

We will aim to engage seriously with regional issues to become a regional financial group that creates the future together with our customers.

We are deeply grateful to all our stakeholders for their continued support. The Chugin Group is currently pursuing Stage III of our medium-term management plan “Plan for Creating the Future Together,” the final stage of our long-term management plan “Vision 2027: Plan for Creating the Future Together.” We will aim to maximize the results achieved through Stages I and II to realize the business model depicted in the long-term management plan, while working as a Group toward further growth.



CHUGIN FINANCIAL GROUP, INC.
President

Sadanori Kato

Deepening regional revitalization efforts through the SDGs

Factors such as COVID-19 and geopolitical risks have seen regional economies struggle in recent years. While regional issues are not new, they have now spread beyond specific regions to challenge the country as a whole.

Tackling these issues head on is, we believe, our mission as a regional financial group. We are also convinced that doing so will foster a virtuous cycle, whereby the new profit opportunities presented lead to further regional contributions.

At the same time, with the Bank of Japan ending its negative interest rate policy and raising interest rates, long-term interest rates are now climbing. The return of interest rates after so long is a reminder that simply holding on to money can damage its value. Money has meaning only when it is used, making it vital to engage in investment which is meaningful for the various entities. The Chugin Group is injecting capital with the aim of contributing to regional revitalization. By sustaining that investment, we hope to establish regional revitalization success models that may even take hold nationwide as means of resolving regional issues.

In 2019, just after I took the reins at Chugoku Bank, I declared that we would make the SDGs a management pillar. Okayama Prefecture was already an SDG leader with a high level of SDG awareness, and Okayama University

and municipal authorities were working proactively on frontrunning initiatives. This led me to believe that industry, government, academia, financial institutions, and the press should collaborate on the SDGs, and Stage II of our medium-term management plan, which began in 2020, identified regional revitalization through the SDGs first among our priority measures. There was initially some opposition on the grounds that addressing the SDGs would not generate profits, but that vanished during the pandemic, as people realized that regional issues and the SDGs were essential for companies in realizing both social and economic value. Now, these are increasingly recognized as helping to expand a company's medium- to long-term sales base and boost corporate value.

In 2021, we established the Regional Revitalization & SDGs Promotion Department to accelerate our efforts, with the Chugin Group as a whole engaged in a broad range of regional revitalization themes, including startup and tourism support, SDGs and CSR promotion, and regional social and environmental issues.

Pursuant to the Group corporate principle “Create with our community, customers, and employees a rich future that we can all share,” we are currently implementing Stage III of our medium-term management plan “Plan for Creating the Future Together.” With communities, customers, and employees joining hands to create a rich future, I am increasingly confident that that future is steadily becoming a reality.

My study abroad experience forms the model for the Plan for Creating the Future Together

Here I'd like to talk about the origin of our Plan for Creating the Future Together.

I first became aware of regional revitalization back when I was a student. During high school, I studied in Los Angeles for a year through the AFS program. It was the first step toward my dream of living abroad, and at first everything I saw and heard seemed very novel. Eventually, living in a different culture led me to question my own identity, and I was shocked to realize how little I knew about my own country's history and culture. Study abroad taught me that crossing the ocean to become a citizen of the world is all well and good, but true citizens of the world know their own countries. Realizing the importance of knowing one's hometown helped to prompt my interest in regional revitalization.

After study at a university in Tokyo, I went job-hunting and found a place at the Chugoku Bank back home in Okayama. Initially, I couldn't decide whether to take a job that would send me overseas, or one that was vital to my hometown. Where many of my fellow students chose jobs in Tokyo, I chose Okayama. But for the first couple of years, far from serving my community, I couldn't even master the basics of being a bank employee. It actually took four or five years of struggle before, buoyed by the encouragement of my

seniors, I learned to engage responsibly with customers and even won their gratitude.

Moving into my early 30s, I was instructed to get an MBA in America, and a randomly submitted application saw me accepted at the highly diverse University of Chicago.

The theme of one of the essays I had to write for my application was a future goal that I wanted to achieve through my job, and I chose regional revitalization. The recruitment officer at the University of Chicago Booth School of Business said that regional issues were a theme seldom chosen by Japanese applicants, many of whom hailed from megabanks and corporate majors. This was also immediately after the collapse of Japan's economic bubble, engendering a strong feeling that nothing more was to be learned from Japanese management, so highlighting the fact that 99.7 percent of innovation in Japanese industry came from small and medium enterprises apparently played in my favor, even though I was only a local bank employee. While studying at UChicago, I continued to think about regional revitalization.

Looking back, I think that my experiences and mindset at the time led to the Plan for Creating the Future Together in the sense of aiming to overcome population decline and dwindling profitability and build sustainable business models by strengthening both tangible and intangible elements and using the results as a springboard to new challenges. I should also mention the foundational role of my seniors who supported me in my early years at the

Interview with the Management

bank and those customers taking on challenges with hope for the future.

Aiming to become a truly useful regional financial institution from a customer perspective

When I returned to Japan, I was assigned to sales, an experience which led me to believe that if financial institutions wanted to serve the community, they would need to fundamentally change the way they operated.

When I was a sales manager, meeting the numerical targets handed down from head office would mean ordering my staff to ask their closest customers to cooperate with deposits and loans. I was acutely aware that sales designed to help the bank were not helping customers. I thought that to understand the customer and engage in customer-first sales, we had to introduce data-based marketing. Around 2000, I was assigned to medium-term plan creation in my capacity as Management Planning Department assistant manager. A team of around 20 driven by young employees drew up a plan to become a bank that is “chosen” and “trusted” by customers, identifying a succession of new cornerstones along the way.

Many of these—for example, the introduction of data-driven marketing and investment in systems for this, Internet sales, automation of loan screening, branch consolidation, automation of paperwork, and creation of a paywalled portal site for customers—have now become Chugin Financial Group policies.

After a stint as general manager of sales branches, I became general manager of the Computer System Department, where I set up the TSUBASA Project, building the foundations for current systems such as core system unification. I believe that this exploration of how a financial institution should operate bore fruit in subsequent management plans.

Looking beyond FY 2026 as the final year of the current medium-term management plan, the next milestone will be 2030, by which time we plan to realize carbon neutrality and the SDGs with the aim of locking in sustainable growth. Coincidentally, 2030 will also mark the centenary of the founding of the Chugoku Bank. Back in 1930, Okayama Prefecture was in the throes of the Showa Financial Depression, and top management devoted themselves wholeheartedly to regional social and economic development, laying the social foundations that underpin society today. One central figure in that effort was the Chugoku Bank’s first president, Magosaburo Ohara.

Even in these modern times, I believe that regional revitalization is an unchanging philosophy and mission for us. So that we do not shame the efforts of our predecessors, the Chugin Group will strive to look ahead of the times and push forward on the basis of our philosophy of “create with our

community, customers, and employees a rich future that we can all share.”

Enabling sales branches to think autonomously and set targets

Eighteen months have passed since we established the holding company Chugin Financial Group in October 2022. Frankly, there is still work to be done, but results are also steadily emerging—making the transition to an autonomous sales system, for example, and fostering a sense of unity as a Group.

Previously, there was no place for information exchange among top management at Group companies. Now, top management from the various companies meet regularly to engage in a lively information exchange, leading to a string of profit opportunities. In addition, moves are underway so that when information is received on Group products and services, that information is also shared with bank branches, and the introduction of incentives is boosting liaison officer motivation.

Another important point is the shift from setting sales targets primarily under the Regional Headquarter system to a voluntary target system of sales branch “challenge targets.” While some investors were concerned about the performance implications, revenue and profit are both steadily increasing as a result.

Even more critical than better performance is that frontline offices are now setting and implementing their own targets. When across-the-board instructions are issued at a distance from the issues faced in the field, it can lead to offices simply trying to reach the given targets and discourage autonomous efforts to go above and beyond. When offices set targets designed to resolve their own issues, staff feel more motivated and work to achieve results beyond the 100 percent mark. We have also introduced more flexibility into awards to emphasize the process in cases where employees set challenging goals but do not quite reach them, encouraging initiatives that emphasize autonomy in everything to boost frontline morale.

In recent years, digitalization has led to the mainstreaming of digital interactions, but to fulfill our mission as a regional bank, having face-to-face interactions with customers in line with local circumstances can also be an important factor. By realizing a good balance between face-to-face and digital interactions, we can pursue co-creation with customers. I believe that this is also something that can only be achieved by focusing on initiatives that emphasize autonomy.

Because the shift to an autonomous sales system and voluntary reporting of sales targets based on the Regional Headquarter system totally transforms



traditional ways of working, bringing on board those on the sales frontlines is absolutely critical. Our officers split the task of going around the country to all our sales offices and Group companies to discuss the changes. The idea is to embed our corporate philosophy by having officers communicate the significance of our job as a bank and engage in ongoing frank dialogue with all employees, juniors included, so that we all share an understanding of the true significance of the autonomous sales system.

Creation of the Chugin Group’s own regional revitalization model

With the Chugin Group system for responding to regional challenges now in place, we are now launching initiatives that take advantage of our particular characteristics.

For example, the falling birth rate and aging population that Japan has experienced in recent years has made business succession a pressing issue. Some survey results indicate that around 60 percent of companies do not have a

business succession plan locked in. Without a successor lined up, businesses cannot engage in forward-looking investment and are consequently unlikely to grow. Helping with this issue is one major role served by the Chugin Group. We consciously lend an ear to customers having problems with succession, considering whether there is anything we can do to help.

Our staffing agency service arm, Chugin Human Innovations, introduces management resources with an interest in business succession, and our investment arm, Chugin Capital Partners, also supports business succession. C Cube Consulting resolves customer and community issues and provides support for sustainable growth and regional revitalization.

I am increasingly confident that by crystallizing the strengths of these specialist companies, we can widen the reach of regional revitalization beyond financial institution boundaries.

As an aside, one advisor to C Cube, which primarily provides DX and SX consulting services, is Masaki Yasui, who this year became Chief Executive Officer of PwC Consulting LLC. Mr. Yasui is from Okayama and decided to move back there because he wanted to serve the community, so he is now

Interview with the Management

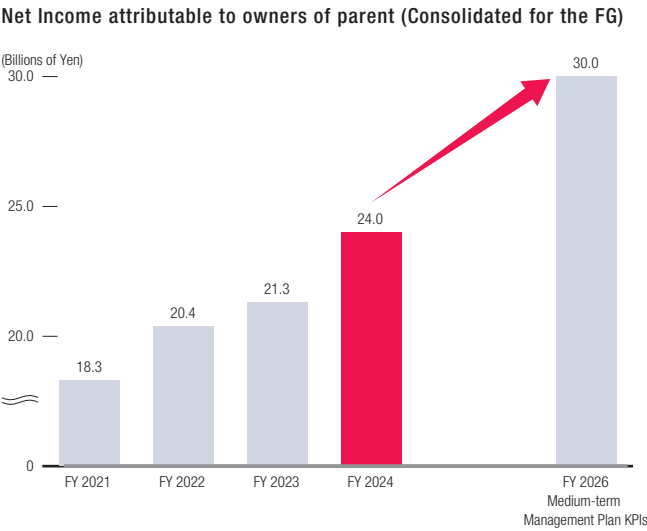
commuting between Tokyo and Okayama. He is currently developing a private sector-led regional co-creation model in which we will become the hub, with C Cube and other Group companies partnering with government and academia, etc., to create the Chugin Group's own regional revitalization model. We plan to expand this model beyond Okayama with the hope of energizing Japan as a whole.

Strengthening our human resource base to accelerate regional revitalization efforts

Moving ahead, we will strengthen the Chugin Group's human resource base to accelerate our regional revitalization efforts. As part of this, we are pursuing human resource exchange within the Group, using job rotation—sending junior employees out from the bank to Group companies on a temporary basis for work experience—to develop human resources with diverse skills. Through this, we will create an organizational structure that can deal with a wide spectrum of regional issues.

As part of strengthening our human resource base, we are also emphasizing diversity and inclusion (D&I). In 2016, we created an action plan

pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace. Subsequently, we have held regular study meetings to support career-building for women. We also set up the Nijiro (Rainbow) Heart Project in 2014 as a working group designed to promote women's participation in the workplace. Now in its fifth term, it boasts a record 27 members, who are making broad-ranging recommendations on issues from



human resource development systems to marketing strategy. Virtually all recommendations to date have been put into practice. In 2023, the Chugin Financial Group and Chugoku Bank each appointed a female executive officer, both of whom are participants in the Nijiro Heart Project.

Moreover, as I noted earlier, our officers go out to all of our sales branches and Group companies to talk with employees, junior employees included. We also create multiple opportunities for employees to speak frankly with me as the Group's president at small meetings of around 20 employees. These meetings comprise a discussion based on various questions from employees. I respond authentically to all questions and opinions, working to build relations of trust with employees and increase employee engagement.

Achieving the medium-term management plan targets and boosting corporate value

FY 2026 is the final year of Stage III of our medium-term management plan “Plan for Creating the Future Together,” as well as the goal of our long-term management plan “Vision 2027: Plan for Creating the Future Together.” When we first set the target of ¥30.0 billion in net income in FY 2026, it was a somewhat challenging figure, because it anticipated the creation of new and uncharted projects. Now, with only three years remaining, the effects of Group-wide efforts are steadily emerging and the target is looking increasingly feasible. In addition, we will press steadily ahead with the Chugin DX Strategy announced on May 31, 2024, implementing operational process reforms to shift personnel into sales and growth and strategic areas, with a revenue impact of ¥10.0 billion estimated for FY 2030. This was not

envisaged in the original plan, and it now seems likely that the addition of the DX effect will see us exceed our target. In addition, where we set the target of executing ¥1 trillion in sustainable finance (the social and environmental sectors) for FY 2026, we have already reached ¥900.0 billion, so here too, we will continue to stack up figures beyond our target.

Finally, to touch on capital policy, as noted in the medium-term management plan, we will accelerate the reduction of our cross shareholdings while also leveraging the capital created accordingly for flexible capital policy to realize our growth strategy.

We engage in capital management with a view to balancing soundness, profitability (capital efficiency), and enhanced shareholder returns. Recently, we set out to lock in ongoing ROE improvement and enhance shareholder returns to boost corporate value. We did so by shifting from a shareholder return policy based on a total payout ratio that was the sum of the original dividend and share buybacks to one whereby returns are boosted through capital control and expansion of dividends via profit growth based on the dividend payout ratio. We will aim to achieve more strategic capital utilization and further enhance shareholder returns while ensuring soundness.

To ensure steady and flexible implementation of strategies and measures, in June this year, we strengthened Chugin Financial Group functions through transition to a business unit system and other restructuring measures. Our aim is to reinforce our top line, ensure the appropriate allocation of management resources, and use capital controls and strategic utilization to boost profitability to improve our ROE and PBR, thereby meeting investor and shareholder expectations while boosting corporate value. We humbly ask for your continued support.

Sustainable finance targets

Our Group has set new sustainable finance targets to deepen regional customers' understanding of climate change and support efforts to achieve a carbon-neutral society as a regional financial institution.

Target content	¥1.5 trillion by the end of FY 2030 (including a ¥1 trillion environmental sector target)	Social sector	Medical care, nursing care, childcare, education, etc.
		Environmental sector	Solar, wind, biomass, EVs, etc.

Sustainable finance performance (FY 2023)* (Unit: Billions of Yen)

FY	2020	2021	2022	2023	Cumulative total
Sustainable finance	303.5	141.1	197.2	300.4	942.2
Social sector	237.4	101.6	87.5	96.9	523.4
Environmental sector	66.1	39.5	109.7	203.5	418.8

* The sustainable finance performance value is non-consolidated for the Bank.