



Annual Report 2021

Year ended March 31, 2021

Hoku Financial Group, Inc.

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)
	2021	2020	2021
Assets			
Cash and due from banks (Notes 5 and 31)	¥ 5,096,491	¥ 2,725,025	\$ 46,034,609
Call loans and bills bought (Note 31)	—	59,795	—
Monetary claims bought (Notes 8 and 31)	27,985	32,684	252,783
Trading assets (Notes 6, 8, and 32)	3,407	3,790	30,782
Money held in trust (Note 7)	18,545	16,054	167,517
Securities (Notes 8, 14, and 31)	2,107,290	1,815,484	19,034,332
Loans and bills discounted (Notes 9, 14, 15, and 31)	9,050,446	8,656,450	81,749,134
Foreign exchanges (Note 10)	22,385	19,014	202,198
Other assets (Notes 14 and 32)	202,694	194,483	1,830,857
Tangible fixed assets (Note 11)	95,784	96,905	865,181
Intangible assets (Note 12)	13,568	17,320	122,559
Assets for retirement benefits (Note 18)	3,084	—	27,859
Deferred tax assets (Note 28)	3,596	6,456	32,488
Customers' liabilities for acceptances and guarantees (Note 13)	52,921	56,099	478,017
Allowance for loan losses (Note 3)	(62,731)	(54,703)	(566,630)
Total assets	¥16,635,471	¥13,644,861	\$150,261,686
Liabilities and equity			
Liabilities			
Deposits (Notes 14, 16, and 31)	¥ 12,788,914	¥ 11,638,618	\$115,517,244
Call money and bills sold (Notes 14 and 31)	280,517	68,264	2,533,804
Payables under repurchase agreements	24,670	11,877	222,842
Payables under securities lending transactions (Note 14)	307,787	294,641	2,780,124
Trading liabilities (Notes 6 and 32)	349	497	3,156
Borrowed money (Notes 14, 17, and 31)	2,385,969	827,574	21,551,531
Foreign exchanges (Note 10)	447	113	4,042
Borrowed money from trust account	2,942	534	26,580
Other liabilities (Note 32)	120,203	119,799	1,085,755
Liability for retirement benefits (Note 18)	3,566	12,199	32,215
Reserve for directors' and audit & supervisory board members' retirement benefits	192	190	1,735
Reserve for contingent losses	755	1,025	6,824
Reserve for reimbursement of deposits	1,629	1,978	14,723
Reserve under the special laws	7	5	70
Deferred tax liabilities (Note 28)	20,966	10,919	189,383
Deferred tax liabilities for revaluation	5,123	5,201	46,277
Acceptances and guarantees (Note 13)	52,921	56,099	478,017
Total liabilities	15,996,966	13,049,541	144,494,322
Equity (Notes 19, 20, and 22)			
Capital stock	70,895	70,895	640,367
Capital surplus	133,905	139,269	1,209,515
Stock acquisition rights (Note 21)	538	497	4,866
Retained earnings	344,103	329,343	3,108,150
Treasury stock	(1,180)	(1,237)	(10,662)
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities (Note 8)	80,937	55,525	731,078
Deferred gains (losses) on hedges	(61)	(1,076)	(553)
Revaluation reserve for land (Note 11)	8,088	8,211	73,062
Defined retirement benefit plans (Note 18)	(1,986)	(9,049)	(17,940)
Total	635,241	592,378	5,737,883
Non-controlling interests	3,263	2,941	29,481
Total equity	638,504	595,319	5,767,364
Total liabilities and equity	¥16,635,471	¥13,644,861	\$150,261,686

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)
	2021	2020	2021
Income			
Interest income:			
Interest on loans and discounts	¥84,053	¥85,027	\$759,223
Interest and dividends on securities	18,554	22,817	167,596
Interest on receivables under resale agreements	(1)	(4)	(18)
Interest on deposits with other banks	1,432	878	12,942
Other interest income	463	518	4,190
Trust fees	42	6	385
Fees and commissions	37,817	38,820	341,591
Trading income	1,625	1,270	14,684
Other ordinary income (Note 24)	20,049	24,303	181,098
Other income (Note 26)	11,994	9,127	108,340
Total income	176,032	182,765	1,590,031
Expenses			
Interest expense:			
Interest on deposits	623	1,047	5,629
Interest on payables under repurchase agreements	27	37	245
Interest on payables under securities lending transactions	216	1,162	1,958
Interest on borrowings and rediscounts	37	340	341
Other interest expense	858	1,807	7,757
Fees and commissions	15,356	15,416	138,713
Other ordinary expenses (Note 25)	14,970	12,544	135,225
General and administrative expenses	91,511	94,962	826,586
Provision of allowance for loan losses	12,815	11,463	115,755
Other expenses (Note 27)	8,436	13,390	76,207
Total expenses	144,854	152,172	1,308,416
Income before income taxes	31,177	30,593	281,615
Income taxes (Note 28):			
Current	10,646	9,226	96,164
Deferred	(1,066)	972	(9,637)
Net income	21,598	20,393	195,088
Net income attributable to non-controlling interests	263	141	2,380
Net income attributable to owners of the parent	¥21,334	¥20,252	\$192,708

	Yen	U.S. dollars
Per share of common stock (Notes 2-u and 23)		
Basic net income	¥152.17	\$142.74
Diluted net income	151.68	142.37
Cash dividends applicable to the year	35.00	40.00
		0.31

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)
	2021	2020	2021
Net income	¥21,598	¥20,393	\$195,088
Other comprehensive income (loss) (Note 29)			
Valuation difference on available-for-sale securities	25,343	(36,012)	228,919
Deferred gains (losses) on hedges	1,014	(165)	9,168
Defined retirement benefit plans	7,063	(4,183)	63,800
Share of other comprehensive income (loss) of associates accounted for using equity method	127	(78)	1,156
Total comprehensive income (loss)	¥55,148	¥(20,046)	\$498,131
Comprehensive income (loss) attributable to owners of the parent	54,825	(20,180)	495,214
Comprehensive income (loss) attributable to non-controlling interests	322	133	2,917

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
BALANCE, APRIL 1, 2019	132,163	107,432	¥70,895	¥144,622	¥443	¥316,329	¥(1,281)
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		
BALANCE, MARCH 31, 2020	132,163	96,698	¥70,895	¥139,269	¥497	¥329,343	¥(1,237)
Cash dividends						(6,697)	
Net income attributable to owners of the parent						21,334	
Purchases of treasury stock							(5,375)
Disposals of treasury stock				7			61
Retirement of treasury stock		(10,743)		(5,371)			5,371
Reversal of revaluation reserve for land						122	
Net changes in the year					41		
BALANCE, MARCH 31, 2021	132,163	85,955	¥70,895	¥133,905	¥538	¥344,103	¥(1,180)

	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
BALANCE, APRIL 1, 2019	¥91,608	¥(910)	¥8,354	¥(4,865)	¥625,196	¥2,807	¥628,004
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)
BALANCE, MARCH 31, 2020	¥55,525	¥(1,076)	¥8,211	¥(9,049)	¥592,378	¥2,941	¥595,319
Cash dividends					(6,697)		(6,697)
Net income attributable to owners of the parent					21,334		21,334
Purchases of treasury stock					(5,375)		(5,375)
Disposals of treasury stock					68		68
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					122		122
Net changes in the year	25,412	1,014	(122)	7,063	33,409	322	33,731
BALANCE, MARCH 31, 2021	¥80,937	¥(61)	¥8,088	¥(1,986)	¥635,241	¥3,263	¥638,504

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2020	\$640,367	\$1,257,965	\$4,490	\$2,974,827	\$(11,177)
Cash dividends				(60,495)	
Net income attributable to owners of the parent				192,708	
Purchases of treasury stock					(48,555)
Disposals of treasury stock		68			552
Retirement of treasury stock		(48,518)			48,518
Reversal of revaluation reserve for land				1,110	
Net changes in the year			376		
BALANCE, MARCH 31, 2021	\$640,367	\$1,209,515	\$4,866	\$3,108,150	\$(10,662)

	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
BALANCE, MARCH 31, 2020	\$501,539	\$(9,720)	\$74,172	\$(81,740)	\$5,350,723	\$26,568	\$5,377,291
Cash dividends					(60,495)		(60,495)
Net income attributable to owners of the parent					192,708		192,708
Purchases of treasury stock					(48,555)		(48,555)
Disposals of treasury stock					620		620
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					1,110		1,110
Net changes in the year	229,539	9,167	(1,110)	63,800	301,772	2,913	304,685
BALANCE, MARCH 31, 2021	\$731,078	\$(553)	\$73,062	\$(17,940)	\$5,737,883	\$29,481	\$5,767,364

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)
	2021	2020	2021
1. Cash flows from operating activities:			
Income before income taxes	¥ 31,177	¥ 30,593	\$ 281,615
Depreciation	6,743	7,159	60,914
Impairment losses	685	915	6,190
Amortization of goodwill	2,102	2,102	18,989
Equity in losses (gains) of affiliates	(12)	1	(113)
Increase (decrease) in allowance for loan losses	8,028	1,799	72,516
Increase (decrease) in reserve for contingent losses	(269)	(64)	(2,435)
Decrease (increase) in asset for retirement benefits	(3,084)	398	(27,859)
Increase (decrease) in liability for retirement benefits	(8,633)	5,205	(77,981)
Increase (decrease) in reserve for directors' and audit & supervisory board members' retirement benefits	1	6	17
Increase (decrease) in reserve for reimbursement of deposits	(348)	(265)	(3,150)
Interest income	(104,502)	(109,237)	(943,933)
Interest expense	1,763	4,395	15,930
Losses (gains) on securities	(7,089)	(6,213)	(64,041)
Losses (gains) on money held in trust	7	68	64
Losses (gains) on foreign exchange	(6,357)	2,053	(57,422)
Losses (gains) on sales of fixed assets	402	174	3,637
Net decrease (increase) in trading assets	382	281	3,454
Net increase (decrease) in trading liabilities	(147)	(47)	(1,336)
Net decrease (increase) in loans and bills discounted	(393,996)	(312,312)	(3,558,815)
Net increase (decrease) in deposits	1,166,557	261,483	10,537,054
Net increase (decrease) in negotiable certificates of deposit	(16,261)	(33,193)	(146,883)
Net increase (decrease) in borrowed money (excluding subordinated borrowed money)	1,558,395	214,909	14,076,375
Net decrease (increase) in due from banks (excluding deposits with the Bank of Japan)	(6,676)	(488)	(60,303)
Net decrease (increase) in call loans, bills bought, commercial paper, and other debt purchased	64,493	24,761	582,547
Net increase (decrease) in call money and bills sold	225,045	52,928	2,032,748
Net increase (decrease) in payables under securities lending transactions	13,146	(58,009)	118,746
Net decrease (increase) in foreign exchanges (assets)	(3,370)	(3,307)	(30,447)
Net increase (decrease) in foreign exchanges (liabilities)	333	(681)	3,016
Net increase (decrease) in borrowed money from trust account	2,408	534	21,752
Interest income—cash basis	84,791	87,943	765,890
Interest expense—cash basis	(2,016)	(4,468)	(18,215)
Other, net	2,498	54,043	22,565
Subtotal	2,616,197	223,469	23,631,086
Income taxes paid	(7,977)	(9,727)	(72,056)
Net cash provided by (used in) operating activities	2,608,220	213,741	23,559,030
2. Cash flows from investing activities:			
Purchases of securities	(945,725)	(1,036,495)	(8,542,370)
Proceeds from sales of securities	449,479	621,687	4,059,973
Proceeds from redemption of securities	250,893	368,078	2,266,226
Purchases of money held in trust	(20,013)	(25,463)	(180,775)
Proceeds from sales of money held in trust	20,156	20,295	182,065
Proceeds from fund management	18,554	22,817	167,596
Purchases of tangible fixed assets	(3,549)	(3,343)	(32,065)
Proceeds from sales of tangible fixed assets	138	965	1,248
Purchases of intangible assets	(1,309)	(1,379)	(11,830)
Net cash provided by (used in) investing activities	(231,376)	(32,838)	(2,089,932)
3. Cash flows from financing activities:			
Dividends paid	(6,697)	(7,381)	(60,495)
Dividends paid to non-controlling shareholders	(0)	(0)	(4)
Purchases of treasury stock	(5,375)	(5,380)	(48,555)
Proceeds from disposals of treasury stock	0	0	0
Net cash provided by (used in) financing activities	(12,073)	(12,761)	(109,054)
4. Effect of exchange rate changes on cash and cash equivalents	19	(23)	175
5. Net increase (decrease) in cash and cash equivalents	2,364,789	168,118	21,360,219
6. Cash and cash equivalents at beginning of the period	2,721,353	2,553,235	24,580,922
7. Cash and cash equivalents at end of the period (Note 5)	¥5,086,143	¥2,721,353	\$45,941,141

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 of Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

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 ¥110.71 to U.S. \$1, the rate of exchange at March 31, 2021. 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, 2021 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. The fair values of equity securities with quoted market prices are determined based on the average quoted market prices in the last month of the fiscal year. 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 Assets (excluding Lease Assets)

Intangible assets are amortized based on the straight-line method. Capitalized software for internal use owned by consolidated subsidiaries is amortized 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 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 based on their financial condition, cash flows, earnings ability and other considerations. 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" ("Substandard" borrowers with substandard loans or other borrowers in need of caution)," "Possible bankruptcy," "Virtual bankruptcy," and "Legal bankruptcy."

The definitions of these categories are as follows:

Normal:

A "Normal" borrower has strong results and no particular problems with its financial position.

In need of caution:

An "In need of caution" borrower has problems with lending conditions, has problems with fulfillment, has poor results or is unstable, has problems with its financial position, or otherwise requires special attention in future management.

Substandard:

A "Substandard" borrower has substandard loans.

"Substandard" loans are loans to "In need of caution" borrowers that are "three months or more in arrears" or have restructured loans.

Possible bankruptcy:

A "Possible bankruptcy" borrower is not bankrupt now but is facing business difficulties and has failed to make adequate progress on its business improvement plan, etc., such that there is a strong possibility of it going into bankruptcy in the future.

Virtual bankruptcy:

A "Virtual bankruptcy" borrower is not yet legally and formally bankrupt, but is in serious business difficulties from which it is considered impossible to rebuild. In other

words, the borrower is practically bankrupt.

Legal bankruptcy:

A "Legal bankruptcy" borrower is legally and formally bankrupt. This would include bankruptcy, liquidation, corporate reorganization, civil-rehabilitation, composition, and deposition by suspension of business in the clearing house.

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.

For borrowers classified as "Possible bankruptcy" with which the unsecured portion of claims exceeds a certain amount, or a large lot borrowers holding substandard loans, 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 borrowers classified as "Possible bankruptcy" or holding substandard loans without using the "DCF" method, a specific reserve or a general allowance is provided based on three-year expected loan losses. Expected loan losses are measured based on three-year historical loan loss ratio and forward-looking information.

For borrowers classified as "Normal" or "In need of caution" loans, the Banks segregate the loans into two categories "Business loan" or "Consumer loan." General allowance for these categories is provided based on one-year expected loan losses, respectively. Expected loan losses are measured by each categories based on one-year historical loan loss ratios 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 ¥37,109 million (\$335,193 thousand) and ¥38,565 million at March 31, 2021 and 2020, 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 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 Committee Practical Guidelines 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.

Diluted net income per share reflects the potential dilution that could occur if the outstanding stock options were exercised. Diluted net income per share assumes full exercise of the outstanding stock options at the beginning of the year (or at the time of grant).

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

The ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" on March 31, 2020 and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" on March 26, 2021. 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.

3. Significant Accounting Estimate

The significant accounting estimate that can significantly affect the consolidated financial statements for the next fiscal year is as follows:

Allowance for loan losses

(1) Carrying amount on the consolidated financial statements of fiscal year ended March 31, 2021

Allowance for loan losses ¥62,731 million (\$566,630 thousand)

(2) Information on the significant accounting estimate

(a) Methodology for estimate

The Banks estimate the allowance for loan losses according to the methodology described in Note 2, "Summary of Significant Accounting Policies, i. Allowance for Loan Losses" to the consolidated financial statements.

(b) Principal assumption

The Banks' development of the prospects for recovery of borrowers' business performance in the future periods and the achievability of the borrowers' medium-term to long-term business improvement plans largely contributes to the assumption for the allowance. The Banks frequently determine the borrower classifications based on the prospects for recovery of the borrowers' business performance in the future periods and the achievability of the borrowers' medium-term to long-term business improvement plans, in addition to the borrowers' historical business performance. Furthermore, the Banks assess whether to change the borrower classifications, as necessary, reflecting the changes in the borrowers' business conditions, including the impact of the novel coronavirus disease ("COVID-19").

In addition, 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 borrowers. At the end of current fiscal year, allowance for loan losses is provided assessing whether to change the borrower classifications, as necessary, reflecting the changes in the borrowers' business conditions, based on the expectation including the impact of COVID-19.

(c) The risk that might affect carrying amount to the consolidated financial statements in next financial year
If borrowers' business performance changes or COVID-19 lasts for longer than the Group's current assumption, it is possible that the situation will have a significant impact on allowance for loan losses

4. Change in presentation

(Application of "Accounting Standard for Disclosure of Accounting Estimates")

The Group has initially applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Guidance No. 31 on March 31, 2020) to the consolidated financial statements as of the end of and for the current fiscal year and included note regarding significant accounting estimate in the consolidated financial statements.

However, in accordance with transitional treatment provided in Section 11 of "Accounting Standard for Disclosure of Accounting Estimates," the note related to the fiscal year ended March 31, 2020 has not been included.

5. 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, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and due from banks	¥5,096,491	¥2,725,025	\$46,034,609
Due from banks except for deposits with the Bank of Japan	(10,347)	(3,671)	(93,468)
Cash and cash equivalents	¥5,086,143	¥2,721,353	\$45,941,141

6. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2021 and 2020 consisted of the following:

Trading Assets	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Trading securities	¥2,926	¥3,139	\$26,433
Trading-related financial derivatives	481	650	4,349
Total	¥3,407	¥3,790	\$30,782

Trading Liabilities	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Trading-related financial derivatives	¥349	¥497	\$3,156
Total	¥349	¥497	\$3,156

7. Money Held in Trust

Money held in trust for trading purposes as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Amounts recorded in the consolidated balance sheet	¥14,045	¥14,204	\$126,870
Valuation gain (loss) included in consolidated statement of income	12	(53)	111

Money held in trust for other purposes as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Amounts recorded in the consolidated balance sheet	¥4,500	¥1,850	\$40,647
Valuation gain (loss) included in consolidated statement of income	—	—	—

8. Securities

Securities as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Japanese national government bonds	¥ 448,020	¥ 452,102	\$ 4,046,797
Japanese local government bonds	551,450	476,500	4,981,037
Japanese corporate bonds	288,519	303,771	2,606,084
Japanese corporate stocks	238,941	197,884	2,158,267
Other securities	580,358	385,225	5,242,147
Total	¥2,107,290	¥1,815,484	\$19,034,332

As of March 31, 2021 and 2020, securities included equity investments in non-consolidated subsidiaries that amounted to ¥1,334 million (\$12,058 thousand) and ¥1,194 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 ¥(29) million (\$(268) thousand) and ¥(27) million as of March 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2021			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥61,496	¥70,316	¥8,819
Japanese local government bonds	2,500	2,518	18
Japanese corporate bonds	107,714	108,364	650
Total	¥171,710	¥181,199	¥9,488
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥ —	¥ —	¥ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	27,171	27,066	(104)
Total	27,171	27,066	(104)
Grand total	¥198,881	¥208,265	¥9,383

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2020			
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

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2021			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$ 555,473	\$ 635,141	\$79,668
Japanese local government bonds	22,581	22,748	167
Japanese corporate bonds	972,942	978,816	5,874
Total	\$1,550,996	\$1,636,705	\$85,709
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$ —	\$ —	\$ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	245,426	244,478	(948)
Total	245,426	244,478	(948)
Grand total	\$1,796,422	\$1,881,183	\$84,761

The amounts on the consolidated balance sheet, acquisition or amortized cost, and unrealized gains (losses) on available-for-sale securities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
March 31, 2021			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	¥ 186,287	¥ 68,158	¥ 118,129
Bonds:			
Japanese government bonds	177,332	176,297	1,035
Japanese local government bonds	323,798	322,674	1,124
Japanese corporate bonds	122,143	120,440	1,703
Total bonds	623,275	619,411	3,863
Other securities:			
Foreign securities	132,027	122,450	9,576
Other	114,931	104,440	10,491
Total other securities	246,958	226,890	20,067
Total	¥1,056,521	¥914,460	¥142,060
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	¥ 23,191	¥ 29,177	¥ (5,986)
Bonds:			
Japanese government bonds	209,191	210,399	(1,207)
Japanese local government bonds	225,151	225,761	(609)
Japanese corporate bonds	31,490	31,629	(139)
Total bonds	465,833	467,790	(1,956)
Other securities:			
Foreign securities	217,934	230,169	(12,234)
Other	143,446	153,694	(10,248)
Total other securities	361,380	383,863	(22,482)
Total	850,405	880,831	(30,425)
Grand total	¥1,906,926	¥1,795,292	¥111,634

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
March 31, 2020			
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

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
March 31, 2021			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	\$1,682,662	\$615,648	\$1,067,014
Bonds:			
Japanese government bonds	1,601,776	1,592,422	9,354
Japanese local government bonds	2,924,748	2,914,591	10,157
Japanese corporate bonds	1,103,279	1,087,888	15,391
Total bonds	5,629,803	5,594,901	34,902
Other securities:			
Foreign securities	1,192,549	1,106,050	86,499
Other	1,038,130	943,367	94,763
Total other securities	2,230,679	2,049,417	181,262
Total	\$9,543,144	\$8,259,966	\$1,283,178
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	\$209,475	\$263,548	\$(54,073)
Bonds:			
Japanese government bonds	1,889,548	1,900,453	(10,905)
Japanese local government bonds	2,033,707	2,039,213	(5,506)
Japanese corporate bonds	284,438	285,700	(1,262)
Total bonds	4,207,693	4,225,366	(17,673)
Other securities:			
Foreign securities	1,968,519	2,079,031	(110,512)
Other	1,295,692	1,388,259	(92,567)
Total other securities	3,264,211	3,467,290	(203,079)
Total	7,681,379	7,956,204	(274,825)
Grand total	\$17,224,523	\$16,216,170	\$1,008,353

Information on available-for-sale securities, which were sold during the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		
	Proceeds	Realized gains	Realized losses
March 31, 2021			
Japanese corporate stocks	¥47,367	¥8,053	¥1,059
Bonds:			
Japanese government bonds	49,097	81	96
Japanese local government bonds	42,103	241	207
Japanese corporate bonds	70	0	—
Total bonds	91,271	323	303
Other securities:			
Foreign securities	149,578	4,111	1,012
Other	90,638	2,745	5,921
Total other securities	240,217	6,856	6,934
Total	¥378,856	¥15,233	¥8,297

	Millions of yen		
	Proceeds	Realized gains	Realized losses
March 31, 2020			
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

March 31, 2021	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	\$427,851	\$72,741	\$9,571
Bonds:			
Japanese government bonds	443,478	732	870
Japanese local government bonds	380,305	2,181	1,872
Japanese corporate bonds	638	6	—
Total bonds	824,421	2,919	2,742
Other securities:			
Foreign securities	1,351,088	37,139	9,144
Other	818,701	24,796	53,490
Total other securities	2,169,789	61,935	62,634
Total	\$3,422,061	\$137,595	\$74,947

Impairment losses on available-for-sale securities amounted to ¥116 million (\$1,054 thousand) and ¥3,389 million as of March 31, 2021 and 2020, 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, 2021 and 2020, in the consolidated balance sheet, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Valuation difference before taxes on available-for-sale securities	¥111,634	¥75,715	\$1,008,353
Deferred tax liabilities	(30,674)	(20,098)	(277,068)
Valuation difference on available-for-sale securities (before adjustment)	80,960	55,616	731,285
Amounts attributable to non-controlling interests	(218)	(159)	(1,977)
The Company's portion of valuation difference on available-for-sale securities of equity method investees	195	67	1,770
Amounts recorded in the consolidated balance sheet	¥ 80,937	¥55,525	\$ 731,078

9. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bills discounted	¥19,701	¥29,563	\$177,955
Loans on bills	172,132	225,441	1,554,810
Loans on deeds	7,797,266	7,282,401	70,429,648
Overdrafts	1,061,345	1,119,043	9,586,721
Total	¥9,050,446	¥8,656,450	\$81,749,134

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
	2021	2020	2021
Loans to borrowers in bankruptcy	¥3,124	¥3,196	\$28,219
Past due loans	153,218	131,319	1,383,959
Past due loans (three months or more)	428	367	3,871
Restructured loans	25,123	20,767	226,931
Total	¥181,894	¥155,651	\$1,642,980

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 write-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 Committee Practical Guidelines No. 24). The Banks have the 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 ¥21,346 million (\$192,811 thousand) and ¥33,036 million as of March 31, 2021 and 2020, respectively.

10. Foreign Exchanges

Foreign exchanges as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets			
Due from foreign banks	¥19,040	¥13,912	\$171,987
Foreign exchange bills bought	1,644	3,473	14,856
Foreign exchange bills receivable	1,700	1,628	15,355
Total	¥22,385	¥19,014	\$202,198
Liabilities			
Due to foreign banks	¥227	¥21	\$2,051
Foreign exchange bills sold	0	22	3
Foreign exchange bills payable	220	69	1,988
Total	¥447	¥113	\$4,042

11. Tangible Fixed Assets

Tangible fixed assets as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings	¥32,612	¥32,963	\$294,579
Land	56,597	56,927	511,219
Lease assets	847	846	7,651
Construction in progress	221	260	2,003
Other tangible fixed assets	5,505	5,907	49,729
Total	¥95,784	¥96,905	\$865,181

Accumulated depreciation amounted to ¥105,989 million (\$957,362 thousand) and ¥103,037 million as of March 31, 2021 and 2020, respectively.

The book value of tangible fixed assets adjusted for gains on sales of replaced assets amounted to ¥5,824 million (\$52,612 thousand) and ¥5,738 million as of March 31, 2021 and 2020, 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 ¥16,422 million (\$148,342 thousand) and ¥16,982 million as of March 31, 2021 and 2020, respectively.

12. Intangible Assets

Intangible assets as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Software	¥5,404	¥7,038	\$48,820
Goodwill	7,182	9,285	64,879
Lease assets	259	325	2,348
Other intangible assets	720	671	6,512
Total	¥13,568	¥17,320	\$122,559

13. 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 ¥168,245 million (\$1,519,699 thousand) and ¥170,406 million as of March 31, 2021 and 2020, respectively.

14. Assets Pledged

Assets pledged as collateral and their relevant liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets pledged as collateral:			
Securities	¥1,141,336	¥749,462	\$10,309,241
Loans and bills discounted	2,331,618	653,398	21,060,595
Relevant liabilities to the above assets:			
Deposits	29,281	¥28,280	264,484
Call money and bills sold	78,000	45,000	704,543
Payables under securities lending transactions	307,787	294,641	2,780,124
Borrowed money	2,380,313	822,015	21,500,442

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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities	¥ 2,056	¥ 2,006	\$ 18,576
Other assets	105,219	105,219	950,406

In addition to the above, initial margins for futures transactions, cash collateral paid for financial instruments, and guarantee deposits that are included in "Other assets" in the consolidated balance sheet as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash collateral paid for financial instruments	¥7,203	¥6,151	\$65,065
Guarantee deposits	4,057	4,348	36,651

15. 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 ¥2,492,147 million (\$22,510,594 thousand) and ¥2,447,305 million as of March 31, 2021 and 2020, respectively, of which amounts with original agreement terms of less than one year are ¥2,337,027 million (\$21,109,452 thousand) and ¥2,320,671 million as of March 31, 2021 and 2020, respectively.

Since the majority 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.

16. Deposits

Deposits as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Current deposits, ordinary deposits, saving deposits and deposits at notice	¥9,144,928	¥7,953,259	\$82,602,555
Time deposits and installment savings	3,443,341	3,479,486	31,102,355
Negotiable certificates of deposit	64,238	80,500	580,244
Other deposits	136,404	125,371	1,232,090
Total	¥12,788,914	¥11,638,618	\$115,517,244

17. Borrowed Money

As of March 31, 2021 and 2020, the weighted-average annual interest rates applicable to borrowed money were 0.02% and 0.03%, respectively.

Annual maturities of borrowed money as of March 31, 2021 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥1,650,985	\$14,912,707
2023	68,842	621,832
2024	362,103	3,270,741
2025	303,059	2,737,417
2026	471	4,259
2027 and thereafter	506	4,575
Total	¥2,385,969	\$21,551,531

18. 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year	¥96,454	¥97,879	\$871,232
Service cost	2,255	2,339	20,369
Interest cost	593	602	5,362
Actuarial (gains) losses	776	985	7,014
Benefits paid	(5,298)	(5,440)	(47,858)
Others	83	87	754
Balance at end of year	¥94,864	¥96,454	\$856,873

(2) The changes in plan assets for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year	¥84,254	¥91,283	\$761,035
Expected return on plan assets	2,395	2,651	21,641
Actuarial (gains) losses	9,699	(6,300)	87,612
Contributions from the employer	2,031	443	18,347
Benefits paid	(4,082)	(3,910)	(36,872)
Others	83	87	754
Balance at end of year	¥94,382	¥84,254	\$852,517

(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
	2021	2020	2021
Funded defined benefit obligation	¥80,622	¥81,729	\$728,231
Plan assets	(83,706)	(74,845)	(756,090)
	(3,084)	6,884	(27,859)
Unfunded defined benefit obligation	14,242	14,724	128,642
Plan assets	(10,675)	(9,408)	(96,427)
	3,566	5,315	32,215
Net liability (asset) arising from defined benefit obligation	¥ 482	¥12,199	\$ 4,356

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Liability for retirement benefits	¥3,566	¥12,199	\$32,215
Asset for retirement benefits	(3,084)	—	(27,859)
Net liability (asset) arising from defined benefit obligation	¥ 482	¥12,199	\$ 4,356

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥2,255	¥2,339	\$20,369
Interest cost	593	602	5,362
Expected return on plan assets	(2,395)	(2,651)	(21,641)
Recognized actuarial (gains) losses	1,229	1,272	11,106
Others	118	56	1,069
Net periodic benefit costs	¥1,800	¥1,619	\$16,265

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gains (losses)	¥10,152	¥(6,014)	\$91,703
Total	¥10,152	¥(6,014)	\$91,703

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial (gains) losses	¥2,856	¥13,008	\$25,798
Total	¥2,856	¥13,008	\$25,798

(7) Plan assets

• *Components of plan assets*

Plan assets as of March 31, 2021 and 2020 consisted of the following:

	2021	2020
Bonds	29.13%	35.14%
Stocks	45.43	34.11
Cash and deposits	2.75	11.86
General accounts	7.11	7.88
Other	15.58	11.01
Total	100.00%	100.00%

Note: Plan assets include retirement benefit trusts of 19.28% and 19.15% as of March 31, 2021 and 2020, 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, 2021 and 2020 were set forth as follows:

	2021	2020
Discount rate	0.61%–0.63%	0.61%–0.63%
Expected rate of return on plan assets	2.7%–3.0%	3.0%–3.3%

(b) *Defined contribution pension plan*

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Contribution	¥345	¥353	\$3,123

19. 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, 2021 will be approved at the Company's general shareholders' meeting held on June 25, 2021:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥35.00 (\$0.32) per share of common stock	¥4,592	\$41,485
Cash dividends, ¥7.50 (\$0.07) per share of preferred stock (Type 5)	644	5,822

20. Capital Stock

Information with respect to capital stock of the Company as of March 31, 2021 and 2020 is as follows:

	2021	2020
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)	85,955,000	96,698,000
Treasury stock:		
Common	953,838	999,658
Preferred (Type 5)	11,128	11,144

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, 2021 and 2020 were as follows:

2021	As of April 1, 2020	Changes during the fiscal year		As of March 31, 2021
		Increase*1	Decrease*2	
Common	999,658	4,120	49,940	953,838
Preferred (Type 5)	11,144	10,742,984	10,743,000	11,128

*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.

2020	As of April 1, 2019	Changes during the fiscal year		As of March 31, 2020
		Increase*1	Decrease*2	
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.

21. Stock Acquisition Rights

Stock acquisition rights as of March 31, 2021 and 2020 consisted of stock options.

22. Stock Options

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

Stock option expenses in the amount of ¥110 million (\$1,000 thousand) and ¥123 million were recorded under general and administrative expenses for the years ended March 31, 2021 and 2020, respectively.

The stock options outstanding as of March 31, 2021 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
2020 Stock Option	19 directors 23 executive officers	138,000	July 10, 2020	¥1	From July 11, 2020 to July 10, 2050

The stock option activity was as follows:

Year ended March 31, 2021	2012 stock option (Shares)	2013 stock option (Shares)	2014 stock option (Shares)	2015 stock option (Shares)
Non-vested:				
March 31, 2020				
–outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2021				
–outstanding	—	—	—	—
Vested:				
March 31, 2020				
–outstanding	18,770	16,700	15,600	16,960
Vested	—	—	—	—
Exercised	—	—	820	2,560
Canceled	—	—	—	—
March 31, 2021				
–outstanding	18,770	16,700	14,780	14,400
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥—	¥—	¥905	¥905
	\$—	\$—	\$8.17	\$8.17
Fair value price at grant date	¥1,080	¥1,820	¥2,010	¥2,650
	\$9.76	\$16.44	\$18.16	\$23.94

Year ended March 31, 2021	2016 stock option (Shares)	2017 stock option (Shares)	2018 stock option (Shares)	2019 stock option (Shares)
Non-vested:				
March 31, 2020				
–outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2021				
–outstanding	—	—	—	—
Vested:				
March 31, 2020				
–outstanding	54,390	46,130	76,460	114,610
Vested	—	—	—	—
Exercised	9,900	8,960	12,040	15,660
Canceled	—	—	—	330
March 31, 2021				
–outstanding	44,490	37,170	64,420	98,620
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥898	¥900	¥900	¥900
	\$8.11	\$8.13	\$8.13	\$8.13
Fair value price at grant date	¥1,170	¥1,717	¥1,353	¥1,080
	\$10.57	\$15.51	\$12.22	\$9.76

Year ended March 31, 2021	2020 stock option (Shares)
Non-vested:	
March 31, 2020	
–outstanding	—
Granted	138,000
Canceled	—
Vested	138,000
March 31, 2021	
–outstanding	—
Vested:	
March 31, 2020	
–outstanding	—
Vested	138,000
Exercised	—
Canceled	—
March 31, 2021	
–outstanding	138,000
Exercise price	¥1
	\$0.01
Average stock price at exercise	¥802
	\$7.24
Fair value price at grant date	¥—
	\$—

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

The Assumptions Used to Measure the Fair Value of the 2020 Stock Options

Estimate method	Black-Scholes option-pricing model
Volatility of stock price	32.931%
Estimated remaining outstanding period	One years and four months
Estimate dividend	¥40.00 per share
Risk-free interest rate	(0.175)%

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.

23. 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, 2021 and 2020 was as follows:

Year ended	Thousands of		Yen	U.S. dollars
	Millions of yen	shares		
March 31, 2021	Net income attributable to owners of parent	Weighted-average shares		EPS
Basic EPS – Net income available to common shareholders	¥19,964	131,200	¥152.17	\$1.37
Effect of dilutive securities		419		
Diluted EPS – Net income for computation	¥19,964	131,620	¥151.68	\$1.37

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

(2) Net assets per share of common stock

Net assets per share of common stock as of March 31, 2021 and 2020 were as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net assets per share of common stock	¥4,504.91	¥4,138.44	\$40.69

Net assets per share of common stock as of March 31, 2021 and 2020 were calculated based on the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total equity	¥638,504	¥595,319	\$5,767,364
Deductions from total equity:			
Stock acquisition rights	538	497	4,866
Non-controlling interests	3,263	2,941	29,481
Preferred stock	42,971	48,343	388,149
Preferred dividends	644	725	5,822
Net assets attributable to common stock at the end of the fiscal year	591,085	542,812	5,339,046
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)	131,209	131,163	

24. Other Ordinary Income

Other ordinary income for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gain on foreign exchange transactions – net	¥ 980	¥1,100	\$8,852
Gains on sales and redemption of bonds and other securities	5,955	9,387	53,794
Gains on derivatives	75	48	686
Lease receipts	11,606	12,257	104,840
Other	1,431	1,510	12,926
Total	¥20,049	¥24,303	\$181,098

25. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Losses on sales, redemption and devaluation of bonds and other securities	¥3,951	¥907	\$35,690
Lease costs	10,689	11,243	96,555
Other	329	394	2,980
Total	¥14,970	¥12,544	\$135,225

26. Other Income

Other income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gains on sales of stocks	¥9,612	¥5,797	\$86,823
Gains on sales of tangible fixed assets	25	362	231
Other	2,356	2,967	21,286
Total	¥11,994	¥9,127	\$108,340

27. Other Expenses

Other expenses for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Losses on write-offs of loans and bills discounted	¥466	¥458	\$4,214
Losses on sales of stocks	4,427	4,982	39,995
Losses on impairments of stocks and other securities	98	3,081	891
Losses on sales of loans	193	404	1,747
Losses on impairments and disposals of fixed assets	1,113	1,452	10,058
Other	2,136	3,011	19,302
Total	¥8,436	¥13,390	\$76,207

28. 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, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Allowance for loan losses	¥27,639	¥25,366	\$249,657
Depreciation	696	755	6,292
Liability for retirement benefits	8,116	12,199	73,311
Loss on valuation of securities	10,805	11,451	97,605
Other	5,193	5,878	46,914
Operating loss carryforwards	47	52	427
Subtotal	52,499	55,702	474,206
Less: Valuation allowance	27,231	28,280	245,974
Total deferred tax assets	25,267	27,421	228,232
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	37,170	26,443	335,743
Land transfer through merger	2,765	2,765	24,982
Other	2,701	2,675	24,402
Total deferred tax liabilities	42,637	31,884	385,127
Net deferred tax assets	¥(17,369)	¥(4,462)	\$(156,895)

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, 2021 and 2020 are as follows:

	2021	2020
Normal effective statutory tax rate	30.45%	30.45%
Change in valuation allowance	(1.65)	1.87
Permanently non-taxable income	(1.08)	(1.05)
Per capita portion of inhabitants' taxes	0.46	0.52
Permanently non-deductible expenses	0.21	0.37
Other	2.33	1.17
Actual effective tax rate	30.72%	33.33%

29. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Valuation difference on available-for-sale securities:			
Amount incurred during the fiscal year	¥42,800	¥(39,879)	\$386,601
Reclassification adjustment	(6,881)	(9,355)	(62,156)
Prior to deducting tax effect	35,919	(49,234)	324,445
Tax effect	(10,575)	13,222	(95,526)
Total	25,343	(36,012)	228,919

Deferred gains (losses) on hedges:

Amount incurred during the fiscal year	401	(1,713)	3,629
Reclassification adjustment	843	1,689	7,621
Prior to deducting tax effect	1,245	(24)	11,250
Tax effect	(230)	(141)	(2,082)
Total	1,014	(165)	9,168

Defined retirement benefit plans:

Amount incurred during the fiscal year	8,922	(7,286)	80,597
Reclassification adjustment	1,229	1,272	11,106
Prior to deducting tax effect	10,152	(6,014)	91,703
Tax effect	(3,089)	1,830	(27,903)
Total	7,063	(4,183)	63,800

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

Amount incurred during the fiscal year	183	(120)	1,661
Reclassification adjustment	(0)	8	(1)
Prior to deducting tax effect	183	(112)	1,660
Tax effect	(55)	34	(504)
Total	127	(78)	1,156

Total other comprehensive income (loss)

	¥33,549	¥(40,440)	\$303,043
--	----------------	-----------	------------------

30. 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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Within one year	¥3	¥3	\$35
Over one year	9	13	89
Total	¥13	¥17	\$124

31. 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 Banks apply hedge accounting to hedge the value of some of its assets and liabilities against interest-rate fluctuations. When applying hedge accounting, the Banks adopt 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 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 ¥179 million (\$1,617 thousand) and ¥119 million as of March 31, 2021 and 2020, 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 ¥48,751 million (\$440,349 thousand) and ¥57,954 million as of March 31, 2021 and 2020, respectively. Hokkaido Bank's VaR of the financial instruments in the banking account was ¥13,527 million (\$122,184 thousand) and ¥15,622 million as of March 31, 2021 and 2020, respectively. Hokkaido Bank's trading account securities totaled ¥13 million (\$117 thousand) and ¥14 million as of March 31, 2021 and 2020, respectively. Hokkaido Bank's specified fund trust totaled ¥2 million (\$18 thousand) and ¥2 million as of March 31, 2021 and 2020, 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 ¥70,800 million increase (\$639,509 thousand increase) and a ¥70,325 million increase as of March 31, 2021 and 2020, respectively. Hokkaido Bank's 100BPV was a ¥6,977 million increase (\$63,021 thousand increase) and a ¥18,061 million increase as of March 31, 2021 and 2020, 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, 2021 and 2020 are as follows. These amounts do not include unlisted stocks whose fair values are extremely difficult to determine (see (b) Financial instruments whose fair values are deemed to be extremely difficult to determine).

(a) Fair value of financial instruments

March 31, 2021	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	¥5,096,491	¥5,096,491	¥—
Call loans and bills bought	—	—	—
Monetary claims bought *1	27,985	27,985	—
Securities			
Bonds classified as held-to-maturity	198,881	208,265	9,383
Available-for-sale securities	1,878,941	1,878,941	—
Loans and bills discounted	9,050,446		
Allowance for loan losses *1	(61,071)		
	8,989,375	9,086,869	97,493
Total assets	¥16,191,675	¥16,298,553	¥106,877
Deposits	¥12,788,914	¥12,789,094	¥180
Call money and bills sold	280,517	280,517	—
Payables under securities lending transactions	307,787	307,787	—
Borrowed money	2,385,969	2,386,764	794
Total liabilities	¥15,763,189	¥15,764,163	¥974
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥(626)	¥(626)	¥—
Derivative transactions qualifying for hedge accounting*3	(2,311)	(2,311)	*4 —
Total derivative transactions	¥(2,937)	¥(2,937)	¥—

March 31, 2020	Millions of yen		
	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
Call money and bills sold	68,264	68,264	—
Payables under securities lending transactions	294,641	294,641	—
Borrowed money	827,574	828,429	855
Total liabilities	¥12,829,099	¥12,830,058	¥959
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥176	¥176	¥—
Derivative transactions qualifying for hedge accounting	(1,304)	(1,304)	*4 —
Total derivative transactions	¥(1,127)	¥(1,127)	¥—

March 31, 2021	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	\$46,034,609	\$46,034,609	\$—
Call loans and bills bought	—	—	—
Monetary claims bought *1	252,783	252,783	—
Securities			
Bonds classified as held-to-maturity	1,796,422	1,881,183	84,761
Available-for-sale securities	16,971,740	16,971,740	—
Loans and bills discounted	81,749,134		
Allowance for loan losses *1	(551,632)		
	81,197,502	82,078,125	880,623
Total assets	\$146,253,056	\$147,218,440	\$965,384
Deposits	\$115,517,244	\$115,518,876	\$1,632
Call money and bills sold	2,533,804	2,533,804	—
Payables under securities lending transactions	2,780,124	2,780,124	—
Borrowed money	21,551,531	21,558,703	7,172
Total liabilities	\$142,382,703	\$142,391,507	\$8,804
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	\$(5,658)	\$(5,658)	\$—
Derivative transactions qualifying for hedge accounting *3	(20,878)	(20,878)	*4 —
Total derivative transactions	\$(26,536)	\$(26,536)	\$—

*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. Transactions to which hedge accounting is applied include interest rate swap transactions designated as hedging instrument for the purpose of balancing interest rate fluctuations in loans, securities, etc. Deferred hedge accounting is applied to these transactions. Of these hedge relationships to which "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ PITF No. 40, September 29, 2020) applies are accounted for under the standard.

*4. 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 book values of these items approximate their fair 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 book values of these items approximate their fair 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 book value will approximate the fair 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 "Legal bankruptcy" borrowers, "Virtual bankruptcy" borrowers, and "Possible bankruptcy" 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 book value stated on the consolidated balance sheet as of the consolidated balance sheet date, minus the present value of estimated bad debt, approximates the fair value, 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.

Call money and bills sold and Payables under securities lending transactions

The fair values of Call money and bills sold and 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
	2021	2020	2021
Unlisted stocks *1,2	¥29,467	¥29,522	\$266,166
Unlisted foreign securities *1	0	0	4
Total	¥29,467	¥29,523	\$266,170

*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 ¥21 million (\$198 thousand) and ¥6 million as of March 31, 2021 and 2020, respectively.

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

March 31, 2021	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	¥4,959,360	¥—	¥—	¥—	¥—
Call loans and bills bought	—	—	—	—	—
Monetary claims bought	1,003	—	—	—	26,788
Securities	180,391	284,199	240,394	189,488	859,460
Bonds classified as held-to-maturity	37,362	61,450	42,361	6,985	50,725
Japanese government bonds	—	1,500	10,000	—	50,000
Japanese local government bonds	—	500	500	1,500	—
Japanese corporate bonds	37,362	59,450	31,861	5,485	725
Available-for-sale securities with maturities	143,028	222,748	198,032	182,503	808,735
Japanese government bonds	94,000	52,000	—	12,000	227,500
Japanese local government bonds	26,525	85,122	95,409	58,964	281,703
Japanese corporate bonds	13,652	24,846	37,359	13,743	62,540
Other	8,850	60,780	65,263	97,795	236,990
Loans and bills discounted	2,825,811	1,449,373	1,137,331	793,060	2,667,890
Total	¥7,966,566	¥1,733,572	¥1,377,725	¥982,548	¥3,554,139

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

March 31, 2021	Thousands of U.S. dollars				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks	\$44,795,954	\$—	\$—	\$—	\$—
Call loans and bills bought	—	—	—	—	—
Monetary claims bought	9,063	—	—	—	241,973
Securities	1,629,405	2,567,062	2,171,385	1,711,576	7,763,167
Bonds classified as held-to-maturity	337,483	555,059	382,636	63,097	458,179
Japanese government bonds	—	13,549	90,326	—	451,630
Japanese local government bonds	—	4,516	4,516	13,549	—
Japanese corporate bonds	337,483	536,994	287,794	49,548	6,549
Available-for-sale securities with maturities	1,291,922	2,012,003	1,788,749	1,648,479	7,304,988
Japanese government bonds	849,065	469,696	—	108,391	2,054,918
Japanese local government bonds	239,595	768,880	861,793	532,600	2,544,522
Japanese corporate bonds	123,321	224,424	337,453	124,138	564,904
Other	79,941	549,003	589,503	883,350	2,140,644
Loans and bills discounted	25,524,449	13,091,622	10,273,066	7,163,402	24,098,012
Total	\$71,958,871	\$15,658,684	\$12,444,451	\$8,874,978	32,103,152

Loans and bills discounted

Claims on "Legal bankruptcy" borrowers, "Virtual bankruptcy" borrowers, and "Possible bankruptcy" borrowers amounted to ¥156,342 million (\$1,412,178 thousand) and ¥134,317 million as of March 31, 2021 and 2020, respectively, and loans with no contractual maturities amounted to ¥20,636 million (\$186,404 thousand) and ¥28,743 million as of March 31, 2021 and 2020, respectively. They are not included in the table above.

(7) Maturity analysis for financial liabilities with contractual maturities

March 31, 2021	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Deposits	¥11,904,909	¥724,147	¥152,074	¥4,689	¥3,094
Call money and bills sold	280,517	—	—	—	—
Payables under securities lending transactions	307,787	—	—	—	—
Borrowed money	1,650,985	430,946	303,530	428	77
Total	¥14,144,199	¥1,155,093	¥455,605	¥5,118	¥3,172

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
Deposits	¥10,683,960	¥787,429	¥157,866	¥4,637	¥4,725
Call money and bills sold	68,264	—	—	—	—
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

March 31, 2021	Thousands of U.S. dollars				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Deposits	\$107,532,374	\$6,540,936	\$1,373,627	\$42,354	\$27,953
Call money and bills sold	2,533,804	—	—	—	—
Payables under securities lending transactions	2,780,124	—	—	—	—
Borrowed money	14,912,708	3,892,572	2,741,676	3,875	700
Total	\$127,759,010	\$10,433,508	\$4,115,303	\$46,229	\$28,653

Deposits

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

32. 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		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥67,512	¥55,140	¥1,275	¥1,275
Receive/floating and pay/fixed	67,500	55,092	(820)	(820)
Others/sell	510	510	(0)	10
Others/buy	510	510	0	(4)
Total	/	/	¥455	¥461

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
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

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$609,817	\$498,061	\$11,524	\$11,524
Receive/floating and pay/fixed	609,706	497,626	(7,410)	(7,410)
Others/sell	4,610	4,610	(6)	93
Others/buy	4,610	4,610	6	(38)
Total	/	/	\$4,114	\$4,169

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		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Swaps				
Forward contracts/sell	¥2,100	¥2,100	¥1	¥1
Forward contracts/buy	76,774	509	(2,223)	(2,223)
Options/sell	62,726	553	1,074	1,074
Options/buy	39,851	18,716	(656)	833
Total	/	/	¥(1,148)	¥(939)

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

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Swaps				
Forward contracts/sell	\$18,971	\$18,971	\$12	\$12
Forward contracts/buy	693,478	4,600	(20,088)	(20,088)
Options/sell	566,588	5,000	9,704	9,704
Options/buy	359,967	169,057	(5,926)	7,533
Total	/	/	\$(10,375)	\$(8,485)

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

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥842	¥832	¥(79)	¥(79)
Receive/floating and pay/fixed	842	832	145	145
Total	/	/	¥66	¥66

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2020				
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

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$7,608	\$7,517	\$(714)	\$(714)
Receive/floating and pay/fixed	7,608	7,517	1,317	1,317
Total	/	/	\$603	\$603

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

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Earthquake derivatives				
Sell	¥9,015	¥—	¥(58)	¥—
Buy	9,015	—	58	—
Total	/	/	¥—	¥—

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

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2021				
Over-the-counter transactions				
Earthquake derivatives				
Sell	\$81,429	\$—	\$(526)	\$—
Buy	81,429	—	526	—
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, 2021

Hedge accounting method	Type	Hedged item	Millions of yen		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	¥73,000	¥68,000	¥(199)
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	37,670	37,670	*3
Total			/	/	¥(199)

March 31, 2020

Hedge accounting method	Type	Hedged item	Millions of yen		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
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, 2021

Hedge accounting method	Type	Hedged item	Thousands of U.S. dollars		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	\$659,380	\$614,217	\$(1,804)
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	340,260	340,260	*3
Total			/	/	\$(1,804)

Notes: 1. Deferred hedge accounting is mainly applied in accordance with JICPA Industry Committee Practical Guidelines 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 Note 31, "Financial Instruments and Related Disclosures."

• Foreign Exchange-Related Transactions

March 31, 2021			Millions of yen		
Hedge accounting method	Type	Hedged item	Notional principal or contract amount		Fair value
			Total	Due after 1 year	
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	¥34,665	¥239	¥(2,111)
	Forward contracts	Call loans and due from banks (foreign currencies)	—	—	—
Total			/	/	(2,111)
March 31, 2020			Millions of yen		
Hedge accounting method	Type	Hedged item	Notional principal or contract amount		Fair value
			Total	Due after 1 year	
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, 2021			Thousands of U.S. dollars		
Hedge accounting method	Type	Hedged item	Notional principal or contract amount		Fair value
			Total	Due after 1 year	
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	\$313,123	\$2,164	\$(19,074)
	Forward contracts	Call loans and due from banks (foreign currencies)	—	—	—
Total			/	/	\$(19,074)

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

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

33. 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, 2021 and 2020 are as follows:

	Millions of yen						
	2021						
	Reportable segment			Other	Total	Reconciliations	Consolidated
Hokuriku Bank	Hokkaido Bank	Total					
Ordinary income							
Ordinary income from external customers	¥85,281	¥70,337	¥155,619	¥20,518	¥176,137	¥(174)	¥175,963
Ordinary income from intersegment transactions	1,145	1,234	2,380	4,671	7,052	(7,052)	—
Total	86,427	71,572	157,999	25,190	183,189	(7,226)	175,963
Segment profit	14,297	8,192	22,490	2,408	24,898	(3,563)	21,334
Segment assets	9,857,292	6,737,566	16,594,859	95,160	16,690,020	(54,548)	16,635,471
Segment liabilities	¥9,473,122	¥6,514,085	¥15,987,208	¥66,948	¥16,054,156	¥(57,190)	¥15,996,966
Others							
Depreciation	¥3,957	¥2,515	¥6,473	¥268	¥6,741	¥1	¥6,743
Amortization of goodwill	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill	—	—	—	—	—	7,182	7,182
Increase in tangible fixed assets and intangible assets	¥2,817	¥2,170	¥4,988	¥60	¥5,048	¥6	¥5,055

	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 assets	¥3,085	¥1,849	¥4,935	¥150	¥5,085	¥3	¥5,088

	Thousands of U.S. dollars						
	2021						
	Reportable segment			Other	Total	Reconciliations	Consolidated
Hokuriku Bank	Hokkaido Bank	Total					
Ordinary income							
Ordinary income from external customers	\$770,317	\$635,331	\$1,405,648	\$185,331	\$1,590,979	\$(1,572)	\$1,589,407
Ordinary income from intersegment transactions	10,347	11,152	21,499	42,200	63,699	(63,699)	—
Total	780,664	646,483	1,427,147	227,531	1,654,678	(65,271)	1,589,407
Segment profit	129,141	74,004	203,145	21,752	224,897	(32,189)	192,708
Segment assets	89,037,059	60,857,794	149,894,853	859,551	150,754,404	(492,718)	150,261,686
Segment liabilities	\$85,567,002	\$58,839,179	\$144,406,181	\$604,721	\$145,010,902	\$(516,580)	\$144,494,322
Others							
Depreciation	\$35,748	\$22,722	\$58,470	\$2,428	\$60,898	\$16	\$60,914
Amortization of goodwill	—	—	—	—	—	18,989	18,989
Unamortized balance of goodwill	—	—	—	—	—	64,879	64,879
Increase in tangible fixed assets and intangible assets	\$25,452	\$19,606	\$45,058	\$545	\$45,603	\$60	\$45,663

(4) Information about services

Year ended March 31, 2021	Millions of yen			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥96,141	¥39,914	¥39,907	¥175,963

Year ended March 31, 2020	Millions of yen			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥96,631	¥43,484	¥42,287	¥182,402

Year ended March 31, 2021	Thousands of U.S. dollars			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	\$868,404	\$360,532	\$360,471	\$1,589,407

(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.

34. Related Party Transactions

Related party transactions as of March 31, 2021 and 2020 were as follows:

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

March 31, 2021

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	\$8,581	¥950	\$8,581
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥500	\$4,516	¥500	\$4,516

March 31, 2020

Related party	Account Classification	Transaction amount *5		Balance at end of year	
		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Nakamura-Tome Precision Industry Co., Ltd. *2	Loans and bills discounted	¥950	¥950	¥950	¥950
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥1,013	¥500	¥500	¥500
YUGEYA Inc.*3	Loans and bills discounted *6	¥320	¥311	¥311	¥311
Kimito Tsurui *4	Loans and bills discounted *6	¥11	¥10	¥10	¥10

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.

35. Subsequent Events

There are no applicable matters.



Deloitte Touche Tohmatsu LLC
Toyama Daiichiseimei Building
2-25 Sakurabashi-dori
Toyama-shi, Toyama 930-0004
Japan

Tel: +81 (76) 443 7220
Fax: +81 (76) 443 7221
www.deloitte.com/jp/en

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, 2021, 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, 2021, 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.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Determination of Borrower Classifications in the Estimation of Allowance for Loan Losses	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As of March 31, 2021, the Group recorded loans and bills discounted of ¥9,050,446 million (\$81,749,134 thousand), representing 54% of total assets, and allowance for loan losses of ¥62,731 million (\$566,630 thousand) on the consolidated balance sheet.</p> <p>The subsidiaries of the Group ("Banks"), which provide banking services, classify borrowers into categories, namely "Normal," "In need of caution" ("Substandard" borrowers with substandard loans or other borrowers in need of caution), "Possible bankruptcy," "Virtual bankruptcy," and "Legal bankruptcy," based on the borrowers' financial condition, cash flows, earnings ability and other considerations, and estimate the allowance for loan losses for each category as described in Note 2, "Summary of Significant Accounting Policies, i. Allowance for Loan Losses" to the consolidated financial statements. In case the borrowers whose business results or financial position is currently unfavorable or unstable, the Banks frequently determine the borrower classifications based on the prospects for recovery of their business performance in the future periods and the achievability of the borrowers' medium-term to long-term business improvement plans ("Business improvement plans"), in addition to the borrowers' historical business performance. Furthermore, the Banks assess whether to change the borrower classifications, as necessary, reflecting the changes in the borrowers' business conditions, including the impact of the novel coronavirus disease ("COVID-19") as described in Note 3, "Significant Accounting Estimate" to the consolidated financial statements.</p>	<p>Our audit procedures to address the key audit matter included the following, among others:</p> <p>(1) Tests of the effectiveness of controls</p> <p>In accordance with the Banks' policies and guidelines for internal controls, borrower classifications are determined by the branches. The branches regularly determine borrower classifications based on their financial statements. If necessary, the branches also determine whether to change borrower classifications reflecting their interim financial information and the latest business conditions, including the impact of COVID-19.</p> <p>The asset review and inspection division, which is independent from the branches, evaluates the appropriateness of such determination.</p> <p>We tested the design, and operating effectiveness of the controls over the branches' determination of the borrower classifications, including the asset review and inspection division's review of borrowers' classifications.</p> <p>(2) Tests of the borrower classifications</p> <p>1) Determination of the borrower classifications based on evaluation the borrowers' future prospects, including their Business improvement plans</p>

<p>Loans and bills discounted is the most significant line item on the consolidated balance sheet as of March 31, 2021. The account balance and allowance for loan losses involve significant estimates that could have a significant impact on the consolidated financial statements. The determination of borrower classifications based on the evaluation of the borrowers' future prospects, including the borrowers' Business improvement plans, requires the Banks to have a detailed understanding of the borrowers' internal and external environments as well as advanced financial analytical abilities. Additionally, the evaluation of the borrowers' future prospects including the borrowers' Business improvement plans involves judgment made by the Banks' management. In particular, changes in the borrower classifications reflecting the changes in the borrowers' business conditions, including the impact of COVID-19, require judgment made by the Banks' management as to the impact of the changes in the borrowers' business conditions on their repayment ability and the prospects for recovery in the borrowers' business performance.</p> <p>We identified the determination of borrower classifications as a key audit matter because of the significant judgments management makes when evaluating the borrowers' future prospects, including Business improvement plans or determining whether to change the borrower classifications based on the changes in business conditions of the borrowers, including the impact of COVID-19.</p>	<p>We evaluated the management's assessment of the borrowers' future prospects, including Business improvement plans, by:</p> <ul style="list-style-type: none"> —Comparing the Business improvement plans with historical results —Inspecting supporting documents —Discussing with the responsible personnel of the Banks on the conclusion reached —Inspecting analysis of external and internal environments, and financial analysis <p>2) Determination whether to change the borrower classifications reflecting changes in business conditions of the borrowers, including the impact of COVID-19</p> <p>We evaluated whether the change in borrower classifications determined by the Banks reflected the changes in business conditions of the borrowers, including the impact of COVID-19, by:</p> <ul style="list-style-type: none"> —Inquiring of management of their determination —Inspecting the borrowers' interim financial information —Inspecting the analyses over the borrowers' capacity of repayment and the prospects for recovery based on their business performance, which were used by the Banks in assessing the credit ratings —Inspecting analysis of external and internal environments, and financial analysis
--	---

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.

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 judgment. 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.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 21, 2021

NON-CONSOLIDATED FINANCIAL STATEMENTS
NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokuriku Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets			
Cash and due from banks	¥3,368,633	¥1,780,569	\$30,427,546
Call loans and bills bought	—	59,795	—
Monetary claims bought	27,985	32,683	252,783
Trading assets	793	1,067	7,167
Money held in trust	4,947	4,939	44,689
Securities	1,268,165	1,158,001	11,454,839
Loans and bills discounted	5,033,384	4,910,354	45,464,591
Foreign exchanges	13,597	9,840	122,822
Other assets	66,840	66,187	603,744
Tangible fixed assets	73,176	74,202	660,972
Intangible assets	3,363	4,369	30,378
Prepaid pension cost	3,786	3,900	34,205
Customers' liabilities for acceptances and guarantees	25,950	29,419	234,401
Allowance for loan losses	(33,332)	(26,400)	(301,078)
Total assets	9,857,292	¥8,108,929	89,037,059
Liabilities and equity			
Liabilities			
Deposits	¥7,350,562	¥6,735,467	\$66,394,748
Call money and bills sold	280,517	68,264	2,533,804
Payables under repurchase agreements	24,670	11,877	222,842
Payables under securities lending transactions	221,036	285,243	1,996,535
Trading liabilities	349	497	3,156
Borrowed money	1,485,575	547,987	13,418,618
Foreign exchanges	92	47	832
Borrowed money from trust account	2,942	534	26,580
Other liabilities	53,158	54,044	480,164
Reserve for employee retirement benefits	368	443	3,327
Reserve for directors' and audit & supervisory board members' retirement benefits	43	43	392
Reserve for contingent losses	495	703	4,472
Reserve for reimbursement of deposits	1,138	1,473	10,285
Deferred tax liabilities	21,097	12,937	190,569
Deferred tax liabilities for land revaluation	5,123	5,201	46,277
Acceptances and guarantees	25,950	29,419	234,401
Total liabilities	9,473,122	7,754,187	85,567,002
Equity			
Capital stock	140,409	140,409	1,268,264
Capital surplus	14,998	14,998	135,479
Retained earnings	151,491	144,299	1,368,362
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	69,269	47,899	625,680
Deferred gains (losses) on hedges	(87)	(1,076)	(790)
Revaluation reserve for land	8,088	8,211	73,062
Total equity	384,170	354,742	3,470,057
Total liabilities and equity	¥9,857,292	¥8,108,929	89,037,059

NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokuriku Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Income			
Interest income:			
Interest on loans and discounts	¥42,557	¥43,722	\$384,406
Interest and dividends on securities	13,369	14,257	120,758
Interest on deposits with other banks	1,003	606	9,065
Other interest income	318	356	2,877
Trust fees	42	6	385
Fees and commissions	17,523	17,961	158,286
Trading income	50	136	458
Other ordinary income	4,063	6,064	36,708
Other income	7,522	5,778	67,950
Total income	86,452	88,889	780,893
Expenses			
Interest expenses:			
Interest on deposits	436	740	3,946
Interest on payables under repurchase agreements	27	37	245
Interest on payables under securities lending transactions	155	791	1,400
Interest on borrowings and rediscounts	6	274	54
Other interest expenses	850	1,800	7,681
Fees and commissions	7,397	7,397	66,821
Other ordinary expenses	1,450	314	13,099
General and administrative expenses	44,738	46,609	404,105
Provision of allowance for loan losses	8,330	9,004	75,245
Other expenses	3,403	5,097	30,741
Total expenses	66,795	72,067	603,337
Income before income taxes	19,657	16,821	177,556
Income taxes:			
Current	6,453	5,185	58,293
Deferred	(1,093)	396	(9,878)
Net income	¥14,297	¥11,238	\$129,141

NON-CONSOLIDATED FINANCIAL STATEMENTS
NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokkaido Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets			
Cash and due from banks	¥1,725,165	¥942,323	\$15,582,745
Trading account securities	2,614	2,722	23,615
Money held in trust	9,098	9,265	82,182
Securities	832,023	649,217	7,515,342
Loans and bills discounted	4,031,781	3,762,756	36,417,498
Foreign exchanges	8,787	9,174	79,376
Other assets	86,138	76,957	778,059
Tangible fixed assets	28,009	28,038	253,000
Intangible assets	2,809	3,378	25,375
Prepaid pension cost	978	—	8,836
Deferred tax assets	5,626	6,830	50,822
Customers' liabilities for acceptances and guarantees	26,966	26,674	243,580
Allowance for loan losses	(22,433)	(20,732)	(202,636)
Total assets	¥6,737,566	¥5,496,607	\$60,857,794
Liabilities and equity			
Liabilities			
Deposits	¥5,465,108	¥4,927,225	\$49,364,178
Payables under securities lending transactions	86,751	9,398	783,589
Borrowed money	895,500	274,600	8,088,700
Foreign exchanges	355	65	3,209
Other liabilities	36,981	37,739	334,041
Reserve for employee retirement benefits	1,589	2,213	14,360
Reserve for directors' and audit & supervisory board members' retirement benefits	93	93	841
Reserve for contingent losses	248	321	2,243
Reserve for reimbursement of deposits	491	504	4,438
Acceptances and guarantees	26,966	26,674	243,580
Total liabilities	6,514,085	5,278,836	58,839,179
Equity			
Capital stock	93,524	93,524	844,766
Capital surplus	16,795	16,795	151,703
Retained earnings	101,751	98,929	919,077
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	11,384	8,522	102,832
Deferred gains (losses) on hedges	26	—	237
Total equity	223,480	217,771	2,018,615
Total liabilities and equity	¥6,737,566	¥5,496,607	\$60,857,794

NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokkaido Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Income			
Interest income:			
Interest on loans and discounts	¥41,568	¥41,367	\$375,475
Interest and dividends on securities	6,041	9,024	54,567
Interest on receivables under resale agreements	(1)	(4)	(18)
Interest on deposits with other banks	428	270	3,870
Other interest income	143	161	1,298
Fees and commissions	15,709	15,907	141,898
Other ordinary income	2,947	4,471	26,625
Other income	4,778	3,786	43,163
Total income	71,615	74,984	646,878
Expenses			
Interest expenses:			
Interest on deposits	187	308	1,690
Interest on payables under securities lending transactions	61	370	558
Interest on borrowings and rediscounts	(5)	(0)	(53)
Other interest expenses	8	6	73
Fees and commissions	9,895	9,907	89,386
Other ordinary expenses	2,514	614	22,712
General and administrative expenses	38,977	40,212	352,073
Provision of allowance for loan losses	4,488	2,556	40,541
Other expenses	4,082	7,436	36,875
Total expenses	60,210	61,412	543,855
Income before income taxes	11,405	13,572	103,023
Income taxes:			
Current	3,115	3,242	28,138
Deferred	97	736	881
Net income	¥8,192	¥9,592	\$74,004



Hokuhoku Financial Group, Inc.