

Message from the President

By striving to achieve a balance between resolving social issues in the region and developing the economy, we will contribute to achieving a sustainable society.

July 2020
Toshiyasu Ito
President

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Changes in the Business Environment and the Mission of Hyakugo Bank

Looking at the current business environment, we are facing the worldwide spread of COVID-19, and a rapid deceleration of the global economy has become unavoidable. Amid this situation, Mie and Aichi Prefectures, which are the Bank's main operating bases, have also been deeply affected.

In addition, as medium to long-term changes in the business environment, there have been continued population decline spurred by low birth rates and aging populations, prolonged period of low interest rates, and competitors' entry from other industries. As a result, the Bank's management conditions have become increasingly severe.

Under these circumstances, the Bank has been earnestly engaged in its daily work while defining business areas such as Mie and Aichi prefectures, which are its main operating bases, as its own "region" and thinking through "what we can do for the region" as a regional bank.

Spread of COVID-19 infections

As it has been said that COVID-19's impact on the global economic deceleration is surpassing the 2008 financial crisis, we are also seeing widespread impacts on the economies of Mie and Aichi prefectures across a wide range of businesses including tourism-related industries, and restaurant and service industries.

Considering these circumstances, as part of our efforts to fully support customers, we have established the "COVID-19 Related Consultation Counter" in all branches (excluding sub-branches and Retail Banking Centers) so that we can quickly provide them with sufficient fund. In addition, we have partnered with public institutions and prepared a diverse range of financial products to support cash flow. Furthermore, by responding sincerely to a variety of consultations regarding issues such as postponement of repayment, we are providing full support for customers impacted by COVID-19, and continuing to proactively work to maintain and invigorate the regional economy.

Population decline due to falling birthrates and aging populations

With falling birthrates, aging populations, and population declines becoming full-fledged in the future, we expect to see decreases in capital investment and housing construction as well as an increase in bankruptcies. As the population concentrates in urban areas and local areas suffer from depopulation, further widening disparities between regions, it will become difficult to achieve profitability per branch. As such, it will be a challenge to keep a good balance between maintaining convenience for our customers and optimizing our branch networks.

To address such issues, the Bank has reduced the number of shift work employees by changing service counter operating hours at existing sub-branches and implementing temporary closure during lunch hours, thereby realizing an efficient operation of branches with smaller number of employees.

In addition, we are striving to maintain convenience for our customers by proceeding with the consolidation of branches through a branch-in-branch method and continuing our businesses by opening plaza sub-branches operated by smaller number of staff on the empty lots of the consolidated branches.

Prolonged period of low interest rates

Since the Bank of Japan adopted a negative interest rate policy, market interest rates have further declined, with 10-year bond yields going into a negative range. As previously financed securities and loans with relatively higher yields are approaching their maturity dates, new investment yields are also declining, making it a challenge to maintain and improve earning power. In fiscal 2020, in particular, as much as ¥330.0 billion in total of yen-denominated bonds is reaching maturity dates, causing us to face a crucial moment.

In response to this issue, we are working to improve earning power by conducting business feasibility assessment activities that ensure financing after

appropriately understanding the business descriptions of our customers and also by strengthening our ability to acquire non-interest based income, such as corporate solutions fees and depository assets-related fees earned from consultations to address their needs and challenges.

In addition, we are also working to increase the balance of loans for regional SME loans and housing loans, as a strategy to supplement the “interest rates” by “volume.” This is a strategy to “counter” the maturing yen-denominated bonds by increasing loans. We are currently setting numerical benchmarks for such strategies, and planning and promoting a variety of measures.

Environmental changes surrounding the financial industry

Finally, there have been changes in the environment surrounding financial business, such as advances in IT, digitization, and AI, entries of competitors from other industries and fintech companies into the market, and loosening of regulations. These are the fastest, and most significant change, and we believe that this is something that we should never fall behind.

The Bank has been paying close attention to these trends, and taking on challenges while placing the highest priority on related initiatives. Specifically, we are introducing a smartphone banking app, promoting cashless transactions in the region, and partnering with fintech companies. In addition to expanding products and services, we are moving forward with digitalization of banking operations, including taking initiatives to go paperless and optimize administrative work.

In 2003, the Bank established a declaration as a company, or corporate statement, called “FRONTIER BANKING.” The statement is based on the concept of the “bank that provides the most advanced customer service in Japan.”

By putting into practice the “FRONTIER BANKING” statement, we will provide cutting edge services and products to our customers and the region.

《 Corporate Statement 》



The essence that has supported the history of Hyakugo Bank lies in the “philosophy of merchants” and the Bank has valued “trust” since its foundation. Building on this history, the FRONTIER BANKING corporate message conveys our determination to be a creative bank in which all our employees fully demonstrate their capabilities so that Hyakugo Bank continues to be valued into the future.

■ We try to deliver the most advanced customer service in Japan.

Hyakugo Bank has been founded upon sound business management rooted in the region. Based on the tangible and intangible assets accumulated over the long history, we aim to become a bank with a culture abound with flexible and enterprising spirit.

■ We will provide cutting-edge services and financial products.

Hyakugo Bank will overcome every hurdle to create new value and open new frontiers.

■ We will provide satisfaction that exceeds customer expectations.

Hyakugo Bank will work to create new partnerships that take customer individuality into account. We believe that this contributes to satisfaction that exceeds customer expectations.

Long-term Vision

- the Digital & Consulting Bank that Opens Up the Future to Customers and the Region-

As the business environment is undergoing changes in a dramatic and more accelerated manner, planning only a three-year medium-term management plan would unavoidably end up formulating by predicting the future based on a mere extension from the past to the present. And this will make it difficult to achieve a significant growth. Therefore, based on our belief that it is necessary to draw a bold vision that looks ahead to the next 10 years instead of three years, in March 2019 we formulated our long-term vision, “the Digital & Consulting Bank that Opens Up the Future to Customers and the Region.”

This long-term vision clearly lays out where we want to be in fiscal 2028, when the Bank celebrates its 150-year anniversary. It aims to achieve a sustainable business model that can withstand environmental changes.

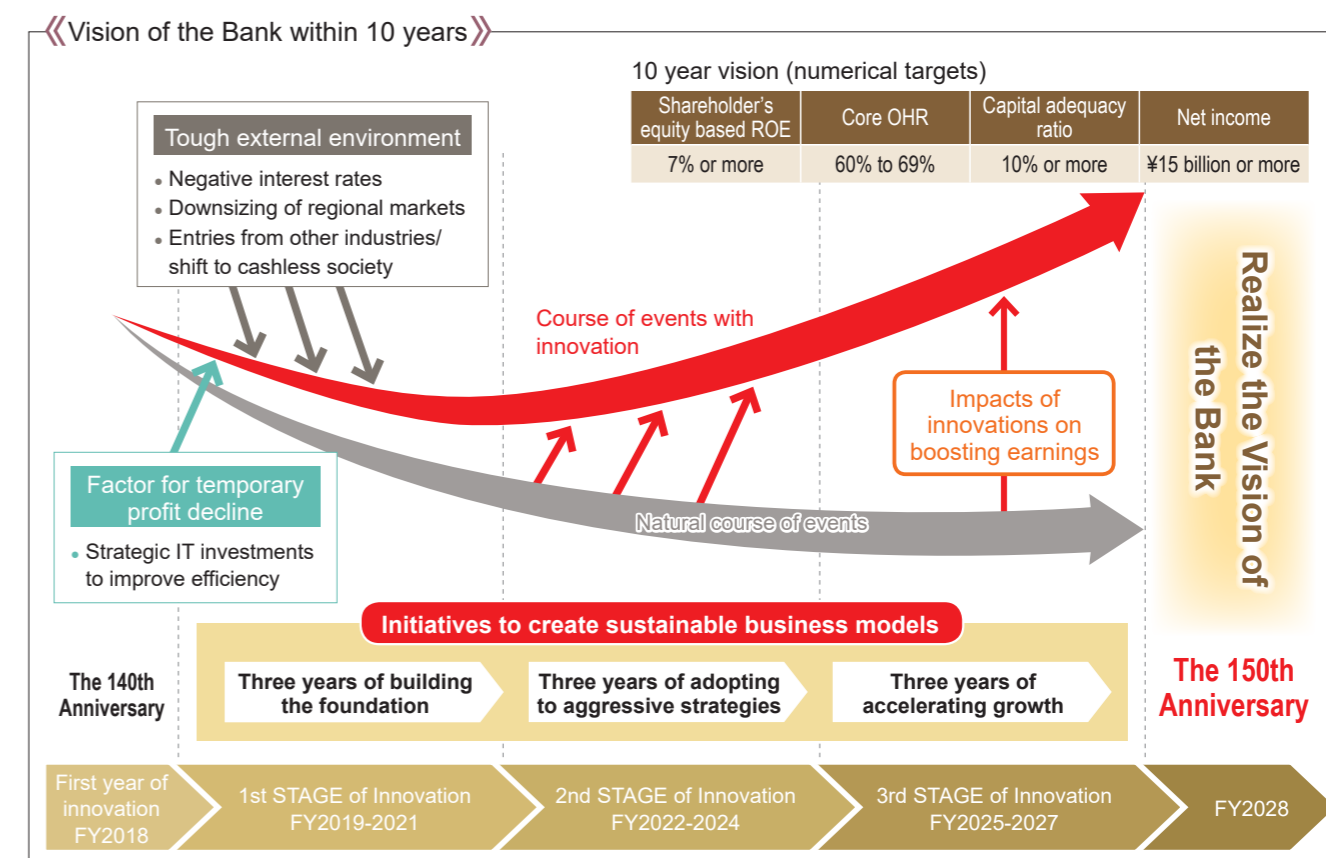
Long-term vision (future ideals)

With this vision, we believe that having separate initiatives for the “real world” and “digital” is crucial.

The “real world” initiatives refer to offering optimal products and solutions that are tailored to our customers’ diverse and complex needs and issues by compassionately responding to a variety of consultations through face-to-face meeting with customers at branches and through on-site visits.

The “digital” initiatives refer to building next-generation branches on the wave of emerging digital innovations, pushing digitalization of bank operations and customer procedures, and expanding non-face-to-face channels.

By integrating both “real world” and “digital” initiatives, we hope to achieve a sustainable business model, and ideally become the most reliable bank for the customer.



Five Future Goals to Be Pursued

To crystallize our long-term vision, we have drawn up five goals for the future from the perspective of our stakeholders that we value most, incorporating our social responsibility (ESG/SDGs) to fulfill as a regional financial institution.

Are we practicing optimal corporate management based on the five standpoints: customer, region, employee, shareholder, and the Bank? We will be unable to achieve our long-term vision without any one of them. To achieve this vision, all of the Bank's officers and employees act with these viewpoints in mind.

What Are the SDGs?

- SDGs is an acronym for **Sustainable Development Goals**. The SDGs consist of 17 goals and 169 targets to be achieved in order to resolve social issues and create a bright future across the world by 2030.
- The SDGs are international targets unanimously adopted in September 2015 by the 193 United Nations member countries at the UN Headquarters in New York.



1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

SUSTAINABLE DEVELOPMENT GOALS


About ESG and SDGs Initiatives


To materialize this long-term vision, it is crucial that we incorporate the ESG/SDGs into the Bank's management. Incorporating into management means that we, with a shared awareness across the organization, lead all kinds of activities related to banking management to the achievement of a sustainable society.

In order to proceed with examining the ESG and SDG initiatives across the organization, we

established the "SDGs Promotion Committee" in April 2019, and in October of the same year, announced the "Hyakugo Bank Group SDGs Declaration."

The Hyakugo Bank Group will continue to put into practice activities toward achieving a sustainable society, while expanding its ESG and SDGs initiatives to employees, customers, the regional community, and other stakeholders.





The Hyakugo Bank Group will link SDGs to its corporate activities and management strategies, and contribute to achieving a sustainable society by striving to achieve a balance between resolving social issues in the region and developing the economy through primary businesses.

《 Five Future Goals to Be Pursued 》



Customer's Perspective

Engage in business operations from a thoroughly customer-centric perspective, providing rich financial mediation functions to address customer issues and needs and offering high-quality, optimal consulting solutions.

Regional Perspective

Create new values for regional society through our primary business, and contribute to the development of local economies to become an essential part of the region.

Employee's Perspective

Aim to realize workplaces in which each and every employee feels pride and confidence in their work, fully leverages their own capabilities, and feels a sense of motivation and accomplishment in providing customer satisfaction.

Shareholder's Perspective

Work to achieve sustainable growth and increase corporate value, aiming to increase our share value, aggregate market value, ROE, and shareholder returns.

The Bank's Perspective

Establish a lean, firm management foundation by creating a sustainable business model and ensuring the stable earnings and future soundness.

Dividend Policy

The Bank's basic policy is to enhance internal reserve in order to maintain and reinforce sound management, and to implement stable return of profit to its shareholders.

Trends of the Bank's dividend payouts are as follows.

Changes in dividend per share

	Interim dividend	Year-end dividend	Annual dividend
FY2015	¥4.0	¥4.0	¥8.0
FY2016	¥4.0	¥4.0	¥8.0
FY2017	¥4.0	¥4.0	¥8.0
FY2018	¥4.5	¥4.5	¥9.0
FY2019	¥4.5	¥4.5	¥9.0

Hyakugo Bank will continue to live up to the trust placed in us and all executives and employees will work together for the development of the regional society and the Bank. We appreciate your further support and cooperation.

