

# 2018

## ANNUAL REPORT

HOKKOKU BANK  
ANNUAL REPORT

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## FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements about Hokkoku Bank's future, including outlooks, plans, forecasts, results, etc. All such forward-looking statements are the result of judgments predicated upon information available to the Bank at the time of the Annual Report's publication. Unknown risks and uncertainties in the future may cause actual results to differ significantly from any projections presented in the Bank's Annual Report. Such risks and uncertainties include, but are not limited to, economic conditions in which the Bank must do business, pressures from competitive activities, changes in laws and/or regulations, development of new products and elimination of old ones, and fluctuation of exchange rates.

## MESSAGE FROM THE PRESIDENT

I would like to express my sincere gratitude for your valued patronage of the Hokkoku Bank.

We have prepared this “Annual Report 2018” which presents our financial performance for the fiscal year ended on March 31, 2018, as well as our recent undertakings. It will be greatly appreciated if you could take a moment to read through this report.

The Hokuriku region’s economy has been making a steady recovery with signs of an upturn in personal consumption primarily due to retail and the number of housing construction starts being comparatively firm. The manufacturing sector and public construction have been maintaining favorable performance with high level of activity. In the employment environment, the effective job offering ratio also continues to be high. As for tourism, there are some signs of weakness such as the beneficial effect of the Hokuriku Shinkansen’s launch running its course. Despite this, overall, the Hokuriku region’s economy is gradually recovering.

Meanwhile, there has been some concern in the prospect of market contraction and shortage of labour resources in the region due to the dwindling birthrate, growing aging society and concentrated population in the urban areas. We strive to improve regional productivity by developing comprehensive and multifaceted solutions to the local community and our customers including individual enterprises. Particularly, we are focusing on services geared for greater efficiency by leveraging ICT and implementing FinTech solutions that integrate both finance and IT. We are also promoting a cashless environment for the region by simultaneously developing business that involves credit card services and Visa debit cards.

In addition, we provide comprehensive support for overseas business advancement and expansion of sales channels for customers aiming for overseas expansion through our Singapore Branch, our office in the South East Asia region. We plan to establish a representative office in Bangkok by end of this fiscal year. We also will actively work to further enhance our consulting functions both in Japan and overseas to provide apt solutions for all our customers.

We are constantly thinking, “What can we do for our customers and the community?” We believe by identifying the actual needs, and supporting efforts to find diverse solutions to regional issues, it will lead to the creation of shared value for all stakeholders.

We, at Hokkoku Bank, appreciate your continued support and look forward your patronage in the future.

August 2018



Tateki Ataka  
President

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to read 'T. Ataka'.

## ABOUT ISHIKAWA PREFECTURE



### (Summary)

Located in the middle of the Japanese Islands, Ishikawa Prefecture is a narrow territory extending from south-west to north-east along the coast and protruding towards the Sea of Japan. Ishikawa Prefecture contains altogether 19 municipalities (11 cities and 8 towns) and her prefectural office locates at “Kanazawa City.”

Due to the high accessibility to the urban areas through the well-developed transportation networks such as railways, airports and expressways, Ishikawa Prefecture is located in almost the same distance from each of the three major metropolitan areas of Japan. On top of that, the opening of the railway “Hokuriku Shinkansen” in March 2015 has greatly improved the accessibility from Ishikawa Prefecture to the Tokyo metropolitan area.

### (Industrial advantage)

Ishikawa Prefecture embraces manufacturing industries such as machinery and textile industries as well as the tourist industry. Ishikawa Prefecture accumulates various internationally competitive machinery manufacturers such as construction machinery, textile machinery and machining tools manufacturers, etc. Also, there are a lot of co-operative enterprises which provide support to the abovementioned manufacturers from various fields ranging from machine processing, welding, casting to forging. As the manufacturers possess unique techniques, there is a considerable number of “niche top enterprises” which account for the greatest market shares throughout Japan in specific fields (niche markets).

With regard to the textile industry, Ishikawa Prefecture is renowned as one of the largest synthetic textile manufacturing centers in the world which performs yarn processing such as twisted yarn, dyeing processing, sewing and manufactures woven fabrics and knitted products, etc.

In addition, the well-known “Kanazawa castle town” attracts a substantial number of international and domestic visitors. Historical streets and buildings remain and the town is filled with elegant, traditional culture.

### (Logistics hub for export)

Ishikawa Prefecture allows transport of container freights to all over the world including Asia, North America and Europe. Further, the fluent logistics is ensured by the regular shipment of international freight to Europe and America. Having a consolidated logistics foundation which connects herself with various countries from Asia to worldwide, Ishikawa Prefecture continues to develop as the center of exchange of “People/ Things” in the Hokuriku Region.

## BANK PROFILE

Hokkoku Bank is a regional financial institution centered in Ishikawa prefecture, on the Sea of Japan coast in central Honshu, Japan's main island. The Bank's headquarters is in Kanazawa, the region's largest city. Its business is concentrated in the prefectures of Ishikawa, Toyama, and Fukui, known collectively as Hokuriku. Hokkoku Bank branches cover this entire region, complemented by offices in the major Japanese cities of Tokyo, Osaka, and Nagoya.

Hokkoku Bank was created by the merger of three Ishikawa prefecture banks in 1943, and has grown steadily ever since. Today it is widely regarded as one of the most financially sound of Japan's 64 regional banks, with the closest ties to local communities and residents.

Hokkoku Bank began handling foreign exchange business in 1961; in the ensuing 57 years, it has continued to expand its correspondent bank network and formed tie-ups with banks around the world. The Bank's overseas offices help our clients track international financial trends and support their overseas activities.

As of March 31, 2018, the Bank had 105 branches (including 1 sub-branch), 1,802 employees, and on a consolidated basis, total assets of ¥4,772,893 million (US\$44,925 million) and total shareholders' equity of ¥201,734 million (US\$1,898 million).

(\*The number of branches is as of June 30, 2018)

Branches	
Ishikawa.....	87
Toyama.....	11
Fukui.....	3
Tokyo.....	1
Osaka.....	1
Nagoya.....	1
Singapore.....	1
Total.....	105
(As of June 30, 2018)	

## BOARD OF DIRECTORS AND AUDIT AND SUPERVISORY COMMITTEE (As of June 30, 2018)

### President

Tateki Ataka

### Senior Managing Director

Shuji Tsuemura

Junichi Maeda

Hideaki Hamasaki

### Managing Director

Kazuya Nakamura

Koichi Nakada

Kenichi Sakai

### Director

Nobuhiro Torigoe

Yuji Kakuchi

Toshiyuki Konishi

Akira Nishita

### Director, Audit and Supervisory Committee Member

Muneto Yamada

Hidehiro Yamamoto

### Director (Outside), Audit and Supervisory Committee Member

Hideo Nakashima

Masahiro Kijima

Ichiro Sasaki

Masako Ohsuna

### Executive Officer

Nobuhide Akazawa

Takayasu Tada

Susumu Taniguchi

Takeshi Igawa

Harushige Sanbonmatsu

Hirokatsu Yamada

Shoichi Kashimi

## OFFICES AND SUBSIDIARIES (As of July 31, 2018)

### Head Office

2-12-6 Hirooka, Kanazawa, Ishikawa 920-8670 Japan

Tel: +81(76) 263-1111

### International Department

Head Office

2-12-6 Hirooka, Kanazawa, Ishikawa 920-8670 Japan

Tel: +81(76) 263-1111

Swift: HKOKJPJT

### Major Subsidiaries

The Hokkoku General Lease Co., Ltd.

2-2-15, Katamachi, Kanazawa, Ishikawa 920-0981

The Hokkoku Credit Service Co., Ltd.

2-2-15, Katamachi, Kanazawa, Ishikawa 920-0981

The Hokkoku Credit Guarantee Co., Ltd.

1-16 Musashi-machi, Kanazawa, Ishikawa 920-0855

The Hokkoku Management, Ltd.

1-16 Musashi-machi, Kanazawa, Ishikawa 920-0855

The Hokkoku Servicer, Ltd.

2-2-15, Katamachi, Kanazawa, Ishikawa 920-0981

### Overseas Offices

Shanghai Representative Office

Suite 350, Shanghai Centre 1376 Nanjing West Road, Jingan

District, Shanghai, 200040, People's Republic of China

Tel: +86(21)6279-8717

Fax: +86(21)6279-8721

Singapore Branch

138 Market Street, #08-02 CapitaGreen, Singapore 048946

Tel: +65-6538-4770

Fax: +65-6538-2726

### Support for businesses in Asia

We provide support for clients who have, or are considering developing, businesses in Asia.

1. Local market research
2. Support on market cultivation, business matching with local corporates
3. Provision of solutions to issues of clients with existing businesses
4. Provision of various kinds of information (Local rules and regulations; tax and accounting; contracts and agreements; labor-related regulations; establishment, operation, and withdrawal of local companies, etc.)

### Financial services

We provide the following financial services for client companies.

1. Deposits (current and savings)
2. Loans (loans on deeds, overdrafts, guarantees)
3. Domestic and overseas remittance
4. Trade financing (letter of credit transactions, purchase and collection of export bills, forward exchange contracts, etc.)

## Trust — a bridge to a fruitful regional future

Enrich interaction and growth in the region

We shall:

- Thoroughly understand the regional society, economy, culture, and life.
- Provide comprehensive information and financial services.
- Lead regional activities in various aspects.
- Be a trusted partner in the growth of the region.

Hokkoku Bank's regional communities:

We offer services tailored to the unique characteristics and needs of all our customers in areas where our business infrastructure is located. The three Hokuriku prefectures, Toyama, Fukui, and Ishikawa, where our headquarters is located, are our most important regional communities.

## Communication

× Collaboration

× Innovation 2021

Concept

### Emerge as one of the next-generation regional commercial bank:

Contribute to attain region-wide innovation through customer-oriented approach via extensive communication and collaboration, both within the Bank as well as with our community.

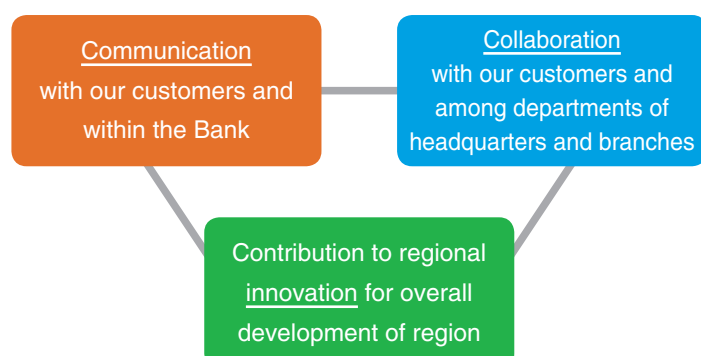
Basic policy

Continue with our traditional banking services, such as bank deposits, lending, currency exchange and settlement, while strengthening our new initiatives of recent years, namely bank cards, leasing, consultation services.

### Main Action Plan

Engage in marketing and sales based on customer-oriented approach	Enhance sales of corporate and retail consultation services
Develop a stronger business framework that provides an optimal mixture of financing and leasing services	Pursue customer-oriented channel strategy
Tap into opportunities towards a cashless society	Intensify efforts in overseas business

### Three Keywords



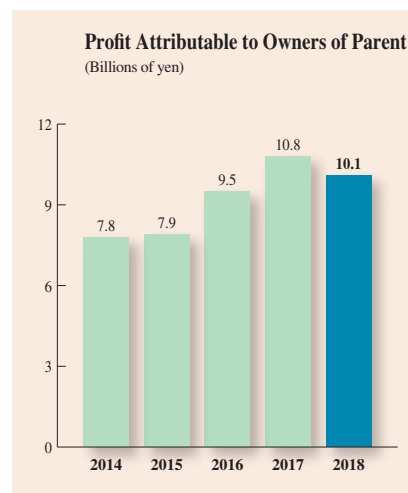
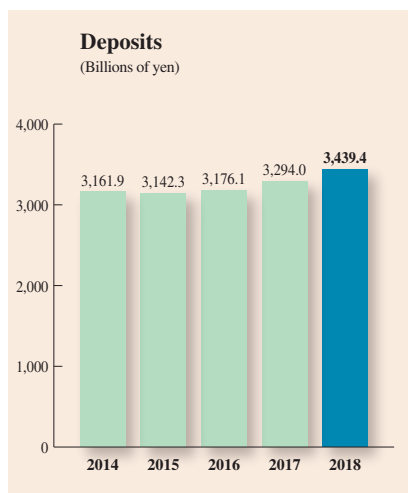
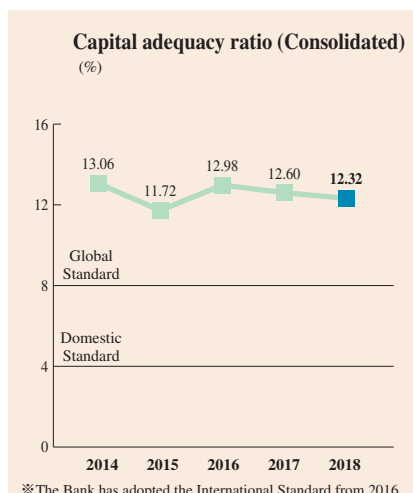
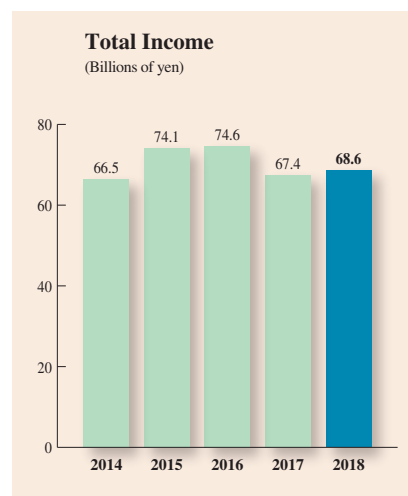
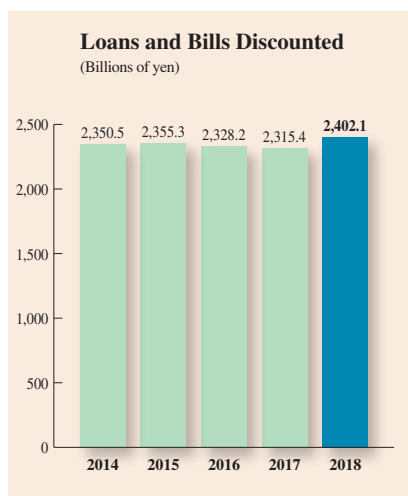
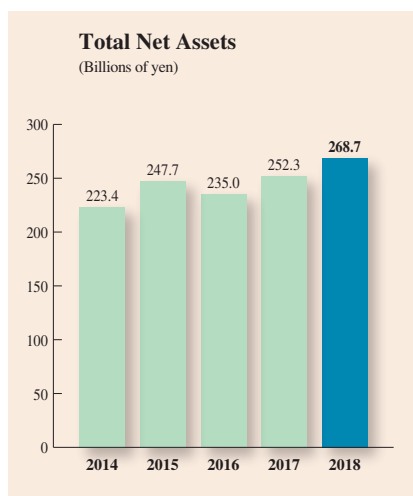
### Management Benchmarks and Targets

Item	Fiscal year ending March 2021, the final year of the Medium-Term Business Plan
Ordinary profit (consolidated)	¥12.5 billion
Profit after tax (consolidated)	¥8.0 billion
Income from new business (non-consolidated) <bank cards, leasing, consultation services>	¥2.5 billion
Non-personnel cost and personnel cost (non-consolidated)	¥25.0 billion – ¥25.5 billion
Capital adequacy ratio (consolidated)	12.5% – 13.0%

# FINANCIAL HIGHLIGHTS

	Millions of yen					Thousands of U.S. dollars
	2018	2017	2016	2015	2014	2018
Total Income .....	¥ 68,633	¥ 67,413	¥ 74,686	¥ 74,109	¥ 66,573	\$ 646,026
Profit before Income Taxes .....	15,738	15,534	16,830	16,177	15,486	148,137
Profit Attributable to Owners of Parent .....	10,163	10,851	9,569	7,989	7,855	95,663
Total Assets .....	4,772,893	4,320,364	3,904,020	4,179,790	3,513,777	44,925,574
Loans and Bills Discounted .....	2,402,114	2,315,444	2,328,285	2,355,374	2,350,504	22,610,261
Securities and Trading Securities .....	1,060,764	1,104,523	1,018,306	1,191,361	893,444	9,984,613
Deposits .....	3,439,483	3,294,031	3,176,117	3,142,315	3,161,969	32,374,653
Total Net Assets .....	268,777	252,358	235,020	247,730	223,438	2,529,908
<Consolidated>						
Capital adequacy ratio (%) .....	12.32	12.60	12.98	11.72	13.06	
<Non-consolidated>						
Capital adequacy ratio (%) .....	12.19	12.46	12.81	11.18	12.46	

U.S. dollar amounts are translated at the rate of ¥106.24 = \$1.00



※The Bank has adopted the International Standard from 2016.

# CORPORATE GOVERNANCE / RISK MANAGEMENT STRUCTURE

## Basic Approach to the Corporate Governance Structure

In order to realize our corporate philosophy and to achieve the ideas and action goals in the medium-term management plan, the Bank is working to build a corporate governance structure in the belief that it is important to maintain a harmonious relationship with stakeholders, including shareholders, further improve management transparency and reinforce management that strictly observes compliance.

## Overview of the Corporate Governance Structure

- The Board of Directors, which is the supervisory body responsible for the execution of management decision-making and the duties of directors, is comprised of 11 directors who are not audit and supervisory committee members, and 6 directors who are audit and supervisory committee members (of whom 4 are outside directors) for a total of 17 members, as of the filing date for the Bank's securities report (June 25, 2018). The Board of Directors holds a regular Board of Directors Meeting once a month and, in addition, holds extraordinary meetings as required for the purpose of making decisions on important matters relating to the Bank's management policy and other general management issues.
- The Bank transitioned to a Board with Audit and Supervisory Committee structure upon the approval of partial changes to the Articles of Incorporation at the 107th Ordinary General Meeting of Shareholders held on June 26, 2015. This transition to an Audit and Supervisory Committee structure will enable the Bank to reinforce the audit and supervisory functions of the Board of Directors and executive officers, as well as to improve the transparency and efficiency of the business execution process as a result of the participation in management by outside directors, with the aim of further enhancing corporate governance and improving our corporate value to meet the expectations of our stakeholders. Furthermore, we are strengthening our business auditing system by establishing a Business Advisory Committee consisting of third-party committee members from outside the bank and accepting their proposals and advice. Additionally, the system also enables us to seek individual advice and guidance from individual committee members.
- The Bank has introduced an executive officer system, and in principle holds management meetings, attended by standing directors (including directors who are audit and supervisory committee members) and executive officers at the headquarters, once a week to implement the sharing of overall management information, improve management efficiency, and expedite decision-making. Furthermore, through the establishment of weekly morning meetings (attendees: directors who are not audit and supervisory committee members) we are now able to carry out the sharing of various information and hold discussions horizontally across our departments and divisions in a way that involves the senior management as a precursor to discussion and reporting for the Management Meeting.
- The Bank has set up a voluntary Nomination and Compensation Committee as a body that deliberates nomination of candidates for directors to be proposed to General Meetings of Shareholders and compensations for directors who are not audit and supervisory committee members. The committee is chaired by president and the majority of the members are outside directors. The Bank is working to strengthen corporate governance over nomination of candidates for directors and compensations for directors by improving transparency of the decision-making process and also by ensuring active involvement of outside directors.
- We believe that this structure will enable the Bank to establish an objective and neutral position for audit and supervision, etc.

## Basic Policy and Operating Structure for Risk Management

As business opportunities for financial institutions grow as a result of advances with financial deregulation, internationalization and the relaxation of regulations, the risks associated with the banking business become more diverse and complex. For banking management henceforth, it is important to accurately manage risk based on the principle of self-responsibility, while securing adequate income commensurate with that risk.

The Bank has laid out the basic matters relating to risk management under its "Comprehensive Risk Management Rules," whereby each management department undertakes adequate risk management based on detailed "Risk Management Regulations," while the Management Administration Department comprehensively manages overall risk in its role as the supervisory body. "Comprehensive Risk Management" matters are periodically reported to the Board of Directors subsequent to the discussion of quantitative risk, nonquantitative risk and credit risk by the Management Meeting.

## Comprehensive Risk Management System

The Bank conducts risk measurement using the universally applied index VaR when assessing credit risks of loans, and market risks of market related products and banking accounts (interest risk and price fluctuation risks). The Bank formulates comprehensive risk management guidelines every six months for these quantifiable risks, and based on these guidelines, the Bank decides on a capital allocation budget and manages performance values to ensure the risk control is conducted effectively. The comprehensive risk, which



includes operational risk, (\*) is compared with owned capital based on Tier 1 capital such as common shares. By making this comparison, risk management can be carried out in a way that ensures capital adequacy. Furthermore, in order to evaluate financial soundness, the Bank conducts stress tests using assumptions of sudden change in the financial situation or unforeseen circumstances. The Bank also conducts evaluation of risk appetite using the stress basis during the regular formulation of comprehensive budgets.

\* Operational risk is a generic term referring to such risks as clerical risks, system risks, and other risks (legal risk, human risk, tangible asset risk, management risk, reputational risk).

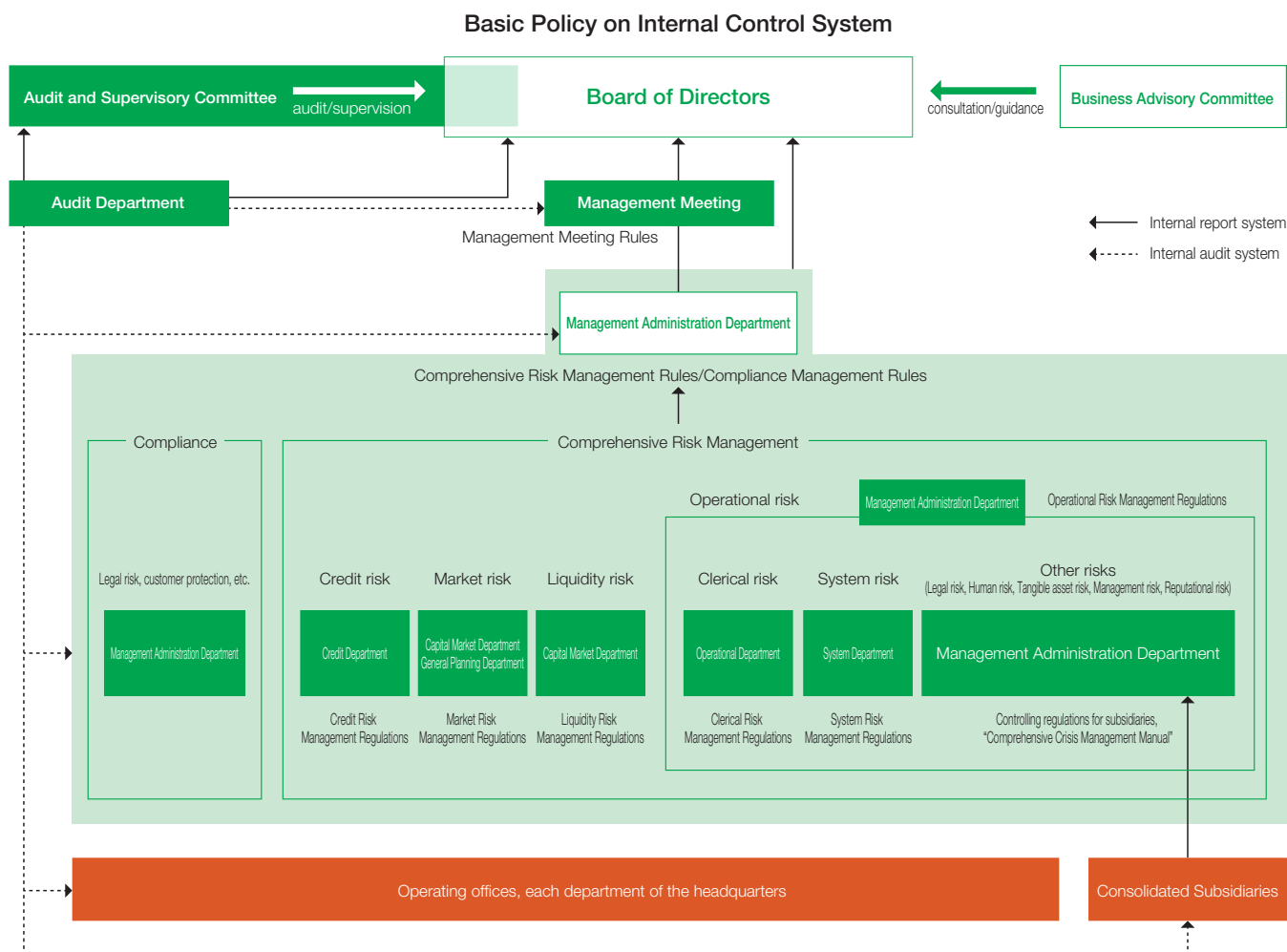
**■ VaR (value at risk)**

VaR (value at risk) is a method of statistically measuring the maximum amount of loss that could occur in the future from a managed asset currently held based on data of a fixed period in the past. The Bank uses a confidence level of 99.9%, a holding period of 120 days (1 year for credit risk), and a measurement period of 720 days. The Bank considers the correlation of the risk factors within the market risk. The Bank also regularly performs back tests to test the validity of the VaR calculation method.

**■ Stress test**

A stress test is a simulation to ascertain the amount of loss based on worst-case scenarios such as a sudden rise in interest rates, a sudden fall in market prices, a rise in the default rate, or a fall in market liquidity.

**The Diagram of the Corporate Governance/Risk Management Structure**



# CONSOLIDATED BALANCE SHEETS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

As of March 31

	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Assets:</b>			
Cash and due from banks (Notes 7 and 11)	¥ 1,094,772	¥ 748,544	\$ 10,304,713
Call loans and bills bought (Note 7)	54,561	30,000	513,569
Monetary receivables bought	3,637	3,714	34,242
Trading account securities (Note 8)	167	156	1,578
Money held in trusts (Note 9)	13,531	13,531	127,363
Securities (Notes 7, 8 and 13)	1,060,597	1,104,367	9,983,035
Loans and bills discounted (Notes 6 and 7)	2,402,114	2,315,444	22,610,261
Foreign exchanges	11,963	11,323	112,607
Lease receivables and investment in leased assets (Note 17)	29,602	25,160	278,640
Other assets (Note 13)	77,464	47,438	729,148
Tangible fixed assets (Notes 10 and 12)	34,155	35,223	321,492
Intangible fixed assets	9,385	8,315	88,344
Deferred tax assets (Note 21)	168	202	1,583
Customers' liabilities for acceptances and guarantees	17,544	16,397	165,138
Reserve for possible loan losses	(36,774)	(39,456)	(346,144)
Total assets	¥ 4,772,893	¥ 4,320,364	\$ 44,925,574
<b>Liabilities:</b>			
Deposits (Notes 7 and 13)	3,362,662	3,185,984	31,651,563
Negotiable certificates of deposit (Note 7)	76,821	108,046	723,090
Call money and bills sold (Notes 7 and 13)	696,969	293,334	6,560,329
Payables under repurchase agreements (Notes 7 and 13)	93,828	—	883,170
Guarantee deposit received under securities lending transactions (Notes 7 and 13)	197,918	359,851	1,862,937
Borrowed money (Note 14)	3,977	5,519	37,440
Foreign exchanges	7	5	75
Other liabilities	21,815	73,297	205,341
Reserve for bonuses	806	814	7,587
Net defined benefit liability (Note 22)	15,239	16,054	143,443
Reserve for directors' retirement benefits	26	55	251
Reserve for management board benefit trust (Note 16)	453	—	4,270
Deferred tax liabilities (Note 21)	14,320	6,824	134,793
Deferred tax liability arising from revaluation of land (Note 10)	1,724	1,819	16,232
Acceptances and guarantees	17,544	16,397	165,138
Total liabilities	¥ 4,504,115	¥ 4,068,006	\$ 42,395,666
<b>Net assets:</b>			
Common stock	26,673	26,673	251,072
Capital surplus	12,854	12,745	120,993
Retained earnings	167,344	159,480	1,575,152
Treasury stock	(5,138)	(193)	(48,362)
Total shareholders' equity (Note 15)	201,734	198,706	1,898,855
Net unrealized gains on available-for-sale securities (Note 8)	60,762	46,953	571,935
Net deferred losses on hedging instruments	(2)	(25)	(19)
Land revaluation surplus (Note 10)	2,371	2,589	22,318
Remeasurements of defined benefit plans (Note 22)	(3,745)	(4,580)	(35,251)
Total accumulated other comprehensive income	59,386	44,936	558,983
Subscription rights to shares (Note 16)	—	326	—
Non-controlling interests	7,656	8,389	72,069
Total net assets	268,777	252,358	2,529,908
Total liabilities and net assets	¥ 4,772,893	¥ 4,320,364	\$ 44,925,574

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

### Year ended March 31

	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Income</b>			
Interest income on:	¥ 42,327	¥ 40,565	\$ 398,412
Interest on loans and discounts	26,883	28,241	253,044
Interest and dividends on securities	15,033	11,897	141,500
Other interest income	410	427	3,866
Fees and commissions	9,513	9,272	89,548
Other operating income	12,356	14,472	116,308
Gain on reversal of share acquisition rights	275	—	2,592
Other income	4,436	3,133	41,761
<b>Total income</b>	<b>68,909</b>	<b>67,444</b>	<b>648,623</b>
<b>Expenses</b>			
Interest expenses on:	3,004	1,982	28,278
Deposits	411	582	3,876
Borrowings and rediscounts	761	164	7,165
Interest on payables under repurchase agreements	941	—	8,865
Other	889	1,235	8,371
Fees and commissions	2,969	2,924	27,948
Other operating expenses	12,206	13,143	114,895
General and administrative expenses (Note 18)	30,901	31,373	290,867
Provision for management board benefit trust	404	—	3,811
Other expenses (Note 19)	3,684	2,485	34,684
<b>Total expenses</b>	<b>53,171</b>	<b>51,909</b>	<b>500,485</b>
<b>Profit before income taxes</b>	<b>15,738</b>	<b>15,534</b>	<b>148,137</b>
Income taxes (Note 21):			
Current	4,390	2,791	41,329
Deferred	738	1,369	6,951
	<b>5,129</b>	<b>4,160</b>	<b>48,280</b>
<b>Profit</b>	<b>10,608</b>	<b>11,374</b>	<b>99,857</b>
Profit attributable to non-controlling interests	445	522	4,193
Profit attributable to owners of parent	¥ 10,163	¥ 10,851	\$ 95,663
	2018	2017	2018
	(Yen)		(U.S. dollars) (Note 2)
<b>Amounts per share (Note 24)</b>			
Net assets	¥ 9,029.61	¥ 8,138.89	\$ 84.99
Profit-basic	346.38	362.47	3.26
Profit-diluted	—	361.32	—

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

### Year ended March 31

	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Profit	¥ 10,608	¥ 11,374	\$ 99,857
Other comprehensive income (Note 20)			
Net unrealized gains on available-for-sale securities	14,159	7,945	133,281
Net deferred gains (losses) on hedging instruments	23	155	223
Remeasurements of defined benefit plans (Note 22)	835	1,042	7,866
Total other comprehensive income	15,019	9,143	141,372
<b>Comprehensive income</b>	<b>¥ 25,628</b>	<b>¥ 20,517</b>	<b>\$ 241,229</b>
Total comprehensive income attributable to:			
Owners of the parent	¥ 24,831	¥ 19,567	\$ 233,730
Non-controlling interests	796	950	7,499

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
<b>Balance at March 31, 2016</b>	¥ 26,673	¥ 11,366	¥ 150,502	¥ (188)	¥ 188,353
Cash dividends	—	—	(2,544)	—	(2,544)
Profit attributable to owners of parent	—	—	10,851	—	10,851
Purchase of treasury stock	—	—	—	(4)	(4)
Reversal of land revaluation surplus	—	—	671	—	671
Purchase of shares of consolidated subsidiaries	—	1,379	—	—	1,379
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	1,379	8,978	(4)	10,352
<b>Balance at March 31, 2017</b>	26,673	12,745	159,480	(193)	198,706
Cash dividends	—	—	(2,511)	—	(2,511)
Profit attributable to owners of parent	—	—	10,163	—	10,163
Transfer from retained earnings to capital surplus	—	6	(6)	—	—
Purchase of treasury stock	—	—	—	(5,017)	(5,017)
Disposal of treasury stock	—	(6)	—	73	67
Reversal of land revaluation surplus	—	—	218	—	218
Purchase of shares of consolidated subsidiaries	—	108	—	—	108
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	108	7,863	(4,944)	3,027
<b>Balance at March 31, 2018</b>	¥ 26,673	¥ 12,854	¥ 167,344	¥ (5,138)	¥ 201,734

	Millions of yen							
	Accumulated other comprehensive income							
	Net unrealized gains on available-for-sale securities	Net deferred losses on hedging instruments	Land revaluation surplus	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at March 31, 2016</b>	¥ 39,436	¥ (181)	¥ 3,260	¥ (5,623)	¥ 36,891	¥ 262	¥ 9,512	¥ 235,020
Cash dividends	—	—	—	—	—	—	—	(2,544)
Profit attributable to owners of parent	—	—	—	—	—	—	—	10,851
Purchase of treasury stock	—	—	—	—	—	—	—	(4)
Reversal of land revaluation surplus	—	—	—	—	—	—	—	671
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	1,379
Net changes in items other than shareholders' equity	7,517	155	(671)	1,042	8,044	64	(1,123)	6,985
Total changes during the year	7,517	155	(671)	1,042	8,044	64	(1,123)	17,338
<b>Balance at March 31, 2017</b>	46,953	(25)	2,589	(4,580)	44,936	326	8,389	252,358
Cash dividends	—	—	—	—	—	—	—	(2,511)
Profit attributable to owners of parent	—	—	—	—	—	—	—	10,163
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—	(5,017)
Disposal of treasury stock	—	—	—	—	—	—	—	67
Reversal of land revaluation surplus	—	—	—	—	—	—	—	218
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	108
Net changes in items other than shareholders' equity	13,808	23	(218)	835	14,450	(326)	(732)	13,391
Total changes during the year	13,808	23	(218)	835	14,450	(326)	(732)	16,419
<b>Balance at March 31, 2018</b>	¥ 60,762	¥ (2)	¥ 2,371	¥ (3,745)	¥ 59,386	¥ —	¥ 7,656	¥ 268,777

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars (Note 2)					
Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
<b>Balance at March 31, 2017</b>	\$ 251,072	\$ 119,970	\$ 1,501,133	\$ (1,821)	\$ 1,870,354
Cash dividends	—	—	(23,638)	—	(23,638)
Profit attributable to owners of parent	—	—	95,663	—	95,663
Transfer from retained earnings to capital surplus	—	58	(58)	—	—
Purchase of treasury stock	—	—	—	(47,230)	(47,230)
Disposal of treasury stock	—	(58)	—	689	630
Reversal of land revaluation surplus	—	—	2,052	—	2,052
Purchase of shares of consolidated subsidiaries	—	1,022	—	—	1,022
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	1,022	74,019	(46,541)	28,501
<b>Balance at March 31, 2018</b>	\$ 251,072	\$ 120,993	\$ 1,575,152	\$ (48,362)	\$ 1,898,855

Thousands of U.S. dollars (Note 2)								
Accumulated other comprehensive income								
	Net unrealized gains on available-for-sale securities	Net deferred losses on hedging instruments	Land revaluation surplus	Remeasurements of defined benefit plans	Total Accumulated other Comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at March 31, 2017</b>	\$ 441,959	\$ (243)	\$ 24,370	\$ (43,117)	\$ 422,968	\$ 3,071	\$ 78,966	\$ 2,375,361
Cash dividends	—	—	—	—	—	—	—	(23,638)
Profit attributable to owners of parent	—	—	—	—	—	—	—	95,663
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—	(47,230)
Disposal of treasury stock	—	—	—	—	—	—	—	630
Reversal of land revaluation surplus	—	—	—	—	—	—	—	2,052
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	1,022
Net changes in items other than shareholders' equity	129,976	223	(2,052)	7,866	136,014	(3,071)	(6,897)	126,045
Total changes during the year	129,976	223	(2,052)	7,866	136,014	(3,071)	(6,897)	154,547
<b>Balance at March 31, 2018</b>	\$ 571,935	\$ (19)	\$ 22,318	\$ (35,251)	\$ 558,983	\$ —	\$ 72,069	\$ 2,529,908

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

Year ended March 31

	2018		2017		2018	
	(Millions of yen)				(Thousands of U.S. dollars) (Note 2)	
	¥		¥		\$	
<b>Cash flows from operating activities</b>						
Profit before income taxes		15,738		15,534		148,137
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:						
Depreciation and amortization		3,935		3,837		37,045
Losses on impairment		316		232		2,979
Increase (decrease) in reserve for possible loan losses		(2,682)		(808)		(25,246)
Increase (decrease) in reserve for bonuses		(8)		9		(81)
Increase (decrease) in net defined benefit liability		(815)		(1,004)		(7,673)
Increase (decrease) in directors' retirement benefits		(29)		(0)		(273)
Increase (decrease) in reserve for management board benefit trust		453		—		4,270
Increase (decrease) in reserve for reimbursement of deposits		9		(10)		85
Increase (decrease) in reserve for losses on refund of interest		(5)		(30)		(53)
Increase (decrease) in reserve for customer service points		(79)		(75)		(747)
Accrued interest and dividend income		(42,327)		(40,565)		(398,412)
Accrued interest expenses		3,004		1,982		28,278
Losses (gains) on investment securities, net		(506)		(477)		(4,771)
Losses (gains) on money trusts		0		1,493		0
Foreign exchange losses (gains), net		6,765		(1,461)		63,676
Losses (gains) on disposal of fixed assets		(116)		(58)		(1,099)
Decrease (increase) in loans and bills discounted		(86,671)		12,833		(815,810)
Increase (decrease) in deposits		145,452		117,914		1,369,090
Decrease (increase) in due from banks (exclusive of the Bank of Japan)		(735)		(1,592)		(6,923)
Decrease (increase) in call loans and others		(24,485)		(29,930)		(230,473)
Increase (decrease) in call money and others		402,093		224,071		3,784,766
Increase (decrease) in payables under repurchase agreements		93,828		—		883,170
Increase (decrease) in guarantee deposit received under securities lending transactions		(161,933)		22,279		(1,524,219)
Decrease (increase) in trading account assets		(11)		1		(107)
Decrease (increase) in foreign exchange assets		(639)		(279)		(6,018)
Increase (decrease) in foreign exchange liabilities		2		(16)		26
Decrease (increase) in lease receivables and investment in leased assets		(5,273)		(3,780)		(49,642)
Decrease (increase) in cash collateral paid for financial instruments		(45,855)		—		(431,620)
Interest and dividends received		26,705		28,900		251,365
Interest paid		(2,933)		(1,960)		(27,612)
Other, net		(30,087)		(15,956)		(283,199)
Subtotal		293,106		331,078		2,758,905
Income taxes paid, net of refund		(2,478)		(6,587)		(23,327)
Net cash provided by (used in) operating activities		290,627		324,491		2,735,578
<b>Cash flows from investing activities</b>						
Purchases of securities		(627,735)		(1,015,753)		(5,908,653)
Proceeds from sales of securities		558,025		836,754		5,252,495
Proceeds from redemption of investment securities		119,787		125,707		1,127,518
Interests and dividends received on investments		16,695		12,834		157,153
Purchases of tangible fixed assets		(1,436)		(1,398)		(13,521)
Purchases of intangible fixed assets		(2,905)		(1,282)		(27,352)
Proceeds from sales of tangible fixed assets		1,324		1,508		12,467
Payment on discharge of asset retirement obligation		—		(18)		—
Net cash provided by (used in) investing activities		63,755		(41,647)		600,107
<b>Cash flows from financing activities</b>						
Cash dividends paid		(2,508)		(2,544)		(23,614)
Cash dividends paid to non-controlling interests		(7)		(10)		(71)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		—		(683)		—
Purchases of treasury stock		(5,017)		(4)		(47,230)
Proceeds from sales of treasury stock		67		—		630
Purchase of treasury stock of subsidiaries		(1,417)		—		(13,337)
Net cash provided by (used in) financing activities		(8,884)		(3,243)		(83,623)
Effect of exchange rate changes on cash and cash equivalents		(6)		0		(64)
Net increase (decrease) in cash and cash equivalents		345,492		279,600		3,251,998
Cash and cash equivalents at beginning of year		745,097		465,496		7,013,338
Cash and cash equivalents at end of year (Note 11)	¥	1,090,589	¥	745,097	\$	10,265,337

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## The Hokkoku Bank, Ltd. and Consolidated Subsidiaries For the years ended March 31, 2018 and 2017

### 1. Basis of Presentation

The accompanying consolidated financial statements of The Hokkoku Bank, Ltd. (the "Bank") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Bank as required by the Financial Instruments and Exchange Act of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information. As permitted by the Financial Instruments and Exchange Act, amounts of less than one million yen have been rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

### 2. U.S. Dollar Amounts

The Bank maintains its records and prepares its financial statements in yen. Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥106.24 = U.S. \$1.00, the rate of exchange in effect on March 31, 2018 has been used in conversion. The conversion should not be construed as a meaning that yen could be converted into U.S. dollars at the above or any other rate.

### 3. Summary of Significant Accounting Policies

#### a. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its 5 subsidiaries at March 31, 2018 and 2017. All significant inter-company accounts and transactions have been eliminated in consolidation.

Ishikawa Small Business Revitalization Fund Investment Limited Liability Partnership and Ishikawa Small Business Revitalization No.2 Fund Investment Limited Liability Partnership are not consolidated, nor accounted for under the equity method, since the materiality in terms of assets, share of its income and its retained earnings is less important and its non-consolidation will not prevent reasonable judgments regarding the Group's financial position and operating results.

#### b. Trading account securities

Trading account securities are stated at fair value at the end of the year, and the related cost of sales is determined by the moving average method.

#### c. Securities

Held-to-maturity securities are stated at amortized cost (straight-line method) using the moving average method. Stocks in unconsolidated subsidiaries which are not accounted for by the equity method are stated at cost using the moving average method. Available-for-sale securities are stated in principle at fair value based on the market value as of year-end (cost of securities sold is calculated using the moving average method). However, those securities whose fair value is extremely difficult to be determined are stated at cost using the moving average method.

The net unrealized gains or losses on available-for-sale securities are included directly in net assets.

Securities invested as assets in trust in separately managed money trusts for the principal purpose of securities investment are stated at fair value.

#### d. Derivative financial instruments

Derivatives are stated at fair value.

#### e. Tangible fixed assets

Tangible fixed assets are carried at cost less accumulated depreciation.

Depreciation of tangible fixed assets of the Bank is computed by the declining-balance method. The useful lives of buildings and equipment are summarized as follows.

Buildings	10 to 50 years
Others	3 to 20 years

Depreciation of tangible fixed assets of the consolidated subsidiaries is computed primarily by the declining-balance method over the estimated useful lives of the respective assets.

Depreciation of assets held under finance leases which do not transfer ownership of the leased assets to the lessee is computed by the straight-line method over the lease terms of the respective assets. The salvage value for depreciation purpose is determined based on the lease contracts.

#### f. Intangible fixed assets

Amortization of intangible fixed assets of the Bank is computed by the straight-line method. Acquisition costs of software to be used internally are capitalized and amortized by the straight-line method primarily over a useful life of 5 to 10 years.

#### g. Reserve for possible loan losses

The reserve for possible loan losses of the Bank is provided as detailed below in accordance with the internal rules for providing reserves for possible loan losses:

For claims to debtors who are legally bankrupt (as a result of bankruptcy special liquidation, etc.) or who are substantially bankrupt, a reserve is provided based on the amount of the claims, on the net amount expected to be collected by the disposal of collateral, or as a result of the execution of a guarantee.

For claims to debtors who are not currently bankrupt, but are likely to become bankrupt ("debtors at a risk of bankruptcy"), a reserve is provided according to the amount considered necessary based on an overall solvency assessment of the amount of the claim, on the net amount expected to be collected by the disposal of collateral, or as a result of the execution of guarantee. In addition, for claims to such significant debtors and debtors at a risk of bankruptcy who have restructured loans exceeding a certain credit amount that are possible to reasonably estimate cash flows from collection of principals and receipt of interest, a reserve is provided according to the difference between the amount of related cash flows discounted by the original contract interest rate before restructuring the loans and its carrying book value.

For other claims, a reserve is provided based on the Bank's past loan-loss experience. All claims are assessed by the Business Section (at the branches and the related head office divisions) based on the Bank's internal rules for the self-assessment of asset quality. The Corporate Audit Department, which is independent of the Business Section, subsequently conducts audits of such assessments.

The reserves of the consolidated subsidiaries are provided for general claims at an amount based on the actual historical rate of loan losses and for specific claims (from potentially bankrupt customers, etc.) at an estimate of the amounts deemed uncollectible based on the respective assessments.

For collateralized or guaranteed claims from debtors who are legally or substantially bankrupt, the amounts of the claims deemed uncollectible in excess of the estimated value of the collateral or guarantees have been written off in aggregate amounts at ¥26,691 million (\$251,238 thousand) and ¥28,394 million as of March 31, 2018 and 2017, respectively.

#### h. Bonuses to employees

The reserve for bonuses to employees is provided at the estimated amount to be attributed to the current fiscal year.

#### i. Directors' retirement benefits

The reserve for directors' retirement benefits is recorded at an estimated amount to be required to be paid if all directors retired at the balance sheet date.

#### j. Reserve for management board benefit trust

The reserve for management board benefit trust is recorded at an estimated liability amount for delivery of its shares through the trust to the Bank's directors (excluding outside directors and directors

who are audit and supervisory committee members) and executive officers based on its internal rules.

k. Reserve for reimbursement of deposits

The reserve for reimbursement of deposits is recorded at an estimated amount to be required to reimburse the customers' claims on the derecognized sleeping deposit accounts.

l. Reserve for loss on refund of interest

The reserve for loss on refund of interest is recorded by a certain consolidated subsidiary to provide for the customers' claims to refund the interest exceeding the maximum limit of interest rate stipulated by the Interest Rate Restriction Act based on the past experience of refund.

m. Reserve for customer service points

The reserve for customer service points is recorded at an estimated amount based on the future expected payment resulting from the customers' use of points granted to debit card users and credit card members based on the point system incorporated to promote the use of such cards.

n. Retirement benefit plans

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. Treatments of prior service cost and actuarial gains or losses are as follows:

Prior service cost is amortized by the straight-line method over a certain period (10 years) which falls within the average remaining years of service of the employees when incurred.

Actuarial gains or losses are amortized in the following years after incurred by the straight-line method over a certain period (10 years) that falls within the average remaining years of service of the employees.

o. Foreign currency translations

Foreign currency assets and liabilities are translated into Japanese yen equivalents primarily using the applicable rate of exchange effective at the balance sheet date.

p. Leases

As lessor, all finance leases which transfer ownership of the leased assets to the lessee are recognized as lease receivables, and all finance leases which do not transfer ownership of the leased assets to the lessee are recognized as investment in leased assets.

Investment in leased assets recorded at April 1, 2008, when the revised accounting standard for lease transactions was adopted, was stated at the reasonable cost less accumulated depreciation at March 31, 2008 pursuant to the paragraph 81 of ASBJ Guidance No.16, "Implementation Guidance on Accounting Standard for Lease Transactions" issued on March 30, 2007. If these lease transactions had been retroactively accounted for as ordinary sale transactions pursuant to paragraph 80 of the Guidance, profit before income taxes would have increased by ¥0 million (\$2 thousand) and ¥0 million for the years ended March 31, 2018 and 2017, respectively.

Finance lease revenue and related cost of revenue are recorded when the lease payment is received.

q. Hedge accounting

Hedging interest rate risk

The Bank applied the deferral method to account for financial instruments that hedge the interest rate risk on financial assets and liabilities of the Bank, as provided in the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (The Japanese Institute of Certified Public Accounts Industry Audit Committee Report No. 24, February 13, 2002, hereinafter "JICPA Industry Audit Committee Report No. 24"). The hedge effectiveness is assessed by grouping and specifying hedged items including deposits and loans and hedging instruments including interest rate swaps by certain period. The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not re-measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

Hedging foreign exchange risk

The Bank applies the deferral method to account for derivative instruments that hedge the foreign exchange risk on various foreign-currency financial assets and liabilities, as provided in the "Treatment for Accounting and Auditing with Regard to Accounting for Foreign Currency Transactions in Banking Industry" (The Japanese Institute of Certified Public Accounts Industry Audit Committee Report No. 25, July 29, 2002, hereinafter "JICPA Industry Audit Committee Report No. 25"). The hedge effectiveness of these currency-swap transactions, exchange-swap transactions and similar instruments to hedge the foreign exchange risks of foreign-currency financial assets or liabilities is assessed by comparing the foreign currency position of the hedged assets or liabilities with that of the hedging instruments.

r. Consumption taxes

Transactions subject to national and local consumption taxes are recorded at amounts exclusive of consumption taxes. Nondeductible consumption taxes levied on the purchase of premises and equipment are charged to income when incurred.

s. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents consist of cash and due from the Bank of Japan.

#### 4. Accounting Standards Issued but Not Yet Effective

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(a) Outline

They are comprehensive accounting standards with regard to revenue recognition. Revenues are recognized using the following five-step model.

Step 1: Identify the contract with a customer

Step 2: Identify separate performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(b) Scheduled date of adoption

The Bank is scheduled to adopt this accounting standard and implementation guidance from the beginning of the year ending March 31, 2022.

(c) Impact of the adoption of this accounting standard and implementation guidance

The impact of the adoption of this accounting standard and implementation guidance is under evaluation.

#### 5. Additional Information

Based on the resolution at the 109th ordinary general meeting of shareholders on June 23, 2017, the Bank has adopted a share-based payment plan, "management board benefit trust," (hereinafter the "Plan") and abolished the stock compensation-type stock options for directors, who are not audit and supervisory committee members (excluding outside directors; hereinafter the same applies below), and executive officers (hereinafter "Officers").

(a) Outline

The Plan is a share-based payment plan under which the Bank contributes capital to establish a trust (hereinafter the "Trust") and the Trust acquires the Bank shares. The Bank shares are provided to each Officer corresponding to the number of points granted to each Officer through the Trust. In principle, Officers will receive delivery of the Bank shares at the time of their retirement as Officers.

(b) The Bank's shares remaining in the Trust

The Bank's shares remaining in the Trust is recognized as treasury stock under net assets. The carrying value and the number of the shares for the year ended March 31, 2018 are ¥881 million (\$8,297 thousand) and 185 thousand shares.



## 6. Loans and Bills Discounted

Loans to borrowers under bankruptcy procedures and delinquent loans totaled ¥2,236 million (\$21,049 thousand) and ¥54,323 million (\$511,324 thousand), respectively, at March 31, 2018 and ¥3,873 million and ¥61,091 million, respectively, at March 31, 2017. A loan is placed on non-accrual status when substantial doubt as to the collectability of its principal and interest is judged to exist, if payment is past due for a certain period of time, or for other reasons.

Loans to borrowers in bankruptcy represent non-accrual loans, after the charge-offs of loans deemed uncollectible, to borrowers who are legally bankrupt as defined in Article 96, Paragraph 1, Subparagraph 3 and 4 of Order of Enforcement of the Corporation Tax Act.

Delinquent loans are non-accrual loans other than loans to borrowers in bankruptcy or loans on which interest payments have been deferred in order to assist the restructuring of the borrowers.

Loans past due for 3 months or more totaled ¥383 million (\$3,607 thousand) and ¥312 million at March 31, 2018 and 2017, respectively. Loans past due for 3 months or more are those whose principal or interest payments are 3 months or more past due but are not included in loans to borrower under bankruptcy procedures or delinquent loans.

Restructured loans totaled ¥1,062 million (\$10,003 thousand) and ¥970 million at March 31, 2018 and 2017, respectively. Restructured loans are those who on which the Bank has granted certain concessions, such as a reduction at the contractual interest rate or principal amount or a deferral of interest/principal payments, in order to assist the restructuring of the borrowers. Excluded from restructured loans are loans to borrowers in bankruptcy procedures, other non-accrual loans, and loans past due for 3 months or more.

The total of loans to borrowers in bankruptcy procedures, other non-accrual loans, loans past due for 3 months or more and restructured loans amounted to ¥58,005 million (\$545,985 thousand) and ¥66,248 million at March 31, 2018 and 2017, respectively.

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit committee Report No.24. The Bank has the right to sell or re-pledge the banker's acceptance bills, commercial bills discounted, documentary bills and foreign exchange bought without restrictions. The face value of banker's acceptance bills, commercial bills, documentary bills and foreign exchange bought at a discount was ¥12,980 million (\$122,183 thousand) and ¥12,516 million as of March 31, 2018 and 2017, respectively.

Overdraft agreements and loan commitments are agreements under which the Bank and its consolidated subsidiaries are obliged to extend loans up to a prearranged limit unless the customer is in breach of contract. The loan commitments not yet drawn down at March 31, 2018 and 2017 totaled ¥421,691 million (\$3,969,238 thousand) and ¥431,306 million, respectively; ¥416,903 million (\$3,924,162 thousand) of which, at March 31, 2018 (2017: ¥426,943 million), was related to agreements whose contractual terms were for one year or less or which were unconditionally cancelable at any time.

As the majority of these agreements expire without the right to extend the loans being exercised, the undrawn commitment balance does not necessarily affect the future cash flows of the Bank or of its consolidated subsidiaries. These agreements usually include provisions which stipulate that the Bank and its consolidated subsidiaries have the right either to refuse the execution of the loans or to reduce the contractual commitments when there is a change in the borrower's financial condition, or when additional assurance of the financial soundness and creditworthiness of a borrower is necessary, or when other unforeseen circumstances arise.

The Bank and its consolidated subsidiaries take various measures to protect their credit. Such measures include obtaining real estate or securities as collateral at the time of entering into the agreements, monitoring a customer's business on a regular basis in accordance with established internal procedures, and amending the loan commitment agreements when necessary.

## 7. Financial Instruments and Related Disclosures

### 1. Policy on financial instruments

The Group provides financial services such as banking business and leasing business. Major banking business includes lending services, bills discounting and fund management through dealing and underwriting Japanese government bonds, municipal bonds and available-for-sale securities. On the other hand, the fund is raised mainly by taking deposits and negotiable certificates of deposit and also by issuance of bonds, call money and others according to necessities.

The Group conducts asset and liability management (ALM) and manages the risks identifying various types of risk exposures associated with the banking business, since the Group holds financial assets and liabilities exposed to the market risk of fluctuation of interest rates. As part of the risk management, the Group utilizes derivative transactions.

### 2. Contents and risk of financial instruments

Financial assets held by the Group mainly consist of loans to corporate and individual customers which are exposed to credit risk arising from nonperformance of the customers. In addition, the loan balances are concentrated to Ishikawa prefecture where the head office of the Bank is located and accordingly, the changes in the economic circumstances of the region may have a great impact on the credit risk. Securities mainly consist of Japanese government bonds, municipal bonds, corporate bonds and equity securities that are classified as available-for-sale securities. These securities are exposed to credit risk of issuers and market risks of fluctuation in interest rates, market prices and foreign exchange rates for bonds denominated in foreign currencies.

On the other hand, financial liabilities consist of mainly deposits and negotiable certificates of deposit, call money and others. With respect to call money, the Bank may be forced to raise fund under unfavorable conditions and accordingly, significantly increase funding costs in case that fund raising capacity of the Bank significantly declined under certain circumstances such as significant deterioration of financial positions of the Bank.

Derivative transactions consist of hedging activities performed as part of ALM against market risks (interest rate risk and foreign exchange risk) associated with assets and liabilities held by the Group and transactions to respond to customers' diversified needs for hedging against the risks of customers. The Bank applies hedge accounting for interest rate swaps and currency swaps employed by the Bank for hedging purposes and periodically verifies the effectiveness of hedging activities assessing if the correlation between hedging instruments and hedged items of assets and liabilities is appropriate, and also if the market risks of interest rates and foreign exchange rates are offset by hedging instruments.

### 3. Risk management system for financial instruments

#### *Credit risk management:*

The Group has established and operates a credit control system consisting of credit review by individual transaction, internal credit rating, self-assessment, major account credit control, measurement of risk volume and measures on problem loans in accordance with credit risk control policies, credit policies, lending operation rules and control policies and procedures on credit risks. These credit controls are performed by the Loan-Screening Department, the Loan Control Department and the credit investigation sections of the consolidated subsidiaries as well as the operating offices and periodically subject to authorization by and reported to the Board of Directors, where appropriate. In addition, the Audit Department audits the status of credit risk controls. Credit risk associated with the issuers of securities and counterparty risk associated with cash transactions and derivative transactions are controlled by periodically identifying credit information and fair values by the Market Finance Division and the International Division.

#### *Market risk management:*

##### (1) Interest rate risk

The Bank funds loans and securities mainly with deposits taken, but holds long-term and short-term interest rate gaps arising from the timing difference in the maturities repricing deposits and loans. Accordingly, the Management Administration Division monitors the risk exposures by establishing risk limits based on the integrated risk control policy and integrated risk control rule and reports to the ALM Committee and the Board of Directors. In addition, the General Planning Department and Management Administration Division monitor the interest rate risk based on the interest rate sensitivity analysis, gap analysis, ladder analysis and outlier approach and report to the ALM Committee on a regular basis.

The Bank also enters into interest rate swap contracts to hedge the interest rate fluctuation risk.

##### (2) Foreign exchange risk

The Bank holds, in part, foreign currency denominated assets and liabilities. These foreign currency denominated assets and liabilities

are appropriately hedged using currency swaps and other, whereby their exposures to the foreign exchange risk are controlled.

(3) Price fluctuation risk

The Group controls the price fluctuation risk associated with equity securities and investment trusts in accordance with the integrated risk management policies and procedures to control the exposures within the Bank's risk tolerance while securing appropriate earnings. Among these, the Bank established limits for transactions which require risk controls. Moreover, the middle office of the Market Finance Division, in cooperation with the Management Administration Division, monitors the volume of risk exposures and verifies compliance with the operating limit. In addition, the Management Administration Division specifies risks and implements measurement and analysis of those risks and stress tests. Such information is reported to the ALM Committee and Board of Directors on a regular basis and where appropriate.

(4) Derivative transactions

With respect to derivative transactions, the Bank established internal rules defining the authority and hedge policies and credit lines by counterparty. Front offices that enter into the contracts, back offices that conduct reconciliation procedures and controls the credit lines and the divisions that assess the effectiveness of hedges are separated so that the internal control functions effectively.

(5) Quantitative information related to market risk

Main financial instruments which are exposed to interest rate risk and price fluctuation risk such as stock price fluctuation risk are "Loans and bills discounted," "Securities," "Deposits," "Derivatives," etc. The Bank uses the VaR model to measure market risks of interest rate, stock price and investment trust related instruments. Adopting the variance-covariance method (holding period: half a year, confidence interval: 99.9%, observation period: 720 business days) in computing the VaR, the Bank examines the correlation between interest rate risk and price fluctuation risk. Total VaR of the Group was ¥84,482 million (\$795,204 thousand) and ¥71,382 million as of March 31, 2018 and 2017, respectively. With respect to the measurement of interest rate risk exposure of liquid deposits, the Bank adopts deposit internal models.

The Bank implements back-testing to compare the VaR computed by the model with actual profit and loss in the securities and confirms that the measurement model in use captures the market risk with sufficient precision. However, the risk under certain abnormal market fluctuations may not be captured, since the VaR is measured under a definite probability of incidence statistically computed based on historical market fluctuations. In addition, VaR is a statistical value computed based on the assumptions and it is not intended to estimate maximum amount of losses.

**4. Supplementary explanation on the fair value of financial instruments**

The fair value of financial instruments comprises the value determined based on the quoted market price and the valuation calculated on a reasonable basis where no market price is available.

Fair value of financial instruments

The following table summarizes the carrying value, fair value and difference of financial instruments as of March 31, 2018 and 2017.

Note that unlisted equity securities whose fair value is difficult to determine are not included in the table (see Note 2 below).

	<b>March 31, 2018</b>		
	<i>Millions of yen</i>		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 1,094,772	¥ 1,094,772	¥ —
Call loans and bills bought	54,561	54,561	—
Securities:			
Available-for-sale securities	1,056,751	1,056,751	—
Loans	2,402,114		
Reserve for possible loan losses (*1)	(33,467)		
	2,368,646	2,378,960	10,313
<b>Total assets</b>	<b>4,574,732</b>	<b>4,585,046</b>	<b>10,313</b>
Deposits	3,362,662	3,362,676	14
Negotiable certificates of deposit	76,821	76,821	—
Call money and bills sold	696,969	696,969	—
Payables under repurchase agreements	93,828	93,828	—
Guarantee deposit received under securities lending transactions	197,918	197,918	—
<b>Total liabilities</b>	<b>4,428,199</b>	<b>4,428,213</b>	<b>14</b>
Derivative transactions (*2)			
To which hedge accounting is not applied	163	163	—
To which hedge accounting is applied	417	417	—
<b>Total derivative transactions</b>	<b>581</b>	<b>581</b>	<b>—</b>

	<b>March 31, 2018</b>		
	<i>Thousands of U.S. dollars</i>		
	Carrying value	Fair value	Difference
Cash and due from banks	\$10,304,713	\$10,304,713	\$ —
Call loans and bills bought	513,569	513,569	—
Securities:			
Available-for-sale securities	9,946,833	9,946,833	—
Loans	22,610,261		
Reserve for possible loan losses (*1)	(315,020)		
	22,295,240	22,392,322	97,081
<b>Total assets</b>	<b>43,060,356</b>	<b>43,157,438</b>	<b>97,081</b>
Deposits	31,651,563	31,651,700	136
Negotiable certificates of deposit	723,090	723,090	—
Call money and bills sold	6,560,329	6,560,329	—
Payables under repurchase agreements	883,170	883,170	—
Guarantee deposit received under securities lending transactions	1,862,937	1,862,937	—
<b>Total liabilities</b>	<b>41,681,091</b>	<b>41,681,228</b>	<b>136</b>
Derivative transactions (*2)			
To which hedge accounting is not applied	1,539	1,539	—
To which hedge accounting is applied	3,934	3,934	—
<b>Total derivative transactions</b>	<b>5,473</b>	<b>5,473</b>	<b>—</b>

	March 31, 2017		
	Millions of yen		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 748,544	¥ 748,544	¥ —
Call loans and bills bought	30,000	30,000	—
Securities:			
Available-for-sale securities	1,100,543	1,100,543	—
Loans	2,315,444		
Reserve for possible loan losses (*1)	(36,247)		
	2,279,197	2,298,310	19,113
Total assets	4,158,285	4,177,398	19,113
Deposits	3,185,984	3,186,016	31
Negotiable certificates of deposit	108,046	108,046	0
Call money and bills sold	293,334	293,334	—
Guarantee deposit received under securities lending transactions	359,851	359,851	—
Total liabilities	3,947,216	3,947,248	31
Derivative transactions (*2)			
To which hedge accounting is not applied	512	512	—
To which hedge accounting is applied	977	977	—
Total derivative transactions	1,489	1,489	—

(\*1) A general reserve for possible loan losses and a specific reserve for possible loan losses corresponding to loans are deducted.

(\*2) Derivative transactions recorded under other assets and other liabilities are presented on a net basis.  
Net liabilities are shown in parentheses.

(Note 1) Computation method for fair value of financial instruments

#### Assets

Cash and due from banks:

With respect to due from banks without maturities, the carrying value is presented as the fair value approximates the carrying value. With respect to due from banks with maturities, the carrying value is presented as the fair value as the fair value approximates the carrying value.

Call loans and bills bought:

The carrying value is presented as the fair value as the fair value approximates the carrying value.

Securities:

The fair value of equity securities is determined using the market price at the exchanges and the fair value of debt securities is determined using the price presented by Japan Securities Dealers Association ("JSDA") or the price obtained from the financial institutions. The fair value of investment trusts is determined using the published standard quotation. The fair value of private bonds guaranteed by the Bank is calculated adding the credit risk to the market interest rate corresponding to the residual maturities.

Loans:

The fair value of loans with variable interest rates is presented using the carrying value as the fair value approximates the carrying value, as long as the credit situation of the borrowers does not vary significantly after executing the loans, since they reflect the market interest rates due to their short-term nature. The fair value of loans with fixed rates is computed, by discounting the aggregate value of principal and interest at the interest rate assumed if the same loans were newly executed, for each category of type of loans, internal ratings and maturities. As for the loans whose maturity is less than one year, the carrying value is presented as the fair value as the fair value approximates the carrying value.

With respect to receivables from "legally bankrupt" borrowers, "substantially bankrupt" borrowers and "likely to become bankrupt" borrowers, the fair value approximates the carrying value, net of a reserve for possible loan losses and such amount is presented as the fair value.

With respect to loans whose repayment term is not determined because of the characteristics that the loans are limited within the amount of pledged assets, the carrying value is presented as the fair value as the fair value is expected to approximate the carrying value considering the expected repayment term and pricing conditions.

#### Liabilities

Deposits and negotiable certificates of deposits:

With respect to on-demand deposits, the payment obligation when demanded at the balance sheet date, which is the carrying value, is deemed to be the fair value. The fair value of time deposits is computed using the present value by discounting future cash flows for each category of certain period. The interest rate to be applied when a new deposit is taken is used as the discount rate. Regarding deposits whose residual maturity is less than one year, the carrying value is presented as the fair value as the fair value approximates the carrying value.

Call money and bills sold, payables under repurchase agreements and guarantee deposit received under securities lending transactions: The carrying value is presented as the fair value as the residual maturity is less than one year and the fair value approximates the carrying value, since the remaining maturity is short (less than one year).

#### Derivative transactions

Derivative transactions comprise interest rate related transactions (interest rate swaps, etc.) and currency related transactions (currency options, currency swaps, etc.) and the fair value of derivatives is determined using the value computed using the discounted present value or option pricing models.

(Note 2) The following table summarizes financial instruments whose fair value is extremely difficult to estimate: Note that these instruments are not included in the table above regarding the fair value of financial instruments.

	Carrying value		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities (*1) (*2)	¥ 3,252	¥ 3,204	\$ 30,618
Investment in partnership	593	620	5,583
Total	¥ 3,846	¥ 3,824	\$ 36,202

(\*1) The fair value of unlisted equity securities is not disclosed, since there is no market price and it is extremely difficult to estimate the fair value.

(\*2) The Bank recognized loss on impairment of ¥1 million (\$ 18 thousand) on unlisted equity securities for the year ended March 31, 2018. Loss on impairment was not recognized for the year ended March 31, 2017.

(Note 3) Maturity of financial assets and securities with contractual maturities at March 31, 2018

	March 31, 2018						
	Millions of yen						
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years	
Due from banks	¥ 1,058,402	¥ —	¥ —	¥ —	¥ —	¥ —	—
Call loans and bills bought	54,561	—	—	—	—	—	—
Securities:							
Available-for-sale securities with contractual maturities:							
Japanese government bonds	45,500	125,000	10,000	37,000	—	—	—
Municipal bonds	17,598	39,842	55,945	43,616	20,356	189	—
Corporate bonds	16,839	90,109	89,244	17,400	201	4,500	—
Other	—	4,080	19,441	83,064	60,044	—	—
Loans (*1)	649,141	464,207	296,805	220,875	205,186	541,676	—
Total	¥ 1,842,043	¥ 723,239	¥ 471,437	¥ 401,957	¥ 285,787	¥ 546,365	—

March 31, 2018						
Thousands of U.S. dollars						
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks	\$ 9,962,374	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought	513,569	—	—	—	—	—
Securities:						
Available-for-sale securities with contractual maturities:						
Japanese government bonds	428,275	1,176,581	94,126	348,268	—	—
Municipal bonds	165,651	375,020	526,598	410,550	191,605	1,783
Corporate bonds	158,499	848,167	840,031	163,780	1,891	42,356
Other	—	38,412	183,000	781,856	565,179	—
Loans (*)	6,110,145	4,369,420	2,793,723	2,079,027	1,931,345	5,098,607
Total	\$17,338,516	\$ 6,807,601	\$ 4,437,480	\$ 3,783,482	\$ 2,690,021	\$ 5,142,748

(\*) Loans from "legally bankrupt," "substantially bankrupt" and "likely to become bankrupt" borrowers which are not expected to be repaid amounting to ¥7,960 million (\$74,932 thousand) are not included.  
Loans whose payment term is not determined amounting to ¥16,261 million (\$153,059 thousand) are not included.

(Note 4) Maturity of bonds and interest bearing liabilities at March 31, 2018

March 31, 2018						
Millions of yen						
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	¥ 2,670,753	¥ 190,082	¥ 52,591	¥ —	¥ —	¥ —
Negotiable certificates of deposits	76,821	—	—	—	—	—
Call money and bills sold	696,969	—	—	—	—	—
Payables under repurchase agreements	93,828	—	—	—	—	—
Guarantee deposit received under securities lending transactions	197,918	—	—	—	—	—
Total	¥ 3,736,290	¥ 190,082	¥ 52,591	¥ —	¥ —	¥ —

March 31, 2018						
Thousands of U.S. dollars						
	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	\$25,138,868	\$ 1,789,184	\$ 495,021	\$ —	\$ —	\$ —
Negotiable certificates of deposits	723,090	—	—	—	—	—
Call money and bills sold	6,560,329	—	—	—	—	—
Payables under repurchase agreements	883,170	—	—	—	—	—
Guarantee deposit received under securities lending transactions	1,862,937	—	—	—	—	—
Total	\$35,168,396	\$ 1,789,184	\$ 495,021	\$ —	\$ —	\$ —

(\*) On-demand deposits are included under "Due in one year or less."

## 8. Securities

(1) Trading account securities  
Net holding gain or loss resulting from revaluation of trading account securities to fair value included in earnings for the years ended March 31, 2018 and 2017 were ¥0 million (\$2 thousand) and ¥(0) million, respectively.

(2) Held-to-maturity securities which have a readily determinable fair value  
There were no held-to-maturity securities to be reported at March 31, 2018 and 2017.

(3) Available-for-sale securities which have a readily determinable fair value  
The acquisition cost and carrying value of available-for-sale securities which have a readily determinable fair value and the related unrealized gain or loss at March 31, 2018 and 2017 are summarized as follows:

March 31, 2018					
Millions of yen					
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	¥ 179,403	¥ 89,308	¥ 90,094	¥ 92,324	¥ 2,229
Debt securities	623,401	618,743	4,657	5,223	565
Others	253,946	260,803	(6,856)	2,128	8,985
Total	¥1,056,751	¥ 968,855	¥ 87,895	¥ 99,676	¥ 11,780

March 31, 2018					
Thousands of U.S. dollars					
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	\$1,688,665	\$ 840,633	\$ 848,032	\$ 869,019	\$ 20,987
Debt securities	5,867,856	5,824,016	43,839	49,165	5,326
Others	2,390,311	2,454,850	(64,538)	20,035	84,574
Total	\$9,946,833	\$9,119,500	\$ 827,333	\$ 938,221	\$ 110,887

March 31, 2017					
Millions of yen					
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	¥ 153,077	¥ 89,114	¥ 63,963	¥ 65,772	¥ 1,809
Debt securities	650,616	644,047	6,568	8,122	1,553
Others	296,849	299,965	(3,115)	2,616	5,732
Total	¥1,100,543	¥1,033,126	¥ 67,416	¥ 76,511	¥ 9,095

Japanese government bonds, equities and others loaned under the securities lending agreement in the amount of ¥42,800 million (\$402,868 thousand) and ¥40,356 million are included in above securities as of March 31, 2018 and 2017, respectively.

Securities excluding trade account securities, whose fair value is available, are written down to the fair value if the fair value has significantly declined compared with the acquisition cost and such decline is not considered to be recoverable. The difference between the acquisition cost and the fair value is recognized as a loss on impairment. The related loss on impairment of stocks was not recognized for the year ended March 31, 2018. The related loss on impairment of stocks amounted to ¥10 million for the year ended March 31, 2017. The criteria for determining if such decline is significant are as follows:

Securities whose fair value is 50% or less than the acquisition cost are necessarily written down and securities whose fair value is between 50% and 70% of the acquisition cost are written down when the market price is considered to be non-recoverable within one year, taking into consideration the trend of the market price and operating performances of the issuing entities. The components of unrealized gain on available-for-sale securities recorded under net assets at March 31, 2018 and 2017 are as follows:

	2018 <i>(Millions of yen)</i>	2017	2018 <i>(Thousands of U.S. dollars)</i>
Unrealized gain on available-for-sale securities	¥ 87,895	¥ 67,416	\$ 827,333
Deferred tax liabilities	(25,659)	(19,339)	(241,521)
	¥ 62,236	¥ 48,076	\$ 585,811
Attributable to non-controlling interest	(1,474)	(1,123)	(13,876)
Unrealized gain on available-for-sale securities, net of tax	¥ 60,762	¥ 46,953	\$ 571,935

Available-for-sale securities sold during the years ended March 31, 2018 and 2017 are summarized as follows:

	2018 <i>(Millions of yen)</i>	2017	2018 <i>(Thousands of U.S. dollars)</i>
Proceeds from sales	¥ 528,874	¥ 850,689	\$ 4,978,110
Gain on sales	4,321	5,620	40,672
Loss on sales	3,644	4,785	34,304

### 9. Money Held in Trusts

Money held in trusts for investment purposes

	2018 <i>(Millions of yen)</i>	2017	2018 <i>(Thousands of U.S. dollars)</i>
Amount recorded in the consolidated balance sheets	¥ 13,531	¥ 13,531	\$ 127,363
Unrealized gain (loss) included in profit and loss for the fiscal year	31	31	292

### 10. Revaluation of Land

Pursuant to the "Act on Revaluation of Land" (the "Act"), land used for the Bank's business operations was revalued on March 31, 1999. The excess of the revalued aggregate market value over the total book value (carrying value) before revaluation was included in net assets as land revaluation surplus at the net amount of the related tax effect at March 31, 1999. The corresponding income taxes were included in liabilities at March 31, 1999 as deferred tax liability arising from revaluation of land. The revaluation of the land was determined based on the official prices published by the Commissioner of the National Tax Authority in accordance with Article 2, Paragraph 4 of the "Enforcement Ordinance Concerning Land Revaluation," with certain necessary adjustments.

The difference between the total fair value of land for business operation purposes, which was revalued in accordance with Article 10 of the Act, and the total book value of the land after the revaluation was ¥10,837 million (\$102,008 thousand) and ¥12,220 million at March 31, 2018 and 2017, respectively.

### 11. Cash Flows

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2018 and 2017 and cash and cash equivalents in the consolidated statements of cash flows for the years then ended is as follows:

	2018 <i>(Millions of yen)</i>	2017	2018 <i>(Thousands of U.S. dollars)</i>
Cash and due from banks	¥ 1,094,772	¥ 748,544	\$ 10,304,713
Due from banks other than the Bank of Japan	(4,183)	(3,447)	(39,376)
Cash and cash equivalents	¥ 1,090,589	¥ 745,097	\$ 10,265,337

### 12. Accumulated Depreciation and Deferred Gains on Tangible Fixed Assets

Accumulated depreciation totaled ¥32,382 million (\$304,800 thousand) and ¥27,529 million at March 31, 2018 and 2017, respectively.

Deferred gains on tangible fixed assets deducted for tax purposes at March 31, 2018 and 2017 were ¥3,074 million (\$28,936 thousand) and ¥3,074 million, respectively.

### 13. Assets Pledged

Assets pledged as collateral at March 31, 2018 and 2017 were as follows:

	2018 <i>(Millions of yen)</i>	2017	2018 <i>(Thousands of U.S. dollars)</i>
Pledged assets:			
Securities	¥ 431,409	¥ 409,207	\$ 4,060,703
Other assets	46,598	743	438,614
Liabilities secured by the above assets:			
Deposits	¥ 43,127	¥ 24,508	\$ 405,941
Call money and bills sold	62,496	—	588,253
Payables under repurchase agreements	93,828	—	883,170
Guarantee deposit received under securities lending transactions	197,918	359,851	1,862,937

In addition, securities of ¥2,528 million (\$23,798 thousand) and ¥22,658 million at March 31, 2018 and 2017 were pledged as collateral for settlement of exchange transactions. Included in other assets were margin deposits with the clearing house of ¥19,555 million (\$184,067 thousand) and ¥4,797 million at March 31, 2018 and 2017 and guarantee deposits of ¥86 million (\$810 thousand) and ¥85 million at March 31, 2018 and 2017, respectively.

### 14. Borrowed Money

The details of borrowed money at March 31, 2018 and 2017 were as follows:

	2018 <i>(Millions of yen)</i>	2017	2018 <i>(Thousands of U.S. dollars)</i>
Borrowed money	¥ 3,977	¥ 5,519	\$ 37,440
Due from April 2018 through November 2022			
Average interest rate: 0.49% p.a.			

Annual maturities of borrowed money are as follows:

<i>Year ending March 31</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2019	¥ 1,641	\$ 15,451
2020	1,451	13,663
2021	611	5,756
2022	211	1,991
2023 and thereafter	61	578
Total	¥ 3,977	\$ 37,440

### 15. Shareholders' Equity

Japanese banks are subject to the Banking Act and the Companies Act. The Companies Act requires that all shares of common stock be issued with no par value and at least 50% of the amount paid of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Companies Act permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance generally does not give rise to changes within the shareholders' accounts.

The Banking Act provides that an amount at least 20% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 100% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 100% of common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Companies Act. In addition, the Companies Act permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Companies Act allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the ordinary general meeting of shareholders.

Dividends are approved by the shareholders at the meeting held subsequent to the fiscal year to which the dividends are applicable. Interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Companies Act. The movements of outstanding shares and cash dividends during the years ended March 31, 2018 and 2017 are as follows:

(a) Number of outstanding shares and treasury stock  
For the year ended March 31, 2018

Type of shares	share			
	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year
Issued stock:				
Common stock	299,901,974	—	269,911,777	29,990,197
Treasury stock:				
Common stock	546,054	10,360,100	9,834,234	1,071,920

Notes:

- On October 1, 2017, the Bank consolidated at the ratio of ten (10) shares of its common stock into one (1) share.
- The decrease in common stock of 269,911 thousand shares is due to the consolidation of shares.
- The number of common stock as of March 31, 2018 includes 185 thousand shares held by Japan Trustee Services Bank, Ltd. (Trust account).
- The increase in treasury stock of 10,360 thousand shares represents acquisition of treasury stock through the off-auction own share repurchase trading system (ToSTNet-3) of 8,500 thousand shares, share acquisition by Japan Trustee Services Bank, Ltd. (Trust account) of 1,850 thousand shares and request for the buyback of shares less than one unit of 10 thousand shares.
- The decrease in treasury stock of 9,834 thousand shares represents the share consolidation of 9,628 shares, exercise of subscription rights to shares of 204 thousand shares and request for additional purchase of shares less than one unit of 0 thousand shares.

For the year ended March 31, 2017

Type of shares	share			
	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year
Issued stock:				
Common stock	299,901,974	—	—	299,901,974
Treasury stock:				
Common stock	533,105	12,949	—	546,054

(b) Dividends paid to the shareholders during the year  
For the year ended March 31, 2018

Date of resolution	Resolution by	Type of shares	Total dividends	Dividends per share	Date of record	Effective date
Jun. 23, 2017	Ordinary general meeting of shareholders	Common stock	¥1,347 million (\$12,679 thousand)	¥4.5 (\$0.04)	Mar. 31, 2017	Jun. 26, 2017
Nov. 6, 2017	Board of Directors	Common stock	¥1,164 million (\$10,958 thousand)	¥4.0 (\$0.03)	Sep. 30, 2017	Dec. 5, 2017

Notes:

- On October 1, 2017, the Bank consolidated at the ratio of ten (10) shares of its common stock into one (1) share.
- The total amount of dividends paid based on the resolution at the Board of Directors' meeting held on November 6, 2017 includes ¥7 million (\$69 thousand) of dividends for 185 thousand shares (after the share consolidation) held by Japan Trustee Services Bank, Ltd. (Trust account).

- Dividends per share represent those before the share consolidation, since the date of record is before October 1, 2017, the date of the share consolidation.

For the year ended March 31, 2017

Date of resolution	Resolution by	Type of shares	Total dividends	Dividends per share	Date of record	Effective date
Jun. 29, 2016	Ordinary general meeting of shareholders	Common stock	¥1,197 million	¥4.0	Mar. 31, 2016	Jun. 30, 2016
Nov. 4, 2016	Board of Directors	Common stock	¥1,347 million	¥4.5	Sep. 30, 2016	Dec. 5, 2016

Dividends applicable to the year ended March 31, 2018, but not recorded in the accompanying consolidated financial statements, since the effective date is subsequent to the current fiscal year:

Date of resolution	Resolution by	Type of shares	Total dividends	Dividends per share	Date of record	Effective date
Jun. 22, 2018	Ordinary general meeting of shareholders	Common stock	¥1,455 million (\$13,696 thousand)	¥50.0 (\$0.47)	Mar. 31, 2018	Jun. 25, 2018

(Above cash dividends are distributed from retained earnings.)

Note:

The total amount of dividends paid based on the resolution at the Board of Directors' meeting held on June 22, 2018 includes ¥9 million (\$87 thousand) of dividends for 185 thousand shares (after the share consolidation) held by Japan Trustee Services Bank, Ltd. (Trust account).

## 16. Stock Options

The related cost of ¥15 million (\$144 thousand) and ¥64 million was charged to income for the years ended March 31, 2018 and 2017, respectively.

As stated in "5. Additional Information," the Bank has adopted the management board benefit trust and abolished the stock compensation-type stock options effective August 31, 2017.

## 17. Leases

### As lessee:

#### a. Finance leases

The Bank and consolidated subsidiaries have tangible fixed assets, mainly consisting of vehicles, under finance lease arrangements which do not transfer ownership of the leased assets to the lessee. The leased assets are depreciated on a straight-line method over respective lease periods with the salvage value determined in the agreements or otherwise nil.

#### b. Operating leases

The following table presents the schedule of future minimum lease payments under non-cancellable operating leases at March 31, 2018 and 2017:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Due within one year	¥ 109	¥ 100	\$ 1,026
Due after one year	225	201	2,126
Total	¥ 335	¥ 301	\$ 3,153

### As lessor:

#### a. Finance leases

Investment in leased assets consists of the following:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Lease receivables	¥ 28,036	¥ 23,278	\$ 263,894
Residual value	2,765	2,792	26,035
Unearned interest income	(2,836)	(2,326)	(26,700)
Total	¥ 27,965	¥ 23,744	\$ 263,228

Maturities of lease receivables and investment in leased assets at March 31, 2018 are as follows:

Year ending March 31	(Millions of yen)		(Thousands of U.S. dollars)	
	Lease receivables	Investment in leased assets	Lease receivables	Investment in leased assets
2019	¥ 511	¥ 7,670	\$ 4,813	\$ 72,202
2020	336	6,172	3,166	58,096
2021	261	4,908	2,459	46,199
2022	217	3,624	2,047	34,118
2023	153	2,244	1,449	21,124
2024 and thereafter	231	3,415	2,177	32,153
Total	¥ 1,711	¥ 28,036	\$ 16,113	\$ 263,894

#### b. Operating leases

The following table presents the schedule of future minimum lease payments under non-cancellable operating leases at March 31, 2018:

	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 141	\$ 1,332
Due after one year	398	3,755
Total	¥ 540	\$ 5,087

### 18. General and Administrative Expenses

Major expenses included in general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥ 11,907	¥ 11,820	\$ 112,081
Retirement benefit expenses	1,993	2,026	18,767
Depreciation	3,772	3,648	35,512

### 19. Loss on Impairment

Other expense includes loss on impairment of ¥316 million (\$2,979 thousand) and ¥232 million for the years ended March 31, 2018 and 2017, respectively. The loss on impairment of the Bank is recognized by grouping the areas under control of the area management (or branches if not under control of the area management) for operating branches and by grouping assets for idle assets. Headquarters, office centers, dormitories, welfare facilities, etc. are treated as common use assets because they do not generate independent cash flows. The consolidated subsidiaries are treated as a group for one company in principle.

For the following operating branches and idle assets among above tangible fixed assets, their carrying values are reduced to the respective recoverable amounts and the reduced amounts are recorded under "Other expenses" in the consolidated statements of income.

Year ended March 31, 2018				
Location	Main use	Asset type	(Millions of yen)	(Thousands of U.S. dollars)
Ishikawa Pref.	3 operating branches	Land	¥ 228	\$ 2,151
	3 operating branches	Buildings	70	663
	6 idle assets	Land	9	93
	1 idle asset	Buildings	7	71
Total			¥ 316	\$ 2,979

In the assessment of loss on impairment, the recoverable amount is computed using the net selling value, which is determined mainly based on the real estate appraisal value.

Year ended March 31, 2017			
Location	Main use	Asset type	(Millions of yen)
Ishikawa Pref.	8 operating branches	Land	¥ 175
	3 operating branches	Buildings	50
	6 idle assets	Land	6
Total			¥ 232

In the assessment of loss on impairment, the recoverable amount is computed using the net selling value, which is determined mainly based on the real estate appraisal value.

### 20. Other Comprehensive Income

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

	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Reclassification adjustments</b>			
Net unrealized gains on available-for-sale securities:			
Gain incurred during the year	¥ 24,224	¥ 12,204	\$ 228,012
Reclassification adjustment	(3,744)	(1,002)	(35,246)
Amount before tax effect	20,479	11,202	192,766
Net unrealized gains (losses) on hedging instruments:			
Gain (loss) incurred during the year	33	221	311
Reclassification adjustment	—	2	—
Amount before tax effect	33	224	311
Remeasurements of defined benefit plans:			
Gain (loss) incurred during the year	(255)	4	(2,406)
Reclassification adjustment	1,462	1,500	13,764
Amount before tax effect	1,206	1,504	11,358
Total amount before tax effect	21,719	12,931	204,435
Tax effect	(6,699)	(3,787)	(63,063)
Total other comprehensive income	¥ 15,019	¥ 9,143	\$ 141,372
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Tax effect on other comprehensive income:</b>			
Net unrealized gains on available-for-sale securities:			
Amount before tax effect	¥ 20,479	¥ 11,202	\$ 192,766
Tax effect	(6,319)	(3,256)	(59,484)
Amount after tax effect	14,159	7,945	133,281
Net deferred gains (losses) on hedging instruments:			
Amount before tax effect	33	224	311
Tax effect	(9)	(68)	(87)
Amount after tax effect	23	155	223
Remeasurements of defined benefit plans:			
Amount before tax effect	1,206	1,504	11,358
Tax effect	(370)	(461)	(3,491)
Amount after tax effect	¥ 835	¥ 1,042	\$ 7,866

## 21. Income Taxes

The major components of deferred tax assets and liabilities at March 31, 2018 and 2017 are summarized as follows:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Deferred tax assets:			
Reserve for possible loan losses	¥ 11,231	¥ 11,942	\$ 105,716
Net defined benefit liability	4,664	4,918	43,901
Depreciation of real estate	759	741	7,151
Unrealized loss on write-down of equity securities	1,609	1,628	15,151
Other	2,713	2,665	25,538
Subtotal	<b>20,978</b>	21,896	<b>197,459</b>
Valuation allowance	<b>(9,274)</b>	(8,968)	<b>(87,293)</b>
Total deferred tax assets	<b>11,704</b>	12,927	<b>110,165</b>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	<b>(25,659)</b>	(19,339)	<b>(241,521)</b>
Other	(197)	(210)	(1,854)
Total deferred tax liabilities	<b>(25,856)</b>	(19,549)	<b>(243,375)</b>
Net deferred tax assets (liabilities)	<b>¥ (14,152)</b>	¥ (6,622)	<b>\$(133,209)</b>

A reconciliation of the statutory tax rate applicable to the Bank and its consolidated subsidiaries to the effective tax rate for the years ended March 31, 2018 and 2017 is presented as follows:

	2018	2017
Statutory tax rate	<b>30.6%</b>	30.6%
Reconciliation:		
Non-deductible permanent differences, such as entertainment expenses	<b>0.5</b>	1.0
Nontaxable permanent differences, such as dividend income	<b>(1.4)</b>	(1.3)
Per capita residents' taxes	<b>0.2</b>	0.2
Valuation allowance	<b>1.9</b>	(4.2)
Other	<b>0.7</b>	0.4
Effective tax rate	<b>32.5%</b>	26.7%

## 22. Retirement Benefit Plans

The Bank has defined retirement benefit plans, i.e., welfare pension fund plans, defined contribution pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. The consolidated subsidiaries have lump-sum payment plans.

The Bank transferred a portion related to future services to defined contribution pension plans in February 2013.

1. The changes in defined benefit obligation for the years ended March 31, 2018 and 2017 are as follows:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Balance at beginning of year	¥ 33,083	¥ 33,943	\$ 311,405
Service cost	523	514	4,927
Interest cost	61	64	581
Actuarial gains or losses	320	229	3,015
Benefits paid	<b>(1,776)</b>	(1,668)	<b>(16,719)</b>
Balance at end of year	<b>¥ 32,213</b>	¥ 33,083	<b>\$ 303,210</b>

2. The changes in plan assets for the years ended March 31, 2018 and 2017 are as follows:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Balance at beginning of year	¥ 17,028	¥ 16,884	\$ 160,287
Expected return on plan assets	340	337	3,205
Actuarial gains or losses	64	233	609
Contributions from the employer	555	555	5,229
Benefits paid	<b>(1,016)</b>	(982)	<b>(9,565)</b>
Balance at end of year	<b>¥ 16,973</b>	¥ 17,028	<b>\$ 159,766</b>

3. Reconciliation between the net defined benefit liability recorded in the consolidated balance sheet and the balances at end of year of defined benefit obligation and plan assets

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Funded defined benefit obligation	¥ 22,083	¥ 22,989	\$ 207,863
Plan assets	<b>(16,973)</b>	(17,028)	<b>(159,766)</b>
	<b>5,109</b>	5,960	<b>48,096</b>
Unfunded defined benefit obligation	<b>10,129</b>	10,094	<b>95,346</b>
Net liability recorded in the consolidated balance sheet	<b>¥ 15,239</b>	¥ 16,054	<b>\$ 143,443</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>
	<i>(Millions of yen)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Net defined benefit liability	¥ 15,239	¥ 16,054	\$ 143,443
Net liability recorded in the consolidated balance sheet	<b>¥ 15,239</b>	¥ 16,054	<b>\$ 143,443</b>

4. The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 are as follows:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Service cost	¥ 523	¥ 514	\$ 4,927
Interest cost	61	64	581
Expected return on plan assets	<b>(340)</b>	(337)	<b>(3,205)</b>
Amortization of actuarial gains or losses	1,671	1,709	15,732
Amortization of prior service cost	<b>(209)</b>	(209)	<b>(1,968)</b>
Retirement benefit expenses	<b>¥ 1,707</b>	¥ 1,741	<b>\$ 16,067</b>

5. The components of remeasurements of defined benefit plans (before deducting tax effect) on other comprehensive income as of March 31, 2018 and 2017 are as follows:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Prior service cost	¥ (209)	¥ (209)	\$ (1,968)
Net actuarial gain or loss	1,415	1,713	13,326
Total	<b>¥ 1,206</b>	¥ 1,504	<b>\$ 11,358</b>

6. The components of remeasurements of defined benefit plans (before deducting tax effect) on accumulated other comprehensive income as of March 31, 2018 and 2017 are as follows:

	2018 (Millions of yen)	2017	2018 (Thousands of U.S. dollars)
Unrecognized prior service cost	¥ 802	¥ 1,012	\$ 7,557
Unrecognized net actuarial gain or loss	<b>(6,187)</b>	(7,603)	<b>(58,241)</b>
Total	<b>¥ (5,384)</b>	¥ (6,591)	<b>\$ (50,684)</b>



7. Plan assets

(1) The components of plan assets are as follows:

	2018	2017
General account	65%	61%
Stock	19	22
Debt securities	11	11
Other	5	6
Total	100%	100%

Note:

Total plan assets include 3% and 4% of retirement benefit trust established on corporate pension plans as of March 31, 2018 and 2017, respectively.

(2) Method of determining the long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.0% to 0.6%	0.0% to 0.6%
Long-term expected rate of return on plan assets	2.0	2.0
Expected salary increase rate	4.8	4.8

Note:

The amount of the required contribution to the defined contribution plan of the Bank was ¥286 million (\$2,699 thousand) and ¥285 million for the years ended March 31, 2018 and 2017.

23. Derivatives

The Bank enters into interest rate swaps to hedge interest rate risk associated with deposits, loans and holding debt securities and currency swaps and foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. In addition, to respond to the customers' hedging needs related with their interest rate risk and foreign exchange risk, the Bank enters into derivative contracts including interest rate swaps, currency swaps, foreign exchange forward contracts and currency options. These transactions are covered by the reversing trades to avoid market risk. The effectiveness of these hedging activities is assessed and verified on a regular basis.

Derivative contracts to which hedge accounting is not applied:

With respect to derivatives to which hedge accounting is not applied, contract amount or notional principal amount defined in the contract, fair value, revaluation gain or loss and calculation method of fair value by transaction type as of March 31, 2018 and 2017 are as follows:

Note that contract amount does not represent the market risk exposure of the derivative transactions.

(1) Interest rate related derivatives

There are no interest rate related derivatives as of March 31, 2018 and 2017.

(2) Currency related derivatives

		March 31, 2018			
		Millions of yen			
		Contract amount		Valuation	
		Total	Over one year	Fair value	gain (loss)
		¥	¥	¥	¥
OTC transactions:					
Currency swaps		—	—	—	—
Forward contracts on	Sold	26,663	—	270	270
foreign exchange	Bought	25,906	—	(107)	(107)
Currency options	Sold	19,705	18,692	(784)	135
	Bought	19,705	18,692	784	(78)
Total		—	—	¥ 163	¥ 220

March 31, 2018

Thousands of U.S. dollars

		Contract amount			
		Total	Over one year	Fair value	Valuation gain (loss)
		\$	\$	\$	\$
OTC transactions:					
Currency swaps		—	—	—	—
Forward contracts on	Sold	250,978	—	2,548	2,548
foreign exchange	Bought	243,851	—	(1,009)	(1,009)
Currency options	Sold	185,483	175,950	(7,384)	1,275
	Bought	185,483	175,950	7,384	(737)
Total		—	—	\$ 1,539	\$ 2,076

March 31, 2017

Millions of yen

		Contract amount			
		Total	Over one year	Fair value	Valuation gain (loss)
		¥	¥	¥	¥
OTC transactions:					
Currency swaps		—	—	—	—
Forward contracts on	Sold	64,598	—	561	561
foreign exchange	Bought	15,851	—	(48)	(48)
Currency options	Sold	15,695	14,056	(513)	184
	Bought	15,695	14,056	513	(111)
Total		—	—	¥ 512	¥ 584

Notes:

- Above transactions are stated at fair value and unrealized gain/(loss) is recorded in the consolidated statements of income.
- Fair value is determined using the discounted present value.

Derivative contracts to which hedge accounting is applied:

With respect to derivatives to which hedge accounting is applied, contract amount or notional principal amount defined in the contract, fair value and calculation method of fair value by transaction type and by hedge accounting method as of March 31, 2018 and 2017 are as follows:

Note that contract amount does not represent the market risk exposure of the derivative transactions.

(1) Interest rate related derivatives

March 31, 2018

Millions of yen

Hedge accounting method	Transaction type	Major hedged item	Contract amount due		Fair value
			Contract amount	after one year	
			¥	¥	¥
Normal method	Interest rate swaps:				
	Receive fixed rate/ Pay floating rate	Loans, securities and deposits	—	—	—
	Receive floating rate/ Pay fixed rate		172	57	(2)
	Other		—	—	—
Total	—		—	¥ (2)	

March 31, 2018

Thousands of U.S. dollars

Hedge accounting method	Transaction type	Major hedged item	Contract amount due		Fair value
			Contract amount	after one year	
			\$	\$	\$
Normal method	Interest rate swaps:				
	Receive fixed rate/ Pay floating rate	Loans, securities and deposits	—	—	—
	Receive floating rate/ Pay fixed rate		1,628	542	(21)
	Other		—	—	—
Total	—		—	\$(21)	

		March 31, 2017			
		Millions of yen			
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Interest rate swaps:				
	Receive fixed rate/ Pay floating rate	Loans, securities and deposits	¥	—	¥
	Receive floating rate/ Pay fixed rate		7,281	172	(70)
	Other		22,438	—	0
	Total		—	—	¥

Notes:

1. Gain/loss on above contacts is deferred until maturity of the hedged items as the normal method in accordance with JICPA Industry Audit Committee Report No.24.
2. Fair value is determined using the discounted present value.

(2) Currency related derivatives

		March 31, 2018			
		Millions of yen			
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Currency swaps:				
		Foreign currency denominated securities	¥ 10,624	¥ 10,624	¥ 420
Total			—	—	¥ 420

		March 31, 2018			
		Thousands of U.S. dollars			
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Currency swaps:				
		Foreign currency denominated securities	\$ 100,000	\$ 100,000	\$ 3,956
Total			—	—	\$ 3,956

		March 31, 2017			
		Millions of yen			
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Currency swaps:				
		Foreign currency denominated securities	¥ 17,208	¥ 11,219	¥ 1,048
Total			—	—	¥ 1,048

Notes:

1. Gain/loss on above contacts is deferred until maturity of the hedged items as the normal method in accordance with JICPA Industry Audit Committee Report No.25.
2. Fair value is determined using the discounted present value.

**24. Per Share Information**

Net assets per share at March 31, 2018 and 2017 and profit per share for the years then ended is as follows:

	2018	2017	2018
	(Yen)		(U.S. dollars)
Net assets per share	¥9,029.61	¥ 8,138.89	\$ 84.99
Profit per share-basic	346.38	362.47	3.26
Profit per share-diluted	—	361.32	—

Notes:

1. On October 1, 2017, the Bank consolidated ten (10) shares of its common stock into one (1) share. Net assets per share, profit per share-basic and profit per share-diluted are calculated based on the assumption that the share consolidation had been carried out at the beginning of the year ended March 31, 2017.

2. Japan Trustee Services Bank, Ltd. (Trust account) holds the shares of the Bank as trust assets relevant to the management board benefit trust adopted for the year ended March 31, 2018. In the calculation of net assets per share, profit per share-basic and profit per share-diluted, the shares are included in treasury stock, which are deducted in calculating outstanding number of shares at end of year and average outstanding number of shares during the year. For the year ended March 31, 2018, the treasury stock deducted in calculating outstanding number of shares at end of year and average outstanding number of shares during the year are 185 thousand shares and 115 thousand shares, respectively.
3. Profit per share-diluted is omitted since there is no dilutive share for the year ended March 31, 2018.

Basic information in computing above per share data is as follows:

	2018	2017	2018
	(Millions of Yen)		(Thousands of U.S. dollars)
(Net assets per share)			
Net assets per balance sheets	¥ 268,777	¥ 252,358	\$ 2,529,908
Amounts to be attributed to subscription rights to shares	—	326	—
Amounts to be attributed to non-controlling interests	7,656	8,389	72,069
Net assets attributed to common stock shareholders	261,120	243,642	2,457,839
Outstanding number of shares at end of year (unit: thousand shares)	28,918	29,935	
(Profit per share)			
Profit attributable to owners of parent	¥ 10,163	¥ 10,851	\$ 95,663
Profit attributable to common stock shareholders	10,163	10,851	95,663
Average outstanding number of shares during the year (unit: thousand shares)	29,340	29,936	
(Profit per share-diluted)			
Increase in common stock (unit: thousand shares)	—	95	
Of which, subscription rights to shares (unit: thousand shares)	—	95	

**25. Segment Information**

1. Reportable segments

The reportable segments of the Bank are subject to the periodical review by the Board of Directors which is the chief operating decision maker to determine the allocation of management resources and assess performances.

The Group consists of the Bank and its 5 consolidated subsidiaries. The Group designs comprehensive strategies concerning financial services including banking and leasing businesses and is engaged in operating activities. Accordingly, the Bank is composed of operating segments by financial services based on the group companies and "Banking" and "Leasing" segments are identified as the reportable segments.

"Banking" segment provides customers with banking operations, credit card business, credit guarantee business, business revitalization fund management business and servicer business etc.

"Leasing" segment provides customers with leasing business.

2. Calculation method of gross operating income and net operating income

Accounting policies adopted by the reportable segments are the same as those described in Note 3 "Summary of Significant Accounting Policies," except for the scope of consolidation. Segment profit of the reportable segments is measured based on income from ordinary operations and intersegment income is based on the market transaction price in the same manner as income from external customers.

3. Reportable segment information concerning income, profit or loss, assets, liabilities and other items

Year ended March 31, 2018					
Millions of yen					
Reportable segments					
	Banking	Leasing	Total	Adjustments	Consolidated
Total income:					
External customers	¥ 58,330	¥ 10,303	¥ 68,633	—	¥ 68,633
Intersegments	115	15	130	(130)	—
Total	58,445	10,318	68,764	(130)	68,633
Segment profit	¥ 15,857	¥ 528	¥ 16,385	¥ (18)	¥ 16,367
Segment assets	¥ 4,760,835	¥ 32,745	¥ 4,793,580	¥ (20,687)	¥ 4,772,893
Other information					
Depreciation	¥ 3,756	¥ 178	¥ 3,935	—	¥ 3,935
Interest income	42,430	—	42,430	(103)	42,327
Interest expenses	2,984	112	3,096	(91)	3,004
Increase in tangible and intangible fixed assets	4,482	14	4,496	—	4,496

Year ended March 31, 2018					
Thousands of U.S. dollars					
Reportable segments					
	Banking	Leasing	Total	Adjustments	Consolidated
Total income:					
External customers	\$ 549,044	\$ 96,982	\$ 646,026	—	\$ 646,026
Intersegments	1,084	143	1,227	(1,227)	—
Total	550,129	97,125	647,254	(1,227)	646,026
Segment profit	\$ 149,260	\$ 4,970	\$ 154,231	¥ (173)	\$ 154,057
Segment assets	\$ 44,812,079	\$ 308,217	\$ 45,120,296	¥ (194,721)	\$ 44,925,574
Other information					
Depreciation	\$ 35,362	\$ 1,683	\$ 37,045	—	\$ 37,045
Interest income	399,385	—	399,385	(972)	398,412
Interest expenses	28,089	1,054	29,144	(865)	28,278
Increase in tangible and intangible fixed assets	42,188	135	42,323	—	42,323

Year ended March 31, 2017					
Millions of yen					
Reportable segments					
	Banking	Leasing	Total	Adjustments	Consolidated
Total income:					
External customers	¥ 57,842	¥ 9,570	¥ 67,413	—	¥ 67,413
Intersegments	127	23	151	(151)	—
Total	57,970	9,594	67,564	(151)	67,413
Segment profit	¥ 15,107	¥ 769	¥ 15,876	¥ (8)	¥ 15,867
Segment assets	¥ 4,303,262	¥ 37,107	¥ 4,340,370	¥ (20,005)	¥ 4,320,364
Other information					
Depreciation	¥ 3,638	¥ 199	¥ 3,837	—	¥ 3,837
Interest income	40,503	186	40,689	(123)	40,565
Interest expenses	1,948	146	2,094	(112)	1,982
Increase in tangible and intangible fixed assets	2,809	12	2,821	—	2,821

Notes:

1. "Total income" corresponds to "Net Sales" of non-banking industries.
2. Adjustments refer to the elimination of intersegment transactions.

Other information:

Information by service line:

Year ended March 31, 2018					
Millions of yen					
Securities					
	Loan	investment	Lease	Other	Total
Income from external customers	¥ 26,701	¥ 19,353	¥ 10,303	¥ 12,274	¥ 68,633

Year ended March 31, 2018

Thousands of U.S. dollars					
Securities					
	Loan	investment	Lease	Other	Total
Income from external customers	\$ 251,335	\$ 182,168	\$ 96,982	\$ 115,540	\$ 646,026

Income from external customers

Year ended March 31, 2017					
Millions of yen					
Securities					
	Loan	investment	Lease	Other	Total
Income from external customers	¥ 28,254	¥ 17,516	¥ 9,570	¥ 12,071	¥ 67,413

Income from external customers

Information about loss on impairment of long-lived assets by reportable segment:

Year ended March 31, 2018			
Millions of yen			
Reportable segments			
	Banking	Leasing	Total
Loss on impairment	¥ 316	¥ —	¥ 316

Loss on impairment

Year ended March 31, 2018			
Thousands of U.S. dollars			
Reportable segments			
	Banking	Leasing	Total
Loss on impairment	\$ 2,979	\$ —	\$ 2,979

Loss on impairment

Year ended March 31, 2017			
Millions of yen			
Reportable segments			
	Banking	Leasing	Total
Loss on impairment	¥ 232	¥ —	¥ 232

Loss on impairment

26. Related Party Transactions

The related party transactions for the years ended March 31, 2018 and 2017 and related account balances outstanding at March 31, 2018 and 2017 were as follows:

Transactions between the Bank and related parties

Year ended March 31, 2018

Name	Business summary / Title	Ownership (%)	Transaction	Transaction amount (Millions of yen) / (Thousands of U.S. dollars)	Account	Balance at end of year (Millions of yen) / (Thousands of U.S. dollars)
Directors and its relatives						
Hideo Nakashima	Director	0.33	Loan Guarantee	¥(11)/\$(103) / ¥124/\$1,174	Loan —	¥175/\$1,650 —
Companies whose majority is owned by directors and /or its relatives						
Nakashima Co. Ltd.	Wholesale of paper products	0.40	Loan	¥(72)/\$(684)	Loan	¥349/\$3,286

Year ended March 31, 2017

Name	Business summary / Title	Ownership (%)	Transaction	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Directors and its relatives						
Hideo Nakashima	Director	0.32	Loan Guarantee	¥(12) / ¥160	Loan —	¥186 —
Companies whose majority is owned by directors and /or its relatives						
Nakashima Co. Ltd.	Wholesale of paper products	0.38	Loan	¥(49)	Loan	¥421

Transaction terms and policies:

Related party transactions are executed under the same transaction terms as third parties.

Transactions between the subsidiary of the Bank and related parties: There was no applicable transaction to be reported for the years ended March 31, 2018 and 2017.

### Independent Auditor's Report

The Board of Directors  
The Hokkoku Bank, Ltd.

We have audited the accompanying consolidated financial statements of The Hokkoku Bank, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 Hokkoku Bank, Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

#### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.



June 21, 2018  
Tokyo, Japan



HOKKOKU  
BANK

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