

Corporate Governance

Basic approach to corporate governance

To fulfill our corporate philosophy and achieve the visions and targets set forth in the medium- to long-term business strategy, at Hokkoku FHD Group, we believe it is important to maintain a harmonious relationship with the shareholders and other stakeholders while thoroughly committing to the improvement of business transparency and strict adherence to compliance matters. To promote a broader understanding of the Group's corporate governance initiatives, we will proactively engage in IR activities, strive to disclose information through our website and integrated report in an easier-to-understand manner, and become a company that is highly transparent and open both internally and externally.

Overview of the current system

Hokkoku FHD has adopted the organizational structure of a company with an Audit & Supervisory Committee to bolster the corporate governance system and further improve its corporate value. The directors serving as Audit & Supervisory Committee members (including multiple outside directors) are granted voting rights at the Board of Directors meetings. This enhances the Committee's audit and supervisory functions over the Board of Directors and those with executive responsibilities. At the same time, by having outside directors participate in management, we seek to improve the transparency and efficiency of the decision-making and business execution processes, and thereby further enhance governance.

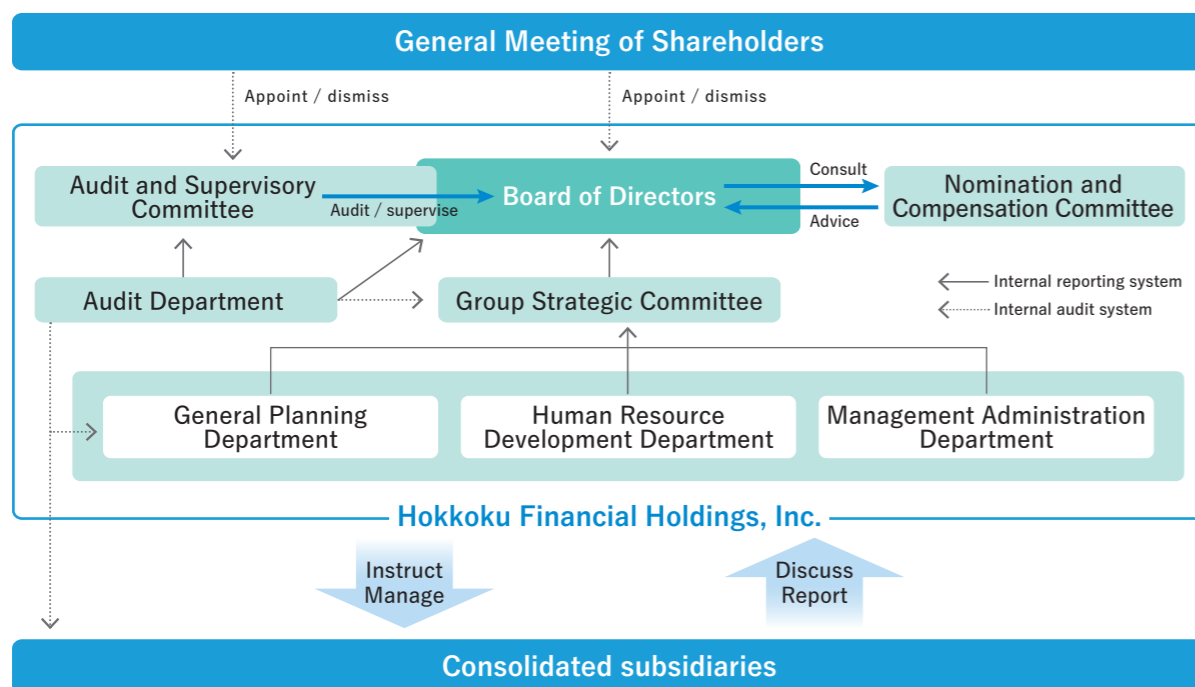
Currently, five out of our nine directors are outside directors (ratio of 55.5%). All five outside directors are independent outside directors who provide opinions as well as audit and supervise the directors from an objective and neutral standpoint.

In addition, by establishing the discretionary Nomination and Compensation Committee (chaired by the president and CEO), we have put in place a structure that ensures transparency and objectivity in the selection of director candidates and the process of determining director compensation.

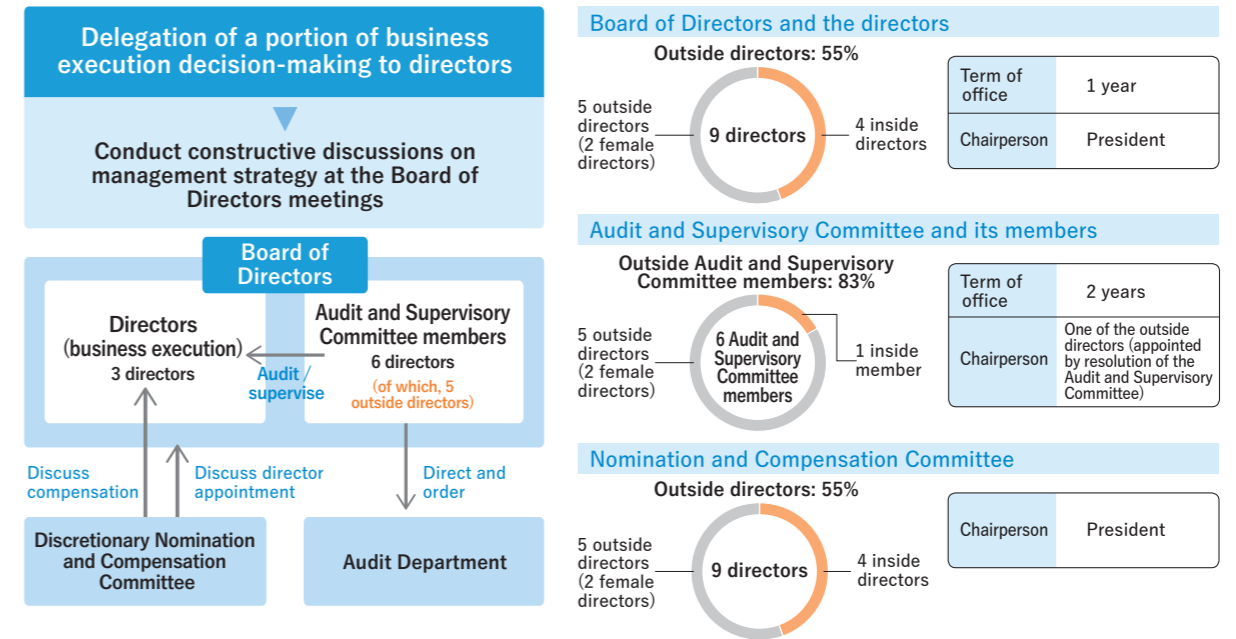
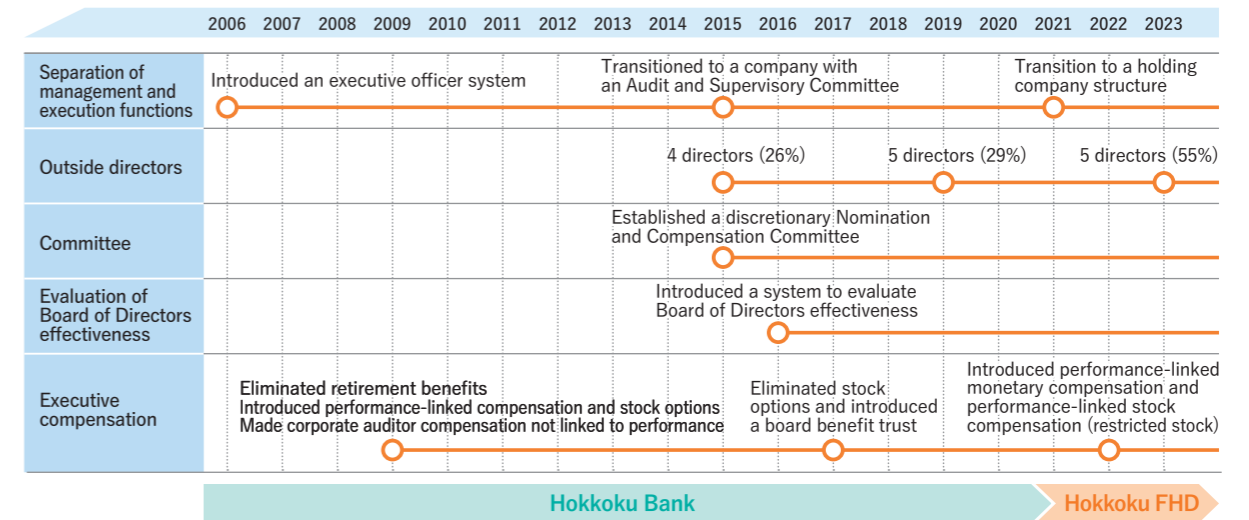
Key initiatives for improving corporate governance

We use the communication tool Microsoft Teams to share all information with our officers and employees, except for sensitive information, such as important facts that influence investors' decisions. By doing so, we seek to eliminate information asymmetries and create a transparent and flat organization. Furthermore, the agenda and materials for meetings of the Group Strategic Committee, which comprises the officers of Hokkoku FHD and Group companies, are distributed via the communication tool in advance to ensure active discussions and prompt decision-making on the day of the meetings. The proceedings of these meetings are streamed live for viewing by all officers and employees. In this way, we seek to spread our initiatives throughout the organization and ensure transparency in the decision-making process.

Corporate governance system



Transitions in the corporate governance system



Main agenda items of the Board of Director meetings in FY2022

- Group capital strategy**
The Board discussed the capital strategy of the Group as a whole, including policy on shareholder returns.
- Policy on strategic shareholdings and revision of reporting and verification process**
The Board verified the status of share reduction and holdings based on the Company's shareholding policy.
- Updates to the medium- to long-term business strategy**
The Board discussed the revision details of the medium- to long-term business strategy, which is updated annually.
- Business strategies of Group companies**
The Board discussed the business model, as well as future business strategy and profit and loss projection for each company.
- Establishment of ESG materiality, investment and loan policy, and sustainability policy**
The Board discussed the details on materiality issues, sustainability, and environmental policies, and the endorsement and responses to TCFD recommendations.
- Structure of the Audit and Supervisory Committee and audit plan**
The Audit and Supervisory Committee explained its structure and reported its audit plan.



For details concerning corporate governance, please refer to our Corporate Governance Reports. (Japanese only) <https://www.hfhd.co.jp/governance/pdf/20230613.pdf>



Board of Directors meetings, committee meetings, and the audit system

Business execution and oversight functions

Board of Directors ▶ Number of meetings held (FY2022): 11

In principle, the Board of Directors meetings are held once a month, and extraordinary meetings are held as necessary. During these meetings, the Board makes decisions on management policy, business strategy, and other important matters, and exercises oversight of directors' performance of duties by, for instance, receiving reports on the status of business execution and other important matters.

Nomination and Compensation Committee ▶ Number of meetings held (FY2022): 4

A discretionary advisory body in which members discuss and exchange views on director appointment and compensation. The majority of the members are outside directors whose appropriate involvement and advice ensure the objectivity and transparency of the Committee.

Group Strategic Committee ▶ Number of meetings held (FY2022): 48

In principle, Group Strategic Committee meetings are held once a week, and extraordinary meetings are held as necessary. At the meetings, the committee makes decisions on important matters other than those resolved at the Board of Directors meetings as well as matters delegated by the Board of Directors. It also receives reports on the status of business execution and other important items.

Audit and supervisory functions

Audit and Supervisory Committee ▶ Number of meetings held (FY2022): 11

In principle, Audit and Supervisory Committee meetings are held once a month, and extraordinary meetings are held as necessary. The committee audits directors' execution of duties, creates audit reports, and also determines its opinions on director appointment, compensation, and other items.

Audit by the Audit and Supervisory Committee

In accordance with the audit policy and plan designated by itself, the Audit and Supervisory Committee appropriately audits directors' decision-making and execution of duties in collaboration with the accounting auditor and the internal audit unit from a standpoint that is independent of the Board of Directors.

Internal audit

The Company's internal audit unit, which directly reports to the Audit and Supervisory Committee, conducts internal audit based on the internal audit policy approved by the Board of Directors. The results of its audit are periodically reported to the Board of Directors.

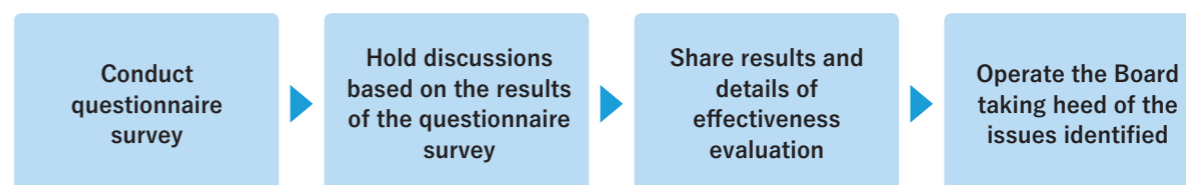
Accounting audit

The Company has appointed Kanade Partnership as its accounting auditor from whom it receives audits from a fair and unbiased standpoint of an independent auditor.

Evaluation of Board of Directors effectiveness

To improve the effectiveness of the Board of Directors, each year, the Company evaluates and analyzes Board effectiveness, also incorporating the self-evaluation of individual directors, and discloses the results. It also seeks to improve Board effectiveness on an ongoing basis by addressing the issues identified through the evaluation.

Evaluation method



Overview of evaluation results

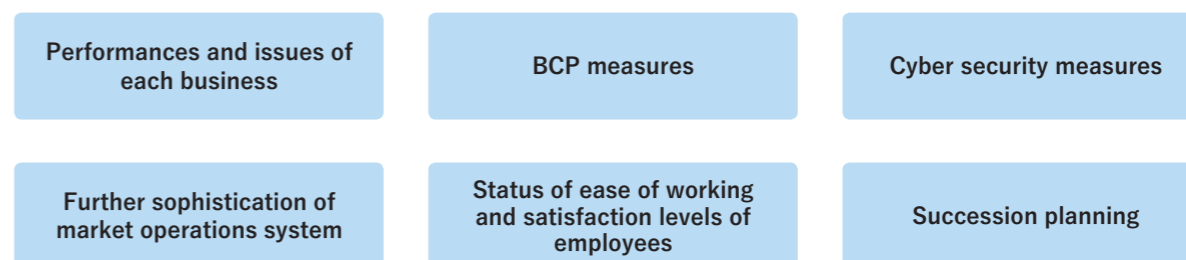
The results of the evaluation based on the questionnaire survey and subsequent discussions showed that the effectiveness of the Board of Directors has been sufficiently maintained for the following reasons:

- Continued efforts to prepare materials that clearly indicated the focal points, risks, and issues; to systematically bring proposals to the Board; and to level out the number of agenda items and narrow them down to only those that are appropriate have contributed to more active discussions at the Board meetings.
- The pre-Board meeting briefings have become an arena for meaningful discussions with the departments executing business and have ensured a more in-depth understanding of business strategies and the background and process behind bringing matters to Board deliberation.

Matters to be addressed with high priority

While we were able to confirm from the questionnaire survey and discussions the effectiveness of our Board of Directors, the following matters have been identified as items to be addressed with high priority:

- Ongoing efforts to secure sufficient time for discussion
 - Level out the number of agenda items by systematically bringing proposals to the Board in accordance with an annual schedule; narrow down the agenda items as appropriate
- Efforts to secure additional discussion opportunities with regard to proposals for which the Board felt the need for further discussions
 - Secure opportunities for prioritized discussions on the following items, which have been identified as matters the Board felt the need for further discussions



Process for appointing and dismissing directors and executive officers

In nominating director candidates, the president (a director) asks for the consideration of the Board of Directors following discussions within the discretionary Nomination and Compensation Committee. For inside director candidates, individuals with integrity, a sense of ownership, and an innovative mind with the knowledge and experience to manage the Group in an accurate, fair, and efficient manner are selected. For outside director candidates, individuals with a wealth of experience and broad insight in general management and specialized fields who can provide appropriate advice and suggestions in decision-making regarding the Group's management and business execution are selected. Outside director candidates should also have the ability to help maintain and improve the rationality and soundness of the Group's management and contribute to strengthening corporate governance. The reasons for the nomination of each candidate are stated in the convocation notice of the annual general meeting of shareholders. Any individual whom the Board of Directors deems not to meet these qualifications will not be nominated as a director candidate. Regarding a director who has committed an act considered seriously unsuitable for a director, such as a violation of laws and regulations or misconduct, the Board of Directors may decide to convene a general meeting of shareholders for the purpose of dismissing the individual. In addition to directors, the Group also appoints executive officers. For executive officers, individuals determined to be fully versed in the Group's management in light of their knowledge and expertise and who can execute operations in their areas of responsibility fairly and efficiently are selected. Any individual deemed not to meet these qualifications will not be nominated as an executive officer. An executive officer who has committed an act considered seriously unsuitable for an executive officer, such as violating laws and regulations or misconduct, may be dismissed. In appointing or dismissing executive officers, the president explains the reasons for their nomination or dismissal at the Board of Directors meetings. Moving forward, we intend to study and discuss the improvement of our succession plan at the discretionary Nomination and Compensation Committee meetings and the Board of Directors meetings to pass on our management values to the next generation of successors and sustainably enhance corporate value.

Maximum tenure of directors not serving as Audit and Supervisory Committee members

In April 2022, we stipulated the maximum tenure of directors who are not members of the Audit and Supervisory Committee. In doing so, we seek to prevent organizational rigidity, strengthen the governance structure, and further invigorate the Board of Directors while stepping up efforts to nurture successors.

Director not serving as an Audit and Supervisory Committee member (the president)	The term of office is one year. An individual can no longer be nominated as a director candidate upon completion of his/her 10th term in office.
Director not serving as an Audit and Supervisory Committee member (director other than the president)	The term of office is one year. An individual can no longer be nominated as a director candidate after completion of the term in which he/she reaches 65 years of age.

Independent outside directors

Name	Reason for appointment	Meeting attendance in FY2022
Taku Oizumi	Mr. Oizumi has abundant practical experience in finance through positions including the director-general of the Currency Issue Department at the Bank of Japan, and also has a wealth of specialized knowledge accumulated through his active role in corporate management as director and managing executive officer of Seven Bank, Ltd. Utilizing such knowledge, he can provide supervision and advice on the Company's business execution from a professional perspective, particularly in the areas of corporate planning, risk management, marketing, and overseas business. Through such supervision and advice, the Company expects him to contribute to maintaining and improving management transparency and soundness and to strengthening corporate governance. Accordingly, he has been appointed an outside director.	Board of Directors: 10/11 meetings Audit and Supervisory Committee: 10/11 meetings Nomination and Compensation Committee: 4/4 meetings
Naoko Nemoto	Ms. Nemoto has a wealth of specialized knowledge cultivated through her activities as a financial expert, for instance, partaking in the rating and research of financial institutions for many years at Standard & Poor's Ratings Japan, Inc. Utilizing such knowledge, she can provide supervision and advice on the Company's business execution from a professional perspective, particularly in the areas of financial strategy, overseas business, and market operations. Through such supervision and advice, the Company expects her to contribute to maintaining and improving management transparency and soundness and to strengthening corporate governance. Accordingly, she has been appointed an outside director.	Board of Directors: 10/11 meetings Audit and Supervisory Committee: 10/11 meetings Nomination and Compensation Committee: 4/4 meetings
Sakon Uda	Mr. Uda has abundant management experience at consulting firm McKinsey & Company, as well as Japan Post Holdings Co., Ltd. and Business Breakthrough Inc., among other companies, and also has a wealth of specialized knowledge accumulated through his active role in corporate management as an outside director and chairperson of the Board of Directors at Ebara Corporation. Utilizing such knowledge, he can provide supervision and advice on the Company's business execution from a professional perspective, particularly in the areas of corporate planning, management strategy, governance and risk management, marketing, consulting, investment and fund management, and HR strategy. Through such supervision and advice, the Company expects him to contribute to maintaining and improving management transparency and soundness and to strengthening corporate governance. Accordingly, he has been appointed an outside director.	-----
Fumihiko Haga	Mr. Haga has a wealth of specialized knowledge accumulated through his active role in corporate management as an executive officer of IBM Japan Corporation and subsequently as an executive operating officer and finance division director at Kyndryl Japan Inc. Utilizing such knowledge, he can provide supervision and advice on the Company's business execution from an expert perspective, particularly in the areas of corporate planning, management strategy, governance and risk management, and digital and IT strategy. Through such supervision and advice, the Company expects him to contribute to maintaining and improving management transparency and soundness and to strengthening corporate governance. Accordingly, he has been appointed an outside director.	-----
Kimie Harada	Ms. Harada has a wealth of specialized knowledge in the areas of financial policy, securities, and the stock market as a professor at the Chuo University, Faculty of Commerce, and from her experience as a member of various committees of the Ministry of Finance and the Financial Services Agency. Utilizing such knowledge, she can provide supervision and advice on the Company's business execution from an expert perspective, particularly in the areas of financial and capital strategies, ESG and sustainability, and market operations. Through such supervision and advice, the Company expects her to contribute to maintaining and improving management transparency and soundness and to strengthening corporate governance. Accordingly, she has been appointed an outside director.	-----

Specialization and experience of directors and executive officers

The skills matrix of our directors and executive officers based on their specialization and experience is shown in the table below. The Company deploys human resources with a wealth of experience, deep insight, and a high level of expertise to enable appropriate oversight of business management and achieve sustainable improvement of corporate value. The fields in which directors not serving as Audit and Supervisory Committee members are particularly expected to contribute are marked with "◎."

Name	Title	Specialization and experience										
		Corporate planning Management strategy	Governance and risk management	Financial and capital strategies	ESG and sustainability	Marketing	Consulting	Global	Investment and fund management	Market operations	HR strategy	Digital and IT strategy
Shuji Tsuemura	President & Chief Executive Officer (Representative Director)	◎	●	◎	◎		●	◎	●	◎		◎
Koichi Nakada	Director (Representative Director)	●	◎								◎	●
Yuji Kakuchi	Director		●			●	●	◎	◎	◎		
Nobuhiro Torigoe	Director, Audit and Supervisory Committee Member	●		●	●						●	●
Taku Oizumi	Director, Audit and Supervisory Committee Member (Outside)	●	●	●		●		●				
Naoko Nemoto	Director, Audit and Supervisory Committee Member (Outside)			●	●			●		●		
Sakon Uda	Director, Audit and Supervisory Committee Member (Outside)	●	●			●	●		●		●	
Fumihiko Haga	Director, Audit and Supervisory Committee Member (Outside)	●	●									●
Kimie Harada	Director, Audit and Supervisory Committee Member (Outside)			●	●					●		
Kenya Tatsuno	Managing Executive Officer (General Manager of General Planning Department)	●					●				●	●
Tomohiko Kikuzawa	Managing Executive Officer (General Manager of General Planning Department)	●		●	●	●					●	●
Aki Yokogoshi	Managing Executive Officer (General Manager of Human Resource Development Department)				●	●					●	●
Harushige Sanbonmatsu	Managing Executive Officer (General Manager of General Planning Department)	●	●		●						●	
Shinzo Oya	Executive Officer (General Manager of Audit Department)	●	●			●						
Muneto Yamada	Executive Officer	●	●	●								

Skill areas that should be strengthened

The items shown below are the skill areas that require further strengthening in order for the Company to sustainably improve its value. In addition to developing specialized talent in-house and placing resources mainly based on their experience, we also anticipate bringing in external talent with objective and effective knowledge and experience so that we can bolster our business foundation.

Skill item	Reason for selection
Consulting	The Company positions consulting and advisory as one of the priority business areas. While the level of consulting services provided by the consulting subsidiary CC Innovation has improved, to provide further value to local customers and raise the region's quality, we see the need to secure resources with more advanced skills and knowledge.
Investment and fund management	The Company positions investment and fund management as one of the priority business areas. Our investment subsidiary QR Investment seeks to address the diversifying financing needs through its funds, function as a leader of the regional ecosystem, and thereby contribute to the growth and value enhancement of the overall region. Moving forward, to expand the scope of investees nationwide and overseas while maintaining focus on the Hokuriku region and to achieve a balance between investment returns and the growth of investees along with contribution to the local community, we see the need to secure resources with more advanced skills and knowledge.
Market operations	The Company positions market operations as one of the priority business areas. We are working to further sophisticate our market operations by, for instance, transferring the Group's core capital market functions to the investment advisory subsidiary FDAIco to revamp our market operations structure. We are also working to optimize our portfolio by developing a model portfolio based on a medium- to long-term scenario and engaging in preventive rebalancing in response to changes in the market environment. To ensure stable income generation, we see the need to secure resources with more advanced skills and knowledge.
Digital IT strategy	For over 20 years, the Company has implemented operational reforms driven by systems strategy, and still continues to work on digital transformation to date. It also applies the accumulated knowledge in this area to help improve the productivity of local customers through consulting and other services. In addition to speed and performance, security-related skills, such as response to cyberattacks, are becoming more important in systems strategy. Accordingly, we see the need to secure resources with more advanced skills and knowledge.

Policy for determining director compensation, etc.

The Company's basic policy on director compensation is to establish a system, which incorporates compensation linked to shareholder returns so that it serves as an incentive for directors to contribute to the local community's progress and thereby enhance the Company's corporate value sustainably. In terms of compensation for individual directors, the policy is to determine it at a level appropriate to each director's responsibilities. Specifically, the remuneration of directors not serving as Audit and Supervisory Committee members comprises fixed compensation, performance-linked monetary compensation, and performance-linked stock compensation. Compensation of directors serving as Audit and Supervisory Committee members, who take on a supervisory function, only comprises fixed compensation in light of their duties.

As a holding company, Hokkoku FHD develops and implements its compensation system in an integrated manner with Group companies. When an officer concurrently holds positions at two or more Group companies, fixed compensation will be divided based on a certain ratio.

Outline of the compensation system

In April 2022, we introduced a new compensation system for our officers. By increasing the ratio of performance-linked compensation to total compensation, we have created a system that allows further value-sharing with our shareholders while providing the officers with an incentive to improve the corporate value.

Eligible directors are paid a combination of (1) fixed compensation (fixed/monetary), (2) performance-linked monetary compensation (variable/monetary), and (3) performance-linked stock compensation (variable/stock).

Compensation components and composition

Type	Terms of provision and composition	Director not serving as an Audit and Supervisory Committee member	Director serving as an Audit and Supervisory Committee member	Executive officer
Fixed compensation	Fixed monthly compensation paid in cash	●	●	●
Performance-linked monetary compensation	Compensation paid in cash as per the percentage shown in the table below, based on the ROE of the corresponding fiscal year	●	—	●
Performance-linked stock compensation	Compensation paid in restricted stock as per the percentage shown in the table below, based on the ROE of the corresponding fiscal year	●	—	●

ROE	Director and president				Directors (excluding the president)			
	Fixed Monetary	Performance-linked Monetary		Total	Fixed Monetary	Performance-linked Monetary		Total
		Monetary	Stock			Monetary	Stock	
8% or higher	45%	30%	105%	180%	50%	25%	90%	165%
7% or higher, but lower than 8%	45%	30%	75%	150%	50%	25%	65%	140%
6% or higher, but lower than 7%	45%	30%	45%	120%	50%	25%	40%	115%
5% or higher, but lower than 6%	45%	30%	25%	100%	50%	25%	25%	100%
4% or higher, but lower than 5%	45%	25%	20%	90%	50%	20%	20%	90%
3% or higher, but lower than 4%	45%	20%	15%	80%	50%	15%	15%	80%
2% or higher, but lower than 3%	45%	15%	10%	70%	50%	10%	10%	70%
1% or higher, but lower than 2%	45%	10%	5%	60%	50%	5%	5%	60%
Lower than 1%	45%	0%	0%	45%	50%	0%	0%	50%

Schematic illustration of the composition*

Fixed compensation (45%)	Performance-linked monetary compensation (30%)	Performance-linked stock compensation (25%)
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*Assuming compensation of the director and president at ROE of 5% or higher, but lower than 6% (the composition changes depending on the position and the Company's performance)

Directors and executive officers (as of June 30, 2023)



Directors



Shuji Tsuemura
President & Chief Executive Officer
(Representative Director)



Koichi Nakada
Director
(Representative Director)



Yuji Kakuchi
Director



Nobuhiro Torigoe
Director
(Full-time) Audit and Supervisory Committee Member



Taku Oizumi
Director
(Outside) Audit and Supervisory Committee Member



Naoko Nemoto
Director
(Outside) Audit and Supervisory Committee Member



Sakon Uda
Director
(Outside) Audit and Supervisory Committee Member



Fumihiko Haga
Director
(Outside) Audit and Supervisory Committee Member



Kimie Harada
Director
(Outside) Audit and Supervisory Committee Member

Executive officers

Kenya Tatsuno, Managing Executive Officer (General Manager of General Planning Department)

Tomohiko Kikuzawa, Managing Executive Officer (General Manager of General Planning Department)

Aki Yokogoshi, Managing Executive Officer (General Manager of Human Resource Development Department)

Harushige Sanbonmatsu, Managing Executive Officer (General Manager of Management Administration Department)

Shinzo Oya, Executive Officer (General Manager of Audit Department)

Muneto Yamada, Executive Officer

Interview with outside directors

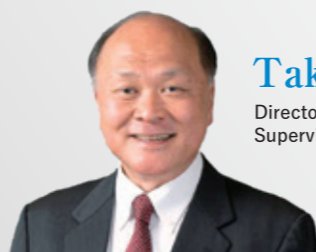
Naoko Nemoto

Director, (Outside) Audit & Supervisory Committee Member



Taku Oizumi

Director, (Outside) Audit & Supervisory Committee Member



Interviewer

Mr. Masahiko Nishiyama

Senior Stewardship Officer
Stewardship Development Department
Sumitomo Mitsui Trust Asset Management Co., Ltd.



Q1

Since the transition to a holding company structure, including the preparatory stages, in what significant ways have the mentality and actions of the Board of Directors and those within the Company changed? Do you think these changes will steadily contribute to the corporate culture and corporate value improvement?

Nemoto: Our corporate philosophy is to provide new value to the local community and the customers through our diverse operations as an integrated regional company. I feel that we have made progress in incorporating this philosophy into many of our institutional systems, and as a result, our employees share the Company's values. Expanding our business performance while resolving the issues faced by the community, such as productivity improvement and decarbonization, undoubtedly leads to the enhancement of corporate value. Going forward, strengthening integrated risk management and performance evaluations across various business operations will be our challenge.

Oizumi: As the first change, the Company has broken away from a focus on quantitative expansion. Over the past several years, the Company had to write off a large amount of non-performing loans. This was because we could not fully break away from the traditional management style that prioritized expanding the loan amounts without sufficiently understanding the borrowers' businesses. Reflecting on this, the Company shifted its management focus to the identification (discovery) and resolution of the issues faced by the customers. This was the second change. We have introduced services such as management consulting and investment advisory for our customers, as well as support services, to enhance customer productivity through improved operational processes, DX, and cashless payment, among other initiatives. To provide these services, we established a group of subsidiaries, and to oversee these companies, we established a holding company. These

two changes have dramatically transformed our corporate culture. I am convinced that our corporate value will soar even higher, as will the Company's contribution to the local community, as long as we continue to enhance the content and quality of these services with a sense of speed.

Q2

The Board of Directors is called upon to reconcile stakeholders' conflicts of interest and decide on setting priorities. Do you feel the Company's corporate philosophy and materiality form an important foundation for such decision-making?

Nemoto: Our corporate philosophy has taken root within the Company and has become the basis for decision-making at the Board of Directors meetings as well as other meetings. For instance, eliminating the handling fees for our corporate internet banking service may reduce our income in the short term, but we think it will raise productivity in the local community and, in turn, contribute to enhancing our corporate value in the long term. As an outside director, I pay close attention to balancing the interests of various stakeholders and seeking optimal methods while respecting our corporate philosophy.

Oizumi: The corporate slogan, "Quality Company, Good Company. Together into the future," encapsulates our corporate philosophy and brand philosophy, and I value each word of it. How and to what extent can we elevate our quality and goodness with limited management resources and become a company that can build a successful future together with society? When we contemplate balancing interests among the stakeholders and setting priorities, we seem to end up going back to each word of this slogan to think, discuss, and make decisions, even when we ourselves are not clearly aware of doing so.

Q3

How much were you involved in the formulation of the medium- to long-term business strategy? How will you get involved toward the accomplishment of the plan?

Nemoto: The outside directors have been actively involved in developing the medium- to long-term business strategy, expressing their opinions from various perspectives at the Board of Directors meetings and preliminary briefing sessions. In terms of gathering information, in addition to receiving reports from the Audit Department, we have

worked to grasp the actual situations by obtaining direct input from department heads and interviewing young employees on the front lines, among other means. Moving forward, we hope to continue obtaining input from internal and external sources through various channels and monitor steady implementation of the plan.

Oizumi: At Hokkoku FHD, the directors and those in charge of business execution hold discussions on the medium- to long-term business strategy several times before the plan becomes a formal agenda item for the Board of Directors meeting. This process is very important. Our approach is to annually update the medium- to long-term business strategy spanning the next 10 years. While this approach suits the rapidly changing times, the annual updates could potentially erode the core concepts originally outlined at the time of plan formulation. Therefore, to ensure that the essence of the medium- to long-term business strategy remains intact, the preliminary involvement of the directors is indispensable. Some of the businesses may not progress as planned. At such times, it is important to calmly analyze and understand why things are not going well. In addition to addressing the overall Group's medium- to long-term business strategy, the Board of Directors also asks the individual subsidiaries and business departments to regularly report their latest status at the Board meetings. During discussions at such meetings, one of the important roles of the Board is to help these parties recognize the issues and provide them with opportunities to develop new measures for the future.

Q4

I believe it is important for regional financial institutions to support customers in their response to climate change. Do you think Hokkoku FHD Group's efforts are sufficiently meeting such expectations?

Nemoto: We have raised our FY2030 target for CO₂ emissions reduction to 100% and are actively working toward this goal by using renewable energy and introducing energy-saving facilities, among other means. We have also stepped up our risk analyses based on TCFD recommendations and shared our analyses of physical and transition risks with our customers. In consulting, we are gradually achieving results, for instance, in supporting the SGDs declaration of our customers. Our challenge going forward is to spread our expertise on climate change-related responses to all employees so that we can provide services to a wider range of customers.

Oizumi: We are working to provide overarching support that covers all aspects of customers' climate change-related responses. On the other hand, the level of awareness and the capacity to cope with climate change vary from customer to customer. Let's say there are three steps in the support process: (1) fostering risk awareness; (2) providing advice that contributes to risk reduction and the identification of new business opportunities; and (3) providing support on concrete responses. I think many of our customers are still in the first step, and we have yet to see full-scale activities in steps two and three. The Hokuriku region has unique geological potential to generate renewable energy. Keeping this in mind as well, I hope to see companies move on to steps two and three at an accelerated pace.

Q5

In light of the Board of Directors' role to manage and supervise the business execution of Hokkoku FHD subsidiaries to enhance corporate value, how do you evaluate the lineup, diversity, and skills matrix of the Board members?

Nemoto: Our Board is very diverse, even in comparison to other companies. The inside directors collectively have a balanced background in digital, finance, global business, market operations, and sales. The outside directors are experts in the areas of consulting, IT, regulatory affairs, and asset management, with their skills matching the strategic direction of the Company. Efforts are made to mitigate the information asymmetry between those within and outside the Company, for instance, through the use of Microsoft Teams and the provision of various opportunities to exchange opinions.

Oizumi: To properly manage and supervise each Group company and enhance the value of the overall Group, it is necessary to position diverse talent in both the Board of Directors and the execution team. In this respect, we newly appointed three outside directors (serving as Audit and Supervisory Committee members) in June 2023, and we substantially increased the number of executive officers this spring. As a result, we have a more balanced line-up of people with diverse experience and skills on our Board and the execution team. I am confident that the Group's management structure will be bolstered further, provided these members cooperate closely without becoming overly cozy with each other.

Q6

What is your view on CEO succession?

Nemoto: I realize that CEO evaluation and succession planning are important responsibilities for outside directors. For the revision of the compensation system last year, we had several discussions before making a final decision. Outside members comprise the majority of the Nomination and Compensation Committee, and the Committee has made progress in strengthening its independence and transparency in areas such as clarification of evaluation standards. I think having many proactive and highly motivated resources is a strength of the Company. I also believe it is the role of the Committee to develop next-generation leaders and develop a structure in which they can thrive.

Oizumi: According to internal rules, the maximum tenure of the Company's president is 10 years. Three years have passed since the current president took office, so there are seven more years until maximum tenure. There is ample time to select and foster a successor.

This spring, we significantly increased the number of executive officers. From such a pool of resources, the Nomination and Compensation Committee will be nominating and selecting the successor candidates deemed fit to entrust the future management of the Company. If there is a need to revise the current structure of the Nomination and Compensation Committee to further improve transparency of the nomination and selection process, I hope to actively engage in discussions.