Annual Report 2018

Year ended March 31, 2018

Hokuhoku Financial Group, Inc.

Company outline (as of March 31, 2018)

Company name: Hokuhoku Financial Group, Inc.

Date of establishment: September 26, 2003

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

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

Capital: ¥70,895 million

Shares issued and outstanding:

Common stock	132,163,014
Preferred stock (Type 5)	107,432,000

Exchange listings: Tokyo Stock Exchange (First Section)
Sapporo Securities Exchange

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

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

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Profile

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

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

May 2002	**Comprehensive business alliance between Hokuriku Bank and Hokkaido Bank**
May 2003	**Agreement on full integration of management of Hokuriku Bank and Hokkaido Bank**
September 2003	**Hokugin Financial Group, Inc. established**
	Hokuriku Bank Group comes under management of Hokugin Financial Group
	Management integration effected through equity swap
September 2004	**Hokuhoku Financial Group, Inc. was born.**

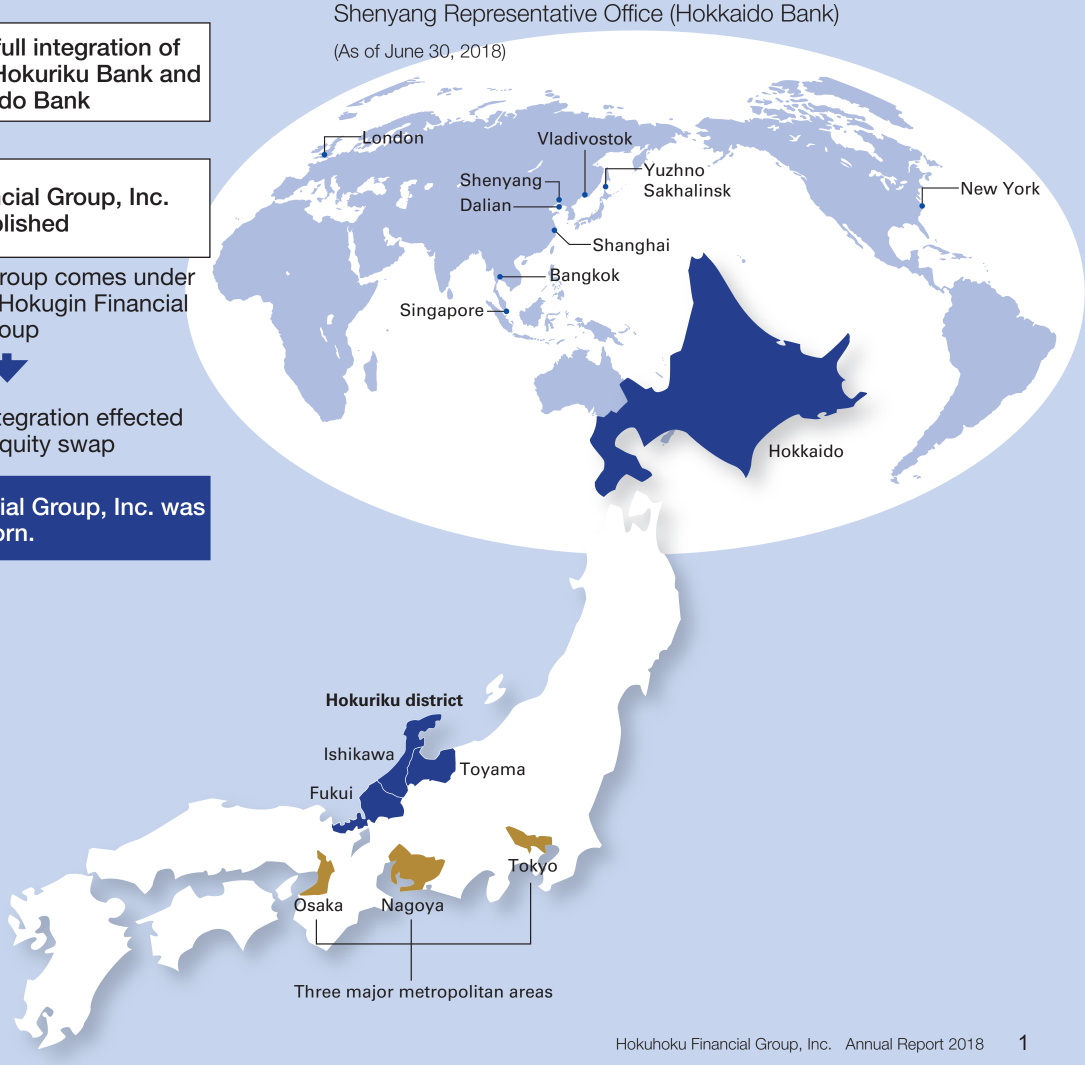
The operations of the Hokuhoku Financial Group extend beyond the limits of a single district.

Our extensive network is outlined below.

Hokuriku district	**150 branches**
Toyama prefecture	92 branches
Ishikawa prefecture	36 branches
Fukui prefecture	22 branches
Hokkaido	**159 branches**
Three major metropolitan areas	**16 branches**
Tokyo and Yokohama	9 branches
Nagoya	3 branches
Osaka and Kyoto	4 branches
Others (Sendai, Niigata, Nagano, Takayama)	**4 branches**
Overseas	**9 offices**

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

(As of June 30, 2018)



Left: Eishin Ihori

President
(concurrently serving as president of The Hokuriku Bank, Ltd.)

Right: Masahiro Sasahara

Deputy President
(concurrently serving as president of The Hokkaido Bank, Ltd.)

We would like to express our sincere appreciation to all of you for your continued support of the Hokuhoku Financial Group and its group companies. We are pleased to present this report for the Hokuhoku Financial Group for the fiscal year ended March 31, 2018. The report covers our operating performance in the fiscal year ended March 31, 2018, and introduces the various initiatives that we are undertaking.

In the fiscal year ended March 31, 2018, amid a further increase in exports, the Japanese economy demonstrated clear resilience in domestic demand centered on corporate sectors such as capital investment and inventory investment, and private consumption also followed a gradual track of recovery with improvement in the employment and income environment. The gradual recovery continued in the overseas economy as well, led by developed countries such as the United States, which continued its economic expansion, and helped by the firm economy in China.
In the Group's primary operating regions, the three Hokuriku prefectures, in addition to maintaining high production levels for categories such as electronic components and business machines, private consumption steadily recovered, and there was significant tightening of labor supply and demand. Moreover, in Hokkaido, in addition to the effect of the economic boost from public-sector investment centered on disaster restoration, against the backdrop of increasing tourism-related capital investment and firm private consumption, the entire economy of Hokkaido maintained a track of recovery.

In the economic environment surrounding the Group, while the global economy is expected to continue to recover, uncertainty remains mainly in the policy operations of the United States government, political conditions in Europe and the trends in the Chinese economy, and the future is difficult to predict, including the effects of the uncertainty on the Japanese economy.
In the financial field, in addition to ongoing unprecedented low interest rates, an expansion in financial services driven by information technologies such as fintech is having a significant effect on the business models of financial institutions.

Aiming to build a new business model that can respond to these changes in the business environment, we formulated the Medium-term Management Plan "BEST for the Region" for fiscal 2016 through fiscal 2018, and are promoting various policies centered on "Strengthening Marketing Capabilities," "Improving Management Efficiency" and "Strengthening Management Foundation."
(1) Strengthening Marketing Capabilities
With a customer-oriented approach as our top priority, we will continue to develop personnel, improve products and increase the convenience of various transactions using information technologies, accurately capturing the needs and challenges of our customers and working to provide appropriate recommendations.
(2) Improving Management Efficiency
In response to market conditions, we will open full-banking branches providing overall financial services and branches specializing in counter services and individual sales, continually working to offer efficient branch operations. Moreover, with the further automation of office operations and expansion of centralized back office operations, we are working to improve efficiency and productivity.
Regarding system investment as well, we are further advancing the integration of the individual systems at Hokuriku Bank and Hokkaido Bank, working to balance control of investment amounts with service improvement and streamlining of operations.
(3) Strengthening Management Foundation
In this fiscal year as well, we are working to accumulate profit and aiming to maintain and improve our sound financial foundation in accordance with the Plan.
Furthermore, to strengthen the management control systems of Group companies, we are working to improve the deliberation of important items at the Board of Directors, and by utilizing the knowledge and experience of external Directors and exercising the oversight function of the Audit and Supervisory Committee, we are working to increase the effectiveness of the Board of Directors' function and to strengthen governance.

Every executive and employee of the Group will work together to sustainably increase corporate value by steadily accumulating results for each of these policies.

We ask for your continued support.

July 2018

M. Sasahara

Eishin Ihori
President

Masahiro Sasahara
Deputy President

Hokuhoku Financial Group is treating the three years from April 2016 as the “period to develop an efficient and sustainable business model and pursue group synergy effect to contribute to the growth of regional economy in the changing business environment” and has launched its Medium-term Management Plan “BEST for the Region.” Using our widespread network and improving management efficiency, we contribute to customers and local communities by providing No.1 financial service and solution, and achieve growth and development together with them.

Overview of the Medium-Term Management Plan

Title	BEST for the Region
Period	3 Years (April 2016 — March 2019)
Position	We will develop an efficient and sustainable business model and pursue group synergy effect to contribute to the growth of regional economy in the changing business environment
Target Corporate Profile	We contribute to customers and local communities by providing No.1 financial service and solution, and achieve growth and development together with them 
Basic Policies in Management Plan	1. Strengthening Marketing Capabilities ~Exceed customers’ expectations 2. Improving Management Efficiency ~Enhance competitiveness by establishing efficient operations 3. Strengthening Management Foundation ~Earn trust from local communities and customers

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

	FY2016 Result	FY2017 Result	FY2018 Plan
Ave.balance of deposits	¥10,409.6 Bn	¥10,768.7 Bn	¥10,560.0 Bn
Ave.balance of loans	¥7,684.8 Bn	¥7,961.6 Bn	¥7,760.0 Bn
Core gross business protits	¥132.9 Bn	¥126.7 Bn	¥134.5 Bn
Expenses	¥89.8 Bn	¥88.8 Bn	¥93.0 Bn
Core net business profits	¥43.0 Bn	¥37.9 Bn	¥41.5 Bn
Credit costs	¥(0.6) Bn	¥0.5 Bn	¥6.0 Bn
Net income attributable to owners of the parent	¥28.1 Bn	¥21.1 Bn	¥23.0 Bn
OHR*	67.58%	70.05%	69.14%
(Consolidated) Capital adequacy ratio	9.43%	9.49%	9.55%

*Core gross business profits basis

Strategies based on basic policies of the Plan

Strengthening Marketing Capabilities ~Exceed customers' expectations

(1) Consumer

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

(2) Corporate

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

(3) Investment in securities

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

Improving management efficiency ~Enhance competitiveness by establishing efficient operations

(1) Improve productivity and efficiency by enhancing back-office functions and integrating business within our group in addition to creating paperless environment and simplifying work process through information technologies.

(2) Offer sufficient financial services and convenient access through reorganizing branch groups in which several branches work together and relocating branches with functions suitable for each local environment as well as enhancing non-counter channels.

Strengthening Management Foundation ~Earn trust from local community and customers

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

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

(¥ billion)

	FY2017		FY2016
		Y-o-Y Change	
Ordinary income	180.9	(6.5)	187.4
Ordinary profits	31.7	(7.6)	39.4
Net income attributable to owners of the parent	21.1	(6.9)	28.1
Capital adequacy ratio	9.49%	0.06%	9.43%

With regard to the Company's operating performance in the fiscal year ended March 31, 2018, consolidated ordinary income fell by ¥6.5 billion year-on-year to ¥180.9 billion, while consolidated ordinary profits declined by ¥7.6 billion to ¥31.7 billion and net income attributable to owners of the parent decreased by ¥6.9 billion to ¥21.1 billion.

The capital adequacy ratio was 9.49% on a consolidated basis at the end of the fiscal year.

With regard to the payment of dividends for the fiscal year ended March 31, 2018, dividends for common stock were ¥44.00 per share, paid once as the year-end dividends, and dividends for preferred stock (Type 5) were the designated ¥7.50 per share (¥15 annually) paid respectively as the interim and year-end dividends.

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

Total of both banks (¥ billion)

	FY2017		FY2016
		Y-o-Y Change	
Ordinary income	164.7	(6.3)	171.0
Core gross business profits	126.7	(6.1)	132.9
Expenses (excluding temporarily processed portion)	88.8	(1.0)	89.8
Core net business profits	37.9	(5.1)	43.0
Credit costs	0.5	1.2	(0.6)
Ordinary profits	33.1	(7.0)	40.2
Net income	24.0	(5.6)	29.6

Total ordinary income for both banks was ¥164.7 billion, down ¥6.3 billion year-on-year, while net income decreased by ¥5.6 billion to ¥24.0 billion.

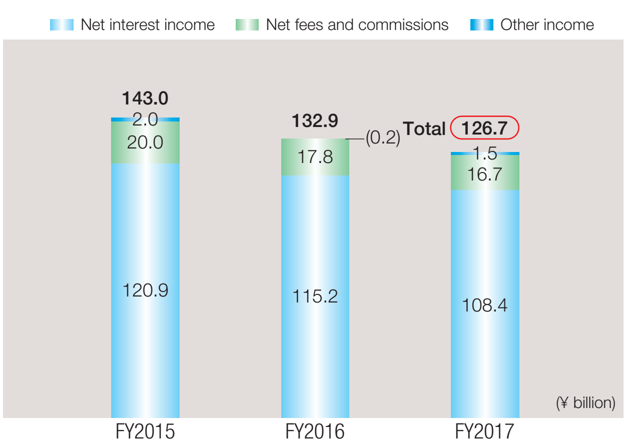
At Hokuriku Bank, ordinary income decreased by ¥1.8 billion to ¥91.9 billion and net income increased by ¥2.9 billion year-on-year to ¥15.7 billion.

At Hokkaido Bank, ordinary income decreased by ¥0.7 billion to ¥78.2 billion and net income decreased by ¥2.6 billion year-on-year to ¥8.2 billion.

(¥ billion)

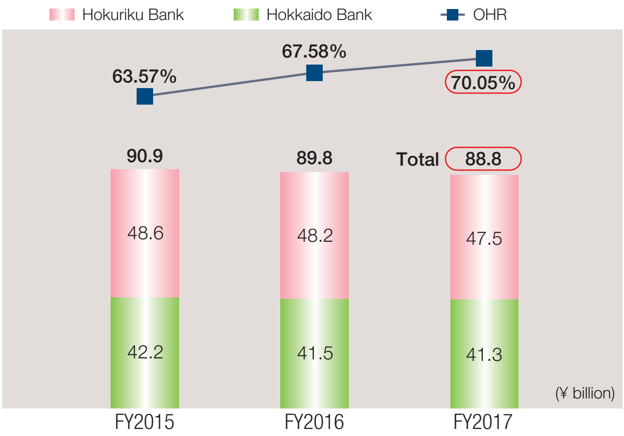
	Hokuriku Bank			Hokkaido Bank		
	FY2017		FY2016	FY2017		FY2016
		Y-o-Y Change			Y-o-Y Change	
Ordinary income	91.1	(1.8)	92.9	78.2	(0.7)	78.9
Core gross business profits	71.2	(1.6)	72.9	59.5	(1.3)	60.8
Expenses (excluding temporarily processed portion)	47.5	(0.7)	48.2	41.3	(0.2)	41.5
Core net business profits	23.7	(0.9)	24.7	18.2	(1.0)	19.2
Credit costs	1.8	2.5	(0.6)	(1.2)	(1.2)	(0.0)
Ordinary profits	24.1	(0.6)	24.8	8.9	(6.3)	15.3
Net income	15.7	(2.9)	18.7	8.2	(2.6)	10.9
Capital adequacy ratio	9.02%	0.28%	8.74%	9.28%	(0.06%)	9.34%

Core Gross Business Profits <Total of both banks>



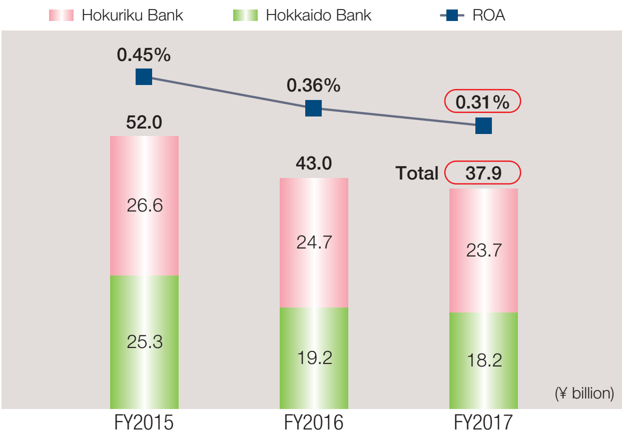
- **Net interest income……¥108.4 billion**
  Due to falls in interest on loans and interest and dividends on securities, net interest income declined by ¥6.8 billion year-on-year.
- **Net fees and commissions……¥16.7 billion**
  Due to a fall in commissions on sales of investment trusts and insurance, net fees and commissions declined by ¥1.1 billion year-on-year.
- **Other income……¥1.5 billion**
  Other income increased by ¥1.8 billion year-on-year due to a decline in gain on foreign exchange transactions.
- **Core gross business profits……¥126.7 billion**
  As a result of the above, core gross business profits decreased by ¥6.1 billion year-on-year.

Expenses <Total of both banks>



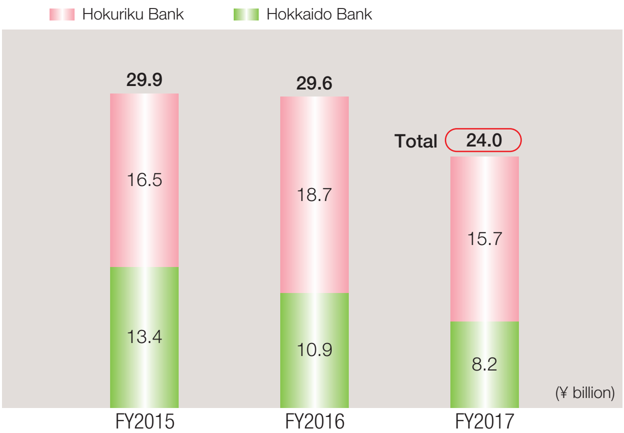
■ Expenses……¥88.8 billion
Expenses fell by ¥1.0 billion year-on-year due to a decline in personnel expenses and non-personnel expenses.

Core Net Business Profits <Total of both banks>



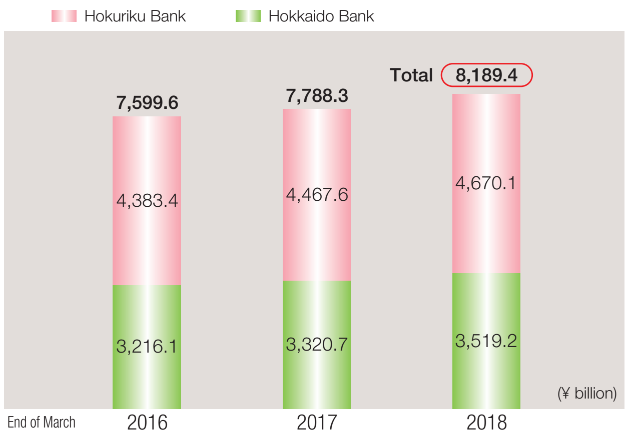
■ Core net business profits……¥37.9 billion
Expenses declined but core gross business profits also fell, causing core net business profits to decrease by ¥5.1 billion year-on-year.

Net Income <Total of both banks>



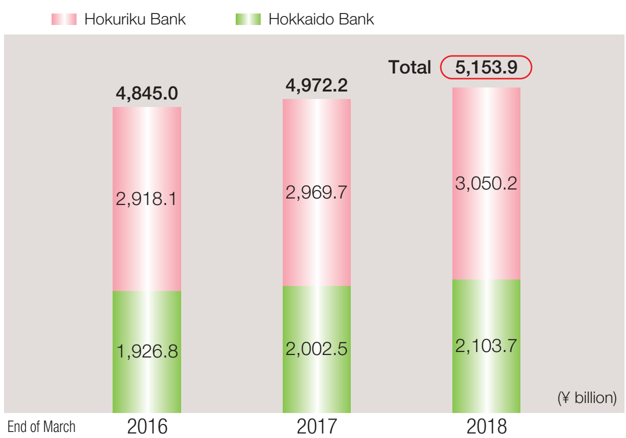
■ Net income……¥24.0 billion
Net income decreased by ¥5.6 billion year-on-year due mainly to a decrease in net gains related to bonds and increase in credit costs.

Loans and Bills Discounted <Total of both banks>



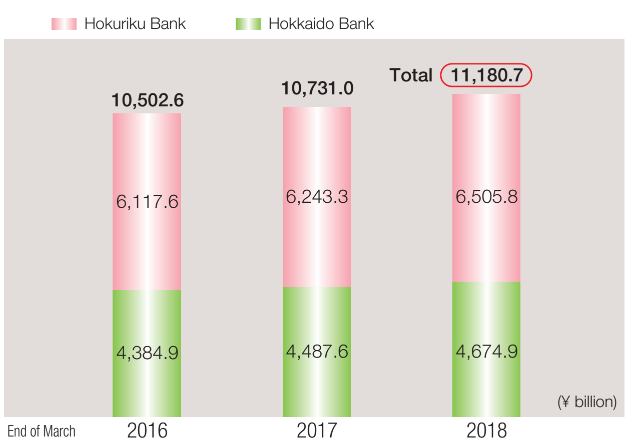
■ Loans and bills discounted……¥8,189.4 billion
Due to rises in corporate loans and housing and consumer loans, there was an increase of ¥401.1 billion compared with the end of the previous fiscal year.

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



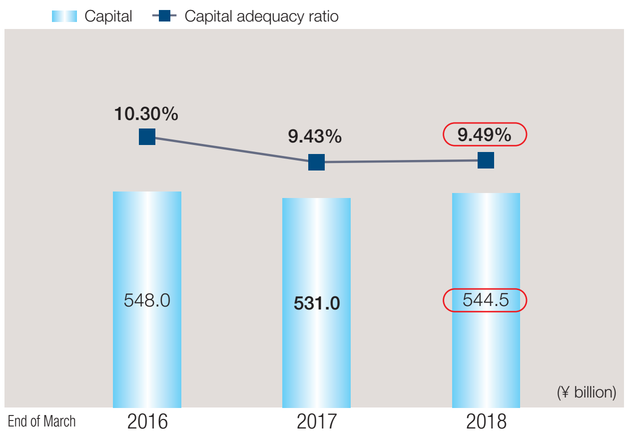
■ Loans to SMEs……¥5,153.9 billion
Due to actively working on initiatives related to regional demand for financing, loans to SMEs increased by ¥181.7 billion compared with the end of the previous fiscal year.

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



■ Deposits (including negotiable certificates of deposit)……¥11,180.7 billion
Deposits increased by ¥449.7 billion compared with the end of the previous fiscal year due to the steady increase in both individual deposits and corporate deposits.

Capital Adequacy Ratio <On a consolidated basis>

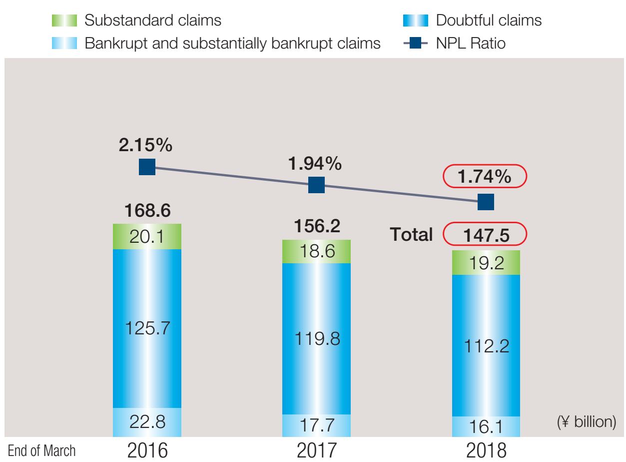


■ Capital adequacy ratio……9.49%
Due mainly to an increase in capital from accumulated retained earnings, the capital adequacy ratio rose 0.06 percentage points compared with the end of the previous fiscal year, etc.

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

■ Disclosed claims under the Financial Reconstruction Law……¥147.5 billion
Disclosed claims under the Financial Reconstruction Law fell by ¥8.6 billion compared with the end of the previous fiscal year.

■ NPL ratio……1.74%
The NPL ratio fell by 0.20 percentage points compared with the end of the previous fiscal year.



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

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

Substandard claims	This category is defined as claims on borrowers requiring caution under asset self-assessment. This category comprises past due loans (three months or more) and restructured loans under the Banking Law.
Doubtful claims	This category is defined as claims on potentially bankrupt borrowers under asset self-assessment. The execution of contracts on repayment of the principal and payments of interest is highly doubtful.
Bankrupt and substantially bankrupt claims	This category is defined as the sum of claims on bankrupt borrowers and effectively bankrupt borrowers.

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

Ratings

Rating and Investment Information, Inc.
R&I

A

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

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

We will increase management transparency and enhance our corporate governance.

Basic approach

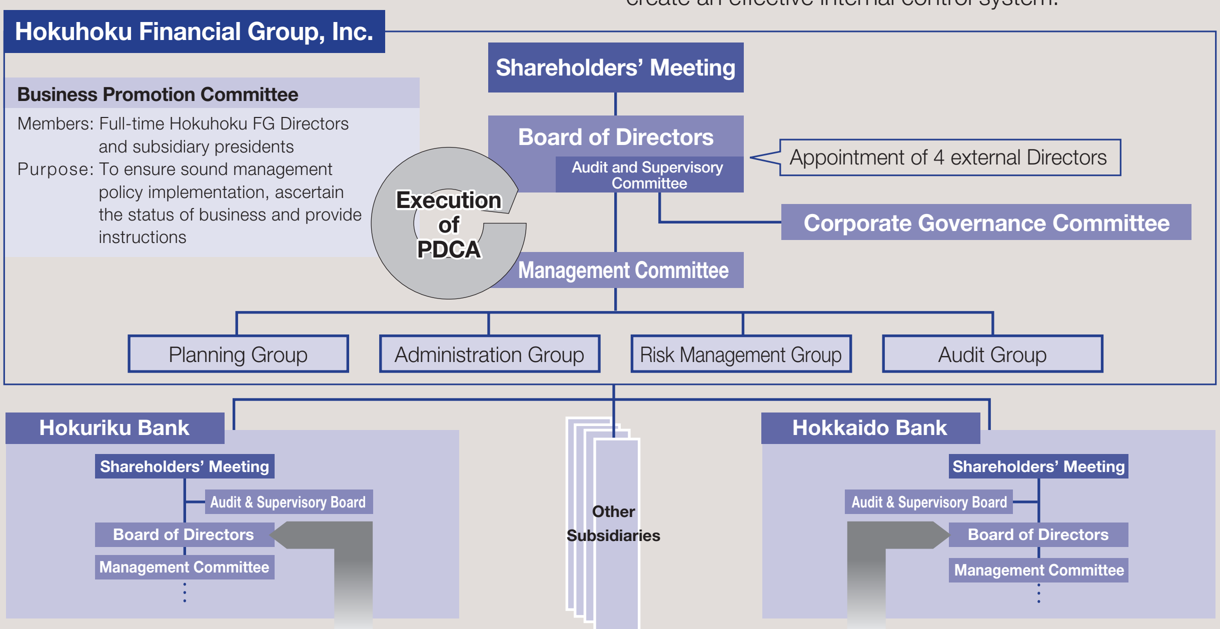
The Company and all group companies regard strengthening and enhancing corporate governance as one of the most important management priorities. We have drawn up a basic policy — our management philosophy — covering all our activities including the formulation of management strategies and making management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

Corporate governance

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

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

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



Each bank appoints a person from the other bank as its Director

Overview of key bodies

1. Board of Directors

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

2. Audit and Supervisory Committee

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

3. Corporate Governance Committee

The Committee, which is composed of four external Directors and one full-time Director serving as Audit and Supervisory Committee Member, aims to secure sustainable growth and boost long-term corporate value of the Group through exchanging information and sharing perceptions among external Directors and by offering advice on the Company's important issues.

4. Management Committee

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

5. Business Promotion Committee

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

Basic policy on internal controls

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

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

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

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

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

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

- Recognizing the existence of various risks surrounding the Company and group companies, and fully aware of the importance of controlling such risks, the Board of Directors formulates the basic risk management policies and risk management rules. It furthermore establishes control departments, establishing a system to accurately recognize and gauge individual risk associated with Group company management, and to ensure the soundness of Group management through appropriate management and operations.
- The Board of Directors have formulated contingency plans, etc. and established a crisis management system to prepare for unexpected events and risks such as natural disasters.
- Each group company carries out appropriate risk management in close partnership with each group company's risk management department, following the Group's basic policy.
- Every fiscal year the Board of Directors draws up an Audit Policy and has the internal audit department, in accordance with this, conduct audits of the state of risk management of the Company and group companies, and report these results to the Board of Directors and the Audit and Supervisory Committee, etc.

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

- The Board of Directors draws up a management plan to clarify the Group's desired vision and its performance goals.
- The Board of Directors sets overall organizational standards for basic tasks, operational entities, and assignment of duties, and establishes a system in which the Company and all group companies perform well-organized and efficient business operations.
- The Management Committee executes business operations promptly and efficiently, based on the delegation of authority by the Board of Directors with regard to the execution of business operations, and on the predetermined assignment of duties.

5. System to ensure the appropriateness of financial reporting

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

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

- The Board of Directors is responsible for overall group management. It establishes the group management rules, prepares frameworks for agenda-setting and reporting to the Company for each group company with regard to important matters, and receives reports from internal audit departments on the findings of audits into the state of compliance to laws and regulations, etc., risk management, and the appropriateness and effectiveness of business operations.
- The Board of Directors draws up Regulations for Intra-Group Transactions with the aims of clarifying the control system for intra-group transactions, etc. and of carefully maintaining the soundness of management practices for the Group as a whole. The Board of Directors performs its duties of management and administration based on these regulations.

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

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

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

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

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

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

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

Basic approach

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

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

Group-wide measures

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

Results of internal audits at Group companies are periodically reported to the Board of Directors promptly when needed. In particular, mechanisms have been put in place for prompt reporting to the Board of Directors with respect to events that could significantly impact management of the Group.

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

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

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

Basic policy

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

Systems

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

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

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

Basic compliance policy

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

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

2. Providing quality financial services

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

3. Strict observance of laws, regulations and rules

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

4. Rejection of all ties with anti-social elements

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

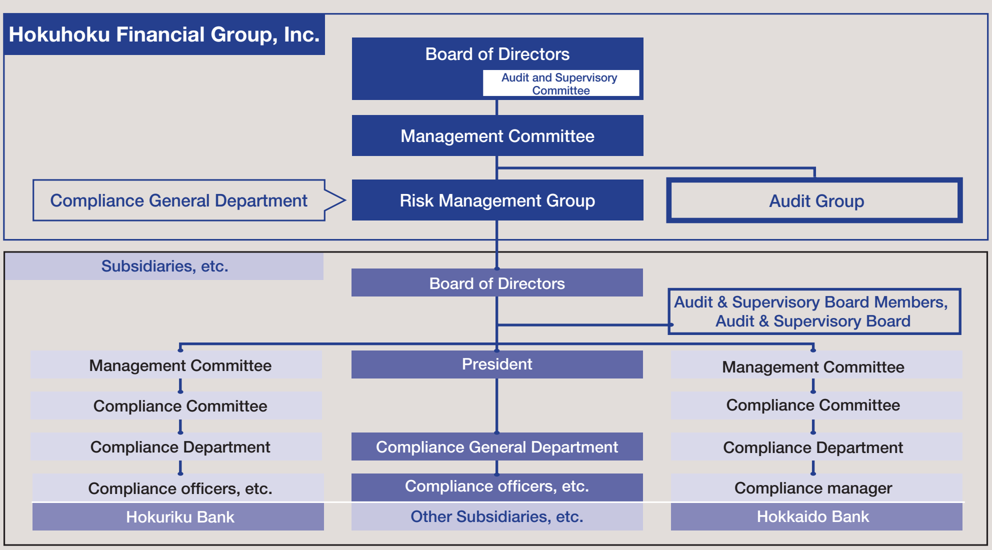
5. Ensuring management transparency

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

Compliance manual and compliance programs

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

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



Measures for better customer protection and greater customer convenience

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

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

Moreover, the Compliance General Departments of respective Group companies act as offices responsible for overall customer protection management, and in partnership with each department in charge, they operate through a framework that enables them to draft and implement various improvement measures through efforts that involve ongoing review geared toward ensuring proper functioning of management systems, problem resolution and data analysis.

Measures for protection of personal information

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

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

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

Measures for dealing with anti-social elements

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

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

Whistleblower protection systems

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

Anti-money laundering and measures to deal with financial crime

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

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

Measures for financial alternative dispute resolution (ADR) system

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

Name of designated dispute resolution organization:
Japanese Bankers Association
Inquiries:
Japanese Bankers Association Customer Relations Center

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

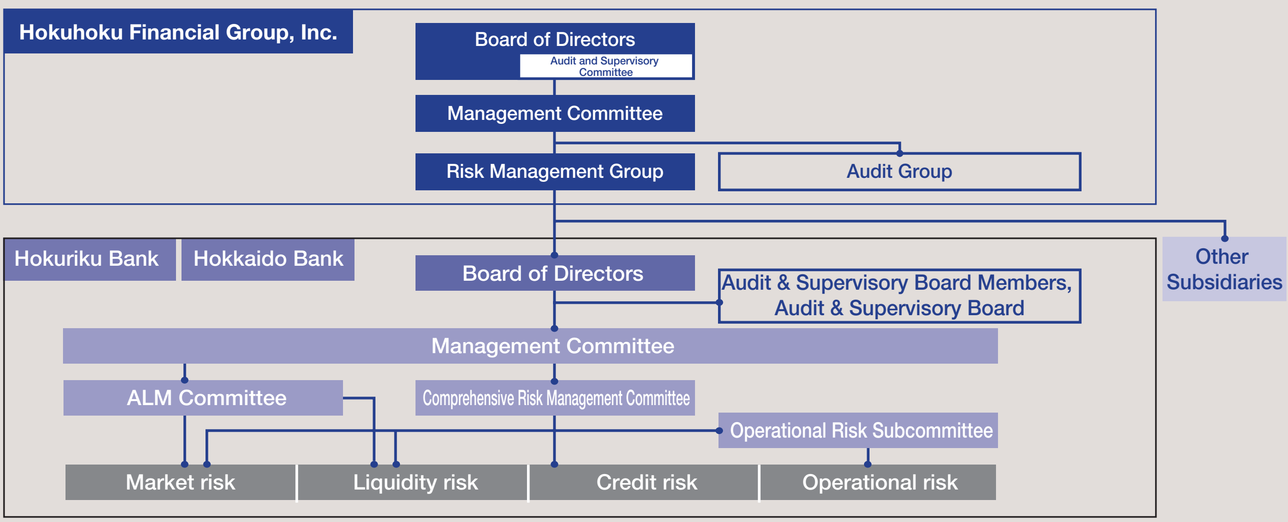
General risk management system

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

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

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

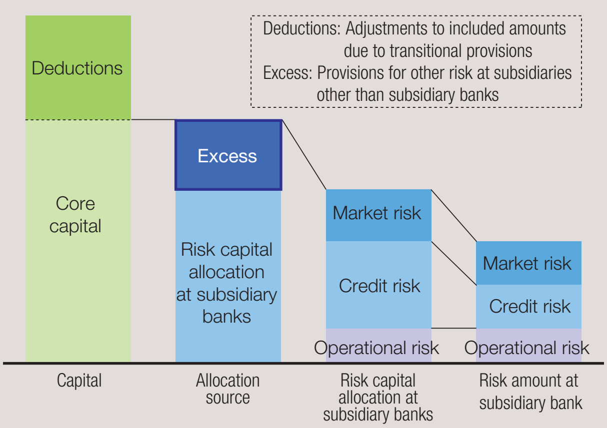
The Company's Risk Management Group handles risk management oversight for the entire Hokuhoku Financial Group, and accordingly ensures sound operations. To that end, the Risk Management Group aims to manage risk in line with the type and scale of risk encountered by each Group company, through operations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



Allocation of risk capital

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

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



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

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

Credit risk management

Basic approach

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

Credit risk management systems

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

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

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

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

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

Internal ratings systems

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

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

<table>
<tr><th>Internal rating</th><th>Borrower categorization by asset self-assessment</th></tr>
<tr><td>S</td><td>—</td></tr>
<tr><td>A</td><td rowspan="9">Normal borrowers</td></tr>
<tr><td>B</td></tr>
<tr><td>C</td></tr>
<tr><td>D</td></tr>
<tr><td>E</td></tr>
<tr><td>F</td></tr>
<tr><td>N</td></tr>
<tr><td>J</td></tr>
<tr><td>G</td></tr>
<tr><td>H</td><td>Borrowers requiring caution</td></tr>
<tr><td>I</td><td>(Substandard borrowers)</td></tr>
<tr><td>X</td><td>Borrowers threatened with bankruptcy</td></tr>
<tr><td>Y</td><td>Substantially bankrupt borrowers</td></tr>
<tr><td>Z</td><td>Bankrupt borrowers</td></tr>
</table>

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

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

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

Under unified Group standards established for write-offs and provisions to reserves for possible loan losses, provisions are made to the general reserve for possible loan losses with respect to loans to normal borrowers and borrowers requiring caution, based on the historical loan-loss ratio over a particular past period. For loans to borrowers threatened with bankruptcy, a provision is made to specific reserves for possible loan losses, in the amount deemed necessary, excluding amounts that may be recoverable through collateral and guarantees. For loans to substantially bankrupt and bankrupt borrowers, we either amortize amounts in full or recognize a provision of the full amount in the specific reserve for possible loan losses, excluding amounts that may be recoverable through collateral and guarantees.

Corporate rehabilitation

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

Market risk management

Basic approach

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

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

Main types of risk and management systems

(1) Interest-rate risk

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

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

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

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

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

(2) Price fluctuation risk

Among marketable securities, stocks are exposed to the risk of declining asset prices arising from fluctuations in market prices. However, as with interest-rate risk management, we stringently manage risk of stock price fluctuations through efforts that include setting ceilings, monitoring at-risk amounts, and regularly reporting such matters to the Management Committee and other relevant bodies.

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

(3) Foreign exchange rate risk

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

(4) Derivative transactions risk

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

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

Liquidity risk management

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

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

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

Operational risk management

Basic approach

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

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

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

Management structure

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

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

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

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

Risk management systems by major category

• Administrative risk management

The Group painstakingly analyzes causes of administrative errors and other incidents, and discusses measures to prevent recurrence, with the aims of preventing accidents, grievances and other issues involving administrative operations and maintaining swift and accurate office operations. At the same time, we endeavor to raise administrative standards by developing sets of rules, improving administrative processing systems, dispatching advisory staff from the head office, centralizing clerical work at branches and introducing equipment to automate procedures.

• System risk management

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

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

Crisis management

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

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

CHARACTERISTICS OF OUR MAIN BUSINESS AREA

Population and Square Measure*1

	Toyama Prefecture a	Ishikawa Prefecture b	Fukui Prefecture c	Total a + b + c	Hokkaido
Population (Ranking)	1.06Mn (37th)	1.15Mn (34th)	0.78Mn (43rd)	2.98Mn	5.32Mn (8th)
Square Measure (Ranking) km²	4,248 (33rd)	4,186 (35th)	4,191 (34th)	–	83,424 (1st)

Number of businesses*1 (Thousand)

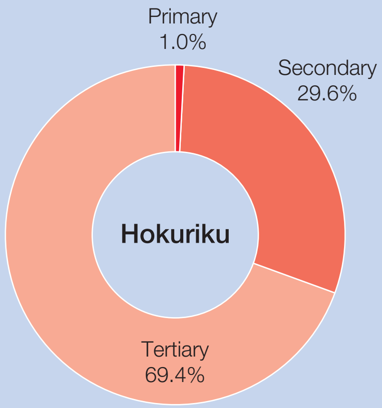
Hokkaido	242
Hokuriku	161
Toyama	54
Ishikawa	63
Fukui	43

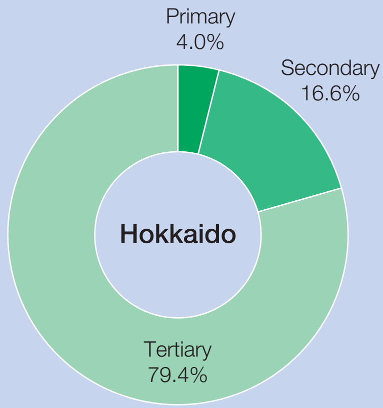
Gross Prefectural Product*1,2

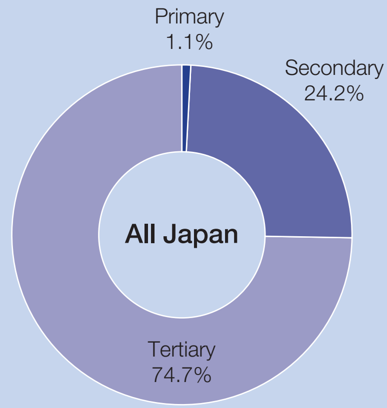
(JPY Bn)

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

Industrial Structure*2





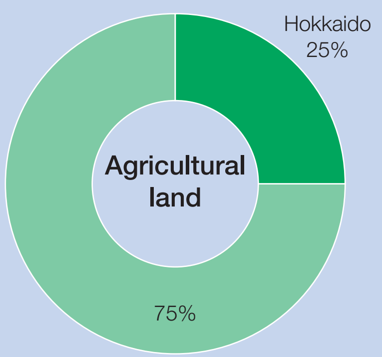


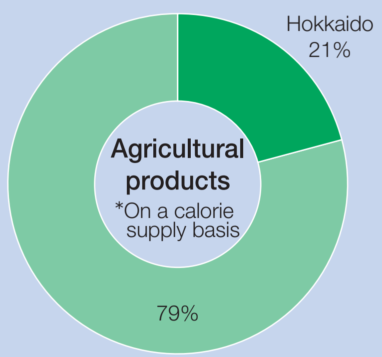
Data source : *1 Ministry of Internal Affairs and Communications,*2 Cabinet Office

Hokkaido

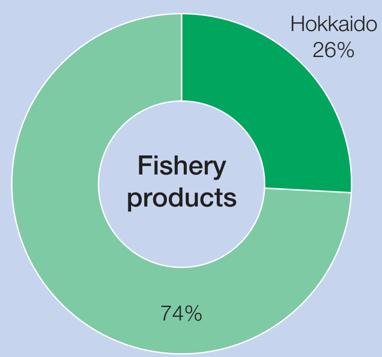
- With vast expanses of land and ample fishing areas in the ocean surrounded on all sides, Hokkaido has thriving primary industries such as agriculture and fisheries compared to the rest of Japan. As a result, Hokkaido is called the largest food supply base of Japan.
- It is also popular as a tourist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

Abundant Natural Resources





Wheat / Potato / Onion / Milk etc.

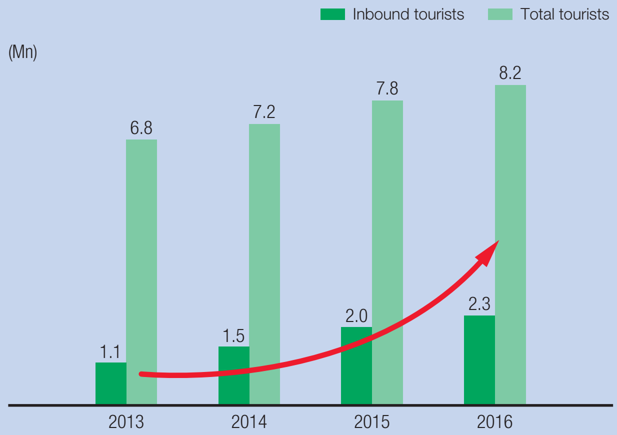


Atka mackerel / Tangle / Salmon / Cod / Scallops etc.

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

Increasing Numbers of Tourists Visiting Hokkaido

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



Renewable Energy

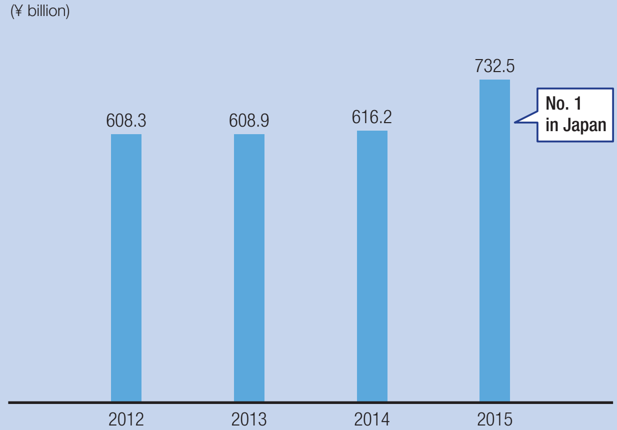
Hydroelectric power / Geothermal energy / Wind power / Solar power

Hokuriku

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

Toyama Prefecture's Pharmaceutical Product Production

Data source: Ministry of Health, Labour and Welfare, Statistics of Production by Pharmaceutical Industry



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

Fukui Prefecture's Eyeglasses Production

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

Many Global Niche Top Companies in Ishikawa Prefecture

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

Fundamental approach to group CSR

1. Basic stance

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

2. Definitions

1) CSR

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

2) Our Stakeholders

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

To meet diversifying customer needs

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

Introduction of interactive "Display for customer " (Hokuriku Bank, Hokkaido Bank)

Hokuriku Bank and Hokkaido Bank introduced "Display for customer" that includes functions such as automatically producing slips.

By entering the required items and confirming their transaction details, etc. on the "Display for customer" at the branch, a slip or application, etc. reflecting the details entered is created, reducing the required procedures at the bank counter.

We began introducing "Display for customer" in June 2017 and will have them available at all branches by June 2018.

Launched cash card magnetic strip restoration using ATMs (Hokuriku Bank, Hokkaido Bank)

In February, Hokuriku Bank and Hokkaido Bank launched a cash card magnetic strip restoration using ATMs.

In recent years, cases of card reissuance have increased due to lost cash card magnetism thought to be caused by contact with cellular phones, smartphones, and tablets. Magnetic strip restoration was introduced after numerous requests for improvement from our customers.

Began providing robo-advisor service (Hokuriku Bank)

In July, Hokuriku Bank started robo-advisor service for investment trust fund "Hatenakun" on our website.

By answering a few simple questions, the robo-advisor determines the customer's investment style and recommends portfolios (asset allocation) and individual products that reflect the customer's preferences and needs, as well as the management performance of individual issues.

Began handling Visa debit card transactions (Hokkaido Bank)

In October, Hokkaido Bank has started the Visa debit card, which enables the holder to make a cashless purchase at any Visa merchant store in more than 200 countries and regions worldwide through a real-time withdrawal within the limit of the balance of the holder's bank account.

Visa debit card includes card benefits such as cash back based on purchase amounts and no annual fee and allows a wide range of customers to feel secure using the card without worrying about overdrafts.

Hokuriku Bank handles both Visa debit card and JCB debit card.

More dialog and better disclosure

We continuously communicate with investors and analysts for better disclosure.

IR meetings for investors and analysts

November 2017: Fiscal 2017 interim results (Tokyo)
May 2018: Fiscal 2017 results (Tokyo)

IR meetings for individual investors

June 2018: Two cities in Hokuriku (Toyama and Kanazawa)
July 2018: Two cities in Hokkaido (Sapporo and Asahikawa)

General meeting of shareholders

June 2018: 15th ordinary general meeting of shareholders (Sapporo, with live broadcast to Toyama)

Advancing with regional communities

We take part in social contribution activities.

Financial education

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

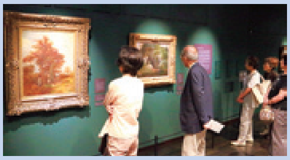
Support for industry-academia cooperation

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

Support for arts and culture

- Arranging and supporting concerts
- Establishment of art galleries


Lilac Concert


GALERIE MILLET

Entry in the YOSAKOI Soran Festival 2017 (Hokuriku Bank, Hokkaido Bank)

June 7-11, Hokuriku Bank and Hokkaido Bank combined with a citizen group to enter in the YOSAKOI Soran Festival 2017, which livens up Sapporo at the beginning of summer, as the combined team "Hokkai Ahondara-Kai & Hokuhoku Financial Group."

This time was the thirteenth year of participation and 56 bank employees from Hokuriku Bank and Hokkaido Bank participated as dancers and flag wavers, and performed energetically.

Cooperation in holding Toyama Marathon and Kanazawa Marathon (Hokuriku Bank)

The Toyama Marathon 2017 and the Kanazawa Marathon 2017, both following routes of local scenic nature, famous landmarks and town streets, were held in October.

Employees of Hokuriku Bank cooperated in both these events by volunteering as event personnel, or by participating as runners, thereby raising the atmosphere of the event.

Holding of Hokkaido Bank MATCH DAY (Hokkaido Bank)

1In December, Hokkaido Bank held a futsal match entitled "Hokkaido Bank Match Day." Espolada Hokkaido, which is officially sponsored by Hokkaido Bank, competed against PESCADOLA MACHIDA. The match drew a crowd of 4,134, and the stadium was full of excitement.

Helping conserve the regional environment

Measures undertaken as a financial institution

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

Helping reduce greenhouse gases

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

Volunteer cleanup held at Sapporo Odori Park (Hokkaido Bank)

Hokkaido Bank conducted volunteer cleanups at Odori Park on June 16, July 7, and September 1.

Participating in Forest Building in Nanto (Hokuriku Bank)

In October, Hokuriku Bank participated in the "Forest Building in Nanto" initiative promoted by the residents' association of Asobu in Nanto City, Toyama Prefecture.

The initiative began in November 2015 with the goal of replacing missing thatch in the rooves of Gokayama's traditional Gassho-style houses (Historic Village of Gokayama). This is the third time we have participated and cooperated, demonstrating our support for the initiative's goal of preserving World Heritage sites.

Hokuhoku Financial Group

"Inbound Products 2017" Held (Hokuriku Bank, Hokkaido Bank)

In May, we held a trade show and individual business meetings to support the creation of a system to accept the increasing number of foreign tourists to Japan. 62 service supply vendors joined as exhibitors in the areas of marketing (SNS, information sending for individual countries), multi-language support (interpretation, digital signage, foreign personnel recruitment), and systems (Wi-Fi, duty free, payments, reservations).

Around 1,000 people from around 500 tourism-related vendors including Hokkaido hotels and Japanese inns attended the trade show, holding business meetings with the exhibitor companies.

"Basic agreement for cooperative relationships concerning the capital market" with Tokyo Stock Exchange Concluded (Hokuriku Bank, Hokkaido Bank)

On July 25, we concluded the first "Basic agreement for cooperative relationships concerning the capital market" between Tokyo Stock Exchange as a domestic financial institution.

The aims of the agreement are to support the listing of companies and to increase financial literacy among investors. With the development of the industries and companies at the core of regional economies now called for, the agreement will support growing companies in Hokuriku and Hokkaido through close coordination between direct finance and indirect finance.

"Liaoning China-Japan Business Meetings" Held (Hokuriku Bank, Hokkaido Bank)

In September, we held the first round of business meetings in Shenyang in the Liaoning Province of China, where Hokkaido Bank's Shenyang Representative Office is located.

Companies expanding into China held business talks with Liaoning companies with which they previously had no contact, including new materials suppliers, customers, and investment and merger partners.

"Hokkaido / Tohoku / Hokuriku Business Matching in Tokyo" Held (Hokuriku Bank, Hokkaido Bank)

In February, the business meeting was held aiming to boost the added value of Hokuriku, Tohoku, and Hokkaido regional specialties and to support business matching that envisions the sixth industrialization.

Going forward, we will continue to utilize regional cooperation among Hokuriku, Tohoku, and Hokkaido to support customers development of new products and their new business.

Hokuriku Bank

"Factory Network Business Expo FBC Hanoi" (Hokuriku Bank)

In March, "Factory Network Business Expo FBC Hanoi 2018," the second year of the expo, was held in Hanoi, Vietnam, and we participated for the first time as a co-sponsor.

We have been sending trainees to Vietcombank in Vietnam since July 2017, and are also supporting business matching, etc. for our customers in Vietnam, into which more Japanese companies have been expanding in recent years.

Memorandum of Economic Cooperation with Bureau of Commerce of Wuhan (Hokuriku Bank)

In September, we concluded an "Memorandum of Economic Cooperation" with Bureau of Commerce of Wuhan, the capital city of Hubei Province, China.

With the conclusion of the MOU, in addition to providing information on the local investment environment and expansion support to our customers considering expanding into central China, we are working to create new business opportunities for customers already expanding into China by cosponsoring business meetings.

Business Contest Held (Hokuriku Bank)

As part of the project to commemorate the 140th anniversary of our founding, we held the "Mirai Innovation Hokuriku —New Design & Technology—" business contest.

Focused on the theme of challenges faced by major industries and regional companies in Hokuriku, we collected ideas on new businesses and solutions utilizing innovative and practical technologies and designs and received a total of 94 submissions. At the final selection meeting in December following document and interview selections, presentations were given for the ten chosen ideas and the first prize, along with awards for excellence and special awards were awarded.

Going forward, we plan to contribute to the vitalization of the local economy by supporting the practical application and commercialization of these ideas and by matching companies and investors considering partnerships.

Joint Development of the "Hokugin Business Matching System" with Linkers Corporation (Hokuriku Bank)

In January, to further enhance our business matching operations being conducted as part of core business support for our customers, we developed and began test operations of the "Hokugin Business Matching System" jointly with Linkers Corporation.

This is the first cloud-based business matching system provided by a domestic financial institution. By allowing customers to use the system to advertise their own products and service characteristics on the system, information sharing with Hokuriku Bank members becomes possible.

Hokkaido Bank

Appointed as “PPP Agreement” Partner with the Ministry of Land, Infrastructure, Transport and Tourism (Hokkaido Bank)

In April 2017, we had been appointed as a “PPP Agreement II” partner with the Ministry of Land, Infrastructure, Transport and Tourism, and in April 2018, we were appointed as a “PPP Agreement” partner. The goal of the agreement is effective and efficient policy promotion in the PPP/PFI*.

Through increased support from the Ministry of Land, Infrastructure, Transport and Tourism in holding PPP/PFI-related seminars and other events, we will be providing even more helpful information to the local governments and vendors in Hokkaido.

*PPP/PFI: Approaches and methods to utilize private-sector funds and knowhow to smoothly promote the renewal and management operations of public facilities.

Three Hokkaido Municipalities Hold Joint Business Seminar (Hokkaido Bank)

In August, we held a joint seminar with the three municipalities of Kamishihoro-cho, Nakashibetsu-cho and Niseko-cho for companies considering food product processing using Hokkaido raw materials, site selection for the tourism industry, and crop cultivation matching cool climates.

We provided information for the utilization of the “Hokkaido Brand” at the seminar, which was attended by companies from a range of industries starting with food product processing and including chemical pharmaceuticals, IT, and construction and real estate.

“X-Tech Innovation 2017” Held (Hokkaido Bank)

Focusing on the continual birth of a variety of unique and novel services utilizing information and communication technology (ICT), we held a business contest to collect a range of new service and business ideas.

Last fiscal year, the contest was held jointly with Fukuoka Financial Group, and this year, it was held jointly we three banks including The Bank of Okinawa.

Going forward, we will contribute to the vitalization of local economies by supporting the commercialization of business ideas and exploring the possibility of applying business ideas to existing businesses. This will be accomplished by providing matching opportunities between major companies and startup companies.

“Coordination and Cooperation Agreement for Regional Vitalization” Concluded with the Hokkaido Regional Development Bureau (Hokkaido Bank)

In March, with the goal of regional vitalization through the promotion of coordination and cooperation with the Hokkaido Regional Development Bureau, we concluded a “Coordination and Cooperation Agreement for Regional Vitalization.”

With the conclusion of the agreement, we will work to coordinate and cooperate to promote the initiative to support the production space responsible for the food and tourism being promoted by the Hokkaido Regional Development Bureau, and the initiative for regional revitalization being promoted by Hokkaido Bank.

CONSOLIDATED BALANCE SHEET

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2018**	2017	**2018**
Assets			
Cash and due from banks (Notes 3 and 30)	**¥ 2,388,907**	¥ 1,753,743	**$ 22,485,955**
Call loans and bills bought (Note 30)	**52,753**	89,415	**496,546**
Monetary claims bought (Note 30)	**44,178**	62,585	**415,836**
Trading assets (Note 4)	**4,397**	4,646	**41,396**
Money held in trust (Note 5)	**11,241**	10,001	**105,810**
Securities (Notes 6, 12, and 30)	**1,952,999**	2,449,455	**18,382,905**
Loans and bills discounted (Notes 7, 12, 13, and 30)	**8,172,888**	7,771,338	**76,928,543**
Foreign exchanges (Note 8)	**18,782**	16,260	**176,792**
Other assets (Note 12)	**218,945**	132,969	**2,060,856**
Tangible fixed assets (Note 9)	**100,807**	101,192	**948,867**
Intangible fixed assets (Note 10)	**24,449**	24,358	**230,138**
Assets for retirement benefits (Note 17)	**895**	—	**8,431**
Deferred tax assets (Note 27)	**205**	4,632	**1,937**
Customers' liabilities for acceptances and guarantees (Note 11)	**53,253**	60,551	**501,254**
Allowance for loan losses	**(48,413)**	(51,725)	**(455,702)**
Total assets	**¥12,996,292**	¥12,429,425	**$122,329,564**
Liabilities and equity			
Liabilities			
Deposits (Notes 12, 14, and 30)	**¥11,151,213**	¥10,701,271	**$104,962,472**
Call money and bills sold (Note 12)	**45,312**	36,267	**426,506**
Payables under repurchase agreements	**18,528**	—	**174,400**
Payables under securities lending transactions (Note 12)	**426,276**	534,362	**4,012,396**
Trading liabilities (Note 4)	**683**	861	**6,430**
Borrowed money (Notes 12, 15, and 30)	**567,512**	325,331	**5,341,799**
Foreign exchanges (Note 8)	**186**	103	**1,754**
Bonds payable (Note 16)	**25,000**	25,000	**235,316**
Other liabilities	**65,704**	123,335	**618,453**
Liability for retirement benefits (Note 17)	**6,218**	15,026	**58,532**
Reserve for directors' and audit & supervisory board members' retirement benefits	**189**	204	**1,785**
Reserve for contingent losses	**1,354**	1,492	**12,746**
Reserve for reimbursement of deposits	**1,921**	1,590	**18,085**
Reserve under the special laws	**1**	0	**17**
Deferred tax liabilities (Note 27)	**17,302**	13,102	**162,860**
Deferred tax liabilities for revaluation	**5,487**	5,686	**51,656**
Acceptances and guarantees (Note 11)	**53,253**	60,551	**501,254**
Total liabilities	**12,386,145**	11,844,188	**116,586,461**
Equity (Notes 18, 19, and 21)			
Capital stock	**70,895**	70,895	**667,310**
Capital surplus	**144,590**	144,587	**1,360,975**
Stock acquisition rights (Note 20)	**451**	367	**4,253**
Retained earnings	**299,060**	284,896	**2,814,953**
Treasury stock	**(1,367)**	(1,398)	**(12,872)**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities (Note 6)	**90,163**	81,406	**848,678**
Deferred gains (losses) on hedges	**(975)**	(1,208)	**(9,183)**
Revaluation reserve for land (Note 9)	**8,642**	8,993	**81,348**
Defined retirement benefit plans (Note 17)	**(3,977)**	(5,773)	**(37,438)**
Total	**607,482**	582,764	**5,718,024**
Non-controlling interests	**2,664**	2,472	**25,079**
Total equity	**610,147**	585,237	**5,743,103**
Total liabilities and equity	**¥12,996,292**	¥12,429,425	**$122,329,564**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Income			
Interest income:			
Interest on loans and discounts	**¥90,825**	¥94,033	**$ 854,907**
Interest and dividends on securities	**21,516**	25,174	**202,526**
Interest on receivables under resale agreements	**(10)**	(1)	**(97)**
Interest on deposits with other banks	**923**	914	**8,693**
Other interest income	**404**	666	**3,809**
Fees and commissions	**38,956**	38,221	**366,684**
Trading income	**1,054**	319	**9,922**
Other ordinary income (Note 23)	**15,533**	15,192	**146,214**
Other income (Note 25)	**13,203**	13,005	**124,285**
Total income	**182,408**	187,525	**1,716,943**
Expenses			
Interest expense:			
Interest on deposits	**1,507**	1,839	**14,191**
Interest on payables under repurchase agreements	**148**	—	**1,398**
Interest on payables under securities lending transactions	**2,018**	1,483	**19,004**
Interest on borrowings and rediscounts	**458**	686	**4,319**
Interest on bonds payable	**187**	276	**1,765**
Other interest expense	**1,996**	1,956	**18,796**
Fees and commissions	**15,396**	14,194	**144,919**
Other ordinary expenses (Note 24)	**21,675**	17,271	**204,020**
General and administrative expenses	**98,758**	101,411	**929,576**
Provision of allowance for loan losses	**645**	—	**6,079**
Other expenses (Note 26)	**8,576**	9,850	**80,730**
Total expenses	**151,370**	148,972	**1,424,797**
Income before income taxes	**31,037**	38,552	**292,146**
Income taxes (Note 27):			
Current	**6,888**	7,312	**64,837**
Deferred	**2,792**	3,047	**26,288**
Net income	**21,356**	28,192	**201,021**
Net income attributable to non-controlling interests	**165**	34	**1,557**
Net income attributable to owners of the parent	**¥21,191**	¥28,157	**$ 199,464**

	Yen		U.S. dollars
Per share of common stock (Notes 2-u and 22)			
Basic net income	**¥149.40**	¥201.36	**$1.41**
Diluted net income	**149.10**	201.04	**1.40**
Cash dividends applicable to the year	**44.00**	44.00	**0.41**

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

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 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Net income	**¥21,356**	¥28,192	**$201,021**
Other comprehensive income (Note 28)	**10,813**	547	**101,780**
Valuation difference on available-for-sale securities	**8,751**	(2,466)	**82,370**
Deferred gains (losses) on hedges	**233**	387	**2,195**
Defined retirement benefit plans	**1,795**	2,567	**16,904**
Share of other comprehensive income of associates accounted for using equity method	**33**	58	**311**
Total comprehensive income	**¥32,169**	¥28,739	**$302,801**
Comprehensive income attributable to owners of the parent	**31,977**	28,684	**300,994**
Comprehensive income attributable to non-controlling interests	**191**	55	**1,807**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

	Thousands		Millions of yen				
	Issued number of shares of common stock	Issued number of shares of preferred stock	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
BALANCE, APRIL 1, 2016	135,163	107,432	¥70,895	¥148,211	¥319	¥263,959	¥(1,489)
Cash dividends						(7,307)	
Net income attributable to owners of the parent						28,157	
Purchases of treasury stock							(3,608)
Disposals of treasury stock				22			52
Retirement of treasury stock	(3,000)			(3,647)			3,647
Reversal of revaluation reserve for land						86	
Net changes in the year					47		
BALANCE, MARCH 31, 2017	**132,163**	**107,432**	**¥70,895**	**¥144,587**	**¥367**	**¥284,896**	**¥(1,398)**
Cash dividends						**(7,377)**	
Net income attributable to owners of the parent						**21,191**	
Purchases of treasury stock							**(24)**
Disposals of treasury stock				**2**			**55**
Reversal of revaluation reserve for land						**350**	
Net changes in the year					**84**		
BALANCE, MARCH 31, 2018	**132,163**	**107,432**	**¥70,895**	**¥144,590**	**¥451**	**¥299,060**	**¥(1,367)**

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
BALANCE, APRIL 1, 2016	¥83,834	¥(1,596)	¥9,079	¥(8,340)	¥564,873	¥1,378	¥566,251
Cash dividends					(7,307)		(7,307)
Net income attributable to owners of the parent					28,157		28,157
Purchases of treasury stock					(3,608)		(3,608)
Disposals of treasury stock					75		75
Retirement of treasury stock					—		—
Reversal of revaluation reserve for land					86		86
Net changes in the year	(2,428)	387	(86)	2,567	488	1,094	1,582
BALANCE, MARCH 31, 2017	**¥81,406**	**¥(1,208)**	**¥8,993**	**¥(5,773)**	**¥582,764**	**¥2,472**	**¥585,237**
Cash dividends					**(7,377)**		**(7,377)**
Net income attributable to owners of the parent					**21,191**		**21,191**
Purchases of treasury stock					**(24)**		**(24)**
Disposals of treasury stock					**58**		**58**
Reversal of revaluation reserve for land					**350**		**350**
Net changes in the year	**8,757**	**233**	**(350)**	**1,795**	**10,519**	**191**	**10,711**
BALANCE, MARCH 31, 2018	**¥90,163**	**¥(975)**	**¥8,642**	**¥(3,977)**	**¥607,482**	**¥2,664**	**¥610,147**

Shares of common stock have been restated, as appropriate, to reflect a one-for-ten stock consolidation effected October 1, 2016.

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2017	**$667,310**	**$1,360,948**	**$3,462**	**$2,681,629**	**$(13,163)**
Cash dividends				**(69,442)**	
Net income attributable to owners of the parent				**199,464**	
Purchases of treasury stock					**(235)**
Disposals of treasury stock		**27**			**526**
Reversal of revaluation reserve for land				**3,302**	
Net changes in the year			**791**		
BALANCE, MARCH 31, 2018	**$667,310**	**$1,360,975**	**$4,253**	**$2,814,953**	**$(12,872)**

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
BALANCE, MARCH 31, 2017	**$766,246**	**$(11,378)**	**$84,650**	**$(54,342)**	**$5,485,362**	**$23,277**	**$5,508,639**
Cash dividends					**(69,442)**		**(69,442)**
Net income attributable to owners of the parent					**199,464**		**199,464**
Purchases of treasury stock					**(235)**		**(235)**
Disposals of treasury stock					**553**		**553**
Reversal of revaluation reserve for land					**3,302**		**3,302**
Net changes in the year	**82,432**	**2,195**	**(3,302)**	**16,904**	**99,020**	**1,802**	**100,822**
BALANCE, MARCH 31, 2018	**$848,678**	**$(9,183)**	**$81,348**	**$(37,438)**	**$5,718,024**	**$25,079**	**$5,743,103**

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 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
1. Cash flows from operating activities:			
Income before income taxes	**¥ 31,037**	¥ 38,552	**$ 292,146**
Depreciation	**6,776**	5,881	**63,783**
Impairment losses	**1,995**	610	**18,783**
Amortization of goodwill	**2,102**	2,943	**19,788**
Equity in losses (gains) of affiliates	**(13)**	(6)	**(125)**
Increase (decrease) in allowance for loan losses	**(3,311)**	(3,199)	**(31,173)**
Increase (decrease) in reserve for contingent losses	**(138)**	(464)	**(1,300)**
Decrease (increase) in asset for retirement benefits	**(895)**	—	**(8,431)**
Increase (decrease) in liability for retirement benefits	**(8,807)**	(5,433)	**(82,905)**
Increase (decrease) in reserve for directors' and audit & supervisory board members' retirement benefits	**(14)**	(26)	**(141)**
Increase (decrease) in reserve for reimbursement of deposits	**331**	170	**3,119**
Interest income	**(113,659)**	(120,786)	**(1,069,838)**
Interest expense	**6,318**	6,243	**59,472**
Losses (gains) on securities	**3,980**	879	**37,466**
Losses (gains) on money held in trust	**(0)**	(10)	**(1)**
Losses (gains) on foreign exchange	**5,836**	(891)	**54,940**
Losses (gains) on sales of fixed assets	**156**	314	**1,477**
Net decrease (increase) in trading assets	**248**	(15)	**2,339**
Net increase (decrease) in trading liabilities	**(178)**	(267)	**(1,681)**
Net decrease (increase) in loans and bills discounted	**(401,550)**	(187,716)	**(3,779,652)**
Net increase (decrease) in deposits	**467,749**	329,363	**4,402,759**
Net increase (decrease) in negotiable certificates of deposit	**(17,807)**	(103,508)	**(167,620)**
Net increase (decrease) in borrowed money (excluding subordinated borrowed money)	**242,180**	141,912	**2,279,564**
Net decrease (increase) in due from banks (excluding deposits with the Bank of Japan)	**4,290**	22,858	**40,382**
Net decrease (increase) in call loans, bills bought, commercial paper, and other debt purchased	**55,069**	(24,950)	**518,354**
Net increase (decrease) in call money and bills sold	**27,572**	15,421	**259,532**
Net increase (decrease) in payables under securities lending transactions	**(108,085)**	441,407	**(1,017,373)**
Net decrease (increase) in foreign exchanges (assets)	**(2,522)**	(1,488)	**(23,742)**
Net increase (decrease) in foreign exchanges (liabilities)	**82**	(123)	**779**
Interest income—cash basis	**90,917**	95,954	**855,778**
Interest expense—cash basis	**(6,314)**	(6,111)	**(59,433)**
Other, net	**(129,917)**	(28,835)	**(1,222,864)**
Subtotal	**153,429**	618,678	**1,444,182**
Income taxes paid	**(4,040)**	(9,808)	**(38,031)**
Net cash provided by (used in) operating activities	**149,389**	608,869	**1,406,151**
2. Cash flows from investing activities:			
Purchases of securities	**(468,588)**	(971,447)	**(4,410,663)**
Proceeds from sales of securities	**695,593**	700,130	**6,547,383**
Proceeds from redemption of securities	**259,314**	235,058	**2,440,836**
Purchases of money held in trust	**(21,380)**	(20,476)	**(201,250)**
Proceeds from sales of money held in trust	**21,135**	19,567	**198,938**
Proceeds from fund management	**21,516**	25,185	**202,527**
Purchases of tangible fixed assets	**(5,826)**	(5,630)	**(54,846)**
Proceeds from sales of tangible fixed assets	**197**	703	**1,860**
Purchases of intangible fixed assets	**(4,186)**	(4,365)	**(39,408)**
Purchases of shares of subsidiaries resulting in change in scope of consolidation	**—**	(2,399)	**—**
Net cash provided by (used in) investing activities	**497,774**	(23,676)	**4,685,377**
3. Cash flows from financing activities:			
Repayment of subordinated borrowed money	**—**	(24,500)	**—**
Repayment of subordinated bonds	**—**	(8,000)	**—**
Expenditures for fund procurement	**(307)**	(662)	**(2,894)**
Dividends paid	**(7,377)**	(7,307)	**(69,442)**
Dividends paid to non-controlling shareholders	**(0)**	(0)	**(4)**
Purchases of treasury stock	**(12)**	(3,608)	**(113)**
Proceeds from disposals of treasury stock	**0**	0	**2**
Net cash provided by (used in) financing activities	**(7,697)**	(44,078)	**(72,451)**
4. Effect of exchange rate changes on cash and cash equivalents	**(11)**	(12)	**(112)**
5. Net increase (decrease) in cash and cash equivalents	**639,454**	541,102	**6,018,965**
6. Cash and cash equivalents at beginning of the period	**1,734,901**	1,193,798	**16,330,021**
7. Cash and cash equivalents at end of the period (Note 3)	**¥2,374,356**	¥1,734,901	**$22,348,986**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

1. Basis of Presentation

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106.24 to U.S. $1, the rate of exchange at March 31, 2018. 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, 2018 include the accounts of the Company and its 12 subsidiaries (together, the “Group”).

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

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

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

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

b. Cash and Cash Equivalents

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

c. Trading Purpose Transactions

“Transactions for trading purposes” (for purposes of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates, or market prices of securities and other market-related indices or from gaps among markets) are included in “Trading assets” and “Trading liabilities” on a trade-date basis.

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

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

d. Securities

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

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

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

e. Tangible Fixed Assets (excluding Lease Assets)

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

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

f. Intangible Fixed Assets (excluding Lease Assets)

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

g. Lease Assets

Lease assets under non-transfer ownership finance lease contracts (in which the ownership of leased assets is not transferred to the lessee; included in tangible fixed assets and intangible fixed assets) are depreciated on a straight-line basis over the lease period with a residual value of zero, excepting when contracted amounts for residual value are specified.

h. Long-Lived Assets

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

i. Allowance for Loan Losses

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

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

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

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

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

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

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

For collateralized or guaranteed claims to borrowers who are in "virtual bankruptcy" or "legal bankruptcy," the amount exceeding the estimated value of collateral or guarantees has been deducted as deemed uncollectible directly from those claims. The deducted amounts were ¥43,033 million ($405,063 thousand) and ¥49,739 million at March 31, 2018 and 2017, respectively.

j. Accounting Method for Retirement Benefits

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

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

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

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

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

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

l. Reserve for Contingent Losses

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

m. Reserve for Reimbursement of Deposits

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

n. Reserve under the Special Laws

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

o. Stock Options

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

p. Income Taxes

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

q. Translation of Foreign Currencies

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

r. Derivatives and Hedging Activities

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

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

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

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

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

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

s. Consumption Taxes

The Company and its domestic consolidated subsidiaries account for consumption tax and local consumption tax by the tax exclusion method, whereby receipts and payments of consumption taxes are not included in the transaction amounts and, accordingly, consumption tax amounts do not affect the measurement of profit or loss transactions. However, consumption taxes on tangible fixed assets that are not tax-deductible are expensed in the fiscal year under review.

t. Finance Lease

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

u. Per Share Information

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

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

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

The Company implemented a common stock consolidation at a ratio of ten stocks to one stock on October 1, 2016. All prior year share and per share figures have been restated to reflect the impact of the stock consolidation, and to provide data on a basis comparable to the year ended March 31, 2018. Such restatements include calculations regarding the Company’s weighted-average number of common shares, basic net income per share, diluted net income per share, net assets per share, cash dividends per share, and stock option data of shares.

v. New Accounting Pronouncements

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

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

3. Cash and Cash Equivalents

The reconciliation of “Cash and cash equivalents” in the consolidated statement of cash flows and “Cash and due from banks” in the consolidated balance sheet as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cash and due from banks	**¥2,388,907**	¥1,753,743	**$22,485,955**
Due from banks except for deposits with the Bank of Japan	**(14,551)**	(18,841)	**(136,969)**
Cash and cash equivalents	**¥2,374,356**	¥1,734,901	**$22,348,986**

4. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Trading Assets	**2018**	2017	**2018**
Trading securities	**¥3,565**	¥3,572	**$33,559**
Trading-related financial derivatives	**832**	1,073	**7,837**
Total	**¥4,397**	¥4,646	**$41,396**

	Millions of yen		Thousands of U.S. dollars
Trading Liabilities	**2018**	2017	**2018**
Trading-related financial derivatives	**¥683**	¥861	**$6,430**
Total	**¥683**	¥861	**$6,430**

5. Money Held in Trust

Money held in trust for trading purposes as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Amounts recorded in the consolidated balance sheet	**¥9,491**	¥9,251	**$89,338**
Valuation gain (loss) included in consolidated statement of income	**11**	18	**110**

Money held in trust for other purposes as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Amounts recorded in the consolidated balance sheet	**¥1,750**	¥750	**$16,472**
Valuation gain (loss) included in consolidated statement of income	**—**	—	**—**

6. Securities

Securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Japanese national government bonds	**¥ 727,648**	¥ 905,920	**$6,849,099**
Japanese local government bonds	**317,286**	329,301	**2,986,506**
Japanese corporate bonds	**301,653**	308,378	**2,839,363**
Japanese corporate stocks	**255,353**	244,460	**2,403,555**
Other securities	**351,057**	661,394	**3,304,382**
Total	**¥1,952,999**	¥2,449,455	**$18,382,905**

As of March 31, 2018 and 2017, securities included equity investments in non-consolidated subsidiaries that amounted to ¥940 million ($8,853 thousand) and ¥855 million, respectively.

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

Valuation gain or loss on trading account securities included in income before income taxes was ¥(17) million ($(166) thousand) and ¥(1) million as of March 31, 2018 and 2017, respectively.

The amounts on the consolidated balance sheet, aggregate fair value, and unrealized gains (losses) on held-to-maturity debt securities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		
March 31, 2018	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	**¥ 67,047**	**¥ 78,049**	**¥11,002**
Japanese local government bonds	**1,500**	**1,510**	**10**
Japanese corporate bonds	**116,783**	**117,701**	**917**
Total	**¥185,331**	**¥197,262**	**¥11,930**
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	**¥ —**	**¥ —**	**¥ —**
Japanese local government bonds	**—**	**—**	**—**
Japanese corporate bonds	**21,418**	**21,361**	**(56)**
Total	**21,418**	**21,361**	**(56)**
Grand total	**¥206,749**	**¥218,623**	**¥11,874**

	Millions of yen		
March 31, 2017	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥ 68,059	¥ 78,929	¥ 10,869
Japanese local government bonds	1,500	1,506	6
Japanese corporate bonds	107,137	108,054	916
Total	¥176,696	¥188,489	¥11,792
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	¥ —	¥ —	¥ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	21,397	21,328	(68)
Total	21,397	21,328	(68)
Grand total	¥198,094	¥209,818	¥11,723

	Thousands of U.S. dollars		
March 31, 2018	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	**$ 631,097**	**$ 734,656**	**$103,559**
Japanese local government bonds	**14,119**	**14,222**	**103**
Japanese corporate bonds	**1,099,244**	**1,107,883**	**8,639**
Total	**$1,744,460**	**$1,856,761**	**$112,301**
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	**$ —**	**$ —**	**$ —**
Japanese local government bonds	**—**	**—**	**—**
Japanese corporate bonds	**201,601**	**201,068**	**(533)**
Total	**201,601**	**201,068**	**(533)**
Grand total	**$1,946,061**	**$2,057,829**	**$111,768**

The amounts on the consolidated balance sheet, acquisition or amortized cost, and unrealized gains (losses) on available-for-sale securities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		
March 31, 2018	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	**¥183,322**	**¥75,825**	**¥107,496**
Bonds:			
Japanese government bonds	**660,600**	**647,183**	**13,417**
Japanese local government bonds	**252,575**	**249,200**	**3,375**
Japanese corporate bonds	**137,633**	**134,736**	**2,897**
Total bonds	**1,050,809**	**1,031,119**	**19,689**
Other securities:			
Foreign securities	**46,013**	**43,232**	**2,780**
Other	**81,384**	**76,457**	**4,927**
Total other securities	**127,398**	**119,689**	**7,708**
Total	**¥1,361,530**	**¥1,226,635**	**¥134,895**
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	**¥44,902**	**¥50,617**	**¥(5,715)**
Bonds:			
Japanese government bonds	**0**	**0**	**(0)**
Japanese local government bonds	**63,210**	**63,316**	**(105)**
Japanese corporate bonds	**25,818**	**25,969**	**(151)**
Total bonds	**89,029**	**89,286**	**(257)**
Other securities:			
Foreign securities	**180,546**	**184,092**	**(3,546)**
Other	**87,287**	**91,047**	**(3,759)**
Total other securities	**267,833**	**275,139**	**(7,306)**
Total	**401,765**	**415,044**	**(13,278)**
Grand total	**¥1,763,296**	**¥1,641,679**	**¥121,616**

	Millions of yen		
March 31, 2017	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	¥184,247	¥91,727	¥92,519
Bonds:			
Japanese government bonds	813,790	794,335	19,454
Japanese local government bonds	295,442	290,368	5,073
Japanese corporate bonds	147,387	143,940	3,446
Total bonds	1,256,619	1,228,645	27,974
Other securities:			
Foreign securities	79,085	76,838	2,246
Other	98,184	91,332	6,851
Total other securities	177,269	168,171	9,097
Total	¥1,618,136	¥1,488,545	¥129,591
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	¥32,262	¥34,397	¥(2,134)
Bonds:			
Japanese government bonds	24,071	24,090	(19)
Japanese local government bonds	32,358	32,477	(119)
Japanese corporate bonds	32,456	32,753	(297)
Total bonds	88,886	89,322	(435)
Other securities:			
Foreign securities	318,186	326,466	(8,280)
Other	220,733	231,356	(10,623)
Total other securities	538,920	557,823	(18,903)
Total	660,069	681,543	(21,473)
Grand total	¥2,278,206	¥2,170,088	¥108,118

March 31, 2018	Thousands of U.S. dollars Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	**$ 1,725,554**	**$ 713,724**	**$1,011,830**
Bonds:			
Japanese government bonds	**6,217,999**	**6,091,708**	**126,291**
Japanese local government bonds	**2,377,406**	**2,345,637**	**31,769**
Japanese corporate bonds	**1,295,498**	**1,268,226**	**27,272**
Total bonds	**9,890,903**	**9,705,571**	**185,332**
Other securities:			
Foreign securities	**433,109**	**406,933**	**26,176**
Other	**766,048**	**719,663**	**46,385**
Total other securities	**1,199,157**	**1,126,596**	**72,561**
Total	**$12,815,614**	**$11,545,891**	**$1,269,723**
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	**$ 422,649**	**$ 476,444**	**$ (53,795)**
Bonds:			
Japanese government bonds	**3**	**3**	**(0)**
Japanese local government bonds	**594,981**	**595,976**	**(995)**
Japanese corporate bonds	**243,020**	**244,445**	**(1,425)**
Total bonds	**838,004**	**840,424**	**(2,420)**
Other securities:			
Foreign securities	**1,699,419**	**1,732,799**	**(33,380)**
Other	**821,607**	**856,997**	**(35,390)**
Total other securities	**2,521,026**	**2,589,796**	**(68,770)**
Total	**3,781,679**	**3,906,664**	**(124,985)**
Grand total	**$16,597,293**	**$15,452,555**	**$ 1,144,738**

Information on available-for-sale securities, which were sold during the years ended March 31, 2018 and 2017 is as follows:

March 31, 2018	Millions of yen Proceeds	Realized gains	Realized losses
Japanese corporate stocks	**¥117,143**	**¥7,813**	**¥2,084**
Bonds:			
Japanese government bonds	**39,044**	**1**	**147**
Japanese local government bonds	**4,153**	**23**	**—**
Japanese corporate bonds	**381**	**2**	**—**
Total bonds	**43,579**	**27**	**147**
Other securities:			
Foreign securities	**271,849**	**986**	**6,579**
Other	**91,297**	**524**	**398**
Total other securities	**363,147**	**1,511**	**6,978**
Total	**¥523,869**	**¥9,352**	**¥9,211**

March 31, 2017	Millions of yen Proceeds	Realized gains	Realized losses
Japanese corporate stocks	¥121,469	¥ 7,835	¥ 4,734
Bonds:			
Japanese government bonds	163,329	172	393
Japanese local government bonds	—	—	—
Japanese corporate bonds	168	1	—
Total bonds	163,498	173	393
Other securities:			
Foreign securities	158,390	321	5,986
Other	80,123	2,161	91
Total other securities	238,514	2,483	6,077
Total	¥523,482	¥10,492	¥11,206

March 31, 2018	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	**$1,102,631**	**$73,547**	**$19,623**
Bonds:			
Japanese government bonds	**367,515**	**13**	**1,392**
Japanese local government bonds	**39,094**	**223**	**—**
Japanese corporate bonds	**3,586**	**21**	**—**
Total bonds	**410,195**	**257**	**1,392**
Other securities:			
Foreign securities	**2,558,827**	**9,287**	**61,935**
Other	**859,352**	**4,937**	**3,753**
Total other securities	**3,418,179**	**14,224**	**65,688**
Total	**$4,931,005**	**$88,028**	**$86,703**

Impairment losses on available-for-sale securities amounted to ¥197 million ($1,858 thousand) and ¥96 million as of March 31, 2018 and 2017, respectively.

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

(1) For issuers who are classified as borrowers under "in need of caution," "possible bankruptcy," "virtual bankruptcy," "legal bankruptcy."
Stocks: where the fair value is lower than the acquisition cost.
Bonds: where the fair value declines by over 30% compared to the amortized cost or acquisition cost.

(2) For issuers who are classified as borrowers under "normal."
Stocks and bonds: where the fair value declines by 50% or more compared to the amortized cost or acquisition cost, or the fair value declines by over 30% but less than 50% compared to the amortized cost or acquisition cost and market prices remaining below a certain level.

Reconciliation of valuation difference on available-for-sale securities to the amounts included in "valuation difference on available-for-sale securities," presented as a separate component of net assets as of March 31, 2018 and 2017, in the consolidated balance sheet, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Valuation difference before taxes on available-for-sale securities	**¥121,616**	¥108,118	**$1,144,738**
Deferred tax liabilities	**(31,492)**	(26,744)	**(296,430)**
Valuation difference on available-for-sale securities (before adjustment)	**90,124**	81,373	**848,308**
Amounts attributable to non-controlling interests	**(140)**	(114)	**(1,327)**
The Company's portion of valuation difference on available-for-sale securities of equity method investees	**180**	147	**1,697**
Amounts recorded in the consolidated balance sheet	**¥ 90,163**	¥ 81,406	**$ 848,678**

7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Bills discounted	**¥40,279**	¥36,656	**$379,133**
Loans on bills	**273,531**	283,743	**2,574,652**
Loans on deeds	**6,795,267**	6,486,652	**63,961,479**
Overdrafts	**1,063,810**	964,285	**10,013,279**
Total	**¥8,172,888**	¥7,771,338	**$76,928,543**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loans to borrowers in bankruptcy	**¥3,746**	¥4,099	**$35,264**
Past due loans	**125,692**	134,625	**1,183,104**
Past due loans (three months or more)	**261**	295	**2,462**
Restructured loans	**18,967**	18,316	**178,530**
Total	**¥148,667**	¥157,336	**$1,399,360**

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

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

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

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

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

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

Bills discounted are accounted for as financial transactions in accordance with “Accounting and Auditing treatment of Accounting Standards for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No. 24). The Banks have a right to sell or repledge as collateral such discounted bills at their discretion. The total face value of bank acceptance bills, commercial bills, documentary bills and foreign currency bills bought, which were obtained at a discount, were ¥43,655 million ($410,915 thousand) and ¥39,025 million as of March 31, 2018 and 2017, respectively.

8. Foreign Exchanges

Foreign exchanges as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Assets			
Due from foreign banks	**¥14,565**	¥12,298	**$137,102**
Foreign exchange bills bought	**3,376**	2,369	**31,782**
Foreign exchange bills receivable	**840**	1,592	**7,908**
Total	**¥18,782**	¥16,260	**$176,792**
Liabilities			
Due to foreign banks	**¥113**	¥25	**$1,069**
Foreign exchange bills sold	**58**	26	**549**
Foreign exchange bills payable	**14**	52	**136**
Total	**¥186**	¥103	**$1,754**

9. Tangible Fixed Assets

Tangible fixed assets as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Buildings	**¥33,536**	¥33,046	**$315,664**
Land	**58,781**	60,499	**553,289**
Lease assets	**796**	526	**7,500**
Construction in progress	**534**	197	**5,027**
Other tangible fixed assets	**7,159**	6,922	**67,387**
Total	**¥100,807**	¥101,192	**$948,867**

Accumulated depreciation amounted to ¥105,180 million ($990,024 thousand) and ¥103,976 million as of March 31, 2018 and 2017, respectively.

The book value of tangible fixed assets adjusted for gains on sales of replaced assets amounted to ¥3,683 million ($34,674 thousand) and ¥3,871 million as of March 31, 2018 and 2017, 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 ¥18,098 million ($170,352 thousand) and ¥19,641 million as of March 31, 2018 and 2017, respectively.

10. Intangible Fixed Assets

Intangible fixed assets as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Software	**¥9,834**	¥7,770	**$92,569**
Goodwill	**13,489**	15,591	**126,972**
Lease assets	**482**	56	**4,545**
Other intangible fixed assets	**642**	939	**6,052**
Total	**¥24,449**	¥24,358	**$230,138**

11. Customers' Liabilities for Acceptances and Guarantees

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

Guarantee obligations on securities issued by private placement (pursuant to Article 2, Clause 3 of the Japanese Financial Instruments and Exchange Act) amounted to ¥162,731 million ($1,531,735 thousand) and ¥151,947 million as of March 31, 2018 and 2017, respectively.

12. Assets Pledged

Assets pledged as collateral and their relevant liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Assets pledged as collateral:			
Securities	**¥793,713**	¥949,935	**$7,470,945**
Loans and bills discounted	**373,390**	170,435	**3,514,590**
Relevant liabilities to the above assets:			
Deposits	**¥23,120**	¥28,863	**$217,629**
Call money and bills sold	**40,000**	34,584	**376,506**
Payables under securities lending transactions	**426,276**	534,362	**4,012,396**
Borrowed money	**546,611**	306,350	**5,145,065**

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, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Securities	**¥ 22,867**	¥106,168	**$215,240**
Other assets	**102,796**	25,313	**967,590**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Initial margins for futures transactions	**¥ —**	¥ 8	**$ —**
Cash collateral paid for financial instruments	**3,744**	5,857	**35,245**
Guarantee deposits	**5,181**	4,004	**48,769**

13. Loan Commitments

Overdraft facility and loan commitment contracts with customers to lend up to the prescribed limits in response to customers' applications for a loan, as long as there is no violation of any condition within the contracts. The unused amount of such contracts totaled ¥2,445,473 million ($23,018,388 thousand) and ¥2,412,551 million as of March 31, 2018 and 2017, respectively, of which amounts with original agreement terms of less than one year are ¥2,353,715 million ($22,154,705 thousand) and ¥2,328,971 million as of March 31, 2018 and 2017, respectively.

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

14. Deposits

Deposits as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current deposits, ordinary deposits, saving deposits and deposits at notice	**¥7,211,707**	¥ 6,612,279	**$67,881,278**
Time deposits and installment savings	**3,693,430**	3,816,965	**34,764,974**
Negotiable certificates of deposit	**122,691**	140,499	**1,154,856**
Other deposits	**123,383**	131,526	**1,161,364**
Total	**¥11,151,213**	¥10,701,271	**$104,962,472**

15. Borrowed Money

As of March 31, 2018 and 2017, the weighted-average annual interest rates applicable to borrowed money were 0.06% and 0.11%, respectively.

Borrowed money includes borrowings from the Bank of Japan and other financial institutions. In addition, borrowed money includes ¥15,000 million ($141,190 thousand) and ¥15,000 million of subordinated borrowed money as of March 31, 2018 and 2017, respectively.

Annual maturities of borrowed money as of March 31, 2018 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	**¥11,666**	**$109,809**
2020	**150,863**	**1,420,026**
2021	**131,809**	**1,240,676**
2022	**257,118**	**2,420,170**
2023	**403**	**3,802**
2024 and thereafter	**15,650**	**147,316**
Total	**¥567,512**	**$5,341,799**

16. Bonds Payable

Bonds payable as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Issued by the Company:			
Unsecured fixed and floating subordinated bonds, payable in Japanese yen, due October 2023, 0.75% interest	**¥25,000**	¥25,000	**$235,316**
Total	**¥25,000**	¥25,000	**$235,316**

Annual maturities of bonds payable as of March 31, 2018 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024 and thereafter	**¥25,000**	**$235,316**

17. Retirement Benefits

Overview of the Group's retirement benefit plans

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

The Hokkaido Bank, Ltd. provides defined benefit arrangements that combine a retirement lump sum grant and an employee pension fund plan, and also provides a defined contribution pension since fiscal year 2016. The Hokkaido Bank, Ltd. was approved by the Minister of Health, Labour and Welfare on March 26, 2004 to be relieved of the obligation to administer the future payment service of the government mandated portion of the employee pension fund. The Hokkaido Bank, Ltd. was further approved on March 31, 2006 to switch from an employee pension fund to a corporate pension fund.

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

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

The Banks have established retirement benefit trusts.

(a) Defined benefit plan

(1) The changes in defined benefit obligations for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥101,540**	¥102,615	**$955,762**
Service cost	**2,427**	2,448	**22,852**
Interest cost	**624**	631	**5,881**
Actuarial (gains) losses	**436**	1,062	**4,108**
Benefits paid	**(5,122)**	(5,308)	**(48,214)**
Others	**89**	90	**842**
Balance at end of year	**¥99,996**	¥101,540	**$941,231**

(2) The changes in plan assets for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥86,513**	¥82,156	**$814,324**
Expected return on plan assets	**2,569**	2,474	**24,187**
Actuarial (gains) losses	**1,516**	1,457	**14,272**
Contributions from the employer	**2,628**	4,310	**24,738**
Establishment of retirement benefit trust	**5,199**	—	**48,940**
Benefits paid	**(3,843)**	(3,973)	**(36,174)**
Others	**89**	90	**842**
Balance at end of year	**¥94,673**	¥86,513	**$891,129**

(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
	2018	2017	**2018**
Funded defined benefit obligation	**¥84,025**	¥85,348	**$790,904**
Plan assets	**(82,997)**	(79,944)	**(781,229)**
	1,027	5,403	**9,675**
Unfunded defined benefit obligation	**15,970**	16,191	**150,327**
Plan assets	**(11,675)**	(6,569)	**(109,901)**
	4,294	9,622	**40,426**
Net liability (asset) arising from defined benefit obligation	**¥5,322**	¥15,026	**$50,101**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Liability for retirement benefits	**¥6,218**	¥15,026	**$58,532**
Asset for retirement benefits	**(895)**	—	**(8,431)**
Net liability (asset) arising from defined benefit obligation	**¥5,322**	¥15,026	**$50,101**

(4) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥2,427**	¥2,448	**$22,852**
Interest cost	**624**	631	**5,881**
Expected return on plan assets	**(2,569)**	(2,474)	**(24,187)**
Recognized actuarial (gains) losses	**1,547**	3,342	**14,570**
Amortization of prior service costs	**(46)**	(46)	**(440)**
Others	**61**	52	**576**
Net periodic benefit costs	**¥2,045**	¥3,953	**$19,252**

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Prior service cost	**¥(46)**	¥(46)	**$(440)**
Actuarial gains (losses)	**2,627**	3,736	**24,734**
Total	**¥2,580**	¥3,690	**$24,294**

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized prior service cost	**¥(46)**	¥(93)	**$(440)**
Unrecognized actuarial (gains) losses	**5,764**	8,392	**54,261**
Total	**¥5,717**	¥8,298	**$53,821**

(7) Plan assets

• *Components of plan assets*

Plan assets as of March 31, 2108 and 2017 consisted of the following:

	2018	2017
Bonds	**35.11%**	33.26%
Stocks	**43.82**	43.99
Cash and deposits	**3.28**	4.00
General accounts	**7.21**	3.80
Other	**10.58**	14.95
Total	**100.00%**	100.00%

Note: Plan assets include retirement benefit trusts of 24.88% and 21.72% as of March 31, 2018 and 2017, 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, 2018 and 2017 were set forth as follows:

	2018	2017
Discount rate	**0.61%–0.63%**	0.61%–0.63%
Expected rate of return on plan assets	**3.0%**	3.0%–3.5%

(b) Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Contribution	**¥369**	¥369	**$3,479**

18. Equity

Japanese banks are subject to the Banking Act and the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act 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.

19. Capital Stock

Information with respect to capital stock of the Company as of March 31, 2018 and 2017 is as follows:

	2018	2017
Number of shares:		
Authorized:		
Common	**280,000,000**	280,000,000
Preferred (Type 5)	**110,000,000**	110,000,000
Issued and outstanding:		
Common	**132,163,014**	132,163,014
Preferred (Type 5)	**107,432,000**	107,432,000
Treasury stock:		
Common	**1,109,893**	1,131,632
Preferred (Type 5)	**2,160**	2,160

Preferred stock (Type 5)

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

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

The changes in the number of treasury stock for the fiscal years ended March 31, 2018 and 2017 were as follows:

2018	As of April 1, 2017	Changes during the fiscal year Increase*1	Decrease*2	As of March 31, 2018
Common	**1,131,632**	**15,799**	**37,538**	**1,109,893**
Preferred (Type 5)	**2,160**	**—**	**—**	**2,160**

*1 The increase of common represents primarily the acquisition of odd-lot shares.
*2 The decrease of common represents primarily the exercise of stock options.

2017	As of April 1, 2016	Changes during the fiscal year Increase*1	Decrease*2	As of March 31, 2017
Common	11,607,137	30,036,137	40,511,642	1,131,632
Preferred (Type 5)	2,160	—	—	2,160

*1 The increase of common represents the acquisition of 30,000,000 shares of treasury stock and 36,137 shares of odd-lot shares.
*2 The decrease of common represents the retirement of 30,000,000 shares of treasury stock, 10,181,446 shares of stock consolidation, the disposal of 2,966 shares of odd-lot shares, and 327,230 shares exercised of stock options.

20. Stock Acquisition Rights

Stock acquisition rights as of March 31, 2018 and 2017 consisted of stock options.

21. Stock Options

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

Stock option expenses in the amount of ¥130 million ($1,228 thousand) and ¥124 million were recorded under general and administrative expenses for the years ended March 31, 2018 and 2017, respectively.

The stock options outstanding as of March 31, 2018 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

The stock option activity was as follows:

Year ended March 31, 2018	2012 stock option (Shares)	2013 stock option (Shares)	2014 stock option (Shares)	2015 stock option (Shares)
Non-vested:				
March 31, 2017 –outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2018 –outstanding	—	—	—	—
Vested:				
March 31, 2017 –outstanding	32,800	32,090	32,860	32,740
Vested	—	—	—	—
Exercised	3,470	4,180	3,800	4,020
Canceled	—	—	—	—
March 31, 2018 –outstanding	29,330	27,910	29,060	28,720
Exercise price	¥1	¥1	¥1	¥1
	$0.01	$0.01	$0.01	$0.01
Average stock price at exercise	¥1,755	¥1,755	¥1,755	¥1,755
	$16.52	$16.52	$16.52	$16.52
Fair value price at grant date	¥1,080	¥1,820	¥2,010	¥2,650
	$10.17	$17.13	$18.92	$24.94

Year ended March 31, 2018	2016 stock option (Shares)	2017 stock option (Shares)
Non-vested:		
March 31, 2017 –outstanding	—	—
Granted	—	75,960
Canceled	—	—
Vested	—	75,960
March 31, 2018 –outstanding	—	—
Vested:		
March 31, 2017 –outstanding	103,570	—
Vested	—	75,960
Exercised	12,610	490
Canceled	—	680
March 31, 2018 –outstanding	90,960	74,790
Exercise price	¥1	¥1
	$0.01	$0.01
Average stock price at exercise	¥1,755	¥1,450
	$16.52	$13.65
Fair value price at grant date	¥1,170	¥1,717
	$11.01	$16.16

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

The Assumptions Used to Measure the Fair Value of the 2017 Stock Options

Estimate method	Black-Scholes option-pricing model
Volatility of stock price	35.866%
Estimated remaining outstanding period	Two years and two months
Estimate dividend	¥44.00 per share
Risk-free interest rate	(0.099)%

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

22. Per Share Information

(1) Net income per share of common stock

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended March 31, 2018	Net income attributable to owners of parent	Weighted-average shares	EPS	
Basic EPS – Net income available to common shareholders	**¥19,579**	**131,049**	**¥149.40**	**$1.41**
Effect of dilutive securities		**266**		
Diluted EPS – Net income for computation	**¥19,579**	**131,316**	**¥149.10**	**$1.40**

	Millions of yen	Thousands of shares	Yen
Year ended March 31, 2017	Net income attributable to owners of parent	Weighted-average shares	EPS
Basic EPS – Net income available to common shareholders	¥26,546	131,831	¥201.36
Effect of dilutive securities		211	
Diluted EPS – Net income for computation	¥26,546	132,042	¥201.04

(2) Net assets per share of common stock

Net assets per share of common stock as of March 31, 2018 and 2017 were as follows:

	Yen		U.S. dollars
	2018	2017	**2018**
Net assets per share of common stock	**¥4,215.92**	¥4,028.62	**$39.68**

Net assets per share of common stock as of March 31, 2018 and 2017 were calculated based on the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Total equity	**¥610,147**	¥585,237	**$5,743,103**
Deductions from total equity:			
Stock acquisition rights	**451**	367	**4,253**
Non-controlling interests	**2,664**	2,472	**25,079**
Preferred stock	**53,714**	53,714	**505,599**
Preferred dividends	**805**	805	**7,584**
Net assets attributable to common stock at the end of the fiscal year	**552,510**	527,876	**5,200,588**
Number of shares of common stock at the end of the fiscal year used for the calculation of net assets per share of common stock (shares in thousands)	**131,053**	131,031	

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

23. Other Ordinary Income

Other ordinary income for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Gain on foreign exchange transactions – net	**¥305**	¥—	**$2,872**
Gains on sales and redemption of bonds and other securities	**1,224**	2,468	**11,522**
Gains on derivatives	**2**	—	**27**
Lease receipts	**10,956**	10,479	**103,131**
Other	**3,045**	2,244	**28,662**
Total	**¥15,533**	¥15,192	**$146,214**

24. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Losses on foreign exchange transactions – net	**¥—**	¥259	**$—**
Losses on sales, redemption and devaluation of bonds and other securities	**11,076**	6,403	**104,263**
Losses on derivatives	**—**	15	**—**
Lease costs	**10,021**	9,558	**94,328**
Other	**576**	1,034	**5,429**
Total	**¥21,675**	¥17,271	**$204,020**

25. Other Income

Other income for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gains on sales of stocks	¥8,170	¥8,065	$76,902
Reversal of allowance for loan losses	—	511	—
Gains on sales of tangible fixed assets	92	104	871
Other	4,941	4,323	46,512
Total	¥13,203	¥13,005	$124,285

26. Other Expenses

Other expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Losses on write-offs of loans and bills discounted	¥460	¥529	$4,335
Losses on sales of stocks	2,224	4,807	20,935
Losses on impairments of stocks and other securities	73	202	692
Losses on sales of loans	190	213	1,797
Losses on impairments and disposals of fixed assets	2,244	1,030	21,130
Other	3,382	3,068	31,841
Total	¥8,576	¥9,850	$80,730

27. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in the normal effective statutory tax rate of approximately 30.69% for each of the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Allowance for loan losses	¥23,914	¥26,268	$225,096
Depreciation	850	898	8,009
Liability for retirement benefits	11,953	14,124	112,514
Loss on valuation of securities	12,461	12,558	117,300
Other	6,180	5,637	58,176
Operating loss carryforwards	69	59	655
Subtotal	55,430	59,546	521,750
Less: Valuation allowance	26,401	26,259	248,505
Total deferred tax assets	29,029	33,287	273,245
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	40,428	36,834	380,538
Land transfer through merger	2,765	2,765	26,033
Other	2,931	2,157	27,597
Total deferred tax liabilities	46,125	41,757	434,168
Net deferred tax assets	¥(17,096)	¥(8,470)	$(160,923)

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, 2017 is as follows:

	2017
Normal effective statutory tax rate	30.69%
Change in valuation allowance	(3.63)
Permanently non-taxable income	(1.41)
Per capita portion of inhabitants' taxes	0.41
Permanently non-deductible expenses	0.32
Decrease in deferred tax assets due to changes in tax rate	—
Other	0.49
Actual effective tax rate	26.87%

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2018 and the actual effective tax rate reflected in the accompanying consolidated statement of income is not required under Japanese accounting standards due to the immaterial difference.

28. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Amount incurred during the fiscal year	¥7,770	¥(5,512)	$73,140
Reclassification adjustment	5,728	2,498	53,919
Prior to deducting tax effect	13,498	(3,013)	127,059
Tax effect	(4,747)	546	(44,689)
Total	8,751	(2,466)	82,370
Deferred gains (losses) on hedges:			
Amount incurred during the fiscal year	(1,101)	(1,386)	(10,370)
Reclassification adjustment	1,437	1,944	13,527
Prior to deducting tax effect	335	557	3,157
Tax effect	(102)	(169)	(962)
Total	233	387	2,195
Defined retirement benefit plans:			
Amount incurred during the fiscal year	1,079	394	10,164
Reclassification adjustment	1,501	3,295	14,130
Prior to deducting tax effect	2,580	3,690	24,294
Tax effect	(785)	(1,122)	(7,390)
Total	1,795	2,567	16,904
Share of other comprehensive income of associates accounted for using the equity method:			
Amount incurred during the fiscal year	60	84	569
Reclassification adjustment	(17)	(1)	(165)
Prior to deducting tax effect	42	83	404
Tax effect	(9)	(25)	(93)
Total	33	58	311
Total other comprehensive income	¥10,813	¥547	$101,780

29. Leases

(1) Finance lease transactions

(Lessee)

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

(2) Operating lease transactions

(Lessee)

The minimum rental commitments under noncancelable operating leases as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Within one year	**¥3**	¥1	**$37**
Over one year	**21**	6	**204**
Total	**¥25**	¥8	**$241**

30. Financial Instruments and Related Disclosures

(1) Group policy on financial instruments

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

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

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

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

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

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

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

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

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

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

(3) Risk management for financial instruments

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

(a) Credit Risk Management

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

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

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

(b) Market Risk Management

Having stipulated regulations such as Market Risk Management

Regulations and an arranged organizational structure including ALM and other committees, the Banks appropriately control market risk associated with lending and deposit-taking in order to ensure stable earnings.

Interest Rate Risk Management

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

The Banks set ceiling amounts for each type of interest rate risk to control such risk appropriately. Derivatives such as interest-rate swaps and interest-rate caps are employed from an ALM perspective so that the Banks reduce interest rate risk by hedging against interest rate fluctuations.

Foreign Exchange Risk Management

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

Price Volatility Risk Management

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

Derivatives

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

Quantitative Information Related to Market Risk

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

- Financial instruments in the trading account

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

The market risk amounts (VaR) of the trading business of Hokuriku Bank were ¥179 million ($1,685 thousand) and ¥166 million as of March 31, 2018 and 2017, 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 ¥54,250 million ($510,636 thousand) and ¥38,002 million as of March 31, 2018 and 2017, respectively. Hokkaido Bank's VaR of the financial instruments in the banking account was ¥21,414 million ($201,563 thousand) and ¥16,314 million as of March 31, 2018 and 2017, respectively. Hokkaido Bank's trading account securities totaled ¥16 million ($151 thousand) and ¥6 million as of March 31, 2018 and 2017, respectively. Hokkaido Bank's specified fund trust totaled ¥4 million ($38 thousand) and ¥19 million as of March 31, 2018 and 2017, 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 ¥46,750 million increase ($440,041 thousand increase) and a ¥5,574 million decrease as of March 31, 2018 and 2017, respectively. Hokkaido Bank's 100BPV was a ¥17,413 million increase ($163,902 thousand increase) and a ¥33,352 million decrease as of March 31, 2018 and 2017, 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.

We have in place mechanisms for periodically assessing and managing liquidity risk through ALM committees, to prepare for every possible scenario.

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

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

(5) Fair value of financial instruments

The fair values of the main financial instruments at March 31, 2018 and 2017 are as follows. These amounts do not include unlisted stocks whose fair values are extremely difficult to determine (see (b) Financial instruments whose fair values are deemed to be extremely difficult to determine).

(a) Fair value of financial instruments

	Millions of yen		
March 31, 2018	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	**¥2,388,907**	**¥2,388,907**	**¥—**
Call loans and bills bought	**52,753**	**52,753**	**—**
Monetary claims bought *1	**44,177**	**44,177**	**—**
Securities			
Bonds classified as held-to-maturity	**206,749**	**218,623**	**11,874**
Available-for-sale securities	**1,719,118**	**1,719,118**	**—**
Loans and bills discounted	**8,172,888**		
Allowance for loan losses *1	**(46,515)**		
	8,126,372	**8,203,364**	**76,991**
Total assets	**¥12,538,079**	**¥12,626,945**	**¥88,866**
Deposits	**¥11,151,213**	**¥11,151,561**	**¥348**
Payables under securities lending transactions	**426,276**	**426,276**	**—**
Borrowed money	**567,512**	**566,257**	**(1,255)**
Total liabilities	**¥12,145,002**	**¥12,144,095**	**¥(907)**
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	**¥2,791**	**¥2,791**	**¥—**
Derivative transactions qualifying for hedge accounting	**2,708**	**2,708**	**—*3**
Total derivative transactions	**¥5,499**	**¥5,499**	**¥—**

	Millions of yen		
March 31, 2017	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	¥1,753,743	¥1,753,743	¥—
Call loans and bills bought	89,415	89,415	—
Monetary claims bought *1	54,797	54,797	—
Securities			
Bonds classified as held-to-maturity	198,094	209,818	11,723
Available-for-sale securities	2,223,408	2,223,408	—
Loans and bills discounted	7,771,338		
Allowance for loan losses *1	(49,755)		
	7,721,582	7,808,998	87,416
Total assets	¥12,041,041	¥12,140,181	¥99,140
Deposits	¥10,701,271	¥10,701,687	¥415
Payables under securities lending transactions	534,362	534,362	—
Borrowed money	325,331	325,073	(258)
Total liabilities	¥11,560,966	¥11,561,123	¥157
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥(2,901)	¥(2,901)	¥—
Derivative transactions qualifying for hedge accounting	1,341	1,341	—*3
Total derivative transactions	¥(1,559)	¥(1,559)	¥—

	Thousands of U.S. dollars		
March 31, 2018	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	**$22,485,955**	**$22,485,955**	**$—**
Call loans and bills bought	**496,546**	**496,546**	**—**
Monetary claims bought *1	**415,830**	**415,830**	**—**
Securities			
Bonds classified as held-to-maturity	**1,946,061**	**2,057,829**	**111,768**
Available-for-sale securities	**16,181,464**	**16,181,464**	**—**
Loans and bills discounted	**76,928,543**		
Allowance for loan losses *1	**(437,834)**		
	76,490,709	**77,215,406**	**724,697**
Total assets	**$118,016,565**	**$118,853,030**	**$836,465**
Deposits	**$104,962,472**	**$104,965,749**	**$3,277**
Payables under securities lending transactions	**4,012,396**	**4,012,396**	**—**
Borrowed money	**5,341,799**	**5,329,981**	**(11,818)**
Total liabilities	**$114,316,667**	**$114,308,126**	**$(8,541)**
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	**$26,275**	**$26,275**	**$—**
Derivative transactions qualifying for hedge accounting	**25,493**	**25,493**	**—*3**
Total derivative transactions	**$51,768**	**$51,768**	**$—**

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

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

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

Cash and due from banks

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

Call loans and bills bought

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

Monetary claims bought

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

Securities

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

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

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

Loans and bills discounted

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

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

Regarding the fair value of claims on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers, credit losses are estimated based on the present value of estimated future cash flows or the estimated value recoverable from collateral and guarantees. Since the fair value approximates the value stated on the consolidated balance sheet as of the settlement date, minus the present value of estimated bad debt, this figure is treated as the fair value.

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

Deposits

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

Payables under securities lending transactions

The fair values of Payables under securities lending transactions are considered to be equal to the book value since the contractual terms are one year or less and fair values of these items approximate their book values.

Borrowed money

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

For money borrowed through loans carrying fixed rates, the current value of such loans is determined by discounting the total of their principal plus interest (separately for each specific period) at the rate currently applied to other loans of the same duration and terms. For loans whose repayment period is one year or less, the book value is deemed to approximate the fair value and is therefore treated as such.

Derivative transactions

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

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

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

Consolidated balance sheet amounts

March 31	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Monetary claims bought (subordinated beneficiary rights in securitization of mortgage loans) *1	**¥—**	¥ 7,787	**$—**
Unlisted stocks *1, 2	**27,131**	27,952	**255,376**
Unlisted foreign securities *1	**0**	0	**4**
Total	**¥27,131**	¥35,740	**$255,380**

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

*2. Unlisted stocks were written down by ¥73 million ($692 thousand) and ¥106 million as of March 31, 2018 and 2017, respectively.

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

	Millions of yen				
March 31, 2018	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks	**¥2,267,774**	**¥—**	**¥—**	**¥—**	**¥—**
Call loans and bills bought	**52,753**	**—**	**—**	**—**	**—**
Monetary claims bought	**1,147**	**884**	**5,000**		**36,816**
Securities	**219,970**	**657,355**	**317,504**	**147,558**	**262,119**
Bonds classified as held-to-maturity	**32,965**	**61,471**	**44,893**	**5,495**	**62,305**
Japanese government bonds	**2,500**	**3,020**	**1,000**	**500**	**60,000**
Japanese local government bonds	**—**	**—**	**—**	**—**	**1,500**
Japanese corporate bonds	**30,465**	**58,451**	**43,893**	**4,995**	**805**
Available-for-sale securities with maturities	**187,005**	**595,884**	**272,611**	**142,062**	**199,814**
Japanese government bonds	**123,000**	**367,800**	**155,500**	**—**	**—**
Japanese local government bonds	**34,877**	**146,117**	**66,571**	**20,198**	**44,705**
Japanese corporate bonds	**12,228**	**38,612**	**26,688**	**11,217**	**71,948**
Other	**16,899**	**43,354**	**23,851**	**110,647**	**83,160**
Loans and bills discounted	**2,571,967**	**1,387,575**	**1,038,584**	**758,906**	**2,255,087**
Total	**¥5,113,613**	**¥2,045,815**	**¥1,361,089**	**¥906,465**	**¥2,554,022**

	Millions of yen				
March 31, 2017	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks	¥1,630,534	¥—	¥—	¥—	¥—
Call loans and bills bought	89,415	—	—	—	—
Monetary claims bought	1,314	—	6,326	—	46,683
Securities	276,478	632,836	465,564	163,243	532,244
Bonds classified as held-to-maturity	29,488	55,770	43,228	7,541	62,280
Japanese government bonds	1,000	3,000	2,520	1,500	60,000
Japanese local government bonds	—	—	—	—	1,500
Japanese corporate bonds	28,488	52,770	40,708	6,041	780
Available-for-sale securities with maturities	246,990	577,066	422,336	155,702	469,964
Japanese government bonds	170,600	330,400	263,900	52,000	—
Japanese local government bonds	49,820	136,367	77,793	14,468	44,316
Japanese corporate bonds	24,858	36,156	31,395	12,526	71,738
Other	1,711	74,143	49,248	76,707	353,908
Loans and bills discounted	2,227,413	1,394,576	1,025,589	740,834	2,216,375
Total	¥4,225,156	¥2,027,413	¥1,497,480	¥904,077	¥2,795,304

March 31, 2018	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
	Thousands of U.S. dollars				
Due from banks	**$21,345,767**	**$—**	**$—**	**$—**	**$—**
Call loans and bills bought	**496,546**	**—**	**—**	**—**	**—**
Monetary claims bought	**10,804**	**8,321**	**47,063**	**—**	**346,537**
Securities	**2,070,509**	**6,187,460**	**2,988,563**	**1,388,918**	**2,467,241**
Bonds classified as held-to-maturity	**310,288**	**578,609**	**422,562**	**51,731**	**586,455**
Japanese government bonds	**23,532**	**28,426**	**9,413**	**4,706**	**564,759**
Japanese local government bonds	**—**	**—**	**—**	**—**	**14,119**
Japanese corporate bonds	**286,756**	**550,183**	**413,149**	**47,025**	**7,577**
Available-for-sale securities with maturities	**1,760,221**	**5,608,851**	**2,566,001**	**1,337,187**	**1,880,786**
Japanese government bonds	**1,157,759**	**3,461,973**	**1,463,667**	**—**	**—**
Japanese local government bonds	**328,294**	**1,375,355**	**626,611**	**190,117**	**420,799**
Japanese corporate bonds	**115,098**	**363,441**	**251,212**	**105,587**	**677,226**
Other	**159,070**	**408,082**	**224,511**	**1,041,483**	**782,761**
Loans and bills discounted	**24,209,029**	**13,060,762**	**9,775,837**	**7,143,321**	**21,226,348**
Total	**$48,132,655**	**$19,256,543**	**$12,811,463**	**$8,532,239**	**$24,040,126**

Loans and bills discounted

Claims on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers amounted to ¥129,439 million ($1,218,368 thousand) and ¥138,724 million as of March 31, 2018 and 2017, respectively, and loans with no contractual maturities amounted to ¥31,327 million ($294,877 thousand) and ¥27,823 million as of March 31, 2018 and 2017, respectively. They are not included in the table above.

(7) Maturity analysis for financial liabilities with contractual maturities

March 31, 2018	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
	Millions of yen				
Deposits	**¥10,119,199**	**¥779,762**	**¥241,982**	**¥4,188**	**¥6,080**
Payables under securities lending transactions	**426,276**	**—**	**—**	**—**	**—**
Borrowed money	**11,666**	**282,672**	**257,522**	**15,440**	**210**
Total	**¥10,557,142**	**¥1,062,435**	**¥499,505**	**¥19,629**	**¥6,290**

March 31, 2017	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
	Millions of yen				
Deposits	¥9,652,479	¥799,765	¥240,192	¥3,607	¥5,226
Payables under securities lending transactions	534,362	—	—	—	—
Borrowed money	136,804	153,463	19,628	15,340	95
Total	¥10,323,646	¥953,229	¥259,821	¥18,947	¥5,321

March 31, 2018	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
	Thousands of U.S. dollars				
Deposits	**$95,248,488**	**$7,339,630**	**$2,277,698**	**$39,424**	**$57,232**
Payables under securities lending transactions	**4,012,396**	**—**	**—**	**—**	**—**
Borrowed money	**109,809**	**2,660,702**	**2,423,972**	**145,339**	**1,977**
Total	**$99,370,693**	**$10,000,332**	**$4,701,670**	**$184,763**	**$59,209**

Deposits

Demand deposits are included in “Due in 1 year or less.”

31. Derivatives

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

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

• Interest Rate-Related Transactions

	Millions of yen			
	Notional principal or contract amount			
March 31, 2018	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	**¥128,851**	**¥116,740**	**¥3,513**	**¥3,531**
Receive/floating and pay/fixed	**129,035**	**116,776**	**(2,382)**	**(2,382)**
Total	**/**	**/**	**¥1,131**	**¥1,148**

	Millions of yen			
	Notional principal or contract amount			
March 31, 2017	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥224,449	¥218,883	¥4,915	¥5,041
Receive/floating and pay/fixed	224,700	219,512	(3,271)	(3,271)
Total	/	/	¥1,643	¥1,769

	Thousands of U.S. dollars			
	Notional principal or contract amount			
March 31, 2018	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	**$1,212,834**	**$1,098,837**	**$33,075**	**$33,242**
Receive/floating and pay/fixed	**1,214,570**	**1,099,173**	**(22,428)**	**(22,428)**
Total	**/**	**/**	**$10,647**	**$10,814**

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

• Foreign Exchange-Related Transactions

	Millions of yen			
	Notional principal or contract amount			
March 31, 2018	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps	**¥3,784**	**¥3,784**	**¥3**	**¥3**
Forward contracts/sell	**72,400**	**235**	**1,793**	**1,793**
Forward contracts/buy	**54,651**	**159**	**(162)**	**(162)**
Options/sell	**52,959**	**19,479**	**(1,246)**	**4,194**
Options/buy	**52,959**	**19,479**	**1,246**	**(3,863)**
Total	**/**	**/**	**¥1,633**	**¥1,965**

	Millions of yen			
	Notional principal or contract amount			
March 31, 2017	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps	¥21	¥—	¥0	¥0
Forward contracts/sell	149,424	258	(4,794)	(4,794)
Forward contracts/buy	43,766	168	208	208
Options/sell	80,916	38,917	(2,649)	6,243
Options/buy	80,916	38,917	2,650	(5,570)
Total	/	/	¥(4,584)	¥(3,911)

	Thousands of U.S. dollars			
	Notional principal or contract amount			
March 31, 2018	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps	**$35,618**	**$35,618**	**$29**	**$29**
Forward contracts/sell	**681,477**	**2,217**	**16,880**	**16,880**
Forward contracts/buy	**514,418**	**1,500**	**(1,530)**	**(1,530)**
Options/sell	**498,492**	**183,351**	**(11,736)**	**39,485**
Options/buy	**498,492**	**183,351**	**11,730**	**(36,365)**
Total	**/**	**/**	**$15,373**	**$18,499**

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

• Commodity-Related Transactions

March 31, 2018	Millions of yen			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	**¥556**	**¥555**	**¥(69)**	**¥(69)**
Receive/floating and pay/fixed	**556**	**555**	**96**	**96**
Total	**/**	**/**	**¥27**	**¥27**

March 31, 2017	Millions of yen			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥708	¥691	¥(26)	¥(26)
Receive/floating and pay/fixed	708	691	65	65
Total	/	/	¥38	¥38

March 31, 2018	Thousands of U.S. dollars			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	**$5,242**	**$5,231**	**$(652)**	**$(652)**
Receive/floating and pay/fixed	**5,242**	**5,231**	**907**	**907**
Total	**/**	**/**	**$255**	**$255**

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

(2) Derivative transactions to which hedge accounting is applied

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

• Interest Rate-Related Transactions

March 31, 2018			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	**¥55,000**	**¥55,000**	**¥(1,475)**
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	**18,033**	**18,013**	**(Note)**
Total			**/**	**/**	**¥(1,475)**

March 31, 2017			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	¥55,000	¥55,000	¥(1,748)
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	6,250	6,239	(Note)
Total			/	/	¥(1,748)

March 31, 2018			Thousands of U.S. dollars		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps Receive/floating and pay/fixed	Yen-based bond	**$517,696**	**$517,696**	**$(13,891)**
Exceptional treatment for interest swaps	Swaps Receive/floating and pay/fixed	Loans and bills discounted	**169,741**	**169,553**	**(Note)**
Total			**/**	**/**	**$(13,891)**

Notes: 1. Deferred hedge accounting is mainly applied in accordance with JICPA Industry Audit Committee Report No. 24.
2. The fair value is determined using the discounted value of future cash flows, option pricing models, etc.
3. Amounts resulting from interest swaps with exceptional treatment are accounted for together with the financial instruments hedged. As a result, the fair value is included in the fair value of the loans stated in “30. Financial Instruments and Related Disclosures.”

• Foreign Exchange-Related Transactions

March 31, 2018			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	**¥42,416**	**¥146**	**¥3,752**
	Forward contracts	Call loans and due from banks (foreign currencies)	**29,739**	**—**	**432**
Total			**/**	**/**	**¥4,184**

March 31, 2017			Millions of yen		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	¥50,598	¥22,452	¥2,362
	Forward contracts	Call loans and due from banks (foreign currencies)	63,189	—	728
Total			/	/	¥3,090

March 31, 2018			Thousands of U.S. dollars		
			Notional principal or contract amount		
Hedge accounting method	Type	Hedged item	Total	Due after 1 year	Fair value
Accounting method employed in principle	Swaps	Foreign loans and foreign securities	**$399,251**	**$1,375**	**$35,316**
	Forward contracts	Call loans and due from banks (foreign currencies)	**279,930**	**—**	**4,068**
Total			**/**	**/**	**$39,384**

Notes: 1. Deferred hedge accounting is mainly applied in accordance with JICPA Industry Audit Committee Report No. 25.
2. The fair value is determined using the discounted value of future cash flows.

32. Segment Information

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

(1) Outline of reportable segments

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

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

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

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

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

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

Segment results for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen						
	2018						
	Reportable segments			Other segment	Total	Reconciliation	Consolidated
	Hokuriku Bank	Hokkaido Bank	Subtotal				
Ordinary income							
Ordinary income from outside customers	**¥90,102**	**¥77,012**	**¥167,115**	**¥20,359**	**¥187,475**	**¥(6,558)**	**¥180,916**
Ordinary income from intersegment transactions	**1,037**	**1,209**	**2,246**	**4,512**	**6,759**	**(6,759)**	**—**
Total	**91,139**	**78,222**	**169,361**	**24,872**	**194,234**	**(13,317)**	**180,916**
Segment profit	**15,772**	**8,265**	**24,037**	**1,816**	**25,854**	**(4,663)**	**21,191**
Segment assets	**7,732,938**	**5,220,060**	**12,952,999**	**93,102**	**13,046,101**	**(49,808)**	**12,996,292**
Segment liabilities	**¥7,377,520**	**¥5,000,588**	**¥12,378,109**	**¥70,016**	**¥12,448,125**	**¥(61,980)**	**¥12,386,145**
Others							
Depreciation	**¥3,853**	**¥2,599**	**¥6,452**	**¥324**	**¥6,776**	**¥(0)**	**¥6,776**
Amortization of goodwill	**—**	**—**	**—**	**—**	**—**	**2,102**	**2,102**
Unamortized balance of goodwill	**—**	**—**	**—**	**—**	**—**	**13,489**	**13,489**
Increase in tangible fixed assets and intangible fixed assets	**¥6,741**	**¥3,927**	**¥10,668**	**¥273**	**¥10,942**	**¥12**	**¥10,955**

	Millions of yen						
	2017						
	Reportable segments			Other segment	Total	Reconciliation	Consolidated
	Hokuriku Bank	Hokkaido Bank	Subtotal				
Ordinary income							
Ordinary income from outside customers	¥92,072	¥78,220	¥170,292	¥18,849	¥189,141	¥(1,721)	¥187,420
Ordinary income from intersegment transactions	923	754	1,678	4,485	6,163	(6,163)	—
Total	92,995	78,974	171,970	23,334	195,304	(7,884)	187,420
Segment profit	18,732	10,943	29,675	2,193	31,868	(3,711)	28,157
Segment assets	7,329,338	5,051,619	12,380,957	88,167	12,469,124	(39,698)	12,429,425
Segment liabilities	¥6,991,212	¥4,841,517	¥11,832,730	¥66,359	¥11,899,089	¥(54,901)	¥11,844,188
Others							
Depreciation	¥3,357	¥2,273	¥5,631	¥261	¥5,893	¥(11)	¥5,881
Amortization of goodwill	—	—	—	—	—	2,943	2,943
Unamortized balance of goodwill	—	—	—	—	—	15,591	15,591
Increase in tangible fixed assets and intangible fixed assets	¥6,405	¥3,184	¥9,590	¥408	¥9,999	¥15	¥10,015

	Thousands of U.S. dollars						
	2018						
	Reportable segments			Other segment	Total	Reconciliation	Consolidated
	Hokuriku Bank	Hokkaido Bank	Subtotal				
Ordinary income							
Ordinary income from outside customers	**$848,105**	**$724,895**	**$1,573,000**	**$191,640**	**$1,764,640**	**$(61,735)**	**$1,702,905**
Ordinary income from intersegment transactions	**9,764**	**11,381**	**21,145**	**42,475**	**63,620**	**(63,620)**	**—**
Total	**857,869**	**736,276**	**1,594,145**	**234,115**	**1,828,260**	**(125,355)**	**1,702,905**
Segment profit	**148,457**	**77,797**	**226,254**	**17,102**	**243,356**	**(43,892)**	**199,464**
Segment assets	**72,787,449**	**49,134,608**	**121,922,057**	**876,339**	**122,798,396**	**(468,832)**	**122,329,564**
Segment liabilities	**$69,442,027**	**$47,068,795**	**$116,510,822**	**$659,038**	**$117,169,860**	**$(583,399)**	**$116,586,461**
Others							
Depreciation	**$36,273**	**$24,466**	**$60,739**	**$3,050**	**$63,789**	**$(6)**	**$63,783**
Amortization of goodwill	**—**	**—**	**—**	**—**	**—**	**19,788**	**19,788**
Unamortized balance of goodwill	**—**	**—**	**—**	**—**	**—**	**126,972**	**126,972**
Increase in tangible fixed assets and intangible fixed assets	**$63,454**	**$36,965**	**$100,419**	**$2,577**	**$102,996**	**$120**	**$103,116**

(4) Information about services

	Millions of yen			
Year ended March 31, 2018	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from outside customers	**¥102,547**	**¥37,241**	**¥41,127**	**¥180,916**

	Millions of yen			
Year ended March 31, 2017	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from outside customers	¥105,420	¥40,630	¥41,369	¥187,420

	Thousands of U.S. dollars			
Year ended March 31, 2018	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from outside customers	**$965,246**	**$350,538**	**$387,121**	**$1,702,905**

(5) Geographic segment information

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

(6) Information by major customer

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

33. Related Party Transactions

Related party transactions as of March 31, 2018 and 2017 were as follows:

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

March 31, 2018

		Transaction amount *5		Balance at end of year	
Related party	Account Classification	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Nakamura-Tome Precision Industry Co., Ltd. *2	Loans and bills discounted	**¥950**	**$8,942**	**¥950**	**$8,942**
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	**¥783**	**$7,370**	**¥783**	**$7,370**
YUGEYA Inc.*3	Loans and bills discounted *6	**¥355**	**$3,341**	**¥332**	**$3,125**
Kimito Tsurui *4	Loans and bills discounted *6	**¥15**	**$141**	**¥14**	**$132**

March 31, 2017

		Transaction amount *5	Balance at end of year
Related party	Account Classification	Millions of yen	Millions of yen
Nakamura-Tome Precision Industry Co., Ltd. *2	Loans and bills discounted	¥950	¥950
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥783	¥783
YUGEYA Inc.*3	Loans and bills discounted *6	¥400	¥377
Kimito Tsurui *4	Loans and bills discounted *6	¥18	¥16

Notes:1. Terms and conditions of the transactions are similar to those with unrelated parties.
2. A member of the Hokuriku Bank's audit & supervisory board and his close relatives own the majority of the voting rights, and he is the president of these companies.
3. A close relative of a member of the Group's directors owns the majority of this company's voting rights.
4. Mr. Tsurui is a close relative of a member of the Group's directors.
5. Transaction amount was reported at the average balance for the period.
6. Land and buildings were pledged as collateral for the loans.

34. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2018 were approved at the Company's general shareholders' meeting held on June 22, 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥44.00 ($0.41) per share of common stock	¥5,766	$54,283
Cash dividends, ¥7.50 ($0.07) per share of preferred stock (Type 5)	805	7,584

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Hokuhoku Financial Group, Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 20, 2018

Member of
Deloitte Touche Tohmatsu Limited

NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokuriku Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
March 31	**2018**	2017	**2018**
Assets			
Cash and due from banks	**¥1,465,060**	¥1,108,739	**$13,790,103**
Call loans and bills bought	**52,753**	89,415	**496,546**
Monetary claims bought	**44,177**	62,585	**415,830**
Trading assets	**1,491**	1,804	**14,038**
Securities	**1,317,103**	1,457,677	**12,397,439**
Loans and bills discounted	**4,670,149**	4,467,623	**43,958,482**
Foreign exchanges	**12,087**	9,496	**113,775**
Other assets	**77,441**	36,436	**728,932**
Tangible fixed assets	**76,791**	77,159	**722,810**
Intangible fixed assets	**5,963**	4,920	**56,135**
Customers' liabilities for acceptances and guarantees	**28,593**	31,547	**269,141**
Allowance for loan losses	**(18,675)**	(18,066)	**(175,782)**
Total assets	**¥7,732,938**	¥7,329,338	**$72,787,449**
Liabilities and equity			
Liabilities			
Deposits	**¥6,505,825**	¥6,243,398	**$61,237,065**
Call money and bills sold	**45,312**	36,267	**426,506**
Payables under repurchase agreements	**18,528**	—	**174,400**
Payables under securities lending transactions	**392,551**	394,220	**3,694,949**
Trading liabilities	**683**	861	**6,430**
Borrowed money	**338,167**	207,747	**3,183,048**
Foreign exchanges	**47**	57	**443**
Other liabilities	**21,181**	53,501	**199,369**
Reserve for employee retirement benefits	**1,132**	1,608	**10,660**
Reserve for directors' and audit & supervisory board members' retirement benefits	**43**	43	**409**
Reserve for contingent losses	**876**	925	**8,249**
Reserve for reimbursement of deposits	**1,331**	1,075	**12,533**
Deferred tax liabilities	**17,760**	14,272	**167,169**
Deferred tax liabilities for land revaluation	**5,487**	5,686	**51,656**
Acceptances and guarantees	**28,593**	31,547	**269,141**
Total liabilities	**7,377,520**	6,991,212	**69,442,027**
Equity			
Capital stock	**140,409**	140,409	**1,321,626**
Capital surplus	**14,998**	14,998	**141,179**
Retained earnings	**122,717**	108,584	**1,155,093**
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	**69,625**	66,348	**655,358**
Deferred gains (losses) on hedges	**(975)**	(1,208)	**(9,183)**
Revaluation reserve for land	**8,642**	8,993	**81,349**
Total equity	**355,417**	338,125	**3,345,422**
Total liabilities and equity	**¥7,732,938**	¥7,329,338	**$72,787,449**

NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokuriku Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Income			
Interest income:			
Interest on loans and discounts	**¥47,486**	¥49,944	**$446,974**
Interest and dividends on securities	**18,106**	17,033	**170,427**
Interest on deposits with other banks	**646**	627	**6,089**
Other interest income	**226**	509	**2,128**
Fees and commissions	**16,262**	15,934	**153,073**
Trading income	**45**	71	**423**
Other ordinary income	**2,013**	1,879	**18,953**
Other income	**6,444**	7,099	**60,663**
Total income	**91,231**	93,100	**858,730**
Expenses			
Interest expenses:			
Interest on deposits	**1,047**	1,308	**9,859**
Interest on payables under repurchase agreements	**148**	—	**1,398**
Interest on payables under securities lending transactions	**1,713**	1,421	**16,132**
Interest on borrowings and rediscounts	**412**	628	**3,885**
Other interest expenses	**1,986**	1,951	**18,702**
Fees and commissions	**7,154**	6,905	**67,338**
Other ordinary expenses	**3,385**	4,075	**31,864**
General and administrative expenses	**48,154**	50,096	**453,263**
Provision of allowance for loan losses	**1,671**	—	**15,735**
Other expenses	**3,293**	2,575	**31,003**
Total expenses	**68,968**	68,965	**649,179**
Income before income taxes	**22,262**	24,135	**209,551**
Income taxes:			
Current	**5,502**	3,947	**51,796**
Deferred	**987**	1,455	**9,298**
Net income	**¥15,772**	¥18,732	**$148,457**

NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokkaido Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
March 31	**2018**	2017	**2018**
Assets			
Cash and due from banks	**¥923,208**	¥644,373	**$8,689,835**
Trading account securities	**2,906**	2,842	**27,359**
Money held in trust	**9,491**	9,251	**89,338**
Securities	**626,231**	981,696	**5,894,497**
Loans and bills discounted	**3,519,283**	3,320,734	**33,125,787**
Foreign exchanges	**6,694**	6,763	**63,017**
Other assets	**94,949**	49,722	**893,728**
Tangible fixed assets	**29,151**	29,235	**274,391**
Intangible fixed assets	**4,563**	3,407	**42,952**
Deferred tax assets	**1,110**	5,326	**10,449**
Customers' liabilities for acceptances and guarantees	**24,646**	24,181	**231,987**
Allowance for loan losses	**(22,175)**	(25,916)	**(208,731)**
Total assets	**¥5,220,060**	¥5,051,619	**$49,134,609**
Liabilities and equity			
Liabilities			
Deposits	**¥4,674,943**	¥4,487,666	**$44,003,608**
Payables under securities lending transactions	**33,725**	140,142	**317,446**
Borrowed money	**249,400**	139,792	**2,347,515**
Foreign exchanges	**139**	45	**1,310**
Other liabilities	**14,513**	40,996	**136,609**
Reserve for employee retirement benefits	**2,048**	7,504	**19,284**
Reserve for directors' and audit & supervisory board members' retirement benefits	**104**	104	**985**
Reserve for contingent losses	**477**	567	**4,498**
Reserve for reimbursement of deposits	**589**	514	**5,553**
Acceptances and guarantees	**24,646**	24,181	**231,987**
Total liabilities	**5,000,588**	4,841,517	**47,068,795**
Equity			
Capital stock	**93,524**	93,524	**880,309**
Capital surplus	**16,795**	16,795	**158,086**
Retained earnings	**86,931**	81,250	**818,253**
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	**22,221**	18,531	**209,166**
Total equity	**219,472**	210,101	**2,065,814**
Total liabilities and equity	**¥5,220,060**	¥5,051,619	**$49,134,609**

NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokkaido Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Income			
Interest income:			
Interest on loans and discounts	**¥43,438**	¥44,214	**$408,873**
Interest and dividends on securities	**8,438**	9,637	**79,428**
Interest on receivables under resale agreements	**(10)**	(1)	**(98)**
Interest on deposits with other banks	**275**	285	**2,597**
Other interest income	**177**	157	**1,667**
Fees and commissions	**17,199**	17,341	**161,893**
Other ordinary income	**1,382**	1,738	**13,017**
Other income	**9,838**	5,601	**92,606**
Total income	**80,740**	78,974	**759,983**
Expenses			
Interest expenses:			
Interest on deposits	**462**	533	**4,356**
Interest on payables under securities lending transactions	**305**	61	**2,872**
Interest on borrowings and rediscounts	**187**	311	**1,768**
Other interest expenses	**7**	2	**73**
Fees and commissions	**9,591**	8,543	**90,280**
Other ordinary expenses	**12,369**	4,549	**116,429**
General and administrative expenses	**42,317**	43,177	**398,317**
Other expenses	**4,267**	6,621	**40,173**
Total expenses	**69,509**	63,801	**654,268**
Income before income taxes	**11,231**	15,173	**105,715**
Income taxes:			
Current	**498**	2,605	**4,690**
Deferred	**2,467**	1,623	**23,228**
Net income	**¥8,265**	¥10,943	**$77,797**

Business activities

The Hokuhoku Financial Group is composed of the holding company and 12 consolidated subsidiaries and one affiliate. Our core business is banking, and we also provide a wider range of financial services including leases, credit cards, loan guarantees and venture capital. The following is a diagram of our business.

Business diagram

Hokuhoku Financial Group, Inc.

- **The Hokuriku Bank, Ltd.**
  - **Hokugin Business Services Co., Ltd.** (Document management, concentrated business processing)
- **Hokuhoku Tokai Tokyo Securities Co., Ltd.** (Financial instruments business)
- **Hokugin Lease Co., Ltd.** (Leasing)
- **Hokuriku Card Co., Ltd.** (Credit card operations)
- **Hokuriku Hosho Services Co., Ltd.** (Loan guarantees)
- **Hokugin Software Co., Ltd.** (Software development)
- **Hokuhoku Services Co., Ltd.** (Servicer)
- **Hokuhoku Capital Co., Ltd.*** (Venture capital)
- **The Hokkaido Bank, Ltd.**
  - **Dogin Business Service, Ltd.** (Document management, cash management, concentrated business processing)
  - **Dogin Card Co., Ltd.** (Credit card operations, loan guarantees)
  - **Dogin Regional Research Institute Co., Ltd.** (Research on regional economy, survey research services, consulting)

* Equity method-affiliated company

Major subsidiaries

(units: millions of yen, %)

Company name	Address	Main business activities	Established	Capital	FG's share of voting rights	Dividend
The Hokuriku Bank, Ltd.	1-2-26 Tsutsumicho-dori, Toyama City	Banking	July 31, 1943	140,409	100.00	1,990
The Hokkaido Bank, Ltd.	4-1 Odori Nishi, Chuo-ku, Sapporo City	Banking	March 5, 1951	93,524	100.00	2,584
Hokuhoku Tokai Tokyo Securities Co., Ltd.	1-8-10 Marunouchi, Toyama City	Financial instruments business	April 21, 2016	1,250	60.00	—
Hokugin Lease Co., Ltd.	2-21 Aramachi, Toyama City	Leasing	July 21, 1983	100	70.25	—
Hokuriku Card Co., Ltd.	1-2-1 Shintomi-cho, Toyama City	Credit card operations	March 2, 1983	36	87.39	3
Hokuriku Hosho Services Co., Ltd.	1-2-26 Tsutsumicho-dori, Toyama City	Loan guarantees	December 12, 1978	50	100.00	—
Hokugin Software Co., Ltd.	1-5-25 Higashidenjigata, Toyama City	Software development	May 1, 1986	30	100.00	—
Hokuhoku Services Co., Ltd.	1-6-8 Chuo-dori, Toyama City	Servicer	December 5, 2003	500	100.00	—
Hokugin Business Services Co., Ltd.	1883 Hiyodorijima, Toyama City	Document management, concentrated business processing	March 25, 1953	30	(100.00)	—
Dogin Business Service, Ltd.	4-1 Odori Nishi, Chuo-ku, Sapporo City	Document management, cash management, concentrated business processing	June 8, 1979	50	(100.00)	—
Dogin Card Co., Ltd.	2-2-14 Chuo-ku Minami, Sapporo City	Credit card operations, loan guarantees	June 13, 1977	120	(100.00)	—
Dogin Regional Research Institute Co., Ltd.	Dogin Annex Building, 4-1 Odori Nishi, Chuo-ku, Sapporo City	Research on regional economy, survey research services, consulting	August 8, 2002	100	(100.00)	—
Hokuhoku Capital Co., Ltd.	1-6-8 Chuo-dori, Toyama City	Venture capital	January 11, 1985	250	5.00 (38.75)	—

( ) Indicates voting rights involving shares held by subsidiaries

The Hokuriku Bank, Ltd.

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

Establishment

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

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

Company outline (as of March 31, 2018)

Company name:	The Hokuriku Bank, Ltd.
Business:	Banking
Incorporation:	July 31, 1943 (founded in 1877)
Location of headquarters:	1-2-26 Tsutsumicho-dori, Toyama City, Toyama
Total assets:	¥7,732.9 billion
Deposits (including NCDs):	¥6,505.8 billion
Loans and bills discounted:	¥4,670.1 billion
Issued shares:	
Common stock:	1,047,542,335
Capital adequacy ratio (non-consolidated):	9.02%
Employees:	2,732
Branches (as of June 30, 2018)	
Domestic:	187 (145 branches, 42 sub-branches)
Overseas:	6 representative offices

History

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

The Hokkaido Bank, Ltd.

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

Establishment

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

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

Company outline (as of March 31, 2018)

Company name:	The Hokkaido Bank, Ltd.
Business:	Banking
Incorporation:	March 5, 1951
Location of headquarters:	4-1 Odori Nishi, Chuo-ku, Sapporo City
Total assets:	¥5,220.0 billion
Deposits (including NCDs):	¥4,674.9 billion
Loans and bills discounted:	¥3,519.2 billion
Issued shares:	
Common stock:	486,634,512
Preferred stock (Type 2):	107,432,000
Capital adequacy ratio (non-consolidated):	9.28%
Employees:	2,309
Branches (as of June 30, 2018)	
Domestic:	142 (136 branches, 6 sub-branches)
Overseas:	3 representative offices

History

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

DIRECTORS

Hokuhoku Financial Group, Inc.

President:
Eishin Ihori

Deputy President:
Masahiro Sasahara

Directors:
Hidenori Mugino
Yuji Kanema
Takeshi Yoshida
Takashi Asabayashi
Takayuki Kaji

Directors serving as Audit and Supervisory Committee Members:
Satoshi Kikushima
Tatsuo Kawada
Ryoji Nakagawa
Masaaki Manabe
Nobuya Suzuki

The Hokuriku Bank, Ltd.

Chairman:
Hidenori Mugino

President:
Eishin Ihori

Senior Managing Director:
Takeshi Yoshida

Managing Directors:
Takashi Asabayashi
Hiroaki Ishida
Hiroshi Nakazawa

Directors:
Takayuki Kaji

Audit & Supervisory Board Members:
Keiichi Akai
Kenichi Nakamura
Isao Nagahara
Katsusuke Watanuki

The Hokkaido Bank, Ltd.

Chairman:
Yoshihiro Sekihachi

President:
Masahiro Sasahara

Deputy President:
Takashi Ohki

Managing Directors:
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Takashi Ogura

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北北金融控股集团简要

企业名称：北北金融控股集团股份有限公司

设立日期：2003年9月26日

总行地址：富山县富山市堤町通1丁目2番26号

经营目的：集团伞下的子公司的经营管理，以及连带的相关业务

资本金：708亿9,500万日元

发行股份：普通股 132,163,014股

第一次第5种优先股........ 107,432,000股

上市交易所：东京证券交易所（第一部）

札幌证券交易所

简历

自从1877年北陆银行成立以来已经在北陆地区设立了广域性的经营网点。

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

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

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

2002年5月　北陆银行和北海道银行缔结了全面业务协助协议

2003年5月　北陆银行和北海道银行对经营统合取得一致意见

2003年9月　设立北银金融控股集团股份有限公司

北陆银行成为北银金融控股集团伞下的银行

↓

通过股份交换实现经营统合

2004年9月　**北北金融控股集团股份有限公司诞生**

注：北银金融控股集团股份有限公司改名为北北金融控股集团股份有限公司。

北北金融集团的经营活动范围不是限于一个地域，而是在广泛的地域内展开着。

我们广泛的营业网点分布在下面所写的地区范围里：

北陆地区	**150分行（或支行）**
富山县	92分行（或支行）
石川县	36分行（或支行）
福井县	22分行（或支行）
北海道地区	**159分行（或支行）**
三大都市圈	**16分行（或支行）**
东京、横滨	9分行（或支行）
名古屋	3分行（或支行）
大阪、京都	4分行（或支行）
其他地区（仙台、新泻、长野、高山）	**4分行（或支行）**
海外	**9代表处**

纽约代表处　（北陆银行）

南萨哈林斯克代表处　（北海道银行）

符拉迪沃斯托克代表处（北海道银行）

伦敦代表处　（北陆银行）

新加坡代表处（北陆银行）

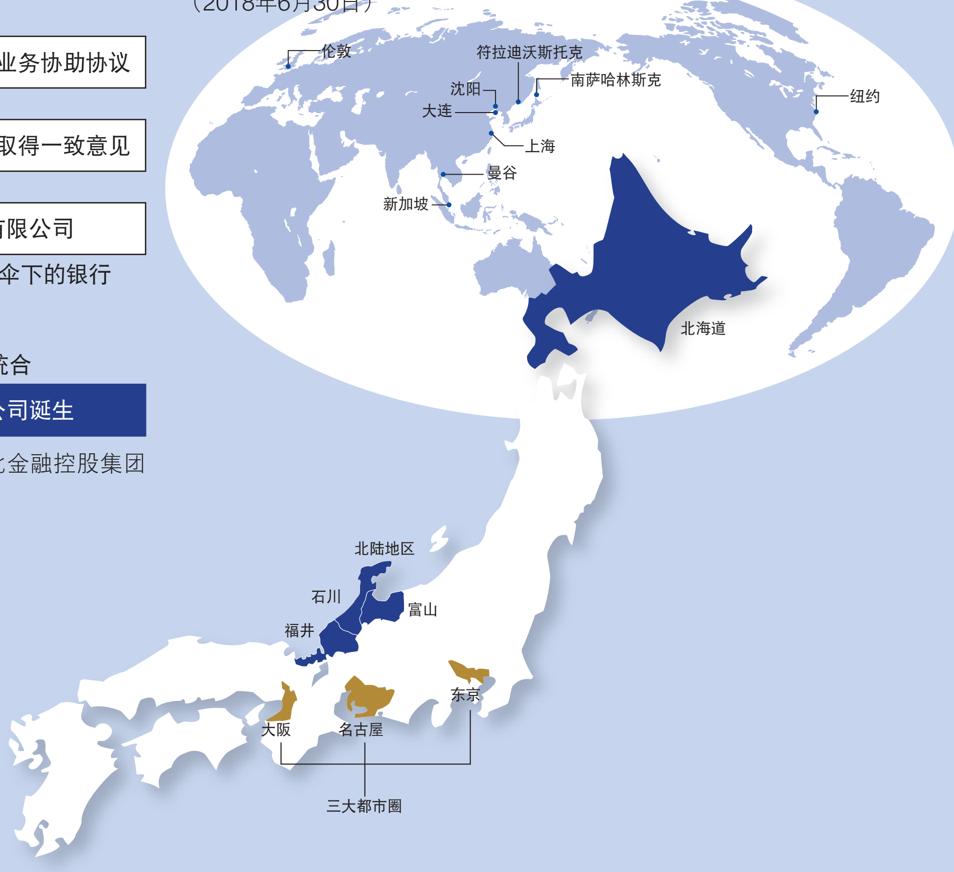
曼谷代表处　（北陆银行）

大连代表处　（北陆银行）

上海代表处　（北陆银行）

沈阳代表处　（北海道银行）

（2018年6月30日）



北北金融控股集团 董事致辞

（相片左边）
董事长
庵　荣伸（北陆银行 总行长）

（右边）
董事副社长
笹原晶博（北海道银行 总行长）

大家好！
衷心感谢各位一直以来对北北金融控股集团的关怀与厚爱。在此我们为各位送上本集团《年度报告2018》。报告中介绍了2017年度的业绩和各种经营措施，敬请各位过目予以理解。

2017年度我国的经济，正处于出口增长阶段，进行设备投资和库存投资的企业内需恢复非常明显，随着雇用，收入环境的改善，个人消费也在缓慢恢复。另一方面，在以美国为首的其他发达国家的经济景气在不断扩大，中国经济也在稳定地发展，所以海外经济复苏放缓。

在本集团的主要营业地区北陆三县，除了电子零部件和业务用机器等行业的生产水平增长，个人消费也稳步好转，劳动力市场的紧缩也变得显著。另外，在北海道，以灾后重建为中心的公共项目投资促进了经济增长，加上以旅游行业的设备投资的增势和稳健的个人消费为背景，北海道经济整体形势处于复苏状态。

有关围绕本集团的经济环境，一方面我们期待着世界经济的恢复，另一方面，美国政权的政策运营、欧洲的政治形势、中国经济的动向等也存在着不确定性，加上这些因素对国内经济的影响，目前很难预测未来的经济状况。

在金融领域，继续执行超低利率的金融环境，拓展利用金融科技等IT技术的金融服务业务，对金融机构的传统业务模式带来了巨大的影响。

为了构建适应这种环境变化的新商业模式，本集团将2016年度～2018年度定为计划期间，制定了中期经营计划“BEST for the Region”，我们以“营业力的强化”“经营的效率化”和“经营基础的坚韧化”为支柱，正在采取各种措施。

① 营业力的强化

将顾客本位的想法放在首位，继续致力于人才培养、商品性的改善、提高利用IT进行各种交易的简捷化，正确掌握顾客需求和课题，为了能够提供适当的建议而努力。

② 经营的效率化

根据市场情况，设置提供整体金融服务的完整银行业务（Full banking）店铺和以个人营业为主的店铺，实现营业店铺效率化运营。另外，通过扩大事务处理的机械化和总部集中化，努力提高效率和生产率。

关于系统投资，将进一步推进北陆银行、北海道银行的各种系统的统一化，致力于抑制投资额、提高服务和业务合理化。

③ 经营基础的坚韧化

今年也将按照计划积累收益，以维持并提高健全的财务基础为目标。

另外，为了强化本集团企业的经营管理体制，努力充实董事会上的重要议案的审议，活用公司外董事的知识见解和经验、发挥审计等委员会的监督功能，提高董事会机能的实效性来加强治理。

通过切实地积累各种措施的成果，为了提高企业价值，集团全体人员将团结一心共同努力。
希望大家一如既往地支我公司集团。

董事长

庵　荣伸

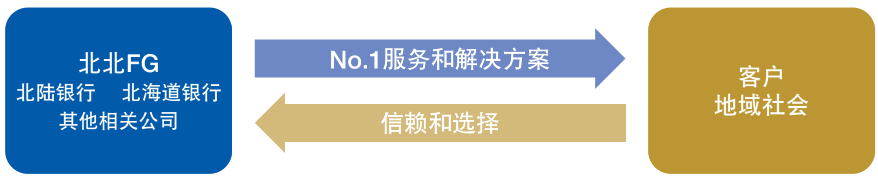
2018年7月

本公司集团将从2016年4月开始的未来3年定位为“为了在预期的环境变化中支援地域经济，进一步追求商业模式的变革和集团的协同效果的期间”，并且开始了中期经营计划“BEST for the Region”。

在发挥广域网优势的同时，通过构建高效的集团经营体制，努力为地区提供No.1的金融服务，通过为客户和地域社会作贡献来担负“地方再生”的任务，努力成为与地域共同成长和发展的金融集团。

■ 计划的概要

名称	中期经营计划　“BEST for the Region”
期间	3年（2016年4月～2019年3月）
定位	为了在预期的环境变化中支援地域经济，进一步追求商业模式的变革和集团的协同效果的期间
目标姿态	通过向地域提供最强的金融服务，为客户和地域社会作贡献来担负“地方再生”的任务，成为与地域共同发展和成长的金融集团。



基本方针	①　营业力的强化　　～超出顾客期望的建议能力、服务能力的实现 ②　经营的效率化　　～在竞争中胜出的功能性组织的追求 ③　经营基础的坚韧化～为地域信赖的稳定的财务基础的构建

■ 中期经营计划中作为目标的计数（2家银行合算·联结）

	2017年3月期（业绩）	2018年3月期（业绩）	2019年3月期（目标）
存款平均余额	10兆4,096亿日元	10兆7,687亿日元	10兆5,600亿日元
贷款平均余额	7兆6,848亿日元	7兆9,616亿日元	7兆7,600亿日元
主营业务毛利润	1,329亿日元	1,267亿日元	1,345亿日元
经费	898亿日元	888亿日元	930亿日元
主营业务净利润	430亿日元	379亿日元	415亿日元
信贷相关成本	–6亿日元	5亿日元	60亿日元
归属于母公司股东的净利润	281亿日元	211亿日元	230亿日元
联结资本充足率	9.43%	9.49%	9.55%
OHR（以主营业务毛利润为基础）	67.58%	70.05%	69.14%

根据计划基本方针对策的展开

营业力的强化　～超出顾客期望的建议能力、服务能力的实现

(1) 致力于个人市场

① 通过致力于针对资产形成层和资产运用层的生命阶段的建议和以遗产为首的针对资产继承支援，为地域客户提供有用的信息和相关商品以及服务的向导。

② 为了让更多的客户选择，通过提高贷款的商品性和便利性以及强化宣传来对应各种各样的借款需求。

③ 通过提高面对面、非面对面渠道的功能，目标成为身边值得信赖的主要交易银行。

(2) 致力于法人市场

① 磨砺事业性评价和鉴定力，通过与企业之间的密切关系，共享经营课题和需求，并且提供本集团所拥有的各种解决方案，贡献于地域产业的成长和发展。

② 发挥本公司集团的强项即北海道，北陆，3大城市圈的广区域国内网络，支援商务对接，并且利用丰富的海外网点来支援海外商务活动。

(3) 强化有价证券的运用

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

经营的效率化　～在竞争中胜出的功能性组织的追求

(1) 投资于通讯技术促使了无纸化和业务处理简捷化，再加上通过强化后勤办公室在集团内的共同化和集中化，提高生产性和构建高效的业务营运体制。

(2) 通过现有店铺的区域运营体制的改变以及引进各种营业方式的店铺、重新配置适合地域和市场的店铺，强化非面对面渠道，致力提供能够满足地域的客户需求的金融功能和方便使用的环境。

经营基础的坚韧化　～为地域信赖的稳定的财务基础的构建

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

营业概况（北北金融控股集团联结）

（单位：亿日元）

	2017年度	变动	2016年度
经常收益	1,809	−65	1,874
经常利润	317	−76	394
归属于母公司股东的净利润	211	−69	281
资本充足率	9.49%	0.06%	9.43%

我集团本期联结会计年度的业绩：本期联结经常收益与上年度相比减少了65亿日元，为1,809亿日元。联结经常利润与上年度相比减少了76亿日元，为317亿日元。归属于母公司股东的净利润减少了69亿日元，为211亿日元。

联结资本充足率达到了9.49%。

2017年度的股息：普通股于期末每股支付了44.00日元股息，对第一次第5种优先股按照原定计划分别于期中和期末每股支付了7.50日元 (即年度股息为15日元)。

营业概况（北陆银行，北海道银行）

（单位：亿日元）

	2行合算 2017年度	变动	2行合算 2016年度
经常收益	1,647	−63	1,710
主营业务毛利润	1,267	−61	1,329
经费（临时处理部分除外）	888	−10	898
主营业务净利润	379	−51	430
信贷相关成本	5	12	−6
经常利润	331	−70	402
本期净利润	240	−56	296

2行合算的经常收益与上年度相比减少63亿日元，为1,647亿日元。本期净利润与上年度相比减少56亿日元，为240亿日元。

北陆银行的经常收益与上年度相比减少18亿日元，为911亿日元。本期净利润与上年度相比减少29亿日元，为157亿日元。

北海道银行经常收益与上年度相比减少7亿日元，为782亿日元。本期净利润与上年度相比减少26亿日元，为82亿日元。

（单位：亿日元）

	北陆银行 2017年度	变动	北陆银行 2016年度	北海道银行 2017年度	变动	北海道银行 2016年度
经常收益	911	−18	929	782	−7	789
主营业务毛利润	712	−16	729	595	−13	608
经费（临时处理部分除外）	475	−7	482	413	−2	415
主营业务净利润	237	−9	247	182	−10	192
信贷相关成本	18	25	−6	−12	−12	−0
经常利润	241	−6	248	89	−63	153
本期净利润	157	−29	187	82	−26	109
资本充足率	9.02%	0.28%	8.74%	9.28%	−0.06%	9.34%

Hokuhoku Financial Group, Inc.

Printed in Japan