

ANNUAL REPORT 2020



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NNFH

Nishi-Nippon Financial Holdings, Inc.

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Notes: 1. In this report, Japanese yen figures are rounded down to the nearest million yen.

2. Conversion into U.S. dollars (solely for the convenience of readers outside Japan) has been made at the exchange rate of ¥108.83 to \$1.

Message from the President

I am pleased to report on the business performance of Nishi-Nippon Financial Holdings, Inc. (NNFH) for the fiscal year ended 31st March 2020.

The operating environment in which regional financial institutions find themselves remains severe, as a result of the recent hike in the consumption tax and the prolonged negative interest rate policy by the Bank of Japan. Meanwhile, against the backdrop of the ever-declining and aging population, the low birth rate, and changes in people's lifestyles, customer needs are increasingly diversified and advanced, and we must address such needs in a timely and accurate manner.

Under these circumstances, the NNFH Group (the "Group") has kicked off a new Medium-Term Business Plan, "Leaping Forward 2023 - Creating Vibrancy in the Region and Beyond -," which aims to provide customer-oriented "One to One Solutions" via physical ("human touch") and digital contributions to the development of the host community and customers.

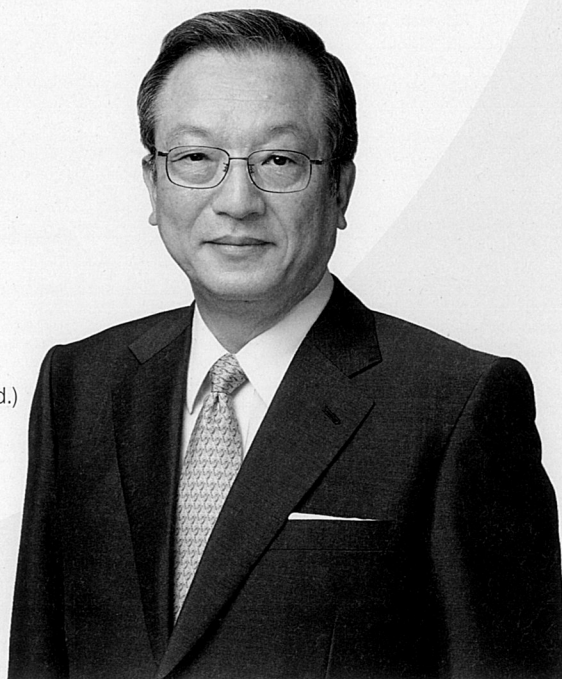
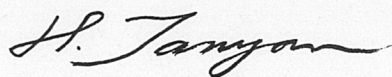
The rapid spread of COVID-19 and the resultant sharp slowdown of economic activity in Japan and the rest of the world have inflicted extreme hardships upon us. On the flipside, regional financial institutions have never had a more vital role in fulfilling offers of support - financial or otherwise - to local customers who are mired in economic plight, which is in perfect accord with what the current Medium-Term Business Plan seeks to achieve, i.e., "contributing to the development of the host community and customers."

"Without regional development, there will be no growth of the Group" - with this at the forefront of their thoughts, officers and employees of the Group will forge ahead with various initiatives. It is our sincere wish that our concerted efforts will bring vibrancy to our host community of Fukuoka and other areas in the Kyushu Region, and buoy the national economy as a whole.

Your continued support for and cooperation in our future endeavors would be sincerely appreciated.

July 2020

Hiromichi Tanigawa
President
Nishi-Nippon Financial Holdings, Inc.
(Concurrently President of The Nishi-Nippon City Bank, Ltd.)



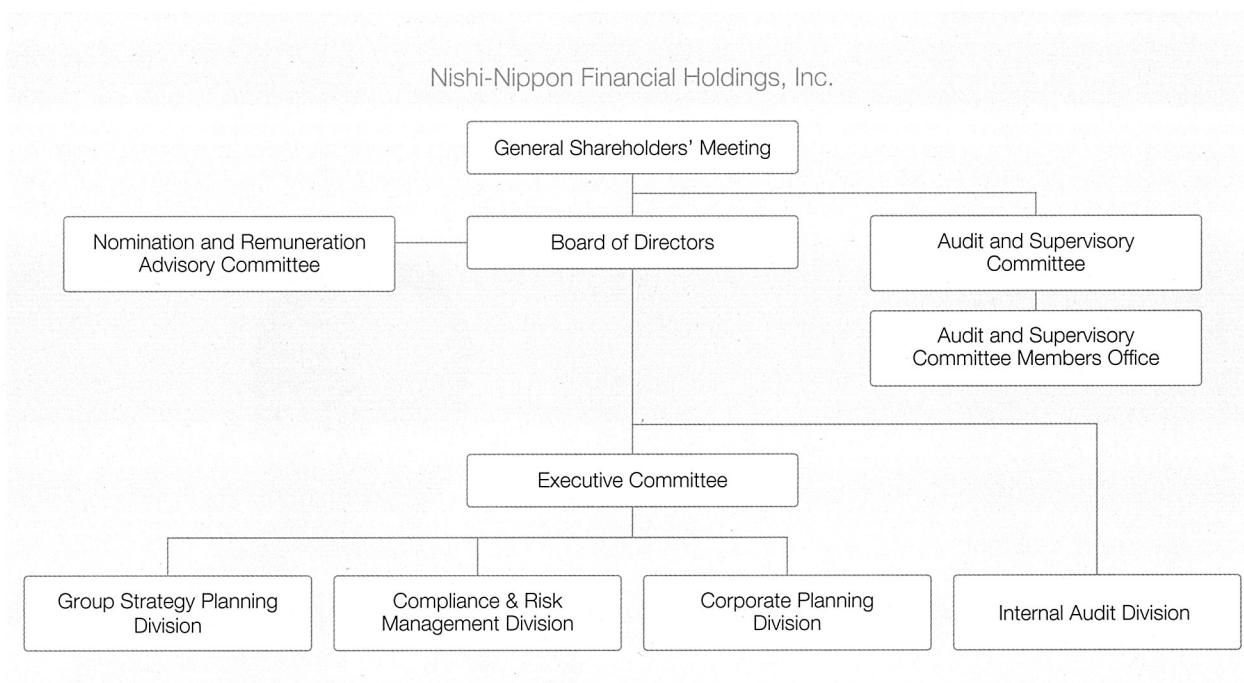
Profile of the Company (Joint Holding Company)

Name: Nishi-Nippon Financial Holdings, Inc.

Location	1-1, Hakata-ekimae 3-chome, Hakata-ku, Fukuoka, Japan
Business	Management and operation of banks and other companies that NNFH may have as subsidiaries under the Banking Act and any all businesses incidental or related thereto.
Capital	50 billion yen
Date of establishment	October 3, 2016
Fiscal year end	March 31
Stock exchange	Tokyo Stock Exchange and Fukuoka Stock Exchange
Share-trading unit	100 shares
Credit Ratings	R&I: A (Stable) JCR: A (Stable)

(As of 30th June, 2020)

Organization Chart



(As of 30th June, 2020)

Board of Directors of Nishi-Nippon Financial Holdings Inc.



Chairman
Isao Kubota



President
Hiromichi Tanigawa



Deputy President
Souichi Kawamoto

Chairman	Isao Kubota
President	Hiromichi Tanigawa
Deputy President	Souichi Kawamoto
Directors	Kiyota Takata Hideyuki Murakami
Directors (Audit and Supervisory Committee Members)	Kiyotaka Tomoike Hirohiko Okumura (outside) Nobuko Takahashi (outside) Toshio Sakemi (outside)

(As of 30th June, 2020)

* Directors/Audit and Supervisory Committee Members Hirohiko Okumura, Nobuko Takahashi, and Toshio Sakemi are Outside Directors as prescribed in Article 2 (xv) of the Companies Act of Japan.

Major Shareholders (Common Stock)

Name	Shares held (thousands) (Note 1)	(%) (Note 2)
Japan Trustee Services Bank, Ltd. (Trust Account)	13,409	8.96
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	9,106	6.08
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,431	4.96
Japan Trustee Services Bank, Ltd. (Trust Account No.9)	4,386	2.93
Nippon Life Insurance Company	3,861	2.58
Aso Corporation	3,140	2.09
Meiji Yasuda Life Insurance Company	2,765	1.84
Japan Trustee Services Bank, Ltd. (Trust Account No.5)	2,736	1.82
JP MORGAN CHASE BANK 385151	2,656	1.77
The Nishi-Nippon City Bank Employee Shareholding Association	2,361	1.57
Total	51,856	34.66

(As of 31st March, 2020)

Notes: 1. The figures are rounded down to the nearest thousand.
2. Shareholding ratio (excluding treasury Shares)

Outline of Nishi-Nippon Financial Holdings Group

Group Management Philosophy

Aiming high and motivated by pride in our services, we are committed to becoming a leading financial group through our ability to respond to change and to grow with our customers

Group Brand Slogan

Sincere Relationships, Best Solutions

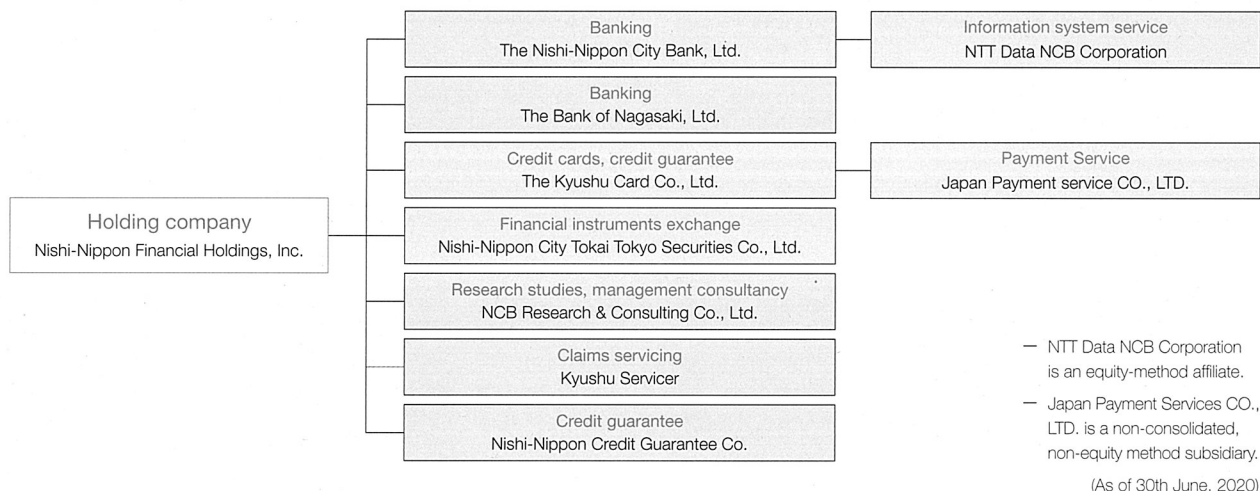
Meaning behind Our Logo



Our logo uses the motif of the “Sun,” the energy which creates our future, and the vibrant image of “Wings.” The radiating wings symbolize the infinite future. And the color gradation from light to dark orange expresses the Nishi-Nippon Financial Holdings Group’s commitment to evolving and transforming itself toward the future.

Strengths as a “Comprehensive Financial Group”

The Group has adopted a “parallel” structure whereby NNFH serves as a “control tower” to direct and guide each Group company whilst also assuming a birds-eye perspective in order to oversee them across the board, thereby building a management framework that allows this comprehensive financial group to best exploit its strengths.



Group Management Strategy

Under the holding company structure, we will promote two Group Management Strategies: “Development of comprehensive financial services that exceed the expectations of customers and host communities (Realization of matrix management)” and “Advancement of a group management framework and risk management system (Realization of a monitoring model).”

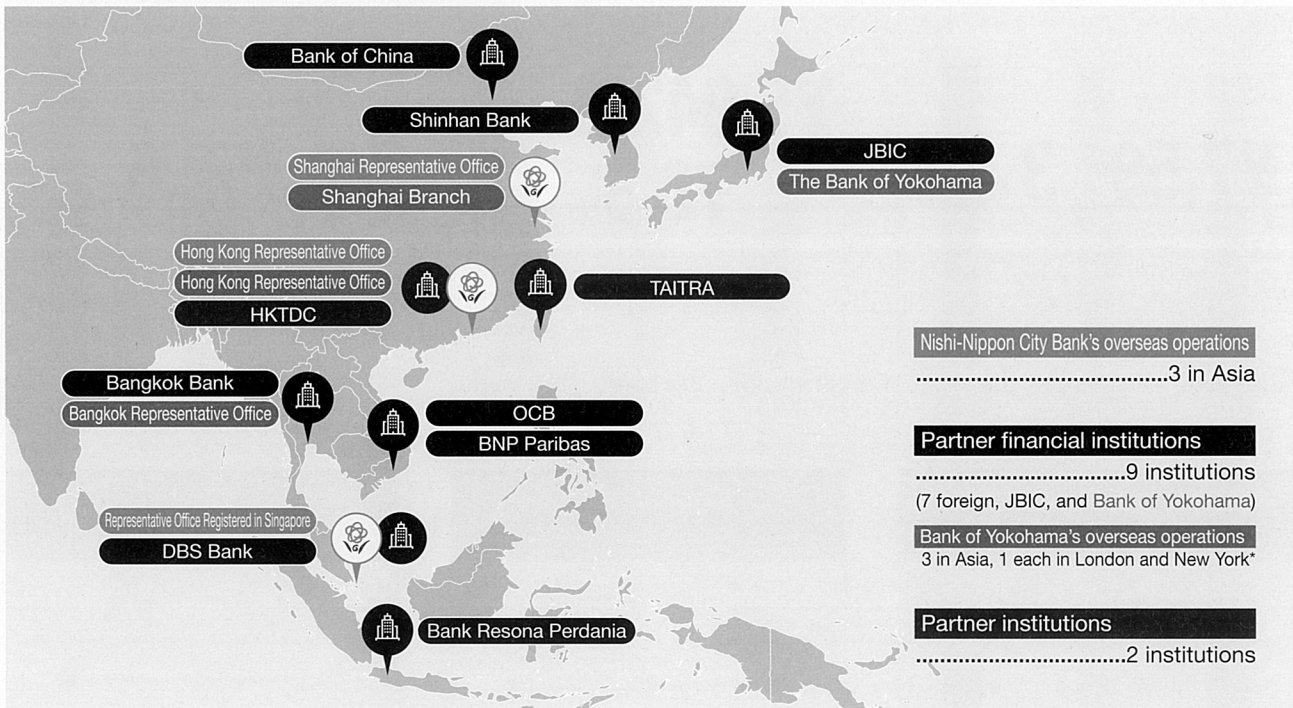


Providing Broader/Deeper Support for International Business

The Group supports local businesses by addressing their requirements for doing business in Asia and other parts of the world. To this end, the Group offers consulting services that go beyond the definition of financial support, together with advanced products/services, through alliances with local partners and specialists with experience in international business.

Multifaceted windows for international business support	
Nishi-Nippon City Bank	<ul style="list-style-type: none"> • International Business Support Office, International Business Div. Support for international business provided by personnel with professional skills and know-how • “World Business Square (WBS)” Total support for international business, including forex trading such as foreign remittance and letter of credit transactions • “NCB Forex Super Direct”, “NCB Direct Forward Exchange Contracts” A broad range of forex transactions, including foreign remittance and application/inquiry on import letters of credit via the Internet
NCB Research & Consulting	<ul style="list-style-type: none"> • International Consultation Office Finely tuned support for overseas expansion offered by personnel with extensive international experience through collaboration with international partner financial institutions, lawyers, insurance companies, etc. • “Door to Asia” (website) Detailed information provision • Asia Business Seminars Sponsorship of seminars on international business
Kyushu Card	<ul style="list-style-type: none"> • A variety of credit cards Support for all major cards, including VISA, MasterCard, JCB, AMEX, UnionPay, and Shinhan

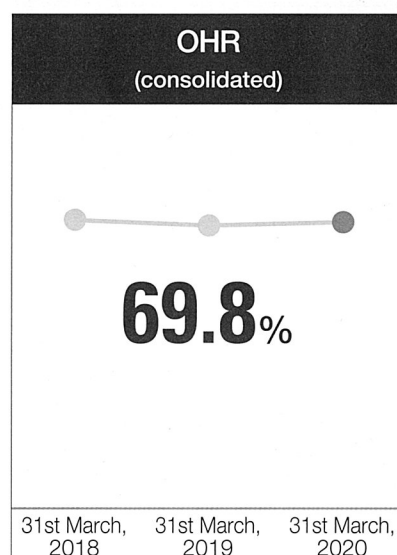
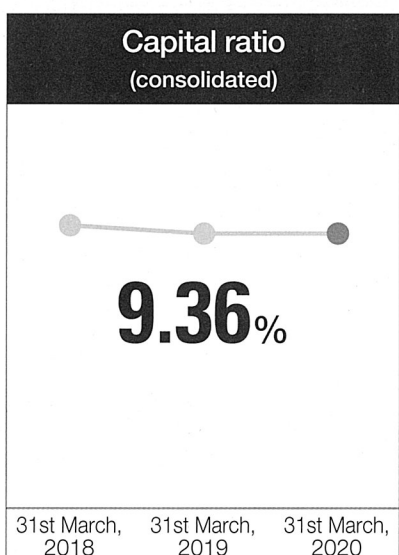
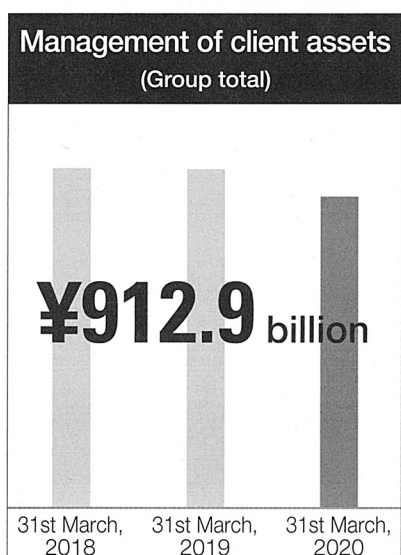
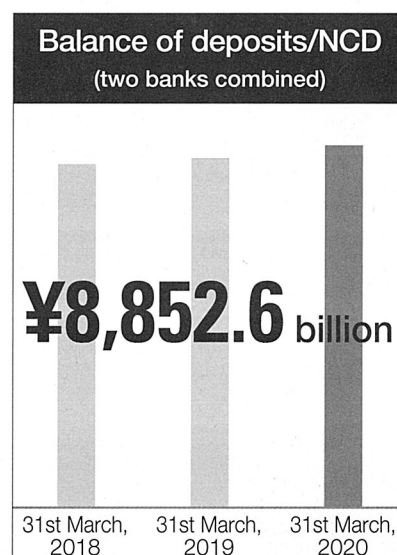
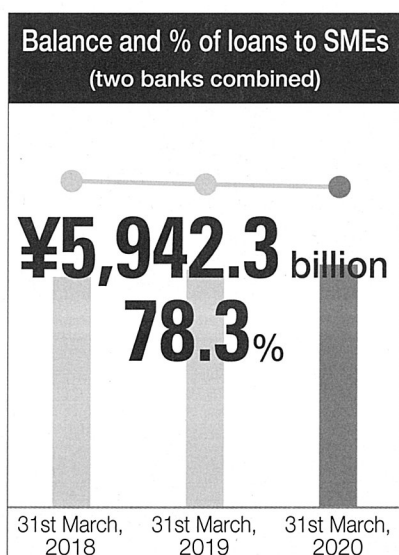
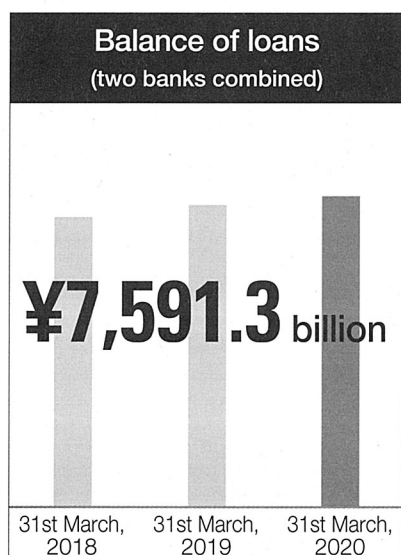
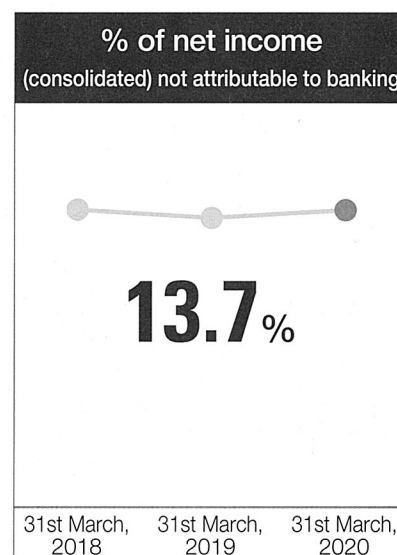
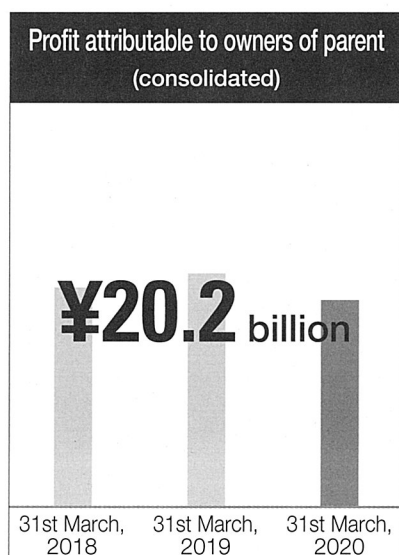
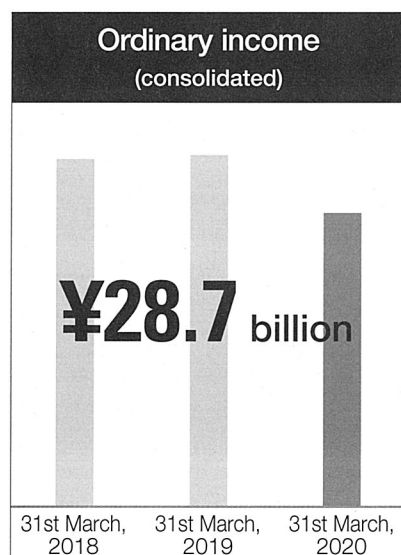
Broad area coverage by our overseas bases and partner institutions



(As of 30th June, 2020)

* Nishi-Nippon City Bank concluded Basic Agreement for Overseas Business Support Services with The Bank of Yokohama in September 2016.

Financial Highlights



Non-Financial Highlights

Number of corporate customers

Two banks combined..... **144K**

Kyushu Card (member stores) **62K**

Nishi-Nippon City Tokai Tokyo Securities **3K**

NCB Research & Consulting (membership) **4K**

(as of 31st March, 2020)

Number of private customers

Two banks combined... **4,034K**

Kyushu Card (membership) **891K**

Nishi-Nippon City Tokai Tokyo Securities ... **34K**

(as of 31st March, 2020)

Number of main customers* (Nishi-Nippon City Bank)

* Borrowers of business loans whom we believe use us as their main bank (deemed so based on transaction records)



20,966

(as of 31st March, 2020)

Number/amount of loans to support startups and second startups (Nishi-Nippon City Bank)



4,252 cases / ¥158.3 billion

(year ended 31st March, 2020)

Balance of loans to agriculture, forestry, and fisheries businesses (Nishi-Nippon City Bank)



¥56.7 billion

(as of 31st March, 2020)

Utilization of funds* (Nishi-Nippon City Bank)

* NCB Kyushu Six-Order Industrialization Support Fund, NCB Kyushu Revitalization Fund, and QB Fund No. 1



Total: **59 cases**

(as of 31st March, 2020)

Recipients of The Excellent Executive Award*

* Granted by the Prize of Excellent Executive



Total: **171 executives**

(as of 30th April, 2020)

Number/amount of SDGs Private Placement Bonds underwritten (Nishi-Nippon City Bank)



Total: **216 cases / ¥21.5 billion**

(as of 31st March, 2020)

Medium-Term Business Plan (for the three-year period April 2020 – March 2023)

Leaping Forward 2023 - Creating Vibrancy in the Region and Beyond -

Value Creation Process

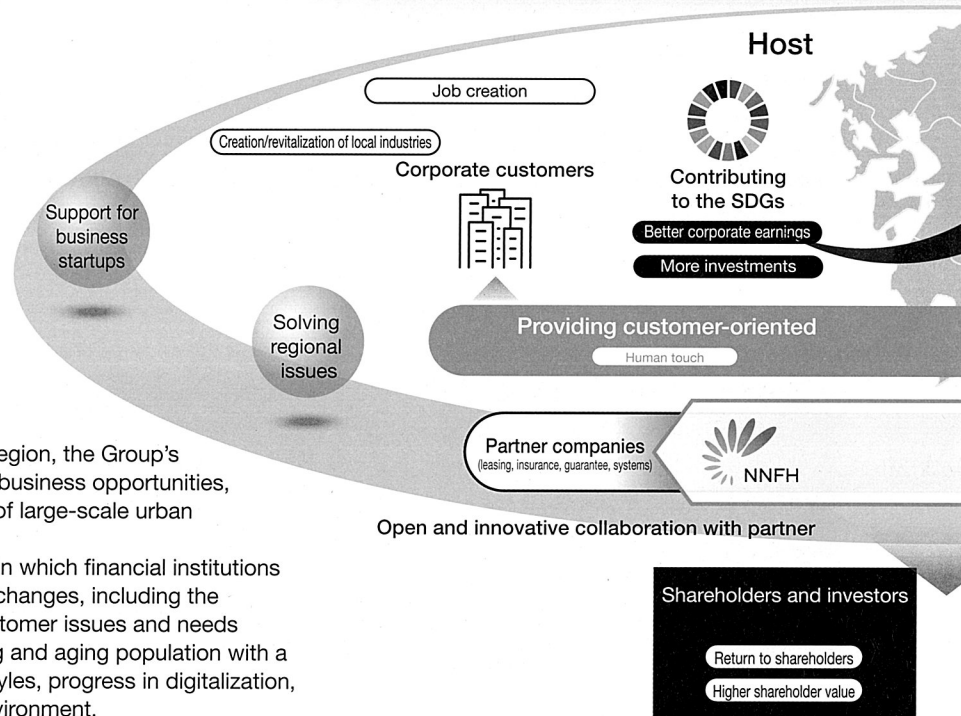
- Vision/Goals of the Medium-Term Business Plan -

Group Management

Aiming high and motivated by pride in our financial group through our ability to respond

- Creating Vibrancy in the

The NNFH Group will provide customer-oriented and digital contributions to the development



Management Environments

Fukuoka and other areas in the Kyushu Region, the Group's main market, offer a number of favorable business opportunities, including a strong economy and a series of large-scale urban redevelopment projects.

Meanwhile, the operating environment in which financial institutions find themselves is undergoing significant changes, including the increasingly diversified and advanced customer issues and needs against the backdrop of the ever-declining and aging population with a lower birth rate, changes in people's lifestyles, progress in digitalization, etc., and a prolonged low interest rate environment.

Basic Strategies and Priority Measures

Basic strategy	1. Demonstrating the Group's collective strength with which to lead the regional development	[Revitalizing the regional economy]
Priority measures	(1) Supporting business startups to create industries and jobs in the region (2) Showing leadership in regional development (3) Building a support structure to address regional issues (4) Social services designed to enhance regional appeals	
Basic strategy	2. Providing customer-oriented "One to One Solutions"	[Increasing customer satisfaction]
Priority measures	(1) Building a structure for providing customer-oriented solutions (2) Providing solutions to corporate customers (3) Providing solutions to retail customers	
Basic strategy	3. Innovating resources for sustainable growth	[Solid management foundation]
Priority measures	(1) Accelerating work reform (2) Strategically re-allocating management resources (3) Strengthening management of securities (4) Reinforcing forward-looking strategic investments (5) Developing HRs who challenge themselves and reforming the corporate culture	

Philosophy

services, we are committed to becoming a leading to change and to grow with our customers.

Region and Beyond -

“One to One Solutions” via physical (“human touch”) of the host community and customers.

community

Creating greater vibrancy to Fukuoka and other areas in the Kyushu Region

(Having young families (with or without children) settle down)

Retail customers

Lively and vibrant city

Higher income levels

Expanded consumption



Regional development

“One to One Solutions”

Digital

Banking
Securities

Credit cards
Consultancy

External organizations

companies and external organizations

Group employees

HR development

Greater job satisfaction

What we mean by “Leaping Forward 2023 - Creating Vibrancy in the Region and Beyond -”

We decided to retain the phrase “leaping forward” from the previous iteration as we sincerely hope to see the Group unite as one to aggressively aim higher so that we can “leap forward” into the future together with our customers and the host community. The subheading, “Creating Vibrancy in the Region and Beyond,” indicates our determination to get the entire Group involved in the process of further invigorating the thriving economy in Fukuoka, Kyushu under the belief that, “Without regional development, there will be no growth of the Group.”

One to One Solutions

Providing products and services that perfectly match the needs and problems of individual customers in order to enhance customer satisfaction (experience) and build long-lasting business relationships

We will contribute to the further development of a thriving economy in Fukuoka and other areas in the Kyushu Region by placing a greater focus on startup support through the formation of new funds, etc., aggressively increasing our involvement in regional development, and reinforcing initiatives designed to resolve regional issues from the perspectives of regional revitalization and the SDGs.

We will strive to increase customer satisfaction and offer inspiring experiences to them by offering face-to-face services that exceed expectations (“human touch”), while at the same time reaching out to more customers via digital channels.

Given the trying earnings environment is expected to linger, we will accelerate our drive to increase operational efficiency and reallocate our resources to priority areas, while at the same time reinforcing strategic investments in future opportunities.

NNFH’s priority SDGs

SUSTAINABLE DEVELOPMENT GOALS



Medium-Term Business Plan (for the three-year period April 2020 – March 2023)

Basic strategies

1. Demonstrating the Group's collective strength with which to lead the regional development

[Revitalizing the regional economy]

Guided by the belief that “Without regional development, there will be no growth of the Group,” we have remained committed to developing and supporting local businesses and industries in the form of startup support and otherwise and to contributing to the community.

In addition, we have laid out in the current Medium-Term Business Plan our commitment to contribute to the further prosperity of Fukuoka and other areas in the Kyushu Region by reinforcing initiatives for startup support through the formation of new funds, aggressively increasing our involvement in regional development, and reinforcing initiatives designed to resolve regional issues from the perspectives of regional revitalization and the SDGs.

1. Supporting business startups to create industries and jobs in the region

- The Nishi-Nippon City Bank will fully tap into its enduring “DNA of developing SMEs” to actively contribute to the creation of industries and jobs in the region through further expansion of its funding and consulting services.
- By expanding the investment function through the formation of new venture funds, we will support fundraising by venture businesses both in terms of loans and equities. Our all-encompassing consulting service menu allows us to offer “comprehensive support” that covers the entire growth process of venture businesses from pre-foundation to post-start-up.

Issues and troubles for founders

When making a business plan

- Managerial knowledge in general (legal, labor, accounting, etc.)

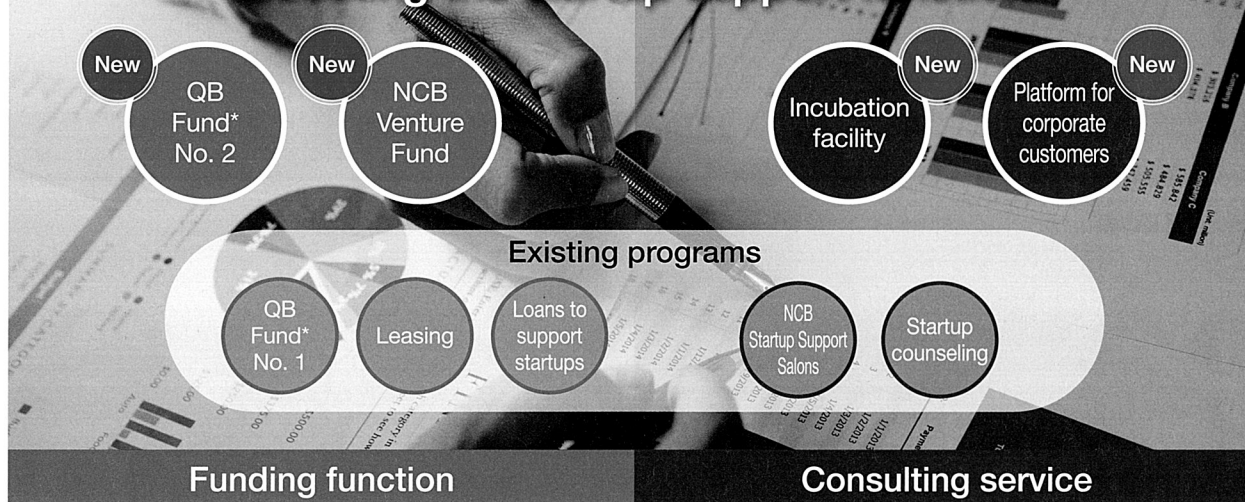
At the foundation

- Fundraising
- Knowledge required for business management

After starting up

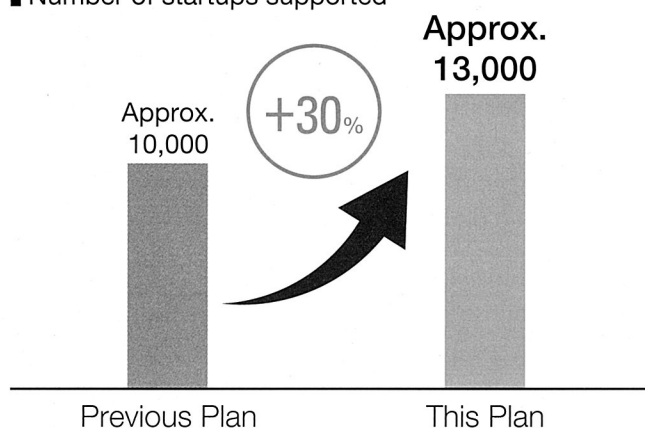
- Finding customers and sales channels
- Fundraising
- Recruitment

Boosting the startup support function



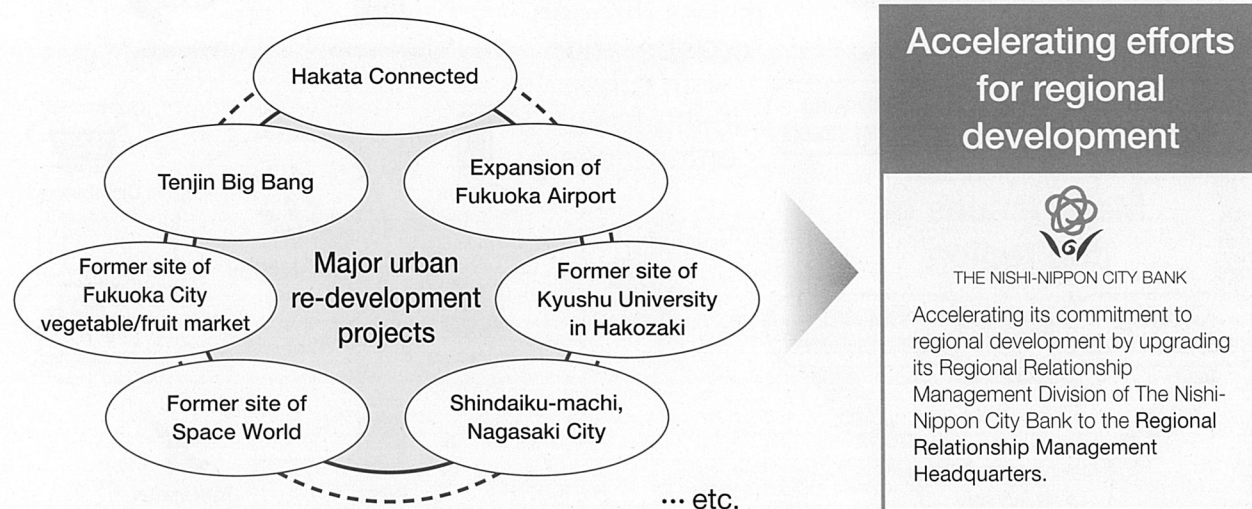
* Offering end-to-end support for universities' technological seeds from the pre-foundation days to the growth phase

■ Number of startups supported

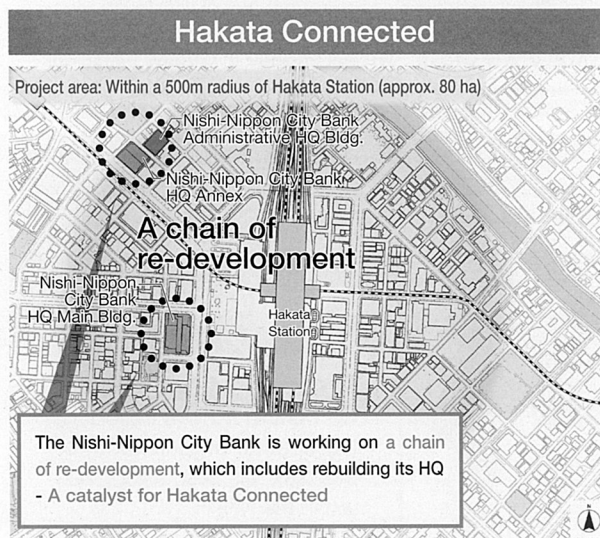


2. Showing leadership in regional development

- We will accelerate our efforts to “Creating Vibrancy in the Region and Beyond” by, for example, generating liveliness and vibrancy in the region through active involvement in urban re-development projects around the island.
- Among such projects, we will actively participate by taking on a leading role in the two largest urban re-development projects in Fukuoka City, “Tenjin Big Bang” and “Hakata Connected.”



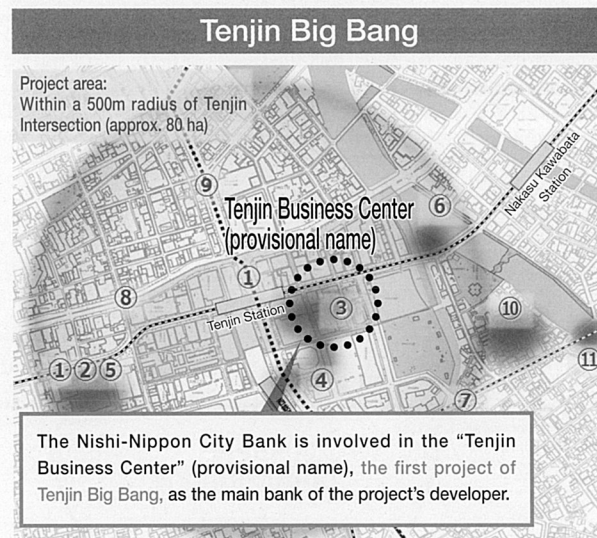
The two largest urban re-development projects in Fukuoka City



Economic effect

Construction investment.....	¥260.0 billion
Knock-on effect/year	¥500.0 billion
Total floor area	x1.5 times
Jobs.....	x1.6 times

Source: Fukuoka City



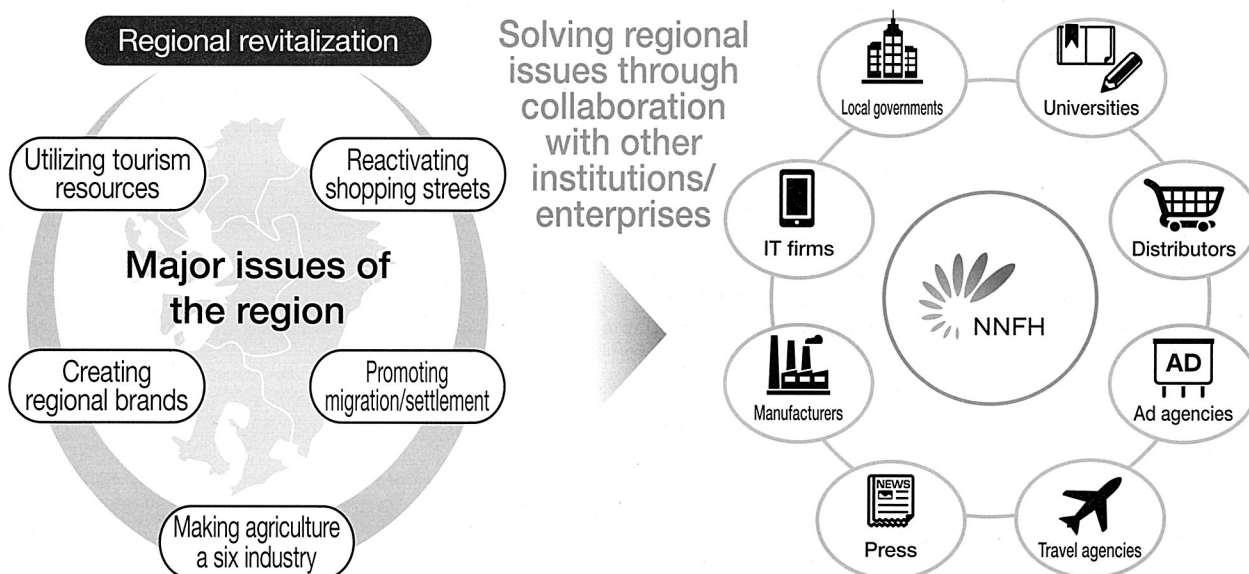
Economic effect

Construction investment.....	¥290.0 billion
Knock-on effect/year	¥850.0 billion
Total floor area	x1.7 times
Jobs.....	x2.4 times

Source: Fukuoka City

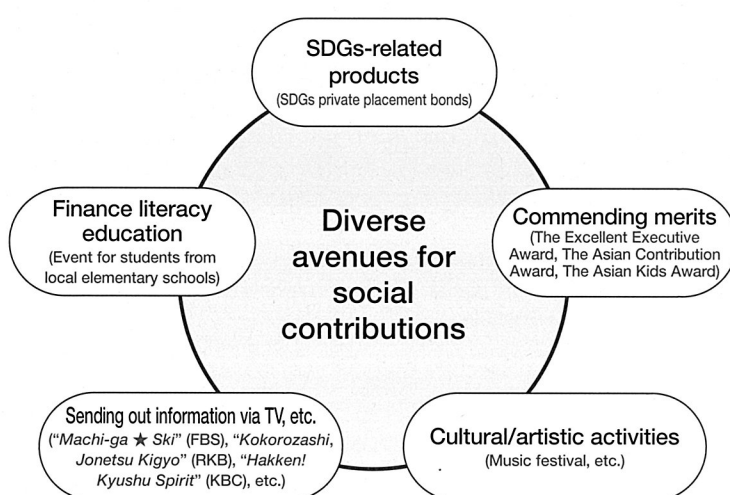
3. Building a support structure to address regional issues

- The Group collaborates with various organizations and enterprises to offer “comprehensive support” for solutions to regional issues, thus contributing to the revitalization of the regional economy.
- We will create a high-value-added business model that meets regional needs (“regional trading firm” concept).



4. Social services designed to enhance regional appeals

- Believing that “Without regional development, there will be no growth of the Group,” we will engage in diverse initiatives designed to achieve social contributions and the SDGs.



Strengthening efforts to achieve the SDGs

To contribute to the region as we work to achieve the SDGs, the special organization for this task has been established within the NNFH.



Medium-Term Business Plan (for the three-year period April 2020 – March 2023)

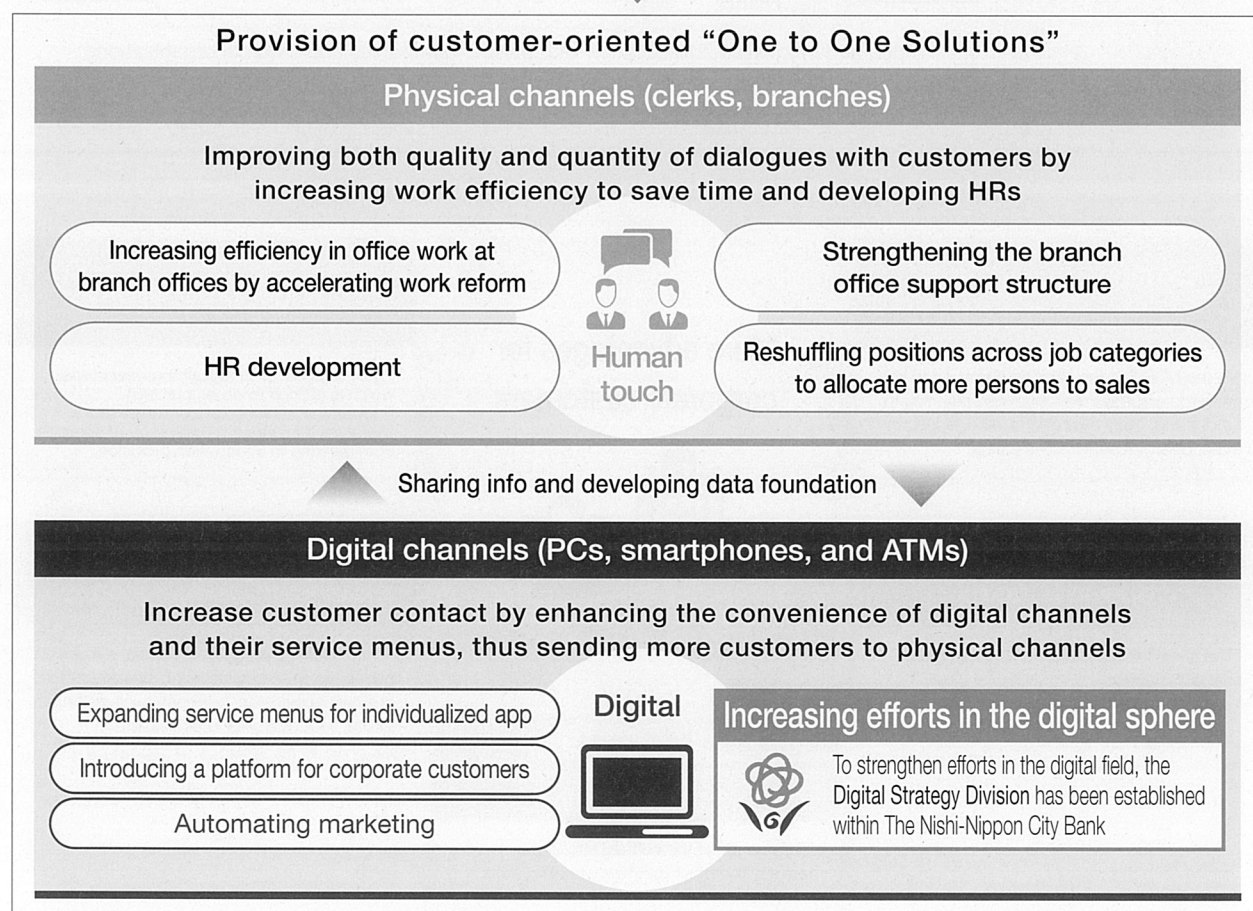
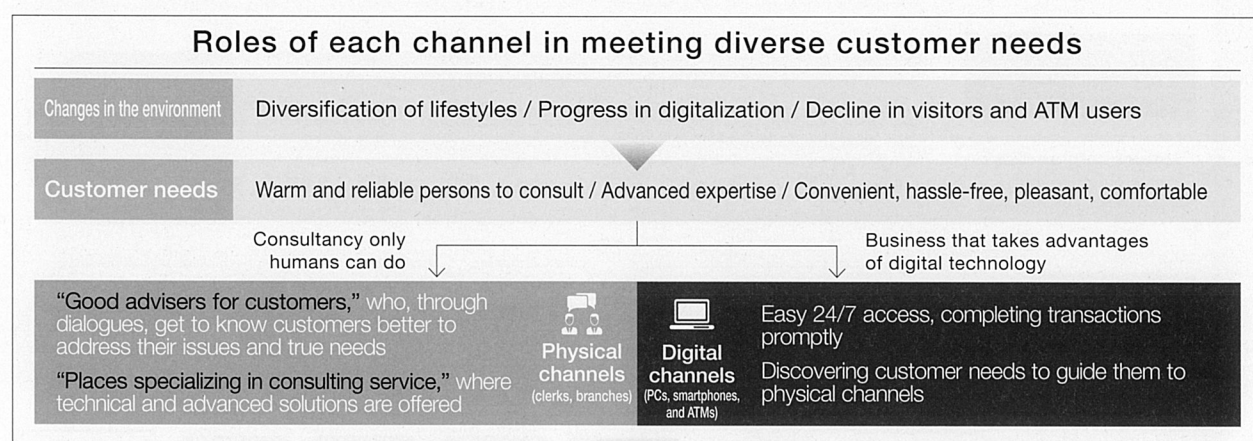
Basic strategies **2. Providing customer-oriented “One to One Solutions”** [Increasing customer satisfaction]

Against the backdrop of the ever-declining and aging population, the low birth rate, changes in people's lifestyles, and the rapid progress of digitalization, customer needs and values are increasingly diversified and advanced, and we must address such needs by offering personalized financial and non-financial products and services (“One to One”).

During the period of the ongoing Medium-Term Business Plan, we will offer face-to-face services that exceed customers' expectations with care and a human touch, while at the same time delivering these services to a greater number of customers via digital channels, thus increasing customer satisfaction and offering them inspiring experiences.

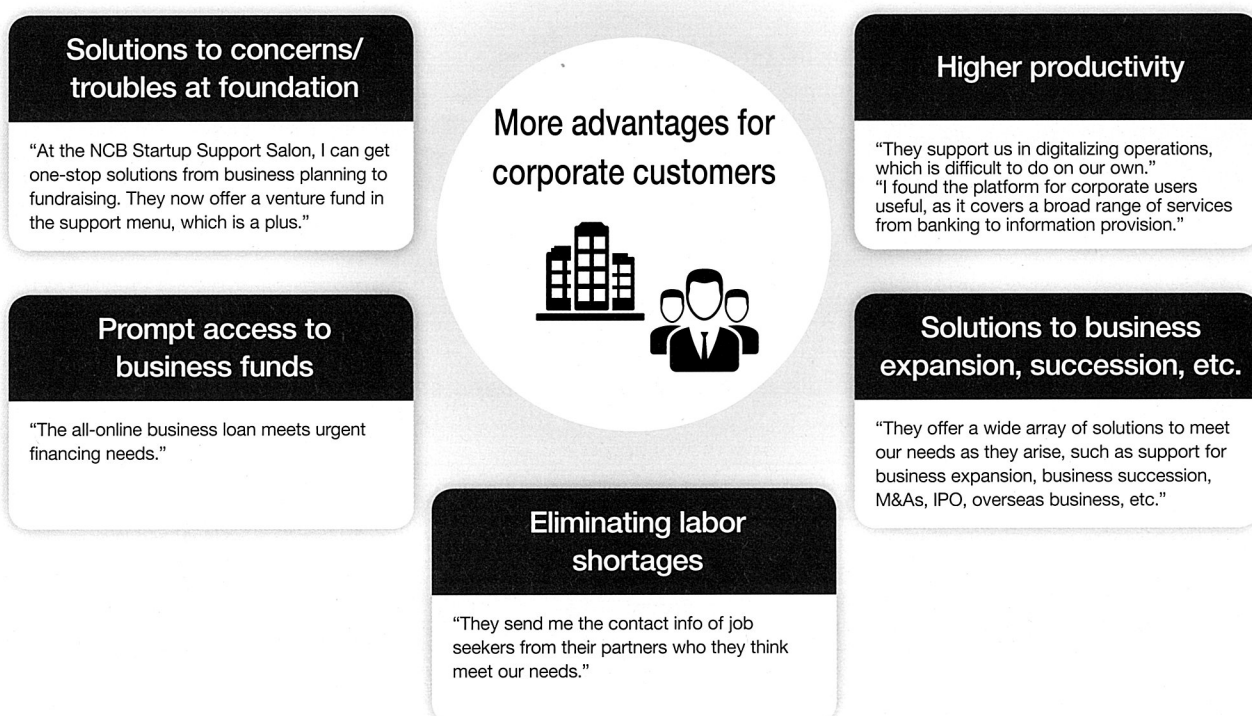
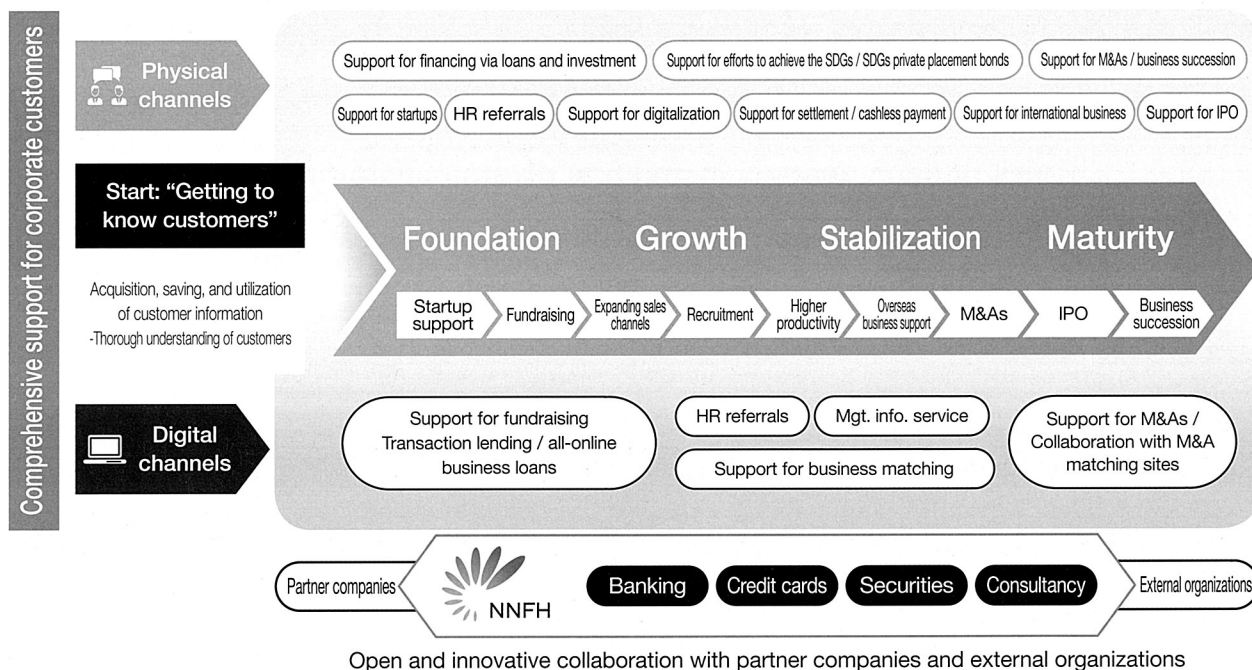
1. Building a structure for providing customer-oriented solutions

- Given the ongoing digitalization of banking and the resultant decline in customer traffic, we will expand contact with customers by enhancing the functions of digital channels (PCs, smartphones, etc.), while at the same time strengthening our consulting function (discovering customers' issues and true needs and providing solutions) through physical channels (clerks, branches).



2. Providing solutions to corporate customers

- We offer “comprehensive support” for the diverse needs of corporate customers through concerted efforts of the Group.
- Through collaboration with Group companies, partner companies, and external companies, we provide financial and non-financial services that meet diverse customer needs via both physical and digital channels.
- For corporate customers, we will adjust our approaches to different customer segments to focus on identifying their issues and needs, with branch offices and the Headquarters working as one to deliver solutions.



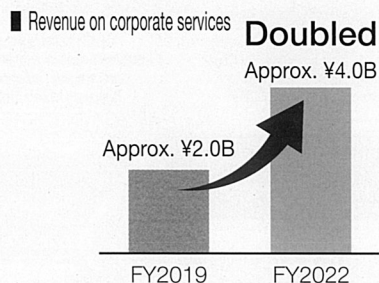
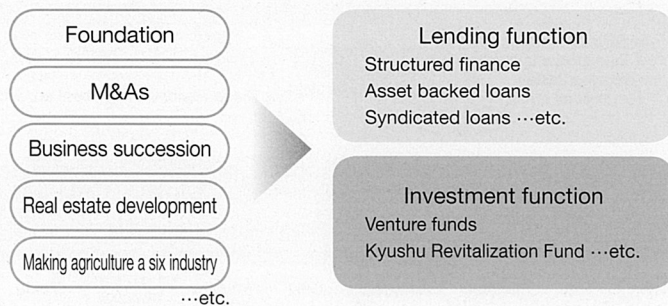


Physical channels

Strengthening the corporate solution business

Providing diverse fundraising methods

- By enhancing our investment/lending functions through greater efforts toward structured finance and formation of new funds, we meet all financing needs, including foundation, M&As, business succession, real estate development, making agriculture a six industry, etc.



- Prioritizing HR allocation in areas where advanced financing techniques are required, such as M&As and business succession

Efforts to support international business

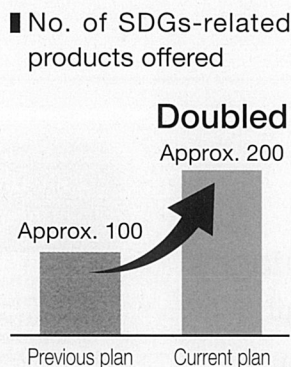
- Assisting customers in drawing up overseas strategies and establishing their presence overseas by tapping into extensive networks
- Offering settlement services for in-bound visitors

NCB Research & Consulting

Kyushu Card

Supporting efforts to achieve the SDGs

- Supporting customers in their efforts to achieve the SDGs by offering SDGs private placement bonds and other products
- Developing loans exclusive for ESG* and the SDGs
- Building a feasibility study model that takes ESG into account



* Short for Environment, Social, and Governance

Supporting customers' efforts to increase productivity

Supporting digitalization

- Supporting customers in promoting digitalization to increase productivity

Supporting settlement / cashless payments

- Offering full brand settlement services to support customers' settlement/cashless payments

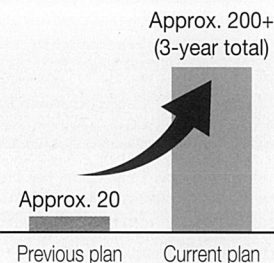
Kyushu Card

Providing HR solutions

- Catering to customers' HR needs

NCB Research & Consulting

■ Cases of HR referrals



Digital channels

Building a platform for corporate customers

- Providing various one-stop financial/non-financial services by building a platform for corporate customers

Financial

Finance

Balance check
Bulk transfer, salary transfer
Electronic delivery
Transaction lending

Total financial services

Membership application
Application for credit/leasing
Corporate insurance simulation

Non-financial

Contents

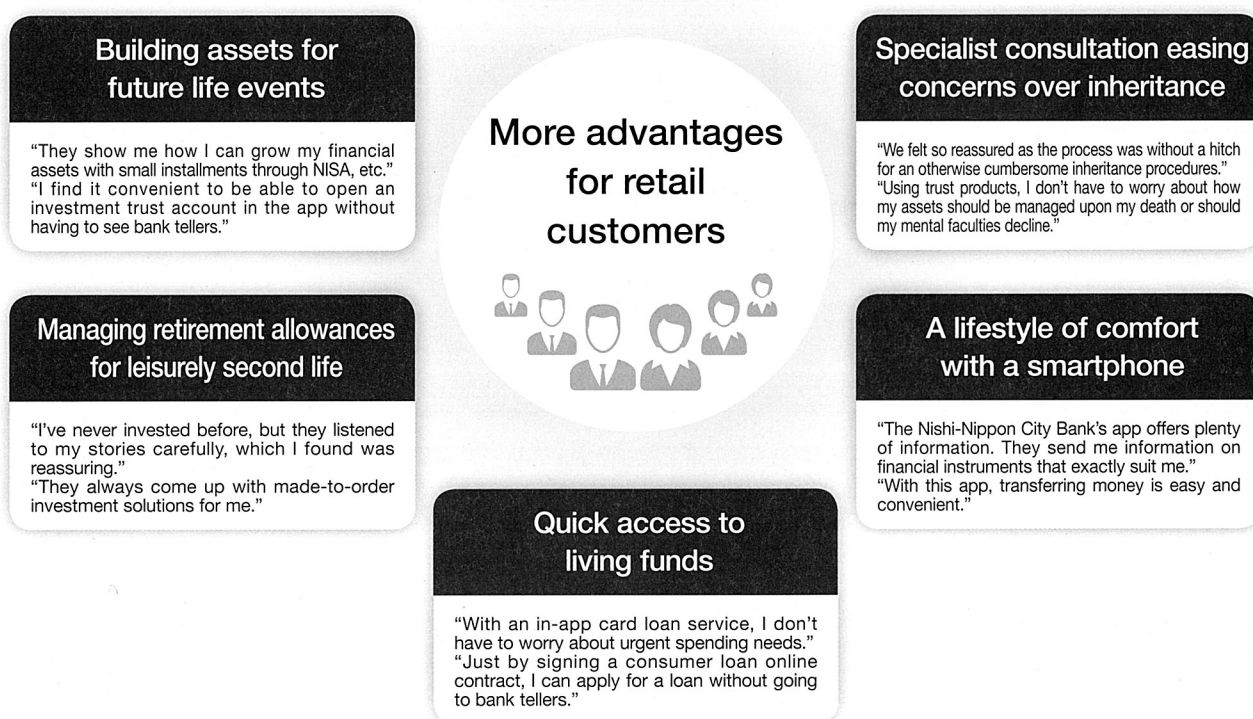
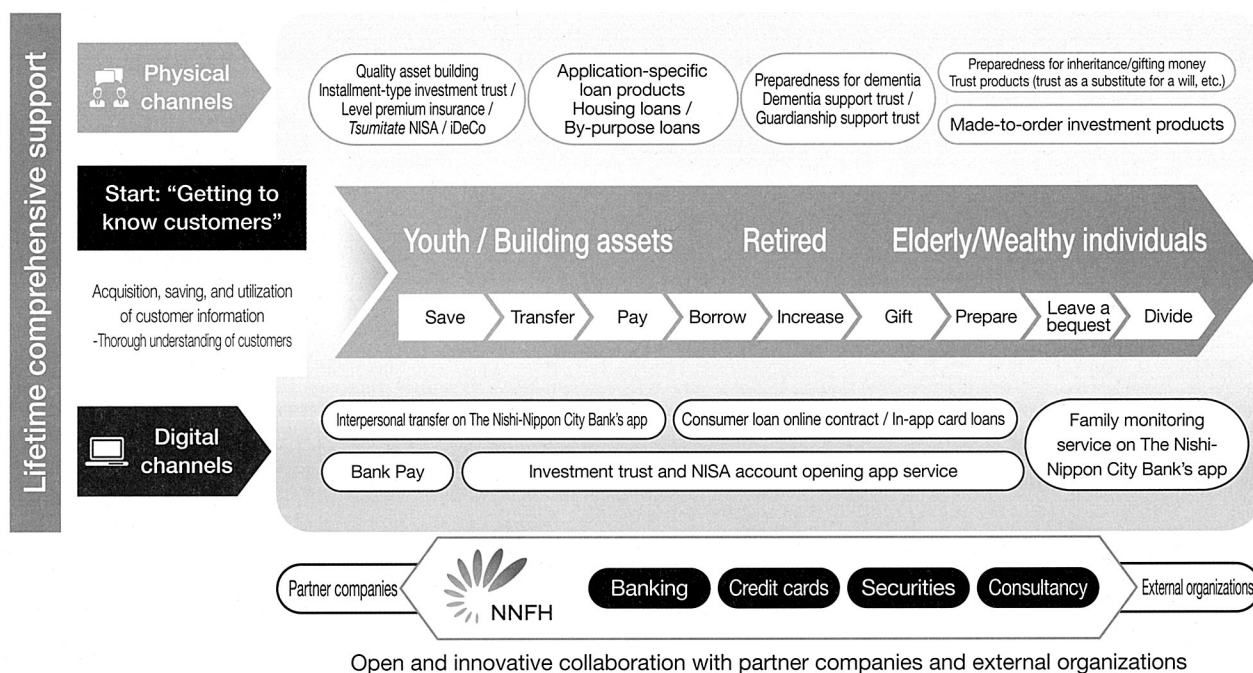
Networking corporate sponsors
Business matching
Training/seminars

Managerial information

Subsidies, Fringe benefits
Managerial info
Introducing licensed professionals
HR referrals

3. Providing solutions to retail customers

- Through concerted efforts of the Group, we offer “comprehensive support” to address various issues and needs that may arise in each life stage of individual customers.
- We provide financial and non-financial services that meet the diverse needs of customers, from the youth and those building assets to elderly and wealthy individuals, via both physical and digital channels.





Physical channels

Developing a system for providing solutions for wealthy individuals

- Through collaboration among banks' specialized units, Nishi-Nippon City Tokai Tokyo Securities, and external specialists, we provide solutions that specifically meet customers' individual needs.

Needs of wealthy individuals

- Proposing advanced asset management
- Succession of real estate and own company's shares
- Inheritance, preparing a will ...etc.

Nishi-Nippon City Bank, Bank of Nagasaki

Nishi-Nippon City Tokai
Tokyo Securities

Tax accountants, attorneys, etc.

Solutions that specifically address issues and concerns associated with inheritance

- Providing diverse trust products that meet the needs to "gift," "prepare," "leave a bequest," and "divide"

Trust as a substitute for a will

Inheritance management

Annual installment gift trust

Will trust

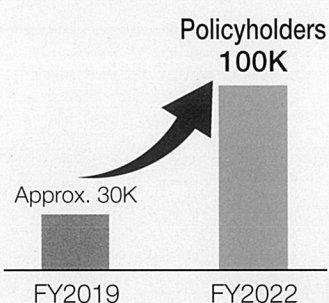
Increased support for those building assets

- By providing a consulting service for each life stage of individual customers, we offer total support from saving for use in retirement to using loans.

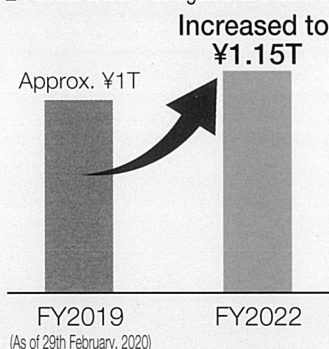
Developing HRs specializing in consultation for individual customers by reshuffling positions across job categories

Honing financial advisers' expertise

■ Installment-type investment trust



■ Assets under management: Balance



■ Trust business



Digital channels

Expanding digital services for individual customers

- We deliver financial/non-financial services that meet each life stage and lifestyle of customers by expanding the functions of the Nishi-Nippon City Bank's app.

Financial services

Interpersonal transfer

Transfer/Pay-in

Card loans

Balance inquiry (Adding items)



Financial services

Non-financial services

Non-financial services

Content service, including lifestyle information

Family monitoring service

Delivering coupons

720,000 downloads (As of 30th June, 2020)

While accelerating our drive to increase operational efficiency and reallocating our resources to priority areas, we will reinforce strategic investments in future opportunities.

1. Accelerating work reform

- We will accelerate our efforts for “work reform,” which include “work flow innovation,” “digital innovation,” and “resource innovation.”
- We will minimize in-house administrative work through a drastic review of operations and utilization of digital technology. We will then reallocate surplus human resources thus freed to consulting and other more productive and specialized jobs.

Work flow innovation

Outside Sales

- Reviewing request for approval, rating, and lending process (use of RPA)
- Increasing work efficiency by introducing sales support tools

In-Store Service

- Semi-self processing and “completed at the lobby” processing by using tablets, app, etc.
- Reducing back-office operations
- Concentrating office work to the center

HQ

- Reviewing office work (Promoting automation by EUC/ RPA, etc.)
- Using groupware (increasing efficiency in responding to inquiries at branch offices, etc.)

Digital innovation

- Promoting “paperless” operations and work efficiency enhancement by using cloud services and system coordination
- Increasing efficiency in data analysis/use

Resource innovation

- Thorough implementation of the dual-division system (reallocating staff members at loan desks to outside sales and other key positions)
- Reviewing the configuration of branches according to market needs

KPIs

Volume of office work at HQ and branches
Reduced by 300 human-minutes

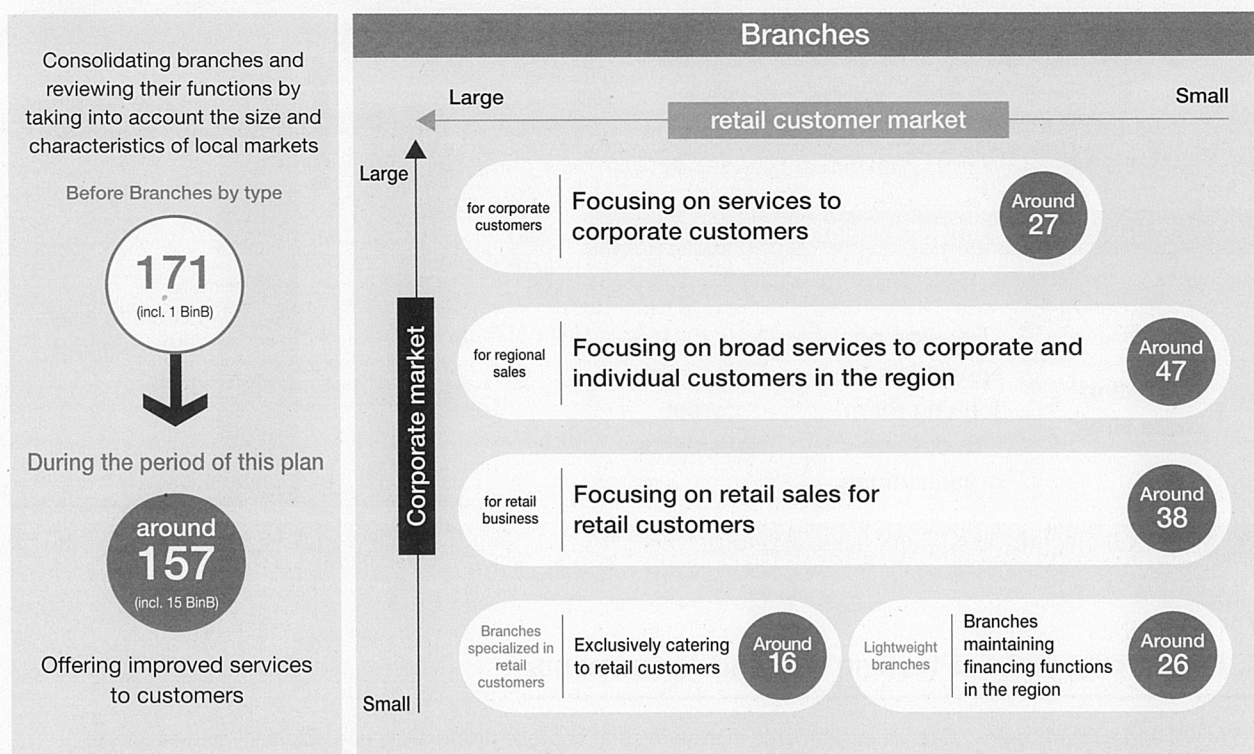
Reducing processes for outside sales/loan processing to double the amount of activity

Paper-related expenses
Reduced by 30%

RPA Robotic Process Automation: Automated operations by software robots
EUC End User Computing: System building by operations divisions

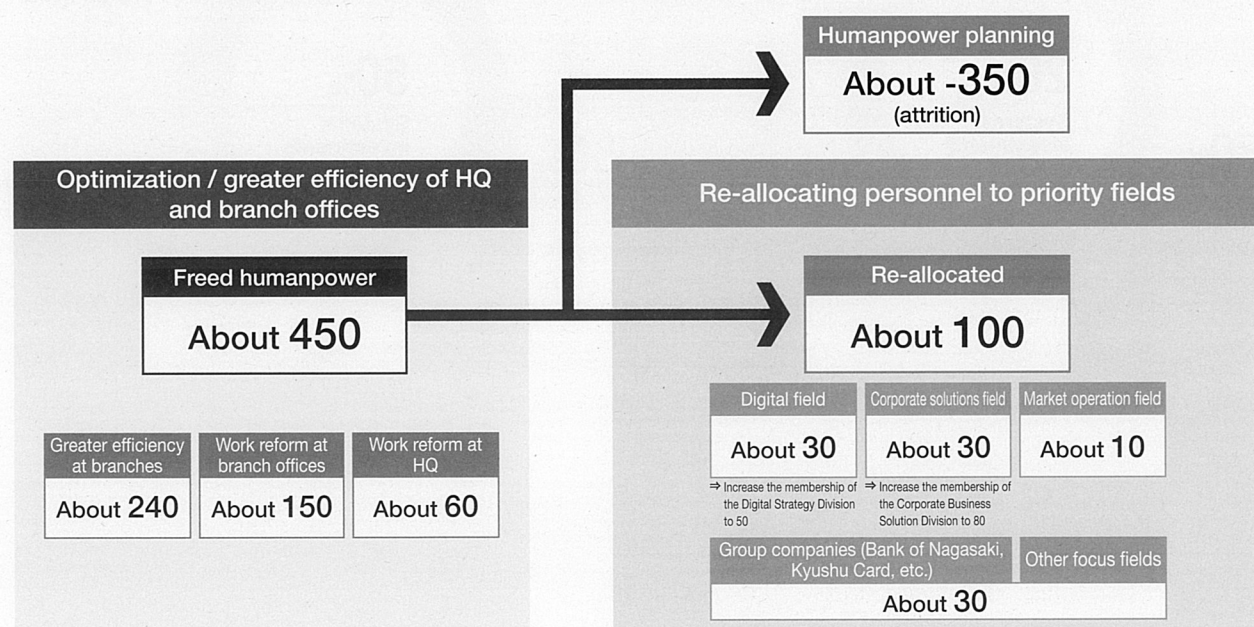
2. Strategically re-allocating management resources

- We will comprehensively consolidate branches and review their functions by taking into account the size and characteristics of each market.
- We will selectively allocate employees experienced in client asset management to retail outlets and corporate sales specialists to branches focusing on corporate customers, so that teams equipped to cater to the specific needs of each market can pursue sales opportunities by leveraging the unique characteristics of their branches.



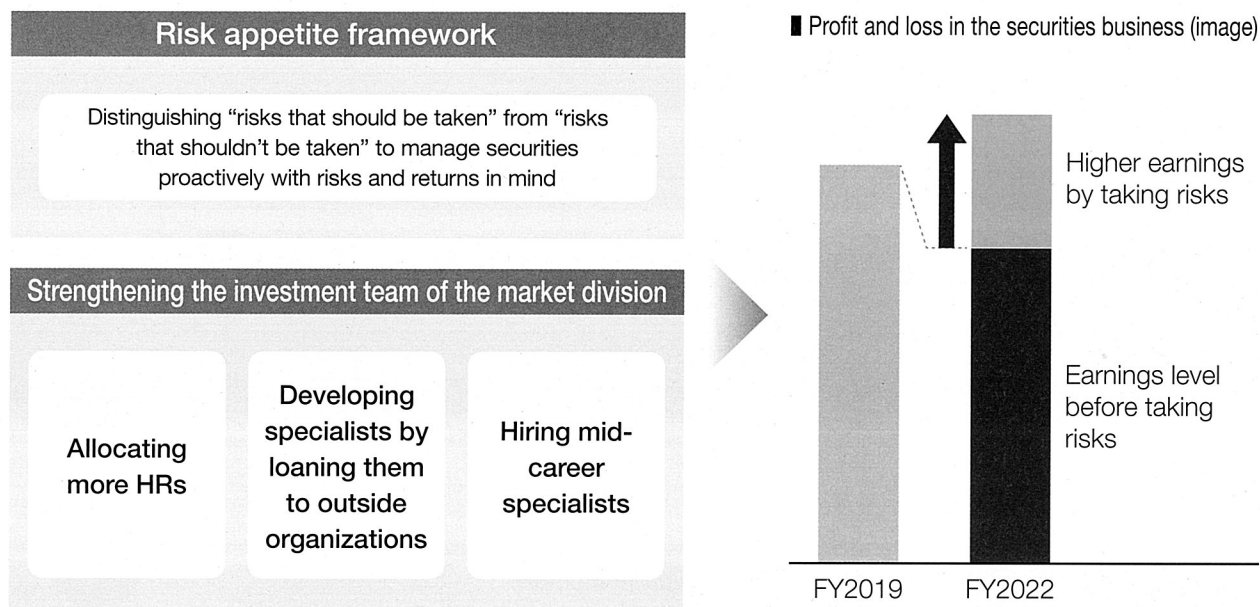
(excl. Head Office, Tokyo Branch, and Osaka Branch)

- By re-allocating about 100 out of some 450 employees whose humanpower has been freed as a result of the efforts to increase efficiency of branches (introduction of BinB, lightweight branches, etc.) and operational efficiency at branch offices and headquarters to digital, corporate solutions, and other areas, we will enhance convenience for customers, provide optimal solutions, and boost the earning power of the Group.
- Headcount is expected to decrease by about 350 by the end of this Medium-Term Business Plan as a result of the difference between the number of retirees and new recruits (attrition).



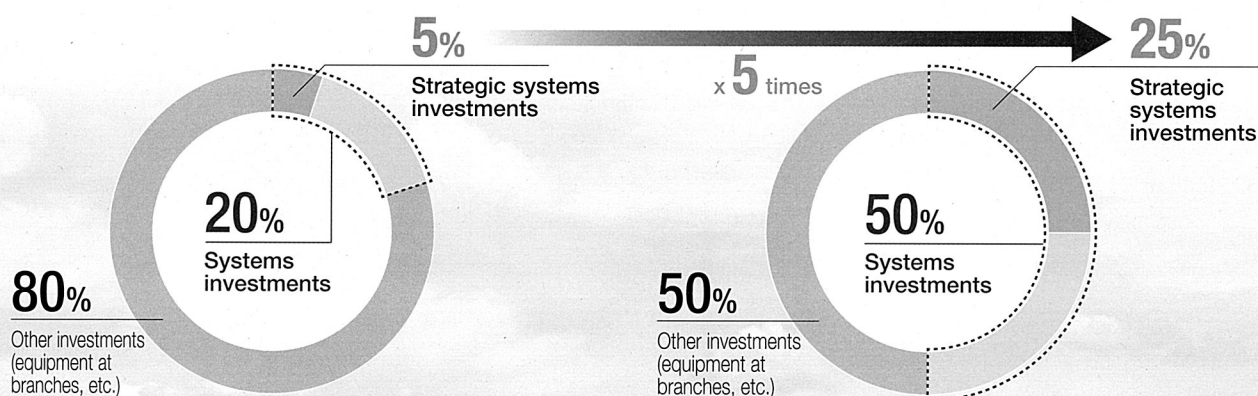
3. Strengthening management of securities

- We will boost our earning power by taking risk flexibly and proactively in respective markets and environments and diversifying investments.



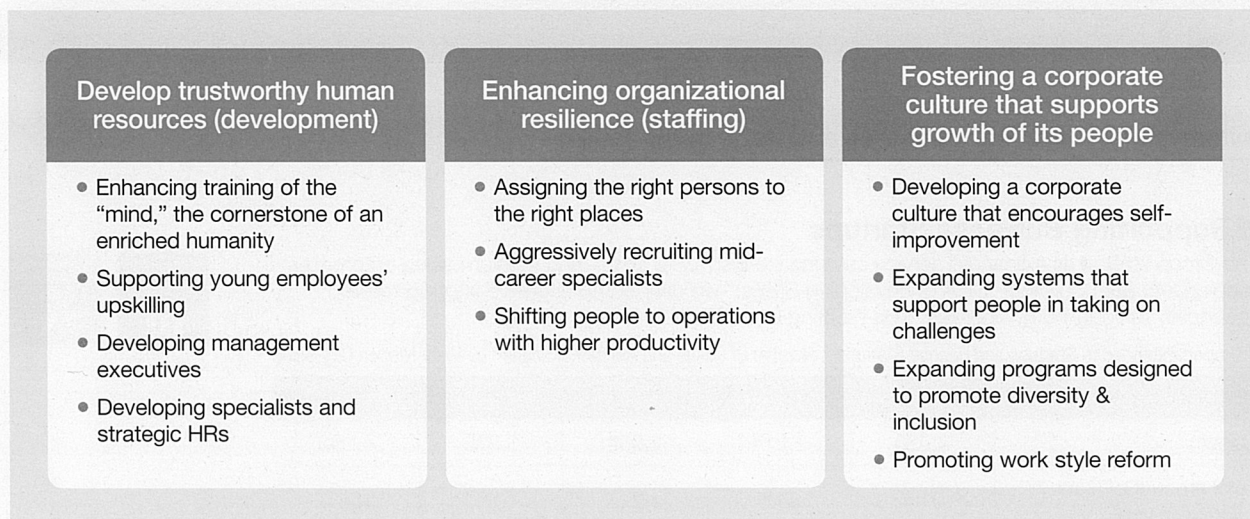
4. Reinforcing forward-looking strategic investments

- We will aggressively make strategic investments in systems that improve productivity and efficiency and maximize customers’ convenience.
- We will more than double the amount of system investments and quintuple the amount of strategic investments, compared to those in the previous Medium-Term Business Plan.



5. Developing HRs who challenge themselves and reforming the corporate culture

- By working to “develop trustworthy human resources,” “enhance organizational resilience,” and “foster a corporate culture that supports growth of its people,” we will promote the growth of individual employees and increase their job satisfaction, thus developing people who can offer “services that exceed customers’ expectations.”



Promoting the growth of individual employees and increasing their job satisfaction

Offering “services that exceed customers’ expectations”

Sustainable growth and increased corporate value of the NNFH Group

Our Commitment to ESG and the SDGs

Working to Realize a Sustainable Community

The Group is committed to Environmental, Social, and Governance (ESG) criteria and the United Nations Sustainable Development Goals (the SDGs) in the ways that a regional financial institution can be, in order to simultaneously enhance our corporate value and realize a sustainable society.

Initiatives for Creating Industries and Jobs in the Region

■ Supporting Business Startups

The Group started as a financial service catering exclusively to small- and medium-sized enterprises. Tapping into our unbroken “DNA of developing SMEs,” we offer comprehensive support tailored specifically to fledgling businesses, thus creating industries and jobs in the region.

■ Support Extended to Startups and Second Startups^{*1}: Number of Cases and Amount of Loans^{*2} by Nishi-Nippon City Bank

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Cases	2,056	2,214	2,804	3,835	4,252
Total amount of loans (Billions of yen)	91.4	84.5	146.2	167.0	158.3

^{*1} Definition of “second startup”

- Commencement of a new business by a successor, etc. to an existing company
- Commencement of a new business by a manager, etc. who has transferred (handed over) an existing business
- Restructuring of a company to make a drastic business turnaround (change of business)

^{*2} Extended to businesses within five years of startup or second startup

● NCB Startup Support Salons

At the NCB Startup Support Salons in Fukuoka City and Kita-Kyushu City (opened in February 2016 and November 2017, respectively), Nishi-Nippon City Bank offers consulting services on everything to do with starting a business, including support for pre-startup business plan formulation, financing at the time of startup, post-startup management guidance/consultation, and organization of seminars. The salons also provide entrepreneurs with opportunities to network with their peers.

At these salons, customers can avail themselves of in-depth consultations with consultants specializing in startup support.



■ Forming Venture Funds to Support Startup Businesses

The Group makes capital commitments to a variety of funds for businesses in various stages, including support for startups and new businesses, business growth, business succession, shift to “sixth-order industrialization,” and commercialization of business seeds, as well as improvement of management and support for business turnaround. The Group financially supports the growth of regional businesses by tapping into those funds.

	Descriptions	Established in	First case invested in	Cumulative total number/amount invested
NCB Kyushu Revitalization Fund	Established to create new business opportunities in Kyushu through collaboration among those in the primary, secondary, and tertiary industries, with the aim of creating added value.	Jan. 2015	Dec. 2015	10/¥3.38 billion
NCB Kyushu Six-Order Industrialization Support Fund	By providing growth capital in various forms, this fund is aimed at supporting local businesses contributing to revitalization of the local economy and creation of jobs.	Apr. 2013	Sep. 2013	11/¥0.72 billion
QB Fund	Managed by QB Capital, LLC, which was established jointly with Kyushu TLO Company, Limited, this fund is aimed at revitalizing the regional economy in Kyushu by creating new industries through use of research outcomes from universities in Kyushu.	Sep. 2015	Feb. 2016	38/¥1.84 billion

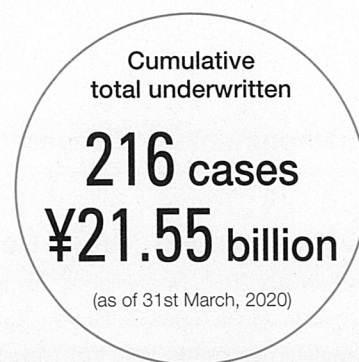
(as of 31st March, 2020)



Hand in Hand with Local Businesses and the Community

■ SDGs Private Placement Bonds

Nishi-Nippon City Bank handles SDGs Private Placement Bonds in support of its customers' endeavors to achieve the SDGs. Based on survey findings by a third-party organization (Kyushu Economic Research Center), Nishi-Nippon City Bank grants an SDGs Certificate to issuers of the bonds.



CSR Private Placement Bonds

(First case underwritten in September 2006)

For companies who have received certification, etc. from national/local governments or otherwise for their CSR activities*

* Compliance, regional contributions, environmental friendliness, etc.

A total of ¥2.05 billion in bonds underwritten for 10 cases as of 31st March, 2020



Etc.

Environment Private Placement Bonds

(First case underwritten in February 2008)

For companies who have received certification, etc. from national/local governments or otherwise for their eco-friendly management

A total of ¥4.90 billion in bonds underwritten for 43 cases as of 31st March, 2020



Donation-Type Bonds

"Tsunagu Kokoro" Private Placement Bonds in Support of Local Community

(First case underwritten in March 2017)

Donations are offered under the issuer's name or joint name for the purchase of books, sports gear, etc. for local schools

A total of ¥10.62 billion in bonds underwritten for 111 cases as of 31st March, 2020



"Kyushu History" Private Placement Bonds in Support of UNESCO World Heritage Sites

(First case underwritten in October 2018)

Donations are offered under the issuer's name or joint name to management bodies (municipal governments, etc.) of UNESCO World Heritage sites in Kyushu

A total of ¥200 million in bonds underwritten for 2 cases as of 31st March, 2020



"Kibo-no-Wa" Private Placement Bonds in Support of Children's Cafeterias

(First case underwritten in October 2019)

Donations are offered under the issuer's name or joint name to operators of makeshift eateries for disadvantaged children

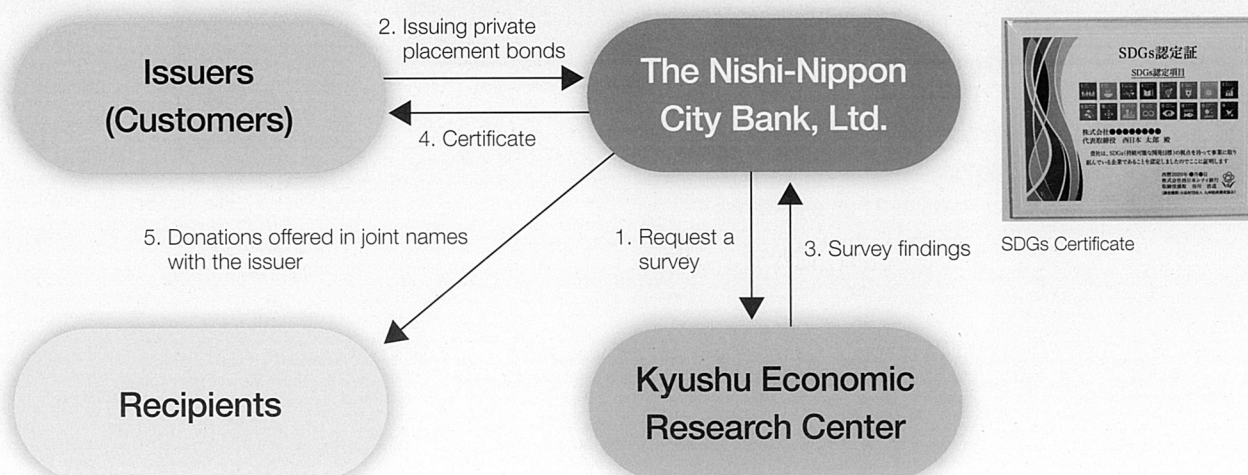
A total of ¥3.78 billion in bonds underwritten for 50 cases as of 31st March, 2020



Issuers: Ichiei Foods Co., Ltd., Heiwa Giken Co., Ltd.
Recipient: Fukuoka Food Bank Conference
(Fukuoka Governor Ogawa at the center)



■ SDGs Private Placement Bonds (Donation-Type) Scheme



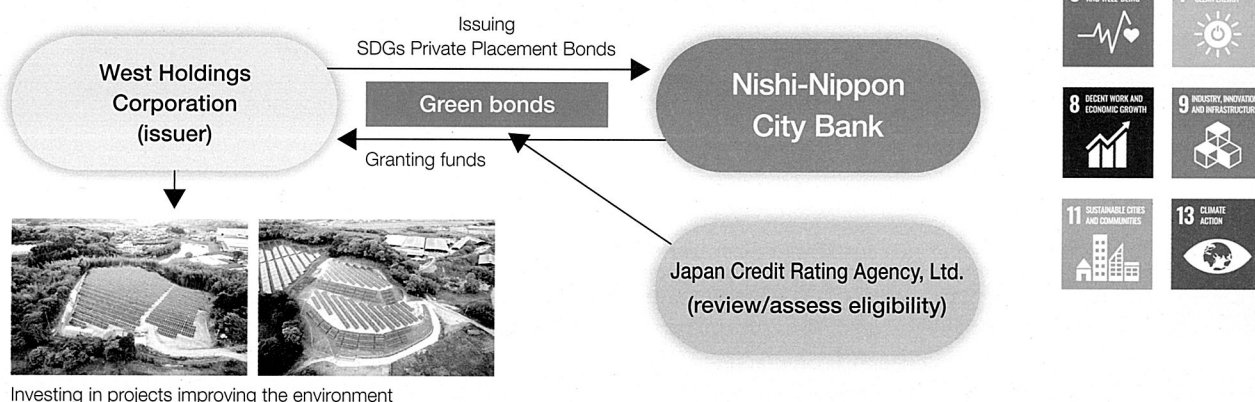
Environmental Initiatives

■ Underwriting “Green Bonds” Issued by a Customer

In February 2020, Nishi-Nippon City Bank underwrote all of the “green bonds” (5-year bonds; 200 million yen; External review provider: Japan Credit Rating Agency, Ltd.) issued by West Holdings Corporation, which operates the solar power generation business nationwide. With this, Nishi-Nippon City Bank became the nation’s first regional bank to underwrite “green bonds” issued by way of a system for bank guaranteed private placement bonds.

* Debt instruments where proceeds are used exclusively to fund projects contributing to the resolution of global warming and other environmental problems. To be issued in compliance with the Green Bond Principles of the International Capital Market Association (ICMA) and the Green Bond Guidelines of the Ministry of the Environment of Japan. Issuance is subject to eligibility review/evaluation by external institutions.

■ Green Bonds Underwriting Scheme by Way of SDGs Private Placement Bonds



■ Committed to Beautification of the Local Environment

Employees of the Group regularly volunteer to clean up the community environment. In August 2019, clerks of Bank of Nagasaki cleaned up the area around the Meganebashi Bridge in Nagasaki City. In October 2019, clerks of Nishi-Nippon City Bank joined local residents to clean up the area around JR Hakata Station.



Cleaning up the Meganebashi Bridge, Nagasaki



Cleaning up the area around JR Hakata Station



■ Eco-Friendly Branches and ATMs

We are renovating our branches to make them fully equipped with eco-friendly features, such as solar power generation, rainwater utilization, LED lighting, and energy-saving air-conditioning (24 branches renovated as of 30th April, 2020).

To save electric power, some ATMs do not operate during certain blocks of time depending on the day of the week (7-8 and 18-23 on weekdays, 8-21 on weekends).



NNFH Kita-Kyushu Bldg.



Ohashi Ekimae Branch



Partnership with the Local Community

■ Collaborating with Local Governments

The Group has signed the comprehensive agreement on regional revitalization with 13 local governments and an individual agreement on solutions to issues each of the eight local governments has (the SDGs, internationalization, tourism promotion, etc.) as part of its commitment to regional revitalization.

■ Collaborating with Universities

The Group has concluded the agreement on industry-university collaboration and cooperation with 10 local universities to organize various programs that contribute to the regional development and the advancement of learning.

Multifaceted Programs Benefitting the Local Community



■ The Excellent Executive Award

Since January 1973, the Prize of Excellent Executive (Chairman: Isao Kubota) has commended excellent executives who have made outstanding achievements in the management and/or technology of SMEs in the Kyushu region and Yamaguchi Prefecture, thus contributing to the development of the regional economy. A total of 171 executives have been commended as of 30th April, 2020.



■ The Asian Contribution Award / The Asian Kids Award

In order to facilitate international mutual understanding, the Nishi-Nippon Foundation (Chairman: Isao Kubota) has annually commended groups, individuals, elementary and junior high schools, and regional groups of children who are working toward the development of Asian countries and the international exchange between them. Those to be commended are picked from the Kyushu Region and Okinawa and Yamaguchi Prefectures, and the winners of the awards either receive The Asian Contribution Award (held 21 times as of 31st March, 2020, since March 2000) or The Asian Kids Award (held 15 times as of 31st March, 2020, since March 2006).



■ Lectures on economic matters

Nishi-Nippon City Bank has hosted this popular annual talk by its Chairman Isao Kubota, to share the latest financial and economic information that customers may find useful in steering their businesses or developing a business outlook for the New Year. Since January 2008, a total of 13 sessions have been held as of 31st March, 2020.





■ Finance Literacy Education

In August 2007, Nishi-Nippon City Bank began organizing a series of workshops on financial literacy designed to help young citizens to deepen their financial knowledge.

In August 2019, the 15th session was held at the Fukuoka City Science Museum, where students from local elementary schools enjoyed answering quizzes in an interactive class.



■ Workshop on the SDGs

In October 2019, Nishi-Nippon City Bank organized the workshop on the SDGs, an idea-emergent workshop using Machi-1 Cards*, which it developed to educate people on the SDGs.

* Using the cards adorned with an SDGs logo, children come up with "ideas on an exciting, happy town" at the workshop.



■ Music Festival

Nishi-Nippon City Bank and the Fukuoka Cultural Foundation (Chairman: Isao Kubota) have co-hosted the year-end since December 2014 to invite the audience for the city to be more festive and alive with music (held 5 times as of 31st March, 2020).



■ Promenade Concert

Nishi-Nippon City Bank and the Fukuoka Cultural Foundation had co-hosted the promenade concert monthly since January 1986. Musicians of all genres connected to Fukuoka play a special program for the audience (held 409 times as of 31st March, 2020).



■ Inviting 10,000 Junior High School Students to Disney Musical Lion King

As part of the projects to celebrate the 15th anniversary of its foundation, Nishi-Nippon City Bank invited 10,000 junior high school students to Disney Musical Lion King under co-sponsorship with Shiki Theatre Company (three groups of 10,000 students each have been invited as of 31st March, 2020).

Between December 2019 and January 2020, a total of 10,000 students from junior high schools in Fukuoka City were invited to the Lion King musical production to enhance the local culture.



Increasing Accessibility to Customers

Barrier-Free Facilities

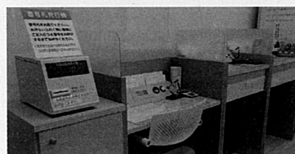
We promote universal design and barrier-free facilities at our branches for our valued customers.

Services Friendly to Persons with Disabilities

Nishi-Nippon City Bank and Bank of Nagasaki have installed a total of 595 and 44 ATMs (including those outside branches) for visually-impaired persons, respectively, with at least one at every branch (as of 31st March, 2020). Customers are also welcome to ask our staff to write/read for them.



Entrance with no steps (slope)



Customers can write here while seated



Priority ATM for visually-impaired persons



Diversity & Inclusion

Expanding Programs for Good Work-Life Balance

We offer proactive programs to support balancing work and family life.

- Childcare leave (until a child is up to 4 years of age)
- Short-hour shift (until a child finishes third grade in elementary school)
- Etc.



Networking support for female employees

Nishi-Nippon City Bank supports its female employees in networking at this opportunity to compare notes with their role models and mingle with those from outside the industry.



Workshop for Female Leaders

Female business managers and leaders from local companies are invited to this workshop for networking and comparing notes with those from outside the industry. Four sessions have been organized so far.



The 4th session was held in November 2019, with 108 persons attending.

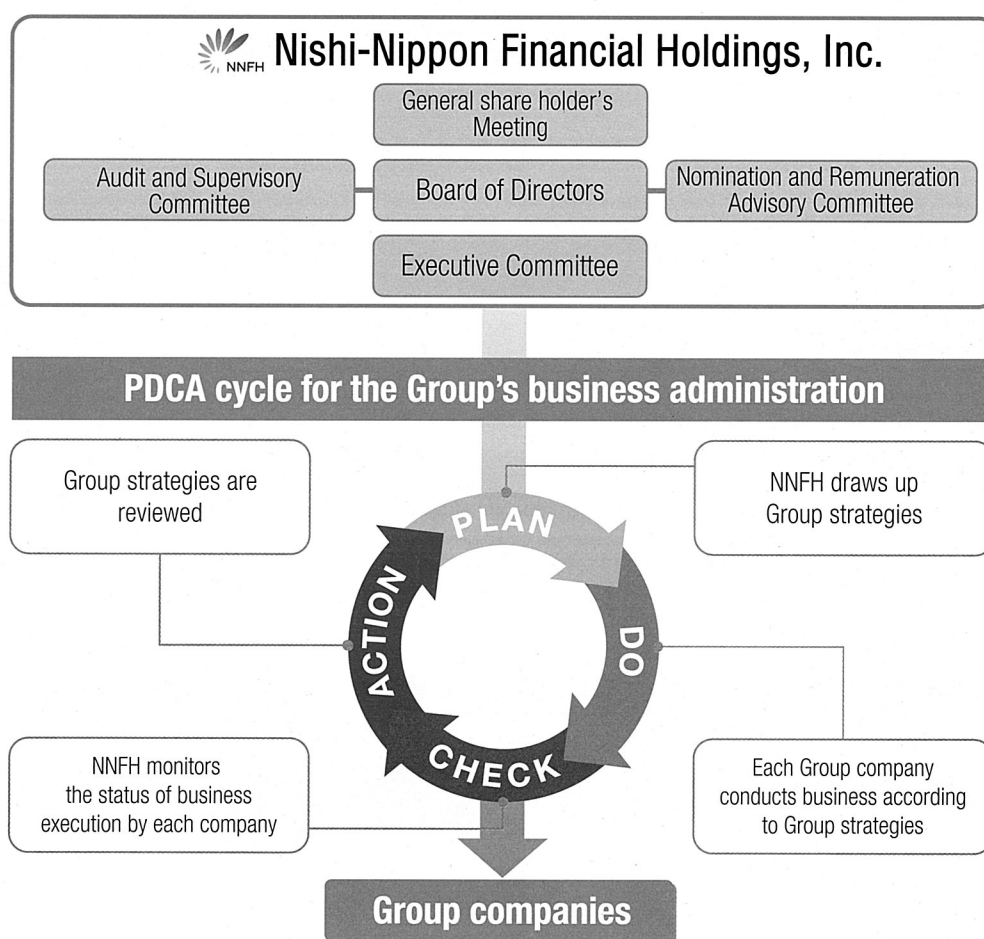


Corporate Governance

Basic Approaches

At the Group, enhancement of corporate governance is deemed to be a managerial issue of prime importance. Accordingly, every possible effort is being made to “enhance the soundness and transparency of management,” “accelerate decision-making,” and “perform duties smoothly.”

By establishing an Audit and Supervisory Committee under NNFH, we not only enhance corporate governance, but we have also built a system for prompt and efficient decision-making by delegating authority over performance of important duties. With NNFH specializing in management oversight and Group companies focusing on the performance of day-to-day duties, we maintain an advanced level of business administration for the Group.



PDCA Cycle for Group Business Administration

With NNFH (holding company) focusing on business administration and Group companies concentrating on business execution, further advancement of the Group's business administration is aimed at.

Organizations of the Company

■ Board of Directors

Comprised of nine directors (including four directors who are Audit and Supervisory Committee members, as of 30th June, 2020), the Board of Directors of NNFH makes decisions about the performance of important duties concerning the Group's management and oversees the performance of the duties by directors.

NNFH has elected three independent outside directors (as of 30th June, 2020) in order to ensure that independent and objective perspectives augment the highly effective management oversight function by the Board of Directors.

To adapt to rapid changes in the operating environment and clearly determine responsibilities of directors in attaining business results for each fiscal year, the term of office for directors (excluding those who are Audit and Supervisory Committee members) shall be one year, thus keeping the Board of Directors actively engaged.

In addition, by introducing the executive officer system, we have separated management decision-making and oversight from the administration of business operations in order to enhance the oversight function and promote rapid decision-making.

The Board of Directors meets once a month, in principle.

■ Audit and Supervisory Committee

Comprised of four directors who are Audit and Supervisory Committee members (including three outside directors, as of 30th June, 2020), the Audit and Supervisory Committee audits the performance of the duties by directors and compiles audit reports. Audit and Supervisory Committee members shall, in accordance with an audit plan drawn up by the Audit and Supervisory Committee, attend important meetings, inspect important documents, and investigate the status of the operations and the financial status of NNFH, in order to audit the performance of the duties by directors.

The Audit and Supervisory Committee is also partially responsible for overseeing directors by electing directors (excluding those who are Audit and Supervisory Committee members) and stating opinions on the remunerations to directors.

The Audit and Supervisory Committee meets at least once every three months, in principle.

■ Executive Committee

Comprised of five directors (as of 30th June, 2020) appointed by a representative director and the president, the Executive Committee deliberates on and makes decisions on important matters concerning management in accordance with management policies or otherwise determined by the Board of Directors. One full-time Audit and Supervisory Committee member is invited to the Executive Committee meeting to provide pertinent advice.

The Executive Committee meets whenever necessary.

■ Nomination and Remuneration Advisory Committee

NNFH has established the Nomination and Remuneration Advisory Committee, the majority of whose members are outside directors, etc., with a view toward ensuring objectivity, timeliness, and transparency concerning the election and dismissal of a representative director and senior management members (directors holding responsible positions), assuring objectivity and transparency concerning remunerations for directors and developing successors in a systematic manner.

■ Internal Audit Division

NNFH has established the Internal Audit Division, which conducts internal audits independent from all operations divisions. The Internal Audit Division, in accordance with the Internal Audit Regulations, verifies and assesses the adequacy and effectiveness of internal control systems of the Group, including a compliance structure and a risk management structure, suggests improvements to problems, etc. to audited divisions, and reports audit findings, etc. to the Board of Directors, Audit and Supervisory Committee (members), and the Executive Committee every month. By exchanging information with accounting auditors, the division ensures that internal audits are conducted both objectively and efficiently.

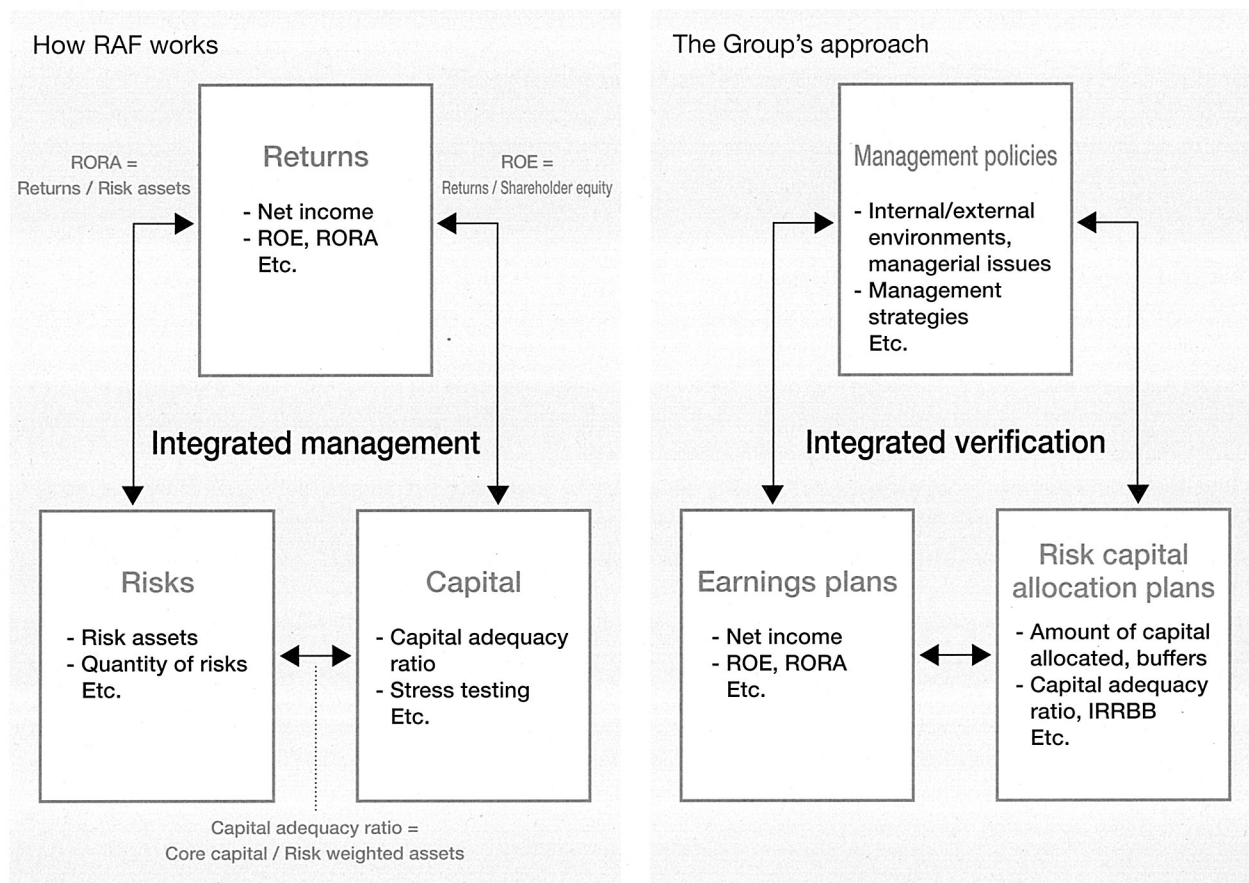
Risk Management

Risk Appetite Framework (RAF)

The Group has introduced a risk appetite framework (RAF), a tool for optimizing risks and returns through integrated management of strategies and risk management, as a framework for business administration and risk management.

In drawing up a business plan (management plan and medium-term business plan), we verify management policies, earnings plans, and risk capital allocation in an integrated manner based on the forecasts of risks, returns, and capital for the coming three years.

We also monitor indicators on risk appetite periodically to follow up on the progress of the plans.



		Major indicators of risk appetite
Risks and returns	How much of what risks should be taken to achieve earnings targets If returns commensurate with risks are generated	RORA: Indicates profitability commensurate with risks
Returns and capital	If returns commensurate with capital are generated	ROE: Indicates profitability commensurate with capital
Capital and risks	If capital sufficiency is ensured under risk scenarios or stress scenarios	Capital adequacy ratio: Indicates capital sufficiency commensurate with risks

Risk Management Systems

With accelerating liberalization and globalization of finance and advances in information and communication technology, the risks attendant on financial services are becoming ever more diverse and complex. Against that backdrop, the Group is making concerted efforts to advance risk management, which is one of its key priority issues for management, by establishing a Basic Policy on Risk Management to be observed by the entire Group, with the goals of building a sound management foundation and ensuring stable revenue flow.

Integrated Risk Management:

We evaluate and manage risks by comprehensively identifying potential risk situations that are inherent to a group organization and, thus, are difficult for individual Group companies to deal with, such as the statuses of risks in each category, and the likelihood of them adversely affecting the Group, and then assessing them against the Group's financial resilience (equity capital).

Credit Risk Management:

Recognizing credit risk as the most important type of risk for the Group, NNFH established a Credit Risk Management Policy under its Risk Management Regulations, thereby reinforcing the credit risk management system.

The Group objectively and quantitatively monitors the risks of individual borrowers and feeds any findings back to its credit portfolio management, thereby managing the entire Group in an integrated manner.

Market Risk Management:

NNFH established a Market Risk Management Policy under its Risk Management Regulations to reinforce its market risk management system.

The Group sets limits on market risks so as to enable adequate management of such risks and undertakes them within the range of those limits in order to achieve stable flow of revenue.

Liquidity Risk Management:

NNFH established a Liquidity Risk Management Policy under its Risk Management Regulations in an effort to reinforce the liquidity risk management system.

In order to prevent tight finances, the Group maintains the soundness of its assets so that it can ensure market liquidity and stabilize cash flows.

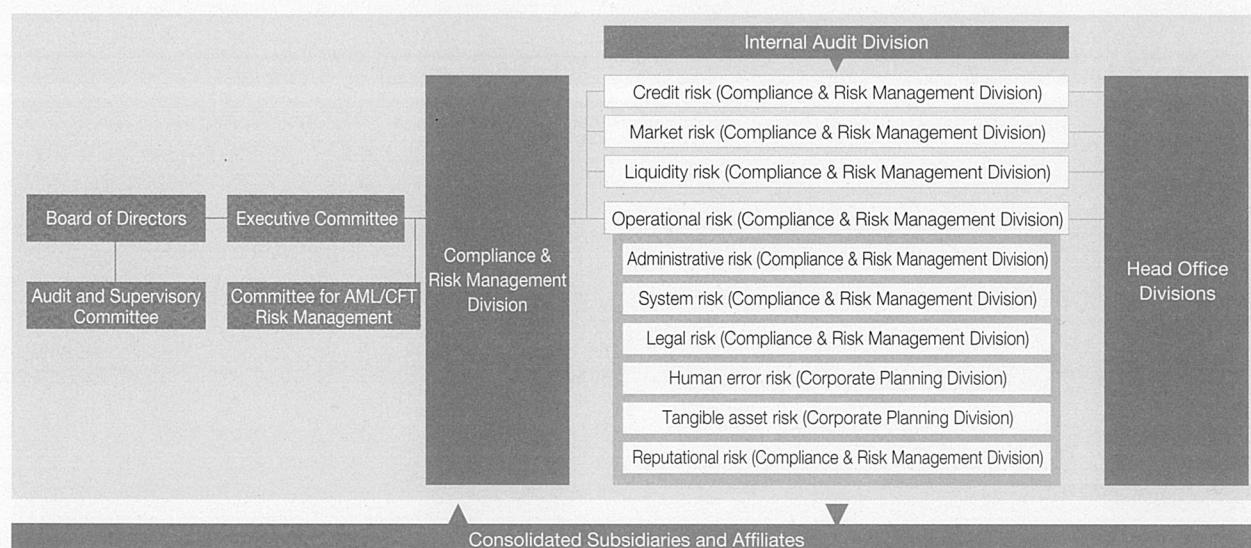
Operational Risk Management:

NNFH established an Operational Risk Management Policy under its Risk Management Regulations, thereby strengthening its operational risk management system.

Given that operational risks are so extensive, varied, and diverse that they concern every single operation and section and thus must be avoided as far as possible in business management, the Group has developed an organizational setup and system that properly manage such risks, in order to prevent them from becoming actualized and to minimize their impacts should any such risks occur.

Crisis Management:

As a basic policy for developing a system to ensure that the minimum operations necessary for maintaining the financial system's functions can continue without interruption in the event of a large-scale disaster, IT system failure, or other contingency, NNFH established the Business Continuity Regulations. NNFH's subsidiaries then formulated Business Continuity Plans (BCPs) in accordance with this basic policy, and they work to enhance effectiveness of the business continuity management system by carrying out various types of drills.



NNFH established a Compliance & Risk Management Division to manage all matters concerning risk management under one umbrella. This Division periodically monitors the status of risk management within the Group and issues directives for improvement as necessary, thereby ensuring that the risk management system is effective.

Commitment to Anti-Money Laundering (AML) Compliance

In order to reinforce its commitment to prevention of money laundering and financing of terrorism, which is being demanded on an international level, special organizations for this task were established within the Compliance & Risk Management Division of NNFH and the Compliance Risk Supervisory Division of The Nishi-Nippon City Bank, Ltd. on 1st August, 2018.



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Consolidated Balance Sheet

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets:			
Cash and due from banks (Notes 6 and 27)	¥1,714,664	¥1,474,517	\$15,755,436
Call loans and bills bought	1,189	471	10,930
Commercial paper and other debt purchased	36,956	37,436	339,580
Trading account assets (Notes 3 and 28)	1,385	1,166	12,732
Money held in trust (Note 29)	5,370	4,870	49,343
Securities (Notes 4, 6, 27 and 28)	1,297,874	1,372,367	11,925,707
Loans and bills discounted (Notes 5, 6, 7 and 27)	7,554,143	7,341,204	69,412,328
Foreign exchange assets (Note 8)	14,407	8,396	132,383
Other assets (Notes 6, 9)	88,913	94,023	816,989
Tangible fixed assets (Notes 10 and 17)	119,647	123,930	1,099,398
Intangible fixed assets	3,719	4,525	34,178
Asset for retirement benefits (Note 31)	5,279	6,162	48,513
Deferred tax assets (Note 32)	672	645	6,176
Customers' liabilities for acceptances and guarantees	20,248	23,254	186,056
Reserve for possible loan losses (Note 27)	(41,135)	(43,343)	(377,978)
Reserve for devaluation of securities	(571)	(578)	(5,248)
Total assets	¥10,822,765	¥10,449,051	\$99,446,529
Liabilities and net assets:			
Liabilities:			
Deposits (Notes 6, 11, and 27)	¥8,831,047	¥8,508,767	\$81,145,344
Call money and bills sold (Notes 6 and 27)	39,000	109,084	358,357
Payables under repurchase agreements (Notes 6 and 27)	207,019	166,666	1,902,226
Guarantee deposits received under securities lending transactions (Note 6)	89,108	145,718	818,782
Borrowed money (Notes 6, 13 and 27)	994,175	891,921	9,135,119
Foreign exchange liabilities (Note 8)	118	172	1,086
Bonds (Notes 12 and 27)	10,000	10,000	91,886
Borrowed money from trust account	835	—	7,680
Other liabilities (Note 14)	99,962	55,522	918,516
Liability for retirement benefits (Note 31)	3,708	2,864	34,073
Reserve for retirement benefits for directors and corporate auditors	247	246	2,273
Reserve for reimbursement of deposits	1,630	2,151	14,982
Reserve for other contingent losses	1,430	1,380	13,140
Reserve under the special laws	10	10	99
Deferred tax liabilities (Note 32)	534	6,571	4,911
Deferred tax liabilities on revaluation of premises (Note 17)	14,930	14,982	137,192
Acceptances and guarantees	20,248	23,254	186,056
Total liabilities	10,314,007	9,939,317	94,771,729
Net assets:			
Capital stock (Note 15)	50,000	50,000	459,432
Capital surplus	129,477	132,510	1,189,720
Earned surplus	270,954	255,229	2,489,704
Treasury stock (Note 16)	(9,868)	(10,896)	(90,677)
Total shareholders' equity	440,563	426,843	4,048,179
Net unrealized gains on securities available for sale, net of taxes (Note 28)	47,032	57,200	432,162
Net deferred gains (losses) on hedging instruments, net of taxes	(1,841)	(205)	(16,921)
Revaluation of premises, net of taxes (Note 17)	29,946	30,017	275,168
Retirement benefits liability adjustments, net of taxes (Note 31)	(14,486)	(11,612)	(133,109)
Total accumulated other comprehensive income	60,650	75,400	557,299
Non-controlling interests	7,544	7,490	69,321
Total net assets (Note 37)	508,758	509,734	4,674,800
Total liabilities and net assets	¥10,822,765	¥10,449,051	\$99,446,529

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥82,692	¥84,400	\$759,835
Interest and dividends on securities	14,271	16,799	131,138
Other interest income (Note 18)	1,660	1,626	15,255
Trust fees	0	—	0
Fees and commissions	32,638	32,631	299,905
Trading income	1,382	1,433	12,703
Other operating income (Note 19)	3,995	1,285	36,710
Other income (Note 20)	6,958	5,621	63,937
Total income	143,599	143,799	1,319,485
Expenses:			
Interest expenses:			
Interest on deposits	1,022	1,304	9,398
Interest on call money and bills sold	106	57	977
Interest on payables under repurchase agreements	4,120	2,640	37,859
Interest on guarantee deposits received under securities lending transactions	382	250	3,511
Interest on borrowings	769	708	7,073
Other interest expenses (Note 21)	948	1,113	8,711
Fees and commissions	12,373	11,786	113,700
Other operating expenses (Note 22)	1,684	3,378	15,476
General and administrative expenses (Note 23)	82,308	81,002	756,307
Other expenses (Note 24)	10,734	7,503	98,634
Total expenses	114,451	109,744	1,051,651
Profit (loss) before income taxes	29,148	34,054	267,834
Income taxes (Note 32)			
Current	9,169	9,036	84,252
Deferred	(398)	1,874	(3,657)
Total income taxes	8,771	10,910	80,595
Profit (loss)	20,377	23,144	187,239
Profit (loss) attributable to:			
Non-controlling interests	154	244	1,424
Owners of parent (Note 37)	¥20,222	¥22,899	\$185,815

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit (loss)	¥20,377	¥23,144	\$187,239
Other comprehensive income:			
Net unrealized gains on securities available for sale	(10,179)	(22,268)	(93,534)
Net deferred gains (losses) on hedging instruments	(1,636)	(171)	(15,035)
Retirement benefits liability adjustments	(2,873)	(18,540)	(26,403)
Total other comprehensive income (Note 25)	(¥14,689)	(¥40,980)	(\$134,973)
Comprehensive income	¥5,688	(¥17,835)	\$52,265
Comprehensive income attributable to owners of parent	¥5,543	(¥18,085)	\$50,941
Comprehensive income attributable to non-controlling interests	¥144	¥250	\$1,324

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

Year ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Shareholders' equity:			
Capital stock (Note 15)			
Balance at beginning of the year	¥50,000	¥50,000	\$459,432
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥50,000	¥50,000	\$459,432
Capital surplus			
Balance at beginning of the year	¥132,510	¥134,791	\$1,217,589
Changes during the year			
Sale of treasury stock	(0)	0	(0)
Retirement of treasury stock	(3,032)	(2,281)	(27,868)
Total changes during the year	(3,032)	(2,281)	(27,869)
Balance at end of the year	¥129,477	¥132,510	\$1,189,720
Earned surplus			
Balance at beginning of the year	¥255,229	¥236,924	\$2,345,211
Changes during the year			
Cash dividends paid (Note 38)	(4,568)	(4,635)	(41,974)
Profit (loss) attributable to owners of parent	20,222	22,899	185,815
Reversal of revaluation of premises	71	40	652
Total changes during the year	15,725	18,304	144,493
Balance at end of the year	¥270,954	¥255,229	\$2,489,704
Treasury stock (Note 16)			
Balance at beginning of the year	(¥10,896)	(¥10,668)	(\$100,120)
Changes during the year			
Acquisition of treasury stock	(2,005)	(2,509)	(18,429)
Sale of treasury stock	0	0	3
Retirement of treasury stock	3,032	2,281	27,868
Total changes during the year	1,027	(227)	9,442
Balance at end of the year	(¥9,868)	(¥10,896)	(\$90,677)
Total shareholders' equity			
Balance at beginning of the year	¥426,843	¥411,048	\$3,922,112
Changes during the year			
Cash dividends paid (Note 38)	(4,568)	(4,635)	(41,974)
Profit (loss) attributable to owners of parent	20,222	22,899	185,815
Acquisition of treasury stock	(2,005)	(2,509)	(18,429)
Sale of treasury stock	0	0	2
Reversal of revaluation of premises	71	40	652
Total changes during the year	13,719	15,795	126,066
Balance at end of the year	¥440,563	¥426,843	\$4,048,179

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Accumulated other comprehensive income:			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥57,200	¥79,474	\$525,596
Changes during the year			
Net changes in items other than shareholders' equity	(10,168)	(22,273)	(93,434)
Total changes during the year	(10,168)	(22,273)	(93,434)
Balance at end of the year	¥47,032	¥57,200	\$432,162
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥205)	(¥33)	(\$1,886)
Changes during the year			
Net changes in items other than shareholders' equity	(1,636)	(171)	(15,035)
Total changes during the year	(1,636)	(171)	(15,035)
Balance at end of the year	(¥1,841)	(¥205)	(\$16,921)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥30,017	¥30,058	\$275,820
Changes during the year			
Net changes in items other than shareholders' equity	(71)	(40)	(652)
Total changes during the year	(71)	(40)	(652)
Balance at end of the year	¥29,946	¥30,017	\$275,168
Retirement benefits liability adjustments			
Balance at beginning of the year	(¥11,612)	¥6,927	(\$106,705)
Changes during the year			
Net changes in items other than shareholders' equity	(2,873)	(18,540)	(26,403)
Total changes during the year	(2,873)	(18,540)	(26,403)
Balance at end of the year	(¥14,486)	(¥11,612)	(\$133,109)
Total accumulated other comprehensive income			
Balance at beginning of the year	¥75,400	¥116,426	\$692,825
Changes during the year			
Net changes in items other than shareholders' equity	(14,749)	(41,026)	(135,525)
Total changes during the year	(14,749)	(41,026)	(135,525)
Balance at end of the year	¥60,650	¥75,400	\$557,299
Non-controlling interests:			
Balance at beginning of the year	¥7,490	¥7,420	\$68,831
Changes during the year			
Net changes in items other than shareholders' equity	53	70	489
Total changes during the year	53	70	489
Balance at end of the year	¥7,544	¥7,490	\$69,321
Total net assets:			
Balance at beginning of the year	¥509,734	¥534,895	\$4,683,769
Changes during the year			
Cash dividends paid (Note 38)	(4,568)	(4,635)	(41,974)
Profit (loss) attributable to owners of parent	20,222	22,899	185,815
Acquisition of treasury stock	(2,005)	(2,509)	(18,429)
Sale of treasury stock	0	0	2
Reversal of revaluation of premises	71	40	652
Net changes in items other than shareholders' equity	(14,695)	(40,956)	(135,035)
Total changes during the year	(976)	(25,160)	(8,969)
Balance at end of the year	¥508,758	¥509,734	\$4,674,800

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
I. Cash flows from operating activities:			
Profit (loss) before income taxes	¥29,148	¥34,054	\$267,834
Depreciation	5,692	5,669	52,302
Losses on impairment of fixed assets	1,046	98	9,616
Amortization of goodwill	283	283	2,605
Equity in gains of nonconsolidated subsidiaries and affiliate	(101)	(84)	(935)
(Decrease) increase in reserve for possible loan losses	(2,207)	384	(20,286)
Decrease in reserve for devaluation of securities	(7)	(39)	(68)
Decrease in asset for retirement benefits	882	19,490	8,110
Increase in liability for retirement benefits	843	2,113	7,754
Increase in reserve for retirement benefits for directors and corporate auditors	0	14	6
Decrease in reserve for reimbursement of deposits	(521)	(387)	(4,789)
Increase (decrease) in reserve for other contingent losses	49	(28)	451
Income from lending activities	(98,624)	(102,827)	(906,228)
Funding costs	7,349	6,074	67,532
Gains on securities	(4,385)	(2,891)	(40,300)
Gains on money held in trust	(12)	(10)	(117)
Net foreign exchange gains	(740)	(653)	(6,801)
(Gains) losses on sale of tangible fixed assets	(1,478)	258	(13,584)
Net increase in trading account assets	(218)	(23)	(2,011)
Net increase in loans and bills discounted	(212,938)	(299,646)	(1,956,619)
Net increase in deposits	389,036	225,860	3,574,721
Net decrease in certificates of deposit	(66,756)	(62,387)	(613,406)
Net increase in borrowed money, exclusive of subordinated borrowings	102,253	143,044	939,570
Net increase in due from banks, exclusive of central bank	(526)	(373)	(4,842)
Net increase in call loans	(237)	(1,915)	(2,185)
Net (decrease) increase in call money	(29,731)	110,610	(273,194)
Net (decrease) increase in guarantee deposits received under securities lending transactions	(56,610)	118,087	(520,171)
Net increase in foreign exchange assets	(6,011)	(36)	(55,234)
Net (decrease) increase in foreign exchange liabilities	(53)	58	(495)
Net increase in borrowed money from trust account	835	—	7,680
Interest and dividends received	100,483	104,219	923,311
Interest paid	(7,357)	(6,349)	(67,601)
Others	47,195	(32,920)	433,663
Subtotal	196,578	259,746	1,806,289
Income taxes paid	(8,336)	(10,400)	(76,598)
Net cash provided by operating activities	¥188,242	¥249,346	\$1,729,690
II. Cash flows from investing activities:			
Payments for purchase of securities	(¥402,810)	(¥170,544)	(\$3,701,284)
Proceeds from sale of securities	131,843	113,604	1,211,462
Proceeds from redemption of securities	328,957	229,525	3,022,670
Payments for increase in money held in trust	(500)	(2,020)	(4,594)
Payments for purchase of tangible fixed assets	(3,425)	(3,452)	(31,471)
Proceeds from sale of tangible fixed assets	4,938	172	45,380
Payments for purchase of intangible fixed assets	(968)	(1,766)	(8,903)
Net cash provided by investing activities	¥58,034	¥165,519	\$533,259
III. Cash flows from financing activities:			
Redemption of subordinated bonds	¥—	(¥10,000)	\$—
Dividends paid	(4,567)	(4,635)	(41,966)
Dividends paid to non-controlling shareholders	(90)	(180)	(834)
Payments for acquisition of treasury stock	(2,005)	(2,509)	(18,429)
Proceeds from sale of treasury stock	0	0	2
Net cash used in financing activities	(¥6,663)	(¥17,325)	(\$61,227)
IV. Effects of changes in exchange rates on cash and cash equivalents	¥6	¥10	\$55
V. Net increase in cash and cash equivalents	¥239,619	¥397,551	\$2,201,779
VI. Cash and cash equivalents at beginning of the year	¥1,470,719	¥1,073,168	\$13,513,914
VII. Cash and cash equivalents at end of the year (Note 36)	¥1,710,338	¥1,470,719	\$15,715,693

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Nishi-Nippon Financial Holdings, Inc. (the "Company"), and its consolidated subsidiaries have been prepared in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Solely for the convenience of readers outside Japan, certain items in the original Japanese financial statements have been reclassified for presentation.

As permitted by the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted by the Company.

Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

The amounts in U.S. dollars are included solely for the convenience of readers outside Japan. A rate of ¥108.83= U.S.\$ 1.00, the exchange rate on 31st March, 2020, has been used in translation. The translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

In the consolidated financial statements, "—" is used to denote "nil" and "0" is used to denote rounding down to zero.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries.

The number of consolidated and non-consolidated subsidiaries for the years ended 31st March, 2020 and 2019 is as follows:

	2020	2019
i) Number of consolidated subsidiaries:	7	7
ii) Number of non-consolidated subsidiaries:	2	2

(2) Application of Equity Method

The number of non-consolidated subsidiaries and affiliates, which are accounted for by the equity method, for the years ended 31st March, 2020 and 2019 is as follows:

	2020	2019
i) Number of non-consolidated subsidiaries accounted for by the equity method:	0	0
ii) Number of affiliates accounted for by the equity method:	1	1
iii) Number of non-consolidated subsidiaries not accounted for by the equity method:	2	2
iv) Number of affiliates not accounted for by the equity method:	0	0

(3) Fiscal Years of Consolidated Subsidiaries

The closing dates of consolidated subsidiaries are the same as the closing date for the consolidated financial statements.

(4) Trading Account Assets and Liabilities

Transactions that seek gains on short-term fluctuations and arbitrage in interest rates, currency prices, market prices of financial instruments (trading transactions) are recognized on a trade date basis. They are recorded as trading assets or trading liabilities on the consolidated balance sheets and gains or losses on these transactions are recorded in trading income or trading expenses on the consolidated statements of income.

The Company's consolidated subsidiaries engaged in the banking business value securities, monetary claims, etc. held for trading purpose at the market price prevailing at the balance sheet date. Derivatives, such as futures and option transactions, are stated at the amount assuming that they were terminated or settled at the balance sheet date.

Trading income and expenses include interest income or expenses as well as changes in unrealized gains or losses on securities, monetary claims and derivative financial products during the fiscal year.

Notes to Consolidated Financial Statements

(5) Securities

Securities held to maturity are carried at amortized cost using the straight-line method with cost determined by the moving average method. Investments in non-consolidated subsidiaries not accounted for by the equity method are valued at cost determined by the moving average method. In principle, securities available for sale are carried at fair value with cost of sales determined by the moving average method. However, securities available for sale, for which it is extremely difficult to determine the fair value, are valued at cost determined by the moving average method.

The difference between the acquisition cost and the carrying amount of securities available for sale, representing unrealized gains and losses, is recognized as unrealized gains (losses) on securities available for sale, net of taxes, and included directly in net assets.

Securities held as components of individually managed money trusts whose principal objective is investments in securities are stated at fair value.

(6) Derivatives

Derivatives held or written are stated at fair value.

(7) Tangible Fixed Assets (excluding leased assets)

Tangible fixed assets of the Company and its consolidated subsidiaries engaged in the banking business are depreciated by the declining-balance method; however, buildings (excluding facilities attached to buildings) acquired on or after 1st April, 1998 are depreciated by the straight-line method. The useful lives for buildings and equipment are as follows:

Buildings:	3 to 60 years
Equipment:	2 to 20 years

Tangible fixed assets of other consolidated subsidiaries are depreciated mainly using the declining-balance method.

(8) Intangible Fixed Assets (excluding leased assets)

Intangible fixed assets are amortized using the straight-line method. Software for internal use is amortized based on the estimated useful life determined by the Company and its consolidated subsidiaries (5 years).

(9) Leased Assets

The tangible and intangible fixed assets capitalized under the finance lease transactions entered into on and after 1st April, 2008 where ownership of leased assets is not transferred to lessees are depreciated by the straight-line method over the lease term with their residual value of zero.

(10) Reserve for Possible Loan Losses

Major consolidated subsidiaries record the reserve for possible loan losses as follows:

For loans to insolvent customers who are undergoing bankruptcy or special liquidation, etc. (hereinafter, "borrowers under bankruptcy proceedings") or who are in a similar financial condition although not yet in bankruptcy (hereinafter, "borrowers substantially in bankruptcy"), the reserve for possible loan losses is provided at the full amount of the book value of such loans after deducting the amount of direct write-offs (as defined below), and excluding the amounts deemed collectible from sale of the collateral pledged and the guarantees that are deemed recoverable.

For the unsecured and unguaranteed portion of loans to customers not presently in the above circumstances, but with a high probability of becoming so (hereinafter "customers with high probability of becoming insolvent"), the reserve for possible loan losses is provided at the amounts deemed necessary after deduction of the estimated realizable value of collateral and guarantees based on the customer's overall financial condition.

For loans to borrowers with a rescheduled or restructuring plan, which exceed a certain amount, the discounted cash flow (DCF) method is applied to provide for doubtful accounts, if cash flows from collection of principal and receipts of interest can be reasonably estimated. Under the DCF method a reserve for possible loan losses is provided at the difference between the cash flows discounted by the original interest rate and the carrying value of the loan.

For other loans, the reserve for possible loan losses is provided mainly at an anticipated amount of losses over the next one or three years. The anticipated amount of losses was calculated by obtaining the loss rate based on the mean for a certain period of actual loss rates calculated from actual losses for one or three years and then by making necessary adjustments in accordance with future projections and other factors.

Regarding each loan, the Credit Review Office, which is independent of the operating divisions, reviews the operating divisions' evaluation of each loan for collectibility based on self-assessment standards.

For loans to borrowers under bankruptcy proceedings and borrowers substantially in bankruptcy that are secured by collateral and guarantees, the unrecoverable portion of such loans is determined by subtracting the estimated recoverable amounts from the disposal of the collateral and the amounts deemed recoverable from the guarantors. The unrecoverable amount is written off directly against the

value of the loan ("direct write-off"). The amounts of such direct write-offs at 31st March, 2020 and 2019 were ¥9,517 million (\$87,456 thousand) and ¥5,813 million, respectively.

Other consolidated subsidiaries record a general reserve for possible loan losses by applying the historical loan-loss ratio observed over specific periods, and record a specific reserve for certain loans at the estimated uncollectible amount based on assessment of each borrower's ability to repay.

(11) Reserve for Devaluation of Securities

In order to provide for a loss on investments, the Company and its consolidated subsidiaries estimate the amount deemed necessary based on a review of financial position, etc. of the companies issuing securities or golf club membership.

(12) Reserve for Retirement Benefits for Directors and Corporate Auditors

Reserve for retirement benefits for directors and corporate auditors is provided at the amount that would be paid in accordance with the internally established rule at the balance sheet date if they were retired on that date.

(13) Reserve for Reimbursement of Deposits

Reserve for reimbursement of deposits is provided for possible losses on the future claims for withdrawal of the deposits, which was derecognized, at an amount deemed necessary based on the estimates of the consolidated subsidiaries engaged in the banking business.

(14) Reserve for Other Contingent Losses

Reserve for other contingent losses is provided for possible losses on loans under the shared responsibility system with the Credit Guarantee Corporation as well as for possible losses resulting from other contingencies not covered by the other reserves, at an amount deemed necessary based on the estimates of the future possible payments by the Company and its consolidated subsidiaries.

(15) Reserve under the Special Laws

Reserve under the special laws is a legal reserve for financial instruments exchange, which is provided for possible losses arising from the purchase or sale of securities or other securities-related trading activities by the Company's consolidated subsidiary engaged in the securities business at an amount estimated pursuant to Article 46, Item 5 of the Financial Instruments and Exchange Law as well as Article 175 of the Cabinet Office Ordinance relating to the financial instruments services.

(16) Accounting for Retirement Benefits

For the consolidated subsidiaries engaged in the banking business, the retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Actuarial gain/loss is amortized using the straight-line method mainly over a period of 10 years following the year it arises, which is within the average remaining years of service of the current employees.

For other consolidated subsidiaries, liability for retirement benefits and retirement benefit expenses are calculated using the simplified method, which assumes the retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year end.

(17) Foreign Currency Translation

Foreign currency-denominated assets and liabilities are translated into Japanese yen primarily at the exchange rate prevailing at the balance sheet date.

(18) Accounting for Leases

Finance lease transactions which were initially engaged by the consolidated subsidiaries prior to 1st April, 2008 where there is no transfer of ownership are accounted for by the same method as applicable to ordinary operating lease contracts.

(19) Hedge Accounting

i) Hedge accounting for interest rate risks

The consolidated subsidiaries engaged in the banking business apply the deferred method as hedge accounting for interest rate risks of certain financial assets and liabilities by using the individual hedging, which directly matches hedged items and hedging instruments.

With regard to hedging transactions to offset fluctuations in the fair value of fixed-rate bonds classified as available-for-sale securities, in accordance with operational rules concerning hedge accounting, hedged items are distinguished by identical type of

Notes to Consolidated Financial Statements

bonds and interest rate swaps are used as hedging instruments. Since significant terms related to those hedged items and hedging instruments are nearly identical, such hedging transactions are deemed highly effective in terms of evaluation of hedge effectiveness.

No evaluation is performed for hedge effectiveness of qualifying interest rate swaps accounted for by the special treatment, as it is ascertained that the criteria for the special treatment are continually met.

ii) Hedge accounting for foreign exchange rate risk

The consolidated subsidiaries engaged in the banking business apply the deferred method as hedge accounting for foreign exchange risks of various foreign currency-denominated financial assets and liabilities in accordance with the "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25 of 29th July, 2002).

The consolidated subsidiaries treat foreign exchange swap transactions as hedging instruments for the purpose of the hedge of foreign currency-denominated financial assets and liabilities, and the subsidiaries test hedge effectiveness by matching the foreign currency swap position as hedging instruments with the related foreign currency-denominated financial assets and liabilities as hedged items.

iii) Internal contract

For internal contracts, the consolidated subsidiaries engaged in the banking business manage the foreign currency swaps that are designated as hedging instruments in accordance with the strict criteria for external transactions stipulated in the JICPA Industry Audit Committee Report No. 25. Therefore, the subsidiaries either recognizes gains or losses that arise from such currency swaps as earnings or defers them, rather than eliminating them.

(20) Amortization of Goodwill

Goodwill is amortized using the straight-line method over five years.

(21) Cash and Cash Equivalents in the Consolidated Statement of Cash Flows

Cash and Cash Equivalents in the consolidated statement of cash flows are composed of cash and due from central bank.

(22) Accounting Treatment for Consumption Taxes

The tax excluded method is used as the accounting treatment for consumption taxes and local consumption taxes for the Company and its consolidated subsidiaries.

(23) Application of the Consolidated Tax Payment System

The Company and some of its consolidated subsidiaries have adopted the consolidated tax payment system, where the Company is designated as a parent company.

(Accounting Standards Issued but Not Yet Effective)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of 31st March, 2020)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 of 31st March, 2020)

Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Scheduled date of adoption

The Company plans to adopt the above-mentioned accounting standard and implementation guidance from the beginning of the fiscal year ending 31st March, 2022.

Impact of the adoption of the accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

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

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

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

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

Overview

In order to increase comparability with provisions of international accounting standards, the "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively, the "Fair Value Measurement Accounting Standard, Etc.") have been developed to serve as guidance, etc. on measurements of fair value. The Fair Value Measurement Accounting Standard, Etc. is applicable to the fair value of the following item:

- Financial instruments as in the "Accounting Standard for Financial Instruments."

Also, the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised to include notes on the breakdown of financial instruments by the level of their fair value, etc.

Scheduled date of adoption

The Company plans to adopt the above-mentioned accounting standard and implementation guidance from the beginning of the fiscal year ending 31st March, 2022.

Impact of the adoption of the accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

"Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes, and Error Corrections" (ASBJ Statement No. 24 of 31st March, 2020)

Overview

The purpose of this accounting standard is to present a brief overview of the accounting principles and procedures that have been adopted when the provisions of relevant accounting standards, etc. are not clearly specified.

Scheduled date of adoption

The Company plans to adopt the above-mentioned accounting standard from the end of the fiscal year ending 31st March, 2021.

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 of 31st March, 2020)

Overview

The purpose of this accounting standard is to disclose information on the details of accounting estimates of the amounts reported on the current fiscal year's financial statements; said details include explications of items that have a risk of exercising significant impact on financial statements of the following fiscal year, in order to facilitate the understanding of users of financial statements.

Scheduled date of adoption

The Company plans to adopt the above-mentioned accounting standard from the end of the fiscal year ending 31st March, 2021.

(Additional information)

- Tax effect accounting for the transition from the Consolidated Taxation System to the Group tax Sharing System

In order to determine the amounts of deferred tax assets and deferred tax liabilities with respect to a transition to the Group Tax Sharing System which was created in the "Act on Partial Revision of the Income Tax Act, Etc." (Act No. 8 of 2020) and corresponding revisions made to the Nonconsolidated Taxation System, the Company and some of its consolidated subsidiaries do not apply the provisions in paragraph (44) of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of 16th February, 2018), but do follow the provisions in the Income Tax Act, Etc. before the revision pursuant to paragraph (3) of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Solution No. 39 of 31st March, 2020)

- Impact of the novel coronavirus disease <COVID-19>

It is assumed that the stagnation of economic activities brought on by the COVID-19 pandemic will linger into the next fiscal year ending 31st March, 2021, with a certain impact on credit risks on loans, etc.

Under this assumption, the Company and certain consolidated subsidiaries have revised the categorization of borrowers by comprehensively taking into account recent business performance, the impact that COVID-19 may have on future business performance, etc. of specific borrowers, and as a result, posted reserve for possible loan losses amounting to 1,117 million yen (\$10,257 thousand) for these specific borrowers.

Notes to Consolidated Financial Statements

Please note that the above assumption is uncertain, and so, should the situation surrounding the pandemic or its impact on economic activities change, the reserve for possible loan losses may increase or decrease in the consolidated financial statements for the following fiscal year.

3. Trading Account Assets

Trading account assets at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trading securities	¥1,385	¥1,166	\$12,732
Other trading assets	—	—	—
Total	¥1,385	¥1,166	\$12,732

4. Securities

Securities at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japanese government bonds	¥212,516	¥381,450	\$1,952,741
Japanese municipal bonds	261,087	77,433	2,399,039
Corporate bonds (including government-guaranteed bonds)*	312,426	374,498	2,870,773
Stock**	107,457	132,421	987,384
Other securities***	404,387	406,564	3,715,768
Total	¥1,297,874	¥1,372,367	\$11,925,707

* Corporate bonds included bonds offered through private placement. The guarantee obligation of Nishi-Nippon City Bank for such private placement bonds at 31st March, 2020 and 2019 were ¥17,550 million (\$161,260 thousand) and ¥11,951 million, respectively.

** Stock included stock of affiliates of ¥759 million (\$6,978 thousand) and ¥748 million at 31st March, 2020 and 2019, respectively.

*** Other securities included investments in non-consolidated subsidiaries of ¥200 million (\$1,842 thousand) and ¥206 million at 31st March, 2020 and 2019, respectively.

5. Loans and Bills Discounted

Loans and bills discounted at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bills discounted*	¥23,764	¥27,617	\$218,362
Loans on notes	232,460	236,420	2,136,000
Loans on deed	6,548,871	6,331,978	60,175,238
Overdraft	749,047	745,188	6,882,727
Total	¥7,554,143	¥7,341,204	\$69,412,328

* Bills discounted are recorded as cash lending / borrowing transactions in accordance with the "Accounting and Auditing Treatments for Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The consolidated subsidiaries engaged in the banking business have right to sell or collateralize such bills at its discretion. Total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥24,249 million (\$222,822 thousand) and ¥28,182 million at 31st March, 2020 and 2019, respectively.

Non-performing loans included in the loans at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans to legally bankrupt entities**	¥4,283	¥2,764	\$39,362
Delinquent loans***	97,045	109,808	891,713
Loans past due for three months or more****	873	884	8,027
Loans with altered lending conditions*****	26,200	26,471	240,748
Total	¥128,403	¥139,928	\$1,179,851

** Loans to legally bankrupt entities are loans on which interest is placed on a non-accrual status ("non-accrual loans"), excluding loans written off, as principal or interest has not been paid for a substantial period or for other reasons and there are no prospects for recovery or repayment of principal or interest, and to which certain circumstances apply as stated in the Implementation Ordinances for the Corporation Tax Law.

*** Delinquent loans are non-accrual loans other than (i) loans to legally bankrupt entities and (ii) loans for which interest payments have been rescheduled in order to assist the restructuring of these borrowers.

**** Loans past due for three months or more are loans for which principal or interest has not been paid for a period of three months or more from the next business day of the last due date, and that are not included in loans to legally bankrupt entities or delinquent loans.

***** Loans with altered lending conditions are loans restructured to provide relief to borrowers, such as reducing interest rates, rescheduling interest and principal payment, or waiving the claims, in order to assist the restructuring of these borrowers. Such loans exclude loans to legally bankrupt entities, delinquent loans, and loans past due for three months or more.

6. Assets Pledged as Collateral

Assets pledged as collateral by the Company and its consolidated subsidiaries at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets pledged as collateral			
Cash and due from banks	¥35	¥36	\$329
Securities	849,233	929,308	7,803,301
Loans	915,137	781,585	8,408,875
Total	¥1,764,407	¥1,710,931	\$16,212,506
Liabilities secured by the above assets			
Deposits	¥17,974	¥18,814	\$165,161
Call money and bills sold	39,000	38,200	\$358,357
Payables under repurchase agreements	207,019	166,666	1,902,226
Guarantee deposits received under securities lending transactions	89,108	145,718	818,782
Borrowed money	988,684	885,269	9,084,667

Other than the items shown above, the following items were pledged as collateral for foreign exchange transactions and/or as substitutes for initial margin on futures at 31st March, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities	¥2,643	¥2,644	\$24,289

Additionally, the following was included in other assets at 31st March, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash collateral paid for financial instruments	¥45,300	¥45,827	\$416,252
Deposits included in other assets	2,295	2,267	21,096

7. Contracts for Commitment Lines of Credit

Contracts for commitment lines of credit related to overdraft agreements and loan credit facilities represent a promise on a lending bank at a specified credit limit, to a customer upon request for funds, unless there is a violation of the contractual conditions.

The aggregate amounts under commitment contracts not yet drawn down at 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Aggregate amount under commitment contracts not yet drawn down	¥2,123,441	¥1,935,369	\$19,511,543
Of the above amount, those with original maturity of less than one year or cancellable at any time without penalty	2,053,257	1,900,535	18,866,648

As many of these contracts expire without the right to extend the loans being exercised, the aggregate total of the undrawn amount does not necessarily affect the future cash flows of the Company and its consolidated subsidiaries. Many of these contracts have stipulations that allow the consolidated subsidiaries to turn down a loan request or reduce the amount of the credit line if there is a change in financial conditions, a need to secure their credit, or other similar reasons. In addition to obtaining necessary collateral (real estate, securities, etc.) at the time the contract is entered into, the consolidated subsidiaries assess the condition of the customer's business operations, and analyze other information, based on internal procedures and standards. If necessary, the contract is reviewed and revised, or additional steps are taken to secure the credit extended to the customer.

8. Foreign Exchange

Foreign exchange assets and liabilities at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Foreign exchange bills bought	¥485	¥564	\$4,460
Foreign exchange bills receivable	168	169	1,552
Due from foreign banks (their accounts)	—	—	—
Due from foreign banks (our accounts)	13,752	7,661	126,370
Total	¥14,407	¥8,396	\$132,383
Liabilities:			
Foreign exchange bills sold	¥13	¥3	\$122
Foreign exchange bills payable	104	168	964
Total	¥118	¥172	\$1,086

9. Other Assets

Other assets at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Domestic exchange settlement account*	¥22	¥24	\$202
Accrued income	6,179	6,585	56,778
Prepaid expenses	227	114	2,089
Financial derivative products	5,014	5,046	46,074
Cash collateral paid for financial instruments	45,300	45,827	416,252
Other	32,169	36,424	295,592
Total	¥88,913	¥94,023	\$816,989

* Domestic exchange settlement account represents unsettled debit balances arising from inter-bank domestic exchange transfers.

10. Tangible Fixed Assets

Tangible fixed assets at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Land	¥75,412	¥75,549	\$692,934
Buildings	33,512	35,406	307,935
Construction in progress	398	1,649	3,663
Leased assets	261	300	2,404
Other tangible fixed assets	10,062	11,024	92,460
Total	¥119,647	¥123,930	\$1,099,398

* The amounts of accumulated depreciation for tangible fixed assets at 31st March, 2020 and 2019 were ¥65,722 million (\$603,901 thousand) and ¥74,887, respectively.

The accelerated depreciation entry amounts for tangible fixed assets at 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	¥6,646	¥7,142	\$61,072

11. Deposits

Deposits at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current deposits	¥393,134	¥385,520	\$3,612,369
Ordinary deposits	5,255,681	4,791,230	48,292,583
Deposits at notice	14,581	13,062	133,986
Time deposits	2,684,690	2,779,485	24,668,663
Negotiable certificates of deposit	349,475	416,232	3,211,210
Other deposits	133,483	123,236	1,226,532
Total	¥8,831,047	¥8,508,767	\$81,145,344

12. Bonds

Bonds at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bonds:			
0.87% Japanese yen callable subordinated bonds due 2025	¥10,000	¥10,000	\$91,886
Total	¥10,000	¥10,000	\$91,886

Notes to Consolidated Financial Statements

13. Borrowed Money

The weighted average interest rates on borrowed money is 0.06% at 31st March, 2020.

The aggregate annual maturity amounts within five years of borrowed money after 31st March, 2020 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March		
2021	¥103,058	\$946,968
2022	175,344	1,611,181
2023	375,306	3,448,557
2024	340,304	3,126,932
2025	119	1,098

14. Other Liabilities

Other liabilities at 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Domestic exchange settlement account	¥32	¥63	\$301
Accrued income taxes	4,342	3,485	39,897
Accrued expenses	8,070	7,974	74,159
Unearned income	2,548	2,361	23,420
Financial derivative products	7,565	5,684	69,512
Lease obligations	264	304	2,434
Cash collateral received for financial instruments	310	364	2,848
Asset retirement obligations	804	778	7,389
Others	76,023	34,505	698,552
Total	¥99,962	¥55,522	\$918,516

15. Capital Stock

Capital stock during the year ended 31st March, 2020 consisted of the following:

	Common stock	Capital stock	
	Issued shares	Millions of yen	Thousands of U.S. dollars
1st April, 2019	166,596,955	¥50,000	\$459,432
Increase	—	—	—
Decrease*	4,000,000	—	—
31st March, 2020	162,596,955	¥50,000	\$459,432

* The decrease of 4,000,000 shares is due to retirement of treasury shares.

Capital stock during the year ended 31st March, 2019 consisted of the following:

	Common stock	Capital stock
	Issued shares	Millions of yen
1st April, 2018	169,596,955	¥50,000
Increase	—	—
Decrease*	3,000,000	—
31st March, 2019	166,596,955	¥50,000

* The decrease of 3,000,000 shares is due to retirement of treasury shares.

16. Treasury Stock

Treasury stock during the year ended 31st March, 2020 consisted of the following:

	Common stock	Treasury stock	
	Number of shares	Millions of yen	Thousands of U.S. dollars
1st April, 2019	14,346,763	(¥10,896)	(\$100,120)
Increase*	2,689,162	(2,005)	(18,429)
Decrease*	4,000,462	3,033	27,872
31st March, 2020	13,035,479	(¥9,868)	(\$90,677)

* The increase of 2,689,162 shares is due to acquisition of treasury shares of 2,681,800 and purchase of fractional shares of 7,362.
The decrease of 4,000,462 shares is due to retirement of treasury shares of 4,000,000 and sale of fractional shares of 446.

Treasury stock during the year ended 31st March, 2019 consisted of the following:

	Common stock	Treasury stock
	Number of shares	Millions of yen
1st April, 2018	15,095,538	(¥10,668)
Increase*	2,251,709	(2,509)
Decrease*	3,000,484	2,282
31st March, 2019	14,346,763	(¥10,896)

* The increase of 2,251,709 shares is due to acquisition of treasury shares of 2,243,600 and purchase of fractional shares of 8,109.
The decrease of 3,000,484 shares is due to retirement of treasury shares of 3,000,000 and sale of fractional shares of 484.

17. Revaluation of Premises Account

Based on the Law Concerning Land Revaluation (Law No. 34, promulgated on 31st March, 1998), the consolidated subsidiaries engaged in the banking business have revalued land used for business purposes.

The deferred taxes on revaluation differences are presented in the account, "Deferred tax liabilities on revaluation of premises" in the liabilities of the consolidated balance sheet. The amount of revaluation differences, net of tax, is presented as "Revaluation of premises, net of taxes" in net assets.

The differences at 31st March, 2020 and 2019 are not presented as the aggregate market value of land subject to revaluation exceeded the book value after revaluation.

18. Other Interest Income

Other interest income for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Interest on call loans and bills bought	¥16	¥10	\$153
Interest on deposits with banks	164	179	1,512
Others	1,478	1,437	13,588
Total	¥1,660	¥1,626	\$15,255

19. Other Operating Income

Other operating income for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gains on foreign exchange transactions	¥740	¥653	\$6,801
Gains on sale of bonds	2,936	141	26,982
Others	318	490	2,925
Total	¥3,995	¥1,285	\$36,710

Notes to Consolidated Financial Statements

20. Other Income

Other income for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gains on sale of stock and other securities	¥3,945	¥3,770	\$36,257
Gains on money held in trust	12	10	117
Equity in earnings of affiliates	101	84	935
Gains on disposition of fixed assets	1,900	58	17,466
Recoveries of written-off claims	97	433	891
Rental income on land and buildings	412	403	3,791
Others	487	860	4,478
Total	¥6,958	¥5,621	\$63,937

21. Other Interest Expenses

Other interest expenses for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bonds	¥87	¥136	\$800
Others	861	976	7,911
Total	¥948	¥1,113	\$8,711

22. Other Operating Expenses

Other operating expenses for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Losses on sale of bonds	¥100	¥783	\$920
Losses on redemption of bonds	256	108	2,355
Losses on devaluation of bonds	—	7	—
Expenses for derivatives other than trading derivatives	1,327	2,477	12,200
Total	¥1,684	¥3,378	\$15,476

23. General and Administrative Expenses

General and administrative expenses for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and allowances	¥31,641	¥32,111	\$290,746
Employee retirement benefits	1,454	(355)	13,364
Retirement benefits for directors and corporate auditors	50	48	465
Depreciation	5,692	5,669	52,302
Rental expenses	3,076	3,156	28,272
Taxes	5,549	5,491	50,995
Others	34,843	34,881	320,161
Total	¥82,308	¥81,002	\$756,307

24. Other Expenses

Other expenses for the years ended 31st March, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Provision for possible loan losses	¥3,843	¥2,735	\$35,312
Losses on write-offs of claims	2,220	2,503	20,401
Losses on sale of stock and other securities	5	100	46
Losses on devaluation of stock and other securities	1,735	19	15,948
Losses on disposition of tangible fixed assets	422	317	3,881
Impairment losses	1,046	98	9,616
Losses on sale of loans	8	300	73
Others	1,453	1,427	13,353
Total	¥10,734	¥7,503	\$98,634

25. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized gains on securities available for sale:			
Amount arising during the year	(¥7,360)	(¥24,050)	(\$67,628)
Reclassification adjustments	(6,558)	(6,564)	(60,261)
Amount before tax effect	(13,918)	(30,615)	(127,890)
Tax effect	3,738	8,346	34,355
Net unrealized gains on securities available for sale	(¥10,179)	(¥22,268)	(\$93,534)
Net deferred gains (losses) on hedging instruments:			
Amount arising during the year	(¥3,218)	(¥1,270)	(\$29,575)
Reclassification adjustments	864	1,023	7,941
Amount before tax effect	(2,354)	(246)	(21,633)
Tax effect	718	75	6,598
Net deferred gains (losses) on hedging instruments	(¥1,636)	(¥171)	(\$15,035)
Retirement benefits liability adjustments			
Amount arising during the year	(¥5,596)	(¥26,604)	(\$51,422)
Reclassification adjustments	1,461	(72)	13,432
Amount before tax effect	(4,134)	(26,676)	(37,989)
Tax effect	1,260	8,136	11,586
Retirement benefits liability adjustments	(¥2,873)	(¥18,540)	(\$26,403)
Total other comprehensive income	(¥14,689)	(¥40,980)	(\$134,973)

26. Lease Transactions

(1) Finance leases

Information on finance lease transactions which are accounted for as operating leases at 31st March, 2020 and 2019 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Amounts equivalent to acquisition cost			
Tangible fixed assets	¥1,867	¥1,867	\$17,161
Total	¥1,867	¥1,867	\$17,161
Amounts equivalent to accumulated depreciation			
Tangible fixed assets	¥1,682	¥1,605	\$15,457
Total	¥1,682	¥1,605	\$15,457
Amounts equivalent to carrying value			
Tangible fixed assets	¥185	¥262	\$1,704
Total	¥185	¥262	\$1,704

Note: The amount equivalent to acquisition cost includes an interest element as the total future finance lease payments are not significant to the balance of tangible fixed assets at the end of the year.

Future lease payments of finance leases which are accounted for as operating leases at 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Future finance lease payments			
Due within one year	¥73	¥77	\$674
Due after one year	112	185	1,029
Total	¥185	¥262	\$1,704

Note: The amount of the future finance lease payments at the end of the year includes an interest element as the total future finance lease payments are not significant to the balance of tangible fixed assets at the end of the year.

Total lease payments during the year and the amount equivalent to depreciation expenses for the years ended 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total lease payments during the year	¥77	¥77	\$709
The amount equivalent to depreciation expenses *	77	77	709

* The amount equivalent to depreciation expenses was calculated using the straight-line method with no residual value over the lease term.

(2) Operating leases

Future lease payments required under operating leases that are non-cancelable at 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Future operating lease payments			
Due within one year	¥270	¥345	\$2,482
Due after one year	435	264	4,000
Total	¥705	¥609	\$6,483

27. Financial Instruments

(1) Matters related to status of financial instruments

i) Policies for financial instruments

Nishi-Nippon Financial Holdings, Inc. Group (the "Group") is engaged in the financial service business, with a primary focus on banking businesses such as deposits, loans, securities, and domestic and foreign currency exchange businesses. The Group manages and raises funds, taking into account market conditions and balancing duration. To conduct these businesses, the Company comprehends the risks arising from all of its assets and liabilities, including off-balance-sheet transactions, through the proper controls over these risks, and builds reasonable and effective portfolios. Thus the Company operates a comprehensive asset and liability management (ALM) system with the aim of maximizing and stabilizing its profits.

In addition, some of the Company's consolidated subsidiaries are engaged in banking, credit card, credit guarantee services, credit management, restructuring support services, claims servicing businesses and financial instruments and exchange services.

ii) Types of financial instruments and related risks

Loans, which comprise 70% of the Group's total assets, are primarily made to domestic corporations and individuals and are exposed to credit risks resulting from non-performance of contracts. Should the creditworthiness of major borrowers deteriorate, the value of collateral sharply decline, or other unanticipated problems arise, it could cause an increase in the cost of credit such as an unexpected write-off or rise in reserve for possible loan losses. Moreover, considering the relative weight of the invested assets, the impact of any such problems could be substantial and could have a negative effect on the financial position and performance of the Group.

Securities are mainly stocks, debt securities, and investment trusts and are exposed to the credit risk of each issuer and the risk of interest rate fluctuation. Stocks that are marketable are exposed to price volatility risks that a decline in their market prices cause impairment losses and valuation losses on the stocks. Debt securities are also subject to price volatility risks that an increase in the market interest rates following economic recovery may cause valuation losses on the securities.

Borrowed money and bonds are exposed to liquidity risks that, if some problems arise in cash management due to deterioration in financial positions at the Group, the Group is forced to raise funds at higher interest rates than usual, market transactions are suspended as a result of market turmoil, or it is forced to make transactions at a drastically unfavorable price than usual, it could impact future operations of the Group.

Derivative transactions include interest rate swaps, forward exchange transactions, currency swaps, and currency options. These derivatives are utilized primarily as hedging instruments to manage and mitigate the market risks of on-balance-sheet assets and liabilities. In addition, some of the derivative transactions in trading operations are used for the purpose of making profits through short-term fluctuations in the market rates, arbitrage transactions and others. Hedge transactions consist mainly of interest rate swaps as a hedge against interest rate fluctuation risks arising from loans with fixed interest rates, and forward exchange transactions and currency options as a hedge against exchange rate fluctuation risks arising from foreign currency-denominated assets and liabilities. The Company assesses the hedge effectiveness based on the difference between accumulated changes in cash flows of hedged items and hedging instruments. However, no evaluation is performed for the hedge effectiveness of qualifying interest rate swaps accounted for by the special treatment under the Accounting Standard for Financial Instruments, as it is ascertained that such derivatives continually meet the criteria for special treatment. Risks related to these derivatives transactions include the market risk of a potential loss in the fair value of financial instruments or portfolios resulting from fluctuations in interest rates, foreign exchange rates, stock prices and other factors as well as the credit risk of a potential loss in the value of a transaction due to default by counterparties to the contracts.

iii) Risk management system for financial instruments

(a) Credit risk management

Recognizing the credit risk as our highest priority, the Group is working on strengthening controls over the credit risk in accordance with the Group's credit risk management policy and credit policy.

The Group applies its strict standards to the screening of individual credit extension, and credits that exceed certain thresholds are reviewed further by specialized staff in its Credit Supervision Division. In this way, the Group is working to maintain the soundness of its assets.

Regarding its loan portfolios, the Group tries to diversify risks to ensure that there is no concentration on any particular industrial sectors or customers, through its systems of credit risk quantification and portfolio management by sector based on the credit rating system.

In addition, in order to properly carry out write-offs and set provisions, the Group conducts self-assessments of its assets and uses an independent audit department to constantly monitor the status of the self-assessment procedures and adequacy of write-offs and provisions.

(b) Market risk management

The Group clearly separates the department responsible for conducting market transactions (front office) from the department responsible for business administration (back office). Furthermore, the division which is independent from the market divisions has been put in charge of risk management (middle office) to monitor conditions of the market transactions and their compliance with the market risk-related regulations. The Group thus has a system of mutual controls among offices.

In addition, the Group is working to achieve stable profits by improving its management methods through a variety of techniques for measuring risks such as VaR (Value at Risk) and BPV(Basis Point Value) methods, and by establishing a maximum acceptable level for market risks and controlling the risks within the certain acceptable range.

(Quantitative information on market risks)

The measured quantity of market risks of the Group as a whole at 31st March, 2020 and 2019 were ¥30,369 million (\$279,056 thousand) and ¥33,368 million, respectively.

Financial instruments of the consolidated subsidiaries engaged in the banking business which are subject to the measurement include loans, deposits, securities and derivatives. The Group measures market risks using historical VaR method with an observation period of five years, a confidence interval of 99% and a holding period of 6 months.

The Group performs backtesting, which compares VaR calculated by the model with actual performance (gain or loss). Based on the results of the testing, we believe that the risk measurement model which we use captures market risks with sufficient accuracy. However, since VaR measures market risks at a certain probability which is statistically calculated, it is not always possible for the model to capture market risks in situations where market conditions change drastically.

(c) Liquidity risk management

The Group recognizes the liquidity risk as one of the most significant risks, because there are concerns over potential business failures and systemic risks when the liquidity risk rises. The Group provides against the liquidity risks by ensuring an adequate reserve for outstanding claims and developing a contingency plan that assumes various scenarios.

As for the day-to-day cash management of the Group, a system of mutual controls among divisions has been put into place. As a part of this system, the divisions responsible for the Group's day-to-day cash management raise and manage marketable funds, while the divisions responsible for managing the liquidity risk monitor the Group's cash position. In this way, the Group maintains a fluid and stable cash position.

(d) Risk management for derivative transactions

The Group's derivative transactions are entered into using operational rules prepared in accordance with the Group's internal regulations. The rules stipulate the scope of derivative usage, authorization, responsibility, procedure, credit line, loss-cut rule, and reporting system. Each business line is responsible for each relevant risk management and for reporting to management, including the ALM Committee, on a monthly basis.

iv) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments includes the value based on the market price as well as a reasonably estimated value in case there is no market price. Because various assumptions are used in the estimation of the fair value, the fair value may vary when different assumptions are used.

(2) Estimated fair value of financial instruments

Carrying value of financial instruments in the consolidated balance sheets at 31st March, 2020 and 2019 and their fair values and valuation differences are as follows. Non-listed stocks and others whose fair value is extremely difficult to be estimated are excluded from the table below (refer to Note 2).

<At 31st March, 2020>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	¥1,714,664	¥1,714,664	¥—
ii) Securities:			
Held-to-maturity securities	30,890	31,391	500
Available-for-sale securities	1,250,168	1,250,168	—
iii) Loans and bills discounted	7,554,143		
Reserve for possible loan losses*	(39,649)		
	7,514,494	7,611,837	97,343
Total assets	¥10,510,216	¥10,608,060	¥97,843
Liabilities:			
i) Deposits	¥8,831,047	¥8,831,254	¥206
ii) Call money and bills sold	39,000	39,000	—
iii) Payables under repurchase agreements	207,019	207,019	—
iv) Guarantee deposits received under securities lending transactions	89,108	89,108	—
v) Borrowed money	994,175	982,652	(11,522)
Total liabilities	¥10,160,350	¥10,149,033	(¥11,316)
Derivatives**			
Hedge accounting not applied	¥82	¥82	¥—
Hedge accounting applied	(2,631)	(2,631)	—
Total derivatives	(¥2,549)	(¥2,549)	¥—

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	\$15,755,436	\$15,755,436	\$—
ii) Securities:			
Held-to-maturity securities	283,840	288,440	4,599
Available-for-sale securities	11,487,347	11,487,347	—
iii) Loans and bills discounted	69,412,328		
Reserve for possible loan losses*	(364,325)		
	69,048,003	69,942,455	894,452
Total assets	\$96,574,628	\$97,473,680	\$899,052
Liabilities:			
i) Deposits	\$81,145,344	\$81,147,241	\$1,897
ii) Call money and bills sold	358,357	358,357	—
iii) Payables under repurchase agreements	1,902,226	1,902,226	—
iv) Guarantee deposits received under securities lending transactions	818,782	818,782	—
v) Borrowed money	9,135,119	9,029,241	(105,878)
Total liabilities	\$93,359,829	\$93,255,848	(\$103,981)
Derivatives**			
Hedge accounting not applied	\$754	\$754	\$—
Hedge accounting applied	(24,184)	(24,184)	—
Total derivatives	(\$23,429)	(\$23,429)	\$—

* The general reserve for possible loan losses and the specific reserve for possible loan losses, which correspond to loans and bills discounted, have been deducted.

** Derivative transactions recorded in Other assets and Other liabilities are presented in total. The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parentheses representing net liability position.

Notes to Consolidated Financial Statements

<At 31st March, 2019>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	¥1,474,517	¥1,474,517	¥—
ii) Securities:			
Held-to-maturity securities	48,267	49,064	796
Available-for-sale securities	1,306,469	1,306,469	—
iii) Loans and bills discounted	7,341,204		
Reserve for possible loan losses*	(41,729)		
	7,299,475	7,408,041	108,566
Total assets	¥10,128,730	¥10,238,093	¥109,362
Liabilities:			
i) Deposits	¥8,508,767	¥8,509,043	¥275
ii) Call money and bills sold	109,084	109,084	—
iii) Payables under repurchase agreements	166,666	166,666	—
iv) Guarantee deposits received under securities lending transactions	145,718	145,718	—
v) Borrowed money	891,921	885,759	(6,162)
Total liabilities	¥9,822,158	¥9,816,272	(¥5,886)
Derivatives**			
Hedge accounting not applied	¥51	¥51	¥—
Hedge accounting applied	(478)	(478)	—
Total derivatives	(¥426)	(¥426)	¥—

* The general reserve for possible loan losses and the specific reserve for possible loan losses, which correspond to loans and bills discounted, have been deducted.

** Derivative transactions recorded in Other assets and Other liabilities are presented in total. The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parentheses representing net liability position.

(Note 1) Methods for estimating the market value of financial instruments

Assets:

i) Cash and due from banks

Because the fair value of due from banks that does not have stated maturity approximates its carrying value, the carrying value is treated as the fair value. The fair value of due from banks that has stated maturity is based on the present value of the totals by maturity bucket discounted by the interest rate that would be applied if similar deposits were placed. As the fair value of due from banks with a short-term original contractual maturity (one year or less) approximates its carrying value, its carrying value is treated as the fair value.

ii) Securities

The fair value of stocks is based on their market price on the stock exchange, while the fair value of debt securities is based on the Reference Prices (Yields) for OTC Bond Transactions published by the Japan Securities Dealers Association, the price quoted by the correspondent financial institutions or the value reasonably calculated by the Group. The fair value of investment trusts is based on the announced reference price or the price quoted by the correspondent financial institutions. The fair value of foreign securities is based on the price quoted by the correspondent financial institutions or the financial information vendors.

The fair value of private placement bonds with the Company's own guarantee is based on the present value of future cash flows discounted by the market interest rate adjusted for credit risk.

Notes concerning securities by each carrying purpose are presented in "28. Securities" of "Notes to Consolidated Financial Statements."

iii) Loans and bills discount

Because loans and bills discounted with floating interest rates reflect market interest rates in a short period of time, the fair value of such loans approximates their carrying value as long as the credit standing of the borrower has not changed significantly since origination. Thus, the carrying value of such loans is treated as the fair value. The fair value of loans and bills discounted with fixed interest rates is based on the present value of the total amount of principal and interest categorized by the type of loans, internal rating and term, discounted by the market interest rate adjusted for credit risk. Because the fair value of loans with a short-term contractual maturity (one year or less) approximates their carrying value, the carrying value is treated as the fair value.

Regarding loans to borrowers under bankruptcy proceedings, borrowers substantially in bankruptcy and customers with high probability of becoming insolvent, since the fair value of such loans approximates their carrying value after deducting the reserve for possible loan losses, which is calculated based on the present value of estimated future cash flows or the estimated amounts collectible from the sale of collateral and guarantees, the carrying value is treated as the fair value.

With respect to loans and bills discounted that have no due date because of special attributes such as limiting the borrowings to the amounts secured by collateral, because it is assumed that the fair value approximates the carrying value from the estimated repayment period and interest rate conditions, the carrying value is treated as the fair value.

Liabilities:

i) Deposits

For demand deposits, the amount which would be paid if its repayment were demanded on the consolidated balance sheet date (carrying value) is deemed to be the fair value. The fair value of time deposits is based on the discounted present value of the future cash flows categorized by term. The discount rate is the interest rate that would be applied when new deposits were taken.

Because the fair value of those with a short-term original contractual maturity (one year or less) approximates their carrying value, the carrying value is treated as the fair value.

ii) Call money and bills sold, iii) Payables under repurchase agreements, and iv) Guarantee deposits received under securities lending transactions

Since call money and bills sold, payables under repurchase agreements and guarantee deposits received under securities lending transactions have short-term original contractual maturity (one year or less) and their fair value approximates the carrying value, the carrying value is treated as the fair value.

v) Borrowed money

Because borrowed money with floating interest rates reflects market interest rates in a short period of time and the credit standing of the Company and its consolidated subsidiaries has not changed significantly since the borrowing, the fair value of such borrowed money is deemed to approximate the carrying value. Therefore, the carrying value is treated as the fair value. The fair value of borrowed money with fixed interest rates is based on the present value of the total amount of principal and interest of the borrowed money categorized by term, discounted by the market interest rate adjusted for credit risk. Because the fair value of borrowed money with a short-term original contractual maturity (one year or less) approximates its carrying value, the carrying value is treated as the fair value.

Derivative transactions:

Derivative transactions are presented in "30. Derivatives" of "Notes to Consolidated Financial Statements."

(Note 2) Financial instruments whose fair value is extremely difficult to be estimated are as stated below.

They are not included in "Assets: ii) Available-for-sale securities" presented in "Estimated fair value of financial instruments."

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Non-listed stocks	¥13,766	¥14,109	\$126,493
Investments in partnerships	3,050	3,520	28,026
Total	¥16,816	¥17,630	\$154,519

Notes: 1. Because non-listed stocks have no market price and because it is extremely difficult to estimate their fair value, they are not subject to the fair value disclosure.

2. In the years ended 31st March, 2020 and 2019, impairment losses of ¥285 million (\$2,619 thousand) and ¥0 million were recorded for non-listed stocks, respectively.

3. Investments in partnerships whose fair value is extremely difficult to be estimated because the partnership's assets are non-listed stocks, etc. are not subject to the fair value disclosure.

Notes to Consolidated Financial Statements

(Note 3) Repayment schedules for monetary claims and securities with stated maturity at 31st March, 2020 and 2019

<At 31st March, 2020>

	Millions of yen					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	¥1,587,998	¥—	¥—	¥—	¥—	¥—
Securities:						
Held-to-maturity securities	15,000	10,000	6,000	—	—	—
Government bonds	15,000	10,000	6,000	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	188,058	224,129	278,840	165,708	219,135	41,991
Government bonds	75,500	38,000	26,000	—	40,000	—
Municipal bonds	5,784	9,965	49,250	88,290	105,462	—
Corporate bonds	77,816	131,878	43,721	35,103	19,679	—
Others	28,958	44,286	159,868	42,314	53,994	41,991
Loans and bills discounted	1,506,272	1,257,250	990,159	746,609	828,581	2,037,048
Total	¥3,297,330	¥1,491,379	¥1,274,999	¥912,317	¥1,047,717	¥2,079,039

	Thousands of U.S. dollars					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	\$14,591,555	\$—	\$—	\$—	\$—	\$—
Securities:						
Held-to-maturity securities	137,829	91,886	55,131	—	—	—
Government bonds	137,829	91,886	55,131	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	1,728,006	2,059,447	2,562,162	1,522,632	2,013,557	385,841
Government bonds	693,742	349,168	238,904	—	367,545	—
Municipal bonds	53,147	91,564	452,540	811,270	969,053	—
Corporate bonds	715,030	1,211,785	401,743	322,553	180,824	—
Others	266,086	406,929	1,468,973	388,808	496,133	385,841
Loans and bills discounted	13,840,603	11,552,421	9,098,219	6,860,331	7,613,542	18,717,712
Total	\$30,297,994	\$13,703,756	\$11,715,513	\$8,382,963	\$9,627,100	\$19,103,554

Note: Excluded from Loans and bills discounted are ¥101,332 million (\$931,103 thousand) relating to those whose repayment is not reasonably estimable because the debtors are borrowers under bankruptcy proceedings, borrowers substantially in bankruptcy, or customers with high probability of becoming insolvent and ¥86,889 million (\$798,392 thousand) relating to those that do not have contractual maturity.

Notes to Consolidated Financial Statements

<At 31st March, 2019>

Millions of yen						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	¥1,366,516	¥—	¥—	¥—	¥—	¥—
Securities:						
Held-to-maturity securities	17,597	15,000	16,000	—	—	—
Government bonds	10,000	15,000	16,000	—	—	—
Municipal bonds	5,290	—	—	—	—	—
Corporate bonds	2,307	—	—	—	—	—
Securities available for sale with maturity	282,051	288,349	212,054	194,394	148,980	42,265
Government bonds	185,700	88,500	33,000	18,000	12,000	—
Municipal bonds	6,650	11,444	14,505	21,491	17,150	—
Corporate bonds	47,083	132,788	108,036	47,939	29,757	—
Others	42,618	55,616	56,512	106,963	90,073	42,265
Loans and bills discounted	1,510,930	1,170,414	1,000,781	707,904	778,678	1,969,763
Total	¥3,177,095	¥1,473,763	¥1,228,835	¥902,298	¥927,659	¥2,012,029

Note: Excluded from Loans and bills discounted are ¥112,490 million relating to those whose repayment is not reasonably estimable because the debtors are borrowers under bankruptcy proceedings, borrowers substantially in bankruptcy, or customers with high probability of becoming insolvent and ¥90,241 million relating to those that do not have contractual maturity.

(Note 4) Repayment schedules for bonds, borrowed money and other interest-bearing debts at 31st March, 2020 and 2019

<At 31st March, 2020>

Millions of yen						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	¥8,517,105	¥238,164	¥61,753	¥6,446	¥7,577	—
Call money and bills sold	39,000	—	—	—	—	—
Payables under repurchase agreements	207,019	—	—	—	—	—
Guarantee deposits received under securities lending transactions	89,108	—	—	—	—	—
Borrowed money	103,058	550,651	340,423	35	5	—
Bonds	—	—	—	10,000	—	—
Total	¥8,955,291	¥788,816	¥402,177	¥16,481	¥7,583	—

Thousands of U.S. dollars						
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	\$78,260,642	\$2,188,410	\$567,430	\$59,230	\$69,630	—
Call money and bills sold	358,357	—	—	—	—	—
Payables under repurchase agreements	1,902,226	—	—	—	—	—
Guarantee deposits received under securities lending transactions	818,782	—	—	—	—	—
Borrowed money	946,968	5,059,739	3,128,030	325	55	—
Bonds	—	—	—	91,886	—	—
Total	\$82,286,976	\$7,248,150	\$3,695,461	\$151,442	\$69,685	—

Note: Demand deposits are included under "Due in 1 year or less."

Notes to Consolidated Financial Statements

<At 31st March, 2019>

	Millions of yen					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	¥8,191,986	¥252,957	¥49,138	¥6,683	¥8,001	¥0
Call money and bills sold	109,084	—	—	—	—	—
Payables under repurchase agreements	166,666	—	—	—	—	—
Guarantee deposits received under securities lending transactions	145,718	—	—	—	—	—
Borrowed money	36,180	410,419	445,210	100	10	—
Bonds	—	—	—	10,000	—	—
Total	¥8,649,636	¥663,376	¥494,348	¥16,784	¥8,012	¥0

Note: Demand deposits are included under "Due in 1 year or less."

28. Securities

(1) Trading securities and commercial papers (including those included in "Trading account assets")

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Holding gains (losses) recognized in income	(¥1)	¥2	(\$9)

(2) Held-to-maturity securities

i) Securities whose fair value exceeds their carrying value

<At 31st March, 2020>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥30,890	¥31,391	¥500
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	30,890	31,391	500
Others	—	—	—
Total	¥30,890	¥31,391	¥500

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	\$283,840	\$288,440	\$4,599
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	283,840	288,440	4,599
Others	—	—	—
Total	\$283,840	\$288,440	\$4,599

<At 31st March, 2019>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥40,659	¥41,421	¥761
Municipal bonds	5,299	5,326	27
Corporate bonds	2,309	2,316	7
	48,267	49,064	796
Others	—	—	—
Total	¥48,267	¥49,064	¥796

- ii) Securities whose carrying value exceeds their fair value

<At 31st March, 2020>

None

<At 31st March, 2019>

None

(3) Available-for-sale securities (including negotiable due from banks included in "Cash and due from banks")

- i) Securities whose carrying value exceeds their acquisition cost

<At 31st March, 2020>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥76,698	¥27,109	¥49,589
Bonds:			
Government bonds	156,409	155,029	1,379
Municipal bonds	32,569	32,424	145
Corporate bonds	275,333	273,092	2,241
	464,311	460,545	3,765
Others	305,668	282,955	22,712
Total	¥846,678	¥770,610	¥76,068

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	\$704,758	\$249,095	\$455,662
Bonds:			
Government bonds	1,437,186	1,424,511	12,675
Municipal bonds	299,269	297,932	1,336
Corporate bonds	2,529,938	2,509,346	20,592
	4,266,394	4,231,790	34,604
Others	2,808,678	2,599,978	208,699
Total	\$7,779,830	\$7,080,864	\$698,966

Notes to Consolidated Financial Statements

<At 31st March, 2019>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥112,397	¥44,125	¥68,272
Bonds:			
Government bonds	340,791	338,212	2,579
Municipal bonds	50,118	49,869	248
Corporate bonds	364,759	361,075	3,684
	755,668	749,157	6,511
Others	212,201	198,394	13,806
Total	¥1,080,267	¥991,676	¥88,591

ii) Securities whose acquisition cost exceeds their carrying value

<At 31st March, 2020>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥16,991	¥19,574	(¥2,583)
Bonds:			
Government bonds	25,217	25,219	(2)
Municipal bonds	228,518	229,149	(631)
Corporate bonds	37,093	37,143	(50)
	290,828	291,511	(683)
Others	95,668	100,416	(4,748)
Total	¥403,489	¥411,503	(¥8,014)

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	\$156,133	\$179,867	(\$23,734)
Bonds:			
Government bonds	231,714	231,734	(20)
Municipal bonds	2,099,770	2,105,568	(5,798)
Corporate bonds	340,834	341,296	(461)
	2,672,319	2,678,599	(6,279)
Others	879,063	922,693	(43,629)
Total	\$3,707,516	\$3,781,161	(\$73,644)

<At 31st March, 2019>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥5,914	¥7,391	(¥1,477)
Bonds:			
Government bonds	—	—	—
Municipal bonds	22,015	22,029	(13)
Corporate bonds	7,429	7,432	(2)
	29,445	29,461	(16)
Others	190,841	195,967	(5,125)
Total	¥226,201	¥232,821	(¥6,619)

(4) Available-for-sale securities sold for the years ended 31st March, 2020 and 2019 are as follows:

<At 31st March, 2020>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥4,444	¥3,945	(¥5)
Bonds:			
Government bonds	7,052	127	—
Municipal bonds	2,300	16	(0)
Corporate bonds	20,475	252	(4)
	29,828	396	(4)
Others	47,983	2,540	(96)
Total	¥82,256	¥6,882	(¥105)

	Thousands of U.S. dollars		
	Proceeds from sale	Gains	Losses
Stocks	\$40,835	\$36,257	(\$46)
Bonds:			
Government bonds	64,805	1,170	—
Municipal bonds	21,133	154	(0)
Corporate bonds	188,141	2,316	(38)
	274,081	3,641	(38)
Others	440,905	23,341	(882)
Total	\$755,822	\$63,239	(\$967)

<At 31st March, 2019>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥3,283	¥3,364	(¥100)
Bonds:			
Government bonds	—	—	—
Municipal bonds	—	—	—
Corporate bonds	30	0	—
	30	0	—
Others	52,895	547	(784)
Total	¥56,208	¥3,912	(¥884)

(5) Devaluation of securities

Securities other than trading securities (excluding securities whose fair value is extremely difficult to be estimated) are devalued to the fair value, and the difference between the acquisition cost and the fair value is treated as the loss for the fiscal year ("devaluation"), if the fair value (primarily the closing market price at the consolidated balance sheet date) has significantly deteriorated compared with the acquisition cost (including amortized cost) unless it is deemed that there is a possibility of a recovery in the fair value. The amount of devaluation was ¥1,450 million (\$13,329 thousand), for stocks for the year ended 31st March, 2020.

The amount of devaluation was ¥27 million (\$250 thousand), of which ¥19 million (\$179 thousand) for stocks and ¥7 million (\$71 thousand) for bonds, for the year ended 31st March, 2019.

The criteria for determining whether the fair value of a security has "significantly deteriorated" are outlined as follows:

1. The fair value is 50% or less of the acquisition cost, or
2. The fair value exceeds 50% but is 70% or less of the acquisition cost and the security meets certain conditions such as the quoted market price for a certain period in the past and financial conditions of the issuer.

Notes to Consolidated Financial Statements

(6) Unrealized gains/losses on securities available for sale

The components of the unrealized gains/losses on securities available for sale at 31st March, 2020 and 2019 are as follows:

<At 31st March, 2020>

	Millions of yen	Thousands of U.S. dollars
Revaluation difference	¥68,053	\$625,321
Deferred tax liability	(20,352)	(187,008)
Revaluation difference (before non-controlling interest adjustment), net of taxes	47,701	438,313
Amount corresponding to non-controlling interests	(669)	(6,151)
Amount corresponding to the parent's share of net unrealized gains on available-for-sale securities owned by affiliates	—	—
Unrealized gains on securities available for sale, net of taxes	¥47,032	\$553,725

<At 31st March, 2019>

	Millions of yen
Revaluation difference	¥81,971
Deferred tax liability	(24,091)
Revaluation difference (before non-controlling interest adjustment), net of taxes	57,880
Amount corresponding to non-controlling interests	(680)
Amount corresponding to the parent's share of net unrealized gains on available-for-sale securities owned by affiliates	—
Unrealized gains on securities available for sale, net of taxes	¥57,200

29. Money Held in Trust

Money held in trust at 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Money held in trust for other purposes than investment purposes and held-to-maturity purposes:			
Acquisition Cost	¥5,370	¥4,870	\$49,343
Carrying value	5,370	4,870	49,343
Unrealized gains/losses	—	—	—

30. Derivatives

(1) Derivative transactions to which hedge accounting is not applied

Summarized below are the contract value or the notional principal and the fair value of the derivative transactions at 31st March, 2020 and 2019, to which hedge accounting is not applied. The amounts of the contract value are not necessarily indicative of the actual market risk of derivative transactions.

i) Interest related transactions

<At 31st March, 2020>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Interest rate swaps:				
Receive-fixed and pay-floating	¥31,965	¥31,965	¥842	¥842
Receive-floating and pay-fixed	31,965	31,965	(670)	(670)
Total	—	—	¥172	¥172

Notes to Consolidated Financial Statements

Type of transactions	Thousands of U.S. dollars			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Interest rate swaps:				
Receive-fixed and pay-floating	\$293,719	\$293,719	\$7,740	\$7,740
Receive-floating and pay-fixed	293,719	293,719	(6,156)	(6,156)
Total	—	—	\$1,584	\$1,584

Notes: 1. The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.
2. Calculation of fair value is based on the discounted cash flows and others.

<At 31st March, 2019>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Interest rate swaps:				
Receive-fixed and pay-floating	¥35,048	¥32,463	¥963	¥963
Receive-floating and pay-fixed	35,048	32,463	(776)	(776)
Total	—	—	¥187	¥187

Notes: 1. The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.
2. Calculation of fair value is based on the discounted cash flows and others.

ii. Currency related transactions

<At 31st March, 2020>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥65,005	¥24,066	(¥74)	(¥74)
Forward foreign:				
Sell	7,509	225	(115)	(115)
Buy	5,076	130	99	99
Currency option:				
Sell	75,276	46,641	(2,365)	23
Buy	75,276	46,641	2,365	516
Total	—	—	(¥90)	¥449

Type of transactions	Thousands of U.S. dollars			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	\$597,309	\$221,134	(\$687)	(\$687)
Forward foreign:				
Sell	69,004	2,074	(1,061)	(1,061)
Buy	46,643	1,200	918	918
Currency option:				
Sell	691,691	428,573	(21,737)	214
Buy	691,691	428,573	21,737	4,746
Total	—	—	(\$829)	\$4,131

Notes: 1. The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.
2. Calculation of fair value is based on the discounted cash flows and others.

Notes to Consolidated Financial Statements

<At 31st March, 2019>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥82,241	¥25,576	(¥149)	(¥149)
Forward foreign:				
Sell	4,749	—	(28)	(28)
Buy	8,867	—	41	41
Currency option:				
Sell	69,774	39,204	(2,116)	207
Buy	69,774	39,204	2,116	357
Total	—	—	(¥135)	¥428

Notes: 1. The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.
2. Calculation of fair value is based on the discounted cash flows and others.

(2) Derivative transactions to which hedge accounting is applied

Summarized below are the contract value or the notional principal and the fair value of the derivative transactions at 31st March, 2020 and 2019, to which hedge accounting is applied. The amounts of the contract value are not necessarily indicative of the actual market risk of derivative transactions.

i) Interest related transactions

<At 31st March, 2020>

Hedge accounting method	Type of transactions	Hedged item	Millions of yen		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps: Receive-floating and pay-fixed	Available-for-sale securities	¥33,502	¥33,502	(¥2,642)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed	Loans and bills discounted, and deposits	155,808	114,408	(Note 2)
	Interest rate options		—	—	
Total			—	—	(¥2,642)

Hedge accounting method	Type of transactions	Hedged item	Thousands of U.S. dollars		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps: Receive-floating and pay-fixed	Available-for-sale securities	\$307,847	\$307,847	(\$24,277)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed	Loans and bills discounted, and deposits	1,431,664	1,051,254	(Note 2)
	Interest rate options		—	—	
Total			—	—	(\$24,277)

Notes: 1. Calculation of fair value is based on the discounted cash flows and others.

2. Since the interest rate swaps, to which the special treatments are applied, are accounted for as synthetic products composed of loans and bills discounted and deposits, their fair value is included in the fair value of the said loans and bills discounted and deposits which are disclosed in "Financial Instruments (Note 27)".

<At 31st March, 2019>

Hedge accounting method	Type of transactions	Hedged item	Millions of yen		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps: Receive-floating and pay-fixed	Available-for-sale securities	¥16,093	¥13,873	(¥299)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed	Loans and bills discounted, and deposits	165,336	157,836	(Note 2)
	Interest rate options		—	—	
	Total		—	—	(¥299)

Notes: 1. Calculation of fair value is based on the discounted cash flows and others.

2. Since the interest rate swaps, to which the special treatments are applied, are accounted for as synthetic products composed of loans and bills discounted and deposits, their fair value is included in the fair value of the said loans and bills discounted and deposits which are disclosed in "Financial Instruments (Note 27)".

ii) Currency related transactions

<At 31st March, 2020>

Hedge accounting method	Type of transactions	Hedged item	Millions of yen		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	¥18,745	¥—	¥10
Total			—	—	¥10

Hedge accounting method	Type of transactions	Hedged item	Thousands of U.S. dollars		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	\$172,244	\$—	\$92
Total			—	—	\$92

Notes: 1. The deferred method is applied as hedge accounting in accordance primarily with "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25 of 29th July, 2002).

2. Calculation of fair value is based on the discounted cash flows and others.

<At 31st March, 2019>

Hedge accounting method	Type of transactions	Hedged item	Millions of yen		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	¥49,145	¥—	(¥179)
Total			—	—	(¥179)

Notes: 1. The deferred method is applied as hedge accounting in accordance primarily with "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25 of 29th July, 2002).

2. Calculation of fair value is based on the discounted cash flows and others.

31. Employee Retirement Benefits

(1) Description of the retirement benefit plans

The Company's consolidated subsidiaries adopt funded or unfunded defined benefit plans and/or the defined contribution plan to provide for employee retirement benefits.

Under the defined benefit corporate pension plans (all funded), lump-sum or annuity payments are made at the amounts based on salaries and the length of service periods of the covered employees. Nishi-Nippon City Bank, a consolidated subsidiary, has established a retirement benefit trust for its defined benefit corporate pension plan.

Under the lump-sum payment plans (principally unfunded, however, some plans have a funded status as a result of the establishment of a retirement benefit trust), retirement benefits are paid in the form of a lump sum at the amounts based on salaries and the length of service periods of the covered employees.

Notes to Consolidated Financial Statements

The consolidated subsidiaries may also pay additional retirement benefits that are not subject to actuarial calculation.

As of 31st March, 2020, the lump-sum payment plans have been adopted by 6 consolidated subsidiaries. The corporate pension fund plans have been adopted by 2 consolidated subsidiaries. The defined contribution plan has been adopted by 1 consolidated subsidiary.

For the lump-sum payment plans that certain consolidated subsidiaries have adopted, liability for retirement benefits and retirement benefit expenses are calculated using the simplified method which assumes the retirement benefit obligation to be equal to the benefits payable if all the eligible employees voluntarily terminated their employment at fiscal year end.

(2) Defined benefit plans

- i) Reconciliation between the balances of retirement benefit obligation at the beginning and end of the year for the years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligation at beginning of the year	¥75,580	¥69,142	\$694,478
Service cost	2,349	2,068	21,586
Interest cost	89	605	825
Actuarial gain and loss	1,315	7,544	12,089
Retirement benefits paid	(4,036)	(3,782)	(37,094)
Others	—	—	—
Retirement benefit obligation at end of the year	¥75,297	¥75,580	\$691,885

- ii) Reconciliation between the balances of plan assets at the beginning and end of the year for the years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at beginning of the year	¥78,878	¥94,044	\$724,782
Expected return on plan assets	2,595	3,096	23,846
Actuarial gain and loss	(4,280)	(19,059)	(39,333)
Contributions by employer	1,816	2,901	16,692
Contributions by employees	147	149	1,357
Retirement benefits paid	(2,287)	(2,254)	(21,020)
Others	—	—	—
Plan assets at end of the year	¥76,869	¥78,878	\$706,325

- iii) Reconciliation between the balances of retirement benefit obligation and plan assets at the end of the year and the amounts of the liability and asset for retirement benefits recognized in the consolidated balance sheets at 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligation (funded)	¥74,815	¥75,116	\$687,454
Fair value of plan assets	(76,869)	(78,878)	(706,325)
	(2,053)	(3,761)	(18,870)
Retirement benefit obligation (unfunded)	482	463	4,430
Net liability (asset) for retirement benefits in the balance sheet	(¥1,571)	(¥3,298)	(\$14,439)

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits	¥3,708	¥2,864	\$34,073
Asset for retirement benefits	(5,279)	(6,162)	(48,513)
Net liability (asset) for retirement benefits in the balance sheet	(¥1,571)	(¥3,298)	(\$14,439)

Notes to Consolidated Financial Statements

iv) Components of retirement benefit expenses for the years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥2,201	¥1,919	\$20,228
Interest cost	89	605	825
Expected return on plan assets	(2,595)	(3,096)	(23,846)
Amortization of unrecognized actuarial gain and loss	1,461	(72)	13,432
Others	296	287	2,724
Retirement benefit expenses	¥1,454	(¥356)	\$13,364

Notes: 1. Contributions by employees to corporate pension funds, etc. have been deducted from the service cost.

2. Retirement benefit expenses of consolidated subsidiaries that have adopted the simplified method are reported in total under "Service cost."

v) Items recorded in retirement benefits liability adjustments included in other comprehensive income (gross of income tax effects) for the years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gain and loss	(¥4,134)	(¥26,676)	(\$37,989)

vi) Items recorded in retirement benefits liability adjustments included in accumulated other comprehensive income (gross of income tax effects) at 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gain and loss	(¥20,851)	(¥16,717)	(\$191,599)

vii) Matters concerning plan assets

1) Percentages of each main category of the total plan assets at 31st March, 2020 and 2019 are as follows:

	2020	2019
Bonds	30%	28%
Stocks	53%	53%
Cash and deposits	0%	1%
Others	17%	19%
Total	100%	100%

* Retirement benefit trusts established for the corporate pension plans accounted for 24% and 23% of the total plan assets at 31st March, 2020 and 2019, respectively. Retirement benefit trusts established for the lump-sum payment plans accounted for 20% and 21% of the total plan assets at 31st March, 2020 and 2019, respectively.

2) The expected long-term rate of return on plan assets has been estimated by taking into account the current and expected allocation of the plan assets and the current and anticipated long-term rate of return on diverse assets that constitute the plan assets.

viii) Assumptions for actuarial calculation

Major assumptions for actuarial calculation as of 31st March, 2020 and 2019

	2020	2019
1) Discount rates:	0.117% (principally)	0.117% (principally)
2) Expected long-term rate of return on plan assets:	3.30% (principally)	3.30% (principally)
3) Expected rate of pay increase:	3.04% (principally)	3.08% (principally)

(3) Defined contribution plans

Contributions of ¥0 million (\$1 thousand) and ¥0 million have been made to the defined contribution plan by the consolidated subsidiary for the years ended 31st March, 2020 and 2019, respectively.

Notes to Consolidated Financial Statements

32. Income Taxes

The tax effect of temporary differences and tax loss carryforwards that give rise to the deferred tax assets and liabilities at 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Reserve for possible loan losses	¥14,272	¥14,079	\$131,143
Liability for retirement benefits	7,479	6,790	68,726
Accumulated depreciation	2,067	2,086	18,996
Loss carryforwards for tax purposes	133	121	1,229
Others	8,947	7,954	82,211
Sub-total	32,900	31,031	302,307
Valuation allowance	(7,496)	(7,979)	(68,879)
Total deferred tax assets	25,403	23,051	233,427
Deferred tax liabilities:			
Reserve fund for deferred income of fixed assets	(1)	(1)	(11)
Unrealized losses on securities attributable to partition of corporation, net	(23)	(23)	(218)
Gains on establishment of a retirement benefit trust	(3,647)	(3,647)	(33,516)
Asset retirement obligations	(62)	(36)	(573)
Capital gain adjustments	(1,081)	(1,081)	(9,942)
Share of retained earnings of affiliates accounted for by the equity method	(94)	(91)	(871)
Unrealized gains on securities available for sale, net	(20,352)	(24,091)	(187,008)
Others	(2)	(3)	(20)
Total deferred tax liabilities	(25,266)	(28,978)	(232,162)
Net deferred tax assets (liabilities)	¥137	(¥5,926)	\$1,265

The reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income for the year ended 31st March, 2019 is as follows:

	2019
Statutory tax rate	30.5%
(Adjustments)	
Items permanently not deductible for tax purposes such as entertainment expenses	0.7
Non-taxable dividend income and others	(0.7)
Inhabitant tax on per capita basis	0.3
Increase in valuation allowance	0.9
Others	0.3
Effective tax rate	32.0%

The reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income for the year ended 31st March, 2020 is not presented since the difference between those rates was not more than 5% of the statutory tax rate.

33. Asset Retirement Obligations

Information on asset retirement obligations is as follows:

Asset retirement obligations that are recorded in the consolidated balance sheet

(1) Outline of asset retirement obligations

The Company and its consolidated subsidiaries recognize asset retirement obligations for restoration obligations resulting from real estate lease agreements such as those of the Group branch offices and commercial fixed-term leasehold agreements. The Company and its consolidated subsidiaries also recognize asset retirement obligations pertaining to obligations to remove hazardous substances used in some of their branch offices in accordance with the Ordinance on Prevention of Health Impairment due to Asbestos.

(2) Method for calculating the value of asset retirement obligations

An asset retirement obligation is calculated by first estimating the period of expected use of the asset, which is the relevant building's depreciation period (principally 39 years), and then discounting the value of the relevant liability using the government bond's market rate (principally 2.304%) that matches said depreciation period as the discount rate.

(3) Changes in total asset retirement obligations for the years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥778	¥785	\$7,157
Increase due to acquisition of tangible fixed assets	102	5	938
Adjustment for passage of time	11	11	103
Decrease due to fulfillment of asset retirement obligation	88	23	810
Balance at end of the year	¥804	¥778	\$7,389

34. Business Segment Information

(1) Segment Information

i) Segment information summary

Financial information can be individually obtained for each of the Group's reportable segments. This information is regularly reviewed by the board of directors in order to determine how to allocate business resources and to evaluate business performance.

The Group consists of 7 consolidated subsidiaries and 1 affiliate. The Group is engaged in the financial services business, with a primary focus on the banking business.

Thus, while the Group is composed of business segments offering different financial services, the Group's reportable segment is the "banking business" which Nishi-Nippon City Bank and The Bank of Nagasaki are engaged in.

The "banking business" is a wide range of services including services for deposits, loans, securities investment, domestic and foreign currency exchange, and other incidental services.

ii) Method for calculating the amount of ordinary income, profit or loss, assets, liabilities and other items

The accounting policies of reported business segments are the same as those described in "2. Summary of Significant Accounting Policies". The segment income is reported on an ordinary income basis. In addition, internal ordinary income among segments is based on the same transaction terms as used in ordinary transactions with third parties.

Notes to Consolidated Financial Statements

iii) Ordinary income, profit or loss, assets, liabilities and other items by reportable segments

<In 2020>

	Millions of yen				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	¥129,080	¥12,618	¥141,698	¥—	¥141,698
Internal ordinary income among segments	1,114	11,578	12,692	(12,692)	—
Total ordinary income	130,194	24,196	154,391	(12,692)	141,698
Segment profit	23,402	10,635	34,037	(5,320)	28,716
Segment assets	10,809,840	487,068	11,296,908	(474,143)	10,822,765
Segment liabilities	10,300,831	80,144	10,380,976	(66,968)	10,314,007
Other items					
Depreciation	5,468	223	5,692	—	5,692
Interest and dividend income	96,446	7,859	104,306	(5,681)	98,624
Interest expenses	7,325	143	7,468	(118)	7,349
Increase in tangible and intangible fixed assets	4,133	260	4,394	—	4,394

	Thousands of U.S. dollars				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	\$1,186,074	\$115,944	\$1,302,019	\$—	\$1,302,019
Internal ordinary income among segments	10,240	106,390	116,630	(116,630)	—
Total ordinary income	1,196,314	222,334	1,418,649	(116,630)	1,302,019
Segment profit	215,034	97,722	312,757	(48,890)	263,866
Segment assets	99,327,761	4,475,499	103,803,260	(4,356,730)	99,446,529
Segment liabilities	94,650,661	736,419	95,387,080	(615,351)	94,771,729
Other items					
Depreciation	50,245	2,057	52,302	—	52,302
Interest and dividend income	886,211	72,219	958,431	(52,202)	906,228
Interest expenses	67,308	1,315	68,623	(1,091)	67,532
Increase in tangible and intangible fixed assets	37,982	2,392	40,375	—	40,375

Notes: 1. Ordinary income is presented instead of net sales.

2. The category of "other" includes business segments which are not reportable segments, such as financial-related services for credit guarantee, credit card and financial instruments exchange.

3. Adjustments for segment profit, segment assets, segment liabilities, interest and dividend income and interest expenses are primarily eliminations of internal transactions among segments.

Notes to Consolidated Financial Statements

<In 2019>

	Millions of yen				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	¥131,713	¥12,027	¥143,740	¥—	¥143,740
Internal ordinary income among segments	1,085	11,752	12,837	(12,837)	—
Total ordinary income	132,798	23,780	156,578	(12,837)	143,740
Segment profit	29,810	10,152	39,962	(5,549)	34,412
Segment assets	10,435,496	484,765	10,920,261	(471,210)	10,449,051
Segment liabilities	9,924,659	79,683	10,004,342	(65,025)	9,939,317
Other items					
Depreciation	5,464	204	5,669	—	5,669
Interest and dividend income	100,650	7,976	108,626	(5,799)	102,827
Interest expenses	6,045	149	6,195	(120)	6,074
Increase in tangible and intangible fixed assets	5,008	210	5,218	—	5,218

Notes: 1. Ordinary income is presented instead of net sales.

2. The category of "other" includes business segments which are not reportable segments, such as financial-related services for credit guarantee, credit card and financial instruments exchange.

3. Adjustments for segment profit, segment assets, segment liabilities, interest and dividend income and interest expenses are primarily eliminations of internal transactions among segments.

(2) Related Information

Ordinary income by services:

<In 2020>

	Millions of yen			
	Loan	Securities	Other	Total
Ordinary income from third party customers	¥88,413	¥22,549	¥30,735	¥141,698

	Thousands of U.S. dollars			
	Loan	Securities	Other	Total
Ordinary income from third party customers	\$812,402	\$207,199	\$282,417	\$1,302,019

Note: Ordinary income is presented instead of net sales.

<In 2019>

	Millions of yen			
	Loan	Securities	Other	Total
Ordinary income from third party customers	¥90,215	¥22,155	¥31,369	¥143,740

Note: Ordinary income is presented instead of net sales.

(3) Impairment Losses on Tangible Fixed Assets by Reportable Segments

<In 2020>

	Millions of yen		
	Reportable segment Banking	Other	Total
Impairment losses	¥627	¥419	¥1,046

	Thousands of U.S. dollars		
	Reportable segment Banking	Other	Total
Impairment losses	\$5,765	\$3,851	\$9,616

Notes to Consolidated Financial Statements

<In 2019>

	Millions of yen		
	Reportable segment Banking	Other	Total
Impairment losses	¥98	¥—	¥98

(4) Amortization and Balance of Goodwill by Reportable Segments

<In 2020>

	Millions of yen		
	Reportable segment Banking	Other	Total
Goodwill			
Amortization of goodwill	¥—	¥283	¥283
Balance at end of the year	¥—	¥—	¥—

	Thousands of U.S. dollars		
	Reportable segment Banking	Other	Total
Goodwill			
Amortization of goodwill	\$—	\$2,605	\$2,605
Balance at end of the year	\$—	\$—	\$—

<In 2019>

	Millions of yen		
	Reportable segment Banking	Other	Total
Goodwill			
Amortization of goodwill	¥—	¥283	¥283
Balance at end of the year	¥—	¥661	¥661

35. Related Party Transactions

There are no related party transactions to report for the years ended 31st March, 2020 and 2019.

36. Reconciliation of Cash and Cash Equivalents

The reconciliation between “Cash and cash equivalents” in the consolidated statement of cash flows and each account in the consolidated balance sheet is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and due from banks on the consolidated balance sheet	¥1,714,664	¥1,474,517	\$15,755,436
Due from banks, exclusive of central bank	(4,325)	(3,798)	(39,743)
Cash and cash equivalents on the consolidated statement of cash flows	¥1,710,338	¥1,470,719	\$15,715,693

37. Per Share Information

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share at end of the year	¥3,351.22	¥3,298.80	\$30.793
Profit (loss) attributable to owners of parent per share*	133.32	148.79	1.225

Notes to Consolidated Financial Statements

Basis for net assets per share as of 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net assets	¥508,758	¥509,734	\$4,674,800
Items to be deducted from net assets	7,544	7,490	69,321
Non-controlling interests	7,544	7,490	69,321
Net assets attributable to common stock	501,214	502,243	4,605,478
Shares			
	2020	2019	
Number of shares of common stock outstanding at end of the year	149,561,476	152,250,192	

Basis for profit (loss) attributable to owners of parent per share for the years ended 31st March, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Basis:			
Profit (loss) attributable to owners of parent	¥20,222	¥22,899	\$185,815
Items not attributable to common stock	—	—	—
Profit (loss) attributable to owners of parent available for shareholders of common stock	20,222	22,899	185,815
Shares			
	2020	2019	
Average number of shares of common stock outstanding during the year	151,678,187	153,903,301	

* Diluted profit (loss) attributable to owners of parent per share for the years ended 31st March, 2020 and 2019 was not presented because the Company and its consolidated subsidiaries had no dilutive shares during the years.

38. Cash Dividends

Cash dividends paid during the years ended 31st March, 2020 and 2019 are as follows:

<In 2020>

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
27th June, 2019 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share)	¥2,664	\$24,485	31st March, 2019	28th June, 2019
6th November, 2019 Meeting of Board of Directors	Cash dividends (¥12.5 per share)	¥1,903	\$17,488	30th September, 2019	10th December, 2019

<In 2019>

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
28th June, 2018 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share)	¥2,704		31st March, 2018	29th June, 2018
8th November, 2018 Meeting of Board of Directors	Cash dividends (¥12.5 per share)	¥1,931		30th September, 2018	10th December, 2018

39. Subsequent Event

The following appropriation of earned surplus for the year ended 31st March, 2020 was approved at the shareholders' meeting held on 26th June, 2020:

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
26th June, 2020 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share)	¥2,617	\$24,053	31st March, 2020	29th June, 2020

Quarterly Information (Unaudited)

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2020

	Millions of yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2019 to 30th June, 2019	from 1st April, 2019 to 30th September, 2019	from 1st April, 2019 to 31st December, 2019	from 1st April, 2019 to 31st March, 2020
Ordinary income	¥34,518	¥71,652	¥105,775	¥141,698
Profit (loss) before income taxes	7,598	15,214	21,823	29,148
Profit (loss) attributable to owners of parent	5,198	11,175	15,335	20,222

	Yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2019 to 30th June, 2019	from 1st April, 2019 to 30th September, 2019	from 1st April, 2019 to 31st December, 2019	from 1st April, 2019 to 31st March, 2020
Profit (loss) attributable to owners of parent per share	¥34.14	¥73.40	¥100.86	¥133.32

	Yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2019 to 30th June, 2019	from 1st July, 2019 to 30th September, 2019	from 1st October, 2019 to 31st December, 2019	from 1st January, 2020 to 31st March, 2020
Profit (loss) attributable to owners of parent per share	¥34.14	¥39.25	¥27.43	¥32.45

	Thousands of U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2019 to 30th June, 2019	from 1st April, 2019 to 30th September, 2019	from 1st April, 2019 to 31st December, 2019	from 1st April, 2019 to 31st March, 2020
Ordinary income	\$317,180	\$658,386	\$971,934	\$1,302,019
Profit (loss) before income taxes	69,816	139,799	200,526	267,834
Profit (loss) attributable to owners of parent	47,770	102,686	140,912	185,815

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2019 to 30th June, 2019	from 1st April, 2019 to 30th September, 2019	from 1st April, 2019 to 31st December, 2019	from 1st April, 2019 to 31st March, 2020
Profit (loss) attributable to owners of parent per share	\$0.31	\$0.67	\$0.92	\$1.22

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2019 to 30th June, 2019	from 1st July, 2019 to 30th September, 2019	from 1st October, 2019 to 31st December, 2019	from 1st January, 2020 to 31st March, 2020
Profit (loss) attributable to owners of parent per share	\$0.31	\$0.36	\$0.25	\$0.29

Non-Consolidated Balance Sheet (Unaudited)

The Nishi-Nippon City Bank, Ltd.
31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Cash and due from banks	¥1,700,704	¥1,458,178	\$15,627,164
Call loans and bills bought	¥43,189	34,471	\$396,853
Trading account assets	1,385	1,166	12,732
Money held in trust	5,370	4,870	49,343
Securities	1,287,828	1,365,544	11,833,394
Loans and bills discounted	7,341,274	7,132,208	67,456,345
Foreign exchange assets	14,407	8,396	132,383
Other assets	80,447	86,827	739,206
Tangible fixed assets	115,389	119,473	1,060,276
Intangible fixed assets	3,077	3,266	28,278
Prepaid pension cost	23,103	20,774	212,288
Customers' liabilities for acceptances and guarantees	17,954	20,592	164,978
Reserve for possible loan losses	(34,703)	(36,564)	(318,880)
Reserve for devaluation of securities	(454)	(461)	(4,173)
Total assets	¥10,598,974	¥10,218,746	\$97,390,192
Liabilities and Net assets:			
Liabilities:			
Deposits	¥8,639,546	¥8,309,734	\$79,385,710
Call money and bills sold	39,000	109,084	358,357
Payables under repurchase agreements	207,019	166,666	1,902,226
Guarantee deposits received under securities lending transactions	89,108	145,718	818,782
Borrowed money	988,441	885,101	9,082,435
Foreign exchange liabilities	118	172	1,086
Bonds	10,000	10,000	91,886
Borrowed money from trust account	835	—	7,680
Other liabilities	72,201	32,083	663,436
Reserve for employee retirement benefits	224	216	2,060
Reserve for reimbursement of deposits	1,577	2,116	14,491
Reserve for other contingent losses	1,380	1,328	12,688
Deferred tax liabilities	7,708	12,443	70,827
Deferred tax liabilities on revaluation of premises	14,660	14,712	134,708
Acceptances and guarantees	17,954	20,592	164,978
Total liabilities	10,089,776	9,709,971	92,711,356
Net assets:			
Capital stock	85,745	85,745	787,885
Capital surplus			
Capital reserve	85,684	85,684	787,320
Earned surplus			
Legal reserve	61	61	565
Reserve for deferred capital gains	2	3	26
Unappropriated retained earnings	264,335	252,405	2,428,882
Total shareholders' equity	435,829	423,899	4,004,680
Net unrealized gains on securities available for sale, net of taxes	45,263	55,063	415,909
Net deferred gains (losses) on hedging instruments, net of taxes	(1,841)	(205)	(16,921)
Revaluation of premises, net of taxes	29,946	30,017	275,168
Total valuation and translation adjustments	73,368	84,875	674,155
Total net assets	509,197	508,775	4,678,836
Total liabilities and net assets	¥10,598,974	¥10,218,746	\$97,390,192

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Nishi-Nippon City Bank, Ltd.

Years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥78,352	¥79,840	\$719,953
Interest and dividends on securities	14,195	16,724	130,434
Other interest income	206	221	1,898
Trust fees	0	—	0
Fees and commissions	25,298	25,812	232,461
Trading income	1	10	17
Other operating income	3,872	806	35,585
Other income	5,915	4,882	54,357
Total income	127,843	128,298	1,174,707
Expenses:			
Interest expenses:			
Interest on deposits	1,149	1,432	10,561
Interest on call money and bills sold	108	59	996
Interest on payables under repurchase agreements	4,120	2,640	37,859
Interest on borrowings	744	678	6,840
Interest on guarantee deposits received under securities lending transactions	382	250	3,511
Other interest expenses	948	1,113	8,711
Fees and commissions	15,961	15,401	146,663
Other operating expenses	1,684	3,377	15,476
General and administrative expenses	69,784	68,756	641,223
Other expenses	8,620	5,410	79,208
Total expenses	103,503	99,121	951,053
Income before income taxes	24,340	29,177	223,654
Income taxes			
Current	7,414	7,445	68,127
Deferred	(469)	1,761	(4,317)
Total income taxes	6,944	9,207	63,809
Net income	¥17,395	¥19,970	\$159,844

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statement of Changes in Net Assets (Unaudited)

The Nishi-Nippon City Bank, Ltd.

Years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥85,745	¥85,745	\$787,885
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,745	¥85,745	\$787,885
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥85,684	¥85,684	\$787,320
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$787,320
Total capital surplus			
Balance at beginning of the year	¥85,684	¥85,684	\$787,320
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$787,320
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥61	¥61	\$565
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥61	¥61	\$565
Other earned surplus:			
Reserve for deferred capital gains			
Balance at beginning of the year	¥3	¥3	\$27
Changes during the year			
Transfer from reserve for deferred capital gains	(0)	(0)	(1)
Total changes during the year	(0)	(0)	(1)
Balance at end of the year	¥2	¥3	\$26
Unappropriated retained earnings			
Balance at beginning of the year	¥252,405	¥238,049	\$2,319,265
Changes during the year			
Cash dividends paid	(5,537)	(5,654)	(50,881)
Transfer from reserve for deferred capital gains	0	0	1
Net income	17,395	19,970	159,844
Reversal of revaluation of premises	71	40	652
Total changes during the year	11,929	14,356	109,616
Balance at end of the year	¥264,335	¥252,405	\$2,428,882

Non-Consolidated Statement of Changes in Net Assets (Unaudited)

The Nishi-Nippon City Bank, Ltd.

Years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total earned surplus			
Balance at beginning of the year	¥252,470	¥238,113	\$2,319,858
Changes during the year			
Cash dividends paid	(5,537)	(5,654)	(50,881)
Net income	17,395	19,970	159,844
Reversal of revaluation of premises	71	40	652
Total changes during the year	11,929	14,356	109,615
Balance at end of the year	¥264,399	¥252,470	\$2,429,474
Total shareholders' equity			
Balance at beginning of the year	¥423,899	¥409,543	\$3,895,064
Changes during the year			
Cash dividends paid	(5,537)	(5,654)	(50,881)
Net income	17,395	19,970	159,844
Reversal of revaluation of premises	71	40	652
Total changes during the year	11,929	14,356	109,615
Balance at end of the year	¥435,829	¥423,899	\$4,004,680
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥55,063	¥77,057	\$505,958
Changes during the year			
Net changes in items other than shareholders' equity	(9,799)	(21,994)	(90,048)
Total changes during the year	(9,799)	(21,994)	(90,048)
Balance at end of the year	¥45,263	¥55,063	\$415,909
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥205)	(¥33)	(\$1,886)
Changes during the year			
Net changes in items other than shareholders' equity	(1,636)	(171)	(15,035)
Total changes during the year	(1,636)	(171)	(15,035)
Balance at end of the year	(¥1,841)	(¥205)	(\$16,921)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥30,017	¥30,058	\$275,820
Changes during the year			
Net changes in items other than shareholders' equity	(71)	(40)	(652)
Total changes during the year	(71)	(40)	(652)
Balance at end of the year	¥29,946	¥30,017	\$275,168
Total valuation and translation adjustments			
Balance at beginning of the year	¥84,875	¥107,082	\$779,892
Changes during the year			
Net changes in items other than shareholders' equity	(11,507)	(22,206)	(105,736)
Total changes during the year	(11,507)	(22,206)	(105,736)
Balance at end of the year	¥73,368	¥84,875	\$674,155
Total net assets			
Balance at beginning of the year	¥508,775	¥516,625	\$4,674,957
Changes during the year			
Cash dividends paid	(5,537)	(5,654)	(50,881)
Net income	17,395	19,970	159,844
Reversal of revaluation of premises	71	40	652
Net changes in items other than shareholders' equity	(11,507)	(22,206)	(105,736)
Total changes during the year	422	(7,849)	3,879
Balance at end of the year	¥509,197	¥508,775	\$4,678,836

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Nagasaki, Ltd.
31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Cash and due from banks	¥25,065	¥33,832	\$230,319
Securities	4,942	9	45,410
Loans and bills discounted	250,072	246,791	2,297,829
Other assets	831	1,091	7,638
Tangible fixed assets	4,700	4,845	43,191
Intangible fixed assets	470	558	4,325
Deferred tax assets	316	389	2,910
Customers' liabilities for acceptances and guarantees	14	28	132
Reserve for possible loan losses	(500)	(575)	(4,603)
Total assets	¥285,913	¥286,972	\$2,627,154
Liabilities and net assets:			
Liabilities:			
Deposits	¥226,149	¥235,483	\$2,078,009
Call money and bills sold	42,000	34,000	385,922
Borrowed money	600	600	5,513
Other liabilities	1,235	876	11,355
Reserve for employee retirement benefits	199	299	1,835
Reserve for retirement benefits for directors and corporate auditors	85	101	786
Reserve for reimbursement of deposits	53	34	490
Reserve for other contingent losses	49	52	451
Deferred tax liabilities on revaluation of premises	509	509	4,678
Acceptances and guarantees	14	28	132
Total liabilities	270,897	271,985	2,489,177
Net assets:			
Capital stock	6,121	6,121	56,250
Capital surplus			
Capital reserve	2,000	2,000	18,377
Other capital surplus	2,463	2,463	22,640
Earned surplus			
Legal reserve	210	205	1,935
Unappropriated retained earnings	3,122	3,102	28,687
Total shareholders' equity	13,918	13,893	127,890
Revaluation of premises, net of taxes	1,097	1,093	10,086
Total valuation and translation adjustments	1,097	1,093	10,086
Total net assets	15,016	14,986	137,977
Total liabilities and net assets	¥285,913	¥286,972	\$2,627,154

See accompanying Notes to Non Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Bank of Nagasaki, Ltd.

Years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥3,685	¥3,856	\$33,862
Other interest income	215	251	1,982
Fees and commissions	634	582	5,828
Other income	212	193	1,948
Total income	4,747	4,883	43,621
Expenses:			
Interest expenses:			
Interest on deposits	82	116	755
Interest on call money and bills sold	(3)	(4)	(31)
Interest on borrowings	0	0	0
Other interest expenses	2	2	22
Fees and commissions	1,110	1,036	10,203
Other operating expenses	—	0	—
General and administrative expenses	3,387	3,423	31,127
Other expenses	63	33	582
Total expenses	4,642	4,607	42,661
Income before income taxes	104	275	960
Income taxes			
Current	(22)	(18)	(209)
Deferred	73	68	671
Total income taxes	50	50	462
Net income	¥54	¥225	\$498

See accompanying Notes to Non Consolidated Financial Statements.

Non-Consolidated Statement of Changes in Net Assets (Unaudited)

The Bank of Nagasaki, Ltd.

Years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥6,121	¥6,121	\$56,250
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥6,121	¥6,121	\$56,250
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥2,000	¥2,000	\$18,377
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,000	¥2,000	\$18,377
Other capital surplus			
Balance at beginning of the year	¥2,463	¥2,463	\$22,640
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,463	¥2,463	\$22,640
Total capital surplus			
Balance at beginning of the year	¥4,463	¥4,463	\$41,017
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥4,463	¥4,463	\$41,017
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥205	¥200	\$1,889
Changes during the year			
Reserve of legal retained earnings	5	5	45
Total changes during the year	5	5	45
Balance at end of the year	¥210	¥205	\$1,935
Other earned surplus:			
Unappropriated retained earnings			
Balance at beginning of the year	¥3,102	¥2,908	\$28,504
Changes during the year			
Reserve of legal retained earnings	(5)	(5)	(45)
Cash dividends paid	(25)	(25)	(229)
Net income	54	225	498
Reversal of revaluation of premises	(4)	(2)	(40)
Total changes during the year	19	193	182
Balance at end of the year	¥3,122	¥3,102	\$28,687
Total earned surplus			
Balance at beginning of the year	¥3,307	¥3,109	\$30,394
Changes during the year			
Cash dividends paid	(25)	(25)	(229)
Net income	54	225	498
Reversal of revaluation of premises	(4)	(2)	(40)
Total changes during the year	24	198	228
Balance at end of the year	¥3,332	¥3,307	\$30,622

Non-Consolidated Statement of Changes in Net Assets (Unaudited)

The Bank of Nagasaki, Ltd.

Years ended 31st March, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total shareholders' equity			
Balance at beginning of the year	¥13,893	¥13,694	\$127,661
Changes during the year			
Cash dividends paid	(25)	(25)	(229)
Net income	54	225	498
Reversal of revaluation of premises	(4)	(2)	(40)
Total changes during the year	24	198	228
Balance at end of the year	¥13,918	¥13,893	\$127,890
Valuation and translation adjustments			
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥1,093	¥1,091	\$10,046
Changes during the year			
Net changes in items other than shareholders' equity	4	2	40
Total changes during the year	4	2	40
Balance at end of the year	¥1,097	¥1,093	\$10,086
Total valuation and translation adjustments			
Balance at beginning of the year	¥1,093	¥1,091	\$10,046
Changes during the year			
Net changes in items other than shareholders' equity	4	2	40
Total changes during the year	4	2	40
Balance at end of the year	¥1,097	¥1,093	\$10,086
Total net assets			
Balance at beginning of the year	¥14,986	¥14,786	\$137,708
Changes during the year			
Cash dividends paid	(25)	(25)	(229)
Net income	54	225	498
Reversal of revaluation of premises	(4)	(2)	(40)
Net changes in items other than shareholders' equity	4	2	40
Total changes during the year	29	200	268
Balance at end of the year	¥15,016	¥14,986	\$137,977

See accompanying Notes to Non-Consolidated Financial Statements.

Notes to Non-Consolidated Financial Statements (Unaudited)

The Nishi-Nippon City Bank, Ltd. and The Bank of Nagasaki, Ltd.

31st March, 2020 and 2019

1. Basis of Presentation of Financial Statements

The accompanying non-consolidated financial statements of The Nishi-Nippon City Bank, Ltd. and The Bank of Nagasaki, Ltd. (the Banks) have been prepared from the accounts maintained by the Banks in accordance with the provisions set forth in the Japanese Corporation Law, the Banking Law, and accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standard.

2. Other Accounting Principles and Practices Employed by the Bank

Accounting principles employed by the Banks in preparing the accompanying non-consolidated financial statements which have significant effects thereon, are explained in Note 2 of the Notes to Consolidated Financial Statements.

Independent Auditor's Report

The Board of Directors
Nishi-Nippon Financial Holdings, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 26, 2020

根津 昌史



Masashi Nezu
Designated Engagement Partner
Certified Public Accountant

長尾 礎樹



Motoki Nagao
Designated Engagement Partner
Certified Public Accountant

石川 琢也



Takuya Ishikawa
Designated Engagement Partner
Certified Public Accountant

Outline of Banking Subsidiaries

As of 31st March, 2020, the Group has a nationwide network of 175 branches of Nishi-Nippon City Bank, and 23 branches of Bank of Nagasaki, and 3 overseas representative offices of Nishi-Nippon City Bank, in Hong Kong, Shanghai, and Singapore.

The Nishi-Nippon City Bank, Ltd.

▶ Business	Banking
▶ Established	1st December, 1944
▶ Headquarters	1-1, Hakata-ekimae 3-chome, Hakata-ku, Fukuoka 812-0011, Japan
▶ Number of Employees	3,611
▶ Number of Domestic Offices	175
▶ Number of Correspondent Banks	76
▶ Parent Company	Nishi-Nippon Financial Holdings, Inc. (NNFH's share of voting rights 100%)

(As of 31st March, 2020)

Board of Directors

Chairman	Isao Kubota
President	Hiromichi Tanigawa
Deputy Presidents	Souichi Kawamoto Kiyota Takata Hiroyuki Irie
Representative Executive Director	Shigeru Urayama
Executive Directors	Hideyuki Murakami Hiroyuki Takeo
Managing Directors	Masaru Ikeda Hideki Nakazuru Takashige Honda Kenichi Ozaki Kenji Morimoto
Directors (Audit and Supervisory Committee Members) ...	Seiji Ino Michiaki Uriu (outside) Hiroshi Fujioka (outside)

(As of 30th June, 2020)

*Directors/Audit and Supervisory Committee Members Michiaki Uriu and Hiroshi Fujioka are Outside Directors as prescribed in Article 2 (xv) of the Companies Act of Japan.

The Bank of Nagasaki, Ltd.

▶ Business	Banking
▶ Established	11th November, 1912
▶ Headquarters	3-14, Sakaemachi, Nagasaki 850-8666, Japan
▶ Number of Employees	219
▶ Number of Domestic Offices	23
▶ Parent Company	Nishi-Nippon Financial Holdings, Inc. (NNFH's share of voting rights 100%)

(As of 31st March, 2020)

Board of Directors and Audit and Supervisory Board Members

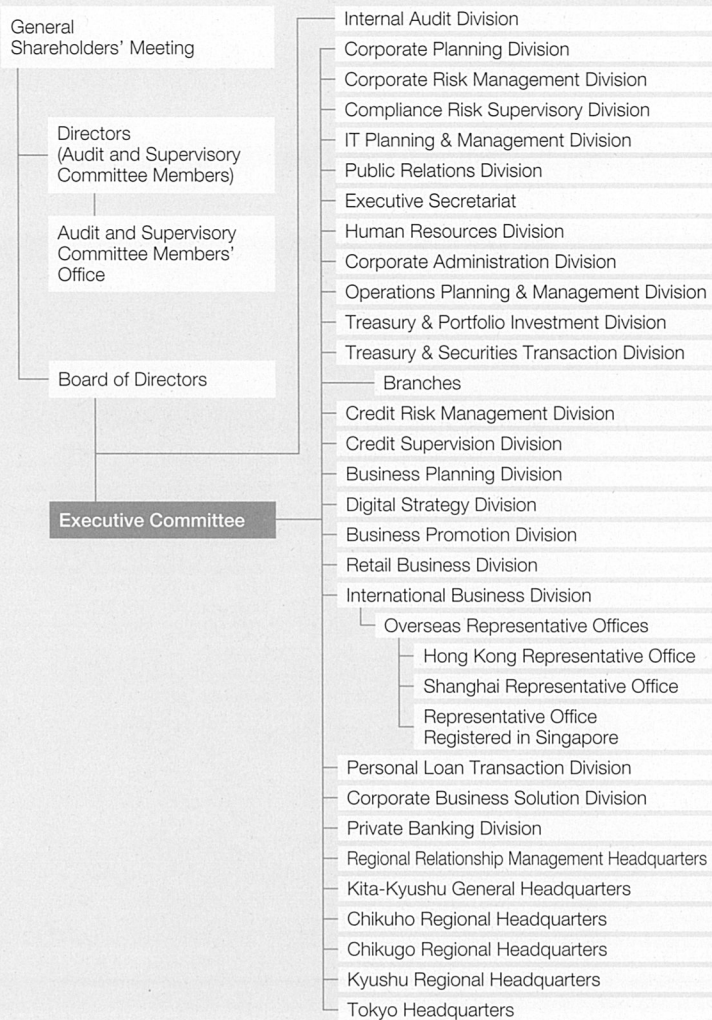
President	Ryutaro Kaichi
Managing Directors	Yutaka Matsuyama Tetsuhisa Matsumoto Naoshi Taguchi Yasuyuki Shigetomi
Directors	Hiroji Mochida Toshihiro Takaki Hideyuki Murakami
Audit and Supervisory Board Members	Kenji Miyata Mitsuru Kawatani (outside) Junichi Sakaguchi (outside)

(As of 30th June, 2020)

*Audit and Supervisory Board Members Mitsuru Kawatani and Junichi Sakaguchi are Outside Audit and Supervisory Board Members as prescribed in Article 2 (xvi) of the Companies Act of Japan.

Organization Chart of Banking Subsidiaries

The Nishi-Nippon City Bank, Ltd.



(As of 30th June, 2020)

International Network of The Nishi-Nippon City Bank, Ltd.

INTERNATIONAL BUSINESS DIVISION

3-6, Hakata-ekimae 1-chome, Hakata-ku,
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SWIFT: NISIJPJTFFKK
Fax: +81-92-476-2488

TREASURY & PORTFOLIO INVESTMENT DIVISION

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Phone: +81-3-6262-7957
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Fax: +81-3-3273-2255

TREASURY & SECURITIES TRANSACTION DIVISION

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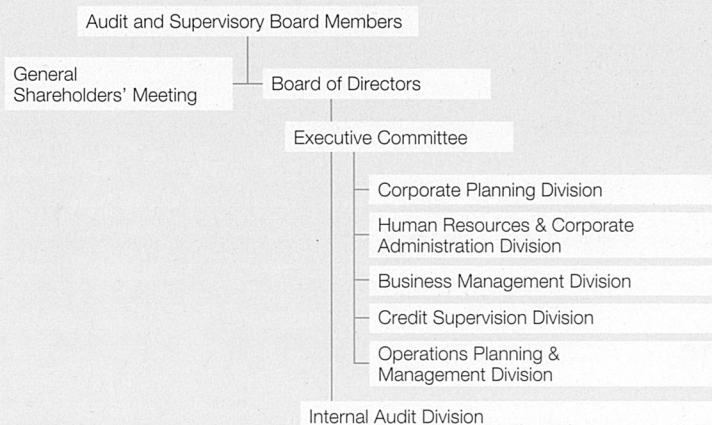
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The Bank of Nagasaki, Ltd.



(As of 30th June, 2020)



Nishi-Nippon Financial Holdings, Inc.

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other parts of the Kyushu Region.