

Mid-Term Management Plan “Road to 10”



株式会社 ほくほくフィナンシャルグループ
Hokuhoku Financial Group, Inc.

May 2010

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Hokuhoku Financial Group, Inc.

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【Social and Economic environment】

- ① Recovery of Japanese Economy remains slow
- ② Weak domestic demand and Dependence on foreign demand
- ③ Uncertainties over employment and to social securities
- ④ Financial Difficulties and Reduction of public investment

【Local Economy】

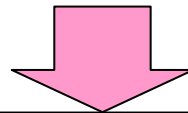
- ① Downturn in local economy
- ② Declining birthrate and aging population
- ③ Decrease in new housing construction
- ④ Globalization of local business
- ⑤ Unhealthy budget of local government

【Competition】

- ① Competition with Yucho Bank
- ② Competition for loans to SMEs
- ③ The decline in Interest margin amid fierce competition

【Accounting Standards and Regulations】

- ① Act of facilitation financing for SMEs
- ② Fair Valuation and Disclosure of Financial products
- ③ Basel II
- ④ IFRS



Business Environment is getting more difficult, due to shrinking market, tough competition and increase in risk amid uncertainty over economy

Overview of Management Plan

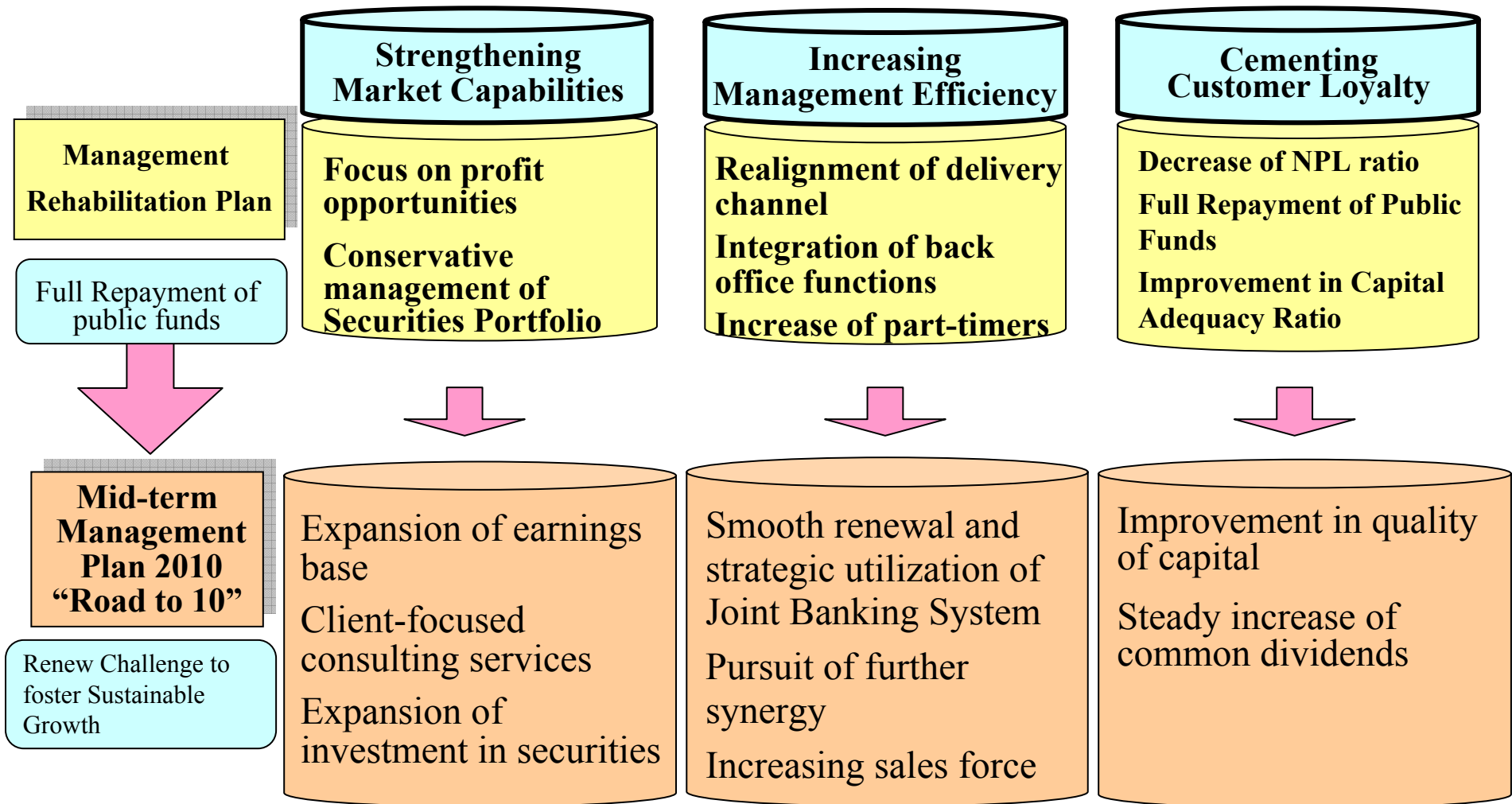
Hokuhoku Financial Group, Inc.

Title	Road to 10
Period	3 Years (April 2010~March 2013)
Position	Renew Challenge to Foster Sustainable Growth ~ Achieve JPY 10 Trillion in deposit ~
Target Corporate Profile	Most Closest and Reliable Financial Group for Local Customers
Main Theme	<ol style="list-style-type: none">1. Establishing a stable earnings base to deal with uncertainty over economy2. Smooth migration and strategic utilization of Joint Banking System and Upgrading human resources and service delivery channels3. Accumulating capital surplus to meet Basel II, increase in dividends and redemption of preferred equity

Basic Policies in Management Plan

Hokuhoku Financial Group, Inc.

We will keep on 3 key policies and implement proper measures after full repayment of public funds to achieve JPY 10 Trillion in deposit.



Strengthening Market Capabilities

Hokuhoku Financial Group, Inc.

We aim at “Most Closest and Reliable Financial Group for Local Customers” through “Triple R” Strategies

Retail = Close to Customers

Increasing contact with customers and diversify transactions of each account

Enhancing segment marketing
Expanding business to SMEs
(Maruho Loan* etc)

Promotion of housing Loan

Increase in salary deposit and pension transfer accounts

*Loans guaranteed by Credit Guarantee corporations

Relation = Reliable Service

Offering the best solutions to customers

Advisory fit for customers’ life cycle

Corporate Customer:

Start-up→Growth→Expansion →Succession

Personal Customer:

Solutions in line with client’s life stage

Offering private banking services

Capitalizing on overseas rep. offices

Region=Contribution to local community

Establishing branch network focused on customer convenience

Initiating strategic realignment of branch network

Establishing Business Center and Consultation Lounge

Beefing up collaboration with academic institutions and local governments

Enhancing CSR initiatives, Attracting new business to our region

Supporting local growing industries (Agriculture, Medicine, Environment)

Strategic allocation of HRs

Improvement of negotiation skills

Know-how shared through communication within the group

Strengthen alliance

Working closely with Hokuhoku Services Inc.

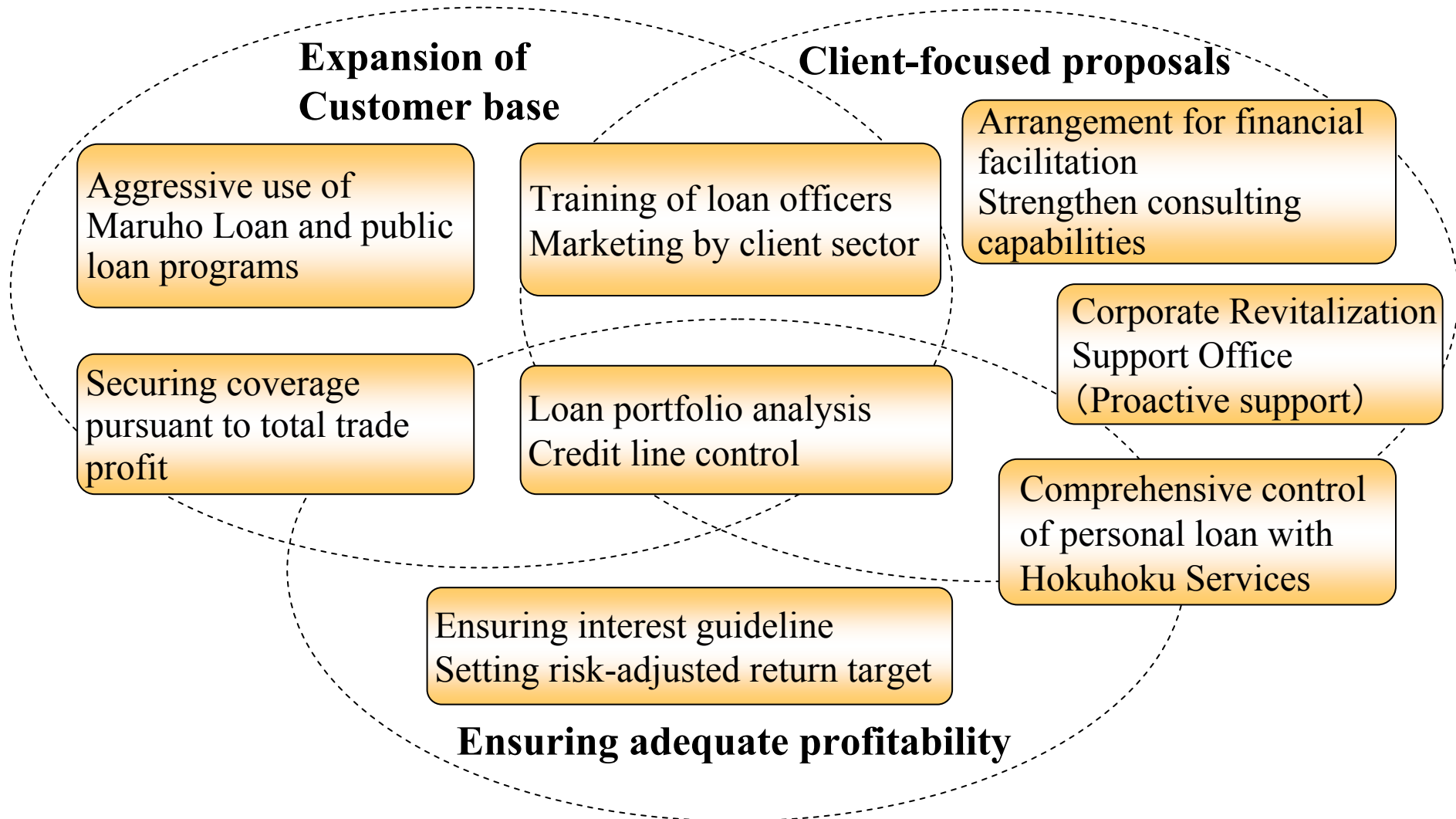
Shore up collaboration with Other banks / Shinkin banks and CVS

Strengthening Market Capabilities

~Construction of strong loan base

Hokuhoku Financial Group, Inc.

➤ Building a solid customer base customer base and improving loan asset



Strengthening Market Capabilities

Hokuhoku Financial Group, Inc.

~Overseas Business Support

➤ Activating regional economy by absorbing growth of Asia and Far East Russia

Fully capitalizing on the geographic advantage and a top-level extensive network among regional banks

Bolstering Information offering Services

Business partnership for overseas business with other financial institutions

Bank of China
Bank of Communications
FISC (Taiwan)
KASIKORNBANK
Vietcombank
Standard Chartered Bank
State Bank of India
Vneshtorgbank
Deutsche Bank

Agreement with overseas governments



Strengthening overseas services

International cash card services for Taiwanese in ATMs of Hokkaido Bank

Provide Remittance Service in Russian Ruble

Holding seminars and business matching conferences

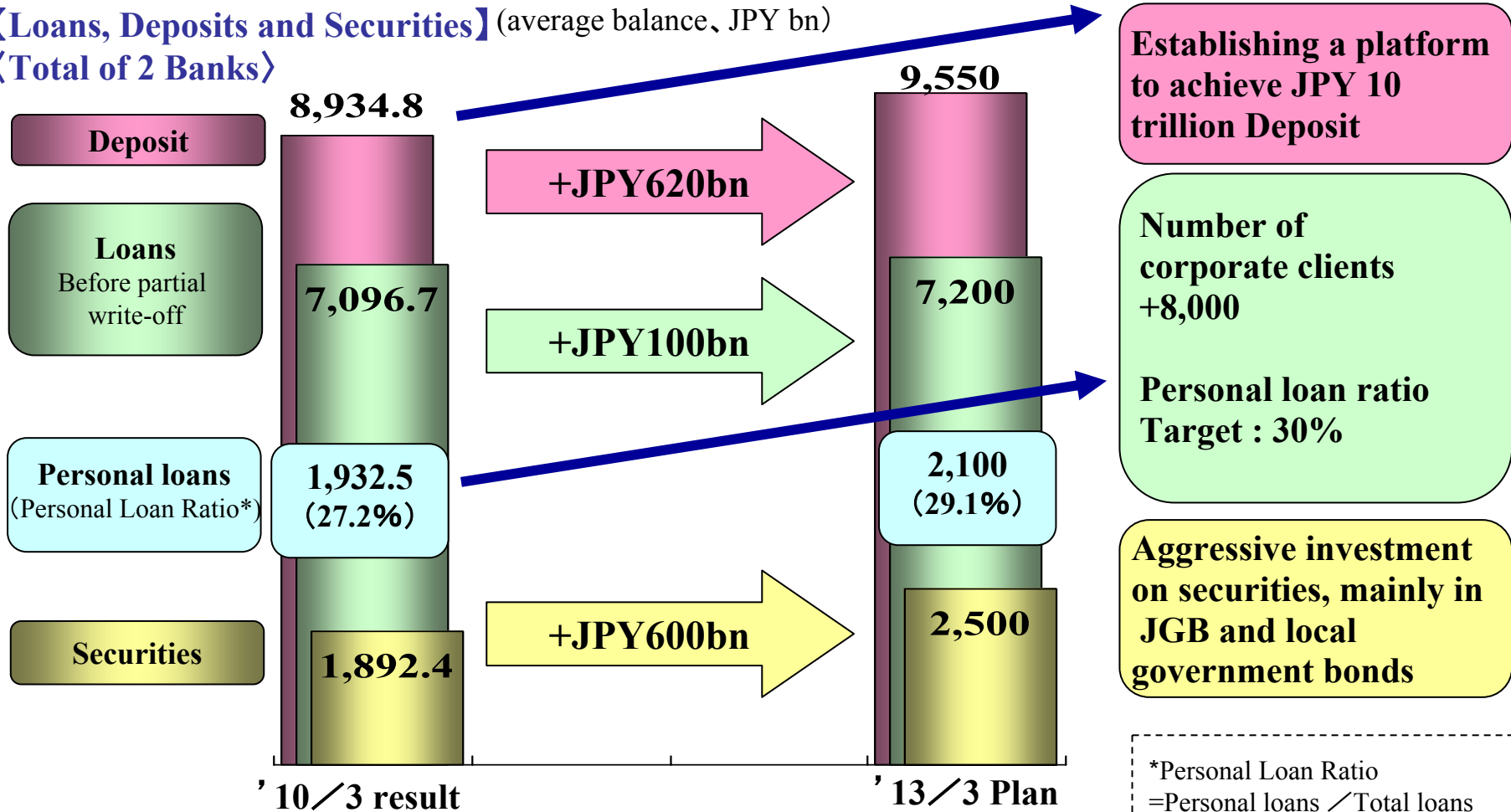
Strengthening Market Capabilities

~Loans, Deposits and Securities

Hokuhoku Financial Group, Inc.

- Expanding a customer base and increasing large-account customers to establish a platform to achieve JPY 10 trillion in deposit
- Expanding total loan by increasing corporate customer base and consumer loan amount
- Expanding investment in JGBs, local government bonds and other securities.

【Loans, Deposits and Securities】 (average balance, JPY bn)
 〈Total of 2 Banks〉



Strengthening Market Capabilities

~Core gross business profits

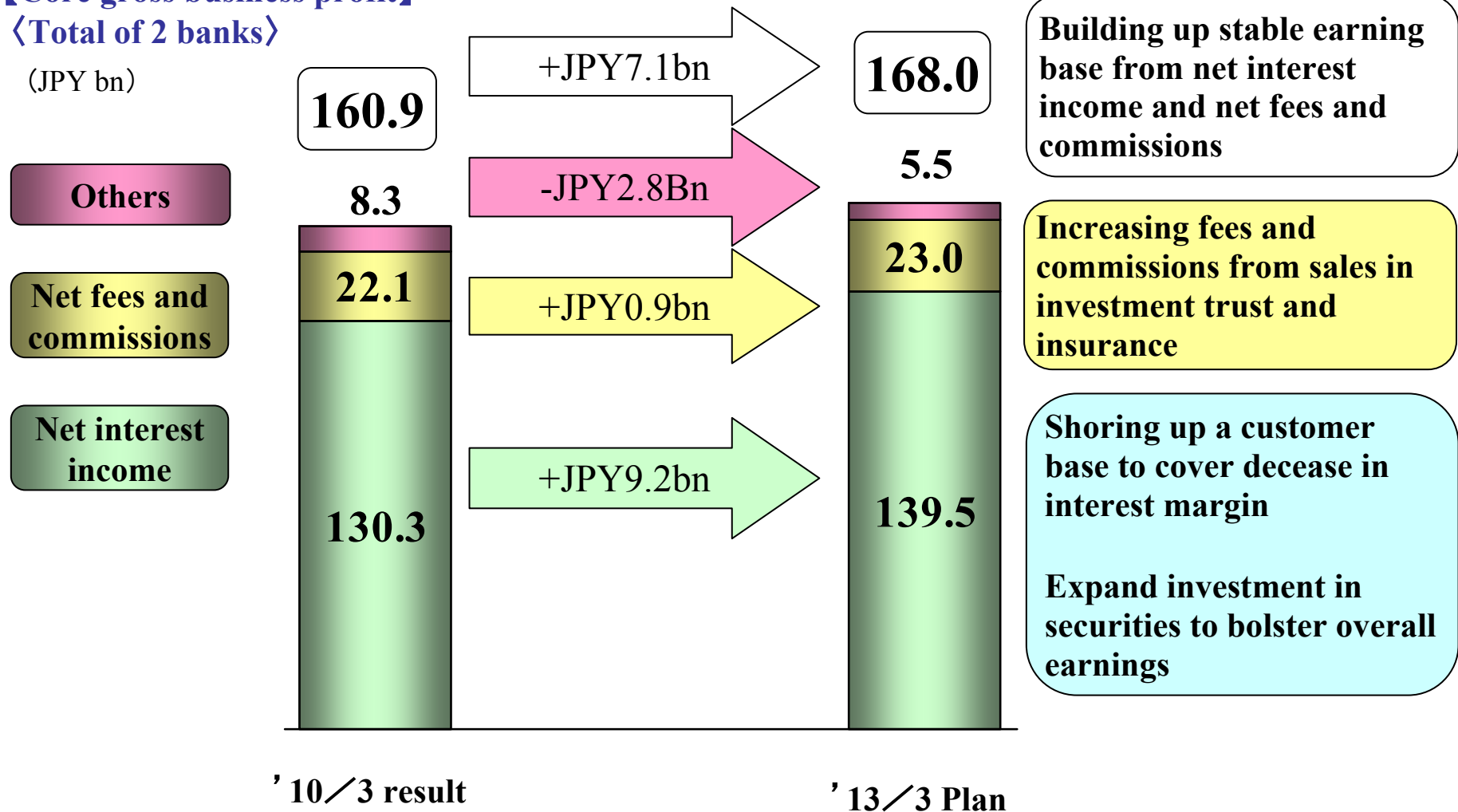
Hokuhoku Financial Group, Inc.

➤ Expand a customer base to increase net interest income and net fees and commissions

【Core gross business profit】

〈Total of 2 banks〉

(JPY bn)



Increasing Market Efficiency

Hokuhoku Financial Group, Inc.

➤ Smooth migration and strategic utilization of Joint Banking System

Acceleration of synergy

Migration to start in May 2011

Bank of Yokohama
(Started advanced operations from Jan 2010)

Joint procurement of business forms & equipments

Joint employee training & audit programs

Shared Administrative manuals & numerical tables

Joint preparation for regulation changes
Mark-to-market accounting
IFRS
Basel II

Extensive consolidated use of back office
Hokuhoku Services
Hokkaido Dept (Mar 2010)
Toyama Dept (scheduled on Autumn 2010)

Joint Use of Banking System (MEJAR)

Shared Operating Platform
Decrease in R&D Cost
Integration of business process

2 brand operation

Hokuriku Bank

Hokkaido Bank

Cutback on Future Expenses

Reallocation of human resources and increase in sales force

Enhancing Management and Governance

Increasing Market Efficiency

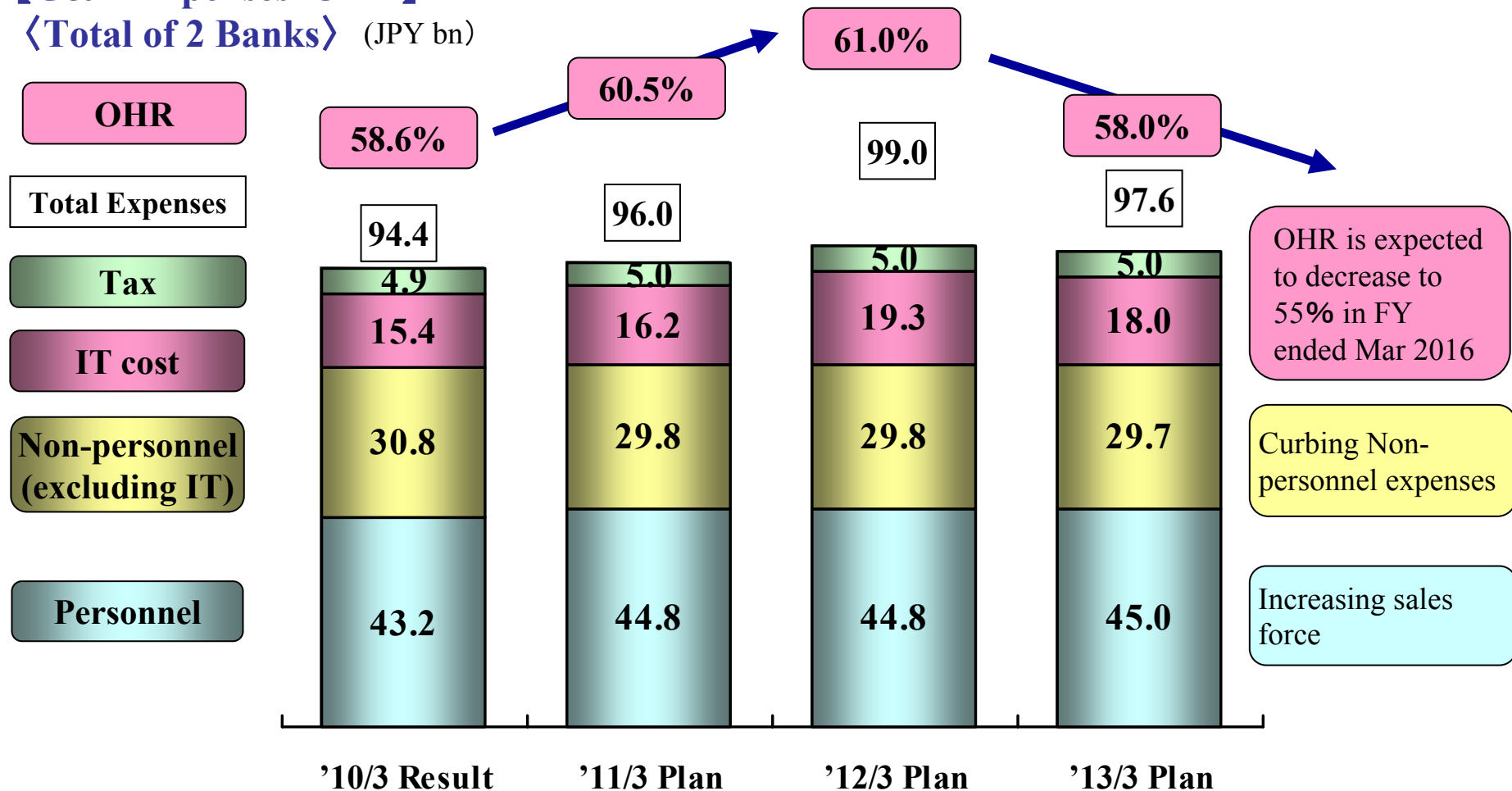
~ Expenses/OHR

Hokuhoku Financial Group, Inc.

- Joint use of Banking System is scheduled to start in May 2011
⇒ Expense will peak in FY ended Mar 2012
- OHR is expected at 58.0% in FY ended Mar 2013 and 55% in FY ended Mar 2016

【G&A Expenses・OHR】

〈Total of 2 Banks〉 (JPY bn)

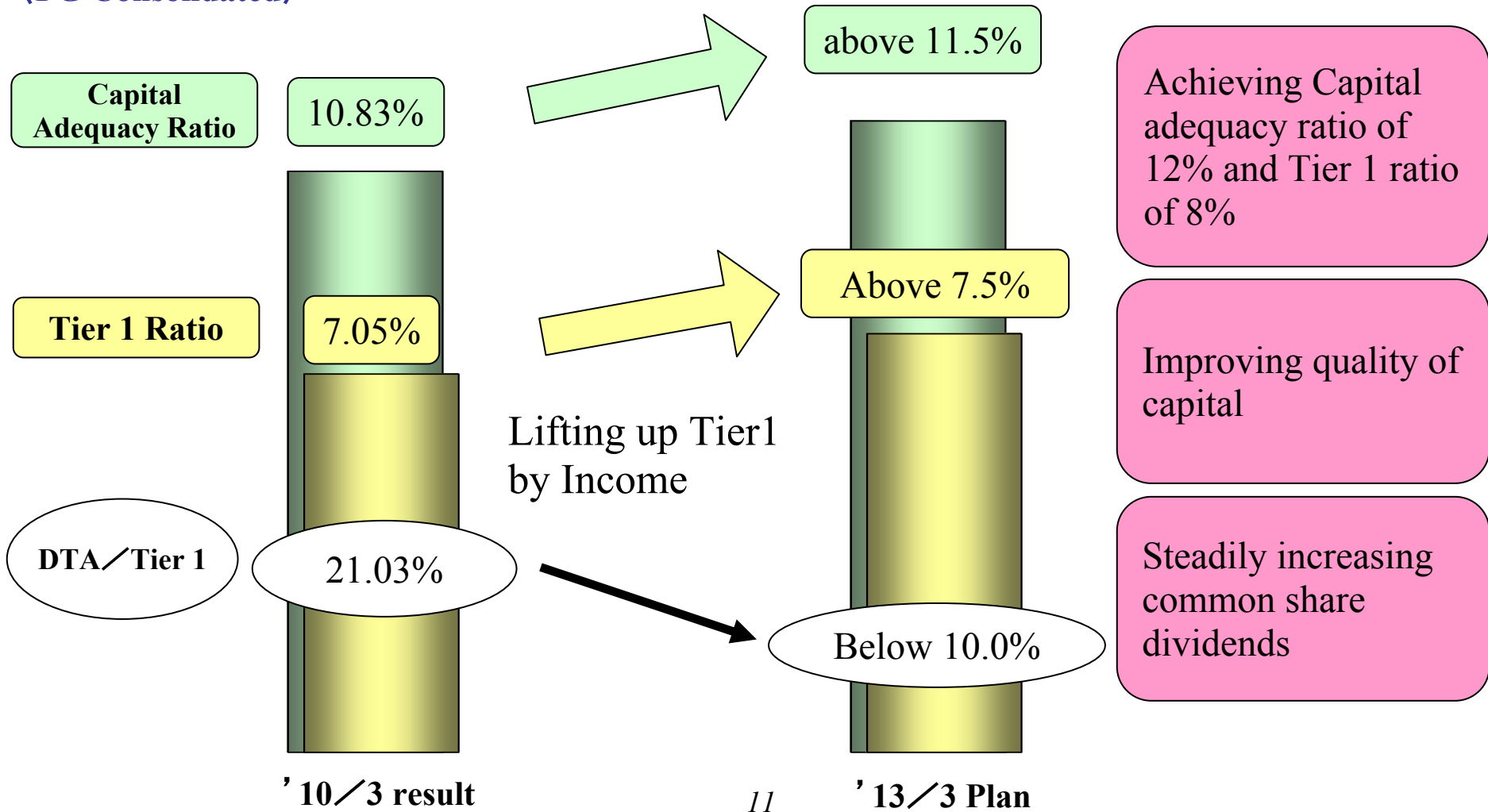


Cementing Customer Loyalty

Hokuhoku Financial Group, Inc.

➤ Ensuring stable earnings to improve quality of capital

【Capital Adequacy Ratio/Tier1 Ratio】 〈FG Consolidated〉



- Implementing measures to enhance CSR and compliance
- Maintaining and developing amicable relationship with stakeholders who continued to support us when receiving public funds

【Stockholders】

Maintaining full communications with stockholders

- IR meeting for individual investors
- Stockholders' meeting (Toyama/Sapporo)
- Upgrading of Disclosure Book

【Customers】

Achieving Customer Satisfaction and protection

- Employee training of business manner
Mutual inspection of branch counter between 2 banks
- Introduction of consultation counters dedicated to transactions for individuals and SMEs
- Protection of customer interest

Our Motto : Mutual Prosperity with our regions

【Employees】

Creating an environment for employee satisfaction

- Effective use of young, senior and female workers
- Supporting work-life balance
(supporting childcare and nursing)
- Corporate culture focused on communications
- Career support program
Overseas/outside training, Management training

【Region】

Contribution to regions as a corporate citizen

- Financial education
Management School for next generation
Contribution course in local universities
- Support of Art and Culture in local community
- Environmental Protection activity
Afforestation
Introduction of solar energy system

Target Figures

Total of 2 Banks	' 10/3 result	' 13/3 Plan
Deposits (Avg Balance)	JPY 8,934.8 Bn	JPY 9,550.0 Bn
Loans (Avg Balance)	JPY 7,096.7 Bn	JPY 7,200.0 Bn
Core net business profit	JPY 66.4 Bn	JPY 70.0 Bn
Net income*	JPY 19.2 Bn	JPY 25.5 Bn
Capital Adequacy Ratio* (Tier 1 Ratio*)	10.83% (7.05%)	Above 11.5% (Above 7.5%)
OHR	58.68%	58%
ROA (Core net business profit basis)	0.68%	0.68%
ROE* (Core net income basis)	5.12%	above 6%
NPL Ratio	2.98%	around 3%

*FG consolidated

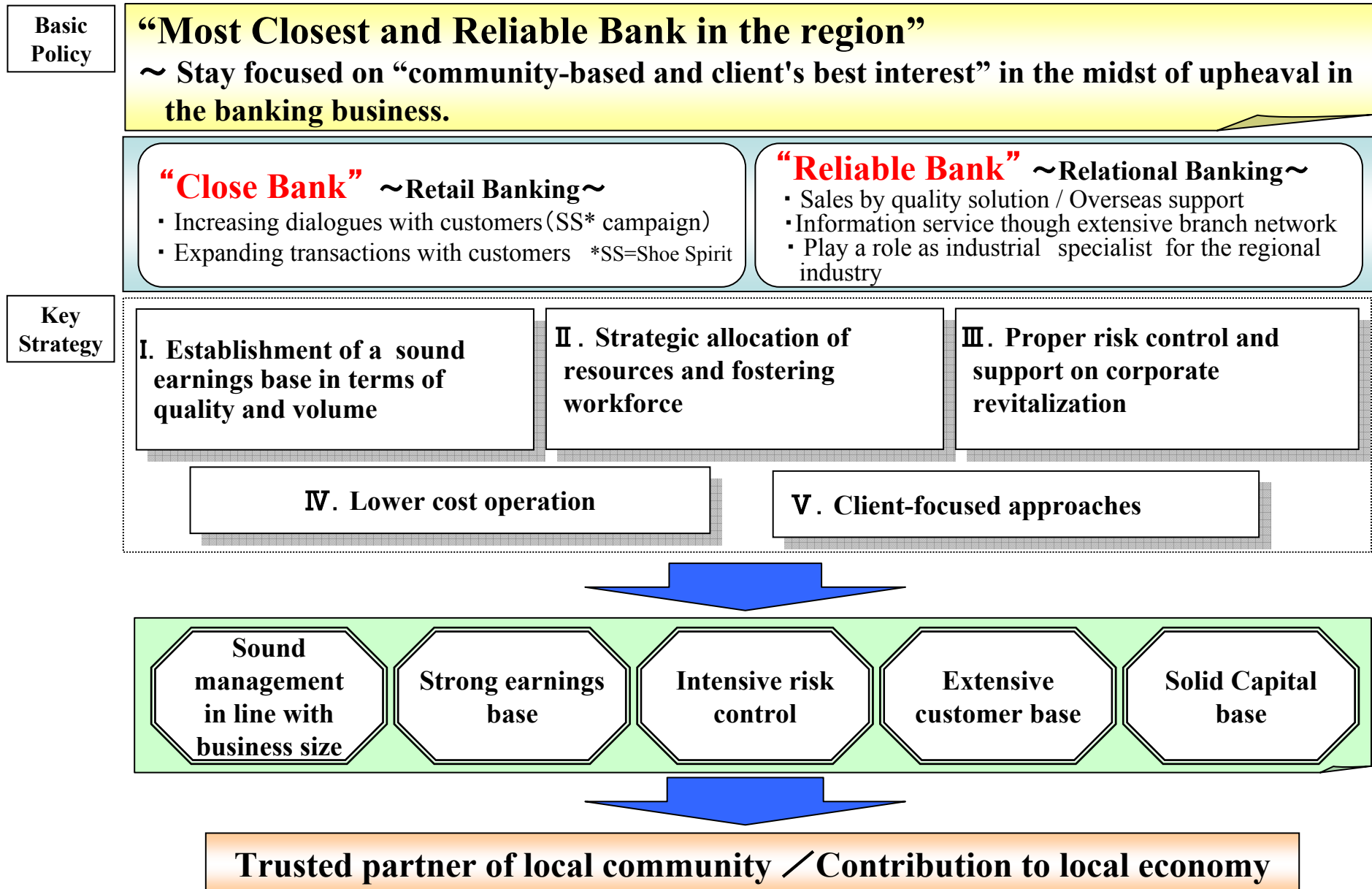
Hokuriku Bank

Hybrid I·S·M 2010

I :Innovative
S :Sustainable
M :Management

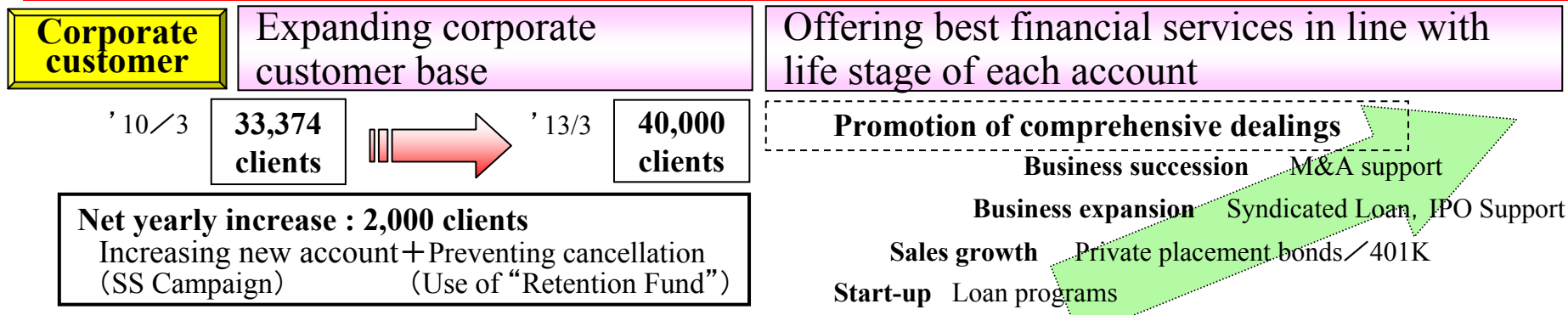
Overview of Management Plan

The Hokuriku Bank Ltd.



I. Building Quality and Solid earnings platform

The Hokuriku Bank Ltd.



Implementing loan strategy by industry ~ Focusing on growing industry ~

- Devising loan strategy by industry
- Carrying out employee training on consultation for corporate customers "Master Course" focusing on specific industries
- Fostering growing manufacturers

<p>【Agriculture】 Increase of employees qualified as Agriculture management adviser currently 7 → 20 (Target)</p>	<p>【Medicine & Nursing】 Setting up new customer teams in regions business divisions to promote loan to this sector.</p>	<p>【Environment】 Alliance with Development Bank of Japan</p>
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Personal customer Becoming the main bank to provide comprehensive services and establishing lifelong relationship

- Promoting comprehensive services
 - Increase of salary deposit and pension transfer accounts (Target: +800,000 accounts in total)
 - Increasing lifelong account
 - Supply of products and services in line with clients life stage
 - Measures to compete with Yucho Bank
 - Launch aggressive campaign to secure new deposit (Seeds for investment trust and insurance)
 - Establishing "Personal Lounge"
 - Target of average balance of deposits : JPY 5,500 bn (end of Mar 2013)
- Establishing a mechanism of increase in money inflow and settlement
 - Protecting customers from competitors

I. Building Quality and Solid Earnings Platform

~ Bolstering Information Services

The Hokuriku Bank Ltd.

Fully capitalizing on extensive network and partnership to differentiate ourselves from competitors

Expanding sales and adopting new technologies are critical issues for SMEs

Customers

Support of customers' overseas business expansion is part of our effort to become community-based bank

Business Matching

Integration of information between regions and metropolitan areas

Creating business chance by business fairs

Offering overseas information

Supporting overseas business expansion

Hokuriku Area

Local governments

Hokuriku Bank

Corporate Customers

Academic Institutions

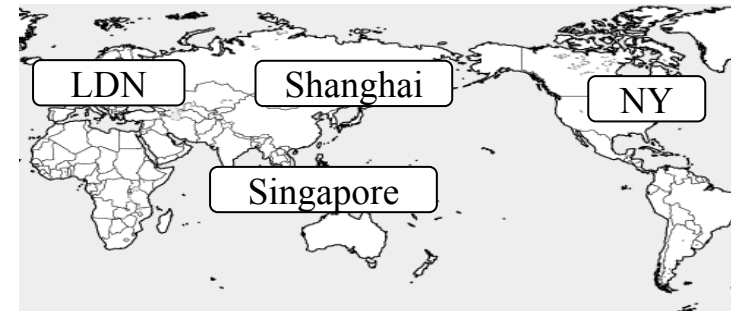
Hokkaido Area

Local Corporate Customers

Hokkaido Bank

Corporate Customers related to Hokuriku

Local governments



Local corporate developing business in metropolitan areas

Overseas network expansion plan will be based on client business development

Expansion of Information · IT Group

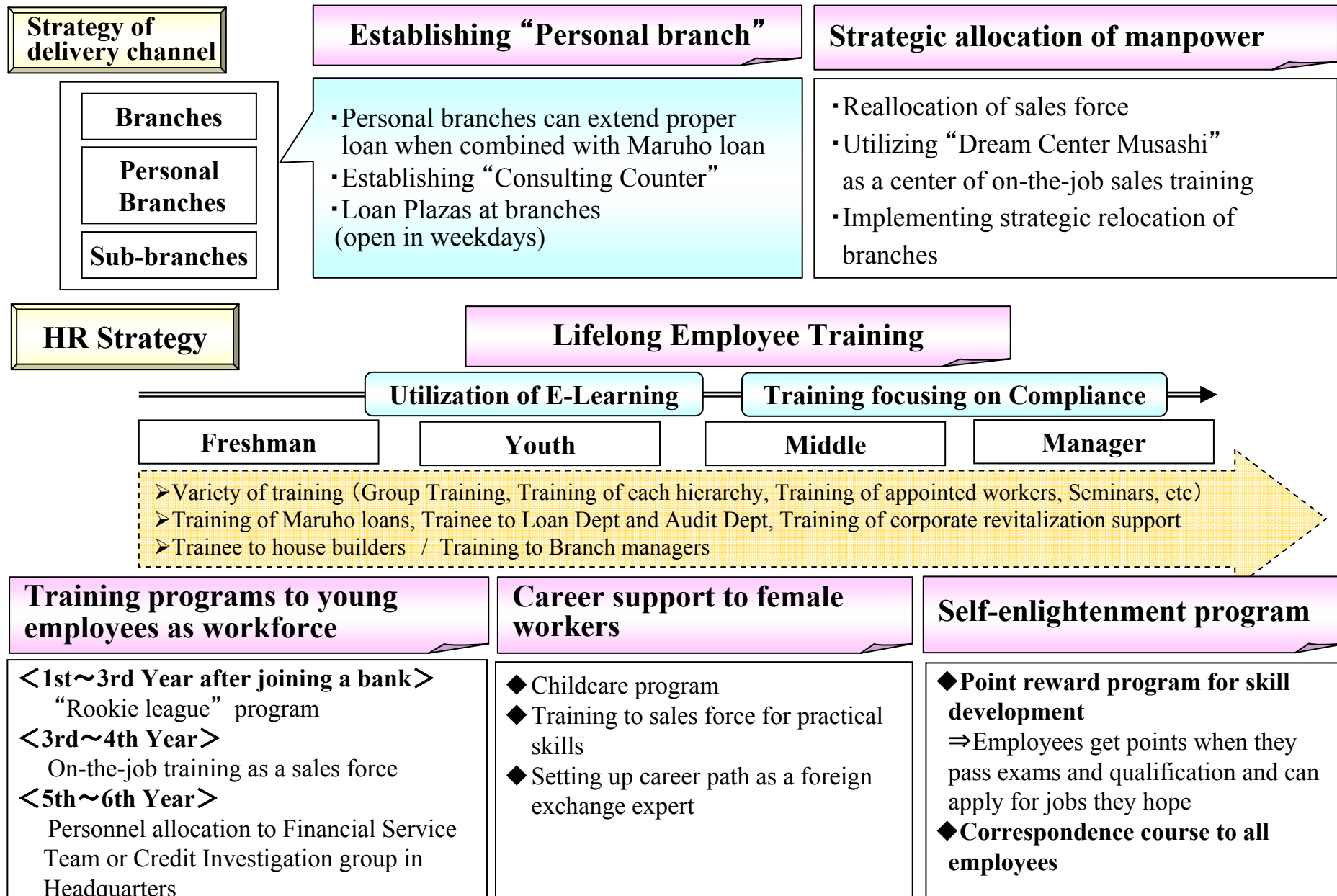
Listed companies

Mega Banks

Expanding alliance with foreign governments and financial institutions

Metropolises

II. Strategic allocation of resources and fostering workforce



Increase in loan

- Increase in amount of loan based on client's sales and credit ratings
- Promotion of Maruho loan and personal loan
- Use of public loan programs

Curving credit cost

- Proactive use of maruho loan
- Increasing loans with consideration of risk and return
- Improving customer's credit ratings by revitalization support
- Securing credit line (avoiding concentration of specific customers)



Achieving balance
between risk and return

Implementing appropriate
credit review to avoid too
much reliance on credit ratings

Lifting up interest rate

- Securing fair interest rate
⇒ Set proper interest rate based on guideline and client's risk

Strengthening credit risk control

- Rebuilding of loan portfolio
- Effective use of risk-adjusted indices (RAROA·RAROC)

Arrangement for financial facilitation

- ① Monitoring customer more precisely through consultation for financial facilitation
- ② Strengthening consultation and changing more flexibly terms of loans
⇒ Opportunities of understanding customers' needs and promoting loans

Chance to rethink our mission
as a regional bank

Support of corporate revitalization

- ① Provide SMEs with support to improve management by our Corporate Revitalization Support Office
- ② Dispatch our bank staff to customers to give them support to achieve improvement in credit ratings
- ③ Close collaboration with Revival Support conference of SMEs and Enterprise Turnaround Initiative Corporation of Japan

IV. Low-Cost operation

The Hokuriku Bank Ltd.

1. Establishing a sound operating platform through migration of new banking system
2. Further reducing expenses through proposal system
3. Increasing operational efficiency by joint use of back office

Sound operation platform

- ① Shared administrative manuals
- ② Shift to digitized data from paper materials
- ③ Open tellers machine
- ④ Extensive shared back office

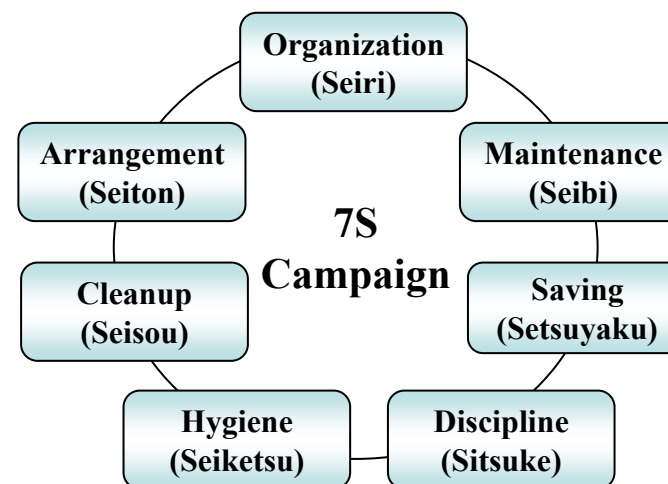
- Improvement in job process
⇒ Reduction of administrative works
- Elimination of troubles
- Cutback on future expenses

Continuing proposal system (7S campaign)

- Leverage small daily discovery by workers for cost reduction
- Installation of point reward program is on the table as part of effort enhance incentive program

Efficiency from consolidation of back offices

- More operational integration of back offices
(Investment trust, insurance, automatic review of personal loan)



V. Increasing customer satisfaction

The Hokuriku Bank Ltd.

Hospitality

New measures

- ① **Pamphlet describing our goal “Making customer satisfaction our pleasure” and 17 key phrases for hospitality** ⇒ Distributed to all employees
- ② **Role-playing contest within a bank to improve accountability of financial products** ⇒ Appropriate explanation will increase customer satisfaction
- ③ **CS Master** ⇒ Employees awarded President Prize for high performance in increasing customer satisfaction are entitled to instruct other employees as “CS Master”
- ④ **“Kids’ Room”** ⇒ Playing equipment for kids is prepared in Loan Plazas operating on holidays

CSR

New measure

For senior customers ⇒ Holding more exhibitions at branch lobby, supporting local artistic athletic contest and opening hall for traditional comic story telling

*Building up close relationship with region
and becoming a member of community*

Target Figures

The Hokuriku Bank Ltd.

	'10/3 result	'13/3 Plan
Deposits (Avg Balance)	JPY 5,158.7 Bn	JPY 5,500.0 Bn
Loans (Avg Balance)	JPY 4,203.6 Bn	JPY 4,180.0 Bn
Core net business profit	JPY 38.3 Bn	JPY 40.0 Bn
Net income	JPY 15.6 Bn	JPY 16.0 Bn
OHR	57.48%	57% level maintained
NPL Ratio	3.42%	3% level maintained
Capital Adequacy Ratio	10.80%	Above 12%
Numbers of corporate customer Numbers of accounts receiving salary deposit & pension transfer	33,374 clients 734,372 accounts	40,000 clients 800,000 accounts

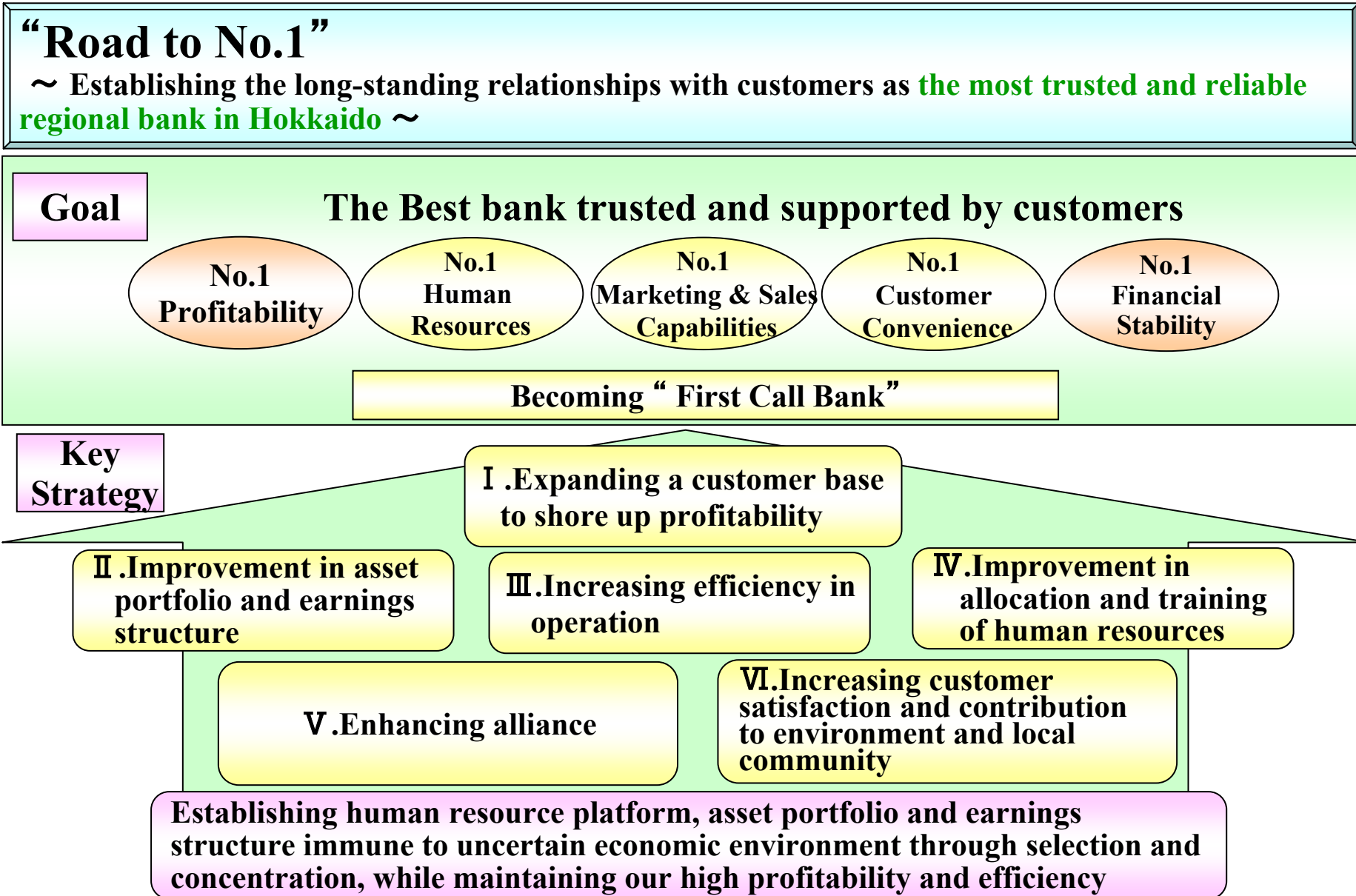
Hokkaido Bank

DASH

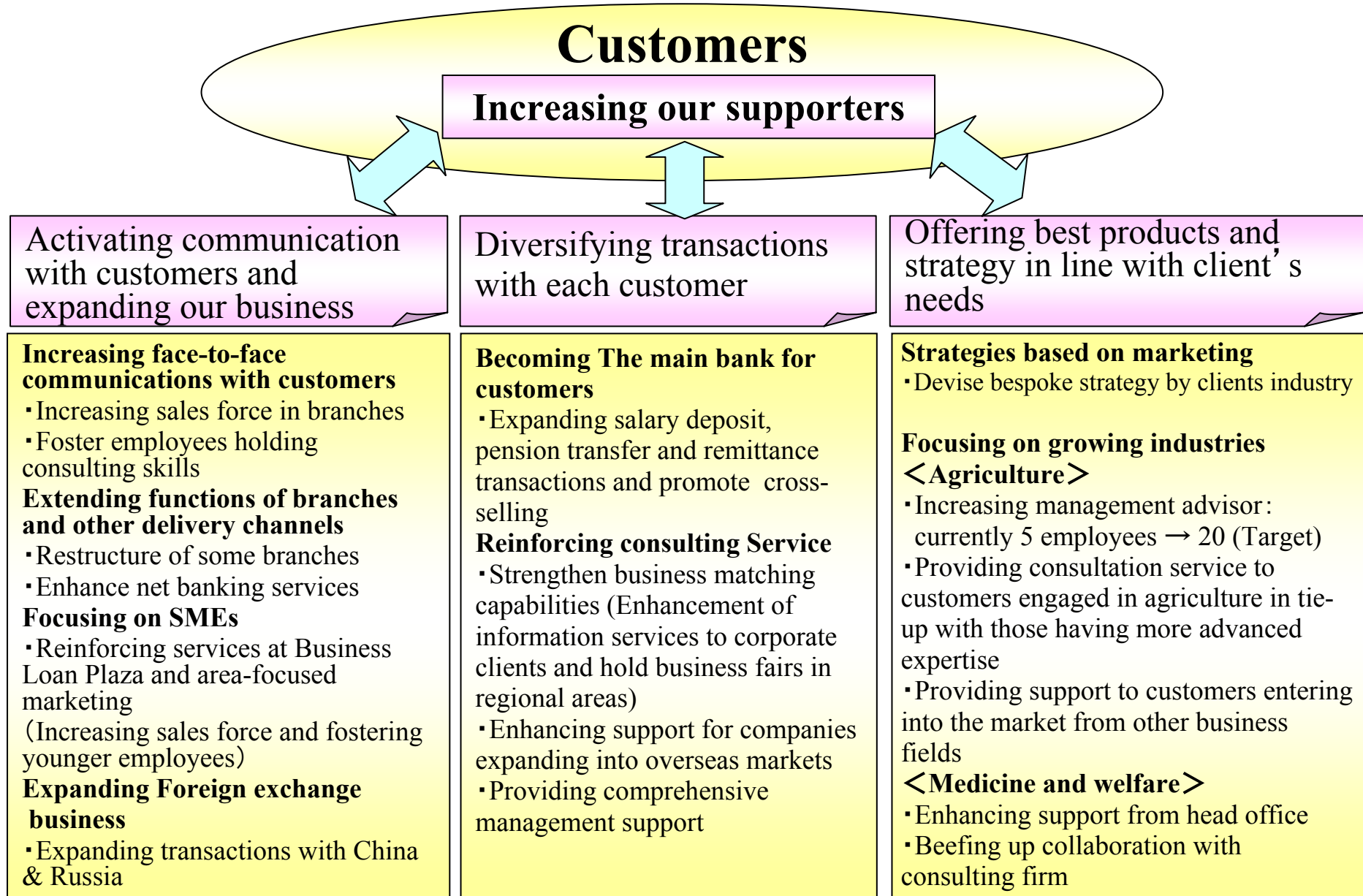
D : Development
A : Aggressive
S : Speedy
H : Hospitality

Overview of Management Plan

The Hokkaido Bank Ltd.

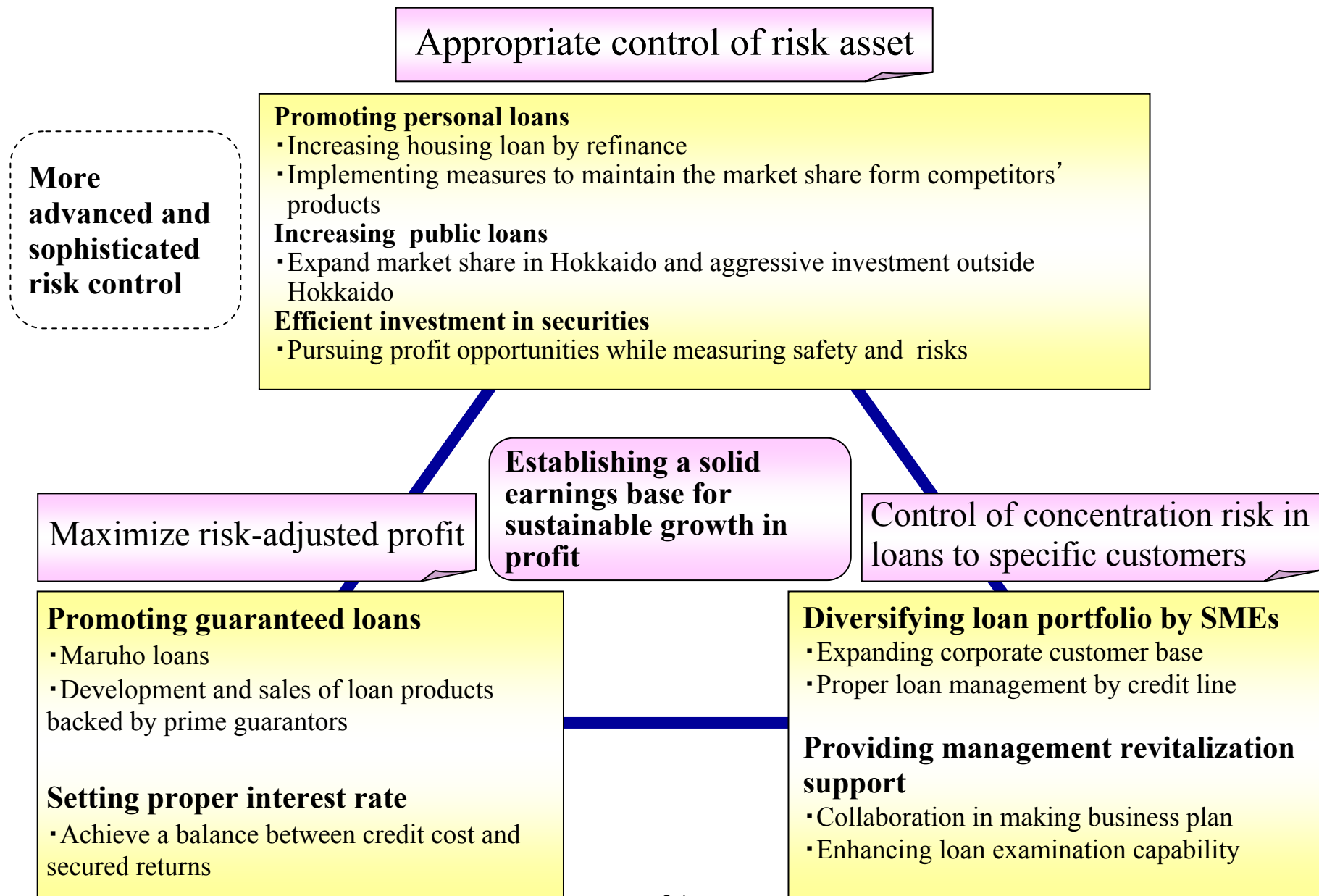


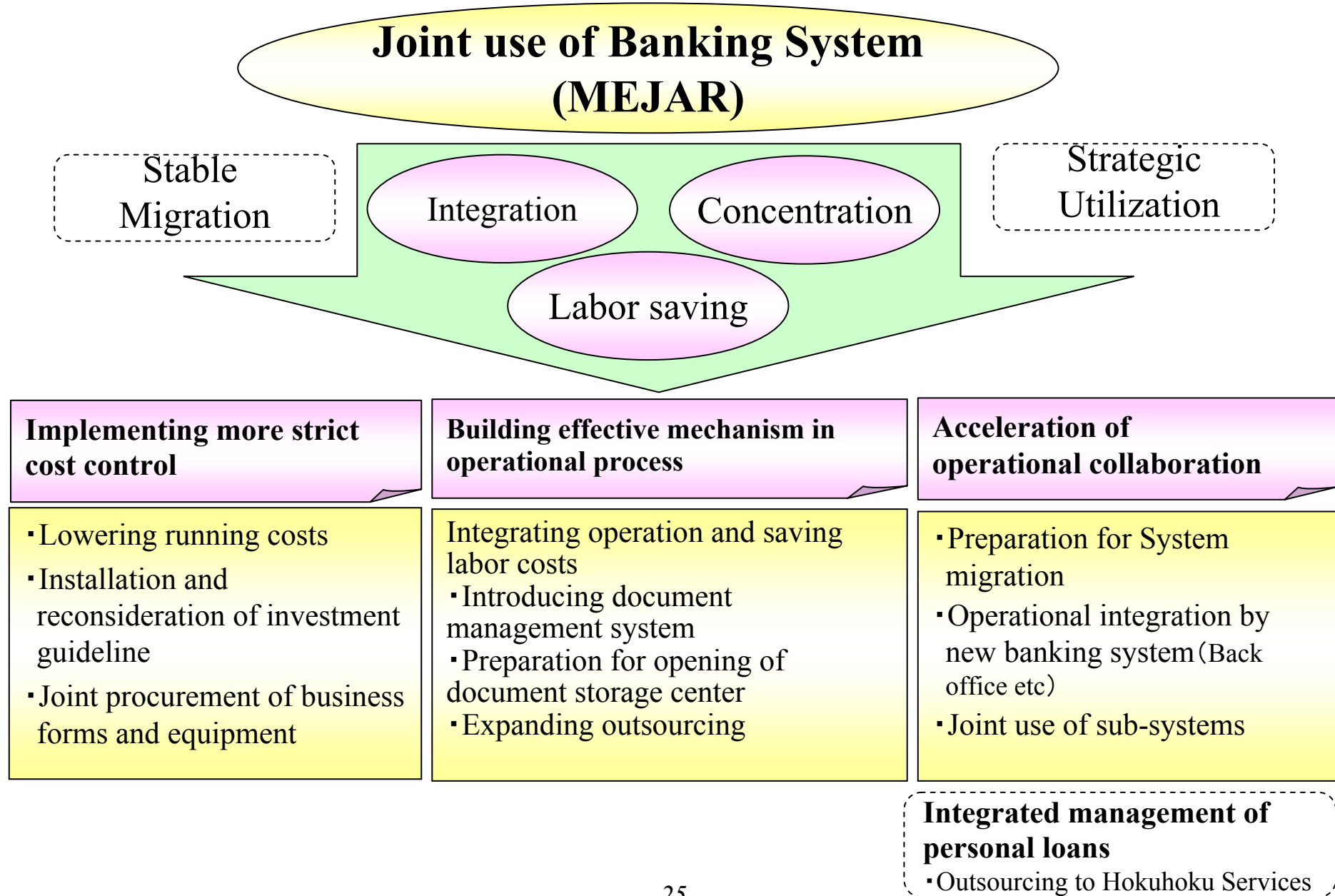
I. Expanding customer base to shore up profitability



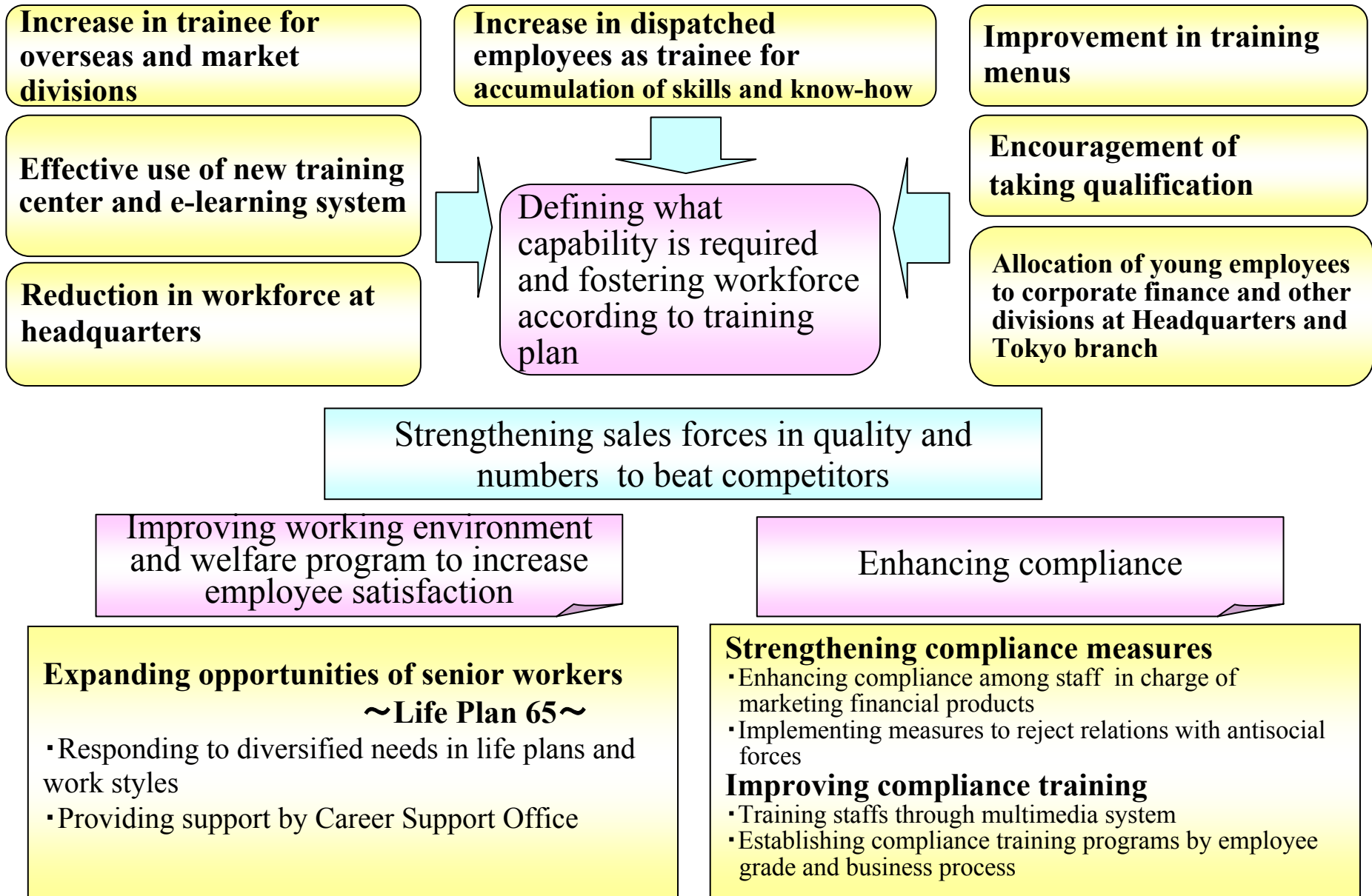
II. Improvement in asset portfolio and profit structure

The Hokkaido Bank Ltd.





IV. Improvement in allocation and training of human resources



Offering better service through collaboration with other regional banks

Tightening relationship with Sinkin banks and Credit cooperatives

Enhancing collaboration through workshop activities

Effective use of expertise and know-how accumulated by workshops

- Marketing
- Lease
- Research, Consulting

Use of shared Marketing model is on the table

Sponsoring Regional Financial Seminars on a regular basis

Collaborating mutually in operations of back office

- ⇒ Exchange and issue of bills and checks,
- Maintenance of ATMs,
- Joint use of mail delivery network

Demonstrating our capability as an entire group

Shared use of back office in Hokkaido

Cooperation in financial-related business with group company and intimate business partners

- ⇒ Providing comprehensive financial service

Consolidation of personal loan business into HokuHoku Services

VI. Increasing customer satisfaction and contribution to environment and local community

The Hokkaido Bank Ltd.

Activities to increase CS

Improving corporate image through “Dosanko Bank Campaign”

Extending “Dosanko Bank Campaign”

Step 1: Spreading “CS basic” criteria

Step 2: Fostering “CS standard” criteria

Capitalizing on customer’s opinions and proposals in business

Intensively fighting against environmental problem

Reduction of CO₂

Declaration of acting ecologically
Eco-friendly activities inside bank
Dogin Forest Campaign



Offering eco-friendly financial products

Offering incentives to enterprises that take care of environment

Contribution to local community

Sponsoring educational events

On-site education of working experience and Internship
Participation and backup of various events

Supporting cultural activities

Promotion of local district

Attracting business to our regions and provide support on manufacturing
Support of growing and venture business

Enhancing protection of customer’s interest

Monitoring interest conflict practice
Establishing a platform for financial ADR
Enhancing accountability in derivatives business

Preparing for Financial Facilitation Act

Capitalizing on customer opinions

Reduction of operational risk
Active use of collected database

Target Figures

The Hokkaido Bank Ltd.

	'10/3 result	'13/3 Plan
Deposits (Avg Balance)	JPY 3,776.0 Bn	JPY 4,050.0 Bn
Loans(Avg Balance)	JPY 2,893.0 Bn	JPY 3,000.0 Bn
Core net business profit	JPY 28.1 Bn	JPY 30.0 Bn
Net income	JPY 10.3 Bn	JPY 12.0 Bn
OHR	60.21%	59% level maintained
NPL Ratio	2.32%	2% Level maintained
Capital Adequacy Ratio	10.19%	Above 10.5%
Numbers of corporate customer Numbers of accounts receiving salary Deposit & pension transfer	10,175 clients 864,490 accounts	12,300 clients 950,000 accounts

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