

# **Hokkoku Financial Holdings**

## **Summary of Financial Results for the Second Quarter of the Fiscal Year Ending March 2024**

October 27, 2023

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# 1. Summary of Results

# Summary of Financial Results for the Second Quarter of the Fiscal Year Ending March 2024

## (1) Summary of Profit and Loss for the Second Quarter

### ■ Hokkoku Financial Holdings Consolidated (Millions of yen)

	FY03/23	FY03/24	change	Rate of change
Ordinary revenue	51,328	48,007	▲ 3,321	▲ 6.4%
Ordinary income	20,463	9,862	▲ 10,601	▲ 51.8%
Net income*	12,895	6,846	▲ 6,049	▲ 46.9%

\* Net income attributable to owners of the parent

### ■ Hokkoku Bank Non-consolidated (Millions of yen)

	FY03/23	FY03/24	change	Rate of change
Ordinary revenue	45,167	41,257	▲ 3,910	▲ 8.6%
Ordinary income	19,996	9,645	▲ 10,351	▲ 51.7%
Net income	12,819	6,940	▲ 5,879	▲ 45.8%
Core business profit	7,343	2,901	▲ 4,442	▲ 60.4%

## (2) Equity Ratio

	Year Ended September 30, 2022	Year Ended March 31, 2023	Year Ended September 30, 2023
Consolidated equity ratio	11.21%	10.08%	10.14%

Unified international standard until the end of September 2022, domestic standard after the end of March 2023

### ■ Summary

- ▶ Consolidated Hokkoku FHD: Decrease in sales and profits for the first time in five fiscal years
- ▶ North Bank (Non-consolidated): Sales and profits declined for the first time in five years, and operating profit from core business fell for the first time in three years.

### ■ SUMMARY

Operating profits from core business decreased compared with the same period of the previous fiscal year due to increased funding costs of foreign currencies mainly due to the ▶ rise in U.S. interest rates.

Gains on sales of strategic shares helds declined from the previous year ▶, but gains on sales of foreign bonds also declined. As a result, realized gains/losses on securities holdings decreased from the same period of the previous year.

Ordinary income decreased from the same period of the methodologies fiscal year due to an increase in bad debt disposal expenses from the previous fiscal year as a result of a reversal of the ▶ year due to a change in the allowance for doubtful accounts.

## 2. Progress of Key Business

# Progress of Key Business

(Unit: 100 million yen)

Item	2022/9	2023/9	YoY	FY2024/3 Plan	Progress rate
<b>Key business</b>	<b>275</b>	<b>207</b>	<b>-</b>	<b>351</b>	<b>58.9%</b>
<b>Business loans and Leasing</b>	<b>74</b>	<b>72</b>	<b>▲2</b>	<b>148</b>	<b>48.6%</b>
<b>Cashless</b>	<b>6.7</b>	<b>7</b>	<b>+0.4</b>	<b>17</b>	<b>41.1%</b>
<b>Consulting &amp; advisory</b>	<b>4.5</b>	<b>6</b>	<b>+1.5</b>	<b>20</b>	<b>30.0%</b>
<b>Investment advisory</b>	<b>0.5</b>	<b>1.8</b>	<b>+1.3</b>	<b>2</b>	<b>90.0%</b>
<b>Investment fund</b>	<b>0.3</b>	<b>0.7</b>	<b>+0.4</b>	<b>4</b>	<b>17.5%</b>
<b>Market management</b>	<b>190</b>	<b>120</b>	<b>▲70</b>	<b>161</b>	<b>74.5%</b>
<b>Other income (consumer loans, etc.)</b>	<b>80</b>	<b>74</b>	<b>▲5</b>	<b>170</b>	<b>23.7%</b>
<b>Total Credit Cost</b>	<b>1</b>	<b>22</b>	<b>+21</b>	<b>30</b>	<b>73.3%</b>
<b>Expenses</b>	<b>149</b>	<b>162</b>	<b>+12</b>	<b>324</b>	<b>50.0%</b>
<b>Of which, system costs*</b>	<b>33</b>	<b>34</b>	<b>+1</b>	<b>69</b>	<b>49.2%</b>
<b>Ordinary income</b>	<b>205</b>	<b>99</b>	<b>▲106</b>	<b>167</b>	<b>59.2%</b>

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

# Progress of Key Business

Item	
<b>Business loans and Leasing</b>	<ul style="list-style-type: none"> <li>Loans mainly to large enterprises decreased, yields improved, but profits decreased by ¥248 million            Loans outstanding (end balance) ¥1.1427 trillion (year-on-year ▲ ¥79.2 billion)</li> <li>Number of contracts increased due to group-wide sales, and revenue increased by ¥40 million            Leasing receivables and Leasing invested assets (end balance) ¥37.7 billion (year-on-year increase of ¥2.2 billion)</li> </ul>
<b>Cashless</b>	<ul style="list-style-type: none"> <li>Number of franchised stores increased by 7048 (YoY +34) mainly in the restaurant and accommodation industries.            Card settlement amount 5.886 billion yen/month (+532 million yen YoY)</li> <li>Started service of TOCHITSUKA, a digital regional currency service, in October</li> </ul>
<b>Consulting &amp; advisory</b>	<ul style="list-style-type: none"> <li>In corporate consulting, the number of consulting contracts increased year on year.            Number of consultants: 295 (+44 YoY)</li> <li>Began preparations to establish a local subsidiary of The CC Innovation, Ltd. in Kenya</li> </ul>
<b>Investment advisory</b>	<ul style="list-style-type: none"> <li>The amount outstanding under Investment advisory is 350 billion yen.</li> </ul>
<b>Investment fund</b>	<ul style="list-style-type: none"> <li>55 investees, ¥23.2 billion (+20 from the end of FY3/2023, +¥11.6 billion)</li> </ul>
<b>Market management</b>	<ul style="list-style-type: none"> <li>Net interest income decreased by ¥2.829 billion due to an increase in foreign currency funding costs.</li> <li>Sales of foreign bonds reduced the outstanding balance of foreign bonds to ¥160 billion</li> <li>The sale of strategic shareholdings resulted in a gain on sale of 15 brands/4 billion yen.</li> </ul>

# Shareholder Return Policy and Share Repurchase

- Targeting a total return ratio of 50% or more
- Acquisition of treasury stock up to the end of September 2023: Approx. 954,200 shares ¥4.7 billion

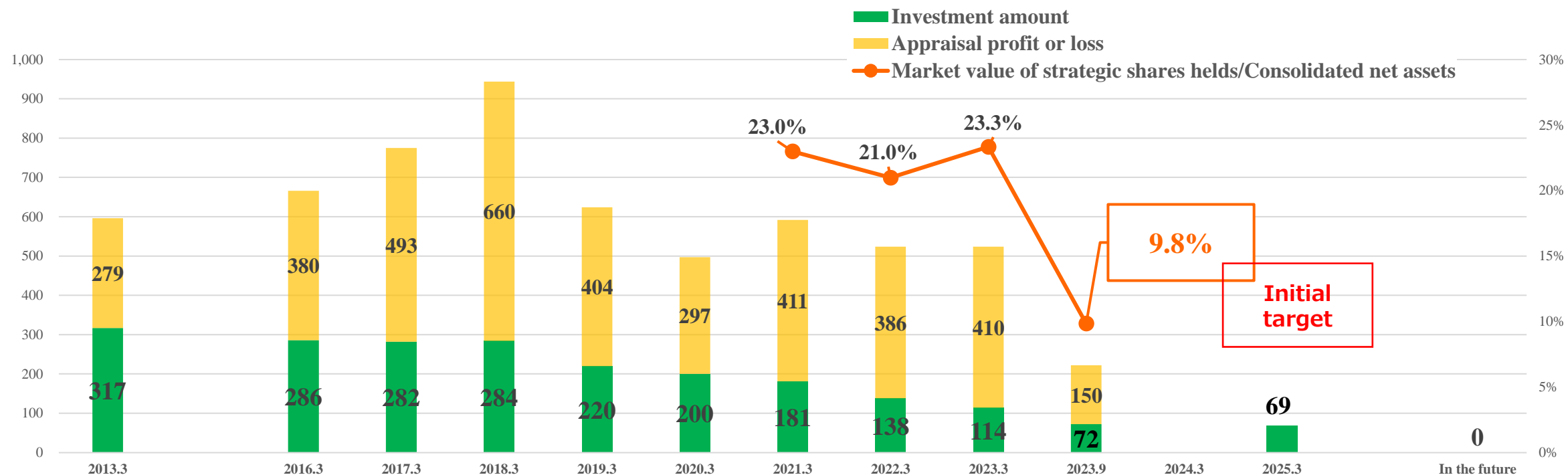
Item	FYE 03/31/2023 Actual	FYE March 2024	FYE March 2026 Three years later	FYE March 2028 5 years later	FYE March 2033 About 10 years later
Total return ratio	122%	115%	Total return ratio: 50% or more The Company will periodically review and implement share buybacks and increases in dividends in light of its capital adequacy ratio and strategic investment opportunities.		
Total dividends	2.6 Billion yen	2.7 Billion yen			
Purchase of treasury stock	8.1 billion yen	9.9 Billion yen			
Cost of capital			7.0%		
ROE	3.9%	5.0%	5.0%or more	7%or more	8%or more
Core capital	226.0 Billion	223.8 Billion	238.7 Billion	255.7 Billion	300.0 Billion
Risk assets	2,240.2Billion	2,205.0 Billion	2,476.5 Billion	2,796.5 Billion	3,000.0 Billion
Equity ratio	10.1%	10.1%	Around 10%		
PBR	0.5	0.6or more	0.7or more	1.0or more	1.0or more



# Reduction of strategic shares helds

- Steady progress in dialogue with target companies
- Plan to halve the book value of investments by the end of March 2025 (compared to March 2022) is expected to be achieved ahead of schedule
- Strengthen management of net investment-purpose stocks by carefully selecting investment targets such as profitability

Balance of Strategic Shareholdings (100 million yen)



# Reduction of strategic shares helds

## Reduction and negotiation status of strategic shares helds for listing

	Number of issues	Book value (100 million yen)
2022.3	50	138
2023.3	37	114
2023.9	27	72
Number of reductions (compared to 2022.3)	▲23	▲66
Target for 2025	-	▲69
Progress rate	-	96%

	Number of borrowers	Book value (100 million yen)
Sale commitment	2	3
Projected sale by FY3/2025	14	24
Projected sale after April 2025	7	20
Ongoing negotiators	4	25

## Net investment objective equity management policy

### ■ Investment policy

- Aim for revenues from increasing corporate value by investing in high-quality Japanese stocks that are expected to grow over the medium to long term and stocks that can expect total returns, including income.

### ■ Investment strategy

- 70 to 100, taking into account the macroeconomic environment and stock price valuations

Manage a portfolio carefully chosen for the issues, and gain and stability in the value of the shares

Achieve a higher level of revenues from payments.

### ■ Investment approach

- Macroeconomic analysis, quantitative analysis of corporate finances, etc., performance outlook, etc.

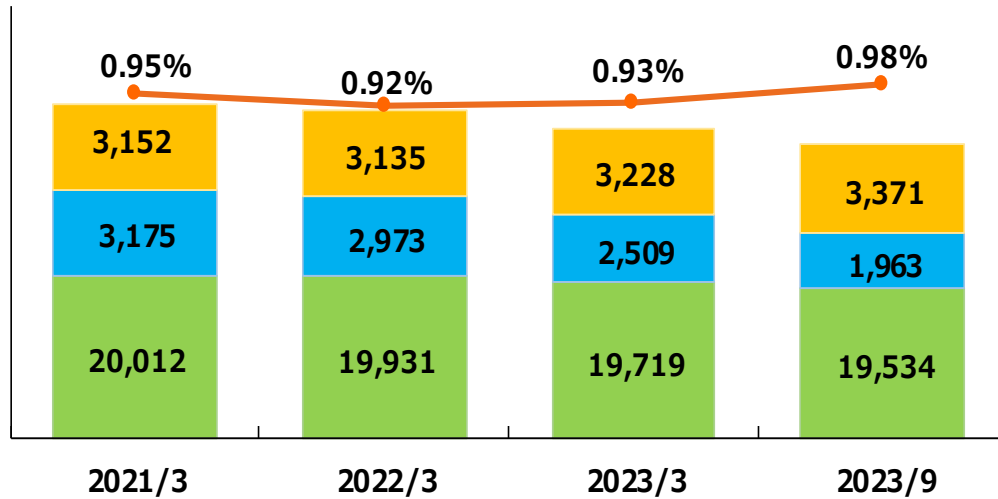
Carefully select investment targets through a qualitative analysis.

- Rebalancing is conducted every time to improve portfolio risk return.

# Loan ~ Yield by segment ~

■ Yields rose overall and by segment due to pricing-focused dialogue and higher interest rates on mortgage loans

## Loans Outstanding and Yields



■ 中小企業等   
 ■ 中堅・大企業   
 ■ 地公体・公社   
 — 貸出金利回り

## Average Newly Executed Interest Rates (by Attribute)

	2021/3	2022/3	2023/3	2023/9
Profitable lending	0.899	0.894	1.174	1.255
Consumer loans	0.575	0.548	0.489	0.664

## Yield by attribute (%)

	2021/3	→	2022/3	→	2023/3	→	2023/9
Profitable lending	1.168	▲0.029	1.139	+0.013	1.152	+0.026	1.178
Consumer loans	0.840	▲0.021	0.819	▲0.020	0.799	+0.034	0.833
Of which, secured	0.729	▲0.008	0.721	▲0.011	0.710	+0.040	0.750
Of which, unsecured	3.227	▲0.054	3.173	+0.008	3.181	+0.019	3.200
Local public corporations	0.379	▲0.075	0.304	▲0.020	0.284	+0.036	0.320

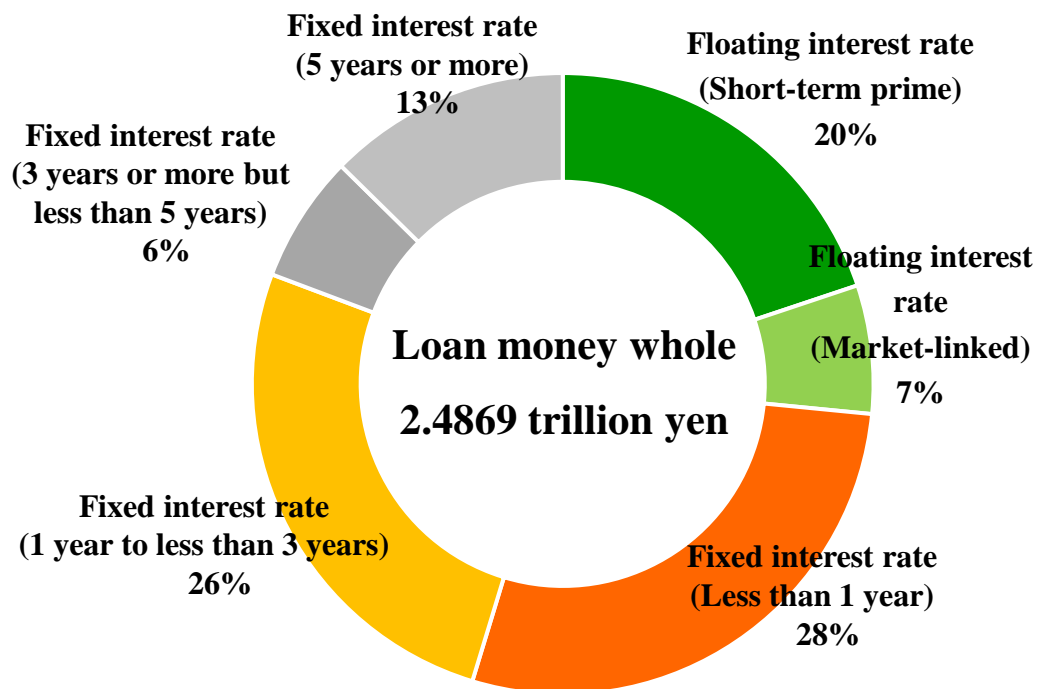
## Yields by Region (Business Loans) (%)

	2021/3	→	2022/3	→	2023/3	→	2023/9
Three Hokuriku prefectures	1.285	▲0.042	1.248	▲0.005	1.243	+0.008	1.251
Ishikawa Pref.	1.274	▲0.030	1.239	+0.005	1.244	+0.004	1.248
Toyama Pref.	1.333	▲0.073	1.287	▲0.027	1.260	+0.012	1.272
Fukui Pref.	1.221	▲0.045	1.196	▲0.020	1.176	+0.025	1.201
Other	0.534	+0.040	0.526	+0.048	0.574	+0.093	0.657

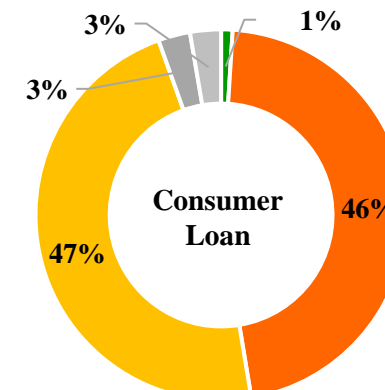
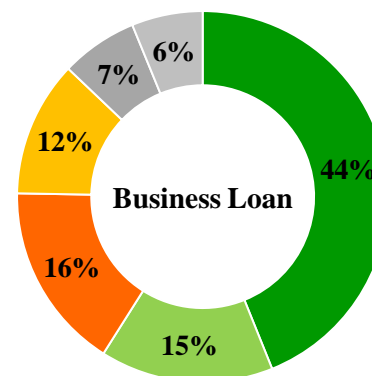
# Impact on interest on loans when interest rates rise

- Variable interest rates account for about 30% of total loans
- Net interest income is expected to increase (from ¥700 million per year) due to the elimination of YCC and the termination of negative interest rates.

## Composition of interest rates on loans



**Floating rate 27% Fixed rate 73%**



- Floating rate (short-term prime)
- Floating rate (market-linked)
- Fixed rate (less than one year)
- Fixed rate (1 year or more but less than 3 years)
- Fixed rate (3 years or more but less than 5 years)
- Fixed rate (5 years or more)

## Annual impact of yen interest rate hike

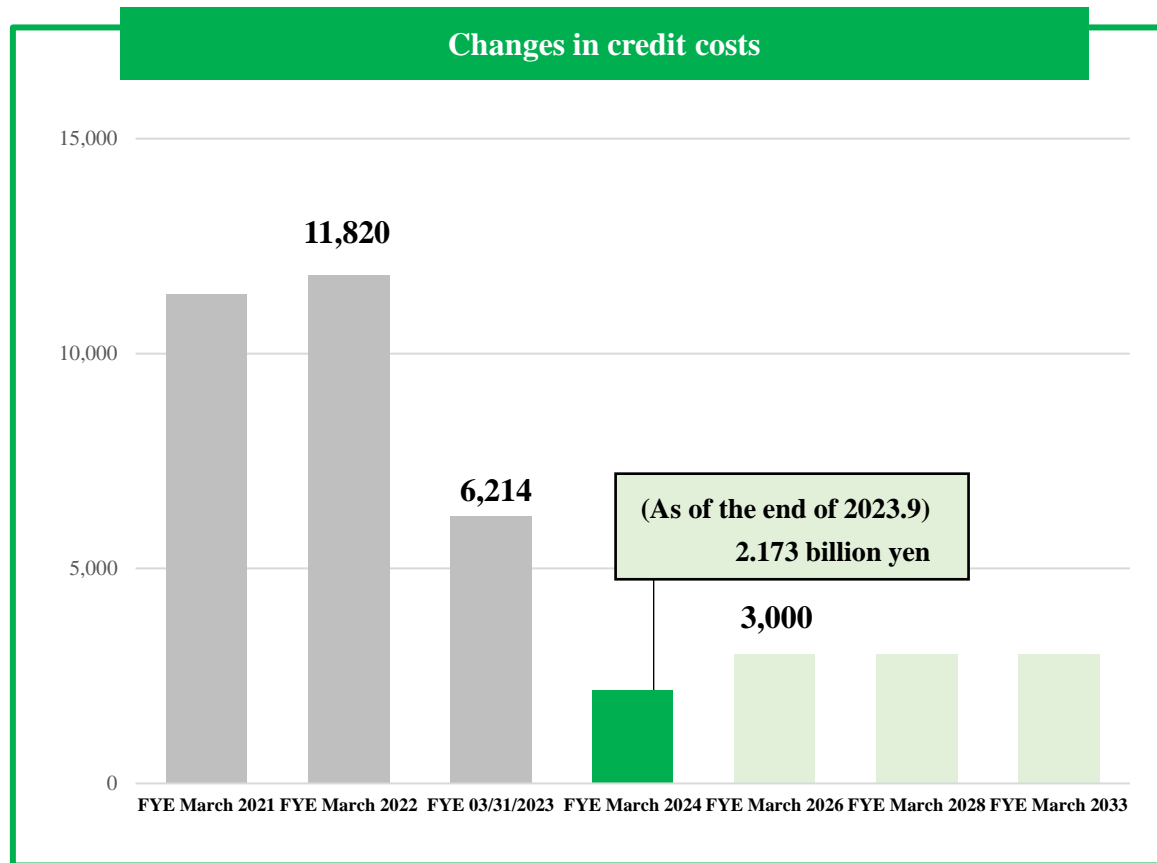
First year	Second year	Third year
700 million yen	2.5 billion yen	3.5 billion yen

<Estimation conditions>

- Estimated under the abolition of YCC and the termination of negative interest rates (estimated at the short-term interest rate of +0.1% and the long-term interest rate of +0.96%)
- Loans outstanding remain at the current level.

# Credit Cost Results and Future Prospects

- Credit costs for the fiscal year ended September 2023 were approximately 2.2 billion. Full-year target is expected to be ¥3 billion as planned
- Policy to maintain a high coverage ratio and reduce the risk of future impact on profit and loss by implementing sufficient reserves in the future



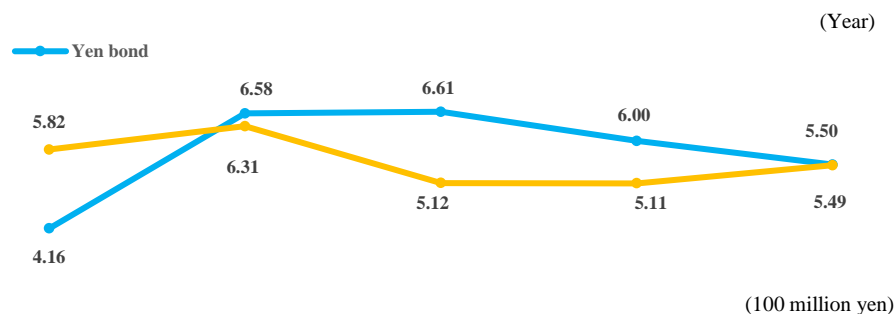
<Preservation Status>	2020.3	2021.3	2022.3	2023.3	2023.9
Disclosed claims under the financial reconstruction law (100 million yen)	561	608	758	734	743
Conservation amount (100 million yen)	534	587	659	706	713
Coverage ratio (%)	95.1	96.5	86.9	96.2	95.9

# Investment in Securities

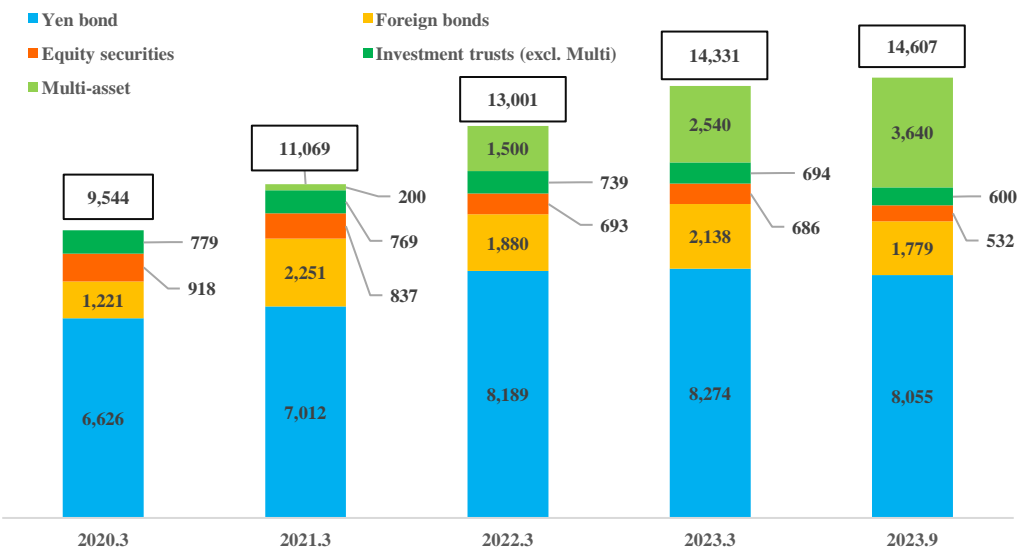
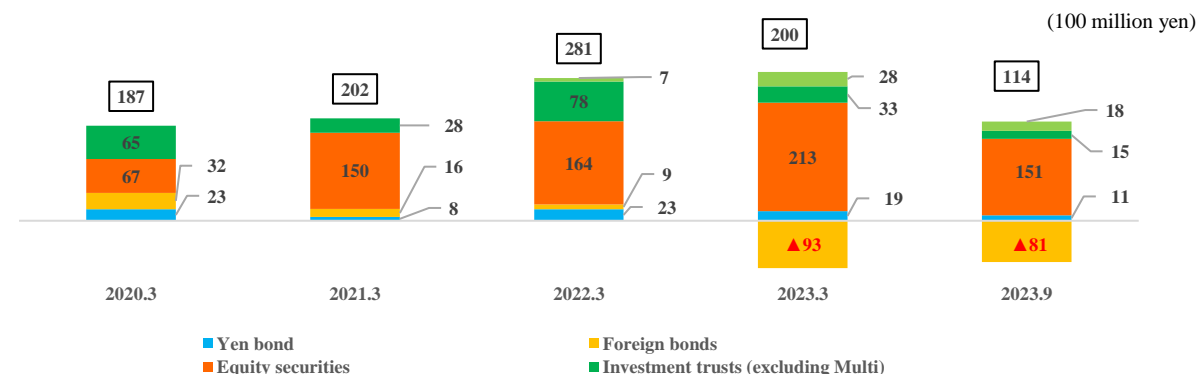
■ In fiscal 2023, the balance of yen-denominated bonds and foreign bonds was reduced, and the multi-asset fund was increased.

■ Duration declined with the sale of yen-denominated bonds, and interest rate risk was reduced.

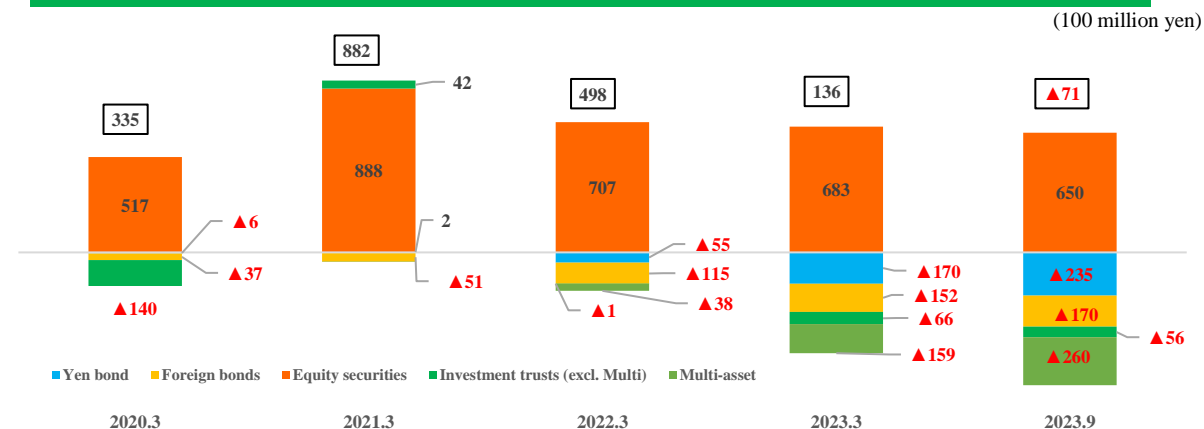
## Balance of Securities (Book Value) and Duration



## Trends in realized gains/losses by asset



## Trends in unrealized gains/losses on securities



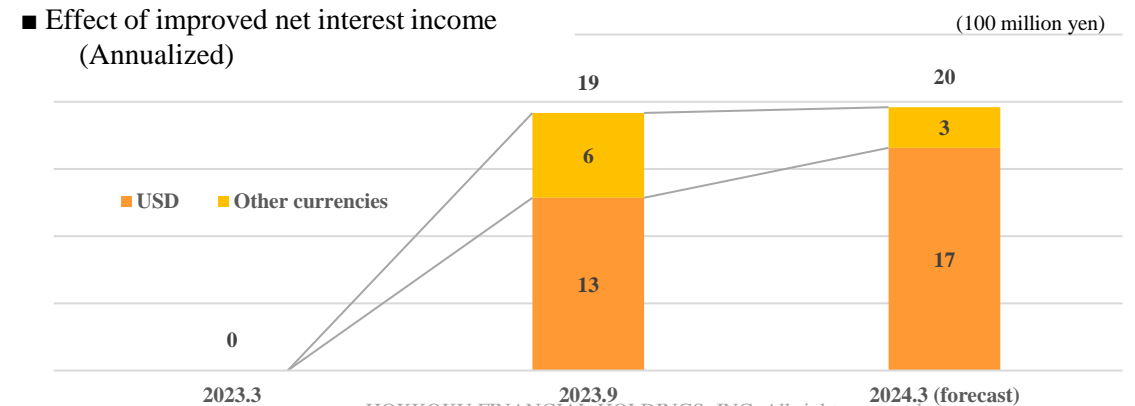
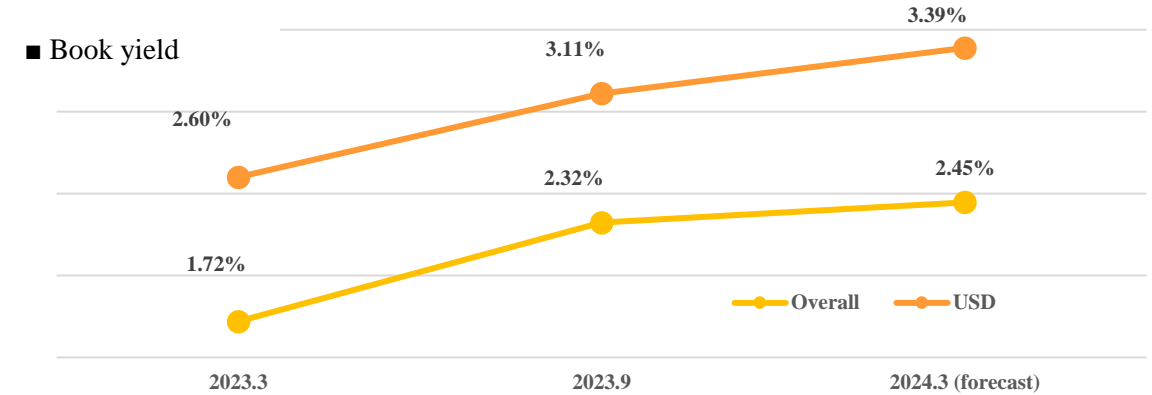
# Status of Foreign Bonds

■ To improve net interest income and unrealized gains/losses, the company sold short-maturity low-yield bonds, mainly in U.S. dollars.  
 ■ Going forward, the Bank will continue to closely monitor the direction of monetary policy in each country and work to improve the yield of the portfolio.

## Status of book value and unrealized gains/losses on foreign bonds



## Improvement effect from sales of foreign bonds



## 3. Reference Materials



# Target levels over the medium to long term

~Medium-to long-term image based on future environmental forecasts and action policies

**announced on 23.5.8**

Item	FYE 03/31/2023 Actual	FYE March 2024 A year later	FYE March 2026 3 years later	FYE March 2028 5 years later	FYE March 2033 10 years later
Consolidated Operating Income	16 billion yen	<b>16.7 billion yen</b>	<b>18.1 billion yen</b>	<b>28.3 billion yen</b>	<b>40.4 billion yen</b>
Net income (consolidated)	8.7 billion yen	<b>11 billion yen</b>	<b>11.4 billion yen</b>	<b>18.4 billion yen</b>	<b>26.9 billion yen</b>
Core Business Revenues (Consolidated)	38.8 billion yen	<b>35.1 billion yen</b>	<b>39.1 billion yen</b>	<b>49.8 billion yen</b>	<b>60 billion yen</b>
ROE (Consolidated)*	3.9%	<b>5.0%</b>	<b>5%or more</b>	<b>7%or more</b>	<b>8%or more</b>

※ ROE is calculated based on the amount of net income attributable to owners of the parent to Basel III core capital based on domestic banks

<Reference: Based on shareholders' equity> ROE (Consolidated)	4.0%	<b>5.1%</b>	<b>5% or more</b>	<b>7% or more</b>	<b>8% or more</b>
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## The Medium-Long Term Business Strategy ~ Update Plan ~

※ From 2021, medium-to long-term goals and strategies are updated every fiscal year.

■ Focus period to establish new business model from April 2023 to March 2026

## Measures for increasing corporate value

### 1.Improving capital efficiency

- Raised the basic policy for shareholder returns to a total return ratio of 50% or more
- Continue share buybacks (¥9 billion for the year ended March 31, 2024)
- Maintain an equity ratio of around 10%, with periodic profits and losses and excess capital to invest in new businesses and return profits to shareholders

### 2.Expansion of Key Business Domains (Three Pillars → Seven New Pillars)

- In three priority projects ("Cards", "Loans and Leasing" and "Consulting")  
In addition to the key businesses of "digital regional currencies," "Investment advisory," "investment funds," and "market management,"  
Revenue after 5 years to 49.8 billion yen. (+ approx. 11 billion yen, 2023/3)

# Trends in Expenses and OHR

announced on 23.5.8

(Unit: 100 million  
yen)

Item	FYE 03/31/2023	FYE March 2024	FYE March 2026	FYE March 2028	FYE March 2033
Personnel expenses	151	155	158	186	<b>190</b>
Incentive fee	6	9	9	33	<b>43</b>
Other	145	146	149	153	<b>148</b>
Non-personnel expenses and taxes	159	169	195	190	<b>177</b>
System costs	68	69	62	62	<b>48</b>
Other	91	100	134	128	<b>129</b>

## ① Core OHR (Core gross operating income basis)

Gross operating profit from core business: net interest income + net fees and commissions + other operating income-net gains on government bonds and other bonds (5-account)

FYE 03/31/2023	FYE March 2024	FYE March 2026	FYE March 2028	FYE March 2033
77.2%	86.1%	72.7%	67.9%	56.2%

## ② OHR (gross margin basis)

Gross profit: Gross operating profit from core business + Gain (loss) on government bonds, etc. + Gain (loss) on stocks, etc. (equity 2 account)

FYE 03/31/2023	FYE March 2024	FYE March 2026	FYE March 2028	FYE March 2033
59.6%	63.3%	63.6%	56.5%	47.4%

# Deposits and Loans Outstanding by Segment

## Deposit Balance by Attribute

(100 million yen)

	2021/3	2022/3	2023/3	2023/9	Compared to 23/3 Change	Compared to 23/3 Rate of change
Individuals	26,626	27,812	28,709	28,979	+270	+0.9%
CORPORATION	11,117	11,554	11,434	11,936	+502	+4.4%
Public money and financial	2,775	3,360	3,697	3,173	▲524	▲14.1%
Overall	40,520	42,727	43,841	44,089	+248	0.5%

## Loans Outstanding by Type

(100 million yen)

	2021/3	2022/3	2023/3	2023/9	Compared to 23/3 Change	Compared to 23/3 Rate of change
Profitable lending	13,180	12,757	12,060	11,427	▲633	▲5.2%
Consumer loans	10,006	10,146	10,168	10,070	▲98	▲0.9%
Of which, secured	9,642	9,819	9,867	9,773	▲94	▲0.9%
Of which, unsecured	363	327	301	296	▲5	▲1.6%
Local public entities and public corporations	3,152	3,135	3,228	3,371	+143	+4.4%

## Loans Outstanding by Attributes

(100 million yen)

	2021/3	2022/3	2023/3	2023/9	Compared to 23/3 Change	Compared to 23/3 Rate of change
Small and medium-sized enterprises, etc.	20,012	19,931	19,719	19,534	▲185	▲0.9%
(Ratio of SMEs, etc.)	75.9%	76.5%	77.5%	78.5%	—	+1.0%
Medium-sized and large companies	3,175	2,973	2,509	1,963	▲546	▲21.7%
Local public entities and public corporations	3,152	3,135	3,228	3,371	+143	+4.4%
Overall	26,339	26,039	25,456	24,869	▲587	▲2.3%

## Loans Outstanding by Region

(100 million yen)

	2021/3	2022/3	2023/3	2023/9	Compared to 23/3 Change	Compared to 23/3 Rate of change
Hokuriku 3 prefectures total	24,089	23,956	23,794	23,404	▲390	▲1.6%
In Ishikawa Pref.	18,167	18,119	18,139	17,889	▲250	▲1.3%
In Toyama Pref.	4,718	4,645	4,511	4,391	▲120	▲2.6%
In Fukui Pref.	1,202	1,190	1,144	1,123	▲21	▲1.8%
Other	2,250	2,083	1,662	1,465	▲197	▲11.8%

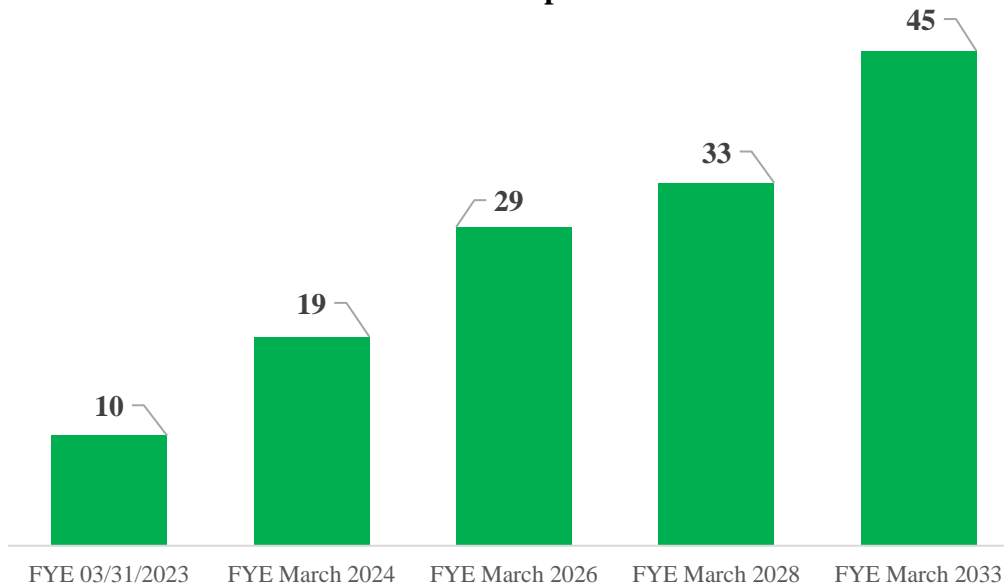
# Key Businesses (Corporate Consulting)

- **Basic strategy: Increase in number of clients x increase in fees per customer**
  - Provides consulting services for dealing with multiple issues starting from the sharing of understanding of business prospect according and finances
  - Develop new approaches by segment that transcend the Hokuriku region, such as large corporations and local governments



Revenues plan

(Unit: 100 million yen)



## ■ Main Initiatives

- Approach at urban stores, use of media, and increased contact with industry associations
  - ⇒ Points of contact are on the rise due to individual approaches in urban areas as well as attendance at seminars for financial institutions
- Expansion of consulting areas such as marketing and external sales of in-house IT tools
  - ⇒ Results: Three menu development projects and 10 new field contracts
  - Promotion of appropriate pricing such as expansion of value fees
  - ⇒ Issues include dealing with projects that exceed the planned effort and productivity improvement
    - Early training of consultants and improvement of skills of senior consultants
    - ⇒ Enhancement the review system and establishing a skill acquisition system

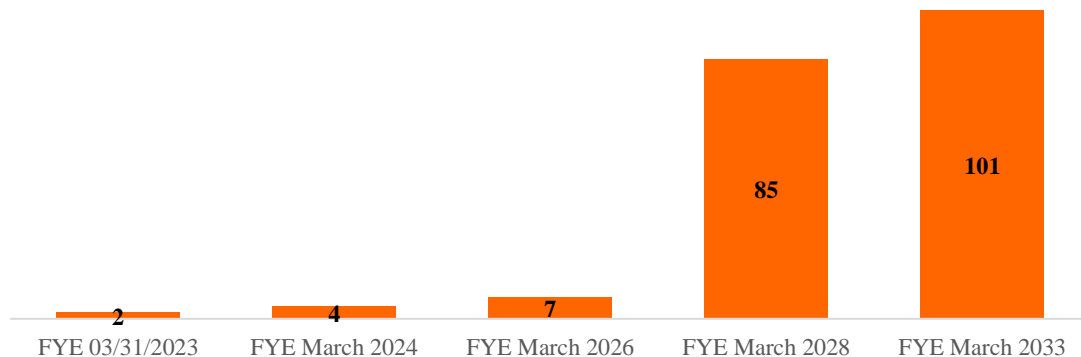
# Key Businesses (Expansion of Investment Operations)

- Equity investment leads the regional ecosystem and creates quality regions (QR)
- Major investment targets are the Hokuriku region, while expanding investments nationwide and overseas
- Acquired knowledge (temporary staffing, management involvement, etc.) through external collaboration



Revenues plan

(Unit: 100 million yen)



[Investment Plan]

	Three years later	5 years later	About 10 years later
Number of investments	110	170	250
Investment balance (100 million yen)	700	900	1,000

[Status of Fund Investment (as of Sep. 2023)]

Fund name	Total (100 million yen)	Number of cases	Issue amount (100 million yen)
Hokuriku Region Venture Fund	—	6	4
Noto SDGs Fund	7	13	5
QRI Growth Support Fund	10	1	1
Ishikawa SME Revitalization Fund	20	5	14
QR Fund	500	30	208
<b>Total</b>	<b>—</b>	<b>55</b>	<b>232</b>

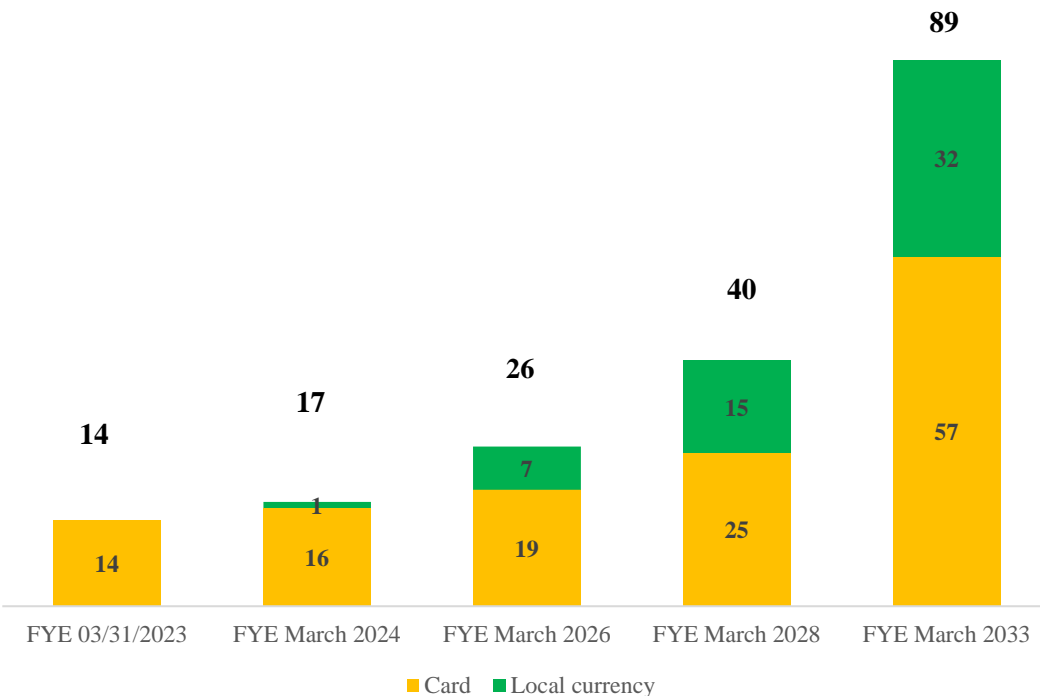
**IRR of about 14%**

# Key Businesses (Progress of Cashless)

- Expand payment domains by building platforms linked to local operators
- Issuance of digital regional currencies (Stable Coins) by strengthening collaboration with local governments and other financial institutions
- Further increase the cashless ratio by implementing the above measures

Revenues plan

(Unit: 100 million yen)



## ■Expansion of payment domains

- Corporate and personal debit penetration rates and the increase in the number of transactions
- Expand the number of franchised stores by proposing a combination of cash registers and payment machines in addition to handsets of franchised stores
- Expand revenues by introducing new handsets (for QR, etc.) and recurring

→July 2023 Introduced new handset; began handling recurring payment in October

## ■Issuance of digital regional currencies

- Digital collaboration with Suzu City using distributed ID blockchain
- Issuance of Regional Currencies (Stable Coins) under preparation in FY2023

→Oct. 2023 Began handling point service (Tochipo)

April 2024 Start of stable coin (Tochika) handling

- Initiatives for expansion to Ishikawa Prefecture and other local governments

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