

## Message from the President



### A History of Facing Crises

Toho Bank was formed in November 1941, on the eve of the Pacific War. At that time, the aftermath of the Showa Financial Crisis and wartime controls had led to the failure of approximately 30 banks in Fukushima Prefecture, so we were established through the merger of our three predecessors, Koriyama Commercial Bank, Aizu Bank, and Shirakawa Seya Bank, in order to meet the expectations of the local community who needed a strong bank to protect the region. In April each year, I explain the background behind our establishment at a welcome ceremony for new employees. This is because it is a story that explains the reason for our existence.

This year will be the 82nd since our establishment and over these years, we have experienced many major crises, including the Pacific War, the chaotic period following World War II, the collapse of Japan's economic bubble, and the Great East Japan Earthquake in 2011 and subsequent accident at the Tokyo Electric Power Co.'s Fukushima Daiichi Nuclear Power Plant.

In each case, we were there to support the Fukushima economy. In particular, during the restoration and recovery from the disaster and nuclear accident 12 years ago, our employees put their actual lives at risk and grew even closer to the local community. This is something that we could only achieve because of our feelings toward the community. However, we still have a way to go before we can say that Fukushima has truly recovered.

We believe that our activities to date, as well as the initiatives we will pursue going forward, provide us with expertise that we can use to support the region. In fact, in the year since the earthquake, many of our new recruits joined the bank due to their desire to work for the benefit of Fukushima and to support recovery efforts. I believe that one of our greatest strengths is that so many of our employees have this kind of motivation.

### Initiatives Leading to the Creation of a New Platform for Industry

Fukushima Prefecture is an area with great potential. Although the area covered by the prefecture is vast, each of the Hamadori, Nakadori, and Aizu regions contain a share of its attractions, including nature, history, culture, agricultural and aquatic produce, industry, commerce, and tourism. For example, despite the reputational damage suffered because of the nuclear accident, Fukushima is one of the leading producers of many agricultural and aquatic products in Japan. This is because highways and bullet train lines provide great access to not only the Tokyo Metropolitan area, but also the Sea of Japan coast, making it easy to send shipments to major consumer markets.

As a result, Fukushima Prefecture has launched several initiatives with the aim of becoming a hub for leading edge technologies, and the Bank has been deeply involved in each of these initiatives.

Examples include the establishment of the Fukushima institute for Research, Education and Innovation (F-REI) in Namie Town in April 2023 and the Fukushima Innovation Coast Framework which was launched in Minamisoma City in 2014. These are national projects to realize the reconstruction of Fukushima and other Tohoku regions, to contribute to enhancing Japan's scientific and technological capabilities and industrial competitiveness, and to create a world-renowned central institute for "creative reconstruction." We dispatch Bank employees to the governing body of the Fukushima Innovation Coast Framework to take charge of building relationships with local companies. We also believe it is our role to help develop the research being advanced at F-REI by forging links to local companies.

We are also involved in the initiatives for realizing Smart City Aizuwakamatsu which have been advanced by Aizuwakamatsu City since 2013. We are one of the members of an industrial-governmental-academic collaboration, along with the University of Aizu and private sector companies, that is carrying out various experiments using digital technology to realize a digital garden city. In May 2023, Aizuwakamatsu City was selected as a "leading area" for decarbonization due to its efforts to stay ahead of governmental decarbonization targets for the fiscal year ending March 31, 2031, and the Bank was one of the joint signatories on the application alongside other relevant organizations.

In 2016, the Fukushima Medical Device Development Support Centre opened in Koriyama City, attracting the attention of people in the healthcare field both in Japan and overseas. The establishment of the center was one of the driving forces behind Fukushima Prefecture becoming a hub for the manufacture of precision medical devices and Fukushima Prefecture is now one of Japan's leading producers of healthcare equipment in terms of shipment amounts. In April 2023, the Bank, together with other Fukushima-based regional financial institutions and companies, put even more support behind the prefecture's medical device industry by establishing an investment fund that will target companies and entrepreneurs in Fukushima Prefecture who are engaged in the development and manufacture of healthcare and social welfare equipment.

Each of these initiatives is being advanced in Fukushima Prefecture right now with the intent to realize a recovery that will put the prefecture in an even better position than it was in before the disaster. We think that their incorporation of leading edge technologies will create a new platform for local industry. Therefore, we will give them our full support, not only through financing, but also by providing manpower and expertise.

### A Medium-Term Management Plan Centered on Three Drivers of Growth

Looking at our financial results after the earthquake, I think you can see that demand created by recovery efforts directly after the earthquake created a kind of bubble effect. However, in the seventh year after the earthquake, there was a rebound, and profits took a downward turn. Now 12 years have passed since the earthquake and nuclear accident, and the situation has calmed down. That means the Bank's true recovery starts here.

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When I was appointed as the President in June 2020, we were truly in a position to start heading toward the next post-disaster stage. When we formulated the 17th medium-term management plan, which started in the fiscal year ended March 31, 2022, and the Long-Term Vision focused on 10 years into the future, we started by reaffirming the Bank's reason for existence. That is to transform into a company that contributes to the regional community, as stated in the Long-Term Vision.

Our medium-term management plan, named the Toho "Kagayaki" Plan, aims to realize the three "kagayaki" (Japanese for "shining") goals of enabling the region and customers to shine, enabling employees to shine, and enabling the Bank to shine. To achieve the plan, we have positioned three drivers for growth. The first driver of growth is deepening traditional core business (fund management), the second driver of growth is enhancement of consulting in a wide range of areas, and the third driver of growth is exploring new business areas.

We have made invigorating the region into our core policy and the reason for our existence, and we have committed to taking on the challenge of developing our business beyond the boundaries of the financial services business area.

We provide consulting services that benefit the community. If our customers can lead their lives with peace of mind, it contributes to our own corporate growth, so our current medium-term management plan ensures that we put customers first and thoroughly check if there is anything we can do for them.

The fiscal year ending March 31, 2024 is the final year of the current plan, and I think our most noteworthy achievement over these three years was that we always returned to the Long-Term Vision and checked whether we were truly contributing to the regional community.

### Establishing a Dedicated Subsidiary for Consulting Operations

In the fiscal year ended March 31, 2022, we worked to enhance consulting in a wide range of areas, the second driver of growth, by strengthening consulting operations in areas including corporate management plan formulation, personnel system formulation, subsidy applications, SDGs support, and succession measures for individual customers.

Since then, we have further evolved this initiative by expanding consulting operations through a subsidiary.

As part of this, we established Toho Consulting Partners Co., Ltd. in October 2022. Its principle business is to provide support for business succession and M&A with a focus on the important themes of smooth management resource succession and sustainable business growth.

To be honest, business succession has become an urgent issue in Fukushima Prefecture. Each year about 800 local companies go out of business, out of which, 43% are still profitable.

In 2011, the population of Fukushima Prefecture was two million, but following the nuclear accident, this has shrunk by 200,000 to 1.8 million. If this trend continues, then it is estimated that the population will fall to just 1.4 million in 2040. As Fukushima Prefecture, we want to



want to slow this population decline. As a financial institution, we think that if we can increase the number of workplaces, decrease the number of companies going out of business, and encourage a greater number of entrepreneurs, then we can curb the negative social effects of depopulation.

Another of our Group companies is the TOHO AREA RESEARCH INSTITUTE. Previously, this institute primarily advanced research, but we have expanded the scope of its business to include consulting operations that are differentiated from Toho Consulting Partners' operations. Specifically, it focuses on support for companies regarding management plan formulation associated with grant and subsidy applications, digitalization of organizations such as local governments, restructuring for extra-governmental organizations, and regional development using digital technology.

By providing consulting that brings together our holy trinity of Toho Bank, Toho Consulting Partners, and the TOHO AREA RESEARCH INSTITUTE, we will leverage the combined capabilities of the Toho Bank Group to provide greater value for customers and become a corporate group that contributes to the regional community.

### Further Developing Consulting Operations in the Next Medium-Term Management Plan

This kind of consulting supports the solution of immediate issues. Going forward, we think we need to further develop our consulting operations in order to realize regional revitalization and resurgence.

Further development of consulting operations is one of the main pillars of the 18th medium-term management plan, which starts with the fiscal year ending March 31, 2025. Example initiatives include supporting regional trading companies and investment companies to encourage creation within the region and building a network of next-generation managers. We will also support customers' efforts to introduce IT and realize digital transformation, and provide added value using the SDGs as a starting point.

In order to accelerate the second and third drivers of growth, we will use the first driver of growth to realize solid profits and then reinvest these in the second and third drivers of growth initiatives, thereby contributing to the regional community. Naturally, this is because finance business is still the Group's core business.

Furthermore, the truth is that we are still not that well known for our expansion into new business areas such as consulting. To make people aware that a bank can provide support in areas such as talent referrals and digitalization, we recognize that it will be essential to strengthen our branding message that the Bank is a company that contributes to the regional community going forward.

### Aiming for a Cycle of Increases in Corporate Value and Social Value

I think that contributing to making society and the economy sustainable is central to the Long-Term Vision of transforming into a company that contributes to the regional community.

Since the earthquake, Fukushima has been constantly exploring how to become a sustainable society where people can live long-term. As I mentioned previously, we still have a way to go, but the reason for the Bank's existence is to contribute to Fukushima's transformation into a sustainable society.

Since joining the top management team, I have personally been involved in formulating initiatives such as establishing the Sustainability Promotion Committee, providing consulting on shifting to a decarbonized society, and carrying out climate change risk assessments, as well as providing project finance for renewable energy projects and sustainable finance. We have also

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stepped forward our efforts to reduce CO<sub>2</sub> emissions, setting the target of reducing emissions by 50% of the levels recorded in the fiscal year ended March 31, 2014, by the fiscal year ending March 31, 2031.

These were essential initiatives for advancing sustainability management.

The advancement of sustainability management leads to improvements in the Bank's profits, thereby raising corporate value. Furthermore, we support the sustainable growth of the regional community through our activities, which raises Fukushima's social value. Maintaining this cycle of increases in corporate and social value is the Bank's most important challenge. The development of our consulting operations is one initiative toward achieving it.

### DX Promotion and Human Capital Management Are Key Issues

Under the medium-term management plan, we are engaged in the expansion of customer-oriented service as well as functional enhancement and business optimization of operational systems in the bank as our digital/IT strategy. In January 2024, we plan to enter a core system collaboration by switching to the TSUBASA Core Banking System. We will also accelerate the development of digital services to further advance initiatives such as improving customer experience (CX) and providing support for regional DX. In April 2023, we were designated as a DX-certified operator under the Ministry of Economy, Trade and Industry's DX certification system.

DX will be one of the most important issues for financial institutions in the future. We must build business models that integrate both physical and digital domains. We are focusing on increasing contact with young "digital native" customers, including through one-on-one meetings, and we are strengthening DX promotion to support the digitalization efforts of our customers. Our goal is to become a regional DX leader.

We are also aiming to use DX promotion to make operations more efficient so that we can allocate the resources freed up to new business development.

Human capital management is also a key issue for realizing our medium-term management plan goal of enabling employees to shine.

When I was appointed as the President, I declared that I would work to make Toho Bank into a strong bank that is trusted by customers, that produces results, and that enables employees to work cheerfully and energetically.

Therefore, we implemented bold personnel system reforms in October 2022. The most important factor in enabling employees to work energetically is ensuring that they can do work that they enjoy. This brings out a willingness to learn and raises an employee's individual value. The new personnel systems include an evaluation system and remuneration system, but our biggest reform was to establish a career self-direction system. This system enables employees to voluntarily and independently manage the direction of their own career. In this way, we are fostering satisfying work environments.

Although it is more of an initiative than a system, another reform we made was to try and improve communication between employees in 2023 under the slogan "Try talking to each other, try doing things together."

We think that a bottom-up approach and dialogue are essential to putting our reason for existence into practice and achieving the medium-term management plan, so our officers visit all of the Bank's branches to actively create opportunities for exchanges of opinions with employees.

Co-creation is one of the principles of behavior among young people today. We believe that creating with each other, sharing opinions, thinking, and building something together is shared value that the Bank can offer.

### Making the 2020s the Second Formation of Toho Bank

When we look back at the current time 10 years from now, I would like to be able to position the 2020s as the period in which the Bank overcame the 2011 earthquake, making it like the second formation of Toho Bank. To achieve this, I want to pursue economic reforms and realize the Long-Term Vision.

Over the last two years, we have also made some considerable revisions to our corporate governance. Half of the Board of Directors now comprises Outside Directors. Our Outside Directors have also been frank in sharing their opinions and the management team's sense of urgency has been transformed. Strengthening corporate governance is another essential initiative toward being a company trusted by the community.

I think these kinds of efforts are a platform that will ensure that in 10 years' time, we will be a strong bank that is trusted by customers, that produces results, and that enables employees to work cheerfully and energetically. I want to make us into a company that has overwhelming strength.

Therefore, as we build up the first driver of growth, and the second driver of growth, and the third driver of growth, we will become even more trusted by the regional community until we are thought of as an essential presence.

I think this is how we can meet the expectations of our investors. We will pour all our effort into increasing profitability and raising corporate value so that we can provide even greater returns to shareholders.

We are currently formulating the 18th medium-term management plan that will start with the fiscal year ending March 31, 2025. We plan to set out a clear vision of how we will increase corporate value and provide returns to all our shareholders.



July 2023  
The Toho Bank, Ltd.  
President  
**Minoru Sato**

## Fukushima Prefecture's Features and Attractions

### Overview of Fukushima Prefecture

Major Economic Indicators: Before and Immediately After the Disaster and Recent Situation

	Before the disaster (2010)	Immediately after the disaster (2011)	Recent situation	Statistical year	
Population	<b>Population</b> <small>(Source: Fukushima Prefecture)</small>	2.02 million	1.97 million	<b>1.773 million</b> <small>(As of April 1, 2023)</small>	2023
	<b>Total fertility rate</b> <small>(National average) (Source: Ministry of Health, Labour and Welfare)</small>	1.52 (1.39)	1.48 (1.39)	<b>1.27</b> (1.26)	2022
Economy	<b>Total production in the prefecture (nominal)</b> <small>(Tohoku average) (Source: Cabinet Office "Prefectural Accounts")</small>	¥7.1815 trillion (¥5.0788 trillion)	¥6.5881 trillion (¥4.9666 trillion)	<b>¥7.8286 trillion</b> (¥5.7221 trillion)	2020
	<b>Ratio of job openings to job applicants</b> <small>(National average) (Source: Ministry of Health, Labour and Welfare)</small>	0.42 times (0.52 times)	0.59 times (0.65 times)	<b>1.39 times</b> (1.32 times)	2023
Industry	<b>Amount for contracts for public works</b> <small>(Source: East Japan Construction Surety Association)</small>	¥181.7 billion	¥245.3 billion	<b>¥493.5 billion</b>	2022
	<b>Number of new house construction started</b> <small>(Source: Fukushima Prefecture)</small>	8,912	8,093	<b>8,774</b>	2022
	<b>Amount for manufactured goods shipped, etc.</b> <small>(Source: Ministry of Economy, Trade and Industry "Census of Manufacture")</small>	¥5.09 trillion (1st in Tohoku)	¥4.3209 trillion (1st in Tohoku)	<b>¥4.7669 trillion</b> (1st in Tohoku)	2020
	<b>Amount for agricultural production</b> <small>(Source: Ministry of Agriculture, Forestry and Fisheries "Statistics of Agricultural Income Produced")</small>	¥233 billion	¥185.1 billion	<b>¥191.3 billion</b>	2021

### Renewable Energy Initiatives

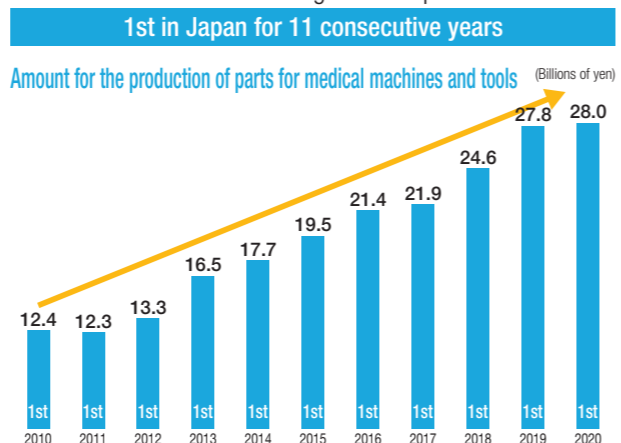
In the Fukushima Renewable Energy Promotion Vision 2021, Fukushima Prefecture has set a target of introducing renewable energy sources that will generate 100% of its energy needs by around the fiscal year ending March 31, 2041.

Renewable energy power generation facilities, etc., in Fukushima Prefecture

- Northern Fukushima Area: Azumakogen Wind Farm
- Central Fukushima Area: Koriyama Nunobiki Kogen Wind Farm
- Southern Fukushima Area: Shirakawa Solar Park
- Aizu Area: Tagokura Dam
- Soso Area: Abukuma Wind Farm
- Iwaki Area: Fukushima Iwaki Biomass Power Plant

### Medical Industry Agglomeration

Fukushima Prefecture has been working on the Next-Generation Medical Industry Agglomeration Project since the fiscal year ended March 31, 2006, through the collaboration of industry, academia, and the government, and the prefecture's amount for the production of parts for medical instruments and tools is the highest in Japan.



### Industry Agglomeration in Fukushima Prefecture

Fukushima Prefecture is developing a base for research and development and industry creation, including energy-related, ICT, medical industry, agribusiness, and robot development.

**Northern Fukushima Area**

- Faculty of Food and Agricultural Sciences, Fukushima University
- Fukushima Global Medical Science Center
- School of Health Sciences, Fukushima Medical University

**Soso Area**

- Fukushima Robot Test Field
- Great East Japan Earthquake and Nuclear Disaster Memorial Museum
- Fukushima Institute for Research, Education and Innovation (F-REI)
- Fukushima Hydrogen Energy Research Field (FH2R)

**Iwaki Area**

- Fukushima Prefectural Fisheries and Marine Science Research Centre
- Iwaki Battery Valley Initiative

**Southern Fukushima Area**

- Electronic device related industries
- Shirakawa Industry Support

**Central Fukushima Area**

- Fukushima Renewable Energy Institute
- Industrial Technology Institute Fukushima Prefectural Government
- Fukushima Medical Device Development Support Centre

**Aizu Area**

- ICT Office "Smart City AiCT"
- University of Aizu Laboratory for leading-edge ICT "LICTiA"
- Certified as a decarbonization leading area