

Message from the President

Thorough support for industries and businesses
as the region's leading bank



July 2021
President and Representative Director

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Critical Role that San-in Godo Bank Should Play

● Amid a Changing Business Environment

One year and a half have passed since the threat posed by a novel coronavirus first emerged. Perhaps inevitably, stagnation in economic activity has grown protracted, with voluntary restraint from all but essential outings, which is now the norm in many areas of everyday life. Looking at the Bank's own business environment, while ongoing digitalization and the widespread diffusion of SDGs were already triggering massive changes, the COVID-19 pandemic seems to have suddenly shifted the pace of change into high gear. Most clients, too, have seen their businesses impacted in significant ways, among them dramatic declines in sales. And while the number of bankruptcies has been held in check thanks to the management effort of business owners themselves and a variety of government- and private industry-backed support measures, the economic landscape remains a challenging one overall. Under these conditions, setting business support for clients as its highest priority, San-in Godo Bank first took steps to stabilize the situation at hand by addressing the need for financing. We then developed future-looking activities, including the formulation of management reform plans to get businesses back up and running. In a situation in which doing the same actions as before is now leading businesses to struggle, we have worked hard to gain a deeper knowledge of our clients than ever before, with the goal of nailing down more successful and effective measures to break this deadlock. In the previous fiscal year, given the pervasive sense of uncertainty, any number of clients chose to formulate only temporary or interim plans. However, as the rollout of vaccines gains traction and projections become easier, the creation of more extensive measures will likely be possible. With the regional economy battered and exhausted, this is the moment to showcase the Bank's concentrated knowledge and expertise built in business support over the years. And this is exactly what we are here for, San-in Godo Bank would fulfill its responsibilities as the region's leading bank.

● Action as a Responsible Corporate Citizen

The Corporate initiatives targeting Environmental, Social and Governance (ESG) have been further accelerated in recent years. With the news media reporting on either SDGs or ESG almost daily, public interest in environmental and social problems is rising. Given that the social and living environment in front of us is one where what used to be common sense is no longer so, and in which enormous changes have occurred, there is a sense that people's awareness has started to shift to the sustainability of human society as a whole. Accordingly, the metrics by which a company's value is measured have also diversified. In addition to financial-side evaluation in areas like profit, the move to rate companies on activities that rarely show up in financial considerations, namely

environmental, social and corporate governance performance, is growing. The demand for each company, as an individual corporate citizen, taking responsible actions for the sustainable society as a whole is now greater than ever before.

In this climate, in addition to development of a host of business support activities designed to revitalize the region's economy, the people of San-in Godo Bank have continuously taken it upon themselves to personally participate in and carry out unique environmental protection and social contribution activities, among them forest conservation, employment opportunities for individuals with disabilities, J-Credit intermediary services, and healthy youth education. At the same time, we promote to raise awareness in activities among local companies and authorities, for example, to deepen understanding of SDGs, while also taking steps to enhance continually our corporate governance structure.

In addition to initiatives related to the declaration for Task Force on Climate-related Financial Disclosures (TCFD) and reductions in greenhouse gas emissions, our policy going forward is to widely promote ESG management. The goal here is to use relationship banking activities as a base to enhance local economic sustainability, including, for example, by raising the level of investment and lending to companies seeking to decarbonize.

A Look Back and Vision for the Future

This fiscal year marks the start of a new Medium-term Management Plan. Before explaining the Bank's management strategy going forward, let's take a look back at the previous plan, then discuss the outlook for the future.

● Progress in strengthening foundations for growth strategies

To briefly summarize the previous Medium-term Management Plan, although profit levels fell below targets due mainly to the impact of the COVID-19 pandemic, the plan did succeed in building the management base that will become the foundation for growth strategies going forward. This was the result of implementing structural reforms in a steady manner, specifically by reviewing earnings structures and streamlining organizations and operations. First, let's discuss profit levels. In fiscal 2020, consolidated net income declined ¥0.7 billion year on year, to ¥9.6 billion. The main reason for this challenging fiscal outcome was the preemptive accumulation of credit expenses to account for future uncertainty. And while capital adequacy ratio also lower, this can be seen as evidence of the Bank's extensive support in meeting customers' funding needs despite the risks involved. On the other hand, the core banking profit (excluding gains/loss on investment trust cancellations), the measure of success in the Bank's key business functions, increased a substantial 25% year on year, offering promising feedback on our positioning for growth going

Message from the President

forward. Where the management base is concerned, in addition to several important structural reforms carried out over the last three years, including core system innovation and branch network restructuring, as well as an alliance in the securities business with Nomura Securities Co., Ltd. and affiliate realignment, we have steadily taken steps toward rationalization and improved efficiency in a range of operational areas. As a result, we made progress in the strategic allocation of personnel, and have seen a level of success in terms of cost control as well. We also oversaw dramatic increases in two core banking operations – loans and deposits. I am confident that the results of the past three years will contribute heavily to performance on both the financial side, particularly with respect to earnings, as well as to human resource development, organizational capacity and other non-financial areas.

● Getting Back to Our Philosophy, Showcasing Our Vision

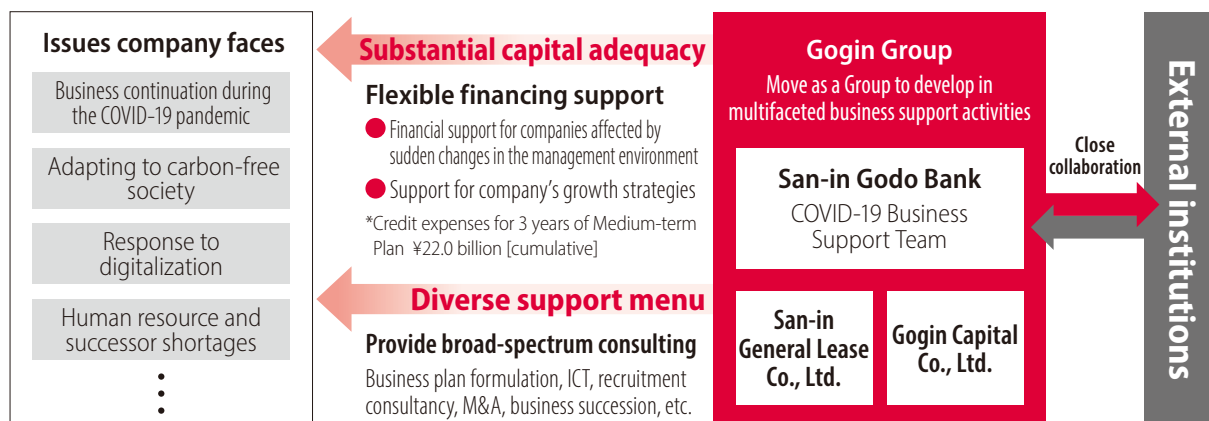
Ultimately, our goal is to embody San-in Godo Bank's management philosophy, to be "The creative bank that best fulfills the dreams of the region and customers it serves." The recently formulated Medium-term Management Plan is a growth strategy that aims for this ideal. During the course of this process, we came together as a group to deliberate the management philosophy, then pursued new measures, most notably defining a new growth vision. During the deliberation process for the management philosophy, we learned that most Bank employees would share a commitment

to the management philosophy, and feel strongly about being useful to the customers they serve, and want to build closer ties with them. On the one hand, this shared commitment and approach with respect to customers are due in part to management taking every opportunity to repeatedly stress their importance over the years, and are also unspoken assumptions within the Bank itself. As a result, the chance to reconfirm just how firmly these shared values are rooted through San-in Godo Bank has deepened my confidence in sense of unity throughout the organization. This sense of unity is a huge advantage in the push to embody our management philosophy. And to ensure the Bank, with this advantage in hand, can clearly articulate the path it should take in a highly volatile business environment, we formulated a long-term vision that sees San-in Godo Bank as "A wide-reaching and sustainably-growing regional bank with unmatched problem-solving skills."

By leveraging the creativity and ingenuity of every employee to solve regional and customer issues, the reward will be some portion of the success that results. Anchored firmly in this win-win relationship, continuous growth will emerge into the future. Not only for San-in, but for the wide area encompassing the Sanyo and Hyogo-Osaka regions as well, this will make a more robust commitment to the region and customers possible, and consequently can bring the Bank closer to embodying its management philosophy. That is the concept at the heart of

Regional Revitalization and Rebuilding by Solving Issues Individual Enterprises and Customers Face

Corporate issue resolution (consulting) Recovering and improving a company's added value



our growth vision. As I have said before, San-in Godo Bank has a responsibility to uphold with respect to sustainability of the society. While a sustainable society is essential to the Bank's own survival, without the Bank's own sustainability, any continued contribution to society itself would also be unattainable. In years past, we have pursued a vision of San-in Godo Bank developing hand in hand with the region, and this remains our constant aim going forward.

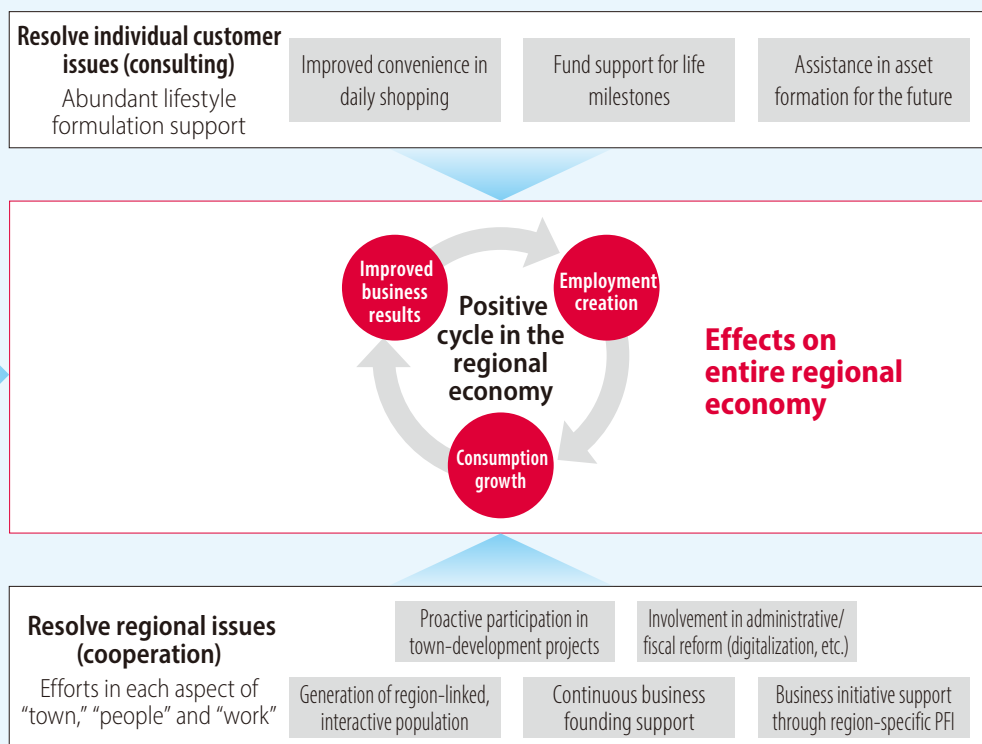
New Medium-term Management Plan

Next, I'd like to discuss the Medium-term Management Plan, which encompasses management policies going forward based on these results and this vision. With "Thorough Support for the Region" as our guiding message, by taking on the responsibility to do everything possible, we have clearly showed our dedication to developing in step with the region and customers. Consulting, digitalization and our management base are three key elements that make this possible.

● Leveraging Consulting and Digitalization to Meet Business Model Reform Challenges

Anchored by workforce-wide consulting, along with digital transformation (DX), the Bank is now moving to contribute to solving regional issues and to meet the challenges of reforming its own business model.

Traditionally, our business model has been relationship banking. Based on relationships of trust with clients, we promoted business support tailored to customer needs, centered on financing, as financial intermediary functions. Going forward, while continuing to emphasize the fundamental importance of these relationships of trust, we are ready to focus on consulting services. Of course, given the relatively high proportion of the Bank's earnings occupied by financing services, the importance of this work to our core banking operations remains unchanged. However, as client needs and the issues they confront grow more complex and diverse, finding solutions to those issues will require broader and more highly specialized services. To firmly meet these needs, the Group has to move as one to reinforce systems, combined with steps currently under way that include changing the mindset of our employees. One such initiative underway is recruitment consultancy business. Until now, given that human resources tended to concentrate in major urban areas, recruitment was always a major issue for regional companies. However, with the rise in people engaging in side or multiple jobs gaining momentum in recent years, the timing for moving human resources from major cities to regional areas has finally moved into place. For its part, San-in Godo Bank, too, is widening its network connecting talented human resources to local enterprises. By providing opportunities to help professionals expand their careers in the region, we are broadening the potential not only for promoting the development of individual companies,



Achieve regional revitalization

Message from the President

but for reenergizing the regional economy.

Digital transformation is another indispensable element in our push for business model reform. Extensively incorporating fast-changing digital technology into our business will be the trigger for establishing competitive advantage, by which improves every aspect of the Bank, from products and services to organizations, operational processes and other structures, and even our culture itself. There are three broad perspectives when it comes to our promotion of digital transformation -- customer experience, internal reform and bridge building. For the first, "customer experience," the aim is to improve customer convenience and solve client issues. In addition to upgrading and expanding the functionality of apps and other non-face-to-face tools to encourage greater familiarity with and ease in utilizing the Bank's services, we are focused on strengthening IT consulting, with an eye to helping clients meet their own challenges for digital transformation. For the next perspective, "internal reform," the objective is transforming the Bank itself, led by digital technology. Along with a push for greater rationalization and efficiency, including through bottom-up reviews of operational processes, we are driving the development of support tools capable of fully showcasing our consulting capabilities. This will put in place an environment that allows our workforce to focus on providing even higher-value-added services. Finally, "bridge building" involves connecting clients to local IT companies. While we have any number of requests for digital utilization consultation from clients, there are many outstanding

enterprises in the area capable of solving these issues. Leveraging our information network to accurately match up both parties is, I am fully confident, yet another role the Bank can play.

The COVID-19 pandemic forced a variety of companies to temporarily shut down, creating conditions where change is now inevitable. However, if we look at this differently, it can also serve as a prime opportunity to review our own situation and pursue reforms in order to evolve. This is as true for San-in Godo Bank as it is for our clients. Most clients recognize digital utilization as a management issue, and are searching for ways to transform their business models. In rising to the challenges in transforming the Bank's own business model with respect to consulting and digitalization, the experience gained will be extremely valuable in responding to issues similarly faced by customers.

● Raising the Level of Implementation with a Stronger Management Base

To raise the level at which these initiatives are implemented, we are further strengthening the management base built to date. I believe the key here is determining the extent to which management resources can be focused in strategic fields, and identifying where quality can be raised. While this will naturally include the reallocation of goods and capital that emerge from progress in rationalization and efficiency, the most important element in meeting the challenge of reform is human resources.

Since my appointment as president last June, I have created



opportunities to answer a host of questions and share my thoughts directly with our people, including through twice-monthly conversations with Bank employees of all job classes through online forums. From these conversations, my impression is that everyone has their own thoughts on and love for the region, and that everyone in their respective positions and roles is working earnestly and giving it their all. The day-to-day buildup of these actions is giving shape to the Bank's reputation for trust, while also making relationships with the region and customers more robust. When it comes to managing, I recognize that an extremely important point is to become an organization that encourages the people in our ranks to take even greater pride in the services they offer, and enables them to be dynamic on multiple levels.

As a bank, to become an organization where every individual can shine, we have to focus action on two areas - "expanding opportunities to be dynamic" and "awakening a desire for growth." Under the previous Medium-term Management Plan, in addition to organizational reform that saw the installation of specialist departments for consulting and digital-related work, we increased in terms of scale the number of all employees involved in these strategic fields by roughly 10 percent. Over the next three years, we plan to shuffle and rotate jobs around within this same scale. Along with providing a new opportunity for dynamic participation by employees, we are moving quickly to develop a structure that will become the engine that drives business model reform.

Furthermore, we are conducting the first major review of our personnel system in nearly 20 years. The keywords for us here are "decent work" and "autonomy." Raising the sense of decent work involves actively evaluating diverse capabilities and levels of contribution, and ensuring those who work hard to deliver success are amply rewarded. Cultivating a corporate climate that fosters individuals who can act autonomously means putting emphasis on thinking for oneself, self-education, and taking initiative to put measures into practice. The hope is to firmly embed these as our culture. Through this three-pronged initiative built on consulting, digitalization and strengthening of our management base, we are developing a business model that makes sustainable growth possible.

Robust Shareholder Returns

Today, as always, we continue to position the return of profits to shareholders as one of our important management issues. In May 2021, we reviewed our standards for performance-linked dividends, and eyed steps to make shareholder returns more robust. This move is also a show of our determination to make good on the growth strategies stated in the Medium-term Management Plan. By steadily implementing each of the strategies found in the Plan, we hope to meet the expectations of our shareholders.

In Closing

In July 2021, San-in Godo Bank celebrated its 80th anniversary. While the Bank has encountered a number of challenges over this time, including the collapse of Japan's economic bubble and the shocking closure of Lehman Brothers. Nevertheless, with a level of financial soundness relatively high among regional banks, San-in Godo Bank, as a wide-ranging regional bank, has achieved growth by expanding its share in the Sanyo and Hyogo-Osaka areas, all while maintaining its local base in San-in, becoming a bank with a solid reputation and expectations. What's more, as the world continues its unprecedented fight against viruses, this is precisely the moment to fulfill our mission as a regional financial institution that continues to exist together with the region itself. As we join forces with the region and customers to confront this hardship, the officers and employees of San-in Godo Bank will work as one to come to the sense that the ties between us would only grow deeper in working together to overcome this crisis. In closing, we ask for your continued support and encouragement as we look ahead.

