

2021

INTEGRATED REPORT
(ANNUAL REPORT)

HOKKOKU BANK
INTEGRATED REPORT
(ANNUAL REPORT)

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FORWARD-LOOKING STATEMENTS

This integrated report contains certain forward-looking statements about Hokkoku Bank's future, including outlooks, plans, forecasts, results, etc. All such forward-looking statements are projections based on the information available to the Bank at the time of the Integrated 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 Integrated Report. Such risks and uncertainties include, but are not limited to, economic conditions and competitive environment in which the Bank must do business, 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	¥5,510.4 billion
Location of Headquarters	2-12-6 Hirooka, Kanazawa, Ishikawa, Japan	Loans	¥2,633.9 billion
Foundation Date	December 18, 1943	Deposits	¥4,052.0 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) 3 overseas representative offices (Shanghai, Bangkok, Ho Chi Minh) 9 money plazas	<Leasing business>	The Hokkoku General Leasing Co., Ltd.
Number of Employees	2,147 (excluding temporary staff, business staff and staff employed at overseas offices)	<Credit card business>	The Hokkoku Credit Service Co., Ltd.
Number of Outstanding Shares	28,115 thousand shares	<Credit guarantee business>	The Hokkoku Credit Guarantee Co., Ltd.
Number of Shareholders	9,238	<Corporate revitalization fund business and centralized accounting business for subsidiaries>	The Hokkoku Management, Ltd.
Capital Adequacy Ratio	13.04% (Consolidated/Global Standard)	<Debt management and collection business>	The Hokkoku Servicer, Ltd.
		<Development, operation and maintenance of information systems>	The Digital Value, Ltd

As of March 31, 2021

MESSAGE FROM THE PRESIDENT



Shuji Tsuemura
President &
Chief Executive Officer
Representative Director

In FY2021, despite the unstable economic situation amid COVID-19 pandemic, we at Hokkoku Bank, worked together to address our customers' needs timely and expeditiously. After taxes, we were able to secure consolidated profits of over 6.7 billion yen and increase the dividend per share to 80 yen in the fiscal year ended March 31, 2021. We sincerely thank our business partners, shareholders and employees for placing their trust in us throughout these years and giving us the opportunity to build strong, trustful and long-term relationships together.

Transformation to a holding company structure

Hokkoku Bank will transform into a holding company on October 1, 2021. Our corporate philosophy is "Trust – a bridge to a fruitful regional future. Enrich interaction and growth in the region". In other words, Hokkoku Bank exist to act for the benefit of people and the world, enriching the lives of individuals and society as a whole. The main purpose of the transition to a holding company structure is to enhance our business development based on our corporate philosophy and brand. We are committed to work as professionals offering a differentiated value proposition to our customers and the broader community. We at Hokkoku Bank would like to entrench our customers interest and needs as the focal point in everything we plan and execute. In addition to the products and services provided under the existing banking framework, the establishment of new companies operating under the umbrella of holding company will enable us to offer a broader and comprehensive range of services.

Since May 2021, three new companies were established before the establishment of the holding company. Our existing Consulting Department, which comprised of approximately 100 employees who are responsible for providing consulting services to corporate clients, will recruit additional staff and be converted to an independent consulting firm called CC Innovation. Taking the inspiration and direction from our overarching operating principals, communication and collaboration, the new entity's name reflects its mission to develop regional economies and support innovation. In addition to current consulting services CC Innovation will expand our services into a wide variety of new domains.

Over the last 10 years, Hokkoku Bank Group has been using revitalization funds to support its customers who have suffered unfavourable financial results to recover and redevelop their businesses as well as those seeking to exploit new opportunities. The first fund was established in 2010 and the third fund was established last year, with a cumulative total of 7 billion yen. Investments in relation to business growth is expected to increase in future as there are demand for new economy business opportunities, diversification and companies transform their current business models. The establishment of a dedicated investment company, QR Investment, will boost our existing revitalization funds which will be the primary source of the business development funds. This new entity will be a local investment bank that provide funds to promote quality ("Q") as a central aspect of development of local region ("R"). It will provide hands-on support and actively

engage shareholders' equity while collaborating with the newly founded consulting firm, CC Innovation.

Finally, we also established an investment advisory company under the name of FD Advisory. We will develop our business with the approval of the relevant authorities. The name is an abbreviation of "fiduciary duty" which refers to customer-oriented business operations where companies must act diligently to maximize profit for customers who entrust their assets to the company. This new company will have a large number of advisors to perform a role similar to that carried out by registered investment advisors (RIA) in the United States, providing fair investment advice that serves customers' standpoint and guards their interest. Not limited to products and services offered by Hokkoku Bank Group, FD Advisory will provide advice that is tailored to each customer's life plan from an independent third-party perspective. This advice will be centered on a long-term planning, savings and diversification, covering areas such as asset accumulation, reliable insurance and reasonable loan repayment plans. In this manner, we will depart from a conventional system of earning commission for introducing customers to products and services offered by financial institutions to a system in which compensation is received based on the advice that was offered to our customers.

Face-to-face and weekend service

We would once again thank our customers for their understanding when they experienced some inconvenience when we amalgamate a number of our branches, particularly in Ishikawa prefecture, and the amalgamation of our branches is now in its final stages. In recognition of the value of having physical branches to visit and the increasing importance of real dialog and interpersonal communication, plans are in place to gradually increase the number of branches that are open on weekends and national holidays in addition to their existing weekday operating hours. These extended operating hours has been introduced at our Nanao and Uchinada branch in March this year, providing consultations relating to products and services in addition to individual information sessions on setting up and using smartphone-based banking. The current structure of operating on an appointment basis has been well received. In addition to regular branch operations, we are making efforts to offer a system that facilitate customers to visit us for a consultation or seek more information.

Plans for the renovation and relocation of some of our larger branches are also underway. In addition to creating additional parking lots to make visits to our branches more convenient for customers, improvements such as increasing the parking space provided for each vehicle are being carried out. We are also in the process of fitting LED lighting in all our branches (53.7% of our branches are fitted with LED lighting as of March 31, 2021), converting all seats to lower counters that make it more comfortable for customers while having consultation with our employees (71.0 % as of March 31, 2021), and installing more consultation booths and reception rooms. We are continuing our effort to increase the number of parking lots with electric

vehicles (EV) charging facilities. We have also steadily increased the percentage of our ownership of EV and hybrid vehicles (9.3% as of March 31, 2021). We will also continue to develop zero energy buildings (commonly known as ZEBs), which are designed to be environmentally friendly and reduce energy consumption. While the implementation of digital transformation (DX) is extremely important, we are also actively promoting the concept of green transformation (GX).

The shift to digital and digital transformation

The relocation of our headquarters in 2014 provided us with the opportunity to implement internal systems that do not require paper, official seals or cash, while our transition to digital technology on the customer-facing front began earnestly in 2017. Hokkoku Cloud Banking, a comprehensive digital banking service for personal banking customers, was launched in fall 2019 and the functions are continuously upgraded in sequence to enable customers to perform all banking transactions on their smartphone or computer. From February this year, HOKKOKU LIFE+ is another service designed to promote utilisation of digital technology among our customers and provide features including support for debit cards, Hokkoku Cloud Banking, household budget apps and banking without the need for a bankbook or official seal. The addition of the new features to further improve convenience for our personal banking customers is also planned.

In addition to digital technology, we at Hokkoku Bank are proceeding with the rapid implementation of technology-based company wide reforms through digital transformation (DX). In May 2021, we became the first full banking institution in Japan to transit the operation of its core bank settlement system to a public cloud. This will provide a range of significant benefits in terms of the products and services that we can offer to our customers, including by enabling system development and operation at lower cost and with greater speed in future.

As our part in designing cashless payments, we have started our VISA debit card issuance and affiliate store operations five years ago and Hokkoku Bank is one of the few regional financial institutions to be directly licensed as a principal member by VISA. There has been a high level of acceptance among our customers with 240,000 debit card holders and approximately 7,000 affiliate stores. Cashless settlement handled by Hokkoku Bank now totals approximately 100 billion yen per year. Commencing from this financial year, Hokkoku Bank Group as a whole will accelerate our effort to provide assistance to our customers in relation to DX, the shift to digital and the adoption of cashless payments. We are also moving forward with the provision of information to investees regarding the 1 billion yen "Hokkoku DX cashless fund" established in fall last year and further progress is expected in this area.

Handling fee policy

As we continue to promote the shift to digitalization, we believe that it is important to clearly communicate our handling fee policies to our customers for their better understanding. We are currently proceeding with the development of our new internet banking service for corporate clients. Despite the use of the term internet banking, the system will position itself as part of the financial infrastructure for our corporate clients and is intended to function as a digital bank, removing the need for these clients to carry out transactions at a physical branch. Digital banking is inevitable for our clients and is a key means for improving accounting efficiency. In line with this approach, we are in the process of eliminating monthly base handling fees, which is currently charged for internet banking, on an unconditional basis for the foreseeable future. We also intend to eliminate remittance fees for internet banking transfers within Hokkoku Bank and significantly reduce remittance fees for transfers to other banks.

On the other hand, digital banking could create exclusivity and social division. Therefore, we provide comprehensive support for those customers using non-digital services. As always, we continue to offer solutions tailored to the needs of each individual case. Unfortunately, the payment of handling fees, where applicable, is an essential part of these services, and we appreciate our customers' understanding in this matter. We have also provided assistance and support to our corporate customers who are interested to implement digital technology within their businesses. We have prepared the "Hokkoku DX cashless fund" in order to invest in customers who carry out internal reforms starting from digital and aim for the shift to digitalization together. At our branch, Corporate RM and Consultants also provide explanations and consultations in this matter. We will continue promoting our digital services through digital means as it seems to be an effective approach to reach out to our customers.

Traditional banking operate by introducing customers to products such as investment trusts and insurance, then charging a handling fee when the sale of these products is completed. At Hokkoku Bank, we have been advocating a departure from this practice of receiving commissions through this means for nearly a decade and over 90% of our investment trusts are no-load funds, which means there is no handling fee imposed. Our desired business model is based upon payment of consulting fees for advisory services and support in areas such as asset management and inheritance planning to provide solutions that best fit the individual life plan. We believe that there is a growing need for advisors who can provide customers with professional assistance in areas ranging from financial assets to loans and real estate at each stage of their life, from education to housing, retirement and inheritance planning.

Our Consulting Department offers paid consulting services to corporate clients and self-employed individuals since it was established seven years ago. Taking an approach that is distinct from the idea that services should be free of charge wherever possible, receiving a fee for our services enable us to put a comprehensive system in place that provide high quality and valued services as a professional organization.

Annual update to our Medium-Long Term Business Strategy

We review and implement our Medium-Term Business Plan every three years, with the exception of the current Medium-Term Business Plan, which was extended and scheduled to end in 2024. However, we will cease this practice and going forward, we will review and publish our medium - long term strategies and policies which looks beyond the next three years to incorporate a ten-year timescale each fiscal year. In addition, we will provide an explanation on the differences between each fiscal year. Our Medium-Long-Term Business Strategy will look at 10 years into the future taking a long-term management direction and facilitate the implementation of our strategies in a flexible and expeditious manner notwithstanding drastic changes of our business environment. We believe our newly established Medium - Long Term Business Strategies will be agile to cater to the frequent change of business environment. We will update and publish our targeted standards, strategies and policies in the medium to long term every fiscal year.

New capital policy

The revision of our shareholders' return policy was announced at the end of January 2021. Our aim is to achieve a total return ratio of 40%, including stable dividends of 70 yen and continuous repurchase of the company's own shares. From this year onwards, our discussion meeting with our institutional investors to present our financial results will be substituted with the publication of detailed IR presentation materials on our website which coincide with our financial results announcements. For more than a decade, we have been focusing on active private engagements and deeper discussions covering broad range of topics with institutional investors. We will continue to proactively promote dialog sessions with upper management level of our institutional investors.

For individual investors, we will continue to hold face-to-face discussion meetings. We will also continue with the virtual meetings which was introduced last year. We are considering to organize these meetings on weekends and weekday evenings to increase the meeting frequency. We will continue to publish information of our IR activities in a timely and detailed manner adhering to our disclosure policy, including reporting frequency and the content of Q&A documents.

ESG and transparency

Hokkoku Bank Group has published its new definition of materiality, key environmental, social and governance (ESG) issues that will be its priority. Training of high caliber employees who could contribute to the region and economic strategies that leverage on DX are crucial for the revitalization of regional economy. We also recognize that efforts to tackle climate change and protect the environment are also essential elements of our role as a society member.

We further recognize that information disclosure and



transparency are two important prerequisite for our business. We will abide the prerequisites when we set our benchmarks and share our data. We have started the development of skill matrix for our Board of Directors in line with the revised Corporate Governance Code of Japan. We are also discussing governance reforms actively and consulting our external directors for their expert opinion. We plan to implement new measures to improve our governance as a holding company.

It is undeniable that straight and open discussions as a diverse group will enhance the capabilities as an organization, improve the quality of our products and services, and needs of our customers addressed timely and expeditiously. As of to date, we have appointed one female directors, and approximately 15% female managers of all managers, approximately 40% of all deputy managers, and 67% of our newly-recruited graduates in 2021. In addition to the introduction of IT tools, our diverse organization has been one of the paramount reasons for the significant improvements in the speed and quality of our operations over the last few years. As the company continues to become more diverse, our capabilities as an organization are also expected to improve further.

Legal, compliance and risk management systems

As our business scope expands with our transition to a holding company structure, the legal requirements too will increase accordingly. We strive to build robust legal, compliance and risk management systems. There has been a high number of incidents involving personal data leakage and major system failures in multiple industries in recent years. In addition to our in-house expertise, we seek advice from external subject-matter specialists and invest in management resources to enhance our perspectives and preparedness. These steps have paved for a system that provides regular review and improvement in terms of speed and quality, including when our customers who suffered damages need to be compensated and other circumstances that require a prompt response.

We further continue to cultivate a transparent management culture and proper information disclosure to guarantee a vigorous compliance and governance. Furthermore, we have been concentrating on security system, system development and engage third parties to regularly examine our systems for potential risks.



Moreover, we are looking at setting up an IT system that could operate across the entire group according to the prioritization and operational targets for each category starting from this fiscal year. We also intend to publish figures relating to our target achievements and speed of resolution when there any failures. We believe that enabling our customers to have greater understanding of the operation of our systems is an essential part of providing protection and security.

Investing in people and becoming a leader in corporate ethics

Following the establishment of Hokkoku Financial Holdings Co. Ltd. on October 1, 2021, we will adopt a new personnel system in March 2022. All employees of Hokkoku Bank and its affiliated companies will be transferred as employees of the holding company before being seconded to work at their respective subsidiaries. Each company will be a separate entity and unrestricted from any negative effects of vertical division. We believe that this measure is unavoidable to ensure business development for the benefit of our customers.

The new personnel system can be summarized as a system that combines the benefits of a membership system with those of a job and is built on pillars that emphasize the career progression of every individual. Western-style personnel systems and the type of personnel system that has traditionally been adopted in Japan since the post-war period both have their advantages and disadvantages. Our unique system takes the best part of both approaches to eliminate the disadvantages in a manner that fits with our corporate

culture and business model. It is designed to emphasize on the career progression and empowerment, based on the premise that when each individual act as a professional who set their own goals and consider their own career path, this process of self-development benefits both the person concerned, and leads to positive outcomes for customers. As a company that recommends defined contribution pension plans to our customers, we believe that Hokkoku Bank should lead as an example of maximizing the benefits of this system. Subsequently, a retirement allowance advance system and optional defined contribution pension plan will also be introduced.

With one of the lowest rates of overtime per employee among listed companies, there has been an increasing number of news articles citing Hokkoku Bank as one of the top ethical employers in recent years. However, we are aware that overtime hours are just one part of the equation. Companies considered to be ethical employers generally excel in a number of areas, including employee welfare, training, diversity, flexible working, leave entitlement, compliance systems, pay scales and stable business results. The fact that the Hokkoku Bank Group is leading the way as an ethical company is an segment of our business that carries the strongest appeal as we offer consulting and other services that create value for our customers. In order to provide services that generate value and go beyond our customers' expectations, our leaders must first ensure the creation of a happy, healthy and safe working environment for every employee. The management of our company is united in the belief that we should invest more management resources in this area. While it goes without saying that our company will continue to become more diverse, the benefits of this diversity can only be realized if every employee feel psychologically safe, is allowed to take ownership of their work and is part of a corporate culture that provide space for forthright and open discussion. In addition, we must be aware that engaging discussions without the organizational capacity to facilitate, organize and implement actionable items may instead create a persistent sense of dissatisfaction and stagnation within the organization. In recent years, many companies have made efforts to encourage more employees to think proactively. We also believe that this is important and we are deploying significant resources into providing continuous internal and external training at all levels of the company in order to foster employees with a sense of ownership and aspiration with regards to their work. Dialog, including training, communication and discussion, is a key element of professional development. We are steadfast in our belief that every employee who develop their capabilities as a professional will be able to make contribution to the future of the region in both societal and economic terms.

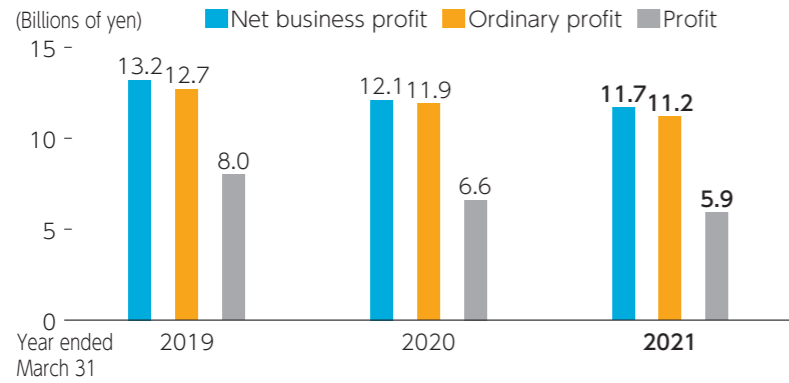
Our employees are committed to work hand in hand to grow as a sustainable business while continuing to create new value for each members of society. We appreciate and look forward for your continued support.

Financial and Non-financial Highlights

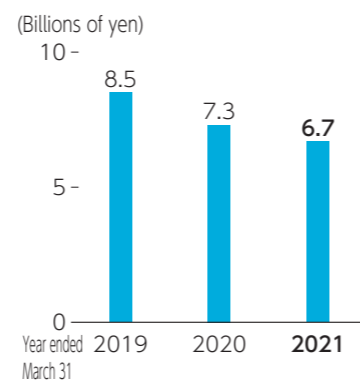
Financial Highlights

Income (Non-consolidated/Consolidated)

Net business profit/Ordinary profit/Profit (Non-consolidated)

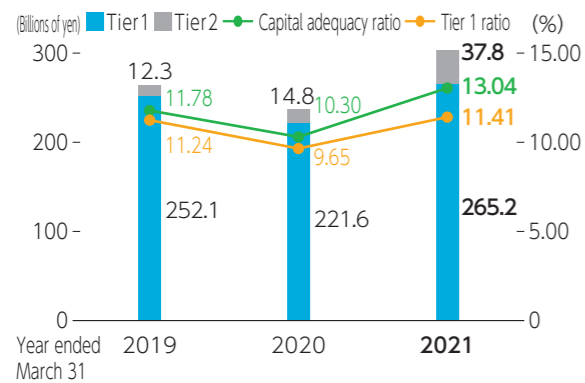


Profit (Consolidated)

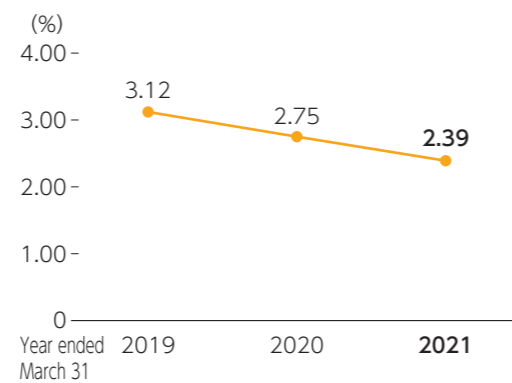


Capital adequacy ratio (Consolidated) / ROE (Non-consolidated)

Capital adequacy ratio (Consolidated)

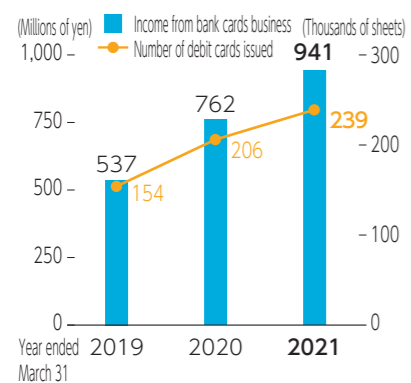


ROE (Non-consolidated)

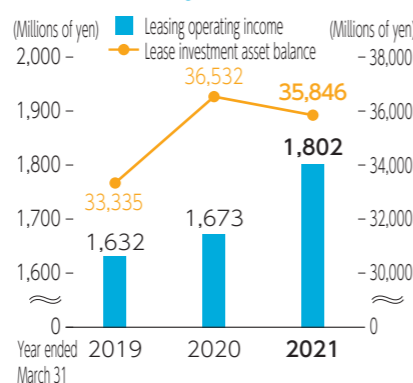


Income from new business

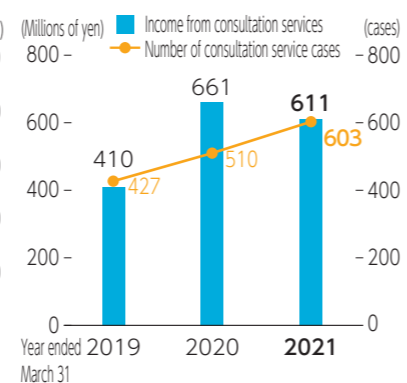
Income from bank cards business



Income from leasing business (Consolidated)



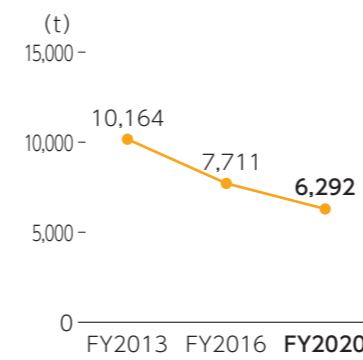
Income from consultation services



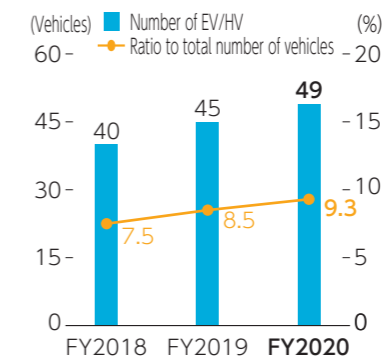
Non-financial Highlights

Environment

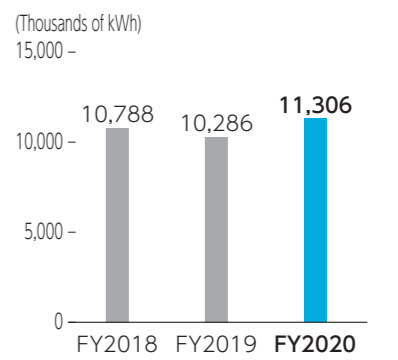
CO₂ emissions



Ratio of EV/HV

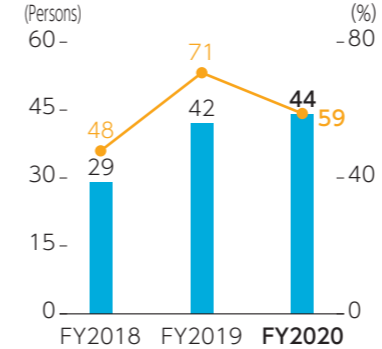


Electricity consumption

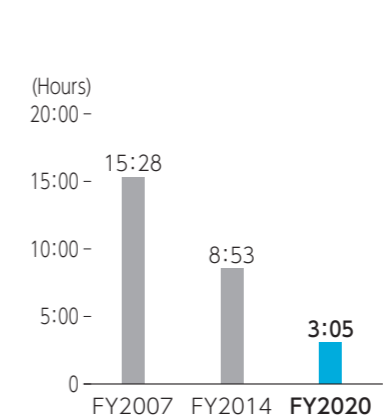


Society

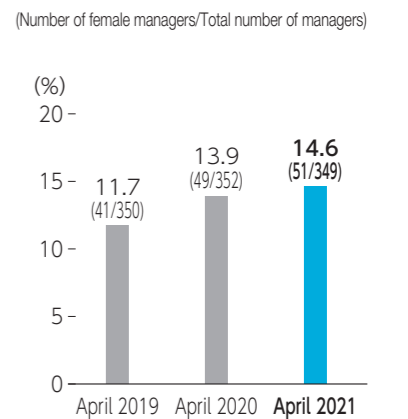
Number of employees returning after taking childcare leave/Of which, ratio of employees choosing reduced working hours for childcare



Monthly overtime hours per person

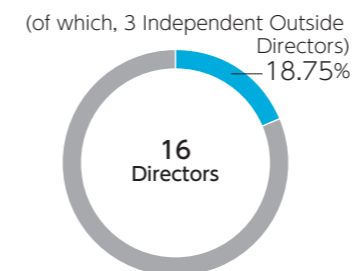


Ratio of female managers

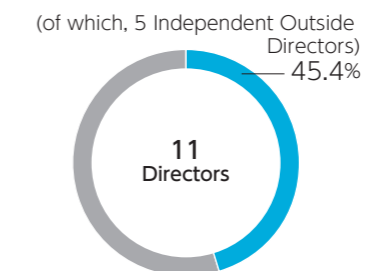


Governance

Ratio of Independent Outside Directors (June 2015)



(June 2021)



Ratio of female Directors

2015: 1 person (8.2%)

2021: 1 person (9.0%)

Value Creation Process

The Hokkoku Bank will achieve its management philosophy as a “next-generation integrated regional company,” and work to create value for the region together with its stakeholders by utilizing its unique strengths and creating innovation through communication and collaboration.

Corporate philosophy

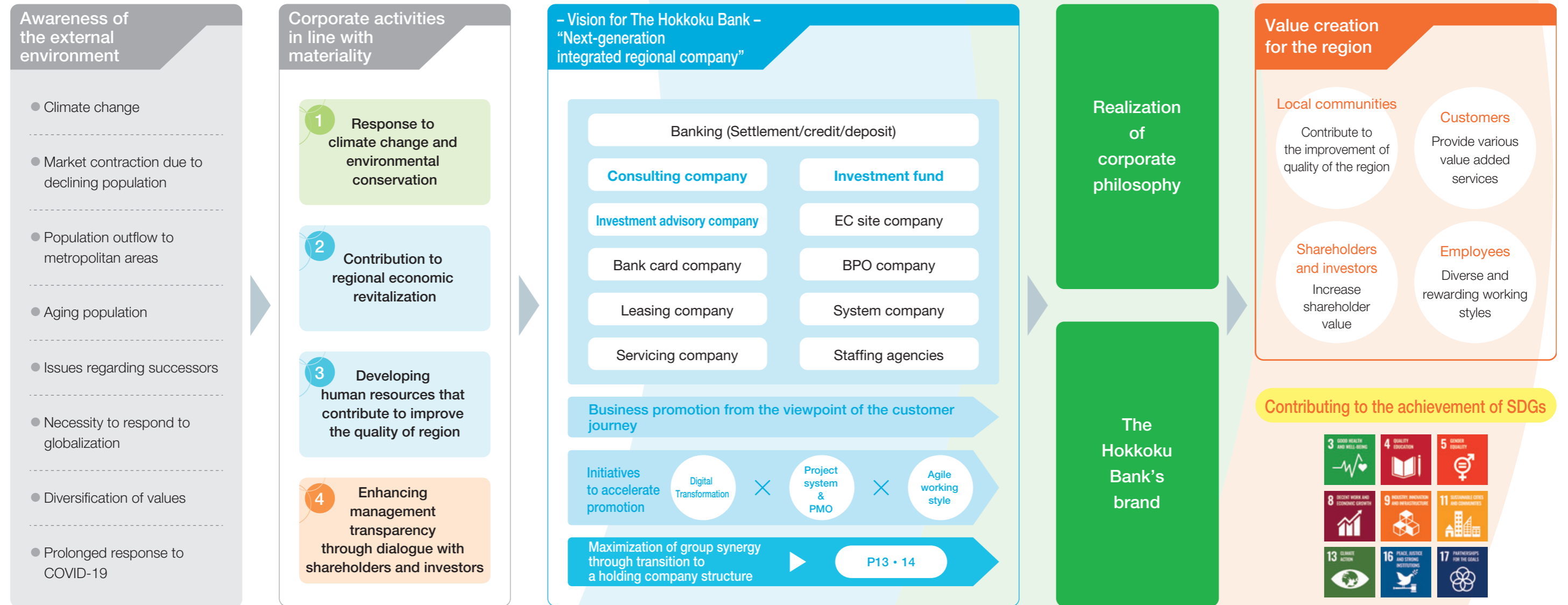
Trust — a bridge to a fruitful regional future
 – Enrich interaction and growth in the region –

Brand

The Hokkoku Bank exists to act for the benefit of people and the world, enriching the lives of individuals and society as a whole.

ESG Initiative Policies

The Hokkoku Bank aims to work together with all stakeholders, including local communities, to realize a sustainable society by actively working to resolve ESG (Environmental, Social and Governance) issues through its business activities. We believe that the resolution of ESG issues through our business activities and the virtuous cycle of sustained improvement in earnings will lead to the realization of our corporate philosophy “Trust – a bridge to a fruitful regional future. Enrich interaction and growth in the region.”



Foundation to support value creation, strengthening of corporate governance and the risk management & compliance culture

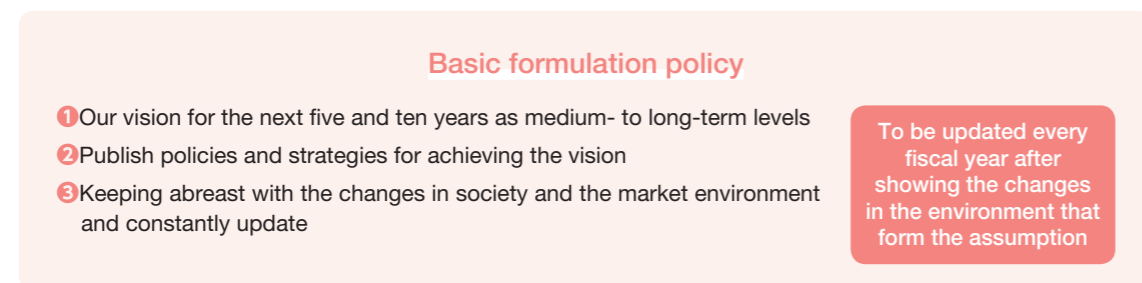
Medium-Long Term Business Strategy

We used to formulate medium-term business plans that covered a period of about three years; however, from now on, we will specify the levels that should be targeted in the medium to long term taking into account rapidly changing social and environmental situations and update the strategy and policy for initiatives every fiscal year and thereby enable more flexible formulation of plans which are in line with actual conditions.

Medium-Long Term Business Strategy 2021 –Update Plans–

Background for the revision to the method of announcement

- The necessity for keeping abreast with rapid changes in social situations and the business environment and having medium- to long-term awareness of the major direction to implement strategy in a more flexible and timely manner.
- The belief that it will be in line with actual conditions to update our Medium-Long Term Business Strategy when as and when necessary in tune with the advancement of our organizational structure as we use project teams to consider and implement strategy in an agile manner.



Key Strategy Framework

● Expansion of business lines

- Expansion of business lines through new companies
- Expansion of customer base by strengthening current businesses

● Robust credit risk management and support systems

- Effective risk management through excellent business prospective understanding and strengthened business relations
- Management improvement by strengthening consulting function

● Maximization of group synergy

- Improving quality of services offered to the region (swift decision-making and efficient business operations)
- Improvement of management efficiency by maximizing group synergy (governance and effective utilization of management resources)

● Developing human resources that contribute to improve the quality of region

- Mobilization of human resources throughout the Group and education to the next-generation management leaders (development of highly talented and productive workforce that can respond to the increasingly diverse and sophisticated needs)

Targeted Medium- to Long-Term Levels

- Levels envisioned to achieve over the medium to long term based on our forecast on the environment and The Hokkoku Bank Group's policy for initiatives

Item	FY2020 actual result	FY2025 (five years later)	FY2030 (ten years later)
Ordinary profit (consolidated)	¥12.8 billion	¥16.0 billion	¥21.0 billion
Profit (consolidated)	¥6.7 billion	¥10.0 billion	¥13.0 billion
Income from new business (consolidated) (income from new business including bank cards, leasing and consultation services)	¥3.9 billion	¥7.5 billion	¥11.0 billion
OHR (consolidated) ^{*1}	70.7%	65.0%	55–59%
ROE (consolidated) ^{*2}	2.5%	3.5%	4.5%

^{*1} Over head ratio (OHR) is a ratio of expenses to gross business profit calculated by subtracting gains/losses on government bonds and other securities from gross profit.

^{*2} Return on equity (ROE) is calculated based on the amount of profit attributable to owners of parent among the amount calculated by dividing (total net assets at beginning of period + total net assets at end of period) by 2.

Item	FY2020 actual result	FY2025 (five years later)	FY2030 (10 years later)
Net interest income, etc. ^{*1}	¥34.6 billion	¥33.5 billion	¥33.0 billion
Fees & commissions	¥8.1 billion	¥12.0 billion	¥15.5 billion
Card business	¥1.5 billion	¥3.4 billion	¥4.0 billion
Leasing business	¥1.8 billion	¥1.9 billion	¥2.5 billion
Consulting business	¥0.6 billion	¥2.0 billion	¥4.0 billion
Other new businesses ^{*2}	¥0.0 billion	¥0.2 billion	¥0.5 billion
Personnel expenses	¥14.5 billion	¥13.5 billion	¥13.0 billion
Non-personnel costs	¥13.4 billion	¥14.0 billion	¥13.0 billion
System-related expenses	¥5.8 billion	¥6.3 billion	¥4.8 billion
Profit	¥6.7 billion	¥10.0 billion	¥13.0 billion

^{*1} Investment income of The QR Investment, Ltd. is recorded in net interest income, etc.

^{*2} Business revenues from The FD Advisory, Ltd. and e-commerce mall businesses are recorded.

Transition to a Holding Company Structure

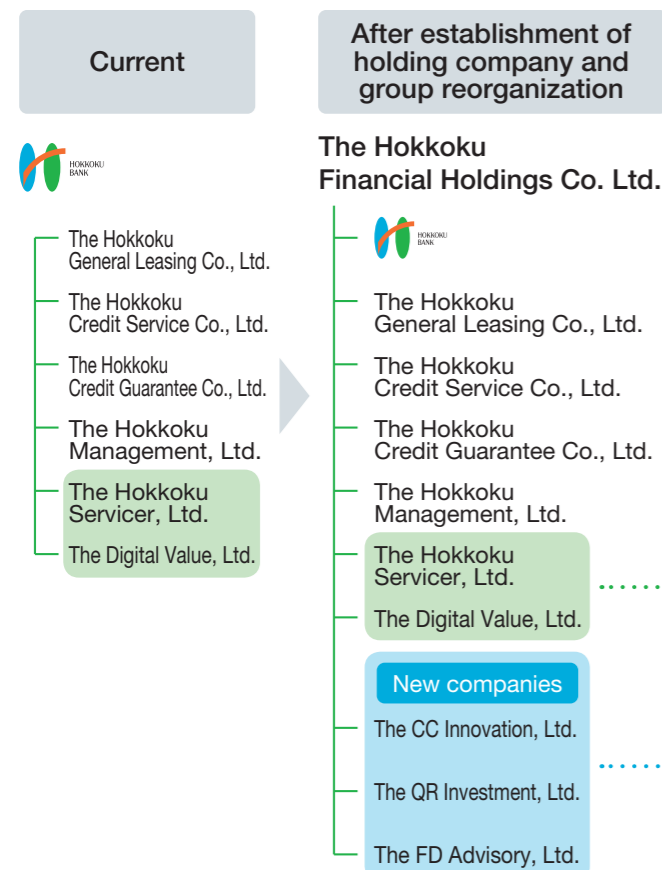
The Hokkoku Bank plans to make a transition to a holding company structure by establishing “The Hokkoku Financial Holdings Co. Ltd.” on October 1, 2021, as its holding company, on the condition that necessary approvals and permits from relevant authorities are obtained. We will further accelerate the realization of the “next-generation integrated regional company” through “maximization of group synergy” and “expansion of business lines.”

Background

Changes in the social structure were accelerated by declining and aging population, advancement of digital technology and the spread of COVID-19.

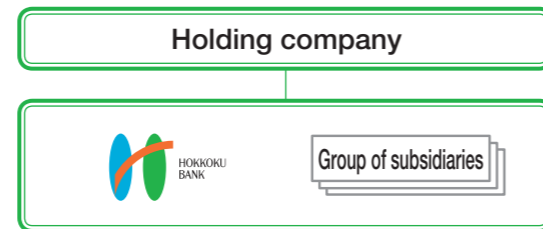
The transition to a holding company structure is necessitated to meet the customer expectations and make meaningful contributions to our customers and the local residents by adapting to the changes in the business environment without being restricted by the traditional banking business framework.

All bank subsidiaries directly under the holding company



Objective 1 | Maximization of group synergy

Aim to provide value to customers and improve management efficiency by allowing the holding company to oversee Group management and the subsidiaries to specialize in promotion of their business.



Consolidation of Group management functions to HD

- Strategy, governance, risk management, management resource allocation, etc.

Subsidiaries specialize in business promotion

- Improvement of the management efficiency of the Group as a whole
- Mobilization of human resources throughout the Group
- Cultivating next generation of management leaders

Objective 2 | Expansion of business lines

Aim to solve various local issues by expanding business domains and the customer base and thereby provide service of higher quality than ever on a continuous basis.

Expansion of the business lines of the current subsidiaries

Contribute to productivity improvement of local communities and customers by strengthening measures against increasingly diversified and sophisticated issues in the existing IT and debt collection domains.

System company The Digital Value, Ltd.

- Expand customer base to other financial institutions and general business companies

Servicer The Hokkoku Servicer, Ltd.

- Strengthening the purchase of receivables from other financial institutions that do not have a servicing function as a subsidiary

Expansion of business lines through the establishment of the new companies

“Consulting companies,” a “specialized investment company” and an “investment advisory company” are newly established to expand business to a wide range of domains.

Consulting company

[Japan]

The CC Innovation, Ltd.

[Overseas (Thailand and Vietnam)]

CC Innovation (Thailand) Co., LTD

CC Innovation Vietnam Co., LTD

- Development of The Hokkoku Bank consulting department into a corporate organization
- Expansion of consulting services for industries and regions, etc.
- Strengthening local consulting services for business partners’ local subsidiaries

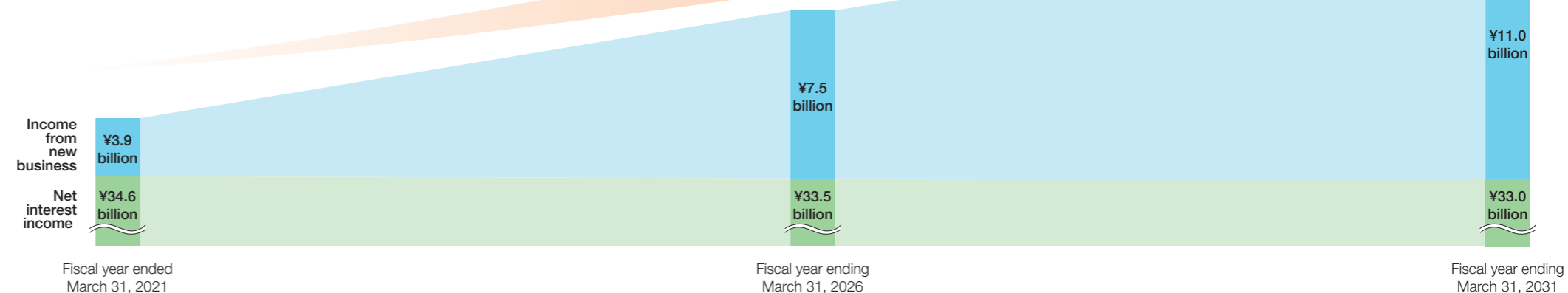
Specialized investment company The QR Investment, Ltd.

- Provision of capital support to a wide range of business partners, including business revitalization companies, business succession companies and regional revitalization companies

Investment advisory company The FD Advisory, Ltd.

- Developing investment advisory business for individuals and corporations (business is to commence upon confirmation of approval from relevant authorities)

Targeted Medium- to Long-Term Levels



Vision for The Hokkoku Bank Group

“Next-generation integrated regional company”

- ① With customer-centric thinking,
- ② We provide high added value in the medium to long term,
- ③ To turn the local community into a quality region.

Each business company will develop their business in wider domains than before based on our corporate philosophy and brand philosophy using customers as the starting point and aim to engage in solution of various issues while strengthening co-creation and collaboration with local residents even more, or in other words, to advance their functions as the “next-generation integrated regional company.”

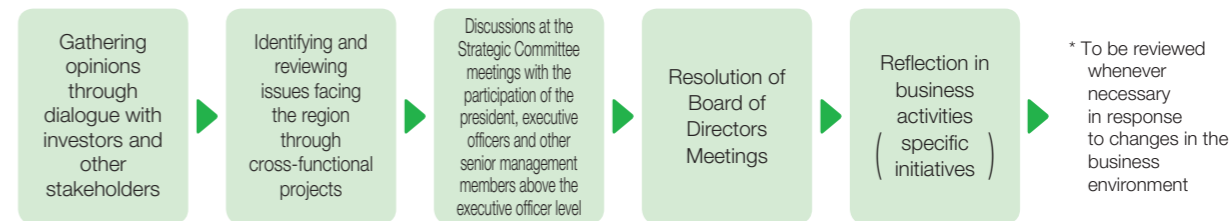
Further acceleration toward realization

ESG Initiative Policies

The Hokkoku Bank aims to work together with all stakeholders, including local communities, to realize a sustainable society by actively working to resolve ESG (Environmental, Social and Governance) issues through its business activities.

We believe that the resolution of ESG issues through our business activities and the virtuous cycle of sustained improvement in earnings will lead to the realization of our corporate philosophy "Trust – a bridge to a fruitful regional future. Enrich interaction and growth in the region."

Process of Identifying Materiality



ESG Initiative Policies and Materiality

	ESG Initiative Policies	Materiality	Relevant SDGs	Specific initiatives
Environment 	<p>We give consideration to the environment in our business activities with the aim of growing sustainably together with local communities. As a regional financial institution, we aim to realize a low-carbon and recycling-oriented society through voluntary and continuous initiatives such as those to cope with climate change risks and protect the environment in partnership and collaboration with all stakeholders.</p>	<p>Response to climate change and environmental conservation</p>		<ul style="list-style-type: none"> Environmental conservation efforts through our core businesses Reducing environmental impact through corporate activities Climate change measures
Society 	<p>We will create new value while addressing issues faced by society by cooperating with all stakeholders through development of highly specialized human resources capable of contributing to the creation of value in local communities and utilization of diverse human resources.</p>	<p>Contribution to regional economic revitalization</p> <p>Developing human resources that contribute to improving the quality of region</p>		<ul style="list-style-type: none"> Contributing to the creation of a cashless and digital society Maintenance of financial function stability Providing consulting functions Life plan and asset building support Development of professional employees Enhancement of the work-life balance Promoting diversity Focus on continuous education
Governance 	<p>We will work to enhance our corporate governance system by maintaining smooth relationships with all stakeholders and increase corporate value, and at the same time, ensure management focused on compliance and increased transparency.</p>	<p>Enhancing management transparency through dialogue with shareholders and investors</p>		<ul style="list-style-type: none"> Promotion of operational efficiency Using DX to visualize internal information and internal discussion processes through corporate transformation Corporate governance system Risk management and compliance culture Capital strategy

Management Strategy Which Takes the Environment Into Consideration



We at The Hokkoku Bank give consideration to the environment in our business activities with the aim to grow sustainably together with local communities. As a regional financial institution, we aim to realize a low-carbon and recycling-oriented society through voluntary and continuous initiatives such as those to cope with climate change risks and protect the environment in partnership and collaboration with our stakeholders including local governments.

Environmental Conservation Efforts Through Our Core Businesses

The THREE pillars: (i)contributing to raising environmental conservation awareness in local areas, (ii)contributing to local environmental conservation by responding to customers' energy conservation needs and (iii)contributing to customer cost reduction through consulting.

Cumulative results of financing utilizing the interest subsidy system for energy conservation capital investment in FY2019 and FY2020: 477 million yen for 6 projects (A system provided by Sustainable open Innovation Initiative for which the Bank has been certified as a designated financial institution since FY2019)

Cumulative number of ICT consulting cases for FY2017 through FY2020: 230 (on a contract basis)

Support for regional environment-friendly businesses

Subscription for Bank-Guaranteed Privately-Placed Bonds of Hokuriku 1st GB Project G.K.

- The Bank subscribed for the full amount of bank-guaranteed privately-placed bonds issued by Hokuriku 1st GB Project G.K., a special purpose company for the Energy Service Company (ESCO) business for promoting use of LEDs in gym facilities, etc. in Kanazawa City.
- This is public-private collaboration business participated by local corporations and is also environmentally-friendly business which contributes to reduction of CO₂ emissions.
- Funds from this project are used for construction work as well as maintenance and management of LED lighting in elementary and junior high school gyms and municipal gyms in Kanazawa City.
- Maturity: ten years and six months/Amount issued: 580 million yen (issued in January 2021)

Reducing Environmental Impact Through Corporate Activities

Our efforts toward paperless operations have been firmly entrenched through business reforms including construction of and relocation to the new Head Office building in 2014 and introduction of use of the tablets by all employees since 2016.

Reduced overtime work had improved productivity which in turn led to reduction of electricity use. We are promoting switch to environmentally-friendly electric vehicles and hybrid vehicles when replacing vehicles for business use. We are committed to continuing these and other efforts.

Our efforts as described above have contributed to steady reduction in CO₂ emissions.

Environmentally-friendly Branches

We will create sustainable branches by actively implementing measures such as planning branches with an eye toward making them “zero-energy buildings” or “nearly zero-energy buildings,” constructing buildings with recycling of construction materials in mind and using eco-friendly materials.



Environmentally-friendly Head Office building and branches

We relocated our Head Office in November 2014. This sustainable building is equipped with seismic isolation of the building foundation, a radiation cooling/heating system using existing well water, daylighting from lightwell, natural ventilation through open windows, solar shading using lattice windows and other functions, and boasts the heightened total environmental performance while giving consideration to reduction of the facility load based on the spatial characteristics.



With the commitment to local production and consumption, the building also uses Japanese cedar produced in Ishikawa Prefecture in the vertical lattice and rib panels in the entrance hall as well as benches placed on lower floors, Futamata washi (Japanese traditional paper) for the signage and camphor tree as the symbolic tree, etc. As such, one can feel like surrounded by environmental technology drawing on the environment of the premise, and by local materials.

Over the six years since the completion of the Head Office building, the building has created a venue for people to meet with each other, build relationships of trust and walk together with the local community.



A bright working space that takes natural light in



Arrangement of space using LED lighting



Facade design of utilizing a terra-cotta louver system

Response to Climate Change

The Hokkoku Bank declared its support for recommendations by the “Task Force on Climate-related Financial Disclosures (TCFD),” a task force established by the Financial Stability Board (FSB), in May 2021. We are committed to further promote our efforts related to climate change that we have been working on and enhance information disclosure based on recommendations by the TCFD.

Governance

The Bank had established a system for identifying and reviewing ESG issues including climate change issues through cross-functional projects.

In addition, the Bank had also established a system to discuss its policy for responding to climate change issues and other related important matters at Strategic Committee meetings participated by the president and other senior management members above the executive officer level, which are then to be resolved by the Board of Directors.

Strategy

The Bank has set the “response to climate change and environmental conservation” as one of its ESG materiality issues (prioritized important issues to be addressed) based on a resolution by the Board of Directors. In addition, we have formulated the “ESG Initiative Policies” as the basic policies for business activities undertaken by all officers and employees.

Going forward, we will identify opportunities and risks that climate change would bring about on management of the Bank through scenario analysis, etc. and disclose them based on the framework of the TCFD.

Risk management

The Bank recognizes the impact of physical risk and transition risk on its business operations, strategy and financial plans caused by climate change as top risks and intends to build a management system under the comprehensive risk management framework in the future.

In addition to the support for recommendations by the TCFD, the Bank has formulated its Investment and Loan Policy and Sector Policy and will implement measures to reduce and avoid an impact on the environment and society.

Indices and targets

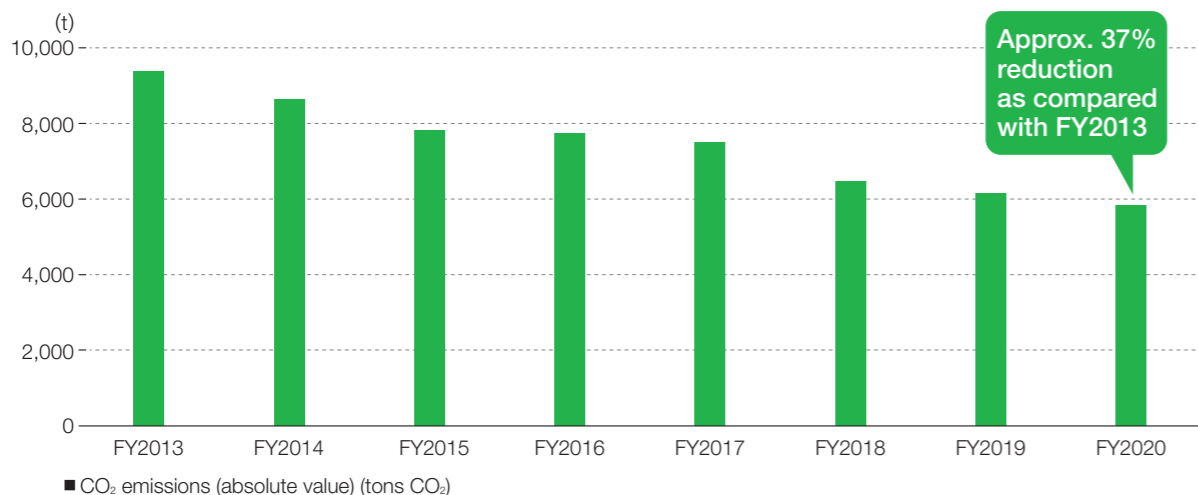
CO₂ emissions reduction targets

CO₂ emissions in FY2020 was reduced by approximately 37% as compared with FY2013 due the an effect of reduced electricity consumption mainly to the construction of and relocation to the new Head Office building in 2014 and the reconstruction of the server room in the Office Center in 2018.

We aim to achieve the 60% CO₂ emissions reduction target in FY2030 as compared with FY2013 through initiatives such as branch consolidation and reconstruction of branches with zero-energy buildings.

* CO₂ emissions (absolute value) are stated using CO₂ emissions of The Hokkoku Bank’s periodical reports under the Act on the Rational Use of Energy.

* The CO₂ conversion rates for FY2013 through FY2016 are unknown; therefore, the emissions are calculated using FY2017 as the reference year.



Investment and Loan Policy and Sector Policy

The Hokkoku Bank considers that business feasibility evaluation (understanding of business potential according to the Bank’s definition) is the starting point for all transactions and sales activities. Improving the level of our relationships with customers and connecting this to sharing and solution of issues will lead to development of local communities. In addition, as a regional financial institution, we believe that it is our mission to spread ESG and SDGs initiatives to local customers.

We have formulated our Investment and Loan Policy and Sector Policy based on the ESG Initiative Policies and materiality, and when determining the level of relationships and conducting business feasibility evaluation, we obtain anecdotal information from customers on their approach to ESG and SDGs initiatives and promote their understanding.

Investment and Loan Policy

Businesses to Support Actively

- Environmental, social and governance initiatives and businesses of customers

Businesses in/for Which Investments and Loans Are Prohibited

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

Specified Sectors

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

Sector Policy

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

Support for the international initiative





(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.



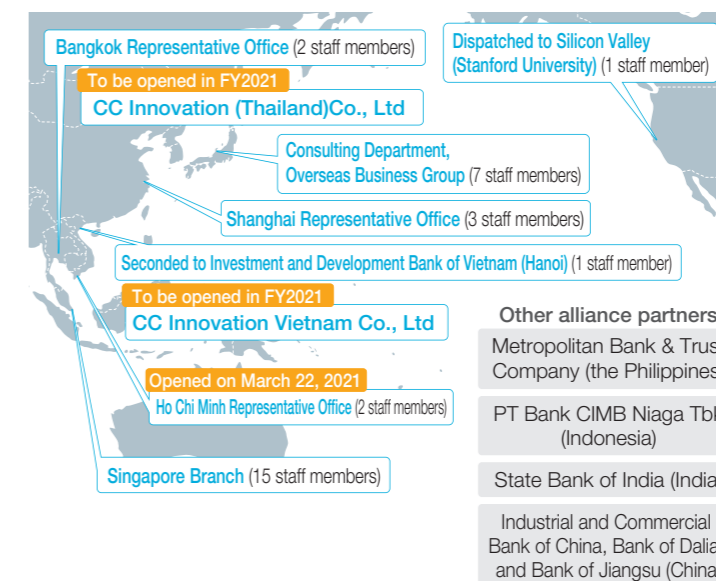
Overseas Business

We are working to revitalize local economy by supporting overseas operations of local corporations from multiple perspectives.

Overseas Network of The Hokkoku Bank

We support overseas operations of customers utilizing our independent network in Asia centered around Singapore Branch.

Our Ho Chi Minh Representative Office was established in March 2021, and we intend to incorporate local subsidiaries in Thailand and Vietnam in FY2021, and thus we will further enhance our support system in Southeast Asia.



- POINT 1** **Branch structure in Southeast Asia** | We will build a structure to further support overseas operations of customers with our Singapore Branch established ahead of other regional banks playing a central role.
- POINT 2** **Abundant overseas human resources** | 24 representatives and local staff members stationed overseas and a multitude of employees with overseas assignment experience in Japan are supporting customers' overseas operations through a domestically and internationally unified structure.

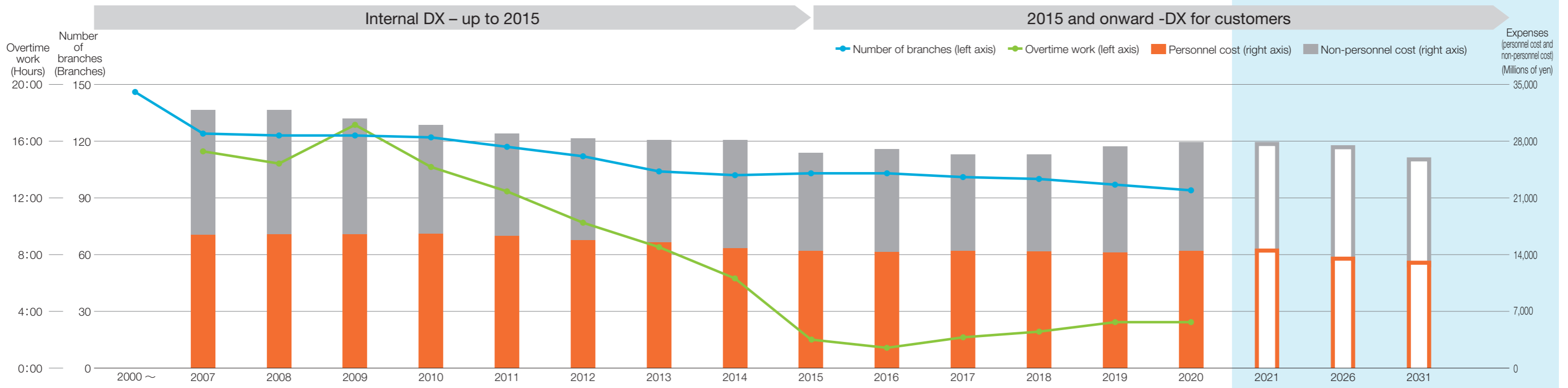
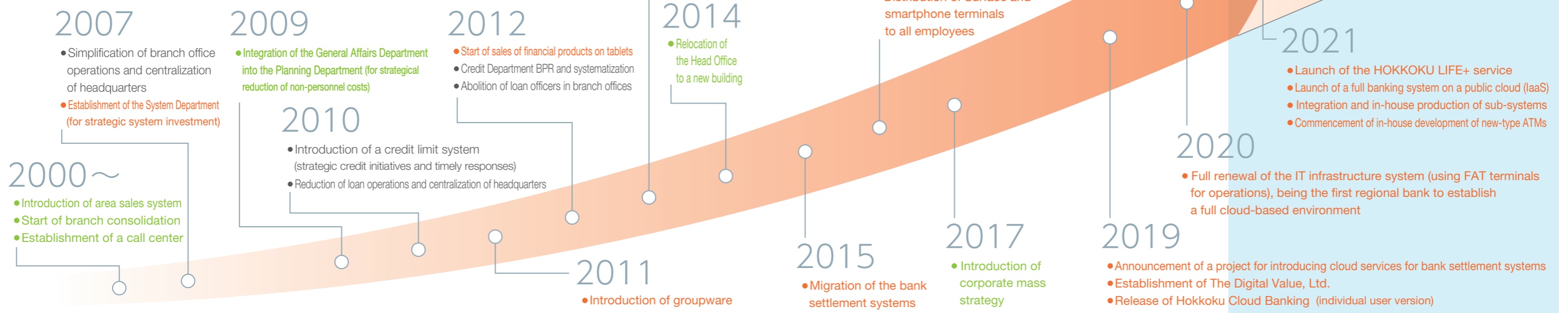


Business Transformation Fueled by Digital Transformation and System Strategy

As the environment surrounding the local economy changes drastically and customer needs continue to diversify, it is essential to provide customers with a high level of service at a low cost and in a timely manner.

It was more than 20 years ago that the Bank started introduction of an area sales system and consolidation of branches to improve the efficiency of its operations while enhancing customer service. The Bank has taken zero-based initiatives to improve operational efficiency and has reduced costs by consolidating the organizational structure at the headquarters, reducing the number of required documents and reviewing the examination system to simplify loan operations, as well as through thorough reforms of cost awareness and by reducing back-office administration. We have made a shift to digital transformation for customers since 2015 and are implementing strategy to increase convenience on an ongoing basis.

In order to respond to the still rapidly changing environment, we will accelerate our efforts for digital transformation, continued on the following page.

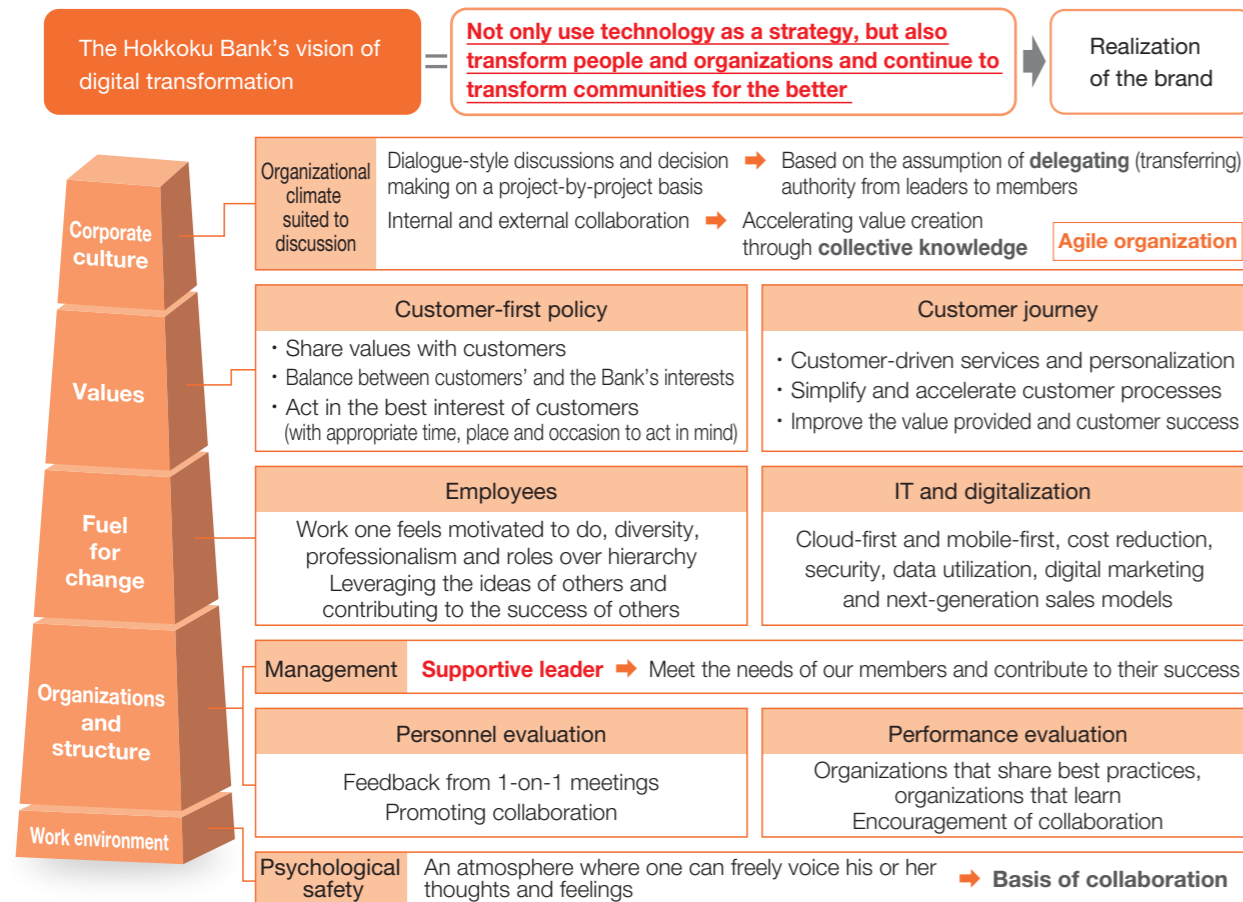


Construction of a New Business Model Through DX and System Strategies

Focusing on the DX strategy (digital transformation) and system strategy is essential in order for The Hokkoku Bank to become a “next-generation integrated regional company.” We are actively working to build a business model that is appropriate for the next generation in order to accurately meet the needs of our customers and realize our corporate philosophy and brand.

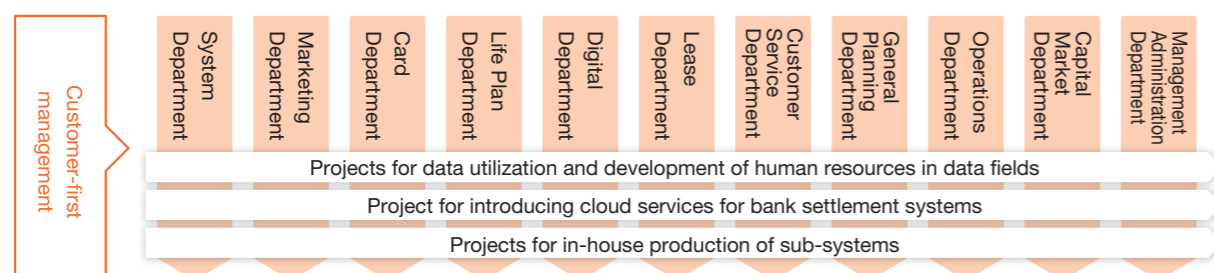
Digital Transformation at The Hokkoku Bank

The Hokkoku Bank’s vision of digital transformation is not only about the use of technology, but also about fundamentally digitally transforming the Bank itself, including the way it works in a broader definition (such as decision-making processes, authority, decision-making standards, organizational culture, etc.).



Organization and Project Operation of The Hokkoku Bank

We organize cross-functional projects to put customer-first management into practice and promote active discussion to establish an agile organizational structure which enables creation of value through collective knowledge.



Utilization of Microsoft Teams

Cross-functional teams make effective use of IT tools including Microsoft Teams to enable communication in a collegial atmosphere. Discussions held on Teams are open to a wide range of participants including persons in charge and management team members, and as such, the discussions are carried out while keeping those in senior positions well informed at all times.

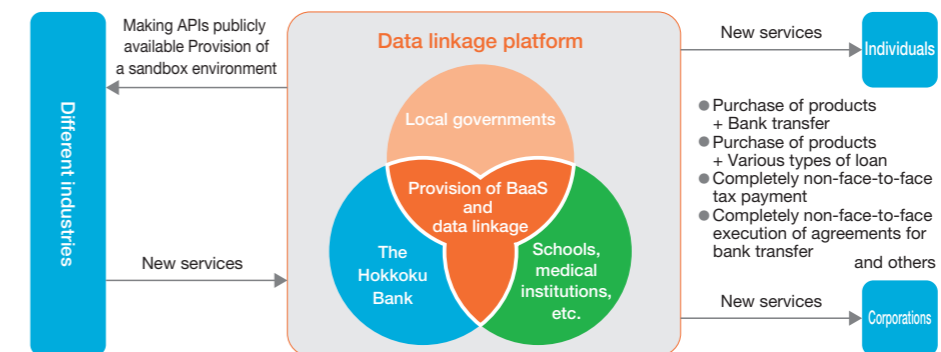


System Strategy

The Hokkoku Bank considers the system strategy to be a trigger for its business strategy. Our true objective is to continuously provide value to our customers from a customer journey perspective, with a focus on all of speed, performance and security, and to improve the quality of not only The Hokkoku Bank, but also the entire local community.

Local Ecosystem Pursued by The Hokkoku Bank

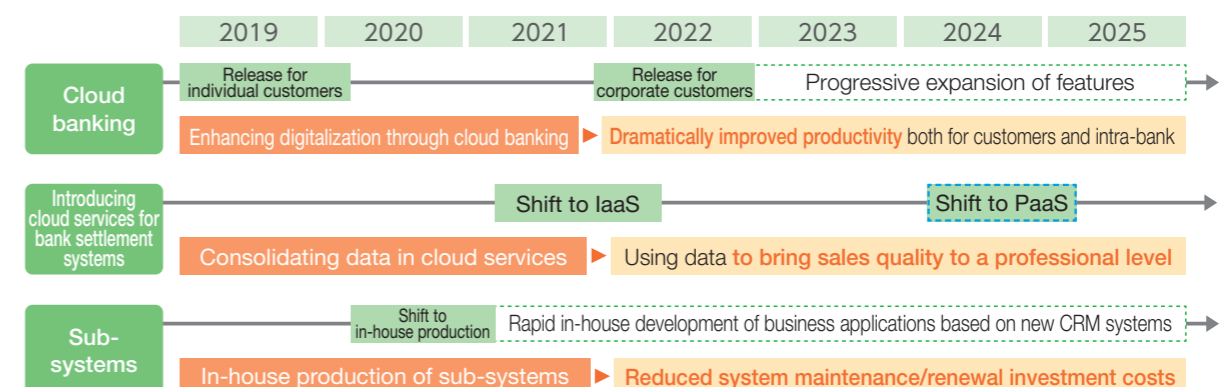
We will build a data linkage platform through provision of BaaS (Banking as a Service) and collaborate with local governments, schools and medical institutions. We will also deepen collaboration with different industries through, for example, making APIs publicly available, create highly convenient new services and thereby build a data collaboration ecosystem involving local communities.



Future developments

We are currently integrating and conducting in-house production of more than 100 sub-systems with the aim of promoting strategic investment and reducing total costs. We will accelerate strategic investment to build a system foundation capable of responding quickly to rapid changes in the market.

• Transition of strategic systems to cloud services –Enhancing sales and reducing costs using information technology as well as integration and in-house development of sub-systems–



Corporate Governance

The Bank's Basic Approach to Corporate Governance

In order to realize our corporate philosophy and to achieve the ideas and the targeted levels in the Medium-Long Term Business Strategy, 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. In order to further enhance the corporate governance system and further increase the corporate value of the Bank, the Bank has partially revised its Articles of Incorporation at the 107th Annual General Meeting of Shareholders held on June 26, 2015, and transitioned to an Audit and Supervisory Committee structure. With the establishment of the Audit and Supervisory Committee, the Directors who are the Audit and Supervisory Committee Members (including a number of Outside Directors) are given voting rights on the Board of Directors, thus enhancing the audit and supervisory functions of the Bank.

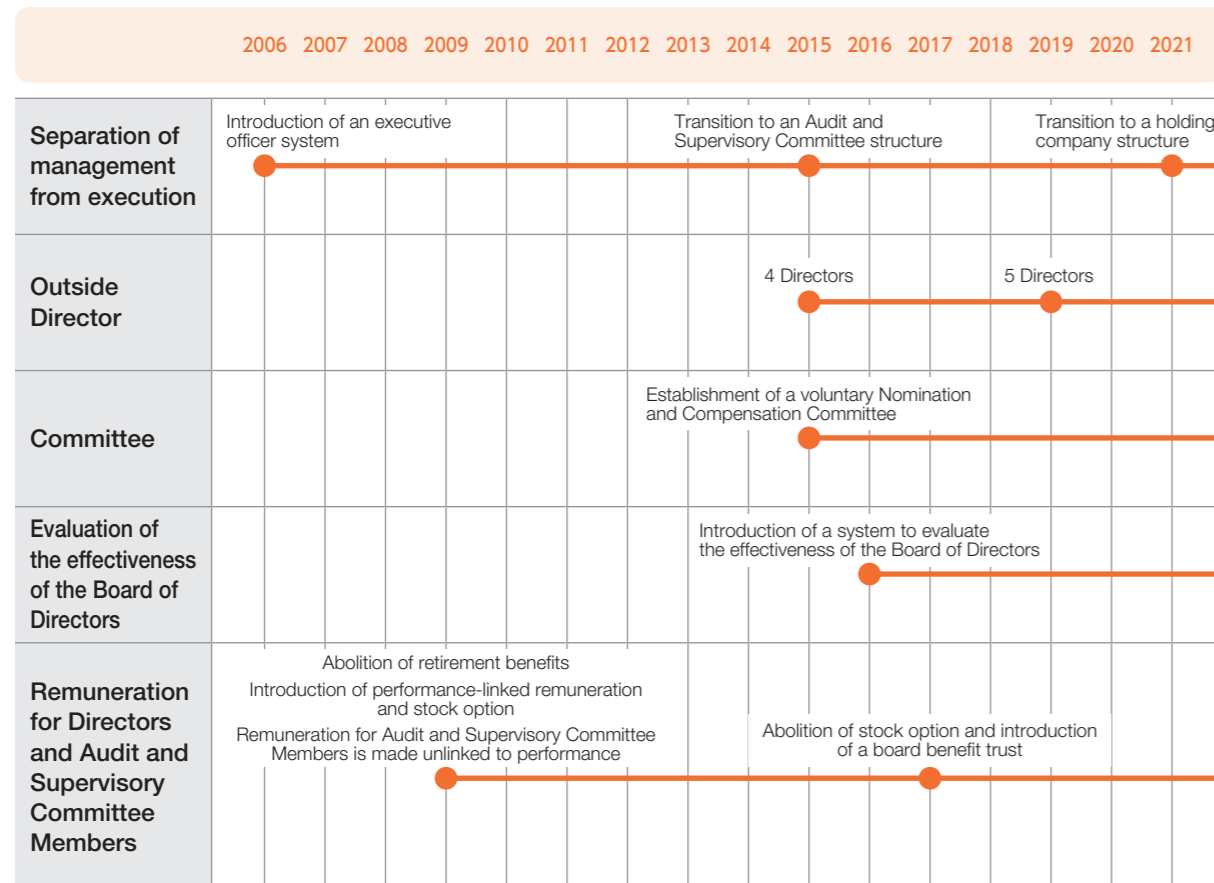
In addition, we will continue to actively engage in IR activities to promote a broader understanding of our corporate governance initiatives, and with the aim of becoming a more transparent and open company, we will strive to disclose information more clearly on our website and in our integrated report.

Major Initiatives for Improving Corporate Governance

In order to enhance corporate governance, the Bank transitioned to an Audit and Supervisory Committee structure in June 2015. The Bank has increased the ratio of Outside Directors gradually since then, and now has five Outside Directors out of 11 Directors in total (the ratio of Outside Directors: 45.4%). All of the five Outside Directors are independent Outside Directors and conduct audit and supervision of Executive Directors from an objective and neutral standpoint.

In addition, a voluntary Nomination and Compensation Committee (chaired by President & Chief Executive Officer, Representative Director), a majority of which consists of Outside Directors, has been put in place to elect Director candidates and ensure the heightened transparency of the process for determining remuneration for Directors.

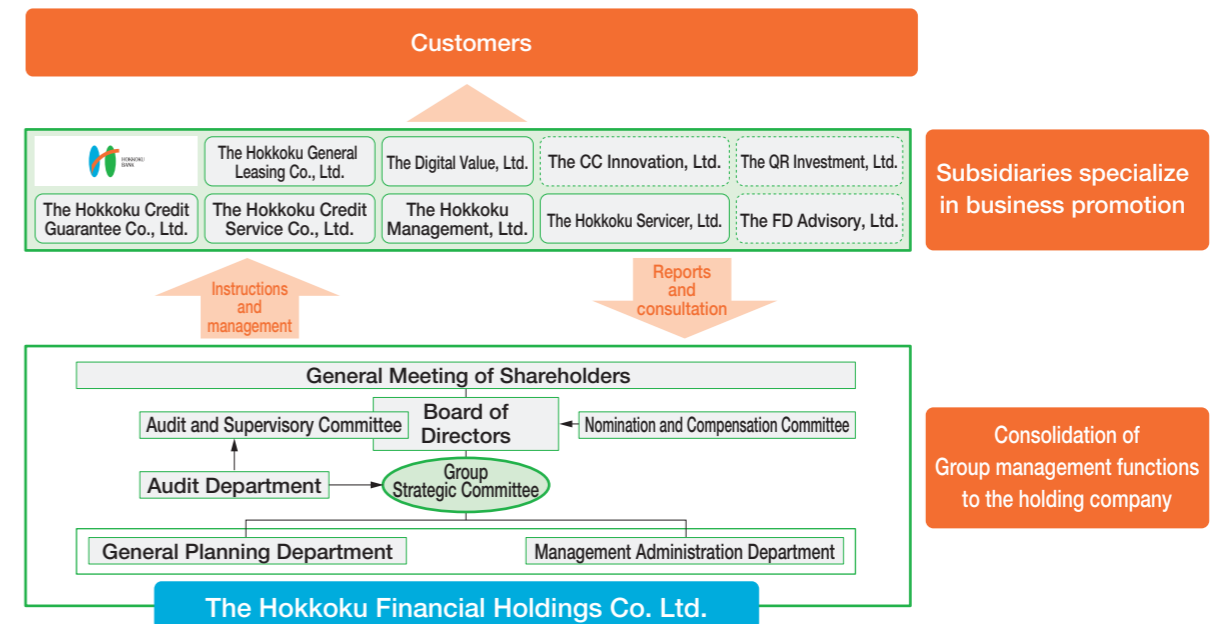
Corporate Governance System: Developments



Transition to a Holding Company Structure

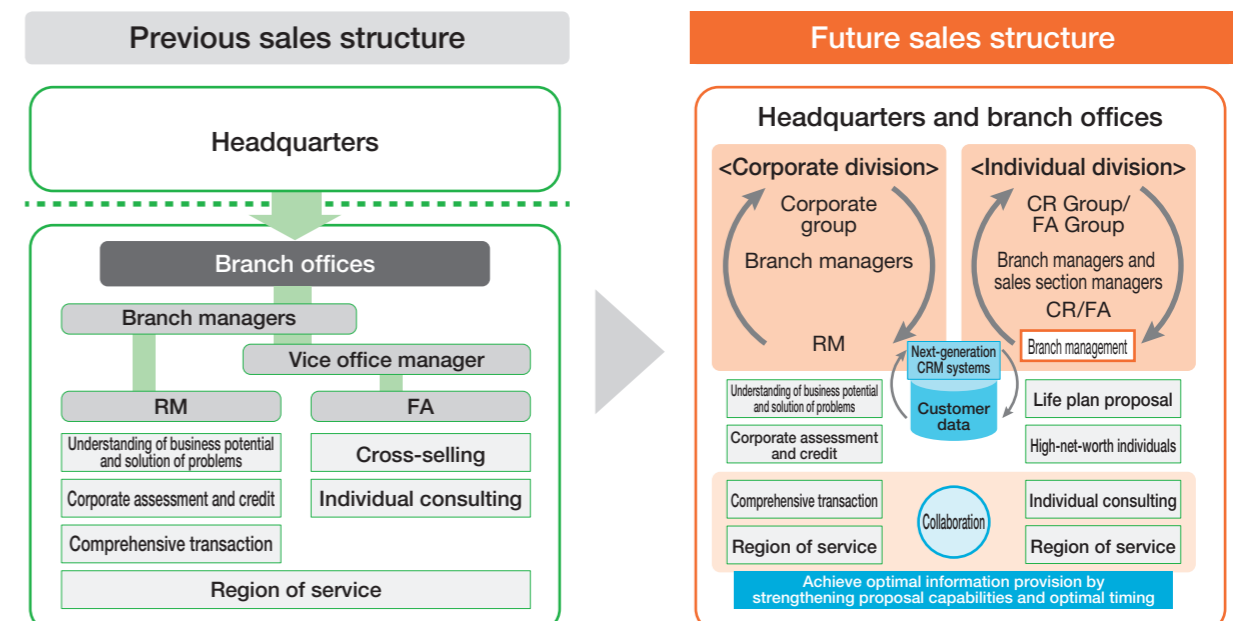
We will strengthen governance by making the holding company, a company with an Audit and Supervisory Committee and by separating Group management from business execution. We also aim to maximize group synergy by accelerating decision-making and building an efficient business management system using customers as the starting point.

Governance structure of the holding company



Sales structure

Corporate and individual divisions will specialize in their own fields to improve their skills and accelerate measures. We will aim to transform ourselves into an organization which takes into account collaboration by flat, streamlined and highly productive organizations, customer journey designs based on next-generation CRM systems and customer segments.



Overview of the Corporate Governance Structure

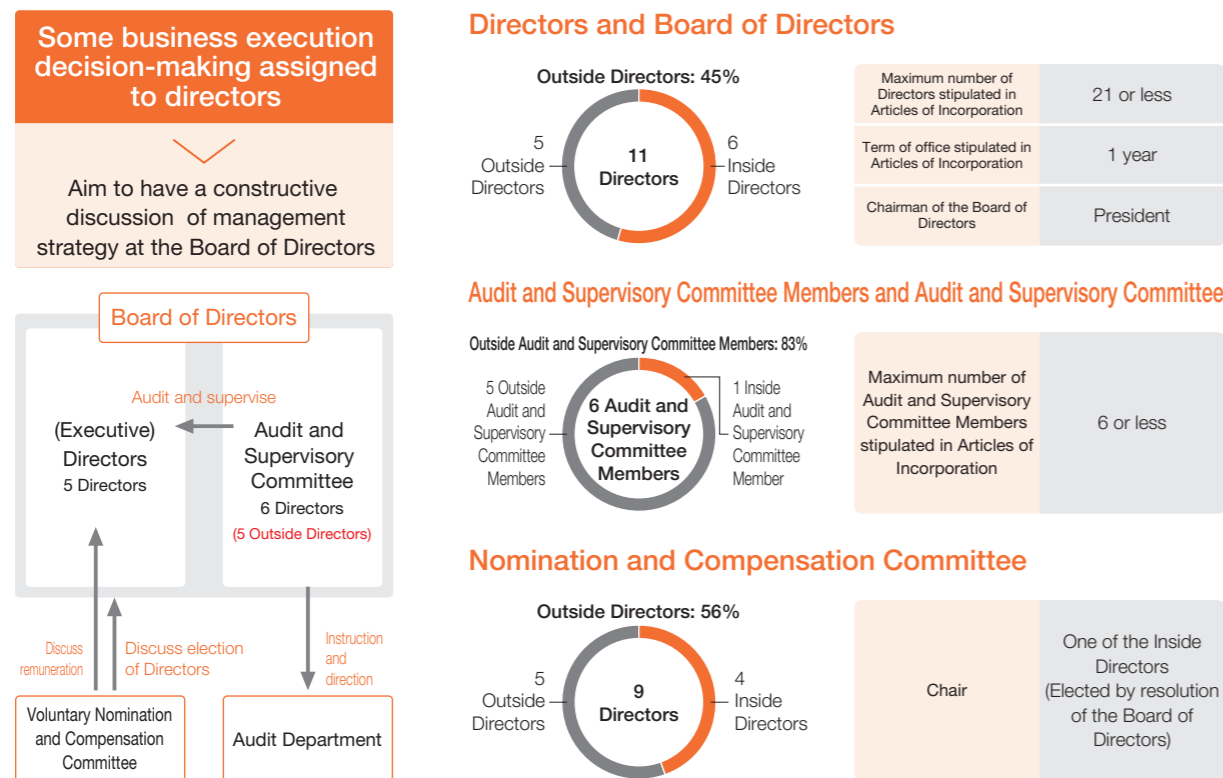
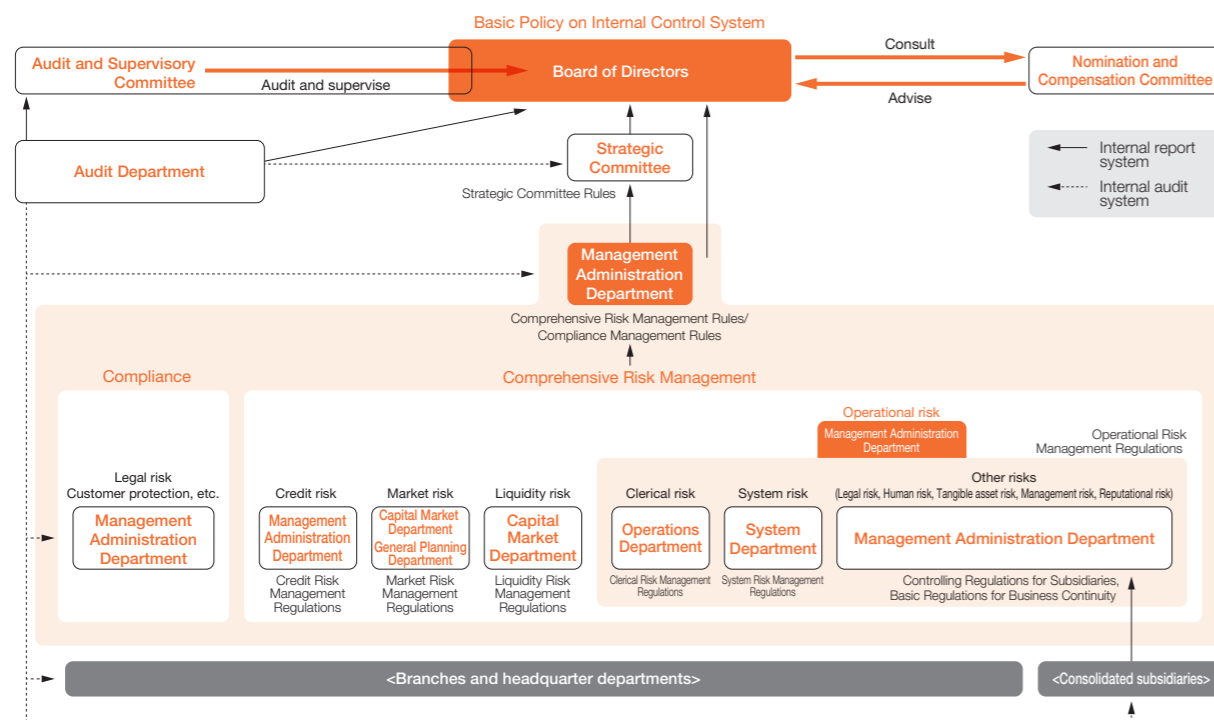


Diagram of Corporate Governance System



Corporate Governance System

Functions of Business Execution and Supervision

Board of Directors

Number of meetings held in FY2020: **11**

The meetings are held once a month in principle, and in addition, on an extraordinary basis, as necessary. The Board determines the management policy, the management strategy and other important matters and supervises execution of duties by Directors by, for example, receiving reports on the status of business execution and other important items.

Nomination and Compensation Committee

Number of meetings held in FY2020: **2**

A voluntary advisory body which discusses and exchanges opinions on election of and remuneration for Directors. A majority of the Committee consists of Outside Directors and the Committee ensures the objectivity and transparency by obtaining appropriate involvement and advice.

Strategic Committee*

Number of meetings held in FY2020: **53**

The meetings are held once a week in principle, and in addition, on an extraordinary basis, as necessary. The Committee determines important matters other than those resolved by the Board of Directors as well as matters delegated by the Board of Directors, and receives reports on the status of business execution and other important items.

* Transitioned from the Management Meeting in August 2020

Functions of Audit and Supervision

Audit and Supervisory Committee

Number of meetings held in FY2020: **12**

The meetings are held once a month in principle, and in addition, on an extraordinary basis, as necessary. The Committee conducts audit and prepares audit reports on the execution of duties by Directors and determines its opinions concerning election of or remuneration for Directors, among other things.

Audit by the Audit and Supervisory Committee

The Committee conducts audit on decision-making and execution of duties by Directors appropriately in accordance with the audit policy and plan prescribed by the Audit and Supervisory Committee, from a standpoint independent of the Board of Directors and in collaboration with the Accounting Auditor and the Internal Audit Department. The Committee also exchanges opinions on important audit issues, etc. with the Representative Directors through regular meetings.

Internal audit

The Internal Audit Department is an organization directly reporting to the Audit and Supervisory Committee and conducts internal audit based on the internal audit policy approved by the Board of Directors. Audit results are reported to the Board of Directors on a periodic basis.

Accounting audit

Ernst & Young ShinNihon LLC has been elected as the Accounting Auditor, which conducts audit from a fair and impartial standpoint as an independent auditor.



Independence criteria for Outside Directors and Audit and Supervisory Committee Members
<https://www.hokkokubank.co.jp/company/about/outline/corpgov.html>



Our Approach to Election of Directors and Outside Directors

When nominating Director candidates, the president refers the nomination to the Board of Directors upon discussion by the voluntary Nomination and Compensation Committee.

Among such candidates, those for Inside Directors shall be selected from among persons who are sufficiently conversant with the banking business and possess knowledge and experience to allow for accurate, fair and efficient execution of bank management. In addition, Outside Director candidates shall be selected from among persons who possess vast experience and broad insight in management, etc., are capable of providing appropriate advice and recommendations in making decisions on the Bank's overall management and business execution and are expected to contribute to the maintenance and improvement of the rationality and soundness of management and strengthening of corporate governance of the Bank. A Director candidate will not be nominated if the Board of Directors determines them as not meeting such eligibility requirements. In addition, the Board of Directors may decide to convene a General Meeting of Shareholders the subject matter of which is dismissal of a Director who has engaged in an act deemed to be remarkably lacking the suitability as Director during the term of office, such as a violation of laws and regulations or scandal.

The Board of Directors of the Bank also elects Executive Officers as officers other than Directors upon discussion by the Nomination and Compensation Committee. Executive Officers are selected from among persons who determined to be sufficiently conversant with the banking business and capable of executing the Bank's operations fairly and efficiently based on their knowledge and experience. An Executive Officer candidate will not be nominated if the Board of Directors determines them as not meeting such eligibility requirements. In addition, the Board of Directors may dismiss an Executive Officer who has engaged in an act deemed to be remarkably lacking the suitability as Executive Officer during the term of office, such as a violation of laws and regulations or scandal.

Independent Outside Directors

Name	Reason for election	Attendance at meetings in FY2020
Shigeru Nishii	He possesses a wealth of specialized knowledge cultivated through his activities as an attorney at law for many years as well as his position working as the Chairperson of Kanazawa Bar Association. He was elected as an Outside Director because the Bank expects that he will contribute to maintenance and improvement of the transparency and soundness of management and strengthening of corporate governance of the Bank by providing supervision and advice on execution of business by the Bank from his professional perspective, especially in the fields of risk management, financial strategy and personnel and labor based on his knowledge.	Board of Directors 11/11 meetings Audit and Supervisory Committee 12/12 meetings
Tadashi Onishi	He possesses a wealth of specialized knowledge cultivated through his activities in corporate management that include his work experience as well as his position as Executive Officer and Deputy President of Meiji Yasuda Life Insurance Company. He was elected as an Outside Director because the Bank expects that he will contribute to maintenance and improvement of the transparency and soundness of management and strengthening of corporate governance of the Bank by providing supervision and advice on execution of business by the Bank from his professional perspective, especially in the fields of corporate planning, risk management, marketing and personnel and labor based on his knowledge.	Board of Directors 11/11 meetings Audit and Supervisory Committee 12/12 meetings
Shuji Yamashita	He possesses a wealth of specialized knowledge cultivated through his activities in corporate management that include his work experience as well as his position as Senior Executive Officer of Komatsu Ltd. He was elected as an Outside Director because the Bank expects that he will contribute to maintenance and improvement of the transparency and soundness of management and strengthening of corporate governance of the Bank by providing supervision and advice on execution of business by the Bank from his professional perspective, especially in the fields of corporate planning, risk management, overseas business and IT strategy based on his knowledge.	Board of Directors 11/11 meetings Audit and Supervisory Committee 12/12 meetings
Taku Oizumi	He has abundant financial business experience including his position as Director-General of Currency Issue Department at the Bank of Japan and possesses a wealth of specialized knowledge cultivated through his activities in corporate management that include his work experience as well as his position as Managing Executive Officer of Seven Bank, Ltd. He was elected as an Outside Director because the Bank expects that he will contribute to maintenance and improvement of the transparency and soundness of management and strengthening of corporate governance of the Bank by providing supervision and advice on execution of business by the Bank from his professional perspective, especially in the fields of corporate planning, risk management, marketing and overseas business based on his knowledge.	—
Naoko Nemoto	She possesses a wealth of specialized knowledge cultivated through her activities as a financial expert, such as being involved in rating and research work related to financial institutions at Standard & Poor's Ratings Japan Inc. for many years. She was elected as an Outside Director because the Bank expects that she will contribute to maintenance and improvement of the transparency and soundness of management and strengthening of corporate governance of the Bank by providing supervision and advice on execution of business by the Bank from her professional perspective, especially in the fields of financial strategy, overseas business and market operations based on her knowledge.	—

Specialization and experience of Directors and Executive Officers

The Bank assigns human resources with vast experience and a high level of insight and specialization as Directors and Executive Officers in order to realize more appropriate supervision of management and a sustainable increase in corporate value. Specialization and experience expected of Directors and Executive Officers are as described below. The fields that the Bank highly expects are marked with “◎” for Directors who are not Audit and Supervisory Committee Members.

Name	Title	Specialization and experience							
		Corporate planning Management strategy	Risk management	Financial strategy	Marketing	Overseas business	Market operations	Personnel and labor Human resource development	Digital IT strategy
Hideaki Hamasaki	Chairman (Representative Director)	◎	●	◎	◎			●	
Shuji Tsumemura	President & Chief Executive Officer (Representative Director)	◎	●	●	●	◎	◎	●	◎
Kazuya Nakamura	Director and Managing Executive Officer (Representative Director)	◎		●	◎	●		◎	
Koichi Nakada	Director and Managing Executive Officer	●	◎	◎				◎	●
Yuji Kakuchi	Director and Managing Executive Officer		●	◎	●	◎	◎		
Nobuhiro Torigoe	Director, Audit and Supervisory Committee Member	●		●				●	●
Shigeru Nishii	Director, (Outside) Audit and Supervisory Committee Member		●	●				●	
Tadashi Onishi	Director, (Outside) Audit and Supervisory Committee Member	●	●		●			●	
Shuji Yamashita	Director, (Outside) Audit and Supervisory Committee Member	●	●			●			●
Taku Oizumi	Director, (Outside) Audit and Supervisory Committee Member	●	●		●	●			
Naoko Nemoto	Director, (Outside) Audit and Supervisory Committee Member			●		●	●		
Toshiyuki Konishi	Managing Executive Officer (General Manager of Head Office Sales Department)		●	●	●	●		●	
Akira Nishita	Managing Executive Officer (General Manager of Corporate Banking Department)	●	●	●					
Takayasu Tada	Managing Executive Officer (General Manager of Corporate Solutions Department and General Manager of Consulting Department)	●		●		●		●	●
Susumu Taniguchi	Managing Executive Officer (General Manager of Komatsu Area and Komatsu Branch Manager)	●	●	●					
Takeshi Igawa	Managing Executive Officer (General Manager of Information Systems Department)	●	●	●					●
Harushige Sanbonmatsu	Executive Officer (General Manager of Management Administration Department)		●	●				●	
Kenya Tatsuno	Executive Officer (Fukui Branch Manager)	●		●				●	●
Tatsuo Shintani	Executive Officer (General Manager of Takaoka Area and Takaoka Branch Manager)		●	●	●				
Yutaka Hosono	Executive Officer (Osaka Branch Manager)		●	●	●				
Daisuke Nakaso	Executive Officer (General Manager of Central Komatsu Area and Komatsu Chuo Branch Manager)		●	●				●	
Tomohiko Kikuzawa	Executive Officer (General Manager of General Planning Department)	●		●	●			●	●
Kazuki Yamamori	Executive Officer (General Manager of Consulting Department)	●	●	●					●
Masayuki Kita	Executive Officer (Toyama Branch Manager)		●	●	●	●			
Seiichi Sagiike	Executive Officer (General Manager of Capital Market Department)		●	●			●		
Takayuki Yamamoto	Executive Officer (General Manager of Personal Banking Department)	●		●	●				
Naotaka Terai	Executive Officer (General Manager of Human Resource Development Department)	●	●	●		●		●	
Haruhiko Kometani	Executive Officer (Tokyo Branch Manager)			●	●	●			
Masaru Yamazaki	Executive Officer (General Manager of Mattou Area and Mattou Branch Manager)			●	●	●			
Toshimi Kitagawa	Executive Officer (General Manager of Nanao Area and Nanao Branch Manager)			●	●			●	
Akihisa Nitta	Executive Officer (General Manager of Operations Department)	●		●	●				●

Board of Directors and Audit and Supervisory Committee As of June 30, 2021

				
Chairman (Representative Director) Hideaki Hamasaki	President & Chief Executive Officer (Representative Director) Shuji Tsuemura	Director and Managing Executive Officer (Representative Director) Kazuya Nakamura		
				
Director and Managing Executive Officer Koichi Nakada	Director and Managing Executive Officer Yuji Kakuchi	Director, Audit and Supervisory Committee Member Nobuhiro Torigoe		
				
Director (Outside) Audit and Supervisory Committee Member Shigeru Nishii	Director (Outside) Audit and Supervisory Committee Member Tadashi Onishi	Director (Outside) Audit and Supervisory Committee Member Shuji Yamashita	Director Audit and Supervisory Committee Member Taku Oizumi	Director Audit and Supervisory Committee Member Naoko Nemoto
Managing Executive Officer	Toshiyuki Konishi (General Manager of Head Office Sales Department) Akira Nishita (General Manager of Corporate Banking Department)	Takayasu Tada (General Manager of Corporate Solutions Department and General Manager of Consulting Department) Susumu Taniguchi (General Manager of Komatsu Area and Komatsu Branch Manager)	Takeshi Igawa (General Manager of Information Systems Department)	
Executive Officer	Harushige Sanbonmatsu (General Manager of Management Administration Department) Kenya Tatsuno (Fukui Branch Manager) Tatsuo Shintani (General Manager of Takaoka Area and Takaoka Branch Manager) Yutaka Hosono (Osaka Branch Manager) Daisuke Nakaso (General Manager of Central Komatsu Area and Komatsu Chuo Branch Manager)	Tomohiko Kikuzawa (General Manager of General Planning Department) Kazuki Yamamori (General Manager of Consulting Department) Masayuki Kita (Toyama Branch Manager) Seiichi Sagiike (General Manager of Capital Market Department) Takayuki Yamamoto (General Manager of Personal Banking Department)	Naotaka Terai (General Manager of Human Resource Development Department) Haruhiko Kometani (Tokyo Branch Manager) Masaru Yamazaki (General Manager of Mattou Area and Mattou Branch Manager) Toshimi Kitagawa (General Manager of Nanao Area and Nanao Branch Manager) Akihisa Nitta (General Manager of Operations Department)	

Remuneration Policy for Directors and Audit and Supervisory Committee Members or Calculation Methods

The basic policy of remuneration for Directors of the Bank is that remuneration is based on a structure which functions to incentivize contributing to the development of the local community and continuously enhancing corporate value with consideration for aligning with shareholder interests, and that remuneration of individual Directors is determined so that it is at an appropriate level based on each Director's duties.

Specifically, remuneration for Directors who are not Audit and Supervisory Committee Members consists of fixed-amount remuneration as a fixed remuneration, performance-linked remuneration, and share-based remuneration, and the remuneration for Directors who are Audit and Supervisory Committee Members and have a supervisory function consists solely of fixed-amount remuneration based on their duties.

Remuneration for Directors (FY2020)

Director type	Total amount of remuneration, etc. (Millions of yen)	Total amount of remuneration, etc. by type (Millions of yen)			Number of applicable Directors (Persons)
		Fixed-amount remuneration	Performance-linked remuneration	Board benefit trust	
Non-Audit and Supervisory Committee Member	257	159	50	47	11
Audit and Supervisory Committee Member (Of which, Outside Directors)	49 (29)	49 (29)	—	—	6 (5)

Matters Discussed by the Board of Directors

The Bank's management decisions are made based on the increased number of agenda items concerning the medium- to long-term management strategy and the in-depth discussion which utilizes specialization and expertise of Outside Directors. Major matters discussed in FY2020 are as follows:

Major matters discussed in FY2020

- Consideration of the transition to a holding company structure started
The Board had a wide-ranging discussion on the strategy to realize the "next-generation integrated regional company" and an organizational structure to execute the strategy, and decided to start considering the transition to a holding company structure as an option.
- Issuance of subordinated bonds
The Board decided issuance of subordinated bonds to execute the capital policy flexibly and stabilize the capital adequacy ratio.
- Review of the shareholder return policy
The Board decided that the total return ratio combining the stable dividend of 70 yen and share buybacks is to be targeted at 40% to aim for continuous and stable shareholder returns.

Evaluation of the effectiveness of the Board of Directors

The Bank appoints individuals to its Board of Directors who have experience as branch office managers and as general managers and officers in various departments of the Bank's headquarters, and who have a high level of insight and management skills for the Bank's overall management. Directors who are from within the Bank have appropriate knowledge of finance and accounting due to their industry. Outside Directors are appointed as human resources who have a high degree of expertise, such as experience running a business company, working overseas, or being a lawyer, and with consideration for gender diversity. The above ensures the diversity of the Board of Directors.

Directors who are Audit and Supervisory Committee Members, are selected from among the Directors with internal experience and appropriate knowledge of finance and accounting.

In order to enhance the effectiveness of the Bank's Board of Directors, the Bank conducts a questionnaire survey on the effectiveness of the Board of Directors through the Directors themselves, which is analyzed and evaluated by the Board of Directors. Based on the analysis and evaluation of the Board of Directors, the Board of Directors strives to improve its function by making voluntary improvements to enhance its swift decision making and oversight functions.

Initiatives and evaluation in FY2020

We worked to vitalize discussion by the Board of Directors through measures improved based on the results of evaluation in FY2019 which included not only reports on the progress of sales measures but also discussion on agenda items concerning the medium- to long-term management strategy. In addition, we also strove to make descriptions in documents to be easy to understand and provide prior explanations from General Managers in charge to Outside Directors on an ongoing basis with the aim of deepening understanding of Outside Directors on bank management and agenda items of the Board of Directors. We evaluated that, as a result of the foregoing, the effectiveness of the entire Board of Directors had been sufficiently ensured.

Future initiatives

As a company with an Audit and Supervisory Committee, the holding company will continue working on vitalization of discussion by the Board of Directors. The Board of Directors of the holding company will handle not only agenda items concerning the Group's medium- to long-term management strategy but also a wide range of discussion concerning sales measures of its business companies including the bank subsidiary, and thereby work to enhance governance of the Group.

Support System for Outside Directors

- The Bank ensures that a support system is in place to provide Outside Directors with prior explanations and supplementary materials on important bills of the Board of Directors.
- The Bank ensures that a system is in place to assign assistants to the Audit and Supervisory Committee Members to provide support to the outside Audit and Supervisory Committee Members.

Response to Cross-Shareholdings

We hold shares through cross-shareholdings only when the significance of the cross-shareholdings is recognized in consideration of factors such as the status of business alliances, etc. and the effect on the increase in corporate value, and discuss the holding policy at Board of Directors meetings on a periodic basis.

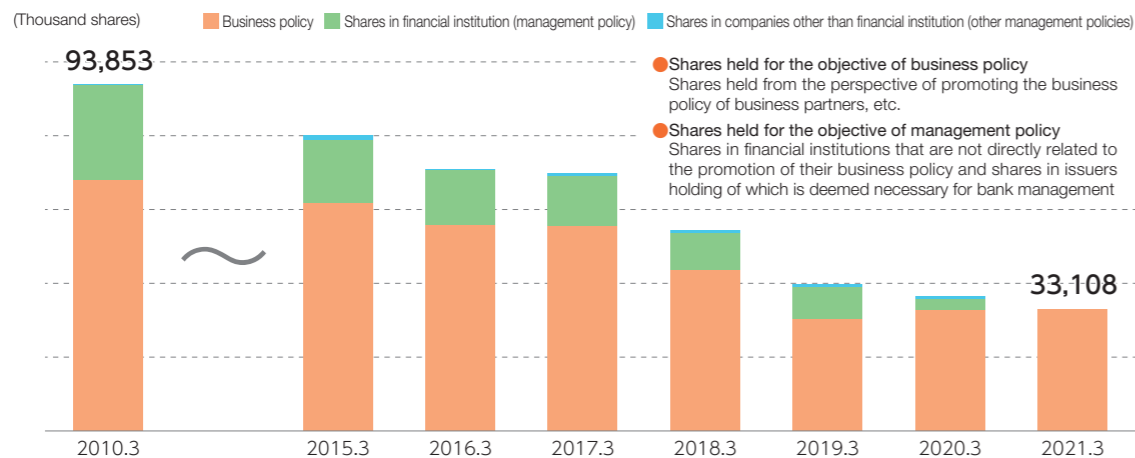
We have eliminated cross-shareholdings of shares in financial institutions for the objective of management policy in FY2020.

Policy on Cross-Shareholdings of Shares in Listed Companies

For cross-shareholdings of shares in listed companies, our basic policy is to hold shares in listed companies only when holding shares of a listed company will facilitate and strengthen business alliances and transactions with the listed company and, in turn, lead to an increase in the corporate value of both the Bank and the listed company.

As a general rule, we will reduce the size of our cross-shareholdings that are not in line with this policy, and hold dialogues with the investee companies as needed.

Trends in the number of cross-held shares



Internal Audit System

The Bank has established the Audit Department as a dedicated internal audit department to enhance and strengthen its internal control system. The Audit Department, which is independent from the business management and administration departments, examines the appropriateness and effectiveness of the Bank's internal control system to ensure the soundness of the Bank's business operations and assets, and reports the results of the audit to the Board of Directors and the Audit and Supervisory Committee on a regular basis. The Internal Audit Department also provides advice and guidance on improving the internal control system as necessary.



For details concerning corporate governance and the status of establishment of the "internal control system" and the "risk management system," please refer to our "Corporate Governance Reports."

<https://www.hokkokubank.co.jp/company/about/outline/corpgov.html>



Message from an Outside Director



Outside Director **Tadashi Onishi**

Corporate governance initiatives

Two years have passed since I assumed the position as Director of The Hokkoku Bank, and I have observed various efforts to increase the effectiveness of governance during this period.

While the business environment surrounding regional financial institutions is changing even more rapidly, The Hokkoku Bank has renewed its decision-making system from pro forma meetings and internal procedures to a speedier one and worked to increase visibility in processes of considering policies as well as in inherent risks utilizing the latest IT (making information open). By doing so, The Hokkoku Bank is thoroughly implementing business reforms to bring together wisdom within the bank and heighten the ability to formulate policies.

In addition, The Hokkoku Bank has actively worked to build a system toward strengthening of Group governance through measures such as increasing the ratio of Outside Directors, election of Directors by the Nomination and Compensation Committee (a majority of which consists of Outside Directors) and transition to a holding company structure. On top of the foregoing, The Hokkoku Bank has been devoting itself to being creative and making efforts to heighten the effectiveness of governance by, for example, giving lectures on specialized operations to, creating easy-to-understand documents for and providing detailed prior explanations to the Board of Outside Directors.

When a company intends to improve governance, what is most important after all is that top management is highly motivated for the improvement. Without it, I believe, any beautiful systems and special efforts would lose substance. The management team of The Hokkoku Bank has conveyed their ardent determination toward governance reforms through

discussions in Board of Directors meetings and regular opinion exchange sessions between Representative Directors and Outside Directors, among other occasions we have had so far. Therefore, I have expectations that The Hokkoku Bank will make further improvement in the future. I am determined to continue working on the advancement of governance through united efforts of Outside Directors and the management team and meet the expectations of stakeholders.

Toward a sustained increase in corporate value – Expectations in development of next-generation human resources –

Amid the business environment where it is becoming increasingly difficult to envision growth scenarios due to changes in the social structure over the long term combined with the recent COVID-19 pandemic, The Hokkoku Bank has reset its "vision to aim for in 10 years" and developed the Medium-Long Term Business Strategy which leveraged the transition to a holding company structure and proactively captured relaxation of regulations. I guess this speedy decision-making on review of the management plan is one example of The Hokkoku Bank's big achievements brought by its governance reforms.

The concept of the "next-generation integrated regional company" in which The Hokkoku Bank aims to become a company indispensable to society through thorough implementation of customer-oriented principles and contribution to the sustainability of local communities is a dynamic reform which responds to changes in the times swiftly and which can even be deemed to be shifting business categories. I am very excited and have high hopes that The Hokkoku Bank may stand out among a multitude of other financial institutions.

While the success of this historic major reform inevitably requires a balance between strong leadership and a robust governance system, the ability of human resources to support the success is even more important. I believe that sustainable transformation and growth will be brought about by instilling the new corporate vision into each and every officer and employee of the Group and fostering a corporate culture which allows individual persons to think, act and take up challenges on their own initiative.

Going forward, as an Outside Director, I hope to contribute also to development of to-be-management-executive human resources who will play a central role in the next generation through such means as interchange with not only management team members but also diverse officers and employees.

Initiatives for the Risk Management System

We have put in place an information collection system to accurately grasp and analyze the diverse and complex risks surrounding the banking business and we are working to strengthen the risk management system to manage and control risks appropriately.

Basic Policy and Operating Structure for Risk Management

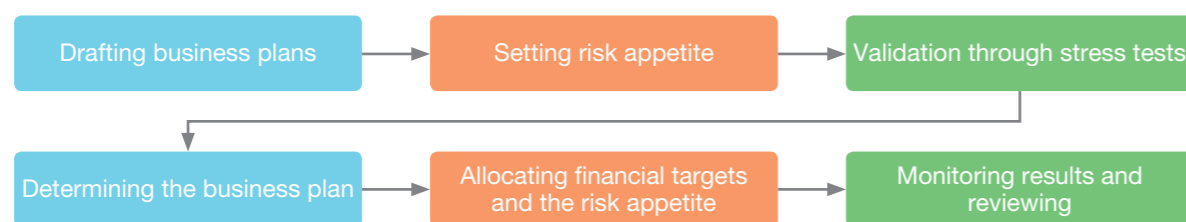
As business opportunities for financial institutions grow as a result of advances with financial deregulation, internationalization and the relaxation of regulations, the risks associated with the banking business become more diverse and complex. For banking management henceforth, it is important to 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. Among such matters covered by "comprehensive risk management," quantitative risk, nonquantitative risk and credit risk are discussed by and reported to the Strategic Committee as necessary.

Risk Appetite Framework

The Bank does not handle risks as a mere constraint but utilizes a framework for defining and monitoring acceptable risk levels for business execution in advance (risk appetite framework). The Bank works to improve the capital adequacy ratio and optimizes risks and returns toward realization of the Medium-Long Term Business Strategy by setting targets for risk assets consistent with the financial plan and the business strategy, allocating the risk assets to the credit and market departments and monitoring the status of the risk assets and profits on a periodic basis.

Processes under the risk appetite framework



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 fiscal year 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).

Basic Policy on Managing Various Risks

Credit Risk Management

As for credit risk management, credit concentration risk management and credit portfolio management are performed by industry and by borrower. In addition, in order to quantify risk as part of our comprehensive risk management, we use the Monte Carlo simulation method to measure the maximum amount of loss (VaR) and manage the results by performing comparisons to allocated capital.

When we perform credit management at the individual level, we rigorously examine credit ratings, collateral, use of funds, and repayment plans, ensuring adequate examination is given to each area, while at the same time providing support to individual companies for management improvement and rehabilitation. For companies that are bankrupt or practically insolvent, we perform credit management and revenue collection.

Market Risk Management

We reflect market risk in the Bank's management by having the Strategic Committee make forecasts of the economy and interest-rate environment and discuss and examine ways to limit market risk to an acceptable level while increasing profits. In addition to quantifying risks using VaR as part of its Comprehensive Risk Management, the Bank also comprehensively determines risk based on a framework including unrealized gains/losses on securities, duration management (current maturity), 10 BPV (0.1% interest rate fluctuation) and interest rate risk in the banking book (IRRBB).

Liquidity Risk Management

The Bank strives to maintain market liquidity and stable cash flows to counter liquidity risk. In addition to maintaining sufficient liquidity reserves of assets that can be converted into cash in a short period of time, we constantly monitor various factors that affect liquidity risk to ensure our full preparedness to respond to unforeseen circumstances.

Clerical Risk Management

In order to ensure accurate and speedy clerical processing, we are striving to improve the clerical processing skills of each employee through various measures including group training and web-based training. In addition, we are working to unify and strengthen the management of our clerical management system by digitizing reports on clerical risks and creating a database.

System Risk Management

The Bank has established a security policy as a basic policy for the protection of information assets, and has taken all possible safety measures. We have also established procedures for dealing with system failures and rules for the prevention of computer crimes and accidents, and are complying with them. We have also taken appropriate measures to protect personal information, including the introduction of encryption software on computers.

In addition, we have established a crisis management system and are developing training for the system to ensure that we can quickly continue operations in the event of a system failure, using such countermeasures as creating redundancy and encrypting our backbone lines and building a backup system, and we are taking all possible measures to deal with system risks. In addition, we have a dedicated Computer Security Incident Response Team (CSIRT) to deal with the increasing threat of cyberattacks in recent years.

Basic Policy on Business Continuity

1. Purpose

As a regional financial institution, the Bank is working to enhance and strengthen its risk management system by putting in place a business continuity system. This policy has been formulated for the purpose of establishing the basic concept of the business continuity system for the Bank and the Group as a whole, based on the Basic Policy for Internal Control ("Basic Policy on Internal Control System") and disseminating understanding of the plan throughout the entire organization.

2. Basic Concept of Management

In an emergency situation, we will minimize its impact on operations, restore operations swiftly and efficiently, and maintain a certain level of business continuity, while paying attention to the following points.

- 1) Ensure the safety of our customers, officers, employees and other related parties.
- 2) Achieve continuity of operations and early recovery to assist in sustaining local economic activity while minimizing the impact on financial settlement systems.
- 3) Minimize the loss of opportunities due to the suspension of operations.
- 4) Build the necessary system to ensure the effectiveness of the above, and provide training for that system.

3. Potential Emergency Situations

Emergency situations for which contingencies are planned include disasters, infectious diseases such as COVID-19, system failures, cyberattacks and reputational damage.

4. Priority Tasks and Recovery Targets

As a bank that provides financial services with a high degree of public good, we will select operations that need to be prioritized as part of the recovery process and concentrate our management resources on those operations to ensure that economic activities essential for society are not disrupted. For operations given priority during a period of restoration, we set a target period or target time for restoration and work to meet those targets.

5. Rules and Regulations

In line with this policy, we have established "Basic Regulations for Business Continuity" for the purpose of clarifying the arrangements and we have established subordinate regulations, taking steps to ensure that all employees are aware of them.

6. Continuous Improvement

We will conduct training on a regular basis pursuant to the Business Continuity Plan and while evaluating the extent of adoption and the acquired proficiency of such response behaviors among the Bank's officers and employees, we will regularly review the effectiveness of the training. In addition, to enhance the Bank's capability of ensuring business continuity in response to changes in the external environment and diversification of operations, we will update the rules and other procedures for business continuity as necessary.

Initiatives for Compliance

Basic Approach

Consistently with its “Policy on Compliance with Laws, Regulations, etc.,” the Bank regards compliance as “complying with not only laws and regulations but also social norms, the Bank’s various regulations, etc.” and positions compliance as one of the management issues of the highest priority. With the basic policy of promoting thorough understanding and enforcement of the system for compliance with laws, regulations, etc., the Bank is working to establish the compliance system as described below.

① Understanding and enforcing corporate philosophy, etc.

Each and every officer and employee will comply with the “Ethics Charter” with a full understanding and thorough enforcement of the Bank’s corporate philosophy, management guidelines and code of conduct and keeping in mind that trust and reliability are established through their tireless efforts made day by day.

② Training and education

The Bank works to instill compliance awareness through training, education and case study, while the compliance supervising department, etc. build a monitoring system and compliance officers at operational departments, branch offices, etc. strive to strengthen measures to prevent violation.

③ Implementation of compliance programs

The Bank conducts checks, reporting, evaluation, etc. of the status of compliance-related activities appropriately based on its compliance programs (activity plans) and takes effective corrective and recurrence prevention measures through the Board of Directors and other bodies.

Operating Structure for Compliance

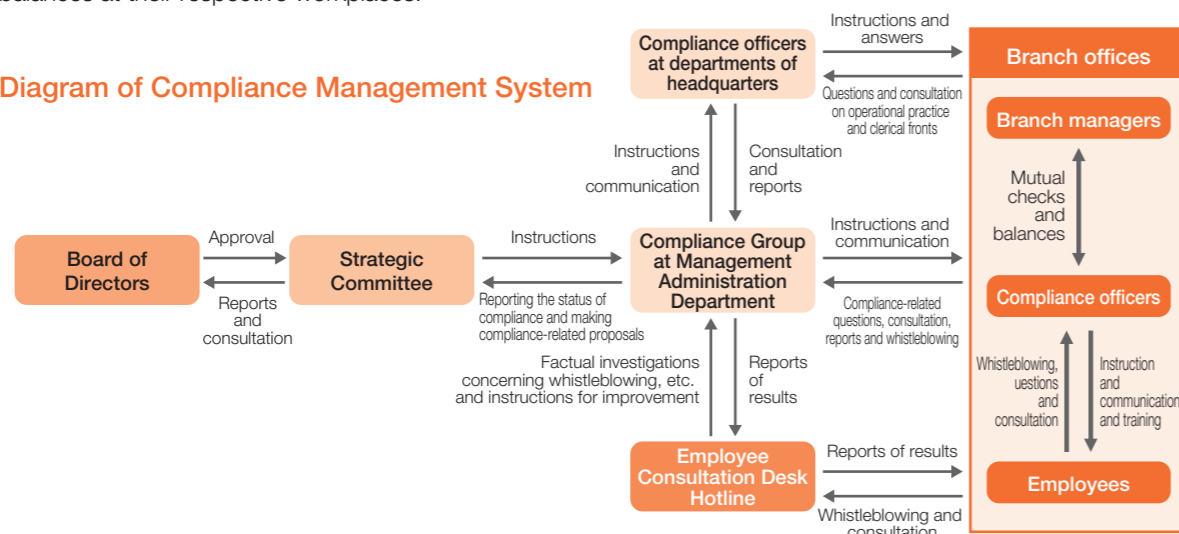
The Hokkoku Bank operates under the organizational structure which includes the Board of Directors, the Strategic Committee, compliance officers at operational departments, branch offices, etc. and the Management Administration Department.

The Management Administration Department serves as the compliance supervising department and aggregates, manages, examines and analyzes compliance-related information centrally to take necessary measures and formulates and implements compliance programs (activity plans).

The Board of Directors and other bodies receive reports on compliance with laws, regulations, etc. on a periodic or as needed basis and discuss important measures.

“Compliance officers” are assigned at operational departments, branch offices, etc. and implementing checks and balances at their respective workplaces.

Diagram of Compliance Management System



Compliance-related activities

Initiatives toward prevention of money laundering and terrorist financing

Given the recently increased international demand for preventing money laundering and terrorist financing, The Hokkoku Bank deems prevention of money laundering and terrorist financing as one of the priority management issues and works on a constant basis to validate and advance measures to ensure checks being carried out at the time of conducting transactions and detect and report suspicious transactions, among other measures.

Elimination of relationships with anti-social forces

The Hokkoku Bank is determined to conduct business with a focus on eliminating relationships with anti-social forces in order to decisively confront anti-social forces which threaten public order and safety of local communities. In addition, the Bank will refuse undue demand with resolution; never provide funds or engage in backdoor deals; and take actions as an entire organization in cooperation with law enforcement agencies and other specialized institutions.

Whistleblowing system

The Hokkoku Bank has put a whistleblowing system in place and designated the Compliance Group of the Management Administration Department, the Human Resource Development Department and attorneys-at-law specified by The Hokkoku Bank as the whistleblowing contact desks.

We are working to raise awareness within the Bank of the “Employee Consultation Desk Hotline” which is a whistleblowing contact point established to prevent and detect early deplorable events caused by a violation of laws and regulations or misconduct.

Prevention of insider trading

The Hokkoku Bank is working on appropriate management of material information and prevention of insider trading and speculative trading in accordance with the Financial Instruments and Exchange Act and other relevant laws and regulations.

Initiatives toward prevention of bribery

The Hokkoku Bank will not give, offer or promise money or other benefits improperly to Japanese and foreign public officials and any persons equivalent thereto and family of the foregoing (collectively, “Public Officials”). In addition, the Bank will not aid any other business operator or participate in a plot with respect to such an act. Furthermore, the Bank will not give, receive or provide gifts or entertainment in a way which is in violation of the “National Public Service Ethics Act,” the “National Public Service Ethics Code” or other similar regulations, etc. stipulated by a regulatory agency, etc. to Public Officials in Japan.

Initiatives toward prevention of corruption

The Hokkoku Bank will not give, receive or provide gifts or entertainment to or from business partners beyond the scope of social courtesies. The Bank instructs officers and employees not to socialize with business partners other than in a manner consistent with socially accepted norms concerning the frequency, venue, etc. even paying with individuals’ money (by splitting charges and/or out of pocket).

Socializing with business partners too much may pose a risk of being misunderstood as a collusive relationship and of a concern for inability to refuse unreasonable demand. As such, the Bank does not take entertainment, socialization, etc. easy or as a matter of course but deals with them within limits of decency at all times.

Initiatives toward respect for human rights

Harassment is infringement of human rights in a broad sense; and speech, behavior, etc. related to infringement of human rights would give disadvantage, discomfort or threat to the other party irrespective of the intent of the party who has committed the infringement, leading to damage to the dignity of the other party.

At The Hokkoku Bank, everyone respects the individuality and rights of others and will not engage in harassment. It is proper etiquette to “avoid doing or saying things others would feel bad” and everyone at the Bank will refrain from acting in a self-centered manner without caring for others.

Initiatives toward prevention of recurrence of scandals

Given the fact that a scandal occurred at the Bank in February 2020, the Bank conducted the following matters to verify the effectiveness of our measures to prevent recurrence and the readiness for compliance. The Bank will continue working on raising awareness of compliance among all officers and employees, thorough implementation of the clerical discipline and promotion of smooth communication within the workplace.

Ascertaining actual situations through employee interviews and questionnaire surveys

- ① Conduct investigations within the workplace through an anonymous questionnaire survey for employees
- ② Conduct individual interviews by the compliance supervising department with employees
- ③ Conduct interviews by the head of employees’ affiliated department (to ascertain situations surrounding employees including not only business-related concerns but also personal worries)

Reviewing the organizational structure and rules within the Bank

- ① Hold dialogue between employees during workplace discussions (on compliance-related matters)
- ② Make operations visible and arrangement to handle issues as an organization so that employees do not confront them on their own
- ③ Make rules for delivering cash to customers stricter
- ④ Ensure that the intended use of loans is confirmed

Initiatives for Increasing Corporate Value

We will maintain sound management as one of the leading regional banks, actively work to disclose information fairly and appropriately and aim for sustainable growth.

Shareholder Returns

The Bank's basic policy is to provide shareholders and investors with dividends stably and on an ongoing basis.

Review of the shareholder return policy

We have reviewed our shareholder return policy with the aim of further clarifying our policy of returning profits to shareholders.

The index used for reference is now changed from the "dividend payout ratio" to the "total return ratio including dividends and share buybacks."

* Dividend payout ratio = (Total dividends / Profits) x 100

Total return ratio = (Total dividends + Total share buybacks) / Profits x 100

Before

- We target the dividend payout ratio combining the stable dividend of 60 yen and performance-linked dividends at 25%–30%, and conduct share buybacks on an ongoing basis.
- As shareholder benefits, we offer products corresponding to the number of shares held by shareholders who have continued to hold shares in the Bank for two years.

After

- We target the total return ratio combining the stable dividend of 70 yen and share buybacks at 40%.

	Mar. 2018 (*)	Mar. 2019	Mar. 2020	Mar. 2021	Mar. 2022 (planned)
Profit	¥9,479 million	¥8,023 million	¥6,676 million	¥5,954 million	¥5,000 million
Annual dividends	¥90	¥80	¥70	¥80	¥70 (planned)
Dividend payout ratio	27.8%	28.8%	29.9%	37.5%	—
Share buybacks	850,000 shares	—	991,000 shares	—	TBD
Cancellations	—	880,000 shares	—	995,000 shares	TBD
Total return ratio	71.1%	28.8%	77.9%	37.5%	—

Share buybacks

Date	Number of shares	Total value
Feb. 2000	7,500,000 shares	¥3,000 million
Apr. 2000	2,500,000 shares	¥875 million
Apr. 2005	6,101,000 shares	¥2,788 million
Jan. 2006	1,130,000 shares	¥618 million
Nov. 2006	3,412,000 shares	¥1,689 million
Nov. 2007	4,185,000 shares	¥2,268 million
Feb.–Mar. 2011	5,000,000 shares	¥1,548 million
May–Jul. 2011	5,000,000 shares	¥1,392 million
Jan.–Feb. 2012	5,000,000 shares	¥1,492 million
May–Jul. 2012	5,000,000 shares	¥1,488 million
Jan.–Feb. 2013	4,785,000 shares	¥1,700 million
May 2013	2,800,000 shares	¥1,218 million
Feb. 2015	10,000,000 shares	¥3,780 million
Feb.–Mar. 2016	5,000,000 shares	¥1,511 million
Aug. 2017	8,500,000 shares	¥4,122 million
Oct. 2019–Feb. 2020	991,000 shares	¥3,200 million
May–Jun. 2021	200,000 shares	¥477 million

Cancellations

Date	Number of shares	Total value
Mar. 2000	7,500,000 shares	¥3,001 million
Apr. 2000	2,500,000 shares	¥875 million
Mar. 2006	7,500,000 shares	¥3,540 million
Mar. 2011	9,000,000 shares	¥3,707 million
Mar. 2012	10,000,000 shares	¥2,980 million
Mar. 2013	10,000,000 shares	¥3,236 million
Mar. 2014	2,800,000 shares	¥1,161 million
Mar. 2016	14,700,000 shares	¥5,202 million
Feb. 2019	880,000 shares	¥4,222 million
Mar. 2020	995,000 shares	¥3,225 million

IR Information

Matters on which we place an emphasis in our IR activities

- To communicate The Hokkoku Bank Group's management strategy with an emphasis on the narrativity
- To disclose information in a timely and fair manner to increase the transparency
- To strengthen disclosure of ESG information through websites and various types of disclosure material
- To place an emphasis on communication through individual meetings between the management team centering around President & Chief Executive Officer and Representative Director and institutional investors to foster understanding

Recent initiatives

- Our policy is that we do not hold financial results presentation meetings (large meetings) but disclose detailed IR presentation material concurrently with earnings reports, and place an emphasis on individual meetings with institutional investors.
- We strive to heighten awareness of fair disclosure by, for example, disclosing the contents of individual meetings as Q&As.
- We hold night-time online briefing sessions for individual investors.
- We have adopted corporate report analysis by Shared Research Inc. with the aim of improving efficiency of our IR activities and strengthening touchpoints with new investors including foreign investors. This also helps employees to understand the Bank (by sharing awareness of strengths, issues, etc. of the Bank).

Overview of meetings * Meetings held during June 2020 through July 2021

	Number of meetings held	Number of participants	Speaker
1-on-1 meeting	43	85	33 meetings by President & Chief Executive Officer and Representative Director; 10 meetings by Managing Director and General Manager of General Planning Department
Briefing session for individual investors	2	Approx. 470	Managing Director and General Manager of General Planning Department



* We have adopted corporate analysis reports by Shared Research Inc.

Financial results presentation material for FY2020 is being published.



Online briefing sessions for individual investors

Our management strategy and the overview of the financial results are explained. The video is distributed on demand. We advise you to take the time and watch the video.

February 12, 2021 (Friday), from 7:00 p.m.



1. About The Hokkoku Bank
 2. Management Strategy of The Hokkoku Bank
 3. Overview of the financial results for Q2 of the fiscal year ended March 31, 2021 (interim)
 4. Information
- Q&A session



* The video is in Japanese.
* The video is available until February 14, 2022.

CONSOLIDATED BALANCE SHEETS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

	As of March 31,		
	2021	2020	2021
	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets:			
Cash and due from banks (Notes 9 and 13)	¥ 1,483,423	¥ 1,389,813	\$ 13,399,181
Call loans and bills bought (Note 9)	118,000	—	1,065,847
Monetary claims bought	3,096	3,411	27,971
Trading account securities (Note 10)	105	111	950
Money held in trusts (Note 11)	13,513	13,519	122,065
Securities (Notes 9, 10 and 15)	1,198,610	990,091	10,826,580
Loans and bills discounted (Notes 8 and 9)	2,614,865	2,599,328	23,619,054
Foreign exchanges	10,778	13,106	97,358
Lease receivables and investment in leased assets (Note 20)	35,846	36,532	323,783
Other assets (Note 15)	39,342	33,804	355,367
Tangible fixed assets (Notes 12 and 14)	31,428	31,414	283,880
Intangible fixed assets	12,108	11,122	109,371
Deferred tax assets (Note 24)	197	2,666	1,783
Customers' liabilities for acceptances and guarantees	17,345	18,476	156,671
Reserve for possible loan losses	(54,148)	(46,131)	(489,102)
Total assets	¥ 5,524,513	¥ 5,097,268	\$ 49,900,766
Liabilities:			
Deposits (Notes 9 and 15)	3,969,004	3,634,904	35,850,462
Negotiable certificates of deposit (Note 9)	69,707	65,062	629,642
Call money and bills sold (Notes 9 and 15)	718,694	981,819	6,491,684
Guarantee deposit received under securities lending transactions (Notes 9 and 15)	230,366	93,634	2,080,806
Borrowed money (Notes 9, 15 and 16)	136,346	1,033	1,231,567
Foreign exchanges	2	12	21
Bonds payable (Note 17)	20,000	—	180,652
Borrowed money from trust account (Note 18)	145	129	1,315
Other liabilities	45,638	42,495	412,232
Reserve for bonuses	773	789	6,991
Net defined benefit liability (Note 25)	13,040	14,796	117,793
Reserve for directors' retirement benefits	31	28	280
Reserve for management board benefit trust	460	559	4,160
Reserve for reimbursement of deposits	172	235	1,561
Reserve for loss on refund of interest	33	55	304
Reserve for customer service points	324	258	2,932
Deferred tax liabilities (Note 24)	14,681	711	132,612
Deferred tax liability arising from revaluation of land (Note 12)	1,473	1,499	13,312
Acceptances and guarantees	17,345	18,476	156,671
Total liabilities	¥ 5,238,244	¥ 4,856,502	\$ 47,315,005
Net assets:			
Common stock	26,673	26,673	240,935
Capital surplus	13,053	13,053	117,907
Retained earnings	176,013	174,603	1,589,859
Treasury stock	(663)	(4,064)	(5,992)
Total shareholders' equity (Note 19)	215,077	210,266	1,942,710
Net unrealized gains on available-for-sale securities (Note 10)	63,560	24,954	574,120
Net deferred losses on hedging instruments	(3)	(16)	(35)
Land revaluation surplus (Note 12)	2,272	1,980	20,525
Remeasurements of defined benefit plans (Note 25)	(2,443)	(3,593)	(22,073)
Total accumulated other comprehensive income	63,385	23,325	572,536
Non-controlling interests	7,806	7,173	70,514
Total net assets	286,269	240,765	2,585,760
Total liabilities and net assets	¥ 5,524,513	¥ 5,097,268	\$ 49,900,766

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

	Year ended March 31		
	2021	2020	2021
	Millions of yen		Thousands of U.S. dollars (Note 2)
Income			
Interest income on:	¥ 34,882	¥ 37,082	\$ 315,079
Interest on loans and discounts	25,097	26,251	226,694
Interest and dividends on securities	9,286	10,412	83,884
Other interest income	498	419	4,499
Trust fees	0	0	0
Fees and commissions	10,130	10,485	91,508
Other operating income	15,835	19,555	143,037
Other income	18,250	7,616	164,853
Total income	79,099	74,740	714,478
Expenses			
Interest expenses on:	542	2,098	4,902
Deposits	223	309	2,015
Borrowings and rediscounts	30	436	274
Interest on payables under repurchase agreements	—	165	—
Interest on bonds	69	—	632
Other	219	1,187	1,981
Fees and commissions	3,547	3,567	32,040
Other operating expenses	16,108	11,855	145,505
General and administrative expenses (Note 21)	31,261	31,499	282,375
Other expenses (Note 22)	15,645	13,692	141,322
Total expenses	67,106	62,712	606,147
Profit before income taxes	11,993	12,027	108,331
Income taxes (Note 24):			
Current	6,052	5,735	54,672
Deferred	(1,136)	(1,222)	(10,262)
	4,916	4,512	44,409
Profit	7,076	7,514	63,921
Profit attributable to non-controlling interests	324	204	2,931
Profit attributable to owners of parent	¥ 6,752	¥ 7,310	\$ 60,990
Amounts per share (Note 27)			
Net assets	¥ 9,954.40	¥ 8,361.39	\$ 89.91
Profit	241.49	255.60	2.18

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

	Year ended March 31		
	2021	2020	2021
	Millions of yen		Thousands of U.S. dollars (Note 2)
Profit	¥ 7,076	¥ 7,514	\$ 63,921
Other comprehensive income (Note 23)			
Net unrealized gains (losses) on available-for-sale securities	38,919	(31,798)	351,548
Net deferred gains (losses) on hedging instruments	12	(15)	115
Remeasurements of defined benefit plans (Note 25)	1,149	(305)	10,384
Total other comprehensive income	40,082	(32,119)	362,049
Comprehensive income	¥ 47,159	¥ (24,604)	\$ 425,970
Total comprehensive income attributable to:			
Owners of parent	¥ 46,520	¥ (24,608)	\$ 420,202
Non-controlling interests	638	4	5,768

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					Total
	Common stock	Capital surplus	Retained earnings	Treasury stock		
Balance at March 31, 2019	¥ 26,673	¥ 12,854	¥ 169,267	¥ (920)	¥	207,876
Cash dividends	—	—	(2,182)	—		(2,182)
Profit attributable to owners of parent	—	—	7,310	—		7,310
Transfer from retained earnings to capital surplus	—	0	(0)	—		—
Purchase of treasury stock	—	—	—	(3,203)		(3,203)
Disposal of treasury stock	—	(0)	—	58		58
Reversal of land revaluation surplus	—	—	208	—		208
Purchase of shares of consolidated subsidiaries	—	199	—	—		199
Net changes in items other than shareholders' equity	—	—	—	—		—
Total changes during the year	—	199	5,335	(3,144)		2,390
Balance at March 31, 2020	26,673	13,053	174,603	(4,064)		210,266
Cash dividends	—	—	(1,827)	—		(1,827)
Profit attributable to owners of parent	—	—	6,752	—		6,752
Transfer from retained earnings to capital surplus	—	3,223	(3,223)	—		—
Purchase of treasury stock	—	—	—	(2)		(2)
Disposal of treasury stock	—	(0)	—	179		179
Cancellation of treasury stock	—	(3,223)	—	3,223		—
Reversal of land revaluation surplus	—	—	(291)	—		(291)
Net changes in items other than shareholders' equity	—	—	—	—		—
Total changes during the year	—	—	1,409	3,400		4,810
Balance at March 31, 2021	¥ 26,673	¥ 13,053	¥ 176,013	¥ (663)	¥	215,077

	Millions of yen						
	Accumulated other comprehensive income						Total net assets
	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	
Balance at March 31, 2019	¥ 56,553	¥ (1)	¥ 2,189	¥ (3,287)	¥ 55,452	¥ 7,886	¥ 271,215
Cash dividends	—	—	—	—	—	—	(2,182)
Profit attributable to owners of parent	—	—	—	—	—	—	7,310
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(3,203)
Disposal of treasury stock	—	—	—	—	—	—	58
Reversal of land revaluation surplus	—	—	—	—	—	—	208
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	199
Net changes in items other than shareholders' equity	(31,598)	(15)	(208)	(305)	(32,127)	(713)	(32,840)
Total changes during the year	(31,598)	(15)	(208)	(305)	(32,127)	(713)	(30,449)
Balance at March 31, 2020	24,954	(16)	1,980	(3,593)	23,325	7,173	240,765
Cash dividends	—	—	—	—	—	—	(1,827)
Profit attributable to owners of parent	—	—	—	—	—	—	6,752
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(2)
Disposal of treasury stock	—	—	—	—	—	—	179
Cancellation of treasury stock	—	—	—	—	—	—	—
Reversal of land revaluation surplus	—	—	—	—	—	—	(291)
Net changes in items other than shareholders' equity	38,605	12	291	1,149	40,060	633	40,693
Total changes during the year	38,605	12	291	1,149	40,060	633	45,503
Balance at March 31, 2021	¥ 63,560	¥ (3)	¥ 2,272	¥ (2,443)	¥ 63,385	¥ 7,806	¥ 286,269

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				Total
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2020	\$ 240,935	\$ 117,907	\$ 1,577,125	\$ (36,710)	\$ 1,899,257
Cash dividends	—	—	(16,503)	—	(16,503)
Profit attributable to owners of parent	—	—	60,990	—	60,990
Transfer from retained earnings to capital surplus	—	29,118	(29,118)	—	—
Purchase of treasury stock	—	—	—	(22)	(22)
Disposal of treasury stock	—	(0)	—	1,623	1,623
Cancellation of treasury stock	—	(29,118)	—	29,118	—
Reversal of land revaluation surplus	—	0	(2,634)	—	(2,634)
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	—	12,733	30,718	43,452
Balance at March 31, 2021	\$ 240,935	\$ 117,907	\$ 1,589,859	\$ (5,992)	\$ 1,942,710

	Thousands of U.S. dollars (Note 2)						
	Accumulated other comprehensive income						Total net assets
	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	
Balance at March 31, 2020	\$ 225,408	\$ (151)	\$ 17,890	\$ (32,458)	\$ 210,689	\$ 64,795	\$ 2,174,742
Cash dividends	—	—	—	—	—	—	(16,503)
Profit attributable to owners of parent	—	—	—	—	—	—	60,990
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(22)
Disposal of treasury stock	—	—	—	—	—	—	1,623
Cancellation of treasury stock	—	—	—	—	—	—	—
Reversal of land revaluation surplus	—	—	—	—	—	—	(2,634)
Net changes in items other than shareholders' equity	348,711	115	2,634	10,384	361,846	5,718	367,565
Total changes during the year	348,711	115	2,634	10,384	361,846	5,718	411,018
Balance at March 31, 2021	\$ 574,120	\$ (35)	\$ 20,525	\$ (22,073)	\$ 572,536	\$ 70,514	\$ 2,585,760

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Hokkoku Bank, Ltd. and Consolidated Subsidiaries

Year ended March 31

	2021	2020	2021
	Millions of yen		Thousands of U.S. dollars (Note 2)
Cash flows from operating activities			
Profit before income taxes	¥ 11,993	¥ 12,027	\$ 108,331
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	4,076	4,297	36,821
Losses on impairment	650	949	5,874
Increase (decrease) in reserve for possible loan losses	8,016	8,238	72,410
Increase (decrease) in reserve for bonuses	(15)	(6)	(143)
Increase (decrease) in net defined benefit liability	(1,755)	210	(15,860)
Increase (decrease) in directors' retirement benefits	2	(2)	22
Increase (decrease) in reserve for management board benefit trust	(98)	28	(890)
Increase (decrease) in reserve for reimbursement of deposits	(62)	(46)	(563)
Increase (decrease) in reserve for losses on refund of interest	(21)	11	(193)
Increase (decrease) in reserve for customer service points	66	136	597
Accrued interest and dividend income	(34,882)	(37,082)	(315,079)
Accrued interest expenses	542	2,098	4,902
Losses (gains) on investment securities, net	(11,027)	(9,928)	(99,607)
Losses (gains) on money trusts	5	3	51
Foreign exchange losses (gains), net	(12,345)	3,737	(111,514)
Losses (gains) on disposal of fixed assets	(63)	(43)	(570)
Decrease (increase) in loans and bills discounted	(15,536)	(31,995)	(140,338)
Increase (decrease) in deposits	338,745	98,030	3,059,756
Increase (decrease) in borrowed money (excluding subordinated borrowings)	135,313	(1,365)	1,222,235
Decrease (increase) in due from banks (exclusive of the Bank of Japan)	(10,653)	(2,200)	(96,229)
Decrease (increase) in call loans and others	(117,685)	202	(1,063,005)
Increase (decrease) in call money and others	(263,125)	134,420	(2,376,709)
Increase (decrease) in payables under repurchase agreements	—	(31,206)	—
Increase (decrease) in guarantee deposit received under securities lending transactions	136,731	(111,068)	1,235,038
Decrease (increase) in trading account assets	5	(20)	53
Decrease (increase) in foreign exchange assets	2,328	(3,597)	21,028
Increase (decrease) in foreign exchange liabilities	(9)	(2)	(89)
Decrease (increase) in lease receivables and investment in leased assets	628	(3,505)	5,676
Decrease (increase) in cash collateral paid for financial instruments	(1,247)	37,084	(11,266)
Increase (decrease) in borrowed money from trust account	16	39	148
Interest and dividends received	25,518	27,700	230,501
Interest paid	(599)	(2,217)	(5,412)
Other, net	2,523	20,141	22,794
Subtotal	198,034	115,069	1,788,770
Income taxes refund	9	—	89
Income taxes paid, net of refund	(6,167)	(4,375)	(55,705)
Net cash provided by (used in) operating activities	191,877	110,694	1,733,155
Cash flows from investing activities			
Purchases of securities	(892,611)	(853,296)	(8,062,608)
Proceeds from sales of securities	667,313	852,237	6,027,577
Proceeds from redemption of investment securities	93,168	54,339	841,558
Interests and dividends received on investments	10,339	12,240	93,391
Purchases of tangible fixed assets	(2,553)	(1,089)	(23,063)
Purchases of intangible fixed assets	(3,258)	(3,378)	(29,432)
Proceeds from sales of tangible fixed assets	342	317	3,089
Payments for asset retirement obligations	(15)	—	(137)
Net cash provided by (used in) investing activities	(127,274)	61,370	(1,149,624)
Cash flows from financing activities			
Issuance of subordinated bonds	20,000	—	180,652
Cash dividends paid	(1,828)	(2,180)	(16,520)
Cash dividends paid to non-controlling interests	(5)	(5)	(49)
Purchases of treasury stock	(2)	(3,203)	(22)
Proceeds from sales of treasury stock	179	58	1,623
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(521)	—
Net cash provided by (used in) financing activities	18,342	(5,852)	165,682
Effect of exchange rate changes on cash and cash equivalents	10	(9)	97
Net increase (decrease) in cash and cash equivalents	82,956	166,203	749,310
Cash and cash equivalents at beginning of year	1,382,462	1,216,250	12,487,244
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	9	—
Cash and cash equivalents at end of year (Note 13)	¥ 1,465,419	¥ 1,382,462	\$ 13,236,555

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, 2021 and 2020

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 ¥110.71 = U.S. \$1.00, the rate of exchange in effect on March 31, 2021 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 six subsidiaries at March 31, 2021 and 2020. All significant inter-company receivables and payables and transactions have been eliminated in consolidation.

Ishikawa Small Business Revitalization No. 2 Fund Investment Limited Liability Partnership and Ishikawa Small Business Revitalization No. 3 Fund Investment Limited Liability Partnership are not consolidated, nor accounted for under the equity method, as the assets, contribution of their income and retained earnings are considered immaterial and do not have a material impact on the consolidated financial statements if excluded from the scope of consolidation, and their 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.

For translation differences of available-for-sale securities (bonds) denominated in foreign currencies, the translation differences related to changes in fair value are recognized as unrealized gains or losses and other differences are recognized as foreign exchange gains or losses.

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, net of the 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 for the claims, net of the amount expected to be collected by the realization of collateral, or as a result of the execution of guarantee, based on an overall debt servicing capacity assessment of the debtor. In addition, for claims to debtors with large exposure exceeding certain amount or debtors at a risk of bankruptcy, including restructured loans, 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 expected loan loss amount over the next one year or three years. The Bank estimates the rate of loan losses with reference to the average rate of loan losses over a certain period of time based on the Bank's past loan-loss experience over one year or three years. The Bank makes necessary adjustments, such as future projections, to the rate of loan losses in order to determine the expected loan loss amount.

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 to debtors who are legally or substantially bankrupt, the amount exceeding the estimated value of the collateral or guarantees is deemed to be uncollectible and written off against the total outstanding amount of the claims. The total amount of write-off was ¥23,963 million (\$216,450 thousand) and ¥24,680 million as of March 31, 2021 and 2020, 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 inactive 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 exchange rate prevailing at the balance sheet date.

p. Revenue recognition

(1) Revenue recognition for finance leases

Sales and cost of sales are recognized at the time of the receipt of lease payments.

(2) Recognition of dividends on stocks included in interest and dividends on securities

Dividends on stocks resulting from appropriation of other retained earnings (limited to cash to be distributed as dividends), which are approved by resolutions of meetings of shareholders, the Board of Directors or other decision-making bodies of issuing companies, are recognized in the fiscal year to which the effective date of the respective dividend belongs.

However, dividends are recognized in the fiscal year in which the payments are received, when the payments are made within the period normally required after the effective date.

q. Hedge accounting

Hedging interest rate risk

The Bank applied the deferral method to account for financial instruments that hedge the interest rate risk on financial assets and liabilities of the Bank, as provided in the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (The Japanese Institute of Certified Public Accountants (JICPA) Industry Committee Practical Guideline No. 24, October 8, 2020). 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 Accountants (JICPA) Industry Committee Practical Guideline No. 25, October 8, 2020). The hedge effectiveness of these currency-swap transactions, exchange-swap transactions and similar instruments to hedge the foreign exchange risks of foreign-currency financial assets or liabilities is assessed by comparing the foreign currency position of the hedged assets or liabilities with that of the hedging instruments.

r. Consumption taxes

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

s. Cash and cash equivalents

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

t. Accounting treatments and procedures adopted in cases where relevant accounting standards are unclear

Gains or losses on cancellation of investment trusts are aggregated by individual issue, then the gains are recognized as interest and dividends on securities under interest income and the losses are recognized as other operating expenses.

4. Significant Accounting Estimates

Reserve for possible loan losses is recognized in the current fiscal year's consolidated financial statements based on the accounting estimates and may give significant impact on the consolidated financial statements of the following fiscal year.

(a) Amount recognized in the consolidated financial statements as of March 31, 2021

	Millions of yen	Thousands of U.S. dollars
Reserve for possible loan losses	¥ 54,148	\$ 489,102

(b) Information that contributes to an understanding of the nature of significant accounting estimates for the identified items

(i) Estimation method

The Bank determines the amount of reserve for possible loan losses based on the determination of judgments of debtor classification in accordance with the self-assessment of asset quality guidelines, and as stated in "3. Summary of Significant Accounting Policies, g. Reserve for possible loan losses."

(ii) Key assumptions

Key assumptions include "outlook for future performance of debtors in determining debtor classification" and "impact of the COVID-19 pandemic."

Outlook for future performance of debtors in determining debtor classification

In determining debtor classification, the Bank evaluates debtors on an individual basis based on the repayment status, financial position, business performance, future outlook and others. In particular, when assessing the appropriate classification of a debtor with repayment status, financial position, or business performance being deteriorating, such factors as the reasonableness and feasibility of the business improvement plan which embodies the assumption of the outlook for future business performance, serve as significant factors in making the relevant judgment.

The reasonableness and feasibility of the business improvement plan may be affected by changes in the business environment surrounding the debtor, the outcome of the debtor's business strategy and the Bank's supporting policy to the debtor.

Impact of the COVID-19 pandemic

As of March 31, 2021, the Bank assumes that the COVID-19 pandemic would be settled down during the year ending March 31, 2022 and economic activities would fully recover during the year ending March 31, 2023, which may have a certain impact on the credit risk of the Bank's loans and other assets.

In the local economy, the impact of the COVID-19 pandemic has been widespread, and the future outlook is uncertain as shown in the number of guests at major hot spring resorts that is significantly lower than the

past year. On the other hand, consumer spending is slowly picking up and business confidence in the manufacturing sector is improving. Although the Bank expects the situation would be settled down during the year ending March 31, 2022 through vaccination and other disease control measures, the impact of the COVID-19 pandemic on the economy is still uncertain due to the emergence of mutant strains etc.; thus, the Bank assumes economic activities would fully recover during the year ending March 31, 2023.

Based on the aforementioned assumptions, the Bank determines the debtor classification using the most current information available, and makes estimates of the amount of reserve for possible loan losses. The Bank has changed these assumptions from this fiscal year end, considering the most current status of the COVID-19 pandemic.

(iii) Impact on the consolidated financial statements in the following fiscal year

Since the aforementioned "(ii) Key assumptions" involves uncertainty, it may give a significant impact on the amount of reserve for possible loan losses in the consolidated financial statements of the following year when the assumption of improvement outlook of future performance used in determining debtor classification may be changed and/or the status of the COVID-19 pandemic and the impact on the economy may be changed from the aforementioned assumption in the future.

5. Accounting Standards Issued but Not Yet Effective

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

(a) Outline

This is comprehensive accounting standard 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 these accounting standard and implementation guidance is immaterial.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019),

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019),

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019) and

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(a) Outline

In order to improve comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" have been developed as guidance on how to measure fair value. These accounting standards and implementation guidance will be applied to the fair value measurement of the following items:

- Financial instruments set forth in "Accounting Standard for Financial Instruments"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised to include notes on a breakdown of financial instruments by fair value hierarchy.

(b) Scheduled date of adoption

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

(c) Impact of the adoption of these accounting standards and implementation guidance

The impact of the adoption of these accounting standards and implementation guidance is under evaluation.

6. Changes in Presentation

Adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The Bank has adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) effective March 31, 2021, and disclosed notes on significant accounting estimates to the consolidated financial statements.

In accordance with transitional treatments prescribed in the provision of Paragraph 11 of ASBJ Statement No. 31, the details for the year ended March 31, 2020 are not disclosed.

7. Additional Information

(Management board benefit trust)

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 terminated the stock compensation-type stock options for directors, who are not audit and supervisory committee members (excluding outside directors), and executive officers (hereinafter "Officers") of the Bank.

(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 as treasury stock under shareholders' equity. The carrying value and the number of the shares are ¥643 million (\$5,811 thousand) and 135 thousand shares for the year ended March 31, 2021, and ¥823 million and 172 thousand shares for the year ended March 31, 2020.

(Accounting treatments and procedures adopted in cases where relevant accounting standards are unclear)

The Bank has adopted "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020) effective March 31, 2021, and newly disclosed notes on "accounting treatments and procedures adopted in cases where relevant accounting standards are unclear."

8. Loans and Bills Discounted

Loans to borrowers under bankruptcy procedures and delinquent loans totaled ¥4,597 million (\$41,530 thousand) and ¥53,668 million (\$484,766 thousand), respectively, at March 31, 2021 and ¥4,265 million and ¥50,807 million, respectively, at March 31, 2020. A loan is placed on non-accrual status when accrued interest has not been recorded as there is no prospect of collection or payment of interest given that the principal or interest payment have been delayed for a considerable period of time or other reasons.

Loans to borrowers in bankruptcy represent non-accrual loans, excluding 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 ¥472 million (\$4,264 thousand) and ¥425 million at March 31, 2021 and 2020, 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 ¥2,027 million (\$18,316 thousand) and ¥1,235 million at March 31, 2021 and 2020, respectively. Restructured loans are those on which the Bank has granted certain concessions, including reduction or waivers of interest, deferred payment of principal or interest and debt forgiveness, in order to assist the restructuring of the borrowers, and are not classified as 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 ¥60,766 million (\$548,877 thousand) and ¥56,733 million at March 31, 2021 and 2020, 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 ¥8,592 million (\$77,608 thousand) and ¥12,579 million as of March 31, 2021 and 2020, 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, 2021 and 2020 totaled ¥401,819 million (\$3,629,475 thousand) and ¥402,882 million, respectively; ¥389,688 million (\$3,519,903 thousand) of which, at March 31, 2021 (2020: ¥391,856 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 clauses 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 in cases where changes in the borrower's financial position are identified, protection them through credit enhancement is required or 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 modifying the loan commitment agreements when necessary.

9. 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 also 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, serious systemic risk of the financial system and downgrades of the Bank's credit rating by external rating agencies.

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 to assess if the relationships between hedging instruments and hedged items including assets and liabilities are 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 including credit review by individual loan transaction, internal credit rating, self-assessment of asset quality, large exposure control, measurement of risk exposure and management of problem loans in accordance with credit risk management policies, credit policies, lending operation rules and credit risk control rules. These credit controls are performed by the credit review sections of the head office divisions and the consolidated subsidiaries as well as the operating offices and are periodically deliberated by and reported to the decision-making bodies including 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 treasury transactions and derivative transactions are controlled by periodically identifying credit information and the mark-to-market values by the Market Finance Division and the International Division.

Market risk management:

(1) Interest rate risk management

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 of the Group monitors the risk exposures by establishing risk limits based on the integrated risk control policy and integrated risk control rule and reports to the Group Strategic Committee and the Board of Directors. In addition, the General Planning Department and Management Administration Division monitor the interest rate risk based on the interest rate sensitivity analysis, gap analysis, ladder analysis as well as Interest Rate Risk in the Banking Book (IRRBB) approach and report to the Group Strategic Committee on a regular basis. The Bank also enters into interest rate swap contracts to hedge the interest rate fluctuation risk.

(2) Foreign exchange risk management

The Group 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 management

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 risk exposures and verifies compliance with the limit. In addition, the Management Administration Division identifies, measures and analyzes those risks and conducts stress tests. Such information is reported to the Group Strategic Committee and the 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 hedging 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 financial instruments exposed to interest rate risk and price fluctuation risk such as stock price fluctuation risk include, among other things, "Loans and bills discounted," "Securities," "Deposits," and "Derivatives" recorded in the banking book. The Bank uses the VaR model to measure market risk exposure of interest rate, stock and investment trust related instruments. Adopting the variance-covariance method (holding period: half a year, confidence level: 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 market risk exposure of the Group was ¥61,291 million (\$553,622 thousand) and ¥56,003 million as of March 31, 2021 and 2020, respectively. The Bank adopts deposit internal models to measure interest rate risk of liquid deposits.

The Bank implements back-testing to compare the model-based VaR with actual profit and loss for 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 based on the probability of occurrence in a normal distribution of 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, 2021 and 2020.

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

	March 31, 2021		
	Millions of yen		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 1,483,423	¥ 1,483,423	¥ -
Call loans and bills bought	118,000	118,000	-
Securities:			
Available-for-sale securities	1,194,796	1,194,796	-
Loans	2,614,865		
Reserve for possible loan losses (*1)	(50,491)		
	2,564,373	2,566,149	1,775
Total assets	5,360,594	5,362,370	1,775
Deposits	3,969,004	3,969,047	43
Negotiable certificates of deposit	69,707	69,707	-
Call money and bills sold	718,694	718,694	-
Guarantee deposit received under securities lending transactions	230,366	230,366	-
Borrowed money	136,346	136,349	2
Total liabilities	5,124,119	5,124,165	45
Derivative transactions (*2)			
To which hedge accounting is not applied	(2,366)	(2,366)	-
To which hedge accounting is applied	(187)	(187)	-
Total derivative transactions	(2,554)	(2,554)	-

	March 31, 2021		
	Thousands of U. S. dollars		
	Carrying value	Fair value	Difference
Cash and due from banks	\$13,399,181	\$13,399,181	\$ -
Call loans and bills bought	1,065,847	1,065,847	-
Securities:			
Available-for-sale securities	10,792,131	10,792,131	-
Loans	23,619,054		
Reserve for possible loan losses (*1)	(456,070)		
	23,162,983	23,179,025	16,041
Total assets	48,420,144	48,436,186	16,041
Deposits	35,850,462	35,850,850	388
Negotiable certificates of deposit	629,642	629,642	-
Call money and bills sold	6,491,684	6,491,684	-
Guarantee deposit received under securities lending transactions	2,080,806	2,080,806	-
Borrowed money	1,231,567	1,231,591	23
Total liabilities	46,284,163	46,284,575	412
Derivative transactions (*2)			
To which hedge accounting is not applied	(21,373)	(21,373)	-
To which hedge accounting is applied	(1,697)	(1,697)	-
Total derivative transactions	(23,070)	(23,070)	-

	March 31, 2020		
	Millions of yen		
	Carrying value	Fair value	Difference
Cash and due from banks	¥ 1,389,813	¥ 1,389,813	¥ -
Call loans and bills bought	-	-	-
Securities:			
Available-for-sale securities	986,079	986,079	-
Loans	2,599,328		
Reserve for possible loan losses (*1)	(43,432)		
	2,555,896	2,568,623	12,727
Total assets	4,931,789	4,944,516	12,727
Deposits	3,634,904	3,634,927	22
Negotiable certificates of deposit	65,062	65,062	-
Call money and bills sold	981,819	981,819	-
Guarantee deposit received under securities lending transactions	93,634	93,634	-
Borrowed money	1,033	1,040	7
Total liabilities	4,776,454	4,776,484	30
Derivative transactions (*2)			
To which hedge accounting is not applied	(375)	(375)	-
To which hedge accounting is applied	43	43	-
Total derivative transactions	(332)	(332)	-

(*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 net asset value. 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 floating 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 to be applied to similar new loans for each category based on type of loans, internal ratings and maturities. For loans with a shorter remaining period (i.e. 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 with no determinable due date, for certain reasons including the characteristics that the loan drawdowns 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 and pricing conditions.

Liabilities

Deposits and negotiable certificates of deposits:

With respect to on-demand deposits, the fair value is deemed to be the amount that is required to paid (i.e. carrying value) at the balance sheet

date. The fair value of time deposits is computed using the present value by discounting future cash flows based on each category of certain period of time. 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 and guarantee deposit received under securities lending transactions:

The carrying value is presented as the fair value as the residual maturity is short (i.e. less than one year) and the fair value approximates the carrying value.

Borrowed money:

The fair value of borrowed money is determined by discounting the aggregate amount of principal and interest at the interest rate assumed if the similar borrowings were newly made, based on each category of remaining maturities. As for the borrowings whose remaining maturity is less than one year, the carrying value is presented as the fair value as the fair value approximates the carrying value.

Derivative transactions

Derivative transactions comprise interest rate related transactions (e.g. interest rate swaps) and currency related transactions (e.g. currency options, currency swaps) 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		
	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Unlisted equity securities (*1) (*2)	¥ 3,256	¥ 3,444	\$ 29,412
Investment in partnership (*3)	557	567	5,036
Total	¥ 3,813	¥ 4,012	\$ 34,448

(*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 ¥188 million (\$1,699 thousand) on unlisted equity securities for the year ended March 31, 2021. No unlisted equity securities were impaired for the year ended March 31, 2020

(*3) Certain investment in partnerships, consisting of unlisted equity securities with fair value which is extremely difficult to determine, are excluded from the disclosure of the fair value.

(Note 3) Maturity of financial assets and securities with contractual maturities at March 31, 2021

	March 31, 2021					
	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	¥ 1,446,288	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	118,000	—	—	—	—	—
Securities:						
Available-for-sale securities with contractual maturities:	78,738	131,746	193,807	94,665	259,851	149,008
Japanese government bonds	10,000	—	—	—	26,000	138,000
Municipal bonds	42,016	60,273	56,201	45,833	117,650	45
Corporate bonds	21,665	49,760	89,025	27,316	774	5,058
Other	5,056	21,712	48,580	21,516	115,426	5,905
Loans (*)	645,375	405,921	321,482	201,000	335,824	679,380
Total	¥ 2,288,403	¥ 537,667	¥ 515,290	¥ 295,666	¥ 595,675	¥ 828,388

	March 31, 2021					
	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	\$ 13,063,760	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought	1,065,847	—	—	—	—	—
Securities:						
Available-for-sale securities with contractual maturities:	711,218	1,190,012	1,750,590	855,080	2,347,134	1,345,932
Japanese government bonds	90,326	—	—	—	234,847	1,246,499
Municipal bonds	379,521	544,425	507,647	413,997	1,062,691	406
Corporate bonds	195,697	449,467	804,134	246,734	6,991	45,686
Other	45,673	196,119	438,809	194,347	1,042,604	53,339
Loans (*)	5,829,427	3,666,527	2,903,823	1,815,560	3,033,368	6,136,576
Total	\$ 20,670,254	\$ 4,856,539	\$ 4,654,414	\$ 2,670,640	\$ 5,380,503	\$ 7,482,508

(*) Loans to “legally bankrupt,” “substantially bankrupt” and “likely to become bankrupt” borrowers which are not expected to be repaid amounting to ¥15,184 million (\$137,159 thousand) are not included.

Loans with no contractual maturities amounting to ¥10,695 million (\$96,610 thousand) are not included.

(Note 4) Maturity of bonds and interest bearing liabilities at March 31, 2021

	March 31, 2021					
	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 (*)	¥ 3,183,553	¥ 208,538	¥ 21,084	¥ —	¥ —	¥ —
Negotiable certificates of deposits	69,707	—	—	—	—	—
Call money and bills sold	718,694	—	—	—	—	—
Guarantee deposit received under securities lending transactions	230,366	—	—	—	—	—
Borrowed money	136,077	192	77	—	—	—
Total	¥ 4,338,398	¥ 208,730	¥ 21,161	¥ —	¥ —	¥ —

	March 31, 2021					
	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 (*)	\$ 28,755,790	\$ 1,883,644	\$ 190,445	\$ —	\$ —	\$ —
Negotiable certificates of deposits	629,642	—	—	—	—	—
Call money and bills sold	6,491,684	—	—	—	—	—
Guarantee deposit received under securities lending transactions	2,080,806	—	—	—	—	—
Borrowed money	1,229,130	1,738	698	—	—	—
Total	\$ 39,187,054	\$ 1,885,383	\$ 191,143	\$ —	\$ —	\$ —

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

10. Securities

(1) Trading account securities

Unrealized gain or loss of trading account securities included in earnings for the years ended March 31, 2021 and 2020 were ¥0 million (\$0 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, 2021 and 2020.

(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, 2021 and 2020 are summarized as follows:

	March 31, 2021				
	Millions of yen				
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	¥ 170,168	¥ 79,110	¥ 91,058	¥ 93,790	¥ 2,732
Debt securities	701,357	701,170	186	1,403	1,216
Others	323,270	322,093	1,177	8,512	7,335
Total	¥ 1,194,796	¥ 1,102,374	¥ 92,422	¥ 103,706	¥ 11,284

	March 31, 2021				
	Thousands of U.S. dollars				
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	\$ 1,537,068	\$ 714,571	\$ 822,496	\$ 847,176	\$ 24,680
Debt securities	6,335,083	6,333,401	1,682	12,673	10,990
Others	2,919,979	2,909,344	10,634	76,893	66,258
Total	\$10,792,131	\$ 9,957,317	\$ 834,813	\$ 936,742	\$ 101,929

	March 31, 2020				
	Millions of yen				
	Carrying value	Acquisition cost	Difference	Gain	Loss
Stock	¥ 140,111	¥ 86,982	¥ 53,129	¥ 61,301	¥ 8,171
Debt securities	662,020	662,614	(593)	1,577	2,171
Others	183,946	200,020	(16,073)	2,419	18,493
Total	¥ 986,079	¥ 949,616	¥ 36,462	¥ 65,299	¥ 28,836

Japanese government bonds, equities and others loaned under the securities lending agreement in the amount of ¥99,788 million (\$901,351 thousand) and ¥54,030 million are included in the above as of March 31, 2021 and 2020, 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 amounted to ¥112 million (\$1,012 thousand) and ¥1,034 million (of which, ¥112 million (\$1,012 thousand) and ¥680 million for stock) for the years ended March 31, 2021 and 2020, respectively. 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, 2021 and 2020 are as follows:

	2021			2020		
	Millions of yen		Thousands of U. S. dollars	Millions of yen		Thousands of U. S. dollars
Unrealized gain on available-for-sale securities	¥ 92,422	¥ 36,462	\$ 834,813	¥ (27,392)	¥ (10,353)	\$ (247,429)
Deferred tax liabilities	¥ 65,029	¥ 26,109	\$ 587,384	(1,468)	(1,154)	(13,264)
Attributable to non-controlling interest						
Unrealized gain on available-for-sale securities, net of tax	¥ 63,560	¥ 24,954	\$ 574,120			

Available-for-sale securities sold during the years ended March 31, 2021 and 2020 are summarized as follows:

	2021			2020		
	Millions of yen		Thousands of U. S. dollars	Millions of yen		Thousands of U. S. dollars
Proceeds from sales	¥ 670,611	¥ 854,613	\$ 6,057,375	19,726	13,690	178,179
Gain on sales	7,516	1,882	67,889			
Loss on sales						

11. Money Held in Trusts

Money held in trusts for investment purposes

	2021			2020		
	Millions of yen		Thousands of U. S. dollars	Millions of yen		Thousands of U. S. dollars
Amount recorded in the consolidated balance sheets	¥ 13,513	¥ 13,519	\$ 122,065			
Unrealized gain (loss) included in profit and loss for the fiscal year	13	19	125			

12. 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 ¥6,013 million (\$54,314 thousand) and ¥6,680 million at March 31, 2021 and 2020, respectively.

13. Cash Flows

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2021 and 2020 and cash and cash equivalents in the consolidated statements of cash flows for the years then ended is as follows:

	2021			2020		
	Millions of yen		Thousands of U. S. dollars	Millions of yen		Thousands of U. S. dollars
Cash and due from banks	¥ 1,483,423	¥ 1,389,813	\$ 13,399,181			
Due from banks other than the Bank of Japan	(18,004)	(7,350)	(162,626)			
Cash and cash equivalents	¥ 1,465,419	¥ 1,382,462	\$ 13,236,555			

14. Accumulated Depreciation and Deferred Gains on Tangible Fixed Assets

Accumulated depreciation totaled ¥33,041 million (\$298,446 thousand) and ¥33,756 million at March 31, 2021 and 2020, respectively. Deferred gains on tangible fixed assets deducted for tax purposes at March 31, 2021 and 2020 were ¥2,847 million (\$25,722 thousand) and ¥2,847 million, respectively.

15. Assets Pledged

Assets pledged as collateral at March 31, 2021 and 2020 were as follows:

	2021			2020		
	Millions of yen		Thousands of U. S. dollars	Millions of yen		Thousands of U. S. dollars
Pledged assets:						
Securities	¥ 523,079	¥ 287,826	\$ 4,724,773			
Other assets	2,643	1,395	23,875			
Liabilities secured by the above assets:						
Deposits	¥ 42,424	¥ 43,491	\$ 383,200			
Call money and bills sold	—	12,950	—			
Guarantee deposit received under securities lending transactions	230,366	93,634	2,080,806			
Borrowed money	135,800	—	1,226,628			

Margin deposits with the clearing house of ¥20,000 million (\$180,652 thousand) and ¥20,000 million at March 31, 2021 and 2020 and guarantee deposits of ¥82 million (\$743 thousand) and ¥81 million were included in other assets at March 31, 2021 and 2020, respectively.

16. Borrowed Money

The details of borrowed money at March 31, 2021 and 2020 were as follows:

	2021		2020		2021	
	<i>Millions of yen</i>				<i>Thousands of U. S. dollars</i>	
Borrowed money	¥	136,346	¥	1,033	\$	1,231,567
Due from April 2021 through February 2026						
Average interest rate: 0.00% p.a.						

Annual maturities of borrowed money are as follows:

<i>Year ending March 31</i>	<i>Millions of yen</i>		<i>Thousands of U. S. dollars</i>	
2022	¥	136,077	\$	1,229,130
2023		126		1,146
2024		65		591
2025		57		518
2026 and thereafter		19		180
Total	¥	136,346	\$	1,231,567

17. Bonds Payable

In the fiscal year of 2021, the Bank has issued series of unsecured callable subordinated bonds with special exemption clause in case of actual bankruptcy. The details of bonds payable at March 31, 2021 and 2020 were as follows:

	<i>Issued date</i>	<i>Redemption date</i>	<i>Interest rate</i>	2021		2020		2021	
				<i>Millions of yen</i>				<i>Thousands of U. S. dollars</i>	
1st Unsecured Callable Bonds	July 22, 2020	July 22, 2030	0.94%	¥	10,000	¥	—	\$	90,326
2nd Unsecured Callable Bonds	March 10, 2021	March 10, 2031	0.86%		10,000		—		90,326
Total				¥	20,000	¥	—	\$	180,652

Annual maturities of bonds payable are as follows:

<i>Year ending March 31</i>	<i>Millions of yen</i>		<i>Thousands of U. S. dollars</i>	
2022	¥	—	\$	—
2023		—		—
2024		—		—
2025		—		—
2026 and thereafter		20,000		180,652
Total	¥	20,000	\$	180,652

18. Borrowed Money from Trust Account

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

	2021		2020		2021	
	<i>Millions of yen</i>				<i>Thousands of U. S. dollars</i>	
Money trust	¥	145	¥	129	\$	1,315

19. 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 subject to 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, 2021 and 2020 are as follows:

(a) Number of outstanding shares and treasury stock For the year ended March 31, 2021

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	29,110,197	—	995,000	28,115,197
Treasury stock:				
Common stock	1,173,216	863	1,032,736	141,343

Notes:

- The decrease in issued stock of 995 thousand shares is due to the cancellation of treasury stock.
- The number of common stock as of March 31, 2021 includes 135 thousand shares held by Custody Bank of Japan, Ltd. (Trust account).
- The increase in treasury stock of 863 shares is due to request for the buyback of shares less than one unit of 1 thousand shares.
- The decrease in treasury stock of 1,032 thousand shares represent the cancellation of treasury stock of 995 thousand shares and shares provided from the management board benefit trust of 37 thousand shares and request for additional purchase of shares less than one unit of 0 thousand shares.

For the year ended March 31, 2020

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	29,110,197	—	—	29,110,197
Treasury stock:				
Common stock	193,071	992,434	12,289	1,173,216

Notes:

- The number of common stock as of March 31, 2020 includes 172 thousand shares held by Custody Bank of Japan, Ltd. (Trust account).
- The increase in treasury stock of 992 thousand shares is due to acquisition of treasury stock of 991 thousand shares and request for the buyback of shares less than one unit of 1 thousand shares.
- The decrease in treasury stock of 12 thousand shares represents shares provided from the management board benefit trust of 12 thousand shares and request for additional purchase of shares less than one unit of 0 thousand shares.
- At the Board of Directors' meeting held on March 30, 2020, the Bank resolved to cancel its treasury stock in accordance with the provision of Article 178 of the Companies Act. The procedure to cancel the following treasury stock is not completed as of March 31, 2020.
Carrying value ¥3,223 million
Type of shares Common stock
Number of shares 995 thousand shares
The cancellation of above treasury stock has been completed on April 6, 2020.

(b) Dividends paid to the shareholders during the year For the year ended March 31, 2021

Date of resolution	Resolution by	Type of shares	Total dividends	Dividends per share	Date of record	Effective date
Jun. 19, 2020	Ordinary general meeting of shareholders	Common stock	¥983 million (\$8,886 thousand)	¥35.0 (\$0.31)	Mar. 31, 2020	Jun. 22, 2020
Oct. 30, 2020	Board of Directors	Common stock	¥843 million (\$7,617 thousand)	¥30.0 (\$0.27)	Sep. 30, 2020	Dec. 4, 2020

Note:

The total amount of dividends paid includes dividends for 135

thousand shares held by Custody Bank of Japan, Ltd. (Trust account): ¥6 million (\$54 thousand) of dividends based on the resolution at the ordinary general meeting of shareholders held on June 19, 2020 and ¥4 million (\$36 thousand) of dividends based on the resolution at the Board of Directors' meeting held on October 30, 2020.

For the year ended March 31, 2020

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	¥40.0	Mar. 31, 2019	Jun. 24, 2019
Nov. 7, 2019	Board of Directors	Common stock	¥1,018 million	¥35.0	Sep. 30, 2019	Dec. 5, 2019

Note:

The total amount of dividends paid includes dividends for shares held by Custody Bank of Japan, Ltd. (Trust account): ¥7 million of dividends based on the resolution at the ordinary general meeting of shareholders held on June 21, 2019 for 185 thousand shares and ¥6 million of dividends based on the resolution at the Board of Directors' meeting held on November 7, 2019 for 172 thousand shares.

Dividends applicable to the year ended March 31, 2021, 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. 18, 2021	Ordinary general meeting of shareholders	Common stock	¥1,405 million (\$12,694 thousand)	¥50.0 (\$0.45)	Mar. 31, 2021	Jun. 21, 2021

(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 18, 2021 includes ¥6 million (\$61 thousand) of dividends for 135 thousand shares held by Custody Bank of Japan, Ltd. (Trust account).

20. 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, 2021 and 2020:

	2021		2020		2021	
	<i>Millions of yen</i>				<i>Thousands of U. S. dollars</i>	
Due within one year	¥	149	¥	155	\$	1,348
Due after one year		195		211		1,767
Total	¥	345	¥	367	\$	3,116

As lessor:

a. Finance leases

Investment in leased assets consists of the following:

	2021		2020		2021	
	<i>Millions of yen</i>				<i>Thousands of U. S. dollars</i>	
Lease receivables	¥	35,600	¥	36,167	\$	321,565
Residual value		666		699		6,015
Unearned interest income		(2,843)		(2,876)		(25,686)
Total	¥	33,422	¥	33,991	\$	301,895

Maturities of lease receivables and investment in leased assets at March 31, 2021 are as follows:

<i>Year ending March 31</i>	<i>Millions of yen</i>		<i>Thousands of U. S. dollars</i>					
	<i>Lease receivables</i>	<i>Investment in leased assets</i>	<i>Lease receivables</i>	<i>Investment in leased assets</i>				
2022	¥	629	¥	9,403	\$	5,683	\$	84,942
2023		553		8,151		5,003		73,626
2024		442		6,798		3,999		61,405
2025		261		4,542		2,360		41,033
2026		155		2,753		1,404		24,868
2027 and thereafter		380		3,951		3,436		35,689
Total	¥	2,423	¥	35,600	\$	21,887	\$	321,565

b. Operating leases

The following table presents the schedule of future minimum lease payments under non-cancellable operating leases at March 31, 2021:

	<i>Millions of yen</i>		<i>Thousands of U. S. dollars</i>	
Due within one year	¥	179	\$	1,620
Due after one year		265		2,401
Total	¥	445	\$	4,021

21. General and Administrative Expenses

Major expenses included in general and administrative expenses for the years ended March 31, 2021 and 2020 are as follows:

	2021		2020		2021	
	<i>Millions of yen</i>				<i>Thousands of U. S. dollars</i>	
Salaries and allowances	¥	11,520	¥	11,728	\$	104,063
Retirement benefit expenses		1,547		1,420		13,979
Depreciation		3,890		4,065		35,144

22. Loss on Impairment

Other expenses include loss on impairment of ¥650 million (\$5,874 thousand) and ¥949 million for the years ended March 31, 2021 and 2020, 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, 2021

Location	Main use	Asset type	Millions of yen		Thousands of U.S. dollars	
Ishikawa Pref.	5 operating branches	Land	¥	350	\$	3,170
	6 operating branches	Buildings		182		1,651
	2 idle assets	Land		2		19
Outside Ishikawa Pref.	1 operating branch	Land		110		995
	1 operating branch	Buildings		4		37
Total			¥	650	\$	5,874

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, 2020			
Location	Main use	Asset type	Millions of yen
Ishikawa Pref.	6 operating branches	Land	¥ 458
	7 operating branches	Buildings	75
	2 corporate assets	Land	229
	2 corporate assets	Buildings	18
	3 idle assets	Land	1
Outside Ishikawa Pref.	1 corporate asset	Land	70
	1 corporate asset	Buildings	95
Total			¥ 949

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.

23. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2021 and 2020 were as follows:

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Reclassification adjustments			
Net unrealized gains (losses) on available-for-sale securities:			
Gain (loss) incurred during the year	¥ 67,374	¥ (35,340)	\$ 608,563
Reclassification adjustment	(11,414)	(10,204)	(103,100)
Amount before tax effect	55,959	(45,545)	505,463
Net deferred gains (losses) on hedging instruments:			
Gain (loss) incurred during the year	18	(21)	166
Reclassification adjustment	—	—	—
Amount before tax effect	18	(21)	166
Remeasurements of defined benefit plans			
Gain (loss) incurred during the year	715	(1,337)	6,467
Reclassification adjustment	938	898	8,473
Amount before tax effect	1,654	(439)	14,940
Total amount before tax effect	57,632	(46,006)	520,570
Tax effect	(17,549)	13,886	(158,520)
Total other comprehensive income	¥ 40,082	¥ (32,119)	\$ 362,049

Tax effect on other comprehensive income:

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Net unrealized gains (losses) on available-for-sale securities:			
Amount before tax effect	¥ 55,959	¥ (45,545)	\$ 505,463
Tax effect	(17,039)	13,746	(153,914)
Amount after tax effect	38,919	(31,798)	351,548
Net deferred gains (losses) on hedging instruments:			
Amount before tax effect	18	(21)	166
Tax effect	(5)	6	(50)
Amount after tax effect	12	(15)	115
Remeasurements of defined benefit plans			
Amount before tax effect	1,654	(439)	14,940
Tax effect	(504)	133	(4,556)
Amount after tax effect	¥ 1,149	¥ (305)	\$ 10,384

24. Income Taxes

The major components of deferred tax assets and liabilities at March 31, 2021 and 2020 are summarized as follows:

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Deferred tax assets:			
Reserve for possible loan losses	¥ 16,128	¥ 13,921	\$ 145,678
Net defined benefit liability	3,993	4,529	36,067
Depreciation of real estate	914	854	8,257
Unrealized loss on write-down of equity securities	1,303	1,302	11,777
Other	2,764	2,448	24,973
Subtotal	25,103	23,056	226,754
Valuation allowance	(11,999)	(10,558)	(108,385)
Total deferred tax assets	13,104	12,498	118,368
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(27,392)	(10,353)	(247,429)
Other	(195)	(190)	(1,768)
Total deferred tax liabilities	(27,588)	(10,543)	(249,198)
Net deferred tax assets (liabilities)	¥ (14,484)	¥ 1,955	\$ (130,829)

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, 2021 and 2020 is presented as follows:

	2021	2020
Statutory tax rate	30.3%	30.4%
Reconciliation:		
Nondeductible permanent differences, such as entertainment expenses	0.6	1.1
Nontaxable permanent differences, such as dividend income	(1.8)	(2.1)
Per capita residents' taxes	0.2	0.2
Valuation allowance	12.0	7.4
Other	(0.4)	0.5
Effective tax rate	40.9%	37.5%

Due to the revision of the Ishikawa Prefectural ordinance, the excess tax rate of per-income-basis for the prefectural inhabitant tax has been changed from 0.8% to 0.4% for the fiscal year ending between February 1, 2021 and January 31, 2023. Accordingly, the statutory tax rate has been changed from 30.45% to 30.36% for the calculation of deferred tax assets and deferred tax liabilities associated with temporary differences expected to be reversed in the year ending March 31, 2022. The impact of this change is immaterial.

25. Retirement Benefit Plans

The Bank has retirement benefit plans, including defined benefit plans, defined contribution 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.

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
1. The reconciliation of in defined benefit obligation for the years ended March 31, 2021 and 2020 are as follows:			
Balance at beginning of year	¥ 30,869	¥ 31,208	\$ 278,829
Service cost	522	523	4,716
Interest cost	54	55	491
Actuarial gains or losses	(75)	926	(681)
Benefits paid	(1,644)	(1,844)	(14,858)
Balance at end of year	¥ 29,725	¥ 30,869	\$ 268,497
2. The reconciliation of in plan assets for the years ended March 31, 2021 and 2020 are as follows:			

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Balance at beginning of year	¥ 16,072	¥ 16,621	\$ 145,175
Expected return on plan assets	241	332	2,177
Actuarial gains or losses	640	(411)	5,785
Contributions from the employer	773	555	6,987
Benefits paid	(1,043)	(1,025)	(9,422)
Balance at end of year	¥ 16,684	¥ 16,072	\$ 150,704

3. The 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

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Funded defined benefit obligation	¥ 20,159	¥ 21,230	\$ 182,088
Plan assets	(16,684)	(16,072)	(150,704)
	3,474	5,157	31,384
Unfunded defined benefit obligation	9,566	9,639	86,408
Net liability recorded in the consolidated balance sheet	¥ 13,040	¥ 14,796	\$ 117,793

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Net defined benefit liability	¥ 13,040	¥ 14,796	\$ 117,793
Net liability recorded in the consolidated balance sheet	¥ 13,040	¥ 14,796	\$ 117,793

4. The components of retirement benefit expenses for the years ended March 31, 2021 and 2020 are as follows:

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Service cost	¥ 522	¥ 523	\$ 4,716
Interest cost	54	55	491
Expected return on plan assets	(241)	(332)	(2,177)
Amortization of actuarial gains or losses	1,073	1,107	9,700
Amortization of prior service cost	(135)	(209)	(1,226)
Retirement benefit expenses	¥ 1,273	¥ 1,145	\$ 11,504

5. The components of remeasurements of defined benefit plans (before deducting tax effect) on other comprehensive income as of March 31, 2021 and 2020 are as follows:

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Prior service cost	¥ (135)	¥ (209)	\$ (1,226)
Net actuarial gain or loss	1,789	(230)	16,167
Total	¥ 1,654	¥ (439)	\$ 14,940

6. The components of remeasurements of defined benefit plans (before deducting tax effect) on accumulated other comprehensive income as of March 31, 2021 and 2020 are as follows:

	2021	2020	2021
	Millions of yen		Thousands of U. S. dollars
Unrecognized prior service cost	¥ 248	¥ 384	\$ 2,248
Unrecognized net actuarial gain or loss	(3,761)	(5,551)	(33,977)
Total	¥ (3,512)	¥ (5,166)	\$ (31,728)

7. Plan assets

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

	2021	2020
General account	80%	78%
Stock	12	11
Debt securities	7	9
Other	1	2
Total	100%	100%

Note:

Total plan assets include 0% and 1% of retirement benefit trust established on corporate pension plans as of March 31, 2021 and 2020, 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, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate	0.0% to 0.6%	0.0% to 0.6%
Long-term expected rate of return on plan assets	1.5	2.0
Expected salary increase rate	4.7	4.7

Note:

The amount of the required contribution to the defined contribution plan of the Bank was ¥274 million (\$2,475 thousand) and ¥275 million for the years ended March 31, 2021 and 2020, respectively.

26. 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, 2021 and 2020 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, 2021 and 2020.

- (2) Currency related derivatives

March 31, 2021					
Millions of yen					
Contract amount					
	Total	Over one year	Fair value	Valuation gain (loss)	
OTC transactions:					
Currency swaps	¥ —	¥ —	¥ —	¥ —	¥ —
Forward contracts on foreign exchange					
Sold	96,565	—	(2,999)	(2,999)	
Bought	29,863	—	633	633	
Currency options					
Sold	6,471	—	(232)	113	
Bought	6,471	—	232	(97)	
Total	—	—	¥ (2,366)	¥ (2,349)	

		March 31, 2021			
		Thousands of U. S. dollars			
		Contract amount		Valuation gain (loss)	
	Transaction type	Over one year	Fair value		
OTC transactions:					
Currency swaps		—	—	—	—
Forward contracts on foreign exchange	Sold	872,235	—	(27,092)	(27,092)
	Bought	269,742	—	5,718	5,718
Currency options	Sold	58,458	—	(2,104)	1,026
	Bought	58,458	—	2,104	(877)
Total		—	—	(21,373)	(21,225)

		March 31, 2020			
		Millions of yen			
		Contract amount		Valuation gain (loss)	
	Transaction type	Over one year	Fair value		
OTC transactions:					
Currency swaps		—	—	—	—
Forward contracts on foreign exchange	Sold	37,265	—	(392)	(392)
	Bought	8,729	—	16	16
Currency options	Sold	8,332	—	(309)	162
	Bought	8,332	—	309	(141)
Total		—	—	(375)	(355)

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, 2021 and 2020 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, 2021 and 2020.

(2) Currency related derivatives

		March 31, 2021			
		Millions of yen			
		Contract amount		Fair value	
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Currency swaps:	Foreign currency denominated securities	¥ 5,535	—	¥ (187)
Total			—	—	¥ (187)

		March 31, 2021			
		Thousands of U. S. dollars			
		Contract amount		Fair value	
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Currency swaps:	Foreign currency denominated securities	\$ 50,000	\$ —	\$(1,697)
Total			—	—	\$(1,697)

		March 31, 2020			
		Millions of yen			
		Contract amount		Fair value	
Hedge accounting method	Transaction type	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Normal method	Currency swaps:	Foreign currency denominated securities	¥ 19,589	—	¥ 43
Total			—	—	¥ 43

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.

27. Per Share Information

Net assets per share at March 31, 2021 and 2020 and profit per share for the years then ended is as follows:

	2021	2020	2021
	Yen	U. S. dollars	U. S. dollars
Net assets per share	¥ 9,954.40	¥ 8,361.39	\$ 89.91
Profit per share	241.49	255.60	2.18

Notes:

- Custody Bank of Japan, Ltd. (Trust account) holds the shares of the Bank as trust assets relevant to the management board benefit trust. 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, 2021, the number of shares of treasury stock deducted in calculating outstanding number of shares at end of year is 135 thousand shares and average outstanding number of shares during the year is 149 thousand shares. For the year ended March 31, 2020, the number of shares of treasury stock deducted in calculating outstanding number of shares at end of year is 172 thousand shares and average outstanding number of shares during the year is 177 thousand shares.

- Profit per share-diluted is not disclosed since there is no dilutive share.

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

	2021	2020	2021
	Millions of Yen	U. S. dollars	U. S. dollars
(Net assets per share)			
Net assets per balance sheets	¥ 286,269	¥ 240,765	\$ 2,585,760
Amounts to be attributed to non-controlling interests	7,806	7,173	70,514
Net assets attributed to common stock shareholders	278,462	233,592	2,515,246
Outstanding number of shares at end of year (unit: thousand shares)	27,973	27,936	
(Profit per share)			
Profit attributable to owners of parent	¥ 6,752	¥ 7,310	\$ 60,990
Profit attributable to common stock shareholders	6,752	7,310	60,990
Average outstanding number of shares during the year (unit: thousand shares)	27,960	28,599	

28. 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 six 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, 2021				
		Millions of yen				
		Reportable segments				
	Transaction type	Banking	Leasing	Total	Adjustments	Consolidated
Total income:						
External customers		¥ 67,278	¥ 11,819	¥ 79,098	¥ —	¥ 79,098
Intersegments		187	9	196	(196)	—
Total		¥ 67,466	¥ 11,829	¥ 79,295	¥ (196)	¥ 79,098
Segment profit		¥ 12,186	¥ 714	¥ 12,901	¥ (10)	¥ 12,890
Segment assets		¥ 5,512,271	¥ 37,791	¥ 5,550,063	¥ (25,549)	¥ 5,524,513
Other information						
Depreciation		¥ 3,865	¥ 211	¥ 4,076	¥ —	¥ 4,076
Interest income		35,006	—	35,006	(124)	34,882
Interest expenses		539	120	659	(117)	542
Increase in tangible and intangible fixed assets		5,933	—	5,933	—	5,933

Year ended March 31, 2021

Thousands of U. S. dollars

		Year ended March 31, 2021				
		Thousands of U. S. dollars				
		Reportable segments				
	Transaction type	Banking	Leasing	Total	Adjustments	Consolidated
Total income:						
External customers		\$ 607,701	\$ 106,762	\$ 714,463	\$ —	\$ 714,463
Intersegments		1,693	85	1,778	(1,778)	—
Total		\$ 609,394	\$ 106,847	\$ 716,242	\$ (1,778)	\$ 714,463
Segment profit		\$ 110,078	\$ 6,456	\$ 116,534	\$ (96)	\$ 116,438
Segment assets		\$ 49,790,190	\$ 341,357	\$ 50,131,547	\$ (230,781)	\$ 49,900,766
Other information						
Depreciation		\$ 34,915	\$ 1,906	\$ 36,821	\$ —	\$ 36,821
Interest income		316,201	—	316,201	(1,122)	315,079
Interest expenses		4,876	1,084	5,961	(1,058)	4,902
Increase in tangible and intangible fixed assets		53,591	—	53,591	—	53,591

Year ended March 31, 2020

Millions of yen

		Year ended March 31, 2020				
		Millions of yen				
		Reportable segments				
	Transaction type	Banking	Leasing	Total	Adjustments	Consolidated
Total income:						
External customers		¥ 63,549	¥ 11,190	¥ 74,740	¥ —	¥ 74,740
Intersegments		188	10	199	(199)	—
Total		¥ 63,738	¥ 11,201	¥ 74,939	¥ (199)	¥ 74,740
Segment profit		¥ 12,775	¥ 409	¥ 13,185	¥ (3)	¥ 13,181
Segment assets		¥ 5,084,048	¥ 38,646	¥ 5,122,695	¥ (25,427)	¥ 5,097,268
Other information						
Depreciation		¥ 4,034	¥ 262	¥ 4,297	¥ —	¥ 4,297
Interest income		37,201	—	37,201	(119)	37,082
Interest expenses		2,090	120	2,211	(112)	2,098
Increase in tangible and intangible fixed assets		4,879	63	4,942	—	4,942

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, 2021				
		Millions of yen				
		Securities				
	Transaction type	Loan	Investment	Lease	Other	Total
Income from external customers						
		¥ 25,091	¥ 29,012	¥ 11,819	¥ 13,174	¥ 79,098

Year ended March 31, 2021

Thousands of U. S. dollars

		Year ended March 31, 2021				
		Thousands of U. S. dollars				
		Securities				
	Transaction type	Loan	Investment	Lease	Other	Total
Income from external customers						
		\$ 226,639	\$ 262,062	\$ 106,762	\$ 119,000	\$ 714,463

		Year ended March 31, 2020				
		Millions of yen				
		Securities				
	Transaction type	Loan	Investment	Lease	Other	Total
Income from external customers						
		¥ 26,288	¥ 24,103	¥ 11,190	¥ 13,158	¥ 74,740

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

		Year ended March 31, 2021				
		Millions of yen				
		Reportable segments				
	Transaction type	Banking	Leasing	Total		
Loss on impairment						
		¥ 650	¥ —	¥ 650		

Year ended March 31, 2021

Thousands of U. S. dollars

		Year ended March 31, 2021		
		Thousands of U. S. dollars		
		Reportable segments		
	Transaction type	Banking	Leasing	Total
Loss on impairment				
		\$ 5,874	\$ —	\$ 5,874

Year ended March 31, 2020

Millions of yen

		Year ended March 31, 2020		
		Millions of yen		
		Reportable segments		
	Transaction type	Banking	Leasing	Total
Loss on impairment				
		¥ 949	¥ —	¥ 949

29. Related Party Transactions

The related party transactions for the years ended March 31, 2021 and 2020 and related account balances outstanding at March 31, 2021 and 2020 were as follows:

Transactions between the Bank and related parties

Year ended March 31, 2021

There was no applicable transaction to be reported.

Year ended March 31, 2020

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 (Note 1)	Director	0.33	Loan Guarantee	¥(2) ¥78	Loan —	¥164 —
Companies whose majority is owned by directors and/or their relatives						
Nakashima Co. Ltd. (Notes 1 and 2)	Wholesale of paper products	0.40	Loan	¥104	Loan	¥502

Notes:

- Mr. Hideo Nakashima resigned as Director of the Bank effective June 21, 2019. For the year ended March 31, 2020, the amounts of loan transactions represent net changes from March 31, 2019 to June 21, 2019, and the balances of loan transactions under “Balance at end of year” and the amount of the guarantee transaction under “Transaction amount” represent the respective balances as of June 21, 2019.
- Mr. Hideo Nakashima and his relatives own 100% of voting rights.

Transaction terms and policies:

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

Transactions between the subsidiary of the Bank and related parties:

There was no applicable transaction to be reported for the years ended March 31, 2021 and 2020.

30. Subsequent Events

Transformation to a holding company structure through sole share transfer

At the Board of Directors’ meeting held on April 28, 2021, the Bank resolved to establish a holding company (wholly owning parent company) called The Hokkoku Financial Holdings Co. Ltd. (the “Holding Company”) through a sole share transfer (the “Share Transfer”) and move to a holding company structure effective October 1, 2021 (date subject to change), subject to approval at the ordinary general meeting of shareholders and the necessary approvals by the relevant authorities.

The share transfer plan has been approved at the ordinary general meeting of shareholders held on June 18, 2021.

1. Purpose of the Share Transfer

Faced with a financial environment surrounding regional economies that continues to be disordered and uncertain, as well as structural changes in society due to factors such as declining populations and the COVID-19 pandemic, the Bank expects its customers' values and needs to continue to diversify going forward.

In this context, the Bank considers it necessary to shift to a holding company structure in order to respond to changes in the business environment, including deregulation, and to make the contributions expected by regional stakeholders, without being bound by the conventional framework of the banking business.

By shifting to a holding company structure, the Bank aims to allow its operating companies to develop their business over a broader area, based on customer-centric corporate and brand philosophies, and resolve a variety of issues while enhancing cooperation and collaboration with regional partners; in other words, the Bank's aim is to create a deeper next-generation integrated regional company.

The value of the Bank's existence is in supporting the realization of fruitful lifestyles for the Bank's customers and other regional stakeholders, and the Bank believes that these activities will improve the quality of the region overall and enhance its corporate value. The Bank will continue aiming to maximize its profit and increase shareholder value by achieving the corporate philosophy: "Trust – a bridge to a fruitful regional future. Enrich interaction and growth in the region."

Major purposes

(1) To maximize the group synergies

By consolidating the Group's management functions under a holding company and promoting further sophistication of group governance, the Bank and each of other subsidiaries will specialize in respective business promotion, aiming to improve the management efficiency of the entire Group.

(2) Expansion of business axes

The Group aims to expand the operation of current subsidiaries, including the Advanced Banking Service Company, under the Holding Company, and expand the business axis through the establishment of a new company to support sustainable development of the region.

2. Outline of the Share Transfer

(1) Schedule of the Share Transfer

Date of fiscal year end for which the ordinary general meeting of shareholders is held:	March 31, 2021 (Wednesday)
Board of Directors' meeting for approval of the Share Transfer plan:	April 28, 2021 (Wednesday)
The ordinary general meeting of shareholders for approval of the Share Transfer plan:	June 18, 2021 (Friday)
Date of delisting of the shares of the Bank:	September 29, 2021 (Wednesday) (tentative)
Date of registration of incorporation of the Holding Company (effective date):	October 1, 2021 (Friday) (tentative)
Date of listing of the shares of the Holding Company:	October 1, 2021 (Friday) (tentative)

Note: The above schedule may be changed if the necessity for such change arises in the procedures for the Share Transfer or for any other reason.

(2) Method of the Share Transfer

The Share Transfer will be implemented through a sole share transfer by the Bank, whereby the Bank will be a wholly owned subsidiary resulting from the Share Transfer, and the Holding Company will be the wholly owning parent company established in the Share Transfer.

(3) Details of allotment relating to the Share Transfer (share transfer ratio)

(i) Share transfer ratio

Shares of the Holding Company will be allotted to those who are registered as shareholders of the Bank in the last shareholder's registry as of the day before the effective date of the Share Transfer, at the ratio of one share of common stock of the newly establishing Holding Company per one share of the common stock of the Bank held by such shareholders.

Company name	The Hokkoku Financial Holdings Co. Ltd. (wholly owning parent company established in the Share Transfer)	The Hokkoku Bank, Ltd. (wholly owned subsidiary resulting from the Share Transfer)
Share transfer ratio	1	1

(ii) Number of shares constituting one unit of shares

The Holding Company will adopt the share unit system, under which one hundred shares shall constitute one unit of share.

(iii) Basis of assessment of the share transfer ratio

The Share Transfer is a scheme to establish a wholly owning parent company through a sole share transfer by the Bank, and there is no difference between the shareholder composition of the Bank at the time of the Share Transfer and that of the Holding Company upon implementation of the Share Transfer. Accordingly, by placing the highest priority on avoiding causing any disadvantage to the shareholders, one share of common stock of the Holding Company will be allotted per one share of common stock of the Bank held by the Bank's shareholders. Thus, the assessment of the share transfer ratio by a third party professional has not been performed.

(iv) Number of new shares to be issued

The number of shares of common stock to be issued is 28,108,958. However, when the number of issued and outstanding shares of the Bank changes before the Share Transfer takes effect, the aforementioned number of shares to be issued by the Holding Company will change. With respect to the treasury shares held by the Bank at the time immediately before the time when the Holding Company acquires all of the issued and outstanding shares of the Bank (hereinafter, the "Base Time"), the Bank plans to cancel treasury shares to the extent that such cancellation is practically possible. Thus, 6,239 shares of treasury shares held by the Bank as of March 31, 2021 are excluded from the aforementioned calculation of the number of shares subject to the issuance of new shares. When the number of treasury shares as of March 31, 2021 is changed by the Base Time, including the event that the Bank's shareholders exercise their right to request the Bank to purchase their shares, the number of shares to be issued by the Holding Company may change.

3. Summary of a holding company to be established resulting from the Share Transfer (planned)

(1) Company name	The Hokkoku Financial Holdings Co. Ltd.		
(2) Location	2-12-6, Hirooka, Kanazawa-shi, Ishikawa		
(3) Representative and officers to be appointed	President & Chief Executive Officer (Representative Director)	Shuji Tsuemura	Current position of the Bank President & Chief Executive Officer, Representative Director
	Representative Director	Hideaki Hamasaki	Chairman Representative Director
	Representative Director	Kazuya Nakamura	Director and Managing Executive Officer
	Director	Koichi Nakada	Director and Managing Executive Officer
	Director	Yuji Kakuchi	Director and Managing Executive Officer
	Director, Audit and Supervisory Committee Member	Nobuhiro Torigoe	Director
	Director, Audit and Supervisory Committee Member	Shigeru Nishii	Director, Audit and Supervisory Committee Member
	Director, Audit and Supervisory Committee Member	Tadashi Onishi	Director, Audit and Supervisory Committee Member
	Director, Audit and Supervisory Committee Member	Shuji Yamashita	Director, Audit and Supervisory Committee Member
	Director, Audit and Supervisory Committee Member	Taku Oizumi	
	Director, Audit and Supervisory Committee Member	Naoko Nemoto	
(Note) Among Directors, Audit and Supervisory Committee Members, Mr. Shigeru Nishii, Mr. Tadashi Onishi, Mr. Shuji Yamashita, Mr. Taku Oizumi and Ms. Naoko Nemoto are Outside Directors stipulated in the provision of Article 2, Item 15 of the Companies Act.			
(4) Description of business	<ul style="list-style-type: none"> Management and administration of banks and other companies that may be held as subsidiaries under the Banking Act, and all other operations incidental and related thereto In addition to above, operations that a bank holding company may engage in under the Banking Act 		
(5) Capital stock	¥10,000 million		
(6) Balance sheet date	March 31		

4. Summary of accounting treatment resulting from the Share Transfer
The Share Transfer will be accounted for as "a transaction under common control" under the accounting standards for business combinations and is expected to have no significant impact on the profit or loss.

(Establishment of subsidiaries)

At the Board of Directors' meeting held on April 28, 2021, the Bank resolved to establish the following subsidiaries subject to the necessary approvals by the relevant authorities, etc.

1. Establishment of a consulting company as a subsidiary

(1) Purpose of establishment

The Bank has established a consulting company to further enhance consulting service provided by the Bank and to provide a wide range of consulting service for more customers.

(2) Outline of a subsidiary

Company name	CC Innovation Co., Ltd.
Location of head office	2-12-6, Hirooka, Kanazawa-shi, Ishikawa
Description of business	Consulting
Capital stock	¥90 million
Number of shares issued and outstanding	1,800 shares
Date of establishment	June 10, 2021
Shareholding ratio	100% owned by the Bank

2. Establishment of an investment company as a subsidiary

(1) Purpose of establishment

The Bank has established an investment company as a subsidiary for the purpose of supporting corporate customers to enhance their corporate value by providing investments through funds and hands-on support, which will offer them the wherewithal to succeed business in various ways and grow their business including changing in business model.

(2) Outline of a subsidiary

Company name	QR Investment Co., Ltd.
Location of head office	1-16, Musashi-machi, Kanazawa-shi, Ishikawa
Description of business	Operation and management of investment limited partnership
Capital stock	¥90 million
Number of shares issued and outstanding	1,800 shares
Date of establishment	June 10, 2021
Shareholding ratio	100% owned by the Bank

3. Establishment of an investment advisory company as a subsidiary

(1) Purpose of establishment

The Bank has established an investment advisory company as a subsidiary to provide professional advisory services to customers for their asset building with fiduciary duty and customer-oriented approach.

(2) Outline of subsidiary

Company name	FD Advisory Co., Ltd.
Location of head office	2-12-6, Hirooka, Kanazawa-shi, Ishikawa
Description of business	Investment advisory services
Capital stock	¥90 million
Number of shares issued and outstanding	1,800 shares
Date of establishment	May 31, 2021
Shareholding ratio	100% owned by the Bank

4. Establishment of a consulting company as an overseas subsidiary in Thailand

(1) Purpose of establishment

The Bank plans to establish a company as an overseas subsidiary to provide on-site consulting services for its customers in Thailand.

(2) Outline of a subsidiary

Company name	CC Innovation (Thailand) Co., Ltd.
Location of head office	Bangkok, Kingdom of Thailand
Description of business	Consulting in Thailand
Capital stock	¥25 million (planned)
Number of shares issued and outstanding	To be determined
Date of establishment	October 2021 (planned)
Shareholding ratio	49% owned by CC Innovation Co. Ltd.

5. Establishment of a consulting company as an overseas subsidiary in Vietnam

(1) Purpose of establishment

The Bank plans to establish a company as an overseas subsidiary to provide on-site consulting services for its customers in Vietnam.

(2) Outline of subsidiary

Company name	CC Innovation Vietnam Co., Ltd.
Location of head office	Ho Chi Minh, Socialist Republic of Vietnam
Description of business	Consulting in Vietnam
Capital stock	¥25 million (planned)
Number of shares issued and outstanding	To be determined
Date of establishment	October 2021 (planned)
Shareholding ratio	100% owned by CC Innovation Co. Ltd.

(Acquisition of own shares)

At the Board of Directors' meeting held on April 28, 2021, the Bank resolved to acquire its own shares as treasury stock in accordance with the provision of Article 156 of the Companies Act as applied pursuant to the provision of Article 163, Paragraph 3 of the same act in order to take flexible capital policies responding to changes in the business environment and to enhance shareholder returns. The acquisition has completed on June 3, 2021.

1. Summary of matters concerning acquisition

(1) Type of shares to be acquired	Common stock of the Bank
(2) Number of shares to be acquired	200,000 shares (upper limit)
(3) Total acquisition cost of shares to be acquired	¥740 million (\$6,684 thousand) (upper limit)
(4) Acquisition period	From May 6, 2021 to July 30, 2021

2. Result of acquisition

(1) Type of shares acquired	Common stock of the Bank
(2) Number of shares acquired	200,000 shares
(3) Total acquisition cost of shares acquired	¥477 million (\$4,308 thousand)
(4) Acquisition period	From May 6, 2021 to June 3, 2021

Independent Auditor’s Report

The Board of Directors
The Hokkoku Bank, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of The Hokkoku Bank, Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following matter as a Key Audit Matter in the audit of the consolidated financial statements of the current period.

Classification of debtors for the purpose of determining reserve for possible loan losses for debtors with repayment status, financial position or business performance being deteriorating

Description of Key Audit Matter	How the matter was addressed in our audit
<p>The amount of the loans and bills discounted recorded in the Group’s consolidated balance sheet as of March 31, 2021 was 2,614,865 million yen, representing a significant portion of the Group’s total assets of 5,524,513 million yen. By region, loans and bills discounted in Ishikawa Prefecture, where the Group’s head office is located, dominate a large portion, but the loans and bills discounted in Toyama Prefecture and Fukui Prefecture, which were positioned as strategic regions in the Medium - term Business Plan (formulated in March 2018), are also increasing.</p> <p>The collectibility of loans is subject to unpredictable uncertainty due to economic trends in Japan and overseas, particularly in the Hokuriku region, deterioration in the business conditions of debtors, and a decrease in the value of collateral caused by declines in the prices of real estate and stocks. As a result, there is a possibility of default by debtors.</p> <p>As such, the Group calculates the amount of loans that are not expected to be collected and records them as reserve for possible loan losses.</p> <p>The amount of reserve for possible loan losses recorded in the consolidated balance sheet as of March 31, 2021 was 54,148 million yen. Specific methods for recognition are described in (g) “Reserve for Possible Loan Losses” in Section 3. Summary of Significant Accounting Policies in the Note to Consolidated Financial Statements.” Details of the estimation of reserve for possible loan losses are described in “Significant Accounting Estimates” in the Note.</p>	<p>Our audit procedures performed to examine the debtor classification included the following, among others:</p> <ul style="list-style-type: none"> • We evaluated the Group’s internal control over the determination of debtor classification and the relevant credit rating used as basis of such determination as well as the process to ensure accuracy and completeness of the underlying debtors’ information. • We inspected the minutes of important meetings including those of the Board of Directors to examine events that have a significant impact on the debtor classification, including debt waivers, sale of distressed debt and consent to the restructuring plan. • We selected the samples by taking into account the type of business, location, repayment status, financial position or degree of deterioration in business performance of the debtor, the business support provided by the Group to the debtor, the liquidity support under the COVID-19 pandemic, and potential increase in credit risk estimated from available external public information, in addition to the monetary impact of changes of the debtor classification on the amount of reserve for possible loan losses. • We examined the actual conditions of the latest repayment status, financial positions, and business performance of the debtors, by inspecting a set of materials related to the self-assessment of asset quality performed by the Group, such as explanatory materials on the business conditions of debtors, materials on debts

The reserve for possible loan losses is calculated in accordance with the Group's predetermined guidelines for self-assessment of asset quality as well as for the write-offs and provisioning. The calculation process includes the determination of the debtor classification which is determined by evaluating the debtor's ability based on its repayment history, financial position, business performance and future prospects.

In particular, when assessing the appropriate classification of a debtor with repayment status, financial position, or business performance being deteriorating, such factors as the reasonableness and feasibility of the business improvement plan which embodies the assumption of the outlook for future business performance including the impact of the COVID-19 pandemic, serve as significant factors in making the relevant judgment.

The reasonableness and feasibility of business improvement plans are affected by changes in the business environment surrounding debtors, the outcome of their business strategies, as well as the Group's supporting policies and lending strategies for such debtors. Therefore, the determination of debtor classification requires estimation uncertainty and significant management judgement. In addition, the degree of estimation uncertainty and reliance on management judgment may be higher when the COVID-19 has a significant impact on the debtor's repayment status, financial position or business performance.

Accordingly, we have identified classification of debtors for the purpose of determining reserve for possible loan losses for debtors with repayment status, financial position, or business performance being deteriorating, as a Key Audit Matter.

and repayment status, investigation materials to understand the actual financial positions, financial statements, trial balances, as well as comparing them with information publicly disclosed by the Group, questioning of the corporate department, and inspection of the negotiation history as necessary. For particularly significant debtors that would be affected by the Group's supporting policy and lending strategy, we obtained external credit information for comparison.

- We evaluated the forecast of the debtors' business performance and examined the reasonableness and feasibility of specific business improvement plans by analyzing the trends from past results of the major profit and loss items such as sales, cost of sales, and selling, general and administrative expenses, evaluating the accuracy of estimates based on the degree of achievement of previous business improvement plans, and making inquiries to the corporate department as necessary. With regard to particularly significant debtors that would be affected by the Group's supporting policy and lending strategy, we made inquiries to the management with respect to the current state and future prospects of such debtors.
- We understood the impact of the COVID-19 pandemic on the repayment status, financial positions, or business performance of the debtors by inspecting the history of negotiation with the debtors and, if necessary, examining the latest trial balance and making inquiries to the corporate department.

Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 17, 2021

根 津 昌 史 Ⓜ

/s/ Masashi Nezu
Designated Engagement Partner
Certified Public Accountant

池 田 裕 之 Ⓜ

/s/ Hiroyuki Ikeda
Designated Engagement Partner
Certified Public Accountant

刀 禰 哲 朗 Ⓜ

/s/ Tetsuro Tone
Designated Engagement Partner
Certified Public Accountant



HOKKOKU
BANK

THE HOKKOKU BANK, LTD.

2-12-6 Hirooka, Kanazawa, Ishikawa 920-8670 Japan
Tel: +81(76) 263-1111

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

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