Progress under the Management Plan

Management Plan overview

In December 2019, the Nanto Bank Group announced its management goals and mission for the period from April 2020 to March 2030 under the title "Nanto Mission and Goals for Achievement in 10 Years."

The three tenets of the Nanto Mission are "pursuit of regional development," "creation of vitality-creating human resources," and "improvement of profitability." All are aimed at contributing to achievement of Nanto Bank's goals of increasing Nara prefecture's GDP by approximately 350 billion yen, cultivating 350 management personnel, and achieving non-consolidated ROA of 0.35% or above.

We followed this goal creation in December 2021 by formulating five new indicators as renewed interim targets for FY2024: consolidated profit of 3 billion yen from customer transactions; OHR of less than 70%; ROE of at least 4.0%; non-consolidated ROA of at least 0.25%; and cultivation of 1,000 qualified vitality creation personnel.

Earliest possible return to profitability of core businesses and progress toward interim targets

■Interim targets (to March 2024) and status of achievement

	FY2021 results	FY2022 results	FY2023 plan	Interim target (FY2024)
Profit from customer transactions (consolidated)	1.8 billion yen	5.8 billion yen	5.6 billion yen	30 billion yen
OHR (consolidated)	68.1%	72.5%	73.1%	Below 70%
ROE (consolidated)	4.09%	1.72%	4.18%	Above 4.0%
ROA (non-consolidated)	0.25%	0.20%	0.21%	0.25% or above
Number of employees with qualifications related to vitality creation	559	601	750	1,000

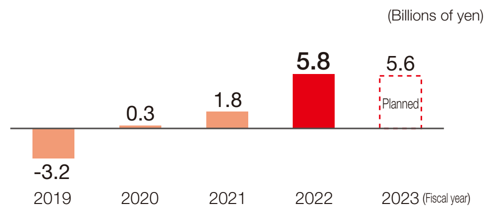
In FY2021, we succeeded three years ahead of schedule in surpassing our initial interim target for non-consolidated profit from customer transactions, also referred to herein as "profit from core businesses operations," set for achievement by FY2024. Subsequent efforts to further reinforce the Group's ability to achieve its revised interim target led to consolidated profit on customer transactions of 5.8 billion yen in FY2022, exceeding the new interim target by 4.0 billion yen year on year. The same period saw our OHR worsen and our ROE and ROA decline due to a falloff in profit resulting from a disposal of losses in the market sector.

In FY2023, we plan to enhance our ROE and ROA indicators through improved market sector earnings.

Fiscal 2022 results and outlook for fiscal 2023

Profit from customer transactions

■Trends in profit from customer transactions (consolidated)



In the "income" column in our FY2022 results, interest on loans and bills discounted increased by 2.1 billion yen from the previous fiscal year to 34.2 billion yen due to improved loan yields stemming primarily from an increase in the balance of loans and bills discounted as a result of comprehensive funding support for responses to the coronavirus pandemic. Net profit on services and other transactions also grew by 0.6 billion yen from the previous fiscal year to 7.0 billion yen due to an increase in home loan-related fees and income from corporate solutions.

The "expenses" column, meanwhile, showed year-on-year downturns in both personnel expenses and property and equipment expenses of 0.1 billion yen and 0.5 billion yen, respectively, owing mainly to a decrease in deposit insurance premiums.

Consolidated net profit from customer services increased as a result, rising by 4.0 billion yen from the previous fiscal year to 5.8 billion yen due to an improvement in the Bank's non-consolidated net profit from customer services.

We expect to achieve higher income in FY2023 by raising interest on loans by 0.9 billion yen from the previous fiscal year to 35.1 billion yen through an increase in the average balance of loans, and by raising net fees and commissions by 0.1 billion yen from the previous fiscal year to 7.1 billion yen through an increase in fees and commissions. We expect to record higher revenues in the corporate solutions business as well.

As concerns expenses, meanwhile, although we will continue to implement our planned personnel reductions, our personnel expenses are expected to remain almost unchanged due to such factors as higher basic salaries, while property expenses are expected to rise by 1.1 billion yen from the previous fiscal year to 14.9 billion yen due to strategic investments in such IT instruments as smartphone banking applications.

In consideration of the above factors, we expect to record consolidated net profit from customer transactions of 5.6 billion yen in FY2023, a year-on-year decline of 0.2 billion yen.

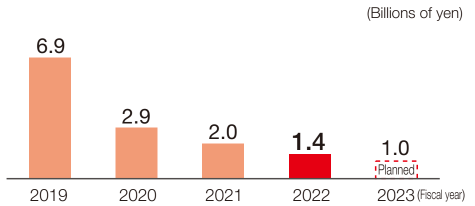
Credit-related expenses

Credit-related expenses slipped by 0.5 billion yen from the previous fiscal year to 1.4 billion yen in FY2022, as the occurrence of nonperforming loans fell in response to our efforts to shore up our core businesses to cope with the effects of the pandemic.

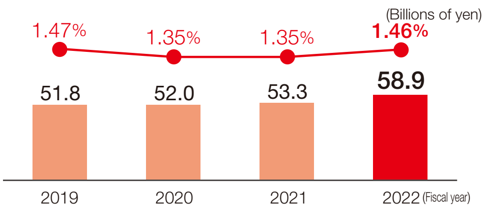
The nonperforming loan balance rose by 5.5 billion yen from the end of the previous fiscal year to 58.9 billion yen, leading to a nonperforming loan ratio of 1.46%.

While new accruals are expected to increase year on year in FY2023 due to such factors as higher prices and the start of full repayment of pandemic-related loans, we foresee a downturn in credit expenses of ¥0.4 billion year on year to ¥1.0 billion in response to an expected reversal of allowances for loan losses resulting from improved business performance by customers of our business improvement services.

■Trends in credit-related expenses (non-consolidated)

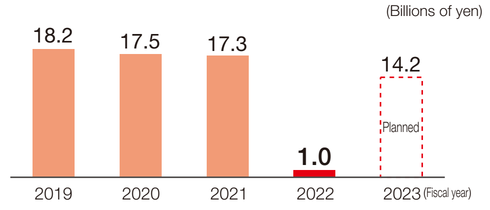


■Trends in non-performing loans outstanding and the NPL ratio



Market sector revenue

■Market sector revenue trends (non-consolidated)

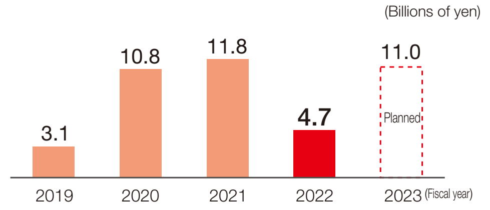


Income in the market sector fell sharply by 16.2 billion yen from the previous year to 1.0 billion yen in FY2022 in response to the sale of all fixed-rate foreign bonds whose positions had reversed in order to secure stable income from FY2023 forward. This result reflected ordinary income of 10.7 billion yen and capital income of -9.7 billion yen.

We are planning to increase our market sector earnings by 13.2 billion yen from the previous fiscal year to 14.2 billion yen in FY2023 through improvements in both capital income and earned income.

Net Income

■Trends in net income (consolidated)



Consolidated net income for FY2022 fell to 4.7 billion yen, a decrease of 7.1 billion yen from the previous year attributed to a significant downturn in market sector income, while income from customer transactions increased and credit-related expenses decreased. Our main business segment earnings excluding the market segment remained steady owing to a restructuring of our portfolio.

We anticipate consolidated net income of 11.0 billion yen in FY2023, a year-on-year increase of 6.2 billion yen due to improved market sector earnings, although profit from customer transactions will likely remain mostly unchanged.

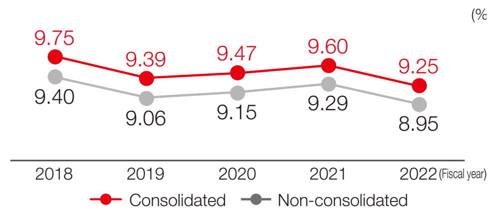
Capital policy

Basic policy

While implementing comprehensive measures to ensure the Group's financial soundness, we are also working to raise its medium- to long-term corporate value by realizing returns commensurate with the cost of shareholders' equity through strategic investments for sustainable growth and stable, flexible returns to shareholders.

Capital adequacy ratio

■Trends in the capital adequacy ratio (consolidated and non-consolidated)

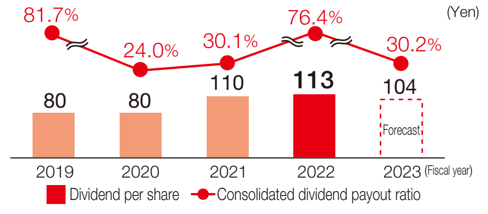


The Group's consolidated capital adequacy ratio decreased by 0.35 percentage point to 9.25% and its non-consolidated capital adequacy ratio by 0.34 percentage point to 8.95% from the previous year in FY2022 due to an increase in risk-weighted assets and a decrease in net income for the period.

The future will see us continue our efforts to maintain an appropriate capital adequacy ratio and to manage capital efficiently.

Policy on returns to shareholders

■Trends in dividends and the consolidated dividend payout ratio

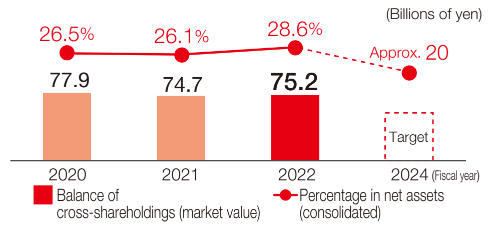


Although our FY2022 financial results recorded a significant decrease in net income, we paid the year-end dividend of 73 yen per share as announced in September of last year. This action reflected the fact that our business performance, including our profit from customer transactions and excluding the impact of the disposal of losses in the market sector, was generally in line with our plan. As a result, the annual dividend for the year, including an interim dividend of 40 yen, was 113 yen per share. The annual dividend planned for FY2023 is 104 yen per share in accordance with the policy on returns to shareholders shown below.

Policy on returns to shareholders (announced February 2022)
Maintain a stable dividend of ¥80 per share, while aiming for a dividend payout ratio of 30% of net income payable to shareholders of the parent company.

Cross-shareholding

■Trends in the market value of cross-shareholdings and the ratio of cross-shareholdings to net assets



Nanto Bank engages in cross-shareholding when it contributes to ensuring the Group's sustainable growth and maintenance or enhancement of its corporate value, and when it is considered necessary to the Group's business strategy.

The ratio of the balance of cross-shareholdings to consolidated net assets on a market value basis declined from 38.3% at March 31, 2015 to 28.6% at March 31, 2023. We have set a target of reducing this ratio to about 20% by end March 2025 as part of efforts to maintain an awareness of capital efficiency in the Bank's management.