

Medium-term Management Plan

KAI-KAKU 150 2nd STAGE “Gateway to the Future II”

Aiming to Transform into a Green & Consulting Bank Group

State of Progress

Overall Picture of the Medium-term Management Plan

Medium-term Management Plan **KAI-KAKU 150 2nd STAGE “Gateway to the Future II”** consists of five basic policies and 11 key strategies

Five Basic Policies		11 Key Strategies	
I	Strengthening Efforts Towards Carbon Neutrality	1	Carbon Neutral Strategy
II	Strengthening Business Model	2	Strategy to Enhance Loan Income and Fees and Commissions
		3	Securities Strategy
		4	Group Company Strategy
III	Increased Productivity	5	Channel Strategy
		6	IT Strategy
IV	Strengthening Management Foundation	7	Human Resources Strategy
		8	Governance Strategy
		9	Organizational Strategy
V	Increased Awareness of SDGs/ESG	10	Diversity Strategy
		11	SDGs/ESG Strategy

Numerical Targets (General)

KGIs are generally on track. KPIs continue to face difficult conditions due to the market environment and other factors, but the Group promotes various measures to achieve the final targets of the Medium-Term Management Plan

		Results in FY 3/23	Results in FY 9/23	Targets in FY 3/25 (Final targets of the Medium-term Management Plan)
KGI	Consolidated net income	14.4 billion yen	8.3 billion yen	15 billion yen or more
	ROE in consolidated net assets	3.65%	4.06%	3.50% or more *1
	Core OHR	63.78%	61.15%	Less than 67%
	Equity ratio	12.23%	12.58%	11% or more
KPI	Housing-loan-related fees	3.36 billion yen	1.75 billion yen	4.4 billion yen
	Commissions related to depository assets	2.80 billion yen	1.55 billion yen	3.4 billion yen
	Corporate solutions fees	2.90 billion yen	1.34 billion yen	3 billion yen*
	Number of personnel with professional qualifications	371 persons	373 persons	450 persons

*1. Aiming for 5% in the long term *2. Excluding income from derivatives

Target for the end of FY2030

Greenhouse gas emissions

Achieve **net zero** (Scope1,2)

Amount of sustainable finance executed

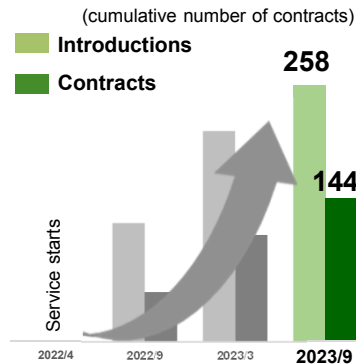
1 trillion yen (Of which, more than 500 billion yen is environment-related loans)

* Cumulative total since FY2022

The Bank implemented initiatives to support local decarbonization

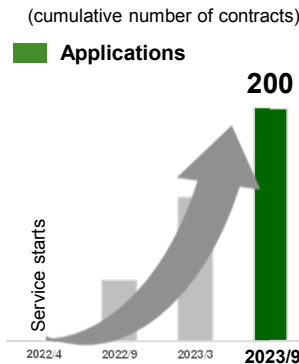
Initiatives to support decarbonized management

Assistance in calculating emissions (Business matching)



Hyakugo Decarbonization Support Services*

* Support for the development of reduction simulations, delivery of declarations, and posting of activities on the Bank's website



Providing various solutions to realize decarbonized management

Seminar on decarbonization

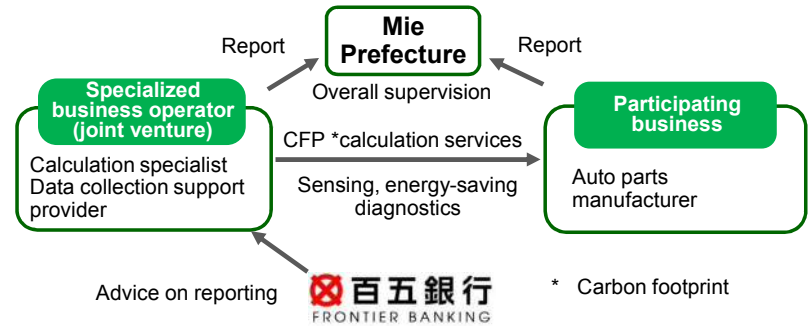
In August 2023, the Bank held a "seminar on what you need to know about decarbonization" to promote and support businesses' efforts to decarbonize their operations



Initiatives with local governments

Cooperation with Mie Prefecture's demonstration project

The Bank cooperates with a specialized business operator to implement the "FY2023 Demonstration Project to Support Calculation and Reduction of CO₂ Emissions per Product in the Auto Parts Supply Chain" in Mie Prefecture



Collaboration with Tsu City on regional decarbonization promotion



The Bank received a regional decarbonization promotion partner certificate from the Tsu Government at the Tsu City decarbonization promotion platform kick-off event (May 2023)

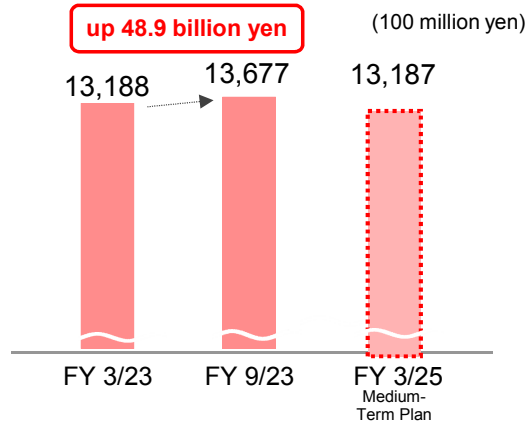
Participates in the "Regional Decarbonization Promotion Platform" established by Tsu City based on the partnership agreement on the promotion of decarbonized management

Aims to decarbonize the region by working to promote and support businesses in decarbonizing their operations

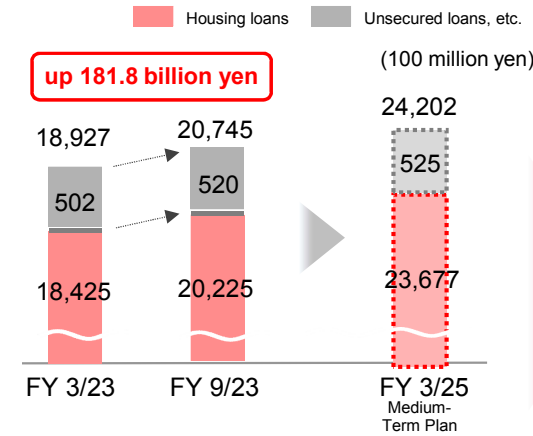
Strategy to Enhance Loan Income and Fees and Commissions (General)

Steadily increase loans to small and medium-sized businesses and consumer loans in the region, leading to an increase in loan and service revenues

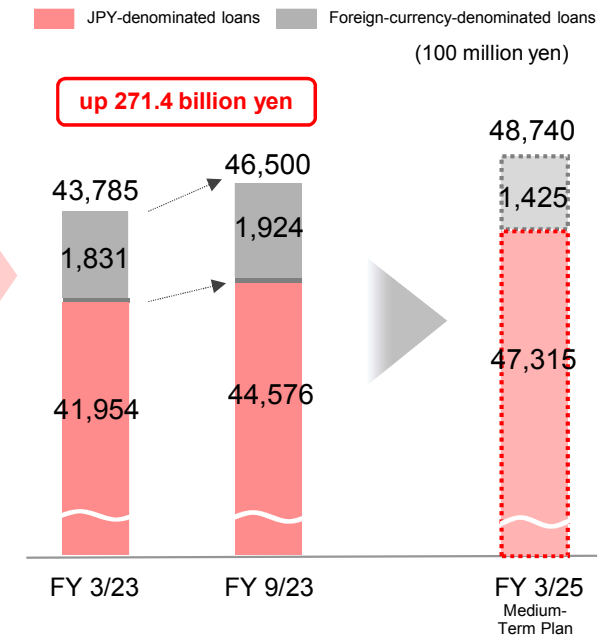
Loans to medium-sized companies and SMEs in the region



Consumer loans



Total loans Average balance plan

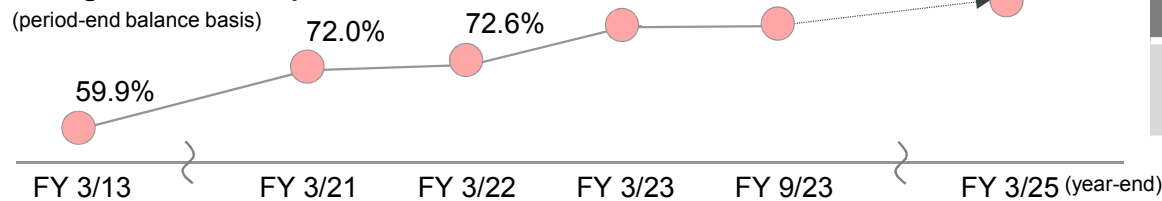


Foreign-currency-denominated loans Average balance plan

- Initiatives for regulated industries that play a role in social infrastructure (electricity, gas, telecommunications, etc.)
- Strengthening approaches in collaboration with overseas representative offices

Increase in loan-to-deposit ratio

Change in loan-to-deposit ratio

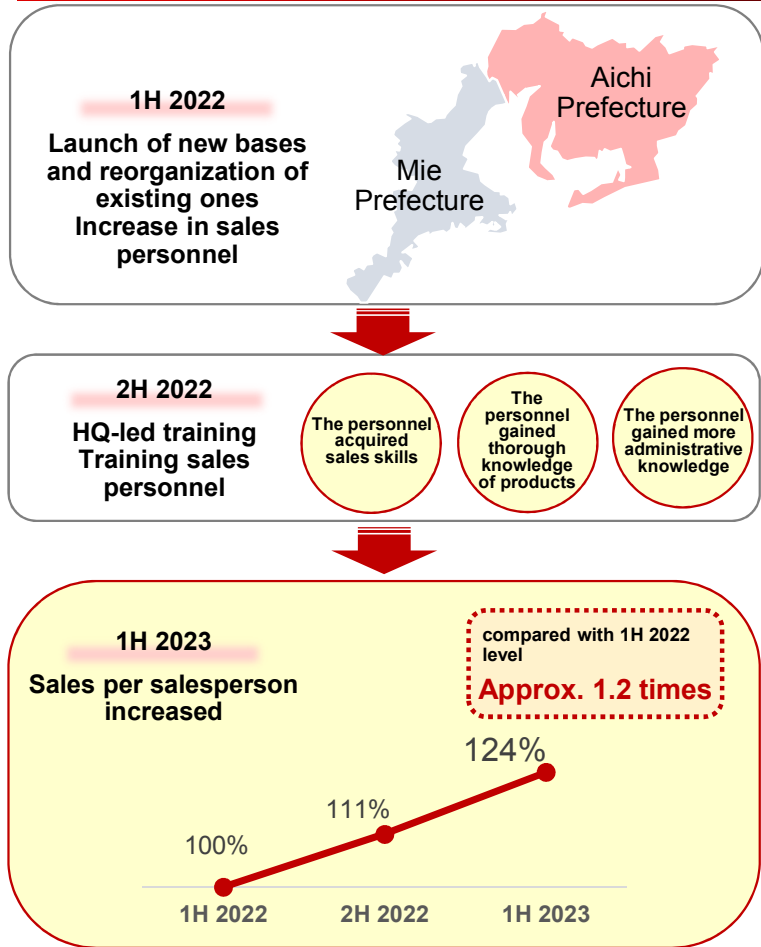


FY 9/23 (actual)	FY 3/25 (Medium-Term Plan)
79.3%	80.0% or more

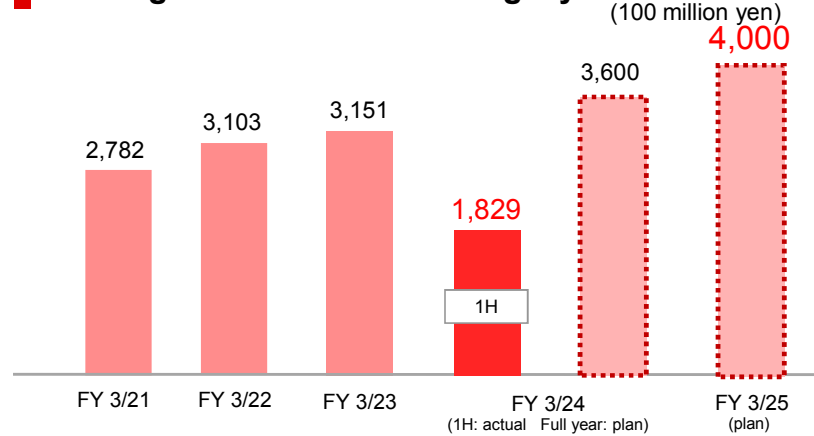
Strategy to Enhance Loan Income and Fees and Commissions (Housing Loans)

Toward a structure capable of acquiring 400 billion yen annually by improving the skills of sales personnel

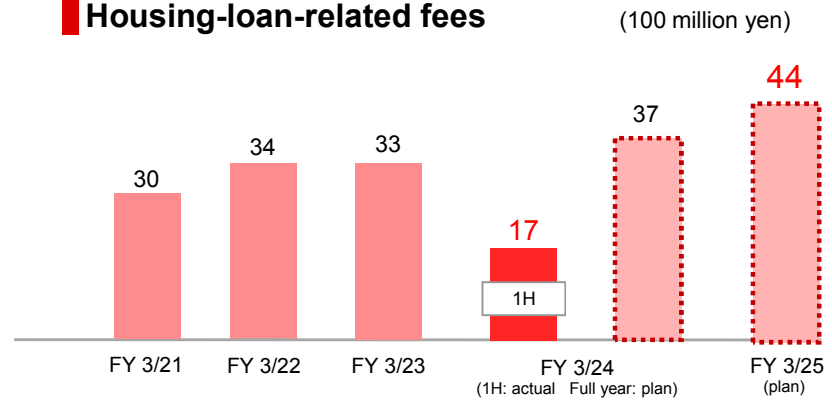
Effects of increasing and training sales personnel



Housing loans offered in a single year in value



Housing-loan-related fees

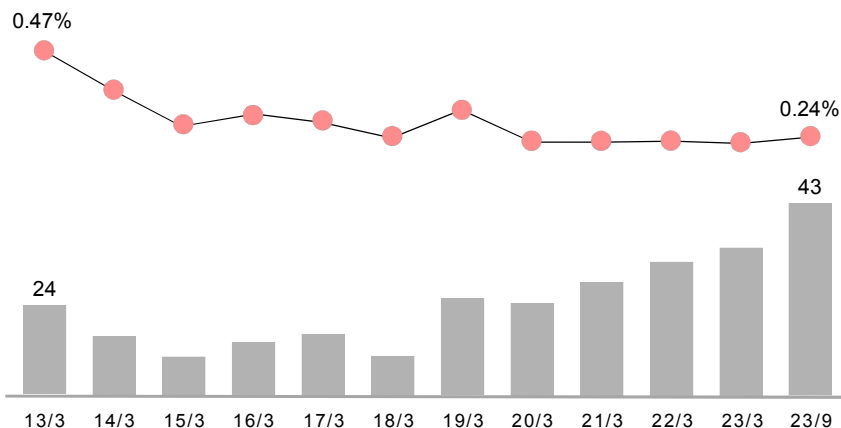


Maintain financial health even as new housing loans and balance increased
Further streamline and computerize housing loan operations

Housing loan delinquency and default status

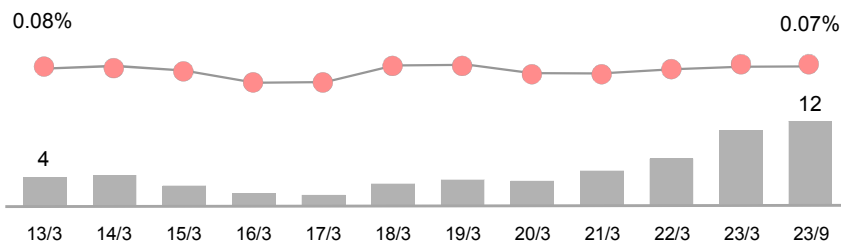
Delinquent loan balance and rate

(Balance: 100 million yen)



Amount and rate of defaults, etc.

* Including guaranteed loans (payment under guarantee)
(Amount: 100 million yen)



Streamline housing loan operations

Introduction of non-face-to-face contracts (online interviews)

- (1) Send contract documents to customers by mail
- (2) Interview with customers online and proceed to the contracting process
- (3) Receive contract from customers by mail

Effect

- Reduction of travel time, etc. for contracts (approx. 16 hours/month per person)
- Generation of business hours

Future steps for housing loan operations

Enhanced training lineup to support human resource development

Establish a system to prepare for the growing need for fixed interest rates due to rising market interest rates

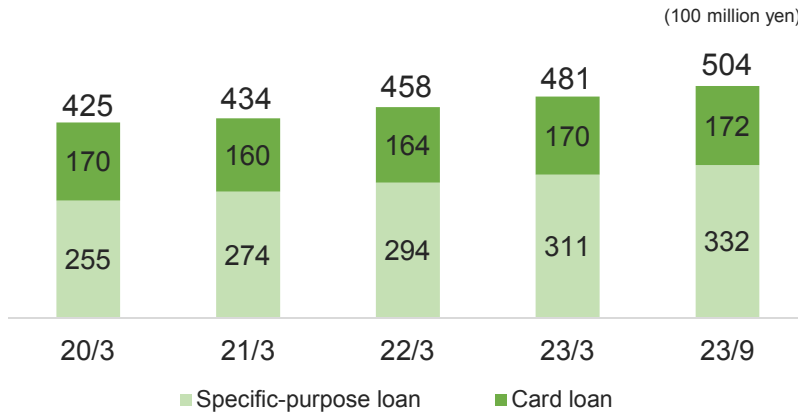
Computerize operations and centralize administrative work through the introduction of electronic contracts, etc.

Expand cross-selling through utilization of housing loan customer data

Strategy to Enhance Loan Income and Fees and Commissions (Unsecured Loans)

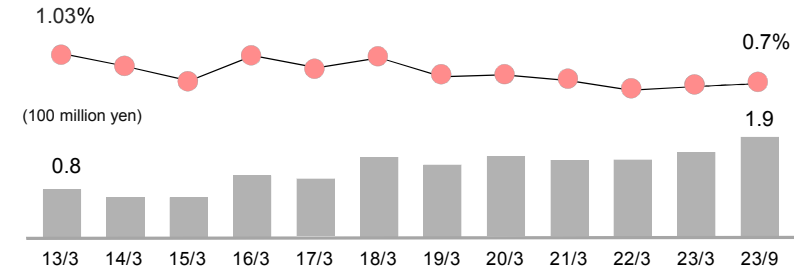
Promote unsecured loans by capturing the funding needs of housing loan customers

Outstanding balance of unsecured loans

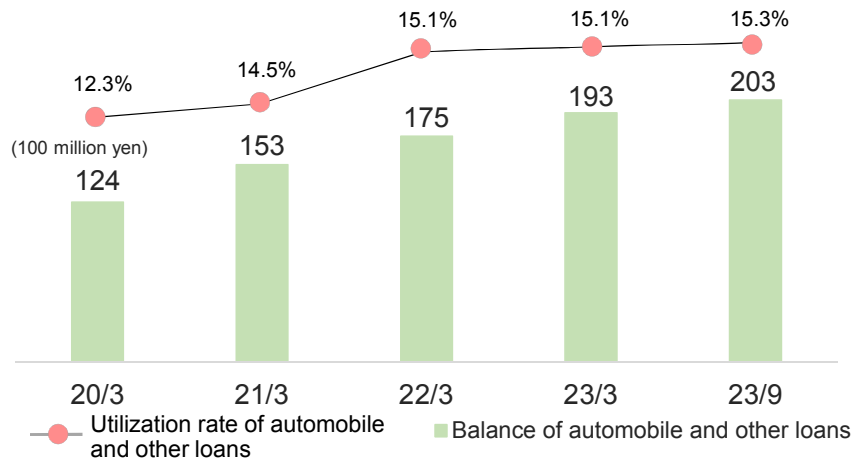


Delinquent unsecured loan balance and rate

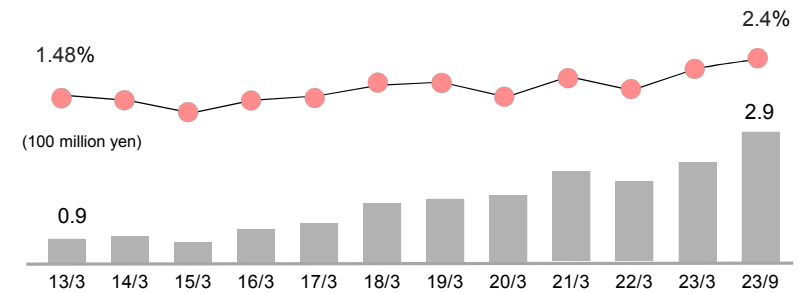
Specific-purpose loan



Rate of housing loan users' use of automobile loans and balance of loans

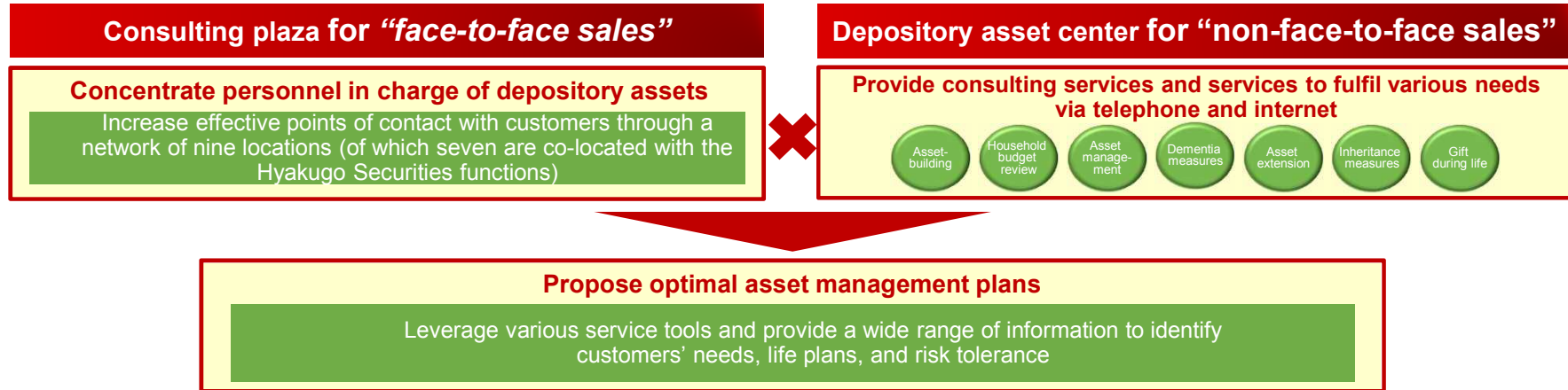


Card loan



Strategy to Enhance Loan Income and Fees and Commissions (Depository Assets)

Conduct customer-oriented business operations and increase overall income from depository assets by leveraging synergies between face-to-face and non-face-to-face sales



Commissions related to depository assets (Hyakugo Bank)

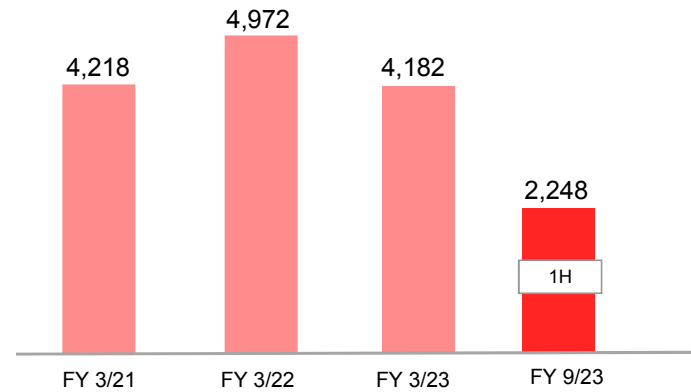
(millions of yen)

* Breakdown of four major items

	FY 3/23 (actual)	FY 9/23 (actual)	FY 3/25 (Medium-Term Plan)
Investment trusts	960	685	1,570
Insurance	1,402	670	1,247
Financial instruments brokerage	296	118	502
Defined contribution pension	136	77	153
Total	2,805	1,557	3,497

Commissions related to depository assets (Hyakugo Bank + Hyakugo Securities)

(millions of yen)

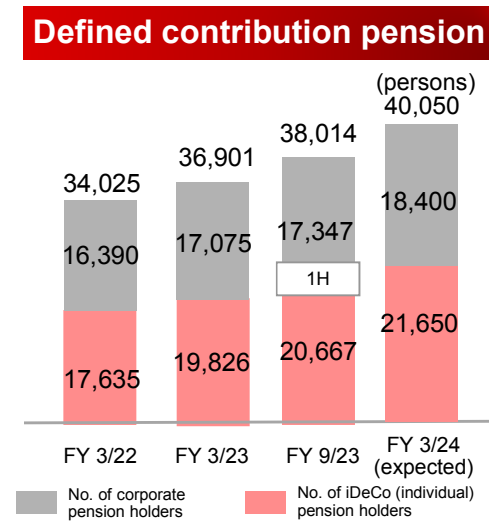
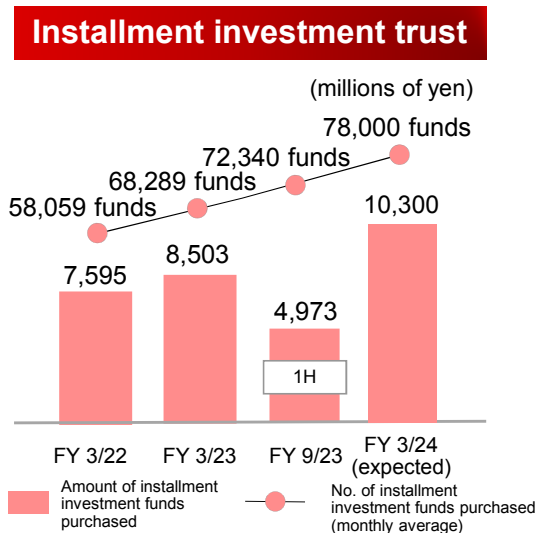
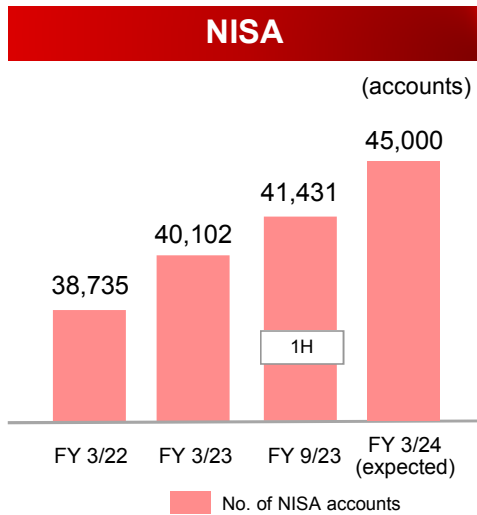
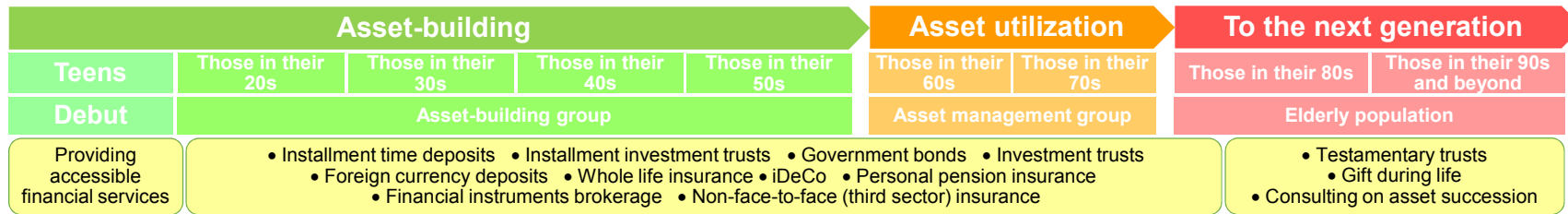


Strategy to Enhance Loan Income and Fees and Commissions (Depository Assets)

Evolve face-to-face and non-face-to-face sales to establish a stock business

Provide optimal services according to each customer's "life stage"

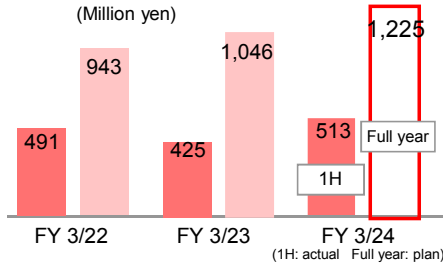
- Expand the base of the asset-building group by strengthening promotion of the new "NISA" system
- Appropriately apply face-to-face and non-face-to-face sales to customers of different age groups, create opportunities for proposals regarding depository assets, and acquire new customers to **smooth depository assets in the long term**
- Make the Bank's "consulting sales" services more known to customers and strengthen the flow of services at the stages where customers want to increase and maintain their assets



Provide optimal solutions to customers' diverse management issues and needs and increase non-interest income

Increased corporate solutions fees

Structured finance-related fees

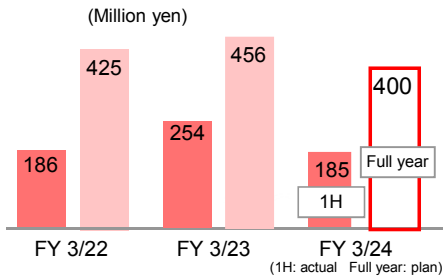


513 million yen

(Results as of September 30, 2023)

◇ Provide financing methods in line with customers' needs, and engage in PPP/PFI project financing

M&A fees

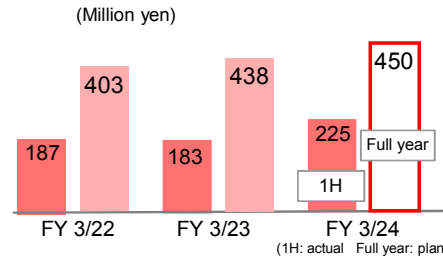


185 million yen

(Results as of September 30, 2023)

◇ Support companies in resolving business succession issues and further growth strategies with M&A operations

Business matching fees



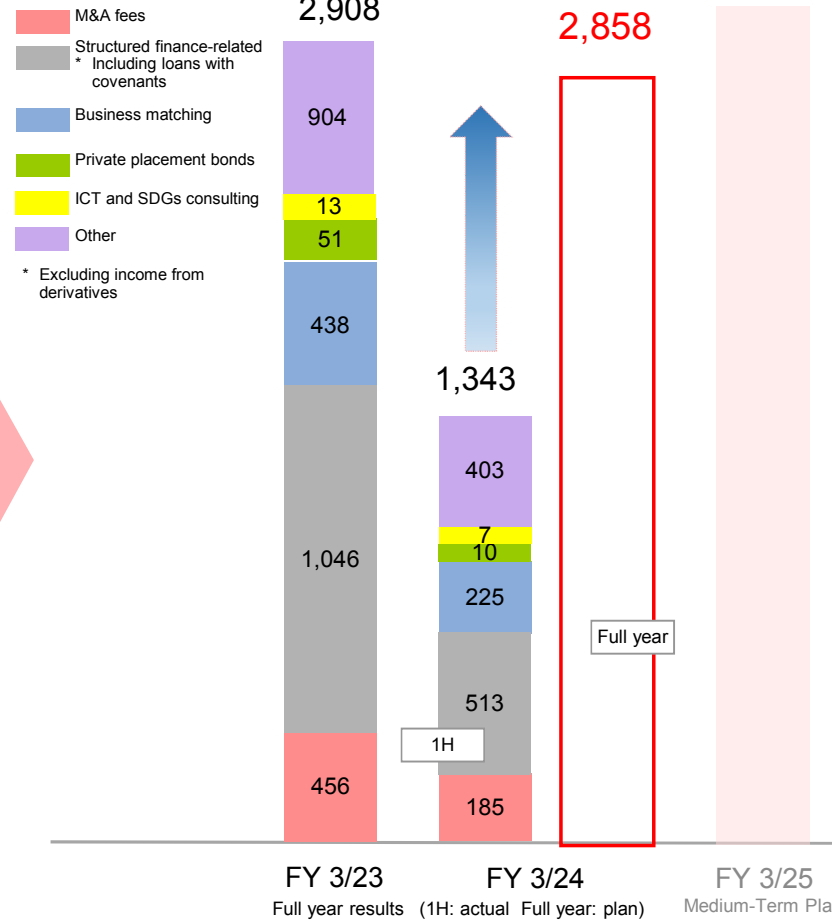
225 million yen

(Results as of September 30, 2023)

◇ Facilitate business matching based on current trends such as active use of construction benchmarking for business expansion, decarbonization, and digital transformation

Results and plan of corporate solutions fees

(Million yen)



Examples of initiatives that demonstrate the Bank's consulting capabilities — promotion of structured financing

Promotion of project finance for PFI business

- The Bank participated in the first PFI project in 2002, soon after the PFI Law was enacted in 1999
⇒ Long-term relationships with businesses, accumulation of know-how
- Enhanced personnel structure (increased personnel in sales and management teams)
- Diversified support system as Hyakugo Group

- Contribution to regional development and sustainable finance

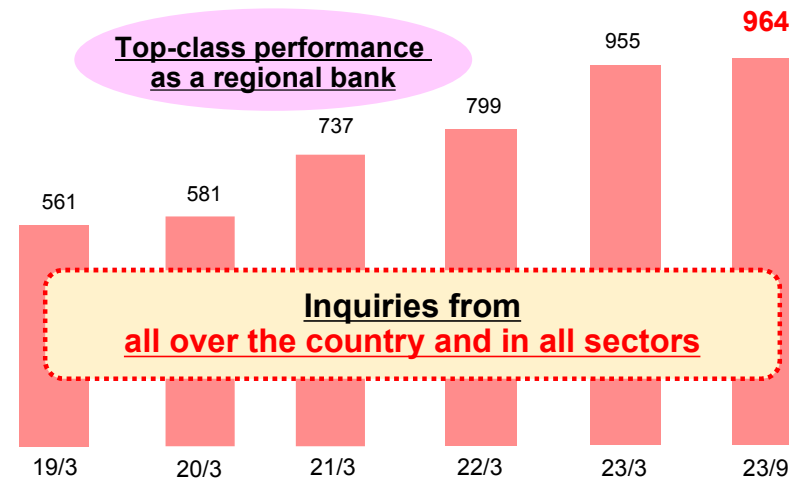
* Recent PFI Initiatives



Project size: approx. 11.6 billion yen

Project for development of Ibaraki City Junior High School Meal Service Center

Cumulative total of PFI loans underwritten (100 million yen)

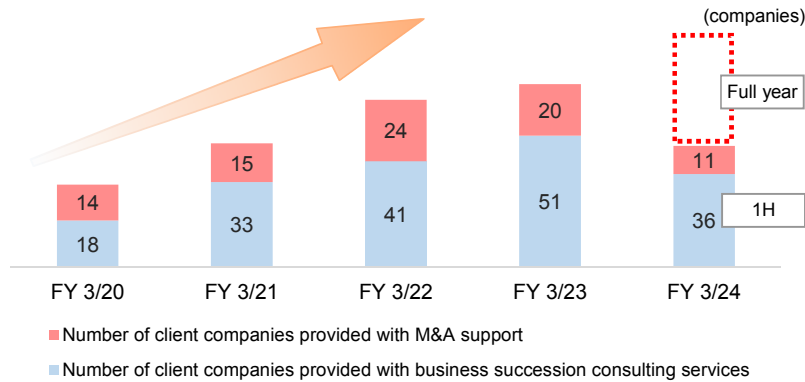


Prefecture	No. of projects	Sector	No. of projects	Cumulative no. of projects participated in
Aichi	22 projects	Accommodations, government buildings, housing	19 projects	65 projects Approx. 96.4 billion yen of which, 36 arranger projects Approx. 52.9 billion yen
Osaka	10 projects	Educational and cultural facilities	14 projects	
Tokyo	8 projects	School meal service centers	11 projects	
Mie	8 projects	Sports and health facilities	7 projects	
Kanagawa	5 projects	Resource utilization and water treatment plants	7 projects	
Shizuoka and elsewhere	12 projects	Other (funeral halls, concession projects, etc.)	7 projects	

Enhance the scheme to support business succession as part of the Bank's commitment to sustainable community development, and increase earnings also

Support for business succession

Number of consultations on business succession and M&A support



Business succession and M&A seminar

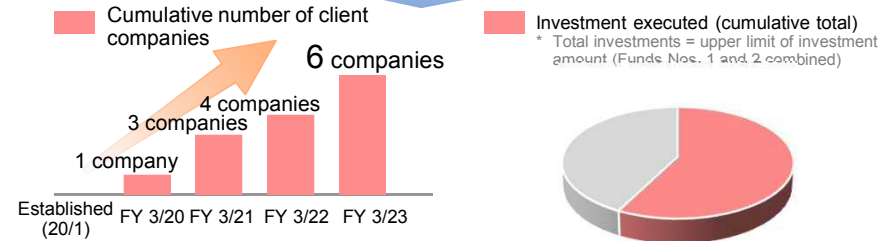


- The Bank held an in-person seminar on June 7, 2023, in response to the waning COVID-19 situation
- According to the participants' questionnaire, the seminar "Successes and Cautions in Individual Cases," which was conducted by a M&A specialist from the Bank, was very informative and well received
- The Bank will continue to work on regional development by resolving business succession issues

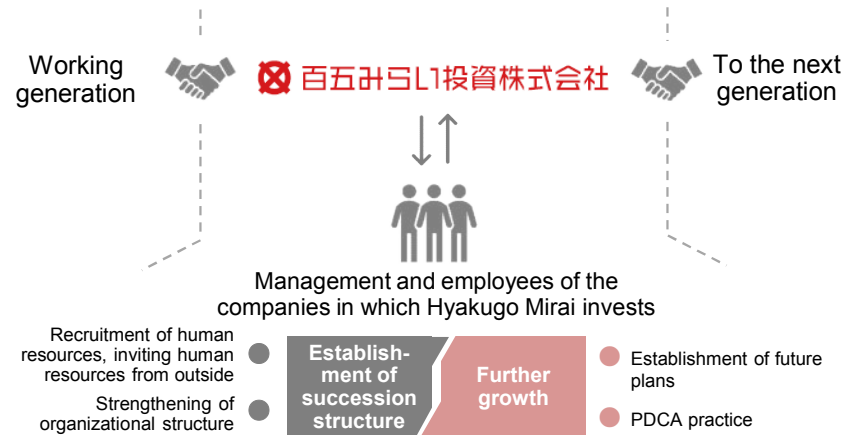
Enhance support through Hyakugo Mirai Investment Company

Management of business succession funds (AIDMA Nos. 1 & 2, fund of 3 billion yen each)

The Bank achieved investment target of 2 companies per year, and is in the process of finding more companies to invest in.



Hands-on support through joint management

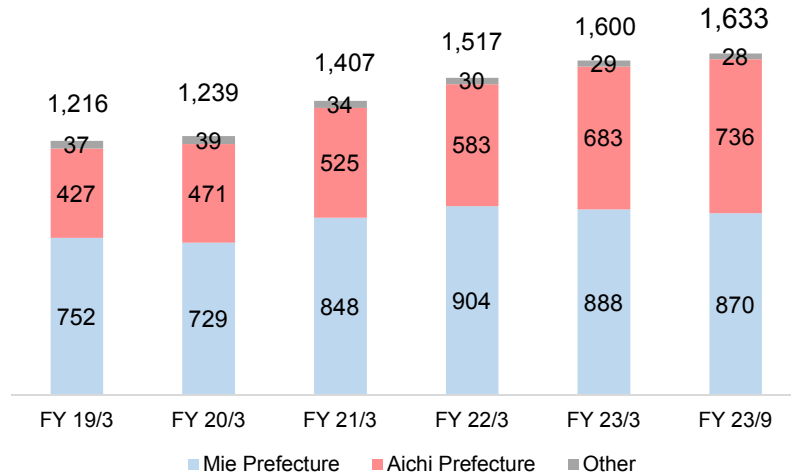


Enhance the sustainability of the region by continuing to strengthen its support for medical and welfare services, which are an important part of the region's infrastructure

Active support for needs including capital investment

Changes in lending to the health and welfare sectors

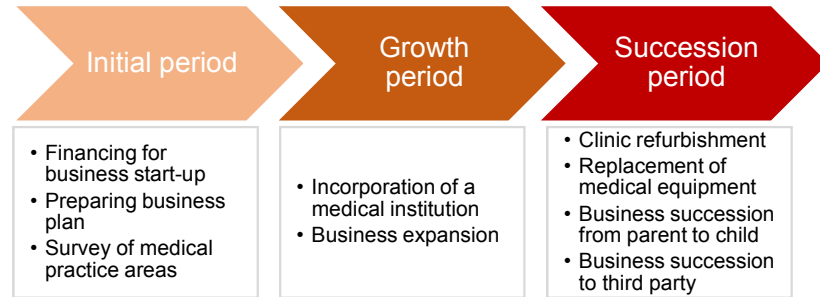
(100 million yen)



- The Bank boasts the largest loan balance among regional financial institutions headquartered in the three Tokai prefectures (Aichi, Gifu, and Mie)
- The Bank has had dedicated health and welfare officers for over 40 years, and will continue to strengthen support for business partners by utilizing accumulated data and business partners

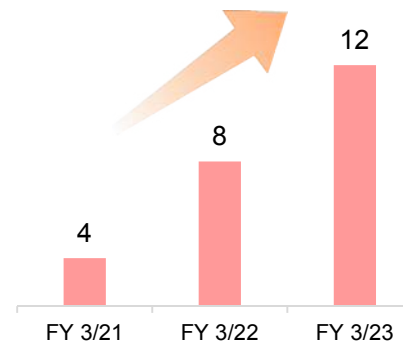
Consulting services to medical institutions

Building a support system to meet customer needs from business start-up to succession



Of the above, the need for third-party succession due to the absence of successors is increasing markedly

Status of support (no. of third-party successions)



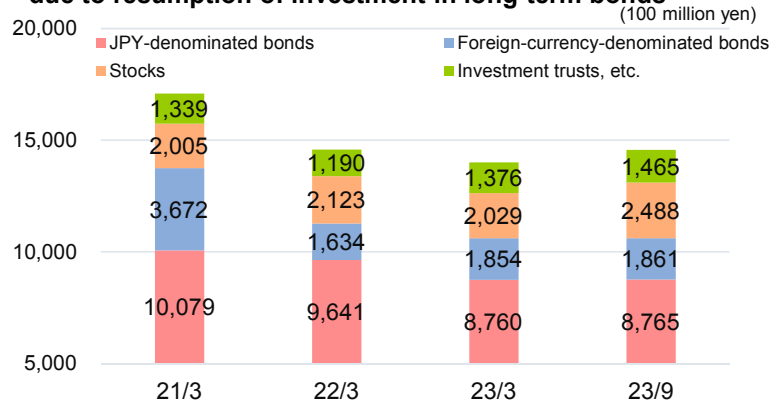
Support effectiveness (client feedback)

- [Medical practitioners who transfer their clinics]
- I was in trouble because I had no successor, but the third-party succession system allowed me to protect the jobs of my employees and the practice of my existing patients
 - I am glad that my clinic, which I have cherished for so many years, will continue and remain in the community
- [Medical practitioners who take over clinics]
- I was able to keep my initial investment low
 - The clinic has existing patients, making it easier to forecast sales

Resume investment in long-term bonds at a gradual pace following the monetary policy correction. The Bank invests mainly in floating-rate bonds, taking into account interest rate hikes in foreign currency-denominated bonds

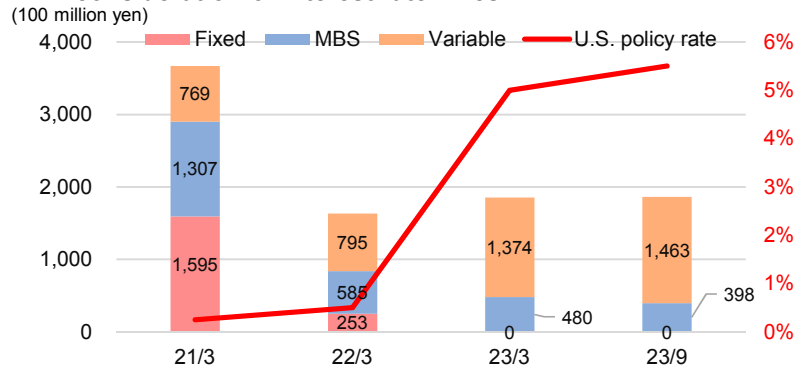
Changes in securities portfolio

Outstanding balance of yen-denominated bonds bottomed out due to resumption of investment in long-term bonds



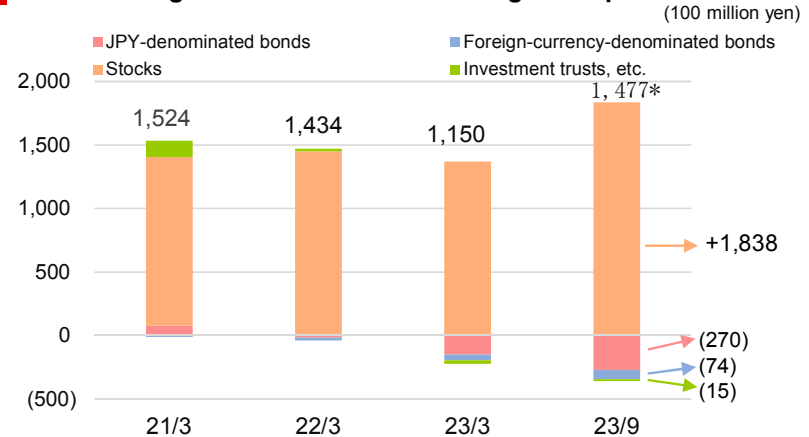
Changes in foreign-currency-denominated bonds

Reorganized the portfolio with a focus on floating rate bonds in consideration of interest rate hikes



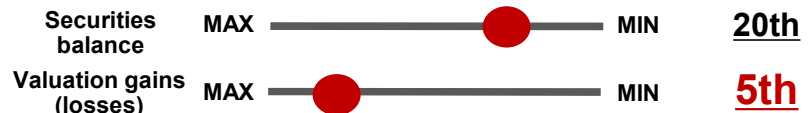
Valuation gains (losses) on securities

Unrealized gains increased due to rising stock prices



* 153.0 billion yen of valuation gains after taking hedging into account

Ranking of Hyakugo Bank among 32 regional banks with over ¥1 trillion in securities outstanding



* Figures announced by each bank and compiled by the Bank (as of September 30, 2023). Valuation gains (losses) are before taking hedging into account

Interest rate risk is contained

	Yen bonds	Foreign bonds
Impact on valuation gains (losses) if interest rates rise 10 basis points in parallel (after taking hedging into account)	(51)	(2)

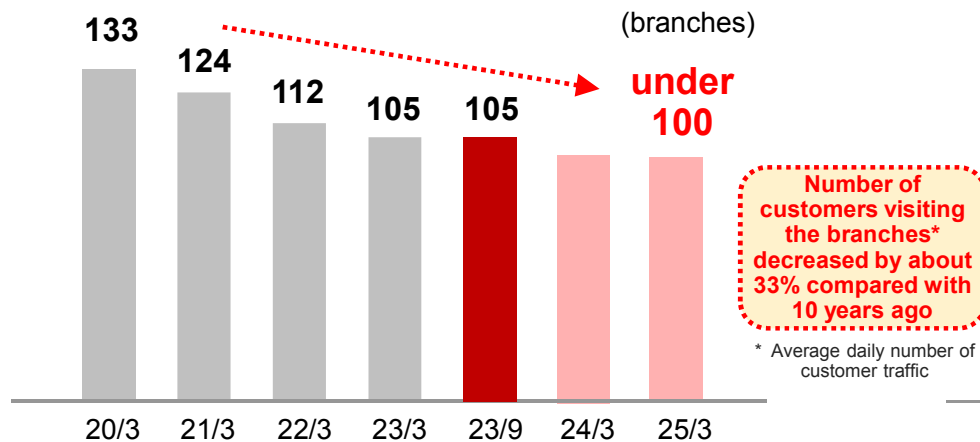
*As of September 30, 2023. Impacts on credit risk and foreign exchange, associated with rising interest rates, are not taken into account

Aim to build an optimal sales structure by developing a channel strategy that captures the changing needs of customers

Optimize the branch and ATM network

Consolidation of branches through branch-in-branch method

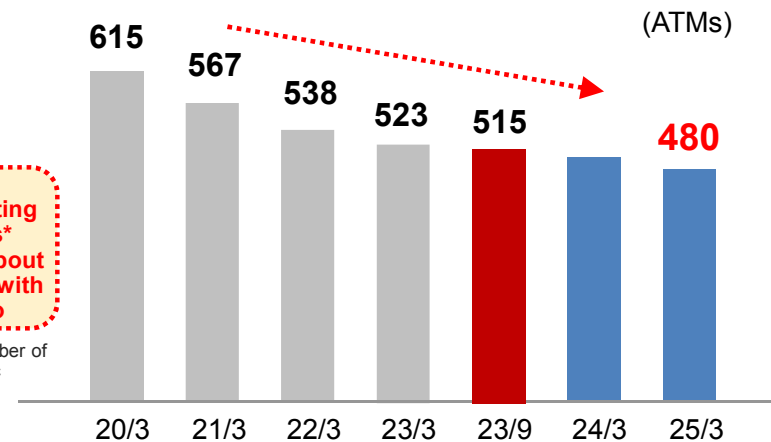
Plan Aim to reduce number of branches to less than **100** over the three years of the Medium-term Management Plan



As the non-face-to-face channel has become usual practice, the Bank seeks to reorganize its branches with a view to the future of banking branches

Review of ATMs

Plan Aim to reduce number of ATMs by **10%** over the three years of the Medium-term Management Plan



Consider the operating status of each ATM and optimize the number of ATMs to secure both convenience and cost reduction

Establish alternative customer contact channels to in-store customer service

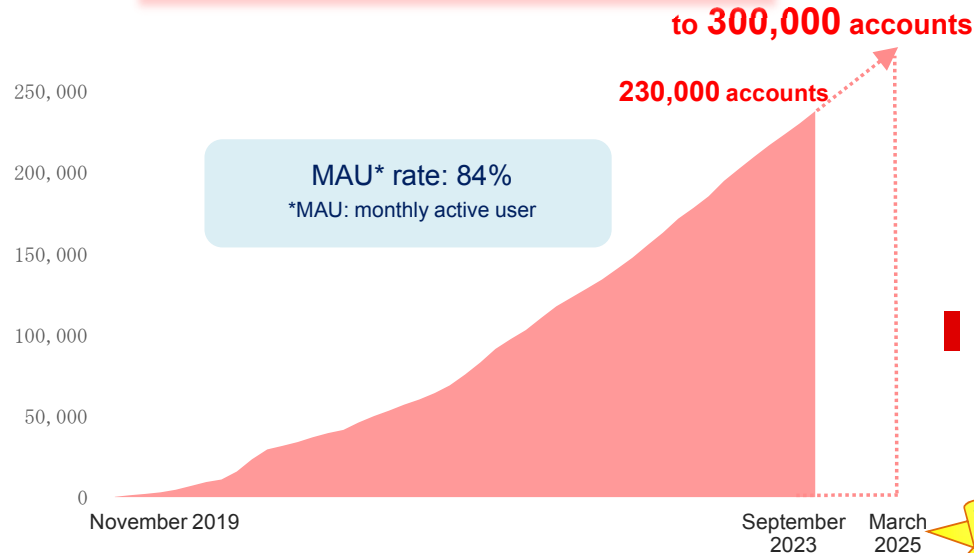
Smartphone banking

Changes in number of passbook-less accounts

Target of Medium-term Management Plan

300,000 accounts covering about half of household accounts

* Household accounts are accounts with payroll transfers and pension payments



SDGs
Reduction of paper resource use



Digitization
Increased convenience

Use of smartphone banking

In-app questionnaire



The Bank started using it as a new tool to identify and collect customer needs

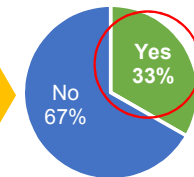
<Reference>

Conducted from August 23 to September 10:

approx. 8,000 users responded

"May Hyakugo Bank provide you with information about NISA?"

30% of respondents answered "Yes"



External sales of app functions

The Bank began **selling the application** to domestic financial institutions through BIPROGY Inc.

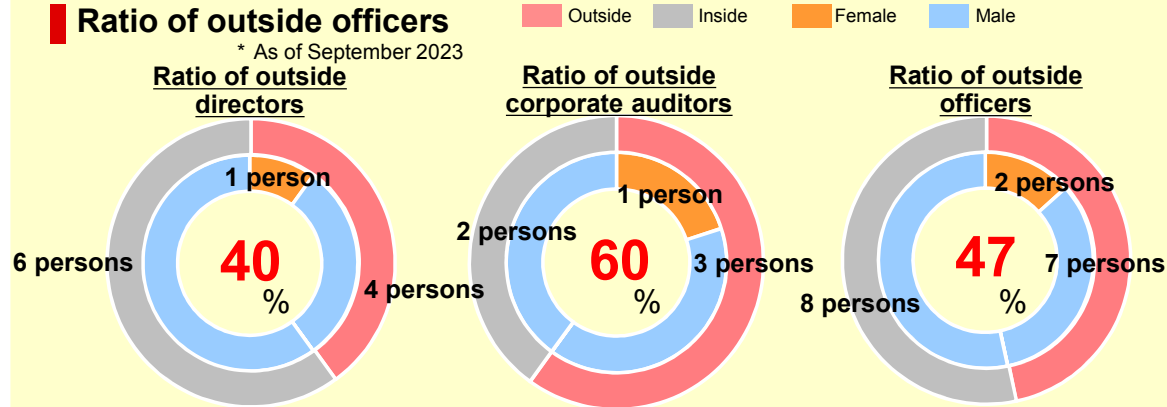
<p>Service-based</p> <p>Kyoto Chuo Shinkin Bank decided to adopt it</p>	<p>BIPROGY builds a new banking application based on "Hyakugo Bank Smartphone Banking" and provides it to financial institutions</p>
<p>In-house development and operation type</p> <p>The Bank of Saga decided to adopt it</p>	<p>The Bank provides the program source code for "Hyakugo Bank Smartphone Banking" to financial institutions, who will develop their own banking applications</p>

Strengthen corporate governance to ensure the Bank's sustainable growth and enhance its corporate value over the medium to long term

Appointment and diversification of outside officers

Ratio of outside officers

* As of September 2023



[Future policy]

The Bank will make further efforts to appoint and diversify individuals who meet the independence requirements and who can contribute to the Bank's management

* Seven outside officers are all independent

Enhance governance through appropriate involvement and advice from outside officers

Corporate Governance Committee

(non-mandatory nomination/compensation committee)

Chair is elected from among **outside directors**

Title	No. of persons
Outside directors	4
Inside directors (representative director)	2
Total	6

* No. of officers as of September 2023

Decision-making of Board of Directors

for higher **transparency**

for higher **objectivity**

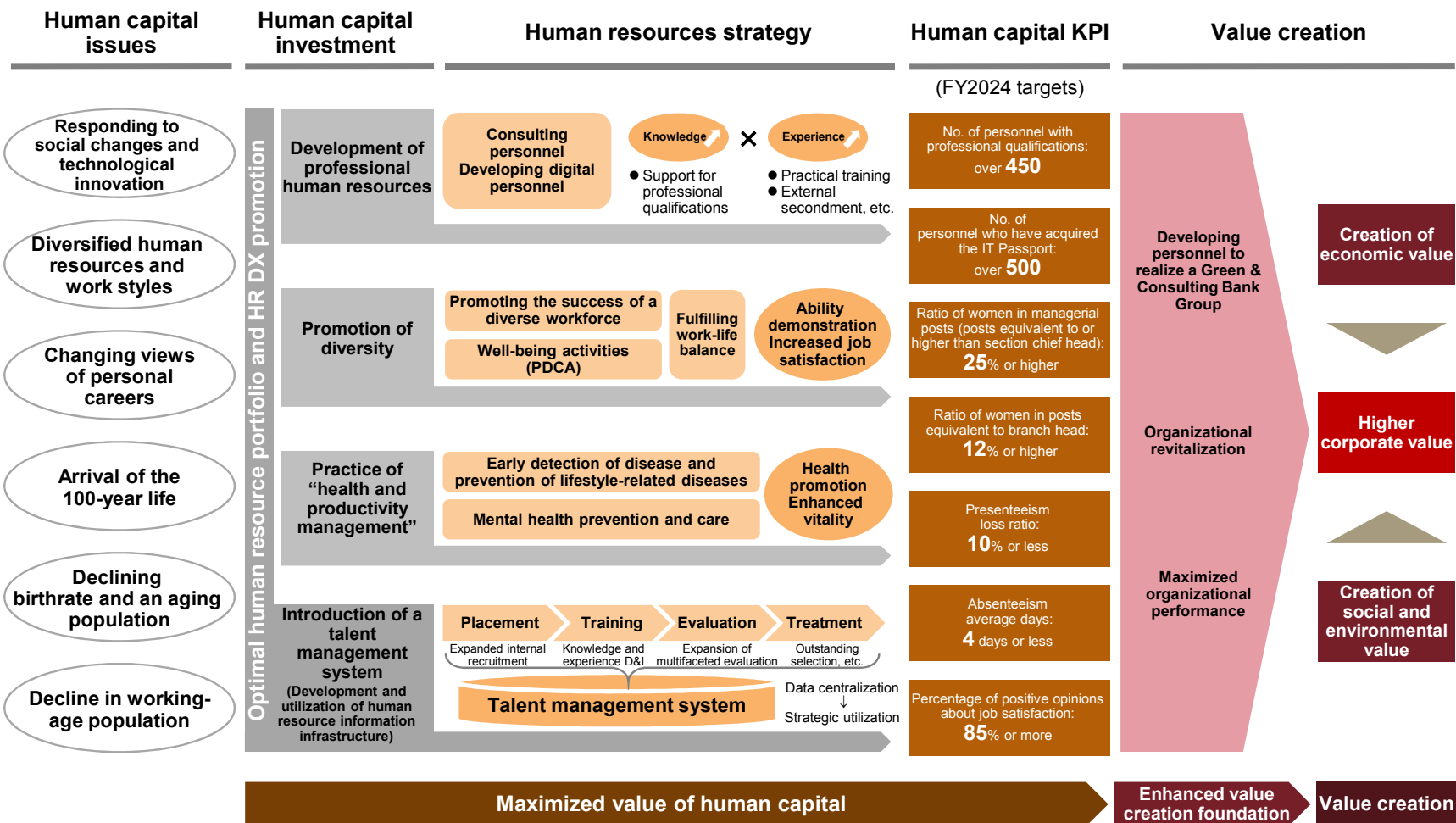
[Functions]

Providing advice on the following matters to Board of Directors

- Matters concerning candidates for directors and corporate auditors
- Matters concerning compensations, etc. to directors
- Other significant matters concerning management (such as fostering of successors and initiatives for diversity)

Human Resource Strategy and Diversity Strategy

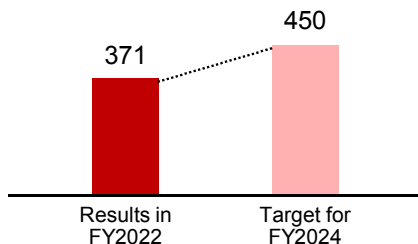
Promote human resource strategy and initiatives to strengthen engagement to enhance human capital



Key measurable indicators and targets related to investment in human capital and human resource strategy

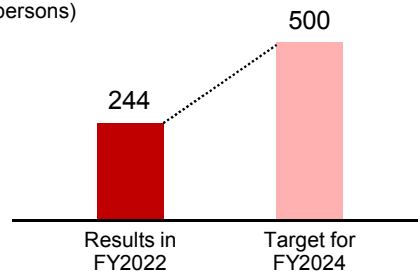
**No. of personnel with professional qualifications
(7 qualifications including FP1)**

(persons)



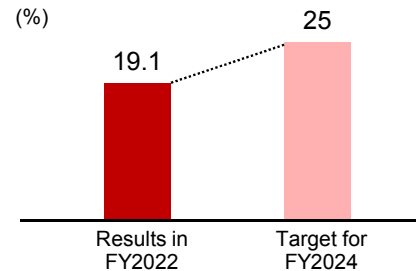
No. of those who have acquired the IT Passport

(persons)



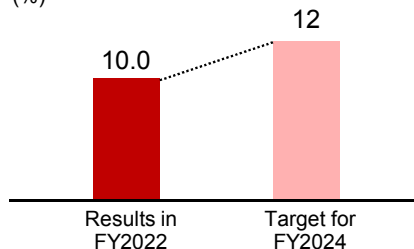
**Ratio of women in managerial posts (posts
equivalent to or higher than section chief head)**

(%)



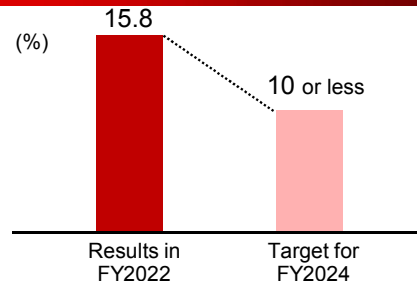
**Ratio of women in posts equivalent to
branch head**

(%)



Presenteeism loss ratio *1

(%)



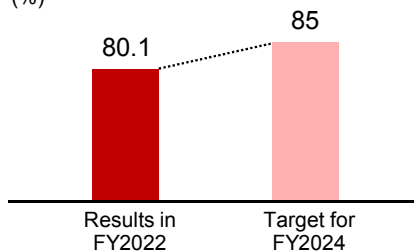
Absenteeism average days *2

(days)



**Percentage of positive opinions about
job satisfaction**

(%)



*1 Presenteeism loss ratio: Percentage of work performance reduced due to illness or injury

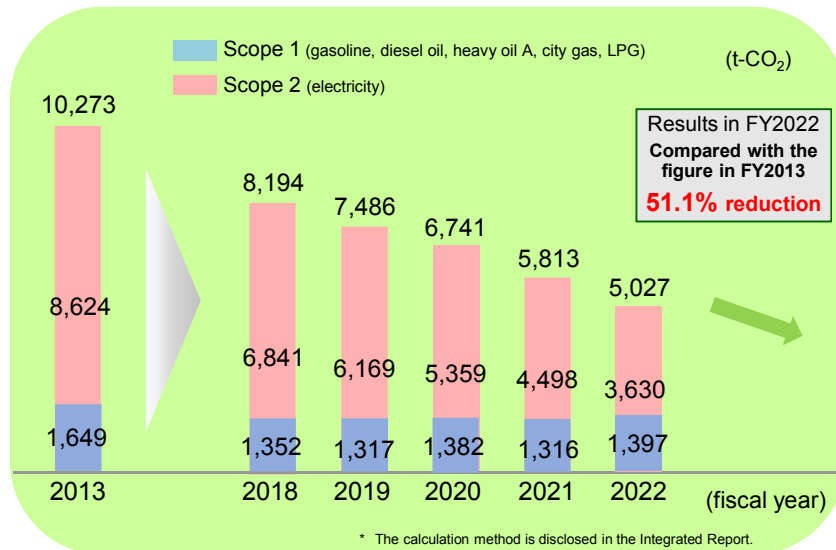
*2 Absenteeism average days: Number of days employees are absent from work due to illness, injury, or other physical condition (including paid leave, and calculated excluding those with no days of absence)



Greenhouse gas (GHG) emissions have been steadily declining. The Bank has also disclosed information in line with the TCFD recommendations

Greenhouse gas (GHG) emissions

Changes in greenhouse gas (GHG) emissions



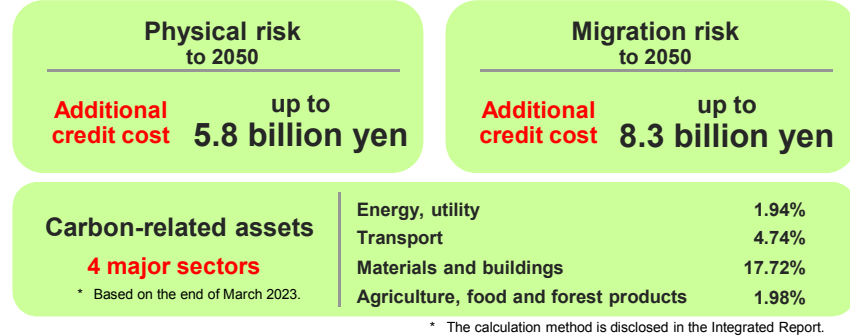
Scope 3 measurement and calculation (disclosed July 2023)

- The Bank started measuring and calculating GHG emissions (Scope 3) in its supply chain
- It will consider increasing measurement items and improving measurement methods

Category 6 (Business Travel)	Category 7 (Employee Commuting)	Category 15 (Investments)
389 t-CO ₂	1,823 t-CO ₂	5,715,383 t-CO ₂

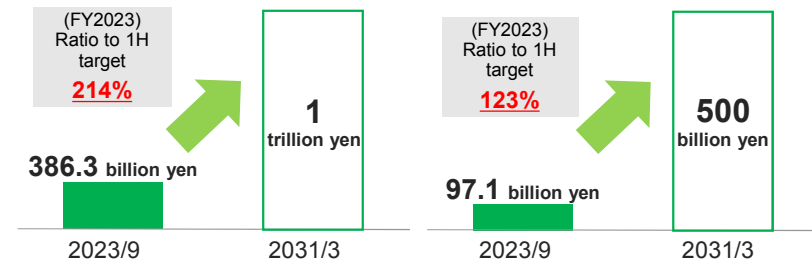
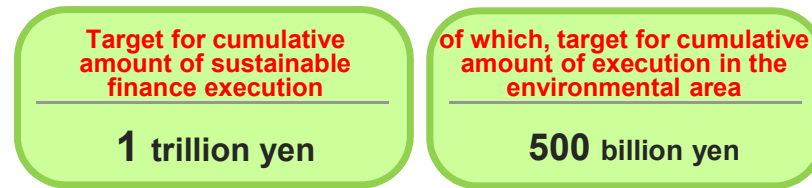
* The calculation method is disclosed in the Integrated Report.

Scenario analysis and carbon-related assets (disclosed July 2023)



Sustainable finance

Sustainable finance* Targets and results



* Investments and loans that contribute to the realization of a sustainable society by resolving social and environmental issues, etc.

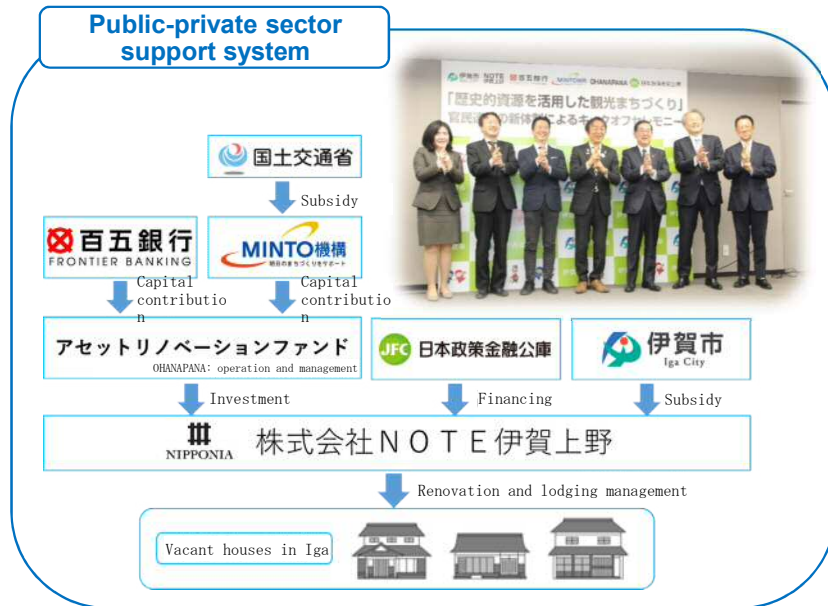
Contributes to tourism town development through public-private partnerships. The Bank is also engaged in financial and economic education and sports promotion

Initiatives for tourism town development

Utilization of historical buildings in Iga-Ueno Castle Town



Public-private sector support system



Initiatives for financial and economic education

Initiatives for financial and economic education

- Mie regional competition of “Economics Koshien,” a national high school financial and economic quiz championship



Initiatives for sports promotion



- The Bank sponsors and supports Shunsuke Togami, a native of Tsu City who has competed in numerous international tournaments, including the All Japan Table Tennis Championships

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