

Message from the President



In our aim to be “a trusted and reliable bank,” we will actively engage in aggressive management and strive to improve corporate value.

President

杉浦雅和

Aiming to be “a trusted and reliable bank”

Hyakugo Bank celebrated its 145th anniversary in November 2023. I would like to express our deep appreciation for the warm support and patronage of our customers in the region and our shareholders.

Over the course of its long history, Hyakugo Bank has experienced difficulties on numerous occasions. However, since the Bank was first founded, we have consistently adhered to “our customer-first policy” and to “solid management,” and in doing so, gained the trust of local communities, customers, and shareholders. I believe that it is that trust that has made us what we are today.

On many occasions, I have been asked “what kind of bank we aim to be,” and my answer is always that we aim to be a “trusted and reliable bank.” A bank that the community, customers, and various other people can rely on. A bank that is the first to come to customers’ mind when

they have a problem, about which they think ‘I know. I’ll ask Hyakugo Bank.’ I believe that this is the kind of bank that we must become.

To this end, we will continue to place the highest priority on the trust of our stakeholders and practice highly transparent management.

In addition to developing the capabilities of each and every employee, we will always take on challenges, including the development of new measures, proactively and without fear of change.

We will strive every day to earn “your trust” and become “a trusted and reliable bank.” I hope that, whenever you have a concern, you will consult with Hyakugo Bank.

Message from the President

Progress of the Medium-term Management Plan “Gateway to the Future II”

The three-year Medium-term Management Plan (from FY2022 to FY2024) that we are currently working on has entered its final year. Since the beginning of the Plan, we have concentrated management resources on the three growth areas of “corporate consulting operations,” “housing loans operations,” and “depository assets operations,” under the theme of strengthening our consulting functions. In FY2023, the second year of the Plan, we were able to enhance “the quality” of our efforts, and my sense is that we were able to make great strides toward the achievement of our targets.

In “corporate consulting operations,” engaging in “dialogue with customers” is the starting point of all endeavors.

For this reason, we have established a new “Management Vision Sharing Form,” a supplementary tool for conducting in-depth dialogue with customers, which we use in our business feasibility assessment activities. This form has been designed to assist us in the systematic engagement in a series of activities, such as anticipating customers’ issues and diving deeper into those issues and the

customers’ vision through actual dialogue, to connecting them to specific solution proposals. We have received very positive feedback from customers, who have expressed their delight with the extent to which we have worked together with them and given serious consideration to their company’s issues.

In another new initiative, we also set up “the 105 Tokai Mirai Search Fund,” the first such fund to be established in the Tokai region, to address the issue of business succession in the region. The 105 Tokai Mirai Search Fund employs a method known as a “search fund” to provide support for smooth succession by connecting companies that have no successors with talent aspiring to become business owners, and providing the funds necessary for stock acquisition, etc., from the Bank. While supporting companies in their business succession plans has been the focus of this initiative to date, we are now able to offer new options for succession that originate with the “management talent.”

In FY2023, the second year of the Medium-term Management Plan, we were able to make great strides toward achieving our targets by enhancing “the quality” of our efforts.



In this way, we have been working to both “deepen” and “evolve” our initiatives. We are now starting to see results, such as our corporate solutions fees reaching a record-high level in FY2023.

In “our housing loans operations,” the Bank has been working to develop structures since the beginning of the Medium-term Management Plan. This includes establishing offices and increasing the number of sales personnel. Those sales personnel have now grown into a fully fledged workforce, and the Bank has been able to build up its structures for winning loan contracts to an excellent standard. The total value of housing loans contracted for the full fiscal year of FY2023 was the highest on record for the Bank.

On the other hand, housing starts in Aichi and Mie Prefectures are on a downward trend, and this trend is expected to continue. In Aichi Prefecture in particular, where the Bank has been focusing on increasing its market share, competition with other banks has been intensifying year by year. For that reason, to transform our housing loans operations into a more efficient structure, we are working to reduce back-office operations through strategic DX investments.

Further, to offer support to our housing loan customers in future life events, we are strengthening the provision of

comprehensive consulting services that look toward the future, including insurance and asset management.

In “our depository assets operations,” the Bank has made major changes to its sales structure since the start of the Medium-term Management Plan. With regard to face-to-face sales, the Bank has consolidated its sales bases into nine bases in Mie Prefecture and is working to share knowledge and strengthen staff training to put customer-oriented business operations into practice. Seven of those nine bases are co-located with Hyakugo Securities functions, as a way to strengthen Group-wide consulting capabilities.

This new structure has begun to work well, and with added factors such as the upturn in the stock market, the launch of the new NISA system, customers’ willingness to invest has increased, which has helped us to secure solid results.

The Bank will continue to assist in more effective asset management and asset building by selectively employing face-to-face and non-face-to-face services to suit the customer’s age group and individual needs.

Numerical Targets of the Medium-term Management Plan

		FY2021 (actual)	FY2022 (actual)	FY2023 (actual)	FY2024 (target)
KGI	Consolidated net income	¥13.4 billion	¥14.4 billion	¥14.2 billion	¥15.0 billion or more
	ROE in consolidated net assets	3.36%	3.65%	3.21%	3.50% or more <small>* Aiming for 5% in the long term</small>
	Core OHR	62.24%	63.78%	60.89%	Less than 67%
	Capital adequacy ratio	9.84%	12.23%	12.22%	11% or more
KPI	Housing-loan-related fees	¥3.4 billion	¥3.36 billion	¥3.55 billion	¥4.4 billion
	Commissions related to depository assets	¥2.8 billion	¥2.8 billion	¥3.0 billion	¥3.4 billion
	Corporate solutions fees	¥2.7 billion	¥2.9 billion	¥2.9 billion	¥3.0 billion
	Number of personnel with professional qualifications	336 persons	371 persons	390 persons	450 persons

Message from the President

Turning environmental changes into opportunities

As I mentioned earlier, our activities for the achievement of the Medium-term Management Plan have been generally on track. However, the environment surrounding us is changing from moment to moment, and we are constantly being asked how we will respond to those changes.

One unavoidable change in the business and competitive environments surrounding the Bank over the medium to long term is “the decline in the regional population.” The National Institute of Population and Social Security Research estimates that the working-age population of Mie Prefecture will fall by about 33% by 2050 compared with 2020. I think it will be very difficult for us to resist such changes in the macro environment. In the future, “the population dynamics” of Mie and Aichi Prefectures will change at an accelerated pace, and business operators of all kinds will need to make significant changes to their business structures in line with that change.

Another major change in the environment worthy of mention is the advent of a “world with interest rates.” This can be said of financial institutions anywhere, but there are now very few bank employees who experienced the previous phase of rising interest rates. As such, there will be many points to take into consideration, such as responding to customers, reviewing products, and approaches to asset management.

Depending on how we approach them, these major changes could become either a crisis or an opportunity for the Group. For example, in response to “the decline in the regional population,” if we work together with local communities to promote digitalization, it may help not only to improve efficiency but also to create new businesses. This is just one example, but I want to view such changes as a major tailwind and turn them into opportunities.

We will view changes in the business environment as a major tailwind and turn them into opportunities

Consideration of the next Medium-term Management Plan

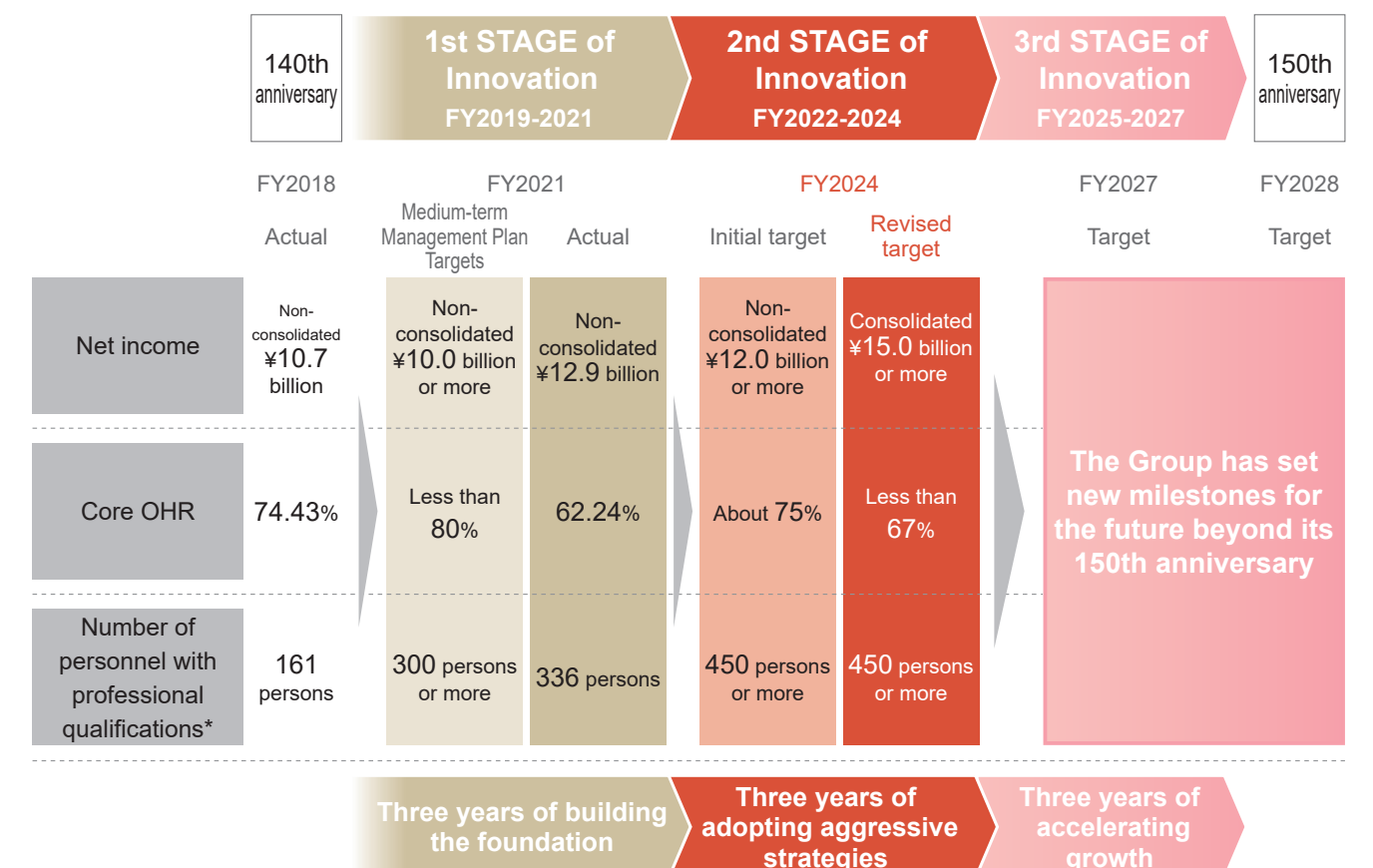
The long-term vision of Hyakugo Bank toward the 150th anniversary of its foundation in 2028 is “Aiming to Transform into a Green & Consulting Bank Group.” To turn environmental changes into opportunities and enhance the Bank’s corporate value while revitalizing local communities, the long-term vision states that the Group aims to “promote the decarbonization of the entire region” and to “solve customers’ problems through consulting services.”

The Medium-Term Management Plan “Gateway to the Future II” that we are currently engaged in is positioned as the second stage for the realization of our long-term vision for FY2028, the 150th anniversary of the Bank’s foundation. As FY2024 is the final year of the Plan, we are also currently working on the formulation of the next Medium-term Management Plan that will begin in FY2025.

Although we are not yet able to talk about the details of the next Medium-term Management Plan, we are thinking that “Challenge,” will be a major keyword, as the final stage toward achieving the long-term vision. By “Challenge,” we mean “sowing seeds” to create a brighter future for the region. We will actively sow seeds in various fields so that our customers can enjoy the fruits of their growth in the future.

We will draw on the collective wisdom of all employees of the Group to formulate the next Medium-term Management Plan. I hope that you will look forward to it and that it will meet your expectations.

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)

Message from the President

Strengthening our human capital

As we are engaged in financial services that do not have a tangible form, the Hyakugo Bank Group's most important asset is its employees, who act as a bridge between the Group and our local communities and customers. For this reason, we are proactively investing in human capital in the belief that the improvement of the specialized knowledge and skills of each employee will lead directly to the enhancement of the value of the Group itself.

As part of these efforts, we are promoting "the development of professional personnel" to increase the number of personnel capable of providing consulting services to customers. We now have 390 personnel with professional qualifications designated by the Bank, including 1st grade financial planners and CFP (as of FY2023). The number of Hyakugo Bank's qualification holders is one of the highest among the regional banks. However, knowledge acquired by obtaining certifications will only be of value if it can be put to practical use. For this reason, we are expanding our practical training programs and increasing

opportunities for external training and secondment as opportunities to output that acquired knowledge.

Coinciding with our human resources development efforts, for the maximization of organizational performance, we are promoting the DX of the HR division that employs a talent management system. At present, we have only just begun to accumulate information for the system and to centralize data. In the future, however, we will aim to advance the utilization of human capital, including the promotion of talented young personnel and the creation of a strategic and speedy organization.

In other efforts, we are continuing to implement basic salary increases in FY2024 as a means of improving employee engagement and securing talented human resources. Along with the growth of business performance, we will continue to invest firmly to reward employees, who are the Bank's assets, for their hard work.

Promotion of sustainability

As a regional bank, we have grown alongside our local communities. As such, there can be no growth for us without the growth of the region. For this reason, in 2019, the Bank announced the "Hyakugo Bank Group SDGs Declaration," in which we declared that we would strive to achieve a balance between resolving social issues in the region and developing the economy through our primary businesses, thus contributing to the achievement of a sustainable society.

As support for customers to advance decarbonization, as well as providing information through seminars and assisting with the formulation of decarbonization plans, we are also working to expand our sustainable finance offerings. We have built a structure that can support customers at any stage, from planning to implementation.

The Bank is also promoting activities to reduce its own greenhouse gas emissions, setting a target of achieving net zero GHG emissions by the end of FY2030 (Scopes 1, 2). The Bank's Iwata Head Office Building and the Marunouchi Headquarters Building use electricity from renewable energy that achieves net zero CO₂ emissions from renewable energy. We plan to increase the use of electricity from renewable energy at individual branches

and Group companies in the future. We are also promoting the adoption of LED lights and high-efficiency air conditioning equipment in the course of equipment upgrades. As a result of these efforts, we were able to obtain a "B" grade in the results of a climate change survey conducted by CDP, an international non-government environmental organization.

In addition to decarbonization initiatives, we are also placing efforts into environmental protection and biodiversity conservation. For example, the Bank owns Hyakugo Forests in two locations in Tsu City and Taki-cho for forest conservation purposes, where we conduct activities such as forest improvements and walking trail development as part of our new recruit training programs. We are also working on a closed-loop recycling initiative in which documents discarded by the Bank are recycled into toilet paper and used by the Group. Some of that toilet paper is donated to special needs education schools in Mie Prefecture, and it is helping in the region's environmental conservation activities.

We will continue to advance initiatives to realize a sustainable society together with local communities.

Capital policy to improve corporate value

The Tokyo Stock Exchange has asked listed companies with a PBR of below 1 to "take measures to realize management that is conscious of capital cost and share price." Here at Hyakugo Bank, we also recognize that improving PBR, as an indicator for the enhancement of corporate value, is an important management issue, and we fully understand that our current PBR is not at a level that will satisfy our stakeholders.

As a regional bank, we consider fulfilling a function in smooth financial intermediation in the region to be a key mission, and we aim to improve corporate value over the medium to long term by appropriately balancing the three elements of "growth investment," "internal reserves," and "shareholder returns," without focusing solely on short-term perspectives.

I believe that moving forward step by step with the aim of being "a trusted and reliable bank" is the shortest path

to enhancing corporate value. As such, we will steadily implement each measure set forth in our long-term vision and the Medium-term Management Plan.

In terms of shareholder returns, over many years, we have never reduced dividends, with the exception of commemorative dividends. We believe in the importance of the steady and stable distribution of dividends, rather than implementing large increases or decreases every year according to business performance. Under this basic policy, we plan to increase dividends in FY2024, with the aim of a dividend "payout ratio of 30%" as set forth in our long-term target. We will also continue to broadly consider our approach toward returns.

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Message from the President

Toward the 150th Anniversary

The Bank recently marked the 145th anniversary of its foundation and is now moving toward its 150th anniversary. However, that 150th anniversary is merely a milestone, not a goal.

We have entered an era in which the advancement of digitalization and other factors have made it increasingly difficult to foresee the future. Nevertheless, all our employees will unite as one to take firm steps forward for a brighter future for the region, drawing on the experience that we have cultivated to date and taking on the challenge of new initiatives.

I imagine that, for many of those who have had a long association with Hyakugo Bank “solid management” would come to mind as their image of the Bank. This

“solid management” certainly does not mean that we should adhere only to defensive measures. With our announcement of “FRONTIER BANKING” in the Bank’s corporate statement, we have pledged to provide customers with the most advanced customer service in Japan, as well as cutting-edge services and products, by which we will provide customers with satisfaction that exceeds their expectations. To honor that pledge to our customers, we will actively engage in aggressive management and strive to enhance our corporate value, while at the same time protecting those areas that need protecting.

I hope we may rely on your continued support and patronage of Hyakugo Bank.

All our employees will unite as one to take firm steps forward for a brighter future for the region, drawing on the experience that we have cultivated to date and taking on the challenge of new initiatives

