

# **Second Medium-Term Group Business Plan**

(Plan Period: April 1, 2019 to March 31, 2022)

# Table of Contents

## **1. Summary of Second Medium-Term Group Business Plan**

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- (1) Results of First Medium-Term Group Business Plan · Challenges · External Environment
- (2) Summary of Second Medium-Term Group Business Plan (Goals · Basic strategies · Business objectives)
- (3) Change of Net Income during the 2nd Medium-Term Group Business Plan

## **2. Basic Strategies**

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- Basic strategy(1) 「Create growth business models with local regions」
- Basic strategy(2) 「Structural reform for enhanced productivity」
- Basic strategy(3) 「Developing human resources for value creation」

## **3. Management Philosophy and Value Creation Process**

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# 1. Summary of Second Medium-Term Group Business Plan

# (1) Results of First Medium-Term Group Business Plan - Challenges - External Environment

## First Medium-Term Group Business Plan

(Plan period: October 1, 2016 to March 31, 2019)

Second Medium-Term

Group Plan

Integration

Position

Getting the new group on the right track to success

Basic Integration Strategies

- (1) Combination of ingenuity for regional revitalization
- (2) Expansion of comprehensive financial services
- (3) Expansion of area and channels
- (4) Innovation of operations
- (5) Development of the new group's corporate management structure

Business Objectives and Results

<FY2018>	Targets	Forecasts
ROE	5% or more	—
Net Income	Approx. ¥47 bn	¥45 bn
Capital Adequacy Ratio	10% level	—
OHR(combined value for banks)	Approx. 60% <sup>(*)</sup>	—

(\*1) Based on core net business profit

Results and Achievement

- Cost reduction by sharing expertise and strengthening securities investments (Cover top-line down-turn risk of loan interest income and fees & commissions)
- Strengthen comprehensive financial services provision system (Making lease and securities companies into FG subsidiaries)

Challenges and Issues

- Development and expansion of business areas in response to the shrinking of traditional banking business
- Service level improvement through digitization and data utilization
- Productivity improvement through structural reform

Keywords

- Structural reforms to improve productivity (business and organizational reforms)
- Utilization of IT services and data (IT investment strengthening)
- Enhancement of consulting services

Group's Strengths

Wide-area network with core market, Ibaraki and Tochigi prefectures, and strong customer base

Comprehensive financial services including leasing, securities subsidiaries

Group's Weaknesses

High-cost structure mainly consisting of network maintenance

External Environment

Structural problems in local communities

Diversity of customer needs, customer contact points

Other industries entering into financial services

Long lasting low interest rate

Uncertainty in the global economy

Cyber attack, Information leaks

## (2) Summary of Second Medium-Term Group Business Plan

- In the second mid-term plan, we will promote the structural reform mainly of business process and organization through the integration of our core system in Jan. 2020, develop the optimization of our channels and networks, and perform structural reforms such as the unification of the FG and subsidiary banks' organization.
- At the same time, we will build a business model that grows together with the region, enhance consulting services and IT utilization, and is positioned as a transition to the next growth period with the effects of structural reforms.

### Second Medium-Term Group Business Plan (Apr. 2019~Mar. 2022)

#### Goals

Building the region's future as a comprehensive financial service group

#### Position

Achieve full-scale growth / Transitional period to next growth

#### Basic strategy

- (1) Create growth business models with local regions
  - Enhance consulting services
  - Proactively utilize and invest in IT
  - Business area expansion
- (2) Structural reform for enhanced productivity
  - Establish common platform
  - Group governance advancement
- (3) Developing human resources for value creation
  - Development of specialized personnel
  - Reform of personnel and training system
  - Working style reform and diversity promotion

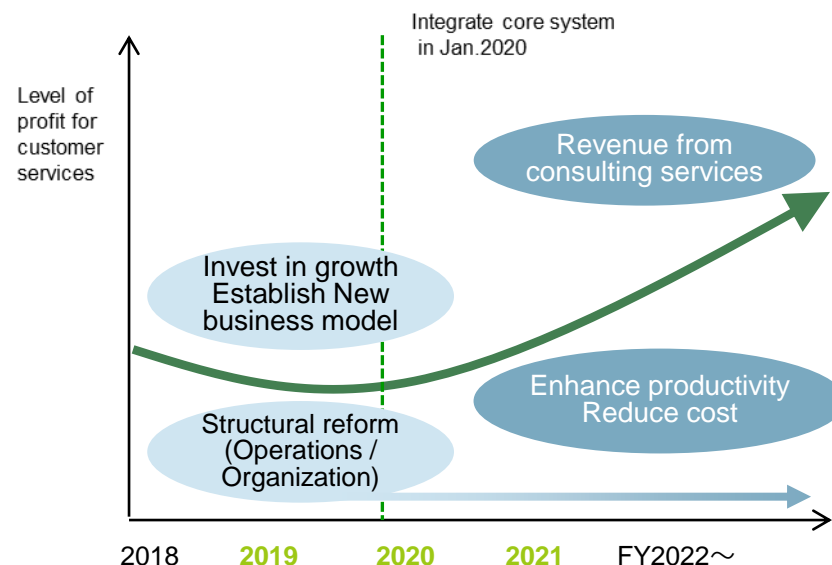
#### Business Objectives

	<FY2018>*2	<FY2021>
ROE (Consolidated)	-	5.0% or more
Net Income (Consolidated)	¥45 bn	approx. ¥47 bn
Core OHR*1 (total)	-	around 60%

(\*1 excluding system integration expenses)

(\*2 earning forecast for FY2018)

#### Position of 2nd group business plan



#### Value provided to stakeholders

##### Customer / Area

Support for realization of growth and solutions

##### Shareholders

Improved corporate value through sustainable growth

##### Employee

Improvement of job satisfaction

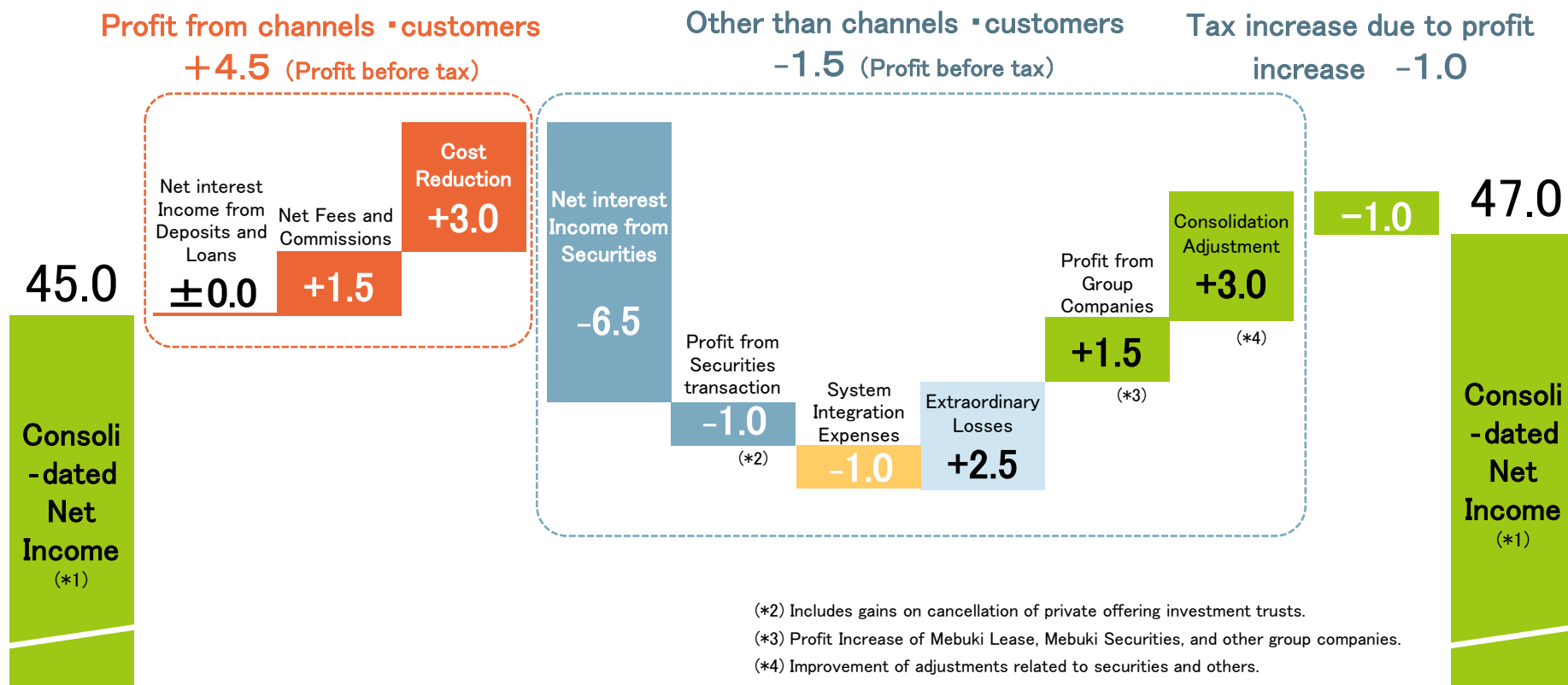
### (3) Change of Net Income during the 2<sup>nd</sup> Medium-Term Group Business Plan (FY2018→FY2021)

**Consolidated Net Income (\*1)**  
**(FY2021)**

**¥47<sub>bn</sub>** (+¥2.0<sub>bn</sub> compared to the FY2018 forecast)

(\*1) Net income attributable to owners of the parent

(¥Bn)



(\*2) Includes gains on cancellation of private offering investment trusts.

(\*3) Profit Increase of Mebuki Lease, Mebuki Securities, and other group companies.

(\*4) Improvement of adjustments related to securities and others.

FY2018 Forecast

FY2021 Target

<b>Net interest Income from deposits and loans</b>	Foreign currency denominated loans +2.0 / Yen-denominated loans -2.0
<b>Net Fees and Commissions</b>	Fees from Corporate Customers +2.0 / Customer Assets under Custody +1.0 / Insurance and others -1.5
<b>Cost Reduction</b>	Personnel Expenses -1.5 / Non-personnel Expenses -1.5

<b>Net interest Income from Securities</b>	Yen-denominated bonds -4.5 / Foreign currency denominated bonds -2.0
<b>Profit from Securities transactions</b>	Gains on cancellation of private offering investment trusts -10.0 / Stocks -2.0 / Bonds +11.0
<b>Extraordinary Losses</b>	Elimination of branch impairment of FY2018

## 2. Basic Strategies

# 【Basic strategy(1)】 Create growth business models with local regions

## Strategic goals

- While providing consulting services and utilizing IT services and data, we will support customers grow and resolve problems. Through utilizing resources owned by the group to expand our business areas, we will create growth business models with local regions.

### 【Basic strategy 1】

Enhancement of consulting services for customer growth

#### <Tactic 1-1> Support needed for business support and problem resolution

- Expansion of business support menu
- Strengthen business succession and M & A initiatives
- Strengthen middle risk and business improvement support
- Promotion of business evaluation

#### <Tactic 1-2> Strengthening problem-solving sales for wealthy customers

- Asset management through integrated banking and securities business
- Dealing with inheritance related needs
- Strengthening services based on financial gerontology

#### <Tactic 1-3> Support for customer asset formation

- Improvement of convenience and enhancement of proposals by utilization of AI, etc.
- Expand the customer base for asset management businesses (enhancement of educational activities)

#### <Tactic 1-4> Regional revitalization efforts

### 【Basic strategy 2】

IT services / Data utilization and IT investment enhancement

#### <Tactic 1-5> Expansion of services for digitalization

- Improve customer productivity and support digitization
- Expansion of smartphone and web services to improve convenience
- Dealing with a cashless / digital society
- Enhance data analysis and marketing functions
- Efficiency improvement of public funds business

### 【Basic strategy 3】

Develop and expand business areas

#### <Tactic 1-6> Diversification of profit opportunities by expansion of business areas

- Strengthening equity investment, structured finance
- Expansion of trust services
- Strengthening investment securities capabilities

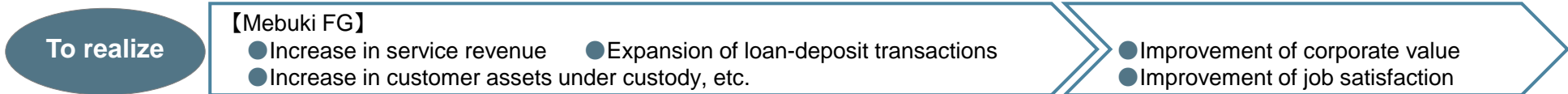
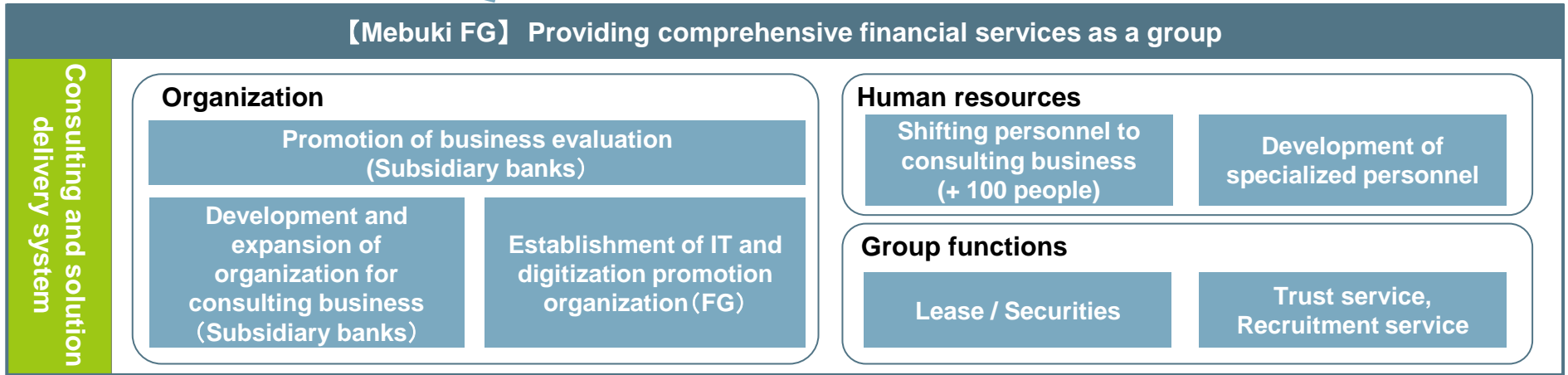
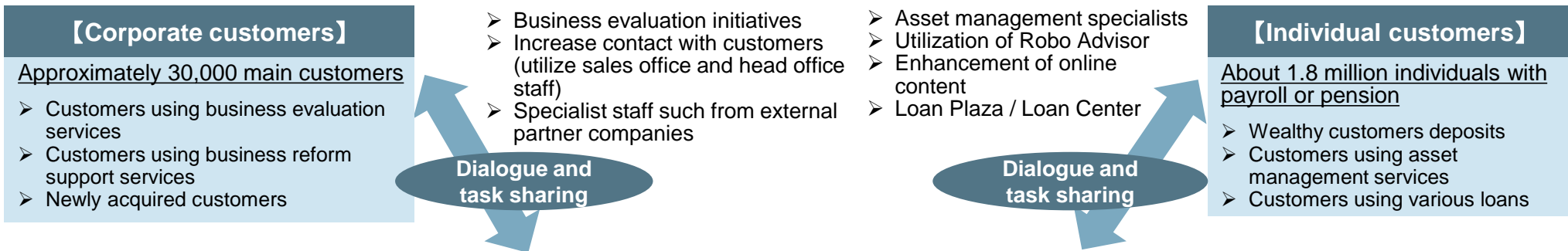




# 【Basic strategy(1)】 Create growth business models with local regions ~ Enhance consulting services for customer growth ~

■ With regard to issues and objectives shared through dialogue with customers, we will strengthen our consulting function to provide services and solutions in a one-stop manner according to the life stages and industry characteristics of each customer.

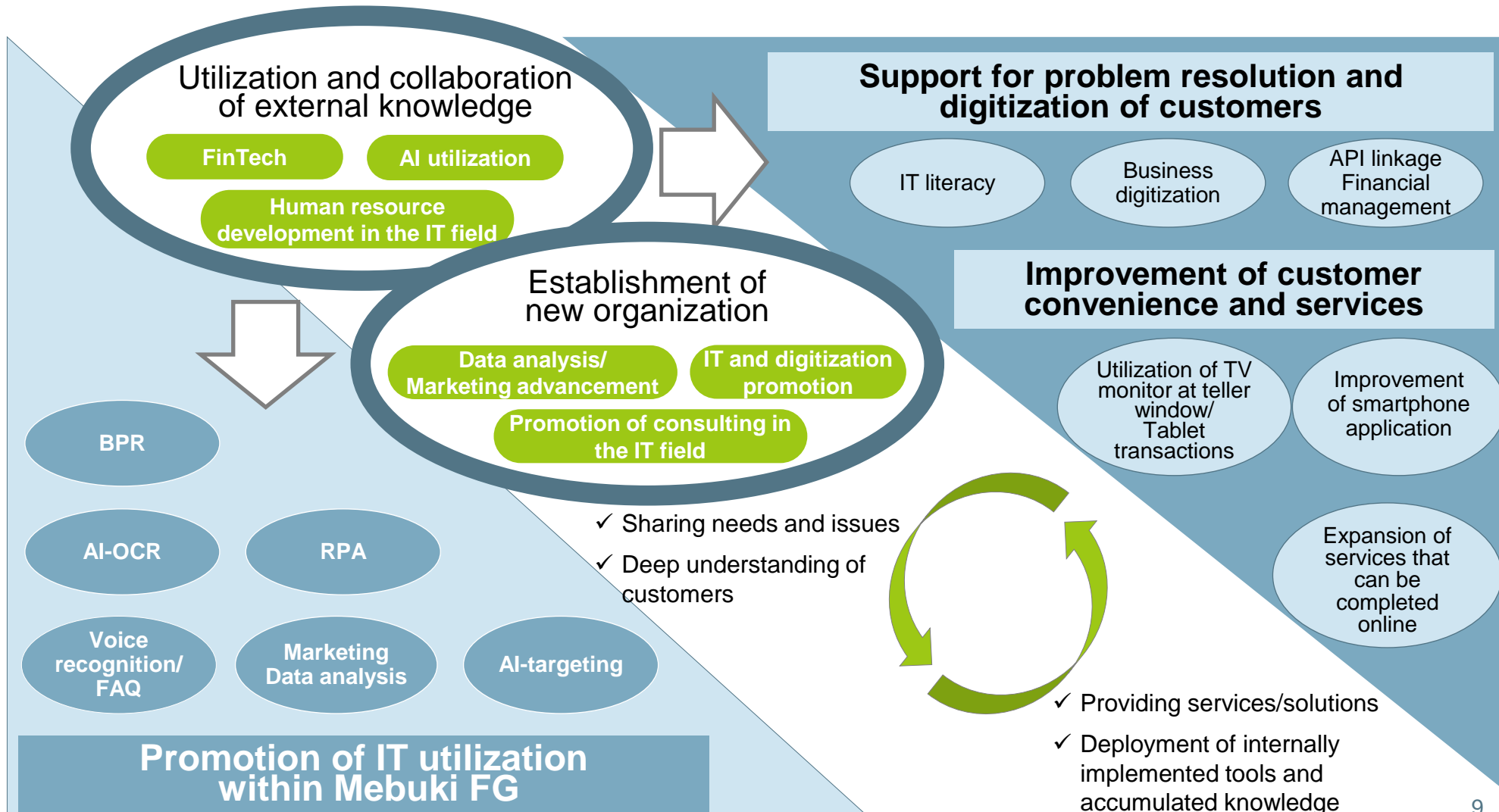
## 【Business model to grow with the region】



# 【Basic strategy(1)】 Create growth business models with local regions

~ IT services / Data utilization and Strengthening IT investment ~

- Through improving the level of IT services and promoting utilization within the Group, the use of external knowledge and collaboration, and the establishment of a new shared organization in the group, we will provide customers with tools and know-how that have been put into practical use.



# 【Basic strategy(2)】 Structural reform for enhanced productivity

## Strategic goals

- By optimizing channels and networks, and consolidating and streamlining group organizations such as business processing and IT division, we will shift the allocation of resources such as branches, personnel, and investment from existing fields to new revenue fields, and will lead to build a highly productive management base.
- At the same time, we will work to upgrade the group-wide business management system and strengthen the group governance system.

### 【Individual strategy①】

Building a highly productive management base

<Tactic 2-1> Channels and network optimization

<Tactic 2-2> Streamline business processing and IT divisions

- Branch network optimization, enhancement of non-face-to-face channels
- BPR promotion utilizing digital technology, RPA, etc.
- Integrating administrative procedures, streamlining of operations based on integration of core systems

## Customer contact / Management base

### Customers / Local Communities

Cultivation of optimal channels according to customers' needs and location, etc. (multiple channels)

<Customer contact >

JOYO BANK

ASHIKAGA BANK

MEBUKI MEBUKI SECURITIES  
Financial Group

MEBUKI MEBUKI LEASE  
Financial Group

Think Tank / Consulting / IT Solution / Credit Card / Credit Guarantee (Subsidiaries)

Effective allocation of management resources(Unified and shared management base)

<Management base (organization and function of headquarters) >

Common platform

Bank core system /  
business process

Business  
processing and IT  
management

Management system  
related to risk and AML

Head office  
planning and  
management  
functions

Strategic planning  
function for sales and  
securities investment

IT development  
and management  
functions

Group  
governance  
function

### 【Individual strategy②】

Advance group management and governance

<Tactic 2-3> Advancement and optimization of group management

<Tactic 2-4> Strengthening group governance system

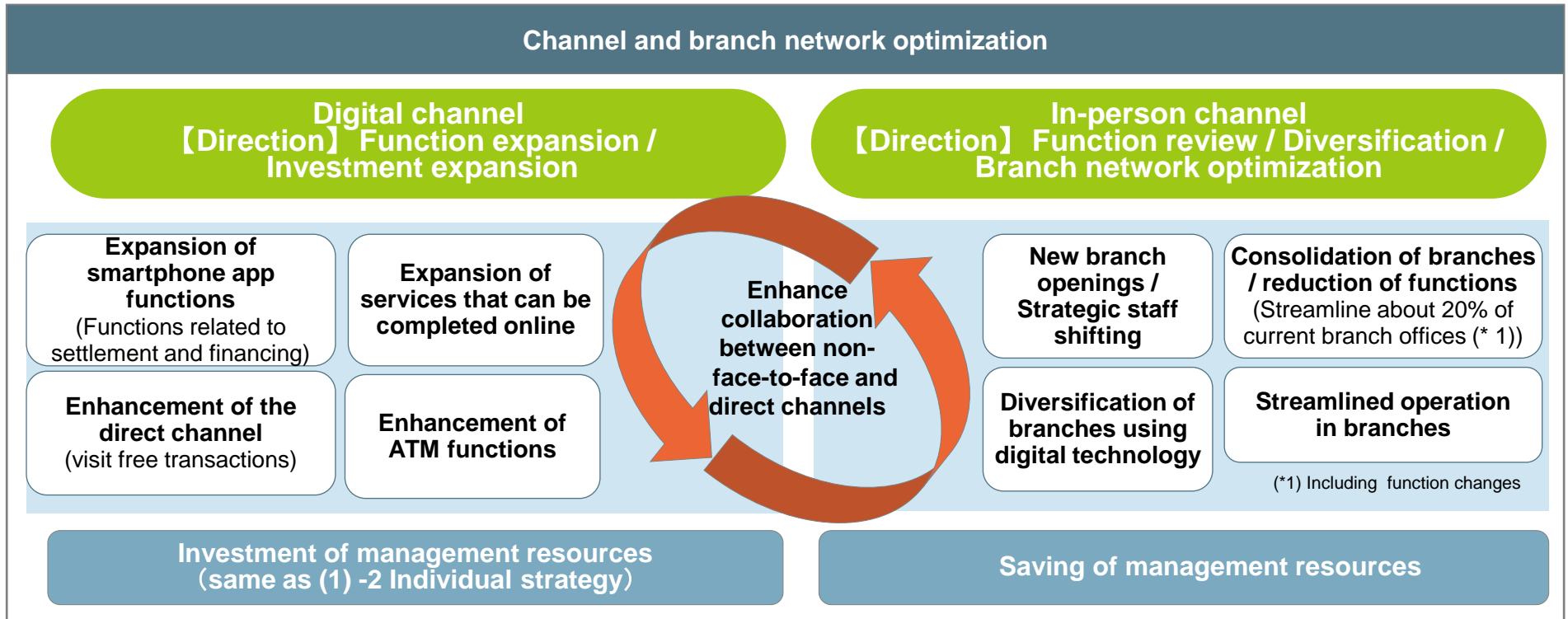
- Standardization and integration of head office function and duplicate subsidiaries
- Introduction of RAF, strengthening AML / CFT measures
- Strengthen supervisory function of the board of directors
- Corporate activities in line with ESG / SDGs

# 【Basic strategy(2)】 Structural reform for enhanced productivity

## ~ Building a highly productive management base ~

- We review the functions and roles of digital channels and manned branches in light of customer needs, customer contact diversification, and advances in IT digital technology, improve customer convenience and simplicity, and strengthen consulting functions.

### Channel and branch network optimization



### Effect / Aim

Improving customer convenience and simplicity  
(wider contact with customers using digital channels)

Enhancement of consulting function (increase in consulting time by 100,000 hours a year (\* 2))  
(\* 2) 100 people input × 4.5 hours (per day) × 240 business days = 100,000 hours a year

# 【Basic strategy (2)】 Structural reform for enhanced productivity

~ Shifting management resources by promoting structural reform (people, things, money) ~

## Human resources (total staff)

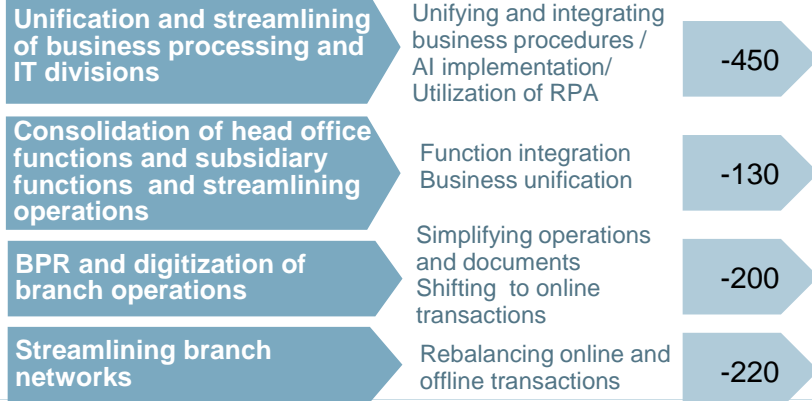
<Save> approx. 1,000 people  
(o/w regular employees 500 people)

<Invest> 200 people

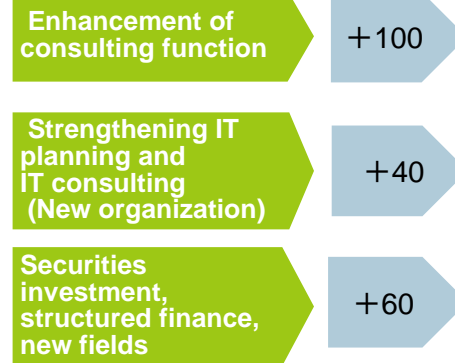
Personnel reduction 800 people  
Promote further adjustment of total personnel by structural reform

### <Human resources "saved">

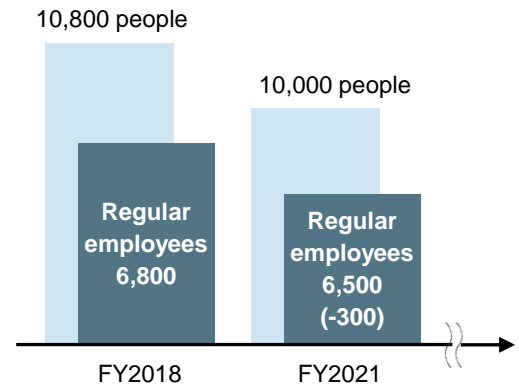
(Reduction of work volume converted into number of personnel)



### <Human resources "invested">



(table 1) Number of personnel (forecast)

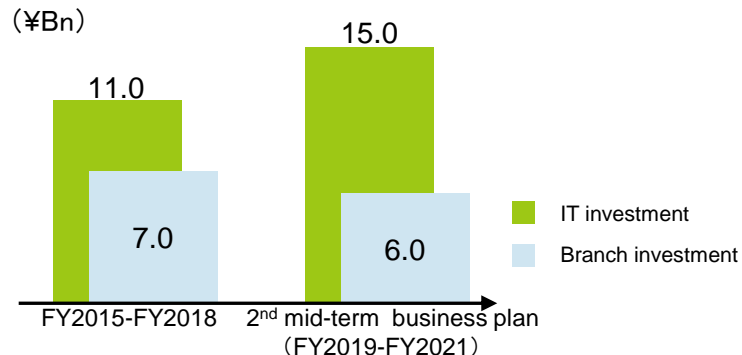


## Things (investment amount)

(table 2) Actual and forecast of IT investment and branch investment (2 banks' total)

IT investment  
¥15 bn (\*1)

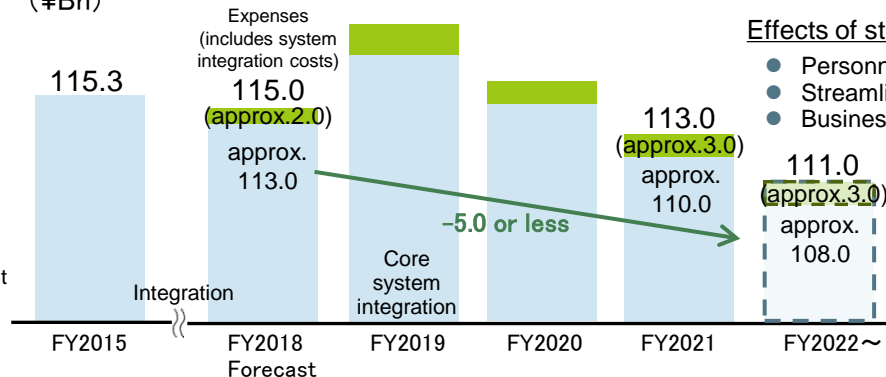
(\*1) 3 years total



## Money (expenses)

(table 3) Actual and forecast of expenses (2 banks total)

(¥Bn)



Cost reduction by structural reform  
¥5 bn or more (\*2)

(\*2) Single-year reduction compared to fiscal 2018 / Includes items that have an effect after fiscal 2022

### Effects of structural reform (decrease)

- Personnel reduction approx. ¥3 bn
- Streamlining branch network approx. ¥1 bn
- Business process integration / BPR approx. ¥1 bn

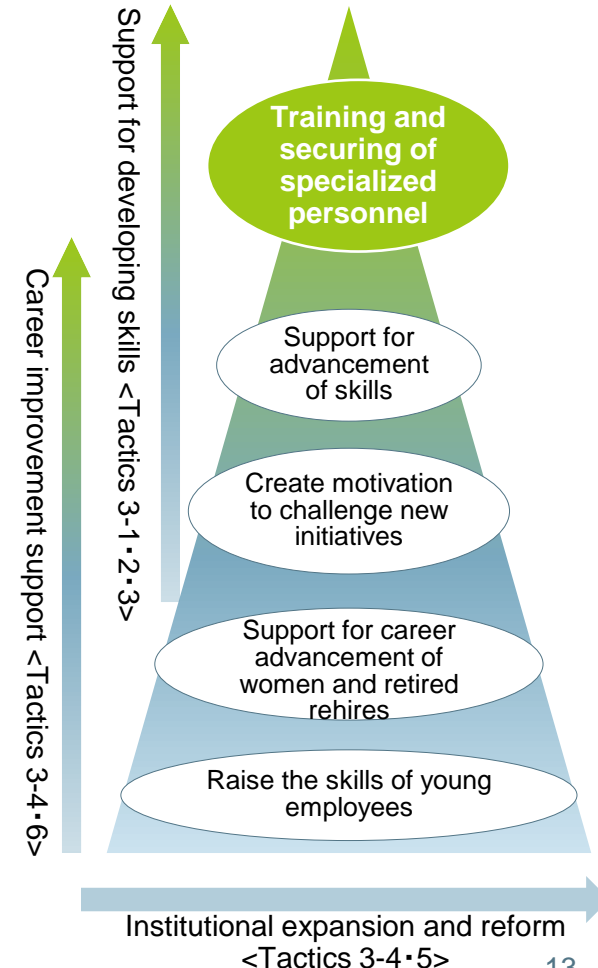
- Core system integration costs
- Expenses (excluding core system integration costs)

# 【Basic strategy(3)】 Developing human resources for value creation

## Strategic goals

- We will promote the development of specialized human resources by strengthening support for developing skills through the use of external knowledge, and build up a human resources group required for the implementation of the second mid-term plan.
- We will expand various working styles to promote work-life balance, and create a system to realize contribution to customers and the local region through the display of consulting functions, all while leading to higher job satisfaction for employees.

Individual strategy	Main tactics
Training and securing of specialized human resources	<p>&lt;Tactic 3-1&gt; <u>Training and securing of specialists in consulting and IT fields</u></p> <p>&lt;Tactic 3-2&gt; <u>Construction of a training system that utilizes external knowledge, human resources exchange, OJT, etc.</u></p> <ul style="list-style-type: none"> <li>● Establishment of human resources development and training system jointly by the two banks utilizing external dispatch services</li> <li>● Securing highly specialized personnel (ex. mid-career recruitment)</li> </ul> <p>&lt;Tactic 3-3&gt; <u>Introduce and expand a skills certification system that promotes continuous skills improvement</u></p>
Expansion of personnel and training system	<p>&lt;Tactic 3-4&gt; <u>Introduce and expand personnel system to promote motivation improvement</u></p> <ul style="list-style-type: none"> <li>● Visualizing work and career plans and establishment of support system for career formation</li> <li>● Review of course classification in subsidiary banks</li> </ul>
Promotion of working style reform and diversity	<p>&lt;Tactic 3-5&gt; <u>Maintaining a working system and environment to promote work-life balance</u></p> <ul style="list-style-type: none"> <li>● Expansion of work at home, telework, flexible work system</li> <li>● Reduce total working hours by improving productivity</li> </ul> <p>&lt;Tactic 3-6&gt; <u>Strengthen support for career and skills improvement of women and retired rehires</u></p>



- "Higher job satisfaction for employees" through basic strategies (1) (2) (3)

### Higher job satisfaction for employees

Pride in work (feeling of contributing to customers and local region)

Trust in the organization (Working style reform and fostering motivation)

Group unity (Human resources exchange, joint training)

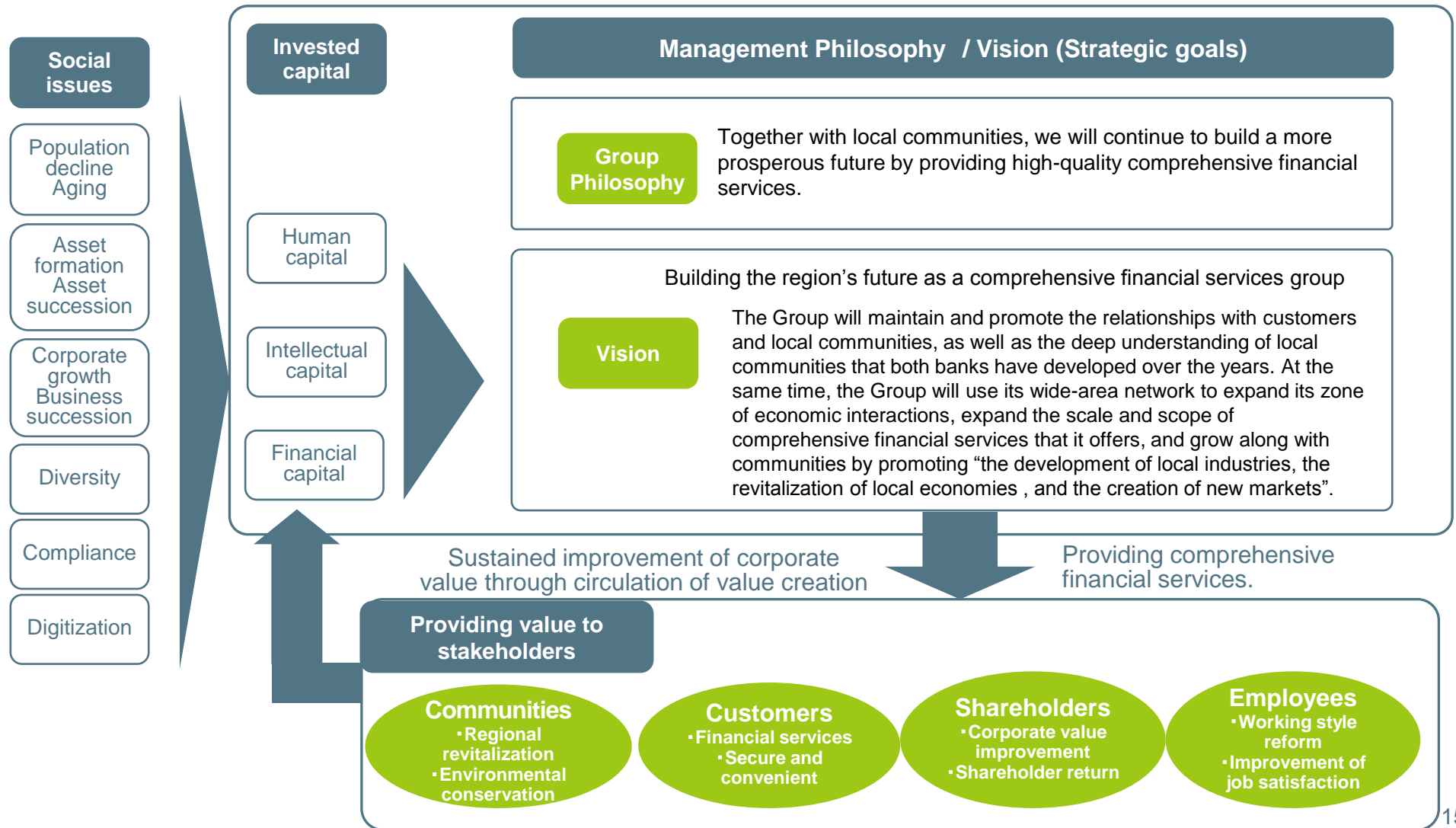
Execution of basic strategy (1) (2) (3)

### 3. Management Philosophy and Value Creation Process



# Management Philosophy and Value Creation Process

- **Mebuki Financial Group is committed to providing high-quality comprehensive financial services based on the group's philosophy, and contributing to the sustainable growth of local communities by improving its corporate value.**





# Management Philosophy and Value Creation Process

## ~ Efforts for SDGs and ESG ~

- **Mebuki Financial Group will work with all of our stakeholders, including customers, shareholders, employees and business partners, to build a more prosperous communities aim to grow together.**

### Society

**We will work in harmony with local communities to create a more prosperous regional society**

- Support children to become independent (financial education support)
- Local employment support collaborating with local governments (cooperation with Ibaraki and Tochigi prefectures / education loans)
- Business succession support for next-generation leaders and successors
- Diversity Initiatives (promotion of work-style reform / promotion of active participation of women)



### Economy

**We will take initiatives to provide comprehensive financial services and promote the revitalization of the regional economy utilizing a wide-area network.**

- Discover regional industries and support the creation of new businesses (hold business plan contests / support with Mebuki Regional Revitalization Fund)
- Develop new businesses and expand economic exchange (support for manufacturing companies / support for agricultural businesses)
- Business succession, M & A support, and make efforts to resolve the shortage of human resources
- Make initiatives to support local sustainable growth (support to refurbish of traditional homes / promote local creation in cooperation with local governments)



### Environment

**With the aim of maintaining the natural environment, we will engage in initiatives to bountiful and beautiful environment to the future.**

- Dissemination and development of renewable energy through environment related financing for power generation projects using clean energy
- Handle environment-related loans for the introduction of environment-friendly private placement bonds, solar power generation facilities, etc.
- Create environment-friendly branches (installation of solar power generation systems, reduction of energy consumption through switching to LED lights)
- Environmental conservation activities (Joyo Furusato no Mori / Ashigin Forest)



### Governance

**We will work to strengthen and enhance corporate governance in order to secure the trust of our stakeholders. In order to achieve a peaceful and fair society, we will work to cut off relations with antisocial forces and prevent money laundering and terrorism funding.**



## Inquiries

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