

Continuing to Grow Together with Communities



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President

Business Environment in Fiscal 2022

Looking back at fiscal 2022, the year ended March 31, 2023, Japan experienced its seventh and eighth waves of COVID-19 infections, which spread rapidly. Furthermore, the effects of international political and economic turmoil, such as the protracted Russia-Ukraine conflict, and rapidly rising prices centered on raw materials and energy, had profound effects on the daily lives of Saitama Prefecture residents and corporate business activities, regardless of whether those effects were felt directly or indirectly.

Since the beginning of 2023, people have become more hopeful that the economy and society will return to normal. Positive trends have emerged, such as a resurgence in demand

for inbound tourism and consumer spending. In May 2023, COVID-19 was reclassified as a Category V infectious disease. This has hastened the transition from emergency to normalcy, leading us to the present.

In this environment, fiscal 2022 was the final year of the Bank's four-year Medium-term Management Plan "MVP 70." In order to fulfill our responsibility to support the community, as we looked ahead to the advent of a post-pandemic society, we fully served our customers and local communities as a reliable partner and focused on supporting the core businesses of each local company, while striving to identify needs and solve issues in support of the life planning of every customer. As a result of these measures, the balances of deposits and loans remained on a firm growth trajectory. On the profit front, net income on a non-consolidated basis was ¥10.3 billion, surpassing our ¥10.0 billion target laid out in the Medium-term Management Plan.

Regional financial institutions are being called upon to establish sustainable business models that help to revitalize the economy and society by fulfilling even more financial intermediary functions and practicing fiduciary duty. In addition, they must make unceasing efforts to further improve management soundness and transparency, which are preconditions for sustainable business models.

The global economic outlook has remained uncertain mainly due to factors such as inflation in Europe and the U.S. and the monetary tightening policies implemented in response to inflation, as well as the worsening Russia-Ukraine conflict and the rising geopolitical risk associated with China and North Korea.

Meanwhile, in Japan, against this backdrop of international circumstances, a seamless shift to a post-pandemic society has become an urgent priority amid soaring prices for daily necessities and energy.

Saitama Prefecture, the Bank's local market, has hurtled into an era of population decline since 2022. Combined

with the fact that the population is aging at the fastest rate in Japan, Saitama Prefecture is standing at a major turning point. It is now essential for us to develop and implement a unique growth strategy as a regional financial institution.

Formulating the New Long-term Vision “MCP—Musashino mirai-Creation Plan—”

In 2013, we formulated our Long-term Vision “MVP (Musashino Value-making Plan)” —“the number one bank in the region that creates value in Saitama”—in order to achieve sustainable growth together with local communities. To realize this vision, we have been implementing medium-term management plans that span 3 time periods over a 10-year timeframe.

And in March 2023, we formulated our New Long-term Vision “MCP (Musashino mirai-Creation Plan)” —“Bringing together diverse value to create Saitama’s future with the region’s number one solutions”—as our business roadmap for the next 10 years.

As the business environment becomes increasingly complex, our vision establishes the ideal profile we will need to stay true to the reason for our existence: to contribute to the sustainable growth of the economy and society as a bank that is essential to local communities.

In the process of formulating the vision, we asked customers and other stakeholders about their expectations and requests for the Bank, and for the first time in 10 years, we organized a study group comprising primarily younger bank employees. We studied issues and held lively discussions from a variety of perspectives.

Guided by the two basic policies of “Evolve into a partner that surpasses the expectations of communities and customers” and “Maximize the capabilities of the organization and employees,” we will focus on solving customer issues and fostering community vitality through financial and non-financial services. In addition, we will endeavor to build a highly resilient organization, develop a high level of specialization and provide a variety of work styles to maximize the abilities of each employee.

Overview of Medium-term Management Plan “MCP 1/3 (One-Third)”

In April 2023, the Bank started the Medium-term Management Plan “MCP 1/3” as the first stage for realizing the Long-term Vision “MCP.” We have positioned this stage as a period for fully serving our customers and local communities, while laying a solid foundation for the future by enhancing the diversity of the organization and the autonomy of employees.

We will strive to further strengthen our touchpoints with customers and create new services through intensive investment in digital and human capital based on two themes: “Grow together with communities and customers by integrating the real and digital” and “Empower diverse human resources to flourish based on mutual acceptance of many and varied values.” In addition, efforts will be made to develop human resources who have advanced proposal generation and problem-solving capabilities.

Initiatives for Corporate Clients and Individual Customers

The Bank will provide optimal problem-solving proposals with a diverse lineup of products and services and a high level of specialization premised on a thorough understanding of customers.

For corporate clients, we will further enhance our solutions proposal menu to include consulting and recruitment. Furthermore, we will focus on providing support based on the growth stage of each corporate client, through such means as seamless business succession and M&A.

For individual customers, we will redouble our commitment to practicing fiduciary duty. We will also focus on priorities such as enhancing proposal generation capabilities that contribute to long-term, stable asset formation and addressing inheritance and asset succession needs leveraging trust functions.

Regional Revitalization Strategy

The Bank will implement distinctive measures in partnership with local governments, universities, and local companies, in order to achieve regional revitalization unique to Saitama.

In June 2023, we initiated the Musashino

Agri-Innovation Project, which carries out rice cultivation within Saitama City. By engaging in hands-on rice cultivation as part of this project, we will gain knowledge and expertise, with the goal of assisting in the resolution of agricultural issues in Saitama Prefecture.

In this way, the Bank will use its platform for partnership among industry, academia, government, and the financial sector to strengthen tourism and city promotion initiatives, while continuing to concentrate our efforts on discovering and creating local resources, such as the Minuma Tambo “Wheat” Senary (Sixth-Order) Industry Creation Project.

Digital Strategy

The Bank will utilize cutting-edge digital technology to engage with a sense of urgency in efforts to improve customer convenience and satisfaction. These efforts will be led by the

Digital Promotion Division, which was newly established in conjunction with the start of the Medium-term Management Plan.

We will work to further upgrade and expand our smartphone app’s functions and enhance digital services for corporate clients. At the same time, we will accelerate efforts such as shifting to digital account opening and loan application processes.

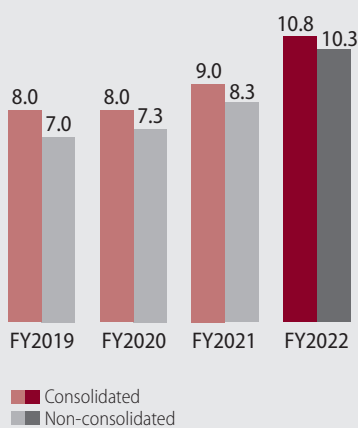
Furthermore, we will actively take steps such as raising the sophistication of customer proposals through the use of AI and big data and strengthening the digital communication platform within the Bank.

Practicing Human Capital Management

Based on the belief that human capital management is the source of corporate value, the Bank has formulated the Long-term Vision “SOU” for promoting the success of

Profit attributable to owners of parent/ Net income

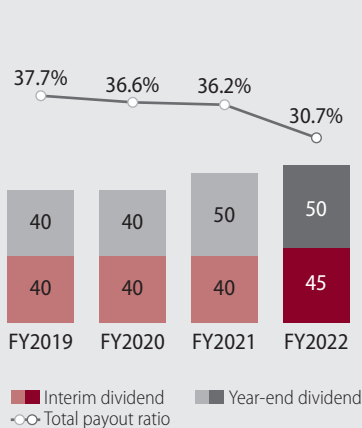
(¥ billion)



Dividend per share and total payout ratio (Non-consolidated)

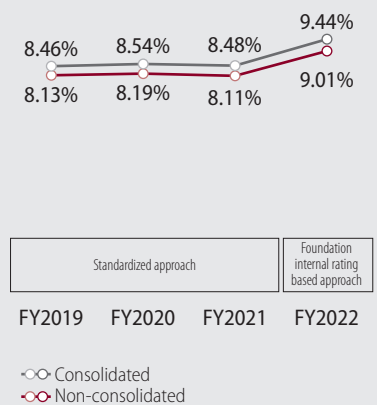
(¥)

(%)

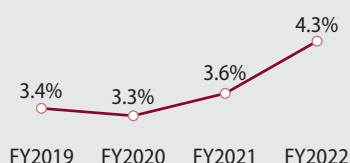


Trend in the equity ratio

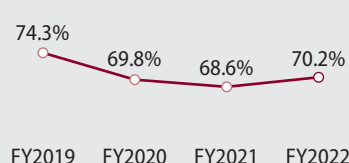
(%)



Consolidated ROE



Consolidated core OHR (Over Head Ratio)



* From fiscal 2022, the Bank changed its credit risk measurement approach from the “standardized approach” to the “foundation internal rating based approach.”

human resources.

We will focus on the development of professionals and digital specialists with exceptional problem-solving skills, while also bolstering our diversity and inclusion initiatives.

Moreover, we will concentrate on reforming various systems, including the personnel system, as well as reskilling employees and increasing their engagement.

Group Strategy

The Bank will foster even closer collaboration throughout the Group, including The Musashino Mirai Partners Co., Ltd., a regional trading company we established in June 2022, with the aim of maximizing synergies.

We will also work to expand business domains through efforts such as creating a program to call for new business ideas.

With Musashino Mirai Partners, the Bank aims to solve local issues through business and build a local ecosystem that will bring about a beneficial cycle for Saitama Prefecture's economy. Sai Hakken, a fee-based membership service for individuals, and IBUSHIGIN, a purchase-type crowd funding site to support commercial value chains for businesses, were launched in October, and both are gaining market awareness and penetration faster than initially anticipated.

In August 2023, Musashino Mirai Partners opened a new e-commerce website. In the future, it will continue working to enhance services that benefit customers and communities through such means as developing the Sai Hakken app.

Strengthening Sustainability Management

The Bank will work to continuously strengthen sustainability management that will contribute to the creation of a sustainable regional economy and society under guidelines such as the Musashino Bank SDGs Declaration and the Basic Policy on Sustainability.

Through loans and consulting, which are the Bank's core businesses, we will focus on encouraging sustainable corporate behavior, such as promoting decarbonization measures by businesses. In addition, we will actively work to reduce the environmental impact of our business activities.

Regarding our response to the TCFD recommendations, we are enhancing the disclosure of information to stakeholders, including increasing the precision of global warming scenarios and estimating Scope 3 greenhouse gas emissions.

In the future, we will continue to strengthen the management team's commitment to the TCFD recommendations and direct these efforts toward more effective global warming prevention measures.

Apart from this, the Bank will strengthen initiatives that help to enhance financial and economic literacy and address the issue of child poverty, among other areas.

Toward Increasing Corporate Value

In March 2023, the Tokyo Stock Exchange requested listed companies to implement management that is conscious of the cost of capital and profitability based on the balance sheet, and to disclose and implement specific actions to raise their stock prices.

As a listed company on the Prime Market, the Bank will continuously enhance measures to improve its profitability based on the balance sheet with a view to achieving a PBR of 1.

The Bank will strive to improve ROE through measures including improving the RORA of lending and investment divisions and raising the sophistication of credit risk management, along with achieving profit growth through steady execution of each strategy laid out in the Medium-term Management Plan as a matter of course. Concurrently, the Bank's policy is to achieve an optimal balance of financial soundness, profitability and shareholder returns and to consistently increase the total payout ratio.

Furthermore, we will endeavor to enhance shareholder returns alongside efforts to increase ROE.

The Bank has declared an annual dividend for fiscal 2022 of ¥95 per share, following an increase in the year-end dividend of ¥5. For fiscal 2023 (the year ending March 31, 2024), the Bank is forecasting an annual dividend of ¥100 per share.

In addition, the Bank is striving to increase the total payout ratio by conducting stock buybacks of up to ¥1.0 billion from May through August 2023.

The total payout ratio for fiscal 2022 was in the lower 30% range. We consider this level to be a bare minimum and will strive to raise it higher.

Serving Customers and Communities

The Bank started in April 1952 as a regional bank headquartered in Omiya City (currently Saitama City). Responding to expanding demand for finance as the post-war recovery hit full stride, the Bank commenced business with eight branches in Saitama Prefecture, aiming to contribute to the development of the prefectural economy. From that time up to the present, the Bank has remained firmly committed to autonomous, independent management with the support of its stakeholders.

Against this backdrop, the Bank received an administrative action (business improvement order) from the Kanto Local Finance Bureau of the Ministry of Finance in June 2023, in accordance with Article 51-2 of the Financial Instruments and Exchange Act. This was in connection with circumstances in which an investor protection problem was identified in relation to financial intermediary operations involving solicitation and sales of structured bonds.

In light of this administrative action, the Bank submitted a business improvement plan to the Kanto Local Finance Bureau in July. Furthermore, in August, the Bank announced improvement and recurrence prevention measures based on an analysis of the incident's root causes, taking into account the findings of an internal investigation. The Bank also announced the actions taken against the individuals involved in the incident.

The Bank extends its most sincere apologies to all parties involved, including customers with whom it has business relationships, for the tremendous inconvenience and concern this situation has caused.

Currently, we believe that the Bank should give top priority to rigorously enforcing and instilling compliance, taking this administrative action into account, in all aspects of its activities, from bank management to day-to-day operations. In addition, we believe that the Bank should take a fresh look at its corporate atmosphere and culture and devote even more effort than before to creating a corporate atmosphere and culture that embraces a true customer-first philosophy and is primarily committed to contributing to the development of local communities.

The Bank's Corporate Philosophy of "working in harmony with the local community it serves" and "maintaining a

deep respect toward customers" are perennial themes for the Bank. The Bank's Founding Prospectus from the time of its founding states that it will endeavor to be a Bank that truly alleviates Saitama Prefecture's financial difficulties and one that is loved by its residents.

We believe that the process of establishing a corporate atmosphere and culture is synonymous with efforts to place such a Corporate Philosophy and reason for existence at the forefront of all officers' and employees' awareness and behavior, and to embody these principles in our everyday actions.

All officers and employees will make sincere efforts to restore trust and will strive to conduct operations that contribute to the sustained growth of customers and communities.

In closing, we ask for your continued support for and understanding of the Bank from the bottom of our hearts.

K. Nagahori

Kazumasa Nagahori
President

