



In the final stage of our while responding to social we will establish a new

We are deeply grateful to all our stakeholders including the investors and shareholders for their continued support. As voices calling for efforts to tackle the revitalization of regional economies and for promotion of the SDGs are continuing to grow, under our Group slogan, “Our challenges build our future,” the Chugin Group is working to solve issues in regional societies from a medium- to long-term perspective. We will continue to focus on building a business model for new growth and further improving our corporate value.

Director and President
Sadanori Kato

long-term management plan, issues, business model.

“Stage III,” a period for steadily increasing the results of reforms

The external environment is changing at a speed that exceeds our expectations, starting with changes in social structure such as population shrinkage, a declining birthrate, and an aging population, as well as rapid digitalization, the global trend toward decarbonization, the emergence of geopolitical risks, and a sharp rise in commodity prices, etc.

In addition, the spread of COVID-19 has significantly changed individual lifestyles and business activities. In line with these changes, the roles and needs of regional banks are diversifying. In this situation, I believe that the scope of contribution we can make for our customers is also expanding. The Group is promoting various initiatives with a sense of urgency, in order to contribute to the resolution of all of the management issues that are faced by our customers.

In 2017, we formulated the long-term management plan, “Vision 2027: Plan for Creating the Future Together” looking 10 years ahead, based on the belief that it is necessary to build a sustainable business model to overcome environmental changes. This long-term management plan consists of “Stage I” from FY 2017, which focuses on structural reforms and strengthening tangible aspects, “Stage II” from FY 2020, which focuses on behavioral changes and strengthening intangible aspects, and “Stage III” from FY 2023, which is positioned as a time for demonstrating the results and taking on new challenges. In the six years of “Stage I” and “Stage II,” although there were major changes in society and unexpected situations such as the COVID-19 pandemic, the Chugin Group has always looked ahead of the times, and focused on anticipating changes and working for the development of regional societies and our customers, the sustainable growth of the Group, and the enhancement of our corporate value.

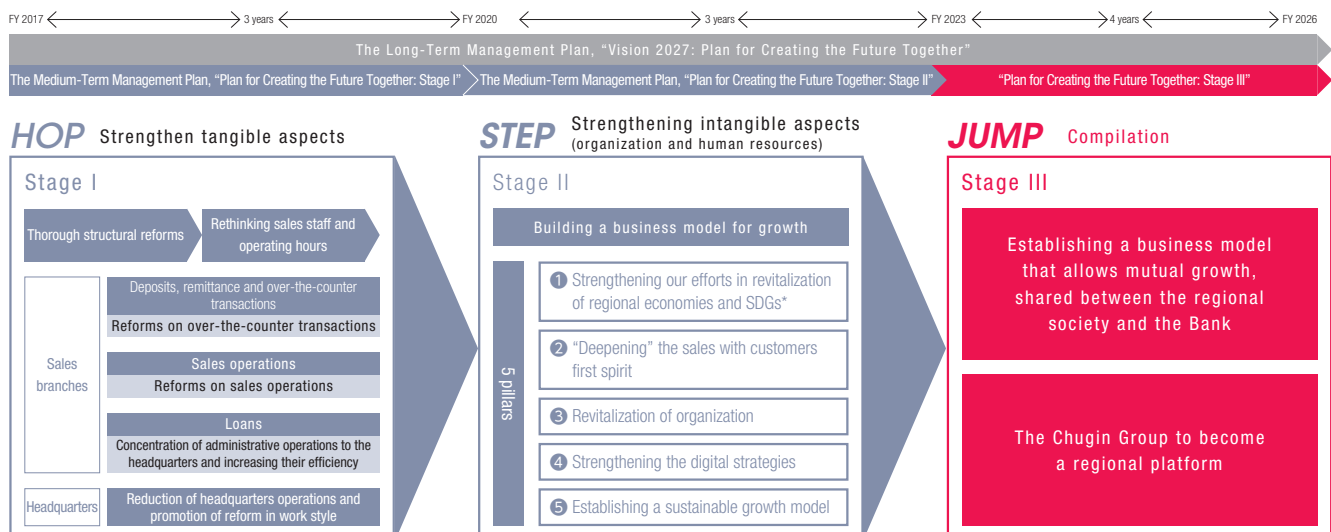
Thus far, we have been quick to grasp the trend toward deregulation due to the revision of the Banking Act, and have established subsidiaries that can provide solutions to a wide variety of customer issues, while always working to expand our business axis. These subsidiaries include SETONOWA Co., Ltd. which is a regional trading company, Chugin Capital Partners Co., Ltd. which is a company specializing in investments, Chugin Human Innovations Co., Ltd. which provides human resource services, and C Cube Consulting Co., Ltd. which provides consulting services for digital transformation (DX) and sustainability transformation (SX).

In October 2022, we established Chugin Financial Group, Inc. and transitioned to a holding company structure with Chugin Financial Group, Inc. as the parent company, in order to further enhance our service menu as a Group, implement an “appropriate allocation of management resources” to continue providing that menu, and continue to pursue the “evolution of group governance.” As an indication of the mission that the Chugin Group should fulfill, we have newly established our long-term vision to “Create with our community, customers, and employees a rich future that we can all share” as our Group’s corporate principles, and are striving to evolve into a “comprehensive services business focused on finance.”

Furthermore, in April 2023, we established the regional energy company, Chugin Energy Co., Ltd., and are aiming to contribute to the sustainable growth of regional societies by utilizing local resources and promoting local production for the local consumption of renewable energy.

I believe that pursuing synergies through alliances and partnerships is also an important strategy for continuing to create new value. The TSUBASA Alliance, which was

Positioning of “Plan for Creating the Future Together: Stage III”



* SDGs: The acronym of “Sustainable Development Goals.” It sets forth the targets applicable to all international societies as determined by the UN Summit in September 2015.

Interview with the Management

launched in 2015 by the Chugoku Bank, Chiba Bank, and Daishi Bank (currently Daishi Hokuetsu Bank), has grown into the largest alliance among regional banks, with ten of the top banks in each region participating. With total assets of approximately ¥94 trillion, approximately 24 million individual customers, and approximately 2.24 million companies as corporate customers, we leverage economies of scale that are comparable to those of megabanks, as well as a wide area network that spans and extends across the Japanese archipelago, and our collaboration is expanding in a wide range of fields, including top-line reinforcement, cost reduction, and operational sophistication, which would be difficult to carry out alone.

We, as the Chugin Group and the TSUBASA Alliance, aim to further improve our corporate value, by creating new business models that leverage our respective strengths and by growing together with regional societies.

Promoting the creation of new value through the transition to a holding company structure

When we formulated our long-term management plan, the transition to a holding company structure was not factored into the plan. However, we have decided to transition to a holding company structure, based on the conviction that reforms are necessary to transform into a strong and flexible organizational structure, in order to respond to changes in the business environment and realize our long-term vision. The reason we adopted a holding company structure with the Chugoku Bank alone was that we considered it to be the best way to provide solutions to our customers with a sense of urgency, while giving due consideration to matters such as speedy management decision-making and resource allocation.

In the process of transitioning, we started by reviewing our corporate principles from its starting point and painting a new vision of what we want to be. Recognizing that it is extremely important for all officers and employees to understand and share the aim of transitioning to a holding company structure and our ideal form, our officers split up to visit all of our sales branches and Group companies, and exchanged frank opinions with those on the ground.

In this way, we aim to be an organization that can continue to create new value for our regions, as we promote the transformation of our business model. One of our efforts involves a major overhaul of the sales system. In the past, sales activities were conducted by uniformly imposing targets set by our headquarters on all branches. However, in the current situation, where issues are different for each region and are also becoming more complicated and diversified, setting uniform goals can easily lead us to conduct activities that only serve the convenience of the bank. The important point is for sales branches, which operate closer to the field, to think autonomously and provide the best possible service to our customers. Based on the idea that this is exactly what we are aiming for, namely ““deepening” the sales with customers first spirit,” in addition to introducing a voluntary target system, we have also redesigned the Regional Headquarter System to create a system in which the sales branches, regional headquarters, and headquarters work together to solve issues.

In addition, the affiliated companies that were under the umbrella of the bank will now have an equal relationship under the holding company, leading to a departure from the bank-centric way of thinking, and enabling Group companies to respond to local issues with a broader perspective, and proactiveness and autonomy. I believe that all of the officers and employees of the Group will be able to think and act autonomously from this point of view, and will be able to carry out their duties with a higher level of motivation.



Aiming for profitability while responding to social issues through sustainability management

In the group strategy centered on Chugin Financial Group, Inc., we plan to accelerate sustainability management through measures such as revitalizing regional economies and societies from the perspective of regional revitalization SDGs and communicating the appeal of the regions.

To promote sustainability management, we will steadily conduct the appropriate allocation of management resources through portfolio management in terms of business and human resources. To that end, we will accelerate DX initiatives in business process reforms and channel strategies, and we plan to significantly increase the non-face-to-face transaction rate, while improving customer convenience by actively expanding the range of transactions that are completed online, and enhancing the functions of our app and the corporate portal website. We will deploy the human resources created by streamlining into growth fields and work to realize sustainable management. On the other hand, not everything will shift to digitalization, automation, and non-face-to-face interaction. I believe that operations that require expertise and reliability, such as the provision of comprehensive financial consulting that meets our customers' life plans and diverse needs, are an area that we should dare to strengthen by adding human resources. We will expand our contact points with customers through the best mix of real and digital, and build a sustainable sales system.

The Eastern Setouchi Economic Zone, which is the business base of the Group, is a region with great potential, as it has a mild climate, a well-developed transportation

network, and abundant forest resources. Decarbonization is an urgent issue in the area centered on the southern part of Okayama Prefecture, which has a high concentration of various manufacturing industries. While the demand for carbon neutrality applies throughout the entire supply chain, for local SMEs, responding to decarbonization is an issue that is directly linked to their survival, in terms of both risk avoidance and the acquisition of business opportunities. However, the reality is that there are still differences in the level of awareness and approach.

The Chugin Group has positioned investments and loans that help to solve social and environmental issues, or support the activities of customers who are aiming to do so, and promote the realization of a sustainable society as sustainable finance, and we have set a target of executing ¥1.5 trillion (of which ¥1 trillion is environment-related) by the end of FY 2030. We are expanding our diverse service menu, which includes advanced GX (green transformation) and SX consulting by our group company C Cube Consulting, as well as simple decarbonization support consulting that can be handled at our sales branches. The Group will take this business opportunity of supporting for transition without missing anything, and we will further strengthen our system for providing optimal solutions by combining finance and consulting according to the needs and scale of our customers.

In the northern part of Okayama Prefecture, through a joint proposal made by Nishiwakura Village and ourselves, the village was selected as a “decarbonization leading area” solicited by the Ministry of the Environment. In addition to being recognized as an advanced model for regional decarbonization through the local production and local consumption of electricity utilizing natural energy produced by abundant local resources, our unprecedented initiative on the joint proposal by a regional bank and a local government has received a great response, including many inquiries from local governments and companies. In June this year, Setouchi City was also selected as a decarbonization leading area through a joint proposal with the Company. In addition to initiatives toward decarbonization, as an initiative for regional revitalization using digital technology, Kibichuo Town in Okayama Prefecture has been designated as a “digital rural health special zone” through a collaboration with Okayama University and our company. With the Chugin Group playing a role as a regional hub, various initiatives that are directly linked to regional growth strategies and regional revitalization are being accelerated. If these initiatives in the Eastern Setouchi Economic Zone, which is our business base, become successful examples for regional revitalization and spread to other regions, I believe that it will lead to solutions to problems such as overconcentration in urban areas, and by extension, contribute to the development of the Japanese economy. We hope to bring out the potential of regions by grasping regional issues and making a “co-creation platform” through multi-faceted and multi-layered cooperation with partners. The areas in which we can contribute are expanding, and I feel a sense of anticipation and a positive response.

In June 2021, we established the “Regional Revitalization & SDGs Promotion Department” to drive the efforts of the entire Chugin Group, in order to strengthen regional revitalization and SDGs initiatives, and speed up the implementation of measures. On the other hand, each sales branch considers the different issues and needs in each region by themselves, and works to solve them in cooperation with the regional societies. For example, they are developing autonomous activities according to the actual situation in the region, such as revitalizing shopping streets and promoting tourism resources.

In the “Chugin Open Lab,” our in-house venture system started in April 2021, we have seen a series of exciting proposals for the future. Based on the themes of “solving regional issues and SDGs initiatives” and “new business and new work planning,” along with solving social issues, we are conducting activities focused on pursuing profitability as a business. The business idea for Chugin Energy Co., Ltd., which I introduced at the beginning, sprang from Open Lab. Although not all of these initiatives contribute directly to earnings, they can be regarded as important initiatives that will lead to the creation of new businesses, as we take the issues of the regional societies as our own and face them seriously. Open Lab is currently in its second phase of activity, and by fostering an organizational culture that continues to take on challenges through these initiatives, and utilizing diverse values and sensibilities in our management strategies, we hope it will serve as a driving force for innovation.



Group-wide progress toward building a new business model

When I was working at a sales branch, it was an unforgettable experience for me as an employee to receive words of gratitude saying, “Thank you for helping,” in response to acting wholeheartedly for our customers. That single phrase gave me the energy to do more for our customers. In this way, even if the actions of each individual are small, the efforts of the entire organization will become a great force.

Until now, in the corporate sales scene, it was not uncommon for us to work from loan proposals as the starting point. However, this makes it impossible to differentiate ourselves, and we can easily fall into interest rate competition. On the other hand, it is a substantial added value to be deeply involved in customer issues from the upstream, not limited to financing aspects, and to respond with problem-solving sales that provide solutions with the comprehensive strength of the Group, and this will lead to the establishment of an unrivaled competitive advantage. This is one of the aims of our shift to a holding company structure, and we intend to leverage the strengths of the Group, which we have built up one by one, to firmly support our customers’ efforts to solve social and environmental issues from the perspectives of both solutions and finance.

While steadily implementing the main growth strategies of “Stage I” and “Stage II,” we have actively expanded our business axis in response to customer needs that have materialized due to deregulation and changes in the environment. In “Stage III,” I would like to realize profitability in these new business fields.

Even greater changes await us in the next ten years, and initiatives in the next four years will be of particular importance for carbon neutrality, as we look ahead to 2030. There are many areas in which the Chugin Group can contribute, and we are already envisioning plans for the next ten years. The Chugin Group as a whole will work with a sense of urgency, while actively developing and providing platforms together with our regional partners. Working toward the next phase, I consider it our mission to steadily demonstrate results in “Stage III,” and to “create with our community, customers, and employees a rich future that we can all share,” which is the Group’s corporate principles. By implementing our long-term management plan with the fiscal year ending March 31, 2027 as our goal, I intend for us to make further progress toward realizing a prosperous future.

The year 2030 is a major milestone toward achieving carbon neutrality, and it marks the 100th anniversary of the founding of the Chugoku Bank. Thinking back to 1930, when the Chugoku Bank was established through the merger of numerous banks, the economy of Japan, including Okayama was in a critical state during the so-called Showa Financial Depression. Under these circumstances, our first president, Magosaburo Ohara and other top management at the time devoted themselves wholeheartedly to the development of the regional society and economy. Even in these modern times, I believe that regional revitalization is an unchanging philosophy and mission for us. The Chugin Group will strive to look ahead of the times so that we do not shame the efforts of our predecessors.

Interview with the Management

Based on the results of “Stage II,” we will make further progress over the next four years

In FY 2022, as I have already mentioned, we have steadily produced results one by one through the steady implementation of our long-term management plan and medium-term management plan. Regarding the key performance indicators (KPIs) in “Stage II,” despite the difficult circumstances posed by the COVID-19 pandemic, we were able to achieve targets for the top line that generally exceeded our plans. I believe that this is the result of the ceaseless efforts made by each and every employee, as well as the results of the reforms made in “Stage I” and “Stage II.” In “Stage III,” which represents the compilation of our plans, we will strive with all our efforts to realize the future co-creation plan that we are aiming for, which we set forth in our long-term management plan.

In order to achieve these goals, I consider it essential for us to take initiatives regarding human capital, including at our Group companies, and we are indeed implementing various initiatives.

Two years ago, we overhauled our personnel system which had been our issue for many years, and we are now focused on promoting diversity, equity, and inclusion (DE&I). Ten years ago, when I was serving as General Manager of the Personnel Department, society was already demanding the active participation of women. However, our conventional personnel system suffered from many issues and restrictions, and we were not able to achieve our desired results. Accordingly, we set up an employee-led project team, and based on the proposals made by the team, we revised our personnel system for the first time in approximately 17 years, implementing a new personnel system reform that enables diverse human resources, including women, to play an active role. I feel that we are making steady progress toward revitalizing our organization by expanding fields for those who can play an active role and responding to changes in work styles. On the other hand, in order to realize DE&I, I consider reforming the mindset of officers and employees to be an urgent issue. In terms of the personnel systems of our Group companies, as we have shifted to a holding company structure, we must revise the systems of Group companies including our benefits scheme, and we will continue to work on this point. In June this year, the “Next 10 Promotion Department” was placed under the direct administration of the President, then it was promoted to the “D&I Next 10 Promotion Department.” We will accelerate our efforts to realize DE&I throughout the Group, and create an environment in which diverse human resources within the Group can demonstrate their individuality and strengths.

Working toward 2030, we will create a “co-creation platform” with our co-creation partners to address the issues faced by regions. While we are still halfway down the road, the seeds that we have sown thus far by following a policy of industry-government-academia-financial institutions-press-civil society collaboration have sprouted, and many co-creation partnerships, including our partnership with Okayama University, are bearing fruit.

As one example, the Ministry of the Environment, Okayama University, and the Chugoku Bank Secretariat established the “Okayama Consortium for Regional Decarbonization Creation,” for the purpose of vigorously promoting regional revitalization through decarbonization, with all participating parties are based in Okayama Prefecture. In addition, Okayama Prefecture is an “SDGs Advanced Prefecture,” as it is referred to by the Okayama Association of Corporate Executives, with Okayama University winning the “1st Japan SDGs Award” (sponsored by the Ministry of Foreign Affairs) in 2017. The “Land of Sunshine, Okayama” is blessed with an abundance and diversity of local resources, such as renewable energy resources, tourism resources, and agricultural and fishery resources. By making use of these resources, there is great potential for the realization of regional revitalization and a decarbonized society that is “unique to the region,” and I have high expectations for future developments.

Creating new value for regional societies with three growth strategies

We have positioned “Stage III” of our medium-term management plan as a time for “demonstrating the results and taking on new challenges.” First, “demonstrating the results” means achieving planned targets based on past reforms, as the final stage of our long-term management plan. “Taking on new challenges” means that this stage is positioned as the beginning of new challenges for the next ten years, as Chugin Financial Group’s first medium-term management plan. In the age of VUCA, when changes are rapid and the future is difficult to predict, it is important for the Group as a whole to increase sensitivity to change, and accurately determine what is necessary for sustainable growth in order to undertake new challenges. In recognition of this, the Chugin Group has defined six materialities as key issues for growing together with regional societies, and we have formulated three growth strategies to give shape to these initiatives. By steadily executing our growth strategies, with the aim of improving not only economic value but also social and environmental value, we will promote sustainability management that creates a lasting virtuous cycle of “development of regional societies” and “improvement of corporate value.”

In addition, during the three years of “Stage II,” by transitioning to a holding company structure and establishing various Group companies, we have established a system within the Group that enables us to provide one-stop services related to people, products, and money, and are expanding the business areas in which we can make proposals to customers. For example, we are proposing human resources-related services according to the hierarchy that is in need, such as executive management and middle management, and our investment specialist company contributes actively to solving management issues and regional issues through investment and accompanied support. In addition, we provide consulting for our customers’ management issues, which are becoming more sophisticated and complex, such as DX and SX.

One of the Chugin Group’s greatest strengths is our ability to provide people, funds, and methodologies in one stop. Of course, establishing trust through the bank will continue to be our most important role. However, with these functions, we will contribute to the first of our three growth strategies, ““Deepening” the revitalization of regional economies and SDGs.”

As for our second growth strategy, “Creating innovation,” we consider it to be creating things that meet the needs of the era by combining existing technologies and systems. In banking operations, we aim for bank-style DX, which includes reforming business processes and promoting next-generation channels. Based on our past achievements and experiences with success, we currently offer consulting for customers and other financial institutions. Whether it concerns decarbonization or DX, we will move forward with a sense of urgency in collaboration with various partners, while sometimes demonstrating leadership to drive regions and customers.

To be honest, “Stage II” made me reaffirm the importance of the human resources who are responsible for our strategies. In order to take on the challenge of new business areas and deepen the sales with customers first spirit, we strengthened our human capital investment in “Stage II.” However, I believe that this is not enough. In



response, in “Stage III,” we will first accelerate DX within the Group and work to improve efficiency and productivity by reviewing our business processes, with no areas left untouched. It is my policy to invest time and funds in human resources that have been secured in this manner, and create diverse strategic human resources.

As for our third growth strategy, “Strengthening our Group management foundation,” I believe it is essential that we build a solid foundation for implementing our growth strategies. As I mentioned earlier, “promoting the active participation of diverse human resources” is a material issue, and we will continue to work on it as our most important issue. In FY 2022, the “ratio of female managers and supervisors” at the Chugoku Bank alone remained at 13.4%, so it is undeniable that management decision-making is still dominated by men. In our modern rapidly changing society, it is crucial that we reflect the opinions and ideas of women on our management strategies, in order to strengthen our management foundation. The “D&I Next 10 Promotion Department,” which I mentioned earlier plays a central role in reviewing our internal systems and structures, and with a focus on reforming awareness of female employees and those in managerial positions from a company-wide perspective, we plan to raise the percentage to 25% by FY 2026. However, our aim is not simply to match numbers. In order to adapt to an era that is so blessed with change and diversity, we intend for us to accept diverse values as an organization, and without losing sight of the original aim of creating new value and innovation, we will develop fair opportunities for growth. In the future, in order to strengthen our efforts for our growth strategies, in addition to human resource development within the Group, securing specialized human resources through active mid-career recruitment will also play an important role. Bringing together people who harmonize with the Group’s corporate principles of “creating the future together,” and developing an environment in which diverse human resources can play an active role will help to strengthen the Group’s management foundation, so that we can pursue value that only we can create for regional societies.

Even if the economy changes unexpectedly in the future, I am certain that we can find solutions to unexpected difficulties, as long as we have human resources who are cultivated inside the company. This is also the reason why we set increasing human capital investment as one of the KPIs for “Stage III.” We will focus on ensuring the achievement of the other KPIs and targets for FY 2026, and respond properly to the expectations of our stakeholders.

In transitioning to a holding company structure, Chugin Financial Group has adopted the slogan, “Our challenges build our future.” In order to survive in this era of change, our challenge is to create new businesses, services, and products, continue to deliver optimal solutions, and bring value to regions and our customers, while leveraging our strengths in finance. This expresses our determination to accompany our customers in all their challenges. Here, “Our challenges” has two meanings: “each challenge in front of us” and “challenges for individuals.” I believe that the accumulation of daily challenges will lead us to the future, and I intend for us to forge our way into the future without fear of failure. While I sometimes hear pessimistic opinions regarding the future of regions outside of major cities and regional banks, I do not share that pessimism. Our business base, the Eastern Setouchi Economic Zone, has great potential for growth and development. While there are certainly issues, the potential for growth is immense as long as we address those issues appropriately.

Following our slogan, the Chugin Financial Group will make a Group-wide effort to build a business model geared toward new growth. Our aim with such efforts is to become a trusted financial group that functions as a regional platform. We humbly ask for the continued support of all our stakeholders, including all investors and shareholders.