen)



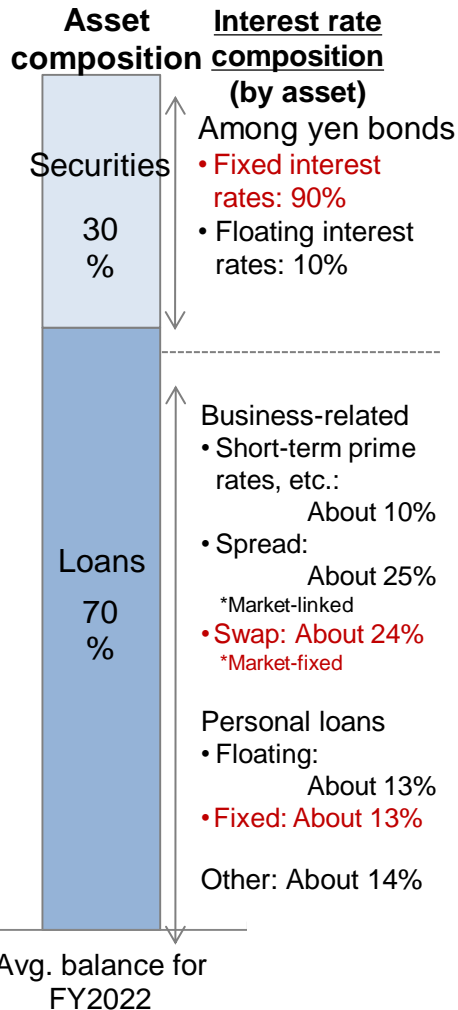
### ■ Calculation method of general allowance for loan losses

- The expected loss rate is calculated based on the actual loan loss rates for three consecutive calculation periods, with one period being three years. (Each calculation period is moved a half year forward.)
- The expected loss rate shall be either the “most recent three-period average” or the “most recent five-period average,” or the “long-term average starting from the fiscal year ended September 2008,” whichever is larger (changed from the fiscal year ended September 2022).
- Loans to healthy accounts and substandard I accounts are adjusted by taking into consideration the average remaining period of the receivables.

- Credit cost remained low at 5.0 billion yen (a decrease of 2.6 billion yen as compared with the previous fiscal year).
- The NPL ratio remained low (1% level).

- Yen investments: We will seek to expand margins stably during the period of rising interest rates based on the abundant deposits.
- Foreign currency investments: We will continue to improve the foreign bond portfolio, which we have already started to do in order to reduce risk and secure medium- to long-term earnings.

## Yen investments



## Status of yen bonds

- As for yen bonds, attention needs to be paid to an impact on capital caused by deterioration of valuation gains and losses.
- While paying attention to signs of a change in the monetary policy, we aim to increase yields by making reinvestments during the period of rising interest rates.

(billion yen)	Mar. 31, 2022	Sep. 30, 2022	Mar. 31, 2023
10BPV	-9.2	-10.4	-8.1

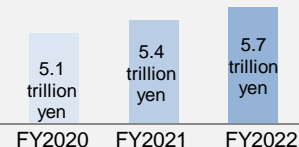
## Status of yen loans

- During the period of rising interest rates, loans are linked to market interest rates, especially for short-term prime rate-based loans and spread loans.
- The margin is expanding stably based on the abundant liquid deposits with high retention.

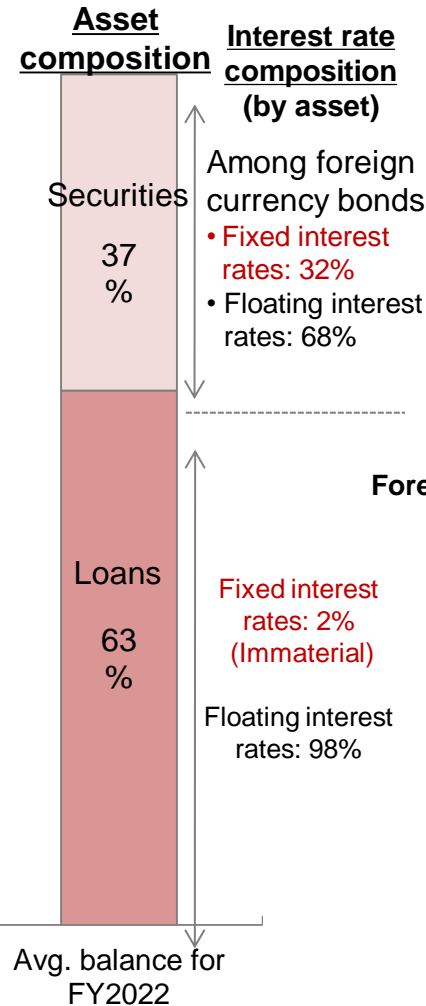
## Reference: Status of deposits (including NCD)

Deposits + NCD: 8.1 trillion yen (FY2022)

- Of which, liquid deposits: 5.7 trillion yen



## Foreign currency investments



\* Fixed rate bonds with asset swap are calculated as floating rate bonds (for both yen and foreign currencies).

## Improvement of the foreign bond portfolio (FY2022)

Recorded a loss on sale of foreign currency bonds of 23.7 billion yen

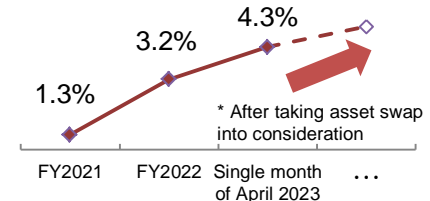
- Offset with gains on sale of shares, investment trusts, etc. and an increase in net sales.
- Some bonds were replaced with higher-yield bonds to improve foreign bond yields.

To create a portfolio capable of securing revenues over the medium to long term

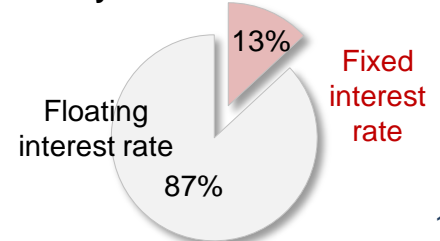
(billion yen)	Mar. 31, 2022	Sep. 30, 2022	Mar. 31, 2023
10BPV	-1.6	-1.0	-0.6

BPV: Change in the present value when interest rate rises by 1 basis point (0.01%).

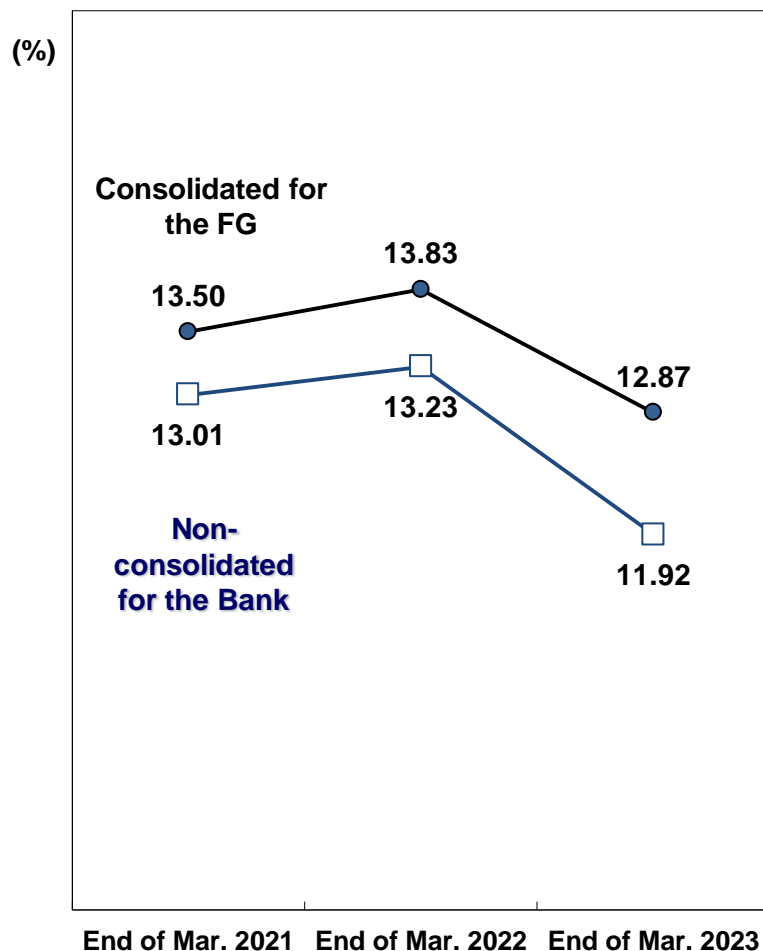
## Foreign bond yields (4.8%\*)



## Interest rate composition of foreign currency assets as a whole



## [Capital adequacy ratio]



## [Status of capital adequacy (Consolidated for the FG)]

(billion yen)	FY2022	FY2023	Change
Total capital adequacy	557.2	530.7	-26.5
Of which, common equity Tier 1	546.7	521.4	-25.3
Of which, valuation difference on available-for-sale securities, etc.	63.5	26.0	-37.5
Risk assets, etc.	4,028.6	4,123.1	94.5
Credit risk	3,872.8	3,959.8	87.0
Operational risk	155.8	163.2	7.4

## [Other Basel regulations]

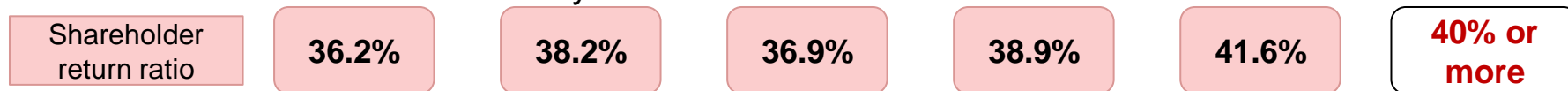
	FY2022	FY2023	<Regulatory level>
Consolidated leverage ratio	6.25%	6.03%	At least 3%
Consolidated liquidity coverage ratio (LCR)	251.5%	209.0%	At least 100%

- Total capital adequacy declined due in part to a decrease in valuation difference on available-for-sale securities.
- Risk assets increased due to an increase in loans to local businesses, personal loans, etc., resulting in a decline in the total capital adequacy ratio.

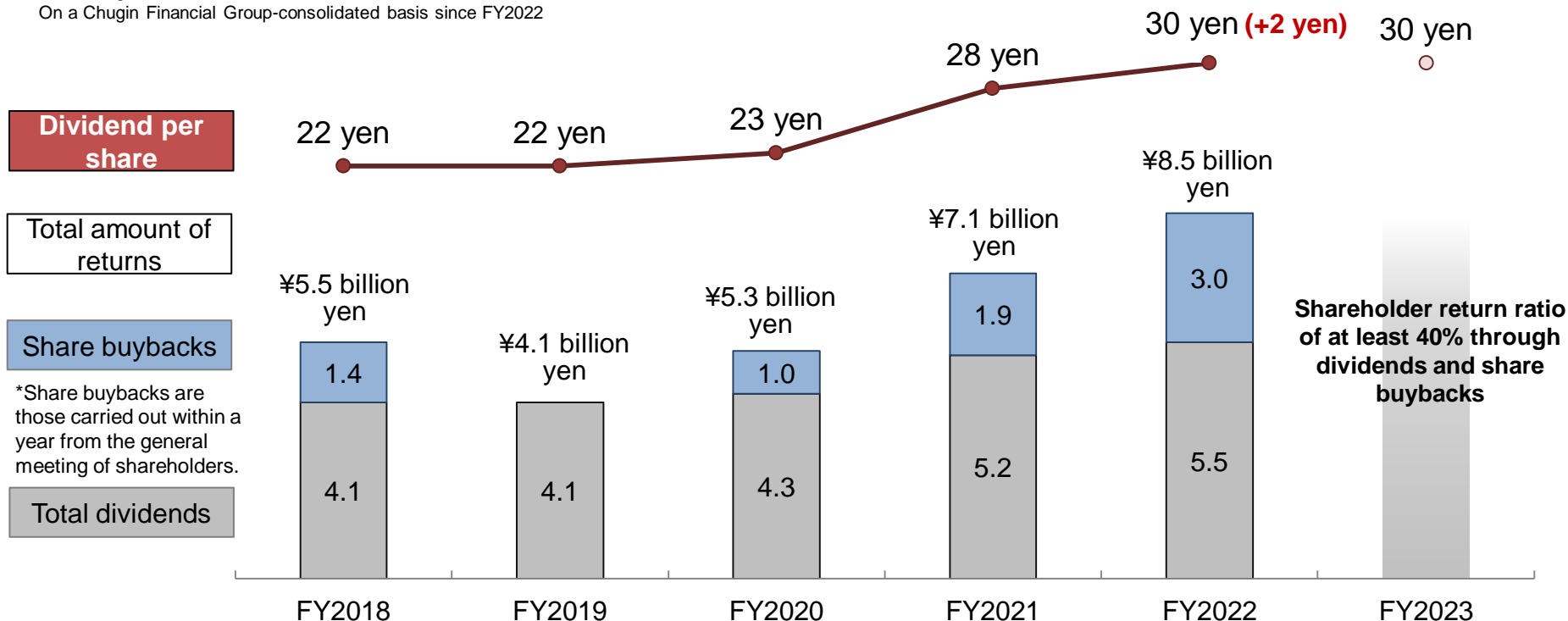
# Shareholder Return Policy

**[Return policy in FY2023] The shareholder return ratio of at least 40% (on a consolidated basis) through dividends and share buybacks**

—Enhancement of shareholder returns by stable and continuous increase in dividends and flexible share buybacks—



\*On a non-consolidated basis up to FY2019  
On a Chugoku Bank-consolidated basis since FY2020  
On a Chugin Financial Group-consolidated basis since FY2022



**Share buybacks**  
\*Share buybacks are those carried out within a year from the general meeting of shareholders.

**Total dividends**

**Shareholder return ratio of at least 40% through dividends and share buybacks**

- The shareholder return ratio for FY2022 was 41.6% through dividends and share buybacks. (Out of the share buybacks of 3.0 billion yen, the share buybacks of 2.0 billion yen will be carried out starting from July 2023).
- The targeted shareholder return ratio will be raised from at least 35% to at least **40%** in FY2023. By so doing, we aim to enhance shareholder return further.



## We pursue improvement of capital efficiency by constantly reducing cross-held shares.

### Initiatives toward reducing cross-held shares

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

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

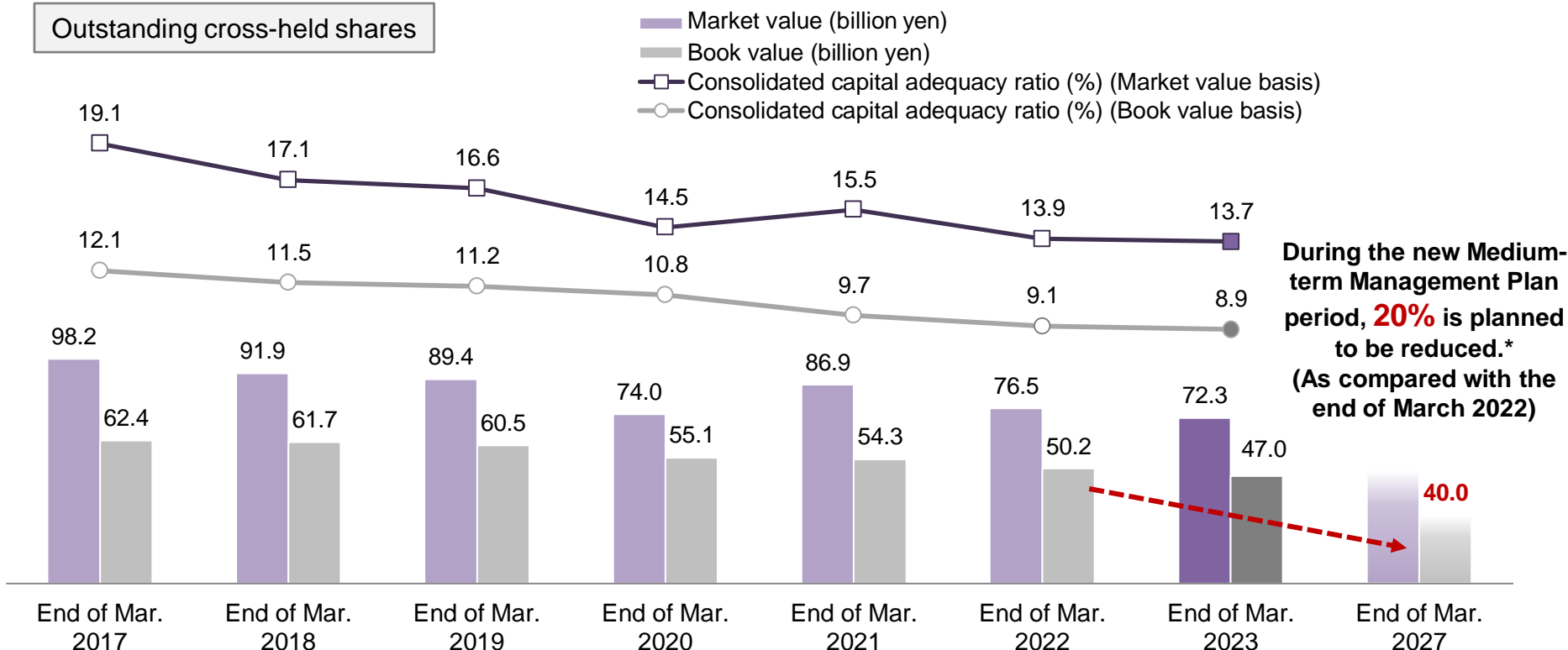
[Judging whether or not the shares should be held]

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

[Shares not satisfying the shareholding criteria]

- Negotiate improvement of transaction profitability
- Negotiate reduction of the number of shares held

### Outstanding cross-held shares

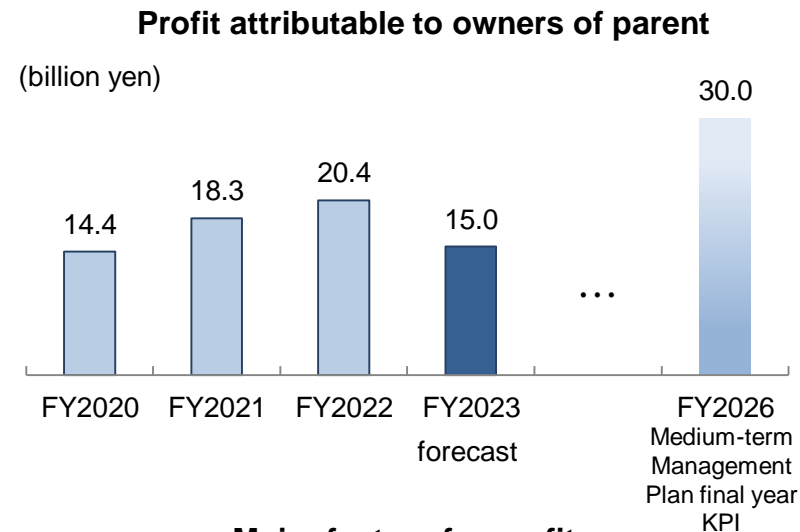


\*Book value. Including listed shares, unlisted shares, and deemed holding shares

Consolidated for the Chugin Financial Group (billion yen)	FY2022	FY2023	
	results	forecasts	Change
Consolidated ordinary profit	29.5	21.5	- 8.0
Profit attributable to owners of parent	20.4	15.0	- 5.4

<Reference: Non-consolidated for The Chugoku Bank>

Core business gross profit	86.7	77.4	- 9.3
Net interest income	65.5	58.0	- 7.5
Net fee income	18.2	18.0	- 0.2
Net other operating profits	2.9	1.3	- 1.6
Expenses (-)	51.3	54.2	2.9
Core business net profit	35.4	23.2	- 12.2
Excl. gains or losses on cancellation of investment	31.9	23.2	- 8.7
Of which, credit cost (-)	5.0	6.9	1.9
Of which, profits and losses related to securities	- 1.7	2.3	4.0
Ordinary profit	27.5	18.4	- 9.1
Profit	19.3	12.8	- 6.5



### Major factors for profit decrease in FY2023

#### <Net interest income>

- An increase in the procurement costs assuming that overseas interest rates remain high and the absence of gains on cancellation of investment trusts of 3.5 billion yen recorded in the previous fiscal year (FY2022)

#### <Expenses and credit costs>

- Investments in innovation-related strategies and investments in measures related to the fields of personal loans and assets in custody
- Recording of general allowance for loan losses associated with the enhanced loans (factors for the balances)

• Although profit is expected to decrease in FY2023, we aim to achieve the profit targets set forth in the Medium-term Management Plan and the Long-term Management Plan (FY2017 through FY2026) through growth investments including investments in new businesses, as well as the realization of further synergies across the entire Group, including newly established companies.

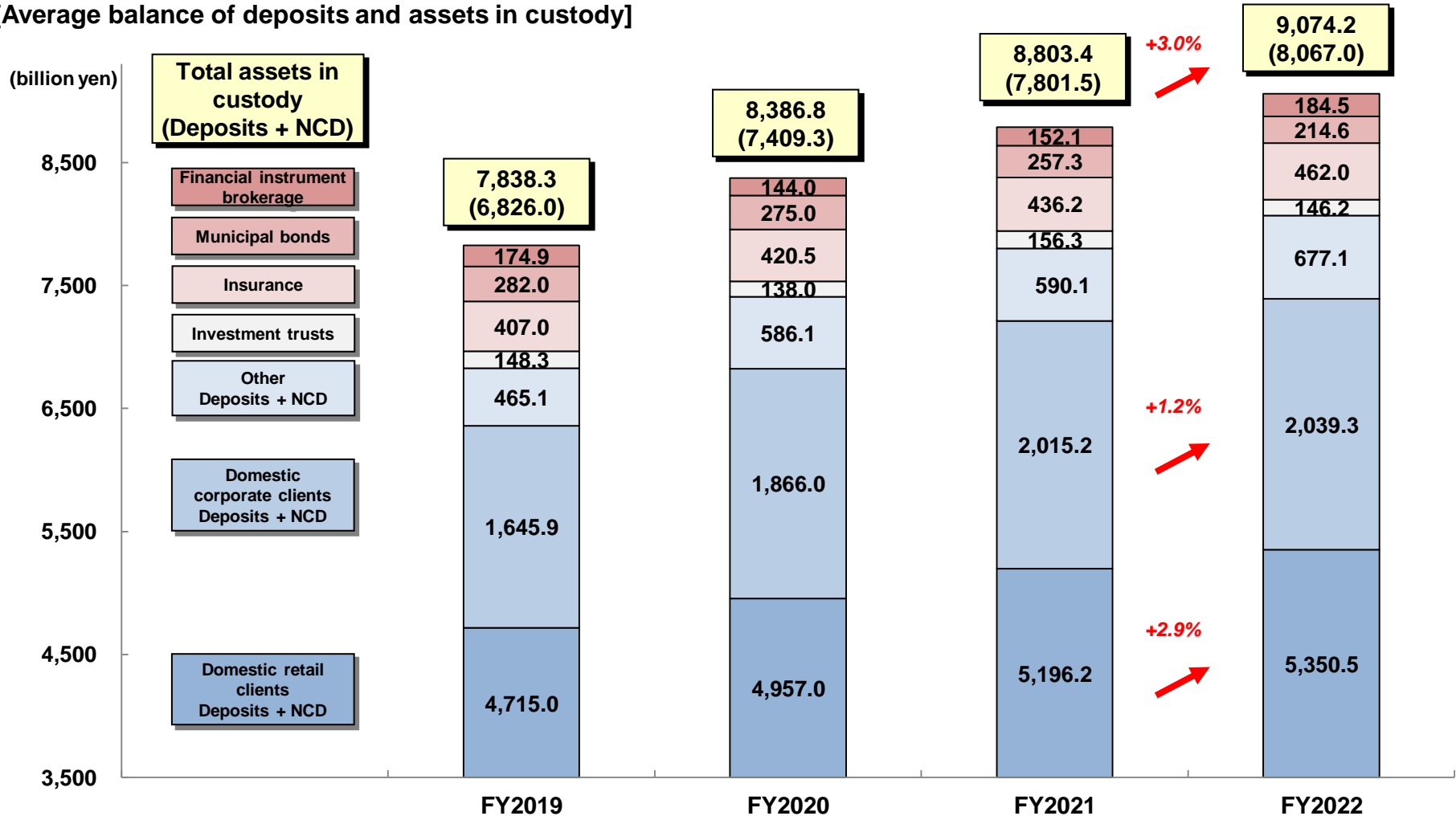
# Major Accounts

## (Non-consolidated for the Bank)

# Major Accounts (1) Deposits & Assets in Custody

## - Non-consolidated for the Bank -

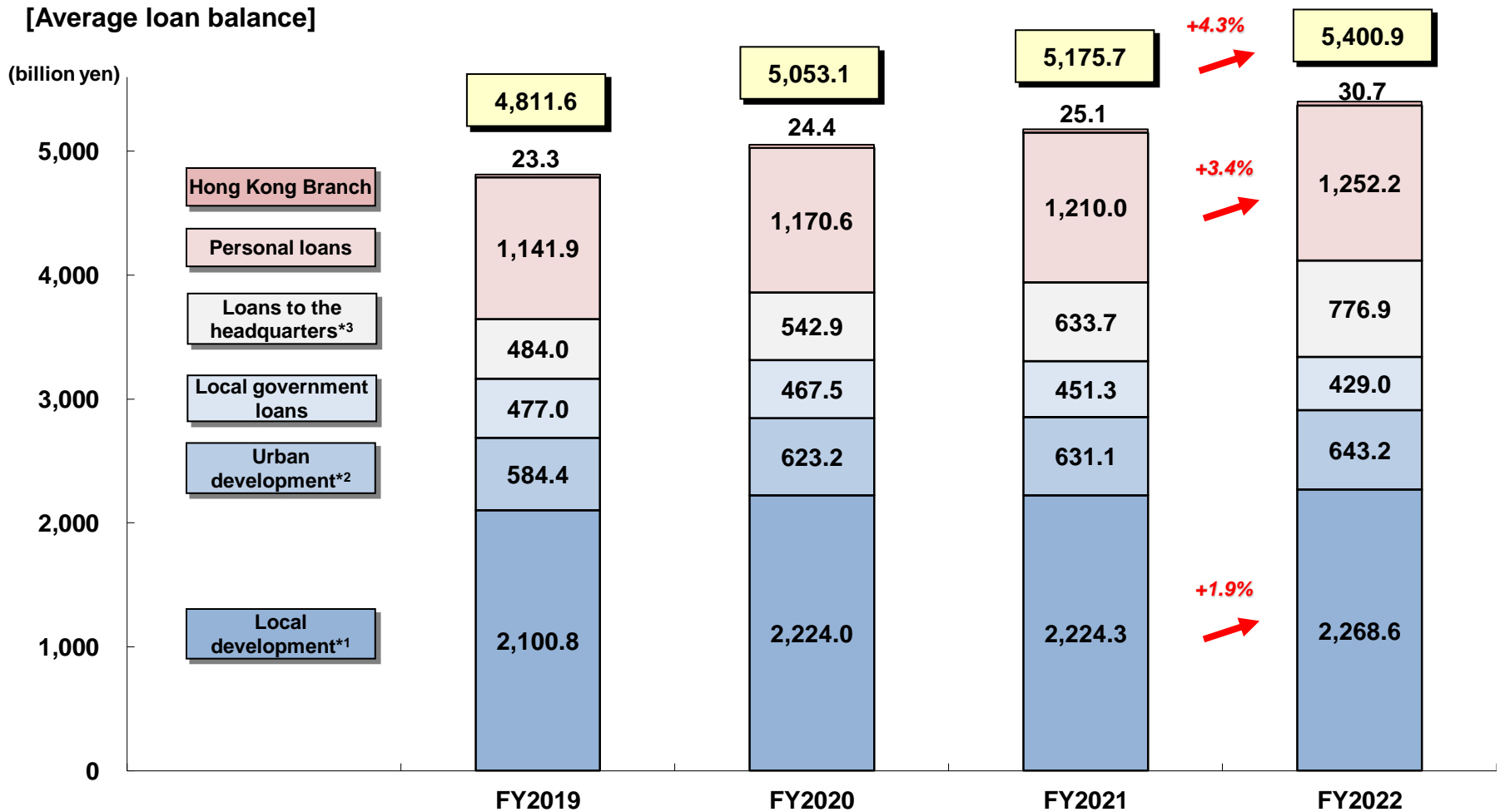
[Average balance of deposits and assets in custody]



\*Financial instrument brokerage represents the average balance based on the acquisition price. Municipal bonds are based on the face value. Insurance is based on the average balance that takes into account cancellations. Investment trusts are based on the average balance of net assets (including defined contribution pensions).

- Deposits + NCD have been increasing for both retail and corporate clients, while the trends in securing of on-hand liquidity, spending restraints, etc. caused by the COVID-19 pandemic have been subsiding.
- We will aim to increase the total assets in custody by continuing to expand stable deposit pipelines and meeting asset management needs of customers.

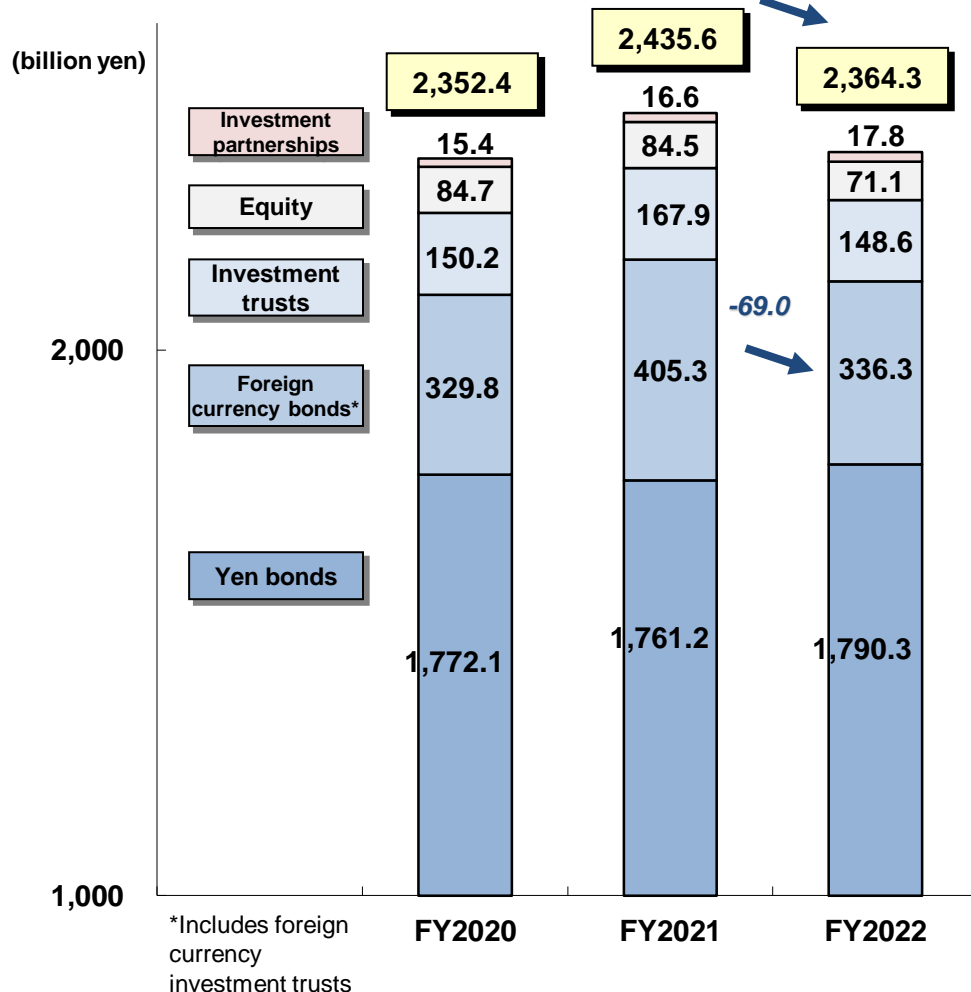
# Major Accounts (2) Loans - Non-consolidated for the Bank -



\*1 Local: Regions other than Tokyo and Osaka \*2 Urban: Tokyo and Osaka \*3 Loans to the headquarters: Non-Japanese loans and SF centers

- The annual rate for local development loans is 1.9%, due in part to strengthened sales activities aimed at expansion of share and higher demand for funds caused by surging raw material costs for some businesses. Personal loans continued to grow steadily mainly for housing loans. The balance of loans to the headquarters increased while reducing risks, in response to an increase in deposits and other reasons. Total loans increased 4.3% as compared with the previous fiscal year.

## [Average balance of securities]

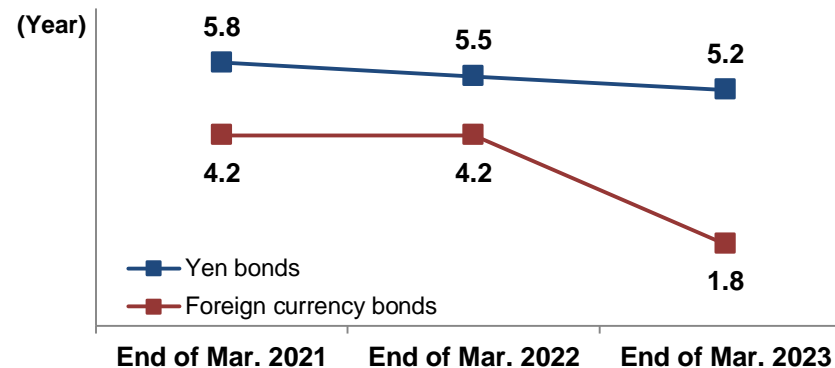


## [Unrealized gains/losses]

(billion yen)	End of Mar. 2022	End of Mar. 2023	YoY
Total	94.5	46.2	- 48.3
Held to maturity	0.1	0.1	- 0.0
Other securities	94.4	46.1	- 48.3
Equity	53.7	39.2	- 14.5
Investment trusts	48.3	25.9	- 22.4
Foreign currency bonds	- 12.0	- 11.7	0.3
Yen bonds	3.8	- 6.6	- 10.4

## [Duration of bonds]

\* After taking asset swap into consideration



- The balance decreased 71.3 billion yen as compared with the previous fiscal year due to efforts to sell off lower-yield assets to improve the portfolio of foreign currency bonds. (The duration of foreign currency bonds was shortened significantly from 4.2 years to 1.8 years.)
- It is our policy to continue prudent investments, taking into consideration domestic and overseas trends in interest rates and unstable market conditions.

# Section II

## Medium-term Management Plan Plan for Creating the Future Together: Stage III

**From April 2023 to March 2027**

The following abbreviations are used in this document.

FG: Chugin Financial Group, Inc.

BK: The Chugoku Bank, Limited

# Looking Back over the Previous Medium-term Management Plan

Stakeholder	KPI	FY2019	FY2022		Final year of the Long-term Plan (FY2026)
			Medium-term Plan Target	Result	
Local community	Number of projects addressing local issues and contributing to the SDGs	—	Continuous improvement	Continuous improvement	—
	(1) Sum of the number of startups for which we provided support <sup>*2</sup> and the number of companies we provided support in business succession <sup>*3</sup>	—	200 in 3 years	222 in 3 years	—
	(2) Activities contributing to the improvement of financial literacy <sup>*4</sup>	—	Continuous improvement	805 in 3 years More than 16,000 participants at lectures	—
Customers	Customer satisfaction <sup>*5</sup> (Retail and corporate)	—	Continuous improvement	FY2022: Corporate questionnaire 69% satisfaction FY2021: Retail questionnaire 65% satisfaction	Continuous improvement
Employees	Labor share in core business net profit before payment of personnel cost <sup>*6</sup>	—	At least 54%	44%	—
Shareholders, etc. (All stakeholders)	Profit attributable to owners of parent	11.9 billion yen	15.0 billion yen	20.4 billion yen	30.0 billion yen
	Consolidated total capital adequacy ratio (Basel III)	13.04%	Maintained stably at 12%	12.87%	Maintained stably at 12%
	Consolidated ROE	2.2%	—	3.79%	At least 5% (single-year basis)

ROE is based on the TSE standards (which include valuation difference on available-for-sale securities)

\*1: East Setouchi Economic Zone: Okayama Prefecture, Kagawa Prefecture, eastern Hiroshima Prefecture (Bingo region), western Hyogo Prefecture (Harima region)

\*2: Number of startups for which we provided support: Number of startups as a result of our event for startup support, etc.

\*3: Number of companies we provided support in business succession: Number of companies to which we provide business succession consulting services

\*4: Activities contributing to the improvement of financial literacy: Number of events and study sessions that contributed to the improvement of financial literacy, business skills, etc.

\*5: Customer satisfaction: Sum of "Satisfied" and "Somewhat satisfied" replies in customer questionnaires (Corporate and retail customer questionnaires are conducted every other year.)

\*6: Labor share in core business net profit before payment of personnel cost: Personnel expenses divided by the sum of core business net profit and personnel expenses



# Positioning of the New Medium-term Management Plan

This Plan is the “final stage of the Long-term Management Plan” and the “first Medium-term Management Plan for the Chugin Financial Group.”

We aim to achieve the KPIs set forth in the Long-term Management Plan by demonstrating results based on the reforms implemented in Stages I and II, and define the long-term direction we should aim for in the next 10 years.

## Positioning

## Results

### Stage



April 2017 to  
March 2020

**Structural reforms**  
(Strengthening of hard aspects)

- BPR investments  
(A shift from administrative affairs to sales activities)

### Stage



April 2020 to  
March 2023

**Action reforms**  
(Strengthening of soft aspects)

- Autonomous sales system and personnel system
- Acceleration of development of new businesses
- Transition to a holding company system

## Positioning of this Plan

### Stage



April 2023 to  
March 2027

**Demonstration of results**  
&  
**Taking on new challenges**

- • • Achieve the Long-term Management Plan by demonstrating the results of Stages I and II
- • • Chugin FG’s first Medium-term Management Plan toward the next phase of growth

# Three Growth Strategies

## 1 “Deepening” of regional revitalization SDGs

We will contribute to “**sustainable development of communities**” by drawing out its appeal and potential.

Regional revitalization	▶ Strengthen initiatives, startup support, and activities for SDGs which use DX and SX as a starting point and capture communities from a wide perspective.
Community support activities	▶ Provide one-stop solutions from upstream to downstream ▶ Strengthen sustainable finance
Life planning support activities	▶ Support realization of customers' life plans ▶ Strengthen support for stable asset formation and reliable asset succession

Corresponding materiality (priority issues)

Revitalization of local economy and society

Response to society with a declining birthrate and an aging population

Promotion of environmental management

Promotion of DX

## 2 Creation of innovations

We will create “**new value**” toward the next phase of growth.

DX	▶ Promote operational process reforms and development of next generation channels and digital technology-oriented human resources
New businesses	▶ Create new businesses unique to the Group through alliances
Alliances	▶ Actively implement wide-area collaborations, collaborations with communities, and collaborations with different industry players

Corresponding materiality (priority issues)

Promotion of DX

Active participation by diverse human resources

## 3 Strengthening of the Group business base

We will build “**solid foundation**” to implement growth strategies.

Portfolios	▶ Optimize business portfolios and strategically allocate management resources
Financial capital	▶ Implement appropriate financial management from the viewpoints of soundness, profitability, and shareholder returns
Human capital	▶ Significantly increase “investment in human capital” in line with the business strategies
Diversity	▶ Strengthen recruitment of and active participation by diverse human resources
Governance	▶ Sophisticate the internal control system of the Group as a whole

Corresponding materiality (priority issues)

Active participation by diverse human resources

Sophistication of governance

Promotion of DX

(On a consolidated basis for the FG, unless indicated otherwise)

Aims of the selection	Financial KPI	FY2022 result	FY2026 target
Profitability	Profit attributable to owners of parent	20.4 billion yen	30.0 billion yen
Capital efficiency	ROE	3.79%	5% or more
Soundness	Total capital adequacy ratio	12.87%	11% through 13%

ROE is based on the TSE standards (which include valuation difference on available-for-sale securities)

Materiality (priority issues)	Growth strategy	KPI	FY2022 result	FY2026 target
Promotion of environmental management	“Deepening” of regional revitalization SDGs	Reduction of CO <sub>2</sub> emissions	[Already announced] Carbon neutrality in FY2030* <sup>1</sup>	
Revitalization of local economy and society		Cumulative amount of sustainable finance executed* <sup>2</sup>	641.8 billion yen	1 trillion yen
Response to society with a declining birthrate and an aging population		Number of contracted consultation cases* <sup>3</sup>	256	460
		Number of customers of five products in custody and number of customers of housing loans	206,000	260,000
		Inheritance-related business cases handled* <sup>4</sup>	487	800
Promotion of DX	Creation of innovations	Operational model reforms (operations, channels, and organizations)	—	(Qualitative assessment)
Active participation by diverse human resources	Strengthening of the Group business base	Ratio of female managers and supervisors (non-consolidated for the BK)	13.4%	25%
		Amount of investment in human capital* <sup>5</sup>	0.3 billion yen	0.5 billion yen

\*<sup>1</sup> Achieve net zero of Scope 1 (direct emissions from consumption of fuels such as gas, gasoline, and diesel oil) and Scope 2 (indirect emissions from the use of electricity and heat supplied by other companies) by the end of FY2030

\*<sup>2</sup> The amount of investments and loans from FY2020 included here includes financing for social sectors (healthcare, nursing care, childcare, education, etc.) and environmental sectors (solar, wind, biomass, EV, etc.), as well as support for regional revitalization and SDG/ESG initiatives.

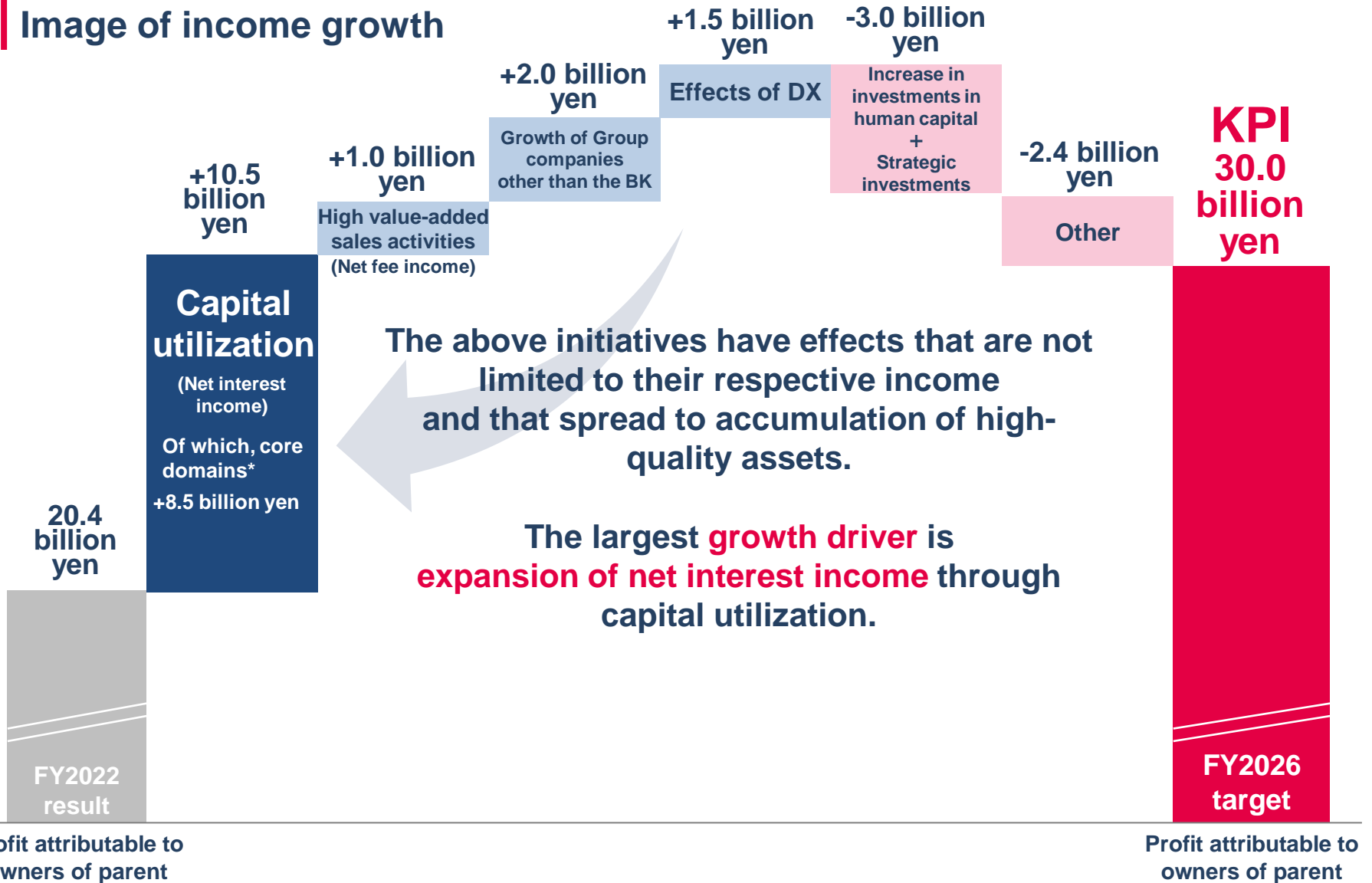
\*<sup>3</sup> Annual number of contracted consultation cases related to business succession, the environment, etc.

\*<sup>4</sup> Annual number of cases handled in relation to testamentary trusts, inheritance support services, etc.

\*<sup>5</sup> Amount invested in employees, such as training and education related expenses, study incentives, Chugin Open Lab activity expenses, and personnel expenses for training and secondment

# Income Plan

## Image of income growth



\*Core domains: Local development loans, personal loans, etc.

# Income Plan

We, the Chugin Financial Group as a whole, will increase **high-quality assets** by addressing issues of local communities and customers from **upstream**, and from **a wide perspective**.  
(An increase of 10.5 billion yen in net interest income through capital utilization)

## People

Chugin  
Human Innovations

SETONOWA

Chugin Energy

## Products

C Cube Consulting

Chugin  
Capital Partners

The Chugin Card

The Chugin Lease

## Money

Chugin Asset Management

Chugin Securities

The Chugoku Bank  
• The Chugin Operation Center  
• The Chugin Credit Guarantee  
• CBS

## Growth of Group companies +2.0 billion yen

Strengthening of comprehensive proposals to customers drawing on the strength of collaboration with the bank. Leading solutions to local issues beyond the scope of finance by leveraging a variety of expertise.

## High value-added sales activities +1.0 billion yen

High-level consultation for challenges faced by customers  
(Corporate) One-stop solutions from upstream to downstream  
(Retail) Optimal approaches and proposals according to life events and needs of customers

## Capital utilization +10.5 billion yen

Overall asset strategies (Increase the asset balance by 1 trillion yen mainly for loans)

- ✓ Core fields  
An increase in local development loans through sustainable finance, regional revitalization, and expansion of share
- ✓ Strategic investment fields  
Strengthening of strategic fields such as new businesses, including renewable energy, equity in communities, utilization of overseas branches, and leasing
- ✓ Market investment field  
Pursuit of high risks and returns (RORA, etc.) through unified investments in loans and securities

## 3 Strengthening of the Group business base

## Effects of DX +1.5 billion yen

An increase in net sales and generation of resources through reforms of operational processes and next-generation channels

## 2 Creation of innovations

## 1 “Deepening” of regional revitalization SDGs

# **1. “Deepening” of Regional Revitalization SDGS**

# “Deepening” of Regional Revitalization SDGs

Through its business activities, the Chugin Group aims to co-create future together with local communities and customers, where we mutually develop.

We will **draw out appeal and potential of communities** by working to “co-create appealing local communities through solution of local issues,” “co-create the sustainable and vigorous business environment,” and “co-create prosperous lives without insecurity,” and thereby **contribute to sustainable development of communities**.

We also raise the level of SDG activities undertaken by Group officers and employees so that SDGs will take root in the Group.



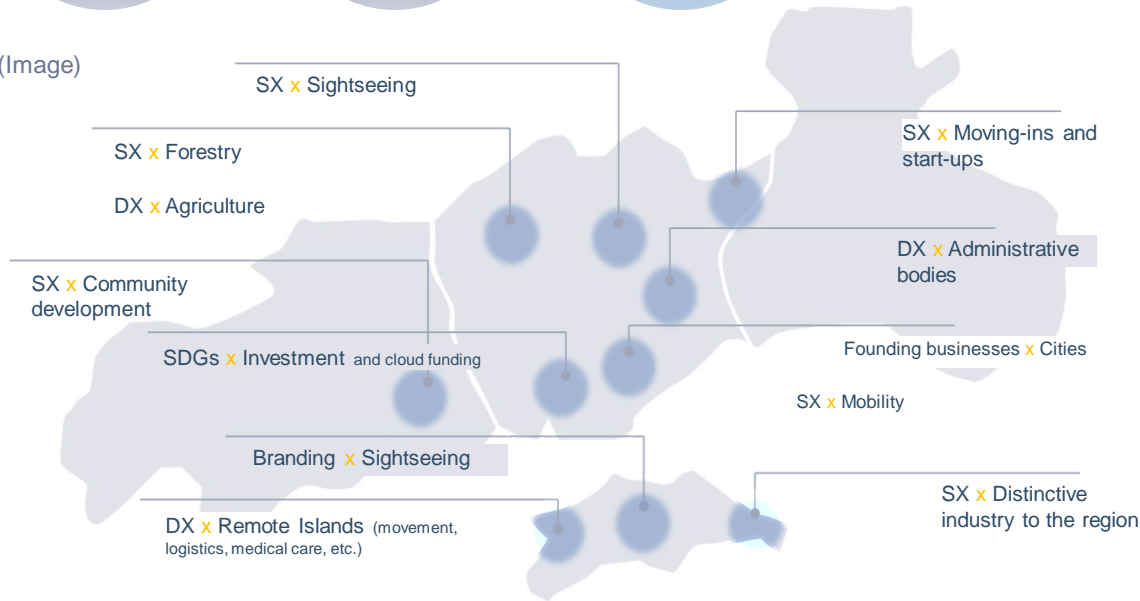
# Initiatives That Capture Communities from a Wide Perspective

We will strengthen initiatives that capture communities from a wide perspective by leveraging the strengths of the Group that provides various solution services, such as C Cube Consulting which offer a high level of consultation centered around DX and SX\*.

In cooperation with stakeholders and partners of communities, we combine DX, SX, etc. with characteristics and issues of each community to aim for **“co-creation of appealing communities.”**



(Image)



\*DX (digital transformation) : Using digital technology to bring about innovative changes in business  
 \*SX (sustainability transformation) : Corporate management balancing sustainability and ESG (environmental, social and governance) issues

## Case study C Cube Consulting The Chugoku Bank

Supported the decarbonization initiative undertaken by Nishi-awakura-son in Okayama Prefecture



The Chugoku Bank, Limited made a co-proposal together with Nishi-awakura-son of Okayama Prefecture and two private-sector companies for the “Decarbonization Leading Areas” solicited by the Ministry of the Environment and Nishi-awakura-son was selected as a Decarbonization Leading Area.

C Cube Consulting played a central role in creating plans and managing the progress, and supported decarbonization of the community.

## Case study SETONOWA

Participated in a project to create a new business which makes use of unused farmland



### Team Okayama Project

It is a project to create a new business with moss taken from unused farmland. Based on the results of the demonstration experiment to incubate moss protonema taken from the unused farmland in Maniwa-shi, a collaborative team was organized to commercialize and sell the incubated moss.

The project aims to generate revenues for farmers and realize a local recycling-oriented sustainable society by effectively utilizing unused farmland.



# Initiatives That Capture Communities from a Wide Perspective

## Case study

### Chugin Financial Group, Inc.

#### Comprehensive collaboration and alliance with Shinjo-son, Okayama Prefecture toward community development

Shinjo-son and the Chugin FG have already been actively collaborating on initiatives related to regional revitalization. The collaboration includes support for the introduction of digital services to improve the efficiency of collections operations at village-run educational institutions and promotion of local industries, mainly forestry.

Taking the execution of the “Agreement on Comprehensive Collaboration and Cooperation for Regional Revitalization SDGs” as an opportunity, the two parties will further strengthen their initiatives toward sustainable local economy by effectively utilizing their respective intellectual and human resources.



#### Collaborations

- ✓ SDGs and initiatives for decarbonization in the community
- ✓ Industrial development centered around forestry and agriculture and an increase in the tourist population
- ✓ Digital transformation of the community, and so forth

## <Reference>

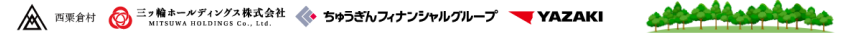
#### Parties with which we entered into collaboration agreements (11 municipal governments in total)

- [Okayama] Okayama Prefecture, Okayama-shi, Kurashiki-shi, Mimasaka-shi, Tamano-shi, Wake-cho, Maniwa-shi, Takahashi-shi, and Shinjo-son
- [Hiroshima] Fukuyama-shi
- [Kagawa] Mitoyo-shi

## Case study

### Chugin Energy

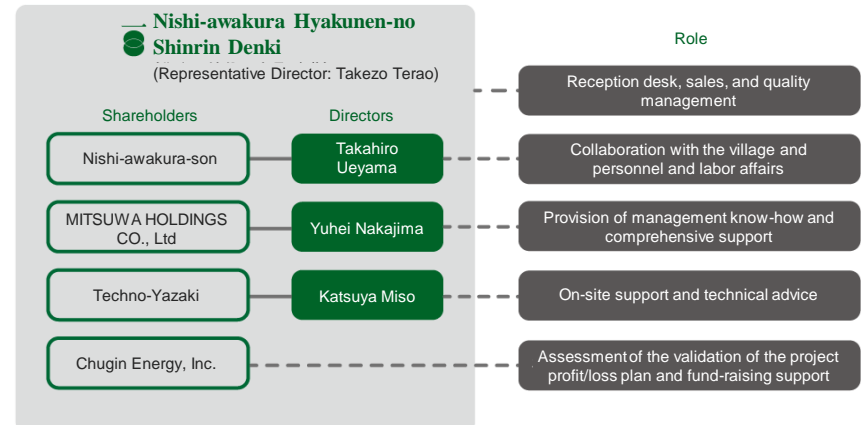
#### Establishment of a new electric power company, “Nishi-awakura Hyakunen-no Shinrin Denki,” that contributes to decarbonization of the community



As part of Nishi-awakura-son’s “Hundred-Year Forest Concept,” we built a system to use natural energy produced by the rich nature as electricity and circulate it within the village.

We have been contributing to the economic cycle and promotion of decarbonization in the village by providing technology and know-how specialized in renewable energy.

- ✓ Sale of electricity through on-site power purchase agreement (PPA) (solar power generation using lent rooftops) for public facilities within the village
- ✓ Operation and management of village-run renewable energy facilities (hydroelectric power plants, biomass power plants and heat supply boilers)
- ✓ Support services for companies that use electricity as a return for the municipality donation tax deduction (Furusato-Nozei) scheme, and so forth



# Initiatives to Support Startups

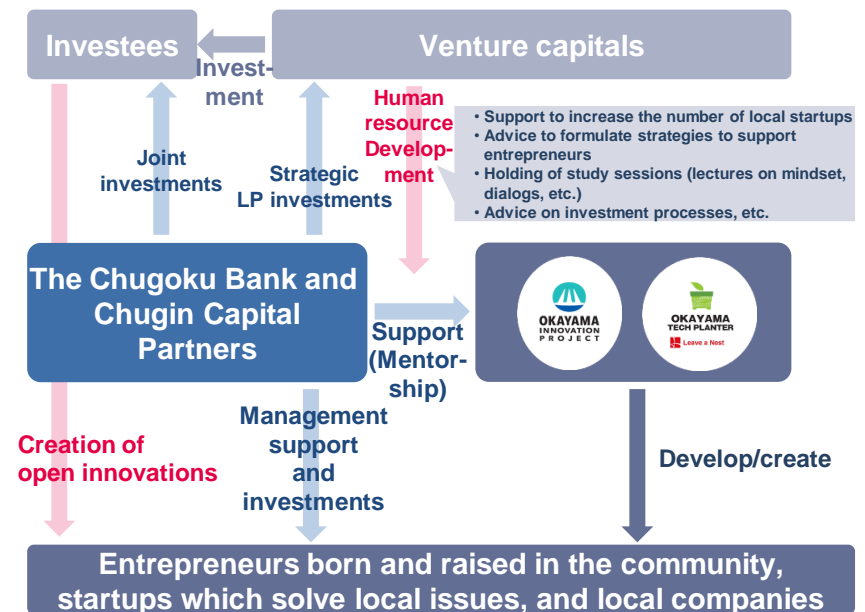
We will strengthen startup community support, hands-on support across the Groups, and collaboration with external organizations building on the foundation of the “startup ecosystem” formed centered around the two businesses, namely Okayama Innovation Project and Okayama Tech Planter, and thereby aim to **create companies that represent the community**.

## Startup ecosystem



## Hands-on support system

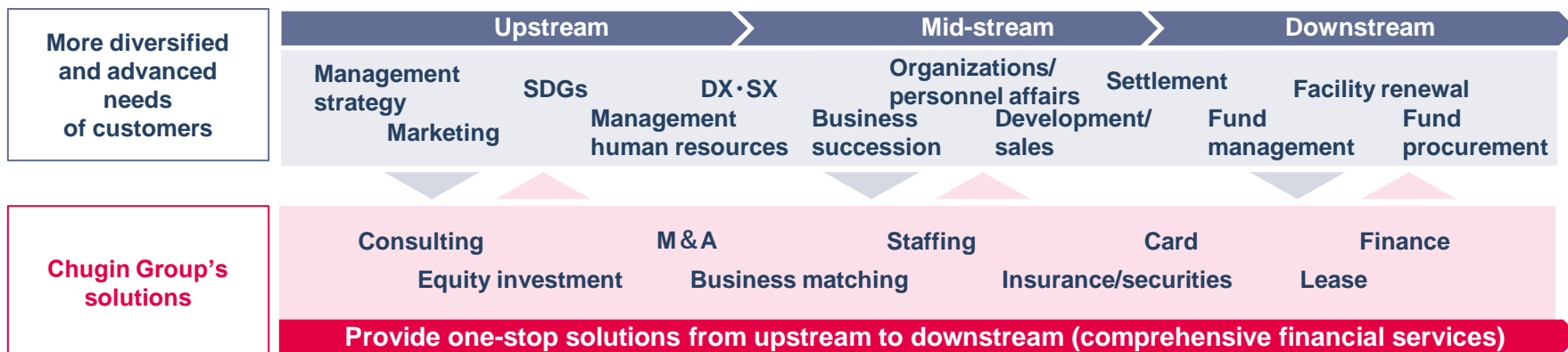
Strengthening of the hands-on support system and creation of open innovations through strategic LP investments in venture capitals



# Community Support Activities

## (Corporate and Business Manager Customers) (1)

We aim to **provide comprehensive financial services** as a “co-creation partner” toward realization of sustainability management of customers.



### Pursuit of comprehensive financial services



Through provision of both consulting and financial services,  
**we pursue high added value of our services.**



According to customers' stage and management issues,  
**we pursue timely approaches.**



Using the bank's customer base as a starting point,  
**we pursue solution of issues through unified efforts of the entire Group.**

- SDGs and decarbonization
- DX and SX
- Business succession
- Human resource development
- Channel optimization
- Use of data
- Mutual collaborative systems
- Human resource circulation among Group companies

### Overseas consulting

- Strengthen support for transactions in overseas markets, including purchases and sales, and support for overseas expansion



# Community Support Activities

## (Corporate and Business Manager Customers) (2)

### Priority areas

(SDGs, decarbonization, and SX)

We will **work together as a Group** to improve the sustainability of entire communities through “active engagement activities<sup>\*1</sup> with customers” and “support from both consulting and financial aspects.”

Promote improvement of the sustainability of the entire community

Municipal governments

Large enterprises, etc.

Medium-standing companies

Small and medium enterprises, etc.

#### Consulting service menu

##### Support for realization of carbon neutrality of local communities

- Support for planning and development of community decarbonization initiatives
- Support for formulation of plans to introduce renewable energy for public facilities and areas
- Support for the use of renewable energy to solve local issues
- Project management support, grant application support and so forth

##### Support for realization of SX of customers

- Support for calculation and reduction of greenhouse gas emissions
- Support for development of SX strategies and roadmap
- Support for business portfolio reforms and so forth

##### Promote and support customers' initiatives toward SDGs and decarbonization

###### Chugin SDGs Support

- Organize SDG and ESG initiatives and identify issues (simplified diagnosis)
- Support for preparation of SDG declaration and appealing to the outside the company

###### Chugin Decarbonization Consulting

- Support for calculation and formulation of reduction targets of greenhouse gas emissions
- Acquisition of SBT<sup>\*2</sup> certification (for SMEs)

###### Business matching

- Service to monitor and manage CO<sub>2</sub> emissions
- Service to support carbon neutrality scenario analysis
- Energy saving and renewable energy business operators, and so forth

#### C Cube

Consulting  
(Established in September 2022)

Provide a high level of consulting services with DX and SX at the core

#### Chugin Energy

(Established in April 2023)

Promote decarbonization of communities through the solar power PPA business, etc.

#### Financial service menu

##### Chugin Sustainable Loan

Loans provided in accordance with the “Green Loan and Sustainability Link Loan Guidelines,” etc.

##### Privately-placed bonds for SDGs

Corporate bonds that enable contribution to communities and receipt of benefits related to SDGs

##### Chugin Environment-friendly Loan

Institutional loans provided as funds required for environment-friendly management

**Plan to enhance the financial service menu related to SDGs and decarbonization (including lease, etc.)**

<sup>\*1</sup> Engagement activities: Constructive dialogs with purposes such as promotion of customers' initiatives toward sustainability

<sup>\*2</sup> SBT: Greenhouse gas emissions reduction targets in line with the standards required by the Paris Agreement

# Community Support Activities

## (Corporate and Business Manager Customers) (3)

### Transformation of service delivery systems

#### Provision of solutions according to segments

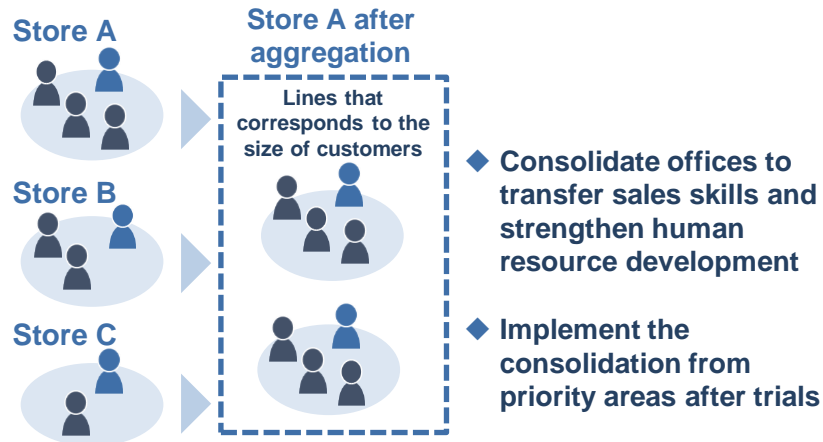
Size of sales of customers  
(conceptual diagram)

#### Main solution menu

Large size	DX and SX (C Cube Consulting)	Strategy (C Cube Consulting)	
Large- to medium size	M&A	Business succession	Organizational personnel affairs
	Operational process reforms	SDGs and decarbonization	Plan formulation and management accounting
	Lease (The Chugin Lease)	Cashless (The Chugin Card)	Marketing (SETONOWA)
	Staffing (Chugin Human Innovations)	Investments and hands-on support (Chugin Capital Partners)	Support for overseas expansion Derivatives
Medium- to small size	Business matching	Consulting service menu that can be completed within sales offices	
	Cashless (The Chugin Card)	Marketing (SETONOWA)	
	Lease (The Chugin Lease)		
Mass and small size	Transaction lending Corporate card Densai Biz-Direct Business portal and so forth		Non-face-to-face channels

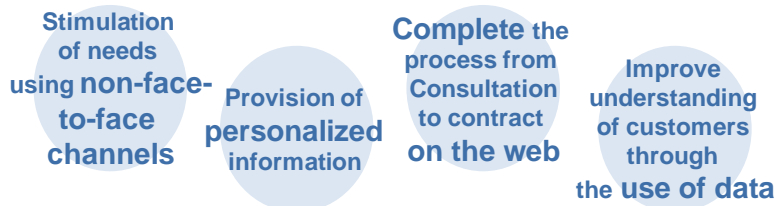
According to customers' stage and management issues, we pursue timely approaches.

#### Consolidation of corporations



#### Use of digital technology

- Promote “digital technology-based complementation and transformation” of existing sales flows by using data and expanding non-face-to-face channels.



#### Opening of the Singapore Branch

- Opened the Singapore Branch to cultivate new business domains (The branch was opened in June 2023 and is slated to commence business in October 2023.)

# Community Support Activities

(Corporate and Business Manager Customers) (4)

## Opening of the Singapore Branch

### Objective

We opened a branch in Singapore which is a financial center in Asia along with Hong Kong and is a hub for Southeast Asia (made the representative office into the branch).

(i) Strengthening of support for business partners who are entering into the Southeast Asia market

- Support for **finance-related services (deposits, loans, and payment functions), which are the most needed** by customers' overseas subsidiaries
- Expand trade with not only local companies but also overseas subsidiaries of listed companies, etc.

(ii) Strengthening of initiatives related to the maritime industry, which is a locally developed industry

- The maritime industry is a locally developed industry of Setouchi and also a distinctive industry of Singapore.
- Accumulate high-quality projects by increasing transactions and enhance our presence in the ship sector through strengthening **finance for the maritime industry** in the region
- Expand business in fields such as decarbonization and SX

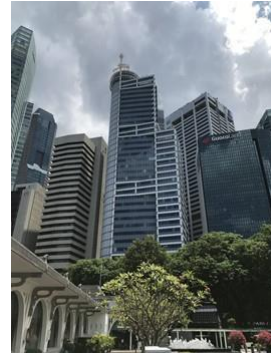
(iii) Business opportunities through collaboration with local financial institutions, etc.

- **Obtaining syndicated loans in Asia and securing foreign currency funding facilities** by building relationships with local financial institutions, and so forth

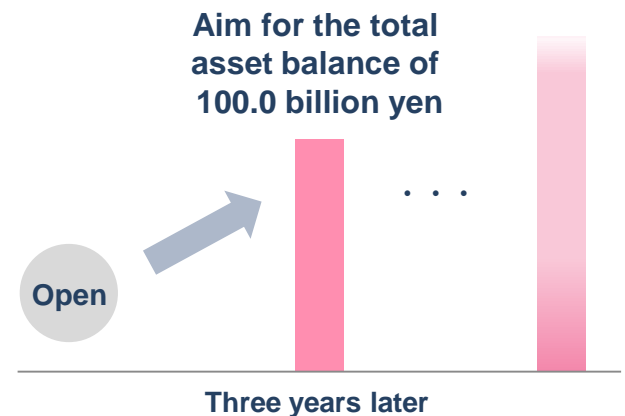
High profitability  
(SP rate and RORA)

Development of specialized human resources  
(accumulation of know-how, etc.)

Taking on challenges and pursuing new business opportunities overseas



\*Reference: Office building of which our branch is a tenant





# Community Support Activities

## (Corporate and Business Manager Customers) (5)

### Create and demonstrate Group synergies

#### Group collaboration system

- ◆ We aim to demonstrate Group synergies through the collaboration system originating from the bank's customer base and the sales offices, which are the Group's strengths.
- ◆ We support the sales offices, which serve as the originating point, from various angles, and make comprehensive proposals and cross-selling through the united efforts of the Group as a whole to meet customer needs.

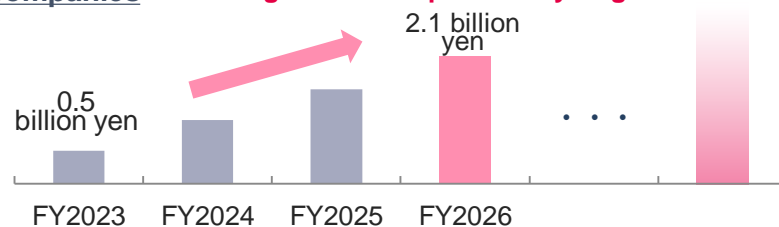


#### Direction of the seven corporate-strategy companies

- **The Chugin Lease**  
Cultivation of large customers and promotion of sustainable leasing
- **The Chugin Card**  
Unified sales efforts based on the cashless strategy
- **Chugin Capital Partners**  
Improvement of sustainability of communities through investments
- **Chugin Human Innovations**  
Strengthening and deepening of the core business (staffing service)
- **C Cube Consulting**  
Establishment of a style to provide value toward realization of DX and SX
- **SETONOWA**  
Expansion into planning and development of ToB (for corporations) products
- **Chugin Energy**  
Decarbonization of communities through the solar power PPA business, etc.

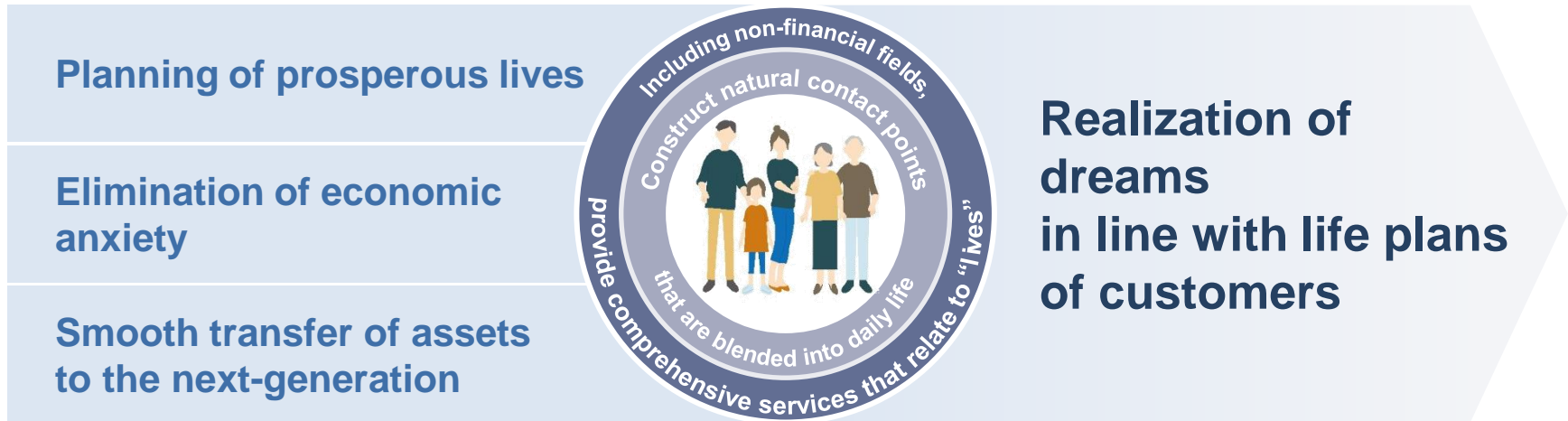
#### Ordinary income of the seven companies

Four-times growth in the Medium-term Management Plan period + synergies for the BK



# Life Planning Support Activities (Retail Customers) (1)

Through our Group-wide comprehensive financial services, we support realization of customers' dreams in line with their life plans including "planning of prosperous lives," "elimination of economic anxiety," and "smooth transfer of assets to the next-generation."



## Support for realization of dreams

		Objective	Major initiative
<b>I Co-creation of prosperous future</b> Support for planned asset formation to realize life plans and dreams		Support for visualization and realization of life plans	Consulting based on life plan simulation
		Push from savings to investments toward stable asset formation	Strengthening of activities to disseminate and promote new NISA
		Approaches to work areas drawing on networks	Promotion of financial and economic education for work areas, etc.
<b>II Deepening of comprehensive financial services</b> Restructuring of the customer-oriented sales system and maximization of value provided by the Group		Improvement of sales efficiency through system restructuring	Segmentation restructuring using customers as a starting point
		Provision of comprehensive financial services leveraging Group functions	Strengthening and optimization of Group collaboration
		Strengthening the system for smooth transfer of assets to the next generation	Enhancement of the sales system for the inheritance business
<b>III Improvement of customer</b> Creation of timely and optimal opportunities for proposals through personalization		Convenience improvement and expansion of contact points through increased digital functions	Enhancement of functions of Chugin App
		Development of the non-face-to-face sales system and the use of data	Establishment of new non-face-to-face sales offices
		Improvement of customer experience through channel integration	Consideration of new benefit programs



# Life Planning Support Activities (Retail Customers) (2)

## Co-creation of prosperous future and deepening of comprehensive financial services

### Support for visualization and realization of life plans



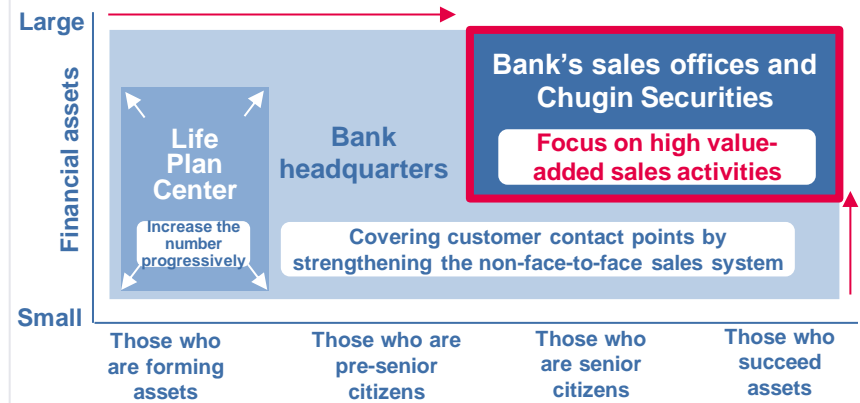
### Push from savings to investments toward stable asset formation

- ◆ More benefits toward stable asset formation provided by new NISA
- ◆ Promotion at sales offices utilizing campaigns, etc., and strengthening of non-face-to-face sales at headquarters (addition of web marketing and app functions)

<b>Challenge</b>	An increase in assets in custody (from savings to investments)
<b>Opportunity</b>	Establishment of the new NISA system (backed by policies)

- **Sales in work areas** Approaches to employees using groupware
- **Life Plan Center** Consulting based on life events
- **Digital technology** Improvement of the convenience of web-based ads, the app, and so forth

### Restructuring of segments



### Smooth transfer of assets to the next-generation

- ◆ Clarify segments and focus on the inheritance-related business for elderly affluent customers
- ◆ Enhancement of the support system at the bank headquarters

<b>Strength</b>	Peace of mind thanks to face-to-face services and expertise in the field of inheritance
<b>Opportunity</b>	Increasing needs caused by aging of the population

- **Creation and execution of testaments** Consulting sales activities centered around sales offices
- **Inheritance tax countermeasures** Appropriate advice on life insurance, apartment management, etc.
- **Use and sale of assets** Making use of internal networks, as well as business matching

# Life Planning Support Activities (Retail Customers) (3)

## Improvement of customer experience

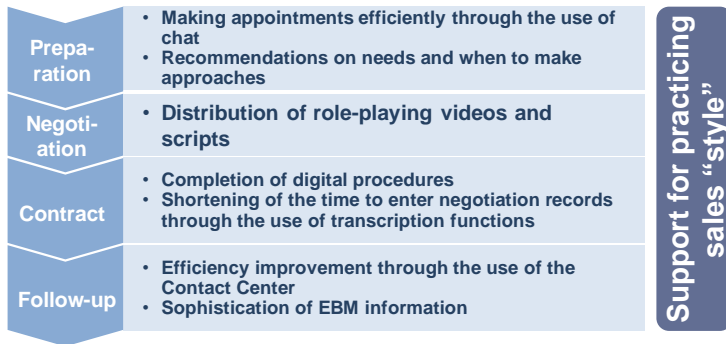
### Improvement of convenience

- ◆ Allowing banking procedures to be completed non-face-to-face and adding functions to Chugin App

Allowing 90% of procedures to be completed non-face-to-face  
Adding functions such as investment trust functions to the app

Provide services regardless of when and where

- ◆ Introduction of digital tools to support sales activities



### Non-face-to-face sales through the use of digital technology

From FY2025 onward (planned)

- ◆ The Contact Center (tentative name) will be newly established within the BK's headquarters to strengthen non-face-to-face sales.
- ◆ Through database marketing and data linkage to the front-line of sales, we establish sales systems that are the best mix of real and digital systems.

**Challenge** Response to the rapid development of digitalization

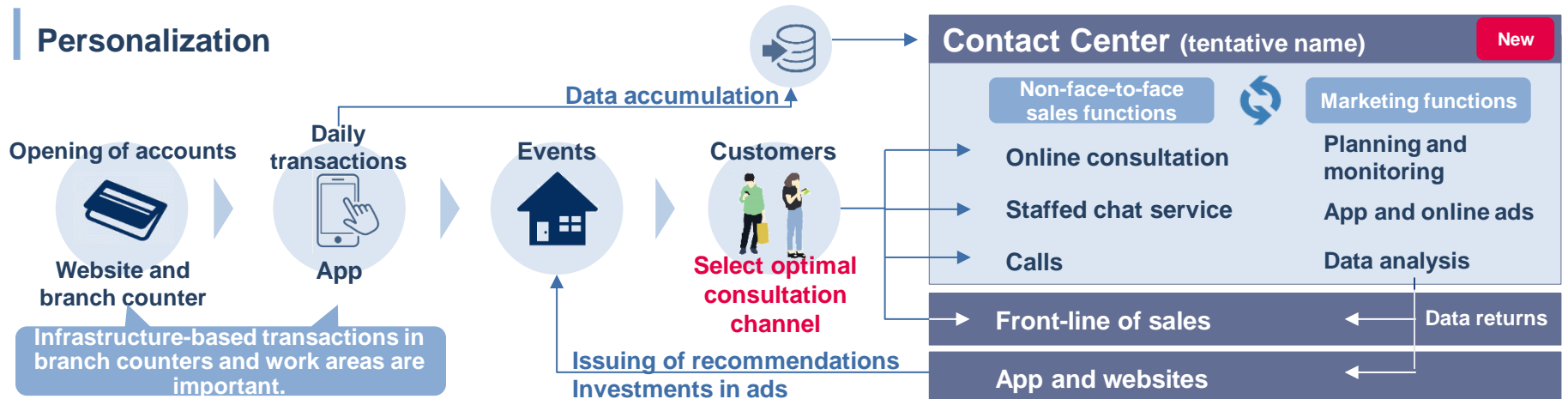
**Strength** Specialized and reliable face-to-face services

Sales systems that are **the best mix** of real and digital systems

Digitalization of transactions

**Establishment of a new non-face-to-face sales office (Contact Center)**

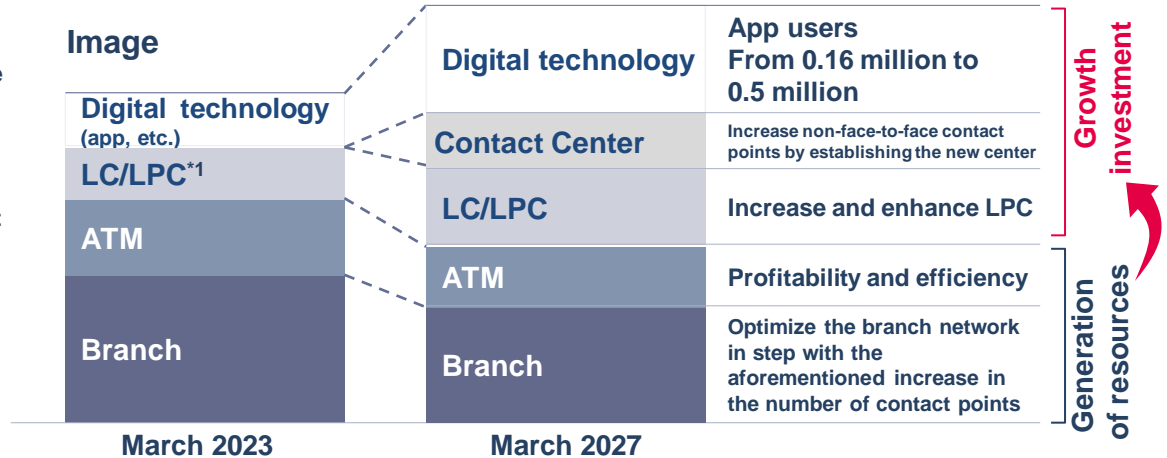
### Personalization



# Channels (Customer Contact Points)

## Direction of channels

- ◆ Increase contact points throughout the Group by developing digital contact points, non-face-to-face contact points, offices open on holidays, etc.
- ◆ Improve efficiency of branches and ATMs without sacrificing convenience
- ◆ Invest resources generated through efficiency improvement in growth to further increase contact points



## Digital technology

- ◆ Promote the use of the app at branch counters and work areas
- ◆ Enhance app functions and web transactions
- ◆ Introduce new benefit services
- ◆ Improve UI and UX\*2 continuously
- ◆ Accumulate transaction data

## Brick-and-mortar

Make branches a venue for consulting

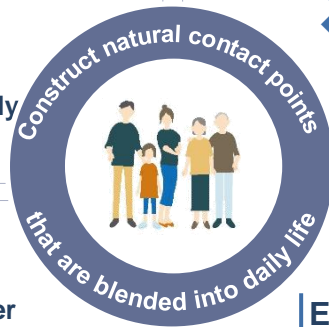
### Future branch development

- ◆ Venue for solving and communicating community issues
- ◆ Consider flexible branch design by, for example, promoting lighter weight branches, in response to local characteristics

[Renewal of existing buildings] Effectively use unused space of branches (co-working space, community trading company space, etc.)  
 [Construction of new buildings] Branches equipped with a Life Plan Center, cafe space for study, etc.  
 Branches collaborating with different industry players  
 [Creation of lightweighted branches] Cashless branches, centralized inspection centers, and remote-based branches

## Hybrid

- ◆ Establish the new Contact Center (tentative name)
- ◆ Strengthen marketing systems
- ◆ Utilize data analysis and personalized data at other channels



### Establish a new Apartment Loan Center From FY2025 onwards

**Challenge**  
 Clarify who will be the principals of sales  
 Effectively encourage vendors

Establish dedicatedly responsible departments in the main areas (within the city of Okayama, etc.)  
 Provide consistent support from sales to administration for the encouragement and efficiency

\*1 LC: Loan Center; LPC: Life Plan Center

\*2 UI (User Interface); UX (User Experience)

## **2. Creation of Innovations**

# Toward Creation of Innovations

This Plan aims to create innovations in order to overcome changes in the environment that is becoming increasingly uncertain and continue to solve issues in local communities and meet the diversifying needs of our customers, while steadily “deepening” regional revitalization SDGs.”

We will **co-create new value** by actively using “digital technology and alliances,” while utilizing the following as the driving force for innovations: fostering of an “organizational culture that encourages continuous challenge”; and creation of an organization that makes the most of the “values and sensitivities of diverse human resources.”



**Our challenges build our future.**

# DX – Overview –

We intend to become a DX company ourselves, and aim to lead and design DX of communities and customers.

We will develop and provide customer-oriented services by reviewing existing operations without any exceptions and generating the necessary manpower.

We will also strengthen the system to fully make use of digital technology, including development of human resources.

**We will become a DX company ourselves, lead and support customers, and design local communities digitally together with them.**

## 1 Operational process reforms

- Visualization of Group's operations
- Data-driven decision-making
- Operational efficiency improvement in all areas, without any exceptions
- Establishment of an inter-group network (Management dashboard)
- Sophistication of internal control of the Group as a whole

## 2 Transformation into next-generation channels

- Improvement of customer experience through the use of data
- Provision of services integrating face-to-face and non-face-to-face approaches
- Digitalization of financial service functions
- Enhancement of digital channels

## 3 Creation of new businesses

- Integration of digital technology and human resources  
⇒ New businesses unique to the Group
- Building of an ecosystem in communities
- Creation of value through cooperation
- Expansion of the new business domains

## 4 Realization of organizational transformation

- Development of digital technology-oriented human resources
- Establishment of a marketing system including human resources and infrastructure
- Agile in-house development systems
- System strategies
- Promotion of open innovations (Building of API economy and use of cloud systems)

**DX strategies**

# DX – Operational Process Reforms –

We will implement operational process reforms from an operation-by-operation perspective across the Group on an end-to-end basis “in all areas, without any exceptions.”

We aim to **use** the resources generated from the 30% reduction of the operation volume **in the new fields**.

**Policy: Implement operational reforms\* in all areas, without any exceptions.**

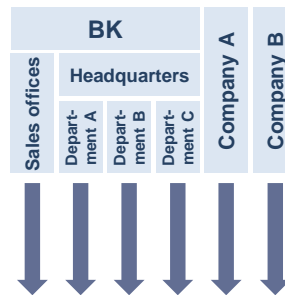
## Operation-by-operation perspective

Initiated with higher priority

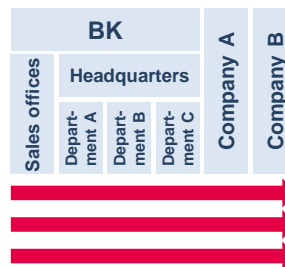


Other operations will also be implemented on a progressive basis.

## End to End (across the Group)



Improvements implemented on a department-by-department basis do not lead to fundamental solutions.



End-to-end operational process reforms across the Group

## Generation of resources

Target

Operation volume **-30%**

Use of the resources in new fields

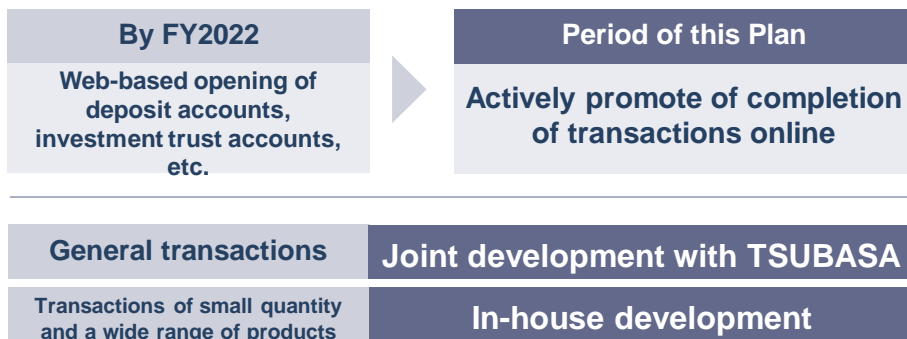
\*We will reflect knowledge of external parties in our operational reforms. We will also secure a strategic investment budget for the realization of reforms.

# DX – Transformation into Next-generation Channels –

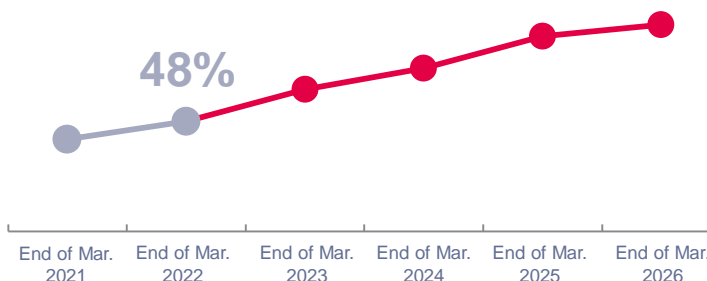
We will improve functions to enable non-face-to-face transactions, and aim to allow **90% of transactions to be completed on a non-face-to-face basis** by FY2026.

We will work to **improve customer experience (CX)** by enhancing the functions of “Chugin App” and “Chugin Business Portal” which are the main non-face-to-face channels for retail and corporate customers, and at the same time, promoting use of accumulated data and research and study of new technologies and services (such as metaverses and Web3.0).

## Enhancement of web-based procedures



Rate of transactions that can be completed on a non-face-to-face (BK)\* **90%**



\*The targeted transactions are those that can be shifted to non-face-to-face transactions excluding cash, etc. handled at branch counters.

## Chugin App



## Chugin Business Portal





# DX – New Businesses –

Instead of trying to complete everything on our own, we will build a system to **create new businesses unique to** the Group by integrating communities, digital technology, and human resources, while also actively utilizing external networks. In addition, we will enhance and advance embedded financial services using the TSUBASA Fintech common foundation, and promote the **utilization and sales to external parties of functions** of the TSUBASA general-purpose paperless system and other in-house systems.

## Building of systems to create new businesses

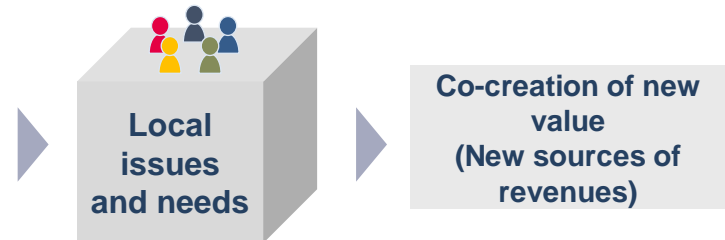
### External networks that are “strengths”

- Local business partners and customers
- Economic organizations and research institutions
- Municipal governments and educational institutions
- Local financial institutions
- Companies in which funds are invested
- Different industry players and Fintech companies
- Overseas networks
- TSUBASA Alliance



### Integration of communities, digital technology and human resources

Create innovations with diverse stakeholders



Examples

#### Vision for Digital Garden City and Decarbonization Leading Areas

Mitoyo-shi, Kagawa Prefecture  
Kibi-chuo-cho, Okayama Prefecture

Nishi-awakura-son, Okayama Prefecture  
Setouchi-shi, Okayama Prefecture

**Contribute to sustainable local communities through the local digital platform**

## Utilization and sales to external parties of development infrastructure and systems

TSUBASA Fintech common foundation<sup>\*1</sup> ..... We will actively utilize this foundation to create new digital services such as embedded financial services by leveraging the functions of open APIs<sup>\*2</sup> and collaborating with external business operators.

TSUBASA general-purpose paperless system<sup>\*1</sup> ..... Effective system infrastructure in terms of bank DX and work style reforms, and actively sold to external parties

<sup>\*1</sup> Jointly developed with banks participating in the TSUBASA Alliance

<sup>\*2</sup> Open API: A mechanism for external business operators, etc. to securely connect to banking systems

# DX – Realization of Organizational Transformation –

We will strengthen **development and recruitment of digital technology-oriented human resources** to promote DX

We aim to transform ourselves into an **organization that** strategically develops a system infrastructure with superior agility and scalability, and **improves the customer experience (CX)** through the use of digital technology and data.

## Development of digital technology-oriented human resources



### DX professionals

Human resources who can lead the promotion of DX initiatives and development and introduction of systems

### DX planners

Human resources who can plan and promote DX projects

### DX supporters

Human resources who understand the basics of DX and equipped with basic knowledge

## Recruitment

- Strengthen mid-career recruitment of specialized human resources
- Strengthen relationships with educational institutions and establish innovation courses (to acquire human resources in science)

## Re-skilling\*

- Visualize digital skills of employees
- Support their acquisition of skills as part of operations
- Jointly develop programs together with external vendors

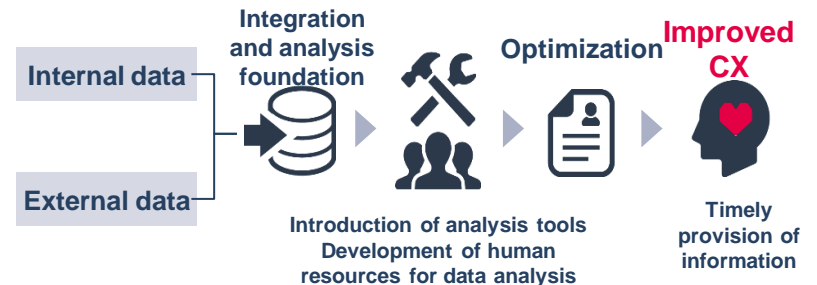
\*To acquire skills and knowledge that are needed in new operations, etc.

## System strategies

	Positioning	Focal point
Bank settlement systems External connection systems	Non-strategic domains	Robustness
Digital infrastructure (Fintech common infrastructure, paperless infrastructure, and in-house development infrastructure) Information systems Sub-systems	Strategic domains	Agility Scalability

## Strengthening of database marketing

Aim to realize “personalization and “timeliness”



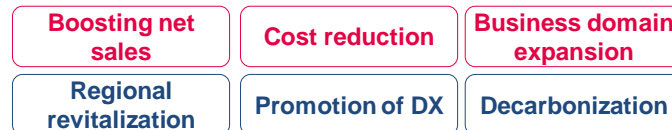
# Alliances

It is not possible for us to create new value with only our own management resources, know-how, and ideas.

We aim to co-create new value through **active collaboration** with various stakeholders, including different industry players.

## Basic stance

- Co-creation and promotion of measures that contribute to the enhancement of corporate value of the Group
- Co-creation and promotion of measures that contribute to sustainable growth of communities



## Wide-area collaboration

- TSUBASA Alliance



Aim to maximize synergies in both net sales and costs generated by leveraging the largest economies of scale as a regional bank

## Community collaboration

- Okayama Co-creation Partnership



- Okayama Future Co-creation Alliance



- Regional Decarbonization and Creation Okayama Consortium



Further promote a system of collaboration with diverse partners in the community to solve local issues and promote regional revitalization

## Collaboration among different industry players

- Coordination agreement concerning regional revitalization (PwC Consulting)



- Investments in ventures by Chugin Capital Partners



# **3. Strengthening of the Group Business Base**

# Strengthening of the Group Business Base

For the “deepening” of regional revitalization SDGs and creation of innovation, it is necessary to establish a **strong Group business base**.

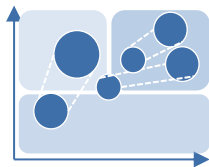
Under this Plan, in order to flexibly respond to the changing business environment, we will strengthen the Group business base by, for example, appropriately allocating management resources, realizing evolution of Group governance, and enhancing the value of human capital.

1 “Deepening” of regional revitalization SDGs

2 Creation of innovations

## 3 Strengthening of the Group business base

### Business portfolios



- Business operation system
- Financial and capital policies



Portfolio management

- Human capital investments
- Diversity

### Human resource portfolios



### Group governance

- Improvement of the internal control system
- Practicing compliance proactively and autonomously
- Improvement of risk management
- Strengthening of the internal audit system of the Group

### Organizational culture

# Toward Improvement of Corporate Value

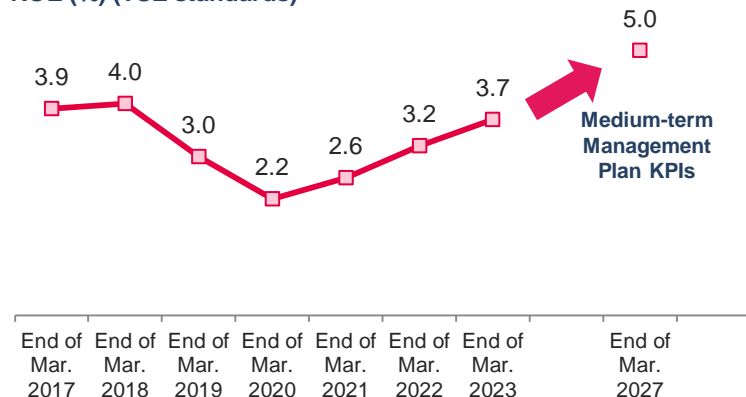
We aim to increase PBR by **raising ROE** through an increase in the profitability and improvement of the capital efficiency.

## Awareness of the current situation

- During the Long-term Management Plan period (since FY2017), ROE has remained around 3-4%.
- We recognize that we still have a long way to go to achieve our KPI target of 5% by FY2026.

Toward the improvement of ROE, we will accelerate initiatives to increase the profitability and improve the capital efficiency.

ROE (%) (TSE standards)



Recently, PBR remained low at about 0.3 times. In order to make it rise, we need to achieve **ROE exceeding our capital costs, not to mention 5%**.

## Initiatives

**Medium-term Management Plan KPIs**

**ROE**  
Net income/capital adequacy

II

**An increase in the profitability**

**RORA\*1**  
Net income/RWA\*2

- Pursuit of high added value through both consulting and financing (comprehensive and consistent support from the initial stage of projects and strengthening of non-financial profits)
- Investments in growth areas and new businesses
- A shift to highly profitable assets mainly at market investment departments

×

**Improve capital efficiency**

**Leverage ratio (RWA)**  
RWA\*2/capital adequacy

- Control of the total capital adequacy ratio (The range has been set since April 2023 (p. 55).)
- Strengthening of returns (The shareholder return ratio of at least 40% has been set since April 2023 (p. 56).)
- Optimization of capital composition (Consideration for CET1 ratio management, etc.)

\*1 RORA = Return On Risk Weighted Asset

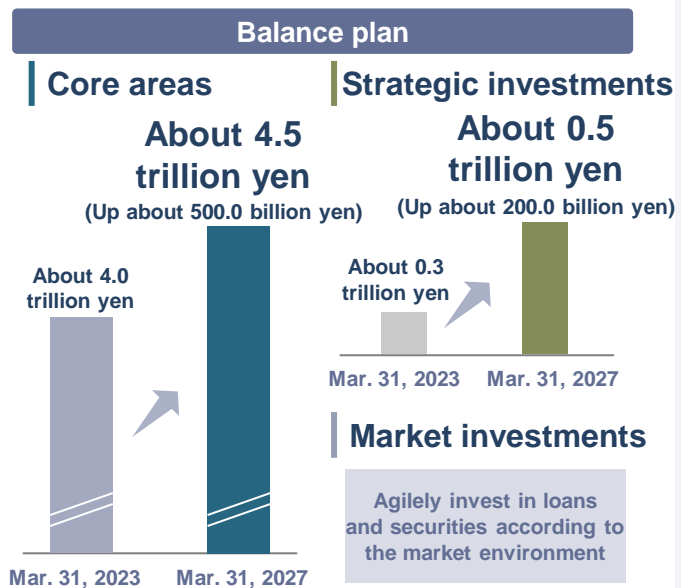
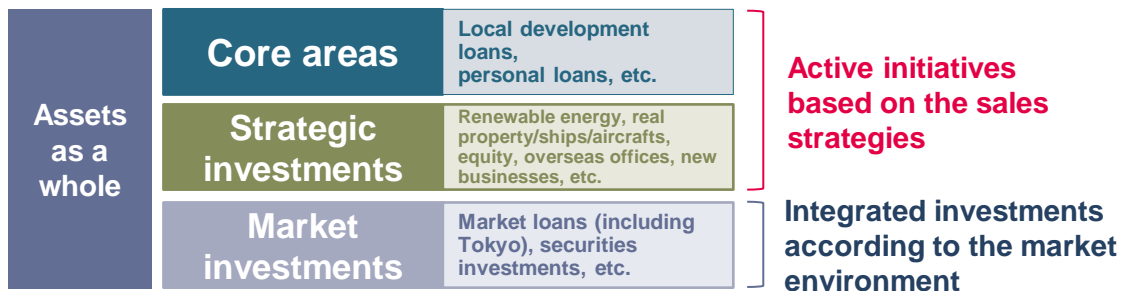
\*2 RWA = Risk Weighted Asset

# Capital Policy – Capital Utilization –

Leveraging our high level of soundness, we will actively **use capital for regional revitalization.**

## Capital utilization

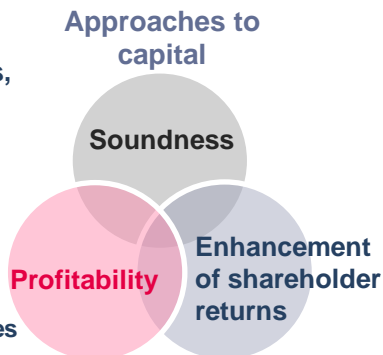
- We will use assets for regional development by taking advantage of our high level of soundness
- While giving top priority to the core areas, we will expand our initiatives as strategic investments in areas such as renewable energy projects, equity supply to local communities, further utilization of overseas bases, and new business domains including leasing.
- Market investments will be carried out in an agile and flexible manner in accordance with the market trend.



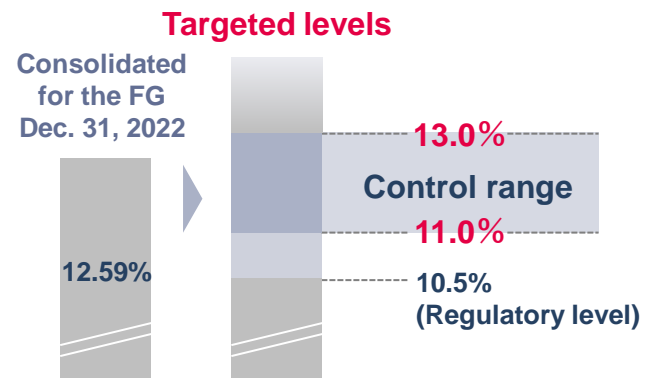
## Capital level

Consolidated total capital adequacy ratio for FY2026: 11.0% - 13.0%

- Striking a good balance between the perspectives of communities, customers, shareholders and investors, and the soundness as a bank is of importance.
- The control range is set assuming the following buffers, with the viewpoints of “profitability (capital efficiency)” and “soundness.”
  - Growth investment buffer
    - Additional source of growth investments
  - Risk buffer
    - Preparing for unforeseen circumstances



Consolidated total capital adequacy ratio



# Capital Policy – Reduction of Cross-shareholdings and Shareholder Return Policy –

We will **reduce cross-shareholdings** and use the capital generated for an agile capital policy to realize our growth strategy.

We will **increase returns to shareholders** to further clarify our stance on shareholder returns.

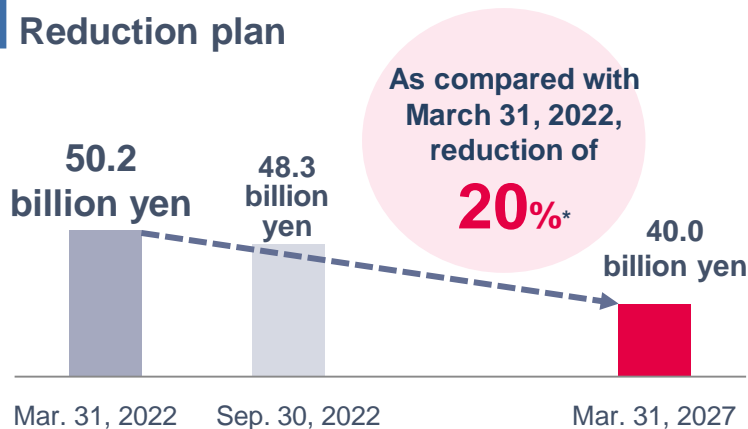
## Reduction of cross-shareholdings

### Basic policy

We will limit cross-holdings to cases in which it is determined necessary for the sustainable growth and enhancement of the corporate value of the Group and the issuers, and reduce them through dialogs with the issuers from the perspectives of capital efficiency and reduction of the risk of holding the shares.

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

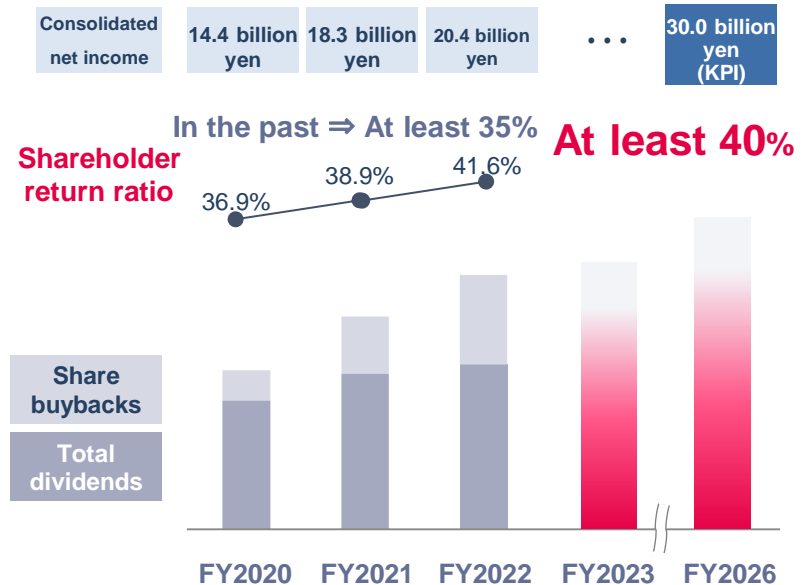
### Reduction plan



\*Book value. Including listed shares, unlisted shares, and deemed holding shares

## Shareholder return policy

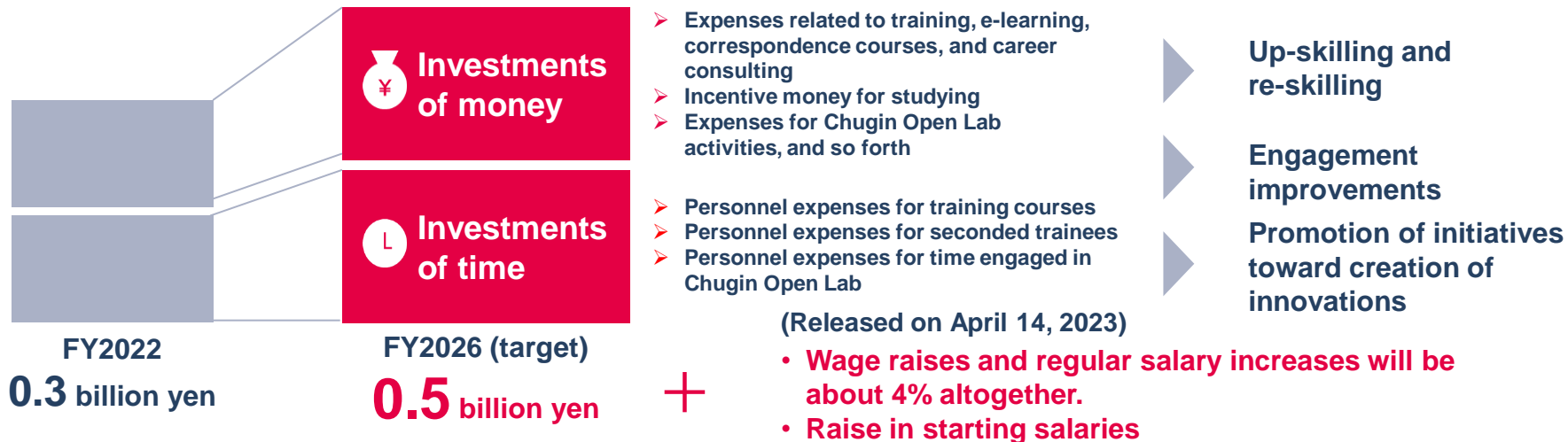
Shareholder return ratio of **at least 40%** through dividends and share buybacks





# Human Capital Investments

We define human capital investments as “investments of money and time in employees which contribute to the enhancement of corporate value,” and intend to **increase human capital investments significantly**, with a focus on investments related to human resource development and engagement improvements in line with our business strategy.



## Re-skilling

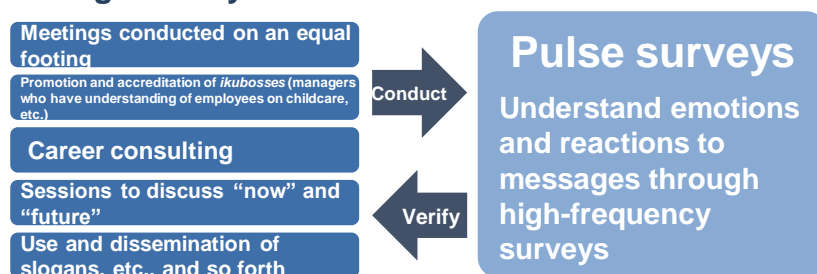
In order to respond to the changing business environment, we will promote acquisition of skills in new areas and changes of job functions in an organized way.



- \*Program to support for changes of job functions (changes of job functions to corporate sales): To be expanded (currently being implemented)
- \*Digital technology and DX programs: Full-fledged implementation to commence in FY2023 (partially being implemented)
- \*Second career support: To be systemized in FY2023 (partially being implemented)

## Engagement

We work to improve engagement through measures to invigorate individuals and organizations and verification through surveys.

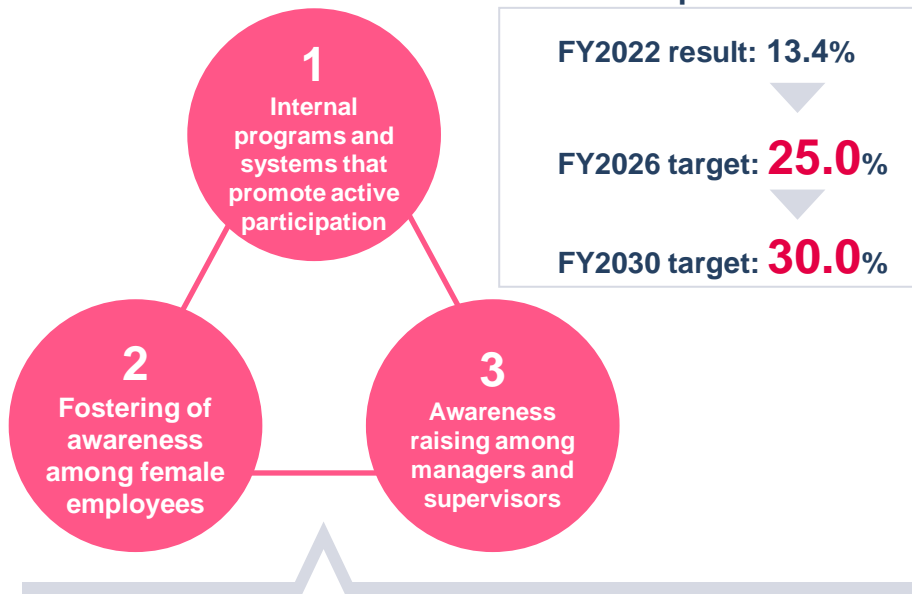


# Diversity and Inclusion

We will **form the foundation for creation of innovations** by having diverse human resources within the Group and establishing an environment in which each of them can demonstrate their individuality and strengths and play an active role.

## Promotion of active participation by women

We promote active participation by women from the perspectives of effective use of human capital and creation of innovations to meet diversifying customer needs.



- 1 ▶ Establishment of, and assignment to, new positions open only for female employees (affirmative action), revision of promotion requirements, promotion of active use of an open application system, and strengthening of the organizational system
- 2 ▶ Establishment of a new internal mentorship system, and continued implementation of TSUBASA Cross-mentorship System, Diamond Training, etc.
- 3 ▶ Enhancement of diversity-related training, promotion of *ikubosses* (managers who have understanding of employees on childcare, etc.), and so forth

## Mid-career recruitment and specialized course

The Company will strengthen its mid-career recruitment and specialized course operations, focusing on the operations of its headquarters and group companies, in step with the expansion of its business lines.

Strengthening of specialized course operation



Diversification of recruitment channels

- Institutionalization of paid referrals and alumni recruitments
- Increase hiring of new specialized graduates (innovation course)
- Increase the number of human resources allowed to have second job, and system establishment therefor
- Implementation of scout-based recruitments
- Strengthening of recruitment at each Group company

Number of mid-career recruits

Results in the past four years: 49 persons

Cumulative total of the plan period: **200** persons

# Organizational Culture Reforms

We not only encourage each employees to take on challenges through our values and slogans, but also aim to create a **corporate culture that allows them to continue to take on challenges** by continuing efforts to give shape to those challenges.

## Chugin Values (Partially excerpted)

[As a company] We provide job satisfaction and opportunity for growth.

We will devote ourselves entirely, in order to support each and every one of employees in their challenges.

## Brand Slogan and Statement

### Our challenges build our future.

We are in times of change. Turn to an offensive, not a defensive, position.  
Let your dreams come true without getting into a rut.  
Chugin will evolve into a comprehensive financial group to co-create a rich future together with its customers.  
Optimum solutions will be created for diversified and sophisticated issues while we listen sincerely to customers' opinions, on the back of our deepening financial services.  
We may experience failure in taking on the challenge of expanding our business domains.  
We may also be caught in trouble and suffer when we face a question without a right answer.  
Still, we refuse to escape.  
Our challenges build our future. Challenges each of us face build our future. This is our belief.  
Each one of us will proactively take on the challenge of each issue.  
What we see over the horizon is an area where happiness circulates and the future of dreams come true.  
Today, we walk in excitement toward our challenges.

## Chugin Open Lab

- An internal venture system that started in April 2021
- We make use of plans they proposed and link them to the commercialization. (At present, the second phase of the project is running.)

Participation of 167 persons in 39 teams in the first phase

Planning, presentation, and screening

Commercialization

### Results

- Established Chugin Energy, Inc.
- Commenced the PR video broadcasting service for customers in lobbies of sales offices, etc.
- Fostered a culture in which people think and communicate independently



Our challenges build our future.

## **Chugin Financial Group, Inc.**

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.