

Medium-term Management Plan

(FY2016~FY2018)

“ BEST for the Region ”



Hokuhoku Financial Group, Inc.

Table of Contents

• External environment	... P3
• Internal environment	... P5
• Review of the previous Medium-term Management Plan	... P6
• Outline of the Medium-term Management Plan	... P7
• Financial Targets	... P9
• Investment Products	... P10
• Consumer Loans	... P11
• Corporate Clients	... P12
• Investment in securities / Risk Capital Management	... P13
• Efficiency	... P14
• Capital Policy	... P15

External environment (Opportunities)

1. The opening of the Hokuriku-Shinkansen※ and the Hokkaido-Shinkansen line is expected to expand tourism and related business opportunities
2. Many companies are moving into our prime area because of its improved accessibility
3. Our prime area is blessed with abundant farm and marine product and natural resources

New Chitose Airport :

An expansion project is expected to deal with a rapid increase of the foreign tourists

Hokkaido area:

The Hokkaido-Shinkansen was opened between Shin-Hakodate and Shin-Aomori in Mar-16

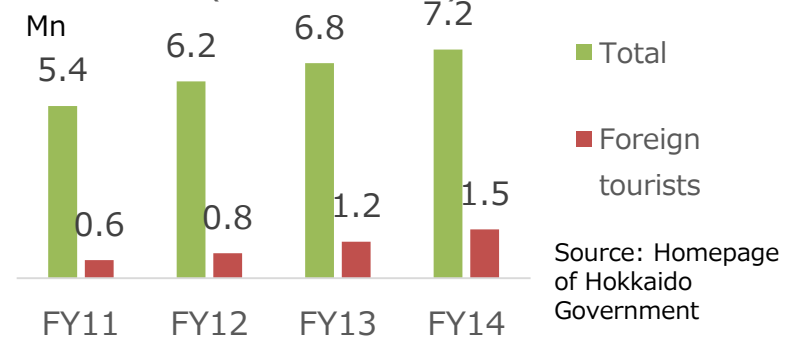
Hokuriku area:

The Hokuriku-Shinkansen was opened in Mar-15

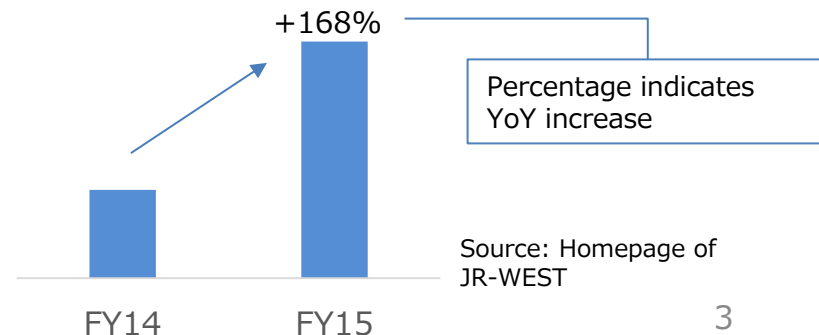
The colored prefectures are where our branches are located

※Shinkansen is a high-speed Japanese railway line

Number of inbound tourists
(actual number)



Trend of passenger volume of
Hokuriku-Shinkansen



External environment (Threats)

1. FRB's decision to raise the interest rate, Economic deceleration in the emerging countries, Falling oil prices, The consumer tax hike in Japan
2. Revisions to the Standardized Approach for credit risk, IRRBB and LCR
3. Falling birthrate, aging society and shrinking population in our prime area

Population Projections for our prime area

		2015	2025	change	Over 20 years old
City	(Mn)				
Hokkaido		5.36	4.96	Δ7.5%	Δ5.1%
Sapporo		1.93	1.89	Δ2.2%	0.3%
Toyama		1.06	0.99	Δ7.3%	Δ5.1%
Ishikawa		1.15	1.10	Δ4.9%	Δ2.6%
Fukui		0.79	0.73	Δ6.9%	Δ4.6%

Particularly the population of over 65 years old, relatively wealthy, is increased by +20.3% compared to 2015

The population of Ishikawa is decreased gently compared to Toyama and Fukui

Internal environment (Strengths)

1. We maintain high market share in our prime area (As of Sep-15)

	Toyama	Ishikawa	Fukui	Hokkaido
Deposits	48.6%	16.9%	14.2%	22.2%
Loans	43.8%	18.5%	14.8%	25.3%
The number of our branches	91	36	22	159

2. Provide support for overseas businesses through our overseas network

We have 9 representative offices, in New York, London, Bangkok, Singapore, Shanghai, Dalian, Shenyang, Vladivostok and Yuzhno-Sakhalinsk

3. Create new business opportunities using our domestic network

We have 159 branches in Hokkaido area, 149 branches in Hokuriku area(Toyama, Ishikawa, Fukui), 16 branches in 3 major metropolitan areas (Tokyo, Osaka, Nagoya). We have an advantage in proving support our customers' sales expansion, because of this widely spread branch network

4. Other strengths and experiences

Efficient management of widely spread branch network, Extensive experience in M&A advising, Developed experience in consumer card loan business

Review of the previous Medium-term Management Plan

(¥ Bn)	Total of two banks			Hokuriku bank			Hokkaido bank		
	FY12 Result	FY15 Result	Compared to Mid-term plan	FY12 Result	FY15 Result	Compared to Mid-term plan	FY12 Result	FY15 Result	Compared to Mid-term plan
Ave.balance of deposits & NCDs	9,790.3	10,638.9	528.9	5,567.5	6,101.2	331.2	4,222.7	4,537.6	197.6
Ave.balance of loans	7,277.8	7,545.7	65.7	4,216.8	4,348.8	38.8	3,061.0	3,196.8	26.8
Core net business profits	50.3	52.0	5.0	31.4	26.6	(1.6)	18.9	25.3	6.7
Net income attributable to owners of the parent	18.1	28.8	10.3	12.3	16.5	4.5	7.2	13.4	5.4
(Consolidated)									
Capital adequacy ratio	11.88%	10.30%	0.17%	11.78%	9.78%	0.02%	11.23%	10.23%	0.55%
OHR*	65.37%	63.57%	(3.43%)	61.84%	64.57%	Below 65% Achievement	69.98%	62.47%	Below 70% Achievement
NPL Ratio	3.11%	2.15%	Below 3% Achievement	3.34%	2.18%	Below 3% Achievement	2.79%	2.11%	Below 3% Achievement

※Core gross business profit basis

Increase/decrease factors (Total of two banks)

(¥ Bn)	FY15 Result	Compared to Mid-term plan	Compared to FY12	Important point
Net interest income of loans	98.2	(5.8)	(13.8)	Declining interest rates
Net interest income of securities	26.9	5.0	5.4	Increase in investment trusts and foreign bonds
Fees and commissions of Investment trusts and Insurance	8.3	(0.2)	1.3	Nurturing specialized sales stuff
G&A Expenses	90.9	(4.5)	(4.2)	Decrease in deposit insurance premiums and IT costs, etc.
Net Credit Costs	3.7	(9.2)	(13.3)	Declining expected loss ratio

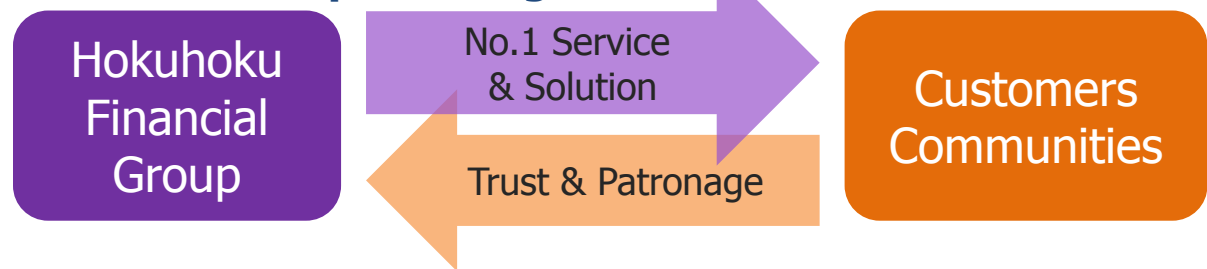
Outline of the Medium-term Management Plan

Plan period

From Apr-16 to Mar-19

Target 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



Concept

We will develop an efficient and sustainable business model and pursue group synergy effect to contribute to the growth of regional economy in the changing business environment

- ✓ Aging and decline of the population
- ✓ Business expansion overseas
- ✓ Shrinking local economy, etc.

**Change business model
Pursuit of synergies**

3 basic policies

① Strengthening Marketing Capabilities

Exceed customers' expectations

- Provide effective consulting and sales promotion in accordance with the life stage of each customers
- Offer solutions by assessing the customers' business possibilities and by utilizing our broad network
- Invest in IT and infrastructure to provide advanced service
- Establish a new securities company to expand business area

② Improving Management Efficiency

Enhance competitiveness by establishing efficient operations

- Optimize business process in branches and headquarters to relocate management resources
- Integrate systems and back-office operations

③ Strengthening Management Foundation

Earn trust from local community and customers

- Build up a sound financial position by stably accumulating profit
- Assure corporate compliance

Financial Targets

	Total of two banks			Hokuriku bank			Hokkaido bank			
	(¥ Bn)	FY15 Result	FY18 Plan	Compared to FY15	FY15 Result	FY18 Plan	Compared to FY15	FY15 Result	FY18 Plan	Compared to FY15
Ave.balance of deposits		10,163.4	10,560.0	396.5	5,860.9	6,150.0	289.1	4,302.5	4,410.0	107.4
Ave.balance of loans		7,545.7	7,760.0	214.2	4,348.8	4,440.0	91.1	3,196.8	3,320.0	123.1
Core gross business profits		143.0	134.5	(8.5)	75.3	71.0	(4.3)	67.6	63.5	(4.1)
G&A expenses		90.9	93.0	2.0	48.6	49.0	0.3	42.2	44.0	1.7
Core net business profits		52.0	41.5	(10.5)	26.6	22.0	(4.6)	25.3	19.5	(5.8)
Credit related costs		3.7	6.0	2.2	(1.1)	3.0	4.1	4.8	3.0	(1.8)
Net income attributable to owners of the parent		28.8	23.0	(5.8)	16.5	14.0	(2.5)	13.4	10.0	(3.4)
(Consolidated) Capital adequacy		10.30%	9.55%	(0.75%)	9.78%	8.80%	(0.98%)	10.23%	8.99%	(1.24%)
OHR※		63.57%	69.14%	5.57%	64.57%	69.01%	4.44%	62.47%	69.29%	6.82%
(Reference) Consolidated ROE		5.3%	3.8%	(1.50%)	※Core gross business profit basis					

※Core gross business profit basis

Extend customer base and sales of investment trusts and insurance

■ Acquisition of new customers

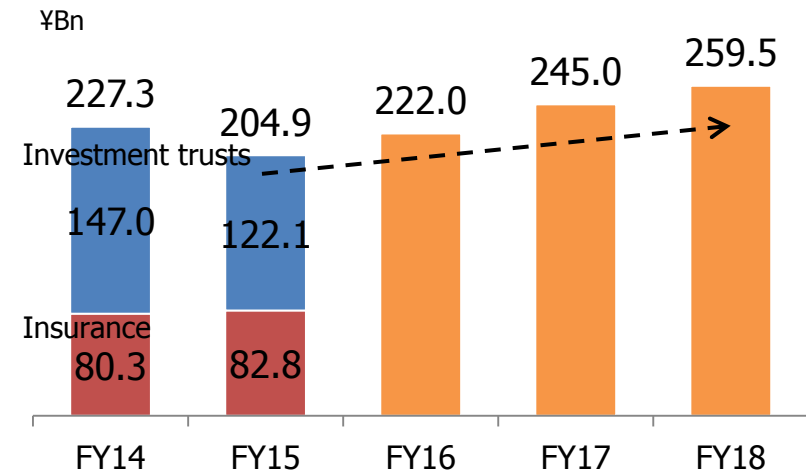
- Increase the number of accounts for salary and pension and NISA accounts
- Improve user convenience of Internet banking, website and ATMs (cash machines)
- Increase ATMs in convenience stores

■ Responding to customer needs of asset-building and asset succession

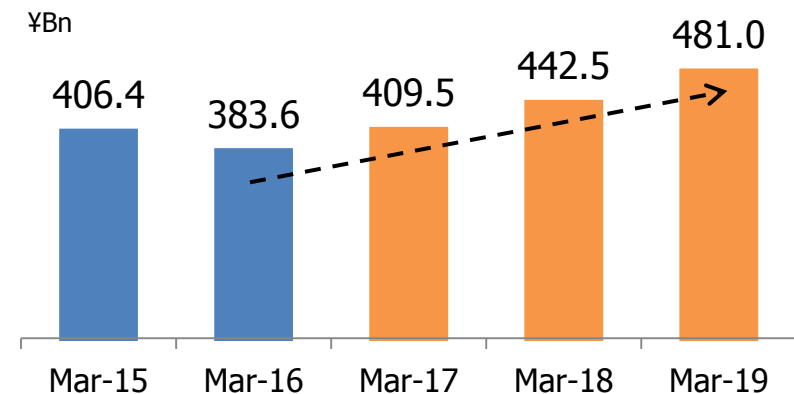
- Enhance product line-up of investment trusts and Insurance
- Utilize event based marketing (EBM) and provide suggestions for customer needs
- Improve sales skills by employee training

■ A securities firm under the Hokuhoku FG will be newly established for sales expansion of investment products

Sales amount of Investment products



Balance of investment trusts and Insurance



Gain further market share by extending various products and improving user convenience

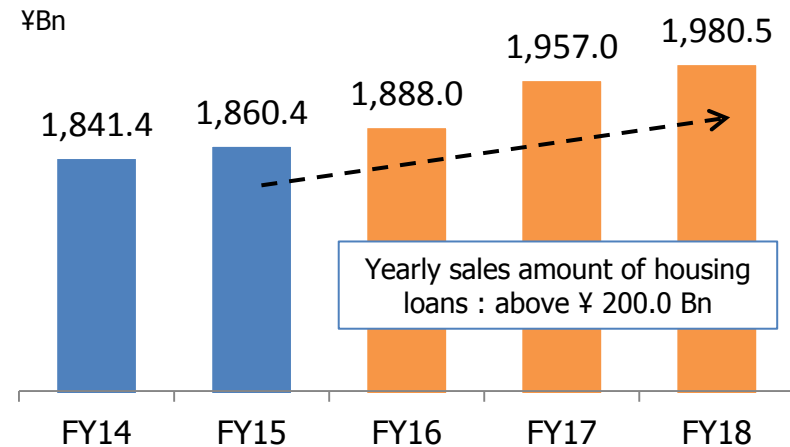
■ Housing loans

- Improve of product lineups
- Capture loan demand for not only new-house buildings but also house reconstructions
- Improve user conveniences of Internet banking and websites
- Improve functions of Housing Loan Plazas
- Building solid relationships with house constructors

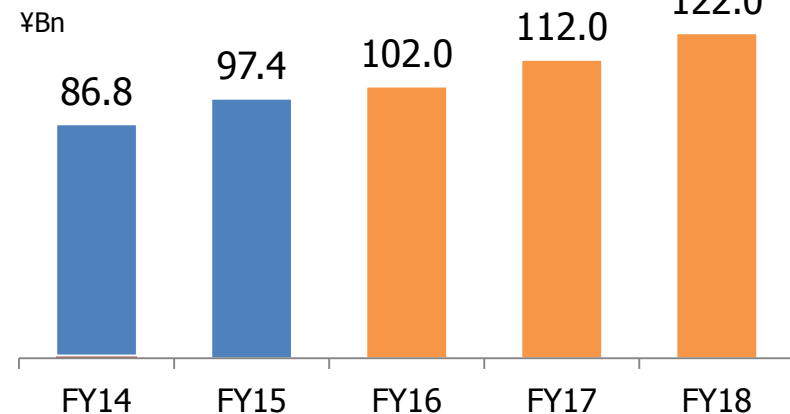
■ Unsecured consumer loans

- Develop products based on customer needs
- Simplify the procedures for loan applications and develop various ways of applications
- Expand advertisements by TV commercials, websites and SNSs, etc.
- Improve the screening model by accumulated credit risk data

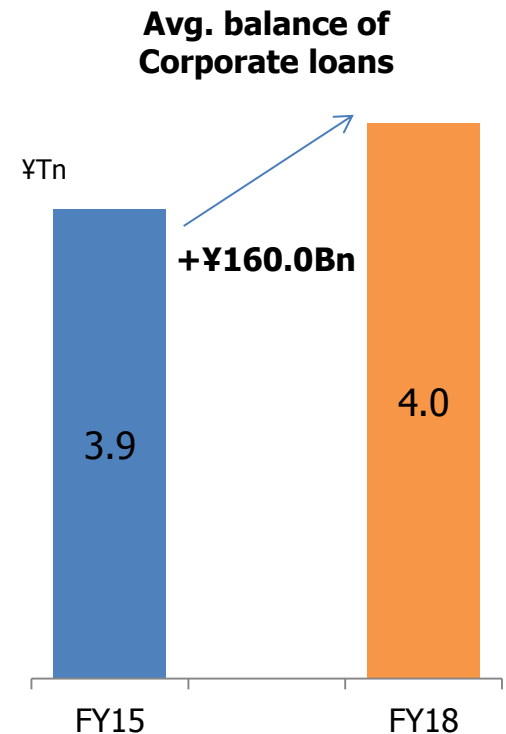
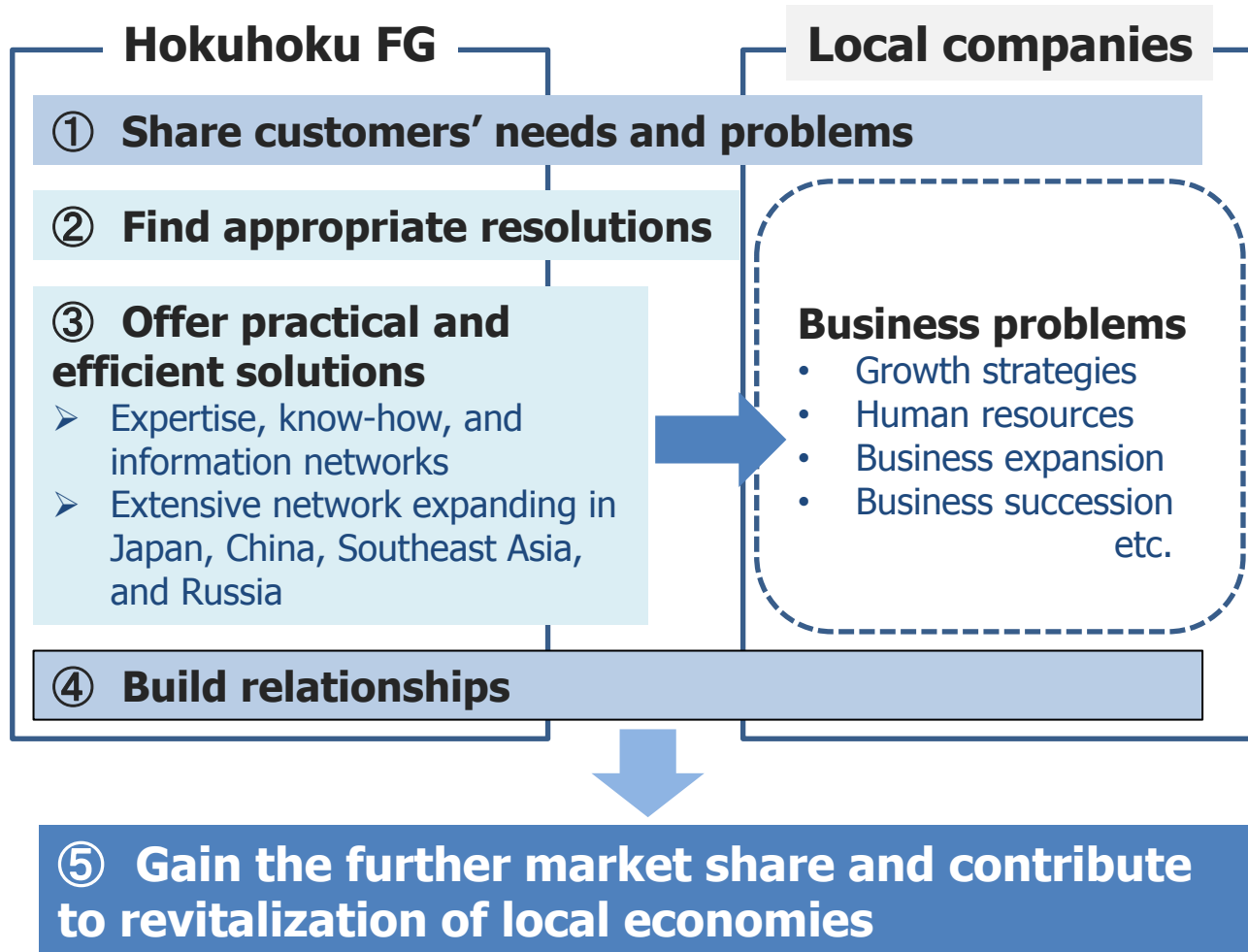
Avg. balance of housing loans



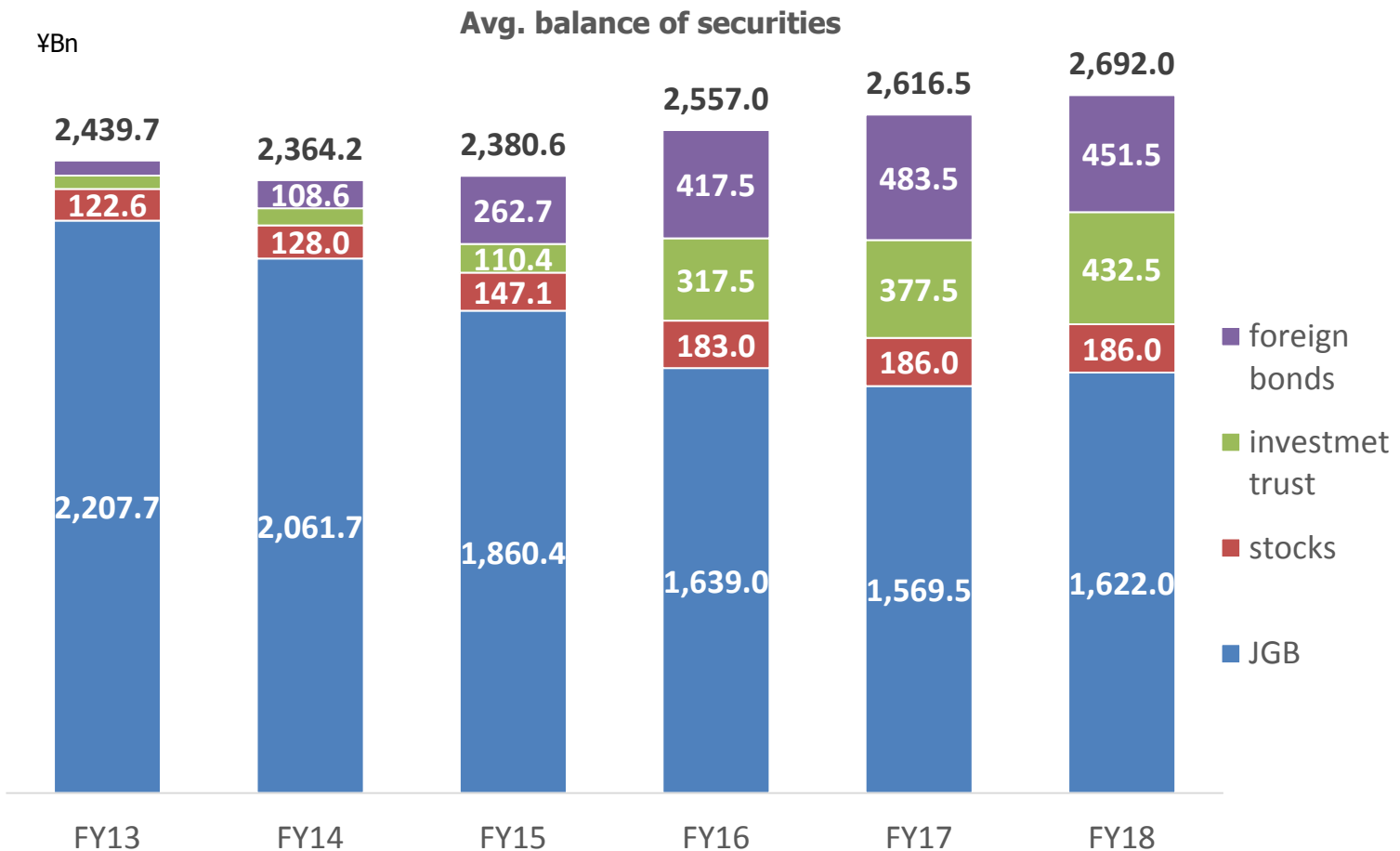
Avg. balance of card loans



Become the most reliable regional bank by constantly contributing to local businesses



Increase investment in securities with appropriately controlled market risk including interest rate risk, etc.



Establish efficient management by streamlining operations, while improving customer services

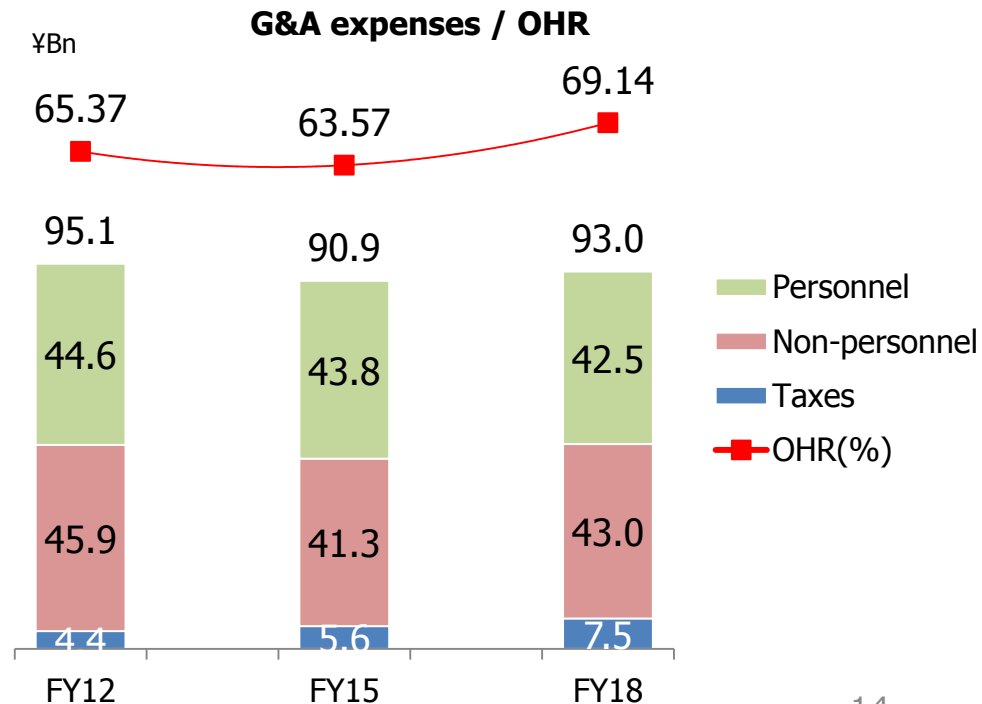
- Increase efficiency through IT investment
- Expand centralized back office operations
- Realize group synergies (integrate operational rules, facility and system management, etc.)



- Increase contact with customers
- Shift personnels to sales departments
- Maintenance needed branches and services in countryside



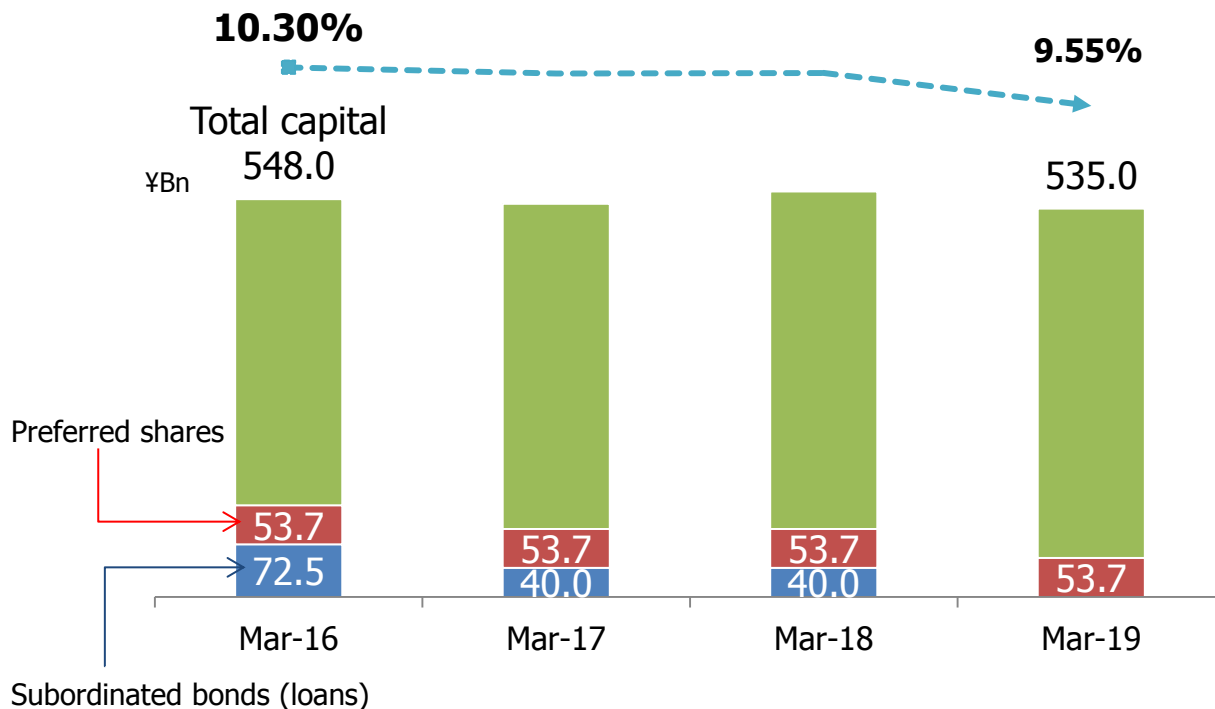
**Improvement of
customer satisfaction
and cost competitiveness**



Establish a sound financial base and keep stable dividend policy

- Consolidated capital adequacy ratio is expected to be about 9.5% at the end of Mar, 2019
- We will continuously focus on making steady dividend payments, while paying attention to the forecast of the capital adequacy ratio under the future profit plan and expected changes in regulations

Consolidated capital adequacy ratio



Dividends per common share

	Annual dividend
FY12	¥3.75
FY13	¥4.00
FY14	¥4.25
FY15 (Projection)	¥4.25

This document may not be reproduced or distributed to any third party without prior approval of Hokuhoku Financial Group, Inc. This document has been prepared for information purpose only and does not form part of a solicitation to sell or purchase any securities. Information contained herein may be changed or revised without prior notice. This document may contain forecasting statements as to future results of operations. No forecast statement can be guaranteed and actual results of operations may differ from those projected.



Hokuhoku Financial Group, Inc.