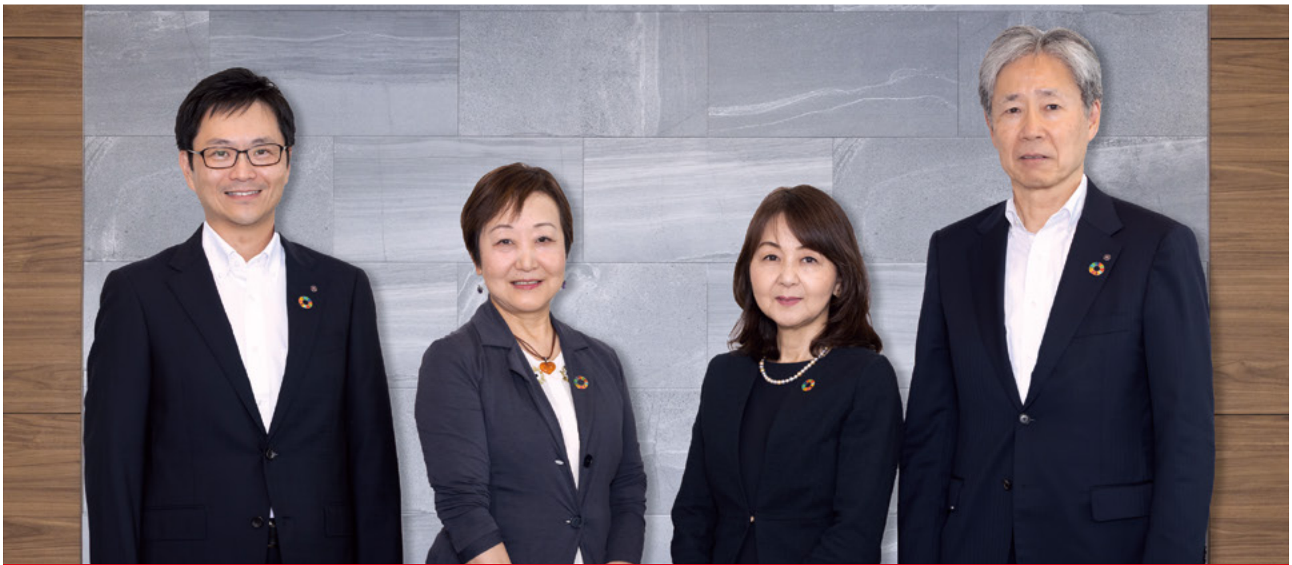
Overcoming Change and Envisioning the Future

— Behind the New Medium-Term Management Plan —

The Nanto Bank Group has been operating under its Medium-Term Management Plan, "Nanto Mission and Goals for the Next 10 Years," since April 2020. Now in the Plan's sixth year, the Group has launched an updated Medium-Term Management Plan, "Creating Regional Vitality Through Human Capital," which covers the three years beginning April 2025.

The updated Plan was finalized after approximately 18 months of in-depth discussions, held seven times, primarily by the Board of Directors, beginning in October 2023. In this report, we hear from external directors Kozue Nakayama, Takashi Nishimura, and Yuuko Tahara as well as President and CEO Satoshi Ishida, about the process and core decisions behind the plan.



President (Representative Director) **Satoshi Ishida** | Outside Director **Kozue Nakayama** | Outside Director **Yuuko Tahara** | Outside Director **Takashi Nishimura**

Discussion topics

1. **Oct. 31, 2023** Quantitative approach
   - Target levels
   - Basic scenario
   - Gap separating target levels and basic scenario
2. **Feb. 2, 2024** Qualitative approach
   - Desired future state
   - Current situation
   - Direction
3. **June 17, 2024**
   - Response to changes in monetary policy by the Bank of Japan
   - Profit growth in response to changes in the interest rate environment
4. **Sep. 24, 2024**
   - Numerical plan Nara regional strategy
   - Osaka regional strategy
5. **Oct. 24, 2024**
   - Human capital strategy
   - KPI
6. **Jan. 17, 2025**
   - First presentation of the New Medium-Term Management Plan
7. **Feb. 17, 2025**
   - Second presentation of the New Medium-Term Management Plan

2024 2025

External environment (Bank of Japan)

- **July 2023** Flexibilization of YCC Long-term interest rates allowed to rise to around 1%
- **Oct. 2023** Effective removal of the upper limit on long-term interest rates (essentially moving toward raising interest rates)
- **Mar. 2024** End of negative interest rate policy

The starting point for the discussion is fears of an impending future crisis

Ishida: The discussions on the updating of the Medium-Term Management Plan that began in October 2023 started from a strong sense that the status quo is unsustainable. Factors such as the declining population, changes in the industrial structure, and advances in digitalization indicate that the regional environment is changing at a previously unimagined speed, and the Board of Directors shares an understanding that business as usual cannot continue.

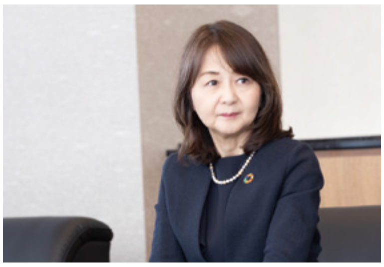
I'd like to ask you all what manner of crisis you yourself envision for the future of our Group.

Nakayama: We are convinced that "maintaining the status quo is a step backward," and that if we do not change, our conventional form of banking will no longer serve a function in the community. The question we must ask ourselves is how seriously we are committed to the future of the community.

The increasing entry by companies from other industries into the banking sector in recent years poses a threat to our

Group. This has given rise to a strong sense of impending crisis among members of the management team, leading us to realize the need to build distinct competitive strengths, such as a system that facilitates greater involvement by the Group in customers' life cycles, and that invites customers to rely on us more when they are in trouble.

Nishimura: It would be possible to increase profitability by strengthening sales in larger markets such as Osaka Prefecture in addition to Nara prefecture. Awareness of our Group is low in some areas of Osaka, however, and it would not be easy to attract new customers in these areas without a clear strategy. We have identified a need to discuss the kinds of added value we can offer customers, clarify the benefits of doing business with us, and differentiate ourselves from other banks.



Tahara: Our Group's long history with deep roots in the Nara prefecture community has made us liable to be influenced by our past successes. Times are changing rapidly, however, and it is now more important than ever to address issues in the community more seriously.

In the area of developing talent, we consider it necessary to promote visualization of our human resources and optimization of career paths in order to improve the quality of our employees, whom we recognize as an important management resource.

Diverse perspectives deepening the discussion — The role of outside directors —

Ishida: In the course of our ongoing discussions, our outside directors have drawn on their diverse range of experience to offer valuable insights. At this time, please share with us the points you considered particularly important, and the points you focused on during the discussions.

Tahara: As outside directors who are not banking experts, we consider it our role to ask simple questions. We prioritized such perspectives as, "Is this truly for the benefit of our customers?" and "Does this contribute to the community?"

Nakayama: While strongly aware of the role of regional financial institutions, I inserted many examples based on my experience in management of global companies and regional development at local governmental organizations into the discussion. One of the challenges we face in addressing population issues in regional cities is education, for example. If they offer distinctive school education programs, they can attract working-age individuals who care deeply about education, thus creating a virtuous cycle in which the quality of living-related facilities and infrastructure also improves. These regions inevitably feature core companies at their center, and I think it would be appropriate for the Nanto Bank Group to play this role.

Ishida: The questions and comments contributed by the outside directors at the opinion exchange meetings were extremely insightful, enabling us to conduct deeply meaningful discussions. I believe the Plan has been enriched through the frank discussions we had with all the participants.

Nishimura: I also continued to question the essential value of regional financial institutions. I felt that this questioning of the conventional wisdom of bankers from an objective, external perspective within the Bank made the discussion more profound.

The strongest impression the discussions left me with was that the internal directors not only shared our concern about an impending crisis, but that they also felt determined to change. This is why we, as external directors, were able to express our opinions without hesitation.

New Medium-Term Management Plan revealed through discussions amid changing circumstances

■ Interpreting the rising interest rate environment

Ishida: Operating in a negative- or zero-interest-rate environment, banks repeatedly engaged in intense competition in the spheres of low-interest lending and fee-based businesses, while also reorganizing their business locations to improve the operating efficiency of their office locations, inconveniencing customers in some cases. In March 2024, the Bank of Japan lifted its negative-interest-rate policy, and the external environment changed significantly, making it necessary to reexamine the banks' core business.

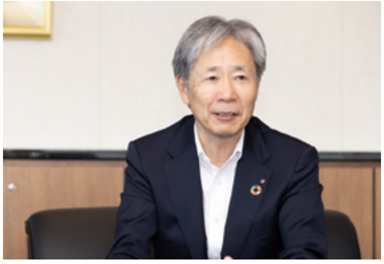
With the return to a positive-interest-rate environment, we decided to adopt a Medium-Term Management Plan centered on deposits, which we recognized as a particularly important management resource for bank operations.

What direction should the Nanto Bank Group take to further enhance deposit retention?

Nakayama: Beginning in the second half of fiscal 2023, our discussions focused on the prospect of rising interest rates. While there was consensus on returning to the fundamentals of the deposit-and-loan business, we argued that we should conduct various analyses to determine the negative impact of population decline and trends in various sectors and took action accordingly.

Ultimately, interest income from loans constitutes the core of our revenue, but to grow this sector, we think it essential to leverage our Group's non-financial strengths. Within the Group, this excludes digital services such as online banking and focuses on leveraging our unique strengths as a bank to provide face-to-face services through our physical branches.

Nishimura: Deposits are important for increasing lending. While the strategy of transferring deposits from other banks is important, transferring deposits is an extremely cumbersome procedure from the customer's perspective. Nevertheless, we considered it important as a first step to provide added value that would make it worthwhile for customers to go to the trouble of transferring their deposits to our Group, thereby differentiating ourselves from other banks.



Tahara: If we are to change directions and place even greater importance on deposits, it will be necessary to communicate this policy to our employees. Rather than taking a top-down approach, we need to communicate the importance of deposits clearly and clarify the objectives and results to elicit a natural change in our employees' behavior.

■ Contributing to regional revitalization

Ishida: To this point, we have engaged in various discussions on such topics as setting target levels for ROE and focusing on the deposit and loan businesses to achieve our targets. In our capacity as a regional financial organization, however, our Group's overall direction remains to contribute to development of the region.

I believe that the greatest factor slowing regional growth is the economic contraction accompanying Japan's population decline. This is true in Nara Prefecture, as elsewhere, and we have been discussing specific approaches to growing the region under these circumstances.

Our Medium-Term Management Plan outlines some unique initiatives, such as revitalizing the regional real estate market, but we are continuing to consider new initiatives that can generate expectations in the market.

Nakayama: When comparing Nara prefecture with other prefectures, we analyzed areas where Nara prefecture has advantages and determined that we must clearly define the proper focus for the Nanto Bank Group in the current business environment in order to develop a scenario for remaining competitive.

Other prefectures are also making concerted efforts to attract new businesses and support startups, for example, so it is not easy for Nara prefecture to stand out. Nara's companies and the people who work for them need to have something that sets Nara apart from other prefectures, such as its rich cultural heritage and low risk of natural disasters.

Nishimura: Nara prefecture is one of Japan's leading tourist destinations, but it faces challenges such as a shortage of hotels relative to the number of tourists and short nighttime restaurant business hours. Our Group has identified areas with significant room for further business opportunities we can open up by working with local businesses to develop and implement measures to capture inbound visitor demand.

■ Developing human capital

Ishida: Our new Medium-Term Management Plan is described as "Creating Regional Vitality Through Human Capital." After much heated discussion among our management team, we decided to make "people" the central focus of the Plan. We would like to hear your thoughts on this approach.

Nakayama: We proposed placing a clear emphasis on "human capital" as a key corporate asset and an important management resource for the Group. As the management team, we must organize our Group's efforts to address environmental risks such as contraction and aging of the population and communicate our scenario for sustainable growth to our employees. In this rapidly changing business environment, we will need to engage in meaningful dialogue with our employees and give them a clear awareness of the factors the Group will want to focus on.

Nishimura: It is said that employee turnover increases when a decline occurs in two of the three key employment factors—compensation, interpersonal relationships, and job satisfaction. Our Group appears to have no major issues concerning compensation or relationships, but we see room to create a better cycle of human capital growth and retention by establishing an environment in which employees can work with greater enthusiasm and a feeling of job satisfaction.

Tahara: I felt a need to communicate the New Medium-Term Management Plan's KPIs and action plans throughout the Nanto

Bank Group. People tend to feel that they must take action when they participate and see their opinions reflected in a plan. I believe that dialogue with employees and mechanisms to encourage their participation are essential to enhancing the effectiveness of the Medium-Term Management Plan.

As concerns the engagement score, which we have newly adopted as a KPI, we do not intend to use it merely to monitor fluctuations in employee scores. Instead, we plan to employ it as a tool for management to use in assessing whether employees understand and agree with our management policies and are acting accordingly.

Going forward, to realize this Medium-Term Management Plan, we intend to define the skills required of employees, visualize the expected behaviors, and evaluate them in a way that fosters employee growth and promotes career advancement.

Ishida: I want the employees of our Group to think not only in terms of lending, but also in terms of equity. Ordinary bank employees tend to focus on "past performance" factors such as financial information and asset holdings, because they are concerned with whether or not the funds they lend will definitely be repaid. By contrast, the equity approach focuses on "the fundamental strengths of a business and the value it can create in the future." If equity-based thinking becomes ingrained among our Group's employees and they can engage in future-oriented dialogue with customers, I believe it will create more opportunities to provide customers with valuable insights. As stated in our Medium-Term Management Plan, we aim to deepen and expand our investment activities beyond traditional lending operations—that is, to embed an equity mindset—and establish a customer-centric approach focused on the future within our Group over the next three years. This will enable us to cultivate human resources capable of providing customers with insights.

A sure step into the future

Nakayama: During the discussions, the fundamental question, "How should we manage this Group?" was raised repeatedly. I am convinced that the Medium-Term Management Plan is not only a set of numerical targets, but also a commitment to our stakeholders. I conveyed this opinion through the Board of Directors, and I believe it was incorporated into the overall Plan.

Going forward, to advance the Medium-Term Management Plan in concrete terms, I believe we will need to strengthen our information-sharing with governments and collaborate with them on regional revitalization efforts. To build a regional ecosystem and ensure that our Group remains a valuable presence at its core, we will approach the Plan's implementation with the resolve to become a top bank rooted in the community as a "social bank."

Nishimura: I believe we have formulated a Plan that balances feasibility and idealism to combine "dreams and reality." The Plan is based on two principles: it equips employees to take a proactive approach toward the future, and it will remain meaningful over the long term.

Going forward, we need to clarify how we will allocate our management resources to each region as we move forward with our Medium-Term Management Plan. The future of our Group lies in growing together with the community by earning the trust of our customers, both individuals and corporations, through careful sales activities that are closely tied to the community.

Tahara: This Plan cannot be realized with the attitude, "We have formulated the Plan; the frontline employees can handle the rest." As the management team, we must take the lead and continue to communicate messages that create empathy with the Plan among our employees.

When it comes to developing talent, systematically reviewing the positioning of each measure will enable employees to visualize their careers and futures in concrete terms, leading to a sense of fulfillment and growth.

The values and behavioral patterns of younger customers are changing with the times, so we must continuously review our strategies to understand their needs accurately and turn them into fans of our Group. We must also build on the strengths our Group has cultivated while reconciling and refining the differences in values between generations.

Ishida: I view the three years of this updated Medium-Term Management Plan as a period for promoting human capital and organizational transformation. By instilling a habit of strategic thinking throughout the organization, and revitalizing it through repeated in-depth discussions, I intend to prepare the Nanto Bank Group to survive and thrive in the future.

By the time we formulate our next business plan three years from now, I hope to establish human capital investment and raise our management strategies to a higher level, so we can clearly demonstrate a winning business model to our stakeholders.

This Medium-Term Management Plan is not a finished product but only a "starting point." Looking to the next 100 years, we will work to ensure that all our employees share the challenges and future vision of our Group and to engage with them so that they can translate them into individual actions.