



# Annual Report 2020

Year ended March 31, 2020

Hokuhoku Financial Group, Inc.

## Company outline (as of March 31, 2020)

**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 .....	132,163,014
Preferred stock (Type 5) .....	96,698,000

**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.

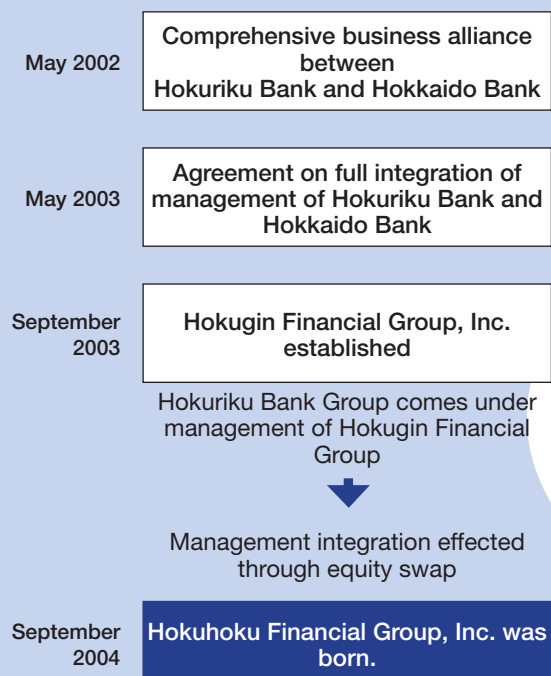
## CONTENTS

Profile .....	1
Message from the Management .....	2
Performance Highlights .....	4
Characteristics of Our Main Business Area .....	8
President's Message .....	10
Process for value creation .....	14
Hokuhoku Financial Group SDGs Declaration and Key CSR Activity Themes .....	16
Medium-Term Management Plan "ALL for the Region" .....	17
Medium-Term Management Plan .....	19
TOPICS in each strategic area .....	21
Stakeholder Communication .....	27
Building a sound and resilient management foundation .....	28
CORPORATE GOVERNANCE .....	28
MEASURES FOR RISK MANAGEMENT .....	33
MEASURES FOR COMPLIANCE .....	36
Consolidated Financial Statements	
Consolidated Balance Sheet .....	39
Consolidated Statement of Income .....	40
Consolidated Statement of Comprehensive Income .....	40
Consolidated Statement of Changes in Equity .....	41
Consolidated Statement of Cash Flows .....	43
Notes to Consolidated Financial Statements .....	44
Independent Auditor's Report .....	74
Non-consolidated Financial Statements	
The Hokuriku Bank, Ltd.	
Non-consolidated Balance Sheet (Unaudited) .....	77
Non-consolidated Statement of Income (Unaudited) .....	78
The Hokkaido Bank, Ltd.	
Non-consolidated Balance Sheet (Unaudited) .....	79
Non-consolidated Statement of Income (Unaudited) .....	80
Corporate Information .....	81
Outline of Subsidiaries — Hokuriku Bank .....	82
Outline of Subsidiaries — Hokkaido Bank .....	83
Directors .....	84
简单的本集团中文摘要 .....	85

## 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 Hokuohoku 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 Hokuohoku Financial Group extend beyond the limits of a single district.

Our extensive network is outlined below.

### Hokuriku district ..... 151 branches

Toyama prefecture.....	93 branches
Ishikawa prefecture .....	36 branches
Fukui prefecture.....	22 branches

### Hokkaido ..... 161 branches

### Three major metropolitan areas ..... 16 branches

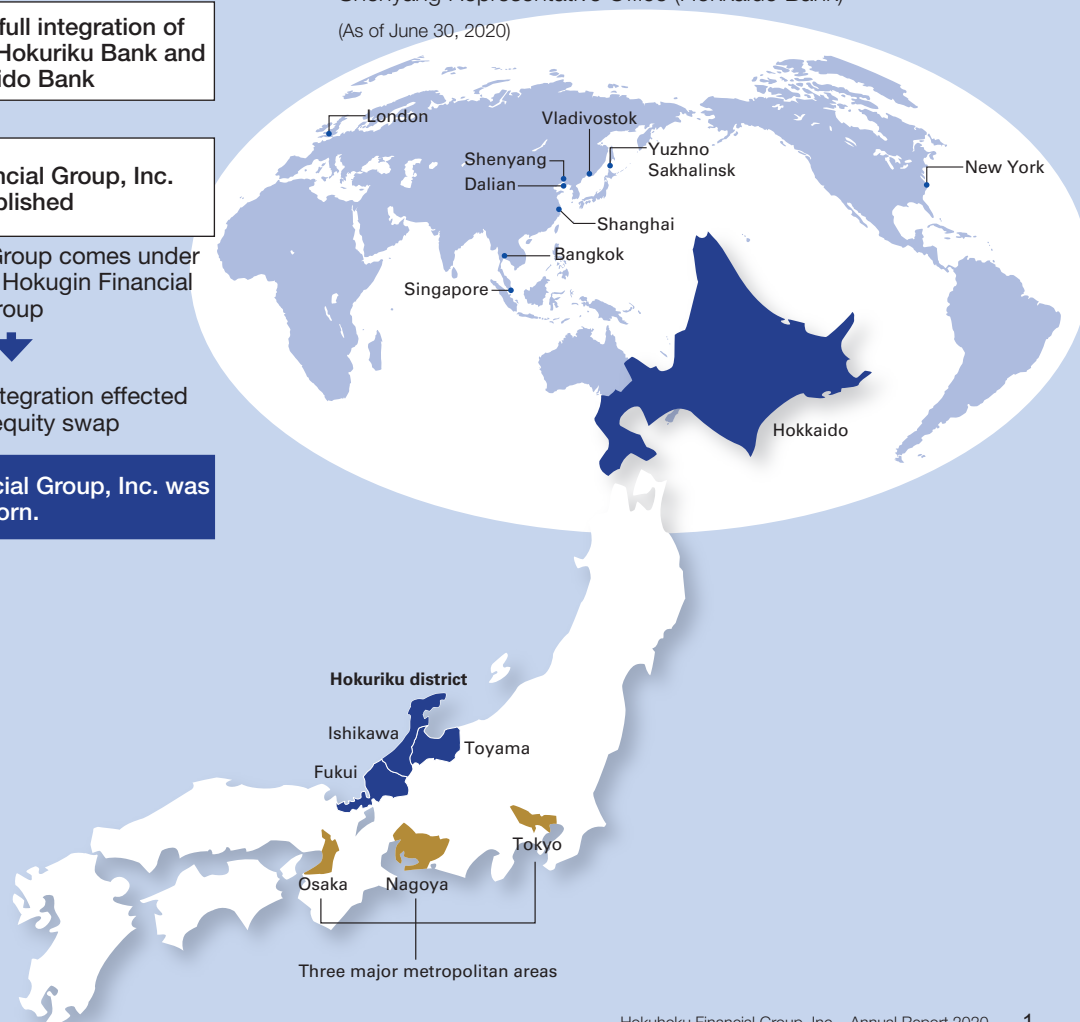
Tokyo and Yokohama .....	9 branches
Nagoya .....	3 branches
Osaka and Kyoto .....	4 branches

### Others (Sendai, Niigata, Nagano, Takayama) ... 4 branches

### Overseas ..... 9 offices

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, 2020)



## 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 gratitude for your continued patronage of Hokuhoku Financial Group and its subsidiaries.

The environment surrounding the Group has changed significantly since the outbreak of the COVID-19. Various demands have been lost due to decrease in activities of people, and it has affected the whole economy as we can see in deterioration in business confidence, production adjustment, postponement of capital investment and deterioration in employment environment. The impact on the regional economy, which has structural issues such as declining birthrate, aging population and outflow of population to urban areas, is intense and the outlook for the future is uncertain.

In such an environment, our group will make full use of our ability to propose optimal solutions to customers with the wide range of financial products and services, which we have honed through our daily effort to meet customers' various needs and to carry out the medium-term management plan, "ALL for the Region". As a regional financial institution, we will exert our financial intermediary function and do our best to support customers in the region.

In addition, regarding digital services such as online banking and cashless settlement services which we have promoted to improve convenience for customers and operational efficiency in the Group, we will continue to improve and expand such services to meet customers' new needs in their "new lives in the society with the COVID-19".

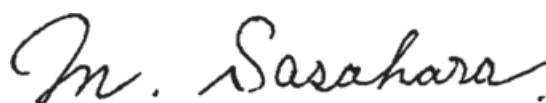
In the medium-term management plan, we established our goal to be "a financial group that contributes to customers and local communities by providing the best financial services in the region to create common values and to grow up and develop together with the region." We will continue to make efforts to improve corporate value and shareholder value by achieving that goal and by being chosen in the region.

We would like to ask for your continued support and patronage.

July 2020



Eishin Ihori  
President



Masahiro Sasahara  
Deputy President

# PERFORMANCE HIGHLIGHTS

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

	FY2019		FY2018
		Y-o-Y Change	
Ordinary income	182.4	(1.2)	183.6
Ordinary profits	31.6	(3.6)	35.3
Net income attributable to owners of the parent	20.2	(4.1)	24.3
Capital adequacy ratio	8.94%	(0.15%)	9.09%

With regard to the Company's operating performance in the fiscal year ended March 31, 2020, consolidated ordinary income fell by ¥1.2 billion year-on-year to ¥182.4 billion. Consolidated ordinary profits decreased by ¥3.6 billion to ¥31.6 billion.

Net income attributable to owners of the parent decreased by ¥4.1 billion to ¥20.2 billion.

The capital adequacy ratio was 8.94% 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, 2020, dividends for common stock were ¥40.00 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>

	FY2019		FY2018
		Y-o-Y Change	
Ordinary income	163.5	(2.2)	165.7
Core gross business profits	123.2	(2.4)	125.7
Expenses (excluding temporarily processed portion)	85.3	(1.1)	86.5
Core net business profits	37.8	(1.2)	39.1
Excluding gains (losses) on cancellation of investment trusts	34.5	(2.4)	37.0
Credit costs	12.0	7.4	4.6
Ordinary profits	31.4	(5.2)	36.7
Net income	20.8	(5.7)	26.6

Total ordinary income for both banks was ¥163.5 billion, down ¥2.2 billion year-on-year, while net income decreased by ¥5.7 billion to ¥20.8 billion.

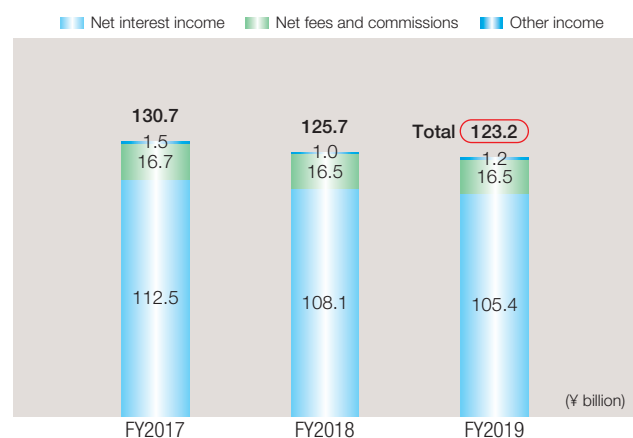
At Hokuriku Bank, ordinary income decreased by ¥1.7 billion to ¥88.5 billion and net income decreased by ¥4.3 billion year-on-year to ¥11.2 billion.

At Hokkaido Bank, ordinary income decreased by ¥0.5 billion to ¥74.9 billion and net income decreased by ¥1.4 billion year-on-year to ¥9.5 billion.

	FY2019		FY2018
		Y-o-Y Change	
Ordinary income	88.5	(1.7)	90.2
Core gross business profits	66.8	(2.2)	69.1
Expenses (excluding temporarily processed portion)	45.7	(0.7)	46.4
Core net business profits	21.1	(1.5)	22.6
Excluding gains (losses) on cancellation of investment trusts	19.9	(1.2)	21.1
Credit costs	9.2	6.4	2.8
Ordinary profits	17.7	(4.4)	22.1
Net income	11.2	(4.3)	15.5
Capital adequacy ratio	8.59%	(0.20%)	8.79%

	FY2019		FY2018
		Y-o-Y Change	
Ordinary income	74.9	(0.5)	75.5
Core gross business profits	56.3	(0.1)	56.5
Expenses (excluding temporarily processed portion)	39.6	(0.4)	40.1
Core net business profits	16.7	0.2	16.4
Excluding gains (losses) on cancellation of investment trusts	14.6	(1.2)	15.9
Credit costs	2.7	1.0	1.7
Ordinary profits	13.7	(0.7)	14.5
Net income	9.5	(1.4)	11.0
Capital adequacy ratio	8.76%	(0.07%)	8.69%

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



### ■ Net interest income.....¥105.4 billion

Due to falls in interest on loans and discounts and interest and dividends on securities, net interest income declined by ¥2.7 billion year on year.

### ■ Net fees and commissions.....¥16.5 billion

Although commissions on sales of insurance declined, net fees and commissions overall were level year on year.

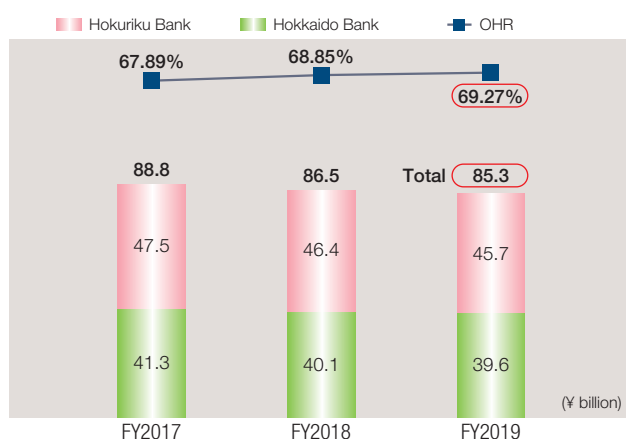
### ■ Other income.....¥1.2 billion

Due to an increase in gain on foreign exchange transactions, other income rose by ¥0.2 billion year on year.

### ■ Core gross business profits.....¥123.2 billion

As a result of the above, core gross business profits decreased by ¥2.4 billion year on year.

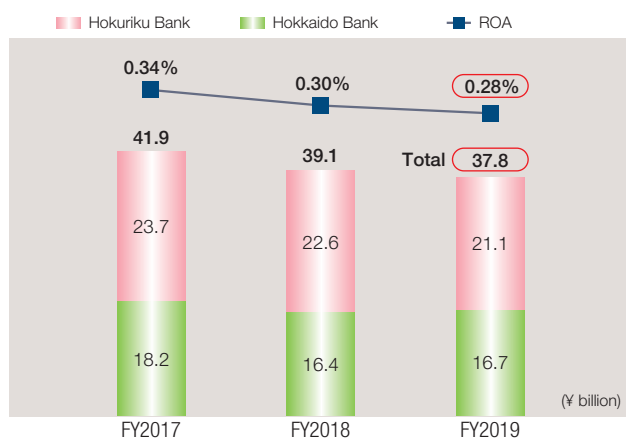
## Expenses <Total of both banks>



### ■ Expenses.....¥85.3 billion

Due to a decline in personnel expenses, expenses fell by ¥1.1 billion year on year.

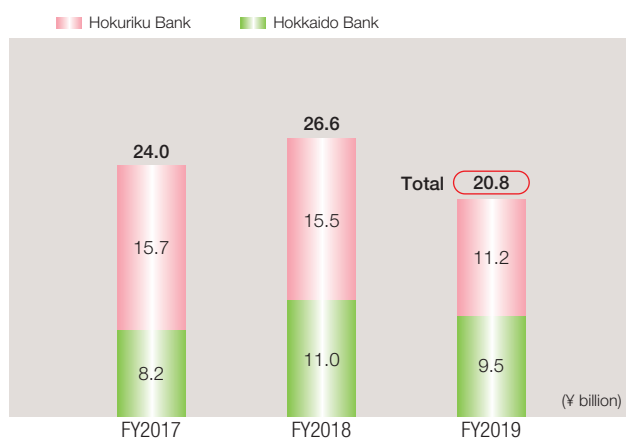
## Core Net Business Profits <Total of both banks>



### ■ Core net business profits.....¥37.8 billion

As the decline in expenses partly offset the decline in core gross business profits, core net business profits declined by ¥1.2 billion year on year.

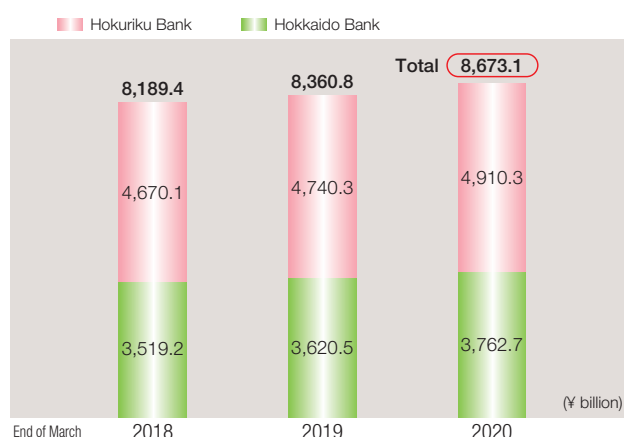
## Net Income <Total of both banks>



### ■ Net income.....¥20.8 billion

Net income decreased by ¥5.7 billion year-on-year due mainly to an increase in credit costs.

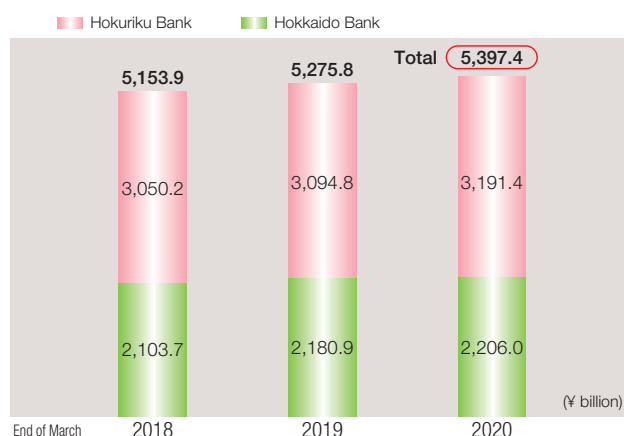
## Loans and Bills Discounted <Total of both banks>



### Loans and bills discounted.....¥8,673.1 billion

Due to the increase in loans to SMEs and individuals, including housing and consumer loans, there was an increase of ¥312.2 billion compared with the end of the previous fiscal year.

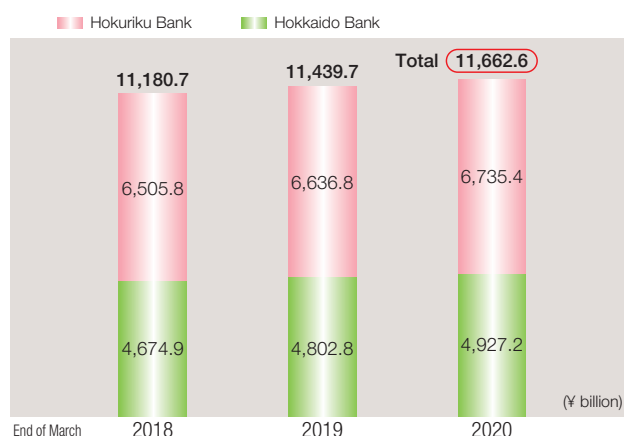
## Loans to Small- and Medium-sized Enterprises (SMEs) <Total of both banks>



### Loans to SMEs.....¥5,397.4 billion

Due to actively working on initiatives related to regional demand for financing, loans to SMEs increased by ¥121.5 billion compared with the end of the previous fiscal year.

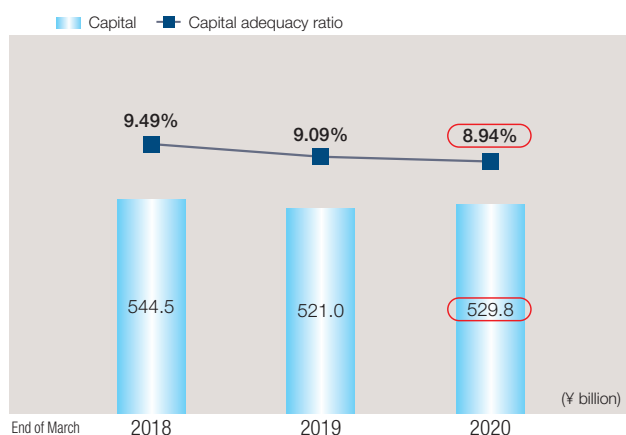
## Deposits (Including negotiable certificates of deposit) <Total of both banks>



### Deposits (including negotiable certificates of deposit).....¥11,662.6 billion

Deposits increased by ¥222.9 billion compared with the end of the previous fiscal year due to increases mainly in individual deposits.

## Capital Adequacy Ratio <On a consolidated basis>



### Capital adequacy ratio.....8.94%

Although 10% of the ¥53.7 billion in preferred stock (Type 5) was the subject of a partial redemption on October 1, 2019, capital adequacy on a consolidated basis stayed securely in the upper 8% level at 8.94%, 0.15 points lower than the end of the previous fiscal year, owing to the accumulation of retained earnings.

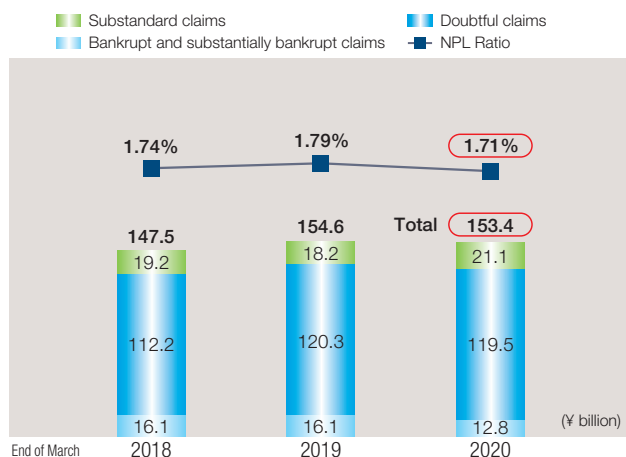
## Disclosed Claims under the Financial Reconstruction Law <Total of both banks>

### Disclosed claims under the Financial Reconstruction Law.....¥153.4 billion

Disclosed claims under the Financial Reconstruction Law fell by ¥1.2 billion compared with the end of the previous fiscal year.

### NPL ratio.....1.71%

The NPL ratio fell by 0.08 percentage points compared with the end of the previous fiscal year.



● 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.

# 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)	1.06Mn (37th)	1.15Mn (34th)	0.78Mn (43rd)	3.00Mn	5.38Mn (8th)
Square Measure (Ranking) km <sup>2</sup>	4,248 (33rd)	4,186 (35th)	4,191 (34th)	—	83,424 (1st)

Number of businesses\*1 (Thousand)

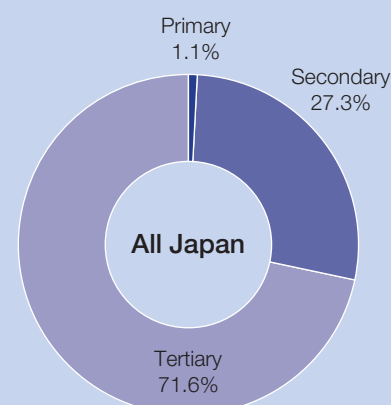
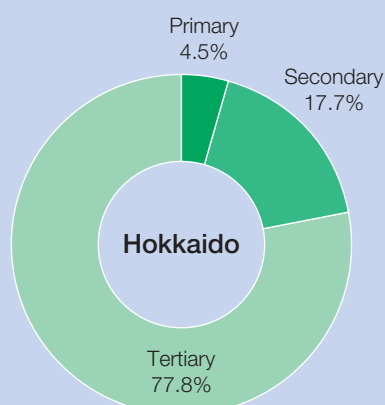
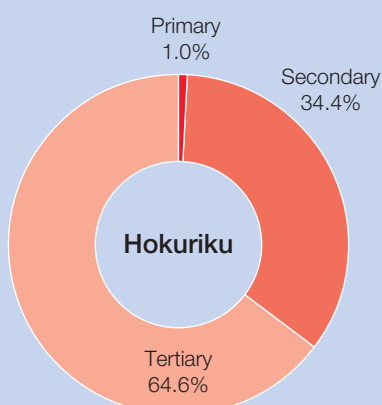
Hokkaido	242
Hokuriku	163
Toyama	55
Ishikawa	63
Fukui	44

Gross Prefectural Product\*\*1,2

(JPY Bn)

	Toyama a	Ishikawa b	Fukui c	Total a + b + c	Hokkaido
GPP (Proportion) (Ranking)	4,566.2 (0.83%) (31st)	4,623.0 (0.84%) (29th)	3,211.1 (0.58%) (42nd)	12,400.4 (2.26%)	19,018.0 (3.46%) (9th)

Industrial Structure\*2

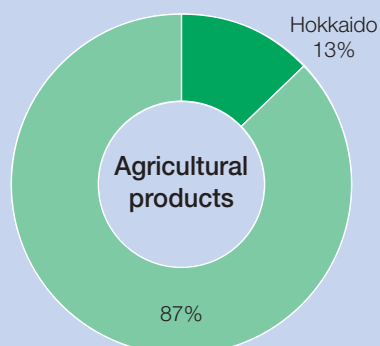
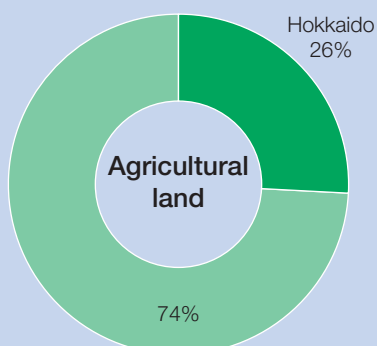


Data source : \*1 Ministry of Internal Affairs and Communications,\*2 Cabinet Office

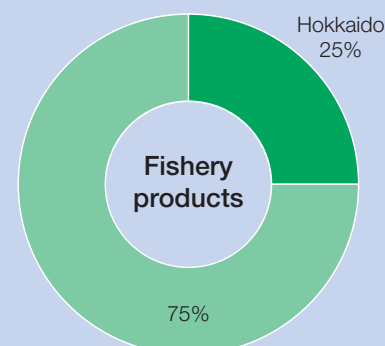
## Hokkaido

- 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



Wheat / Potato / Onion /  
Milk etc.



Atka mackerel / Tangle /  
Salmon / Cod / Scallops etc.

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

Hydroelectric power / Geothermal energy / Wind power / Solar power

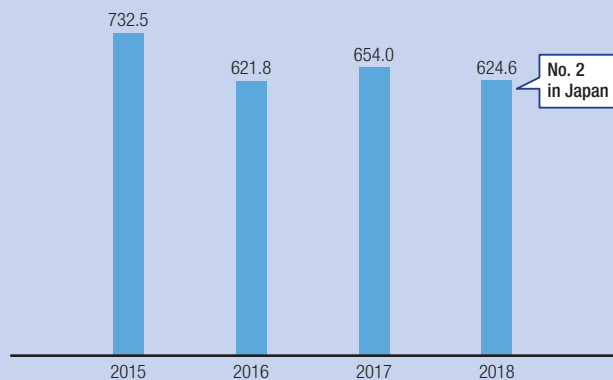


## Hokuriku

- 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

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 2020, the Ministry of Economy, Trade and Industry's Manufacturing Industries Bureau selected 2 machinery and processing-related companies, and 1 electrical and electronic-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.

# Hokuhoku Financial Group's Mission

The Group's mission is to contribute to building the future for regions by providing financial support for sustained development that overcomes the various issues and difficulties in the local communities where we are firmly based.

I will explain the approach and initiatives that we think are important in fulfilling this mission.

**Eishin Ihori** President  
(President, The Hokuriku Bank, Ltd.)



## The Group's FY2019 Operating Performance

First, I will explain the FY2019 operating performance. Although the Group's consolidated net income attributable to owners of the parent fell ¥4.1 billion year-on-year, it stood at ¥20.2 billion, surpassing the level forecast at the beginning of the fiscal year by ¥0.7 billion. On the basis of the total for both banks (The Hokuriku Bank, Ltd. and The Hokkaido Bank, Ltd.), core net business profits calculated by deducting expenses from income generated from the main business such as loans, interest and dividends on securities, and commissions

stood at ¥37.8 billion, exceeding the forecast operating performance by ¥0.8 billion. Credit costs relating to the disposal of bad debts stood at ¥12.0 billion, exceeding the forecast by ¥8.5 billion, ordinary profits stood at ¥31.4 billion, and net income stood at ¥20.8 billion. Regarding the forecast operating performance for FY2020, we have set consolidated ordinary profits at ¥26.0 billion, down ¥5.6 billion year-on-year and net income attributable to owners of the parent at ¥16.5 billion, down ¥3.7 billion year-on-year.

## The Environment and Issues for the Region and the Group

Next, I would like to talk about the environment and issues that are facing the region and the Group.

The circumstances in Japan during the past year have encompassed downward pressures on the economy such as the serious shortage of people due to the sustained decline in population and the declining birth rate and aging population as well as the increase in the consumption tax and frequent natural disasters from typhoons and torrential rains, yet there had been support from the opportunities ahead of the 2020 Tokyo Olympics and the economy had been stabilizing. However, the impact from the spread of the novel coronavirus disease (COVID-19) from 2020 has pushed down the real growth rate for FY2019 GDP to negative 0.1%, the first negative growth rate in five years and a change in direction.

There are concerns about a second and third wave for COVID-19, and the entire world is likely to be racking its brains about how to adapt to this complete change in environment.

In the Company's primary areas of Hokuriku and Hokkaido, urban infrastructure is in decay with the increase in unoccupied houses and hollowing out of town centers due to population decline, declining birth rate and aging population. Furthermore, the outflow of population to the three major metropolitan areas by younger generations means there is tendency for it to become difficult to train and secure people to support the future growth of local economies and industry.

This is a particularly big issue for Hokuriku's manufacturing industry and Hokkaido's primary industry.

On the other hand, I believe that we are heading for an era when people will live beyond 100 and be able to work for a longer period of time with increased opportunity for changing jobs and working side jobs.

Therefore, new initiatives for converting the employment system and for securing personnel are likely to become issues even for small- and medium sized regional companies.

In addition, while the importance of asset formation and asset succession will become much greater than in the past, there are various investment needs depending on matters such as age group and asset background. Investment products are also varied, and complex, so financial literacy is required from an early stage.

In addition, preparing for natural disasters is also an important regional issue.

The weakness in social infrastructure such as the large-scale blackout that occurred with the Hokkaido Eastern Iburi Earthquake in September 2018 and the flood damage that occurred with Typhoon Hagibis (also known as the Reiwa 1 East Japan Typhoon) in October 2019 has also been faced.

Hokkaido in particular is one of the Japan's largest food production area and measures to deal with climate change are extremely important from the perspective of protecting primary industry.

## Management philosophy

In light of such issues, the Group took the needs of the market into consideration getting close to customers and sharing their concerns and issues to refine the sales of solutions.

We are also proactively thinking about initiatives to resolve issues caused by COVID-19.

Regarding future initiatives, we believe it is important to support economic development by solving the issues confronting regions, as well as protecting the future of the region through the implementation of environmental conservation, promotion of agricultural, fishery and tourism industries that utilize the abundance of nature, and the maintenance and development of local cultures. For this, we believe it necessary to have initiatives that value the Group's management philosophies of "Prospering Together with the Region," "Fair & Steady Management," and "Progressive & Innovative Services."

Based on the philosophy of "Prospering Together with the Region," we want to strengthen the provision of solutions that develop and deepen the relationships with customers more than before by training experts and enhancing consulting services thereby leading to regional "innovation" and "expansion of local economic areas."

The Group makes a principle of "Fair & Steady Management" because initiatives in operations are from the outset to deepen employee awareness of the involvement in local communities.

To exercise our stable financial intermediary capabilities as a regional financial infrastructure, we are striving to build solid governance and strong management functions necessary to address various risks including conduct risk and to strictly observe compliance.



The Group's foundation includes the spirit of "Progressive & Innovative Services" to implement new initiatives that are always at the forefront. This has been handed down with examples such as at Hokuriku Bank, which was the first regional bank to commence foreign exchange operations.

There have been major changes in the environment due to COVID-19, and we are advancing enhancements needed to both improve the level of convenience for customers and to improve the Group's operating efficiencies for non-face-to-face financial services to suit the new lifestyles that will be required in future.

## The Group's strengths

Next, I will explain the Group's strengths.  
First is the business base.

The Group has operated for 16 years since our management integration in 2004, but the cornerstone has been the transactions with the many customers located in our primary areas of Hokuriku and Hokkaido by The Hokuriku Bank, Ltd. (founded in 1877) and The Hokkaido Bank, Ltd., (founded in 1951). We have worked hand-in-hand and grown with our customers during a long history.

The business base with customers backed by our history is the source of the Group's stable management and growth.

We have responded flexibly to the demands and needs of the times and society to date, while expanding our business base. The Group now has total assets in excess

of ¥13 trillion.

Next is our incomparable wide branch network for a regional banking group.

We have a wide branch network in Hokuriku, Hokkaido, and the three major metropolitan areas and have also expanded to 9 overseas offices, with a commitment to wide business matching, etc.

Furthermore, we are working to build a financial infrastructure that links to improved level of convenience for customers, aiming to optimize store functions such as more flexible opening hours and transition to store with various sales formats as well as provide apps and enhance Webservice and electronic payment functions, etc.

"Human resources" are also a strength of the Group.

We actually have a large variety of human resources

with the diligence that is said to be a characteristic of the Hokuriku region and the frontier spirit of Hokkaido. Utilizing such human resources, we have the top class regional bank know-how in areas such as business succession, M&A, agriculture-related business, and international business.

In addition, we aim to proactively develop new areas such as employment agency business and trust business, expand business and accumulate know-how.

Furthermore, we are actively involved in solving regional issues through “partnerships with local governments and

universities, etc. and collaborations between industrial, academic, government and financial organizations.”

We are also working to enhance support for renewable energies such as hydro power and solar strengthen utilizing the nature with which Hokuriku and Hokkaido are blessed, as well as proactively support primary industries and enhance support for the revitalization of the tourism industry.

We believe that we will be able to increase the sustainability of all stakeholders including customers and local community by utilizing these strengths.

## The Group's initiatives and contribution to the region

In FY2019, for the corporate sector we focused on exercising financial intermediary capabilities that are not overly dependent on collateral and guarantees by deepening business evaluation and strengthened consulting to resolve customers' management issues.

In addition, we are proactively implementing initiatives in new areas such as commencing the employment agency and investing and providing management support for agricultural corporations as well as enhancing the solutions menu.

In the retail sector, we are implementing enhancements needed to strengthen both face-to-face sales and non-face-to-face sales, enhancing the training system for the development of human resources, handling trust business, starting new services such as the smartphone payment service “Hokuhoku Pay” and enhancing app functions.

In future, initiatives to resolve new issues such as responding to “new lifestyles” that also take account of the impact of COVID-19 will be required.

While there are some uncertainties about the outlook, we will enhance financial services by improving convenience through the advancement of digital banking and strengthening non-face-to-face channels and expand contactless transactions through the portion of cashless transactions so that the Group's customer will be able to smoothly adopt new lifestyles.

In addition, we aim for a diversity of working arrangements to provide seamless financial services and are also working to ensure the safety and health of employees.

Usually, I believe that interacting “Face to Face” is the method of communication that creates the foundation for connection between people and it is the form of

interaction with customers that continues to survive at financial institutions even with the developments in digitalization.

Each and every opportunity to interact with customers is precious, and I believe it will enhance the activities for knowing the customer and consulting services.

In this way, all of the Group's executives and employees will work as one with determination to achieve the future for sustained development of local communities and the Group.

At all the various internal committees such as the Board of Directors and the Management Committee we have first started with everyone reciting the “management philosophy.”

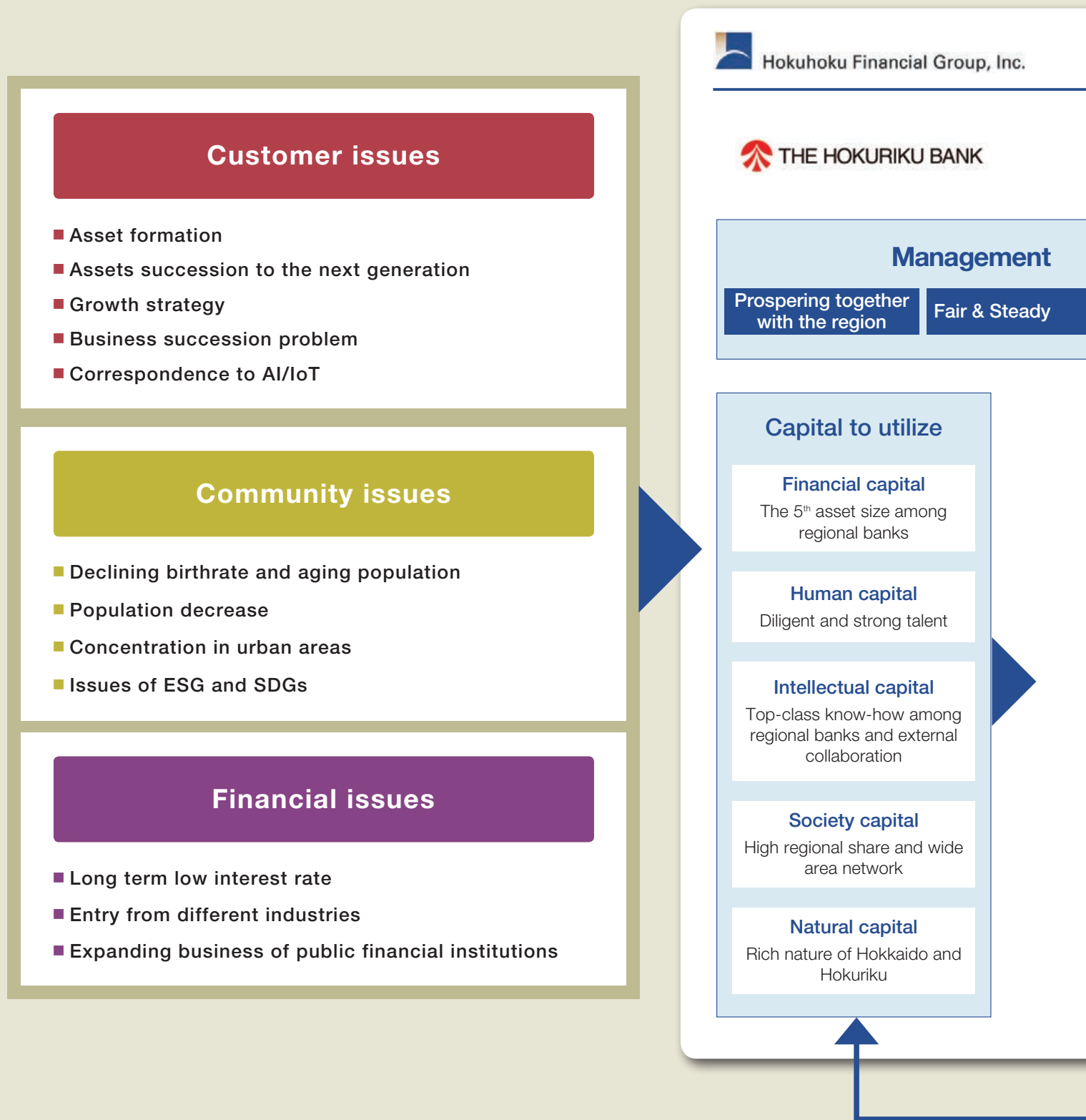
This is because we believe that the correct answer can be derived by returning to the management philosophy when there is a deadlock or divided opinions.

We will continue to contribute to building the future for Hokuriku and Hokkaido, flexibly and proactively advancing various measures based on our management philosophy.

We sincerely look forward to your ongoing support and patronage.

# PROCESS FOR VALUE CREATION

Create common values by providing service that respond to customer and



## community issues



### philosophy

Management

Progressive &  
Innovative Services

### Medium-term Management Plan



### SDGs Declaration

Realization of sustainable community  
Improving financial literacy in the region  
Building a sound and resilient management foundation  
Improving convenience for all customers  
Ensuring good work environment leading to better productivity

### Value provided to each stakeholder

#### Shareholder

- Enrichment of shareholder returns
- Creating shareholder value over the medium to long term
- High transparency information disclosure

#### Community

- Regional activation
- Promote responsible investment and loan
- Improvement of financial literacy
- Reduction of environmental burden
- Realization of recycling-based society

#### Customer

- Activate financial assets
- Successful business and asset succession
- Business growth support
- Regional core industry support
- Provision of highly convenient and fulfilling services

#### Employee

- Fulfilling workplace
- Promotion of diversity
- Promotion of work-life balance

Return to community/Sharing issues through dialogue with stakeholders

## Solving customer and community issues

# HOKUHOKU FINANCIAL GROUP SDGs DECLARATION AND KEY CSR ACTIVITY THEMES

Based on the perspectives of ESG (Environment, Society and Governance) required for the sustainable growth of companies and the SDGs (Sustainable Development Goals) advocated by the United Nations, the Hokuhoku Financial Group proactively undertakes activities addressing these issues based on our basic CSR policy, and aims for the sustainable development of the Group, the regional economy, and local communities.

As a part of this, on April 1, 2019, we released the “Hokuhoku Financial Group SDGs Declaration,” and established “Key CSR Activity Themes.”

## Hokuhoku Financial Group SDGs Declaration

Based on our management philosophy of “Prospering Together with the Region,” “Fair & Steady Management”, and “Progressive & Innovative Services,” the Hokuhoku Financial Group will aim to improve the sustainability of the local economy and the local communities by proactively engaging in CSR initiatives based on the SDGs advocated by the United Nations.












April 1, 2019



Eishin Ihori  
President



## Key CSR Activity Themes

Management philosophy	Key themes	
Prospering Together with the Region	Realization of sustainable community	
	Contribute to responsible investment and financing as a regional financial institution by promoting constructive dialogue based on issues including SDGs and ESG, stable job creation by actively supporting startup companies and growth companies in the region, and the realization of sustainable local communities by promoting collaboration with local governments and customers	
	Strive to reduce environmental burden, including promoting the use of renewable energy and reducing greenhouse gas emissions	
	Improving financial literacy in the region	
	Work to improve the financial literacy of customers and children through financial and economic education and financial consulting, and support asset formation and smooth business and asset succession for the future	
Fair & Steady Management	Building a sound and resilient management foundation	
	Enhance transparency by promoting dialogue with stakeholders, build a stronger management base by enhancing governance, thoroughly managing various risks, and further strengthening compliance	
Progressive & Innovative Services	Improving convenience for all customers	
	Strive to further improve convenience by providing advanced financial products and services that all customers can easily access and use with peace of mind	
	Ensuring good work environment leading to better productivity	
	Work to create rewarding and fulfilling workplaces by promoting the active participation of diverse personnel, promoting work style reform including a balance between work and childcare/nursing care, and developing personnel who will lead the Group in the future	

### Aiming to be a comprehensive financial services group that achieves growth and development with local communities

The Group commenced the new 3-year Medium-Term Management Plan “ALL for the Region” in April 2019.

All of the Group’s executives and employees will work as one with the aim of the Hokuohoku Financial Group being a comprehensive financial services group that contributes to customers and local communities by providing No. 1 financial services and solutions, creates “shared value” between them and the Group, and achieves growth and development together with them. This is based on our management philosophy of “Prospering Together with the Region,” “Fair & Steady Management,” and “Progressive & Innovative Services” and our aim to meet the expectations of stakeholders such as our customers and shareholders and to contribute to the sustained development of local communities.

#### Masahiro Sasahara Deputy President

(President, The Hokkaido Bank, Ltd.)



### Approach to the Medium-Term Management Plan “ALL for the Region”

We are also concerned about the prospect of a shrinking economy in the Group’s primary areas of Hokuriku and Hokkaido, which like the national trend, are facing a declining birth rate and aging population as well as a population shift towards urban areas.

In the finance sector, while ultra-low interest rates continue due to monetary easing policies, there have also been upheavals in the competitive environment such as the progress in digitalization, which has made it difficult to survive under traditional banking business models.

Regarding the Medium-Term Management Plan “ALL for the Region,” the target period is considered to be a “period during which the Group will progress both services closely attracting customers at Face to Face and digital financial services pursuing convenience, continuing to contribute to the development of the region.” In line with our three basic policies of “Contribution to community development,” “Evolution and change to the future,” and “Exercise the Group’s

comprehensive strength,” the Group is implementing each key measure needed for the Group to create shared value with our customers and local communities. “Contribution to community development” means working together with customers to address local issues such as declining birth rate and aging population to provide solutions that contribute to the development of the region and customers. “Evolution and change to the future” means providing financial services that capture technological innovation and changes in needs to meet customer expectations. “Exercise the Group’s comprehensive strength” means strengthening collaboration between companies in the Hokuohoku Financial Group centered on The Hokuriku Bank, Ltd. and The Hokkaido Bank, Ltd., while establishing optimum business promotion and management systems for the Group. By advancing each key measure based on these basic policies, we aim to overcome changes in the environment, grow and develop together with the regions.

### FY2019 initiatives

I will provide an explanation of the FY2019 initiatives under the Medium-Term Management Plan “ALL for the Region.”

Regarding the corporate sector, we were able to exercise the Group’s financial intermediary capabilities and address various financing needs by proactively promoting the business evaluation of customers.

While expanding the lineup of services such as solutions to address customer issues, the Group developed experts through external training and improved infrastructure such as with the installation of a common business matching system for The Hokuriku Bank, Ltd. and The Hokkaido Bank, Ltd., as well as strengthening consulting services.

Regarding the retail sector, while improving the convenience for customers by revising the content of housing loan products, we improved our preparedness to address wide ranging needs aligned with the life stages of our customers, from asset formation to asset succession. Initiatives included the strengthening of cooperation between the banking and securities arms within the Group, commencing the offering of trust business, and increasing the level of persons in charge of external relations utilizing an internal qualification system. In addition, we implemented initiatives to further improve customer convenience through the utilization of IT technology such as enhancing non-face-to-face transactions through installation of “Hokuhoku Pay” and “J-Coin Pay” and improvement to each app, as well as the use of electronic contracts for housing loans.

As a regional financial institution, we proactively initiated ESG (Environment, Society and Governance) and SDGs (Sustainable Development Goals) for community revitalization.

Apart from initiatives for sustained development of local communities such as the execution of collaborative agreements with local governments and promoting financial and economics education for the younger generations, the Group invested in Green Bonds issued by businesses that have a positive environmental impact and started offering loans with special terms of waiving principal during earthquake disasters to smoothly support the business continuity of business operators affected by disasters.

We strived to improve operating efficiencies through increased IT, including Robotic Process Automation (RPA), and consolidation of clerical work at branches to centralized headquarter divisions to strengthen the

management function.

We implemented initiatives to utilize the Group's management resources for the greater benefit of customers such as by accelerating decision-making through consolidation of the management of the subsidiary banks' planning divisions and business matching that straddles the business bases of both banks. Furthermore, regarding the governance function, external Directors also proactively provided their objective views in the Corporate Governance Committee and the Board of Directors and enhanced the discussion about matters such as the medium to long-term strategy.

Note that the following are the FY2019 results for each priority indicator set out in the Medium-Term Management Plan: Main business profit <sup>○</sup> fell ¥1.0 billion year-on-year to ¥16.9 billion, net income declined ¥4.1 billion year-on-year to ¥20.2 billion, capital adequacy ratio fell 0.15 points from the end of the previous fiscal year to 8.94%, and OHR rose 0.42 points year-on-year to 69.27%.

#### [Priority Indicators]

	FY18 Result	FY19 Result
Main Business Profit (Total of both banks)*	¥18.0 billion	<b>¥16.9 billion</b>
Net Income (On a consolidated basis)	¥24.3 billion	<b>¥20.2 billion</b>
Capital Adequacy Ratio (On a consolidated basis)	9.09%	<b>8.94%</b>
OHR (Total of both banks)	68.85%	<b>69.27%</b>

\*We calculate main business profit in line with our own standard “Core net business profits - Net interest income (loss) of securities.”

### The outlook for FY2020

In FY2020, the nationwide spread of the unexpected impact of the novel coronavirus disease (COVID-19) and the recent slump in the economy have led us to fold back the Medium-Term Management Plan “ALL for the Region.”

Meanwhile, the Group is proactively developing activities to return to the starting point of the Medium-Term Management Plan, which aims for the Group to be a comprehensive financial services group that contributes to customers and local communities by providing No. 1 financial services and solutions, creates shared value between them and the Group, and achieves growth and development together with them.

First, we will concentrate management resources with the capability of making proposals to resolve issues based on the solutions that were enhanced in the Medium-Term Management Plan and business evaluations and use all of our efforts to support local communities and our customers.

In addition, even in relation to pursuing convenience through digital financial services such as internet banking and cashless transactions that have been promoted to

both improve the level of convenience for customers and improve the Group's operating efficiencies, we will invest in the new lifestyles that will be required in future and continue to provide enhancements.



# MEDIUM-TERM MANAGEMENT PLAN

The new Medium-Term Management plan “ALL for the Region” positions the three years starting from April 2019 as a “Period during which all employees of the Group evolve in terms of both ‘services that empathize with Face to Face customers’ and ‘digital financial services pursuing convenience’ and in which we will continue to contribute to the local community.” All of the Group’s executives and employees will work as one to become a comprehensive financial services group that contributes to customers and local communities by providing No. 1 financial services and solutions, creates shared value, and achieves growth and development together with them.

## Outline of the Plan

Title	ALL for the Region		
Positioning	Period during which all employees of the Group evolve in terms of “services closely attracting customers at Face to Face” and “digital financial services pursuing convenience” and will continue to contribute to the local community		
Basic policies	<p>The diagram illustrates three basic policies as blue boxes on the left, each with a corresponding bullet point in a grey box in the middle, and a large yellow box on the right labeled 'Creating common values'. Arrows point from each policy box to the 'Creating common values' box.</p> <ul style="list-style-type: none"> <li><b>Contribution to community development</b> <ul style="list-style-type: none"> <li>• Face problems together and work to provide solutions that contribute to the development of the region and customers</li> </ul> </li> <li><b>Evolution and change to the future</b> <ul style="list-style-type: none"> <li>• Provide financial services that capture technological innovation and changes in needs to meet customer expectations</li> </ul> </li> <li><b>Exercise the group’s comprehensive strength</b> <ul style="list-style-type: none"> <li>• Strengthen group collaboration and establish optimum business promotion and management system</li> </ul> </li> </ul>		

## The New Medium-term Management Plan’s priority indicator (Total of 2 banks, consolidated)

	FY2018 Result	FY2019 Result	FY2021 Target
Main business profit*	¥18.0 billion	¥16.9 billion	Over ¥22 billion
Consolidated net income	¥24.3 billion	¥20.2 billion	Over ¥22 billion
Capital Adequacy Ratio	9.09%	8.94%	Maintain 8% level
OHR	68.85%	69.27%	Maintain under 70% level

\* We calculate main business profit in line with our own standard

## Key initiatives in each strategic area based on the basic policies

Key Initiatives	
Strategy for corporate customers	<ul style="list-style-type: none"> <li>◆Exercise financial intermediation function <ul style="list-style-type: none"> <li>• Bolster strategies and promotion system according to the characteristics of sales areas and the business stages of customers, and develop a lending strategy based on assessing business possibilities.</li> </ul> </li> <li>◆Strengthen corporate consulting <ul style="list-style-type: none"> <li>• Expand the lineup of solution services, and offer consulting services according to the business stage of each customer</li> </ul> </li> </ul>
Strategy for individual customers	<ul style="list-style-type: none"> <li>◆Strengthen consulting to individual customers and expand individual customer base <ul style="list-style-type: none"> <li>• Expand products for various life stages and the face-to-face as well as non-face-to-face channels, support asset formation, enhance services for wealthy customers, better address various financing needs, and grow the business base</li> </ul> </li> </ul>
Digitalization & Fintech strategy	<ul style="list-style-type: none"> <li>◆Enhance digital banking functions <ul style="list-style-type: none"> <li>• Enhance digital banking channels by expanding functions for non-face-to-face channels, such as smartphone apps</li> <li>• Improve customer convenience by phasing out the use of personal seals, paper documents, and cash cards.</li> </ul> </li> <li>◆Contribute to development of cashless society <ul style="list-style-type: none"> <li>• Build an infrastructure to promote a cashless environment in the region</li> </ul> </li> </ul>
Community revitalization strategy	<ul style="list-style-type: none"> <li>◆Contribute to regional revitalization and respond to issues of ESG and SDGs <ul style="list-style-type: none"> <li>• Revitalize the regional economy in cooperation with local governments, local companies and educational institutions</li> <li>• Aim for sustainable development of the local economy and local communities through CSR activities based on ESG and SDGs</li> </ul> </li> </ul>
Strategy for security investment	<ul style="list-style-type: none"> <li>◆Increase and stabilize investment return <ul style="list-style-type: none"> <li>• Increase returns through diversified investments in diverse investment asset classes, as well as strategic and flexible investments</li> <li>• Enhance risk control system by emphasizing comprehensive profit/loss and enhancing the ability to respond to sudden and rapid market movements</li> </ul> </li> </ul>
Risk management	<ul style="list-style-type: none"> <li>◆Strengthen governance using Risk Appetite Framework (RAF) and respond to diversifying risks <ul style="list-style-type: none"> <li>• Formulate management strategy and improve risk control system utilizing RAF</li> <li>• Foster a risk culture for appropriate risk-taking and eliminating legal violations, etc. through employee training</li> <li>• Enhance the risk control system by improving simulations and stress tests to respond immediately to changes in the market environment</li> </ul> </li> </ul>
Business reform, optimization of branch store network and strategy for utilization of human resources	<ul style="list-style-type: none"> <li>◆Improve management efficiency, productivity and work environment <ul style="list-style-type: none"> <li>• Streamline operations by slimming down operations, centralizing headquarters operations, and promoting outsourcing</li> <li>• Promote business rationalization by utilizing ICT (digitalization, RPA, elimination of paper)</li> <li>• In order to maintain regional financial infrastructure, improve the branch network by clarifying the roles and functions of each branch and reviewing ATM operations</li> <li>• Develop human resources with a goal of improving customer service, expertise and management ability</li> <li>• Create and maintain a work environment in which diverse human resources can play an active role</li> </ul> </li> </ul>
Hokuhoku FG Group strategy	<ul style="list-style-type: none"> <li>◆Strengthen and expand collaboration in Hokkaido area <ul style="list-style-type: none"> <li>• Strengthen sales promotion capabilities through joint use of consulting and financial service functions</li> <li>• Advance the joint use of branches that both banks will renovate going forward in Hokkaido</li> <li>• Expand joint use of offices in Hokkaido, including headquarters and back office functions</li> </ul> </li> <li>◆Centralization of headquarters operations <ul style="list-style-type: none"> <li>• Pursue additional synergies by consolidating functions into holding company Hokuhoku FG</li> </ul> </li> <li>◆Strengthen cooperation with banks and affiliates <ul style="list-style-type: none"> <li>• Provide financial services through cooperation between subsidiary banks and affiliates, and exercise integrated capabilities</li> </ul> </li> <li>◆Efforts to improve shareholder value <ul style="list-style-type: none"> <li>• Maintain stable dividends while accumulating profits to bolster capital</li> </ul> </li> </ul>

## TOPICS IN EACH STRATEGIC AREA

### Strategy for corporate customers

#### Initiatives to address the novel coronavirus disease (COVID-19)

The Hokuriku Bank, Ltd. and The Hokkaido Bank, Ltd. have established the “Financial Consultation Desk for Matters relating to the spread of the novel coronavirus disease (COVID-19)” and the “Holiday Telephone Call Center” and provide a flexible response to supporting financial positions such as with requests from customers for change of loan terms and conditions and funding needs through the introduction of dedicated products, etc.

We are striving to respond to impacted customers and others in a much more targeted way than in the past.

(as of July 3, 2020)

Applications for new loans*		Applications for change in terms and conditions*
Number of applications	Amount	Number of applications
14,913	¥544.3 billion	419

\*Excludes applications withdrawn by customers, etc.

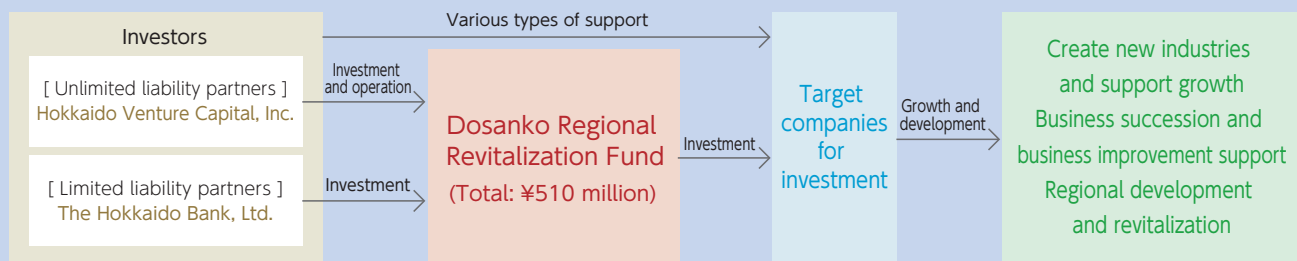
#### Established the Dosanko Regional Revitalization Fund

In April 2019, Hokkaido Bank established the “Dosanko Regional Revitalization Investment Limited Partnership (Dosanko Regional Revitalization Fund)” together with local entity Hokkaido Venture Capital, Inc.

In addition to investing in venture companies that utilize regional resources for growth, which the Hokkaido Regional Creation Fund has been engaged in, the fund has been established to promote regional revitalization and contribute to the continuous maintenance and development of industry by providing growth support and help in building a successor framework for companies that are growing and working on business succession and business improvement.

By the fund providing funds and financial intermediary capabilities, we will support the growth of small and medium-sized companies that support Hokkaido’s economy.

#### ■ Scheme (Initiatives to support growth)



#### Awarded Makuake, Inc.’s “Makuake Bank Partner Prize”

In February 2020, Hokkaido Bank was awarded the “Makuake Bank Partner Prize” from business partner Makuake, Inc., which operates “Makuake” crowd funding sites.

The “Makuake Bank Partner Prize” is conferred on financial institutions amongst the financial institutions collaborating with Makuake, Inc. that are proactively implementing new challenges, introducing business operators in each region nationwide.

Apart from making multiple introductions for business operators within the prefecture, Hokkaido Bank undertook initiatives to resolve issues using “Makuake” even in relation to issues of funding, test marketing and product PR when venture companies were developing BtoC products. The prize was also awarded in recognition of the support for such new initiatives for regional revitalization.

We will continue to contribute to regional development through collaboration with various partners.



#### Commenced employment agency operations

In July 2019, Hokuriku Bank joined with four employment agencies, becoming the contact point for companies with employment needs, forming a structure able to provide a one-stop consulting service from the introduction of people at management and mid-management levels and people with specialist skills to the recruitment of management personnel to help customers with the formulation and implementation of management strategies. The bank itself is the first financial institution with a head office in the three Hokuriku prefectures to acquire an employment agency business license (a fee-charging employment placement business license).

We contribute to the revitalization of local economies through the employment agency business by fostering the repatriation of personnel in urban area to local areas, solving customers’ management issues, and supporting the realization of sustained growth.

#### ■ Scheme



## Strategy for individual customers

### Commenced handling calendar year gift type trusts

In April 2019, Hokuriku Bank commenced handling the trust business to cater to the asset succession needs of customers.

In addition, we commenced handling new “calendar year gift type trusts” from April 2020 in response to customer needs.

Calendar year gift type trusts are products that enable the implementation of a gift inter vivos without cumbersome procedures such as the creation of a gift contract and transfer procedures. Hokuriku Bank confirms the intent of the person giving the gift and the person receiving the gift in relation to funds entrusted by the customer on an annual basis.

Consequently, we strive to support customers who want to provide gifts to their precious family not only after inheritance occurs, but even while they are healthy.



### Commenced handling group credit life insurance for joint debtor couples that includes a guarantee for eight major diseases

In January 2020, Hokuriku Bank became the first financial institution in the three Hokuriku prefectures to commence handling “Group credit life insurance for joint debtor couples that includes a guarantee for eight major diseases” as a group credit life insurance product to be taken when taking out a housing loan.

“Group credit life insurance for joint debtor couples that includes a guarantee for eight major diseases” is an insurance to reduce the balance of a housing loan to ¥0 when a couple has a housing loan with joint obligation and one of the couple dies or becomes seriously disabled.

Furthermore, to provide enhanced coverage, in addition to “death or seriously disability” we are handling guarantee products that together with the couple provides insurance for eight major diseases including cancer.



### Opened offices to improve the level of convenience for customers

#### ■ Opened the new “Account Opening Plaza”

In March 2019, Hokuriku Bank opened the “Account Opening Plaza (Odori Subway Station Sub-Branch),” which allows people to open accounts on weekdays after 3:00 p.m. as well as on weekends and holidays, with the aim of improving the level of convenience for customers.

At the plaza, we are working to improve convenience by offering the “Cash Card Immediate Delivery Service,” which provides customers with a cash card immediately upon opening an account, rather than sending it to them in the mail as we have done in the past.



#### ■ Opened the new “Hokugin Favore Plaza”

In October 2019, Hokuriku Bank opened the “Hokugin Favore Plaza (Hayahoshi Branch Favore Plaza Sub-Branch)” in conjunction with the opening of the enlarged and renovated “Future City Favore,” a large shopping center in Toyama City.

Favore Plaza is open until 8:00 p.m. everyday including holidays.

This branch can carefully respond to customer inquiries such as concerns about asset management and inheritance as it equipped with a consultation booth, business discussion room and fulfilled kid’s space.

In addition, consultation is also available concerning the use of internet banking and apps and the branch accepts applications for change of address and change of names.

The facility is useful for customers who find it difficult to visit on weekdays and during the day.



## Digitalization & Fintech strategy

### Commenced operation of the financial institution linked platform “Hokuriku Big Advance”

In November 2019, Hokuriku Bank commenced operation of the management support platform “Hokuriku Big Advance,” which enables corporate and individual business owners to access and use the website on the internet by themselves.

Provides a one-stop response to various management issues faced by local companies such as expanding sales channels, securing personnel, improving business efficiency and business succession through business matching between more than 400 major companies and financial institution members participating in the platform, while supporting new technologies and services created in the region and realizing the creation of new businesses for the future through open innovation with major companies.



## Commenced handling “electronic contracts service” for housing loans

Hokkaido Bank commenced handling “electronic contracts service” for housing loans in December 2019 followed by Hokuriku Bank in January 2020.

It is now possible to execute a contract in electronic form when taking out a housing loan by inputting into a tablet at the reception desk, which confers an electronic signature on a contract with the same legal force as a signature and seal on a paper contract.

We continue to strive to provide services that improve the level of convenience for customers.



## Commenced “Hokuhoku Pay” service

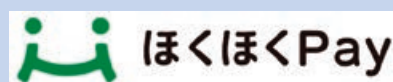
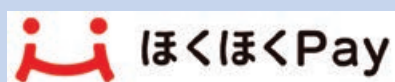
In November 2019, Hokuriku Bank and Hokkaido Bank commenced handling the smartphone payment service “Hokuhoku Pay.” A service that enables individual customers to immediately withdraw funds from a pre-registered bank account to complete payment by scanning the QR code using a smartphone app when making payments for shopping at member stores.

The payment will be deposited in the member store's bank account at a later date.

There is no need to register for a credit card or load money in advance, and customers can shop smartly without having to carry a purse or credit card.

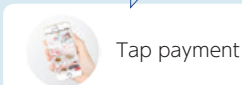
“Hokuhoku Pay” uses the “Ginko Pay” base system supplied by GMO Payment Gateway, Inc. and enables sequential use of the “multi-bank settlement” functions with banks that have installed “Ginko Pay.”

We continue to improve the level of convenience for customers through implementation of cashless and digital banking solutions in the region.



### How to use “Hokuhoku Pay”

First, please advise the store that you will pay with the smartphone payment service



Tap payment

In the case of scanning the store's QR code



The person in the store will display the QR code

Scan the store's QR code

In the case of showing the QR code to the store



Tap “Code pay”

Show the QR code to the person in the store



Payment complete  
Confirm the payment receipt

For details, please refer to the websites of Hokuriku Bank (<https://www.hokugin.co.jp/>) and Hokkaido Bank (<https://www.hokkaidobank.co.jp/>) or visit your nearest branch.

## Community revitalization strategy

## Realization of sustainable community

### Community revitalization support

#### Investment in agricultural corporation OMEGA Farmers LLC and support for management

In July 2019, Hokkaido Bank directly invested in agricultural corporation OMEGA Farmers LLC and seconded personnel as representatives for the purpose of contributing to the development of Hokkaido's agriculture using the “commercialization of agriculture management” method through the concentration of management and management resources.

In future, we shall provide advice, etc. for diversification of that company's activities to include primary, secondary, and tertiary industries from the production of the materials used in its vegetable oils to the processing of oil extraction and sales, so that it can better contribute to revitalization of the local economy.



## Executed a comprehensive collaborative agreement concerning the implementation of SDGs with Toyama City and put together project finance for the “Project to utilize the public land on the northern side of the main government building.”

In August 2019, Hokuriku Bank executed “a comprehensive collaborative agreement concerning the implementation of SDGs” for achieving SDGs with Toyama City, which has been selected as a SDGs Future City.

In addition, Hokuriku Bank and the Development Bank of Japan put together project financing for PPP Shinsakura K.K., which was established to undertake the “Project to utilize the public land on the northern side of the main government building” as a PPP project in Toyama City, to utilize the funds and know-how of local companies to realize Toyama City’s Compact City Strategy.



## Coordinated public-private partnership for measures to deal with unoccupied houses

In September 2019, Takasu Town and Sanyu Appraisal Corporation executed a “Partnership agreement concerning measures for unoccupied houses,” which was coordinated by Hokkaido Bank.

Both parties are collaborating with the aim of making effective use and reducing the number of unoccupied houses and Takasu Town will be used as the field to implement “Training Business for Unoccupied House Survey Members” (entrusted by the Ministry of Land, Infrastructure, Transport and Tourism).

Through such business, the aim is to train unoccupied house survey members who can respond in one-stop to consultation concerning unoccupied houses and to implement initiatives to prevent unoccupied houses and vacant land appearing in local areas.

Through the collaboration between industrial, academic, government and financial organizations and local experts in areas such as law, real estate, construction and finance, unoccupied house survey members will conduct an “unoccupied house triage” factoring in the economic rationalism of unoccupied houses.



## Held “X-Tech Innovation 2019”

In December 2019, Hokkaido Bank held a business contest selection meeting to collect a range of new service and business ideas spanning different industries, with a focus on various technologies that are developing at a rapid pace.

Last fiscal year, this contest was held jointly with Fukuoka Financial Group, The Bank of Okinawa and The 77 Bank, Ltd. as the contest was held by four banks in four regions.

Through this contest, we will contribute to the revitalization of local economies by supporting the commercialization of business ideas for startup companies and exploring the possibilities for applying business ideas to existing businesses.

This time, we allowed time for special presentations by student teams and awarded a “Special Regional Revitalization Prize” and a “Special SDGs Prize.”



## Commenced provision of the PR TIMES “Hokkaido Bank Special Plan”

In March 2020, Hokkaido Bank commenced the provision of “Hokkaido Bank Special Plan” in the PR TIMES, a press release distribution service, for the purpose of advertising and providing PR support for companies and local governments within the prefecture.

Hokuriku Bank commenced “Hokuriku Bank Special Plan” from November 2017.

“PR TIMES” is a press release distribution site with 27 million PV views per month. Using these plans enables the effective nationwide distribution of useful news from local companies and local government initiatives for regional revitalization.

Using these plans will advance the creation of an environment that facilitates the nationwide distribution of useful news from local companies and local government initiatives for regional revitalization, and contribute to the revitalization of local economies and the promotion of regional revitalization.



## Responsible Investment and Finance

### Purchased a “Green Bond” that invests in improving the environment considering ESG

In September 2019, Hokuriku Bank purchased a “Green Bond” security that invests in green projects considering ESG issued by Mitsui Fudosan Co., Ltd.

This bond will be used for refinancing capital to acquire reserved floors in Nihonbashi Muromachi Mitsui Tower, which is the building that houses the Tokyo branches of Hokuriku Bank and Hokkaido Bank, completed in March 2019 as a high-rise building incorporating energy efficient businesses.

Nihonbashi Muromachi Mitsui Tower receives its electricity and heat supply through the “Nihonbashi Smart Energy Project,” which not only achieves energy efficiency and reduces CO2 through the effective use of energy but is also well prepared for natural disasters.

Through the purchase of this bond, we contribute to achieving Goal 7 of the Sustainable Development Goals (SDGs) advocated by the United Nations “Affordable and Clean Energy.”



## Improving financial literacy in the region

### Financial and economic education

#### Held “Economics-Koshien”

Hokuriku Bank and Hokkaido Bank held regional contests called “Economics-Koshien” from November to December 2019 for high school students to acquire financial and economics knowledge in a fun quiz format, and as a way to prompt them to start thinking about their relationship with money as well as life planning.

Hokuriku Bank managed the Toyama and Fukui contests, while Hokkaido Bank managed the Hokkaido contest.

One high school student commented, “The contest provided me with an opportunity to gain information not available in class and to obtain knowledge that will be useful for my life in future.”



## Strategy for utilization of human resources

### Human resource development

The HokuHoku Financial Group is actively dispatched to overseas and overseas training for the purpose of developing advanced specialized knowledge and practical skills, developing a sense of management, and forming personal connections. As a finance professional, we aim to acquire solution skills that solve the needs and issues of customers and local communities.

FY2019 dispatch results	Hokuriku Bank	Hokkaido Bank
Outside training	57 people	54 people
Overseas training	46 people	19 people



## Promotion of diversity

We regard the promotion of diversity as a major management issue, and are working to “raise awareness of career development” and “reform the corporate culture” with the aim of creating a workplace where diverse human resources can play an active role. The Hokuriku Bank and the Hokkaido Bank have established Diversity Promotion Offices to create an environment where all motivated and capable staff can play an active role by promoting the active participation of women, enhancing the work-life balance support system, and realizing diverse work styles. We are focusing on maintenance.

### Acquisition of diversity certification and various initiatives

#### Hokuriku Bank

- 2016 Obtained “Platinum Kurumin Certification” for the first time in Toyama Prefecture by the Ministry of Health, Labor and Welfare
- 2016 Implemented “Hokuriku Bank Ikuboss Declaration”
- 2017 Obtained “Eruboshi” Stage 2 certification by the Minister of Health, Labour and Welfare, based on the Act on Promotion of Women’s Participation and Advancement in the Workplace
- 2018-2020 Certified by the Ministry of Economy, Trade and Industry as “Excellent Health Management Corporation (White 500)”

#### Hokkaido Bank

- 2012 Opened “Dosanko Kid’s Room”, an in-house childcare facility
- 2018 Acquired “Sapporo City Work-Life Balance plus Company Certification”  
\*Active corporate certification for work-life balance and active participation by women
- 2018-2020 Certified by the Ministry of Economy, Trade and Industry as “Excellent Health Management Corporation (White 500)”



## Promotion of work style reform

By thoroughly streamlining and streamlining operations throughout the Group, we are working to efficiently allocate human resources through productivity improvements, reduce overtime work, and enhance work-life balance.

### Various numerical indicators and results (FY2019)

#### 1. Corporate/Individual External Relations Ratio

32.1% (+2.5% YoY)

#### 2. Acquired paid leave (annual average)

Hokuriku Bank: 14.0 days    Hokkaido Bank: 12.4 days

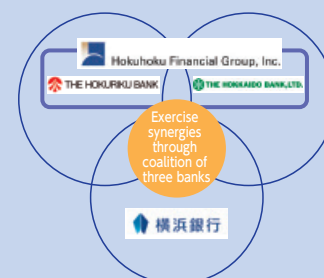
## HokuHoku FG Group strategy

### Three-bank coalition for foreign exchange operations

We decided with Concordia Financial Group’s Bank of Yokohama for the three banks to work in a coalition in relation to foreign exchange operations such as overseas remittances and trade transactions.

Hokkaido Bank implemented this from November 2019 and Hokuriku Bank will also implement from October 2020.

To date there has been joint operation of the core system “MEJAR” aiming to reduce IT costs. This coalition in relation to foreign exchange operations will lead to the sharing of the three banks’ know-how while building a sustainable model for foreign exchange operations that will achieve both improved risk management and cost reduction.



### Integrate business matching system

In April 2020, Hokkaido Bank installed the business matching system jointly developed by Linkers Corporation and Hokuriku Bank.

The installation of this system enables proposals to be made for resolving the various business matching needs faced by customers in a speedy manner.

In addition, this further strengthens the collaboration with Hokuriku Bank, which had installed the system earlier.



# STAKEHOLDER COMMUNICATION

## Relationship with stakeholders

### <Shareholders and investors>

Hokuhoku Financial Group places great importance on opportunities for dialogue with shareholders and investors.

In FY2019, we held IR presentation meetings for institutional investors in Tokyo and IR presentation meetings for retail investors in Toyama, Kanazawa, Sapporo and Asahikawa, providing explanations of the Group's profile, operating performance and strategy, etc.

\*We have postponed holding such presentations in 2020 in order to prevent the spread of COVID-19.



### <Local communities and environment>

#### Participating in Forest Building in Nanto

Hokuriku Bank endorses the ideals of the initiative that began in November 2015 with the goal of replacing missing thatch in the rooves of Gokayama's traditional Gassho-style houses (Historic Village of Gokayama, World Heritage site), and has participated from the outset to realize a sustainable society in accordance with our SDGs.



#### Held the Hokkaido Bank Curling Classic

Hokkaido Bank has been holding the Hokkaido Bank Curling Classic at the Hokkaido Bank Curling Stadium since 2015. Each time, domestic and foreign men's and women's teams have competed and enjoyed exciting matches.

From 2019, the tournament has been registered in the World Curling Tour and it is now established as an international competition.



### <Authorities, educational institutions and industry groups>

Hokuriku Bank and Hokkaido Bank aim to enhance communication through collaborations with authorities, educational institutions and various groups, proactively implementing education to improve local financial literacy and SDGs literacy and matching local needs with the seeds of study.

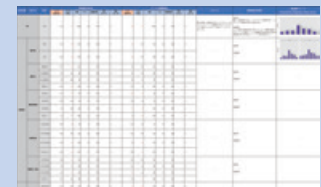
As of the end of FY2019, collaborations have been formalized with 46 local government bodies and 22 universities.



### <Customers>

Hokuriku Bank and Hokkaido Bank conducts surveys of customers engaged in asset management transactions, listen sincerely to the opinions of customers, which are useful for proposing better services and products.

The survey utilizes the NPS® (Net Promoter Score®), which provides a score for "How likely is it that you would recommend our company/product/service to a friend or colleague?," measuring the high level of interest that a customer has in a corporate brand, product and person in charge. In FY2019, both banks exceeded the average score for the 50 regional banks that participated in the survey.



### <Employees>

#### Held Hokuhoku Young Forum

Hokuriku Bank and Hokkaido Bank have been holding the "Hokuhoku Young Forum" since 2014 to strengthen links and to promote dialogue between young employees and executive officers.

21 young employees participated in the seventh forum, held in FY2019, where they discussed and deepened their understanding about "Hokuhoku collaboration" and "exercising the Group's comprehensive strength," in order to exercise the group's comprehensive strength, one of the pillars of the Medium-Term Management Plan."



## 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 Hokuuoku 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 a company with Audit and Supervisory Committee 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. Four Directors are appointed and oversight is strengthened by incorporating perspectives that are independent from management.

#### 2. Audit and Supervisory Committee

Determines matters related to auditing policies, plans and methods, and matters related to the execution of duties of the appointed Director serving as Audit and Supervisory Committee Member. Also, monitors the performance of duties by Directors, and carries out determinations of opinions related to the nomination, compensation, etc., of Directors who are not serving as Audit and Supervisory Committee Members.

#### 3. Corporate Governance Committee

The Committee, which is composed of four external Directors and one full-time Director serving as Audit and Supervisory

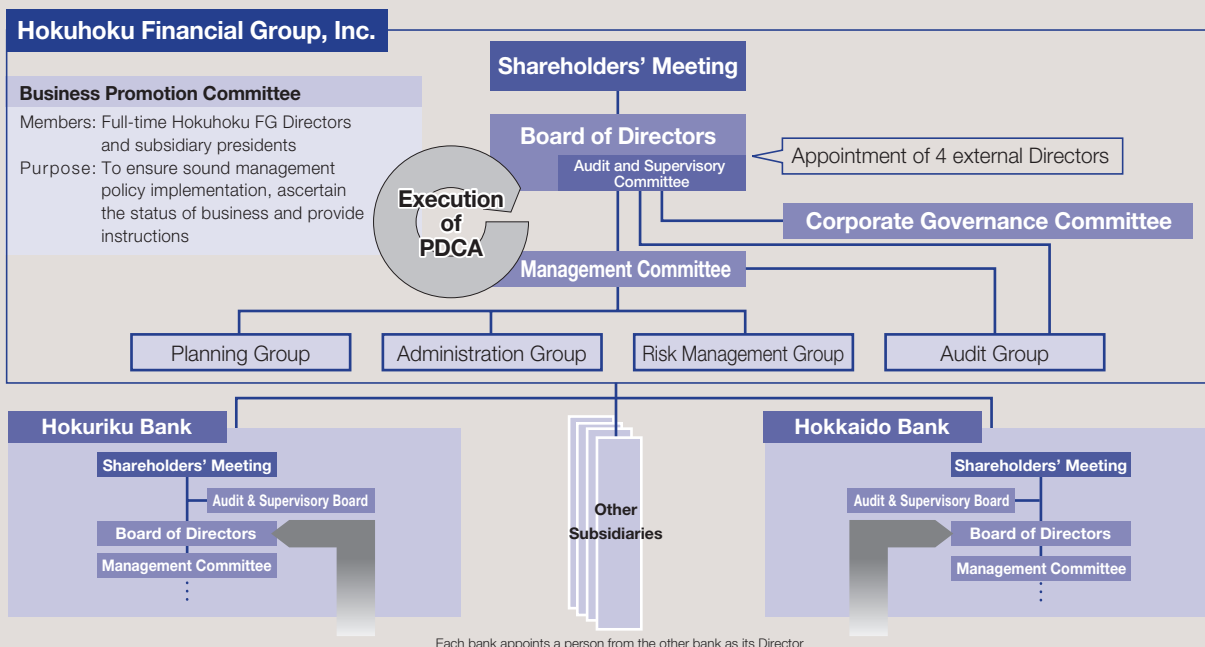
Committee Member, aims to secure sustainable growth and boost long-term corporate value of the Group through exchanging information and sharing perceptions among external Directors and by offering advice on the Company's important issues.

#### 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.



## Reason for appointment as external Director

In the selection of candidates for external Directors, in addition to the knowledge, experience and capabilities to perform the role, the Company places great importance on ensuring independence to meet the requirements for external directors provided by the Companies Act and to exercise the management supervisory function.

Name	Position	Reason for appointment
Tatsuo Kawada	Chairman and C.E.O., SEIREN CO., LTD.	He is well versed in management and local economies as a business manager and he is expected to strengthen the supervisory function of the Company's overall management, so he has been appointed an external Director. In addition, he does not breach the criteria for independence prescribed in Securities Listing Regulations, etc., meets the "criteria for judging independence" prescribed by the Company, does not present any concern about conflicts of interest with general shareholders, is judged to have adequate neutrality, and has been designated an independent director.
Ryoji Nakagawa	Attorney-at-law	Due to his extensive experience and high-level insight concerning legal matters as an attorney-at-law and Justice of the Supreme Court of Japan, he is expected to strengthen the supervisory function of the Company's overall management, so he has been appointed an external Director. In addition, he does not breach the criteria for independence prescribed in Securities Listing Regulations, etc., meets the "criteria for judging independence" prescribed by the Company, does not present any concern about conflicts of interest with general shareholders, is judged to have adequate neutrality, and has been designated an independent director.
Masaaki Manabe	Chairman and Representative Director, HOKUYAKU TAKEYAMA Holdings, Inc.	He is well versed in management and local economies as a business manager and he is expected to strengthen the supervisory function of the Company's overall management, so he has been appointed an external Director. In addition, he does not breach the criteria for independence prescribed in Securities Listing Regulations, etc., meets the "criteria for judging independence" prescribed by the Company, does not present any concern about conflicts of interest with general shareholders, is judged to have adequate neutrality, and has been designated an independent director.
Nobuya Suzuki	Chairman of the Board, Representative Executive Officer, Meiji Yasuda Life Insurance Company	He has extensive experience in the management of financial institutions (life insurance) and he is expected to strengthen the supervisory function of the Company's overall management, so he has been appointed an external Director. In addition, he does not breach the criteria for independence prescribed in Securities Listing Regulations, etc., meets the "criteria for judging independence" prescribed by the Company, does not present any concern about conflicts of interest with general shareholders, is judged to have adequate neutrality, and has been designated an independent director.

## Assessment of the effectiveness of the Board of Directors

The Company's Board of Directors conducts analysis and assessment of the overall corporate governance system including the overall effectiveness of the Board of Directors each year in light of the purpose of our Corporate Governance Guidelines, discloses an overview of the results and aims to make the necessary improvements.

**Overview of the analysis and assessment results concerning the effectiveness of the FY2018 Board of Directors**

The assessment is that the composition and management of the Board of Directors and the Corporate Governance Committee, which is established with external Directors as key members under the Board of Directors, are appropriate and the effectiveness of the Board of Directors has been secured.

Note that in the discussion about the assessment, opinions were shared about the need to provide more information to external Directors concerning important topics, while monitoring of the Medium-term Management Plan should be enhanced, and we plan to take the necessary actions in the future.

**Initiatives in FY2019**

Apart from aiming to improve the information, including materials for monitoring the Medium-term Management Plan, provided to external Directors, and develop the system for enabling enhanced discussion, reports were also implemented to share important management issues and changes in the external environment with the Board of Directors.

**Overview of the analysis and assessment process concerning the effectiveness of the FY2019 Board of Directors**

Assessment concerning the effectiveness was conducted at the Board of Directors meeting in May after registered self-assessment survey was conducted for all directors and suggestions were put forward from the Corporate Governance Committee based on the survey results.

[Items in the self-assessment survey (headings)]

- 1) Composition of the Board of Directors
- 2) Operation of the Board of Directors
- 3) Operation of the Corporate Governance Committee
- 4) Role and responsibilities of Directors, support system of external Director, etc.
- 5) Relationship with shareholders and investors
- 6) Corporate governance system and overall effectiveness of the Board of Directors
- 7) Status of improvements since the previous fiscal year

**Overview of the analysis and assessment results concerning the effectiveness of the FY2019 Board of Directors**

The assessment is that the composition and management of the Board of Directors and the Corporate Governance Committee, which is established with external Directors as key members under the Board of Directors, is appropriate and the effectiveness of the Board of Directors has been secured.

Note that in the discussion about the assessment, opinions were shared about the need for further improvements of materials to stimulate discussion to improve corporate value and the need to make an effort further to enhance the information provided to external Directors and we plan to take the necessary action in the future.

**Director training**

In order for Directors to appropriately perform the roles and responsibilities expected of persons in charge of important governance bodies, the Company's Board of Directors encourages and supervises efforts of Directors to study for the acquisition of the necessary knowledge and appropriate updates to deepen their understanding of such roles and responsibilities.

(Key initiatives in FY2019)

Shared information relating to the Financial Services Agency's Financial Services Policy with external Directors at the meeting of Corporate Governance Committee

**Directors' remuneration**

The Company has established the Corporate Governance Guidelines at the Board of Directors and the Company prescribes the policy concerning the determination of amounts such as Directors' remuneration, etc. and its calculation method, and the method and procedures for determining such policy in the Guidelines as follows.

- i The Company determines the level and composition of Directors' remuneration to function as an incentive for the Group's sustained growth and the medium to long-term improvement in corporate value.
- ii The remuneration, etc. of Directors excluding Directors serving as Audit and Supervisory Committee Members shall comprise the following basic remuneration and share remuneration, with the respective amounts within the upper limits of the annual remuneration approved at the General Meeting of Shareholders, and be determined by the Board of Directors in an objective and transparent manner upon the recommendation from the Corporate Governance Committee concerning the appropriateness and validation of the amounts calculated in accordance with separately prescribed Directors' remuneration provisions and share remuneration-type stock option provisions.
  - (a) Basic remuneration  
Basic remuneration shall be a fixed amount of remuneration prescribed for each position.
  - (b) Share remuneration  
Share remuneration shall be share remuneration-type stock options equivalent to amounts prescribed for each position.

- iii The remuneration, etc. of Directors serving as Audit and Supervisory Committee Members shall comprise only basic remuneration in light of the role to direct and audit the execution of business from a neutral and independent perspective, and be determined by discussion of Directors serving as Audit and Supervisory Committee Members in accordance with the separately prescribed Directors' remuneration provisions, within the upper limits of the annual remuneration approved at the General Meeting of Shareholders.

The details of resolutions concerning Directors' remunerations, etc. at the General Meeting of Shareholders are as follows.

- i Resolution was made at the Ordinary General Meeting of Shareholders held on June 27, 2017.
- ii The amount of remuneration including bonuses for Directors (excluding Directors serving as Audit and Supervisory Committee Members) shall be an amount not exceeding 250 million yen per year (not including the salaries of employees serving concurrently as Directors).
- iii The amount of remuneration for Directors serving as Audit and Supervisory Committee Members shall be an amount not exceeding 80 million yen per year.
- iv In addition to the upper limit of the amount of remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) there shall be a separate allocation of stock acquisition rights as share remuneration-type stock options for Directors (excluding Directors serving as Audit and Supervisory Committee Members and external Directors) for an amount not exceeding 45 million yen per year (not including the salaries of employees serving concurrently as Directors).

## Basic policy on internal controls

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

- In addition to setting matters pertaining to laws and regulations, 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.
- The Board of Directors selects multiple external Directors in positions independent from the Group in the selection of candidates for the Board of Directors, working to boost the mutual checks and balances function.
- The Board of Directors establishes the Corporate Governance Committee, creating a system to provide the appropriate advice and involvement in important items to the Company through coordination with the external Directors.
- The Board of Directors, positioning compliance as one of the most important management issues, draws up both basic compliance policy and the compliance charter. It furthermore establishes control departments to maintain and enhance the compliance system of the Company and group companies.
- The Board of Directors draws up a Compliance Program as each fiscal year's action plan, thoroughly implementing honest and fair corporate activities, rejecting all relationships with antisocial forces, and preventing money laundering, etc.
- The Board of Directors establishes a whistleblower system whereby an executive or an employee who discovers illegal or inappropriate actions can report to a whistleblower contact point established in advance.
- Every fiscal year the Board of Directors draws up an Audit Policy and has the internal audit department, in accordance with this, conduct audits of the state of compliance to laws and regulations, etc. of the Company and group companies, and report these results to the Board of Directors and the Audit and Supervisory Committee, etc.

### 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. Directors can access the documents at any time.

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

- 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 formulates the basic risk management policies and risk management rules. It furthermore establishes control departments, establishing a system to accurately recognize and gauge individual risk associated with Group company management, and to ensure the soundness of Group management through appropriate management and operations.
- The Board of Directors have formulated contingency plans, etc. and established a crisis management system 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.
- Every fiscal year the Board of Directors draws up an Audit Policy and has the internal audit department, in accordance with this, conduct audits of the state of risk management of the Company and group companies, and report these results to the Board of Directors and the Audit and Supervisory Committee, etc.

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

- The Board of Directors draws up a management plan to clarify the Group's desired vision and its performance goals.
- The Board of Directors sets overall organizational standards for basic tasks, operational entities, and assignment of duties, and establishes 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.

**5. System to ensure the appropriateness of financial reporting**

- The Board of Directors draws up a basic policy related to the internal control evaluation of financial reporting, establishing a system to ensure the suitability of financial reporting and to provide true and clear reporting on both financial conditions and management results.

**6. System to ensure the appropriateness of operations within the corporate group which consists of the Company and group companies**

- The Board of Directors is responsible for overall group management. It establishes the group management rules, prepares frameworks for agenda-setting and reporting to the Company for each group company with regard to important matters, and receives reports from internal audit departments on the findings of audits into the state of compliance to laws and regulations, etc., risk management, and the appropriateness and effectiveness of business operations.
- 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.

**7. Matters related to employees required to assist with duties of the Audit and Supervisory Committee**

- In order to assist the Audit and Supervisory Committee in the conduct of their duties, the Board of Directors shall place employees who carry out this work only and to whom Audit and Supervisory Committee Members may directly give directions and orders based on their independence and effectiveness etc.
- The Board of Directors requires prior consent from the Audit and Supervisory Committee for personnel transfers and disciplinary measures regarding such employees.

**8. System for the Company and group company executives and employees to report to the Audit and Supervisory Committee and other systems related to reporting to the Audit and Supervisory Committee**

- If executives and employees of the Company or group companies discover matters that could cause significant losses to the

Company or group companies, they shall directly or indirectly report such matters to the Audit and Supervisory Committee.

- The Board of Directors establishes a system to report to the appointed Directors serving as Audit and Supervisory Committee Members for reports carried out in accordance with rules, including such reports within the Company and such reports from group companies to the Company.
- Either the Audit and Supervisory Committee or appointed Director serving as Audit and Supervisory Committee Member may request reports from executives and employees of the Company or group companies as needed.
- The Board of Directors shall establish a system to ensure that executives and employees of the Company or group companies are not mistreated as a result of having reported to, consulted or investigated with the Audit and Supervisory Committee.

**9. Other systems to ensure effective auditing by the Audit and Supervisory Committee**

- The Board of Directors shall give due acknowledgement to the importance and usefulness of auditing by the Audit and Supervisory Committee, and shall discuss and take responsive action appropriately if the Audit and Supervisory Committee requests creation of a system for smoother and more effective performance of auditing duties.
- The appointed Director serving as Audit and Supervisory Committee Member may attend important meetings such as the Management Committee. Furthermore, either the Audit and Supervisory Committee or appointed Director serving as Audit and Supervisory Committee Member shall regularly meet with the representative Directors and outside accounting auditors, in addition to which it shall maintain close collaboration and cooperative relations 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.
- Directors serving as Audit and Supervisory Committee Members may invoice the Company for any expenses deemed necessary in order to perform duties of the Audit and Supervisory Committee.

## Internal auditing mechanisms

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**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 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 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 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 Group of the Company conduct joint audits in order to strengthen and streamline overall Group auditing.

## MEASURES FOR RISK MANAGEMENT

### General risk management systems

The Group has created basic risk management policies that address various risks and is working to upgrade general risk management systems to ensure 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 and in order to protect customer deposits and earn the trust of our shareholders and creditors.

In addition, the Group has established a general risk management department to integrate and manage the various risks while also conducting internal audits by an independent audit department with a structure to verify the appropriateness and effectiveness of the risk management system.



## 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 its internal ratings system and asset self-assessment, promptly and accurately appraises credit risk, and performs write-offs and provisions to reserves for possible loan losses as appropriate.

When making individual judgements on granting credit, rigorous screening is carried out in accordance with standards and principles stated in our credit policy.

### 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.

In addition, we monitor the credit concentration status

of large borrowers based on the Group-wide management rules for credit limits and manage so that no excessive credit concentration risk materializes.

### Asset self-assessment standards

Self-assessments are strictly performed by the asset assessment departments in the subsidiary banks according to the asset self-assessment standards and the appropriateness is verified by the risk management department and independent internal management department.

### 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.

## 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 Risk Management 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

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### 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 into seven categories as prescribed in the "Rules for management of operational risk": 1) Administrative risk, 2) System risk, 3) Legal risk, 4) Personnel risk, 5) Tangible asset risk, 6) Reputational risk, and 7) Other risks. The status of these risks is monitored at the Operational Risk Specialist Committee, which convenes monthly at the subsidiary banks, and we strive to establish Plan, Do, Check and Act (PDCA) cycle frameworks by grasping potential risks through risk assessments, etc. and the evaluation of preventative measures.

### 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

Through the analysis of the causes of administrative errors and other incidents, the Group discusses measures to prevent reoccurrence, while advancing improved efficiencies and centralization of headquarter administrative operations from the perspective of consolidation and mutual checks and endeavoring to implement initiatives that will reduce administrative risk.

- System risk management

The Group has formulated “rules for system risk management” as well as “a basic policy on ensuring the safety of information assets (security policy)”, has established a robust management and operating structure, and implements a variety of security management measures, including backup systems. In addition, the Group is working to strengthen its security management system in order to promptly address cyberattacks which have been on the rise in recent years.

## 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.

## MEASURES FOR COMPLIANCE

### 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.

### 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

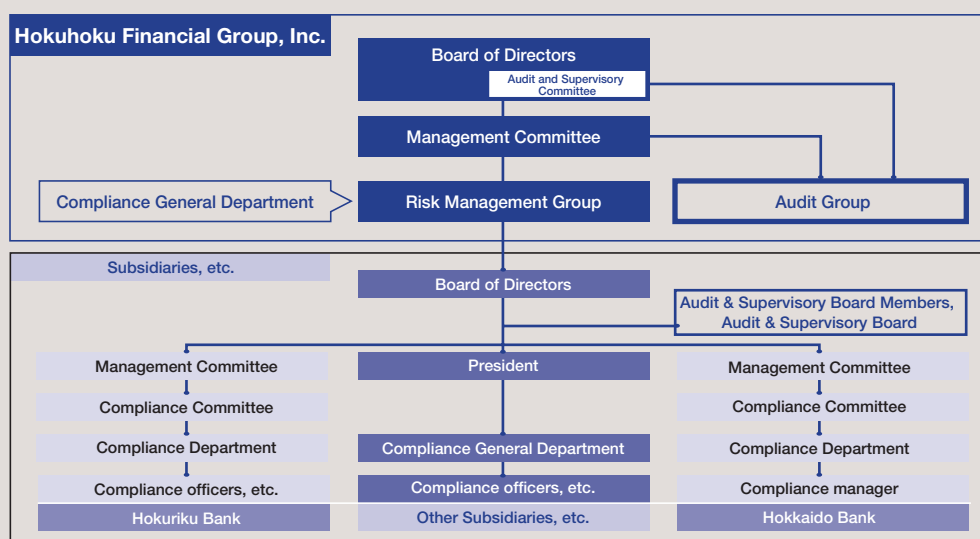
The Group aims to achieve a highly transparent management and organizational culture through accurate and swift disclosure and decision making.

### 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.



## 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.

## 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

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.

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.

## Internal notification system

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, exploitation 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.

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.

## 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.

### Banking

Name of designated dispute resolution organization:

Japanese Bankers Association

Inquiries:

Japanese Bankers Association Customer Relations Center

### Financial instruments business

Name of designated dispute resolution organization:

Financial Instruments Mediation Assistance Center

# 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)
	2020	2019	2020
<b>Assets</b>			
Cash and due from banks (Notes 3 and 29)	¥ 2,725,025	¥ 2,556,419	\$ 25,039,287
Call loans and bills bought (Note 29)	59,795	80,210	549,437
Monetary claims bought (Note 29)	32,684	37,030	300,323
Trading assets (Note 4)	3,790	4,072	34,827
Money held in trust (Note 5)	16,054	10,723	147,521
Securities (Notes 6, 12, and 29)	1,815,484	1,797,605	16,681,838
Loans and bills discounted (Notes 7, 12, 13, and 29)	8,656,450	8,344,137	79,541,029
Foreign exchanges (Note 8)	19,014	15,706	174,719
Other assets (Note 12)	194,483	217,369	1,787,037
Tangible fixed assets (Note 9)	96,905	99,177	890,431
Intangible fixed assets (Note 10)	17,320	21,067	159,151
Assets for retirement benefits (Note 16)	—	398	—
Deferred tax assets (Note 26)	6,456	1,474	59,325
Customers' liabilities for acceptances and guarantees (Note 11)	56,099	53,483	515,481
Allowance for loan losses	(54,703)	(52,903)	(502,649)
<b>Total assets</b>	<b>¥13,644,861</b>	<b>¥13,185,972</b>	<b>\$125,377,757</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits (Notes 12, 14, and 29)	¥ 11,638,618	¥ 11,410,328	\$ 106,943,108
Call money and bills sold (Note 12)	68,264	27,214	627,262
Payables under repurchase agreements	11,877	—	109,141
Payables under securities lending transactions (Note 12)	294,641	352,650	2,707,353
Trading liabilities (Note 4)	497	544	4,569
Borrowed money (Notes 12, 15, and 29)	827,574	612,665	7,604,287
Foreign exchanges (Note 8)	113	795	1,043
Borrowed money from trust account	534	—	4,911
Other liabilities	119,799	64,694	1,100,794
Liability for retirement benefits (Note 16)	12,199	6,994	112,100
Reserve for directors' and audit & supervisory board members' retirement benefits	190	184	1,747
Reserve for contingent losses	1,025	1,089	9,419
Reserve for reimbursement of deposits	1,978	2,244	18,182
Reserve under the special laws	5	2	47
Deferred tax liabilities (Note 26)	10,919	19,767	100,332
Deferred tax liabilities for revaluation	5,201	5,309	47,799
Acceptances and guarantees (Note 11)	56,099	53,483	515,481
<b>Total liabilities</b>	<b>13,049,541</b>	<b>12,557,968</b>	<b>119,907,575</b>
<b>Equity (Notes 17, 18, and 20)</b>			
Capital stock	70,895	70,895	651,429
Capital surplus	139,269	144,622	1,279,696
Stock acquisition rights (Note 19)	497	443	4,567
Retained earnings	329,343	316,329	3,026,216
Treasury stock	(1,237)	(1,281)	(11,370)
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities (Note 6)	55,525	91,608	510,203
Deferred gains (losses) on hedges	(1,076)	(910)	(9,888)
Revaluation reserve for land (Note 9)	8,211	8,354	75,453
Defined retirement benefit plans (Note 16)	(9,049)	(4,865)	(83,152)
<b>Total</b>	<b>592,378</b>	<b>625,196</b>	<b>5,443,154</b>
Non-controlling interests	2,941	2,807	27,028
<b>Total equity</b>	<b>595,319</b>	<b>628,004</b>	<b>5,470,182</b>
<b>Total liabilities and equity</b>	<b>¥13,644,861</b>	<b>¥13,185,972</b>	<b>\$125,377,757</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)
	2020	2019	2020
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥85,027	¥87,583	\$781,290
Interest and dividends on securities	22,817	24,026	209,660
Interest on receivables under resale agreements	(4)	(9)	(41)
Interest on deposits with other banks	878	1,092	8,072
Other interest income	518	748	4,767
Trust fees	6	—	56
Fees and commissions	38,820	39,128	356,709
Trading income	1,270	1,097	11,671
Other ordinary income (Note 22)	24,303	20,011	223,316
Other income (Note 24)	9,127	10,121	83,865
Total income	182,765	183,801	1,679,365
<b>Expenses</b>			
Interest expense:			
Interest on deposits	1,047	1,293	9,624
Interest on payables under repurchase agreements	37	217	341
Interest on payables under securities lending transactions	1,162	1,924	10,677
Interest on borrowings and rediscounts	340	611	3,131
Interest on bonds payable	—	105	—
Other interest expense	1,807	2,237	16,613
Fees and commissions	15,416	15,755	141,660
Other ordinary expenses (Note 23)	12,544	14,773	115,266
General and administrative expenses	94,962	96,090	872,575
Provision of allowance for loan losses	11,463	5,587	105,331
Other expenses (Note 25)	13,390	11,183	123,039
Total expenses	152,172	149,781	1,398,257
Income before income taxes	30,593	34,019	281,108
Income taxes (Note 26):			
Current	9,226	9,994	84,778
Deferred	972	(453)	8,939
Net income	20,393	24,477	187,391
Net income attributable to non-controlling interests	141	118	1,299
<b>Net income attributable to owners of the parent</b>	<b>¥20,252</b>	<b>¥24,359</b>	<b>\$186,092</b>

	Yen	U.S. dollars
<b>Per share of common stock</b> (Notes 2-u and 21)		
Basic net income	<b>¥142.74</b>	¥173.50
Diluted net income	<b>142.37</b>	173.12
Cash dividends applicable to the year	<b>40.00</b>	44.00
		<b>\$1.31</b>
		<b>1.31</b>
		<b>0.37</b>

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)
	2020	2019	2020
Net income	¥20,393	¥24,477	\$187,391
Other comprehensive income (Note 27)	(40,440)	648	(371,593)
Valuation difference on available-for-sale securities	(36,012)	1,505	(330,909)
Deferred gains (losses) on hedges	(165)	65	(1,522)
Defined retirement benefit plans	(4,183)	(888)	(38,444)
Share of other comprehensive income of associates accounted for using equity method	(78)	(34)	(718)
Total comprehensive income	¥(20,046)	¥25,125	\$(184,202)
Comprehensive income attributable to owners of the parent	(20,180)	24,981	(185,433)
Comprehensive income attributable to non-controlling interests	133	144	1,231

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, 2018</b>	132,163	107,432	¥70,895	¥144,590	¥451	¥299,060	¥(1,367)
Cash dividends						(7,378)	
Net income attributable to owners of the parent						24,359	
Purchases of treasury stock							(8)
Disposals of treasury stock				32			94
Reversal of revaluation reserve for land						287	
Net changes in the year					(8)		
<b>BALANCE, MARCH 31, 2019</b>	<b>132,163</b>	<b>107,432</b>	<b>¥70,895</b>	<b>¥144,622</b>	<b>¥443</b>	<b>¥316,329</b>	<b>¥(1,281)</b>
Cash dividends						(7,381)	
Net income attributable to owners of the parent						20,252	
Purchases of treasury stock							(5,380)
Disposals of treasury stock				13			56
Retirement of treasury stock		(10,734)		(5,367)			5,367
Reversal of revaluation reserve for land						142	
Net changes in the year					53		
<b>BALANCE, MARCH 31, 2020</b>	<b>132,163</b>	<b>96,698</b>	<b>¥70,895</b>	<b>¥139,269</b>	<b>¥497</b>	<b>¥329,343</b>	<b>¥(1,237)</b>

	Millions of yen						
	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, APRIL 1, 2018</b>	¥90,163	¥(975)	¥8,642	¥(3,977)	¥607,482	¥2,664	¥610,147
Cash dividends					(7,378)		(7,378)
Net income attributable to owners of the parent					24,359		24,359
Purchases of treasury stock					(8)		(8)
Disposals of treasury stock					127		127
Reversal of revaluation reserve for land					287		287
Net changes in the year	1,445	65	(287)	(888)	326	143	469
<b>BALANCE, MARCH 31, 2019</b>	<b>¥91,608</b>	<b>¥(910)</b>	<b>¥8,354</b>	<b>¥(4,865)</b>	<b>¥625,196</b>	<b>¥2,807</b>	<b>¥628,004</b>
Cash dividends					(7,381)		(7,381)
Net income attributable to owners of the parent					20,252		20,252
Purchases of treasury stock					(5,380)		(5,380)
Disposals of treasury stock					70		70
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					142		142
Net changes in the year	(36,083)	(165)	(142)	(4,183)	(40,522)	133	(40,389)
<b>BALANCE, MARCH 31, 2020</b>	<b>¥55,525</b>	<b>¥(1,076)</b>	<b>¥8,211</b>	<b>¥(9,049)</b>	<b>¥592,378</b>	<b>¥2,941</b>	<b>¥595,319</b>

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
<b>BALANCE, MARCH 31, 2019</b>	<b>\$651,429</b>	<b>\$1,328,883</b>	<b>\$4,076</b>	<b>\$2,906,637</b>	<b>\$(11,771)</b>
Cash dividends				(67,827)	
Net income attributable to owners of the parent				186,092	
Purchases of treasury stock					(49,435)
Disposals of treasury stock		128			521
Retirement of treasury stock		(49,315)			49,315
Reversal of revaluation reserve for land				1,314	
Net changes in the year			491		
<b>BALANCE, MARCH 31, 2020</b>	<b>\$651,429</b>	<b>\$1,279,696</b>	<b>\$4,567</b>	<b>\$3,026,216</b>	<b>\$(11,370)</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, 2019</b>	<b>\$841,761</b>	<b>\$(8,366)</b>	<b>\$76,767</b>	<b>\$(44,707)</b>	<b>\$5,744,709</b>	<b>\$25,801</b>	<b>\$5,770,510</b>
Cash dividends					(67,827)		(67,827)
Net income attributable to owners of the parent					186,092		186,092
Purchases of treasury stock					(49,435)		(49,435)
Disposals of treasury stock					649		649
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					1,314		1,314
Net changes in the year	(331,558)	(1,522)	(1,314)	(38,445)	(372,348)	1,227	(371,121)
<b>BALANCE, MARCH 31, 2020</b>	<b>\$510,203</b>	<b>\$(9,888)</b>	<b>\$75,453</b>	<b>\$(83,152)</b>	<b>\$5,443,154</b>	<b>\$27,028</b>	<b>\$5,470,182</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)
	2020	2019	2020
<b>1. Cash flows from operating activities:</b>			
Income before income taxes	¥ 30,593	¥ 34,019	\$ 281,108
Depreciation	7,159	7,379	65,782
Impairment losses	915	1,027	8,411
Amortization of goodwill	2,102	2,102	19,317
Equity in losses (gains) of affiliates	1	(13)	14
Increase (decrease) in allowance for loan losses	1,799	4,490	16,535
Increase (decrease) in reserve for contingent losses	(64)	(264)	(590)
Decrease (increase) in asset for retirement benefits	398	497	3,659
Increase (decrease) in liability for retirement benefits	5,205	775	47,835
Increase (decrease) in reserve for directors' and audit & supervisory board members' retirement benefits	6	(5)	57
Increase (decrease) in reserve for reimbursement of deposits	(265)	322	(2,440)
Interest income	(109,237)	(113,442)	(1,003,748)
Interest expense	4,395	6,390	40,385
Losses (gains) on securities	(6,213)	(2,922)	(57,096)
Losses (gains) on money held in trust	68	(3)	634
Losses (gains) on foreign exchange	2,053	(2,859)	18,873
Losses (gains) on sales of fixed assets	174	271	1,602
Net decrease (increase) in trading assets	281	325	2,590
Net increase (decrease) in trading liabilities	(47)	(138)	(438)
Net decrease (increase) in loans and bills discounted	(312,312)	(171,249)	(2,869,727)
Net increase (decrease) in deposits	261,483	268,113	2,402,677
Net increase (decrease) in negotiable certificates of deposit	(33,193)	(8,998)	(305,002)
Net increase (decrease) in borrowed money (excluding subordinated borrowed money)	214,909	60,152	1,974,725
Net decrease (increase) in due from banks (excluding deposits with the Bank of Japan)	(488)	11,368	(4,486)
Net decrease (increase) in call loans, bills bought, commercial paper, and other debt purchased	24,761	(20,309)	227,528
Net increase (decrease) in call money and bills sold	52,928	(36,625)	486,340
Net increase (decrease) in payables under securities lending transactions	(58,009)	(73,626)	(533,028)
Net decrease (increase) in foreign exchanges (assets)	(3,307)	3,075	(30,394)
Net increase (decrease) in foreign exchanges (liabilities)	(681)	608	(6,263)
Net increase (decrease) in borrowed money from trust account	534	—	4,911
Interest income—cash basis	87,943	89,614	808,086
Interest expense—cash basis	(4,468)	(6,364)	(41,058)
Other, net	54,043	(6,145)	496,583
<b>Subtotal</b>	<b>223,469</b>	<b>47,566</b>	<b>2,053,382</b>
Income taxes paid	(9,727)	(5,951)	(89,385)
<b>Net cash provided by (used in) operating activities</b>	<b>213,741</b>	<b>41,614</b>	<b>1,963,997</b>
<b>2. Cash flows from investing activities:</b>			
Purchases of securities	(1,036,495)	(725,930)	(9,523,989)
Proceeds from sales of securities	621,687	677,669	5,712,468
Proceeds from redemption of securities	368,078	214,366	3,382,140
Purchases of money held in trust	(25,463)	(20,117)	(233,974)
Proceeds from sales of money held in trust	20,295	20,482	186,484
Proceeds from fund management	22,817	24,030	209,660
Purchases of tangible fixed assets	(3,343)	(4,226)	(30,719)
Proceeds from sales of tangible fixed assets	965	354	8,872
Purchases of intangible fixed assets	(1,379)	(1,678)	(12,680)
<b>Net cash provided by (used in) investing activities</b>	<b>(32,838)</b>	<b>184,949</b>	<b>(301,738)</b>
<b>3. Cash flows from financing activities:</b>			
Repayment of subordinated borrowed money	—	(15,000)	—
Repayment of subordinated bonds	—	(25,000)	—
Expenditures for fund procurement	—	(307)	—
Dividends paid	(7,381)	(7,378)	(67,827)
Dividends paid to non-controlling shareholders	(0)	(0)	(4)
Purchases of treasury stock	(5,380)	(8)	(49,435)
Proceeds from disposals of treasury stock	0	0	3
<b>Net cash provided by (used in) financing activities</b>	<b>(12,761)</b>	<b>(47,694)</b>	<b>(117,263)</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	<b>(23)</b>	<b>8</b>	<b>(219)</b>
<b>5. Net increase (decrease) in cash and cash equivalents</b>	<b>168,118</b>	<b>178,879</b>	<b>1,544,777</b>
<b>6. Cash and cash equivalents at beginning of the period</b>	<b>2,553,235</b>	<b>2,374,356</b>	<b>23,460,771</b>
<b>7. Cash and cash equivalents at end of the period (Note 3)</b>	<b>¥2,721,353</b>	<b>¥2,553,235</b>	<b>\$25,005,548</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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥108.83 to U.S. \$1, the rate of exchange at March 31, 2020. 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, 2020 include the accounts of the Company and its 12 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 capture 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 Group's 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 five 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, excepting 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 one- or three-year expected loan losses. Expected loan losses are measured based on one- or three-year historical loan loss ratio and forward-looking information.

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 ¥38,565 million (\$354,367 thousand) and ¥40,109 million at March 31, 2020 and 2019, 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. Reserve under the Special Laws**

A reserve under the special laws is a reserve for contingent liabilities and provided for compensation for losses from securities related transactions or derivative transactions in accordance with Article 46-5 of the Japanese Financial Instruments and Exchange Act.

#### **o. 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 consolidated balance sheet, the stock options are presented as stock acquisition rights as a separate component of equity until exercised.

#### **p. Income Taxes**

The provision for income taxes is computed based on the 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.

#### **q. 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.

#### **r. 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.

#### **s. 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.

#### **t. Finance Lease**

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

#### **u. 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.

#### **v. New Accounting Pronouncements**

##### **Accounting standards for Revenue Recognition**

On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

##### **Accounting standards for Fair Value Measurement**

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost.

The New Accounting Standards are effective for annual periods beginning on or after April 1, 2021.

The Company expects to apply the New Accounting Standards for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the New Accounting Standards in future applicable periods.

**w. Additional Information**

The Group's current expectation is that the majority of the impact of COVID-19 on our society will manifest in the next 1 to 2 years, and that during this period, there will be a distinct impact on the financial health of debtors. The government has prepared a number of financial aid programs to mitigate the deterioration of solvency of debtors, for which reason the Group anticipates that debtor solvency will not be a significant issue at the end of this fiscal year. The Group therefore assumes that the Group will not suffer significant losses from an increase in credit losses in relation to the COVID-19 pandemic.

This assumption is an area of significant estimation uncertainty and if the COVID-19 pandemic lasts for longer than the Group's current estimate, it is possible that the situation will have an adverse impact on the Group's future financial performance.

### 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and due from banks	¥2,725,025	¥2,556,419	\$25,039,287
Due from banks except for deposits with the Bank of Japan	(3,671)	(3,183)	(33,739)
Cash and cash equivalents	¥2,721,353	¥2,553,235	\$25,005,548

### 4. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Trading Assets</b>			
Trading securities	¥3,139	¥3,416	\$28,848
Trading-related financial derivatives	650	655	5,979
Total	¥3,790	¥4,072	\$34,827
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Trading Liabilities</b>			
Trading-related financial derivatives	¥497	¥544	\$4,569
Total	¥497	¥544	\$4,569

### 5. Money Held in Trust

Money held in trust for trading purposes as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Amounts recorded in the consolidated balance sheet	¥14,204	¥9,123	\$130,522
Valuation gain (loss) included in consolidated statement of income	(53)	10	(492)

Money held in trust for other purposes as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Amounts recorded in the consolidated balance sheet	¥1,850	¥1,600	\$16,999
Valuation gain (loss) included in consolidated statement of income	—	—	—

### 6. Securities

Securities as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japanese national government bonds	¥ 452,102	¥ 603,529	\$ 4,154,208
Japanese local government bonds	476,500	367,148	4,378,393
Japanese corporate bonds	303,771	303,834	2,791,247
Japanese corporate stocks	197,884	237,586	1,818,290
Other securities	385,225	285,505	3,539,700
Total	¥1,815,484	¥1,797,605	\$16,681,838

As of March 31, 2020 and 2019, securities included equity investments in non-consolidated subsidiaries that amounted to ¥1,194 million (\$10,972 thousand) and ¥1,012 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 ¥(27) million (\$(256) thousand) and ¥(14) million as of March 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2020</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥64,026	¥73,740	¥9,713
Japanese local government bonds	1,500	1,519	19
Japanese corporate bonds	118,983	119,803	819
Total	¥184,510	¥195,063	¥10,553
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥ —	¥ —	¥ —
Japanese local government bonds	1,000	999	(0)
Japanese corporate bonds	20,784	20,689	(95)
Total	21,784	21,688	(96)
Grand total	¥206,294	¥216,751	¥10,456

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2019</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥64,536	¥76,007	¥11,470
Japanese local government bonds	2,000	2,026	26
Japanese corporate bonds	124,609	125,635	1,026
Total	¥191,145	¥203,669	¥12,523
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥ —	¥ —	¥ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	16,334	16,239	(95)
Total	16,334	16,239	(95)
Grand total	¥207,480	¥219,908	¥12,428

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2020</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$588,316	\$677,571	\$89,255
Japanese local government bonds	13,783	13,963	180
Japanese corporate bonds	1,093,299	1,100,832	7,533
Total	\$1,695,398	\$1,792,366	\$96,968
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$ —	\$ —	\$ —
Japanese local government bonds	9,189	9,182	(7)
Japanese corporate bonds	190,982	190,106	(876)
Total	200,171	199,288	(883)
Grand total	\$1,895,569	\$1,991,654	\$96,085

The amounts on the consolidated balance sheet, acquisition or amortized cost, and unrealized gains (losses) on available-for-sale securities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2020</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	¥ 131,254	¥ 51,407	¥79,846
Bonds:			
Japanese government bonds	344,350	340,467	3,883
Japanese local government bonds	271,621	269,956	1,664
Japanese corporate bonds	116,305	114,096	2,208
Total bonds	732,277	724,521	7,756
Other securities:			
Foreign securities	154,875	143,077	11,797
Other	102,271	96,204	6,066
Total other securities	257,146	239,282	17,863
Total	¥1,120,678	¥1,015,210	¥105,467
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	¥37,111	¥46,171	¥(9,059)
Bonds:			
Japanese government bonds	43,725	43,957	(231)
Japanese local government bonds	202,379	202,918	(539)
Japanese corporate bonds	47,697	48,111	(414)
Total bonds	293,802	294,987	(1,185)
Other securities:			
Foreign securities	15,352	15,507	(155)
Other	145,405	164,756	(19,350)
Total other securities	160,758	180,264	(19,506)
Total	491,672	521,423	(29,751)
Grand total	¥1,612,350	¥1,536,634	¥75,715

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2019</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	¥ 171,998	¥ 63,576	¥108,422
Bonds:			
Japanese government bonds	538,992	530,149	8,843
Japanese local government bonds	360,696	357,719	2,977
Japanese corporate bonds	155,072	152,000	3,071
Total bonds	1,054,761	1,039,868	14,892
Other securities:			
Foreign securities	127,485	121,471	6,014
Other	98,588	92,323	6,265
Total other securities	226,073	213,794	12,279
Total	¥1,452,834	¥1,317,239	¥135,595
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	¥ 39,382	¥ 46,340	¥ (6,957)
Bonds:			
Japanese government bonds	—	—	—
Japanese local government bonds	4,451	4,453	(1)
Japanese corporate bonds	7,818	7,843	(24)
Total bonds	12,270	12,296	(25)
Other securities:			
Foreign securities	8,433	8,438	(5)
Other	88,025	91,681	(3,656)
Total other securities	96,459	100,120	(3,661)
Total	148,112	158,757	(10,644)
Grand total	¥1,600,947	¥1,475,996	¥124,950

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2020</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	\$1,206,046	\$472,362	\$733,684
Bonds:			
Japanese government bonds	3,164,116	3,128,435	35,681
Japanese local government bonds	2,495,831	2,480,538	15,293
Japanese corporate bonds	1,068,690	1,048,393	20,297
Total bonds	6,728,637	6,657,366	71,271
Other securities:			
Foreign securities	1,423,092	1,314,693	108,399
Other	939,736	883,989	55,747
Total other securities	2,362,828	2,198,682	164,146
Total	\$10,297,511	\$9,328,410	\$969,101
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	\$341,007	\$424,256	\$(83,249)
Bonds:			
Japanese government bonds	401,776	403,907	(2,131)
Japanese local government bonds	1,859,590	1,864,544	(4,954)
Japanese corporate bonds	438,277	442,083	(3,806)
Total bonds	2,699,643	2,710,534	(10,891)
Other securities:			
Foreign securities	141,067	142,497	(1,430)
Other	1,336,082	1,513,890	(177,808)
Total other securities	1,477,149	1,656,387	(179,238)
Total	4,517,799	4,791,177	(273,378)
Grand total	\$14,815,310	\$14,119,587	\$695,723

Information on available-for-sale securities, which were sold during the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		
	Proceeds	Realized gains	Realized losses
<b>March 31, 2020</b>			
Japanese corporate stocks	¥49,437	¥4,176	¥3,991
Bonds:			
Japanese government bonds	25,214	124	44
Japanese local government bonds	34,602	237	22
Japanese corporate bonds	1,754	9	—
Total bonds	61,570	371	66
Other securities:			
Foreign securities	220,473	5,531	249
Other	124,414	4,976	1,266
Total other securities	344,888	10,508	1,516
Total	¥455,897	¥15,056	¥5,575

	Millions of yen		
	Proceeds	Realized gains	Realized losses
<b>March 31, 2019</b>			
Japanese corporate stocks	¥102,663	¥ 5,795	¥5,438
Bonds:			
Japanese government bonds	51,061	182	81
Japanese local government bonds	—	—	—
Japanese corporate bonds	1,313	5	—
Total bonds	52,375	187	81
Other securities:			
Foreign securities	375,985	3,536	3,738
Other	107,489	2,687	180
Total other securities	483,475	6,224	3,918
Total	¥638,514	¥12,207	¥9,438

March 31, 2020	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	<b>\$454,265</b>	<b>\$38,376</b>	<b>\$36,680</b>
Bonds:			
Japanese government bonds	<b>231,683</b>	<b>1,148</b>	<b>407</b>
Japanese local government bonds	<b>317,953</b>	<b>2,181</b>	<b>207</b>
Japanese corporate bonds	<b>16,118</b>	<b>88</b>	<b>—</b>
Total bonds	<b>565,754</b>	<b>3,417</b>	<b>614</b>
Other securities:			
Foreign securities	<b>2,025,853</b>	<b>50,824</b>	<b>2,296</b>
Other	<b>1,143,204</b>	<b>45,731</b>	<b>11,637</b>
Total other securities	<b>3,169,057</b>	<b>96,555</b>	<b>13,933</b>
Total	<b>\$4,189,076</b>	<b>\$138,348</b>	<b>\$51,227</b>

Impairment losses on available-for-sale securities amounted to ¥3,389 million (\$31,143 thousand) and ¥99 million as of March 31, 2020 and 2019, 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, 2020 and 2019, in the consolidated balance sheet, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference before taxes on available-for-sale securities	<b>¥75,715</b>	¥124,950	<b>\$695,723</b>
Deferred tax liabilities	<b>(20,098)</b>	(33,320)	<b>(184,679)</b>
Valuation difference on available-for-sale securities (before adjustment)	<b>55,616</b>	91,629	<b>511,044</b>
Amounts attributable to non-controlling interests	<b>(159)</b>	(166)	<b>(1,465)</b>
The Company's portion of valuation difference on available-for-sale securities of equity method investees	<b>67</b>	146	<b>624</b>
Amounts recorded in the consolidated balance sheet	<b>¥55,525</b>	¥ 91,608	<b>\$510,203</b>

## 7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bills discounted	<b>¥29,563</b>	¥41,712	<b>\$271,645</b>
Loans on bills	<b>225,441</b>	247,850	<b>2,071,506</b>
Loans on deeds	<b>7,282,401</b>	6,991,840	<b>66,915,384</b>
Overdrafts	<b>1,119,043</b>	1,062,733	<b>10,282,494</b>
Total	<b>¥8,656,450</b>	¥8,344,137	<b>\$79,541,029</b>

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
	2020	2019	2020
Loans to borrowers in bankruptcy	<b>¥3,196</b>	¥4,483	<b>\$29,370</b>
Past due loans	<b>131,319</b>	133,522	<b>1,206,652</b>
Past due loans (three months or more)	<b>367</b>	595	<b>3,376</b>
Restructured loans	<b>20,767</b>	17,617	<b>190,829</b>
Total	<b>¥155,651</b>	¥156,219	<b>\$1,430,227</b>

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 ¥33,036 million (\$303,561 thousand) and ¥44,011 million as of March 31, 2020 and 2019, respectively.

## 8. Foreign Exchanges

Foreign exchanges as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Assets</b>			
Due from foreign banks	<b>¥13,912</b>	¥12,285	<b>\$127,837</b>
Foreign exchange bills bought	<b>3,473</b>	2,298	<b>31,916</b>
Foreign exchange bills receivable	<b>1,628</b>	1,122	<b>14,966</b>
Total	<b>¥19,014</b>	¥15,706	<b>\$174,719</b>
<b>Liabilities</b>			
Due to foreign banks	<b>¥21</b>	¥227	<b>\$194</b>
Foreign exchange bills sold	<b>22</b>	23	<b>206</b>
Foreign exchange bills payable	<b>69</b>	544	<b>643</b>
Total	<b>¥113</b>	¥795	<b>\$1,043</b>

## 9. Tangible Fixed Assets

Tangible fixed assets as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings	<b>¥32,963</b>	¥32,838	<b>\$302,890</b>
Land	<b>56,927</b>	57,876	<b>523,083</b>
Lease assets	<b>846</b>	670	<b>7,782</b>
Construction in progress	<b>260</b>	657	<b>2,393</b>
Other tangible fixed assets	<b>5,907</b>	7,133	<b>54,283</b>
Total	<b>¥96,905</b>	¥99,177	<b>\$890,431</b>

Accumulated depreciation amounted to ¥103,037 million (\$946,779 thousand) and ¥101,965 million as of March 31, 2020 and 2019, respectively.

The book value of tangible fixed assets adjusted for gains on sales of replaced assets amounted to ¥5,738 million (\$52,728 thousand) and ¥3,666 million as of March 31, 2020 and 2019, 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 ¥16,982 million (\$156,049 thousand) and ¥17,840 million as of March 31, 2020 and 2019, respectively.

## 10. Intangible Fixed Assets

Intangible fixed assets as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Software	<b>¥7,038</b>	¥8,625	<b>\$64,674</b>
Goodwill	<b>9,285</b>	11,387	<b>85,317</b>
Lease assets	<b>325</b>	405	<b>2,987</b>
Other intangible fixed assets	<b>671</b>	649	<b>6,173</b>
Total	<b>¥17,320</b>	¥21,067	<b>\$159,151</b>

## 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 ¥170,406 million (\$1,565,806 thousand) and ¥168,373 million as of March 31, 2020 and 2019, respectively.

## 12. Assets Pledged

Assets pledged as collateral and their relevant liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets pledged as collateral:			
Securities	<b>¥749,462</b>	¥766,947	<b>\$6,886,544</b>
Loans and bills discounted	<b>653,398</b>	478,723	<b>6,003,844</b>
Relevant liabilities to the above assets:			
Deposits	<b>¥28,280</b>	¥26,275	<b>\$259,858</b>
Call money and bills sold	<b>45,000</b>	25,549	<b>413,489</b>
Payables under securities lending transactions	<b>294,641</b>	352,650	<b>2,707,353</b>
Borrowed money	<b>822,015</b>	606,416	<b>7,553,206</b>

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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities	<b>¥ 2,006</b>	¥ 4,117	<b>\$18,432</b>
Other assets	<b>105,219</b>	105,219	<b>966,824</b>

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
	2020	2019	2020
Cash collateral paid for financial instruments	<b>¥6,151</b>	¥4,290	<b>\$56,522</b>
Guarantee deposits	<b>4,348</b>	5,050	<b>39,957</b>

## 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 ¥2,447,305 million (\$22,487,413 thousand) and ¥2,458,526 million as of March 31, 2020 and 2019, respectively, of which amounts with original agreement terms of less than one year are ¥2,320,671 million (\$21,323,826 thousand) and ¥2,354,300 million as of March 31, 2020 and 2019, 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 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current deposits, ordinary deposits, saving deposits and deposits at notice	<b>¥7,953,259</b>	¥7,581,084	<b>\$73,079,665</b>
Time deposits and installment savings	<b>3,479,486</b>	3,587,505	<b>31,971,760</b>
Negotiable certificates of deposit	<b>80,500</b>	113,693	<b>739,688</b>
Other deposits	<b>125,371</b>	128,045	<b>1,151,995</b>
Total	<b>¥11,638,618</b>	¥11,410,328	<b>\$106,943,108</b>

## 15. Borrowed Money

As of March 31, 2020 and 2019, the weighted-average annual interest rates applicable to borrowed money were 0.03% and 0.06%, respectively.

Annual maturities of borrowed money as of March 31, 2020 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	<b>¥139,324</b>	<b>\$1,280,200</b>
2022	<b>256,631</b>	<b>2,358,091</b>
2023	<b>68,716</b>	<b>631,407</b>
2024	<b>361,929</b>	<b>3,325,639</b>
2025	<b>458</b>	<b>4,209</b>
2026 and thereafter	<b>516</b>	<b>4,741</b>
Total	<b>¥827,574</b>	<b>\$7,604,287</b>

## 16. 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, and also provides a defined contribution pension since fiscal year 2016. 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 a corporate 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 retirement benefit trusts.

### (a) Defined benefit plan

(1) The changes in defined benefit obligations for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	<b>¥97,879</b>	¥99,996	<b>\$899,382</b>
Service cost	<b>2,339</b>	2,396	<b>21,498</b>
Interest cost	<b>602</b>	615	<b>5,536</b>
Actuarial (gains) losses	<b>985</b>	306	<b>9,058</b>
Benefits paid	<b>(5,440)</b>	(5,521)	<b>(49,992)</b>
Others	<b>87</b>	86	<b>800</b>
Balance at end of year	<b>¥96,454</b>	¥97,879	<b>\$886,282</b>

(2) The changes in plan assets for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	<b>¥91,283</b>	¥94,673	<b>\$838,775</b>
Expected return on plan assets	<b>2,651</b>	2,594	<b>24,368</b>
Actuarial (gains) losses	<b>(6,300)</b>	(2,040)	<b>(57,897)</b>
Contributions from the employer	<b>443</b>	141	<b>4,071</b>
Establishment of retirement benefit trust	—	—	—
Benefits paid	<b>(3,910)</b>	(4,174)	<b>(35,935)</b>
Others	<b>87</b>	89	<b>800</b>
Balance at end of year	<b>¥84,254</b>	¥91,283	<b>\$774,182</b>

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded defined benefit obligation	<b>¥81,729</b>	¥82,416	<b>\$750,987</b>
Plan assets	<b>(74,845)</b>	(79,827)	<b>(687,729)</b>
	<b>6,884</b>	2,588	<b>63,258</b>
Unfunded defined benefit obligation	<b>14,724</b>	15,463	<b>135,295</b>
Plan assets	<b>(9,408)</b>	(11,456)	<b>(86,453)</b>
	<b>5,315</b>	4,007	<b>48,842</b>
Net liability (asset) arising from defined benefit obligation	<b>¥12,199</b>	¥6,595	<b>\$112,100</b>

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits	<b>¥12,199</b>	¥6,994	<b>\$112,100</b>
Asset for retirement benefits	—	(398)	—
Net liability (asset) arising from defined benefit obligation	<b>¥12,199</b>	¥6,595	<b>\$112,100</b>

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	<b>¥2,339</b>	¥2,396	<b>\$21,498</b>
Interest cost	<b>602</b>	615	<b>5,536</b>
Expected return on plan assets	<b>(2,651)</b>	(2,594)	<b>(24,368)</b>
Recognized actuarial (gains) losses	<b>1,272</b>	1,116	<b>11,693</b>
Amortization of prior service costs	—	(46)	—
Others	<b>56</b>	73	<b>521</b>
Net periodic benefit costs	<b>¥1,619</b>	¥1,560	<b>\$14,880</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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Prior service cost	<b>¥ —</b>	¥(46)	<b>\$ —</b>
Actuarial gains (losses)	<b>(6,014)</b>	(1,229)	<b>(55,262)</b>
Total	<b>¥(6,014)</b>	¥(1,276)	<b>\$(55,262)</b>

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized prior service cost	<b>¥ —</b>	¥ —	<b>\$ —</b>
Unrecognized actuarial (gains) losses	<b>13,008</b>	6,994	<b>119,531</b>
Total	<b>¥13,008</b>	¥6,994	<b>\$119,531</b>

(7) Plan assets

• *Components of plan assets*

Plan assets as of March 31, 2020 and 2019 consisted of the following:

	2020	2019
Bonds	<b>35.14%</b>	36.89%
Stocks	<b>34.11</b>	41.53
Cash and deposits	<b>11.86</b>	4.21
General accounts	<b>7.88</b>	7.58
Other	<b>11.01</b>	9.79
Total	<b>100.00%</b>	100.00%

Note: Plan assets include retirement benefit trusts of 19.15% and 22.47% as of March 31, 2020 and 2019, 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, 2020 and 2019 were set forth as follows:

	2020	2019
Discount rate	<b>0.61%–0.63%</b>	0.61%–0.63%
Expected rate of return on plan assets	<b>3.0%–3.3%</b>	3.0%

(b) *Defined contribution pension plan*

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Contribution	<b>¥353</b>	¥366	<b>\$3,251</b>

## 17. 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 and the Banking 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. With respect to the third condition above, the Board of Directors of companies with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 27, 2017. 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 certain limitations 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 within equity 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.

On October 1, 2016, the Company implemented a common stock consolidation at a ratio of ten stocks to one stock based on the resolution of the General Shareholders' meeting held on June 24, 2016.

### (d) Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2020 will be approved at the Company's general shareholders' meeting held on June 23, 2020:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥40.00 (\$0.37) per share of common stock	¥5,247	\$48,214
Cash dividends, ¥7.50 (\$0.07) per share of preferred stock (Type 5)	725	6,663

## 18. Capital Stock

Information with respect to capital stock of the Company as of March 31, 2020 and 2019 is as follows:

	2020	2019
Number of shares:		
Authorized:		
Common	280,000,000	280,000,000
Preferred (Type 5)	110,000,000	110,000,000
Issued and outstanding:		
Common	132,163,014	132,163,014
Preferred (Type 5)	96,698,000	107,432,000
Treasury stock:		
Common	999,658	1,038,191
Preferred (Type 5)	11,144	2,160

### Preferred stock (Type 5)

Preferred stock (Type 5) is noncumulative and nonparticipating. 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, 2020 and 2019 were as follows:

	As of April 1, 2019	Changes during the fiscal year		As of March 31, 2020
		Increase*1	Decrease*2	
2020				
Common	1,038,191	7,777	46,310	999,658
Preferred (Type 5)	2,160	10,742,984	10,734,000	11,144

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

The increase of preferred (Type5) represents the acquisition of treasury stock.

\*2 The decrease of common represents primarily the exercise of stock options.

The decrease of preferred (Type5) represents the retirement of treasury stock.

	As of April 1, 2018	Changes during the fiscal year		As of March 31, 2019
		Increase*1	Decrease*2	
2019				
Common	1,109,893	5,791	77,493	1,038,191
Preferred (Type 5)	2,160	—	—	2,160

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

\*2 The decrease of common represents primarily the exercise of stock options.

## 19. Stock Acquisition Rights

Stock acquisition rights as of March 31, 2020 and 2019 consisted of stock options.

## 20. 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 ¥123 million (\$1,137 thousand) and ¥118 million were recorded under general and administrative expenses for the years ended March 31, 2020 and 2019, respectively.

The stock options outstanding as of March 31, 2020 were as follows:

Stock options	Persons granted	Number of options granted (Shares)	Date of grant	Exercise price	Exercise period
2012 Stock Option	19 directors 23 executive officers	105,850	November 28, 2012	¥1	From November 29, 2012 to November 28, 2042
2013 Stock Option	19 directors 22 executive officers	62,950	August 13, 2013	¥1	From August 14, 2013 to August 13, 2043
2014 Stock Option	19 directors 21 executive officers	55,400	July 11, 2014	¥1	From July 12, 2014 to July 11, 2044
2015 Stock Option	18 directors 24 executive officers	41,730	July 14, 2015	¥1	From July 15, 2015 to July 14, 2045
2016 Stock Option	19 directors 25 executive officers	106,200	August 12, 2016	¥1	From August 13, 2016 to August 12, 2046
2017 Stock Option	20 directors 25 executive officers	75,960	July 14, 2017	¥1	From July 15, 2017 to July 14, 2047
2018 Stock Option	19 directors 24 executive officers	87,420	July 11, 2018	¥1	From July 12, 2018 to July 11, 2048
2019 Stock Option	19 directors 24 executive officers	114,610	July 10, 2019	¥1	From July 11, 2019 to July 10, 2049

The stock option activity was as follows:

Year ended March 31, 2020	2012 stock option (Shares)	2013 stock option (Shares)	2014 stock option (Shares)	2015 stock option (Shares)
Non-vested:				
March 31, 2019				
—outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020				
—outstanding	—	—	—	—
Vested:				
March 31, 2019				
—outstanding	21,970	19,930	19,550	19,710
Vested	—	—	—	—
Exercised	3,200	3,230	3,950	2,750
Canceled	—	—	—	—
March 31, 2020				
—outstanding	18,770	16,700	15,600	16,960
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥1,098	¥1,098	¥1,098	¥1,098
	\$10.09	\$10.09	\$10.09	\$10.09
Fair value price at grant date	¥1,080	¥1,820	¥2,010	¥2,650
	\$9.92	\$16.72	\$18.47	\$24.35

Year ended March 31, 2020	2016 stock option (Shares)	2017 stock option (Shares)	2018 stock option (Shares)	2019 stock option (Shares)
Non-vested:				
March 31, 2019				
—outstanding	—	—	—	—
Granted	—	—	—	114,610
Canceled	—	—	—	—
Vested	—	—	—	114,610
March 31, 2020				
—outstanding	—	—	—	—
Vested:				
March 31, 2019				
—outstanding	68,840	55,650	87,420	—
Vested	—	—	—	114,610
Exercised	12,450	9,520	10,960	—
Canceled	—	—	—	—
March 31, 2020				
—outstanding	54,390	46,130	76,460	114,610
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥1,098	¥1,098	¥1,098	¥—
	\$10.09	\$10.09	\$10.09	\$—
Fair value price at grant date	¥1,170	¥1,717	¥1,353	¥1,080
	\$10.75	\$15.78	\$12.43	\$9.92

Shares and per share figures have been restated, as appropriate, to reflect a one-for-ten stock consolidation effected October 1, 2016.

### The Assumptions Used to Measure the Fair Value of the 2019 Stock Options

Estimate method	Black-Scholes option-pricing model
Volatility of stock price	26.703%
Estimated remaining outstanding period	One years and ten months
Estimate dividend	¥44.00 per share
Risk-free interest rate	(0.186)%

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.

## 21. 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, 2020 and 2019 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended	Net income attributable to owners of parent	Weighted-average shares		EPS
March 31, 2020				
Basic EPS – Net income available to common shareholders	¥18,721	131,153	¥142.74	\$1.31
Effect of dilutive securities		338		
Diluted EPS – Net income for computation	¥18,721	131,492	¥142.37	\$1.31

	Millions of yen	Thousands of shares	Yen
Year ended	Net income attributable to owners of parent	Weighted-average shares	EPS
March 31, 2019			
Basic EPS – Net income available to common shareholders	¥22,747	131,109	¥173.50
Effect of dilutive securities		284	
Diluted EPS – Net income for computation	¥22,747	131,394	¥173.12

(2) Net assets per share of common stock

Net assets per share of common stock as of March 31, 2020 and 2019 were as follows:

	Yen	U.S. dollars
	2020	2019
Net assets per share of common stock	¥4,138.44	¥4,348.77
		\$38.03

Net assets per share of common stock as of March 31, 2020 and 2019 were calculated based on the following:

	Millions of yen	Thousands of U.S. dollars
	2020	2019
Total equity	¥595,319	¥628,004
Deductions from total equity:		
Stock acquisition rights	497	443
Non-controlling interests	2,941	2,807
Preferred stock	48,343	53,714
Preferred dividends	725	805
Net assets attributable to common stock at the end of the fiscal year	542,812	570,232
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)	131,163	131,124

## 22. Other Ordinary Income

Other ordinary income for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2020	2019
Gain on foreign exchange transactions – net	¥1,100	¥969
Gains on sales and redemption of bonds and other securities	9,387	6,057
Gains on derivatives	48	2
Lease receipts	12,257	11,489
Other	1,510	1,491
Total	¥24,303	¥20,011
		\$223,316

## 23. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2020	2019
Losses on sales, redemption and devaluation of bonds and other securities	¥907	¥3,928
Lease costs	11,243	10,535
Other	394	309
Total	¥12,544	¥14,773
		\$115,266

## 24. Other Income

Other income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gains on sales of stocks	<b>¥5,797</b>	¥6,430	<b>\$53,270</b>
Gains on sales of tangible fixed assets	<b>362</b>	154	<b>3,329</b>
Other	<b>2,967</b>	3,535	<b>27,266</b>
Total	<b>¥9,127</b>	¥10,121	<b>\$83,865</b>

## 25. Other Expenses

Other expenses for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Losses on write-offs of loans and bills discounted	<b>¥458</b>	¥506	<b>\$4,210</b>
Losses on sales of stocks	<b>4,982</b>	5,559	<b>45,780</b>
Losses on impairments of stocks and other securities	<b>3,081</b>	77	<b>28,316</b>
Losses on sales of loans	<b>404</b>	143	<b>3,717</b>
Losses on impairments and disposals of fixed assets	<b>1,452</b>	1,454	<b>13,342</b>
Other	<b>3,011</b>	3,441	<b>27,674</b>
Total	<b>¥13,390</b>	¥11,183	<b>\$123,039</b>

## 26. 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 rate of approximately 30.45% for the years ended March 31, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for loan losses	<b>¥25,366</b>	¥24,785	<b>\$233,081</b>
Depreciation	<b>755</b>	809	<b>6,938</b>
Liability for retirement benefits	<b>12,199</b>	11,440	<b>112,093</b>
Loss on valuation of securities	<b>11,451</b>	11,230	<b>105,220</b>
Other	<b>5,878</b>	6,243	<b>54,014</b>
Operating loss carryforwards	<b>52</b>	59	<b>482</b>
Subtotal	<b>55,702</b>	54,568	<b>511,828</b>
Less: Valuation allowance	<b>28,280</b>	25,793	<b>259,860</b>
Total deferred tax assets	<b>27,421</b>	28,775	<b>251,968</b>
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	<b>26,443</b>	41,514	<b>242,978</b>
Land transfer through merger	<b>2,765</b>	2,765	<b>25,414</b>
Other	<b>2,675</b>	2,788	<b>24,583</b>
Total deferred tax liabilities	<b>31,884</b>	47,068	<b>292,975</b>
Net deferred tax assets	<b>¥(4,462)</b>	¥(18,293)	<b>\$(41,007)</b>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2020 and 2019 are as follows:

	2020	2019
Normal effective statutory tax rate	<b>30.45%</b>	30.45%
Change in valuation allowance	<b>1.87</b>	(1.79)
Permanently non-taxable income	<b>(1.05)</b>	(0.97)
Per capita portion of inhabitants' taxes	<b>0.52</b>	0.47
Permanently non-deductible expenses	<b>0.37</b>	0.34
Other	<b>1.17</b>	(0.46)
Actual effective tax rate	<b>33.33%</b>	28.04%

## 27. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities:			
Amount incurred during the fiscal year	<b>¥(39,879)</b>	¥7,701	<b>\$(366,437)</b>
Reclassification adjustment	<b>(9,355)</b>	(4,367)	<b>(85,964)</b>
Prior to deducting tax effect	<b>(49,234)</b>	3,333	<b>(452,401)</b>
Tax effect	<b>13,222</b>	(1,827)	<b>121,492</b>
Total	<b>(36,012)</b>	1,505	<b>(330,909)</b>

Deferred gains (losses) on hedges:

Amount incurred during the fiscal year	<b>(1,713)</b>	(2,220)	<b>(15,743)</b>
Reclassification adjustment	<b>1,689</b>	2,317	<b>15,521</b>
Prior to deducting tax effect	<b>(24)</b>	97	<b>(222)</b>
Tax effect	<b>(141)</b>	(31)	<b>(1,300)</b>
Total	<b>(165)</b>	65	<b>(1,522)</b>

Defined retirement benefit plans:

Amount incurred during the fiscal year	<b>(7,286)</b>	(2,346)	<b>(66,955)</b>
Reclassification adjustment	<b>1,272</b>	1,070	<b>11,693</b>
Prior to deducting tax effect	<b>(6,014)</b>	(1,276)	<b>(55,262)</b>
Tax effect	<b>1,830</b>	388	<b>16,818</b>
Total	<b>(4,183)</b>	(888)	<b>(38,444)</b>

Share of other comprehensive income of associates accounted for using the equity method:

Amount incurred during the fiscal year	<b>(120)</b>	(49)	<b>(1,111)</b>
Reclassification adjustment	<b>8</b>	(1)	<b>80</b>
Prior to deducting tax effect	<b>(112)</b>	(50)	<b>(1,031)</b>
Tax effect	<b>34</b>	16	<b>313</b>
Total	<b>(78)</b>	(34)	<b>(718)</b>

Total other comprehensive income

<b>¥(40,440)</b>	¥648	<b>\$(371,593)</b>
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## 28. 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Within one year	¥3	¥3	\$36
Over one year	13	17	127
Total	¥17	¥21	\$163

## 29. 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.

The Group's lending activities are aimed at achieving co-prosperity with the regional economy and the Group endeavors to manage the Group's 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 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 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 rate 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 a main observation period of 1,250 business days).

The market risk amounts (VaR) of the trading business of Hokuriku Bank were ¥119 million (\$1,093 thousand) and ¥239 million as of March 31, 2020 and 2019, 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 adopted 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 ¥57,954 million (\$532,519 thousand) and ¥62,151 million as of March 31, 2020 and 2019, respectively. Hokkaido Bank's VaR of the financial instruments in the banking account was ¥15,622 million (\$143,545 thousand) and ¥20,730 million as of March 31, 2020 and 2019, respectively. Hokkaido Bank's trading account securities totaled ¥14 million (\$129 thousand) and ¥12 million as of March 31, 2020 and 2019, respectively. Hokkaido Bank's specified fund trust totaled ¥2 million (\$18 thousand) and ¥2 million as of March 31, 2020 and 2019, 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 market 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 a 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 ¥70,325 million increase (\$646,191 thousand increase) and a ¥58,692 million increase as of March 31, 2020 and 2019, respectively. Hokkaido Bank's 100BPV was a ¥18,061 million increase (\$165,956 thousand increase) and a ¥26,013 million increase as of March 31, 2020 and 2019, 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 other than 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.

#### (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.

The Banks have in place mechanisms for periodically assessing and managing liquidity risk through ALM committees, to prepare for every 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 results 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, 2020 and 2019 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

Millions of yen			
March 31, 2020	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	¥2,725,025	¥2,725,025	¥—
Call loans and bills bought	59,795	59,795	—
Monetary claims bought *1	32,683	32,683	—
Securities			
Bonds classified as held-to-maturity	206,294	216,751	10,456
Available-for-sale securities	1,579,666	1,579,666	—
Loans and bills discounted	8,656,450		
Allowance for loan losses *1	(52,904)		
	8,603,545	8,708,651	105,105
Total assets	¥13,207,011	¥13,322,574	¥115,562
Deposits	¥11,638,618	¥11,638,722	¥104
Payables under securities lending transactions	294,641	294,641	—
Borrowed money	827,574	828,429	855
Total liabilities	¥12,760,834	¥12,761,793	¥959
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥176	¥176	¥—
Derivative transactions qualifying for hedge accounting	(1,304)	(1,304)	—
Total derivative transactions	¥(1,127)	¥(1,127)	¥—

Millions of yen			
March 31, 2019	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	¥2,556,419	¥2,556,419	¥—
Call loans and bills bought	80,210	80,210	—
Monetary claims bought *1	37,030	37,030	—
Securities			
Bonds classified as held-to-maturity	207,480	219,908	12,428
Available-for-sale securities	1,563,916	1,563,916	—
Loans and bills discounted	8,344,137		
Allowance for loan losses *1	(50,945)		
	8,293,192	8,387,331	94,139
Total assets	¥12,738,249	¥12,844,817	¥106,567
Deposits	¥11,410,328	¥11,410,522	¥193
Payables under securities lending transactions	352,650	352,650	—
Borrowed money	612,665	613,229	564
Total liabilities	¥12,375,644	¥12,376,402	¥758
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥940	¥940	¥—
Derivative transactions qualifying for hedge accounting	(1,762)	(1,762)	—*3
Total derivative transactions	¥(821)	¥(821)	¥—

Thousands of U.S. dollars			
March 31, 2020	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	\$25,039,287	\$25,039,287	\$—
Call loans and bills bought	549,437	549,437	—
Monetary claims bought *1	300,318	300,318	—
Securities			
Bonds classified as held-to-maturity	1,895,569	1,991,654	96,085
Available-for-sale securities	14,514,992	14,514,992	—
Loans and bills discounted	79,541,029		
Allowance for loan losses *1	(486,118)		
	79,054,911	80,020,688	965,777
Total assets	\$121,354,514	\$122,416,376	\$1,061,862
Deposits	\$106,943,108	\$106,944,065	\$957
Payables under securities lending transactions	2,707,353	2,707,353	—
Borrowed money	7,604,287	7,612,143	7,856
Total liabilities	\$117,254,748	\$117,263,561	\$8,813
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	\$1,624	\$1,624	\$—
Derivative transactions qualifying for hedge accounting	(11,983)	(11,983)	—
Total derivative transactions	\$(10,359)	\$(10,359)	\$—

\*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 a 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.

**Payables under securities lending transactions**

The fair values of Payables under securities lending transactions 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.

**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
	2020	2019	2020
Unlisted stocks *1,2	<b>¥29,522</b>	¥26,207	<b>\$271,274</b>
Unlisted foreign securities *1	<b>0</b>	0	<b>3</b>
Total	<b>¥29,523</b>	¥26,208	<b>\$271,277</b>

\*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 ¥6 million (\$61 thousand) and ¥28 million as of March 31, 2020 and 2019, respectively.

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

March 31, 2020	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	<b>¥2,589,878</b>	¥—	¥—	¥—	¥—
Call loans and bills bought	<b>59,795</b>	—	—	—	—
Monetary claims bought	<b>1,127</b>	<b>5,000</b>	—	—	<b>26,310</b>
Securities	<b>275,712</b>	<b>331,628</b>	<b>236,445</b>	<b>121,948</b>	<b>510,645</b>
Bonds classified as held-to-maturity	<b>39,016</b>	<b>65,345</b>	<b>35,630</b>	<b>15,976</b>	<b>50,615</b>
Japanese government bonds	<b>2,520</b>	<b>1,000</b>	<b>500</b>	<b>10,000</b>	<b>50,000</b>
Japanese local government bonds	—	—	<b>1,000</b>	<b>1,500</b>	—
Japanese corporate bonds	<b>36,496</b>	<b>64,345</b>	<b>34,130</b>	<b>4,476</b>	<b>615</b>
Available-for-sale securities with maturities	<b>236,696</b>	<b>266,283</b>	<b>200,815</b>	<b>105,971</b>	<b>460,030</b>
Japanese government bonds	<b>160,400</b>	<b>146,600</b>	—	—	<b>76,500</b>
Japanese local government bonds	<b>47,000</b>	<b>66,086</b>	<b>101,593</b>	<b>51,762</b>	<b>204,720</b>
Japanese corporate bonds	<b>15,175</b>	<b>26,514</b>	<b>32,861</b>	<b>15,557</b>	<b>72,155</b>
Other	<b>14,120</b>	<b>27,081</b>	<b>66,359</b>	<b>38,652</b>	<b>106,654</b>
Loans and bills discounted	<b>2,877,722</b>	<b>1,370,996</b>	<b>1,101,553</b>	<b>725,964</b>	<b>2,417,153</b>
Total	<b>¥5,804,237</b>	<b>¥1,707,625</b>	<b>¥1,337,998</b>	<b>¥847,912</b>	<b>¥2,954,109</b>

March 31, 2019	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	<b>¥2,416,709</b>	¥—	¥—	¥—	¥—
Call loans and bills bought	<b>80,210</b>	—	—	—	—
Monetary claims bought	<b>1,153</b>	<b>5,442</b>	—	—	<b>30,124</b>
Securities	<b>371,164</b>	<b>441,324</b>	<b>254,344</b>	<b>112,014</b>	<b>269,592</b>
Bonds classified as held-to-maturity	<b>36,479</b>	<b>63,076</b>	<b>41,500</b>	<b>14,450</b>	<b>52,135</b>
Japanese government bonds	<b>500</b>	<b>2,520</b>	<b>1,500</b>	<b>10,000</b>	<b>50,000</b>
Japanese local government bonds	—	—	<b>500</b>	—	<b>1,500</b>
Japanese corporate bonds	<b>35,979</b>	<b>60,556</b>	<b>39,500</b>	<b>4,450</b>	<b>635</b>
Available-for-sale securities with maturities	<b>334,684</b>	<b>378,247</b>	<b>212,844</b>	<b>97,563</b>	<b>217,457</b>
Japanese government bonds	<b>207,400</b>	<b>255,000</b>	<b>52,000</b>	—	<b>15,000</b>
Japanese local government bonds	<b>94,040</b>	<b>75,109</b>	<b>92,165</b>	<b>37,277</b>	<b>63,237</b>
Japanese corporate bonds	<b>21,274</b>	<b>31,618</b>	<b>25,067</b>	<b>15,114</b>	<b>66,729</b>
Other	<b>11,970</b>	<b>16,519</b>	<b>43,611</b>	<b>45,171</b>	<b>72,490</b>
Loans and bills discounted	<b>2,710,539</b>	<b>1,346,951</b>	<b>1,065,220</b>	<b>705,305</b>	<b>2,353,914</b>
Total	<b>¥5,579,777</b>	<b>¥1,793,717</b>	<b>¥1,319,564</b>	<b>¥817,319</b>	<b>¥2,653,631</b>

	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
<b>March 31, 2020</b>					
Due from banks	\$23,797,473	\$—	\$—	\$—	\$—
Call loans and bills bought	549,437	—	—	—	—
Monetary claims bought	10,364	45,943	—	—	241,761
Securities	2,533,428	3,047,217	2,172,616	1,120,543	4,692,139
Bonds classified as held-to-maturity	358,510	600,438	327,398	146,805	465,083
Japanese government bonds	23,156	9,189	4,594	91,886	459,432
Japanese local government bonds	—	—	9,189	13,783	—
Japanese corporate bonds	335,354	591,249	313,615	41,136	5,651
Available-for-sale securities with maturities	2,174,918	2,446,779	1,845,218	973,738	4,227,056
Japanese government bonds	1,473,858	1,347,055	—	—	702,931
Japanese local government bonds	431,871	607,244	933,509	475,623	1,881,107
Japanese corporate bonds	139,442	243,635	301,953	142,951	663,012
Other	129,747	248,845	609,756	355,164	980,006
Loans and bills discounted	26,442,360	12,597,596	10,121,778	6,670,626	22,210,360
Total	\$53,333,062	\$15,690,756	\$12,294,394	\$7,791,169	\$27,144,260

#### **Loans and bills discounted**

Claims on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers amounted to ¥134,317 million (\$1,234,195 thousand) and ¥138,006 million as of March 31, 2020 and 2019, respectively, and loans with no contractual maturities amounted to ¥28,743 million (\$264,114 thousand) and ¥24,199 million as of March 31, 2020 and 2019, respectively. They are not included in the table above.

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

	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
<b>March 31, 2020</b>					
Deposits	¥10,683,960	¥787,429	¥157,866	¥4,637	¥4,725
Payables under securities lending transactions	294,641	—	—	—	—
Borrowed money	139,324	325,347	362,387	471	45
Total	¥11,117,925	¥1,112,776	¥520,253	¥5,108	¥4,770
	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
<b>March 31, 2019</b>					
Deposits	¥10,368,716	¥857,073	¥174,218	¥4,906	¥5,413
Payables under securities lending transactions	352,650	—	—	—	—
Borrowed money	158,337	384,200	69,589	418	120
Total	¥10,879,703	¥1,241,274	¥243,807	¥5,324	¥5,533
	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
<b>March 31, 2020</b>					
Deposits	\$98,171,094	\$7,235,409	\$1,450,575	\$42,608	\$43,421
Payables under securities lending transactions	2,707,353	—	—	—	—
Borrowed money	1,280,200	2,989,497	3,329,848	4,328	414
Total	\$102,158,647	\$10,224,906	\$4,780,423	\$46,936	\$43,835

#### **Deposits**

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

### 30. 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

	Millions of yen			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
March 31, 2020				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥86,722	¥73,817	¥1,912	¥1,912
Receive/floating and pay/fixed	86,700	73,809	(1,315)	(1,315)
Others/sell	541	541	(1)	9
Others/buy	541	541	1	(3)
Total	/	/	¥597	¥603

March 31, 2019	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	¥101,013	¥93,303	¥2,785	¥2,785
Receive/floating and pay/fixed	101,032	93,251	(1,998)	(1,998)
Others/sell	350	350	(0)	6
Others/buy	350	350	0	(1)
Total	/	/	¥787	¥793

	Thousands of U.S. dollars			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
March 31, 2020				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$796,867	\$678,279	\$17,575	\$17,575
Receive/floating and pay/fixed	796,658	678,211	(12,086)	(12,086)
Others/sell	4,973	4,973	(15)	86
Others/buy	4,973	4,973	14	(30)
Total	/	/	\$5,488	\$5,545

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

	Millions of yen			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
March 31, 2020				
Over-the-counter transactions				
Swaps	¥5,456	¥1,231	¥4	¥4
Forward contracts/sell	43,525	523	(155)	(155)
Forward contracts/buy	44,753	450	(323)	(323)
Options/sell	38,971	16,208	(837)	1,478
Options/buy	38,971	16,208	835	(1,254)
Total	/	/	¥(476)	¥(250)

March 31, 2019	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps	¥4,314	¥3,867	¥3	¥3
Forward contracts/sell	25,538	460	34	34
Forward contracts/buy	21,653	377	98	98
Options/sell	48,527	14,272	(910)	2,468
Options/buy	48,527	14,272	909	(2,250)
Total	/	/	¥135	¥354

	Thousands of U.S. dollars			
	Notional principal or contract amount			
March 31, 2020	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps	\$50,137	\$11,319	\$45	\$45
Forward contracts/sell	399,939	4,808	(1,429)	(1,429)
Forward contracts/buy	411,222	4,135	(2,977)	(2,977)
Options/sell	358,092	148,932	(7,697)	13,582
Options/buy	358,092	148,932	7,675	(11,522)
Total	/	/	\$(4,383)	\$(2,301)

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, 2020	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	¥331	¥250	¥170	¥170
Receive/floating and pay/fixed	331	250	(113)	(113)
Total	/	/	¥56	¥56

March 31, 2019	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	¥333	¥333	¥(43)	¥(43)
Receive/floating and pay/fixed	333	333	60	60
Total	/	/	¥16	¥16

March 31, 2020	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	\$3,043	\$2,301	\$1,563	\$1,563
Receive/floating and pay/fixed	3,043	2,301	(1,044)	(1,044)
Total	/	/	\$519	\$519

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.

• Others

March 31, 2020	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Earthquake derivatives				
Sell	¥8,615	¥—	¥(55)	¥—
Buy	8,615	—	55	—
Total	/	/	/	/

March 31, 2019	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Earthquake derivatives				
Sell	¥—	¥—	¥—	¥—
Buy	—	—	—	—
Total	/	/	/	/

March 31, 2020	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Earthquake derivatives				
Sell	\$79,160	\$—	\$(506)	\$—
Buy	79,160	—	506	—
Total	/	/	/	/

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.

## (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, 2020

March 31, 2020			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	¥65,883	¥65,883	¥(1,449)
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	38,545	38,531	*3
Total			/	/	¥(1,449)

#### March 31, 2019

March 31, 2019			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Yen-based bond			
	Receive/floating and pay/fixed		¥55,000	¥55,000	¥(1,403)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
	Receive/floating and pay/fixed		32,094	32,025	*3
Total			/	/	¥(1,403)

#### March 31, 2020

March 31, 2020			Thousands of U.S. dollars		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	\$605,375	\$605,375	\$(13,321)
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	354,180	354,055	*3
Total			/	/	\$(13,321)

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, 2020

March 31, 2020			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	¥34,135	¥298	¥39
	Forward contracts	Call loans and due from banks (foreign currencies)	27,287	—	105
Total			/	/	¥145

March 31, 2019

March 31, 2019			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	¥18,117	¥254	¥(452)
	Forward contracts	Call loans and due from banks (foreign currencies)	57,197	—	93
Total			/	/	¥(358)

March 31, 2020

March 31, 2020			Thousands of U.S. dollars		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	\$313,659	\$2,739	\$366
	Forward contracts	Call loans and due from banks (foreign currencies)	250,737	—	971
Total			/	/	\$1,337

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.

### 31. 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) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Board of Directors and Management Committees is being performed in order to decide how resources are allocated among the Group and assess 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) Methods of measurement for the amounts of ordinary income, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of 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 external customers.

### (3) Information about ordinary income, profit (loss), assets, liabilities, and other items

Segment results for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen						
	2020						
	Reportable segment			Other	Total	Reconciliations	Consolidated
	Hokuriku Bank	Hokkaido Bank	Total				
Ordinary income							
Ordinary income from external customers	¥87,353	¥74,206	¥161,560	¥21,118	¥182,678	¥(275)	¥182,402
Ordinary income from intersegment transactions	1,175	775	1,951	4,767	6,718	(6,718)	—
Total	88,528	74,982	163,511	25,885	189,397	(6,994)	182,402
Segment profit	11,238	9,592	20,831	2,455	23,286	(3,034)	20,252
Segment assets	8,108,929	5,496,607	13,605,537	93,104	13,698,642	(53,780)	13,644,861
Segment liabilities	¥7,754,187	¥5,278,836	¥13,033,024	¥67,258	¥13,100,282	¥(50,740)	¥13,049,541
Others							
Depreciation	¥4,271	¥2,571	¥6,842	¥309	¥7,152	¥6	¥7,159
Amortization of goodwill	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill	—	—	—	—	—	9,285	9,285
Increase in tangible fixed assets and intangible fixed assets	¥3,085	¥1,849	¥4,935	¥150	¥5,085	¥3	¥5,088

	Millions of yen						
	2019						
	Reportable segment			Other	Total	Reconciliations	Consolidated
	Hokuriku Bank	Hokkaido Bank	Total				
Ordinary income							
Ordinary income from external customers	¥89,229	¥74,292	¥163,522	¥20,267	¥183,789	¥(143)	¥183,645
Ordinary income from intersegment transactions	1,009	1,227	2,237	4,561	6,798	(6,798)	—
Total	90,239	75,519	165,759	24,828	190,587	(6,942)	183,645
Segment profit	15,590	11,018	26,609	1,155	27,764	(3,405)	24,359
Segment assets	7,820,921	5,322,018	13,142,940	94,927	13,237,867	(51,894)	13,185,972
Segment liabilities	¥7,451,782	¥5,097,094	¥12,548,877	¥70,978	¥12,619,855	¥(61,887)	¥12,557,968
Others							
Depreciation	¥4,441	¥2,590	¥7,032	¥343	¥7,375	¥4	¥7,379
Amortization of goodwill	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill	—	—	—	—	—	11,387	11,387
Increase in tangible fixed assets and intangible fixed assets	¥4,479	¥1,336	¥5,815	¥109	¥5,925	¥1	¥5,926

	Thousands of U.S. dollars						
	2020						
	Reportable segment			Other	Total	Reconciliations	Consolidated
	Hokuriku Bank	Hokkaido Bank	Total				
Ordinary income							
Ordinary income from external customers	\$802,660	\$681,857	\$1,484,517	\$194,052	\$1,678,569	\$(2,533)	\$1,676,036
Ordinary income from intersegment transactions	10,799	7,130	17,929	43,805	61,734	(61,734)	—
Total	813,459	688,987	1,502,446	237,857	1,740,303	(64,267)	1,676,036
Segment profit	103,270	88,145	191,415	22,559	213,974	(27,882)	186,092
Segment assets	74,510,061	50,506,366	125,016,427	855,503	125,871,930	(494,173)	125,377,757
Segment liabilities	\$71,250,457	\$48,505,346	\$119,755,803	\$618,011	\$120,373,814	\$(466,239)	\$119,907,575
Others							
Depreciation	\$39,251	\$23,626	\$62,877	\$2,848	\$65,725	\$57	\$65,782
Amortization of goodwill	—	—	—	—	—	19,317	19,317
Unamortized balance of goodwill	—	—	—	—	—	85,317	85,317
Increase in tangible fixed assets and intangible fixed assets	\$28,352	\$16,994	\$45,346	\$1,379	\$46,725	\$28	\$46,753

#### (4) Information about services

Millions of yen				
Year ended March 31, 2020	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥96,631	¥43,484	¥42,287	¥182,402
Millions of yen				
Year ended March 31, 2019	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥99,098	¥42,019	¥42,527	¥183,645
Thousands of U.S. dollars				
Year ended March 31, 2020	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	\$887,914	\$399,561	\$388,561	\$1,676,036

#### (5) Information about geographical areas

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

#### (6) Information about major customers

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

### 32. Related Party Transactions

Related party transactions as of March 31, 2020 and 2019 were as follows:

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

#### March 31, 2020

Related party	Account Classification	Transaction amount *5		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	\$8,729	¥950	\$8,729
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥1,013	\$9,308	¥500	\$4,594
YUGEYA Inc. *3	Loans and bills discounted *6	¥320	\$2,940	¥311	\$2,858
Kimito Tsurui *4	Loans and bills discounted *6	¥11	\$101	¥10	\$92

#### March 31, 2019

Related party	Account Classification	Transaction amount *5		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		¥950	
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥796		¥1,083	
YUGEYA Inc. *3	Loans and bills discounted *6	¥314		¥327	
Kimito Tsurui *4	Loans and bills discounted *6	¥12		¥11	

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. A close relative of an ex-member of the Group's directors owns the majority of this company's voting rights.

The transaction amount is the average balance during the period in which the Group had a related party relationship with the company. Balance at the end of the year is the balance outstanding on the date when the related party relationship ceased to exist.

4. Mr. Tsurui is a close relative of a member of the Group's directors.

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

6. Land and buildings were pledged as collateral for the loans.

### 33. Subsequent Events

There are no applicable matters.

# INDEPENDENT AUDITOR'S REPORT



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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of Hokuhoku Financial Group, Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of  
Deloitte Touche Tohmatsu Limited

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*  
June 22, 2020

# NON-CONSOLIDATED FINANCIAL STATEMENTS

## NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokuriku Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Assets</b>			
Cash and due from banks	¥1,780,569	¥1,596,327	\$16,361,019
Call loans and bills bought	59,795	80,210	549,437
Monetary claims bought	32,683	37,030	300,318
Trading assets	1,067	1,188	9,809
Money held in trust	4,939	—	45,389
Securities	1,158,001	1,197,044	10,640,460
Loans and bills discounted	4,910,354	4,740,350	45,119,489
Foreign exchanges	9,840	8,392	90,420
Other assets	66,187	73,203	608,169
Tangible fixed assets	74,202	76,152	681,822
Intangible fixed assets	4,369	5,349	40,146
Prepaid pension cost	3,900	3,693	35,839
Customers' liabilities for acceptances and guarantees	29,419	26,879	270,328
Allowance for loan losses	(26,400)	(21,207)	(242,585)
<b>Total assets</b>	<b>¥8,108,929</b>	<b>¥7,820,921</b>	<b>\$74,510,060</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits	¥6,735,467	¥6,636,846	\$61,889,808
Call money and bills sold	68,264	27,214	627,262
Payables under repurchase agreements	11,877	—	109,141
Payables under securities lending transactions	285,243	335,914	2,620,996
Trading liabilities	497	544	4,569
Borrowed money	547,987	377,217	5,035,257
Foreign exchanges	47	55	440
Borrowed money from trust account	534	—	4,911
Other liabilities	54,044	18,095	496,597
Reserve for employee retirement benefits	443	716	4,071
Reserve for directors' and audit & supervisory board members' retirement benefits	43	43	399
Reserve for contingent losses	703	726	6,463
Reserve for reimbursement of deposits	1,473	1,608	13,543
Deferred tax liabilities	12,937	20,608	118,873
Deferred tax liabilities for land revaluation	5,201	5,309	47,799
Acceptances and guarantees	29,419	26,879	270,328
<b>Total liabilities</b>	<b>7,754,187</b>	<b>7,451,782</b>	<b>71,250,457</b>
<b>Equity</b>			
Capital stock	140,409	140,409	1,290,173
Capital surplus	14,998	14,998	137,819
Retained earnings	144,299	133,724	1,325,915
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	47,899	72,562	440,131
Deferred gains (losses) on hedges	(1,076)	(910)	(9,888)
Revaluation reserve for land	8,211	8,354	75,453
<b>Total equity</b>	<b>354,742</b>	<b>369,139</b>	<b>3,259,603</b>
<b>Total liabilities and equity</b>	<b>¥8,108,929</b>	<b>¥7,820,921</b>	<b>\$74,510,060</b>

# NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokuriku Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥43,722	¥45,480	\$401,751
Interest and dividends on securities	14,257	16,391	131,008
Interest on deposits with other banks	606	819	5,572
Other interest income	356	478	3,271
Trust fees	6	—	56
Fees and commissions	17,961	17,345	165,040
Trading income	136	52	1,251
Other ordinary income	6,064	5,143	55,721
Other income	5,778	4,663	53,100
Total income	88,889	90,374	816,770
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	740	924	6,803
Interest on payables under repurchase agreements	37	217	341
Interest on payables under securities lending transactions	791	1,033	7,270
Interest on borrowings and rediscounts	274	557	2,526
Other interest expenses	1,800	2,228	16,541
Fees and commissions	7,397	7,391	67,974
Other ordinary expenses	314	2,416	2,889
General and administrative expenses	46,609	47,492	428,281
Provision of allowance for loan losses	9,004	2,692	82,741
Other expenses	5,097	4,334	46,841
Total expenses	72,067	69,289	662,207
Income before income taxes	16,821	21,085	154,563
Income taxes:			
Current	5,185	5,105	47,646
Deferred	396	389	3,647
<b>Net income</b>	¥11,238	¥15,590	\$103,270

# NON-CONSOLIDATED FINANCIAL STATEMENTS

## NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokkaido Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Assets</b>			
Cash and due from banks	¥942,323	¥958,032	\$8,658,675
Trading account securities	2,722	2,883	25,018
Money held in trust	9,265	9,123	85,133
Securities	649,217	591,833	5,965,429
Loans and bills discounted	3,762,756	3,620,530	34,574,623
Foreign exchanges	9,174	7,314	84,298
Other assets	76,957	94,204	707,138
Tangible fixed assets	28,038	28,318	257,638
Intangible fixed assets	3,378	3,980	31,045
Deferred tax assets	6,830	2,658	62,766
Customers' liabilities for acceptances and guarantees	26,674	26,594	245,106
Allowance for loan losses	(20,732)	(23,454)	(190,503)
<b>Total assets</b>	<b>¥5,496,607</b>	<b>¥5,322,018</b>	<b>\$50,506,366</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits	¥4,927,225	¥4,802,889	\$45,274,517
Payables under securities lending transactions	9,398	16,736	86,356
Borrowed money	274,600	230,000	2,523,201
Foreign exchanges	65	739	603
Other liabilities	37,739	16,885	346,776
Reserve for employee retirement benefits	2,213	2,156	20,336
Reserve for directors' and audit & supervisory board members' retirement benefits	93	93	856
Reserve for contingent losses	321	362	2,956
Reserve for reimbursement of deposits	504	635	4,639
Acceptances and guarantees	26,674	26,594	245,106
<b>Total liabilities</b>	<b>5,278,836</b>	<b>5,097,094</b>	<b>48,505,346</b>
<b>Equity</b>			
Capital stock	93,524	93,524	859,359
Capital surplus	16,795	16,795	154,324
Retained earnings	98,929	94,708	909,029
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	8,522	19,896	78,308
<b>Total equity</b>	<b>217,771</b>	<b>224,923</b>	<b>2,001,020</b>
<b>Total liabilities and equity</b>	<b>¥5,496,607</b>	<b>¥5,322,018</b>	<b>\$50,506,366</b>

# NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

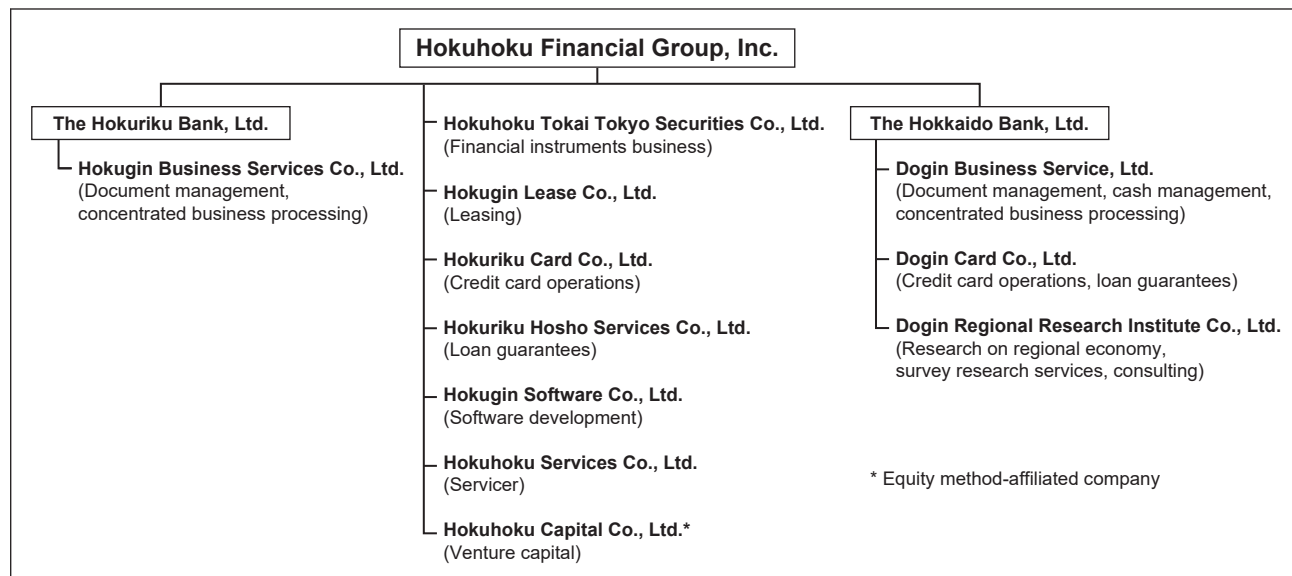
The Hokkaido Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥41,367	¥42,183	\$380,112
Interest and dividends on securities	9,024	8,603	82,923
Interest on receivables under resale agreements	(4)	(9)	(41)
Interest on deposits with other banks	270	271	2,488
Other interest income	161	268	1,479
Fees and commissions	15,907	16,621	146,166
Other ordinary income	4,471	1,896	41,088
Other income	3,786	5,716	34,791
Total income	74,984	75,553	689,006
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	308	370	2,832
Interest on payables under securities lending transactions	370	890	3,408
Interest on borrowings and rediscounts	(0)	111	(6)
Other interest expenses	6	7	64
Fees and commissions	9,907	9,995	91,039
Other ordinary expenses	614	1,522	5,642
General and administrative expenses	40,212	40,330	369,495
Provision of allowance for loan losses	2,556	1,770	23,493
Other expenses	7,436	6,143	68,330
Total expenses	61,412	61,142	564,297
Income before income taxes	13,572	14,411	124,709
Income taxes:			
Current	3,242	4,089	29,796
Deferred	736	(696)	6,768
<b>Net income</b>	<b>¥9,592</b>	<b>¥11,018</b>	<b>\$88,145</b>

## Business activities

The Hokuhoku Financial Group is composed of the holding company and 12 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	806
The Hokkaido Bank, Ltd.	4-1 Odori Nishi, Chuo-ku, Sapporo City	Banking	March 5, 1951	93,524	100.00	—
Hokuhoku Tokai Tokyo Securities Co., Ltd.	1-8-10 Marunouchi, Toyama City	Financial instruments business	April 21, 2016	1,250	60.00	—
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.	Higashisapporo Dogin Building, Higashisapporo 3-1-2-33, Shiroishi-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

## The Hokuriku Bank, Ltd.

<https://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.

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, 2020)

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:	¥8,108.9 billion
Deposits (including NCDs):	¥6,735.4 billion
Loans and bills discounted:	¥4,910.3 billion
Issued shares:	
Common stock:	1,047,542,335
Capital adequacy ratio (non-consolidated):	8.59%
Employees:	2,511
Branches (as of June 30, 2020)	
Domestic:	188 (145 branches, 43 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 Hokuohoku 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"
April 2019	Launched Trust Business Service
July 2019	Launched Recruitment Service

# OUTLINE OF SUBSIDIARIES - THE HOKKAIDO BANK, LTD.

## The Hokkaido Bank, Ltd.

<https://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, 2020)

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:	¥5,496.6 billion
Deposits (including NCDs):	¥4,927.2 billion
Loans and bills discounted:	¥3,762.7 billion
Issued shares:	
Common stock:	486,634,512
Preferred stock (Type 2):	96,688,800
Capital adequacy ratio (non-consolidated):	8.76%
Employees:	2,172
Branches (as of June 30, 2020)	
Domestic:	144 (136 branches, 8 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; Hokuoku 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
March 2019	Opened Account Opening Plaza "Odori Subway Station Sub-Branch"
April 2019	Opened the NISEKO Sub-Branch

## Hokuhoku Financial Group, Inc.

**President:**  
Eishin Ihori

**Deputy President:**  
Masahiro Sasahara

**Directors:**  
Hidenori Mugino  
Yuji Kanema  
Hiroshi Nakazawa  
Masahiko Kobayashi  
Takayuki Kaji

**Directors serving as  
Audit and Supervisory  
Committee Members:**  
Hirokuni Kitagawa  
Tatsuo Kawada  
Ryoji Nakagawa  
Masaaki Manabe  
Nobuya Suzuki

## The Hokuriku Bank, Ltd.

**Chairman:**  
Hidenori Mugino

**President:**  
Eishin Ihori

**Senior Managing  
Director:**  
Hiroaki Ishida

**Managing Directors:**  
Hiroshi Nakazawa  
Hiroyuki Jogan  
Masahiko Kobayashi

**Directors:**  
Takayuki Kaji  
Kaoru Funamoto

**Audit & Supervisory  
Board Members:**  
Masahiro Numada  
Kenichi Nakamura  
Isao Nagahara  
Katsusuke Watanuki

## The Hokkaido Bank, Ltd.

**Chairman:**  
Yoshihiro Sekihachi

**President:**  
Masahiro Sasahara

**Deputy President:**  
Takashi Ohki

**Managing Directors:**  
Yuji Kanema  
Takashi Ogura  
Yoshimasa Takada

**Director:**  
Naoki Minami

**Audit & Supervisory  
Board Members:**  
Akira Sakai  
Ken Ebina  
Shuji Iwamura  
Satoshi Chiba

## Addresses

### Hokuhoku Financial Group, Inc.

1-2-26, Tsutsumicho-dori Toyama  
City, Toyama 930-8637, Japan  
Telephone: +81-76-423-7331  
<https://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**  
3-2-1 14th Floor,  
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**  
3-2-1 14th Floor,  
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
- Representative Office  
Registered in Singapore  
6 Battery Road # 15-02 Singapore  
049909  
Telephone: +65-6534-0010  
Facsimile: +65-6534-0070  
E-mail: hokuriku@singnet.com.sg
- London Representative Office  
7th Floor, 52-54  
Gracechurch Street, London EC3V  
0EH, UK  
Telephone: +44-20-7283-1212  
Facsimile: +44-20-7929-7222  
E-mail: london@hokugin.co.uk
- Bangkok Representative Office  
23rd Floor Unit 2314, Bhiraj Tower  
at EmQuartier, 689 Sukhumvit  
Road, North Klomgton, Wattana  
Bangkok 10110, Thailand  
Telephone: +66-2-261-8495  
Facsimile: +66-2-261-8497  
E-mail: bangkok@hokugin.asia

### The Hokkaido Bank, Ltd.

**International Division**  
4-1, Odori Nishi, Chuo-ku,  
Sapporo City, Hokkaido 060-8676,  
Japan  
Telephone: +81-11-233-1093  
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**  
3-2-1 14th Floor,  
Nihonbashi-muromachi,  
Chuo-ku, Tokyo 103-0022, Japan  
Telephone: +81-3-3241-3457  
Facsimile: +81-3-3242-3588

### Overseas Offices (Hokkaido Bank)

- Shenyang Representative Office  
Room 1118, Office Tower 1,  
Forum 66, No. 1-1 Qingnian  
Da jie, Shenhe District,  
Shenyang 110063, China  
Telephone: +86-24-3185-7008  
Facsimile: +86-24-3185-7018  
E-mail: dogin\_shenyang@yahoo.co.jp
- Yuzhno-Sakhalinsk  
Representative Office  
Office 44, 18 Kommunisticheskii Av.  
Yuzhno-Sakhalinsk,  
693000, Russia  
Telephone: +7-4242-45-7523  
Facsimile: +7-4242-45-7524  
E-mail: tateyama@hbkys.ru
- Vladivostok Representative Office  
Room 613, Fresh Plaza, 17  
Okeanskiy Pr., Vladivostok,  
690091, Russia  
Telephone: +7-4232-65-8851  
Facsimile: +7-4232-65-8852  
E-mail: nakagawa@hbvl.ru

# 北北金融控股集团简要

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 ..... 132,163,014股

第一次第5种优先股 ..... 96,698,000股

上市交易所：东京证券交易所（第一部）

札幌证券交易所

## 简介

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列地区范围里：

**北陆地区..... 151分行（或支行）**

富山县 ..... 93分行（或支行）

石川县 ..... 36分行（或支行）

福井县 ..... 22分行（或支行）

**北海道地区 ..... 161分行（或支行）**

**三大都市圈 ..... 16分行（或支行）**

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）

**其他地区（仙台、新潟、长野、高山）..... 4分行（或支行）**

**海外..... 9代表处**

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）

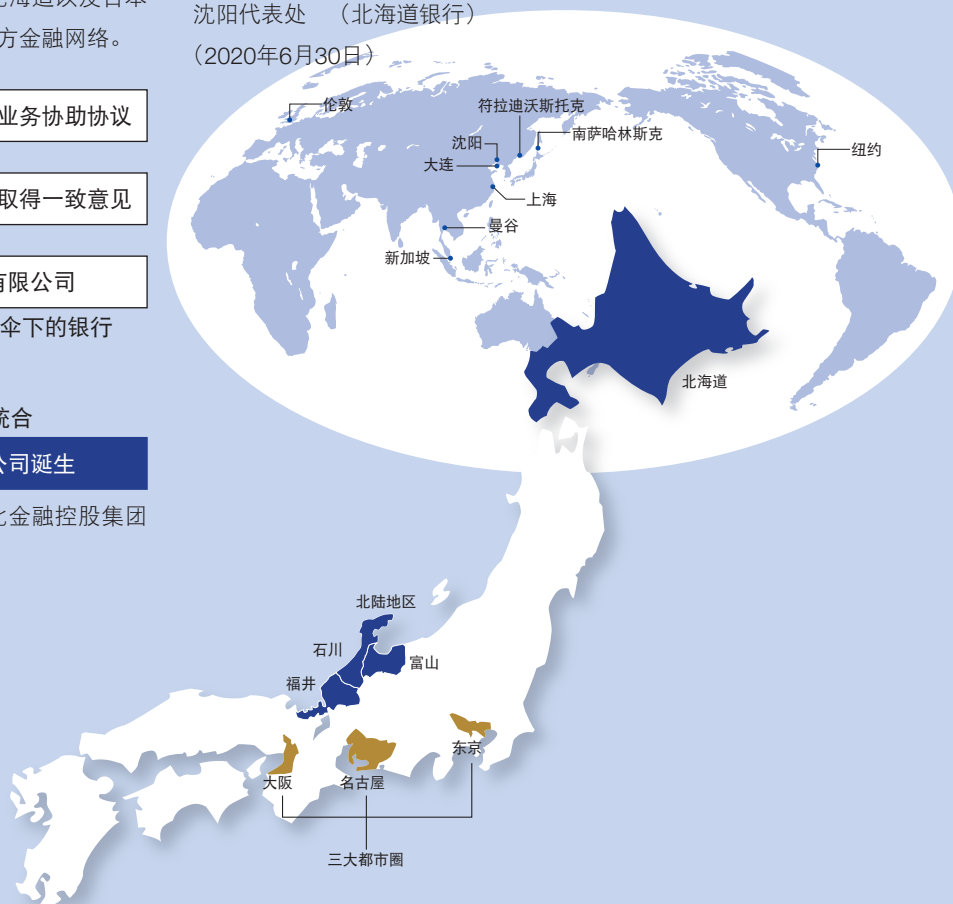
曼谷代表处（北陆银行）

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）

（2020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)

感谢各位对北北金融控股集团的惠顾，在此表示深切的谢意。

本集团所处的环境，在新冠肺炎疫情以后，发生了很大的变化。伴随着人们自觉约束相互来往和出席活动，各种需求随之消失，景气状况恶化，生产调整设备投资延迟，雇佣环境恶化等，已经波及到经济整体。地方社会的高龄少子化、人口流向大城市的结构问题已经对地方经济造成很大的影响，今后的形势非常不明了。

处在如此环境中，本集团通过磨练，努力达成与客人戚戚相关的中期经营计划“ALL for the Region”目标,利用解决课题型的提案能力和各类（金融衍生）产品、服务，发挥金融中介机构的作用，举全力支持地方客户。

另外，在新冠肺炎疫情中让我们看到“新的生活方式”，齐头并进提高客户的便利性和本集团业务高效化，我们在继续推进网银和无现金的数字化金融服务。

在中期经营计划中，本集团的目标是成为“通过提供地域第一的金融服务，为客户和地域社会作贡献，创造共同价值，致力于成为与地域共同成长发展的综合金融集团”，通过努力返回原点，被地方社会所选择，力争提高企业价值，股东价值。

希望大家一如既往地支持我们金融集团。

董事长

庵 荣伸

庵 荣伸

2020年7月

## 中期经营计划

新中期经营计划“ALL for the Region”是指，从2019年4月开始的3年时间，同时把这3年定位为“本公司集团全体职员将推进‘Face to Face的贴近客户的服务’和‘追求便利性的数字金融服务’等两方面的服务，为持续致力于为地域做贡献的体制构筑期间”。

本公司集团的全体职员团结一致，通过提供地域第一的金融服务，为客户和地域社会做贡献，创造共同价值，我们将致力于成为与地域共同成长、发展的综合金融集团。

### ■ 计划的概要

名称	ALL for the Region		
定位	本公司集团的全体职员推进“Face to Face的贴近客户的服务”和“追求便利性的数字金融服务”等两方面的服务，持续地致力于为地域做贡献的体制构筑期间。		
基本方针	<div> <div>“对地域社会发展做贡献”</div> <div>· 共同面对课题，努力提供有助于地域和客户发展的解决方案。</div> </div> <div> <div>“对未来的进化变革”</div> <div>· 提供反映技术革新和需求变化的金融服务，不辜负客户的期望。</div> </div> <div> <div>“集团综合实力的发挥”</div> <div>· 在加强集团合作的同时，构筑集团最佳的推进、管理体制。</div> </div> <div>创造共同价值</div>		

### ■ 新中期经营计划的重点指标(2家银行合算、联结)

	2018年度业绩	2019年度业绩	2021年度 (最终)
主要业务利润(2家银行合算)	180亿日元	169亿日元	220亿日元以上
本期净利润(联结)	243亿日元	202亿日元	220亿日元以上
资本充足率(联结)	9.09%	8.94%	维持高于8%
OHR(2家银行合算)	68.85%	69.27%	维持高于60%

## 根据基本方针而定的各战略区分重点措施

	重点措施
法人市场战略	<ul style="list-style-type: none"> <li>◆金融中介功能的发挥 <ul style="list-style-type: none"> <li>· 完善与营业区域的特性以及顾客的商业舞台等对应的战略、推进体制，根据事业性评价，展开融资战略。</li> </ul> </li> <li>◆加强法人咨询 <ul style="list-style-type: none"> <li>· 扩充解决方案菜单，推进与顾客的商业舞台对应的咨询建议。</li> </ul> </li> </ul>
个人市场战略	<ul style="list-style-type: none"> <li>◆加强个人咨询，扩大个人交易基础 <ul style="list-style-type: none"> <li>· 扩充与生活舞台以及面对面、非面对面渠道对应的商品，支援资产形成，应对富裕阶层，加强应对各种资金需求，实现扩大交易基础。</li> </ul> </li> </ul>
数字化、Fintech战略	<ul style="list-style-type: none"> <li>◆增强数字银行功能 <ul style="list-style-type: none"> <li>· 强化智能手机应用程序等非面对面渠道的功能，推进数字银行化</li> <li>· 提高顾客的便利性（无印章、无纸化、无现金卡）</li> </ul> </li> <li>◆推进地域的无现金化 <ul style="list-style-type: none"> <li>· 致力于推进地域无现金化的基础设施建设</li> </ul> </li> </ul>
地域社会活性化战略	<ul style="list-style-type: none"> <li>◆对地方再生的贡献和ESG、SDGs课题的对应 <ul style="list-style-type: none"> <li>· 通过与地方公共团体、地域企业、教育机关的合作，实现地域经济的活性化</li> <li>· 通过基于ESG、SDGs的CSR活动，以地域经济、地域社会的持续发展为目标</li> </ul> </li> </ul>
市场、有价证券运用战略	<ul style="list-style-type: none"> <li>◆运用收益的增强和稳定化 <ul style="list-style-type: none"> <li>· 通过运用对象的多样化形成的分散投资以及战略性的、机动灵活的运用，来实现收益的增强。</li> <li>· 通过建立重视综合损益的管理体制，强化行情突变时的对应力，来完善风险控制体制。</li> </ul> </li> </ul>
加强风险管理、合规守法	<ul style="list-style-type: none"> <li>◆强化对活用RAF（风险偏好框架）的治理以及应对多样化风险 <ul style="list-style-type: none"> <li>· 活用RAF来实现制定经营战略，强化风险管理体制</li> <li>· 通过职员教育，构建切实杜绝风险行为和违法行为的风险文化</li> <li>· 通过充实各种模拟和压力测试，强化适应环境变化的风险管理体制</li> </ul> </li> </ul>
业务改革、店铺优化、人财活用战略	<ul style="list-style-type: none"> <li>◆兼顾经营效率化、生产性向上以及工作价值 <ul style="list-style-type: none"> <li>· 通过业务简化、总部集中化、促进外部资源，推进业务合理化。</li> <li>· 通过活用ICT（数字化、RPA、无纸化），推动业务的效率化。</li> <li>· 为了维持地域的金融基础设施，通过明确职责和功能，来实现改善店铺体制和ATM运营。</li> <li>· 为提高顾客对应能力、专业性、管理能力，进行人财育成。</li> <li>· 打造一个能够有多种人才活跃的职场环境。</li> </ul> </li> </ul>
北北金融控股集团 集团战略	<ul style="list-style-type: none"> <li>◆加强和扩大在北海道地区的合作 <ul style="list-style-type: none"> <li>· 通过共同活用咨询和金融服务功能，强化营业推进力</li> <li>· 两行今后将在北海道内共同推进店铺的重建</li> <li>· 扩大包括总部功能以及后勤管理部门在内的北海道内据点的共同化</li> </ul> </li> <li>◆通过对控股公司北北金融控股集团的功能集中，来追求更大的协同效果</li> <li>◆子银行、关联公司合作并发挥综合实力，提供金融服务</li> <li>◆致力于提高股东价值 <ul style="list-style-type: none"> <li>· 在维持稳定的分红的同时，通过利益积累来充实资本。</li> </ul> </li> </ul>

## 营业概况（北北金融控股集团联结）

（单位：亿日元）

	2019年度		2018年度
		变动	
经常收益	1,824	-12	1,836
经常利润	316	-36	353
归属于母公司股东的净利润	202	-41	243
资本充足率	8.94%	-0.15%	9.09%

我集团本期联结会计年度的业绩：本期联结经常收益与上年度相比减少了12亿日元，为1,824亿日元。联结经常利润与上年度相比减少了36亿日元，为316亿日元。归属于母公司股东的净利润减少了41亿日元，为202亿日元。

联结资本充足率达到了8.94%。

2019年度的股息：普通股于期末每股支付了40.00日元股息，对第一回第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家银行合算		2018年度
	2019年度	变动	
经常收益	1,635	-22	1,657
主营业务毛利润	1,232	-24	1,257
经费(临时处理部分除外)	853	-11	865
主营业务净利润	378	-12	391
扣除投资信托解约损益后	345	-24	370
信贷相关成本	120	74	46
经常利润	314	-52	367
本期净利润	208	-57	266

2家银行合算的经常收益与上年度相比减少了22亿日元，为1,635亿日元。本期净利润与上年度相比减少了57亿日元，为208亿日元。

北陆银行的经常收益与上年度相比减少了17亿日元，为885亿日元。本期净利润与上年度相比减少了43亿日元，为112亿日元。

北海道银行的经常收益与上年度相比减少了5亿日元，为749亿日元。本期净利润与上年度相比减少了14亿日元，为95亿日元。

（单位：亿日元）

	北陆银行		2018年度
	2019年度	变动	
经常收益	885	-17	902
主营业务毛利润	668	-22	691
经费(临时处理部分除外)	457	-7	464
主营业务净利润	211	-15	226
扣除投资信托解约损益后	199	-12	211
信贷相关成本	92	64	28
经常利润	177	-44	221
本期净利润	112	-43	155
资本充足率	8.59%	-0.20%	8.79%

（单位：亿日元）

北海道银行		
2019年度	变动	2018年度
749	-5	755
563	-1	565
396	-4	401
167	2	164
146	-12	159
27	10	17
137	-7	145
95	-14	110
8.76%	0.07%	8.69%



Hokuhoku Financial Group, Inc.