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May 9, 2025

To whom it may concern:

Company name: The Hachijuni Bank, Ltd.
Representative: Masaki Matsushita, President
(Securities Code: 8359; Tokyo Stock Exchange, Prime Market)
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Notice Regarding the Opinion of the Board of Directors of the Bank on Shareholder Proposals

The Hachijuni Bank, Ltd. (President: Masaki Matsushita, hereinafter, "the Bank") has received a written notice (hereinafter, the "Shareholder Proposal Document") from LIM Japan Event Master Fund, a shareholder of the Bank, on April 10, 2025, regarding shareholder proposals for the agenda of the 142nd Annual General Meeting of Shareholders of the Bank scheduled to be held on June 20, 2025. At a meeting held today, the Board of Directors has resolved to oppose the shareholder proposals (the "Shareholder Proposals") set forth in the Shareholder Proposal Document. The details are as follows.

1. Proposing Shareholder
Shareholder Name: LIM Japan Event Master Fund (Location: Cayman Islands)
Number of voting rights held: 300 (0.0065% of total voting rights)

2. Details of Shareholder Proposals
1) Matters to be Addressed at the Meeting of Shareholders (Proposed Agenda Items)

1. Partial Amendments to the Articles of Incorporation (Disclosure of Investments in Funds Managed by Shareholders)
2. Partial Amendments to the Articles of Incorporation (Verification of the Objective of Cross-shareholdings, Results Thereof, and Disclosure Regarding Changes in the Objective of Pure Investment)
3. Partial Amendments to the Articles of Incorporation (Disclosure of Directors' Compensation on an Individual Basis)
4. Appropriation of Surplus
5. Acquisition of Treasury Stock

2) Outline of and Reasons for the Proposals
As stated in the attached document, "Details of Shareholder Proposals."
Please note that the "Details of Shareholder Proposals" attached is a reproduction of relevant portions of the Shareholder Proposal Document submitted by the Proposing Shareholder.

3. Opinion of the Board of Directors of the Bank on the Shareholder Proposals

(1) Partial Amendments to the Articles of Incorporation (Disclosure of Investments in Funds Managed by Shareholders)

a. Opinion of the Board of Directors of the Bank
<u>The Board of Directors of the Bank is against this proposal.</u>

b. Reasons for Opposition

The Securities Investment Group, Financial Market Department, the Bank's pure investment division, receives referrals from securities companies concerning multiple hedge funds within its hedge fund manager discovery business. Among multiple referrals received in July, 2024 was a referral to a fund ("the Fund") managed by Lim Advisors Limited. As part of the preliminary deliberation process, we requested overview materials for each fund introduced by the securities company. Given this, inquiries regarding the Fund were also made to LIM Advisors Limited, through the securities company. If deliberations were to proceed to the next stage, we would naturally suspend further consideration of the Fund in line with our internal review procedures.

Therefore, upon the inquiry through the securities company, the Bank did not intend to collect information on the Fund for any purpose other than investment, was not at the stage of specifically considering an investment, and of course did not make the inquiry with the intent of providing benefits to the Proposing Shareholder.

Moreover, in October 2024, the Bank received a letter of inquiry from LIM Advisors Limited incorporating the questions listed in the reasons for the proposal, and provided a response as noted above within the same month that the letter was received. However, since that time, no further inquiries have been received from LIM Advisors Limited.

As previously stated, it is clear that the Bank has not engaged in any illegal acts, nor was there any risk of such acts taking place. The Bank has further consulted with its legal counsel and obtained confirmation of this opinion. Furthermore, given that the Bank has established systems sufficient to preclude the arising of any unnecessary doubts related to compliance, it believes that there is no need to disclose information concerning corporate governance in the report referred to in this proposal, nor is there any need to incorporate the contents of this proposal into the Articles of Incorporation.

For the above reason, the Board of Directors of the Bank is against this shareholder proposal.

(2) Partial Amendments to the Articles of Incorporation (Verification of the Objective of Cross-shareholdings, Results Thereof, and Disclosure Regarding Changes in the Objective of Pure Investment)

a. Opinion of the Board of Directors of the Bank

The Board of Directors of the Bank is against this proposal.

b. Reasons for Opposition

The basic policy of the Bank is to reduce cross-held shares after conducting sufficient dialogue with the investees. The Bank may retain such shares on a limited basis, however, if it is determined that doing so is reasonable from a business strategy perspective, such as when the Bank's cross-shareholdings contribute to strengthening relationships with investees, thereby helping to resolve management issues and enhance corporate value, which in turn contributes to local economic growth, or when such shares are held for other strategic reasons such as forming business partnerships.

In addition, we verify the rationale of all securities held as of the reference date from the perspective of whether the benefits and risks associated with each investment are commensurate with indicators that consider capital costs and other factors.

The Board of Directors verifies each year the rationale of shareholding for each issue and discloses the details of the verification in an appropriate manner.

With regard to shares where the objective of holding is changed from cross-shareholding to pure investment, we only include shares that the Bank can freely trade, such as those for which restrictions concerning trading or timing have not been imposed by the issuer. Additionally, following the change to pure investment, the department responsible will be changed to a department specializing in pure investment, and we will manage the shares in accordance with guidelines that stipulate appropriate exercise of voting rights, with the aim of realizing returns in the form of capital gains and dividends that exceed capital costs. We have disclosed this intention and are managing the shares accordingly.

We believe that the gist of this proposal, i.e. the verification of the objective of holding cross-held shares and the disclosure of the results thereof, as well as the disclosure concerning the change in the objective of such shareholdings from pure investment, in the Articles of Incorporation, which are the fundamental norms that set forth the basic matters on the organization and operation of a company, would be out of place. Moreover, in light of our basic policy of appropriate verification and disclosure, as described above, we believe that there is no need to set forth the matters articulated in this proposal in the Articles of Incorporation.

For the above reason, the Board of Directors of the Bank is against this shareholder proposal.

(3) Partial Amendments to the Articles of Incorporation (Disclosure of Directors' Compensation on an Individual Basis)

a. Opinion of the Board of Directors of the Bank

The Board of Directors of the Bank is against this proposal.

b. Reasons for Opposition

The compensation system of Directors of the Bank shall be a system that motivates Directors to enhance business performance, improve corporate value, and raise awareness toward shareholder-oriented management. In the determination of compensation for individual Directors, the Bank shall aim for appropriate levels based on the responsibilities to be fulfilled and the results achieved by each Director.

Furthermore, the Nominating and Compensation Committee, the majority of the members of which are Outside Directors and which is chaired by an Outside Director, deliberates the compensation for Directors and provides advice and recommendations to the Board of Directors.

The compensation, etc. for Directors determined each year in this manner is disclosed appropriately in the Annual Securities Report as total amounts for each officer category, total amounts for each type of compensation, and the number of officers subject to payment.

This proposal asks for a new provision in the Articles of Incorporation to disclose the compensation amounts of Directors on an individual basis. However, articulating such provisions in the Articles of Incorporation, which are the fundamental norms that set forth the basic matters on the organization and operation of a company, would be out of place. Furthermore, the Bank, as stated above, discloses the policy for the determination of Directors' compensation and the actual payments. Although we do not disclose Directors' compensation on an individual basis, we consider this to be a crucial matter of corporate governance and thus ensure its transparency and objectivity by having the Board of Directors determine the compensation based on the recommendations of the Nominating and Compensation Committee, the majority of the members of which are Outside Directors, and therefore, we believe that there is no need to set forth the matters articulated in this proposal in the Articles of Incorporation.

For the above reason, the Board of Directors of the Bank is against this shareholder proposal.

(4) Appropriation of Surplus

a. Opinion of the Board of Directors of the Bank

The Board of Directors of the Bank is against this proposal.

b. Reasons for Opposition

The Bank considers the return of profits to shareholders as one of its most important management tasks and has set a minimum dividend of 5.00 yen per share. The Bank upholds the basic policy of stable dividends and proactive shareholder returns through acquisition of treasury stock and continues to improve returns to shareholders. Specifically, the Bank has set the allotment target in the medium-term management targets at "annual dividends of at least 20.00 yen (each year from FY2023 through FY2025)." In line with this, in the previous fiscal year we paid 24 yen (interim dividend of 10 yen plus year-end dividend of 14 yen), in the current fiscal year we paid 42 yen (interim dividend of 13 yen plus year-end dividend of 29 yen), and for the next fiscal year we intend to pay 50 yen per share (including a commemorative dividend). In this way, we are steadily increasing dividends and maintaining a high level of dividends within the industry.

Meanwhile, the Bank believes that well-balanced efforts toward growth investments and ensuring financial soundness are essential in addition to the improvement of shareholder returns to sustainably improve its corporate value as a regional financial institution. From the standpoint of maintaining the soundness enables to support the regional companies under any circumstances together with making growth investments primarily to provide proactive support to regional companies, we believe that it is best to implement measures based on the Bank’s current dividend policy.

Payment of dividends on surplus based on this proposal, in view of the Bank’s raison d’etre as a regional financial institution as described above, can be construed as short-sighted and contrary to the medium- to long-term improvement of the Bank’s corporate value.

For the above reason, the Board of Directors of the Bank is against this shareholder proposal.

(5) Acquisition of Treasury Stock

a. Opinion of the Board of Directors of the Bank

The Board of Directors of the Bank is against this proposal.

b. Reasons for Opposition

The Bank considers the return of profits to shareholders as one of its most important management tasks and has set a minimum dividend of 5.00 yen per share. The Bank upholds the basic policy of stable dividends and proactive shareholder returns through acquisition of treasury stock and continues to improve returns to shareholders.

The Bank believes that well-balanced efforts toward growth investments and ensuring financial soundness are essential in addition to the improvement of shareholder returns to sustainably improve its corporate value as a regional financial institution. Therefore, in terms of the acquisition of treasury stock, the Bank, while upholding the standpoint of maintaining the soundness enables to support the regional companies under any circumstances together with making growth investments primarily to provide proactive support to regional companies, will focus on implementing acquisition, upon flexible and agile consideration of the right timing and amounts, taking into account the Bank’s financial condition and business plans, as well as the stock trading situation and stock prices. Based on this approach, the Bank recently acquired approximately 10.0 billion yen of treasury stock in FY2023 and 20.5billion yen of treasury stock in FY2024. And for FY2025, the Bank is also planning and has disclosed the acquisition of around 10.0 billion yen of treasury stock.

The Bank will continue to acquire treasury stock in a timely and appropriate manner based on the above policy and approach. However, the acquisition of treasury stock under this shareholder proposal fails to take into account for such policies and approaches, and as such acquisition could lead to financial restrictions and so on the Bank has deemed this shareholder proposal inappropriate.

For the above reason, the Board of Directors of the Bank is against this shareholder proposal.

(Attachment) Details of Shareholder Proposals

The relevant portions of the Shareholder Proposal Document submitted by the Proposing Shareholder are reproduced below in their original form.

1. Partial Amendments to the Articles of Incorporation (Disclosure of Investments in Funds Managed by Shareholders)

(1) Outline of the Proposal

It is proposed that the following chapter and provision should be added to the Articles of Incorporation of the Bank. If, as a result of the resolution of the other proposals (including Company Proposals) at this Annual General Meeting of Shareholders, it becomes necessary to make formal adjustments to the chapter and provision stated in this proposal (including but not limited to the number of the Articles), the provision in this proposal shall stand as the provision after the necessary adjustments have been made.

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendment
(Newly established)	<u>Chapter 7: Investments in Funds Managed by Shareholders</u> <u>(Disclosure of Investments in Funds Managed by Shareholders)</u> <u>Article 46</u> <u>When the Bank invests in a fund managed by a shareholder of the Bank, the Bank shall disclose the name of the shareholder, the name of the fund, and the amount of the investment in the Corporate Governance Report which the Bank submits to the Tokyo Stock Exchange.</u>

(2) Reasons for the Proposal

In July 2024, the Bank‘s Securities Investment Group, Financial Market Department, contacted LIM Advisors Limited, asset manager of the shareholder who submitted a proposal at the 141st Annual General Meeting of Shareholders held on June 21, 2024, through a securities company to express the Bank’s interest in the proposals submitted by the shareholders at the meeting. In response, as LIM Advisors Limited, which is obliged to protect the interests of the Proposing Shareholder’s fund customers, cannot accept investments from the Bank as this would constitute a conflict of interest, it has declined to provide any materials or engage in any communication based on the assumption of the acceptance of such investments.

As a financial institution, the Bank is naturally mindful of conflicts of interest. Given the above circumstances, the investment by the Bank in the Proposing Shareholder could be interpreted as an action that seeks to align the exercise of the Proposing Shareholders’ rights as shareholders of the Bank with the intentions of the Bank’s management, and could potentially raise suspicion that it constitutes a benefit to shareholders (Article 120, Paragraph 1 of the Companies Act).

Assuming that the Bank’s management is considering the strategy of investing in the Proposing Shareholder for the purpose of self-preservation, or using investment as a pretext for gathering information on the Proposing Shareholder which has exercised its rights as a shareholder of the Bank, such actions would constitute a breach of the fiduciary duty owed to the Bank’s shareholders as the management of a listed company. If that is the case, we must point out that the management, does not understand the intent of Principle 4-5 of Japan’s Corporate Governance Code, which states that “With due attention to their fiduciary responsibilities to shareholders, the directors, *kansayaku* and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.”

As professionals working in the corporate sector and in financial markets, the above issues and risks are self-evident. Since its founding in 1995, LIM Advisors Limited has invested in hundreds of Japanese companies, but has never been approached by a listed company with which it has engaged as a shareholder regarding investing in its fund, nor has it ever received requests to provide materials or engage in communication related to investment.

The proposal made by the Securities Investment Group of the Bank's Financial Market Department raises issues not only with regard to the Bank's corporate governance, but also reveals a lack of awareness with respect to compliance. Considering that this group plays a vital role in the Bank's operations division, this poses a risk of damage to its corporate value.

LIM Advisors Limited sent the Bank a letter of inquiry, but the Bank did not disclose any of the following: ① By whom the request for information about the shareholder fund was initiated; ② What the involvement of the Corporate Department was; ③ Whether the Compliance Department reviewed the issue before action was taken; ④ Whether the Proposing Shareholder's fund was included in the RESTRICTED LIST (investment prohibition list) of the Financial Market Department's Securities Investment Group; ⑤ Whether the Group has such a RESTRICTED LIST, and ⑥ Whether the Bank has internal systems in place to supervise the Group, including the existence of the RESTRICTED LIST, to avoid conflicts of interest with the Proposing Shareholder who has become a shareholder of the company.

It must be said that the Bank's management team is indifferent to conflicts of interest with shareholders. Therefore, the purpose of this proposal is to mitigate potential conflicts of interest and compliance risks that the Bank may face by mandating disclosure of investments in funds operated by its shareholders.

2. Partial Amendments to the Articles of Incorporation (Verification of the Objective of Cross-shareholdings, Results Thereof, and Disclosure Regarding Changes in the Objective of Pure Investment)

(1) Outline of the Proposal

It is proposed that the following chapter and provision should be added to the Articles of Incorporation of the Bank. If, as a result of the resolution of the other proposals (including Company Proposals) at this Annual General Meeting of Shareholders, it becomes necessary to make formal adjustments to the chapter and provision stated in this proposal (including but not limited to the number of the Articles), the provision in this proposal shall stand as the provision after the necessary adjustments have been made.

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendment
(Newly established)	<u>Chapter 8: Cross-held shares</u> <u>(Verification of the Objective of Cross-shareholdings and Disclosure of Results)</u> <u>Article 47</u> <u>The Bank in its Board of Directors meeting shall specifically examine, whether the objective of the shareholding of individual cross-shareholdings of the Bank is appropriate, whether the benefits and risks of the shareholding are commensurate with capital costs and verify whether the shareholdings are appropriate.</u> <u>2. The Bank, in order to verify whether the cross-shareholding objective of maintaining and strengthening business relationships is actually being fulfilled by the cross-shareholding, shall interview</u>

	the issuer of the cross-held shares, at least once a year and ask whether the cross-shareholding objective will not be fulfilled, if the cross-held shares were sold, and the reason thereof. 3. The Bank shall disclose the results of verification by the Board of Directors in accordance with paragraph 1 (including, but not limited to, the specific numerical values and process of calculation of the indicators used to verify the reasonableness of holding cross-held shares, based on whether the benefits and risks obtainable from each issuer of such shares, as determined by the Bank, are commensurate with indicators that consider factors such as capital costs) and the replies to the interview by the issuer in accordance with paragraph 2 for each issuer by its Corporate Governance Report which the Bank submits to the Tokyo Stock Exchange. 4. If the Bank changes the objective of holding cross-held shares to pure investment, it will disclose the specific figures for the capital cost to be used as the benchmark for the target return and the calculation process for each issue in the Corporate Governance Report submitted by the Bank to the Tokyo Stock Exchange.

(2) Reasons for the Proposal

The Bank's Price Book-value Ratio (PBR) has been below 1.0x since 2006 and currently stands at only about 0.4x. The Bank cannot deny that the low market evaluation of the Bank's shares is the consequence of overcapitalization disproportionate to the risk and returns of the business and management decisions that overlooked the escalation of cross-shareholdings. The Bank is a financial institution that handles marketable securities and is an internationally recognized institution that includes unrealized gains on cross-held shares in its capital. With regard to the Bank's policy for reducing cross-held shares, however, it has established a target of "reducing strategic shareholdings to under 20% of net assets by March 2030," which, from the perspective of the timeframe, lacks a sense of urgency. Regarding the cross-held shares owned by the Bank, as stipulated in the disclosure materials for the 54th Information Meeting held in November 2024, on page 43 under the section titled "Efforts to Improve ROE: Strategic Shareholding Policy and Reduction Methods," "In regard to all shares that we hold as of the reference date, we have verified that our holding of each issuer's shares is reasonable from the perspective of whether the benefits received from the issuer and the risks related thereto are balanced against indices that take into account cost of capital and other factors," and "The Board of Directors will verify the reasonableness of holding each issuer's shares each year and disclose the details of that verification through an appropriate method." However, whether the disclosure will be made on an individual security basis, the specific 'indicators' that will be disclosed, and the disclosure methods that will be employed remain unclear.

In fact, according to the Annual Securities Report for the 141st fiscal year (April 1, 2023 to March 31, 2024), as of March 31, 2024, the Bank held approximately ¥638.6 billion in cross-held listed shares. This is an abnormal value, equivalent to approximately 150% of the Bank's most recent market capitalization. If the Bank maintains this disproportionately large cross-held stock position with respect to its market capitalization, it will be unable to correct inefficient capital allocation in which the return on equity (ROE) is subordinate to shareholder equity costs.

From the standpoint of "procyclicality," which posits a positive correlation between economic fluctuations and the unrealized gains from cross-shareholdings, cross-shareholdings would be defined as "poor-quality" capital. Cross-shareholdings are financial assets entailing high risk and volatility compared to other instruments. Nevertheless, the Bank does not calculate the fair values of these cross-shareholdings, as a professional institutional investor would. As was evidenced by the incident where a major insurance company adjusted its corporate insurance premium with other companies, cozy relationships between companies can become a breeding ground for fraud. Cross-shareholding also poses an inherent risk, in which factors other than the terms and conditions of the loan agreement, such as the ratio of cross-shareholdings, could impact the competition to capture customers.

In an interview article "President Matsushita of Hachijuni Bank Objects to Investor Demand to Reduce Cross-shareholdings posted in the digital version of the Nihon Keizai Shimbun in September 2023, President, Masaki Matsushita explains that "Unrealized gains are proof of our long-standing efforts to nurture companies." However, the Bank has hardly any business transactions with Shin-Etsu Chemical Co., Ltd., which has the highest market value in the Bank's cross-shareholdings. He also says that "if we sell the shares all at once, we will lose the opportunity to benefit from further increases in share prices. Ample capital adequacy is crucial for implementing bold measures. Although we need to provide an explanation (to the investees), we can benefit from having cross-shareholdings, which can be quickly converted into cash, in our arsenal." Despite these remarks, it is doubtful whether the Bank has calculated the fair values of its cross-shareholdings and there is an obvious lack of the concept of procyclicality.

Additionally, as stipulated in the disclosure materials for the 54th Information Meeting held in November 2024, on page 43 under the section titled "Efforts to Improve ROE: Strategic Shareholding Policy and Reduction Methods," "When reducing strategic shareholdings, in cases where we are able to reach an agreement with the issuer that each party is free to sell the other party's shares it holds at its sole discretion, we will change the purpose of those holdings to pure investment and change the department responsible for managing those holdings to the department responsible solely for investment." As a result, by reclassifying cross-shareholdings as pure investments, the Bank may now have the option to reduce them on paper. However, the shareholders are investing in the Bank because they are counting on the value of the Bank as a financial intermediary to the regional economy, to which the shareholders have no way of investing directly, and not as an asset manager of Japanese equity, and the Bank is disregarding the position of the minority shareholder.

In the Annual Securities Report for the 141st fiscal year, the Bank claimed that for "investment securities held for purposes other than pure investment" that fall under cross-shareholdings, the Bank will "establish standard values for Return on Risk Asset (RORA) indicators based on the Bank's capital costs to gauge the rationale of holding listed stock and conduct verifications for each company." However, based on the description of the objective of cross-shareholdings in the 141st Securities Report, in practice, we surmise that the "rationale of holding" lies in the expectations for business development in the forms of loans from its business partners through the holding of cross-shareholdings. Such a method can result in the business partner prioritizing transactions with the Bank which is a shareholder rather than seeking financial institutions that indicate the best possible conditions for them, which, in turn, could lead to conflicts of interest between the other shareholders of the business partner and the Bank. It can also pose the risk of fraud, as was indicated by the incident involving corporate insurance premium adjustments by a major insurance company with other companies. Therefore, cross-shareholdings contain risks that contradict the management philosophy of "Contribute to regional development through a commitment to sound banking principles."

From the outset, the method of "establishing standard values for Return on Risk Asset (RORA) indicators based on the Bank's capital costs to gauge the rationale of holding listed stock" may confuse with securities and loan receivables whose risk and return qualities are in a totally different class of assets. The hurdle rate for a business holding cross-shareholdings should be the capital cost of that business. On the other hand, major listed companies in Japan have an ROE of 8% or higher, and for the Bank, which aims for a 5% or higher ROE by fiscal 2027, to set capital cost as its standard value, is tantamount to admitting that it holds cross-shareholdings that are unattractive investment-wise and is disregarding the stance of the minority shareholder.

3. Partial Amendments to the Articles of Incorporation (Disclosure of Directors' Compensation on an Individual Basis)
(1) Outline of the Proposal

It is proposed that the following provision should be added to the Articles of Incorporation of the Bank. If, as a result of the resolution of the other proposals (including Company Proposals) at this Annual General Meeting of Shareholders, it becomes necessary to make formal adjustments to the provision stated in this proposal (including but not limited to the number of the Articles), the provision in this proposal shall stand as the provision after the necessary adjustments have been made.

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendment
(Newly established)	<u>(Remuneration and Other Financial Benefits of Directors)</u> <u>Article 25 (Omitted)</u> <u>2. The amount, the details and the determination method of the remuneration of Directors shall be disclosed each year on an individual basis in the Business Report and the Annual Securities Report.</u>

(2) Reasons for the Proposal

The Bank's shares have chronically had a PBR of 1x or lower and the Bank has had a problem in terms of corporate governance with its immense cross-shareholdings functioning as a manipulative way of securing stable shareholders and generating arbitrary profit. To the contrary, Directors' compensation on an individual basis indicates how the Board of Directors assesses the challenges of the Bank and how such efforts are reflected in the individual Director compensation and plays the role of elucidating the problems of corporate governance and capital allocation.

The Board of Directors of the Bank, which has long overlooked the PBR of less than 1x and the Bank's escalating cross-shareholding, cannot be expected to play a role in improving the Bank's corporate governance problems or making management take responsibility in terms of capital efficiency and the protection of minority shareholders. Therefore, to provide an environment where the shareholders can take a more proactive approach to checks and balances, we propose to establish a provision in the Articles of Incorporation to mandate for the Bank to disclose Directors' compensation on an individual basis.

According to the "Corporate Governance Report" disclosed by the Bank in November 2024, it states that, "The compensation system of Directors of the Bank shall be a system that motivates Directors to enhance business performance, improve corporate value and raise awareness toward shareholder-oriented management. In the determination of compensation for individual Directors, the Bank's basic policy is to aim for appropriate levels based on the responsibilities to be fulfilled and the results achieved by each Director. Specifically, Directors' compensation comprises fixed-amount compensation, performance-linked compensation, and non-monetary compensation." To be specific, fixed-amount compensation is "a monthly compensation determined by considering the Bank's business performance and the levels of its peers, according to the position, responsibilities, and number of years in office of the Director." However, the specific calculation methods and allocation methods are not articulated. Performance-linked compensation "serves as a short-term incentive to raise the motivation and morale of the Directors to enhance business performance and is based on the performance indicator of ‘net income attributable to owners of parent’ (hereinafter, “consolidated net income”), and paid in cash at a given time each year in the amount calculated each fiscal year based on consolidated net income.” Since the indicators do not contain indicators of capital efficiency, such as ROE, we cannot tell from the disclosed documents how the incentives for the Directors are connected to shareholder interests (especially minority shareholders). In addition, since net income for a single fiscal year is used as a performance indicator, there is no incentive to improve medium- to long-term corporate value.

Supplementary Principle 4.2.1 of “Principle 4.2 Roles and Responsibilities of the Board (2)” of the Corporate Governance Code states that “The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.” However, it is highly unlikely that the Bank’s system of compensation for directors has been designed to contribute to the common interests of the shareholders.

This is why we are proposing a provision to be added in the Articles of Incorporation for the mandatory disclosure of Directors’ compensation on an individual basis to establish an environment that allows shareholders and the stock market to appropriately assess management’s performance and the Bank’s problems with corporate governance.

In the “TSE’s Future Actions in Response to the Summary of Discussions of the Follow-up Council” released by Tokyo Stock Exchange, Inc. on January 30, 2023, it states that it will “Require that management and the board of directors properly identify the company’s cost of capital and capital efficiency, evaluate those statuses and its stock price and market capitalization, and disclose policies and specific initiatives for improvement and the progress thereof as necessary” and that it will require disclosure “Especially for companies that clearly need to improve, such as those with a PBR consistently below 1x.” The Bank’s PBR has been less than 1.0x for the past 20 years and whether achieving a PBR of 1.0x or higher is serving as an incentive for the Directors or not is a crucial point in the “specific initiatives for improvement (of PBR).”

4. Appropriation of Surplus

(1) Outline of the Proposal

It is proposed that the surplus should be appropriated as follows. If the Board of Directors of the Bank proposes an appropriation of surplus at this Annual General Meeting of Shareholders, this proposal will be submitted separately from such proposal.

1. Type of dividend property
   Cash
2. Amount of dividend per share
   The amount to deduct the amount of dividend per share of common stock of the Bank proposed by the Board of Directors of the Bank and approved by this Annual General Meeting of Shareholders from 71.00 yen (If the Board of Directors of the Bank does not propose an appropriation of surplus at this Annual General Meeting of Shareholders, then 71.00 yen).
3. Allotment of dividend property to shareholders and the total amount
   The amount of dividend per share stated in above 2. per share of common stock (The total amount of dividends shall be an amount calculated by multiplying the amount of dividend per share by the number of common stock (excluding treasury stock) of the Bank issued as of March 31, 2025).
4. Effective date of distribution
   Date of this Annual General Meeting of Shareholders
5. Commencement date of dividend payments
   The date on which three weeks have passed from the business day following this Annual General Meeting of Shareholders.

(2) Reasons for the Proposal

Considering the risk of continuing impairment of shareholder value due to the further increase in net worth and a long-term PBR of less than 1x, for the purpose of breaking this vicious cycle of deteriorating capital efficiency, pushing forward with bold shareholder returns would contribute to the protection of minority shareholders.

In the item of "Efforts to Improve PBR" on page 37 of the disclosed materials for the 54th Information Meeting held in November 2024, it states that "We recognize that low ROE is the issue causing our low PBR," and that the Bank aims to achieve an even higher level of ROE of 7-8%, exceeding capital costs in the future. The phrase "the future," however, is lacking in specificity. From the outset, the Bank could reduce cross-shareholdings on paper by shifting the objective to pure investment, but as things stand, we cannot help but conclude that it is difficult to expect a return to a PBR of 1x. Under Japanese accounting standards, the calculation of PBR is based on the market value of investment securities, and the cost of capital also corresponds to the market value of the investment business.

This is why a payout ratio of 100%, at least is necessary, and as stated in (1) above, we propose a dividend of 71.00 yen which has been calculated by deducting 13.00 yen per share of interim dividend from the 84.00 yen per share projected in the earnings forecast for the fiscal year ended March 31, 2025. The Bank is a Uniform International Standard bank with a high capital adequacy ratio of approximately 20% and thus it is highly unlikely that a 100% payout ratio will pose a systemic risk to the regional economy. As of March 31, 2024, the Bank held approximately ¥638.6 billion in cross-held shares, which amounts to approximately 150% of the Bank's market capitalization, ensuring sufficient financial resources.

5. Acquisition of Treasury Stock

(1) Outline of the Proposal

In accordance with the provisions of Article 156, Paragraph 1 of the Companies Act, the Bank shall acquire a total of 20,000,000 shares of common stock of the Bank for up to 18.02 billion yen (However, if the total acquisition price permitted by the Companies Act (the "Distributable Amount" defined in the provision of Article 461 of the Companies Act) falls below the said amount, then the maximum acquisition price permitted by the Companies Act), in exchange for cash, within one year from the conclusion of this Annual General Meeting of Shareholders.

(2) Reasons for the Proposal

At the Bank, a large volume of cross-held shares based on market value is a major cause of overcapitalization resulting in a high capital adequacy ratio inordinate relative to the business' risk and return. Ignoring such overcapitalization will lead to the perpetual PBR of 1x or less because of the Bank's failure not to correct inefficient capital allocation in which ROE is subordinate to capital costs.

In the item of "Efforts to Improve PBR" on page 37 of the disclosed materials for the 54th Information Meeting held in November 2024, it states that "We recognize that low ROE is the issue causing our low PBR," and that the Bank aims to achieve an even higher level of ROE of 7-8%, exceeding capital costs in the future. The phrase "the future," however, is lacking in specificity, and the Bank may shift the objective to pure investment, reducing cross-shareholdings on paper only. Under Japanese accounting standards, the calculation of PBR is based on the market value of investment securities, and the cost of capital also corresponds to the market value of the investment business.

Consequently, to pave a path toward recovering a PBR of 1x or higher, the acquisition of treasury stock will become indispensable. As stated above, the Bank holds cross-shareholdings equivalent to approximately 150% of its market capitalization and has more than enough funds to acquire treasury stock. The proposed total number of shares is equivalent to 6% of the trading volume of the Bank's shares in the past year and is on a reasonable level that can be fully absorbed by the market from the standpoint of liquidity.

The Bank is a Uniform International Standard bank with a high capital adequacy ratio and it is highly unlikely that the proposed acquisition of treasury stock equivalent to approximately 4% of its market capitalization will pose a systemic risk to the regional economy. Furthermore, it is not inconsistent with the Bank's management philosophy of "Contribute to regional development through a commitment to sound banking principles."