

# THE HOKKAIDO BANK

Annual Report 2004



**THE HOKKAIDO BANK, LTD.**

## PROFILE

The Hokkaido Bank, Ltd., was founded in 1951 with the cooperation of business operators and the people of Hokkaido. Adhering to our guiding principles of putting the customer first and earning the trust of local communities, we are fully aware of our role and responsibilities to the people of Hokkaido, our business territory. To this end, we are committed to growing in tandem with the region we serve, based on our corporate philosophy, which emphasizes sound business management, customer-oriented policies, regional harmony, and respect for employees.

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## MESSAGE FROM THE PRESIDENT



Yoshihiro Sekihachi, *President*

### Business Environment

Against a background of firm overseas demand, especially from the United States and Asia, the Japanese economy continued to recover at a moderate pace, boosted by increased output by manufacturers and turnarounds in private-sector capital investments notably at export-related industries. Thanks to rising demand and the effects of restructuring efforts, companies in general have enhanced their earnings, thus broadening the foundation for economic recovery in terms of both scale and sector diversity. These factors have helped curb deterioration in the areas of employment and wages, providing some positive signs for personal consumption.

However, economic conditions in Hokkaido remained difficult compared with the nation as a whole. Despite increased local production by manufacturers catering to external demand, as well as growing construction starts for apartments and condominiums, the beneficial effects of external demand remained relatively weak, and private-sector capital investments, with some exceptions, remained in the doldrums. Meanwhile, major reductions in public works spending had a significant impact on the Hokkaido economy, and weather-related factors dampened the tourism industry. As a result, demand for funds from corporations was generally limited.

### **Medium-to-Long-Term Management Strategy, and Issues to be Addressed**

Under its Program for Financial Revival, Hokkaido Bank has actively implemented its second medium-term management plan — centering on improving earnings and maintaining sound operations — since the latter half of the previous fiscal year. In August 2003, we formulated our Relationship Banking Reinforcement Plan, on the basis of which we are pursuing various initiatives to foster regional economic progress by strengthening our financial capabilities.

We have designated fiscal 2004, the final year of these plans, as a period for relaunching ourselves as a bank firmly rooted in our region. To this end, directors and employees have together renewed their commitment to earning the trust of local communities in Hokkaido and becoming a bank that is truly vital to the local community.

On September 1, 2004, we will merge with Hokuriku Bank to form the Hokuhoku Financial Group, Inc. one of the largest financial groups in this category in Japan in terms of assets. Utilizing the know-how and networks possessed by both banks, the new entity will strive to foster prosperity with local customers and grow in tandem with the region it serves by providing a comprehensive range of financial services.

### **Policies and Initiatives to Meet Targets**

The Bank brought forward to November 2002 the launch of its second medium-term management plan, which incorporates proposals contained in its Program for Financial Revival and its Relationship Banking Reinforcement Plan. Since then, we have undertaken a wide range of measures, as described below.

In banking operations, we began selling U.S. dollar-denominated defined-contribution individual pension insurance, as well as foreign currency-denominated time deposits with protection against exchange-rate fluctuation. We also launched the Industrial Cluster Support Loan, aimed at stimulating the regional economy. To forge closer ties to the community, in April 2004 we started providing ATM services at convenience stores, thus raising convenience for customers.

On the sales side, in February 2004 we dispatched Bank employees to the Economic Exchange Department (Sapporo) of the Japan-China Economic Association in Beijing. Our plan here is to provide business support for Hokkaido-based companies seeking to do business in China and to promote Sapporo as a tourist destination for Chinese visitors. By building bridges between Hokkaido and Chinese companies, we hope to further expand the circle of cooperation and benefit the people of our region.

### **Corporate Governance: Concepts and Policies**

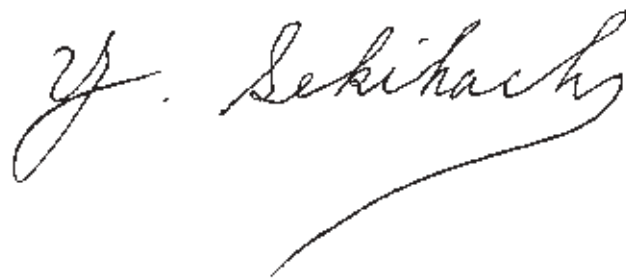
As business conditions surrounding the banking industry become more complex, Hokkaido Bank recognizes the importance of reinforcing corporate governance in assuring soundness of management. To upgrade corporate governance, we have worked hard to accelerate decision-making and raise operating efficiency. At the same time, we are creating a robust risk management framework and ensuring thorough compliance, while building shareholder and customer confidence through greater management transparency. To reinvigorate the Board of Directors, in fiscal 1999 we significantly reduced its size and introduced an executive officer system. Now, the Board rigorously monitors management decision-making and business enforcement, while executive officers are responsible for implementation.

We have also strengthened the internal auditing function by having corporate auditors attend management meetings, and we established a compliance committee to provide a stronger compliance-oriented environment.

In addition, we have expanded the scale of IR briefings for shareholders and customers, in the interests of maintaining and improving transparency.

In July 2003, the Bank established its Management Advisory Council, consisting of seven individuals, including executives from our business partners and local intellectuals. The Council serves to provide external views and advice to the Bank and ensure that such advice is reflected in management policy.

We will continue to speed up decision-making and improve the efficiency of management, while establishing a solid risk management framework and rigorous compliance mechanisms.

A handwritten signature in black ink, reading "Y. Sekihachi". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Yoshihiro Sekihachi, *President*

## REVIEW OF OPERATIONS (CONSOLIDATED)

### Deposits

At fiscal year-end, the balance of deposits, including certificates of deposit, stood at ¥3,195.0 billion, up ¥105.6 billion from a year earlier. This increase was mainly due to a rise in deposits from individuals, stemming from strong demand for time deposits linked with the popular Jumbo Lottery; we started offering those deposits at the end of 2003.

### Loans

The year-end balance of loans and bills discounted rose ¥50.5 billion, to ¥2,562.1 billion, owing mainly to increased mortgage loans to individuals and loans to public sector entities, which offset generally flat demand in the corporate sector.

### Securities

The balance of investment securities climbed ¥31.7 billion, to ¥622.3 billion, due chiefly to increases in holdings of local government bonds.

### Earnings

The parent company accounts for the bulk of the Bank's profit and loss accounts on a consolidated basis. In the year under review, the business profit on core banking operations (net operating profit before provision of general reserve for possible loan losses, with elimination of profits or losses on securities) amounted to ¥32,807 million on a non-consolidated basis. This reflected steady demand for loans from local companies, higher commission earnings from entry into new businesses, and further streamlining of our business operations. At the same time, we had to make considerable provisions for reserves during the year, due to deterioration in our borrower

portfolio stemming from falling land prices and economic weakness. Owing to the success of corporate restructuring efforts, however, some borrowers improved their credit rating, enabling the Bank to reverse a reserve for possible loan losses. Meanwhile, recent increases in share prices led to an unrealized gain on available-for-sale securities of ¥8.0 billion and limited impairment losses to ¥0.2 billion. As a result, income before income taxes amounted to ¥13,015 million, and net income reached a record-high ¥10,948 million.

### Cash Flows

Net cash provided by operating activities amounted to ¥4,675 million, compared with ¥46,914 million used in such activities in the previous fiscal year. This improvement stemmed from the solid net income figure, as well as a ¥105.6 billion net increase in deposits.

Net cash used in investing activities totaled ¥36,342 million, up ¥5,970 million from the preceding fiscal year, due primarily to purchases of investment securities.

Net cash used in financing activities was ¥9 million, down ¥2,621 million, owing to reduced purchases of treasury stock.

As a result, cash and cash equivalents at fiscal year-end stood at ¥233,144 million, down ¥31,736 million from a year earlier.

### Capital Ratio

The Bank's capital ratio at fiscal year-end was 6.47% on both a consolidated and non-consolidated basis.

#### Business Profit on Core Banking Operations\*



#### Net Fees and Commissions Income



#### Interest Income

(Net Interest Income on Fund Procurement and Operations)



#### General and Administrative Expenses



Note: All graphs data is on a non-consolidated Basis.

\* Business profit on core banking operations = Net interest income + Net fees and commissions + Other net operating income (excluding profit/loss on securities) - General and administrative expenses

## CORPORATE DATA

### Stock Information

#### Authorized Shares

Common stock: 1,263,000 thousand shares  
 Preferred stock:  
   (Class I) 79,000 thousand shares  
   (Class II) 108,000 thousand shares

#### Issued Shares

Common stock: 374,354 thousand shares  
 Preferred stock:  
   (Class I) 79,000 thousand shares  
   (Class II) 107,432 thousand shares

#### Paid-in Capital

93,524 million yen

#### Number of Shareholders

Common stock: 23,711  
 Preferred stock (Class I): 1  
 Preferred stock (Class II): 2,025

### Board of Directors

#### President

Yoshihiro Sekihachi

#### Representative Director

Kiyoshi Nitta

#### Directors

Masamichi Kondo  
 Masahiro Sasahara  
 Satoshi Kawai (to assume the post on September 1, 2004)

### Corporate Auditors

#### Standing Corporate Auditor

Hiroshi Shimizu

#### Corporate Auditors

Tatsuhiro Ishikawa  
 Yutaka Hayakawa  
 Kazuoki Adachi

### Executive Officers

#### President Executive Officer

Yoshihiro Sekihachi (Supervisor)

#### Management & Planning

#### President Executive Officer

Yoshihiro Sekihachi

### Affiliated Companies

Name	Line of business	Capital (Millions of yen)	Bank's share in capital	Establishment
The Dogin Business Service Limited	Collection and delivery of cash	50	100%	1979
Dogin Card Co., Ltd.	Credit card, loan guarantees, appraisal of real estate for loan collateral	122	39.97%	1977

(As of March 31, 2004)

### International Correspondence

#### Foreign Business Support Center

1, Nishi 4-chome, Odori, Chuo-ku, Sapporo 060-8676  
 Phone: (011) 233-1093  
 Fax: (011) 231-3133  
 S.W.I.F.T. Address: HKDB JP JT  
 E-mail: sekikaku@cello.ocn.ne.jp

#### Treasury & Securities Group

4-20, Nihombashi-Hongokuchou 4-chome, Chuo-ku, Tokyo 103-0021  
 Phone: (03) 3241-3457 Fax: (03) 3245-1779

#### International Correspondent Banking Network

139 Banks 556 Offices

### Principal Shareholders (Common Stock)

	Shareholding
Meiji Yasuda Life Insurance Company	4.19%
Sumitomo Life Insurance Company	3.20%
Mizuho Corporate Bank, Ltd.	3.18%
T. O. Ogasawara Co., Ltd.	2.97%
The Hokkaido Bank Employees' Shareholding Association	2.82%
The Bank of Tokyo-Mitsubishi, Ltd.	2.53%
The Dai-ichi Mutual Life Insurance Company	2.40%
The Hokkaido Fire Insurance Cooperative Society	2.17%
Mitsui Sumitomo Insurance Co., Ltd.	1.95%
Shinsei Bank, Limited	1.71%

(As of March 31, 2004)

### Risk Management

#### Executive Officer

Kiyoshi Nitta

### Business Promotion

#### Area Marketing

#### Deputy President Executive Officer

Masamichi Kondo

#### Senior Executive Officers

Nobuyoshi Nakamura  
 Naotake Ogasawara  
 Masataka Shikanai  
 Yoshimi Kawahara  
 Atsuhito Mito

#### Executive Officers

Keiji Okuda  
 Kazuhiro Yamakawa

#### Marketing Planning

#### Executive Officer

Masahiro Sasahara

### Credit Administration

#### Executive Officer

Toshihiko Kobayashi

Note: Executive Officer Toshihiko Kobayashi is scheduled to assume the post of Director of Hokuohoku Financial Group, Inc. on September 1, 2004.

(As of June 30, 2004)

### Number of Domestic Offices

Hokkaido 131  
 Tohoku District 1  
 Tokyo 1  
 Osaka 1  
 Total 134  
 (Foreign Exchange Office 11)  
 (Money Exchange Office 52)

(As of March 31, 2004)

### Organization



(As of June 30, 2004)