

# Medium-term Management Plan

(FY2019~FY2021)

“ ALL for the Region ”



Hokuhoku Financial Group, Inc.

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- 2-3 Strategy for corporate customers
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- 2-6 Community revitalization strategy
- 2-7 Strategy for security investment and risk management
- 2-8 Business reform, Optimization of branch store network and Strategy for utilization of human resources
- 2-9 Hokuhoku FG Group strategy

# Outline of the Medium-term Management Plan

### Community issues

#### Declining birthrate and aging population decrease

- ◆ Decrease in production age population
- ◆ Decrease in the number of companies

#### Concentration in urban areas

- ◆ Concern over regional disparity expansion

#### Issues of ESG and SDGs

- ◆ Responding to environmental and social problems

### Financial issues

#### Long term low interest rate

- ◆ Weakened earnings base due to huge monetary easing

#### Entry from different industries

- ◆ Offensive by financial institutions based on distribution companies and internet companies

#### Expanding business of public financial institutions

- ◆ Competition intensified due to expansion of operations

### Corporate customer issues

#### Business succession problem

- ◆ Difficult continuation of business due to absence of successors

#### Growth strategy

- ◆ Difficult to formulate measures for new establishment and business expansion

#### Correspondence to AI/IoT

- ◆ Difficulty due to lack of human resources and lack of knowledge

### Individual customer issues

#### Asset formation

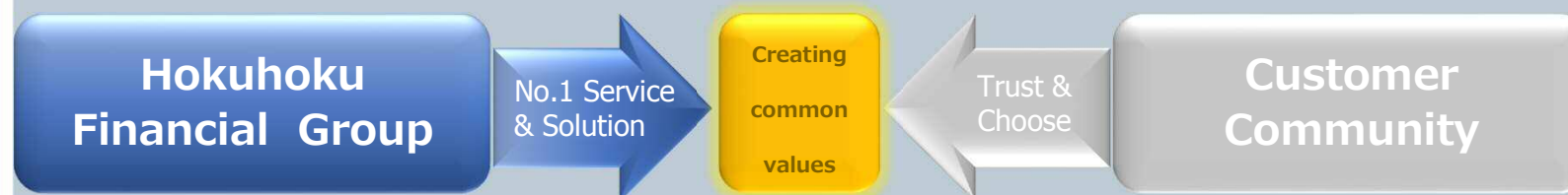
- ◆ Anxiety about the sustainability of the social security system

#### Assets succession to the next generation

- ◆ Anxiety pass on smoothly to successive generations

## Targeted Corporate Profile

**We contribute to customers and local communities by providing No.1 financial service and solution, and achieve growth and development together with them**

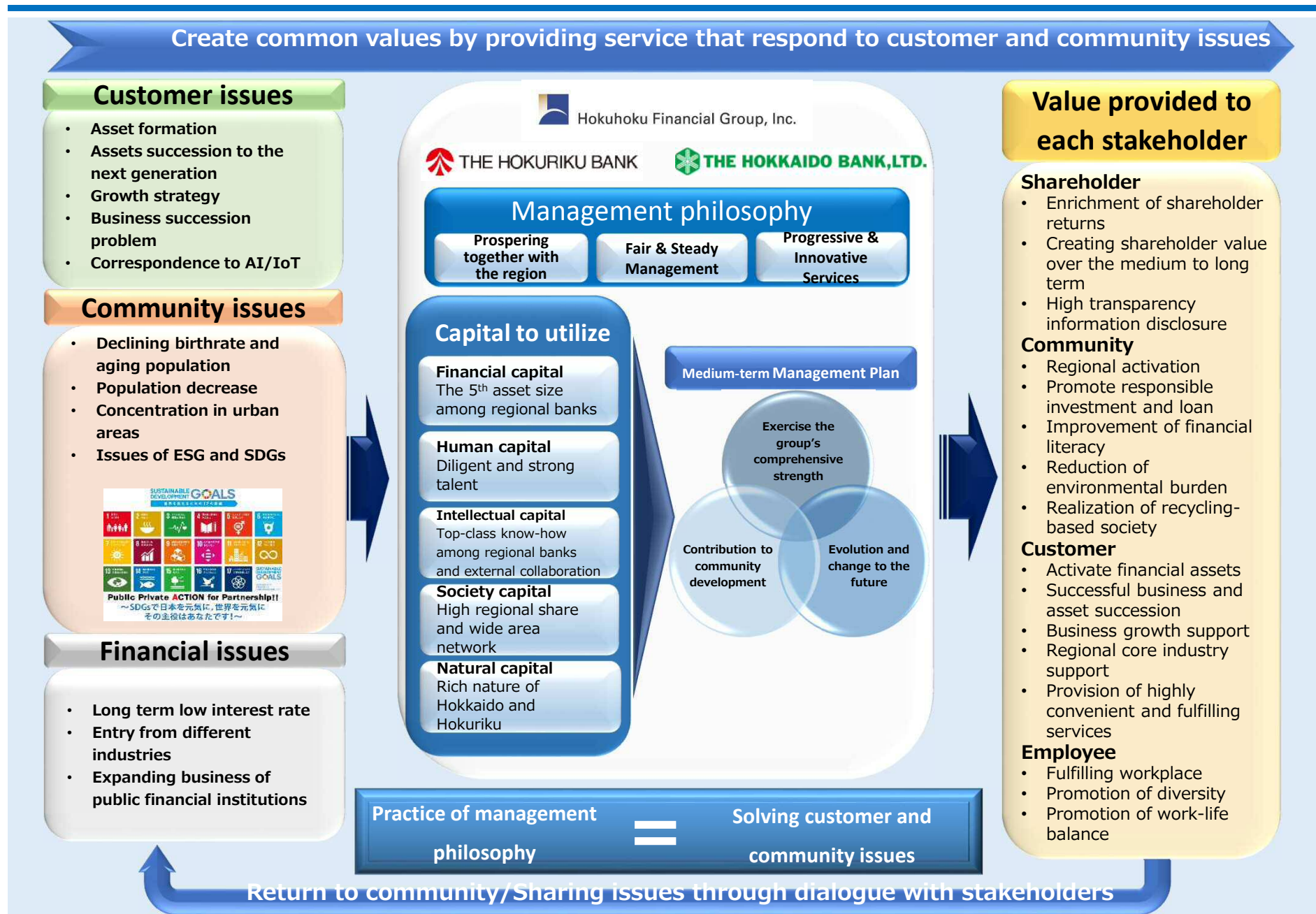


## 《Medium-term Management Plan》

Title	<b>ALL for the Region</b>	
Positioning	Period during which all employees of the Group evolve in terms of “services closely attracting customers at Face to Face” and “digital financial services pursuing convenience” and will continue to contribute to the local community	
Basic policies	Contribution to community development	• Face problems together and work to provide solutions that contribute to the development of the region and customers
	Evolution and change to the future	• Provide financial services that capture technological innovation and changes in needs to meet customer expectations
	Exercise the group's comprehensive strength	• Strengthen group collaboration and Establish optimum business promotion and management system



# 1-3 Process for value creation



# 1-4 Financial Targets

## Financial Targets

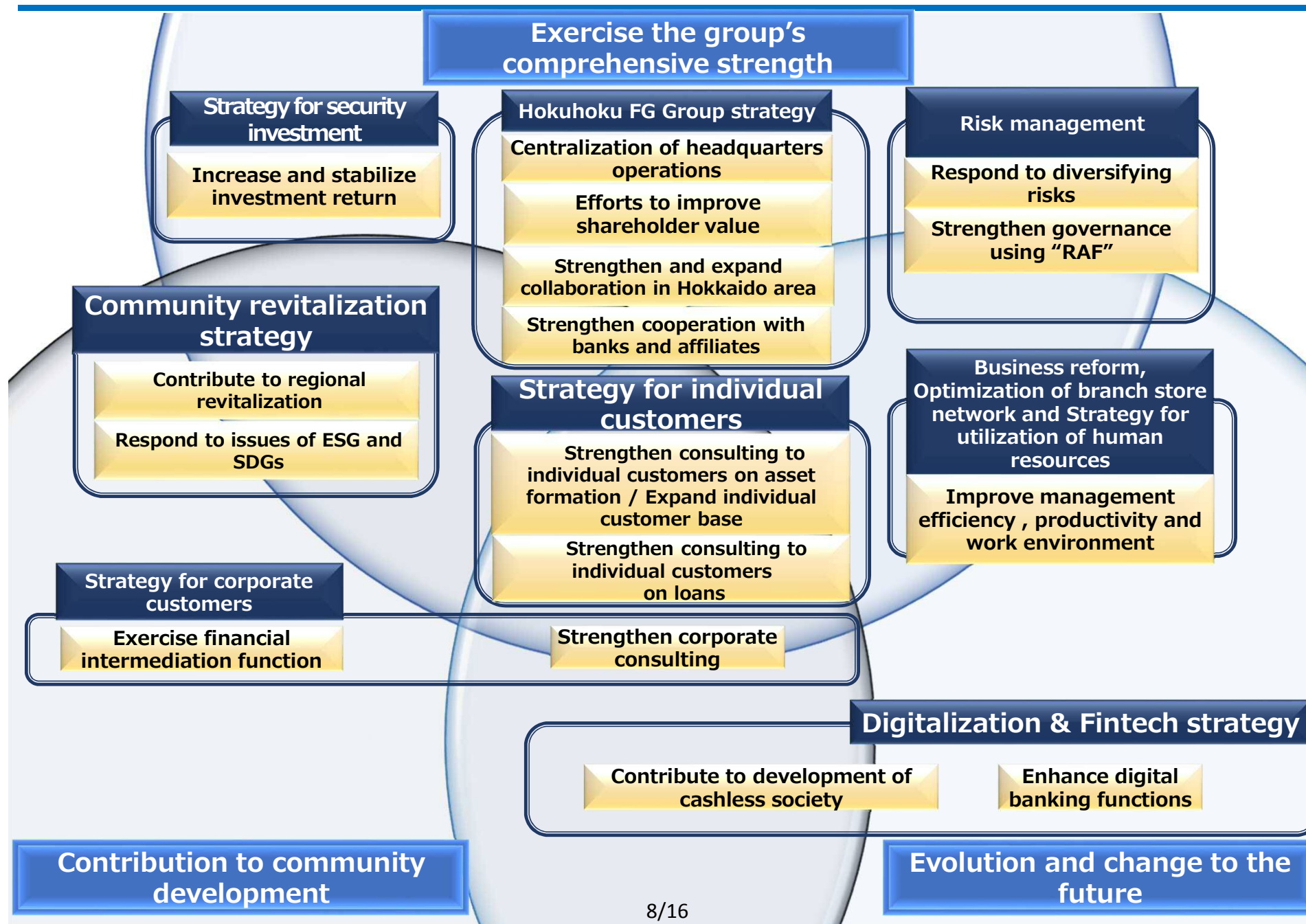
	FY2021 Target
Main business profit *	Over 22 billion yen
Consolidated net income	Over 22 billion yen
Capital Adequacy Ratio	Maintain 8% level
O H R	Maintain under 70% level

\* We calculate main business profit in line with our own standard

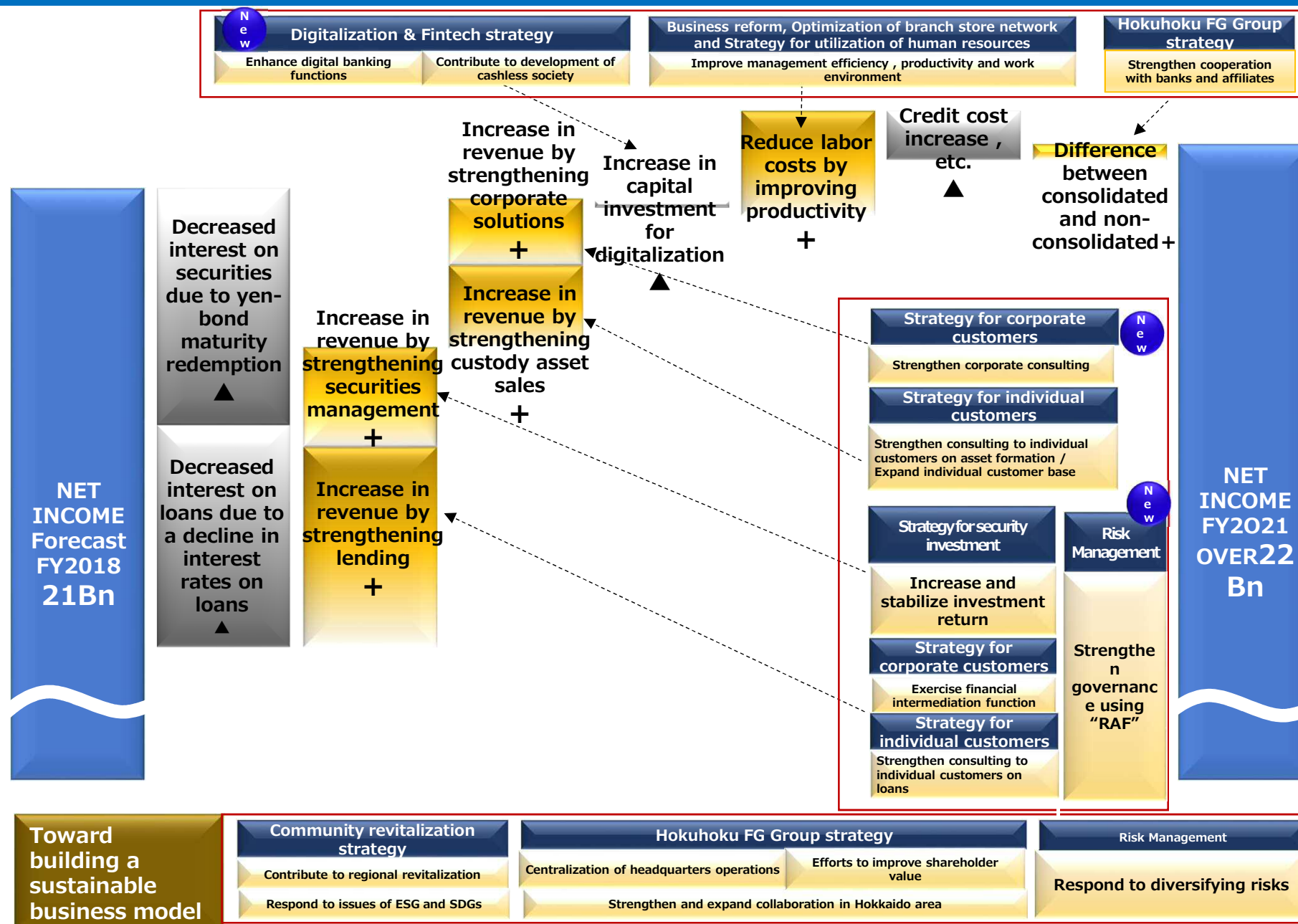
# Key measures of the Medium-term Management Plan



## 2-1 Basic policy and key strategies of Medium-term Management Plan



## 2-2 Break-down of change in profit



## 2-3 Strategy for corporate customers

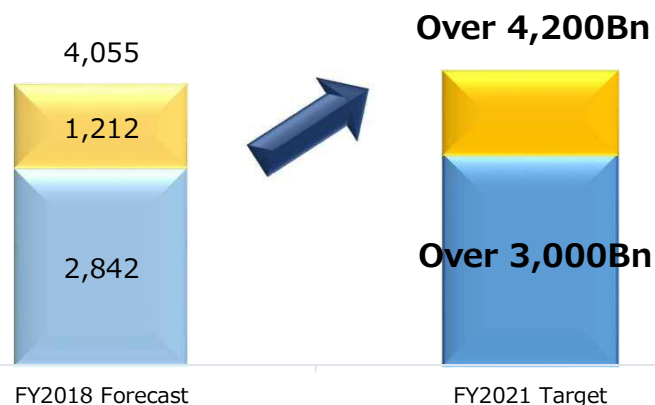
### Exercise financial intermediation function

- ◆ Improve promotion system in respective regions and customer segments.
- ◆ Enhance response to middle risk companies by promoting loans based on business evaluation.

- Provide optimum financial intermediation function in line with regional characteristics.
- Provide optimum financial intermediation function based on strategies in respective customer segments.
- Promote financing that is not overly dependent on collateral and guarantees, and enhance response to middle risk segment by sharing management issues through business evaluation activities.

#### Avg. balance of business loans (JPY Bn)

■ Business loans in primary operating area, Hokuriku and Hokkaido



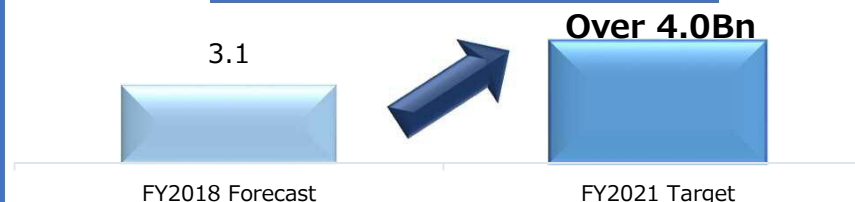
### Strengthen corporate consulting

- ◆ Promote consulting services responding to business stage of each customer
- ◆ Expand the lineup of solution services
- ◆ Enhance consulting service and financing for international business

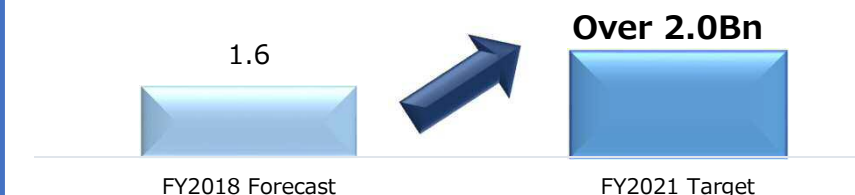


- Promote comprehensive consulting services providing solutions for any problem of customers corresponding to their business life stage.
- Contribute to revitalization of regional companies by supporting their overseas expansion, foreign trade and inbound business.

#### Fees from solution services for corporate customers (JPY Bn)



#### Income from foreign exchange and related services (Bn)



## 2-4 Strategy for individual customers

### Strengthen consulting to individual customers on asset formation / Expand individual customer base

- ◆ Strengthen support for asset formation and services for wealthy segment by expanding service lineup for various life stages or channels.
- ◆ Expand customer base through non-face-to-face channels.



- Provide total solution, as a comprehensive financial services group, to each customer according to their life stage.
- Acquire broad range of customers by utilizing non-face-to-face channels.

#### Number of Individual investment asset\* holders

212,380

Over 280,000

FY2018 Forecast

FY2021 Target

#### Balance of investment assets\* owned by individual customers (JPY Bn)

1,323

Over 1,600 Bn

FY2018 Forecast

FY2021 Target

\*Banks : Foreign currency deposit, Government Bond, Investment trust, Insurance & Annuity products / Hokuhoku TT : All investment products

### Strengthen consulting to individual customers on loans

- ◆ Respond to various loan needs by optimizing sales bases and expanding loan products for various life stages or channels.



- Boost earnings by expanding lineup of high value-added loan products.
- Enhance sales and improve efficiency by expanding non-face-to-face channels and streamlining process of examination and other procedures.
- Build strong relationship with housing builders.

#### Balance of housing loans (JPY Bn)

2,060

Over 2,300 Bn

FY2018 Forecast

FY2021 Target

## 2-5 Digitalization & Fintech strategy

### Enhance digital banking functions

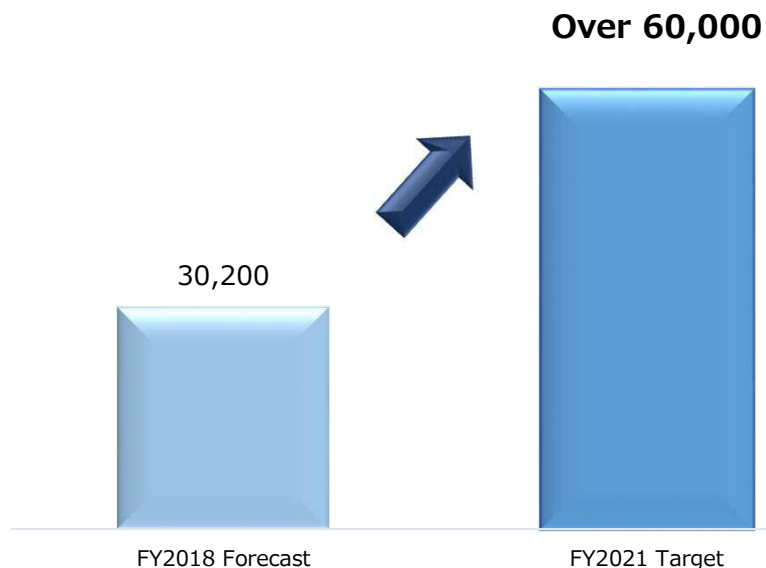
- ◆ Enhance digital banking channels by expanding functions of non-face-to-face channels such as smartphone applications.
- ◆ Improve customer convenience by implementing procedures in which stamp, cash card and paper work are not required.



- Improve customer services and reform office work process through digital transformation.



#### Number of WEB account holders



### Contribute to development of cashless society

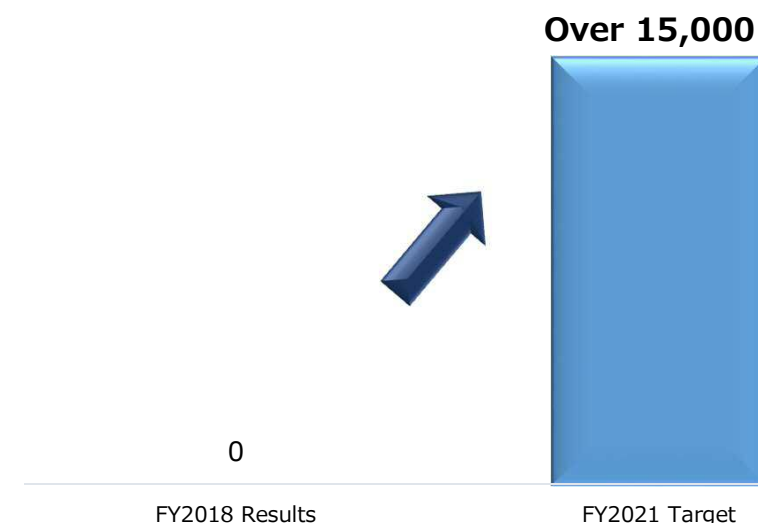
- ◆ Construct digital payment infrastructure, including pre-pay, real-pay and post-pay services, to develop cashless environment in regional communities.



- Implement payment services, "Hokuhoku Pay" and "J-Coin Pay", operated by banks.
- Increase number of shops that provide cashless payment services in Hokuriku and Hokkaido region.



#### Number of participating merchants of cashless payment service





## 2-6 Community revitalization strategy

### Contribute to regional revitalization Respond to issues of ESG and SDGs

- ◆ Revitalize regional economy in cooperation with local government, local companies and educational institutions.
- ◆ Contribute to the sustainable development of local economy and society through initiatives responding to issues of ESG and SDGs.



#### Number of financing related to ESG・SDGs

163



FY2018 Forecast

Over 250



FY2021 Target



## 2-7 Strategy for security investment and risk management

### Increase and stabilize investment return

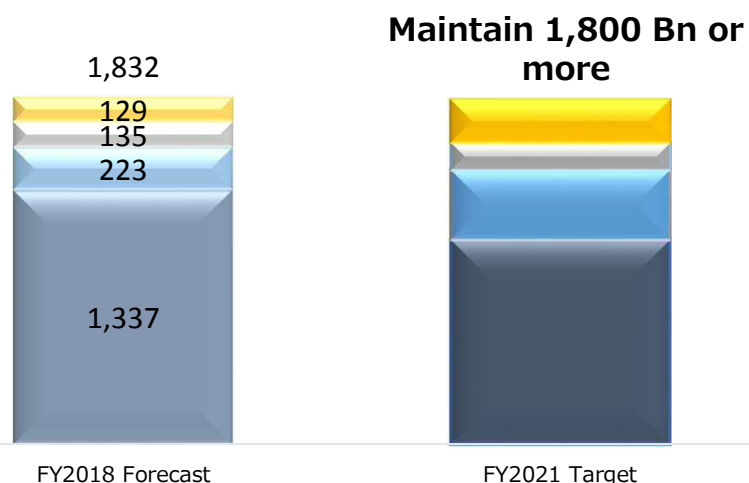
- ◆ Increase profit through diversified investment.
- ◆ Secure trading profit through strategic and flexible security investment.
- ◆ Improve risk control system, emphasizing comprehensive profit/loss and enhancing response in the event of rapid market movement.

- Focus on mobility.
- Diversify investment products.
- Place emphasis on comprehensive profit and loss
- Strengthen the ability to respond to sudden changes in market prices.



#### Securities outstanding(JPY Bn)

■ Investment trust ■ Stocks ■ Foreign bonds ■ Yen bonds



### Strengthen governance using “RAF” Respond to diversifying risks

- ◆ Formulate management strategy and improve risk control system utilizing RAF (Risk Appetite Framework).
- ◆ Cultivate risk culture with appropriate risk appetite and solid compliance through employee training.
- ◆ Enhance risk control system by improving simulation and stress test to respond timely to changes in the market.



#### Formulation of management strategy

- Maintain balance among profit, risk and capital adequacy.

#### Strengthen risk management structure

- Enhance group wide management by aggregating control functions to the holding company.
- Conduct forward-looking analysis using stress tests.
- Improve monitoring system of profit/loss and risk based on RAF.

#### Sophistication of integrated risk management

- Conduct forward-looking management with risk-based approach.

#### Accurate risk identification, Improvement of risk control and Raising awareness of employees

- Respond to changes in environment and regulations, and cultivate risk culture
- Exterminate customer information leakage.

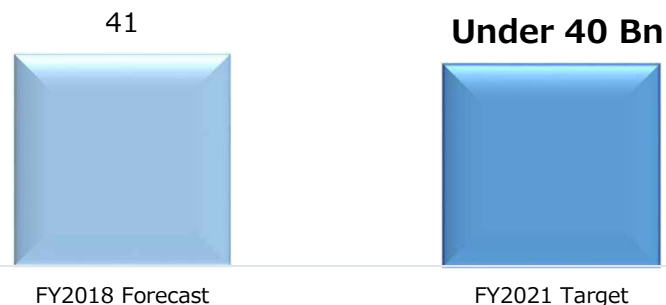
## 2-8 Business reform, Optimization of branch store network and Strategy for utilization of human resources

### Improve management efficiency , productivity and work environment

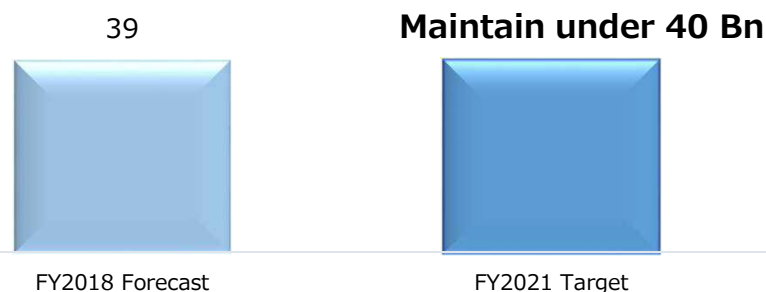
- ◆ Streamline our business by way of reduction, centralization and outsourcing of office works in branches, and remote assistance of our customers to achieve the best performance in limited management resources.
- ◆ Promote business rationalization by utilizing ICT(digitalization,RPA,paperless)
- ◆ Optimize the personnel expenses by optimizing the staffing and flexible recruitment and dispatch .
- ◆ Review and improve the branch store network by clarifying the roles and functions of each branch store and ATM to maintain regional financial infrastructure.
- ◆ Develop human resources to improve customer service, expertise and management ability.
- ◆ Maintain a work environment in which diverse human resources can play an active role.



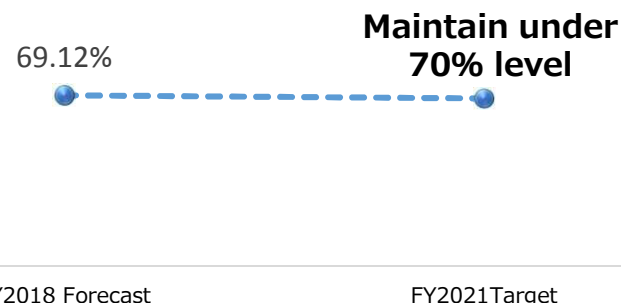
#### Personnel expenses(JPY Bn)



#### Non – personnel expenses(JPY Bn)



#### OHR



- Improve efficiency and productivity by optimizing the number of personnel and activities.
- Relocate branches considering their future roles and open branches of new forms and roles.
- Improve efficiency of branch store network by specializing functions such as for corporate use and for individual use.
- Offer cash points by new ATM strategy.
- Realize work-life balance by productivity improvement.
- Increase the number of women in management positions.



## 2-9 Hokuhoku FG Group strategy

### Strengthen and expand collaboration in Hokkaido area

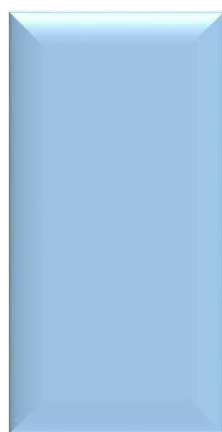
- ◆ Strengthen sales promotion through joint use of consulting and financial services by two banks.
- ◆ Promote joint (renewal) branches in Hokkaido
- ◆ Expand collaboration of headquarters and back office.

- Utilize the leading-edge consulting and financial services while leveraging the strength of both bank's brands.
- Further collaboration of headquarters and back office in Hokkaido.



Balance of loans (Corporate/  
Individual)(JPY Bn)

2,988



FY2018 Forecast

Over 3,200



FY2021 Target

### Centralization of headquarters operations

- ◆ Pursue further synergy effects by integrating functions to Hokuhoku FG

#### Business and Organization

- Reduce expenses and strengthen governance further by unifying the functions of the advisory committee and headquarters organization.

#### Digitalization and Systematization

- Promotion of digitalization by strengthening collaboration within MEJAR.
- Achieve appropriate investment in the group by jointly operating the system.

### Strengthen cooperation with banks and affiliates

- ◆ Provide comprehensive financial services through cooperation between two subsidiary banks and affiliated companies.

- Strengthen sales force by collaboration within the group

### Efforts to improve shareholder value

- ◆ Maintain stable dividends while accumulating profits to reserve the capital required for risk taking.

- Accumulate profits stably and maintain an Capital Adequacy Ratio of 8% or more, putting emphasis on the profitability for risk asset.
- Determine dividends considering future profit levels and Capital Adequacy Ratio, putting emphasis on continuing stable dividends.

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