



Annual Report 2019

Year ended March 31, 2019

Hokuhoku Financial Group, Inc.

Company outline (as of March 31, 2019)

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.

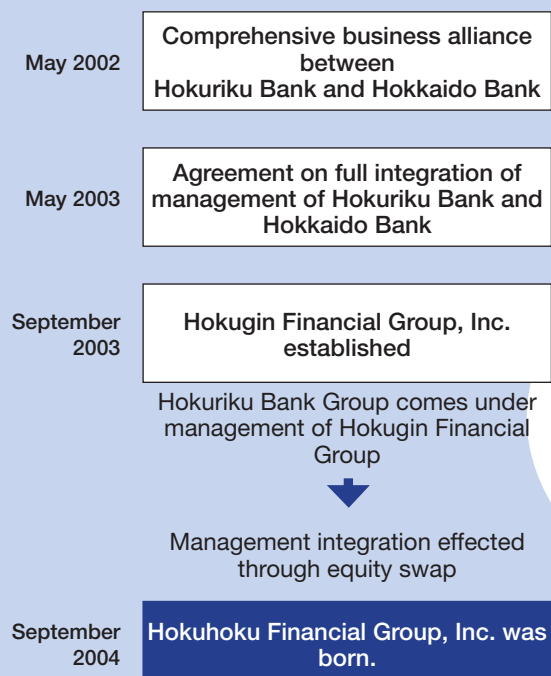
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Profile

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 Hokuohoku Financial Group Inc., which today operates a super-regional financial network that encompasses the Hokuriku region, Hokkaido, and Japan’s three major metropolitan areas (Tokyo, Osaka, and Nagoya areas).



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

Our extensive network is outlined below.

Hokuriku district 150 branches

Toyama prefecture.....	92 branches
Ishikawa prefecture	36 branches
Fukui prefecture.....	22 branches

Hokkaido 161 branches

Three major metropolitan areas 16 branches

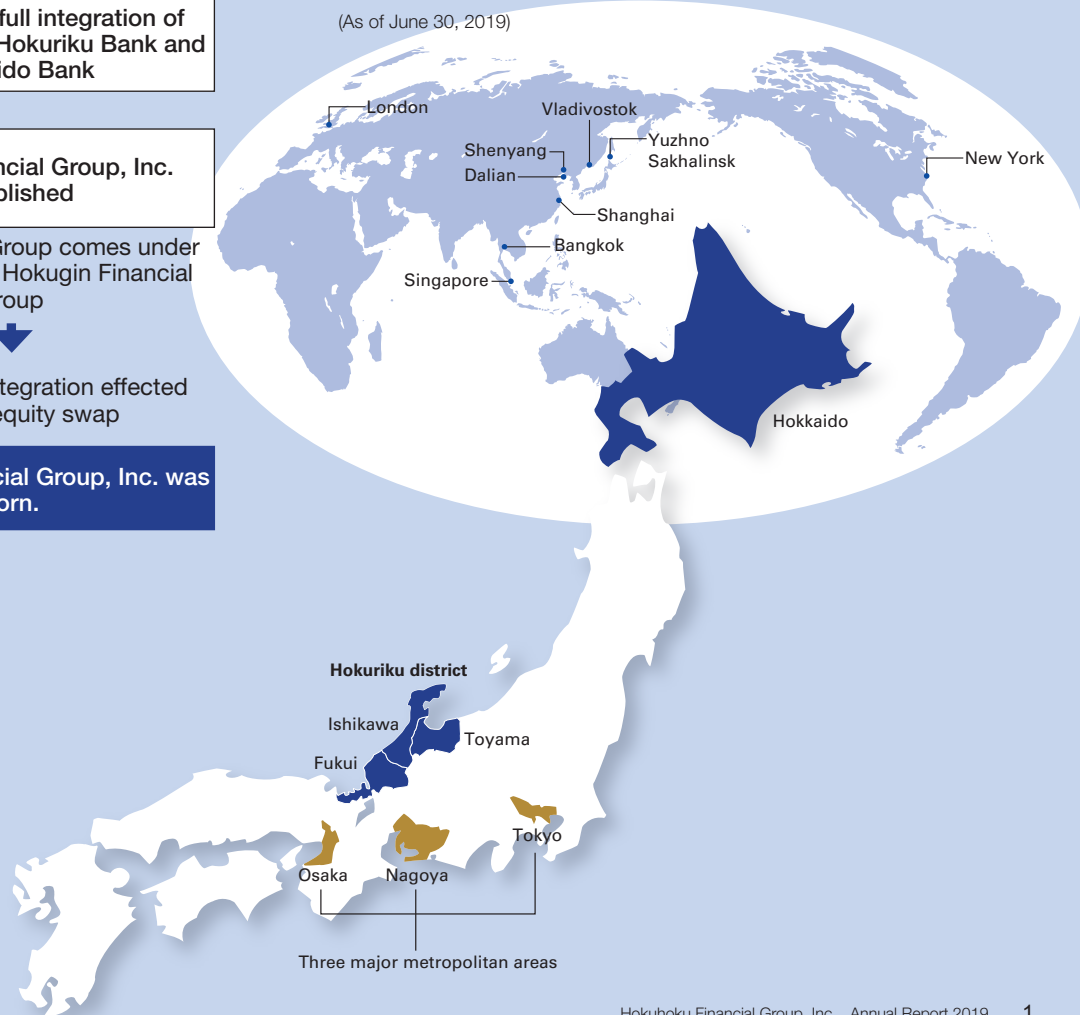
Tokyo and Yokohama	9 branches
Nagoya	3 branches
Osaka and Kyoto	4 branches

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

Overseas 9 offices

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

(As of June 30, 2019)



MESSAGE FROM THE MANAGEMENT



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

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

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

With respect to the economic environment surrounding the Group, there are opaque elements in both the global economy and the Japanese economy, including trade friction between the United States and China, the Brexit problem, and the decline in exports due to these issues. As a result, the future remains difficult to predict.

In the field of finance, the environment has become increasingly challenging and changes are ongoing, including the prolonged low interest rate environment, the population decline and the aging of society, as well as the acceleration of digitalization. Financial institutions are being forced to reform their conventional business models in order to increase the level of convenience for users and further rationalize management.

Aiming to build a new business model that can respond to these changes in the business environment, we have been working on a new Medium-term Management plan “ALL for the Region” from this fiscal year.

The Group’s aim is to “Contribute to customers and local communities by providing No.1 financial services and solutions for the region, and achieve growth and development together with them.” Toward this goal, the Group has set the basic policies of “Contribution to community development,” “Evolution and change to the future,” and “Exercise the Group’s comprehensive strength,” and the Group will implement a variety of measures to increase corporate value and shareholder value.

We ask for your continued support and patronage.

July 2019



Eishin Ihori
President



Masahiro Sasahara
Deputy President

MEDIUM-TERM MANAGEMENT PLAN

Under the previous Medium-term Management Plan, interest on loans and discounts continued a downward trend due to the decline in interest rates.

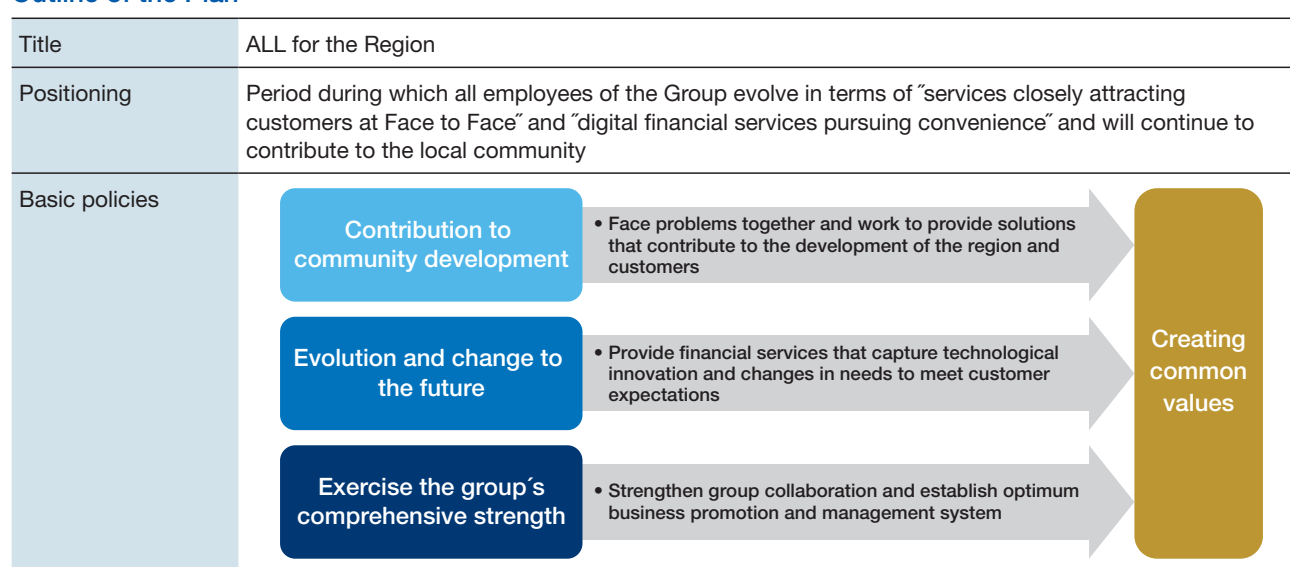
In addition, interest and dividends on securities declined due to the large redemptions of government bonds, along with other factors.

Meanwhile, we worked to reduce expenses through efforts to improve efficiency and productivity. This, along with the solid recovery of the Japanese economy, resulted in lower-than-expected credit-related costs, and consolidated net income thus exceeded our target.

The new Medium-Term Management plan “ALL for the Region” positions the three years starting from April 2019 as a “Period during which all employees of the Group evolve in terms of both ‘services that empathize with Face to Face customers’ and ‘digital financial services pursuing convenience’ and in which we will continue to contribute to the local community.”

All of the Group’s executives and employees will work as one to become a comprehensive financial services group that contributes to customers and local communities by providing No. 1 financial services and solutions, creates shared value, and achieves growth and development together with them.

Outline of the Plan



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

	FY2018 Plan	FY2018 Result
Ave. balance of deposits (Excluding NCD)	¥10,560.0 billion	¥11,086.8 billion
Ave. balance of loans	¥7,760.0 billion	¥8,223.0 billion
Core net business profits	¥41.5 billion	¥39.1 billion
Net income attributable to owners of the parent	¥23.0 billion	¥24.3 billion
(Consolidated) Capital adequacy	9.55%	9.09%
OHR (Core gross business profit basis)	69.14%	68.85%

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

	FY2021 Target
Main business profit*	Over ¥22 billion
Consolidated net income	Over ¥22 billion
Capital Adequacy Ratio	Maintain 8% level
OHR	Maintain under 70% level

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

Key initiatives in each strategic area based on the basic policies

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

PERFORMANCE HIGHLIGHTS

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

	FY2018		FY2017
		Y-o-Y Change	
Ordinary income	183.6	2.7	180.9
Ordinary profits	35.3	3.5	31.7
Net income attributable to owners of the parent	24.3	3.1	21.1
Capital adequacy ratio	9.09%	(0.40%)	9.49%

With regard to the Company's operating performance in the fiscal year ended March 31, 2019, consolidated ordinary income rose by ¥2.7 billion year-on-year to ¥183.6 billion. Consolidated ordinary profits increased by ¥3.5 billion to ¥35.3 billion.

Net income attributable to owners of the parent increased by ¥3.1 billion to ¥24.3 billion.

The capital adequacy ratio was 9.09% 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, 2019, 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>

	FY2018		FY2017
		Y-o-Y Change	
Ordinary income	165.7	(3.6)	169.3
Core gross business profits	125.7	(5.0)	130.7
Expenses (excluding temporarily processed portion)	86.5	(2.2)	88.8
Core net business profits	39.1	(2.8)	41.9
Credit costs	4.6	4.0	0.5
Ordinary profits	36.7	3.5	33.1
Net income	26.6	2.5	24.0

Total ordinary income for both banks was ¥165.7 billion, down ¥3.6 billion year-on-year, while net income increased by ¥2.5 billion to ¥26.6 billion.

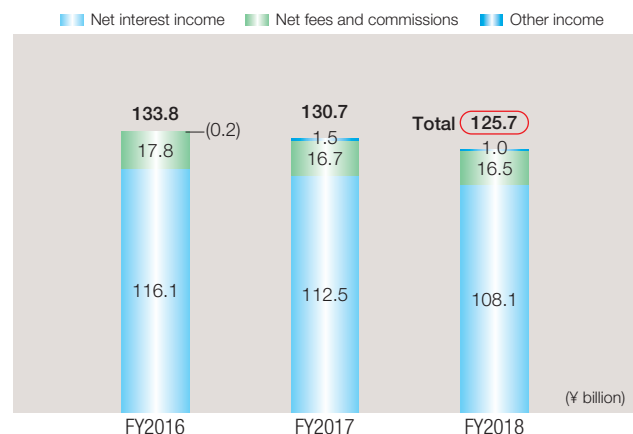
At Hokuriku Bank, ordinary income decreased by ¥0.9 billion to ¥90.2 billion and net income decreased by ¥0.1 billion year-on-year to ¥15.5 billion.

At Hokkaido Bank, ordinary income decreased by ¥2.7 billion to ¥75.5 billion and net income increased by ¥2.7 billion year-on-year to ¥11.0 billion.

	FY2018		FY2017
		Y-o-Y Change	
Ordinary income	90.2	(0.9)	91.1
Core gross business profits	69.1	(2.0)	71.2
Expenses (excluding temporarily processed portion)	46.4	(1.0)	47.5
Core net business profits	22.6	(1.0)	23.7
Credit costs	2.8	0.9	1.8
Ordinary profits	22.1	(1.9)	24.1
Net income	15.5	(0.1)	15.7
Capital adequacy ratio	8.79%	(0.23%)	9.02%

	FY2018		FY2017
		Y-o-Y Change	
Ordinary income	75.5	(2.7)	78.2
Core gross business profits	56.5	(2.9)	59.5
Expenses (excluding temporarily processed portion)	40.1	(1.1)	41.3
Core net business profits	16.4	(1.7)	18.2
Credit costs	1.7	3.0	(1.2)
Ordinary profits	14.5	5.5	8.9
Net income	11.0	2.7	8.2
Capital adequacy ratio	8.69%	(0.59%)	9.28%

Core Gross Business Profits <Total of both banks>



■ Net interest income.....¥108.1 billion

Due to falls in interest on loans and discounts and interest and dividends on securities, net interest income declined by ¥4.3 billion year on year.

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

Due to increases in loan insurance expenses, and loan guarantee expenses, net fees and commissions declined by ¥0.1 billion year on year.

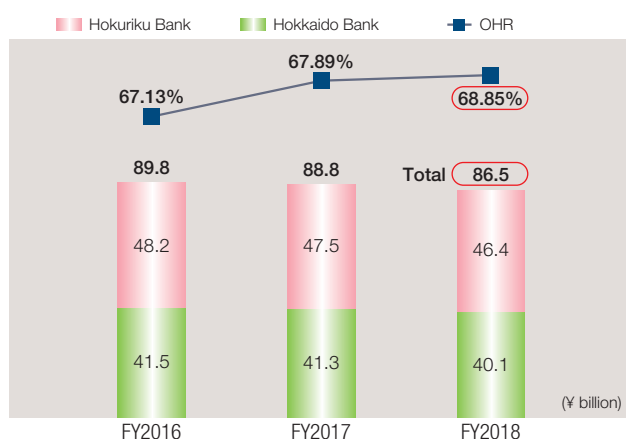
■ Other income.....¥1.0 billion

Due to a fall in the gain on sales of loan receivables, other income declined by ¥0.5 billion year on year.

■ Core gross business profits.....¥125.7 billion

As a result of the above, core gross business profits decreased by ¥5.0 billion year on year.

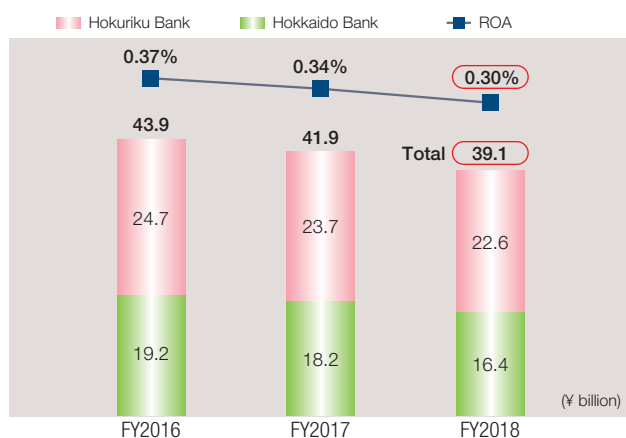
Expenses <Total of both banks>



Expenses.....¥86.5 billion

Due to declines in personal expenses and non-personnel expenses, expenses fell by ¥2.2 billion year on year.

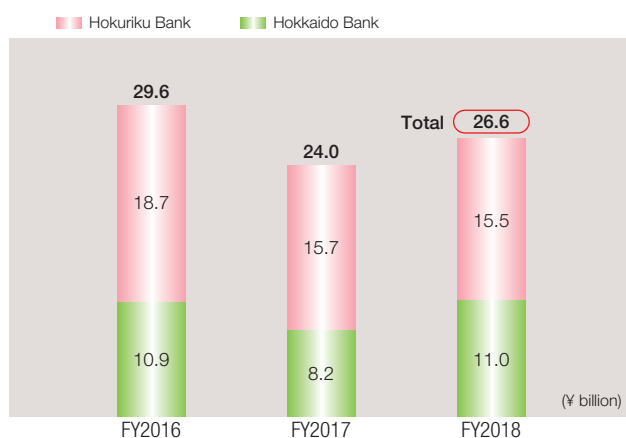
Core Net Business Profits <Total of both banks>



Core net business profits.....¥39.1 billion

Expenses declined but core gross business profits also fell. As a result, core net business profits declined by ¥2.8 billion year on year.

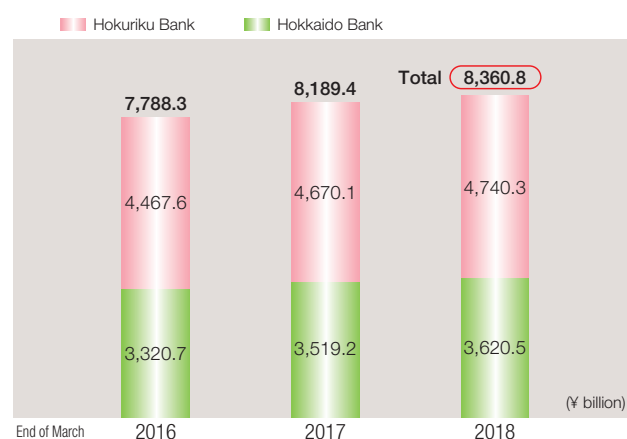
Net Income <Total of both banks>



Net income.....¥26.6 billion

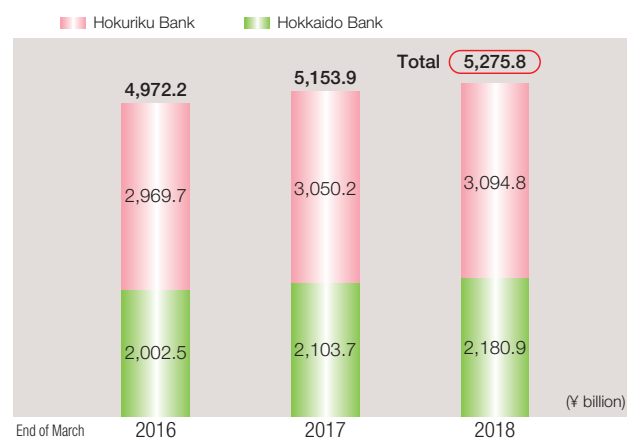
Due mainly to an increase in the net gains related to bonds, net income rose by ¥2.5 billion year on year.

Loans and Bills Discounted <Total of both banks>



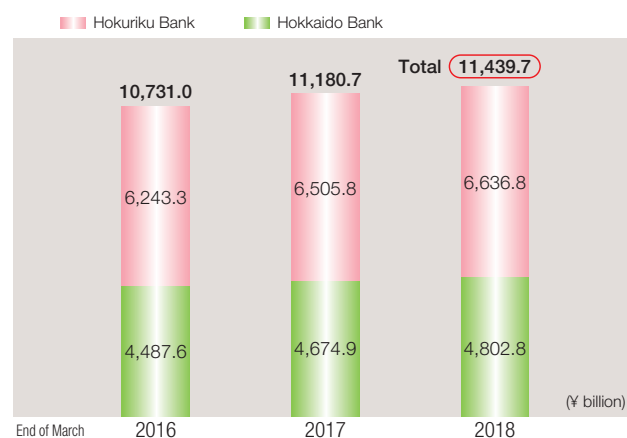
Loans and bills discounted.....¥8,360.8 billion
Due to the increase in loans to SMEs and individuals, including housing and consumer loans, there was an increase of ¥171.4 billion compared with the end of the previous fiscal year.

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



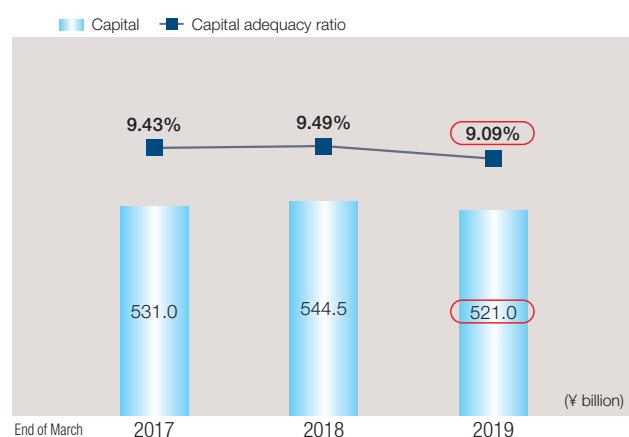
Loans to SMEs.....¥5,275.8 billion

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



Deposits (including negotiable certificates of deposit).....¥11,439.7 billion
Deposits increased by ¥258.9 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.....9.09%

Due to a decline in capital from the repayment of subordinated debts, the capital adequacy ratio declined by 0.39 percentage points compared with the end of the previous fiscal year.

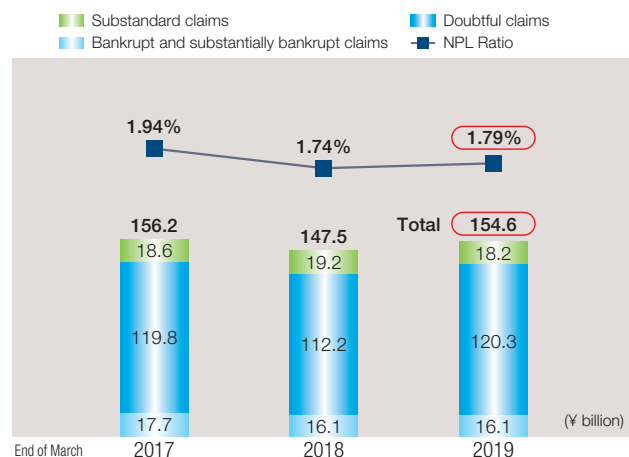
Disclosed Claims under the Financial Reconstruction Law <Total of both banks>

Disclosed claims under the Financial Reconstruction Law.....¥154.6 billion

Disclosed claims under the Financial Reconstruction Law rose by ¥7.1 billion compared with the end of the previous fiscal year.

NPL ratio.....1.79%

The NPL ratio fell by 0.05 percentage points compared with the end of the previous fiscal year.



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

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

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

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

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

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

Ratings

Rating and Investment
Information, Inc.
R&I



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

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

CHARACTERISTICS OF OUR MAIN BUSINESS AREA

Population and Square Measure*1

	Toyama Prefecture a	Ishikawa Prefecture b	Fukui Prefecture c	Total a + b + c	Hokkaido
Population (Ranking)	1.06Mn (37th)	1.15Mn (34th)	0.78Mn (43rd)	2.98Mn	5.32Mn (8th)
Square Measure (Ranking) km ²	4,248 (33rd)	4,186 (35th)	4,191 (34th)	—	83,424 (1st)

Number of businesses*1 (Thousand)

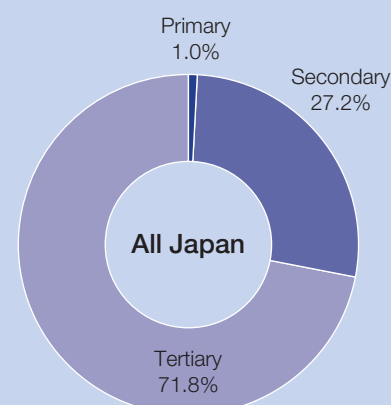
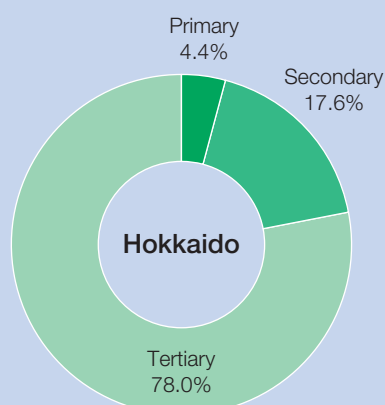
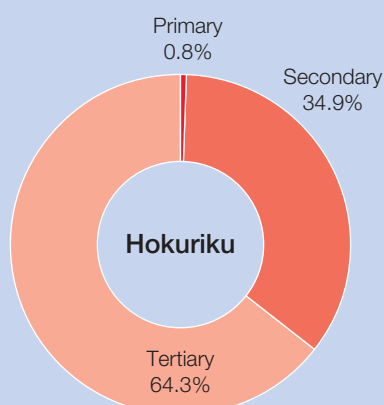
Hokkaido	242
Hokuriku	163
Toyama	55
Ishikawa	63
Fukui	44

Gross Prefectural Product**1,2

(JPY Bn)

	Toyama a	Ishikawa b	Fukui c	Total a + b + c	Hokkaido
GPP (Proportion) (Ranking)	4,646.5 (0.85%) (29th)	4,573.6 (0.84%) (30th)	3,233.3 (0.59%) (42nd)	12,453.5 (2.28%)	18,961.1 (3.47%) (8th)

Industrial Structure*2

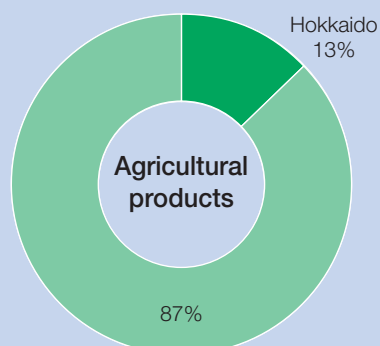
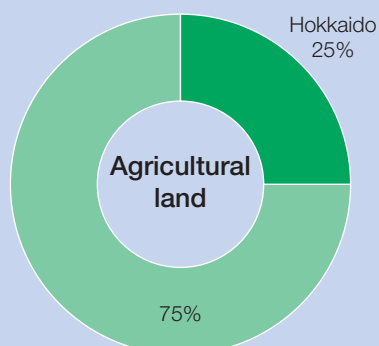


Data source : *1 Ministry of Internal Affairs and Communications,*2 Cabinet Office

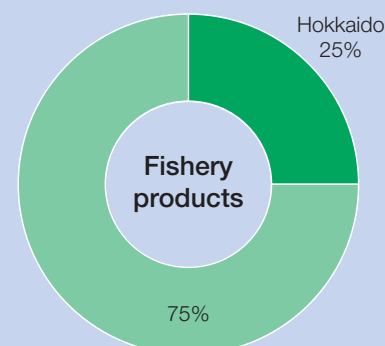
Hokkaido

- 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

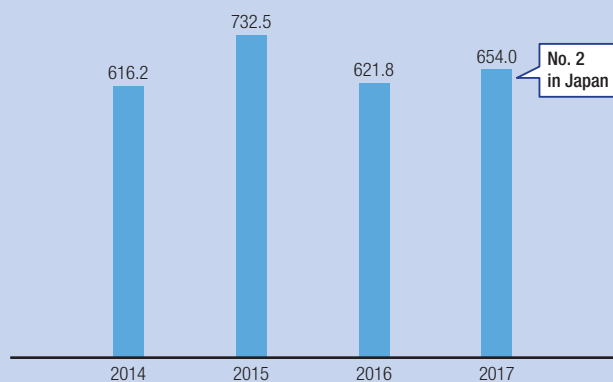


Hokuriku

- 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 (¥ billion)



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

Fukui Prefecture's Eyeglasses Production

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

Many Global Niche Top Companies in Ishikawa Prefecture

Ishikawa Prefecture has a developed industrial sector, centered on the textile and machinery industries. In 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.

HOKUHOKU FINANCIAL GROUP SDGs DECLARATION AND KEY CSR ACTIVITY THEMES

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

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

Hokuohoku Financial Group SDGs Declaration

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

April 1, 2019














Eishin Ihori
President

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



Key CSR Activity Themes

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

(FY2018 achievements)

<Supporting Regional Revitalization>

Held Workshops on Utilizing Old Houses (Hokuriku Bank)

From September to March, we collaborated with WEST JAPAN RAILWAY COMPANY and NOTE Renovation & Design, Inc. to hold workshops in Toyama City and Komatsu City about making use of old houses. The three companies are working together to support regional revitalization utilizing old houses and other historical buildings. The purpose of these workshops is to utilize old houses, etc. to address and solve issues of importance for the region, such as tourism promotion, job creation, and dealing with the issue of unoccupied houses. A total of approximately 140 people attended the workshops in Toyama and Komatsu. At the workshops, they learned the basic flow and process for urban development projects utilizing old houses, and using a workshop format they practiced formulating business plans using both virtual properties and real properties as subjects.



Media Recruitment Project Targeting Taiwanese Tourists to Japan (Hokkaido Bank)

In October, we recruited Taiwanese media to report on Hokkaido and disseminate tourism information on Hokkaido, etc. to mainland Taiwan. The aim of this initiative was to eliminate the reputational damage to Hokkaido tourism due to the earthquake and to attract inbound tourists.

In FY2018, the third year of this initiative, we promoted cashless tourism, introduced HokuHoku Financial Group's wide-area sightseeing tour route from Hokkaido to Toyama using the Shinkansen, and showcased Hokkaido's attractions through curling and other experiences.

Conclusion of "Four Party Agreement on Partnership and Cooperation" with Nippon Sport Science University, Health Sciences University of Hokkaido, and Tobetsu Town (Hokkaido Bank)

In November, we concluded the "Four Party Agreement on Partnership and Cooperation" with Nippon Sport Science University, Health Sciences University of Hokkaido, and Tobetsu Town. Nippon Sport Science University and Health Sciences University of Hokkaido utilize mutual know-how to advance research on sports field, etc., and attract training camps and other events to be held in Tobetsu Town with the aim of increasing the number of permanent residents as well as the number of people who visit the area. By cooperating in the partnership between the three parties, we will work to revitalize the region.



<Responsible Investment and Finance>

Donation-Type ESG, SDGs Private Placement Bonds (Hokuriku Bank)

In November, Hokuriku Bank began offering "Hokugin Donation-Type ESG Private Placement Bonds" and "Hokugin Donation-Type SDGs Private Placement Bonds." The Bank donates the equivalent of up to 0.2% of the amount of private placement bonds issued by customers in donated items or cash. With ESG private placement bonds, donated items (educational equipment, welfare-related equipment, environmentally-friendly materials, etc.) are donated to educational institutions and to Toyama Prefecture. With SDGs private placement bonds, cash is donated to charity organizations or funds, or to SDGs model projects advanced by Toyama City, Hakusan City, or other municipalities.

With these products, we will meet the diverse financing needs of local customers and will work on social and global sustainability, including local contribution activities, in line with the SDGs and ESG.

Revision of Credit Policy Based on ESG and the SDGs (HokuHoku Financial Group, Hokuriku Bank, Hokkaido Bank)

In April, we revised our credit policy based on ESG and SDGs. In the loan support business, which our main business, we aim to create shared value with our customers by having a common stance throughout the Group toward social issues such as SDGs and ESG.

Establishment of the “Dosanko Regional Revitalization Fund” (Hokkaido Bank)

In April, we established the “Dosanko Regional Revitalization Investment Limited Partnership (Dosanko Regional Revitalization Fund)” together with Hokkaido Venture Capital, Inc. In addition to investing in venture companies that utilize regional resources for growth, which the Hokkaido Regional Creation Fund has been engaged in, the fund will aim to promote regional revitalization and contribute to the continuous maintenance and development of industry by providing growth support and helping to build a successor framework for companies that are growing and working on business succession and business improvement. By the fund providing funds and financial intermediary capabilities, we will support the growth of small-and medium-sized companies that support Hokkaido’s economy.

<Helping conserve the regional environment>

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 Gasshostyle houses (Historic Village of Gokayama, World Heritage site). This is the fourth time we have participated and cooperated in order to realize a sustainable society in accordance with our SDGs, while demonstrating our support for the initiative’s goal of preserving World Heritage sites. Approximately 100 people, including 20 Bank employees and local residents, planted 350 seedlings.



<Advancing with regional communities>

Holding of Hokkaido Bank MATCH DAY (Hokkaido Bank)

In December, Hokkaido Bank held a futsal match entitled “Hokkaido Bank Match Day.” Espolada Hokkaido, which Hokkaido Bank is an official sponsor of, competed against NAGOYA OCEANS. The match drew a crowd of 2,415 people, and the stadium was full of excitement, especially when a goal was scored in the second half.



<Support for Corporate Executives>

“X-Tech Innovation 2018” Held (Hokkaido Bank)

In December, we held a business contest to collect a range of new service and business ideas spanning different industries, with a focus on various technologies that are developing at a rapid pace. Last fiscal year, this contest was held jointly with Fukuoka Financial Group and The Bank of Okinawa. This year, The 77 Bank, Ltd. joined in, as the contest was held by four banks in four regions. Through this contest, we will contribute to the revitalization of local economies by supporting the commercialization of business ideas for startup companies and exploring the possibilities for applying business ideas to existing businesses.

<p>Number of participants: Approximately 150 people</p> <p>Number of people who submitted ideas in the region: 24</p> <p>Number of companies who reached the final selection: 10 companies</p>
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<Overseas Expansion Support (holding seminars and events)>

Held the Indonesia Business Forum (Hokuriku Bank)

In November, The Indonesia Investment Coordinating Board (BKPM) co-hosted the “Indonesia Business Forum” in Toyama City. The aim of this event was to provide the latest information on Indonesia. At a seminar attended by 23 people, the Director of IIPC office in Tokyo spoke about investment opportunities, and the Manager of Bank Negara Indonesia (Persero) Tbk. Tokyo Branch, a leading Indonesian bank, gave a lecture on the support system in Indonesia. Participants learned about the local economic situation as well as useful knowledge about the characteristics of the land and the national character of Indonesian people.



<Overseas Expansion Support (holding business meetings)>

Held the Hokuriku Machine Tool Briefing in Wuhan (Hokuriku Bank)

In May, we held the “Hokuriku Machine Tool Briefing in Wuhan” for the first time. Five machine tool manufacturers from Hokuriku participated in the event held in Wuhan City, Hubei Province, China, where the automobile industry is experiencing remarkable growth. The event was held by the Wuhan City Commerce Bureau, with which we concluded a memorandum of economic exchange in September 2017.

Hokuriku companies seeking to expand sales channels in mainland China introduced their products’ features and prices, and gave examples of how their products are used. Following this, at the assembly with local companies who supply parts to automobile manufacturers, intense discussions and business talks took place.

We will continue to utilize our overseas partners to provide support and business opportunities to customers.

Number of customers who participated: 5 companies / 10 people
Chinese participants: 32 companies / 44 people



Held 2018 Dalian-Regional Bank Joint Business Meeting (Hokuriku Bank, Hokkaido Bank)

In November, 16 regional banks including Hokuohoku Financial Group (Hokuriku Bank, Hokkaido Bank) and the Dalian City People’s Government jointly held the ninth joint business meeting in Dalian City, Liaoning Province, China. Eighty-eight customers of the regional banks and 326 Chinese companies exhibited at the event, and a total of 1,229 business talks were actively carried out as companies looked for material procurement, sales channel expansion, process outsourcing, investment and joint venture partners, among other needs. Customers created new opportunities and expanded their networks. We will continue to support customers’ overseas business activities and help revitalize the local economy by holding overseas business meetings and other events.



<Other initiatives>

Started “Business Continuity Plan (BCP) Formulation Support Consultation” (Hokkaido Bank)

In November, in cooperation with the Hokkaido Bureau of Economy, Trade and Industry and the DOGIN REGIONAL RE-SEARCH INSTITUTE Co., Ltd., we started BCP formulation support consulting. In January, we began offering “Dogin BCP Private Placement Bonds” to support customers’ BCP formulation and disaster prevention measures and the lending product “Business Continuity Support Fund (Disaster Recovery Plan / BCP Support Plan).” As a regional financial institution, we will contribute to the growth of Hokkaido’s economy by supporting the establishment of a system to respond in the event of a disaster affecting Hokkaido companies.

IMPROVING FINANCIAL LITERACY IN THE REGION

(FY2018 achievements)

<Financial education>

Financial and Economics Education (dispatch classes) at Junior High and High Schools (Hokuriku Bank)

From October to March, as a part of its educational equipment donation program, the Hokuriku Bank Scholarship Grant Foundation sent branch managers of sales branches in charge of donating the educational equipment to the junior high schools and high schools receiving the donations to teach students at the same time as the donations of the educational equipment were made. These dispatch lectures were carried out to raise financial literacy. These lectures were also conducted at other schools that asked for them. In total, lectures were given at 17 schools to 1,002 students.



Held the “Takasu Version Yononaka Terrace” (Hokkaido Bank)

In December, as part of a collaborative agreement with the National Institute of Technology, Asahikawa College and Takasu Town, we held the “Takasu Version Yononaka Terrace,” an event where the technical college students work with companies in Takasu Town to study and develop growth strategies.

Through this project, the technical college students become aware of the region's attractiveness, leading to an increase in the ratio of young people employed in the area, and we also help solving the problems facing local companies.



Held Economics-Koshien (Hokuriku Bank, Hokkaido Bank)

Economics Koshien is held each December for high school students to acquire financial and economics knowledge in a fun quiz format, and as a way to get them started thinking about their relationship with money as well as life planning.

Hokuriku Bank managed the Toyama and Fukui contests, while Hokkaido Bank and local financial institutions managed the Hokkaido regional qualifying event and the Hokkaido contest. At the national tournament held in February, the team representing Fukui won the national championship for the first time.



<Supporting Asset Formation and Succession>

Acquired Approval to Concurrently Offer Trust Business and Began Offering Trust Business Services (Hokuriku Bank)

In March, we obtained approval to concurrently provide trust business services. As Japan's society continues to age, customers' asset succession needs are growing with each passing year. Until now, we have provided trust services by acting as an intermediary between customers and trust banks as well as trust companies from the bank's 20 divisions and branches that act as agencies. However, in light of the further increase in consultations from customers about testamentary trusts and estate arrangements, we made the decision that the bank itself would start to offer trust services.

We established a trust team in the Consulting Sales Department, and specialized personnel have taken the lead in offering testamentary proxy trusts, testamentary trusts, and estate arranging since April. We will provide a one-stop solution to the asset management and asset succession needs of our customers, and establish a system that allows them to work with us with peace of mind.

(FY2018 achievements)

<Bolstering Compliance>

Established a Money Laundering, etc. Prevention Policy (Hokuhoku Financial Group, Hokuriku Bank, Hokkaido Bank)

In March, we established a uniform “Money Laundering, etc. Prevention Policy” for the Group.

As a Group, we view the prevention of money laundering and other fraudulent acts as one of the most important management issues, and we will continue to appropriately handle these matters.

CORPORATE GOVERNANCE

We will increase management transparency and enhance our corporate governance.

Basic approach

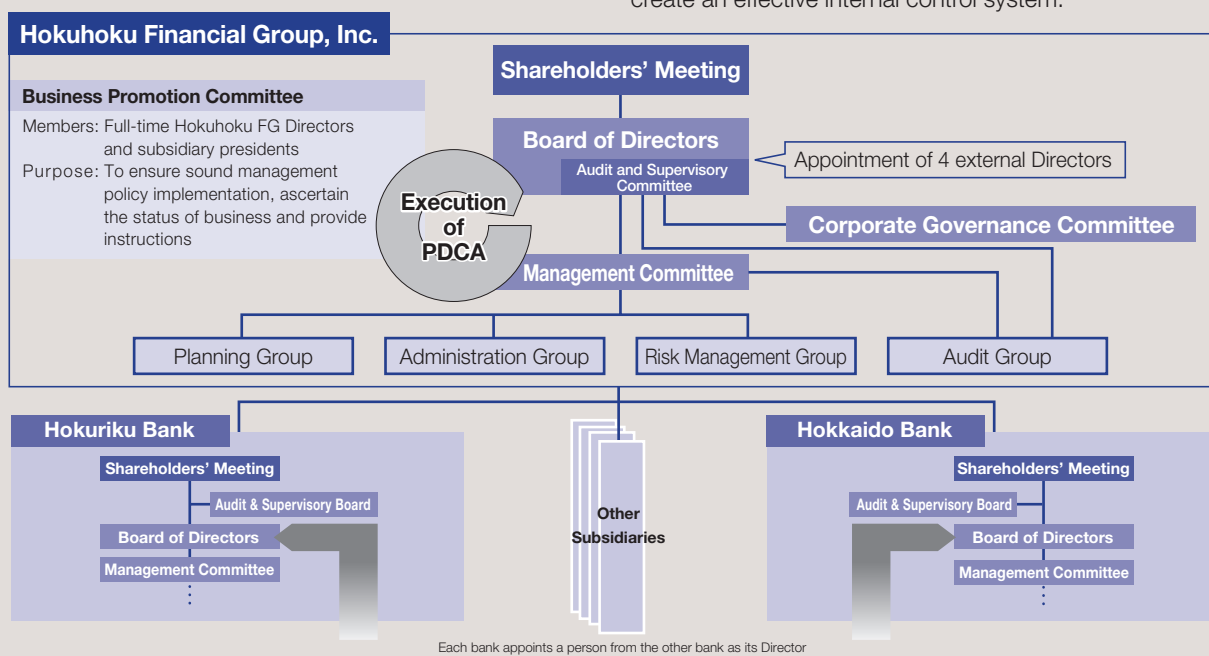
The Company and all group companies regard strengthening and enhancing corporate governance as one of the most important management priorities. We have drawn up a basic policy — our management philosophy — covering all our activities including the formulation of management strategies and making management 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.



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

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

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

- The Board of Directors shall give due acknowledgement to the importance and usefulness of auditing by the Audit and Supervisory Committee, and shall discuss and take responsive action appropriately if the Audit and Supervisory Committee 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.

MEASURES FOR COMPLIANCE

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

Basic policy

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

Systems

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

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

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

Basic compliance policy

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

As a regional financial institution, the Group recognizes its public duties and social responsibilities, and accordingly

strives to gain greater trust through the conduct of sound business operations.

2. Providing quality financial services

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

3. Strict observance of laws, regulations and rules

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

4. Rejection of all ties with anti-social elements

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

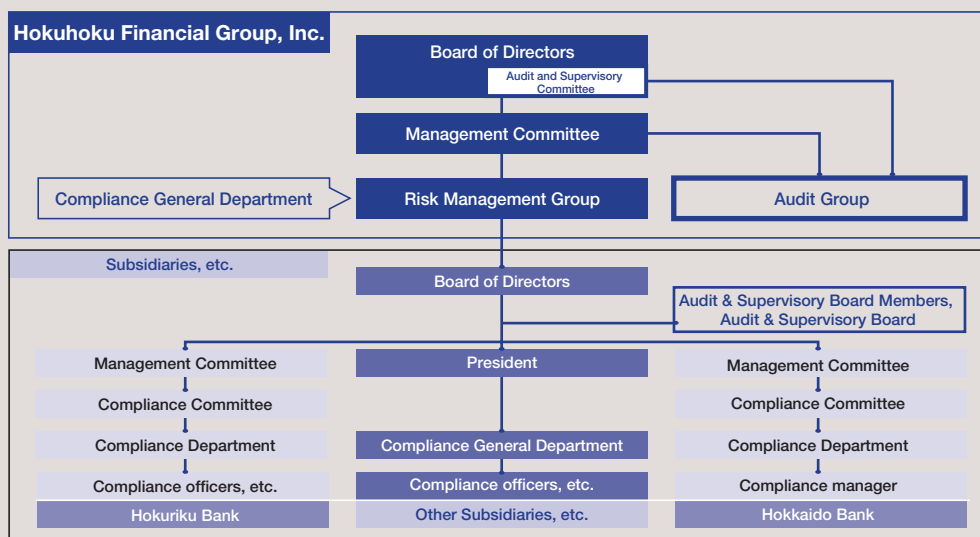
5. Ensuring management transparency

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

Compliance manual and compliance programs

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

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



Measures for better customer protection and greater customer convenience

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

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

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

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

Measures for protection of personal information

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

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

Basic rules for management of customer protection

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

Policies for management of customer protection

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

Measures for dealing with anti-social elements

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

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

Internal notification system

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

Anti-money laundering and measures to deal with financial crime

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

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

Measures for financial alternative dispute resolution (ADR) system

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

Banking

Name of designated dispute resolution organization:

Japanese Bankers Association

Inquiries:

Japanese Bankers Association Customer Relations Center

Financial instruments business

Name of designated dispute resolution organization:

Financial Instruments Mediation Assistance Center

MEASURES FOR RISK MANAGEMENT

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

General risk management system

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

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

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

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

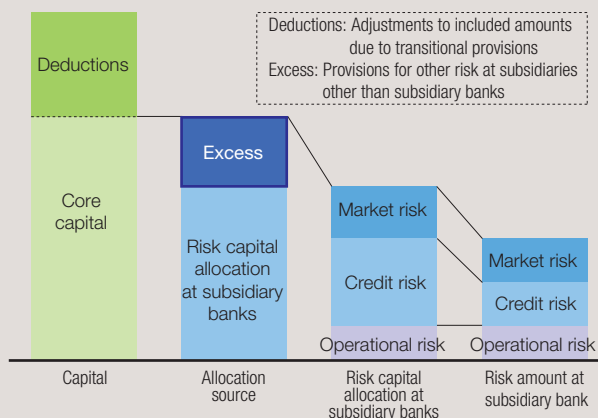


Allocation of risk capital

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

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

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



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

Credit risk management

Basic approach

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

Credit risk management systems

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

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

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

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

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

Internal ratings systems

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

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

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

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

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

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

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

Corporate rehabilitation

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

Market risk management

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 administra-

tive 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.

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

Crisis management

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

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

IMPROVING CONVENIENCE FOR ALL CUSTOMERS

(FY2018 achievements)

<New Services and New Products>

Started Accepting Life Insurance Product Applications on Tablets (Hokuriku Bank, Hokkaido Bank)

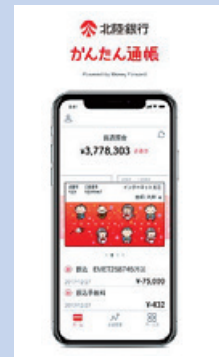
In November, we started receiving life insurance product applications on tablets at branches sequentially, and by February all branches were accepting applications on tablets. We had already been accepting applications for investment trusts on tablets, so this was the addition of a new function.

While working to realize the reduction of our customers' burden by reducing application-related documents, eliminating the use of paper documents, and making applications easier for customers to visually understand using simple screen flows, we will also enhance product explanations and increase consultation time in light of our fiduciary duty.

Launched Open Account & Procedures App, Easy Bankbook App (Hokuriku Bank)

In February, we started offering the "Open Account & Procedures App" and the "Easy Bankbook App." The "Open Account & Procedures App" allows people to apply to open an account and handle various procedures using a single app. Allowing non-face-to-face identity verification when an account is opened is an advanced approach that is rare among financial institutions throughout Japan.

In addition to a bankbook function, the "Easy Bankbook App" has a household account function and an asset management function. In addition to showing a customer's Hokuriku Bank account balance and transfer details, the app also gives users a snapshot of all of their assets, including assets held by other financial institutions, credit card information, brokerage account data, and point card information. In addition, this convenient smartphone app can automatically sort income and expenditures to create a household account ledger. This is the first app developed by a financial institution in Japan that integrates a bankbook function, asset management function, and household account book function.



Started offering "J-Coin Pay" and "Hokuhoku Pay" (Hokuriku Bank, Hokkaido Bank)

In April, we started registering accounts for the smartphone app "J-Coin Pay" operated by Mizuho Bank, Ltd.

"J-Coin Pay" is a service that allows free and instantaneous charges and transfers between regular savings accounts.

Remittances can be made free of charge between app users, which is handy when splitting meal bills among friends or collecting money for social events.

In addition, we decided to start offering the smartphone payment service "Hokuhoku Pay." The service is scheduled to launch in September 2019.

"Hokuhoku Pay" is a service that will allow users to immediately withdraw funds from pre-registered accounts at all banks when making payments at member stores by scanning the QR code displayed on the store's tablet at the register with their smartphone. Individual customers will be able to make payments without applying for a credit card or loading e-money in advance.

At a member store, the customer will complete the payment simply by entering the payment amount into the app for the store downloaded to the tablet. The service also allows stores to collect funds quickly because each bank deposits a full day's worth of sales proceeds in a lump sum as quickly as the following business day.

Going forward, we will work to improve the level of convenience for customers in the region by promoting cashless and digital banking solutions, including expanding the number of member stores accepting "J-Coin Pay" and "Hokuhoku Pay."



<New Branches>

Opened Account Opening Plaza "Odori Subway Station Sub-Branch" (Hokkaido Bank)

In March, with the aim of raising the level of convenience for customers, we opened the Account Opening Plaza, which allows people to open accounts on weekdays after 3:00 p.m. as well as on weekends and holidays.

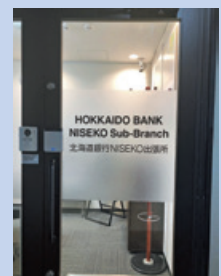
At the plaza, we are working to improve convenience by offering the "Cash Card Immediate Delivery Service," which provides customers with a cash card immediately upon opening an account, rather than sending it to them in the mail as we have done in the past.



Opened the NISEKO Sub-Branch (Hokkaido Bank)

In April, with the aim of expanding contact points with people in the region as well as with inbound tourists, we opened the "NISEKO Sub-Branch," replacing the "NISEKO Office."

Up until now, we have been gathering information related to investment trends and participating in and supporting tourism promotion activities to create business opportunities. Going forward, given the expected regional promotion and economic growth expected due to the additional development and the increase in the number of people coming to the area along with the extension of the Hokkaido Shinkansen, we respond to customers' wide-ranging needs, including deposits and loans.



(FY2018 achievements)

<Promoting the active participation of human resources>

Promotion and appointment of female employees (as of March 31, 2019)

	The Hokuriku Bank, Ltd.	The Hokkaido Bank, Ltd.
Executives	14	7
Managers	131	42

Diversity Promotion (Hokuriku Bank)

In December, we published the *HOKUGIN DIVERSITY BOOK 2018* as a part of employee education for promoting diversity. The book was distributed to all employees.

In February, the “Shine! COSMOS Project” established by Hokuriku Bank, INTEC Inc. and Hokuriku Electric Power Company held a lecture and panel discussion entitled “The Power of Saleswomen! Building Your Career as a Woman in Sales” to help women working in sales discover sales styles that allow them to thrive even more and find tips to become vibrant and lively.



<Promoting Work Style Reform>

Supporting Work-Life Balance (FY2018 achievements)

	The Hokuriku Bank, Ltd.	The Hokkaido Bank, Ltd.
Number of employees who took childcare leave (number of men in parenthesis)	140 (27)	101 (19)
Number of employees who took family care leave	0	1
Number of employees who used the shortened working hours system	66	32

Recognized as 2019 Certified Health & Productivity Management Outstanding Organization (the Health and Productivity Management 500 Working Group) (Hokuriku Bank, Hokkaido Bank)

In February, we were recognized as part of the recognition program for health and productivity management established by the Ministry of Economy, Trade and Industry called the “2019 Certified Health & Productivity Management Outstanding Organization (the Health and Productivity Management 500 Working Group)” under the large enterprise category. This was the second time we were recognized, in continuation from the previous year.

Going forward, based on the view that employees’ mental and physical health is essential to achieve sustainable corporate growth, we will create a work environment where each employee can fully display his or her abilities, and aim to further energize the entire organization and achieve the SDGs.



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Assets			
Cash and due from banks (Notes 3 and 30)	¥ 2,556,419	¥ 2,388,907	\$ 23,032,879
Call loans and bills bought (Note 30)	80,210	52,753	722,681
Monetary claims bought (Note 30)	37,030	44,178	333,642
Trading assets (Note 4)	4,072	4,397	36,689
Money held in trust (Note 5)	10,723	11,241	96,618
Securities (Notes 6, 12, and 30)	1,797,605	1,952,999	16,196,102
Loans and bills discounted (Notes 7, 12, 13, and 30)	8,344,137	8,172,888	75,179,185
Foreign exchanges (Note 8)	15,706	18,782	141,516
Other assets (Note 12)	217,369	218,945	1,958,458
Tangible fixed assets (Note 9)	99,177	100,807	893,572
Intangible fixed assets (Note 10)	21,067	24,449	189,812
Assets for retirement benefits (Note 17)	398	895	3,588
Deferred tax assets (Note 27)	1,474	205	13,283
Customers' liabilities for acceptances and guarantees (Note 11)	53,483	53,253	481,878
Allowance for loan losses	(52,903)	(48,413)	(476,654)
Total assets	¥13,185,972	¥12,996,292	\$118,803,249
Liabilities and equity			
Liabilities			
Deposits (Notes 12, 14, and 30)	¥ 11,410,328	¥ 11,151,213	\$ 102,805,013
Call money and bills sold (Note 12)	27,214	45,312	245,196
Payables under repurchase agreements	—	18,528	—
Payables under securities lending transactions (Note 12)	352,650	426,276	3,177,319
Trading liabilities (Note 4)	544	683	4,909
Borrowed money (Notes 12, 15, and 30)	612,665	567,512	5,520,003
Foreign exchanges (Note 8)	795	186	7,164
Bonds payable (Note 16)	—	25,000	—
Other liabilities	64,694	65,704	582,888
Liability for retirement benefits (Note 17)	6,994	6,218	63,015
Reserve for directors' and audit & supervisory board members' retirement benefits	184	189	1,658
Reserve for contingent losses	1,089	1,354	9,814
Reserve for reimbursement of deposits	2,244	1,921	20,221
Reserve under the special laws	2	1	23
Deferred tax liabilities (Note 27)	19,767	17,302	178,103
Deferred tax liabilities for revaluation	5,309	5,487	47,836
Acceptances and guarantees (Note 11)	53,483	53,253	481,878
Total liabilities	12,557,968	12,386,145	113,145,040
Equity (Notes 18, 19, and 21)			
Capital stock	70,895	70,895	638,751
Capital surplus	144,622	144,590	1,303,022
Stock acquisition rights (Note 20)	443	451	3,996
Retained earnings	316,329	299,060	2,850,071
Treasury stock	(1,281)	(1,367)	(11,543)
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities (Note 6)	91,608	90,163	825,380
Deferred gains (losses) on hedges	(910)	(975)	(8,203)
Revaluation reserve for land (Note 9)	8,354	8,642	75,273
Defined retirement benefit plans (Note 17)	(4,865)	(3,977)	(43,837)
Total	625,196	607,482	5,632,910
Non-controlling interests	2,807	2,664	25,299
Total equity	628,004	610,147	5,658,209
Total liabilities and equity	¥13,185,972	¥12,996,292	\$118,803,249

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Income			
Interest income:			
Interest on loans and discounts	¥87,583	¥90,825	\$789,115
Interest and dividends on securities	24,026	21,516	216,475
Interest on receivables under resale agreements	(9)	(10)	(83)
Interest on deposits with other banks	1,092	923	9,846
Other interest income	748	404	6,745
Fees and commissions	39,128	38,956	352,543
Trading income	1,097	1,054	9,887
Other ordinary income (Note 23)	20,011	15,533	180,298
Other income (Note 25)	10,121	13,203	91,189
Total income	183,801	182,408	1,656,015
Expenses			
Interest expense:			
Interest on deposits	1,293	1,507	11,650
Interest on payables under repurchase agreements	217	148	1,963
Interest on payables under securities lending transactions	1,924	2,018	17,340
Interest on borrowings and rediscounts	611	458	5,513
Interest on bonds payable	105	187	953
Other interest expense	2,237	1,996	20,162
Fees and commissions	15,755	15,396	141,950
Other ordinary expenses (Note 24)	14,773	21,675	133,109
General and administrative expenses	96,090	98,758	865,762
Provision of allowance for loan losses	5,587	645	50,345
Other expenses (Note 26)	11,183	8,576	100,761
Total expenses	149,781	151,370	1,349,508
Income before income taxes	34,019	31,037	306,507
Income taxes (Note 27):			
Current	9,994	6,888	90,052
Deferred	(453)	2,792	(4,082)
Net income	24,477	21,356	220,537
Net income attributable to non-controlling interests	118	165	1,065
Net income attributable to owners of the parent	¥24,359	¥21,191	\$219,472
	Yen	U.S. dollars	
Per share of common stock (Notes 2-u and 22)			
Basic net income	¥173.50	¥149.40	\$1.56
Diluted net income	173.12	149.10	1.55
Cash dividends applicable to the year	44.00	44.00	0.39

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net income	24,477	¥21,356	220,537
Other comprehensive income (Note 28)	648	10,813	5,842
Valuation difference on available-for-sale securities	1,505	8,751	13,564
Deferred gains (losses) on hedges	65	233	587
Defined retirement benefit plans	(888)	1,795	(8,001)
Share of other comprehensive income of associates accounted for using equity method	(34)	33	(308)
Total comprehensive income	25,125	¥32,169	226,379
Comprehensive income attributable to owners of the parent	24,981	31,977	225,081
Comprehensive income attributable to non-controlling interests	144	191	1,298

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, 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)
Cash dividends						(7,378)	
Net income attributable to owners of the parent						24,359	
Purchases of treasury stock							(8)
Disposals of treasury stock				32			94
Reversal of revaluation reserve for land						287	
Net changes in the year					(8)		
BALANCE, MARCH 31, 2019	132,163	107,432	¥70,895	¥144,622	¥443	¥316,329	¥(1,281)

	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, 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
Cash dividends					(7,378)		(7,378)
Net income attributable to owners of the parent					24,359		24,359
Purchases of treasury stock					(8)		(8)
Disposals of treasury stock					127		127
Reversal of revaluation reserve for land					287		287
Net changes in the year	1,445	65	(287)	(888)	326	143	469
BALANCE, MARCH 31, 2019	¥91,608	¥(910)	¥8,354	¥(4,865)	¥625,196	¥2,807	¥628,004

Thousands of U.S. dollars (Note 1)					
	Capital stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2018	\$638,751	\$1,302,730	\$4,071	\$2,694,483	\$(12,321)
Cash dividends				(66,478)	
Net income attributable to owners of the parent				219,472	
Purchases of treasury stock					(76)
Disposals of treasury stock		292			854
Reversal of revaluation reserve for land				2,594	
Net changes in the year			(75)		
BALANCE, MARCH 31, 2019	\$638,751	\$1,303,022	\$3,996	\$2,850,071	\$(11,543)

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, 2018	\$812,357	\$(8,790)	\$77,867	\$(35,836)	\$5,473,312	\$24,006	\$5,497,318
Cash dividends					(66,478)		(66,478)
Net income attributable to owners of the parent					219,472		219,472
Purchases of treasury stock					(76)		(76)
Disposals of treasury stock					1,146		1,146
Reversal of revaluation reserve for land					2,594		2,594
Net changes in the year	13,023	587	(2,594)	(8,001)	2,940	1,293	4,233
BALANCE, MARCH 31, 2019	\$825,380	\$(8,203)	\$75,273	\$(43,837)	\$5,632,910	\$25,299	\$5,658,209

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Hokuhoku Financial Group, Inc. and Consolidated Subsidiaries

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
1. Cash flows from operating activities:			
Income before income taxes	¥ 34,019	¥ 31,037	\$ 306,507
Depreciation	7,379	6,776	66,492
Impairment losses	1,027	1,995	9,259
Amortization of goodwill	2,102	2,102	18,941
Equity in losses (gains) of affiliates	(13)	(13)	(122)
Increase (decrease) in allowance for loan losses	4,490	(3,311)	40,454
Increase (decrease) in reserve for contingent losses	(264)	(138)	(2,386)
Decrease (increase) in asset for retirement benefits	497	(895)	4,482
Increase (decrease) in liability for retirement benefits	775	(8,807)	6,987
Increase (decrease) in reserve for directors' and audit & supervisory board members' retirement benefits	(5)	(14)	(51)
Increase (decrease) in reserve for reimbursement of deposits	322	331	2,909
Interest income	(113,442)	(113,659)	(1,022,098)
Interest expense	6,390	6,318	57,580
Losses (gains) on securities	(2,922)	3,980	(26,327)
Losses (gains) on money held in trust	(3)	(0)	(34)
Losses (gains) on foreign exchange	(2,859)	5,836	(25,764)
Losses (gains) on sales of fixed assets	271	156	2,451
Net decrease (increase) in trading assets	325	248	2,935
Net increase (decrease) in trading liabilities	(138)	(178)	(1,245)
Net decrease (increase) in loans and bills discounted	(171,249)	(401,550)	(1,542,926)
Net increase (decrease) in deposits	268,113	467,749	2,415,656
Net increase (decrease) in negotiable certificates of deposit	(8,998)	(17,807)	(81,073)
Net increase (decrease) in borrowed money (excluding subordinated borrowed money)	60,152	242,180	541,963
Net decrease (increase) in due from banks (excluding deposits with the Bank of Japan)	11,368	4,290	102,424
Net decrease (increase) in call loans, bills bought, commercial paper, and other debt purchased	(20,309)	55,069	(182,988)
Net increase (decrease) in call money and bills sold	(36,625)	27,572	(329,993)
Net increase (decrease) in payables under securities lending transactions	(73,626)	(108,085)	(663,360)
Net decrease (increase) in foreign exchanges (assets)	3,075	(2,522)	27,710
Net increase (decrease) in foreign exchanges (liabilities)	608	82	5,485
Interest income—cash basis	89,614	90,917	807,407
Interest expense—cash basis	(6,364)	(6,314)	(57,343)
Other, net	(6,145)	(129,917)	(55,368)
Subtotal	47,566	153,429	428,564
Income taxes paid	(5,951)	(4,040)	(53,623)
Net cash provided by (used in) operating activities	41,614	149,389	374,941
2. Cash flows from investing activities:			
Purchases of securities	(725,930)	(468,588)	(6,540,508)
Proceeds from sales of securities	677,669	695,593	6,105,679
Proceeds from redemption of securities	214,366	259,314	1,931,400
Purchases of money held in trust	(20,117)	(21,380)	(181,256)
Proceeds from sales of money held in trust	20,482	21,135	184,548
Proceeds from fund management	24,030	21,516	216,509
Purchases of tangible fixed assets	(4,226)	(5,826)	(38,080)
Proceeds from sales of tangible fixed assets	354	197	3,197
Purchases of intangible fixed assets	(1,678)	(4,186)	(15,124)
Net cash provided by (used in) investing activities	184,949	497,774	1,666,365
3. Cash flows from financing activities:			
Repayment of subordinated borrowed money	(15,000)	—	(135,147)
Repayment of subordinated bonds	(25,000)	—	(225,245)
Expenditures for fund procurement	(307)	(307)	(2,770)
Dividends paid	(7,378)	(7,377)	(66,478)
Dividends paid to non-controlling shareholders	(0)	(0)	(4)
Purchases of treasury stock	(8)	(12)	(76)
Proceeds from disposals of treasury stock	0	0	5
Net cash provided by (used in) financing activities	(47,694)	(7,697)	(429,715)
4. Effect of exchange rate changes on cash and cash equivalents	8	(11)	81
5. Net increase (decrease) in cash and cash equivalents	178,879	639,454	1,611,672
6. Cash and cash equivalents at beginning of the period	2,374,356	1,734,901	21,392,524
7. Cash and cash equivalents at end of the period (Note 3)	¥2,553,235	¥2,374,356	\$23,004,196

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 2018 consolidated financial statements to conform to the classifications used in 2019.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Hokuhoku Financial Group, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.99 to U.S. \$1, the rate of exchange at March 31, 2019. 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, 2019 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 ¥40,109 million (\$361,376 thousand) and ¥43,033 million at March 31, 2019 and 2018, 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and due from banks	¥2,556,419	¥2,388,907	\$23,032,879
Due from banks except for deposits with the Bank of Japan	(3,183)	(14,551)	(28,683)
Cash and cash equivalents	¥2,553,235	¥2,374,356	\$23,004,196

4. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading Assets			
Trading securities	¥3,416	¥3,565	\$30,786
Trading-related financial derivatives	655	832	5,903
Total	¥4,072	¥4,397	\$36,689
	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading Liabilities			
Trading-related financial derivatives	¥544	¥683	\$4,909
Total	¥544	¥683	\$4,909

5. Money Held in Trust

Money held in trust for trading purposes as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recorded in the consolidated balance sheet	¥9,123	¥9,491	\$82,202
Valuation gain (loss) included in consolidated statement of income	10	11	98

Money held in trust for other purposes as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recorded in the consolidated balance sheet	¥1,600	¥1,750	\$14,416
Valuation gain (loss) included in consolidated statement of income	—	—	—

6. Securities

Securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Japanese national government bonds	¥ 603,529	¥ 727,648	\$ 5,437,692
Japanese local government bonds	367,148	317,286	3,307,942
Japanese corporate bonds	303,834	301,653	2,737,498
Japanese corporate stocks	237,586	255,353	2,140,616
Other securities	285,505	351,057	2,572,354
Total	¥1,797,605	¥1,952,999	\$16,196,102

As of March 31, 2019 and 2018, securities included equity investments in non-consolidated subsidiaries that amounted to ¥1,012 million (\$9,121 thousand) and ¥940 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 ¥(14) million (\$(131) thousand) and ¥(17) million as of March 31, 2019 and 2018, 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, 2019 and 2018 were as follows:

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

	Millions of yen		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2018			
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

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Estimated fair value	Net unrealized gains (losses)
March 31, 2019			
Fair value exceeding amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$ 581,462	\$ 684,811	\$103,349
Japanese local government bonds	18,020	18,260	240
Japanese corporate bonds	1,122,709	1,131,953	9,244
Total	\$1,722,191	\$1,835,024	\$112,833
Fair value below amount on consolidated balance sheet:			
Held-to-maturity debt securities:			
Japanese government bonds	\$ —	\$ —	\$ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	147,171	146,314	(857)
Total	147,171	146,314	(857)
Grand total	\$1,869,362	\$1,981,338	\$111,976

The amounts on the consolidated balance sheet, acquisition or amortized cost, and unrealized gains (losses) on available-for-sale securities as of March 31, 2019 and 2018 were as follows:

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

	Millions of yen		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
March 31, 2018			
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

	Thousands of U.S. dollars		
	Amount on consolidated balance sheet	Acquisition/ amortized cost	Net unrealized gains (losses)
March 31, 2019			
Amount on consolidated balance sheet exceeding acquisition or amortized cost:			
Japanese corporate stocks	\$1,549,679	\$ 572,809	\$ 976,870
Bonds:			
Japanese government bonds	4,856,230	4,776,550	79,680
Japanese local government bonds	3,249,811	3,222,988	26,823
Japanese corporate bonds	1,397,171	1,369,494	27,677
Total bonds	9,503,212	9,369,032	134,180
Other securities:			
Foreign securities	1,148,620	1,094,433	54,187
Other	888,266	831,816	56,450
Total other securities	2,036,886	1,926,249	110,637
Total	\$13,089,777	\$11,868,090	\$ 1,221,687
Amount on consolidated balance sheet below acquisition or amortized cost:			
Japanese corporate stocks	\$ 354,832	\$ 417,517	\$ (62,685)
Bonds:			
Japanese government bonds	—	—	—
Japanese local government bonds	40,111	40,120	(9)
Japanese corporate bonds	70,447	70,668	(221)
Total bonds	110,558	110,788	(230)
Other securities:			
Foreign securities	75,986	76,033	(47)
Other	793,093	826,038	(32,945)
Total other securities	869,079	902,071	(32,992)
Total	1,334,469	1,430,376	(95,907)
Grand total	\$14,424,246	\$13,298,466	\$ 1,125,780

Information on available-for-sale securities, which were sold during the years ended March 31, 2019 and 2018 is as follows:

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

	Millions of yen		
	Proceeds	Realized gains	Realized losses
March 31, 2018			
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, 2019	Thousands of U.S. dollars		
	Proceeds	Realized gains	Realized losses
Japanese corporate stocks	\$ 924,982	\$ 52,216	\$ 48,998
Bonds:			
Japanese government bonds	460,054	1,641	732
Japanese local government bonds	—	—	—
Japanese corporate bonds	11,838	51	—
Total bonds	471,892	1,692	732
Other securities:			
Foreign securities	3,387,562	31,865	33,685
Other	968,464	24,218	1,624
Total other securities	4,356,026	56,083	35,309
Total	\$5,752,900	\$109,991	\$85,039

Impairment losses on available-for-sale securities amounted to ¥99 million (\$893 thousand) and ¥197 million as of March 31, 2019 and 2018, 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, 2019 and 2018, in the consolidated balance sheet, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference before taxes on available-for-sale securities	¥124,950	¥121,616	\$1,125,780
Deferred tax liabilities	(33,320)	(31,492)	(300,213)
Valuation difference on available-for-sale securities (before adjustment)	91,629	90,124	825,567
Amounts attributable to non-controlling interests	(166)	(140)	(1,503)
The Company's portion of valuation difference on available-for-sale securities of equity method investees	146	180	1,316
Amounts recorded in the consolidated balance sheet	¥ 91,608	¥ 90,163	\$ 825,380

7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bills discounted	¥41,712	¥40,279	\$375,824
Loans on bills	247,850	273,531	2,233,091
Loans on deeds	6,991,840	6,795,267	62,995,231
Overdrafts	1,062,733	1,063,810	9,575,039
Total	¥8,344,137	¥8,172,888	\$75,179,185

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
	2019	2018	2019
Loans to borrowers in bankruptcy	¥4,483	¥3,746	\$40,398
Past due loans	133,522	125,692	1,203,013
Past due loans (three months or more)	595	261	5,366
Restructured loans	17,617	18,967	158,735
Total	¥156,219	¥148,667	\$1,407,512

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 ¥44,011 million (\$396,535 thousand) and ¥43,655 million as of March 31, 2019 and 2018, respectively.

8. Foreign Exchanges

Foreign exchanges as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets			
Due from foreign banks	¥12,285	¥14,565	\$110,692
Foreign exchange bills bought	2,298	3,376	20,711
Foreign exchange bills receivable	1,122	840	10,113
Total	¥15,706	¥18,782	\$141,516
Liabilities			
Due to foreign banks	¥227	¥113	\$2,051
Foreign exchange bills sold	23	58	211
Foreign exchange bills payable	544	14	4,902
Total	¥795	¥186	\$7,164

9. Tangible Fixed Assets

Tangible fixed assets as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings	¥32,838	¥33,536	\$295,870
Land	57,876	58,781	521,460
Lease assets	670	796	6,045
Construction in progress	657	534	5,928
Other tangible fixed assets	7,133	7,159	64,269
Total	¥99,177	¥100,807	\$893,572

Accumulated depreciation amounted to ¥101,965 million (\$918,693 thousand) and ¥105,180 million as of March 31, 2019 and 2018, respectively.

The book value of tangible fixed assets adjusted for gains on sales of replaced assets amounted to ¥3,666 million (\$33,038 thousand) and ¥3,683 million as of March 31, 2019 and 2018, 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 ¥17,840 million (\$160,739 thousand) and ¥18,098 million as of March 31, 2019 and 2018, respectively.

10. Intangible Fixed Assets

Intangible fixed assets as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Software	¥8,625	¥9,834	\$77,714
Goodwill	11,387	13,489	102,597
Lease assets	405	482	3,651
Other intangible fixed assets	649	642	5,850
Total	¥21,067	¥24,449	\$189,812

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 ¥168,373 million (\$1,517,017 thousand) and ¥162,731 million as of March 31, 2019 and 2018, respectively.

12. Assets Pledged

Assets pledged as collateral and their relevant liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets pledged as collateral:			
Securities	¥766,947	¥793,713	\$6,910,061
Loans and bills discounted	478,723	373,390	4,313,210
Relevant liabilities to the above assets:			
Deposits	¥26,275	¥23,120	\$236,740
Call money and bills sold	25,549	40,000	230,196
Payables under securities lending transactions	352,650	426,276	3,177,319
Borrowed money	606,416	546,611	5,463,704

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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities	¥ 4,117	¥ 22,867	\$ 37,097
Other assets	105,219	102,796	948,012

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
	2019	2018	2019
Cash collateral paid for financial instruments	¥4,290	¥3,744	\$38,652
Guarantee deposits	5,050	5,181	45,502

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 ¥2,458,526 million (\$22,150,885 thousand) and ¥2,445,473 million as of March 31, 2019 and 2018, respectively, of which amounts with original agreement terms of less than one year are ¥2,354,300 million (\$21,211,824 thousand) and ¥2,353,715 million as of March 31, 2019 and 2018, 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current deposits, ordinary deposits, saving deposits and deposits at notice	¥7,581,084	¥7,211,707	\$68,304,210
Time deposits and installment savings	3,587,505	3,693,430	32,322,778
Negotiable certificates of deposit	113,693	122,691	1,024,359
Other deposits	128,045	123,383	1,153,666
Total	¥11,410,328	¥11,151,213	\$102,805,013

15. Borrowed Money

As of March 31, 2019 and 2018, the weighted-average annual interest rates applicable to borrowed money were 0.03% and 0.06%, respectively.

Borrowed money includes borrowings from the Bank of Japan and other financial institutions. In addition, borrowed money includes ¥15,000 million of subordinated borrowed money as of March 31, 2018.

Annual maturities of borrowed money as of March 31, 2019 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥158,337	\$1,426,590
2021	127,446	1,148,268
2022	256,754	2,313,312
2023	69,139	622,934
2024	449	4,052
2025 and thereafter	538	4,847
Total	¥612,665	\$5,520,003

16. Bonds Payable

Bonds payable as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Issued by the Company:			
Unsecured fixed and floating subordinated bonds, payable in Japanese yen, due October 2023, 0.75% interest	¥ —	¥25,000	\$ —
Total	¥ —	¥25,000	\$ —

Annual maturities of bonds payable as of March 31, 2019 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024 and thereafter	¥ —	\$ —

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥99,996	¥101,540	\$900,950
Service cost	2,396	2,427	21,592
Interest cost	615	624	5,544
Actuarial (gains) losses	306	436	2,762
Benefits paid	(5,521)	(5,122)	(49,751)
Others	86	89	782
Balance at end of year	¥97,879	¥99,996	\$881,879

(2) The changes in plan assets for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥94,673	¥86,513	\$852,992
Expected return on plan assets	2,594	2,569	23,377
Actuarial (gains) losses	(2,040)	1,516	(18,380)
Contributions from the employer	141	2,628	1,271
Establishment of retirement benefit trust	—	5,199	—
Benefits paid	(4,174)	(3,843)	(37,615)
Others	89	89	807
Balance at end of year	¥91,283	¥94,673	\$822,452

(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
	2019	2018	2019
Funded defined benefit obligation	¥82,416	¥84,025	\$742,556
Plan assets	(79,827)	(82,997)	(719,232)
	2,588	1,027	23,324
Unfunded defined benefit obligation	15,463	15,970	139,322
Plan assets	(11,456)	(11,675)	(103,219)
	4,007	4,294	36,103
Net liability (asset) arising from defined benefit obligation	¥6,595	¥5,322	\$59,427

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liability for retirement benefits	¥6,994	¥6,218	\$63,015
Asset for retirement benefits	(398)	(895)	(3,588)
Net liability (asset) arising from defined benefit obligation	¥6,595	¥5,322	\$59,427

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥2,396	¥2,427	\$21,592
Interest cost	615	624	5,544
Expected return on plan assets	(2,594)	(2,569)	(23,377)
Recognized actuarial (gains) losses	1,116	1,547	10,064
Amortization of prior service costs	(46)	(46)	(422)
Others	73	61	659
Net periodic benefit costs	¥1,560	¥2,045	\$14,060

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost	¥(46)	¥(46)	\$(421)
Actuarial gains (losses)	(1,229)	2,627	(11,079)
Total	¥(1,276)	¥2,580	\$(11,500)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost	¥ —	¥(46)	\$ —
Unrecognized actuarial (gains) losses	6,994	5,764	63,018
Total	¥6,994	¥5,717	\$63,018

(7) Plan assets

• *Components of plan assets*

Plan assets as of March 31, 2019 and 2018 consisted of the following:

	2019	2018
Bonds	36.89%	35.11%
Stocks	41.53	43.82
Cash and deposits	4.21	3.28
General accounts	7.58	7.21
Other	9.79	10.58
Total	100.00%	100.00%

Note: Plan assets include retirement benefit trusts of 22.47% and 24.88% as of March 31, 2019 and 2018, 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, 2019 and 2018 were set forth as follows:

	2019	2018
Discount rate	0.61%–0.63%	0.61%–0.63%
Expected rate of return on plan assets	3.0%	3.0%

(b) *Defined contribution pension plan*

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Contribution	¥366	¥369	\$3,299

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.

(d) Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2019 will be approved at the Company's general shareholders' meeting held on June 21, 2019:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥44.00 (\$0.40) per share of common stock	¥5,770	\$51,988
Cash dividends, ¥7.50 (\$0.07) per share of preferred stock (Type 5)	805	7,259

19. Capital Stock

Information with respect to capital stock of the Company as of March 31, 2019 and 2018 is as follows:

	2019	2018
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	1,038,191	1,109,893
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, 2019 and 2018 were as follows:

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

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

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

	As of April 1, 2017	Changes during the fiscal year		As of March 31, 2018
		Increase*1	Decrease*2	
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.

20. Stock Acquisition Rights

Stock acquisition rights as of March 31, 2019 and 2018 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 ¥118 million (\$1,066 thousand) and ¥130 million were recorded under general and administrative expenses for the years ended March 31, 2019 and 2018, respectively.

The stock options outstanding as of March 31, 2019 were as follows:

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

The stock option activity was as follows:

Year ended March 31, 2019	2012 stock option (Shares)	2013 stock option (Shares)	2014 stock option (Shares)	2015 stock option (Shares)
Non-vested:				
March 31, 2018				
—outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2019				
—outstanding	—	—	—	—
Vested:				
March 31, 2018				
—outstanding	29,330	27,910	29,060	28,720
Vested	—	—	—	—
Exercised	7,360	7,980	9,510	9,010
Canceled	—	—	—	—
March 31, 2019				
—outstanding	21,970	19,930	19,550	19,710
Exercise price	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥1,484	¥1,484	¥1,484	¥1,484
	\$13.37	\$13.37	\$13.37	\$13.37
Fair value price at grant date	¥1,080	¥1,820	¥2,010	¥2,650
	\$9.73	\$16.40	\$18.11	\$23.88

Year ended March 31, 2019	2016 stock option (Shares)	2017 stock option (Shares)	2018 stock option (Shares)
Non-vested:			
March 31, 2018			
—outstanding	—	—	—
Granted	—	—	87,420
Canceled	—	—	—
Vested	—	—	87,420
March 31, 2019			
—outstanding	—	—	—
Vested:			
March 31, 2018			
—outstanding	90,960	74,790	—
Vested	—	—	87,420
Exercised	24,120	19,140	—
Canceled	—	—	—
March 31, 2019			
—outstanding	66,840	55,650	87,420
Exercise price	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01
Average stock price at exercise	¥1,484	¥1,484	¥—
	\$13.37	\$13.37	\$—
Fair value price at grant date	¥1,170	¥1,717	¥1,353
	\$10.54	\$15.47	\$12.19

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 2018 Stock Options

Estimate method	Black-Scholes option-pricing model
Volatility of stock price	31.458%
Estimated remaining outstanding period	Two years and three months
Estimate dividend	¥44.00 per share
Risk-free interest rate	(0.127)%

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, 2019 and 2018 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended	Net income attributable to owners of parent	Weighted-average shares		EPS
March 31, 2019				
Basic EPS – Net income available to common shareholders	¥22,747	131,109	¥173.50	\$1.56
Effect of dilutive securities		284		
Diluted EPS – Net income for computation	¥22,747	131,394	¥173.12	\$1.56

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

(2) Net assets per share of common stock

Net assets per share of common stock as of March 31, 2019 and 2018 were as follows:

	Yen	U.S. dollars
	2019	2018
Net assets per share of common stock	¥4,348.77	¥4,215.92
		\$39.18

Net assets per share of common stock as of March 31, 2019 and 2018 were calculated based on the following:

	Millions of yen	Thousands of U.S. dollars
	2019	2018
Total equity	¥628,004	¥610,147
Deductions from total equity:		
Stock acquisition rights	443	451
Non-controlling interests	2,807	2,664
Preferred stock	53,714	53,714
Preferred dividends	805	805
Net assets attributable to common stock at the end of the fiscal year	570,232	552,510
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)	131,124	131,053

23. Other Ordinary Income

Other ordinary income for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2018
Gain on foreign exchange transactions – net	¥969	¥305
Gains on sales and redemption of bonds and other securities	6,057	1,224
Gains on derivatives	2	2
Lease receipts	11,489	10,956
Other	1,491	3,045
Total	¥20,011	¥15,533
		\$180,298

24. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2018
Losses on sales, redemption and devaluation of bonds and other securities	¥3,928	¥11,076
Lease costs	10,535	10,021
Other	309	576
Total	¥14,773	¥21,675
		\$133,109

25. Other Income

Other income for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Gains on sales of stocks	¥6,430	¥8,170	\$57,942
Gains on sales of tangible fixed assets	154	92	1,394
Other	3,535	4,941	31,853
Total	¥10,121	¥13,203	\$91,189

26. Other Expenses

Other expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Losses on write-offs of loans and bills discounted	¥506	¥460	\$4,560
Losses on sales of stocks	5,559	2,224	50,090
Losses on impairments of stocks and other securities	77	73	702
Losses on sales of loans	143	190	1,296
Losses on impairments and disposals of fixed assets	1,454	2,244	13,103
Other	3,441	3,382	31,010
Total	¥11,183	¥8,576	\$100,761

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 30.45% and 30.69% for the years ended March 31, 2019 and 2018.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for loan losses	¥24,785	¥23,914	\$223,310
Depreciation	809	850	7,291
Liability for retirement benefits	11,440	11,953	103,077
Loss on valuation of securities	11,230	12,461	101,183
Other	6,243	6,180	56,253
Operating loss carryforwards	59	69	539
Subtotal	54,568	55,430	491,653
Less: Valuation allowance	25,793	26,401	232,390
Total deferred tax assets	28,775	29,029	259,263
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	41,514	40,428	374,042
Land transfer through merger	2,765	2,765	24,919
Other	2,788	2,931	25,122
Total deferred tax liabilities	47,068	46,125	424,083
Net deferred tax assets	¥(18,293)	¥(17,096)	\$(164,820)

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, 2019 is as follows:

	2019
Normal effective statutory tax rate	30.45%
Change in valuation allowance	(1.79)
Permanently non-taxable income	(0.97)
Per capita portion of inhabitants' taxes	0.47
Permanently non-deductible expenses	0.34
Other	(0.46)
Actual effective tax rate	28.04%

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference on available-for-sale securities:			
Amount incurred during the fiscal year	¥7,701	¥7,770	69,386
Reclassification adjustment	(4,367)	5,728	(39,353)
Prior to deducting tax effect	3,333	13,498	30,033
Tax effect	(1,827)	(4,747)	(16,469)
Total	1,505	8,751	13,564
Deferred gains (losses) on hedges:			
Amount incurred during the fiscal year	(2,220)	(1,101)	(20,003)
Reclassification adjustment	2,317	1,437	20,878
Prior to deducting tax effect	97	335	875
Tax effect	(31)	(102)	(288)
Total	65	233	587
Defined retirement benefit plans:			
Amount incurred during the fiscal year	(2,346)	1,079	(21,143)
Reclassification adjustment	1,070	1,501	9,642
Prior to deducting tax effect	(1,276)	2,580	(11,500)
Tax effect	388	(785)	3,499
Total	(888)	1,795	(8,001)
Share of other comprehensive income of associates accounted for using the equity method:			
Amount incurred during the fiscal year	(49)	60	(442)
Reclassification adjustment	(1)	(17)	(13)
Prior to deducting tax effect	(50)	42	(455)
Tax effect	16	(9)	147
Total	(34)	33	(308)
Total other comprehensive income	¥648	¥10,813	\$5,842

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Within one year	¥3	¥3	\$36
Over one year	17	21	159
Total	¥21	¥25	\$195

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 ¥239 million (\$2,153 thousand) and ¥179 million as of March 31, 2019 and 2018, 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 ¥62,151 million (\$559,969 thousand) and ¥54,250 million as of March 31, 2019 and 2018, respectively. Hokkaido Bank's VaR of the financial instruments in the banking account was ¥20,730 million (\$186,774 thousand) and ¥21,414 million as of March 31, 2019 and 2018, respectively. Hokkaido Bank's trading account securities totaled ¥12 million (\$108 thousand) and ¥16 million as of March 31, 2019 and 2018, respectively. Hokkaido Bank's specified fund trust totaled ¥2 million (\$18 thousand) and ¥4 million as of March 31, 2019 and 2018, 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 ¥58,692 million increase (\$528,804 thousand increase) and a ¥46,750 million increase as of March 31, 2019 and 2018, respectively. Hokkaido Bank's 100BPV was a ¥26,013 million increase (\$234,372 thousand increase) and a ¥17,413 million increase as of March 31, 2019 and 2018, 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, 2019 and 2018 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, 2019	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	¥2,556,419	¥2,556,419	¥—
Call loans and bills bought	80,210	80,210	—
Monetary claims bought *1	37,030	37,030	—
Securities			
Bonds classified as held-to-maturity	207,480	219,908	12,428
Available-for-sale securities	1,563,916	1,563,916	—
Loans and bills discounted	8,344,137		
Allowance for loan losses *1	(50,945)		
	8,293,192	8,387,331	94,139
Total assets	¥12,738,249	¥12,844,817	¥106,567
Deposits	¥11,410,328	¥11,410,522	¥193
Payables under securities lending transactions	352,650	352,650	—
Borrowed money	612,665	613,229	564
Total liabilities	¥12,375,644	¥12,376,402	¥758
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	¥940	¥940	¥—
Derivative transactions qualifying for hedge accounting	(1,762)	(1,762)	—*3
Total derivative transactions	¥(821)	¥(821)	¥—

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	¥—

Thousands of U.S. dollars			
March 31, 2019	Carrying amount	Fair value	Unrealized gain (loss)
Cash and due from banks	\$23,032,879	\$23,032,879	\$—
Call loans and bills bought	722,681	722,681	—
Monetary claims bought *1	333,637	333,637	—
Securities			
Bonds classified as held-to-maturity	1,869,362	1,981,338	111,976
Available-for-sale securities	14,090,610	14,090,610	—
Loans and bills discounted	75,179,185		
Allowance for loan losses *1	(459,009)		
	74,720,176	75,568,354	848,178
Total assets	\$114,769,345	\$115,729,499	\$960,154
Deposits	\$102,805,013	\$102,806,759	\$1,746
Payables under securities lending transactions	3,177,319	3,177,319	—
Borrowed money	5,520,003	5,525,089	5,086
Total liabilities	\$111,502,335	\$111,509,167	\$6,832
Derivative transactions *2			
Derivative transactions not qualifying for hedge accounting	\$8,471	\$8,471	\$—
Derivative transactions qualifying for hedge accounting	(15,876)	(15,876)	—*3
Total derivative transactions	\$(7,405)	\$(7,405)	\$—

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

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

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

Cash and due from banks

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

Call loans and bills bought

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

Monetary claims bought

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

Securities

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

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

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

Loans and bills discounted

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

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

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

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

Deposits

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

Payables under securities lending transactions

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

Borrowed money

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

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

Derivative transactions

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

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

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

Consolidated balance sheet amounts

March 31	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted stocks *1,2	¥26,207	¥27,131	\$236,128
Unlisted foreign securities *1	0	0	3
Total	¥26,208	¥27,131	\$236,131

*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 ¥28 million (\$256 thousand) and ¥73 million as of March 31, 2019 and 2018, respectively.

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

March 31, 2019	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks	¥2,416,709	¥—	¥—	¥—	¥—
Call loans and bills bought	80,210	—	—	—	—
Monetary claims bought	1,153	5,442	—	—	30,124
Securities	371,164	441,324	254,344	112,014	269,592
Bonds classified as held-to-maturity	36,479	63,076	41,500	14,450	52,135
Japanese government bonds	500	2,520	1,500	10,000	50,000
Japanese local government bonds	—	—	500	—	1,500
Japanese corporate bonds	35,979	60,556	39,500	4,450	635
Available-for-sale securities with maturities	334,684	378,247	212,844	97,563	217,457
Japanese government bonds	207,400	255,000	52,000	—	15,000
Japanese local government bonds	94,040	75,109	92,165	37,277	63,237
Japanese corporate bonds	21,274	31,618	25,067	15,114	66,729
Other	11,970	16,519	43,611	45,171	72,490
Loans and bills discounted	2,710,539	1,346,951	1,065,220	705,305	2,353,914
Total	¥5,579,777	¥1,793,717	¥1,319,564	¥817,319	¥2,653,631

March 31, 2018	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
Due from banks	¥2,267,774	¥—	¥—	¥—	¥—
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

	Thousands of U.S. dollars				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
March 31, 2019					
Due from banks	\$21,774,117	\$—	\$—	\$—	\$—
Call loans and bills bought	722,681	—	—	—	—
Monetary claims bought	10,388	49,032	—	—	271,412
Securities	3,344,126	3,976,254	2,291,598	1,009,227	2,428,982
Bonds classified as held-to-maturity	328,675	568,310	373,910	130,194	469,727
Japanese government bonds	4,505	22,704	13,515	90,098	450,491
Japanese local government bonds	—	—	4,505	—	13,515
Japanese corporate bonds	324,170	545,606	355,890	40,096	5,721
Available-for-sale securities with maturities	3,015,451	3,407,944	1,917,688	879,033	1,959,255
Japanese government bonds	1,868,637	2,297,504	468,511	—	135,147
Japanese local government bonds	847,288	676,722	830,390	335,866	569,760
Japanese corporate bonds	191,677	284,876	225,856	136,176	601,223
Other	107,849	148,842	392,931	406,991	653,125
Loans and bills discounted	24,421,479	12,135,790	9,597,444	6,354,677	21,208,348
Total	\$50,272,791	\$16,161,076	\$11,889,042	\$7,363,904	\$23,908,742

Loans and bills discounted

Claims on bankrupt borrowers, substantially bankrupt borrowers, and potentially bankrupt borrowers amounted to ¥138,006 million (\$1,243,411 thousand) and ¥129,439 million as of March 31, 2019 and 2018, respectively, and loans with no contractual maturities amounted to ¥24,199 million (\$218,034 thousand) and ¥31,327 million as of March 31, 2019 and 2018, respectively. They are not included in the table above.

(7) Maturity analysis for financial liabilities with contractual maturities

	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
March 31, 2019					
Deposits	¥10,368,716	¥857,073	¥174,218	¥4,906	¥5,413
Payables under securities lending transactions	352,650	—	—	—	—
Borrowed money	158,337	384,200	69,589	418	120
Total	¥10,879,703	¥1,241,274	¥243,807	¥5,324	¥5,533

	Millions of yen				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
March 31, 2018					
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

	Thousands of U.S. dollars				
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years
March 31, 2019					
Deposits	\$93,420,273	\$7,722,078	\$1,569,678	\$44,207	\$48,776
Payables under securities lending transactions	3,177,319	—	—	—	—
Borrowed money	1,426,590	3,461,580	626,986	3,766	1,081
Total	\$98,024,182	\$11,183,658	\$2,196,664	\$47,973	\$49,857

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			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
March 31, 2019				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥101,013	¥93,303	¥2,785	¥2,785
Receive/floating and pay/fixed	101,032	93,251	(1,998)	(1,998)
Others/sell	350	350	(0)	6
Others/buy	350	350	0	(1)
Total	/	/	¥787	¥793

		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)
	Others/sell	—	—	—	—
	Others/buy	—	—	—	—
Total		/	/	¥1,131	¥1,148

	Thousands of U.S. dollars			
	Notional principal or contract amount			
	Total	Due after 1 year	Fair value	Unrealized gain (loss)
March 31, 2019				
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$910,116	\$840,649	\$25,101	\$25,101
Receive/floating and pay/fixed	910,285	840,179	(18,005)	(18,005)
Others/sell	3,153	3,153	(3)	60
Others/buy	3,153	3,153	3	(10)
Total	/	/	\$7,096	\$7,146

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

• Foreign Exchange-Related Transactions

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

March 31, 2018	Millions of yen			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
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

	Thousands of U.S. dollars			
	Notional principal or contract amount		Fair value	Unrealized gain (loss)
March 31, 2019	Total	Due after 1 year		
Over-the-counter transactions				
Swaps	\$38,874	\$34,847	\$33	\$33
Forward contracts/sell	230,095	4,147	308	308
Forward contracts/buy	195,092	3,404	889	889
Options/sell	437,225	128,594	(8,203)	22,240
Options/buy	437,225	128,594	8,198	(20,276)
Total	/	/	\$1,225	\$3,194

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

• Commodity-Related Transactions

Millions of yen				
March 31, 2019	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	¥333	¥333	¥(43)	¥(43)
Receive/floating and pay/fixed	333	333	60	60
Total	/	/	¥16	¥16

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

Thousands of U.S. dollars				
March 31, 2019	Notional principal or contract amount		Fair value	Unrealized gain (loss)
	Total	Due after 1 year		
Over-the-counter transactions				
Swaps				
Receive/fixed and pay/floating	\$3,005	\$3,005	\$(393)	\$(393)
Receive/floating and pay/fixed	3,005	3,005	544	544
Total	/	/	\$151	\$151

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

March 31, 2018			Millions of yen		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
Hedge accounting method	Type	Hedged item			
Accounting method employed in principle	Swaps	Yen-based bond			
	Receive/floating and pay/fixed		¥55,000	¥55,000	¥(1,475)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
	Receive/floating and pay/fixed		18,033	18,013	*3
Total			/	/	¥(1,475)

March 31, 2019			Thousands of U.S. dollars		
			Notional principal or contract amount		Fair value
			Total	Due after 1 year	
Hedge accounting method	Type	Hedged item			
Accounting method employed in principle	Swaps	Yen-based bond			
	Receive/floating and pay/fixed		\$495,540	\$495,540	\$(12,644)
Exceptional treatment for interest swaps	Swaps	Loans and bills discounted			
	Receive/floating and pay/fixed		289,165	288,540	*3
Total			/	/	\$(12,644)

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, 2019

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

March 31, 2018

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, 2019

March 31, 2019			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	\$163,239	\$2,295	\$(4,078)
	Forward contracts	Call loans and due from banks (foreign currencies)	515,336	—	846
Total			/	/	\$(3,232)

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) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Board of Directors and Management Committees is being performed in order to decide how resources are allocated among the Group and assess performance.

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

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

(2) Methods of measurement for the amounts of ordinary income, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Profits of reportable segments are the same as net income. Ordinary income from intersegment transactions is based on transaction prices determined in the same manner as ordinary income from external customers.

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

Segment results for the years ended March 31, 2019 and 2018 are as follows:

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

	Millions of yen						
	2018						
	Reportable segment			Other	Total	Reconciliations	Consolidated
	Hokuriku Bank	Hokkaido Bank	Total				
Ordinary income							
Ordinary income from external 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

	Thousands of U.S. dollars						
	2019						
	Reportable segment			Other	Total	Reconciliations	Consolidated
	Hokuriku Bank	Hokkaido Bank	Total				
Ordinary income							
Ordinary income from external customers	\$803,941	\$669,363	\$1,473,304	\$182,603	\$1,655,907	\$(1,296)	\$1,654,611
Ordinary income from intersegment transactions	9,100	11,058	20,158	41,095	61,253	(61,253)	—
Total	813,041	680,421	1,493,462	223,698	1,717,160	(62,549)	1,654,611
Segment profit	140,464	99,278	239,742	10,411	250,153	(30,681)	219,472
Segment assets	70,465,102	47,950,432	118,415,534	855,279	119,270,813	(467,564)	118,803,249
Segment liabilities	\$67,139,223	\$45,923,909	\$113,063,132	\$639,504	\$113,702,636	\$(557,596)	\$113,145,040
Others							
Depreciation	\$40,021	\$23,339	\$63,360	\$3,092	\$66,452	\$40	\$66,492
Amortization of goodwill	—	—	—	—	—	18,941	18,941
Unamortized balance of goodwill	—	—	—	—	—	102,597	102,597
Increase in tangible fixed assets and intangible fixed assets	\$40,356	\$12,042	\$52,398	\$986	\$53,384	\$10	\$53,394

(4) Information about services

Millions of yen				
Year ended March 31, 2019	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥99,098	¥42,019	¥42,527	¥183,645
Millions of yen				
Year ended March 31, 2018	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	¥102,547	¥37,241	¥41,127	¥180,916
Thousands of U.S. dollars				
Year ended March 31, 2019	Deposit and loan operations	Investment operations	Other	Total
Ordinary income from external customers	\$892,857	\$378,584	\$383,170	\$1,654,611

(5) Information about geographical areas

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

(6) Information about major customers

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

33. Related Party Transactions

Related party transactions as of March 31, 2019 and 2018 were as follows:

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

March 31, 2019

Related party	Account Classification	Transaction amount *5		Balance at end of year	
		Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Nakamura-Tome Precision Industry Co., Ltd. *2	Loans and bills discounted	¥950	\$8,559	¥950	\$8,559
NAKAMURA-TOME HOLDING CO., LTD. *2	Loans and bills discounted	¥796	\$7,172	¥1,083	\$9,758
YUGEYA Inc. *3	Loans and bills discounted *6	¥314	\$2,829	¥327	\$2,946
Kimito Tsurui *4	Loans and bills discounted *6	¥12	\$108	¥11	\$99

March 31, 2018

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

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

Acquisition of a portion of preferred stock

The Company resolved to acquire the following preferred stock in accordance with the provisions of Article 13 of the Articles of Incorporation at the meeting of the Board of Directors held on May 10, 2019:

Type of preferred stock acquired	Preferred Stock (Type 5)
Total number of stock acquired	10% of outstanding shares (excluding treasury shares) of the preferred stock on the date of acquisition
Acquisition price per share (yen)	¥500
Sellers and how acquired	All holders of preferred stock. The Company will acquire 10% of the stocks of each one.
Date of acquisition	October 1, 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Hokuohoku Financial Group, Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2019, 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, 2019, 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, 2019

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

The Hokuriku Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets			
Cash and due from banks	¥1,596,327	¥1,465,060	\$14,382,626
Call loans and bills bought	80,210	52,753	722,681
Monetary claims bought	37,030	44,177	333,637
Trading assets	1,188	1,491	10,711
Securities	1,197,044	1,317,103	10,785,159
Loans and bills discounted	4,740,350	4,670,149	42,709,709
Foreign exchanges	8,392	12,087	75,616
Other assets	73,203	77,441	659,547
Tangible fixed assets	76,152	76,791	686,117
Intangible fixed assets	5,349	5,963	48,194
Customers' liabilities for acceptances and guarantees	26,879	28,593	242,184
Allowance for loan losses	(21,207)	(18,675)	(191,079)
Total assets	¥7,820,921	¥7,732,938	\$70,465,102
Liabilities and equity			
Liabilities			
Deposits	¥6,636,846	¥6,505,825	\$59,796,797
Call money and bills sold	27,214	45,312	245,196
Payables under repurchase agreements	—	18,528	—
Payables under securities lending transactions	335,914	392,551	3,026,526
Trading liabilities	544	683	4,909
Borrowed money	377,217	338,167	3,398,665
Foreign exchanges	55	47	498
Other liabilities	18,095	21,181	163,037
Reserve for employee retirement benefits	716	1,132	6,460
Reserve for directors' and audit & supervisory board members' retirement benefits	43	43	391
Reserve for contingent losses	726	876	6,547
Reserve for reimbursement of deposits	1,608	1,331	14,496
Deferred tax liabilities	20,608	17,760	185,681
Deferred tax liabilities for land revaluation	5,309	5,487	47,836
Acceptances and guarantees	26,879	28,593	242,184
Total liabilities	7,451,782	7,377,520	67,139,223
Equity			
Capital stock	140,409	140,409	1,265,065
Capital surplus	14,998	14,998	135,137
Retained earnings	133,724	122,717	1,204,830
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	72,562	69,625	653,777
Deferred gains (losses) on hedges	(910)	(975)	(8,203)
Revaluation reserve for land	8,354	8,642	75,273
Total equity	369,139	355,417	3,325,879
Total liabilities and equity	¥7,820,921	¥7,732,938	\$70,465,102

NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

The Hokuriku Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Income			
Interest income:			
Interest on loans and discounts	¥45,480	¥47,486	\$409,770
Interest and dividends on securities	16,391	18,106	147,688
Interest on deposits with other banks	819	646	7,383
Other interest income	478	226	4,307
Fees and commissions	17,345	16,262	156,280
Trading income	52	45	470
Other ordinary income	5,143	2,013	46,338
Other income	4,663	6,444	42,021
Total income	90,374	91,231	814,257
Expenses			
Interest expenses:			
Interest on deposits	924	1,047	8,327
Interest on payables under repurchase agreements	217	148	1,963
Interest on payables under securities lending transactions	1,033	1,713	9,315
Interest on borrowings and rediscounts	557	412	5,026
Other interest expenses	2,228	1,986	20,076
Fees and commissions	7,391	7,154	66,596
Other ordinary expenses	2,416	3,385	21,775
General and administrative expenses	47,492	48,154	427,900
Provision of allowance for loan losses	2,692	1,671	24,255
Other expenses	4,334	3,293	39,052
Total expenses	69,289	68,968	624,285
Income before income taxes	21,085	22,262	189,972
Income taxes:			
Current	5,105	5,502	45,998
Deferred	389	987	3,510
Net income	¥15,590	¥15,772	\$140,464

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET (UNAUDITED)

The Hokkaido Bank, Ltd.

March 31	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets			
Cash and due from banks	¥958,032	¥923,208	\$8,631,705
Trading account securities	2,883	2,906	25,978
Money held in trust	9,123	9,491	82,202
Securities	591,833	626,231	5,332,309
Loans and bills discounted	3,620,530	3,519,283	32,620,328
Foreign exchanges	7,314	6,694	65,900
Other assets	94,204	94,949	848,767
Tangible fixed assets	28,318	29,151	255,142
Intangible fixed assets	3,980	4,563	35,863
Deferred tax assets	2,658	1,110	23,948
Customers' liabilities for acceptances and guarantees	26,594	24,646	239,615
Allowance for loan losses	(23,454)	(22,175)	(211,325)
Total assets	¥5,322,018	¥5,220,060	\$47,950,432
Liabilities and equity			
Liabilities			
Deposits	¥4,802,889	¥4,674,943	\$43,273,173
Payables under securities lending transactions	16,736	33,725	150,793
Borrowed money	230,000	249,400	2,072,259
Foreign exchanges	739	139	6,666
Other liabilities	16,885	14,513	152,138
Reserve for employee retirement benefits	2,156	2,048	19,434
Reserve for directors' and audit & supervisory board members' retirement benefits	93	104	839
Reserve for contingent losses	362	477	3,267
Reserve for reimbursement of deposits	635	589	5,725
Acceptances and guarantees	26,594	24,646	239,615
Total liabilities	5,097,094	5,000,588	45,923,909
Equity			
Capital stock	93,524	93,524	842,634
Capital surplus	16,795	16,795	151,321
Retained earnings	94,708	86,931	853,306
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	19,896	22,221	179,262
Total equity	224,923	219,472	2,026,523
Total liabilities and equity	¥5,322,018	¥5,220,060	\$47,950,432

NON-CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

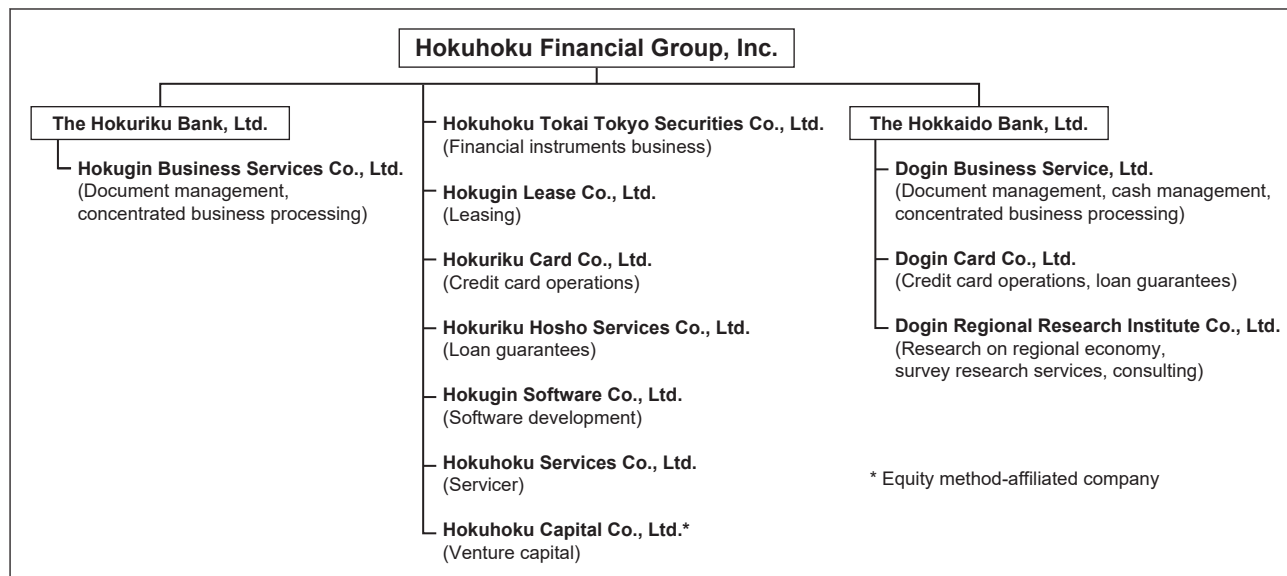
The Hokkaido Bank, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Income			
Interest income:			
Interest on loans and discounts	¥42,183	¥43,438	\$380,064
Interest and dividends on securities	8,603	8,438	77,519
Interest on receivables under resale agreements	(9)	(10)	(83)
Interest on deposits with other banks	271	275	2,450
Other interest income	268	177	2,423
Fees and commissions	16,621	17,199	149,757
Other ordinary income	1,896	1,382	17,089
Other income	5,716	9,838	51,505
Total income	75,553	80,740	680,724
Expenses			
Interest expenses:			
Interest on deposits	370	462	3,335
Interest on payables under securities lending transactions	890	305	8,026
Interest on borrowings and rediscounts	111	187	1,008
Other interest expenses	7	7	71
Fees and commissions	9,995	9,591	90,054
Other ordinary expenses	1,522	12,369	13,718
General and administrative expenses	40,330	42,317	363,366
Provision of allowance for loan losses	1,770	—	15,955
Other expenses	6,143	4,267	55,349
Total expenses	61,142	69,509	550,882
Income before income taxes	14,411	11,231	129,842
Income taxes:			
Current	4,089	498	36,844
Deferred	(696)	2,467	(6,280)
Net income	¥11,018	¥8,265	\$99,278

Business activities

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

Business diagram



Major subsidiaries

(units: millions of yen, %)						
Company name	Address	Main business activities	Established	Capital	FG's share of voting rights	Dividend
The Hokuriku Bank, Ltd.	1-2-26 Tsutsumicho-dori, Toyama City	Banking	July 31, 1943	140,409	100.00	4,871
The Hokkaido Bank, Ltd.	4-1 Odori Nishi, Chuo-ku, Sapporo City	Banking	March 5, 1951	93,524	100.00	3,241
Hokuuoku 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	—
Hokuuoku Services Co., Ltd.	1-6-8 Chuo-dori, Toyama City	Servicer	December 5, 2003	500	100.00	—
Hokugin Business Services Co., Ltd.	1883 Hiyodori-jima, 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)	—
Hokuuoku Capital Co., Ltd.	1-6-8 Chuo-dori, Toyama City	Venture capital	January 11, 1985	250	5.00 (38.75)	—

() Indicates voting rights involving shares held by subsidiaries

OUTLINE OF SUBSIDIARIES - THE HOKURIKU BANK, LTD.

The Hokuriku Bank, Ltd.

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

Establishment

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

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

Company outline (as of March 31, 2019)

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:	¥7,820.9 billion
Deposits (including NCDs):	¥6,636.8 billion
Loans and bills discounted:	¥4,740.3 billion
Issued shares:	
Common stock:	1,047,542,335
Capital adequacy ratio (non-consolidated):	8.79%
Employees:	2,621
Branches (as of June 30, 2019)	
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"
April 2019	Launched Trust Business Service

The Hokkaido Bank, Ltd.

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

Establishment

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

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

Company outline (as of March 31, 2019)

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:	¥5,322.0 billion
Deposits (including NCDs):	¥4,802.8 billion
Loans and bills discounted:	¥3,620.5 billion
Issued shares:	
Common stock:	486,634,512
Preferred stock (Type 2):	107,432,000
Capital adequacy ratio (non-consolidated):	8.69%
Employees:	2,278
Branches (as of June 30, 2019)	
Domestic:	144 (136 branches, 8 sub-branches)
Overseas:	3 representative offices

History

March 1951	Hokkaido Bank established
April 1961	Launched foreign exchange operations
May 1962	Listed on the Sapporo Stock Exchange
August 1964	Completed present head office
June 1971	Launched first online system
July 1976	Launched second online system
December 1980	Received blanket approval to engage in correspondent banking services
April 1981	Hokkaido Small and Medium Corporation Human Resource Development Fund established
June 1986	Launched online foreign exchange system
September 1987	Listed on the first section of the Tokyo Stock Exchange
October 1990	Completed the Higashi Sapporo Dogin Building
March 1991	Established Dogin Cultural Foundation
October 1991	Launched a new foreign exchange online system
November 1991	Completed Dogin Building Annex
January 1993	Launched third online system
April 1994	Launched investment trust agent operations
December 1998	Launched over-the-counter sales of securities investment trusts
July 1999	Issued preferred stock (Type 2) (issuance amount was ¥53.716 billion)
November 1999	Launched telephone banking service
June 2000	Launched Internet mobile banking
April 2001	Launched over-the-counter sales of casualty insurance
October 2002	Launched over-the-counter sales of life insurance
December 2003	Opened Business Loan Plaza
April 2004	Launched convenience store ATM service
September 2004	Came under management of Hokugin Financial Group, Inc., parent of Hokuriku Bank; Hokuoku Financial Group, Inc. launched
April 2005	Launched securities agency operations
March 2006	Entered into a contract on joint system use with Hokuriku Bank and the Bank of Yokohama
August 2006	Opened representative office in Shenyang, China
March 2009	Opened representative office in Yuzhno-Sakhalinsk, Russia
January 2010	Taiwan ATM/SmartPay Debit Service started
May 2011	Commenced use of joint IT system with Hokuriku Bank and the Bank of Yokohama
March 2014	Opened representative office in Vladivostok, Russia
March 2019	Opened Account Opening Plaza "Odori Subway Station Sub-Branch"
April 2019	Opened the NISEKO Sub-Branch

DIRECTORS

Hokuhoku Financial Group, Inc.

President:
Eishin Ihori

Deputy President:
Masahiro Sasahara

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

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

The Hokuriku Bank, Ltd.

Chairman:
Hidenori Mugino

President:
Eishin Ihori

*Senior Managing
Director:*
Hiroaki Ishida

Managing Directors:
Hiroyuki Jogan
Masahiko Kobayashi
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:
Yuji Kanema
Atsushi Uchiyama
Takashi Ogura

Director:
Tsuneaki Yoshida

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

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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 161分行（或支行）

三大都市圈 16分行（或支行）

东京、横滨 9分行（或支行）

名古屋 3分行（或支行）

大阪、京都 4分行（或支行）

其他地区（仙台、新潟、长野、高山）..... 4分行（或支行）

海外..... 9代表处

纽约代表处 （北陆银行）

南萨哈林斯克代表处 （北海道银行）

符拉迪沃斯托克代表处 （北海道银行）

伦敦代表处 （北陆银行）

新加坡代表处（北陆银行）

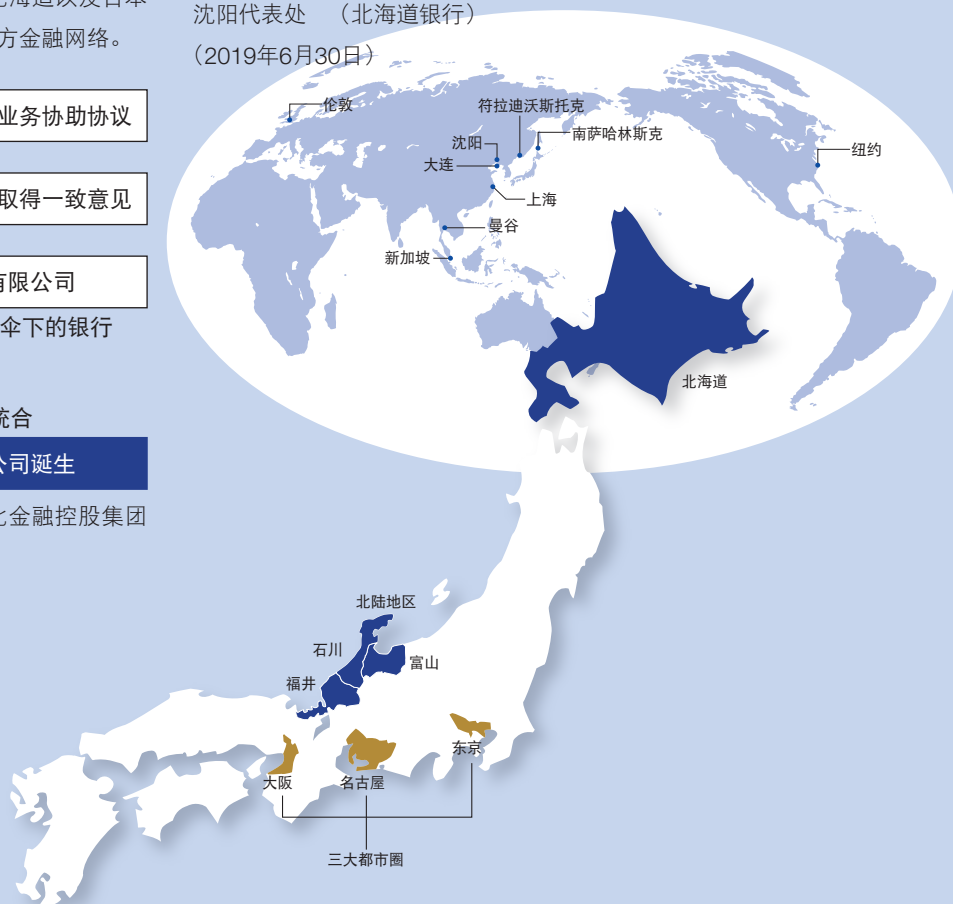
曼谷代表处 （北陆银行）

大连代表处 （北陆银行）

上海代表处 （北陆银行）

沈阳代表处 （北海道银行）

（2019年6月30日）





(相片左边)
董事长
庵 荣伸 (北陆银行 总行长)

(右边)
董事副社长
笹原晶博 (北海道银行 总行长)

大家好！

衷心感谢各位平素对北北金融集团以及集团公司的关怀与厚爱。

本集团公司处于中美贸易摩擦、英国脱欧问题的经济环境，由于这些影响造成出口减少，世界经济与国内经济不透明的因素，将来的经济发展仍然处于难以预测的状态。

在金融领域方面，长期的低利息、人口减少、高龄化的进度、数字化的高速发展、等因素都导致了金融环境更加严峻，要求我们金融行业进行转换原商业模式，做到提高客户的方便性以及应对经营合理化。

为了构筑能够对应各种环境变化的全新商业模式，本年度开始致力于实现新的中期经营计划“ALL for the Region”。

本集团公司的目标是“为客户提供地域No.1金融服务而达到为地域社会做贡献，创造共同价值，实现与地域共同成长、发展的综合金融集团”，我们将采取各种举措，揭起“对地域社会发展做贡献”“对未来的进化、变革”“集团综合实力的发挥”支柱，我们将致力于提高企业价值、股东价值，请各界友人一如既往惠顾本集团并给予关照。

董事长

庵 荣伸

庵 荣伸

2019年7月

中期经营计划

在前中期经营计划中，由于利息下降的原因，贷款利息呈现出持续减少的倾向。同时，由于国债的大量偿还等原因，有关有价证券运用的利息股息减少了。另一方面，通过致力于效率化、生产性向上，努力削减经费，加上国内经济也在稳定复苏，因此信贷关系费用低于了计划，联结本期净利润超过了目标。

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

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

■ 计划的概要



■ 前中期经营计划的达成情况(2家银行合算、联结)

	2018年度目标	2018年度业绩
存款平均余额（不包括NCD）	10兆5,600亿日元	11兆868亿日元
贷款平均余额	7兆7,600亿日元	8兆2,230亿日元
主营业务净利润	415亿日元	391亿日元
归属于母公司股东的本期净利润	230亿日元	243亿日元
（联结）资本充足率	9.55%	9.10%
OHR（以主营业务毛利润为基础）	69.14%	68.85%

■ 新中期经营计划的重点指标(2家银行合算、联结)

	2021年度 (最终)
主要业务利润（2家银行合算）	220亿日元以上
本期净利润（联结）	220亿日元以上
资本充足率（联结）	维持高于8%
OHR（2家银行合算）	维持高于60%

根据基本方针而定的各战略区分重点措施

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

营业概况（北北金融控股集团联结）

（单位：亿日元）

	2018年度		2017年度
		变动	
经常收益	1,836	27	1,809
经常利润	353	35	317
归属于母公司股东的净利润	243	31	211
资本充足率	9.09%	-0.40%	9.49%

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增加了27亿日元，为1,836亿日元。联结经常利润与上年度相比增加了35亿日元，为353亿日元。归属于母公司股东的净利润增加了31亿日元，为243亿日元。

联结资本充足率达到了9.09%。

2018年度的股息：普通股于期末每股支付了44.00日元股息，对第一回第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家银行合算		2017年度
	2018年度	变动	
经常收益	1,657	-36	1,693
主营业务毛利润	1,257	-50	1,307
经费(临时处理部分除外)	865	-22	888
主营业务净利润	391	-28	419
信贷相关成本	46	40	5
经常利润	367	35	331
本期净利润	266	25	240

2家银行合算的经常收益与上年度相比减少36亿日元，为1,657亿日元。本期净利润与上年度相比增加25亿日元，为266亿日元。

北陆银行的经常收益与上年度相比减少9亿日元，为902亿日元。本期净利润与上年度相比减少1亿日元，为155亿日元。

北海道银行经常收益与上年度相比减少27亿日元，为755亿日元。本期净利润与上年度相比增加27亿日元，为110亿日元。

（单位：亿日元）

	北陆银行		2017年度
	2018年度	变动	
经常收益	902	-9	911
主营业务毛利润	691	-20	712
经费(临时处理部分除外)	464	-10	475
主营业务净利润	226	-10	237
信贷相关成本	28	9	18
经常利润	221	-19	241
本期净利润	155	-1	157
资本充足率	8.79%	-0.23%	9.02%

（单位：亿日元）

北海道银行		
2018年度	变动	2017年度
755	-27	782
565	-29	595
401	-11	413
164	-17	182
17	30	-12
145	55	89
110	27	82
8.69%	-0.59%	9.28%



Hokuhoku Financial Group, Inc.