



# Financial Data 2023

Year ended March 31, 2023

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# 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)
	2023	2022	2023
<b>Assets</b>			
Cash and due from banks (Note 5)	¥ 4,357,148	¥ 5,471,090	\$ 32,630,483
Call loans and bills bought	52,344	26,731	392,003
Monetary claims bought (Notes 8 and 31)	15,519	21,217	116,223
Trading assets (Notes 6, 8, 31 and 32 )	2,220	3,454	16,626
Money held in trust (Note 7)	18,248	18,474	136,665
Securities (Notes 8, 14, and 31)	1,854,257	2,206,987	13,886,449
Loans and bills discounted (Notes 9, 14, 15, and 31)	9,533,464	9,193,283	71,395,673
Foreign exchanges (Note 10)	17,975	25,628	134,619
Other assets (Notes 14 and 32)	201,393	201,789	1,508,226
Tangible fixed assets (Note 11)	100,013	99,135	748,996
Intangible assets (Note 12)	8,299	10,323	62,153
Assets for retirement benefits (Note 18)	7,696	10,839	57,638
Deferred tax assets (Note 28)	7,598	3,275	56,908
Customers' liabilities for acceptances and guarantees (Note 13)	63,881	60,310	478,409
Allowance for loan losses (Note 3)	(67,361)	(72,470)	(504,464)
<b>Total assets</b>	<b>¥ 16,172,700</b>	<b>¥ 17,280,071</b>	<b>\$ 121,116,607</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits (Notes 14, 16, and 31)	¥ 13,513,726	¥ 13,202,604	\$ 101,203,670
Call money and bills sold (Note 14)	162,020	318,920	1,213,365
Payables under repurchase agreements	10,430	21,123	78,116
Payables under securities lending transactions (Note 14)	313,271	288,815	2,346,073
Trading liabilities (Notes 6 and 32 )	266	651	1,995
Borrowed money (Notes 14, 17, and 31)	1,352,450	2,608,500	10,128,437
Foreign exchanges (Note 10)	735	647	5,509
Borrowed money from trust account	5,230	4,514	39,169
Other liabilities (Note 32)	119,823	125,967	897,351
Liability for retirement benefits (Note 18)	3,407	3,703	25,516
Reserve for directors' and audit & supervisory board members' retirement benefits	83	123	624
Reserve for contingent losses	1,063	943	7,963
Reserve for reimbursement of deposits	1,385	1,495	10,376
Reserve under the special laws	10	10	81
Deferred tax liabilities (Note 28)	7,759	13,909	58,113
Deferred tax liabilities for revaluation (Note 28)	4,941	4,984	37,010
Acceptances and guarantees (Note 13)	63,881	60,310	478,409
<b>Total liabilities</b>	<b>15,560,488</b>	<b>16,657,226</b>	<b>116,531,777</b>
<b>Equity (Notes 19, 20, and 22)</b>			
Capital stock	70,895	70,895	530,929
Capital surplus	119,778	125,128	897,013
Stock acquisition rights (Notes 21 and 22)	416	500	3,119
Retained earnings	374,971	359,045	2,808,145
Treasury stock	(675)	(852)	(5,058)
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities (Note 8)	37,152	56,225	278,232
Deferred gains (losses) on hedges	(195)	325	(1,465)
Revaluation reserve for land (Note 11)	7,694	7,791	57,622
Defined retirement benefit plans (Note 18)	(1,419)	338	(10,628)
<b>Total</b>	<b>608,617</b>	<b>619,396</b>	<b>4,557,909</b>
Non-controlling interests	3,594	3,449	26,921
<b>Total equity</b>	<b>612,212</b>	<b>622,845</b>	<b>4,584,830</b>
<b>Total liabilities and equity</b>	<b>¥ 16,172,700</b>	<b>¥ 17,280,071</b>	<b>\$ 121,116,607</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥83,035	¥82,578	\$621,850
Interest and dividends on securities	20,763	16,353	155,499
Interest on receivables under resale agreements	(9)	—	(73)
Interest on receivables under securities borrowing transactions	43	—	324
Interest on deposits with other banks	4,795	5,504	35,910
Other interest income	485	362	3,635
Trust fees	30	36	227
Fees and commissions (Note 33)	40,235	39,571	301,323
Trading income	860	1,627	6,443
Other ordinary income (Note 24)	18,872	20,067	141,336
Other income (Note 26)	18,817	15,683	140,920
Total income	187,929	181,785	1,407,394
<b>Expenses</b>			
Interest expense:			
Interest on deposits	875	435	6,560
Interest on payables under repurchase agreements	390	9	2,922
Interest on payables under securities lending transactions	5,444	390	40,773
Interest on borrowings and rediscounts	1,325	7	9,926
Other interest expense	1,589	642	11,906
Fees and commissions	14,508	15,455	108,656
Other ordinary expenses (Note 25)	35,892	19,660	268,799
General and administrative expenses	83,683	87,273	626,701
Provision of allowance for loan losses	830	12,874	6,219
Other expenses (Note 27)	17,656	11,801	132,229
Total expenses	162,197	148,552	1,214,691
Income before income taxes	25,731	33,233	192,703
Income taxes (Note 28):			
Current	3,056	11,656	22,892
Deferred	1,117	890	8,370
Net income	21,557	20,685	161,441
Net income attributable to non-controlling interests	121	158	912
<b>Net income attributable to owners of the parent</b>	<b>¥21,435</b>	<b>¥20,526</b>	<b>\$160,529</b>

	Yen		U.S. dollars
	2023	2022	2023
<b>Per share of common stock</b> (Notes 2-t and 23)			
Basic net income	¥159.18	¥147.47	\$1.19
Diluted net income	158.63	146.95	1.19
Cash dividends applicable to the year	37.00	35.00	0.28

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)
	2023	2022	2023
Net income	¥ 21,557	¥20,685	\$ 161,441
Other comprehensive income (loss) (Note 29)			
Valuation difference on available-for-sale securities	(19,118)	(24,707)	(143,177)
Deferred gains (losses) on hedges	(521)	386	(3,902)
Defined retirement benefit plans	(1,757)	2,324	(13,163)
Share of other comprehensive income (loss) of associates accounted for using equity method	69	21	523
Total comprehensive income (loss)	¥229	¥(1,288)	\$1,722
Comprehensive income (loss) attributable to owners of the parent	83	(1,474)	628
Comprehensive income (loss) attributable to non-controlling interests	146	185	1,094

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

	Thousands		Millions of yen				
	Issued number of shares of common stock	Issued number of shares of preferred stock	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
<b>BALANCE, APRIL 1, 2021</b>	132,163	85,955	¥70,895	¥133,905	¥538	¥344,103	¥(1,180)
Cash dividends						(5,882)	
Net income attributable to owners of the parent						20,526	
Purchases of treasury stock							(8,606)
Disposals of treasury stock				0			155
Retirement of treasury stock	(3,392)	(10,743)		(8,778)			8,778
Reversal of revaluation reserve for land						297	
Net changes in the year					(38)		
<b>BALANCE, MARCH 31, 2022</b>	<b>128,770</b>	<b>75,212</b>	<b>¥70,895</b>	<b>¥125,128</b>	<b>¥500</b>	<b>¥359,045</b>	<b>¥(852)</b>
Cash dividends						(5,606)	
Net income attributable to owners of the parent						21,435	
Purchases of treasury stock							(5,375)
Disposals of treasury stock				21			181
Retirement of treasury stock		(10,743)		(5,371)			5,371
Reversal of revaluation reserve for land						97	
Net changes in the year					(83)		
<b>BALANCE, MARCH 31, 2023</b>	<b>128,770</b>	<b>64,469</b>	<b>¥70,895</b>	<b>¥119,778</b>	<b>¥416</b>	<b>¥374,971</b>	<b>¥(675)</b>

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
<b>BALANCE, APRIL 1, 2021</b>	¥80,937	¥(61)	¥8,088	¥(1,986)	¥635,241	¥3,263	¥638,504
Cash dividends					(5,882)		(5,882)
Net income attributable to owners of the parent					20,526		20,526
Purchases of treasury stock					(8,606)		(8,606)
Disposals of treasury stock					156		156
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					297		297
Net changes in the year	(24,712)	386	(297)	2,324	(22,336)	185	(22,151)
<b>BALANCE, MARCH 31, 2022</b>	<b>¥56,225</b>	<b>¥325</b>	<b>¥7,791</b>	<b>¥338</b>	<b>¥619,396</b>	<b>¥3,449</b>	<b>¥622,845</b>
Cash dividends					(5,606)		(5,606)
Net income attributable to owners of the parent					21,435		21,435
Purchases of treasury stock					(5,375)		(5,375)
Disposals of treasury stock					202		202
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					97		97
Net changes in the year	(19,072)	(521)	(97)	(1,757)	(21,532)	145	(21,386)
<b>BALANCE, MARCH 31, 2023</b>	<b>¥37,152</b>	<b>¥(195)</b>	<b>¥7,694</b>	<b>¥(1,419)</b>	<b>¥608,617</b>	<b>¥3,594</b>	<b>¥612,212</b>

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
<b>BALANCE, MARCH 31, 2022</b>	<b>\$530,929</b>	<b>\$937,078</b>	<b>\$3,747</b>	<b>\$2,688,874</b>	<b>\$(6,387)</b>
Cash dividends				(41,986)	
Net income attributable to owners of the parent				160,529	
Purchases of treasury stock					(40,256)
Disposals of treasury stock		162			1,358
Retirement of treasury stock		(40,227)			40,227
Reversal of revaluation reserve for land				728	
Net changes in the year			(628)		
<b>BALANCE, MARCH 31, 2023</b>	<b>\$530,929</b>	<b>\$897,013</b>	<b>\$3,119</b>	<b>\$2,808,145</b>	<b>\$(5,058)</b>

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
<b>BALANCE, MARCH 31, 2022</b>	<b>\$421,068</b>	<b>\$2,437</b>	<b>\$58,350</b>	<b>\$2,535</b>	<b>\$4,638,631</b>	<b>\$25,830</b>	<b>\$4,664,461</b>
Cash dividends					(41,986)		(41,986)
Net income attributable to owners of the parent					160,529		160,529
Purchases of treasury stock					(40,256)		(40,256)
Disposals of treasury stock					1,520		1,520
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					728		728
Net changes in the year	(142,836)	(3,902)	(728)	(13,163)	(161,257)	1,091	(160,166)
<b>BALANCE, MARCH 31, 2023</b>	<b>\$278,232</b>	<b>\$(1,465)</b>	<b>\$57,622</b>	<b>\$(10,628)</b>	<b>\$4,557,909</b>	<b>\$26,921</b>	<b>\$4,584,830</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
<b>1. Cash flows from operating activities:</b>			
Income before income taxes	¥ 25,731	¥ 33,233	\$ 192,703
Depreciation	5,984	6,682	44,815
Impairment losses	286	414	2,147
Amortization of goodwill	2,102	2,102	15,744
Equity in losses (gains) of affiliates	(17)	(24)	(133)
Increase (decrease) in allowance for loan losses	(5,109)	9,738	(38,264)
Increase (decrease) in reserve for contingent losses	119	188	895
Decrease (increase) in asset for retirement benefits	3,143	(7,755)	23,538
Increase (decrease) in liability for retirement benefits	(296)	137	(2,221)
Increase (decrease) in reserve for directors' and audit & supervisory board members' retirement benefits	(40)	(68)	(301)
Increase (decrease) in reserve for reimbursement of deposits	(109)	(134)	(822)
Interest income	(109,113)	(104,798)	(817,145)
Interest expense	9,625	1,485	72,086
Losses (gains) on securities	8,678	743	64,993
Losses (gains) on money held in trust	(20)	(18)	(151)
Losses (gains) on foreign exchange	(18,500)	(13,380)	(138,549)
Losses (gains) on sales of fixed assets	363	522	2,719
Net decrease (increase) in trading assets	1,234	(46)	9,247
Net increase (decrease) in trading liabilities	(385)	302	(2,887)
Net decrease (increase) in loans and bills discounted	(340,180)	(142,837)	(2,547,596)
Net increase (decrease) in deposits	316,695	413,849	2,371,717
Net increase (decrease) in negotiable certificates of deposit	(5,573)	(158)	(41,741)
Net increase (decrease) in borrowed money (excluding subordinated borrowed money)	(1,256,050)	222,530	(9,406,503)
Net decrease (increase) in due from banks (excluding deposits with the Bank of Japan)	4,131	(9,291)	30,941
Net decrease (increase) in call loans, bills bought, commercial paper, and other debt purchased	(19,914)	(19,962)	(149,142)
Net increase (decrease) in call money and bills sold	(167,592)	34,855	(1,255,091)
Net increase (decrease) in payables under securities lending transactions	24,455	(18,972)	183,148
Net decrease (increase) in foreign exchanges (assets)	7,652	(3,242)	57,310
Net increase (decrease) in foreign exchanges (liabilities)	88	200	659
Net increase (decrease) in borrowed money from trust account	716	1,571	5,362
Interest income—cash basis	88,889	87,995	665,689
Interest expense—cash basis	(9,258)	(1,615)	(69,339)
Other, net	(24,038)	(22,891)	(180,023)
<b>Subtotal</b>	<b>(1,456,304)</b>	<b>471,354</b>	<b>(10,906,195)</b>
Income taxes paid	(10,278)	(8,941)	(76,972)
<b>Net cash provided by (used in) operating activities</b>	<b>(1,466,582)</b>	<b>462,413</b>	<b>(10,983,167)</b>
<b>2. Cash flows from investing activities:</b>			
Purchases of securities	(437,538)	(963,265)	(3,276,704)
Proceeds from sales of securities	622,709	680,813	4,663,443
Proceeds from redemption of securities	169,082	192,934	1,266,253
Purchases of money held in trust	(20,632)	(20,543)	(154,516)
Proceeds from sales of money held in trust	20,498	20,462	153,510
Proceeds from fund management	20,783	16,371	155,650
Purchases of tangible fixed assets	(5,184)	(8,170)	(38,824)
Proceeds from sales of tangible fixed assets	77	372	580
Purchases of intangible assets	(2,074)	(1,629)	(15,534)
<b>Net cash provided by (used in) investing activities</b>	<b>367,722</b>	<b>(82,653)</b>	<b>2,753,858</b>
<b>3. Cash flows from financing activities:</b>			
Dividends paid	(5,606)	(5,882)	(41,986)
Dividends paid to non-controlling shareholders	(0)	(0)	(4)
Purchases of treasury stock	(5,375)	(8,606)	(40,256)
Proceeds from disposals of treasury stock	0	0	2
<b>Net cash provided by (used in) financing activities</b>	<b>(10,981)</b>	<b>(14,488)</b>	<b>(82,244)</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	<b>30</b>	<b>36</b>	<b>230</b>
<b>5. Net increase (decrease) in cash and cash equivalents</b>	<b>(1,109,810)</b>	<b>365,308</b>	<b>(8,311,323)</b>
<b>6. Cash and cash equivalents at beginning of the period</b>	<b>5,451,451</b>	<b>5,086,143</b>	<b>40,825,671</b>
<b>7. Cash and cash equivalents at end of the period (Note 5)</b>	<b>¥ 4,341,640</b>	<b>¥5,451,451</b>	<b>\$ 32,514,348</b>

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

## 1. Basis of Presentation

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

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 ¥133.53 to U.S. \$1, the rate of exchange at March 31, 2023. 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, 2023 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.

Five companies were not treated as subsidiaries even though the Group owns over 50% of its voting rights because the objective for the Group to own the voting rights is merely to invest business succession and the investment meets the requirement according to Paragraph 16 of the Accounting Standards Board of Japan (the "ASBJ") Guidance No. 22 "Implementation Guidance on Determining a Subsidiary and an Affiliate."

Five companies were not treated as affiliates even though the Group owns 20% to 50% of its voting rights because the objective for the Group to own the voting rights is merely to invest business succession and the investment meets the requirement according to Paragraph 24 of the ASBJ Guidance No. 22 "Implementation Guidance on Determining a Subsidiary and an Affiliate."

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 fair 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. Nonmarketable available-for-sale equity securities 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 and Goodwill)

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 borrowers 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 ¥31,275 million (\$234,218 thousand) and ¥33,911 million at March 31, 2023 and 2022, 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 past service cost is amortized using the straight-line method over nine years within the employees' average remaining service period. It's commenced from the fiscal year of incurrence.

The unrecognized actuarial (gains) losses are amortized using the straight-line method over eight or nine years within the



employees' average remaining service period, commencing from the next fiscal year of incurrence.

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

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

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

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

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

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

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

#### **n. Reserve under the Special Laws**

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

#### **o. Stock Options**

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

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

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

differences.

#### **q. Translation of Foreign Currencies**

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

#### **r. Derivatives and Hedging Activities**

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

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

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

The Banks hedge currency exchange fluctuation risks arising from their foreign currency denominated financial assets and liabilities. Such hedges are accounted for by the deferred method specified in the "Accounting and Auditing Treatments in Banking Business in Accounting for Foreign Currency Denominated Transactions and Others" (The Japanese Institute of Certified Public Accountants ("JICPA") Industry 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. Finance Lease**

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

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

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

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.

#### u. New Accounting Pronouncements

- "Accounting standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022, Accounting Board of Japan)

- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022, Accounting Board of Japan)

- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022, Accounting Board of Japan) In February 2018, the ASBJ has issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting", etc. ("ASBJ Statement No. 28").

In the course of deliberations on the transfer of the practical guidelines on tax effect accounting by the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan, the results of the deliberations on the following two issues that were decided to be reviewed after the publication of "ASBJ Statement No. 28".

- Classification of current income taxes (Taxation for comprehensive income)

- Tax effect on the sale of shares of subsidiaries and affiliates that applied Group Taxation Regime.

The New Accounting Standards are effective for annual periods beginning on or after April 1, 2024.

The Company 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, 2023 and 2022 were as follows.

	Millions of yen	Thousands of U.S. dollars	
	2023	2022	2023
Allowance for loan losses	¥67,361	¥72,470	\$504,464

Recording allowance for loan losses has a significant impact on operating results and financial status because of relatively high percentage of loans and bills discounted on the consolidated balance sheet as March 31, 2023. Therefore, we determined that it was significant accounting estimate.

(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

Principal assumption is 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 ("Business Improvement Plans").

In case of borrowers whose business results or financial position is currently unfavorable or unstable, the Banks frequently determine the borrowers classifications based on the latest borrowers' business conditions and the borrowers' "Business Improvement Plans" in addition to the borrowers' historical business performance.

About the above, there are no significant changes from previous consolidated fiscal year.

(c) The risk that might affect carrying amount to the consolidated financial statements in next financial year

If the assumption for the evaluation of the achievability of the borrowers' "Business Improvement Plans" changes, it is possible that the situation will have a significant impact on allowance for loan losses.

### 4. Accounting Change

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

Effective April 1, 2022, the Company adopted ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," issued on June 17, 2021 ("ASBJ Guidance No. 31"). The Company applies the New Accounting Standard prospectively, in accordance with transitional treatment provided in paragraph 27-2 of "ASBJ Guidance No. 31".

Under the "New Accounting Standard, the Company discloses the consolidated balance sheet amounts, the fair value and the difference between the consolidated balance sheet amounts and the fair value for investment trust applied paragraph 24-9 of "ASBJ Guidance No. 31", which consider the net asset value (NAV) as fair value, in Note 31 "fair value of financial instrument" without comparative information in prior fiscal year in accordance with transitional treatment provided in paragraph 27-3 of "ASBJ Guidance No. 31".

## 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, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and due from banks	¥4,357,148	¥5,471,090	\$32,630,483
Due from banks except for deposits with the Bank of Japan	(15,507)	(19,639)	(116,135)
Cash and cash equivalents	¥4,341,640	¥5,451,451	\$32,514,348

## 6. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2023 and 2022 consisted of the following:

Trading Assets	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Trading securities	¥1,897	¥2,710	\$14,210
Trading-related financial derivatives	322	744	2,416
Total	¥2,220	¥3,454	\$16,626

  

Trading Liabilities	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Trading-related financial derivatives	¥266	¥651	\$1,995
Total	¥266	¥651	\$1,995

## 7. Money Held in Trust

Money held in trust for trading purposes as of March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Amounts recorded in the consolidated balance sheet	¥14,248	¥14,124	\$106,709
Valuation gain (loss) included in consolidated statement of income	(9)	(0)	(74)

Money held in trust for other purposes as of March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Amounts recorded in the consolidated balance sheet	¥4,000	¥4,350	\$29,956
Valuation gain (loss) included in consolidated statement of income	—	—	—

## 8. Securities

(1) Securities as of March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Japanese national government bonds	¥234,380	¥428,800	\$1,755,268
Japanese local government bonds	605,791	614,707	4,536,746
Japanese corporate bonds	277,593	276,518	2,078,883
Japanese corporate stocks	214,164	224,545	1,603,865
Other securities	522,327	662,416	3,911,687
Total	¥1,854,257	¥2,206,987	\$13,886,449

As of March 31, 2023 and 2022, securities included equity investments in non-consolidated subsidiaries that amounted to ¥2,557 million (\$19,155 thousand) and ¥1,944 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.

(2) Valuation gain or loss on trading account securities included in income before income taxes was ¥(19) million (\$149) thousand and ¥(26) million as of March 31, 2023 and 2022, respectively.

(3) The amounts on the consolidated balance sheet, aggregate fair value, and unrealized gains (losses) on held-to-maturity debt securities as of March 31, 2023 and 2022 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2023</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥500	¥502	¥2
Japanese local government bonds	2,500	2,507	7
Total	¥3,000	¥3,009	¥9
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥—	¥—	¥—
Japanese local government bonds	—	—	—
Total	—	—	—
Grand total	¥3,000	¥3,009	¥9

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2022			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥1,500	¥1,507	¥7
Japanese local government bonds	1,500	1,511	11
Total	¥3,000	¥3,018	¥18
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥—	¥—	¥—
Japanese local government bonds	1,000	999	(0)
Total	1,000	999	(0)
Grand total	¥4,000	¥4,018	¥17

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
<b>March 31, 2023</b>			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$3,746	\$3,764	\$18
Japanese local government bonds	18,722	18,776	54
Total	\$22,468	\$22,540	\$72
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥—	¥—	¥—
Japanese local government bonds	—	—	—
Total	—	—	—
Grand total	\$22,468	\$22,540	\$72

(4) The amounts on the consolidated balance sheet, acquisition or amortized cost, and unrealized gains (losses) on available-for-sale securities as of March 31, 2023 and 2022 were as follows:

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2023</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	<b>¥161,912</b>	<b>¥58,171</b>	<b>¥103,740</b>
Bonds:			
Japanese government bonds	<b>99,668</b>	<b>96,545</b>	<b>3,122</b>
Japanese local government bonds	<b>114,858</b>	<b>114,561</b>	<b>296</b>
Japanese corporate bonds	<b>143,256</b>	<b>142,107</b>	<b>1,149</b>
Total bonds	<b>357,783</b>	<b>353,214</b>	<b>4,568</b>
Other securities:			
Foreign securities	<b>19,110</b>	<b>13,460</b>	<b>5,649</b>
Other	<b>65,193</b>	<b>61,487</b>	<b>3,706</b>
Total other securities	<b>84,303</b>	<b>74,947</b>	<b>9,355</b>
Total	<b>¥603,998</b>	<b>¥486,334</b>	<b>¥117,664</b>
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	<b>¥26,397</b>	<b>¥30,084</b>	<b>¥(3,687)</b>
Bonds:			
Japanese government bonds	<b>134,212</b>	<b>138,258</b>	<b>(4,045)</b>
Japanese local government bonds	<b>488,432</b>	<b>494,443</b>	<b>(6,010)</b>
Japanese corporate bonds	<b>134,337</b>	<b>136,370</b>	<b>(2,033)</b>
Total bonds	<b>756,982</b>	<b>769,072</b>	<b>(12,089)</b>
Other securities:			
Foreign securities	<b>270,066</b>	<b>305,523</b>	<b>(35,456)</b>
Other	<b>160,739</b>	<b>180,064</b>	<b>(19,324)</b>
Total other securities	<b>430,805</b>	<b>485,587</b>	<b>(54,781)</b>
Total	<b>1,214,185</b>	<b>1,284,744</b>	<b>(70,558)</b>
Grand total	<b>¥1,818,183</b>	<b>¥1,771,078</b>	<b>¥47,105</b>

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2022</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	¥161,697	¥57,223	¥104,474
Bonds:			
Japanese government bonds	168,768	160,072	8,695
Japanese local government bonds	119,163	118,714	449
Japanese corporate bonds	180,700	179,081	1,619
Total bonds	468,632	457,868	10,763
Other securities:			
Foreign securities	57,472	51,964	5,507
Other	112,125	104,610	7,515
Total other securities	169,597	156,575	13,022
Total	¥799,928	¥671,666	¥128,261
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	¥36,761	¥46,386	¥(9,625)
Bonds:			
Japanese government bonds	258,531	262,106	(3,574)
Japanese local government bonds	493,043	496,252	(3,209)
Japanese corporate bonds	95,817	96,694	(876)
Total bonds	847,393	855,054	(7,660)
Other securities:			
Foreign securities	354,584	379,336	(24,752)
Other	140,123	149,376	(9,252)
Total other securities	494,707	528,713	(34,005)
Total	1,378,862	1,430,154	(51,291)
Grand total	¥2,178,790	¥2,101,821	¥76,969

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
<b>March 31, 2023</b>			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	\$1,212,553	\$435,647	\$776,906
Bonds:			
Japanese government bonds	746,410	723,023	23,387
Japanese local government bonds	860,172	857,949	2,223
Japanese corporate bonds	1,072,839	1,064,233	8,606
Total bonds	2,679,421	2,645,205	34,216
Other securities:			
Foreign securities	143,114	100,807	42,307
Other	488,228	460,474	27,754
Total other securities	631,342	561,281	70,061
Total	<b>\$4,523,316</b>	<b>\$3,642,133</b>	<b>\$881,183</b>
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	\$197,687	\$225,299	\$(27,612)
Bonds:			
Japanese government bonds	1,005,112	1,035,411	(30,299)
Japanese local government bonds	3,657,851	3,702,863	(45,012)
Japanese corporate bonds	1,006,044	1,021,275	(15,231)
Total bonds	5,669,007	5,759,549	(90,542)
Other securities:			
Foreign securities	2,022,516	2,288,051	(265,535)
Other	1,203,769	1,348,492	(144,723)
Total other securities	3,226,285	3,636,543	(410,258)
Total	9,092,979	9,621,391	(528,412)
Grand total	<b>\$13,616,295</b>	<b>\$13,263,524</b>	<b>\$352,771</b>

(5) Information on held-to-maturity debt securities, which were sold during the years ended March 31, 2023 and 2022 is as follows:

Year ended March 31	Millions of yen						Thousands of U.S. dollars		
	2023			2022			2023		
	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
Japanese government bonds	¥—	¥—	¥—	¥4,051	¥4,602	¥551	\$—	\$—	\$—

A consolidated subsidiary sold a portion of held-to-maturity debt securities curbing the expansion of future interest rate risk.

(6) Information on available-for-sale securities, which were sold during the years ended March 31, 2023 and 2022 is as follows:

March 31, 2023	Millions of yen		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	¥42,826	¥16,967	¥876
Bonds:			
Japanese government bonds	218,610	5,008	3,321
Japanese local government bonds	28,027	—	1,356
Japanese corporate bonds	110	0	—
Total bonds	246,749	5,009	4,677
Other securities:			
Foreign securities	220,707	170	20,578
Other	63,567	2,312	403
Total other securities	284,274	2,483	20,981
Total	¥573,849	¥24,459	¥26,535

March 31, 2022	Millions of yen		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	¥49,826	¥8,178	¥1,340
Bonds:			
Japanese government bonds	184,375	1,469	477
Japanese local government bonds	10,496	96	—
Japanese corporate bonds	7,323	82	—
Total bonds	202,195	1,648	477
Other securities:			
Foreign securities	234,771	1,682	8,089
Other	108,054	3,938	1,955
Total other securities	342,826	5,620	10,045
Total	¥594,848	¥15,447	¥11,863

March 31, 2023	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	\$320,723	\$127,066	\$6,564
Bonds:			
Japanese government bonds	1,637,167	37,506	24,872
Japanese local government bonds	209,895	—	10,158
Japanese corporate bonds	830	6	—
Total bonds	1,847,892	37,512	35,030
Other securities:			
Foreign securities	1,652,865	1,279	154,111
Other	476,054	17,318	3,020
Total other securities	2,128,919	18,597	157,131
Total	\$4,297,534	\$183,175	\$198,725



(7) A consolidated subsidiary of the Group sold a portion of held-to-maturity debt securities and changed classification from held to maturity debt securities to available-for-sale securities. As a result, available-for-sale securities and valuation difference on available-for-sale securities increased by ¥189,803 million, ¥5,157 million, respectively, and deferred tax assets decreased by ¥2,253 million on consolidated balance sheet amount as of March 31, 2022. Not applicable during the years ended March 31, 2023.

(8) Impairment losses on available-for-sale securities amounted to ¥3,950 million (\$29,585 thousand) and ¥1,677 million as of March 31, 2023 and 2022, 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:

(i) 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.

(ii) 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.

\* In determination of impairment losses, stocks' fair value are determined based on the average quoted market prices in the last month of the consolidated fiscal year.

(9) 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, 2023 and 2022, in the consolidated balance sheet, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Valuation difference before taxes on available-for-sale securities	<b>¥48,137</b>	¥77,978	<b>\$360,497</b>
Deferred tax liabilities	<b>(11,002)</b>	(21,725)	<b>(82,398)</b>
Valuation difference on available-for-sale securities (before adjustment)	<b>37,134</b>	56,253	<b>278,099</b>
Amounts attributable to non-controlling interests	<b>(269)</b>	(245)	<b>(2,021)</b>
The Company's portion of valuation difference on available-for-sale securities of equity method investees	<b>287</b>	217	<b>2,154</b>
Amounts recorded in the consolidated balance sheet	<b>¥37,152</b>	¥56,225	<b>\$278,232</b>

## 9. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Bills discounted	<b>¥25,053</b>	¥27,344	<b>\$187,621</b>
Loans on bills	<b>153,115</b>	161,850	<b>1,146,678</b>
Loans on deeds	<b>8,286,655</b>	7,976,173	<b>62,058,381</b>
Overdrafts	<b>1,068,639</b>	1,027,914	<b>8,002,993</b>
Total	<b>¥9,533,464</b>	¥9,193,283	<b>\$71,395,673</b>

Claims under The Banking Act and the Financial Reconstruction Law include Japanese corporate bonds in securities, which are guaranteed for all or part of the redemption of the principal and the payment of interest, and the issuance of these are limited to a private placement of securities (pursuant to Article 2, Clause 3 of the Japanese Financial Instruments and Exchange Act), loans and bills discounted, foreign exchanges, accrued interest and suspense payments in other assets and customers' liabilities for acceptances and guarantees. The amounts of these claims were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Bankrupt and substantially bankrupt	<b>¥15,099</b>	¥15,743	<b>\$113,082</b>
Doubtful	<b>168,757</b>	165,173	<b>1,263,817</b>
Substandard	<b>37,450</b>	34,087	<b>280,463</b>
Loans past due for 3 months or more	<b>717</b>	51	<b>5,371</b>
Restructured loans	<b>36,733</b>	34,035	<b>275,092</b>
Non Performing Loans	<b>¥221,307</b>	¥215,004	<b>\$1,657,362</b>
Normal	<b>9,556,444</b>	9,231,734	<b>71,567,770</b>
Total	<b>¥9,777,751</b>	¥9,446,739	<b>\$73,225,132</b>

Bankrupt and substantially bankrupt represent claims to obligors under bankruptcy and similar claims, as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law and similar laws.

Doubtful represent claims to obligors that are not yet in bankruptcy but have experienced deterioration in their financial condition and operating performance and for which there is a high probability of contractual defaults on principal and interest payments.

Loans past due for three months or more represent loans which the principal and/or interest is three months or more past due, but exclude bankrupt and substantially bankrupt and doubtful.

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 bankrupt and substantially bankrupt, doubtful, loans past due for three months or more.

Normal represent claims to obligors that are experiencing no particular problems with their financial condition or operating performance, other than claims in any of the three categories above.

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 ¥27,564 million (\$206,427 thousand) and ¥29,762 million as of March 31, 2023 and 2022, respectively.

## 10. Foreign Exchanges

Foreign exchanges as of March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
<b>Assets</b>			
Due from foreign banks	<b>¥13,457</b>	¥20,921	<b>\$100,783</b>
Foreign exchange bills bought	<b>2,511</b>	2,417	<b>18,805</b>
Foreign exchange bills receivable	<b>2,007</b>	2,289	<b>15,031</b>
Total	<b>¥17,975</b>	¥25,628	<b>\$134,619</b>
<b>Liabilities</b>			
Due to foreign banks	<b>¥303</b>	¥178	<b>\$2,276</b>
Foreign exchange bills sold	<b>4</b>	88	<b>32</b>
Foreign exchange bills payable	<b>427</b>	380	<b>3,201</b>
Total	<b>¥735</b>	¥647	<b>\$5,509</b>

## 11. Tangible Fixed Assets

Tangible fixed assets as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Buildings	<b>¥32,509</b>	¥31,912	<b>\$243,459</b>
Land	<b>57,930</b>	57,771	<b>433,836</b>
Lease assets	<b>494</b>	669	<b>3,700</b>
Construction in progress	<b>4,215</b>	3,580	<b>31,567</b>
Other tangible fixed assets	<b>4,865</b>	5,201	<b>36,434</b>
Total	<b>¥100,013</b>	¥99,135	<b>\$748,996</b>

Accumulated depreciation amounted to ¥108,082 million (\$809,426 thousand) and ¥106,906 million as of March 31, 2023 and 2022, respectively.

The book value of tangible fixed assets adjusted for gains on sales of replaced assets amounted to ¥5,809 million (\$43,510 thousand) and ¥5,821 million as of March 31, 2023 and 2022, 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 ¥15,620 million (\$116,985 thousand) and ¥16,024 million as of March 31, 2023 and 2022, respectively.

## 12. Intangible Assets

Intangible assets as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Software	¥3,912	¥4,180	\$29,299
Goodwill	2,978	5,080	22,304
Lease assets	232	197	1,739
Other intangible assets	1,176	865	8,811
Total	¥8,299	¥10,323	\$62,153

## 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 ¥158,589 million (\$1,187,672 thousand) and ¥163,443 million as of March 31, 2023 and 2022, respectively.

## 14. Assets Pledged

Assets pledged as collateral and their relevant liabilities as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets pledged as collateral:			
Securities	¥907,086	¥1,208,022	\$6,793,128
Loans and bills discounted	1,072,486	2,452,157	8,031,799
Relevant liabilities to the above assets:			
Deposits	23,895	27,857	178,953
Call money and bills sold	—	20,000	—
Payables under securities lending transactions	313,271	288,815	2,346,073
Borrowed money	1,347,191	2,602,410	10,089,053

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, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Securities	¥998	¥2,097	\$7,478
Other assets	105,209	105,219	787,908

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, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash collateral paid for financial instruments	¥6,806	¥11,005	\$50,976
Guarantee deposits	4,340	4,355	32,503

## 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 2,411,801 million (\$18,061,867 thousand) and ¥2,491,442 million as of March 31, 2023 and 2022, respectively, of which amounts with original agreement terms of less than one year are ¥2,267,955 million (\$16,984,611 thousand) and ¥2,336,350 million as of March 31, 2023 and 2022, 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, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Current deposits, ordinary deposits, saving deposits and deposits at notice	¥10,073,216	¥9,636,970	\$75,437,854
Time deposits and installment savings	3,272,639	3,382,658	24,508,643
Negotiable certificates of deposit	58,506	64,079	438,151
Other deposits	109,364	118,895	819,022
Total	¥13,513,726	¥13,202,604	\$101,203,670

## 17. Borrowed Money

As of March 31, 2023 and 2022, the weighted-average annual interest rates applicable to borrowed money were 0.06% and 0.02%, respectively.

Annual maturities of borrowed money as of March 31, 2023 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2023	¥537,420	\$4,024,720
2024	303,294	2,271,358
2025	294,816	2,207,867
2026	216,532	1,621,602
2027	256	1,921
2028 and thereafter	129	969
Total	¥1,352,450	\$10,128,437

## 18. Retirement Benefits

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

The Hokuriku Bank, Ltd. and The Hokkaido Bank, Ltd. provided two defined benefit retirement programs, corporate pensions and retirement bonuses, in addition to the defined contribution pension plan. 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 Banks have established retirement benefit trusts.

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

#### (a) Defined benefit plan

(1) The changes in defined benefit obligations for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at beginning of year	¥83,343	¥94,864	\$624,155
Service cost	1,703	2,133	12,756
Interest cost	511	578	3,831
Actuarial (gains) losses	1,254	481	9,395
Benefits paid	(5,082)	(5,458)	(38,060)
Past service cost	—	(1,742)	—
Decrease resulting from transfer to defined contribution pension plans	—	(7,593)	—
Others	2	80	18
Balance at end of year	¥81,733	¥83,343	\$612,095

(2) The changes in plan assets for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at beginning of year	¥90,479	¥94,382	\$677,594
Expected return on plan assets	2,279	2,568	17,069
Actuarial (gains) losses	(2,126)	1,822	(15,929)
Contributions from the employer	153	513	1,149
Benefits paid	(4,764)	(4,956)	(35,683)
Decrease resulting from transfer to defined contribution pension plans	—	(3,931)	—
Others	2	80	18
Balance at end of year	¥86,022	¥90,479	\$644,218

(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
	2023	2022	2023
Funded defined benefit obligation	¥68,363	¥69,714	\$511,968
Plan assets	(7,639)	(8,554)	(59,213)
Unfunded defined benefit obligation	13,370	13,628	100,128
Plan assets	(10,019)	(9,924)	(75,037)
Net liability (asset) arising from defined benefit obligation	¥(4,289)	¥(7,135)	\$(32,122)

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Liability for retirement benefits	¥3,407	¥3,703	\$25,516
Asset for retirement benefits	(7,696)	(10,839)	(57,638)
Net liability (asset) arising from defined benefit obligation	¥(4,289)	¥(7,135)	\$(32,122)

(4) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost	¥1,703	¥2,133	\$12,756
Interest cost	511	578	3,831
Expected return on plan assets	(2,279)	(2,568)	(17,069)
Recognized actuarial (gains) losses	1,049	501	7,860
Recognized past service cost	(193)	(16)	(1,450)
Others	33	114	248
Net periodic benefit costs	¥824	¥744	\$6,176

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Past service cost	¥(193)	¥1,726	\$(1,450)
Actuarial gains (losses)	(2,331)	1,613	(17,463)
Total	¥(2,525)	¥3,340	\$(18,913)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unrecognized past service cost	¥(1,532)	¥(1,726)	\$(11,480)
Unrecognized actuarial (gains) losses	3,574	1,242	26,767
Total	¥2,041	¥(484)	\$15,287

## (7) Plan assets

### • Components of plan assets

Plan assets as of March 31, 2023 and 2022 consisted of the following:

	2023	2022
Bonds	29.18%	29.69%
Stocks	46.54	44.98
Cash and deposits	1.25	2.06
General accounts	7.18	7.14
Other	15.85	16.13
Total	100.00%	100.00%

Note: Plan assets include retirement benefit trusts of 20.57% and 20.25% as of March 31, 2023 and 2022, 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, 2023 and 2022 were set forth as follows:

	2023	2022
Discount rate	0.61%-0.63%	0.61%-0.63%
Expected rate of return on plan assets	2.2%-3.5%	2.6%-3.0%

### (b) Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Contribution	¥497	¥350	\$3,728

## 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, 2023 was approved at the Company's general shareholders' meeting held on June 27, 2023:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥37.00 (\$0.28) per share of common stock	¥4,740	\$35,504
Cash dividends, ¥7.50 (\$0.06) per share of preferred stock (Type 5)	483	3,620



## 20. Capital Stock

Information with respect to capital stock of the Company as of March 31, 2023 and 2022 is as follows:

	2023	2022
Number of shares:		
Authorized:		
Common	280,000,000	280,000,000
Preferred (Type 5)	110,000,000	110,000,000
Issued and outstanding:		
Common	128,770,814	128,770,814
Preferred (Type 5)	64,469,000	75,212,000
Treasury stock:		
Common	655,341	831,643
Preferred (Type 5)	11,096	11,112

### 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, 2023 and 2022 were as follows:

2023	As of April	Changes during the fiscal year		As of March
	1, 2022	Increase*1	Decrease*2	31, 2023
Common	831,643	4,305	180,607	655,341
Preferred (Type 5)	11,112	10,742,984	10,743,000	11,096

2022	As of April	Changes during the fiscal year		As of March
	1, 2021	Increase*1	Decrease*2	31, 2022
Common	953,838	3,397,257	3,519,452	831,643
Preferred (Type 5)	11,128	10,742,984	10,743,000	11,112

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

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

\*2 The decrease of common represents the retirement of treasury stock and 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, 2023 and 2022 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 ¥120 million (\$900 thousand) and ¥117 million were recorded under general and administrative expenses for the years ended March 31, 2023 and 2022, respectively.

The stock options outstanding as of March 31, 2023 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
2021 Stock Option	19 directors 24 executive officers	154,930	July 14, 2021	¥1	From July 15, 2021 to July 14, 2051
2022 Stock Option	18 directors 24 executive officers	156,200	July 11, 2022	¥1	From July 12, 2022 to July 11, 2052

The stock option activity was as follows:

Year ended March 31, 2023	2012 stock option (Shares)	2013 stock option (Shares)	2014 stock option (Shares)	2015 stock option (Shares)
<b>Non-vested:</b>				
March 31, 2022				
–outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2023				
–outstanding	—	—	—	—
<b>Vested:</b>				
March 31, 2022				
–outstanding	11,510	12,220	10,710	9,260
Vested	—	—	—	—
Exercised	6,600	7,350	6,480	4,810
Canceled	—	—	—	—
March 31, 2023				
–outstanding	4,910	4,870	4,230	4,450
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥829	¥829	¥829	¥829
	\$6.21	\$6.21	\$6.21	\$6.21
Fair value price at grant date	¥1,080	¥1,820	¥2,010	¥2,650
	\$8.09	\$13.63	\$15.05	\$19.85

Year ended March 31, 2023	2016 stock option (Shares)	2017 stock option (Shares)	2018 stock option (Shares)	2019 stock option (Shares)
<b>Non-vested:</b>				
March 31, 2022				
–outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2023				
–outstanding	—	—	—	—
<b>Vested:</b>				
March 31, 2022				
–outstanding	31,770	27,120	43,750	70,620
Vested	—	—	—	—
Exercised	13,550	10,890	19,660	28,850
Canceled	—	—	—	—
March 31, 2023				
–outstanding	18,220	16,230	24,090	41,770
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥829	¥829	¥829	¥829
	\$6.21	\$6.21	\$6.21	\$6.21
Fair value price at grant date	¥1,170	¥1,717	¥1,353	¥1,080
	\$8.76	\$12.86	\$10.13	\$8.09

Year ended March 31, 2023	2020 stock option (Shares)	2021 stock option (Shares)	2022 stock option (Shares)
<b>Non-vested:</b>			
March 31, 2022			
–outstanding	—	—	—
Granted	—	—	156,200
Canceled	—	—	—
Vested	—	—	156,200
March 31, 2023			
–outstanding	—	—	—
<b>Vested:</b>			
March 31, 2022			
–outstanding	103,330	154,930	—
Vested	—	—	156,200
Exercised	37,950	43,600	840
Canceled	—	—	1,670
March 31, 2023			
–outstanding	65,380	111,330	153,690
Exercise price	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥831	¥830	¥864
	\$6.22	\$6.22	\$6.47
Fair value price at grant date	¥802	¥759	¥769
	\$6.01	\$5.68	\$5.76

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 2022 Stock Options

Estimate method	Black-Scholes option-pricing model
Volatility of stock price	32.577%
Estimated remaining outstanding period	2 years and 5 months
Estimate dividend	¥35.00 per share
Risk-free interest rate	(0.076)%

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, 2023 and 2022 was as follows:

Year ended	Millions of yen	Thousands of shares		Yen	U.S. dollars
		Net income attributable to owners of parent	Weighted-average shares		
<b>March 31, 2023</b>					
Basic EPS – Net income available to common shareholders	<b>¥20,388</b>	<b>128,074</b>		<b>¥159.18</b>	<b>\$1.19</b>
Effect of dilutive securities		<b>449</b>			
Diluted EPS – Net income for computation	<b>¥20,388</b>	<b>128,524</b>		<b>¥158.63</b>	<b>\$1.19</b>

Year ended	Millions of yen	Thousands of shares		Yen	U.S. dollars
		Net income attributable to owners of parent	Weighted-average shares		
<b>March 31, 2022</b>					
Basic EPS – Net income available to common shareholders	¥19,318	130,994		¥147.47	
Effect of dilutive securities		461			
Diluted EPS – Net income for computation	¥19,318	131,455		¥146.95	

(2) Net assets per share of common stock

Net assets per share of common stock as of March 31, 2023 and 2022 were as follows:

	Yen		U.S. dollars
	2023	2022	2023
Net assets per share of common stock	<b>¥4,491.95</b>	¥4,539.12	<b>\$33.64</b>

Net assets per share of common stock as of March 31, 2023 and 2022 were calculated based on the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total equity	<b>¥612,212</b>	¥622,845	<b>\$4,584,830</b>
Deductions from total equity:			
Stock acquisition rights	<b>416</b>	500	<b>3,119</b>
Non-controlling interests	<b>3,594</b>	3,449	<b>26,921</b>
Preferred stock	<b>32,228</b>	37,600	<b>241,361</b>
Preferred dividends	<b>483</b>	564	<b>3,620</b>
Net assets attributable to common stock at the end of the fiscal year	<b>575,488</b>	580,731	<b>4,309,809</b>
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)	<b>128,115</b>	127,939	

### 24. Other Ordinary Income

Other ordinary income for the years ended March 31, 2023 and 2022 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gain on foreign exchange transactions – net	¥—	¥1,184	\$—
Gains on sales and redemption of bonds and other securities	<b>6,460</b>	6,284	<b>48,384</b>
Lease receipts	<b>10,936</b>	11,140	<b>81,904</b>
Other	<b>1,475</b>	1,457	<b>11,048</b>
Total	<b>¥18,872</b>	¥20,067	<b>\$141,336</b>

### 25. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Losses on foreign exchange transactions – net	<b>¥52</b>	¥—	<b>\$391</b>
Losses on sales, redemption and devaluation of bonds and other securities	<b>25,435</b>	9,076	<b>190,486</b>
Losses on derivatives	<b>17</b>	9	<b>129</b>
Lease costs	<b>10,114</b>	10,258	<b>75,746</b>
Other	<b>273</b>	316	<b>2,047</b>
Total	<b>¥35,892</b>	¥19,660	<b>\$268,799</b>

## 26. Other Income

Other income for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains on sales of stocks	¥18,022	¥9,780	\$134,970
Gains on sales of tangible fixed assets	45	99	342
Other	748	5,803	5,608
Total	¥18,817	¥15,683	\$140,920

## 27. Other Expenses

Other expenses for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Losses on write-offs of loans and bills discounted	¥325	¥500	\$2,435
Losses on sales of stocks	1,100	2,889	8,239
Losses on impairments of stocks and other securities	6,626	4,842	49,622
Losses on sales of loans	119	135	895
Losses on waiver of loans	6,541	—	48,986
Losses on impairments and disposals of fixed assets	695	1,037	5,208
Other	2,249	2,396	16,844
Total	¥17,656	¥11,801	\$132,229

## 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, 2023 and 2022.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
<b>Deferred tax assets:</b>			
Allowance for loan losses	¥27,377	¥29,430	\$205,031
Depreciation	481	625	3,607
Liability for retirement benefits	5,446	4,852	40,791
Loss on valuation of securities	9,057	11,885	67,834
Valuation difference on available-for-sale securities	2,957	—	22,147
Other	4,938	5,302	36,985
Operating loss carryforwards	55	52	415
Subtotal	50,315	52,149	376,810
Less: Valuation allowance	24,387	30,375	182,637
Total deferred tax assets	25,927	21,774	194,173
<b>Deferred tax liabilities:</b>			
Valuation difference on available-for-sale securities	20,628	26,780	154,489
Land transfer through merger	2,765	2,765	20,713
Other	2,694	2,861	20,176
Total deferred tax liabilities	26,088	32,408	195,378
Net deferred tax assets	¥(160)	¥(10,634)	\$(1,205)

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, 2023 and 2022 are as follows:

	2023	2022
Normal effective statutory tax rate	30.45%	30.45%
Change in valuation allowance	(17.00)	5.58
Permanently non-taxable income	(1.41)	(1.04)
Per capita portion of inhabitants' taxes	0.57	0.46
Permanently non-deductible expenses	0.36	0.17
Other	3.25	2.13
Actual effective tax rate	16.22%	37.75%

## 29. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
<b>Valuation difference on available-for-sale securities:</b>			
Amount incurred during the fiscal year	¥(35,064)	¥(32,495)	\$(262,595)
Reclassification adjustment	5,215	(1,153)	39,060
Prior to deducting tax effect	(29,848)	(33,648)	(223,535)
Tax effect	10,730	8,941	80,358
Total	(19,118)	(24,707)	(143,177)

Deferred gains (losses) on hedges:

	2023	2022	2023
Amount incurred during the fiscal year	(895)	(860)	(6,704)
Reclassification adjustment	231	1,414	1,737
Prior to deducting tax effect	(663)	553	(4,967)
Tax effect	142	(167)	1,065
Total	(521)	386	(3,902)

Defined retirement benefit plans:

	2023	2022	2023
Amount incurred during the fiscal year	(3,381)	2,854	(25,324)
Reclassification adjustment	855	485	6,411
Prior to deducting tax effect	(2,525)	3,340	(18,913)
Tax effect	767	(1,015)	5,750
Total	(1,757)	2,324	(13,163)

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

	2023	2022	2023
Amount incurred during the fiscal year	113	48	853
Reclassification adjustment	(13)	(15)	(101)
Prior to deducting tax effect	100	32	752
Tax effect	(30)	(10)	(229)
Total	69	21	523

Total other comprehensive income (loss)

	¥(21,327)	¥(21,974)	\$(159,719)
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### 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, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Within one year	¥3	¥3	\$27
Over one year	2	5	17
Total	¥5	¥9	\$44

### 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 Group have established risk management departments and have stipulated basic regulations for risk management and other regulations pertaining to risk. In addition, the Group 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 ¥571 million (\$4,276 thousand) and ¥297 million as of March 31, 2023 and 2022, 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 ¥32,258 million (\$241,579 thousand) and ¥28,903 million as of March 31, 2023 and 2022, respectively. Hokkaido Bank's VaR of the financial instruments in the banking account was ¥11,723 million (\$87,793 thousand) and ¥21,868 million as of March 31, 2023 and 2022, respectively. Hokkaido Bank's trading account securities totaled ¥4 million (\$30 thousand) and ¥8 million as of March 31, 2023 and 2022, respectively. Hokkaido Bank's specified fund trust totaled ¥0 million (\$3 thousand) and ¥0 million as of March 31, 2023 and 2022, 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 ¥69,444 million increase (\$520,063 thousand increase) and a ¥61,557 million increase as of March 31, 2023 and 2022, respectively. Hokkaido Bank's 100BPV was a ¥26,749 million increase (\$200,322 thousand increase) and a ¥768 million decrease as of March 31, 2023 and 2022, 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 certain assumptions that are used in the measurement of such amounts. Accordingly, the results of such measurement may vary if different assumptions are used.

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

The fair values of the main financial instruments at March 31, 2023 and 2022 are as follows.

These amounts do not include stocks without a quoted market price and investments in partnerships (see Note 1). In addition, Cash and due from banks, Call loans and bills bought, negotiable certificate of deposit, Call money and bills sold, Payables under securities lending transactions are omitted since these instruments are mainly settled in the short term (within 1 year) and the book values approximate the fair values.

#### Fair value of financial instruments

March 31, 2023	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Monetary claims bought *1	¥15,519	¥15,519	¥—
Securities			
Bonds classified as held-to-maturity	3,000	3,009	9
Available-for-sale securities	1,797,664	1,797,664	—
Loans and bills discounted	9,533,464		
Allowance for loan losses *1	(65,478)		
	9,467,985	9,496,103	28,117
Total assets	¥11,284,170	¥11,312,297	¥28,126
Deposits	¥13,455,219	¥13,455,256	¥36
Borrowed money	1,352,450	1,348,028	(4,421)
Total liabilities	¥14,807,670	¥14,803,284	¥(4,385)
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥(492)	¥(492)	¥—
Derivative transactions qualifying for hedge accounting *3	(959)	(959)	*4—
Total derivative transactions	¥(1,451)	¥(1,451)	¥—

March 31, 2022	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Monetary claims bought *1	¥21,217	¥21,217	¥—
Securities			
Bonds classified as held-to-maturity	4,000	4,018	17
Available-for-sale securities	2,157,573	2,157,573	—
Loans and bills discounted	9,193,283		
Allowance for loan losses *1	(70,487)		
	9,122,796	9,196,126	73,330
Total assets	¥11,305,587	¥11,378,936	¥73,348
Deposits	¥13,138,524	¥13,138,604	¥79
Borrowed money	2,608,500	2,606,603	(1,896)
Total liabilities	¥15,747,024	¥15,745,208	¥(1,816)
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥(4,182)	¥(4,182)	¥—
Derivative transactions qualifying for hedge accounting *3	(1,587)	(1,587)	*4—
Total derivative transactions	¥(5,769)	¥(5,769)	¥—

March 31, 2023	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
Monetary claims bought *1	\$116,223	\$116,223	\$—
Securities			
Bonds classified as held-to-maturity	22,468	22,541	73
Available-for-sale securities	13,462,628	13,462,628	—
Loans and bills discounted	71,395,673		
Allowance for loan losses *1	(490,364)		
	70,905,309	71,115,878	210,569
Total assets	\$84,506,628	\$84,717,270	\$210,642
Deposits	\$100,765,519	\$100,765,792	\$273
Borrowed money	10,128,437	10,095,323	(33,114)
Total liabilities	\$110,893,956	\$110,861,115	\$(32,841)
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	\$(3,685)	\$(3,685)	\$—
Derivative transactions qualifying for hedge accounting *3	(7,184)	(7,184)	*4—
Total derivative transactions	\$(10,869)	\$(10,869)	\$—

\*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, March 17, 2022) 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.

\*5. Available-for-sale securities include investment trust which consider NAV as fair value applied paragraph 24-9 of "ASBJ Guidance No. 31", as of March 31, 2023.



(Note 1) The following are the consolidated balance sheet amounts of stocks without a quoted market price, and investments in partnerships. These amounts are not included in "Available-for-sale securities" in fair value of financial instruments.

Consolidated balance sheet amounts

March 31	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unlisted stocks *1,2	<b>¥25,857</b>	¥26,089	<b>\$193,646</b>
Investments in partnerships *3	<b>27,734</b>	19,323	<b>207,704</b>
Unlisted foreign securities *1	<b>0</b>	0	<b>3</b>
<b>Total</b>	<b>¥53,592</b>	<b>¥45,413</b>	<b>\$401,353</b>

\*1. In accordance with paragraph 5 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 31, 2020), these items are not subject to disclosure of the fair value.

\*2. Unlisted stocks were written down by ¥2,675 million (\$20,037 thousand) and ¥3,263 million as of March 31, 2023 and 2022, respectively.

\*3. In accordance with paragraph 24-16 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, June 17, 2021), investments in partnerships are not subject to disclosure of the fair value.

(Note 2) Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
<b>March 31, 2023</b>					
Monetary claims bought	¥1,085	¥—	¥—	¥—	¥14,474
Securities	108,385	267,008	326,021	354,395	515,885
Bonds classified as held-to-maturity	1,000	500	1,500	—	—
Japanese government bonds	500	—	—	—	—
Japanese local government bonds	500	500	1,500	—	—
Available-for-sale securities with maturities	107,385	266,508	324,521	354,395	515,885
Japanese government bonds	—	23,000	19,000	43,500	148,000
Japanese local government bonds	45,463	95,286	122,423	162,540	182,769
Japanese corporate bonds	44,767	85,153	76,888	11,693	60,078
Other	17,153	63,068	106,209	136,660	125,036
Loans and bills discounted	3,188,700	1,420,074	1,118,637	743,621	2,860,716
<b>Total</b>	<b>¥3,298,170</b>	<b>¥1,687,082</b>	<b>¥1,444,658</b>	<b>¥1,098,016</b>	<b>¥3,391,076</b>

	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
March 31, 2022					
Monetary claims bought	¥883	¥—	¥—	¥—	¥20,268
Securities	155,988	260,989	293,740	328,254	831,044
Bonds classified as held-to-maturity	1,000	1,500	1,500	—	—
Japanese government bonds	1,000	500	—	—	—
Japanese local government bonds	—	1,000	1,500	—	—
Available-for-sale securities with maturities	154,988	259,489	292,240	328,254	831,044
Japanese government bonds	52,000	—	16,000	45,500	308,000
Japanese local government bonds	35,017	91,332	104,868	83,103	299,958
Japanese corporate bonds	49,309	85,296	65,978	13,580	61,731
Other	18,661	82,860	105,394	186,070	161,354
Loans and bills discounted	2,856,264	1,468,056	1,086,697	737,138	2,845,084
<b>Total</b>	<b>¥3,013,136</b>	<b>¥1,729,046</b>	<b>¥1,380,438</b>	<b>¥1,065,392</b>	<b>¥3,696,397</b>



March 31, 2023	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
Monetary claims bought	\$8,129	\$—	\$—	\$—	\$108,399
Securities	811,692	1,999,611	2,441,560	2,654,048	3,863,440
Bonds classified as held-to-maturity	7,488	3,744	11,234	—	—
Japanese government bonds	3,744	—	—	—	—
Japanese local government bonds	3,744	3,744	11,234	—	—
Available-for-sale securities with maturities	804,204	1,995,867	2,430,326	2,654,048	3,863,440
Japanese government bonds	—	172,246	142,290	325,770	1,108,365
Japanese local government bonds	340,477	713,595	916,821	1,217,258	1,368,754
Japanese corporate bonds	335,265	637,710	575,817	87,574	449,925
Other	128,462	472,316	795,398	1,023,446	936,396
Loans and bills discounted	23,880,029	10,634,873	8,377,423	5,568,950	21,423,774
Total	\$24,699,850	\$12,634,484	\$10,818,983	\$8,222,998	\$25,395,613

#### Loans and bills discounted

Claims on "Legal bankruptcy" borrowers, "Virtual bankruptcy" borrowers, and "Possible bankruptcy" borrowers amounted to ¥182,140 million (\$1,364,044 thousand) and ¥179,726 million as of March 31, 2023 and 2022, respectively, and loans with no contractual maturities amounted to ¥19,572 million (\$146,581 thousand) and ¥20,315 million as of March 31, 2023 and 2022, respectively. They are not included in the table above.

(Note 3) Maturity analysis for financial liabilities with contractual maturities

March 31, 2023	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	¥12,603,517	¥678,050	¥169,019	¥2,104	¥2,527
Borrowed money	537,420	598,110	216,788	129	—
Total	¥13,140,938	¥1,276,161	¥385,808	¥2,233	¥2,527

March 31, 2022	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	¥12,210,561	¥724,888	¥196,648	¥3,415	¥3,011
Borrowed money	1,647,615	665,481	295,093	310	—
Total	¥13,858,176	¥1,390,370	¥491,741	¥3,725	¥3,011

March 31, 2023	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	\$94,387,163	\$5,077,890	\$1,265,778	\$15,758	\$18,930
Borrowed money	4,024,720	4,479,225	1,623,522	970	—
Total	\$98,411,883	\$9,557,115	\$2,889,300	\$16,728	\$18,930

#### Deposits

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

### (6) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

#### (a) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

March 31, 2023	Millions of yen			Total
	Level 1	Level 2	Level 3	
Monetary claims bought	¥—	¥—	¥15,519	¥15,519
Securities	600,191	1,017,250	170,446	1,787,888
Available-for-sale securities	600,191	1,017,250	170,446	1,787,888
Japanese government bonds and Japanese local government bonds	194,981	642,190	—	837,172
Japanese corporate bonds	—	107,146	170,446	277,593
Japanese stocks	168,389	19,919	—	188,309
Other	236,819	247,993	—	484,813
Total assets	¥600,191	¥1,017,250	¥185,965	¥1,803,407
Derivative transactions *1 *2				
Interest rate - related transactions	¥—	¥0	¥—	¥0
Foreign exchange - related transactions	—	(1,443)	—	(1,443)
Commodity - related transactions	—	19	—	19
Credit derivative transactions	—	—	(27)	(27)
Total derivative transactions	¥—	¥(1,423)	¥(27)	¥(1,451)

March 31, 2022	Millions of yen			Total
	Level 1	Level 2	Level 3	
Monetary claims bought	¥—	¥—	¥21,217	¥21,217
Securities	836,054	914,193	176,294	1,926,541
Available-for-sale securities	836,054	914,193	176,294	1,926,541
Japanese government bonds and Japanese local government bonds	389,535	649,971	—	1,039,507
Japanese corporate bonds	—	100,224	176,294	276,518
Japanese stocks	182,996	20,444	—	203,440
Other	263,522	143,552	—	407,074
Total assets	¥836,054	¥914,193	¥197,511	¥1,947,758
Derivative transactions *1 *2				
Interest rate - related transactions	¥—	¥553	¥—	¥553
Foreign exchange - related transactions	—	(6,357)	—	(6,357)
Commodity - related transactions	—	43	—	43
Credit derivative transactions	—	—	(9)	(9)
Total derivative transactions	¥—	¥(5,760)	¥(9)	¥(5,769)

March 31, 2023	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Monetary claims bought	\$—	\$—	\$116,223	\$116,223
Securities	4,494,804	7,618,140	1,276,468	13,389,412
Available-for-sale securities	4,494,804	7,618,140	1,276,468	13,389,412
Japanese government bonds and Japanese local government bonds	1,460,208	4,809,338	—	6,269,546
Japanese corporate bonds	—	802,415	1,276,468	2,078,883
Japanese stocks	1,261,062	149,177	—	1,410,239
Other	1,773,534	1,857,210	—	3,630,744
Total assets	\$4,494,804	\$7,618,140	\$1,392,691	\$13,505,635
Derivative transactions *1 *2				
Interest rate - related transactions	\$—	\$3	\$—	\$3
Foreign exchange - related transactions	—	(10,812)	—	(10,812)
Commodity - related transactions	—	148	—	148
Credit derivative transactions	—	—	(208)	(208)
Total derivative transactions	\$—	\$(10,661)	\$(208)	\$(10,869)

\*1. 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.

\*2. As interest-rate swaps subject to exceptional treatment are included in the loans in question on the consolidated balance sheet.

\*3. At March, 31 2022, investment trust was excluded in the above. It amounted to ¥231,032 million. At March 31, 2023, investment trust which consider NAV as fair value was excluded in the above. It amounted to ¥9,776 million (\$73,216 thousand).

**(b) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet**

March 31, 2023	Millions of yen			
	Level 1	Level 2	Level 3	Total
Securities	¥502	¥2,507	¥—	¥3,009
Bonds classified as held-to-maturity	502	2,507	—	3,009
Japanese government bonds and Japanese local government bonds	502	2,507	—	3,009
Loans and bills discounted	—	—	9,496,103	9,496,103
Total assets	¥502	¥2,507	¥9,496,103	¥9,499,113
Deposits	—	13,455,256	—	13,455,256
Borrowed money	—	1,343,278	4,750	1,348,028
Total liabilities	¥—	¥14,798,534	¥4,750	¥14,803,284

March 31, 2022	Millions of yen			
	Level 1	Level 2	Level 3	Total
Securities	¥1,507	¥2,510	¥—	¥4,018
Bonds classified as held-to-maturity	1,507	2,510	—	4,018
Japanese government bonds and Japanese local government bonds	1,507	2,510	—	4,018
Loans and bills discounted	—	—	9,196,126	9,196,126
Total assets	¥1,507	¥2,510	¥9,196,126	¥9,200,145
Deposits	—	13,138,604	—	13,138,604
Borrowed money	—	2,603,262	3,340	2,606,603
Total liabilities	¥—	¥15,741,867	¥3,340	¥15,745,208

March 31, 2023	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Securities	\$3,764	\$18,777	\$—	\$22,541
Bonds classified as held-to-maturity	3,764	18,777	—	22,541
Japanese government bonds and Japanese local government bonds	3,764	18,777	—	22,541
Loans and bills discounted	—	—	71,115,878	71,115,878
Total assets	\$3,764	\$18,777	\$71,115,878	\$71,138,419
Deposits	—	100,765,792	—	100,765,792
Borrowed money	—	10,059,750	35,573	10,095,323
Total liabilities	\$—	\$110,825,542	\$35,573	\$110,861,115

(Note 1) The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities

#### Monetary claims bought

Trust beneficiary rights for mortgage and loans are stated at the level 3 fair value based on the price provided by the financial institutions. Trust beneficiary rights for account receivables are stated at the level 3 based on the present value as discounting cash flows by market interest rates in consideration of credit risk.

#### Securities

When quoted prices are available in an active market, the Group adopts the quoted prices to measure the fair value are classified as Level 1 of the fair value hierarchy that include stocks and investment trusts listed on the Prime Market of the Tokyo Stock Exchange and Japanese Government Bonds.

The fair value of an input that can be directly or indirectly observed other than Level 1 input is classified as Level 2 of the fair value hierarchy.

When a quoted price is not observable, an entity measures fair value using valuation technique such as discount present value method of future cash flows and that maximises the use of relevant observable inputs which include interest market rates and the probability of default. When an unobservable input is significant to the entire measurement, the fair value is classified as Level 3 of the fair value hierarchy that include privately-placed bonds.

#### Loans and bills discounted

For loans, the fair value is measured using the total future cash flows from principal and interest discounted by current market interest rates, taking into account the credit risk involved. This measurement is performed separately for each different category of loans, classified by type of loan, internal credit ratings, and maturity length. 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.

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. These fair values are classified as Level 3 of the fair value hierarchy. Also, fair value of loans are accounted hedged by the swaps for together with the loans are reflected the fair value of such interest-rate swaps.

#### 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 and is classified as Level 2 of the fair value hierarchy. In addition, the fair value of time deposits is calculated by discounting the estimated future cash flows for each of the specified periods and is classified as Level 2 of the fair value hierarchy. This measurement is performed separately as per the remaining maturity of time deposits. The discount rate employed is the interest rate is available in the market.

#### 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. These fair values are mainly classified as Level 2 of the fair value hierarchy.

#### Derivative transactions

Derivative transactions for which unadjusted quoted prices in active markets are available are classified as Level 1 of the fair value hierarchy. However, since most derivative transactions are over-the-counter transactions and there are no published quoted prices, fair values are measured using valuation techniques such as the discounted present value method and the Black-Scholes model depending on the type of transaction and the period to maturity. The main inputs used in these valuation techniques are interest rates, exchange rates, volatility, etc. When an unobservable input is not entire or is not significant for the fair value measurement, the fair values are classified as Level 2 of the fair value hierarchy that include plain vanilla swap, currency option, and so on.

The fair value used significant unobservable inputs are classified as Level 3 fair value of the fair value hierarchy.

(Note 2) The information of level 3 fair value with the financial assets and liabilities measured at the fair values in the consolidated balance sheet

(a) The quantitative information of fair values measured by using unobservable inputs for the assets or liabilities

**March 31, 2023**

	valuation method	Unobservable inputs for the assets	Range of valuation input
Monetary claims bought	Discounted cash flow method	Bankruptcy probability by ratings	<b>0.002%</b>
		Expected loss ratio	<b>10.667%</b>
		Expense ratio	<b>0.310%</b>
Privately-Placed bonds	Discounted cash flow method	Bankruptcy probability by ratings	<b>0.000%-2.994%</b>
		Expected loss ratio	<b>10.667%-25.191%</b>
		Expense ratio	<b>0.297%-0.310%</b>

March 31, 2022

	valuation method	Unobservable inputs for the assets	Range of valuation input
Monetary claims bought	Discounted cash flow method	Bankruptcy probability by ratings	0.002%
		Expected loss ratio	11.517%
		Expense ratio	0.426%
Privately-Placed bonds	Discounted cash flow method	Bankruptcy probability by ratings	0.000%—5.380%
		Expected loss ratio	11.517%—19.244%
		Expense ratio	0.036%—0.426%

(b) Adjustment sheet from beginning balance to ending balance as of period and unrealized gains (losses) recognized as gains (losses) for the period

	Millions of yen		
March 31, 2023	Monetary claims bought	Privately-Placed bonds	Total
Balance at the beginning of the period	¥21,217	¥176,294	¥197,511
Profit and loss or other comprehensive income at the current period	(79)	(488)	(568)
Included in profit and loss*1	2	21	23
Included in other comprehensive income*2	(81)	(510)	(591)
Purchase, Issue	3,621	46,340	49,961
Sales, Redemption, Settlement	(9,239)	(51,698)	(60,938)
Balance at the end of current period	15,519	170,446	185,965
Unrealized gains (losses) on financial assets and liabilities held as of the consolidated balance sheet date among the amount recorded to gains (losses) or the period	¥—	¥—	¥—

	Millions of yen		
March 31, 2022	Monetary claims bought	Privately-Placed bonds	Total
Balance at the beginning of the period	¥27,985	¥45,060	¥73,046
Profit and loss or other comprehensive income at the current period	(95)	(48)	(143)
Included in profit and loss*1	1	(48)	(46)
Included in other comprehensive income*2	(96)	0	(96)
Purchase, Issue	3,248	22,830	26,078
Sales, Redemption, Settlement	(9,922)	(19,032)	(28,954)
Transfer to fair value level 3 *3	—	127,484	127,484
Transfer from fair value level 3	—	—	—
Balance at the end of current period	21,217	176,294	197,511
Unrealized gains (losses) on financial assets and liabilities held as of the consolidated balance sheet date among the amount recorded to gains (losses) for the period	¥—	¥—	¥—

	Thousands of U.S. dollars		
March 31, 2023	Monetary claims bought	Corporate bonds sold through private placement	Total
Balance at the beginning of the period	\$158,893	\$1,320,259	\$1,479,152
Profit and loss or other comprehensive income at the current period	(597)	(3,660)	(4,257)
Included in profit and loss*1	15	160	175
Included in other comprehensive income*2	(612)	(3,820)	(4,432)
Purchase, Issue	27,123	347,038	374,161
Sales, Redemption, Settlement	(69,196)	(387,170)	(456,366)
Balance at the end of current period	116,223	1,276,467	1,392,690
Unrealized gains (losses) on financial assets and liabilities held as of the consolidated balance sheet date among the amount recorded to gains (losses) for the period	\$—	\$—	\$—

\*1. Those amounts are included in interest income, other ordinary income and other ordinary expenses in the consolidated statement of income as of March 31, 2022. Those amounts are included in interest income and other ordinary income in the consolidated statement of income as of March 31, 2023.

\*2. Those amounts are included in valuation difference on available for sale securities of other comprehensive income in the consolidated statement of comprehensive income.

\*3. Due to changed classification from held maturity debt securities to available-for-sale securities.

**(c) Description of the valuation processes used by the entity**

In accordance with the policies and procedures established by the Corporate Planning Department regarding the fair values, the Banks verifies the appropriateness of the valuation techniques and inputs used in the measurement of fair values by the back offices of the Banks. The report of these verifies is submitted to middle offices, therefore, the appropriateness of fair value hierarchy and policy or process of fair value measurement are securely established.

In measurement of the fair value, the Banks use an evaluation model that is most adequate that reflects the nature, characteristics and risks of each asset. In addition, when using quoted prices provided by the third parties, the appropriateness of prices is verified by appropriate methods such as confirmation of the valuation techniques and inputs used and comparison with the market prices of similar financial instruments.

**(d) Description of the sensitivity of the fair value measurement to changes in unobservable inputs**

Significant unobservable inputs used in measurement of the fair value of purchased monetary claims and privately-placed bonds are the probability of default by rating, the expected credit loss ratio and the expense ratio. A significant increase (decrease) in these inputs affect mitigate or magnify of the fair value.

**(7) Investment trust consider NAV as fair value**

Adjustment sheet from beginning balance to ending balance as of period and unrealized gains (losses) recognized as gains (losses) for the period

<b>March 31, 2023</b>	Millions of yen	Thousands of U.S. dollars
Balance at the beginning of the period	<b>¥8,902</b>	<b>\$66,669</b>
Profit and loss or other comprehensive income at the current period	<b>332</b>	<b>2,489</b>
Included in profit and loss*1	<b>4</b>	<b>35</b>
Included in other comprehensive income*2	<b>327</b>	<b>2,454</b>
Purchase, Issue	<b>853</b>	<b>6,394</b>
Sales, Redemption, Settlement	<b>(311)</b>	<b>(2,335)</b>
Balance at the end of current period	<b>¥9,776</b>	<b>\$73,217</b>

\*1. Those amounts are included in interest income in the consolidated statement of income.

\*2. Those amounts are included in valuation difference on available for sale securities of other comprehensive income in the consolidated statement of comprehensive income.

## 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. 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		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥33,859	¥28,798	¥75	¥75
Receive/floating and pay/fixed	33,869	28,808	131	131
Others/sell	448	448	(0)	10
Others/buy	448	448	0	(3)
Total	/	/	¥207	¥213

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2022</b>				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥46,968	¥38,004	¥575	¥575
Receive/floating and pay/fixed	46,937	37,989	(274)	(274)
Others/sell	479	479	(0)	10
Others/buy	479	479	0	(3)
Total	/	/	¥300	¥306

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$253,570	\$215,669	\$564	\$564
Receive/floating and pay/fixed	253,645	215,745	987	987
Others/sell	3,360	3,360	(7)	75
Others/buy	3,360	3,360	7	(29)
Total	/	/	\$1,551	\$1,597

Note: 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.

#### • Foreign Exchange-Related Transactions

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Swaps	¥9,863	¥8,914	¥5	¥5
Forward contracts/sell	115,355	5,528	(905)	(905)
Forward contracts/buy	40,113	5,528	208	208
Options/sell	93,420	65,686	(3,340)	(241)
Options/buy	93,420	65,686	3,340	769
Total	/	/	¥(691)	¥(163)

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2022</b>				
Over-the-counter transactions				
Swaps	¥5,051	¥2,327	¥3	¥3
Forward contracts/sell	136,733	1,336	(5,429)	(5,429)
Forward contracts/buy	57,898	1,321	909	909
Options/sell	27,523	15,404	(675)	34
Options/buy	27,523	15,404	675	122
Total	/	/	¥(4,516)	¥(4,360)

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Swaps	\$73,869	\$66,761	\$42	\$42
Forward contracts/sell	863,893	41,400	(6,780)	(6,780)
Forward contracts/buy	300,408	41,400	1,561	1,562
Options/sell	699,624	491,922	(25,017)	(1,809)
Options/buy	699,624	491,922	25,017	5,761
Total	/	/	\$(5,177)	\$(1,224)

Note: 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.



• Commodity-Related Transactions

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥348	¥306	¥(123)	¥(123)
Receive/floating and pay/fixed	348	306	143	143
Total	/	/	¥19	¥19

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2022				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥1,060	¥1,049	¥(415)	¥(415)
Receive/floating and pay/fixed	1,060	1,049	458	458
Total	/	/	¥43	¥43

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$2,611	\$2,295	\$(927)	\$(927)
Receive/floating and pay/fixed	2,611	2,295	1,075	1,075
Total	/	/	\$148	\$148

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 above derivative transactions consist of those for oil, copper, aluminum, etc.

• Credit Derivative Transactions

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Credit default options				
Sell	¥—	¥—	¥—	¥—
Buy	1,379	1,365	(27)	(25)
Total	/	/	¥(27)	¥(25)

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2022				
Over-the-counter transactions				
Credit default options				
Sell	¥—	¥—	¥—	¥—
Buy	488	471	(9)	(8)
Total	/	/	¥(9)	¥(8)

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Credit default options				
Sell	\$—	\$—	\$—	\$—
Buy	10,330	10,228	(208)	(191)
Total	/	/	\$(208)	\$(191)

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. "Sell" and "Buy" indicate assumption and cession of credit risk, respectively

• Others

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Earthquake derivatives				
Sell	¥8,965	¥—	¥(57)	¥—
Buy	8,965	—	57	—
Total	/	/	¥—	¥—

	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
March 31, 2022				
Over-the-counter transactions				
Earthquake derivatives				
Sell	¥8,965	¥—	¥(57)	¥—
Buy	8,965	—	57	—
Total	/	/	¥—	¥—

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
<b>March 31, 2023</b>				
Over-the-counter transactions				
Earthquake derivatives				
Sell	\$67,138	\$—	\$(433)	\$—
Buy	67,138	—	433	—
Total	/	/	\$—	\$—

Note: 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) 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. Note that contract amounts do not represent the market risk exposure of derivative transactions.

• Interest Rate-Related Transactions

Hedge accounting method	Type	Hedged item	Millions of yen		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
<b>March 31, 2023</b>					
Accounting method employed in principle	Swaps	Yen-based bond			
	Receive/floating and pay/fixed		¥20,000	¥20,000	¥(206)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
	Receive/floating and pay/fixed		34,576	34,576	*2
Total			/	/	¥(206)

Hedge accounting method	Type	Hedged item	Millions of yen		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
March 31, 2022					
Accounting method employed in principle	Swaps	Yen-based bond			
	Receive/floating and pay/fixed		¥70,000	¥20,000	¥253
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
	Receive/floating and pay/fixed		36,718	36,672	*2
Total			/	/	¥253

Hedge accounting method	Type	Hedged item	Thousands of U.S. dollars		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
<b>March 31, 2023</b>					
Accounting method employed in principle	Swaps	Yen-based bond			
	Receive/floating and pay/fixed		\$149,779	\$149,779	\$(1,548)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
	Receive/floating and pay/fixed		258,943	258,943	*2
Total			/	/	\$(1,548)

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

2. 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, 2023

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	Foreign loans and foreign securities	¥20,146	¥116	¥(874)
	Forward contracts	Call loans and due from banks (foreign currencies)	10,781	—	121
Total			/	/	¥(752)

March 31, 2022

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	Foreign loans and foreign securities	¥18,654	¥249	¥(1,281)
	Forward contracts	Call loans and due from banks (foreign currencies)	19,650	—	(559)
Total			/	/	¥(1,840)

March 31, 2023

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	Foreign loans and foreign securities	\$150,873	\$873	\$(6,549)
	Forward contracts	Call loans and due from banks (foreign currencies)	80,742	—	913
Total			/	/	\$(5,636)

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

### 33. Revenue Recognition

#### (1) Disaggregation of Revenue from contracts with customers

Revenues from contracts with customers on a disaggregated basis for the year ended March 31, 2023 and 2022 are as follows:

	Millions of yen				
	2023				
	Reportable segment			Other *	Total
Hokuriku Bank	Hokkaido Bank	Total			
Trust fees	¥30	¥—	¥30	¥—	¥30
Fees and commissions	15,030	14,458	29,488	5,116	34,604
Deposits and loan operations	4,299	5,736	10,035	—	10,035
Domestic and foreign exchange operations	5,189	3,909	9,098	—	9,098
Investment operations	1,037	1,525	2,562	1,353	3,915
Agency operations	595	634	1,229	446	1,675
Safe keeping and safe operations	142	76	219	—	219
Other	3,767	2,576	6,343	3,316	9,660
Other ordinary incomes	—	—	—	1,460	1,460
Other incomes	—	—	—	35	35
Ordinary income from contracts with customers	15,060	14,458	29,518	6,612	36,131
Ordinary income except the above	81,110	61,183	142,294	9,458	151,752
Ordinary income from external customers	¥96,171	¥75,641	¥171,812	¥16,070	¥187,883

	Millions of yen				
	2022				
	Reportable segment			Other *	Total
Hokuriku Bank	Hokkaido Bank	Total			
Trust fees	¥36	¥—	¥36	¥—	¥36
Fees and commissions	15,057	14,279	29,336	4,576	33,912
Deposits and loan operations	4,257	5,601	9,858	—	9,858
Domestic and foreign exchange operations	5,413	4,236	9,650	—	9,650
Investment operations	1,595	1,596	3,191	1,207	4,399
Agency operations	574	639	1,213	441	1,654
Safe keeping and safe operations	149	77	226	—	226
Other	3,068	2,128	5,196	2,927	8,123
Other ordinary incomes	—	—	—	1,445	1,445
Other incomes	—	—	—	33	33
Ordinary income from contracts with customers	15,093	14,279	29,373	6,054	35,427
Ordinary income except the above	72,773	57,358	130,132	12,233	142,366
Ordinary income from external customers	¥87,867	¥71,637	¥159,505	¥18,288	¥177,793

	Thousands of U.S.dollars				
	2023				
	Reportable segment			Other *	Total
Hokuriku Bank	Hokkaido Bank	Total			
Trust fees	\$227	\$—	\$227	\$—	\$227
Fees and commissions	112,562	108,276	220,838	38,317	259,155
Deposits and loan operations	32,198	42,957	75,155	—	75,155
Domestic and foreign exchange operations	38,861	29,276	68,137	—	68,137
Investment operations	7,770	11,421	19,191	10,135	29,326
Agency operations	4,456	4,749	9,205	3,341	12,546
Safe keeping and safe operations	1,066	576	1,642	—	1,642
Other	28,211	19,297	47,508	24,841	72,349
Other ordinary incomes	—	—	—	10,941	10,941
Other incomes	—	—	—	263	263
Ordinary income from contracts with customers	112,789	108,276	221,065	49,521	270,586
Ordinary income except the above	607,435	458,199	1,065,634	70,832	1,136,466
Ordinary income from external customers	\$720,224	\$566,475	\$1,286,699	\$120,353	\$1,407,052

\* "Other" was included financial instruments business, leasing, credit card operations and others without banking.

## **(2) Basic information to understand the revenue from contracts with customers**

The Group recognizes revenue in accordance with that core principle by applying the following 5 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

Accounting Standard for Revenue Recognition is applied to contracts with customers are mainly Fees and commission in the Banks. The Banks provides exchange settlements services such as transfer of fund and deposit services such as account transfers and sales agency services for investment trusts and life insurance contracts. If the performance obligations are satisfied at a point in time such as settlement and conclusion of sales contracts, the fees received in connection with the services are recognized as revenue when the performance obligations satisfied.

In addition, if performance obligations are satisfied for a certain period of time, revenue is recognized as the performance obligations satisfied over time.

The Company and its consolidated non-banking subsidiaries recognize the revenues by a similar method as that of the Banks.

## **34. 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, 2023 and 2022 are as follows:

	Millions of yen						
	2023						
	Reportable segment			Other	Total	Reconciliations	Consolidated
Hokuriku Bank	Hokkaido Bank	Total					
Ordinary income							
Ordinary income from external customers	¥96,171	¥75,641	¥171,812	¥19,605	¥191,418	¥(3,534)	¥187,883
Ordinary income from intersegment transactions	1,045	1,309	2,354	3,750	6,105	(6,105)	—
Total	97,217	76,950	174,167	23,355	197,523	(9,639)	187,883
Segment profit	14,314	8,711	23,026	1,813	24,839	(3,404)	21,435
Segment assets	9,477,305	6,655,698	16,133,004	96,128	16,229,133	(56,432)	16,172,700
Segment liabilities	9,107,387	6,442,887	15,550,275	64,757	15,615,032	(54,544)	15,560,488
Others							
Depreciation	3,379	2,375	5,754	233	5,988	(4)	5,984
Amortization of goodwill	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill	—	—	—	—	—	2,978	2,978
Increase in tangible fixed assets and intangible assets	¥3,647	¥3,501	¥7,149	¥258	¥7,407	¥(11)	¥7,395
	Millions of yen						
	2022						
	Reportable segment			Other	Total	Reconciliations	Consolidated
Hokuriku Bank	Hokkaido Bank	Total					
Ordinary income							
Ordinary income from external customers	¥87,867	¥71,637	¥159,505	¥20,145	¥179,650	¥(1,856)	¥177,793
Ordinary income from intersegment transactions	1,131	1,345	2,476	4,308	6,785	(6,785)	—
Total	88,998	72,983	161,982	24,453	186,435	(8,641)	177,793
Segment profit	13,102	8,770	21,873	2,302	24,176	(3,649)	20,526
Segment assets	10,178,190	7,065,244	17,243,435	94,854	17,338,290	(58,218)	17,280,071
Segment liabilities	¥9,808,584	¥6,842,923	¥16,651,508	¥64,994	¥16,716,502	¥(59,276)	¥16,657,226
Others							
Depreciation	¥3,787	¥2,650	¥6,438	¥243	¥6,682	¥0	¥6,682
Amortization of goodwill	—	—	—	—	—	2,102	2,102
Unamortized balance of goodwill	—	—	—	—	—	5,080	5,080
Increase in tangible fixed assets and intangible assets	¥7,015	¥2,712	¥9,727	¥102	¥9,830	¥(11)	¥9,818
	Thousands of U.S. dollars						
	2023						
	Reportable segment			Other	Total	Reconciliations	Consolidated
Hokuriku Bank	Hokkaido Bank	Total					
Ordinary income							
Ordinary income from external customers	\$720,224	\$566,475	\$1,286,699	\$146,822	\$1,433,521	\$(26,469)	\$1,407,052
Ordinary income from intersegment transactions	7,831	9,805	17,636	28,087	45,723	(45,723)	—
Total	728,055	576,280	1,304,335	174,909	1,479,244	(72,192)	1,407,052
Segment profit	107,204	65,237	172,441	13,582	186,023	(25,494)	160,529
Segment assets	70,975,103	49,844,220	120,819,323	719,905	121,539,228	(422,621)	121,116,607
Segment liabilities	68,204,808	48,250,484	116,455,292	484,962	116,940,254	(408,477)	116,531,777
Others							
Depreciation	25,306	17,790	43,096	1,752	44,848	(33)	44,815
Amortization of goodwill	—	—	—	—	—	15,744	15,744
Unamortized balance of goodwill	—	—	—	—	—	22,304	22,304
Increase in tangible fixed assets and intangible assets	\$27,316	\$26,226	\$53,542	\$1,934	\$55,476	\$(89)	\$55,387



#### (4) Information about services

Year ended March 31, 2023	Millions of yen			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥96,000	¥50,664	¥41,219	¥187,883

  

Year ended March 31, 2022	Millions of yen			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥95,708	¥39,040	¥43,044	¥177,793

  

Year ended March 31, 2023	Thousands of U.S. dollars			
	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	\$718,942	\$379,421	\$308,689	\$1,407,052

#### (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.

### 35. Related Party Transactions

Related party transactions as of March 31, 2023 and 2022 were as follows:

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

#### March 31, 2023

Related party	Account Classification	Transaction amount *6		Balance at end of year	
		Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Minamidani Kanamono Co., Ltd. *2	Loans and bills discounted	¥17	\$127	¥15	\$112
NAKAMURA-TOME HOLDING CO., LTD. *3,4	Loans and bills discounted	¥500	\$3,744	¥500	\$3,744
Yagikuma Co., Ltd *5	Loans and bills discounted	¥260	\$1,947	¥152	\$1,138

#### March 31, 2022

Related party	Account Classification	Transaction amount *6		Balance at end of year	
		Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Minamidani Kanamono Co., Ltd. *2	Loans and bills discounted	¥21	\$19	¥19	\$19
Nakamura-Tome Precision Industry Co., Ltd. *3	Loans and bills discounted	¥947	\$819	¥—	\$—
NAKAMURA-TOME HOLDING CO., LTD. *3	Loans and bills discounted	¥500	\$437	¥500	\$437
Yagikuma Co., Ltd *5	Loans and bills discounted	¥344	\$299	¥314	\$273

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

2. Close relatives of a member of the Hokuriku Bank's director own the majority of the voting rights.

3. 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.

4. 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.

5. A member of the Hokuriku Bank's audit & supervisory board and his close relatives own the majority of the voting rights.

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

### 36. Subsequent Events

#### Acquisition of common stock

The Company resolved to acquire the following common stock based on Article 156 of the Companies Act as applied by replacing terms pursuant in accordance with to provisions of Article 165-3 of the Act at the meeting of the Board of Directors held on May 10, 2023:

Type of shares to be acquired	Common Stock
Total number of shares to be acquired	5,000,000 (maximum)
Total acquisition cost	¥4,000 million (\$29,956 thousand) (maximum)
Acquisition method	Market purchase on the Tokyo Stock Exchange
Acquisition period	From May 12, 2023 to August 10, 2023

The company completed to acquire its own shares by July 7, 2023 as follows:

Total number of shares acquired	3,578,700
Total acquisition cost	¥3,999 million (\$29,955 thousand)

# 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, 2023, 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, 2023, 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, 2023, the Group recorded loans and bills discounted of ¥9,533,464 million (\$71,395,673 thousand), representing 58% of total assets, and allowance for loan losses of ¥67,361 million (\$504,464 thousand) on the consolidated balance sheet.</p> <p>The subsidiaries of the Group providing banking services (the "Banks") 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," according to the borrowers' repayment ability based on their financial conditions, 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.</p> <p>In case of borrowers whose business results or financial position is currently unfavorable or unstable, the Banks frequently determine the borrower classifications based on the borrowers' latest business conditions, and the evaluation of the borrowers' future prospects, such as 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, as described in Note 3, "Significant Accounting Estimate" to the consolidated financial statements.</p> <p>Loans and bills discounted was the most significant line item on the consolidated balance sheet as of March 31, 2023. The related allowance for loan losses involves 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' external and internal 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.</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 initially determined by the branches. The branches regularly determine borrower classifications based on the borrowers' financial statements, and assess whether to change the borrower classifications, as necessary. 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 and the evaluation by the asset review and inspection division by inquiring of the persons in charge and inspecting related documents.</p> <p>(2) Tests of the borrower classifications</p> <p>We tested whether the Banks' management evaluation of the borrowers' future prospects, including their Business Improvement Plans, was conducted based on a reasonable basis by:</p> <ul style="list-style-type: none"> <li>—Comparing the borrowers' Business Improvement Plans with historical results</li> <li>—Inspecting an analysis of external and internal environments and a financial analysis</li> <li>—Inquiring of the persons in charge of the asset review and inspection division and inspecting relevant supporting documents regarding the achievability of the borrowers' Business Improvement Plans, including the borrowers' measures for increasing sales and reducing costs and changes in business structure</li> </ul>

<p>We identified the determination of borrower classifications based on the evaluation of the borrowers' future prospects, including their Business Improvement Plans, as a key audit matter.</p>	<p>— Inquiring of the persons in charge of the asset review and inspection division and inspecting relevant supporting documents regarding the feasibility of financial support from financial institutions or other third parties within the Business Improvement Plans</p>
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### Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

### 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  
July 19, 2023

### 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.

Megumi Yanaga

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Designated Engagement Partner

Certified Public Accountant

Satoshi Komatsu

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Designated Engagement Partner

Certified Public Accountant

Yasuhiko Igarashi

---

Designated Engagement Partner

Certified Public Accountant

Deloitte Touche Tohmatsu LLC

July 19, 2023





HokuHoku Financial Group, Inc.