

Contribution to Achievement of SDGs

To help achieve the “sustainable development goals (SDGs)” adopted by the United Nations, Hirogin Group will continue to contribute to solving social and environmental issues of the region and achieving sustainable growth through provision of high value-added regional comprehensive services and by coordinating efforts by group members.

Evaluations by external institutions

S&P/JPX Carbon Efficient Index



Identifies companies that fully disclose environmental information and have high levels of carbon efficiency.

MSCI ESG rating (As of January 2021)

BBB

Rating by MSCI of corporate ESG risk and related risk management on a scale from AAA to CCC

Hirogin Group SDGs Declaration

We want to make our region better. We want to pave the way for a better future. All the employees of the Group will work together to take on issues one by one and contribute to the sustainable growth of the region.



We will put our Management Policy into practice by stepping up efforts to address priority matters (materiality) of our SDGs, which will contribute to

Specific measures in the Mid-Term Management Plan

Region → See pages 23 and 43 for details

Efforts to revitalize local communities and economy



- Continuous efforts in regional development projects (participation in PPP/PFI projects)
- Resolution of local issues and support for development of industry (initiatives to resolve fundamental issues in regional economy)
- Creation of new industries through strengthening equity business (support for venture development and business rehabilitation)



Aging society → See page 51 for details

Provision of regional comprehensive services suited to aging society



- Strengthening initiatives toward business succession and inheritance consultation business by utilizing equity investment, etc.
- Total support for the life plans of all household members through household management and further enhancement on banking-securities collaboration strategy for stable asset formation support for customers
- Building channels that fuse the physical and the digital



Human rights → See page 64 for details

Promotion of diversity and inclusion: Building a community where local customers can live in peace



- Creating an organization in which all employees of the Group can demonstrate their abilities and expertise, be highly motivated and engaged, and work actively
- Reforming systems to achieve diverse work styles
- Enhancing measures to counter financial crimes such as money laundering and to eliminate any relationships with antisocial organization



Internal training and preparation and distribution of handbooks on SDGs

In addition to training employees to learn more about the SDGs, helping to raise awareness of SDGs within the community through distribution of handbooks to customers



Raising awareness of SDGs within the community

Promoting and supporting local SDGs-related initiatives

Launch of Hirogin SDGs support services

Checking on the status of customers' SDGs initiatives, providing feedback, and publishing information on their initiatives if so requested.

Support for formulation of SDGs Declaration by customers

Number of cases handled
(From January 2020 to March 2021)
263 cases



better sustainability at the Hirogin Group and local communities as well as to the enhancement of corporate value over the medium and long term.

Environment

➔ See page 19 for details

Response to climate change and global warming



- Reduction of climate change risks through renewable energy businesses to bring about a decarbonized society in line with our investment and financing policies
- Appropriate disclosure relating to perceived climate change risks and opportunities, and strengthening of risk management framework



Management Policy (Management Vision + Code of Conduct)

Management Vision

Contribute to the creation of a prosperous future for the regional community as a trusted Regional Comprehensive Services Group by closely offering thorough support to customers.



Code of Conduct

Hirogin Holdings will endeavor to create shared value with the regional community and realize a sustainable society, based on five items of the Code of Conduct.

1. Contributing to local communities

Work in step with regional communities to actively contribute to their development

2. Contributing to customers

Think and act from the customers' points of view to contribute to their prosperous life and business development

3. Enhancing corporate value

Continuously enhance the Company's corporate value

4. Increased job satisfaction

Create a cheerful, rewarding corporate group where everyone works healthfully

5. Compliance

Exercise a high level of compliance

Response to Climate Change and Global Warming



Hirogin Group has established Environmental Protection Activities in its Corporate Behavior Charter, and has positioned environmental protection as the foundation of management. In addition, the Company has announced that it will actively pursue environmental protection activities in the Environmental Declaration and the Hirogin Group SDGs Declaration.

We will continue to contribute to the realization of a sustainable society while working to reduce climate change risks by working to reduce the environmental impact on local communities and engaging in environmental protection activities of our home area including the Seto Inland Sea as well as by supporting customers' businesses and initiatives to conserve the environment.

Formulating Policy on Investment and Financing for Environmental and Social Solutions

As environmental and social issues have surfaced in recent years, the financial sector likewise has come under pressure to contribute to the resolution of issues through its main businesses.

In order to realize the Sustainable Development Goals (SDGs) adopted by the United Nations, the Group will aggressively engage in risk-taking in our four local prefectures of Okayama, Yamaguchi, Ehime, and, most of all, Hiroshima, based on awareness of our role as a financial institution that supports the regional economy. At the same time, by providing the highest quality financial services

through our investment and financing business, we would like to contribute to the resolution of regional environmental and social issues as well as to the regional sustainable development.

Based on this thinking, the Group has formulated the Policy on Investment and Financing for Environmental and Social Solutions, clearly defining which businesses are to be prohibited, in principle, and which businesses are to be proactively supported, in order to solve environmental and social issues.

Prohibited businesses in principle	<ol style="list-style-type: none"> 1. Those involved in the development and manufacture of inhumane weapons such as nuclear weapons and cluster bombs 2. Those involved in human trafficking and other violations of human rights or forced labor 3. New construction of coal-fired power plants <p>* Careful consideration may be given to coal-fired power plant initiatives on an exceptional basis, accounting for matters such as the background and distinguishing features of each project, based on each country's energy policies and circumstances and international guidelines, such as the OECD Arrangement on Officially Supported Export Credits. This prohibition also does not apply in unavoidable cases—for example, when responding to disasters or other emergencies. In addition, support is provided for advanced eco-friendly technologies such as carbon capture and storage as initiatives to help reduce greenhouse gas emissions.</p>
Projects to be proactively supported	<ol style="list-style-type: none"> 1. Initiatives to reduce climate change risks, including renewable energy projects intended to realize a decarbonized society 2. Initiatives to protect biodiversity, including conservation of forestry resources and endangered species

Response to the Task Force on Climate-related Financial Disclosures (TCFD)

Recently, the Company and Hiroshima Bank agreed to the Task Force on Climate-related Financial Disclosures (TCFD)*, amid an international emphasis on responding to social changes caused by climate change. We will continue to strengthen our response to climate change, and will enhance our disclosures on climate-related risks and opportunities based on TCFD recommendations.



* Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In December 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) in response to the intentions of the G20 Finance Ministers and Central Bank Governors. In June 2017, TCFD published the final report outlining recommendations for encouraging voluntary disclosure by companies. The recommendations are not only for the financial sector alone, but for all firms.

Governance	<p>[Implemented] At the Board of Directors meetings etc., the status of responses to TCFD are reviewed and future measures are considered.</p> <p>[Implemented] In formulating management plans, we use "climate change risks" as a possible risk scenario, and assess the degree of impact and likelihood from both quantitative and qualitative perspectives.</p>
Strategy	<p>[Implemented] The Hirogin Group SDGs Declaration stipulates "the environment (measures to deal with global warming and climate change)" as a priority (materiality) of our SDGs.</p> <p>[Implemented] The Hirogin Group is working to reduce climate change risks through the provision of high-value-added financial services, including eco-friendly financing products.</p>
Risk Management	<p>[Planned] The Hirogin Group plans to identify and analyze the effects of risk of climate change-related transition and physical risks.</p> <p>[Under review] The Hirogin Group considers the establishment of a management system within the comprehensive risk management framework, etc.</p>
Indicators and Targets	<p>[Under review] Considering the establishment of indicators and goals for realizing a decarbonized society.</p>

Efforts to combat climate change by exerting financial intermediary functions

Promotion of eco-friendly finance

Hiroshima Bank actively provides financial support to companies and projects that contribute to measures for climate change through its eco-friendly

financing system, aiming to realize a low-carbon society and to transition to a decarbonized society, including the utilization of renewable energy.

Hirogin Solar Power Loan

System features

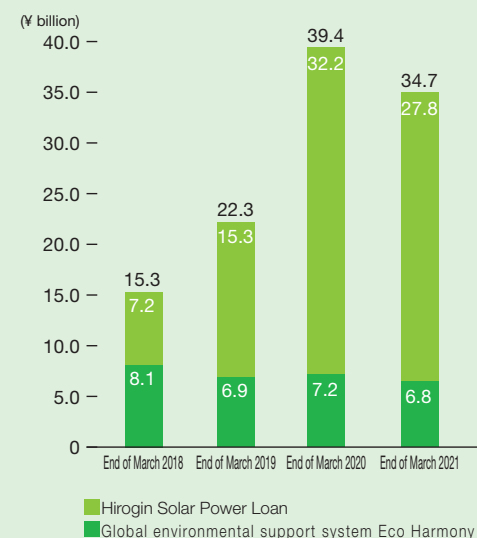
- ◎ Available for users of the Feed-in Tariff Scheme for Renewable Energy
- ◎ Applicable up to 15 years of loan period

Global environmental support system Eco Harmony

System features

- ◎ Available for companies that have obtained ISO 14001 certification or Eco-Action 21 certification, aiming to reduce the environmental load
- ◎ Available for purchases of low-emission vehicles, installation of clean energy equipment, and acquisition of emission credits

Track records of eco-friendly finance



The new Head Office building: Environmental and safety/disaster prevention performance

At the Head Office building, we have put in place the highest level of environmental functions and safety and disaster prevention capabilities, by integrating the state-of-the-art environmental and disaster prevention technologies, to provide a comfortable and reassuring space for customers

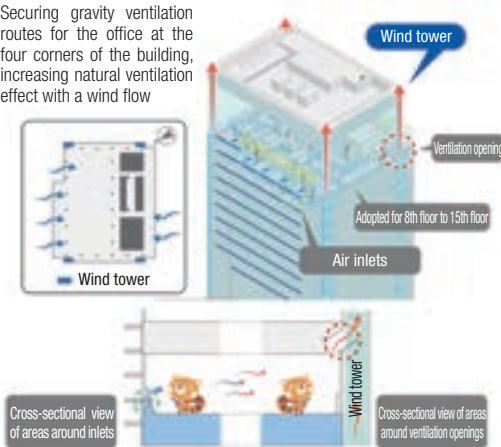
and staff at work. We have also build a thorough business continuity plan (BCP) to ensure our continued operation as a hub of the regional economy even in the event of disasters.



Heat

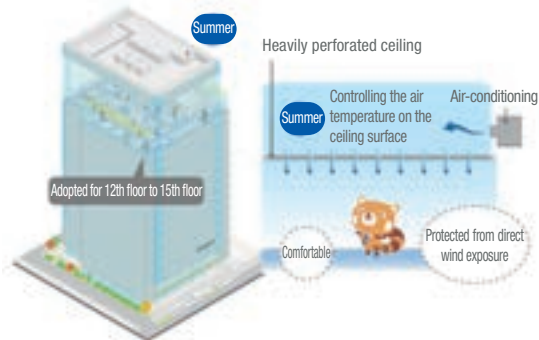
1 Wind tower (Ecovoid/gravity ventilation)

Securing gravity ventilation routes for the office at the four corners of the building, increasing natural ventilation effect with a wind flow



2 Pneumatic radiant air conditioning

Controlling the temperature of the ceiling surface to provide a comfortable air-conditioning environment and achieve energy conservation

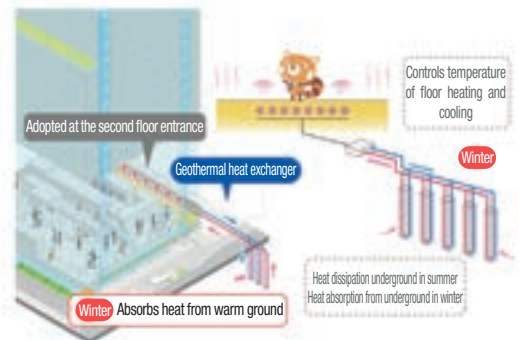


3 Solar radiation shading with eaves

Installing eaves that are finely spaced on the building exterior to shield the sunlight while securing a view

4 Geothermal heat pump

Burying underground heat utilization piping to use for air-conditioning the entrance

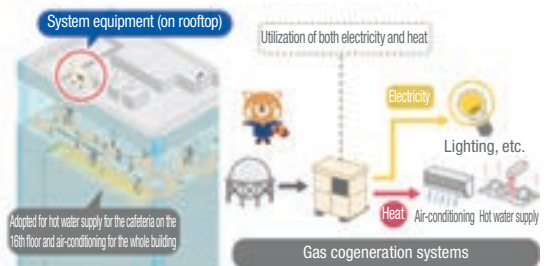


5 BEMS (Building Energy Management System)

Visualization of energy consumption, using a monitor

6 Compact gas cogeneration systems

Power generation using city gas as fuel and use of heat energy for air-conditioning and hot-water supply



Water

1 Use of rainwater

Storing rainwater underground at the parking lot building and reuse for miscellaneous purposes

Light

1 LED lighting

Adopting LED lighting for the whole building

Heat island mitigation

1 Terrace greenery

Greening the lower part and the second-floor terrace

2 Mist spraying

Spraying dry mist from the pilot area facing the Rijo Street

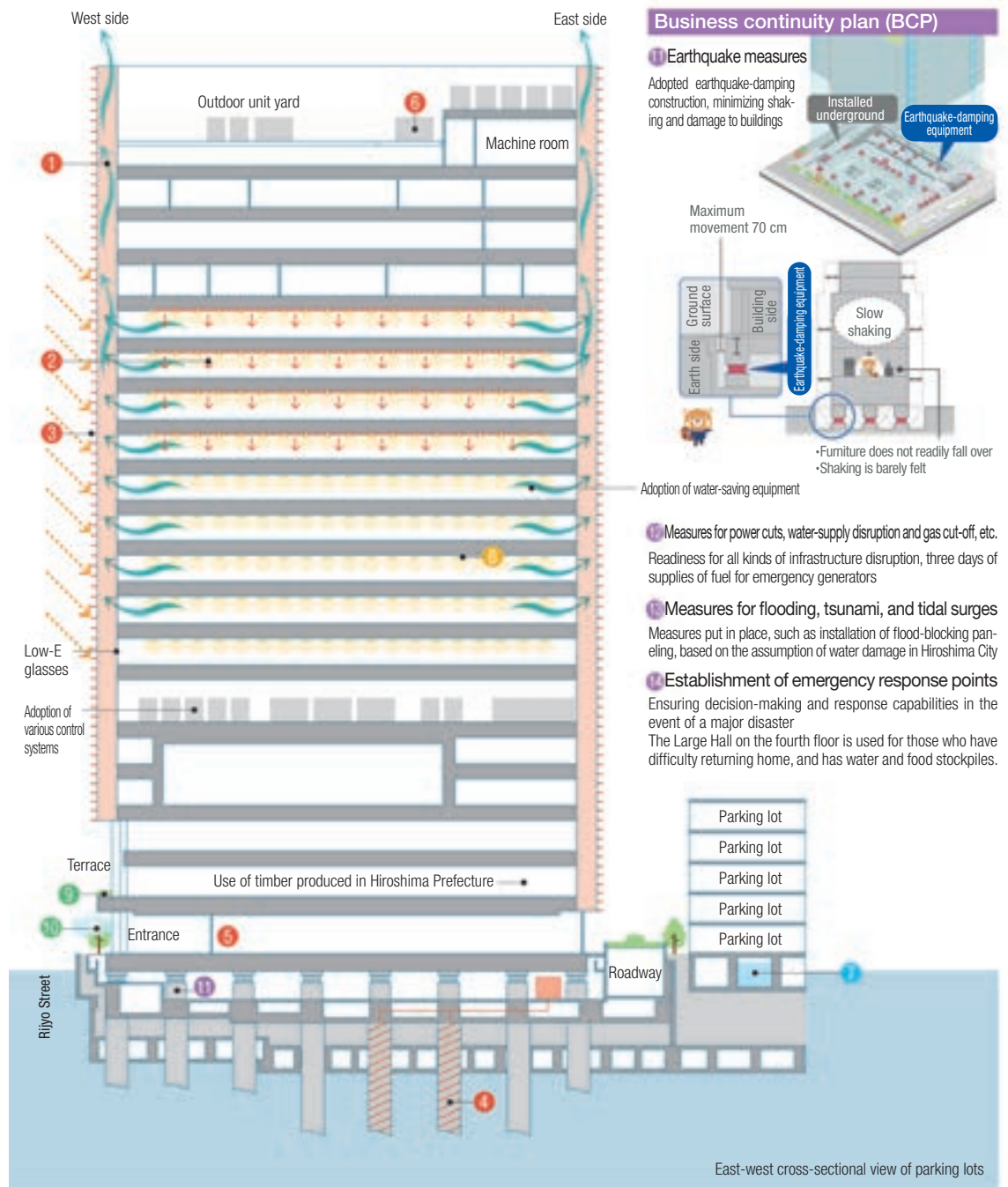


Environment-friendly measures

At the new Head Office building, we are proactively reducing environmental load by thoroughly implementing measures on heat, water, lighting, and the heat island effect, utilizing a full range of cutting-edge technologies. Our designs are equivalent of an S grade, the highest grade under CASBEE Hiroshima (Comprehensive Assessment System for Built Environment Efficiency).

Expansion and effectiveness of disaster prevention functions

We have thorough BCP measures in place in the event of emergency in preparation for disasters such as earthquakes, power outages, water supply disruption, and flooding, in order to ensure continued operation of business even in times of major disasters. Additionally, the Large Hall on the fourth floor is also equipped with functions to be used as temporary evacuation facilities for those who have difficulty returning home in the event of major disasters.



Initiatives to Revitalize Local Communities and Economy



The Company supports SDGs efforts of its business partners in order to make the region a better place and to lead to sustainable growth. We actively promote and support SDGs efforts of local companies, because SDGs initiatives, which are becoming a social requirement for companies,

lead to business expansion, innovation, and other opportunities, and are also effective in securing human resources. We will realize sustainable growth for both the region and the Hirogin Group by resolving ESG issues through our business activities.

Products that support sustainability measures at local companies

Handling of Hirogin SDGs Support Services

Hiroshima Bank considers raising awareness of the SDGs among local businesses and helping local companies bolster their initiatives in achieving the SDGs to be one of the missions of a regional financial institution. As such, in January 2020, we began providing a service for corporate customers

to promote and support the initiatives taken by business partners to achieve the SDGs.

Regarding the issues and needs identified in the course of using the service, we will utilize solutions provided by the Hirogin Group companies to support efforts to improve initiatives towards the SDGs.

Handling started in January 2020 – 263 cases handled as of the end of March 2021

Hirogin SDGs Support Services

Features

1. Provision of feedback sheet

The status of initiatives being taken is checked and a “feedback sheet” is provided to customers to understand the current status and use it as a reference in their future efforts to improve their initiatives.

2. Support for formulation of SDGs Declaration

Customers’ own dedicated “SDGs Declaration” will be formulated based on the status of initiatives taken and contribution made to the SDGs through their core businesses, and data available for posting on websites will be provided.

Example of feedback sheet



Example of SDGs Declaration

Outline of the service

Customers eligible for the service	Corporate customers who have deposit transactions with Hiroshima Bank
Details of the service	<p>The service ranges from checking the status of initiatives being taken to achieve the SDGs and organizing the items that need to be addressed, to providing support for external PR activities (checking the status of initiatives being taken and organizing the items that need to be addressed) In accordance with the Bank's original check sheet prepared based on “Basic Items Expected by Markets and Society from SDGs Perspectives” published by the Kanto Bureau of Economy, Trade and Industry (METI-Kanto), the status of initiatives being taken will be checked and the results that organize and show the items that need to be addressed will be given back to customers in the form of a dedicated feedback sheet. <small>*Partners in developing check sheet and methodology: Mitsui Sumitomo Insurance Company, Limited and MS&AD Inter-Risk Research & Consulting, Inc.</small> (External PR support) - A dedicated SDGs Declaration will be formulated and provided in the form of data available for posting on websites - Upon request, Hiroshima Bank will issue news releases on initiatives toward the SDGs.</p>

Handling of privately placed bonds (SDGs Type): Community Development Contribution Type and Corporate SDGs PR Type

Through the issuance of these privately placed bonds, Hiroshima Bank will make donations within 0.2% of the issue amount of privately placed bonds with the aim of contributing to local communities, and publicize SDGs efforts of the issuing companies.



Donation ceremony for Community Development Contribution Type privately placed bonds

Facility maintenance company MentecWorld Co., Ltd. donated nursing care equipment to Hachihonmatsu Hospital. Other companies made donations to Hiroshima City Funairi Citizens Hospital, which is struggling to cope with the new coronavirus pandemic, and are working with business partners on activities that contribute to the regional communities.



Example of corporate SDGs PR advertisement

Creation of shared values with regional industries

Hiroshima Open Accelerator 2020

We are working to create new businesses through open innovation that links the management resources of companies in Hiroshima Prefecture with the services of startup companies nationwide. In fiscal 2020, 12 cooperative proposals were adopted.

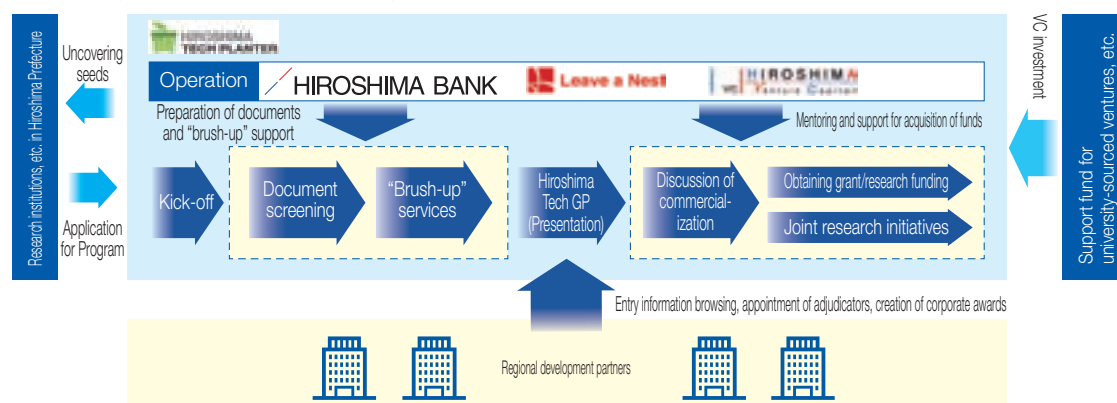
In fiscal 2021, the event was held for the third time, and we began recruiting participating companies in July.



HIROSHIMA TECH PLANTER

HIROSHIMA TECH PLANTER is an acceleration program aimed at uncovering the seeds of research at universities and other institutions and providing an end-to-end support starting from commercialization to growth.

We aim to create new businesses in Hiroshima Prefecture and form an ecosystem that utilizes networks within the region, and thereby contribute to the development of the regional economy.



Environment-conscious office activities

Reduction of the amount of electric power, gas and copy paper used

We are making efforts to reduce the amount of electric power, gas and copy paper used by encouraging use of stairs, duplex printing, and N-up printing.

Room temperature control in summer and winter

We are working to reduce electricity and gas consumption (reduce CO₂ emissions) through controlling room temperatures in summer and winter. Employees are allowed to be dressed comfortably based on their judgment in accordance with the TPO, and heightens their awareness so that they will set temperature for air conditioners in a conservative manner.

■ Amount of electricity used and CO₂ emission (Hiroshima Bank)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Amount of electricity used (thousand kwh)	21,113	19,881	20,371	20,559	18,795	18,490
Amount of CO ₂ emission (t-CO ₂)	15,682	14,400	14,631	14,665	13,096	11,924

Further introduction of environment-conscious low-emission car

Hiroshima Bank is working to reduce CO₂ emissions, as it aims to increase the proportion of environment-conscious low-emission vehicles (such as electric and hybrid vehicles) to 50% of all business vehicles, by 2030.

Collection of eco-caps (plastic bottle caps)

We started to collect eco-caps in February 2010 for the purpose of recycling them and providing vaccines to children in developing countries.

Environmental protection activities

Activities for protecting forests

In order to preserve the rich nature of our home area and pass it on to future generations, Hiroshima Bank's directors, employees and their families planted a total of 1,500 saplings such as Japanese chestnut, Japanese oaks, beeches and wild cherry trees in *Hirogin no Satoyama* (village

forest) (Akiota-cho, Yamagata-gun, Hiroshima Prefecture; 3.0 ha) over five years from 2010. Furthermore, Hiroshima Bank has maintained the village forest by, for example, removing undergrowth since 2015 to grow the trees planted in the forest.



Investment in Green Bonds

Through investments in Green Bonds, Hiroshima Bank supports companies and individual customers who actively engage in social

contribution activities, and it also actively promotes social contribution activities.

Communication with the region

Contribution to the peace city

We constructed “Inori-no-izumi (fountain of prayer)” in the Hiroshima Peace Memorial Park in November 1964 and presented it to Hiroshima City in order to console the souls of the victims, who passed away while feeling thirsty for water in a town burnt by the atomic bomb, and wish everlasting peace. The fountain of prayer was completely renovated as part of our 140th anniversary business in 2018.

At the new Head Office building, we installed a monument to the atomic-bomb victims as well as a bombed column capital, the remains of former Head Office of Hiroshima Bank, in order to pass down Hiroshima Bank's DNA, which overcame the atomic bomb and continued its business to this day, to all employees of the Group and to continue to get across the message of eternal peace to people in Japan and overseas, as a company based in Hiroshima.

Financial education activities

The Company provides a variety of financial education programs to get younger generations that will bear the future of the region familiar with finance indispensable for people's life.

The Kids Money School for elementary school students provides tours at Hiroshima Bank and lectures about the importance and proper use of money; the Work Experience Programs for junior and senior high school students provide lectures about the financial system, economic conditions, and other matters to give

opportunities for the participants to acquire better financial literacy.

In addition, Hiroshima Bank's directors and employees in charge of various operations visit local universities to provide lectures about such matters as the financial system, financial products, and services of banks and management strategies of Hiroshima Bank to students who are about to enter the world of work.

These visits were cancelled in fiscal 2020 due to the spread of the coronavirus infections, but we will continue these activities in the future.

Welfare activities

The Company gives Christmas presents to children's homes in Hiroshima Prefecture every year from 1994.

Furthermore, we, together with MetLife, Inc., donate money to children's homes, infant homes, and foster parent organizations organized as a

social welfare corporation from 2007, to create an environment where children who will lead the next generation can grow healthily by equally receiving education and participating in communities.

Hiroshima Museum of Art

The Hiroshima Museum of Art was established in November 1978 by Hiroshima Bank in commemoration of the 100th anniversary of its foundation as we move through history together with the region.

In the hope that the museum would bring peace of mind to the people of Hiroshima, the

city once reduced to ruins by the atomic bomb on August 6, 1945, the museum came into being as a magnificent edifice of art on the theme of love and peace of mind.

It was also built to pray for the repose of souls of the victims that laid the foundation of today's Hiroshima and to express wishes for peace.

Support for three Hiroshima-based professional bodies

The Company supports three professional sports and cultural organizations in Hiroshima, the Hiroshima Toyo Carp baseball team, the Sanfrecce Hiroshima (FC) football team, and the Hiroshima Symphony Orchestra. We join hands with local companies to cheer the teams, hold games sponsored by us, and hold Hirogin Holdings Tomorrow

Concert performed by the Hiroshima Symphony Orchestra.

In FY2019, from a viewpoint of developing the next generation, we started to hold the Hirogin Holdings Dream Future Concert to provide an opportunity at which high school students can perform with Hiroshima Symphony Orchestra.

Corporate Governance

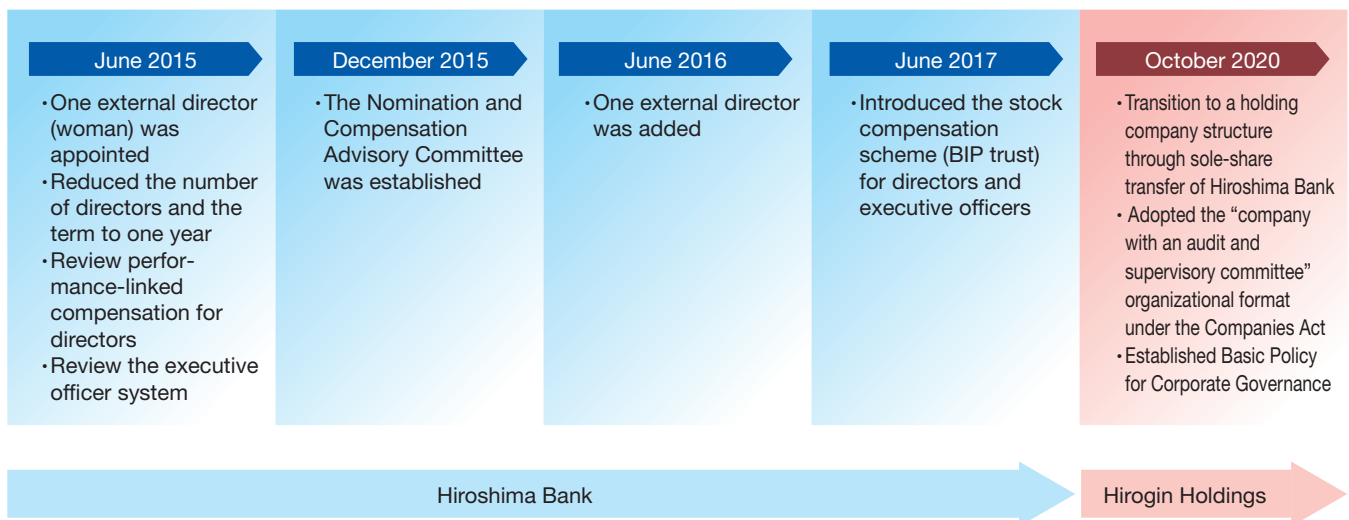
Basic approach

While fulfilling our social responsibility and public mission, Hirogin Group will receive high evaluation from and build unshakable bonds of trust with our stakeholders, including both customers and shareholders by raising management soundness, efficiency, and transparency. In this way, Hirogin Group works to promote sustainable medium- to long-term growth and increase corporate value.

To attain this goal, based on the intent and spirit of the Corporate Governance Code of the Tokyo Stock Exchange, Inc., we set out the following five principles in an effort to realize effective corporate governance.

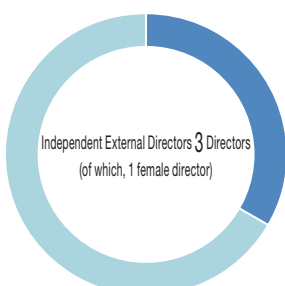
- (1) We respect shareholders' rights, secure equality and develop an appropriate environment for the exercise of the rights.
- (2) We strengthen measures in the sustainable development goals (SDGs) adopted by the United Nations and corporate social responsibility (CSR), and work in effective collaboration with all stakeholders, including the regional community, customers and employees, thereby fostering a corporate culture and climate in respect for their rights and standpoints.
- (3) We maintain transparent management by providing fuller disclosure in a timely and appropriate manner.
- (4) Our Board of Directors supervises the Company's business execution effectively and makes decisions swiftly, based on its fiduciary responsibility and accountability to shareholders.
- (5) We promote constructive dialogues with shareholders and respond appropriately.

Efforts to enhance governance

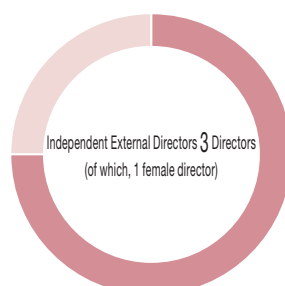


Corporate Governance Overview (As of June 25, 2021)

Board of Directors **9 Directors**
(of which, 4 directors are Audit and Supervisory Committee members)



Audit and Supervisory Committee **4 Directors**



Group Nomination and Compensation Advisory Committee **5 Directors**



The Company's Board of Directors consists of nine members, including three external Directors. The board convenes once a month, in principle, and is responsible for making management decisions and overseeing business execution. The Company has established the Group Management Board, under the Board of Directors, as a body for discussing, determining, and deliberating important matters relating to overall management based on the basic policy determined by the Board of Directors. The members of the Group Management Board are the Chairman, President, senior managing executive officers, managing executive officers and executive officers, and the Board convenes once a week, in principle.

The Company has also introduced an executive officer system. The system is structured such that the President and executive officers shall be responsible for business execution under the supervision of the Board of Directors. The decision-making functions related to important management items and supervisory functions on business execution, which are to be carried out by directors are separated from business execution functions, which are to be carried out by executive officers, and directors and executive officers fulfill their respective roles and responsibilities, thereby appropriately ensuring operations and enhancing sustainable corporate value.

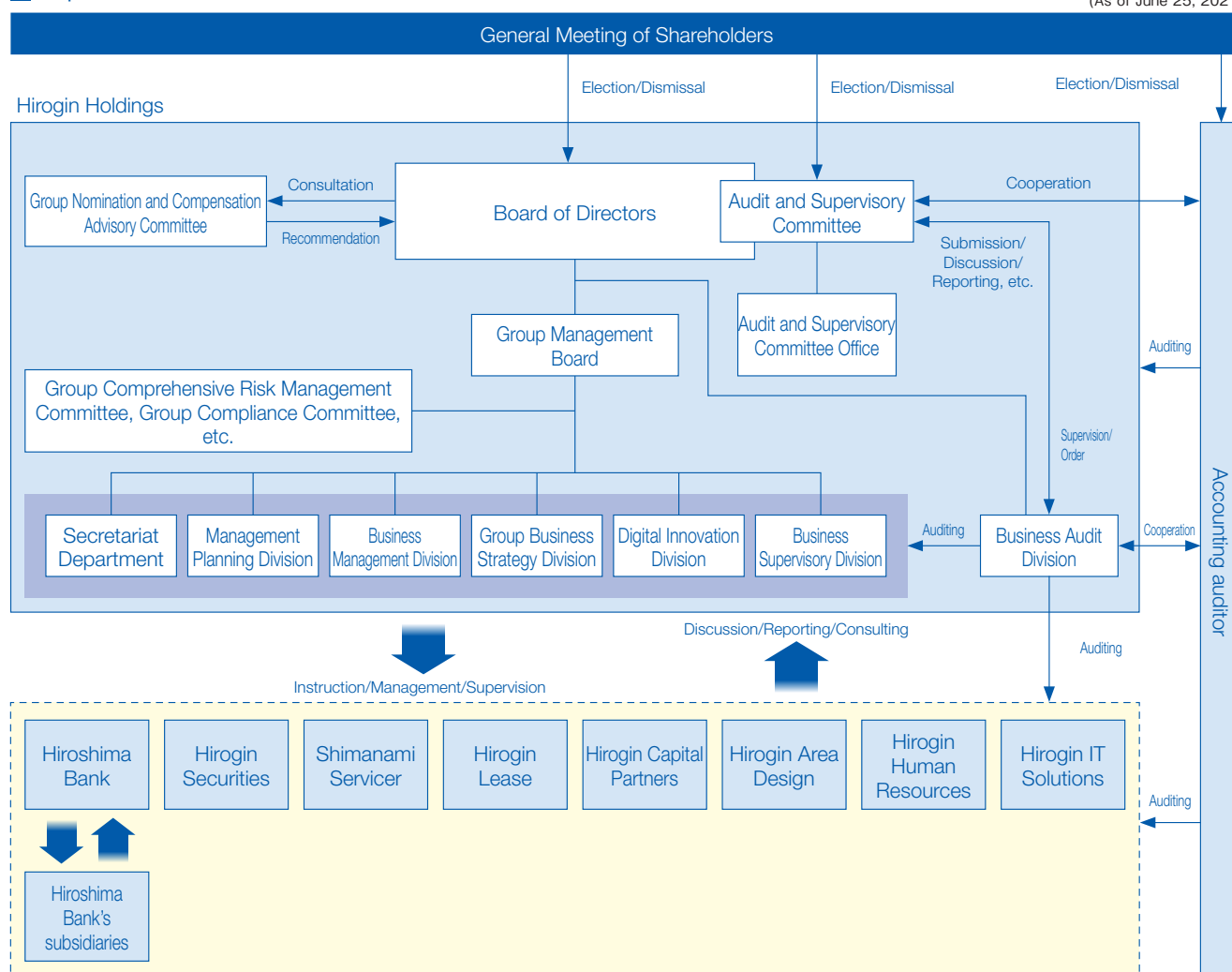
The Company has also set up special organizations to carry out specific tasks (such as the Group Workstyle Reform Promotion Headquarters and the Group System

■ Corporate Governance Structure

Failure Countermeasures Office), as well as committees for investigating, researching, or coordinating in specific areas (such as the Group Management Strategy Committee). These organizations and committees are operated by general managers from related divisions serving as members. Each special organization and committee holds meetings regularly, or whenever necessary, to address major management issues as well as other items requiring group-wide policies and discussions. Matters agreed or discussed at the special organizations and committees are proposed or reported to the Board of Directors or the Group Management Board or other organs as necessary, thereby contributing to the enhancement of Group governance as well as to improvement in the soundness and appropriateness of business operations.

The Company has four Directors who are Audit and Supervisory Committee Members, three of whom are external Directors. They are tasked with auditing the execution of duties by Directors. In addition to a monthly meeting of the Audit and Supervisory Committee, they hold meetings as necessary. Each of the Directors who are Audit and Supervisory Committee Members actively utilizes the information and knowledge acquired through the execution of audit and other duties for the deliberations and other discussions at the Board of Directors, thereby ensuring the effectiveness of the supervisory functions of the Board of Directors and promoting appropriate decision-making on business matters.

(As of June 25, 2021)



Reasons for selecting the current corporate governance structure

As a bank holding company, in light of the intent of its incorporation to enhance group governance by controlling and supervising the management and operations of subsidiaries and other Group companies, the Company has adopted the “Company with an Audit and Supervisory Committee” system as its organizational structure under the Companies Act.

By adopting the “Company with an Audit and Supervisory Committee” system, the Company aims to strengthen auditing and supervisory functions by granting voting rights at the Board of Directors to Directors who are Audit and Supervisory Committee Members (including multiple external Directors), and also aims to streamline the management and strengthen its functions

by delegating authority over business execution to Representative Directors. Through such measures, we aim to further enhance corporate governance and increase corporate value.

By adopting the “Company with an Audit and Supervisory Committee” system, the Company establishes a system to allow the internal audit department to support not only the Board of Directors but also the Audit and Supervisory Committee, and thereby aims to ensure the Group’s sound and sustainable growth as well as its social trust through highly effective and systematic auditing utilizing internal control by the Audit and Supervisory Committee.

Composition and functions, etc., of the Board of Directors

Based on the concept of fiduciary responsibility and accountability to shareholders, the Board of Directors will appropriately fulfill the following roles and responsibilities, to foster sustainable growth and help improve medium-to long-term corporate value of the Group, and to improve profitability and capital efficiency.

- (1) Present the Group’s aspiration
- (2) Put in place a system to ensure the appropriateness of operations, including the creation of an environment that supports appropriate levels of risk-taking by the management team
- (3) Conduct highly effective supervision over the management team from an independent and objective standpoint

The Board of Directors decides on the following matters and other important matters related to the Group’s management.

- (1) Items stipulated in laws and regulations and the Articles of Incorporation
- (2) Basic management policy, management strategy, and management planning of the Group
- (3) Important matters relating to risk management
- (4) Important matters relating to compliance
- (5) Important matters relating to internal audits

The Board of Directors draws up the “Basic Policy on the Establishment of Internal Control System,” and puts in place the management control system, risk management system, compliance system, and internal audit system of the

Group companies based on the policy, and conducts supervision to ensure effective functioning of each system.

The Board of Directors values its overall balance of knowledge, experience and ability as well as ensuring diversity in order to fulfill its roles and responsibilities, and it is comprised of internal Directors who are familiar with the Company’s operations and external Directors who have rich experience and a wide range of insights in their areas of expertise. To ensure its efficacy, the Board of Directors shall be comprised of no more than 10 Directors (excluding Directors who are Audit and Supervisory Committee Members), and no more than 5 Directors who are Audit and Supervisory Committee Members, with a considerable number of external Directors with a high degree of independence being included, in principle.






Candidates for External Director shall be nominated from among those who meet the Company’s Criteria for Judging the Independence of External Directors,” in principle, and three external Directors (Directors who are Audit and Supervisory Committee Members) are deemed eligible for office as independent officers without risk of conflict of interest arising with ordinary shareholders, and their names have been filed with Tokyo Stock Exchange, Inc.

Under the above scheme, every fiscal year the Board of Directors receives a report on the status of development and operation of systems for ensuring appropriate business operation and confirms that they are appropriately developed and operated. The board also conducts surveys such as the “Board of Directors Self-evaluation Questionnaire” to analyze and evaluate the effectiveness of the Board of Directors based on its results.

Additionally, the Company encourages and supports self-improvement efforts by directors to acquire knowledge and information necessary for effectively fulfilling their roles and responsibilities, and it facilitates and provides various training sessions and seminars by external institutions and organizations.

Effective use of external directors

At the Board of Directors meetings, external Directors provide advice on decision-making by the Board of Directors and overall management, based on their knowledge and ideas different from those of internal Directors. They also receive reports on the results of internal audits and accounting audits, as well as reports on the state of internal controls from the division in charge of internal controls. The external Directors have the role of supervising management from a neutral, fair, and objective perspective outside the Company.

Directors	Internal		
	Internal		<ul style="list-style-type: none"> ● External directors account for one-third of the Board of Directors ● Of which, one female external director
	External	 Professor of Hiroshima City University	
Audit and Supervisory Committee members	External	 Certified public accountant	
	External	 Former Chairman of the Board of NIPPON TELEGRAPH AND TELEPHONE CORPORATION	

In this context, the Company has established the Group Nomination and Compensation Advisory Committee, the majority members of which are independent external Directors, in order to ensure the transparency and objectivity of decision-making processes concerning the nomination and compensation of Directors, which are important management decision-making matters. As members of the Committee, external Directors have the role of supervising the selection of candidates for Company officers and the process of determining officer compensation from an objective and neutral standpoint.

Analysis and evaluation of effectiveness of the Board of Directors

Regarding the evaluation of effectiveness of the Board of Directors, the Basic Policy for Corporate Governance (Article 26) stipulates as follows:

For the purpose of strengthening its functions and ensuring its effectiveness, the Board of Directors shall analyze and evaluate the effectiveness of the Board every fiscal year in regards to the composition and operational status of the Board of Directors, based on Directors' self-appraisal, including the status of the maintenance and operation of internal controls. Results of such evaluations shall be disclosed.

Regarding the status of maintenance and operation of internal control systems for fiscal 2020, the Board of Directors received a report at fiscal year-end and confirmed that there were no issues with effectiveness.

Based on the results of the analysis and evaluation of the effectiveness of the Board of Directors at Hiroshima Bank before the transition to the holding company structure, we are working to raise the Board of Directors' effectiveness by taking the measures outlined below.

- Increasing the proportion of external directors.
- Implementation of advance explanations to external officers regarding Board of Directors meeting materials
- Appropriate reflection of the opinions given in advance explanation at the Board of Directors
- Advance deliberations and summarizing of key points via the Group Management Board and various other committees
- Revisions as needed on matters resolved and reported by the Board of Directors, etc.

Regarding analysis and evaluation of the effectiveness of the Board of Directors for fiscal 2020, in order to proceed with discussions on points that should be evaluated positively and on issues and policies for continuous improvement, the analysis and evaluation were carried out based on the following methods with the support of an external organization.

1. Based on the issues acknowledged by the Company, questionnaire items were designed after receiving advice from the external organization, and the effectiveness of the Board of Directors was evaluated with reference to the results of analysis by the external organization on the content of the answers given.
2. We asked the external organization to conduct interviews with all Directors. The external organization

We have introduced a system for external Directors to review and check in advance the agenda items of a meeting of the Board of Directors and its reporting materials even from outside the Company, and we provide them with devices for reviewing purposes. Furthermore, the secretariat and various departments responsible for administrative work for Board of Directors meetings hold advance explanatory meetings on documents for external Directors, and there is also a support system put in place such as developing an environment to review the Company's internal information such as internal regulations and notices as well as Hiroshima Bank's internal rules and notices.

prepared more specific questions based on the analysis of questionnaires, and proceeded with interviewing each Director on their awareness of issues and obtained their opinions. The Board of Directors received a report on the results of the analysis.

3. In response to the results report from the external organization, discussions were held at a Board of Directors meeting in May 2021 on the awareness of issues and the direction of future response for further improvement in the effectiveness of the Board of Directors.

As a result of the above, the external organization confirmed that the effectiveness of the Company's Board of Directors was ensured and that one of the strengths characteristic of the Company's Board of Directors is that "there is a shared sense of objectives to promote the Group's management policies by leveraging the knowledge and experience of external Directors and improving the functions of the Board of Directors of a holding company, and that constructive relations of trust have been fostered between supervisors and executives."

Given this result, based on the results of analysis and evaluation as well as advice of the external organization, the Company's Board of Directors has decided to take measures in the future regarding the following points, in order to further strengthen its effectiveness.

1. Measures to sophisticate the deliberations at Board of Directors meetings
 - In light of the shift to a holding company structure, comprehensive discussions by the Board of Directors on the Group management strategy shall be further promoted.
 - Information sharing regarding the management environment and the status of business execution shall be enhanced, the Board of Directors' supervisory functions regarding the execution of operations shall be further strengthened.
 - Deliberations regarding important management issues shall be further enhanced, and strategic advisory functions and management supervisory functions of the Company's Board of Directors shall be strengthened.
2. Measures for streamlining the operation of the Board of Directors
 - Efforts to streamline the overall operations, including the selection of agenda items and the details of explanations shall be continued, and allocation of time shall be prioritized for important agenda items such as the formulation and supervision of the Group management policies and other strategic responses to important management issues, etc.

In order to achieve effective corporate governance, the Company will proceed with efforts to further improve the effectiveness of the Board of Directors through continued evaluation of the effectiveness of the Board of Directors.

Officer compensation system

Policies regarding decisions on the details of individual compensation of Directors

For policies regarding decisions on the details of individual compensation of Directors, the Company has stipulated as follows, based on resolutions at Board of Directors meetings, in light of the results of deliberations at the Group Nomination and Compensation Advisory Committee (the majority members being independent external Directors), which is comprised of Representative Directors and independent external Directors.

a. Basic policy

Compensation, etc. of Directors (excluding Directors who are Audit and Supervisory Committee Members; hereinafter the same shall apply) of the Company shall be determined based on a compensation system that is linked to shareholder interests so as to fully function as an incentive to work for the sustainable growth and enhancement of the corporate value of the Group, and the basic policy is to determine compensation of individual Directors at an appropriate level from the perspectives of transparency, objectiveness and fairness.

Specifically, compensation, etc. of Directors excluding external Directors shall consist of fixed-amount compensation, performance-linked compensation, and stock-based compensation. For the sake of neutrality in view of responsibilities, compensation for external Directors is only composed of fixed-amount compensation.

As a bank holding company, the Company will establish and operate a compensation plan in an integrated manner with Hiroshima Bank, which is a subsidiary bank of the Company, and in the event that concurrent positions are held at the Company and the Bank, compensation, etc. shall be prorated at a fixed rate.

b. Policy regarding the determination of the amount of individual compensation, etc. as fixed-amount compensation (monetary compensation) (including the policy regarding the determination of the timing, etc. of the compensation, etc.)

Fixed-amount compensation shall be monthly basic compensation and shall be determined based on job titles and paid on a regular basis during the term of office after comprehensively taking into consideration factors such as the compensation and salary levels of officers and employees of Group companies under the Company and the status of officer compensation at other companies of a similar scale

c. Policy regarding the determination of the amount of individual compensation, etc. as performance-linked compensation (including the policy regarding the determination of the timing, etc. for payment of the compensation, etc.)

Performance-linked compensation shall be monetary compensation (paid at a certain time each year) that reflects performance indicators and is calculated each business year according to the degree of achievement of those performance indicators, and shall be determined based on job titles with the aim of raising awareness of the contribution to improved business performance.

Specifically, from the perspective of ensuring transparency, objectivity, and fairness and fully fulfilling accountability to shareholders and other stakeholders, the Company's "net profit attributable to owners of the parent" shall be used as a performance indicator and the performance-linked compensation, which is calculated by multiplying the job title-based standard amount established by resolution of the board of Directors by the payment ratio

linked to said performance indicator, is paid after the end of each business year.

The performance-linked coefficients are as follows.

Coefficients used in the calculation of performance-linked compensation

[Net profit attributable to owners of the parent] (yen)	[Performance-linked coefficient]
More than 33 billion	1.500
More than 30 billion – 33 billion or less	1.375
More than 27 billion – 30 billion or less	1.250
More than 24 billion – 27 billion or less	1.125
More than 21 billion – 24 billion or less	1.000
More than 18 billion – 21 billion or less	0.875
More than 15 billion – 18 billion or less	0.750
More than 12 billion – 15 billion or less	0.625
More than 9 billion – 12 billion or less	0.500
More than 6 billion – 9 billion or less	0.375
6 billion or less	—

d. Policy regarding the determination of individual compensation, etc. as stock-based compensation (non-monetary compensation) (including the policy regarding the determination of the timing, etc. for payment of the compensation, etc.)

Stock-based compensation shall be calculated and paid based on an amount obtained by multiplying the fixed-amount compensation determined based on job titles by a certain percentage with the aim of clarifying the link between officer compensation and the Company's share price. The stock compensation plan is managed by the officer compensation BIP trust. During the trust period, certain points are granted, and Directors will receive the delivery of the shares in accordance with the number of points accumulated at the time Directors retire from both the Company and The Hiroshima Bank, Ltd.

However, in the event of non-conformity as stipulated separately, the Company may request the refund of the amount equivalent to the share delivery.

e. Policy regarding the determination of the ratio of monetary compensation, performance-linked compensation, and non-monetary compensation to the amount of individual compensation, etc. of Directors

The ratios of compensation by type for Directors shall be determined by comprehensively taking into consideration matters such as the status of officer compensation at other companies of a similar scale from the perspective of providing an incentive to aim for the sustainable growth and enhancement of corporate value of the Group and an increase in the share price of the Company while emphasizing the stability and soundness of management as a bank holding company.

f. Matters regarding the determination of details of individual compensation, etc. for Directors

Details of all individual compensation, etc. for Directors shall be determined by the board of Directors based on deliberations and findings of the Group Nomination and Compensation Advisory Committee, which is composed of Representative Directors and independent external Directors (the majority of the Committee members are independent external Directors).

Officer compensation system

	Directors (excluding directors who are Audit and Supervisory Committee members)	Executive Officers	Directors who are Audit and Supervisory Committee members
Fixed amount compensation	○	○	○
Performance-linked compensation	○	○	—
Stock-based compensation*	○	○	—

* A system that utilizes a framework known as an officer compensation board incentive plan (BIP) trust. Utilizing compensation amounts for eligible officers as funds contributed by the Company and its consolidated subsidiary Hiroshima Bank, the trust acquires shares of the Company, and provides the shares and cash equivalent to disposal of the Company's shares upon officers' retirement from both the Company and Hiroshima Bank.

Deliberations by the Group Nomination and Compensation Advisory Committee

The Company's Basic Policy for Corporate Governance (Article 23) stipulates as follows regarding the Group Nomination and Compensation Advisory Committee.

1. To ensure the transparency and objectivity of the decision-making process for nomination and compensation of Directors, Audit and Supervisory Board members, and executive officers of the Company and major Group companies, the Board of Directors shall establish the Group Nomination and Compensation Advisory Committee comprised of Representative Directors and independent external Directors.
2. A majority of the members of the above-mentioned Group Nomination and Compensation Advisory Committee shall be independent external Directors.

Regarding matters relating to the amounts of compensation, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) and executive officers, the Company makes decisions by resolutions at the

Board of Directors meeting, based on deliberations and reports at the Group Nomination and Compensation Advisory Committee, the majority members of which are independent external Directors.

Development of successors to management

The Group has put in place at Hiroshima Bank a rank-based training system and clarifies the standards and abilities required for each job position and rank in order to develop human resources systematically. The training system includes the "Hirogin Management School" aimed at developing management personnel from a medium- to long-term perspective. The Hirogin Management School provides a

program in which selective employees who are expected to undertake future management of the Bank learn to demonstrate the "ability of thinking befitting of a corporate manager (management strategy, business reform, etc.)."

(See page 65 for details)

Cross-shareholdings

In the Basic Policy for Corporate Governance (Article 8), the Company stipulates the following policies regarding cross-shareholdings of listed shares and the exercise of voting rights.

As shown below, the Group has established the “Policies regarding cross-shareholdings of listed shares” and the “Standards for exercise of voting rights for cross-shareholdings” in order to ensure the appropriateness of cross-shareholdings.

(1) Policies regarding cross-shareholdings of listed shares

- (a) The Group has a basic policy of not engaging in cross-shareholding, except where it is deemed that the holding has a rationale such as development of the regional economy or improvement of corporate value.
- (b) As for shares held, the Board of Directors periodically evaluates capital cost against returns, level of contribution by the issuing company to the regional economy, growth potential and future prospects, and medium- to long-term profitability of transactions with the Group.

(2) Standards for exercise of voting rights for cross-shareholdings

- (a) In exercising voting rights, the Group determines the exercise of voting rights after examining the management principles and the status of maintenance of corporate governance at the company in question, in addition to the policies described below.
 - Whether or not the company is conducting appropriate decision-making that will lead to medium-to long-term increases in corporate value and improvement of shareholder value
 - Whether or not there is any possibility that it inflicts damage upon the Group as a shareholder
- (b) In particular, the following items shall be examined regarding any potential impacts on corporate value and shareholder value:
 - Proposals for appropriation of surplus that potentially have a significantly detrimental effect on financial soundness
 - Proposals for election of directors and Audit & Supervisory Board members and provision of retirement benefits at companies where misconduct or antisocial behavior incidents occurred or that have recorded losses or paid no dividends for a certain period of time
 - Proposals for anti-takeover measures, among other items.

As a result of evaluations on cross-shareholdings carried out at the Board of Directors meeting in March 2021, approximately 80% of the companies in which the Group holds shares satisfy these standards. For shares in companies that

fail to satisfy these standards, the Group is currently holding discussions to improve profitability in transactions with the company in question or reduce shareholdings.

Risk Governance

Risk Governance

In order to establish robust risk governance, the Group has introduced a risk appetite framework, prepared a risk appetite statement describing the risk appetite framework and risk appetite to make them well understood within the Group.

In addition, to ensure that the risk appetite framework functions effectively, we are working to foster a sound risk culture that encourages

everyone in the Group to behave in accordance with the Group's values regarding risk-taking and risk appetite.

Risk culture

In order to realize the sustainable development of local communities and the sustainable enhancement of the corporate value of the Hirogin Group, it is essential for each employee to make decisions and act not only in compliance with laws and regulations but also in accordance with the expectations and requests of all stakeholders, including customers, and the Group's management policy.

The Group recognizes that risk culture is the fundamental concept for organizational and individual decision-making related to risk recognition, risk-taking, risk management, etc., and that it is a factor to base for building strong risk governance.

Based on that recognition, the Group has established the Hirogin Group's Risk Culture, while ensuring consistency with its Code of Conduct.

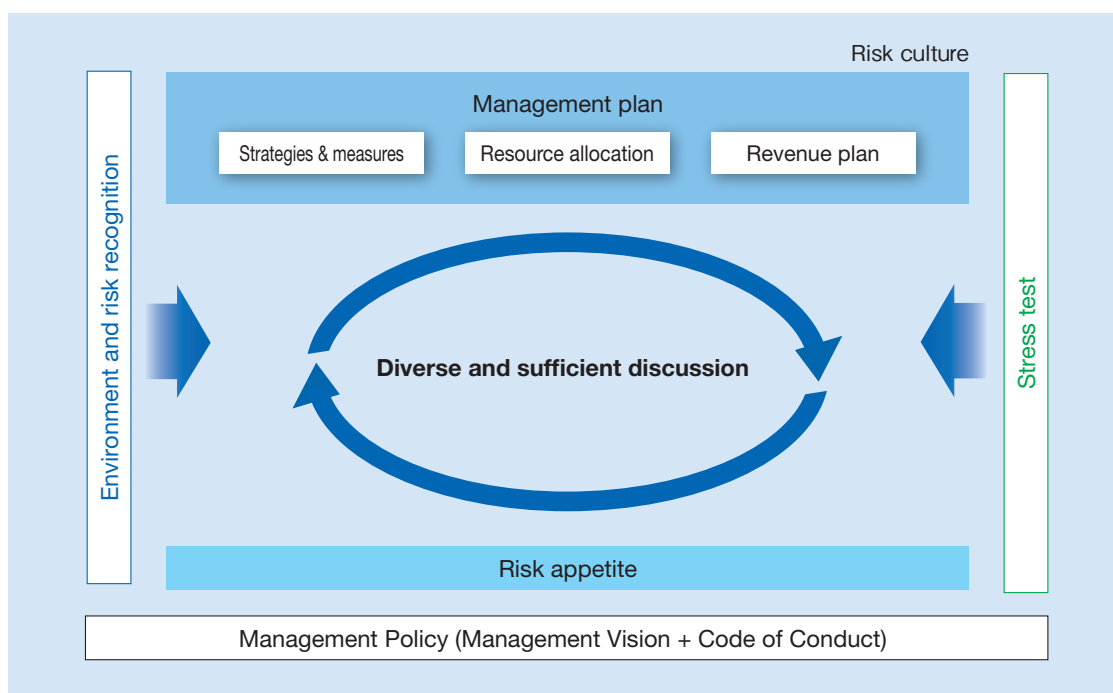
In addition, in order to foster and disseminate the risk culture within the Group, we share and spread it through such means as sending messages from management and conducting training.

Risk appetite framework

The risk appetite framework is positioned as a framework that supports the management of the Group as a whole to "promote risk-taking and control risk," based on the appropriate recognition of the environment and risks.

The introduction of the risk appetite framework clarifies the risk appetite (the type and level of risk that the Group is prepared to accept) for

achieving the management plan and enables the Group to pursue more profit opportunities and promote appropriate risk-taking.



Message from an External Director

Toward the creation of new shared regional value based on the progressivity of awareness of paradigm change and the trust, confidence, and peace of mind built up over the years

Kaori Maeda, External Director

Thinking together: Incorporating the viewpoint of an IT expert

Conventionally, the Bank was the point of contact with the customer, and transactions were face-to-face at the counter. Now, there has been an increase in services provided by the Internet, including use of ATMs and online banking. For securities and other Group companies likewise, we are entering an era in which the digitalization of contact with the customer is advancing, and using IT is a source of competitive strengths.

Since accepting this position, though conscious of speaking from an expert perspective, I have felt a strong disinclination to becoming a mere critic. Of course, cultural differences exist among sectors, and there are aspects of IT that cannot be introduced overnight. I am mindful of the need to consider together how to go about change and what steps to take. In addition to deliberations at the Board of Directors meetings, I also provide pointers in monthly audit reports on matters relating to security and computer systems included in risk management.

External Directors also participate in IT strategic meetings, and discuss strategic changes, including a first-hand look at the strategies of individual Group companies, with a review of the progress they have made and changes in society, as well as compliance with Financial Services Agency policies and measures. Concerning operations handled by conventional large mainframe

computers, there are discussions on downsizing computer systems by using cloud facilities—these are the kind of things I give an opinion on. Additionally, I have a real sense that the opinions of external Directors have been amply brought to bear in areas such as the development of security systems and prevention of computer system failures.

Effectiveness of governance

When a Board of Directors meeting is convened, traditionally advance explanatory meetings have been held for the benefit of external Directors at each department involved. But in fiscal 2020, some changes were made to these advance meetings in light of recommendations following evaluation of effectiveness of the Board of Directors by an external organization. The system was further developed to enable thorough discussion of pressing matters at the Board of Directors meetings, by having the director responsible for each area in question give explanations, including background details and assumptions, enabling more frank questions and opinions.

Likewise, a corporate culture has been created in which external Directors can proactively make recommendations even if their area of expertise differs. I highly appreciate the way views are listened to and new perspectives accepted, beyond the conventional bounds of such discussion.

While the speed of response is important, there are many key areas, particularly in IT, where things cannot readily be changed, and fixes cannot be improvised, due to security issues and protection of personal information. I feel the Company has struck a very fine balance between the need to be daring and yet cautious.

I would like to add that the expertise of external Director Satoshi Miura, former President and Chairman of NIPPON TELEGRAPH AND TELEPHONE CORPORATION (NTT) was extremely helpful in this transition, based on his wealth of knowledge on the transition to a holding company.

What we have learned from the coronavirus crisis

My impression is that approaches to work have indeed changed greatly. This is true across the board. People can finish their work tasks even though not going to the office is being normalized. I recognize that that is due to the blessings of IT, including establishment of a good telecommunications environment and compatibility of IT with both daily and corporate life.

As an external Director at Hiroshima Bank, who has watched the progress of IT over the past six years, I believe that the Group's transition to online operations has been fairly smooth, with appropriately staged preparations spanning home-based work, online meetings, and consultation-based decision-making.

Furthermore, since it is currently virtually impossible to carry out face-to-face sales, we have had to rely on online sales as the primary point of contact with our customers. Even so, we have been able to skillfully slide our functions to continue with our activities.

At the same time, much work is carried out on a team basis, and I think there have been big changes in the day-to-day mode of communication between employees. Fortunately, because of the rapid development in tools for virtual and stand-up meetings over the past year, I feel the need to seek out new ways of communicating tailored to new working approaches, with due consideration to the use of such tools looking ahead.

Further improving corporate value

Following our transition to the holding company structure, I believe we need to spread the message that the Bank can play the role of a partner in all aspects of life, that customers can rely on in their daily life and in the operation of their business.

For example, Hirogin IT Solutions, which was established to take on IT operations, provides IT services that help customers solve

problems, and offers system construction and consulting services, just as general IT companies do, on top of system construction and operation within the Group. There are many different kinds and scales of companies in IT. Many may not be able to continue operations, but Hirogin IT Solutions is a trusted company that can be turned to without worry as a member of the Group. We aim for growth that can survive fierce competition within the IT sector, and we need people to understand this.

However, within the holding company structure, given that Hirogin IT Solutions has the most distinctive culture in terms of hiring, employment, and other systems in the Group, I believe that it will be extremely important to change our thinking in such a way as to let each company's strengths come to the fore, while fully understanding the differences and special characteristics of each.

In addition, we expect to make further progress in the sharing of computer system assets created at individual Group companies to date, and I expect to see the number of situations in which we can play a role further rising in the future. Of course, certain functions are more efficient when shared, but certain things cost more. Because of this dichotomy, I think it is necessary to consider how to improve productivity and operational efficiency.

To create new services and add value to those that we currently provide, we also need to make meaningful our transition to a holding company system in terms of data handling and usage, ensuring too that this is in line with the spirit of the times.



Profile

Born in Hiroshima Prefecture. After working as an assistant at School of Engineering, Hiroshima University, joined the Radiation Effects Research Foundation, a Cooperative Japan-US Research Organization, in 1990. Worked on establishing an Internet connection point*, which was rare at that time in Japan, and then went on to the field of information communication and computer network research. Joined Hiroshima City University in June 1994, then assumed office as professor of the Graduate School of Information Sciences of the same university in April 2007. In recent years, she has continued her research into technologies that support IoT infrastructure, in areas such as IT and cloud computing security, operational management, and wireless LAN communication quality. Served as an External Director of Hiroshima Bank from June 2015 to September 2020. Assumed office as External Director of the Company in October 2020.

* A point to connect with the Internet, offered by companies and internet service providers