

# The 40th Information Meeting

The 30th Long-Term Management Plan  
Change to the bank creating regional vitality  
(April 2015 ~ March 2018)

November 16, 2017



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# Hachijuni Bank's Profile

Company name	THE HACHIJUNI BANK, LTD.
Head Office	Nagano City, Nagano Prefecture
Date of establishments	August 1st, 1931
Network	Domestic 151 (in Nagano: 131, outside Nagano: 20) Overseas Branch 1 (Hong Kong) Representative Offices 4 (Dalian, Shanghai, Bangkok, Singapore)
No. of employees	3,232
Capital stock	¥52.2bn
Issued shares	511,103 thousand shares
Total asset	¥9,090.4bn
Net asset	¥710.8bn
Deposits	¥6,405.6bn
Loans	¥4,955.1bn
Total capital ratio (Basel III)	Consolidated 21.27% (preliminary) Non-consolidated 20.36% (preliminary)
Ratings	S&P Global Ratings : A R&I : A+



Issuance of integrated report started from FY2016 (3/2017), the second earliest in the regional banks



The Bank was the first approved in the regional banks as a "Health and Productivity Excellent Company" (nickname: white 500)



Head Office

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## Main Volume

P.4~24

- 1 . Outline of 1H FY2017 Financial Results and FY2017 Forecasts
- 2 . Progress in the 30th Long-Term Management Plan
- 3 . Major Accounts and Main Figures

# Financial Summary

## ■ Consolidated

(¥100mn)	9/2016	9/2017	Change
Consolidated gross business profit	491	497	6
Profit on interest	351	343	▲7
Profit on fees & commissions	65	66	1
Trading profit	6	11	5
Profit from other business transactions	68	76	7
General & administrative expenses	334	316	▲17
Credit related expenses	▲19	6	26
Gains/losses related to stocks	3	21	18
Ordinary profit	197	202	4
Net income attributable to owners of parent	131	134	2
Ratio of consolidated profits to parent company's profits	1.130	1.098	▲0.032

## ■ Non-Consolidated

(¥100mn)	9/2016	9/2017	Change	From projection
Gross business profit (A)	435	439	3	22
Profit on interest	349	342	▲7	29
Profit on fees & commissions	38	39	1	▲5
Profit from other business transactions	46	56	9	▲2
Gains/losses related to bonds (B)	45	55	10	3
G&A expenses (C)	293	285	▲8	▲3
Core net business profit (A-B-C)	96	98	1	23
Actual net business profit (A-C)	142	153	11	25
Transfer to general reserve for possible loan losses (D)	-	▲2	▲2	▲2
Net business profit (A-C-D)	142	156	14	28
Temporary profit/losses				
Reversal of allowance for loan losses	18	-	▲18	▲4
Reversal of general reserve	17	-	▲17	
Reversal of specific reserve	0	-	▲0	
Gains/losses related to stocks (E)	3	22	19	12
Disposal of NPL	▲0	3	4	3
Ordinary profit	170	175	4	25
Extraordinary gains/losses	▲3	▲5	▲2	
Net income	116	122	5	22
Credit related expenses	▲19	0	20	4
Profit/losses related to securities (B+E)	48	78	29	16

## Review of 1H FY2017 and FY2017 forecast (No change from the forecast publicly disclosed in May 2017)

### ■ Review of 1H FY2017

#### 【Consolidated】

- Ordinary profit was ¥20.2bn (+¥0.4bn from 1H FY2016) due to the increase in consolidated gross business profit (+¥0.6bn) and reduction of G&A expenses (▲¥1.7bn), despite the increase in credit related expenses.
- Net income attributable to owners of parent was ¥13.4bn (+¥0.2bn).

#### 【Non-consolidated】

- Profit/losses related to securities was ¥7.8bn (+¥2.9bn) due to the increase in gains/losses related to bonds.

### ■ FY2017 Forecast (original forecast)

#### 【Consolidated】

- Ordinary profit will be ¥35.0bn (▲¥5.4bn from FY2016) due to the decrease in profit on interest of non-consolidated account.
- Net income attributable to owners of parent will be ¥23.0bn (▲¥3.3bn).

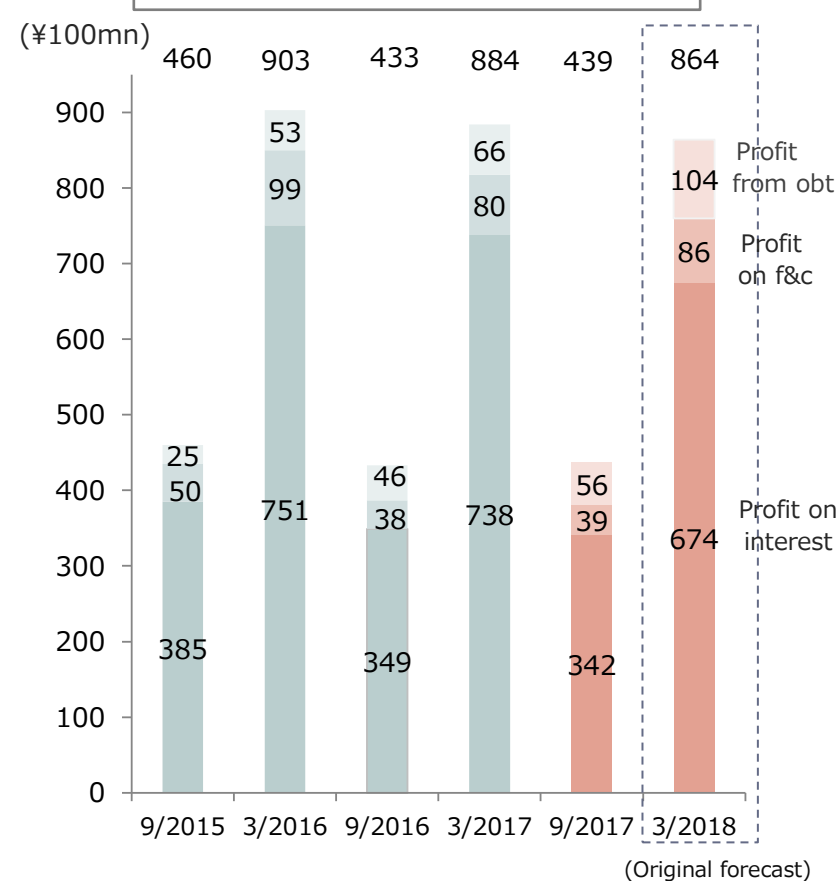
#### 【Non-consolidated】

- Core net business profit will be ¥20.0bn (▲¥5.1bn) due mainly to the decrease in interest and dividends on securities.
- General & administrative expenses will be ¥57.4bn (▲¥1.2bn) due to decreases in personnel expenses (▲¥0.5bn) and non personnel expenses (▲¥0.9bn).
- Net income will be ¥20.0bn (▲¥3.1bn).

## Gross Business Profit (Non-Consolidated)

- Profit on interest decreased by ¥0.7bn from 9/2016 due to decreases in interest & dividends on securities and interest on loans.
- Gross business profit of 3/2018 will decrease due to the decrease in profit on interest.

### ■ Gross Business Profit



### ◆ 9/2017 Increase/Decrease factors

	(¥100mn)	From 9/2016	From projection	Main factors (from 9/2016)
Profit on interest	342	▲7	+29	<ul style="list-style-type: none"> <li>Interest on loans(▲7)</li> <li>Interest &amp; dividends on securities(▲12)</li> <li>Decrease in funding cost (▲14)</li> </ul>
Profit on fees & commissions	39	+1	▲5	<ul style="list-style-type: none"> <li>Increases in sales of investment trusts and in securities intermediary services (+2)</li> <li>Increase in f&amp;c payment(+1)</li> </ul>
Profit from other business transactions	56	+9	▲2	

### ◆ FY2017 (3/2018) forecast

- Profit on interest: ▲¥2.0bn from FY2016 due to the decline of yield
- Interest & dividends on securities: ▲¥5.8bn from FY2016
- Profit on f&c: +¥0.5bn from FY2016 due to increases in f&c of investment trusts and life insurances

## General & Administrative Expenses (Non-Consolidated)

- Personnel expenses decreased by ¥0.3bn and non personnel expenses decreased by ¥0.5bn respectively from 9/2016.
- G&A expenses of 3/2018 will decrease by ¥1.2bn from FY2016.



### ◆ 9/2017 Increase/Decrease factors

	(¥100mn)	From 9/2016	From projection	Main factors (from 9/2016)
Personnel expenses	142	▲3	0	• Decrease reflecting special bonus paid in the year earlier, reduction of overtime pay (▲2)
Non personnel expenses	121	▲5	▲5	• Decrease in outsourcing expenses relating to the raising of level of internet banking (▲3) • Decrease in deposit insurance premiums(▲1)
Tax	21	+0		

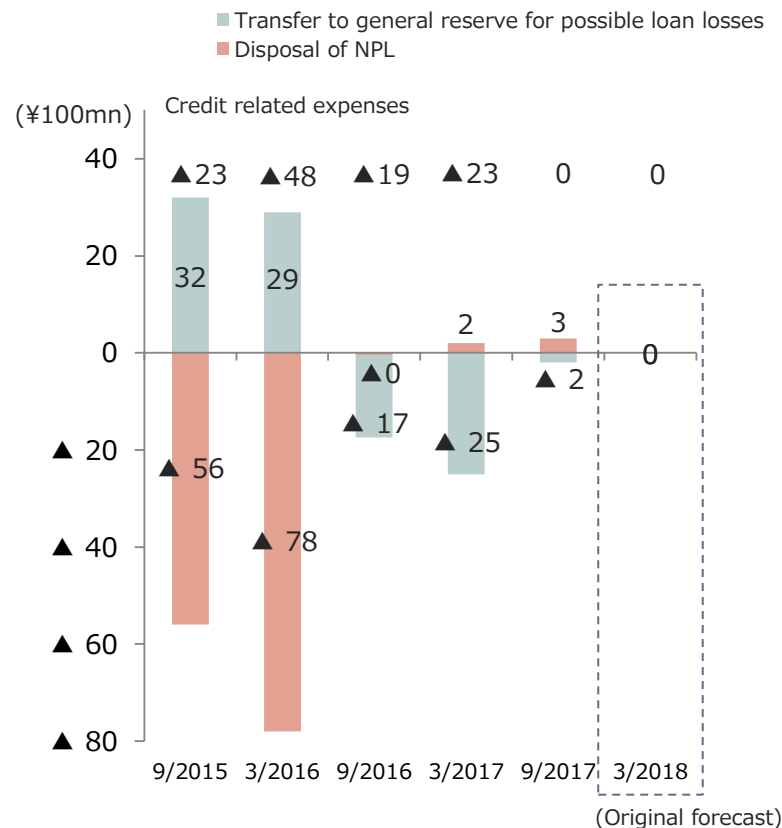
### ◆ FY2017 (3/2018) forecast

- Non personnel expenses will decrease by ¥0.9bn from FY2016 due mainly to the decrease in outsourcing expenses.
- Promoting cost reductions by reorganizing operation centers (please see P17)

## Credit Related Expenses (Non-Consolidated)

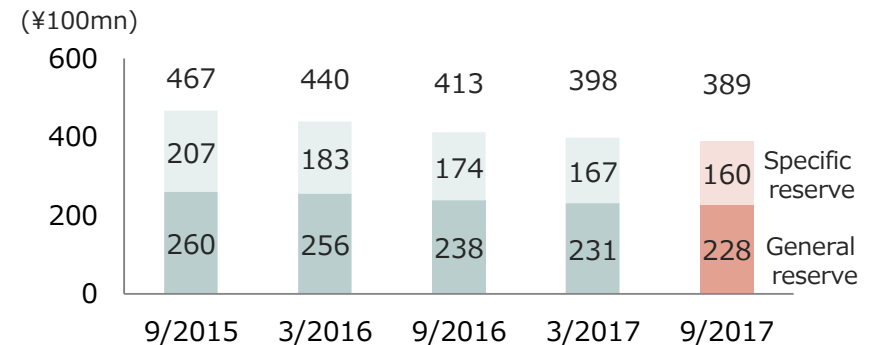
- Credit related expenses increased after reversal of allowance for loan losses peaked.
- The amount of NPL continued to decrease and NPL ratio also declined.

### ■ Credit Related Expenses



Note: There is no breakdown in credit related expenses for 3/2018 forecast.

### ■ Outstanding Balance of Reserve for Loan Losses



### ■ Non-Performing Loans (NPL)

	3/2016	3/2017	3/2018	
			9/2017	forecast
(¥100mn)				
Bankrupt and quasi-bankrupt assets	109	101	127	109
Doubtful assets	729	640	546	541
Substandard assets	274	226	233	230
Total	1,113	967	907	880
NPL ratio	2.34%	1.94%	1.80%	1.76%
After partial direct charge-off	2.22%	1.83%	1.64%	1.60%

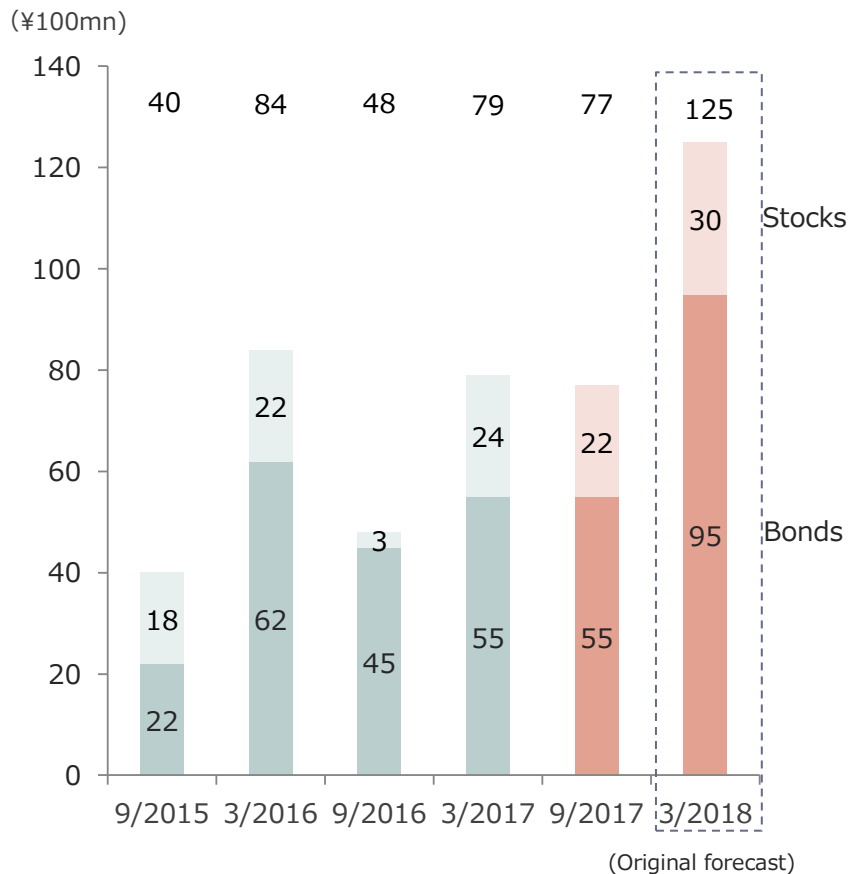
※Partial direct charge-off was not executed.



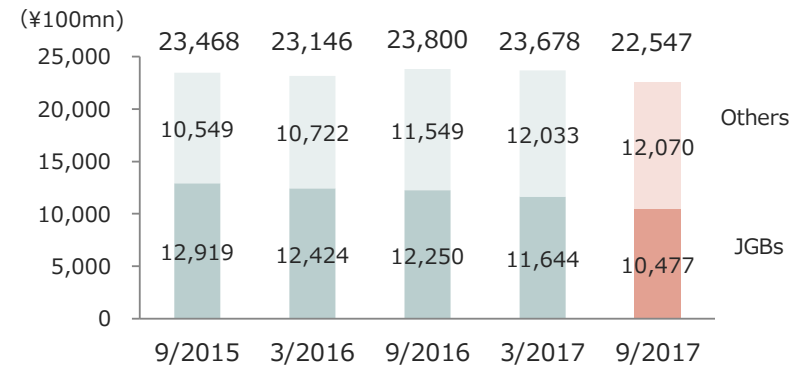
## Profit/Losses Related to Securities (Non-Consolidated)

- Average balance of securities decreased by ¥125.2bn from 9/2016 due mainly to the decrease in JGBs.

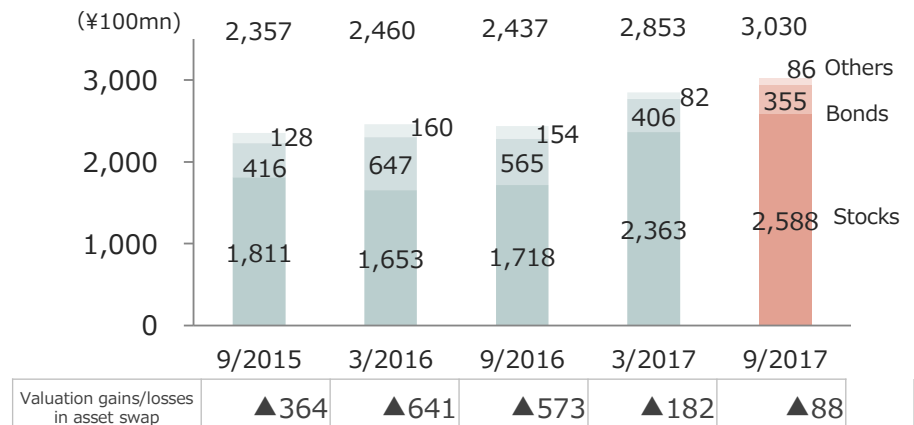
### ■ Profit/Losses Related to Securities



### ■ Average Balance of Securities



### ■ Valuation Gains/Losses on Securities (after asset swap valuation)



## Returns to Shareholders

- Dividend per share of FY2016 was ¥14.0 and payout ratio rose by 3.4pt from FY2015, shareholder returns ratio declined by 7.3pt due to the lack of purchase of own stocks.
- Interim dividend of 9/2017 was ¥6.0. Year-end dividend of FY2017 will be under consideration.

	(¥100mn)			
	FY2014	FY2015	FY2016	FY2017 (forecast)
Annual dividends①	75	75	70	60
Dividend per share (full year)	¥15.0	¥15.0	¥14.0	¥12.0
Interim dividend	¥5.0	¥6.0	¥6.0	¥6.0
Purchase of own stocks②	30	30	0	—
Shareholder returns③ = ① + ②	105	105	70	—
Net income (non-consolidated) ④	257	277	231	200
Payout ratio①÷④	29.2%	27.2%	30.6%	30.0%
Ratio of shareholder returns ③÷④	40.9%	37.9%	30.6%	—

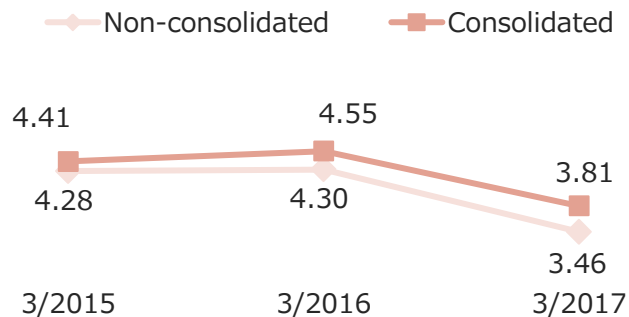
## Progress in the 30th Long-Term Management Plan ①

### Long-Term Management Guideline

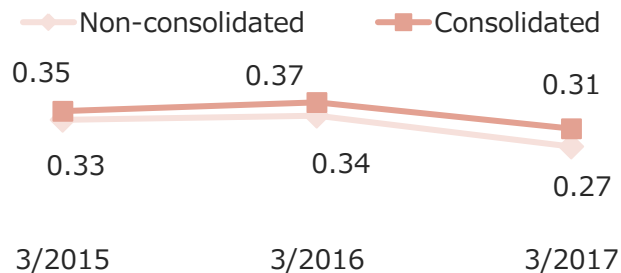
#### ■ ROE : 5% or higher

This guideline is the long term target so we apply it regardless of each management plan's period.

##### The Change in ROE



##### [For reference] The Change in ROA



### Management Targets for the end of FY2017

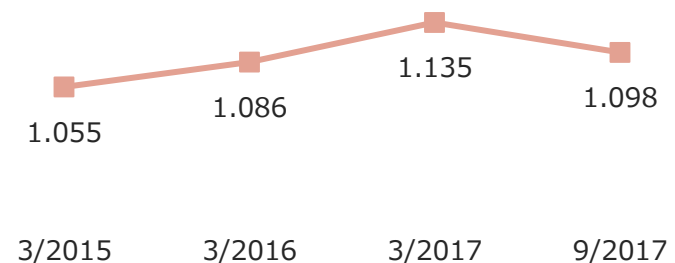
#### ■ Net Income : ¥20.0bn (non-consolidated)

- 1H FY2017                    **¥12.2bn**
- FY2017 (forecast)   **¥20.0bn**

#### ■ Ratio of Shareholder Returns: 40%

- FY2015                    **37.9%**
- FY2016                    **30.6%**

#### ■ Ratio of Consolidated Profit to Parent Company's Profits (net income basis): 1.2 times



## Progress in the 30th Long-Term Management Plan ②

### Theme ① Creating Regional Vitality

- Targets of “New plant and research institute projects” and “Supporting new business launches within Nagano Pref.” were already achieved before the end of the period.

■ Main Efforts and Figures	FY2015 (3/2016)	FY2016 (3/2017)	9/2017	Cumulative total	Issues to be Addressed
New plant and research institute projects (cases) (Target: 30 cases by Mar 2018)	9	13	8	<b>30</b>	☆ <b>Early achievement</b> Keeping business promotion to R&D-type companies by using the tool “Guide for the establishment of new business facilities in Nagano”
Supporting new business launches within Nagano Pref. (cases) (Target: 600 cases by Mar 2018)	206	292	127	<b>625</b>	☆ <b>Early achievement</b> Keeping approaches to potential entrepreneurs through the informing in the website and the collaborating with co- working space
New loans of startups- related within Nagano Pref. (¥bn)	3.1	4.7	1.5	9.4	
New loans of growth- related (¥bn) (Medical/welfare, Agriculture, Environment, Next generation industry)	51.7	58.7	29.1	139.5	Capturing capital investment demand of medical/welfare companies through consulting
Consultations for business succession (cases)	209	212	86	507	☆ <u>The number of staff holding “Business Succession/M&amp;A Expert License” is the largest in the regional financial institutions in Kanto and Koshinetsu area</u>
Completions of M&A (cases)	6	8	3	17	

## Progress in the 30th Long-Term Management Plan ③

### Theme① Creating Regional Vitality

~Improvement of Competitiveness of Local Industries, Efforts to Town Planning and Human Resources Creation~

~ 3/2016

May 2015: "All-Shinshu Tourism Revitalization Fund" carried out investing and financing in "WAKUWAKU Yamanouchi" (town planning company)

⇒ Re-organization project of Yamanouchi hot spring area was awarded by the Cabinet Office as a model case of regional revitalization (Jan 2017)

Vegetable store

Beer bar & restaurant



Feb 2016: Start of "Hachijuni Regional Revitalization Support PPB (private placement bond)", by issuing it customers can raise funds along with donation to schools etc.

⇒ Cumulative total was ¥9.6bn (136 cases) as of Sep 2017.

~ 3/2017

May 2016: "Nagano Frais Marché ao ao" (agricultural product sales store) opened in Tokyo KOTSU KAIKAN



⇒ The first anniversary event was held. 64 farmers have sold their agricultural products since the opening.

Jul 2016: Start of "CF Shinshu"; cloud funding focused on regional contributions



⇒ 10 of 16 cases achieved their targets. (as of Sep 2017)

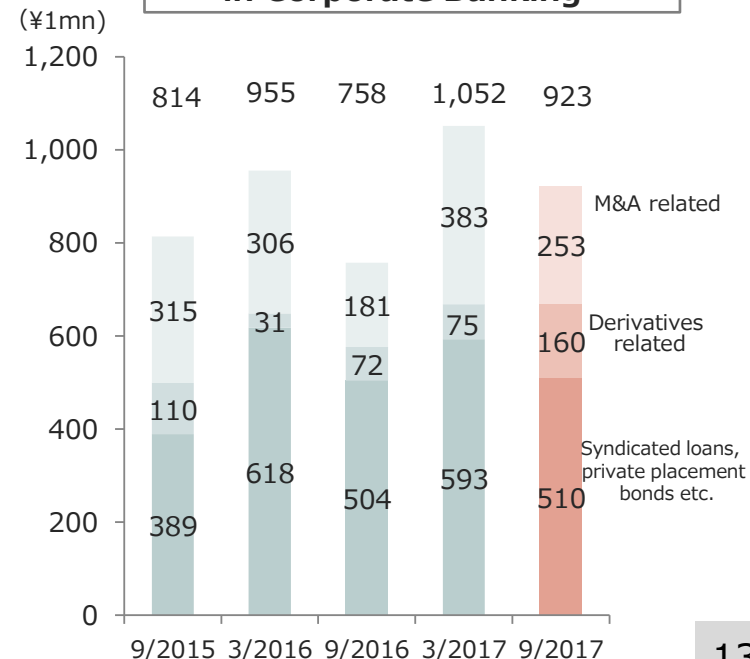
Sep 2016: "Regional Revitalization Partnership Agreement" was concluded with 5 companies in Mitsubishi Group, utilizing their broader network

⇒ Shinshu Products Fair was held in Marunouchi MY PLAZA (Tokyo) (Oct 2017).

~ 3/2018

Sep 2017: 469 staff received approval of "Business Succession/M&A Expert License", which was the largest in the regional financial institutions in Kanto and Koshinetsu area.

#### ■ Consulting-related Profit in Corporate Banking



## Progress in the 30th Long-Term Management Plan ④

### Theme ② Developing Customer Convenience

~Reinforcement of Contacts with Customers, Improvement of Correspondence to Customers~

#### Reinforcement of Non Face-to-Face Channel

Apr 2015: Homepage renewal  
-available at smartphone

Sep 2016: Start of the use of  
account opening application  
for ordinary deposit



Nov 2016: "Kanta-kun" card became  
available at non face-to-face  
channel

Feb 2017: Homepage full renewal  
- adding visit reservation function

Mar 2017: Promotion of <e-Livret>;  
ordinary deposit without passbook

⇒ The ratio of <e-Livret> was more  
than 30% of new account opening.

Sep 2017: Free loans  
became available at non  
face-to-face channel



#### Review of Branch/Operation Structure

Jul 2015: Kamisuwa-ekimae Branch  
is relocated and merged to Suwa  
Branch

⇒Branch-in-branch type relocation (the first  
case in the Bank)

Feb 2016: Suzaka-ekimae Branch  
is relocated and merged to Suzaka  
Branch

Aug 2016: Iida-higashi Branch is  
relocated and merged to Yawata  
Branch, and Sansai Branch Office  
is relocated and merged to Yoshida  
Branch

⇒Keeping customer convenience by  
installing ATMs around existing branches  
⇒Cost reduction effect of the above four  
cases was about ¥0.2bn.

Mar 2016: Ota Corporate Business  
Office and Isezaki Corporate Business  
Office were merged to new Ota  
Branch

Nov 2016: Suwa-minami Branch  
was reorganized to 82 Plaza Suwa-  
minami which opens on weekend and  
holidays for consultation of loan/asset  
management

#### Enhancement of Correspondence to Customers

Nov 2016: Introduction of new  
version of offices' terminal system

⇒ Reduction of  
customers'  
burdens by  
interactive  
procedure



Sep 2017: Start of instant issuance  
of cash card at counter

⇒ Ratio of  
instant issuance  
was 80% or  
more.



Oct 2017: Start of demonstration  
test of AI use (checking of meeting  
memorandums concerning  
investment type product)

Oct 2017: Start of demonstration  
test of tablet use in branches  
(account opening/address change  
etc.)

## Progress in the 30th Long-Term Management Plan ⑤

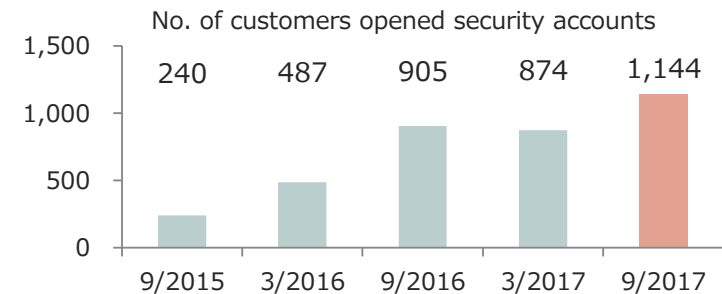
### Theme③ Enhancing the Corporate Power

#### Diversification of Profit Sources

Hachijuni Credit Guarantee Co., Ltd. became the Bank's wholly owned subsidiary in Oct 2015 ⇒ The ratio of voting rights of the Bank changed from 5% to 100%

Bank-securities alliance ⇒

Personnel exchanges between the Bank and Hachijuni Securities Co., Ltd. lifted the number of customers who opened newly security accounts.



401k for individual customers ⇒ About 9,000 accounts were acquired from Jan 2017 to Sep 2017 (top level in the regional banks)

Merger with Hachijuni Business Services Co., Ltd. ⇒ Scheduled in Apr 2018 (please see P17)

#### Expansion of Staffs' Working Field

Increase of female staff in managerial post

No. of female staff in managerial post as of Sep 30, 2017

Target (3/2018) : 40% increase from Apr 1st, 2015

**34.8% increase**

Issued to be addressed

The Bank will change the personnel management system to expand the working field of senior staff. (scheduled in Jul 2018)



## Progress in the 30th Long-Term Management Plan ⑥

### Theme③ Enhancing the Corporate Power



#### Deepening of Environmental Management

##### Hachijuni's Forests

The Bank positively continues activities for diversity protection such as forest maintenance programs by officers and employees.



The Bank was awarded the excellent prize of "Human Resources Development Corporation Award for the Environment 2016" (third rank in the banking sector) by Ministry of the Environment.



##### External Evaluation

- The Bank's shares have been selected by "FTSE 4 Good Index" continuously based on the high evaluation from the outside assessment agencies.
- Only the Bank's shares have been selected by "FTSE Blossom Japan Index" from all regional banks' shares.



##### Review of Target

Greenhouse gas emission  
as of Mar 31, 2017

Target (3/2018): 10% reduction from  
FY2010

**15.3%**  
reduction



"PaperLab": reproduction of  
the used paper

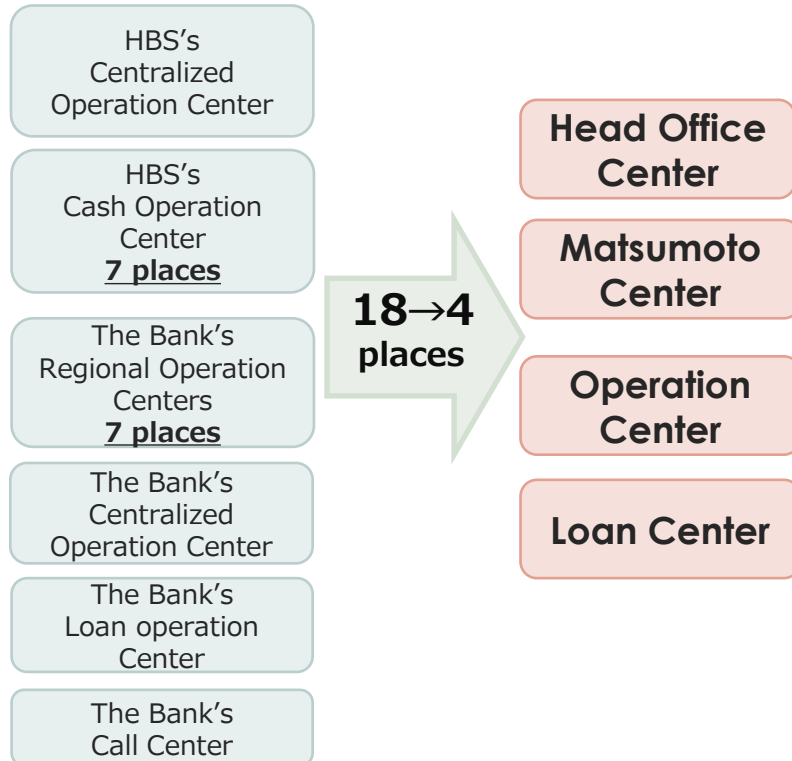


## Progress in the 30th Long-Term Management Plan ⑦

### Theme③ Enhancing the Corporate Power ~Reorganization of Operation Centers~

- Hachijuni Business Services Co., Ltd. (HBS: a wholly owned subsidiary) will be merged by the Bank in Apr 2018.
- The Bank and HBS will raise the efficiency of back office work by reorganizing operation centers (18→4).

#### Reorganization Chart



#### Cost Reduction Target of Operation Centers

**Cost reduction effect just after the merger (FY2018)**

**▲¥0.1bn / per year (cf.FY2017)**

- Utilization of outsourcing
- Introduction of RPA
- Staff utilization by integrating operation centers
- Expansion of paperless

Measures for Raising efficiency

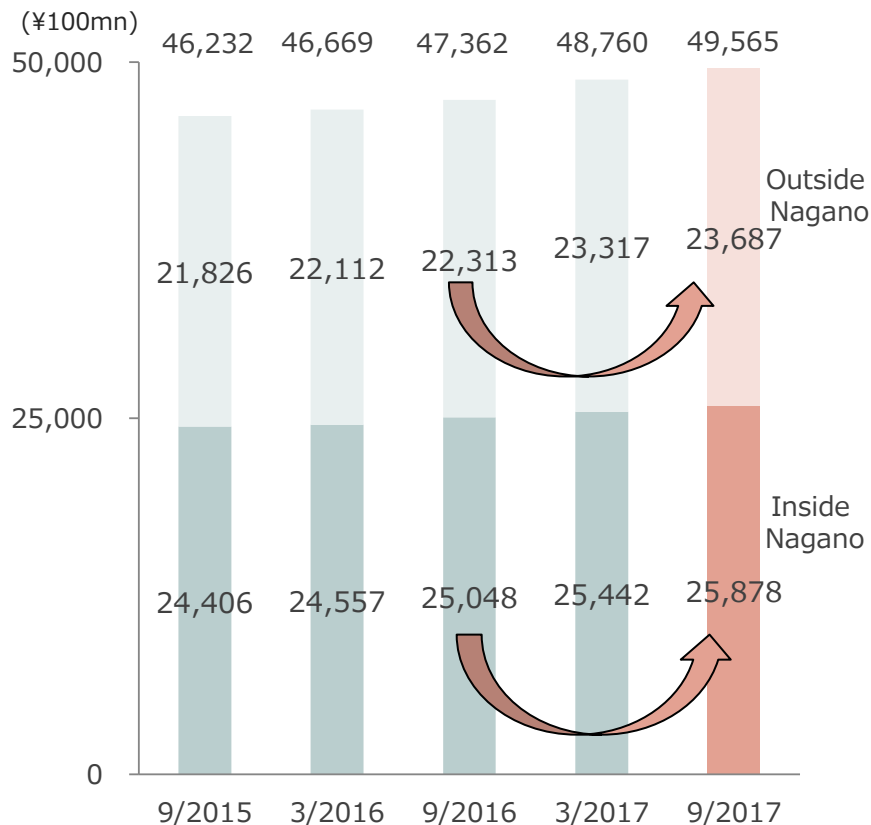
**Cost reduction target of 3 years after the merger (FY2021)**

**▲¥0.5bn / per year (cf.FY2017)**

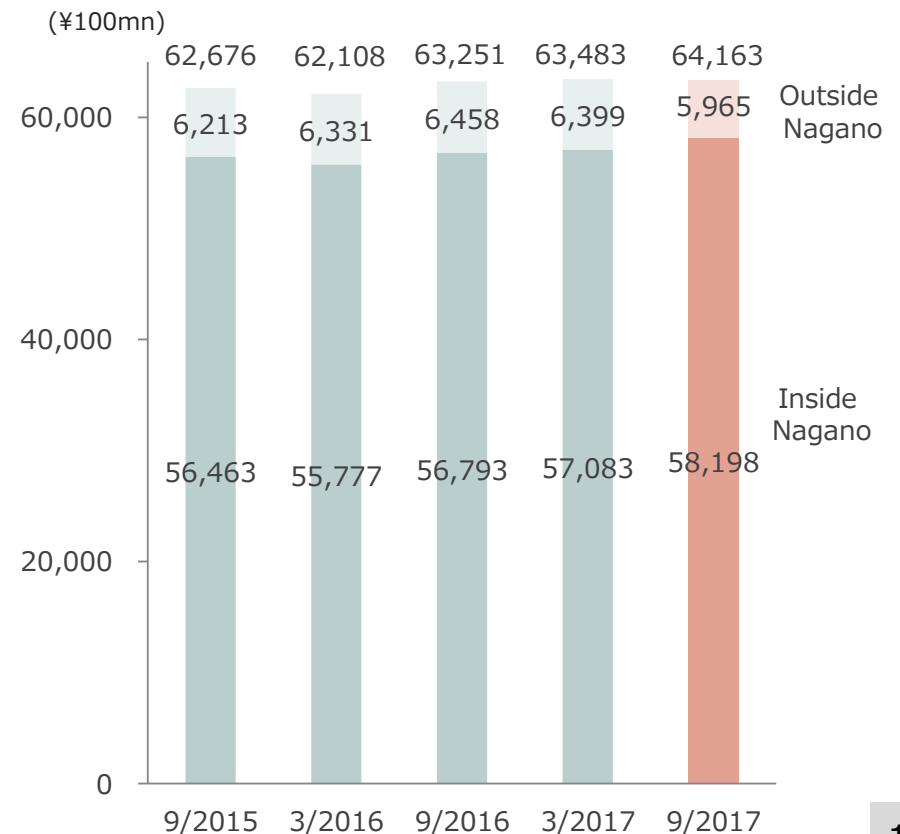
## Major Accounts (Loans/Deposits)

- Both loans and deposits hit new record high.
- Loans increased by ¥82.9bn, loans outside Nagano increased by ¥137.3bn from 9/2016 respectively.

### ■ Average Balance of Loans



### ■ Average Balance of Deposits



## Yield, Interest Margin

- Yield will decline until 3/2018 due to the continuation of downward trend in interest rate of loans.

### ■ The Change in Yield and Margin (all offices, %)

	3/2014		3/2015		3/2016		3/2017		3/2018		Change from 3/2017
	1H	Full year	1H	Full year	1H	Full year	1H	Full year	1H	Full year forecast	
Yield	1.32	1.31	1.18	1.19	1.15	1.14	1.05	1.07	0.94	0.95	▲0.12
Funding costs	0.14	0.13	0.13	0.14	0.15	0.16	0.16	0.15	0.12	0.12	▲0.03
Interest margin	1.18	1.18	1.04	1.05	1.00	0.98	0.89	0.92	0.82	0.83	▲0.09

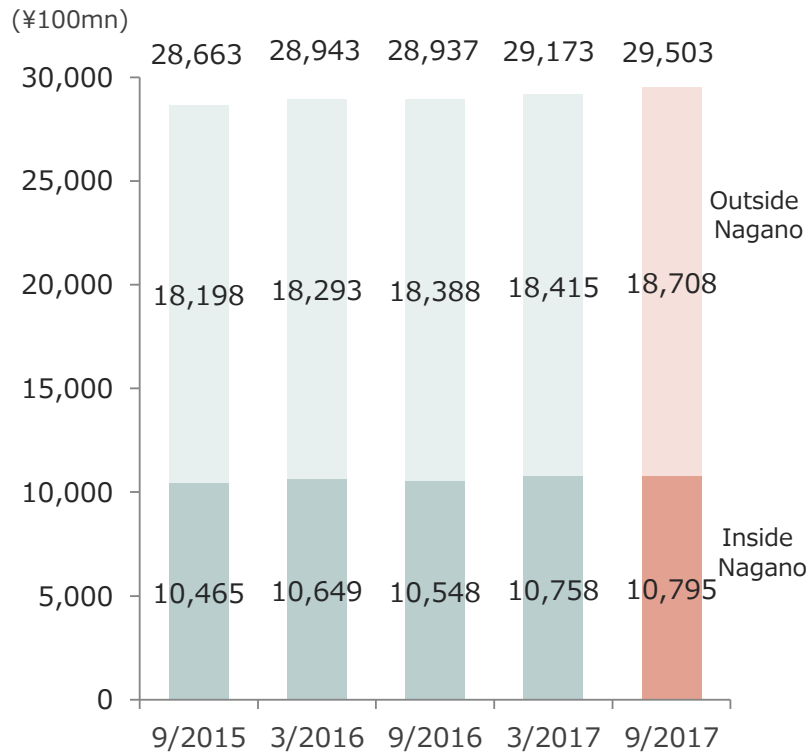
### ■ The Change in Yield and Margin (domestic, %)

	3/2014		3/2015		3/2016		3/2017		3/2018		Change from 3/2017
	1H	Full year	1H	Full year	1H	Full year	1H	Full year	1H	Full year forecast	
Yield on loans	1.33	1.30	1.22	1.21	1.14	1.12	1.01	0.99	0.92	0.91	▲0.08
Yield on securities	1.31	1.38	1.28	1.21	1.39	1.24	1.26	1.27	1.13	1.02	▲0.25
Funding costs	0.12	0.12	0.11	0.11	0.11	0.10	0.07	0.06	0.03	0.03	▲0.03
Yield on depo.	0.04	0.03	0.03	0.03	0.03	0.03	0.02	0.01	0.01	0.01	0.00
Interest margin	1.15	1.12	1.02	1.00	0.97	0.94	0.91	0.90	0.82	0.81	▲0.09

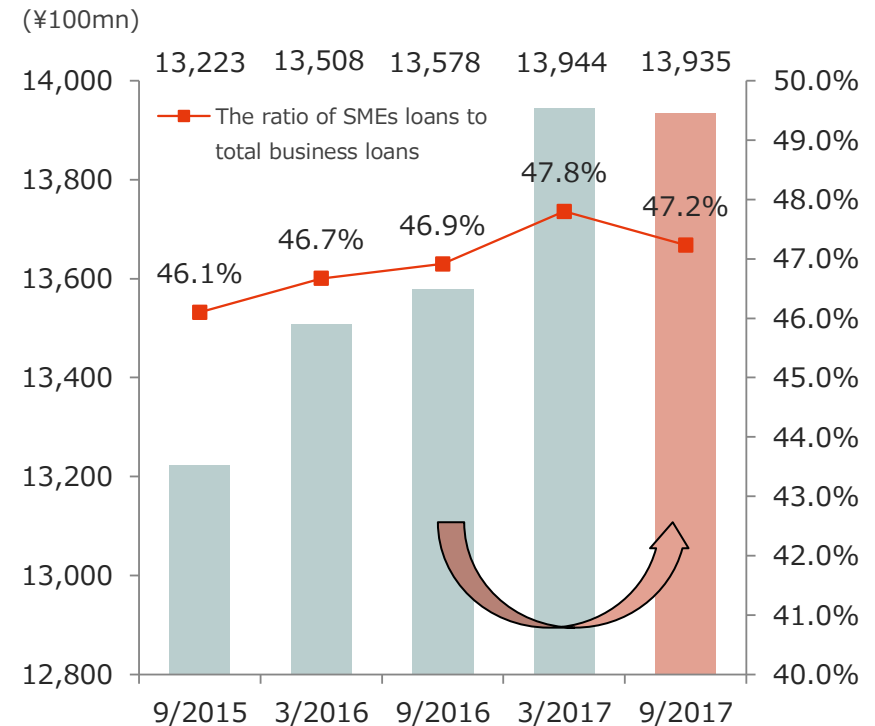
## Main Figures (Business Loans)

- Business loans both inside and outside Nagano increased, reflecting the increase in capital investment demand of growth-related industries.
- Business loans to SMEs increased by ¥35.7bn from 9/2016 due to the reinforcement of relations with customers by visiting them thoroughly.

■ **Outstanding Balance of Business Loans by District**



■ **Outstanding Balance of Loans to SMEs※**

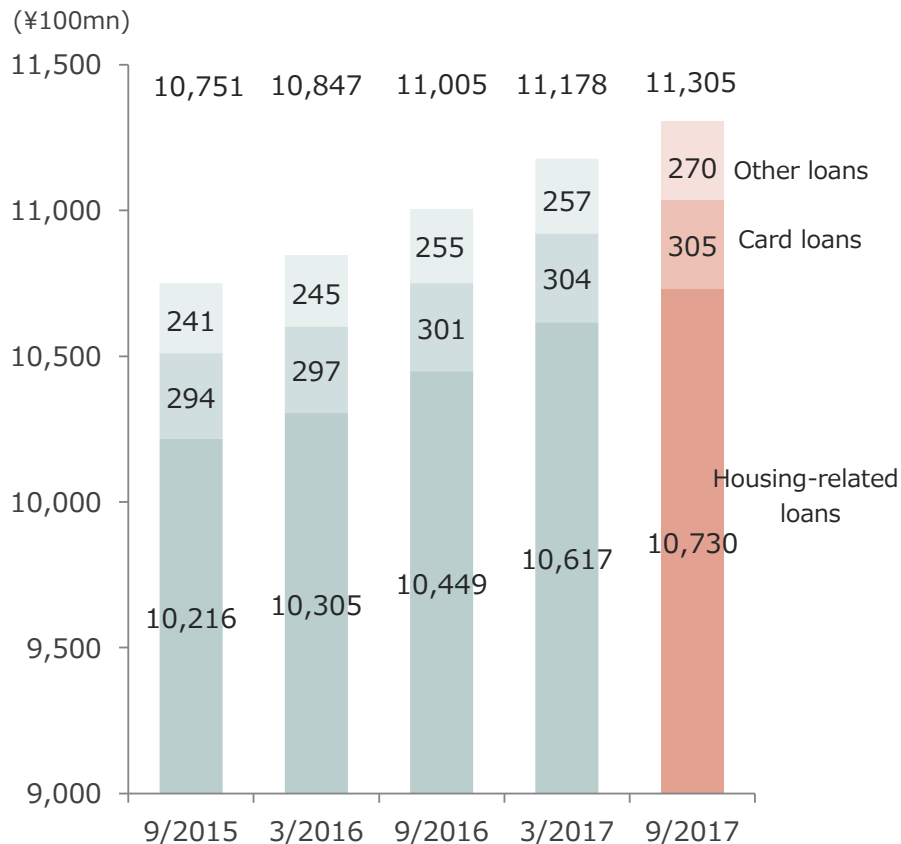


※ SMEs (excl. local public entities) + self-employed company owner

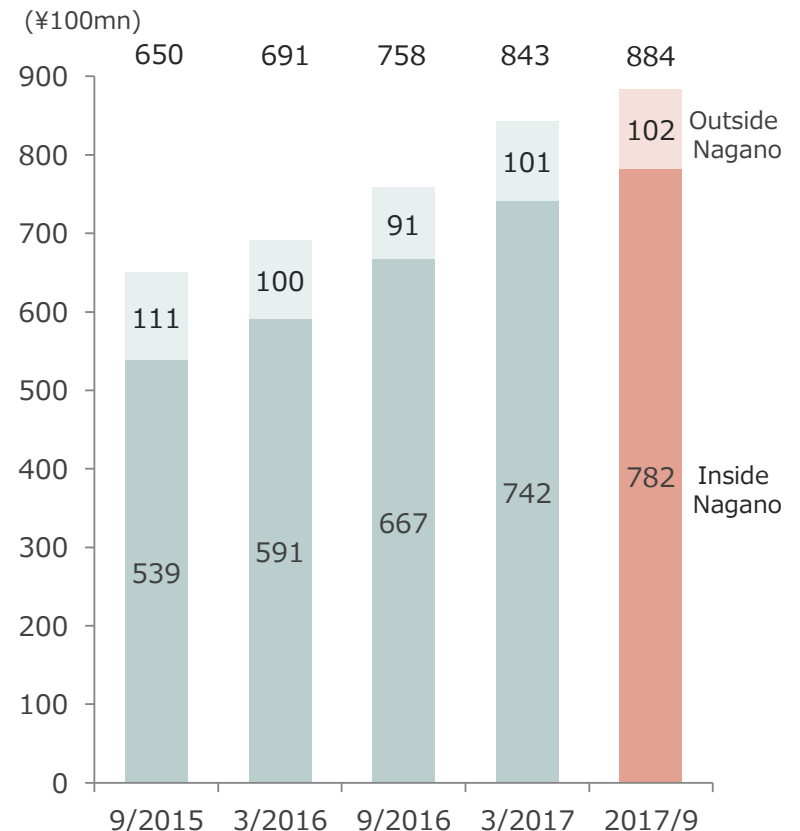
## Main Figures (Personal Loans)

- Housing-related loans increased by ¥28.1bn from 9/2016.
- Other loans increased by ¥1.5bn due to the firm increase in education card loans launched in Feb 2017.
- Apartment-related loans increased by ¥12.6bn by promoting to wealthy people in Nagano.

■ **Outstanding Balance of Personal Loans (excl. apartment-related loans)**



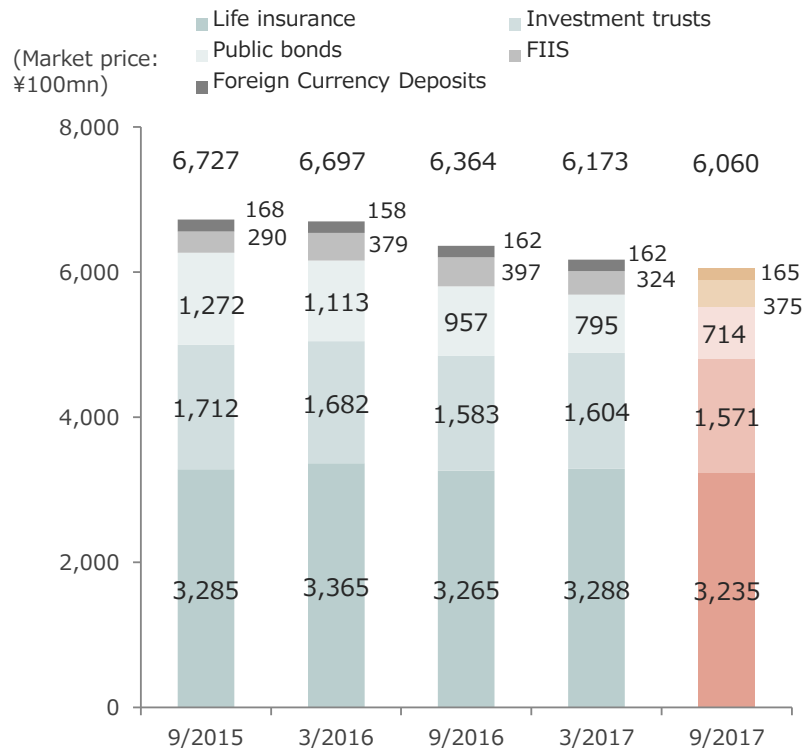
■ **Outstanding Balance of Apartment-related Loans**



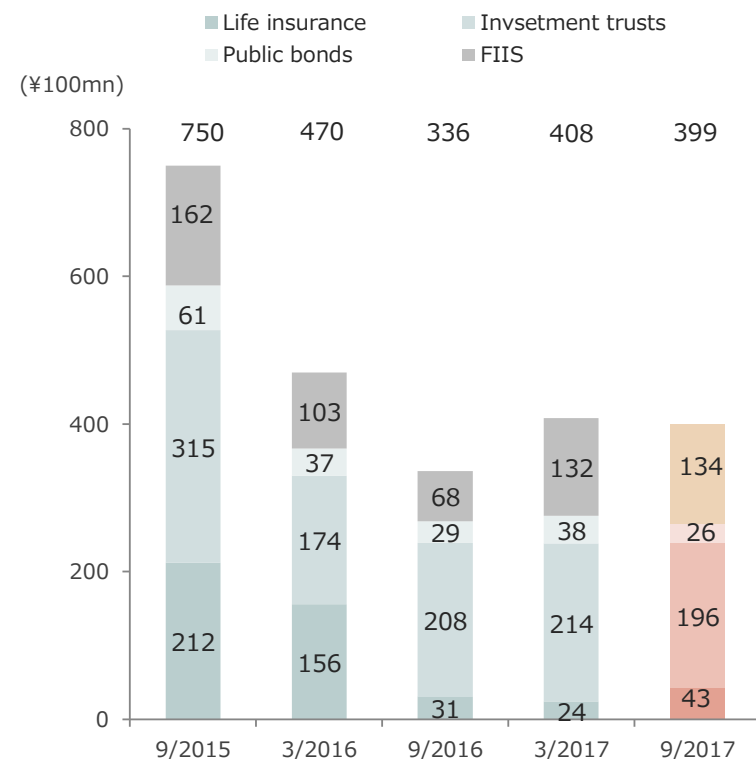
## Main Figures (Investment Type Products①)

- Outstanding balance of investment type products (market price) decreased by ¥30.4bn from 9/2016. Investment trusts decreased by ¥1.2bn due to the increase of cancellation backed by the rises in stock prices.
- New increase amount in investment type products increased by ¥6.3bn, including ¥6.6bn increase in Financial Instruments Intermediary Service (FIIS) by reinforcing the cooperation with Hachijuni Securities.

### ■ Outstanding Balance of Investment Type Products



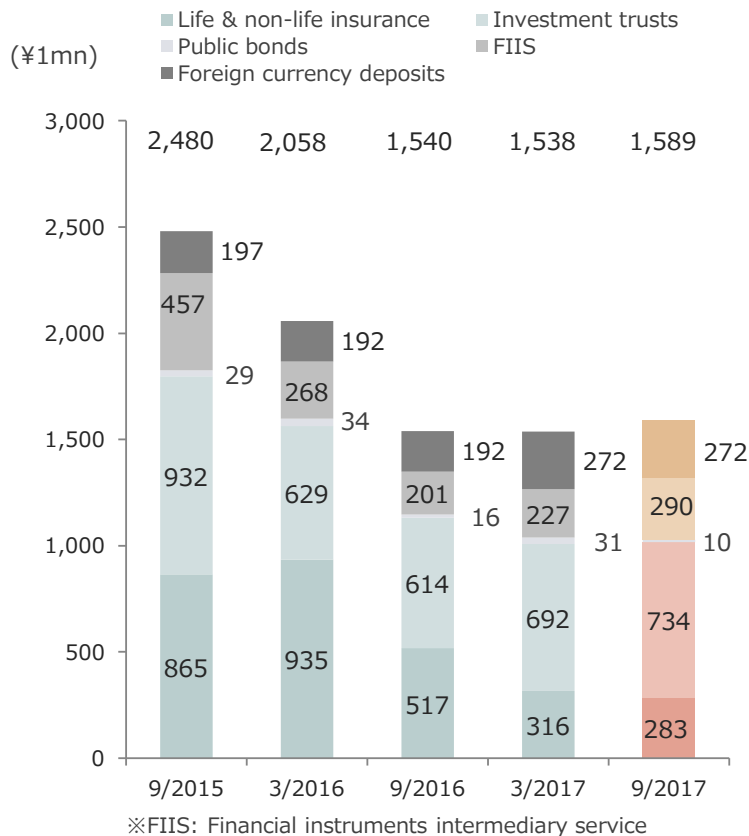
### ■ New Increase in Investment Type Products



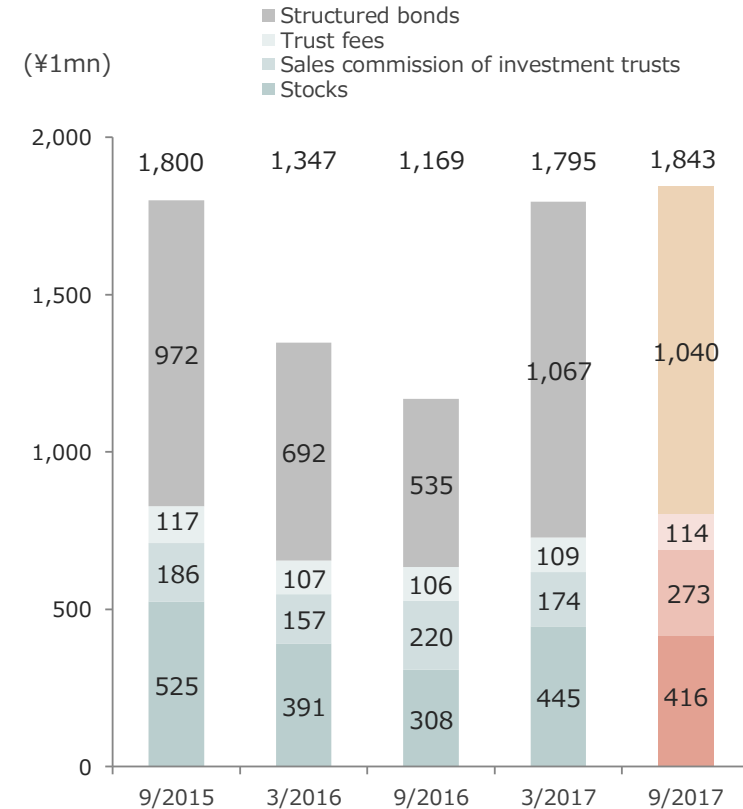
## Main Figures (Investment Type Products②)

- Profit on investment type products increased by ¥40mn from 9/2016 due to increases in profit from investment trusts (+¥120mn) and profit from FIIS (+¥89mn).
- Revenues of Hachijuni Securities increased by ¥674mn.

### ■ Profit on Investment Type Products



### ■ Revenue of Hachijuni Securities Co., Ltd



## Market Investment (the Change in Outstanding Balance of Securities)

- Stabilizing profit from portfolio mainly by yen bonds along with making diversification of investment to enhance profitability

(Cost basis: ¥100mn)		3/2016	9/2016	3/2017	9/2017	Direction of 2H FY2017
Bonds	Interest-bearing JGBs	10,065	10,068	8,295	8,309	→
	Floating-rate JGBs	1,880	1,884	1,855	1,845	→
	Inflation-protected JGBs	486	428	365	350	→
	Other domestic bonds	3,388	3,717	3,797	4,862	→
	Yen-denominated securitized products	697	697	701	624	→
	Structured bonds etc.	89	92	30	156	→
Domestic securities	Domestic stocks	1,192	1,187	1,173	1,150	↑
	Domestic ETF	208	195	144	191	↑
	J-REIT	211	195	213	219	↑
	Other investment trusts	1,046	1,428	1,676	1,733	↑
	Union-type of funds etc.	276	141	152	159	↑
	Hedge funds	157	157	147	166	↑
Foreign securities	Hedge funds	50	45	50	50	↑
	Yen-denominated foreign bonds	257	159	79	206	→
	Foreign stocks, ETF etc.	86	24	39	108	↑
	Foreign currency-denominated bonds	3,613	3,414	2,775	3,216	→
	Foreign currency-denominated securitized products	70	176	123	274	→
Total		23,777	24,005	21,614	23,620	