

# Medium-term Management Plan

## 【FY2019-21】

**CONCORDIA**  
Financial Group



# 1. Market potential (Kanagawa/Tokyo)

- Uncover growth opportunities, by maximizing the market potential in Kanagawa and Tokyo, the home market of Concordia Group.

## Potential markets (Kanagawa/Tokyo)

### Economic scale

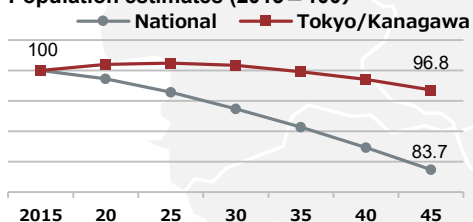
**A mega market which accounts for approx. 25% of Japan's GDP**

- Equivalent to Spain, Mexico, etc. in economic scale

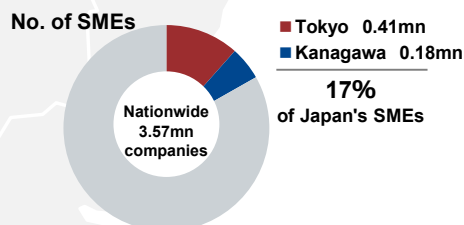
### Market size

**Less impacted by population decline**

Population estimates (2015 = 100)



**SMEs concentration**



### Market characteristics

**High concentration of HNWIs interested in wealth management services**

- 26% of ancestors subject to inheritance tax are living in Tokyo/Kanagawa

**High inflow of young generation**

- Ranked No. 1 and No. 2 in Japan in terms of excess inflow of population

**Abundant with good companies**

- With stable retained earnings

**Mix of corporate customers in various growth phase**

- Lacking a successor despite a high rate of new businesses

## Group's customer base

### Corporate customers (two banks combined)

Growth phase	No. of customers
Startup	approx. 3,300
Growth	approx. 4,500
Maturity	approx. 28,100
Renewal/Decline	approx. 6,800
<b>Total</b>	<b>approx. 43,000</b>

### Retail customers (two banks combined)

Age group	No. of customers
- 19 yrs.	280,000
20-39yrs.	1,230,000
40-59yrs.	1,830,000
60-79yrs.	1,420,000
80yrs.-	440,000
<b>Total</b>	<b>5,210,000</b>

## Growth opportunities

**Solution offerings to corporate customers, mainly SMEs in various growth phase**

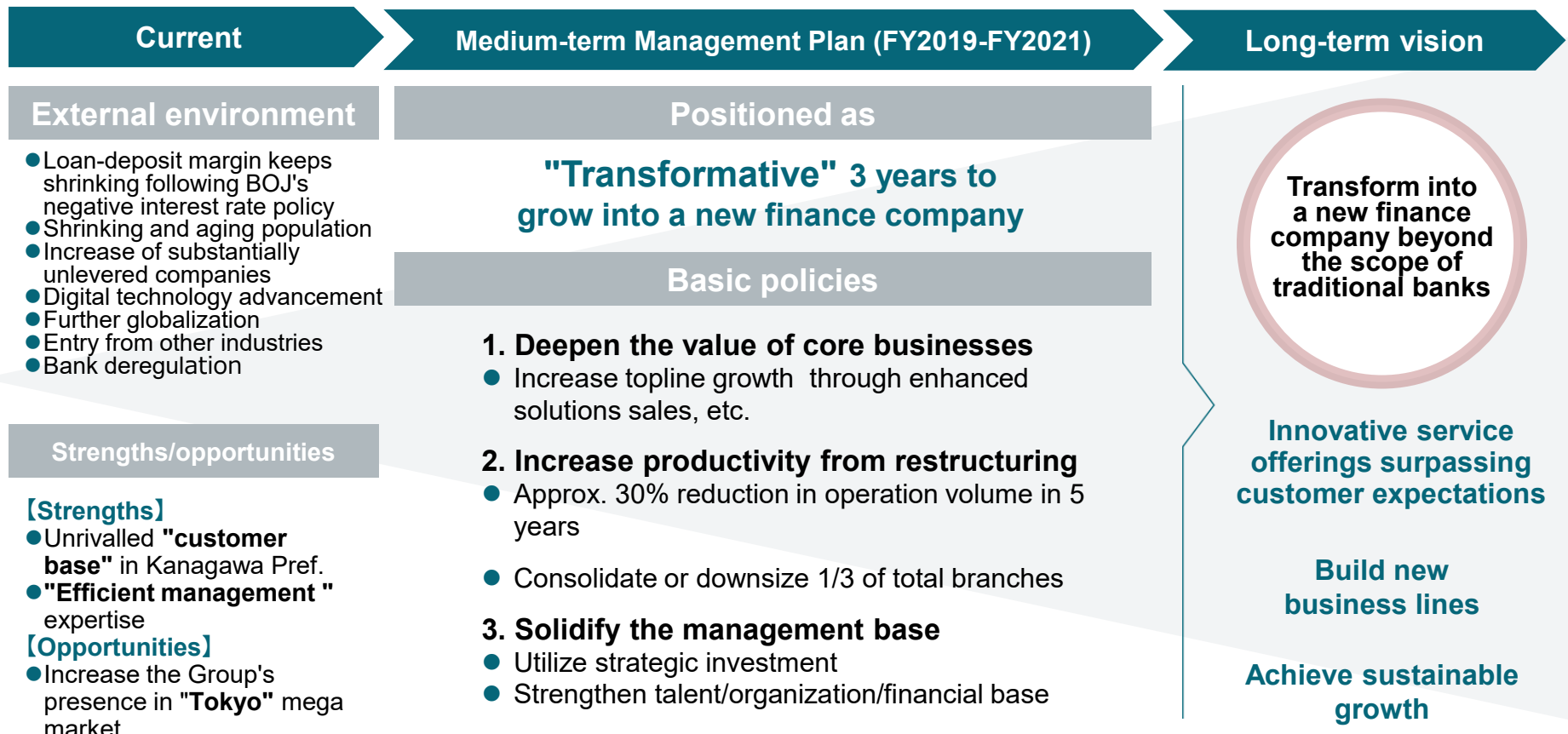
**Wealth management services for HNWIs**

**Better service offerings to senior customers**

**Convenient services for customers in wealth formation phase, mainly young generation**

## 2. Overview of Medium-term Management Plan

- We strived under the previous Medium-term Management Plan to achieve group synergies through management integration. However, we failed to achieve the revenue target due to harsher external environment than expected amid lingering negative interest rate under BOJ's initial target of CPI 2% growth still out of reach.
- Moreover, in addition to responding to the Business Improvement Order issued to Higashi-Nippon Bank (HNB), we need to take necessary measures to drastically review the current operation such as improving operational efficiency driven by digital technology and launching new businesses.
- To address the challenging management environment/issues, the next 3 years covered under the new Plan are positioned for "transformation" into a "new finance company beyond the scope of traditional banks" and for solid growth given the Group's "strengths" and "opportunities".











### 3. Basic policies and key initiatives

- Implement 10 key initiatives under the 3 basic policies to achieve "Long-term vision".

Basic policies	10 key initiatives
1. Deepen the value of core businesses	<ul style="list-style-type: none"><li>① Sales strategy in home market</li><li>② Enhanced solutions sales</li><li>③ Overseas business expansion</li><li>④ Diversified fund management</li></ul>
2. Increase productivity from restructuring	<ul style="list-style-type: none"><li>⑤ Operational reform based on digital technology</li><li>⑥ Branch channel reform</li></ul>
3. Solidify the management base	<ul style="list-style-type: none"><li>⑦ Enter new business areas by making strategic investment</li><li>⑧ Robust organization and talent development for sustainable growth</li><li>⑨ SDGs initiatives</li><li>⑩ Capital policy</li></ul>

## 4. KPIs under Medium-term Management Plan

- Maintain certain risk-return profile through enhanced solutions sales and appropriate risk-taking even under ongoing negative interest rates, improve efficiency from restructuring and deliver continued growth in enterprise value.

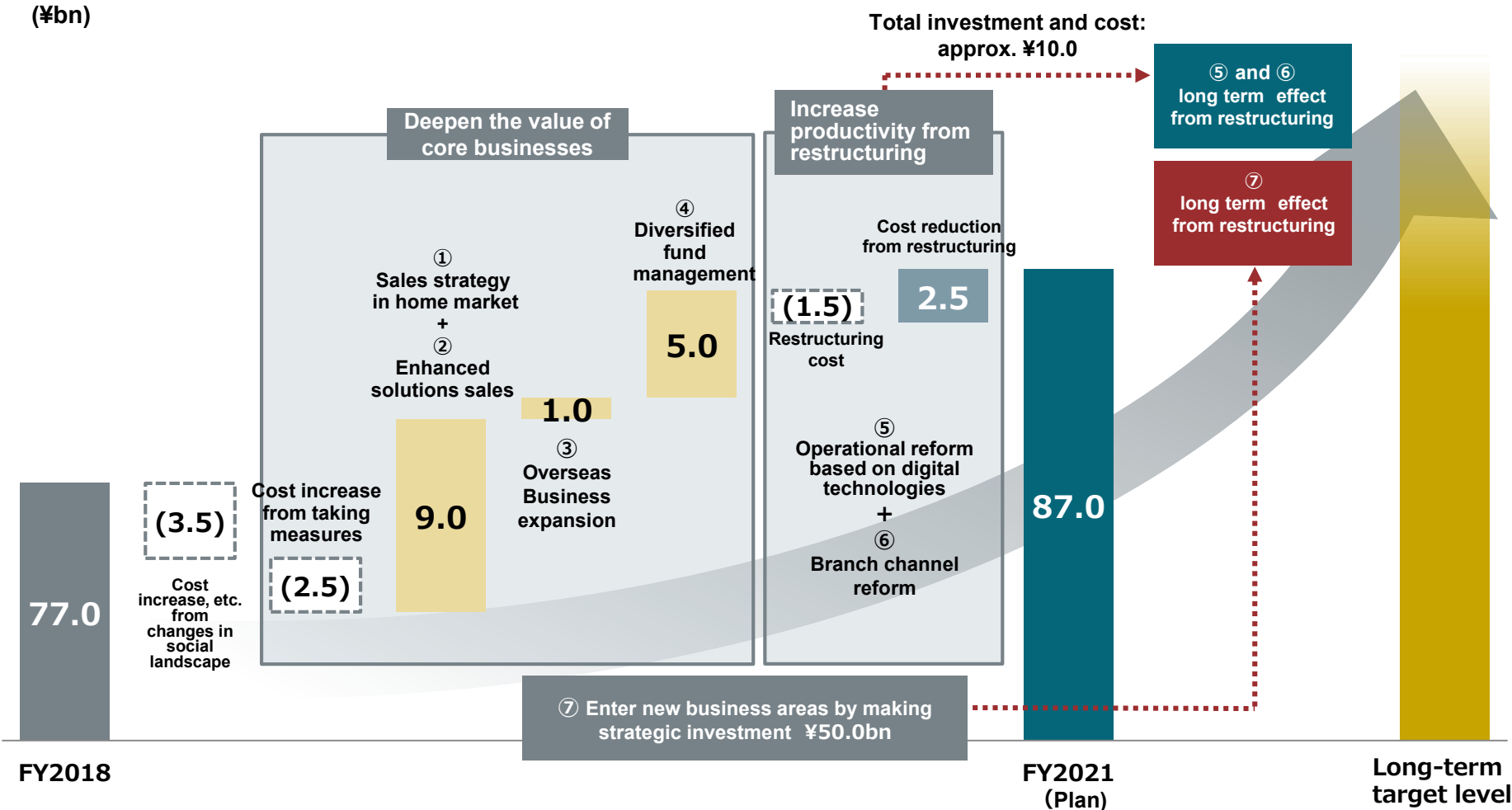
Key metrics	FY2018 (Actual)	Target	
		FY2021 (Final FY under the Plan)	Long-term target
Gross operating income RORA (consolidated)	2.5%	 Mid 2% level	 Mid 2% level
OHR (consolidated)	61.4%	 Approx. 60%	 Approx. 50%
ROE※ (consolidated)	5.2%	 Mid 5% level	 Approx. 7%
CET1 ratio (consolidated)	13.00%	 Approx. 12%	 Mid 11% level

※Shareholders' equity basis

# 5. Profit target under Medium-term Management Plan

- Increase enterprise value in the mid-to-long term through "Deepening the value of core businesses" and "Increasing productivity from restructuring", etc.

## Changes in core net business profit (two banks combined)



## 6. Key initiatives ① Sales strategy in home market

- As a regional financial group focusing its sales in Kanagawa/Tokyo, increase presence in the region by pursuing region-specific strategy incorporating market characteristics, customer base and branch network.

### CONCORDIA Financial Group

#### Tokyo

Loan balance: approx. ¥3.7trn  
(Share: approx. 2%)

Deposit balance: approx. ¥1.0trn

**BOY** 25 branches

**HNB** 53 branches

HIGASHI-NIPPON BANK

~Metropolitan area~  
Prioritized resource allocation

#### Kanagawa

Loan balance: approx. ¥8.4trn  
(Share: approx.30%)

Deposit balance: approx. ¥13.1trn

**BOY** 177 branches

**HNB** 8 branches

#### Sales strategy in Tokyo

Enhance relationship banking as a group (support growth of customers in various growth phase) and increase presence in Tokyo.

#### Initiatives

- Restructure HNB business model  
~Transform into a "bank contributing to the growth of SMEs"~

#### Business areas

#### Current

#### Future

● Geography	Kanto region	Resource allocation to Tokyo
● Branch/channel	Mainly full-banking branches	Consolidation/downsizing
● Service	Deposits and loans	Deposits, loans and solutions
● Approach	Mainly new transactions	Becoming a main bank

- Focus on start-ups and growth sectors (Healthcare, IT, etc.)

#### Sales strategy in Kanagawa

Strengthen community-based sales under the district-based division system and expand market share in Kanagawa

#### Initiatives

- Solutions Sales Dept. was established at BOY H.O.
- A division manager is appointed to offer optimal solutions to customers  
(Ref. Key initiative② Enhanced solutions sales)

(Note 1) No. of branches is as of Mar. 2019. Figures shown are two banks combined

# 6. Key initiatives ② Enhanced solutions sales (corporate customers)

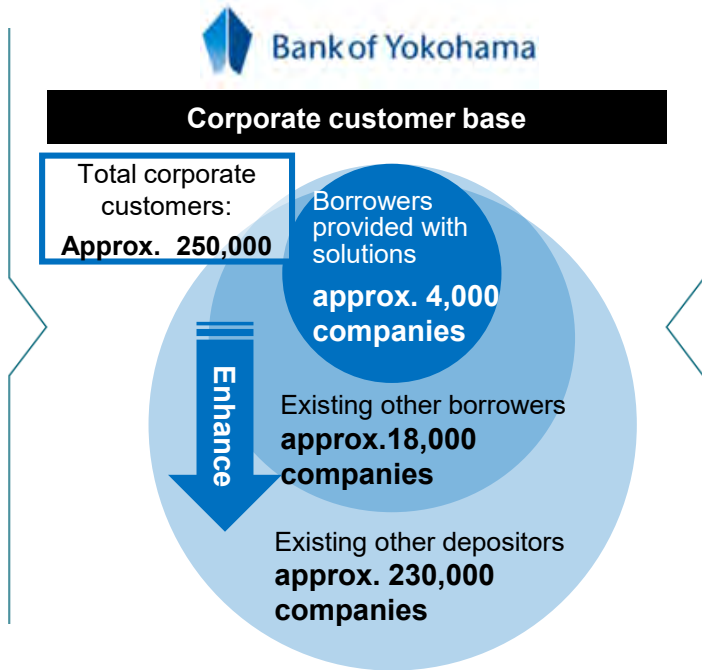
- Expand optimal solution offerings through business evaluation with the customer base built in Kanagawa and Tokyo areas where mix of corporate customers in various growth phase gather.

## Provide optimal solutions through business evaluation

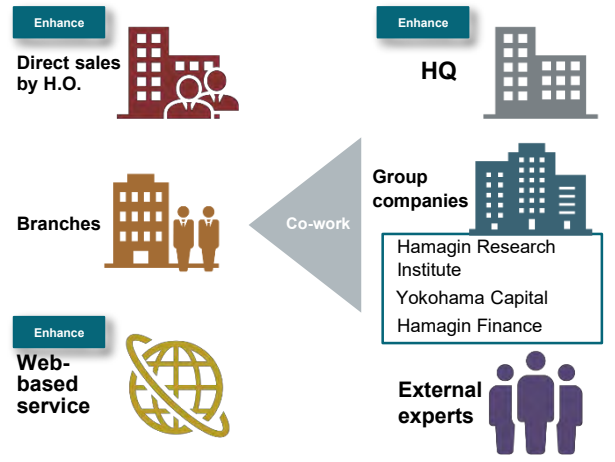


## Diverse customer needs

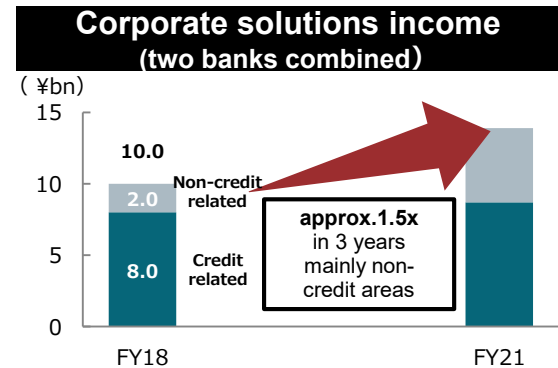
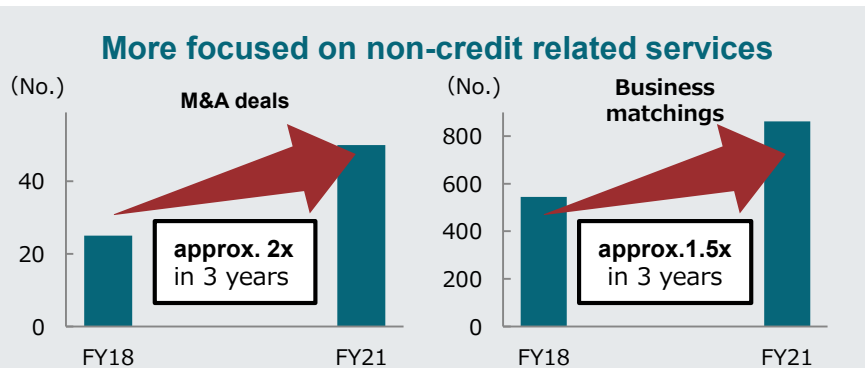
Capex	Channel expansion	Business succession
Recap.	Diversification	Overseas expansion, etc.



## Enhance Group-wide solution offering capabilities



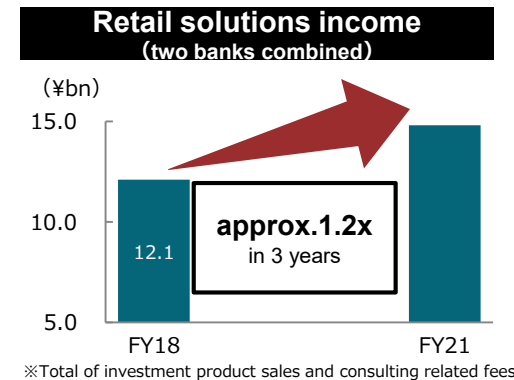
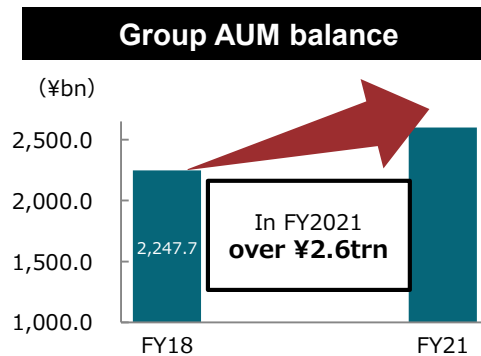
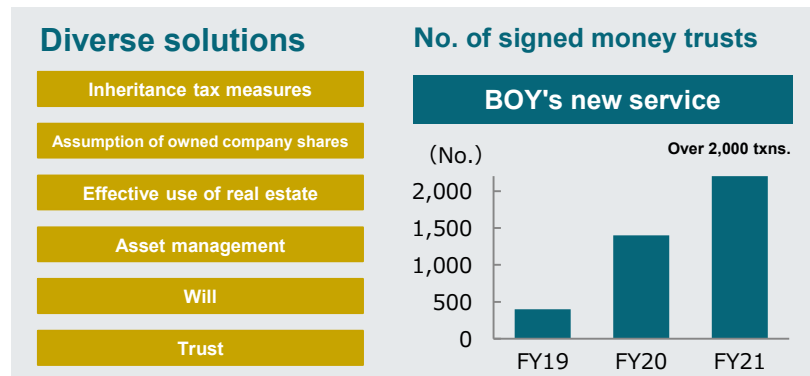
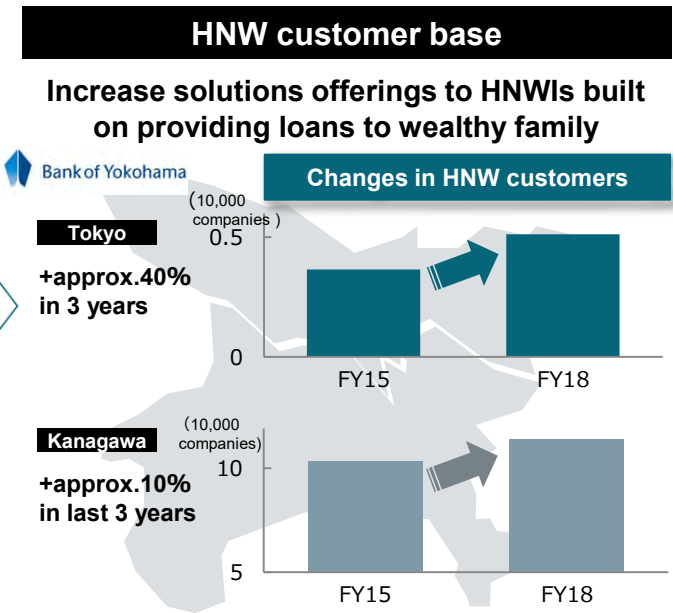
- ### Diverse solutions
- Hybrid debt/equity financing support
  - Support asset management
  - Sales channel expansion  
Support for talent retention
  - Business succession/M&A support
  - Overseas expansion support
  - Management consulting





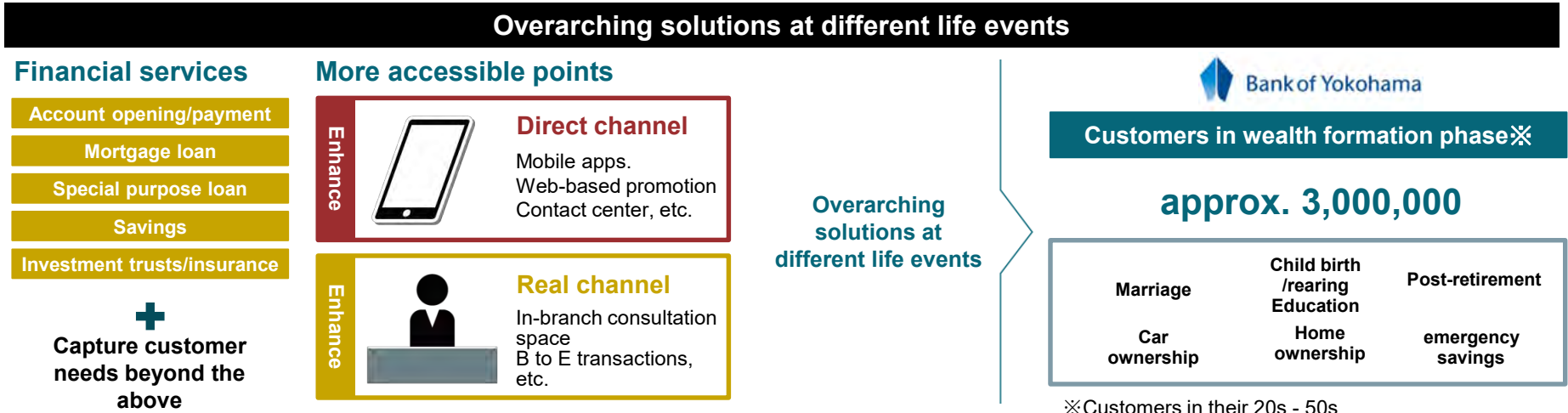
## 6. Key initiatives ② Enhanced solutions sales (HNWIs)

- Restructure the sales framework for HNW customer base built on providing loans and offer one-stop and optimal solutions.



## 6. Key initiatives ② Enhanced solutions sales (customers in wealth formation phase)

- In the retail market of Kanagawa/Tokyo with a high inflow rate of youth population, provide overarching solutions to customers at different life events.




**Diverse services by digitalization**

**Build a "regional ecosystem"**

Digital Strategy Division was set up to capture customer needs beyond financial needs

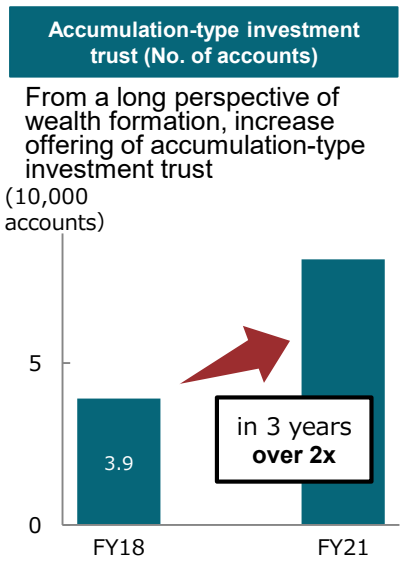
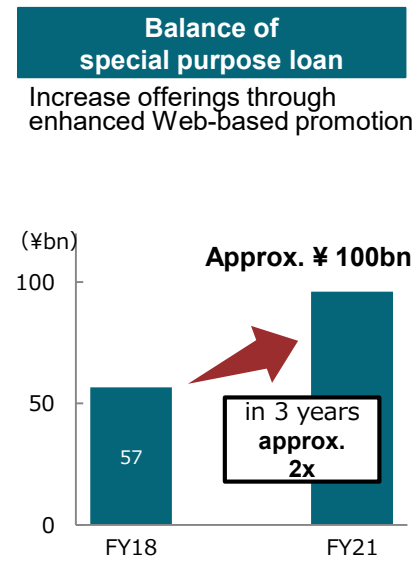
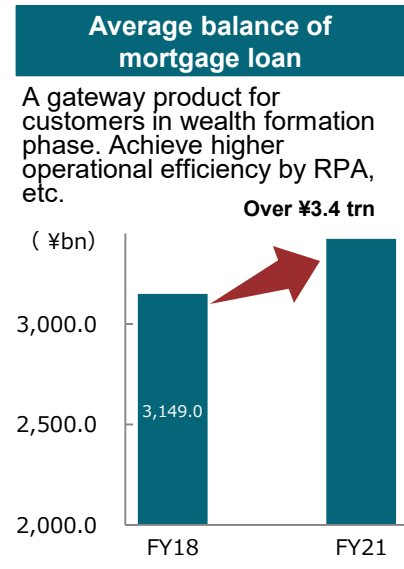
**Advanced payment service**



- Mobile QR code payment
- Cash withdrawal service available at railway ticketing machine

**Provide a regional currency platform**

Provide a platform for regional currency issued by local government, chamber of commerce, private firms, shopping malls, etc.



## 6. Key initiatives ③ Overseas business expansion

- Increase overseas business income by supporting business growth of corporate customers and accumulating overseas assets

### Support for corporate business growth

#### Enhance business support network in Asia

##### Current support network

Shanghai Branch  
HK/Bangkok Representative Offices  
Partnered with 8 overseas banks



##### New Singapore Branch

(Scheduled opening in 2020 subject to regulatory approvals)

##### Bank Resona Perdania

(Investment to be completed subject to regulatory approvals)

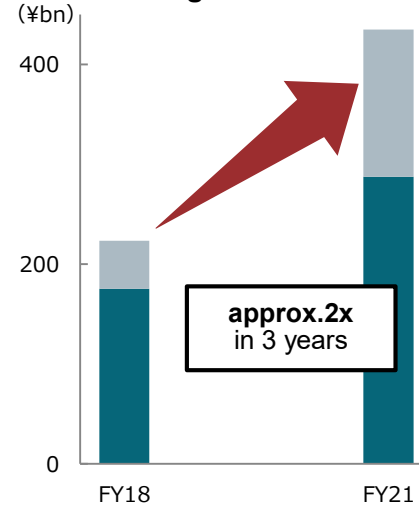
Enhance

Capital contribution



### Overseas asset accumulation

#### Accumulate overseas asset through support for corporate business growth and increased investment capabilities



##### Overseas investment projects

- Business loans to foreign entities
- Diversify investment with prudent risk management

##### Corporate customers

- Branches in Japan and local areas extend loans to a customer's local entity
- Utilize SBLC scheme and extend loans to customers of other regional banks

### Global talent development

- Dispatched personnel to overseas branches and partner banks and strategically developing global talents

#### Dispatch records

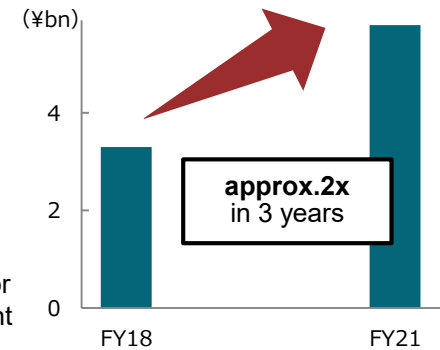
##### China

Bank of China

##### SE Asia

Bangkok Bank, PT Bank Maybank Indonesia, Bank for Investment and Development of Vietnam, etc.

### Overseas business income



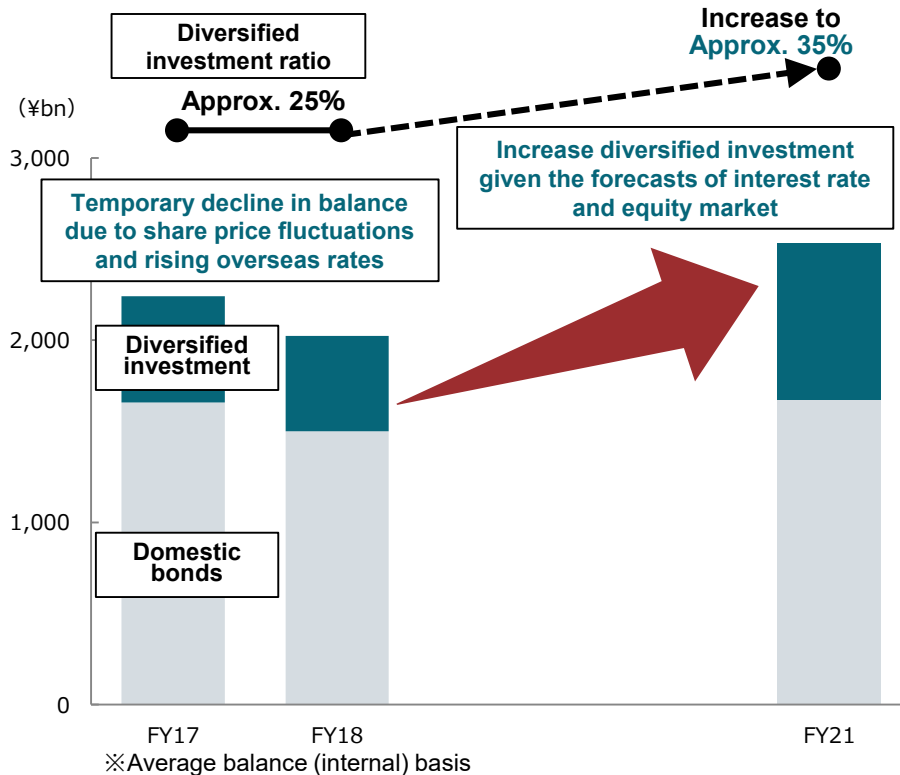
## 6. Key initiatives ④ Diversified fund management

- Given the gap between deposit and loan amount and persistently low interest rate in Japan, increase diversified investment under an appropriate risk management and ensure stable income gains

### Increased investment

- Centered on domestic bond investment, increase diversified investment mainly foreign bonds with stable income gains

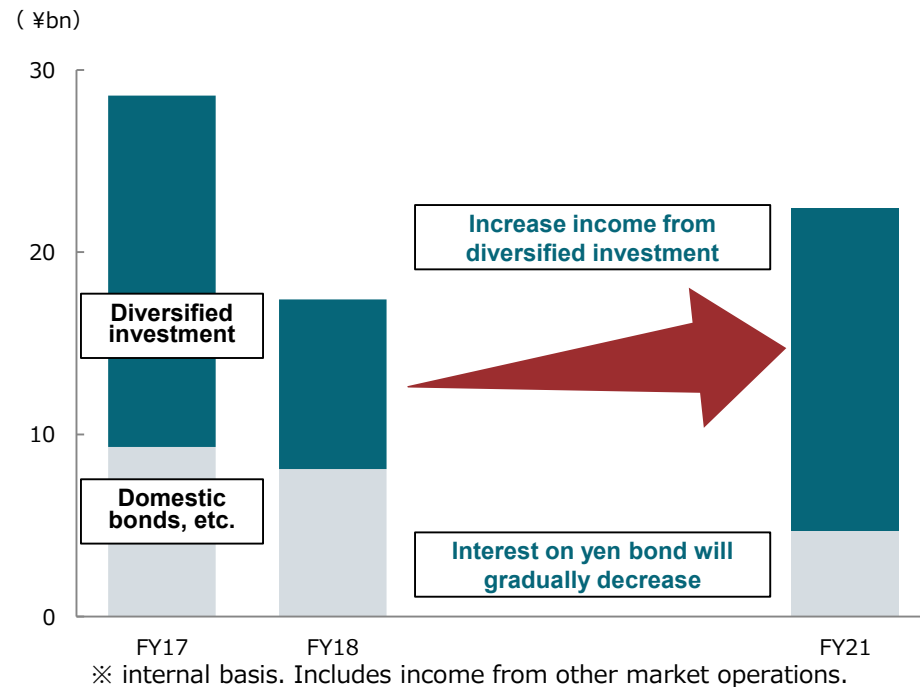
#### Investment balance (avg. balance)



### Diversified investment

- Diversify investment and flexibly capture profit opportunities by changing asset allocation given economic trends.
- Market Division will increase its workforce to stably build diversified investment portfolios

#### Profit from Market Division



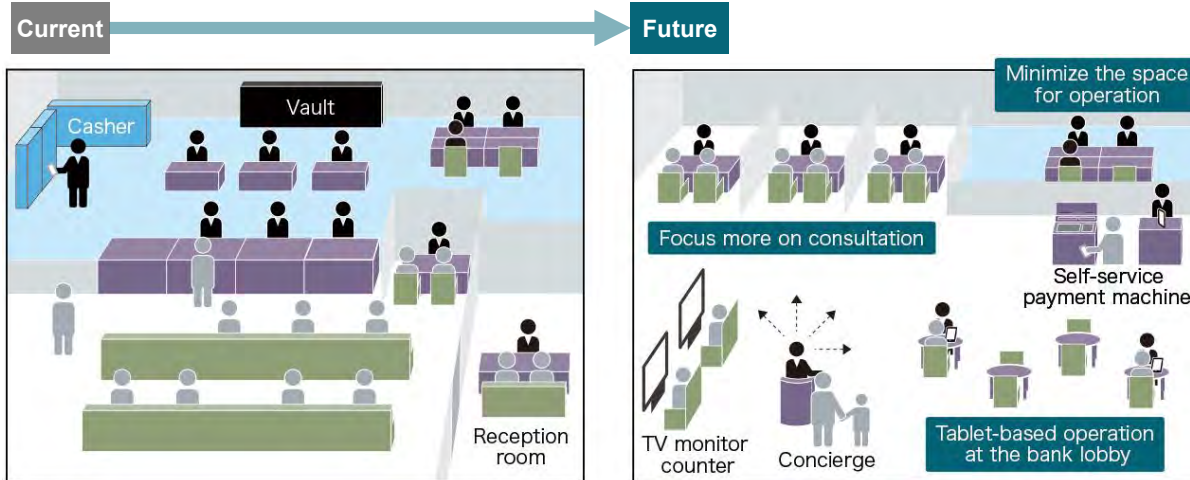
# 6. Key initiatives ⑤ Operational reform based on digital technology

- Drastically streamline the current banking operations while ensuring customer convenience through operational reform based on digital technology

## Drastic reform of branch operation by going paperless/cashless/back office less

<b>Paperless</b>	<ul style="list-style-type: none"> <li>● Introduce tablet-based banking which requires no transaction tickets and request forms</li> <li>● Introduce personal identity verification instead of seal verification (Seal-less transaction)</li> <li>● Expand the scope of WEB-based operation, etc.</li> </ul>
<b>Cashless</b>	<ul style="list-style-type: none"> <li>● Introduce a self-service payment machines and minimize cash-related operations</li> </ul>
<b>Back office less</b>	<ul style="list-style-type: none"> <li>● Set up a new middle office function to centralize remaining branch operations</li> </ul>

## A branch will focus more on consultation by operational reduction

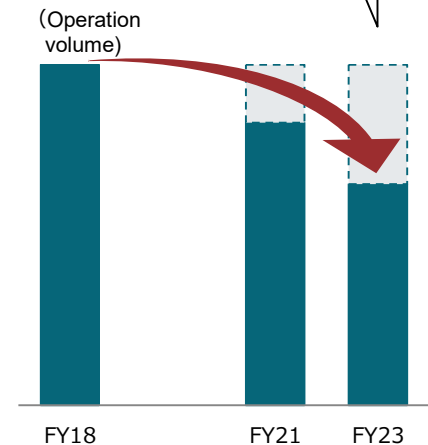


## Drastically review the process at operational centers such as introducing IT-based operations

- Further application of RPA, AI-OCR, etc.
- Introduce IT-based operation for less processing and operational efficiency

## Operation volume at branches and operational centers

Reduce approx. 30% of target volume in 5 years (worth 800 employees)



Branches

Operational center

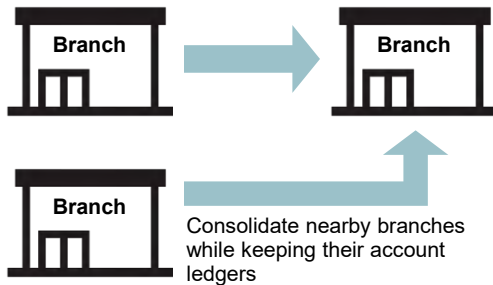
## 6. Key initiatives ⑥ Branch channel reform

- As a regional financial group, focus on efficient branch operation while retaining its extensive branch network.

### BOY

Optimize branch network with the reduction in the number of visitors to branches

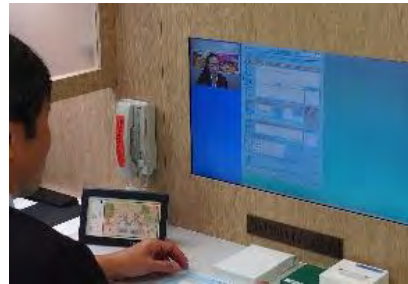
#### Branch-in -branch consolidation



- Appoint a branch manager in charge of several branches and close the bank during the lunch hour

#### Shift to a mini branch

- A downsized branch using a TV monitor



Consolidate/downsize over **20%** of total branches in 5 years  
(207 branches as of Mar. 2019)

Reduction in branch maintenance cost

approx. **¥2.0bn** (p.a.)

### HNB

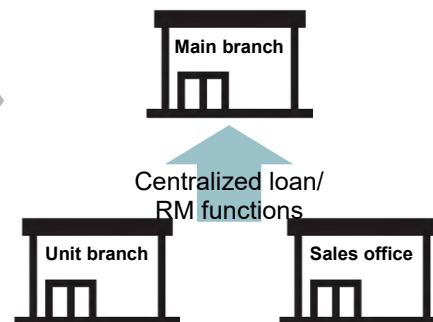
Centralize loan operations to a main branch through system integration

#### Current



- Branches with a full-banking function (deposit, loan, RMs)

#### Post-introduction



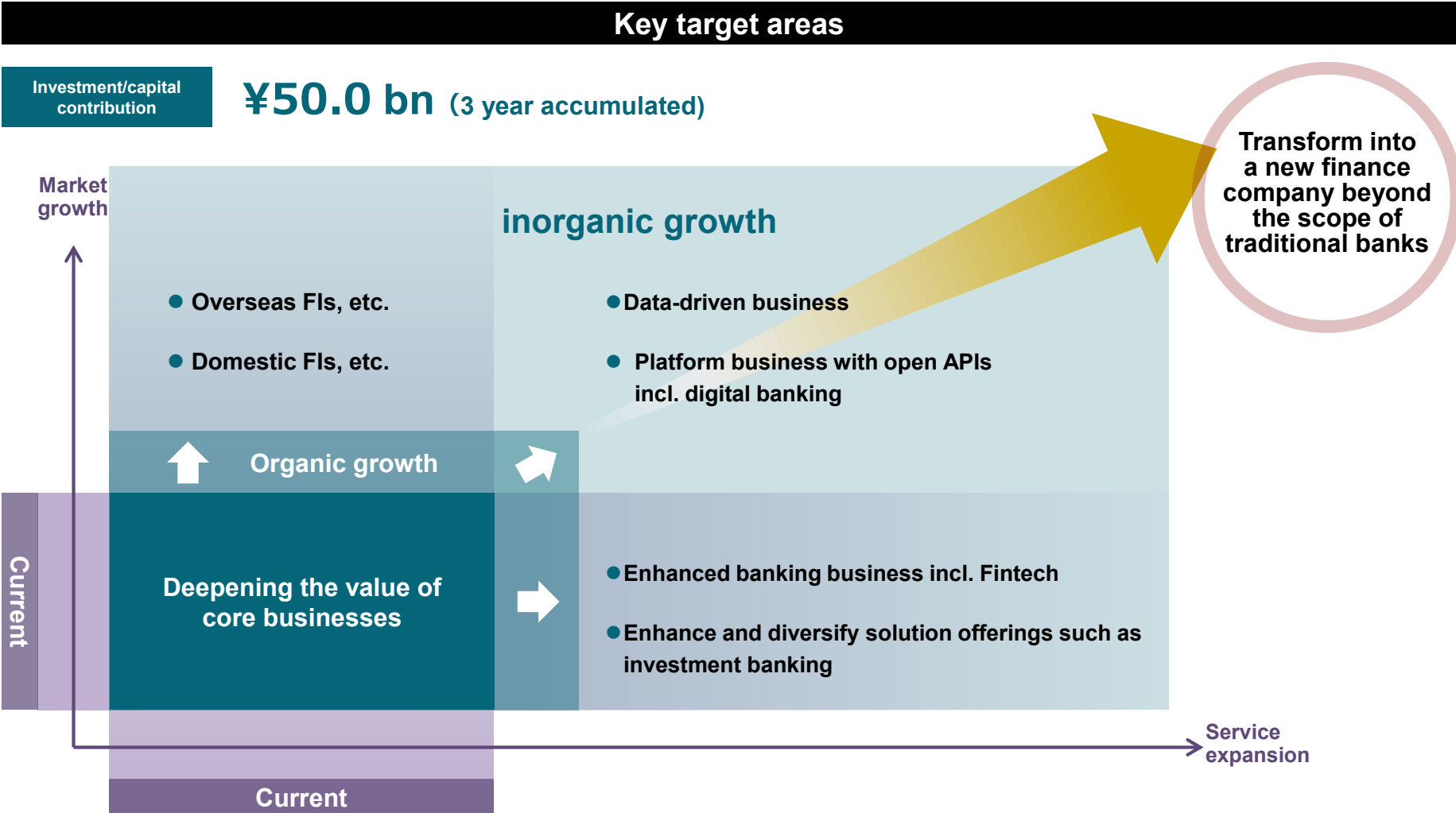
Consolidate/downsize over **60%** of total branches in 3 years  
(85 branches as of Mar. 2019)

Reduction in branch maintenance cost

approx. **¥0.8bn** (p.a.)

# 6. Key initiatives ⑦ Enter new business areas by making strategic investment

- While deepening the value of core businesses as a regional financial group, positively consider expanding/enhancing the business scope by making strategic investment.





## 6. Key initiatives ⑧ Robust organization and talent development for sustainable growth

- Transform into a highly productive organization by maximizing addressable capabilities of various talents, building a corporate culture encouraging new challenges and career growth opportunities and improving engagement and motivation at work.

Develop and allocate best talents to meet customer expectations and gain trust

### ● Improve problem-solving capability

- ~ Talent development to enhance solutions sales
- ~ Actively develop talents/recruit talents for improving fund management and expanding overseas offices
- ~ Develop compensation framework for highly professional talents and further recruitment

### ● Enhance career development

- ~ Build a framework for talent portfolio management and strategic allocation

### ● Leadership development

- ~ Enhance skills for organization management and talent development
- ~ Systematic development of executive candidate

Talent development

Improve engagement and motivation at work

Trusted and appreciated by customers

Enhance skills/expertise  
Optimal consulting

Encourage and motivate employees

Highly productive organization

Robust organization and talent development for sustainable growth

Maximize addressable capabilities of various talents to transform into a highly productive organization

### ● Increase productivity by deepening work style reform

- ~ Operational review based on digital technology
- ~ Utilize flextime system, telework, etc.

### ● Enhance senior employment and promote active participation of young and female workers

### ● Enhance diversity & inclusion measures

- ~ Support people with disabilities participate in the society (Launch of Hamagin Business Challenged)

### ● Healthy and safe workplace

- ~ Promote a healthy work environment, set up an in-company nursery, etc.

A corporate culture encouraging challenges/growth opportunities

Build a corporate culture encouraging new challenges and career growth opportunities

### ● Promote group-wide personnel exchange, etc.

### ● HR systems to encourage challenges

### ● Revamp the training/development framework for career growth

- ~ Kawasaki Training Center (tentatively named) will open in 2020 and personnel exchange at the accommodation facility



## 6. Key initiatives ⑨ SDGs initiatives

- As a financial group that is indispensable to its region, actively promote corporate behavior to resolve social issues and finally increase enterprise value while contributing to regional development (creating shared value).

### Environment

**Our priorities**

- Global warming
- Climate change mitigation

**Actions under MTM Plan**

- Support for eco-business promotion
- Environmental burden reduction
- Environmental considerations in investment and loan
- Environmental conservation activities





### Children (next generation)

**Our priorities**

- Demographic crisis
- Shifting life style

**Actions under MTM Plan**

- Further promotion of financial literacy
- Wealth formation/succession support
- Culture and art activities for children








### Local communities

**Our priorities**

- Sustainable corporate growth
- Regional revitalization
- Digitalization in finance

**Actions under MTM Plan**

- Solutions offerings through business evaluation
- Participation in regional development
- Digital-driven financial services
- Promotion of cashless payment




### Governance (Management base)

**Corporate governance**

- Risk management
- Compliance
- Internal audit
- Diversity promotion
- Work style reform
- Measures/compliance against financial crime

**Initiatives under MTM Plan**

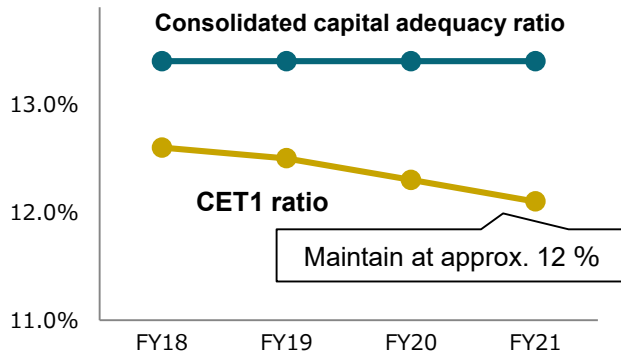
- Talent development
- Support for various working styles and promotion of women's participation and advancement in the workplace
- Enhanced business management based on Risk Appetite Framework
- Measures/compliance against financial crime

## 6. Key initiatives ⑩ Capital Policy

- Under the capital policy to achieve solid capital profile and capital efficiency with Risk Appetite Framework (RAF), retain balanced shareholder return considering risk asset increase and strategic investment for growth.

### Consolidated capital adequacy ratio



### Capital structure

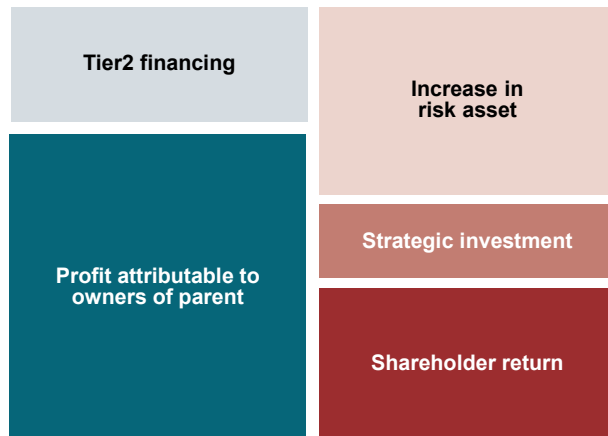
Use Tier2 capital to remain solid and improve capital efficiency

- Target capital adequacy ratio
- Tier2 capital funding

Maintain CET1 capital ratio at **approx. 12%**

Continue subordinated bond financing to maintain the consolidated capital adequacy ratio and to enhance capital efficiency

### Capital allocation in MTM plan period



### Shareholder Return Policy

Balanced shareholder return given the capital profile and growth investment opportunities

- Dividend** Achieve target payout ratio of **over 35%** and stably increase dividend payment per share
- Share buyback** Conduct flexible and agile share buyback given market trends and business outlook

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