

Message from the President



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

July 2021
Toshiyasu Ito
President

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Changes in the Business Environment and the Mission of Hyakugo Bank

Changes in the business environment

The spread of COVID-19 has transformed existing common knowledge and our lifestyles. The movement of people and economic activities have been substantially restricted through prolonged lockdowns in various regions across Europe and the state-of-emergency declarations in Japan. Exports and production have been steady, but strong downward pressure continues to be applied mainly to face-to-face services such as the tourism industry and the restaurant and services industry, making the polarization of industries clearer.

The everyday practice of gathering together in crowds at every opportunity has become uncommon, and the perspectives and values of people have changed significantly due to the COVID-19 pandemic. However, rather than taking a pessimistic view of the situation where what was usual before COVID-19 has become unusual, we believe that we must link this shift to the creation of new business models by seeing it as a chance to effect change and come up with ways to respond in a positive manner.

The Bank's strengths and mission

The Bank's strength is the corporate culture and sound financial structure that have been built over more than 140 years. When our employees are asked about the Bank's corporate culture, many would answer "solid management," and the spirit of that solid management permeates widely as our corporate culture, deeply ingrained in the conscious of employees and providing the basis for judgment in all situations.

Solid management may create the impression of a conservative approach of not taking risks, but that is not the case. The Bank's solid management includes the meaning of "being fully prepared for any kind of changes by taking measures." Furthermore, conducting solid management and gaining a secure footing actually makes it possible to take risks when the opportunity presents itself. The Bank did not record loss in the financial crisis after the collapse of the bubble economy or the 2008 financial crisis, and has supported customers backed by its sound financial structure.

In this way, the accumulation of past efforts has led to the Bank being trusted by customers, which has become a strength and made Hyakugo Bank what it is today.

Furthermore, we believe that a significant strength is the Bank's rich operating base in Mie and Aichi prefectures, which have a concentration of manufacturing industries with advanced technologies. For example, the Bank has stably maintained a housing loan amount of over ¥200 billion a year since FY2018, and the rate of increase of housing loans has also been maintained at a high level, surpassing the figures of other regional banks. This is because our housing loans have been used by many customers working at blue-chip companies in the region.

Difficult economic conditions are continuing due to the spread of COVID-19, but it is because of these conditions that the Group is working as one toward stimulating the regional economy and the sustainable development of the region by supporting local customers. This is a mission of the Hyakugo Bank Group.

Response to COVID-19

The impact of the spread of COVID-19 varies significantly depending on the customer. The Bank has made an effort to listen to all business customers mainly about their cash flow, and provided swift and adequate funding. As a result, the cumulative number loans related to COVID-19 was 9,451 and their total value was ¥270.6 billion as of March 31, 2021. 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.

In addition to cash flow support, the Bank has conducted a campaign to promote the sale of products from Mie utilizing an e-commerce site in collaboration with the Mie Prefectural Government in order to support customers such as tourism companies that have suffered a significant decrease in sales along with businesses manufacturing and selling products from Mie. Furthermore, the Bank has actively worked to support subsidy applications of business operators

such as by holding webinars on the utilization of subsidies and grants. Due to the significant progress made in telework and cashless payment as a result of COVID-19, we are actively engaged in supporting customers' efforts for digitalization.

The impact of COVID-19 is widespread, and customers are burdened with a variety of concerns. There

is no end in sight for COVID-19, and it is possible that the effects will be prolonged. To address this, the Bank will face each and every customer personally, and work to resolve issues in the community and develop local communities through the provision of products and services that meet various issues customers face and their needs.

Long-term Vision and Five Future Goals to Be Pursued

(Management Policy and Key Strategies)

The business environment is undergoing dramatic and accelerated change compared with several years ago. Being based on the three-year Medium-term Management Plan solely will lead to being constrained to future prediction as an extension from the past to the future. Therefore, based on our belief that it is necessary to draw a bold vision that looks ahead to the next 10 years, in March 2019, we formulated our long-term vision, "the Digital & Consulting Bank that Opens Up the Future to Customers and the Region."

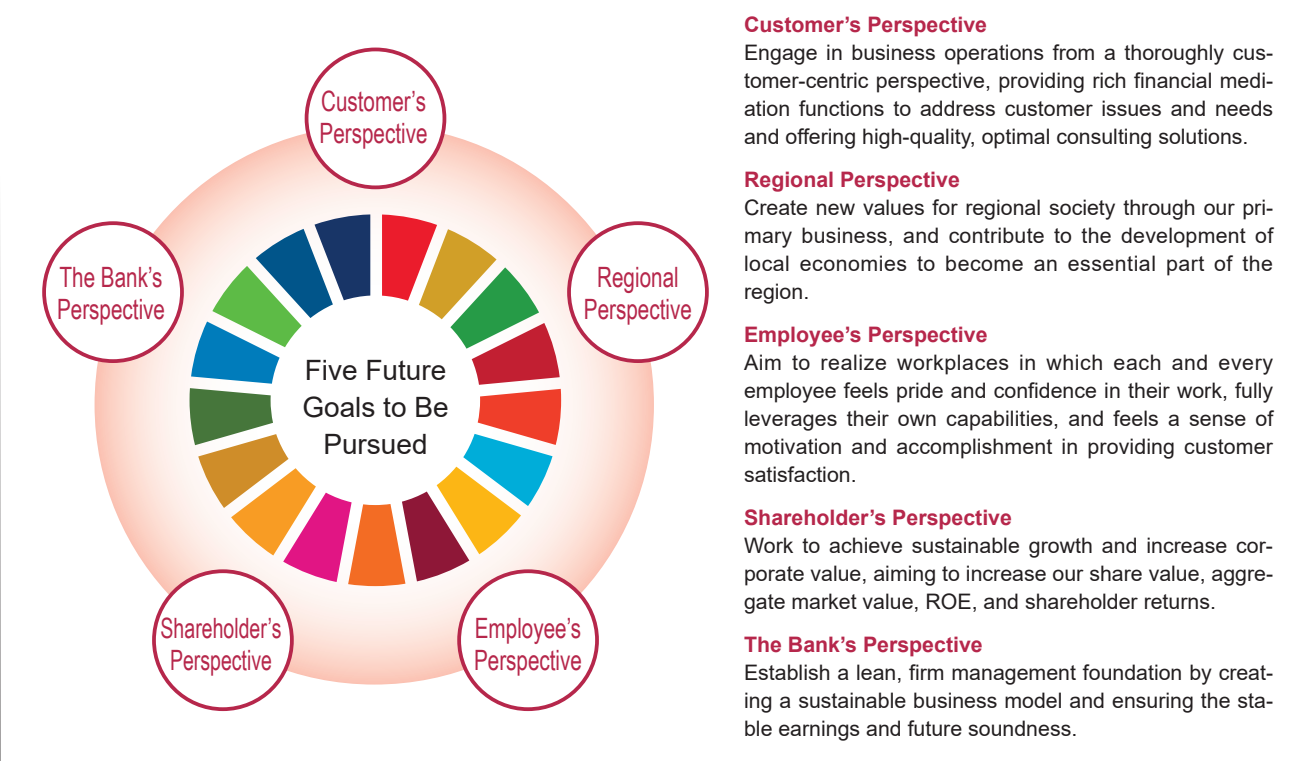
In this context, to crystallize our long-term vision, we have drawn up five goals for the future, incorporating our social responsibility (ESG/SDGs) to fulfill as a regional financial institution.

Are we practicing optimal corporate management based on the five standpoints: region, customer, employee, shareholder, and the Bank. Without any one of them, it would be difficult to realize or achieve our long-term vision. All officers and employees of the Bank are formulating strategies and measures and taking action day to day based on these five perspectives to achieve the Bank's long-term vision.

Furthermore, 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 com-

« Five Future Goals to Be Pursued »

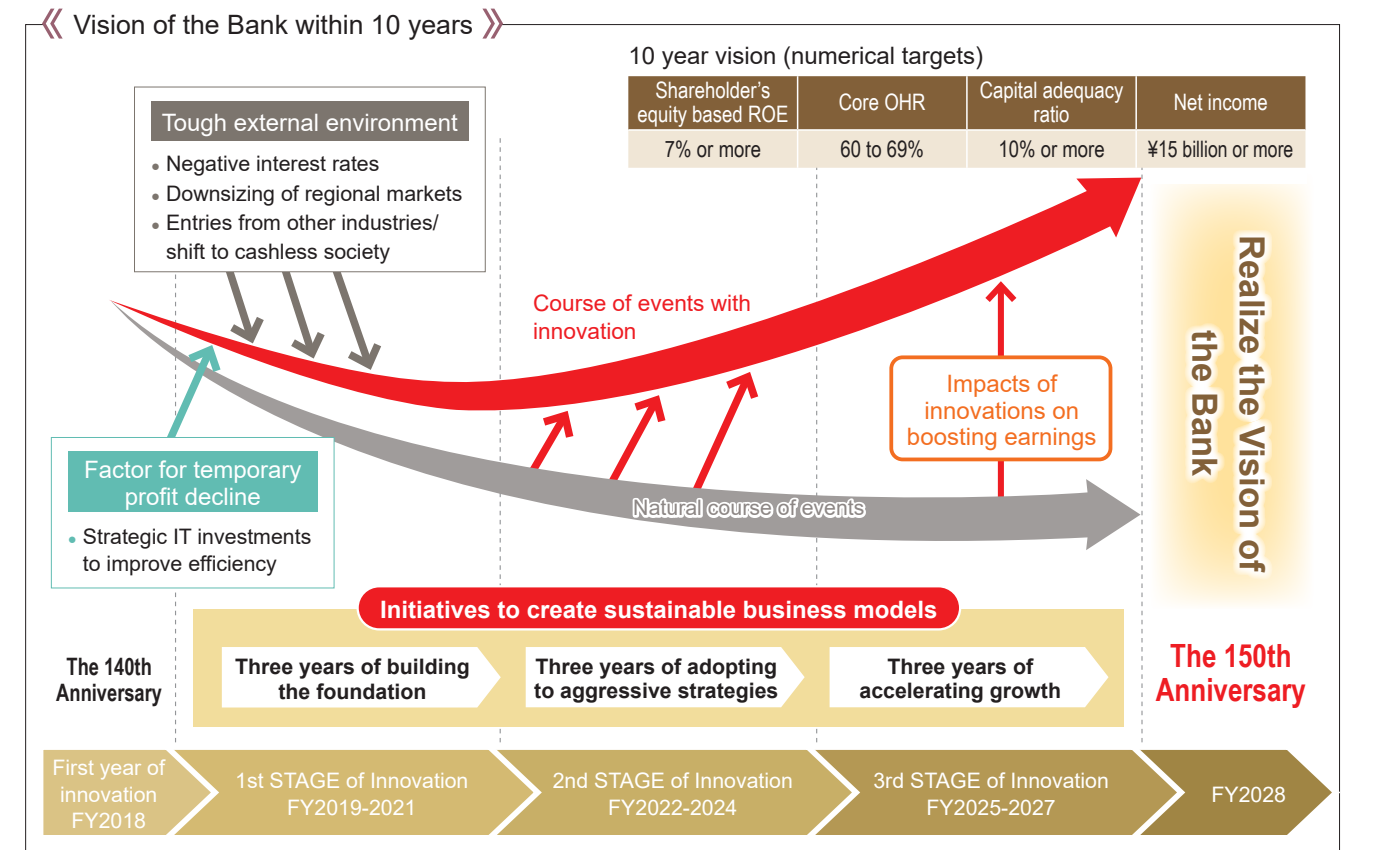


passionately responding to a variety of consultations through face-to-face meeting with customers at branches and through on-site visits.

The "digital" initiatives refer to seeing the accelerating digitalization of society to be an opportunity, and proceeding with the digitalization of transactions such as deposits and loans and procedures such as change of address that had required customers to come to the bank in the past, and the operation of 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.

Positioning of Medium-term Management Plan



In order to realize the long-term vision, we have devised a plan on what we should do over the next three years in a back-casting approach. That is the current Medium-term Management Plan KAI-KAKU 150 1st STAGE "Gateway to the Future" - aiming to transform into a Digital & Consulting Bank. In order to realize this Medium-term Management Plan, we formulate annual business plans every year.

The long-term vision paints a picture of what to aim for in ten years, but it is possible that we will encounter unpredictable changes in the environment or a period of change in our business model. Because it is difficult to ensure that this vision for ten years in the future is instilled in every employee as we conduct everyday business, the Medium-term Management Plan is important as a more familiar goal based on the long-term vision.

The current COVID-19 pandemic is truly an environmental change not expected when the Medium-term Management Plan was formulated, and we are faced with the question of how to respond to it.

The current Medium-term Management Plan is based on the concept of “three years of building the foundation” positioned as the first stage moving toward the 150th anniversary. A sound footing is required to leap higher, and we are proceeding to optimize the

branch network through branch consolidation, digitalization of banking business and strengthening of development of professional personnel to create the structure for achieving this. This involves some up-front costs, but they are all essential measures for the Bank to achieve further growth aiming to transform into a Digital & Consulting Bank. We aim to achieve our long-term vision by steadily implementing these measures and linking them to the next medium-term management plan.

Progress of the Medium-term Management Plan and Review of FY2020

Numerical Targets of the Medium-term Management Plan

Item		FY2019 (actual)	FY2020 (actual)	FY2021 (Final goal of the Plan)
Profitability indicator	Net income	¥11.3 billion	¥12.2 billion	¥10.0 billion
Capital efficiency indicator	ROE (shareholders' equity base)	4.41%	4.56%	3.7% or more
Efficiency indicator	OHR (core business gross income base)	75.67%	70.81%	less than 79%
Soundness indicator	Capital adequacy ratio	10.07%	10.11%	9.5% or more
Growth indicators	Average balance of deposits (including NCDs)	¥5,102.3 billion	¥5,405.3 billion	¥5,230.0 billion or more
	Average balance of loans	¥3,529.7 billion	¥3,824.0 billion	¥3,700.0 billion or more
	Loan-to-deposit ratio (average balance base)	69.2%	70.7%	70.8% or more
Profit indicators	Operating income from services to customers	¥2.9 billion	¥1.8 billion	¥3.7 billion
	Corporate solutions fees	¥1,103 million	¥1,987 million	¥2,000 million
Human resources development indicator	Number of personnel with professional qualifications	221 persons	282 persons	300 persons

The impact of COVID-19 was substantial in FY2020, and the Bank paid attention not only to supporting customers, but also protecting the lives of employees and their families. It was a year in which we realized that things that had been taken for granted in the past were actually so precious.



Restrictions were placed on sales activities due to state-of-emergency declarations, but as a result of doing our best to support the cash flow of customers affected by COVID-19, balances of loans significantly increased and already exceed the target for the final year of the medium-term management plan. In addition, corporate solutions fees also increased to nearly ¥2 billion due to an increase in syndicated loan fees and business matching fees. As described here, results were generally good for the numerical targets under the medium-term management plan.

With the number of customers visiting branches in person down by approximately 40% compared with a decade ago, we have proceeded to consolidate locations via the branch-in-branch method with consideration for customer convenience. Transactions by individual customers are shifting from branches to smartphone banking, and we will continue to strive to improve the efficiency of branches as smartphone banking spreads.

Final Year of the Medium-term Management Plan (FY2021)

Due to the medium-term management plan progressing steadily as mentioned above, almost all targets with some exceptions have been revised upward for FY2021, which is the final year of the plan, as we strengthen our efforts.

Also, we would like to complete the creation of a strong organization prepared for the next three years by thoroughly pursuing the improvement of efficiency.

Numerical Targets of the Medium-term Management Plan

Item		FY2021 (plan)	FY2021 (Final goal of the Plan)
Profitability indicator	Net income	¥11.0 billion	¥10.0 billion
Capital efficiency indicator	ROE (shareholders' equity base)	3.98%	3.7% or more
Efficiency indicator	OHR (core business gross income base)	72.48%	less than 79%
Soundness indicator	Capital adequacy ratio	9.83%	9.5% or more
Growth indicators	Average balance of deposits (including NCDs)	¥5,567.2 billion	¥5,230.0 billion or more
	Average balance of loans	¥3,999.1 billion	¥3,700.0 billion or more
	Loan-to-deposit ratio (average balance base)	71.83%	70.8% or more
Profit indicators	Operating income from services to customers	¥2.91 billion	¥3.7 billion
	Corporate solutions fees	¥2,130 million	¥2,000 million
Human resources development indicator	Number of personnel with professional qualifications	300 persons	300 persons

SDGs Initiatives

I think the most important aspect of SDGs initiatives for regional banks is to conduct activities that instill and ingrain the approach of SDGs into regional societies.

There are limitations to what the Bank can do alone. However, banks are in contact with many customers and their activities draw attention from many people. For this reason, instilling activities in regional communities presents limitless possibilities.

For example, the Bank offers Hyakugo SDGs Private Placement Bonds (donation-type), donating part of the issuing commission to schools, etc., and many companies make donations through this product. These activities have also been covered by the media, which has had the effect of spreading the activities to viewers.

In addition, FY2020 was a year in which environmental issues were in the spotlight partially due to the Japanese government's “2050 Carbon Neutrality Declaration.” Climate change is an issue faced not only by the Bank, but shared globally. The goals of the Paris Agreement are not easy to achieve, but I do not believe they are unachievable goals if everyone in the community works together as one.

The Bank announced its support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in June 2021. Going forward, we would like to accelerate initiatives to address climate change and become carbon-free.

The Bank itself will obviously implement SDGs initiatives, but we will focus on activities aimed at the realization of a sustainable society such as promoting SDGs to as many people as possible.

Dividend Policy (Shareholder Returns)

In FY2020, we paid dividends of ¥10 per share, an increase of ¥1 from the previous year.

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. We will continue to consider how we can live up to the expectations of shareholders through our policy on shareholder returns.

In Closing

Hyakugo Bank has grown alongside the region. The Bank cannot develop unless the region develops.

Because we live in times of intense change, we will seriously consider what we can do for the region, with everyone here at the Bank working as one to put these initiatives into action, and we ask for your continued support.