



# Annual Report 2016

Year ended March 31, 2016

Hokuhoku Financial Group, Inc.

## Company outline (as of March 31, 2016)

**Company name:** Hokuhoku Financial Group, Inc.

**Date of establishment:** September 26, 2003

**Location of head office:** 1-2-26 Tsutsumicho-dori, Toyama City

**Purpose of business:** Management and control of subsidiaries and affiliates and ancillary and related business

**Capital:** ¥70,895 million

### Shares issued and outstanding:

Common stock ..... 1,351,630,146

Preferred stock (Type 5) ..... 107,432,000

**Exchange listings:** Tokyo Stock Exchange (First Section)

Sapporo Securities Exchange

This document contains forward-looking statements. Statements of this kind do not constitute guarantees of future performance, as factors such as changes in the operating environment may cause actual performance to differ.

The figures stated in this document are, in principle, rounded down to the nearest whole unit.

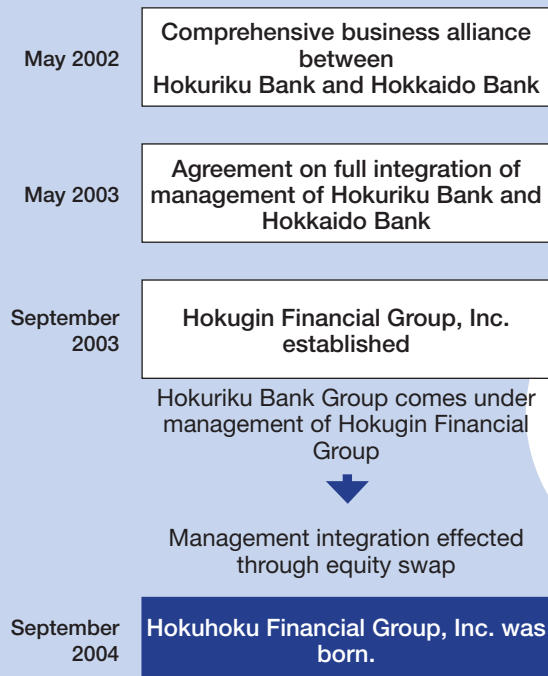
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## Profile

Since its establishment in 1877, Hokuriku Bank has developed an extensive network of branches throughout the Hokuriku district. On account of trade through the Kitamae-bune or “Northbound Ships,” branches extended to the major cities of Hokkaido, enabling the bank to meet customers’ needs. The Hokkaido Bank, which was established in 1951, has developed a network of branches throughout Hokkaido, and built a firm business structure centered on individuals and small and medium-sized enterprises.

The Hokuriku Bank, Ltd. and The Hokkaido Bank, Ltd. underwent management integration in September 2004 to form the Hokuhoku Financial Group Inc., which today operates a super-regional financial network that encompasses the Hokuriku region, Hokkaido, and Japan’s three major metropolitan areas (Tokyo, Osaka, and Nagoya areas).



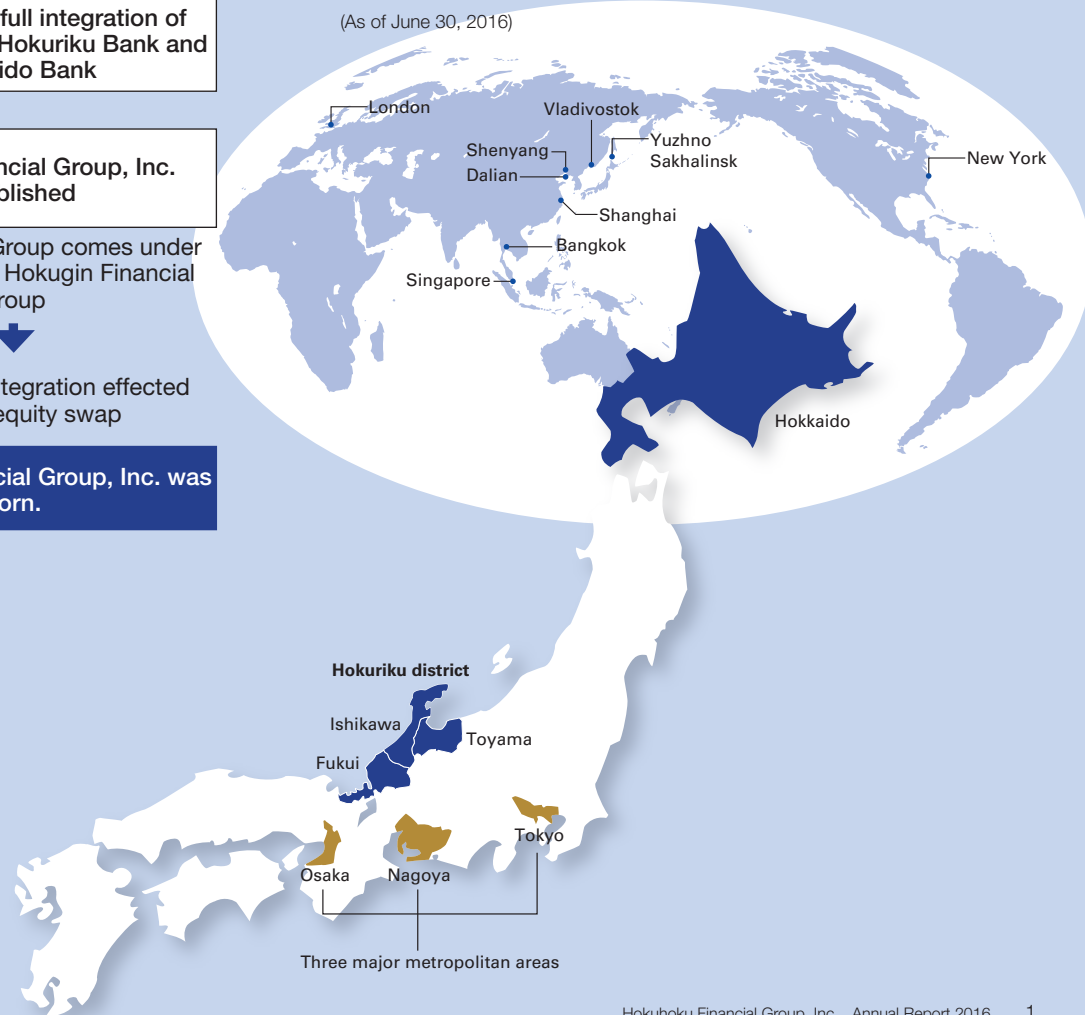
## The operations of the Hokuhoku Financial Group extend beyond the limits of a single district.

Our extensive network is outlined below.

<b>Hokuriku district</b> .....	<b>150 branches</b>
Toyama prefecture.....	92 branches
Ishikawa prefecture .....	36 branches
Fukui prefecture.....	22 branches
<b>Hokkaido</b> .....	<b>158 branches</b>
<b>Three major metropolitan areas</b> .....	<b>16 branches</b>
Tokyo and Yokohama .....	9 branches
Nagoya .....	3 branches
Osaka and Kyoto .....	4 branches
<b>Others (Sendai, Niigata, Nagano, Takayama) ...</b>	<b>4 branches</b>
<b>Overseas</b> .....	<b>9 offices</b>

- New York Representative Office (Hokuriku Bank)
- Yuzhno-Sakhalinsk Representative Office (Hokkaido Bank)
- Vladivostok Representative Office (Hokkaido Bank)
- London Representative Office (Hokuriku Bank)
- Singapore Representative Office (Hokuriku Bank)
- Bangkok Representative Office (Hokuriku Bank)
- Dalian Representative Office (Hokuriku Bank)
- Shanghai Representative Office (Hokuriku Bank)
- Shenyang Representative Office (Hokkaido Bank)

(As of June 30, 2016)



## MESSAGE FROM THE MANAGEMENT



Left: Eishin Ihori  
*President*  
*(concurrently serving as president of  
The Hokuriku Bank, Ltd.)*

Right: Masahiro Sasahara  
*Deputy President*  
*(concurrently serving as president of  
The Hokkaido Bank, Ltd.)*

We would like to express our sincere appreciation to all of you for your continued support of the Hokuhoku Financial Group and its group companies.

In the Company's primary operating regions, the Hokuriku Shinkansen was launched in March of last year, while the Hokkaido Shinkansen was launched in March of this year. As both areas had previously been blessed with tourism resources, the number of tourists from both outside and within Japan has been on a rising trend. With the launch of the Shinkansen, we expect this momentum to accelerate and feel that the conditions are right for a virtuous cycle in both tourism and business. On the other hand, due to the declining birthrate, the ageing of the population, the shift of the population to urban areas and the increasing corporate focus on overseas regions, we forecast that the contraction in the market will continue. Moreover, in addition to rivalry with other local banks, we expect a continuation of the severe operating environment due to competition stemming from the expansion of business by the Japan Post Bank and by internet-only banks, due to the contraction in profit margins in the loan business caused by the quantitative easing policy with negative interest rates and due to lower yields on domestic bonds.

In such an operating environment, the Group began working on its new "BEST for the Region" medium-term management plan in April of this year, focusing on the policies below in order to contribute to the development of regional economies through the stable provision of financial services.

First, we will work on initiatives to develop proposal and service capabilities that exceed our customers' expectations. Through providing the No.1 regional financial services by strengthening efforts with regard to consulting that matches the customer's stage of life and assessing business possibilities, and by reinforcing convenience and functionality through building out IT infrastructure, we aim to be a regional financial group that is trusted and chosen by, and that contributes to, both customers and local communities.

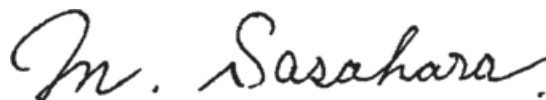
Second, in order to achieve sustainable growth for the Group, we will take up the challenge of building out functional and efficient group structures for management and sales. As well as pursuing the benefits to group management of consolidating the administrative and back office operations, we will push ahead with developing retail and service channels that match the changing needs of customers, while making efforts to realize a functional organization that can win out against the competition and to maintain a stable financial base that earns trust from local community.

In addition to reforming itself to deal with the changing environment, by offering financial services rooted in the regions, the Group plays a role in the "Vitalizing Local Economy" program and we strive to be "a financial group that achieves growth and development together with local communities." We ask for your continued support and patronage.

July 2016



Eishin Ihori  
President



Masahiro Sasahara  
Deputy President

# MEDIUM-TERM MANAGEMENT PLAN

Hokuhoku Financial Group has launched its Medium-term Management Plan “BEST for the Region” for the three year period from April 2016 to March 2019.

We have achieved all financial targets set in the previous mid-term management plan. Although interest income on loans decreased under the low interest rate environment, we achieved the target of net income by decreasing funding cost and increasing income on securities through diversified investment, as well as reducing G&A expenses.

Due to the negative interest rate policy in Japan, we are faced with challenges such as difficulty in security investment and declining interest rate on loans. In a long-term perspective, we recognize that the shrinking population and the aging of society in our prime area will be significant challenges.

Given the environment, under New Medium-term Management Plan “BEST for the Region”, we will develop an efficient and sustainable business model and pursue synergy effect to contribute to the growth of regional economy. Using our widespread network and improving management efficiency, we contribute to customers and local communities by providing No.1 financial service and solution, and achieve growth and development together with them.

## Overview of the Medium-Term Management Plan

Title	BEST for the Region
Period	3 Years (April 2016 – March 2019)
Position	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
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
Basic Policies in Management Plan	<ol style="list-style-type: none"> <li>1. Strengthening Marketing Capabilities ~Exceed customers' expectations</li> <li>2. Improving Management Efficiency ~Enhance competitiveness by establishing efficient operations</li> <li>3. Strengthening Management Foundation ~Earn trust from local communities and customers</li> </ol>

## Review of the previous Medium-term Management Plan (Total of 2 banks, consolidated)

	FY15 Plan	FY15 Result
Ave.balance of deposits & NCDs	¥10,110.0 Bn	¥10,638.9 Bn
Ave.balance of loans	¥7,480.0 Bn	¥7,545.7 Bn
Core net business profits	¥47.0 Bn	¥52.0 Bn
Net income attributable to owners of the parent	¥18.5 Bn	¥28.8 Bn
OHR*	67%	63.57%
(Consolidated) Capital adequacy ratio	Above 10%	10.30%
NPL ratio	Below 3%	2.15%

\*Core gross business profits basis

## Targets of the New Medium-term Management Plan (Total of 2 banks, consolidated)

	FY18 Plan
Ave.balance of deposits	¥10,560.0 Bn
Ave.balance of loans	¥7,760.0 Bn
Core net business profits	¥41.5 Bn
Net income attributable to owners of the parent	¥23.0 Bn
OHR*	69.14%
(Consolidated) Capital adequacy ratio	9.55%

\*Core gross business profits basis

## Strategies based on basic policies of the Plan

### Strengthening Marketing Capabilities ~Exceed customers' expectations

#### (1) Consumer

1. Provide useful information and introduce related services such as consulting in accordance with the life stage of each customers and support for inheritance and succession.
2. Improve loan products and user convenience to meet various needs of customers.
3. Improve function of both face-to-face channels and non-counter channels to be familiar and reliable bank that customers choose as their main bank.

#### (2) Corporate

1. Contribute to the growth and development of the regional industry by improving ability to assess customers' business potential, sharing their needs and problems and thus offering various solutions.
2. Provide business-matching opportunities using our widespread domestic network in Hokkaido, Hokuriku and 3 metropolitan areas, and provide support for overseas businesses using our overseas offices and partnership institutions.

#### (3) Investment in securities

Flexibly increase investment in investment trust and/or foreign bonds in accordance with changes in market environment to improve gains on investment in securities, while basically maintaining our portfolio mainly consisted of yen-bonds.

### Improving management efficiency ~Enhance competitiveness by establishing efficient operations

- (1) Improve productivity and efficiency by enhancing back-office functions and integrating business within our group in addition to creating paperless environment and simplifying work process through information technologies.
- (2) Offer sufficient financial services and convenient access through reorganizing branch groups in which several branches work together and relocating branches with functions suitable for each local environment as well as enhancing non-counter channels.

### Strengthening Management Foundation ~Earn trust from local community and customers

Put the first priority on maintaining sound financial position to provide stable financial services for the region, while making effort to increase shareholder returns by improving profit.

#### **Establishment of the "Hokuhoku Tokai Tokyo Securities Co. Ltd"**

Our company agreed with Tokai Tokyo Financial Holdings, Inc. (TTFH) to establish a securities company in the form of joint investment, planning to start its operation sometime in the second half of the FY2016. The new securities company aims to become a leading bank-affiliated securities house for the region by fully leveraging on both the closely-knit operational network of our company and the experience and operational function of TTFH.

# PERFORMANCE HIGHLIGHTS

## Summary of Operations (Hokuhoku Financial Group, Inc.; on a consolidated basis)

(¥ billion)

	FY2015		FY2014
		Y-o-Y Change	
Ordinary income	192.5	(1.3)	193.9
Ordinary profits	46.4	(1.7)	48.1
Net income attributable to owners of the parent	28.8	0.6	28.2
Capital adequacy ratio	10.30%	(0.83)%	11.13%

With regard to the Company's operating performance in the fiscal year ended March 31, 2016, net income attributable to owners of the parent increased by ¥0.6 billion to ¥28.8 billion.

The capital adequacy ratio was 10.30% on a consolidated basis at the end of the fiscal year.

With regard to the payment of dividends for the fiscal year ended March 31, 2016, dividends for common stock were ¥4.25 per share, paid once as the year-end dividends, and dividends for preferred stock (Type 5) were the designated ¥7.50 per share (¥15 annually) paid respectively as the interim and year-end dividends.

## Summary of Operations (Hokuriku Bank and Hokkaido Bank) <Total of both banks>

Total of both banks (¥ billion)

	FY2015		FY2014
		Y-o-Y Change	
Ordinary income	178.9	(0.5)	179.4
Core gross business profits	143.0	(1.8)	144.8
Expenses (excluding temporarily processed portion)	90.9	(2.6)	93.6
Core net business profits	52.0	0.8	51.2
Credit costs	3.7	(2.3)	6.0
Ordinary profits	46.7	(0.3)	47.1
Net income	29.9	1.6	28.2

Total ordinary income for both banks was ¥178.9 billion, down ¥0.5 billion year-on-year, while net income increased by ¥1.6 billion to ¥29.9 billion.

At Hokuriku Bank, ordinary income fell by ¥0.6 billion to ¥93.3 billion and net income increased by ¥1.8 billion year-on-year to ¥16.5 billion.

At Hokkaido Bank, ordinary income increased by ¥0.1 billion to ¥85.5 billion and net income decreased by ¥0.1 billion year-on-year to ¥13.4 billion.

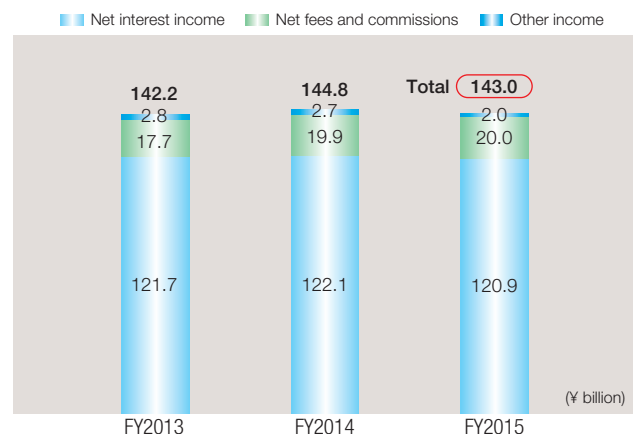
(¥ billion)

	Hokuriku Bank		
	FY2015	Y-o-Y Change	FY2014
Ordinary income	93.3	(0.6)	94.0
Core gross business profits	75.3	(1.1)	76.5
Expenses (excluding temporarily processed portion)	48.6	(1.8)	50.4
Core net business profits	26.6	0.6	26.0
Credit costs	(1.1)	(2.8)	1.7
Ordinary profits	26.7	2.2	24.5
Net income	16.5	1.8	14.6
Capital adequacy ratio	9.78%	(0.83)%	10.61%

(¥ billion)

Hokkaido Bank		
FY2015	Y-o-Y Change	FY2014
85.5	0.1	85.4
67.6	(0.6)	68.3
42.2	(0.8)	43.1
25.3	0.2	25.1
4.8	0.5	4.2
20.0	(2.6)	22.6
13.4	(0.1)	13.5
10.23%	(0.52)%	10.75%

## Core Gross Business Profits <Total of both banks>



### ■ Net interest income.....¥120.9 billion

Interest and dividends on securities increased, but due to a fall in interest on loans, net interest income declined by ¥1.1 billion year-on-year.

### ■ Net fees and commissions.....¥20.0 billion

Although commissions on sales of investment trusts declined, fees and commissions expenses also fell and net fees and commissions were almost unchanged year-on-year.

### ■ Other income.....¥2.0 billion

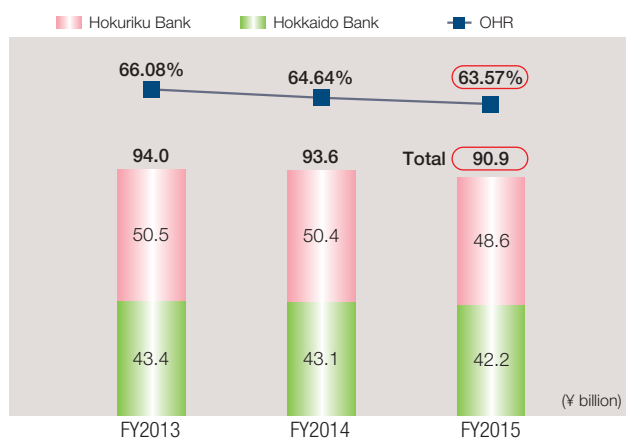
Other income fell by ¥0.6 billion year-on-year due to a decline in gain on foreign exchange transactions.

### ■ Core gross business profits.....¥143.0 billion

As a result of the above, core gross business profits decreased by ¥1.8 billion year-on-year.



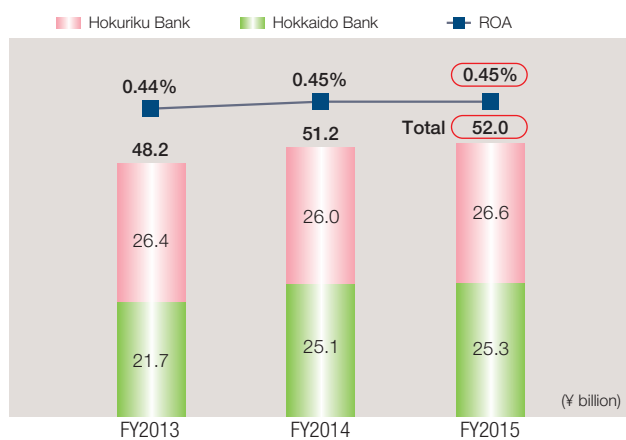
## Expenses <Total of both banks>



### Expenses.....¥90.9 billion

There was a decline in non-personnel expenses, leading to an overall fall of ¥2.6 billion year-on-year.

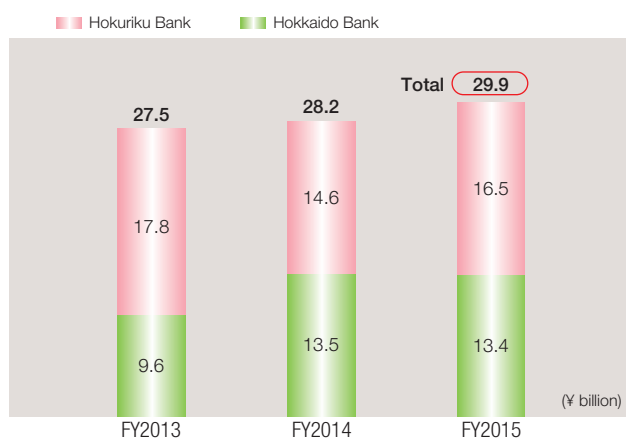
## Core Net Business Profits <Total of both banks>



### Core net business profits.....¥52.0 billion

Core gross business profits declined but expenses also fell, causing core net business profits to increase by ¥0.8 billion year-on-year.

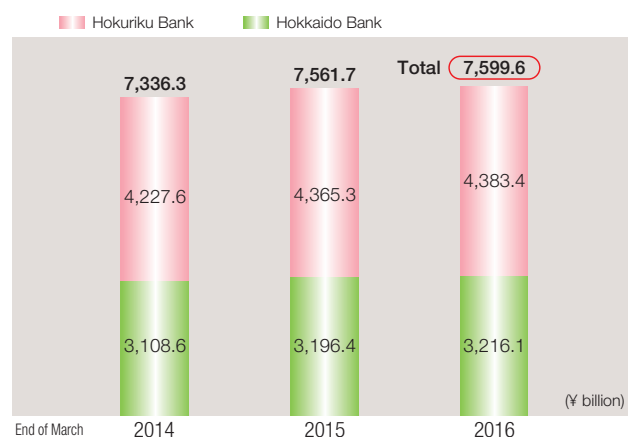
## Net Income <Total of both banks>



### Net income.....¥29.9 billion

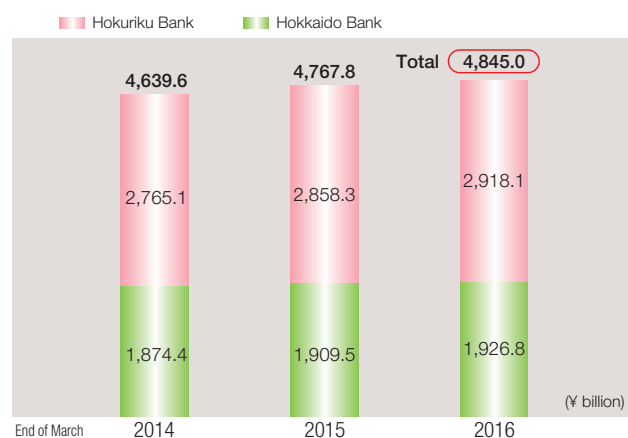
Both net gains related to bonds and net gains related to stocks declined, but credit costs and income taxes also fell, leading to an increase in net income of ¥1.6 billion year-on-year.

Loans and Bills Discounted <Total of both banks>



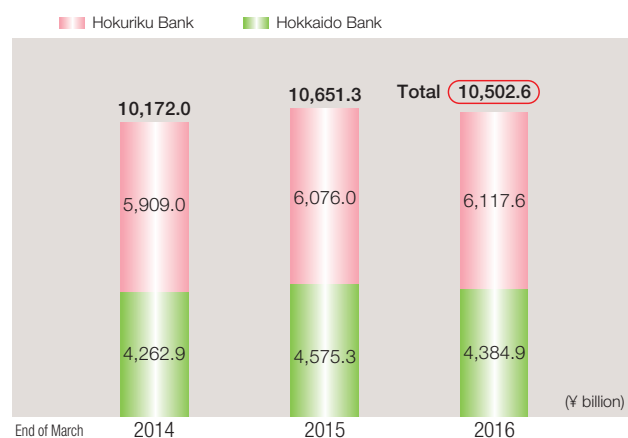
- Loans and bills discounted.....¥7,599.6 billion  
Loans to regional public bodies contracted, but due to a rise in corporate loans, there was an increase of ¥37.8 billion compared with the end of the previous fiscal year.

Loans to Small- and Medium-sized Enterprises (SMEs) <Total of both banks>



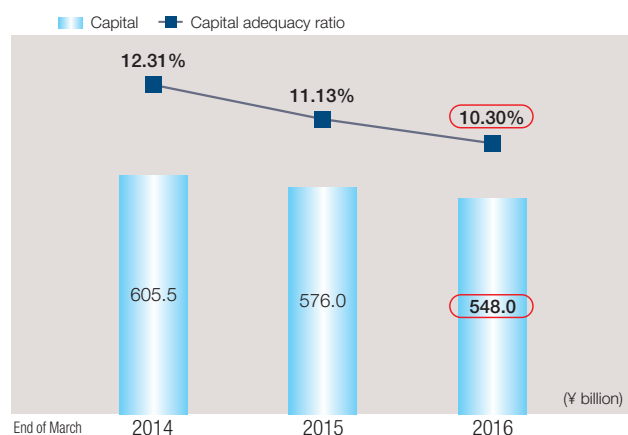
- Loans to SMEs.....¥4,845.0 billion  
Due to actively working on initiatives related to regional demand for financing, loans to SMEs increased by ¥77.2 billion year-on-year.

Deposits (Including negotiable certificates of deposit) <Total of both banks>



- Deposits (including negotiable certificates of deposit).....¥10,502.6 billion  
Deposits decreased by ¥148.7 billion compared with the end of the previous fiscal year due to a decrease in negotiable certificates of deposit despite the steady increase in corporate deposits.

## Capital Adequacy Ratio <On a consolidated basis>



### Capital adequacy ratio.....10.30%

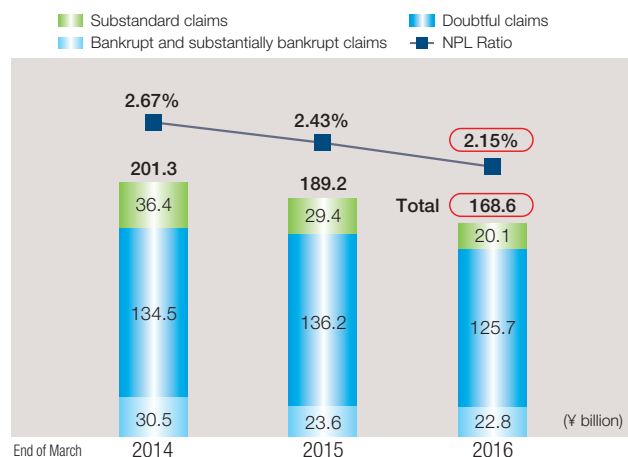
The capital adequacy ratio fell by 0.83 percentage points compared with the end of March 2015, as the accumulation of profits was offset by the repayment of subordinated loans, etc.

## Disposed Claims under the Financial Reconstruction Law <Total of both banks>

Disclosed claims under the Financial Reconstruction Law.....¥168.6 billion  
Disclosed claims under the Financial Reconstruction Law fell by ¥20.6 billion compared with the end of March 2015.

### NPL ratio.....2.15%

The NPL ratio fell by 0.28 percentage points compared with the end of March 2015.



- Disclosed Claims under the Financial Reconstruction Law: The bank classifies both loans and other assets in line with the stipulations of the Financial Reconstruction Law.

- Claims subject to disclosure: loans, customers' liabilities for acceptance and guarantees, foreign exchanges, accrued interest, suspense payments, securities loaned, private bonds with the Bank's own guarantees (regarding claims on obligors requiring caution, loans and private bonds with the Bank's own guarantees only).

**Substandard claims** This category is defined as claims on borrowers requiring caution under asset self-assessment. This category comprises past due loans (three months or more) and restructured loans under the Banking Law.

**Doubtful claims** This category is defined as claims on potentially bankrupt borrowers under asset self-assessment. The execution of contracts on repayment of the principal and payments of interest is highly doubtful.

**Bankrupt and substantially bankrupt claims** This category is defined as the sum of claims on bankrupt borrowers and effectively bankrupt borrowers.

- NPL ratio: Indicates NPLs (under the Financial Reconstruction Law) as a percentage of total credit. The lower the ratio, the sounder the credit portfolio.

## Ratings

Rating and Investment Information, Inc.

R&I



"Ratings" are determined by ratings agencies, third-party institutions with no vested interest in the companies they rate, and indicate a company's creditworthiness and ability to fulfill obligations in concise signs.

Hokuhoku Financial Group Inc., Hokuriku Bank and Hokkaido Bank have obtained "A" ratings from Rating and Investment Information, Inc. (R&I), and are considered as being highly creditworthy. Hokuriku Bank also has obtained "A-" rating from Standard & Poor's Ratings Japan K. K. and Hokkaido Bank also has obtained "A" rating from Japan Credit Rating Agency Ltd.

## We will increase management transparency and enhance our corporate governance.

### Basic approach

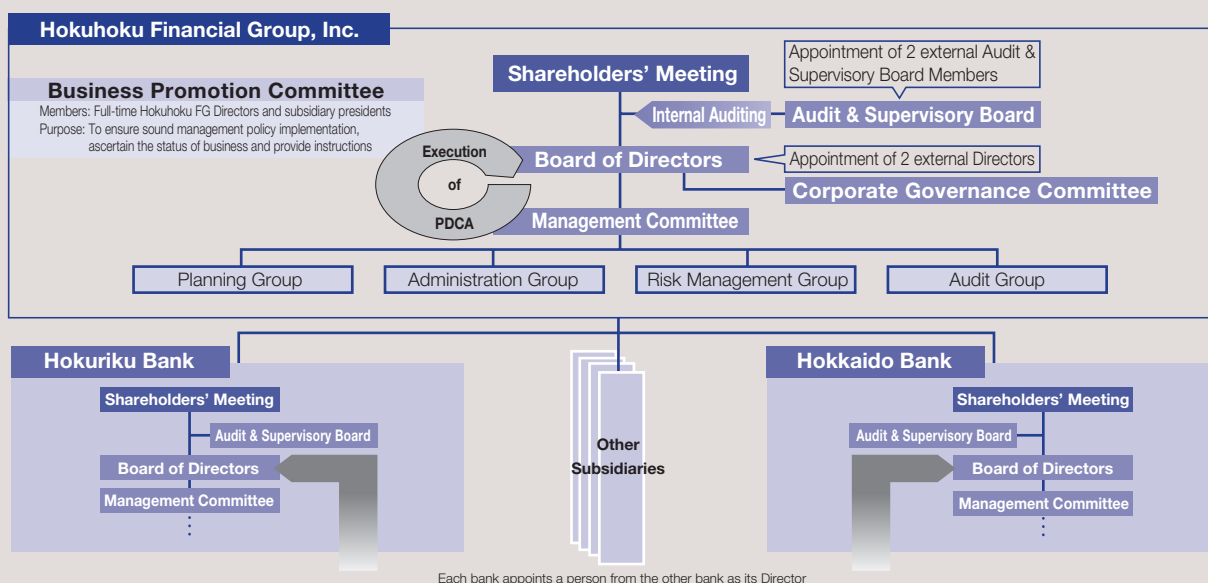
The Company and all group companies regard strengthening and enhancing corporate governance as one of the most important management priorities. We have drawn up a basic policy — our management philosophy — covering all our activities including the formulation of management strategies and making management decisions. We share basic values and a sense of ethics through the Hokuhoku Financial Group Code of Conduct, and endeavor to increase corporate value and realize solid management aimed at contributing to the development of the Hokuriku and Hokkaido regions.

### Corporate governance

We have established a framework that enables quick decision-making, with the Shareholders' Meeting and Board of Directors at the top of the framework, and day-to-day operational authority delegated in accordance with internal rules. Bodies such as the Management Committee are able to respond quickly to specific and expert matters based on basic policies established by the Board of Directors. Furthermore, separate from the Management Committee, we have established a Business Promotion Committee which ensures that business policies are correctly carried out among group companies.

We use the Audit & Supervisory Board Member system and also appoint external Director. Additionally, in order to bolster our group governance framework and, as a holding company, to ensure that operations are managed appropriately, people from each of our principal subsidiaries, Hokuriku Bank and Hokkaido Bank, are appointed as Directors at the other bank to promote mutual understanding and mutual checks and balances.

In this way, in addition to having established this framework to cyclically enable effective decision-making, implementation, evaluation, and improvements, the Board of Directors decides the basic policy on internal controls, to create an effective internal control system.



### Overview of key bodies

#### 1. Board of Directors

Responsible for decisions related to important policies for management of the Group as a whole, and for overseeing the business management, risk management and auditing carried out by the holding company and its subsidiaries. Two Directors are appointed and oversight is strengthened by incorporating perspectives that are independent from management.

#### 2. Audit & Supervisory Board

Determines matters related to auditing policies and the performance of duties by Audit & Supervisory Board Members, and monitors the performance of duties by Directors.

#### 3. Corporate Governance Committee

The Committee, which is composed of four external Directors and Audit & Supervisory Board Members, and one full-time Audit & Supervisory Board Member, aims to secure sustainable growth and boost long-term corporate value of the Group through exchanging information and sharing perceptions among

external Directors and Audit & Supervisory Board Members and by offering advice on the Company's important issues.

#### 4. Management Committee

Comprising full-time Directors of the Company, this body makes decisions — in accordance with the basic policies laid down by the Board of Directors — on matters relating to business execution policies for the entire Group and matters related to the implementation of particularly important tasks by specific divisions.

#### 5. Business Promotion Committee

Comprising full-time Directors of the Company and presidents of subsidiaries, this body is responsible for making sure that important issues and management policies for the entire Group are widely known and understood, as well as for keeping track of business results at each company to ensure that business is carried out appropriately.

## Basic policy on internal controls

The Company shall, based on the Companies Act and the Ordinance for Enforcement of the Companies Act, put in place a system to ensure the appropriateness of the Company's operations, as follows.

### 1. System to ensure that executives and employees of the Company and group companies perform their duties in conformity with laws and ordinances, as well as in conformity with our articles of incorporation

- In addition to setting matters pertaining to laws and ordinances, or the articles of incorporation, the Board of Directors decides on basic management policies and important issues related to the execution of operations, establishes organizations and systems, and supervises performance of duties by Directors.
- It also recommends external Directors for appointment at Shareholders' Meetings, to ensure a stronger system of checks and balances.
- Corporate Governance Committee shall be established so that external Directors and external Audit & Supervisory Board Members are in a position to work in concert to engage in appropriate ways with the important issues facing the Company and to offer suitable advice on them.
- Audit & Supervisory Board Members attend important meetings including Board of Directors meetings, investigate the Company's operations and financial position, and audit the performance of duties by Directors as an independent body.
- The Board of Directors views compliance as one of the most important management issues, and fully recognizes the fact that a lack of compliance can weaken the management base. Based on this understanding, the Board of Directors formulates the rules that form the foundation of compliance, such as the basic compliance policy and the compliance charter. In addition, by establishing Compliance General Departments, the Board of Directors works to maintain and further reinforce the compliance measures of the Company and group companies.
- Every fiscal year the Board of Directors draws up a Compliance Program that acts as a detailed action plan and, in accordance with the aforementioned basic rules and this Compliance Program, executives and employees of the Company and group companies work together to ensure honest and fair corporate activities.
- A whistleblower system is put in place whereby an executive or an employee who discovers illegal or inappropriate actions can report to a whistleblower contact point established in advance.
- The Company is determined to avoid relationships with anti-social forces which threaten order and safety in society, and works to prevent doing business with such groups.
- The Company is aware that money transacted through financial institutions may be used for various crimes or acts of terrorism, and is therefore committed to the prevention of money laundering.

### 2. System related to the storage and management of information related to the performance of duties by Directors

- Based on the Board of Directors rules as well as document management rules and other regulations, the Board of Directors creates systems for the storage and management of information related to performance of duties by Directors.

### 3. Rules and other systems related to the management of risk of losses

- Recognizing the existence of various risks surrounding the Company and group companies, and fully aware of the importance of controlling such risks, the Board of Directors decides the basic risk management policy and risk management regulations. By accurately recognizing the various risks accompanying group company management and by carrying out appropriate management and operations, the Board of Directors establishes systems to ensure the soundness of group management.
- A contingency plan has been formulated, and a crisis management system has been established to prepare for unexpected events and risks such as natural disasters.
- Each group company carries out appropriate risk management in close partnership with each group company's risk management department, following the Group's basic policy.

### 4. System to ensure that Directors, etc. of the Company and group companies perform duties efficiently

- The Board of Directors sets overall organizational standards for basic tasks, operational entities, and assignment of duties, and ensures a system in which the Company and all group companies perform well-organized and efficient business operations.
- The Management Committee executes business operations promptly and efficiently, based on the delegation of authority by the Board of Directors with regard to the execution of business operations, and on the predetermined assignment of duties.
- Teleconferencing systems and other IT tools are proactively utilized.

### 5. System to ensure the appropriateness of operations within the corporate group

- The Board of Directors is responsible for overall group management. It establishes the group management regulations, prepares frameworks for agenda-setting and reporting for each group company with regard to important matters, and receives reports from internal audit departments on the findings of audits into the status of legal compliance, risk management, and the appropriateness and effectiveness of business operations at the Company and all group companies.
- We also have in place mechanisms to ensure the propriety of financial reporting, ensuring honest and clear statements of the Group's financial position and business results.
- The Board of Directors draws up Regulations for Intra-Group Transactions with the aims of clarifying the control system for intra-group transactions, etc. and of carefully maintaining the soundness of management practices for the Group as a whole. The Board of Directors performs its duties of management and administration based on these regulations.

### 6. Matters related to employees in the case that Audit & Supervisory Board Members request the assignment of employees to assist with duties

- In order to assist Audit & Supervisory Board Members in the conduct of their duties, the Board of Directors shall place employees who carry out this work only and to whom Audit & Supervisory Board Members may directly give directions and orders based on their independence and effectiveness etc.
- Prior consent from the Audit & Supervisory Board is required

for personnel transfers and disciplinary measures regarding such employees.

#### 7. System for Company and group company executives and employees to report to Audit & Supervisory Board Members

- If executives and employees discover matters that could cause significant losses to the Company or group companies, they shall directly or indirectly report such matters to Audit & Supervisory Board Members.
- The Audit & Supervisory Board Members and Directors shall designate matters which should be reported to the Audit & Supervisory Board by executives and employees in advance and establish a reporting system to the Audit & Supervisory Board Members.
- The Audit & Supervisory Board Members may request reports from executives and employees as needed.
- A system shall be established to ensure that executives and employees of the Company or group companies are not mistreated as a result of having consulted with or reported to Audit & Supervisory Board Members.

#### 8. Other systems to ensure effective auditing by Audit & Supervisory Board Members

- The Board of Directors shall give due acknowledgement to the importance and usefulness of auditing by the Audit & Supervisory Board Members, and shall give due consideration if the Audit & Supervisory Board Members request creation of a system for smoother and more effective performance of auditing duties.
- The Audit & Supervisory Board shall regularly meet with the representative Directors and outside accounting auditors, in addition to which it shall maintain close cooperation with internal audit departments and other departments with internal control functions, receiving reports both on a regular basis and as required, and requesting explanations as and when necessary.
- The Audit & Supervisory Board may invoice the Company for any expenses deemed necessary in order to perform its duties.

## We are strengthening internal auditing mechanisms to ensure sound management of the Group

### Basic approach

The Group believes that establishment of internal auditing mechanisms that effectively meet requirements according to the scale and nature of operations, laws and regulations applied to the Group's businesses and categories of risk, is indispensable for enabling due legal and regulatory compliance by the Group, customer protection and risk management. Based on this conviction, the Company and its subsidiary banks, Hokuriku Bank and Hokkaido Bank have established internal auditing departments.

The internal auditing departments of each Group company develop mechanisms of checks and balances, which thereby ensure that those departments function independently of other departments.

### Group-wide measures

The Company verifies the appropriateness and effectiveness of Group company internal management mechanisms, and has accordingly established the Audit & Supervisory Group, tasked with overseeing the internal audit function of those companies. In line with basic policy and rules on internal audits compiled by the Board of Directors, the Audit & Supervisory Group carries out internal audits on the Company and its non-banking subsidiaries and affiliates, and also receives reports from Hokuriku Bank and Hokkaido Bank that include results of internal audits and progress made on matters requiring improvement. Furthermore, when necessary, the Audit & Supervisory Group centrally assesses and manages the implementation of internal audits within Group companies through on-site bank investigations, guidance and reports.

Results of internal audits at Group companies are periodically reported to the Board of Directors promptly

when needed. In particular, mechanisms have been put in place for prompt reporting to the Board of Directors with respect to events that could significantly impact management of the Group.

Also at Hokuriku Bank and Hokkaido Bank, operational and asset audits are performed involving head offices, branches and subsidiaries of each bank, based on the policy and rules for internal audits of the respective banks. Conducting these audits involves assessing legal and regulatory compliance, customer protection, and risk management at each entity subject to audit, and then making efficient and effective internal audit plans taking into account factors such as the frequency and extent of such audits.

When necessary, the audit departments of both banks and the Audit & Supervisory Group of the Company conduct joint audits in order to strengthen and streamline overall Group auditing.

# MEASURES FOR COMPLIANCE

## The Group rigorously ensures compliance with laws, regulations and social norms.

### Basic policy

At Hokuhoku Financial Group, we regard compliance as one of our most important management priorities, thereby fully recognizing that shortfalls with respect to compliance could weaken our business foundations. Therefore, the Board of Directors has established basic compliance policies which underpin our efforts to engage in business activities in a fair and honest manner.

### Systems

To establish compliance systems, the Group has established a compliance charter, put in place organizational structures and arranged joint measures by involving the Company and each Group company.

The Risk Management Group acts as the Compliance General Department responsible for overseeing compliance within the Group, and the head of the Risk Management Group acts as the officer in charge of compliance.

Compliance officers and other such managers are deployed to each branch of subsidiary banks and each Group company in order to aggressively implement training and awareness-raising initiatives regarding compliance in the workplace. Subsidiary banks have established Compliance General Departments and Compliance Committees, which work to assess progress in compliance measures and make improvements.

### Basic compliance policy

#### 1. Recognition of the Group's basic mission and social responsibilities

As a regional financial institution, the Group recognizes its public duties and social responsibilities, and accordingly strives to gain greater trust through the conduct of sound business operations.

#### 2. Providing quality financial services

By providing high-quality, integrated financial services, the Group will contribute to enabling stable economic and social development of its operating regions, while facilitating better lives for its customers.

#### 3. Strict observance of laws, regulations and rules

The Group strictly observes all relevant laws, regulations and rules, and conducts business in a fair and prudent manner, in adherence with its own standards of corporate ethics and social norms.

#### 4. Rejection of all ties with anti-social elements

The Group contributes to a healthy society by resolutely refusing to associate or work with anti-social elements that threaten social peace and security.

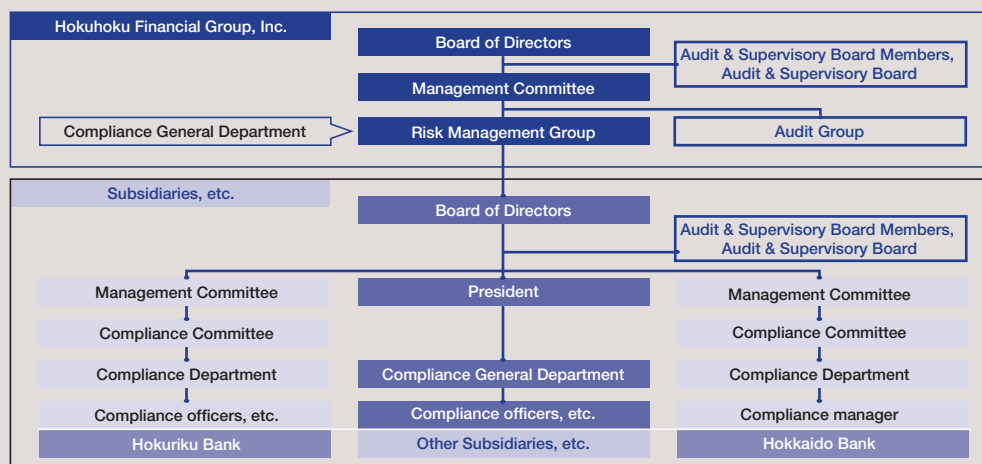
#### 5. Ensuring management transparency

The Group aims to achieve a highly transparent management and organizational culture through accurate and swift disclosure and decision making.

### Compliance manual and compliance programs

To ensure rigorous compliance, we have formulated a compliance manual (code of conduct) compiling all fundamental considerations which executive officers and employees need to observe. The manual is distributed to all executive officers and employees, and in-house seminars and training sessions are conducted to ensure thorough familiarity with its content.

In addition, every year the Board of Directors decides on the Compliance Program which acts as a detailed action plan implemented to maintain the compliance structure. The Board also receives regular reports on the state of the Program's execution, and ensures that compliance procedures are put into practice.



## Measures for better customer protection and greater customer convenience

To protect customer assets, information and other interests, the Group has established policies for management of customer protection within its basic rules for management of customer protection.

Furthermore, we have formulated protocols and appropriate response structures based on five separate considerations, in order to provide pertinent explanations to our customers in accordance with the Japanese Financial Instruments and Exchange Act and other laws, and to properly handle customer grievances and inquiries through a customer consultation office set up to serve as a point of customer contact.

Moreover, the Compliance General Departments of respective Group companies act as offices responsible for overall customer protection management, and in partnership with each department in charge, they operate through a framework that

enables them to draft and implement various improvement measures through efforts that involve ongoing review geared toward ensuring proper functioning of management systems, problem resolution and data analysis.

## Measures for protection of personal information

In the financial industry, ensuring the safety of information assets is of utmost importance in terms of gaining customer trust. As such, we are committed to rigorously protecting and using any and all customer information in our custody and preventing its leakage.

Especially in the area of personal information, the Group has formulated a personal information protection declaration, which is disclosed on our website, in order to comply with the Personal Information Protection Act and other laws, and to gain the full trust of our customers in acting as a financial institution that contributes to local communities.

### Basic rules for management of customer protection

Explaining to the customer
Customer service support
Protection of customer data
Outsourcing
Conflict of interest

### Policies for management of customer protection

In line with laws and regulations, we will adequately and sufficiently explain financial products and provide information when carrying out transactions with our customers.
We will listen carefully to customer grievances and give advice in an appropriate manner.
We will lawfully acquire and securely manage all information concerning our customers.
When outsourcing operations relating to transactions with customers, we will duly supervise service providers to protect customer information and interests.
We will appropriately manage transactions involving customers where conflict of interest could be an issue so as to prevent customer interests from becoming unduly impaired.

## Measures for dealing with anti-social elements

The Group has established basic policies for dealing with anti-social elements, with the aim of earning the public's trust and maintaining appropriate and sound financial services.

Our initiatives in this regard also involve deploying officers to respective Group companies in order to address issues regarding organized crime syndicates, coordinating with law enforcement, implementing firm measures for dealing with anti-social elements, and severing all relations with anti-social elements that threaten the peace and security of social order.

The Group regards its pursuit of measures for preventing money laundering and other financial crimes as an important management challenge. Accordingly, we have been working to clarify divisions of internal roles on the basis of our anti-money laundering policy, while building a control system that enables us to implement effective measures at the right time with regard to verifying transactions, reporting suspicious transactions and managing correspondent relationships. Moreover, we have been educating our executive officers and employees through training, and striving to improve relevant mechanisms through initiatives that include performing audits to evaluate compliance of our anti-money laundering policies.

## Whistleblower protection systems

The Group has set up a whistleblower and consultation hot line and developed a framework for strengthening the compliance system by incorporating checks and balances in order to promptly detect and counteract any unlawful and wrongful behavior.

## Anti-money laundering and measures to deal with financial crime

In recent years, bank card theft and "Furikome" fraud (bank transfer scams) have been on the rise. As such, our subsidiary banks have bolstered security measures to prevent such occurrences, while taking proper action with respect to victims of such scams, such that includes reimbursing them in accordance with Japan's Furikome Fraud Relief Act.

## Measures for financial alternative dispute resolution (ADR) system

In order to promptly and properly respond to customer feedback and grievances, our subsidiary banks have concluded agreements with the Japanese Bankers Association, which is a designated dispute resolution organization that works to resolve disputes from a fair and impartial position.

Name of designated dispute resolution organization: Japanese Bankers Association Inquiries: Japanese Bankers Association Customer Relations Center
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# MEASURES FOR RISK MANAGEMENT

## We are upgrading our risk management systems to ensure that they properly address the type and scale of risk to which we are exposed.

### General risk management system

Financial services are becoming increasingly diversified and complex, as financial institutions remain exposed to a wide range of risk. As such, the Group recognizes that risk management — ensuring proper resource allocation and risk taking in balance with earnings targets while keeping overall levels of risk within the Group’s managerial capacity to address such risk — is one of our most important management tasks. As such, the Group is working to upgrade risk management systems in order to protect customer deposits and earn the trust of our shareholders and creditors.

The Company and companies of the Group have each taken steps that include creating basic risk management policies that address various risks, establishing risk management departments, and preparing regulations. The companies are also working closely together to ensure integrated risk management within the Group.

At our subsidiary banks, which have the highest risk exposure within the Group, we categorize risk for management purposes as: credit risk, market risk, liquidity risk and operational risk, which we manage through our Asset Liability Management (ALM) Committees and Comprehensive Risk Management Committees. Meanwhile we further divide operational risk into administrative and system risk, and engage in fine-tuned management of such risk through our Operational Risk Subcommittees. Additionally, the audit departments conduct inspections to verify the appropriateness and effectiveness of the risk management systems.

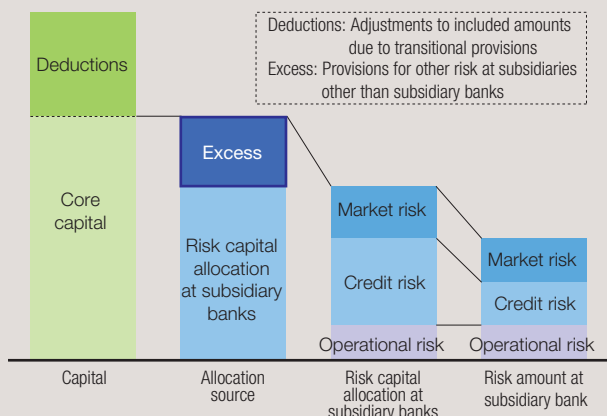
The Company’s Risk Management Group handles risk management oversight for the entire Hokuhoku Financial Group, and accordingly ensures sound operations. To that end, the Risk Management Group aims to manage risk in line with the type and scale of risk encountered by each Group company, through operations that involve receiving risk management status reports, then issuing Group companies appropriate instructions such as for improvement of regulations and systems, and also discussing and reporting to the Board of Directors and other senior management with respect to details on risk facing the Group and points of concern in that regard, along with policies for addressing such risk.



### Allocation of risk capital

The Group’s risk management practices involve taking a unified approach to the extent possible in terms of quantifying the various risks that emerge with respect to its operations, and then taking steps to ensure that overall levels of risk are kept within the Group’s capacity to take on such risk.

The subsidiary banks control and manage risk with the aim of ensuring that levels of risk remain within a range permissible for banking operations. To that end, they estimate maximum potential loss through a process that involves quantifying credit risk, market risk and operational risk. They then allocate risk capital by using core capital as allocation source, with the aim of making effective use of capital resources.



Meanwhile, the Company ensures that excessively large risks are not taken relative to capital on a Group-wide basis, through initiatives that include checking risk allocation plans of subsidiary banks, verifying that amounts in excess of risk capital allocations are sufficient to cover risk conceivably affecting subsidiaries other than the subsidiary banks as well as risk not included in the risk assumptions, and monitoring actual levels of risk.

In addition, we perform stress tests to calculate the extent of potential losses that would be anticipated in the case of normally inconceivable deterioration of business conditions, excessive market fluctuations and other such scenarios. In this way, we periodically examine the substantiality of our capital position against risk that cannot be easily perceived.

## Credit risk management

### Basic approach

Credit risk involves, for instance, the threat that deterioration of a customer's financial health might make it impossible to recover principal or receive interest of loans and bills discounted, etc. as initially contracted. Although this is an unavoidable risk when it comes to banks whose role is to act as financial intermediaries, the Group endeavors to maintain and enhance asset soundness by developing and strengthening its credit risk management systems.

### Credit risk management systems

To maintain and enhance asset integrity, the Group applies a unified system of internal ratings and asset self-assessment, promptly and accurately appraises credit risk, and performs write-offs and provisions to reserves for possible loan losses as appropriate.

Subsidiary banks each have their own credit risk management systems, while the Company manages such risk on a Group-wide basis.

Subsidiary banks divide duties such that executive officers and organizational units that handle credit screening are not involved in business promotion, thereby helping to ensure that credit decisions and management are made on an individual basis, with credit screening and management carried out rigorously and in a manner not influenced by business promotion.

When making individual judgements on granting credit, rigorous screening is carried out in accordance with standards and principles stated in our credit policy. For this purpose, we actively work to upgrade screening systems, such as through efforts to fortify our screening capabilities by enhancing system support and providing training in that regard.

More specifically, we perform detailed analysis and screening of individual loan applications at each bank branch, and in cases where a manager lacks the authority for approvals, further analysis and screening is conducted by the head office credit screening department. Officers specializing in particular industries and regions are deployed in the credit screening departments, thereby ensuring a system of consultation and guidance tailored to the needs of individual branches, based on borrower characteristics.

### Internal ratings systems

To enable objective appraisal of credit risk of loans and bills discounted, etc., our subsidiary banks have introduced internal ratings systems. Using 15 credit ratings based on financial data and qualitative information regarding borrower creditworthiness, the system enables ongoing monitoring of changes in ratings.

Based on the ratings generated by the internal ratings systems at the subsidiary banks, we compute credit risk and forecast loss rates for each individual borrower category, and then ensure that interest rates duly match risk. In conformity to Group-wide management rules for credit limits, we seek to enhance credit risk management by such means as curbing risk on a Group-wide basis of credit concentration in terms of the aggregate of marketable and off-balance-sheet credits.

Internal rating	Borrower categorization by asset self-assessment
S	—
A	Normal borrowers
B	
C	
D	
E	
F	
N	
J	Borrowers requiring caution
G	
H	(Substandard borrowers)
I	
X	
Y	Substantially bankrupt borrowers
Z	Bankrupt borrowers

## Asset self-assessment, write-offs and provisions to reserves for possible loan losses

The Group has established asset self-assessment standards by which it performs assessments of loans and bills discounted, and other assets.

The self-assessments are performed in order to gain a true picture of the assets and to enhance asset integrity. Self-assessment is a prerequisite for appropriate write-offs and provisions to reserves for possible loan losses, as required by corporate accounting principles in Japan.

Under unified Group standards established for write-offs and provisions to reserves for possible loan losses, provisions are made to the general reserve for possible loan losses with respect to loans to normal borrowers and borrowers requiring caution, based on the historical loan-loss ratio over a particular past period. For loans to borrowers threatened with bankruptcy, a provision is made to specific reserves for possible loan losses,

in the amount deemed necessary, excluding amounts that may be recoverable through collateral and guarantees. For loans to substantially bankrupt and bankrupt borrowers, we either amortize amounts in full or recognize a provision of the full amount in the specific reserve for possible loan losses, excluding amounts that may be recoverable through collateral and guarantees.

## Corporate rehabilitation

After making a loan to a corporate customer, we endeavor to prevent such loans from becoming designated as bad debt by assessing business conditions faced by our borrowers and performing follow-up reviews of the borrower's business plans. Meanwhile, we strive to ensure asset integrity through creation of a framework for dedicated management of bad debt and enhanced support for corporate rehabilitation.

## Market risk management

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### Basic approach

Market risk involves the threat of incurring losses due to fluctuations in the value of assets and liabilities held by the Group, or in the earnings generated by the Group, such that may be caused by fluctuations in various market risk factors, such as interest rates, stock prices, and foreign exchange rates.

The Group endeavors to properly control market risk and manage operations in a manner that ensures stable earnings. To that end, at the subsidiary banks that mainly handle transactions involving market risk, we have created regulations for market risk management and comprehensively manage assets and liabilities by employing asset-liability management (ALM) practices.

### Main types of risk and management systems

#### (1) Interest-rate risk

Bonds, other securities, deposits and loans and bills discounted are exposed to the risk of declining profits or losses due to interest rate fluctuations amid situations involving interest rate asset-liability mismatch or duration mismatch. Our subsidiary banks have established regulations on interest rate management to diversify risk, and their ALM Committees appropriately control interest-rate risk.

The risk management departments assess risk level daily, using such indicators as value-at-risk (VaR), which measures the largest conceivable loss possible given fixed probabilities, and also periodically run gap analysis and interest rate sensitivity analysis to monitor interest-rate risk. The results are reported and reviewed at ALM Committees for implementation of necessary measures.

To ensure that the subsidiary banks are not exposed to excessive interest-rate risk, we set various investment ceilings for bonds and other securities under risk capital allocation based on VaR, etc., and manage both balances and risk levels of securities. We have also set rules for taking action when faced with mounting losses (unrealized and realized).

For market transactions, we have established a system of mutual checks and balances on the departments carrying out transactions (front office), the processing departments (back office) and the risk management departments (middle office). The front office conducts operations in strict observance of policies and ceiling amounts stipulated by the Management Committee. The middle office continuously monitors risk levels and the status of compliance with various rules. It also sets "alarm points" to enable early diffusion of risk issues, discusses measures to respond to these issues at ALM Committees, and regularly reports such matters to the Management Committee.

Furthermore, we periodically perform stress testing to determine the extent of conceivable losses under certain scenarios in cases where it is not possible to accurately measure levels of risk due to substantial market fluctuations, and given the threat that an unforeseen risk may materialize.

#### (2) Price fluctuation risk

Among marketable securities, stocks are exposed to the risk of declining asset prices arising from fluctuations in market prices. However, as with interest-rate risk management, we stringently manage risk of stock price

fluctuations through efforts that include setting ceilings, monitoring at-risk amounts, and regularly reporting such matters to the Management Committee and other relevant bodies.

We also perform pre-acquisition screening with respect to shareholdings, monitor market conditions and financial positions of individual corporations after acquiring stocks, and hold regular discussions regarding our shareholdings.

### (3) Foreign exchange rate risk

Foreign currency assets and liabilities are exposed to risk involving the threat of losses incurred due to a foreign exchange price being different to that initially planned for. To reduce such risk, we regularly monitor the international affairs and major indicators in Europe and the US, conduct risk management with due consideration to the maturity of

individual assets and liabilities, and mitigate forex risk through currency swaps and other such transactions.

### (4) Derivative transactions risk

To meet the various needs of customers, as well as those of our respective banks for ALM and risk hedging, our subsidiary banks engage in currency swaps and options, currency forward contracts and other currency-related derivative transactions, as well as interest rate swaps, caps, forward interest-rate-related derivatives and other interest-rated based derivatives.

Meanwhile, because derivatives are exposed to various kinds of market risk, we manage such risk on a daily basis to ensure that losses remain within certain thresholds, by performing fair value assessments of our positions and measuring risk levels.

## Liquidity risk management

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Liquidity risk refers to fund procurement risk involving the threat of losses that may be incurred due to a fall in creditworthiness or the like diminishing an entity's financing availability and forcing it to procure funds at significantly higher interest rates than normal. Liquidity risk also refers to market liquidity risk involving the threat of losses that may be incurred due to market disruptions or the like preventing an entity from engaging in transactions and forcing it to engage in transactions on considerably less favorable terms than normal.

The subsidiary banks, which account for a majority of the Group's liquidity risk, stipulate regulations on liquidity risk management and maintain adequate levels of government bonds and other payment reserve assets that are readily convertible into cash. They also set various control indices pertaining to liquidity risk and monitor those on a daily basis. Developments regarding liquidity risk are regularly reported in meetings of the ALM Committees and other such bodies, and discussions are held in that regard, to ensure that we will be able to take action to address any crisis, should one emerge, appropriate to the stage of the particular situation.

By precisely assessing management and procurement levels at subsidiary banks, we ensure that fund procurement can proceed smoothly.

## Operational risk management

### Basic approach

Operational risk refers to the threat of losses arising from inappropriate operational processes, improper conduct of executive officers and employees, unsuitable computer systems, or adverse external events.

The Group categorizes operational risk as follows. We take ongoing measures to correctly recognize, appraise and manage each type of risk, while avoiding or reducing losses that could significantly affect business operations.

<b>Administrative risk</b>	Risk of losses due to executive officers and employees failing to carry out administrative work correctly, causing an accident, or committing an illegal act
<b>System risk</b>	Risk of losses due to computer system downtime, malfunction or other system deficiencies, or illicit computer use
<b>Legal risk</b>	Risk of losses due to breaches of obligations resulting from negligence toward customers
<b>Personnel risk</b>	Risk of losses due to unfair or discriminatory behavior in personnel management
<b>Tangible asset risk</b>	Risk of losses due to natural disasters or other such events damaging tangible assets
<b>Reputational risk</b>	Risk of losses due to diminished trust in the Group caused by deterioration of its reputation or spreading of unjustified rumors

### Management structure

The Company has established rules for management of operational risk stipulating categories of risk and setting forth basic processes for the management of such risk.

Upon compiling instances of various operational risks having materialized in the form of administrative errors, grievances, leaked information, system failures and “Furikome” fraud, operating risk panels at our subsidiary banks meet on a monthly basis to analyze the causes of such incidents and to review measures for preventing recurrence. They also anticipate potential risk, identify preventative measures and otherwise review means of reducing risk.

Whereas management teams of our subsidiary banks and the Company are provided with reports on the status of operational risk and outcomes of reviews in that regard, the Company also maintains a framework for enabling proper risk management by comparing actual losses incurred as a consequence of operational risk and allocated risk capital.

In performing internal audits, we ensure mutual checks and balances, establish measures to prevent administrative errors from reoccurring and verify the effectiveness of such measures, and also report results of audits to management and relevant departments. In that way, we strive to establish Plan, Do, Check and Act (PDCA) cycle frameworks that will help improve operations.

### Risk management systems by major category

#### • Administrative risk management

The Group painstakingly analyzes causes of administrative errors and other incidents, and discusses measures to prevent recurrence, with the aims of preventing accidents,

grievances and other issues involving administrative operations and maintaining swift and accurate office operations. At the same time, we endeavor to raise administrative standards by developing sets of rules, improving administrative processing systems, dispatching advisory staff from the head office, centralizing clerical work at branches and introducing equipment to automate procedures.

#### • System risk management

Increasingly sophisticated financial business operations and the growth in transaction volumes mean that it is becoming ever more crucial that computer systems which are essential to business operate reliably.

As such, the Group has formulated rules for system risk management, established a robust management and operating structure, and implements a variety of security management measures that include backup systems.

### Crisis management

To minimize the impact of any large-scale disaster or other emergency, should one occur, the Group has compiled a crisis management manual with contingency plans and other such content, and has also established a contingency framework that includes mechanisms for information-gathering as well as centralized crisis instruction and command.

In particular, at our subsidiary banks, we have drawn up a Business Continuity Plan (BCP), which enables us to continue to perform our settlement functions and other operations required of financial institutions in the event of an earthquake, outbreak of a new strain of influenza or other such crisis, and have otherwise established a framework that enables a full-scale response to crisis situations.

# CHARACTERISTICS OF OUR MAIN BUSINESS AREA

## Population and Square Measure\*1

	Toyama Prefecture a	Ishikawa Prefecture b	Fukui Prefecture c	Total a + b + c	Hokkaido
Population (Ranking)	1.07Mn (37th)	1.16Mn (34th)	0.79Mn (43rd)	3.02Mn	5.40Mn (8th)
Square Measure (Ranking) km <sup>2</sup>	4,248 (33rd)	4,186 (35th)	4,190 (34th)	—	83,424 (1st)

## Number of businesses\*1 (Thousand)

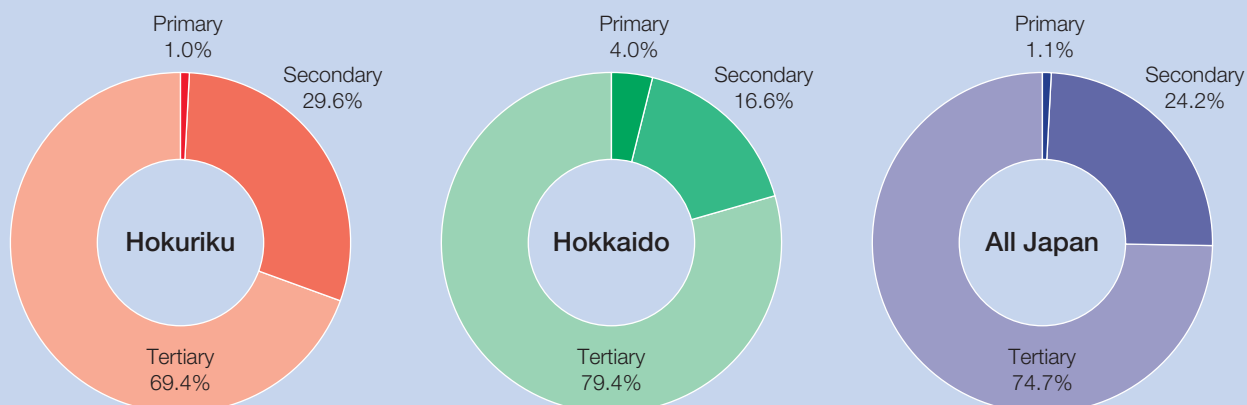
Hokkaido	242
Hokuriku	161
Toyama	54
Ishikawa	63
Fukui	43

## Gross Prefectural Product\*\*1,2

(JPY Bn)

	Toyama a	Ishikawa b	Fukui c	Total a + b + c	Hokkaido
GPP (Proportion) (Ranking)	4,356.5 (0.86%) (32nd)	4,544.8 (0.89%) (28th)	3,127.0 (0.61%) (42nd)	12,028.5 (2.36%)	18,268.7 (3.59%) (8th)

## Industrial Structure\*2

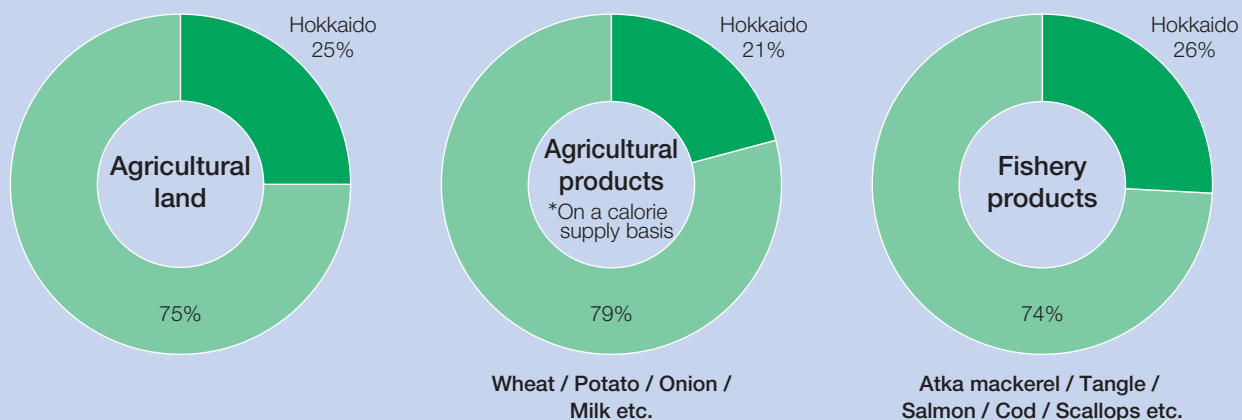


Data source : \*1 Ministry of Internal Affairs and Communications,\*2 Cabinet Office

## Hokkaido

- With vast expanses of land and ample fishing areas in the ocean surrounded on all sides, Hokkaido has thriving primary industries such as agriculture and fisheries compared to the rest of Japan. As a result, Hokkaido is called the largest food supply base of Japan.
- It is also popular as a tourist destination, and receives many visitors both from Japan and overseas.

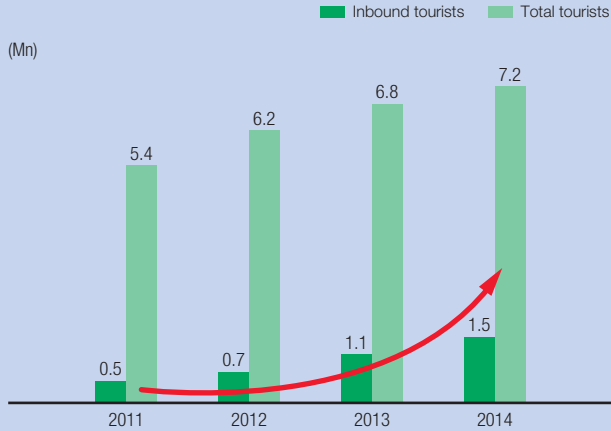
## Abundant Natural Resources



Data source : Ministry of Agriculture, Forestry and Fisheries / Ministry of Land, Infrastructure, Transport and Tourism Hokkaido Regional Development Bureau / Department of Agriculture, Hokkaido Government

## Increasing Numbers of Tourists Visiting Hokkaido

Data source : Bureau of Tourism, Department of Economic Affairs, Hokkaido Government



## Renewable Energy

### No.1 presence of resources

Hydroelectric power / Geothermal energy / Wind power / Solar power

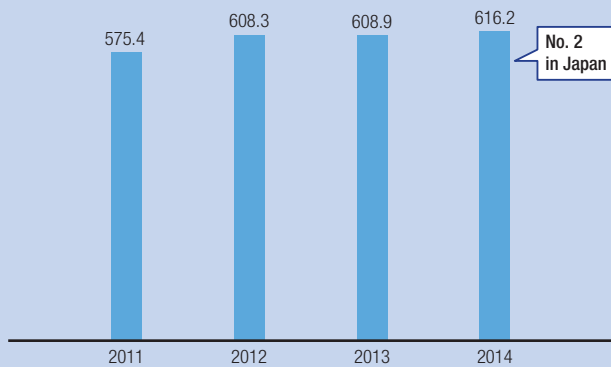


## Hokuriku

- The Hokuriku region is bordered by the Japan Sea to its front, and flanked by steep mountains, such as the Tateyama mountain range, to its back. This creates a topography in which massive amounts of meltwater from snow flow into rivers, and this water is used for hydroelectric power generation, and also plays a role in attracting manufacturing companies to the region. (The Hokuriku region has a higher ratio of secondary industries compared to Japan as a whole.)
- The 3 prefectures of Hokuriku have each developed industries that match their distinctive characteristics.

## Toyama Prefecture's Pharmaceutical Product Production

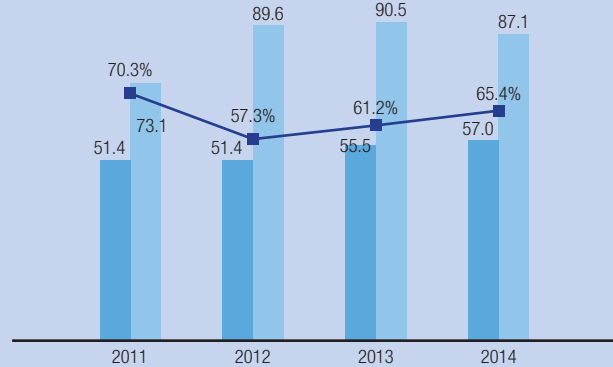
Data source: Ministry of Health, Labour and Welfare, Statistics of Production by Pharmaceutical Industry (¥ billion)



Toyama Prefecture, which forms the medicine capital known as Medicine city Toyama, is home to a diverse range of pharmaceutical companies, from the allocated drug sales industry of the past, to new drug developers, generic drug manufacturers, and over-the-counter drug manufacturers. In addition, peripheral industries, such as plastic container packaging and printing, are well developed in the prefecture. Toyama Prefecture is home to highly-distinctive pharmaceuticals companies, such as a pioneer company in the field of transdermal absorption-type medications, and the first company in the world to develop intraoral film-type medications.

## Fukui Prefecture's Eyeglasses Production

Data source: Ministry of Economy, Trade and Industry, Census of Manufactures (¥ billion)



Fukui Prefecture (Sabae City in particular) has more than a 100-year history as a manufacturing base for eyeglasses, and boasts the top share in the eyeglasses manufacturing industry (including frames) in Japan. The prefecture is a global hub for frame manufacturing in particular, on par with Italy and China. Leveraging its excellent technological capabilities, the prefecture is working to increase value-added, including enhancing its brand power, with an eye towards capturing demand in the growing Asian market.

## Many Global Niche Top Companies in Ishikawa Prefecture

Ishikawa Prefecture has a developed industrial sector, centered on the textile and machinery industries. In 2014, the Ministry of Economy, Trade and Industry's Manufacturing Industries Bureau selected 4 machinery and processing-related companies, and 2 textiles-related companies from Ishikawa Prefecture to be included in the "Global Niche Top Companies." Companies were selected based on a determination that they were strong in such areas as: [i] Compatibly achieving both global share and profits; [ii] Having unique and independent characteristics; [iii] Addressing approaches to risk of losing out to competitors; and [iv] Maintaining sustainability of their global share.

## Fundamental approach to group CSR

### 1. Basic stance

The Hokuhoku Financial Group has positioned the fulfillment of the Group's corporate social responsibility as one of its highest management priorities. Guided by our overall corporate philosophy, we aim always to comply with the law and observe generally accepted principles of ethical behavior. The principal purpose of existence of the Group is to serve as a linchpin of the communities in which it operates by fulfilling its role as a financial services group doing business across a wide area of the country. In addition, we take seriously our obligation to contribute to the realization of a thriving economy and a sustainable society by means of active involvement in environmental preservation, as well as other activities that benefit society as a whole.

### 2. Definitions

#### 1) CSR

The Hokuhoku Financial Group views its corporate social responsibilities not simply as the duty to pursue economic gains for the good of the regional economy and to contribute to the development of a sustainable society. We see our social responsibilities as also encompassing efforts to address the wide range of environmental and social issues affecting our stakeholders.

#### 2) Our Stakeholders

We define our stakeholders as being all persons and institutions whose interests are closely linked to those of the Group, including our customers, shareholders, and employees, as well as the wider community of which we are all members.

## To meet diversifying customer needs

While fostering close links between the Group and the regions we serve, we will listen to customer opinions and take measures to make our branches more appealing and to offer better services.

### Launch of service for withdrawing cash from deposit accounts at "VIEW ALTTE" (Hokkaido Bank)

Viewcard Co., Ltd. has made it possible to withdraw money from deposit accounts using a cash card at the "VIEW ALTTE" ATM corners that operate in the main JR East stations and other facilities. Timed to coincide with the launch of the Hokkaido Shinkansen, this initiative is aimed at even more convenience for customers in the Tokyo metropolitan area and also visitors from the Hokkaido area, to further promote exchange between the regions.

### Launch of "Hokkaido Bank Home Demolishing and Repurposing Loan" (Hokkaido Bank)

We have begun offering a loan to be used when demolishing an empty house or when seeking to make productive use of the land after a house has been demolished. Through structural collapse, fire or crime, etc., empty houses can have a negative influence on the living environment and have come to be seen as a social problem. This loan can be used for all kinds of costs related to empty houses, such as (1) demolition expenses, (2) expenses related to reuse such as extension or renovation and (3) expenses related to productive use after demolition, such as conversion to parking lots or installation of solar panels.

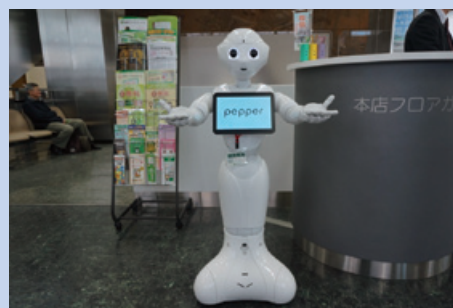
### Opening of inheritance and asset management consulting corner "Hokugin Plaza" (Hokuriku Bank)

"Hokugin Plaza" has opened in the Ichibanmachi Square Building in Toyama City, primarily as a consulting operation.

The Plaza, which is staffed by three specialist personnel, provides a relaxed space where employees can offer advice to customers. The Plaza addresses various customer needs by arranging meetings on a reservation basis in private rooms, where customers can consult on issues related to inheritance, donations, asset management and so on, as well as offering a number of seminars.

### Robot "Pepper" installed to greet customers (Hokuriku Bank, Hokkaido Bank)

In last December the Hokkaido Bank began using the humanoid robot "Pepper" developed and provided by SoftBank Robotics Corp., as the first financial institution in Hokkaido to do so. The Hokuriku Bank followed in May 2016 and is using the robot in "Hokugin Plaza," while Hokkaido Bank is using it in the sales department of its head office to show hospitality by greeting customers to the office, introducing products and campaigns and offering games for children.





## More dialog and better disclosure

We continuously communicate with investors and analysts for better disclosure.

### IR meetings for investors and analysts

November 2015: Fiscal 2015 interim results (Tokyo)  
May 2016: Fiscal 2015 results (Tokyo)

### IR overseas roadshow

June 2016: Europe (London, Edinburgh)  
North America (New York, Boston, San Francisco)

### IR meetings for individual investors

July 2016: Two cities in Hokuriku (Toyama and Kanazawa) and three cities in Hokkaido (Sapporo, Asahikawa and Hakodate)

### General meeting of shareholders

June 2016: 13th ordinary general meeting of shareholders (Toyama, with live broadcast to Sapporo)

## Advancing with regional communities

We take part in social contribution activities.

### Financial education

- All-Japan high-school quiz in finance and economy “Economics-Koshien,” in Hokkaido, Toyama and Fukui prefectures
- Management school for the managers who will form the next generation of business leaders
- Dispatch of lecturers to high schools and universities
- Internships

### Support for industry-academia cooperation

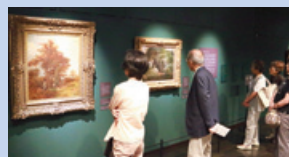
The Group has concluded cooperation agreements with universities in the region, and is supporting industry-academia cooperation by taking on an intermediary role in joint research and use of its results with local companies, and by promoting business matching based on intellectual property assets.

### Support for arts and culture

- Arranging and supporting concerts
- Establishment of art galleries



Lilac Concert



GALERIE MILLET

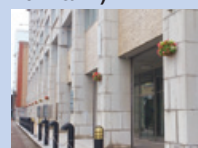
### “Parents and Children Bank Experience During Summer Vacation” program (Hokkaido Bank)

In nine cities within Hokkaido the bank held events for children, who do not visit banks often, such as the “100 Million Yen Experience” in which the children have a chance to lift up and feel for themselves the weight of 100 million yen in bank notes, as well as “Bank Note Counting” and “Safety Deposit Box Room Tour.” The aim was to provide them with an opportunity to learn about banks and 242 parents and children participated during the period of the program.



### Hanging flower baskets set up (Hokuriku Bank)

In Toyama City, “Hanging Baskets” full of seasonal flowers are being set up by the roadside as part of the “Creating a Pleasant City Full of Flowers and Greenery” program. Hokuriku Bank supports this initiative and has installed hanging baskets on the walls of the head office.



### “HOKKAIDO BANK CURLING CLASSIC” held for the first time (Hokkaido Bank)

In response to the voices of residents requesting an annual international curling competition in Sapporo, the bank hosted the “HOKKAIDO BANK CURLING CLASSIC” at the Hokkaido Bank Curling Stadium. We will continue to host this event with the aim of establishing it as an international competition.



## Helping conserve the regional environment

### Measures undertaken as a financial institution

Environmentally-friendly housing loans, intermediary role in carbon-rights trading, lending based on environmental ratings.

### Helping reduce greenhouse gases

Adoption of casual dress code for summer, introduction of solar power generation and water-heating facilities, and reduction of paper usage through a shift to electronic account record systems and document management systems.

### Clean-up activities implemented in Odori Park and other places (Hokkaido Bank)

In addition to employees working at the head office building of Hokkaido Bank helping clean up Odori Park in Sapporo City, all branches throughout Hokkaido carried out cleaning programs, primarily around their own branches but also along shopping streets and the like.



### Participating in “Forest Building in Nanto” (Hokuriku Bank)

The bank jointly participated in the “Forest Building in Nanto” initiative that the residents’ association of Asobu in Nanto City, Toyama Prefecture started on the occasion of the 20th anniversary of Gokayama’s traditional Gassho-style houses (Historic Village of Gokayama) becoming a World Heritage site, and took part in sedge-planting activities.



# Hokuhoku Financial Group

## “Hokkaido / Tohoku / Hokuriku Business Matching in Tokyo” (Hokuriku Bank, Hokkaido Bank)

Hokuriku Bank and Hokkaido Bank, together with 10 regional banks in Tohoku with which Hokkaido Bank collaborates to encourage regional exchange between Hokkaido and Tohoku, used their relationships to hold business meetings with client companies and buyers primarily from the Tokyo metropolitan area. The goal was to raise value added of the regional specialties of each of the prefectures of the Hokuriku and Tohoku regions, as well as those of Hokkaido, and with the further aim of supporting business matching that gives a view over sixth industrialization.

Buyers showed a high level of interest in the Hokuriku, Hokkaido and Tohoku regions, which have become more familiar due to the launch of the Shinkansen, and this led to some positive discussions.



## “Ningbo Business Meeting” (Hokuriku Bank, Hokkaido Bank)

In Ningbo City in China’s Zhejiang province, the banks and the City’s commerce committee, with which the banks have concluded an economic cooperation agreement, co-sponsored business meetings held for the specific purpose of opening sales channels for exports of Japanese products. In order to improve the ratio of discussions ending in contracts, matching activities were conducted beforehand and Chinese companies matching the needs of the banks’ client companies were invited to meetings.



## “Business Meeting in Otaru and Shiribeshi for Hokkaido ‘Food’” (Hokuriku Bank, Hokkaido Bank)

We invited buyers from Hokkaido and beyond to this business meeting with the aim of expanding sales channels for high-value added processed foods and local specialties, etc. that take advantage of the region’s abundant agricultural and livestock products and fishery resources, etc.

Companies attending made comments such as “It was significant that we received valuable opinions related to our future product development” and “A fruitful experience; we received advice that we can implement right away.”



## Business Alliance with “Japan Trans-housing Institute (JTI)” (Hokuriku Bank, Hokkaido Bank)

An alliance was concluded between the banks and the Japan Trans-housing Institute (JTI) to vitalizing local economies by promoting moving or relocating to the three Hokuriku prefectures and Hokkaido and encouraging the productive use of empty houses and so on.

Making good use of this alliance, Hokkaido Bank held 16 seminars in every region of Hokkaido aimed at local authorities on subjects such as “Moving, Relocating and Dealing with Empty Houses.”



# Hokuriku Bank

## “Business Summit 2015” - Business Meeting for ‘Food’ and ‘Tourism’

A business meeting was co-hosted with the Ogaki Kyoritsu Bank, Ltd. in Toyama City under the twin themes of opening sales channels for “Food” and highlighting the appeal of “Tourism.”

Food processing companies and tourism organizations from cities along the route of the Hokuriku Shinkansen, the Chukyo region and Hokkaido exhibited at the event and buyers participated in meetings including some from trading companies, which have strong relationships with retailers and overseas.



## “Hokuriku Region Product Discovery Business Meeting with ITOCHU-SHOKUHIN”

In collaboration with ITOCHU-SHOKUHIN Co., Ltd.’s “Regional Products Project” (an initiative that aims to encourage local consumption of locally produced regional goods), along with Toyama Prefecture, we introduced delicious local foodstuffs, and held business meetings in Tokyo to support the expansion of sales channels for local companies using ITOCHU-SHOKUHIN’s sales network.

On the day, companies from Toyama, Ishikawa, Nagano and Niigata prefectures made presentations on their own products to ITOCHU-SHOKUHIN’s sales and purchasing representatives, leading to some lively discussions.



## Signing of MOU of Economic Exchange with Jiangyin City in China

A memorandum of understanding related to the promotion of economic exchange was concluded between the bank and Jiangyin Economic Development Zone in Jiangyin City, Jiangsu province. This is the sixth such economic cooperation agreement concluded with Chinese cities and provinces. In anticipation of client companies establishing facilities in this zone, we will team up with the zone to offer a wide range of support services such as investment information, cooperation in the setup of facilities, introductions to business matching companies and so on.



## Business Networking Event for Japanese Companies in Bangkok

In Bangkok, Thailand, seven regional banks held the first ever such business networking event sponsored jointly by regional banks. Companies such as those with a presence in Thailand and those considering developing a business there attended the event.

As well as seminars from companies offering consulting services locally, during the networking event the companies exchanged information on their own businesses and exchanged information regarding business expansion.



# Hokkaido Bank

## Supporting Business Expansion into Russia

We held a Russia Business Seminar in Hakodate City in conjunction with JETRO Hokkaido and the Consulate-General of the Russian Federation in Sapporo. The head of Hokkaido Bank's Vladivostok Representative Office gave a report on the latest business environment and activities of Hokkaido companies in far eastern Russia.



Furthermore, we concluded a business tie-up with the community-based Hokkaido Corporation, a general trading company, which was established to support Hokkaido companies that aim to expand into overseas markets, including far eastern Russia. Through this, we are further enhancing support for the overseas expansion of small- and medium-sized enterprises in Hokkaido, such as business in Russia.

## “Buyer and Chef Challenge in Tokyo Metropolitan Area”

Nine regional banks, including Hokkaido Bank, have established a network for the regeneration and revitalization of the regions. Using this network, an initiative to expand sales channels has started, whereby the choicest foods from each region are introduced to the buyers of department stores, etc., hotel and restaurant chefs in the Tokyo metropolitan area. As well as taste and price, advice was given on various aspects such as how to differentiate from existing products through the careful use of packaging.



## Business Alliance with PT Bank Central Asia Tbk

We concluded a business alliance with Indonesia's largest private bank, PT Bank Central Asia Tbk, which has a network of 1,160 outlets across the country. We will provide a wide range of support, such as local information, support for establishing local facilities, and business matching.



## Signing of Partnership Agreement with Snow Peak, Inc.

We have concluded a partnership agreement with Snow Peak, Inc., which manufactures and sells outdoor products with superior design and quality, establishing itself as one of the top brands in the industry.

Based on the company's know-how in outdoor businesses, we will make proposals to local authorities in every region of Hokkaido. In addition we will provide support for strengthening the use of and giving a polish to outdoor facilities at tourism resources in all areas. By also creating opportunities for a diverse range of accommodation, we will contribute to the revitalization of the regions and to increased employment.



**CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED BALANCE SHEET**

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Assets</b>			
Cash and due from banks (Notes 3 and 30).....	¥ 1,235,499	¥ 1,210,607	\$ 10,964,672
Call loans and bills bought (Note 30).....	65,016	94,599	577,000
Monetary claims bought (Note 30).....	62,034	72,524	550,541
Trading assets (Note 4).....	4,631	4,508	41,100
Money held in trust (Note 5).....	8,344	7,947	74,058
Securities (Notes 6, 12 and 30).....	2,406,589	2,493,601	21,357,735
Loans and bills discounted (Notes 7, 12, 13 and 30).....	7,582,954	7,546,819	67,296,368
Foreign exchanges (Note 8).....	14,771	14,533	131,092
Other assets (Note 12).....	108,066	91,952	959,057
Tangible fixed assets (Note 9).....	101,080	101,878	897,055
Intangible fixed assets (Note 10).....	23,974	28,076	212,770
Asset for retirement benefits (Note 17).....	—	2,069	—
Deferred tax assets (Note 27).....	7,244	462	64,296
Customers' liabilities for acceptances and guarantees (Note 11).....	65,044	68,711	577,252
Allowance for loan losses.....	(54,925)	(55,290)	(487,443)
<b>Total assets</b> .....	<b>¥11,630,328</b>	<b>¥11,683,001</b>	<b>\$103,215,553</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits (Notes 12, 14 and 30).....	¥10,475,416	¥10,627,748	\$ 92,966,072
Call money and bills sold (Note 12).....	20,845	58,454	185,000
Payables under securities lending transactions (Note 12).....	92,954	27,809	824,946
Trading liabilities (Note 4).....	1,129	1,184	10,021
Borrowed money (Notes 12, 15 and 30).....	207,252	125,680	1,839,304
Foreign exchanges (Note 8).....	226	179	2,014
Bonds payable (Note 16).....	33,000	43,000	292,865
Other liabilities.....	126,529	126,322	1,122,912
Liability for retirement benefits (Note 17).....	20,459	8,930	181,576
Reserve for directors' and audit & supervisory board members' retirement benefits....	230	277	2,048
Reserve for contingent losses.....	1,957	1,970	17,369
Reserve for reimbursement of deposits.....	1,419	1,366	12,599
Deferred tax liabilities (Note 27).....	11,883	12,313	105,465
Deferred tax liabilities for revaluation.....	5,724	6,064	50,801
Acceptances and guarantees (Note 11).....	65,044	68,711	577,252
<b>Total liabilities</b> .....	<b>11,064,076</b>	<b>11,110,014</b>	<b>98,190,244</b>
<b>Equity (Notes 18, 19 and 21)</b>			
Capital stock.....	70,895	70,895	629,171
Capital surplus.....	148,211	148,197	1,315,332
Stock acquisition rights (Note 20).....	319	266	2,838
Retained earnings.....	263,959	242,701	2,342,557
Treasury stock.....	(1,489)	(1,514)	(13,219)
Accumulated other comprehensive income.....			
Valuation difference on available-for-sale securities (Note 6).....	83,834	101,033	744,009
Deferred gains (losses) on hedges.....	(1,596)	(845)	(14,171)
Revaluation reserve for land (Note 9).....	9,079	8,502	80,579
Defined retirement benefit plans (Note 17).....	(8,340)	2,473	(74,022)
<b>Total</b> .....	<b>564,873</b>	<b>571,710</b>	<b>5,013,074</b>
Non-controlling interests.....	1,378	1,276	12,235
<b>Total equity</b> .....	<b>566,251</b>	<b>572,987</b>	<b>5,025,309</b>
<b>Total liabilities and equity</b> .....	<b>¥11,630,328</b>	<b>¥11,683,001</b>	<b>\$103,215,553</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥ 98,693	¥102,254	\$ 875,877
Interest and dividends on securities .....	26,339	24,322	233,755
Interest on receivables under resale agreements .....	—	6	—
Interest on deposits with other banks .....	1,138	1,017	10,105
Other interest income .....	897	867	7,963
Fees and commissions .....	39,486	39,505	350,433
Trading income .....	279	388	2,483
Other ordinary income (Note 23) .....	14,308	17,273	126,983
Other income (Note 25) .....	12,199	8,422	108,263
Total income .....	193,343	194,059	1,715,862
<b>Expenses</b>			
Interest expense:			
Interest on deposits .....	3,648	4,250	32,376
Interest on payables under securities lending transactions .....	468	42	4,155
Interest on borrowings and rediscounts .....	1,214	1,484	10,779
Interest on bonds payable .....	412	586	3,658
Other interest expense .....	1,083	800	9,612
Fees and commissions .....	13,754	14,392	122,066
Other ordinary expenses (Note 24) .....	9,536	9,203	84,629
General and administrative expenses .....	100,883	106,048	895,308
Provision of allowance for loan losses .....	3,125	4,202	27,740
Other expenses (Note 26) .....	13,299	6,140	118,031
Total expenses .....	147,425	147,152	1,308,354
Income before income taxes .....	45,918	46,906	407,508
Income taxes (Note 27):			
Current .....	10,543	9,360	93,568
Deferred .....	6,437	9,231	57,134
Net income .....	28,936	28,314	256,806
Net income attributable to non-controlling interests .....	99	79	879
<b>Net income attributable to owners of the parent .....</b>	<b>¥ 28,837</b>	<b>¥ 28,235</b>	<b>\$ 255,927</b>
	Yen		U.S. dollars
<b>Per share of common stock</b> (Notes 2-t and 22)			
Basic net income .....	¥20.31	¥19.87	\$0.18
Diluted net income .....	20.29	19.84	0.18
Cash dividends applicable to the year .....	4.25	4.25	0.04

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income .....	¥28,936	¥28,314	\$256,806
Other comprehensive income (Note 28) .....	(28,458)	48,288	(252,560)
Valuation difference on available-for-sale securities .....	(17,175)	39,726	(152,429)
Deferred gains (losses) on hedges .....	(751)	(650)	(6,669)
Revaluation reserve for land .....	302	626	2,686
Defined retirement benefit plans .....	(10,814)	8,551	(95,977)
Share of other comprehensive income of associates accounted for using equity method .....	(19)	34	(171)
Total comprehensive income .....	¥ 478	¥76,603	\$ 4,246
Comprehensive income attributable to owners of the parent .....	376	76,493	3,338
Comprehensive income attributable to non-controlling interests .....	102	109	908

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

	Thousands		Millions of yen				
	Issued number of shares of common stock	Issued number of shares of preferred stock	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
<b>BALANCE, APRIL 1, 2014 (as previously reported)</b> .....	1,351,630	107,432	¥70,895	¥148,193	¥191	¥222,995	¥(1,529)
Cumulative effect of accounting change .....						(1,864)	
<b>BALANCE, APRIL 1, 2014 (as restated)</b> .....	1,351,630	107,432	70,895	148,193	191	221,130	(1,529)
Cash dividends.....						(6,970)	
Net income attributable to owners of the parent ...						28,235	
Purchases of treasury stock.....							(17)
Disposals of treasury stock.....				3			32
Reversal of revaluation reserve for land .....						305	
Net changes in the year .....					75		
<b>BALANCE, MARCH 31, 2015</b> .....	<b>1,351,630</b>	<b>107,432</b>	<b>¥70,895</b>	<b>¥148,197</b>	<b>¥266</b>	<b>¥242,701</b>	<b>¥(1,514)</b>
Cash dividends.....						(7,305)	
Net income attributable to owners of the parent ...						28,837	
Purchases of treasury stock.....							(18)
Disposals of treasury stock.....				14			43
Reversal of revaluation reserve for land .....						(274)	
Net changes in the year .....					53		
<b>BALANCE, MARCH 31, 2016</b> .....	<b>1,351,630</b>	<b>107,432</b>	<b>¥70,895</b>	<b>¥148,211</b>	<b>¥319</b>	<b>¥263,959</b>	<b>¥(1,489)</b>

	Millions of yen						
	Accumulated other comprehensive income				Total	Non-controlling interests	Total equity
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Defined retirement benefit plans			
<b>BALANCE, APRIL 1, 2014 (as previously reported)</b> .....	¥ 61,301	¥ (194)	¥8,182	¥ (6,077)	¥503,957	¥1,168	¥505,125
Cumulative effect of accounting change .....					(1,864)		(1,864)
<b>BALANCE, APRIL 1, 2014 (as restated)</b> .....	61,301	(194)	8,182	(6,077)	502,093	1,168	503,261
Cash dividends.....					(6,970)		(6,970)
Net income attributable to owners of the parent ...					28,235		28,235
Purchases of treasury stock.....					(17)		(17)
Disposals of treasury stock.....					36		36
Reversal of revaluation reserve for land .....					305		305
Net changes in the year .....	39,731	(650)	320	8,551	48,027	108	48,136
<b>BALANCE, MARCH 31, 2015</b> .....	<b>¥101,033</b>	<b>¥ (845)</b>	<b>¥8,502</b>	<b>¥ 2,473</b>	<b>¥571,710</b>	<b>¥1,276</b>	<b>¥572,987</b>
Cash dividends.....					(7,305)		(7,305)
Net income attributable to owners of the parent ...					28,837		28,837
Purchases of treasury stock.....					(18)		(18)
Disposals of treasury stock.....					58		58
Reversal of revaluation reserve for land .....					(274)		(274)
Net changes in the year .....	(17,198)	(751)	577	(10,814)	(28,133)	101	(28,031)
<b>BALANCE, MARCH 31, 2016</b> .....	<b>¥ 83,834</b>	<b>¥(1,596)</b>	<b>¥9,079</b>	<b>¥ (8,340)</b>	<b>¥564,873</b>	<b>¥1,378</b>	<b>¥566,251</b>

Thousands of U.S. dollars (Note 1)					
	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
<b>BALANCE, MARCH 31, 2015</b> .....	<b>\$629,171</b>	<b>\$1,315,205</b>	<b>\$2,365</b>	<b>\$2,153,904</b>	<b>\$(13,441)</b>
Cash dividends.....				(64,838)	
Net income attributable to owners of the parent ....				255,927	
Purchases of treasury stock.....					(167)
Disposals of treasury stock.....		127			389
Reversal of revaluation reserve for land .....				(2,436)	
Net changes in the year .....			473		
<b>BALANCE, MARCH 31, 2016</b> .....	<b>\$629,171</b>	<b>\$1,315,332</b>	<b>\$2,838</b>	<b>\$2,342,557</b>	<b>\$(13,219)</b>

Thousands of U.S. dollars (Note 1)							
Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Defined retirement benefit plans	Total	Non- controlling interests	Total equity
<b>BALANCE, MARCH 31, 2015</b> .....	<b>\$896,637</b>	<b>\$ (7,502)</b>	<b>\$75,457</b>	<b>\$21,955</b>	<b>\$5,073,751</b>	<b>\$11,331</b>	<b>\$5,085,082</b>
Cash dividends.....					(64,838)		(64,838)
Net income attributable to owners of the parent ....					255,927		255,927
Purchases of treasury stock.....					(167)		(167)
Disposals of treasury stock.....					516		516
Reversal of revaluation reserve for land .....					(2,436)		(2,436)
Net changes in the year .....	(152,628)	(6,669)	5,122	(95,977)	(249,679)	904	(248,775)
<b>BALANCE, MARCH 31, 2016</b> .....	<b>\$744,009</b>	<b>\$(14,171)</b>	<b>\$80,579</b>	<b>\$(74,022)</b>	<b>\$5,013,074</b>	<b>\$12,235</b>	<b>\$5,025,309</b>

See notes to consolidated financial statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>1. Cash flows from operating activities:</b>			
Income before income taxes.....	¥ 45,918	¥ 46,906	\$ 407,508
Depreciation .....	8,330	8,290	73,934
Impairment losses .....	782	1,013	6,948
Amortization of goodwill.....	2,102	2,102	18,657
Equity in losses (gains) of affiliates.....	(1)	(27)	(14)
Increase (decrease) in allowance for loan losses .....	(365)	(3,927)	(3,246)
Increase (decrease) in reserve for contingent losses.....	(13)	(528)	(119)
Decrease (increase) in asset for retirement benefits.....	2,069	(2,069)	18,363
Increase (decrease) in liability for retirement benefits .....	11,529	(6,030)	102,322
Increase (decrease) in reserve for directors' and audit & supervisory board members' retirement benefits.....	(46)	(50)	(415)
Increase (decrease) in reserve for reimbursement of deposits .....	52	113	470
Interest income.....	(127,069)	(128,468)	(1,127,700)
Interest expense .....	6,826	7,164	60,580
Losses (gains) on securities .....	(230)	(6,914)	(2,043)
Losses (gains) on money held in trust .....	2	(72)	25
Losses (gains) on foreign exchange .....	5,330	(5,443)	47,304
Losses (gains) on sales of fixed assets.....	479	258	4,257
Net decrease (increase) in trading assets .....	(123)	498	(1,092)
Net increase (decrease) in trading liabilities .....	(55)	(249)	(490)
Net decrease (increase) in loans and bills discounted.....	(36,135)	(223,529)	(320,691)
Net increase (decrease) in deposits.....	91,008	228,035	807,668
Net increase (decrease) in negotiable certificates of deposit.....	(243,339)	251,907	(2,159,561)
Net increase (decrease) in borrowed money (excluding subordinated borrowed money)...	112,572	33,882	999,048
Net decrease (increase) in due from banks (excluding deposits with the Bank of Japan)...	19,837	38,669	176,054
Net decrease (increase) in call loans, bills bought, commercial paper and other debt purchased .....	40,072	(1,227)	355,630
Net increase (decrease) in call money and bills sold .....	(37,608)	1,180	(333,765)
Net increase (decrease) in payables under securities lending transactions .....	65,145	27,809	578,145
Net decrease (increase) in foreign exchanges (assets).....	(238)	(26)	(2,116)
Net increase (decrease) in foreign exchanges (liabilities) .....	47	28	420
Interest income-cash basis .....	100,776	104,365	894,361
Interest expense-cash basis .....	(6,354)	(6,248)	(56,397)
Other, net .....	(14,875)	5,580	(132,017)
<b>Subtotal.....</b>	<b>46,427</b>	<b>372,992</b>	<b>412,028</b>
Income taxes paid .....	(8,338)	(5,671)	(74,003)
<b>Net cash provided by (used in) operating activities .....</b>	<b>38,088</b>	<b>367,321</b>	<b>338,025</b>
<b>2. Cash flows from investing activities:</b>			
Purchases of securities.....	(836,287)	(457,336)	(7,421,794)
Proceeds from sales of securities.....	577,480	305,749	5,124,960
Proceeds from redemption of securities.....	295,603	224,051	2,623,391
Purchases of money held in trust.....	(16,128)	(15,362)	(143,134)
Proceeds from sales of money held in trust.....	15,720	15,175	139,512
Proceeds from fund management.....	26,339	24,394	233,755
Purchases of tangible fixed assets .....	(4,321)	(3,756)	(38,353)
Proceeds from sales of tangible fixed assets.....	36	113	322
Purchases of intangible fixed assets .....	(2,219)	(1,426)	(19,695)
<b>Net cash provided by (used in) investing activities .....</b>	<b>56,223</b>	<b>91,602</b>	<b>498,964</b>
<b>3. Cash flows from financing activities:</b>			
Repayment of subordinated borrowed money .....	(31,000)	(30,000)	(275,115)
Repayment of subordinated bonds.....	(10,000)	(15,000)	(88,747)
Expenditures for fund procurement.....	(1,215)	(1,908)	(10,789)
Dividends paid.....	(7,305)	(6,970)	(64,838)
Dividends paid to non-controlling shareholders.....	(0)	(0)	(4)
Purchases of treasury stock.....	(18)	(17)	(167)
Proceeds from disposals of treasury stock.....	0	0	8
<b>Net cash provided by (used in) financing activities .....</b>	<b>(49,540)</b>	<b>(53,896)</b>	<b>(439,652)</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>(42)</b>	<b>67</b>	<b>(375)</b>
<b>5. Net increase (decrease) in cash and cash equivalents .....</b>	<b>44,729</b>	<b>405,094</b>	<b>396,962</b>
<b>6. Cash and cash equivalents at beginning of the period .....</b>	<b>1,149,068</b>	<b>743,974</b>	<b>10,197,630</b>
<b>7. Cash and cash equivalents at end of the period (Note 3).....</b>	<b>¥1,193,798</b>	<b>¥1,149,068</b>	<b>\$10,594,592</b>

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

## 1. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, the Enforcement Regulation for the Banking Act and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

All Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen. Accordingly, the total of each account may not be equal to the combined total of the individual items. The U.S. dollar amounts are then rounded to thousand dollars.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Hokuhoku Financial Group, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.68 to U.S. \$1, the rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### a. Consolidation

The consolidated financial statements as of March 31, 2016 include the accounts of the Company and its 11 subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

An investment in one associated company is accounted for by the equity method.

Assets and liabilities of newly consolidated subsidiaries are valued at fair value at the respective dates of acquisition, and goodwill is amortized using the straight-line method over 20 years.

### b. Cash and Cash Equivalents

For the purpose of reporting cash flows, "Cash and cash equivalents" consists of "Cash" and "Due from the Bank of Japan."

### c. Trading Purpose Transactions

"Transactions for trading purposes" (for purposes of seeking to cap-

ture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or from gaps among markets) are included in "Trading assets" and "Trading liabilities" on a trade-date basis.

Trading securities and monetary claims bought for trading purposes are stated at fair value at the balance sheet date. Trading-related financial derivatives, such as swaps, futures, and options are stated at amounts that would be received or paid for settlement if such transactions were terminated at the balance sheet date. Income and losses on trading purpose transactions are recognized on a trade-date basis and recorded as "Trading income" or "Trading losses."

Trading income and losses include interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities, monetary claims bought, and derivatives between the balance sheet dates.

### d. Securities

Securities are classified and accounted for, based principally on the Groups' intent, as follows: (a) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost computed by the straight-line method and (b) available-for-sale securities, which are not classified as trading purpose securities or held-to-maturity securities, are stated at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Available-for-sale securities for which fair value is not reliably determined are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, securities are reduced to net realizable value by a charge to income.

Securities included in money held in trust are recorded in the same manner as securities mentioned above.

### e. Tangible Fixed Assets (excluding Lease Assets)

Tangible fixed assets are stated at cost less accumulated depreciation. The Company and its consolidated banking subsidiaries (the subsidiaries hereafter referred to as the "Banks") depreciate their equipment based on the declining-balance method and their premises principally based on the straight-line method. The estimated useful lives of major assets are as follows: (1) buildings: 6 to 50 years and (2) equipment: 3 to 20 years.

Consolidated non-banking subsidiaries depreciate their equipment and premises principally based on the declining-balance method over their expected useful lives.

### f. Intangible Fixed Assets (excluding Lease Assets)

Intangible fixed assets are depreciated based on the straight-line method. Capitalized software for internal use owned by consolidated subsidiaries is depreciated using the straight-line method over its estimated useful life (mainly 5 years).

### g. Lease Assets

Lease assets under non-transfer ownership finance lease contracts (in which the ownership of leased assets is not transferred to the lessee; included in tangible fixed assets and intangible fixed assets) are depreciated on a straight-line basis over the lease period with a

residual value of zero when contracted amounts for residual value are specified.

#### **h. Long-Lived Assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

#### **i. Allowance for Loan Losses**

The Banks provide an allowance for loan losses which is determined based on management's judgment and an assessment of future losses based on their self-assessment systems. These systems reflect past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio, the value of collateral or guarantees, and other pertinent indicators.

The Banks have implemented a self-assessment system to determine the quality of their assets. The quality of all loans is assessed by branches and the credit supervisory division with a subsequent audit by the asset review and inspection division in accordance with the Banks' policy and guidelines for the self-assessment of asset quality.

The Banks have established a credit rating system under which customers are classified into five categories. The credit rating system is used in the self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes: "normal," "in need of caution," "possible bankruptcy," "virtual bankruptcy," and "legal bankruptcy."

For loans to borrowers classified as legal bankruptcy or virtual bankruptcy, the Banks fully provide the net amount of loans and estimated collectible amounts by collateral or guarantees. Regarding loans to borrowers classified as possible bankruptcy, a specific reserve is provided as necessary for the net amount of loans and estimated collectible amounts by collateral or guarantees.

For borrowers classified as possible bankruptcy or holding restructured loans with which the unsecured portion of claims or credit exceeds a certain amount, if cash flows from collection of principal and interest can be reasonably estimated, the Banks provide the difference between the present values of these cash flows discounted at the initial contractual interest rate and the book values of the loans (the "DCF" method).

For other loans, a general allowance is provided based on the historical loan loss ratio.

The Company and its consolidated non-banking subsidiaries determine the allowance for loan losses by a similar self-assessment system as that of the Banks.

For collateralized or guaranteed claims to borrowers who are in "virtual bankruptcy" or "legal bankruptcy," the amount exceeding the estimated value of collateral or guarantees has been deducted

as deemed uncollectible directly from those claims. The deducted amounts were ¥61,483 million (\$545,645 thousand) and ¥79,071 million at March 31, 2016 and 2015, respectively.

#### **j. Accounting Method for Retirement Benefits**

In calculating retirement benefit obligations, the benefit formula basis is used as a method of attributing expected retirement benefits to the period up to the end of this fiscal year.

The unrecognized prior service cost is amortized using the straight-line method over eight years within the employees' average remaining service period at incurrence.

The unrecognized actuarial (gains) losses are amortized using the straight-line method over eight or nine years within the employees' average remaining service period, commencing from the next fiscal year of incurrence.

#### **k. Reserve for Directors' and Audit & Supervisory Board Members' Retirement Benefits**

A reserve for directors' and audit & supervisory board members' retirement benefits is provided for payment of retirement benefits to directors and audit & supervisory board members in the amount deemed accrued at the fiscal year end, based on the estimated amount of benefits.

The Company and the Banks abolished their directors' and audit & supervisory board members' retirement benefits system at the board of directors' meeting on May 11, 2012, and resolved to provide a lump-sum payment of retirement benefits of directors and audit & supervisory board members at the general meeting of shareholders on June 26, 2012. According to these resolutions, the lump-sum payment of retirement benefits of directors and audit & supervisory board members shall be effectuated upon the retirement of each individual director and audit & supervisory board member. Reserve for directors' and audit & supervisory board members' retirement benefits was ended in June 2012, and the entire remaining amount is included in "reserve for directors' and audit & supervisory board members' retirement benefits."

#### **l. Reserve for Contingent Losses**

A reserve for contingent losses is provided for possible losses in accordance with the Joint Responsibility System of Credit Guarantee Corporations and possible losses from contingencies not covered by other specific reserves.

#### **m. Reserve for Reimbursement of Deposits**

A reserve for reimbursement of deposits which were not previously recognized as liabilities under certain conditions is provided for possible losses on the future claims of withdrawal based on historical reimbursement experience.

#### **n. Stock Options**

The companies are required to recognize compensation expense for employee stock options based on the fair value of the stock options at the date of grant and over the vesting period as consideration for receiving goods or services. The companies are also required to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock options are pre-

sented as stock acquisition rights as a separate component of equity until exercised.

#### **o. Income Taxes**

The provision for income taxes is computed based on pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

#### **p. Translation of Foreign Currencies**

Assets and liabilities denominated in foreign currencies are translated into Japanese yen mainly at the exchange rate prevailing as of the balance sheet date.

#### **q. Derivatives and Hedging Activities**

Derivatives are stated at fair value. Derivative transactions that meet hedge accounting criteria are primarily accounted for under the deferral method whereby unrealized gains and losses are deferred until maturity as deferred gains (losses) on hedge accounting in a separate component of equity.

The Banks hedge interest rate risks arising from their financial assets and liabilities by employing the technique known as “individual hedging” that establishes a specific position to directly hedge a particular item. Such hedges, limited to certain assets and liabilities, are accounted for by the deferred method or, where appropriate interest rate swaps are involved, by the special rule method.

The effectiveness of hedges is assessed as follows: the Banks specify the hedged items according to their risk management regulations, with the aim of centralizing hedging instruments, and verify the extent to which the exposure of interest rate risks on hedged items is mitigated.

The Banks hedge currency exchange fluctuation risks arising from their foreign currency denominated financial assets and liabilities. Such hedges are accounted for by the deferred method specified in the “Accounting and Auditing Treatments in Banking Business in Accounting for Foreign Currency Denominated Transactions and Others” (The Japanese Institute of Certified Public Accountants (“JICPA”) Industry Audit Committee Report No. 25).

The effectiveness of these hedges is assessed as follows: where currency swap transactions and exchange swap transactions are used as hedging instruments to offset exchange fluctuation risks arising from foreign currency denominated financial assets and liabilities, hedge effectiveness is assessed by verifying the agreement of the amounts of the designated hedging instruments corresponding to the hedged foreign currency financial assets and liabilities.

The Company and consolidated non-banking subsidiaries are not engaged in hedging operations using derivative transactions.

#### **r. Consumption Taxes**

The Company and its domestic consolidated subsidiaries account for consumption tax and local consumption tax by the tax exclusion method, whereby receipts and payments of consumption taxes are not included in the transaction amounts and, accordingly, consumption tax amounts do not affect the measurement of profit or

loss transactions. However, consumption taxes on tangible fixed assets that are not tax-deductible are expensed in the fiscal year under review.

#### **s. Finance Lease**

Sales and cost of sales are accounted for when lease payments are paid.

#### **t. Per Share Information**

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at time of issuance) with an applicable adjustment for interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the fiscal year.

#### **u. Changes in Accounting Policies**

**Business Combination** — In September 2013, the ASBJ issued revised ASBJ Statement No. 21, “Accounting Standard for Business Combinations,” revised ASBJ Guidance No. 10, “Guidance on Accounting Standards for Business Combinations and Business Divestitures,” and revised ASBJ Statement No. 22, “Accounting Standard for Consolidated Financial Statements.”

Major accounting changes are as follows:

- (a) Transactions with noncontrolling interest—A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- (b) Presentation of the consolidated balance sheet—In the consolidated balance sheet, “minority interest” under the previous accounting standard is changed to “noncontrolling interest” under the revised accounting standard.
- (c) Presentation of the consolidated statement of income—In the consolidated statement of income, “income before minority interest” under the previous accounting standard is changed to “net income” under the revised accounting standard, and “net income” under the previous accounting standard is changed to “net income attributable to owners of the parent” under the re-

vised accounting standard.

- (d) Provisional accounting treatments for a business combination— If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.
- (e) Acquisition-related costs— Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional account-

ing treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

There was no impact from these accounting changes.

#### v. New Accounting Pronouncements

**Tax Effect Accounting**— “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance on Corporate Accounting Standard No. 26, March 28, 2016) includes certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

### 3. Cash and Cash Equivalents

The reconciliation of “Cash and cash equivalents” in the consolidated statement of cash flows and “Cash and due from banks” in the consolidated balance sheet as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and due from banks.....	¥1,235,499	¥1,210,607	\$10,964,672
Due from banks except for deposits with the Bank of Japan .....	(41,700)	(61,538)	(370,080)
Cash and cash equivalents .....	¥1,193,798	¥1,149,068	\$10,594,592

### 4. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2016 and 2015 consisted of the following:

Trading Assets	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trading securities.....	¥3,200	¥2,898	\$28,406
Trading-related financial derivatives .....	1,430	1,609	12,694
Total.....	¥4,631	¥4,508	\$41,100

Trading Liabilities	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trading-related financial derivatives .....	¥1,129	¥1,184	\$10,021
Total.....	¥1,129	¥1,184	\$10,021

### 5. Money Held in Trust

Money held in trust for trading purposes as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Amounts recorded in the consolidated balance sheet .....	¥8,344	¥7,947	\$74,058
Valuation gain (loss) included in consolidated statement of income .....	34	41	303

There was no money held in trust for other purposes as of March 31, 2016 and 2015.

### 6. Securities

Securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Japanese national government bonds .....	¥1,184,635	¥1,280,622	\$10,513,270
Japanese local government bonds .....	331,114	397,008	2,938,541
Japanese corporate bonds.....	297,379	330,217	2,639,147
Japanese corporate stocks .....	235,500	237,508	2,089,995
Other securities .....	357,959	248,245	3,176,782
Total.....	¥2,406,589	¥2,493,601	\$21,357,735

As of March 31, 2016 and 2015, securities included equity investments in non-consolidated subsidiaries that amounted to ¥763 million (\$6,772 thousand) and ¥593 million, respectively.

In the following description, in addition to "Securities," also presented are trading account securities which are classified as "Trading assets" in the consolidated balance sheet and beneficiary claims on loan trusts which are classified as "Monetary claims bought" in the consolidated balance sheet.

Valuation gain or loss on trading account securities included in income before income taxes was ¥24 million (\$222 thousand) and ¥6 million as of March 31, 2016 and 2015, respectively.

The amounts on the consolidated balance sheet, aggregate fair value and unrealized gains (losses) on held-to-maturity debt securities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2016</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds .....	¥ 70,572	¥ 83,391	¥12,818
Japanese corporate bonds.....	96,420	97,631	1,211
Total.....	¥166,993	¥181,023	¥14,030
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds .....	¥ —	¥ —	¥ —
Japanese corporate bonds.....	10,393	10,329	(64)
Total.....	10,393	10,329	(64)
Grand total .....	¥177,386	¥191,352	¥13,966

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2015			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds .....	¥ 71,608	¥ 78,509	¥6,901
Japanese corporate bonds.....	71,746	72,475	729
Total.....	¥143,354	¥150,985	¥7,630
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds .....	¥ 500	¥ 499	¥ (0)
Japanese corporate bonds.....	14,344	14,290	(54)
Total.....	14,845	14,790	(55)
Grand total .....	¥158,199	¥165,775	¥7,575

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2016</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds .....	\$ 626,313	\$ 740,076	\$113,763
Japanese corporate bonds.....	855,701	866,452	10,751
Total.....	\$1,482,014	\$1,606,528	\$124,514
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds .....	\$ —	\$ —	\$ —
Japanese corporate bonds.....	92,237	91,668	(569)
Total.....	92,237	91,668	(569)
Grand total .....	\$1,574,251	\$1,698,196	\$123,945

The amounts on the consolidated balance sheet, acquisition or amortized cost and unrealized gains (losses) on available-for-sale securities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2016</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks .....	¥ 153,077	¥ 79,285	¥ 73,792
Bonds:			
Japanese government bonds .....	1,100,025	1,072,904	27,121
Japanese local government bonds .....	319,818	312,160	7,657
Japanese corporate bonds .....	186,502	181,562	4,940
Total bonds .....	1,606,346	1,566,627	39,718
Other securities .....	308,753	295,152	13,600
Total .....	¥2,068,177	¥1,941,066	¥127,111
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks .....	¥ 54,575	¥ 61,558	¥ (6,983)
Bonds:			
Japanese government bonds .....	14,036	14,130	(94)
Japanese local government bonds .....	11,296	11,299	(3)
Japanese corporate bonds .....	4,063	4,083	(20)
Total bonds .....	29,396	29,513	(117)
Other securities .....	103,270	112,149	(8,879)
Total .....	187,241	203,221	(15,979)
Grand total .....	¥2,255,419	¥2,144,287	¥111,131

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2015</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks .....	¥ 203,028	¥ 113,621	¥ 89,407
Bonds:			
Japanese government bonds .....	1,114,750	1,088,608	26,142
Japanese local government bonds .....	370,844	363,372	7,472
Japanese corporate bonds .....	218,486	214,429	4,056
Total bonds .....	1,704,080	1,666,410	37,670
Other securities .....	264,349	252,243	12,105
Total .....	¥2,171,459	¥2,032,275	¥139,183
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks .....	¥ 4,288	¥ 5,267	¥ (978)
Bonds:			
Japanese government bonds .....	93,762	93,981	(218)
Japanese local government bonds .....	26,164	26,219	(55)
Japanese corporate bonds .....	25,640	25,712	(72)
Total bonds .....	145,566	145,912	(345)
Other securities .....	48,282	49,261	(978)
Total .....	198,138	200,441	(2,302)
Grand total .....	¥2,369,598	¥2,232,717	¥136,881



	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2016</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks .....	\$ 1,358,517	\$ 703,636	\$ 654,881
Bonds:			
Japanese government bonds .....	9,762,387	9,521,697	240,690
Japanese local government bonds .....	2,838,289	2,770,329	67,960
Japanese corporate bonds .....	1,655,150	1,611,307	43,843
Total bonds .....	14,255,826	13,903,333	352,493
Other securities .....	2,740,091	2,619,389	120,702
Total .....	<u>\$18,354,434</u>	<u>\$17,226,358</u>	<u>\$1,128,076</u>
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks .....	\$ 484,343	\$ 546,315	\$ (61,972)
Bonds:			
Japanese government bonds .....	124,569	125,404	(835)
Japanese local government bonds .....	100,252	100,282	(30)
Japanese corporate bonds .....	36,059	36,241	(182)
Total bonds .....	260,880	261,927	(1,047)
Other securities .....	916,490	995,288	(78,798)
Total .....	1,661,713	1,803,530	(141,817)
Grand total .....	<u>\$20,016,147</u>	<u>\$19,029,888</u>	<u>\$ 986,259</u>

Information on available-for-sale securities, which were sold during the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		
	Proceeds	Realized gains	Realized losses
<b>March 31, 2016</b>			
Japanese corporate stocks .....	¥142,735	¥7,371	¥6,514
Bonds:			
Japanese government bonds .....	16,522	77	—
Japanese local government bonds .....	4,051	1	—
Japanese corporate bonds .....	4,976	28	2
Total bonds .....	25,551	106	2
Other securities .....	252,088	823	273
Total .....	<u>¥420,375</u>	<u>¥8,302</u>	<u>¥6,789</u>

	Millions of yen		
	Proceeds	Realized gains	Realized losses
March 31, 2015			
Japanese corporate stocks .....	¥ 72,238	¥3,948	¥ 933
Bonds:			
Japanese government bonds .....	119,782	2,662	14
Japanese local government bonds .....	4,307	7	—
Japanese corporate bonds .....	9,180	87	—
Total bonds .....	133,269	2,757	14
Other securities .....	44,911	1,566	198
Total .....	<u>¥250,419</u>	<u>¥8,272</u>	<u>¥1,146</u>

	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
<b>March 31, 2016</b>			
Japanese corporate stocks .....	\$1,266,735	\$65,420	\$57,812
Bonds:			
Japanese government bonds .....	146,634	684	—
Japanese local government bonds .....	35,955	15	—
Japanese corporate bonds .....	44,169	249	18
Total bonds .....	226,758	948	18
Other securities .....	2,237,205	7,310	2,428
Total .....	<u>\$3,730,698</u>	<u>\$73,678</u>	<u>\$60,258</u>

Impairment losses on available-for-sale securities amounted to ¥642 million (\$5,706 thousand) and ¥244 million as of March 31, 2016 and 2015, respectively.

An impairment of securities is recognized if the decline in fair value is substantial and the decline is determined to be other-than-temporary. The assessment of whether or not a decline in fair value is other-than-temporary by classification of the security issuer which is used in the self-assessment of asset quality is as follows:

(1) For issuers who are classified as borrowers under “in need of caution,” “possible bankruptcy,” “virtual bankruptcy,” “legal bankruptcy.”

Stocks: where the fair value is lower than the acquisition cost.

Bonds: where the fair value declines by over 30% compared to the amortized cost or acquisition cost.

(2) For issuers who are classified as borrowers under “normal.”

Stocks and bonds: where the fair value declines by 50% or more compared to the amortized cost or acquisition cost, or the fair value declines by over 30% but less than 50% compared to the amortized cost or acquisition cost and market prices remaining below a certain level.

Reconciliation of valuation difference on available-for-sale securities to the amounts included in “valuation difference on available-for-sale securities,” presented as a separate component of net assets as of March 31, 2016 and 2015, in the consolidated balance sheet, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Valuation difference before taxes on available-for-sale securities .....	<b>¥111,131</b>	¥136,881	<b>\$986,259</b>
Deferred tax liabilities .....	<b>(27,291)</b>	(35,865)	<b>(242,206)</b>
Valuation difference on available-for-sale securities (before adjustment) .....	<b>83,839</b>	101,015	<b>744,053</b>
Amounts attributable to non-controlling interests .....	<b>(93)</b>	(90)	<b>(833)</b>
The Company's portion of valuation difference on available-for-sale securities of equity method investees.....	<b>88</b>	108	<b>789</b>
Amounts recorded in the consolidated balance sheet .....	<b>¥ 83,834</b>	¥101,033	<b>\$744,009</b>

## 7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Bills discounted.....	¥ 43,584	¥ 49,555	\$ 386,803
Loans on bills .....	307,425	330,670	2,728,306
Loans on deeds .....	6,288,875	6,242,549	55,811,816
Overdrafts .....	943,068	924,043	8,369,443
Total.....	¥7,582,954	¥7,546,819	\$67,296,368

Loans and bills discounted include loans to borrowers in bankruptcy, past due loans, past due loans (three months or more) and restructured loans. The amounts of these loans were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans to borrowers in bankruptcy....	¥ 4,774	¥ 5,269	\$ 42,368
Past due loans .....	144,418	154,483	1,281,666
Past due loans (three months or more).....	376	1,217	3,345
Restructured loans .....	19,731	28,185	175,114
Total.....	¥169,300	¥189,155	\$1,502,493

Loans to borrowers in bankruptcy represent nonaccrual loans to debtors who are legally bankrupt, as defined in the Order for Enforcement of the Corporation Tax Act.

Past due loans are nonaccrual loans which include loans classified as “possible bankruptcy” and “virtual bankruptcy.”

Nonaccrual loans are defined as loans (after the partial charge-off of claims deemed uncollectible) on which the Banks have stopped accruing interest income due to substantial doubt existing about the ultimate collection of principal and/or interest. Such loans are classified either as “possible bankruptcy” or “virtual bankruptcy” under the Banks’ self-assessment guidelines.

In addition to past due loans as defined above, certain other loans classified as “in need of caution” under the Banks’ self-assessment guidelines include past due loans (three months or more) which consist of loans for which the principal and/or interest is three months or more past due, but exclude loans to borrowers in bankruptcy and past due loans.

Restructured loans are loans where the Group relaxes lending conditions by reducing the original interest rate or by forbearing interest payments or principal repayments to support the borrower’s reorganization. Restructured loans exclude loans to borrowers in bankruptcy, past due loans or past due loans (three months or more).

These amounts represent the gross amounts before deduction of the allowance for loan losses.

Bills discounted are accounted for as financial transactions in accordance with “Accounting and Auditing treatment of Accounting Standards for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No. 24). The Banks have a right to sell or repledge as collateral such discounted bills at their discretion. The total face value of bank acceptance bills, commercial bills, documentary bills and foreign currency bills bought, which were obtained at a discount, were ¥45,905 million (\$407,400 thousand) and ¥53,025 million as of March 31, 2016 and 2015, respectively.

As of March 31, 2016 and 2015, loans and bills discounted included the portion of loans extended to original borrowers based on loan participation agreements, as permitted by the JICPA Accounting Committee Report No. 3, in the amount of ¥- million (\$- thousand) and ¥1,500 million, respectively.

## 8. Foreign Exchanges

Foreign exchanges as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Assets</b>			
Due from foreign banks.....	¥11,096	¥ 9,964	\$ 98,480
Foreign exchange bills bought.....	2,320	3,469	20,597
Foreign exchange bills receivable ....	1,353	1,099	12,015
Total .....	¥14,771	¥14,533	\$131,092
<b>Liabilities</b>			
Due to foreign banks.....	¥ 25	¥ 32	\$ 227
Foreign exchange bills sold.....	48	99	427
Foreign exchange bills payable.....	153	47	1,360
Total .....	¥ 226	¥ 179	\$ 2,014

## 9. Tangible Fixed Assets

Tangible fixed assets as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings.....	¥ 32,999	¥ 33,505	\$292,864
Land .....	61,293	61,645	543,963
Lease assets.....	657	651	5,834
Construction in progress.....	241	187	2,146
Other tangible fixed assets.....	5,887	5,888	52,248
Total .....	¥101,080	¥101,878	\$897,055

Accumulated depreciation amounted to ¥104,871 million (\$930,700 thousand) and ¥104,849 million as of March 31, 2016 and 2015, respectively.

The book value of tangible fixed assets adjusted for gains on sales of replaced assets amounted to ¥3,885 million (\$34,479 thousand) and ¥3,895 million as of March 31, 2016 and 2015, respectively.

Under the “Act Concerning Land Revaluation,” Hokuriku Bank, Ltd. revalued its own land for business operations as of March 31, 1998. The revaluation gain is included in net assets as “Revaluation reserve for land.” The carrying amount of the land after the above one-time revaluation exceeded the market value by ¥19,978 million (\$177,299 thousand) and ¥20,505 million as of March 31, 2016 and 2015, respectively.

## 10. Intangible Fixed Assets

Intangible fixed assets as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Software.....	¥ 5,413	¥ 7,291	\$ 48,046
Goodwill .....	17,694	19,796	157,029
Lease assets.....	94	190	839
Other intangible fixed assets.....	772	798	6,856
Total.....	¥23,974	¥28,076	\$212,770

## 11. Customers' Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees in liabilities on the consolidated balance sheet. As a contra account, customers' liabilities for acceptances and guarantees are also shown in assets, which represent the Banks' right of indemnity from the applicants.

Guarantee obligations on securities issued by private placement (pursuant to Article 2, Clause 3 of the Japanese Financial Instruments and Exchange Act) amounted to ¥131,164 million (\$1,164,041 thousand) and ¥114,428 million as of March 31, 2016 and 2015, respectively.

## 12. Assets Pledged

Assets pledged as collateral and their relevant liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Assets pledged as collateral:			
Securities.....	¥444,040	¥399,850	\$3,940,723
Loans and bills discounted.....	111,032	123,512	985,379
Relevant liabilities to the above assets:			
Deposits .....	¥ 27,848	¥ 28,713	\$ 247,143
Call money and bills sold.....	—	20,000	—
Payables under securities lending transactions .....	92,954	27,809	824,946
Borrowed money .....	161,990	53,532	1,437,615

In addition to the assets presented above, the following assets were pledged as collateral relating to transactions on exchange settlements or as substitutes for futures transaction margins as of March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Securities.....	¥140,922	¥146,095	\$1,250,646
Other assets.....	219	219	1,947

In addition to the above, initial margins for futures transactions, cash collateral paid for financial instruments and guarantee deposits are included in "Other assets" in the consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Initial margins for futures transactions.....	¥ 8	¥ 10	\$ 77
Cash collateral paid for financial instruments.....	1,277	200	11,341
Guarantee deposits.....	3,986	4,014	35,375

## 13. Loan Commitments

Overdraft facility and loan commitment contracts with customers to lend up to the prescribed limits in response to customers' applications for a loan, as long as there is no violation of any condition within the contracts. The unused amount of such contracts totaled ¥2,336,084 million (\$20,732,023 thousand) and ¥2,321,927 million as of March 31, 2016 and 2015, respectively, of which amounts with original agreement terms of less than one year are ¥2,284,348 million (\$20,272,886 thousand) and ¥2,275,702 million as of March 31, 2016 and 2015, respectively.

Since many of the commitments expire without being drawn upon, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions allowing the Group to refuse customers' applications for a loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of the contracts, the Group obtains collateral including real estate, securities, etc., if considered to be necessary. Subsequently, the Group performs a periodic review of the customers' business results based on internal rules and takes necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

## 14. Deposits

Deposits as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current deposits, ordinary deposits, saving deposits and deposits at notice .....	¥ 6,167,421	¥ 5,867,009	\$54,733,953
Time deposits and installment savings .....	3,929,382	4,142,065	34,872,045
Negotiable certificates of deposit.....	244,008	487,347	2,165,498
Other deposits.....	134,604	131,324	1,194,576
Total.....	¥10,475,416	¥10,627,748	\$92,966,072

## 15. Borrowed Money

As of March 31, 2016 and 2015, the weighted-average annual interest rates applicable to borrowed money were 0.27% and 0.86%, respectively.

Borrowed money includes borrowings from the Bank of Japan and other financial institutions. In addition, borrowed money includes ¥39,500 million (\$350,550 thousand) and ¥70,500 million of subordinated borrowed money as of March 31, 2016 and 2015, respectively.

Annual maturities of borrowed money as of March 31, 2016 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017.....	¥ 13,145	\$ 116,660
2018.....	886	7,870
2019.....	532	4,729
2020.....	152,690	1,355,082
2021.....	227	2,017
2022 and thereafter.....	39,769	352,946
Total.....	¥207,252	\$1,839,304

## 16. Bonds Payable

Bonds payable as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Issued by the Company:			
Unsecured fixed and floating subordinated bonds, payable in Japanese yen, due January 2021, 1.27% interest.....	¥ —	¥10,000	\$ —
Unsecured fixed and floating subordinated bonds, payable in Japanese yen, due December 2021, 1.50% interest.....	8,000	8,000	70,998
Unsecured fixed and floating subordinated bonds, payable in Japanese yen, due October 2023, 0.75% interest.....	25,000	25,000	221,867
Total.....	¥33,000	¥43,000	\$292,865

Annual maturities of bonds payable as of March 31, 2016 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022 and thereafter.....	¥33,000	\$292,865

## 17. Retirement Benefits

### Overview of the Group's retirement benefit plans

The Hokuriku Bank, Ltd. which previously provided three defined benefit retirement programs, corporate pensions, and tax qualified pension and retirement bonuses, terminated the tax qualified pension and migrated a portion of the retirement bonus to a defined contribution pension in March 2011. At the time of retirement, employees may be issued a premium retirement grant that is not subject to inclusion in the actuarial computation of projected benefit obligations in conformity with the standards for accounting for retirement benefits. The Minister of Health, Labour and Welfare approved on February 17, 2003 that Hokuriku Bank Ltd. would be relieved of the obligation to administer the future payment service of the government mandated portion of its employee pension fund. The Hokuriku Bank, Ltd. was further approved on March 1, 2005 to switch from an employee pension fund to a corporate pension fund.

The Hokkaido Bank, Ltd. provides defined benefit arrangements that combine a retirement lump sum grant and an employee pension fund plan. The Hokkaido Bank, Ltd. was approved by the Minister of Health, Labour and Welfare on March 26, 2004 to be relieved of the obligation to administer the future payment service of the government mandated portion of the employee pension fund. The Hokkaido Bank, Ltd. was further approved on March 31, 2006 to switch from an employee pension fund to an employee pension fund.

The consolidated domestic subsidiaries other than the two noted above provide retirement lump sum grants.

The Company's employees are all on loan from its subsidiaries and are covered by the retirement benefit program of the subsidiaries from which they each come.

The Banks have established benefit trust arrangements as a part of their plan assets.

### (a) Defined benefit plan

(1) The changes in defined benefit obligations for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year (as previously reported).....	¥ 92,378	¥88,836	\$819,830
Cumulative effects of accounting change.....	—	2,885	—
Balance at beginning of year (as restated).....	92,378	91,721	819,830
Service cost.....	2,037	2,105	18,084
Interest cost.....	1,378	1,368	12,232
Actuarial (gains) losses.....	12,035	2,101	106,813
Benefits paid.....	(5,287)	(5,008)	(46,927)
Others.....	73	90	653
Balance at end of year.....	¥102,615	¥92,378	\$910,685

(2) The changes in plan assets for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year.....	¥85,517	¥73,875	\$758,939
Expected return on plan assets ...	2,478	2,307	21,999
Actuarial (gains) losses.....	(6,619)	8,964	(58,746)
Contributions from the employer....	4,562	4,026	40,489
Benefits paid.....	(3,869)	(3,746)	(34,344)
Others.....	87	90	772
Balance at end of year.....	¥82,156	¥85,517	\$729,109

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligation....	<b>¥86,086</b>	¥76,491	<b>\$763,995</b>
Plan assets .....	<b>(74,957)</b>	(77,839)	<b>(665,226)</b>
	<b>11,129</b>	(1,348)	<b>98,769</b>
Unfunded defined benefit obligation...	<b>16,529</b>	15,887	<b>146,690</b>
Plan assets .....	<b>(7,198)</b>	(7,677)	<b>(63,883)</b>
	<b>9,330</b>	8,210	<b>82,807</b>
Net liability (asset) arising from defined benefit obligation .....	<b>¥20,459</b>	¥ 6,861	<b>\$181,576</b>

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability for retirement benefits .....	<b>¥20,459</b>	¥8,930	<b>\$181,576</b>
Asset for retirement benefits .....	—	(2,069)	—
Net liability (asset) arising from defined benefit obligation .....	<b>¥20,459</b>	¥6,861	<b>\$181,576</b>

(4) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost .....	<b>¥2,037</b>	¥2,105	<b>\$18,084</b>
Interest cost .....	<b>1,378</b>	1,368	<b>12,232</b>
Expected return on plan assets .....	<b>(2,478)</b>	(2,307)	<b>(21,999)</b>
Recognized actuarial (gains) losses...	<b>3,073</b>	4,530	<b>27,277</b>
Amortization of prior service costs...	<b>(46)</b>	(46)	<b>(415)</b>
Amortization of transitional obligation .....	—	1,693	—
Others.....	<b>66</b>	102	<b>593</b>
Net periodic benefit costs.....	<b>¥4,030</b>	¥7,446	<b>\$35,772</b>

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost.....	<b>¥ (46)</b>	¥ (46)	<b>\$ (415)</b>
Actuarial gains (losses) .....	<b>(15,581)</b>	11,394	<b>(138,282)</b>
Transitional obligation .....	—	1,693	—
Total.....	<b>¥(15,628)</b>	¥13,041	<b>\$(138,697)</b>

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost .....	<b>¥ (140)</b>	¥ (187)	<b>\$ (1,245)</b>
Unrecognized actuarial (gains) losses..	<b>12,129</b>	(3,452)	<b>107,644</b>
Total.....	<b>¥11,989</b>	¥(3,639)	<b>\$106,399</b>

(7) Plan assets

• *Components of plan assets*

	2016	2015
Bonds.....	<b>34.20%</b>	28.61%
Stocks .....	<b>45.40%</b>	50.06%
Cash and deposits .....	<b>3.13%</b>	4.23%
General accounts.....	<b>3.95%</b>	4.87%
Other.....	<b>13.32%</b>	12.23%
Total.....	<b>100.00%</b>	100.00%

Note: Plan assets include retirement benefit trusts of 22.34% and 23.70% as of March 31, 2016 and 2015, respectively.

• *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2016 and 2015 were set forth as follows:

	2016	2015
Discount rate.....	<b>0.61%-0.63%</b>	1.4%-1.6%
Expected rate of return on plan assets .....	<b>3.0%-3.5%</b>	3.5%

(b) *Defined contribution pension plan*

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Contribution .....	<b>¥273</b>	¥274	<b>\$2,424</b>

## 18. Equity

Japanese banks are subject to the Banking Act and the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides a certain limitation on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases / decreases and transfer of common stock, reserve and surplus

The Banking Act requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of the legal reserve and additional paid-in capital equals 100% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 19. Capital Stock

Information with respect to capital stock of the Company as of March 31, 2016 and 2015 is as follows:

	2016	2015
Number of shares:		
Authorized:		
Common.....	2,800,000,000	2,800,000,000
Preferred (Type 1) .....	400,000,000	400,000,000
Preferred (Type 2) .....	200,000,000	200,000,000
Preferred (Type 3) .....	200,000,000	200,000,000
Preferred (Type 4) .....	90,000,000	90,000,000
Preferred (Type 5) .....	110,000,000	110,000,000
Issued and outstanding:		
Common .....	1,351,630,146	1,351,630,146
Preferred (Type 5) .....	107,432,000	107,432,000
Treasury stock:		
Common.....	11,607,137	11,887,214
Preferred (Type 5).....	2,160	1,420

### Preferred stock (Type 5)

Preferred stock (Type 5) is noncumulative and nonparticipating for dividend payments. Shareholders of the preferred stock (Type 5) are not entitled to vote at the general meeting of shareholders, except when the proposal to pay the prescribed dividends to shareholders is not submitted to the general meeting of shareholders or is rejected at the general meeting of shareholders.

Annual dividends per share of preferred stock (Type 5) are paid to shareholders at ¥15.00.

The changes in the number of treasury stock for the fiscal years ended March 31, 2016 and 2015 were as follows:

	As of April 1, 2015	Changes during the fiscal year		As of March 31, 2016
2016		Increase*1	Decrease*2	
Common.....	11,887,214	67,494	347,571	11,607,137
Preferred (Type 5).....	1,420	740	—	2,160

\*1 The increase of common and preferred (Type 5) represents the acquisition of odd-lot shares.

\*2 The decrease of common represents the disposal of 2,171 shares of odd-lot shares and 345,400 shares exercised of stock options.

	As of April 1, 2014	Changes during the fiscal year		As of March 31, 2015
2015		Increase*1	Decrease*2	
Common.....	12,067,668	79,487	259,941	11,887,214
Preferred (Type 5).....	1,420	—	—	1,420

\*1 The increase of common represents the acquisition of odd-lot shares.

\*2 The decrease of common represents the disposal of 1,341 shares of odd-lot shares and 258,600 shares exercised of stock options.

## 20. Stock Acquisition Rights

Stock acquisition rights as of March 31, 2016 and 2015 consisted of stock options.

## 21. Stock Options

The stock option plans grant options to the Company's directors and the Banks' directors and executive officers to purchase certain shares of the Company's common stock in the respective exercise periods. The exercise prices are subject to adjustments for stock issuances below fair value and stock splits.

Stock option expenses in the amount of ¥110 million (\$981 thousand) and ¥111 million were recorded under general and administrative expenses for the years ended March 31, 2016 and 2015, respectively.

The stock options outstanding as of March 31, 2016 were as follows:

Stock option	Persons granted	Number of options granted (Shares)	Date of grant	Exercise price	Exercise period
2012 Stock Option	19 directors 23 executive officers	1,058,500	November 28, 2012	¥1	From November 29, 2012 to November 28, 2042
2013 Stock Option	19 directors 22 executive officers	629,500	August 13, 2013	¥1	From August 14, 2013 to August 13, 2043
2014 Stock Option	19 directors 21 executive officers	554,000	July 11, 2014	¥1	From July 12, 2014 to July 11, 2044
2015 Stock Option	18 directors 24 executive officers	417,300	July 14, 2015	¥1	From July 15, 2015 to July 14, 2045

The stock option activity was as follows:

Year ended March 31, 2016	2012 stock option (Shares)	2013 stock option (Shares)	2014 stock option (Shares)	2015 stock option (Shares)
<b>Non-vested:</b>				
March 31, 2015				
–outstanding ....	—	—	—	—
Granted .....	—	—	—	417,300
Canceled .....	—	—	—	—
Vested .....	—	—	—	417,300
March 31, 2016				
–outstanding ....	—	—	—	—
<b>Vested:</b>				
March 31, 2015				
–outstanding ....	560,900	529,500	545,100	—
Vested .....	—	—	—	417,300
Exercised .....	105,500	123,800	116,100	—
Canceled .....	—	—	—	—
March 31, 2016				
–outstanding ....	455,400	405,700	429,000	417,300
Exercise price .....	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise .....	¥289	¥289	¥289	—
	\$2.56	\$2.56	\$2.56	—
Fair value price at grant date .....	¥108	¥182	¥201	¥265
	\$0.96	\$1.62	\$1.78	\$2.35

The Assumptions Used to Measure the Fair Value of the 2015 Stock Options

Estimate method .....	Black-Scholes option-pricing model
Volatility of stock price .....	30.014%
Estimated remaining outstanding period ..	Two years and three months
Estimate dividend .....	¥4.25 per share
Interest rate with risk free .....	0.010%

In estimating the vested number of stock options, the Company basically reflects only the actual forfeited number, since it is difficult to make a reasonable estimate on the future forfeited number.

## 22. Per Share Information

(1) Net income per share of common stock

Reconciliation of the difference between basic and diluted net income per share (“EPS”) for the years ended March 31, 2016 and 2015 was as follows:

Year ended March 31, 2016	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income attributable to owners of parent	Weighted-average shares		EPS
Basic EPS – Net income available to common shareholders	¥27,226	1,339,935	¥20.31	\$0.18
Effect of dilutive securities		1,667		
Diluted EPS – Net income for computation	¥27,226	1,341,602	¥20.29	\$0.18

Year ended March 31, 2015	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income attributable to owners of parent	Weighted-average shares		EPS
Basic EPS – Net income available to common shareholders	¥26,623	1,339,706	¥19.87	
Effect of dilutive securities		1,555		
Diluted EPS – Net income for computation	¥26,623	1,341,261	¥19.84	

(2) Net assets per share of common stock

Net assets per share of common stock as of March 31, 2016 and 2015 were as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share of common stock .....	¥380.61	¥385.83	\$3.38

Net assets per share of common stock as of March 31, 2016 and 2015 were calculated based on the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total equity .....	¥ 566,251	¥ 572,987	\$5,025,309
Deductions from total equity:			
Stock acquisition rights .....	319	266	2,838
Non-controlling interests .....	1,378	1,276	12,235
Preferred stock .....	53,714	53,715	476,703
Preferred dividends .....	805	805	7,151
Net assets attributable to common stock at the end of the fiscal year .....	510,032	516,922	4,526,382
Number of shares of common stock at the end of the fiscal year used for the calculation of net assets per share of common stock (shares in thousands) .....	1,340,023	1,339,742	



### 23. Other Ordinary Income

Other ordinary income for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gain on foreign exchange transactions – net.....	¥ 1,045	¥ 1,437	\$ 9,277
Gains on sales and redemption of bonds and other securities.....	1,037	3,739	9,210
Gains on derivatives.....	808	1,034	7,177
Lease receipts.....	6,511	6,496	57,791
Other.....	4,904	4,565	43,528
Total.....	¥14,308	¥17,273	\$126,983

### 24. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Losses on sales, redemption and devaluation of bonds and other securities.....	¥ 213	¥ 257	\$ 1,893
Lease costs.....	5,795	5,742	51,437
Other.....	3,526	3,203	31,299
Total.....	¥9,536	¥9,203	\$84,629

### 25. Other Income

Other income for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gains on sales of stocks.....	¥ 7,373	¥4,598	\$ 65,434
Gains on sales of tangible fixed assets.....	4	38	39
Other.....	4,821	3,786	42,790
Total.....	¥12,199	¥8,422	\$108,263

### 26. Other Expenses

Other expenses for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Losses on write-offs of loans and bills discounted.....	¥ 517	¥ 590	\$ 4,589
Losses on sales of stocks.....	6,576	1,131	58,366
Losses on impairments of stocks and other securities.....	1,390	33	12,343
Losses on sales of loans.....	267	297	2,377
Losses on impairments and disposals of fixed assets.....	1,266	1,310	11,244
Other.....	3,280	2,777	29,112
Total.....	¥13,299	¥6,140	\$118,031

### 27. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in the normal effective statutory tax rates of approximately 32.82% and 35.37% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Allowance for loan losses.....	¥28,447	¥ 34,052	\$252,462
Depreciation.....	973	1,066	8,641
Liability for retirement benefits....	17,288	13,755	153,434
Loss on valuation of securities.....	12,981	13,718	115,207
Other.....	5,910	5,698	52,452
Operating loss carryforwards.....	66	240	594
Subtotal.....	65,668	68,532	582,790
Less: Valuation allowance.....	27,659	27,507	245,472
Total deferred tax assets.....	38,008	41,024	337,318
Deferred tax liabilities:			
Valuation difference on available-for-sale securities.....	33,357	42,969	296,034
Book-value correction for securities.....	4,305	4,779	38,208
Land transfer through merger.....	2,765	2,911	24,545
Other.....	2,219	2,214	19,700
Total deferred tax liabilities.....	42,647	52,875	378,487
Net deferred tax assets.....	¥ (4,638)	¥(11,850)	\$ (41,169)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2016 and 2015 is as follows:

	2016	2015
Normal effective statutory tax rate.....	32.82%	35.37%
Change in valuation allowance.....	1.39	(0.44)
Permanently non-taxable income.....	(0.71)	(2.21)
Per capita portion of inhabitants' taxes.....	0.35	0.34
Permanently non-deductible expenses.....	0.30	0.35
Decrease in deferred tax assets due to changes in tax rate...	2.24	5.60
Other.....	0.59	0.62
Actual effective tax rate.....	36.98%	39.63%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016 and 2017, to approximately 30.69% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.45%. The effect of these changes on the consolidated balance sheet and the consolidated statement of income as of March 31, 2016 is as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease deferred tax assets.....	¥ 499	\$ 4,437
Decrease deferred tax liabilities.....	672	5,966
Increase valuation difference on available-for-sale securities.....	1,433	12,723
Increase income taxes—deferred.....	1,030	9,146
Decrease deferred tax liabilities for revaluation.....	302	2,686
Increase revaluation reserve for land.....	302	2,686

## 28. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Valuation difference on available-for-sale securities:			
Amount incurred during the fiscal year .....	¥(25,646)	¥55,464	\$(227,604)
Reclassification adjustment.....	(102)	(5,099)	(914)
Prior to deducting tax effect ...	(25,749)	50,364	(228,518)
Tax effect .....	8,573	(10,637)	76,089
Total.....	(17,175)	39,726	(152,429)
Deferred gains (losses) on hedges:			
Amount incurred during the fiscal year.....	(2,067)	(1,668)	(18,348)
Reclassification adjustment.....	1,015	725	9,014
Prior to deducting tax effect ...	(1,051)	(942)	(9,334)
Tax effect .....	300	291	2,665
Total.....	(751)	(650)	(6,669)
Revaluation reserve for land:			
Amount incurred during the fiscal year.....	—	—	—
Reclassification adjustment.....	—	—	—
Prior to deducting tax effect ...	—	—	—
Tax effect .....	302	626	2,686
Total.....	302	626	2,686
Defined retirement benefit plans:			
Amount incurred during the fiscal year.....	(18,655)	6,863	(165,559)
Reclassification adjustment.....	3,026	6,177	26,862
Prior to deducting tax effect ...	(15,628)	13,041	(138,697)
Tax effect .....	4,813	(4,489)	42,720
Total.....	(10,814)	8,551	(95,977)
Share of other comprehensive income of associates accounted for using the equity method:			
Amount incurred during the fiscal year.....	(27)	87	(243)
Reclassification adjustment.....	(7)	(23)	(62)
Prior to deducting tax effect ...	(34)	64	(305)
Tax effect .....	15	(29)	134
Total.....	(19)	34	(171)
Total other comprehensive income.....	¥(28,458)	¥48,288	\$(252,560)

## 29. Leases

### (1) Finance lease transactions

#### (Lessee)

The Group leases ATMs, computer equipment, software and other assets.

### (2) Operating lease transactions

#### (Lessee)

The minimum rental commitments under noncancelable operating leases as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Within one year .....	¥2	¥2	\$20
Over one year.....	0	2	4
Total.....	¥2	¥5	\$24

## 30. Financial Instruments and Related Disclosures

### (1) Group policy on financial instruments

The Group provides a wide variety of financial services, centered on banking services such as deposit-taking and lending.

Our lending activities are aimed at achieving co-prosperity with the regional economy and we endeavor to manage our lending in a sound and appropriate manner, while simultaneously working to strengthen credit risk management.

Investments in securities are strictly managed based on the Group's risk management policies and regulations. Regarding deposit-taking operations, the Group aims to ensure stable fundraising by the expansion and upgrading of financial services for all customers in the region. Borrowed money and corporate bonds are used mainly for medium- to long-term fundraising.

Given the different term structures of the Group's financial assets such as loans and financial liabilities such as deposits, the Group is exposed to interest-rate fluctuation risk in the financial markets. For this reason, the Group conducts comprehensive asset liability management ("ALM") to appropriately control such market risk and ensure stable earnings.

### (2) Nature and extent of risks arising from financial instruments

The financial assets held by the Group consist primarily of securities and loans to domestic customers. Loans are subject to credit risks that could cause financial loss to the Group, such as declines or losses in asset value resulting from a possible deterioration in the financial condition of borrowers. With regard to securities, the Group is exposed to the credit risk of issuers, interest-rate risk, and market price volatility risk. However, the Group takes adequate steps to mitigate these risks.

Financial liabilities, including deposits and borrowed money, are exposed to liquidity risk arising from the possibility that the Group may be obliged to procure funds at interest rates significantly higher than normal owing to a sudden change in the market environment or a deterioration in the Group's financial position.

The Banks make use of currency-related derivatives such as currency swaps, forward exchange contracts, and currency options, as well as interest-related derivatives such as interest-rate swaps, interest-rate futures, and interest-rate caps, to meet the ALM needs of the Banks as well as the various needs of the Banks' customers. These derivatives are exposed to the following risks among others: interest-rate risk, the risk of exchange rate fluctuations, price volatility risk, and credit risk.

However, none of the Group's financial assets and liabilities are attended by notably high risk levels, nor do they include any particular derivatives with high market price volatility.

The Hokuriku Bank, Ltd. applies hedge accounting to hedge the value of some of its assets and liabilities against interest-rate fluctuations. When applying hedge accounting, the Hokuriku Bank, Ltd. adopts integrated management in both hedging instruments and hedged items as long as hedging is managed and evaluates the effectiveness of the hedges.

### **(3) Risk management for financial instruments**

The Banks have established risk management departments and have stipulated basic regulations for risk management and other regulations pertaining to risk. In addition, the Banks have established an ALM Committee and a Comprehensive Risk Management Committee, where qualified risks and administration matters are discussed regularly to ensure that all categories of risk are managed effectively. Changes in regulations and organizational structures of the Banks are revised or supervised by the Company to ensure conformance to the Group's policies and the results of the above committees are reported to the Company.

#### ***(a) Credit Risk Management***

The Group's fundamental policy is to strive for improved earnings and ensure sound business operations through the appropriate management of credit risk. In line with this policy, the Company and the Banks collaborated in establishing various regulations, including Credit Risk Management Regulations, and also ensuring the effective operation of internal checking functions by separating business promotion departments from credit risk management departments. Rigorous screening is also conducted and credit ratings are granted based on their Credit Policy. Additionally, the setting of credit limits is managed on an individual customer basis to avoid the risk of an overconcentration of loans in particular sectors. Finally, the Banks carry out self-assessment and credit risk quantification procedures and the risk situation is regularly reported to the Banks' Board of Directors.

As for the loan screening process of the Banks, the branches concerned carefully analyze each separate loan application and screen each customer involved. In the event that the decision exceeds the limits of authority of the branch manager, the appropriate loan screening departments at the headquarters of the Banks carry out their own analysis and screening. Specialized staff members in place within the screening departments are responsible for particular industries and geographical areas. These specialists provide the appropriate advice and guidance to the branches based on the particular features of the customer.

Concerning the creditworthiness of security issuers and counterparty risk in derivative transactions, credit information and the state of transactions are regularly monitored and managed by the risk management departments of the Banks.

#### ***(b) Market Risk Management***

Having stipulated regulations such as Market Risk Management Regulations and an arranged organizational structure including ALM and other committees, the Banks appropriately control market risk associated with lending and deposit-taking in order to ensure stable earnings.

#### ***Interest Rate Risk Management***

The risk management departments of the Banks regularly and comprehensively monitor the interest rates and time-frames involved in the Banks' financial assets and liabilities and monitor interest risk levels through methods such as gap analysis and sensitivity analysis of interest rates, based on the Banks' Interest Rate Risk Management Regulations and other related regulations where the methods and procedures to be employed for risk management are described in detail.

The Banks set ceiling amounts for each type of interest rate risk to control such risk appropriately. Derivatives such as interest-rate

swaps and interest-rate caps are employed from an ALM perspective so that the Banks reduce interest rate risk by hedging against interest rate fluctuations.

#### ***Foreign Exchange Risk Management***

Using measures such as currency swaps to reduce foreign exchange risk, the Banks manage exchange risk arising from fluctuations in foreign exchange rates that affect the values of assets and liabilities denominated in foreign currencies.

#### ***Price Volatility Risk Management***

Regarding investments in instruments such as securities, the Banks carry out prior screening and set investment ceilings, and then constantly monitor the investment status to minimize price volatility risk. Every process above has to be strictly managed under the supervision of the Banks' Board of Directors and to be in line with policies laid down by Management Committees. A high percentage of the stocks held by the Banks are acquired and held for long-term strategic purposes. The Banks monitor the market conditions and financial positions of the securities issuers. Value at Risk ("VaR") and other methods are used to determine the amount of market risk for each security held. The staff members of the responsible departments provide regular reports to the Banks' Board of Directors and Management Committees to confirm that price risk is controllable and all rules pertaining to market risk management are being followed correctly.

#### ***Derivatives***

The Banks arrange their organizational structures securing the separation and internal check-and-balance mechanisms among front sections (specializing in market transactions), middle sections (engaging in risk management) and back sections (responsible for book entries and settlements). Management sections confirm the validity of transactions, value the Banks' daily derivative positions, and measure gains and losses as well as risk levels. Derivative transactions are carefully managed in such a way that losses never exceed a predetermined maximum.

#### ***Quantitative Information Related to Market Risk***

Hokuriku Bank and Hokkaido Bank measure quantitative information related to market risk.

- Financial instruments in the trading account

In calculating VaR for trading securities and a portion of currency-related and interest-related derivative transactions held in the trading account, Hokuriku Bank adopts the historical simulation method (a holding period of 1 business day, a confidence interval of 99% and main observation period of 1,250 business days).

The market risk amounts (VaR) of the trading business of Hokuriku Bank were ¥177 million (\$1,571 thousand) and ¥54 million as of March 31, 2016 and 2015, respectively.

Hokkaido Bank has no financial instruments in the trading accounts.

- Financial instruments in the banking account

In the Banks, the main financial instruments affected by interest rate risk are "Monetary claims bought," "Loans and bills discounted," "Bonds," "Deposits," "Borrowed money," and transactions of interest rate swaps, interest swaptions and interest rate caps held in derivative transactions. The main financial instruments affected by market value are listed stocks and investment trust. The Banks use VaR for integrated management of these financial instruments.

For calculating VaR, the Banks adopt the historical simulation method (a holding period of 120 business days, a confidence interval of 99% and main observation period of 1,250 business days) and consider the correlations between interest and the fluctuation of prices of the listed stocks. In addition, Hokkaido Bank has set a holding period of 10 business days for trading account securities (including public bonds traded over the counter) and for specified fund trust as investment securities. Hokkaido Bank also considers the correlation between interest rates and the fluctuation of prices of the listed stocks in calculating VaR of specified fund trust as investment securities.

Hokuriku Bank's VaR of the financial instruments in the banking account was ¥41,464 million (\$367,980 thousand) and ¥30,894 million as of March 31, 2016 and 2015, respectively. Hokkaido Bank's VaR of the financial instruments in the banking account was ¥20,182 million (\$179,109 thousand) and ¥16,081 million as of March 31, 2016 and 2015, respectively. Hokkaido Bank's trading account securities totaled ¥11 million (\$98 thousand) and ¥10 million as of March 31, 2016 and 2015, respectively. Hokkaido Bank's specified fund trust totaled ¥28 million (\$248 thousand) and ¥9 million as of March 31, 2016 and 2015, respectively.

The Banks perform back testing of the VaR measurement model at fixed intervals. VaR measures the amount of market risk by certain occurrence probabilities that are statistically calculated based on past markets movements. Therefore, there are cases in which VaR cannot capture risk under sudden and dramatic changes in markets beyond normal circumstances.

VaR shows the maximum loss during the holding period of the financial instruments under the confidence interval (99%) that is statistically calculated based on past market movements. In particular, the Banks calculate 100BPV (100 Basis Point Value), as supplements, of the assets and liabilities and change in their present value on the assumption that index interest rate rises by 1.00%.

Hokuriku Bank's 100BPV was a ¥5,517 million decrease (\$48,962 thousand decrease) and a ¥14,039 million decrease as of March 31, 2016 and 2015, respectively. Hokkaido Bank's 100BPV was a ¥15,656 million decrease (\$138,942 thousand decrease) and a ¥22,724 million decrease as of March 31, 2016 and 2015, respectively.

For calculating 100BPV, the correlations between interest rates and the other parameters are not considered because the 100BPV is measured on the assumption that risk parameters except interest rate remain unchanged. Actual risk can exceed the calculated 100BPV in the case of a drastic change in interest rates beyond reasonable prior expectations occur.

#### (c) Liquidity Risk Management

In accordance with the Banks' rules for management of liquidity risk, the Banks form an accurate appraisal of fund operations and procurement, and take measures to ensure smooth cash flows. Specifically, the Banks set benchmarks in various different categories to check liquidity risk on a daily basis, and maintain adequate levels of high-liquidity assets that are readily convertible into cash, such as government bonds.

We have in place mechanisms for periodically assessing and managing liquidity risk through ALM committees, to prepare for ev-

ery possible scenario.

#### (4) Supplementary explanation relating to fair values of financial instruments

The fair values of financial instruments include, in addition to values determined based on market prices, valuations calculated on a reasonable basis if no market prices are available. Certain assumptions are used in the calculations of such amounts. Accordingly, the result of such calculations may vary if different assumptions are used.

#### (5) Fair value of financial instruments

The fair values of the main financial instruments at March 31, 2016 and 2015 are as follows. These amounts do not include unlisted stocks whose fair values are extremely difficult to determine (see (b) Financial instruments whose fair values are deemed to be extremely difficult to determine).

##### (a) Fair value of financial instruments

March 31, 2016	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks.....	¥ 1,235,499	¥ 1,235,499	¥ —
Call loans and bills bought.....	65,016	65,016	—
Monetary claims bought *1 .....	54,066	54,066	—
Securities			
Bonds classified as held-to-maturity.....	177,386	191,352	13,966
Available-for-sale securities .....	2,201,352	2,201,352	—
Loans and bills discounted.....	7,582,954		
Allowance for loan losses *1 .....	(52,705)		
	7,530,249	7,658,038	127,788
Total assets.....	¥11,263,571	¥11,405,325	¥141,754
Deposits .....	¥10,475,416	¥10,476,167	¥ 751
Borrowed money .....	207,252	208,812	1,559
Total liabilities.....	¥10,682,669	¥10,684,980	¥ 2,310
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting ...	¥ 6,639	¥ 6,639	¥ —
Derivative transactions qualifying for hedge accounting .....	1,784	1,784	—*3
Total derivative transactions .....	¥ 8,424	¥ 8,424	¥ —

March 31, 2015	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks.....	¥ 1,210,607	¥ 1,210,605	¥ (2)
Call loans and bills bought.....	94,599	94,599	—
Monetary claims bought *1 .....	64,390	64,390	—
Securities			
Bonds classified as held-to-maturity.....	158,199	165,775	7,575
Available-for-sale securities .....	2,305,207	2,305,207	—
Loans and bills discounted .....	7,546,819		
Allowance for loan losses *1 .....	(52,601)		
	7,494,217	7,581,622	87,405
Total assets .....	¥11,327,222	¥11,422,201	¥94,978
Deposits.....	¥10,627,748	¥10,628,638	¥ 890
Borrowed money.....	125,680	126,923	1,243
Total liabilities .....	¥10,753,428	¥10,755,562	¥ 2,134
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting ...	¥ 1,714	¥ 1,714	¥ —
Derivative transactions qualifying for hedge accounting .....	(4,549)	(4,549)	—*3
Total derivative transactions.....	¥ (2,834)	¥ (2,834)	¥ —

March 31, 2016	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks.....	\$10,964,672	\$ 10,964,672	\$ —
Call loans and bills bought.....	577,000	577,000	—
Monetary claims bought *1 .....	479,825	479,825	—
Securities			
Bonds classified as held-to-maturity.....	1,574,252	1,698,196	123,944
Available-for-sale securities .....	19,536,322	19,536,322	—
Loans and bills discounted.....	67,296,368		
Allowance for loan losses *1 .....	(467,744)		
	66,828,624	67,962,710	1,134,086
Total assets.....	\$99,960,695	\$101,218,725	\$ 1,258,030
Deposits .....	\$92,966,072	\$ 92,972,737	\$ 6,665
Borrowed money .....	1,839,304	1,853,145	13,841
Total liabilities.....	\$94,805,376	\$ 94,825,882	\$ 20,506
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting ...	\$ 58,927	\$ 58,927	\$ —
Derivative transactions qualifying for hedge accounting .....	15,834	15,834	—*3
Total derivative transactions .....	\$ 74,761	\$ 74,761	\$ —

\*1. Allowance for loan losses shown in this table represents the general allowance and specific allowance for loan losses. Figures for allowance for loan losses on monetary claims bought are directly deducted from the balance of monetary claims bought as the amount concerned is insignificant.

\*2. Derivative transactions included in trading assets and liabilities and other assets and liabilities are shown together. Assets and liabilities arising from derivative transactions are shown within parentheses with respect to net liabilities.

\*3. As interest-rate swaps subject to exceptional treatment are accounted for together with the loans being hedged by the swaps, their fair value is included in the loans in question on the consolidated balance sheet.

### Cash and due from banks

The fair values of due from banks with no maturity are considered to be equal to the book value since the fair values of these items approximate their book values. The fair values of due from banks with maturity are calculated using the total cash flows from principal and interest discounted by current market interest rates, taking into account the credit risk involved. This calculation is performed separately for each maturity length. In the event that the terms of due from banks are one year or less, the book values are regarded as approximate to the fair values and are therefore treated as such.

### Call loans and bills bought

The fair values of call loans and bills bought are considered to be equal to the book value since the contractual terms are one year or less and fair values of these items approximate their book values.

### Monetary claims bought

The fair values of trust beneficiary rights relating to mortgage loans purchased by the Banks and relating to loan claims are determined based on the quoted prices obtained from counterparty financial institutions. The fair values of small-lot monetary claims resulting from asset liquidations are determined by discounting the cash flows at the market interest rates, taking into account the credit risk involved.

### Securities

The fair values of stocks are calculated on the basis of the average price of the stocks on the stock market for the one-month period immediately preceding the last day of the accounting term. The fair values of bonds are calculated using the price indicated on the securities market or other officially announced prices. In the event that neither of these fair values are available, the price is based on a reasonable estimate. For investment trusts, the fair value is calculated on the basis of a publicly available benchmark price.

For privately-placed bonds guaranteed by one of the Banks, the present value is separately calculated using the present value discounted by the market interest rate where the credit risk of each bond issuer and the remaining period of the bonds are considered.

For more detailed information regarding the different types of securities classified according to holding purpose, see "6. Securities."

### Loans and bills discounted

As loans with variable interest rates reflect short-term market interest rates, the fair value will approximate the book value unless the creditworthiness of the borrower changes subsequent to the grading of the loan. Because of this, the book value is employed as the fair value.

For loans with fixed interest rates, the fair value is calculated using the total future cash flows from principal and interest discounted by current market interest rates, taking into account the credit risk involved. This calculation is performed separately for each different category of loans, classified by type of loan, internal credit ratings and maturity length. For loans whose repayment period is one year or less, the book value is a close approximation of the fair value and is therefore employed as such.

Regarding the fair value of claims on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, credit losses are estimated based on the present value of estimated future cash flows or the estimated value recoverable from collateral and guarantees. Since the fair value approximates the value stated

on the consolidated balance sheet as of the settlement date, minus the present value of estimated bad debt, this figure is treated as the fair value.

For the category of loans whose maturity is not fixed because of the loan ceiling set within the estimated value recoverable from the collateral, the book value is deemed to approximate the fair value because of the expected period for repayment and the interest rates applied. The book value is therefore employed as the fair value.

#### Deposits

For demand deposits, the amount payable on demand as of the consolidated balance sheet date (i.e., the carrying amount) is considered to be the fair value. In addition, the fair value of time deposits is calculated by discounting the estimated future cash flows for each of the specified periods. This calculation is performed separately as per the remaining maturity of time deposits. The discount rate employed is the interest rate that would be applied to newly accepted deposits. In the event that the deposit term is one year or less, the book value is deemed to approximate the fair value and is therefore treated as such.

#### Borrowed money

Borrowed money with floating interest rates reflects market interest rates and because the credit standing of the Company and its consolidated subsidiaries has changed little since taking out such loans, the book value is deemed to approximate the fair value and is therefore treated as such.

For money borrowed through loans carrying fixed rates, the current value of such loans is determined by discounting the total of their principal plus interest (separately for each specific period) at the rate currently applied to other loans of the same duration and

terms. For loans whose repayment period is one year or less, the book value is deemed to approximate the fair value and is therefore treated as such.

#### Derivative transactions

Derivative transactions include interest rate-related transactions (futures, options, swaps and others), foreign exchange-related transactions (futures, options, swaps and others) and commodity-related transactions and are based on the prices on securities exchanges, discounted value of future cash flows, option pricing models and others.

#### (b) Financial instruments whose fair values are deemed to be extremely difficult to determine

Financial instruments whose fair values are deemed to be extremely difficult to determine are indicated below, and are not included in "Monetary claims bought" and "Available-for-sale securities" in the fair value information of financial instruments.

#### Consolidated balance sheet amounts

March 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Monetary claims bought (subordinated beneficiary rights in securitization of mortgage loans) *1	¥ 7,967	¥ 8,132	\$ 70,708
Unlisted stocks *1,2	27,849	30,193	247,158
Unlisted foreign securities *1	0	0	3
Total	¥35,817	¥38,326	\$317,869

\*1. These items are excluded from "fair value information of financial instruments" on the basis that no market price is available and a determination of the fair value would be extremely difficult.

\*2. Unlisted stocks were written down by ¥747 million (\$6,637 thousand) and ¥32 million as of March 31, 2016 and 2015, respectively.

## (6) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2016	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks	¥1,114,007	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	65,016	—	—	—	—
Monetary claims bought	1,805	—	2,168	5,000	44,697
Securities	322,507	523,656	756,168	205,169	240,868
Bonds classified as held-to-maturity	20,516	47,868	41,870	6,403	60,970
Japanese government bonds	2,500	3,000	3,520	1,000	60,500
Japanese corporate bonds	18,016	44,868	38,350	5,403	470
Available-for-sale securities with maturities	301,991	475,788	714,298	198,766	179,898
Japanese government bonds	205,300	293,600	425,800	156,500	3,000
Japanese local government bonds	35,609	88,903	153,767	12,722	32,187
Japanese corporate bonds	38,706	40,067	37,482	11,148	58,223
Other	22,376	53,217	97,248	18,394	86,487
Loans and bills discounted	2,221,245	1,408,001	1,016,797	666,858	2,090,621
Total	¥3,724,582	¥1,931,657	¥1,775,133	¥877,028	¥2,376,187

March 31, 2015	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks .....	¥1,083,655	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought .....	94,599	—	—	—	—
Monetary claims bought .....	1,778	—	400	7,210	54,788
Securities .....	289,325	619,632	682,734	351,873	226,172
Bonds classified as held-to-maturity .....	17,396	37,700	35,823	5,784	61,815
Japanese government bonds .....	1,520	3,500	3,000	2,520	61,500
Japanese corporate bonds .....	15,876	34,200	32,823	3,264	315
Available-for-sale securities with maturities .....	271,929	581,932	646,911	346,089	164,357
Japanese government bonds .....	93,600	375,900	364,900	288,400	55,000
Japanese local government bonds .....	100,258	87,450	145,177	36,839	19,335
Japanese corporate bonds .....	60,830	66,856	36,630	10,882	64,852
Other .....	17,239	51,725	100,202	9,966	25,169
Loans and bills discounted .....	2,210,851	1,473,159	973,098	649,796	2,047,566
<b>Total .....</b>	<b>¥3,680,210</b>	<b>¥2,092,792</b>	<b>¥1,656,233</b>	<b>¥1,008,879</b>	<b>¥2,328,526</b>

March 31, 2016	Thousands of U.S. dollars				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks .....	\$ 9,886,469	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought .....	577,000	—	—	—	—
Monetary claims bought .....	16,024	—	19,241	44,373	396,680
Securities .....	2,862,157	4,647,289	6,710,761	1,820,815	2,137,633
Bonds classified as held-to-maturity .....	182,074	424,814	371,583	56,825	541,090
Japanese government bonds .....	22,187	26,624	31,239	8,875	536,919
Japanese corporate bonds .....	159,887	398,190	340,344	47,950	4,171
Available-for-sale securities with maturities .....	2,680,083	4,222,475	6,339,178	1,763,990	1,596,543
Japanese government bonds .....	1,821,974	2,605,612	3,778,843	1,388,889	26,624
Japanese local government bonds .....	316,019	788,991	1,364,642	112,912	285,650
Japanese corporate bonds .....	343,507	355,583	332,641	98,943	516,717
Other .....	198,583	472,289	863,052	163,246	767,552
Loans and bills discounted .....	19,712,861	12,495,572	9,023,760	5,918,166	18,553,615
<b>Total .....</b>	<b>\$33,054,511</b>	<b>\$17,142,861</b>	<b>\$15,753,762</b>	<b>\$7,783,354</b>	<b>\$21,087,928</b>

#### Loans and bills discounted

Claims on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers amounted to ¥149,192 million (\$1,324,034 thousand) and ¥159,752 million as of March 31, 2016 and 2015, respectively, and loans with no contractual maturities amounted to ¥30,238 million (\$268,359 thousand) and ¥32,594 million as of March 31, 2016 and 2015, respectively. They are not included in the table above.

#### (7) Maturity analysis for financial liabilities with contractual maturities

March 31, 2016	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Deposits .....	¥9,281,807	¥990,188	¥194,798	¥ 3,491	¥ 5,131
Borrowed money .....	13,145	1,419	152,917	24,769	15,000
<b>Total .....</b>	<b>¥9,294,952</b>	<b>¥991,608</b>	<b>¥347,716</b>	<b>¥28,261</b>	<b>¥20,131</b>

March 31, 2015	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Deposits .....	¥9,363,586	¥1,064,416	¥191,418	¥ 3,124	¥ 5,202
Borrowed money .....	24,156	703	30,320	55,500	15,000
<b>Total .....</b>	<b>¥9,387,743</b>	<b>¥1,065,119</b>	<b>¥221,738</b>	<b>¥58,624</b>	<b>¥20,202</b>

March 31, 2016	Thousands of U.S. dollars				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Deposits .....	\$82,373,155	\$8,787,618	\$1,728,774	\$ 30,989	\$ 45,537
Borrowed money .....	116,661	12,599	1,357,099	219,825	133,120
<b>Total .....</b>	<b>\$82,489,816</b>	<b>\$8,800,217</b>	<b>\$3,085,873</b>	<b>\$250,814</b>	<b>\$178,657</b>

#### Deposits

Demand deposits are included in "Due in 1 year or less."

### 31. Derivatives

#### (1) Derivative transactions to which hedge accounting is not applied

With respect to derivatives to which hedge accounting is not applied, notional principal or contract amount, fair value at the balance sheet date by transaction type and related unrealized gain or loss and computation method of fair value are as follows. Note that contract amounts do not represent the market risk exposure of derivative transactions.

##### • Interest Rate-Related Transactions

March 31, 2016	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating .....	¥285,172	¥262,613	¥8,882	¥8,882
Receive/floating and pay/fixed .....	284,072	262,014	(6,429)	(6,429)
Options/sell .....	106,409	67,300	(1,516)	(705)
Options/buy .....	106,579	67,831	1,513	1,513
Others/sell .....	70	—	(0)	4
Others/buy .....	—	—	—	—
Total .....	/	/	¥2,450	¥3,265

March 31, 2015	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating .....	¥367,101	¥339,965	¥6,609	¥6,609
Receive/floating and pay/fixed .....	370,082	339,563	(3,830)	(3,830)
Options/sell .....	194,848	91,382	(1,239)	336
Options/buy .....	198,575	91,951	1,258	1,258
Others/sell .....	427	90	(0)	45
Others/buy .....	2	—	0	(4)
Total .....	/	/	¥2,798	¥4,414

March 31, 2016	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating .....	\$2,530,818	\$2,330,610	\$78,833	\$78,833
Receive/floating and pay/fixed .....	2,521,057	2,325,300	(57,059)	(57,059)
Options/sell .....	944,347	597,267	(13,461)	(6,264)
Options/buy .....	945,856	601,980	13,433	13,433
Others/sell .....	622	—	(0)	37
Others/buy .....	—	—	—	—
Total .....	/	/	\$21,746	\$28,980

Notes: 1. The above transactions are stated at fair value and unrealized gain or loss is charged to income or expenses in the consolidated statement of income.  
2. The fair value is determined using the discounted value of future cash flows, option pricing models, etc.

##### • Foreign Exchange-Related Transactions

March 31, 2016	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Forward contracts/sell .....	¥ 42	¥ 21	¥ 0	¥ 0
Forward contracts/buy .....	116,275	221	4,404	4,404
Options/sell .....	58,960	18	(257)	(257)
Options/buy .....	134,150	71,252	(4,725)	8,429
Total .....	/	/	¥4,147	¥5,366



March 31, 2015	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps.....	¥ 1,074	¥ 43	¥ 2	¥ 2
Forward contracts/sell.....	68,228	—	(1,221)	(1,221)
Forward contracts/buy.....	12,738	28	117	117
Options/sell.....	175,151	109,574	(6,898)	9,620
Options/buy.....	175,151	109,574	6,898	(7,997)
Total.....	/	/	¥(1,101)	¥ 521

March 31, 2016	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps.....	\$ 376	\$ 188	\$ 8	\$ 8
Forward contracts/sell.....	1,031,912	1,970	39,086	39,086
Forward contracts/buy.....	523,257	166	(2,290)	(2,290)
Options/sell.....	1,190,544	632,346	(41,936)	74,809
Options/buy.....	1,190,544	632,346	41,936	(63,985)
Total.....	/	/	\$36,804	\$47,628

Notes: 1. The above transactions are stated at fair value and unrealized gain or loss is charged to income or expenses in the consolidated statement of income.  
2. The fair value is determined using the discounted value of future cash flows.

- Commodity Related Transactions

March 31, 2016	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixd and pay/floating.....	¥652	¥615	¥82	¥82
Receive/floating and pay/fixd.....	652	615	(40)	(40)
Total.....	/	/	¥42	¥42

March 31, 2015	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixd and pay/floating.....	¥340	¥295	¥(13)	¥(13)
Receive/floating and pay/fixd.....	340	295	30	30
Total.....	/	/	¥17	¥17

March 31, 2016	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixd and pay/floating.....	\$5,791	\$5,465	\$735	\$735
Receive/floating and pay/fixd.....	5,791	5,465	(358)	(358)
Total.....	/	/	\$377	\$377

Notes: 1. The above transactions are stated at fair value and unrealized gain or loss is charged to income or expenses in the consolidated statement of income.  
2. The fair value is determined using the price of the underlying asset, terms of contract and other factors which structure the contract.  
3. The above derivative transactions consist of those for oil, copper, aluminum, etc.

## (2) Derivative transactions to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, notional principal or contract amount and fair value at the balance sheet date by transaction type and hedge accounting method and computation method of the fair value are as follows. Note that contract amounts do not represent the market risk exposure of derivative transactions.

### • Interest Rate-Related Transactions

March 31, 2016			Millions of yen		
			Notional principal or contract amount		Fair value
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	
Accounting method employed in principle	Swaps	Yen-based bond			
		Receive/floating and pay/fixed	¥55,000	¥55,000	¥(2,445)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
		Receive/floating and pay/fixed	716	716	(Note)
Total.....			/	/	¥(2,445)

March 31, 2015			Millions of yen		
			Notional principal or contract amount		Fair value
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	
Accounting method employed in principle	Swaps	Yen-based bond			
		Receive/floating and pay/fixed	¥55,000	¥55,000	¥(1,200)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
		Receive/floating and pay/fixed	5,061	773	(Note)
Total.....			/	/	¥(1,200)

March 31, 2016			Thousands of U.S. dollars		
			Notional principal or contract amount		Fair value
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	
Accounting method employed in principle	Swaps	Yen-based bond			
		Receive/floating and pay/fixed	\$488,108	\$488,108	\$(21,701)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
		Receive/floating and pay/fixed	6,362	6,362	(Note)
Total.....			/	/	\$(21,701)

Notes: 1. Deferred hedge accounting is mainly applied in accordance with JICPA Industry Audit Committee Report No. 24.

2. The fair value is determined using the discounted value of future cash flows, option pricing models, etc.

3. Amounts resulting from interest swaps with exceptional treatment are accounted for together with the financial instruments hedged. As a result, the fair value is included in the fair value of the loans stated in "30. Financial Instruments and Related Disclosures."

### • Foreign Exchange-Related Transactions

March 31, 2016			Millions of yen		
			Notional principal or contract amount		Fair value
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	¥36,241	¥32,701	¥1,732
		Forward contracts	49,898	—	2,497
Total.....			/	/	¥4,229

March 31, 2015			Millions of yen		
			Notional principal or contract amount		Fair value
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	¥14,781	¥14,652	¥(1,296)
		Forward contracts	76,601	—	(2,052)
Total.....			/	/	¥(3,348)

March 31, 2016			Thousands of U.S. dollars		
			Notional principal or contract amount		Fair value
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	\$321,632	\$290,217	\$15,374
		Forward contracts	442,830	—	22,162
Total.....			/	/	\$37,536

Notes: 1. Deferred hedge accounting is mainly applied in accordance with JICPA Industry Audit Committee Report No. 25.

2. The fair value is determined using the discounted value of future cash flows.

### 32. Segment Information

An entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

#### (1) Outline of reportable segments

A reportable segment is defined as an operating segment for which discrete financial information is available and examined by the Board of Directors and Management Committees regularly in order to make decisions about resources to be allocated to the segment and assess its performance.

The Group comprehensively conducts banking business as its core business and other financial services under the control of the Company.

The Company recognized each of its consolidated subsidiaries as an operating segment. Therefore, Hokuriku Bank and Hokkaido Bank are reportable segments.

#### (2) Method of calculating ordinary income, profit (loss), assets, liabilities and other amounts by reportable segments

The method of calculation applied to the reportable segments is the same as that described in "Significant Accounting Policies." Profits of reportable segments are the same as net income. Ordinary income from intersegment transactions is based on transaction prices determined in the same manner as ordinary income from outside customers.

#### (3) Information on ordinary income, profit (loss), assets, liabilities and other amounts by reportable segments

Segment results for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen						
	Reportable segments			Other segment	Total	Reconciliation	Consolidated
	Hokuriku Bank	Hokkaido Bank	Subtotal				
	2016						
Ordinary income							
Ordinary income from outside customers.....	¥ 92,357	¥ 84,791	¥ 177,149	¥17,045	¥ 194,194	¥ (1,610)	¥ 192,584
Ordinary income from intersegment transactions .....	1,029	738	1,768	4,578	6,347	(6,347)	—
Total.....	93,387	85,530	178,917	21,624	200,542	(7,957)	192,584
Segment profit.....	16,503	13,442	29,945	1,715	31,660	(2,822)	28,837
Segment assets.....	6,880,493	4,701,456	11,581,950	82,335	11,664,285	(33,957)	11,630,328
Segment liabilities.....	¥6,547,563	¥4,497,657	¥11,045,220	¥64,943	¥11,110,163	¥(46,087)	¥11,064,076
Others							
Depreciation .....	¥ 4,587	¥ 3,479	¥ 8,066	¥ 263	¥ 8,330	¥ 0	¥ 8,330
Amortization of goodwill .....	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill.....	—	—	—	—	—	17,694	17,694
Increase in tangible fixed assets and intangible fixed assets .....	¥ 3,600	¥ 3,018	¥ 6,619	¥ 158	¥ 6,777	¥ 0	¥ 6,778
	Millions of yen						
	Reportable segments			Other segment	Total	Reconciliation	Consolidated
	Hokuriku Bank	Hokkaido Bank	Subtotal				
	2015						
Ordinary income							
Ordinary income from outside customers.....	¥ 92,974	¥ 84,477	¥ 177,452	¥16,479	¥ 193,932	¥ 4	¥ 193,936
Ordinary income from intersegment transactions .....	1,073	932	2,005	4,993	6,998	(6,998)	—
Total.....	94,047	85,410	179,458	21,472	200,930	(6,993)	193,936
Segment profit.....	14,680	13,573	28,253	2,858	31,111	(2,876)	28,235
Segment assets.....	6,712,709	4,915,851	11,628,561	79,609	11,708,171	(25,170)	11,683,001
Segment liabilities.....	¥6,386,844	¥4,709,393	¥11,096,238	¥63,447	¥11,159,685	¥(49,671)	¥11,110,014
Others							
Depreciation .....	¥ 4,515	¥ 3,480	¥ 7,995	¥ 274	¥ 8,269	¥ 20	¥ 8,290
Amortization of goodwill .....	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill.....	—	—	—	—	—	19,796	19,796
Increase in tangible fixed assets and intangible fixed assets .....	¥ 3,567	¥ 1,493	¥ 5,061	¥ 212	¥ 5,273	¥ 4	¥ 5,278

	Thousands of U.S. dollars						
	2016			Other segment	Total	Reconciliation	Consolidated
	Reportable segments						
	Hokuriku Bank	Hokkaido Bank	Subtotal				
Ordinary income							
Ordinary income from outside customers.....	\$ 819,647	\$ 752,499	\$ 1,572,146	\$151,273	\$ 1,723,419	\$ (14,294)	\$ 1,709,125
Ordinary income from intersegment transactions .....	9,140	6,554	15,694	40,635	56,329	(56,329)	—
Total.....	828,787	759,053	1,587,840	191,908	1,779,748	(70,623)	1,709,125
Segment profit.....	146,461	119,296	265,757	15,221	280,978	(25,051)	255,927
Segment assets.....	61,062,245	41,723,967	102,786,212	730,702	103,516,914	(301,361)	103,215,553
Segment liabilities.....	\$58,107,588	\$39,915,311	\$ 98,022,899	\$576,354	\$ 98,599,253	\$ (409,009)	\$ 98,190,244
Others							
Depreciation .....	\$ 40,713	\$ 30,878	\$ 71,591	\$ 2,340	\$ 73,931	\$ 3	\$ 73,934
Amortization of goodwill .....	—	—	—	—	—	18,657	18,657
Unamortized balance of goodwill.....	—	—	—	—	—	157,029	157,029
Increase in tangible fixed assets and intangible fixed assets .....	\$ 31,955	\$ 26,789	\$ 58,744	\$ 1,405	\$ 60,149	\$ 4	\$ 60,153

#### (4) Information about services

Year ended March 31, 2016	Millions of yen			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from outside customers.....	¥109,881	¥40,133	¥42,568	¥192,584
Year ended March 31, 2015				
Ordinary income from outside customers.....	¥113,558	¥38,777	¥41,601	¥193,936
Year ended March 31, 2016				
Ordinary income from outside customers.....	\$975,168	\$356,174	\$377,783	\$1,709,125

#### (5) Geographic segment information

There is no geographic segment accounting for 10% or more of ordinary income and tangible fixed assets.

#### (6) Information by major customer

There are no major customers individually accounting for 10% or more of ordinary income.

### 33. Related Party Transactions

Related party transactions as of March 31, 2016 and 2015 were as follows:

- Officers and principal individual shareholders of the company submitting consolidated financial statements

#### March 31, 2016

Related party	Account Classification	Transaction amount *3		Balance at end of year	
		Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Nakamura-tome Precision Industry co., Ltd. *2	Loans and bills discounted	¥950	\$8,431	¥950	\$8,431
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥783	\$6,949	¥783	\$6,949

#### March 31, 2015

Related party	Account Classification	Transaction amount *3		Balance at end of year	
		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Nakamura-tome Precision Industry co., Ltd. *2	Loans and bills discounted	¥950	¥950	¥950	¥950
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥783	¥783	¥783	¥783

Notes: 1. Terms and conditions of the transactions are similar to those with unrelated parties.

2. A member of the Hokuriku Bank's audit & supervisory board and his close relatives own the majority of the voting rights, and he is the president of these companies.

3. Transaction amount was reported at the average balance for the period.

### 34. Subsequent Events

#### (1) Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2016 were approved at the Company's general shareholders' meeting held on June 24, 2016:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.25 (\$0.04) per share of common stock .....	¥5,695	\$50,548
Cash dividends, ¥7.50 (\$0.07) per share of preferred stock (Type 5).....	805	7,151

#### (2) Consolidation of shares, change in the number of shares constituting one unit of stock and partial amendments to the articles of incorporation

The Company resolved at the Board of Directors' meeting held on May 11, 2016 to submit a proposal of partial amendment to the articles of incorporation for the consolidation of shares and revision of the number of shares per trading unit, and the proposal will be approved by resolution at the 13th Ordinary General Meeting of Shareholders held on June 24, 2016.

##### (a) Consolidation of shares and change the number of shares

###### *Reason for consolidation of shares and change the number of shares constituting one unit of stock*

The Japanese stock exchanges announced the "Action Plan for Consolidating Trading Units" and are pursuing the goal of consolidation of the trading units of listed companies at 100 shares. Keeping this action plan in mind, the Company proposes to change the number of shares per trading unit from 1,000 to 100 shares and consolidate its shares by a factor of 10 to 1 in order to fit the standard of the investment unit (¥50,000 or more and less than ¥500,000) that would be considered desirable by the Japanese stock exchanges.

###### *Details of the consolidation of shares*

Type of shares to be consolidated: Common stocks

###### *Method and rate of the consolidation of shares*

The Company shall consolidate the shares on October 1, 2016 by a factor of 10 to 1 based on the shareholders registered on September 30, 2016.

###### *Decrease in the number of common stocks due to the consolidation of shares*

Number of common stocks issued before the consolidation of shares (As of March 31, 2016)	1,351,630,146
Number of common stocks to be decreased by the consolidation of shares	1,216,467,132
Number of common stocks issued after the consolidation of shares	135,163,014

Note: Number of common stocks to be decreased by the consolidation of shares and number of common stocks issued after the consolidation of shares are the theoretical values calculated from the rate of the consolidation of shares.

###### *Processing for a fraction of less than 1 share*

If a fraction of less than one share is created due to the consolidation of shares, such fractional shares will be sold together pursuant to the provisions of the Companies Act, and the proceeds will be distributed to shareholders who held the fractional shares in proportion to the number of fractional shares they held.

###### *Details of the change in the number of shares*

With the effectuation of the consolidation of shares, the Company will change the number of shares per trading unit of common stock from 1,000 shares to 100 shares with respect to ordinary shares.

##### (b) Partial amendments to the articles of incorporation

###### *Change in the number of shares*

The Company will change the number of shares per trading unit of common stock from 1,000 shares to 100 shares with respect to ordinary shares on October 1, 2016.

###### *Deletion of statements related to preferred stocks*

Since there are no outstanding shares and the Company has no plan to newly issue shares for Type 1, Type 2, Type 3 and Type 4 preferred stocks, the Company proposes to delete statements related to Type 1, Type 2, Type 3 and Type 4 preferred stocks. The Company also proposes to delete other unnecessary statements and modify article numbers as required.

###### *Change in the number of shares of authorized common stocks and preferred stocks*

The number of shares of authorized common stocks and preferred stocks after the consolidation of shares and the deleted statements related to preferred stocks on October 1, 2016 is as follows:

	As of March 31, 2016	As of October 1, 2016
Common	2,800,000,000	280,000,000
Preferred (Type 1)	400,000,000	—
Preferred (Type 2)	200,000,000	—
Preferred (Type 3)	200,000,000	—
Preferred (Type 4)	90,000,000	—
Preferred (Type 5)	110,000,000	110,000,000

(c) Schedule

Resolution of the Board of Directors' meeting	May 11, 2016
Resolution of the Ordinary General Meeting of Shareholders	June 24, 2016
Effective date of the consolidation of shares	October 1, 2016
Effective date of the change the number of shares per trading unit	October 1, 2016
Effective date of the partial amendments to the articles of incorporation	October 1, 2016

(d) Impact on per share information

Per share information for the fiscal years ended March 31, 2016 and 2015 is as follows, assuming that the shares were consolidated as such at the beginning of the fiscal year ended March 31, 2015.

	Year ended March 31, 2016	Year ended March 31, 2015
Net assets per share of common stock .....	¥3,806.14	¥3,858.37
Net income per share of common stock (Basic).....	¥ 203.19	¥ 198.72
Net income per share of common stock (Diluted) .....	¥ 202.93	¥ 198.49

# INDEPENDENT AUDITOR'S REPORT

# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of HokuHoku Financial Group, Inc.:

We have audited the accompanying consolidated balance sheet of HokuHoku Financial Group, Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*  
June 20, 2016

Member of  
Deloitte Touche Tohmatsu Limited

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokuriku Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Assets</b>			
Cash and due from banks .....	¥ 892,747	¥ 790,579	\$ 7,922,855
Call loans and bills bought .....	65,016	84,599	577,000
Monetary claims bought .....	62,034	72,522	550,533
Trading assets .....	2,206	2,475	19,583
Securities .....	1,343,914	1,275,498	11,926,819
Loans and bills discounted .....	4,383,442	4,365,302	38,901,695
Foreign exchanges .....	8,850	9,133	78,548
Other assets .....	25,652	17,690	227,656
Tangible fixed assets .....	77,219	78,109	685,302
Intangible fixed assets .....	3,278	4,340	29,098
Customers' liabilities for acceptances and guarantees .....	35,074	35,080	311,280
Allowance for loan losses .....	(18,944)	(22,622)	(168,124)
<b>Total assets</b> .....	<b>¥6,880,493</b>	<b>¥6,712,709</b>	<b>\$61,062,245</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits .....	¥6,117,671	¥6,076,043	\$54,292,432
Call money and bills sold .....	20,845	58,454	185,000
Payables under securities lending transactions .....	92,954	27,809	824,946
Trading liabilities .....	1,129	1,184	10,021
Borrowed money .....	200,758	114,185	1,781,669
Foreign exchanges .....	175	111	1,555
Other liabilities .....	55,431	52,981	491,933
Reserve for employee retirement benefits .....	1,924	1,616	17,076
Reserve for directors' and audit & supervisory board members' retirement benefits....	57	57	513
Reserve for contingent losses .....	1,393	1,344	12,370
Reserve for reimbursement of deposits .....	965	909	8,567
Deferred tax liabilities .....	13,456	11,000	119,425
Deferred tax liabilities for land revaluation .....	5,724	6,064	50,801
Acceptances and guarantees .....	35,074	35,080	311,280
<b>Total liabilities</b> .....	<b>6,547,563</b>	<b>6,386,844</b>	<b>58,107,588</b>
<b>Equity</b>			
Capital stock .....	140,409	140,409	1,246,091
Capital surplus .....	14,998	14,998	133,110
Retained earnings .....	100,974	89,459	896,119
Valuation and translation adjustments .....			
Valuation difference on available-for-sale securities .....	69,064	73,340	612,928
Deferred gains (losses) on hedges .....	(1,596)	(845)	(14,170)
Revaluation reserve for land .....	9,079	8,502	80,579
<b>Total equity</b> .....	<b>332,930</b>	<b>325,865</b>	<b>2,954,657</b>
<b>Total liabilities and equity</b> .....	<b>¥6,880,493</b>	<b>¥6,712,709</b>	<b>\$61,062,245</b>



# NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokuriku Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥52,717	¥54,858	\$467,851
Interest and dividends on securities .....	13,827	12,327	122,712
Interest on deposits with other banks .....	824	842	7,317
Other interest income .....	732	674	6,504
Fees and commissions .....	17,493	17,695	155,253
Trading income.....	166	230	1,480
Other ordinary income .....	1,516	5,209	13,463
Other income.....	6,108	2,236	54,210
Total income.....	93,388	94,073	828,790
<b>Expenses</b>			
Interest expenses:			
Interest on deposits .....	2,094	2,509	18,587
Interest on payables under securities lending transactions.....	342	42	3,044
Interest on borrowings and rediscounts .....	1,110	1,285	9,855
Other interest expenses.....	1,079	797	9,578
Fees and commissions .....	6,868	7,124	60,954
Other ordinary expenses.....	15	—	139
General and administrative expenses.....	51,342	55,251	455,648
Provision of allowance for loan losses .....	—	1,350	—
Other expenses .....	4,631	2,287	41,099
Total expenses .....	67,484	70,648	598,904
Income before income taxes.....	25,903	23,425	229,886
Income taxes:			
Current .....	4,601	1,747	40,835
Deferred .....	4,799	6,997	42,590
<b>Net income.....</b>	<b>¥16,503</b>	<b>¥14,680</b>	<b>\$146,461</b>

## NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokkaido Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Assets</b>			
Cash and due from banks .....	¥ 342,340	¥ 418,619	\$ 3,038,169
Call loans and bills bought .....	—	10,000	—
Trading account securities .....	2,424	2,032	21,517
Money held in trust .....	8,344	7,947	74,058
Securities .....	1,051,981	1,205,913	9,336,010
Loans and bills discounted .....	3,216,184	3,196,487	28,542,643
Foreign exchanges .....	5,920	5,400	52,544
Other assets .....	39,630	33,537	351,709
Tangible fixed assets .....	29,144	28,948	258,652
Intangible fixed assets .....	2,742	3,696	24,340
Deferred tax assets .....	7,084	2,214	62,871
Customers' liabilities for acceptances and guarantees .....	22,955	24,611	203,721
Allowance for loan losses .....	(27,298)	(23,557)	(242,267)
<b>Total assets</b> .....	<b>¥4,701,456</b>	<b>¥4,915,851</b>	<b>\$41,723,967</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits .....	¥4,384,929	¥4,575,314	\$38,914,886
Borrowed money .....	37,704	52,884	334,614
Foreign exchanges .....	51	67	459
Other liabilities .....	42,801	45,512	379,851
Reserve for employee retirement benefits .....	8,092	9,810	71,819
Reserve for directors' and audit & supervisory board members' retirement benefits. ...	104	108	929
Reserve for contingent losses .....	563	626	5,000
Reserve for reimbursement of deposits .....	454	457	4,032
Acceptances and guarantees .....	22,955	24,611	203,721
<b>Total liabilities</b> .....	<b>4,497,657</b>	<b>4,709,393</b>	<b>39,915,311</b>
<b>Equity</b>			
Capital stock .....	93,524	93,524	829,997
Capital surplus .....	16,795	16,795	149,051
Retained earnings .....	74,838	64,613	664,167
Valuation and translation adjustments .....			
Valuation difference on available-for-sale securities .....	18,641	31,525	165,441
<b>Total equity</b> .....	<b>203,799</b>	<b>206,457</b>	<b>1,808,656</b>
<b>Total liabilities and equity</b> .....	<b>¥4,701,456</b>	<b>¥4,915,851</b>	<b>\$41,723,967</b>

# NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

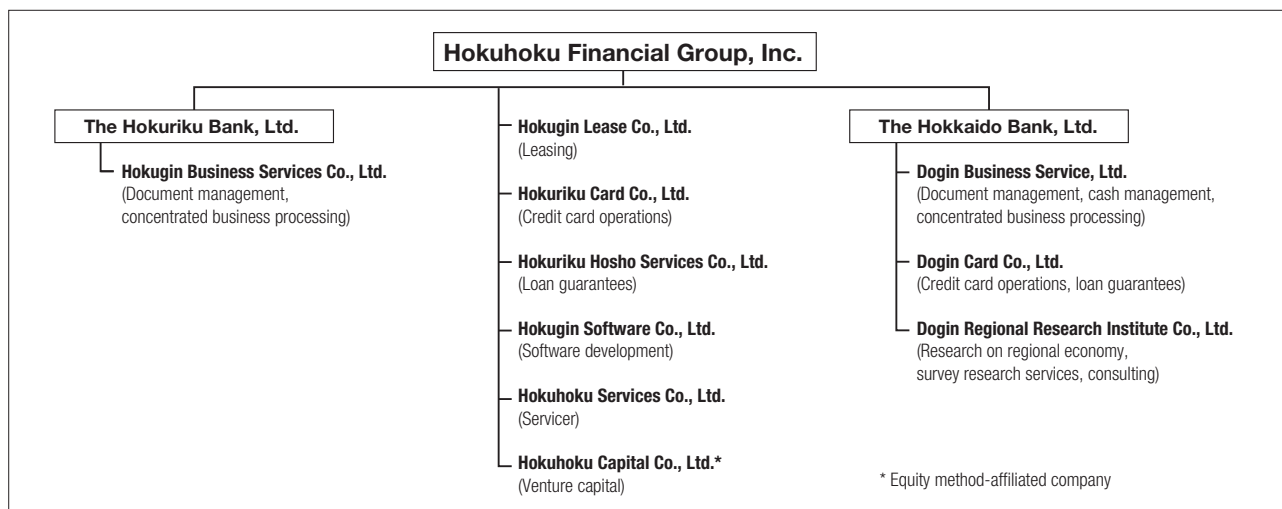
The Hokkaido Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥46,077	¥47,422	\$408,925
Interest and dividends on securities .....	13,115	12,811	116,398
Interest on receivables under resale agreements .....	—	6	—
Interest on deposits with other banks .....	313	174	2,784
Other interest income .....	164	193	1,460
Fees and commissions .....	17,496	17,622	155,274
Other ordinary income .....	1,389	1,016	12,334
Other income .....	7,731	6,261	68,612
Total income .....	86,288	85,508	765,787
<b>Expenses</b>			
Interest expenses:			
Interest on deposits .....	1,558	1,746	13,833
Interest on payables under securities lending transactions .....	125	—	1,111
Interest on borrowings and rediscounts .....	490	608	4,351
Interest on bonds payable .....	—	151	—
Other interest expenses .....	1	1	18
Fees and commissions .....	8,121	8,259	72,078
Other ordinary expenses .....	197	257	1,753
General and administrative expenses .....	42,785	44,746	379,710
Provision of allowance for loan losses .....	4,531	4,150	40,218
Other expenses .....	8,075	3,054	71,669
Total expenses .....	65,888	62,977	584,741
Income before income taxes .....	20,400	22,530	181,046
Income taxes:			
Current .....	5,197	6,748	46,128
Deferred .....	1,760	2,209	15,622
<b>Net income</b> .....	<b>¥13,442</b>	<b>¥13,573</b>	<b>\$119,296</b>

## Business activities

The Hokuhoku Financial Group is composed of the holding company and 11 consolidated subsidiaries and one affiliate. Our core business is banking, and we also provide a wider range of financial services including leases, credit cards, loan guarantees and venture capital. The following is a diagram of our business.

## Business diagram



## Major subsidiaries

(units: millions of yen, %)

Company name	Address	Main business activities	Established	Capital	FG's share of voting rights	Dividend
The Hokuriku Bank, Ltd.	1-2-26 Tsutsumicho-dori, Toyama City	Banking	July 31, 1943	140,409	100.00	4,713
The Hokkaido Bank, Ltd.	4-1 Odori Nishi, Chuo-ku, Sapporo City	Banking	March 5, 1951	93,524	100.00	3,217
Hokugin Lease Co., Ltd.	2-21 Aramachi, Toyama City	Leasing	July 21, 1983	100	70.25	—
Hokuriku Card Co., Ltd.	1-2-1 Shintomi-cho, Toyama City	Credit card operations	March 2, 1983	36	87.39	3
Hokuriku Hosho Services Co., Ltd.	1-2-26 Tsutsumicho-dori, Toyama City	Loan guarantees	December 12, 1978	50	100.00	—
Hokugin Software Co., Ltd.	1-5-25 Higashidenjigata, Toyama City	Software development	May 1, 1986	30	100.00	—
Hokuhoku Services Co., Ltd.	1-6-8 Chuo-dori, Toyama City	Servicer	December 5, 2003	500	100.00	—
Hokugin Business Services Co., Ltd.	1883 Hiyodorijima, Toyama City	Document management, concentrated business processing	March 25, 1953	30	(100.00)	—
Dogin Business Service, Ltd.	4-1 Odori Nishi, Chuo-ku, Sapporo City	Document management, cash management, concentrated business processing	June 8, 1979	50	(100.00)	—
Dogin Card Co., Ltd.	2-2-14 Chuo-ku Minami, Sapporo City	Credit card operations, loan guarantees	June 13, 1977	120	(100.00)	—
Dogin Regional Research Institute Co., Ltd.	Dogin Annex Building, 4-1 Odori Nishi, Chuo-ku, Sapporo City	Research on regional economy, survey research services, consulting	August 8, 2002	100	(100.00)	—
Hokuhoku Capital Co., Ltd.	1-6-8 Chuo-dori, Toyama City	Venture capital	January 11, 1985	250	5.00 (38.75)	—

( ) Indicates voting rights involving shares held by subsidiaries

# OUTLINE OF SUBSIDIARIES - THE HOKURIKU BANK, LTD.

## The Hokuriku Bank, Ltd.

<http://www.hokugin.co.jp/>

### Establishment

The Hokuriku Bank has its origins as the Kanazawa 12th National Bank, which was established on August 26, 1877, with the House of Kaga-Maeda providing 70% of the capital. The bank was the creation of the family established by Maeda Toshiie, the founder of the Kaga clan. The bank celebrated its 139<sup>th</sup> anniversary this year.

Since its founding, the bank has worked hand-in-hand with customers in the region, and grown into a bank with a wide branch network covering Hokuriku, Hokkaido, as well as Japan's three major metropolitan areas. Based on the bank's management philosophy of "Prospering Together with the Region," "Fair & Steady Management" and "Progressive & Innovative Services," Hokuriku Bank draws fully on its management resources to provide high-quality comprehensive financial services, aiming to become the bank preferred and relied on by local communities.

### Company outline (as of March 31, 2016)

Company name:	The Hokuriku Bank, Ltd.
Business:	Banking
Incorporation:	July 31, 1943 (founded in 1877)
Location of headquarters:	1-2-26 Tsutsumicho-dori, Toyama City, Toyama
Total assets:	¥6,880.4 billion
Deposits (including NCDs):	¥6,117.6 billion
Loans and bills discounted:	¥4,383.4 billion
Issued shares:	
Common stock:	1,047,542,335
Capital adequacy ratio (non-consolidated):	9.78%
Employees:	2,798
Branches (as of June 30, 2016)	
Domestic:	187 (145 branches, 42 sub-branches)
Overseas:	6 representative offices

### History

August 1877	Kanazawa 12th National Bank founded
February 1879	Toyama 123rd National Bank founded
January 1884	Kanazawa 12th National Bank and Toyama 123rd National Bank merged to form Toyama 12th National Bank with headquarters in Toyama City
July 1897	Toyama 12th National Bank changed name to 12th Bank
July 1943	Four banks, 12th, Takaoka, Chuetsu, and Toyama Bank, merged to form Hokuriku Bank
January 1950	Launched foreign exchange operations (first regional bank to do so)
September 1961	Listed on the Tokyo Stock Exchange
November 1961	Completed present head office
January 1971	Received blanket approval to engage in correspondent banking services
November 1973	Launched first online system
March 1974	Received blanket approval to engage in foreign exchange business
July 1978	Received blanket approval to handle yen-denominated and foreign-denominated syndicated loans
October 1979	Launched second online system
November 1981	Launched online foreign exchange system
January 1984	Launched firm banking service
May 1987	Introduced VI (visual identity)
August 1990	Launched third online system
November 1993	Launched investment trust agent operations
December 1998	Launched over-the-counter sales of securities investment trusts
June 2000	Launched Internet and mobile banking services
July 2000	Completed new computer center (Alps building)
January 2001	Launched new computer system
April 2001	Launched over-the-counter sales of casualty insurance
February 2002	Third-party allocation worth ¥39.1 billion, brought new capital to ¥140.4 billion
February 2002	Launched convenience store ATM service
October 2002	Launched over-the-counter sales of life insurance
March 2003	Took over part of the Ishikawa Bank's operations
September 2003	Established Hokugin Financial Group, Inc. through share transfer, then became a subsidiary of the Hokugin Financial Group, Inc.
September 2004	Integrated management with Hokkaido Bank, name of parent company changed to Hokuhoku Financial Group, Inc.
December 2004	Launched securities agency operations
March 2006	Entered into a contract on joint system use with Hokkaido Bank and the Bank of Yokohama
May 2011	Commenced use of joint IT system with Hokkaido Bank and the Bank of Yokohama
December 2013	The head office building was registered as a Tangible Cultural Property (structures)
October 2015	Opened an individual consulting base "Hokugin Plaza"

# OUTLINE OF SUBSIDIARIES - THE HOKKAIDO BANK, LTD.

## The Hokkaido Bank, Ltd.

<http://www.hokkaidobank.co.jp/>

### Establishment

Hokkaido Bank was established on March 5, 1951, in response to the strong demand for financing from small and medium-sized corporations in Hokkaido accompanying the sudden increase in population and development of new industries in Hokkaido during the post-war recovery period.

Based on this background, and as a bank deeply rooted in Hokkaido, Hokkaido Bank considers it its mission to contribute to regional economic growth by smoothly providing financing and quality financial services to its customers in Hokkaido. Going forward, Hokkaido Bank will never abandon the spirit with which it was created, and will continue to move forward together with its customers in Hokkaido.

### Company outline (as of March 31, 2016)

Company name:	The Hokkaido Bank, Ltd.
Business:	Banking
Incorporation:	March 5, 1951
Location of headquarters:	4-1 Odori Nishi, Chuo-ku, Sapporo City
Total assets:	¥4,701.4 billion
Deposits (including NCDs):	¥4,384.9 billion
Loans and bills discounted:	¥3,216.1 billion
Issued shares:	
Common stock:	486,634,512
Preferred stock (Type 2):	107,432,000
Capital adequacy ratio (non-consolidated):	10.23%
Employees:	2,226
Branches (as of June 30, 2016)	
Domestic:	141 (135 branches, 6 sub-branches)
Overseas:	3 representative offices

### History

March 1951	Hokkaido Bank established
April 1961	Launched foreign exchange operations
May 1962	Listed on the Sapporo Stock Exchange
August 1964	Completed present head office
June 1971	Launched first online system
July 1976	Launched second online system
December 1980	Received blanket approval to engage in correspondent banking services
April 1981	Hokkaido Small and Medium Corporation Human Resource Development Fund established
June 1986	Launched online foreign exchange system
September 1987	Listed on the first section of the Tokyo Stock Exchange
October 1990	Completed the Higashi Sapporo Dogin Building
March 1991	Established Dogin Cultural Foundation
October 1991	Launched a new foreign exchange online system
November 1991	Completed Dogin Building Annex
January 1993	Launched third online system
April 1994	Launched investment trust agent operations
December 1998	Launched over-the-counter sales of securities investment trusts
July 1999	Issued preferred stock (Type 2) (issuance amount was ¥53.716 billion)
November 1999	Launched telephone banking service
June 2000	Launched Internet mobile banking
April 2001	Launched over-the-counter sales of casualty insurance
October 2002	Launched over-the-counter sales of life insurance
December 2003	Opened Business Loan Plaza
April 2004	Launched convenience store ATM service
September 2004	Came under management of Hokugin Financial Group, Inc., parent of Hokuriku Bank; Hokuohoku Financial Group, Inc. launched
April 2005	Launched securities agency operations
March 2006	Entered into a contract on joint system use with Hokuriku Bank and the Bank of Yokohama
August 2006	Opened representative office in Shenyang, China
March 2009	Opened representative office in Yuzhno-Sakhalinsk, Russia
January 2010	Taiwan ATM/SmartPay Debit Service started
May 2011	Commenced use of joint IT system with Hokuriku Bank and the Bank of Yokohama
March 2014	Opened representative office in Vladivostok, Russia

# BOARD OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

## Hokuhoku Financial Group, Inc.

**President:**  
Eishin Ihori

**Deputy President:**  
Masahiro Sasahara

**Directors:**  
Hidenori Mugino  
Hiroyuki Yamakawa  
Takashi Nakano  
Takashi Asabayashi  
Takashi Ogura  
Yuji Oshima  
Ryoji Nakagawa

**Audit & Supervisory Board Members:**  
Junichi Inaba  
Yozo Maeizumi  
Tatsuo Kawada

## The Hokuriku Bank, Ltd.

**Chairman:**  
Hidenori Mugino

**President:**  
Eishin Ihori

**Managing Directors:**  
Yoichi Shima  
Takeshi Yoshida  
Takashi Asabayashi

**Director:**  
Takashi Ogura

**Audit & Supervisory Board Members:**  
Satoshi Kikushima  
Kenichi Nakamura  
Isao Nagahara  
Katsusuke Watanuki

## The Hokkaido Bank, Ltd.

**Chairman:**  
Yoshihiro Sekihachi

**President:**  
Masahiro Sasahara

**Deputy President:**  
Hiroyuki Yamakawa

**Senior Managing Director:**  
Toshihiro Katayama

**Managing Directors:**  
Makoto Uesugi  
Yuji Kanema

**Director:**  
Yoichi Shima

**Audit & Supervisory Board Members:**  
Hiroshi Sagayama  
Ken Ebina  
Shuji Iwamura  
Atsuhito Mito

## Addresses

**Hokuhoku Financial Group, Inc.**  
1-2-26, Tsutsumicho-dori Toyama City, Toyama 930-8637, Japan  
Telephone: +81-76-423-7331  
http://www.hokuhoku-fg.co.jp/  
E-mail: honsha2@hokuhoku-fg.co.jp

**The Hokuriku Bank, Ltd.**  
**International Department**  
1-2-26, Tsutsumicho-dori Toyama City, Toyama 930-8637, Japan  
Telephone: +81-76-423-7815  
Facsimile: +81-76-423-7561  
E-mail: kokusaibu@hokugin.co.jp

**International Operations Center**  
2-1-1, Nihonbashi-muromachi, Chuo-ku, Tokyo 103-0022, Japan  
Telephone: +81-3-3231-7329  
Facsimile: +81-3-3270-5028  
E-mail: b.office@hokugin.co.jp  
SWIFT Address: RIKBJPJT

**Treasury and Securities Department**  
2-1-1, Nihonbashi-muromachi, Chuo-ku, Tokyo 103-0022, Japan  
Telephone: +81-3-3231-7360  
Facsimile: +81-3-3246-1255  
E-mail: shikintky@hokugin.co.jp

**Overseas Offices (Hokuriku Bank)**

- New York Representative Office  
780 Third Avenue, 28th Floor, New York, NY 10017, U.S.A.  
Telephone: +1-212-355-3883  
Facsimile: +1-212-355-3204  
E-mail: newyork@hokugin.com

- Shanghai Representative Office  
Shanghai International Trade Center, 602, Yan'an West Road 2201, Changning, Shanghai 200336, P.R. of China  
Telephone: +86-21-6270-8108  
Facsimile: +86-21-6270-8338  
E-mail: shanghai@hokugin.net

- Dalian Representative Office  
7F Senmao Building, 147 Zhongshan Road, Xigang District, Dalian, Liaoning, 116011 P.R. of China  
Telephone: +86-411-3960-8018  
Facsimile: +86-411-3960-8019  
E-mail: dalian@hokugin-zg.com

- Singapore Representative Office  
6 Battery Road # 15-02 Singapore 049909  
Telephone: +65-6534-0010  
Facsimile: +65-6534-0070  
E-mail: hokuriku@singnet.com.sg

- London Representative Office  
Level 12, City Tower, 40 Basinghall Street, London EC2V 5DE UK  
Telephone: +44-20-7374-6028  
Facsimile: +44-20-7374-6055  
E-mail: london@hokugin.co.uk

- Bangkok Representative Office  
No.209, KKP Tower A, 9th Floor, Unit 2/1, Sukhumvit 21 Road (Asoke), Klongtoey Nua, Wattana Bangkok 10110, Thailand  
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Facsimile: +66-2-261-8497  
E-mail: bangkok@hokugin.asia

## The Hokkaido Bank, Ltd.

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Facsimile: +81-11-231-3133  
E-mail: sckikaku@cello.ocn.ne.jp

**Markets and International Administration Center**  
2-33, Higashisapporo 3-jo 1-chome, Shiroishi-ku, Sapporo City, Hokkaido 003-0003, Japan  
Telephone: +81-11-815-1315  
Facsimile: +81-11-815-2237  
SWIFT Address: HKDBJPJT

**Treasury and Securities Division**  
2-1-1, Nihonbashi-muromachi, Chuo-ku, Tokyo 103-0022, Japan  
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Facsimile: +81-3-3242-3588

**Overseas Offices (Hokkaido Bank)**

- Shenyang Representative Office  
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Telephone: +86-24-3185-7008  
Facsimile: +86-24-3185-7018  
E-mail: dogin\_shenyang@yahoo.co.jp

- Yuzhno-Sakhalinsk Representative Office  
18 Kommunisticheskoy Av., Office 44, Yuzhno-Sakhalinsk, 693000, Russia  
Telephone: +7-4242-45-7523  
Facsimile: +7-4242-45-7524  
E-mail: tatsuta@hbks.ru

- Vladivostok Representative Office  
Fresh Plaza, Room 613 17 Okeanskiy Pr., Vladivostok, 690091, Russia  
Telephone: +7-4232-65-8851  
Facsimile: +7-4232-65-8852  
E-mail: nakagawa@hbvl.ru

# 北北金融控股集团概要

企业名称：北北金融控股集团股份有限公司  
 设立日期：2003年9月26日  
 总行地址：富山县富山市堤町通1丁目2番26号  
 经营目的：集团伞下的子公司的经营管理，以及连带的相关业务  
 资本金：708亿9,500万日元  
 发行股份：普通股 ..... 1,351,630,146股  
           第一次第5种优先股 ..... 107,432,000股  
 上市交易所：东京证券交易所（第一部）  
               札幌证券交易所

## 简历

自从1877年北陆银行成立以来已经在北陆地区设立了广域性的经营网点。

从“北前船”或者说“北航船（北上的经济圈）”的交易关系和客户的需要出发还在北海道各个主要城市内设立了自己的经营网点。

北海道银行成立于1951年，以支援中小企业和个人业务为中心在北海道道内的各个地区都设有营业网点。

北陆银行和北海道银行于2004年9月进行了经营统合，成立了（控股公司）北北金融控股集团股份有限公司。现在，北北金融控股集团已经形成了覆盖日本北陆地区北海道以及日本三大都市圈（东京，名古屋，大阪）的巨大的地方金融网络。

2002年5月 北陆银行和北海道银行缔结了全面业务协助协议

2003年5月 北陆银行和北海道银行对经营统合取得一致意见

2003年9月 设立北银金融控股集团股份有限公司  
 北陆银行成为北银金融控股集团伞下的银行

通过股份交换实现经营统合

2004年9月 北北金融控股集团股份有限公司诞生

注：北银金融控股集团股份有限公司改名为北北金融控股集团股份有限公司。

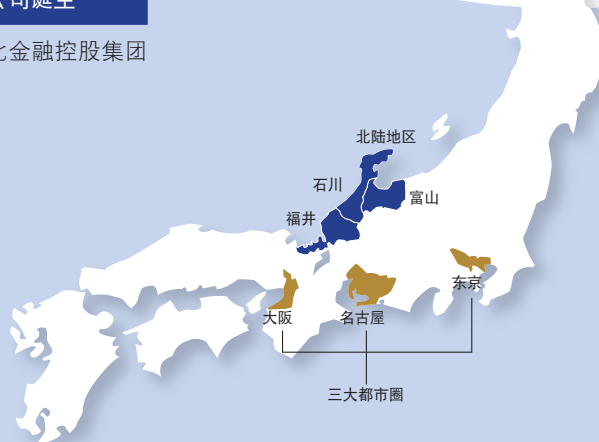
北北金融集团的经营活动范围不是限于一个地域，而是在广泛的地域内展开着。

我们广泛的营业网点分布在下面所写的地区范围里：

<b>北陆地区</b> .....	<b>150分行（或支行）</b>
富山县 .....	92分行（或支行）
石川县 .....	36分行（或支行）
福井县 .....	22分行（或支行）
<b>北海道地区</b> .....	<b>158分行（或支行）</b>
<b>三大都市圈</b> .....	<b>16分行（或支行）</b>
东京、横滨 .....	9分行（或支行）
名古屋 .....	3分行（或支行）
大阪、京都 .....	4分行（或支行）
<b>其他地区（仙台、新潟、长野、高山）</b> .....	<b>4分行（或支行）</b>
<b>海外</b> .....	<b>9代表处</b>

- 纽约代表处（北陆银行）
- 南萨哈林斯克代表处（北海道银行）
- 符拉迪沃斯托克代表处（北海道银行）
- 伦敦代表处（北陆银行）
- 新加坡代表处（北陆银行）
- 曼谷代表处（北陆银行）
- 大连代表处（北陆银行）
- 上海代表处（北陆银行）
- 沈阳代表处（北海道银行）

（2016年6月30日）







(相片左边)  
董事长  
庵 荣伸 (北陆银行 总行长)

(右边)  
董事副社长  
笹原晶博 (北海道银行 总行长)

大家好！深深感谢各位平日里对北北金融集团的特别惠顾。

在本行的主要营业区域，去年3月份开通了北陆新干线，今年3月开通了北海道新干线。两地区观光资源丰富，国内外的观光客本来就有增加趋势，加上开通新干线以后，观光客人数增长加快，让我们确信并加以期待给观光业和商业发展形成良好的循环。一方面，日本国内少子老龄化和向大城市的人口流出以及企业的海外活动意愿的增强，已经可以预见市场的继续萎缩。另一方面，与当地其他银行的竞争，加上邮政储蓄银行和网络专业银行等的业务扩大引起的竞争，负利息政策和量的缓和政策导致借贷款业务的利差缩小，以及国内债券的低利息，可以预见严峻的经营环境。

在如此经营环境下，本集团公司要对区域经济的发展提供稳定的金融服务，今年4月起，制订了以下的方针，称为新中期经营计划“BEST for the Region”。

- 第一． 致力于实现超出顾客所期待的建议能力和服务能力；强化应客户生命阶段提供相适应的各种咨询和事业性的评价，完善IT基础设施提高便捷性和功能，提供地区最强的金融服务，做到贡献于客户和区域社会，客户所信赖而且喜欢选用的地区金融集团。
- 第二． 为了本集团的持续成长，将会挑战构建兼备功能性和效率性的集团经营体制和营业体制。把管理部门和后台办公业务汇总起来追求集团经营的优越性，还力求推进满足客户需求的店铺和营业渠道，实现竞争中取胜的功能性组织，努力去保持值得信赖的稳定的财务基础。

本集团在变化的环境中自发追求变革，通过提供扎根于地域的金融服务，担当起“地方再生”的一部分重任。努力实现“和区域共同成长，共同发展的金融集团”的目标。今后请继续予以支持和惠顾。

董事长

庵 荣伸

庵 荣伸

2016年7月

## 中期经营计划

本公司集团从2016年度开始制定了为期3年的中期经营计划。

前中期经营计划中，由于持续的低利率，虽然贷款利息低于了计划，不过，由于筹措成本的减少以及有价证券运用的多样化，另外由于有经费削减成效，以本期净利润为主的所有计数目标都得以达成。

当前，由于2月份开始了史上第一次的负利率政策，因此，正在面临着以国债为中心的有价证券的操作艰难以及贷款收益率的降低等问题。从长期观点来看，所在营业区域的人口减少和老龄化进展问题，依然是一个巨大的课题。

新中期经营计划“BEST for the Region”里，在这样的环境下，为了支援地方经济，我们将进一步追求商业模式的变革和集团的协同效应。在发挥广域网优势的同时，通过构建高效的集团经营体制，努力为地域提供最强的金融服务，通过为客户和地域社会做贡献来担负“地方再生”的任务，目标做到与地域共同发展和成长的金融集团。

### 计划的概要

名称	中期经营计划 “BEST for the Region”
期间	3年(2016年4月~2019年3月)
定位	为了在预期的环境变化中支援地域经济,进一步追求商业模式的变革和集团的协同效果的期间
目标姿态	通过向地域提供最强的金融服务,为客户和地域社会做贡献来担负“地方再生”的任务,成为与地域共同发展和成长的金融集团。
基本方针	① 营业力的强化 ~超出顾客期望的建议能力、服务能力的实现 ② 经营的效率化 ~在竞争中胜出的功能性组织的追求 ③ 经营基础的坚韧化~为地域信赖的稳定的财务基础的构建

### 前中期经营计划的达成状况(2家银行合算·联结)

	2016年3月期 (目标)	2016年3月期 (业绩)
总存款平均余额	10兆1,100亿日元	10兆6,389亿日元
贷款平均余额	7兆4,800亿日元	7兆5,457亿日元
主营业务净利润	470亿日元	520亿日元
归属于母公司股东的净利润	185亿日元	288亿日元
OHR (以主营业务毛利润为基础)	67%	63.57%
联结资本充足率	10%以上	10.30%
不良债权比率	约2%	2.15%

### 新中期经营计划中作为目标的计数(2家银行合算·联结)

	2019年3月期 (目标)
存款平均余额	10兆5,600亿日元
贷款平均余额	7兆7,600亿日元
主营业务净利润	415亿日元
归属于母公司股东的净利润	230亿日元
OHR (以主营业务毛利润为基础)	69.14%
联结资本充足率	9.55%

## 根据计划基本方针对策的展开

### 营业力的强化 ～超出顾客期望的建议能力、服务能力的实现

#### (1) 致力于个人市场

- ① 通过致力于针对资产形成层和资产运用层的生命阶段的建议和以遗产为首的针对资产继承支援，为地域客户提供有用的信息和相关商品以及服务的向导。
- ② 为了让更多的客户选择，通过提高贷款的商品性和便利性以及强化宣传来对应各种各样的借款需求。
- ③ 通过提高面对面、非面对面渠道的功能，目标成为身边值得信赖的主要交易银行。

#### (2) 致力于法人市场

- ① 磨砺事业性评价和鉴定力，通过与企业之间的密切关系，共享经营课题和需求，并且提供本集团所拥有的各种解决方案，贡献于地域产业的成长和发展。
- ② 发挥本公司集团的强项即北海道，北陆，3大城市圈的广区域国内网络，支援商务对接，并且利用丰富的海外网点来支援海外商务活动。

#### (3) 强化有价证券的运用

以日元债券为中心的证券投资组合作为基本，根据市场环境机动地通过强化投资信托和外债的运用来提高收益力。

### 经营的效率化 ～在竞争中胜出的功能性组织的追求

- (1) 投资于通讯技术促使了无纸化和业务处理简捷化，再加上通过强化后勤办公室在集团内的共同化和集中化，提高生产性和构建高效的业务营运体制。
- (2) 通过现有店铺的区域运营体制的改变以及引进各种营业方式的店铺、重新配置适合地域和市场的店铺，强化非面对面渠道，致力提供能够满足地域的客户需求的金融功能和方便使用的环境。

### 经营基础的坚韧化 ～为地域信赖的稳定的财务基础的构建

为了向地域提供稳定的金融服务，将必要而健全的财务基础的维持放在首位，根据经济环境和收益情况，尽可能地回馈股东。

#### 关于「北北TT证券株式会社」的设立

本公司与东海东京金融控股株式会社（以下，东海东京FH）就关于共同出资设立证券公司一事基本达成一致，正在开始研究计划于2016年下半年开业。

将本公司集团拥有丰富的客户基础、店铺网络，扎根于地域构建起来的品牌力，同时将东海东京FH拥有的证券业技术融合起来、努力成为能够满足地域客户资产运用的多样化和高度化需求的，由银行创办的为地域做贡献的证券公司。

## 营业概况 (北北金融控股集团联结)

(单位:亿日元)

	2015年度		2014年度
		变动	
经常收益	1,925	-13	1,939
经常利润	464	-17	481
归属于母公司股东的净利润	288	+6	282
资本充足率	10.30%	-0.83%	11.13%

我集团本期联结会计年度的业绩：本期经常收益与上年度相比减少了13亿日元，为1,925亿日元。联结经常利润与上年度相比减少了17亿日元，为464亿日元。归属于母公司股东的净利润增加了6亿日元，为288亿日元。

联结资本充足率达到了10.30%。

2015年度的股息：普通股于期末每股支付了4.25日元股息，对第1回第5种优先股按照原定计划分别于中期末和期末每股支付了7.50日元（即年度股息为15日元）。

## 营业概况 (北陆银行, 北海道银行)

(单位:亿日元)

	2行合算		
	2015年度	2014年度	
			变动
经常收益	1,789	-5	1,794
主营业务毛利润	1,430	-18	1,448
经费(临时处理部分除外)	909	-26	936
主营业务净利润	520	+8	512
信贷相关成本	37	-23	60
经常利润	467	-3	471
本期净利润	299	+16	282

2行合算的经常收益与上年度相比减少5亿日元，为1,789亿日元。本期净利润与上年度相比增加16亿日元，为299亿日元。

北陆银行的经常收益与上年度相比减少6亿日元，为933亿日元。本期净利润与上年度相比增加18亿日元，为165亿日元。

北海道银行的经常收益与上年度相比增加1亿日元，为855亿日元。本期净利润与上年度相比减少1亿日元，为134亿日元。

(单位:亿日元)

	北陆银行		
	2015年度	2014年度	
			变动
经常收益	933	-6	940
主营业务毛利润	753	-11	765
经费(临时处理部分除外)	486	-18	504
主营业务净利润	266	+6	260
信贷相关成本	-11	-28	17
经常利润	267	+22	245
本期净利润	165	+18	146
资本充足率	9.78%	-0.83%	10.61%

(单位:亿日元)

	北海道银行		
	2015年度	2014年度	
			变动
经常收益	855	+1	854
主营业务毛利润	676	-6	683
经费(临时处理部分除外)	422	-8	431
主营业务净利润	253	+2	251
信贷相关成本	48	+5	42
经常利润	200	-26	226
本期净利润	134	-1	135
资本充足率	10.23%	-0.52%	10.75%



HokuHoku Financial Group, Inc.