

 HOKKOKU FINANCIAL HOLDINGS

# 2023

INTEGRATED REPORT  
(ANNUAL REPORT)

Edited, published, and inquiries accepted by:

Hokkoku Financial Holdings, Inc.  
PR & IR Section, General Planning Department  
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Published in July 2023

This booklet is also available on the Company website.  
<https://www.hfhd.co.jp/english>

Quality Company,  
Good Company.  
Together into the future

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## Greetings on the Occasion of Publication

Thank you for your ongoing support of Hokkoku Financial Holdings. We are pleased to announce the publication of Integrated Report 2023.

As a “next-generation integrated regional company,” we aim to develop our businesses in a wider range of domains than before, and grow together with our local community through strengthened communication and collaboration.

We kindly request the continued support and patronage of our customers, shareholders, and local residents.

July 2023

## Company Profile

Name: Hokkoku Financial Holdings, Inc.

Head office: 2-12-6, Hirooka, Kanazawa, Ishikawa, Japan

Established: October 1, 2021

Share capital: ¥10.0 billion

Number of employees: 2,131 (including business staff)

Total number of shares outstanding: 26,908 thousand shares

Number of shareholders: 10,478

(As of March 31, 2023)

A serene landscape featuring a calm pond in the foreground, reflecting the surrounding lush greenery. A large, dark rock sits on the bank, surrounded by meticulously maintained, rounded bushes and tall, slender trees. The scene is bathed in soft, natural light, creating a peaceful and idyllic atmosphere.

01

Story

## Corporate philosophy

# Trust — a bridge to a fruitful regional future

Enrich interaction and growth in the region

## Brand philosophy

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

## Slogan

**Quality Company,  
Good Company.  
Together into the future**

## 20 guiding principles

Our corporate philosophy and brand philosophy are the driving forces behind our continuous innovation. With this in mind, we have outlined in these guiding principles the character and actions expected of our employees.

### To establish our brand

1. We will act to accomplish our unanimous objective, which, we declare, is to enrich people's lives and create a better society.
2. We are professionals, and we will always think of ways to make things possible before giving reasons why they cannot be done.
3. Each of us will act with a sense of ownership to support innovation in the entire region.

### To continue innovation

4. We will build a long-term relationship of trust with our customers, cherishing the sharing of common values with them.
5. We will think from a customer-centered perspective, engage in discussions, and continuously provide various types of added value.
6. We will derive optimal solutions through continuous communication with our customers, rather than simply accepting their requests.
7. We will collaborate with our customers and all other stakeholders and demonstrate leadership to create new values.
8. We will value having the attitude to constantly learn new things and to think thoroughly.
9. We will realize work styles that are fulfilling to each of us, based on mutual understanding and respect for any differences and diversity.
10. We will support the success of our colleagues, in full understanding that cooperation is the bedrock of our organization.

### Our basic principles

11. We will never engage in an act that betrays the trust of our customers, in full understanding that such trust is what supports us.
12. We will greet our superiors, subordinates, and colleagues in a pleasant manner, never forgetting a sense of gratitude.
13. We will welcome our customers pleasantly, paying attention to office beautification, always maintaining cleanliness in the workplace, and actively working to keep things tidy and clean.
14. We will respect each other as work partners, and eliminate any forms of harassment, including sexual harassment and bullying, from the workplace, acknowledging that harassment is an act of hurting the dignity of human beings.
15. We will promptly consult and report any mistake, trouble, complaint, etc. arising in the course of business and never engage in an act that violates laws and regulations or internal rules, such as making a false statement or falsifying a document.
16. We will lead our lives within our means, refrain from extravagance, and never misappropriate funds of customers or the Company.
17. We will abide by our rules on use of emails, social media, and other online tools, with full understanding that information sent via the Internet can never be retrieved.
18. Driving under the influence of alcohol is a social evil, and we will never engage in or let others engage in such an act.
19. We will deal with any anti-social forces in a resolute manner.
20. We will engage in environmental conservation activities to protect the environment, which is the foundation of our lives and businesses.

# History of Hokkoku Financial Holdings

1943-1999

## Trust nurtured over many years and stable customer base

As the leading bank in the Hokuriku region, we have sought to become a bank trusted and loved by the people in our local community by demonstrating leadership in various regional activities under our corporate philosophy, "Trust—a bridge to a fruitful regional future. Enrich interaction and growth in the region."

**1943**  
Hokkoku Bank established



2000-2014

## Took on challenges, always being mindful of quality, speed, and cost

In 2000, we began branch consolidation and other reforms to raise our operational efficiency. Since then, we have promoted strategies to provide services with greater speed while maintaining quality, advanced internal reforms, and laid the groundwork for a corporate culture that is unafraid of changes.

**2000**

- Introduced an area-specific sales system
- Began branch consolidation
- Created a call center

**2007**

- Established the Information Systems Department and began strategic investment into systems

**2009**

- Integrated General Affairs Department into the Planning Department to strategically reduce non-personnel costs

**2010**

- Established The Hokkoku Management, Ltd.
- Introduced a credit line system (as a strategic credit initiative and for speedy response)
- Reduced administrative tasks for loan operations, centralizing work at the headquarters

**2011**

- Established The Hokkoku Servicer, Ltd.

**2012**

- Began using tablets to sell financial products

**2014**

- New head office building completed



2015-2020

## Further strengthened card, leasing, and consulting businesses to resolve regional issues, mainly leveraging our consulting functions

We launched our consulting business in 2015. To address the changing needs of our customers, we have promoted strategies crafted from a customer perspective. In 2019, we established a number of new companies to enter non-banking business domains. We have also promoted digital transformation internally and worked to raise employee awareness regarding productivity enhancement.

**2015**

- Introduced a new core banking system, BankVision
- Launched the consulting business

**2016**

- Distributed Surface laptops and smartphones to all employees
- Opened the Singapore Branch
- Began free distribution of card terminals
- Became the first domestic bank to offer card settlement services for affiliated merchants

**2017**

- Began handling corporate Visa debit cards



**2018**

- Began handling the trust business

**2019**

- Opened the COREZO e-commerce mall
- Announced a project to migrate core banking system to the cloud
- Began handling Hokkoku Cloud Banking



- Established The Digital Value, Ltd.

**10/2020**

- Established the Hokkoku DX Cashless Fund

2021

## Established the holding company, Hokkoku Financial Holdings, to offer new value to the region as a "next-generation integrated regional company"

We promoted in-house development of innovative systems, as represented by the operation of Japan's first full banking system that runs on a public cloud service. On October 1, we established the Hokkoku Financial Holdings to contribute to our region by maximizing group synergies.

**2/2021**

- Launched the HOKKOKU LIFE+ service



- Began reviewing in-house development of a new-type ATM

**5/2021**

- Established The FD Advisory, Ltd.
- Began operation of BankVision on Azure, Japan's first full banking system on a public cloud

**6/2021**

- Established The CC Innovation, Ltd.
- Established The QR Investment, Ltd.

**7/2021**

- Hokkoku Bank and Visa jointly launched the Super Cashless Region project
- Created the Noto SDGs Fund

**9/2021**

- Obtained DX certification (Hokkoku Bank)

**10/2021**

- Established Hokkoku Financial Holdings, Inc.

**11/2021**

- Prototype of in-housed developed ATM completed

**12/2021**

- Introduced a sales department system

2022-

## Leading the community's evolution into a quality region by offering new services based on customer-driven concepts

In 2022, we introduced a new carrier-oriented personnel system to foster talent that can help raise the quality of our region. In 2023, we started planning the circulation of a blockchain-based regional currency in the city of Suzu, Ishikawa Prefecture. We continue to support regional development by offering new services through collaboration with the municipalities.

**3/2022**

- Introduced a new personnel system
- Launched the HOKKOKU LIFE+ PRIME service
- Certified as a White 500 company under the 2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program (Hokkoku Bank)

**4/2022**

- Established The COREZO, Ltd. (renamed from The Hokkoku Management, Ltd.)
- Established The BPO Management, Ltd.
- Obtained DX certification (Hokkoku FHD)

**7/2022**

- Launched the COREZO TRAVEL lodging reservation website

**10/2022**

- Eliminated commissions on purchases of all investment trust products

**11/2022**

- For new loans, removed personal guarantee obligations by business owners

**1/2023**

- Began reviewing project to build a next-generation regional digital platform
- Received the Human Capital Leaders 2022 award

**3/2023**

- Certified as a White 500 company under the 2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program
- Received the Minister of Regional Revitalization award at the 13th "Companies that Deserve to be Valued the Most in Japan" Awards

**4/2023**

- Began reviewing circulation of digital regional currency in Suzu, Ishikawa

**6/2023**

- Established The FDIco, Ltd. (through merger of The FD Advisory, Ltd. and ALCOLAB, Ltd.)

Our cultivated strengths

Ability to transform corporate culture

Expertise in operational reforms

Customer-centric strategies

In-house system development capability

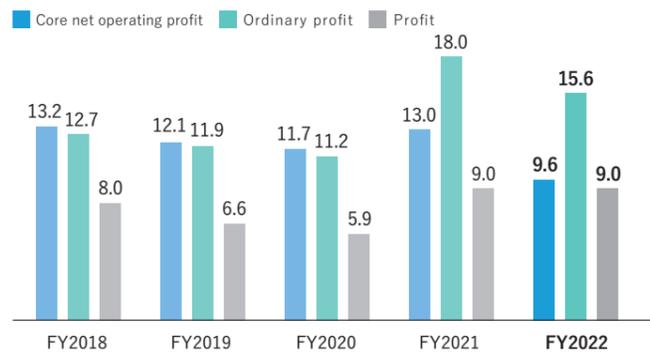
Ability to foster professional talent

Ability to enhance organizational capabilities

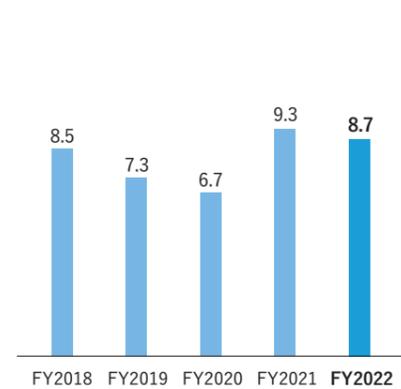
# Financial Highlights

## Income (Hokkoku Bank, non-consolidated/Consolidated)

Core net operating profit, ordinary profit, and profit (Hokkoku Bank, non-consolidated) (¥ bn)

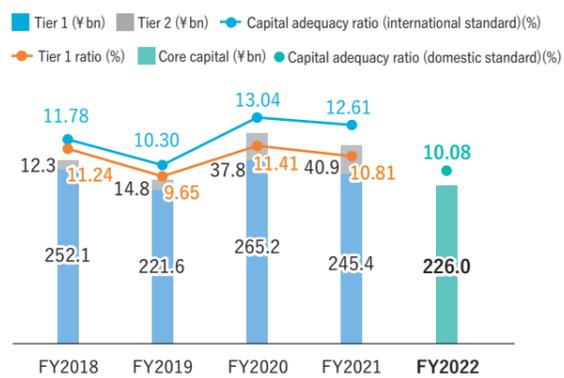


Profit (consolidated) (¥ bn)



## Capital adequacy ratio and ROE (consolidated)

Capital adequacy ratio



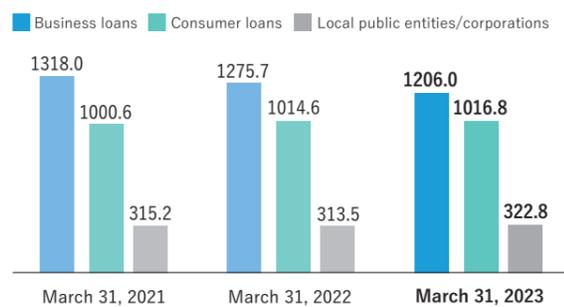
ROE (%) \*



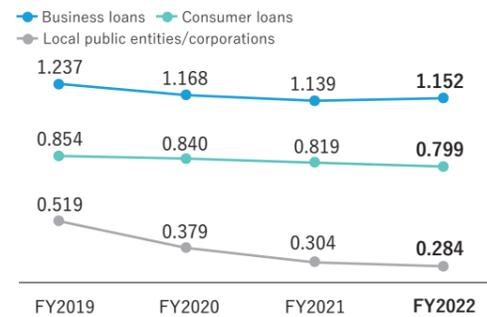
\* On the basis of domestically active banks

## Loans outstanding and yields

Loans outstanding (by loan type) (¥ bn)



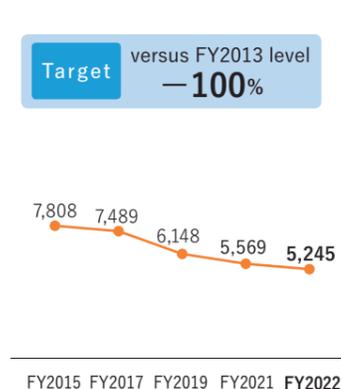
Yields (by loan type) (%)



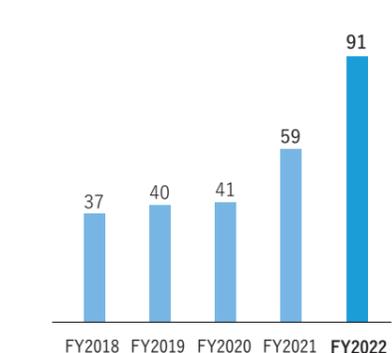
# Non-Financial Highlights

## Environmental, social, and governance (ESG) factors

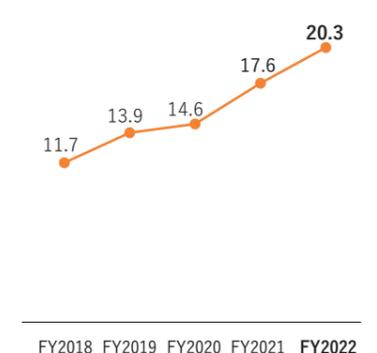
CO<sub>2</sub> emissions (t)



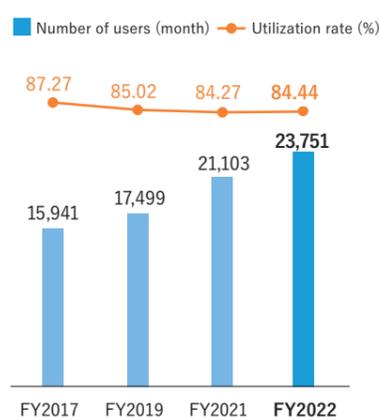
Leases subject to CO<sub>2</sub> /energy saving subsidies (deals)



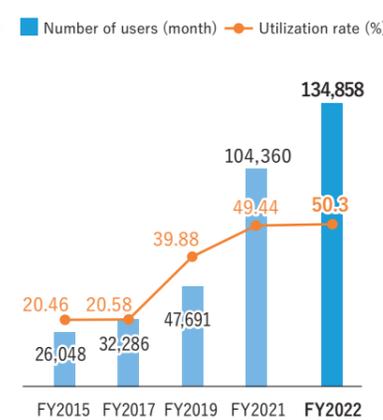
Women in management positions (%)



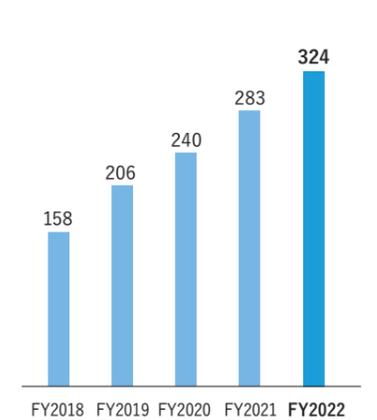
Use of internet banking for corporate customers



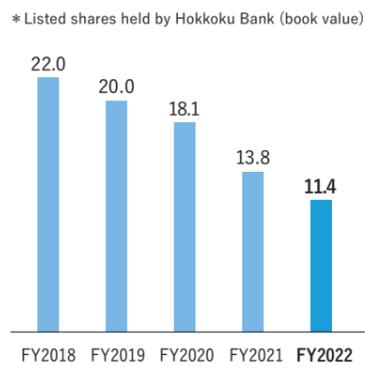
Use of internet banking for individual customers



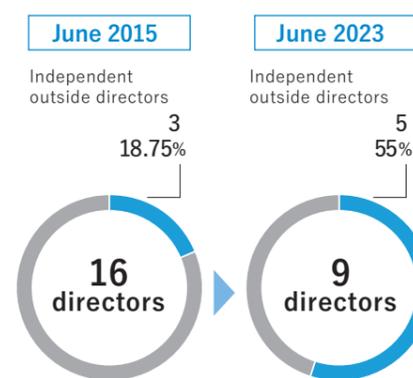
Visa debit cards issued (cumulative total; '000)



Strategic shareholdings balance (¥ bn)



Independent outside directors



Female directors





# Sparking Innovation with Added Value-Driven Management and ESG

枝村 修司

Shuji Tsuemura  
President & Chief Executive Officer  
Representative Director

Hokkoku Financial Holdings will mark its second anniversary in October 2023, and Hokkoku Bank—the largest of the Group’s 11 subsidiaries—will celebrate its 80th anniversary in December. In the fiscal year ended March 31, 2023, we recorded ¥8.7 billion in consolidated profit after tax and were able to distribute cash dividends of ¥100 per share. We owe these results to the long-standing trust extended by our customers, shareholders, employees, and many other stakeholders, and would like to express our sincere gratitude.

In the current fiscal year, Hokkoku Financial Holdings looks to record an annual profit after tax of ¥11.0 billion and distribute cash dividends of ¥110 per share. To break free from the three-year socio-economic stagnation caused by the spread of COVID-19, our management and employees will continue to collectively tackle the impending challenges as we pursue our new business model. On May 8, 2023, we unveiled an updated version of the medium- to long-term business strategy. I am proud to say that the updated version presents a substantially higher-resolution blueprint of our new business model. As CEO, my greatest mission is to bring this new business model to cruising speed over the next two to three years.

## Looking back at the holding company structure

With the advent of the Reiwa era in 2019, we saw clear and substantial changes in our customers’ needs. And after the pandemic, the environment surrounding various businesses changed dramatically, across industries. Hokkoku Bank adopted a holding company structure in order to respond to its customers’ needs in a speedy and attentive manner. There is no continuity to a business model heavily weighted toward devoting management resources to the lending business—a model based on logic drawn from the suppliers’ perspective without the essence of being customer-driven. Our move was based on such a judgement. Financial business that involves just simple money lending and settlement will face further digitalization and become commoditized. Thus, we aspire to elevate the professional skills of our management and employees, collectively achieve business growth through consulting and advisory services to corporate and individual customers, and help enrich the lives of each individual. At the same time, we want to develop a business model unattainable by AI. To these ends, we decided to establish a holding company (an integrated regional company) truly suitable for the new era. Hokkoku Bank has embraced the corporate

philosophy, “Trust—a bridge to a fruitful regional future,” over the past 80 years. At the juncture of our shift to a holding company structure, we additionally introduced the brand philosophy: “Hokkoku Financial Holdings exists to act for the benefit of people and the world, enriching the lives of individuals and society as a whole.” The brand slogan —“Quality Company, Good Company” is the declaration of our commitment to taking action. While our journey continues, we have received numerous accolades in various fields over the past two years. These include the DX Certification, Human Capital Leaders 2022 award, and Minister of Regional Revitalization award at the 13th “Companies that Deserve to be Valued the Most in Japan” Awards. I am confident we are making steady progress in implementing our business strategy.

## From three to seven strategic pillars

In updating our medium- to long-term business strategy, we added four new initiatives to the existing priority measures in the card, consulting, and leasing businesses, designating a total of seven priority areas.

(1) In the previous fiscal year, we began an internal test run of our new internet banking system for corporate customers. All development work will be completed this fiscal year, and a full-scale launch is slated for next year. In this project, in addition to revamping the system design, we revisited the fundamental thinking behind the design and substantially bolstered security. This system is a public cloud-based internet banking service for corporate customers, the first of its kind in Japan. We expect it to vastly improve convenience and operability. According to our plan, in just a few years, the accounting staff at our customer companies will be able to complete their bank-related accounting work right on this system. At Hokkoku Bank, as well, the system will dramatically save labor associated with the processing of loans and lease transactions.

(2) In consulting and advisory services, we will take on a segment-specific approach, covering corporate customers both in the Hokuriku region and beyond. In June 2023, FD Advisory merged with ALCOLAB, Ltd., which is headquartered in Tokyo. As an investment advisory firm under the name FDIalco, this company will step up asset management advisory services to individual customers, corporations, and financial institutions.

(3) In the area of cashless payment, we will start a new digital regional currency project in addition to our brand card initiatives centered on Visa. We plan to introduce services this summer, and stable coins based on blockchain technology should be ready for use by the end

of the year. Our aim is to improve productivity of the region as a whole by further raising the cashless payment ratio, while at the same time enhancing efficiency and convenience of public services through linkage with the My Number identity verification system.

(4) In the investment business, we began originating funds dedicated to corporate revitalization over a decade ago. We have already raised approximately ¥7.0 billion through Fund No. 3 and supported the revitalization of 20 companies. We are actively structuring other funds such as those for startups and companies in their growth phase, as well as for businesses in the Noto area, and are looking to achieve a total investment balance of ¥100.0 billion in 10 years' time.



(5) Over the past decade or so, the Market Department of Hokkoku Bank has secured stable income, without being swayed by the market environment. Rather than just investing in Japanese government bonds, the department has worked to carry a diversified portfolio while stringently managing associated risks. Moving forward, we intend to raise our operations in the market to a more sophisticated level so that we can determine expected returns and risk tolerance with even greater clarity and engage in sustainable and stable investments.

(6) By implementing digital transformation ahead of other companies, we were able to make steady progress in our firm-wide reform. Our major systems-related investments have already run their course for the most part. We have a very clear image of our strategy, which is to make thorough use of public cloud services while reducing systems-related costs. Moving forward, we intend to further incorporate new technology and architecture, and achieve systems modernization at an accelerated pace.

(7) While managing our businesses in a progressive and proactive manner, we have implemented multiple measures simultaneously to enhance our risk management and compliance. ESG is also at the center of our management priorities, and we are working to expedite our actions. On the environmental front, we intend to accomplish our goal for CO<sub>2</sub> emission reductions ahead of schedule, now seeking to reach effectively zero emissions in 2030. We also plan to build bases that qualify for "Nearly ZEB" or "ZEB Ready" certifications and speed up the introduction of electric vehicles (including hybrid vehicles) to our operations. To strengthen our human capital, we have implemented measures in a number of areas. We updated our personnel system to stay abreast with the times,

discontinued the performance-based award program, and created a support system that promotes recurrent education and reskilling among the employees. We also took steps to create a work friendly environment. We will continue to respect the career plans of employees with diverse sense of values and further support their learning. By doing so, we hope to foster management talent capable of becoming a driving force within our company and the local community at large, and thereby further contribute to regional growth. In governance, to date, we have implemented a number of measures ahead of schedule. For instance, we clarified the details regarding the operation of our Board of Directors and Nomination and Compensation Committee, the mission of independent outside directors, and succession planning, and revised the executive compensation system. From the current fiscal year, our Board has nine directors, with six being Audit and Supervisory Committee members. Discussions are under way to further strengthen governance from next year onward, and we plan to introduce new measures as early as in the latter half of the current fiscal year.

### Driving force behind the new business model

The speed at which the new business model takes root hinges on our corporate culture and the mindsets of our management and employees. In short, what counts is whether we can adamantly take actions based on our corporate philosophy and brand philosophy. Without our firm commitment to making customers the starting point of our operations, the business model of Hokkoku Financial Holdings would not have a meaning. Nor could we become a sustainable company. In this sense, our management ideology can be defined as the pursuit of added value and ESG.

Of course, business management focusing on added value and ESG is easier said than done, and we have spent vast amounts of time thus far in implementing a variety of specific measures. The phrase "removal of sales quotas" is often used to describe our sales strategy. The real objective here is to accomplish a major shift in our sales strategy, switching our focus from volume to quality, and to added value. To eliminate all obstacles hampering our added value-driven management, we have made various efforts to reduce the extensive amount of time and labor spent on things that are not directly related to our customers. Breaking away from quotas was only one of these efforts. We are working to eliminate the concept of budgets as well as meetings set up for the sake of securing consensus in advance. We are pushing forward on digitization, digitalization, and reskilling, and efforts are under way to reset people's mindsets and change the corporate culture. We have decided to focus on KPIs, delegate authority, ensure transparency within the organization, and invest in intellectual capital (personnel system in a broad sense). All these initiatives are intended to drive forward our management approach centered on added value and ESG. Amid these activities, I have noticed firsthand that thorough commitment to our corporate philosophy and brand philosophy has transformed some management and employee behaviors. It is a self-evident truth within our Group that investment in recurrent education and

reskilling helps reset our people's mindsets, and leads to the improvement of our organizational capabilities. As the quality of internal communication improves, our corporate philosophy and brand philosophy will gain further footing, encouraging our management team and employees to exert their power in actions that generate added value. I am also confident that this leads to the evolution of concepts behind our products and services. Such "redevelopment of organizational capabilities" is what lies behind our initiatives, which are often considered progressive. To date, we made efforts to remove personal guarantee obligations by business owners. We completely eliminated the base handling fees of internet banking users (corporate and individuals), the remittance fees for transactions between Hokkoku Bank branches, and commissions on purchases of investment trusts. We also distributed card payment devices free of charge. Moving forward, we will continue to further enhance the convenience of our products and services with strong momentum. As you can see, our branding efforts begin with internal branding. Going forward, our five in-house designers—all well-versed in these types of internal branding—will be working together with the marketing strategy team to bolster external branding as well.

Rather than just passively acceding to reforms led by the Tokyo Stock Exchange, we are actively embracing efforts to enhance our corporate value. As one of the leading companies in our regional economy, we are also accelerating ESG-related initiatives. Specifically, in addition to dissolving cross-shareholdings, we plan to raise the level of dialogue with companies in which we hold shares for pure investment purposes. With the introduction of performance-linked compensation for our officers and a restricted stock program for our employees, our management team and employees now share the same viewpoint as our shareholders. Added value-driven management requires the full understanding and consent of our management team and employees as well as our customers. I believe the sharing of metrics such as ROE and PBR among our entire team of management and employees, while pursuing customer-centric businesses, will boost our people's motivation to generate results. Further improvement in internal communication has substantially contributed to the betterment of external communication that calls for sincere engagement with our customers and investors. In my view, this has led to a healthy sense of mutual focus in our communications and greater attention to enhancing governance.

Ideas that are meticulously thought out from the customers' perspective encourage the evolution and growth of our customers and serve as a catalyst for the evolution and development of the local community. In the medium to long term, they will sharpen the sensitivity of our management and employees, ensure long-term profits, and contribute to the lasting presence of Hokkoku Financial Holdings.

### Toward ESG evolution

Environmental issues present serious challenges to the Earth's survival. This is a common understanding within our Group. As a leader in our region, we intend to proactively engage in various initiatives with strong

commitment. At the same time, we are encouraging members of our community to jointly take part in these initiatives.

Human capital is an integral component of all business. Therefore, we must step up our efforts to foster highly skilled professionals, as it is our duty as a leading company to develop human resources for the region at large. Governance is the driving force behind safeguarding and enhancing the quality of business management. This fiscal year, we are working once again to improve the quality of deliberations at our Board of Directors meetings. Starting this fall, we plan to implement new measures to refine our succession planning, and improve the quality of discussions at the Nomination and Compensation Committee meetings with a view to further enhancing governance. Recently, our efforts have often been associated with words like "proactive management," "challenge-driven business development," and "moves of the first penguin." Third-party comments aside, every challenge must be backed by an advanced risk management and compliance structure. For this reason, integrity is what we emphasize the most when we hire and utilize personnel. Our work entails more than just maintaining psychological safety, promoting a flat organization, working in an agile manner, and ensuring transparency. In addition to pandemics like COVID-19, we now face more risks than ever, including those associated with earthquakes, landslides, information leaks, system failures, external attacks on systems, and instability in the financial and capital markets. Accordingly, we also deploy resources to constantly improve our defense as one organization.

### In closing

Lately, the phrase "Japan's three lost decades" is often featured in various media. To break away from this stagnation, companies must take on the challenge of adopting new business models. We believe such challenges go beyond companies in metropolitan areas. In fact, as one of the leading companies in the regional economy, we consider this challenge to be our mission. Beyond that, we must accelerate communication and collaboration, and spark innovation not only within our Group but also in the region at large, as this is our true purpose. In recent years, we are seeing clear signs of progress that point to vast possibilities. I have reaffirmed my resolve to create a new future together with our customers, shareholders, management and employees, and other stakeholders.



In the following section, I would like to respond to inquiries on our seven priority areas in a Q&A format.

**Q** How have your efforts so far to understand business prospect affected your financing functions, credit costs, etc.?

**A** In our efforts to understand business prospect, we simultaneously seek to understand the business operations of our customers and improve our relationships with them. In this way, we can share a common vision on where our customers ought to be (= their issues), and work alongside them to resolve issues. These efforts are reflected in our response to customers' fundraising needs. We work Group-wide to propose optimal financing methods (loans/leasing) and offer terms that are appropriate for the use of funds. Also, we have been able to provide financing that does not rely on excessive collateral and guarantees.

For credit costs, we changed our method of recording allowance for loan losses, taking into consideration our understanding of business prospect and our relationships with the customers, in addition to the financial information and other data we have referred to from before. As a result, our books are more in line with reality.

→ P. 28 (1) Financing based on understanding of business prospect

**Q** You have laid out the formula—"increase in client count" × "increase in fees per client"—as your fundamental strategy in the consulting business. What specific initiatives do you have in mind?

**A** To date, we have mainly provided management consultation to customers with whom we had standing relationships, such as our borrowers. Moving forward, we plan to increase consultations for customers who have no transaction history with our bank, as well as those whose relationships with us are weak despite past banking transactions. To this end, we will expand customer touchpoints through promotions centered on consulting as well as seminars hosted together with chambers of commerce and other external organizations. We also plan to expand the customer base by developing our



consulting capability in urban areas and obtaining customer referrals from external partners, including other financial institutions. To increase the amount of fees received per customer, we will expand our business domains and build a framework for solving all manner of issues in order to address the multiple challenges our customers face. We will offer our wide-ranging knowledge and experience accumulated through our efforts to date, based on a fee structure that matches the value received by our customers.

→ P. 34 (2) Consulting & advisory

**Q** Competitors are also releasing various cashless services. What kind of initiatives, including a digital regional currency, does Hokkoku FHD have in store to drive the progress of cashless transactions in your region?

**A** We launched the digital regional currency project to increase uptake by offering other methods of cashless payment in addition to the Visa debit card. Our goal is to raise the cashless payment ratio in the region from nearly 40% to over 90%. We do not want to eliminate the services of our competitors. Rather, we hope to see progress in the adoption of cashless payment throughout the region by giving people options suitable for various settings.

The digital regional currency is a stablecoin, which uses the digital certificate of My Number cards, along with blockchain and other new technologies at low cost. We expect benefits such as improved public services for residents accompanying the digitalization of municipalities, and reduced fee burden for businesses. We envision this currency being used for digital salary payments and the settlement of accounts between companies. This can streamline the process of matching bank transfers with invoices, and enhance local productivity. We hope to work as one with everyone in the region, including municipal bodies and financial institutions, to promote uptake.

→ P. 46 (3) Progress in cashless and digital

**Q** Investment advisory firm ALCOLAB was integrated into your Group in June 2023 to form FDIAlco. What synergies do you expect from FDIAlco?

**A** Since its founding, the integrated ALCOLAB, Ltd. has supported business model reforms by regional financial institutions. More specifically, it has provided investment advice focusing on global asset allocation, helped strengthen the operational structure of regional financial institutions to make securities investment a core business for them, and supported the introduction and use of the risk appetite framework. The core functions and specialist talent associated with our Group's market operations will be consolidated at FDIAlco, which is the new post-merger company. By combining Hokkoku FHD's business base and ALCOLAB's expertise, we will work to further elevate the levels of our market operations and risk management.

We also intend to transcend regional and existing



business boundaries to provide full-fledged investment advisory services to individuals, general corporations, and regional financial institutions. While the integral service is investment advisory, we plan to provide a consulting service that takes advantage of the diverse capabilities of Hokkoku FHD. In such a way, we will offer various solutions to our customers' management issues. We will also develop training programs for investment advisory specialists, making every effort to foster professional talent capable of meeting customer needs.

→ P. 34 (2) Consulting & advisory

→ P. 66 (5) Further sophistication of market operations

**Q** You have announced the intent to widen the scope of investment to companies across Japan and overseas in a bid to expand the investment business. What is the significance and purpose of investing in areas outside the Hokuriku region?

**A** Hokkoku FHD has grown together with the Hokuriku region, and the region will continue to be the main destination of our investments. That said, limiting our scope to Hokuriku will not lead to further growth of our investment business. QR Investment must therefore aggressively go outside the region in pursuit of further growth. We firmly believe that if we can bring back the fruits of "outside" success to our region, we can make Hokuriku a quality region.

→ P. 60 (4) Expansion of investment business

**Q** You have plans for a variety of system development projects. How do you plan to use AI to improve productivity?

**A** Generative AI, most notably ChatGPT, is beginning to have a profound impact on the world of system development.

To improve development productivity and quality, we also began using AI to automatically generate programming codes and fix bugs in our projects to develop a corporate internet banking service and an internal web system. However, so far, we have identified benefits only in a few standardized program areas. We look forward to further evolution of AI. We also plan to utilize AI to train new engineers, by having it generate model codes and using it in technical Q&A.

→ P. 70 (6) DX and system modernization

**Q** In updates to the personnel system, you have revised the method of determining compensation and changed the retirement allowance system. You now subsidize expenses incurred on recurrent education and reskilling as well. What effects have you seen so far from such measures?

**A** The introduction of a new career-oriented personnel system has certainly raised our employees' awareness toward self-driven career development. Some 85% of our employees are engaged in some type of learning, and are working diligently to accomplish their career plans. Thanks to this, we are seeing a steady increase in the number of personnel with specialized knowledge and the ability to generate ideas in a wide range of business areas. These people will not only contribute to our Group but also move on to manage businesses in the region, playing a vital part in the "human resource ecosystem" we are aiming for.

Moving forward, the Group's business domains will grow further in both breadth and depth, and our employees will be required to have broader and more sophisticated skill sets. Accordingly, we will continue to support our employees' efforts to build their careers.

→ P. 78 (7) Initiatives for human capital-oriented management

# Sustainability Policy and Materiality

## Sustainability Policy

Hokkoku Financial Holdings seeks to realize a sustainable society together with the local community and all other stakeholders by actively working to resolve environmental, social, and governance (ESG) issues through its business activities.

## Materiality Identification Process

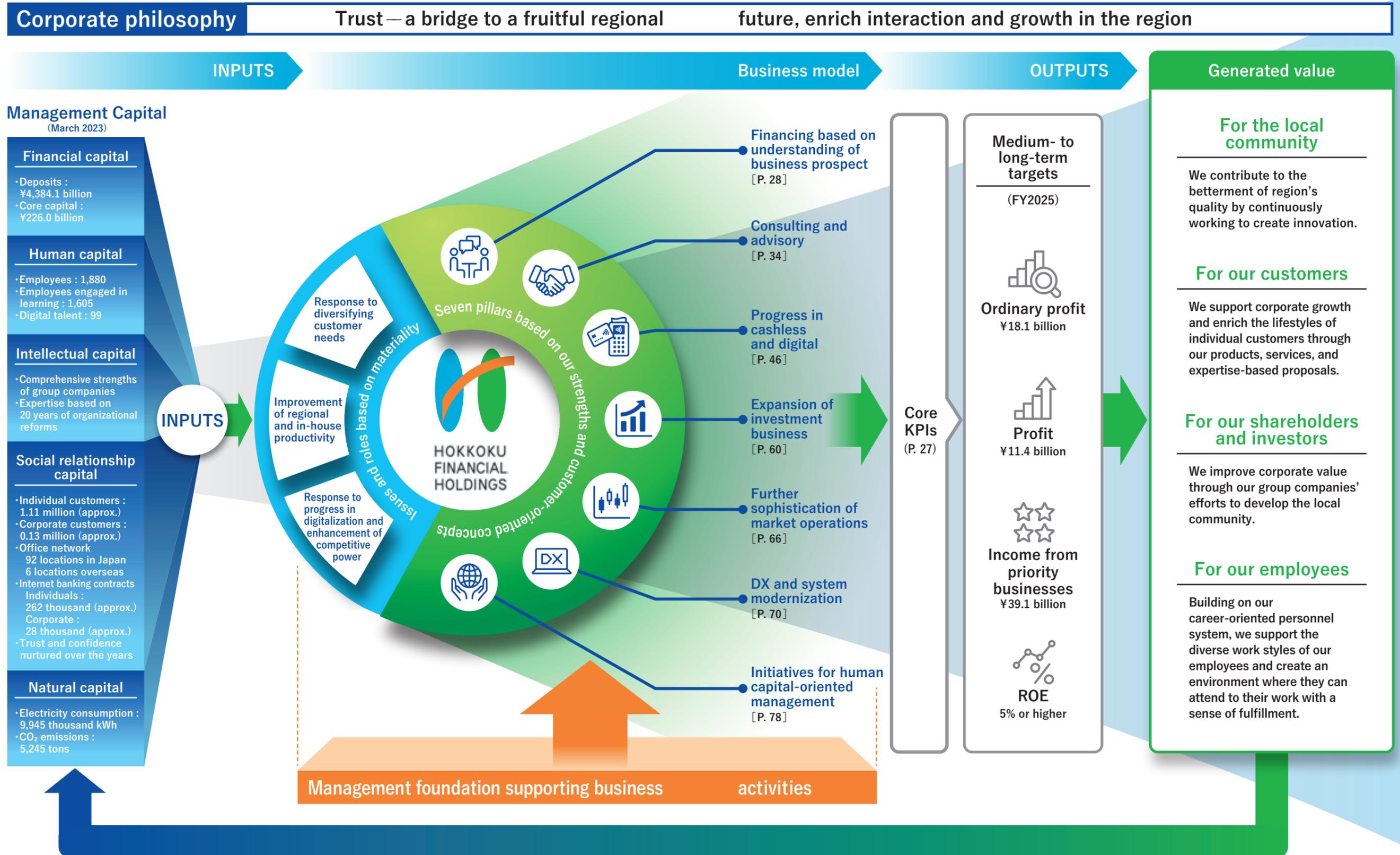


Materiality (priority issues)		Risks	Opportunities	Specific initiatives
E (environmental)	(1) Response to climate change, environmental conservation	<ul style="list-style-type: none"> <li>Credit cost increase due to worsening corporate performance resulting from delayed responses to technological innovation for a carbon-free society and behavioral changes of investees and borrowers</li> <li>Opportunity losses due to lack of solutions offered to investees and borrowers</li> <li>Erosion of stakeholders' trust due to insufficient response to climate change; deterioration of corporate brand</li> </ul>	<ul style="list-style-type: none"> <li>Cultivation of environmental awareness in the region through leadership in environmental conservation efforts</li> <li>Provision of consulting that leads to solutions for climate change and environmental conservation</li> <li>Corporate brand enhancement through the handling of climate-related information and promotion of disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Environmental conservation efforts through our core businesses</li> <li>Reduction of environmental impact through corporate activities; tree planting, thinning, and other reforestation efforts</li> <li>Addressing climate change under the framework of TCFD recommendations</li> <li>Supporting customers' migration to a carbon-free society through consulting</li> <li>Contributing to a recycling-oriented society through lease transactions</li> </ul>
	(2) Contribution to regional economic revitalization	<ul style="list-style-type: none"> <li>Declining competitiveness as a result of lagging progress in corporate culture reforms due to continued adherence to a traditional, volume-driven business model</li> <li>Credit cost increase due to the declining competitiveness and financial performance of regional companies due to their inability to improve productivity</li> <li>Stagnation of local economy from the lack of progress in asset building and effective asset use among local customers due to low financial literacy</li> <li>Declining competitiveness of our services resulting from inadequate response to progress in cashless transactions and digitalization</li> </ul>	<ul style="list-style-type: none"> <li>Contribution to region's quality enhancement efforts through business model and corporate culture transformation</li> <li>Development of consulting and advisory services aimed at sharing and resolving issues based on the understanding of customers' business prospect</li> <li>Heightening awareness regarding significance of asset building and management, effective use of assets, and inheritance/asset succession planning in light of the aging society and the "era of centenarians"</li> <li>Regulatory reforms such as making the NISA scheme permanent</li> <li>Rollout of cashless and digital strategies to circulate funds and improve productivity in the region</li> </ul>	<ul style="list-style-type: none"> <li>Supporting growth through private equity investments</li> <li>Contributing to productivity enhancement through collaboration with regional public entities</li> <li>Demonstration of consulting and advisory functions</li> <li>Supporting life-stage planning and asset building; providing financial education, including in the workplace</li> <li>Contributing to the creation of a digital and cashless society</li> <li>Maintaining stability of financing functions</li> </ul>
S (social)	(3) Development of human resources capable of supporting region's quality enhancement	<ul style="list-style-type: none"> <li>Deterioration of value offered to the region because of declining customer service quality due to inadequate training of personnel</li> <li>Exodus of personnel due to the work environment and lack of attractive HR strategy; lagging strategy execution due to shortage of human resources</li> </ul>	<ul style="list-style-type: none"> <li>Provision of highly value-added customer services through development of professional personnel and use of diverse talent</li> <li>Penetration of corporate brand through efforts to improve engagement; bolstered organizational strength</li> </ul>	<ul style="list-style-type: none"> <li>Introduction of a career-oriented personnel system suitable for autonomous career development</li> <li>Development of professional talent through recurrent education and reskilling</li> <li>Expanding fields where female employees and mid-career hires can thrive</li> <li>Further improvement of the work-life balance</li> <li>Energizing the organization by utilizing the employee engagement survey</li> <li>Developing a sense of ownership through introduction of a stock granting plan for all employees</li> <li>Expressing our respect for human rights to all stakeholders (establish Declaration of Human Rights)</li> </ul>
	(4) Improvement of management transparency through dialogues with shareholders and investors	<ul style="list-style-type: none"> <li>Deterioration of management transparency due to inadequate efforts to understand shareholder and investor needs and lack of active information disclosure</li> <li>Decline in internal productivity due to lack of digitalization efforts</li> <li>Loss of public trust owing to inadequate corporate governance and system risk management, and lack of security measures</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of shareholder and investor needs through in-depth dialogue leveraging IR activities that emphasize face-to-face meetings; reflection of such understanding in our management strategies and information disclosure</li> <li>Reinforcement of our ability to execute strategies through group-wide reforms starting with digital transformation (DX) and system strategy</li> </ul>	<ul style="list-style-type: none"> <li>Visualization of internal information and deliberation processes through corporate transformation using DX</li> <li>Promote operational efficiency</li> <li>Corporate governance structure</li> <li>Risk management system and compliance</li> <li>Capital strategy</li> </ul>
G (governance)				

# Value Creation Process

To fulfill our corporate philosophy, we will provide new value to the region and help create a sustainable society through our value creation process, making full use of various capital, including the trust we have earned from the community over the years and the comprehensive strengths of individual group companies.

through our value creation process, making full use of various capital, including the trust we have earned from the community over the years and the comprehensive strengths of individual group companies.



02

Strategy



# Medium- to Long-Term Business Strategy

## Message from the General Manager of General Planning Department



### Toward enhancement of corporate value

**Tomohiko Kikuzawa**  
Managing Executive Officer,  
General Manager  
of General Planning Department

In May 2023, we unveiled our updated medium-to long-term business strategy, in which we expanded our priority businesses from three areas to seven. The new areas are those we have worked on internally for some time. We decided to add them as new business pillars since we now have a much clearer image of their respective road maps, thanks to our work thus far. By stepping up our efforts in these seven areas with greater momentum, we aim to achieve consolidated profit of ¥18.4 billion in five years (in FY2027, ending March 31, 2028) and ¥26.9 billion in 10 years (in FY2032).

Alongside our business strategies, since last year, we have worked on several initiatives to improve our corporate value. We disclosed a plan for large-scale share repurchases, indicated ROE targets, and introduced performance-linked compensation (based on ROE) for our management and employees. We also set forth a policy to eliminate strategic shareholdings, aiming to sell 50% of such holdings by March 2025. In May 2023, we expressed our intent to achieve a PBR of 1x or above as well. We will continue accelerating our efforts to enhance corporate value by maintaining the hybrid approach of customer-centric business development and a shareholder-oriented capital strategy.

We first announced a plan to raise the total return ratio from 40% or above to 50% or above, assuming a target capital adequacy ratio of around 10%, and to raise cash dividends from ¥100 to ¥110 per share. In May, as in last year, we started a share buyback program for repurchases up to ¥9.0 billion. In terms of ROE-linked compensation, we completed our first share deliveries to our employees (in the amount of ¥340 million) in March and to our officers (¥97 million) in July.

Our target capital adequacy ratio up to the previous plan was 8%. However, in the latest update, we raised this to 10%, considering bond price fluctuations from recent changes in interest rate trends. As of the end of

March 2023, the overall valuation difference on our securities holdings was a net gain, but we posted unrealized losses on our bond holdings due to higher interest rates. We will certainly review the interest rate trends and reassess our portfolio. That said, given the interest rate environment, we decided to set our target capital adequacy ratio at 10% or above before considering unrealized losses on securities, and 8% or above after factoring in such losses. We believe this is a level that ensures sound financial health, and will use it as a guide in our daily efforts to explore new business areas and make effective use of capital.

Particularly in the investment business, we plan to expand our total investment balance to about ¥100.0 billion in 10 years. Also, with the finalization of Basel III, we see the need for additional capital allocation to the securities department as we approach 2025.

Meanwhile, should there be no new investments aside from those currently anticipated, we will likely allocate the capital accumulated over time to share repurchases and dividends. Therefore, we will consider share buybacks on an ongoing basis, bearing PBR and our capital adequacy ratio in mind.

Our assumption on cost of capital is 7%. We will seek to achieve an ROE of 7% or higher in five years (in FY2027 ending March 31, 2028) and 8% or higher in 10 years (in FY2032) based on the business and capital strategies updated at this time. In such a way, we hope to meet the expectations of our customers, the local community, and our shareholders.

To accomplish this, all companies of the Hokkoku FHD Group must gather their wisdom, think collectively, and create new value through communication and collaboration with our diverse partners. I firmly believe that consistently taking actions that are in line with our corporate slogan “Quality Company, Good Company. Together into the future” can lead to the achievement of our corporate philosophy, “trust—a bridge to a fruitful regional future.”

## Medium- to long-term business strategy 2023

### Medium- to long-term business strategy—updated plan

Since 2021, we have updated our plan each fiscal year to reflect our latest target performance levels and strategies for the medium to long term. In the period from April 2023 to March 2026, we will focus on establishing our new business model.

#### Measures to enhance corporate value

1. Improvement of capital efficiency	<ul style="list-style-type: none"> <li>● Raise the total return ratio to 50% or higher, in our basic policy on shareholder returns</li> <li>● Continue share repurchases (¥9.0 billion in FY2023)</li> <li>● Maintain capital adequacy ratio at around 10%, and direct term profit and capital surplus to new business investments and shareholder returns</li> </ul>
2. Expansion of priority business areas (From three pillars to seven)	<ul style="list-style-type: none"> <li>● Add digital regional currency, investment advisory, investment funds, and market operations to the previous three priority business areas (card, loans and leasing, and consulting), and increase income to ¥49.8 billion in five years (up approx. ¥11.0bn from FY2022 that ended March 31, 2023)</li> </ul>

### Key points of the updated plan

#### Improvement of capital efficiency

We will use surplus capital to strengthen shareholder returns and investment into new businesses while maintaining a capital adequacy ratio of around 10%.

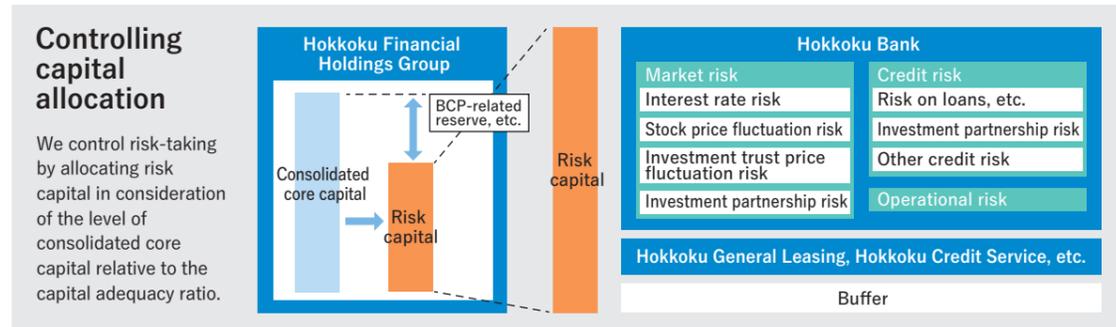
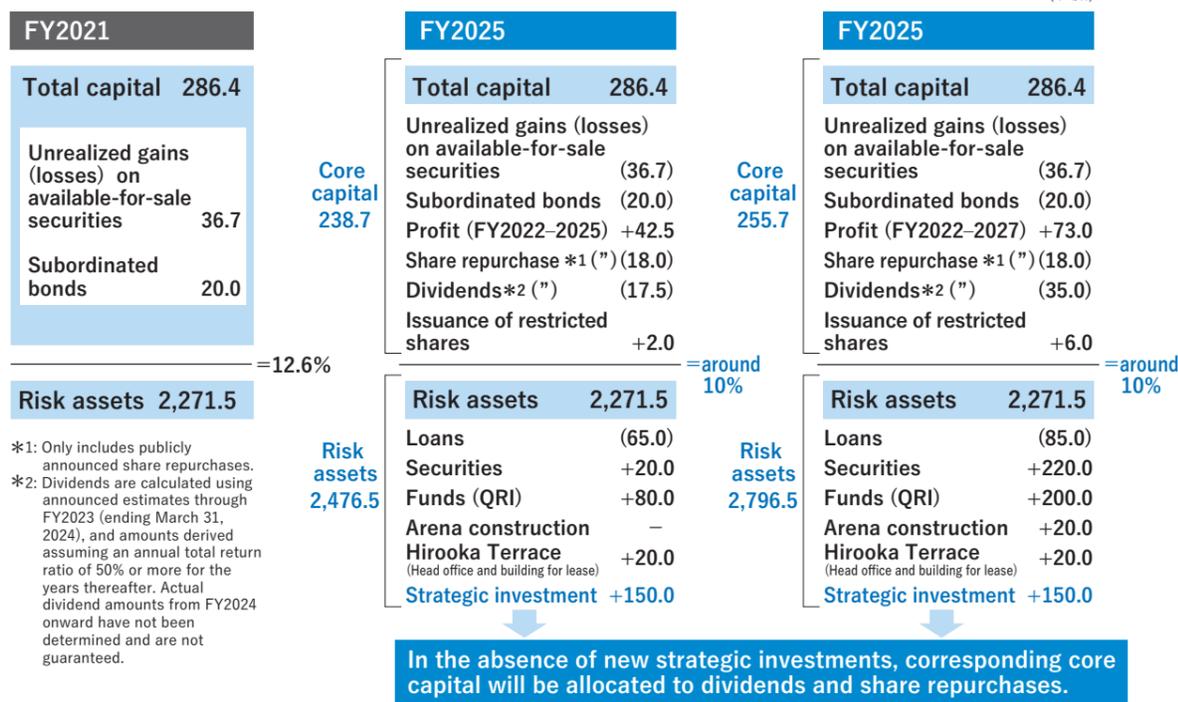
Our aim is to raise ROE to over 7% in the fifth year and achieve 8% at an early stage.

#### Expansion of priority business areas

① Integrated operation of lending and leasing	<ul style="list-style-type: none"> <li>● Improve speed and raise efficiency through financing based on understanding of business prospect and digitalization via internet banking</li> </ul>
② Consulting and advisory	<ul style="list-style-type: none"> <li>● Develop segment-specific approach that transcends coverage of municipalities and the Hokuriku region</li> <li>● Strengthen investment advisory, providing asset management solutions to individuals, general corporations, and financial institutions</li> </ul>
③ Progress in cashless	<ul style="list-style-type: none"> <li>● Raise the cashless payment ratio by promoting the usage of cards and a digital regional currency</li> </ul>
④ Expansion of investment business	<ul style="list-style-type: none"> <li>● Substantially expand investment size, regions, and target industries</li> </ul>
⑤ Further sophistication of market operations	<ul style="list-style-type: none"> <li>● Manage risks, aiming for expected return of around 2%, and improve profitability</li> </ul>
⑥ Digital transformation (DX) and system modernization	<ul style="list-style-type: none"> <li>● Improve quality and reduce costs by developing the next-generation banking system and advancing in-house development strategies</li> </ul>
⑦ Strengthening ESG initiatives	<ul style="list-style-type: none"> <li>● Invest more resources in human capital</li> <li>● Strengthen governance and environmental initiatives</li> </ul>

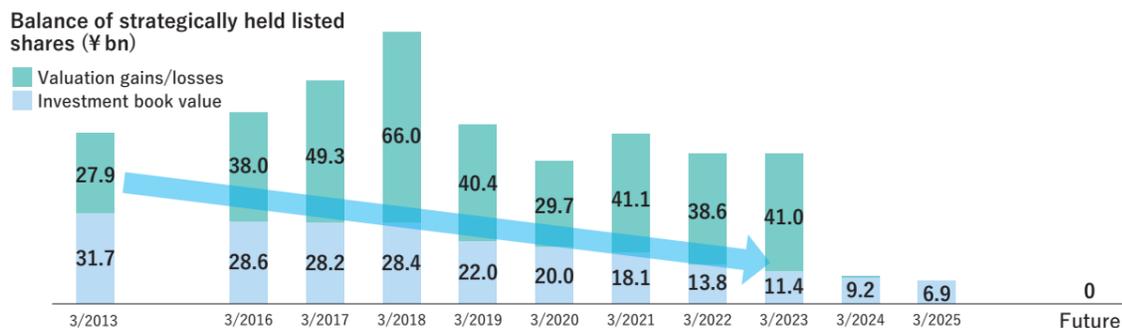
## Capital utilization

■ We will direct surplus capital to new strategic investments while maintaining a capital adequacy ratio of around 10%.



## Reduction of strategic shareholdings

■ Since 2009, we have sold cross-held shares (in financial institutions, insurance companies, etc.) on an ongoing basis.  
 ■ Based on our plan to halve the investment book value by the end of March 2025 (versus March 2022), we reduced our holdings by ¥2.4 billion in one year (progress rate of 35%).



## Target performance levels for the medium to long term \*As announced on May 8, 2023

Medium- to long-term levels we envision based on our future environmental outlook and initiative policies.

(¥ bn)

Item	FY2022 Actual	FY2023 (In 1 year)	FY2025 (In 3 years)	FY2027 (In 5 years)	FY2032 (In 10 years)
Ordinary profit (consolidated)	16.0	16.7	18.1	28.3	40.4
Profit (consolidated)	8.7	11.0	11.4	18.4	26.9
Income from priority businesses (consolidated)	38.8	35.1	39.1	49.8	60.0
ROE (consolidated)*	3.9%	5.0%	5% or higher	7% or higher	8% or higher
[Reference: Based on shareholders' equity] ROE (consolidated)	4.0%	5.1%	5% or higher	7% or higher	8% or higher

\* Calculated as ratio of profit attributable to owners of parent to Basel III core capital applicable to domestically active banks

## Target performance levels for the medium to long term (detailed breakdown, consolidated) \*As announced on May 8, 2023

(¥ bn)

Item	FY2022 Actual	FY2023 (In 1 year)	FY2025 (In 3 years)	FY2027 (In 5 years)	FY2032 (In 10 years)
Priority businesses	38.8	35.1	39.1	49.8	60.0
Business loans and leasing	14.8	14.8	16.0	16.2	16.7
Cashless	1.4	1.7	2.6	4.0	8.9
Consulting and advisory	1.0	2.0	3.1	4.0	6.2
Investment advisory	0.1	0.2	0.5	0.8	1.1
Investment funds	0.2	0.4	0.7	8.5	10.1
Market operations	21.2	16.1	16.1	16.3	16.9
Other income (consumer loans, etc.)	14.5	17.0	17.4	19.1	20.2
Credit costs	6.2	3.0	3.0	3.0	3.0
Expenses	31.0	32.4	35.4	37.6	36.8
Of which, system costs*	6.8	6.9	6.2	6.2	4.8
Ordinary profit	16.0	16.7	18.1	28.3	40.4

\* Total of software development costs (depreciation) and running costs (administrative outsourcing expenses, etc.)

## Shareholder return policy and ROE and PBR targets

- We target a total return ratio of 50% or above.
- We will achieve an ROE of 8%, above our cost of capital of 7%, and aim for a PBR of 1.0x.

Item	FY2022 Actual	FY2023 (In 1 year)	FY2025 (In 3 years)	FY2027 (In 5 years)	FY2032 (In 10 years)
Total return ratio	122%	115%	<b>Total return ratio of 50% or higher</b> We will regularly review and conduct share repurchases and dividend hikes, while considering the capital adequacy ratio and strategic investment opportunities.		
Total dividends	¥2.6 billion	¥2.7 billion			
Share repurchases	¥8.1 billion	¥9.9 billion			
Cost of capital	7.0%				
ROE	3.9%	5.0%	5.0% or higher	7% or higher	8% or higher
Core capital	¥226.0 billion	¥223.8 billion	¥238.7 billion	¥255.7 billion	¥300.0 billion
Risk assets	¥2,240.2 billion	¥2,205.0 billion	¥2,476.5 billion	¥2,796.5 billion	¥3,000.0 billion
Capital adequacy ratio	10.1%	10.1%	Around 10%		
PBR	0.5	0.6x or above	0.7x or above	1.0x or above	1.0x or above

### ● Capital cost assumed at 7%

- Calculated based on capital asset pricing model (CAPM)
- Market risk premium of 7.5%

### ● ROE calculation formula

- $ROE = \text{profit attributable to owners of parent} \div \text{core capital}$  (Basel III domestic standard)

## Performance-linked compensation

- All employees are granted shares in line with our ROE determined as per our ROE calculation standard.

### Total performance-linked compensation granted to officers and employees (assuming monthly salary amounts and personnel structure in 2023)

ROE level		1% or higher, but lower than 2%	2% or higher, but lower than 3%	3% or higher, but lower than 4%	4% or higher, but lower than 5%	5% or higher, but lower than 6%	6% or higher, but lower than 7%	7% or higher, but lower than 8%	8% or higher
Officers (*)	Monetary	80	150	230	300	380	450	450	450
	Restricted stock	10	80	160	230	310	410	590	770
Employee restricted stock		—	170	350	350	700	1,500	2,200	3,000

\* Includes the directors and executive officers of Hokkoku FHD and all Group companies

## Main KPIs

In the process of formulating the medium- to long-term business strategy, our business departments defined their individual visions for connecting with customers and the local community. We have adopted specific actions to accomplish such visions, and the numbers of transactions generated through the realization of such visions, among other indicators, as our KPIs. We review these KPIs as necessary, referring back to monthly performances and deliberating on issues and actions that require improvement.



Medium- to long-term business strategy items	KPIs	FY2021 Actual	FY2022 Targets	FY2022 Actual	FY2023 Targets	FY2025 Targets
Financing based on understanding of business prospect	Number of core clients	791	1,463	1,215	1,470	1,950
	Yield (during the FY)(%)	1.139	1.157	1.152	1.196	1.325
	Number of lease customers	3,916	4,200	3,875	4,000	4,200
Consulting and advisory	Number of contracts (CC Innovation)	331	460	438	650	800
	Number of investment trusts, Omakase Navi, and 401k accounts	44,545	48,000	43,435	46,350	52,350
	Number of contracts for testamentary trust, estate settlement, and investment advisory	95	180	106	123	247
Progress in cashless and digital	Number of Visa debit card members ('000)	239	315	278	320	400
	Visa debit card usage ratio (%)	41.7	48.0	39.3	40.0	40.0
	Number of card affiliated merchants (stores)	6,872	7,900	6,628	7,000	7,400
Expansion of investment business	Number of investments made by funds (managed by QR Investment)	5	17	23	23	15
	Amount of investments made by funds (managed by QR Investment)(¥ bn)	0.2	0.8	10.5	7.3	19.0
Environmental and human capital-oriented management	CO <sub>2</sub> emissions by the Group (tons)	5,569	—	5,245	—	(Effectively zero in FY2030)
	Women in management positions (%)	17.6	—	20.3	—	(50% in FY2030)
	Total costs on human resource development (annual)(¥ mn)	66	—	73	—	100

# 1

## Financing Based on an Understanding of Business Prospects

True resolution of issues that begins from understanding the customers.

**Haruhiko Kometani**

Managing Executive Officer,  
General Manager of Corporate Banking Department  
The Hokkoku Bank, Ltd.



### Resolution of issues based on an understanding of business prospects —Financing as one means of resolving issues—

The first step in corporate sales at Hokkoku Bank is to develop a deep understanding of customer businesses. In our Group, we call this the “understanding of business prospect” (generally known as “business prospect assessment”), and we continuously devote our efforts into this task, positioning it as the starting point of all activities.

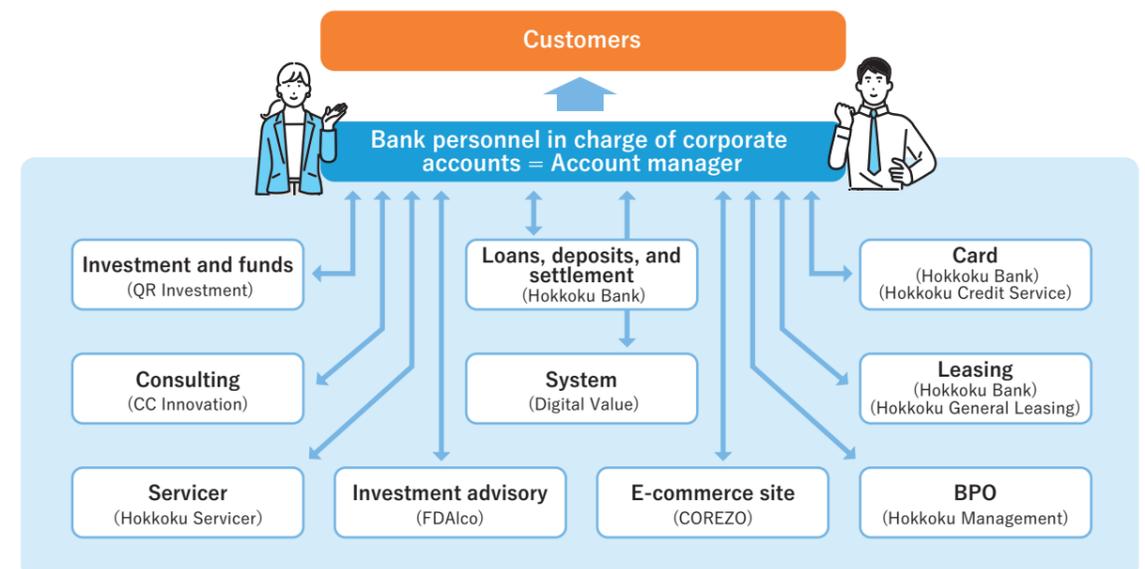
Why do we put so much effort into understanding business prospect? The answer is because it is impossible to uncover the true issues and needs of our customers without an understanding of their business conditions, as well as their organizational structure and other traits. Conducting sales without this understanding

is nothing more than mere “push style sales.” We believe that true sales can only be achieved through the proper understanding of customer businesses and organizational structure, and to this end, we work continuously to share a common notion with our customers regarding their issues and needs.

For this, we engage in daily activities to improve our relationships with customers. In fact, these activities are at the very root of our corporate sales.

As we engage in dialogues with our customers to “understand business prospects,” we gain information on their business models, supply chains, and business plans. Based on this information, we discuss their ideals for the future. If their issues involve financing, we help them find a solution by proposing a loan or a lease arrangement as a one-stop shop.

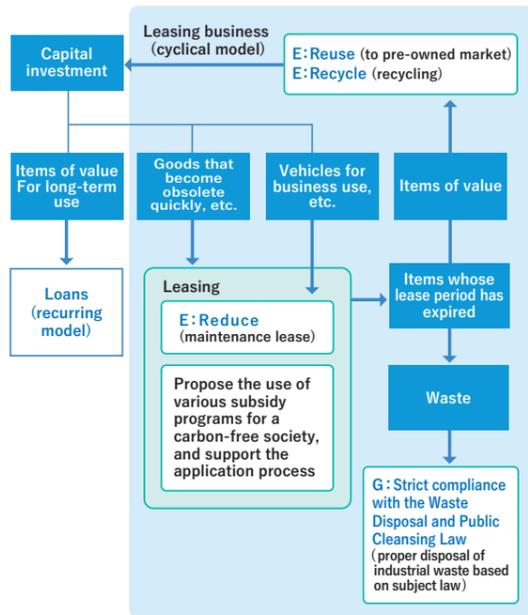
Generally speaking, many customers go to a bank for





loans and a leasing company for leases. In our Group, however, corporate account managers at Hokkoku Bank serve as the central contact point through which both loan and leasing proposals are made and all steps from application to contract-related paperwork can be handled. Recently, we have seen more cases of customers taking up leases due to concerns for the environment and risks associated with owning equipment. In this sense, leasing is gaining stronger presence as a viable means of financing. To address the uptick in leasing needs, we have stepped up internal collaborations by stationing employees of group company Hokkoku General Leasing at our sales branches and having them visit customers together with the account managers. In these ways, we hope to respond to our customers with greater speed and convenience.

**Schematic illustration of the 3Rs (reduce, reuse, recycle) initiatives through the leasing business**

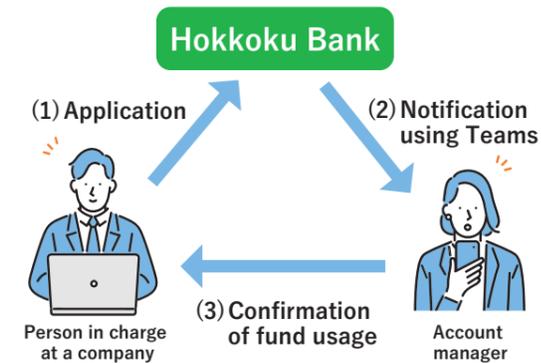


We consider financing as one means of resolving issues, and provide loans and leases to meet the funding needs of those customers experiencing capital-related problems. We never engage in sales activities that are not aligned with customers' needs, such as asking for business as a favor and conducting mere push style sales.

**Initiatives to improve productivity**  
—Achieving speed and efficiency by going digital—

To enhance convenience for our customers, we decided to incorporate Microsoft Teams into our overdraft service for daily cash management, launching a system that enables paperless application online.

To date, customers seeking to use the overdraft service had to fill out an application form, affix their seals, and hand-deliver the form to a bank counter or pass it on to a bank representative in charge.

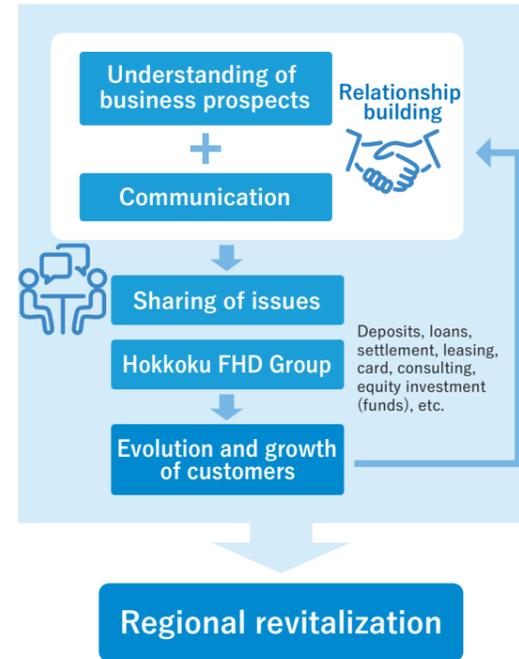


The launch of this system eliminated the physical paperwork for both customers and the Bank and minimized the burden of clerical tasks. In the spring of 2024, we will begin operation of our new corporate internet banking system to which we plan to introduce an overdraft function by around the summer. Customers will be able to manage the process from borrowing to repayment using our internet banking service, and we hope that this will further improve convenience and productivity.



**The understanding of business prospect and communication**

Communication between our team and our customers is indispensable to the effective sharing and resolution of customer issues based on the understanding of business prospect. We believe communication, or deepening our dialogue with customers, fosters relationships and leads to the true sharing and resolution of issues, which in turn contributes to the development and growth of our customers. By building up such cases, we hope to support the revitalization of our region as well. How does Hokkoku Bank's "understanding of business prospects" work specifically? As the first step, the account manager, including branch managers at our sales branches,



takes the lead in gathering customer information. These, for instance, include information on the business model, supply chain, business plan, management team, products and services, organization, and ESG and SDG initiatives.

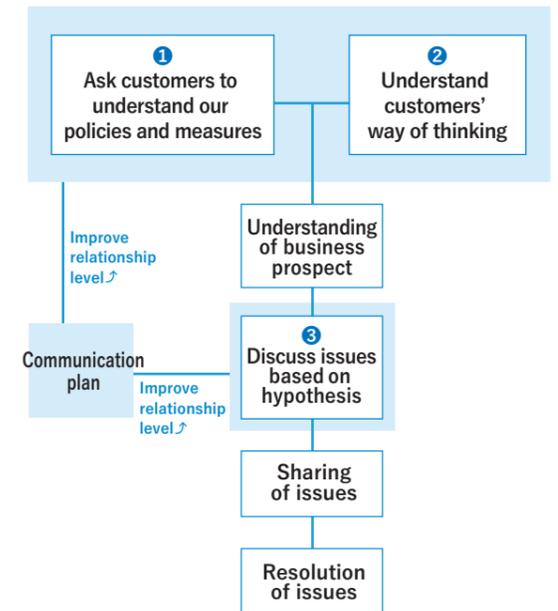
Based on the gathered information, we conduct thorough internal discussions, and sound the customer out on any new perspectives and queries, deepening our dialogue along the way. By repeating this cycle, we hope to accelerate mutual understanding and sharing.

This leads us to the next step, which is to internally discuss our vision on how the customer ideally ought to be, identify the gaps between the vision and the reality, including hypotheses, and draft corresponding measures. Then, through dialogue with the customer, we share our insights and build a framework to work together in resolving the issues. The process allows us to hone our "understanding of business prospects."

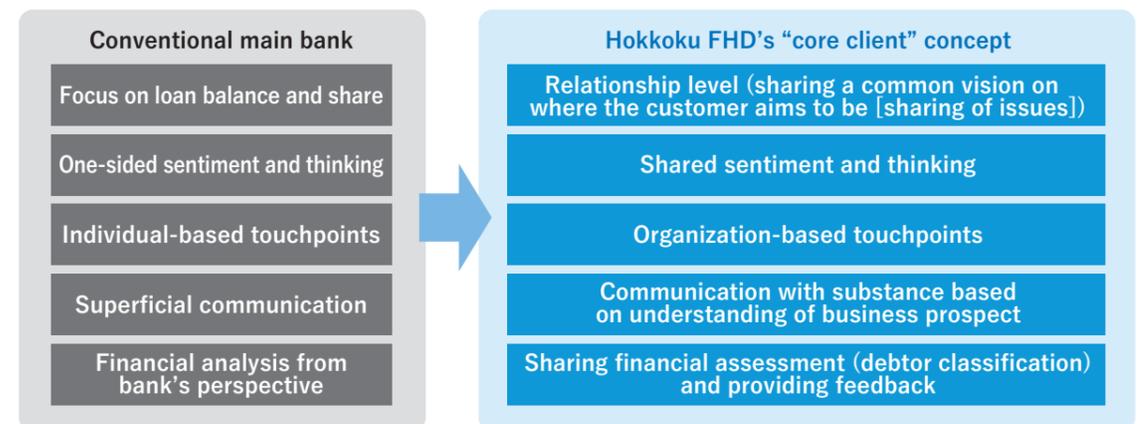
In terms of communication, which is another important factor, we develop a communication plan depending on the actual level of relationship with the customer, and

work to improve the relationship.

As the first step, we seek to improve the relationship level by asking the customer to understand our policies and measures, while also working to understand the customer's way of thinking. Then, based on the relationship developed, we deepen our understanding of customer's business prospect, and engage in a hypothesis-based discussion with the customer, which involves the discussion of customer's management issues as perceived by us. We believe that this allows us to help



enhance the customer's corporate value and improve our relationship level at the same time. We introduced a new "core client" concept (see diagram below), redefining the traditional concept of "main bank," to highlight our intent to prioritize relationship levels with our customers, delving into the existing gap with reality through hypothesis-based discussions, among other means. We believe the amount and quality of communication, along with the counterparty (who communicates with whom) will be key in increasing the "core clients" whom we value.

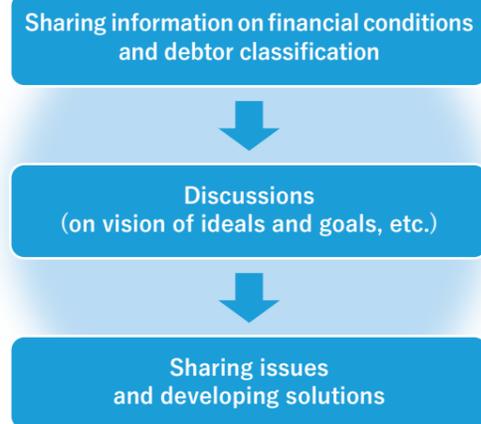


## Sharing of financials

In addition to our initiatives to understand customers' business prospect, we also began what we call the "sharing of financials" from 2022. This involves the sharing of information on financial conditions and debtor classification (see note below) with our customers, based on which discussions on ideals and goals are conducted.

We have been sharing information on financial conditions from before, but rarely did we consider explaining to our customers their debtor classification. This caused a disconnect in perception between us and the customers with regard to the situation at hand, hindering our discussions on the future in some cases. This conversation could be at times uncomfortable for some customers, but unless both parties share an accurate understanding of the state at hand, any in-depth analysis and implementation of measures are meaningless. At Hokkoku FHD, we believe true relationship-building is only attainable through an open and honest dialogue between both parties.

**Debtor classification** : Customer classification into the categories of "normal," "requiring attention," "at risk of bankruptcy," etc. following assessment of their repayment ability based on financial conditions, cash flow, profitability, and other factors



## Actions toward appropriate credit risks

We believe that devoting our efforts to the understanding of business prospect, communication, and sharing of financials can also substantially contribute to the reduction of our credit risks.

To date, we have moved ahead of other banks in promoting loans that do not rely heavily on collaterals and guarantees, and our dependence on personal guarantees by business owners has been among the lowest nationwide. In November 2022, we discontinued business owners' personal guarantee obligations for direct loans newly extended to corporate customers. We are working toward lending that is not reliant on collaterals and guarantees.

### Status of initiatives on business owners' personal guarantee guideline (October 2022 to end-March 2023)

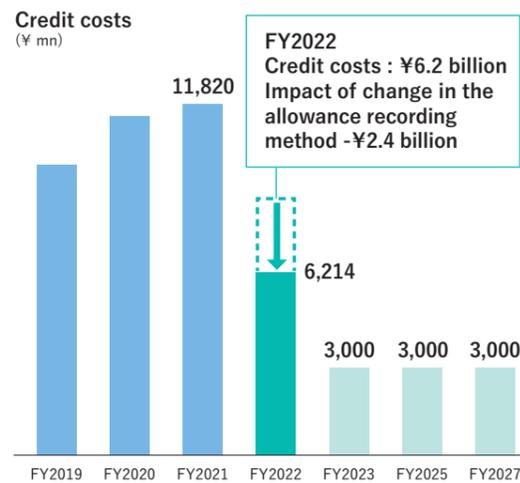
Item	Number of transactions
New loan transactions	6,708
New loans provided without a guarantee (ratio)	5,823 (86.81%)

● Status details on initiatives regarding business owners' personal guarantee guidelines are available on our website (Japanese only)



(<https://www.hokkokuibank.co.jp/company/fsm/>).

For customers requiring our early involvement due to their weak business performance, we have established a structure that allows us to share their true issues based on a deeper understanding of business prospect, and to work side by side toward resolution of such issues. Specifically, we increased the number of general managers in corporate banking from three to five so that both branch managers and these general managers can visit customers on a regular basis. The Corporate Banking Department is working as one to build relationships, share issues, and deepen dialogue with our customers. Through these efforts, we hope to reduce our credit costs to about ¥3.0 billion.

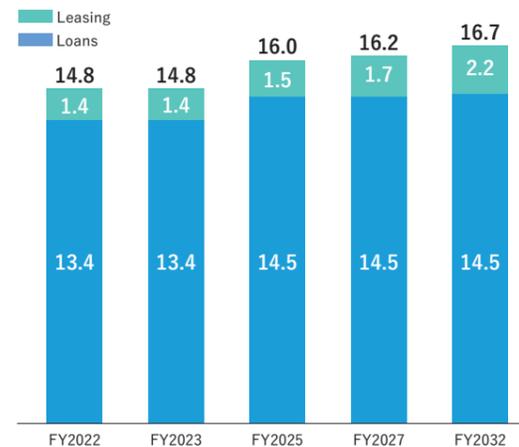


## Earnings plan

We formulated an income plan for our loans and leasing businesses at the time we updated the medium- to long-term business strategy.

The business model of expanding loan market share, common in past eras when funding demand was robust, will no longer be sustainable. Accordingly, we will continuously work toward improving customers' convenience by, for instance, using the power of digital technology, with the hope of becoming a company of choice for our customers. We also believe that steadily expanding the number of "core clients" will lead to income growth, and for this, we will step up activities focused on dialogue, both in quality and quantity, more than ever before.

### Income plan (¥ bn)



Eight years have passed since we did away with sales quotas. Nonetheless, we have been able to secure stable income because we devoted our efforts to the resolution of issues based on a customer-centric approach. We believe that continuing and deepening these efforts that start with the understanding of business prospect is the only way to our progress.

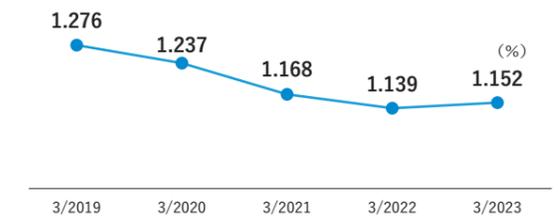
We switched our focus from volume to profitability (volume to quality), and duly shifted to loans primarily targeting small and medium-sized enterprises (SMEs) in the three prefectures of the Hokuriku region. Low-spread lending, mostly in urban areas, has decreased as did our loans outstanding as we became more conscious of profitability. However, the lending ratio to SMEs has been on the rise every year, reaching 77.5% as of the end of March 2023. We have been able to sufficiently meet the funding needs of the region, even during the spread of COVID-19.

Also, the loan yield has bottomed out and turned upward as a result of our cost-conscious efforts.

### Average interest rate of newly executed loans (by type) (%)

	FY2019	FY2020	FY2021	FY2022
Business loans	1.127	0.899	0.894	1.174

### Yield on business loans



## Moving forward

To address the increasingly complex issues and specialized needs of our customers, in March 2023, we introduced industry-based sales in select regions, on a trial basis. We aim to provide added value collectively as a Group and with a sense of speed, by generating synergies through collaboration with CC Innovation—our Group's consulting arm.

Additional time generated from productivity improvements should be devoted to dialogue with our customers. This has been our belief, which has been put to practice from before. Moving forward, we will continue to create time for dialogue by pursuing productivity, and will work together with our customers to resolve more issues. We hope to improve the corporate value of our customers and ourselves more than ever, and thereby contribute to the development of local community.



# 2

## Consulting and Advisory



We will contribute to the innovation of our customers, the local community, and society by deepening collaboration and customer communication.



**Takayasu Tada**

President and Representative Director  
The CC Innovation, Ltd.

### Consulting for corporate customers

#### Introduction

Hokkoku Bank has historically supported customers' business growth by meeting their funding needs through loans, among other services.

However, amid low growth and unpredictability of the Japanese economy, companies are now finding it difficult to even maintain their existing business models, and dramatic changes are under way in the environment surrounding companies and local economies. In line with this trend, customer needs have transcended the traditional demand for funding, becoming more diverse. For instance, a company may need to enhance its operational efficiency and use ICT to raise productivity, or pursue

overseas development and M&A to expand its business. It may want to build a new personnel system and develop human resources to bolster organizational strength. In such ways, the types of support our customers seek from financial institutions have changed substantially.

Against this backdrop, in 2015, Hokkoku Bank launched a consulting business to resolve customers' issues, leveraging the expertise it gained through years of internal reforms. In April 2017, the Bank established the Consulting Department with a mission to develop the local community through the resolution of customer issues. It widened the scope of consulting work and increased staffing of specialists. With the expansion of the scope of operations, a system that made it possible to address all manner of customer issues was put in place.

In 2020, Hokkoku Bank began offering consulting services at each of the sales branches. By increasing



#### Resolving issues through collaboration with external partners

- 2010**  
Began efforts to resolve issues by referring customers to external partners
- 2013**  
Launched a proprietary advisory business in the M&A field

#### Resolving issues through tailor-made services leveraging our knowledge

- 2015**  
Began providing paid consulting services in the areas of business succession, ICT use, and human resources
- 2016**  
Expanded coverage to include consultation on overseas business
- 2017**  
Established a department dedicated to consulting, and expanded operations. Expanded coverage to include consultation for improving business management
- 2020**  
Staff in charge at the sales bases began providing consulting services

#### Expanding our network across Japan and overseas using our accumulated expertise

- 2021**  
Established CC Innovation and began approaching new customer base  
Established local subsidiaries in Thailand and Vietnam
- 2022**  
Established a local subsidiary in Singapore, expanding our reach to the entire Southeast Asia region  
Began consulting services for financial institutions
- 2023**  
Established a local subsidiary in Shenzhen, China

touchpoints with more customers, it laid the groundwork for a system enabling consultation with all types of customers. While the scope of operations as the corporate consulting arm of Hokkoku Bank expanded steadily, there were also rising sentiments among the staff. We wanted to respond to rapidly changing customer needs with promptness and accuracy. We also wanted to expand our sales areas beyond the three Hokuriku prefectures and be of service to more customers. Accordingly, in pursuit of further growth, we established The CC Innovation, Ltd. as a consulting company of Hokkoku Financial Holdings in June 2021.

Currently, corporate account managers at Hokkoku Bank serve as the contact point representing Hokkoku FHD. These managers carefully identify the obvious and latent needs of the customers, and gain a shared understanding of their management issues. Since these managers can offer solutions on behalf of CC Innovation and other group companies, this framework allows us, as Hokkoku FHD Group, to work alongside our customers and support them from a medium- to long-term perspective.

### Vision and traits of CC Innovation

CC Innovation's consulting work is still based on the expertise Hokkoku Bank has gained through its long history of internal reforms and the trial and error experienced in the process. In addition, we consistently incorporate the latest knowledge by actively training our consultants, and seek to provide hands-on support that prioritizes dialogue with our customers.

#### Vision

1. We consistently incorporate the latest knowledge to help our customers resolve all manner of issues.
2. We support the growth of all types of customers, from small businesses to major corporations.
3. We support the accomplishment of customer vision by working side by side.

#### Traits

##### ● Supporting all types of customers

To support customers of all business sizes, from startups to large corporations, we provide consulting services with a team of about 100 people. In the future, we look to increase this number to 200.

We believe that individual customer's growth drives the development of local communities and the society at large, so we do not limit the scope of our customers by business size or their locations. We have also extended our reach abroad where we have multiple bases, and can provide seamless support in Japan and overseas.

We are able to approach all types of customers because some 300 corporate account managers at the Hokkoku

Bank's sales bases communicate deeply with the customers based on the understanding of business prospect.

Without ongoing discussions, we cannot share an understanding of customers' issues. This is true certainly for issues already in customers' minds (obvious issues), but more so for issues concerning future growth or for essential issues the customers are not yet even aware of (latent issues).

By having the Bank's account managers and CC Innovation's consultants jointly engage in dialogue with the customers, we can provide consulting that focuses on the most effective initiatives toward corporate growth and improved management. We believe this will ultimately enhance our effectiveness, raise customer satisfaction, and lead to repeat consulting assignments.



##### ● Helping resolve all manner of issues

Customers face a wide range of issues and they often carry multiple issues simultaneously. For this reason, CC Innovation offers an extensive consulting service menu and is ready to provide comprehensive support to help its customers resolve their issues.

Relying on standardized consulting alone does not always lead to effective resolution of issues even with the introduction of systems and tools. This is because some customers are reluctant to change their long-standing workflows and work methods. For this reason, we do not offer a standardized and packaged menu. Instead, we provide fully tailor-made or semi-custom consulting services catering to customers' internal policies, organizational culture, and employee skill levels, which vary from company to company.

We provide support underpinned by thorough dialogue and communication so that our consulting services can be of value to our customers.

##### ● Working alongside our customers to provide long-term support

Rather than merely offering our knowledge, we provide thorough and long-term support until our customers experience the benefits of our consulting work through the changes and growth seen at their companies. Just making proposals in response to inquiries is not enough. For us, it is most important to assist our customers responsibly through the execution phase.

We discuss and share with our customers their vision (goals for their companies) for the short term as well as

five to 10 years into the future, as this process clarifies what needs to be done and in what order. We believe that this is the first step toward the realization of customer vision.

##### Scope of support

Business strategy	Business succession planning, restructuring
ICT	BPR, introduction of groupware, system renewal
Human resources	Development of personnel system, training
Management strategy	Formulation of business plan, plan execution
Overseas business	Establishment of local subsidiary, cultivation of overseas sales channels
Other	Support on subsidy application, etc.
M&A advisory	Intermediation, sell-side and buy-side financial advisory

##### ● Providing paid services to clarify where the responsibility lies

We have consistently charged fees to our customers since the time we provided consulting services through Hokkoku Bank. When we first started the business, we received comments such as "bank employees are not fit to provide consulting work" and "why is there a fee when the service is being provided by a bank?" However, we had a theory that as long as we engaged in each consultation with sincerity, maintained high quality, and continued to provide value to our customers, we would eventually gain people's understanding.

For fees, we combine various fee systems to recommend terms that best suit the customer. These include, for instance, fee calculation based on the formula "hourly rate × number of hours," a success fee-based arrangement, a subscription fee-based arrangement, and a value-based system.

We believe our customers came to accept using paid consulting services because we offered flexible and multiple fee options.

In fact, from our signed customers, we have received comments like "paid services are better since they clarify where the responsibility lies and create a healthy sense of focus." We overcame various hurdles in providing paid consulting services as a bank. CC Innovation inherited this foundation and is now working closely with its customers as a specialist consulting company.

##### ● Realizing vision based on the understanding of business prospect

In working alongside our customers, we place the utmost importance on dialogue. The relationship of trust built between Hokkoku Bank and its customers is based on many years of communication. We engage in

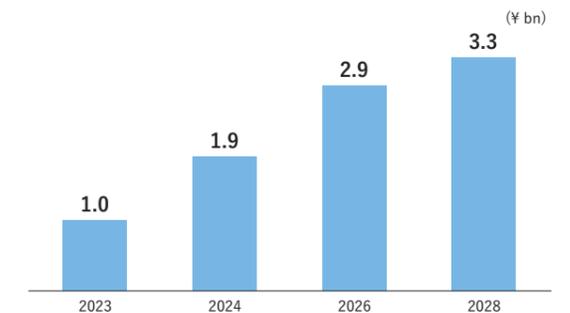
high-quality dialogue and deepen our understanding of customers to tackle their essential issues and provide appropriate proposals. Repeated discussions enable us to make proposals on the true issues that customers are not even aware of, and we can be highly effective. Because the effects can be quite visible, customers' satisfaction levels also rise, making us better positioned to provide consulting work on multiple issues on an ongoing basis.

In working alongside our customers on a long-term basis, we witness changes in customers' social environment and management challenges on a daily basis. Therefore, the services we provide must also continue to evolve. We aim for our employees in charge of customers to be always attuned to the latest knowledge, so that they can make optimal proposals. As a company, we consistently provide in-house training opportunities and hold study sessions inviting outside lecturers to raise our employees' skills as consultants.

#### KPIs

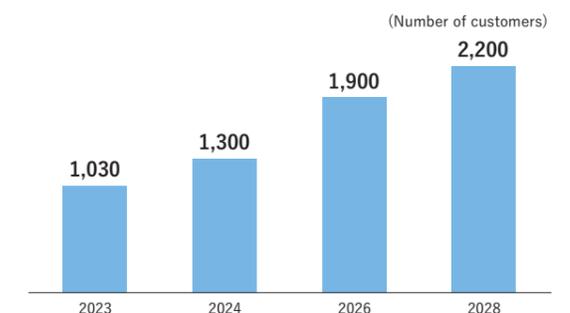
##### ● Consulting income

We understand that our consulting income in part reflects the value we provide to our customers and the local community. In other words, we think that providing higher quality value to our customers and the local community, and supporting companies will lead to a better society as well as our income growth.



##### ● Customers with contracts (cumulative)

The rising number of corporate customers to which we have provided consulting and support reflects our contribution to overall regional growth and the extent of our penetration. We will continue to approach and support a wide range of companies and contribute to further development of the regional economy.



Note: Excludes M&A advisory and business matching

## Provision of diverse service menu utilizing proprietary framework

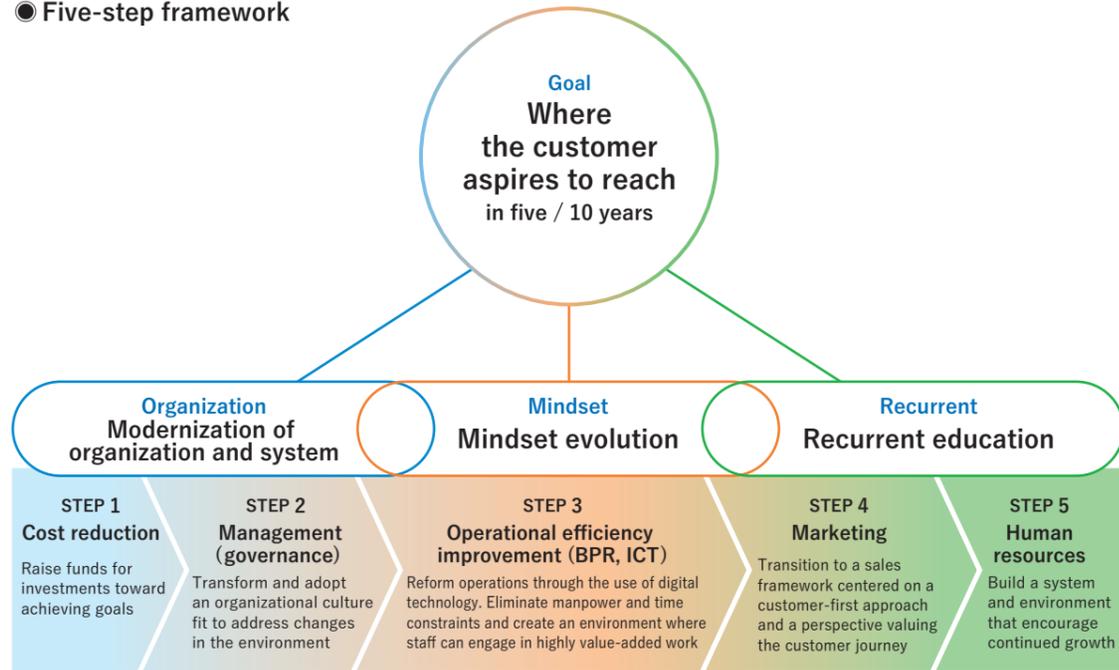
The consulting services we offer are tailor-made for each customer. Therefore, before providing the services, we establish with our customers a common notion on their current state and the state they aspire to reach (goals) in five and 10 years' time.

At times, it takes more than just partial measures for a company to achieve its goals. When company-wide reforms are called for, we support the process based on our five-step framework.

These five steps are the very steps Hokkoku FHD Group followed when implementing company-wide reforms.

We will continue to utilize our own unique mechanisms and offer a diverse consulting menu tailored to each customer's individual situation.

### ● Five-step framework



### ● Main service offerings

<p><b>Management strategy formulation</b></p> <p>Track record: <b>735</b> cases (cumulative)</p> <ul style="list-style-type: none"> <li>Formulate management philosophy, business plan</li> <li>Build cost management system</li> <li>Support plan execution</li> </ul>	<p><b>Operational efficiency improvement / ICT utilization</b></p> <p>Track record: <b>381</b> cases (cumulative)</p> <ul style="list-style-type: none"> <li>Optimize operational processes</li> <li>Improve efficiency of various operations</li> <li>Introduce various systems, support utilization</li> </ul>	<p><b>Human resource development / human capital</b></p> <p>Track record: <b>432</b> cases (cumulative)</p> <ul style="list-style-type: none"> <li>Design personnel evaluation system, wage system</li> <li>Provide training sessions based on job level, foster candidates for executive positions</li> <li>Introduce diverse talent</li> </ul>
<p><b>Business succession / capital strategy / M&amp;A</b></p> <p>Track record: <b>194</b> cases (cumulative)</p> <ul style="list-style-type: none"> <li>Formulate business succession plan</li> <li>Support organizational restructuring</li> <li>M&amp;A intermediation, financial advisory</li> </ul>	<p><b>Overseas business</b></p> <p>Track record: <b>93</b> cases (cumulative)</p> <ul style="list-style-type: none"> <li>Cultivate overseas sales channels</li> <li>Establish overseas bases</li> <li>Resolve various issues faced by local subsidiaries</li> </ul>	<p><b>Other</b></p> <p>Track record: <b>76</b> cases (cumulative)</p> <ul style="list-style-type: none"> <li>Support ESG and SDG initiatives</li> <li>Management advisory</li> <li>Consulting services for financial institutions</li> </ul>

## Establishment of robust overseas network enabling seamless support in Japan and overseas

The Hokkoku FHD Group has built its own network in Southeast Asia and China, and uses this network effectively to achieve its vision, which is to "meet every need of every customer." Through collaboration between our domestic and overseas bases, we seek to further enhance our consulting functions and strengthen our efforts to resolve customers' issues.

Much like the setup at our domestic bases, the overseas network enables us to address various customer needs, including those to improve the organizational capabilities of overseas subsidiaries, cultivate sales channels and suppliers for overseas expansion, and conduct M&A transactions overseas.

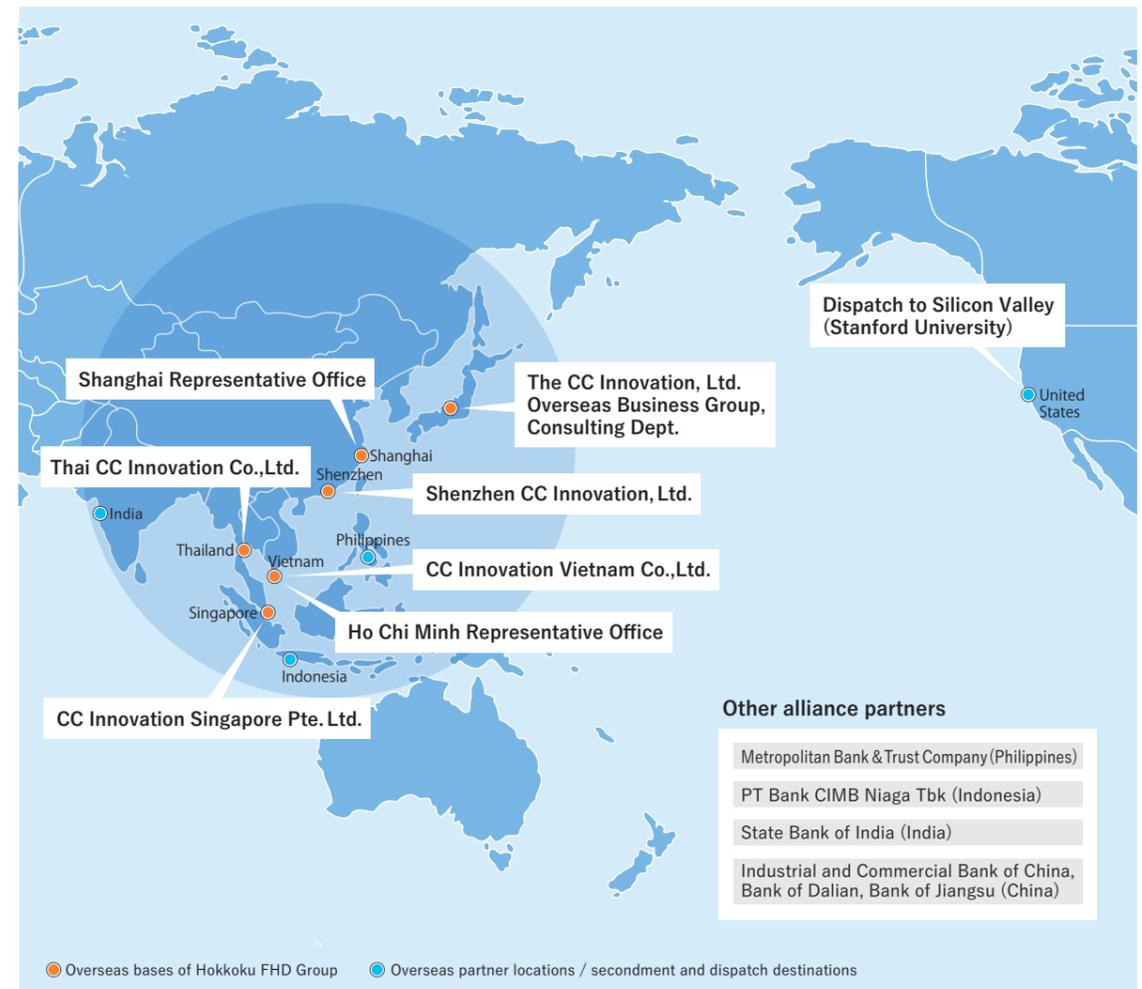
In 2021, we established bases in Thailand (Thai CC Innovation Co., Ltd.) and Vietnam (CC Innovation Vietnam Co., Ltd.). In 2022, the Singapore Branch of Hokkoku Bank was converted into a local subsidiary. In June 2023, we further expanded our consulting

functions by opening a new base in Shenzhen, China (Shenzhen CC Innovation, Ltd.). Additionally, Hokkoku Bank's representative offices in Shanghai and Ho Chi Minh City and the Overseas Business Group in Japan work closely together to step up services and support customers' business expansion abroad, especially in Southeast Asia and China.



Thai CC Innovation's local staff member providing consultation

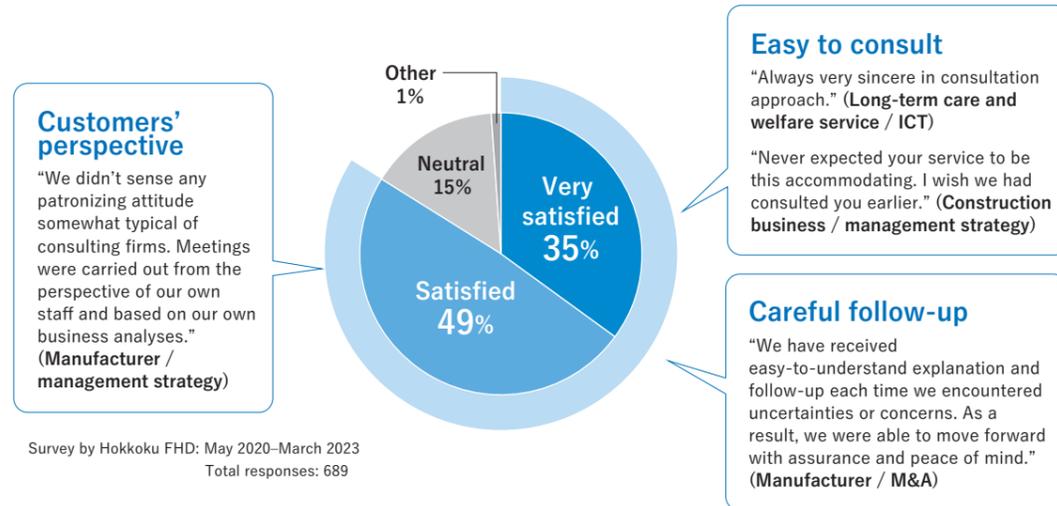
### ● Overseas network of Hokkoku Financial Holdings



## High customer ratings

### “Never expected your service to be this accommodating.”

We have received various positive feedback from our customers. In a survey conducted from May 2020 to March 2023 with 689 customers, 84% responded that they were “satisfied” with our consulting services.



## Customer review

### Strengthened organizational capabilities through detailed personnel development initiatives based on job levels

**Mr. Manabu Ueda** President and Representative Director  
Yonezawa Electrical Engineering Co., Ltd.



#### The background leading up to consultation

We had worked on personnel development in the past, but could not see any results since there was a disconnect between the training content and our daily operations. In my opinion, the reason for this was that we had not set any training objectives and goals. Participation in training became the objective in and of itself and the training did not contribute to participants' growth.

Hokkoku Bank's sales representative, with whom we do business on a regular basis, introduced us to the consulting services of CC Innovation. We felt that since CC Innovation understood our business well, it may be able to propose a resource development plan that would suit our needs. So, we decided to seek their input.

#### Impressions and changes after receiving consultation

We were not offered a cookie-cutter-style training menu. Although CC Innovation knew our business from before, it took the time to interview us first to understand our current issues, and then provided a training proposal based on the findings. Thanks to this, we have been able to implement additional measures, such as setting pre- and post-training objectives, that would help these sessions gain traction. The feedback from participants has been positive, and we are seeing changes in our organization.

The issues we face vary depending on job levels, so we have also received a proposal for highly effective options other than training, such as workshops, to address job-level-specific issues. CC Innovation can also accommodate matters in the peripherals of human resource development, including HR system modification and response to harassment. In this respect, it is a very reliable advisor for us.

For our staff in the Human Resource Development Division as well, conducting training alongside CC Innovation's consultants has allowed them to better convey our company's thoughts and ideas to the training participants. I believe the effects well exceed what we normally expect from simple participation in training.

Moving forward, we want to respond to labor shortage and reduce overtime by improving our ability to effectively manage frontline operations. We will continue to welcome proposals that are in line with our current situation.

## Future vision —Toward expansion of business domains—

### Consulting services for municipalities and extended reach to entire industries

Moving forward, we find it important to support growth of the entire region, rather than limiting ourselves to the resolution of issues faced by individual companies. As a specific initiative, we are thinking of offering consulting services to municipalities. There are also issues that cannot be solved by a single company, such as bottlenecks in industry supply chains. We hope to step up our efforts in this area through wide-reaching consulting work, leveraging our unique perspective honed through relationships with many business partners.

We will also provide tailor-made support addressing individual needs, regardless of the customer's business size or industry. This is so that companies indispensable for regional development can improve their productivity and provide better services to the local community.

### Cultivating urban customers through collaboration with financial institutions, and consulting services for financial institutions

Shinkin banks and some other financial institutions are likely to face difficulty developing their own consulting business as there are hurdles in securing staff and acquiring expertise. We plan to collaborate with these entities and thereby cultivate customers in urban areas where we have limited access.

Through consulting, we hope to offer our Group's accumulated expertise to those financial institutions that share our goals and values. We think that, in this way, we can support the revitalization of regions where our Group does not have a presence, and contribute to the betterment of local communities extensively.

We are committed to securing income through all our efforts in achieving a better society and providing value to other financial institutions.

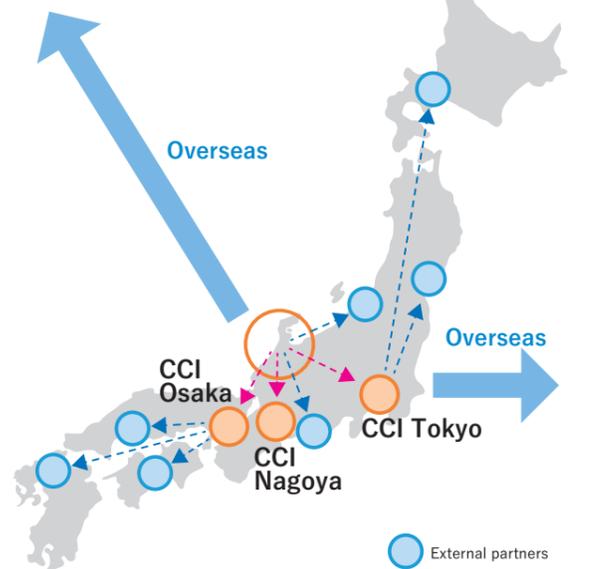


## Widening the customer base through collaboration with external partners nationwide

We plan to expand our collaboration with financial institutions, consulting firms, licensed professionals, and other external partners across Japan, particularly in urban areas, with whom we share common values.

To create opportunities to approach customers outside the three Hokuriku prefectures and capture a new customer base, we will collaborate with our partners and make full use of each other's strengths to provide high value to customers on both sides.

### Future image of CCI's network expansion



## Contributing to the enrichment and betterment of lifestyles through our customer-driven initiatives.

### Yutaka Imai

Executive Officer, General Manager of Life Planning Department,  
The Hokkoku Bank, Ltd.  
President and Representative Director,  
The FDIco, Ltd.



## Consulting for individual customers

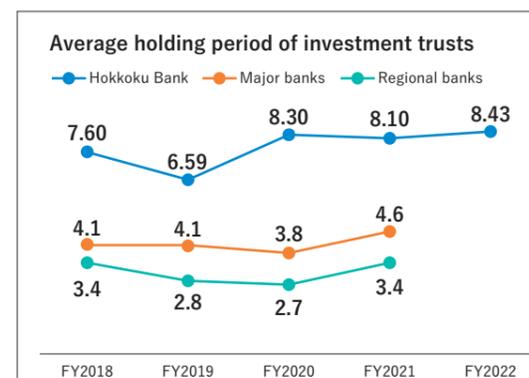
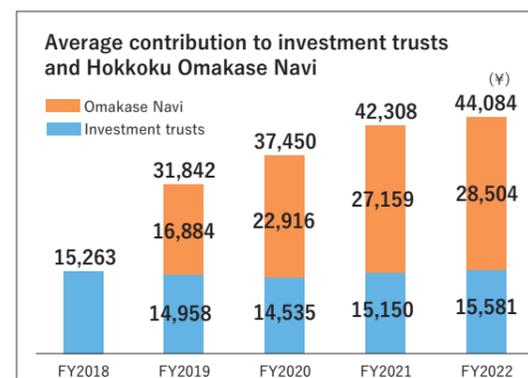
### Aiming for transformation to a customer-centric asset management business

Since 1998, when banks were first permitted to sell investment trusts over the counter, Hokkoku Bank has been selling these financial instruments as part of its asset management operations for customers. In the early days, the interest rates on deposits were declining, so even customers without any experience in investment trusts did not hesitate to buy the products, especially those that offered monthly distribution. Meanwhile, back then, the performances of the bank's sales branches and salespeople were evaluated based on the sales and income amounts they brought in. While we were supposed to propose the right product for the right budget to help our customers reach their dreams and goals, we had our doubts that in some cases, investment trust sales were overly focused on sales amounts and commissions. We had to question whether

we were truly prioritizing our customers' interest over the bank's interest.

As such, since 2013, we have been reassessing our business structure from various angles to transform our asset management business into a customer-centric one.

For our product lineup, we have progressively switched to products suitable for long-term asset building such as those with a diversified portfolio and those that call for regular contributions. In 2014, we also began handling no-load investment trusts for which we do not charge handling fees at the time of purchase. In 2015, we changed the evaluation system of our branches and employees considerably. The quota system was discontinued, being replaced by a system in which performance was evaluated based on criteria such as whether or not a proposal was in line with the customer's life plan. In 2019, we started offering Hokkoku Omakase Navi, a fully automated asset management service that allows even beginners in asset management to start investments easily. Although the makings of a prosperous life vary from customer to customer, we are committed to helping our customers build their assets and achieve their dreams and goals. To this end, we focus on asset management proposals centered on long-term, regular, and diversified investments that are



\* Based on an analysis of quantitative data on distributors of investment trusts, etc., prepared by the Financial Services Agency

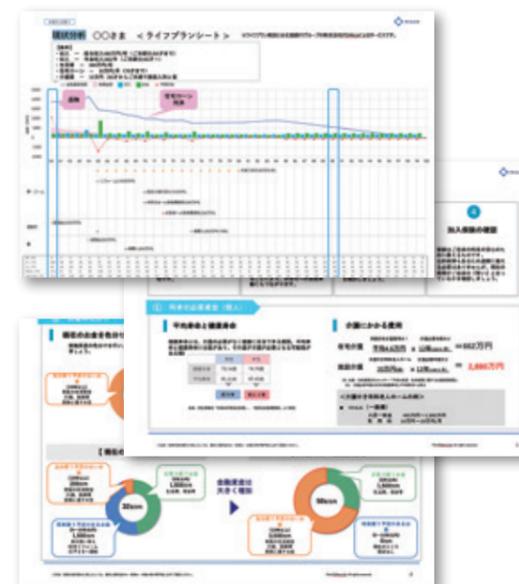
not easily swayed by market trends. As a result of these efforts, the average contribution and holding period for investment trusts and Hokkoku Omakase Navi are trending steadily. We will continue to support our customers in their asset building by focusing on long-term, regular, and diversified investments.

In 2018, we launched a trust business at Hokkoku Bank to provide customer-oriented services for both asset building and asset succession to the next generation. We also provide consulting services where we support our customers through their life stages. Specifically, we seek to gain a firm grasp of our customers' life plans and issues at hand, present this information in a visual context for better understanding, and offer support in preparing wills and developing inheritance measures.

### Established FD Advisory, further deepening our customer-centric approach

Customers' values have diversified, and it is no exaggeration to say there are as many life plans and solutions toward dreams and goals, as there are customers. To meet the diverse needs of the customers, we found it necessary to develop a business model, which allowed us to provide comprehensive advice from a neutral standpoint, rather than just offering the products and services of Hokkoku Bank. Accordingly, we established The FD Advisory, Ltd. in 2021. (In 2023, FD Advisory changed its name to The FDIco, Ltd. following an absorption-type merger with ALCOLAB, Ltd.) The business model of FD Advisory is unique in that this company itself does not sell financial instruments. Instead, it specializes in providing advice for which it receives fees from the customers. Since there is no need for FD Advisory to sell products, it can pick a

#### Life plan analysis (briefing material)



We use in-house developed tools to create a visual outline of each customer's life plan and to propose solutions.

financial instrument most suitable for the customer out of all products available in the market and recommend it as a means to resolve issues. There is no risk of a conflict of interest between FD Advisory and its customers.

As another feature, FD Advisory focuses on holistic and optimal advice on asset management, asset succession, and business succession based on life planning. Depending on customer needs, we can provide advice on solutions for entire families, rather than for just one person. We also follow up on our advice by offering lifelong support services. In addition, we seek to provide higher value-added advice, fully utilizing the expertise of our staff with previous work experience in the securities investment department of Hokkoku Bank.

Paying fees for advice is uncharted waters for individual customers, even more so than for corporate customers. However, from a survey targeting those who have received our services, we were pleased to see a growing number of customers appreciating our approach of personalizing the advice based on individual life plans, and not being overly eager to sell financial products. We also started receiving requests from company owners to provide life planning consultation services as part of their employee benefit programs. Moving forward, we will continue to step up our customer-driven efforts and contribute to the enrichment and betterment of our customers' lifestyles.



Hosted the Second Life Plan Seminar inviting CEO Satoshi Nojiri of FinWell Research LLC to lecture on life planning after retirement (May 2023)

#### KPI results (as of end-March 2023)

##### Asset building-related

- Investment trusts, Omakase Navi  
Number of accounts **43,435**
- Investment trusts, Omakase Navi, 401k  
Total contributions **¥583 million**
- Investment trusts, Omakase Navi, 401k  
Balance **¥98.6 billion**

##### Inheritance-related

- Testamentary trust **46 cases**
- Estate settlement **23 cases**
- Inheritance seminars, individual consultation sessions **57 times**

##### Individual consultation-related (FDIco)

- Consultation on life planning **17 cases**
- FP course, WM course **20 cases**

# Our strategy for regional financial institutions

## Investment advisory to regional financial institutions

On June 1, 2023, The FDAlco, Ltd. began business operations following the merger between Hokkoku Bank's investment advisory company FD Advisory and ALCOLAB, Ltd., which had been providing investment advisory to regional financial institutions. FDAlco will be providing investment advisory to individuals, general corporations, and regional financial institutions across Japan that share our values.

For many regional financial institutions, market operations have become an important component of their business. Many of these institutions are now bolstering their market division and fostering specialist talent as part of their priority measures. Strengthening the market division is not a task that can be completed in the market division alone. Decisions on expected returns, risk tolerance, and asset allocation are management issues for regional financial institutions. Furthermore, structural improvements such as increasing the staff count and boosting administrative efficiency must be implemented at the same time.

The operations of FDAlco will not be limited to investment advisory. It will provide solutions centered on management issues, working closely with CC Innovation and other group companies of Hokkoku FHD.



## Development of advisors

Through our investment advisory to regional financial institutions and our own investment operations at Hokkoku FHD, we have accumulated knowledge and expertise, which we plan to apply to our customers' asset building.

We also intend to further polish our specialist skills to better meet the needs of our customers by developing a program to foster advisors capable of leading our investment advisory business into the future.



**Japan will transform into an “asset management-oriented nation.” FD aims to become an investment advisory firm befitting of this change.**

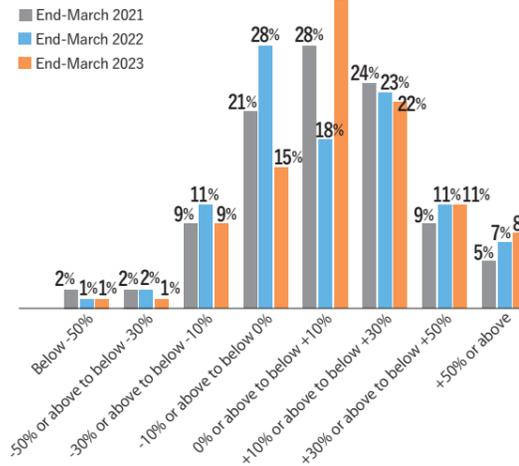
**Akemi Tanaka** Chairperson and Representative Director The FDAlco, Ltd.

For a long time, banks have been the front runners of Japan's financial industry. Structurally, funding demand for forward-looking investments has not grown in the industry, and surplus capital continues to build up in companies, households, and financial institutions. Japan is now entering a stage where it aims to prosper by utilizing the accumulated financial assets, and the financial service driving this significant trend is investment advisory. The Japanese government will expand the scope of preferential tax treatment for investments, positioning its plan to double the country's asset-based income as a priority policy. Financial authorities have also submitted to the National Diet amendments to the Financial Instruments and Exchange Act, calling for financial business operators to reshape their operations focusing on their roles as fiduciaries. In such ways, efforts are under way to lay the groundwork for transforming Japan into an “asset management-oriented nation.” I believe this year will be the year for all financial business operators to fundamentally rethink their

business approach. Fiduciary duty is the core principle in investment advisory, and the mission of an investment advisor is to generate profits in alignment with the customers' interests. Investment advisory differs from banks and brokerage houses in origin, required skillsets, and culture, even though they are all financial businesses. The competitive strength of an investment advisory business lies in its high level of expertise, rather than the volume of assets under its management or the number of customers. The expertise allows investment advisory companies to thoroughly understand customers' issues, elevate the quality of their analyses and views, and provide appropriate proposals and explanations to customers. FDAlco is committed to fostering specialists who understand the unique attributes of investment advisory, and to establishing a business model befitting Japan's new standing as an “asset management-oriented nation.” Through these efforts, we will strive to be recognized and supported by our customers and the society at large.

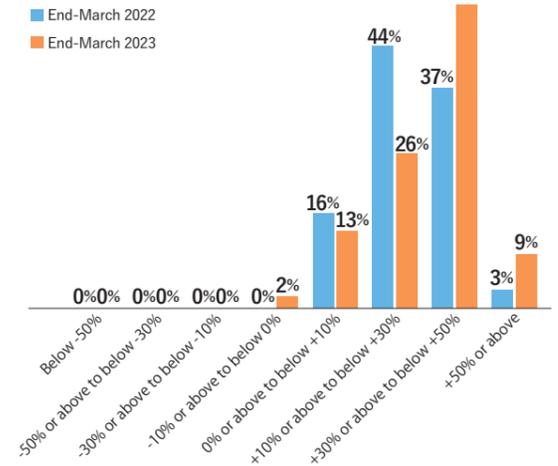
# Data

Ratio of customers by investment gains/losses in investment trusts



• Target customers: Individual customers holding investment trusts as of the record date  
 • Target transactions: Transactions through investment trust accounts at Hokkoku Bank and through financial intermediary accounts at other companies  
 • Investment gain / loss ratio = total return ÷ fair value

Ratio of customers by investment gains/losses in foreign currency-denominated insurance



• Target customers: Individual customers holding foreign currency-denominated single premium insurance policies as of the record date  
 • Target transactions: Policies for which Hokkoku Bank conducted insurance sales. Policies cancelled as of the record date and annuity contracts for which annuity payments have already started (including contracts with a deferment period) are excluded.  
 • Investment gain/loss ratio = (surrender value as of the record date + paid-in amount as of the record date) - lump-sum premium as of the policy date (all amounts are in yen)  
 Lump-sum premium as of the policy date (in yen)

# Topics

Lately, we often see news on complaints and problems associated with structured bond and foreign currency-denominated insurance sales to investment beginners. Hokkoku Bank does not propose nor sell these products to its customers based on the following philosophy.

## Our stance on sales of structured bonds

For the following reasons, Hokkoku Bank considers structured bonds to be products unsuitable for individual customers' asset building and investments, and has not sold any since 2018.

- (1) Structured bonds have a complex structure that uses financial derivatives, and were originally developed as products for institutional and other professional investors.
- (2) As such, it is difficult for individual customers to understand, for instance, under what conditions a loss of principal could occur, and we believe this presents a significant risk.
- (3) We also believe product descriptions regarding costs are in part unclear, making it difficult for customers to understand.

## Our stance on sales of foreign currency-denominated insurance policies

Hokkoku Bank believes that insurance products should be used for the purposes of protection and inheritance planning, rather than as investment tools. We do not position insurance products as instruments for investment because they are not an efficient means of investment when considering the cost burden of handling fees.

For the aforementioned purposes, there is little rationale to choose foreign currency-denominated insurance with foreign exchange risk, for the following two reasons. Accordingly, we have not sold any since 2020.

- (1) For protection, should the amount to be received fluctuate due to exchange rate movements, there is a risk of a customer not receiving sufficient payment relative to the economic loss meant to be protected by the policy.
- (2) If the purpose is inheritance planning, should the amount to be received fluctuate due to exchange rate movements, there is a risk of a customer not being able to develop a reliable plan for annual gifting.

● Status details on initiatives regarding our customer-oriented business operations are available on our website (QR code to the right). (Japanese only)

[https://www.hokkoku.co.jp/company/about/fiduciary\\_duty.html](https://www.hokkoku.co.jp/company/about/fiduciary_duty.html)



# 3

## Progress in Cashless Payment and Digitalization



### Toward creation of a seamless cashless and digital society.

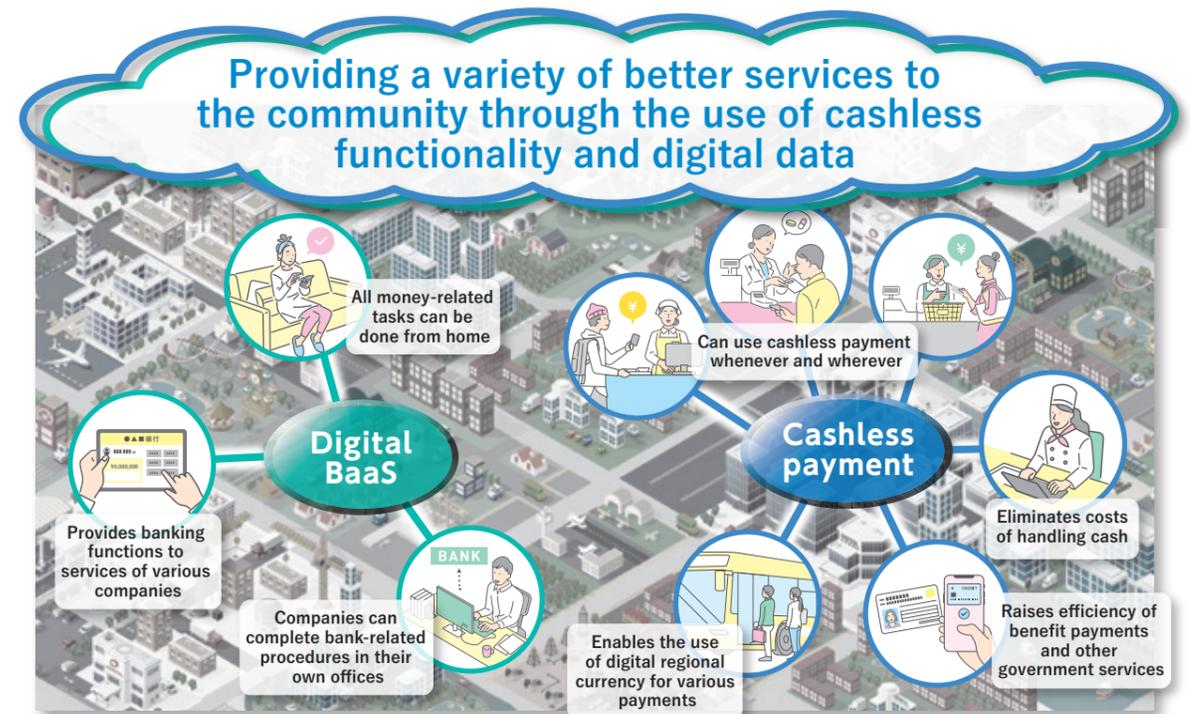
**Naotaka Terai**  
Managing Executive Officer  
General Manager of Digital Department  
The Hokkoku Bank, Ltd.



#### Introduction

We aim to innovatively improve the productivity of our entire region, including local residents, businesses, and municipalities, by promoting cashless payment and digital transformation. For businesses and municipal bodies, we will help simplify their business operations, reduce cash circulation costs, and enable data utilization, thereby creating an environment where they can concentrate on providing high-value-added services. Going cashless and digital enables businesses to explore new opportunities, enabling municipalities to implement policies and provide public services more effectively. Local residents can enjoy a wide variety of convenient services offered by such businesses and municipalities.

We believe that fostering such an environment improves the productivity of local communities and ultimately revitalizes the overall region. We also plan to bolster the security and network infrastructure and strengthen our economic infrastructure to ensure a stable environment for business transactions. In this way, we will build a highly reliable business environment and win the trust of companies and investors in Japan and abroad.



## Toward a society in which anyone can make cashless payments anytime and anywhere with peace of mind

Hokkoku Bank has been taking part in a joint project with Visa Worldwide Japan to revitalize the region based on cashless payments using Visa cards. The project touts “Super Cashless Region” as a slogan to build a society across the entire Hokuriku region in which anyone can make cashless payments anytime and anywhere with peace of mind.



Our Company aims for a safe and secure cashless and digital society in which all activities in our day-to-day lives fall in place smoothly and without delay through cashless payments. Based on our various initiatives, we will lead the way in making the Hokuriku region one of the most advanced cashless and digital regions in Japan, and thereby revitalize the local community through improved productivity and efficient circulation of funds.

### Various initiatives toward a “Super Cashless Region”

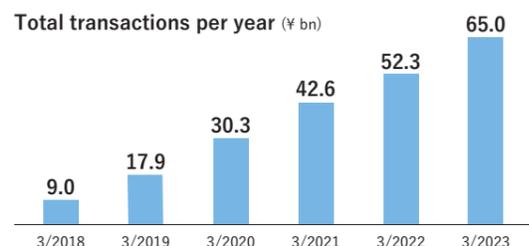
To create a “Super Cashless Region,” we have promoted various initiatives, such as supporting the uptake of cashless-compatible devices in the Hokuriku region and implementing projects together with the local transportation company Hokuriku Railroad Co., Ltd. In October 2020, we established a ¥1.0 billion Hokuriku DX Cashless Fund. We continue working to promote cashless payments by encouraging the use of Visa debit cards and distributing card payment devices free of charge.



### For local residents

#### ● Promoting issuance of Hokkoku Visa debit cards

To boost the number of cashless payment users, we explain the convenience of cashless payments to local residents and encourage their use of various services. For instance, we promote the issuance of Hokkoku Visa debit cards—one of our core services. These debit cards, which can be used like cash and grant reward points based on the payment amount, are accepted around the clock, 365 days a year, at any Visa-affiliated store globally. Currently, one out of every 10 residents in the three Hokuriku prefectures and one out of every five residents in Ishikawa Prefecture owns a Hokkoku Visa debit card, and transaction amounts are also growing steadily.



#### ● Convenient use of earned points

The points earned based on the amount paid with a Hokkoku Visa debit card can be used at the stores of Hokkoku Bank card-affiliated merchants and on the COREZO e-commerce website (recommending things and experiences unique to Hokuriku), at a conversion rate of one yen per point. We believe that creating a virtuous cycle of using the points earned through cashless payment generates new consumption opportunities in the region, helps cashless payment take root as an ordinary option thanks to its convenience, and leads to the spread of a cashless society.

### For businesses

#### ● Promoting uptake of card payment devices

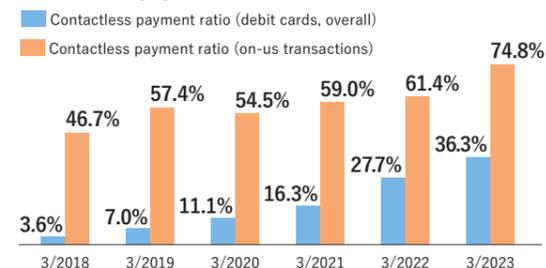
To increase the number of businesses accepting cashless payment, we have offered card settlement services to affiliated merchants and supported the introduction of various cashless-compatible devices. Much like in our efforts to promote the use of Hokkoku Visa debit cards, we hope to encourage as many businesses to take up such devices, and thereby help create a society in which people can make cashless payments anytime and anywhere.

Since 2016, we have been offering card payment devices free of charge. The uptake of our devices and the number of affiliated merchants have grown steadily, with the counts of installed devices and affiliated merchants reaching 7,286 and 6,628, respectively, as of March 2023.

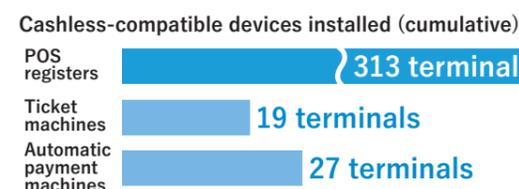
### Contactless payment ratio

Our payment devices are compatible with Visa’s tap-to-pay function, which allows quick and smooth payment. Contactless payment reduces waiting time at the cash register and improves store efficiency. Businesses can also expect higher customer satisfaction thanks to the smooth payment experience. In Ishikawa Prefecture, the contactless payment ratio of the city of Suzu is particularly high. Moving forward, we hope to further expand the use of contactless payment that is beneficial for both businesses and local residents.

#### Contactless payment ratio



In addition to card payment devices, we support the introduction of other tools such as POS registers, ticket machines, and automatic payment machines as part of an all-round effort to promote cashless and enhance convenience for customers and productivity for businesses.



### ● Hokkoku DX Cashless Fund

In October 2020, we established a ¥1.0 billion Hokkoku DX Cashless Fund to support the digital transformation (DX) of local companies and municipalities and encourage the spread of cashless payment in the region. In addition to supporting the introduction of card payment devices, the fund’s capital has been used to install automatic payment machines in hospitals, semi-self-checkout registers in supermarkets, and ticket machines with cashless payment functions in pools and hot spring facilities, enhancing convenience for their users.

### Model case: Introduction of card payment devices Kurikara Fudoji Temple

In February 2023, we helped introduce card payment devices to the Kurikara Fudoji Temple (in the main hall on the mountaintop and Ho-o Hall) located in Tsubatamachi, Kahokugun, Ishikawa, using the Hokkoku DX Cashless Fund. This was our first case of supporting device installation at a shrine or a temple.

With the payment devices in place, the temple can now accept various means of cashless payment, including Visa and other debit cards, credit cards, e-money, and QR codes, for contributions in exchange for a talisman, seal stamp, amulet, and other items. The temple has also installed semi-self-checkout registers, which improve the efficiency of accounting and tabulation tasks.



### Customer review

#### Card payment devices have boosted convenience for our customers.

**Mr. Motoki Utsunomiya**  
President and Representative Director  
Utsunomiya Co., Ltd.

At our bookstore, we feel that the momentum for going cashless has accelerated in recent years, driven mainly by the Japanese government’s point reward program for cashless payments implemented in 2019 and the spread of COVID-19 thereafter.

Contactless payment, which allows hygienic and speedy payment via tap-and-go, also provides peace of mind because money is deducted from the bank account on the spot. For this reason, it is also used by elderly customers. In some of our branches, the staff actively encourages customers to use the tap-and-go function, and in fact, over 90% of Hokkoku Visa debit card users choose contactless payment. Many of our customers also use reward points for payment with their Hokkoku Visa debit cards.



Points earned from shopping and dining at other affiliated merchant stores can be used to buy books. We believe the customers find much joy in this.

The introduction of card payment devices gave our customers more payment options, and the ability to use reward points for purchases further enhanced convenience. In the future, we hope to see the arrival of a device that is compatible with a wide array of payment methods.

# Launch of a digital regional currency service

## Efforts to achieve a 100% cashless payment ratio in Ishikawa Prefecture

In the summer of 2023, Hokkoku Bank will begin offering a digital regional currency service named Suzu Tochtuka, together with the city of Suzu, Kono Shinkin Bank, and Digital Platformer Corp.

Following the service introduction in Suzu, we plan to collaborate with other local government bodies in Ishikawa and use blockchain interoperability to issue Ishikawa Tochtika, a digital regional currency to be circulated across the entire prefecture.

This summer, Suzu Tochtipo points issued by the city of Suzu will also become usable in stores and other locations within Suzu. Additionally, we are working to build a financial system based on blockchain technology, with an aim to circulate Suzu Tochtika—stablecoins issued by Hokkoku Bank—within Ishikawa Prefecture.

While there have been cases of digitizing points and gift certificate benefits issued by local governments, we understand this is the first time in Japan that a project to circulate stablecoins has been implemented in collaboration with a local financial institution.



## Working together with regional financial institutions to spread usage

To promote the uptake of this service, we plan to create an open digital regional currency that can be also loaded from accounts of financial institutions other than Hokkoku Bank. In this way, we hope to raise the cashless payment ratio of the overall region.

The service in Suzu is a joint project with Kono Shinkin Bank. In April 2023, we held a press conference together with the city of Suzu, Ishikawa Prefecture, and Kono Shinkin Bank, messaging our hope that the service will be used as a tool to facilitate mutual support among local residents and enhance convenience in Suzu, which faces declining childbirth and aging population.

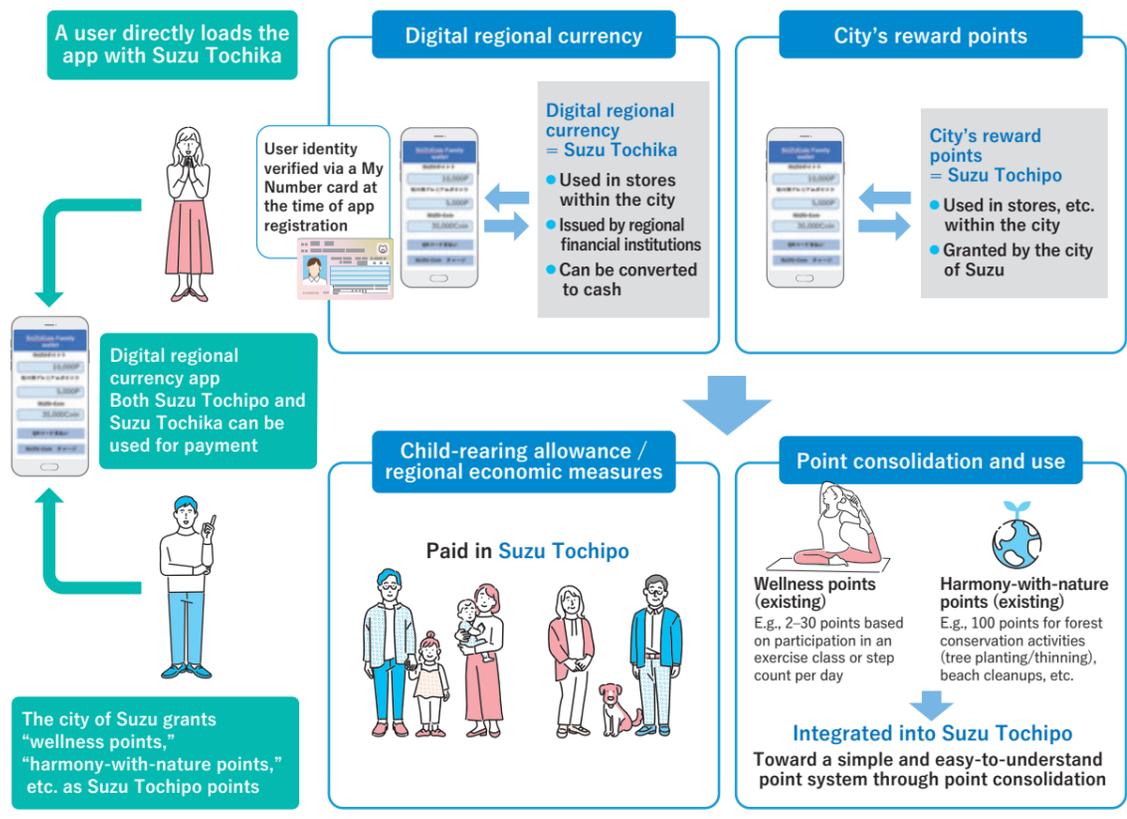
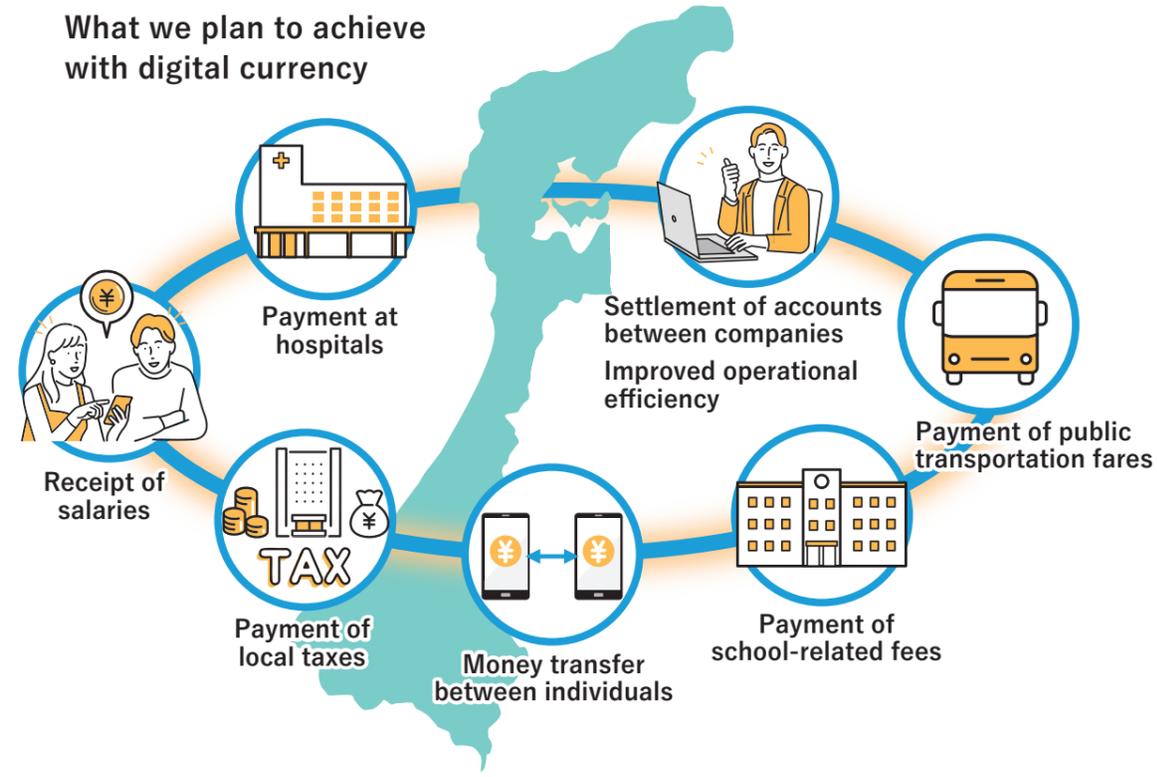


At the press conference

As the first step in promoting the circulation of funds within Suzu, we will work on the issuance of Suzu Tochtipo points from the summer of 2023 and expand the number of stores (hereinafter “participating stores”) accepting the points. We will also work to improve the convenience of these points by integrating Suzu’s existing point programs into Suzu Tochtipo and making the points usable as a digital regional currency. We plan to support participating stores by enabling the use of payment data to help revitalize the local economy and improve services for local residents.

For areas other than Suzu, we plan to build a structure in which Hokkoku Bank (the issuer of stablecoins) can join hands with regional financial institutions that support this project to collectively drive the endeavor. By collaborating with regional financial institutions, we aim to achieve a seamless payment system usable by local residents and participating stores, regardless of which financial institutions they do business with.

Our digital regional currency service can also authenticate user identity by linking the digital currency app with decentralized IDs that are verified by My Number digital certificates. Recording and managing transactions using blockchains make the service tamper-proof, safe and secure, and highly transparent. SHIKI, a blockchain technology platform developed by Digital Platformer Corp. to issue digital currencies and decentralized IDs, is used to record and manage the payment data in this project. Blockchain encryption technology ensures a secure and highly traceable payment system.



## Purpose of offering a digital regional currency service

### Toward achieving a 100% cashless payment ratio in Ishikawa Prefecture

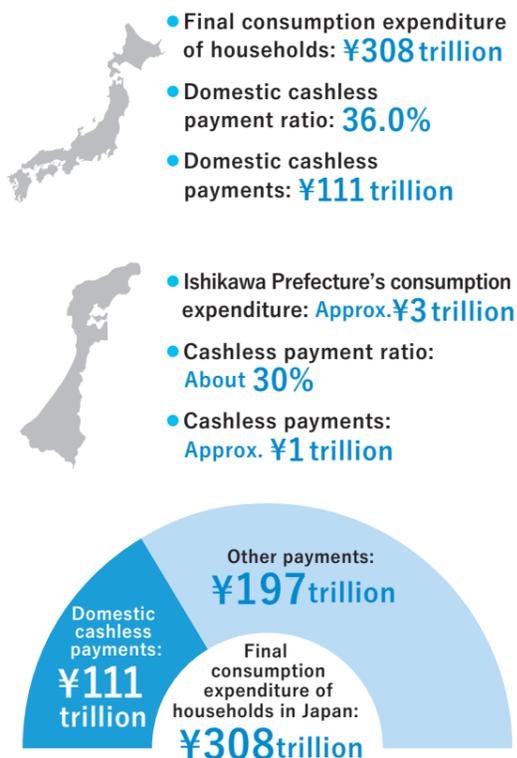
We are working on various initiatives to develop a “Super Cashless Region” with the goal of creating a seamless cashless society. Through the combination of this project to circulate digital regional currency and our efforts to spread card payments centered on Visa debit cards, we aim for a 100% cashless payment ratio in Ishikawa Prefecture. We hope to promote new innovations by having the entire prefecture go cashless and digital and also improve overall productivity.

Currently, the annual cost of handling cash in Japan is estimated at about ¥3 trillion. The cashless payment ratio in Ishikawa Prefecture is over 30%, but considering that over 90% of payments in South Korea are already cashless, the cashless payment ratio in Japan is still relatively low\*1.

We believe raising the domestic cashless payment ratio to nearly 100% can enhance the productivity of our society at large and encourage companies to invest in human capital and business growth. We also hope to help improve public services by supporting the digitalization of local government operations.

\*1 Based on “Cashless Roadmap 2022” (2022) by Payments Japan Association

#### Data for reference



Source: Hokkoku FHD based on data from FY2019 Summary of Ishikawa Prefectural Accounts, METI website, and Bank of Japan website

### Creating a service with value

We look to provide new value to local residents, leveraging the originality of this service, which is underpinned by multiple elements.

First of all, in this service, reward points, digital currency (stablecoins), and other applications can be integrated into one application.

Users gain access to a highly convenient tool since multiple services are available within the same application.

We also believe that a new economic ecosystem can be created moving forward, once the digital local currency used in the prefecture and the existing point programs of cities and towns of the prefecture are placed in circulation together within the same region.

Users will also be able to convert the Tochika digital currency (stablecoins issued by Hokkoku Bank) back to cash even after topping up their apps. Generally speaking, for most electronic payment services, topped-up funds cannot be converted back to cash. However, with Tochika, users can convert it back to cash as necessary, making it a safe tool even for those hesitant to top up payment apps and go cashless.

For participating stores, the most attractive feature of this service is the low payment processing fee. We believe that the heavy burden of processing fees is a factor hindering the uptake of cashless payments. Therefore, in this service, we plan to reduce the payment processing fee for participating stores to 0.5%, the lowest level even based on international standards.

#### Lower the payment processing fee

3.0% → 0.5%



Processing fees borne by businesses in the prefecture

Approx. **¥30.0 billion**



Approx. **¥5.0 billion**

Reduction by **¥25.0 billion**

This fee rate is substantially lower than the typical card payment processing fee, which is 3.0%. By allowing all businesses that handle cash, including hospitals and other entities, to use this service, we hope to reduce their processing payment costs, improve their operational efficiency, and ultimately free up the funds and time for them to create new services of value.

### Future outlook

To achieve a 100% cashless payment ratio in Ishikawa Prefecture, we have laid out the details of each phase of our efforts toward offering convenience to service users, businesses, and the region at large.

In three years, we plan to enable payment of local taxes, utility bills, and hospital and school expenses with digital regional currency.

We also intend to enhance security and improve the user experience by adding biometric authentication for user identity verification. Additionally, we plan to add other functionalities in stages, including the ability to use digital regional currency for salary payments at local companies, and the ability to exchange it with other regional digital currencies.

Furthermore, we hope to support the uptake of cashless payment and digitalization in regions other than Hokuriku by having other prefectures utilize the schemes we developed.

Through this business that aims for the circulation and further progress of digital regional currency, we will improve local productivity and convenience via cashless payments and digitalization, and work to make Hokuriku a quality region.



<p><b>Phase 1.0</b> Summer FY2023</p>	<ul style="list-style-type: none"> <li>Authentication via the introduction of decentralized IDs verified by My Number digital certificates</li> <li>Launch of Suzu Tochtuka, a digital regional currency service enabling inexpensive QR-code payments at stores</li> <li>Issuance of digital gift certificates and various points in Suzu Tochtipo issued by the city of Suzu</li> </ul>
<p><b>Phase 2.0</b> By end of FY2023</p>	<ul style="list-style-type: none"> <li>Begin handling Suzu Tochtuka stablecoins</li> <li>Loading of Suzu Tochtuka from bank accounts (issuance of Suzu Tochtuka)</li> <li>Conversion to cash (remitted to a savings account) for an inexpensive fee</li> <li>Payment of benefits using Suzu Tochtipo</li> </ul>
<p><b>Phase 3.0</b> In one to three years</p>	<ul style="list-style-type: none"> <li>Enable payment of local taxes, utility bills, and hospital and school expenses with digital regional currency</li> <li>Spread the use of digital regional currency to other cities and towns in the prefecture</li> <li>Link functions and services to apps of municipalities</li> </ul>
<p><b>Phase 4.0</b> Three years from now and beyond</p>	<ul style="list-style-type: none"> <li>Make Hokuriku known as a trailblazer in cashless payments and digitalization</li> <li>Use digital regional currency for settlement of accounts between companies</li> <li>Use in digital salary payments at local companies</li> <li>Enable exchange with other regional digital currencies</li> <li>Roll out the scheme to other prefectures</li> </ul>
<p><b>Anticipated effects from the use of digital regional currency</b></p>	<p><b>“Making Ishikawa prefecture Japan’s No. 1 quality region”</b></p> <ul style="list-style-type: none"> <li>Data utilization</li> <li>Improved convenience for residents</li> <li>Improved productivity and emergence of innovations in the entire region, thanks to going cashless and digital</li> </ul>

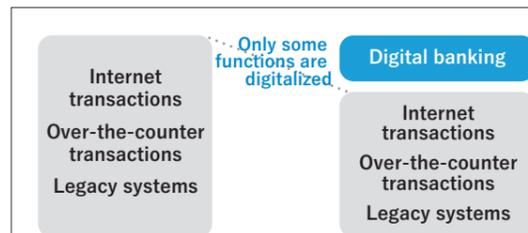
## Toward becoming a leading-edge digital bank

We are working to create a digital bank in which all banking transactions are digitalized.

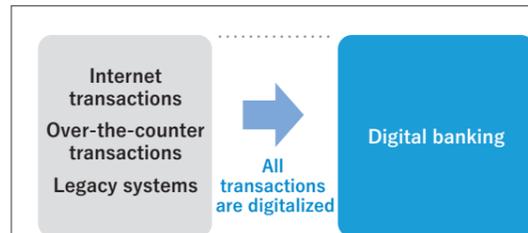
### Internet banking

At a typical financial institution, digital banking involves the digitalization of only some of the functions within banking transactions. However, Hokkoku Bank seeks to modernize all of its banking functionalities through the in-house development of internet banking services, including Hokkoku Digital Banking for corporate use and Hokkoku Cloud Banking for individual use. We offer these digital platforms to our corporate and individual customers without charging any base handling fees.

### Digital banking offered by a typical financial institution



### Digital banking envisioned by Hokkoku FHD



### ●Promotion of HOKKOKU LIFE+

In February 2021, we began offering HOKKOKU LIFE+ as a service ensuring a richer and more convenient lifestyle for individual customers through cashless payment and digitalized bank accounts. HOKKOKU LIFE+ packages a Visa debit card with the Hokkoku Cloud Banking service, and does not require a passbook nor a personal seal to conduct transactions.



There are many benefits for service users, including the elimination of fees for the use of ATMs at partner banks and affiliated convenience stores across Japan and for remittances to other financial institutions via Hokkoku Cloud Banking.

As of end-March 2023

HOKKOKU LIFE+ membership: **87,884** people

### ●Reducing the burden on customers through corporate internet banking

In October 2021, we eliminated the base handling fee and also lowered the remittance fee in our corporate internet banking service. We are working to reduce the burden on customers and support the further progress of their digitalization efforts.

In the spring of 2024, we plan to release a new corporate internet banking service with upgraded design, operability, and security. Once the service is in operation, we intend to expand functionalities in stages, including the addition of an overdraft function, so that customers will be able to conduct online the full range of transactions offered at bank branches.

## Business expansion across Japan using a BaaS platform

We are also working to develop a banking-as-a-service (BaaS) platform to offer banking functionalities to financial services operated by fintech companies. BaaS development signifies the creation of a next-generation financial platform for companies and individuals nationwide. We believe we can help improve regional productivity by offering a low-cost and easy-to-use BaaS platform to providers of services that enhance customer productivity and convenience. By laying the groundwork for an environment where local companies can rapidly develop digital services, we will seek to transform the region and contribute to its sustainable growth.

## BaaS business objectives: Reach out to new customers and contribute to the region

We believe that by providing a BaaS platform to fintech companies, we can expand our customer base and contribute to the region. Fintech companies offer new and innovative banking services not bound by the existing framework of the banking industry. Having fintech companies use our BaaS platform allows us to gain access to the customer base we cannot reach out to directly.

Furthermore, fintech companies focus on offering innovative financial services to communities and people lacking sufficient access to traditional banking services. We hope to contribute to economic growth and financial inclusion of the local communities by utilizing our BaaS platform to provide financial solutions that meet local needs.

## Difference from existing services

Our service gives fintech operators free rein to modify the front end of the financial services they provide to end users. This is the greatest difference between our

service and those already offered by other companies. The front end refers to the service screen used by the end user. With our service, fintech companies can freely design their own service screens to showcase their unique identity and brand value, customizing the user experience and providing attractive services that differ from their competition. They can also implement original marketing strategies and win new customers by optimizing the service screens based on their strategies and business targets. Additionally, since the service screens can be easily modified, fintech companies are able to flexibly respond to market trends and user feedback. The ability to promptly add functions and make improvements, providing a more user-friendly interface and value-added functions based on user feedback, allows these companies to maintain competitiveness and raise customer satisfaction levels as well.

In these ways, we will continue to innovate using our banking capabilities, collaborate with fintech companies to transcend standardized services, and work to build more optimal customer services.

## Benefits of the BaaS business

In the BaaS business, we manage the information on deposits, loans, and profiles of the customers acquired by the fintech companies. This allows us to obtain customer data on startups and other businesses, especially those based in Greater Tokyo. Currently, we expect roughly 200 account openings per month. The expansion of the customer base will lead to more opportunities for Hokkoku FHD Group to propose various solutions, including consulting by CC Innovation,

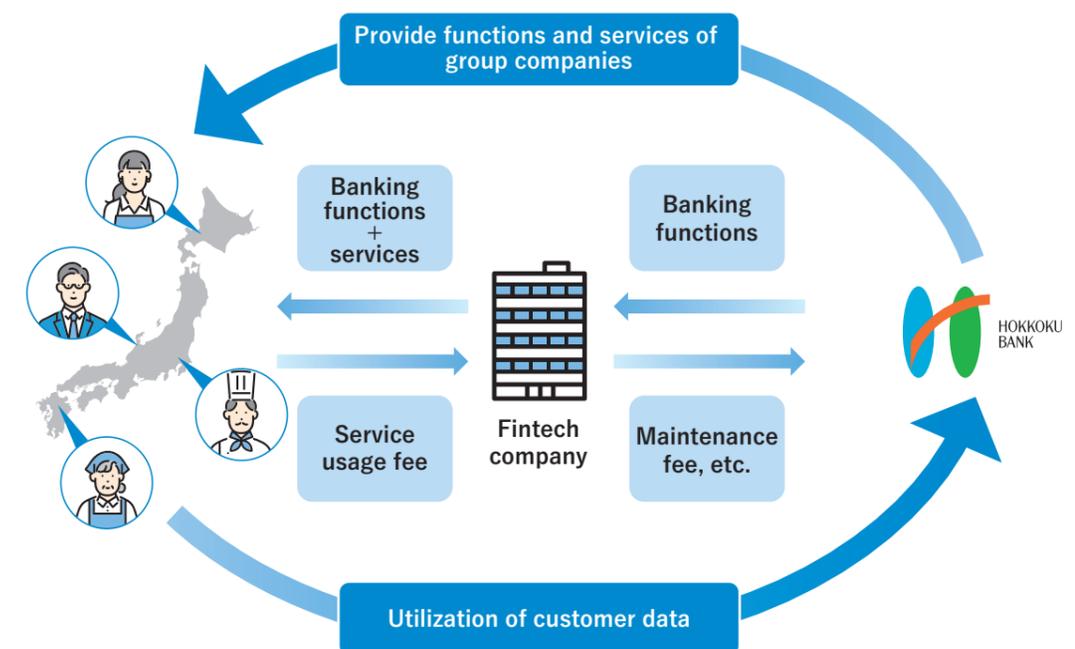
investment advisory by FDIco, and potential investment and support from QR Investment. Furthermore, through other initiatives, such as matching the end-user startups with companies in the Hokuriku region, we hope to encourage the mutual growth of these companies and create new business opportunities.

We also believe that the accumulation of knowledge on advanced technologies for BaaS platform development and the continuous horizontal rollout of our expertise in this area will bring about various benefits. This strategy is important in that it also focuses on the penetration and improvement of technology on top of pursuing simple income growth.

Accumulation of knowledge means gathering information on the latest technological trends and best practices on BaaS platform development from internal and external sources, and accumulating such information as our own knowledge. We will pursue the best means to meet market and customer needs by cooperating with specialist teams and partners. Horizontal rollout means making full use of our existing technologies and services, and offering such technologies to other companies. We hope to elevate the technological level of the industry as a whole by collaborating with other companies through the sharing of technology.

Along with sustainable growth, we will seek to resolve social issues through collaboration with other companies to promote mutual progress. One of our major goals in building a BaaS platform is to provide financial capabilities to the local community. Improving convenience for the end-users by looking beyond the businesses receiving our services will lead to the revitalization of the region as a whole. Based on this thinking, we will strive to achieve innovations for the entire region, based on the success of local businesses.

## Image of BaaS platform utilization



# Operation of COREZO, a Hokuriku information platform

We want to introduce the best of Hokuriku to Japan and the world to revitalize the region in a sustainable manner.

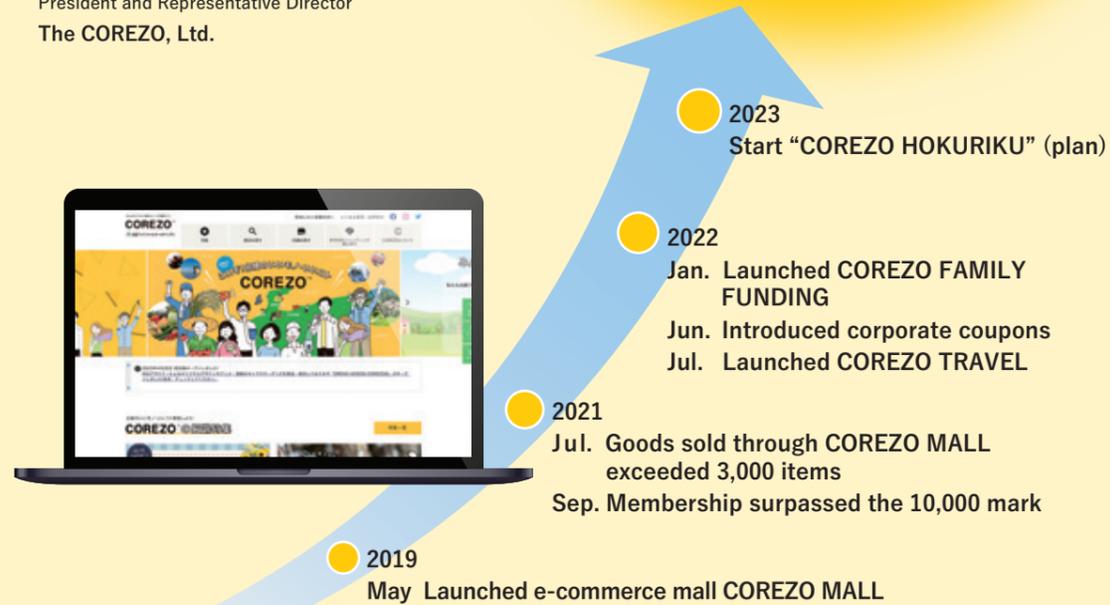


**Satoshi Sono**  
President and Representative Director  
The COREZO, Ltd.

In May 2019, we launched COREZO as an e-commerce mall that showcases the outstanding goods and experiences Hokuriku has to offer. Thereafter, we started a crowd funding site COREZO FAMILY FUNDING in January 2022 and opened a lodging reservation site COREZO TRAVEL in July of the same year. In autumn 2023, we plan to launch COREZO HOKURIKU, a portal site for various information on the Hokuriku region.

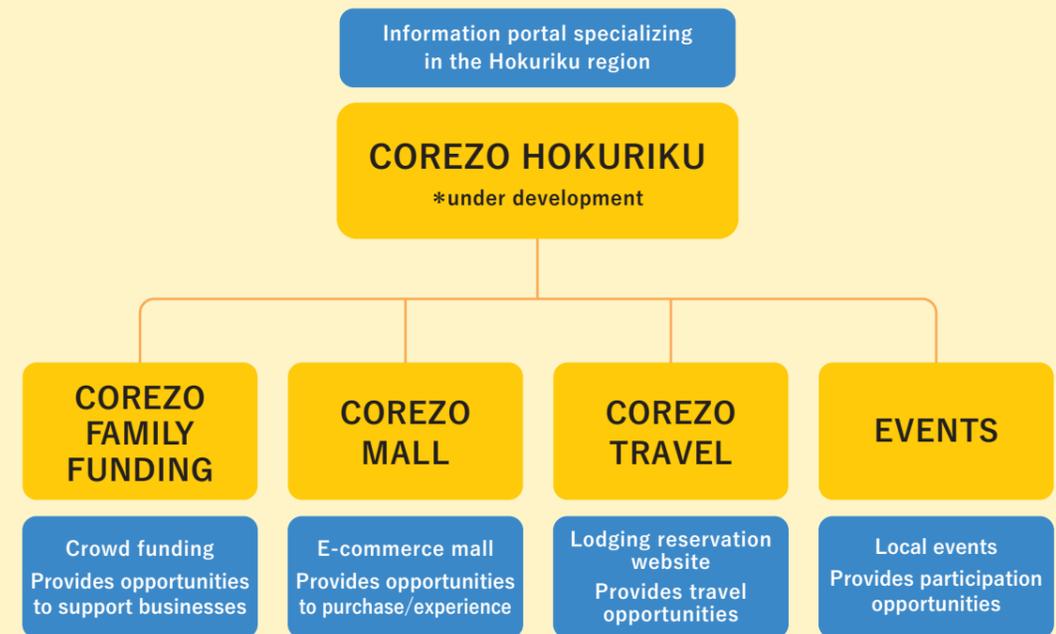
The company COREZO was created to have Hokkoku FHD staff discover and nurture the best of Hokuriku together with local residents and introduce their findings widely throughout Japan. To revitalize the Hokuriku region in a sustainable manner, we will engage in lasting activities, mobilizing the strengths of Hokkoku FHD group companies.

Showcasing the charms of the Hokuriku region to the world



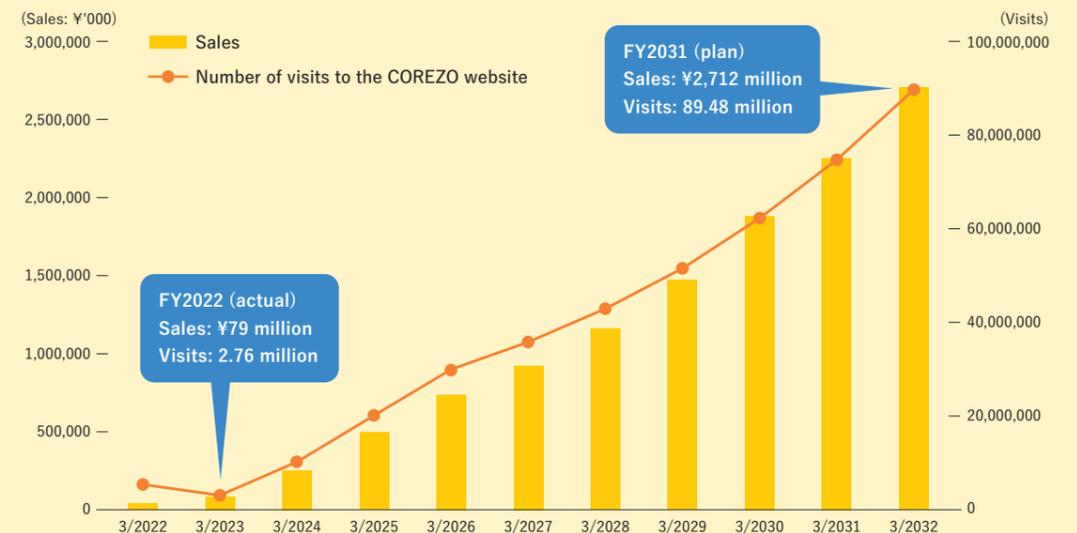
## Our vision of COREZO

The company COREZO seeks to create new value by integrating various digital content, including the e-commerce mall, with community events. One such effort is the launch of COREZO HOKURIKU, an information portal dedicated to the Hokuriku region, slated for autumn 2023. COREZO HOKURIKU will feature in-depth information on Hokuriku gathered by Hokkoku FHD staff, and introduce the outstanding things and experiences offered by the region widely to the world. The information gathered by the staff will also be used to plan cross-content projects within the COREZO franchise, and develop collaborations among the various digital content and between digital content and regional events.



Since the opening of the Hokuriku Shinkansen high-speed railway between Tokyo and Kanazawa in 2015, the Hokuriku region has become increasingly popular throughout Japan. We hope to work together with the local residents and develop the COREZO HOKURIKU portal site into an "information platform of Hokuriku," thereby sustainably revitalizing the region. We will also work to enhance COREZO's various content and achieve overall growth as a company.

## Website sales and traffic (actual / plan)



## COREZO MALL—an e-commerce mall where the best of Hokuriku can be purchased

The concept of COREZO MALL is “creating things and experiences in Hokuriku together.”

COREZO MALL is not an online shopping site that simply sells physical goods. It is unique in that it also sells intangible items like special programs and experiences, attaching additional value to merchandise. Furthermore, in addition to promoting sales, the shopping site encourages participation and collaboration, offering new business opportunities in product and business development. We believe this format can only be accomplished by a regional banking group.



Snapshot of an internal meeting

The Hokuriku region still offers many wonderful things and experiences that are just waiting to be discovered. To find them, we visit vendors directly, engage in dialogue, and try out the items first-hand. This process allows us to properly introduce the merchandise to consumers, along with their individual stories.

On some occasions, Hokkoku FHD matches up business operators so that they can jointly create new products.

We want to discover, nurture, and introduce the wonderful things, charming people, and unique experiences found only in Hokuriku, together with the local community. We want to make people across Japan fall in love with the Hokuriku region. COREZO MALL is a website created jointly by the participating vendors and Hokkoku FHD to showcase the rich offerings of Hokuriku.

Example of an experience-oriented merchandise

### Sale of ownership right to a shiitake mushroom log



This program, available since the launch of COREZO, involves the sale of ownership rights to log-grown shiitake mushrooms called Noto 115.

Noto 115 is the common name for a shiitake mushroom variety called Kinko No. 115. Within this variety, the highest quality mushrooms that meet the criteria of 8cm or more in cap diameter, 3cm or more in cap thickness, and 1cm or more in edge curl are shipped to the market as Nototemari premium-brand shiitake mushrooms.

The vendor decided to offer the program on COREZO MALL to highlight the rarity and value of Nototemari, rather than just selling the product.



## COREZO FAMILY FUNDING supports the endeavors of business operators in Hokuriku

COREZO FAMILY FUNDING is a place to match business operators in Hokuriku with supporters across Japan. It differs significantly from other crowdfunding sites in that employees of Hokkoku FHD who have regular contact with the businesses are able to provide face-to-face support. Hokkoku FHD employees work with business operators to structure projects based on their individual needs, such as marketing, promotion, and financing needs associated with new product development.

COREZO FAMILY FUNDING is a crowdfunding platform where business operators, local communities, and the employees of Hokkoku FHD work as one team in support of the endeavors of the business operators.



## COREZO TRAVEL provides a chance to visit Hokuriku



COREZO TRAVEL is a lodging reservation site specializing in tourism and travel in the three Hokuriku prefectures of Ishikawa, Toyama, and Fukui. In addition to introducing lodging facilities, the website offers information on nearby shops as well as stay plans incorporating various activities. A lodging reservation site that welcomes visitors from all around Japan, together with the local lodging facilities and businesses.

● Number of registered lodging facilities: **36** (as of June 2023)

## COREZO will grow together with the local community

Hokuriku has wonderful people, nature, and culture. COREZO is a website that features the good things and experiences that emerge from such an environment, presenting them to the world in a proper manner without any embellishments. A place for expression where consumers living in Hokuriku, the businesses, and the employees of Hokkoku FHD can join hands to revitalize the region. To become such a platform, COREZO is committed to growing together with the local community.



# 4

## Expansion of Investment Business

### Investing toward a better future and leading the way to a quality region



#### Fumio Hamano

President & Chief Executive Officer  
Representative Director  
The QR Investment, Ltd.

#### Introduction

QR Investment was established in June 2021 to support the diversifying financing needs of corporate customers in all life stages of a company.

The economic environment in Japan and overseas has changed dramatically in recent years, and the challenges companies face have also diversified. For sustainable growth, it is now indispensable for companies to take measures for the medium to long term, modifying the business model, implementing company-wide organizational reforms, restructuring businesses, and strengthening the financial base, among other means.

Meanwhile, regardless of the changes surrounding companies, individual depositors are being encouraged by the slogan “from savings to investments” to channel their surplus funds directly to corporate stock and other investments, without making bank deposits. Banks may also need to rethink their business model of generating income from the interest rate spread

between deposits and loans, and redirect the flow of capital from loans to investments. In the lending business, it is important to recover the principal safely while securing margins, but in the investment business, we believe it is most important to enhance the value of the investee companies.

The business model of QR Investment is such that it makes gains when the corporate value of the companies it invests in rises. Through our investment business, we hope to contribute to the region in a way that complements Hokkoku Bank’s loan operations.

By providing capital support through equity investment, we will supply funding to our customers and also raise corporate value. By doing so, we intend to drive growth of the entire region. Through each of our projects, we will become a bridge that connects the region’s ecosystems, and make Hokuriku a quality region underpinned by the qualitative growth of each local community and the revitalization of the overall region.

#### KPIs

	FY2023	FY2027
Size (total of all funds)	¥50.0 billion	¥120.0 billion
Total investments	¥35.0 billion	¥90.0 billion
Multiple of cost (MoC)	1.0×	1.6×
Number of investees (cumulative)	65 deals	170 deals

## Vision and purpose of QR Investment —toward corporate value enhancement, together with the customers—

### Vision

1. We will provide our business partners with a package of thorough funding and hands-on support as a shareholder, incorporating our equity investment and the collective capabilities of the Hokkoku FHD Group, including lending and consulting functions.
2. We uphold a balanced investment policy that seeks to support investees' growth and contribution to local communities, rather than just focusing on returns.
3. We will help develop management-level talent and work toward sending out resources to companies within the region.

Without the growth of the Hokuriku region, there is no growth for the Hokkoku FHD Group. QR Investment invests to enhance the regional quality of the three Hokuriku prefectures centered around Ishikawa. Our mission is to make Hokuriku a quality region recognized around the world.

Known as "Kaga Hyakumangoku," which meant it had an exceptionally high rice production on its land, Ishikawa Prefecture was once a quality region that enjoyed great economic prosperity. Even today, traditional industries existing since the Edo period, as well as textile, construction machinery, and electronics industries that developed after World War II, continue to deliver quality from Ishikawa to the world.



### ● Making Hokuriku a quality region and delivering a message across Japan

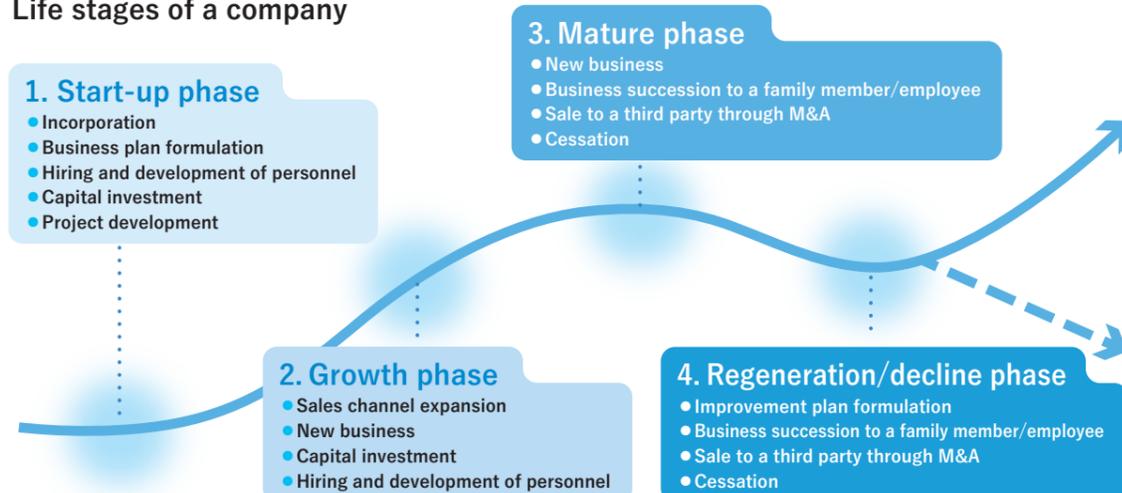
What initiatives are necessary for Hokuriku to be a quality region in a sustainable manner? We think attracting tourists from within Japan and overseas through active investment in food culture and the tourism industry could be one approach.

We pursue quality as a region where new value is created ahead of the rest of Japan and innovation occurs. Take, for instance, an innovative project that is nearly impossible to accomplish on a nationwide scale. We envision such a project starting off small in the Hokuriku region, and then spreading throughout Japan.

## Funds under management—responding to all life stages of a company

The needs of our customers vary according to their corporate life stages, from start-up to growth, maturity, and regeneration or decline. Their needs are also diverse. QR Investment offers a full range of funds to address the varying life stages of individual companies and responds to those needs that a bank cannot meet.

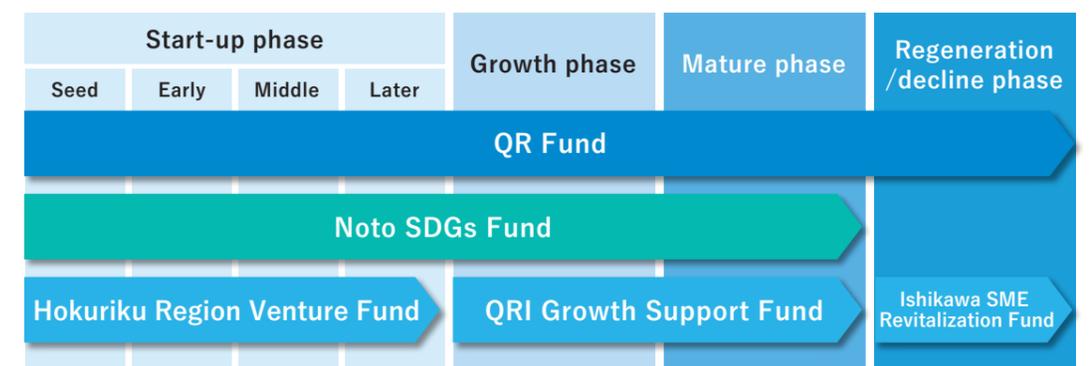
### Life stages of a company



## Our support service lineup



## List of funds



### ● QR Fund

- Target phases: Start-up, growth, mature, regeneration
- Fund size: ¥50.0 billion

To meet diverse customer needs, the fund invests in a wide array of fields not covered by existing funds. It contributes to the sustainable growth of companies and local communities by providing management support that flexibly utilizes the Group's functions.

### ● QRI Growth Support Fund

- Joint GP: DBJ Regional Investment Inc.
- Target phase: Growth, mature
- Fund size: ¥1.0 billion

The fund seeks to support the sustainable growth of local companies pursuing further growth by providing risk money and a variety of solutions to their management issues.

### ● Hokuriku Region Venture Fund

- Joint GP: Carbon Ventures Co., Ltd.
- Target phase: Start-up
- Fund size: undisclosed

The fund invests in startups that operate in the Hokuriku region or are expected to contribute to the region's revitalization. It aims to bring new vitality to the Hokuriku region and invigorate the economy.

### ● Ishikawa SME Revitalization Fund

- Target phase: Regeneration
- Fund size: ¥2.0 billion (No. 2), ¥2.0 billion (No. 3)

As a public-private fund whose largest investor is SME Support Japan, the fund—while ensuring neutrality and fairness—supports traditional local industries having difficulty recovering due to debt overhang but are reasonably profitable in their core businesses, as well as SMEs with technological strengths. By providing support, the fund seeks to invigorate the local economy.

### ● Noto SDGs Fund

- Joint GP: BP CAPITAL, Inc.
- Target phase: Start-up, growth, mature
- Fund size: ¥700 million

The fund seeks to support companies that use the assets and resources of Ishikawa's Noto region to create sustainable businesses, and those companies that engage in businesses contributing to the SDGs. By creating this model, it aims to take the first step in achieving social change and SDGs from Noto.

## From loans to investments—the advantages of utilizing investments

Loans and investments differ substantially in their mechanisms and the advantages and disadvantages they pose to customers. As a group, Hokkoku FHD has the capacity to assess customer needs and provide options to use either of these financing methods as necessary. Loans are low-cost but require repayment. Investments are relatively high cost, but the investee company has no repayment obligation since the target business will take on a joint-management structure with QR Investment. Through its various initiatives, QR Investment will provide customer solutions that cannot be achieved through bank loans.

	Loans	Investments
Summary	<ul style="list-style-type: none"> <li>Method of securing funds from financial institutions, etc., as debts.</li> <li>Loans due within one year are recorded in the financial statements as current liabilities, and those payable over a term exceeding one year are recorded as non-current liabilities.</li> <li>Collaterals and guarantees are required in some instances.</li> </ul>	<ul style="list-style-type: none"> <li>Method of raising funds through stock issuance.</li> <li>Investments are accepted as capital, and are therefore recorded in the financial statements as net assets.</li> <li>Soliciting capital broadly from the public is called a public offering, and accepting additional capital from a specific investor is called a capital increase through a third-party allotment.</li> </ul>
Advantages	<ul style="list-style-type: none"> <li>As long as the debtor continues to fulfill its debt obligations (repayment/interest payment), the creditor does not get involved in management except when otherwise provided.</li> <li>A relatively low-cost financing is possible under the current interest rate environment.</li> </ul>	<ul style="list-style-type: none"> <li>As there is no repayment involved, investments have the effect of stabilizing the investee's financial base and improving its creditworthiness.</li> <li>In many cases, the investee can receive management and operational support from the shareholder.</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>Repayment must be made according to the repayment terms, regardless of whether the business is doing well.</li> <li>Without creditworthiness, a company cannot borrow.</li> </ul>	<ul style="list-style-type: none"> <li>When the new shareholder gains voting and other rights, its involvement in management, rights to preferred dividends, etc., could minimize the investee's business flexibility, inflicting a heavy burden.</li> </ul>
Main use of funds	<ul style="list-style-type: none"> <li>Ordinary working capital, capital investment (additional investment for existing businesses)</li> </ul>	<ul style="list-style-type: none"> <li>Investment for new initiatives (new business, business expansion, etc.) and business transformation (revitalization, etc.)</li> </ul>

## Difference between consulting services and funds

There is an overlap between our business and the consulting services of Hokkoku FHD group company, CC Innovation, in that we both confront the issues our customers face and work together with them toward resolution. However, we differ substantially in our relationship with the customer (company) and the scope and duration of our involvement. After confirming the status and needs of the customer, we coordinate within the Hokkoku FHD Group and propose what we find to be the optimal way to provide support.

	Consulting services	Funds
Relationship with target company	Client	Shareholder
Scope of involvement	Within the scope of assigned themes E.g., business strategy formulation, ICT, personnel system formulation	All aspects of management
Duration of involvement	Short term	Medium to long term
Decision maker	Target company (shareholders)	Target company (shareholders) + Fund

## Flow and overview of the fund business

Our business model calls for medium- to long-term involvement from deal discovery (sourcing) to exit from the deal (return on investment), which is when the fund generates gains.



## Target areas—expanding nationwide and globally without limiting ourselves to the Hokuriku region

Since we base our business on our strength, which is the trust we have earned from the local community, most of our investee companies are in the Hokuriku region. However, we are not keen on settling comfortably just in Hokuriku. The economy has globalized and is now borderless, and we find it necessary to take on challenges transcending regional boundaries.

We also intend to invest abroad. In overseas investments, we can expect high growth rates that are difficult to achieve in Japan. Additionally, we can diversify our portfolio risks through the conversion of Japanese yen cash holdings to US dollars and ownership of dollar-denominated assets.

We believe investments outside the Hokuriku region will bring to QR Investment economic gains, collaborative opportunities with diverse talent, and innovations created through such interactions.

### Customer review

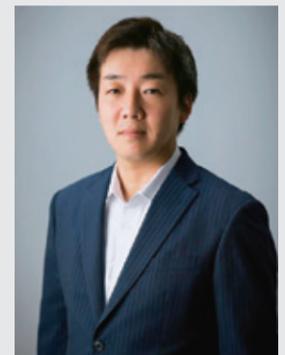
#### QR Investment supports us as a partner in our company's growth

**Mr. Katsuhiko Tsujimoto**  
President and Representative Director **Tedori Kanko K.K.**

As the largest operator of an amusement park and comprehensive pet business in the Hokuriku region, we have been operating since our founding in 1967, aiming to become a theme park loved by customers in the region. Meanwhile, in recent years, we have faced many challenges associated with aging facilities, digitalization needs, staffing shortages, and business succession issues. To formulate and implement a medium-term management plan, we decided to accept investment from the QRI Growth Support Fund and receive support from QR Investment internally from its position as a shareholder.

We also have an outside director from QR Investment who is giving us advice on overall business management at various meetings and helping us update our personnel system and introduce systems to raise operational efficiency. The outside director has been instrumental in the implementation of our business plan.

We hope to continue partnering with QR Investment, aiming together for further business growth.



# 5

## Further Sophistication of Market Operations



### Toward portfolio optimization through a diversified investment strategy that positions multi-asset funds as core assets



**Seiichi Sagiike**

Managing Executive Officer,  
General Manager of Capital Market Department  
The Hokkoku Bank, Ltd.

#### Reorganization of the market operations structure

Hokkoku FHD is working toward further sophistication of its market operations. To this end, it added market operations to its priority business areas in the 2023 medium- to long-term business strategy unveiled in May 2023.

In March 2023, we transferred the core market operation tasks and functions, including the formulation of investment strategies and plans, to The FD Advisory, Ltd.—the investment advisory arm of the Hokkoku FHD Group. Personnel specializing in market operations were also consolidated to FD Advisory.

In June 2023, FD Advisory merged with ALCOLAB, Ltd., which provided investment advisory to regional financial institutions, changed the name to The FDIco, Ltd., and kicked off a new business. ALCOLAB has long provided investment advisory focusing on global asset allocation\*1 and has helped regional financial institutions strengthen their operational structure to pursue securities investment as a core business. It also supported introducing and utilizing the risk appetite

framework\*2. In these ways, it helped regional financial institutions transform their business models.

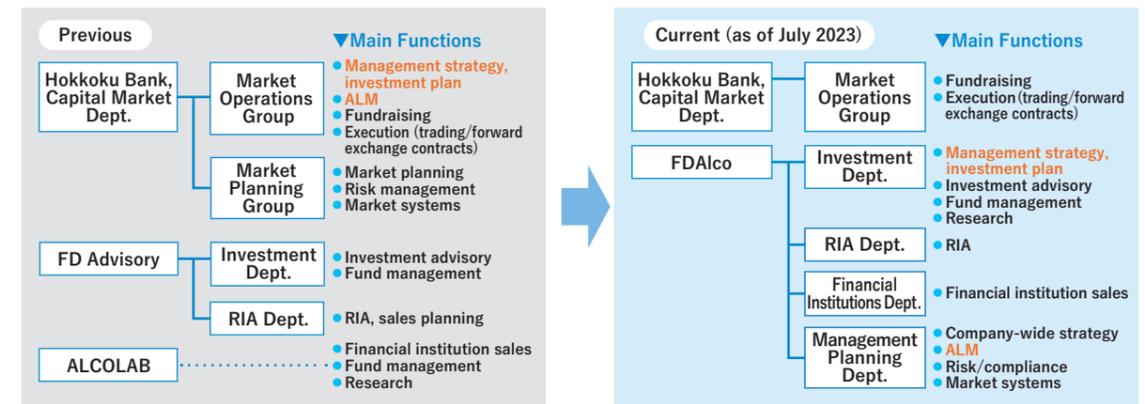
Going forward, we will step up our efforts to achieve further sophistication in market operations and risk management by combining ALCOLAB's expertise with Hokkoku FHD's business footing.

We also intend to transcend regional and existing business boundaries and share the knowledge and expertise gained through the securities investment activities at Hokkoku FHD with individuals, general corporations, and regional financial institutions across Japan. By doing so, we hope to enrich the lifestyles of individual customers and contribute to the sustainable growth of corporate customers.

\*1 Global asset allocation: An asset allocation method in which assets are allocated in a diversified manner, avoiding concentration in a specific investment product or country/region, to efficiently secure returns while reducing/controlling risks. An asset management technique based on the concept of diversified investment.

\*2 Risk appetite framework: A framework for managing business and risks through clarification of the "risk appetite" vis-à-vis the accomplishment of management goals, business strategies, and financial plans. Here, "risk appetite" refers to long-term guidelines on the type of work to be undertaken, the type and level of risks to be taken, and the level of profits to be generated.

#### Organizational structure of capital market departments



Consolidate Hokkoku FHD Group's capital markets functions to FDIco to further enhance expertise in market operations and bolster the risk management function

## Track records and traits of our market operations

Our balance of marketable securities has reached ¥1,449.1 billion and is maintaining an uptrend. In line with the risk appetite framework, we have adopted a diversified investment strategy, moved away from the buy-and-hold approach, strengthened our risk management structure, and worked to boost income from market operations.

In terms of our investment characteristics, we place emphasis on equity and multi-asset funds. From 2014, we have increased our holdings in shares (Japanese equities) for pure investment. Our move was driven by the growing focus on corporate governance, and expectations toward proactive shareholder return policies and corporate value enhancement. While there were challenges, such as the spread of COVID-19 and an uptick in overseas interest rates, most recently, we were able to record valuation gains on our equity holdings, which significantly contributed to our income.

From 2021, we have bolstered investments in multi-asset funds. These funds have become core assets that can bring in stable income over the long term, as they reinforce our diversified investment strategy. Over the past two years, we have expanded our holdings in multi-asset funds to ¥254.0 billion, and we plan to further build up our holdings going forward.

In FY2022, our foreign bond investments were adversely impacted by the sudden increase in interest rates, and we closed some of our losing positions and posted realized losses. The challenging environment for foreign bond investments is expected to linger for the next year or so, and the global economy is becoming increasingly uncertain.

Even in such an environment, we will assess interest rate cycles and build a portfolio centered on global asset allocation that captures stock market growth. Our policy is to avoid short-sightedness and work toward portfolio optimization with a long-term perspective, while appropriately controlling risks.

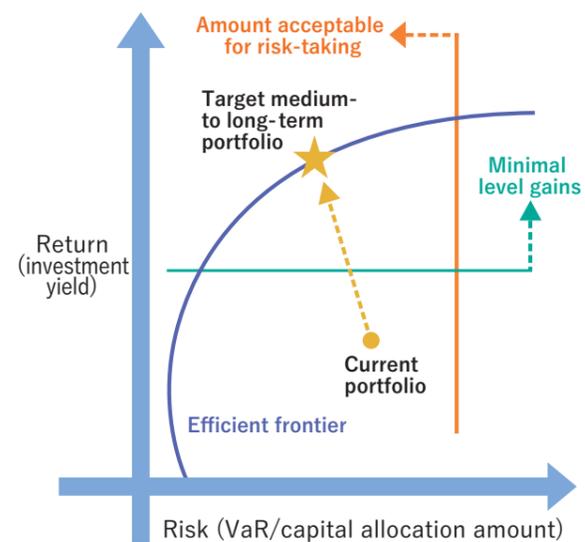
## Initiatives for portfolio optimization

In the 2023 medium- to long-term business strategy announced in May 2023, we have set a goal of building a portfolio with an expected return of around 2%. Accordingly, we are stepping up our efforts toward portfolio optimization.

We intend to clarify our model portfolio, which presents the best risk-return efficiency from a long-term perspective, and formulate investment plans and strategies focusing on the overall portfolio's performance, rather than individual assets. We will visualize expected returns and the portfolio formation process to improve our ability to explain the portfolio and encourage active internal and external discussions.



Furthermore, we will engage in forward-looking management of portfolios and risks, for instance, through preventive rebalancing of the portfolio based on a certain scenario or changes in the market environment, without necessarily adhering to our model portfolio. By doing so, we will seek to raise the level of our portfolio management.



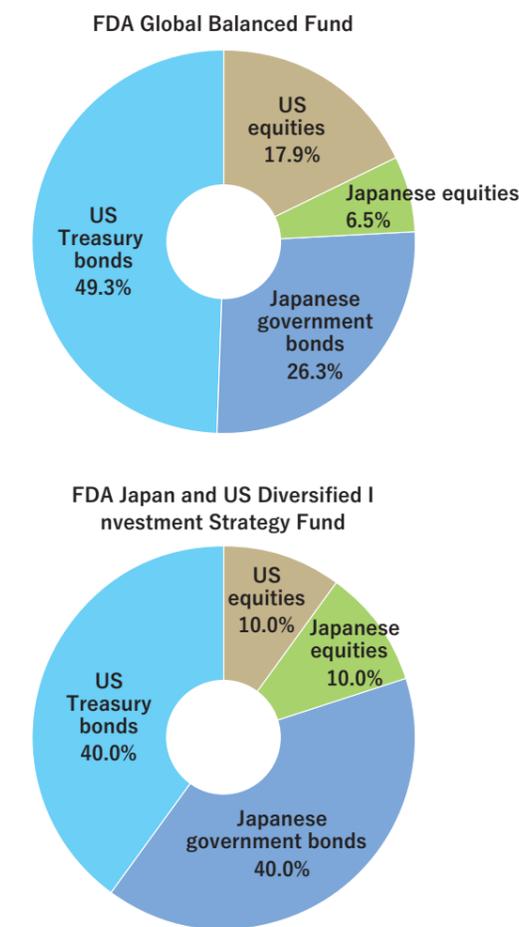
## Multi-asset funds

To improve the yield on securities and the Sharpe ratio, we have incorporated FDAIco's multi-asset funds (those for which FDAIco provides investment advisory to the funds' asset managers) into our overall portfolio as core assets. Having FDAIco provide investment advisory is essentially the same as being able to internally develop simple and low-cost multi-asset funds that are aligned with Hokkoku FHD's investment strategies.

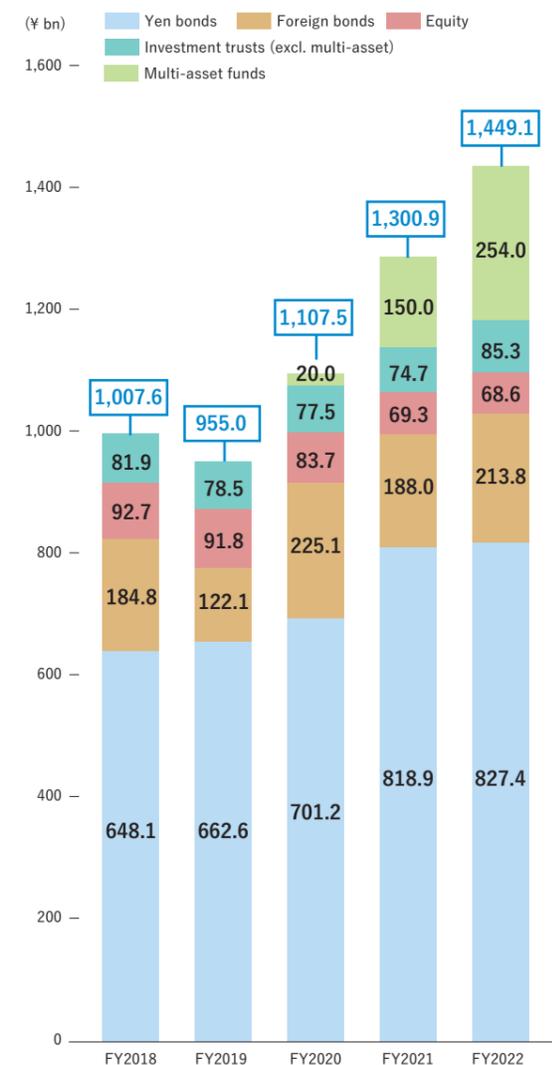
Even during challenging periods of tight overseas funding conditions or significant market fluctuations, having multi-asset funds in our portfolio allows us to expect stable returns and achieve long-term capital gains while mitigating price volatility. Additionally, the ability to generate stable returns enhances the flexibility of our investments, for instance, enabling portfolio rebalancing to improve each asset's yield over the holding period.

Aside from Hokkoku FHD, other regional financial institutions and business companies also invest in these multi-asset funds. We will continue to strengthen our efforts in multi-asset funds that contribute to stable income generation and long-term expansion of valuation gains.

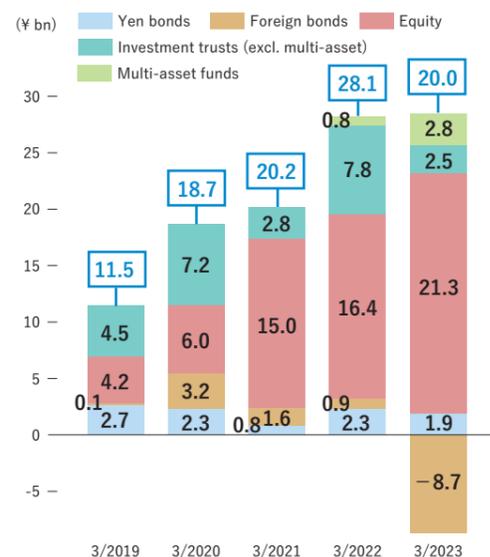
### Multi-asset funds—asset allocation



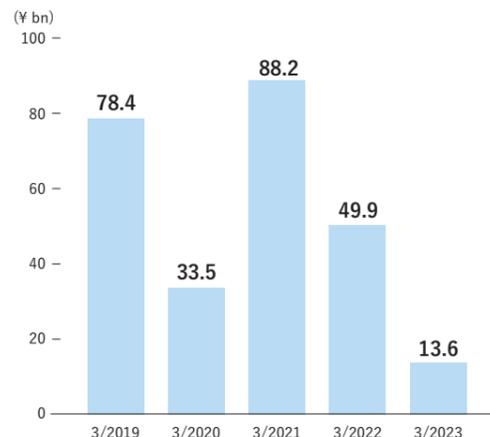
Marketable securities outstanding (book value)



Realized gains/losses by asset class



Gains/losses on valuation of securities



# 6

## DX and System Modernization

We will contribute to the digital transformation of our entire region, making full use of digital technologies.

### Takeshi Igawa

Managing Executive Officer,  
General Manager of Information Systems Department  
The Hokkoku Bank, Ltd.



### Vision and strategy

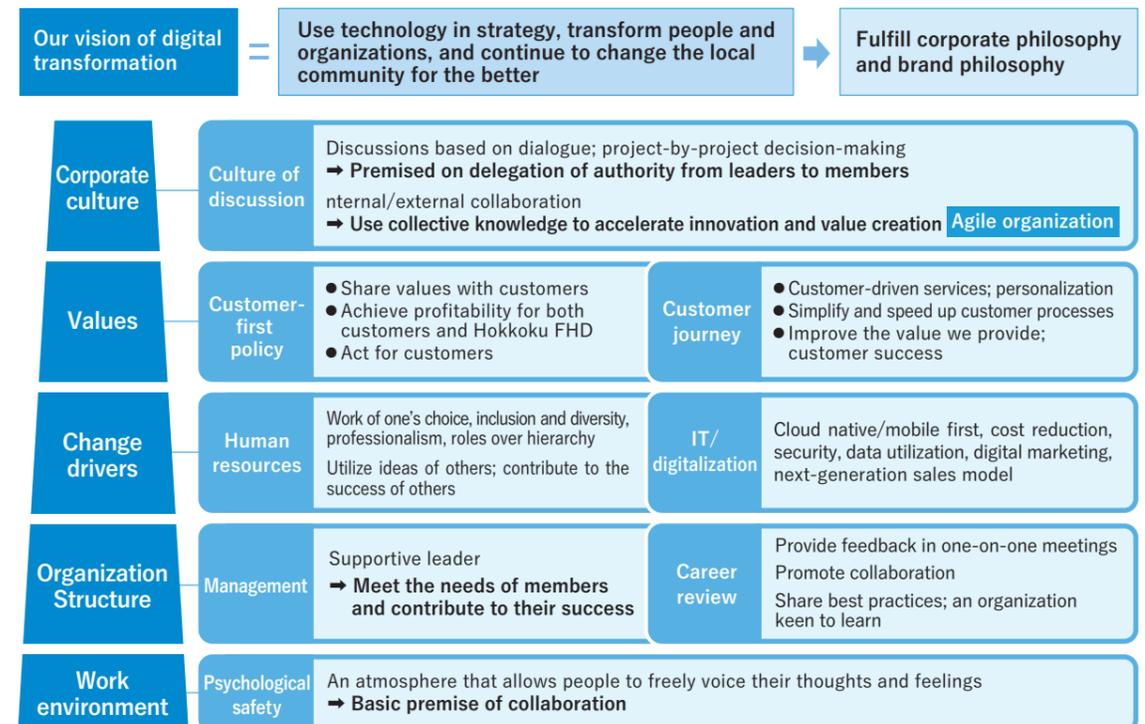
Amid dramatic changes in our social environment due to the spread of COVID-19 and the declining and aging population, among other factors, digital transformation (DX) has become indispensable for addressing the rapid evolution of digital technologies and the speed at which the world moves and for continuously improving the value of our entire region.

To meet the diversifying needs of our customers and the local community, we transformed from a conventional

bank to a “next-generation integrated regional company.”

We are working to fundamentally change our corporate culture and work styles while actively utilizing cutting-edge digital technologies to reshape our business model and speedily deliver new high-value services necessary for regional DX.

While helping to improve regional productivity using the digital solutions developed through these efforts, we hope to promote the DX of our entire region, making full use of our consulting and advisory services.



## Why we insist on developing systems in-house

In-house system development cannot be avoided if we want to continue providing high-value digital solutions in a speedy manner.

Conventional outsourced system development always involved the processes of defining requirements, getting quotes, comparing and evaluating the IT partners, negotiating, and signing the contract. The long lead time up to actual development and the vulnerability to specification changes were disadvantages.

Outsourced development based on a waterfall model would not have been an issue if the pace of change in the world were moderate and if the “correct answer” to the product being made were clear. However, in the era of volatility, uncertainty, complexity, and ambiguity (VUCA), in-house development must remain flexible to start small and create a product that is close to the “correct answer,” and nurture growth from there. To generate high-value products from a customer-oriented perspective, we also need to collaborate with our employees on the frontline and tackle development as one team. It is important, even for engineers, to understand our corporate philosophy and the value that our customers seek. We need engineers who have superior digital knowledge, understand our company, and can engage in development as one team. As such, we came to the conclusion that outsourcing was difficult and that in-house development was our only option.



However, in-house development does not necessarily mean developing everything ourselves. New products, technologies, and concepts are constantly generated in this world. Rather than developing everything ourselves, we plan to actively utilize what is already available and vigorously collaborate with external IT partners in areas where we lack the expertise. In this way, we hope to release products promptly while also improving the capability of our in-house development team.

### Active hiring of digital talent

Although I mentioned that in-house development did not necessarily mean developing everything ourselves, reducing system development costs is also an important point. Even if our own employees lead the in-house team, if the majority of the team members are deployed from our IT partners, costs will inevitably be high.

Contracted engineers also undergo rotation. This means that engineers who have taken the time to understand our environment and products could randomly leave the team. Furthermore, since technology evolves quickly these days, even those engineers sent from our IT partners are often required to learn new skills from scratch or go through reskilling.

Rather than training expensive external engineers ourselves, we thought it would be more beneficial to hire regular employees (engineers) who have ample room for growth and can work for many years with a solid understanding of our company’s business direction. Accordingly, in November 2019, we established Digital Value as an IT company within the Group. Digital Value practices team-based agile development, recruiting engineers from across Japan and even overseas to work remotely. It brings to the fore such work options as fully remote development, a performance-based annual salary scheme, and a discretionary work-hour system, which have been difficult to introduce at traditional banks. It is generally believed that the competition in hiring digital talent is fierce. However, as a result of implementing these systems and work styles, we successfully hired 57 employees over the three and a half years up to June 2023. We intend to continue leading the DX of the entire Hokkoku FHD Group while stepping up efforts to increase homegrown engineers.

## DX initiatives to date

The history of our DX initiatives goes back more than 15 years.

After establishing the Information Systems Department in 2007, we have moved away from outsourcing our core banking system, shifting to full-fledged in-house system development, including the development of subsystems.

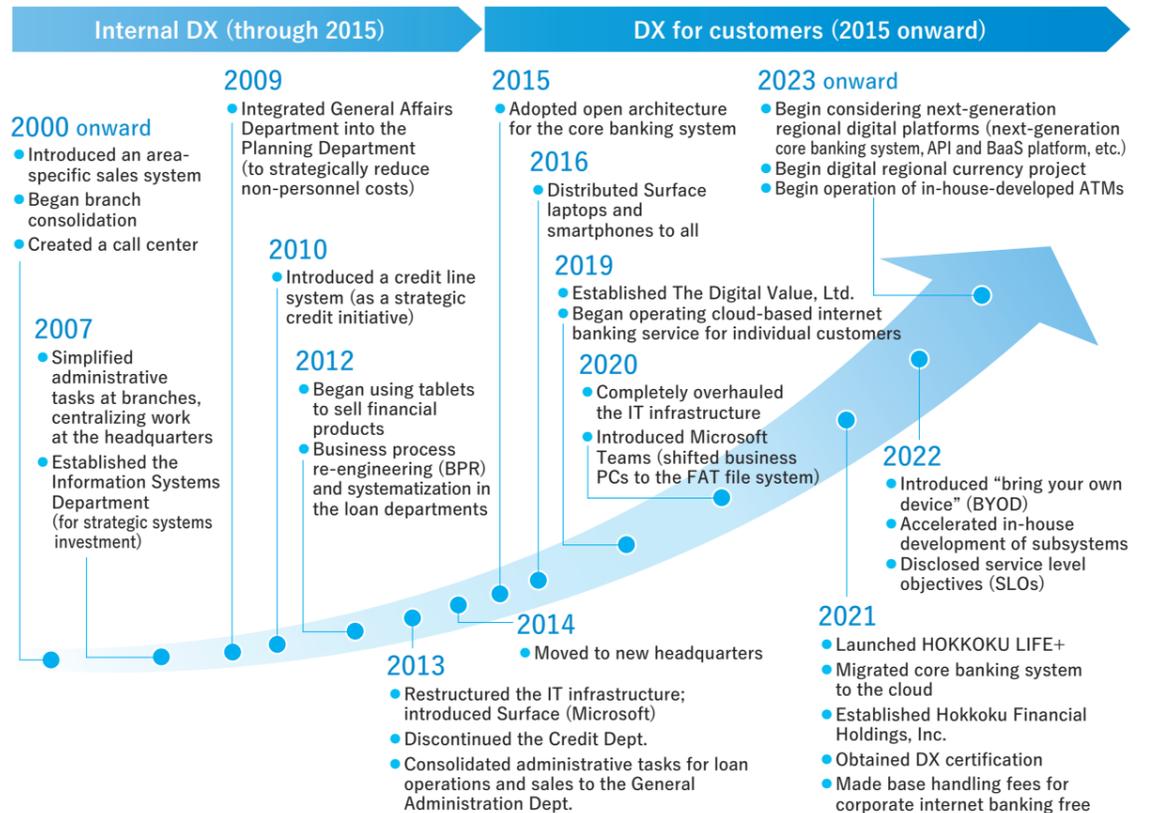
In 2013, we distributed tablet PCs to all employees so that they can work freely without being restricted to a location. We also increased information transparency through the use of groupware, which helped us create a flat organization and improve productivity.

In 2019, following the release of a public cloud-based internet banking service for individual customers, we established an IT company, Digital Value, to further accelerate digital transformation (DX). Thereafter, we pressed on with in-house product development based on the concept of “agile + cloud” and with the participation of IT engineers from across Japan. In 2021, we reduced costs by migrating our full banking system to a public cloud service, the first endeavor of its kind in Japan. As the next step, we have begun developing a banking-as-a-service (BaaS) platform to provide banking functionalities to other systems via API, centering on a next-generation core banking system that operates in a more cloud-native environment.

Over the years, our corporate culture and the mindset of our employees have changed substantially. Some 15 years ago, the organization was highly vertical and hierarchical, but it is now flat and agile thanks to the initiatives outlined on the right.

These long-standing initiatives have nurtured our ability to build products using digital technology and an organizational culture of DX that underpins such ability.

## DX initiatives to date



Consistently deliver messages from top management and planning departments to all employees to change mindsets and promote reskilling

Improve information transparency and achieve nonhierarchical communication through the use of groupware and communication tools including Teams

Practice agile thinking and actions by having employees from business departments participate in development teams

Implement DevOps and agile training for all employees and new hires

Increase diversity by actively promoting mid-career hires and collaboration with outside partners

Obtain latest knowledge on DX and innovation by dispatching personnel to Silicon Valley

## DX and modernization

### Modernization

“Modernization,” as we see it, refers to the fundamental revamp of legacy systems, and even businesses and operations, done together with the dramatic improvement of system development productivity through the adoption of modern

technology, architecture, and agile and other development methods attuned to the rapidly changing VUCA era.

### Cloud strategy envisioned by Hokkoku FHD

Since 2017, we have actively utilized public cloud services, embracing a cloud-first approach. Among the parties concerned, there was much attention on whether public cloud was suitable for financial institutions. Against this backdrop, in September 2019, we launched our internet banking service for individual customers on Microsoft Azure. In May 2021, we migrated our core banking system to the same cloud platform. These moves simplified infrastructure procurement and development and helped us speed up the implementation of our IT initiatives. Even in terms of quality aspects such as security and availability, we were able to improve our operations compared to the past when we handled matters with limited in-house resources. That said, we have yet to fully harness all the potential of cloud technology and there is so much more to pursue. We plan to step up our efforts in cloud-native development exemplified by keywords like microservices, containers, and CI/CD, and optimize our system infrastructure, adopting both the multi-cloud strategy that takes advantage of multiple public clouds, and the hybrid cloud strategy that leverages on-premises. We will simultaneously accelerate and enhance the quality of our system development by focusing on cloud-native, multi-cloud, and hybrid cloud.

Hokkoku FHD's cloud strategies

Phase	Cloud 1.0 (through 2015)	Cloud 2.0 (2016-2019)	Cloud 3.0 (2020-2022)	Cloud 4.0 (2023-2025)	Cloud 5.0 (2026 and beyond)
<b>Mindset</b>	Try to migrate part of the subsystem	Exclude important systems from the scope of migration Migrate to cloud, starting with subsystems	Cloud first Migrate all systems to the cloud	Use the cloud appropriately	Spread the use of cloud in the region
<b>Internet connection</b>	Use of PC dedicated to internet access Perimeter network	Perimeter network using thin clients	Use of FAT /internet connection Introduction of zero trust architecture	Active internet use Full-scale introduction of zero trust architecture	Active internet use Full adoption of zero trust architecture
<b>Core banking system</b>	Adopted on-premises and open architecture	Adopted virtualization and open architecture	Operating on IaaS	Active utilization of PaaS Partially in-house developed and agile	Multi-cloud and hybrid cloud Evolve to BaaS; two-way API connection In-house developed and agile
<b>Subsystems</b>	Testing cloud at the proof-of-concept level	Migrated subsystems to IaaS via lift and shift	Active utilization of PaaS Partially in-house developed and agile	Cloud native development In-house developed and agile	Multi-cloud and hybrid cloud In-house developed and agile

Use of cutting-edge technology

Generative AI, as represented by ChatGPT, is poised to have a profound impact on system development and business efficiency optimization. To improve development productivity and quality, we have also begun using AI to automatically generate programming codes and fix bugs in our projects for a corporate internet banking service and an internal web system. However, so far, we have identified benefits only in a few standardized program areas, so we are looking forward to further AI evolution.

We also think AI can be used to train our new engineers, by having it generate model program codes. Additionally, the use of AI is likely to expand for Q&As within the company and with customers. In the past, employees had to manually draft anticipated questions and corresponding answers, but from now on, responses can be generated automatically using a generative AI engine with internal data as input. This would allow the inquirer to obtain the required information more quickly and with certainty. We have already started an initiative to improve operational efficiency as well by loading an AI engine to the chat tool we use internally.

Key strategic systems

We will enhance the value we provide to our customers and the local community through our strategic systems defined by cloud utilization and agile in-house development.

● Hokkoku Cloud Banking

Internet banking service for individual customers, Hokkoku Cloud Banking, has been used primarily through a smartphone app since 2019. We developed this service in-house using cloud technology and agile methodology. Since the previous internet banking service was on-premises and we outsourced the development, it was difficult to consistently capture customer needs

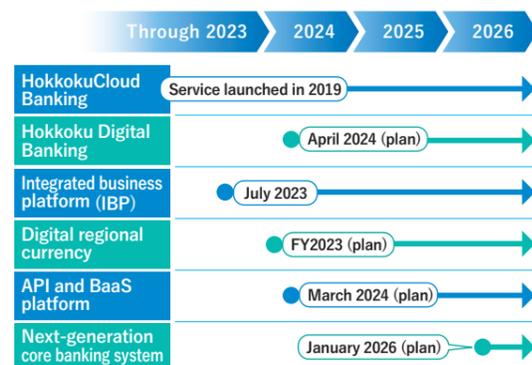
and promptly reflect them in the product. Moving forward, we will push ahead with in-house development and build the service into a platform that transcends conventional banking capabilities, offering diverse value to individual customers of the region.

● Hokkoku Digital Banking (Release planned for April 2024)

Hokkoku Digital Banking is an internet banking service for corporate customers, and the project is under way to make the service available in April 2024. As we are developing this service in-house using cloud technology and agile methodology, just like Hokkoku Cloud Banking, we expect it to be a platform that can consistently provide better services.

● Integrated business platform (IBP) (Released in July 2023)

Integrated business platform (IBP) is an in-house system that centrally manages customer information and workflows. It is a web-based platform that allows us to develop hypotheses based on data analysis and other means to provide better proposals and services to local customers. We have adopted cloud-native architecture as



the design methodology for IBP, and our engineers and members of the business departments are tackling agile development together as one team to provide value to our customers. Going forward, we intend to roll out IBP's development style and architecture to other in-house systems and create high-value products while implementing operational reforms.

● Digital regional currency (Release planned in FY2023)

We have partnered with Digital Platformer Corp. to introduce stablecoins that use blockchain technology. Users can load stablecoins from their bank accounts, use them for purchases at participating merchants' stores, and also convert the digital regional currency back to cash deposits. Additionally, we are looking into the possibility of enabling exchange with other digital regional currencies in the future. By expanding the uptake of an inexpensive cashless payment method, we will seek to raise the cashless payment ratio in the region, digitalize point systems, and thereby achieve efficient circulation of funds and improved productivity.

● API and BaaS platform (Release planned for March 2024)

Banking as a service (BaaS) refers to the provision of banking functionalities and services to business operators via the cloud by opening up the application programming interface (API) to external parties. We plan to expand our service offerings in stages, starting with remote account opening and fund transfer functions. We will also provide financial functionality-embedded apps tailored to specific industries (including restaurants, various retail businesses, etc.).

● Next-generation core banking system (Release planned for January 2026)

Our current core banking system already runs on a public cloud, but since the software emulates the architecture of the on-premises era, we are unable to take full advantage of the potential of cloud technology. As such, we began developing a next-generation core banking system to deliver products of value to our customers more quickly and to increase development productivity. We plan to build from scratch a core banking system that continues to grow with the latest technology, employing modern programming languages, microservices, and multi-clouds.

Initiatives for data utilization

We are also actively working on data utilization. In the past, efficient data use was difficult because data was dispersed across the core banking system and subsystems. As we make progress developing various systems in-house, we will centralize data management in the cloud and propose optimal products and services to our customers by integrating data with AI and other tools that continue to evolve. We also plan to utilize data to prevent and deter fraudulent use of services.

At the same time, we are focusing on fostering engineers who handle data. We have also established a

structure that allows appropriate analyses of aggregated data by having employees from our business departments take on reskilling to learn statistical analysis methods along with programming languages such as Python.

System risk management

Basic policy

To provide peace of mind to customers using the Group's services, Hokkoku FHD Group positions risk management of the systems supporting its services as a top priority. Under the leadership of our management, we have put in place a framework for managing system risks, and are working to elevate the level of our system risk management, including a focus on cyber security.



Stable service operation and convenience

We seek to provide both stable services and speedy and highly convenient services that utilize IT, so that our customers can use our Group's services with greater convenience, ease, and peace of mind. As part of this effort, we have posted the latest availability status of the Group's services on our website since November 2021. In January 2023, we started an initiative to promptly announce system failures via X(formerly Twitter). We also focus on business continuity planning (BCP) for our services in the event of a system failure, providing alternative means and promptly restoring the system to minimize the impact on our customers. Additionally, since FY2021, we have disclosed our service availability targets and results categorized by the importance of respective systems. We strive to improve our service quality by proactively disseminating service availability results and information on system failures and taking remedial measures against such failures.

● Constant disclosure of service availability status

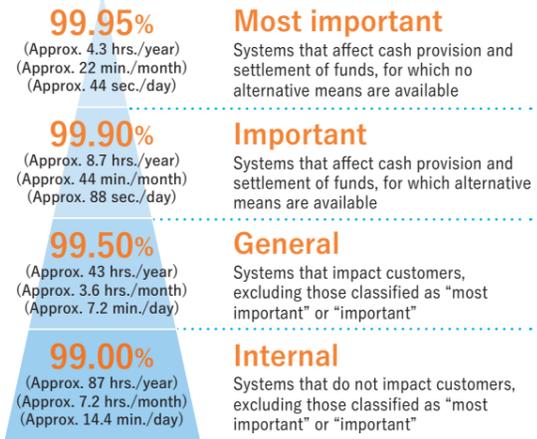
In the event of a system failure, we provide guidance on alternative means, in addition to posting the latest service availability status. We also post logs on past failures at all times to promote visualization of systems-related information.

Hokkoku Bank website (Japanese only)  
<https://www.hokkokubank.co.jp/other/notice/index.html>

● Service availability targets and FY2022 results

To meet the diverse needs of our customers, we believe it is important to maintain a balance between the provision of stable services and the provision of speedy and highly convenient services leveraging IT. Accordingly, we have set targets on service availability categorized by the importance of respective systems. By sharing with our stakeholders this information, together with the results, we will seek to provide services of value that are both stable and convenient.

Service availability targets



Availability of main services in FY2022

Name	Priority	Availability	Evaluation
Core banking system	Most important	99.99%	○
Hokkoku Cloud Banking	Important	99.92%	○
Hokkoku Web Access	Important	99.98%	○
Affiliated merchant terminals for Hokkoku Visa debit cards	Important	99.97%	○
Wallet app	Important	99.97%	○
ATM	Important	99.95%	○
Passbook updating machine	General	99.96%	○

\* All other services were available 100%.

Cyber security

Hokkoku FHD Group has been strengthening and promoting security-related efforts to protect customers' valuable assets and information. We have internally shared our vision on cyber security through what we call the "security strategy story" to create an organization where each employee takes security measures as a personal responsibility. We also intend to help improve the overall IT security of our local community by sharing the Group's initiatives with our customers and local residents.

Security strategy story

Phase	Security 1.0 (through 2013)	Security 2.0 (2014-2019)	Security 3.0 (2020-2021)	Security 4.0 (2022-2024)	Security 5.0 (2025 and beyond)
<b>Vision</b>	Pursue security through complete separation from the outside	Accept partial connection with the outside with convenience in mind	Accomplish both convenience and security	Enable collaboration within the entire supply chain including group companies and IT partners	Contribute to regional DX through security
<b>Technology</b>	Separation-type defense Shared terminals	Perimeter defense Terminals lent out for individual use Thin client architecture	Introduction of zero trust architecture*1 Terminals lent out to all employees Use of third-party SOC*2	Full implementation of zero trust architecture Consider introduction of SASE*3 Bring SOC in-house	Beyond zero trust and SASE (use of cutting-edge technology)
<b>Human resource development</b>	Minimum training for internet PC users	One-off security training for all employees	Regular security training and bolstered information dissemination	Strengthen supply chain management (boost group literacy, promote education of outside contractors, etc.)	Promote security to the region
<b>Development method</b>	Security was low in priority	Security considered individually	Trial run of "shift left"*4 (considering security from an early stage of a project)	Full implementation of "shift left" Promote DevSecOps	Share expertise on security development
<b>Organizational structure</b>	Handled in a similar manner as a natural disaster	Built CSIRT framework*5	Strengthened CSIRT activities by establishing the Security Group	External activities by the Security Group on a trial basis	Initiatives to share information within the region

\*1 Zero trust: the concept of verifying each communication without distinguishing between internal and external communications and not trusting any. \*2 SOC: short for "security operation center." Refers to a center that monitors and handles security incidents around the clock, 365 days a year. \*3 SASE: short for "secure access secure edge," which is a security model proposed by Gartner, Inc. in 2019. An architecture for managing network and security functions together in the cloud. \*4 Shift left: an initiative to shift to the left side of the system development process flow (i.e., define requirements→design→develop→test→operate), for instance, by designing with security in mind from the initial stage of the project, and bringing in-house or automating the security diagnosis process (for the developed systems) from the development stage. \*5 CSIRT: short for "computer security incident response team." The team handles the processes of "identify, protect, detect, respond, and recover" as defined by the NIST Cyber Security Framework. Priority and depth of response are determined in consideration of the structure we have in place. Our CSIRT was established in April 2016.

Our security philosophy

Amid the constant evolution of cyberattack methods, it is becoming increasingly difficult to fully protect systems and information from malicious attacks with only conventional perimeter defense measures. For this reason, the Group is working to implement security measures based on zero trust architecture, which allows flexible responses to the evolution of attack methods without hampering user productivity. Depending on the system and information we want to protect, we take on a hybrid approach of using both perimeter defense and zero trust as necessary to ensure security.

To improve productivity while simultaneously bolstering security, we have shifted our approach to IT environment control from a rule-based approach to one that is based on principles. We will improve employee IT literacy, a prerequisite for the principle-based approach, by providing support through continued education and motivational activities, and at the same time enhance detective controls such as log monitoring and behavior detection based on the zero trust approach. Through these measures, we will build a safe and convenient IT environment.

Cyber security management structure

We address security risks through close daily communication, utilizing the reporting system we established within the Group and the collaborative framework we formed with external parties. In the unlikely event of an incident, a task force will be established and the Group-wide CSIRT will take actions to quickly bring the situation under control.

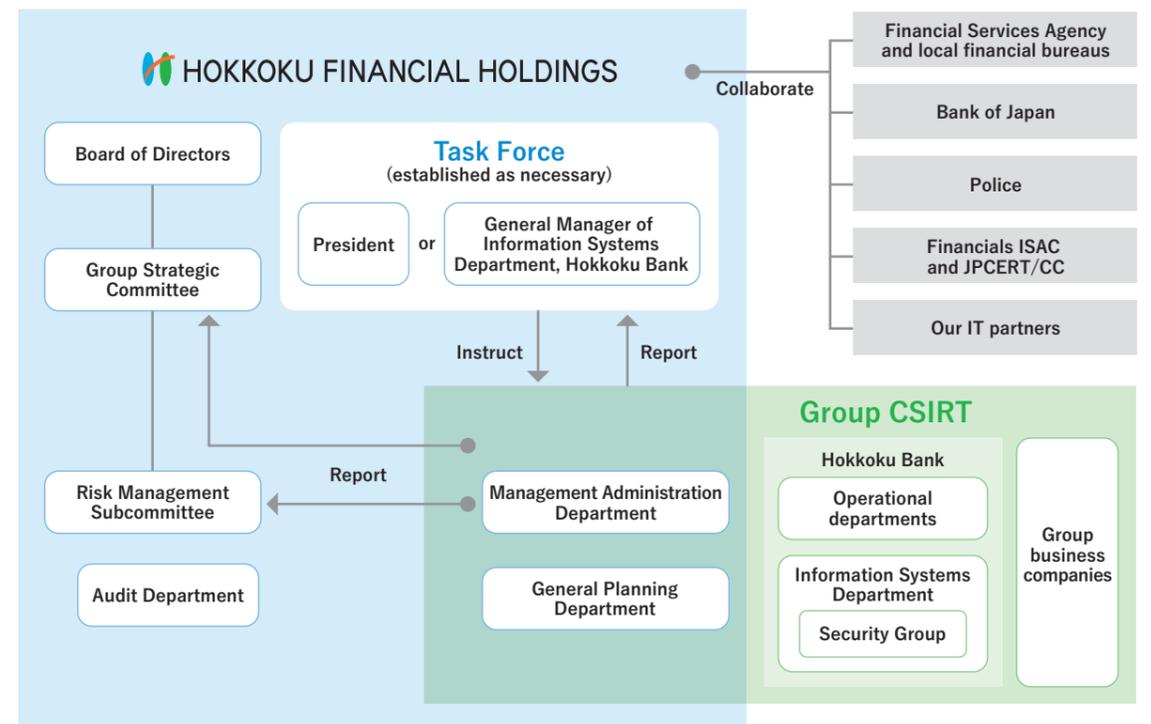


Approach to other financial institutions

The use of digital technology is indispensable to the fulfillment of our corporate philosophy and brand philosophy. Since our system strategy is an important roadmap in this journey, we update it annually to keep it in line with the constantly changing world and our company's state of affairs.

Many regions in Japan share the same conditions and are equally aware of the issues at hand. The challenges are certainly not limited to Hokuriku, where we are based. Regional financial institutions that lead their respective localities are expected to take the initiative in resolving regional issues.

To raise the quality of each region, we hope to collaborate with financial institutions that share the same values, providing our digital solutions and exchanging human resources with a view to mutually enhancing corporate value.



# 7

## Initiatives for Human Capital-Oriented Management



### Aiming to develop human resources that can contribute to improving the quality of the region

#### Aki Yokogoshi

Managing Executive Officer, General Manager of Human Resource Development Department  
Hokkoku Financial Holdings, Inc.



#### When human capital-oriented management bears fruit

There were a number of welcome news items in the spring of 2023.

In February, we received the Human Capital Leaders 2022 award, being selected as one of the top 10 companies out of over 530 companies nationwide for our efforts in human capital-oriented management and information disclosure.

In March, following the certification of Hokkoku Bank in 2022, Hokkoku FHD was certified as a White 500 company under the 2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program. As a result, we became widely known as a Group that values the physical and mental health of its employees.

Furthermore, around the same time, we received the Minister of Regional Revitalization award at the 13th “Companies that Deserve to be Valued the Most in Japan” Awards. This award recognized us as a company that valued its employees and their families, as well as its customers, the local community, and shareholders.

Over the past 20 years, we worked to improve our systems strategy and organizational capabilities, while reforming our sales strategy. Following these efforts, we finally embarked on measures for our people, a key endeavor, and introduced a career-based personnel system. The accolades we received were a testament to this endeavor bearing fruit, albeit gradually, and to its positive reception by people outside the Company.

The book, *Brushing Up Human Resources Energizes Companies and Local Communities*, published in August 2022, is the fourth book co-written by our employees. It gives the details on our performance evaluation and personnel system reforms, along with the background and the essentials that made our transformation possible. We used to receive many questions regarding these areas in the past. Today, we are receiving an increasing amount of feedback noting that the book well explained why Hokkoku was able to accomplish digital transformation (DX) and other advanced initiatives at such a rapid pace. We are delighted that our

efforts have become widely known and are contributing to the improvement of our organizational capabilities.

#### Business strategy and human resource development strategy

Needless to say, human resources is the most important factor in accomplishing our mission of becoming a “Quality Company, Good Company.” As we continue to update our business strategy on a daily basis, the level of resources we require becomes more sophisticated and specialized. Hokkoku FHD has updated its human resource development strategy in line with the business strategy, engaging in various initiatives aimed at developing talent who can contribute to improving the region’s quality (see p. 100, “Story of personnel system reforms”).

Corporate culture is an indispensable element for our employees to perform to the best of their abilities.

A flat organization where employees can thrive regardless of job level or age, and a corporate culture that ensures employee the psychological safety to engage in discussions freely have underpinned our endeavors in new businesses. As a result, Hokkoku FHD, once considered an overly cautious company, is now known for being an advanced and leading example of DX.

We have evolved from an organization of the Showa period (1926–1989) that valued a top-down and vertical culture to a flat and agile organization of the Reiwa period (2019 onward). We are expected to think on our own and reach answers based on the constant communication we engage in across teams and companies. As long as each employee embraces integrity and has abundant soft skills, the focus of our discussions is on “what was said” rather than “who said it.” This approach leads to more meaningful discussions, which serve as the driving force behind the Company’s ability to rapidly advance innovations.

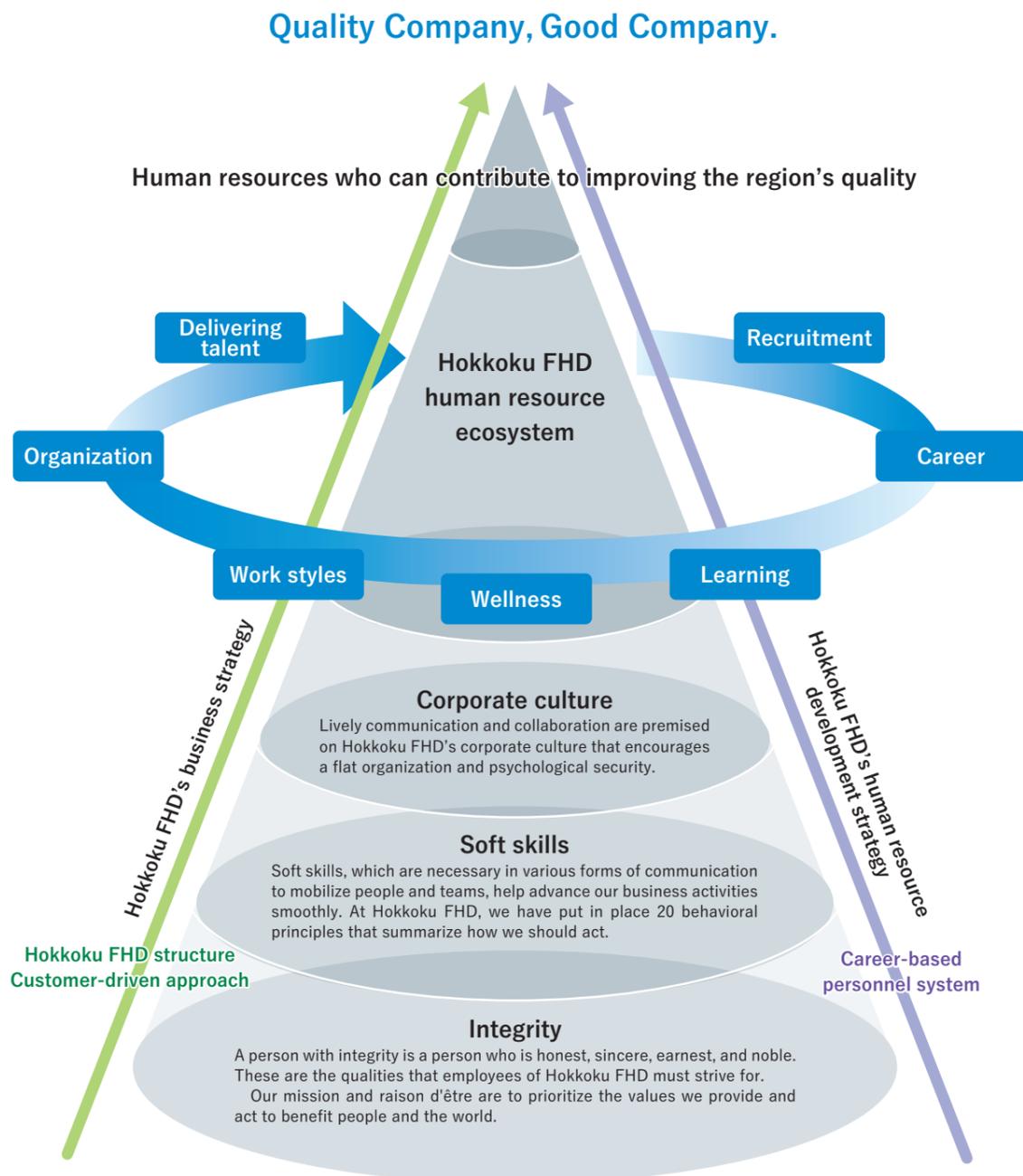
As we seek to improve the quality of the overall region, we have introduced a unique career-based personnel system and have put in motion a “human resource ecosystem” to nurture professional talent who share and can contribute to our mission.

## Hokkoku FHD's human resource ecosystem

We define our human resource ecosystem as a comprehensive framework for human resource development spanning recruitment to development and preparation for a second career after retirement.

Integrity forms the foundation of our human resource development strategy. In hiring and utilizing human resources, integrity becomes an indispensable element. Furthermore, personnel with the soft skills embodied in our 20 behavioral principles create a corporate culture rich in communication and collaboration. Only with this corporate culture can our human resource ecosystem work effectively.

The starting point of our human resource ecosystem is the recruitment of people with diverse values who have an affinity with our corporate philosophy and brand philosophy. As the people we hire tackle their own career plans, we provide them with opportunities for learning and help them maintain their physical and mental health (wellness). To enable more flexible work styles, we continue to update related systems with a view to creating a flat organization where everyone can thrive. As a result, those talent who have acquired various experience and skills at the Company take off as top executives of local companies to exert their strengths and improve the quality of the region.



## Hokkoku FHD's career-based personnel system

In March 2022, we updated our personnel system to a career-based personnel system.

In light of the changes in our social environment, we began discussions to update our personnel system from around 2018. This developed into a full-scale project in the spring of 2020. What kind of personnel system matches the rapidly changing times that pose no clear answer? What kind of human resource development should we pursue? We explored answers to these questions one by one and created a personnel system from scratch, rather than reworking the system at hand. During the creation process, we devoted attention to the framework for supporting each employee's career. This is a one-of-a-kind personnel system aimed at the efficient operation of our human resource ecosystem, the improvement of the region's quality, and the fulfillment of our philosophies.

### Reasons for upgrading the personnel system

In recent years, the social environment surrounding the Company has changed owing to the aging population and dwindling birthrate, as well as progress in digitalization and globalization. Corporate business models have also evolved. Against this backdrop, customer needs have also diversified and specialized. In the past, we were expected to perform traditional banking operations with accuracy and certainty. Today, we are expected to see the customer's business model from a bird's eye view and provide specialized support and other highly value-added services based on each customer's conditions. To address such needs, we had to move away from a traditional seniority-based organization and build one that could create innovations through the collaboration of diverse talent. We needed to create a system through which diverse personnel could hone their skills and exert their strengths to improve the region's quality.

#### Three key features of the career-based personnel system

- Career reviews to foster employees and encourage autonomous career development
- Wage determination based on dialogues focusing on roles and provided values
- Reform of retirement payment scheme to suit greater labor market fluidity

#### ● Career reviews to foster employees and encourage career independence

For an organization to grow in times of rapid changes, its employees' individual growth becomes important. Employees are expected to proactively think of their own career plans and use them to achieve personal growth.

In support of this, we have introduced career reviews, a mechanism for reviewing each employee's work (actions) to help them fulfill their expected roles in the Company and realize their career goals. We eliminated the conventional performance appraisal and personnel evaluation systems. Instead, we created a system that focuses on dialogues for growth and autonomous career development, rather than evaluating employees based on quantitative metrics.



#### ● Wage determination based on dialogues focusing on roles and provided values

Under the previous personnel system, we adopted a wage structure in which the concept of role-based grading was partially incorporated into the so-called ability-based grading system. However, we did away with the previous scheme and transitioned to a wage structure that focused on the four elements of skill, role, productivity, and level of contribution. Under the new framework, we determined final wages based on company-wide dialogue, collecting feedback from the leader (superior) in the employee's own department as well as leaders and related parties of other departments the employee had interactions with. Through this transition, we were able to eliminate the trace of seniority based on length of service prevalent in the ability-based grading system, and moved closer to a wage system that is based on roles and the values provided.



#### ● Reform of retirement payment scheme to suit greater labor market fluidity

Under the previous personnel system, the trace of length-of-service-based seniority stood out even more in the lump-sum retirement payment scheme than in the wage structure. Today, resources are moving with greater fluidity, and to attract talent with diverse backgrounds, we had to fundamentally change the system.

In line with the elimination of length-of-service-based seniority from wage determination, we made a bold amendment to add a certain percentage of the retirement payment (originally slated for lump-sum payment) to monthly wages. Since wages no longer reflect seniority based on length of service, this aspect also holds true for the portion of retirement payment added onto monthly wages. This has enabled us to put in place a wage structure in which mid-career hires can play an active role without being disadvantaged by their shorter service years. In this way, we were able to lay the groundwork for welcoming diverse talent.

We named the portion added to the monthly wages "career support incentives." By contributing the sum to a defined contribution pension plan, employees can now prepare for their future life plans or invest in various learning opportunities for themselves. The framework has truly transformed into one that supports the career of each employee.

# Recruitment

We seek to broaden our scope of collaboration and create innovation by hiring people who can have an affinity with our corporate and brand philosophies.

We do not necessarily depend on new graduate hires. Instead, we consciously focus on mid-career hires based on the belief that diverse backgrounds can be a force that drives innovation.

Ideal candidates for the Company are those who possess integrity and firmly relate to our corporate and brand philosophies. In other words, we are looking for teammates who share our aspirations and will work together with us for the betterment of society and people's lives. It is also important for them to be true professionals with the expertise and visionary thinking to contribute to the enhancement of the region's quality, and with the persistence to consistently hone their skills toward the creation of new values.

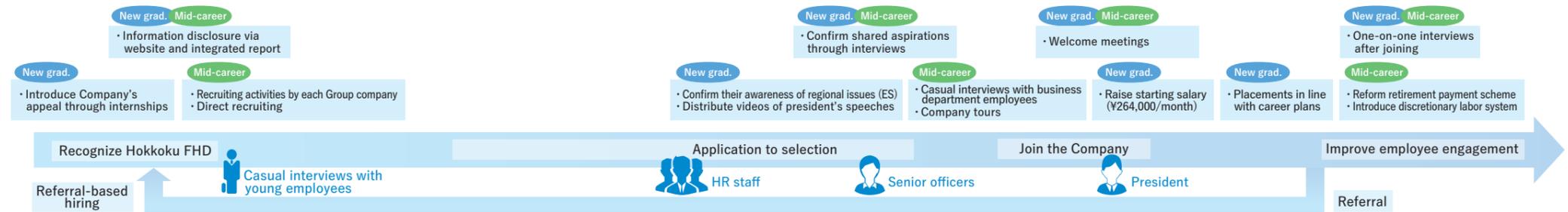


## Story of Recruitment



## Establishing various contact points during the hiring process

During the process from application to selection and joining the Company, we aim to establish multiple touchpoints between the candidates and our people, including our president, to confirm whether the candidates truly have an affinity with our corporate and brand philosophies, or said differently, share our aspirations. Through this effort, we ensure that the candidates remain highly motivated and perform to the best of their abilities after joining the Company.



## Hosting welcome meetings

Instead of holding a traditional entrance ceremony, in April 2022, we began hosting welcome meetings, which allow new hires of each group and our president to communicate interactively in an informal atmosphere.

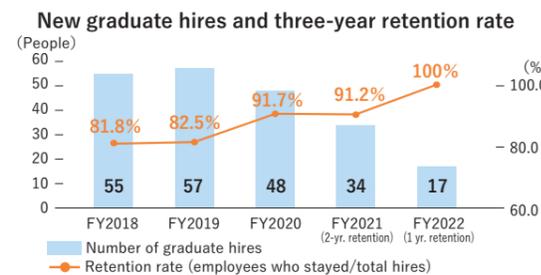
The welcome meetings have taken root as an opportunity for new hires to engage in dialogue and deepen their understanding of the Group's goals and strategic objectives.



Welcome meetings with new graduate hires (top photo; April 2023) and with mid-career hires (bottom photo; May 2023)

## Placements in line with career plans

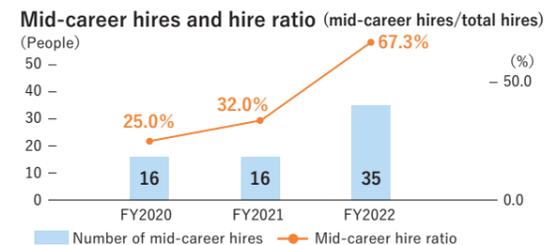
In line with the career-based personnel system, which enables employees to map out their own careers, in 2022, we introduced an initiative to assign new graduate hires to jobs of their choice after having dialogues with them. As a result, new graduate hires in 2022 showed high engagement with a one-year retention rate of 100%.



## Introduction of career-based personnel system

Amid increasing labor market fluidity, we have changed our retirement payment scheme, introduced a system to determine wages based on dialogue (eliminate length-of-service-based seniority), and put in place an environment where employees of diverse backgrounds can take on active roles without being disadvantaged by their shorter service years.

In terms of job categories, we are receiving many applications from people in the systems, consulting, and design fields, and a diverse group of talent continues to join our team with a view to enhancing the region's quality. We make a conscious effort to achieve a mid-career hire ratio of at least 50%.



## Introduction of discretionary labor system for specialized work

When Hokkoku FHD shifted to the career-based personnel system in March 2022, it made the rules of employment and compensation systems uniform throughout the Group.

Additionally, some Group companies have adopted the so-called discretionary labor system for specialized work to attract specialist talent with advanced skills. The intent is to have in place a flexible hiring structure that meets the work styles, compensation schemes, and other needs of the desired candidates.

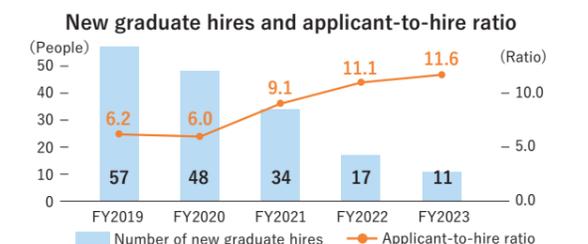
## Efforts in the selection phase

In recruiting new graduates with abundant potential, we emphasize whether what the candidate wants to accomplish through work matches the corporate and brand philosophies of Hokkoku FHD, and whether we share the same aspirations.

We check candidates' aspirations from different angles as we go through the application sheets and conduct interviews. We want to meet students who consider regional issues as their own personal matters and are keen to confront such issues. Hiring new graduates is a long-term investment for us. Since they are the source of our future creativity, we also place importance on their attitude and willingness to continue learning.

## Increasing contact points with students

The applicant-to-hire ratio serves as a metric to assess the Company's recognition. Our applicant-to-hire ratio for new graduate hires has been on the rise in recent years, but according to our analysis, the figure reflects both the declining number of hires and the lack of interest in regional financial institutions on the part of students. We plan to further promote Hokkoku FHD's appeal as a company where employees can participate in projects that transcend the traditional banking framework.



### To the job of my choice in the Audit Department following department presentations

**Shuto Okada** (joined in 2022)  
Audit Department, Hokkoku FHD



I decided to join Hokkoku FHD, thinking that it would most allow me to contribute to the progress of the region where I was born and raised.

During the training period, the Company held department presentations to explain the operations of each Group company and department. This opportunity gave me a good idea of the actual work involved.

The Audit Department was my first choice for the

assignment because, considering my future career, I wanted to see with my own eyes the resources Hokkoku FHD had to offer in its entirety.

I had thought that all new graduate hires would be assigned to corporate sales (Corporate Banking Department of Hokkoku Bank), so I was very surprised when I found out that the Company accepted my wishes and assigned me to the Audit Department.

As I lack work experience, I need to make continuous efforts to hone my skills. That said, I am very satisfied with my work and sense that I am growing every day.

In the future, I hope to use my experience in the Audit Department and work to improve the corporate value of our customers. By doing so, I would like to contribute to the sustainable growth of our region.

# Careers

The coming era is one that focuses on individual careers. In times of dramatic changes, there is no one right career. People are expected to come to grips with their own careers, constantly keeping them in thought. At Hokkoku FHD, we value each employee's wish to explore areas of interest, and do not take the lead in deciding the career direction. Instead, we seek to provide support by working alongside our employees in their career development efforts.

We also believe that progress in the career development of diverse resources maximizes the energy generated in collaborations. As such, we are also working to support career development from the perspectives of female empowerment, active roles for athletes, and active roles for people with disabilities.

By supporting career development, we hope to motivate our employees, generate high engagement, and contribute to the betterment of our local community.



## Story of Career



## Employees' autonomous career development

For an organization to grow amid changes in the social environment and the diversification and specialization of customer needs, it is necessary to develop professionals who can contribute to improving the quality of the region. To accomplish this task, we believe that employees must design their own career plans and work toward fulfilling their visions proactively and with great enthusiasm.

There is more than one career direction, and there is no one right answer. If we liken careers to a mountain, each person's choice of which mountain to climb (high, low, or steep), the route to the summit, the speed of the climb, and necessary preparations will differ considerably based on the person's values and perspectives. Likewise, we hope to see all our employees constantly explore their goals and answers, make their own decisions, and take the initiative in developing their own careers. Through such efforts, we believe the Company can become an innovative organization rich in diversity and creativity.

For employees to develop their own careers, we find it important to help them understand themselves, understand their work, and have opportunities to communicate with a wide variety of people. To this end, we are working to establish various systems and introduce new initiatives.

Moving forward, we will continue to support our employees so that they can choose their own careers, proactively make efforts in their career journeys, and achieve personal growth along the way.



## One-on-one interviews with all employees

As the first step toward autonomous career development, in 2019, we began conducting one-on-one interviews with all employees, thinking that it was important for them to first understand themselves and to learn how to make the most of who they are.

According to our records, we conducted over 42,000 one-on-one interviews in FY2022. Our efforts in promoting autonomous career development for each and every employee are taking root.

One-on-one interviews are regular meetings between leaders and members, conducted at least once a month. In these meetings, it is important to give members an opportunity for discovery. We see these meetings as opportunities for members to understand their own interests, thoughts, and values. Accordingly, we provide support so members can learn about themselves, envision their own goals and aspirations, and take action to accomplish them.

## Career visualization via My Career, an in-house-developed HRM system

To foster our resources and promote autonomous career development, in February 2021, we introduced "My Career," an HRM system developed in-house. My Career allows us to consolidate and visualize various information, including employee profiles, skills, career plans, and work experience. Since everyone can look at their colleagues' career plans and their efforts toward achieving them, the system greatly stimulates our employees. Also, information on individual departments and the required skill sets, as well as hints on self-development, are posted on My Career, and it serves as a tool for our employees to contemplate their career moves.



## Career Month

To provide regular opportunities for our employees to give serious thought to their careers, we hosted our first Career Month in November 2022, designating it as a period to think and act on career issues in a focused manner. During the month, we offered career design training and disseminated career-related information. Our second Career Month, held in May 2023, featured career-related roundtable talks and tailor-made career interviews where employees could have a one-on-one meeting with anyone in the Company.

### Career design training

We held career design training sessions to provide an opportunity for employees to give serious thought to their careers and map out their career plans proactively and strategically. In this training, attended by about 130 employees, the participants reviewed their own careers to date and took part in group discussions with other employees with whom they have little interaction in their regular jobs. Many participants commented that the training gave them a fresh opportunity to reflect on their past and see their own progress and growth. They also said that in the group discussions, they heard the ideas of people from different departments and age groups and were exposed to perspectives different from their own. We will continue to foster career awareness and nurture personnel who can drive their own careers.

### Tailor-made career interviews

We provided opportunities for one-on-one meetings between our employees, calling them tailor-made career interviews, so that our employees can learn about Hokkoku FHD's wide range of business operations and gain hints for their own career plans.

Based on an application system, a sales department employee, for instance, could have an interview with a systems department employee, or a regular employee could have an interview with managers in other departments. In such a way, these meetings provided an effective opportunity for dialogue between employees in different positions and roles.

Gaining diverse knowledge on other employees' values, experiences, skills, and job areas has motivated our people to envision their own careers and take the first step toward the achievement of career goals.

## Collaboration program

To support employees' careers and encourage them to test their own potential, we have introduced what we call a collaboration program through which employees can take on side jobs within the Company. Since the launch of this program in October 2020, a total of 526 employees have taken on side jobs in 47 projects.

Of this number, 15 participants have moved to the departments where they engaged in side jobs via the collaboration program and started their new careers.

The program serves as a good stimulus for the departments accepting applicants for side jobs as well, because it helps generate concepts and ideas that cannot be created by the departments' own staff alone.

We plan to regularly implement this program to help employees grow and accomplish their career plans, and to contribute to active discussions and innovations within the organization by encouraging collaboration of diverse talent.



## Career support team

In May 2021, we established a career support team to support our employees' autonomous career development through the professional perspectives of career counselors. We have put in place a system that enables career counseling with qualified career counselors within the Company, providing employees with opportunities to receive advice on career-related worries and concerns from a third-person point of view.

The career support team uses dialogue to extract information on the counselees' interests and concerns, encourages self-reflection, and works alongside the counselees so that they can envision their career goals and take action.

Through this initiative, we support our employees in their individual endeavors to live actively, being satisfied with their work and private lives, and to pursue their vision with enthusiasm.

## Expanding fields where female employees can thrive

Bringing together people of diverse values and perspectives gives rise to multifaceted and creative ideas that lead to innovations. We support women's empowerment so motivated employees can perform to the best of their abilities regardless of gender. We will contribute to value enhancement by allowing everyone to maximize their potential and thrive, maintaining a balance between work and personal life without putting careers on hold even during childbirth and other important life events.

The percentage of female chiefs in management roles as leaders has reached 46.3%, accounting for nearly half of the total, reflecting a year-by-year increase in women taking active roles within the Company. The ratio of female managers stood at 20.3%, which is less than half of the total, but still an 11.1% uptick from five years ago. This also indicates a steady increase in fields where female employees can thrive. Meanwhile, there were only two female executive officers (3.6% of the total) as of March 2023, and we understand this to be an issue to be addressed going forward in the area of female empowerment.

We believe a greater representation of women taking on active roles and a diverse workforce lead to innovation. Accordingly, we intend to increase the number of female employees involved in decision-making within the organization, and continue to promote their growth into professionals equipped with a management perspective. We will not limit the scope of opportunities for motivated and ambitious women, and instead provide them the necessary support to take on career-oriented challenges and gain diverse experiences.

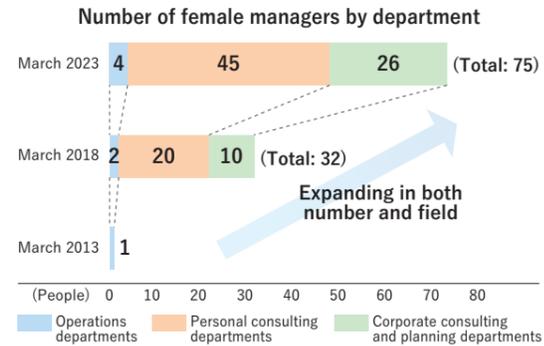
Ratio of female employees by job level (March 2023)



## Female managers active in diverse job areas

In addition to job levels, diversity in job areas is another important factor for female empowerment in the workplace. We had our first female manager in April 2012, and today, the number has increased to 75. The scope of job fields in which our female managers take on active roles has expanded, starting with the operations departments, and moving into the personal and corporate consulting departments, as well as project planning departments. That said, we feel that the relatively high concentration of female managers in the traditional banking and personal consulting space remains an issue.

To increase the ratio of female executive officers (management talent), a challenging endeavor, we see the need to create opportunities in the project planning departments that are considered to be closer to management, and we hope to achieve this through resource placements going forward.



## Training to develop soft skills

We conducted soft skills development training because many female employees face challenges in soft skills, including those in communication, facilitation, and logical thinking.

Some 66 participants, mostly female managers, engaged in a curriculum designed to improve communication and facilitation abilities, as well as the ability to resolve problems based on hypothesis-based verification and logical thinking. The knowledge acquired through the training has been applied to developing team strategies, contributing to team management.

## Aiming to become a top executive or entrepreneur thanks to an opportunity for learning

### Fumiha Araki

Accounting and Administration Department, BPO Management, Ltd.

When I became a group leader, which is a management position, I began carrying a vague sense of anxiety toward my future career. At that time, I came across an internal posting regarding enrolment in a graduate school (MBA program), and decided to apply, hoping to systematically learn about management.

Attending graduate school while raising a child was a major challenge, but with the support of my family, I am looking to graduate next spring.

There is a virtuous cycle of input and output as I put the knowledge I gained at school into practice. The most rewarding aspect of my MBA experience has been the exposure to diverse perspectives and values through discussions with my classmates outside the Company. Such exposure has widened my viewpoint.

I have also listened to the stories of top executives who are professionals in corporate revitalization, and schoolmates who plan to start up their own businesses. These opportunities have brought me closer to the possibility of becoming a top executive or an entrepreneur and I began envisioning this path as my career plan. Currently, I am making efforts to exhibit ownership in a side job involving social contribution activities. Within the Company as well, I hope to show ownership and entrepreneurship and become a leader capable of providing value to society.

## Supporting the careers of athletes

Hokkoku FHD is home to a handball team called Hokkoku Bank Honey Bee, which has won the Japan Handball League title for nine consecutive seasons. The players work in the office during the daytime and spend time on the handball court during the evenings, serving as both business people and athletes. To ensure a smooth transition following their retirement as athletes, we support their career development as business people.

## Athlete engineer—from aspiration to reality

### Yuki Yoshidome

Information Systems Department, Hokkoku Bank Hokkoku Bank Honey Bee #17



### Q1. Why did you want to work in the Information Systems Department?

When I was considering job options in the office, I was attracted to the word "athlete engineer." It sounded interesting and I genuinely wanted to give it a try. When faced with making a choice, I have always chosen what sparked joy. I had great expectation in exploring uncharted waters and applied for a position in the Information Systems Department.

### Q2. What does your job in the Information Systems Department entail?

During the first year after being placed in the department, I was enrolled in an engineer development curriculum created for athletes. I started with simple training tasks, writing some programming codes and displaying and adjusting images, while also learning the basic knowledge required for systems work. As the next step, I created a travel website, and as the final project, I developed my own web system. As the curriculum progressed, I came across programming languages that I had never seen before, and struggled to understand their meanings and functions. I had zero knowledge of systems when I started, but by the end of the curriculum, I felt confident that I had acquired the skills and perspective on an engineer.

### Q3. How do you envision your future career?



I have been playing handball for 14 years, devoting more than half of my life to the game. Therefore, my original wish was to become a teacher and teach handball after retiring as an athlete, but now, I am also considering a future as an engineer. Becoming a teacher had been my only choice in the past, but after joining the Company, I was introduced to systems work and was able to discover new potential within myself as I continued my studies to work as an engineer. Moving forward, I would like to utilize my strong communication skills and grow further as an employee of Hokkoku FHD.

## Active roles for employees with disabilities

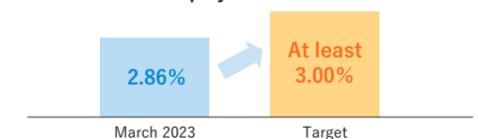
We have in place an environment where both people with and without disabilities can take on active roles in the workplace together, and where employees with diverse traits can work in a manner that suits their individual aptitudes.

We do not consider disability as a handicap, and seek to support people with disabilities from recruitment to empowerment in the workplace, based on our employment policy for people with disabilities.

### Employment policy for people with disabilities

- **Promoting employment of people with disabilities and diversifying human resources**  
Build structure that accepts diverse values by promoting employment of people with disabilities and diversifying human resources
- **Addressing the individuality of people with disabilities**  
Develop a rewarding work environment that allows people with disabilities to work in a manner that suits their individual aptitudes.
- **Understanding and spreading employment of people with disabilities**  
Build an organization that regards disability as a uniqueness, recognizes people with disabilities individually, and provides opportunities for them to thrive

Ratio of employees with disabilities



## Making full use of an environment where anyone can take on challenges

### Hiroki Uzuhashi

Operations Department, Hokkoku Bank

I decided to join Hokkoku FHD because many people with disabilities worked at the Company, as it offered physical accessibility, such as barrier-free facilities, as well as understanding and consideration for people with disabilities.

After joining, I was assigned to the operations center that oversees Hokkoku Bank's administrative operations. There, I handle administrative work associated with loans for individual customers, taking care of the series of tasks from checking customers' application details for various loans to wiring the funds. I had no prior work experience at a financial institution, so I became confused at times during the first few months. However, thanks to my colleagues' kind and thorough support, I became accustomed to the job and now find it enjoyable and fulfilling.

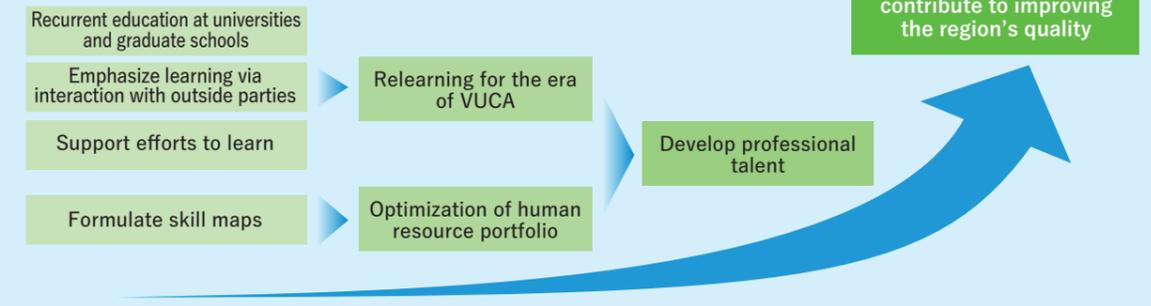
In addition to banking, Hokkoku FHD has Group companies in a variety of fields and offers a wide range of services. In the future, I hope to build on the skills I have cultivated to date and explore various job areas, stepping up my efforts so that I can contribute to the local community.

# Learning

Learning is an essential factor in creating human resources who can contribute to improving the region's quality. Hokkoku FHD offers its employees a place for learning based on the career plan designed by each individual. We emphasize learning that match the era of volatility, uncertainty, complexity, and ambiguity (VUCA), moving away from being overly focused on the banking business. We also actively encourage interaction with outside parties. In addition, we support employees who take on recurrent education proactively, and more than 30 employees are currently engaged in relearning at universities and graduate schools. What they learn is shared and accumulated within our organization as collective knowledge, which leads to innovations. In 2022, we launched an initiative to achieve a more sophisticated level of skill visualization, which would allow us to know where and what kind of skilled personnel exists within the Company. We plan to use this information to optimize our personnel portfolio in line with our business strategies and develop our human resources strategically.



## Story of Learning



## Development of professional talent

Human resources who can contribute to improving the region's quality: Hokkoku FHD defines such talent as professional talent, and positions it as a goal for its employees.

Said differently, professional talent is a person who possesses the knowledge and experience to generate new values in the region, and can continue to learn so that such knowledge can be updated to match the times.

In our definition, learning comes with the keyword "autonomous." We encourage our employees to engage in learning on their own initiative rather than being urged to do so by the Company.

## Recurrent education at universities and graduate schools

We believe that the typical skillsets required in banking operations are not enough to develop employees who are highly marketable in society and can be sent out to the local community as management talent. In fact, these individuals will need to obtain a wide range of skills. At Hokkoku FHD, we focus on developing talent fit for the VUCA era by expanding the field of learning to universities and graduate schools (MBA programs) as well.

Learning at universities and graduate schools is diverse, spanning themes from management strategy, marketing, and business plans, to leadership, allowing our employees to obtain a wide range of skills.

Our employees also have opportunities to output the results of their learning, through giving a presentation on the business plan they worked on in their graduation research and other projects. At times, the Company gets ideas for new business development from these presentations, so these initiatives lead to innovation and the sharing of learning within the organization.

### Number of employees currently enrolled in or have completed university or graduate school (MBA) programs

	Currently enrolled	Completed
March 2021	13	0
March 2022	22	5
March 2023	22	11

## Graduate study that helps career development

### Hideaki Yabuno

Executive Officer and General Manager of Life Planning Department, Hokkoku Bank  
Director and Executive Officer, FDAlco, Ltd.  
(Completed an MBA program in March 2022)



It was incredibly difficult to balance my MBA studies with work and family life. Still, the input and output of knowledge and the deep analysis and reflection I continued during the program allowed me to grow, and the experience was very meaningful to my career design, so I am very happy that I took on this challenge. The MBA education gave me the ability to see things from a bird's eye view and grasp the essence, instead of being trapped in the details. This skill has proven extremely valuable in my current position. I can confidently recommend this learning experience to my colleagues. Additionally, the Company's tuition subsidy\* program pushed my back to pursue education, and I am deeply grateful for the wonderful initiative.

\*Tuition subsidy: The Company subsidizes two-thirds of the graduate school tuition (over ¥2.0 mn)

## Learning that focuses on interaction with outside parties

To become marketable, a person must have business skills that are applicable anywhere. We actively utilize external content so that our employees can acquire such business skills. We seek to achieve innovation by giving our employees the business skills needed for value provision within and outside the Company, such as the ability to build ideas and derive answers.

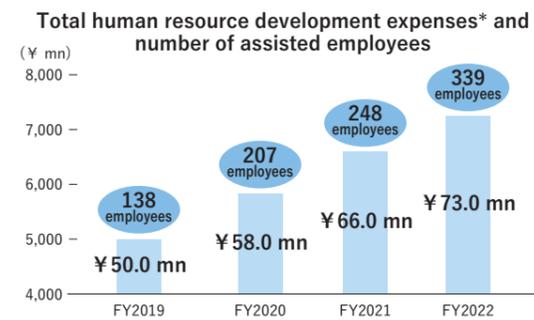
We also believe that these types of business skills are mostly obtainable through interaction with people outside the Company. Such external learning is likened to "matches between different schools." Our employees acquire knowledge and also gain the ability to put things into practice by repeatedly engaging in discussions with and providing output to outside parties.

The personal networks developed through these interactions continue on even after the learning sessions, allowing our employees to remain inspired by talent across a variety of industries.

## Supporting efforts to learn

### Partial subsidies for the cost of learning

We have been able to secure the time for learning by reducing overtime through improved productivity. To develop professional talent, we also have in place a partial subsidy program. Under this program, the Company subsidizes around half to two-thirds of the tuition for proactive learning efforts, including the acquisition of difficult qualifications and participation in external learning opportunities. The remaining portion is covered by the employee. We believe that an appropriate financial burden on the individual will engender a more proactive stance toward learning and result in greater success.



\*Total human resource development expenses: Total subsidies for the cost of learning and fees

## Open application-based and portable skills-oriented training

Since we emphasize self-driven learning, in principle, we post training opportunities publicly and expect our employees to apply on their own. By having them proactively choose what to learn, we encourage learning that is in line with the achievement of individual career plans.

Examples of Hokkoku FHD's training include sessions to acquire problem-solving skills or to understand and practice DevOps to improve team performance. Furthermore, in addition to acquiring portable skills, we believe that studying liberal arts such as social sciences and humanities can improve one's free thinking and actions concerning business management and organizations. Accordingly, these disciplines are also included in our training lineup.

## Establishment of skill maps

Needless to say, portable skills are important. However, to develop professional talent, it is also important to improve the hard skills that directly impact one's work.

Hokkoku FHD has established a system called skill maps that clearly indicate the hard skills required in a particular job area. In this system, an employee's hard skill levels, for instance, in corporate consulting, personal consulting, or digital/IT are determined based on the two axes of knowledge and the ability to put the skills into practice.

Skill maps give a clear image of the required skills vis-à-vis the career plans of individuals, so based on this information, employees can find out exactly what they need to learn.

From the Company's perspective, the system can be used to optimally align the human resource portfolio with management strategies or to plan personnel development strategies.

Since the system has only been in operation for a short period, the current scope of skill maps is limited to only certain business areas, but we intend to gradually expand the coverage to optimize our human resource portfolio and implement strategic personnel development.

## Status of learning activities

At Hokkoku FHD, each employee proactively engages in learning to fulfill their career plans.

A study conducted in January 2023 showed that roughly 85% of employees took part in learning activities in their areas of interest. For us to contribute to the improvement of the region's quality, learning is essential. Moving forward, we will press on with our efforts to strengthen learning activities for our employees in terms of both quality and volume.

### Status of learning activities (people) January 2023 survey with 1,634 participants (multiple answers accepted)

Obtained qualification	728
Took courses	628
Engaged in reading	931
Other	261
None	239

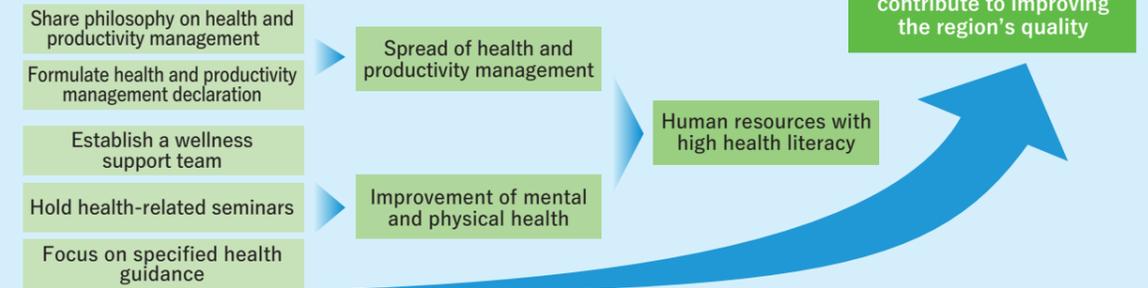
# Wellness

For our employees to perform to the best of their abilities as people serving the region, they must be healthy in both mind and body. To achieve this, the Company, including the management team, the Hokkoku FHD Health Insurance Association, and the Hokkoku FHD Employees' Union have been working together closely to spread awareness on the importance of good health, encourage work-life balance, prevent illness, and improve the Company's work environment. In the spring of 2023, we bolstered the staffing of specialists and created a wellness support team to accelerate our efforts toward ensuring the mental and physical health of our employees.

We intend to ultimately upgrade our health-related initiatives into activities that promote good health for the entire region. We will improve health literacy in the region and achieve evolution in the maintenance and promotion of good health.



## Story of Wellness



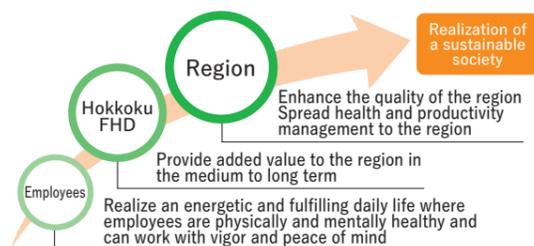
## Sharing of health and productivity management philosophy

Hokkoku FHD views the health of its employees from a management perspective. By investing in employee health, it seeks to maximize the organization's performance, improve the region's quality, and ultimately accomplish a sustainable society. To this end, the Company promotes health and productivity management.

The achievement of health and productivity management leads to improved corporate value, starting with the good health of our employees. It is one of our priority measures tied to our business strategy.

As such, health and productivity management is included in the discussion agenda for the Board of Directors and other management-level meeting bodies to clearly establish the involvement of our management. At the same time, we focus on initiatives that encourage employee participation, including the walk campaign held regularly.

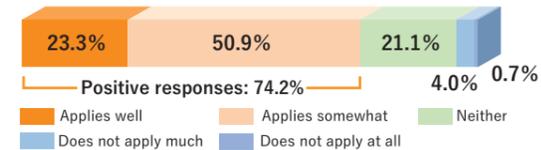
Our group-wide approach has resulted in the sharing of health and productivity management philosophy within the organization. Initiatives in this area are viewed as a growth strategy to achieve the Company's goals beyond simply protecting the health of its employees.



According to an in-house survey conducted to evaluate the penetration of health and productivity management within the Company, 74.2% of the respondents gave a positive response to the statement, "the Company cares about employee health." Including the neutral responses ("neither"), over 95% of the respondents showed a certain level of understanding of the Company's efforts toward employee health.

We will continue our efforts and announcements regarding health and productivity management so that the number of employees giving negative responses can be reduced to as close to zero as possible. We believe that this PDCA cycle will enhance the proactiveness of our employees who are central to this effort and lead to a more effective implementation of health and productivity management.

Responses as to whether the statement, "the Company cares about employees' health," applies to Hokkoku FHD (January 2023 internal survey)



## Formulation of health and productivity management declaration

We formulated the Hokkoku FHD health and productivity management declaration, and have disclosed the correlation between health and productivity management and our corporate philosophy, brand philosophy, and vision, as well as on the policies we pursue. The declaration is meant to clearly demonstrate our stance and show our commitment toward health and productivity management, both internally and externally. It serves as the foundation of our efforts in health and productivity management.

### Hokkoku FHD's health and productivity management declaration

Hokkoku FHD hereby declares that it will promote health and productivity management under the belief that employee health is the key driver of actions to enrich the lives of individuals and the society at large, as per the corporate philosophy of "trust—a bridge to a fruitful regional future."

#### Vision

To contribute to improving the region's quality as a next-generation integrated regional company by operating businesses in a wide variety of fields and from a customer-centric perspective

#### Action policy

- 1. Provide active support for the maintenance and promotion of good health**  
We will commit to the achievement of health and productivity management and drive forward the maintenance and further improvement of employee health through collaboration with the health insurance association and employees' union.
- 2. Create a comfortable work environment**  
We will strive to create a work environment that is rewarding both professionally and personally, by helping employees achieve a harmonious work-life balance.
- 3. Promote awareness of health and productivity management**  
We will spread the significance of health and productivity management among our employees and implement various initiatives to support them in their efforts to be physically and mentally healthy.

## Establishment of a wellness support team

Specialists including public health nurses, nutritionists, mental health workers, and industrial counselors are regularly stationed at the Company. Gathering these specialists, we have established the wellness support team, which collaborates with the Human Resource Development Department, and our health insurance association and employees' union. The team holds regular meetings on employee health and drives the PDCA cycle to promote health and productivity management.

The team also works closely with industrial physicians and commissioned mental health doctors. The collaboration allows it to provide more specialized support for the mental and physical health of our employees, even in a work environment that is becoming increasingly diverse and complex.



## Offering health seminars

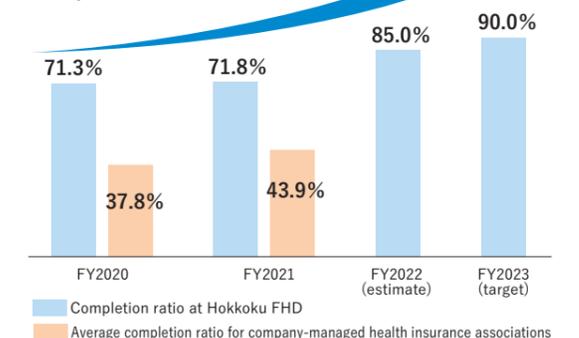
To encourage our employees to proactively engage in health and productivity management, we plan health seminars regularly hosted by our health insurance association and employees' union. In FY2022, 11 seminars were held, covering various themes from periodontal diseases and lifestyle diseases to stress management. In recent years, we have used IT tools to conduct online seminars, which are also archived for later viewing. As this system allows our employees to take the seminars regardless of place or time, it has significantly contributed to raising employee health literacy.



## Focus on specialized health guidance

We focus on providing our employees with specialized health guidance through our in-house public health nurses and nutritionists. Through this guidance, we seek to promote daily health awareness and prevent our employees from serious illnesses by encouraging them to improve their lifestyles. We significantly raised the ratio of completed guidance by ensuring flexibility in terms of time and location through online sessions, among other means.

Ratio of specified health guidance completed



## A base for human capital-oriented management

Health and productivity management can be viewed as the foundation of our human capital-oriented management in the sense that it seeks to fulfill our corporate and brand philosophies through the betterment of employee health. In recent years, our philosophy, framework, and initiatives for health and productivity management have gained positive recognition, and for two consecutive years, we were certified as a White 500 company\*, which is an upper-level certification of the Health & Productivity Management Outstanding Organizations Recognition Program

\*Hokkoku Bank was certified in 2022 and Hokkoku FHD was certified in 2023



## Work styles

To be able to work without time and location constraints—this is a common wish among all our employees. At Hokkoku FHD, we utilize communication tools such as Microsoft Teams and groupware to achieve a paperless work environment with improved information transparency, laying the groundwork for work styles not constrained by time or location. We also believe that a comfortable workplace leads to an improvement in operational productivity and employee engagement. Accordingly, we listen to feedback from our employees and polish our in-house systems on an ongoing basis to offer more flexible and diverse work styles.

In March 2023, we established a childcare leave program for grandparents (dubbed the “grandpa and grandma” childcare leave). This marked the start of an initiative to support the child-rearing efforts of the overall region through our employees by encouraging parents and grandparents to take part in raising children.



### Story of Work styles

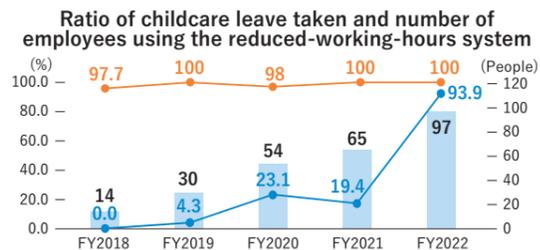


### Promoting uptake of childcare leave by male employees

We understand that low male participation in childcare is a social issue. Rather than having women take on the full responsibility, we encourage both spouses to take an active role in parenting. We believe that active male involvement in household chores and childcare within the family leads to good family relationships and also raises motivation at work.

We began actively encouraging our male employees to take childcare leave from around 2020. In March 2022, we expanded the special paid vacation period from the previous five days to 10. To promote uptake, the general manager of the Human Resource Development Department has been taking the lead in explaining the program details, including how to take the leave.

These efforts are steadily bearing fruit, and the percentage of men taking childcare leave rose to 93.9% in FY2022. We will continue to promote male participation in childcare, which remains a social issue.



\*Data through FY2019 reflect those who chose to reduce their working hours at the time their childcare leave ended.

■ Employees using the reduced-working-hours system  
● Childcare leave taken (female) ● Childcare leave taken (male)

### Contribution to child-rearing in the region

In March 2023, we introduced a childcare leave program for grandparents (dubbed the “grandpa and grandma” childcare leave), expanding the scope of our child-rearing support to include both parents and grandparents. This initiative allows us to support the child-rearing generation within and outside the Company, and contribute to the child-rearing efforts of the local community. The sense of fulfillment gained through child-rearing also has a positive impact on employee motivation and engagement. Since its introduction in March 2023, seven employees have already used the program, and we have received positive feedback, with both employees and their families expressing their delight.

### Utilized “grandpa and grandma” childcare leave together as grandparents

**Toshiyuki and Keiko Takenaka**

Personal Banking Department, Hokkoku Bank



The atmosphere in the Company toward taking childcare leave has improved dramatically compared to when we were of child-rearing age. We had hoped that proactively using the program would promote its uptake in the Company, so with the encouragement from our office, we decided to take the leave together.

While we gave our grandchild milk and changed diapers, our daughter was able to rest or go shopping, etc., so her burden was alleviated. We also enjoyed the time together with our grandchild as it brought back memories of the days when we were busy taking care of our twins. The program was well received by our daughter who said she was able to rely on us without any hesitation thanks to the system.

### Expansion of the reduced-working-hours system and the leave-of-absence system

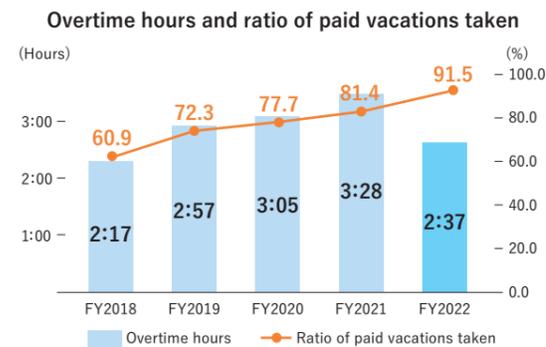
At Hokkoku FHD, we seek to create an environment that is easy to work in by providing work styles unrestricted by time or location. In March 2023, we bolstered our systems for reduced work hours, leave of absence, and long-term-care leave (beyond what is required by law) to make them more useful. Thanks to this initiative, we were able to provide work styles suited to each employee’s approach, create time for learning and experience within and outside the Company, and promote the conversion of part-timers to full-time employees.

#### Systemic changes made in March 2023

- Expanded options for the reduced-working-hours system (employees can now select the length of work hours between five to seven hours per day in 30-minute increments)
- Established a leave-of-absence system and a reduced-working-hours system that do not require a specific reason
- Extended the period during which long-term-care leave can be taken (one year ⇒ two years)
- Established the “grandpa and grandma” childcare leave

### Toward a more comfortable work environment

For many years, we implemented corporate culture reforms and pressed on with industry-leading IT investments and digitalization to ensure a better work environment for our employees. As a result, in FY2022, the average monthly overtime declined to two hours and 37 minutes, and the ratio of paid vacations taken reached 91.5%, marking a new record high.



### Promotion of teleworking

Teleworking and other flexible work styles have taken root at the Company. We have introduced hotdesking at our main office and our people also conduct online business negotiations and meetings actively. Our systems development company Digital Value has adopted fully remote working as a basic policy, and its engineers living across Japan and even overseas are thriving at work.



### Working fully remotely from Malaysia

**Miho Asao** Technology Department, Digital Value, Ltd.

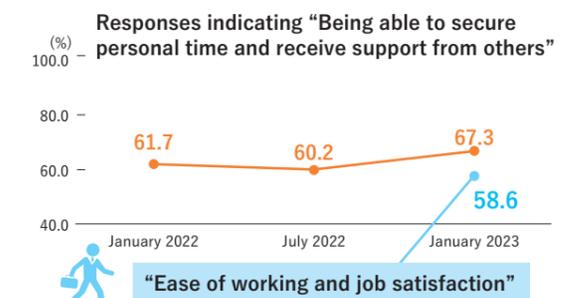
As a full-stack engineer at Digital Value, I design and develop business systems for Hokkoku Bank. At the timing of my daughter’s enrolment in junior high school, we moved to Malaysia for her education. Although I now work fully remotely, I work in much the same way as I used to in Japan, without feeling any inconvenience communicating with other members, as I can easily report progress and share information with the team. I am learning English now and my daughter is gaining diverse experience. I am very grateful for the work environment that allows me to work fully remotely from overseas.

### A comfortable work environment improves engagement

The establishment of a comfortable work environment, not restricted by time or location, improves employee engagement.

Since January 2022, we have implemented the eNPS survey to assess employee engagement. In another survey conducted together with the eNPS survey, we also inquire about the work environment. To the question, “Are you able to secure private time and receive support from others?” 67.3% of our employees gave positive responses in the January 2023 survey. This indicates that our employees appreciate their current situation to a certain extent.

In the January 2023 survey, we also added the question, “Does the Company provide ease of working and satisfaction?” to which 58.6% of our employees gave positive responses. This showed that we still needed some work in this area. Accordingly, we will continue to work toward ensuring further flexibility of work styles to improve employee engagement.



“Ease of working and job satisfaction”

# Organization

We believe that an organization that can contribute to improving the region's quality is one whose employees have a strong sense of ownership and are capable of fulfilling their roles. We felt the need for a transformation that involved everyone. Therefore, when we transitioned to a career-based personnel system in March 2022, we made the bold move of having all employees leave their respective companies at once to join Hokkoku FHD. In this way, we drastically changed employee mindsets literally in a new company.

For our employees to fulfill their roles, we must ensure a flat organization that provides psychological security. We are working to become a sound organization by advancing information visualization and implementing surveys to listen to the voices of our employees. We also seek to create an organization that is open and free of discrimination by establishing a human rights policy and conducting compliance training.



## Story of Organization



## Visualization of information using Teams

We believe that our employees' collective effort to improve the region's quality is premised on correcting internal information asymmetries and making information visible.

Hokkoku FHD utilizes Microsoft Teams, an online tool that is accessible to all, to conduct discussions openly, whether they are on strategic projects at individual departments or deliberations at management meetings. Ensuring information transparency leads to a common understanding of the Company's goals and strategic directions, enables cross-departmental collaboration, and establishes a direct link between each employee's performance and the organization's performance.

## Providing space to discuss openly using Microsoft Teams

### ▶ Message from the president

Space where the president personally shares with all employees the Company's direction and approach

### ▶ Management meetings accessible to all (excluding insider information)

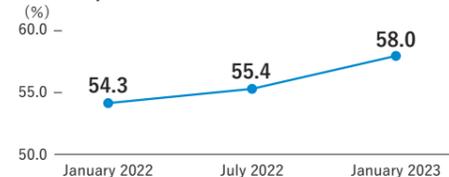
All employees can participate in and speak freely at the weekly management meeting



Online participation in a management meeting

In an in-house survey conducted together with the employee engagement survey, more than half of the employees responded that the Company shared important information with them in a reliable manner. This shows that we are being able to share information openly.

### Ratio of those who responded that the Company shared important information



## Frank discussions

We believe that a flat and psychologically secure work environment serves as the underpinning of innovation.

We have thus far implemented various measures aimed at transforming the corporate culture and employee mindsets. These included the elimination of quantitative sales targets (sales quotas) and enhancement of the physical environment (open workplace) beginning with the relocation of our main office.

Through these measures, we have created an open environment that emphasizes dialogue and accepts various opinions and comments, and a non-hierarchical workplace that ensures psychological safety and provides space for lively discussions.

Our employees engage in cross-departmental discussions on various measures and projects, and speak freely and openly using Microsoft Teams that is accessible to all.

In the in-house survey conducted in January 2023, 76.2% of our employees responded positively to the statement, "Leaders and members listen carefully to my opinions and ideas." This indicated that many of our employees considered our workplace organizationally flat and psychologically secure, which suggests that the environment is serving as a source of innovation.

## Human rights policy and LGBTQ

In March 2023, we established our human rights policy to promote a deeper understanding of diversity and to create an environment where everyone is respected. By clearly defining our approach to human rights, we hope to foster respect for human rights in our people's minds, and demonstrate leadership in achieving a regional society that respects human rights.

Particularly with regard to LGBTQ awareness, in May 2023, we conducted video viewing and discussion sessions targeting all workplaces and employees to promote deeper understanding.

Additionally, we have always been working on compliance with keen awareness. Here, we regularly conduct training and comprehension tests targeting all workplaces and employees.

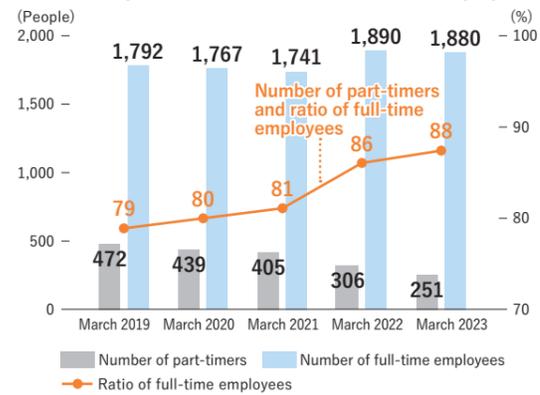
We believe that respect for human rights and strict compliance are prerequisites for our business activities. To maintain a high level of awareness, we will continue to conduct training and discussions involving all employees.

## Revitalizing the organization and expanding profitability

We are accelerating our efforts to convert part-timers into full-time employees.

We have helped expand the fields in which motivated part-timers can thrive by improving their terms of employment. We also revisited the working hours, which had been a hurdle for converting part-timers into full-time employees, and provided more options so that people could work more flexibly in a way that suited their lifestyles. As of March 2023, the ratio of full-time employees had risen to 88%, revitalizing the organization.

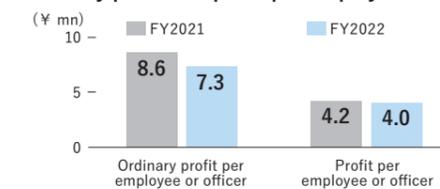
### Number of part-timers and ratio of full-time employees



We place emphasis on ordinary profit and profit per employee or officer\* as indicators of the state of our economic engine. The distribution amount of our newly launched restricted stock plan for all employees is also determined based on ROE. Each individual will continue to strive in their work going forward, being mindful of profitability and productivity.

\*Employees and officers include directors (excluding outside directors), executive officers, employees, and part-timers.

### Ordinary profit and profit per employee or officer

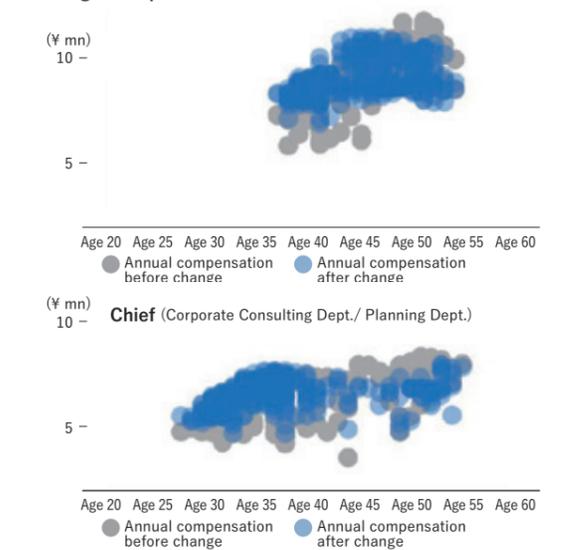


## Transition from wages based on seniority by length of service to one that is based on roles

In conjunction with the introduction of a career-based personnel system, we revised our wage structure and the method of determining wages. From January to June 2023, we engaged in company-wide dialogues on wage determination for the first time in the Company's history. Although there was some confusion as it was the first time we took on this challenge, through continuous dialogue, we were able to revise the wage structure from one based on seniority by length of service to a more satisfactory structure that focused on job roles and degree of contribution to the organization. We held company-wide dialogues (meetings) 39 times with 1,490 participants in total.

The graphs below illustrate the wage levels before and after the revision, by job roles. The vertical axis represents annual compensation and the horizontal axis represents age. The length-of-service-based seniority model shows the plotting points steadily rising in line with age, but the revised model shows that annual compensations are being determined regardless of age. The results of the wage revisions were delivered to all employees in a one-on-one setting to ensure better understanding.

### Image of the wage structure transition before and after change Management positions (Corporate Consulting Dept./ Planning Dept.)



## Implementation of an employee engagement survey (eNPS)

In January 2022, we adopted eNPS as a metric of employee job satisfaction (ease of working and satisfaction), and have conducted three eNPS surveys to date. The results showed that both eNPS and average recommendation scores have increased, suggesting that we are maintaining a certain level of employee engagement. Meanwhile, according to the 2022 eNPS survey\* conducted by EmotionTech, Inc., which supports the improvement of employee experience using eNPS, the average eNPS of financial and insurance sector companies with 1,001 or more employees was -69.8%. Although a simple comparison cannot be made since the survey method is different from ours, it can be said that the engagement of our employees is relatively high.

We will continue to conduct our survey regularly to hear the voices of each employee and build an environment where employees can work with a sense of fulfillment.

\*From July 13 to August 9, 2022, EmotionTech, Inc. conducted an online survey of 6,187 people who work for companies in 15 major industries including finance and insurance.

### Question:

How much would you want to recommend that your close friends and acquaintances work at your current workplace?

(= Recommendation score regarding workplace)  
(On an 11-point scale ranging from 0 to 10)

\*eNPS<sup>SM</sup> is a service mark of Bain & Company, Fred Reichheld, and Nice Systems, Inc.

### eNPS score calculation method:

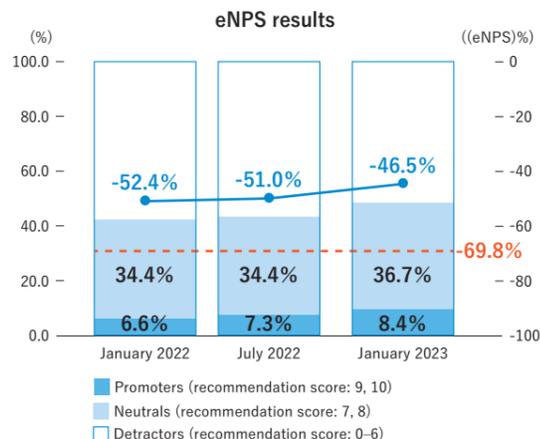
Promoters (%) – Detractors (%)

### Survey scope:

All employees of the Group  
(including executive officers, local employees at bases, and business staff, but overseas excluding directors)

### Number of employees who responded:

1,764 (January 2022), 1,838 (July 2022),  
1,634 (January 2023)

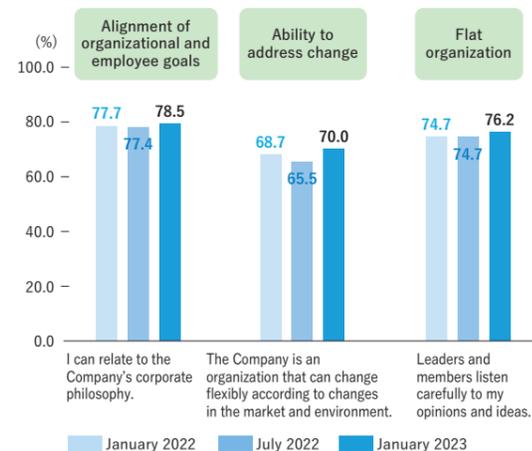


\* Average eNPS of financial/insurance-sector companies with 1,001 or more employees



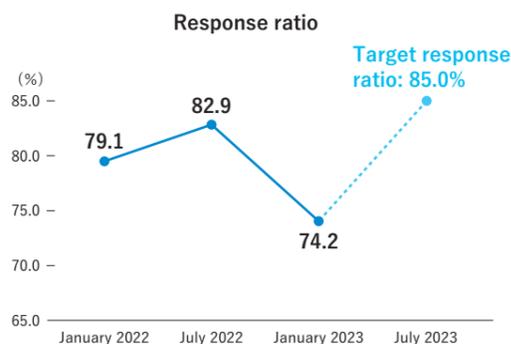
## Our organizational traits revealed through surveys

At the time of the eNPS survey, we also conduct a survey on Hokkoku FHD's corporate culture. We believe both surveys have generated results portraying the Company's traits.



## Issues to be addressed going forward

While the average recommendation score improved for our eNPS survey conducted in January 2023, the response ratio fell. We are paying attention to this because the response ratio can be viewed as proof of trust and confidence in the Company. We will continue to strive for an organization that involves all employees by reflecting in various measures the employee opinions gathered through eNPS surveys.



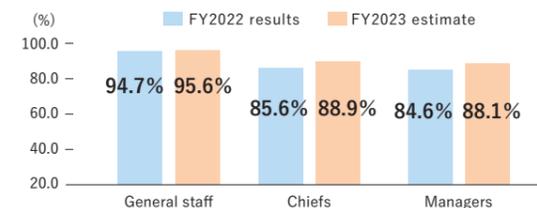
## Improvement of gender pay gap

In our annual securities report for FY2022 (ended March 31, 2023), we disclosed that our gender pay gap was 57.5% when taking all of our workers into account. We have been working to eliminate the gender pay gap, and one such initiative was the transition to a wage structure based on roles and provided values, implemented in line with the introduction of a career-based personnel system. Looking at the gender pay gap by roles and job levels, the differences are narrowing, particularly among younger employees. The company-wide dialogue and wage determination conducted between January and June 2023 have also helped narrow the pay gap in all roles and job levels.

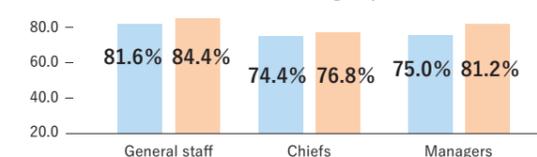
The gender pay gap remains at Hokkoku FHD, partly because it used to hire new graduates based on a dual-track personnel system (management track and general track). However, we believe we can bring the gap down to zero by pressing on with our efforts to establish a wage structure based on roles and the provided values.

### Pay gap by role and job level\* (Corporate Consulting Dept./Planning and Operations Depts.)

\*Pay gap: Average annual compensation (female)/average annual compensation (male)



### Wage gap by role and job level (Personal Consulting Dept.)



## Introduction of a restricted stock (RS) granting plan for all employees

As part of our benefits package, in FY2022, we introduced a restricted stock-granting plan for all employees.

The plan, which grants shares to employees for long-term holding, is aimed at nurturing a sense of ownership among the employees, encouraging them to share common values and the mission to improve the Company's corporate value with all stakeholders, including the shareholders.

The amount to be granted to employees is determined based on ROE. In March 2023, when we made our first distribution, RS amounting to a total of approximately ¥340 million was granted to 1,864 employees.

Through a profit-sharing program for our employees, we hope to raise their awareness toward contribution to teams and the organization and enhance employee motivation and engagement.

### RS granted in March 2023



### Amount granted based on ROE

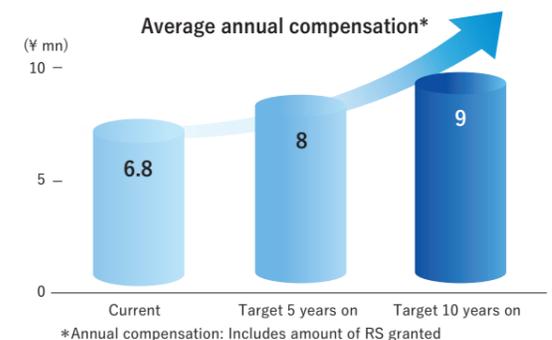
ROE	Profit estimate	Amount of RS granted	Target
8% or higher	¥18.0 billion or more	¥3.0 billion	Long-term target
7% or higher, but lower than 8%	¥16.0-18.0 billion	¥2.2 billion	Medium-term target
6% or higher, but lower than 7%	¥13.5-16.0 billion	¥1.5 billion	
5% or higher, but lower than 6%	¥11.5-13.5 billion	¥0.7 billion	
4% or higher, but lower than 5%	¥9.0-11.5 billion	¥0.35 billion	
3% or higher, but lower than 4%	¥7.0-9.0 billion	¥0.35 billion	
2% or higher, but lower than 3%	¥5.0-7.0 billion	¥0.17 billion	
1% or higher, but lower than 2%	¥2.5-5.0 billion	—	
Lower than 1%	Less than ¥2.5 billion	—	

## Improving the financial strength of employees through direct investment in human resources

We believe that improving compensation is an important measure to enhance employee motivation.

At the time we introduced the career-based personnel system in March 2022, we raised the starting salary of new graduate hires (from ¥205,000 to ¥264,000/month) and changed the retirement payment scheme to improve the financial treatment of our employees, particularly our young workforce. In addition, in FY2022, we adopted an RS granting plan for employees to enhance compensation. In the medium to long term, we hope to substantially increase the amount of RS to be granted, in line with our profit level, and bring our average annual compensation to the highest level in the industry by the time our ROE reaches 8% or above.

As we strive to improve our employees' financial conditions, financial wellness also becomes important. We encourage our people to expand their self-investment in recurrent education and reskilling and develop a money plan focusing on asset building from a young age. We will continue to help improve employee financial wellness by hosting asset management seminars, among other means.



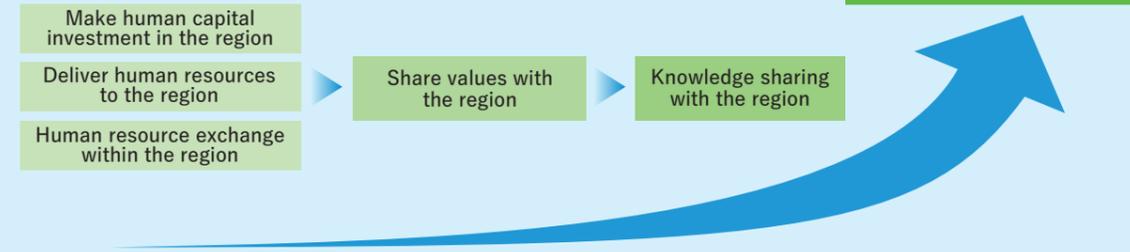
\*Annual compensation: Includes amount of RS granted

# Delivering talent

For employees who have gained various experiences, knowledge, and skills through the human resource ecosystem of Hokkoku FHD, we provide a career stage where they can contribute to the improvement of our region's quality by becoming the top executives of local companies. Having our employees take on active roles in local companies using their experiences at Hokkoku FHD is an important way of providing value as they can directly contribute to improving regional quality. The employees gain the opportunity to showcase themselves as a brand of their own and build a career outside the Company as management talent. In addition to sending out our own employees, we also accept people from municipalities and other organizations, promoting two-way exchanges. Hokkoku FHD is committed to humbly leading the region by sharing expertise and human resources with the local community.



## Story of Delivering talent



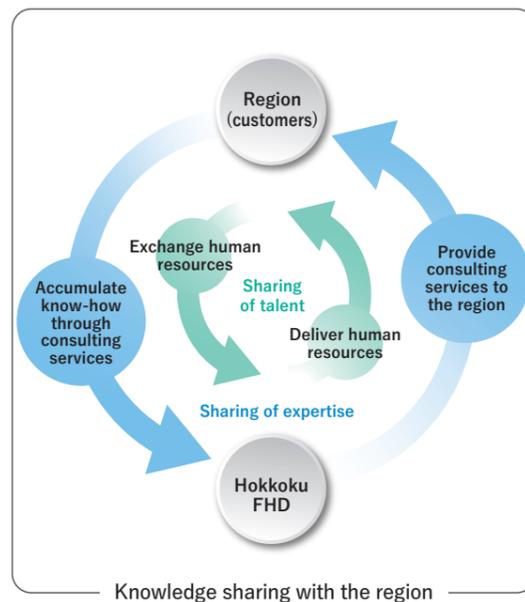
## Human capital investment in the region

As a company that is consistently working toward the region's progress, we think of our company and also the region at large when investing in human capital.

Providing consulting services to the local community enhances the value of the region, and ultimately leads to the accumulation of know-how at the Company. This can be described as the sharing of expertise through the circulation of expertise within the region. Likewise, delivering and exchanging human resources can be seen as the sharing of talent through the circulation of resources within the region.

The sharing of expertise and talent goes hand in hand, and can be described as knowledge sharing with the region.

This knowledge sharing can be accomplished by considering expertise and the Company's human resources as capital, investing in them, and returning them to the region once they are bolstered. This represents a true human capital investment in the region, and we will continue to focus on it as an important measure in our mission to improve the region's quality.



## Delivering human resources to the region

### Producing management talent

We have built a resource circulation model where our people can directly apply the expertise and skills honed through their experiences at Hokkoku FHD in their management-level roles at local companies, and thereby contribute to improving the region's quality from outside the Company. This model is meaningful in that it creates regional value using the Company's human resources. At the same time, it benefits our employees, because they can enrich their careers by continuing to be active outside the Company. It also gives them the opportunity to reaffirm the importance of recurrent education to "keep learning" regardless of age.



### Other means of delivering resources

We value the careers of each and every employee. As such, even when employees decide to leave the Company to pursue endeavors elsewhere, we send them off with encouragement. For those who have made career changes, we also have in place a point of contact for alumni recruitment so that employees can take on various challenges, including the option to leave the Company.



## Human resource exchange within the region

To promote digital transformation (DX) within the region, in April 2023, we began exchanging human resources with the Ishikawa Prefecture and the city of Kanazawa. This initiative allows us to accelerate regional DX, which is one of our goals. Furthermore, having the resources we hosted take home and reapply the expertise they gained also leads to the enhancement of the region's quality. As such, we are working on this initiative, viewing it as another way to deliver talent.

### Local government → Secondment to Hokkoku FHD



**Mr. Tatsuya Miyamoto**  
Ishikawa Prefectural Office  
**Mr. Hiroyuki Togashi**  
Kanazawa City Hall  
Digital Department, Hokkoku Bank  
(seconded from April 2023)

Working at the Company, we have recognized the following about Hokkoku FHD.

1. Flat corporate culture and the use of digital technology allow prompt sharing of information. People can express their own ideas regardless of their positions.
  2. The Company abundantly invests in developing human resources and has in place a system that supports the learning of many employees who are highly motivated to improve their skills.
  3. Employees appear to be working with an awareness of the need to work with speed and precision.
  4. The Company has established an environment where employees can pursue solutions by interacting with each other and discussing matters openly.
- The opportunity for employees of different municipalities to work together at a private company is in itself a great stimulus. The work experience at Hokkoku FHD provides an opportunity to consider things from multiple angles, so we hope to brush up this skill and learn to think from various points of view without being bound by preconceptions.



I use my private-sector expertise and assist the governor and vice governor (CDO) in digital policies to resolve regional issues and improve public services.

My main job areas include (1) promoting digitalization of the prefectural office (reform of employee work styles and awareness, etc.), (2) developing and utilizing wide-area data linkage infrastructure (digital regional currency, etc.), and (3) supporting cities and towns within the prefecture (standardization of business systems, etc.).

I am making a great effort and feeling great joy every day in utilizing the skills and perspectives I honed at Hokkoku FHD to contribute to the community from the position of a public servant. I can make maximum use of the know-how and expertise of the Hokkoku FHD Group by collaborating with relevant staff at the Company as necessary. This set-up is very reassuring and allows me to take on challenges with peace of mind despite the new environment and job responsibilities.

**Yoshiaki Kitajima** General Planning Department, Hokkoku Bank  
Assistant Executive Director of Ishikawa Prefecture (in charge of digital), Executive Advisor for CDO (seconded from November 2022)



### Hokkoku FHD → Secondment to local government

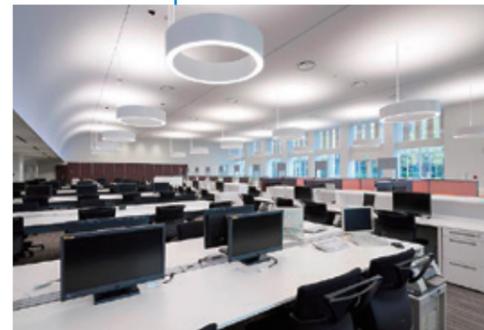
# Story of personnel system reforms

## —From management to strategy, and autonomous career development—

“Providing the place and opportunities in which everyone can feel fulfilment from work, and giving support so that people can thrive.” This is the value that the Human Resource Development Department at Hokkoku FHD aims to provide. Since the time of the predecessor unit, the Personnel Department of Hokkoku Bank, we have consistently created something new by closely integrating the Company’s business strategy with our human resource development strategy. To date, the department itself has also embraced change and continued to take on challenges.

The career-based personnel system introduced in March 2022 is an unprecedented system that focuses on the career of each individual. However, it goes without saying that the introduction of a personnel system is not the end of the process. What is important is its operation. Hokkoku FHD’s Human Resource Development Department will continue to move forward as it aims to provide places and opportunities where employees sharing the same aspirations to improve regional quality can feel satisfaction from working under the corporate culture of a flat organization and agile thinking.

- [2014] Relocation of head office. Internal cooperation enhanced due to open-plan office layout
- [2015] Appointment of female directors
- [2015] Eliminated quantitative sales targets (sales quotas) and transitioned to process-focused personnel evaluation
- [2016] Did away with general-track employment; all employees became management-track employees
- [2016] Introduced financial aid for self-development (support for obtaining difficult qualifications)
- [2017] Introduced flexible working hours and staggered working hours
- [2018] Began discussions to update personnel system
- [2018] Introduced sophisticated online course training run by third party
- [2018] Formulated communication plan
- [2019] Introduced one-on-one interviews
- [2020] Introduced Microsoft Teams
- [2020] Began focusing on mid-career recruitment in earnest
- [2020] Began assisting employees to obtain MBA degrees



### Personnel 1.0

- Personnel matters are determined based on management’s intent
- No documented rules and regulations



### Personnel 2.0

- Written rules and regulations are in place
- A master-servant relationship between Company and employees



- [2009] Introduced reduced-working-hours system
- [2010] Launched initiative to double productivity
- [2011] Modified personnel IT system (visualization of employee information)
- [2012] Integrated Personnel Department into the Management Planning Department (from management-centered HR to strategic HR; Personnel Department reorganized into the Personnel Development Office)
- [2012] Management operations moved to BPO Management, Ltd.; Personnel Development Office started specializing in strategic functions

### Personnel 3.0

- An environment that is easy to work in and employee-friendly

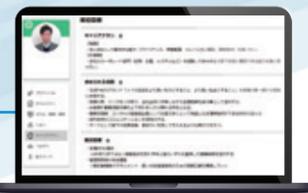


### Personnel 4.0

- Relationship of equality between employees and the Company
- In addition to being easy to work in and employee-friendly, the Company is a partner that offers job satisfaction



- [2021] Became a stand-alone Human Resource Development Department and built HR strategies for the entire Hokkoku FHD
- [2021] Beginning of Hokkoku FHD structure
- [2021] Introduced in-house-developed HRM system (visualization of career plans)
- [2021] Introduced the collaboration program (allowing side jobs within the Company)
- [2021] Partially delegated personnel transfer authority to individual departments (flexible personnel exchange made possible)



- [Jan.-Jun. 2023] Transitioned to wages based on roles by engaging in dialogues away (moving from seniority based on length of service)
- [Feb. 2023] Received Human Capital Leaders 2022 award
- [Mar. 2023] Expanded options for the reduced-working-hours system
- [Mar. 2023] Lifted ban on side jobs outside the Company
- [Mar. 2023] Certified as a White 500 company (large enterprise category) under the 2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program
- [Mar. 2023] Received the Minister of Regional Revitalization award at the 13th “Companies that Deserve to be Valued the Most in Japan” Awards
- [Mar. 2023] Formulated human rights policy
- [Mar. 2023] Introduced the “grandpa and grandma” childcare leave (childcare leave for employees who are grandparents)

## Toward a group of talent with truly autonomous career development

### Personnel 5.0

- Shares common aspirations and transcends the employee-Company relationship
- Progress in internal and external collaborations creates new values



- [January 2022] Introduced employee engagement survey (eNPS)
- [Mar. 2022] Began career reviews
- [Mar. 2022] Introduced career-based personnel system
- [Mar. 2022] First home-grown female executive officer
- [Apr. 2022] Shifted from a traditional new-hire welcoming ceremony to welcome meetings
- [Aug. 2022] Published a book titled Brushing Up Human Resources Energizes Companies and Local Communities
- [Oct. 2022] Formulated skill maps
- [Nov. 2022] Began personnel exchange with local municipalities



03

Environment  
& Governance



# Environmental Initiatives

## Responses to TCFD recommendations

### 1. Governance

- In accordance with Hokkoku FHD Environmental Policies, the Board of Directors receives reports and oversees issues concerning climate change.
- While we do not have a committee dedicated to climate change issues, we have in place a system to identify and discuss climate change and other sustainability issues in the form of cross-departmental projects led by the General Planning Department (PR & IR Section), which includes the Management Administration Department and our consulting subsidiary, The CC Innovation, Ltd.
- Our policies and other important matters concerning climate change are discussed at the Strategic Committee meetings attended by the president and other executive officers as well as general managers of the business departments, and are then resolved at Board of Directors meetings.

### TCFD governance system



### 2. Strategy

- We have recognized the major physical and transition risks and opportunities associated with climate change and set forth policies to address them.
- In terms of scenario analyses, we have calculated the transition risks for three industries that are likely to have a substantial impact on the Company and the customers in the region. For physical risks, we have referred to the 4°C and 2°C scenarios and analyzed the potential impact of worsening customer business conditions and impairment of collateral value in the event of a large flood in Ishikawa Prefecture due to climate change.
- Based on the results of these analyses, we will engage in dialogue with our customers and promote awareness of decarbonization in the region while generating business opportunities through consulting and other services.

### Risks and opportunities

Transition risks (assuming risks will become most apparent in the 1.5–2°C scenarios)	
<b>Policy and regulatory risks</b>	<ul style="list-style-type: none"> <li>• Earnings decline and impairment of existing assets, etc. at borrowers and investees due to an increase in costs to control carbon emissions</li> <li>• Increase in costs to address climate change-related regulations in Japan and overseas</li> </ul>
<b>Technological risk</b>	<ul style="list-style-type: none"> <li>• Earnings decline and impairment of existing assets, etc. at borrowers and investees due to failures and delays in developing decarbonization technologies</li> </ul>
<b>Market risk</b>	<ul style="list-style-type: none"> <li>• Earnings decline and impairment of existing assets, etc. at borrowers and investees due to changes in the supply-demand environment of their products and services</li> </ul>
<b>Reputational risk</b>	<ul style="list-style-type: none"> <li>• Deteriorating reputation and corporate brand due to delayed responses</li> <li>• Worsening evaluation by outside parties due to lack of information disclosure</li> <li>• Deteriorating reputation due to continued transactions with business partners whose responses to climate change are insufficient</li> </ul>
Physical risks (assuming risks will become most apparent in the 4°C scenario, etc.)	
<b>Acute risk</b>	<ul style="list-style-type: none"> <li>• Risk of becoming unable to continue operations due to damage to sales bases and other property holdings; risk of cost increases related to countermeasures and restoration work</li> <li>• Increase in credit costs accompanying deteriorating performance and collateral impairment at borrowers and investees due to natural disasters</li> <li>• Fluctuating value of securities and other holdings owing to worsening market and investment environment as well as declining credibility of borrowers and investees due to climate-related disasters</li> </ul>
<b>Chronic risk</b>	<ul style="list-style-type: none"> <li>• Higher facility and energy costs accompanying efforts to strengthen business continuity</li> </ul>
Opportunities	
<b>Resource efficiency</b>	<ul style="list-style-type: none"> <li>• Reduced operation costs due to efforts to improve operational efficiency, such as going paperless</li> <li>• Achievement of highly efficient energy use due to the introduction of energy-saving facilities</li> <li>• Efficient operation of owned facilities</li> </ul>
<b>Energy source</b>	<ul style="list-style-type: none"> <li>• Lower procurement costs due to a shift in energy sources</li> </ul>
<b>Products and services</b>	<ul style="list-style-type: none"> <li>• Expanded financing and leasing opportunities fueled by rising needs for capital investment in renewables and decarbonization</li> <li>• Expanded opportunities for consulting work related to decarbonization</li> <li>• Expanded consulting opportunities to address increasing needs for operational efficiencies, such as going paperless</li> <li>• Expanded consulting opportunities to address increasing needs for formulating management strategies to transform businesses</li> </ul>
<b>Market</b>	<ul style="list-style-type: none"> <li>• Improved corporate image through promotion of climate-related information disclosure</li> </ul>
<b>Resilience</b>	<ul style="list-style-type: none"> <li>• Expanded financing opportunities fueled by infrastructure investment, etc. to ensure disaster preparedness</li> <li>• Expanded consulting opportunities to address increasing needs for business continuity planning as part of disaster preparedness</li> </ul>

### Efforts through business activities

#### Promotion of customers' climate change awareness through an understanding of their business prospects

We are working to enhance awareness of climate change responses among our customers through our efforts to understand their business prospects. We will address customers' decarbonization-related financing needs, including loans and leases. At the same time, we will create business opportunities in consulting and advisory by working together with the customers on climate change responses and other ESG-related challenges.

#### Assessment at the principal item level

		Initiatives disclosed	Began initiatives	No initiatives taken, not aware of the issue	Number of sub-items
<b>E</b>	<b>Environment</b>	2	1	0	11
<b>S</b>	<b>Social and regional contributions</b>	2	1	0	5
<b>S, G</b>	<b>Human rights and labor issues</b>	2	1	0	12
<b>S, G</b>	<b>Products and services, organizational structure</b>	2	1	0	18

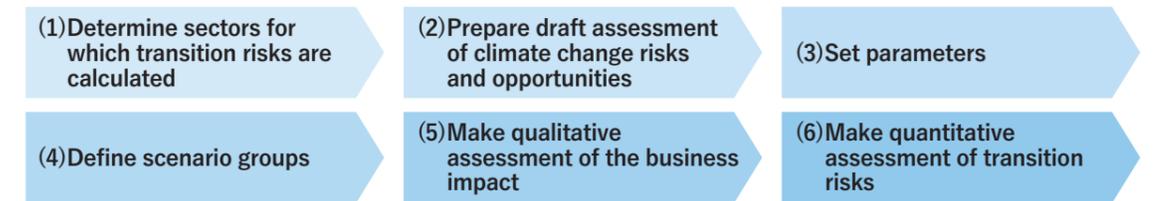
Customers with whom we were able to conduct hearings on environmental issues (among all ESG/SDG items) in conjunction with our efforts to understand their business prospects: 3,506 companies (50.1%) of the relevant pool of 6,999 companies as of the end of March 2023

#### Consulting and advisory

- In our priority businesses of consulting and advisory, we have included ESG and SDGs consulting in the service lineup to support the sustainable business management of our customers.
- Responding to climate change is an important and urgent issue for companies. We believe that, much like digital transformation (DX), green transformation (GX) is a necessary element for customers' accomplishment of their visions.
- By understanding their business prospects, we will share our customers' challenges and support them in their transformation.

### Scenario analyses

#### Flow chart for calculating transition risks



<b>Transition risks</b>	<ul style="list-style-type: none"> <li>• We analyzed the impact the transition to a carbon-free society would have on the sectors of "metals and mining," "food products," and "land transport, railway, air cargo, and logistics services." These sectors were chosen for the following reasons:               <ol style="list-style-type: none"> <li>(1) Likely to be vulnerable to the impact of climate change</li> <li>(2) Present a large impact on the Company's financials due to their credit balance</li> <li>(3) The Company can contribute to improving awareness of decarbonization in the region due to the large number of customer debtors in these sectors</li> </ol> </li> <li>• The analyses of each sector's top 10 companies by the amount of credit granted (30 companies in total) indicated that our credit costs will increase by roughly ¥3.2 billion by 2030.</li> </ul>
<b>Physical risks</b>	<ul style="list-style-type: none"> <li>• Using the IPCC 4°C and 2°C scenarios as reference, we analyzed the impact of the deterioration of customers' business conditions, and the impairment of customer offices and collaterals and of our own properties in the prefecture, should a once-in-a-century wind and flood damage occur in Ishikawa Prefecture.</li> <li>• We conducted an analysis covering debtors with business bases within the Ishikawa Prefecture, in areas susceptible to flooding depths of 0.5 meters or more, for a period through 2050. The results showed that our credit costs would increase by roughly ¥4.7 billion at most under the 4°C scenario and ¥2.4 billion at most under the 2°C scenario.</li> <li>• The impact on the Company-owned properties was estimated at ¥200 million at most under the 4°C scenario and ¥100 million at most under the 2°C scenario.</li> </ul>

### 3. Risk management

We have established our investment and loan policy and sector policy in accordance with our sustainability policy and materiality. As such, we seek to reduce and avoid investments and loans that are highly likely to have an adverse environmental and social impact.

#### Investment and loan policy

Businesses we support actively	<ul style="list-style-type: none"> <li>● Customers' environmental, social, and governance-related initiatives and businesses</li> </ul>
Businesses for which we prohibit investments and loans	<ul style="list-style-type: none"> <li>● Antisocial forces and businesses</li> <li>● Businesses that engage in child labor and/or forced labor</li> <li>● Businesses that develop and/or manufacture nuclear, chemical, or other weapons of mass destruction, or inhumane weapons such as cluster munitions</li> </ul>
Specified sectors	<ul style="list-style-type: none"> <li>● Coal-fired power generation sector, cluster munitions manufacturing sector, forestry sector, and palm oil plantation development sector</li> </ul>

#### Sector policy

Coal-fired power generation business	In light of our efforts concerning climate change risks, environmental protection, and renewable energy, we carefully consider investments and loans for coal-fired power generation businesses on a project-by-project basis.
Cluster munitions manufacturing-related business	In light of the inhumane nature of cluster munitions, we prohibit investments and loans to companies that manufacture cluster munitions.
Deforestation business	Regarding investments and loans to large-scale deforestation projects, we carefully consider our approach, factoring in the status of customers' consideration of the environment and local community and the actual impact on the environment and community.
Palm oil plantation development business	From the viewpoint of preserving forest resources and biodiversity and protecting human rights, we prohibit investments and loans to palm oil plantation development projects.

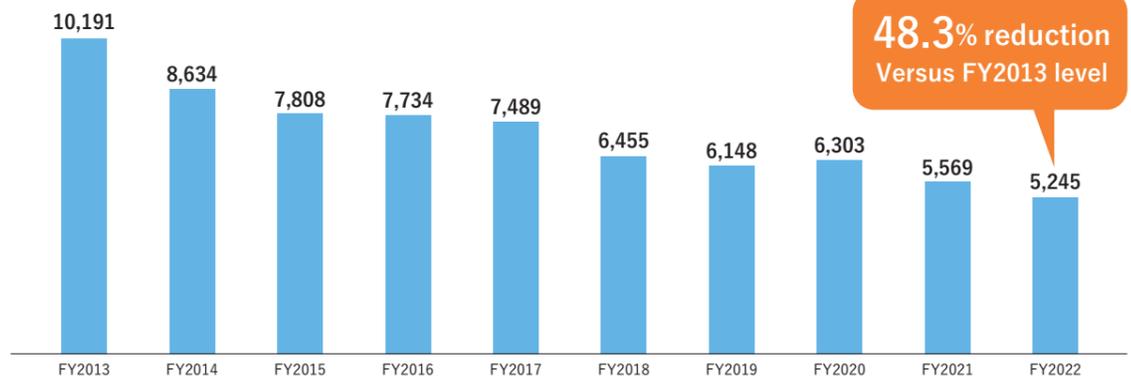
### 4. Indicators and targets

We disclose data on Scope 1 and Scope 2 greenhouse gas emissions, and designate the results in CO<sub>2</sub> emissions reduction as our climate change-related indicator. In FY2030, we target 100% emissions reduction versus FY2013.

#### Target

**FY2030 CO<sub>2</sub> emissions reduction target of -100% from FY2013**

#### Results (tons)



CO<sub>2</sub> emissions (absolute value) are stated by adding emissions from business-use vehicles to the CO<sub>2</sub> emissions figures presented by Hokkoku Bank in its periodical reports under the Act on the Rational Use of Energy. (We disclose data on Scope 1 and Scope 2 emissions.)

In the future, we will consider tracking and disclosure of other climate change-related metrics.

### Action plan

**Adopt ZEB\* concept when building new offices**  
**Convert existing office facilities to energy-saving facilities**

\*ZEB: Short for net zero energy buildings; environmentally friendly offices

**Convert existing office facilities to energy-saving facilities and install photovoltaic systems on office rooftops**

**Reduce vehicles for business use and replace current vehicles with EVs (HVs)**

**Switch to carbon-neutral electricity\***

\*Carbon-neutral electricity: Electricity that achieves net zero CO<sub>2</sub> emissions through the use of renewable energy and certificates of environmental value (non-fossil fuel certificates)

### Initiatives contributing to CO<sub>2</sub> reduction in society at large

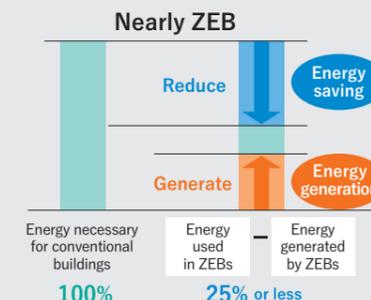
- BPR and ICT consulting
  - Promoting cashless payment
  - Promoting the use of cloud-based internet banking for individual customers and internet banking for corporate customers
- By continuing the customer-oriented efforts shown above, among other initiatives, we seek to improve productivity, reduce CO<sub>2</sub> emissions, and spread awareness in the region.

#### Environmental responses at new offices (Komatsu and Kaga sales departments)

The offices of our Komatsu and Kaga sales departments have been certified as Nearly ZEB buildings for their facilities that reduce energy consumption and the photovoltaic panels that generate energy.

#### Characteristics

- Use of high-performance insulation materials
- Adoption of heat-insulating glass in building openings to shield heat in the summer and prevent internal heat from dissipating in the winter
- Reduced energy consumption through full installation of LED lighting and introduction of daylight and motion sensors
- Adoption of a slit system for ventilation to take in outside air
- Introduction of a system to visualize energy volumes, including power consumption and generation



Source: Ministry of the Environment website



Komatsu Sales Department (Opened in August 2022)



Kaga Sales Department (Opened in May 2023)

### Endorsement of international initiatives



# 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.

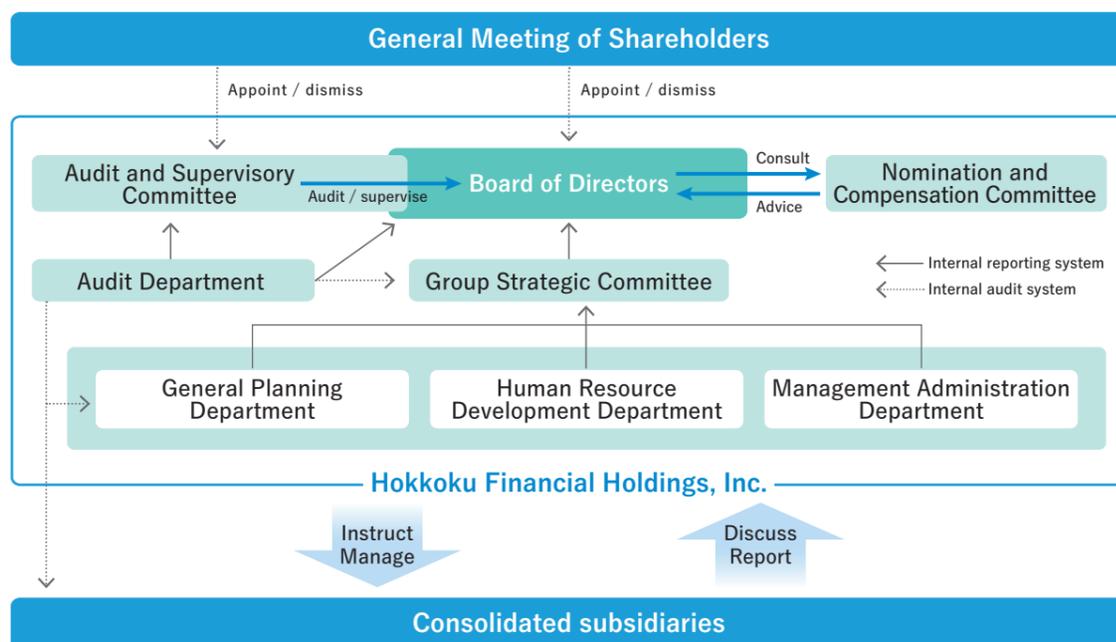
Currently, five out of our nine directors are outside directors (ratio of 55.5%). All five outside directors are independent outside directors who provide opinions as well as audit and supervise the directors from an objective and neutral standpoint.

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.

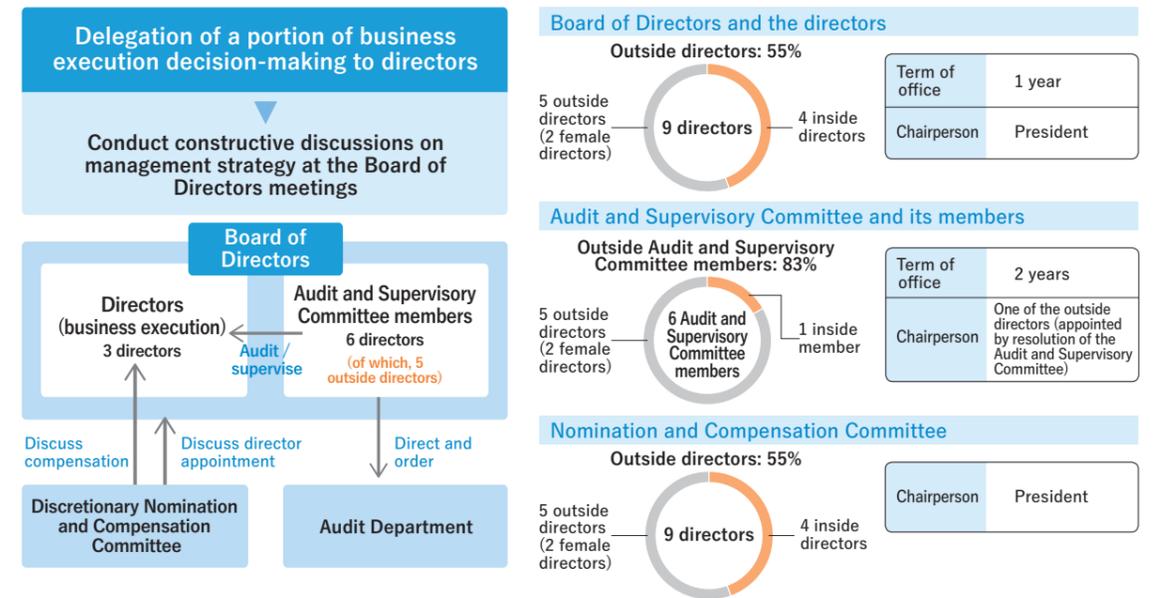
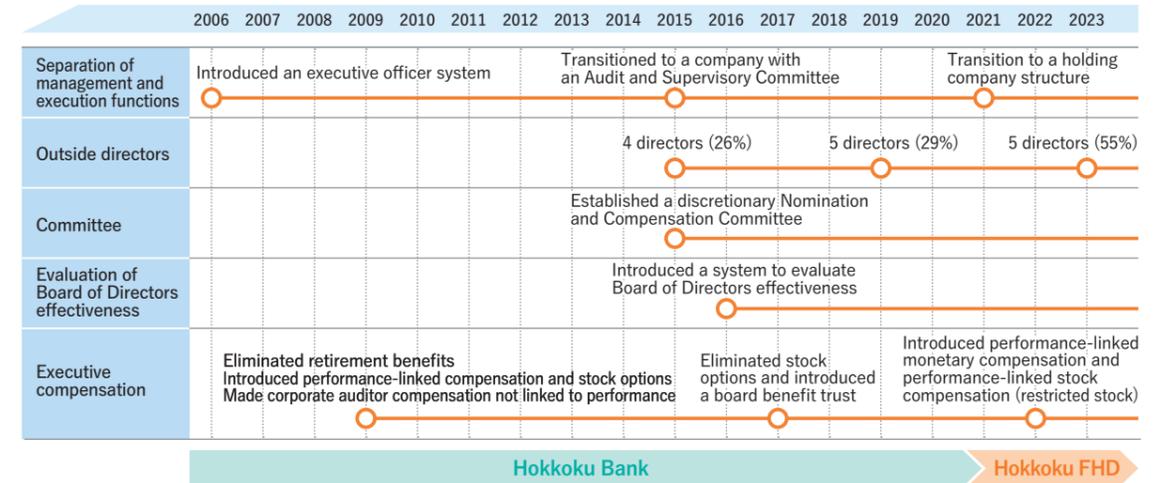
## Key initiatives for improving corporate governance

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.

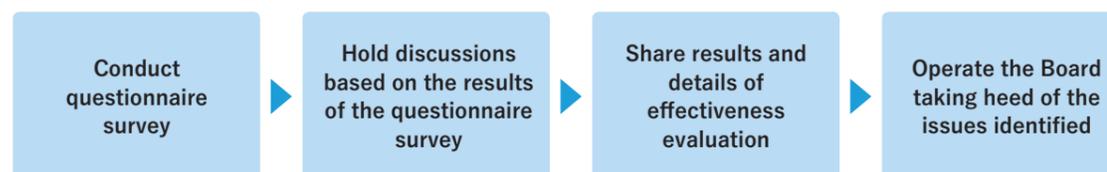
#### Accounting audit

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

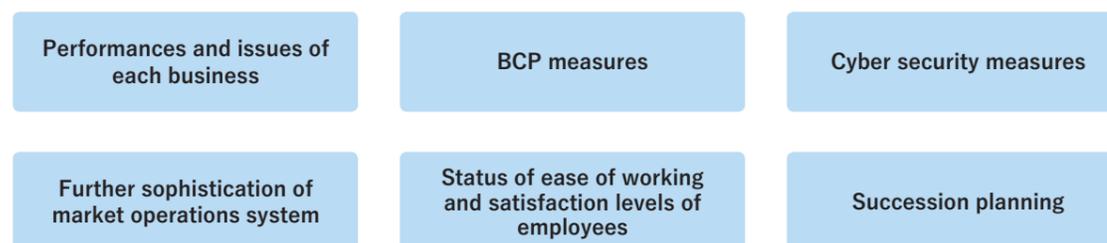
The results of the evaluation based on the questionnaire survey and subsequent discussions showed that the effectiveness of the Board of Directors has been sufficiently maintained for the following reasons:

- 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
<b>Taku Oizumi</b>	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
<b>Naoko Nemoto</b>	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
<b>Sakon Uda</b>	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.	-----
<b>Fumihiko Haga</b>	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.	-----
<b>Kimie Harada</b>	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
<b>Consulting</b>	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.
<b>Investment and fund management</b>	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.
<b>Market operations</b>	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.
<b>Digital IT strategy</b>	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)

### HOKKOKU FINANCIAL HOLDINGS

#### 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

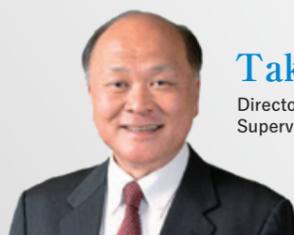
### Naoko Nemoto

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 CO<sub>2</sub> 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.

# Risk Management System Initiatives

We have put in place an information-gathering system to accurately capture and analyze the ever-diversifying and complex risks surrounding corporate management. By doing so, we are working to strengthen our risk management system so that we can manage and control the risks appropriately.

## Basic policy and operating structure for risk management

As of late, business opportunities for financial institutions have expanded in tandem with the progress in financial liberalization, globalization, and deregulation. Hokkoku FHD transitioned to a holding company structure in October 2021 and has substantially expanded its business domains since. Meanwhile, the risks associated with business operations have rapidly diversified and are also becoming more complex. Going forward, it will become important for the Company to accurately control risks based on the principle of self-responsibility and to secure appropriate income commensurate with such risks.

The Company has laid out the basic matters concerning risk management in its Integrated Risk Management Rules. The administrative departments of each Group company engage in risk management, while the Management Administration Department of the holding Company manages overall risks in an integrated manner as the supervising department.

## Risk appetite framework

The Company does not treat risks merely based on a constraint formula. Instead, it uses the risk appetite\* framework to monitor risks according to predefined risk levels acceptable for business execution. We set risk asset targets consistent with our financial plan and business strategy, and we work to achieve appropriate risk-taking and income generation by allocating the risk assets to each business department, and then regularly monitoring the status of such risk assets and income. Based on the framework shown below, we optimize the risk-return trade-off to accomplish our medium- to long-term business strategy.

\*Risk appetite: The type and amount of risks an organization is willing to accept to achieve its objectives and business plan.

### Processes under the risk appetite framework



## Integrated risk management system

The Company uses the universally applied index VaR to measure credit risks for loans as well as market risks (interest rate and price fluctuation risks) for market-related products and banking accounts. For these quantified risks, we formulate integrated risk management guidelines each year, based on which we establish a capital allocation budget. We then work to control the risks accurately by tracking actual results. We compare our integrated risk, which includes operational risk\*, with our core capital-based capital to conduct risk management that ensures capital sufficiency. Furthermore, we perform stress tests to evaluate our financial soundness, assuming sudden changes in the financial markets and other unforeseen circumstances. During the regular formulation of comprehensive budgets, the Company also conducts a stress-based assessment of risk appetite.

\*Operational risk: A generic term referring to clerical risks, systems risks, and other risks (including legal, human, tangible asset, management, and reputational risks)



Please click here for our basic policy on the management of various risks (Japanese only):

[https://www.hfhd.co.jp/ir/disclosure/pdf/disclosure\\_2023\\_03.pdf](https://www.hfhd.co.jp/ir/disclosure/pdf/disclosure_2023_03.pdf)



## Basic policy on business continuity

### 1. Purpose

As an integrated regional company, we seek to enhance and strengthen our risk management system by putting in place a business continuity system. We have formulated the basic policy on business continuity to set forth our basic stance on the business continuity system of Hokkoku FHD and the overall Group in accordance with the basic policy on internal management (Basic Policy on Internal Control System) and to make it known across the entire organization.

### 2. Basic approach to management

In an emergency, we pay attention to the following points while we minimize the emergency's impact on our operations, restore operations swiftly and efficiently, and maintain a certain level of business continuity.

- 1 Ensure the safety of our customers, officers and employees, and other related parties
- 2 Contribute to maintaining economic activities within the community through business continuity and swift restoration and, at the same time, minimize the impact on payment systems
- 3 Minimize loss of opportunities due to suspension of operations, etc.
- 4 Build the necessary system to ensure the effectiveness of the above and also conduct training

### 3. Potential emergencies

Emergencies include disasters, pandemics, system failures, cyberattacks, and reputational damage.

### 4. Priority tasks and recovery targets

As a company providing highly public financial services, we prioritize and concentrate our management resources on operations that should be addressed first during restoration to prevent disruption of economic activities essential for society. For those operations given priority, we set target recovery times and recovery points and work to meet those targets.

### 5. Rules and regulations

In line with the subject policy, we have formulated the Basic Rules for Business Continuity to clarify what has been decided and also set forth subordinate rules and regulations, taking steps to ensure that all employees are aware of them.

### 6. Continuous improvement

We regularly conduct training based on the business continuity plan, assess the degree of awareness and proficiency regarding emergency responses among our officers and employees, and periodically verify effectiveness. To enhance our ability to maintain business continuity in response to changes in the external environment and diversification of our operations, we will update our rules and regulations for business continuity as appropriate.

# Compliance Initiatives

## Basic approach

In accordance with our Policy on Compliance with Laws and Regulations, etc., we regard compliance as “observing laws and regulations as well as social norms and internal rules and regulations” and consider it a management issue of the highest priority. Upholding thorough recognition and observance of compliance as our basic policy, we are working to establish a compliance system, as shown below.

### ■ Understanding and thorough awareness of corporate philosophy, etc.

All officers and employees will comply with our Ethics Charter with a thorough understanding and recognition of the Company’s corporate philosophy, management guidelines, and code of conduct, bearing in mind that trust and confidence are won through one’s day-to-day efforts.

### ■ Training and education

We will instill compliance awareness through training, education, and case studies. At the same time, the departments overseeing compliance will establish a monitoring system, and the compliance officers at each operational department and sales branch will step up efforts to prevent violations.

### ■ Implementation of compliance programs

We will appropriately check, report, and evaluate the status of compliance-related activities based on compliance programs (activity plans) and take effective corrective and recurrence prevention measures under the directive of the Board of Directors and other bodies.

## Compliance operation structure

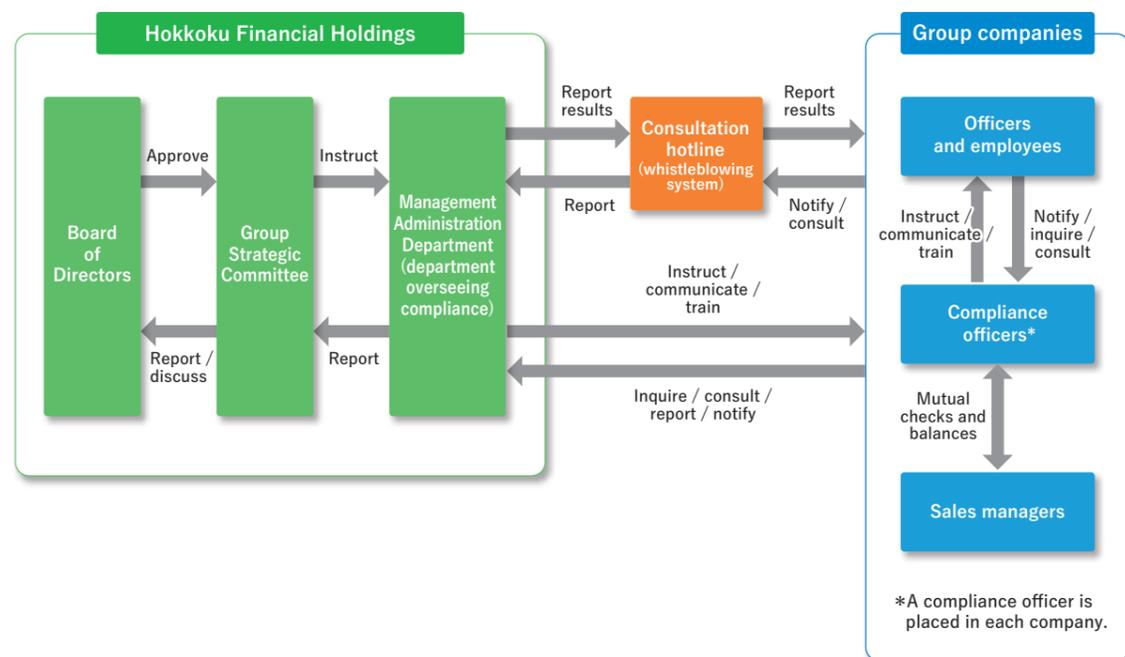
At Hokkoku FHD, the Board of Directors, the Group Strategic Committee, the compliance officers at each operational department and sales branch, and the Management Administration Department take on active roles in ensuring compliance.

The Management Administration Department, as a department overseeing compliance, centrally collects, manages, studies, and analyzes compliance-related information and takes necessary measures while also formulating and implementing compliance programs (activity plans).

The Board of Directors and other bodies receive compliance-related reports regularly or as needed and deliberate on important measures.

Compliance officers are placed at each operational department and sales branch to establish a system of checks and balances at each workplace.

### Compliance management system



## Toward prevention of money laundering and financing of terrorism

The Company considers the prevention of money laundering and the financing of terrorism a priority management issue and implements effective measures against money laundering in accordance with the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism released by the Financial Services Agency. Specifically, we properly identify and evaluate the money laundering and terrorism financing risks pertaining to the products and services we handle and constantly verify and enhance risk mitigation measures through, for instance, thorough confirmation at the time of transactions, ongoing management of customers, and detection and reporting of suspicious transactions. We are also bolstering measures to protect customer assets from financial crimes such as bank transfer scams.

### ■ Initiatives toward preventing financial crimes

- Given the recent increase in the number of specialized fraud victims in Japan, we confirm with our customers the purpose of their transactions when they request a large amount of cash payment or fund transfer over the counter. To protect customers from bank transfer scams using ATMs, we display cautionary messages on the transfer operation screens and also have installed devices to play audio announcements at some ATM corners to thoroughly alert customers.
- We have created and posted on our website educational videos on financial crimes targeting young people.
- We regularly update our training materials to build and strengthen our management system so that all employees, including management, can work together to prevent financial crimes and deepen their knowledge and understanding regarding the prevention of money laundering and financing of terrorism.

Please click here to view our educational videos on financial crimes. (Japanese only)  
[https://www.hokkokubank.co.jp/customer/lifeplan/for\\_students/for\\_parents.html](https://www.hokkokubank.co.jp/customer/lifeplan/for_students/for_parents.html)



## Whistleblower and consultation system (consultation hotline)

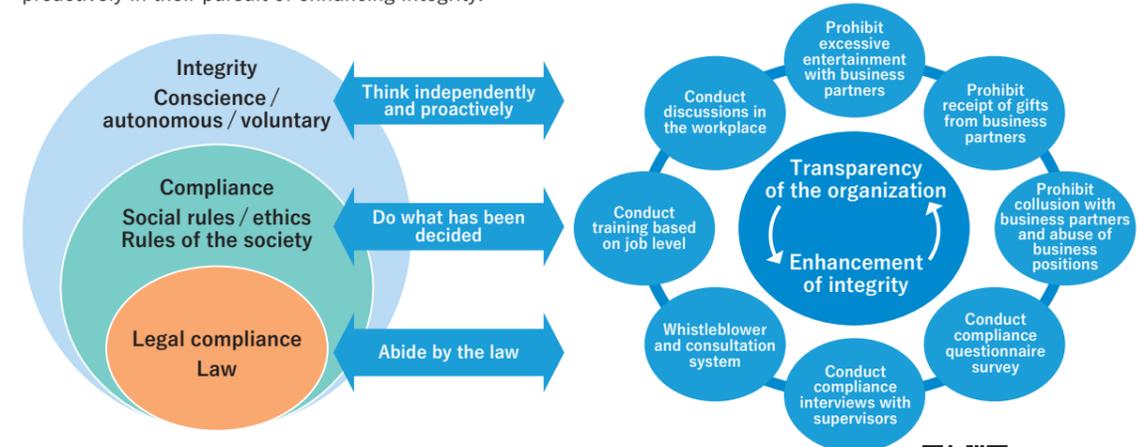
The Company has in place a whistleblower system for all Group employees (including officers and employees who have left the Company within one year), with the head of the compliance group, the head of the human resource development group, and an attorney designated by the Company serving as the contact points for reporting.

To prevent incidents of misconduct due to violations of laws and other wrongdoings and to detect them at an early stage, we have established a system to gather various voices. This includes biannual interviews aimed at preventing misconduct, where employees can consult their supervisors regarding work-related issues and personal concerns. We also conduct a compliance questionnaire survey for all employees, through which comments can be sent directly to the department overseeing compliance. Through this system, we seek to protect the whistleblowers. In FY2022, we addressed 19 requests and consultations concerning the work environment and other matters.

In addition to preventing misconduct, we have dedicated staff available to discuss employees’ health, illness, family concerns, and overall mental health issues, as well as career consultations.

## Initiatives toward strengthening compliance and enhancing integrity

In addition to strengthening compliance, we take various steps to encourage our employees to think independently and proactively in their pursuit of enhancing integrity.



Please click here for more information on other compliance-related initiatives. (Japanese only)  
<https://www.hfhd.co.jp/compliance/>



## Main IR activities undertaken

At the time of the announcement of our financial results, we disclose detailed IR presentation materials and accordingly notify our institutional investors.

Following the disclosure, we hold one-on-one meetings mainly between investors and our president and CEO.

From the perspective of fair disclosure, the details of the questions and answers during the one-on-one meetings are made public following such meetings.

Executive officers, including those from the sales departments, and personnel in charge from the corporate planning departments also attend the one-on-one meetings. This allows us to incorporate investor perspectives when we implement our business strategy and foster management talent.



IR materials for use in FY2023 are available here.

Activities	FY2020 results	FY2021 results	FY2022 results
One-on-one meetings with institutional investors	42 times / 80 participants	37 times / 89 participants	61 times / 84 participants
Financial results briefing sessions for analysts and institutional investors	—	3 times*1 / 29 participants	3 times*1 / 27 times
Conferences hosted by securities companies	1 time / 5 participants	—	—
Briefing sessions for individual investors	—	—	—
Briefing sessions for individual investors (online)	2 times / 470 participants	1 time / 405 participants	1 time / 503 participants

\*1: Small meetings



\*Company analysis report by Shared Research Inc. is available for viewing.



## Online briefing session for individual investors

Presenter: Tomohiko Kikuzawa, Managing Executive Officer, General Manager of General Planning Department

In November 2022, we held an online briefing session for our individual investors. Approximately 500 investors have viewed the session in which we answered the questions received, primarily concerning our business strategy.

The video of the session is available for viewing through November 13, 2023.



Please access the video of the online briefing session from here.

## Share and shareholder information (as of March 31, 2023)

### Status of shares

Number of shares Total number of authorized shares  
58,250 thousand shares

Total number of issued shares  
26,908 thousand shares  
(including 1,704 thousand treasury shares)

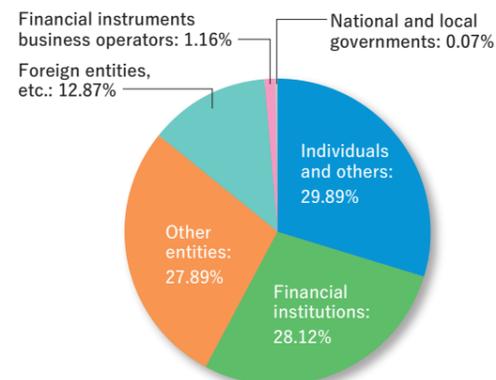
Note: The number of shares is rounded down to the nearest thousand shares.

Number of shareholders at the end of FY2022 10,478

### Rating information

R&I rating: **A**

### Distribution by shareholder type



Note: Of the 1,704 thousand treasury shares, shares constituting one unit are included in "individuals and others," and shares less than one unit are included in "status of shares less than one unit."

(as of June 30, 2023)

## HOKKOKU FINANCIAL HOLDINGS

Company name Hokkoku Financial Holdings, Inc.  
Date founded October 1, 2021  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Shuji tsumemura, President & Chief Executive Officer, Representative Director  
Business Bank holding company  
Share capital ¥10,000 million  
Exchange listing Tokyo Stock Exchange Prime Market  
Website <https://www.hfhd.co.jp/>



Company name The Hokkoku Bank, Ltd.  
Date founded December 18, 1943  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Shuji Tsumemura, President & Chief Executive Officer, Representative Director  
Business Banking business, leasing business  
Share capital ¥26,673 million  
Website <https://www.hokkokubank.co.jp/>

## HOKKOKU GENERAL LEASING

Company name The Hokkoku General Leasing Co., Ltd.  
Date founded April 27, 1974  
Headquarters location 2-2-15 Katamachi, Kanazawa, Ishikawa, Japan  
Representative Yuji Kakuchi, President and Representative Director  
Business Leasing business  
Share capital ¥90 million  
Website <https://www.hfhd.co.jp/h-generalleasing/>

## HOKKOKU CREDIT SERVICE

Company name The Hokkoku Credit Service Co., Ltd.  
Date founded June 17, 1981  
Headquarters location 2-2-15 Katamachi, Kanazawa, Ishikawa, Japan  
Representative Haruki Maekawa, President and Representative Director  
Business Credit card business  
Share capital ¥90 million  
Website <https://www.hokkokucard.co.jp/>

## HOKKOKU GUARANTEE SERVICE

Company name The Hokkoku Guarantee Service Co., Ltd.  
Date founded July 7, 1983  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Kazuya Nakamura, President and Representative Director  
Business Consumer credit guarantee business  
Share capital ¥90 million  
Website [https://www.hokkokubank.co.jp/as\\_service/index.html](https://www.hokkokubank.co.jp/as_service/index.html)

## HOKKOKU SERVICER

Company name The Hokkoku Servicer, Ltd.  
Date founded September 21, 2011  
Headquarters location 2-2-15 Katamachi, Kanazawa, Ishikawa, Japan  
Representative Akira Nishita, President and Representative Director  
Business Debt management and collection business  
Share capital ¥500 million  
Website <http://www.hokkoku-servicer.co.jp/>



Company name The Digital Value, Ltd.  
Date founded November 22, 2019  
Headquarters location 1-3-1 Kyobashi, Chuo-ku, Tokyo, Japan  
Representative Masaki Iwama, President and Representative Director  
Business System development and operation management business  
Share capital ¥90 million  
Website <https://www.digitalvalue.co.jp/>



Company name The CC Innovation, Ltd.  
Date founded June 10, 2021  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Takayasu Tada, President and Representative Director  
Business Consulting business  
Share capital ¥490 million  
Website <https://www.ccinovation.co.jp/>



Company name The QR Investment, Ltd.  
Date founded June 10, 2021  
Headquarters location 1-16 Musashimachi, Kanazawa, Ishikawa, Japan  
Representative Fumio Hamano, President and Representative Director  
Business Fund administration and management business  
Share capital ¥90 million  
Website <https://www.hfhd.co.jp/qri/>



Company name The FDALCO, Ltd.  
Date founded May 31, 2021  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Yutaka Imai, President and Representative Director  
Business Investment advisory business  
Share capital ¥90 million  
Website <https://www.fdadvisory.co.jp/index.html>

## COREZO

Company name The COREZO, Ltd.  
Date founded March 16, 2010  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Satoshi Sono, President and Representative Director  
Business EC mall operation business  
Share capital ¥100 million  
Website <https://shopping.corezo.co.jp/>

## BPO MANAGEMENT

Company name The BPO Management, Ltd.  
Date founded April 1, 2022  
Headquarters location 2-12-6 Hirooka, Kanazawa, Ishikawa, Japan  
Representative Koichi Nakada, President and Representative Director  
Business Outsourcing business  
Share capital ¥30 million  
Website <https://www.hfhd.co.jp/bpomanagement/>

# Group Financial Data

## Consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
<b>Assets</b>		
Cash and due from banks	1,607,871	1,354,859
Call loans and bills bought	65,000	141,000
Monetary claims bought	3,052	3,266
Money held in trusts	13,528	13,535
Securities	1,356,079	1,468,300
Loans and bills discounted	2,585,262	2,523,613
Foreign exchanges	11,138	11,684
Lease receivables and investment in leased assets	35,195	36,445
Other assets	37,364	51,111
<b>Tangible fixed assets</b>	<b>31,388</b>	<b>32,102</b>
Buildings, net	10,345	10,202
Land	16,798	16,904
Construction in progress	1,265	2,332
Other tangible fixed assets	2,978	2,662
<b>Intangible fixed assets</b>	<b>9,949</b>	<b>8,539</b>
Software	9,619	8,207
Other intangible fixed assets	330	331
Deferred tax assets	265	4,617
Customers' liabilities for acceptances and guarantees	17,986	17,282
Reserve for possible loan losses	(61,849)	(62,631)
<b>Total assets</b>	<b>5,712,233</b>	<b>5,603,724</b>
<b>Liabilities</b>		
Deposits	4,257,200	4,360,798
Negotiable certificates of deposit	1,000	–
Call money and bills sold	618,824	532,156
Guarantee deposit received under securities lending transactions	313,497	360,955
Borrowed money	155,985	26,553
Foreign exchanges	1	3
Bonds payable	20,000	20,000
Borrowed money from trust account	154	164
Other liabilities	53,752	42,925
Reserve for bonuses	747	712
Net defined benefit liability	2,398	1,376
Reserve for management board benefit trust	496	410
Reserve for reimbursement of deposits	127	96
Reserve for loss on refund of interest	19	2
Deferred tax liabilities	4,368	1,185
Deferred tax liability arising from revaluation of land	1,412	1,411
Acceptances and guarantees	17,986	17,282
<b>Total liabilities</b>	<b>5,447,975</b>	<b>5,366,036</b>
<b>Net assets</b>		
Common stock	10,000	10,000
Capital surplus	29,727	27,139
Retained earnings	182,357	188,428
Treasury stock	(3,124)	(8,216)
<b>Total shareholders' equity</b>	<b>218,960</b>	<b>217,351</b>
Valuation differences on available-for-sale securities	36,652	11,332
Net deferred gains on hedging instruments	115	(2)
Land revaluation surplus	2,296	2,296
Remeasurements of defined benefit plans	(1,467)	(1,333)
<b>Total accumulated other comprehensive income</b>	<b>37,597</b>	<b>12,292</b>
Non-controlling interests	7,701	8,044
<b>Total net assets</b>	<b>264,258</b>	<b>237,688</b>
<b>Total liabilities and net assets</b>	<b>5,712,233</b>	<b>5,603,724</b>

## Consolidated statement of income

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
<b>Ordinary income</b>	<b>84,730</b>	<b>84,743</b>
Interest income	36,087	38,319
Interest on loans and discounts	23,989	24,061
Interest and dividends on securities	11,378	13,701
Interest on call loans and bills bought	130	44
Interest on deposits with banks	573	491
Other interest income	14	20
Trust fees	0	0
Fees and commissions	9,487	9,628
Other operating income	17,559	15,897
<b>Other income</b>	<b>21,595</b>	<b>20,897</b>
Recoveries of written off receivables	360	263
<b>Other</b>	<b>21,235</b>	<b>20,634</b>
<b>Ordinary expenses</b>	<b>65,563</b>	<b>68,696</b>
Interest expenses	494	4,149
Interest on deposits	109	103
Interest on negotiable certificates of deposit	1	0
Interest on call money and bills sold	34	1,684
Interest expenses on cash collateral received for securities lent	149	2,169
Interest on borrowings and rediscounts	1	4
Interest on bonds	180	179
Other interest expenses	17	7
Fees and commissions	3,578	3,517
Other operating expenses	13,799	21,847
General and administrative expenses	31,038	30,992
Other expenses	16,651	8,187
Provision of reverse for possible loan losses	11,357	3,269
Other	5,294	4,917
<b>Ordinary profit</b>	<b>19,167</b>	<b>16,046</b>
<b>Extraordinary income</b>	<b>731</b>	<b>70</b>
Gain on disposal of non-current assets	5	70
Gain on revision of retirement benefit plan	726	–
<b>Extraordinary losses</b>	<b>3,952</b>	<b>1,554</b>
Loss on disposal of tangible fixed assets	2,492	1,460
Loss on impairment	601	93
Business restructuring expenses	858	–
<b>Profit before income taxes</b>	<b>15,946</b>	<b>14,562</b>
Income taxes–current	5,723	2,305
Income taxes–deferred	596	3,216
<b>Total income taxes</b>	<b>6,319</b>	<b>5,522</b>
<b>Profit</b>	<b>9,626</b>	<b>9,040</b>
Profit attributable to non-controlling interests	238	299
<b>Profit attributable to owners of parent</b>	<b>9,387</b>	<b>8,741</b>

## Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
<b>Profit</b>	<b>9,626</b>	<b>9,040</b>
<b>Other comprehensive income</b>	<b>(25,934)</b>	<b>(25,254)</b>
Valuation differences on available-for-sale securities	(27,030)	(25,269)
Net deferred gains on hedging instruments	119	(118)
Remeasurements of defined benefit plans	976	133
<b>Comprehensive income</b>	<b>(16,308)</b>	<b>(16,213)</b>
<b>Total comprehensive income attributable to:</b>		
Owners of parent	(16,424)	(16,562)
Non-controlling interests	116	348

## Consolidated statements of changes in net assets

Fiscal year ended March 31, 2022

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at beginning of the year	26,673	13,053	176,013	(663)	215,077
Changes during the year					
Changes by share transfer	(16,673)	16,673			—
Cash dividends			(2,521)		(2,521)
Profit attributable to owners of parent			9,387		9,387
Transfer from retained earnings to capital surplus		497	(497)		—
Purchase of treasury stock				(3,041)	(3,041)
Disposal of treasury stock				82	82
Cancellation of treasury stock		(497)		497	—
Reversal of land revaluation surplus			(23)		(23)
Net changes in items other than shareholders' equity					
Total changes during the year	(16,673)	16,673	6,344	(2,461)	3,882
Balance at end of the year	10,000	29,727	182,357	(3,124)	218,960

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation differences on available-for-sale securities	Net deferred gains (losses) on hedging instruments	Land revaluation surplus	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of the year	63,560	(3)	2,272	(2,443)	63,385	7,806	286,269
Changes during the year							
Changes by share transfer							—
Cash dividends							(2,521)
Profit attributable to owners of parent							9,387
Transfer from retained earnings to capital surplus							—
Purchase of treasury stock							(3,041)
Disposal of treasury stock							82
Cancellation of treasury stock							—
Reversal of land revaluation surplus							(23)
Net changes in items other than shareholders' equity	(26,908)	119	23	976	(25,788)	(105)	(25,894)
Total changes during the year	(26,908)	119	23	976	(25,788)	(105)	(22,011)
Balance at end of the year	36,652	115	2,296	(1,467)	37,597	7,701	264,258

Fiscal year ended March 31, 2023

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at beginning of the year	10,000	29,727	182,357	(3,124)	218,960
Changes during the year					
Cash dividends			(2,670)		(2,670)
Profit attributable to owners of parent			8,741		8,741
Purchase of treasury stock				(8,081)	(8,081)
Disposal of treasury stock		(25)		427	401
Cancellation of treasury stock		(2,562)		2,562	—
Reversal of land revaluation surplus			0		0
Net changes in items other than shareholders' equity					
Total changes during the year	—	(2,588)	6,070	(5,091)	(1,609)
Balance at end of the year	10,000	27,139	188,428	(8,216)	217,351

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation differences on available-for-sale securities	Net deferred gains (losses) on hedging instruments	Land revaluation surplus	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of the year	36,652	115	2,296	(1,467)	37,597	7,701	264,258
Changes during the year							
Cash dividends							(2,670)
Profit attributable to owners of parent							8,741
Purchase of treasury stock							(8,081)
Disposal of treasury stock							401
Cancellation of treasury stock							—
Reversal of land revaluation surplus							0
Net changes in items other than shareholders' equity	(25,319)	(118)	(0)	133	(25,304)	343	(24,960)
Total changes during the year	(25,319)	(118)	(0)	133	(25,304)	343	(26,569)
Balance at end of the year	11,332	(2)	2,296	(1,333)	12,292	8,044	237,688

## Consolidated statement of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
<b>Cash flows from operating activities</b>		
Profit before income taxes	15,946	14,562
Depreciation	4,331	4,190
Loss on impairment	601	93
Increase (decrease) in reserve for possible loan losses	7,700	782
Increase (decrease) in reserve for bonuses	(26)	(35)
Increase (decrease) in net defined benefit liability	(10,642)	(1,021)
Increase (decrease) in directors' retirement benefits	(31)	—
Increase (decrease) in reserve for management board benefit trust	35	(86)
Increase (decrease) in reserve for reimbursement of deposits	(45)	(30)
Increase (decrease) in reserve for losses on refund of interest	(13)	(17)
Increase (decrease) in reserve for customer service points	(324)	—
Accrued interest and dividend income	(36,087)	(38,319)
Accrued interest expenses	494	4,149
Losses (gains) on securities, net	(16,619)	(11,325)
Losses (gains) on money trusts	(15)	(6)
Foreign exchange losses (gains), net	(17,807)	(19,204)
Losses (gains) on disposal of tangible fixed assets	2,048	640
Losses (gains) on revision of retirement benefit plan	(726)	—
Net decrease (increase) in loans and bills discounted	29,603	61,648
Net increase (decrease) in deposits	219,488	102,598
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	19,639	(129,432)
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)	14,854	(3,700)
Net decrease (increase) in call loans and others	53,044	(76,214)
Net increase (decrease) in call money and others	(99,869)	(86,668)
Net increase (decrease) in guarantee deposit received under securities lending transactions	83,130	47,458
Net decrease (increase) in trading account assets	105	—
Net decrease (increase) in foreign exchange assets	(359)	(545)
Net increase (decrease) in foreign exchange liabilities	(0)	1
Net decrease (increase) in lease receivables and investment in leased assets	384	(1,672)
Net decrease (increase) in cash collateral paid for financial instruments	(1,487)	3,387
Net increase (decrease) in borrowed money from trust account	9	9
Interest and dividends received	24,747	24,471
Interest paid	(427)	(3,955)
Other, net	10,692	(12,827)
Subtotal	302,374	(121,068)
Income taxes refund	—	1,315
Income taxes paid, net of refund	(8,257)	(9,196)
Net cash provided by (used in) operating activities	294,117	(128,949)
<b>Cash flows from investing activities</b>		
Purchase of securities	(800,593)	(489,726)
Proceeds from sale of securities	555,992	298,613
Proceeds from redemption of securities	86,488	60,669
Interest and dividends received on investments	13,694	17,125
Purchase of tangible fixed assets	(2,243)	(2,477)
Purchase of intangible fixed assets	(2,971)	(2,569)
Proceeds from sale of tangible fixed assets	496	1,000
Net cash provided by (used in) investing activities	(149,137)	(117,364)
<b>Cash flows from financing activities</b>		
Cash dividends paid	(2,519)	(2,673)
Cash dividends paid to non-controlling interests	(221)	(5)
Purchase of treasury stock	(3,041)	(8,081)
Proceeds from sale of treasury stock	82	340
Net cash provided by (used in) financing activities	(5,700)	(10,420)
Effect of exchange rate changes on cash and cash equivalents	22	21
Net increase (decrease) in cash and cash equivalents	139,302	(256,712)
Cash and cash equivalents at beginning of the year	1,465,419	1,604,721
Cash and cash equivalents at end of the year	1,604,721	1,348,008

# Group Non-Financial Data

## Environmental

	FY2018	FY2019	FY2020	FY2021	FY2022
CO <sub>2</sub> emissions (tons)	6,455	6,148	6,303	5,569	5,245
Electricity consumption (thousand kWh)	10,788	10,286	11,306	10,150	9,945
Gasoline consumption (kl)	269	249	206	186	174
Ratio of EV and HV (%) (including MHV)	7.5	8.5	9.3	12.6	13.0
Leases subject to CO <sub>2</sub> /energy saving subsidies (number)	37	40	41	59	91
Promotion of ESG initiatives based on the understanding of business prospects (number)	—	—	—	1,120	3,506

## Social

	FY2018	FY2019	FY2020	FY2021	FY2022
Number of employees	1,782	1,750	1,741	1,890	1,880
Number of male employees	1,065	1,012	991	1,029	996
Number of female employees	717	738	750	861	884
Ratio of female employees (%)	40.2	42.2	43.1	45.6	47.0
Age composition					
0 to 14 years old (%)	0.0	0.0	0.0	0.0	0.0
15 to 30 years old (%)	23.0	23.0	22.5	19.6	18.3
31 to 40 years old (%)	25.6	27.0	28.8	29.8	29.9
41 to 50 years old (%)	31.1	29.7	27.3	25.4	24.0
51 years or older (%)	20.3	20.3	21.5	25.1	27.8
Average age	41 years 1 month	41 years 1 month	41 years 3 months	42 years 4 months	42 years 2 months
Male	43 years 4 months	43 years 4 months	43 years 4 months	44 years 4 months	43 years 9 months
Female	37 years 10 months	37 years 11 months	38 years 6 months	39 years 6 months	40 years 6 months
Average length of service	17 years 2 months	17 years 2 months	17 years 4 months	16 years 9 months	15 years 9 months
Male	19 years 9 months	19 years 11 months	20 years 0 month	19 years 1 month	17 years 11 months
Female	13 years 5 months	13 years 6 months	13 years 9 months	13 years 11 months	13 years 3 months
Women in management positions (%)	11.7	13.9	14.6	17.6	20.3
Employees with disabilities (%)	2.48	2.34	2.79	2.66	2.86
Number of users of internet banking for corporate customers (month)	16,850	17,499	18,150	21,103	23,751
Utilization rate	86.34%	85.03%	84.57%	84.27%	84.44%
Number of users of internet banking for individual customers (month)	34,006	47,691	68,345	104,360	134,858
Utilization rate	19.97%	39.89%	43.27%	49.45%	50.30%

## Governance

	FY2018	FY2019	FY2020	FY2021	FY2022
Number of directors (*)	17	17	15	10	9
Outside directors (%) (*)	23.5	29.4	33.3	50	55
Female directors (%) (*)	5	11	13	10	22
Strategic shareholdings balance (¥ bn)	22.0	20.0	18.1	13.8	11.4

(\*) Data through FY2020 are those of Hokkoku Bank.

Hokkoku Financial Holdings has published its integrated report for 2023.

In editing the report, we have referred to the International Integrated Reporting Framework advocated by the International Integrated Reporting Council (IIRC) and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation issued by the Ministry of Economy, Trade and Industry, among other materials.

Although this integrated report contains forward-looking statements regarding the Company's future performance, these statements are not guarantees of future performance and may differ from actual results due to changes in the business environment, among other factors.

