

Mebuki Financial Group, Inc.

# Financial Results for the First Quarter of FY2017 (IR Presentation Material)



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# Highlights

## Results for 1Q17

- ◎ Consolidated net income\* of Mebuki is ¥12.0bn, representing 30.1% progress toward the full year forecast. \*Attributable to owners of the parent
- ◎ Due to sales of strategic-holding stocks early in the fiscal year taking into consideration the stock price level, net income of the two banking subsidiaries' simple-sum basis represented strong progress of 33.1% towards the full-year forecast.
- ◎ Synergy effect arising from the business integration for 1Q17 was ¥0.7 bn, representing steady progress of 25.2% towards the full-year forecast for FY17 of ¥2.7 bn.

## Forecast for FY17 (Changes : YoY)

- ◎ There has been no change since the forecast was announced on May 12, 2017.
- ◎ Consolidated ordinary profit and consolidated net income\*<sup>1</sup> are forecasted to be ¥58.5bn (+¥6.2bn) and ¥40.0bn (-¥118.4bn\*<sup>2</sup>) respectively.  
Non-consolidated net income <Joyo> ¥23.0bn (-¥1.4bn) <Ashikaga> ¥21.0bn (-¥5.4bn)

\*<sup>1</sup> Attributable to owners of the parent

\*<sup>2</sup> For FY16, gain on negative goodwill arising from the business integration of ¥119.2bn was recorded as extraordinary income

## Dividend

- ◎ For FY17, in line with an earnings distribution policy\*, annual dividend forecast is ¥11.00, made up of an interim dividend and year-end dividend of ¥5.50 each.

\*Aim to continue stable dividend returns while taking into account both the maintenance of solid capital levels for the future growth and the appropriate distribution of profits to our shareholders.

# Main Points of 1Q17 Financial Results

## ● Mebuki FG (Consolidated) (JPY Bn)

	1Q 17		Full-year Forecast
		Progress	
Ordinary profit	17.9	30.7%	58.5
Net income attributable to owners of the parent	(1) 12.0	30.1%	40.0

[ Consolidation adjustment ]  
(2)-(1) -¥3.6bn

○ Adjustments related to securities  
-¥3.2 bn

○ Interest expenses of subordinated loans, expenses, etc.  
-¥0.4 bn

## ● Two banking subsidiaries and the other group companies

	1Q 17		Full-year Forecast
		Progress	
Net income	(2) 15.6	32.5%	48.0

## <Reference> Results of Joyo and Ashikaga

(JPY Bn)

	1Q 17						[Progress against forecast]		
	J + A		Joyo		Ashikaga		J + A	Joyo	Ashikaga
	Result	YoY Change	Result	YoY Change	Result	YoY Change			
Gross business profit	48.2	-3.5	27.5	-2.6	20.6	-0.9	26.3%	26.6%	26.0%
Net interest income	39.7	-0.2	21.9	-0.2	17.7	-0.0	27.1%	26.7%	27.5%
Net fees and commissions	7.7	-0.1	5.0	+0.3	2.6	-0.4	24.4%	28.7%	19.1%
Net other business income and Net trading income (o/w gains/losses on bond transactions)	0.7	-3.1	0.5	-2.6	0.1	-0.4	15.4%	14.5%	19.1%
Expenses	28.7	-0.8	17.0	-0.7	11.7	-0.1	24.5%	25.0%	23.9%
Personnel expenses	15.0	-0.2	8.5	-0.3	6.4	+0.0	-	-	-
Non-personnel expenses	11.1	-0.2	6.9	-0.0	4.2	-0.2	-	-	-
Net business income (before general allowance for loan losses)	19.4	-2.6	10.5	-1.9	8.9	-0.7	29.4%	29.5%	29.2%
Core net business income	19.2	+0.6	10.3	+0.9	8.9	-0.3	30.5%	31.7%	29.2%
Net transfer to general allowance for loan losses (a)	-0.2	-0.9	-0.0	-0.6	-0.2	-0.2	-	-	-
Net business income	19.7	-1.7	10.5	-1.2	9.1	-0.5	29.6%	29.2%	30.1%
Net non-recurrent gains/losses	1.6	+0.5	0.9	+1.0	0.7	-0.4	-65.0%	-36.9%	-
o/w Disposal of non-performing loans (b)	1.1	+0.3	0.8	-0.1	0.3	+0.5	17.8%	20.0%	14.3%
o/w Gains/losses related to stocks, etc	3.3	+1.0	2.4	+0.9	0.9	+0.0	51.9%	60.0%	38.8%
Ordinary profit	21.3	-1.2	11.4	-0.2	9.8	-1.0	33.3%	34.2%	32.4%
Extraordinary income/losses	-0.5	-0.4	-0.4	-0.2	-0.1	-0.1	-	81.0%	92.6%
Net Income	14.6	-1.0	7.7	-0.3	6.8	-0.7	33.1%	33.8%	32.5%
Credit related costs (a)+(b)	0.8	-0.5	0.7	-0.8	0.1	+0.2	14.5%	21.9%	4.1%

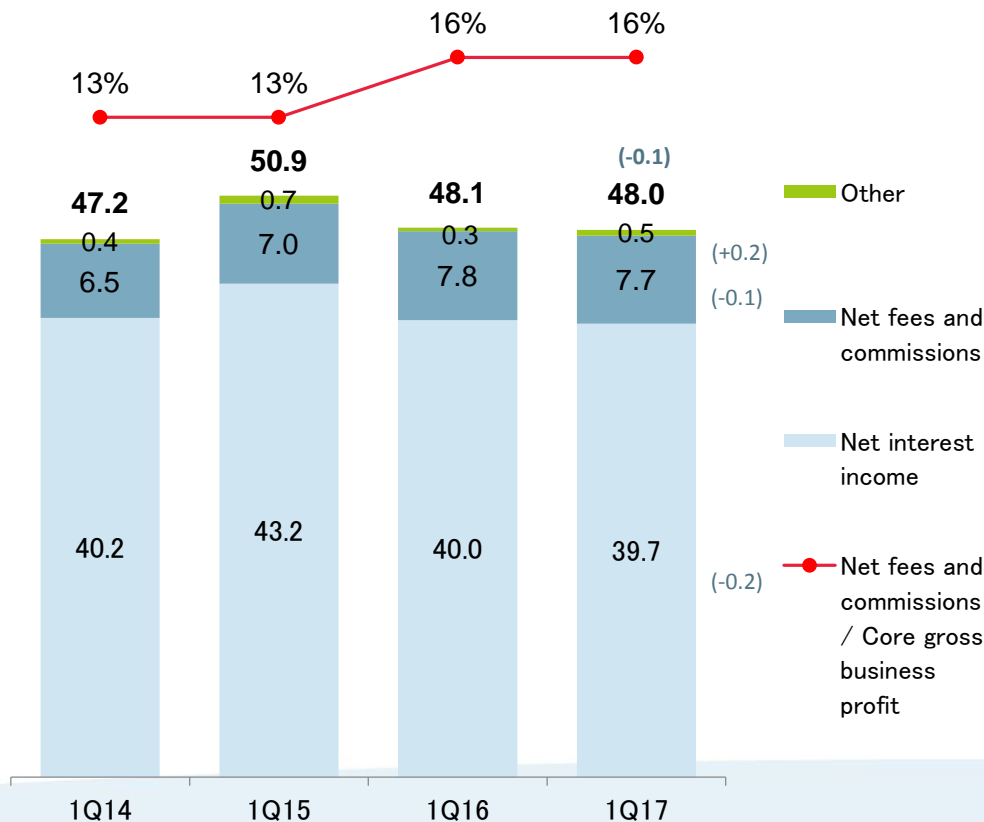
# Core Gross Business Profit (Gross Business Profit excluding Gains/Losses on Bond Transaction)

◇ Core gross business profit is almost unchanged year-on-year.

While net interest income and fees related to financial assets under custody decreased, net fees and commissions from corporate customers increased through enhancement of consulting services.

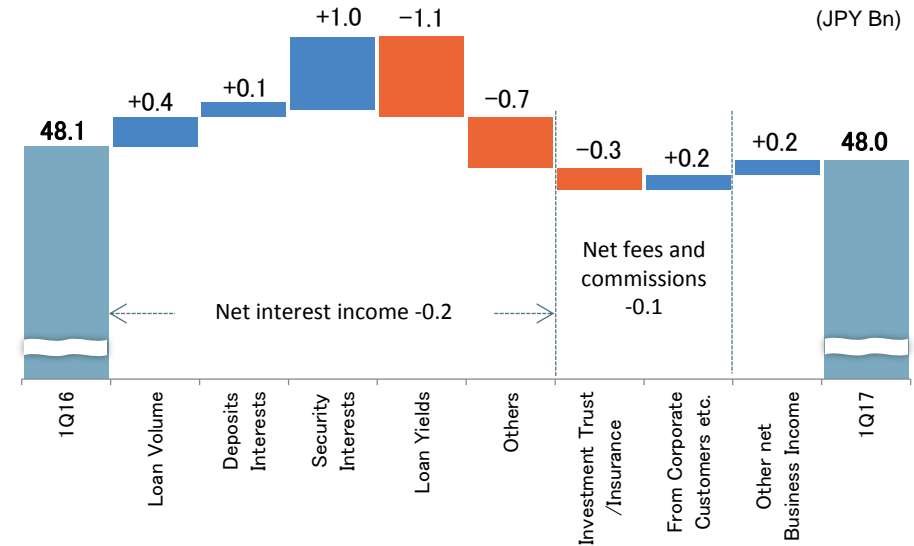
## ● Joyo + Ashikaga

(JPY Bn)



## Key Change Factors (Joyo + Ashikaga)

(JPY Bn)



(Reference) Gains on Cancellation of Private Offering Investment Trusts among Interests and Dividends on Securities (JPY Bn)

		FY15	FY16	1Q17	YoY Change
Joyo	Annual	0.8	1.7	0.0	-0.0
	(o/w 2H)	(0.4)	(1.6)	-	-
Ashikaga	Annual	3.7	3.6	2.2	+0.1
	(o/w 2H)	-	(0.4)	-	-

# Net Interest Income / Loans and Deposits Average Balance / Average Yield

## Key Change Factor in NII (by Bank)

### Jojo

(JPY Bn)

	Factor	YoY	Domestic (Change in NII)		Overseas (Change in NII)	
			Change in Factors	Change in Factors	Change in Factors	Change in Factors
Interest on loans and bills discounted	Average Balance	+0.2	+0.1	(+¥42.6bn)	+0.1	(+¥26.1bn)
	Yield	-0.4	-0.6	(-4bps)	+0.1	(+62bps)
Interest on deposits (-)		-0.0	-0.0	-	+0.0	-
Interest and dividends on securities	Average Balance	-0.0	-0.1	(-¥45.1bn)	+0.0	(+¥5.4bn)
	Yield	+0.3	+0.0	(+0bps)	+0.3	(+30bps)
Market investments and borrowings (-)		+0.2	-0.2	-	+0.5	-

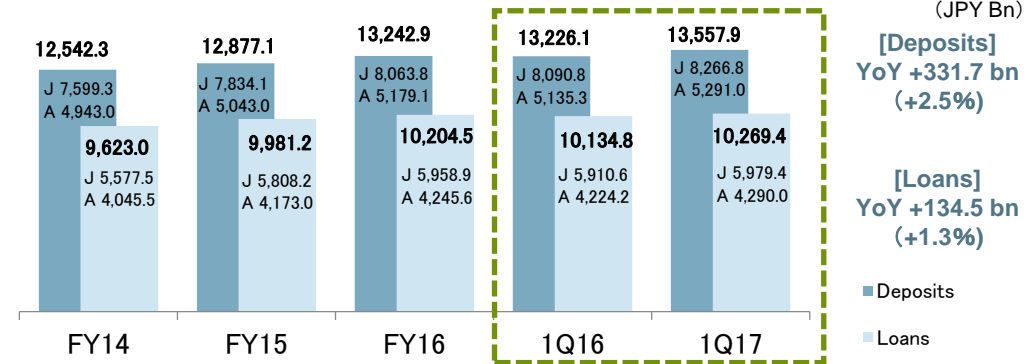
### Ashikaga

(JPY Bn)

	Factor	YoY	Domestic (Change in NII)		Overseas (Change in NII)	
			Change in Factors	Change in Factors	Change in Factors	Change in Factors
Interest on loans and bills discounted	Average Balance	+0.1	+0.1	(+¥60.0bn)	+0.0	(+¥5.7bn)
	Yield	-0.7	-0.7	(-7bps)	+0.0	(+79bps)
Interest on deposits (-)		-0.0	-0.1	-	+0.0	-
Interest and dividends on securities	Average Balance	+0.5	+0.3	(+¥80.3bn)	+0.2	(+¥46.6bn)
	Yield	+0.2	-0.0	(-3bps)	+0.2	(+60bps)
Market investments and borrowings (-)		+0.4	-0.0	-	+0.4	-

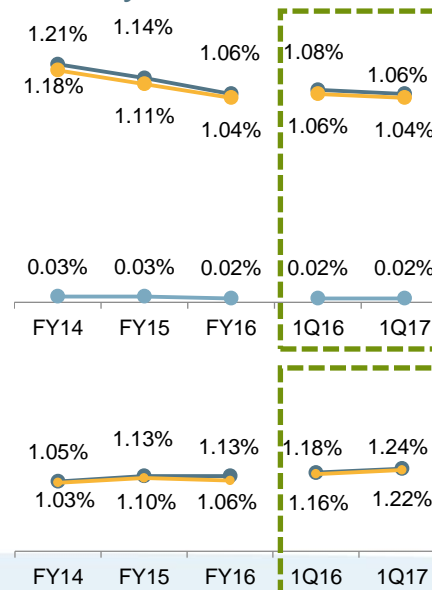
## Average Balance of Loans and Deposits (J + A)

(JPY Bn)

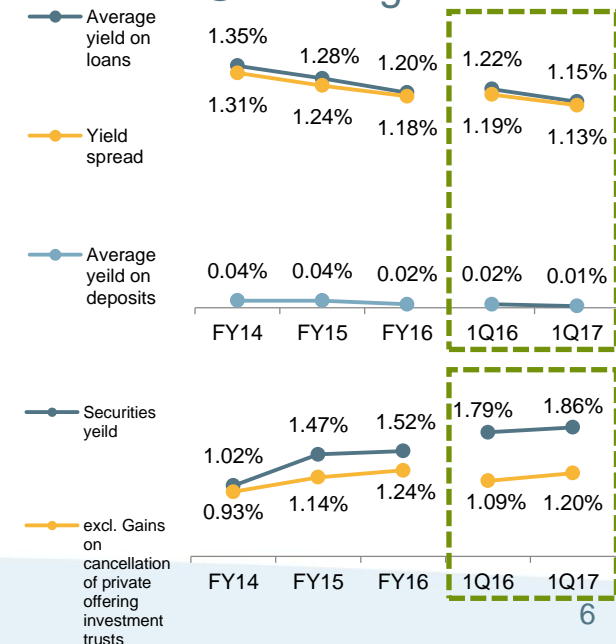


## Average Yield

### Jojo



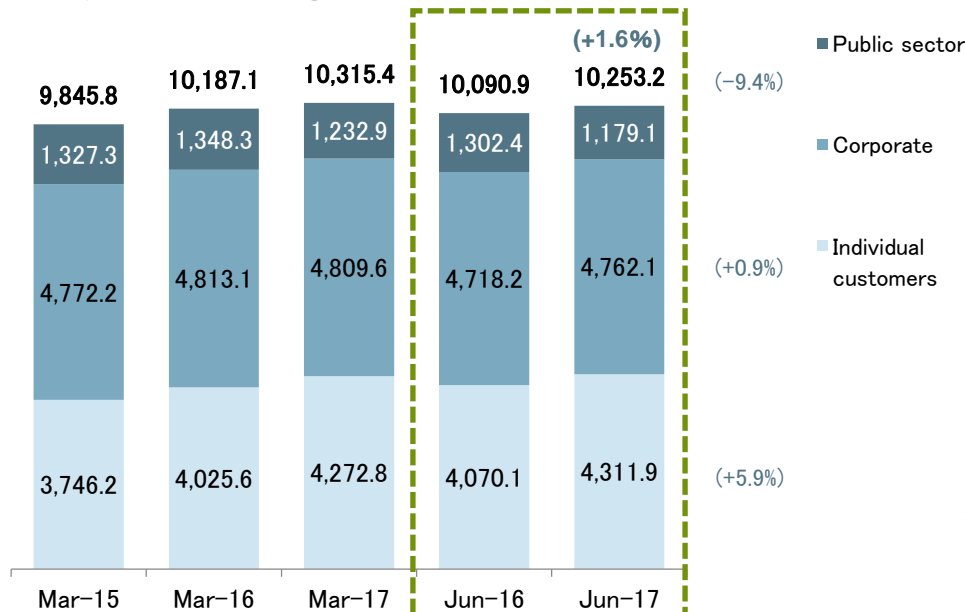
### Ashikaga



# Loans (1)

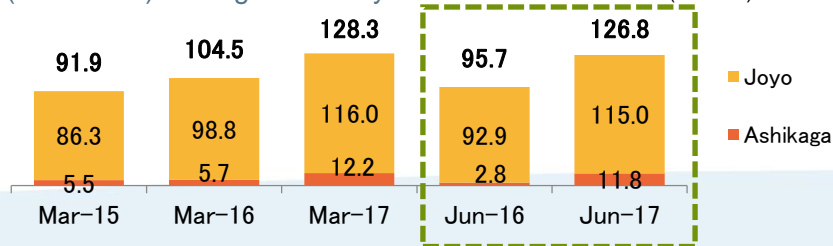
- ◇ Loans to individual customers increased by ¥241.8 bn (+5.9%) and housing related loans increased by ¥232.0 bn from the previous year (refer to p.9).
- ◇ Loans to corporate customers increased by ¥43.8 bn and those to local corporate customers increased ¥97.6 bn year-on-year (refer to p.8).

## ● Joyo + Ashikaga (JPY Bn)

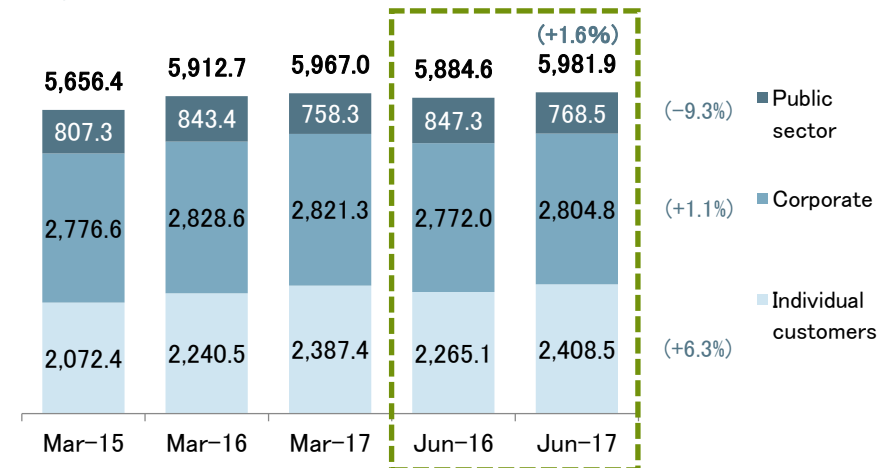


(\* ) "Individual Customers" include sole proprietors and "Corporate" include financial institutions

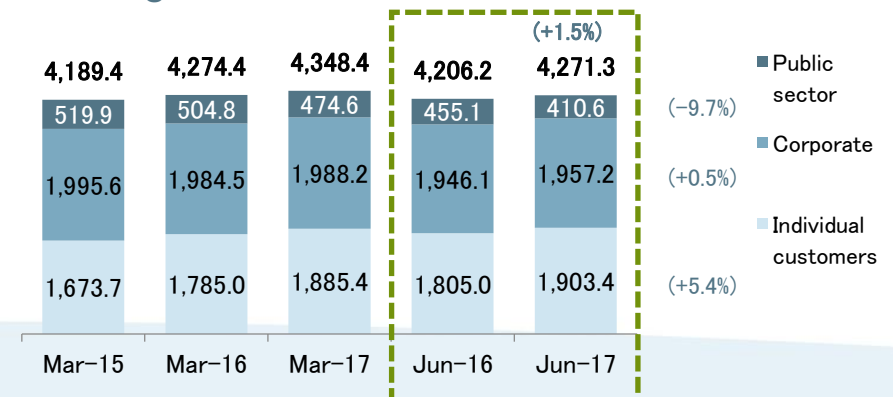
## (Reference) Foreign Currency Denominated Loans (JPY Bn)



## ● Joyo



## ● Ashikaga

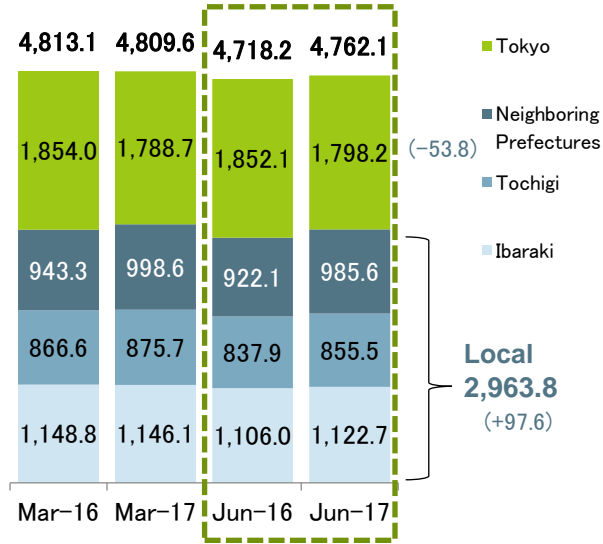




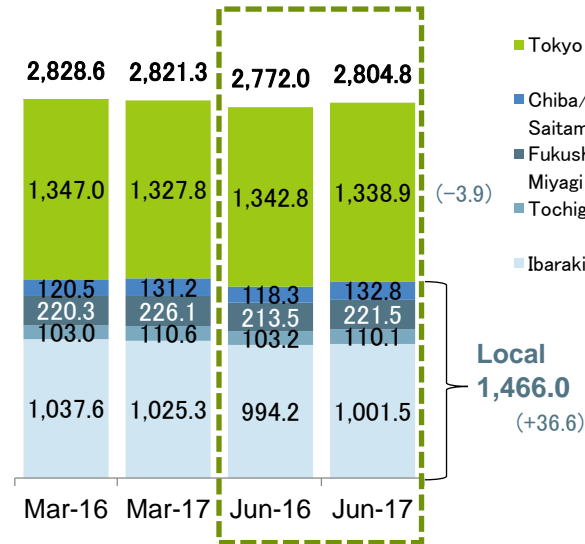
# Loans (2) Loans to Corporate Customers (by Area / Company Size)

Balance by Area

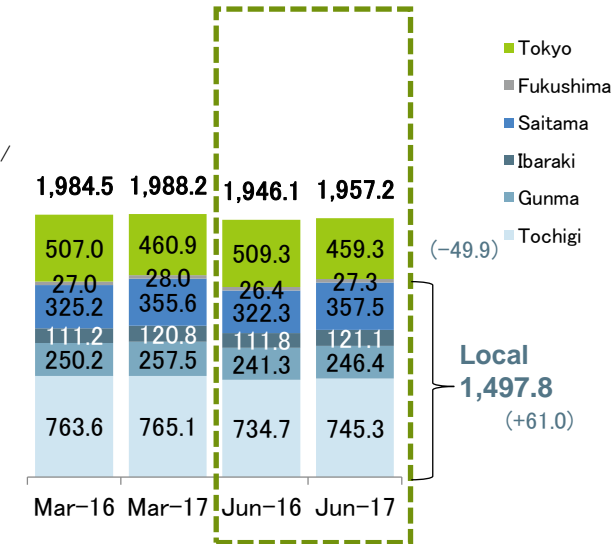
● Joyo + Ashikaga (JPY Bn)



● Joyo

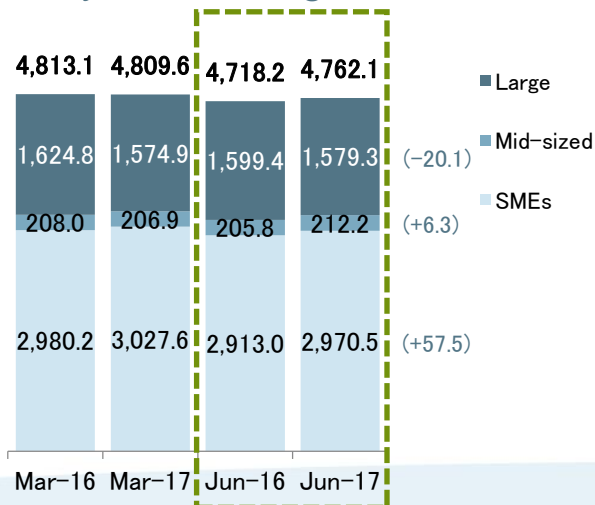


● Ashikaga

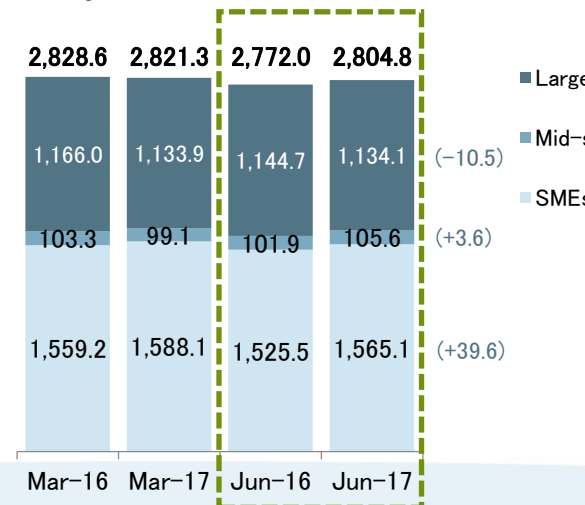


Balance by Company Size

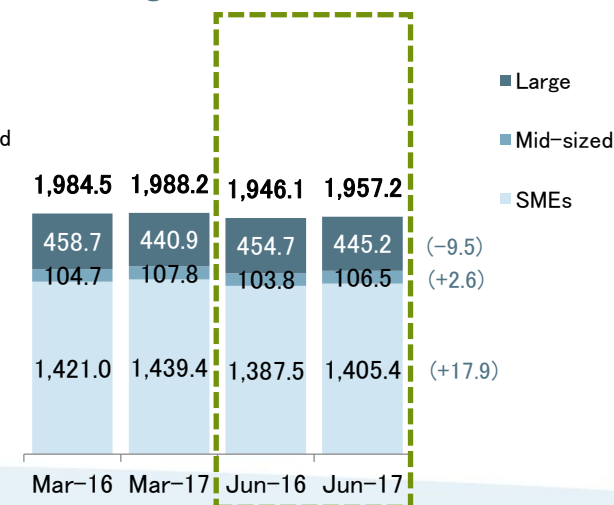
● Joyo + Ashikaga (JPY Bn)



● Joyo



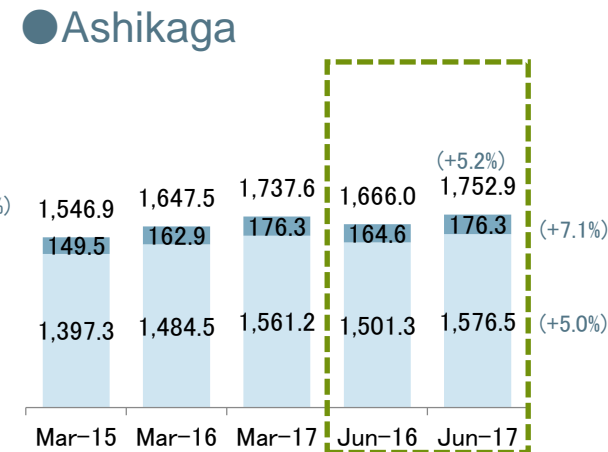
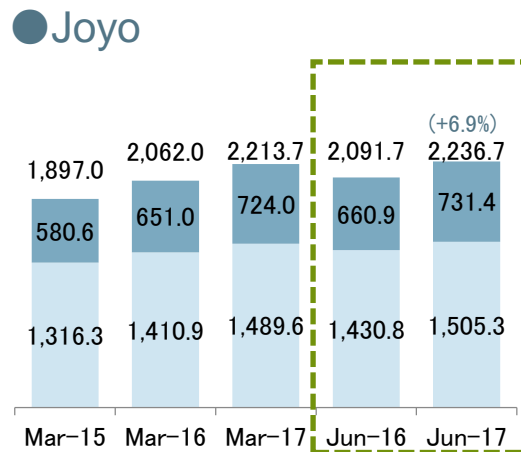
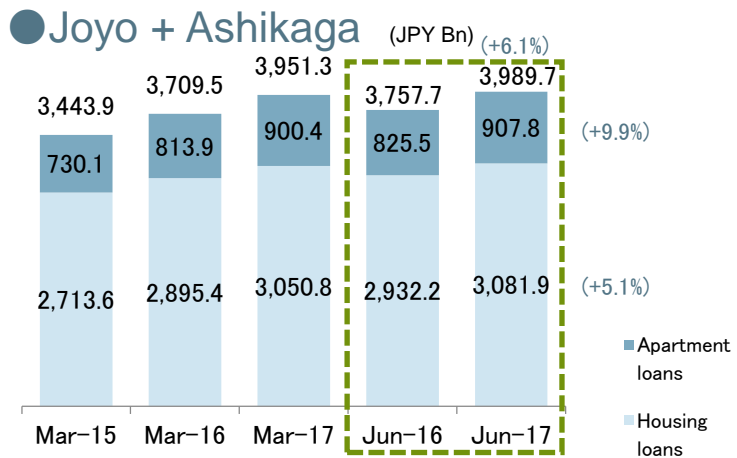
● Ashikaga



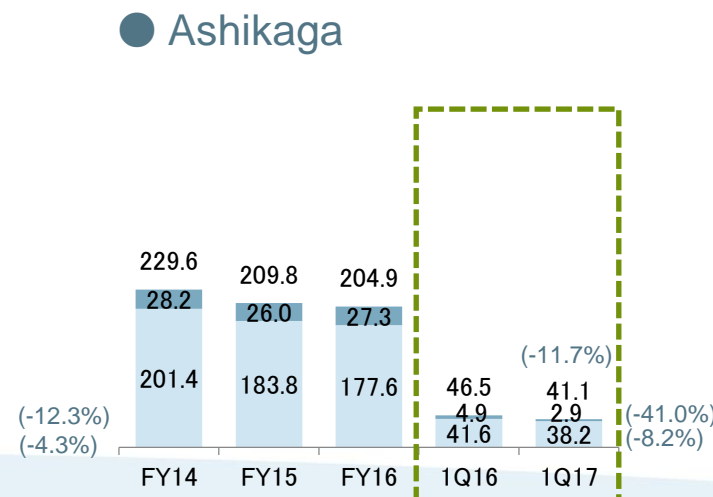
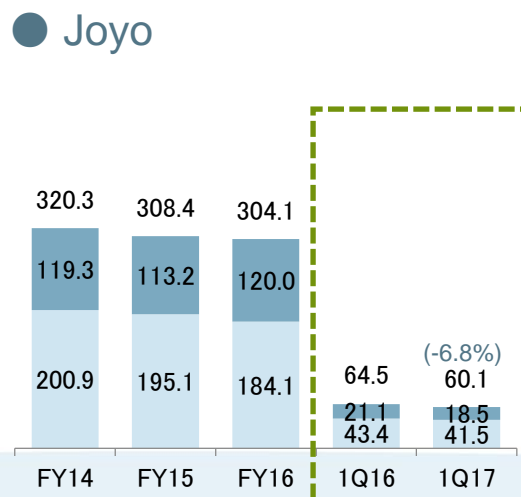
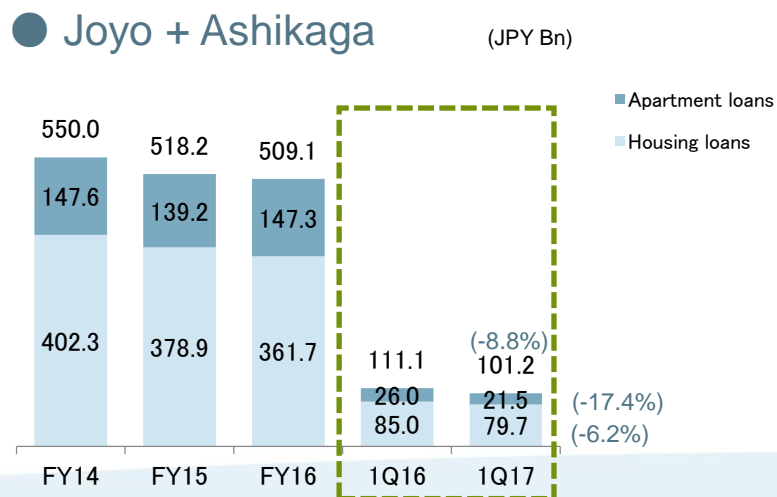
# Loans (3) Housing Related Loans

\* Figures in parentheses are changes on a year-on-year basis  
 \* "Apartment loans" include those to corporate customers

## Term-end Balance

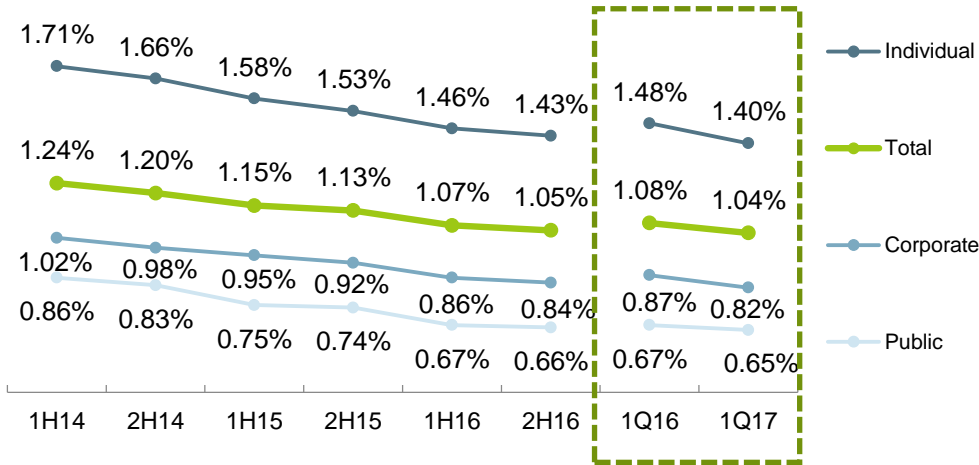


## Loans Made

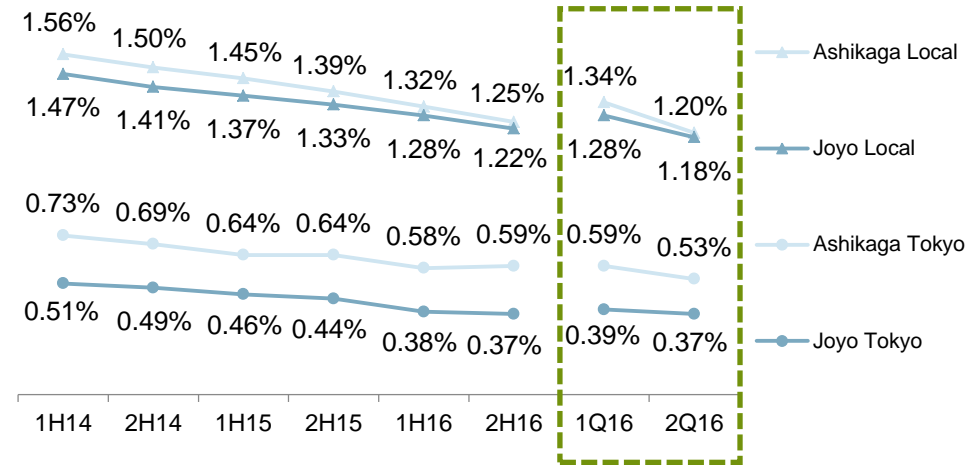


# Loans (4) Average Yields

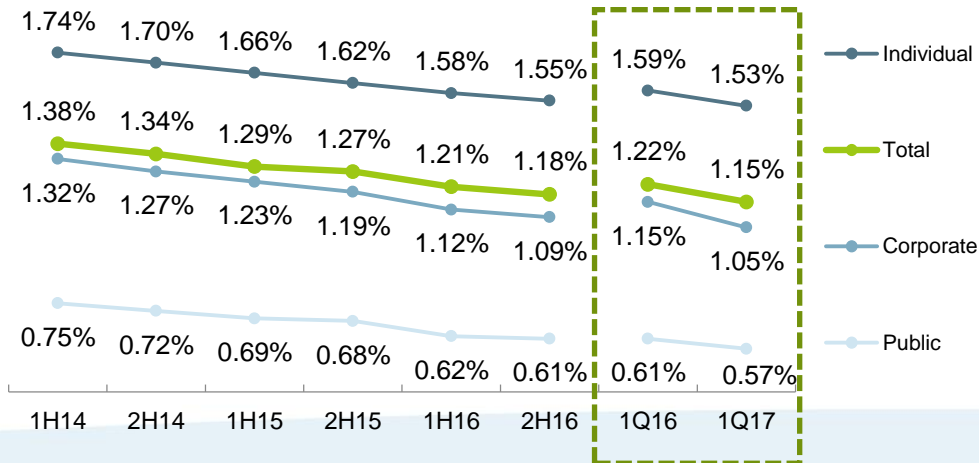
## By Borrower type (Domestic) Jojo



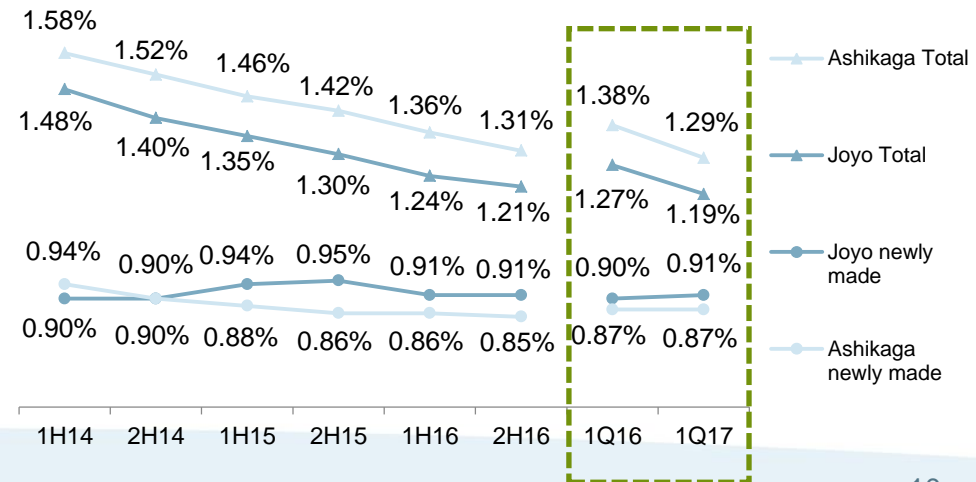
## Loans to Corporate Customers (By Area)



## By Borrower type (Domestic) Ashikaga



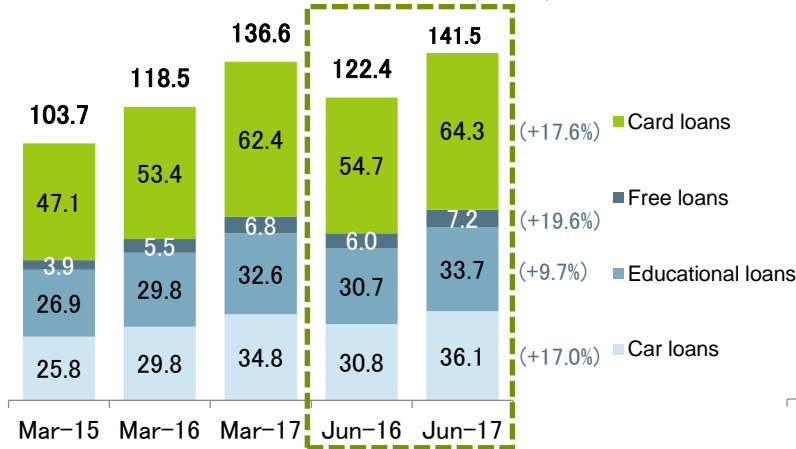
## Housing Loans



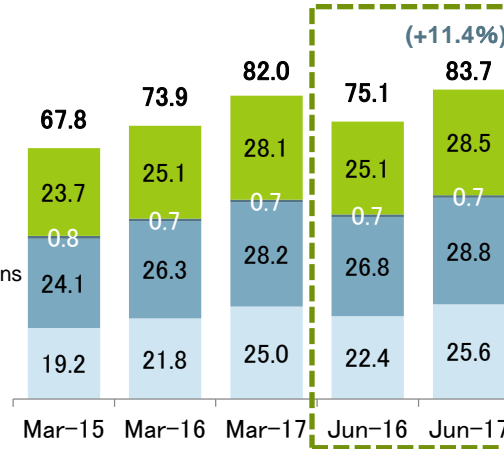
# Loans (5) Unsecured Loans

## Term-end balance

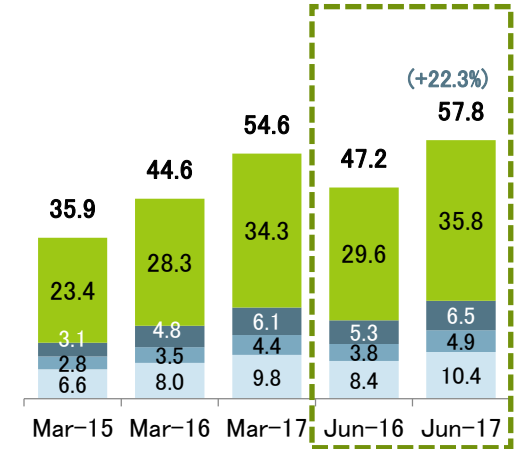
### ● Joyo + Ashikaga (JPY Bn) (+15.6%)



### ● Joyo



### ● Ashikaga



## Card Loans (Compliance with the JBA arrangement)

- Take into account both customer benefit and customer protection

	Measures
Apr. 2017 -	Refrainment from advertising and publicity that might lack consideration for customer protection
Jul. 2017 -	Requirement of a certificate of annual income for card loan contract with an external guarantee whose limited sum is 500 thousand yen or more

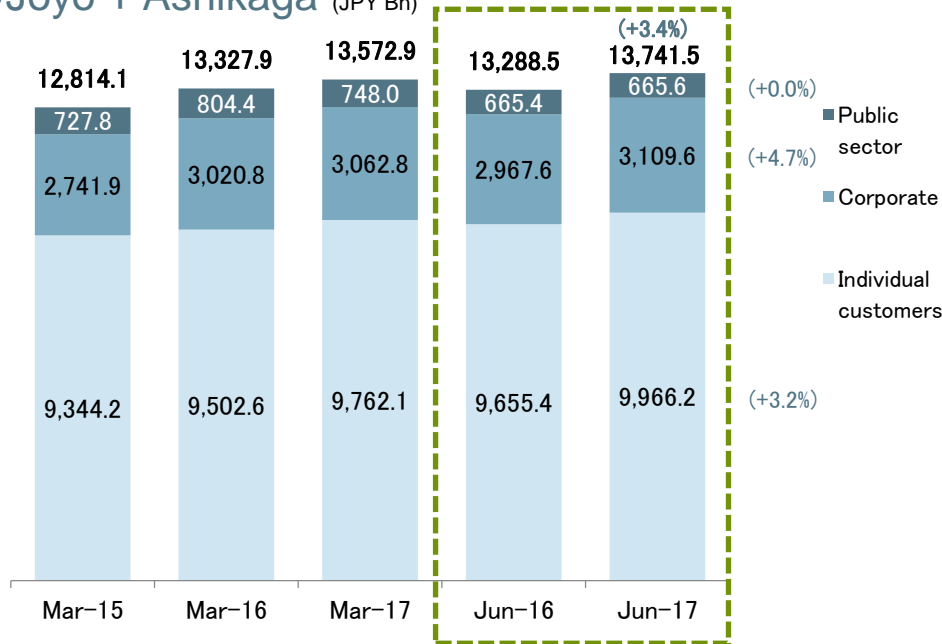
## Promotion Measures

	Outline
Car Loans	<ul style="list-style-type: none"> <li>Preferential interest rate (May-Aug. 2017)</li> <li>Online ads. / Ads.at driving schools (Joyo)</li> <li>Introduction of assistance tool for preliminary online application (Ashikaga)</li> </ul>
Educational Loans	<ul style="list-style-type: none"> <li>Preferential interest rate (May-Aug. 2017)</li> <li>PR materials to educational institutions / Expansion of alliances (Joyo)</li> </ul>
Free Loans	<ul style="list-style-type: none"> <li>Introduction of web completion scheme (Ashikaga)</li> </ul>
Card Loans	<ul style="list-style-type: none"> <li>Response to small financial needs (ATM card loans, etc.)</li> </ul>

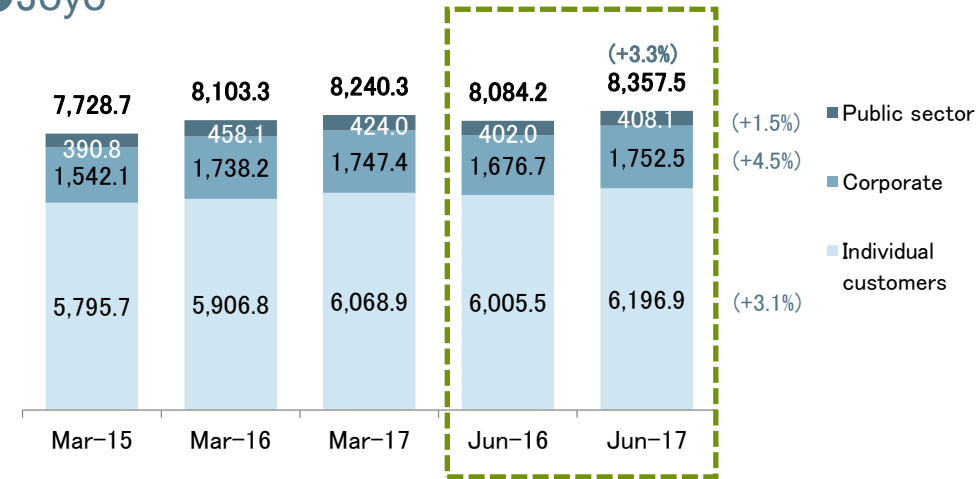
# Deposits

- ◇ Deposits of individual and corporate customers have been on the increase.  
(Individual customers : +3.2%, Corporate customers : +4.7%)

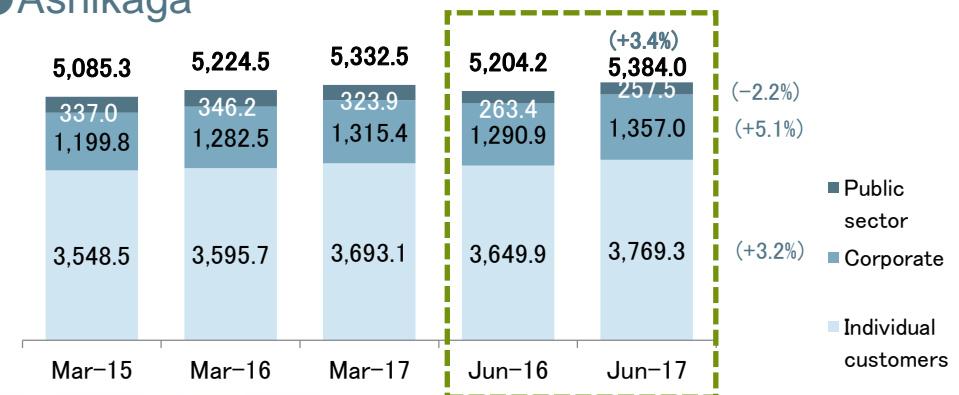
## ● Joyo + Ashikaga (JPY Bn)



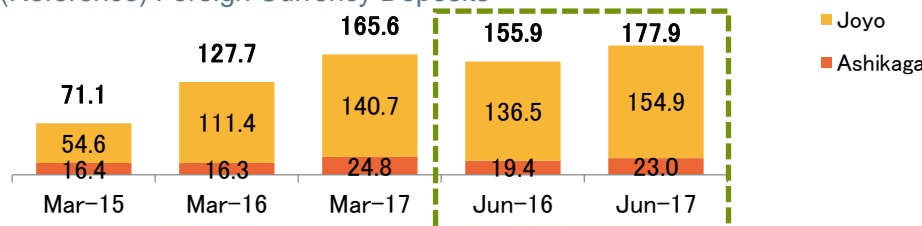
## ● Joyo



## ● Ashikaga



## (Reference) Foreign Currency Deposits



\*1 "Corporate" includes financial institutions.

\*2 Foreign currency deposits include foreign currency deposits hedged by forward exchange contracts, offshore deposits, and so forth.

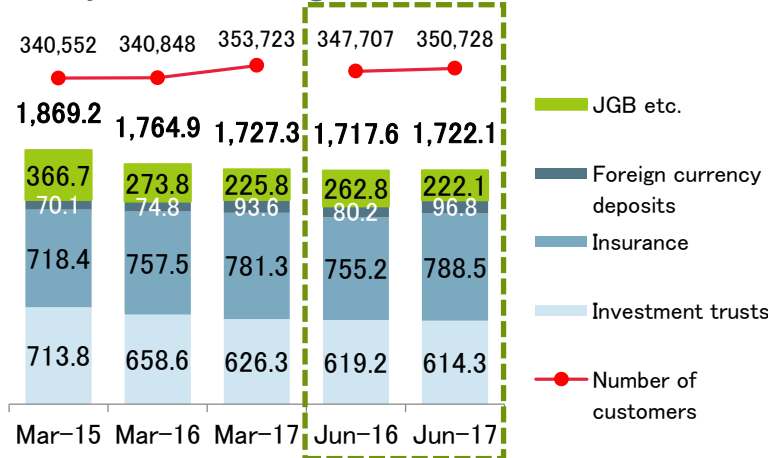
# Financial Assets under Custody Balance / Commission

\* Foreign currency deposits don't include those hedged by forward exchange contracts, offshore deposits, and those coming from US dollar-denominated convertible bond issued by Mebuki FG.

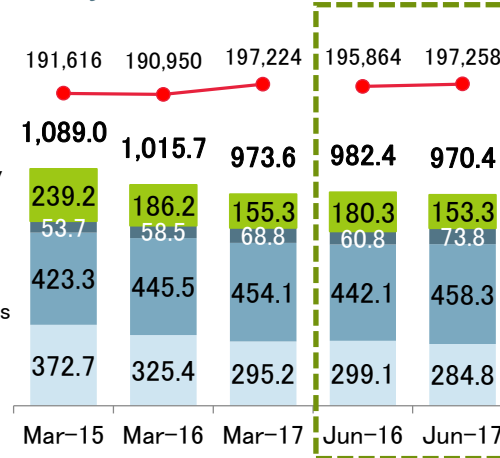
- ◇ While the amount of financial asset under custody remained flat and commissions decreased largely due to declining revenue from insurance sales, the number of customers increased.
- ◇ Commissions from financial instruments intermediary service steadily increased due to the synergetic effects arising from closer cooperation between the banking subsidiaries and Mebuki Securities.

Financial Assets under Custody (Balance)

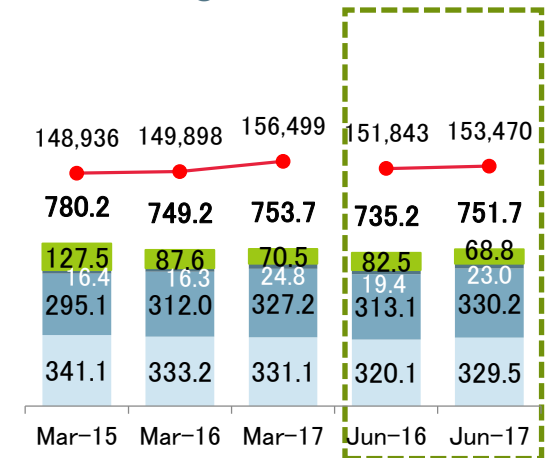
● Joyo + Ashikaga (JPY Bn / number)



● Joyo

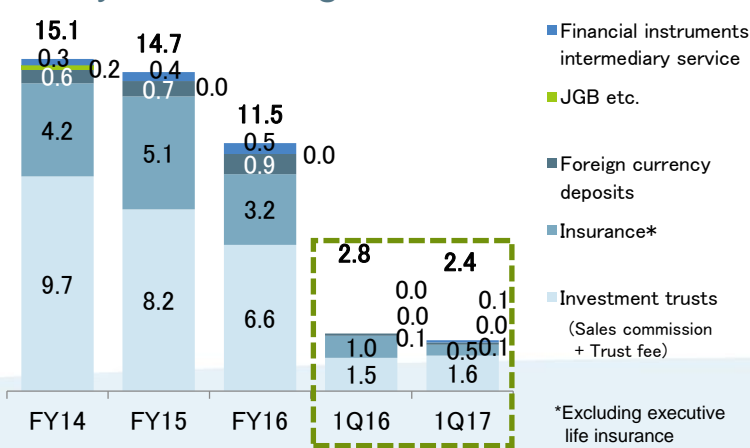


● Ashikaga

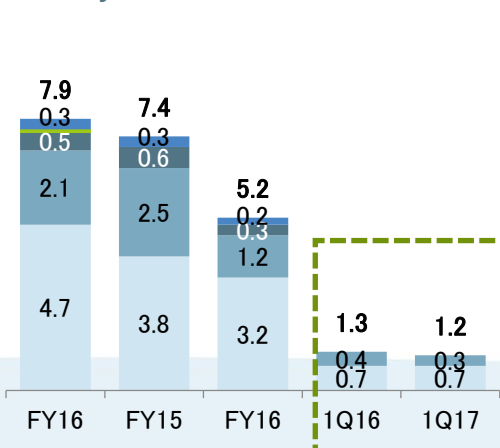


Commissions

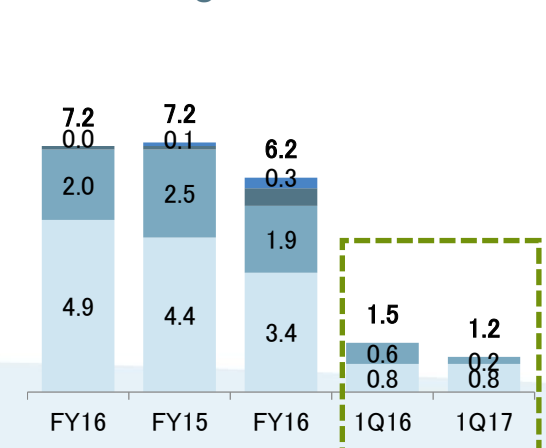
● Joyo + Ashikaga (JPY Bn)



● Joyo

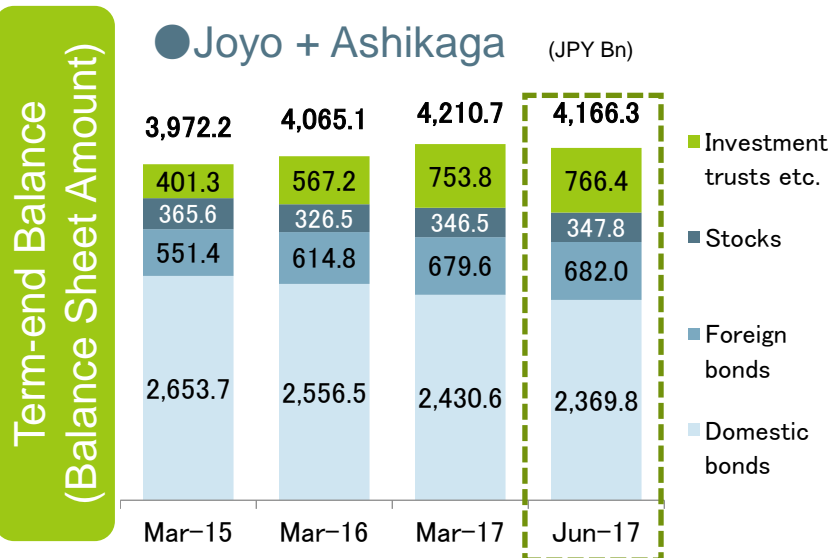


● Ashikaga



# Securities (1)

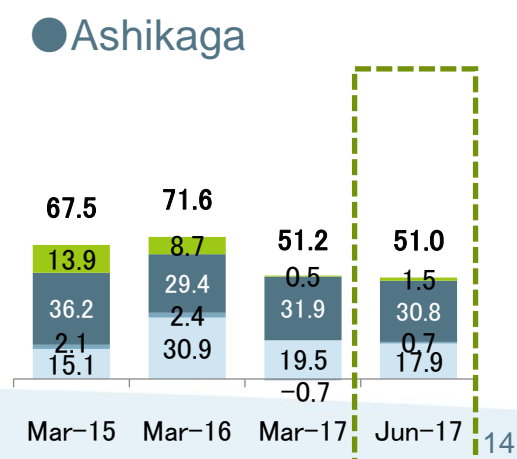
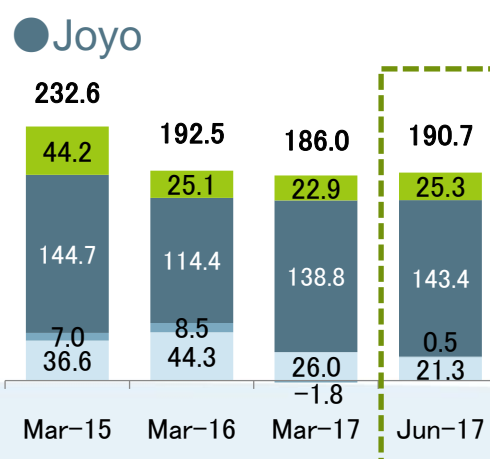
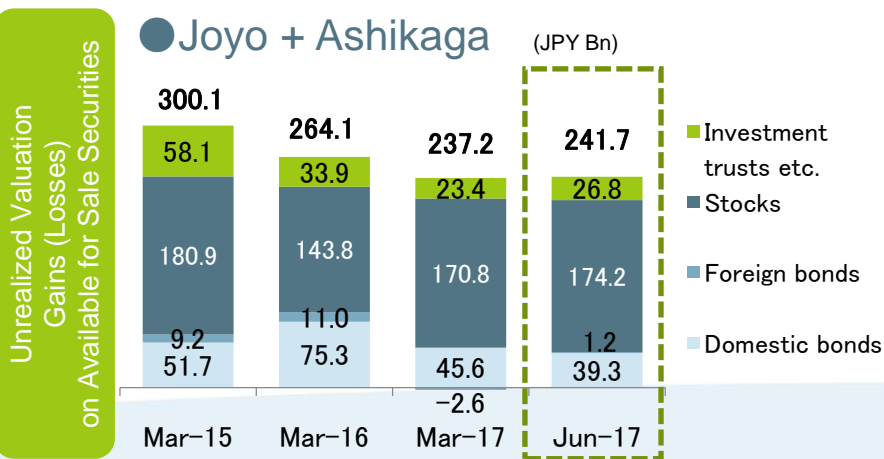
- ◇ Considering the interest rate of Japanese yen, suspended reinvestment of redemption payments of JGBs (The amount of domestic bonds held decreased by ¥60.8bn from the end of FY17).
- ◇ While paying attention to risk management, proceed to rebalance our portfolio through purchasing investment trusts and foreign bonds.



**Gains/Losses on Sales of Securities (1Q17)**

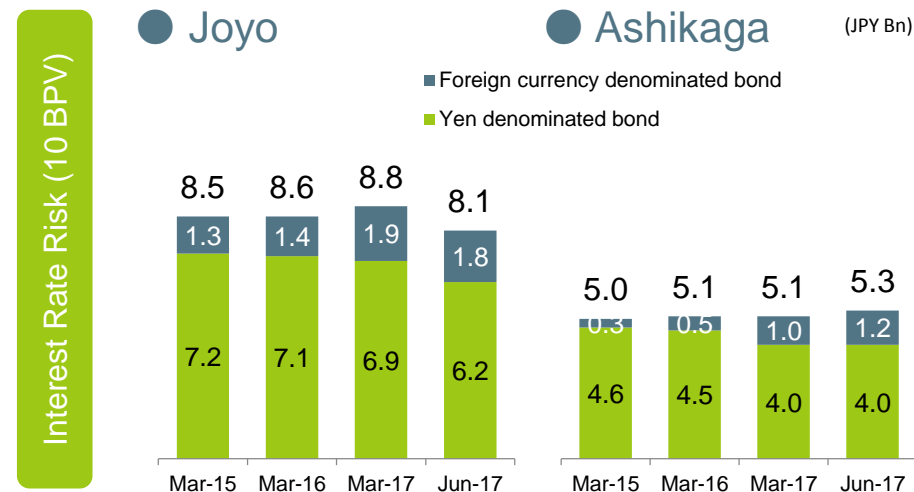
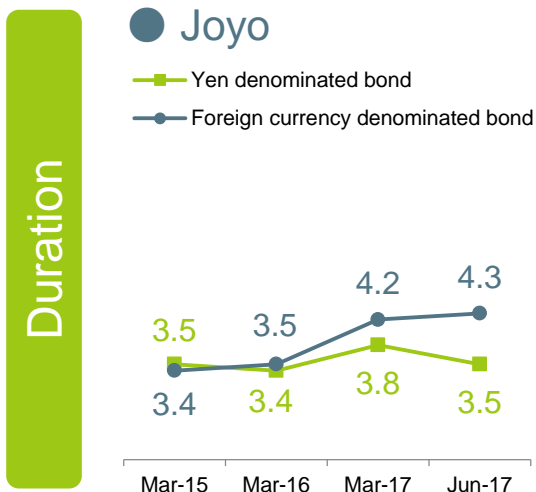
			Gains	Losses	Net	
Joyo	Gains / losses on bond transactions	Domestic	0.4	-0.1	0.3	JGB, etc.
		International	0.4	-0.5	-0.1	Foreign government bond, etc.
	Gains / losses related to stocks, etc.	—	2.4	—	2.4	Strategic shareholdings, ETF
Ashikaga	Gains / losses on bond transactions	Domestic	0.0	-0.0	0.0	Local government bond, etc.
		International	—	—	—	
	Gains / losses related to stocks, etc.	—	1.1	-0.1	0.9	Strategic shareholdings, Investment trust

\* Refer to p.5, for information regarding gains on cancellation of private offering investment trusts



# Securities (2) Interest Rate Risk / Foreign Bonds

◇ Most of foreign bonds held are government bonds and government-guaranteed bonds. Funds' operation is mainly based upon domestic stocks and foreign bonds.



**Foreign Bonds / Funds (Book Value)**

● Joyo + Ashikaga (As of Jun. 30, 2017)

(JPY Bn)

		J + A	Joyo	Ashikaga	Details
Foreign Bonds		680.7	437.9	242.7	-
	o/w Gov. Bond, Gov. Guaranteed Bonds, etc.	312.2	248.6	63.5	Invest mainly in U.S. Treasury and partially in European bonds
	o/w Corporate Bond	287.7	108.5	179.2	Bonds rated A or above account for 90% of total
	o/w Ginnie Mae	27.4	27.4	0.0	Sold bonds w hose duration w as likely to get longer
	others	53.3	53.3	0.0	Securitized products centering on CLO (only highest tranches)
Funds		736.1	311.5	424.5	-
	o/w ETF, Stock Index Fund	188.4	138.9	48.4	Control risks using bear funds
	o/w REIT	58.3	42.4	15.9	Invest in diversified REIT considering yield and liquidity
	others	490.4	130.2	360.1	Improve risk-return profile of entire portfolio considering correlation w ith other assets



# Strategic Shareholdings

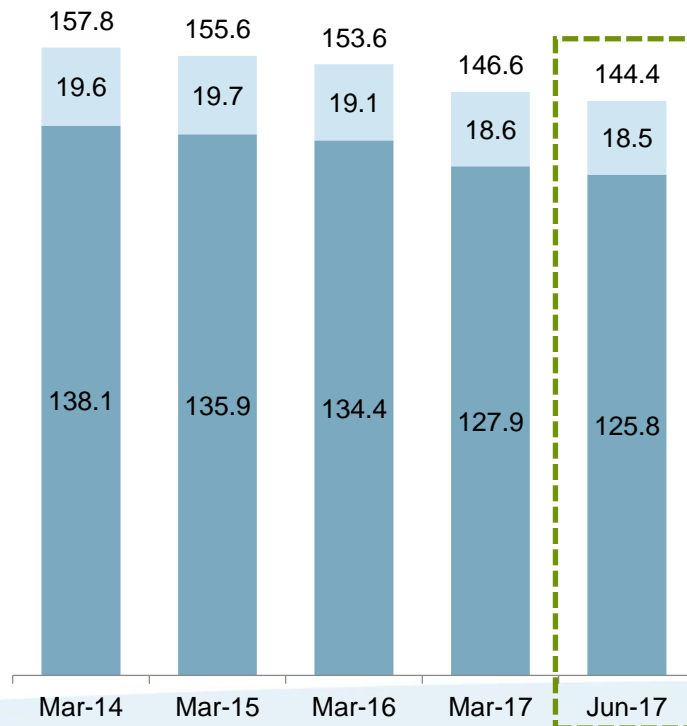
- ◇ Sum of strategic shareholdings of the two banking subsidiaries are ¥144.4 bn (-¥2.1 bn)
- ◇ The amount of Joyo declined to ¥125.8 bn (-¥2.0bn), which decreased CET1 ratio to 29.3%

## Balance

### ● Joyo + Ashikaga

(JPY Bn)

■ Ashikaga  
■ Joyo



### ● Joyo

(JPY Bn)

	Mar-14	Mar-15	Mar-16	Mar-17	Jun-17	Change
Balance	138.1	135.9	134.4	127.9	125.8	-2.0
CET1 ratio	34.6%	34.1%	32.6%	30.4%	29.3%	-1.1%

### ● Ashikaga

	Mar-14	Mar-15	Mar-16	Mar-17	Jun-17	Change
Balance	19.6	19.7	19.1	18.6	18.5	-0.1

## Excerpts from Basic Corporate Governance Policy

### (Basic Policy on Strategic Shareholdings)

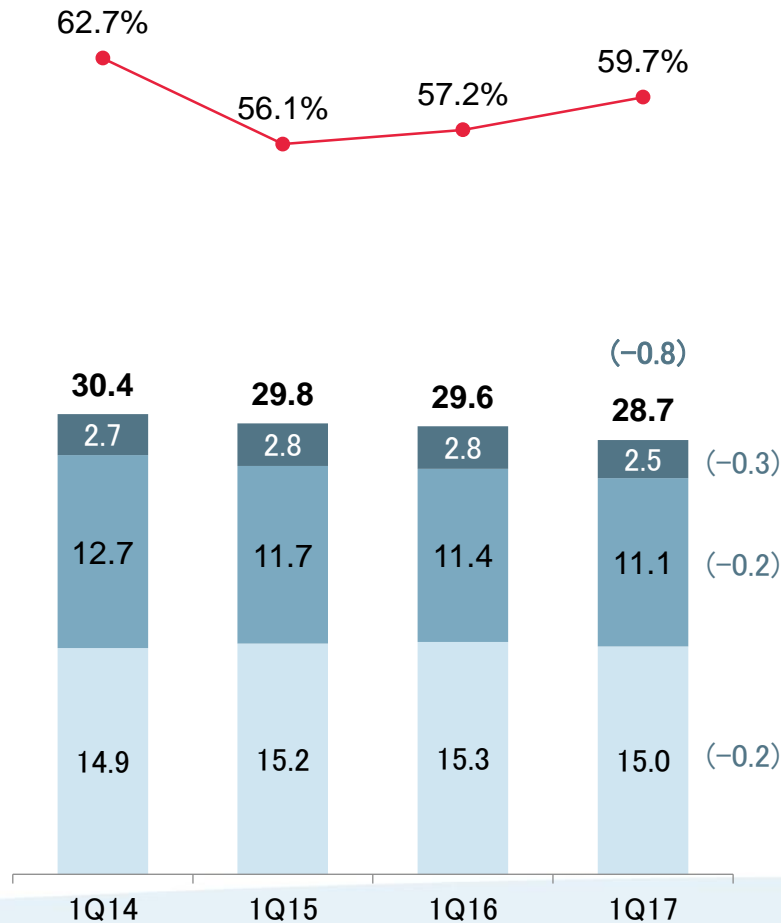
- The objective and rationale behind strategic shareholdings are sustainable growth and improvement of mid- to long-term corporate value of Mebuki FG and its customers, and to maintain a stable relationship with customers.
- Concerning major strategic shareholdings, examine the permissibility of the shareholdings at the board of directors every year, based on mid- to long-term economic rationality reflecting the risk and returns, and the objective and rationale behind the shareholdings.

# Expenses / OHR

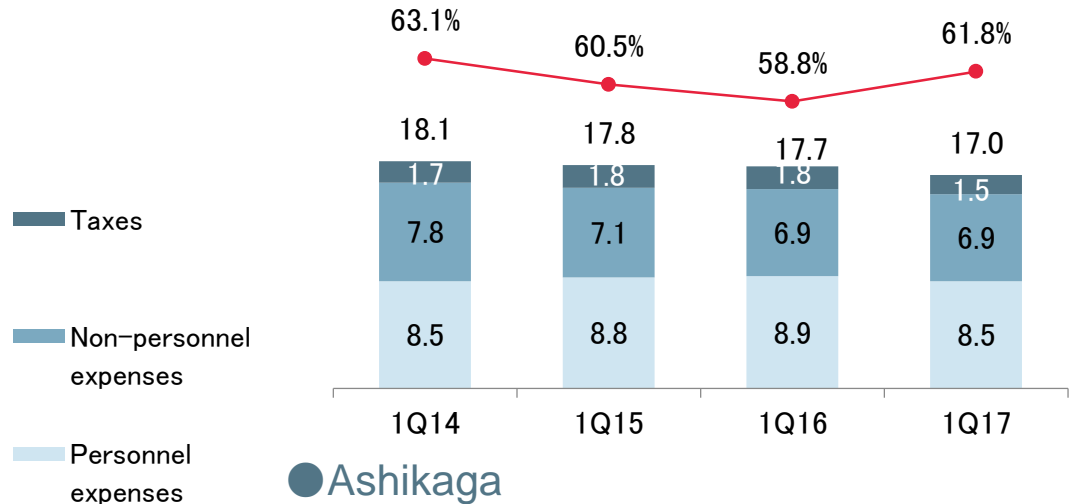
◇ Expenses decreased by ¥0.8 bn on two banking subsidiaries' simple-sum basis from the same period of the previous year, mainly due to the implementation of measures to reduce expenses and a decrease in deposit insurance premiums.

## ● Joyo + Ashikaga

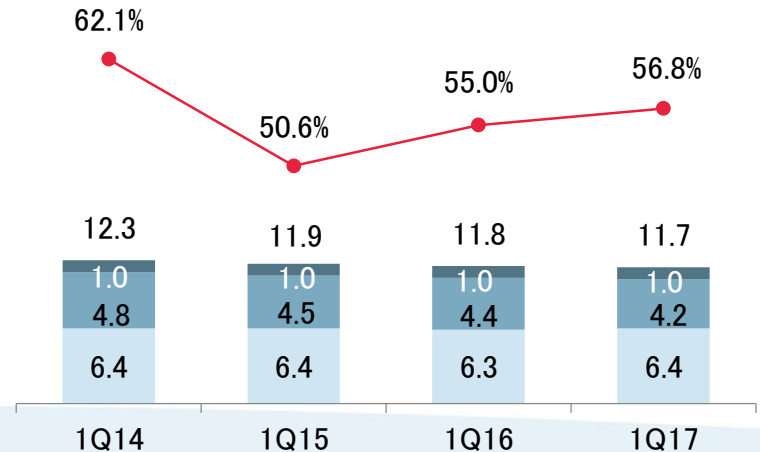
(JPY Bn)



## ● Joyo



## ● Ashikaga

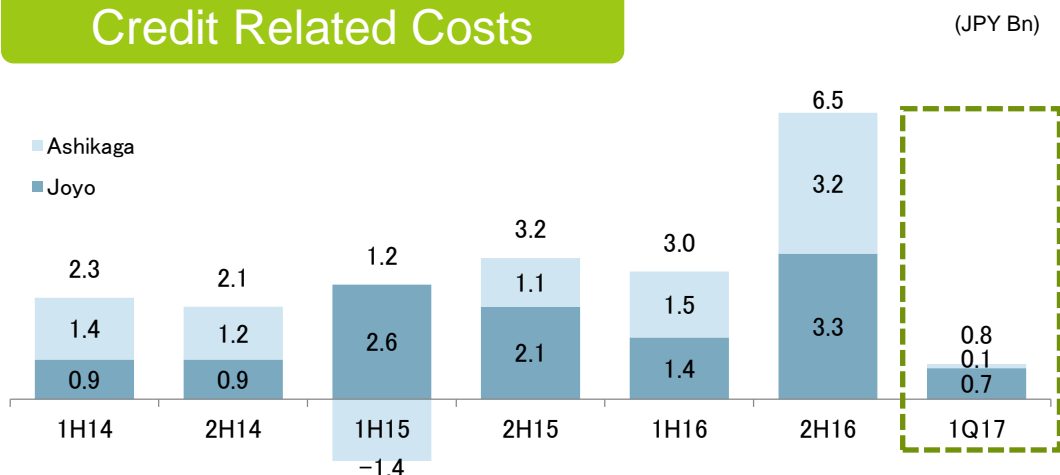


\* OHR = Expenses / Core gross business profit

# Credit Related Costs / Non-performing Loans

- ◇ Credit related costs decreased by ¥0.5 bn year-on-year on two banking subsidiaries' simple-sum basis and number of bankruptcies of local businesses remains low in Ibaraki and Tochigi Prefecture.

## Credit Related Costs



## <Reference 1> Credit Related Cost Ratio

	FY13	FY14	FY15	FY16	1Q17
Joyo	0.120%	0.320%	0.082%	0.079%	0.051%
Ashikaga	0.193%	0.066%	-0.006%	0.112%	0.002%

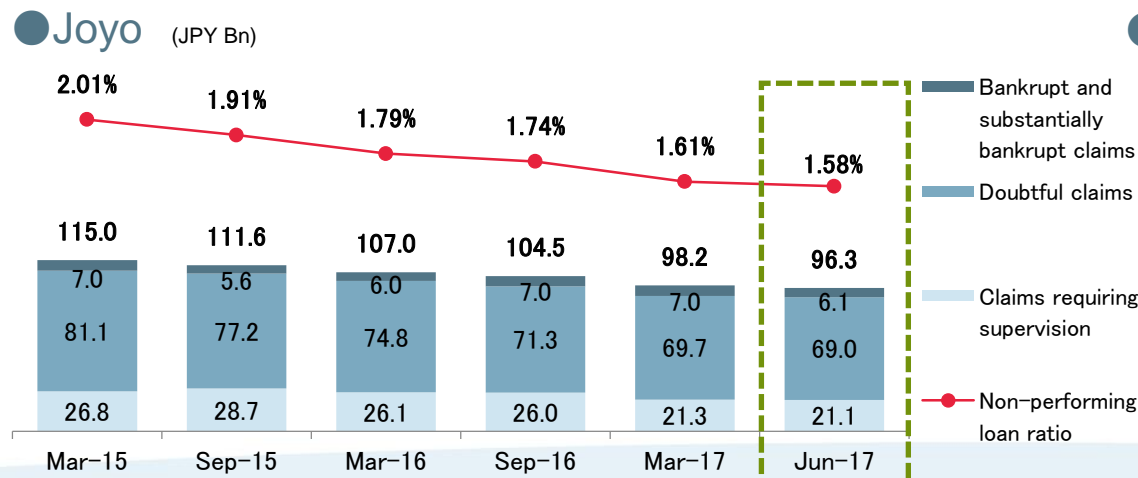
## <Reference 2> Number of Bankruptcies

(Cases/JPY Bn)

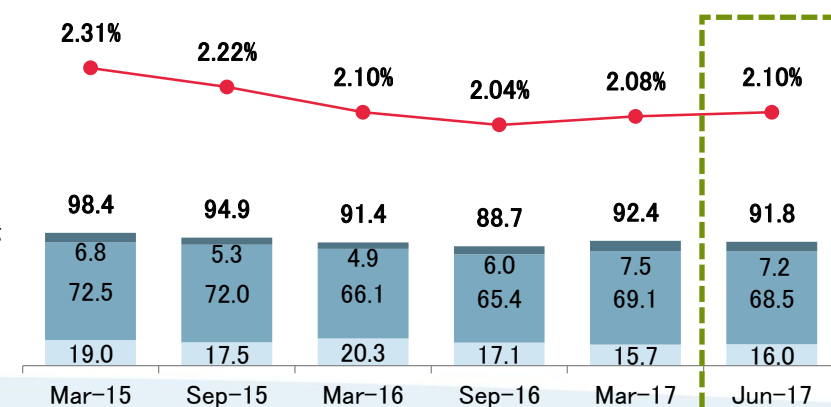
		1H14	2H14	1H15	2H15	1H16	2H16	1Q17
Ibaraki Prefecture	number	71	83	53	65	62	64	38
	amount	17.1	32.0	18.3	12.6	10.4	9.0	6.7
Tochigi Prefecture	number	62	86	71	59	66	78	18
	amount	11.0	19.7	6.2	10.3	12.3	13.3	3.3

(\*) Numbers of bankruptcies of enterprises with 10 million yen or more in net debt

## Non-performing Loans



## ● Ashikaga (JPY Bn)



# Status of Group Companies

		(JPY MM)							
	Company name	Main business activities	Ordinary Income		Ordinary Profit		Net Income		
				YoY		YoY		YoY	
FG	Mebuki Lease	Leasing of machinery and equipment, claim acquisition	5,942	+595	179	-74	106	-63	
Joyo	Mebuki Securities	Dealing of securities, mediation, commission and substitution of trading of securities	609	+319	183	+180	125	+124	
	Sales	The Joyo Computer Service	294	+27	-23	+4	-14	+3	
		The Joyo Industrial Research Institute	145	-56	18	-7	13	-3	
	Business operation	The Joyo Credit Guarantee	Credit guarantee of housing loans	966	+32	514	+307	335	+201
		The Joyo Credit	Credit card services	303	+4	42	-4	32	-54
		The Joyo Business Service	Agent in charge of administrative work for the Bank	204	+6	0	+0	0	-0
		The Joyo Cash Service	Maintenance and management of the Bank's ATMs and CDs	265	-21	1	+1	1	+0
		The Joyo Equipment Management	Maintenance and management of operational properties and equipment of the Bank	239	-6	58	-9	29	-17
		Total		3,029	+305	794	+471	522	+252
Ashikaga	Ashikaga Credit Guarantee	Credit guarantee of housing loans	974	+160	506	+197	336	+97	
	Ashigin Research Institute	Consulting, investigation and research	125	-10	-12	-9	-9	-7	
	Ashigin Card	Credit card services	450	-723	146	-768	83	-610	
		Total		1,551	-572	640	-581	410	-520
Non-banking Subsidiaries' Total			10,523	+328	1,614	-184	1,040	-331	

## Mebuki Lease

- Trade name was changed from Joyo Lease to Mebuki Lease in Apr. 2017
- Became Mebuki FG's wholly owned company
- Net income decreased year-on-year due to costs related to the integration of a lease department of Ashikaga Credit Guarantee into Mebuki Lease, which increased Ashikaga Credit Guarantee' net income

## Mebuki Securities

- Trade name was changed from Joyo Securities to Mebuki Securities in Apr. 2017

\* Refer to p.24 for more information regarding Mebuki Lease and Mebuki Securities

# Forecast for FY17 (1)

◇ Consolidated ordinary profit and consolidated net income\*<sup>1</sup> are forecasted to be ¥58.5bn (+¥6.2bn) and ¥40.0bn (-¥118.4bn\*<sup>2</sup>) respectively.

\*<sup>1</sup>Attributable to owners of the parent \*<sup>2</sup> For FY16, gain on negative goodwill arising from the business integration of ¥119.2bn was recorded as extraordinary income

## ●Mebuki FG

Items	[ Consolidated ]	
	Interim	Annual
Ordinary Profit	32.0	58.5
Net income attributable to owners of the parent	22.0	40.0

## ●Joyo + Ashikaga + Non-banking Subsidiaries

Items	Interim	Annual
	Net income	27.5

Consolidation Adjustments -¥8.0 bn

(JPY Bn)

Breakdown of Consolidation Adjustments of -¥8.0 bn	
○Adjustments related to securities	-6.4 bn
○Interest expenses of subordinated loans, expenses, etc.	-1.6 bn

## ●Joyo + Ashikaga

Items	[ non-consolidated ]		
	Interim	Annual	YoY change
Core net business income	33.5	63.0	-3.9
Ordinary profit	37.0	64.0	-4.9
Net income	25.5	44.0	-6.8

## ●Joyo (non-consolidated)

Items	[ non-consolidated ]		
	Interim	Annual	YoY Change
Core net business income	17.0	32.5	+1.6
Ordinary profit	19.5	33.5	-2.1
Net income	13.5	23.0	-1.4

## ●Ashikaga (non-consolidated)

Items	[ non-consolidated ]		
	Interim	Annual	YoY Change
Core net business income	16.5	30.5	-5.5
Ordinary profit	17.5	30.5	-2.7
Net income	12.0	21.0	-5.4

# Forecast for FY17 (2) Sum of the Two Banking Subsidiaries (Reference)

(JPY Bn)	FY16 Results			FY17 Forecast			YoY			
	J + A	Joyo	Ashikaga	J + A	Joyo	Ashikaga	J + A		Joyo	Ashikaga
							Change	ratio	Change	Change
Gross business profit	187.5	105.2	82.3	183.0	103.5	79.5	-4.5	-2.4%	-1.7	-2.8
Net interest income	153.4	85.1	68.2	146.5	82.0	64.5	-6.9	-4.5%	-3.1	-3.7
Net fees and commissions	27.6	14.3	13.2	31.5	17.5	14.0	+3.8	+13.9%	+3.1	+0.7
Net trading income and Net other business income	6.3	5.6	0.7	5.0	4.0	1.0	-1.3	-21.8%	-1.6	+0.2
(Of which, gains/losses on bond transactions)	5.6	5.8	-0.2	3.0	3.0	0.0	-2.6	-46.4%	-2.8	+0.2
Expenses	115.0	68.5	46.4	117.0	68.0	49.0	+1.9	+1.7%	-0.5	+2.5
Net business income (before general allowance for loan losses)	72.5	36.7	35.8	66.0	35.5	30.5	-6.5	-9.0%	-1.2	-5.3
Core net business income	66.9	30.8	36.0	63.0	32.5	30.5	-3.9	-5.8%	+1.6	-5.5
Net transfer to general allowance for loan losses (a)	-0.4	-0.6	0.1	-0.5	-0.5	0.0	+0.0	-	+0.1	-0.1
<b>Net business income</b>	<b>73.0</b>	<b>37.3</b>	<b>35.6</b>	<b>66.5</b>	<b>36.0</b>	<b>30.5</b>	<b>-6.5</b>	<b>-8.9%</b>	<b>-1.3</b>	<b>-5.1</b>
Net non-recurrent gains/losses	-4.0	-1.7	-2.3	-2.5	-2.5	0.0	+1.5	-	-0.7	+2.3
Disposal of non-performing loans (b)	10.0	5.4	4.5	6.5	4.0	2.5	-3.5	-35.1%	-1.4	-2.0
Gains/losses related to stocks, etc	9.7	7.5	2.1	6.5	4.0	2.5	-3.2	-33.4%	-3.5	+0.3
<b>Ordinary profit</b>	<b>68.9</b>	<b>35.6</b>	<b>33.2</b>	<b>64.0</b>	<b>33.5</b>	<b>30.5</b>	<b>-4.9</b>	<b>-7.1%</b>	<b>-2.1</b>	<b>-2.7</b>
Extraordinary income/losses	-2.1	-0.8	-1.3	-0.7	-0.5	-0.2	+1.4	-	+0.3	+1.1
<b>Net Income</b>	<b>50.8</b>	<b>24.4</b>	<b>26.4</b>	<b>44.0</b>	<b>23.0</b>	<b>21.0</b>	<b>-6.8</b>	<b>-13.5%</b>	<b>-1.4</b>	<b>-5.4</b>
Credit related costs (a)+(b)	9.5	4.7	4.7	6.0	3.5	2.5	-3.5	-37.1%	-1.2	-2.2

[ Consolidated ]

Net income attributable to owners of the parent	57.7	27.4	30.3	47.5	26.0	21.5	-10.2	-17.8%	-1.4	-8.8
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[ ROE ]	FY16	FY17 Forecast
Mebuki FG (consolidated)	-	4.6%
Joyo (non-consolidated)	4.1%	3.8%
Ashikaga (non-consolidated)	8.3%	6.5%

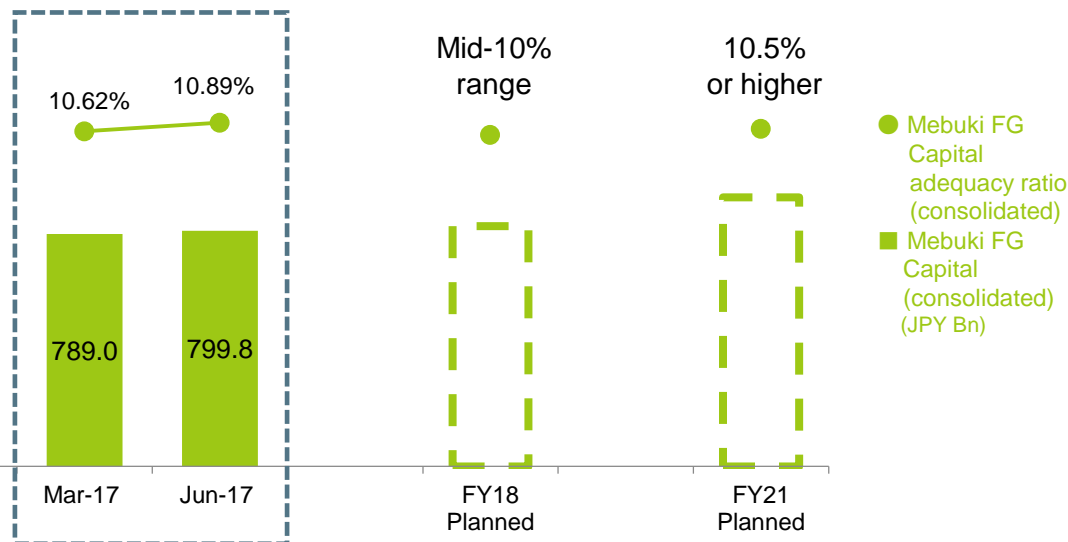
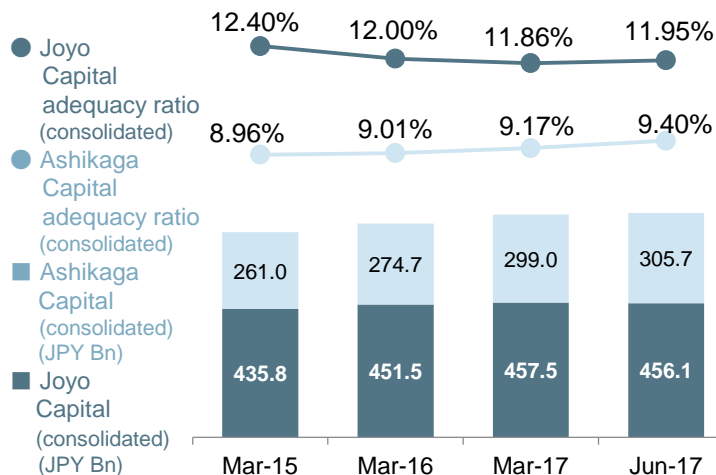
[ OHR ]	FY16	FY17 Forecast
Joyo + Ashikaga	61.3%	63.8%
Joyo (non-consolidated)	65.1%	65.8%
Ashikaga (non-consolidated)	56.4%	61.5%

## [ Break Down ]

○ Net Interest Income	-6.9
Interest on loans	-2.6
Interest and dividend on securities	+2.2
Interest on deposits (-)	+0.3
Market borrowing, etc. (-)	+3.5
Gains on cancellation of private offering investment trusts	-2.7
○ Net fees and commissions	+3.8
Assets under custody	+2.4
Corporate services, etc.	+1.4
○ Expenses	+1.9
Personnel	+0.8
Non-personnel	+1.2

# Capital Adequacy Ratio / Shareholder Return

## Capital Adequacy Ratio



※Calculation method of risk weighted assets

Mebuki FG : The fundamental internal rating based approach

Joyo : The fundamental internal rating based approach

Ashikaga : The standardized approach

### <Reference> Capital Adequacy Ratio without Temporary Measure (consolidated)

	Mar-15	Mar-16	Mar-17	Jun-17
Mebuki FG	-	-	9.49%	9.74%
Joyo	11.51%	11.17%	11.52%	11.61%
Ashikaga	8.64%	8.77%	9.00%	9.24%

[ Status of Subordinated Loans ]

•Mebuki FG: Subordinated loans

¥40 bn (Call date: FY18)

¥30 bn (Call date: FY20)

## Dividend Policy

- Aim to continue stable dividend returns while taking into account both the maintenance of solid capital levels for the future growth and the appropriate distribution of profits to our shareholders.
- In line with the earnings distribution policy, the dividend forecast for FY17 is ¥11.0 per share (Payout ratio: 32.3%).

### < Dividend per Share Forecast for FY17 >

FY17		
Annual Dividend		
	Interim Dividend	Term-end Dividend
¥11.0	¥5.5	¥5.5

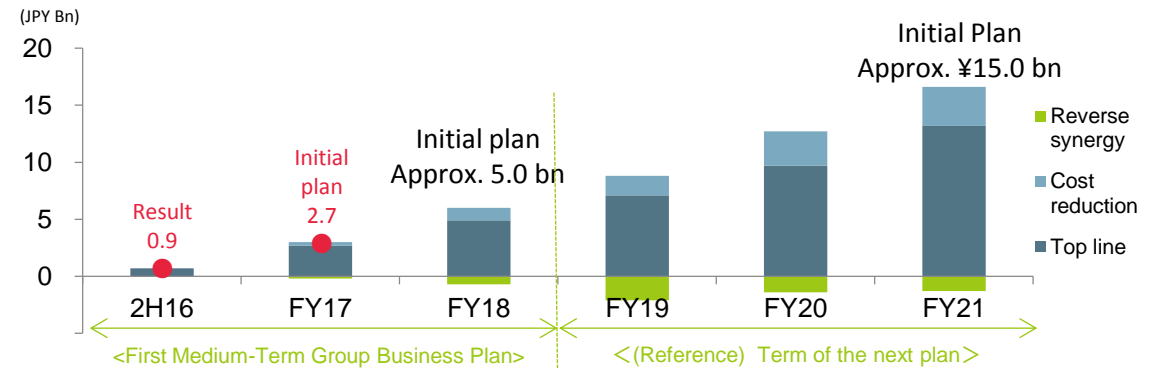
# Synergy Effects on Statement of Income

- ◇ Synergy effect for 1Q17 is ¥0.7bn representing steady progress of 25.2% towards the full-year forecast for FY17 of ¥2.7bn.
- ◇ Integration measures are progressing steadily to achieve synergy effect target for after FY18.

## Synergy Effects on the Statement of Income

	Amount
2H16 Result	+ ¥0.9bn
FY17 Forecast	+ ¥2.7bn
1Q17 Result	+ ¥0.7bn (Progress 25.2%)

## Initial Plan



## FY17 (1Q Result / Forecast)

Items	Full-year Forecast	1Q	Progress	Details
1. Loans Corporate services	+1.50	+0.36	24.1%	<ul style="list-style-type: none"> <li>•Sales promotion based on wide area network → co-financing, syndicate loans, customer referral, and lending to growth industries (medical and nursing care)</li> <li>•Utilization of Mebuki Lease</li> <li>•Share know-how for non-face-to-face sales (unsecured loans)</li> <li>•Joint development of online application housing loans, joint sales of housing loans for women</li> </ul>
2. Financial assets under custody	+0.80	+0.18	20.9%	<ul style="list-style-type: none"> <li>•Share sales promotion know-how</li> <li>•Utilization of Mebuki Securities</li> <li>•Conduct campaigns</li> </ul>
3. Securities	+0.70	+0.13	18.5%	<ul style="list-style-type: none"> <li>•Investment in new areas and diversification of funding method based on both banking subsidiaries' investment experience</li> <li>•Joint investment</li> <li>•Enhancement of investment and controlling method through sharing of analysis method (monitoring, etc.)</li> </ul>
4. Others (Channel / international)	+0.40	+0.13	30.9%	<ul style="list-style-type: none"> <li>•Enhance staff in important regions</li> <li>•Promote cross-border loans</li> <li>•Utilize Joyo's know-how of dual currency deposit service (Ashikaga)</li> <li>•Conduct foreign currency deposit campaigns</li> </ul>
5. Cost reductions	+0.30	+0.13	43.3%	<ul style="list-style-type: none"> <li>•Joint cost reduction and cost effectiveness evaluation</li> <li>•Strengthen price negotiation power through information sharing</li> <li>•Share know-how to improve branch operation efficiency</li> <li>•Integrate operation center in Tokyo</li> <li>•Joint issuance of bills/check paper and bank cards</li> </ul>
6. Cost Increases / Reverse synergy	-1.00	-0.23	-	<ul style="list-style-type: none"> <li>•Lower transfer fee between both banks to the inter-branch rate</li> <li>•Increase in depreciation expense and running cost</li> </ul>
<b>Total</b>	<b>+2.70</b>	<b>+0.70</b>	<b>25.2%</b>	—

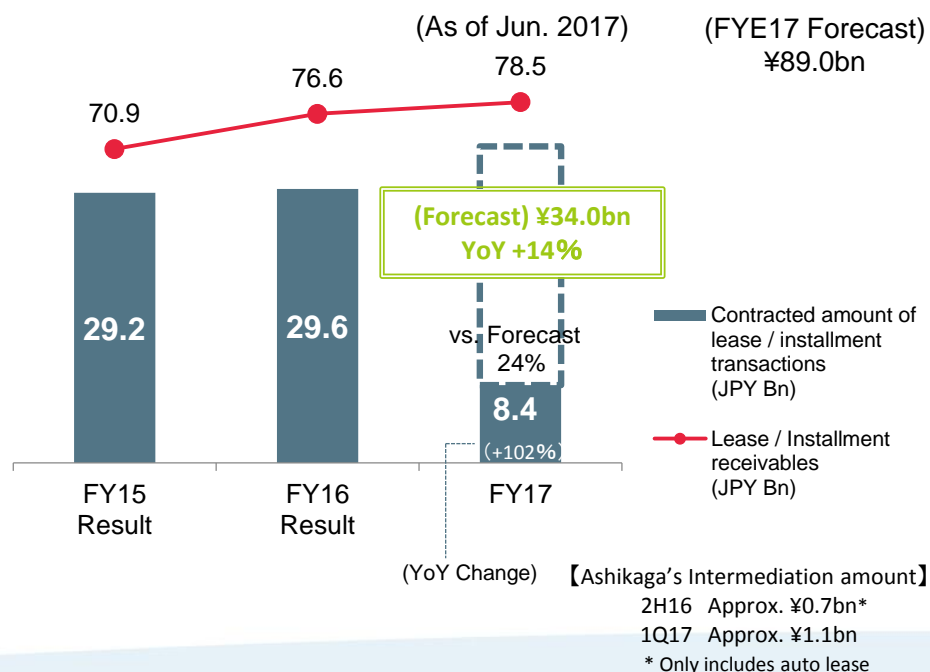


# Mebuki Lease / Mebuki Securities

## Mebuki Lease

- Mebuki Lease, whose trade name was changed from Joyo Lease in Apr. 2017, has become Mebuki FG's wholly owned subsidiary.
- Integrated the leasing business units within the group.
- Strengthening sales operation, achieved three sales-base structure in Tochigi Prefecture (Utsunomiya, Ashikaga, and Oyama)

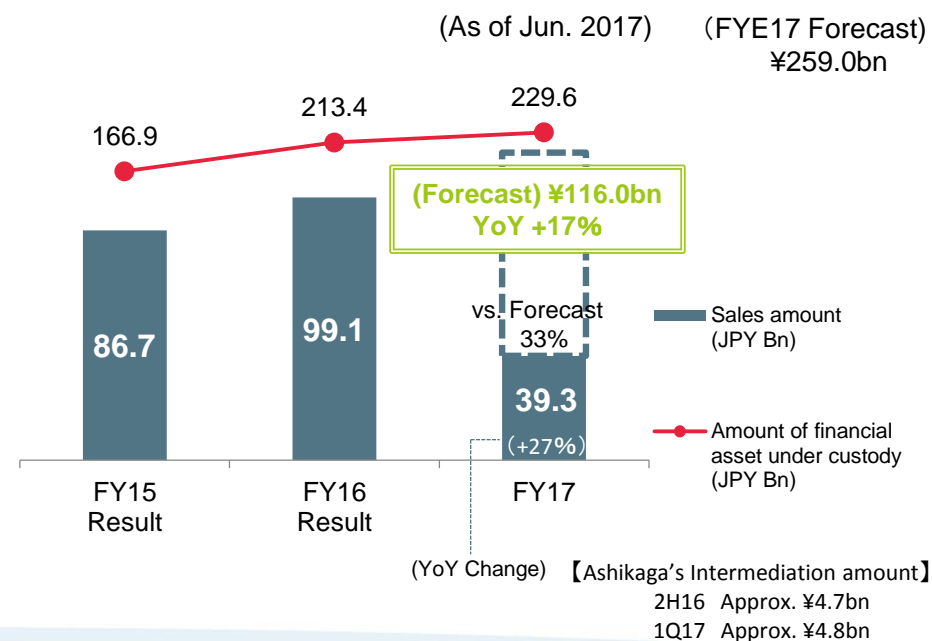
### ● Contracted amount of lease transactions / Lease receivables



## Mebuki Securities

- Trade name was changed from Joyo Securities to Mebuki Securities in Apr. 2017.
- Number of Ashikaga's branches that intermediate financial products carried by Mebuki Securities increased from 13 to 128.
- Provide one-stop financial service in response to diversifying investment needs

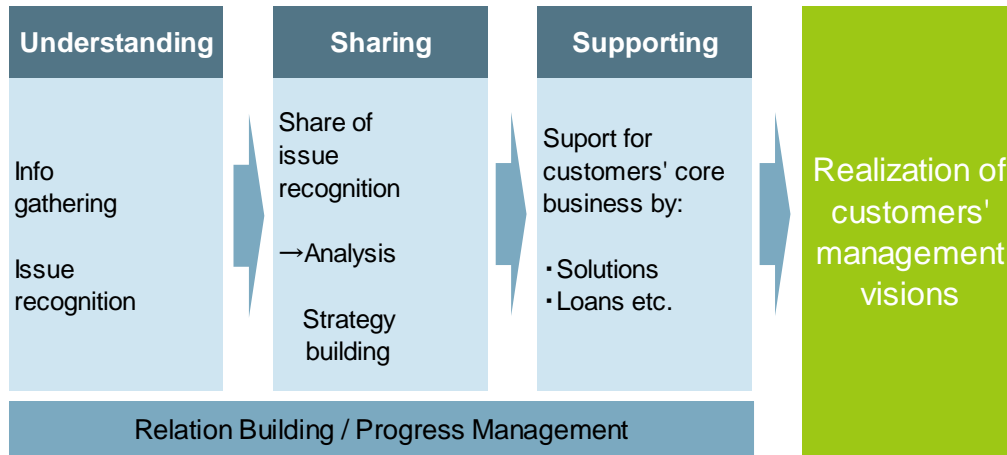
### ● Sales amount / Amount of financial assets under custody



# Measures for Corporate Customers

## Business Assessment

- More actively support customers' core business (incl. financing) by appropriately assessing nature of their business and growth potential instead of over-relying on collateral and guarantees



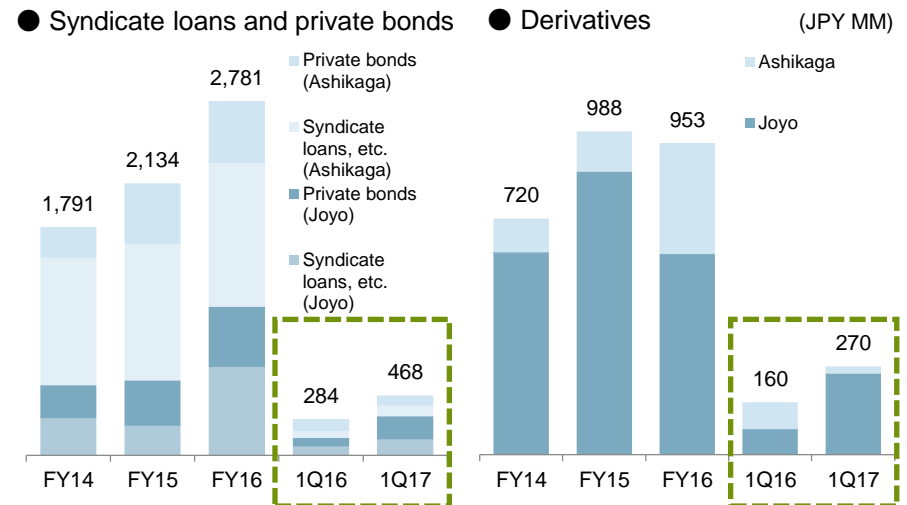
<Number of targets>  
Approx. 3,000 (J:2,000, A:1,000)

### Utilization of Covenants loans (Full scale launch from 2H17)

- Grasp progress of their business through continuous monitoring of indicators
- Should covenant violation occur, modify covenants by changing interest rate, etc.

## Fees and Commissions

- Private bonds, syndicate loans, derivatives, trade transactions, and executive life insurance are robust



## Wide-area Business Matching / Joint Sales Promotion (After the Business Integration)

### Wide-area Business Matching

J + A	# of Deals
Information Provision	4,082
Arranged	159
Achieved	23

### Joint sales promotion

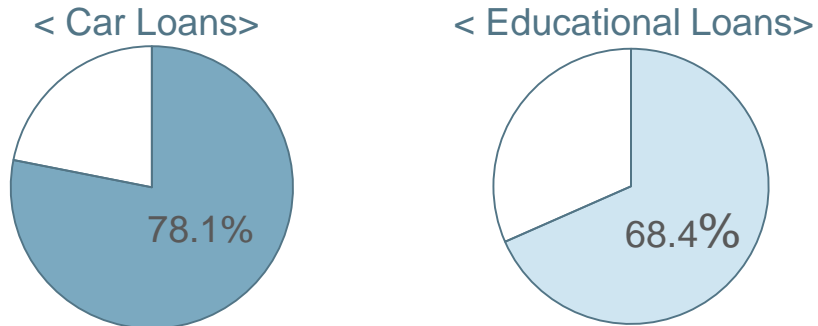
J + A	# of Deals	Amount (¥ Bn)
Co-finance	19	3.2
Syndicate Loans	28	4.8
Referrals	48	2.7
<b>Total</b>	<b>95</b>	<b>10.8</b>

# Measures for Individual Customers

## Loans to individual Customers

- Improved convenience of web-application and enriched contents of the employee-specific website
- Joyo established a direct marketing department

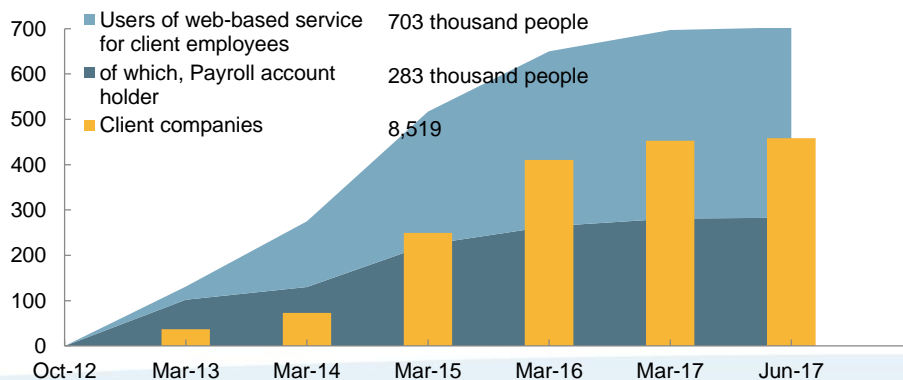
### ● Web Application Ratio (Joyo + Ashikaga)



### ● Employee-specific Website (Joyo)

(Thousand people)

(As of Jun. 30, 2017)



◆ Ashikaga will initiate use of the employee-specific website from Oct. 2017

## Customer Asset under Custody

- The number of customers increased and the accumulation amount is on the increase
- Supported customers' asset building in compliance with fiduciary duty, which enhanced our source of revenue

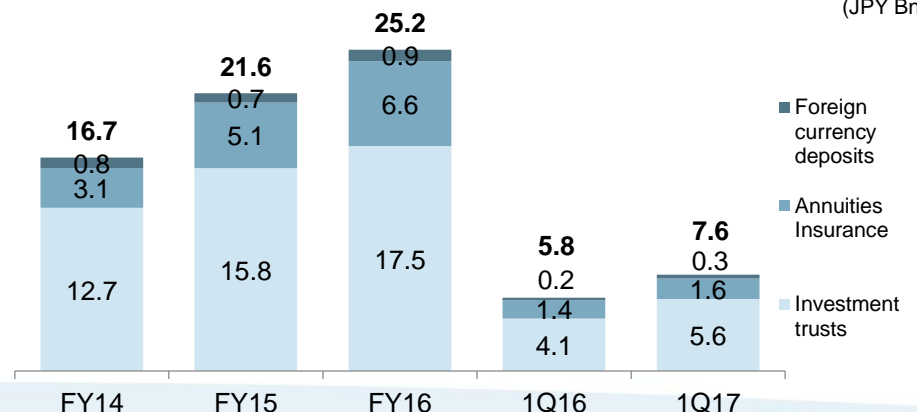
### ● Number of Customers

(Thousand people)

	Mar-15	Mar-16	Mar-17	Jun-17	YoY	%
Joyo	191	190	197	197	+1	+0.7%
Ashikaga	148	149	156	153	+1	+1.0%
Sum	340	340	353	350	+3	+0.8%

### ● Accumulated Amount of Accumulation Services (Joyo + Ashikaga)

(JPY Bn)



# System Integration / Cost Reduction

## System Integration

### [ Basic Policy ]

- Ashikaga will adopt a multi-bank-shared core system named “Chance” that has been used by Joyo
- Aim to complete core system integration in Jan. 2020

«System integration project was commenced in Apr. 2017»

### ● System Integration Project

- Integrate core system, distributed systems, networks, etc.
  - ⇒ Reduce development costs and running costs such as maintenance costs
  - ⇒ Shift the resource to investment in new domains / systems
- Improve customer services at low cost by utilizing ICT

### ● Schedule of System Integration

- Core system integration is scheduled for Jan. 2020
  - Synergy effect of ¥0.4 bn\* that arises from system integration is estimated for FY2021
  - Depreciation of initial costs of the integration will be completed and synergy effect will increase in FY2024
- \* Cost reduction (¥1.8 bn) – depreciation of initial costs (¥1.4 bn)

### [ Distributed Systems ]

Integrate 170 or more out of around 280 distributed systems between Joyo and Ashikaga

## Cost Reduction

- Joint cost reduction and cost effectiveness evaluation
- Share know-how to improve branch operation efficiency
- Integrate op-centers in Tokyo to concentrate business operations further (transportation and clearing of notes).
- Totally entrust joint issuance of bill paper and check paper to group companies
- Improve operating efficiency through ICT investment

### ● Cost Reduction Project

- Reduction of ordinary expenses :
  - Reduce cost related to purchase of operation system equipment, building and repairs of branches, and utilize joint purchasing

## Branches

- Reconstruct branch network in overlapping areas
  - Relocated three branches as branch-in-branch and integrated two branches in the two banks (Apr.-Jun. 2017)
- Construct efficient branch network
  - New branch opening: Funabashi Br.(Joyo / Oct. 2017)
  - Relocate two branches into other branches as branch-in-branch: Nagakura Br.→Omiya Br., Yawara Br.→Moriya Br. (Joyo)
  - Branch consolidation:
    - Relocate both Sano Br. and Takasago Br. Into a new building
- Share know-how to improve branch operation efficiency
- Utilize internet branch

## Common Initiatives (Joyo + Ashikaga)

### ○ Household management service (powered by Moneytree)

- Household management service with smartphone access to all records (without period limit) of cash deposits and withdrawals, for Internet banking contractors

### ○ Cashless payment

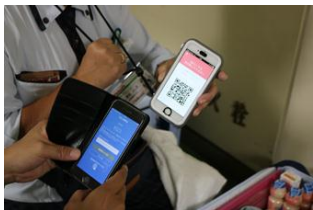
- Collaboration with Yahoo Wallet, Rakuten Edy, and Line Pay

### ○ Infrastructure building for API cooperation

- For introduction of new services powered by fin-tech enterprises etc.
- Cooperative infrastructure building after both banking subsidiaries' system integration, scheduled in Jan. 2020), utilizing their experience

### ○ Introduction of TKC Monitoring Information Service

- \* Trial experiment of a cashless smartphone payment system directly connected to bank accounts



- Corporation with contents providers' MTI
- smartphone payment system directly connected to bank account
- Transfer a specific amount directly from a registered bank account using QR code.
- Realize cashless payment

### < Joyo >

- API cooperation with FinTech services powered by TKC
- Over-the-counter navigation system  
(Applied to various notification form, being planed to be expanded to account opening, inheritance procedure, financial products)
- Trial experiment of a cashless smartphone payment system directly connected to bank accounts
- Computerization of bankbooks for individual customers

### < Ashikaga >

- Participation in The Japan Bank Consortium run by SBI holdings, etc.
- Evaluation of effectiveness of sale promotion based on big data and EBM information
- Joint trial experiment of smartphone payment and electronically recorded monetary claims
- Under-development mobile app for individual customers



# Regional Revitalization (1) Mebuki Business Award

- In commemoration of the establishment of Mebuki FG, each banking subsidiaries' business award was integrated together and the first "Mebuki Business Award" was held.
- Ingenious business ideas latent in both banking subsidiaries' vast business territory are gathered and the best entries were presented with awards.
- Consistent support will be provided regarding formulating business plans and launching new businesses through financing and so forth.



## Final Judging Ceremony (May, 2017)

○Presentation / External Evaluation

<Grand Prix> MCBI (Tsukuba, Ibaraki)

Business plan that realizes early detection and prevention of dementia

- Blood test that detects three kind of proteins which remove waste materials that can be cause of Alzheimer's Disease
- Prevention program that enhances cognitive powers

<Excellence Award>

Sid (Kawaguchi, Saitama)  
SOMAY-Q TECHNOLOGY (Satte, Saitama)  
Fukule (Kiryu, Gunma)

<Others>

Special Award: 5  
Encouragement Award: 19

Target Business Categories	1.Manufacturing 2.Agriculture / 6th Industrialization 3.Environment / Energy 4.Medical / Nursing Care 5.Advanced Technologies 6.Overseas Expansion 7.Regional Revitalization, etc. 8.New Business, etc.
Application Period	From December 1, 2016 to January 31, 2017
Judging Process	Preliminary Judging: Document Screening Final Judging: Presentation
Awards	Grand Prix: 1 plan (¥3mil), Excellence Award: Several (¥1mil), Special Award: Mebuki Award, Hitachi Award, Encouragement Award: Several
Sponsors	Sponsors: Mebuki FG, Joyo Bank, Ashikaga Bank Co-sponsors: Joyo Industrial Research, Ashigin Research Institute

Applicants **646\***  
Joyo 344, Ashikaga 302



**Business Launching Support**

# Regional Revitalization (2) Mebuki Regional Revitalization Fund

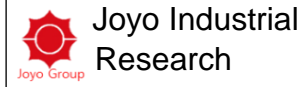


## Outline of the Fund

Establishment: November 14, 2016  
 Investment Period: 10 years  
 Methods: Capital Contribution, etc.  
 Structure: Investment Business Limited Partnerships

**Amount / Number of deals**  
 ¥1.3 bn / 5 deals (as of Jul.31, 2017)

- (Invested Deals)
1. World Farm (Tsukuba city)  
Date: Jan. 2017 / Amount: ¥100 million
  2. HATAKE Company (Tsukuba city)  
Date: May. 2017 / Amount: ¥200 million
  3. SS Food International (Ichikawa city)  
Date: Apr. 2017 / Amount: ¥200 million
  4. Hayakawa Holdings (Ashikaga city)  
Date: Apr. 2017 / Amount: ¥700 million
  5. Hibiki (Kawagoe city)  
Date: Jun. 2017 / Amount: ¥100 million



## Food



## Agriculture



## Tourism



## <Investment Target>

- Business operators who contribute to industrial development in food, agriculture, and tourism sectors, and regional development in other sectors (including agricultural corporations)
- Prize winners of Mebuki Business Award etc.

# Regional Revitalization (3) Crowd Funding (British Design Project)

British Design Project



Call for design ideas for products of enterprises in Mito City from students in Britain  
 → Brand the products and enhance competitiveness / profitability

British international organization for cultural relations

**British Council**

**Mito City**



- Design ideas
- Put the name of the student whose design ideas are selected on the product package
- Invite the winner to Mito City and let her know attractive characteristics of the city



<The first products>

**“3Time-Tea”**

Mankinohara Co., Ltd. (Mito City)

- 47 proposals from 21 universities in Britain
- A Design by a student of Arts university of Bournemouth was selected



\*The prize winner visited the company in Mito city



**Utilization of crowd funding (Purchase type / Initiated subscription sale)**

Business Partner : “Makuake” (powered by CyberAgent Crowd Funding)

\* The service collaborates with a blog-based service “Ameba” with 40 million user members powered by its parent company, CyberAgent.

**<Reference> Performance of “Makuake”: 7 deals**

Joyo (From Jan. 2017)

Ashikaga (From Aug.2016)



# Step-up 180 Plan – For Individual Customers –

## Support Customers' Asset Building

### <For the First Investment>

#### ■ First Investment Campaign (Jun.-Dec.)

Reward customers who open a new account, and purchase financial products (¥100,000 or more) or start an accumulation service for investment trusts (¥10,000 per month or more) with prizes

### <For Additional Investment>

#### ■ Mebuki Securities (Apr.-)

Ashikaga Bank started to intermediate financial products carried by Joyo Securities at all branches

#### ■ Foreign Bond Campaign (Apr.-Jun.)

Reward customers who purchase foreign bonds directly from Mebuki Securities or from the securities company through any of Mebuki's banking subsidiaries with gift certificate or local specialties

### <Others>

#### ■ Mebuki Securities Founding Commemoration Seminar (Apr.-Jun.)

#### ■ Foreign Currency Deposit Campaign (Jun.- Sept.)

## Support Customers' Housing Acquisition

### <Housing Loans>

#### ■ Housing Loan for Women (Apr.-)

- A maximum two-year grace period of principal payment during maternity and child care leave period
- Exemption of prepayment fee
- Exemption of group credit life insurance premium

#### ■ Online Application Housing Loan (May-)

- Preferential interest rates
- Exemption of prepayment fee
- Exemption of group credit life insurance premium

## Unsecured Loans

#### ■ Motivates students to go to universities located in Ibaraki and Tochigi Prefecture

Prevent student drain and increase student migration from other prefectures as measures against population decline

#### ■ One-year Anniversary of Mebuki FG

(Sept. 2017-Apr. 2018 / under planning)

Preferential interest rates for car/educational loans

# Step-up 180 Plan –For Corporate Customers–

## <Support for Manufacturers>

### ■ **Manufacturer Training Workshop** (Aug.)

- Through lecture and hands-on exercise, let our customers experience and learn basics of KAIZEN activities conducted by large companies for safety and productivity improvement
- Achieve SMEs' improvement of production management and development of human resources through the workshop

### ■ **R&D Meet-up at Utsunomiya and Ibaraki Univ.** (Jun.-July)

- Provide opportunities for applicants to have discussions with researchers of universities and research institutes concerning certain themes
- Promote information exchange among participants

### ■ **Rebuild support structures for start-ups and second start-ups**

- Construct a support structure for university-originated venture businesses
- Support Mebuki Business Award applicants to launch new businesses (Number of applicants: 646 / Number of prize winners: 28)
- Investment limit of Mebuki Regional Revitalization Fund was increased based on the possibilities of investment in their businesses (Jun.) (Investment limit : from ¥2.0 bn to ¥4.0bn / Investment amount : ¥1.3 bn)

## <Support for Agricultural Producers>

### ■ **Collaboration on Agri-Food Matching**

(Sept. / under planning)

- Joyo conducted a business matching event in Tsukuba City to match agricultural producers and food processing operators on a trial basis (Feb.)
- Another matching event is being planned, broadening its area, which newly includes Tochigi Prefecture, and extending its scope to producer associations and municipalities

## <Support for Overseas Expansion>

### ■ **Cooperation on export support services** (Mar.-)

### ■ **Cooperation with Japan Halal Business Association**

(Apr.-)

### ■ **Overseas business convention for manufacturers, business networking, seminar** (Jun.-)

## <Matching Event for Experienced Retirees and Local Businesses>

- Under the cooperation of Kanto Bureau of Economy, Trade and Industry and regional financial institutions, conduct matching events to match companies experiencing various management issues, and retirees / those who are just before their retirement.
- Through matching companies experiencing management issues, such as development of new products, sales channel expansion, and experienced retirees, help the companies resolve management challenges

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