

2019

ANNUAL REPORT

HOKKOKU BANK
ANNUAL REPORT

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CONTENTS

Bank Profile	1
Message from the President	2
About Ishikawa Prefecture	3
Board of Directors and Audit and Supervisory Committee	4
Offices and Subsidiaries	4
Corporate Philosophy and Medium-term Business Plan	5
Financial Highlights	6
Corporate Governance / Risk Management Structure	7
Consolidated Financial Statements	9
Report of Independent Auditors	27



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.

BANK PROFILE

Name of the Bank	The Hokkoku Bank, Ltd.	Rating	A- (S&P) A+ (R&I)
Securities Code	8363 (First Section, Tokyo Stock Exchange)	Total Assets	¥5,014.3 billion
Location of Headquarters	2-12-6 Hirooka, Kanazawa, Ishikawa, Japan	Loans	¥2,582.9 billion
Foundation Date	December 18, 1943	Deposits	¥3,614.5 billion (including NCD)
Common Stock	¥26,673 million (Amounts less than one million yen have been rounded down.)	Consolidated Subsidiaries	
Number of Branches	105 branches (including 1 station) 2 overseas representative offices (Shanghai, Bangkok) 9 money plazas	<Leasing business>	The Hokkoku General Leasing Co., Ltd.
Number of Employees	1,787 (excluding temporary staff, business staff and locally employed staff overseas)	<Credit card business>	The Hokkoku Credit Service Co., Ltd.
Number of Outstanding Shares	29,110 thousand shares	<Credit guarantee business>	The Hokkoku Credit Guarantee Co., Ltd.
Number of Shareholders	9,342	<Corporate revitalization fund business and centralized accounting business for subsidiaries>	The Hokkoku Management, Ltd.
Capital Adequacy Ratio	11.78% (Consolidated/Global Standard)	<Debt management and collection business>	The Hokkoku Servicer, Ltd.

As of March 31, 2019 *The number of branches is as of June 30, 2019.

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 2019, which presents our financial performance for the fiscal year ended on March 31, 2019, as well as our recent undertakings. We welcome you to take a moment to read this annual report.

The Hokuriku region's economy has made a steady recovery, which is evidenced by the turnaround in the manufacturing activity and employment as well as stabilised personal consumption. Meanwhile, the growth in housing construction has plateaued while tourism has stagnated as the positive effects of the Hokuriku Shinkansen's launch have run their course.

There have been some concerns about market contraction and labour shortages in the region due to the declining birthrate, growing aging society and urban concentration. Under these circumstances, in addition to providing traditional banking services, such as deposits and loans, the Hokkoku Bank offers consulting services for a diverse group of clients consisting of retail and corporate customers to improve regional productivity. Particularly, we are focusing on services geared for greater efficiency by leveraging ICT and FinTech solutions that integrate both finance and IT. We are also promoting a cashless environment in the region by expanding our credit card and Visa debit card services.

As part of the expansion of our overseas business support, we opened a new representative office in Bangkok in January 2019, following the Singapore Branch in March 2016, in order to strengthen our wide range of support systems, including support for boosting sales channels by utilising overseas sites and financing. We will further enhance our consulting functions both in Japan and overseas and actively work to solve the issues facing our business partners including local communities and individual companies.

The Hokkoku Bank's mission is to develop customer-oriented policies that contribute to the creation of new value. We will pursue this with a strong focus without fearing change.

We, at Hokkoku Bank, look forward to your continued support and patronage.

August 2019



Tateki Ataka
President

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to be '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.

BOARD OF DIRECTORS AND AUDIT AND SUPERVISORY COMMITTEE (As of June 30, 2019)



President
Tateki Ataka



Senior Managing Director
Shuji Tsumemura



Senior Managing Director
Junichi Maeda



Senior Managing Director
Hideaki Hamasaki



Managing Director
Kazuya Nakamura



Managing Director
Koichi Nakada



Director
Nobuhiro Torigoe



Director
Yuji Kakuchi



Director
Toshiyuki Konishi



Director
Akira Nishita



Director
Takayasu Tada



Director, Audit and Supervisory Committee Member
Hidehiro Yamamoto



Director (Outside), Audit and Supervisory Committee Member
Masako Osuna



Director (Outside), Audit and Supervisory Committee Member
Shigeru Nishii



Director (Outside), Audit and Supervisory Committee Member
Tadashi Ohnishi



Director (Outside), Audit and Supervisory Committee Member
Shuji Yamashita



Director (Outside), Audit and Supervisory Committee Member
Takako Ishihara

Executive Officer
Susumu Taniguchi
Takeshi Igawa

Harushige Sanbonmatsu
Hirokatsu Yamada
Shoichi Kashimi

Yoshiro Komatsu
Kenya Tatsuno
Tatsuo Shintani

Yutaka Hosono
Daisuke Nakaso

OFFICES AND SUBSIDIARIES (As of July 31, 2019)

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

Singapore Branch
138 Market Street, #08-02 CapitaGreen, Singapore 048946
Tel: +65-6538-4770
Bangkok Representative Office
26th Floor, Sathorn Square Office Tower, 98 North Sathorn Road, Silom, Bangrak, Bangkok, 10500 Thailand
Tel: +66-2163-2870
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

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.

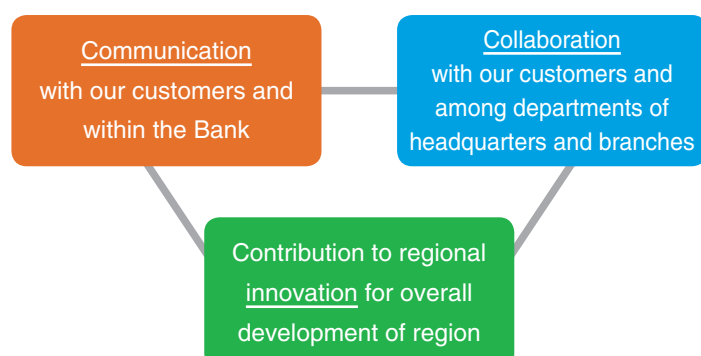
Basic policy

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



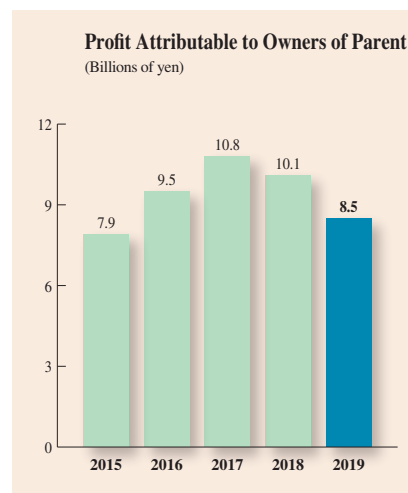
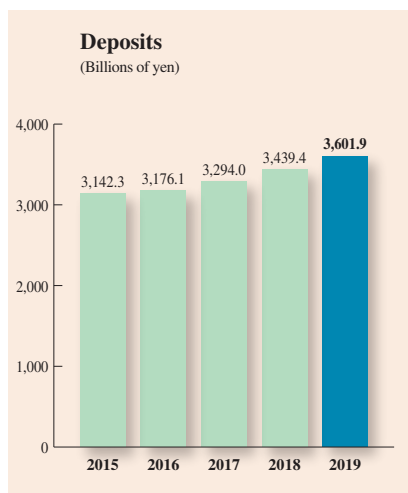
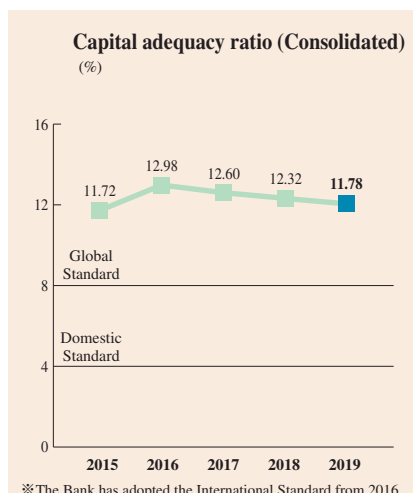
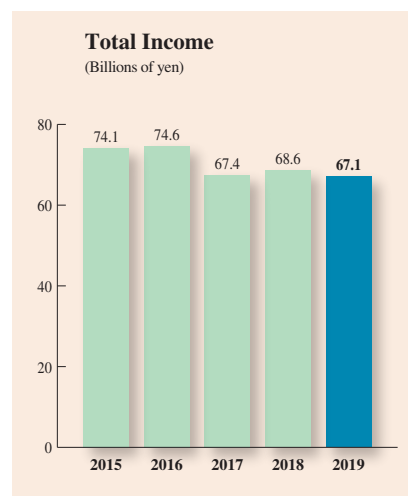
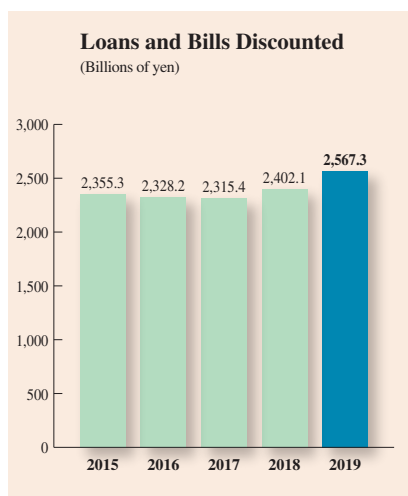
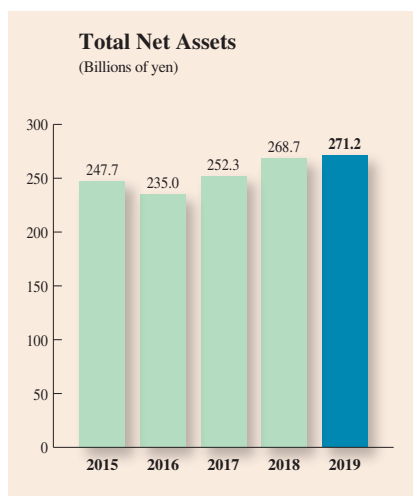
Management Benchmarks and Targets

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
	2019	2018	2017	2016	2015	2019
Total Income	¥ 67,114	¥ 68,633	¥ 67,413	¥ 74,686	¥ 74,109	\$ 604,693
Profit before Income Taxes	13,449	15,738	15,534	16,830	16,177	121,175
Profit Attributable to Owners of Parent	8,583	10,163	10,851	9,569	7,989	77,339
Total Assets	5,029,226	4,772,893	4,320,364	3,904,020	4,179,790	45,312,427
Loans and Bills Discounted	2,567,333	2,402,114	2,315,444	2,328,285	2,355,374	23,131,211
Securities and Trading Securities	1,088,881	1,060,765	1,104,524	1,018,306	1,191,361	9,810,624
Deposits	3,601,936	3,439,483	3,294,031	3,176,117	3,142,315	32,452,804
Total Net Assets	271,215	268,777	252,358	235,020	247,730	2,443,605
<Consolidated>						
Capital adequacy ratio (%)	11.78	12.32	12.60	12.98	11.72	
<Non-consolidated>						
Capital adequacy ratio (%)	11.59	12.19	12.46	12.81	11.18	

U.S. dollar amounts are translated at the rate of ¥110.99 = \$1.00



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 5 are outside directors) for a total of 17 members, as of the filing date for the Bank's securities report (June 24, 2019). 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).

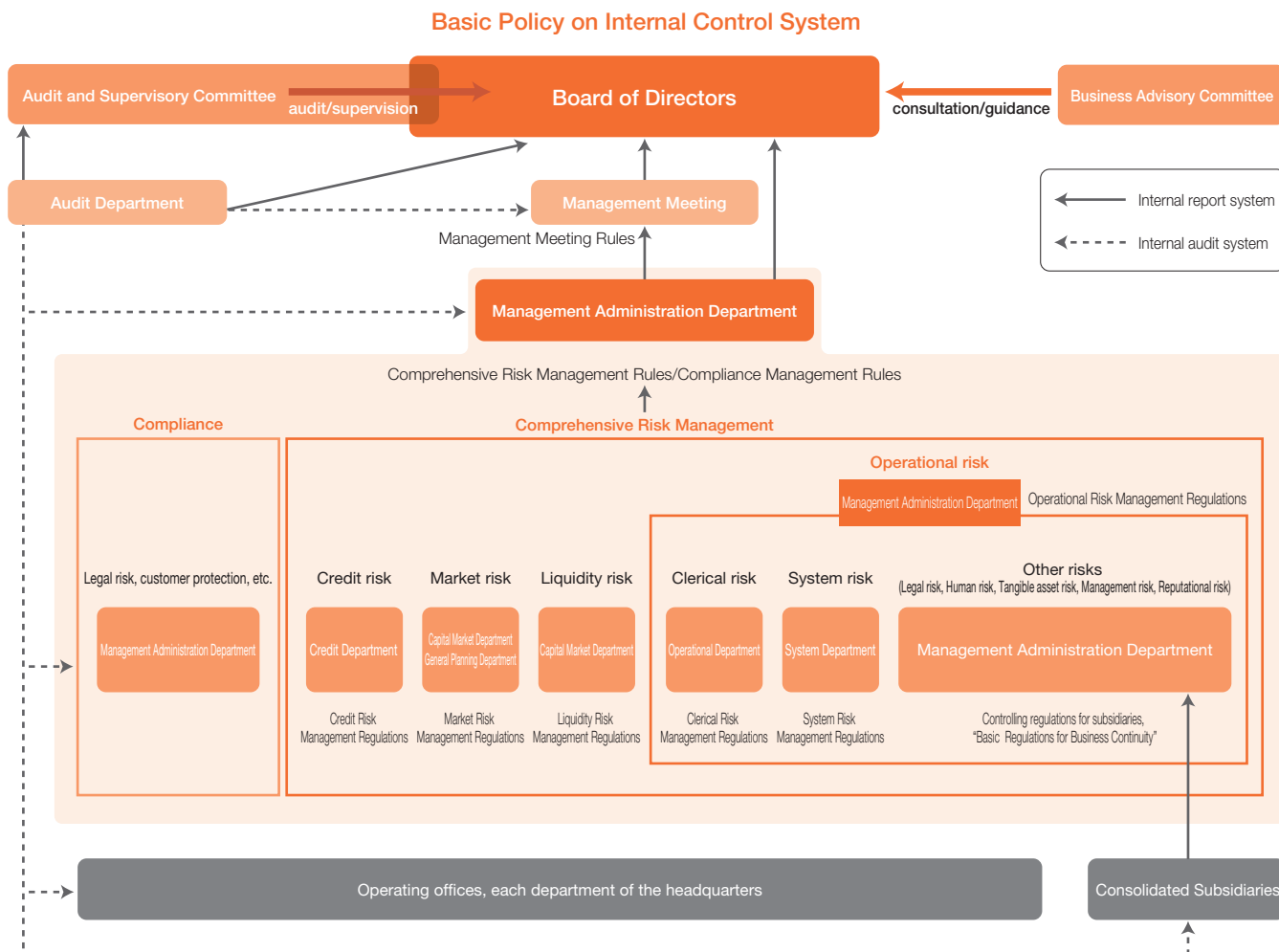
■ VaR (value at risk)

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 Risk Management Structure



CONSOLIDATED BALANCE SHEETS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

As of March 31

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Assets:			
Cash and due from banks (Notes 7 and 11)	¥ 1,221,400	¥ 1,094,772	\$ 11,004,602
Call loans and bills bought (Note 7)	—	54,561	—
Monetary claims bought	3,614	3,637	32,563
Trading account securities (Note 8)	90	167	815
Money held in trusts (Note 9)	13,523	13,531	121,845
Securities (Notes 7, 8 and 13)	1,088,790	1,060,597	9,809,808
Loans and bills discounted (Notes 6 and 7)	2,567,333	2,402,114	23,131,211
Foreign exchanges	9,508	11,963	85,670
Lease receivables and investment in leased assets (Note 18)	33,335	29,602	300,348
Other assets (Note 13)	69,257	77,464	623,993
Tangible fixed assets (Notes 10 and 12)	32,804	34,155	295,563
Intangible fixed assets	10,097	9,385	90,978
Deferred tax assets (Note 22)	166	168	1,496
Customers' liabilities for acceptances and guarantees	17,197	17,544	154,942
Reserve for possible loan losses	(37,893)	(36,774)	(341,414)
Total assets	¥ 5,029,226	¥ 4,772,893	\$ 45,312,427
Liabilities:			
Deposits (Notes 7 and 13)	3,538,022	3,362,662	31,876,945
Negotiable certificates of deposit (Note 7)	63,914	76,821	575,858
Call money and bills sold (Notes 7 and 13)	847,399	696,969	7,634,915
Payables under repurchase agreements (Notes 7 and 13)	31,206	93,828	281,168
Guarantee deposit received under securities lending transactions (Notes 7 and 13)	204,703	197,918	1,844,339
Borrowed money (Note 14)	2,398	3,977	21,608
Foreign exchanges	14	7	131
Borrowed money from trust account	90	—	810
Other liabilities	21,853	21,353	196,896
Reserve for bonuses	796	806	7,176
Net defined benefit liability (Note 23)	14,586	15,239	131,421
Reserve for directors' retirement benefits	31	26	283
Reserve for management board benefit trust (Note 17)	530	453	4,777
Reserve for reimbursement of deposits	281	263	2,534
Reserve for loss on refund of interest	43	59	390
Reserve for customer service points	122	139	1,102
Deferred tax liabilities (Note 22)	13,188	14,320	118,825
Deferred tax liability arising from revaluation of land (Note 10)	1,630	1,724	14,692
Acceptances and guarantees	17,197	17,544	154,942
Total liabilities	¥ 4,758,010	¥ 4,504,115	\$ 42,868,822
Net assets:			
Common stock	26,673	26,673	240,327
Capital surplus	12,854	12,854	115,815
Retained earnings	169,267	167,344	1,525,073
Treasury stock	(920)	(5,138)	(8,289)
Total shareholders' equity (Note 16)	207,876	201,734	1,872,926
Net unrealized gains on available-for-sale securities (Note 8)	56,553	60,762	509,533
Net deferred losses on hedging instruments	(1)	(2)	(15)
Land revaluation surplus (Note 10)	2,189	2,371	19,723
Remeasurements of defined benefit plans (Note 23)	(3,287)	(3,745)	(29,621)
Total accumulated other comprehensive income	55,452	59,386	499,620
Non-controlling interests	7,886	7,656	71,057
Total net assets	271,215	268,777	2,443,605
Total liabilities and net assets	¥ 5,029,226	¥ 4,772,893	\$ 45,312,427

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

Year ended March 31

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Income			
Interest income on:	¥ 40,229	¥ 42,327	\$ 362,456
Interest on loans and discounts	26,478	26,883	238,562
Interest and dividends on securities	13,344	15,033	120,230
Other interest income	406	410	3,664
Trust fees	0	—	0
Fees and commissions	9,929	9,513	89,461
Other operating income	12,932	12,356	116,516
Gain on reversal of share acquisition rights	—	275	—
Other income	4,039	4,436	36,398
Total income	67,130	68,909	604,832
Expenses			
Interest expenses on:	4,554	3,004	41,034
Deposits	350	411	3,156
Borrowings and rediscounts	848	761	7,643
Interest on payables under repurchase agreements	2,414	941	21,750
Other	941	889	8,483
Fees and commissions	3,219	2,969	29,009
Other operating expenses	10,409	12,206	93,788
General and administrative expenses (Note 19)	30,579	30,901	275,511
Provision for management board benefit trust	—	404	—
Other expenses (Note 20)	4,918	3,684	44,314
Total expenses	53,681	53,171	483,657
Profit before income taxes	13,449	15,738	121,175
Income taxes (Note 22):			
Current	4,374	4,390	39,412
Deferred	135	738	1,223
	4,510	5,129	40,636
Profit	8,939	10,608	80,539
Profit attributable to non-controlling interests	355	445	3,200
Profit attributable to owners of parent	¥ 8,583	¥ 10,163	\$ 77,339
	2019	2018	2019
	(Yen)		(U.S. dollars) (Note 2)
Amounts per share (Note 25)			
Net assets	¥ 9,106.33	¥ 9,029.61	\$ 82.04
Profit	296.83	346.38	2.67

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

Year ended March 31

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Profit	¥ 8,939	¥ 10,608	\$ 80,539
Other comprehensive income (Note 21)			
Net unrealized gains on available-for-sale securities	(4,328)	14,159	(38,998)
Net deferred gains (losses) on hedging instruments	0	23	3
Remeasurements of defined benefit plans (Note 23)	457	835	4,120
Total other comprehensive income	(3,870)	15,019	(34,874)
Comprehensive income	¥ 5,068	¥ 25,628	\$ 45,664
Total comprehensive income attributable to:			
Owners of the parent	¥ 4,832	¥ 24,831	\$ 43,538
Non-controlling interests	236	796	2,126

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
Balance at March 31, 2017	¥ 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
Balance at March 31, 2018	26,673	12,854	167,344	(5,138)	201,734
Cash dividends	—	—	(2,619)	—	(2,619)
Profit attributable to owners of parent	—	—	8,583	—	8,583
Transfer from retained earnings to capital surplus	—	4,222	(4,222)	—	—
Purchase of treasury stock	—	—	—	(4)	(4)
Cancellation of treasury stock	—	(4,222)	—	4,222	—
Reversal of land revaluation surplus	—	—	181	—	181
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	1,923	4,217	6,141
Balance at March 31, 2019	¥ 26,673	¥ 12,854	¥ 169,267	¥ (920)	¥ 207,876

	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
Balance at March 31, 2017	¥ 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
Balance at March 31, 2018	60,762	(2)	2,371	(3,745)	59,386	—	7,656	268,777
Cash dividends	—	—	—	—	—	—	—	(2,619)
Profit attributable to owners of parent	—	—	—	—	—	—	—	8,583
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—	(4)
Cancellation of treasury stock	—	—	—	—	—	—	—	—
Reversal of land revaluation surplus	—	—	—	—	—	—	—	181
Net changes in items other than shareholders' equity	(4,209)	0	(181)	457	(3,933)	—	230	(3,703)
Total changes during the year	(4,209)	0	(181)	457	(3,933)	—	230	2,438
Balance at March 31, 2019	¥ 56,553	¥ (1)	¥ 2,189	¥ (3,287)	¥ 55,452	¥ —	¥ 7,886	¥ 271,215

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
Balance at March 31, 2018	\$ 240,327	\$ 115,815	\$ 1,507,741	\$ (46,293)	\$ 1,817,591
Cash dividends	—	—	(23,599)	—	(23,599)
Profit attributable to owners of parent	—	—	77,339	—	77,339
Transfer from retained earnings to capital surplus	—	38,046	(38,046)	—	—
Purchase of treasury stock	—	—	—	(43)	(43)
Cancellation of treasury stock	—	(38,046)	—	38,046	—
Reversal of land revaluation surplus	—	—	1,639	—	1,639
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	17,332	38,003	55,335
Balance at March 31, 2019	\$ 240,327	\$ 115,815	\$ 1,525,073	\$ (8,289)	\$ 1,872,926

	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	Non-controlling interests	Total net assets
Balance at March 31, 2018	\$ 547,458	\$ (18)	\$ 21,363	\$ (33,742)	\$ 535,060	\$ 68,984	\$ 2,421,636
Cash dividends	—	—	—	—	—	—	(23,599)
Profit attributable to owners of parent	—	—	—	—	—	—	77,339
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(43)
Cancellation of treasury stock	—	—	—	—	—	—	—
Reversal of land revaluation surplus	—	—	—	—	—	—	1,639
Net changes in items other than shareholders' equity	(37,924)	3	(1,639)	4,120	(35,440)	2,072	(33,367)
Total changes during the year	(37,924)	3	(1,639)	4,120	(35,440)	2,072	21,968
Balance at March 31, 2019	\$ 509,533	\$ (15)	\$ 19,723	\$ (29,621)	\$ 499,620	\$ 71,057	\$ 2,443,605

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

Year ended March 31

	2019		2018		2019	
	(Millions of yen)				(Thousands of U.S. dollars)	
	¥		¥		\$	(Note 2)
Cash flows from operating activities						
Profit before income taxes						
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:						
Depreciation and amortization		3,992		3,935		35,975
Losses on impairment		566		316		5,104
Increase (decrease) in reserve for possible loan losses		1,119		(2,682)		10,084
Increase (decrease) in reserve for bonuses		(9)		(8)		(86)
Increase (decrease) in net defined benefit liability		(652)		(815)		(5,882)
Increase (decrease) in directors' retirement benefits		4		(29)		42
Increase (decrease) in reserve for management board benefit trust		76		453		690
Increase (decrease) in reserve for reimbursement of deposits		17		9		159
Increase (decrease) in reserve for losses on refund of interest		(16)		(5)		(144)
Increase (decrease) in reserve for customer service points		(16)		(79)		(151)
Accrued interest and dividend income		(40,229)		(42,327)		(362,456)
Accrued interest expenses		4,554		3,004		41,034
Losses (gains) on investment securities, net		(2,752)		(506)		(24,797)
Losses (gains) on money trusts		7		0		67
Foreign exchange losses (gains), net		(6,526)		6,765		(58,805)
Losses (gains) on disposal of fixed assets		(24)		(116)		(224)
Decrease (increase) in loans and bills discounted		(165,219)		(86,671)		(1,488,598)
Increase (decrease) in deposits		162,453		145,452		1,463,676
Decrease (increase) in due from banks (exclusive of the Bank of Japan)		(966)		(735)		(8,711)
Decrease (increase) in call loans and others		54,585		(24,485)		491,804
Increase (decrease) in call money and others		148,850		402,093		1,341,115
Increase (decrease) in payables under repurchase agreements		(62,621)		93,828		(564,205)
Increase (decrease) in guarantee deposit received under securities lending transactions		6,784		(161,933)		61,129
Decrease (increase) in trading account assets		77		(11)		695
Decrease (increase) in foreign exchange assets		2,454		(639)		22,116
Increase (decrease) in foreign exchange liabilities		6		2		59
Decrease (increase) in lease receivables and investment in leased assets		(4,186)		(5,273)		(37,723)
Decrease (increase) in cash collateral paid for financial instruments		8,118		(45,855)		73,142
Increase (decrease) in borrowed money from trust account		90		—		810
Interest and dividends received		26,929		26,705		242,626
Interest paid		(4,681)		(2,933)		(42,175)
Other, net		(970)		(30,087)		(8,746)
Subtotal		145,263		293,106		1,308,800
Income taxes paid, net of refund		(4,659)		(2,478)		(41,983)
Net cash provided by (used in) operating activities		140,604		290,627		1,266,817
Cash flows from investing activities						
Purchases of securities		(491,010)		(627,735)		(4,423,915)
Proceeds from sales of securities		395,753		558,025		3,565,667
Proceeds from redemption of investment securities		71,483		119,787		644,052
Interests and dividends received on investments		14,849		16,695		133,791
Purchases of tangible fixed assets		(955)		(1,436)		(8,605)
Purchases of intangible fixed assets		(3,015)		(2,905)		(27,169)
Proceeds from sales of tangible fixed assets		574		1,324		5,177
Net cash provided by (used in) investing activities		(12,320)		63,755		(111,001)
Cash flows from financing activities						
Cash dividends paid		(2,616)		(2,508)		(23,572)
Cash dividends paid to non-controlling interests		(5)		(7)		(53)
Purchases of treasury stock		(4)		(5,017)		(43)
Proceeds from sales of treasury stock		—		67		—
Purchase of treasury stock of subsidiaries		—		(1,417)		—
Net cash provided by (used in) financing activities		(2,627)		(8,884)		(23,669)
Effect of exchange rate changes on cash and cash equivalents		4		(6)		39
Net increase (decrease) in cash and cash equivalents		125,661		345,492		1,132,185
Cash and cash equivalents at beginning of year		1,090,589		745,097		9,826,015
Cash and cash equivalents at end of year (Note 11)		¥ 1,216,250		¥ 1,090,589		\$ 10,958,200

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, 2019 and 2018

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 ¥110.99 = U.S. \$1.00, the rate of exchange in effect on March 31, 2019 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, 2019 and 2018. 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 are 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 end of 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 determine 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 for which it is 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 ¥26,380 million (\$237,680 thousand) and ¥26,691 million as of March 31, 2019 and 2018, 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
The Bank's foreign currency assets and liabilities and accounts of overseas branch are translated into Japanese yen equivalents primarily using the applicable rate of exchange effective at the balance sheet date.
- p. 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). The hedge effectiveness is assessed by grouping and specifying hedged items including deposits and loans and hedging instruments including interest rate swaps by a 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 is 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). 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.
- q. 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.

- r. 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), 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 are recognized at the carrying value in the Trust (excluding the amount of incidental expenses) as treasury stock under net assets. The carrying value and the number of the shares are ¥881 million (\$7,942 thousand) and 185 thousand shares for the year ended March 31, 2019, and ¥881 million and 185 thousand shares for the year ended March 31, 2018.

6. Loans and Bills Discounted

Loans to borrowers under bankruptcy procedures and delinquent loans totaled ¥3,412 million (\$30,748 thousand) and ¥51,439 million (\$463,464 thousand), respectively, at March 31, 2019 and ¥2,236 million and ¥54,323 million, respectively, at March 31, 2018. 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 ¥297 million (\$2,681 thousand) and ¥383 million at March 31, 2019 and 2018, 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 borrowers under bankruptcy procedures or delinquent loans.

Restructured loans totaled ¥1,007 million (\$9,080 thousand) and ¥1,062 million at March 31, 2019 and 2018, respectively. Restructured loans are those on which the Bank has granted certain concessions, such as a reduction in the contractual interest rate or principal amount or a deferral of interest/principal payments, in order to assist the restructuring of the borrowers. Loans to borrowers in bankruptcy procedures, other non-accrual loans, and loans past due for 3 months or more are excluded from restructured loans.

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 ¥56,158 million (\$505,974 thousand) and ¥58,005 million at March 31, 2019 and 2018, 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 ¥13,918 million (\$125,404 thousand) and ¥12,980 million as of March 31, 2019 and 2018, 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, 2019 and 2018 totaled ¥412,827 million (\$3,719,498 thousand) and ¥421,691 million, respectively; ¥402,973 million (\$3,630,716 thousand) of which, at March 31, 2019 (2018: ¥416,903 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, 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, funds are raised mainly by taking deposits and negotiable certificates of deposit and also by issuance of bonds, call money and others as needed.

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 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 are 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 of 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 Management Meeting 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 Interest Rate Risk in the Banking Book (IRRB) approach and report to the Management Meeting 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 methods, 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 Management Meeting 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 control 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

The main financial instruments which are exposed to interest rate risk and price fluctuation risk such as stock price fluctuation risk include "Loans and bills discounted," "Securities," "Deposits," and "Derivatives." 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 ¥69,273 million (\$624,142 thousand) and ¥84,482 million as of March 31, 2019 and 2018, 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 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, 2019 and 2018.

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

	March 31, 2019		
	<i>Millions of yen</i>		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 1,221,400	¥ 1,221,400	¥ —
Call loans and bills bought	—	—	—
Securities:			
Available-for-sale securities	1,085,023	1,085,023	—
Loans	2,567,333		
Reserve for possible loan losses (*1)	(34,934)		
	2,532,398	2,545,235	12,837
Total assets	4,838,822	4,851,660	12,837
Deposits	3,538,022	3,538,057	35
Negotiable certificates of deposit	63,914	63,914	—
Call money and bills sold	847,399	847,399	—
Payables under repurchase agreements	31,206	31,206	—
Guarantee deposit received under securities lending transactions	204,703	204,703	—
Total liabilities	4,685,246	4,685,281	35
Derivative transactions (*2)			
To which hedge accounting is not applied	(36)	(36)	—
To which hedge accounting is applied	(115)	(115)	—
Total derivative transactions	(152)	(152)	—

	March 31, 2019		
	<i>Thousands of U.S. dollars</i>		
	Carrying value	Fair value	Difference
Cash and due from banks	\$11,004,602	\$11,004,602	\$ —
Call loans and bills bought	—	—	—
Securities:			
Available-for-sale securities	9,775,865	9,775,865	—
Loans	23,131,211		
Reserve for possible loan losses (*1)	(314,757)		
	22,816,454	22,932,119	115,665
Total assets	43,596,923	43,712,588	115,665
Deposits	31,876,945	31,877,267	321
Negotiable certificates of deposit	575,858	575,858	—
Call money and bills sold	7,634,915	7,634,915	—
Payables under repurchase agreements	281,168	281,168	—
Guarantee deposit received under securities lending transactions	1,844,339	1,844,339	—
Total liabilities	42,213,228	42,213,549	321
Derivative transactions (*2)			
To which hedge accounting is not applied	(329)	(329)	—
To which hedge accounting is applied	(1,041)	(1,041)	—
Total derivative transactions	(1,370)	(1,370)	—

	March 31, 2018		
	<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
Total assets	4,574,732	4,585,046	10,313
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	—
Total liabilities	4,428,199	4,428,213	14
Derivative transactions (*2)			
To which hedge accounting is not applied	163	163	—
To which hedge accounting is applied	417	417	—
Total derivative transactions	581	581	—

(*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 as well as due from banks with maturities, the carrying value is presented as the fair value, as it 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 by 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		
	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities (*1) (*2)	¥ 3,245	¥ 3,252	\$ 29,242
Investment in partnership	521	593	4,700
Total	¥ 3,767	¥ 3,846	\$ 33,943

(*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 ¥0 million (\$4 thousand) and ¥1 million on unlisted equity securities for the years ended March 31, 2019 and 2018.

(Note 3) Maturity of financial assets and securities with contractual maturities at March 31, 2019

	March 31, 2019					
	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	¥ 1,183,950	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	—	—	—	—	—	—
Securities:						
Available-for-sale securities with contractual maturities:	101,009	232,303	209,843	173,299	101,423	8,803
Japanese government bonds	74,000	61,000	9,000	28,000	—	—
Municipal bonds	16,860	71,002	61,737	45,942	62,395	75
Corporate bonds	7,374	93,194	86,944	24,001	—	2,500
Other	2,774	7,106	52,161	75,356	39,027	6,228
Loans (*)	713,648	428,052	326,658	213,116	240,267	619,049
Total	¥ 1,998,609	¥ 660,355	¥ 536,501	¥ 386,415	¥ 341,691	¥ 627,852

	March 31, 2019					
	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	\$10,667,185	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought	—	—	—	—	—	—
Securities:						
Available-for-sale securities with contractual maturities:	910,078	2,093,015	1,890,654	1,561,396	913,807	79,313
Japanese government bonds	666,726	549,599	81,088	252,274	—	—
Municipal bonds	151,907	639,722	556,246	413,931	562,173	675
Corporate bonds	66,443	839,664	783,354	216,244	—	22,524
Other	25,000	64,029	469,964	678,945	351,633	56,113
Loans (*)	6,429,847	3,856,673	2,943,131	1,920,138	2,164,770	5,577,521
Total	\$18,007,110	\$ 5,949,688	\$ 4,833,785	\$ 3,481,534	\$ 3,078,578	\$ 5,656,834

(*) Loans from "legally bankrupt," "substantially bankrupt" and "likely to become bankrupt" borrowers which are not expected to be repaid amounting to ¥12,219 million (\$110,097 thousand) are not included.

Loans whose payment term is not determined amounting to ¥14,321 million (\$129,031 thousand) are not included.

(Note 4) Maturity of bonds and interest bearing liabilities at March 31, 2019

	March 31, 2019					
	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 (*)	¥ 2,724,707	¥ 230,768	¥ 52,824	¥ —	¥ —	¥ —
Negotiable certificates of deposits	63,914	—	—	—	—	—
Call money and bills sold	847,399	—	—	—	—	—
Payables under repurchase agreements	31,206	—	—	—	—	—
Guarantee deposit received under securities lending transactions	204,703	—	—	—	—	—
Total	¥ 3,871,931	¥ 230,768	¥ 52,824	¥ —	¥ —	¥ —

	March 31, 2019					
	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 (*)	\$24,549,129	\$ 2,079,186	\$ 475,934	\$ —	\$ —	\$ —
Negotiable certificates of deposits	575,858	—	—	—	—	—
Call money and bills sold	7,634,915	—	—	—	—	—
Payables under repurchase agreements	281,168	—	—	—	—	—
Guarantee deposit received under securities lending transactions	1,844,339	—	—	—	—	—
Total	\$34,885,411	\$ 2,079,186	\$ 475,934	\$ —	\$ —	\$ —

(*) 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, 2019 and 2018 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, 2019 and 2018.

(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, 2019 and 2018 are summarized as follows:

	March 31, 2019				
	Millions of yen				
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	¥ 167,466	¥ 88,673	¥ 78,793	¥ 82,733	¥ 3,940
Debt securities	652,190	648,133	4,057	4,477	420
Others	265,365	266,208	(843)	4,007	4,850
Total	¥1,085,023	¥1,003,015	¥ 82,007	¥ 91,219	¥ 9,211

	March 31, 2019				
	Thousands of U.S. dollars				
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	\$1,508,844	\$ 798,930	\$ 709,913	\$ 745,415	\$ 35,502
Debt securities	5,876,121	5,839,566	36,554	40,345	3,790
Others	2,390,899	2,398,495	(7,595)	36,108	43,703
Total	\$9,775,865	\$9,036,992	\$ 738,873	\$ 821,869	\$ 82,996

	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

Japanese government bonds, equities and others loaned under the securities lending agreement in the amount of ¥37,998 million (\$342,358 thousand) and ¥42,800 million are included in the above securities as of March 31, 2019 and 2018, 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 years ended March 31, 2019 and 2018. 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, 2019 and 2018 are as follows:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized gain on available-for-sale securities	¥ 82,007	¥ 87,895	\$ 738,873
Deferred tax liabilities	(24,099)	(25,659)	(217,130)
	¥ 57,908	¥ 62,236	\$ 521,742
Attributable to non-controlling interest	(1,355)	(1,474)	(12,209)
Unrealized gain on available-for-sale securities, net of tax	¥ 56,553	¥ 60,762	\$ 509,533

Available-for-sale securities sold during the years ended March 31, 2019 and 2018 are summarized as follows:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds from sales	¥ 395,755	¥ 528,874	\$ 3,565,689
Gain on sales	4,354	4,321	39,232
Loss on sales	1,461	3,644	13,169

9. Money Held in Trusts

Money held in trusts for investment purposes

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Amount recorded in the consolidated balance sheets	¥ 13,523	¥ 13,531	\$ 121,845
Unrealized gain (loss) included in profit and loss for the fiscal year	23	31	212

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 ¥12,292 million (\$110,757 thousand) and ¥10,837 million at March 31, 2019 and 2018, respectively.

11. Cash Flows

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2019 and 2018 and cash and cash equivalents in the consolidated statements of cash flows for the years then ended is as follows:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and due from banks	¥ 1,221,400	¥ 1,094,772	\$11,004,602
Due from banks other than the Bank of Japan	(5,150)	(4,183)	(46,402)
Cash and cash equivalents	¥ 1,216,250	¥ 1,090,589	\$10,958,200

12. Accumulated Depreciation and Deferred Gains on Tangible Fixed Assets

Accumulated depreciation totaled ¥33,455 million (\$301,429 thousand) and ¥32,382 million at March 31, 2019 and 2018, respectively.

Deferred gains on tangible fixed assets deducted for tax purposes at March 31, 2019 and 2018 were ¥2,851 million (\$25,688 thousand) and ¥3,074 million, respectively.

13. Assets Pledged

Assets pledged as collateral at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Pledged assets:			
Securities	¥ 377,153	¥ 431,409	\$ 3,398,084
Other assets	38,480	46,598	346,702
Liabilities secured by the above assets:			
Deposits	¥ 45,048	¥ 43,127	\$ 405,879
Call money and bills sold	35,516	62,496	320,000
Payables under repurchase agreements	31,206	93,828	281,168
Guarantee deposit received under securities lending transactions	204,703	197,918	1,844,339

In addition, securities of ¥2,528 million at March 31, 2018 were pledged as collateral for settlement of exchange transactions. No securities were pledged as collateral for settlement of exchange transactions at March 31, 2019. Margin deposits with the clearing house of ¥20,000 million (\$180,196 thousand) and ¥19,555 million at March 31, 2019 and 2018 and guarantee deposits of ¥78 million (\$709 thousand) and ¥86 million were included in other assets at March 31, 2019 and 2018, respectively.

14. Borrowed Money

The details of borrowed money at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Borrowed money	¥ 2,398	¥ 3,977	\$ 21,608
Due from April 2019 through December 2025			
Average interest rate: 0.54% p.a.			

Annual maturities of borrowed money are as follows:

Year ending March 31	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2020	¥ 1,459	\$ 13,146
2021	622	5,606
2022	222	2,002
2023	72	649
2024 and thereafter	22	204
Total	¥ 2,398	\$ 21,608

15. Borrowed Money from Trust Account

The principal amount of trust account with contracts indemnifying the principal is as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Money trust	¥ 90	¥ —	\$ 810

16. 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, 2019 and 2018 are as follows:

(a) Number of outstanding shares and treasury stock For the year ended March 31, 2019

Type of shares	Shares			
	Balance at beginning of year	Increase during the year	Decrease during the year	Balance at end of year
Issued stock:				
Common stock	29,990,197	—	880,000	29,110,197
Treasury stock:				
Common stock	1,071,920	1,151	880,000	193,071

Notes:

- The decrease in issued stock of 880 thousand shares is due to the cancellation of treasury stock.
- The number of common stock as of March 31, 2019 includes 185 thousand shares held by Japan Trustee Services Bank, Ltd. (Trust account).
- The increase in treasury stock of 1 thousand shares is due to request for the buyback of shares less than one unit.
- The decrease in treasury stock of 880 thousand shares is due to the cancellation of treasury stock.

For the year ended March 31, 2018

Type of shares	Shares			
	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.

5. 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.

(b) Dividends paid to the shareholders during the year
For the year ended March 31, 2019

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 (\$13,110 thousand)	¥50.0 (\$0.45)	Mar. 31, 2018	Jun. 25, 2018
Nov. 8, 2018	Board of Directors	Common stock	¥1,164 million (\$10,488 thousand)	¥40.0 (\$0.36)	Sep. 30, 2018	Dec. 5, 2018

Note:

The total amount of dividends paid includes ¥9 million (\$83 thousand) of dividends based on the resolution at the ordinary general meeting of shareholders held on June 22, 2018 and ¥7 million (\$66 thousand) of dividends based on the resolution at the Board of Directors' meeting held on November 8, 2018 for 185 thousand shares held by Japan Trustee Services Bank, Ltd. (Trust account).

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	¥4.5	Mar. 31, 2017	Jun. 26, 2017
Nov. 6, 2017	Board of Directors	Common stock	¥1,164 million	¥4.0	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.

Dividends applicable to the year ended March 31, 2019, 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. 21, 2019	Ordinary general meeting of shareholders	Common stock	¥1,164 million (\$10,488 thousand)	¥40.0 (\$0.36)	Mar. 31, 2019	Jun. 24, 2019

(Above cash dividends are distributed from retained earnings.)

Note:

The total amount of dividends paid based on the resolution at the ordinary general meeting of shareholders held on June 21, 2019 includes ¥7 million (\$66 thousand) of dividends for 185 thousand shares held by Japan Trustee Services Bank, Ltd. (Trust account).

17. Stock Options

The related cost of ¥15 million was charged to income for the year ended March 31, 2018. No cost was charged to income for the year ended March 31, 2019.

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.

18. 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, 2019 and 2018:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥ 141	¥ 109	\$ 1,277
Due after one year	259	225	2,340
Total	¥ 401	¥ 335	\$ 3,617

As lessor:

a. Finance leases

Investment in leased assets consists of the following:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Lease receivables	¥ 30,535	¥ 28,036	\$ 275,117
Residual value	3,511	2,765	31,635
Unearned interest income	(3,112)	(2,836)	(28,043)
Total	¥ 30,933	¥ 27,965	\$ 278,709

Maturities of lease receivables and investment in leased assets at March 31, 2019 are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Year ending March 31	Lease receivables	Investment in leased assets
2020	¥ 477	¥ 8,234 \$ 4,298 \$ 74,192
2021	410	6,942 3,701 62,554
2022	358	5,457 3,226 49,175
2023	278	3,980 2,507 35,867
2024	170	2,441 1,537 21,993
2025 and thereafter	252	3,477 2,273 31,332
Total	¥ 1,947	¥ 30,535 \$ 17,546 \$ 275,117

b. Operating leases

The following table presents the schedule of future minimum lease payments under non-cancellable operating leases at March 31, 2019:

	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 174	\$ 1,569
Due after one year	400	3,607
Total	¥ 574	\$ 5,176

19. General and Administrative Expenses

Major expenses included in general and administrative expenses for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥ 11,828	¥ 11,907	\$ 106,570
Retirement benefit expenses	1,773	1,993	15,979
Depreciation	3,818	3,772	34,407

20. Loss on Impairment

Other expenses include loss on impairment of ¥566 million (\$5,104 thousand) and ¥316 million for the years ended March 31, 2019 and 2018, 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, 2019				
Location	Main use	Asset type	(Millions of yen)	(Thousands of U.S. dollars)
Ishikawa Pref.	7 operating branches	Land	¥ 422	\$ 3,807
	8 operating branches	Buildings	97	881
	5 idle assets	Land	12	114
	1 idle asset	Buildings	14	132
Outside Ishikawa Pref.	1 operating branch	Buildings	9	84
	1 corporate asset	Buildings	9	84
Total			¥ 566	\$ 5,104

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, 2018				
Location	Main use	Asset type	(Millions of yen)	
Ishikawa Pref.	3 operating branches	Land	¥ 228	
	3 operating branches	Buildings	70	
	6 idle assets	Land	9	
	1 idle asset	Buildings	7	
Total			¥ 316	

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.

21. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	2019 (Millions of yen)	2018	2019 (Thousands of U.S. dollars)
Reclassification adjustments			
Net unrealized gains on available-for-sale securities:			
Gain incurred during the year	¥ (2,208)	¥ 24,224	\$ (19,896)
Reclassification adjustment	(3,680)	(3,744)	(33,156)
Amount before tax effect	(5,888)	20,479	(53,053)
Net unrealized gains (losses) on hedging instruments:			
Gain (loss) incurred during the year	0	33	4
Reclassification adjustment	—	—	—
Amount before tax effect	0	33	4
Remeasurements of defined benefit plans			
Gain (loss) incurred during the year	(573)	(255)	(5,165)
Reclassification adjustment	1,230	1,462	11,090
Amount before tax effect	657	1,206	5,925
Total amount before tax effect	(5,230)	21,719	(47,123)
Tax effect	1,359	(6,699)	12,249
Total other comprehensive income	¥ (3,870)	¥ 15,019	\$ (34,874)

	2019 (Millions of yen)	2018	2019 (Thousands of U.S. dollars)
Tax effect on other comprehensive income:			
Net unrealized gains on available-for-sale securities:			
Amount before tax effect	¥ (5,888)	¥ 20,479	\$ (53,053)
Tax effect	1,559	(6,319)	14,054
Amount after tax effect	(4,328)	14,159	(38,998)
Net deferred gains (losses) on hedging instruments:			
Amount before tax effect	0	33	4
Tax effect	(0)	(9)	(1)
Amount after tax effect	0	23	3
Remeasurements of defined benefit plans			
Amount before tax effect	657	1,206	5,925
Tax effect	(200)	(370)	(1,804)
Amount after tax effect	¥ 457	¥ 835	\$ 4,120

22. Income Taxes

The major components of deferred tax assets and liabilities at March 31, 2019 and 2018 are summarized as follows:

	2019 (Millions of yen)	2018	2019 (Thousands of U.S. dollars)
Deferred tax assets:			
Reserve for possible loan losses	¥ 11,535	¥ 11,231	\$ 103,935
Net defined benefit liability	4,465	4,664	40,229
Depreciation of real estate	820	759	7,395
Unrealized loss on write-down of equity securities	1,539	1,609	13,869
Other	2,570	2,713	23,161
Subtotal	20,931	20,978	188,591
Valuation allowance	(9,662)	(9,274)	(87,053)
Total deferred tax assets	11,269	11,704	101,537
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(24,099)	(25,659)	(217,130)
Other	(192)	(197)	(1,736)
Total deferred tax liabilities	(24,292)	(25,856)	(218,866)
Net deferred tax assets (liabilities)	¥ (13,022)	¥ (14,152)	\$ (117,328)

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, 2019 and 2018 is presented as follows:

	2019	2018
Statutory tax rate	30.4%	30.6%
Reconciliation:		
Nondeductible permanent differences, such as entertainment expenses	0.8	0.5
Nontaxable permanent differences, such as dividend income	(1.8)	(1.4)
Per capita residents' taxes	0.2	0.2
Valuation allowance	2.8	1.9
Other	1.1	0.7
Effective tax rate	33.5%	32.5%

23. 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, 2019 and 2018 are as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at beginning of year	¥ 32,213	¥ 33,083	\$ 290,233
Service cost	540	523	4,870
Interest cost	59	61	532
Actuarial gains or losses	339	320	3,054
Benefits paid	(1,943)	(1,776)	(17,511)
Balance at end of year	¥ 31,208	¥ 32,213	\$ 281,179

2. The changes in plan assets for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at beginning of year	¥ 16,973	¥ 17,028	\$ 152,929
Expected return on plan assets	339	340	3,058
Actuarial gains or losses	(234)	64	(2,110)
Contributions from the employer	555	555	5,005
Benefits paid	(1,012)	(1,016)	(9,124)
Balance at end of year	¥ 16,621	¥ 16,973	\$ 149,758

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

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded defined benefit obligation	¥ 21,405	¥ 22,083	\$ 192,856
Plan assets	(16,621)	(16,973)	(149,758)
	4,783	5,109	43,097
Unfunded defined benefit obligation	9,803	10,129	88,323
Net liability recorded in the consolidated balance sheet	¥ 14,586	¥ 15,239	\$ 131,421

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Net defined benefit liability	¥ 14,586	¥ 15,239	\$ 131,421
Net liability recorded in the consolidated balance sheet	¥ 14,586	¥ 15,239	\$ 131,421

4. The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 540	¥ 523	\$ 4,870
Interest cost	59	61	532
Expected return on plan assets	(339)	(340)	(3,058)
Amortization of actuarial gains or losses	1,440	1,671	12,974
Amortization of prior service cost	(209)	(209)	(1,884)
Retirement benefit expenses	¥ 1,491	¥ 1,707	\$ 13,434

5. The components of remeasurements of defined benefit plans (before deducting tax effect) on other comprehensive income as of March 31, 2019 and 2018 are as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (209)	¥ (209)	\$ (1,884)
Net actuarial gain or loss	866	1,415	7,809
Total	¥ 657	¥ 1,206	\$ 5,925

6. The components of remeasurements of defined benefit plans (before deducting tax effect) on accumulated other comprehensive income as of March 31, 2019 and 2018 are as follows:

	2019	2018	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 593	¥ 802	\$ 5,350
Unrecognized net actuarial gain or loss	(5,320)	(6,187)	(47,940)
Total	¥ (4,727)	¥ (5,384)	\$ (42,590)

7. Plan assets

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

	2019	2018
General account	71%	65%
Stock	15	19
Debt securities	10	11
Other	4	5
Total	100%	100%

Note:

Total plan assets include 3% of retirement benefit trust established on corporate pension plans as of March 31, 2019 and 2018, 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, 2019 and 2018, were set forth as follows:

	2019	2018
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 ¥282 million (\$2,544 thousand) and ¥286 million for the years ended March 31, 2019 and 2018.

24. 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 to 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, 2019 and 2018 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, 2019 and 2018.

(2) Currency related derivatives

		March 31, 2019			
		Millions of yen			
		Contract amount		Valuation gain (loss)	
		Total	Over one year		
OTC transactions:					
Currency swaps					
Forward contracts on foreign exchange	Sold	16,881	—	(46)	(46)
	Bought	7,228	—	10	10
Currency options	Sold	14,986	—	(510)	261
	Bought	14,986	—	510	(220)
Total		—	—	¥ (36)	¥ 4

		March 31, 2019			
		Thousands of U.S. dollars			
		Contract amount		Valuation gain (loss)	
		Total	Over one year		
OTC transactions:					
Currency swaps					
Forward contracts on foreign exchange	Sold	152,096	—	(420)	(420)
	Bought	65,123	—	91	91
Currency options	Sold	135,027	—	(4,597)	2,359
	Bought	135,027	—	4,597	(1,987)
Total		—	—	\$ (329)	\$ 42

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

Notes:

- The 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, 2019 and 2018 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, 2019			
		Millions of yen			
		Contract amount		Contract amount due after one year	Fair value
		Major hedged item	Contract amount		
Hedge accounting method	Transaction type				
Normal method	Interest rate swaps:				
	Receive fixed rate/ Pay floating rate	Loans, securities and deposits	¥ —	¥ —	—
	Receive floating rate/ Pay fixed rate		57	—	(0)
	Other		—	—	—
Total			—	—	¥ (0)

		March 31, 2019			
		Thousands of U.S. dollars			
		Contract amount		Contract amount due after one year	Fair value
		Major hedged item	Contract amount		
Hedge accounting method	Transaction type				
Normal method	Interest rate swaps:				
	Receive fixed rate/ Pay floating rate	Loans, securities and deposits	\$ —	\$ —	—
	Receive floating rate/ Pay fixed rate		519	—	(3)
	Other		—	—	—
Total			—	—	\$ (3)

		March 31, 2018			
		Millions of yen			
		Contract amount		Contract amount due after one year	Fair value
		Major hedged item	Contract amount		
Hedge accounting method	Transaction type				
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)

Notes:

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

(2) Currency related derivatives

		March 31, 2019			
		Millions of yen			
		Contract amount		Contract amount due after one year	Fair value
		Major hedged item	Contract amount		
Hedge accounting method	Transaction type				
Normal method	Currency swaps:	Foreign currency denominated securities	¥ 40,511	¥ 11,099	¥ (115)
Total			—	—	¥ (115)

		March 31, 2019			
		Thousands of U.S. dollars			
		Contract amount		Contract amount due after one year	Fair value
		Major hedged item	Contract amount		
Hedge accounting method	Transaction type				
Normal method	Currency swaps:	Foreign currency denominated securities	\$ 365,000	\$ 100,000	\$ (1,037)
Total			—	—	\$ (1,037)

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

Notes:

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

25. Per Share Information

Net assets per share at March 31, 2019 and 2018 and profit per share for the years then ended is as follows:

	2019 (Yen)	2018	2019 (U.S. dollars)
Net assets per share	¥9,106.33	¥ 9,029.61	\$ 82.04
Profit per share	296.83	346.38	2.67

Notes:

- On October 1, 2017, the Bank consolidated ten (10) shares of its common stock into one (1) share. Profit per share is calculated based on the assumption that the share consolidation had been carried out at the beginning of the year ended March 31, 2018.
- 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 and profit per share, 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, 2019, both 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. 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.
- Profit per share-diluted is omitted since there is no dilutive share.

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

	2019 (Millions of Yen)	2018	2019 (Thousands of U.S. dollars)
(Net assets per share)			
Net assets per balance sheets	¥ 271,215	¥ 268,777	\$ 2,443,605
Amounts to be attributed to non-controlling interests	7,886	7,656	71,057
Net assets attributed to common stock shareholders	263,329	261,120	2,372,547
Outstanding number of shares at end of year (unit: thousand shares)	28,917	28,918	
(Profit per share)			
Profit attributable to owners of parent	¥ 8,583	¥ 10,163	\$ 77,339
Profit attributable to common stock shareholders	8,583	10,163	77,339
Average outstanding number of shares during the year (unit: thousand shares)	28,917	29,340	

26. Segment Information

1. Reportable segments

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

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.

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

The "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, 2019				
	Millions of yen				
	Reportable segments				Consolidated
Banking	Leasing	Total	Adjustments		
Total income:					
External customers	¥ 56,598	¥ 10,516	¥ 67,114	—	¥ 67,114
Intersegments	133	13	146	(146)	—
Total	¥ 56,731	¥ 10,530	¥ 67,261	¥ (146)	¥ 67,114
Segment profit	¥ 13,495	¥ 679	¥ 14,174	¥ (8)	¥ 14,165
Segment assets	¥ 5,016,582	¥ 35,617	¥ 5,052,199	¥ (22,973)	¥ 5,029,226
Other information					
Depreciation	¥ 3,805	¥ 187	¥ 3,992	—	¥ 3,992
Interest income	40,338	—	40,338	(109)	40,229
Interest expenses	4,538	118	4,657	(102)	4,554
Increase in tangible and intangible fixed assets	3,800	74	3,874	—	3,874

	Year ended March 31, 2019				
	Thousands of U.S. dollars				
	Reportable segments				Consolidated
Banking	Leasing	Total	Adjustments		
Total income:					
External customers	\$ 509,939	\$ 94,753	\$ 604,693	—	\$ 604,693
Intersegments	1,203	119	1,323	(1,323)	—
Total	511,142	94,873	606,016	(1,323)	604,693
Segment profit	\$ 121,589	\$ 6,121	\$ 127,710	\$ (78)	\$ 127,632
Segment assets	\$ 45,198,504	\$ 320,910	\$ 45,519,415	\$ (206,988)	\$ 45,312,427
Other information					
Depreciation	\$ 34,282	\$ 1,692	\$ 35,975	—	\$ 35,975
Interest income	363,441	—	363,441	(984)	362,456
Interest expenses	40,895	1,065	41,960	(925)	41,034
Increase in tangible and intangible fixed assets	34,238	672	34,911	—	34,911

	Year ended March 31, 2018				
	Millions of yen				
	Reportable segments				Consolidated
Banking	Leasing	Total	Adjustments		
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

Notes:

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

Other information:

Information by service line:

	Year ended March 31, 2019				
	Millions of yen				
	Securities				Total
Loan	investment	Lease	Other		
Income from external customers	¥ 26,354	¥ 17,698	¥ 10,516	¥ 12,545	¥ 67,114

ended March 31, 2019 and 2018.

Year ended March 31, 2019					
<i>Thousands of U.S. dollars</i>					
	Securities				Total
	Loan	investment	Lease	Other	
Income from external customers	\$ 237,444	\$ 159,459	\$ 94,753	\$ 113,035	\$ 604,693

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

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

Year ended March 31, 2019			
<i>Millions of yen</i>			
	Reportable segments		Total
	Banking	Leasing	
Loss on impairment	¥ 566	¥ —	¥ 566

Year ended March 31, 2019		
<i>Thousands of U.S. dollars</i>		
	Reportable segments	
	Banking	Leasing
Loss on impairment	\$ 5,104	\$ —

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

27. Related Party Transactions

The related party transactions for the years ended March 31, 2019 and 2018 and related account balances outstanding at March 31, 2019 and 2018 were as follows:

Transactions between the Bank and related parties

Year ended March 31, 2019

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 their relatives						
Hideo Nakashima	Director	0.33	Loan Guarantee	¥(9)/\$(83) ¥85/\$773	Loan —	¥166/\$1,495 —
Companies whose majority is owned by directors and/or their relatives						
Nakashima Co. Ltd.	Wholesale of paper products	0.40	Loan	¥49/\$443	Loan	¥398/\$3,589

Year ended March 31, 2018

Name	Business summary / Title	Ownership (%)	Transaction	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Directors and their relatives						
Hideo Nakashima	Director	0.33	Loan Guarantee	¥(11) ¥124	Loan —	¥175 —
Companies whose majority is owned by directors and/or their relatives						
Nakashima Co. Ltd.	Wholesale of paper products	0.40	Loan	¥(72)	Loan	¥349

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

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, 2019, 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, 2019, 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 20, 2019
Tokyo, Japan

Ernst & Young Shin Nihon LLC



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