

Corporate Governance

Basic approach to corporate governance

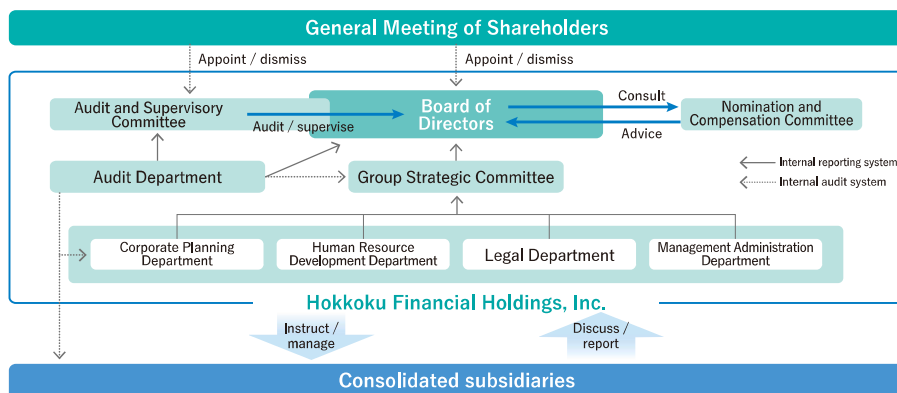
To fulfill its corporate philosophy and achieve the visions and targets outlined in the medium- to long-term business strategy, the Hokkoku FHD Group believes it is important to maintain a harmonious relationship with the shareholders and other stakeholders while thoroughly committing to the improvement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

Overview of the current framework

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

Currently, five out of our nine directors are outside directors (a ratio of 55.5%). All five outside directors are independent outside directors who provide opinions and also audit and supervise the directors from an objective and neutral standpoint. In addition, we have established a discretionary Nomination and Compensation Committee (chaired by an outside director) whose majority are outside directors. The Committee serves to ensure transparency and objectivity in the selection of director candidates and the process of determining director compensation.

Corporate governance structure



	Board of Directors	Audit and Supervisory Committee	Nomination and Compensation Committee
Chairperson	Outside director	Outside director	Outside director
Composition	9 members	6 members	9 members
Outside director ratio	(5 outside directors) 55%	(5 outside directors) 83%	(5 outside directors) 55%
Female ratio	(2 women) 22%	(2 women) 33%	(2 women) 22%

Inside director Outside director (male) Outside director (female)

Status of the Board of Directors meetings and other executive meetings

Board of Directors ► Number of meetings (FY03/24): 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.

[Main agenda items of the Board of Directors meetings in FY03/24]

- **Review of business strategies for each Group company as well as the overall medium- to long-term business strategy**
We reviewed the past and future strategies of each Group company and discussed the details of corresponding updates to the medium- to long-term business strategy.
- **Group's capital policy**
We discussed the level of total returns, which includes dividends and share repurchases, factoring in the appropriate levels of risk-weighted assets and capital adequacy.
- **Human capital strategy**
We conducted discussions on our human capital strategy based on reports concerning the results of our health and productivity management initiatives and employee engagement surveys.
- **System strategy**
We discussed the direction of our initiatives based on the reporting on the medium- to long-term system strategy and outlooks on costs, staffing, etc.

Nomination and Compensation Committee ► Number of meetings (FY03/24): 6

A discretionary advisory body wherein 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.

[Main deliberations during the Nomination and Compensation Committee meetings in FY03/24]

- **Composition, structure, and compensation of directors not serving as an Audit and Supervisory Committee member**
We discussed the structure and compensation of the next fiscal year's Board of Directors.
- **Succession plan**
We conducted multiple discussions regarding the policy on nomination and resource development, target posts, talent criteria, and candidate pool management, among other matters.

Group Strategic Committee ► Number of meetings (FY03/24): 49

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.

Status of audit

Audit and Supervisory Committee ► Number of meetings (FY03/24): 11

In principle, Audit and Supervisory Committee meetings are held once a month, and extraordinary meetings are held as necessary. In addition to serving as a venue for reporting on the status of the directors' execution of duties and for preparing audit reports, the Audit and Supervisory Committee meeting is also a venue to determine proposals to be submitted to the General Meeting of Shareholders regarding the selection of an accounting auditor.

[Main deliberations during the Audit and Supervisory Committee meetings in FY03/24]

- **Audit plan for FY03/24**
We reviewed the previous fiscal year's audit status and discussed the scope of the audit and priority items for this fiscal year, taking into account new projects.
- **Changing the accounting auditor**
We conducted discussions concerning the submission of a proposal to the General Meeting of Shareholders on the selection of a new accounting auditor to replace the previous one.

Audits 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 independent of the Board of Directors. The committee also meets regularly with representative directors to exchange opinions on important auditing issues.

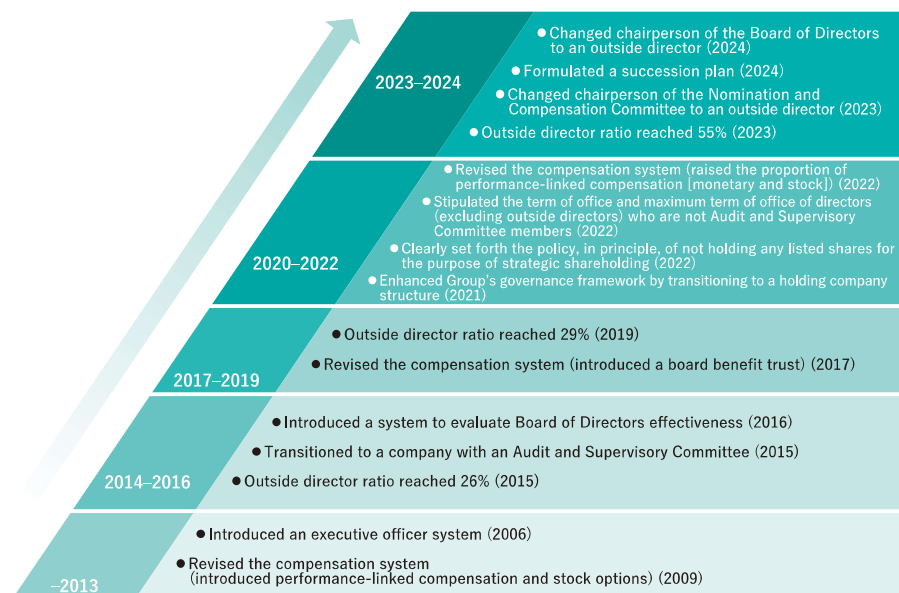
Internal audits

The internal audit team, which directly reports to the Audit and Supervisory Committee, conducts internal audit based on the internal audit policy decided by the Audit and Supervisory Committee. The audit results are regularly reported to the Board of Directors and the Audit and Supervisory Committee.

Accounting audits

We have appointed Kanade Partnership as our accounting auditor. Accordingly, Kanade Partnership is auditing us from a fair and unbiased standpoint of an independent auditor.

Changes in the governance structure and key initiatives for improving governance



Main initiatives for FY03/24 and FY03/25

Appointment of outside directors to the posts of the chairpersons of the Board of Directors and the Nomination and Compensation Committee

To improve effectiveness by separating the executive and supervisory functions, we have appointed outside directors as chairpersons of the Board of Directors and the Nomination and Compensation Committee. Our president and CEO previously held both positions.

The chairperson of the Nomination and Compensation Committee was replaced in November 2023, and the chairperson of the Board of Directors in June 2024.

As for the Audit and Supervisory Committee, an outside director and Audit and Supervisory Committee member has served as its chairman since 2015, when we transitioned to a company with an Audit and Supervisory Committee.

Use of communication tools to enable Q&A on the meeting agenda ahead of the Board of Directors meetings

At Hokkoku FHD, we have been using a communication tool, Microsoft Teams, to share all information with our officers and employees, except for information on material facts, etc., that requires stringent control. This fiscal year, we introduced a new system that allows outside directors to post their questions and comments on the materials for the Board of Directors meeting in advance via Teams. This system enables outside directors to further deepen their understanding of each agenda item through communication with the execution side.

Formulation of a succession plan

The Nomination and Compensation Committee, chaired by an outside director and comprising a majority of outside directors, formulated a succession plan following several discussions. These discussions mainly covered topics such as target posts, the candidate pool, talent criteria, system processes, and resource development programs.

We will work to determine the talent criteria for key posts, establish a candidate pool, and foster successors. At the same time, we will regularly check with the Nomination and Compensation Committee and the Board of Directors regarding the status to select the appropriate successors.

Please see the corporate governance report for details regarding corporate governance.
https://www.hfhd.co.jp/_wp/wp-content/uploads/2024/06/20240614-2.pdf (Japanese only)



Strategic shareholdings

Policy on strategic shareholdings

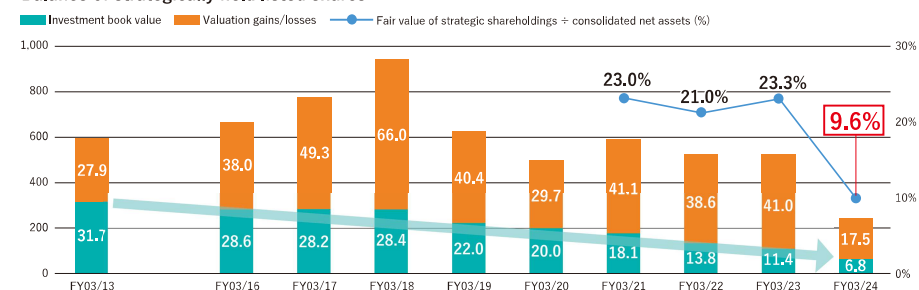
In April 2022, the Hokkoku FHD Group adopted a policy, in principle, of not holding any listed shares for the purpose of strategic shareholding. Since then, we have engaged in dialogue to reduce such strategic holdings. Through this effort, we aim to further strengthen our governance function while contributing to the sound development of the capital markets.

Progress in reducing strategic shareholdings

Since announcing our Group's policy on strategic shareholdings in April 2022, we have regularly communicated with the issuers of the shares we hold to gain their understanding of our policy. Initially, we planned to halve our strategic shareholdings on a book value basis by the end of March 2025 (reduction by ¥6.9 billion versus the end of March 2022), as per our plan announced in April 2022. However, thanks to our efforts, we accomplished this target one year in advance, at the end of March 2024, reducing the total balance by ¥7.0 billion versus the end of March 2022 on a book value basis.

We will continue to engage in thorough dialogue with the issuers of the shares we currently hold in order to achieve our policy of not holding any listed shares, in principle, for the purpose of strategic shareholding.

Balance of strategically held listed shares (¥ bn)



Initiatives to enhance governance through IR

- To improve governance over our business management, we release detailed IR presentation materials when we announce full-year and mid-year financial results. We also hold one-on-one meetings between institutional investors and our president and CEO.
- Key Q&As during the one-on-one meetings are posted on the Company website to ensure fair and open information disclosure.
- Based on feedback from the one-on-one meetings and feedback on the integrated report, we strive to improve the content of the IR presentation materials and the integrated report, thereby disclosing information more appropriately and effectively.
- The details of our IR activities are reported to the Board of Directors and the Group Strategic Committee twice a year, and the outputs from the discussions there are applied to improve our business management and strategies.

Activities	FY03/22 results	FY03/23 results	FY03/24 results
One-on-one meeting with institutional investors	37 sessions / 89 participants	61 sessions / 84 participants	49 sessions / 99 participants
Results/management strategy briefing sessions for analysts and institutional investors	3 sessions / 29 participants (Small meetings)	3 sessions / 27 participants (Small meetings)	4 sessions / 20 participants (Small meetings)
Online briefing sessions for individual investors	1 session / 405 participants	1 session / 503 participants	1 session / 1,118 views

	Main information disclosure materials
Japanese	IR presentation materials, integrated reports, Shared Research report, etc. ⇒ Please refer to the IR Information section on our website for details. (https://www.hfhd.co.jp/ir/)
English	IR presentation materials, integrated reports, Shared Research reports, etc. ⇒ Please refer to the IR Information section on our website for details. (https://www.hfhd.co.jp/english/#irinformation)



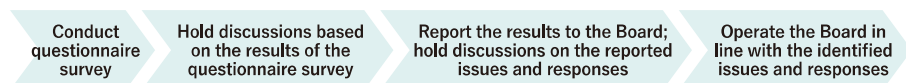
Status of shares (as of March 31, 2024)	Total number of issued shares*1 25,208 thousand shares Number of shareholders*2 7,860
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Notes *1 The number of shares is rounded down to the nearest thousand shares. *2 The number of shareholders reflects the number of shareholders with voting rights.

Evaluation of Board of Directors effectiveness

To improve the effectiveness of the Board of Directors, the Company evaluates and analyzes Board effectiveness each year, 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



Challenges and initiatives to further improve Board effectiveness

The results of the questionnaire survey and subsequent discussions confirmed that Board effectiveness was being maintained. That said, the following matters were brought up as necessary actions to further improve Board effectiveness.

- Further energize Board discussions by redefining the roles expected of directors and establishing a shared understanding of such roles
 - Discuss once again the roles expected of each director (internal, external, executive, and non-executive) and develop a shared understanding of such roles. At the same time, reflect the redefined roles in the Board composition and the talent criteria for successors under the succession plan
- Strengthen commitment to various strategies through systematic discussions on priority agendas
 - With regard to the priority businesses outlined in the medium- to long-term business strategy, incorporate into the annual Board schedule the discussions on strategies, tactics, and review of our initiatives, as well as associated organizational and human resource strategies and other important agendas. By doing so, enable more systematic and in-depth discussions and strengthen further commitment to the medium- to long-term business strategy
- Strengthen the follow-up on comments and directions given during the Board meetings
 - In terms of the comments and directions, thoroughly clarify which items require actions. Regularly check the progress of such items during the Board meetings, provide additional explanations at study sessions and other opportunities as necessary, and thereby enhance Board effectiveness
- Make efforts to secure opportunities for further discussions on agendas, which the Board felt the need to discuss more in depth
 - Items on which the Board felt the need for more in-depth discussions are shown below. We will consider including these agendas in the annual schedule to ensure systematic discussions. We will also consider discussions at voluntary study sessions and other venues as necessary.

[Matters that require further discussions]

- Sophistication of market operations strategy (fund allocation, risk management and assessment)
- Strategy for the arena business
- Challenges and strategies concerning the priority businesses under the medium- to long-term business strategy

[Matters that require additional discussions moving forward]

- Marketing structure
- Bold policies and initiatives regarding human capital and environmental issues (GX)
- Medium- to long-term business portfolio for the entire Company
- Use of third-party expertise in light of changes in the competitive landscape
- Evaluation by the capital markets and disclosure to and communication with the capital markets

Appointment and dismissal of directors and executive officers

Policy on appointment and dismissal

Director candidates are nominated upon consideration by the Board of Directors following discussions within the Nomination and Compensation Committee. For inside director candidates, individuals who meet the criteria such as having integrity, a recurrent education- and reskilling-oriented mindset, and high communication and conceptualizing skills are selected from the candidate pool that has been determined in advance based on our succession plan. Such individuals must also possess the knowledge and experience to manage the Group in an accurate, fair, and efficient manner.

For outside director candidates, individuals with a wealth of experience and broad insight on management and other matters, who can provide appropriate advice and suggestions in decision-making regarding the Group's general management and business execution, are selected. Outside directors should also have the ability to help maintain and improve the rationality and soundness of the Group's management and to contribute to strengthening corporate governance.

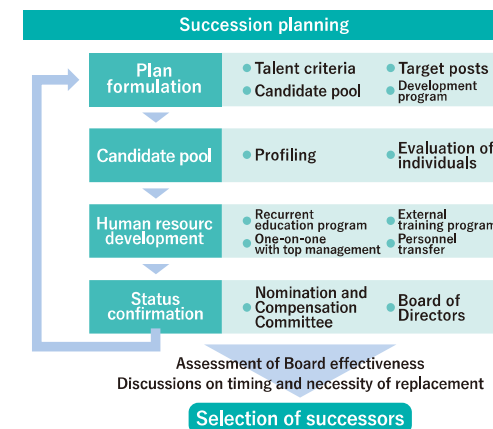
When reappointing directors, discussions are conducted at the Nomination and Compensation Committee to determine whether such directors have fulfilled their expected roles. The Board of Directors then decides whether to reappoint them. Regarding a director who—during his or her term—has committed an act considered seriously unsuitable for a director, such as violating laws and regulations or misconduct, the Board of Directors may decide to convene a General Meeting of Shareholders to dismiss the individual.

In the Group, the Board of Directors appoints executive officers in addition to directors. For executive officers, individuals determined to be fully versed in the Group's management in light of their knowledge and expertise and who can fairly and efficiently execute operations in their areas of responsibility are selected. Any individual the Board deems not to meet these qualifications will not be reappointed as an executive director. The Board of Directors may dismiss an executive officer who, during his or her term, has committed an act considered seriously unsuitable for an executive officer, such as violations of laws and regulations or misconduct.

Succession plan

We formulate a succession plan to enhance management sustainability and improve our corporate value for the medium to long term. We set forth the criteria for key posts, establish a candidate pool, and work to nurture successors. Additionally, we consistently confirm progress at the Nomination and Compensation Committee and the Board of Directors meetings and revise the succession plan and candidate pool as appropriate. In such a way, we will seek to select the suitable successors.

Target posts	(1) President (2) Internal directors (3) President of subsidiary, Hokkoku Bank
Talent criteria	(1) Integrity (2) Recurrent education- and reskilling-oriented mindset (3) Communication skills (4) Conceptualization ability



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

In April 2022, we stipulated the maximum tenure for directors who are not members of the Audit and Supervisory Committee. In doing so, we seek to prevent organizational rigidity, strengthen the governance system, 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 completing 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 completing the term in which he/she reaches 65 years of age.

Specialization and experience of directors and executive officers

Skills matrix

We create a skills matrix aligned with the skill sets necessary to promote the various strategies upheld under the priority businesses outlined in the medium- to long-term business strategy. The skills matrix for our directors and executive officers, based on their specialization and experience, is shown in the table below. To ensure appropriate oversight of business management and achieve sustainable improvement of corporate value, the Company selects human resources with a wealth of experience, profound insight, and a high level of expertise. 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, Managing Executive Officer (Representative Director)	●	◎								◎	●
Yuji Kakuchi	Director, Managing Executive Officer		●			●	●	◎	◎	◎		
Nobuhiro Torigoe	Director, Audit and Supervisory Committee Member	●		●	●						●	●
Taku Oizumi	Outside Director, Audit and Supervisory Committee Member	●	●	●		●		●				
Naoko Nemoto	Outside Director, Audit and Supervisory Committee Member			●	●			●		●		
Sakon Uda	Outside Director, Audit and Supervisory Committee Member	●	●			●	●		●		●	
Fumihiko Haga	Outside Director, Audit and Supervisory Committee Member	●	●									●
Kimie Harada	Outside Director, Audit and Supervisory Committee Member			●	●					●		
Kenya Tatsuno	Managing Executive Officer (General Manager, Corporate Planning Department)	●					●				●	●
Naotaka Terai	Managing Executive Officer (General Manager, Corporate Planning Department)	●	●	●	●			●			●	●
Aki Yokogoshi	Managing Executive Officer (General Manager, Human Resource Development Department)				●	●					●	●
Akihisa Nitta	Managing Executive Officer (General Manager, Management Administration Department)	●	●			●						●
Masayuki Kita	Managing Executive Officer	●		●		●	●	●				
Shinzo Oya	Executive Officer (General Manager, Audit Department)	●	●			●						
Satoshi Oe	Executive officers					●	●					

Skill areas that should be strengthened

The items below are the skill areas that require further strengthening 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.

Consulting	Investment and fund management	Market operations	Digital IT strategy
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, we see the need to secure resources with more advanced skills and knowledge to provide further value to local customers and raise the region's quality.	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.	The Company positions market operations as one of our priority business areas. We are working to further sophisticate our market operations by, for instance, transferring the Group's core capital market operations 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 recognize that we need to secure resources with more advanced skills and knowledge.	For over 20 years, the Company has implemented operational reforms driven by systems strategy and has continued 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.

Director compensation

Policy for determining director compensation, etc.

The Company's basic policy on director compensation is to establish a system that 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 is divided based on a certain ratio.

Outline of the compensation system

In the compensation system for our officers introduced in April 2022, we increased the ratio of performance-linked compensation to total compensation compared to before. By doing so, we created a system that allows further value-sharing with our shareholders while providing the officers with an incentive to enhance our 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).

Should an eligible director resign, etc., because of a certain misconduct, such director will lose the right to receive performance-linked compensation. Further, should an eligible director engage in serious fraud, etc., that results in the revision of our financial statements, such director must return all or part of the performance-linked compensation he or she already received.

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		Total	Fixed Monetary	Performance-linked		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 ratio*

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

Directors and Executive Officers (as of June 30, 2024)

Directors

Shuji Tsuemura

President &
Chief Executive Officer
(Representative Director)



[Reason for appointment]

Mr. Tsuemura has long been involved in the field of corporate planning since joining our Group's Hokkoku Bank, and he has significantly contributed to improving our corporate value by spearheading core projects cross-organizationally. He has vigorously driven efforts to rebuild our business model and implement DX within the banking operation. In October 2021, he was appointed director and president of Hokkoku FHD. He is an individual who can utilize his many years of experience and knowledge to manage the Company fairly, efficiently, and with precision. Hence, we determined that Mr. Tsuemura can further strengthen the effectiveness of the Board's decision-making and supervisory functions.

Koichi Nakada

Director,
Managing Executive Officer
(Representative Director)



[Reason for appointment]

Since joining our Group's Hokkoku Bank, Mr. Nakada has served as the general manager of multiple sales branches in key locations. He has also been involved in fields such as risk management, financial strategy, and human resource development and has a wealth of business experience and a breadth of in-depth knowledge concerning corporate management. He was appointed a director of Hokkoku FHD in October 2021. He is an individual who can manage the Company fairly, efficiently, and with precision. Hence, we determined that Mr. Nakada can further strengthen the effectiveness of the Board's decision-making and supervisory functions.

Yuji Kakuchi

Director,
Managing Executive Officer



[Reason for appointment]

Since joining our Group's Hokkoku Bank, Mr. Kakuchi has been involved mainly in the fields of financial strategy, overseas business, and market operations. He has a wealth of business experience and a breadth of in-depth knowledge concerning corporate management. He was appointed a director of Hokkoku FHD in October 2021. He is an individual who can manage the Company fairly, efficiently, and with precision. Hence, we determined that Mr. Kakuchi can further strengthen the effectiveness of the Board's decision-making and supervisory functions.

Nobuhiro Torigoe

Director, Audit and
Supervisory Committee
Member



[Reason for appointment]

Since joining our Group's Hokkoku Bank, Mr. Torigoe has been involved mainly in the fields of corporate planning, financial strategy, human resource development, and IT strategy. He has a wealth of business experience and in-depth knowledge concerning corporate management. He was appointed a director and an Audit and Supervisory Committee member of Hokkoku FHD in October 2021. He is an individual who can conduct audits of the legality of the Company's business execution, etc., fairly, efficiently, and with precision. Hence, we determined that Mr. Torigoe can further strengthen the effectiveness of the Board's decision-making and supervisory functions.

Taku Oizumi

Outside
Independent
Outside Director,
Audit and Supervisory
Committee Member
Audit and Supervisory
Committee Chairperson



[Reason for appointment]

Mr. Oizumi has abundant practical experience in finance through positions including the director-general of the Currency Issue Department at the Bank of Japan. He also has a wealth of specialized knowledge accumulated through his active role in corporate management as a 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. We determined that, through such supervision and advice, Mr. Oizumi can contribute to maintaining and improving our management transparency and soundness and strengthening our corporate governance.

Naoko Nemoto

Outside
Independent
Outside Director,
Audit and Supervisory
Committee Member
Nomination and Compensation
Committee Chairperson



[Reason for appointment]

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. We determined that, through such supervision and advice, Ms. Nemoto can contribute to maintaining and improving our management transparency and soundness and strengthening our corporate governance.

Sakon Uda

Outside
Independent
Outside Director,
Audit and Supervisory
Committee Member
Chairperson of the
Board of Directors



[Reason for appointment]

Mr. Uda has abundant management experience at McKinsey & Company, Japan Post Holdings Co., Ltd., and Business Breakthrough Inc., among other companies, and he 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. We determined that, through such supervision and advice, Mr. Uda can contribute to maintaining and improving our management transparency and soundness and strengthening our corporate governance.

Fumihiko Haga

Outside
Independent
Outside Director,
Audit and Supervisory
Committee Member



[Reason for appointment]

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 and management strategy, governance and risk management, and digital and IT strategy. We determined that, through such supervision and advice, Mr. Haga can contribute to maintaining and improving our management transparency and soundness and strengthening our corporate governance.

Kimie Harada

Outside
Independent
Outside Director,
Audit and Supervisory
Committee Member



[Reason for appointment]

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. We determined that, through such supervision and advice, Ms. Harada can contribute to maintaining and improving our management transparency and soundness and strengthening our corporate governance.

Executive officers

Kenya Tatsuno	Managing Executive Officer (General Manager, Corporate Planning Department)	Naotaka Terai	Managing Executive Officer (General Manager, Corporate Planning Department)
Aki Yokogoshi	Managing Executive Officer (General Manager, Human Resource Development Department)	Akihisa Nitta	Managing Executive Officer (General Manager, Corporate Planning Department)
Masayuki Kita	Managing Executive Officer	Shinzo Oya	Executive Officer (General Manager, Audit Department)
Satoshi Oe	Executive Officer		

Message from an Outside Director



Sakon Uda

Outside Director, Audit and Supervisory Committee Member,
Chairperson of the Board of Directors

What surprised me initially

I was appointed an outside director of Hokkoku Financial Holdings (Hokkoku FHD) in 2023 and became the chairperson of its Board of Directors in June 2024. During this time, what struck me while being in the Board meetings was that the Company did not project any—what I would say—"eerie" atmosphere one might expect from a financial institution. The Board was strikingly different from one in which a top-down and seniority-oriented approach, starting from the chairperson (also the president) at the top, was the norm. It was not a Board consumed by needless tension to the point that the general manager of planning would feel that his position would be at risk should questions be raised during deliberations. It was not a Board where no one spoke until the president spoke, only to see everyone chime in with comments like "what the president says is most reasonable," when the direction of the discussions became clear.

In 2021, I visited the Company's head office in Kanazawa for the first time in my role as an advisor to CCI (note¹). I realized then that the Information Systems Department was located in the head office, that everyone working there was cheerful and energetic, and that "going paperless" was being practiced thoroughly and there was no paper on the office desks on each floor. When employees passed by the president in the canteen and other places, they greeted him cheerfully without taking a step back or being overly formal. I remember thinking I had come to a tech startup rather than a financial institution.

What changes when an outside director becomes the chairperson of the Board of Directors

The governance of a company does not change dramatically the minute an outside director is appointed as the Board chairperson. Some listed companies have outside directors as chairmen, while others do not. Regardless, some of their P/B ratios are above 1x, while others' are below. ROEs vary, as does the rate of corporate growth. Certain "sensible" analysts and investors may see this as an indication that "a company's performance does not hinge on whether the Board

chairperson is an outside director or not" or that "being a company with three committees or a company with an audit and supervisory committee has no bearing on business performance."

I often heard comments like these, as well as in my previous role as an outside director and Board chairperson at a manufacturer. "A good cat is one that catches mice, whether a black cat or a white cat," is the thinking here. (In other words, good management is one that raises the share price regardless of the governance format.) This may be true from a static, short-term, external perspective, but the picture is different from a dynamic, medium- to long-term, internal perspective. The actual value creation itself depends on the execution arm, but if there is a will, an outside director or an outside director who is concurrently the Board chairperson can create opportunities for and promote corporate reforms toward value creation. In that sense, I think that having an outside director become the Board chairperson could be rather important for corporate reform. Then, what areas should be tackled with a clear will? I will attempt to explain them in sequence in the sections below.

The business model and organizational culture of Hokkoku FHD

The business model of Hokkoku FHD—centered on consulting, cashless, and cloud banking—is unparalleled in its conceptual and innovative power. President and CEO Tsuemura is a visionary leader who has been building this kind of business model for many years. He has envisioned an innovative business model, eliminated the unnecessary hierarchies to realize his vision, broke away from conventions, and created a psychologically safe organization. These accomplishments are already well known in the world, and a book has been published about them (note²). There is no need to go into the details of the strategies here, but I have been quite surprised by the important innovative approaches the organization has taken to support its transition to a new business model.

In the early 2000s, the Company already predicted that systems and digital technology would become important for financial institutions and took steps to bring system development in-house.

This was an important management decision. Thereafter, the members of the Information Systems Department were transferred to the General Planning Department. The objective was to get rid of their subcontractor mindset (note³). The Company made a bold decision to internally establish the Information Systems Department as a central function of the Bank. By moving the Information Systems Department to the head office, the positioning and importance of the department became widely recognized in the Bank. Many financial institutions have systems departments in the back-office buildings, far from the head office. The staff members engage in their daily tasks, feeling distant from the management, yet they are the first to be blamed when a problem emerges. In such an environment, they will not feel empowered, even if the management tells them that “they are the stars in an era of digital transformation.” System problems recur as a result, and it also becomes difficult to retain outstanding talent amid abundant opportunities for employees to switch jobs. People at financial institutions who are keenly aware of the situation would feel the need to resolve these types of “soft” organizational issues, but in an eerie top-down culture, it is impossible to do so. Meanwhile, the members of Hokkoku FHD’s Information Systems Department present a sense of pride and confidence that they are blazing a trail. There is a reason for the cheerfulness I sensed as my first impression.

In 2021, the Company underwent organizational reforms and adopted a holding company structure, with the Group companies consolidated under Hokkoku FHD. The important point here was the fact that the employees of the Bank and other Group companies all resigned from their organizations and became employees of Hokkoku FHD. Advanced expertise is certainly expected of each Group company, including DV (note⁴), CCI (note⁵), and QRI (note⁵). On the flip side, however, if the human resources had been fixed as belonging to their respective companies when the holding company was established, the overall dynamics would have projected a division comprising “one huge bank” and “everything else.” This would not have changed the bank-centric organizational structure and culture. By having all Bank employees become employees of Hokkoku FHD, the Company was able to nurture an open organizational culture without the Bank being at the center or superior. This unique approach is not seen in many financial institutions that have transitioned to a holding company structure. I believe the Company is exceptional in that it can take a soft approach to challenges like this and execute bold measures.

Hokkoku FHD also excels in its ability to invest in human resources. Long before the world was talking about human capital-oriented management, the Company was encouraging its employees to actively participate in online leadership programs, online undergraduate programs on management studies, as well as MBA programs. To date, 17.5% of the employees have participated in some kind of online courses or undergraduate and graduate programs. There is great benefit to having all employees broadly understand management, problem-finding and solving, and team leadership, and use such knowledge as a common language in their daily work. A business model of a few so-called elites leading

many ordinary people would become obsolete in an increasingly uncertain society. The Company has long realized this point. Bolstering the fundamental capabilities of the human resources gathered at Hokkoku FHD in this way is also crucial in preparing the individuals before they hone their skills in areas unique to each Group company. For instance, at the consulting company CCI, each employee is expected to provide value to customers as a professional. In this situation, it is reassuring that many staff members have problem-solving skills and share a common language. Additionally, many employees have interacted with people from other organizations through online classes, and these experiences have been helpful in actual work. I understand that these endeavors in the field of human resource investment are also highly advanced.

From a similar standpoint, the Company is committed to thoroughly instilling directors’ roles and functions within the organization and creating a healthy tension between the Board of Directors and the execution side while having them work together to resolve issues and ensure continuous progress. I believe that by having an outside director become the Board chairperson, the Company is signaling the significance of this commitment to the stakeholders. I feel a strong sense of responsibility, knowing that I am expected to bring about major changes not just in format but in various “soft” aspects.

Matters the Board of Directors should consider

Hokkoku FHD must press on with future changes without losing its unique aspects that have been honed to date, including its innovative spirit, flat culture, highly engaged and skilled employees, and an organizational culture that ensures psychological safety. I would say that, moving forward, the Company must use the framework of its business model as a foundation, further bring together the organization’s execution capabilities and its power to carry things out to completion, and demonstrate internally and externally the “correctness” of the business model. In effect, this entails demonstrating tangible results such as improved ROE and P/B ratio both internally and externally, proving that “a smart cat is a cat that can raise the probability of catching mice.” In this sense, the Board of Directors is expected to provide support so that the execution team can achieve one step higher results.

A Board of Directors fundamentally bears the responsibility of resolving medium- to long-term issues to ensure the continued progress of a company. It is responsible for leading the way on matters concerning the business portfolio, human resource portfolio, diversity, equity, and inclusion (DEI), and the development of next-generation management talent. I came to realize this in my previous post as a chairperson of another Board, when a long-term overseas investor confronted me with the question, “What are you going to do about the fact that there is no gender diversity in your company’s management?” At first, I almost said, “That’s a personnel issue, so please ask the head of the executive team.” However, I realized at that moment that, through the question, I was being told that the Board and I myself—as the Board chairperson—bear the responsibility of proactively tackling these medium- to long-term issues. Such is the expectation of our investors as well as the expectation of important stakeholders, including our employees and local society. I understood that directors have the responsibility of creating value through governance.

“Governance to Value”

At Hokkoku FHD, I will pursue the possibility of achieving “Governance to Value” (creating corporate value through governance reforms) from a dynamic perspective, taking on Board reforms as a starting point.

Specific priority issues will be identified as we move along. However, I would like to proceed by keeping the following points in mind in advance.

- 1) Selecting correct agendas: In an increasingly uncertain society, the executive team should not exclusively bear the responsibility of choosing the correct agendas. It is a thing of the past for outside directors to express their opinions from a bird’s-eye perspective based on an agenda prepared by the executive team. I will bring into our agendas, with plenty of lead time, medium- to long-term issues, matters with a significant impact on Company-wide earnings, and matters having a negative impact on long-term investors so that the Board can thoroughly discuss these items.
- 2) Nurturing a sense of healthy tension: For the executive team, the Board of Directors should be a body that “throws sharp questions,” “will call you out if important points cannot be answered,” or “will not accept half-baked explanations.” If there is a sense of healthy tension between the executive team and the directors and the executives can be encouraged to strengthen their explanation skills, we can eliminate decisions based on unspoken conventions and internally minded rationality. I also aim to be a hurdle in urging our executives to explain themselves better.
- 3) Gaining an internal understanding of the roles and positioning of the Board: I hope to make the Board of Directors a body that fully supports organizational reforms without falling prey to the so-called “checking-the-box” syndrome. If the head of the executive team also serves as the head of the Board, the members of the organization are likely to think of the Board as a higher-level meeting body of the executive team. A culture of thinking, “I will be a director one day,” will be fostered as a result, and the hierarchy within the executive team will be reflected in the behaviors of the internal directors even during the Board meetings. This will, in turn, brew a mentality of “what you say is most reasonable,” as I mentioned before, leaving no hope for a sense of healthy tension between the executives and the Board. Hence, I am committed to creating a new relationship between the executive team and the Board.
- 4) Board effectiveness: I believe the Board chairman holds the primary responsibility of ensuring Board effectiveness. At some companies, assessing Board effectiveness has become a mere formality. Some companies also choose third-party evaluators because they are inexpensive and the process is simpler. Meanwhile, when the Board chairman is responsible for substantively improving the quality of Board discussions, he or she would certainly position the assessment of Board effectiveness as an important factor to be included in the PDCA cycle of his or her own activities. The assessment process should include self-evaluation by the Board, along

with peer reviews among the directors and an evaluation of the chairperson. Through these actions, I aim to improve the quality of discussions at the Board meetings.

- 5) Self-discipline of the Board: It is necessary to follow up on how the matters discussed and decided in the Board meetings or the opinions expressed during the deliberations were handled and whether the necessary matters were being carried out. On this front, I believe we will be requesting explanations from the executive team at least once every quarter. This will require the executive team’s discipline to keep pace with the PDCA cycle. At the same time, if the Board were to request such explanations, it must also take ownership of thoroughly activating the PDCA cycle. I will also set an example by proactively assessing the Board’s effectiveness.
- 6) I think this is the area where investors have high expectations. To achieve the targets for ROE, P/B ratio, and other performance indicators, the Board will need to understand the gap between the current state and the targets and support the implementation of necessary measures toward these targets in the initial and interim stages. Investigating the causes based on the results alone will not lead to achieving the targets, so it is important to promptly take additional measures while we are still working to meet our projections. We must set appropriate KPIs, continue timely monitoring, and make speedy decisions for necessary additional investment where a gap exists. I am committed to having the Board take a proactive stance to support these actions.

With these points in mind, I aim to instill a strong sense of self-discipline and a desire to achieve results in the executive team. I believe this will lead to the realization of “Governance to Value,” through which the governance reforms at Hokkoku FHD can generate value. At the same time, I hope to promote communication with our stakeholders as necessary. As a first step, I will do my utmost to meet the expectations of our stakeholders reading this integrated report.

Notes:

- 1 CCI : Short for the Group’s consulting company, CC Innovation
- 2 *Brushing Up Human Resources Energizes Companies and Local Communities* (a book published by Hokkoku FHD)
- 3 Taken from the book, *Digital Transformation of a Regional Financial Institution* (published by The Digital Value, Ltd.)
- 4 DV: Short for the Group’s system development company, Digital Value
- 5 QRI: Short for the Group’s investment fund management company, QR Investment