

Opinion Exchange on Second Five Years of the Management Plan



*At the time of the opinion exchange meeting

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In December 2019, the Nanto Bank Group introduced its Management Plan, “Nanto Mission and Objectives for the Next 10 Years,” for the planning period from April 2020 to March 2030, including interim targets for the five years through March 2025.

In light of recent changes in the surrounding environment, our leadership, including our outside directors, held a meeting to exchange opinions on the appropriate direction for the Group to take in the upcoming final five years of the 10-year Management Plan.

Direction set by the Management Plan to accommodate changes in the operating environment

President: Our current Management Plan, which covers a 10-year period, identifies three objectives for achievement:

“regional development,” “cultivating of human resources that create vitality,” and “improvement of profitability.” During the first five years of the Plan, the Bank has focused on attaining profit from non-consolidated customer service operations, or, in other words, profit from our core businesses. Now, however, such changes in monetary policy as the lifting of the Bank of Japan’s negative interest rate policy and the elimination of yield curve controls have significantly altered the Group’s business environment. In the five-year second half of the Plan, therefore, we intend to respond to these changes and pursue our Mission through achievement of the three objectives enumerated in the Plan.

Ishida: When operating in the interest rate-free financial environment that prevailed until recently, it was difficult to secure earnings in either the market management or loan sector due to the low rates of interest on loans resulting from monetary easing. We have consequently sought to diversify our revenue sources to augment those achieved through a business model based on traditional deposit-and-loan operations by expanding the role of the commission business. Interest on deposits represents a cost for banks, but with the resurgence of interest rates, we have reached a turning point toward an environment in which banks can once more secure returns that exceed the cost of deposits. This will require us to reconsider our funding and investment strategies.

Aoki: We have successfully leveraged our network of branches in Nara prefecture to create opportunities for face-to-face contact with customers. This has involved establishing a structure that enables customers to entrust deposits to us and leveraging the structure to secure a high share of the bank deposits in Nara prefecture. If we are to maintain and expand this high share of deposits into the future, it will be important to attract young customers who are less likely than their elders to visit our branches, as well as to upgrade and enhance the convenience of our online banking and other services. We can strengthen and stabilize our funding base further by augmenting the functions of the new banking app we introduced this April, while working at the same time to enhance the non-financial services provided through the app in order to ensure that they match the lifestyles of our younger generations.

Nakayama: With the end of the interest rate-free financial environment we operated in for so long, many of our staff are experiencing a “world with interest rates” for the first time. Strengthening our deposit and loan business will require us to clarify our plans for the Bank and for the effects of revenues generated by the deposit and loan business, and to ensure that the plans are disseminated Groupwide and fully understood by our staff. We also need to reinforce our digital strategies to take advantage of the Bank’s non-financial infrastructure, such as its local networks, which are thought to be among its primary strengths. The Group’s profitability will be enhanced further by maintaining its brick-and-mortar branches and providing services tailored to the specific needs of customers, not only the elderly, but others who prefer face-to-face services as well.

Kakutani: This may be obvious, but it will be important to begin by informing our staff that, in a world with interest rates, accumulating deposits can be expected to yield a stable income from loans and market operations. It will also be essential to explain the ins and outs of lending rates in an environment of rising interest rates fully to customers. We are starting with efforts to establish systems to ensure that all our staff understand the changes in the interest rate environment properly, and that each of them can respond with certainty and speed.

Important role of human resources in differentiating our business practices from the competition's

President: I expect “human resources” to be a key word in the next Management Plan. The cornerstone of our organization is not a formal organizational theory, but rather a full awareness by every member of the issues at hand, enabling them to think independently about how they can best do their job without considering their position as a “bank officer or employee” and to take up challenges without hesitation. Nurturing human resources who take up difficult challenges willingly without fear of failure will contribute to revitalization of the organization, while at the same time showing that we are serious about encouraging regional customers to choose Nanto Bank.

Kasuya: In my opinion, our most important issue is to secure the fulfillment and growth of our executives and employees. Solving the wide range of issues faced by our customers requires expertise. The value we provide customers is directly linked to the ability of our executives and employees to improve their individual skills and act on their own initiative. Investing in our human capital and transforming our corporate culture into a vibrant one that encourages frank, cheerful communication will enable the Group to apply its strengths to regional development and contribute to its sustainable growth.

I feel certain that we will be able to differentiate ourselves from other bank groups through persistent efforts pursued by every officer and employee with a sense of mission, pride, and determination.

Nishimura: When it comes to human resources, we need to consider the specific human resources development measures we want to pursue in connection with our strategy of strengthening new and existing businesses. Besides opportunities to attract new customers, there are also openings for customers to transfer their deposits from competitors to us, supported by an abundant market in terms of deposit retention and mainstay corporate customers. If customers are to choose Nanto Bank Group, it will be essential for the Group's officers and employees to continue to provide them with added value and to instill an attitude of trust as well as to provide services that exceed their expectations, which we recognize as the key to differentiating Nanto Bank Group from other banking organizations.

Sugiura: To construct an optimal portfolio, it will be essential to refine the strategies pursued in the various areas of the Nanto Bank Group's operating base (Nara, Osaka, and Tokyo areas) based on a careful analysis of the human resources situation and the competition environment. We will continue our efforts to develop the human resources necessary to realize our strategies, and to differentiate ourselves from our competitors by providing sophisticated consulting services that address the issues and needs of our customers and enhance their corporate value.

Honda: Under the negative interest rate environment, the Bank focused on strengthening the acquisition of corporate service profits. Looking back over the years from fiscal 2020 to the present, we see a definite change in staff awareness and behavior as well as in results. Going forward, it will be important to address settlement deposits in areas outside the prefecture. I'd like to see us create a virtuous cycle that leads to an increase in credit lines and acquisition of service transactions by gaining an understanding of the actual status of corporations through settlement deposits. Especially in light of the strong correlation between service transactions and mainstay corporate transactions, I believe there is room for the Group to maintain its high market share in Nara prefecture while also maximizing use of its resources to increase its mainstay operations in eastern and southern Osaka.

Funaki: As we enter a world with interest rates, we are reevaluating the importance of deposits, but we recognize that they can only be profitable if they are invested in loans and other assets that can be expected to generate returns commensurate with the risk. Structured finance can produce reasonable returns today, for example, but there is a possibility that the yield will decline as the competition intensifies in the future. Adopting this perspective leads to a realization that a constant search for new investment targets and methods will be required, and, at the same time, that we need human resources who can rigorously examine them. We believe we can differentiate ourselves from other banks by educating personnel in various sections of our organization,

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including sales, administration, investment management, and planning, to understand our objectives and their own respective roles in achieving them, and by continuing to grow to maximize the corporate value of the Nanto Bank Group.

Our objectives

- Ishida:** It is important that the organization set higher goals for the second half of the Management Plan at the formulation stage, and that it thoroughly examine the potential for realizing the Plan with respect to these higher standards. In seeking to enhance the corporate value of the Nanto Bank Group, we must first improve the profitability of the Bank and ensure that the Plan is sustainable in terms of investment and returns to our stakeholders.
- Nakayama:** Since the Management Plan represents a clear message from the management team, It is essential to speak of our dreams with determination and courage. The business environment is changing rapidly against the background of a declining birthrate and aging population, but I believe that the Plan should take an ambitious stance in terms of the profit level it aims for in order to motivate our executives and employees.
- Handa:** In the past, the Bank has introduced many initiatives that resemble those of other banks, but we now have an opportunity to create and promote successful instruments that are unique to Nanto Bank. Nara prefecture is a market with abundant retail deposits, and we need to consider the profit level we are targeting by taking advantage of their characteristics and those of other changes in the financial environment.
- Kasuya:** It is difficult for even a large volume of deposits to exert a notable positive effect on profits in an environment of negative interest rates, a fact that has caused various difficulties for our market operations. In the area of market investment income, we are striving to achieve stable income by further improving our own investment capabilities while taking risks fully into consideration.
- Aoki:** In the future, the Bank should increase its focus on non-financial services that can improve the performance of its clients. Specifically, while making proposals related to business expansion, we will offer services that take over labor-intensive administrative tasks, thereby increasing our clients' borrowing capacity. This will support growth of our loan business and, thus, growth of our clients, the Nanto Bank Group, and the regional economy as well.
- Yokotani:** Our efforts to maximize the Bank's corporate value should begin with a determination of the optimal portfolio, followed by backcasting from this portfolio to increase our deposits, loans, market operations, and other offerings. Elevating the Group to a higher stage will require us to view indicators such as ROE from a higher perspective and to verify and revise our plans on a case-by-case basis. Improving returns to stakeholders is another important issue for maximizing corporate value. I believe it's time for us to consider reviewing our policy in this area.
- President:** During the coming five years of the Management Plan, our major themes, long-term vision, and aspirations will remain the same, including continued sustainable growth of the Nanto Bank Group and regional development. We see the return to a world with interest rates as a generally positive development for financial institutions. The significance of deposits for our core deposit-and-loan business has been diluted for some time, but it has now increased once again. I believe that the most important way of expanding our operating base will be to employ and upgrade the Bank's infrastructure, including the infrastructure supporting our non-financial services, and to work steadily to solve our customers' problems. It is only to be expected that the Nanto Bank Group will seek to boost its own profitability in order to increase shareholder value, but we will also work to enhance our corporate value by resolving issues that can contribute to revitalizing local markets and create the human resources we need to implement these initiatives.