

Overview of FY2019 First Half Financial Results and the Next Management Plan

December 13, 2019

The NANTO BANK, LTD.

Takashi Hashimoto, President



1. FY2019 First Half Financial Results
2. FY2019 Business Forecasts for the Full Year and Dividends
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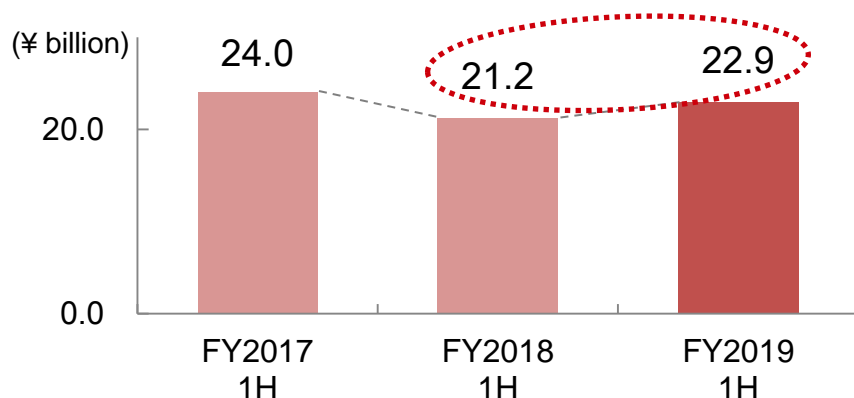
3-4. Management System for Sustainable Growth

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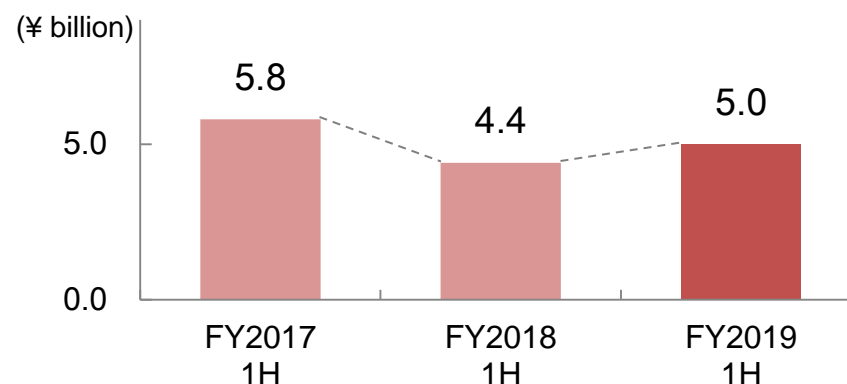
Summary of Profit and Loss

- ◆ Interest income has been increased as securities investment stably contributed to profits, resulting in increase in core net business profit and ordinary income.
- ◆ First half net income has been decreased due to the impact of a temporary factor of 4.7 billion yen recorded as extraordinary income in the previous fiscal year following the revision of the pension system.

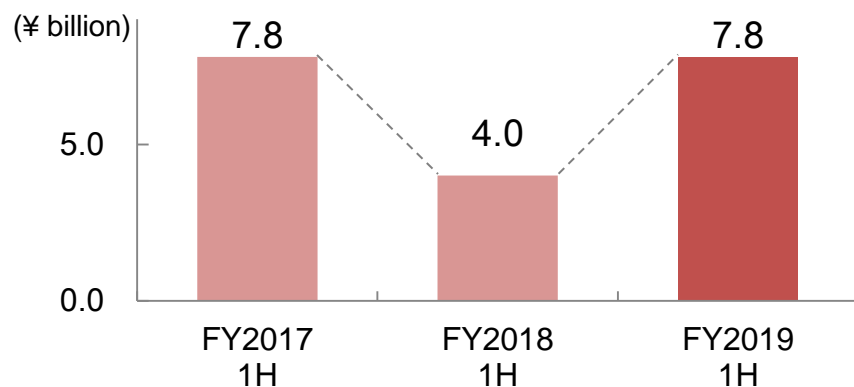
[Interest Income]



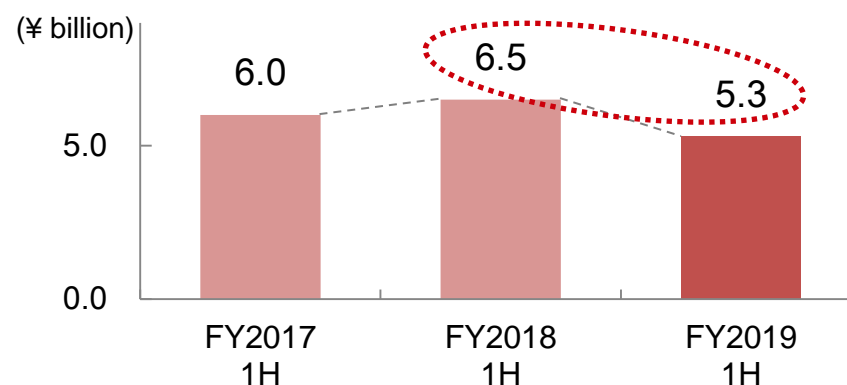
[Core Net Business Profit]



[Ordinary Income]



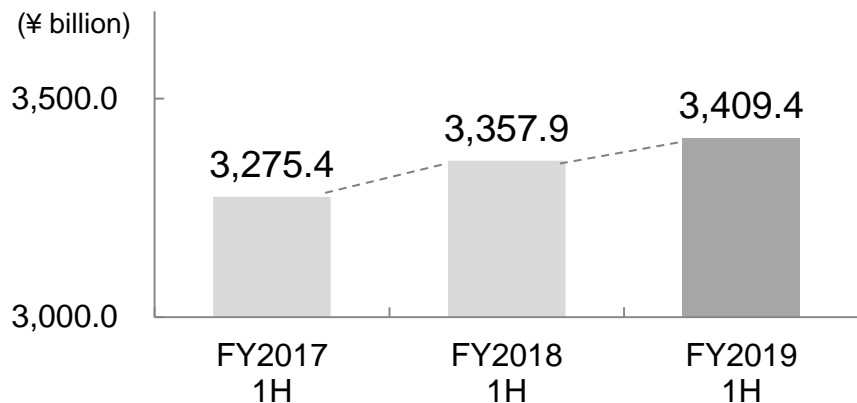
[First Half Net Income]



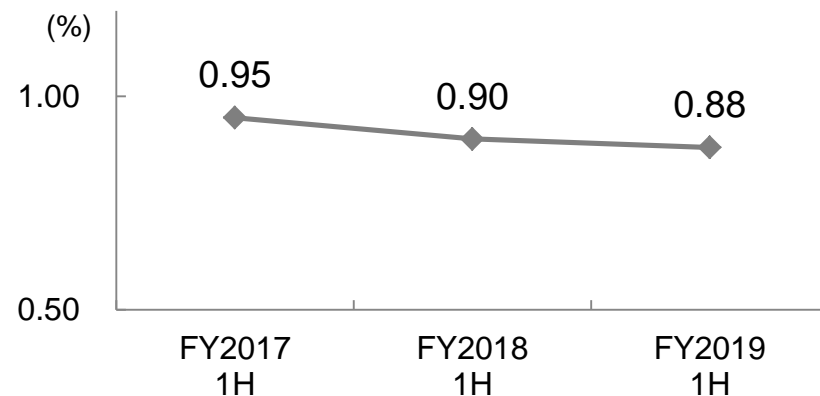
Interest on Loans

- ◆ Interest on loans has been decreased slightly, as yield for loans did not reverse despite an increase in balance of loans.

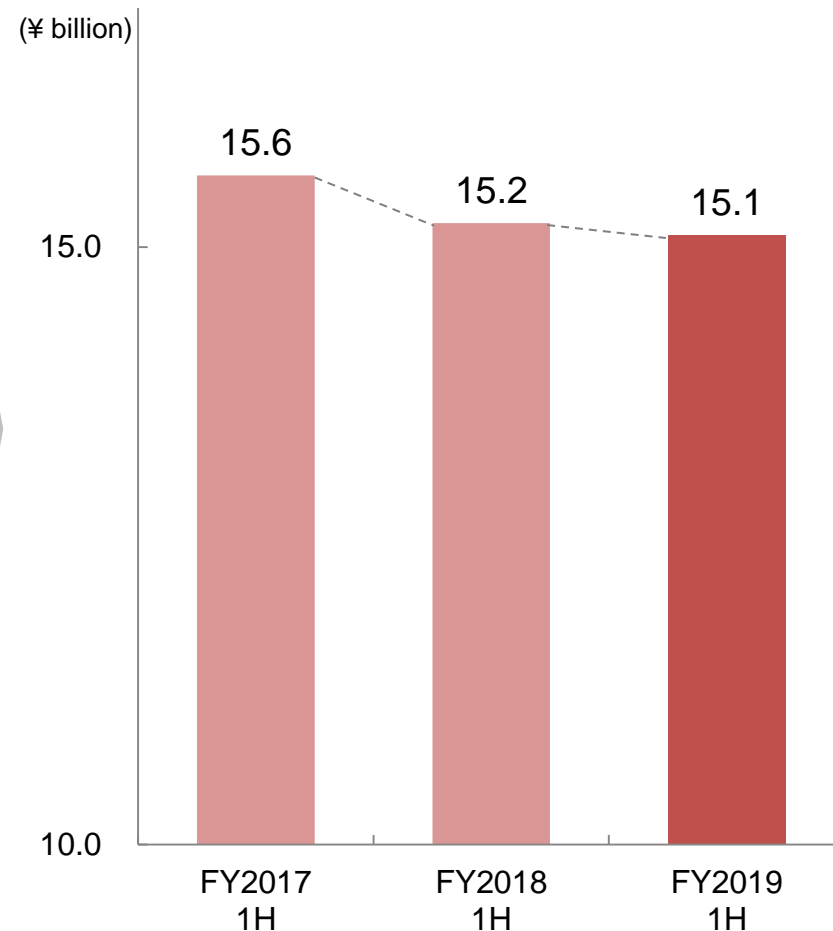
[Balance of Loans (Average Balance)]



[Yield for Loans]



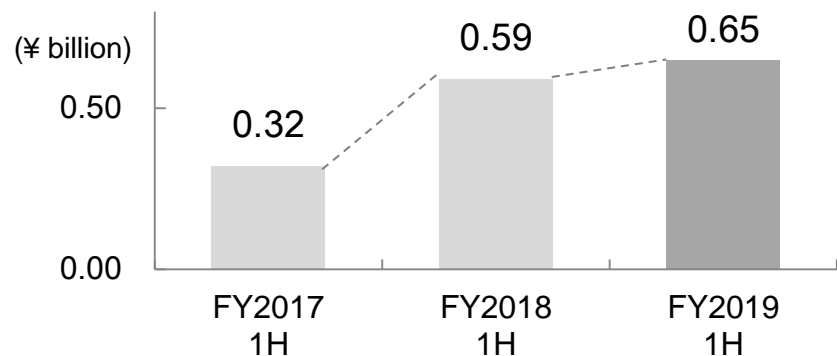
[Interest on Loans]



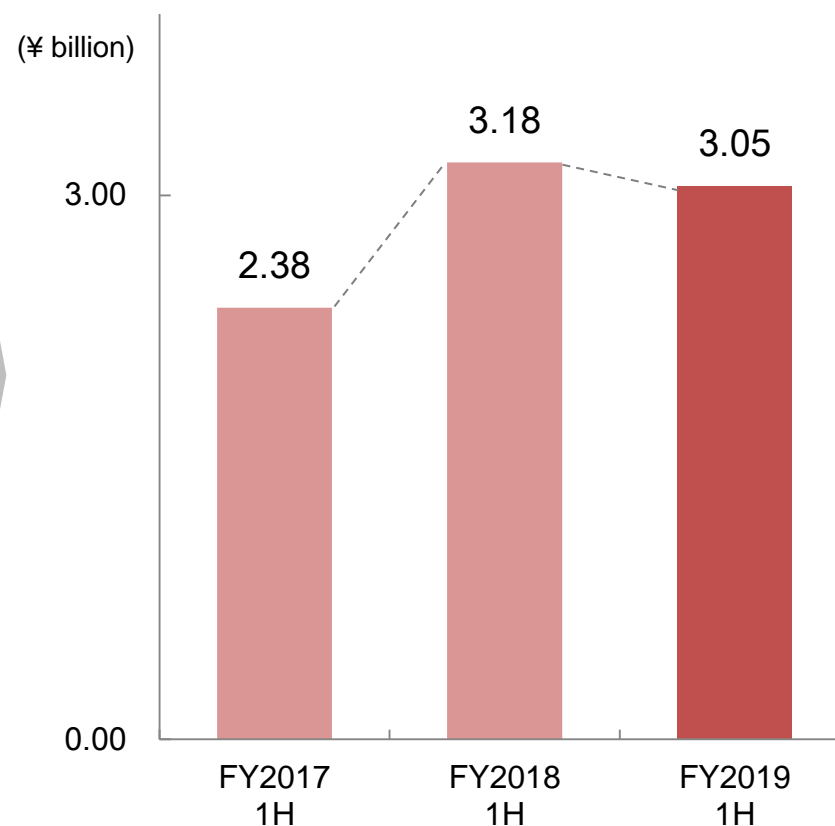
Fees and Commissions

- ◆ Corporate solutions business-related income has been increased because as a result of the efforts to focus on consulting sales for resolving customers' fundamental issues, while fees and commissions have been decreased due to sluggish investment trust sales.

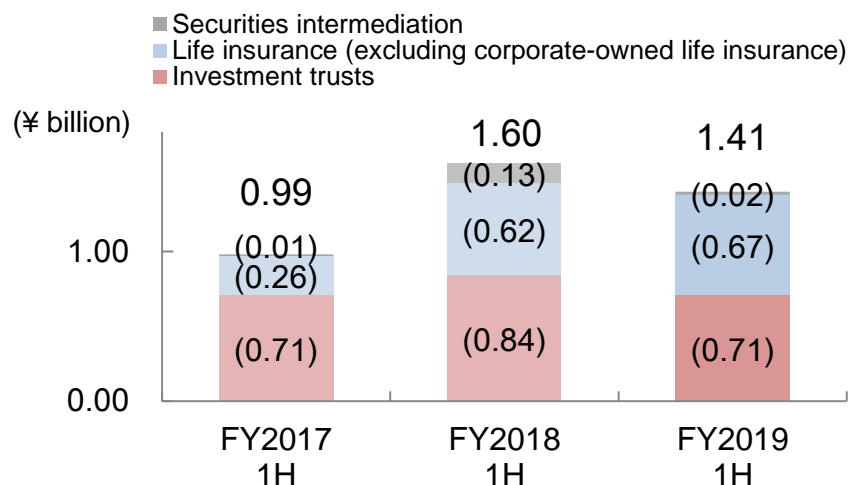
[Corporate Solutions Business-related Income]



[Fees and Commissions]



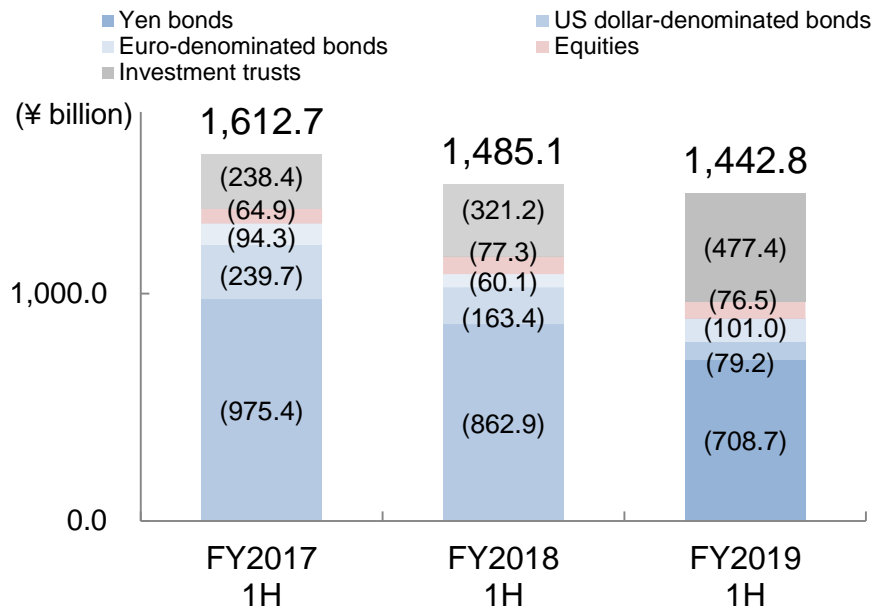
[Sales Commission of Deposit Assets]



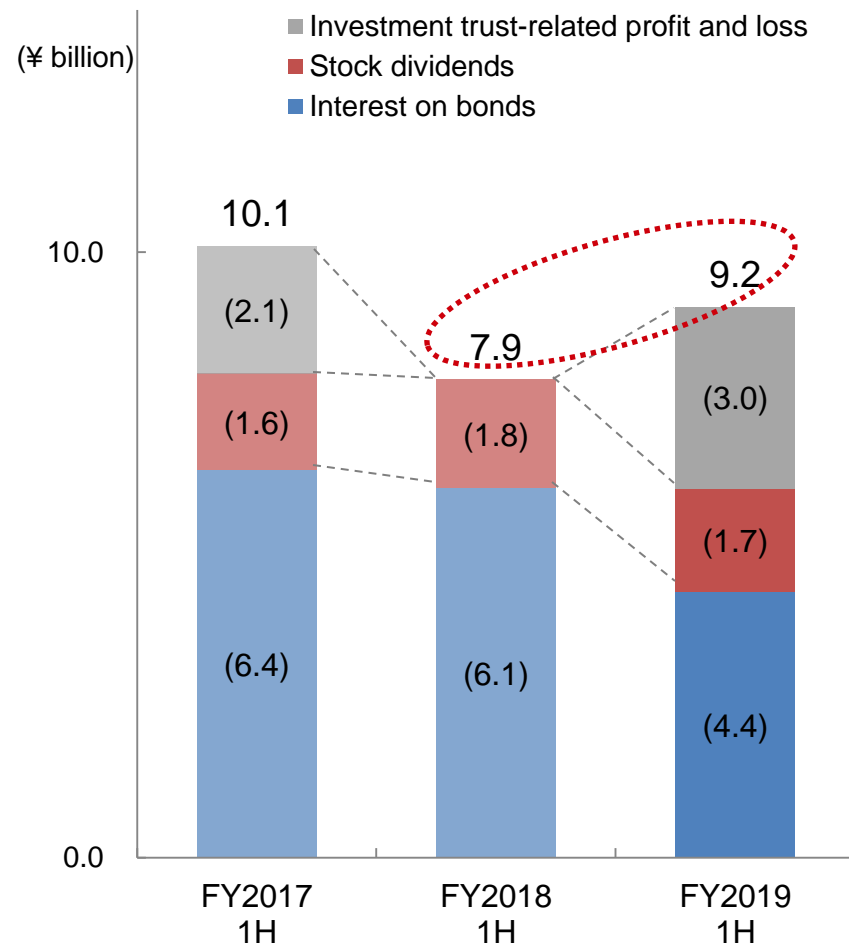
Securities Investment Management

◆ Interest on securities has been increased due to improved yield as a result of rebalancing investment trusts held to secure stable income.

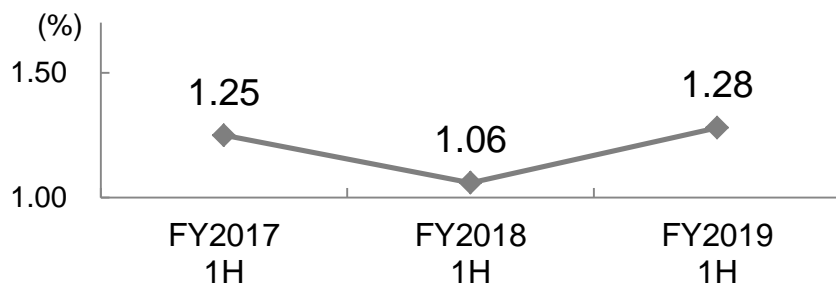
[Balance of Securities (Average Balance)]



[Interest on Securities] * If investment trust-related profit and loss figures are negative, it was recorded as "Loss on redemption of bonds including national bonds," not as "Interest and dividends on securities."



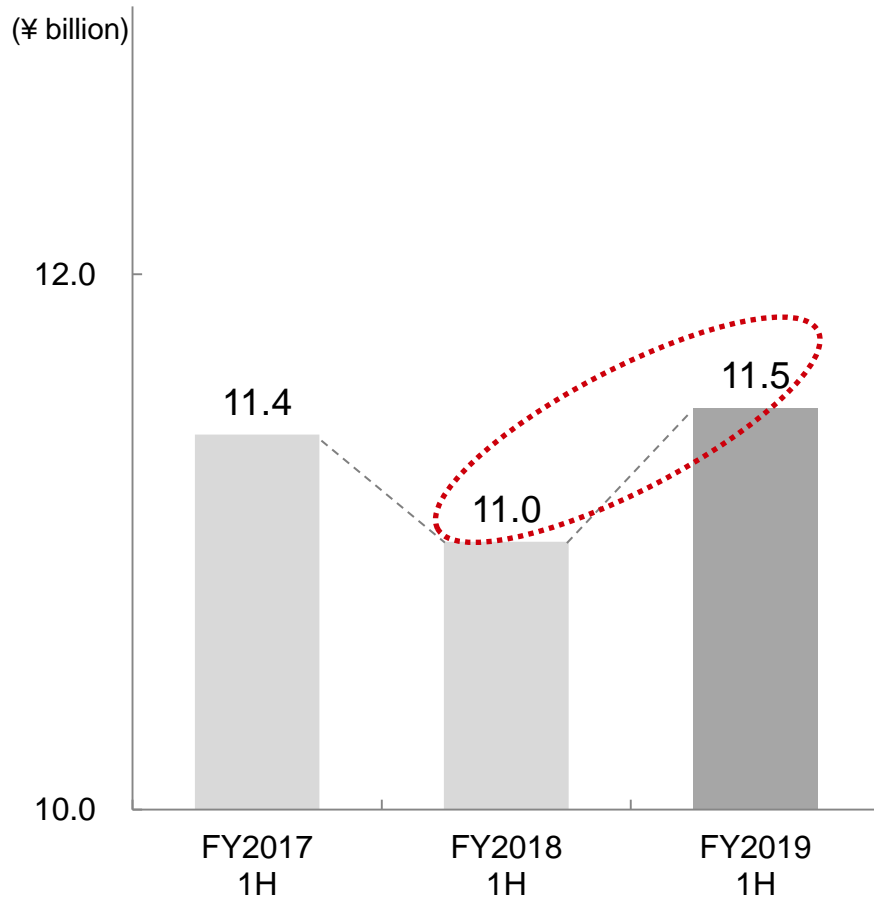
[Yield on Securities]



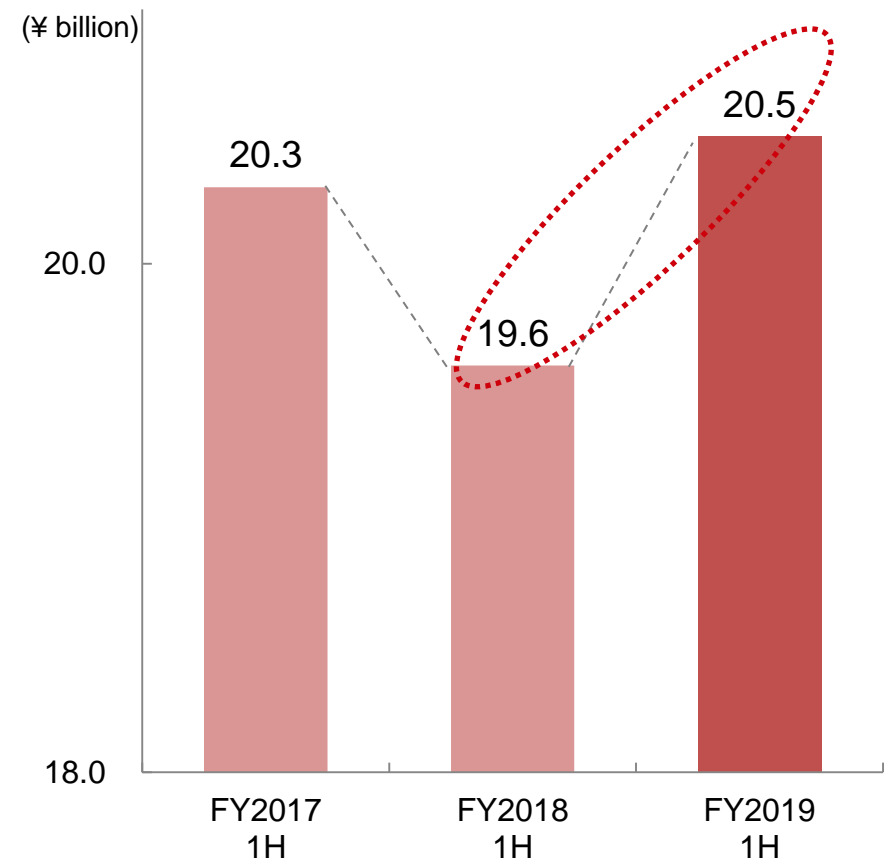
Expenses

- ◆ Expenses have been increased by enlarging quota for bonuses as structural reform costs in advance of the next management plan, toward boosting employee morale.

[Personnel Expenses]



[Expenses]



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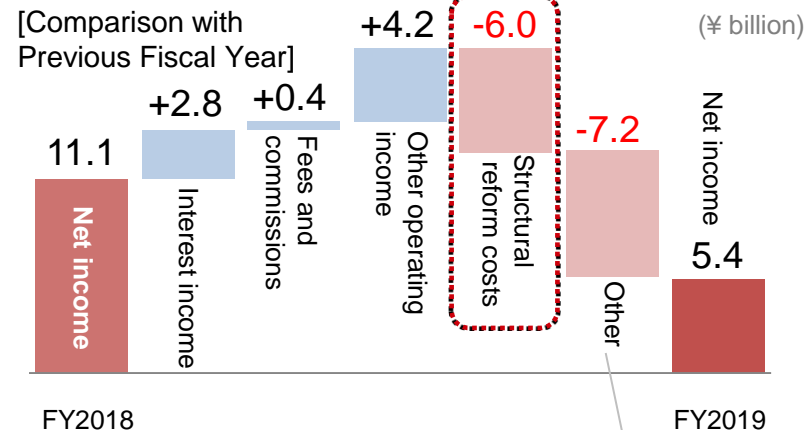
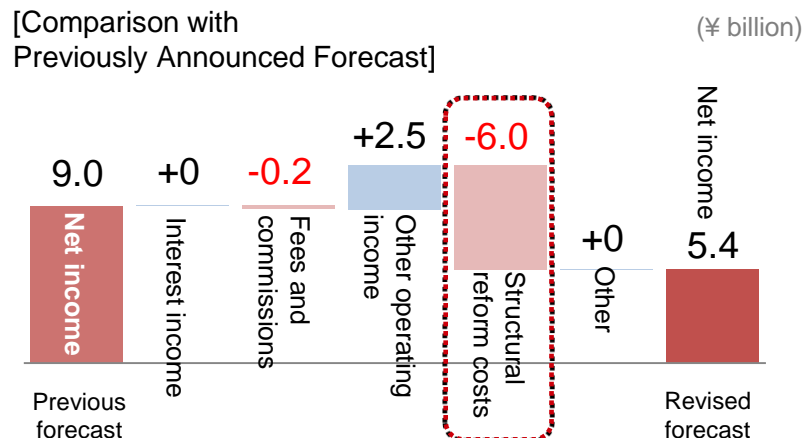
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FY2019 Business Forecasts for the Full Year and Dividends

- ◆ Net income has been revised downward from the previously announced forecast of 9.0 billion yen to 5.4 billion yen due to an anticipated approx. 6.0 billion yen increase in the costs of the structural reform that we need to work on this term for the future.
- ◆ We are planning to continue a dividend of 80 yen per year.

FY2019 Business Forecasts for the Full Year

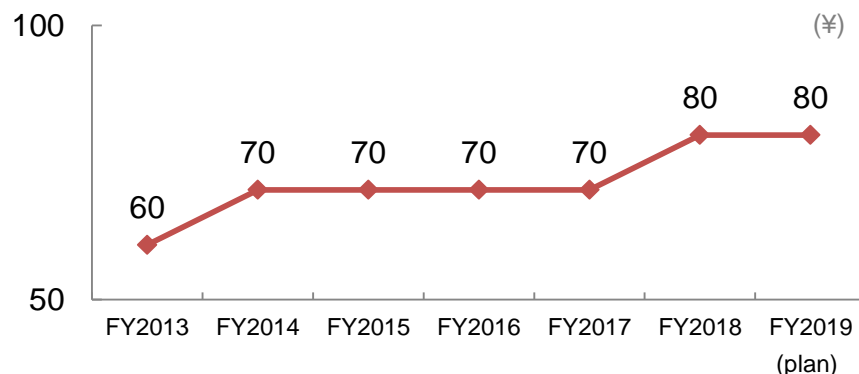


Structural reform costs

- ✓ Increase in quota for bonus to boost employee morale Approx. ¥1 billion
- ✓ Conservative provision Approx. ¥2.5 billion
- ✓ Loss from sale of stocks for which price increases are unlikely Approx. ¥1 billion
- ✓ Impairment loss associated with office network reorganization Approx. ¥1.5 billion

Posted 4.7 billion yen as temporary extraordinary income for the previous fiscal year following the revision of the pension plan

Dividend per share



- ✓ Our basic policy is to continue to pay stable dividends.
 - Paid a commemorative dividend on the 140th anniversary of our business in FY2018
 - Planning to continue to pay an ordinary dividend of 80 yen per year in FY2019

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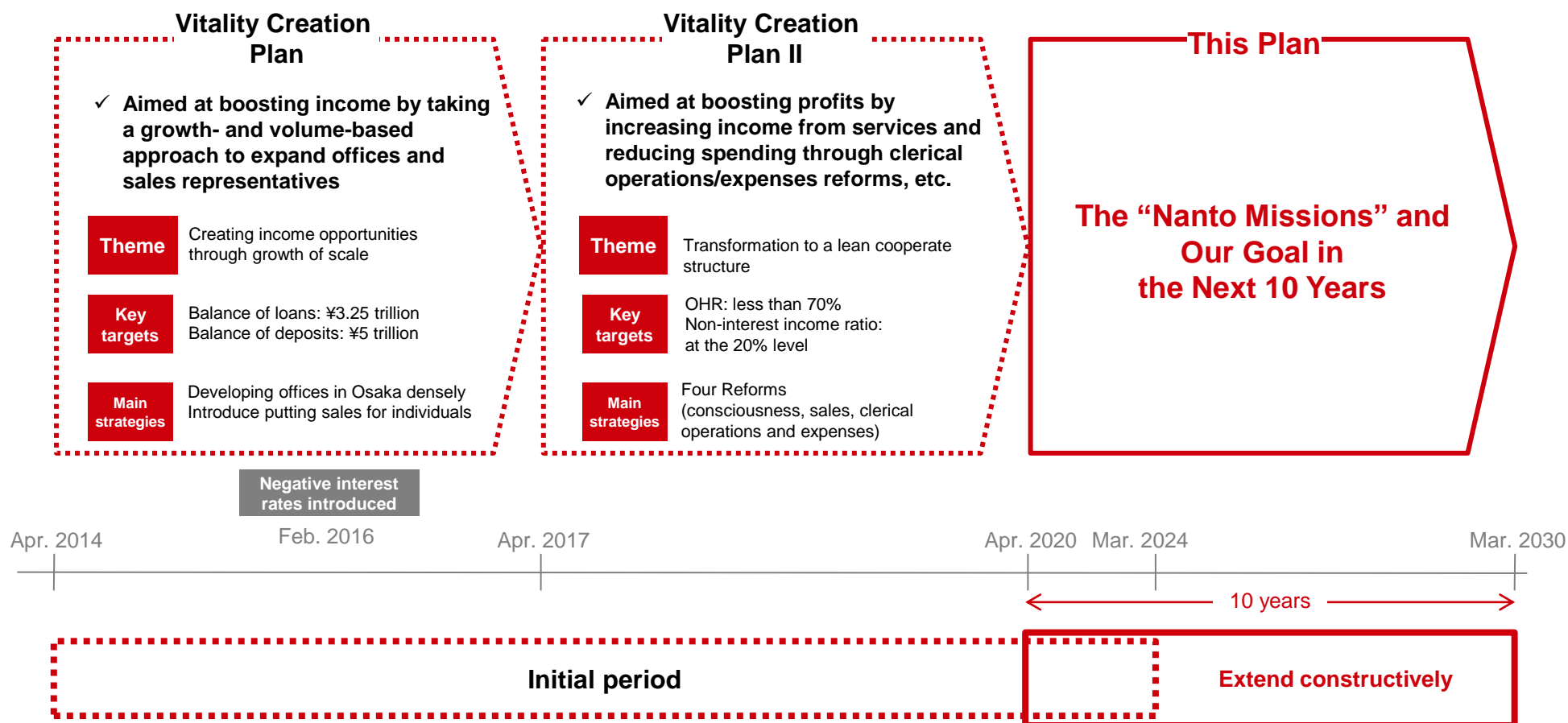
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Position of this Plan in the Vitality Creation Plans

- ◆ The Vitality Creation Plan was formulated in 2014 as a 10-year plan. The management environment has changed more than expected since the time it was formulated due to the introduction of negative interest rates and other economic situation.
- ◆ Considering those changes, we have formulated another plan for the next 10 years (2020–2030) while maintaining our management vision, “Vitality Creation Bank,” as the core.



Review of Vitality Creation Plan II (Current Medium-Term Management Plan)

- ◆ As a result of implementing various action items under the “Four Reforms” (consciousness, sales, clerical operations and expenses), the reforms of clerical operations and expenses are expected to achieve their targets.

Four reforms and main action items		Initiatives	Results
Consciousness	Consciousness reform to think and act on their own	Implement activities of the “Nanto Bank Improvement Committee”	Awareness of behavioral changes
	Re-establishing business system	Introduce the “Block Area Business System”	Transfer of responsibilities and authority to forefront of business
Sales	Reorganizing and strengthening Group companies	Establish consulting subsidiaries	Strengthened consulting functions
	Streamlining clerical operations	Introduce an intermediate holding company structure	Strengthened Group company governance
Clerical operations/ Expenses	Reducing personnel	Reduce sales offices’ back-office operations	30% reduction in sales offices’ clerical work
			Approx. 150 reduction in clerical personnel

Issues

- ✓ Strengthening the top line in the management environment changing drastically requires further deepening the four reforms with a clear view of medium- to long-term goals.
- ✓ Although certain effect has been achieved in terms of clerical operations and expenses, there remains room for reduction of costs that are still high.

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The “Nanto Missions”

The Nanto Bank Group initiatives to:

✓ **Develop regions**

- We create the vitality of regions and customers by providing knowledge, human resources, and money.



✓ **Develop human resources who create vitality**

- We develop human resources who are “unique” for regions and customers.
⇒ “Unique” human resources are those whom customers “want to work with on something!”



✓ **Improve profitability**

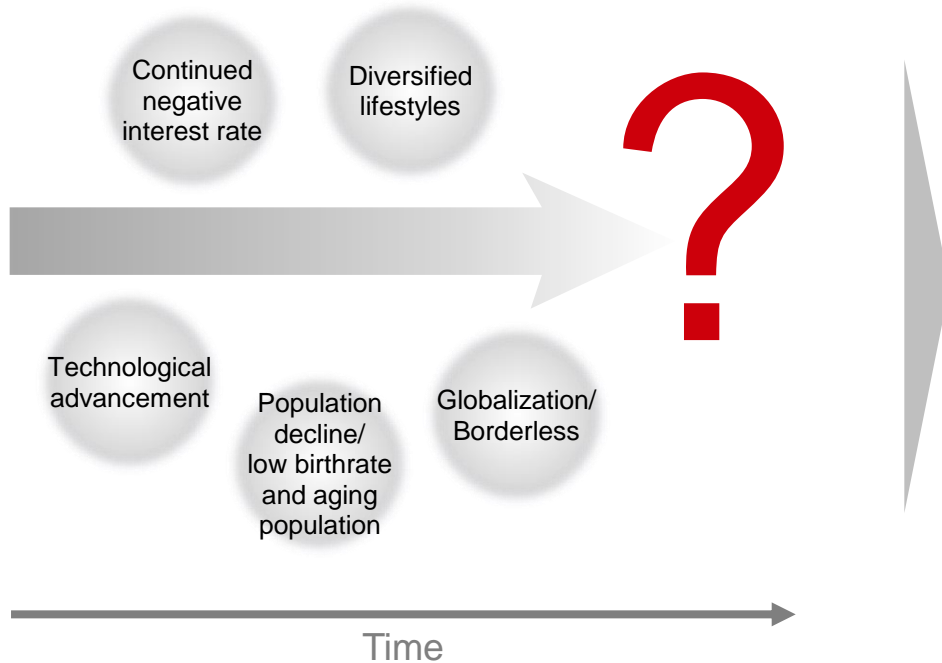
- We create the vitality of regions and customers and thereby maximize the profit of our Group.



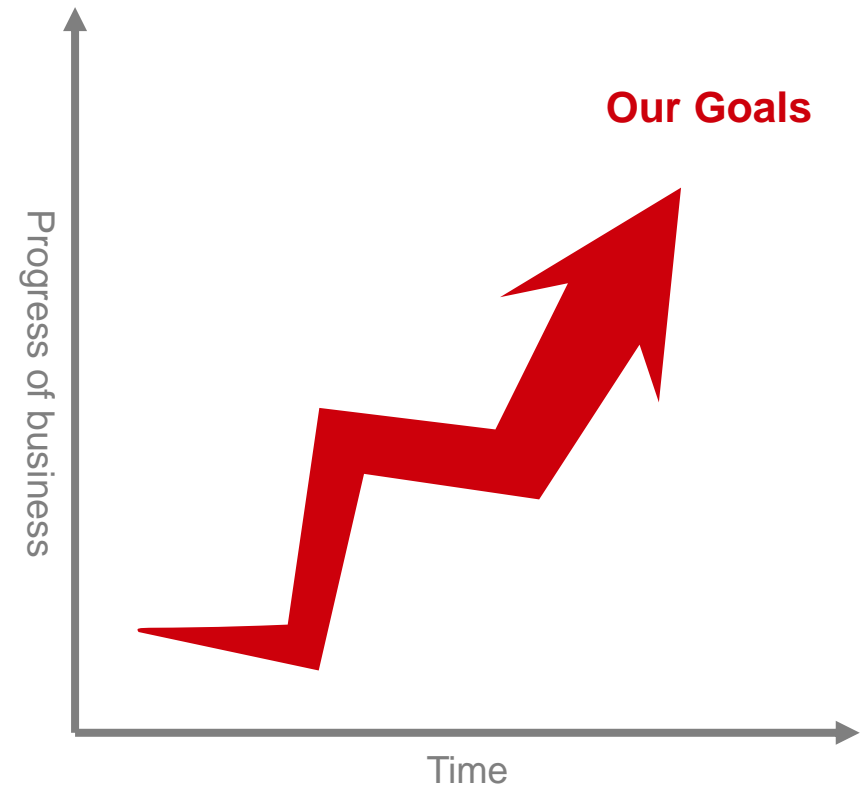
The Changing Management Environment and Future Action Plans

- ◆ To fulfill the “Nanto Missions” in a highly uncertain business environment, we must **clarify our goals** and **continuously implement the PDCA cycle**.

Increasing uncertainty
in the business environment

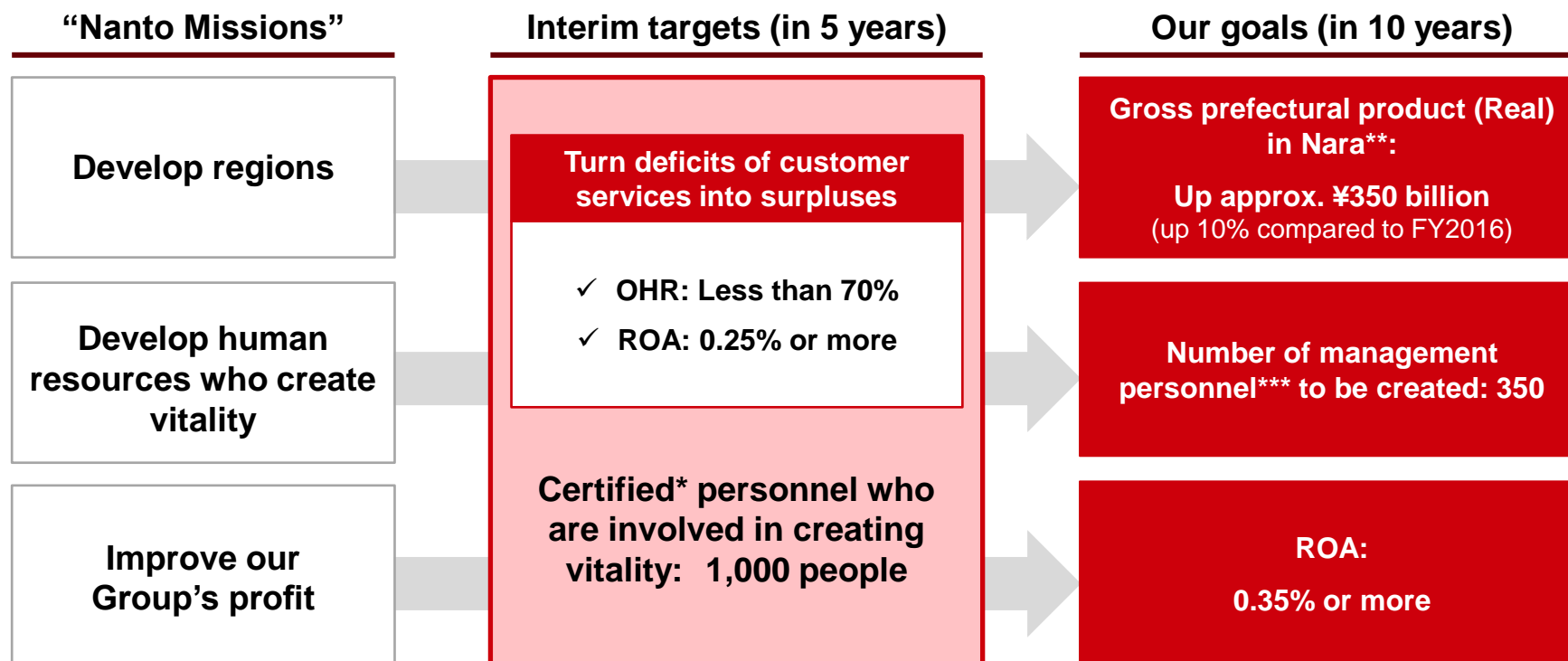


Need to manage our business in line with changes
in the business environment



Our Goals and Interim Targets in this Management Plan

- ◆ Our Group will be the “No. 1 Group in terms of Vitality Creation” in the next 10 years.
 - ✓ “No. 1 Group in terms of Vitality Creation” addresses the local customers’ concerns about their business and asset management to resolve them and to create vitality.
 - ✓ To achieve this, we **will turn revenue and expenditure deficits in customer services into surpluses in the next five years** as the interim target.



* Certification equivalent to Applied Information Technology Engineer, Small and Medium Enterprise Management Consultant, Registered Real-estate Broker, Japanese Financial Planner Grade 1, and Nissho Bookkeeping Grade 2 or higher

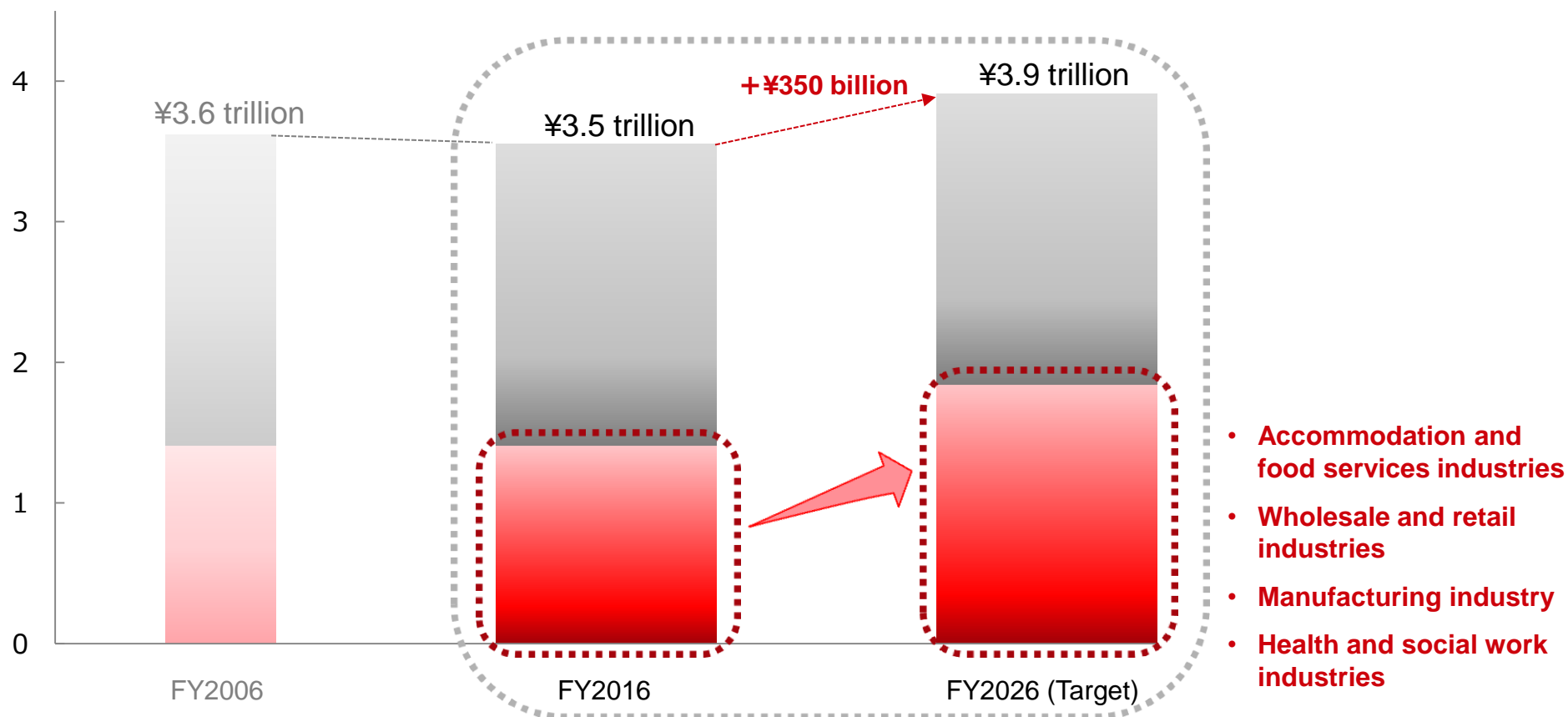
** The gross prefectural product is announced approximately two and a half years after the end of each fiscal year, and this goal will be achieved by FY2026, which result will be announced during 2029.

*** Personnel able to make management decision together with customers in the regions.

<Reference> Results and Targets of Gross Prefectural Product (Real) in Nara

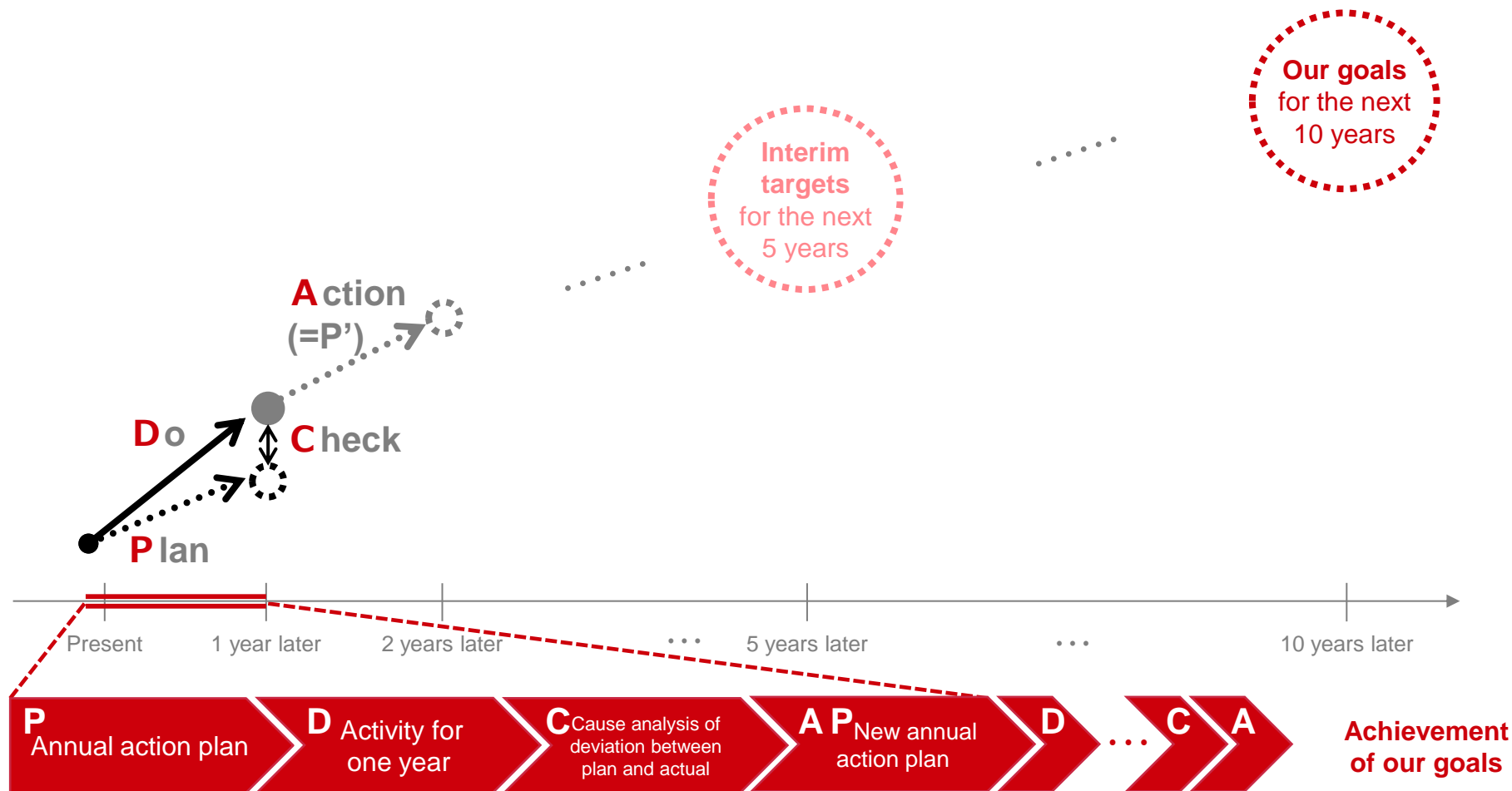
- ◆ Aiming to increase the real gross prefectural product in Nara by 10%
 - ✓ Mainly enhance the “wholesale and retail industry” that are related to the “accommodation and food services industries” with high potential, “manufacturing industry,” and “health and social work industry (hospital and nursing facilities, etc.)”

Results and Targets of Gross Prefectural Product (Real) in Nara



Continuous Implementation of the PDCA Cycle

- ◆ We will formulate an annual plan and announce it every term toward the interim targets for 5 years after and our goals in 10 years, in order to implement the PDCA continuously adjusting to the change of business environment.



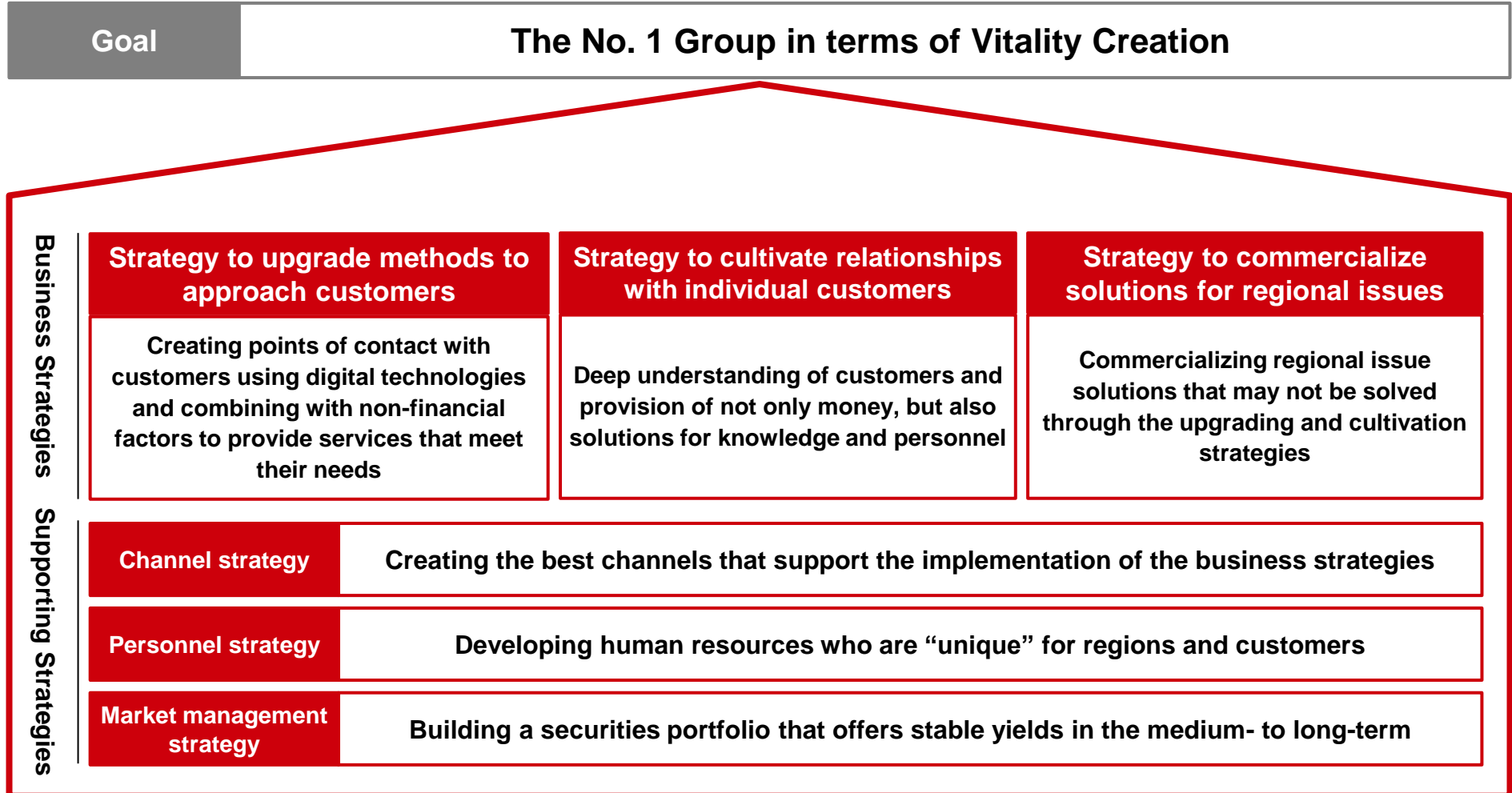
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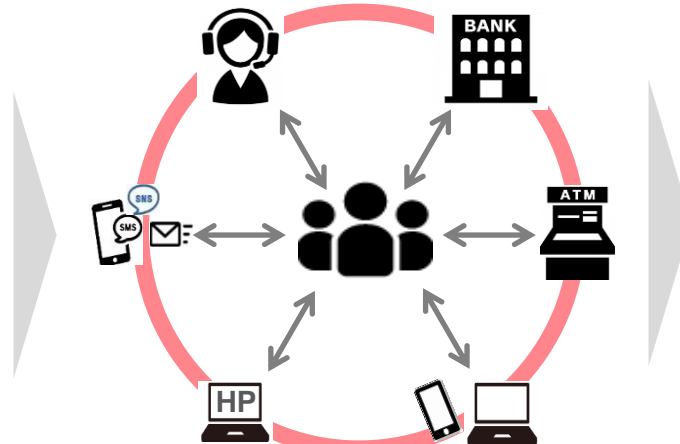
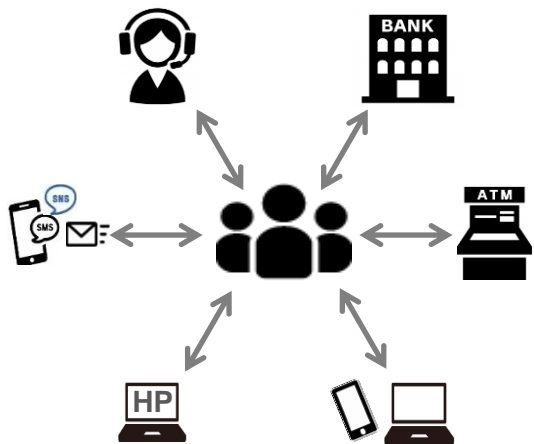
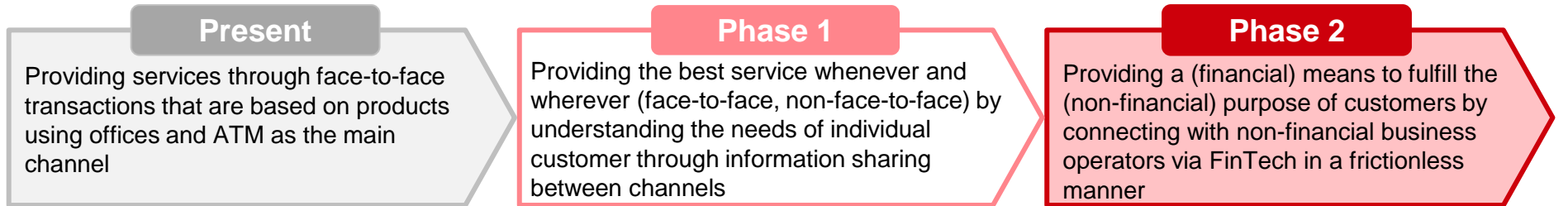
Strategies for Achieving the Goal

- ◆ We will achieve the goal in the next 10 years through the three business strategies and three supporting strategies.

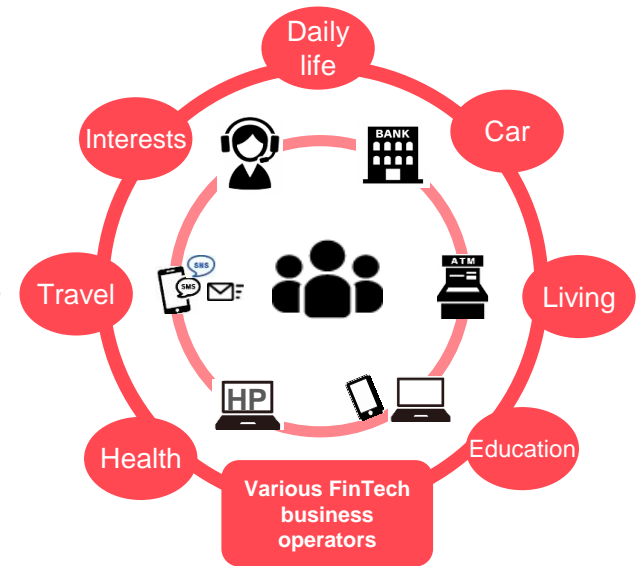


Strategy to Upgrade Methods to Approach Customers

- ◆ While analyzing the behavior of each individual customer and creating points of contact with him/her by utilizing digital technologies, we will provide frictionless services that reflect customers' true needs through combining with non-financial factors.



Information sharing
Only between financial channels



Information sharing with non-financial sectors
Financial + Non-financial
(ecosystem)

Strategy to Cultivate Relationships with Individual Customers

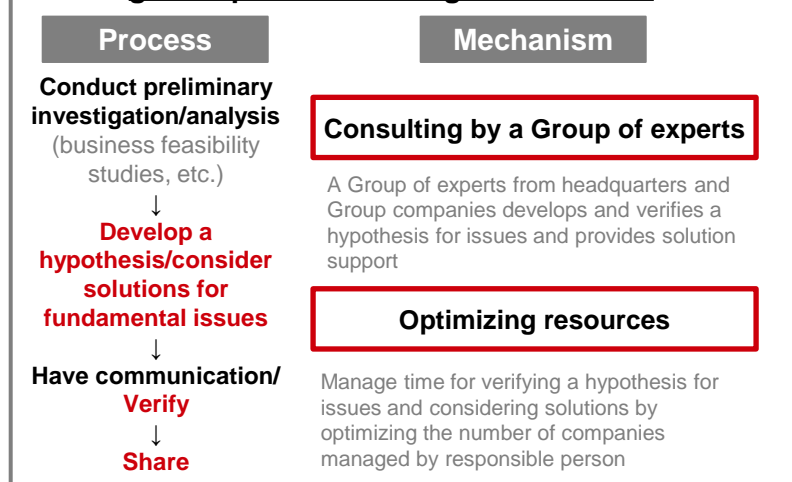
- ◆ We will get deep understanding of customers to eliminate their concerns about their businesses and assets, and provide not only money, but also solutions for knowledge and personnel as a one-stop service.



“Deep Understanding” of customers

Process and mechanism to

get deep understanding of customers



Previous

“Order-Taking” sales... respond to materialized needs/sell individual product

“Proposal-Based” sales... respond to potential needs/sell individual product

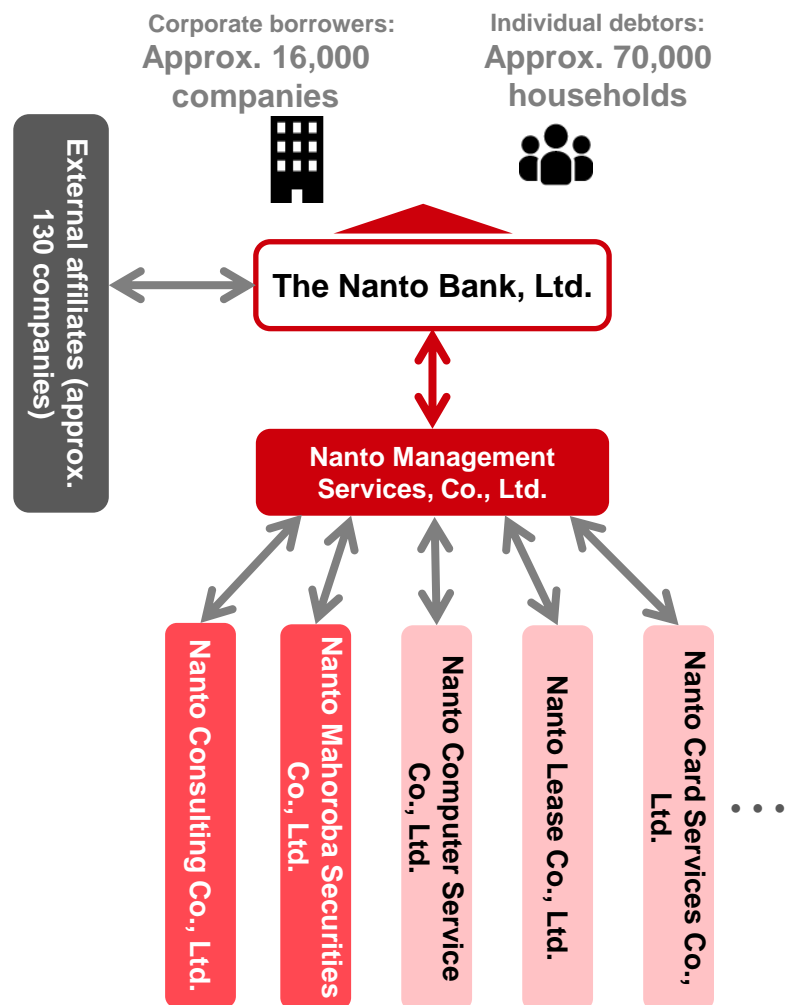
Ideal state

“Consulting sales”

- ✓ Discover and share fundamental issues that even customers are not aware of
- ✓ Solve customers' issues by not only providing money, but also combining solutions for **knowledge and personnel**

<Reference> Strengthening Cooperation with Our Group Companies

- ◆ We will work on a highly specialized consulting business with our subsidiary offering consulting services, which is difficult to do with only the Bank, and provide customers with knowledge, people, and money by the entire Group including subsidiary securities company.

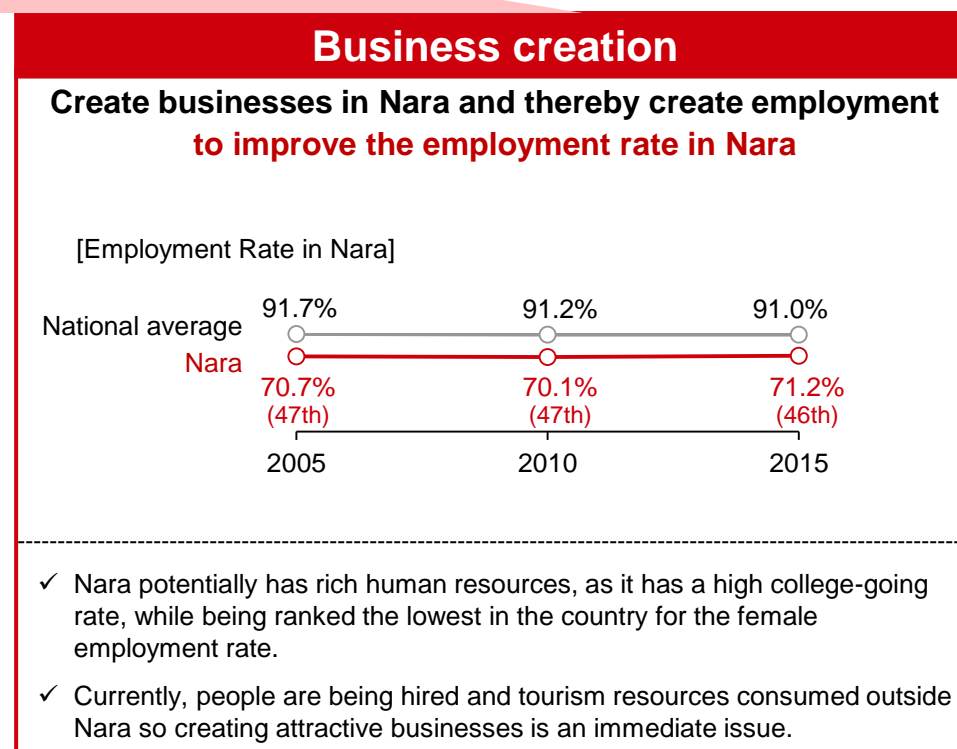
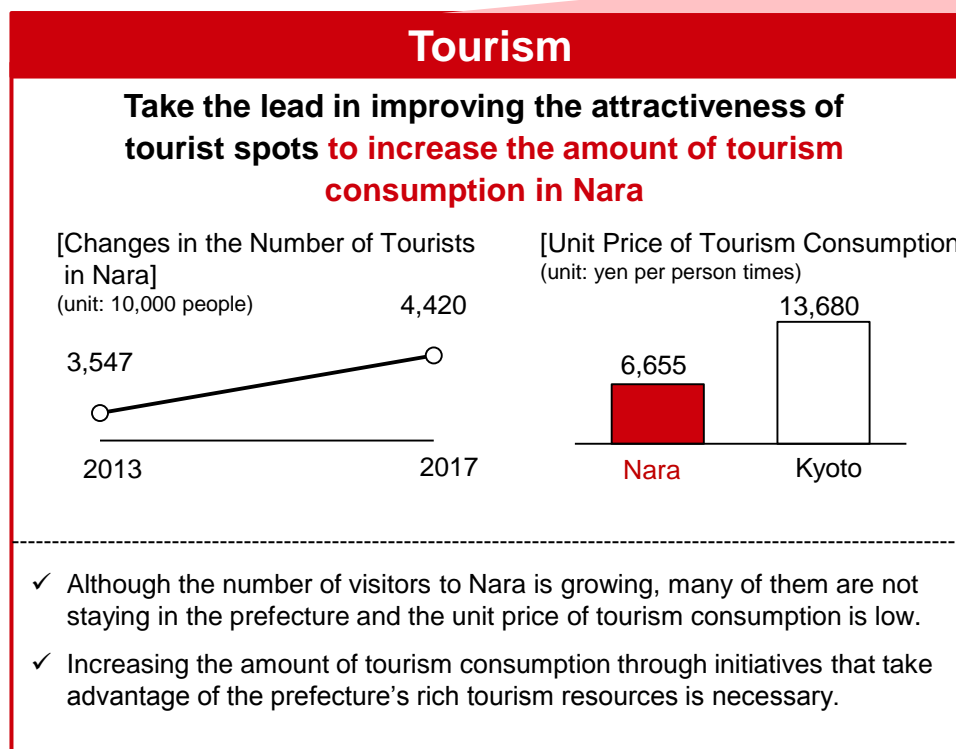


Reorganizing/Strengthening Group companies

- ✓ **Strengthening consulting sales through Nanto Consulting**
 - We established Nanto Consulting in July 2019 to analyze the true causes and solve the true issues of customers, which are required for consulting sales, and to offer them as charged services, which were previously offered for free, by specializing skills, know-how, etc.
 - In the future, we will also initiative to dispatch the management personnel.
- ✓ **Strengthening the securities business through Nanto Mahoroba Securities**
 - A subsidiary engaged in the securities business has started operations in March 2019.
 - We will form customers' assets by meeting sophisticated asset management needs.
- ✓ **Strengthening Group governance through Nanto Management Services**
 - We established an intermediate holding company in September 2019.
 - We will maximize the Group profits by streamlining the management of Group companies and strengthening the governance.

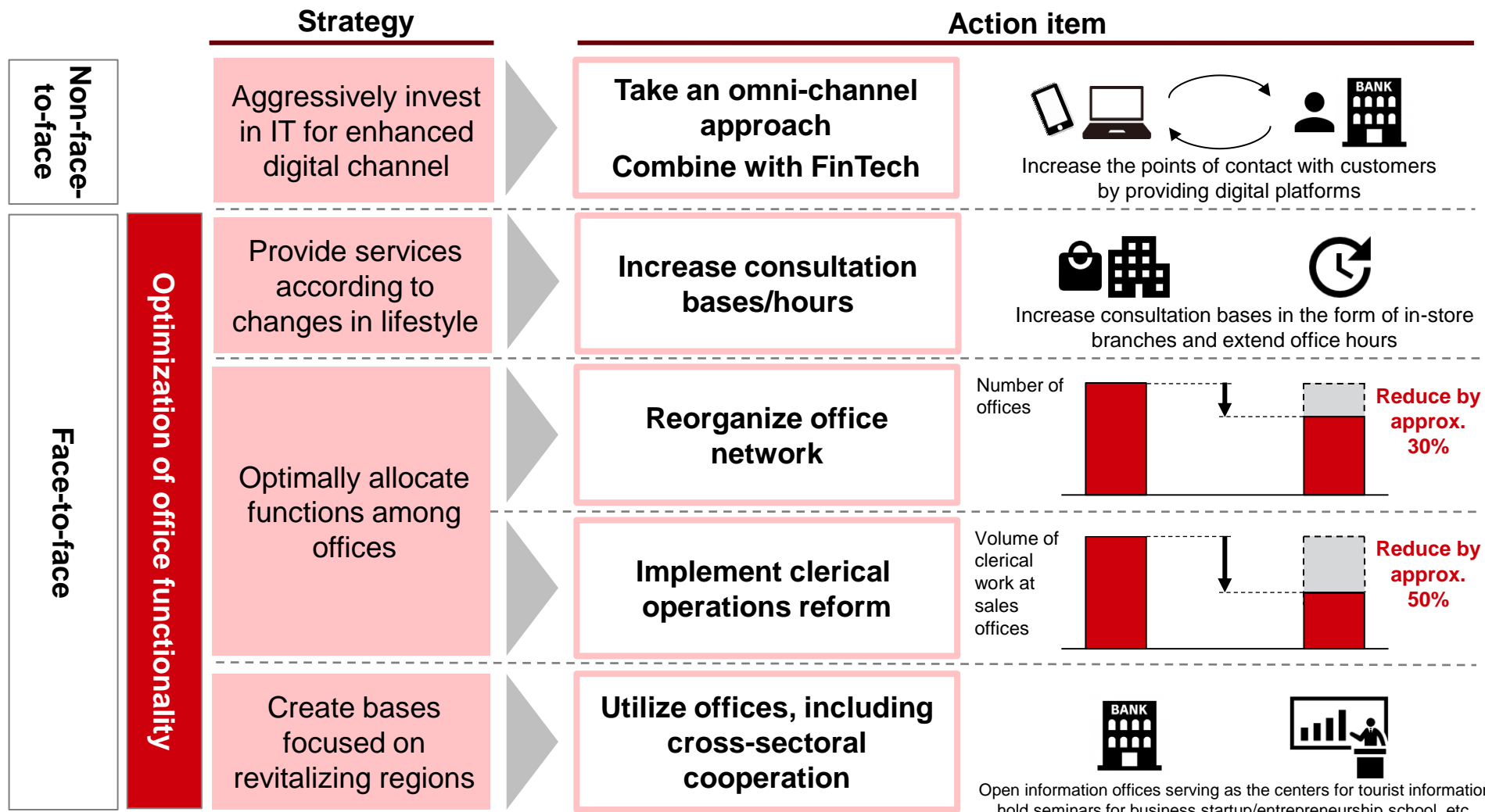
Strategy to Commercialize Solutions for Regional Issues

- ◆ We will address regional issues that may not be resolved by individual customers, and commercializing them on our own initiative.



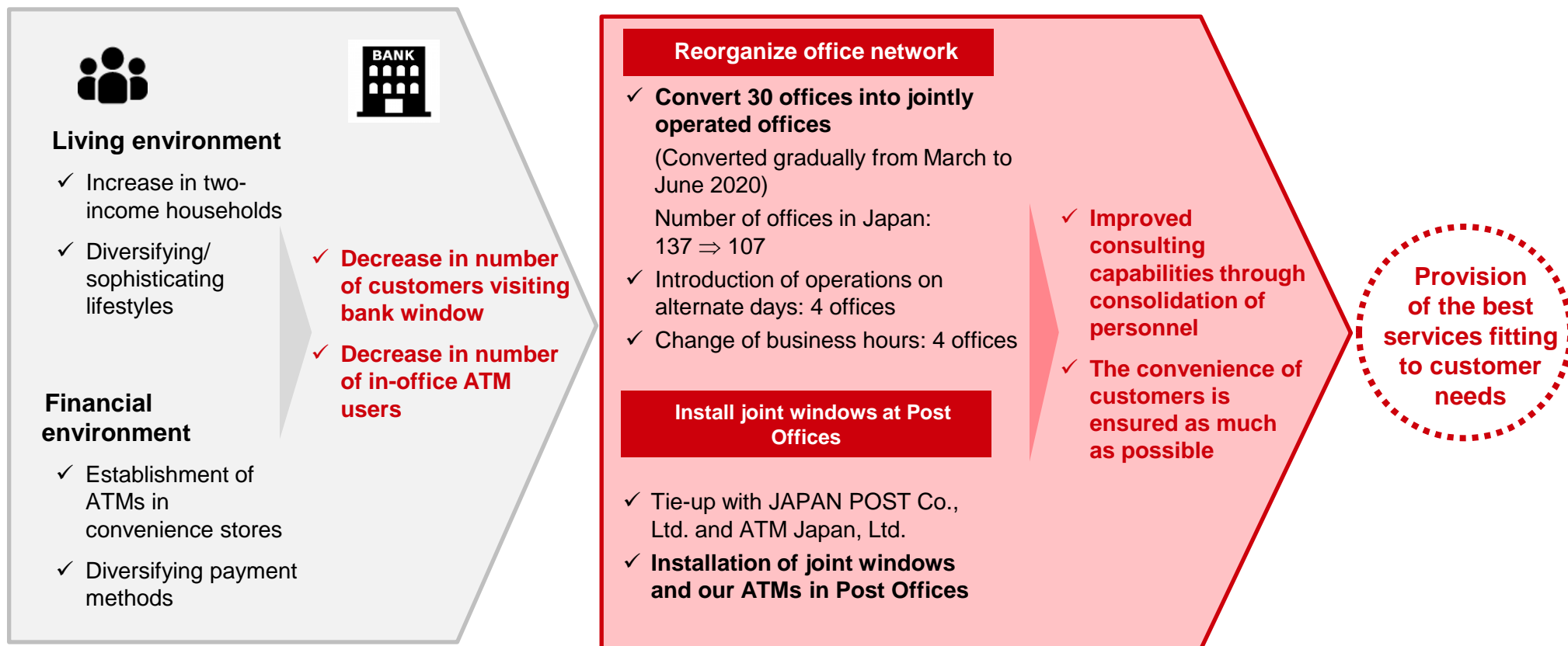
Channel Strategy

- ◆ We will create the optimal channels that meet customer needs and support the implementation of our business strategies that reflect the changes in the internal and external environments.



<Reference> Reorganizing Our Office Network

- ◆ We will launch a full-scale re-distribution of management resources through office network reorganization to continue to provide the best services according to customer needs.
- ◆ We will strive to ensure the convenience of customers as much as possible through initiatives such as installation of joint windows at Post Offices.



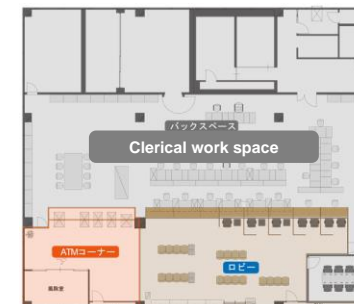
<Reference> Clerical Operations Reform (Discontinuing SBT Terminals in Offices)

- ◆ We will discontinue SBT terminals installed in offices with the aim of achieving paperless and cashless operations and eliminating back-office operations in offices.

Current situation/Issues of offices

- ✓ Environment where our employees cannot concentrate on solving issues that customers are facing

- Due to the high burden of machine operations centered on SBT terminals in offices and the handling of cash, slips, etc., employees cannot concentrate on solving customers' issues.
- Customer procedures, such as filling out paper and putting seals, are also complex.

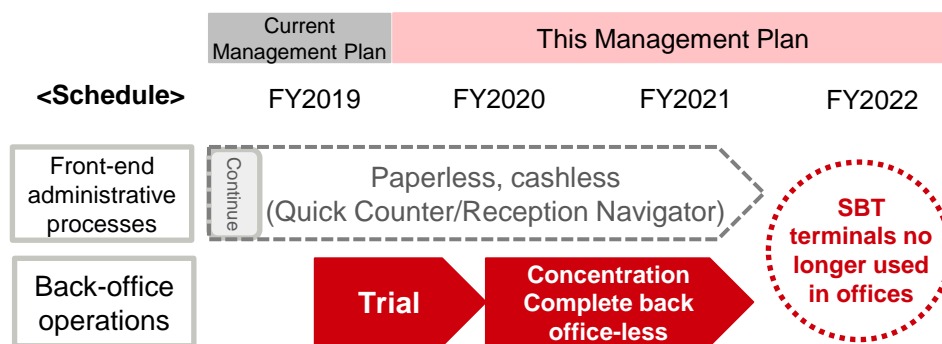


Discontinuing SBT terminals in offices

- ✓ Creating space for consulting, local community initiatives, etc., as a result of discontinuing SBT terminals in offices and eliminating back-office operations
- ✓ Establishing an environment where employees can concentrate on cultivation activities by reducing the burden of clerical work through paperless and cashless operations and eliminating back-office operations



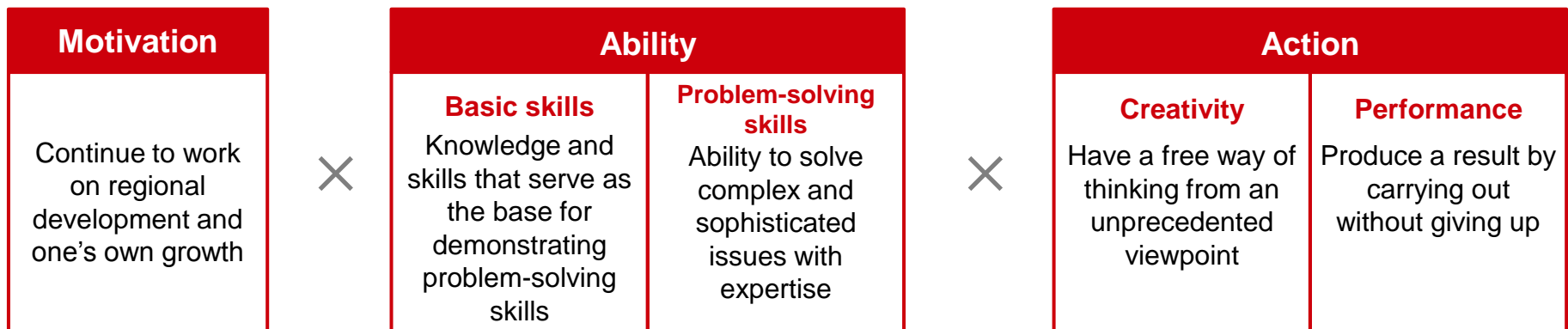
Clerical work space:
Occupying Approx. 70%
of the entire space
⇒ 30%



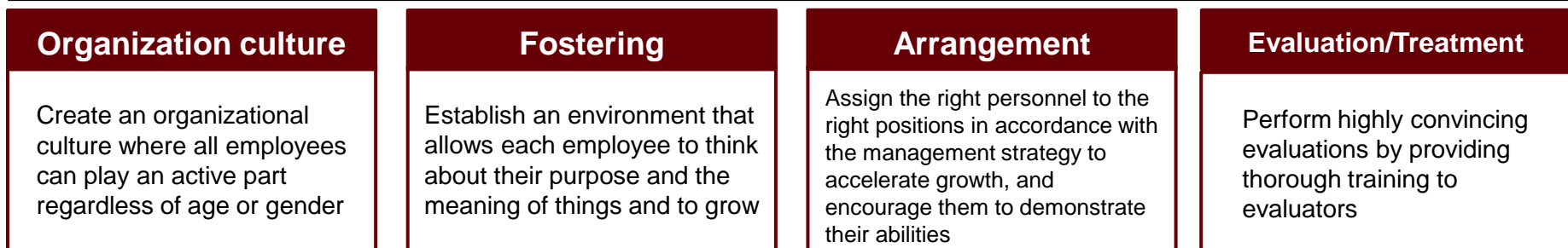
Personnel Strategy

- ◆ We will develop human resources who are “unique” for regions and customers (personnel who create vitality).
 - ✓ Clarify the image of the “Ideal Personnel” and the elements required for it.
 - ✓ Implement action items to improve “Motivation”, acquire “Ability”, and establish “Actions”.

Elements required for people who create vitality



Action items to develop people who create vitality



Market Management Strategy

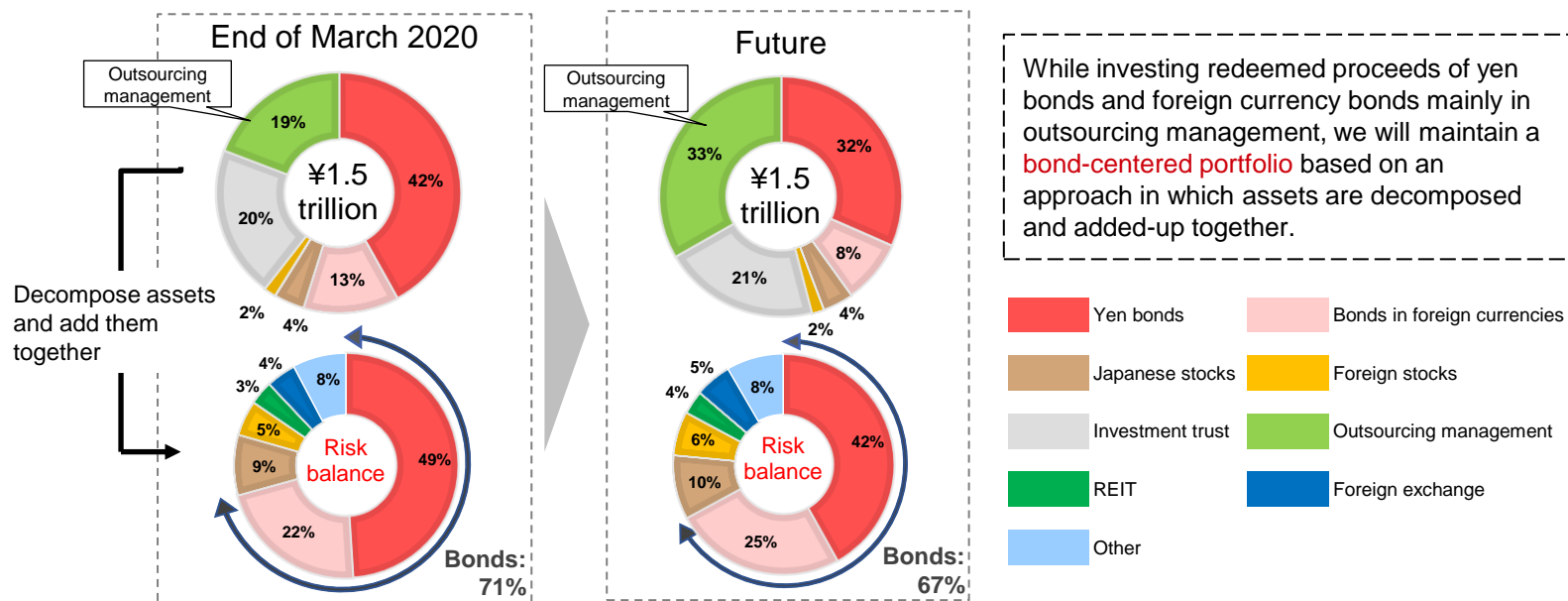
◆ We will strive to establish a securities portfolio composition that enables a stable yield of 1% or more to be secured in the medium- to long-term.

Basic policy

- ✓ Dynamically rebalancing the portfolio according to changes in the market environment
- ✓ Securing stable revenue by combining a good balance of self-management and outsourcing management*
 - * Outsourcing management: Management of portfolios using the sophisticated management know-how of third parties that we do not possess
- ✓ Diversifying core revenue sources by utilizing new assets to be managed and new management methods
- ✓ Thoroughly distributing assets, regions, and time to diversify and reduce risks

Portfolio composition

Asset composition



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Governance System

- ◆ In order to become the “No. 1 Group in terms of Vitality Creation”, we will establish a governance system to **quickly adjust the business strategy in a timely manner** based on the voices of **investors, customers and our employees**.



Enhance communication with investors by disclosing plans every term



Evaluate the implementation of strategies by incorporating and understanding the voices of customers and our employees



Verify its own activities and implement the PDCA cycle continuously in line with the change in the business environment

Strengthen the functionality of the board of directors



- ✓ Continue to develop and appoint candidate directors who are capable of responding to changing business environment
- ✓ Provide incentives based on the evaluation of activities toward achieving the goals



- ✓ Monitoring by external directors from an objective view



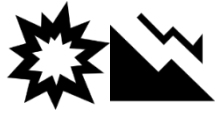
Quickly adjust the business strategy in a timely manner



- ✓ Flexibly revise the strategy based on each term’s results and changes in the management environment
- ✓ Structure to formulate strategies by the entire Group through an intermediate holding company system

The Risk Management and Compliance System

- ◆ While building a system to **detect and prevent risks and problematic events** based on an accurate understanding of changes in the environment, **we will create a supporting organizational culture** that will not cause misconducts.



Changes in economic situation such as market trends



Changes in social environment through innovation



Sophistication of money laundering and financial crimes



System to take preventive measures based on changes in the environment

System to detect and prevent risks

Build a system to foresee risks **in a forward-looking manner** and thereby minimize the chance they will materialize

- ✓ Analyze and verify risks in plans and action items in the **development stage**
- ✓ Take **cross-sectional** preventive measures by establishing a system to comprehensively identify risks
- ✓ Prevent money laundering and financial crimes at the point of entry by strengthening the functionality of operations at the business frontline

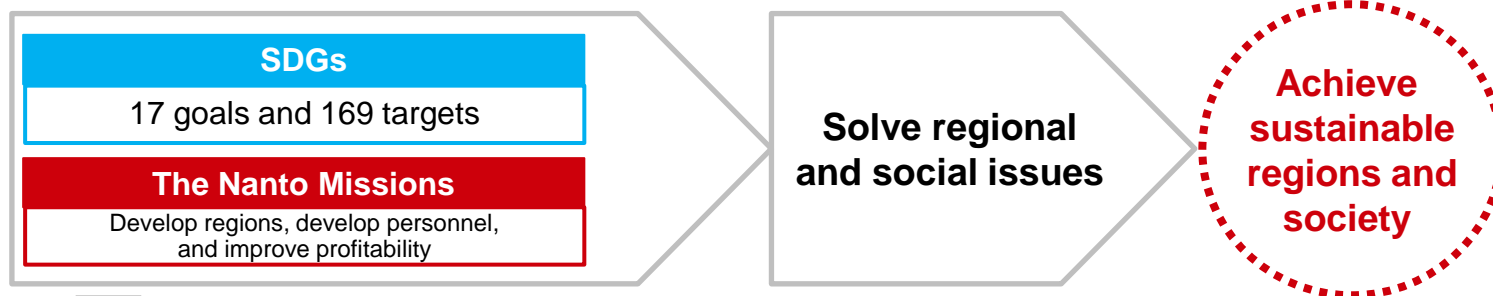
Organizational culture that will not cause misconducts

Achieve an **open workplace environment** through smooth **communication**

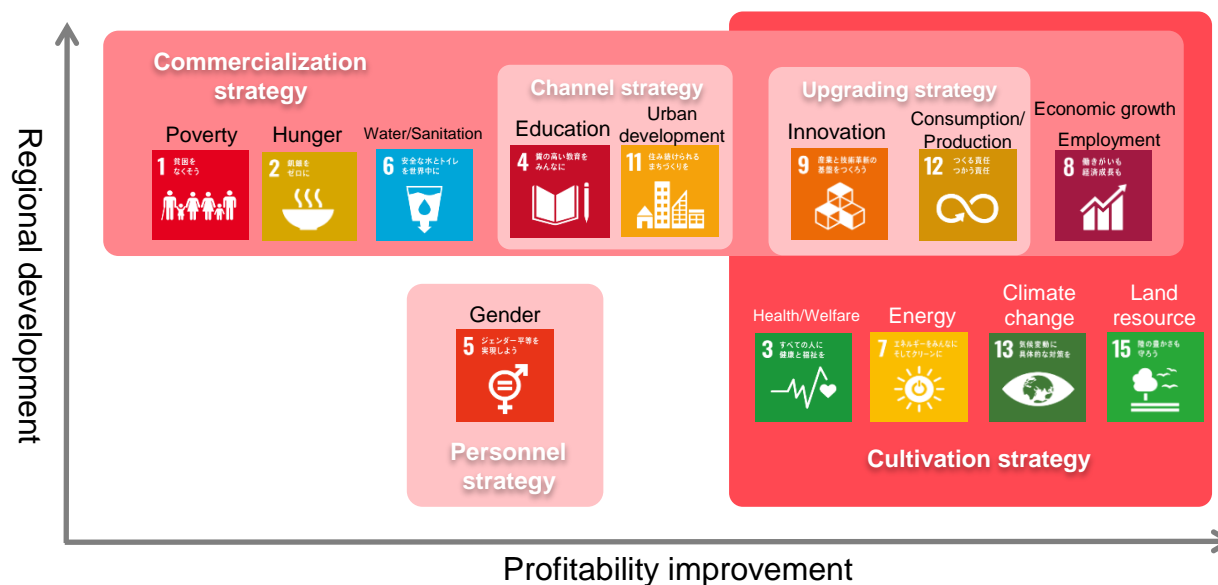
- ✓ Conduct employee surveys and enhance the follow-up system
- ✓ Carry out training and legal reviews with an awareness of **conduct risk**
- ✓ Demonstrate a **self-policing approach** by promoting the use of the whistle-blowing system

Our Policy for SDG Initiatives

- ◆ Our Group will work to resolve regional issues throughout this plan and thereby achieve the SDGs.



Pursuit of the “Nanto Missions” and Achievement of the SDGs



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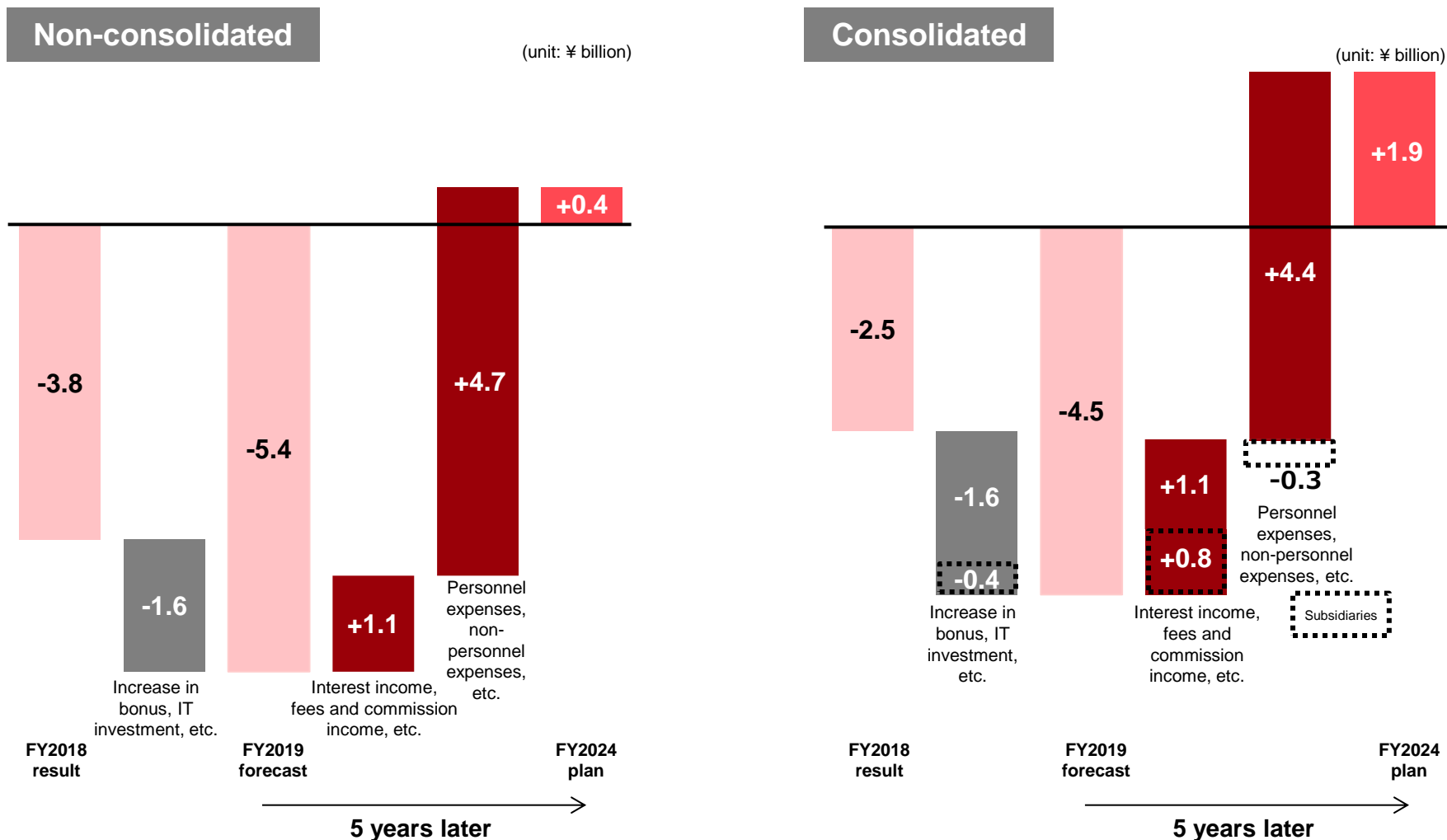
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The “Nanto Missions” and Our Goals in the Next 10 Years

- 3-1. Review of the Current Medium-Term Management Plan
- 3-2. The “Nanto Missions” and Our Goals in this Management Plan
- 3-3. Management Strategies toward Achieving Our Goals
- 3-4. Management System for Sustainable Growth

- 3-5. Numerical Plan for the Interim Targets

Expected Profit/Loss from Customer Services in FY2024

- ◆ By implementing various action items based on this plan, we will turn the deficits of customer services into surpluses in five years and aim to build a solid financial structure.



In this material, we refer to the future performance of the Bank.
However, please be aware that these contents do not guarantee our future performance
and it may change due to the unexpected risks and uncertainties in the operating
environment.

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