

Message from the President

We will steadily implement the Medium-term Management Plan to enhance our corporate value, and continue to aim to be a trusted and reliable bank.

Masakazu Sugiura
President

杉浦雅和

■ Raison d'être (Purpose) of The Hyakugo Bank

Building on a foundation of trust, Hyakugo Bank will continue to be “a bank that the community can rely on”

The Hyakugo Bank was established in 1878, and will celebrate its 145th anniversary in November 2023. We believe that our long history is the result of the trust that our local customers and shareholders have placed in us, as our customer-first policy and solid management have been ingrained in our corporate culture since the time of our founding.

Our current corporate philosophy, “We support a society that values trust,” “We pursue fair, impartial, and responsible management,” and “We behave in a sincere manner with common sense as a member of society,” was established in 1996, and discussions on this corporate philosophy began when our then president asked, “What exactly is our raison d'être (purpose)?” After lengthy discussions, our corporate philosophy was established based on the Bank's corporate culture. It was created then with an awareness of what the business world now calls “purpose,” which is intended to clarify the Bank's

mission, how it should be managed, and how its employees should act to realize that mission. We believe that by continuously transforming ourselves in the midst of a dramatically changing environment, we will continue to be a trusted and reliable banking group.

Trust is the most important characteristic of a bank. In the Bank's song, there is a lyric that reads, “Sincerely and modestly, we lay the foundations of trust over the years.” A foundation of trust is everything that is expected of a bank, and it is the soul of Hyakugo Bank.

As a regional bank, we have grown together with our local communities. We will continue to earn the trust of our customers and steadily fulfill our role of supporting the community.

“A bank that the community can rely on.”

This is the raison d'être of the Hyakugo Bank.



Message from the President

■ Long-term Vision “Aiming to Transform into a Green & Consulting Bank Group”

Providing high-quality consulting services to meet the challenges and needs of our customers

The long-term vision of Hyakugo Bank is “Aiming to Transform into a Green & Consulting Bank Group.” When we formulated the previous Medium-term Management Plan, we set the goal of becoming a Digital & Consulting Bank 10 years in the future. Subsequently, in light of the rapid emergence of climate change risks, we reviewed the role that we should fulfill, and revised our long-term vision to becoming a Green & Consulting Bank Group, in 2022. Although the word “digital” is no longer used, it still lies at the root of our vision, with “green” and “consulting” positioned above it. We will contribute to the sustainable economic development of local communities by supporting “Just Transition,” a fair transition to carbon neutrality in the region, and will provide high-quality consulting services to meet the challenges and needs of our customers.

The reason why we have chosen climate change risk as a theme that we must be particularly aware of is that Mie and Aichi Prefectures, which are our main business

areas, are regions with a thriving automobile industry. As the shift to EVs progresses, the industrial structure will change drastically, and the impact on our customers is expected to be very significant.

Against this backdrop, according to a survey of local customers regarding decarbonization, roughly 40% of them felt the need to achieve decarbonization, but did not know what they should do. While many customers do not know how to monitor their own CO₂ emissions, we will focus on supporting CO₂ measurement and analysis as well as consulting to realize decarbonized management, and will work with our customers to decarbonize local communities.

One year has already passed under our evolved long-term vision, and we are feeling a positive response, as various new services have been created and our customers have been pleased with them.

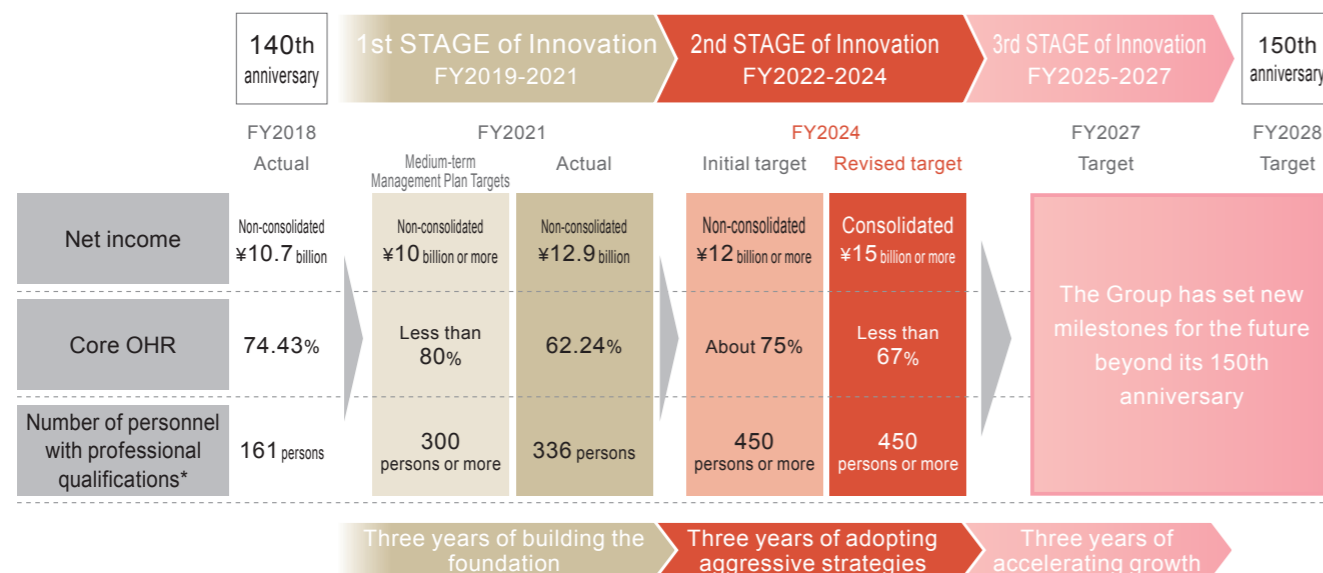
■ Medium-term Management Plan for FY2022-FY2024

Concentrating management resources in three areas and steadily implementing initiatives

The Medium-term Management Plan for the period from FY2022 to FY2024, which we are currently implementing, is positioned as the second stage for realizing our

long-term vision for FY2028, the 150th anniversary of our founding. In FY2022, we were able to make a satisfactory start as the first year of the plan, with some items

Steps for Achieving the Long-term Vision



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

achieving our FY2024 numerical targets ahead of schedule. As a growth strategy, we concentrated our management resources on the three main areas that drive our top line, namely housing loans, depository assets, and corporate consulting, and focused on the following initiatives in FY2022.

In housing loans, Aichi Prefecture has significant room to expand our market share, and we aim to increase the amount of loans contracted in Aichi. To this end, we expanded the number of Retail Banking Centers, which serve as contact points for housing loans, in the vicinity of housing exhibition areas in the prefecture. After housebuilders sell homes, we conduct sales activities to encourage them to introduce the Bank to customers for loans and financing. These efforts have steadily delivered results, and for the fourth consecutive year (FY2019 to FY2022), we have ranked first* among regional banks in Japan, for growth in the amount of housing loans. We will continue to 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 depository assets, we newly established Consulting Plazas as well as a Depository Asset Center in April 2022. In order to upgrade and expand its services for our customers, we concentrated personnel in charge of depository assets, which had previously been assigned to each branch, to the consulting plazas. In addition, Hyakugo Securities functions are co-located at seven of the nine consulting plazas, in order to strengthen Group-wide cooperation. We will share, accumulate, and improve the

level of know-how among the personnel in charge to develop depository assets professionals. The depository asset center will provide support for consultations regarding asset management, NISA, iDeCo, etc., by responding flexibly by phone or via the internet. Eyeing the expansion and permanent extension of the tax exemption limit under the NISA system from 2024, we will propose optimal asset management plans and provide a wide range of information to help our customers build assets over the medium to long term.

In corporate consulting, we are focusing on providing optimal solutions to the diverse management issues and needs of customers. As one of our initiatives, in October 2022 we launched Local Design Mie Corporation, a joint venture with Japan Transcity Corporation, to support our customers enter overseas markets and expand sales channels there. This joint venture aims to increase exports of primary and secondary products from Mie Prefecture, including agricultural, forestry, and fishery products. The Bank's financial settlement functions and unique domestic and overseas network are combined with Japan Transcity Corporation's logistics functions, sharing know-how in the process. We believe that revitalizing the agriculture, forestry, and fisheries industries in Mie Prefecture, thereby helping to halt the decline in population, is one of the Bank's major roles and will create value for society.

* From the Nikkin Report. The four consecutive years are year-on-year changes at March 31, 2020, 2021, 2022, and 2023.

Numerical Targets of the Medium-term Management Plan

		FY2021 (actual)	FY2022 (actual)	FY2024 (target)
KGI	Consolidated net income	¥13.4 billion	¥14.4 billion	¥15 billion or more
	ROE in consolidated net assets	3.36%	3.65%	3.50% or more * Aiming for 5% in the long term
	Core OHR	62.24%	63.78%	Less than 67%
	Capital adequacy ratio	9.84%	12.23%	11% or more
KPI	Housing-loan-related fees	¥3.4 billion	¥3.36 billion	¥4.4 billion
	Commissions related to depository assets	¥2.8 billion	¥2.8 billion	¥3.4 billion
	Corporate solutions fees	¥2.7 billion	¥2.9 billion	¥3 billion
	Number of personnel with professional qualifications	336 persons	371 persons	450 persons

Message from the President

■ Business Environment and Initiatives for FY2023

Focusing on initiatives to improve and stabilize our customers' business and support local communities

As for the business environment in FY2023, although COVID-19 is slowing down, we recognize that the degree of recovery remains uncertain. Furthermore, the business environment for companies will continue to be difficult due to soaring energy and raw material prices.

Against this backdrop, we intend to take firm action, as the repayment of virtually interest-free and unsecured loans ("zero-zero" loans) to support companies whose sales have declined due to the spread of COVID-19 begins in full swing. We conducted interviews with all zero-zero loan customers, and found that many of them intend to repay the loans. However, for some SME customers who are having difficulty repaying the loans, we will provide consulting services to help them resolve their issues, by using a special guarantee scheme supervised by banks to improve and stabilize their business management.

We will also focus on business restructuring support for the purpose of creating new value. From 2022, consultations for new businesses using business restructuring subsidies are increasing, and up to now, the number of cases that the Bank has supported and adopted as an authorized business innovation support organization

stands at 149, primarily in the manufacturing, construction, and restaurant and service industries. We provide proposals for the use of subsidies, formulate business improvement plans that incorporate capital investment and measures to improve customer satisfaction, and provide loans for the necessary funds. For the accommodation industry, which has been severely affected by the COVID-19 pandemic, we are working to support the industry in strengthening brands and achieving sustainable development by reviewing facility concepts, renovating guest rooms and other facilities, and improving operations.

As the number of customers visiting bank counters is decreasing, and transactions using smartphones are on the rise, we are striving to provide services that enable customers to use their smartphones for all types of transactions, anytime and anywhere. On the other hand, there are many customers, including the elderly who do not use smartphones, who conduct transactions at our branches. As in the past, we will continue to focus on providing services at our branches and play a role in supporting the community, as a familiar presence where customers can feel free to consult with.

■ Toward Strengthening Our Human Capital

Developing professionals and creating a comfortable work environment

In the financial business, which earns revenue by providing a variety of services, we believe that the quality of our human capital is the value of the Group itself. Personnel with integrity, diligence, local knowledge, and consulting skills are the Bank's strength, and represent valuable assets and a source of our bond of trust with our customers.

Since the previous Medium-term Management Plan, we have been focusing on developing professional personnel, and are continuing to increase the number of employees who have acquired 1st grade financial planner, CFP, and other qualifications, and to further improve the level of our employees. We are also working to develop digital human resources, particularly among younger generation employees, to raise their IT literacy, identify and offer consulting on customer issues involving IT, and promote digitalization within the Bank.

In terms of diversity and inclusion, we are focusing on creating an environment where a diverse workforce feels job satisfaction and can fully demonstrate their abilities. In

particular, we are focused on increasing the number of female officers and managers.

Employees in the ranks of general managers of branches are required to make loan decisions. However, until now, the segregation of duties has been loan-related for men and deposit-related for women. To change this situation, we are focusing on training women who can also perform loan-related work. In addition, we are creating an environment in which everyone can work comfortably, by providing maternity leave and childcare leave, and promoting male participation in child raising.

Moreover, we have implemented base salary increases for three consecutive years starting in 2021, in order to increase the motivation of our employees and to secure talented human resources. We intend to continue to return profits to our employees as our business performance grows.

To meet our customers' expectations, which is our number one priority, we must continue to be a bank with imagination.



■ Corporate Governance, Shareholder Returns, and Cross-shareholdings

Strengthening the management base to enhance our corporate value

With regard to corporate governance, we are working on it from both the defense and offense aspects. We are strengthening systems to prevent misconduct and reinforce risk management in the event of an emergency, and at the same time proactively working to enhance our corporate value.

For defense, we are strengthening compliance and risk management, mainly through the operation of internal control systems to ensure highly transparent and rational decision-making. For offense, we are promoting management that contributes to a sustained enhancement of our corporate value, including appropriate allocation of management resources and improvement of capital efficiency. While it is our understanding that we currently meet the requirements of Japan's Corporate Governance Code,

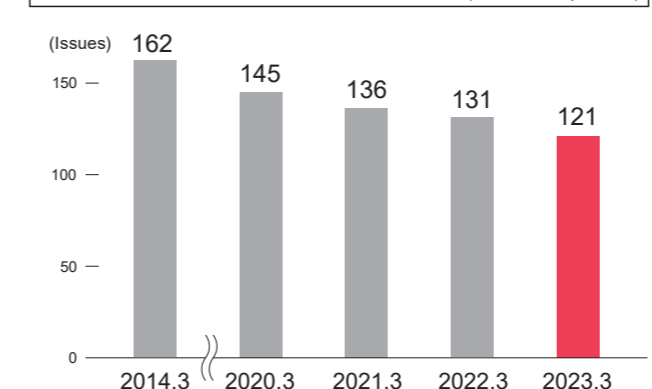
and will continue to respond to changes in social conditions.

We recognize that shareholder returns are one of the most important management issues. We have never reduced dividends in more than 40 years, with the exception of commemorative dividends. We will continue to aim for a dividend payout ratio of 30% over the long term, under our basic policy of providing stable profit returns.

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."

Cross-shareholdings are reviewed annually from the perspectives of their significance and economic rationality. As a result, as of March 31, 2023, we held a total of 200 individual issues, which was a decrease of 10 issues from the previous year. We believe that the purpose of cross-shareholdings is to grow together with our customers. In addition to shares in listed companies headquartered in our operating region, we also hold shares in unlisted local companies. While some of these companies have experienced crises in the past, as a result of our support in the form of capital injections, they have emerged from these crises and have now become some of Japan's leading companies. In addition to our basic policy of reducing cross-shareholdings, we will also review the policy, in order to fulfill our role of developing together with the local community as a regional financial institution.

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



Message from the President

■ To Continue to Be “A Bank That the Community Can Rely On”

Continuing to transform ourselves to create new value and meet our customers’ expectations

We would like to be “a bank that the community can rely on.” In order for customers to consider consulting with Hyakugo Bank first when they have a problem, it is important to build a relationship in which our customers feel free to consult with us about anything, and to fully respond to their needs.

When I was a branch general manager, I approached our headquarters with a desire to do something about a company that was suffering due to the bankruptcy of a client. At the same time, I asked the company to cut costs and review its management, and this resulted in a recovery. I was also able to help a company that was struggling with business succession, and they were very happy with the contribution. Even now, we receive comments such as, “We are glad that you helped us at that time.”

We will continue to support the local community, contribute to the growth of the local economy, and be a bank that local customers can rely on.

To do so, we must continue to transform ourselves in a dramatically changing environment. Our corporate statement, “Frontier Banking,” is a statement of our determination to meet our customers’ expectations with a cutting-edge business mindset, in order to be of value to

society well into the future. We will create new value by stepping out of our existing initiatives and remaining keenly aware of what we can do in new areas.

To do so, we must be bold in our efforts. We will not achieve great success if we are merely cautious. I like to say, “Be bold, but cautious.” I believe that we should contemplate and carefully consider everything until we make a decision. However, once we have made a decision, we should execute it boldly and without regret.

We will steadily implement the Medium-term Management Plan, which we have positioned as “three years of adopting aggressive strategies” in our long-term vision, in order to enhance our corporate value by creating economic, social, and environmental value. At the same time, we will remain committed to be a bank that is trusted and “that the community can rely on.” We would like to ask all of our stakeholders for their continued support.

Even amid a dramatically changing environment, we will continue to make cautious but bold changes to become a trusted and reliable banking group.

