

# **Medium-term Management Plan**

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

Aiming to Transform into a Digital & Consulting Bank

### **Progress Review**

- In the final fiscal year of the Medium-term Management Plan, operating income from services to customers did not reach the numerical target, but the rest of the numerical targets are expected to be achieved

## Numerical Targets of the Medium-term Management Plan

	Item	3/21 (actual)	3/22 (plan)	FY 3/22 (Final goal of the Plan)
Profitability indicator	Net income	12.2 billion yen	11.0 billion yen	10.0 billion yen
Capital efficiency indicator	ROE (shareholders' equity basis)	4.56%	3.98%	3.7% or more
Efficiency indicator	OHR (core gross operating profit basis)	70.81%	72.48%	Less than 79%
Soundness indicator	Equity Ratio	10.11%	9.83%	9.5% or more
Growth indicators	Average balance of total deposits (including negotiable certificates of deposit)	5,405.3 billion yen	5,567.2 billion yen	5,230.0 billion yen or more
	Average balance of total loans	3,824.0 billion yen	3,999.1 billion yen	3,700.0 billion yen or more
	Loan-to-deposit ratio (average balance basis)	70.74%	71.83%	70.8% or more
Profit indicators	Operating income from services to customers	1.83 billion yen	2.91 billion yen	3.7 billion yen
	Corporate solutions fees	1,987 million yen	2,130 million yen	2,000 million yen
Human resources development indicator	Number of personnel with professional qualifications	282 persons	300 persons	300 persons

- An issue 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

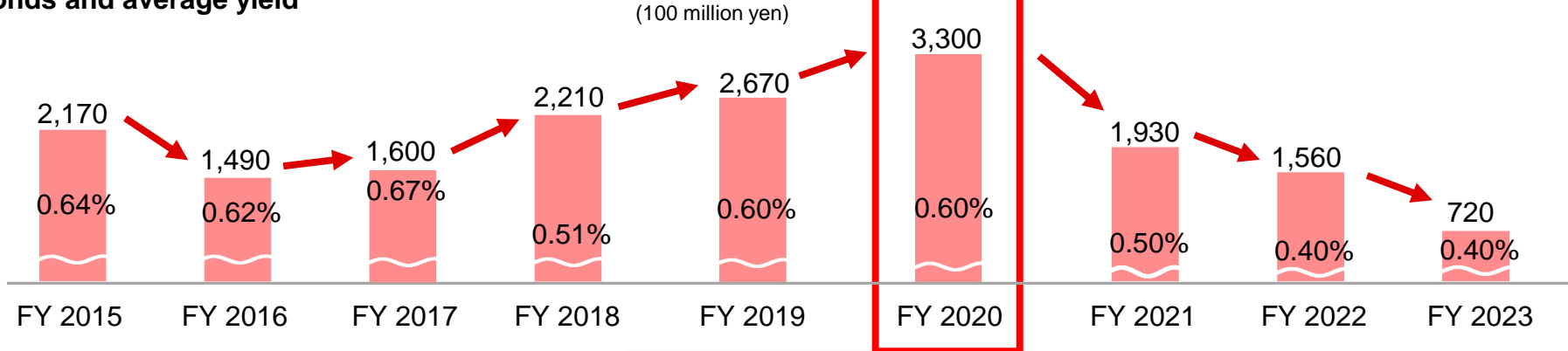
## Maturity of many JPY-denominated bonds peaked in FY2020

As fewer JPY-denominated bonds mature in FY2021 onward, **FY2020 is the crucial point.**

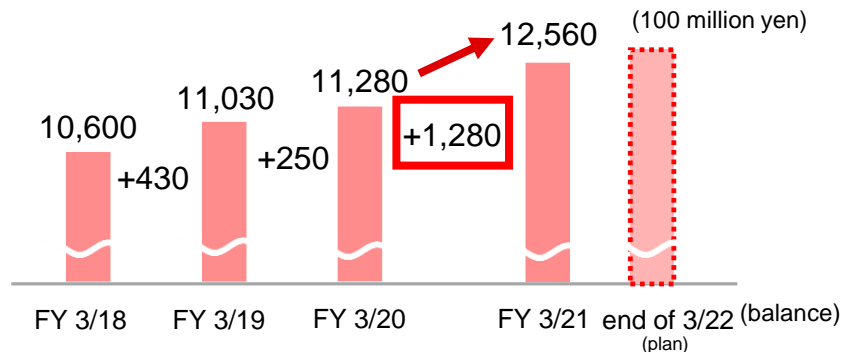
## Solution

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

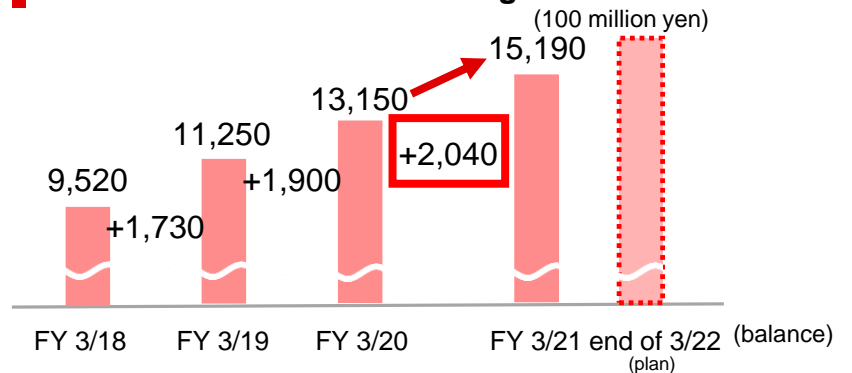
### Trends in redemption amount of JPY-denominated bonds and average yield



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



### Increase the volume of housing loans



- Serve as a local financial institution and accomplish its missions amid the COVID-19 pandemic

## Financing related to COVID-19

### Current status and future outlook of financing related to COVID-19

Loan contracts executed:  
**9,451**

Amount executed:  
**270.6** billion yen

Cumulative total by end of March 2021

of which,

for large companies	57.0 billion yen
for medium-sized companies	10.9 billion yen
for small and medium-sized companies	202.6 billion yen

- The loan amount executed for small and medium-sized companies totaled **213.5 billion yen**, which accounts for **some 15%** of the loan balance for small and medium-sized companies, **1.4447 trillion yen**.

of which, Credit Guarantee Corporation loans (practically non-interest-bearing, unsecured)

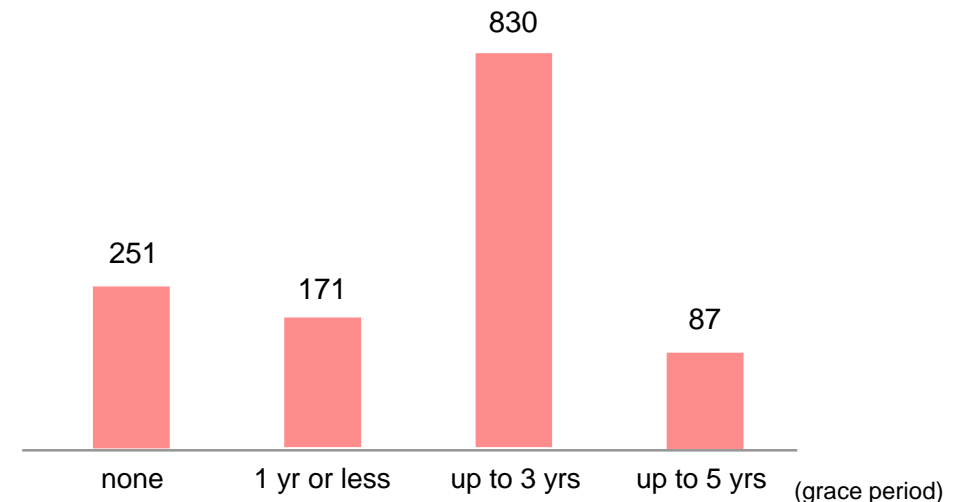
Loan contracts executed:  
**7,976**

Amount executed:  
**134.1** billion yen

\* Cumulative number of loans and amount on an execution basis (approximate)

### Execution of practically non-interest-bearing, unsecured loans, by grace period

(100 million yen)



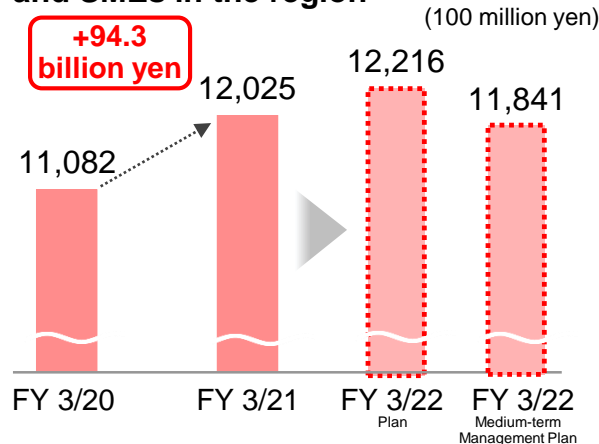
**Support needs in future**

- Multifaceted support for customers who are beginning to redeem their COVID-19-related loans
- Support for business succession, business handover, and, if necessary, business closure

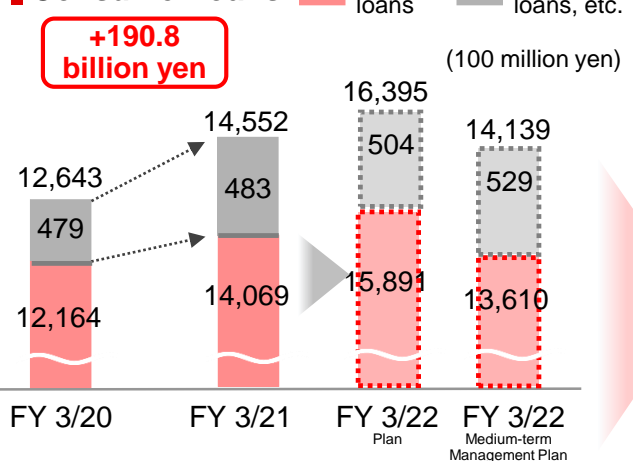
- Increase average balance of loans, such as loans to medium-sized companies/SMEs and consumer loans, by approx. 170 billion yen.

## JPY-denominated loans Average balance plan

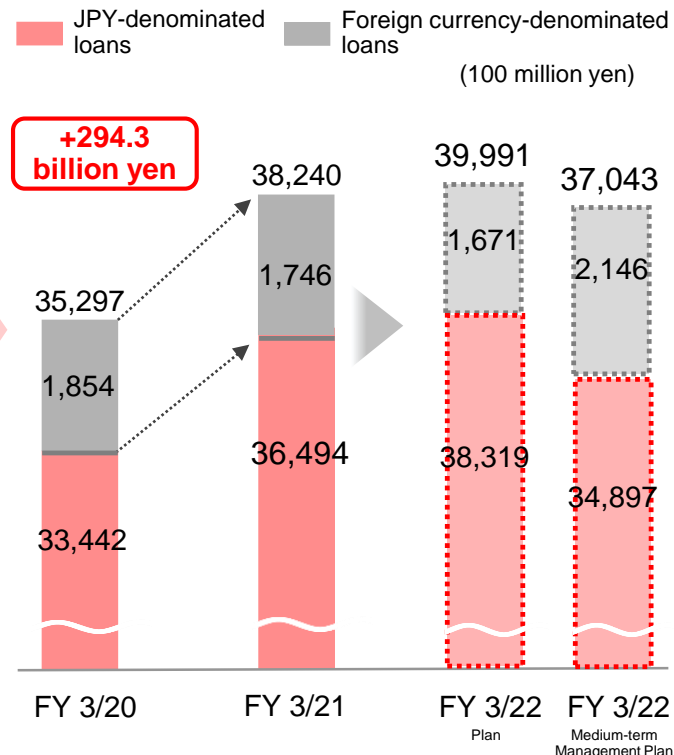
### Loans to medium-sized companies and SMEs in the region



### Consumer loans



## Total loans Average balance plan



## Foreign currency-denominated loans Average balance plan

During the term of the Medium-term Management Plan

**50.0 billion yen up**

Initial plan

**Control**

The global COVID-19 pandemic reduced the number of contracts with good conditions

Enhance JPY-denominated loans, while limiting the increase of 50 billion yen from the initial plan

Plan to achieve lending of 160 billion yen in FY 3/22, a 50 billion yen drop from the initial Medium-term Management Plan

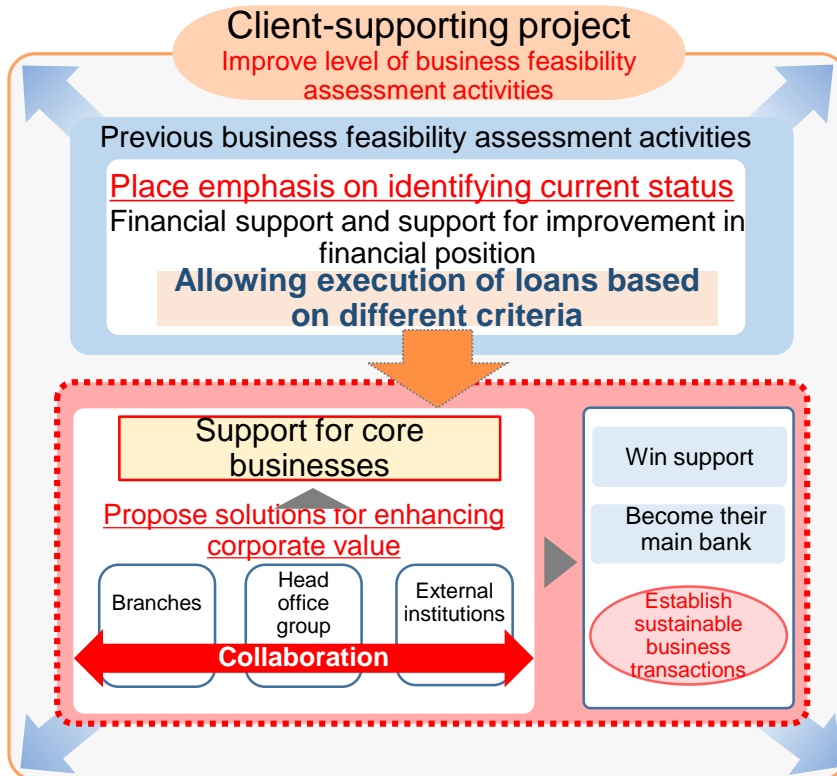
## Loan-to-deposit ratio

	FY 3/20 (actual)	FY 3/21 (actual)	FY 3/22 (Medium-term Management Plan)	FY 3/22 (plan)
Loan-to-deposit ratio	69.2%	70.7%	70.8% or more	71.8%

**+1.5P**

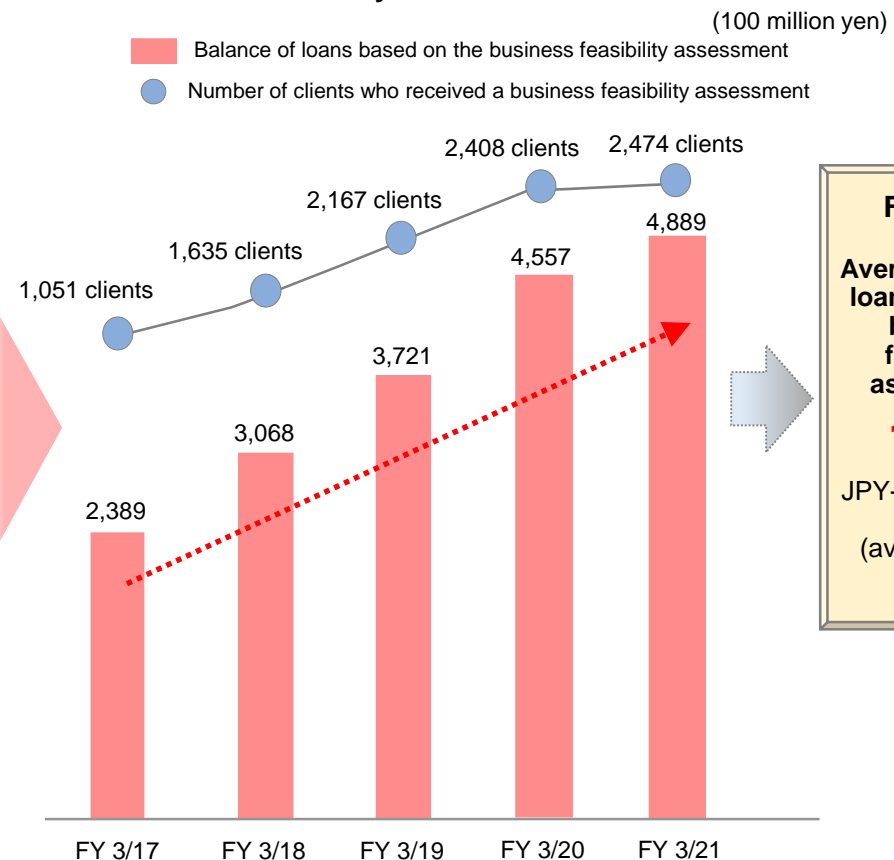
- **Sophisticate business feasibility assessment to support core businesses and customers under the COVID-19 pandemic.**

## Toward More Sophisticated Business Feasibility Assessments



**Support customers under the COVID-19 pandemic by supporting their core businesses based on business feasibility assessment**

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

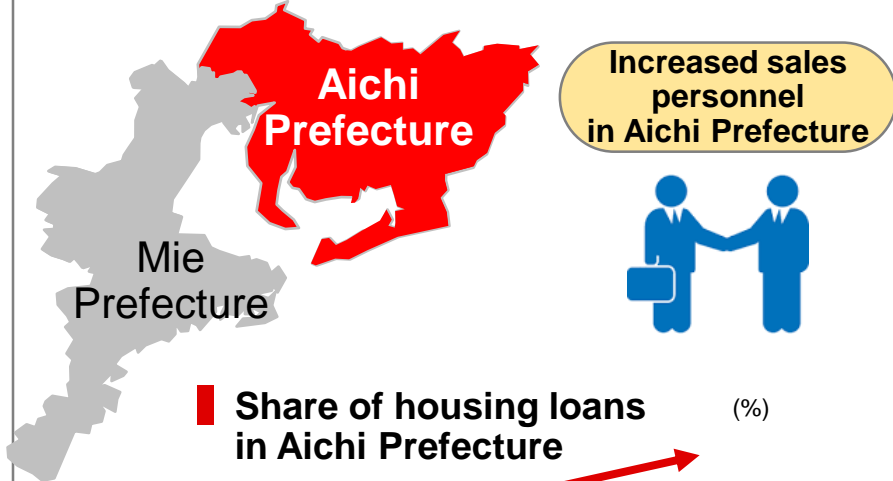


**FY 3/2021**  
Average yield on loans based on business feasibility assessment  
**1.00%**  
JPY-denominated loans (average yield) 0.82%

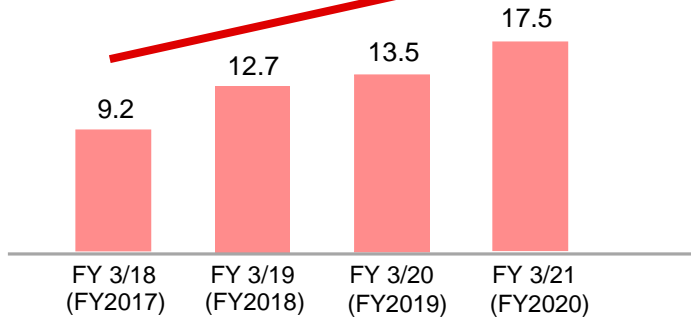
● Attract more borrowers of housing loans in Aichi Prefecture

## Housing loan promotion measures

Enhanced the sales power of housing loans mainly in Aichi Prefecture



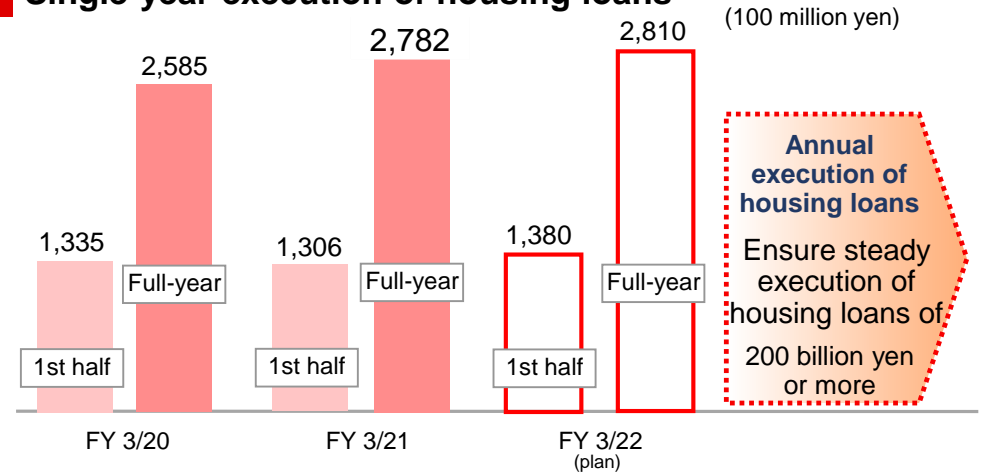
### Share of housing loans in Aichi Prefecture (%)



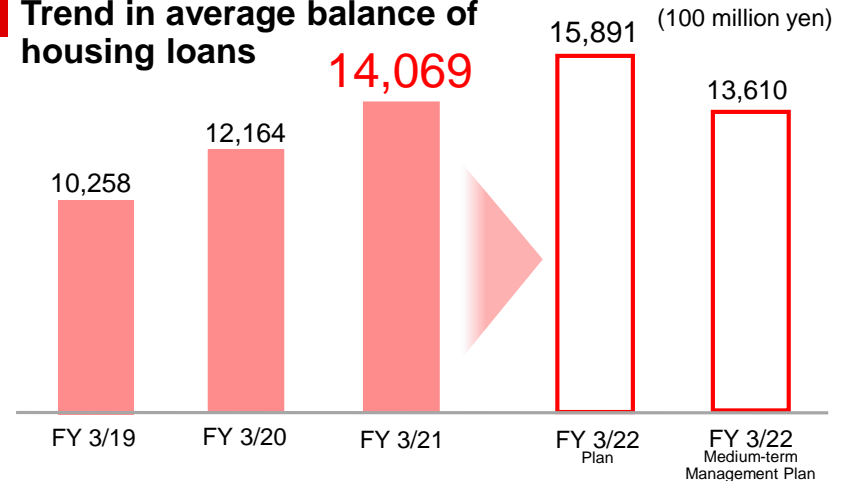
\* The share is obtained by dividing the number of the Bank's housing loans executed by the number of housing starts

**Amount and rate of increase in housing loans**

## Single-year execution of housing loans



## Trend in average balance of housing loans

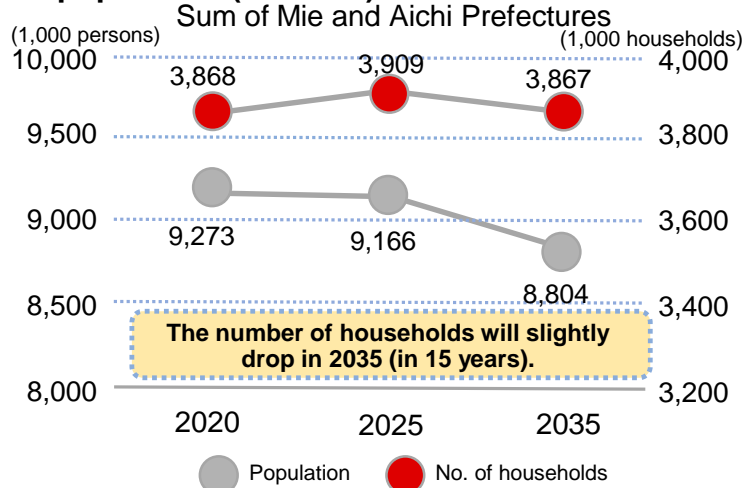


**No. 1 among regional banks in Japan for four consecutive terms (FY 3/2019 - FY 9/2020)**

\* based on Nikkin reports. On a year-on-year basis as of end of March 2019, September 2019, March 2020, and September 2020.

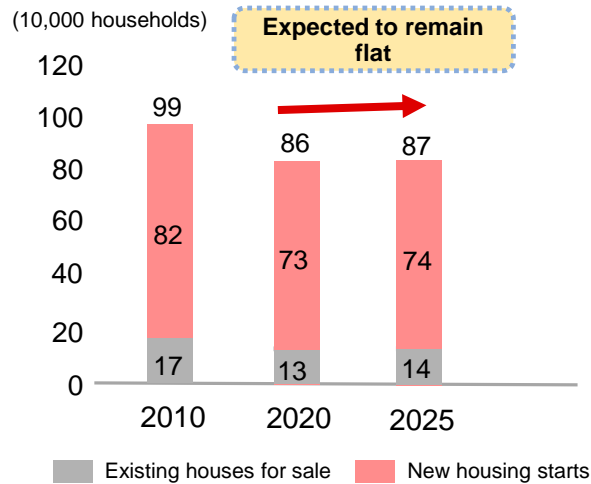
## ● Analysis of the housing loan environment

### Trends in the number of households and population (forecast)



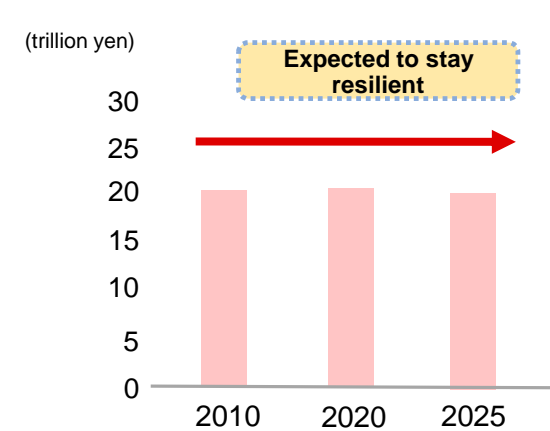
(Sources) National Institute of Population and Social Security Research, "Trends in the Total Number of General Households by Prefecture and Total Population and Indices by Prefecture"

### Trend in housing supply (forecast)



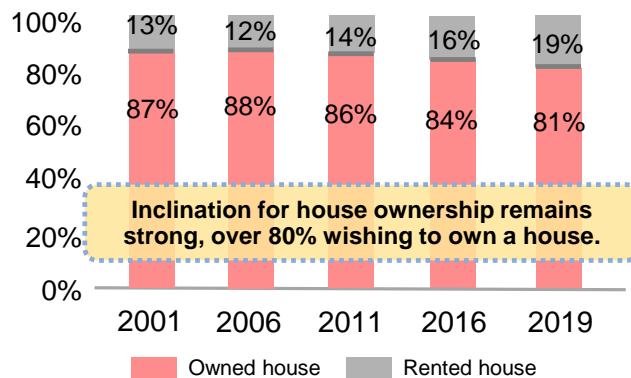
(Source) MLIT, "Statistical Survey of Construction Starts"; MIC, "Housing and Land Survey"

### Trend in execution of new housing loans (forecast)



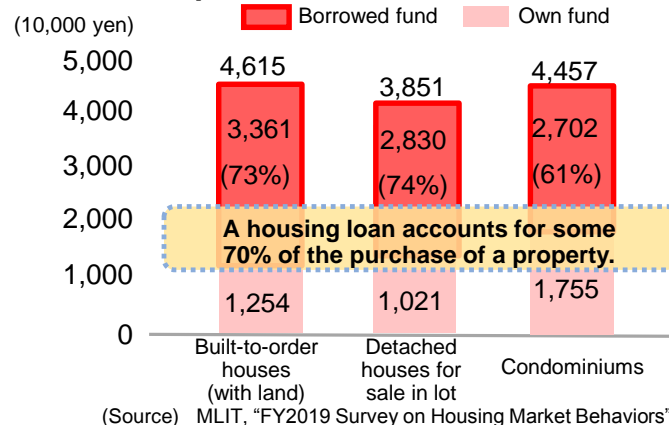
(Source) Japan Housing Finance Agency "Trends in New Housing Loans and Outstanding Balances of Loans, by type of financial institution"

### Trend in Japanese home ownership (forecast)



(Source) MLIT, "FY2016 Survey on Citizens' Perception on Land Issues"

### Amount and ratio of housing loans for home purchases



(Source) MLIT, "FY2019 Survey on Housing Market Behaviors"

**Environment surrounding housing loans (market size and customer needs)**

**Resilient housing market**

**+ Housing loan needs**

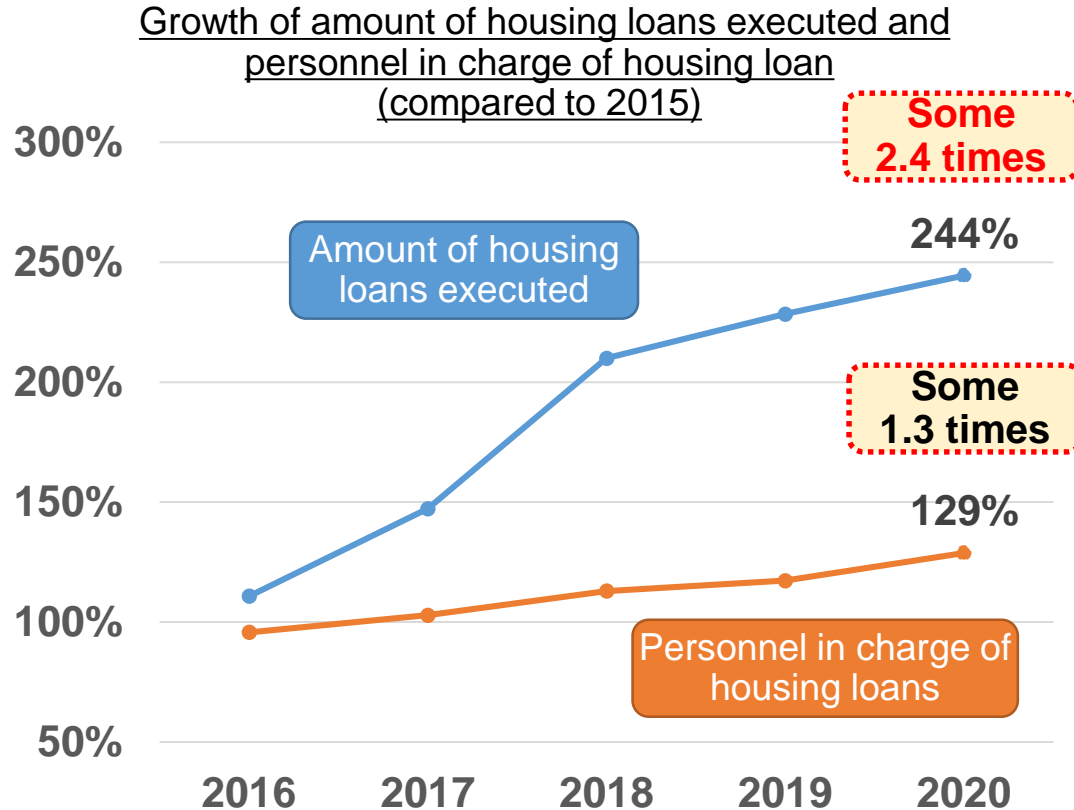
**+ Potentials of Mie and Aichi Prefectures**

**⇒ A field expected to grow more**



- Further streamline housing loan operations. The growth of the amount of housing loans executed outpaces the growth of personnel in charge of housing loan operations

## Streamline housing loan operations



## Efforts for higher operational efficiency

### Achievements for FY2017-2020

Centralized office work at the head office	12,000 hours
Systematized management of loan conditions	6,000 hours
Simplified loan management	3,000 hours etc.

**Reduced office workload by some 40,000 hours**

**In terms of personnel, the effect equivalent to about 30 persons**

**Achieved the promotion of higher efficiency while curbing an increase in backyard costs**

**Continue streamlining housing loan operations**

- Capture potential fund needs for housing loans, and promote unsecured loans

## Trend in balance of unsecured loans, and promotion measures

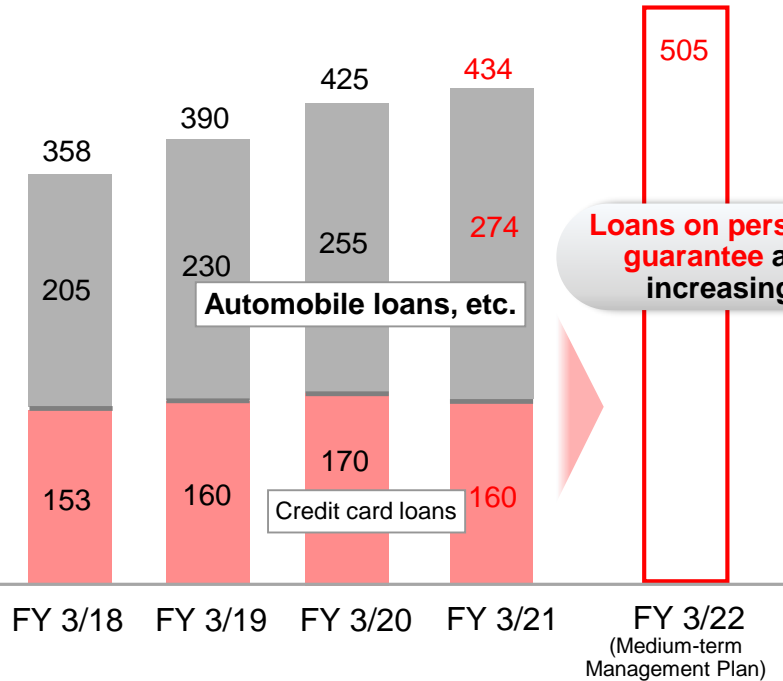
### Balance of unsecured loans

(100 million yen)

4 years in a row

No. 1 among regional banks in three prefectures in Tokai Region

\* Nikkin prompt reports  
In terms of actual balance from FY 3/2018 to FY 3/2021.



Loans on personal guarantee are increasing

## 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

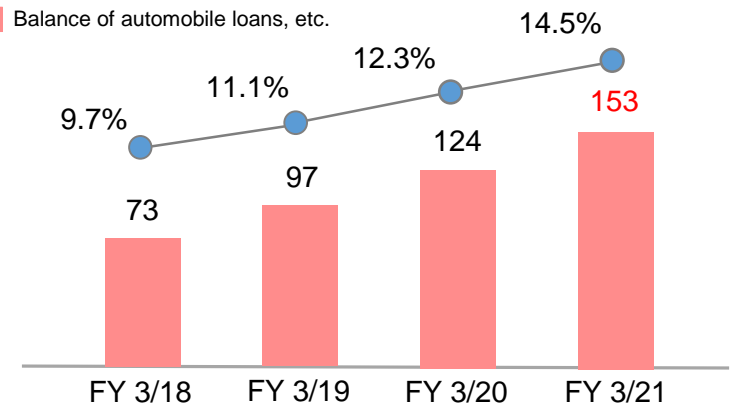


(3) Apply preferential interest rates to housing loan users

## Trends in usage rate of automobile loans, etc. among housing loan users and loan balance

● Usage rate of automobile loans, etc. (100 million yen)

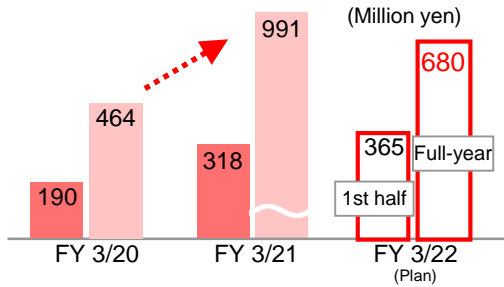
■ Balance of automobile loans, etc.



- 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

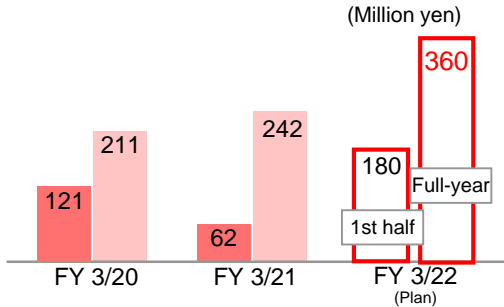


**991 million yen**

(Results as of end of March 2021)

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

M&A, etc.

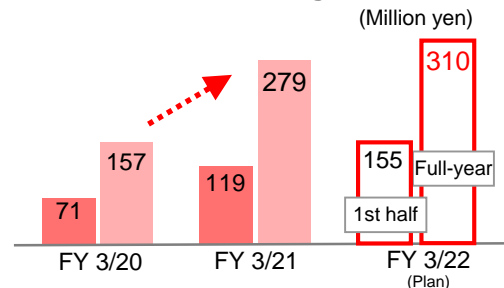


**242 million yen**

(Results as of end of March 2021)

- ◇ Provide solutions to business succession issues and support corporate growth strategies with M&A services

Business matching fees

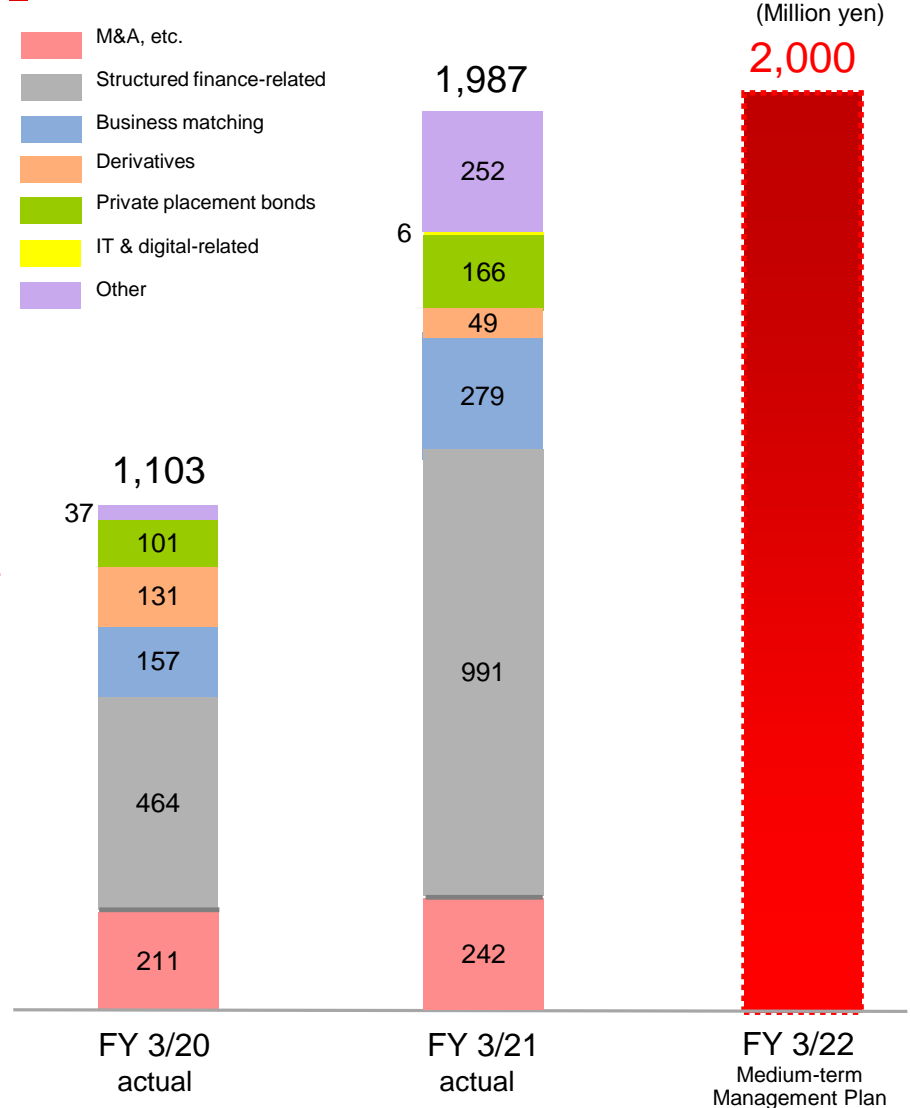


**279 million yen**

(Results as of end of March 2021)

- ◇ Start full-scale operations of real estate business matching by enhancing partnership with constructors, and newly start environment-related business matching in line with current trends

Corporate solutions fees: actual and plan

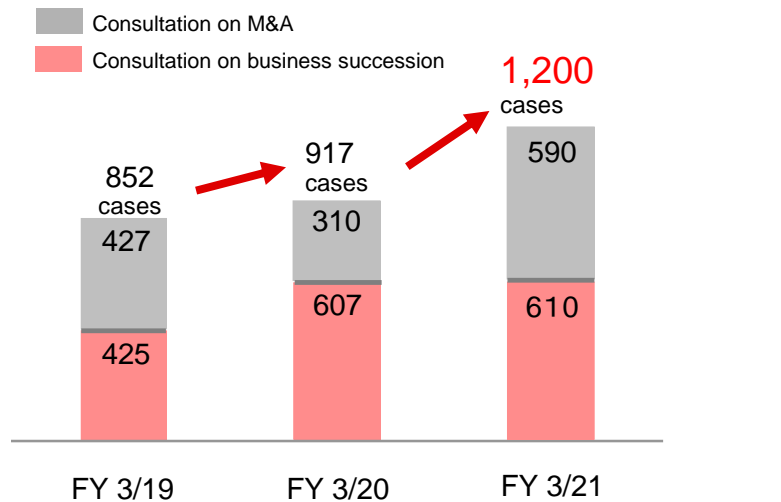


- Enhance the scheme to support business succession as part of the Bank's commitment to sustainable community development, and increase earnings also

### Support for business succession

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

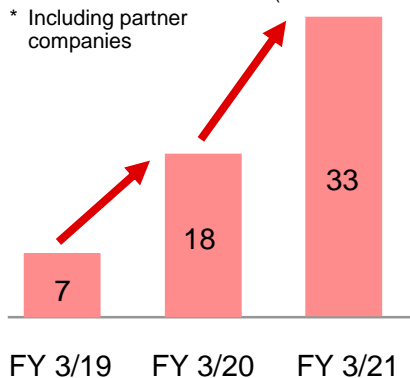
(Consultations)



#### Number of consultations on business succession

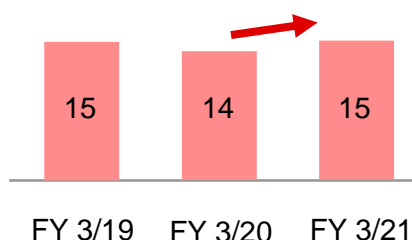
(Consultations)

\* Including partner companies



#### Number of client companies for M&A

(client companies)



### Enhance support through Hyakugo Mirai Investment Co.

#### Expand business domains by leveraging business succession funds



- The first regional bank in Japan after deregulation in October 2019 to use an investment-specialized subsidiary to acquire management rights and provide direct management support. Through this, the Bank established a new business succession support scheme.

#### Management of business succession funds (AIDMA No. 1, total fund of 3 billion yen)

No. of consultations received

Investment executed  
\* Total investments = upper limit of investment amount



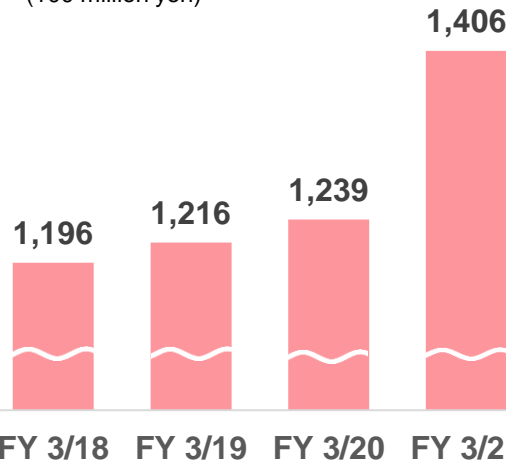
- The fund is in high demand, and the Bank has steadily made investments. The amount of investment executed exceeded 50% of the upper limit in less than a year since its establishment.
- Considering the launch of No. 2 Fund in anticipation of further increase in needs

- Enhance the scheme to support medical and welfare businesses to steadily increase loan offering. Also support regional medical institutions that are part of social infrastructure

### Loan offering to medical and welfare businesses

#### Balance of loans to medical and welfare businesses

(100 million yen)



**8 years in a row**  
**No. 1 among regional banks**  
**in three prefectures in Tokai Region**

\* Ranking among regional banks publishing the balance of revenues from healthcare services on health insurance. In terms of actual balance from FY 3/2014 to FY 3/2021.

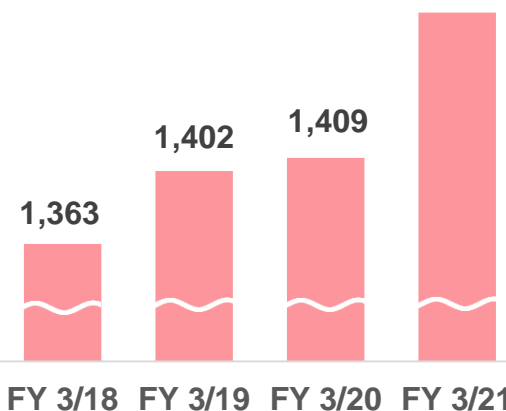
**140.6 billion yen**

(Results as of end of March 2021)

- ◇ Enhance commitment to funds to deal with COVID-19 and construct new hospital buildings

#### Number of medical and welfare businesses financed with the Bank's loans

(client companies)

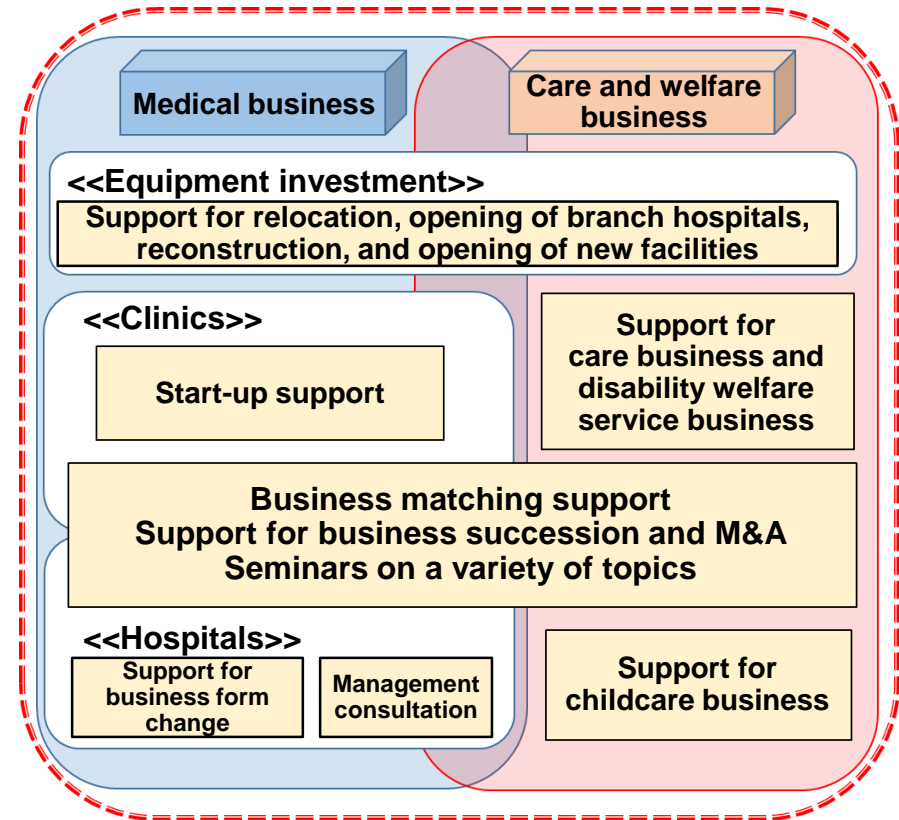


**1,487 clients**

(Results as of end of March 2021)

- ◇ Help new medical practitioners to open a clinic. Enhance support for nursing care, welfare, and child care.

### The Bank's support scheme for medical and welfare businesses



- Support scheme with 6 professional staff members
- Know-how accumulated over 40 years since launch of the professional team
- Consulting proposals based on deep understanding of expertise (capital contribution strategy, use of the certified medical corporation system, etc.)

● Case where the Bank demonstrates its consulting function: promotion of structured finance

Promoting project finance for PPP/PFI

Participated in project finance for PPP/PFI for the first time

April 2002, project for Kuwana-city composite facilities including library

\* Recent commitments to PPP/PFI



Project for construction of a new gymnasium, Shiga Prefecture



Project for construction of facilities for global human resource development in regional collaboration with Nagoya University (Higashiyama)

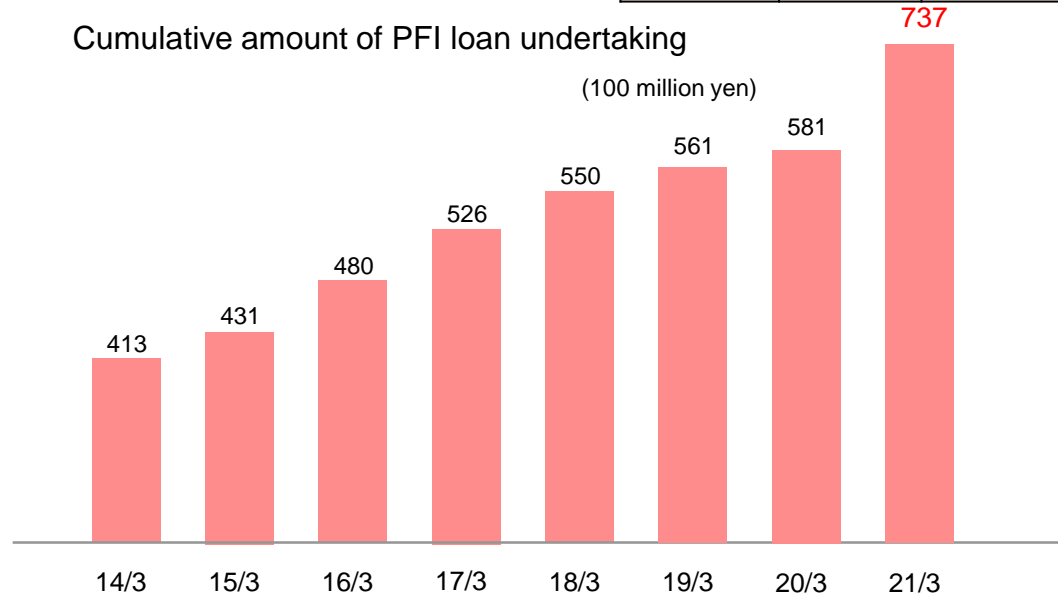
Inquiries come from across the country from Tohoku to Kyushu

Top-class track record among regional banks

Participating in PPP/PFI projects nationwide

Location	No. of projects	Cumulative number of projects
Aichi	18 projects	52 projects
Tokyo	8 projects	
Osaka	6 projects	73.7 billion yen
Mie	5 projects	
Kanagawa	4 projects	of which, Projects where the Bank served as arranger 25 projects Approx. 34.0 billion yen
Shizuoka and elsewhere	11 projects	

Cumulative amount of PFI loan undertaking





- 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

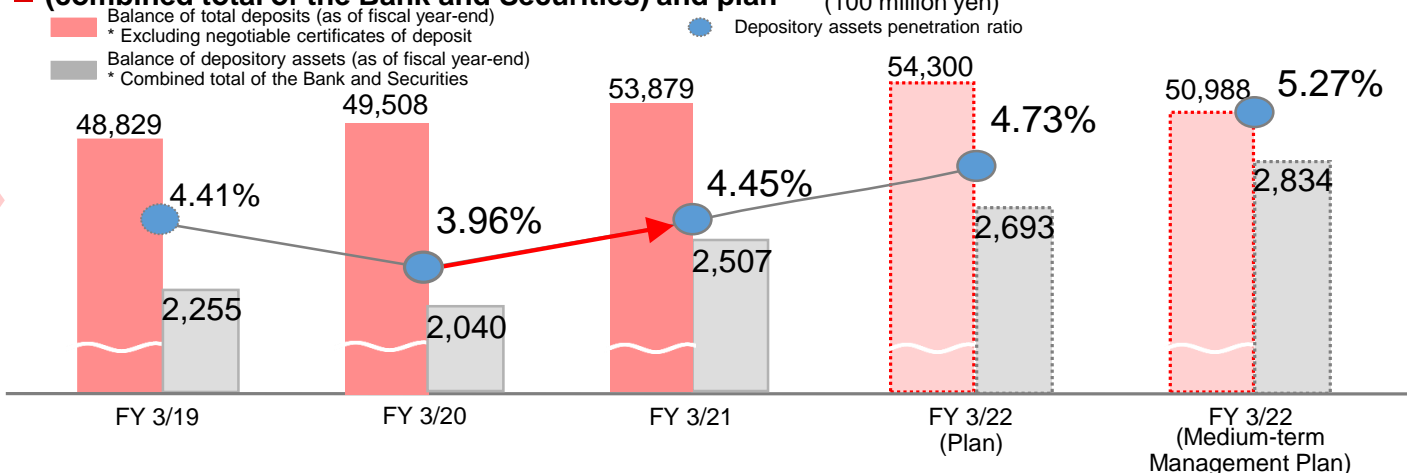
Depository assets penetration ratio

Depository assets penetration ratio (%)

$$\frac{\text{Balance of depository assets}}{\text{Total deposits + Balance of depository assets}} \times 100\%$$

Integrated management of deposits and depository assets with Hyakugo Securities

Trend of depository assets penetration ratio (combined total of the Bank and Securities) and plan



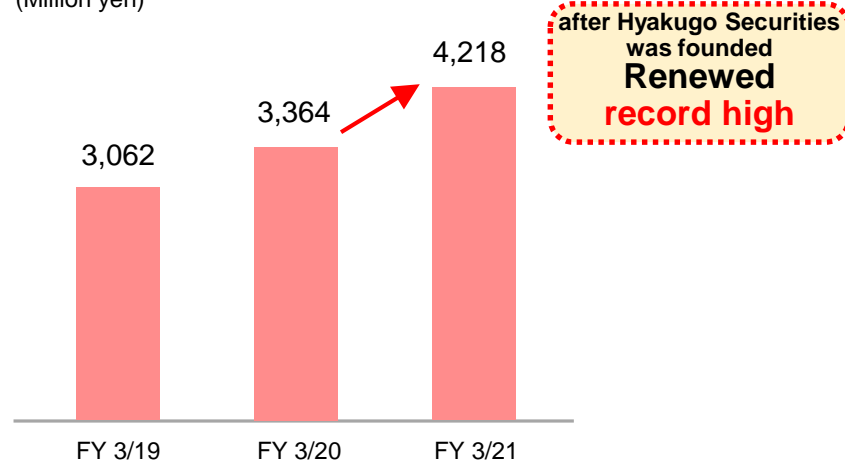
Commissions related to depository assets (Bank)

(Million yen)

	FY 3/20 (actual)	FY 3/21 (actual)	FY 3/22 (plan)	FY 3/22 (Medium-term Management Plan)
Investment trusts	892	1,134	1,241	1,176
Insurance	990	761	892	1,396
Financial instruments brokerage	172	387	344	225
Defined contribution pension	95	106	120	100
Total	2,150	2,389	2,597	2,897

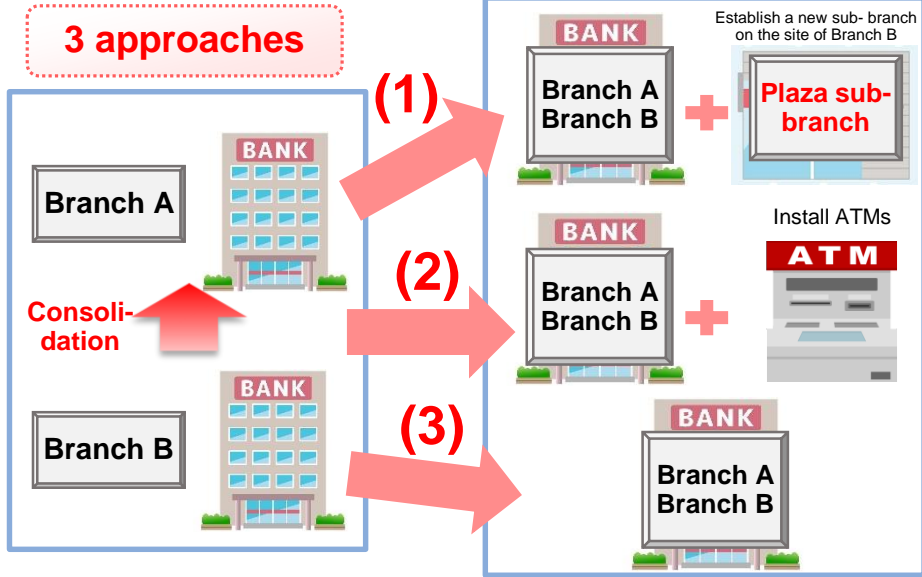
Commissions related to depository assets (Hyakugo Bank + Hyakugo Securities)

(Million yen)



- Accelerate improved 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



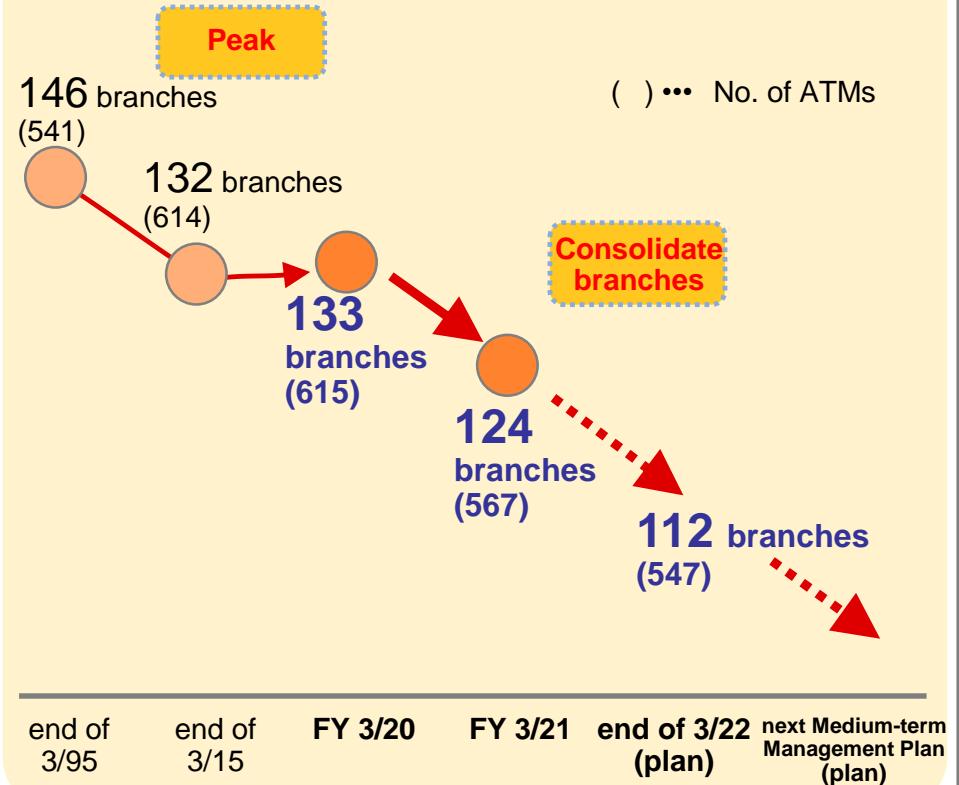
**Plan** 16 branches over three years, and another 12 branches during the Medium-term Management Plan

	FY2019	FY2020	FY2021	next Medium-term Management Plan
Initial plan	5 branches	5 branches	6 branches	More than 10 branches (plan)
Current plan	2 branches completed	12 branches completed	* 14 branches	

\* of which, 2 branches remain in operation as plaza sub-branches

## Change in the number of branches

### Steadily enhance efficiency by reducing branches



**Reallocate surplus employees to strategic areas for higher profitability**



## ● Digital transformation advances in smartphone banking. From physical branches to smartphone banking

### A “new style of banks” begins with smartphone banking

Most retail transactions are carried out online.

Enhance functionality (phases 1 to 3) ⇒ to establish and facilitate the use



Passbook functions

Transaction functions

Procedural functions

Notification function

approx. 60,000 accounts are passbook-less accounts

91% of users are in their 20s to 50s

75% of account holders use smartphone banking at least once a month

10,000 bank transfers per month

Enhance functionality and increase the number of users

Expand services

Enhance security

Upgrade the functions

Utilization promotion measures

Digital bank

To achieve 300,000 accounts(\*) for smartphone banking (passbook-less accounts)

(\*) 50% of the retail main accounts

Shift transactions and procedures for retail customers from physical branch operations to smartphone banking.

“Branches” are appropriately reshaped and reallocated into “contact points for customers to consult”



Reallocation

Consultation  
Support

Drop in frequency of use

Retail customers

Transaction, procedure, guide

Increase in frequency of use



#### <Changes in the environment>

Factors for consumer in choosing a financial institution

- A range of online service and transactions  
5.8% (2007) ⇒ 17.3% (2020)
- Closeness of branches or ATMs to residence (single households)  
73.8% (2007) ⇒ 55.1% (2020)

Consumers nowadays consider the range of online and mobile services, not the branch and ATM network, when choosing a financial institution.

(Source) the Central Council for Financial Services Information, “Financial Behaviors of Households”

- Developed the smartphone banking app on its own

## Aiming to create services that can compete with online (smartphone) specialized banks

### Original functions and aims of the independently developed app

#### Unique functions

##### Function to lock credit card

Account holders can lock and unlock their cash card via the smartphone app

##### Push notifications

Push notifications about deposit/withdrawal and scheduled direct debit



##### Account statements in the previous 10 years

Account holders can view transaction details for the past 10 years from the registration date

#### Aims of the independently developed app

##### Highly flexible services

Flexibly incorporate customers' ideas and need into the services

##### Development speed

Promptly respond to changes in the environment and customer needs

##### Agile development



##### Low cost

Use of cloud computing Efforts for internalization



##### Business

Facilitate other banks to adopt the app, which has been developed with an open API



## ● Efforts for digital transformation (DX)

### To realize DX in the Bank and in the region

A wide range of digital initiatives from DX in the Bank to support for DX in the region

#### Efforts for DX in the Bank

##### E-contracts

Digitalize contracts to enhance operational efficiency

The COVID-19 pandemic increased the needs for non-contact procedures. Efforts benefiting both customers and the Bank (scheduled to be launched around September 2021)

■ Services initially planned to be covered

Housing loan

Overdraft

Business deed loan

Contract types are gradually increasing (amendments to contract, etc.)  
 ⇒ Digitalize contracts for overdrafts to streamline business negotiation  
 ⇒ Link the partial advance loan repayment process to smartphone banking to make it completely contactless

Contactless

No printing costs

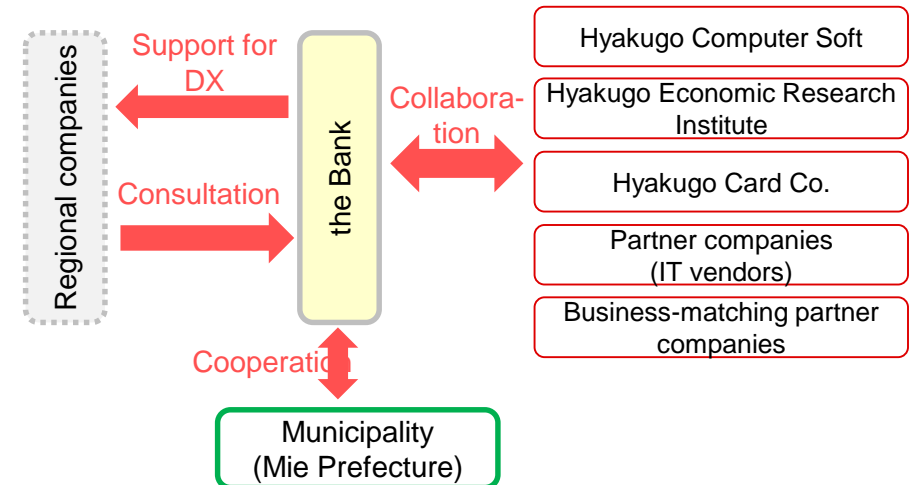
Higher efficiency in sales operations

Controllable by smartphone

Apply digitalization to a wider range of operations and services

Streamline business operations and negotiations, and have more contactless channels

#### Efforts to support DX in the region



#### Mie Prefecture demonstration project on cashless model for regional revitalization

<Period> January 15 to March 15, 2021

<Purposes> Improve efficiency and productivity, and validate data utilization

