
Update on Medium-to Long-Term Management Strategy And an overview of the results for the fiscal year ended March 31, 2022

April 28, 2022

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1. Summary of Financial Results

Outline of Financial Results for the Fiscal Year Ended March 2022

and gains/losses on securities transactions increased year on year at the Hokkoku Bank.

Despite booking losses on the disposal of some software and expenses for the disposal of non-performing loans, both sales and profits increased YoY.

[Consolidated Profile of Hokkoku Financial Holdings]

<Ordinary income JPY19.167 billion YOY +JPY6.277 billion>

<Net income JPY9.387 billion YOY +JPY2.635 billion>

Interest and dividends on securities

(1) SUMMARY

【CONSOLIDATED】

(Millions of yen)

	FY2021	FY2022	Fluctuation	Rate of increase or decrease
Ordinary income	79,098	84,730	5,632	7.1%
Ordinary profit	12,890	19,167	6,277	48.6%
Profit *	6,752	9,387	2,635	39.0%

* Profit attributable to owners of parent

【Hokkoku Bank】

(Millions of yen)

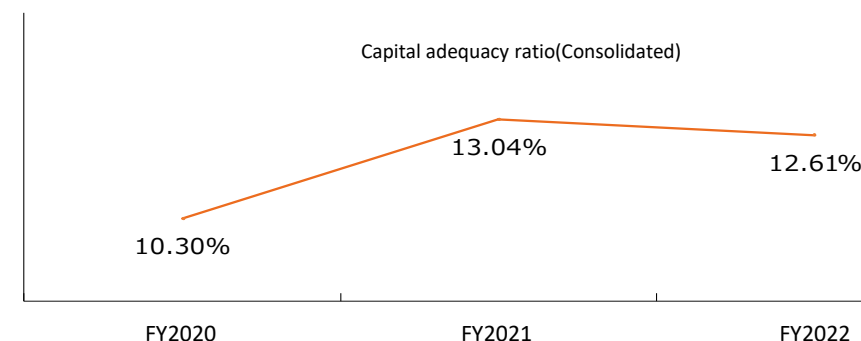
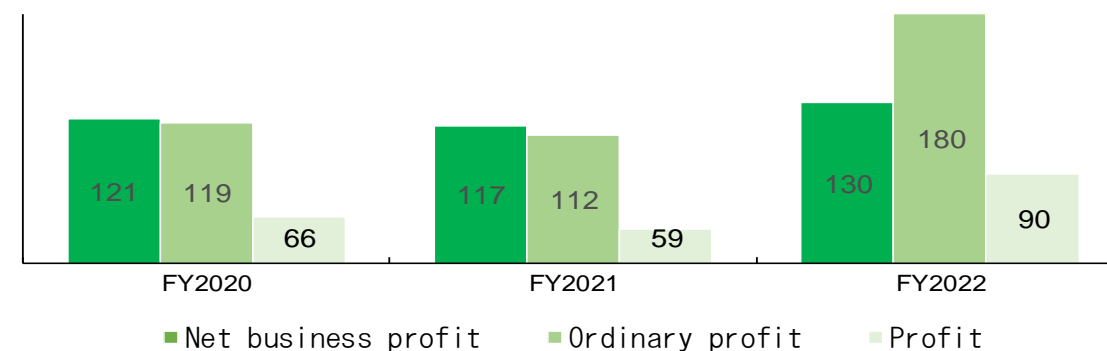
	FY2021	FY2022	Fluctuation	Rate of increase or decrease
Ordinary income	68,414	73,918	5,504	8.0%
Ordinary income	11,283	18,091	6,808	60.3%
Profit	5,954	9,043	3,089	51.8%
Ordinary profit	11,778	13,033	1,255	10.6%

(2) Capital adequacy ratio

	FY2020	FY2021	FY2022	fluctuation
Capital adequacy ratio(Consolidated)	10.30%	13.04%	12.61%	△ 0.43%

millions yen

Hokkoku Bank



2. Medium-to Long-Term Management Strategy-Update-

Longer-Term Management Strategy 2022

※2022.4.28 announced



Medium-to Long-Term Management Strategy-Update Plans-

※Will be updated every year

- Starting in 2021, the level and strategy that should be targeted in the medium to long term have been updated every fiscal year
- We intend to grow and will concentrate on enhancing corporate value from April 2022 to March 2025.

3 Measures to Enhance Corporate Value

1.To improve capital efficiency

- Creation of surplus capital by conversion to domestic banks
- Achieve a total return ratio of 40% or more and repurchase shares up to the highest level of PBR at regional banks
- Policy not to hold strategic shareholdings, sell 50% in 3 years

2.Identification of incentives for management, employees, and shareholders

- Introduced a compensation system linked to ROE with the aim of achieving ROE5 of 0% in 2 years and ROE8 of 0% in 2010 years

3.Supporting Growth through Private Equity

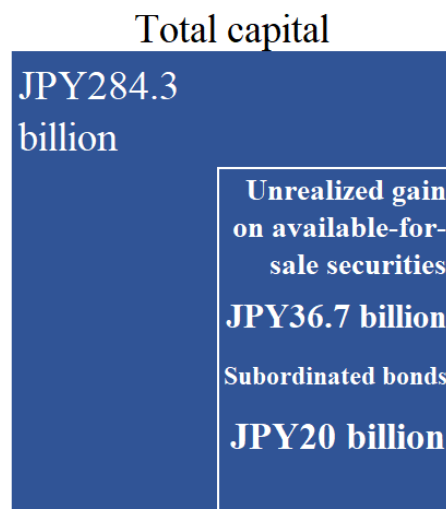
- Aggressively invest capital through 100% subsidiary QR Investment Co., Ltd.

Conversion to domestic banks

- Conversion from International Banks to Domestic Standard Banks by Closing the Singapore Branch
- Effectively utilize the newly generated JPY102.6 billion of surplus capital

FYE March. 2022

International Standard Bank
Basis (Preliminary Figures)

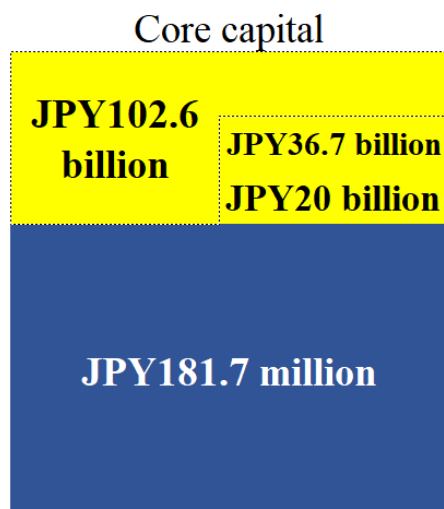


Surplus capital



FYE March. 2023 (Forecast)

Domestic banks basis



Growth Strategy

Shareholder Returns

= 12.5%

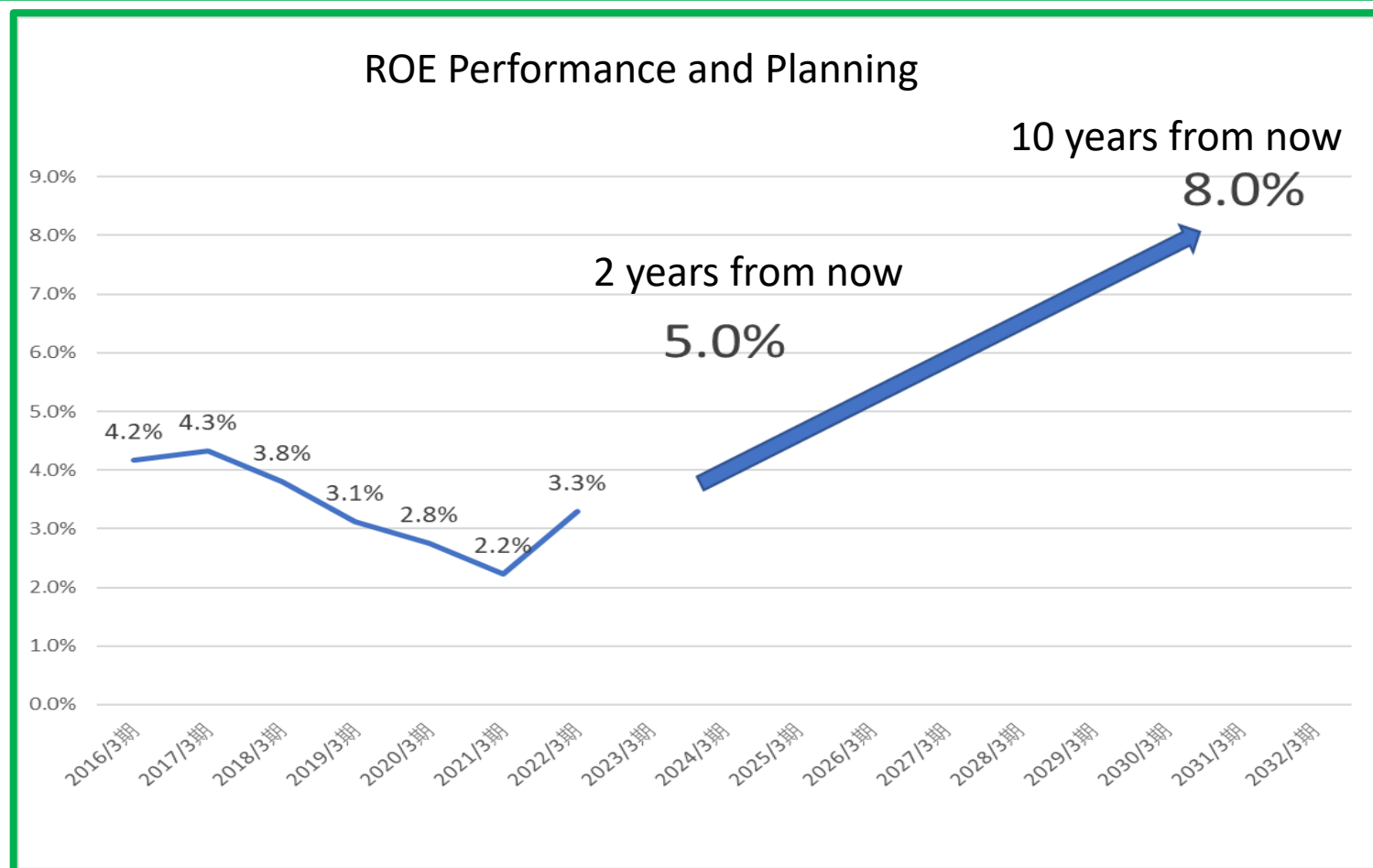
= 8.0%

Risk Assets
JPY2.2715 trillion

Risk Assets
JPY2.2715 trillion

Establishment of ROE Targets

While converting to domestic banks and maintaining a stable equity ratio,
Aiming for ROE 5.0% (2 years from now) and ROE8.0% (10 years from now)



※ ROE is calculated on an international basis for FY2022 and earlier, and on a domestic basis for FY2023 and later.

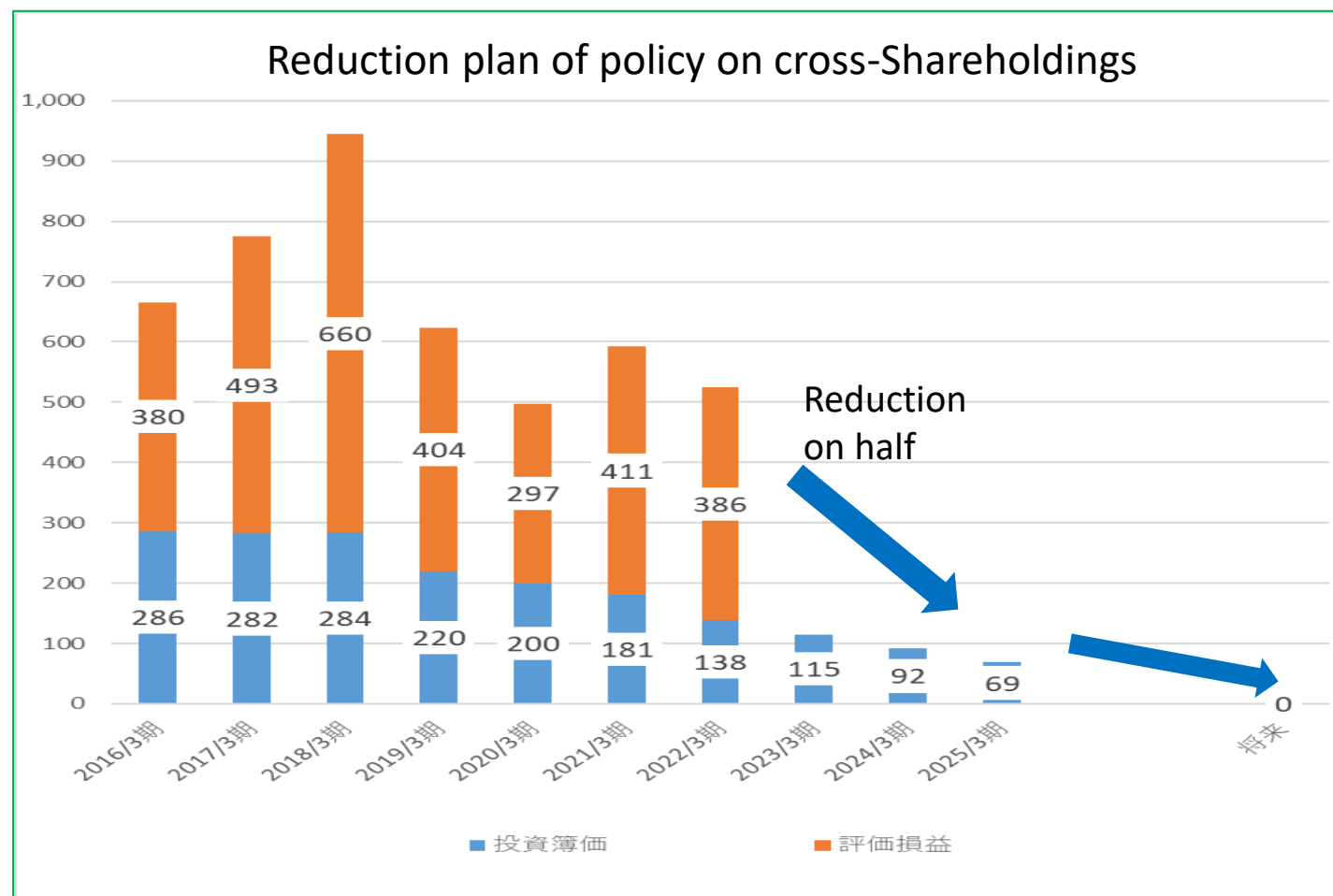
Policy on Distributing Profits to Shareholders

Aiming for a total return ratio of 40% or more through dividends and share buybacks

	FYE March 2022 Actual	FYE March. 2023 A year later	FYE March. 2024 Two years later	FYE March. 2025 Three years later	FYE March. 2027 5 years from now	FY3/2032 About 10 years later
Total return ratio	60%	115%	40% or more	⇒	⇒	⇒
Total dividends	24 Billion yen	25 Billion yen	—	—	—	—
Repurchase of the Company's stock	30 Billion yen	90 Billion yen	—	—	—	—
Consolidated equity ratio (Domestic Standards)	9.94%	9.66%	8.0% or more	⇒	⇒	⇒
Consolidated ROE (Domestic Standards)	4.2%	4.5%	5.0%	⇒	⇒	8.0%

Policy for Reduction of Strategic Shareholdings

- Policy of not holding all listed stocks among strategic stockholdings
- Target to halve by the end of March 2025 (3 years later)



※ Strategic stockholdings are listed stocks held by the Hokkoku Bank

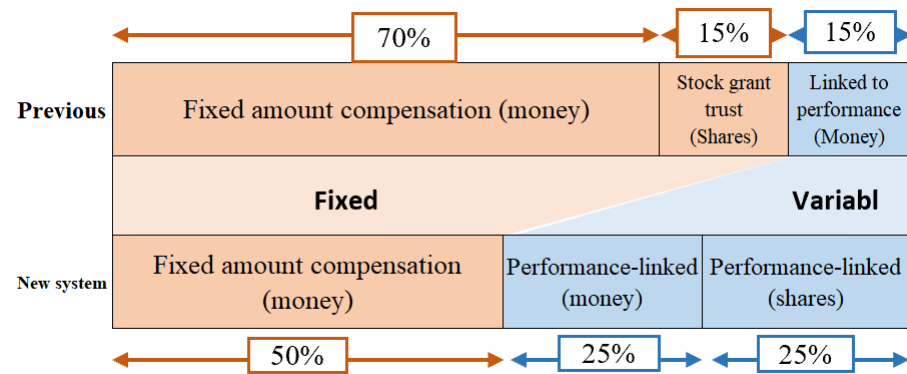
※ Billions of yen

Executive compensation plan, maximum term of office as a director

- Incentive to increase the proportion linked to business performance and aim for sustainable improvement in corporate value
- At the same time, to strengthen the governance system, the maximum term of office as a director is determined.

System of compensating directors

<Revised Image>



<Composition ratio>

ROE	President and Representative director				Directors (excluding the president)			
	Fixed	Linked to performance		Total	Fixed	Linked to performance		Total
	Money	Money	Stocks		Money	Money	Stocks	
8% or more	45%	30%	105%	180%	50%	25%	90%	165%
Less than 7% to 8%	45%	30%	75%	150%	50%	25%	65%	140%
Less than 6% to 7%	45%	30%	45%	120%	50%	25%	40%	115%
Less than 5% to 6%	45%	30%	25%	100%	50%	25%	25%	100%
Less than 4% to 5%	45%	25%	20%	90%	50%	20%	20%	90%
Less than 3% to 4%	45%	20%	15%	80%	50%	15%	15%	80%
Less than 2% to 3%	45%	15%	10%	70%	50%	10%	10%	70%
Less than 1% to 2%	45%	10%	5%	60%	50%	5%	5%	60%
Less than 1%	45%	0%	0%	45%	50%	0%	0%	50%

※ Performance-based stock awards are restricted until retirement

Maximum term of office of directors

Director who is not an Audit and Supervisory Committee member (President)	1-year term of office. Provided, however, that the director shall not be elected as a candidate for a director upon expiration of the term of office for a term exceeding 10 years.
Directors who are not Audit and Supervisory Committee members (excluding the president)	1-year term of office. Provided, however, that the director shall not be elected as a candidate for a director after the age of 65 and the term of office expires.

Employee Stock Grant Plans

■ Introduce a stock grant system for employees to improve motivation and foster ownership

Employee Stock Grant Plans

Performance Indicators	ROE
Shares to be delivered	Restricted stock

If ROE exceeds 8%, including the amount of stock grants, the level of compensation will be at the top level for regional banks.

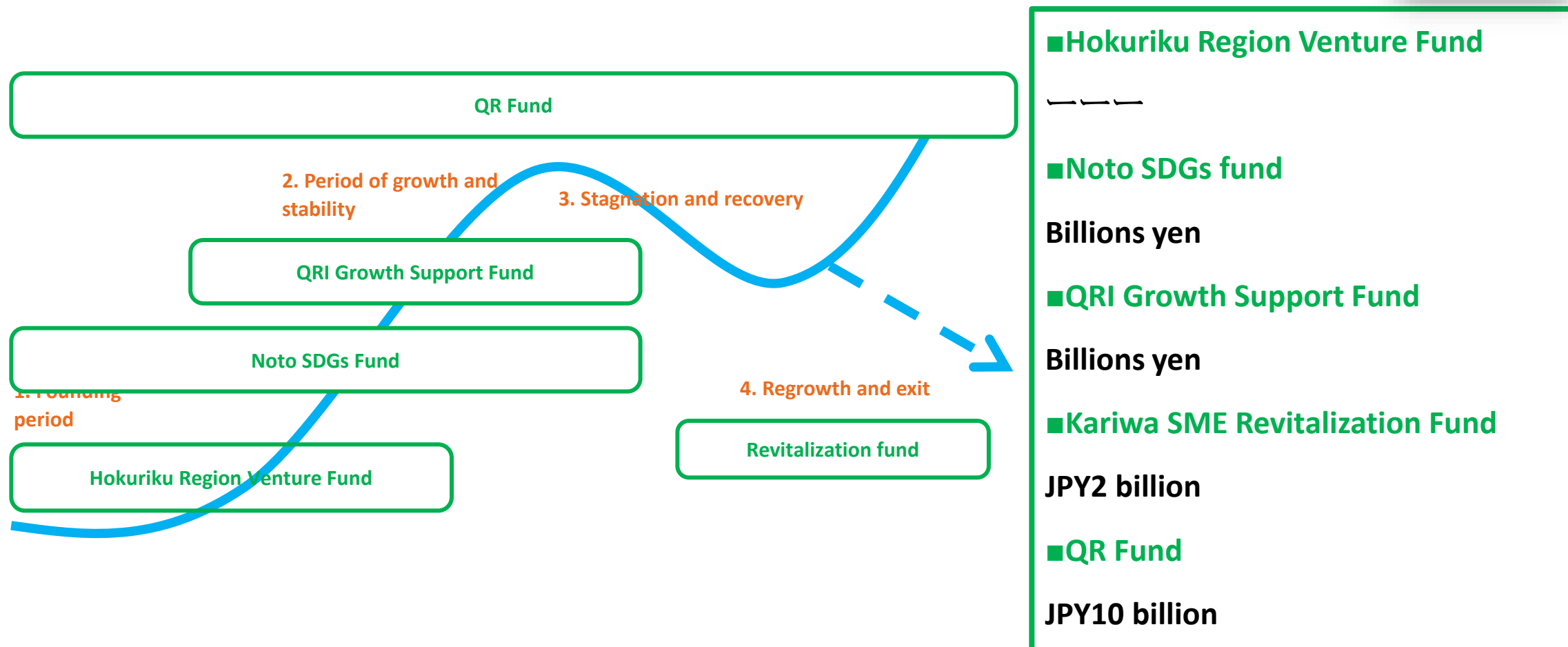
Medium- to long-term goals

ROE	Remuneration other than salary		Compensation Composition Ratio (*)			Estimated amount granted
	Bonus	Stock grant	Fixed	Stocks	Total	
8% or more	500%	430%	95%	24%	119%	JPY3 billion
Less than 7% to 8%	500%	315%	95%	17%	112%	JPY2.2 billion
Less than 6% to 7%	500%	210%	95%	12%	107%	JPY1.5 billion
Less than 5% to 6%	500%	100%	95%	5%	100%	JPY700 million
Less than 4% to 5%	500%	50%	95%	2%	97%	JPY350 million
Less than 3% to 4%	500%	50%	95%	2%	97%	JPY350 million
Less than 2% to 3%	500%	25%	95%	1%	96%	JPY170 million
Less than 1% to 2%	500%	0%	95%	0%	95%	—
Less than 1%	500%	0%	95%	0%	95%	—

(※) Calculated using the payment level in March 2022 as 95%

Supporting Growth through Private Equity

QR Investment Co., Ltd.
Operate 5 funds (>JPY14 billion in total) for each life stage



Medium-to Long-Term Targets

~Level of image over the medium to long term based on future environmental expectations and action policies~

	FYE March 2022 Actual	FYE March. 2025 Three years later	FYE March. 2027 5 years from now	FY3/2032 About 10 years later
Consolidated Operating Income	JPY19.2 billion	JPY21 billion	JPY23.1 billion	JPY37.7 billion
Consolidated Net Income	JPY9.4 billion	JPY12.9 billion	JPY14.4 billion	JPY24 billion
Revenues from Key Initiatives (Consolidated) (New business revenue including card leasing and consulting)	JPY3.2 billion	JPY7.9 billion	JPY9.5 billion	JPY12.5 billion
ROE (Consolidated)*	4.2%	5.7%	5.9%	8.0%

※ ROE is calculated based on net income attributable to owners of the parent relative to Basel III core capital on a domestic base bank basis.

Medium-to Long-Term Target Levels (Details and Consolidated)

	FYE March 2022 Actual	FYE March. 2025 Three years later	FYE March. 2027 5 years from now	FY3/2032 About 10 years later
Interest on loans and deposits	JPY23.8 billion	JPY24 billion	JPY24.3 billion	JPY24.8 billion
Fees and commissions	JPY7.2 billion	JPY11.4 billion	JPY13.3 billion	JPY17.4 billion
Card Business	JPY1.2 billion	JPY3 billion	JPY3.3 billion	JPY3.4 billion
Leasing business	JPY1.2 billion	JPY1.8 billion	JPY2 billion	JPY2.7 billion
Consulting & Advisory	JPY600 million	JPY2.4 billion	JPY3 billion	JPY4 billion
Market management	JPY29.4 billion	JPY19 billion	JPY16 billion	JPY22.1 billion
Total Credit Costs	JPY11.8 billion	JPY3 billion	JPY3 billion	JPY3 billion
General and administrative expenses	JPY30.3 billion	JPY31 billion	JPY28.9 billion	JPY25.4 billion
System-related costs*	JPY6.9 billion	JPY8 billion	JPY6.3 billion	JPY4.3 billion
Net income	JPY9.4 billion	JPY12.9 billion	JPY14.4 billion	JPY24 billion

※:Total of software development costs (depreciation expenses) and running costs (office outsourcing expenses, etc.)

Point of update

	Point of update
■ Capital Strategy	Increase capital efficiency while maintaining the equity ratio Aiming for ROE 5.0% in 2 years, and ROE8.0% in 10 years
■ Commercial loans	Strengthening Dialogue with Customers with an Emphasis on Pricing Aim to improve yield by 0.1%
■ Card Business	Build next-generation platforms that image BaaS over the long term Increase in debit card penetration rate and number of transactions, and increase in merchant sales strategy and occupancy rate by market
■ Leasing business	Expand share of finance leases and deferred payments Efforts to create new profit opportunities
■ Consulting & Advisory	Increase number of bases and expand consulting domains Developing an approach by segment
■ Systems	In-house development and operation Cooperating companies ⇒ Reduce system costs by shifting personnel to FHD employees
■ Total Credit Costs	Allocate human resources to support management improvement, mainly at the executive officer level, aiming to reduce the ranking and improve the ranking Changes in loan loss reserve methods and sharing of ratings and borrower classifications

Medium-to Long-Term Management Strategy-Card Business-

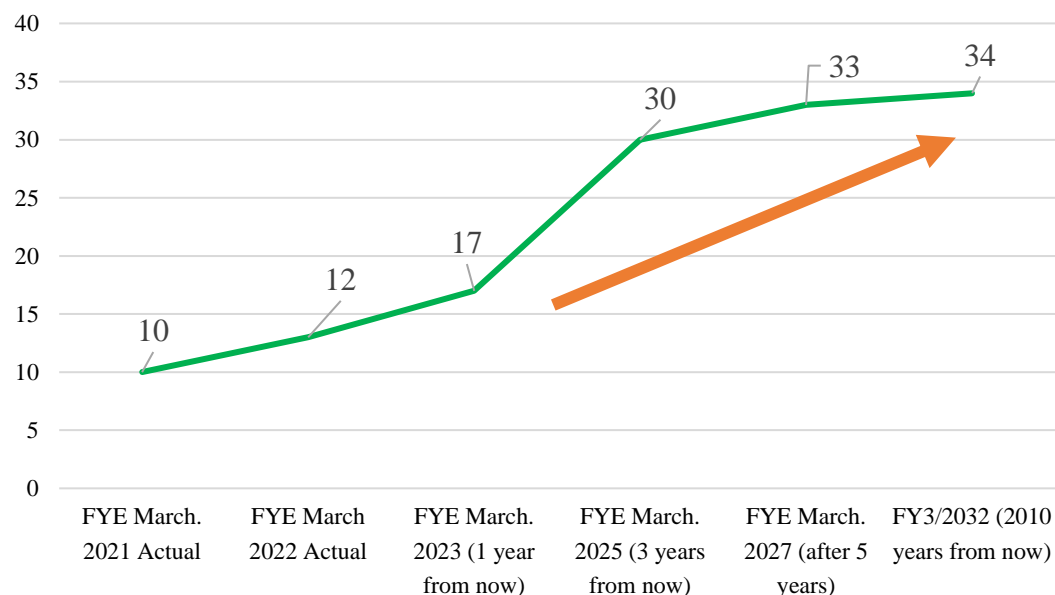
■Overall strategy

- Utilize next-generation platforms that image BaaS
- Creation of a cashless environment with an eye to enhancing regional value (regional revitalization and operational efficiency)

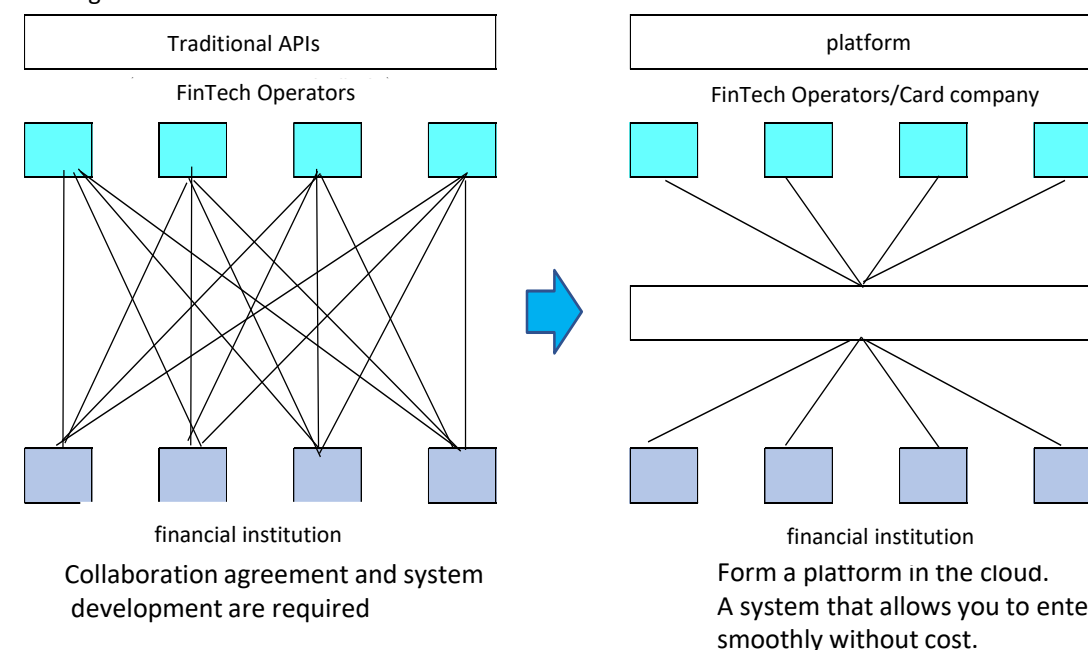
■Strategy Details

- Focus on increasing penetration of corporate and individual debits and transaction volume
- Focus on increasing the number of franchised stores and improving occupancy rates through strategies that differentiate each market

Card Business Revenues (Billions of yen)

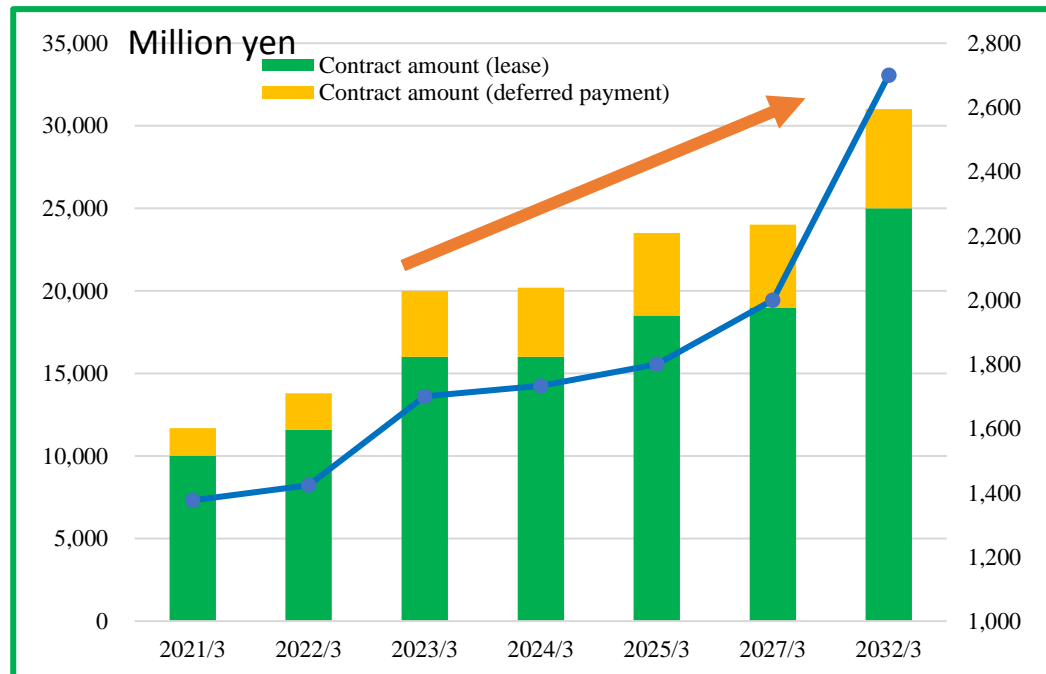


BaaS image



■Overall strategy

- Expand share of existing products: Leverage the benefits of integrated HD sales
Establishment of a resident system of lease specialists at regional bases under the sales department system
- Creating new business opportunities: Entry into new markets



Expand share of existing products

- Finance lease
- Deferred payment market

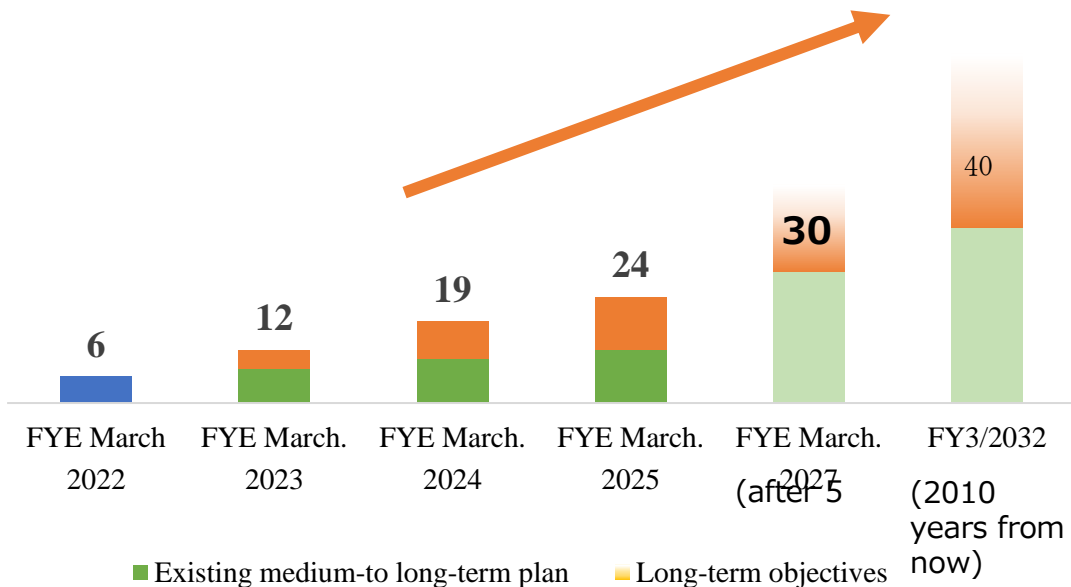
Creation of new profit opportunities

- Establishment of a reuse system
⇒ Increase exit earnings
- Entry into new adjacent markets

■Basic Strategy

- Comprehensive consulting and advice: Provide consulting in line with customer growth by responding to multiple issues, and expand bases
- Expansion of Customer Base: Large Enterprises/Local Governments, Deposit only customers/Non-Business Partners, Nationwide and Overseas Outside Hokuriku region
- Expansion of problem-solving areas: Strengthening of collaboration with external partners

CCI_Longer-Term Management Strategy



<Strategy for the Fiscal Year Ending March 2023>

- Efforts to increase the number of consultations (800⇒1200 cases)
 - Core Client Approach Based on Industry-Specific Organizational Structure
 - Introduction of new menu utilizing HD's own experience and knowledge
 - Strengthen approach to net depositors, non-business partners, etc.
- Initiatives to Raise the Consulting Unit Price
 - From hourly price to value-based fee setting
 - Strengthening approaches to large corporations and local governments

<Medium-to long-term strategy>

- Company-wide reform support through hands-on support
- Supporting enhancement of corporate value through collaboration with QRI
- Large-scale and core system development and sales through in-house development of IT tools

<Reference Materials> Established a subsidiary in Singapore

■As a subsidiary of consulting firm CC Innovation, Started preparations to establish a subsidiary in Singapore

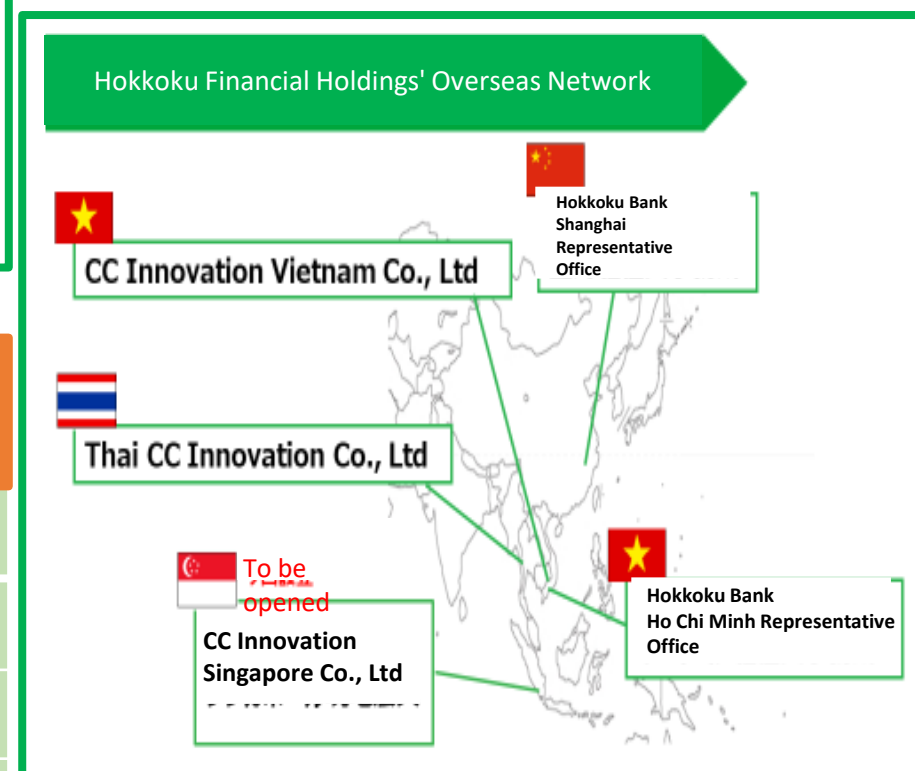
[Background and Purpose of Establishment]

- Focus on strengthening consulting functions in line with financial functions as the FHD Group strategy
- Compared to the Singapore branch format, it is easier to exercise consulting functions
- Loans and other operations can be covered by local corporations and domestic banking operations.

Conversion to domestic banks allows for more flexible capital strategies

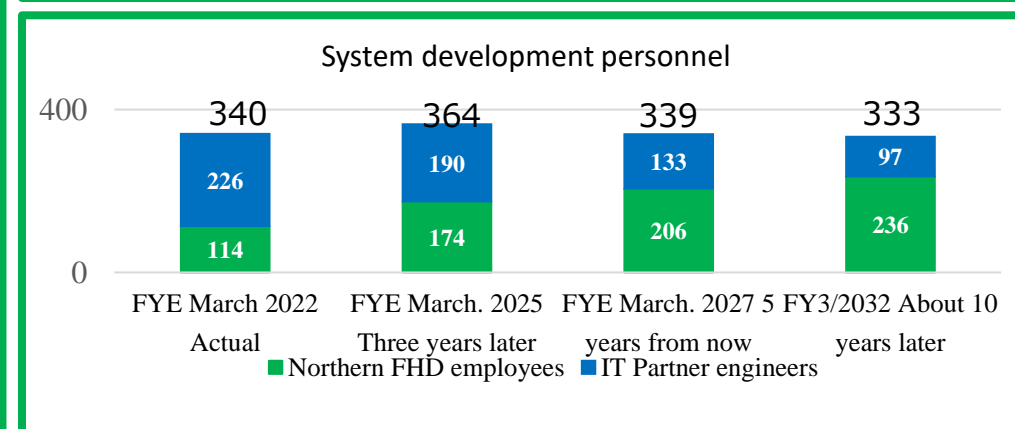
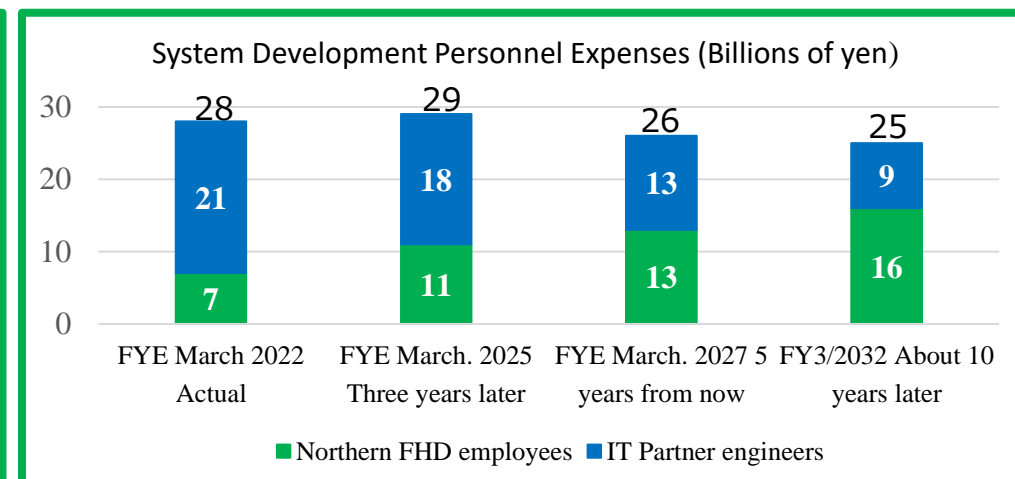
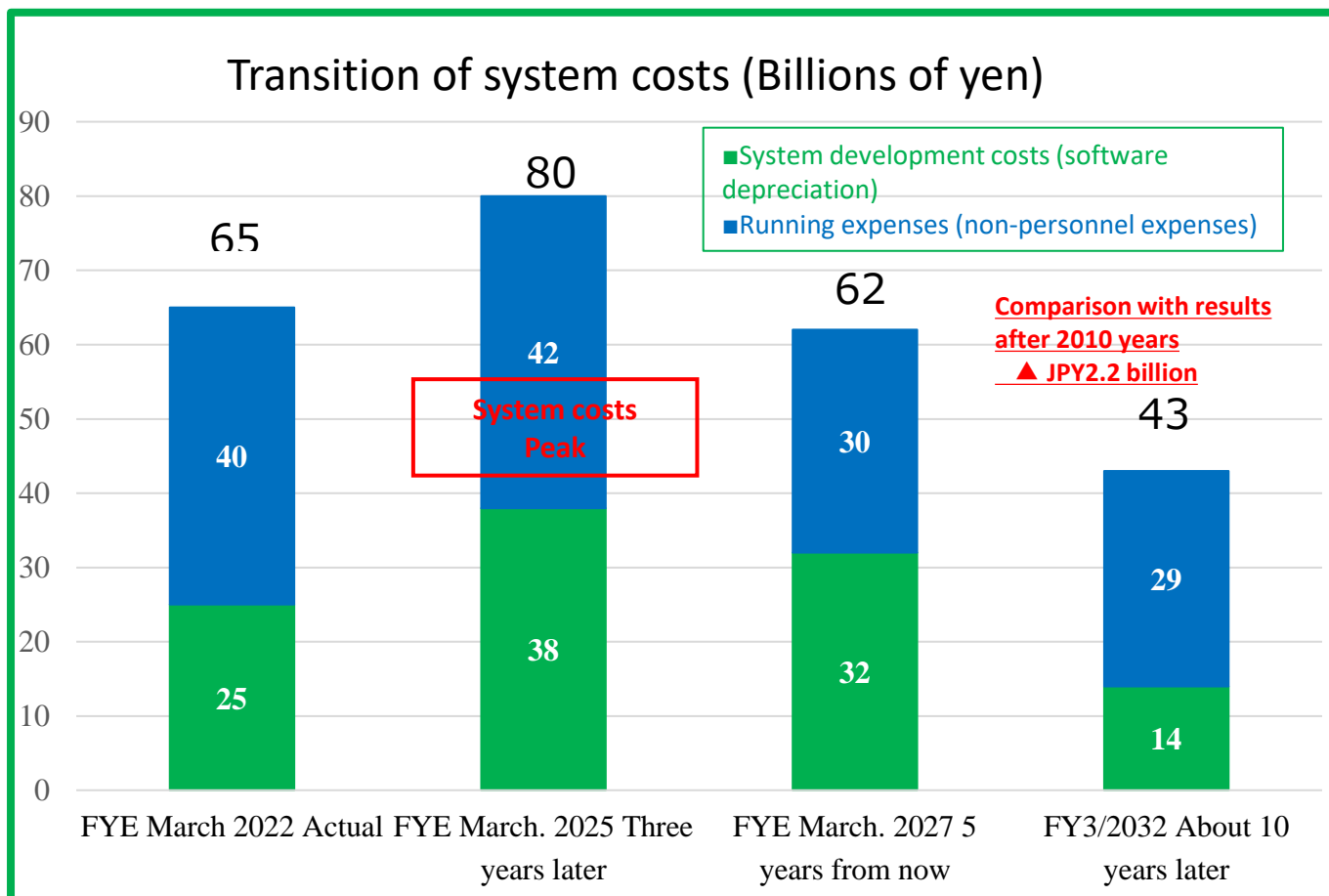
Overview of the Singapore subsidiary

Trade Name	(tentative) CC Innovation Singapore Pte. Ltd.
Date of opening	October 2022 (Established July 2022)
Main Operations	Consulting, investment and loan operations, etc.



Medium-to Long-Term Management Strategy-System Investment-

- **System development costs:** Reduce costs by increasing the proportion of FHD employees in North Korea while maintaining the system division's development structure
- **Cost of running:** Reducing costs by internalizing or abolishing 9% of 120 subsystems
- **Productivity of development:** Improve productivity at development sites through agile development and DevOps



Medium-to Long-Term Management Strategy-Credit-Related Expenses-

■Overall strategy

- Improvement support through early support for customers
- Improve relationships by sharing financial conditions and issues with customers
- To recording reserves according to relationships

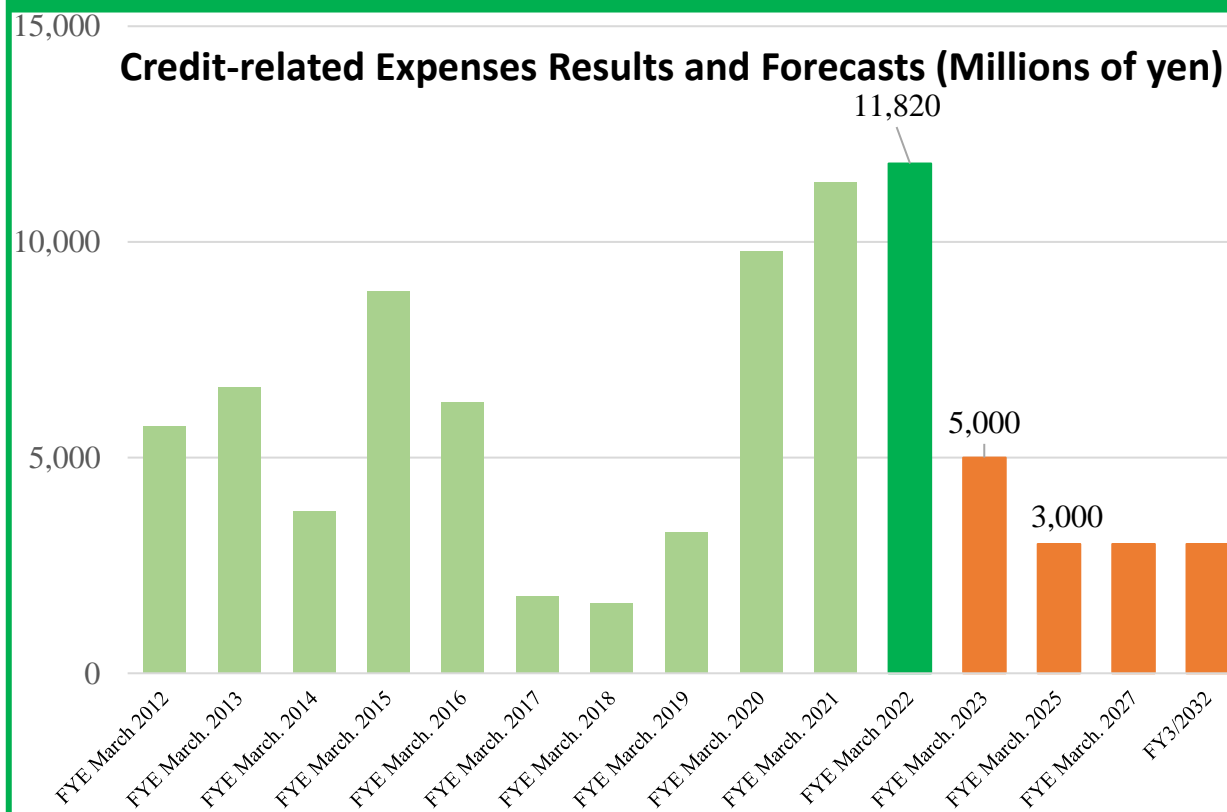
<Reference> Loan coverage ratio (*1) (Fiscal period 2021.3)

Hokkoku Bank :96.5%

Average of regional banks (*2): 79.0%

*1 Loans = Coverage ratio of claims disclosed under the Financial Reconstruction Act
Calculation formula: (Amount of protection by collateral, guarantees, etc. + Allowance for loan losses)/Loans and bills discounted

*2 Source: Financial Services Agency website, "Status of Claims Disclosed under the Financial Reconstruction Act, etc."



■Improvement support through early support for customers

- Established a dedicated person, including an executive officer, within the corporate banking division.
- CC Innovation and Meetings with customers directly with sales Branches, provide support for improvement

■Improve relationships by sharing financial conditions and issues

- Vision for the future, past and present, based on financial conditions, share and aim to resolve issues for this purpose

■Provision based on relationship

- Classification in the calculation of reserves according to the level of relationship
- Adjust notches to reflect them in reserves

Changes in loan loss reserve methods (sharing of ratings and borrower classifications)

Expansion of sales efforts based on customer relationships and understanding of business potential to the criteria for recording allowance for doubtful accounts

Change in accounting standard for allowance for doubtful accounts

- In order to implement the recording of appropriate provisions in line with actual conditions, the method was changed from the method based on the actual bad debt ratio (on a value basis) to the method based on the probability of bankruptcy (on a number of cases basis).
- Changes to standards based on customer relationships and understanding of business potential, in addition to past financial information, in order to record reserves based on the future potential and growth potential of customers

Share ratings and borrower classifications with customers

- Share the ratings (borrower classification) with the desired customers, and drive with the ideal image and the attainment of the ideal image in the future.

Forecasts for the fiscal year ended March 2023

- We expect that the economic impact of new corona virus infection will continue to be somewhat sustained in the fiscal year ending March 2023, Net income is expected to increase due to the effects of each measure.
- The dividend forecast is JPY100 per share, an increase of JPY10. (Total return ratio: 114%)

○Forecast of Results for the Fiscal Year Ending March 2023

(Millions of yen)

【Hokkoku Financial Holdings - Consolidated】 (Full year) (Interim period)

	FY2021 result	FY2022 forecast		FY2021 interim result*2	FY2022 interim result
Ordinary profit	19,167	16,500	Ordinary profit	15,817	9,000
profit *1	9,387	10,000	Interim net profit	9,875	5,500

* 1: profit attributable to owners of parent

* 2 : For the fiscal year ending September 2021, Hokkoku Bank's consolidated figures

【Hokkoku Bank -Non-consolidated】 (Full year) (Interim period)

	FY2021 result	FY2022 forecast		FY2021 interim result	FY2022 interim result
Ordinary profit	18,091	14,500	Ordinary profit	15,255	8,000
profit	9,043	9,000	Interim net profit	9,618	5,000
Net business profit	13,033	11,500	Net business profit	6,344	6,000

○Dividend per share*3

(Forecast)

	FY2018	FY2019	FY2020	FY2021	FY2022
年間配当	80yen	70yen	80yen	90yen	100yen
うち中間配当	40yen	35yen	30yen	40yen	50yen
うち期末配当	40yen	35yen	50yen	50yen	50yen

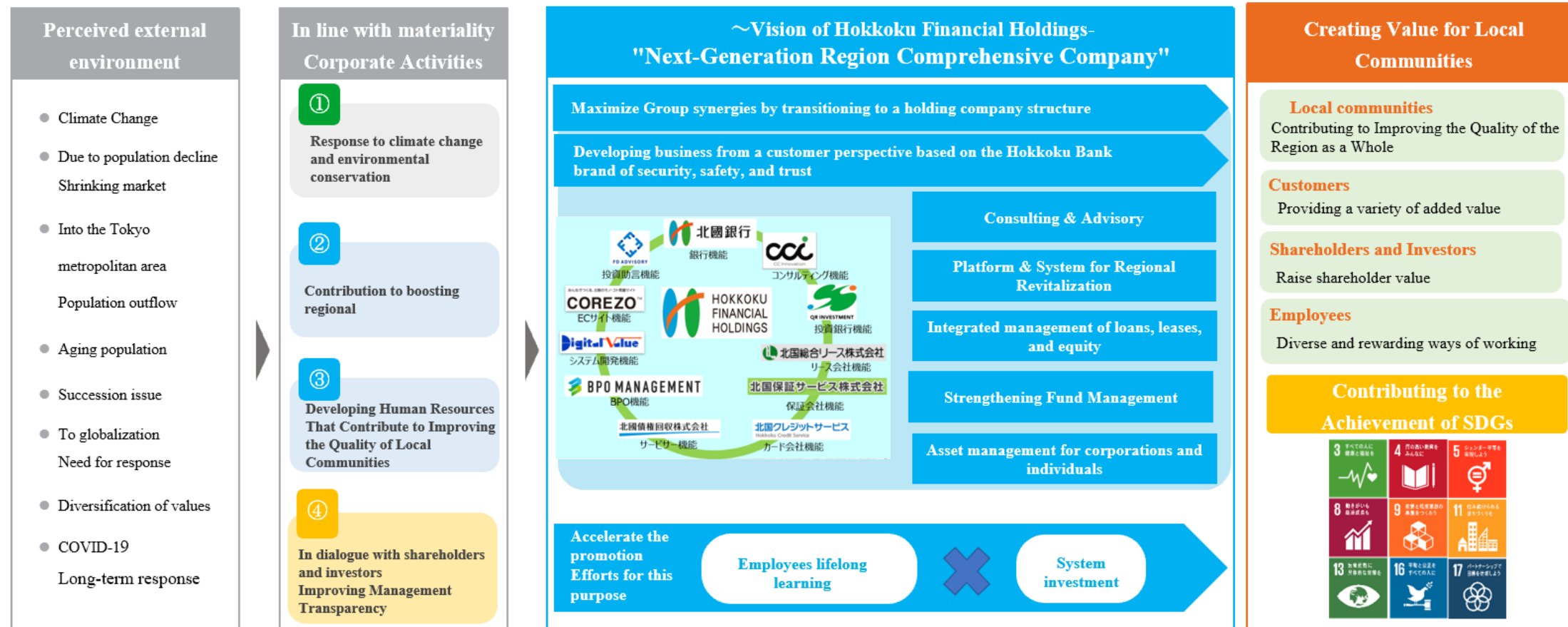
* 3 : From the fiscal year ending March 2019 to the fiscal year ending March 2021, the dividend results of Hokkoku Bank

For the fiscal year ending March 2022, the interim dividend of Hokkoku Bank, and the year-end dividend of Hokkoku HFD are shown

3. Business Model

Hokkoku Financial Holdings' Value Creation Process

Corporate Philosophy, Brand, and Sustainability Policy



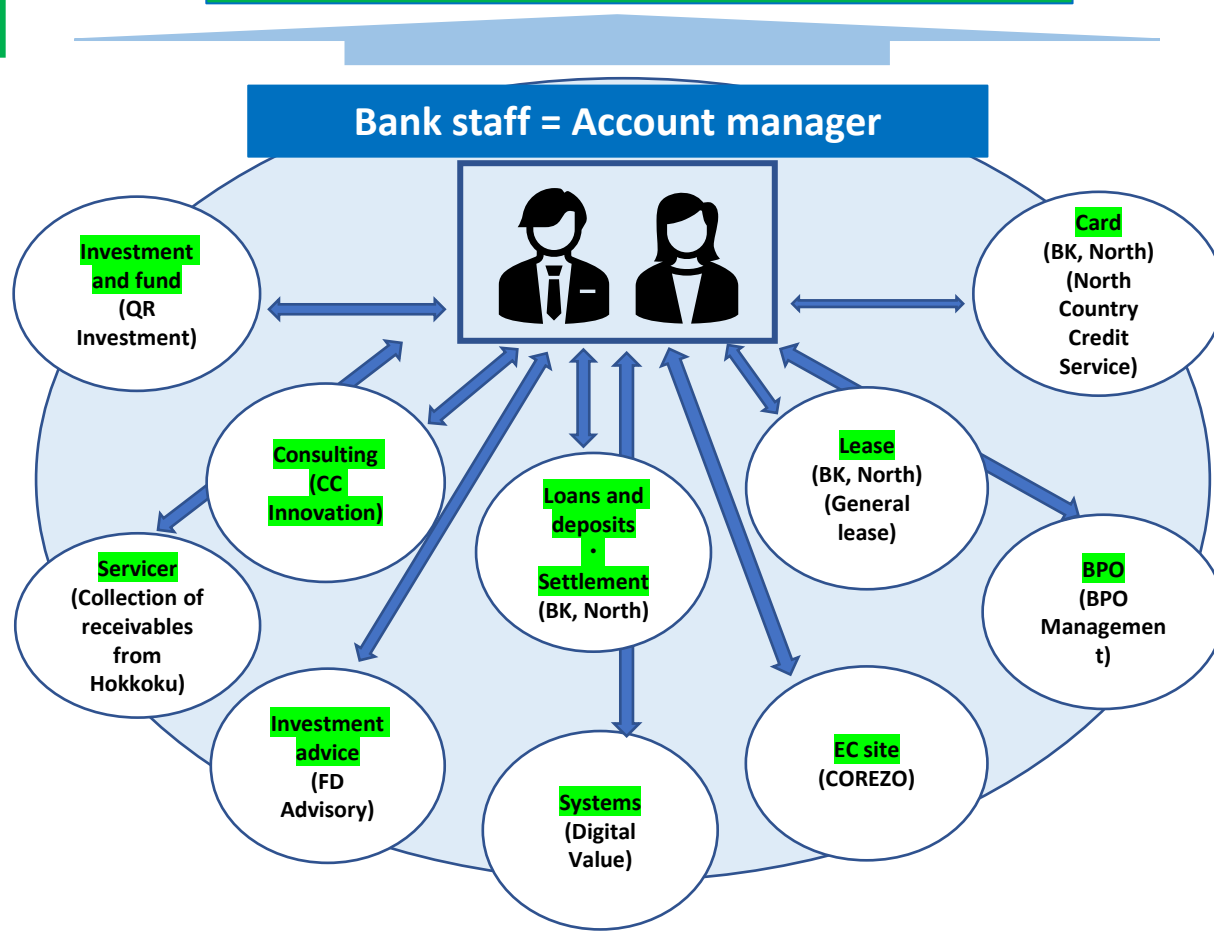
Foundation for Supporting Value Creation

■ ESG (Management Philosophy & Thorough Implementation of Brand Philosophy) ■ Communication
Collaboration Innovation ■ Strengthening Corporate Governance, Risk Management, and Compliance Systems

Group synergy of Hokkoku Financial Holdings

- As an account manager, bankers effectively utilize the functions of the FHD in Northern Country to provide customers with higher-quality services
- The functions of consulting, investment advisory, regional investment banking, management advisory, card and cashless, and system development and operation from Hokuriku to Japan and the world
- Contribute to the creation of an open ecosystem for new regional financial institutions by expanding and sharing with other financial institutions with different values

Customers



Main functions of the northern FHD

Banks (Hokkoku Bank)

Leasing (Hokkoku Bank and Hokkoku General Leasing)

Consulting (CC Innovation)

Regional Investment Banks (QR Investment)

Investment Advisory (FD Advisory)

System Development and Operation (Digital Value)

Card cashless

Business Domain

■ Mainly in the 3 prefectures of Hokuriku

■ From the 3 prefectures of Hokuriku
Expansion to Japan and the world
■ Other Financial Institutions

Sustainability Policy and Materiality

[Sustainability Policy]

- Hokkoku Financial Holdings aims to work together with all stakeholders, including local communities, to realize a sustainable society by actively working to resolve ESG (Environmental, Social, and Governance) issues through its business activities.
- We believe that the resolution of ESG issues through our business activities and the virtuous cycle of sustained improvement in earnings brought about by them will lead to the realization of our company philosophy "To be a prosperous future, expand the circle of mutual trust, and build a prosperous future together with the region."

Materiality (Priority Issues to be Addressed)		Awareness of risks and opportunities	Specific Initiatives
E (Environment)	①Response to climate change and environmental conservation	<p><Risks></p> <ul style="list-style-type: none"> • Increase in credit costs due to technological innovation for a decarbonized society and deterioration in corporate performance due to delays in responding to changes in the behavior of borrowers and investors • Loss of opportunity due to lack of solutions to borrowers and investors <p><Opportunities></p> <ul style="list-style-type: none"> • Fostering local environmental awareness through initiatives for environmental conservation 	<ul style="list-style-type: none"> • Environmental Conservation Efforts through Our Core Businesses • Reducing Environmental Impact through Corporate Activities • Implementation of Climate Change Scenario Analysis and Reflection in Risk Management
S (Society)	②Contribution to boosting regional ③To improving the quality of local communities Developing Human Resources That Can Contribute	<p><Risks></p> <ul style="list-style-type: none"> • Provision of consulting services for climate change and environmental conservation • Decline in competitiveness due to failure to improve productivity of regional enterprises, and increase in credit costs due to deterioration in business performance • Lower competitiveness of services due to cashless operations and lack of response to advances in digitalization <p><Opportunities></p> <ul style="list-style-type: none"> • Develop consulting aimed at sharing and solving issues with an understanding of business potential as the starting point <p><Risks></p> <ul style="list-style-type: none"> • Improve productivity through the development of cashless and digital strategies through the circulation of funds in the region • Outflow of human resources due to lack of attractiveness of workplace environment and personnel system, and stagnation in execution of strategy due to shortage of human resources <p><Opportunities></p> <ul style="list-style-type: none"> • Deterioration in value provided to local communities due to deterioration in customer services due to insufficient human resource development • Providing high-value-added services and enhancing the appeal of local communities by promoting the active participation of professional human resources and diverse human resources 	<ul style="list-style-type: none"> • Providing consulting functions • Life Plan Asset Building Support • Contributing to the creation of a cashless and digital society • Maintenance of financial function stability <ul style="list-style-type: none"> • Training professional staff • Enhancing Work-Life Balance • Promoting Inclusion and Diversity • Focusing lifelong learning • Introduction of a career-oriented personnel system
G (Governance)	④Enhancing Management Transparency through Dialogue with Shareholders and Investors	<p><Risks></p> <ul style="list-style-type: none"> • Deterioration in management transparency due to lack of understanding of shareholder and investor needs • Lower internal productivity due to lack of digital support • Loss of social credibility due to inappropriate corporate governance and system failures <p><Opportunities></p> <ul style="list-style-type: none"> • Strengthen strategy execution capabilities through company-wide reforms, starting with DX and system strategies • Increase corporate value by grasping shareholder and investor needs and enhancing disclosure through proactive IR activities 	<ul style="list-style-type: none"> • Using DX to Visualize Internal Information and Internal Discussion Processes through Corporate Transformation • Corporate Governance System. • Risk Management System and Compliance • Business streamlining • Capital Strategy

FHD's business model

As a regulated industry Business Model

- ①Loans with Push & Performance Assessment
- ②Settlement commissions on a side-by-side basis
- ③Management of surplus funds by Buy&Hold

2017~

From the customer's perspective "Next-Generation Regional Commercial Banks" Model

- ①Strategic Cost Reduction & Productivity Improvement
- ②Expansion of fee business through leasing and card business
- ③Launch of paid consulting for corporations

2020~

From the customer's perspective under the HD system "Next-Generation Regional Comprehensive Company" Model

- ①Consulting & Advisory
- ②Platforms and systems in a broad sense
- ③Integrated management of loans, leases, and equity
- ④Fund management to core business (Market Division)
- ⑤Fund and asset management consulting for corporations, individuals, and local governments

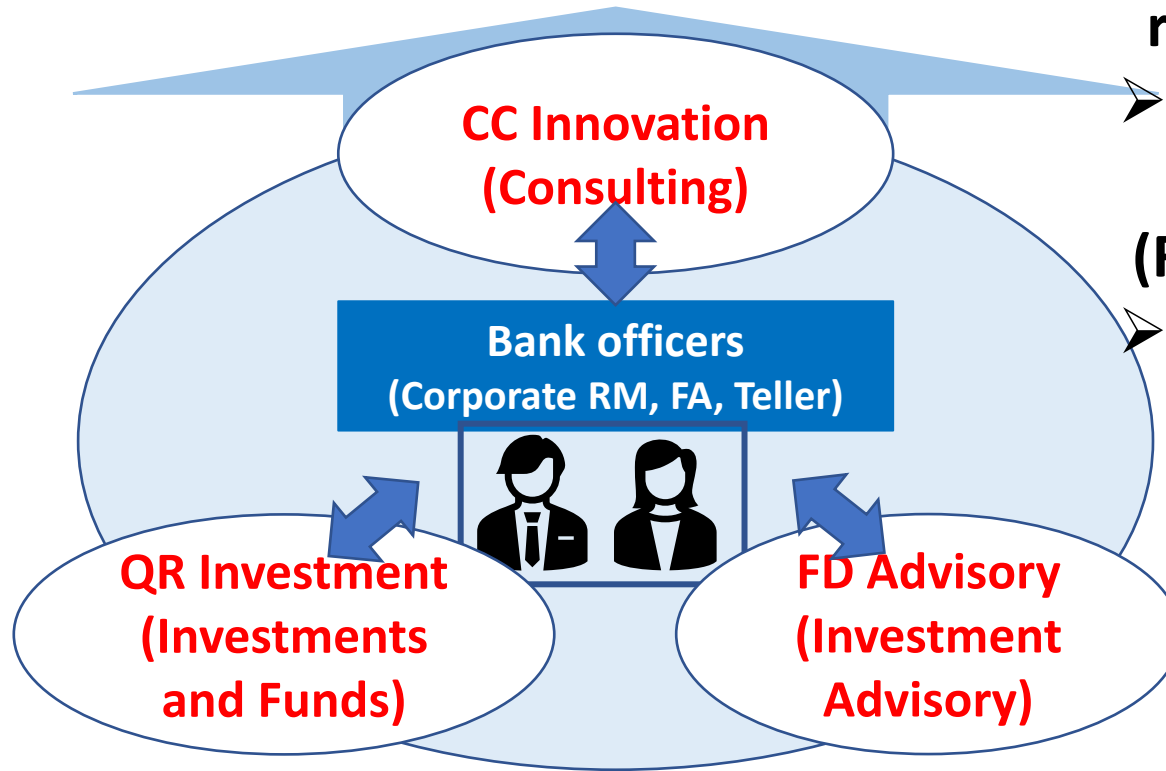
[Drivers] ①Recurrent Education ② System Investment

[Base Concept] ①ESG (Management Philosophy & Thorough Implementation of Brand Philosophy)

②Communication x Collaboration x Innovation

① Consulting & Advisory

Customers



- Focus on customer relationship level rather than loan balance and share
- Thorough sales based on understanding of business potential
(Financing is 1 of the means of solving problems)
- Communication by Industry, Size, Level, and Phase

②Platform & System for Regional Revitalization



Digital bank, cards

System



Consulting



EC site

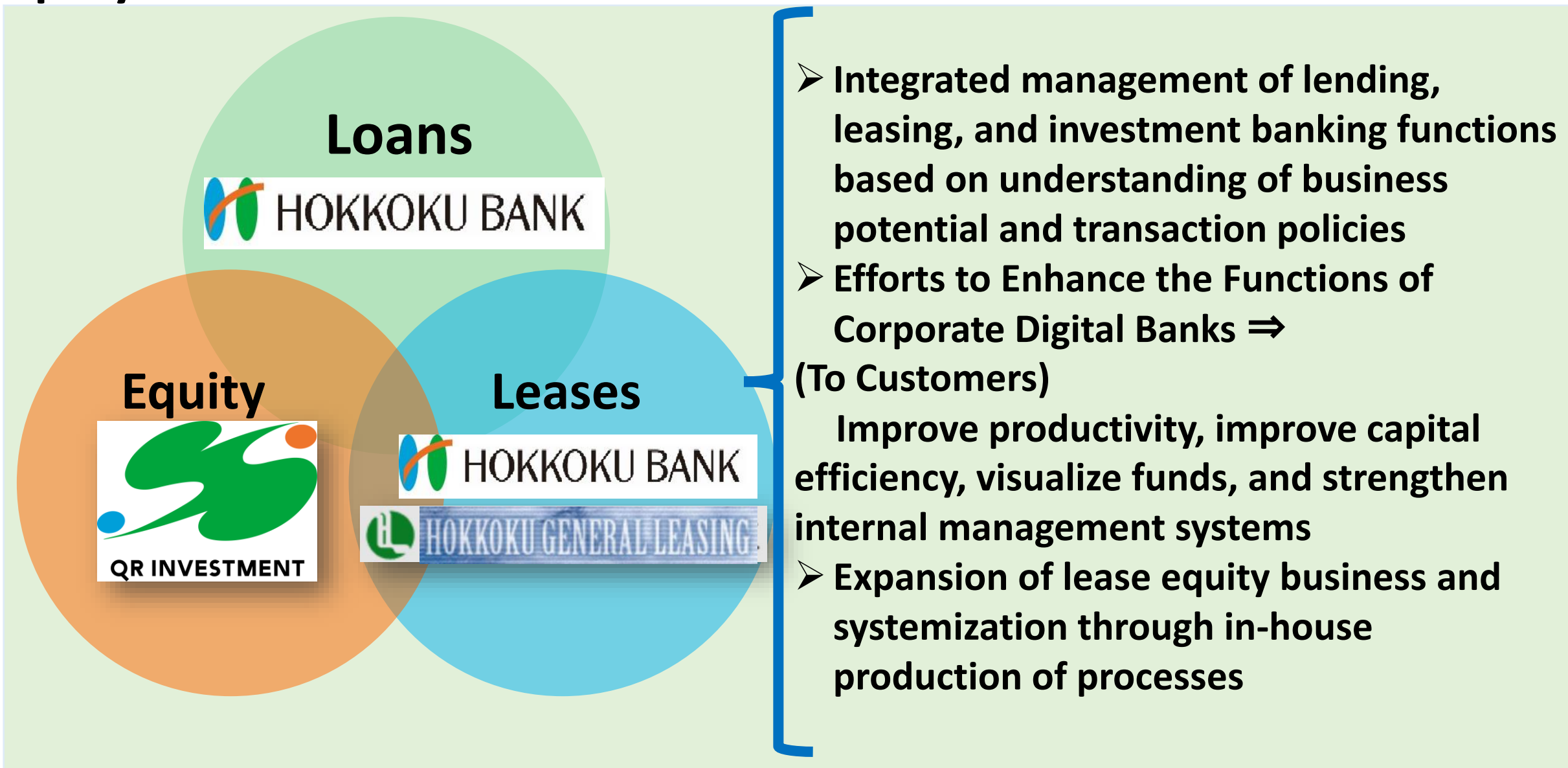


BPO

Sophistication of cloud level at Hokkoku FHD

- Support for establishment of industry-specific platforms
(Kintone, Dynamics365, Public cloud architecture, etc.)
- SaaS improvement of general affairs and accounting divisions, BPO support
- Integration of COREZO and digital banks
⇒ Regional system platform
⇒ Open digital regionalism through API data linkage, Realizing a regional digital world
- Sophistication of payment systems, including cards
(Public-Cloud) BaaS compatibility
- Collaboration with regional financial institutions that share values and strategies

③ Toward Integrated Management of Loans & Leases & Equity



④ Fund management to core business

- Creation of surplus capital by switching to domestic banks ■ Reform of investment strategy, organization, and human resources ⇒ Market management to core business
- Expanding Business Domains through Collaboration with FHD Group Companies and Partner Companies in Northern Country

Hokkoku Bank Corporation Division



CC Innovation



QR Investment



FD ADVISORY

Partner companies

Hokkoku
Bank
Market
Managem
ent
Division

- Quantitative evaluation of strategic stockholdings
- Industry analysis
- Establishment of Private Placement Funds
- Valuation of investments
- Market strategy consulting
- Asset management consulting
- Fund structuring
- Introduction of multi-asset funds
- Introduction of RAF

⑤ Asset management for corporations and individuals

- The need for comprehensive and neutral advice that is not limited to the company's services
- Regional financial institutions facing issues in securities management outsource part of their investment

Investment advisory firm Established FD Advisory



2021.10.1 Commencement of business

FD Advisory Business

For individualsl life planning

- Asset Management
- Asset succession and business succession
- Insurance and real estate
- Will trust, family trust, etc.

For specific investors consulting

- Providing Operational Solutions
- Support for establishment of operational systems
- Support for review of business processes

Fund structuring advice

- Advising on fund management strategies
- Advice on fund investment decisions

3 Pillars for Realizing Business Models

Creating Value and Achieving Sustainable Growth in Local Communities-Realizing a Sustainable Society-

[Digital] Penetration of digital banks ⇒ Convenience and high productivity for all customers

[Employees] Consulting, Advice, Study Meetings ⇒ What People Can Do

[Branches] Saturday, business, and residence-oriented design ⇒ To consulting, advising, collaborating, and educational venues in face to face

All customers

Employees

• "face-to-face" and "net" (non-pair)
Fusion of facets)



- To raise the level of dialogue
- Recurrent education and risk killing
- Further Enhancing Skills and Organizational Capabilities



- Develop and produce human resources capable of contributing to the evolution into a quality region
- Collaboration with companies, local governments, and universities

Facility (Branches)

- Implementation of Climate Change Measures and Environmental Measures
- Proposal of advanced examples of environmental responses



- Environmentally Responsive and Residential Communities Toward a Common Awareness among Communities



- Promotion of local environmental conservation and energy conservation

Digital

- Business process of business processes
- AI Consulting & Advice



- Cloud-first technology
- In-house development + collaboration
- Shift of employees to the digital field (20-30% of employees will be in the digital field)



- Digitization of the region
- Collaboration with companies, local governments, universities, and IT companies

Based on IT as a base for business development ⇒ Realization of "Open Digital Regionalism"

— Integrated business platform —

3 pillars to 1-[Digital] for realizing business model

Common "digital bank"

- ✓ Realizing speedy development by narrowing down target customers and functions

Digital bank (Internet Branch)



- Targeted only for highly digital literate individuals and companies
- Have limited functions

Traditional banks
(Products and Services)



- Complex but necessary operations as social infrastructure (Account transfer, etc.)
- Digital vulnerable (elderly people, micro enterprises, etc.)



Change in Business
Model

- ✓ Opened a 24-hour web account
- ✓ No hang
- ✓ No passbook
- ✓ No need for brick-and-mortar stores
- ~Change in the raison d'etre of stores~

Our idea of "digital bank"

- ✓ Digitization of products and services to all customers
- ✓ Promote the digitization of the entire region

Hokkoku Cloud Banking (Individuals) Hokkoku Digital Banking (Corporate)



- Digitize all users
- Digitize all functions

Digital Benefits for All Customers in the Region!

Northern DX
Cashless
Fund

Cloud banking
classes at all stores

Web access
(corporate IB)
classes from
scratch

For no basic fees
for both
corporations
and individuals



3 pillars to 2-[People] for realizing business model

Human Resources Strategy Framework of the FHD

- Develop professional human resources who can support career autonomy and contribute to value creation
- Improving the level of dialogue and enhancing collaboration

With a high degree of satisfaction Career Review and Wage Structure

- Performance Evaluation + Personnel Evaluation → Career Review
Supporting Career Autonomous and Human Resource Development
- Wage system that emphasizes skills, roles, and contributions
- Bonus: Stable payment + Performance-linked stock grants

Respect for Diverse Values Support career autonomy

- Treatment and staffing with respect to career plans
- Lifting of the ban on side business
- To create an environment in which people with disabilities can work together

Organization that can leverage
human resources

Realizing
corporate ideals

Creating Value for Local
Communities
• Improving Quality

Ideal working
environment

Framework for
improving skills

Shared values - a
common
philosophy

Producing human
resources

- Contributing to the Creation of Value in the Region with the Knowledge Acquired at Hokkoku FHD

Recruitment

Flexible hiring

- Strengthen year-round hiring and mid-career hiring
- Implementation of advance payment of retirement allowance
- Increase wage base for young mid-level employees, including starting salaries

Sophistication of the human resource
development system

- Effectively Utilizing Advanced External Knowledge
- Support for MBA acquisition
- Visualization of skills through in-house developed HRM system (flexible arrangement possible)

3 pillars to 3-[Facility ①] to realize business model

"Real" Stores in the "Digital" Thinking of Northern FHD

Holding
company

Do not sell "goods"

For each individual of our
customers
Place to provide services

Place to maximize CX/UX

※CX: Customer Experience
UX: User Experience



※OMO: Online Merges with Offline (a globally integrated on-line and offline)

Providing value (useful) information through digital = Providing value

3 pillars to 3-[Facility ②] to realize business model

Initiatives for carbon neutrality

Introducing the "ZEB" concept to store design-Taking the lead in implementing ESG management in the region-

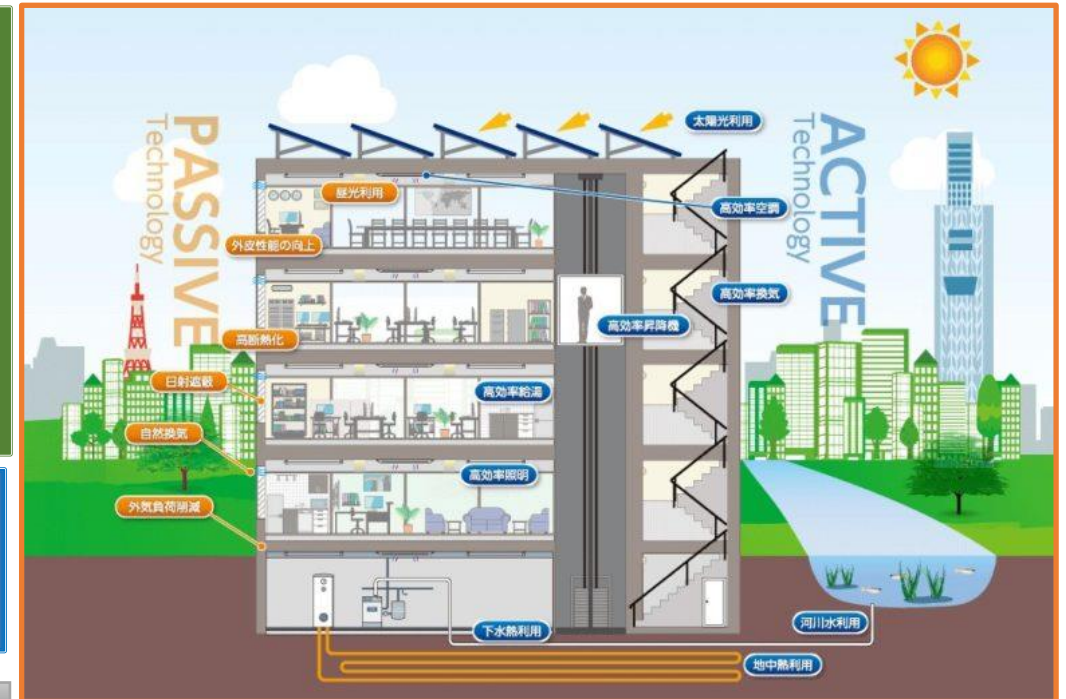
Full Banking Branches

- Basic policy: Nearly ZEB
(Reduce primary energy consumption by 75% or more)
- Installation facilities
Photovoltaic power generation, high-efficiency air conditioning and ventilation, natural light
Enhancement of external performance, sunlight shielding, and use of groundwater

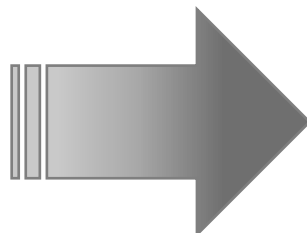


Retail Branches

- Basic policy: ZEB Ready
(Reduce primary energy consumption by 50% or more)



- Conservation of local environments
- Promotion of energy saving



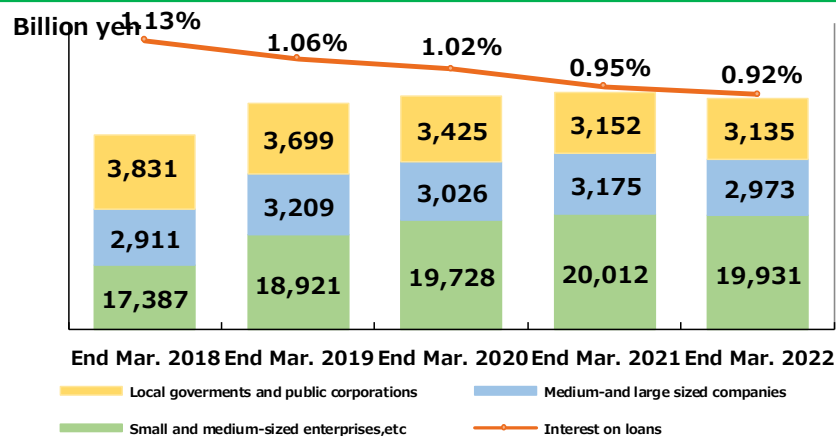
Realization of a sustainable society

4. Overview of Financial Results for the Fiscal Year Ended March 2022

Loans Outstanding and Yields by Segment ~

- Loans to individuals increased. Commercial loans declined slightly, but the ratio of loans to SMEs was at a high level of 76.1%.
- Yields declined due to an increase in housing loans with relatively low yields and a decrease in business loans.

Yield of Loans and Loan balance



Breakdown by area

(Billions yen)

	End.Mar2020	End.Mar2021	End.Mar2022	Change from Mar.2021	Change from Mar.2021
Total of 3 prefectures in Hokuriku area	23,990	24,089	23,956	△ 133	△ 0.6%
Ishikawa	18,202	18,167	18,119	△ 48	△ 0.3%
Toyama	4,622	4,718	4,645	△ 73	△ 1.5%
Fukui	1,165	1,202	1,190	△ 12	△ 1.0%
Others	2,189	2,250	2,083	△ 167	△ 7.4%

Breakdown by company size

(Billions of yen)

	End of March 2020	End of March 2021	End of March 2022	Compared to March 2021 Increase/Decrease	Compared to March 2021 Rate of change
Meter Loan	26,179	26,339	26,039	△ 300	△ 1.1%
Of which, SMEs, etc.	19,728	20,012	19,931	△ 81	△ 0.4%
(Ratio of SMEs, etc.)	75.3%	75.9%	76.5%	—	—
Of which, medium-and large-sized companies, etc.	3,026	3,175	2,973	△ 202	△ 6.3%
Of which, local governments and public corporations	3,425	3,152	3,135	△ 17	△ 0.5%

Breakdown by type

(億円)

	End of Mar.2020	End of Mar.2021	End of Mar.2022	Change from Mar.2021	Change from Mar.2022
Business loans	12,867	13,180	12,757	△ 423	△ 3.2%
Consumer loans	9,886	10,006	10,146	140	1.4%
Housing loans	9,480	9,642	9,819	177	1.8%
Other loans	405	363	327	△ 36	△ 9.9%
Local governments and public corporations	3,425	3,152	3,135	△ 17	△ 0.5%

Loans and bills discounted ~ Yield by segment ~

Yield by Segment

(%)

	FY2019	→	FY2020	→	FY2021	→	FY2022
Business loans	1.276	-0.039	1.237	-0.069	1.168	-0.029	1.139
Consumer loans	0.912	-0.058	0.854	-0.014	0.840	-0.021	0.819
Secured	0.768	-0.044	0.724	0.005	0.729	-0.008	0.721
Unsecured	3.359	-0.054	3.305	-0.078	3.227	-0.054	3.173
Local governments	0.581	-0.062	0.519	-0.140	0.379	-0.075	0.304

Yield by region (business loans)

(%)

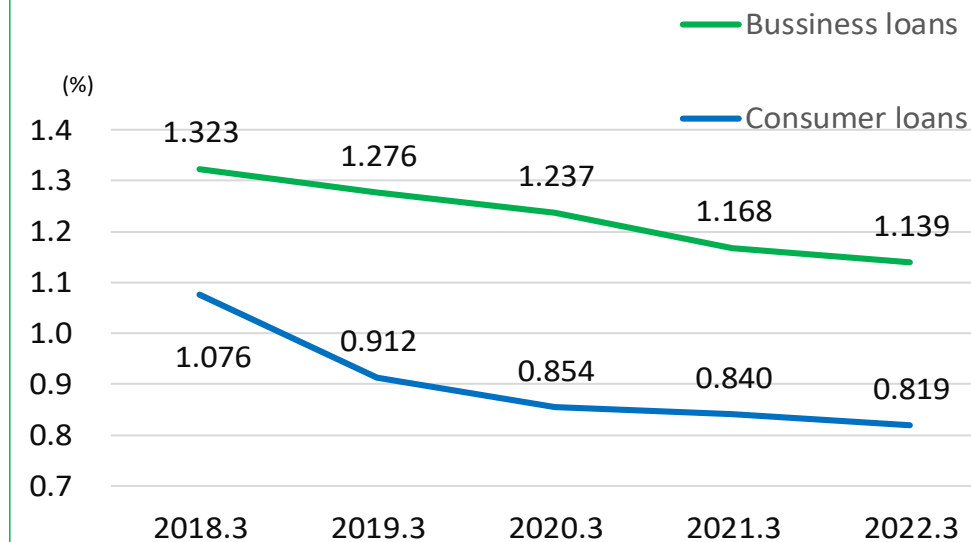
	FY2019	→	FY2020	→	FY2021	→	FY2022
Total of 3 prefectures	1.428	-0.063	1.365	-0.080	1.285	-0.037	1.248
Ishikawa	1.410	-0.059	1.351	-0.077	1.274	-0.035	1.239
Toyama	1.506	-0.076	1.430	-0.097	1.333	-0.046	1.287
Fukui	1.375	-0.088	1.287	-0.066	1.221	-0.025	1.196
Others	0.553	-0.001	0.552	-0.018	0.534	-0.008	0.526

Average Contract Interest Rate

(%)

	FY2019	FY2020	FY2021	FY2022
Business loans	1.157	1.127	0.899	0.894
Consumer loans	0.646	0.694	0.575	0.526

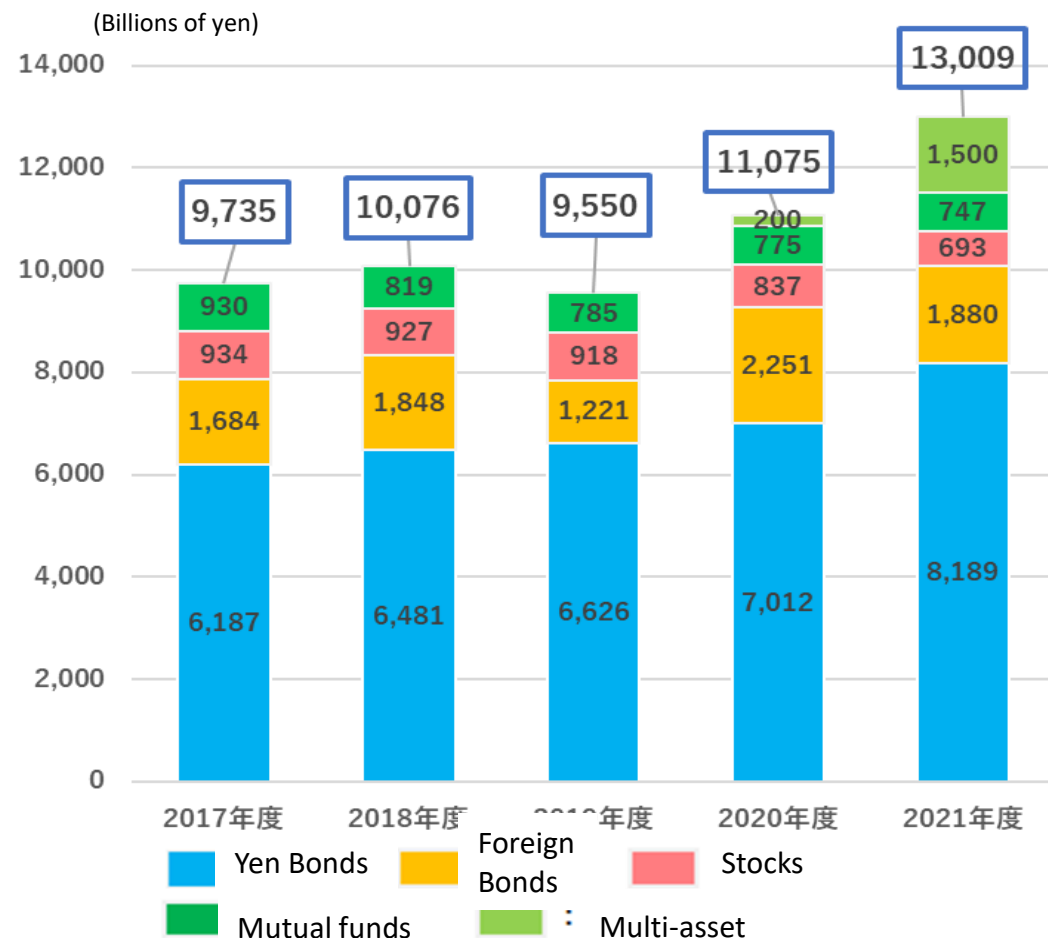
Yield by Segment



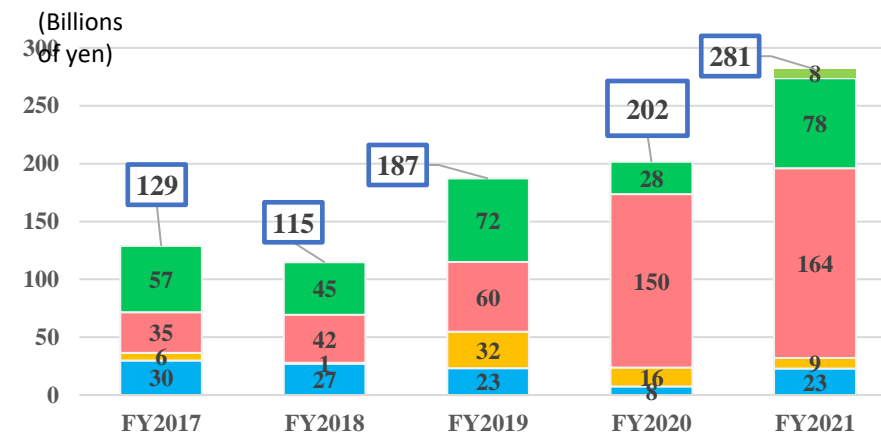
Operation of negotiable securities

- Diversify investments from a medium-to long-term perspective and secure earnings through flexible trading
- In FY2021, the investment balance was JPY1.3009 trillion due to the investment reinforcement, and the profit was secured at JPY28.1 billion.

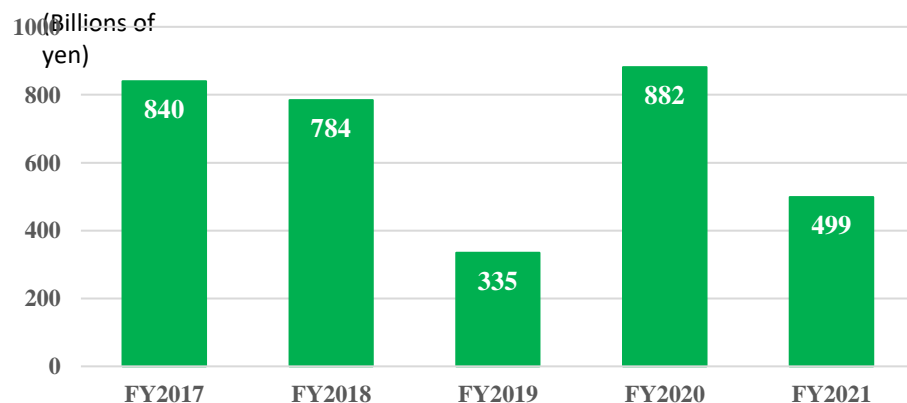
Balance of securities (book value)



Changes in Realized Gains/Losses by Asset



Valuation gains (devaluation losses) on securities



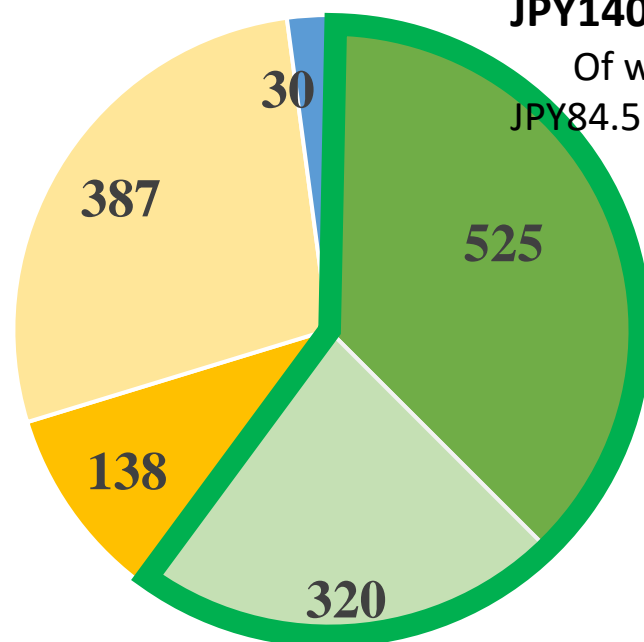
Portfolio of Market Sectors (Excluding Strategic Stockholdings)

- Equity securities held for net investment account for about 60% (based on market value)
- The portfolio of the market sector excluding strategic stockholdings has an unrealized gain/loss of JPY11.2 billion due to the effect of diversification strategies.
- Increase investment in multi-asset funds to strengthen diversification and stabilize net interest income

Stock Investment Status as of the End of FY2021

Stock balance (market value)
JPY140 billion

Of which, net investment of
JPY84.5 billion



- Book value of net investment shares
- Net unrealized gains on investments in stocks
- Book value of strategic stockholdings
- Gain on valuation of strategic stockholdings

Operational Status in FY2021 (Excluding strategic stockholdings)

	Book value at the end of the period (Billions of yen)	Appraisal profit/loss (Billions of yen)
Net investment Purpose shares	525	320
Yen-denominated bonds	8,189	▲55
Foreign bonds	1,880	▲115
Investment trusts	746	▲1
Multi-Asset	1,500	▲37
Total	12,841	112

FY2022 Forecast

Balance at the end of the period (Billions of yen)

475

9,220

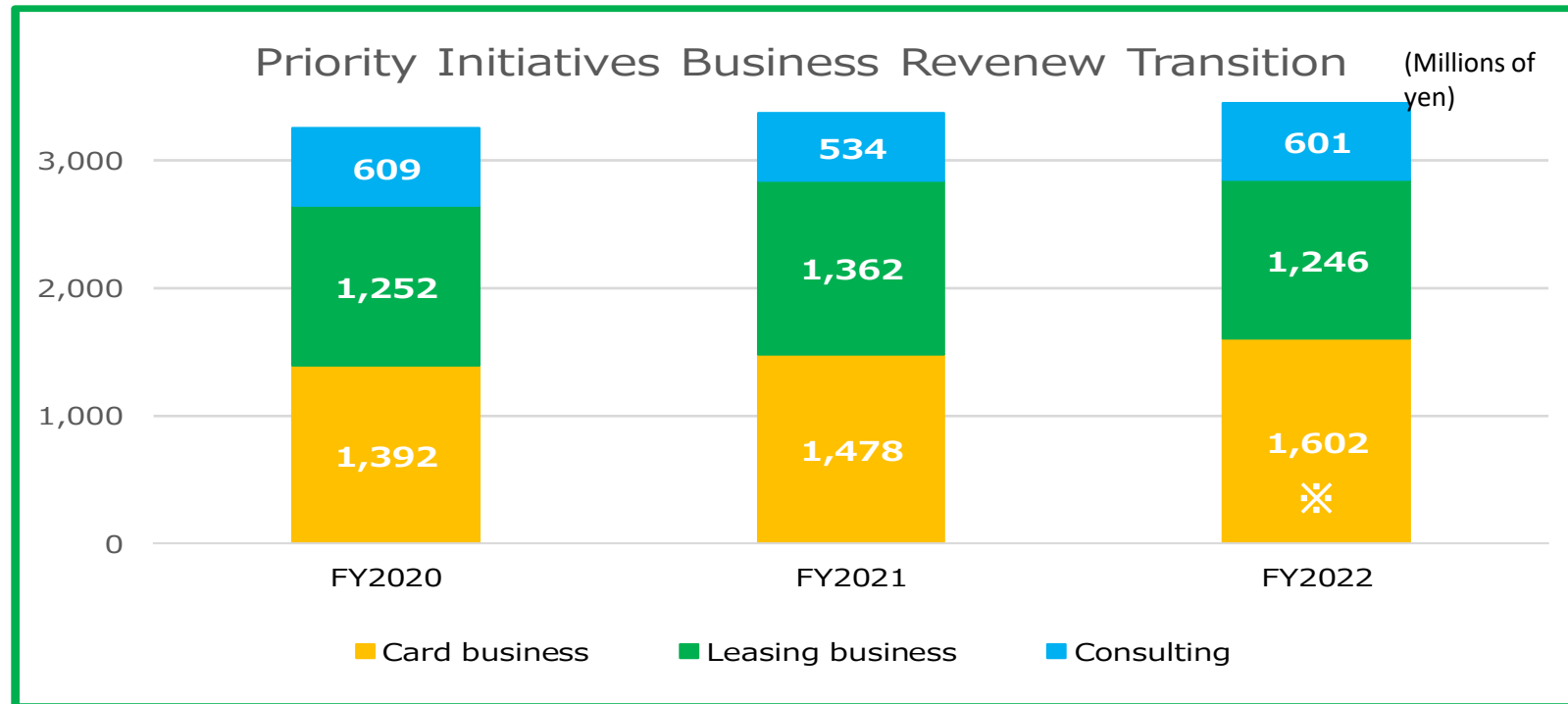
1,866

824

2,500

14,885

Key Initiatives: Operating Revenues: Card, Leasing, and Consulting



※The 2022.3 period card business includes JPY373 million impact of the change in accounting standards.

	2020.3 (Actual)	2021.3 (Actual)	2022.3 (Actual)	(Millions of yen)
Consulting	609	534	601	
Leasing business	1,252	1,362	1,246	
Card Business	1,392	1,478	1,229	
Total	3,253	3,374	3,076	

- Small businesses have also benefited from the cost advantages of conducting their own card merchant operations, and the cashless environment in the region is steadily expanding.

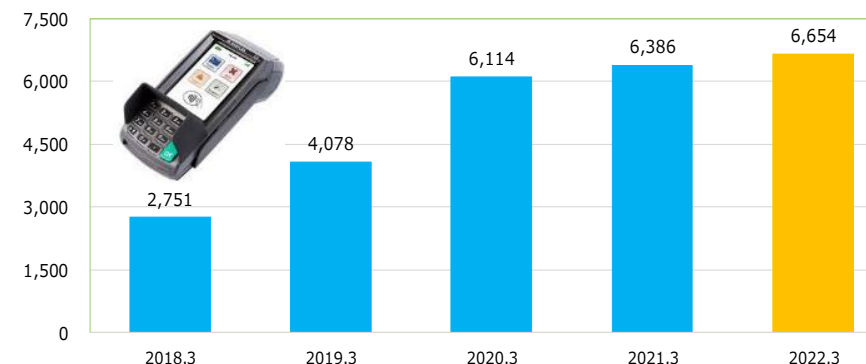
Number of debit cards issued (cumulative)

(Thousands of sheets)



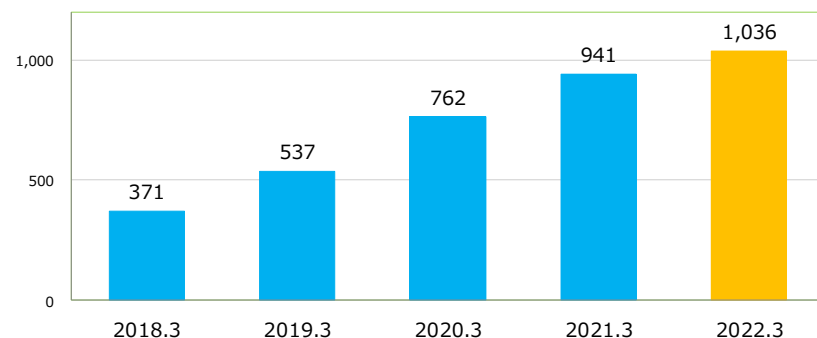
Number of card merchants (aggregate)

(Stores)



Changes in Card Business Profit

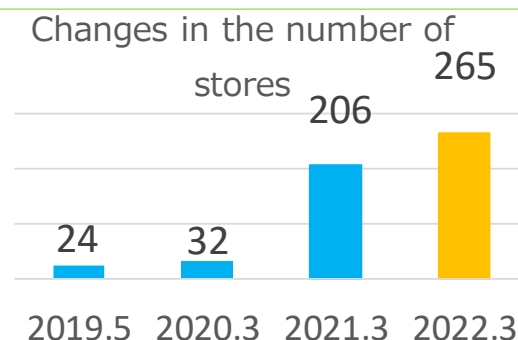
(Millions of yen)



E-commerce malls (COREZO)



※2019.5.20 Open



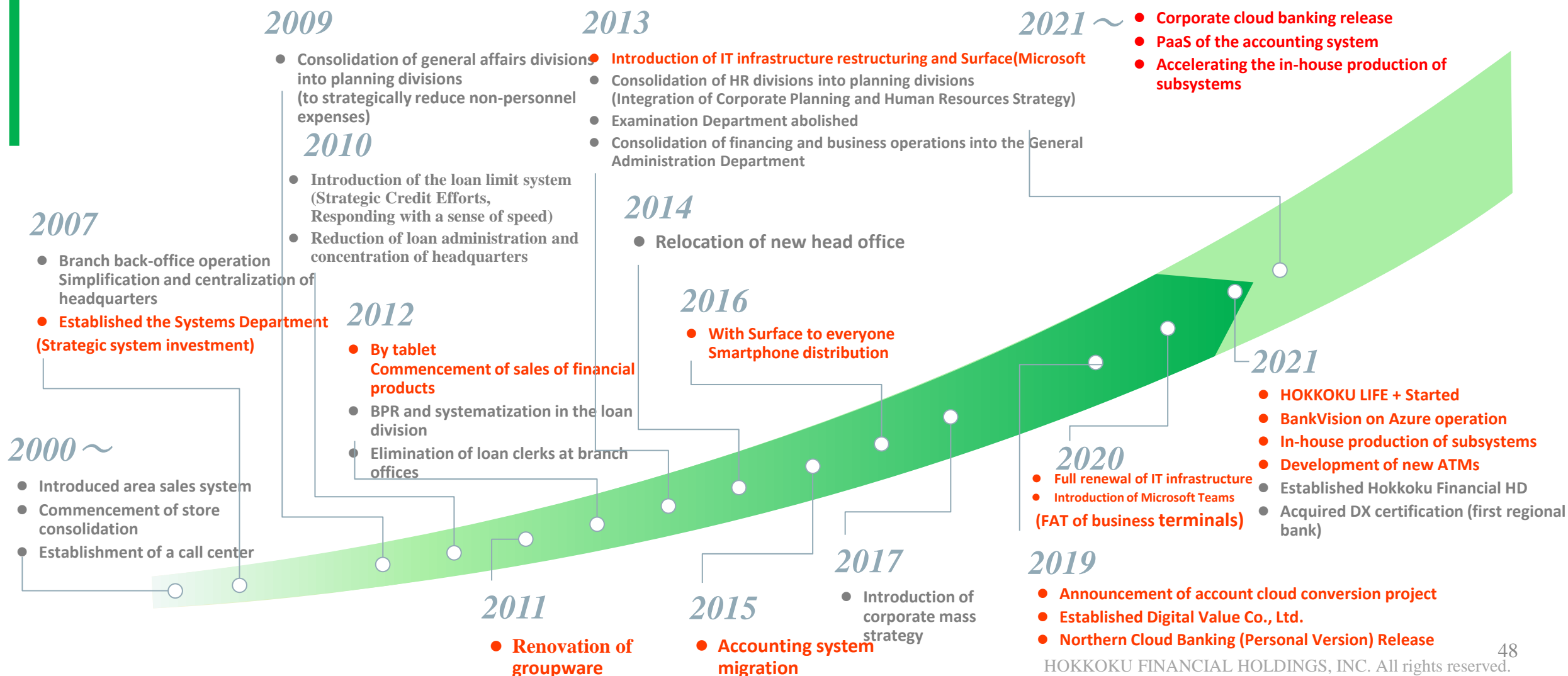
※2022.3: Calculated based on standards prior to the adoption of the new accounting standard

5. Reference Materials

Efforts to Reform Operations and Improve Productivity

Within DX to 2015

2015~ Customer DX



Sustainability Initiatives ①

- "Climate Change Response and Environmental Conservation" set as materiality
- Policy of implementing a menu of ESG-compliant consulting for customers and regions and working to contribute to fostering ESG momentum in the region

Endorsement of TCFD recommendations, investment and financing policies, and sector policies

◆To Hokkoku Bank's support for TCFD recommendations in 2021.5

Announced (also planned to be endorsed by FHD)

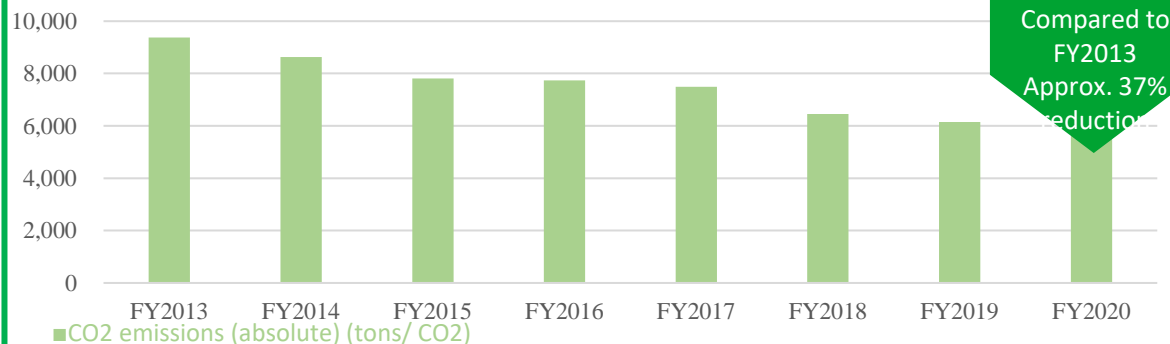
Scenario Analysis (Transition Risk and Physical Risk) Results

Scheduled to be announced



◆In FY2020, CO2 emissions were reduced by approximately 37% compared to FY2013 due to reduced electricity consumption, mainly due to the relocation of the head office building in 2014.

◆Targets for reducing CO2 emissions in FY2030 set at a Δ of 60% compared to FY2013 through initiatives such as store consolidations and closures and efforts to convert rebuilt stores to ZEBs



Investment and Loan Policy

Businesses to Support Actively

- Environmental, social and governance initiatives and businesses of customers

Businesses in/for Which Investments and Loans Are Prohibited

- Anti-social forces and their business
- Businesses engaging in child labor or forced labor
- Businesses which develop and manufacture weapons of mass destruction such as nuclear weapons and chemical weapons, or inhumane weapons such as cluster munitions

Specified Sectors

- Coal-fired power generation sector, cluster munitions manufacturing sector, forestry sector and palm oil plantation development sector

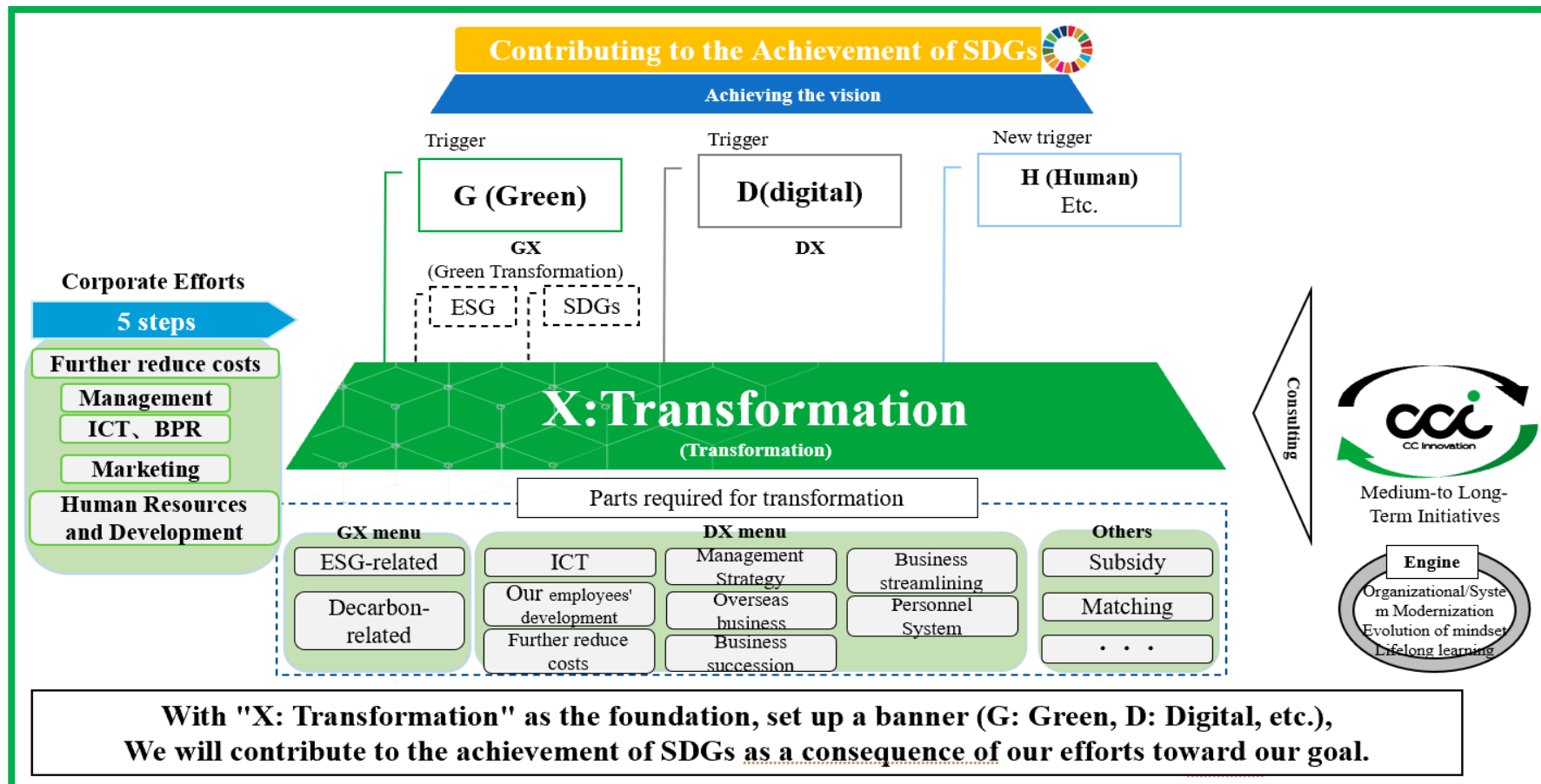
Sector Policy

Covered sector	Description
Coal-fired power generation business	We consider investment in or provision of loans for coal-fired power generation businesses carefully on a case-by-case basis based on their response to climate change risk and initiatives toward environment protection and sustainable energy.
Cluster munitions manufacture-related business	In light of the inhumanity of cluster munitions, we prohibit investment and loans to companies that manufacture cluster munitions.
Deforestation business	We consider investment in or provision of loans for large-sized deforestation business customers based on their status of consideration to the environment and society and an impact on the local environment and community.
Palm oil plantation development business	We prohibit investment in or provision of loans for palm oil plantation development businesses from the perspective of preservation of forest resources and biodiversity as well as protection of human rights.

Sustainability Initiatives ②

- Our business activities (consulting, improvement of cashless environment, etc.) themselves lead to sustainability
- Maintain customer and regional ESG response as a menu for consulting, and work toward contributing to fostering ESG momentum in the region

Our Approach to ESG/SDGs



Sustainability Initiatives ③

- Deepen ESG/ SDGs initiatives to include "integration into management," "implementation of company-wide reforms," "PDCA," etc.
- Beyond the Declaration of SDGs, Toward Effective Consulting

Lead to the achievement of ESG-based management and SDGs Consulting menu

	Further reduce costs	Management	ICT,BPR	Marketing	Personnel Affairs	Others
E Environment	Cost management <u>Visualization of various costs</u>		<u>Operational BPR</u> <u>ICT usage</u> <u>Implementing groupware</u> <u>System selection replacement</u>	<u>New Business Plan</u> <u>Market Area Analysis</u>		<u>Various types of matching</u>
S Society		<u>Training to strengthen organizational capabilities</u> <u>Development of organizational rules</u> <u>Support for execution of action plans</u> <u>Establishment of a performance management system</u> <u>Organizational culture reform</u> <u>Developing personnel training program</u>	<u>ICT workshop</u>	<u>Questionnaire</u> <u>Interview survey</u>	<u>Thematic training</u> <u>Capacity building assistance</u> <u>Establishing personnel system</u> <u>Establishment of a retirement allowance system</u>	<u>Preparing financial statements</u> <u>Introduction of SDGs</u> <u>Overseas expansion</u>
G Governance	<u>Financial Study Group</u>	<u>Management principles developing</u> <u>Establishment of an internal management system</u> <u>BCP development</u> <u>Compliance training</u>	<u>Project Management support</u>	<u>Sales management</u>	<u>Placement/Recruiting</u>	<u>Business succession</u> <u>Capital Strategy</u>

Major Figures ①

(Million yen)

Changes in gain/loss(Non-consolidated)		FY2018	FY2019	FY2020	FY2021	FY2022	YOY Change
Gross profit		43,911	42,882	47,538	38,727	43,190	4,463
(Excluding gain/loss on bonds)		(45,041)	(41,509)	(41,584)	(40,954)	(41,836)	882
Net interest income		39,197	35,556	34,876	34,259	35,509	1,250
Fees & commissions		5,332	5,604	5,938	5,737	4,918	△ 819
Other business profit		△ 618	1,722	6,723	△ 1,269	2,761	4,030
Gain/loss on bonds		△ 1,129	1,372	5,953	△ 2,226	1,353	3,579
Expenses	(△)	28,346	28,256	29,422	29,175	28,802	△ 373
Personnel cost		14,441	14,372	14,261	13,958	13,326	△ 632
Non-personnel cost		11,958	12,004	13,062	12,975	13,479	504
Taxes		1,946	1,879	2,098	2,241	1,996	△ 245
Net business profit		16,694	13,253	12,162	11,778	13,033	1,255
Provision of reserve for possible loan losses①	(△)	△ 469	203	2,674	3,060	3,074	14
Net business profit(after reserve)		16,034	14,422	15,441	6,491	11,312	4,821
Expenses related to portfolio problems		△ 1,293	△ 1,642	△ 3,464	4,792	6,778	1,986
Gain/loss on equity		1,636	1,309	3,975	13,239	15,246	2,007
Amount of credit costs②	(△)	2,095	3,062	7,103	8,335	8,772	437
Recoveries of written off claims③		63	69	17	72	27	△ 45
Ordinary profit		14,741	12,780	11,977	11,283	18,091	6,808
Extraordinary gain/loss		△ 629	△ 710	△ 1,154	△ 897	△ 3,203	△ 2,306
Profit before income taxes		14,112	12,070	10,823	10,385	14,887	4,502
Profit		9,479	8,023	6,676	5,954	9,043	3,089

Major Figures ②

(Billions of yen, %)

Average balance, yield, etc.		FY2018		FY2019		FY2020		FY2021		FY2022	
		Average balance	Yield	Average balance	Yield	Average balance	Yield	Average balance	Yield	Average balance	Yield
	Loans	23,456	1.13	24,655	1.06	25,577	1.02	26,215	0.95	26,069	0.92
	Securities	9,803	1.52	10,080	1.31	9,389	1.09	9,857	0.93	11,853	0.95
	Call loans, etc.	7,752		10,676		11,058		11,666		14,888	
Total interest-earning assets		41,012	1.03	45,412	0.88	46,025	0.80	47,739	0.73	52,810	0.68
	Deposits	32,507	0.01	33,833	0.01	35,077	0.00	38,252	0.00	41,007	0.00
	Negotiable certificates of deposit	1,036	0.02	919	0.01	1,164	0.00	976	0.00	532	0.00
	Call money, etc.	7,528		10,704		9,883		9,062		12,003	
Total interest-bearing liabilities		41,071	0.07	45,458	0.10	46,126	0.04	48,290	0.01	53,542	0.00

(%)

	FY2018	FY2019	FY2020	FY2021	FY2022	YOY Changes
Interest margin for total fund interest rate	0.27	0.16	0.12	0.12	0.14	0.02
Gap on yields of deposits and loans	1.12	1.05	1.01	0.95	0.92	△ 0.03
Expense ratio	0.84	0.81	0.81	0.74	0.69	△ 0.05
OHR	62.93	68.07	70.75	71.24	68.85	△ 2.39
ROA (based on net business profit)	0.20	0.16	0.13	0.11	0.16	0.05
ROE (based on profit)	3.81	3.12	2.75	2.39	3.53	1.14

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