

# Medium-term Management Plan

## “KAI-KAKU 150 1st STAGE—Gateway to the Future”

Aiming to Transform into a Digital & Consulting Bank

### Progress Review

- The indicators demonstrated steady performance towards the final goals of the Medium-term Management Plan. Personnel with professional qualifications increased to as many as 220.

## Numerical Targets of the Medium-term Management Plan

	Item	FY 3/19 (actual)	FY 3/20 (actual)	FY 3/22 (Final goal of the Plan)
Profitability indicator	Net income	10.7 billion yen	11.3 billion yen	10.0 billion yen
Capital efficiency indicator	ROE (shareholders' equity basis)	4.32%	4.41%	3.7% or more
Efficiency indicator	OHR (core gross operating profit basis)	74.43%	75.67%	Less than 79%
Soundness indicator	Equity ratio	9.74%	10.07%	9.5% or more
Growth indicators	Average balance of total deposits (including negotiable certificates of deposit)	4,992.9 billion yen	5,102.3 billion yen	5,230 billion yen or more
	Average balance of total loans	3,246.2 billion yen	3,529.7 billion yen	3,700 billion yen or more
Profit indicators	Loan-to-deposit ratio (average balance base)	65.0%	69.2%	70.8% or more
	Operating income from services to customers	1.5 billion yen	2.9 billion yen	3.7 billion yen
Human resources development indicator	Corporate solutions fees	941 million yen	1,103 million yen	2,000 million yen
	Number of personnel with professional qualifications	161 persons	221 persons	300 persons
<b>No. 1 among regional banks in Japan</b>		A total of 28 staff members passed the knowledge-based exam of the 1st Grade Financial Planning Qualifications (for examination held in Jan 2020)		

- A challenge is “many redemptions of relatively high-yield JPY-denominated bonds.” A solution is to increase the volume of loans to local companies and housing loans

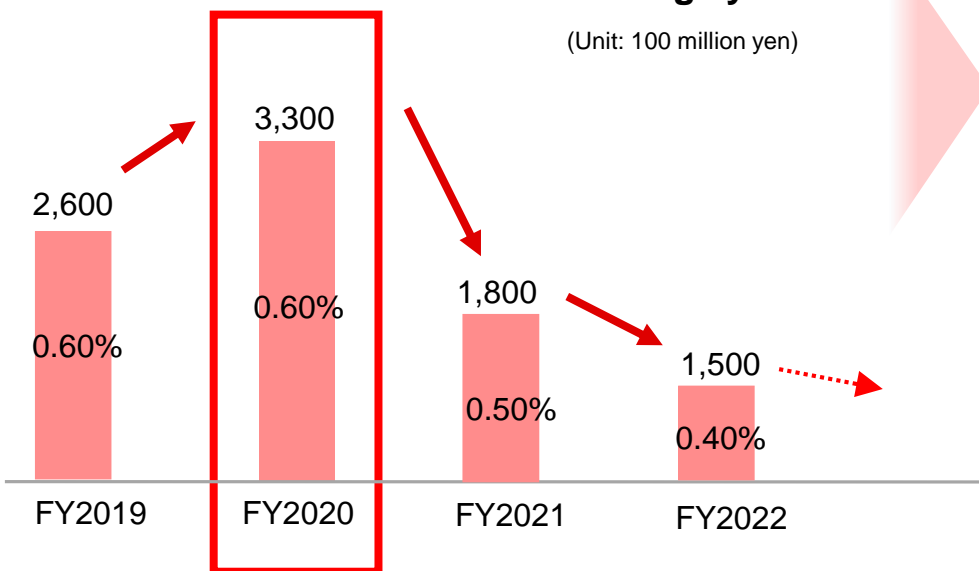
## Maturity of many JPY-denominated bonds will peak in FY2020

As fewer JPY-denominated bonds mature in FY2021 onward,

**FY2020 is the crucial point.**

### Trends in redemption amount of JPY-denominated bonds and average yield

(Unit: 100 million yen)

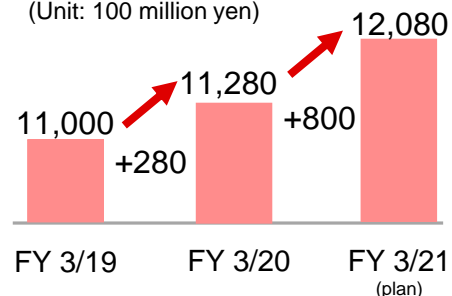


## Solution

**Focus on increasing the volume of loans to medium-sized companies/SMEs in the region, and housing loans**

### Increase the volume of loans to medium-sized companies/SMEs in the region

(Unit: 100 million yen)

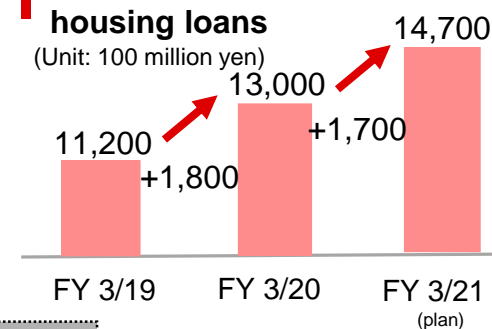


FY2019  
Average effective yield of loans to medium-sized companies/SMEs in the region

**1.055 %**

### Increase the volume of housing loans

(Unit: 100 million yen)



FY2019  
Average effective yield of housing loans

**0.55 %**

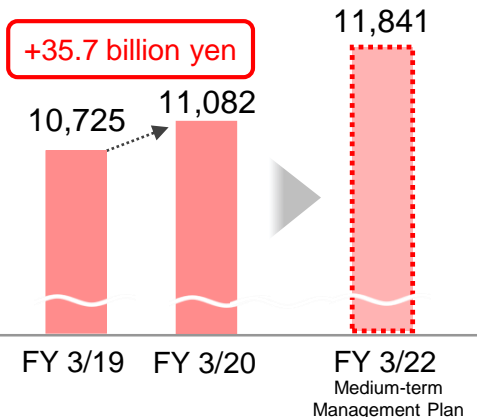
**Secure profits while minimizing the impact of JPY-denominated bond redemption**

- Increase average balance of loans, such as loans to local medium-sized companies/SMEs and consumer loans, by approx. 500 billion yen.

## JPY-denominated loans Average balance plan

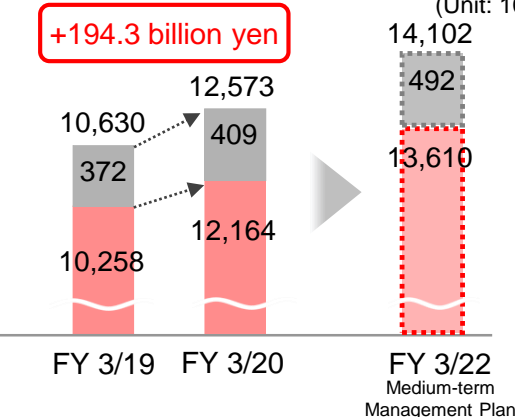
### Loans to medium-sized companies and SMEs in the region

(Unit: 100 million yen)



### Consumer loans

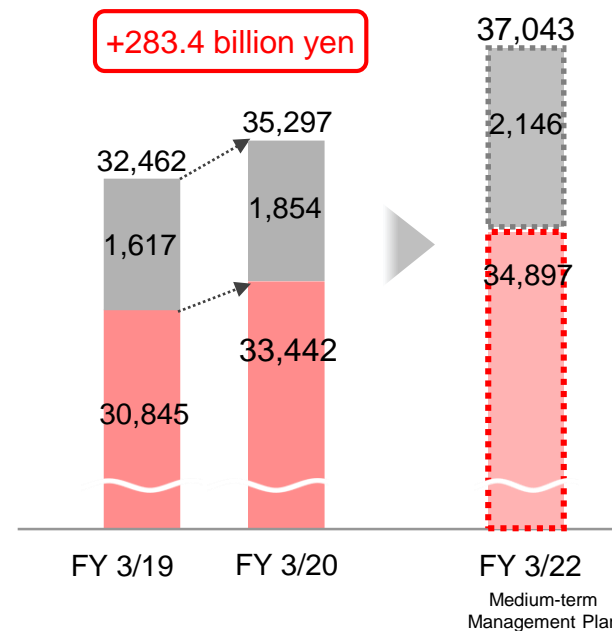
(Unit: 100 million yen)



## Total loans Average balance plan

■ JPY-denominated loans  
■ Foreign currency-denominated loans

(Unit: 100 million yen)



## Foreign currency-denominated loans Average balance plan

Acquire prime borrowers while enhancing the operating scheme and performing careful risk analysis

For companies operating overseas business

Increase the volume of loans for higher portfolio diversification

For companies operating domestic business

Ensure to acquire fund needs of overseas subsidiaries

Aircraft finance

Fulfill aircraft demand while carefully examining the industry trends

During the term of the Medium-term Management Plan  
50 billion yen up

## Loan-to-deposit ratio

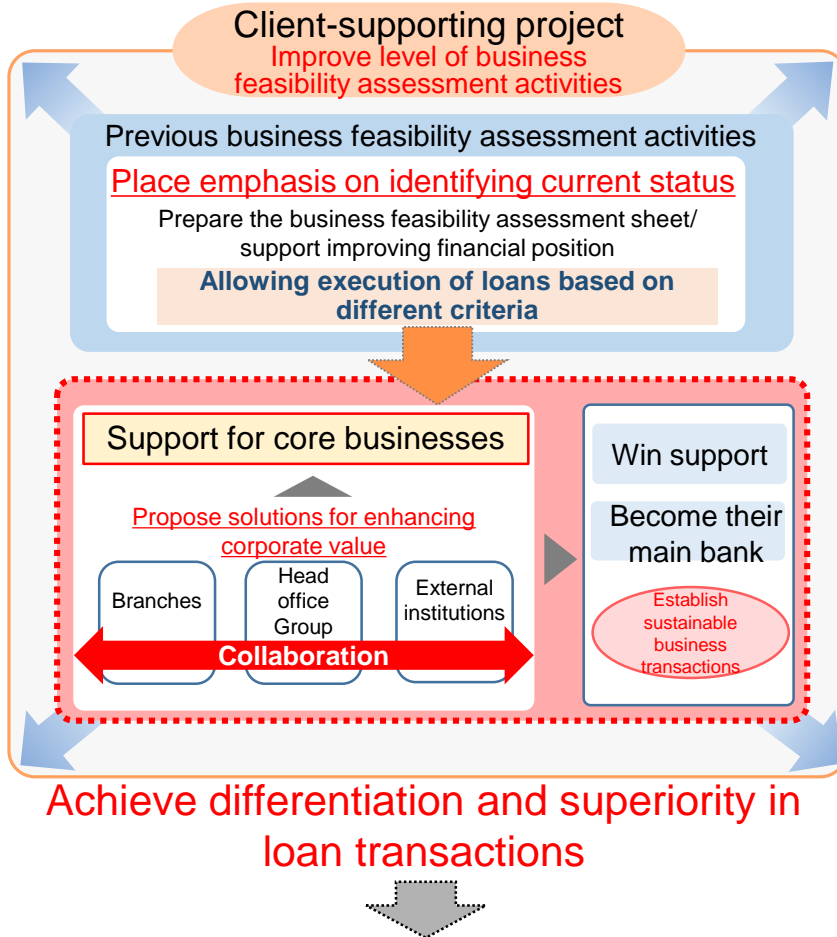
	FY 3/19 (actual)	FY 3/20 (actual)
Loan-to-deposit ratio	65.0%	69.2%

+4.2p

FY 3/22 (Final year of the Medium-term Management Plan)  
70.8% or more

- Deepen business feasibility assessment to further strengthen financial intermediary capability and increase market share for loans.

## Toward More Sophisticated Business Feasibility Assessments

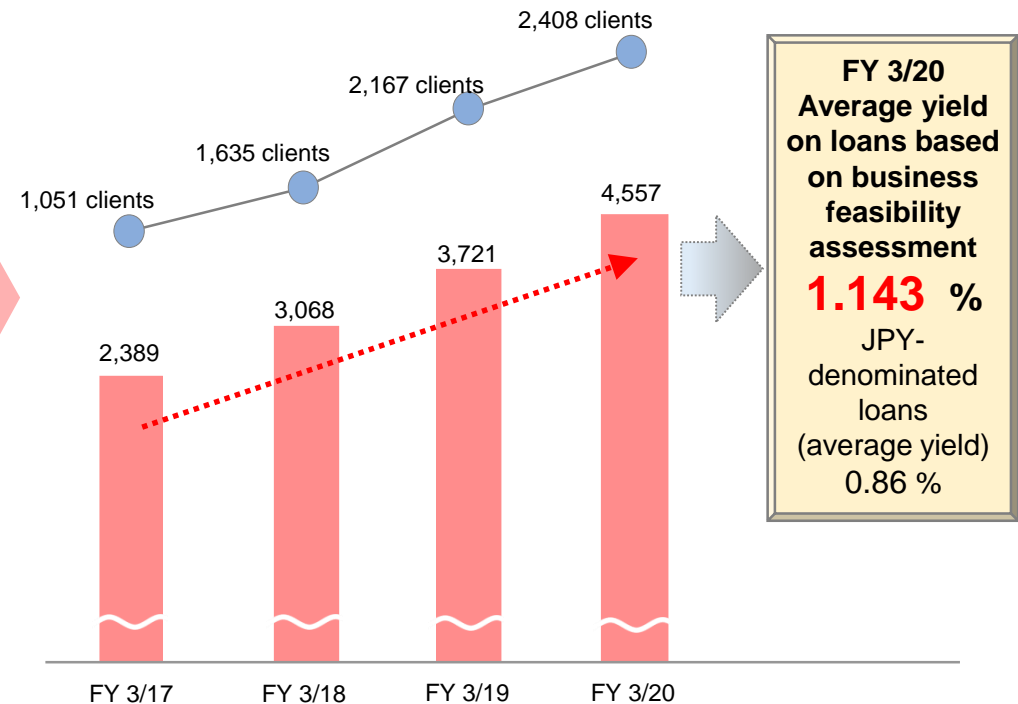


Expand share of loans ► Strengthen loan income

### Change in the loan balance based on business feasibility assessment and the number of clients who received a business feasibility assessment

(Unit: 100 million yen)

- Balance of loans based on the business feasibility assessment
- Number of clients who received a business feasibility assessment



- Advancing into new sales areas. Establishing no branch, while encouraging new customers to open new accounts at Aichi Internet branch

## Housing loan promotion measures

### Advancing into new sales areas



Started offering housing loans in Toyohashi City, Aichi Prefecture



Attract more borrowers by developing new excellent housing loan markets

### Aichi Internet Branch

Available to customers under a housing loan contract at Toyohashi Personal Plaza only  
Save expenses by not launching a second Internet branch after the Osaka internet branch

### Housing starts in municipalities in Aichi Prefecture

1st: Nagoya City 27,046

2nd: Okazaki City 3,182

**3rd: Toyohashi City 2,712**

4th: Toyota City 2,645

\*Prepared based on Ministry of Land, Infrastructure, Transport and Tourism, "the 2019 Statistical Survey of Construction Starts"

- **Make more use of the business hours by streamlining operations. The average balance is increasing at a faster pace than stated in the Medium-term Management Plan**

**Streamlining operations and numerical targets**

**Streamlining operations**

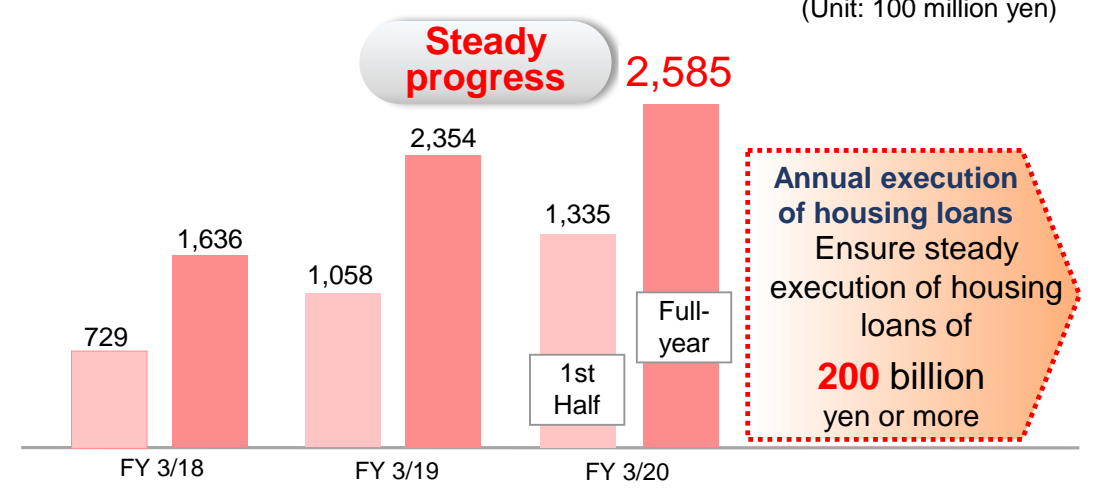
**Streamlining and homogenizing operations**

**The use of YouTube content**

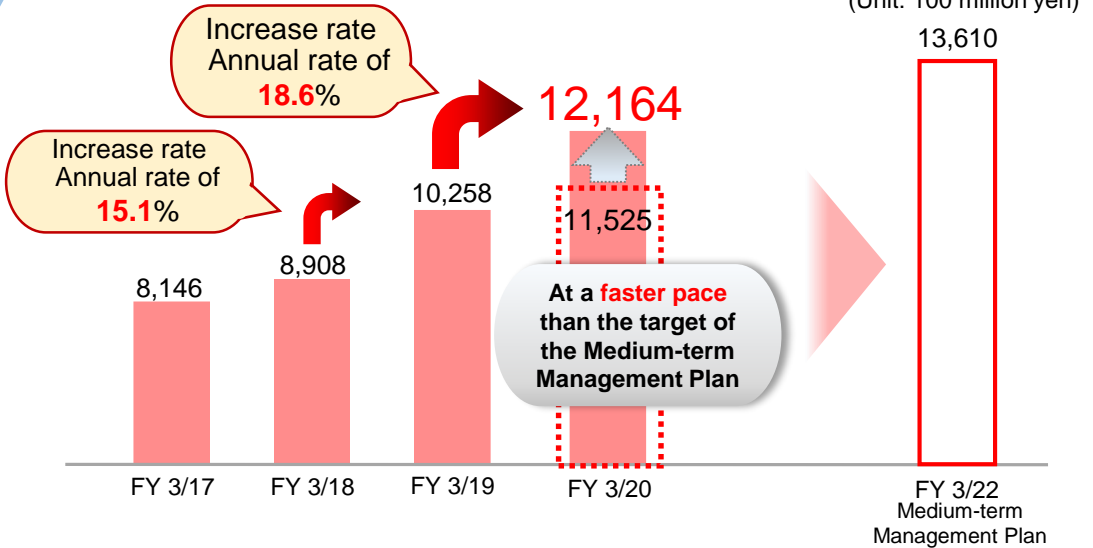
Present the flow of a loan agreement in an animated format to expand the coverage of contactless and mail contracting

**Make more use of the business hours by reducing the operational burden**

**Single-year execution of housing loans**



**Average balance of housing loans (plan)**



● Capture potential fund needs for housing loans, and increase contactless transactions through online contracting

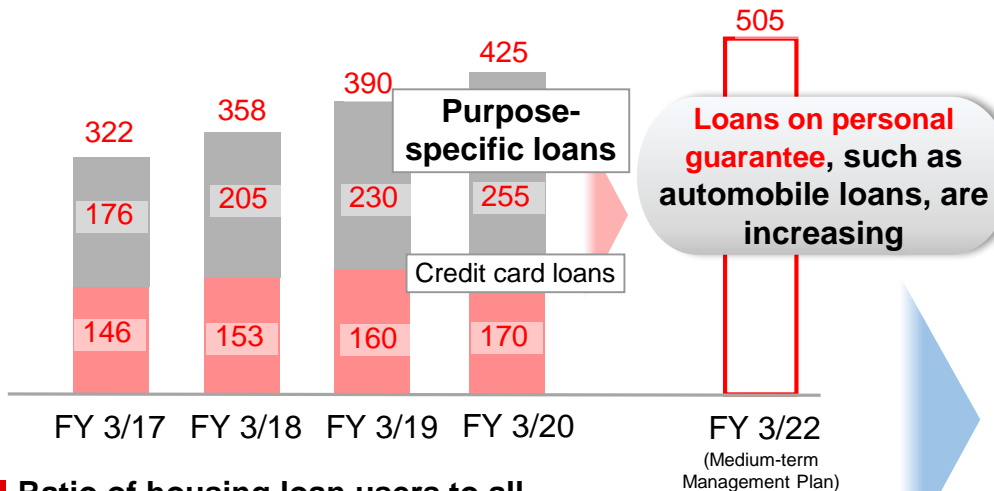
Trend in balance of unsecured loans, and promotion measures

Balance of unsecured loans

(Unit: 100 million yen)

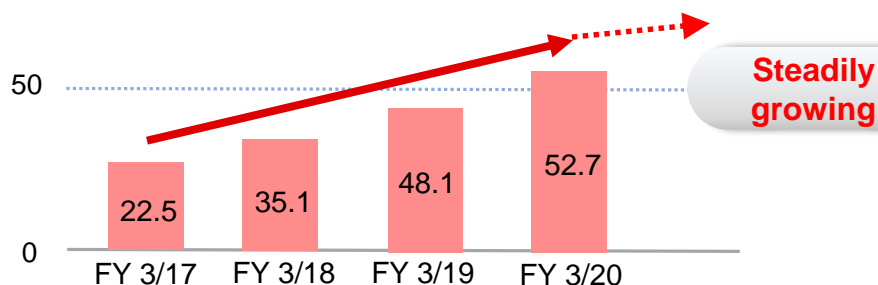
No. 1 among regional banks in Tokai Region in terms of balance of unsecured loans

\* Prompt report of Nikkin (the Japan Financial News), Mar 2020



Ratio of housing loan users to all unsecured loan users

(%)



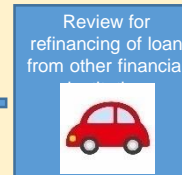
Enhance customer loyalty of those with a housing loan

Products exclusively for housing loan users

Value Plan

(1) Propose refinancing when customers are applying for a housing loan

(2) One Writing



(3) Apply preferential interest rates to housing loan users

Design easy-to-use websites



64 regional banks  
Website Ranking  
in websites for credit card loans  
No. 1

\* WACUL Inc., Research Report (Apr 2020)

Leading to an increase in contracts

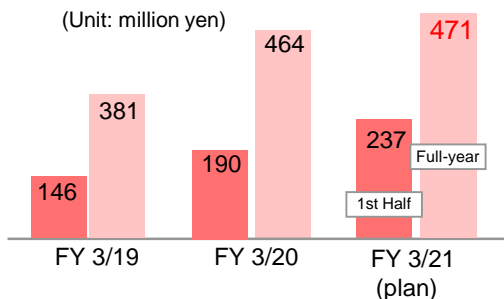


- Enhance offerings of solutions and support system to address customers' management issues and strengthen non-interest income

## Strengthening corporate solutions fees

### Structured finance-related fees

(Unit: million yen)



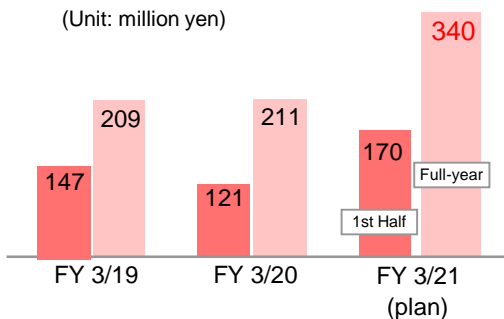
**464 million yen**

(Results as of FY 3/20)

- Offer loan methods satisfying customer needs and financing for PPP/PFI operations

### M&A fees

(Unit: million yen)



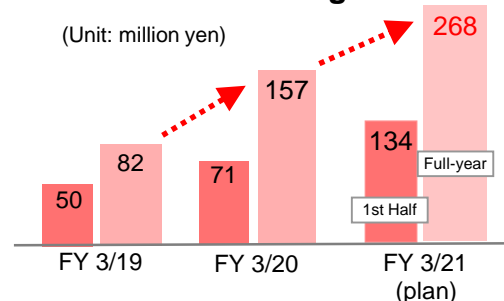
**211 million yen**

(Results as of FY 3/20)

- Focus more on some 1,500 target customers with net assets of 300 million yen or more

### Business matching fees

(Unit: million yen)



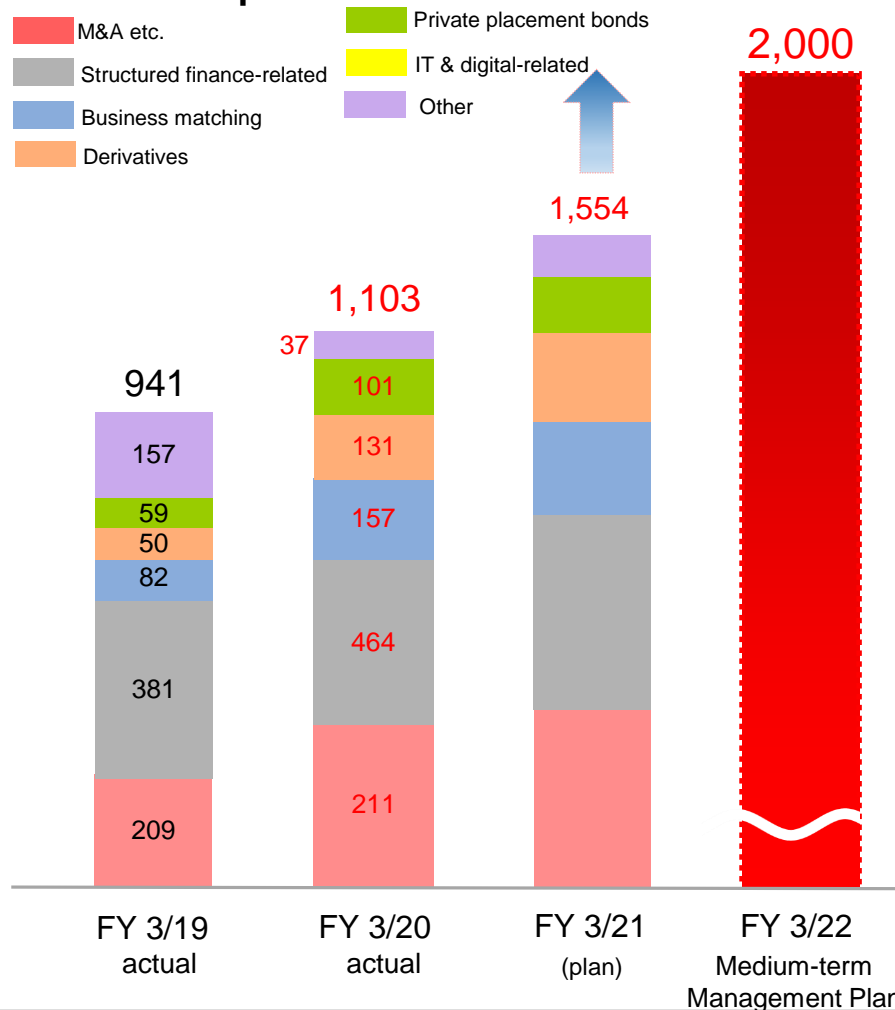
**157 million yen**

(Results as of FY 3/20)

- Start full-scale operations of real estate business matching by enhancing partnership with constructors, and newly start business matching in areas related to artificial intelligence and the IoT

### Corporate solutions fees: actual and plan

(Unit: million yen)



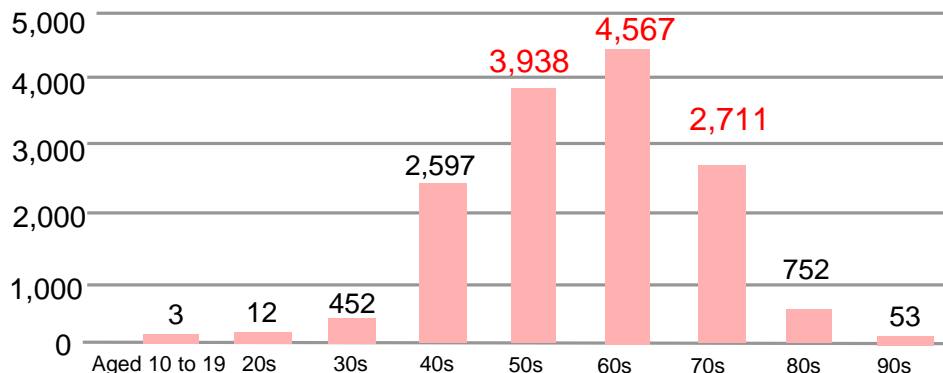
- Enhance the scheme to support business succession as part of the Bank's commitment to sustainable community development, and increase earnings also

### Situation of SMEs business succession

#### Entrepreneurs demographic distribution (Mie Prefecture)

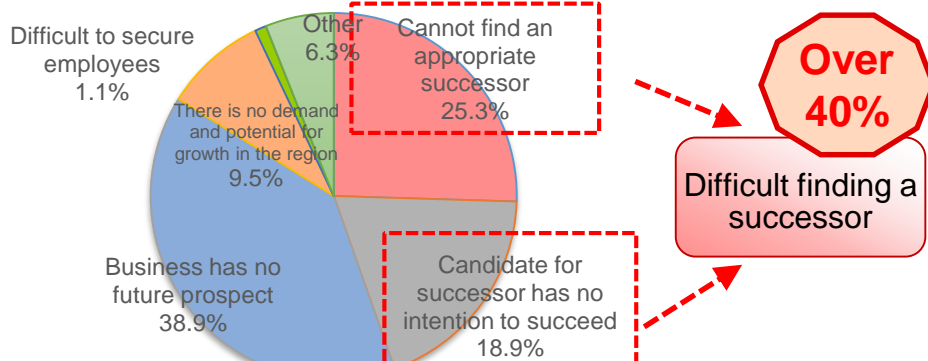
(Unit: Businesses)

Aging entrepreneurs



Source: Tokyo Shoko Research, Ltd.; a total of 15,085 companies, for which the age of the owner is available among data on companies in Mie Prefecture (as of Dec 2017)

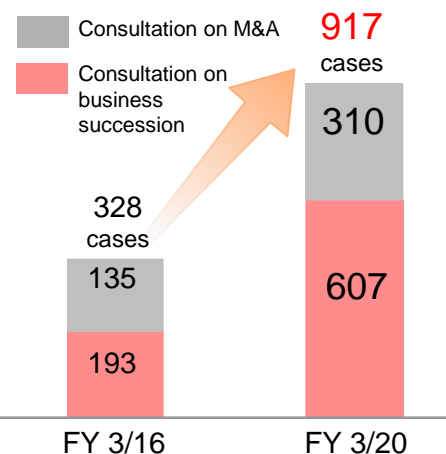
#### Why they are considering going out of business (Mie Prefecture)



Source: The results of a questionnaire survey on small and medium-sized companies in Mie Prefecture on business succession (Jan 2018)

### Enhance the scheme to support business succession

#### Number of consultations on business succession and M&A



#### Newly established

**Hyakugo Mirai Investment Co., Ltd.**

\* December 2019

Capitalization: 70 million yen

Shareholder: The Hyakugo Bank Ltd.

Business succession fund "AIDMA No. 1"

\* January 2020

Total fund: 3 billion yen

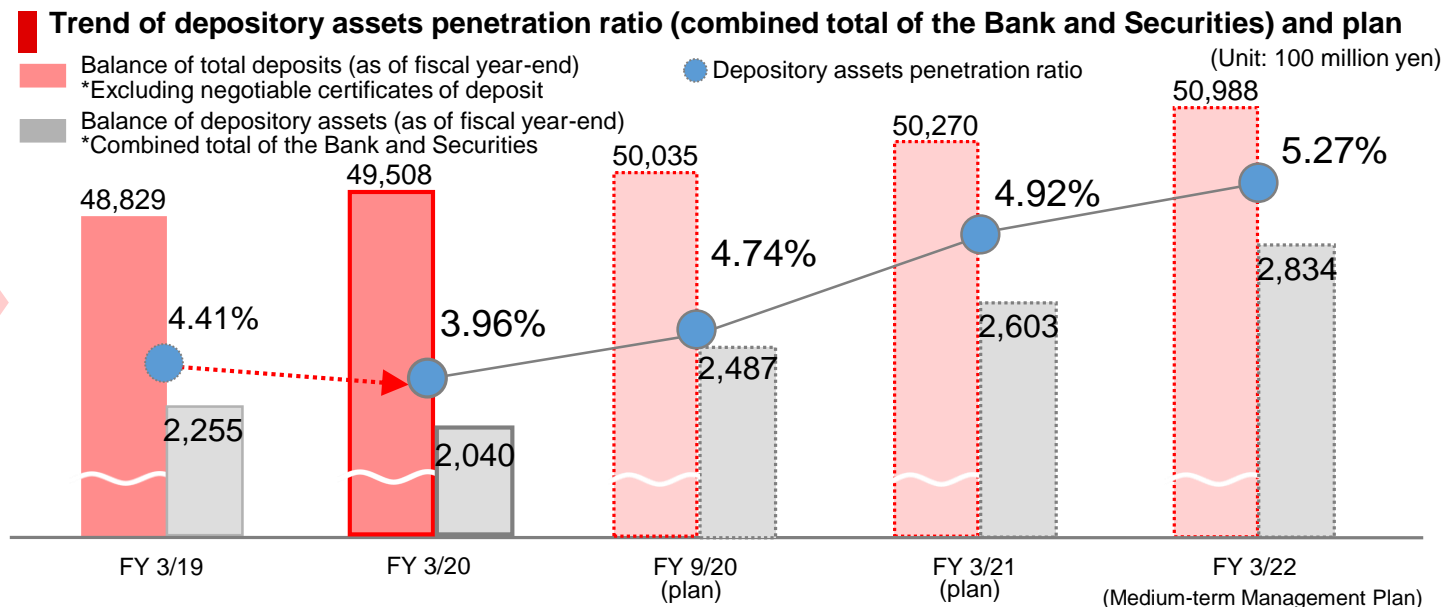
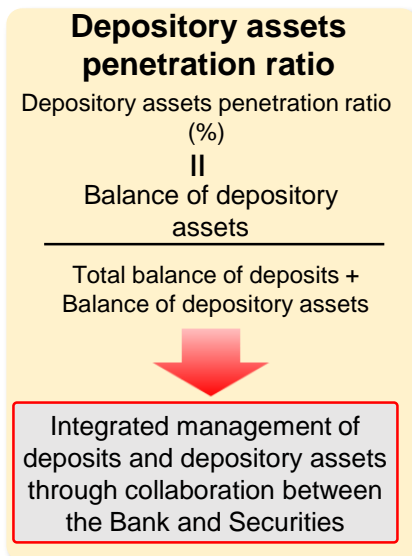
- Proactively support business succession with equity investment
- Curb business discontinuation due to lack of a successor, and contribute to maintenance and development of the regional economy

Investments made: **2 cases**

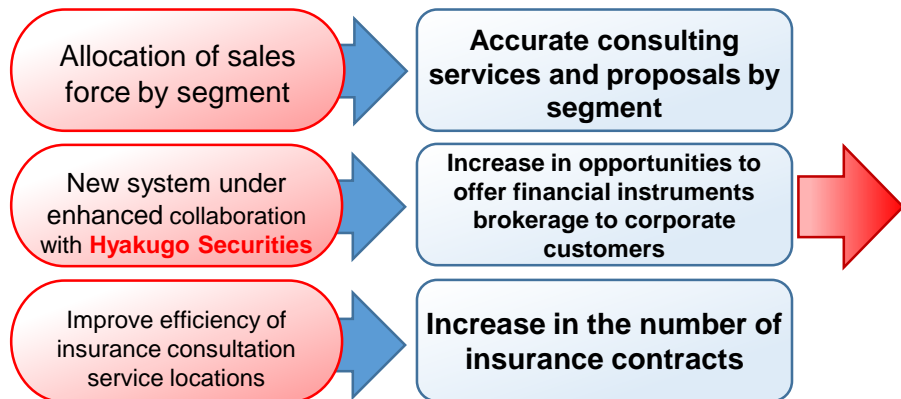
\* From Dec 19 to Mar 20

- Make customer-oriented proposals for depository assets according to their needs in order to increase the penetration ratio of depository assets and strengthen depository assets-related fees

## Depository assets sales strategy to increase penetration ratio



## Effects of reforms to the sales system



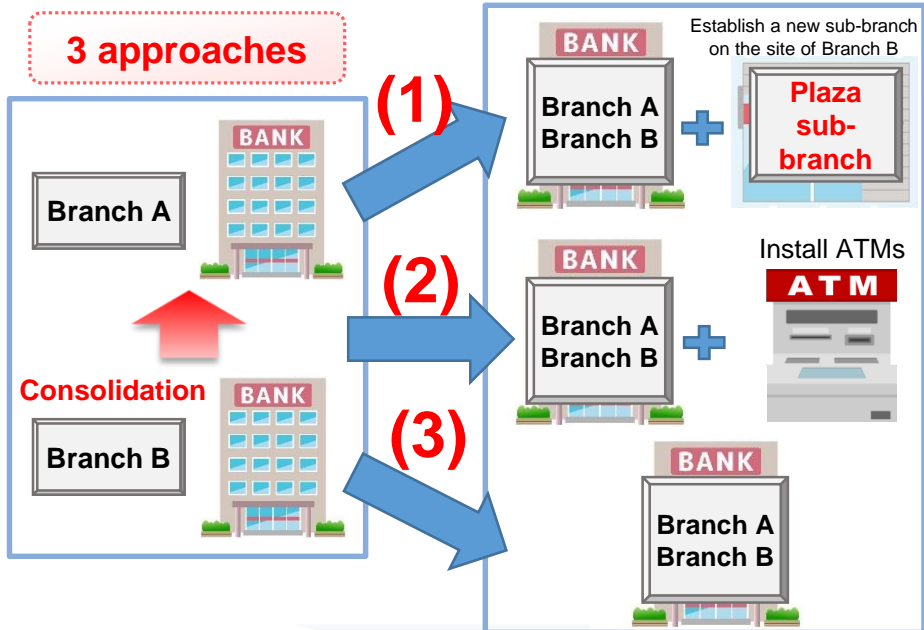
## Depository assets-related fees

(Unit: million yen)

	FY 3/19 (actual)	FY 3/20 (actual)	FY 3/21 (plan)	FY 3/22 (Medium-term Management Plan)
Investment trusts	820	892	1,021	1,176
Insurance	993	990	1,255	1,396
Financial instruments brokerage	68	172	225	225
Defined contribution pension	79	95	100	100
<b>Total</b>	<b>1,961</b>	<b>2,150</b>	<b>2,601</b>	<b>2,897</b>

- Accelerate efficiency of branch network by eliminating inefficient overlapping of sales areas, while maintaining branch network and convenience for customers

## Consolidate functions by adopting branch-in-branch method



**Plan** 16 branches over three years, and more

	FY2019	FY2020	FY2021	
Initial plan	5 branches	5 branches	6 branches	Surplus employees to work out <b>55 persons</b>
Current plan	2 branches completed	8 branches, of which consolidation in progress for 4 branches	6 branches	

## Downsizing of Sub-branches

### Rollout of "105 Plaza"

Branch operation with a small number of staff (Two employees and two to four part-timers)



- (1) Limiting the services offered
- (2) Changing business hours

**Plan** 10 branches over three years, and more

	FY2019	FY2020	FY2021	
Initial plan	5 branches	5 branches	—	Surplus employees to work out <b>20 persons</b>
Current plan	7 branches completed	3 branches	—	

Forwarding the scheduled downsizing

- For a more accessible and flexible bank with smartphone banking. No time-consuming application and approval process is needed. Easy to start with a cash card

## Towards the rollout of smartphone banking

Towards services, where banking transactions are completed only on smartphone

Phase 1 (Nov 2019)  
Smart passbook

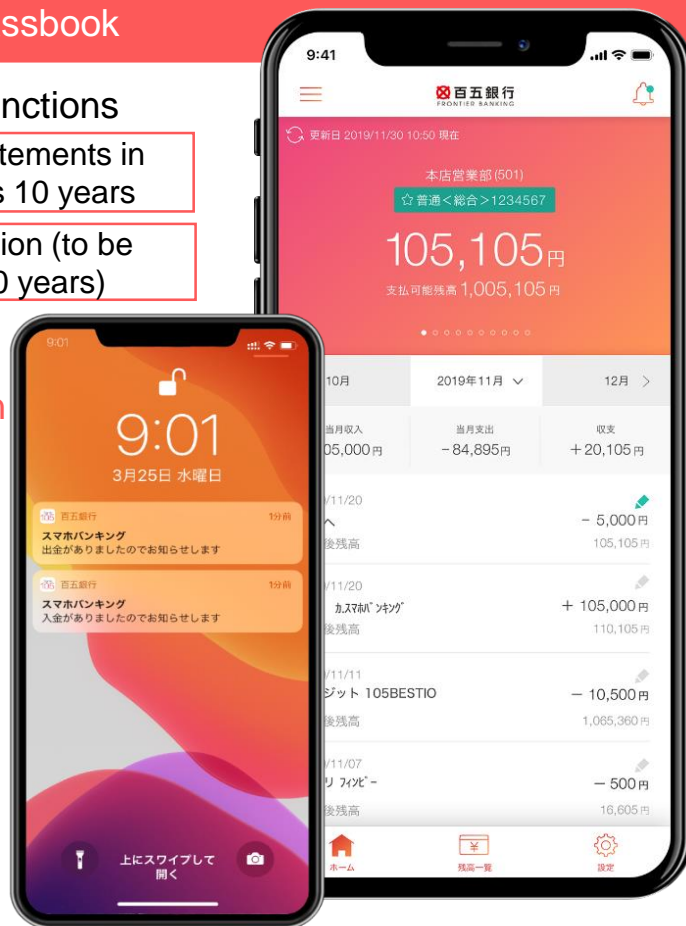
New functions

Account statements in the previous 10 years

Memo function (to be saved for 10 years)

Alert and notification services

Cash-in/cash-out  
Advice on direct debit  
Non-sufficient fund

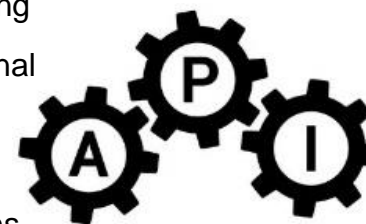


Phase 2 (scheduled Jun 2020)  
Counter services

Phase 3  
Procedures and notifications

Connected with API

Account opening  
Transfer / internal transfer  
Time deposits  
Credit card loans



Procedures to revise information  
Notifications  
Investment trusts  
Foreign currency deposits and other services

Use of new technology and services

eKYC identification

Linkage to "Mynaportal"



Services alternative to Internet banking

● Digital transformation of operations and branches with smartphone banking

Smartphone banking to start digital transformation of operations and branches

Effects of smartphone banking and cashless economy

<Increased smartphone banking usage>

<Increased cashless transactions>



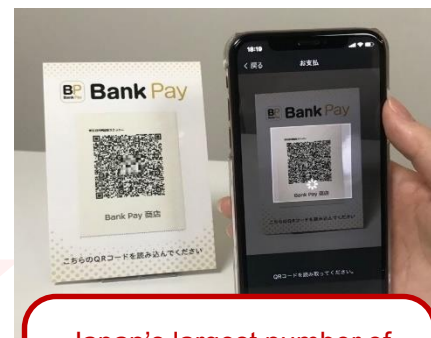
Number of accounts with no passbook reaching 300,000

Shift in retail services

- A decrease in the number of passbooks
- A decrease in the number of ATM users
- A decrease in admin. workload at branches
- An expansion in sales areas

QR code settlement service

Smartphone settlement service offered by a bank



Japan's largest number of participants  
More than 1,800 shops and retailers

Barcode settlement service

Tax and bill payments at convenience stores

Barcode Pay



Japan's first service  
Adopted by 23 municipalities in Mie Prefecture  
And also for automobile taxes for Mie and Aichi prefectures

Cost reduction

- A reduction in cost of passbooks
- Branch downsizing and a reduction in the number of ATMs
- A reduction in the running cost of Internet banking (shift from Internet banking to smartphone banking)

Building a more efficient sales system with minimal personnel

- Effective reallocation of management resources to priority areas
- Expansion in sales areas of the retail segment
- Use of tablets with smartphone banking API at branches