

Message from the President



June 2022
Masakazu Sugiura
President

杉浦雅和

Review of the Previous Medium-term Management Plan

The previous Medium-term Management Plan, "Gateway to the Future" ended at the end of March 2022. I feel confident that we have been able to achieve the numerical targets we presented in the Information Meeting (IR) as promised.

Response to negative interest rates

We began the formulation of "Gateway to the Future" with the recognition that we faced a major challenge. While relatively high-interest government bonds owned by the Bank have been redeemed in large volumes, under negative interest rates, we are unable to reinvest those funds in the same yen-denominated government bonds.

In three years, ¥660 billion has been redeemed.

Hyakugo Bank's strategic focus for the investment of these funds has been on housing loans. The amount of housing loans executed and their balance has grown significantly over the last three years, with the Bank taking top ranking for the annual amount of housing loans executed by regional banks and second-tier regional

■ Numerical Targets of the Previous Medium-term Management Plan

Item	FY2021 (target)	FY2021 (actual)	FY2018 (actual)
Net income (published)	¥10 billion or more	¥12.9 billion	¥10.7 billion
ROE (shareholders' equity base)	3.7% or more	4.68%	4.32%
OHR (core business gross income base)	less than 79%	62.24%	74.43%
Capital adequacy ratio	9.5% or more	9.84%	9.74%
Average balance of deposits (including NCDs)	¥5,230.0 billion or more	¥5,706.6 billion	¥4,992.9 billion
Average balance of loans	¥3,700.0 billion or more	¥4,099.9 billion	¥3,246.2 billion
Loan-to-deposit ratio (average balance base)	70.8% or more	71.84%	65.01%
Operating income from services to customers	¥3.7 billion	¥5.9 billion	¥1.5 billion
Corporate solutions fees	¥2,000 million	¥2,706 million	¥941 million
Number of personnel with professional qualifications	300 persons	336 persons	161 persons

banks for the fiscal year ended March 31, 2021.*1 The balance of housing loans also increased by ¥601.5 billion (average balance) from the end of March 2019, before the start of "Gateway to the Future," and we believe that this has been sufficient to absorb the funds redeemed from yen-denominated government bonds.

*1 Nikkin Report (June 14, 2021)

Response to digitalization

Another concern was the rapid advancement of digitalization.

From overseas examples at the time the previous Medium-term Management Plan was formulated, it was quite clear that the emergence of smartphones would be a game-changer. We felt a strong sense of crisis that the functions of bank branches would change significantly over the coming three years and that we needed to respond to that change.

Ultimately, the COVID-19 pandemic that struck in the second year of "Gateway to the Future" prompted a major acceleration of digitalization.

The functions available on the Bank's smartphone banking system, developed in-house using an API platform, have been gradually enhanced, and as of March 31, 2022, it is used by more than 110,000 customers.

Most customers now use ATMs and smartphone banking to complete their banking transactions, which has resulted in a drastic decline in the number of customers visiting the branches.

Compared with ten years ago, the number of branch visitors has fallen by more than 30%.

It is not efficient to conduct "stand-by sales" at branches where fewer customers visit.

By promoting a "branch in branch" strategy, in which branches with low visitor numbers have been merged with neighboring branches, we have consolidated 27 branches into "branches in branches" over the past three years. Five of those branches have been retained as compact plazas.

This strategy has freed up personnel whom we have been able to relocate to strengthen our consulting functions.

Strengthening of consulting workforce

One goal that we definitely hoped to achieve under the previous Medium-term Management Plan was the strengthening of our consulting capabilities.

Conventional deposit and lending operations are important as a foundation that supports society. These functions particularly demonstrated their purpose during the pandemic. In Mie Prefecture, the number of corporate bankruptcies has not increased in the past two years, and there has been some easing in the shortage of business successors.

On the other hand, we also believe that if we were to operate a banking business that focused solely on profit margins, it would be difficult to achieve significant growth in the future.

This means that we need to strengthen our consulting functions, in which we charge customers fees to help solve their business issues. We set an ambitious target of doubling corporate solutions revenue, which represents our corporate consultation fees, during the Medium-term Management Plan period.

To achieve this target, as well as increasing the number of personnel involved in corporate consulting, it is also essential that we upgrade the skills of individual employees. The acquisition of basic knowledge is especially critical. For this reason, the previous Medium-term Management Plan emphasized the development of professional personnel.

The Bank has set the acquisition of official qualifications as a reasonable indicator for the objective measurement of skills that could be described as professional. Acquiring official qualifications such as 1st grade financial planner and SME consultant requires substantial efforts. We set a target of doubling the number of personnel

holding such qualifications, and we were able to achieve that target.

Of course, gaining a qualification does not necessarily make a person a "professional" immediately. The Bank has established a variety of initiatives, such as trainee schemes and training programs, to provide employees, mainly those who already hold qualifications, with opportunities for practical training. In doing so, we are focusing on helping employees to acquire skills as well as knowledge.

As of March 31, 2022, the Bank has 336 professional personnel, of which as many as 125 work in corporate sales.

The Bank has 80 corporate sales offices, which means that at least one professional personnel can be assigned to each office. Even if there are a few highly skilled people at bank headquarters, it is the sales representatives and branch managers out in the field who have the most opportunities to communicate with business proprietors on a daily basis. From our own analysis, we believe that establishing a system that allows us to deploy professional personnel consistently to all sales settings has enabled us to achieve our goal of doubling corporate solutions revenue. Under the new Medium-term Management Plan, we will continue to develop our professional personnel.

Strengthening of sales in the depository asset business

Over the past three years, despite the impact of the COVID-19 pandemic and other factors, the financial markets have remained relatively strong as countries around the world have adopted monetary easing policies. Under these circumstances, to meet the expectations of individual customers who want to invest their growing personal financial assets, as well as for corporate customers, we also needed to hone our consultation skills targeting individuals. Having said that, it takes time to develop personnel who can respond to all three needs of "preparation," "growth," and "succession." Our first action was to set up a dedicated department at bank headquarters to consolidate our know-how in this area.

For customers seeking more sophisticated investments, we introduced them to our group company, Hyakugo Securities, and worked together with the company to offer a collaborative response.

As a result, the balance of Hyakugo Bank Group's total depository assets*2 (combined balance of the Bank and Hyakugo Securities) increased by ¥63.6 billion over the past three years, allowing us to achieve our target for revenue from depository assets.

On the other hand, there are still some outstanding issues related to the depository asset sales.

Unlike corporate sales, we have not yet been able to locate professional personnel in all sales offices for this area of our business. The goal of the next Medium-term Management Plan was narrowed down to providing an answer to the question of "How can we develop and increase professional personnel for the depository asset business?"

Making SDGs the norm

Hyakugo Bank Group thoroughly implements the behavior guideline set forth in our Corporate Philosophy to ensure that our daily activities are conducted naturally in accordance with the guideline. In the same way, "Gateway to the Future" aimed to change the organization so that we would make the concept of the SDGs the norm as a general principle for corporate actions.

For example, the word "compliance" has become a common concept among many working people today. We

*2 Depository assets = Investment trusts + Financial instruments brokerage + Hyakugo Securities repeated clients balance (Investment trusts, Foreign bonds, Shares) + Annual insurance sales

believe that the SDGs must become just as commonplace a concept.

To this end, we at the Hyakugo Bank Group conducted business with SDGs as the pillar of our Medium-term Management Plan based on the understanding that, as a financial institution with roots in the region, our role is to firmly embed the SDGs both in the Group and throughout the region.

Specifically, we participated in Mie Prefecture's scheme for registering SDGs Promotion Partners from the planning stages. After the launch of the scheme, we kicked our corporate sales into high gear to spread the word about the SDGs among businesses. As a result, the registration scheme received more than 510 applications (as of March 31, 2022), far exceeding the target of 80 applications for the entire Mie Prefecture by March 31, 2022.

Going forward, we will continue to promote awareness of the SDGs among our customers through seminars, the registration scheme, and consulting and to apply the SDGs to our own main business.

Changes in Social Circumstances and the Business Environment

Although we were able to achieve steady results during the term of the previous Medium-term Management Plan, changes in the business environment during that period went beyond those envisaged when we first formulated the Plan.

From a medium- to long-term perspective, the headwinds facing the banking industry remain severe, such as population decline due to the falling birthrate and aging population, the prolonged low interest rate policies, and new entrants from outside the banking industry. In the immediate term, we have been unable to escape from a state of seesawing between positive and negative impacts, due to the inevitable constraints on economic and social activities caused by the intermittent effects of the COVID-19 pandemic, and the impact on production, exports, and personal consumption of parts supply shortages and rising raw material prices.

The economies of Mie, the Bank's home prefecture, and neighboring Aichi prefecture have not yet returned to pre-pandemic levels, particularly in the tourism-related industries and the restaurant and service industries.

Furthermore, the major trend toward decarbonization due to increasing climate-change risks has now become an economic issue for all companies.

New Long-term Vision "Aiming to Transform into a Green & Consulting Bank Group"

Our previous long-term vision, "the Digital & Consulting Bank that Opens Up the Future to Customers and the Region," was established when we formulated the previous Medium-term Management Plan, to draw a bold vision that looks ahead to the next ten years.

However, as unforeseen changes in the environment have occurred one after another, the roles that the Bank must fulfill have also been transformed. In particular, the

emergence of climate change risks has been striking, and it would be no exaggeration to say that the environment surrounding all companies has changed drastically compared with three years ago.

When the wind changes direction, the route to your destination will also change of its own accord.

This is why, for the formulation of the new Medium-term Management Plan, we decided to revamp our long-term vision by reviewing the roles we need to fulfill.

In the course of discussions for the long-term vision revamp, we conducted exhaustive debate on the questions of what roles the Hyakugo Bank Group needed to fulfill (the route we should take) to achieve our vision (our destination). As a result, our vision and roles were consolidated into the following two points.

The first is "response to climate change risks." Although response to climate change is an issue that all customers now face, in a survey of local customers, we found that approximately 40% of them understood the need for a response, but did not know exactly what to do. We must realize decarbonization based on the SDGs slogan of "Leave no one behind." On the other hand, we should also keep it in our mind that the transition to a carbon-free society may also have negative impacts on society and the economy.

To work toward decarbonization in the region together with our customers, taking the actual situation in local community into account. We believe this must be the challenge that the Hyakugo Bank Group should take on, the role that it must fulfill.

The second point is "to offer high-quality consulting solutions for customer issues and needs." This is unchanged from the previous long-term vision. This concept forms the foundation of our business, namely, "to solve customers' problems." It has become even more important now that we can no longer anticipate profit expansion from traditional banking operations.

Based on these two roles that we should fulfill, we set as our new long-term vision, "Aiming to Transform into a Green & Consulting Bank Group."



Aspirations Instilled in the New Medium-term Management Plan

Formulation of new Medium-term Management Plan

We have positioned the new Medium-term Management Plan as the "2nd stage" toward the achievement of our new long-term vision for FY2028, the 150th anniversary of the Bank. In formulating the Plan, we began deliberations in a back-casting approach working back from the vision we want to achieve.

We then returned to the starting point and thoroughly examined how to use the Bank's strengths, including our relationships of trust with customers, the Hyakugo brand, and our ability to get close to our customers, to solve the challenges faced by local communities.

Bank headquarters and the respective departments played a central role in the formulation of specific strategies, and through exchanges of opinions with Outside Directors across multiple sessions and discussions with employees who responded to an open call for participants, we were also able to deliberate on those specific strategies from a variety of perspectives.

New Medium-term Management Plan (rebuilding our business portfolio)

In the New Medium-term Management Plan, as our growth strategy, we will concentrate our management resources in the three areas that primarily drive our top line, namely our corporate consulting operations, housing loan operations, and depository assets operations, in the hope of turning them into even stronger engines for growth.

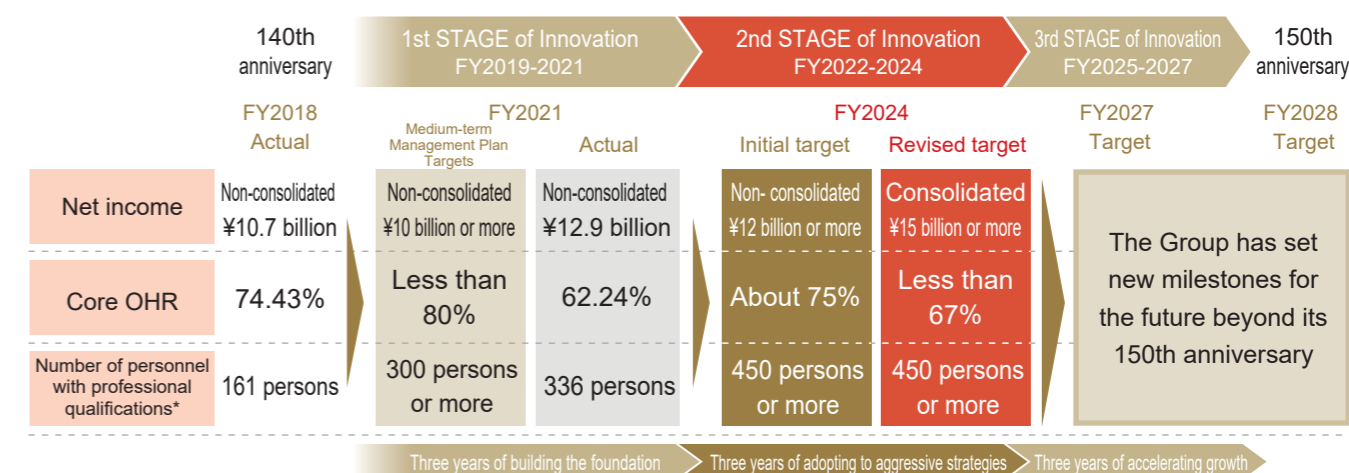
In our corporate consulting operations, we will strive to solve customers' problems through more advanced business feasibility assessment activities, which are the starting point of all projects. We will also reinforce personnel deployments to the consulting area, including in responses to the SDGs.

In our housing loans operations, we will reorganize our sales offices in Aichi Prefecture, where there is still plenty of room to expand our market share, and allocate a large number of staff to these operations. We will enhance our activities in this area even further as a supporter of our customers in their major life event of building or buying a home.

In our depository assets operations, we have newly established Consulting Plazas. This is one solution to the challenge in the previous Medium-term Management Plan, "To develop professionals in depository assets operations." By bringing together personnel in charge of depository assets at individual branches to the Consulting Plazas, we have established an environment that allows the consultants to focus solely on dialogue with customers and makes it easier to collaborate with Hyakugo Securities, our group company. At the same time, this environment also gives junior personnel an opportunity to observe the activities of senior employees, who are excellent professionals in depository assets operations, up close. This will promote the development of depository assets professionals.

In addition, we also established a Direct Business Office as our new base of communication with customers. The aim of the Direct Business Office is to provide non-face-to-face consulting services in response to the increasingly diverse needs of individual customers in particular. This will allow a major expansion of opportunities to accommodate customers who find it difficult to visit our branches, with dedicated personnel offering various kinds of consulting services by telephone and online. We have initially launched this service with the depository assets business, but we will consider expanding the Office's functions to include non-face-to-face channels for housing loans and consulting services for corporate customers.

While we will review the allocation of management resources in line with environmental changes as necessary, we believe that the analysis and verification of such reviews are also important. Going forward, we will continue our activities to enhance corporate value by considering optimal allocation of resources, taking social perspectives and environmental changes, as well as economic value, into account.



* 1st grade financial planner, CFP, SME consultant, certified tax accountant, certified social insurance labor consultant, securities analyst, and CIA (Certified Internal Auditor), etc.

Support for decarbonization and Hyakugo Bank Group's own initiatives toward decarbonization

The new Medium-term Management Plan positions the response to climate change risk as one of the most important initiatives.

We will press forward at a higher gear than ever with initiatives for Hyakugo Bank Group's own decarbonization. To this end, we have set a target to achieve net zero (Scopes 1, 2) greenhouse gas emissions from the Hyakugo Bank Group by the end of FY2030. Achieving this target will require us to promote quite bold decarbonization efforts. We will strive to reduce greenhouse gas emissions by implementing various initiatives, such as investing in the decarbonization of equipment, the use of clean energy, and participation in renewable energy funds.

The most important thing is that we join hands with local communities to create a major movement toward decarbonization.

To achieve this, we will promote decarbonization in the region through collaborations with customers, as a team leading the region to decarbonization. The Bank will create opportunities to communicate with customers more than ever through the provision of various information, services, and products. The target we have declared as the outcome of these activities is to conduct a cumulative total ¥1 trillion of sustainable financing up to the end of FY2030 (more than ¥500 billion of which will be in environmental financing).

We believe that acting to support decarbonization in the region is one of the roles that the Bank must fulfill. Identifying environmental issues as economic issues, we will start our initiatives toward decarbonization with conversations with local communities about decarbonization in the region.

Investing in Human Capital

For Hyakugo Bank Group, whose core business is financial services, our employees are our most important assets. We see our business model as earning revenue through the provision of invisible value in the form of financial services, and believe that the quality of our human capital defines the quality of Hyakugo Bank Group itself.

For this reason, in the previous Medium-term Management Plan, we focused our efforts on the development of professional personnel, and were able to achieve our target in that regard. Going forward, as a form of "knowledge diversity," we will develop employees with extensive knowledge by expanding the range of eligible official qualifications. The newly eligible qualifications include certified tax accountant, CPA, and securities analyst. To help employees put their knowledge into practice, we will also promote "experience diversity" by enhancing short-term and long-term traineeships at bank headquarters and through secondment and training opportunities at other companies, as well as collaborations with other companies.

We will also work on the development of digital human resources. For general improvement of IT literacy, which will form the foundation of this initiative, we have set a target of producing 500 employees who have passed the IT Passport examination. This aims to raise the level of Bank employees' knowledge so that they can at least communicate with customers to identify issues concerning their IT systems. Of course, passing the examination does not necessarily mean that they are at a level where they can immediately provide consulting services. Nevertheless, we hope to broaden our human resources base in this way.

Parallel with this initiative, we will work to develop IT-related specialists, including personnel who will work in systems development, personnel who will make use of in-house data, and personnel who are capable of providing ICT consulting services to customers.

We believe that investment in diverse human capital will serve as a driver to enhance added value. We will continue with this kind of proactive human resources development to enhance corporate value.

SDGs/ESG Initiatives

The Hyakugo Bank Group strives to achieve a balance between resolving social issues in the region and developing the economy based on the Hyakugo Bank Group SDGs Declaration announced in October 2019.

Further, in April 2022, the Hyakugo Bank Group newly established its Environmental Policy, Sustainable Investment and Loan Policy, and Human Rights Policy as sustainability-related policies. These three policies are a kind of "bridge" that connects our activities and the Hyakugo Bank Group SDGs Declaration. They form a starting point in our efforts to make SDGs the norm.

In terms of initiatives for our stakeholders, having announced our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in June 2021, we will now act on those recommendations. The Bank's disclosures of climate change risks can be found in the "Responses to Climate Change" section starting on Page 23 of this report. We will continue to improve the content of these disclosures by expanding the scope of analysis.

We will also work on "Opportunities for diverse human resources to flourish" as a key initiative. The Bank has established an environment that enables employees of the child-raising generation to work full-time by abolishing the overtime workday scheme. We are also working to create a workplace environment in which each and every employee can be themselves and find reward in their work. Initiatives to this end include establishing gender diversity guidelines and setting up a diversity & inclusion helpdesk for executives and employees.

Going forward, we will pursue the establishment of mechanisms that will enable each and every employee to work on their job, feeling a sense of the SDGs story flowing throughout their own day-to-day work.

Cross-shareholdings

Cross-shareholdings are now drawing attention due to the market reclassification of the Tokyo Stock Exchange and the revision of Japan's Corporate Governance Code.

The Bank conducts annual reviews of its cross-shareholdings from the perspectives of their significance and economic rationality. As a result, as of March 31, 2022, the number of individual issues held was 210, decreased by four from the previous year, and the number of listed issues held decreased by approximately 20% from the peak of 162 to 131.

We believe that the purpose of cross-shareholdings is to grow together with customer companies in the region. The Bank holds shares in listed companies that are related to the region, as well as shares in unlisted companies in the region. Some of these companies have experienced crises in the past, but as a result of the financial support provided by Hyakugo Bank in the form of capital injections, they have emerged from these crises and have now become some of Japan's leading companies. These activities help us to fulfill our primary role of "developing together with the region" as a regional financial institution.

On the other hand, given the changes in the external environment, we must also bear in mind the growing necessity to reduce cross-shareholdings.

While setting the reduction of cross-shareholdings as our basic policy, we will also conduct a review aimed at enhancing the value of the Bank and, in turn, the value of the region.

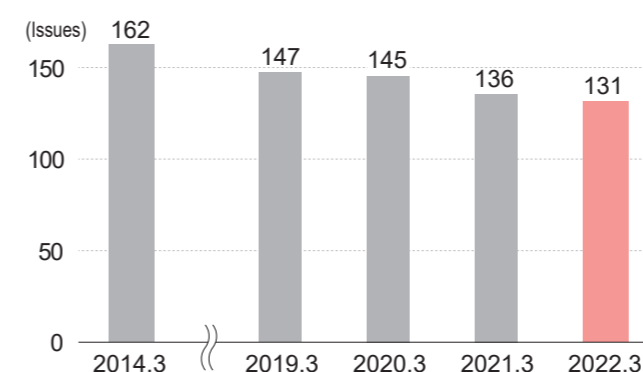
We will continue to consider how we can live up to the expectations of shareholders through our policy on shareholder returns and work to enhance corporate value by balancing "growth investments," "internal reserves," and "shareholder returns."

In Closing

This year marks 144 years since Hyakugo Bank was founded in 1878. We believe that the reason we have been able to overcome so many difficulties is that we have been trusted by our stakeholders, including local communities, customers, and shareholders, through our customer-first policy and solid management since the Bank was first founded.

We will continue to transform in order to link the distant past from which we have come to our 150th anniversary and onto the distant future beyond. Amid such a drastically changing environment, we will strive to keep changing ourselves and to remain a trusted and reliable banking group into the future.

■ Trend in the number of individual issues held (listed companies)



Dividend Policy

The issue of stable dividends has been and will continue to be our top priority. Our recognition of shareholder returns as one of the most important management issues has not changed.

In the new Medium-term Management Plan, we repeated discussion on the ideal vision of shareholder returns based on this basic recognition. As a result, we declared that we would aim for 30% dividend payout ratio over the long term.

